II. SUPPLY AND DEMAND

A. Willingness to Pay -- Demand

1. A household decides the amounts of goods to buy given an income.

2. The objective of a household is to maximize utility. A household will buy a good so long as the marginal benefit (MB) exceeds the price (P).

3. The individual demand curve is downward sloping.

4. The market demand curve is downward sloping.

5. The consumer surplus is the difference between the marginal benefit (MB) of a good and the price paid for it (P).

B. Willingness to Sell -- Supply

1. A firm is an institution that organizes production. A firm can be a sole proprietorship, partnership or corporation.

2. The objective of a firm is to maximize economic profits. A firm will sell a good so long as the marginal revenue (MR) exceeds the marginal cost (MC).

3. The individual supply curve is upward sloping.

4. The market supply curve is upward sloping.

5. The producer surplus is the difference between the price received for the good (P) and the marginal cost (MC).
C. Equilibrium and Efficiency

1. Demanders of corn -- the consumers
   a. Law of demand -- all other things remaining the same, the higher the price of a good, the less is the quantity demanded of that good.
   b. The demand schedule and curve -- tabular and graphical representation of the negative relationship (downward slope) between the price of the good and the quantity demanded.
   c. Movement along the demand curve -- a change in the price of the good that results in movement along the demand curve.
   d. Shifts (or changes) in demand -- a change in some other thing that results in a shift in the demand curve.

2. Suppliers of corn -- the farmers
   a. Law of supply -- all other things remaining the same, the higher the price of a good, the greater is the quantity supplied of that good.
   b. The supply schedule and curve -- tabular and graphical representation of the positive relationship (upward slope) between the price of the good and the quantity supplied.
   c. Movement along the supply curve -- a change in the price of the good that results in movement along the supply curve.
   d. Shifts (or changes) in supply -- a change in some other thing that results in a shift in the supply curve.
3. Equilibrium in the corn market
   a. The equilibrium price is the price that equates the quantity demanded with the quantity supplied.
   b. The equilibrium quantity is the quantity that is both bought and sold at that equilibrium price.
   c. The price is the mechanism that brings the market to equilibrium.

4. Efficiency in the corn market
   a. Pareto efficiency -- an outcome where it is not possible to make someone better off without hurting someone else.
   b. The competitive equilibrium is Pareto efficient.

D. Applications

1. An increase in Russian corn shipments

2. A decrease in U.S. personal income

3. A price ceiling imposed by President Ralph Nader

4. A price floor imposed by President Fred Grandy
E. Elasticity

1. The definition of elasticity is how sensitive one economic variable is to a change in another economic variable.

2. Price elasticity of demand -- a measure of how sensitive quantity demanded is to a change in the price of the good.
   a. Why is price elasticity of demand important?
   b. Definition of price elasticity of demand
   c. What determines the price elasticity of demand?
   d. The effect of price elasticity on total revenue

3. Price elasticity of supply -- a measure of how sensitive quantity supplied is to a change in the price of the good.
   a. Why is price elasticity of supply important?
   b. Definition of price elasticity of supply
   c. What determines the price elasticity of supply?