



Economics

Unit Two

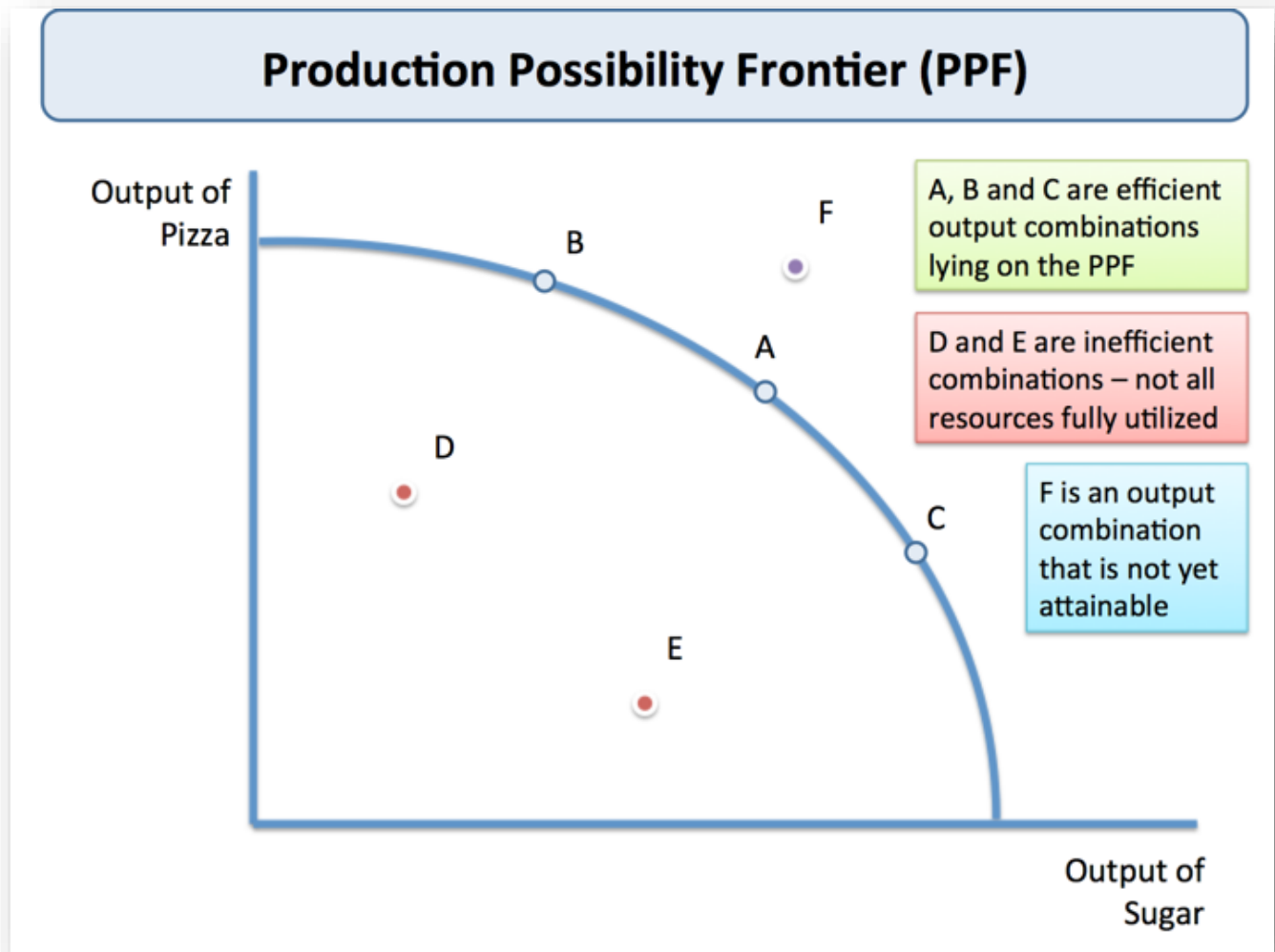
Microeconomics

Unit 2

Big Idea #1

Production Possibilities Curve/Frontier

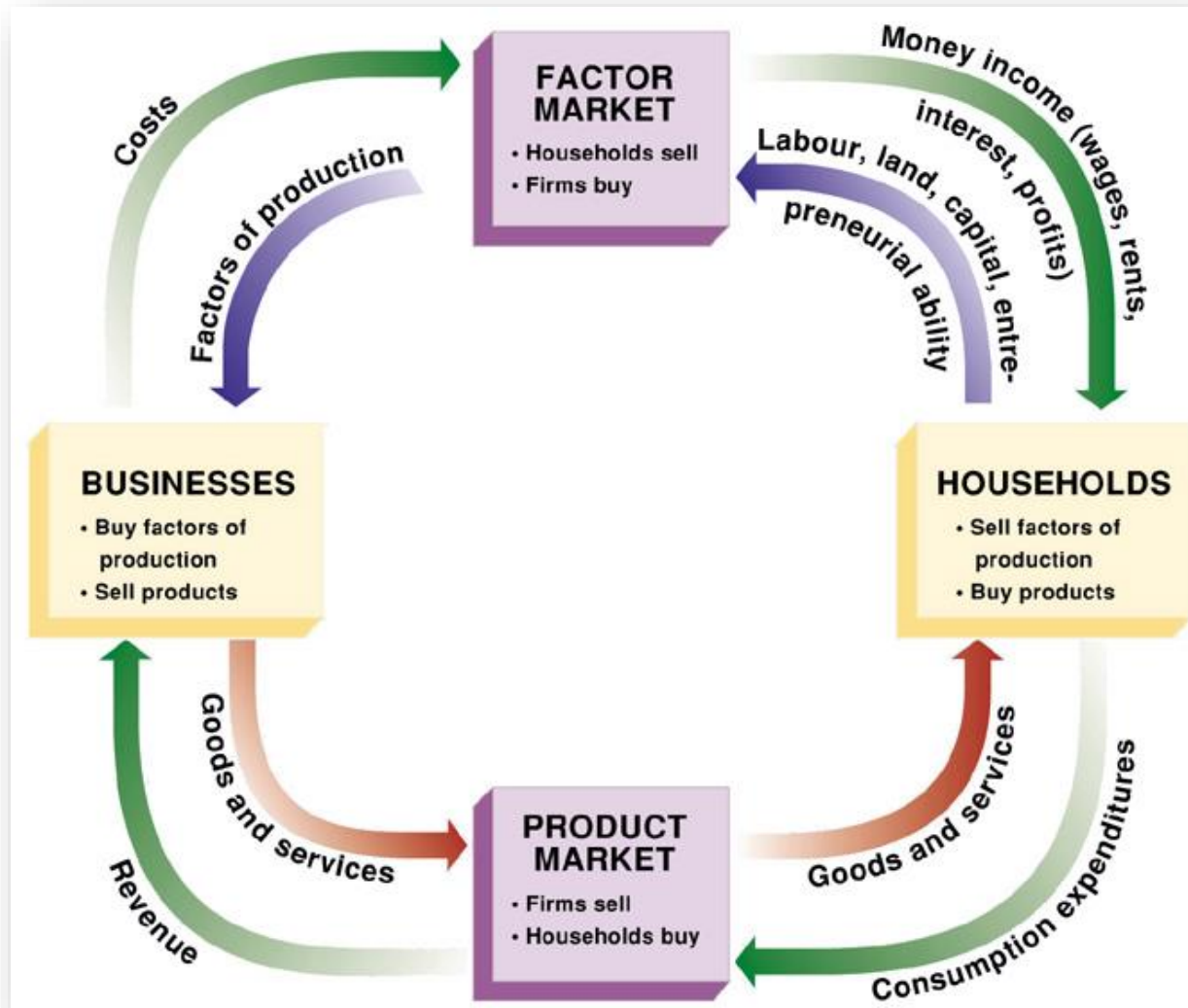
The production possibility frontier (PPF) is a curve depicting all maximum output possibilities for two goods, given a set of inputs consisting of resources and other factors. The PPF assumes that all inputs are used efficiently



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Big Idea #2

Circular Flow Diagram



Households and businesses are interdependent and interact through flows of goods, services, resources and money.

Unit 2

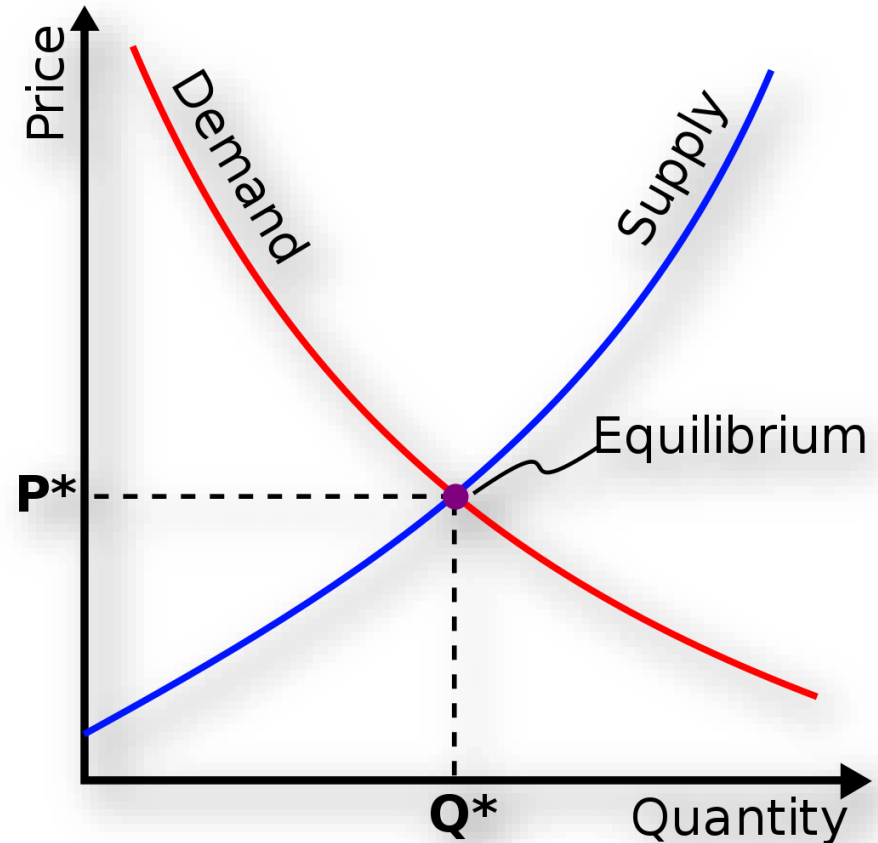
Big Idea #3

Supply and Demand

Law of Demand Consumers demand more of good/service as the price of it goes down because they want to make the most of their limited resources

Law of Supply

Producers want to sell more of a good/service as the price goes up because they want to maximize their profits



Unit 2

Big Idea #4

Supply and Demand Shifters

Price

- **Price alone does not shift a supply or demand curve**
- **Changes in price only move up or down the same supply or demand curve**

Demand Curves can shift due to the following factors:

Demand Shifters



- Consumer Income
 - as income rises consumers can buy more at each & every price
- # of Consumers
 - More consumers = more demand
- Consumer Expectations
 - News reports or expected price changes
- Consumer Tastes/Preferences
 - Advertising, celebrity endorsements, trends can cause these shifts
- Prices of Related Products
 - **Substitutes – products that can be used in place of other products**
 - Increase in price of one increases demand for other
 - Example – Butter & margarine
 - **Complements - related goods used together**
 - Use of one increases the use of the other
 - Example – film & camera

Supply Shifters

- Cost of Inputs
 - Change in cost of inputs could cause a change in supply
- Productivity
 - Can increase if workers are more motivated or are trained to work more efficiently
- Number of Producers/Sellers
 - When more suppliers enter the market = supply increases or vice-versa
- Technology
 - New technology usually shifts curve to the right
- Natural Disaster/Crises
 - Hurricanes, floods, wildfires decrease supply
 - Wars and revolutions can have similar effects



Supply Curves can shift due to the following factors

How Supply and Demand Curves Shift

IRDLD the Turtle!!!!

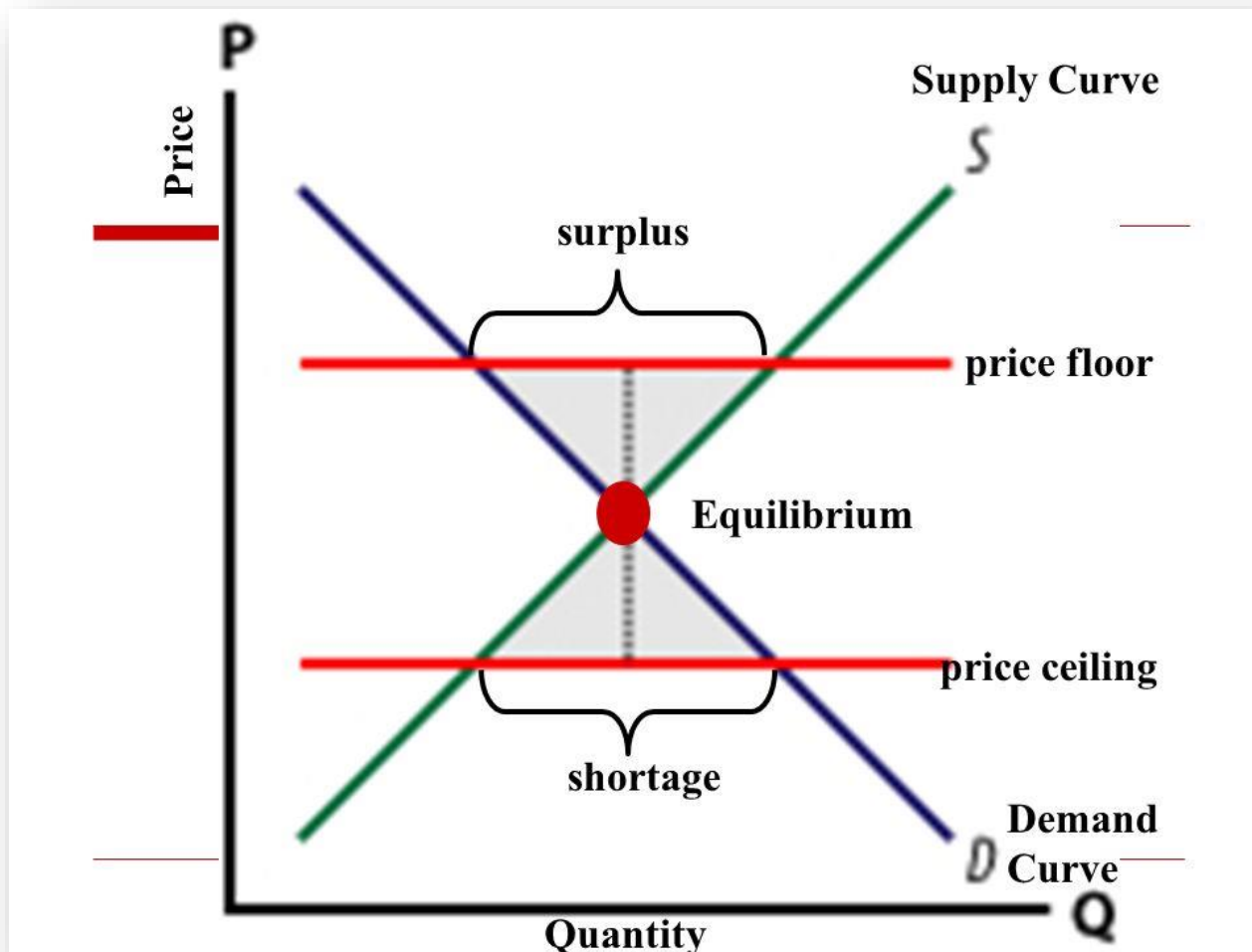


Increase **R**ight, **D**ecrease **L**eft

Unit 2

Big Idea \$5

Price Floors and Price Ceilings



Unit 2

Big Idea #6

Types of Business Organizations

Compare & Contrast			
	Sole Proprietorship	Partnership	Corporation
Start-up Process	Easy to Start	Easy to Start	Difficult to Start
Liability	Unlimited Liability	Unlimited Liability	Limited Liability
Taxation	Single Taxation	Single Taxation	Double Taxation
Access to credit and capital	Limited access to capital and credit	Easier to access than sole proprietorship	Easier to access than other forms
After an owner dies or leaves	Ends when owner dies	Must reorganize when partner leaves	Life continues after an owner dies