

Contents

1.	INTRODUCTION.....	5
1.1	Why study economics?.....	5
1.2	What is economics?.....	5
1.2.1	Trade-offs	6
1.2.2	Scarcity.....	6
1.2.3	Exchange, markets and prices	7
1.3	Branches of economics.....	10
1.4	Role of mathematics in modern economics.....	10
1.5	History of economics and schools of economic thought	11
1.5.1	Prehistoric economic thought (before recorded history).....	11
1.5.2	Ancient economic thought (early recorded history to middle-age).....	12
1.5.3	Middle-age economic thought (5 th to 15 th century).....	13
1.5.4	From middle-age to modern history (16 th century to late 18 th century).....	13
1.5.5	Modern times of economic thought (from late 18 th century)	13
2	SUPPLY AND DEMAND (COMPETITIVE MARKETS)	16
2.1	Supply and demand in general	16
2.2	Demand curve	16
2.2.1	The demand schedule and the demand curve.....	16
2.2.2	Shifts of the demand curve.....	18
2.3	Supply curve.....	27
2.3.1	The supply schedule and the supply curve.....	27
2.3.2	Shifts of the supply curve.....	29
2.4	Supply, demand, and equilibrium	35
2.4.1	Equilibrium price and quantity.....	36
2.4.2	Disequilibrium price and quantity (shortage and surplus)	37
2.4.3	Market clearing mechanism	39
2.4.4	Changes in supply and demand	40
3	SOCIAL WELFARE ANALYSIS (CONSUMER AND PRODUCER SURPLUS)	46
3.1	Consumer surplus and the demand curve.....	46
3.1.1	Willingness to pay and the demand curve.....	46
3.2	Producer surplus and the supply curve.....	49

3.2.1	Cost and producer surplus	50
3.3	Social welfare	52
4	ELASTICITY	54
4.1	Defining and measuring elasticity	54
4.1.1	Calculating the price elasticity of demand	54
4.2	Interpreting the price elasticity of demand	56
4.2.1	Price elasticity classification	56
4.2.2	Factors determining the price elasticity of demand	59
4.3	Other demand elasticities	60
4.3.1	Income elasticity of demand	60
4.3.2	The cross-price elasticity of demand	61
4.4	The price elasticity of supply	61
4.4.1	Calculating the price elasticity of supply	62
4.4.2	Time as a factor of supply elasticity	63
5.	CONSUMER BEHAVIOUR	64
5.1	Preferences: what the consumer wants	64
5.1.1	Consumers' preferences (indifference curves)	64
5.1.2	Main properties of indifference curves	66
5.1.3	Shape of indifference curves, perfect substitutes and perfect complements	67
5.2	The budget line as a limiting factor	70
5.3	Optimization	71
5.3.1	Optimal choice	71
5.3.2	Change in income	73
5.3.3	Change in price	74
5.3.4	Income and substitution effects	75
5.4	Deriving demand curve	75
6.	THEORY OF FIRM	77
6.1	The production function	77
6.1.1	Inputs and output	77
6.1.2	Marginal product	79
6.1.3	Average product	81
6.2	Isoquant	83
6.2.1	Properties of isoquants	84

6.2.2 Shapes of isoquants	84
6.3 Isocost.....	86
6.4 Optimization.....	87
6.5 Cost and cost curves.....	89
7 PERFECT COMPETITION.....	99
7.1 Perfect competition	99
7.2 Profit.....	100
7.2.1 When is production profitable?	103
7.2.2 The short-run production decision	105
7.3 The industry supply curve	107
7.3.1 The short-run industry supply curve	107
7.3.2 The long-run industry supply curve	108
8 MARKET POWER (MONOPOLY, OLIGOPOLY, AND MONOPOLISTIC COMPETITION)	110
8.1 Types of market structure.....	110
8.2 Monopoly.....	111
8.2.1 Monopoly: properties	111
8.2.2 Profit maximization of a monopolist.....	113
8.3 Imperfect competition	115
8.3.1 Oligopoly	115
8.3.2 Monopolistic competition	116
9 BIBLIOGRAPHY	117