Unit [2]

Market Economics [Theory]

Concept Summary [1]

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[1]   Core *Five* Competencies of Market Economics (Price Theory):

1		B1
2		B2
3		B3
4		B4
5		

Linear Model Triangle
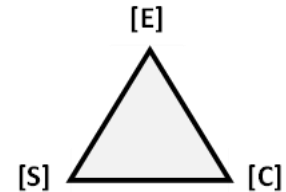
Levels of Analysis:

Microeconomics → **Mkt Economic** System → Perfectly **Competitive Market** → **Price Determination** (of a given product)

[2]

Micro: the branch of economics which studies the economic behavior of 'individual decision-making units in an economic system

Market Economic Systems:

- Private Property
- Decentralized Decision Making
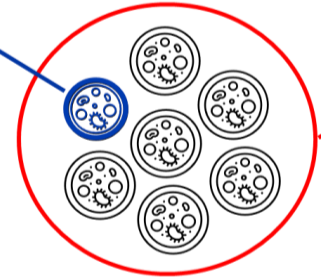- Self-interest [Profit & Utility Max]
- **'Price Mechanism'.**

Perfectly **Competitive Mkt:**

(1) Institution Large number of buyers, and especially seller

(2) Each buyer or seller has insignificant or negligible…

Microeconomic Analysis

✓ Market Demand
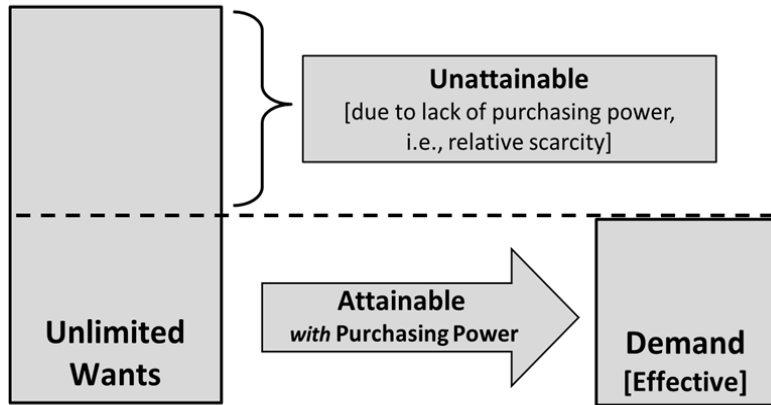✓ Market Supply
✓ Market Price

Of **a given** Good or Service

A Market

_____
_____
_____
_____
_____
_____

4

[3]   Product (Goods or Retail) Market Vs. Factor Market

Feature	Product Mkt.	Factor Mkt.
Item	**Goods** and Non-factor based **Services**	
Function	Determine: price & distribution	Determine: wages, rent, interest rates and employment
Buyer (Demanders)		
Sellers (Suppliers)	Production firms and service providers	
Nature of Demand		
Examples	Food, medicine, transport	Labour, land, capital

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[4]   Demand →

Unattainable
[due to lack of purchasing power,
i.e., relative scarcity]

**Unlimited
Wants**

Attainable
with **Purchasing Power**

Demand
[Effective]

Levels of Analysis in [D]

Individual [D]:
An **'individual consumer'**
in the market….

Market [D]:
- **Sum** of **all quantities**
- **'All Consumers'** in the
  market….

Definition:

Quantities of a '**given product**'

Consumers

(1)

(2)

(3)

At **alternative prices** (**range of prices**) in the market

Assumption(s):

✓ **Other factors** affecting demand
  are **held constant**
✓ During **'given period of time'**

6

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[5] Determinants of Demand & Demand Function

Individual [D]

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Market [D]

All determinants of Individual [D]
PLUS

————————————————————
————————————————————
————————————————————

Market [D] Function → Theory of [D]

Ceteris Paribus (CP) Assumption

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[6]   Demand [D] Vs. Quantity demanded [Qd]

Demand [D]

- Quantities (Qd) at a **range of prices** (Broad/range)
- Shown by:
  - Demand **Schedule**
  - Demand **Curve** (or Function)

Quantity demanded [Qd]

- Quantity (Qd) at a **specific price** (Narrow/specific)
- Shown by:
  - Given **row** in the demand **Schedule**
  - Given **point** on the demand **Curve**