STRAND 1: RESOURCES ALLOCATION VIA THE MARKET SYSTEM

Sub - Strand 1:- Basic Economics Concepts:

A: Basic Economic Concepts:

Students should be able to answer the following learning outcomes:

a) Basic Economic Concepts.		Skills Level
1. Basic Economic Concepts.	**i.** Define Scarcity.	1
	ii. Describe the concept of Scarcity.	2
	iii. Define Choices.	1
	iv. Describe the concept of Choice.	2
	v. Define Opportunity Costs.	1
	vi. Describe the concept of Opportunity Costs.	2
	vii. Define Specialization.	1
	viii. Describe Specialization.	2
	ix. Define Production.	1
	x. Describe Production.	2
	xi. Define Interdependence.	1
	xii. Describe Interdependence.	2
	xiii. Define Exchange.	1
	xiv. Describe Exchange.	2
	xv. Define Markets.	1
	xvi. Define Economies of Scale.	1
	xvii. Define Diseconomies of Scale	1
	xviii. Define Increasing Returns.	1
	xix. Define Diminishing Returns.	1
	xx. Define Constant Returns.	1

WHAT IS ECONOMICS?

- Economic is the study of how to use wisely our *limited (scarce) resources* to satisfy our *unlimitedneeds & wants.*
- Define as "the study best to use limited resource to obtain the highest amount of satisfaction for our material wants"

The study of Economics is based on the realization that:

- Resources are limited
- While needs and wants are unlimited

  OR
- We always want more than we have at the moment.

Significance of Economics in our everyday living;

- People can be able to use limited resources wisely
- Prioritize our unlimited needs and wants
- Live within our means
- To be a good decision maker
- It helps us to understand why people around us behave the way they do.

Definition of Economics highlights the Basic Concepts of Scarcity, Choice and Opportunity Costs.

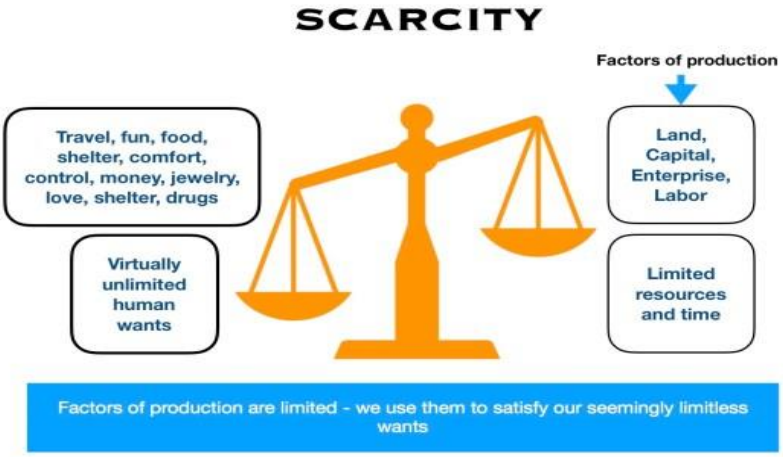
ECONOMIC CONCEPTS:

Scarcity, Choice and Opportunity Cost:

Scarcity:

- Refer to economic situation where people 's wants exceed the resources available to satisfy thosewants; not enough resources for everyone to have all they want (= wants > resources available).
- Means that the productive resources are not enough to satisfy all our needs and wants.

Scarcity exists whenever there are not enough resources to make goods/ services to satisfy all the people 's wants. All the goods/ services cannot be made because the resources needed to make them are limited in supply. All needs and wants cannot be satisfied due to limited of goodsand services.



Limited of resources:

- ✓ Teach people to use such limited resources wisely.
- ✓ Teach people to prioritize unlimited needs and wants

Due to Scarcity (Limited Resources), people are encouraging to make decision (Choice) in order to use such limited resources wisely.

Choices:

It is an Economic decision made between various alternatives. Because of scarcity, choices mustbe made of what goods/ services to be made with the limited resources available (= decision making).

People should make a good decision (good decision making) as which the best alternatives to take and not to take. People can't choose both alternatives due to limited of resources.

When people making choices (choosing which is the best alternatives to use), it lead to opportunitycost.

Opportunity Costs:

It is the next best alternative forgone when a decision is made.

Making choices have costs—the alternative that could not be taken. The opportunity cost of anyaction is the best alternative forgone. People cannot have everything they want; therefore, they have to choose among the alternatives. The best thing that people choose not to do/ have (= thebest forgone alternative) is the cost of the thing that people choose to do/ have.

Example:

Suppose Meleane has $50 (money/resources). She wants to buy a new pair of shoes which cost $35 and a ticket for a concert which cost $25. With her $50, Meleane won't be able satisfy both of her wants due to limited money she has as she needs $60 in order to satisfy both. In order to satisfy her wants, Meleane must make a choice of what to be chosen and not to be chosen. If

Meleane choose to buy pair of shoes, she has to give up a ticket for a concert or vice versa. So,when Meleane make decision on which alternatives to take, the other alternatives she chooses not to take is KNOWN as the OPPORTUNITY COST.

To summarize the ideas, due to scarcity or limited of resources in comparing to unlimited needs and wants, people must make a choice on what the best alternatives to take. The alternative that given up is the opportunity costs.

Specialization, Production, Interdependence, Exchange And Markets

Specialization: -
Concentrating in the production of a particular product /concentrating in doing one job.

Production:
- Process of creating/making goods and services.

Division Of Labour: -
Splitting of a job into smaller tasks handled by different individual / breaking down a production process into a number of smaller tasks.

Interdependence: -
Mutually reliance of one another.

Distribution: -
Process of taking/delivering goods from producers to consumers.

Exchange: -
The process of swapping or trading goods & services.

Market: -
A place or situation where consumers & producers meet to trade their goods and services.

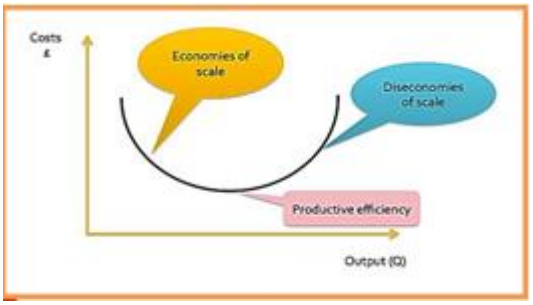
Economies & Diseconomies Of Scale. Increasing, Diminishing, And Constant Returns

Economies of Scale:-
An economic benefit achieved by large businesses where an increase in scale of production will lead to a reduction in unit cost

OR

Benefit of reducing unit cost as a result of increasing the scale of production.

Diseconomies of Scale: -
A situation where an increase in scale of production will result in increasing average cost

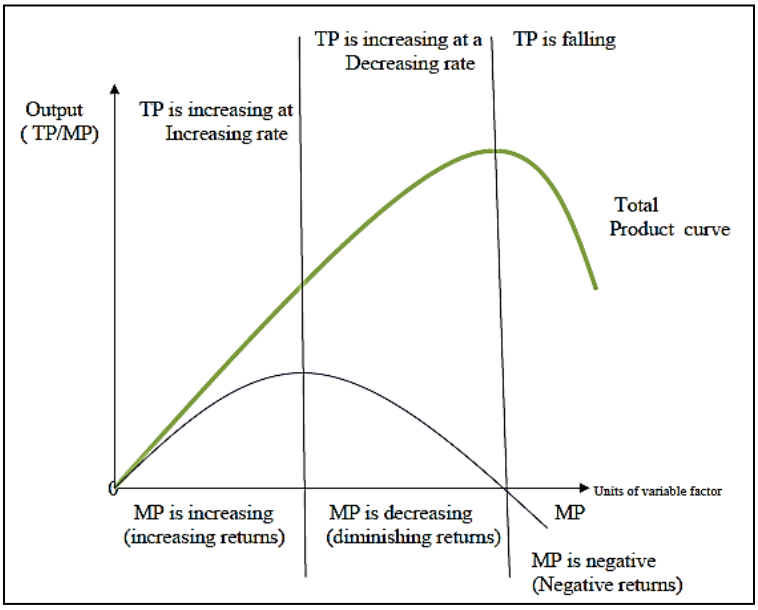


Increasing Return To Scale: -

A situation which the percentage changes in a firm output exceeds the percentage change in itsuse inputs.

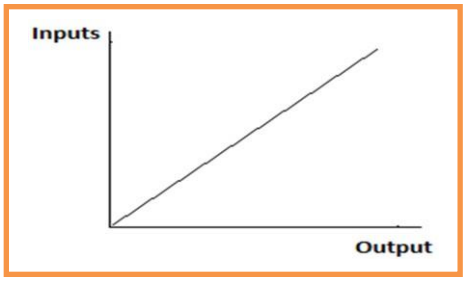
Diminishing Return To Scale: -

A situation where more and more of a variable input is added to a fixed factor input, output will increase at a decreasing rate.



Constant Return to Scale: -

Situation where the percentage of factor input gives the equal percentage of outputs.



Variable Inputs: -

These are factors of production that can be changed in the short run (within a year), such as labour. The number of workers can be increased whenever it is wanted.

Fixed Inputs: -

These are inputs that firms cannot change in the short run, such as machines, land and building. Therefore, these inputs are considered to be fixed.

Marginal Product/Output: -

It refers to the extra output produced by an extra input.

Activity: -

i. The following extract has a number of passages in **BOLD** that have been label (i) to (v). Read the following extract and write an economic concept in each space provided below to replace each expression.

Some people produce more goods and services (i) because our **desires seem to be endless, (ii)** but we must have a **decision between two alternatives (iii)** from a **limited availability of goods and services (iv).** A decision between alternatives will always mean **an alternative will be lost if the other alternative is chosen (v).**

a) Economic concepts

(i) _____

(ii) _____

(iii) _____

(iv) _____

(v) _____

ii. Explain how the Basic Economic Concepts are being applied or used in any given Economic situations.

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iii. Explain the Significance of Scarcity, Choice and Opportunity Costs on everyday living.

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iv. Discuss the Significance of Economics on everyday living.

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B: Production Possibilities Curve:

At the end of this part, students should be able to answer the following learning outcomes.

a) Basic Economic Concepts.		Skills Level
Production Possibilities Curve.	i. Describe the Importance of a PPC.	2
	ii. State the Assumptions of the PPC.	1
	iii. State the Limitations of the PPC.	1
	iv. Derive a Production Possibilities Schedule/ Curve.	3
	v. Apply the concept of Scarcity, Choice and Opportunity cost upon the PPC.	3
	vi. Apply the concept of Specialization upon the PPC.	3
	vii. Apply the concept of Production upon the PPC.	3
	viii. Relate some of the Basic Economic Concepts in the PPC.	3
	ix. Discuss the Importance of the PPC Model in Economics.	4

The foundation of the economic problem based on scarcity. choice, and opportunity cost, can be more clearly explained by using production possibilities schedule and curve.

Production Possibilities Curve (PPC):

Production possibilities curve is a graph or model showing possible alternative or possible combination of producing two goods and assuming all resources are used efficiently and there is a technology hold or fixed level of technology.

PPC also known as *Production Possibility Frontier (PPF)* or a *Transformation Curve*.

The PPC model:

- ✓ Looks at what an economy can possibly produce assuming it uses all the availableresources.
- ✓ It shows the range of possible outputs from which actual output can be selected
- ✓ Its shows essential ideas and concept in economics such as scarcity, choices andopportunity costs
- ✓ Gives a simplified picture of reality.

Production Possibilities Schedule:

Production possibilities schedule is a table showing the possible combinations or possible alternative of producing two goods and provided our assumptions for resources and technology hold or fixed level of technology

Assumption of PPC:

- The Economy can only make two goods/ services with its available resources.
- The Economy 's resources can be used to make both the goods/ services.
- This Economy is closed to trade.
- There is no money in circulation.
- The numbers of resources available to this Economy are fixed and finite.
- The level of technology is fixed.
- Any point on the PPF is a combination of two goods where resources are fully employed

Limitation of PPC:

The PPF is a theoretical concept only. It is not possible to accurately draw an individual economy's PPF.

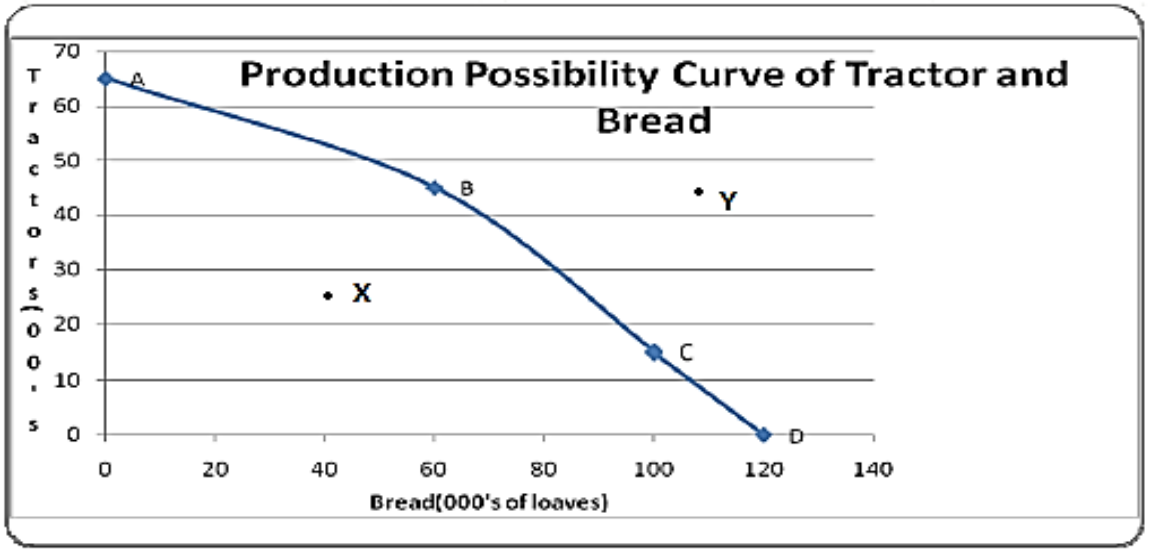
Constructing/Deriving Production Possibility Curve.

The above assumptions are used to construct the Production Possibility Curve and Schedule.

Production Possibility Schedule for Bread and Tractors:

Alternatives	Bread (000's of loaves)	Tractors (00's)
A	0	65
B	60	45
C	100	15
D	120	0

Production Possibility Curve for Bread and Tractors:



Application of Economic Concepts on the PPC:

Scarcity:

Is illustrated by point A, B, C, D. That is production is limited and being maximized on the combinations along the PPC. The economy cannot produce beyond the curve due to amount of resources available. If the scarcity did not exist, there would be no limit on production and no production possibility model.

Choices:

The concept of choices is demonstrated by all combinations of Tractors and Bread that economycan make. The economy can operate at one point only – that is there can be only one combination of tractor and bread at any one time. The economy must choose at which the best possible combination to produce at.

Opportunity Costs:

The concept of opportunity cost is illustrated by the second most attractive point on the PPC that the economy did not choose or had to forgo.

For example: - if the economy were operating at point A, and wishes to increase its production of bread to 100000 loafs, the economy must forgo certain units of tractors that is 5500 tractors in order to produce the amount of bread it needed.

Specialization:

Combination A and Combination D on the PPC above shows the concept of Specialization as the economy concentrating in producing tractors only at point A with all its available resources and concentrating in producing bread only at point D with all its available resources.

Under-Utilization of Resources:

It occurs when the economy operates at point X (combination inside the PPC). At this point, the economy is making 2500 tractors and 40000 breads. The economy could make more of one or other goods or a mix of both if it fully employed (utilized) all its resources.

Unattainable/Impossible Combination:

Illustrates by Combination Y (4500 Tractors and 110000 breads) as the economy can't be able to produce at that combination due to limited resources. The resources cannot produce two things at the same time.

Efficiency:

Any points on the PPC illustrates the concept of efficiency i.e., production efficiency and allocativeefficiency.

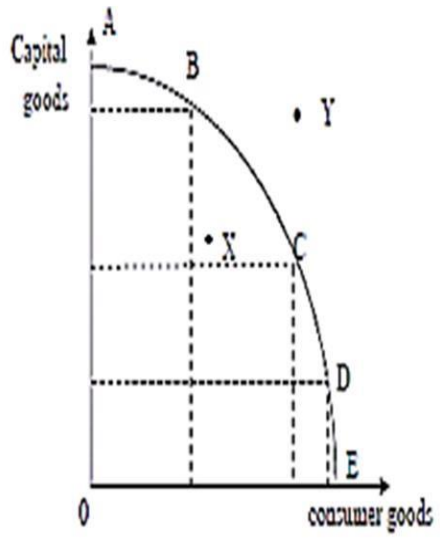
Production Efficiency: -

Means producing maximum with the given level of resources. Production efficiency is achieved when the economy is operating on its PPC.

Allocative Efficiency: -

It refers to the combination of goods that would maximize economic welfare.
Is achieved when the economy is producing the unique combination of goo ds that best meets the needs of that society at given point in time.

Significance of each point inside, on and outside the PPC:



Point A: b
Its shows that resources are fully utilized and all resources are diverted to the production of Capital Goods.

Point B:
Its shows that resources are fully utilized where most of the resources are used for the production of Capital Goods.

Point D:
Its shows that resources are fully utilized where most of the resources are used for the production of Consumer Goods.

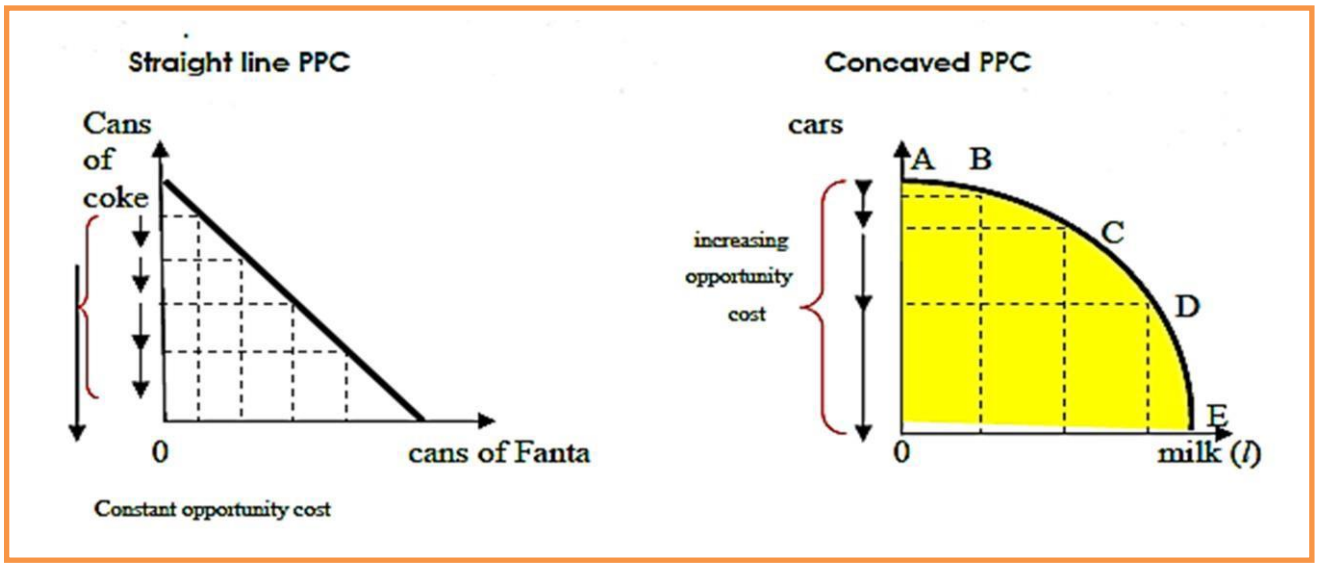
Point E:
Its shows that resources are fully utilized and all resources are diverted to the production of Consumer Goods.

Point X: (Any point inside the PPC)
Its shows that the resources are not fully utilized (Under-utilization of resources). This shows a waste of resources.

Point X: (Any point outside the PPC)
This point illustrates a combination of consumer and capital goods that is impossible as there are not enough resources to have this much capital and consumer goods (Unobtainable/Unattainable).

Shape of the PPC.

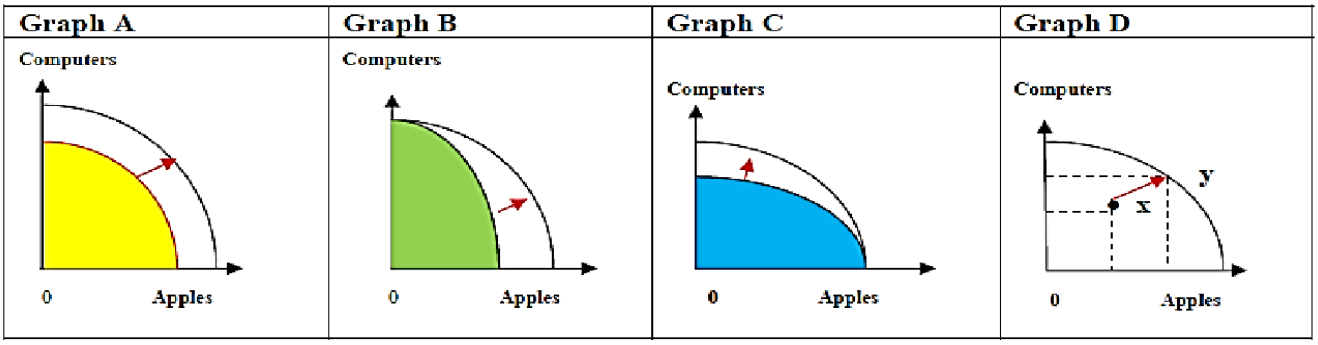
PPC can be drawn as a straight line or concave to the origin.



The shape of ***PPC is concave to the Origin bowed outwards***, illustrating the law ***of increasing opportunity cost.*** The law of increasing opportunity costs states that as productionof one good increase, the opportunity cost of producing additional units is increasing.

The shape of the ***PPC is straight line*** due to the ***law of constant costs.*** The law of constant opportunity cost states that as production of one good increase the opportunity cost of producing additional units remains constant.

Shifts of the PPC:



Graph A shows increase in production of both goods due to improvement in the quantity and quality of resources and technology.

Graph B shows increase in production of apples only due to improvement in the resources and technology used to produce apples.

Graph C shows increase in production of computer only due to introduction of modern technology to produce computers.

Graph D shows movement from point inside PPC to point on the PPC. This illustrates increase in efficiency of resource use. This movement can be achieve without incurring any opportunity cost.

Sub - Strand 2: - Demand:

A: Concepts of Demand:

At the end of this part, students should be able to answer the following learning outcomes.

a) Concept of Demand.		
1. Demand. 2. Law of Demand. 3. Demand Schedule/ Curve. 4. Ceteris Paribus.	i. Define Demand.	1
	ii. Define the Law of Demand.	1
	iii. Define Demand Curve.	1
	iv. Define Demand Schedule.	1
	v. Define Ceteris Paribus.	1
	vi. Label the Demand Curve.	1
6. Movement Along the Demand Curves.	i. Describe A Movement Along the Demand Curve.	2
	ii. State the Cause of A Movement Along the Demand Curve Situation.	1
	iii. Describe what happens when there is an Upward/ Downward Movement along the Demand Curve.	2
	iv. Explain the Cause of a Movement Along the Demand Curve.	3
	v. Graphically illustrate a Movement Along the Demand Curve.	3
7. The Shifts of the Demand Curve.	i. Describe the Shift of the Demand Curve.	2
	ii. Describe what happens when there is a Shift of the Demand Curve to the Right/ Left.	2
	iv. State the Factors affecting Demand.	1
	v. Describe each of the Factors affecting Demand.	2
	vi. Explain how each of the Factors affects Demand.	3
	vii. Graphically illustrate a Shift of the Demand Curve.	3
	viii. Illustrate on a graph how each of the Factors affects Demand.	3
8. Individual and Market Demands	i. Describe Individual Demand.	2
	ii. Describe Market Demands.	2
	iii. Derive a Market Demand Schedule/ Graph from an Individual Demand Schedule/ Graphs.	3

Demand: - refers to the quantity of goods & services consumers are willing and able to buy at different price level.

Law of Demand: -
It states that with all else being equal, As price decreases, the quantity demanded increases; and as price rises, the quantity demanded decreases.

Demand schedule: -is a table which shows the quantity of goods & services demanded at different pricelevel.

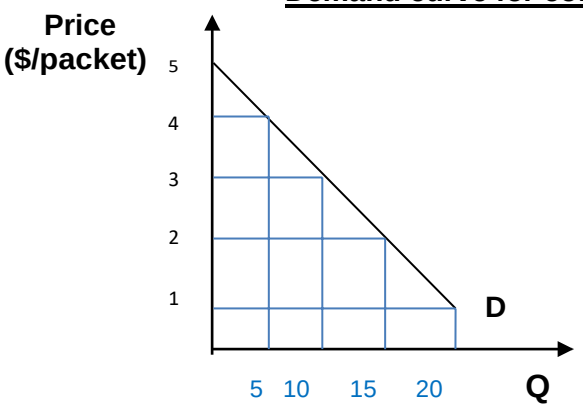
Demand curve: - is a graph showing the relationship between price and quantity demanded.

For example

Demand schedule for coffee

Price ($per packet)	Quantity Demanded
1	20
2	15
3	10
4	5
5	0

Demand curve for coffee

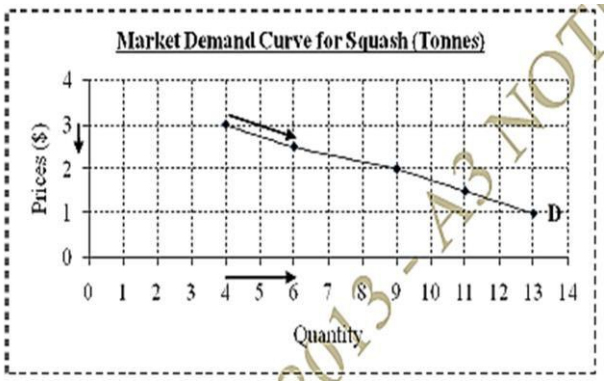


Demand Curve is slopes downward to the right and is negatively sloped—showing as price increases, the quantity demanded decreases and vice versa.

Ceteris paribus *(Having all other factors remains unchanged, in order to clearly identify the relationship between the price and the quantity demanded)* is also considered when drawing Demand Curve

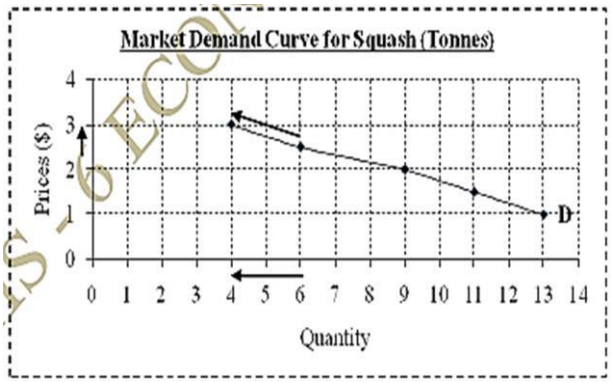
Movement along the Demand Curve: (Change in Quantity Demanded)
It refers to a movement from one point to another point that is from one price-quantity combination to another—on a fixed demand schedule/ curve. This movement is either movement upward or downward. It is caused by an increase or decrease in the price of that particular product.

Movement Downward Along The Demand Curve:



- Caused by decrease in price of marketed goods
- Quantity Demanded increase

Movement Upward Along The Demand Curve:



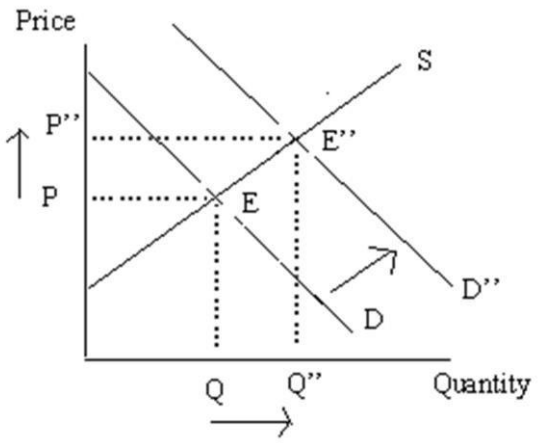
- Caused by an increase in price of marketed goods
- Quantity Demanded decrease

Shift of the Demand Curve (Change in Demand)

It refers to a change in a position of the demand curve from one position to another position. The change in position is either to the right—an increase in demand, or to the left—a decrease in demand.
It occurs because the consumers state of mind about purchasing the product has been altered in responseto a change in one or more of the determinants of demand such as income level and such.

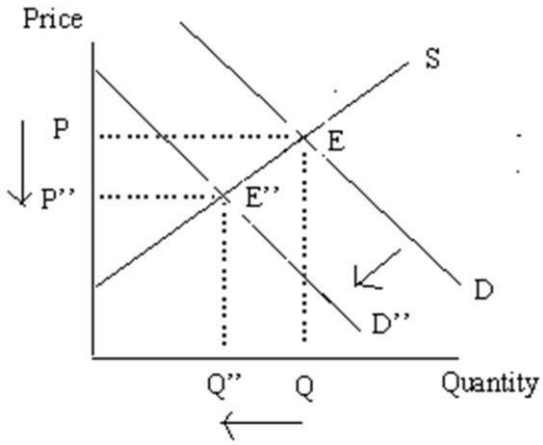
It is not due to a change in price!

Shift of the Demand Curve to the Right: (Increase in Demand)



- Demand curve shift to the right from D to D'' showing an increase in demand
- Price increase from P to P''
- Quantity increase from Q to Q''
- Movement upward along the Supply Curve from E to E''

Shift of the Demand Curve to the Left: (Decrease in Demand)



- Demand curve shift to the left from D to D'' showing an decrease in demand
- Price decrease from P to P''
- Quantity decrease from Q to Q''
- Movement downward along the Supply Curve from E to E''

DETERMINANTS OF DEMAND (Factors Affecting Demand)

- **Tastes**

A favourable change in consumer tastes/ preferences for a product will increase the demand for it. The demand curve will shift rightward.
An unfavourable change in consumer preferences will decrease demand therefore shifting the demand curve to the left.

For Example:

- New products may affect consumer tastes such as the introduction of flash drive had greatly decreased the demand for compact disk.
- Even consumers 'concern over health hazards of cholesterol and obesity have increased the demand for fruits and vegetables while decreasing the demand for beef and pork meats.

- **Consumer's Level of income**

- As income level increase, ability to buy goods and services increase and therefore increase demandshifting the demand curve to the right.

- Consumer' Level of Income can be affected by the following:

- Income Tax Rate: - increase income tax rate will decrease consumer 's income and decreaseincome tax rate will increase consumer 's income.
- Pension, superannuation or welfare payment
- Salaries or Wages
- Cash Remittances

} *If they increase, consumer's income will increase and if they decrease consumer's income will decrease*

- **Price of Complement goods:**

Complement Goods: - goods that must be go together that is one cannot be used without the other.
E.g., bread and butter, tape recorder and cassette, coffee and sugar. The price of one goods affects how many of the other will be demanded.

- If the **prices of complement (sugar) increase,** demand for sugar decrease as it is become more expensive resulting in **decrease in demand for coffee**
- If the **price of complement (sugar) decreases**, demand for sugar increase as it is become cheap resulting in **increase in demand for coffee.**

When two products are complements, the price of one good and the demand for the other good move in opposite directions.

- **Price of Substitute goods:**

Substitute Goods: - goods that can use in place of another goods
E.g., palm and oxford, fanta and coke, beer and wine, coffee and tea.

- If the **prices of substitute (tea) decrease**, demand for tea increase as it is cheaper resulting in **decrease in demand for coffee** as consumers prefer tea causing demand curve for coffee to shift to the left.
- If the **prices of substitute (tea) increase**, demand for tea decrease as it is more expensive resulting in increase **in demand for coffee** as consumers prefer coffee causing demand for coffee to shift to the right.

When two products are substitutes, the price of one and the demand for the other move in the same direction.

Other Factors that affect Demand:

- **Population size**
- **Advertising**
- **Future expectation of rising prices**

INDIVIDUAL AND MARKET DEMAND:

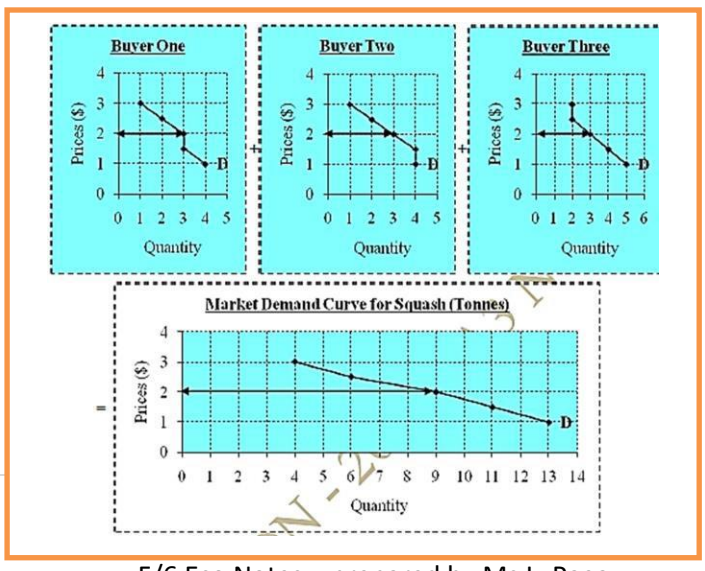
Individual Demand:

- Is the quantity of goods and services demanded by individual consumers at various prices.

Market Demand:

- is the horizontal summation of all the individual consumer 's demand in the market at each price level.

Price ($)	Individual Demand Schedule: Quantity Demanded (Tonnes)			Market Demand Schedule: Market Demanded (Tonnes)
	Buyer 1	Buyer 2	Buyer 3	
1.00	4	4	5	13
1.50	3	4	4	11
2.00	3	3	3	9
2.50	2	2	2	6
3.00	1	1	2	4



Sub – Strand 3: - Supply:

A: Concepts of Supply:

At the end of this part, students should be able to answer the following learning outcomes.

a) Concept of Supply.		
1. Supply. 2. Law of Supply. 3. Supply Schedule. 4. Supply Curve.	i. Define Supply.	1
	ii. Define The Law of Supply.	1
	iii. Define Supply Schedule.	1
	iv. Define Supply Curve.	1
	v. Label the Supply Curve.	1
5. Movement Along the Supply Curve.	i. Describe the Movement Along the Supply Curve.	2
	ii. State the Cause of a Movement Along the Supply Curve Situation.	1
	iii. Describe what happens when there is an Upward/ Downward Movement along the Supply Curve.	2
	iv. Explain the Cause of a Movement Along the Supply Curve Situation.	3
	v. Graphically illustrate a Movement Along the Supply Curve.	3
9. The Shifts of the Supply Curve.	i. Describe the Shift of the Supply Curve.	2
	ii. Describe what happens when there is a Shift of the Supply Curve to the Right/ Left.	2
	iv. State the Factors affecting Supply.	1
	v. Describe each of the Factors affecting Supply.	2
	vi. Explain how each of the Factors affects Supply.	3
	vii. Graphically illustrate on a graph how each of the Factorsaffects Supply.	3
10. Individual and Market Supplies	i. Define Individual Supply.	1
	ii. Define Market Supply.	1
	iii. Derive a Market Supply Schedule/ Graph from an Individual Supply Schedule/ Graph.	3

Supply: - refers to the quantity of goods & services producers are willing and able to produce and sell at different price level.

Law of Supply: -
It states that with all else being equal, As price decreases, the quantity supplied decreases; and as price rises, the quantity supplied increases.

Supply schedule: - is a table which shows the quantity of goods & services producers is willing and able to produce and sell at different price level.

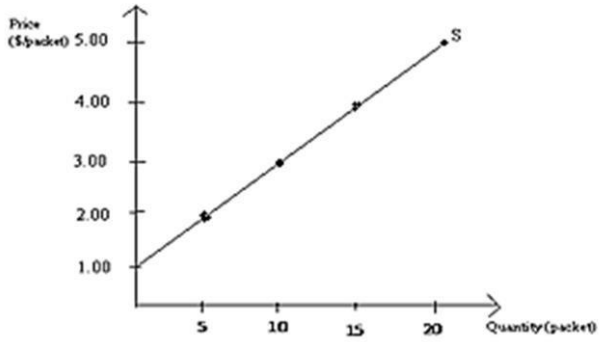
Supply curve: - is a graph showing the relationship between price and quantity supplied.

For Example:

Supply Schedule for Royal Coffee

Price ($/packet)	Quantity Supplied
1.00	0
2.00	5
3.00	10
4.00	15
5.00	20

Supply Curve for Royal Coffee

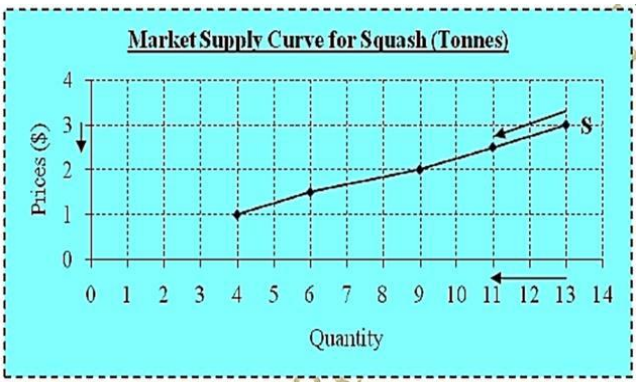


Supply Curve is slopes upward to the right and is positively sloped—showing as price increases, the quantity supplied increases and vice versa.

Ceteris paribus *(Having all other factors remains unchanged, in order to clearly identify the relationship between the price and the quantity supplied)* is also considered when drawing Supply Curve

Movement along the Supply Curve: (Change in Quantity Supplied)
It refers to a movement from one point to another point that is from one price-quantity combination to another—on a fixed Supply schedule/ curve. This movement is either movement upward or downward. It is caused by an increase or decrease in the price of that particular product.

Movement Downward Along The Supply Curve:



- Caused by decrease in price of marketed goods
- Quantity Supplied decrease

Movement Upward Along The Supply Curve:

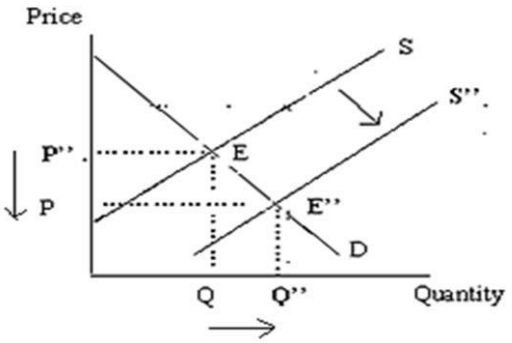
- Caused by increase in price of marketed goods
- Quantity Supplied increase

Shift of the Supply Curve (Change in Supply)

It refers to a change in a position of the Supply curve from one position to another position. The change in position is either to the right—an increase in supply, or to the left—a decrease in supply.
It occurs because the producers state of mind about producing the product has been altered in response to a change in one or more of the determinants of supply such as cost of production and such.

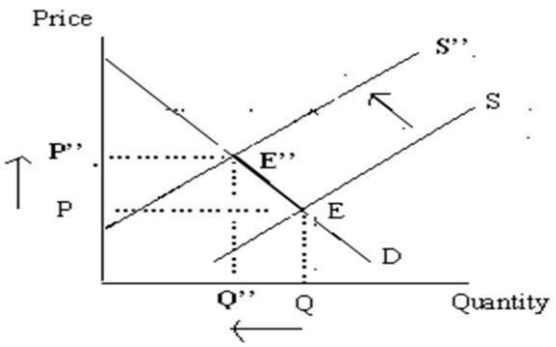
It is not due to a change in price!

Shift of the Supply Curve to the Right: (Increase in Supply)



- Supply curve shift to the right from S to S'' showing an increase in Supply
- Price decrease from P'' to P.
- Quantity increases from Q to Q''
- Movement downward along the Demand Curve from E to E''

Shift of the Supply Curve to the Left: (Decrease in Supply)



- Supply curve shift to the left from S to S'' showing a decrease in Supply
- Price increase from P to P''.
- Quantity decreases from Q to Q''
- Movement downward along the Demand Curve from E to E''

DETERMINANTS OF SUPPLY (Factors Affecting Supply)

1. Cost (prices) of Resources used in Production: (Cost of Production)

- The cost (prices) of the resources used in the production process help determine the costs of production incurred by firms.
- Higher resource costs (prices) raise production costs and, assuming a particular product price, squeeze profits and that reduction in profits reduces the reason for firms to supply output at each product price.
- In contrast, lower resource (costs) prices reduce production costs and increase profits. So when resource prices fall, firms supply greater output at each product price.

- When *cost of producing goods and services increase*, *supply will decrease* causing a supply curve to shift to the left.
- When a *cost of producing goods and services decrease*, *supply will increase* causing a supply curve to shift to the right.

For Example:

- Increase in price of iron ore will increase the cost of producing steel therefore decrease the supply of steel.
- Decrease in price of flour and sugar will decrease cost of producing bread therefore increase the supply of bread.

Level of Technology:

- Improvements in technology (techniques of production) enable firms to produce units of output with fewer resources. Because resources are costly, using fewer of them lowers production costs and increases supply.
- Poor Technology will increase resources used in production, therefore increase production costs thus decrease supply.

- Improved level of technology will definitely increase supply causing supply curve to shift to the right and vice-versa.

Example:
Such as some technological advances in producing flat-panel computer monitors have greatly reduced their costs. Thus, manufacturers will now offer more such monitors than previously at the various prices; the supply of flat-panel monitors has increased.

3. Producer's Taste and Preference:

- A favourable change in producer 's tastes/ preferences for a product will increase their supply of it. The supply curve will shift rightward.
- An unfavourable change in producer 's preferences will decrease supply therefore shifting the supplycurve to the left.

4. Government Actions: - such as subsidy, taxes, quota and government control on price.

a) ***Subsidy:* -** assistant offer by the government to producers of positive or merit goods to increase its production.

- Subsidy reduce cost of production so supply increase
- If subsidy removed, cost of production will increase resulting in decrease in supply

b)***Indirect Taxes***: - percentages imposed on the prices of goods and services such as custom duty andconsumption tax.

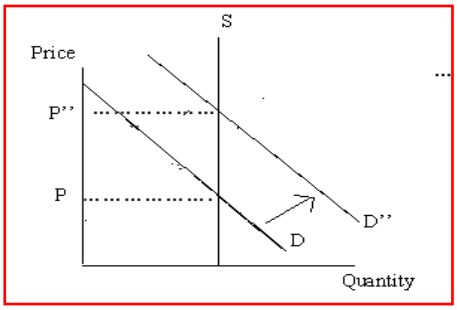
- Increase in indirect taxes will increase the unit cost of production so supply decrease
- Decrease in indirect taxes will decrease costs of production resulting in increase in supply.

Notes: Import Duties and Tariff will have the same effects.
***Tariff:* -** tax levied on imported goods

c) ***Quota (fixed supply)***: - certain amount set by the government limiting the quantity of the product to beimported, exported or to be produced by producers.

Notes:

In this case Supply Curve will be a vertical one since supply is fixed and the price of such product will be determined by the demand for them.



INDIVIDUAL SUPPLY AND MARKET SUPPLY:

Individual Supply:

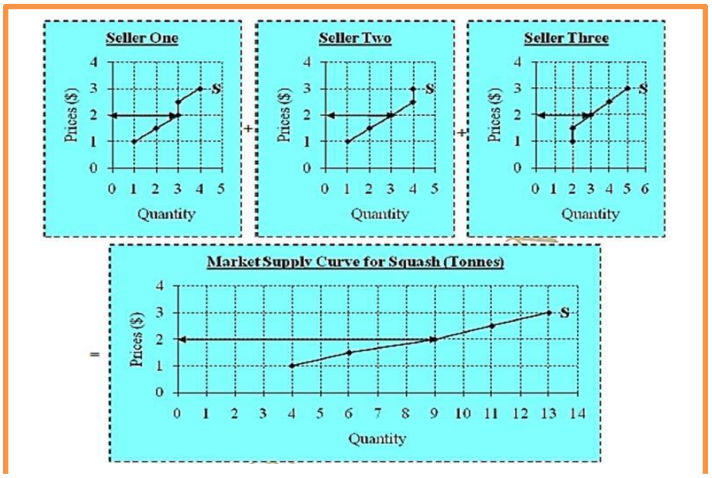
- Is the quantity of goods and services produced by individual producers at various prices.

Market Supply:

- is the horizontal summation of all the individual producer's supply in the market at each price level.

Individual Supply Schedule **Market Supply Schedule**

Price ($)	Quantity Supplied (Tonnes)			Market Quantity Supplied (Tonnes)
	Seller one	Seller two	Seller three	
1.00	1	1	2	4
1.50	2	2	2	6
2.00	3	3	3	9
2.50	3	4	4	11
3.00	4	4	5	13



Sub - Strand 4: - The Market:

A: Market Demand & Market Supply:

At the end of this part, students should be able to answer the following learning outcomes;

a) Market Demand and Market Supply.		**Skills Level**
1. Market Demand and Supply Schedule. 2. Market Demand and Supply Graph. 3. Market Equilibrium Price.	i. Define Equilibrium Price.	1
	ii. Define Equilibrium Quantity.	1
	iii. Define Market Equilibrium Price.	1
	iv. Describe a Market Demand and Supply Schedule.	2
	v. Describe a Market Demand and Supply Graph.	2
	vi. Describe the Market Equilibrium.	2
	vii. Explain what happens in the Market when it is not at Equilibrium.	3
	viii. Derive a Market Demand and Supply Schedule/ Graph from an Individual Demand and Supply Graph/ Schedule.	3
4. Shortage Situation in theMarket.	i. Describe the Shortage Situation in the Market.	2
	ii. State the Causes of a Shortage Situation in the Market.	1
	iii. Graphically illustrate a Shortage Situation.	2
	iv. Explain the Causes of a Shortage Situation in the Market.	3
5. Surplus Situation in theMarket.	i. Describe the Surplus Situation in the Market.	2
	ii. State the Causes of a Surplus Situation in the Market.	1
	iii. Graphically illustrate a Surplus Situation.	2
	iv. Explain the Causes of a Surplus Situation in the Market.	3
6. Factors affecting theMarket Demand and Supply.	i. Graphically illustrate on the Market Model the changes in Market Situation.	3
	ii. State the Factors affecting the Market Demand and Supply for a particular commodity.	1
	iii. Describe the Factors affecting the Market Demand for a particular commodity.	2
	iv. Describe the Factors affecting the Market Supply for a particular commodity.	2
	v. Explain how Market Demand and Supply for a particular commodity is affected.	3
7. Consumer Spending. 8. Market Revenue.	i. Define Consumer Spending.	1
	ii. Calculate the Consumer Spending from the Demand	2
	iii. Define Market Revenue.	1
	iv. Calculate the Market Revenue from the Demand and Supply Model.	2
	v. Discuss the significance of Market Equilibrium.	4

MARKET EQUILIBRIUM:

It is the point where the demand and supply curves meet or where quantity demanded equals quantity supplied.
At this point, market clears where there will be no unsold stocks by producers and consumers satisfy their needs and wants.

EQUILIBRIUM PRICE

It refers to the price in a competitive market at which the quantity demanded and the quantity supplied are equal, there is neither a shortage nor a surplus, and there is no tendency for the price to rise or fall.

TWO TYPES OF MARKET SITUATION:

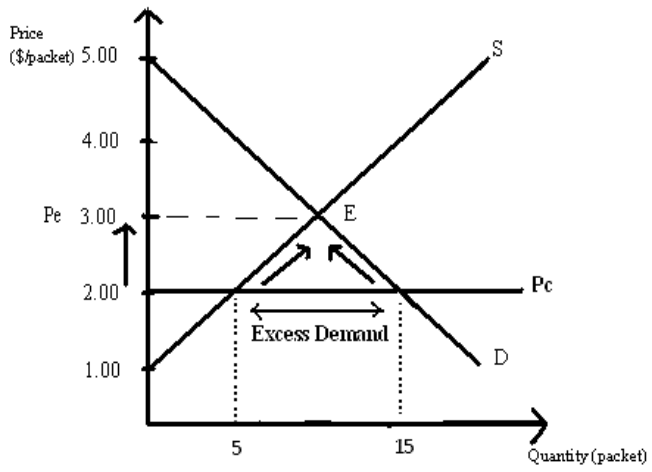
1. Shortages

It refers to the amount by which the quantity demanded of a product exceeds the quantity supplied at a particular (below-equilibrium) price.

If the price is too low and producers' stock less than consumers wish to purchase, shortages develop. This will indicate to the producers that the market considers the price to be too low, and this in turn will apply an upward pressure on the price. It is also known as ‑Excess Demand‖.

Cause of Shortage:

A price ceiling (*a price set usually by the government below the equilibrium price*) is the likely cause of having a shortage in the market.



- ✓ At this price ceiling, no seller is allowed to sell at a price higher than that.
- ✓ One of the major reasons for setting a price ceiling sothe price of goods & services will be cheaper to ensure that people with low level of income can still afford to buy.
- ✓ The market situation exists will be an **Excess demand/Shortage** (quantity demanded exceedsquantity supplied)
- ✓ Price ceiling will make both consumers and producers to suffer. Producers suffer the very low prices and consumers will not be able to satisfy their needs.
- ✓ Not only that but a price ceiling will lead to the existence of **Black Market**: - These are producers illegally sell the product at a higher price.

How to solve the excess demand

- If this market situation is left alone to the market with no government intervention and holding all other factors constant (ceteris paribus), the interaction of demand and supply will automatically push up prices until equilibrium is restored.

- Due to the short supply, producers can only wish to supply more if consumers will be willing to pay a higher price. This process will continue until equilibrium price is reached and only then the shortage will be cleared. This is shown by the upward movement in both the demand and supply curves.

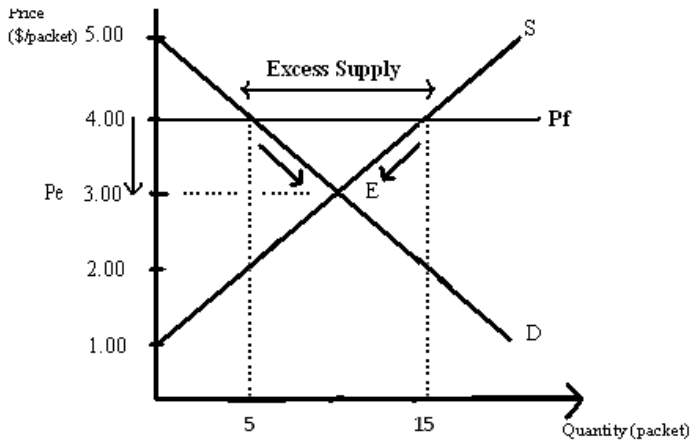
2. Surplus:

It refers to the amount by which the quantity supplied of a product exceeds the quantity demanded at a specific (above-equilibrium) price.

If the market price were above equilibrium, there would be a reason to change—supply would exceed demand, and there would be unsold stock or unwanted services on the market. The answer to this problem is to reduce the price. It is also known as -Excess Supply‖ or -Excess Stock‖.

Causes of Surplus:

A price floor (a price set usually by the government above the equilibrium price) is the likely cause of having a surplus in the market.



- ✓ At this price floor, no seller is allowed to sell at a price lower than that.
- ✓ This is usually to discourage consumption of such products such a demerit (negative goods).
- ✓ At this price floor, the market situation exists will be a quantity supplied is greater than quantity demanded - E**xcess supply /surplus/unsold stock** (quantity supplied exceeds quantity demanded).
- ✓ Price Floor will make both consumers and producers to suffer. Producers will not be able to sell its entire product (unsold stocks) and consumers will suffer higher prices.

How to solve the excess supply

- If this market situation is left alone to the market with no government intervention and holding all other factors constant (ceteris paribus), the interaction of demand and supply will automatically pull-down prices until equilibrium is restored.

-In order to clear the unsold stock, the best option for producers is to lower the price. This process will continue until equilibrium price is reached and only then unsold stock will be cleared. This is shown by the downward movement in both the demand and supply curves.

CONSUMER SPENDING

It refers to the total expenditure that could be spent by consumers on a product at any given price.

Given a point on the demand curve or on the demand schedule, that particular price and that particular quantity demanded are being multiplied, and the product is the total amount of consumer spending.

(Price × Quantity Demanded = Consumer Spending)

MARKET REVENUE

It refers to the total revenue that could be gained by producers on a product at any given price.

Given a point on the supply curve or on the supply schedule, that particular price and that particular quantity supplied are being multiplied, and the product is the total amount of market revenue.

(Price × Quantity Supplied = Market Revenue).

FOR EXAMPLE:

Demand and Supply schedule for chickens in Samoa

Price	Quantity demanded	Quantity Supplied
10	17	0
15	14	3
18	12	8
20	10	10
25	8	12
30	7	16
35	6	18

i) Calculate the consumer spending if the price of chickens is $18.

Price X Quantity demanded
$18 X 12
= $216

ii) Calculate the market revenue if the price of chickens is $18.

Price X Quantity supplied

$18 X 8

= $ 144

iii) If the cost $15 to produce each kilogram of chickens, how much profit or loss made at equilibrium?

Profit / Loss = Revenue – Expense
= (20 X 10) - ($15 x 10)
= 200 - 150
Profit = $ 50

B: Factor Market & Commodity Market:

b) Factor Market and Commodity Market.		Skills Level
1. Market.	i. Define Market.	1
	ii. Explain the Significance of a Market.	3
2. Factors Market. 3. Goods Market.	i. Define Factors Market.	1
	ii. Define Goods Market.	1
	iii. Differentiate between Factors Market and Goods Market.	3
4. Derived Demand. 5. Final Demand.	i. Define Derived Demand.	1
	ii. Define Final Demand.	1
	iii. List examples of Derived/Final Demand.	2
	iv. Differentiate between Derived Demand and Final Demand.	3

WHAT IS A MARKET?

- Place or situation where consumer ‘s and producer ‘s meet to trade goods and services.

IMPORTANCE OF MARKET:

Market does not refer to any particular place in which goods are bought and sold. But it refers to buying and selling of a commodity.
In the market buyers and sellers will be in close touch with each other. For example, a fish market refers to buying and selling of fish; here both buyers and sellers are in close contact.
The buyers and sellers are in close touch with one another either directly or through dealers, that prices obtainable in one part of market affect the prices paid in other partsǁ.
Another importance of the market is that it brings income not only to the Government through fees paying by the producers for selling products in the market but also producers get incomes from selling their goods in the market.

GOODS & SERVICES MARKET

- It is the place where goods/ services produced by the business are bought and sold.
- It is also known as Product Market
- Firms sell the goods or services and the households buy them (Seller – Producer / Buyer – Consumer)

FACTOR MARKET

- It is the place where the factors of production are being exchanged to factor reward.
- It is also known as the **Resource Market**
- Households sell the resources and firms buy them. (Seller – Consumer / Buyer – Producer)

DERIVED DEMAND

- It refers to the demand for the factors of production
- For example, the demand for labour depends on what the labour can produce; the demand for teacherscomes from the demand for education.

FINAL DEMAND

- It refers to the demand for goods and services as for final use, that is the demand for consumer goods, such as food, clothes etc

NOTE:
When business is demanding factors of production to use in the Production Process – that is a Derived Demand. On the other hand, when the consumers are demanding good/services from the business – that is Final Demand.

C: Market Structure:

Market Structures.		Skills Level
1. Market Structures.	i. Define Market Structures.	1
	ii. Name the Types of MarketStructures.	1
	iii. State the Features of each Type ofMarket Structure.	1
	iv. Describe Features of each Type of Market Structure.	2
	v. Find out Local Examples of each Type ofMarket Structure.	3
2. Types of Competitions.	i. State the Types of Competitions.	1
	ii. Describe each of the Types ofCompetition.	2
	iii. Give Local Examples of each Type of Market Structure.	2
	iv. Classify each Types of Market Structure to each Type of Competition.	3
	v. Explain why Perfect Competition is different from Imperfect Competition.	3
	vi. Discuss the differences between each Types of Market Structures.	4

MARKET STRUCTURES:

Composition of market – as simply refer to the makeup of firms operating in a particular market.

TYPES OF MARKET STRUCTURES:

PERFECT MARKETS:

Features of Perfect Market:

All of the characteristics below must be present if Perfect Market is to exists. If any condition is missing, then, straight away, an imperfect market exists.

- *Prices set by the demand and supply in a market.* It free from any external influences such as Government regulations. There will be only one price ruling in the market – the market prices.
- There is a *very large number of sellers*, none of which is sufficiently large to have any influences on the market – they are price takers not a price maker.
- There are *no barriers to entry to the market or exist from the market*. Anyone can enter the market and compete freely. Similarly, if sellers cannot compete or cannot cover their costs, no one will help them and they will be forced out.
- All sellers are *selling an identical product – homogenous product*. No seller can gain an advantage over a competitor by being able to claim (legitimately) that they have a superior or different product.
- There is a *very large numbers of sellers* none of whom can influence the market on their own. No one can negotiate a better price than anyone else
- There is a *perfectly knowledge in the market place*. If one seller raises their price, everyone will know about it, and avoid them. There is no need for any seller to advertise.
- Sellers can sell all they want at this price. If they raise their prices, everyone and no sensible person would drop their prices if they can already clear all their outputs at higher prices.

Examples: *Fruits and Vegetable Market, Fish Market, Fea*

MONOPOLY

This is the least competitive market situation as there is only one seller. A Monopolist has no competitors.

Features (Characteristics) of Monopoly:

- *Strong barriers to entry*. It is usually very difficult to keep others out of the market which is capable of earning super profit such as Monopoly. Government intervention may be needed in the form of legal barriers. Other legal barriers may be formed by the use of patents. Financial barriers, due to a very high capital set-up cost, may also exist, giving rise to a natural monopoly.

- *Imperfect knowledge*. That is there are no other sellers to interfere when firm increase prices as only one seller in the market.

- No advertising. There is no need to woo customers away from the competitors as there is no close substitute goods and services

- *Only one seller in the market* which *offers a product for which there is no close substitute*. This makes it particularly hard for a true Monopoly to exist.

- The monopolist can exercise considerable control over price, but not even a monopolist can dictate to the market both the price and the quantity sold. Monopolist must choose whether to dictate price or quantity – they cannot dictate both.

Example: *Tonga Water Board, Tonga Power Board.*

DUOPOLY

Come from the word —duoll meaning two (2)

Features (Characteristics) of a Duopoly

- Only two sellers in the market
- Selling a differentiated product
- Some control over price. This can be anything from the slight control to a great deal of influences
- Strong barriers to entry
- Aggressive advertising usually on a wide scale

Example: *Digicel Ltd and TCC offering Communication services*

OLIGOPOLY

Comes from the Greek word —Olill meaning a few

Features (Characteristics) of Oligopoly

- A few sellers selling a differentiated product
- Some control over price. This can be anything from slight control to a great deal of influence.
- Strong barriers to entry
- Aggressive advertising usually on a wide scale.

Examples: *Car Importers – Asco Motors, Vaitohi Enterprises, Four H Club Motors*

MONOPOLISTIC

Do not confuse by the name – this is not a Monopoly. This is a highly competitive state consisting of rims with very fragile local monopoly, which is easily broken. The name arose because the competitors can sometimes be said to have a very fragile local monopoly, as with most shops in a suburban center.

Features (Characteristics) of Monopolistic

- A large number of buyers and sellers selling a differentiated product. There is some real or imaginary difference in the product which may be only slight, but different in some way.
- Competitors may have a slight control over prices
- Weak barriers to entry, it is not difficult for most people wanting to set up a business with this scale of operations to borrow the money needed.
- Point of sale or local advertising only

Examples: *Hairdressers*

MONOPSONY

A market structure in which there is a single buyer but many sellers.

Example: *Fonterra – buyer of 98% of the local daily product in NZ – Anchor butter, milk and such*

TYPES OF COMPETITION

Types of Competition	Description of each type of competition	Example of each Type of Competition
Perfect Competition	Perfect Competition is the most extreme forms of competitive firm. Perfect Competition or price – taking behaviors occurs in the market in which a firm supplies such a small fraction of the local output, all of which is identical that it has no influences on the price. It is also known as Pure Competition	Perfect Market
Imperfect Competition	An imperfect competition industry consists of a market structure where the firm has some control over the prices or the quantity. Firms under imperfect competition are selling differentiated products and therefore has strong barriers of entry to the market.	Monopoly Duopoly Oligopoly Monopolistic Monopsony