

MARKET ECONOMICS

INTRODUCTION TO MARKETS & DEMAND THEORY

UNIT [2] PART [1]

ECON-HUB

THEORY RE-CAP



Theory Recap Questions [TRQs]
Practice Questions [PQs]

Essentials

‘LETS MASTER MARKET ECONOMICS’

[TRQ: 01] Why is 'Market Economics' known as a 'Microeconomics' area?

[03 marks]

The word micro means small and microeconomics focuses on the behavior of **individual markets** and the smaller individual units that make up the broader economy: Businesses, consumers, investors, and workers.

Microeconomics is **distinguished from macroeconomics** which focuses on problems in the broader economy like inflation, unemployment and the rate of economic growth.

Market economics is known as a microeconomics area, since the focus of market economics is to study or analyze and understand workings of the market for a **single given product**, in terms of how its **market demand** and **supply determine price**, and how such price is subject to change due to various reasons.

[01 mark each, total 03 marks]

[TRQ: 02] What is meant by a **'Market'** in economics?

[03 marks]

In simple terms a market is a group of buyers and sellers of a particular good or service. It is an opportunity to mutually exchange ideas with each other in determining price and quantity.

[01 mark]

In the analysis of market economics, markets are fundamentally classified in to two main markets:

- 1) Factor Markets
- 2) Product (Retail) Markets

[01 mark] [Total 03 marks]

[TRQ: 03] Briefly distinguish between ‘Factor’ and ‘Product’ market
[02 marks]

The **‘Factor market’** is a market in which the price and employment of production factors are determined, by the derived demand made by firms and supply made by households as factor owners.

The **‘Goods or Product market’** is a market in which the price and distribution of goods and services are determined by the direct demand made by households as consumers and supply made by firms.

[01 mark each, total 02 marks]

[PQ: 01]

It is said in market Economics Analysis, the focus is on price determination of ‘Competitive (Perfectly) Market’ operating within a country based on a ‘Liberal Market Economic System’.

[A] Define a competitive market and the fundamental assumptions of such a perfectly competitive market structure

[05 marks]

[B] State the salient characteristics of a Liberal Market Economic System

[04 marks]

[PQ: 01] Part (A)

A competitive market is essentially a market situation or structure in which there are many buyers and many sellers so that each has a negligible (insignificant) impact on the market price.

[02 marks]

[03 mark] [Total 05 marks]

[PQ: 01] Part (B)

- Private ownership of production resources.
- Free entrepreneurship and freedom of choice [decentralized system].
- Intense competition [most markets are competitive markets].
- Use of **Price Mechanism** in resource allocation.
- Limited / no Government role within markets [Pure market Economy: **'Laissez-faire' Government**]

[01 mark each, maximum 04 marks]

Special - Theory Recap Questions [STRQs]:

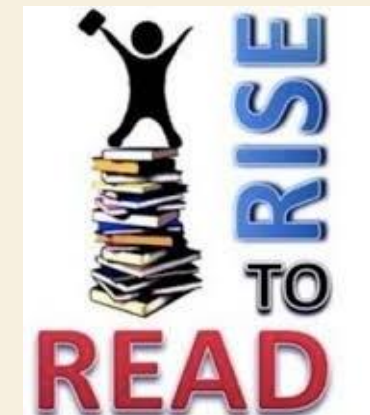
SPECIALLY DESIGNED for FURTHER learning & clarifications

STRQ [01] – [02]

TRM [2.1] Pages: 5 – 7



I read the **illustrative notes** at least ones



[TRQ: 04] What is meant by **'Effective Demand'**

[03 marks]

Demand in the study of economics is basically discussed in the **context** of **effective demand**, rather than **latent demand**.

[01 mark]

[01 mark]

Essentially demanded represents the wants selected or decided to be satisfied, by consumers, among their unlimited wants. Demand should always presented linked to the dimensions of price and time.

[01 mark] [Total 03 mark]

[PQ: 02] Distinguish between a **‘Want’** and **‘Demand’**
towards a given good

[04 marks]

Wants refer to the unlimited desire or willingness which exist within human beings to consume goods and services. While consumers have unlimited wants, every consumer has to face the problem of relative scarcity [i.e., the limitedness of resources required to attain goods and services, in comparison to said unlimited wants].

[01 mark]

Therefore, consumers’ will be unable to satisfy all their expressed/preferred wants, by way of purchasing the appropriate goods and services.

[01 mark]

Accordingly, demand represents only the selected wants among said unlimited wants a consumer has decided to satisfy, during a given point of time.

[01 mark]

Human wants are discussed within a broad sphere (range), on the contrary demand as a concept is defined within a much narrow and specific sense. It is also noteworthy, having a want or willingness is only one of the three factors emphasized in demand, along with purchasing power and readiness to buy.

[01 mark] [Total 04 marks]

[PQ: 03] Distinguish between 'Individual' and 'Market' demand

[04 marks]

Individual demand represents the quantities of a given product, **an individual consumer** operating in the market is expecting and able to purchase, at alternative prices which may exist in the market, when **other factors affecting demand remain constant** during a **specific period of time**.

[02 marks]

[02 marks] [Total 04 marks]

[PQ: 04] List the generic factors affecting (determinants of) market demand [04 marks]

Also Relevant [1]:

[A] Quantity demanded (Qd):

This is the amount (quantity or number of units) of a good that buyers are willing and able to purchase, **at a specific or given price.**

[B] Non-price Factors Affecting Demand:

These are the factors affecting the demand of a product **other than the given product's own price.** Any other factor or condition affecting demand, in addition to the price of the product under consideration.

[C] 'Constancy Assumption' or 'Ceteris Paribus'

Which says, that only one factor affecting demand is assumed to change when analyzing the functional relationships indicated through the demand function, while all other factors are held constant.

