

# Microeconomics

---

# Markets

- Any place or forum in which goods or services are exchanged

amazon.com<sup>®</sup>



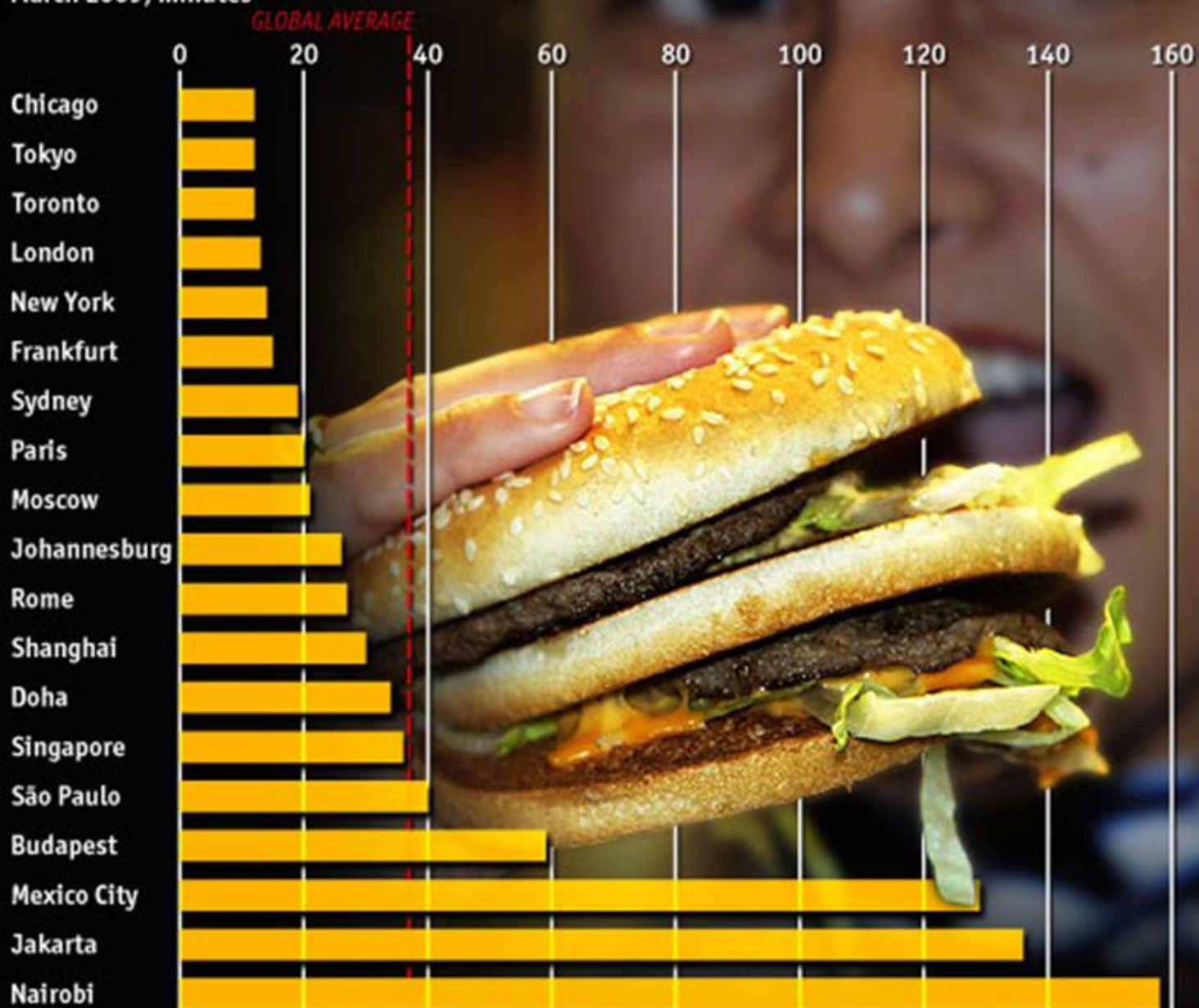
# Price

- The monetary value of a product
- Changes with supply and demand



# Working time needed to buy a Big Mac\*

March 2009, minutes



Source: UBS

\*For worker earning average net wage weighted across 14 professions

# Inflation

- The rise in price; the fall of the value of a particular monetary unit
- Usually on a national level
- Usually happens over time and is ideally slight or stable rise
- Runaway inflation can lead to hyperinflation

# Hyperinflation

- Extreme, rapid, out of control inflation
- Causes money to be revalued, higher denomination of bills, extremely high prices and worthless money



**HYPERINFLATION**

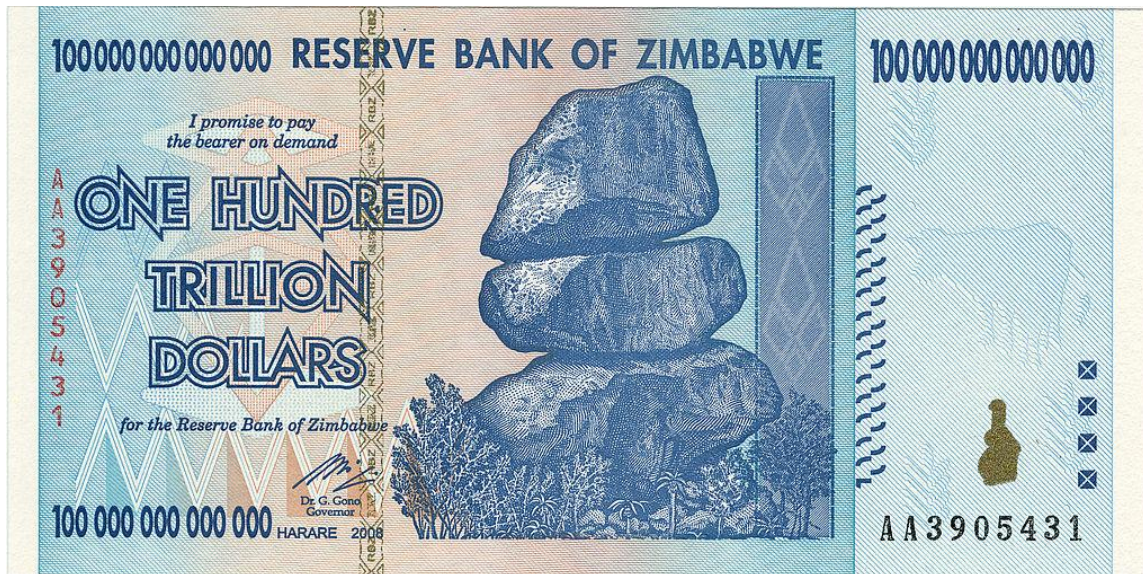
So we can make money forts!

# Hyperinflation

- 4. Germany 1923 – Prices doubled every 3.7 days and inflation was 29,500%. This economic crisis created an environment where the Nazis could gain in popularity.
- 3. Yugoslavia 1994 – Inflation was 313,000,000%, prices doubled every 34 hours
- 2. Zimbabwe – prices doubled every 24.7 hours, 79,000,000,000+%, stopped using official currency and used S. African rand and US dollars. Bread was \$Z35 million

# Hyperinflation

- Hungary 1945 – Inflation was 13,600,000,000,000,000 (quadrillion) % Prices doubled every 15 hours, largest note was the 1 Quintillion bill (18 zeros)







# Supply and demand

- A central principle of economics
- Determines prices and what is sold
- Demand for a product encourages producers to make the desired good
- If there is more demand than supply, prices rise
- More supply than demand, prices fall
- Market prices reflect equilibrium



©2006  
TREVOR *McQuinn*

# Equilibrium

- When the amount demanded equals the amount supplied
- This is when the market works best.

# Competition

- Attempt by businesses to get your money at the expense of other businesses
- Between similar products
  - Coke v Pepsi – direct competition
- Products may not seem similar
  - NFL and Hollywood – indirect competition

## Non Sequitur



# Market Structures

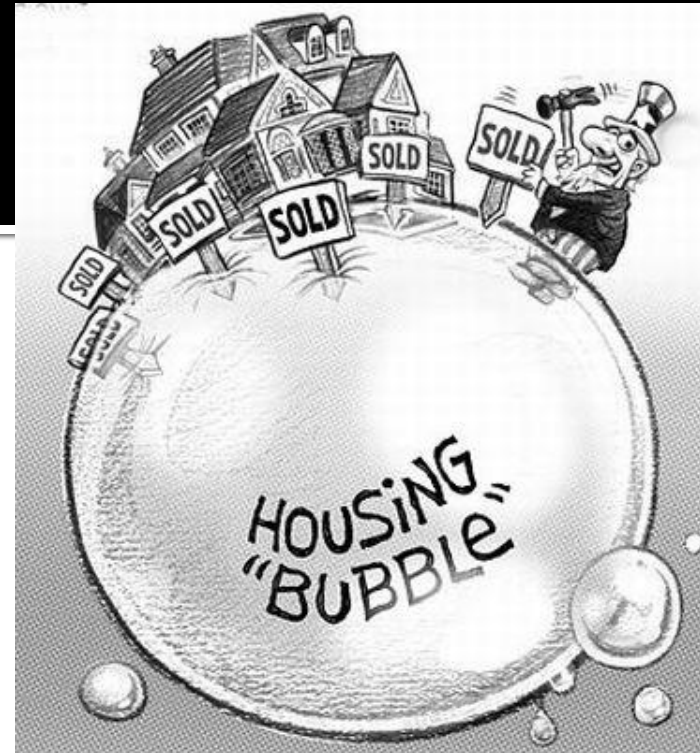
- Characteristics of a market
  - Number of firms (companies)
  - Product being supplied
  - Ease or difficulty of entering the market for new firms

# Product differentiation

- Used to attract customers in a monopolistic competition
  - **Physical differences** – one firm uses metal instead of plastic, chocolate or vanilla
  - **Perceived differences** – goods are the same but thought to be different by the buyer, packaging, color, brand names
  - **Support services** – express check out, friendly service, Kindle's mayday button

# Market failure

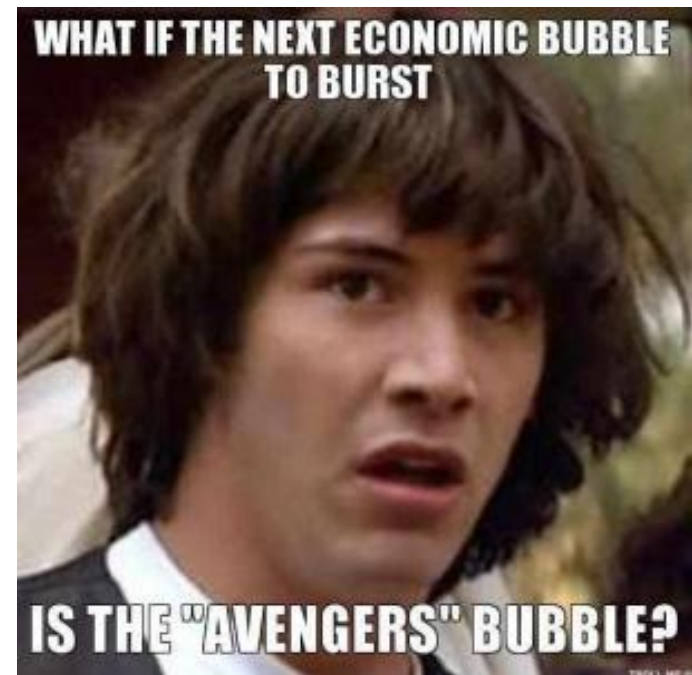
- Occurs in an industry when the quantity demanded by consumers does not equal the supply, preventing equilibrium
- Often has social costs
  - Climate change, pollution, traffic congestion, congestion pricing (higher rates at peak times), health care paid by taxpayers, unemployment caused by free trade, etc.





# Market failure

- Historical
  - Tulip Mania, South Seas Company
- Recent- Housing, Dotcom bubble, commercial real estate, stock market, investment banks, newspapers
- Product failure
  - New Coke, Arch Deluxe, Zune, Baby Wee Wee, Colgate Kitchen Entrees, Ayds Appetite Suppressant



# Market failures

- Future?
  - Cable Industry
  - Corporate welfare
  - Health insurance
  - Pharmaceutical industry
  - Exploding Ford Pinto (not future)
  - Planned obsolescence
  - Path Dependency (Inertia)
    - Economy maintains path even though better paths exist; vhs video system, gasoline engine, qwerty



Pizza Hut

EASTPAK

BUILT TO RESIST



I'm lovin' It.



FUJITSU



**I WANT YOU**  
**To buy crap!!!**



The faces of Capitalism



# Marginal Thinking

- Making decisions based on changes in resources
- Compares the benefit of an activity to the cost
- Leads to optimal resource allocation and efficiency
- Example:
  - If you exercise 5x a week and want to add a 6<sup>th</sup> day, compare the calories burned, endurance, and muscle gained to the cost of increased injury, less energy for other activities, lost sleep from waking earlier...