# 1.1 COMPETITIVE MARKETS

## I. DEMAND: TERMS & OBJECTIVES (SL/HL)

- Goods
- Services
- Consumers
- Suppliers
- Factors of Production
- Quantity Demanded
- Demand ('Effective Demand')
- Income Effect
- Substitution Effect
- Income
- Demand Schedule
- Market Demand
- Determinant of Demand
- Demand Curve
- Normal Goods
- Inferior Goods
- Complements
- Demand Function (**HL**)

- Outline the meaning of the term market.
- Explain the negative causal relationship between price and quantity demanded.
- Describe the relationship between an individual consumer's demand and market demand.
- Explain that a demand curve represents the relationship between the price and the quantity demanded of a product, *ceteris paribus*.
- Draw a demand curve.
- Explain how factors including changes in income (in the cases of normal and inferior goods), preferences, prices of related goods (in the cases of substitutes and complements), and demographic changes may change demand.
- Distinguish between movements along the demand curve and shifts of the demand curve.
- Draw diagrams to show the difference between movements along the demand curve and shifts of the demand curve.
- Explain a demand function (equation) of the form Qd = a – bp (**HL**)
- Plot a demand curve from a linear function (e.g. Qd = 60 – 5p) (**HL**)
- Identify the slope of the demand curve as the slope of the demand function qd = a – bp, that is $^{-}$b (the coefficient of p). (**HL**)
- Outline how a change in 'b' affects the steepness of the demand curve. (**HL**)
- Outline why, if the 'a' term changes, there will be a shift of the demand curve. (**HL**)

## 1.1 COMPETITIVE MARKETS

## II. SUPPLY: TERMS & OBJECTIVES (SL/HL)

- Law of Supply
- Supply Schedule
- Quantity Supplied
- Supply
- Market Supply
- Production
- Supply Curve
- Determinants of Supply
- Costs of Production
- Quantity Supplied
- Output
- Input
- Productivity
- Resources
- Related Goods
- Substitutes in Production
- Industry
- Supply Function (**HL**)

- Explain the positive causal relationship between price and quantity supplied.
- Describe the relationship between an individual producer's supply and market supply.
- Explain that a supply curve represents the relationship between the price and the quantity supplied of a product, *ceteris paribus*.
- Draw a supply curve.
- Explain how factors including changes in costs of factors of production (land, labour, capital, and entrepreneurship), technology, price of related goods, expectations, indirect taxes and subsidies, and the number of firms in the market can change supply.
- Distinguish between movements along the supply curve and shifts of the supply curve.
- Construct diagrams to show the difference between movements along the supply curve and shifts of the supply curve.
- Explain a supply function (equation) of the form $Qs = c + dP$. (**HL**)
- Plot a supply curve from a linear function (e.g. $Qs = -30 + 20P$). (**HL**)
- Identify the slope of the supply curve as the slope of the supply function $Qs = c + dP$, that is d. (**HL**)
- Outline how a change in 'd' affects the steepness of the supply curve. (**HL**)
- Outline why, if the 'c' term changes, there will be a shift of the supply curve. (**HL**)

## 1.1COMPETITIVE MARKETS

### III. MARKET EQUILIBRIUM: TERMS & OBJECTIVES (SL/HL)

- Market Equilibrium
- Disequilibrium
- Excess Supply
- Equilibrium Price
- Excess Demand
- Surplus
- Shortage
- Consumer Surplus
- Producer Surplus
- Consumer Welfare
- Competitive Market Equilibrium
- Producer Welfare
- Market Price
- Social Surplus
- Welfare
- Allocative Efficiency
- Market Clears
- Profit

- Explain, using diagrams, how demand and supply interact to produce market equilibrium.
- Analyse, using diagrams, and with references to excess demand or excess supply, how changes in the determinants of demand and/or supply result in a new market equilibrium.
- Calculate the equilibrium price and equilibrium quantity from linear demand and supply functions (**HL**).
- Plot demand and supply curves from linear functions, and identify the equilibrium price and equilibrium quantity (**HL**).
- State the quantity of excess demand or excess supply in the previous diagram (**HL**).
- Explain why scarcity necessitates choices that answer the ‘what to produce?’ question.
- Explain why choice results in an opportunity cost.
- Explain, using diagrams, that price has a signalling function and an incentive function, which result in a reallocation of resources when prices change as a result of a change in demand or supply conditions.
- Explain the concept of consumer surplus.
- Identify consumer surplus on a demand and supply diagram.
- Explain the concept of producer surplus.
- Identify producer surplus on a demand and supply diagram.
- Explain that the best allocation of resources from society’s point of view is at the competitive market equilibrium, where social (community) surplus (consumer surplus and producer surplus) is maximized.