

Supply and Demand Study Guide

Fill in the blank

Demand

1. If price increases, quantity demanded _____.
2. If the number of buyers decreases, demand _____.
3. Increasing demand causes the demand curve to shift to the _____.
4. Movement along the demand curve due to a change in price causes a _____.
5. Advertising is designed to influence tastes and preferences in favor of purchase thus shifting the demand curve to the _____.
6. As the number of buyers _____, the demand curve shifts to the left, thus _____.
7. Demand for _____ good increases as the price of the related good decreases.
8. Coffee and cream would be considered _____ goods.
9. Soda and chips would be considered _____ goods.
10. As income increases, demand for a normal good _____.
11. For an inferior good, as income increases the demand curve shifts to the _____.
12. Demand curves slope _____ according to the law of demand.

Supply

13. If price decreases, quantity supplied _____.
14. If resource prices decrease, supply _____.
15. Movement along the supply curve due to a change in price causes a _____.
16. If the cost of dough used in making pizzas drops then supply _____, price _____.
17. Supply curves have a _____ slope according to the law of supply.
18. An increase in capacity would cause _____.
19. An increase in capacity utilization would cause _____.
20. An improvement in production technology would shift the supply curve to the _____.
21. Decreasing the number of suppliers would shift the supply curve to the _____.
22. Increasing the price of a product related by production would cause _____ to shift to the left.
23. Increasing taxes on a firm would cause the supply curve to shift to the _____.
24. Increasing a subsidy would cause the supply curve to shift to the _____.
25. Anything that increases profits, causes the supply curve to shift to the _____.
26. Anything that increases costs, causes the supply curve to shift to the _____.

Equilibrium and Price Controls

27. A price floor causes a _____ as quantity demanded is _____ quantity supplied.
28. A price ceiling causes a _____ as quantity demanded is _____ quantity supplied.
29. If demand increases due to a change in tastes, then _____ will increase thereby causing _____ to increase.
30. If price increases even though demand has not changed then _____ must be responsible.
31. If prices drop even though supply has not changed, then _____ must be responsible.
32. If a drop in demand causes prices to drop, then _____ will decrease.
33. When prices rise, due to increased demand, firms _____ to maximize profit.
34. If the government fixes the price above the market price, then a(n) _____ will occur.
35. If the government fixes a price below the market price, then a(n) _____ will occur.
36. A government subsidizing a price will _____ its Treasury.
37. To achieve equilibrium we assume consumers are taking actions consistent with _____.
38. To achieve equilibrium, we assume firms are taking actions consistent with _____.
39. When firms experience excess inventories, they tend to _____ and/or _____.
40. Firms do not want to have large inventories as they incur _____.

Market Assumptions

41. Homogeneous goods exist as goods that are viewed by the consumer as being _____.
42. A(n) _____ market is said to exist when buyers and sellers are price takers.
43. When there are many buyers and sellers then everyone is a _____.
44. Blocking entry limits the number of _____.
45. The _____ states that as price falls quantity increases.
46. _____ exists when either the buyer or seller has an informational advantage in the transaction.
47. _____ are directly related to exchanges such as recording fees in the Clerk of Circuit Court.
48. Externalities occur when consumption or production of a good generate social _____ in the addition to private benefits or costs.

Production Possibilities Curve

49. _____ is the maximum combinations of two or more goods that can be produced.
50. _____ are fixed when graphing a particular production possibilities curve.
51. The production possibilities curve shifts _____ when labor is increased.
52. Marginal product of labor is the change in _____ resulting from one more unit of _____.
53. The marginal product of capital is _____ by technology improvements.
54. _____ is the amount of goods that is being given up.
55. An efficient allocation of capital means capital is put to its _____.
56. The trade-off between producing consumer goods versus capital goods reflects the choice between _____.
57. Opportunity cost is the _____ of the best alternative.
58. _____ are held constant in constructing a production possibilities curve.
59. An improvement in technology will cause the production possibilities curve to _____.
60. If 1,000 tons of wheat are given up to grow 2,000 tons of rice, then the marginal rate of substitution is _____.
61. A reduction in the labor force will cause the production possibilities curve to _____.
62. If an additional 50 labor hours are required to produce 200 pizzas, then the marginal product of labor is _____.
63. If an additional 3 ovens are needed to bake 150 pizzas, then the marginal product of capital is _____.

Supply and Demand Math

64. Given a slope of $-.01$, then to induce a change of 100 units in quantity demanded, _____ will have to (increase/decrease) by _____ dollars.
65. If price decreases \$10 while quantity increases 50, then the slope is _____.
66. If price increases \$20 while quantity increases 40, then the slope is _____.
67. If Jorge wants to sell 1,000 more pizzas with a demand slope of $-.004$, then Jorge will need to _____ price by _____.
68. Given a supply slope of 1000, the government would like to increase supply of pizzas by 2,000 by lowering the tax _____ per pizza.
69. Slope is defined as the change in _____ over the change in _____.
70. Given the demand line: $P = 120 - .01Q$, slope is _____ and the vertical intercept is _____.
71. Given the supply line: $P = 80 + .02Q$, slope is _____ and the vertical intercept is _____.
72. Given a slope of $.30$, then for change in price of 100 the quantity (supplied/demanded) will (increase/decrease) _____ units.
73. Given a demand line slope of -4 , a price change of _____ would be necessary to increase quantity demanded by 50 units.
74. Any slope is defined as _____ over _____.
75. The _____ intercept is the price where quantity equals zero.
76. The _____ and _____ are needed to describe a straight line.
77. Demand slope represents the change in _____ needed to change one unit of _____.
78. Shifting demand or supply lines would cause the slope to _____.

Elasticity

79. Governments will collect ____ tax revenues from a sales tax on inelastic goods or services.
80. Price elasticity of demand is the percentage change in ____ divided by the percentage change in ____.
81. Normal income elasticity of demand will be ____.
82. An ____ relationship occurs when changes in one variable do not affect the value of another variable.
83. When price drops from \$25 to \$20, while quantity increases from 100 to 120, then the price elasticity of demand is _____. (Use the point elasticity formula)
84. When quantity increases from 2.0 million units to 2.5 million units as income increases 5%, then the income elasticity of demand equals _____.
85. A price elasticity of -1.4 implies that demand is price _____, that is, _____.
86. A cross-price elasticity of -2.0 implies that the product is a _____.
87. When demand is price elastic, _____ price increases Total Revenue (TR).
88. Every point on a demand curve has a/the _____ elasticity.
89. Total Revenue (TR) is maximized where price elasticity _____.
90. If income increases 5%, given an income elasticity of 2, then sales will _____.
91. A good that has an income elasticity of -1.0 is a(n) _____.
92. Calculated elasticities are valid for ____ changes in demand.
93. Elasticities are often used for _____.

Consumer and Producer Surplus

94. _____ is the gain in trade to the buyer.
95. _____ is the gain in trade to the seller.
96. _____ is the sum of the consumer and producer surplus.
97. A competitive market _____ social surplus.
98. The change in _____ can be used to evaluate the desirability of government projects.

FIB Solutions

Demand

1. decreases
2. decreases
3. right
4. change in quantity demanded
5. right
6. decreases, decreasing
7. complementary
8. complementary
9. complementary
10. increases
11. left
12. downward

Supply

13. decreases
14. increases
15. change in quantity supplied
16. increases, decreases
17. upward
18. supply curve to shift to the right
19. movement up along the supply curve
20. right
21. left
22. supply
23. left
24. right
25. right
26. left

Equilibrium and Price Controls

27. surplus, less than
28. shortage, greater than
29. price, production (quantity supplied)
30. supply
31. demand
32. production (quantity supplied)
33. increase production
34. surplus
35. shortage
36. drain
37. maximizing satisfaction
38. maximizing profit
39. cut prices, cut production
40. costs

Market Assumptions

41. equal
42. competitive
43. price taker
44. suppliers (or sellers)
45. law of demand
46. Asymmetric information
47. Transactions cost
48. benefits or costs

Production Possibilities Curve

49. Production possibilities curve
50. Capital and labor
51. outward
52. output, labor
53. increased
54. Opportunity cost
55. highest and best use
56. present and future consumption
57. price (could also be benefit)
58. Labor, capital, and technology
59. shift outward (increases)
60. .5 tons of wheat per ton of rice (1,000/2,000)
61. shift inward
62. 4: 200/50
63. 50: 150/3

Supply and Demand Math

64. decrease, \$1

65. $-.20$: $(-10/50)$

66. $.50$: $(20/40)$

67. lower, \$4

68. \$2.00: $E = \text{chg Q} / \text{chg P}$; $\text{ch P} = \text{chg Q} / E$; $2,000/1,000 = \$2.00$

69. price, quantity

70. $-.01$, 120

71. $.02$, 80

72. supplied, increase, 333; slope = rise/run; $.3 = 100/x$; solve for x

73. 200; $-4 = P / 50$; $p = -200$; it is negative as it is a price cut.

74. rise, run

75. vertical

76. vertical intercept, slope

77. price, quantity

78. remain the same

Elasticity

- 79.more
- 80.quantity, price
- 81.positive
- 82.independent
- 83.-1: $-20\%/20\% = -1$
- 84.5: $25\%/5\%$
- 85.elastic, sensitive
- 86.complement
- 87.decreasing
- 88.different
- 89.equals one (the absolute value that is)
- 90.increase 10%: $2 = x/5\%$, $5\% * 2 = 10\%$
- 91.inferior good
- 92.small
- 93.forecasting sales

Consumer and Producer Surplus

- 94.Consumer surplus
- 95.Producer surplus
- 96.Social surplus
- 97.maximizes
- 98.social surplus

True/False

1. A change in price causes the demand curve to shift to the right.
2. A change in the number of suppliers increases demand.
3. Movement along the demand curve is due only to a change in price.
4. Increasing supply, increases demand.
5. Decreasing price, increases quantity demanded.
6. Increasing number of buyers causes supply to increase.
7. Increasing demand causes price to increase which causes quantity supplied to increase.
8. Increasing the cost of coffee causes demand for cream to increase.
9. Decreasing the price of green fees increases sales of golf balls.
10. Increasing national income normally causes consumer demand to increase.
11. Increasing taxes on commodities such as sugar causes their supply to decrease.
12. Increasing peanut subsidies causes the supply of peanuts to increase.
13. A large number of buyers and suppliers is not an assumption for a competitive market.
14. Increasing the price of Mountain Dew increases demand for Pepsi.
15. Perfect information means that the product must be free of defects.
16. Transaction costs include the product price.
17. A shortage suggests that quantity demanded is greater than quantity supplied.
18. Supply increases when the number of suppliers drops.
19. As the price of Mountain Dew increases, the supply of Pepsi could decrease.
20. Decreasing the price of a good related in production increases supply.
21. A firm facing higher taxes will increase production.
22. The State of Florida has increased taxes on advertising agencies, the supply of advertising will decline.
23. Congress passes a law subsidizing corn farmers, the supply of corn will decrease.
24. Blocking exit can cause firms to reconsider entry.
25. Restricting entry allows incumbent firms some market power.
26. The law of supply states that quantity supplied decreases as price increases.
27. Asymmetric information is necessary for a competitive market.
28. Significant transactions costs can give sellers market power.
29. Significant positive externalities can cause the market to overproduce goods and services.
30. Negative externalities shift social costs onto producers.
31. Differentiating goods allows sellers some degree of market power.
32. Improving the level of technology shifts the production possibilities curve outward.
33. Increasing the marginal product of labor increases supply.
34. Decreasing the marginal product of capital decreases product demand.
35. Improving the level of technology generally improves both the marginal product of labor and capital.
36. The marginal rate of substitution is measure by the slope of the production possibilities curve.
37. Producers have an incentive to improve efficiency as they earn more profit.
38. Consumers cannot use the market price system to determine an allocation of income.
39. Producers can use input prices to determine the best method of production.

Supply and Demand Math

- 40. Any two points on a straight line will produce the same slope.
- 41. Slope represents the change in quantity over the change in price.
- 42. The vertical intercept explains the percentage of price determined by quantity.
- 43. The point at which the supply and demand lines intersect is equilibrium.
- 44. A parallel shift of either the demand or supply line would cause their slope to change.

Elasticity

- 45. The cross-price elasticity of demand between coke and pepsi will be negative.
- 46. The income elasticity of demand for autos will be positive.
- 47. Given inelastic demand for alcohol, increasing the price will increase revenue.
- 48. Countercyclical industries may sell products that are income inferior.
- 49. Vertical demand curves are more inelastic.
- 50. When price elasticity > 1 , then demand is elastic.
- 51. Increasing time allows demand to be more elastic.
- 52. Eliminating substitutes causes demand to be more elastic.
- 53. Services that consume a large part of the budget are inelastic.
- 54. Luxuries tend to be price elastic.

Consumer and Producer Surplus

- 55. A competitive market minimizes producer surplus.
- 56. Consumer surplus is equal to producer surplus.
- 57. Increasing supply increases consumer surplus.
- 58. Increasing demand decreases producer surplus.
- 59. Social surplus is bad for an economy.

T/F Solutions

1. False, a change in price moves along the demand curve, a change in income would shift it.
2. False, demand comes from customers. Income of buyers, tastes of buyers, number of buyers, and prices of related goods affect demand.
3. True
4. False, demand comes from customers. Income of buyers, tastes of buyers, number of buyers, and prices of related goods affect demand.
5. True
6. False, producers change supply, customers change demand. As demand increases, price increases, then QUANTITY supplied increases but supply itself does not shift.
7. True
8. False, increasing the cost of coffee should lower coffee consumption, hence cream consumption should also decrease.
9. True, they are complementary goods.
10. True
11. True
12. True
13. False, without a large number of both buyers and sellers, one would enjoy market power and thus be able to manipulate price.
14. True
15. False, perfect information means that the buyer and seller have equal and full knowledge concerning the transaction. Buying a flawed product may be desirable if the price is right.
16. False, transaction costs are defined in this course to include costs other than the price.
17. True
18. False, supply would decrease.
19. True, suppliers would shift from making Pepsi to making Dew.
20. True
21. False, the ability of firms to supply services will decrease at each price point.
22. True, this has actually happened in Florida.
23. False, supply of corn would increase.
24. True, the risk of failure has increased.
25. True, they can increase price without fear of competition.
26. False, quantity supplied would increase as price increases
27. False, Symmetric information
28. True, they can raise prices by the amount of transactions costs without losing customers
29. False, underproduce
30. False, onto consumers
31. True, "extra features will cost you ..."
32. True, allows more output with a given level of input.
33. True
34. False, marginal product of capital does not affect consumer product demand.
35. True, true by definition.
36. True
37. True
38. False, they do
39. True

Supply and Demand Math

40. True

41. False, it is the change in PRICE over the change in QUANTITY.

42. False, the vertical intercept is the price level at which quantity is zero.

43. True

44. False, the slope remains the same, only the intercept changes (we assume only parallel shifts).

Elasticity

45. False, positive, as Coke prices increase, so will Pepsi's sales.

46. True, as people earn more income, they buy more cars or more expensive cars.

47. True, people will not reduce purchases and will pay the higher price.

48. True

49. True

50. True, note we assume absolute value.

51. True

52. False, less substitutes makes demand more inelastic.

53. False, items that consume a large part of the budget are more elastic.

54. True

Consumer and Producer Surplus

55. False, but it maximizes social surplus, the total of producer and consumer surplus.

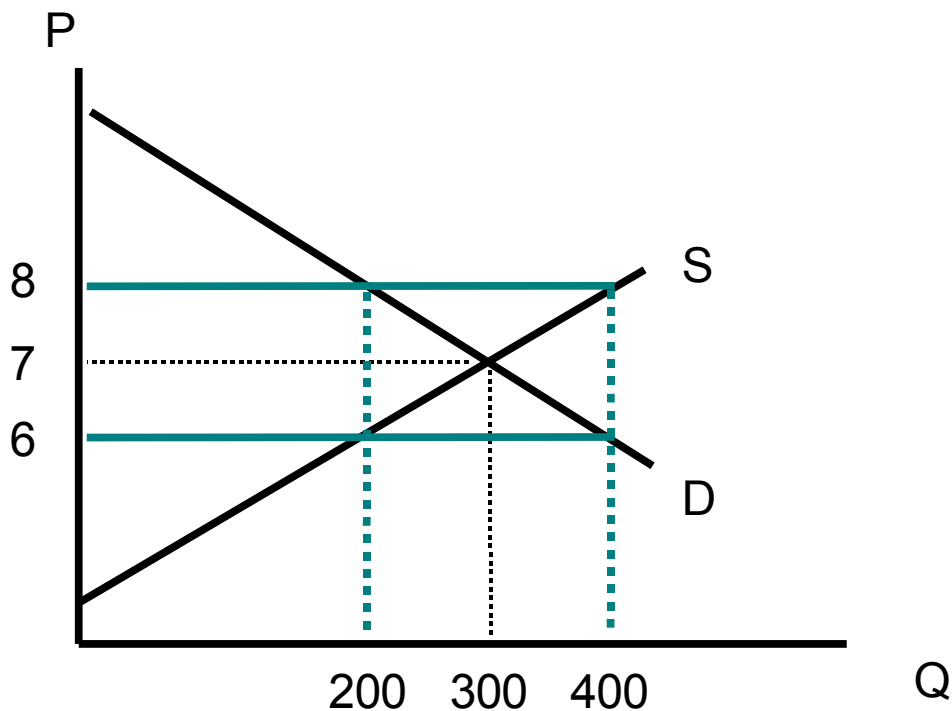
56. False, one can be greater than the other.

57. True

58. False, it increases it.

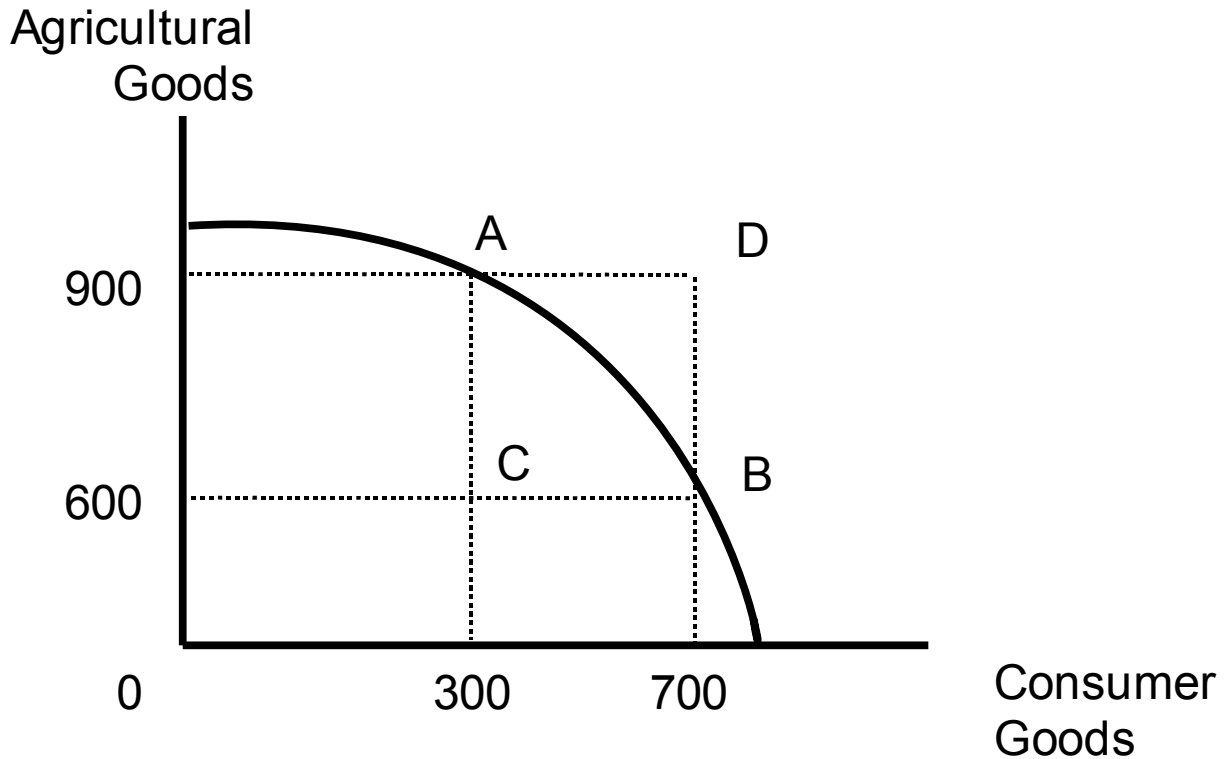
59. False

Problems & Exercises



1. Supply and Demand Problem

- What is the slope of the demand line?
- What is the slope of the supply line?
- What is the quantity demanded of widgets at a price of \$6?
- What is the equilibrium price and quantity?
- At equilibrium, what is the total revenue?
- What is the quantity supplied at the price of \$6?
- At a price of \$8 is there a shortage or surplus? How much is it?
- At a price of \$6 is there a shortage or surplus? How much is it?
- Given an economy wide normal ROS of 10% and that the widget industry is experiencing a ROS of 12%, what would expect to happen?
- Congress has passed legislation authorizing a widget subsidy of .50 per unit. What will be the effect on the supply line?



2. Production Possibilities Curve

- What is the opportunity cost in moving from point A to B?
- If the marginal rate of substitution in moving from point B to point C is -6.0 , then what is the quantity of consumer goods at point C?
- What is the marginal rate of substitution in moving from point A to point C?
- Given a marginal rate of substitution of -1.5 units agricultural goods/consumer goods, what would be required to attain an increase of 80 units of consumer goods?
- What are the assumptions behind the production possibilities curve? What would cause it to shift?

P	Q_d	Q_s
9	300	1,000
8	400	900
7	550	800
6	700	700
5	900	650
4	1,000	600
3	1,400	550

3. Consumer and Producer Surplus

- Calculate consumer surplus
- Calculate producer surplus
- Calculate social surplus
- What is the point elasticity of demand at price = 7?

$$P = 40 + .01Q_s$$

$$P = 70 - .02Q_d$$

4. Using the equations above, answer the following questions:

- a) Find equilibrium price and quantity.
- b) Suppose a sales tax of \$15 per unit is added, what is the new quantity, price (w/o tax), and amount of tax collected?
- c) Suppose the government establishes a price control at \$60, what is the new quantity demanded and quantity supplied?
- d) Demand increases by 10 units at each price, what is the new equilibrium price and quantity?
- e) Fixed costs increase per unit to 43, what is the new equilibrium price and quantity?

$$P = 100 + 2Q$$

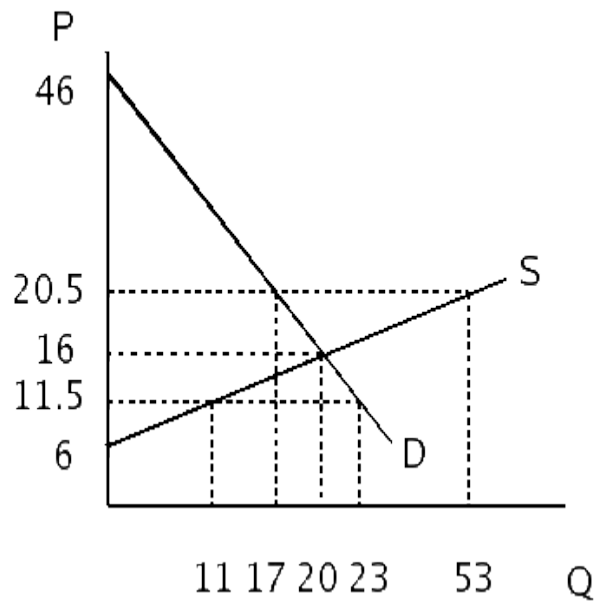
5. Interpreting and graphing equations

- a) Graph the above equation.
- b) Given the above equation, what is the price at $Q = 6$?
- c) What is the slope?
- d) What is the price change necessary to increase quantity by 10?

P	6	5	4
Q	100	200	300

6. Demand Schedule & Elasticity

- a) What is the demand equation from the above data?
- b) What is the slope?
- c) What is the intercept?
- d) What would be the change in quantity demanded if the price elasticity of demand is 3.0 and prices increase 2%?
- e) What would be the change in quantity demanded if the cross price elasticity of demand is 2.0 and a competitor decreases price 5%?
- f) What would be the change in quantity demanded if the cross price elasticity of demand is -2.5 and the price of the other good increases 2%?
- g) What would be the change in quantity demanded if the income elasticity is 1.5 and income increases 2%?
- h) What would be the change in quantity demanded if the income elasticity is -1.5 and income increases 3%?



7. Interpreting Graphs

- What is the vertical intercept of the demand line? Supply line?
- What is the slope of the demand line? Supply line?
- What are the equations for the demand and supply lines?
- At a price of \$20.50, what is the quantity demanded? Quantity supplied?
- At a price of \$11.50, is there a surplus or shortage? How much?
- What is the equilibrium price and quantity?

Problems & Exercises: Solutions

1. Supply and Demand Problem

a) $-.01 = (8 - 7) / (200 - 300)$

b) $.01 = (6 - 7) / (200 - 300)$

c) 400

d) $P = 7, Q = 300$

e) $\$2,100 = 7 * 300$

f) 200

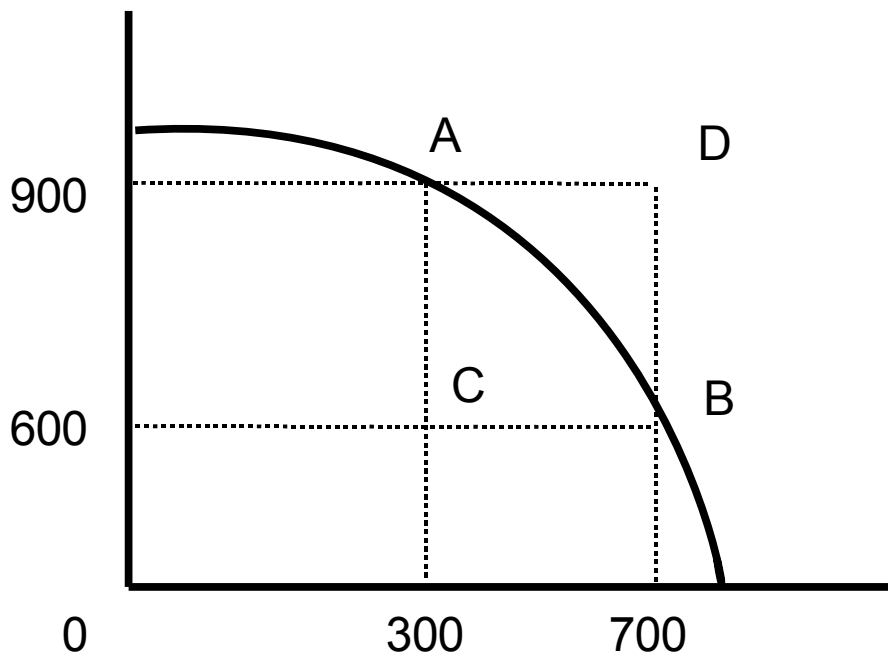
g) surplus, $200 = (200 - 400)$

h) shortage, $200 = (400 - 200)$

i) New entrants into the industry that will drive down prices, increasing supply, and lowering profitability.

j) Supply line will shift to right by .50 at each quantity.

Agricultural
Goods



Consumer
Goods

2. Production Possibilities Curve

a) $-.75 = (900 - 600) / (300 - 700)$

b) 800: $-6 = (600 - 0) / (700 - x)$, solve for x

c) $-1.8 = (900 - 0) / (300 - 800)$

d) $120 = 1.5 * 80$

e) Labor, capital, and technology are fixed. A change in labor, capital, or technology

3. Consumer and Producer Surplus

a) Consumer surplus: $300(3)+100(2)+150(1)=1,250$

b) Producer Surplus: $550(3)+50(2)+50(1)=1,800$

c) Social Surplus: $1,250+1,800=\$3,050$

d) $(150/550)/(1/7)=-1.91$

4. Supply and Demand Equations

a) $Q=1,000, P=50$

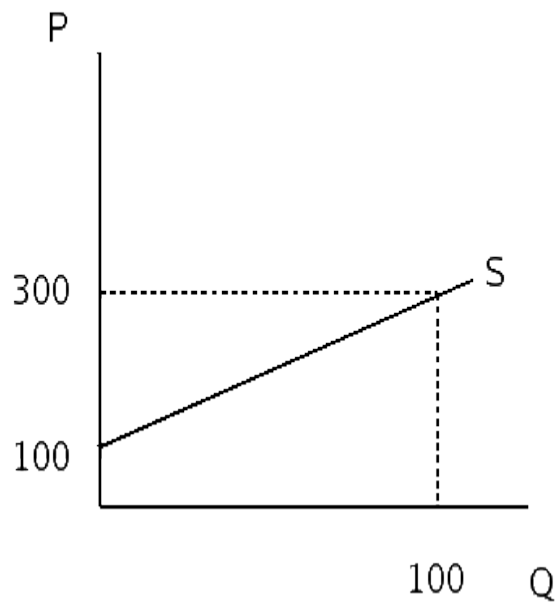
b) $70-15-.02Q = 40+.01Q; P=45, Q=500, P \text{ including tax} = 60$

c) $60=40+.01Q_s; Q_s=2,000; 60=70-.02Q_d; Q_d=500$

d) $60-.02Q=40+.01Q; Q=667, P=\47.66

e) $70-.01Q=43+.01Q; Q=900, P=52$

5. Interpreting and graphing equations
a) graph



- b) $100 + 2(6) = \$112$
- c) 2: the coefficient of Q is the slope.
- d) $2 = X/10$: $x = \$20$

6. Demand Schedule & Elasticity

a) $P=7-.01Q$

b) -0.1

c) 7

d) $3.0 * 2\% = 6\%$ decrease

e) $2.0 * -5\% = -10\%$ (a decrease)

f) $-2.5 * 2\% = -5\%$ (a decrease) Hint: the good is a complement. Increasing the price of a complement lowers your sales.

g) $1.5 * 2\% = 3\%$ (an increase)

h) $-1.5 * 3\% = -4.5\%$ (a decrease) Hint: a negative income elasticity occurs when the good is income inferior.

7. Interpreting graphs

- a) demand intercept 46, supply intercept 6
- b) demand slope -1.5; supply slope .5
- c) Demand $P = 46 - 1.5Q$; Supply $P = 6 + .5Q$
- d) Quantity demanded 17, Quantity supplied 53
- e) Quantity demanded 23, Quantity supplied 11; shortage of 12
- f) $P = \$16$, $Q = 20$

Supply and Demand Review Questions

1. What are the determinants of demand?
2. How does a price change affect demand vs. quantity demanded?
3. What are the determinants of supply?
4. How does a price change affect supply vs. quantity supplied?
5. How does a change in one of the determinants of demand affect demand?
6. How does a change in one of the determinants of supply affect supply?
7. What are the assumptions of a competitive market?
8. Explain why many buyers and many sellers is crucial to a competitive market using the concept of market power.
9. Explain why free entry and free exit is necessary to maintain a competitive market and how it facilitates the optimal allocation of resources.
10. What is economic efficiency and why is it important?
11. Given an equation, find the slope of a line and what does it represent?
12. Given equations, calculate the equilibrium.
13. Given an equation, find the intercept of a line and what does it represent?
14. Given equations, when price is set that varies from market equilibrium, what are the consequences, particularly in regard to quantity demanded and supplied?
15. Given an equation, for a change in price, calculate the changes in quantity demanded and quantity supplied.
16. From a graph, determine the slope of a demand line from a graph.
17. From a graph, determine the slope of a supply line from a graph.
18. From a graph, determine the quantity demanded at a given price.
19. From a graph, determine the equilibrium price and quantity.
20. From a graph, determine the quantity supplied at a given price.
21. From a graph, determine how much of shortage may exist at a given price.
22. From a graph, determine how much of surplus may exist at a given price.
23. From a graph, determine the total revenue at the equilibrium price and quantity.
24. Given a slope, determine quantity changed from a price change or vice versa.
25. How does a shifting line affect slope, price, and quantity?
26. Given the production possibilities curve, determine the marginal rate of substitution.
27. Given the production possibilities curve, determine the opportunity cost of a change.
28. Given the Marginal Rate of Substitution, determine the change necessary in producing one good when the production of another good changes.
29. What are the assumptions of the production possibilities curve?
30. How is the production possibilities curve affected by a change in one of the assumptions?

Activities & Discussion

1. Jennifer Spears notices an increase in the number of customers coming into her restaurant, Tequila Max. What are the possibilities that could cause this change? For each possibility, indicate the possible actions Jennifer could take to maximize profitability.
2. Jupiter Motors buys the energy source that powers their lifters from Adam Atom Batteries. Adam has announced a price increase of 15%. Assuming that Adam Atom Batteries is one of the larger suppliers of energy units to the lifter industry, what are the possible causes of the cost increase and what are the possible effects on the lifter industry?
3. As the chief financial analyst for General Foods, you have been directed to prepare a forecast of next year's sales. Describe what information would be needed and how you would use it.
4. Your central government wants to increase economic activity 10% by cutting the tax rate from 20% to 15%. They argue that the tax cut will generate additional tax revenue from the increased economic growth would cover the deficit. Comment on this proposal.
5. As the chief investment analyst for Moore, Profit, and Luvit, a mutual fund advisor, you have been asked to evaluate a stock in the automobile industry. What demand and supply factors would you consider?
6. Plot per capita GDP, car sales, average auto price for ten years. What conclusions can you draw?

Selected Definitions

Asymmetric Information

Where either the buyer or seller has more information.

Capital

Building or equipment.

Complements

Something consumed with the main product.

Demand

Sales influenced by anything other than price.

Elastic

When a small change in price causes a large change in quantity, consumers are price sensitive.

Excise Tax

Taxes levied on suppliers.

Externalities

An additional cost or benefit not imposed on the consumer of the good or service.

Inelastic

Consumers are not sensitive to price changes.

Law of Demand

As price increases, the quantity demanded will decrease and vice versa.

Law of Supply

As price increases, the quantity supplied will increase and vice versa.

Marginal Rate of Substitution

Opportunity cost of one unit of production.

Opportunity Cost

Cost of alternative good given up to attain current good.

Price Ceiling

Prices may fall below a given price but not rise above it.

Price Floor

Prices may rise but fall below a given price known as a price floor.

Production Possibilities Curve

Possible combinations of goods that an economy can produce given a level of technology, capital, and labor.

Quantity Demanded

Sales influenced by price.

Quantity Supplied

Amount offered by suppliers that is influenced by price.

Sales Tax

Taxes levied on consumers.

Subsidies

Payments by a government to a producer of goods or services.

Substitutes

Another product that a consumer could use to satisfy a given need.

Supply

Production that is influenced by anything other than by price.

Selected References

www.dismal.com