Grade 12 Economics: Microeconomics & Market Structures Study Guide

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1. Demand & Supply

Law of Demand

When price rises, quantity demanded falls (ceteris paribus). Demand curve slopes downward.

Factors Shifting Demand

- Income changes (normal goods: demand rises with income)
- Price of related goods: substitutes (higher price of substitute -> more demand) or complements
- Consumer preferences/tastes
- Population size and structure
- Consumer expectations (expecting future price rise -> buy more now)

Law of Supply

When price rises, quantity supplied rises (ceteris paribus). Supply curve slopes upward.

Factors Shifting Supply

- Input/factor costs (higher wages or raw material costs -> less supply)
- Technology improvements -> more supply
- Number of producers
- Government subsidies (increase supply) or taxes (decrease supply)
- Natural conditions (weather affects agricultural supply)

Price elasticity of demand:	`PED = % change in Qd / % change in Price`
Elastic (PED > 1):	`Quantity very responsive to price changes`
Inelastic (PED < 1):	`Quantity not very responsive to price changes`
Unitary (PED = 1):	`% change in Qd equals % change in price`

2. Market Structures

Perfect Competition

- Many buyers and sellers; homogeneous products; price takers
- Free entry and exit; perfect information
- Long-run: normal profit only (economic profit = 0)

Monopoly

- Single seller; unique product; price maker (sets price)
- High barriers to entry; imperfect information
- Government may regulate to prevent exploitation
- Can earn supernormal (economic) profit in long run

Oligopoly

- Few large firms dominate; products may be homogeneous or differentiated
- Interdependence: one firm's decisions affect others (game theory)
- Price rigidity (kinked demand curve)
- Collusion (e.g. cartel) is illegal under Competition Act

Monopolistic Competition

- Many sellers; differentiated products; some price-making ability

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Non-price competition (branding, quality, advertising)
- Low barriers to entry; normal profit in long run

3. Market Failure

- Public goods: non-excludable, non-rival (e.g. street lights, national defence)
- Externalities: costs/benefits to third parties not in market transaction
- Negative externality: pollution; positive externality: education
- Information asymmetry: one party has more information than the other
- Government intervention: taxes (Pigouvian), subsidies, regulation, price controls

TIP When answering questions on market structures, ALWAYS compare to perfect competition as the benchmark. Firms in monopoly/oligopoly restrict output to raise price above marginal cost -> welfare loss (deadweight loss).