Economics

Chapter 3

Study Guide

**TERMS TO KNOW**

Demand

Demand schedule

Law of demand

Diminishing marginal utility

Income effect

Substitution effect

Demand curve

Determinants of demand

Normal goods

Inferior goods

Substitute good

Change in demand

Change in quantity demanded

Supply

Supply schedule

Law of supply

Supply curve

Determinants of supply

Change in supply

Change in quantity supplied

Equilibrium price

Equilibrium quantity

Surplus

Shortage

Productive efficiency

Allocative efficiency

Price ceiling

Price floor

**BE ABLE TO:**

* Explain the economic meaning of markets
* Define demand and state the law of demand
* Give three explanations for the inverse relationship between price and quantity demanded
* Graph the demand curve when you are gien a demand schedule
* Explain the difference between individual demand and market demand
* List the five major determinants of demand and explain how each one shifts the demand curve
* Explain how changes in income affect the demand for normal goods and inferior goods
* Explain how changes in the prices of a substitute good or a complementary good affect the demand for a product
* Distinguish between change in demand and change in the quantity demanded
* Define supply and state the law of supply
* Graph the supply curve when given a supply schedule
* Explain the difference between individual supply and market supply
* List the major determinants of supply and explain how each shifts the supply curve
* Distinguish between changes in supply and changes in the quantity supplied
* Describe how the equilibrium price and quantity are determined in a competitive market
* Define surplus and shortage
* Determine, when you are given the demand for and the supply of a good, the equilibrium price and the equilibrium quantity
* Explain the meaning of the rationing function of prices
* Distinguish between productive efficiency and allocative efficiency
* Predict the effects of changes in demand on equilibrium price and quantity
* Predict the effects of changes in supply on equilibrium price and quantity
* Predict the effects of changes in both demand and supply on equilibrium price and quantity
* Explain the economic effects of a government-set price ceiling on product price and quantity in a competitive market
* Describe the economic consequences of a government-set price floor on product price and quantity