**Eco summary**

*Section 1. Buying means choosing.*

***Suppliers*** want so sell products at the market. ***Demanders*** want to buy products at the market.

The number of products that consumers want to buy at a certain price is called the ***quantity demanded***. The ***demand curve*** is a graph that shows the relationship between the price of a product and the quantity demanded.

The demand curve has a negative slope:

* If products become more expensive, consumers will buy less products
* If products cheaper, consumers will buy more products

If you want to draw a demand curve you need a demand equation. For example, the demand equation of coffee machines could be:

Qd = -4P + 240

* P is the price of coffee machines in euros
* Qd is the quantity demanded of coffee machines.

If you want to draw a complete demand curve you need to end points.

**Step 1:** Calculate the quantity demanded when the price is €0

**Step 2:** Calculate the price when the quantity demanded is 0

In the graph of a demand curve the quantity demanded is measured along the horizontal axis and the price along the vertical axis.

When the price of a coffee machine increases from €40 to €50, the quantity demand drops from 80 to 40 coffee machines. The price change causes a movement along the demand curve, however the location of the curve does not change.

***Income*** is the amount of money someone receives is a certain period.

***Purchasing power*** shows the number of products that can be bought with a certain income.

It is also possible that the demand curve of coffee machines itself shifts. The demand curve of coffee machines shifts to the right if:

* The incomes of consumers increase
* The preference of consumers increases
* The number of consumers increases
* The price of coffee decreases/ the price of tea increases

*Section 2. Profit is profit.*

An entrepreneur is someone who starts his or her own business. An entrepreneur is someone who owns his or her own company. The main goal is to make a profit.

*To calculate the profit, you need to know the total revenues and the total costs of a company.*

TP = TR - TC

Total Profit = Total Revenue - Total Costs

Total costs can be split up into 2 parts:

1. **Fixed costs**

Fixed costs do not depend on the number of produced products. For example; *interest on a mortgage loan, rent for the premises, insurance premium, wages of permanent staff.*

1. **Variable costs**

Variable costs depend on the number of produced products. For example; *costs of raw material, wages of temporary staff.*

The number of products that companies want to sell at a certain price is called the ***quantity supplied***. The ***supply curve*** is a graph that shows the relationship between the price of a product and the quantity supplied.

The supply curve has a positive slope:

* If products become more expensive, companies will supply more products
* If products become cheaper, companies will supply less products.

When the price of a coffee machine increases from €40 to €50, the quantity supplied increases from 80 to 130 coffee machines. The price change causes a movement along the supply curve; however, the location of the curve does not change.

It is also possible that the supply curve of coffee machines itself shifts.

The supply curve of coffee machines shifts to the left if:

* Production costs/wages increases (because the same quantity can only be offered at a high price)

The supply curve of coffee machines shifts to the right if:

* Production techniques improve (because you can offer more products at the same price)

*Section 3. going, going, gone!*

If you want to draw a complete supply curve you need a ‘starting point’ and ‘another’ point.

**Step 1:** Calculate the price when the quantity supplied is 0

**Step 2:** Calculate the quantity supplied when the price is much higher than is step 1.

At the point where the demand curve and the supply curve intersect, you can find the market equilibrium. So, in the market equilibrium demand equals supply.

*How to calculate the equilibrium price (Pe) of coffee machines?*

Quantity supplied = Quantity demanded

*How to calculate the equilibrium quantity (Qe) of coffee machines?*

Fill in the equilibrium price in the formula

*How the market mechanism solves a situation of excess demand:*

***Excess demand*** means that at a given price quantity demanded is higher than quantity supplied 🡪 Buyers are bidding up the price to be sure to obtain the product 🡪 Higher prices cause decreasing demand and increasing supply 🡪 This process continues till demand equals supply and the price has reached the equilibrium

*How the market mechanism solves a situation of excess supply:*

***Excess supply*** means that a given price quantity supplied is higher than the quantity demanded 🡪 Sellers are lowering their price to be sure to sell the product 🡪 Lowers prices cause increasing demand and decreasing supply 🡪 This process continues till demand equals supply and the price has reached the equilibrium price

*Section 4. Jack-of-all-trades*

In a ***monopoly*** the market is controlled by only one company.

In an ***oligopoly*** the market is controlled by a few large companies. So, these companies have large market shares.

*How to calculate a market share:*

Sales revenues : Sales revenues of total market x 100

In an oligopoly is always the risk of a price war between the competitors. In a ***price war*** suppliers introduce price decreases in response to the price decreases of a competitor, resulting in a strong drop in prices. In the end, a price war leads to lower profits for both competitors.

That’s why suppliers in an oligopolistic market sometimes decide to collude in a cartel even though it’s illegal. In a cartel suppliers agree to restrict competition in order to maintain or increase profits.

In a market with ***monopolistic competition*** there are many small suppliers that sell heterogenous products. A ***heterogenous product*** is different from the other products on the market.

In a market with ***perfect competition*** there are many small suppliers that sell homogeneous products. ***Homogeneous product*** is equal to the other products on the market.