

# Unit II



Microeconomic Concepts

SSEMI1-SSEMI4

# **SSEMI1: Goods, Services, and Money**

**The student will describe how households, businesses, and governments are interdependent and interact through flows of goods, services, and money.**

# Microeconomics

Is the study of how these economic actors (households, Businesses, and the government) make decisions and are impacted by the allocation of resources.

# Households

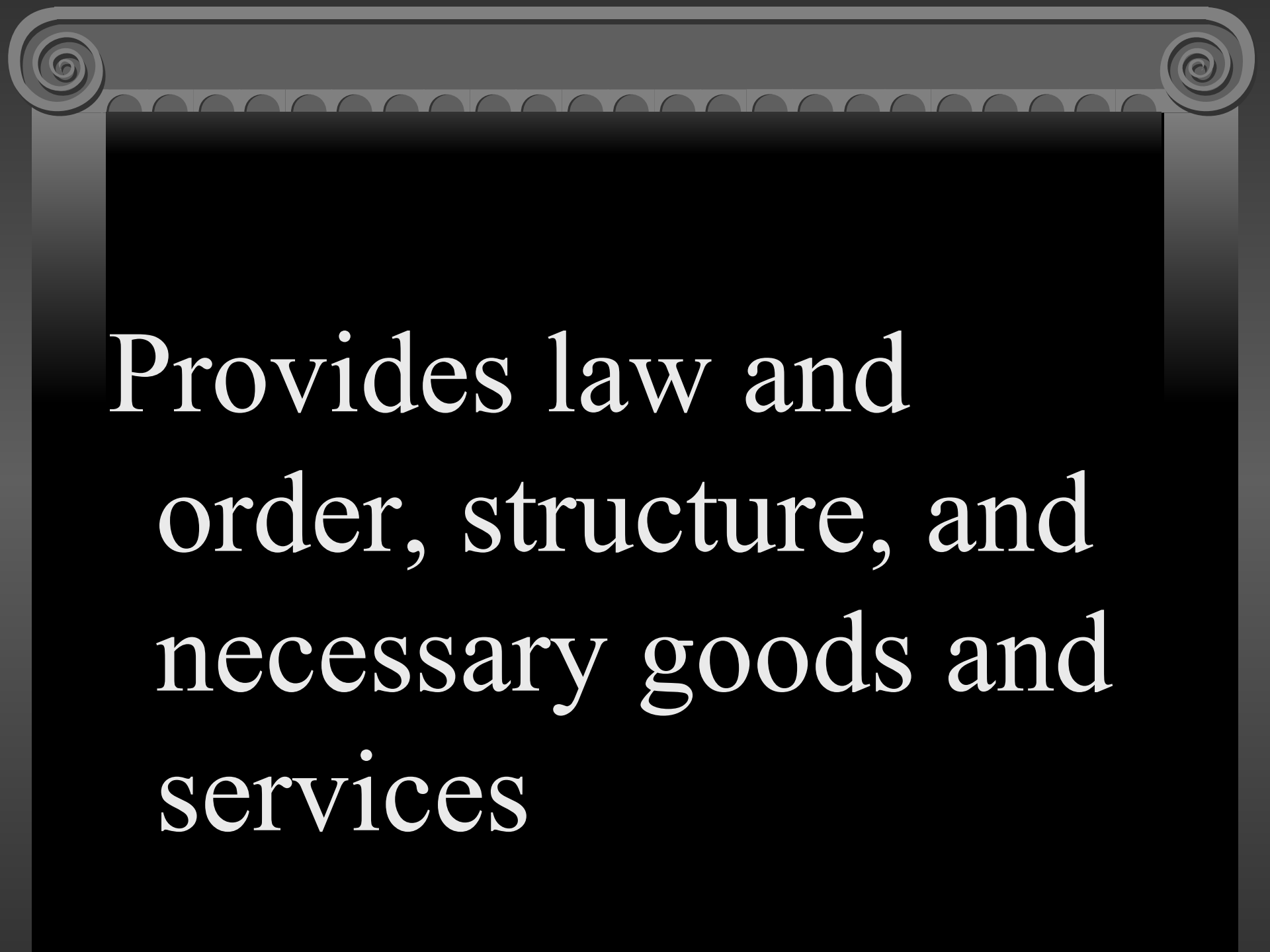
Groups of people, such as families, that live together and purchase many goods to be shared by everyone in the group. ...ex. Furniture, appliances, and cooking equipment.

# Businesses

An economic actor that  
exist primarily to produce  
a product for a profit

# Government

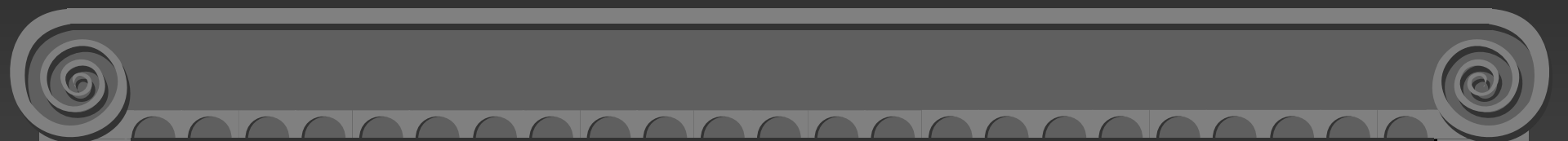
Provides necessary goods  
and services that might  
otherwise not be provided  
by what the market  
demands

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Provides law and  
order, structure, and  
necessary goods and  
services

a. Illustrate by means of a circular flow diagram, the Product market; the Resource market; the real flow of goods and services between and among businesses, households, and government; and the flow of money.



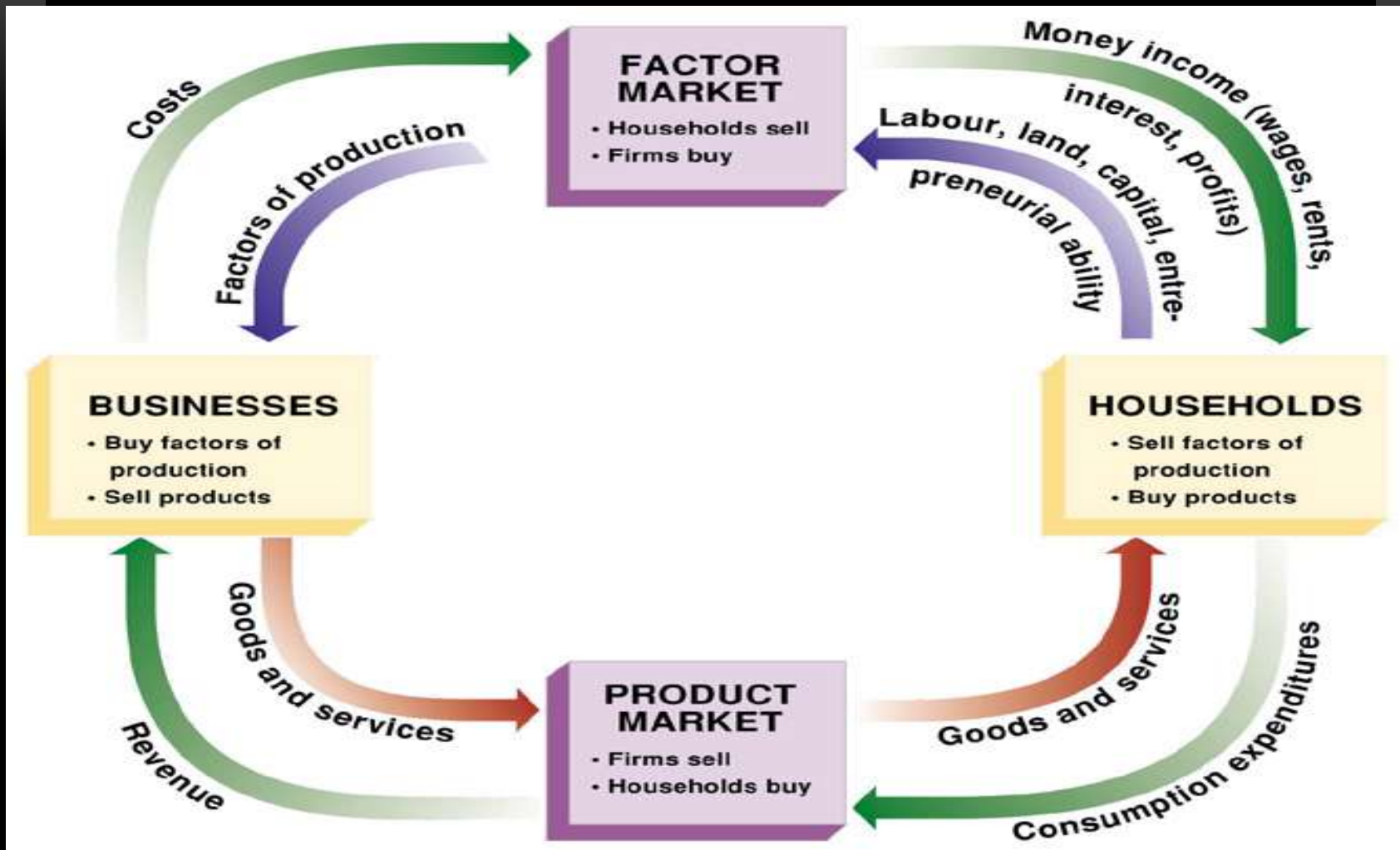


Pass out note taking guide of flow model  
model. Go to Flow model ppt.

Circular flow model movie

[http://www.fgn.unisg.ch/eurmacro/tutor/circularflow\\_movie.html](http://www.fgn.unisg.ch/eurmacro/tutor/circularflow_movie.html)

# Circular Flow Model



# Three Basic Units of Microecon!



# Government!

## 3 Branches of Government

at [pppst.com](http://pppst.com)





# National Defense



# Maintaining Public Parks

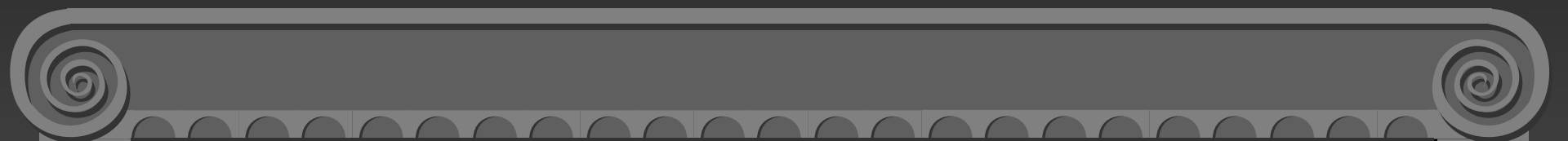




# Monuments







Both businesses and  
households pay taxes to  
benefit society.

# Economics Interdependent

Households, businesses, and governments depend on each other in order for the economy to function smoothly



Households: provide Labor &  
Consumers

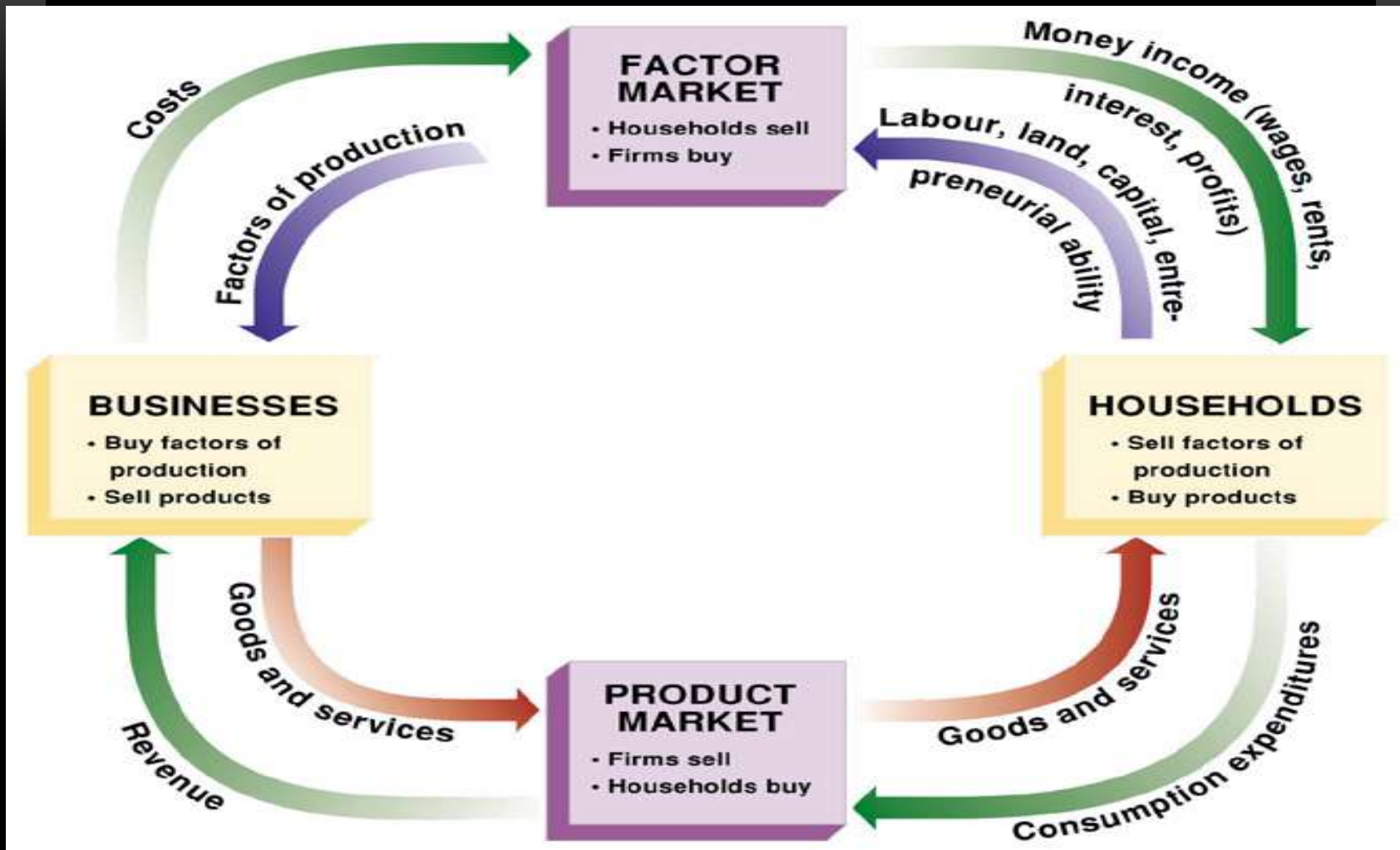
Businesses: act as Producers and  
Consumers

Government: Produces, Consumes,  
and provides structure, regulations,  
law, and order.

# “Circular Flow of Economic Activity”

The economic flow of  
MONEY between  
households, businesses, and  
governments is the *Circular  
Flow of Econ Activity*.

# Circular Flow Model



# Factor/ Resource Market

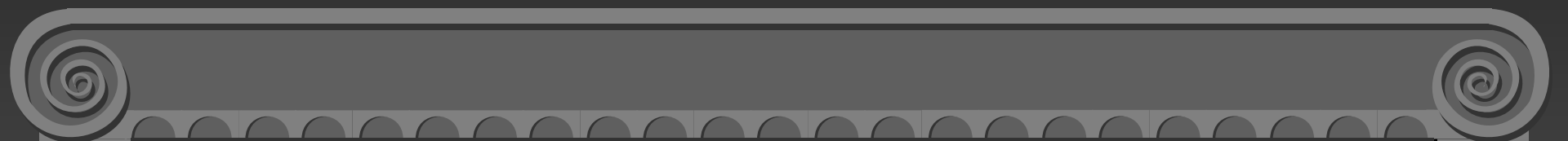


Includes all exchanges that businesses must make in order to produce things, because they involve the four factors of production.

Land\*\*\*\*Rent (rent to landlords)

Labor\*\*\*\*Wages (Wages to workers)

Entrepreneurship & Capital\*\*\*Interest on a loan (people who lend them money to operate)



Is where producers invest in  
new capital to increase  
production.

Employers find the labor  
necessary to run their  
businesses



# Product Market





Households spend their money  
in the product market

Goods that are sold to  
consumers for final  
consumption

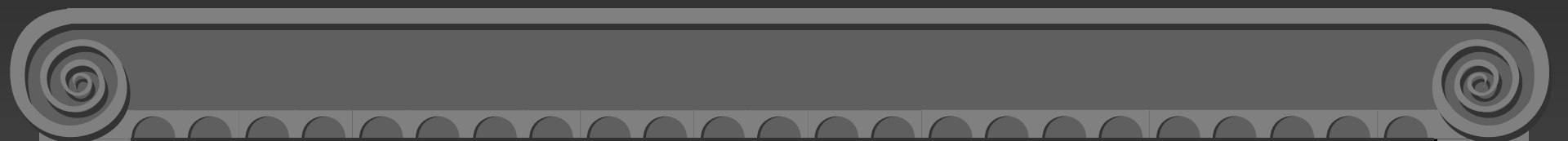


Think....

Running Shoes to a runner

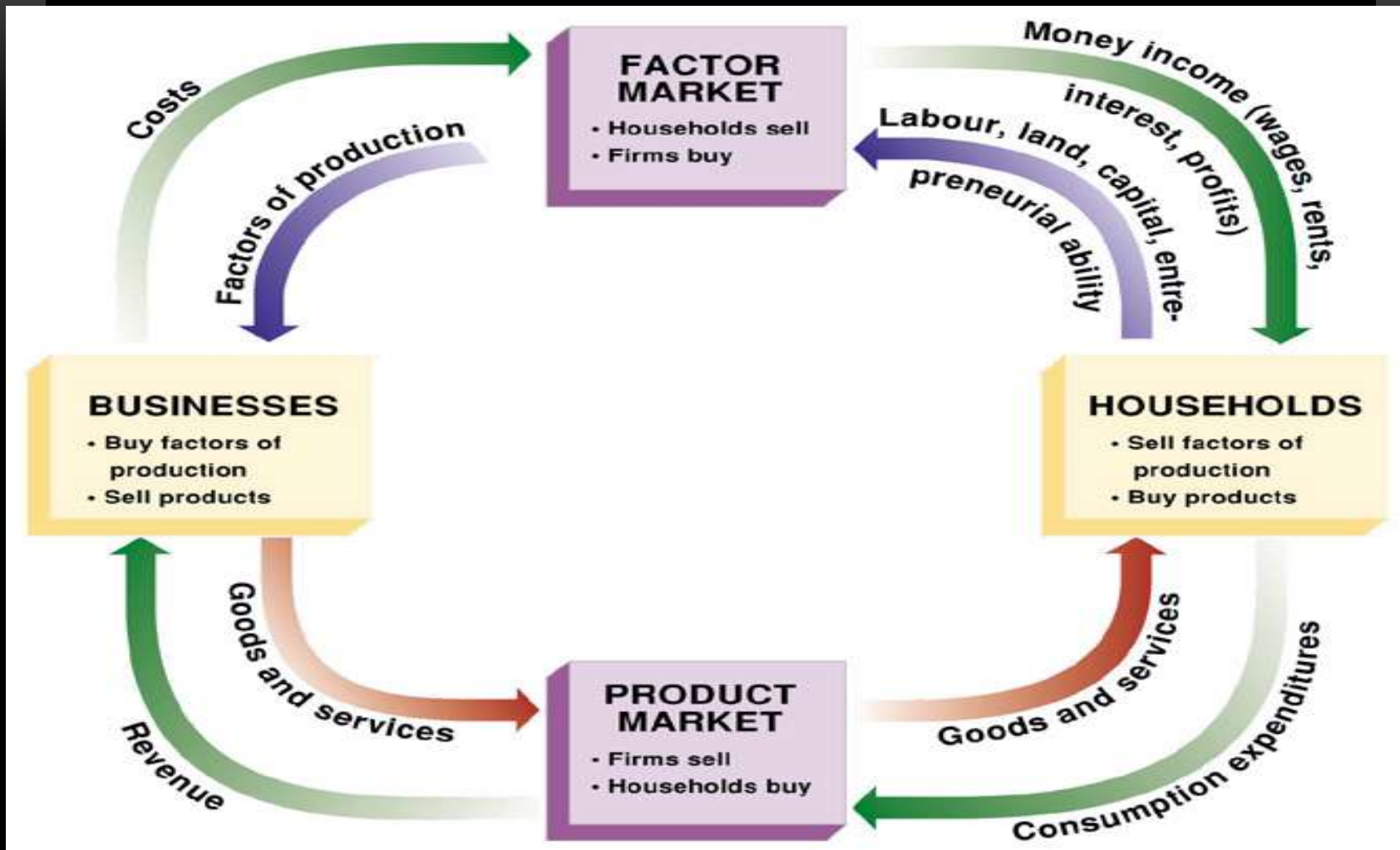
A Pencil sold to a student

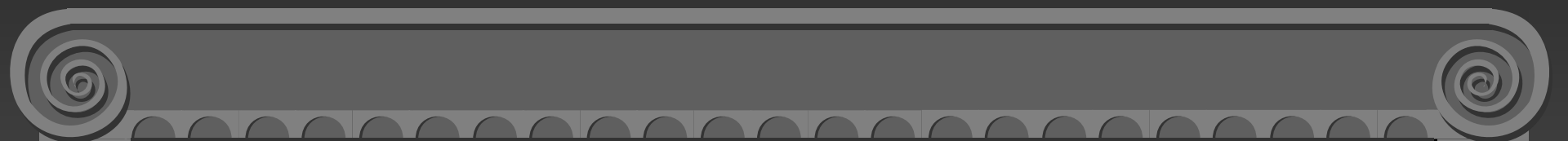
Diamonds are Forever!!



Households buying things that businesses have made creates a flow back to businesses as profits...Businesses use the profit to buy more resources in the factor market, so they can make more products for households to buy!

# Circular Flow Model





Where households are the  
demanders in the product  
market and suppliers in  
the factor market!

b. Explain the Role of Money and  
how it facilitates exchange

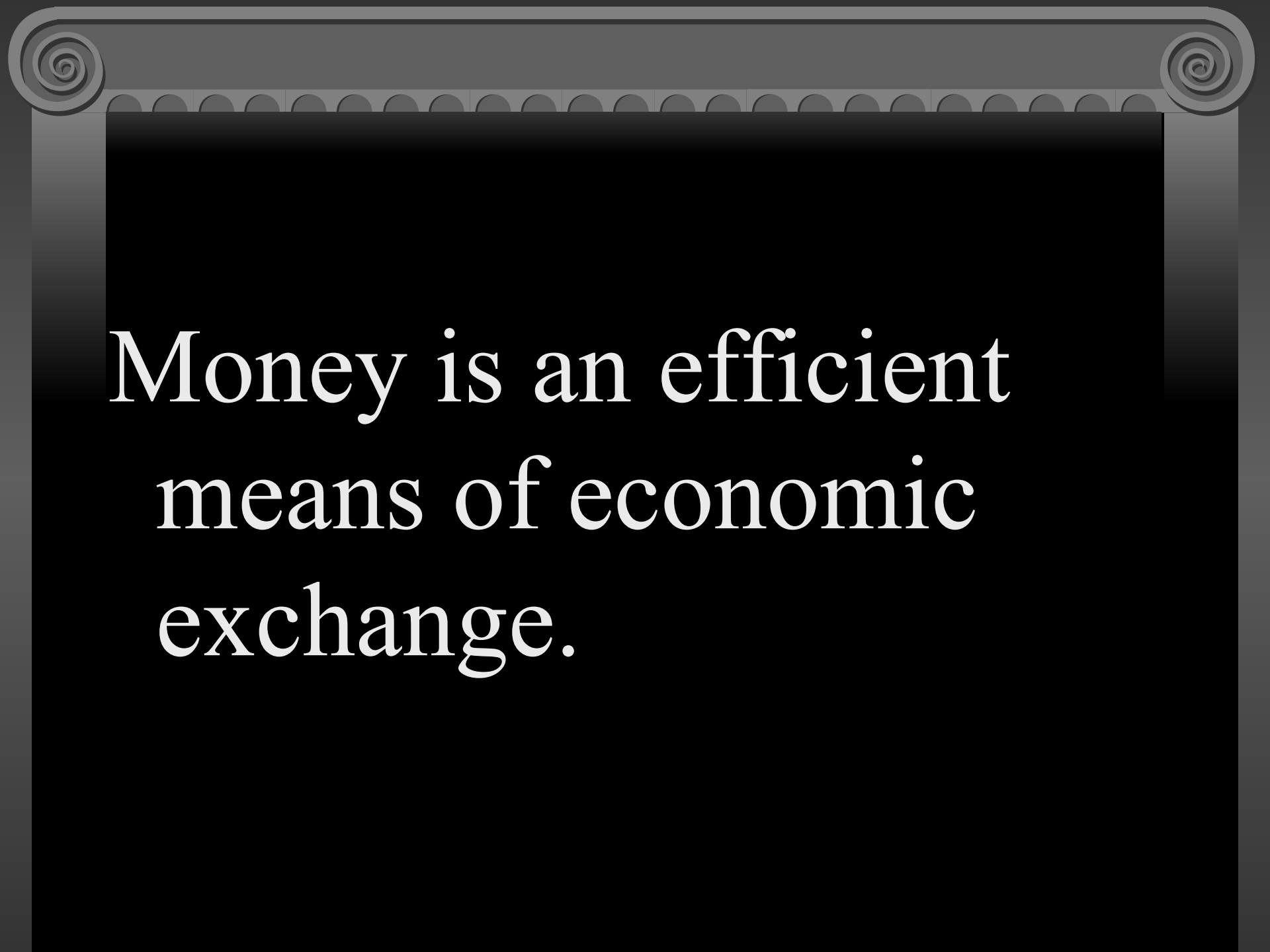


# Bartering to Money

Money as a *Medium of exchange*: Money can be anything that a buyers and sellers in an economy are willing to accept for payment.

*standard of value*: Money allows US to compare the econ. value of different goods and services

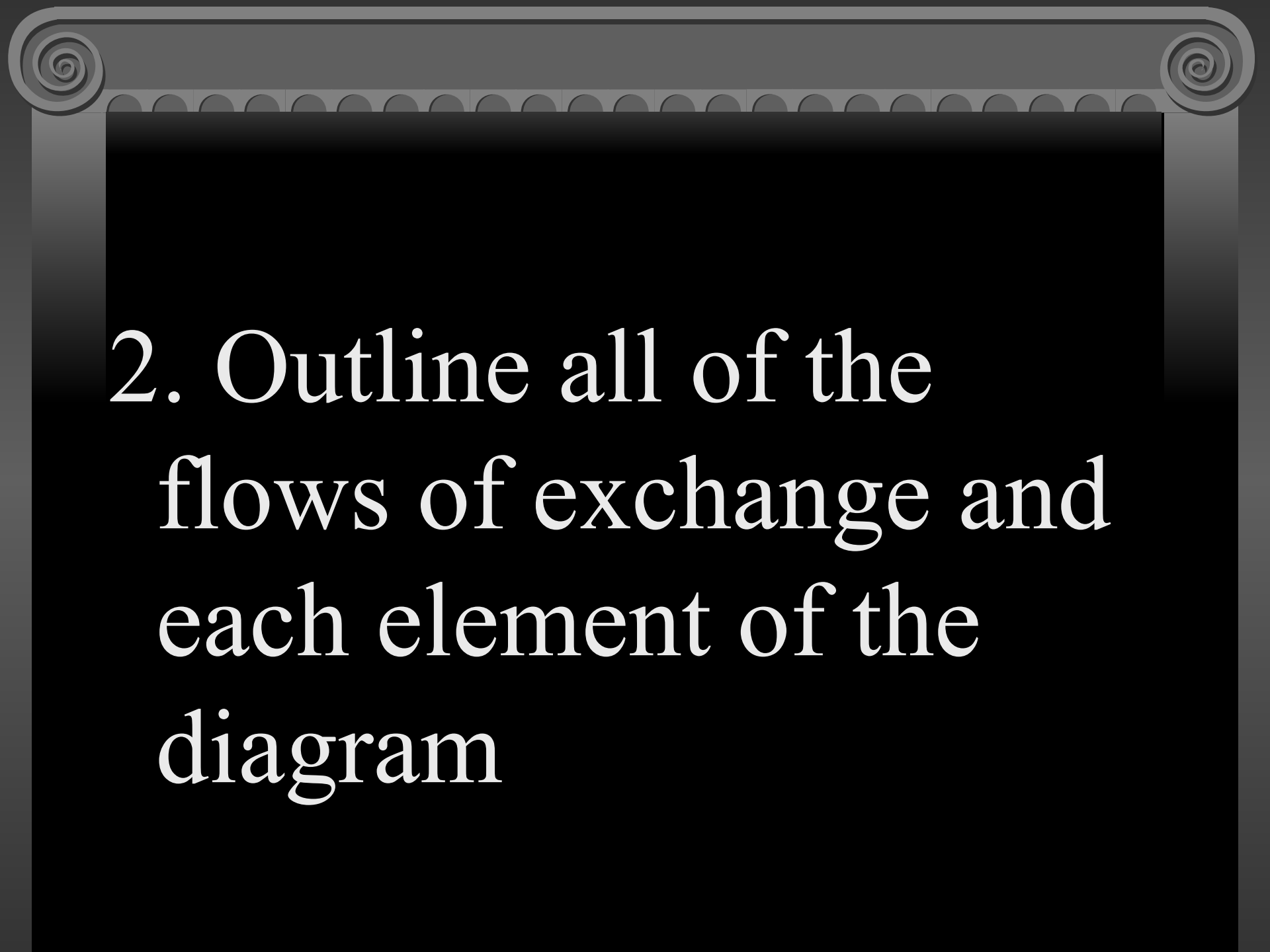




Money is an efficient  
means of economic  
exchange.

## Groupwork: Illustrate A Circular Flow Diagram

1. Pick a product that YOUR group likes and show how it goes through the Circular Flow Diagram

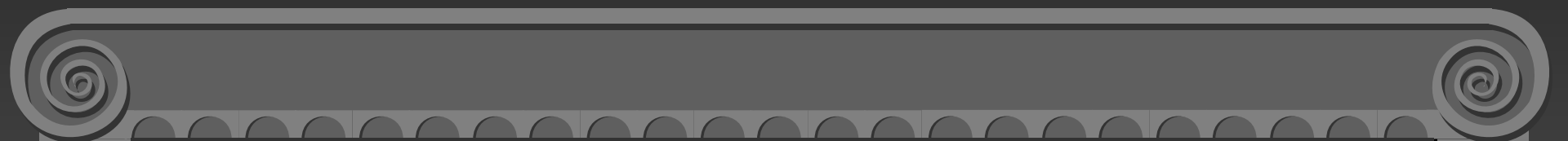


2. Outline all of the  
flows of exchange and  
each element of the  
diagram

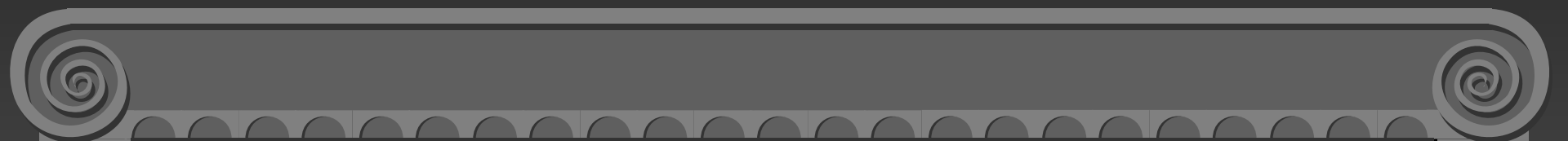
3. Demonstrate economic interdependence with a circular flow diagram. Include the Product Market (items sold for final consumption), Factors Market, Households, and businesses.

## Recap! #3

3. Include Product Market,  
Resource Market,  
households, and  
Businesses and how they  
react.



4. Explain the resources that are needed to make the product and how the household will PAY for the Product and USE the PRODUCT!!



5. Put it in the circular flow model with all the appropriate arrows labeled.

## SSEMI 2: Supply and Demand

**The student will explain how the Law of Demand, the Law of Supply, prices, and profits work to determine production and distribution in a market economy.**

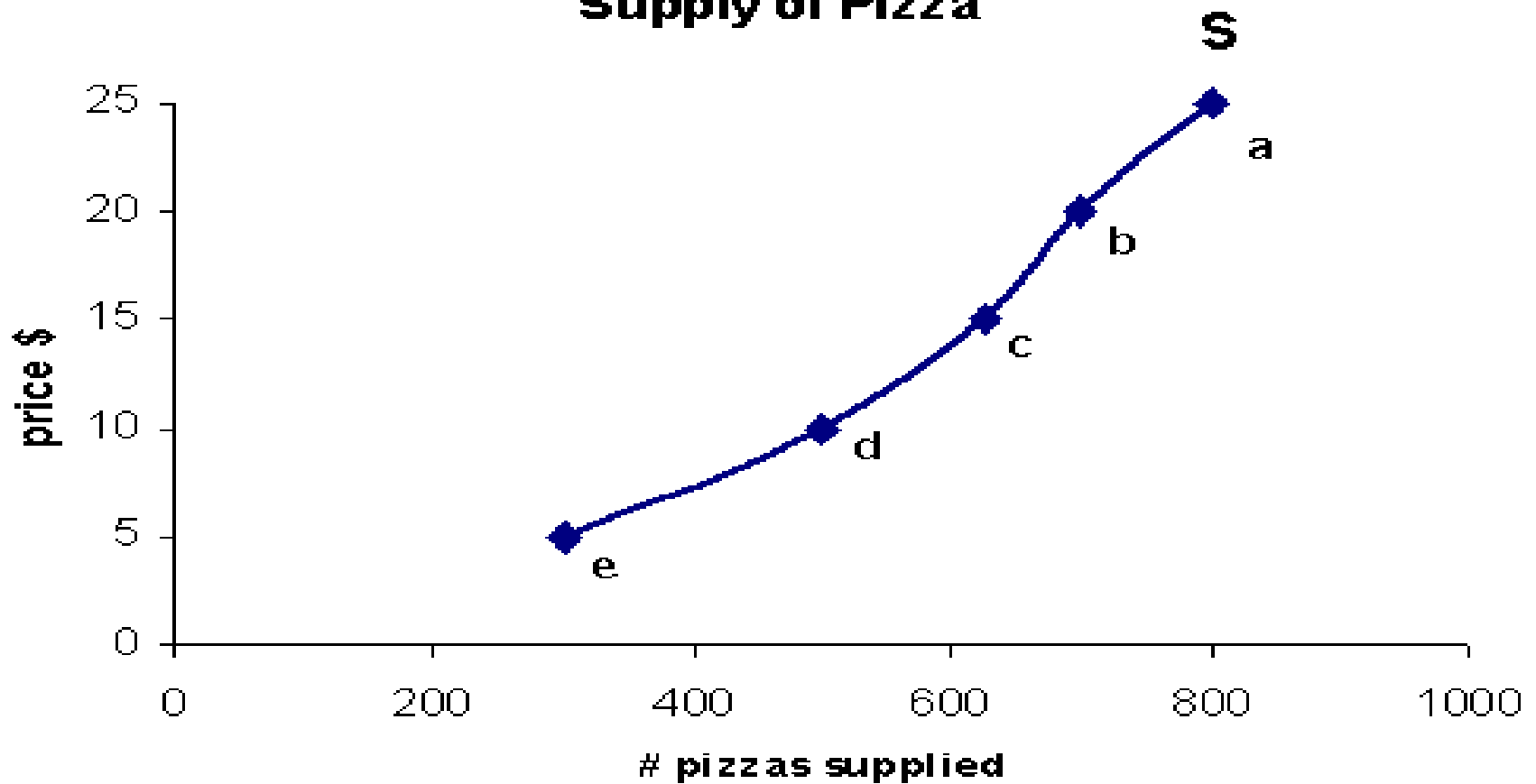


SSEMI2: a

Define the Law of Supply  
and Law of Demand

# Law of Supply

**Supply of Pizza**



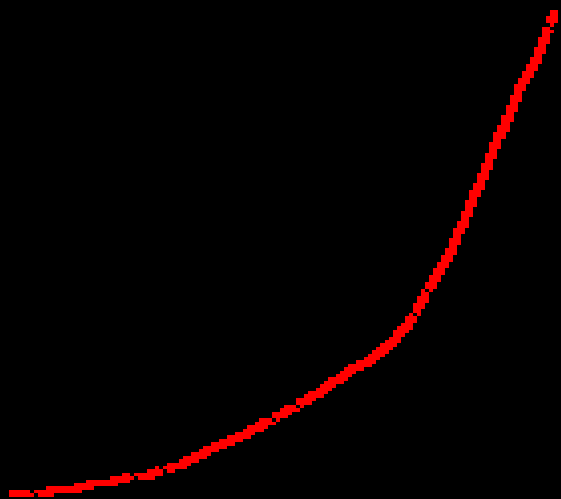
# Supply

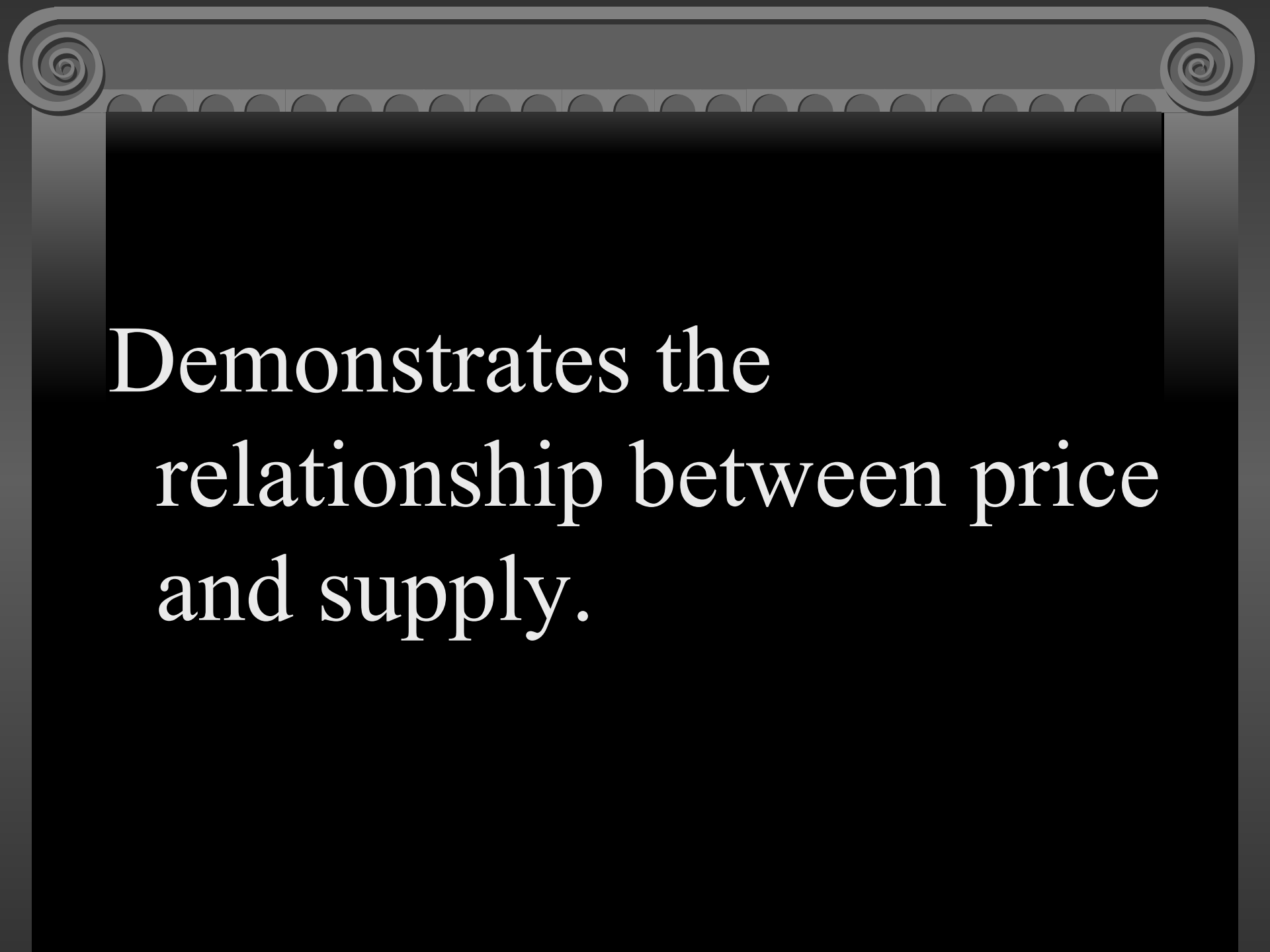
Supply is the total quantity of a product that producers are willing to make and sell at a certain price.

## Law of Supply

A company needs to charge a price high enough to earn a profit. The higher the price a company can charge, the more it is willing to supply.

# Supply Curve

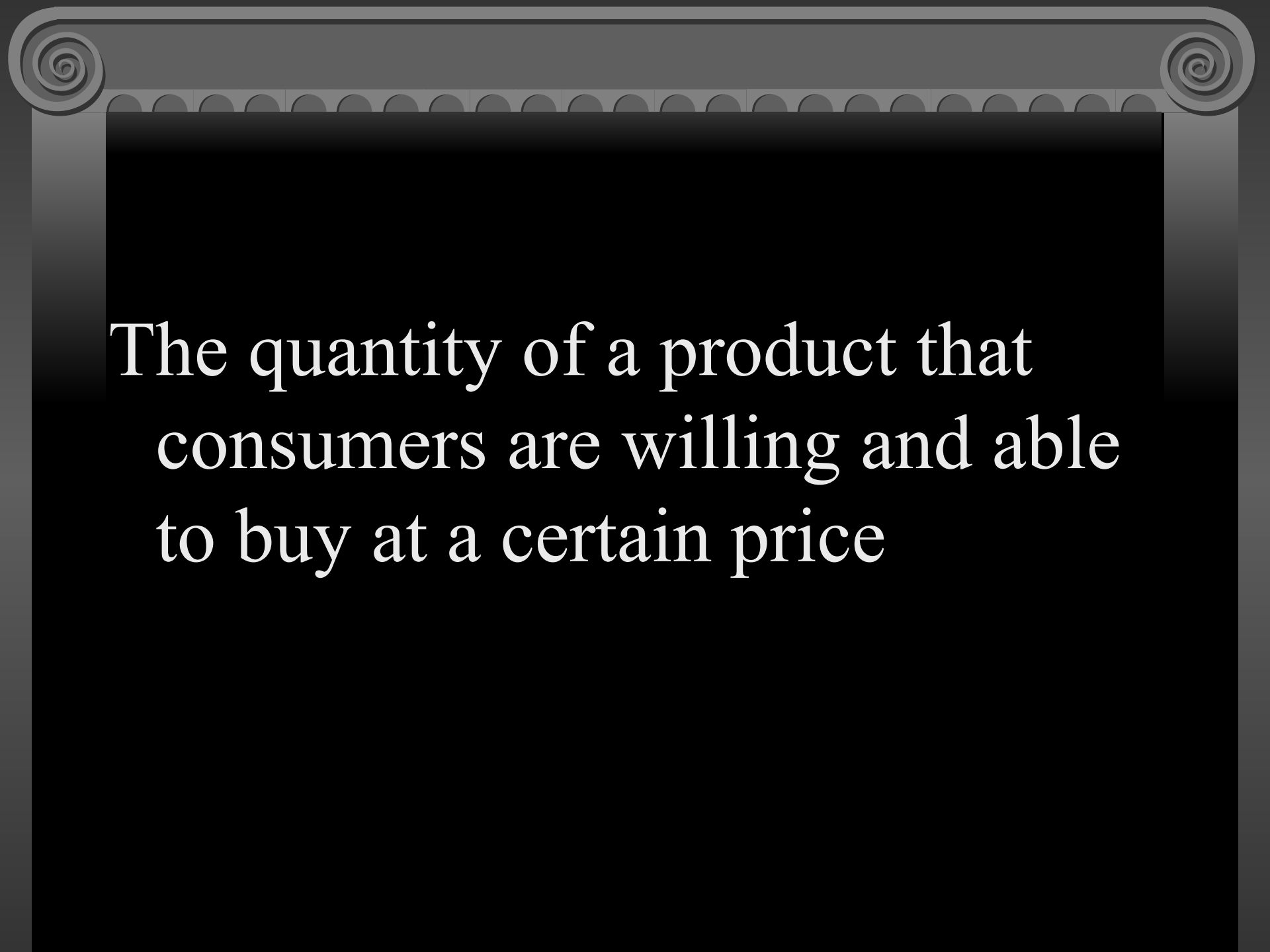


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Demonstrates the  
relationship between price  
and supply.

# Demand



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The quantity of a product that  
consumers are willing and able  
to buy at a certain price

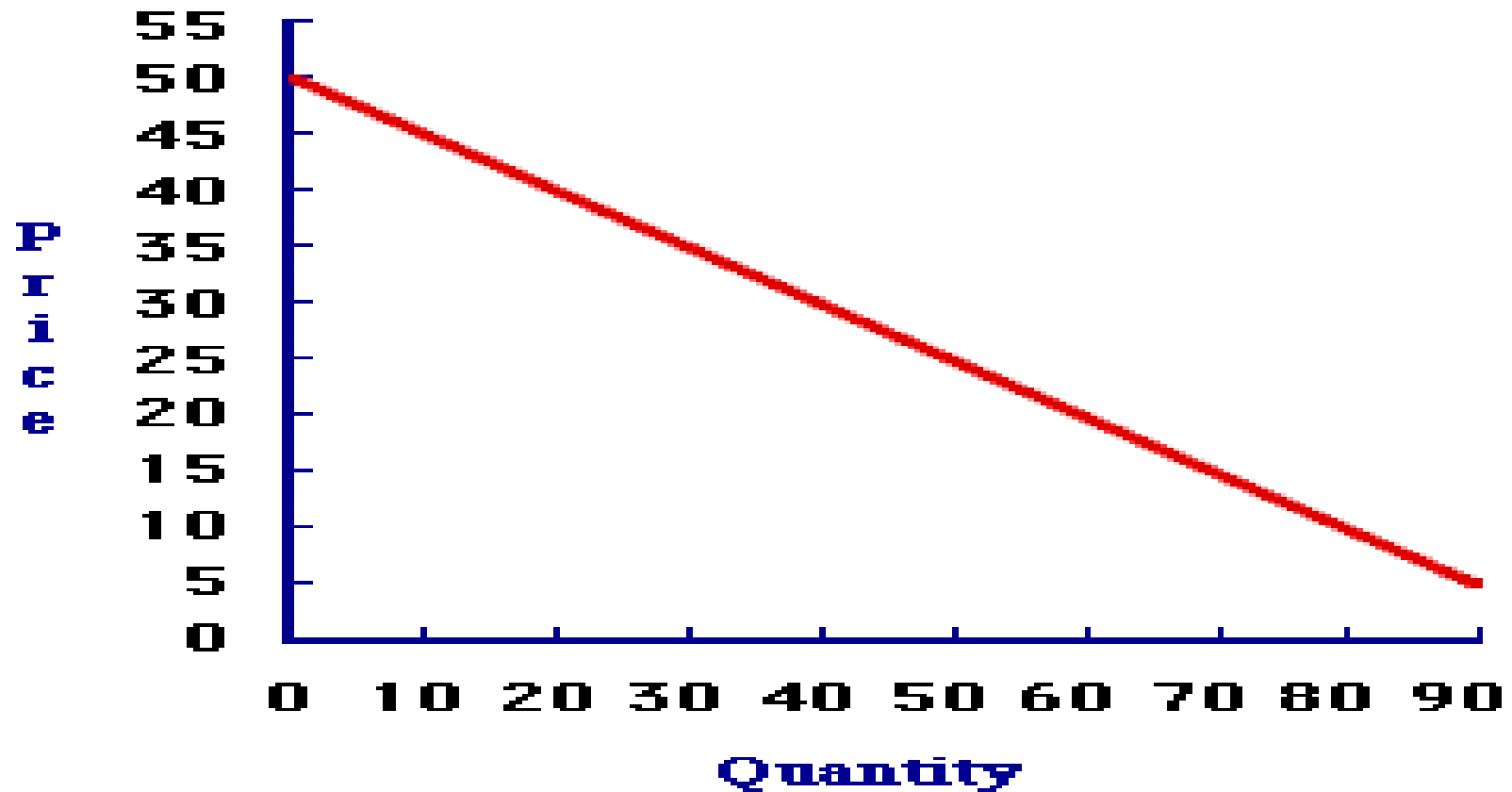


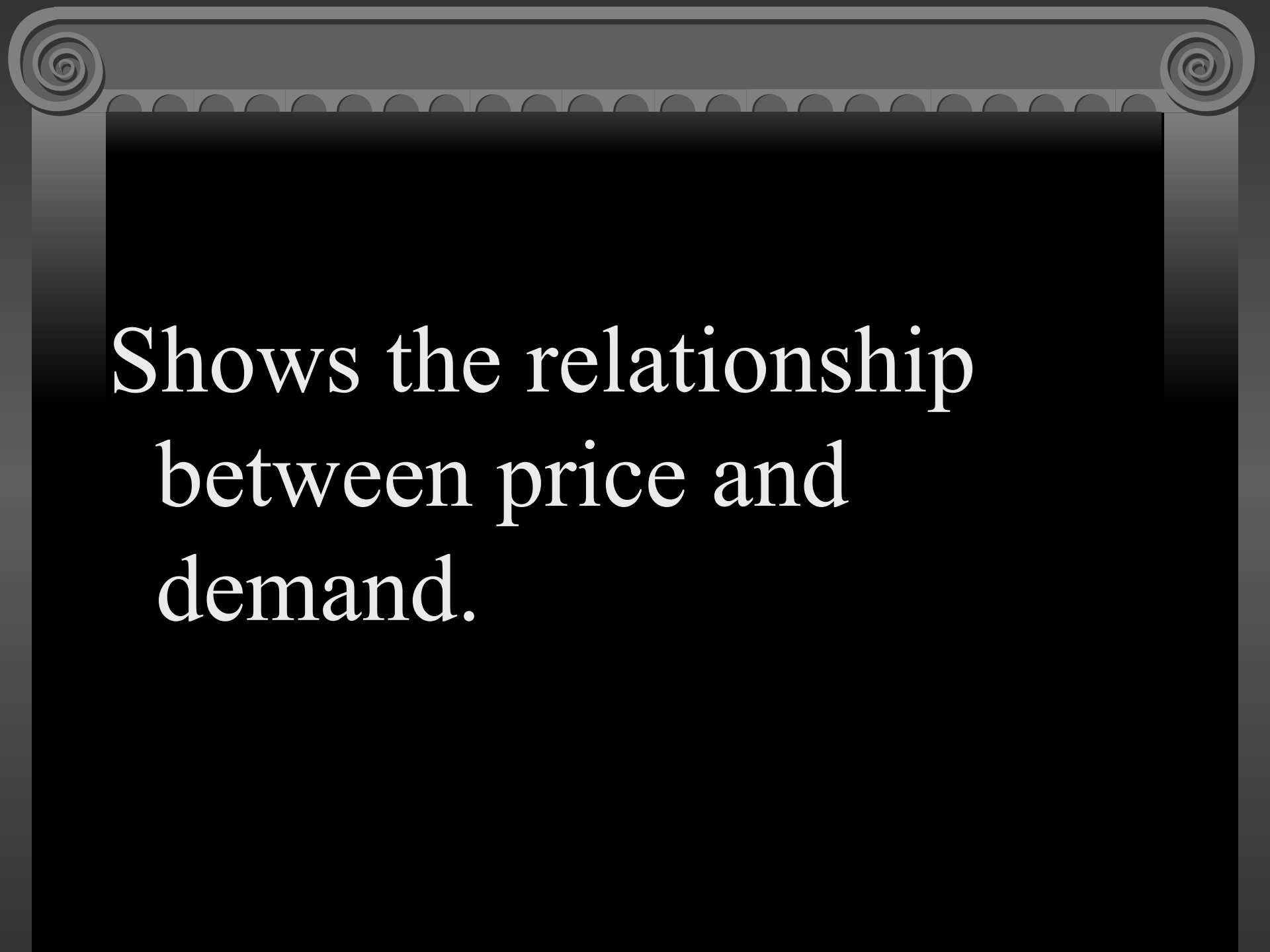
# Law of Demand

The higher the price of an item  
the lower the demand for it  
will be.

As prices rise, quantity  
demanded decreases.

# Demand Curve





Shows the relationship  
between price and  
demand.

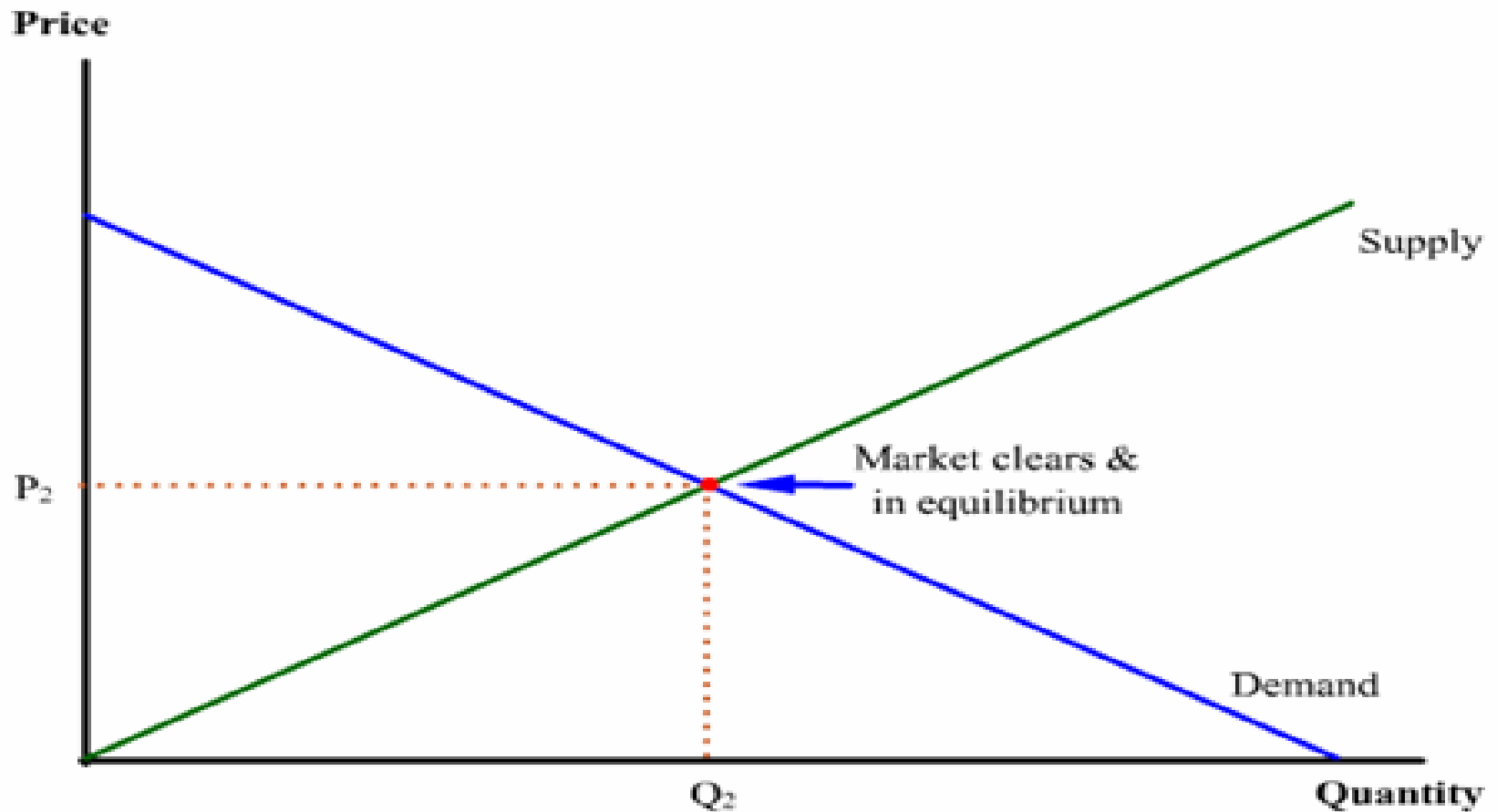
# Law of Supply and Demand

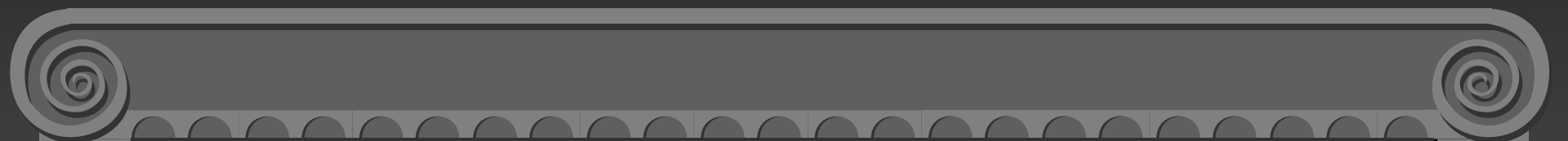
States that supply (What is produced) will be determined by what is demanded (what will consumers buy)

SSEMI2: b

Describe the role of  
Buyers and Sellers in  
determining Market  
Clearing Price

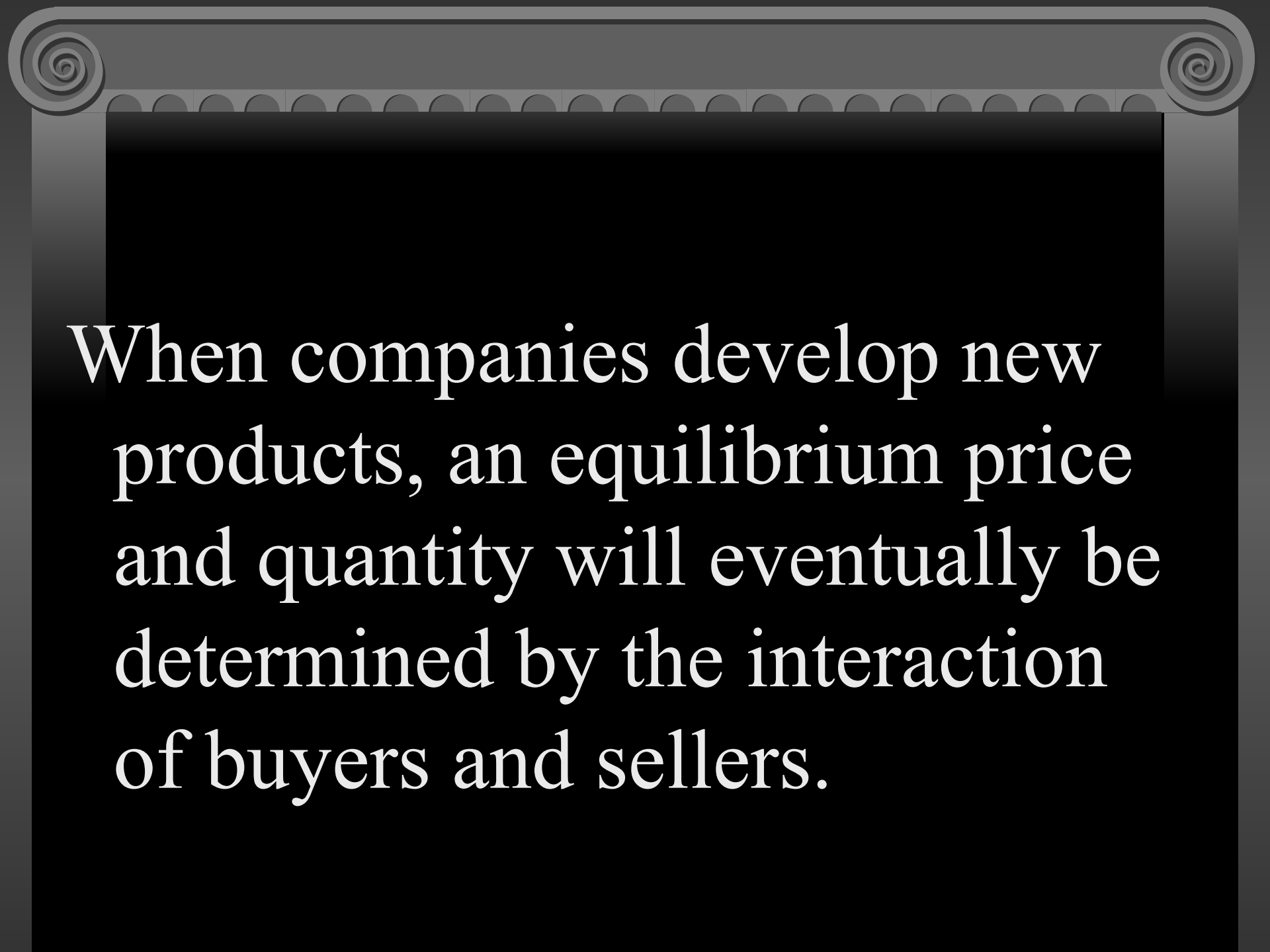
# Clearing Market Price





The Price at which producers are willing to make the same amount of a product that consumers demand

When buyers and sellers interact in a market...the Market clearing price is determined.

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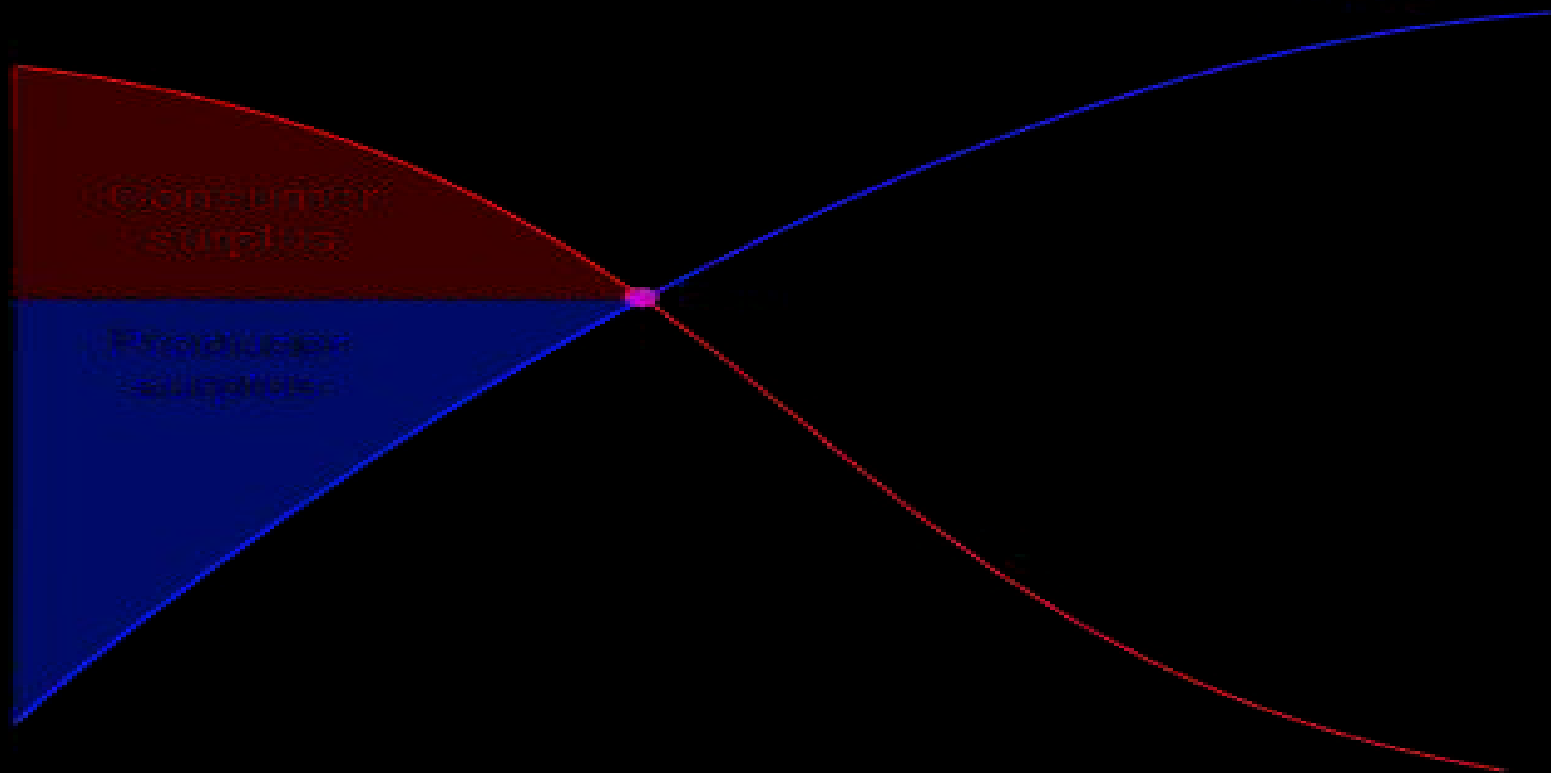
When companies develop new products, an equilibrium price and quantity will eventually be determined by the interaction of buyers and sellers.



## SSEMI2: c

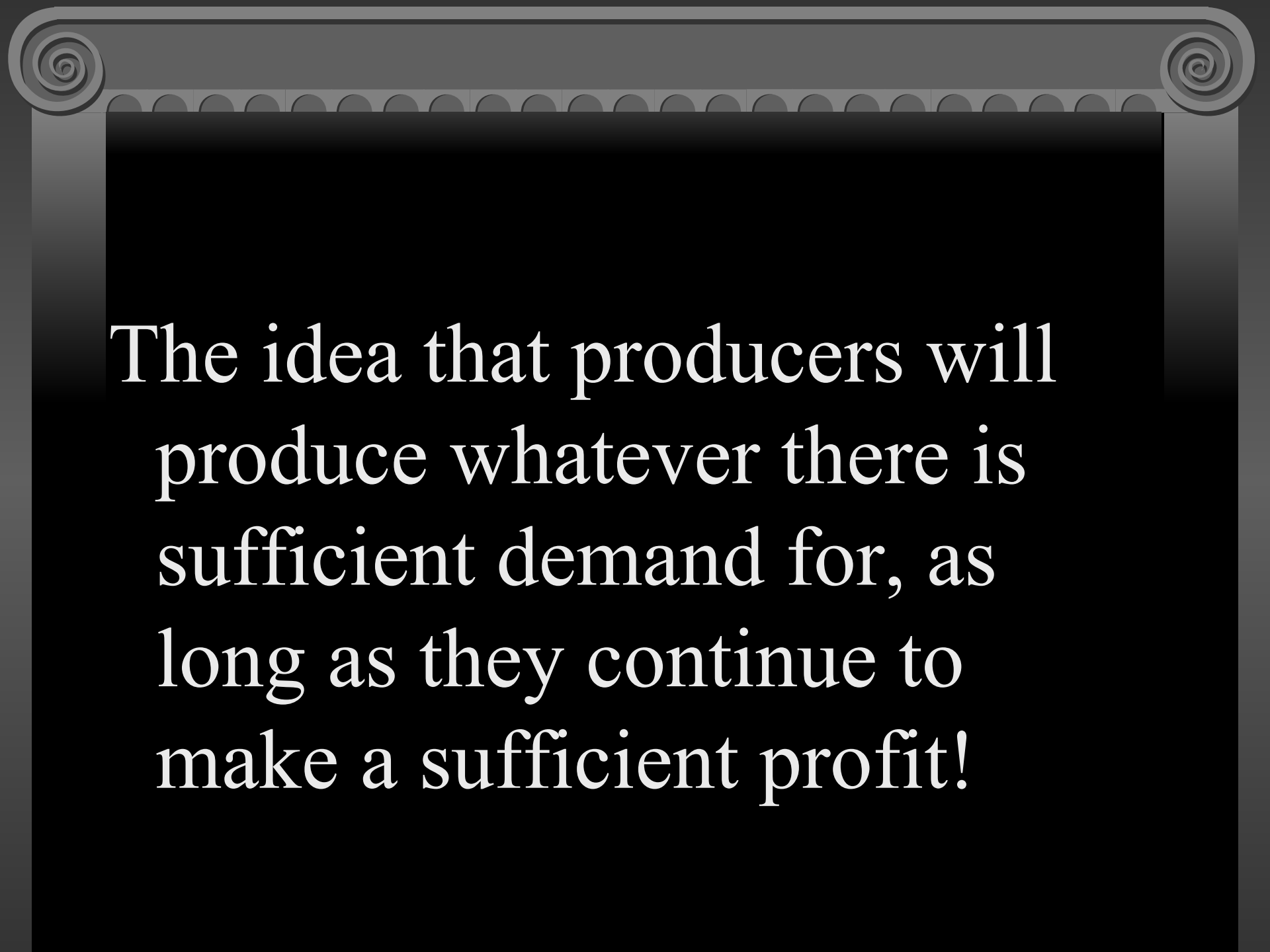
c. Illustrate on a graph how supply and demand determine equilibrium price and quantity.

# Equilibrium Price



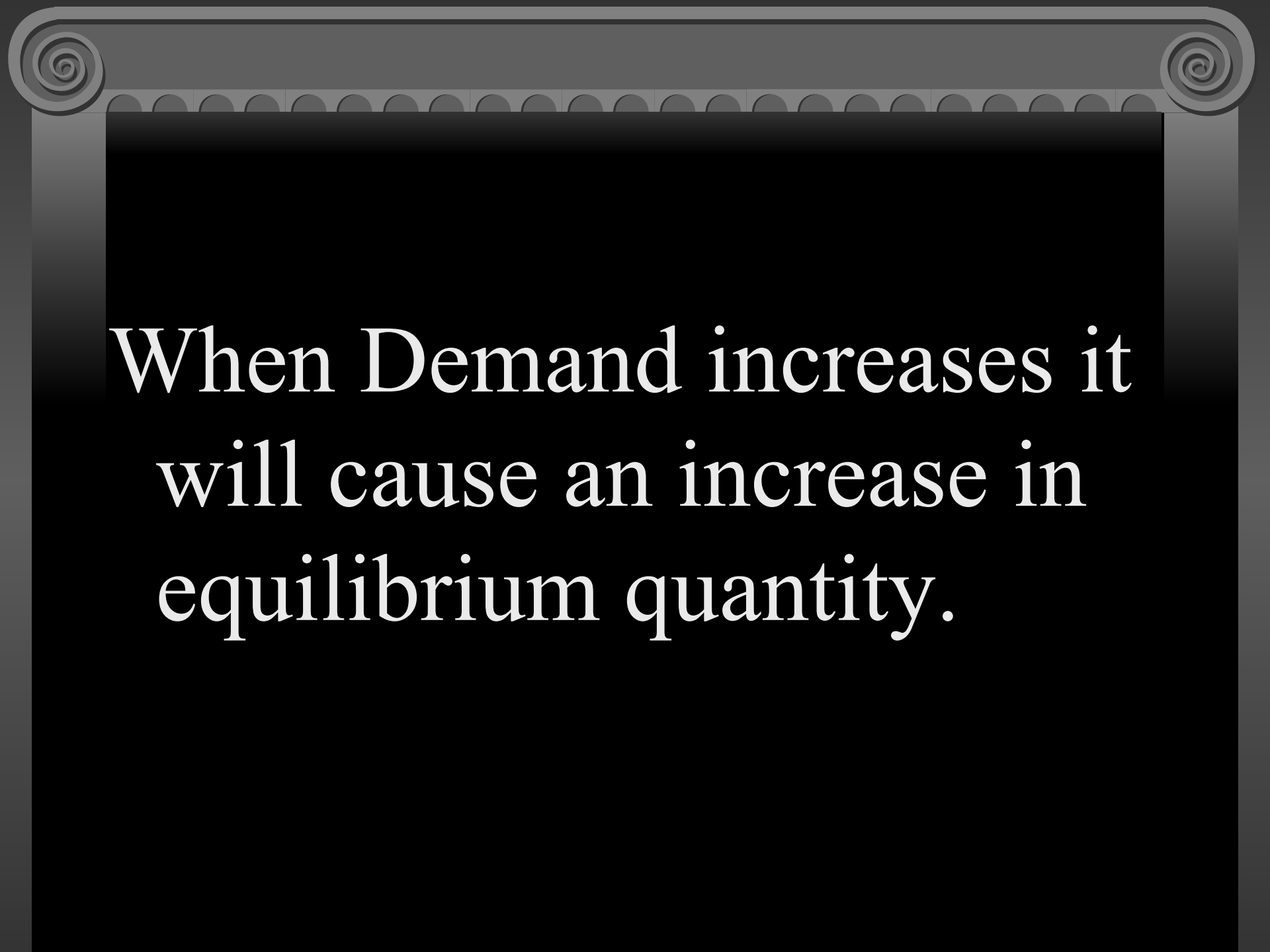
## Equilibrium Price

Is similar to Market clearing Price in that the Equilibrium price is placed on a chart that combines the supply curve and the demand curve on a graph.

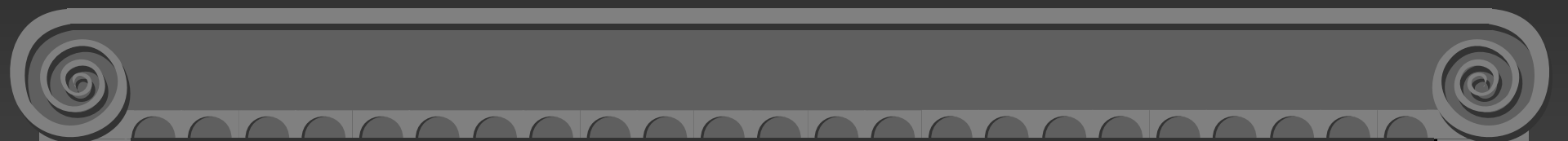
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The idea that producers will  
produce whatever there is  
sufficient demand for, as  
long as they continue to  
make a sufficient profit!

1. Draw a demand curve and a supply curve in your notes
2. not that The price which total supply equals total demand is the equilibrium price



When Demand increases it  
will cause an increase in  
equilibrium quantity.



Change in equilibrium  
price and quantity can  
result from a decrease  
in supply.

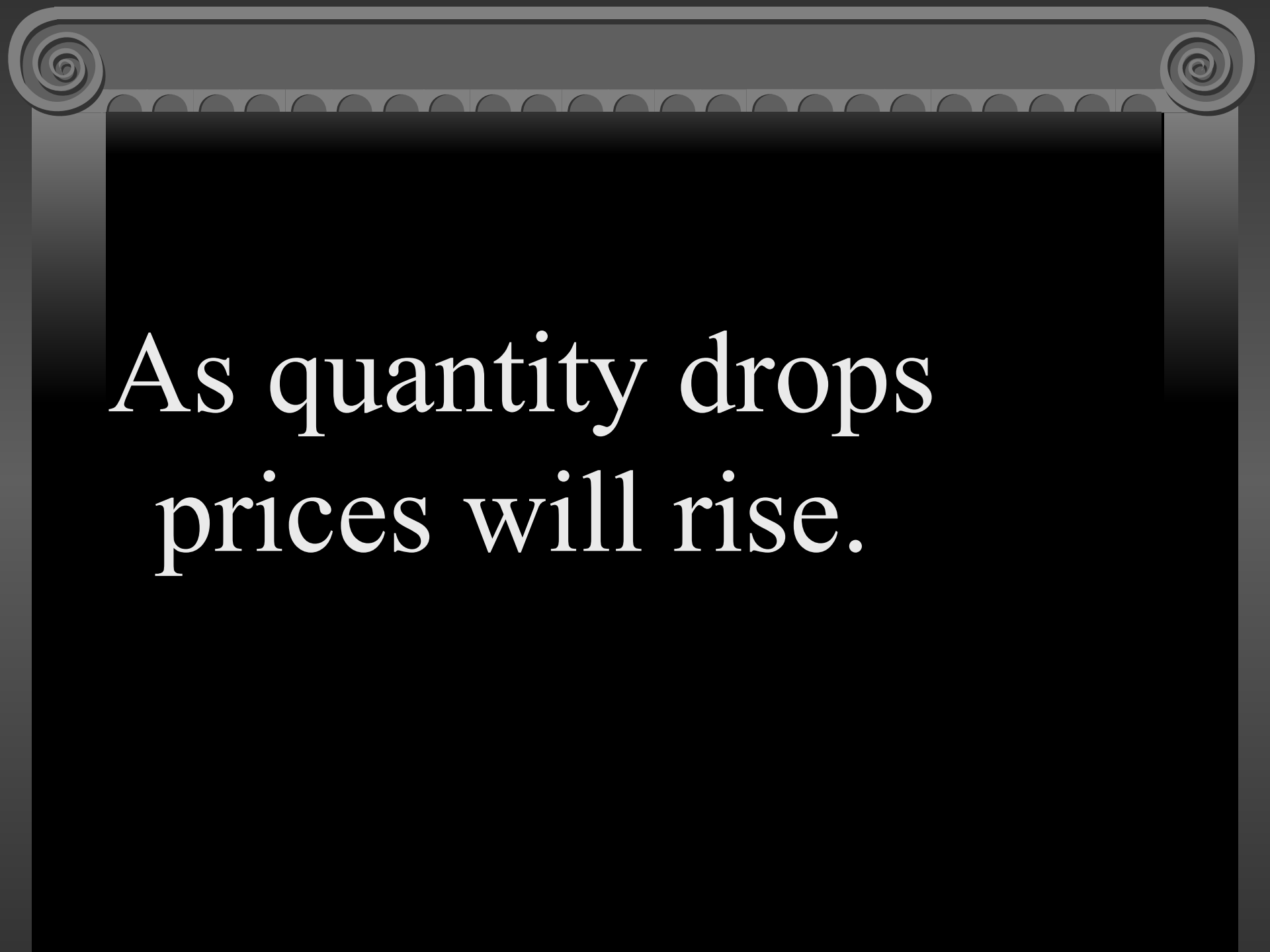
SSEMI2: d

Explain how prices serve  
as incentives in a Market  
Economy.



Lowering prices are an  
incentive for people to  
purchase more goods.





As quantity drops  
prices will rise.

## **SSEMI3: Supply and Demand**

**The student will explain  
how markets, prices,  
and competition  
influence economic  
behavior.**

SSEMI3: a

Identify and illustrate on a graph factors that cause changes in market supply and demand.

# Factors that cause Changes

A decrease in the price of  
resources

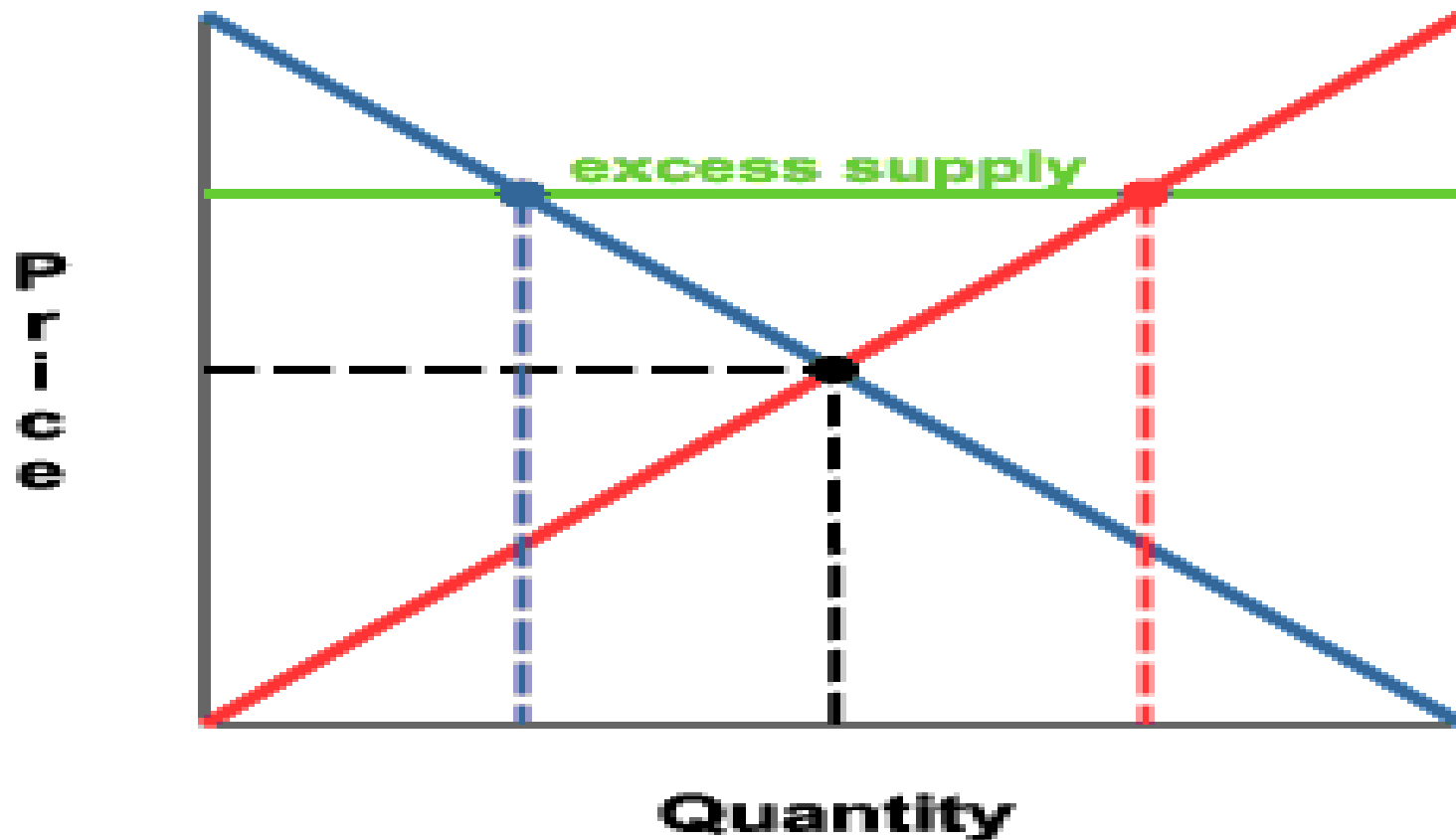
If the price of an item increases,  
demand for its substitutes  
increases.

## SSEMI 3: b

b. Explain and illustrate on a graph how price floors create surpluses and price ceilings create shortages.

# Price Floors

## Price Floor



Is the minimum allowable price...Price Floors lead to surpluses...Surpluses occur when supply exceeds demand...MILK is a prime example!

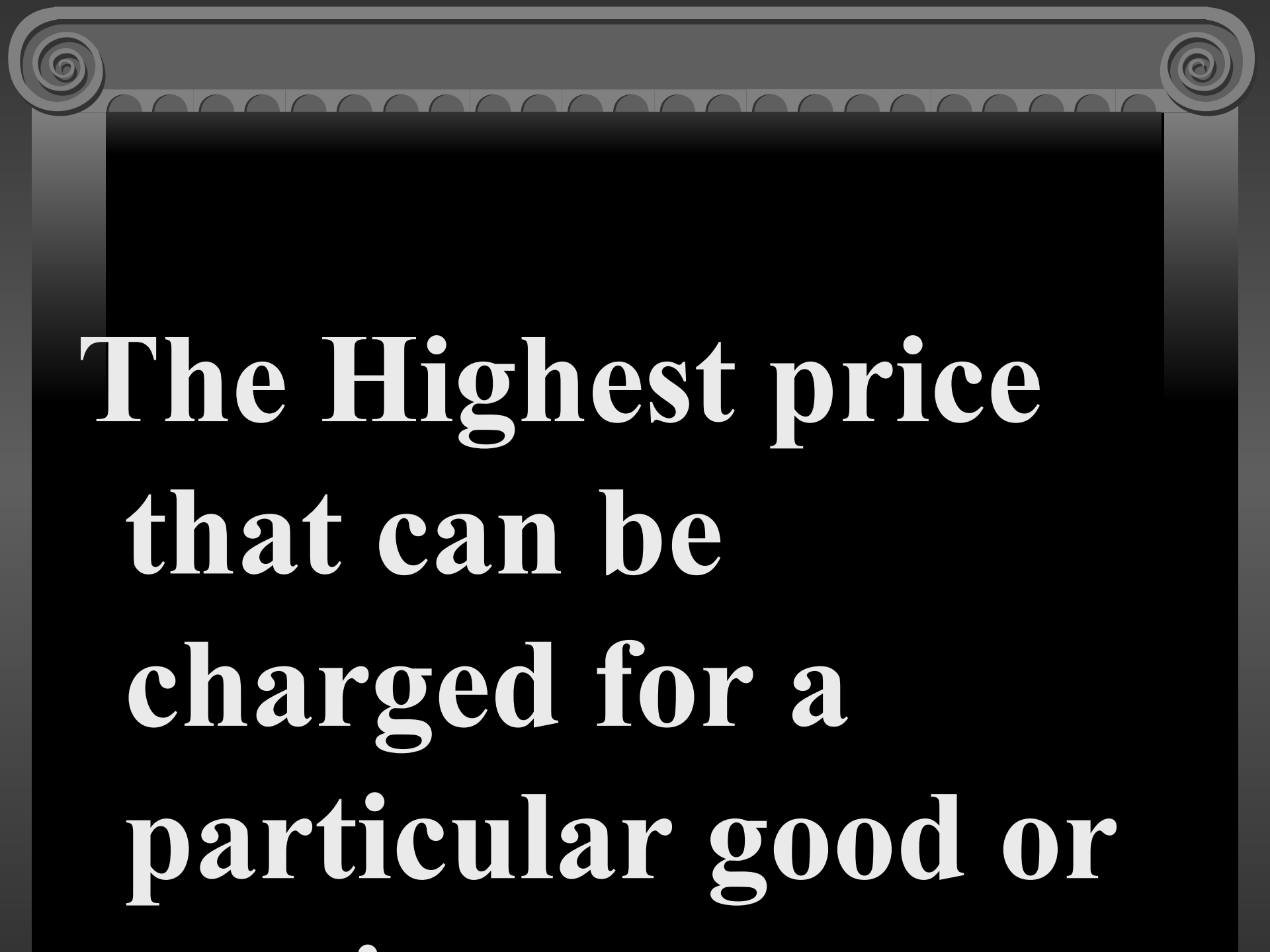


Surplus are noticed on a graph

**When the demand is  
below the  
equilibrium price...a  
Surplus occurs.**

# Price Ceiling



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**The Highest price  
that can be  
charged for a  
particular good or**

# Shortage

**A price below equilibrium results in a shortage of goods. Price Ceiling can lead to a shortage, because the demand maybe high but the supply low.**

SSEMI: c

Define price elasticity  
of demand and  
supply.

# Price Elasticity

The Sensitivity of price to supply and demand and its tendency to fluctuate as supply and demand change is referred to as Price Elasticity.



Price is not set

It changes depending on supply and demand.

The more a change in price affects supply and/or demand, the greater a product's price elasticity.

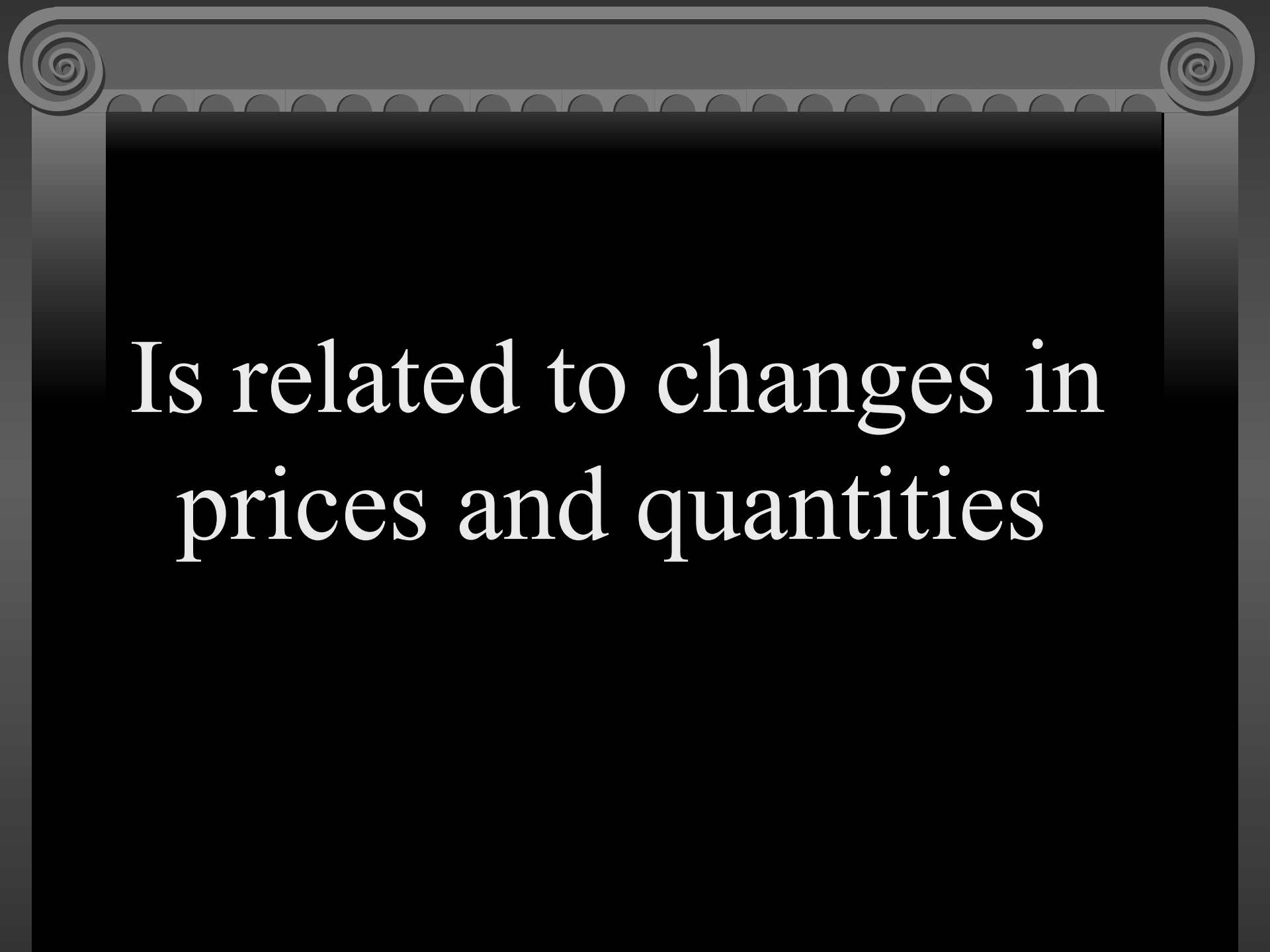
## Demand Inelastic

Within limits, people will buy about the same amount of a product no matter what the price especially if there is no substitute... **example Bread, Oil, Milk, and Eggs.**



# Demand Elasticity

Depends on the taste of individuals...items that are luxury on the other hand are sensitive to changes in price...think about houses in Henry County.



Is related to changes in  
prices and quantities



SSEMI4

# Business and Market Structures

## **SSEMI4**

**The student will explain the organization and role of business and analyze the four types of market structures in the U.S. economy.**

## SSEMI4: a

- a. Compare and contrast three forms of business organization—sole proprietorship, partnership, and corporation.



<b>Business Type</b>	<b>Defined AS</b>	<b>Advantages</b>	<b>Disadvantages</b>
<b>Sole Proprietorship</b>			
<b>Partnership</b>			
<b>Corporation</b>			



# Sole Proprietorship

## Unlimited Liability



Partnership Advantaged

Specialization of the  
partners





Disadvantage of corporation

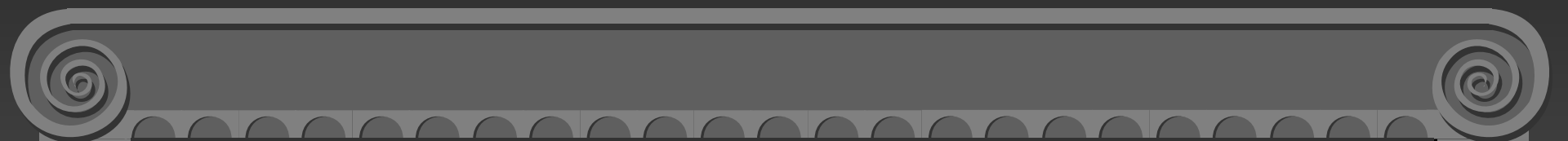
# Double Taxation

## Share/Stock Holders

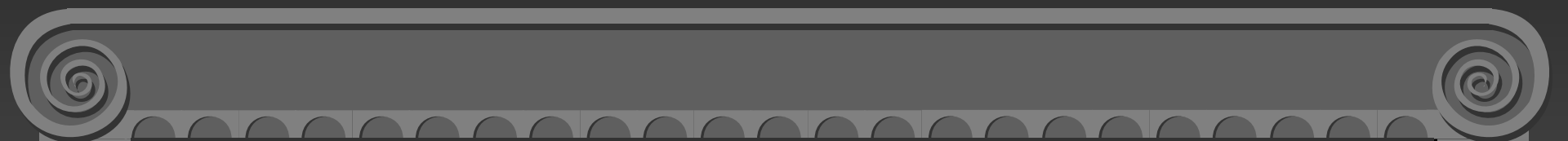
A part owner of a business  
Limited Liability and only  
lose the money invested  
in the company.

SSEMI4: b.

Explain the role of  
profit as an incentive  
for entrepreneurs.



Profit is the incentive for entrepreneurs to take risk because that is why they created their business, to make money.



If they didn't wish to make money,  
why would they create a business?

If entrepreneurs don't make their  
consumers happy, the consumers will not  
buy their product and they will lose  
money.

As long as entrepreneurs make a product  
and the consumer is willing to buy it,  
their goal of making money is reached.

## SSEMI4: c

**Identify the basic  
characteristics of  
monopoly, oligopoly,  
monopolistic competition,  
and pure competition.**

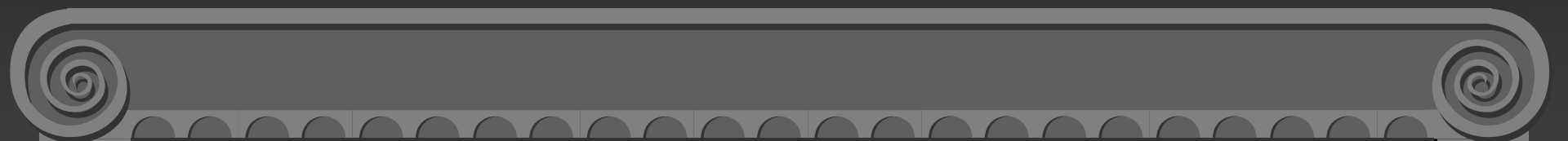
# Monopoly

- market structure characterized by a single producer; form of imperfect competition

# Oligopoly

- market structure in which a few large sellers dominate and have the ability to affect the prices in the industry; form of imperfect competition, Control 75% of the market.





Has the greatest control  
over the price of items  
being sold.

Dominated by a few large  
firms.

# Monopolistic Competition

- market structure having all conditions of pure competition except for identical products; form of imperfect competition



Pure Competition –

independent buyers and  
sellers making informed  
decisions on products  
they wish to  
purchase and sell



Productions is similar in  
quality

There is a large number of  
buyers and sellers

There are few barriers entering  
the market

# Franchise

Larger Business supply's products, trains employees, and allows for name-brand recognition. In return the owner pays fees and abide by rules set up by the company.