

# Economic Principles



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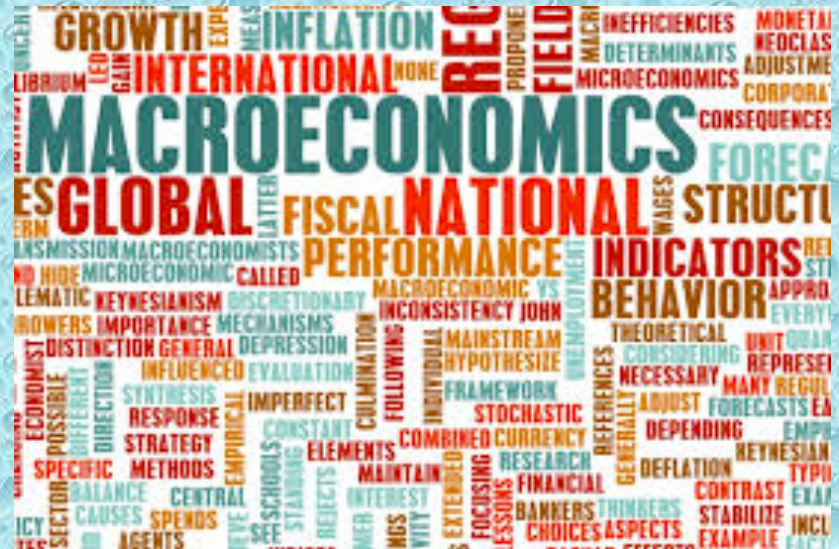
Novi Paramita Dewi

# Economic Principles

## 1) Microeconomics



## 2) Macroeconomics



# Micro-economics

A major field in economics that analyzes how production factors are efficiently used so that public wealth can be maximized.

Three issues are discussed: 1) Goods and services that are needed and must be produced; 2) How such goods and services are produced; and 3) By whom goods and services are consumed.

# Macro-economics

- It analyzes economic activities from the aggregate perspective. When it talks about a buyer or a consumer, for example, it analyzes the whole consumers in the economy.
- Four components are considered: households, the government, corporations, and international trades.
- Many public issues are to be discussed: unemployment, inflation, government spending, monetary issues, etc.

# References

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# Demand for Blocknotes

Condition	Price (Rupiah)	Demand (unit)
A	5,000	200
B	4,000	400
C	3,000	600
D	2,000	900
E	1,000	1,300

# Law of Demand

Law of Demand states that the quantity of a good demanded decreases when the price of this good increases.

➤ Empirical regularity

**The demand curve: *shifts*** when factors other than own price change...

- If the change increases the willingness of consumers to acquire the good, the demand curve shifts **right**
- If the change decreases the willingness of consumers to acquire the good, the demand curve shifts **left**

# Law of supply

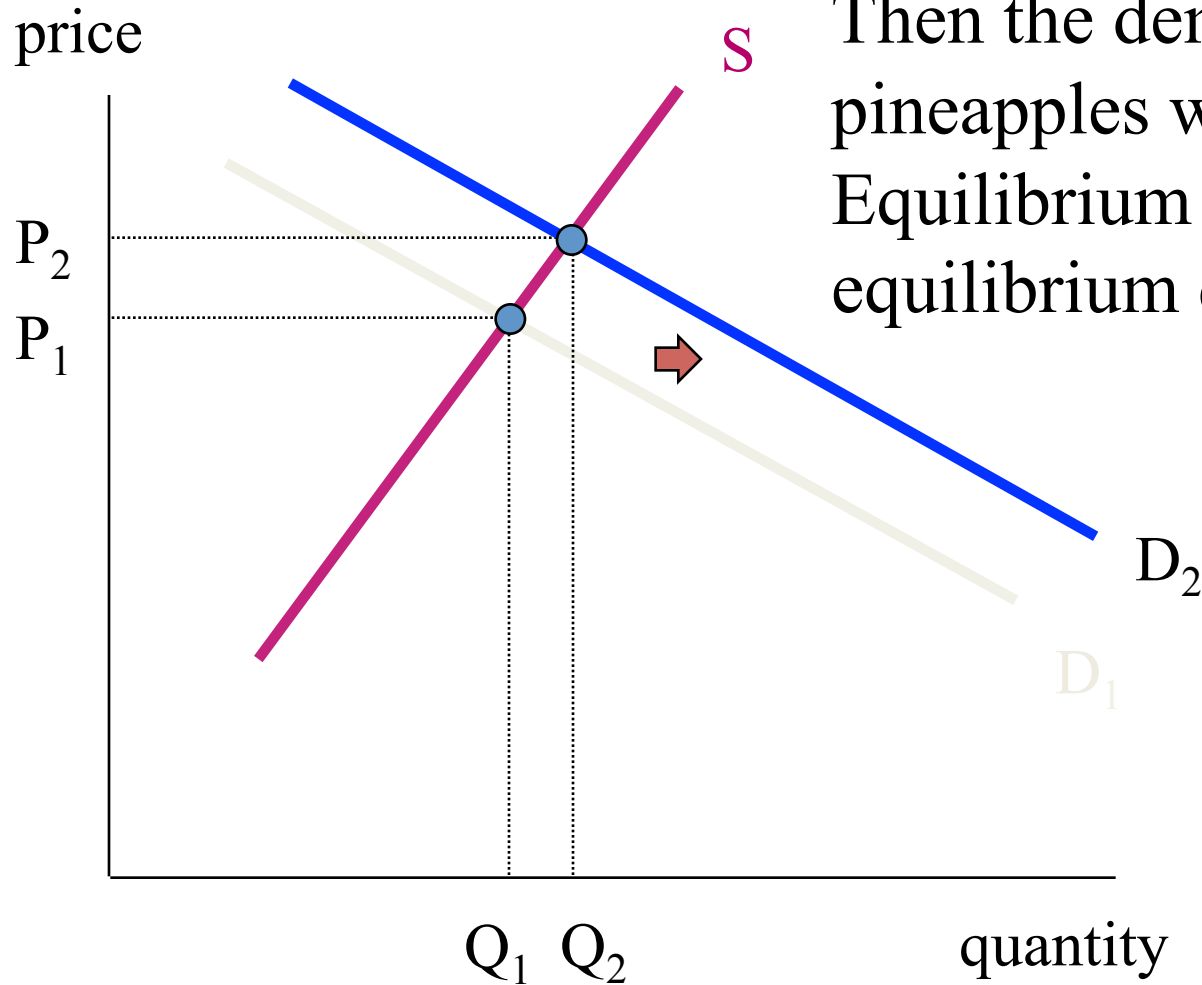
- The higher the price of a good, the larger the quantity firms will be willing to produce and sell.
- So the supply curve slopes upward from left to right.



What is the difference between  
***supply & quantity supplied?***

- ***Supply*** is the entire curve that shows the relation between price & quantity provided.
- ***Quantity supplied*** is one particular quantity on the supply curve.

Suppose there is an increase in the price of mangoes (a substitute for pineapples). Then the demand for pineapples will increase. Equilibrium price increases & equilibrium quantity increases.



# Basic Equations: Demand & Supply

$$D = a - bP$$

$$S = c + dP$$


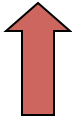
In which:

D: quantity of demand

S: quantity of supply

P: price

a, b, c, d: constants

P	$Q_D$	$Q_S$	condition	price pressure
0.25	6	8	excess supply	
0.22	7	7	$Q_D = Q_S$	0
0.20	8	6	excess demand	

Equilibrium occurs where the quantity demanded equals the quantity supplied, which is at the intersection of the supply and demand curves.