

Opportunity Cost

The loss of other potential benefits when undertaking a specific business decision.

Example

JACOBBLAND

15 CARS COST 5 PLANES
1 CAR COST 1/3 PLANE
1 PLANE COST 3 CARS

PAULASTAN

16 CARS COST 16 PLANES
1 CAR COST 1 PLANE

Paulastan is at an absolute advantage for both cars and planes since it can produce a larger quantity of both.

Jacobland is at a comparative advantage for producing cars because they give up only 1/3 of a plane per car, whereas Paulastan gives up 1 whole plane per car.

Law of Demand

Price goes down, quantity demanded increases. Price goes up, quantity demanded decreases.

Why is the demand curve downward sloping?

Substitution Effect	Income Effect	Law of Diminishing Marginal Utility
Changes in price motivate consumers to buy cheaper substitute products.	When price goes down, people buy more of a product because their purchasing power has increased; vice versa.	As you continue to consume a given product, you will have less satisfaction the more you have.

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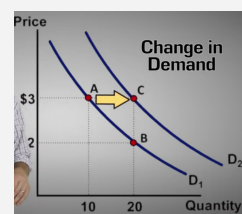
Demand Curve Decrease = Left



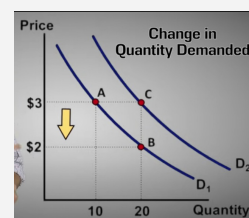
5 Shifters of Demand

1. Tastes/Preferences
2. Number of Consumers
3. Price of Related Goods
4. Income
5. Expectations

Change in Demand = Rightward Shift



Change in Quantity Demanded = Downward



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Law of Supply

There is a direct relationship between price and quantity supplied, so if price goes up for milk, quantity produced will increase.

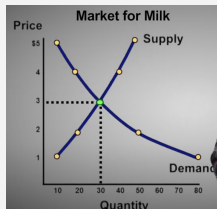
5 Shifters of Supply

1. Price of Resources
2. Number of Producers
3. Technolog
4. Taxes and Subsidies
5. Expectations

Mnemonic

Supply goes to the sky, demand to the dirt.

Equilibrium



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