# CPA BEC - STUDY UNIT 5
# Microeconomics:
# Core Concepts

## A. Demand, Supply, and Equilibrium

1. **Demand** is the willingness and ability of consumers to purchase goods and services at various prices during a period of time. **Quantity demanded** is the amount that will be purchased at a specific price during a period of time.
   a. The **law of demand** holds that, if all other factors are held constant, the price of a product and the quantity demanded are inversely related; in other words, the higher the price of a good, the lower the quantity demanded. Accordingly, the demand curve is **downward sloping**.
2. The **determinants of demand** are factors other than price that affect the quantity of goods and services consumers purchase. A change in one of the determinants of demand results in a **change in demand**, that is, a shift of the demand curve itself.
3. **Supply** is the amount of goods and services that producers are willing and able to offer to the market at various prices during a specified period of time. **Quantity supplied** is the amount that will be offered at a specific price during a period of time.
4. The **determinants of supply** are factors other than price that affect the amount of a commodity that producers offer.
5. The combination of price and quantity at which the market demand and supply curves **intersect** is market **equilibrium**. Equilibrium is thus referred to as the market-clearing price and the market-clearing quantity.

## B. Elasticity

1. **Price elasticity of demand** measures the **sensitivity** of the quantity demanded of a product to a change in its price. It equals the percentage change in quantity demanded divided by the percentage change in price.
2. When the demand elasticity coefficient is greater than one, demand is in a **relatively elastic range**; a small change in price results in a large change in quantity demanded. When the demand elasticity coefficient is less than one, demand is in a **relatively inelastic range**; a large change in price results in a small change in quantity demanded.
3. **Cross-elasticity of demand** measures the percentage change in demand for one good given a percentage change in the price of another good.
4. **Income elasticity of demand** measures the percentage change in quantity demanded given a percentage change in income.
5. **Price elasticity of supply** measures the sensitivity of the quantity supplied of a product to a change in its price.

## C. Market Structures

1. The **four basic market structures** are pure competition, pure monopoly, monopolistic competition, and oligopoly.
2. Firms in perfect competition are called **price takers** because they must sell at the market price.
3. Economists commonly use two terms to describe a monopolist's powerful ability to set prices: **price maker** and **price searcher**.
4. To maximize profits (or minimize losses) in the short run or long run, a firm in monopolistic competition produces at the level of output at which **marginal revenue equals marginal cost**.
5. The price rigidity normally found in oligopolistic markets can be explained in part by the **kinked demand curve theory**. A **cartel** arises when a group of oligopolistic firms join together for price-fixing purposes.