

Important diagrams to remember

Chapter 2 Competitive markets: demand and supply

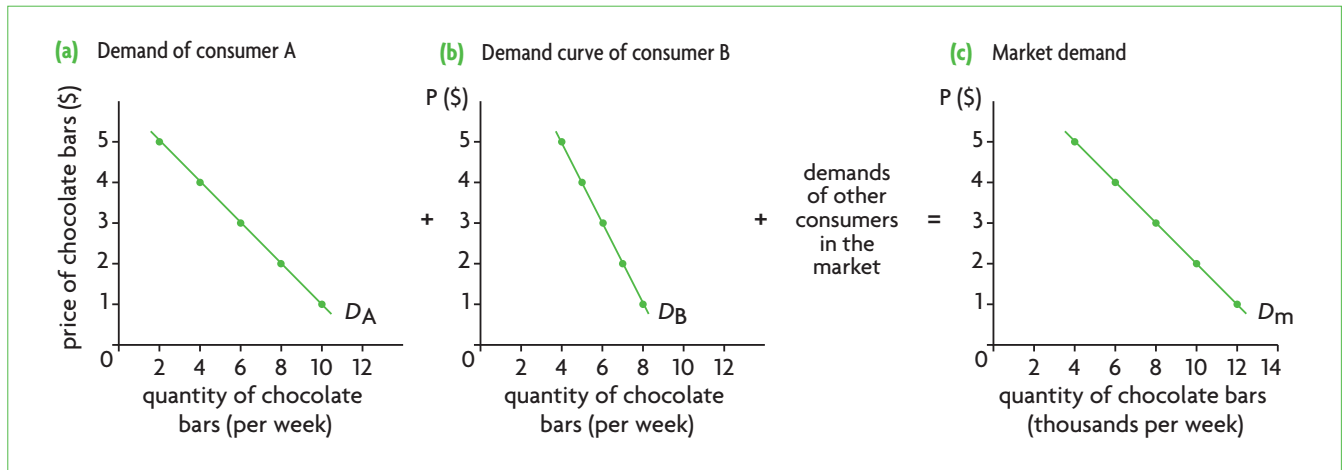


Figure 2.2 Market demand as the sum of individual demands

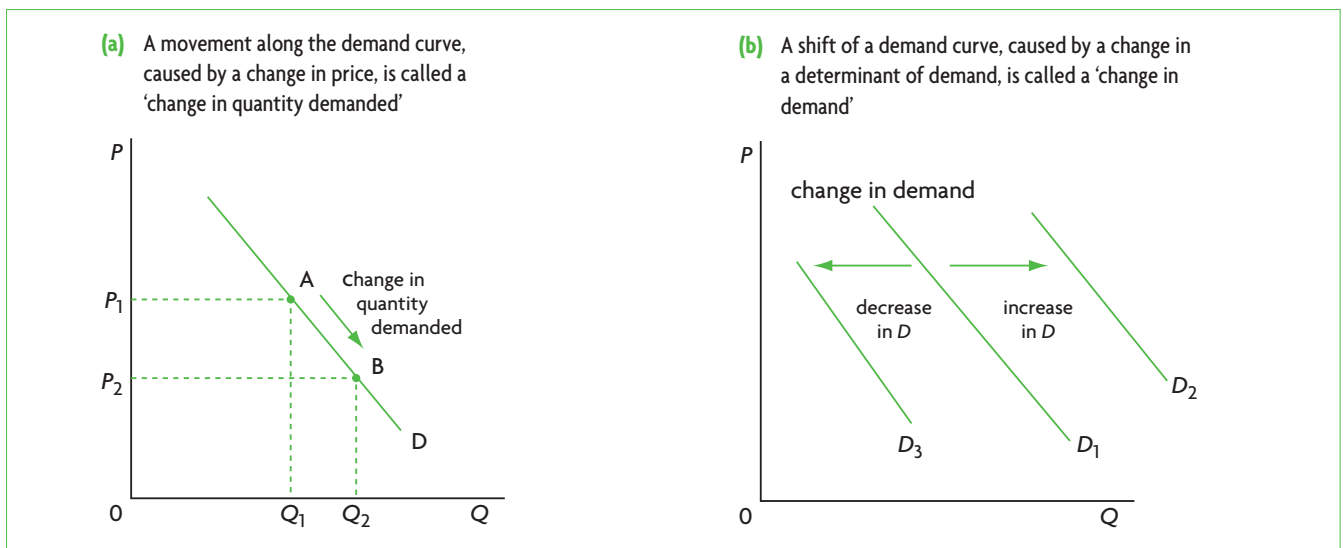


Figure 2.4 Movements along and shifts of the demand curve

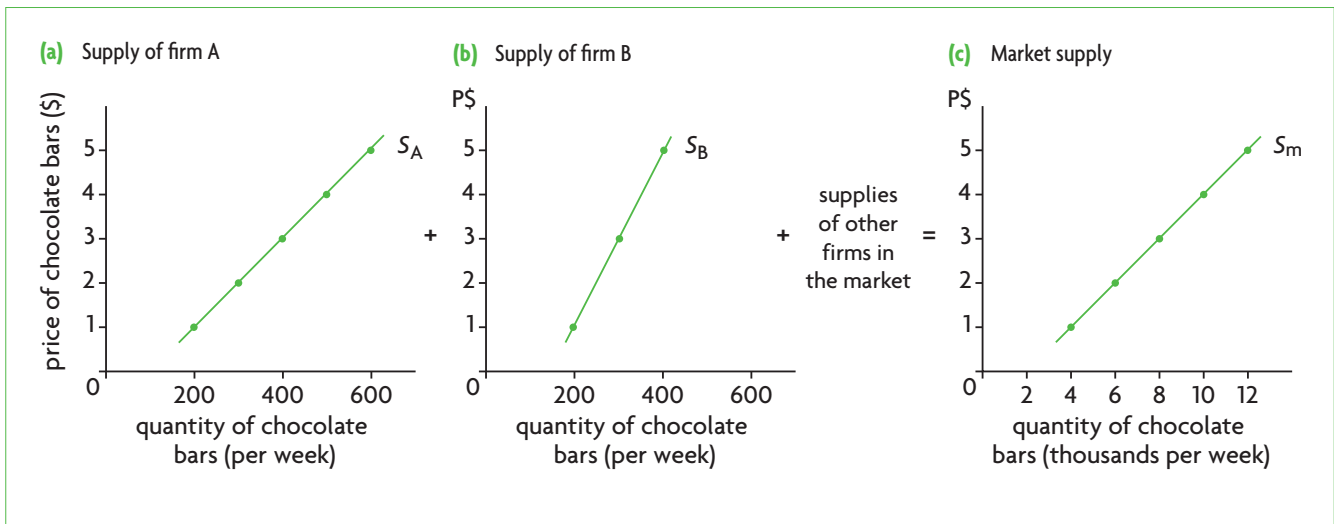


Figure 2.6 Market supply as the sum of individual supplies

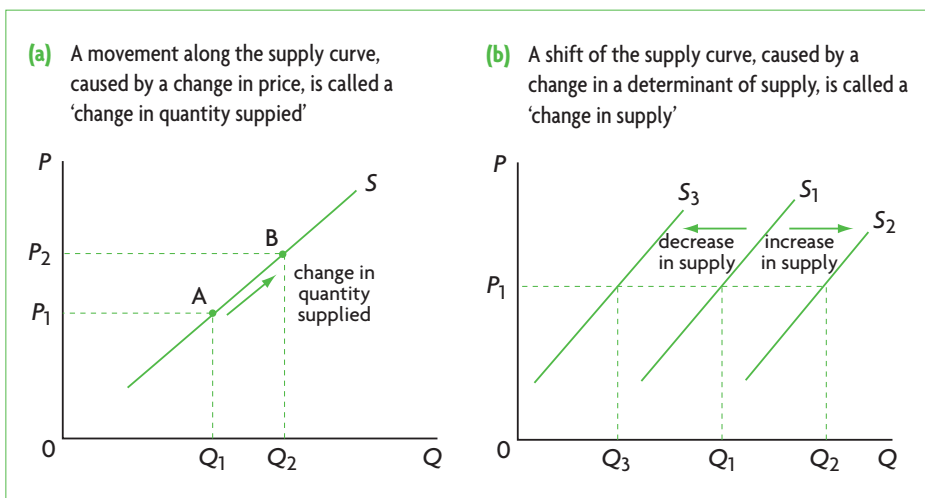


Figure 2.8 Movements along and shifts of the supply curve

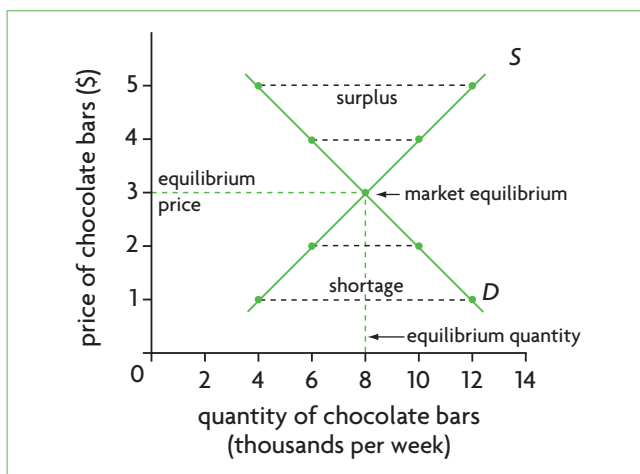


Figure 2.9 Market equilibrium

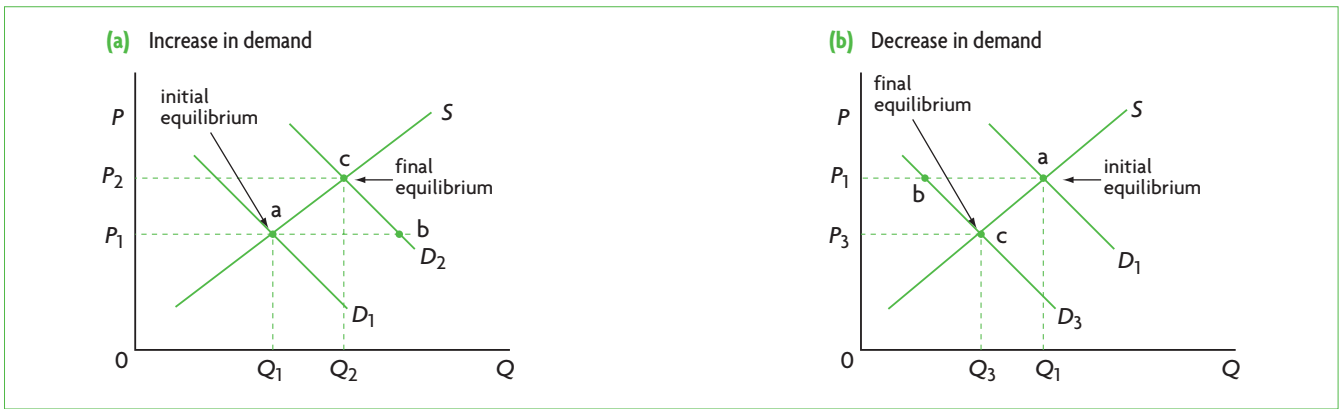


Figure 2.10 Changes in demand and the new equilibrium price and quantity

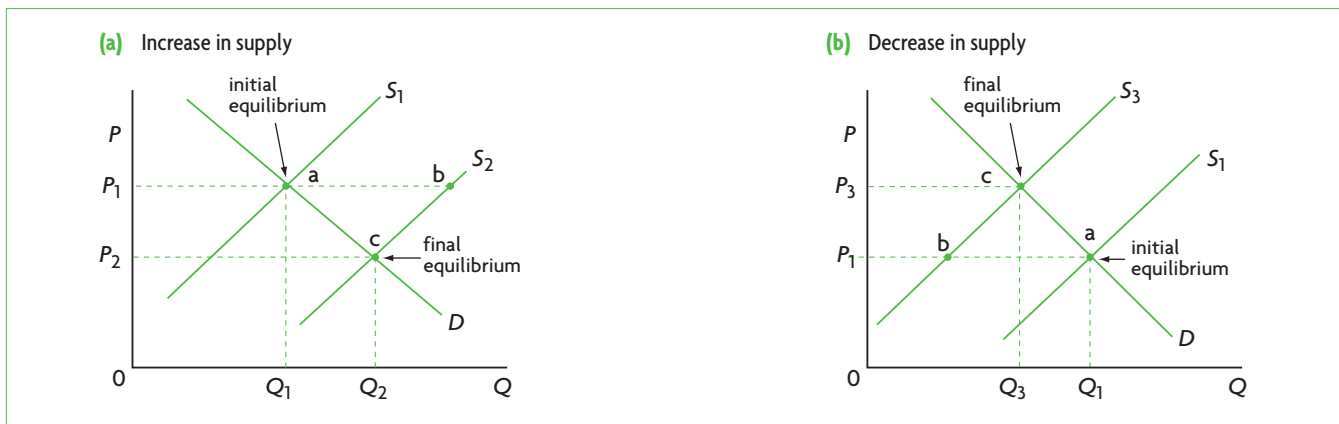


Figure 2.11 Changes in supply and the new equilibrium price and quantity

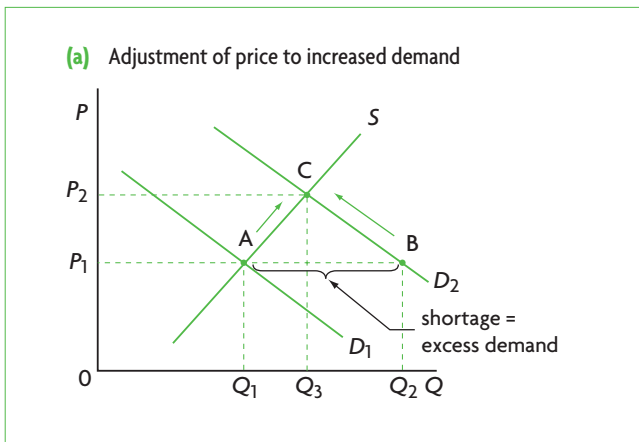


Figure 2.16 Price as a signal and incentive

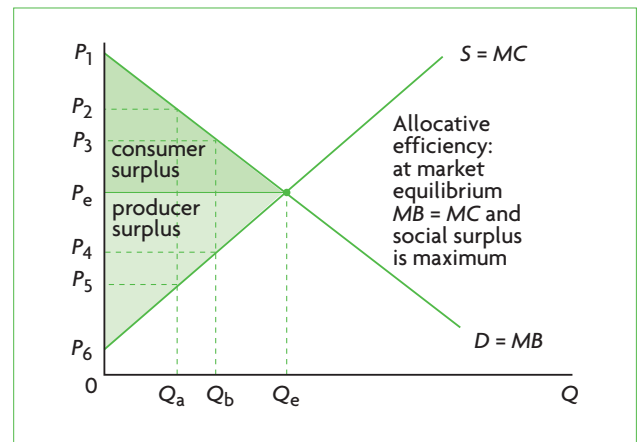


Figure 2.17 Consumer and producer surplus in a competitive market

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Higher level topic

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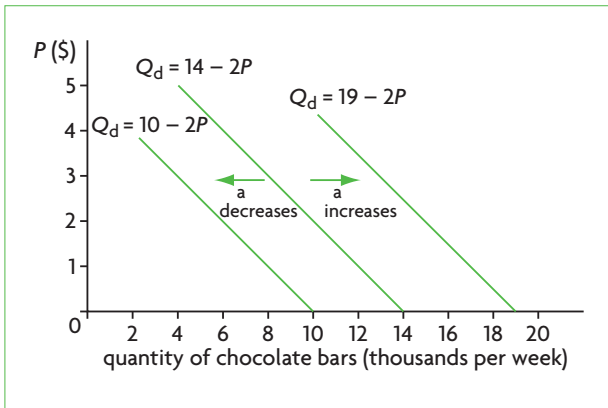


Figure 2.12 Shifts of the demand curve (changes in a in the function $Q_d = a - bP$)

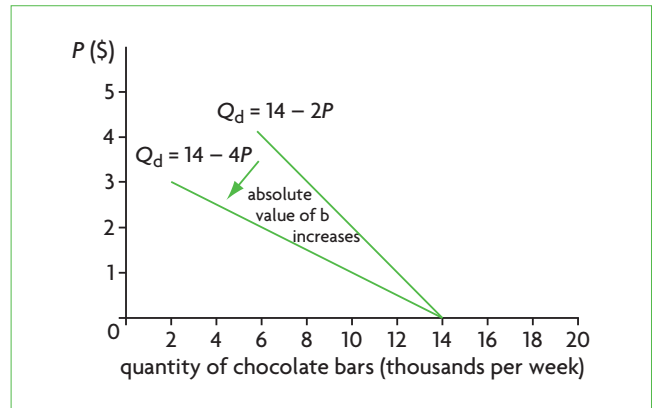


Figure 2.13 Changing the slope of the demand curve (changes in b in the function $Q_d = a - bP$)

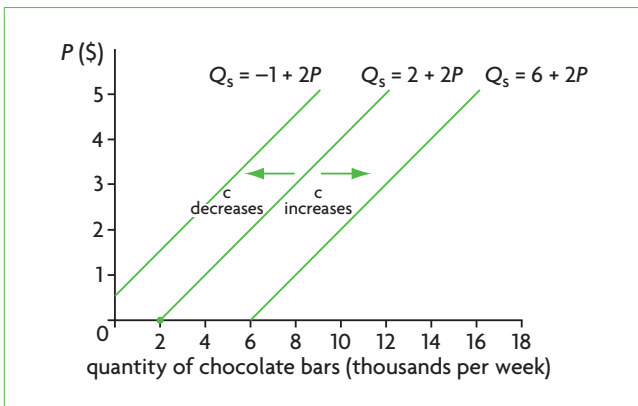


Figure 2.14 Shifts of the supply curve (changes in c in the supply function $Q_s = c + dP$)

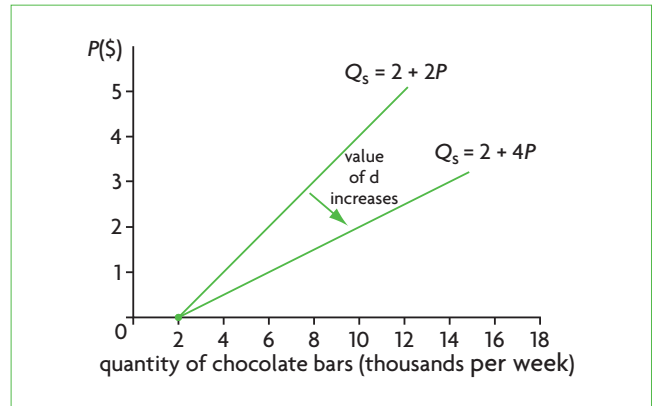


Figure 2.15 Changing the slope of the supply curve (changes in d in the function $Q_s = c + dP$)

Chapter 3 Elasticities

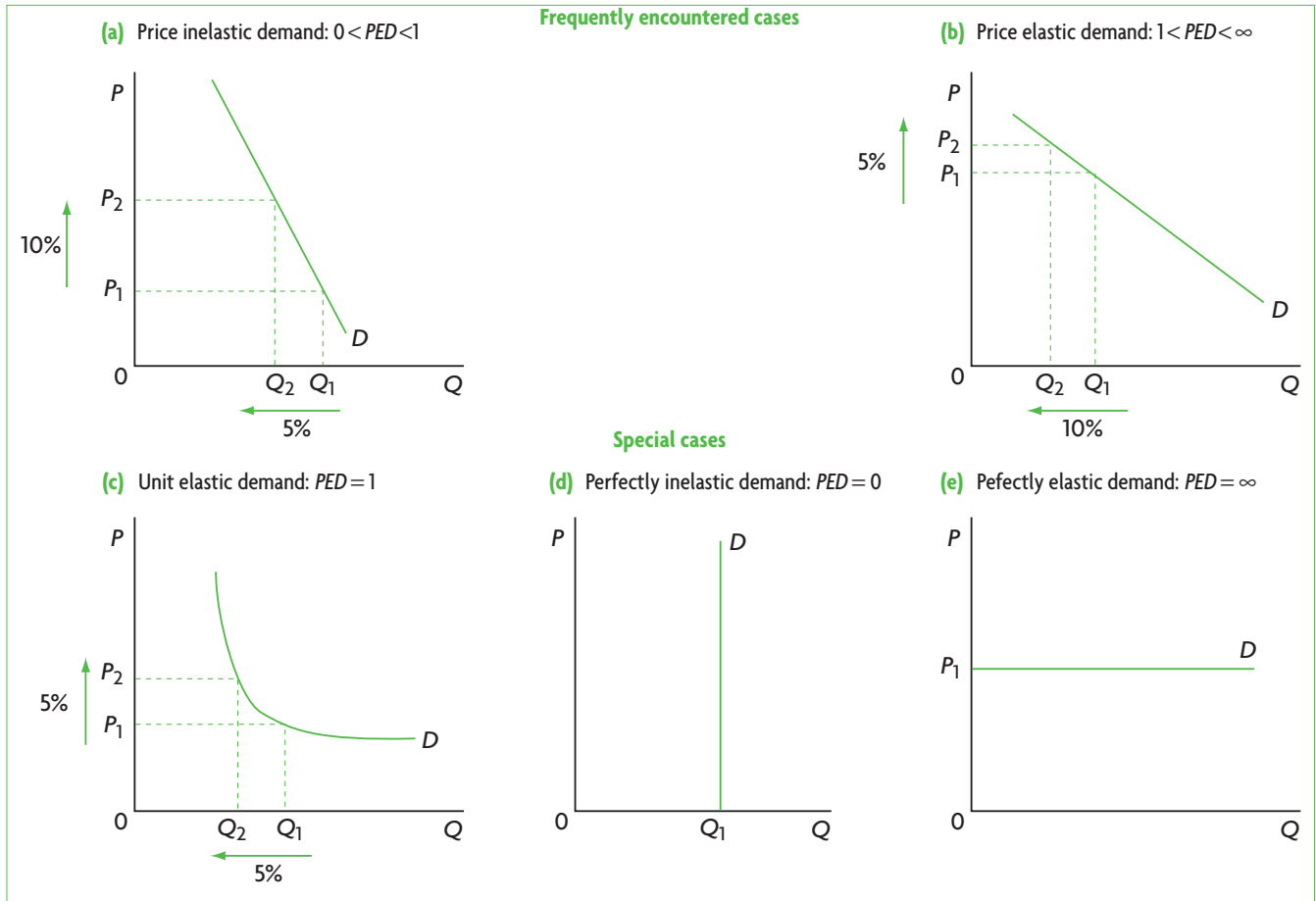


Figure 3.1 Demand curves and PED

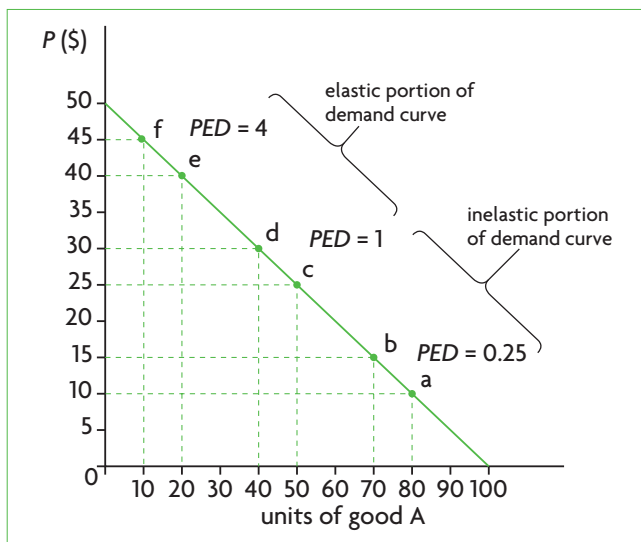


Figure 3.2 Variability of PED along a straight-line demand curve

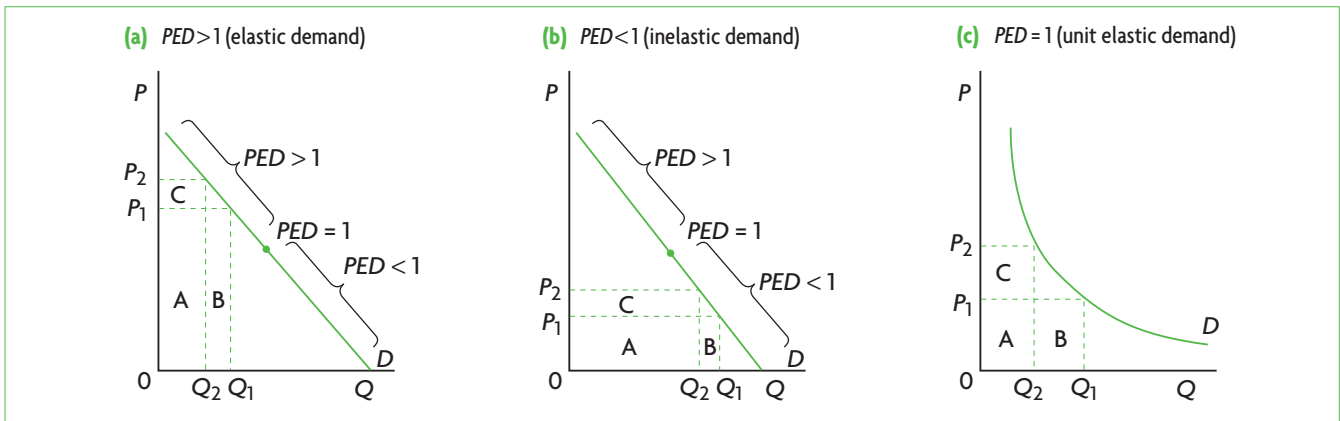


Figure 3.5 PED and total revenue

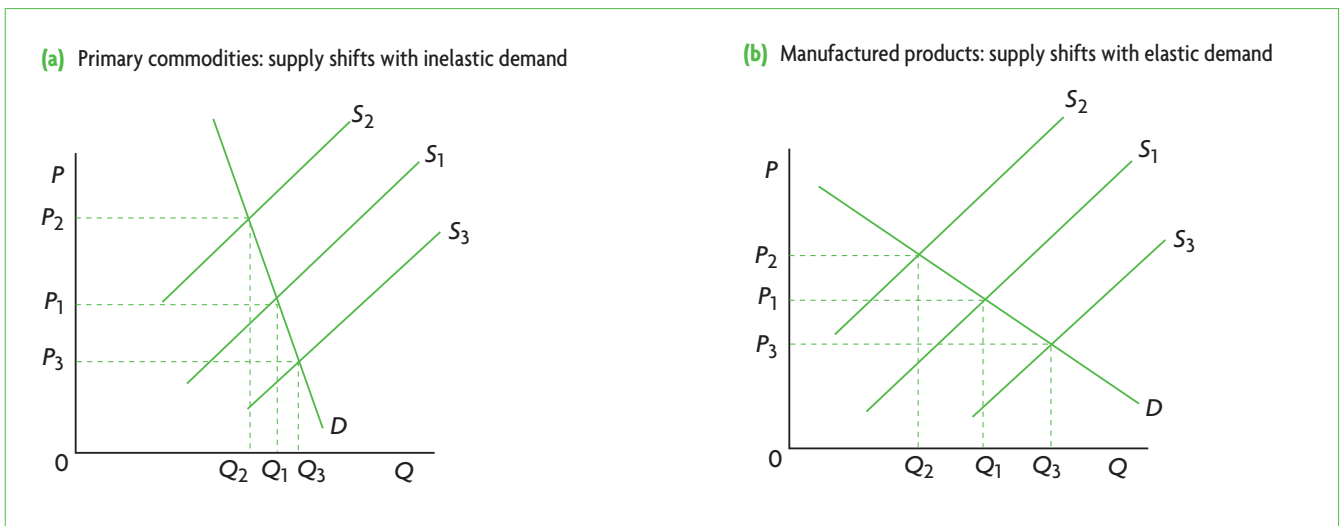


Figure 3.6 Price fluctuations are larger for primary commodities because of low PED

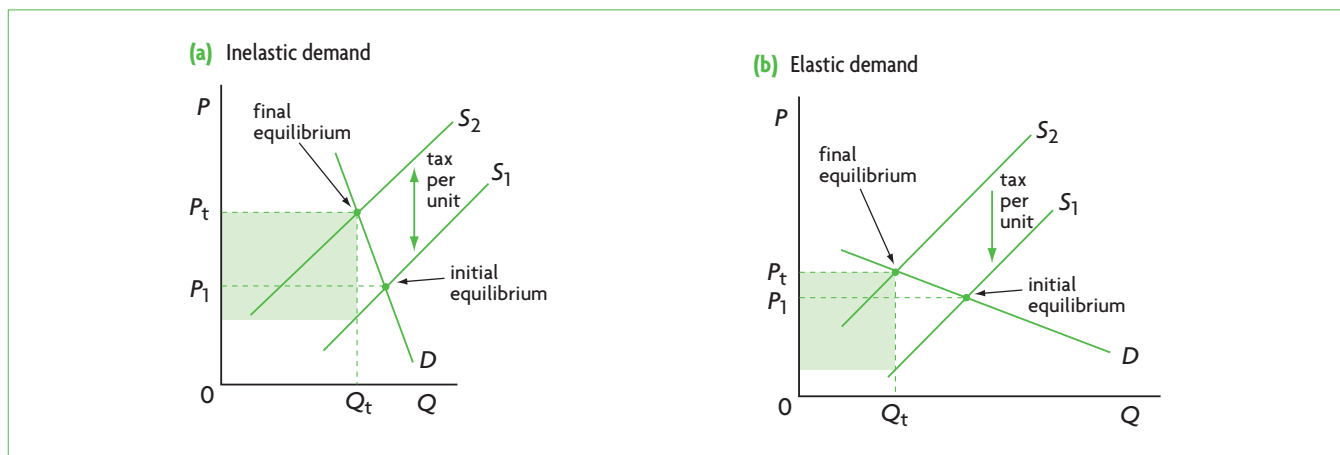


Figure 3.7 PED, indirect taxes and government tax revenue

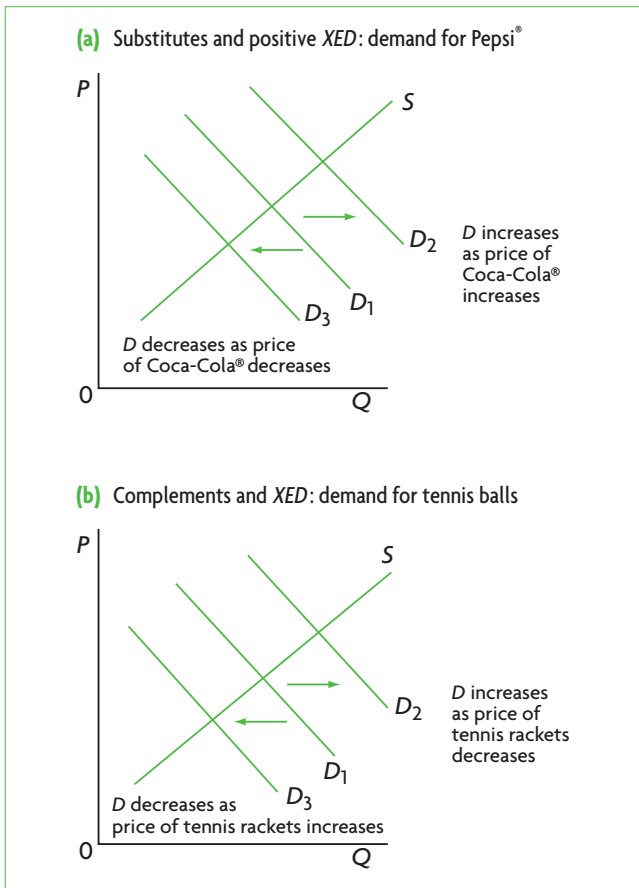


Figure 3.8 Cross-price elasticities

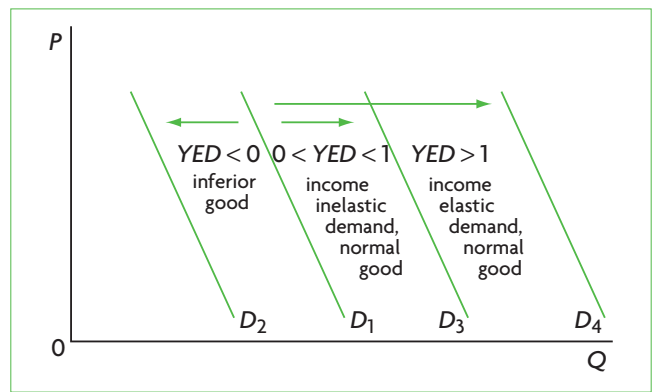


Figure 3.9 Demand curve shifts in response to increases in income for different YEDs

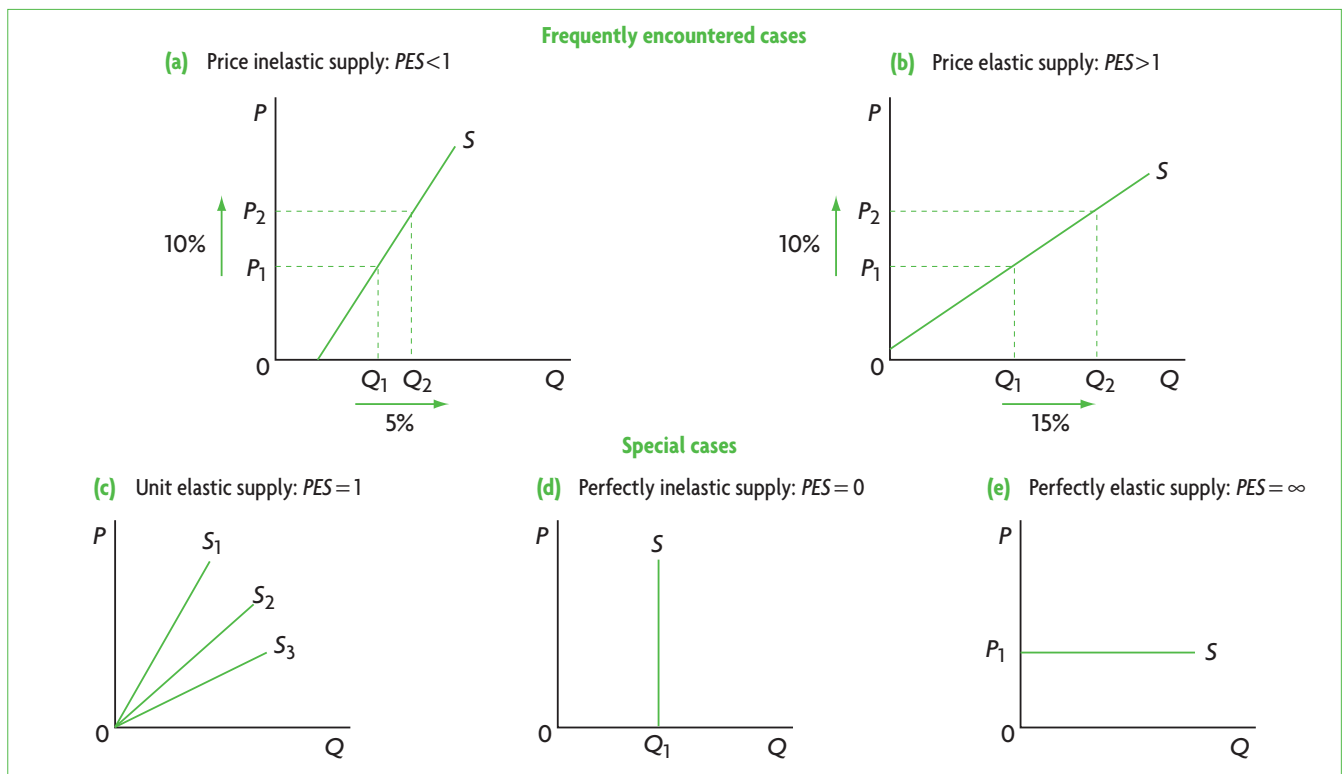


Figure 3.11 Supply curves and PES

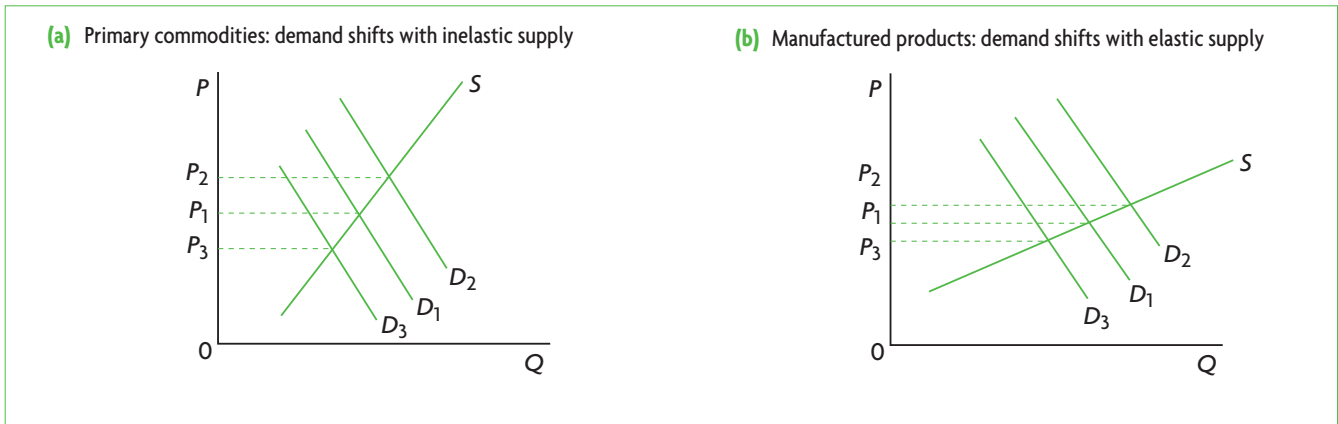


Figure 3.13 Price fluctuations are larger for primary commodities because of low *PES*

Chapter 4 Government intervention

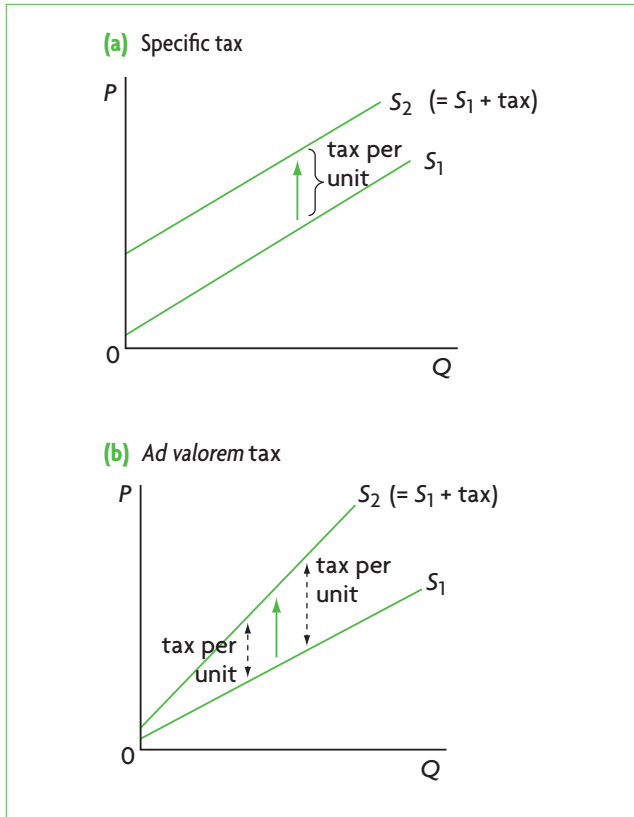


Figure 4.1 Supply curve shifts due to indirect (excise) taxes

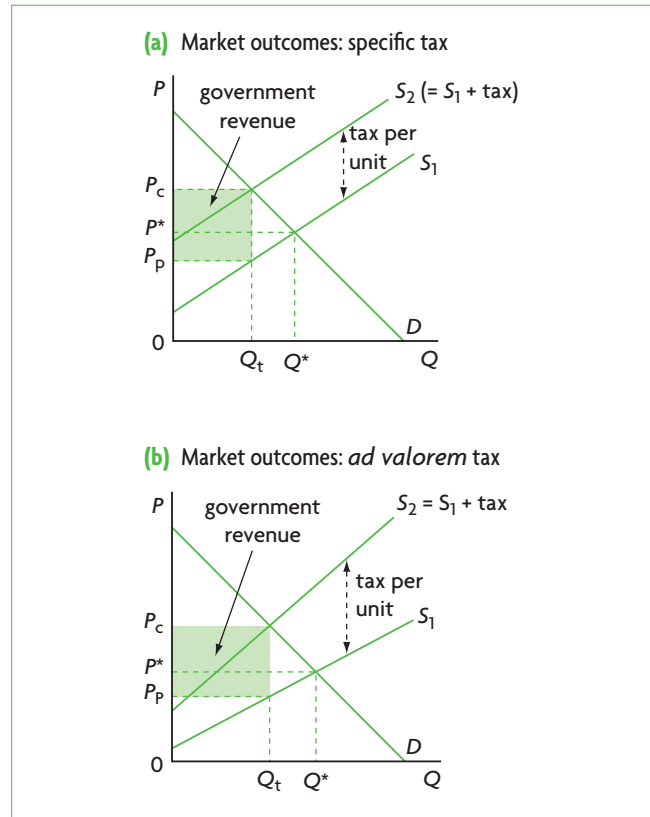


Figure 4.2 Impacts of specific and *ad valorem* taxes on market outcomes

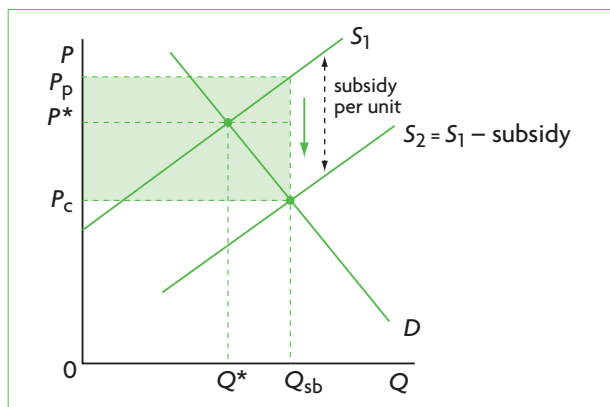


Figure 4.8 Impacts of subsidies on market outcomes

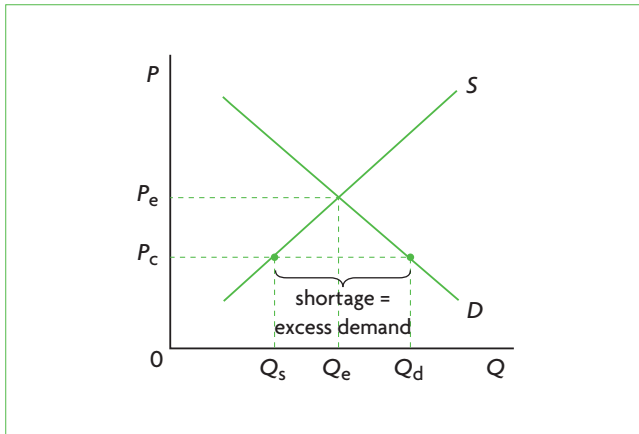


Figure 4.12 Price ceiling (maximum price) and market outcomes

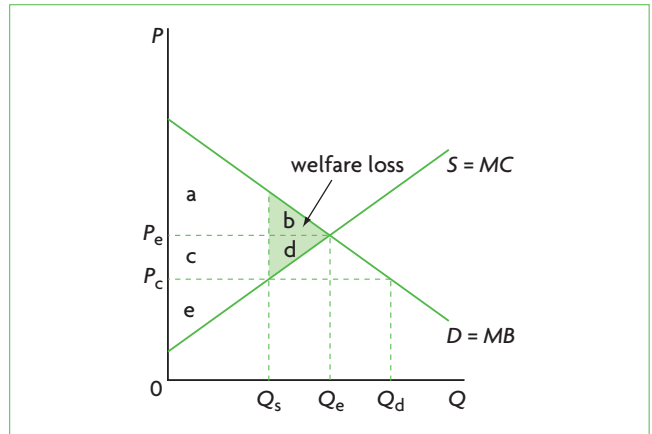


Figure 4.13 Welfare impacts of a price ceiling (maximum price)

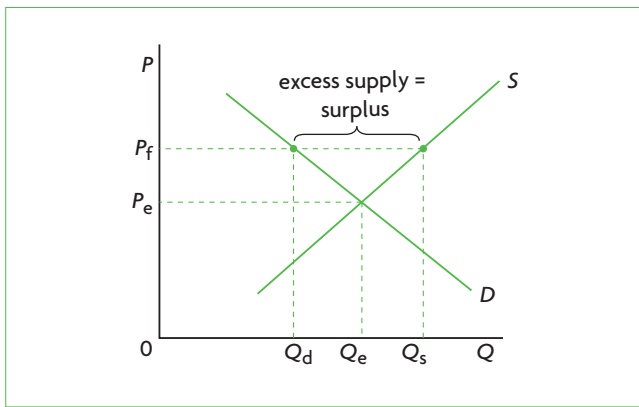


Figure 4.15 Price floor (minimum price) and market outcomes

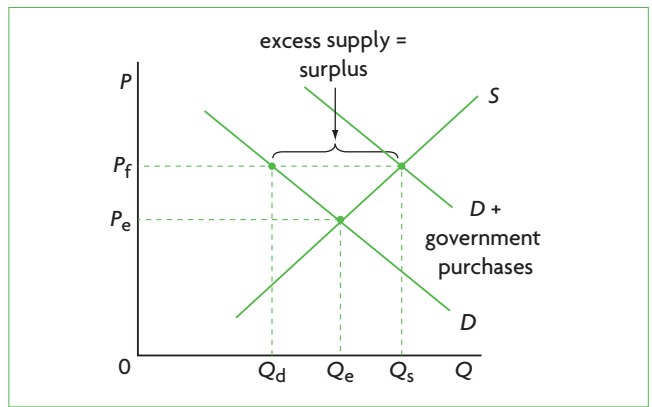


Figure 4.16 An agricultural product market with price floor and government purchases of the surplus

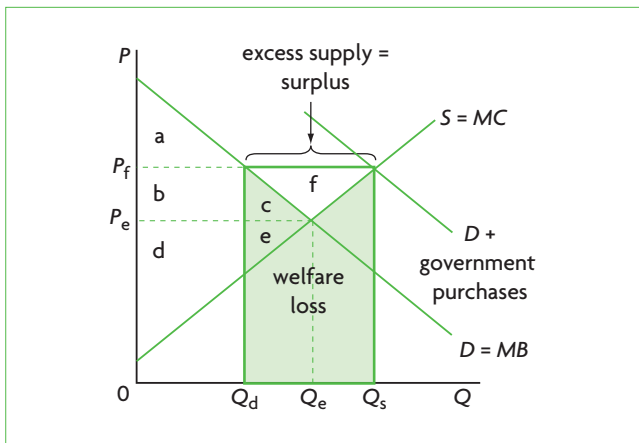


Figure 4.17 Welfare impacts of a price floor (minimum price) for agricultural products and government purchases of the surplus

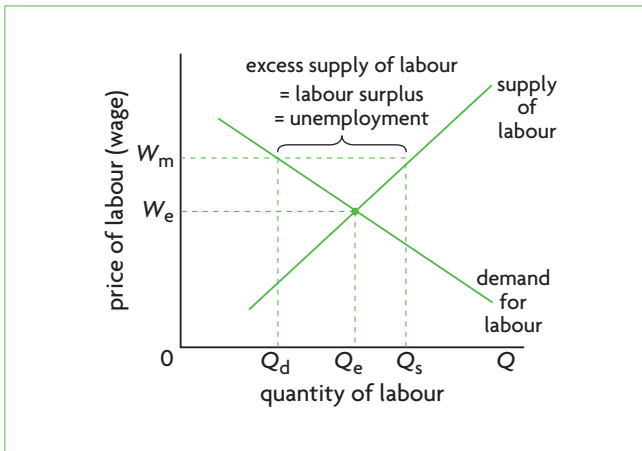


Figure 4.19 Labour market with minimum wage (price floor)

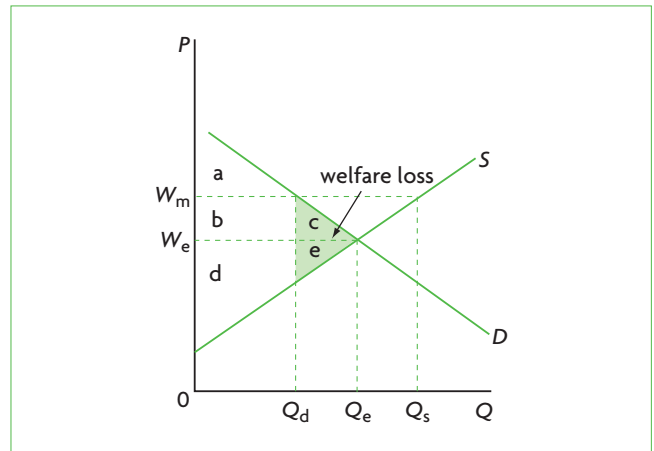


Figure 4.20 Welfare impacts of a minimum wage

Higher level topics

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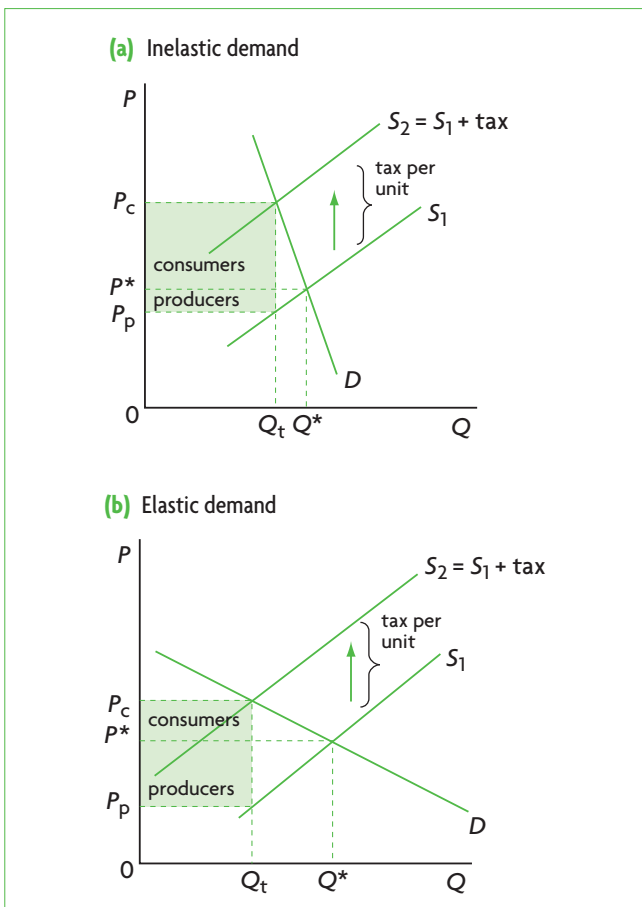


Figure 4.6 Incidence of an indirect tax with inelastic and elastic demand

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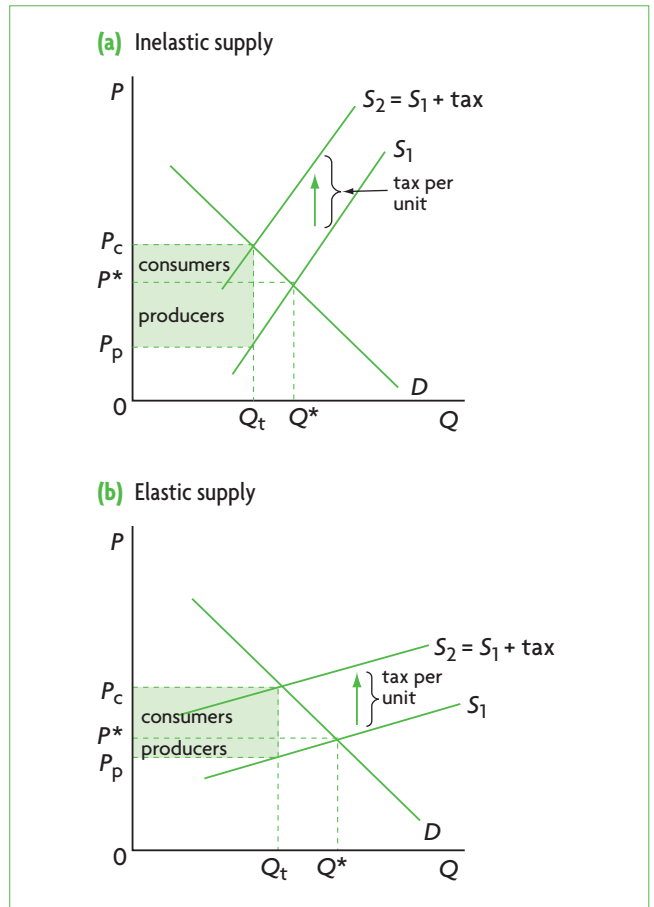
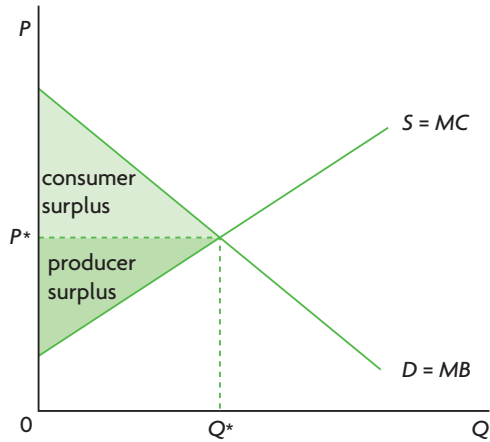


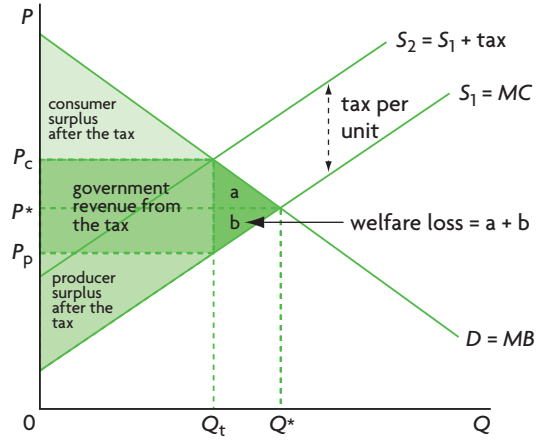
Figure 4.7 Incidence of an indirect tax with inelastic and elastic supply

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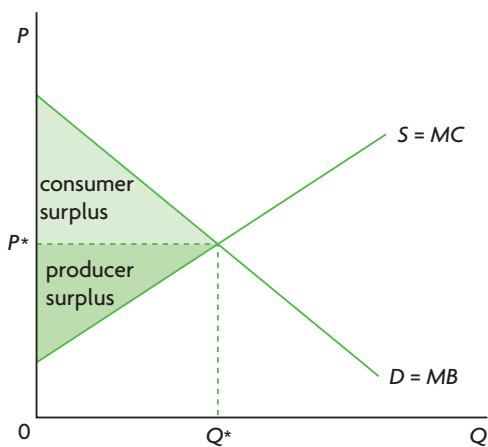
(a) Consumer and producer surplus in a competitive free market: maximum social surplus



(b) Consumer and producer surplus with an indirect (excise) tax: welfare loss

Figure 4.4 Effects of indirect taxes on consumer and producer surplus

(a) Consumer and producer surplus in a competitive free market: maximum social surplus



(b) Consumer and producer surplus with a subsidy: welfare loss

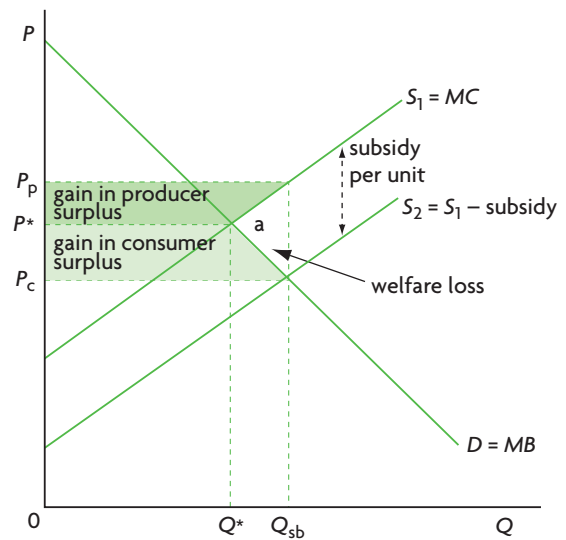


Figure 4.10 Effects of subsidies on consumer and producer surplus

Chapter 5 Market failure

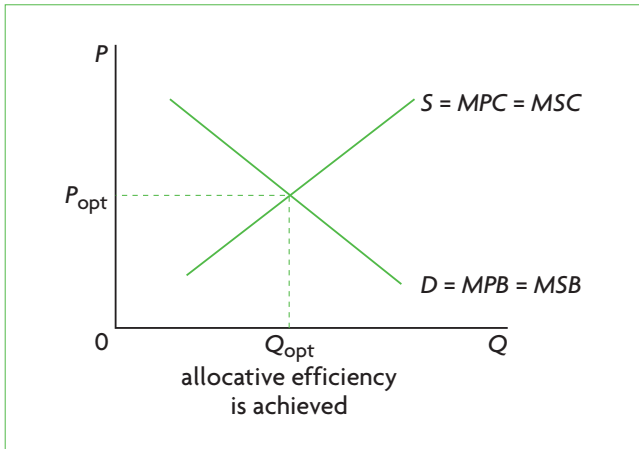


Figure 5.1 Demand, supply and allocative efficiency with no externalities

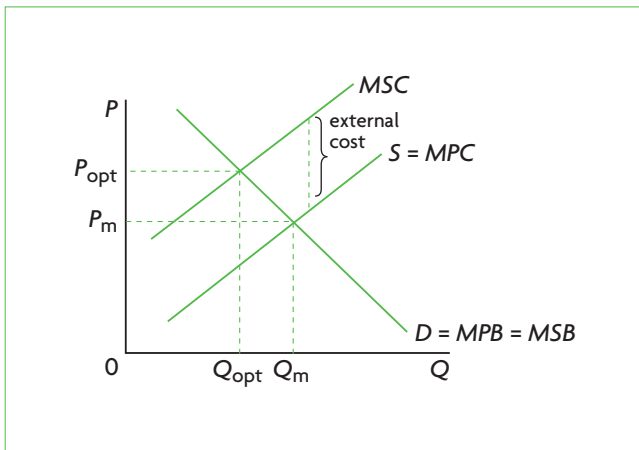


Figure 5.2 Negative production externality

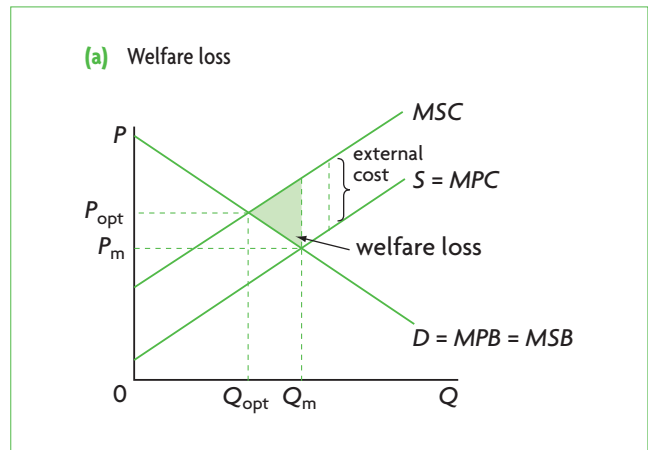


Figure 5.3 Welfare loss (deadweight loss) in a negative production externality

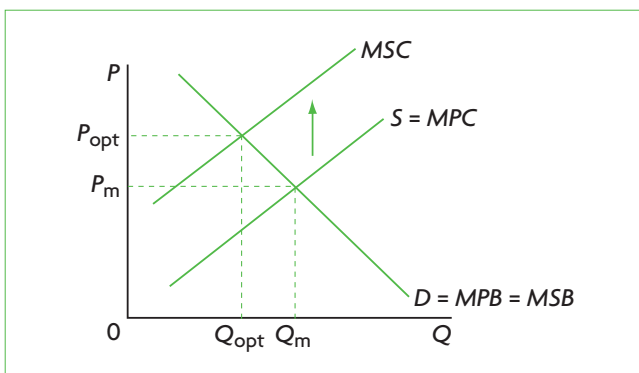


Figure 5.4 Government regulations to correct negative production externalities

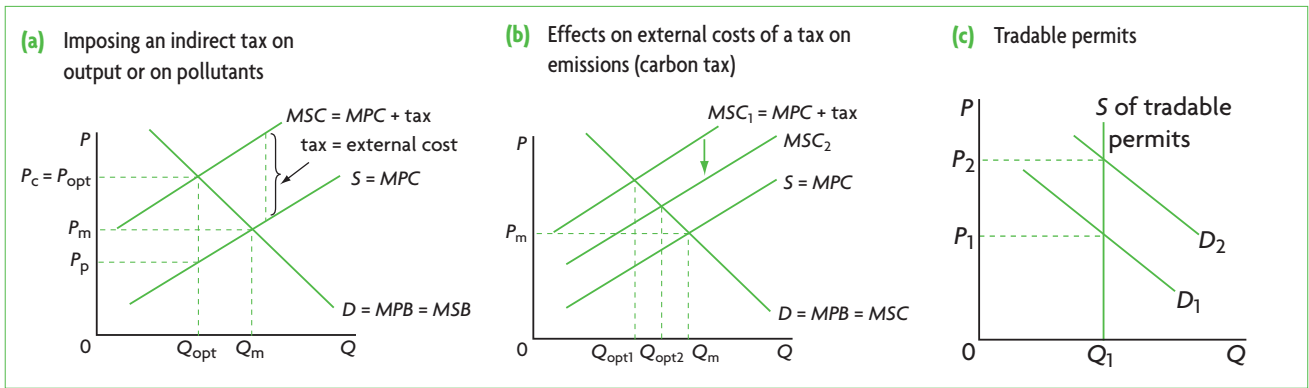


Figure 5.5 Market-based policies to correct negative production externalities

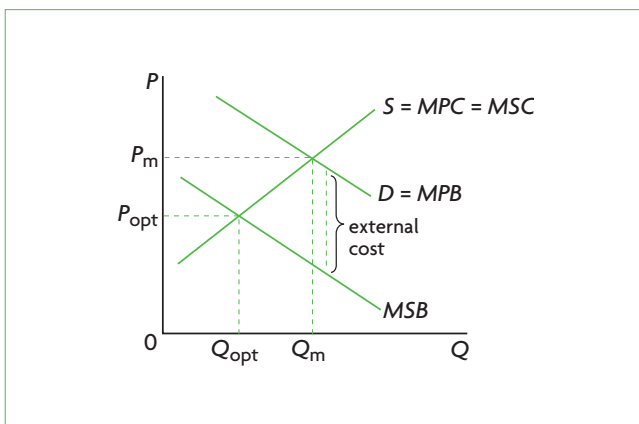


Figure 5.6 Negative consumption externality

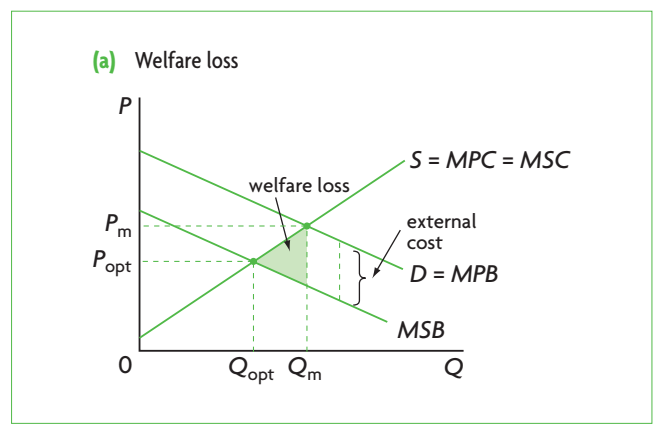


Figure 5.7 Welfare loss (deadweight loss) in a negative consumption externality

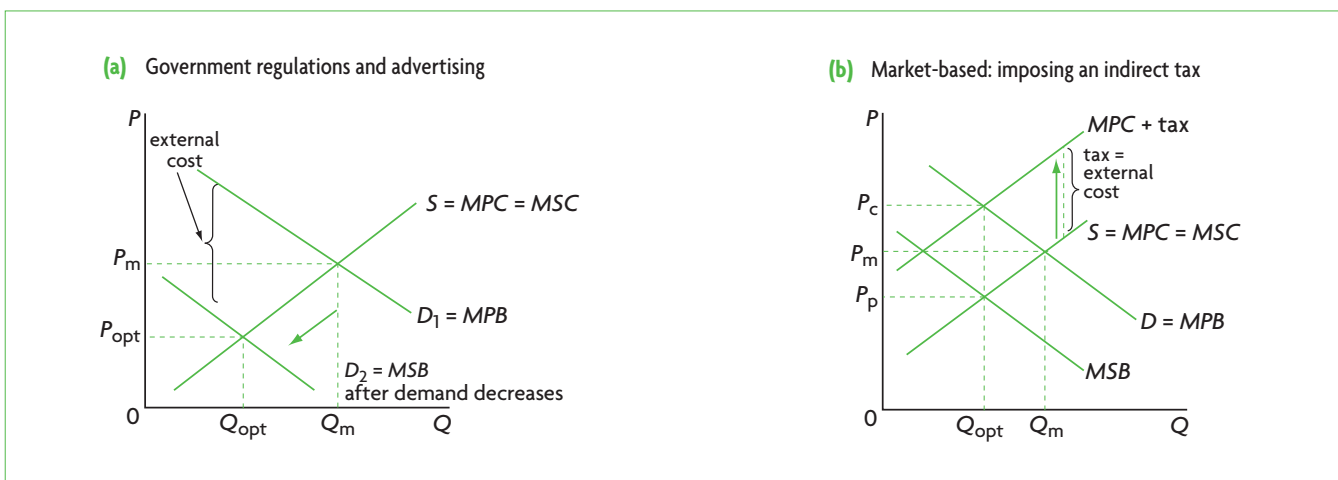


Figure 5.8 Correcting negative consumption externalities

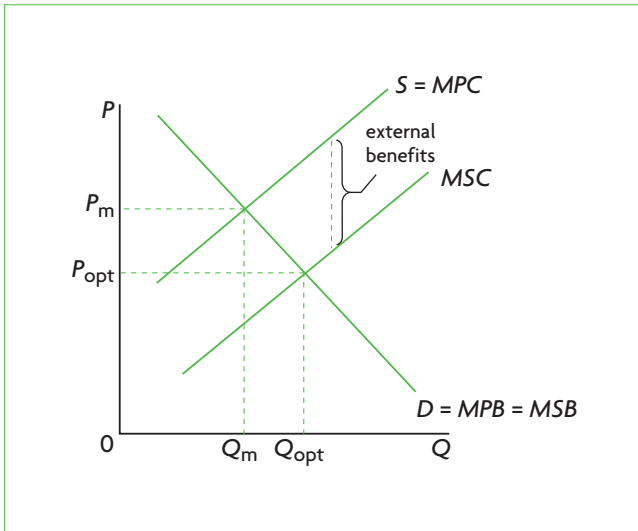


Figure 5.9 Positive production externality

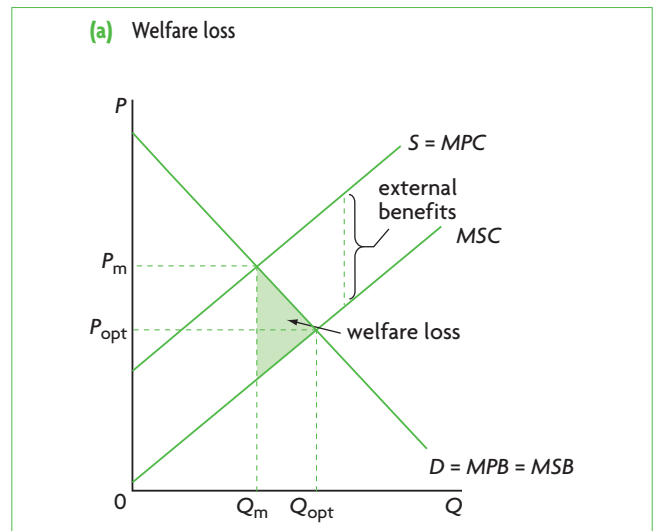


Figure 5.10 Welfare loss (deadweight loss) in a positive production externality

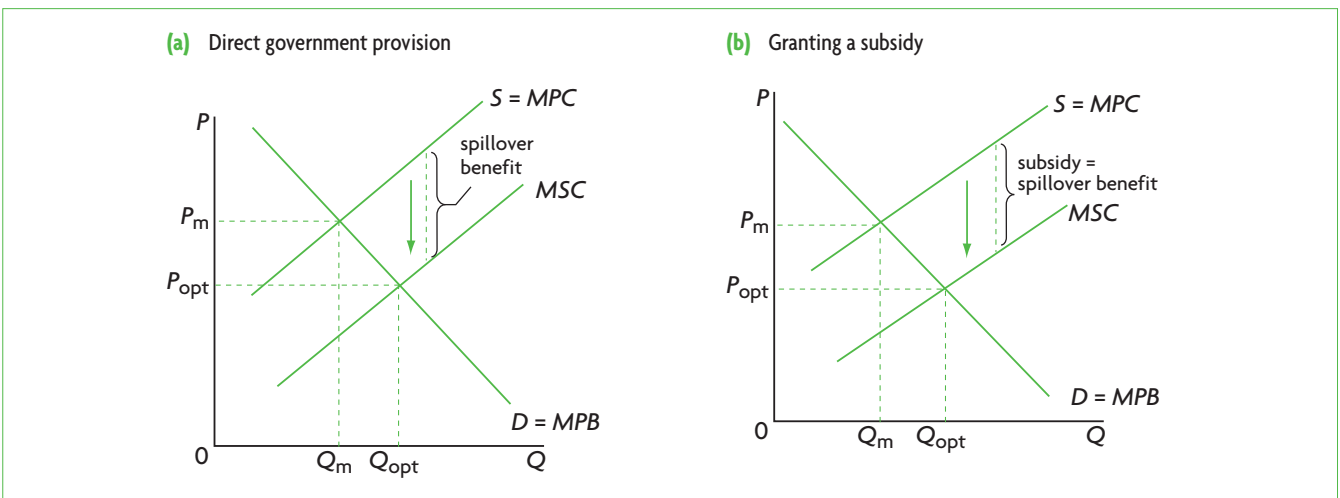


Figure 5.11 Correcting positive production externalities

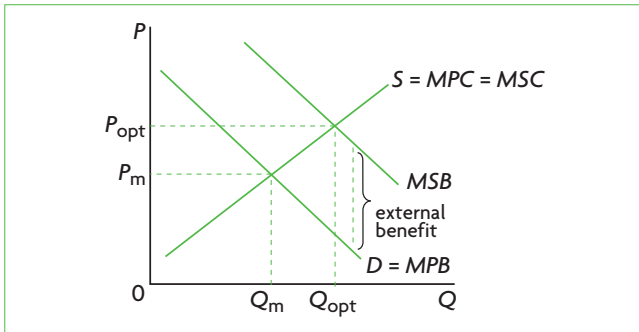


Figure 5.12 Positive consumption externality

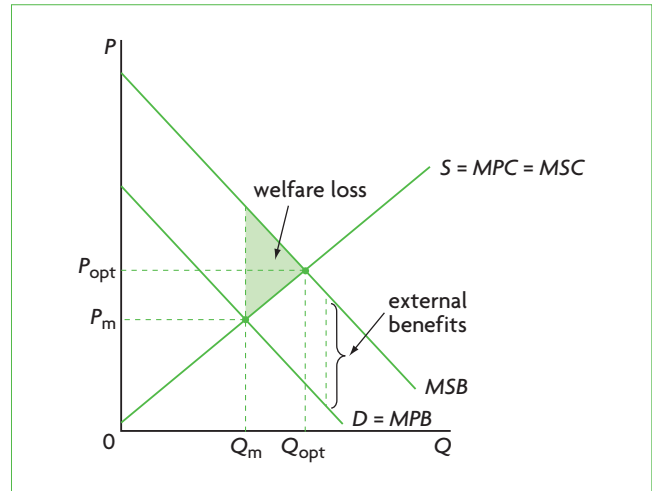


Figure 5.13 Welfare loss (deadweight loss) in a positive consumption externality

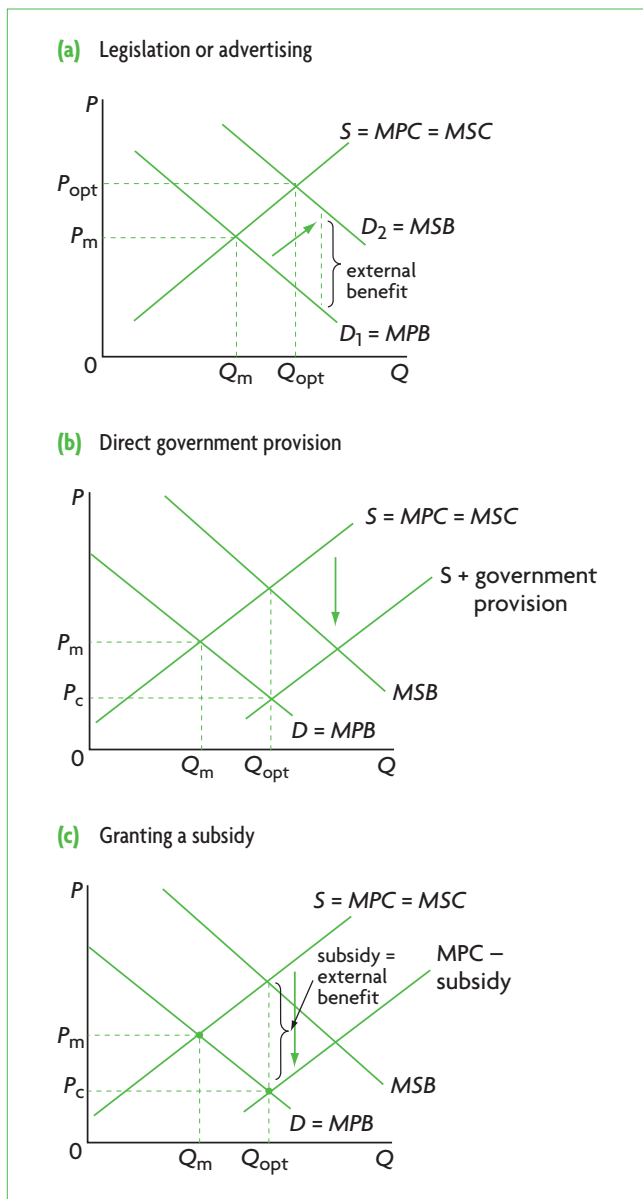


Figure 5.14 Correcting positive consumption externalities

HL Chapter 6 The theory of the firm I: Production, costs, revenues and profit

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Higher level topics

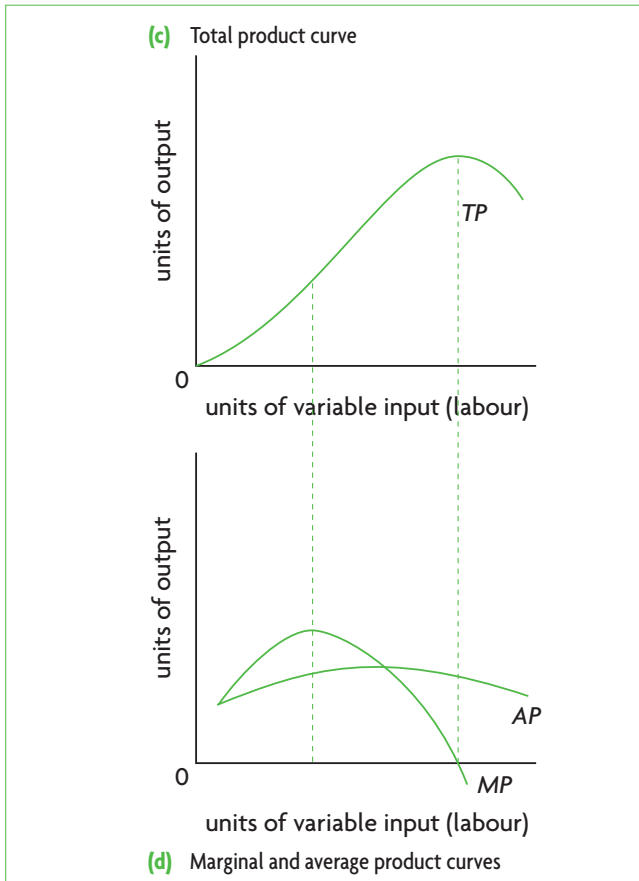


Figure 6.1 Total, marginal and average products

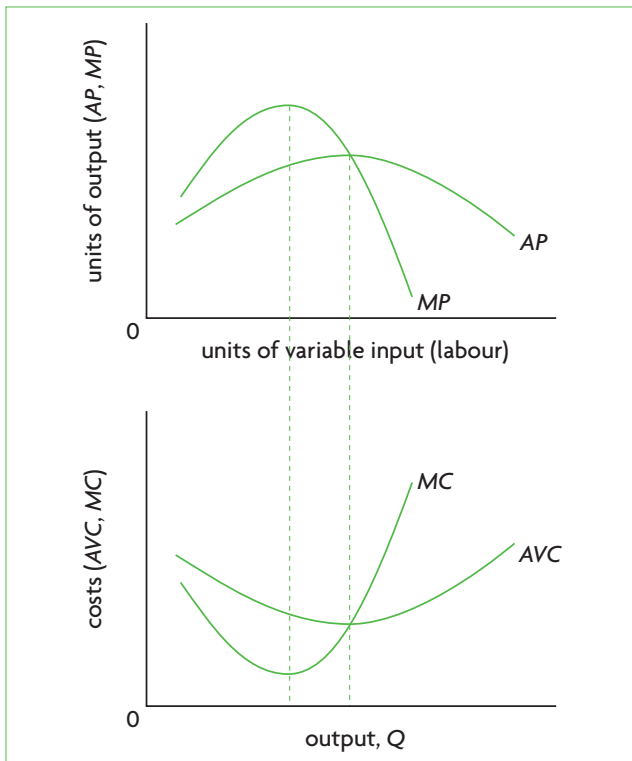


Figure 6.3 Product curves and cost curves are mirror images due to the law of diminishing returns

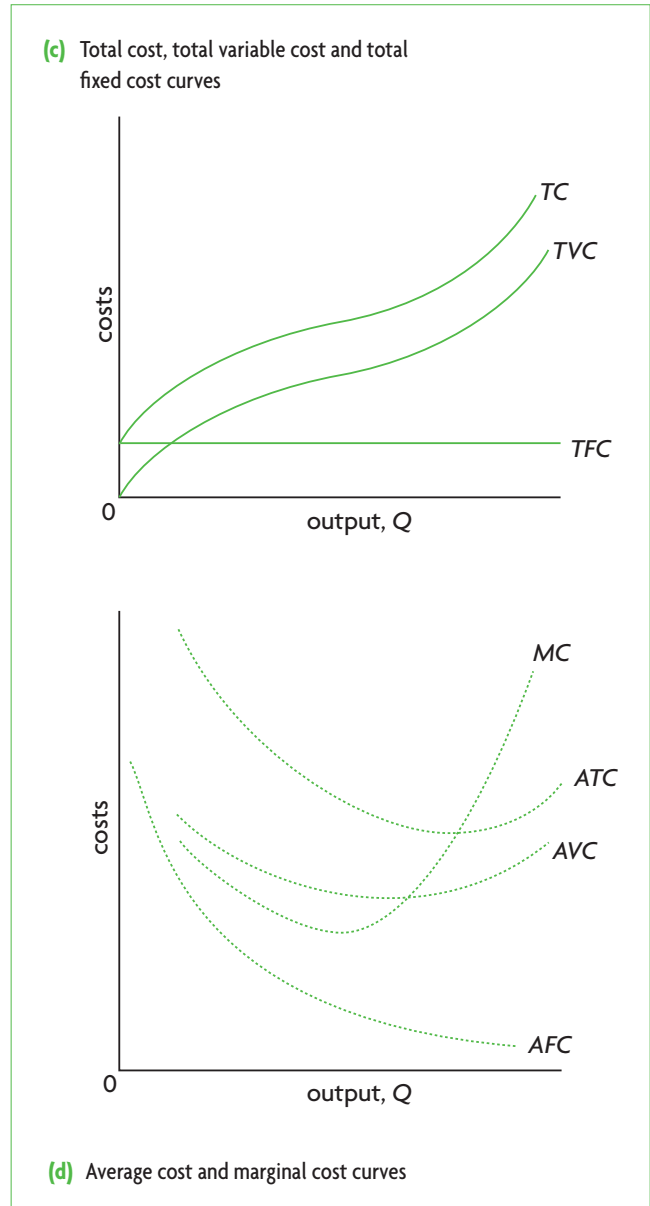
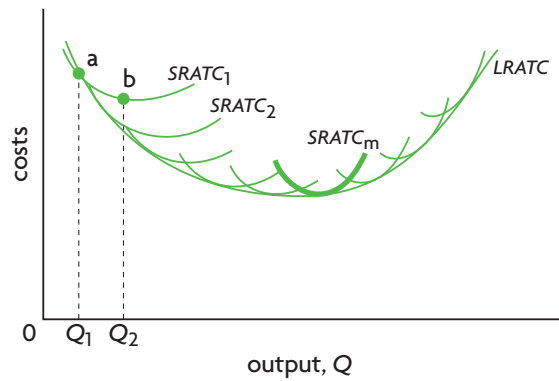


Figure 6.2 Total, average and marginal cost curves

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(b) Long-run average total cost curve in relation to short-run average total cost curves



(c) Economies and diseconomies of scale

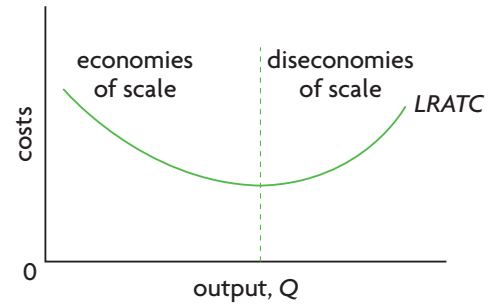
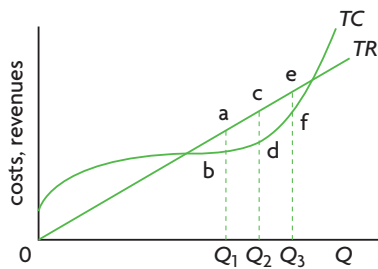
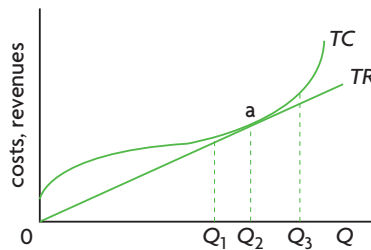


Figure 6.5 The long-run average total cost curve

(a) Profit-maximising firm produces at Q_2 and makes economic profit: $TR - TC = c - d$



(b) Profit-maximising firm produces at Q_2 and makes zero economic profit: $TR - TC = 0$ (it earns normal profit)



(c) The loss-minimising firm produces at Q_2 (if it produces) and makes a loss = $TC - TR = a - b$ (negative economic profit since $TR < TC$)

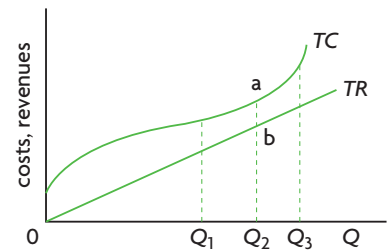
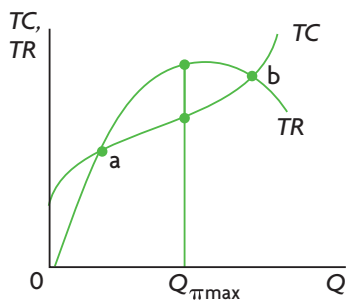


Figure 6.10 Profit maximisation using the total revenue and total cost approach when the firm has no control over price

(a) Profit maximisation



(b) Loss minimisation

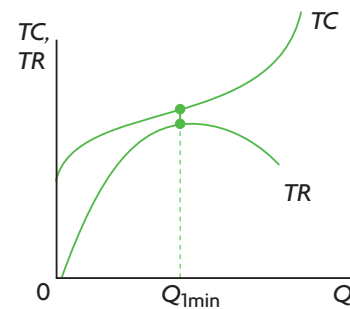


Figure 6.11 Profit maximisation using the total revenue and total cost approach when the firm has control over price

Chapter 7 The theory of the firm II: Market structures

Higher level topic

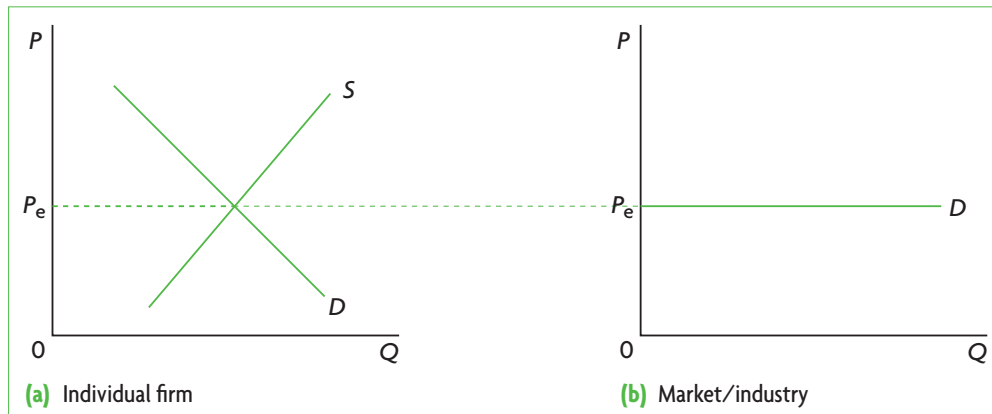


Figure 7.1 Market (industry) demand and supply determine demand faced by the perfectly competitive firm

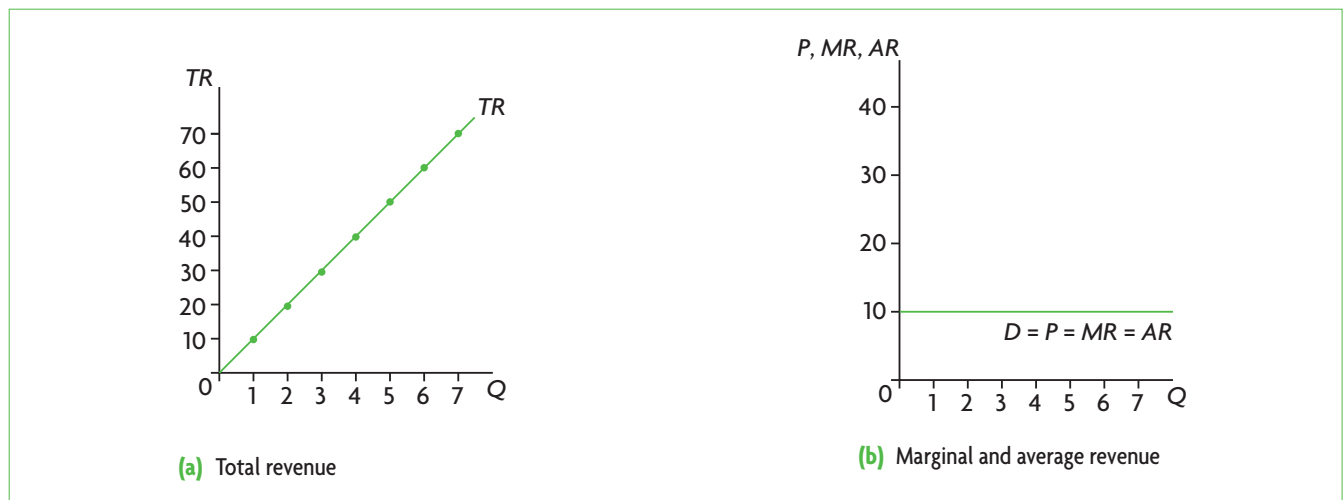


Figure 7.2 Revenue curves under perfect competition

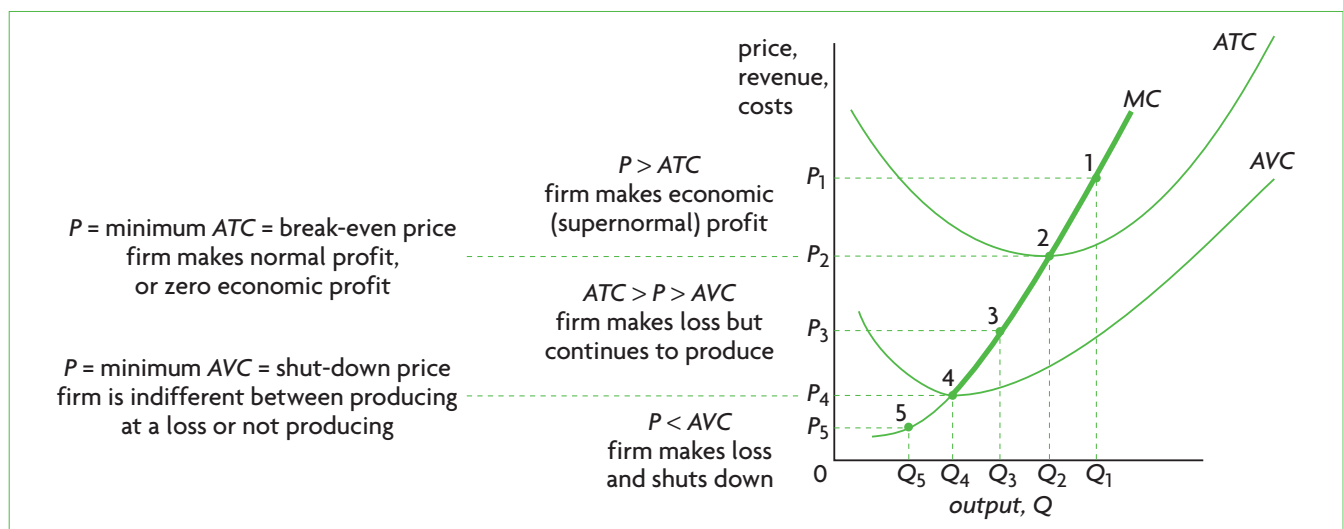
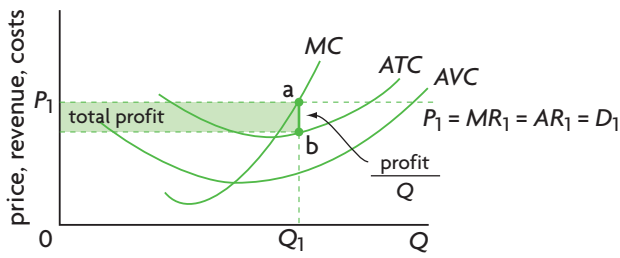


Figure 7.4 Summary of the perfectly competitive firm's short-run decisions, and the firm's short-run supply curve

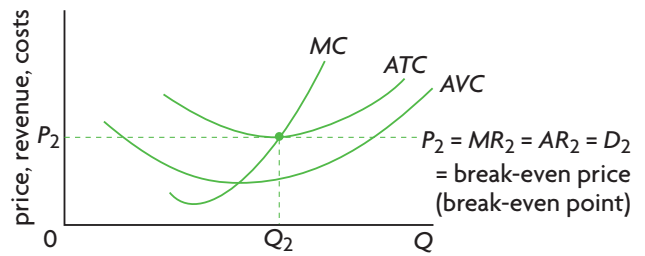
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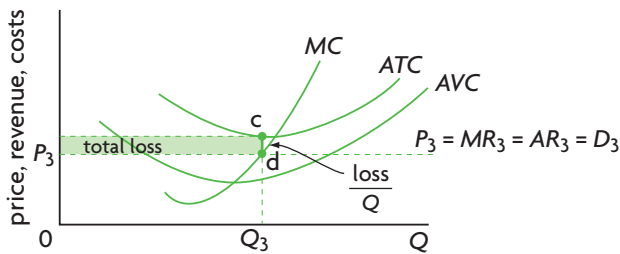
(a) Economic profit



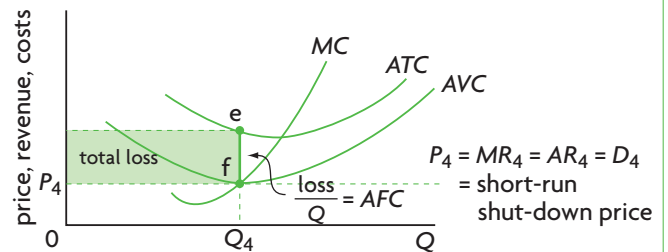
(b) Zero economic profit (normal profit)



(c) Economic loss: the firm continues to produce



(d) Loss in the short run and the shut-down price



(e) The loss-making firm that will not produce

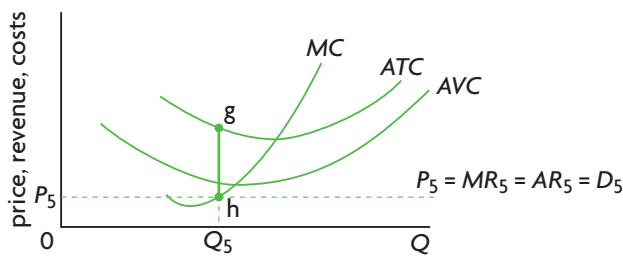
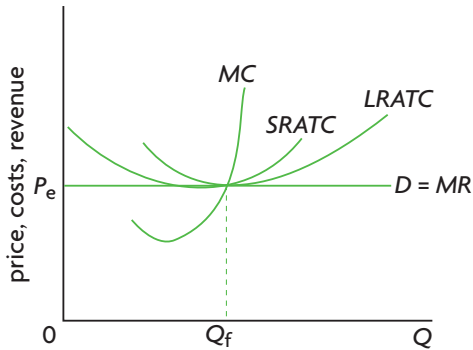


Figure 7.3 Short-run equilibrium positions of the perfectly competitive firm

(a) The firm



(b) The industry

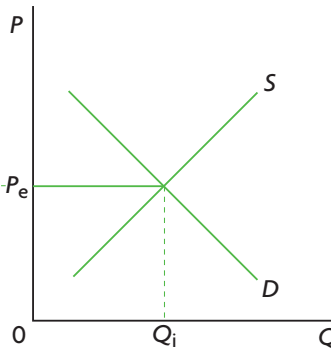


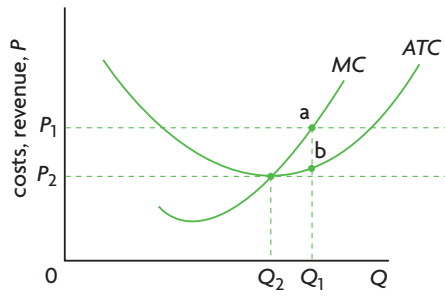
Figure 7.5 The firm and industry long-run equilibrium position in perfect competition

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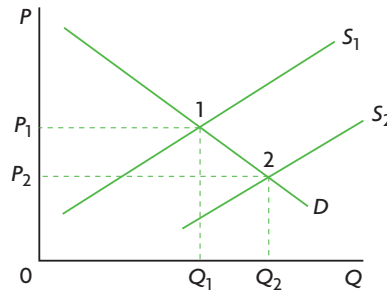
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From economic (supernormal) profit to normal profit

(a) The firm

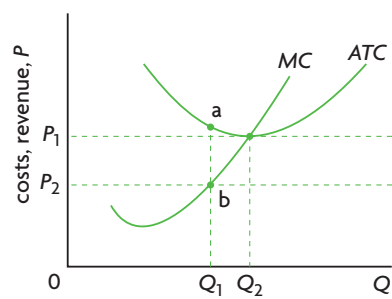


(b) The industry



From loss to normal profit

(c) The firm



(d) The industry

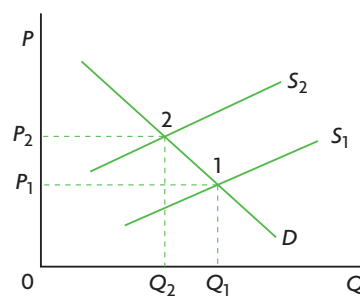
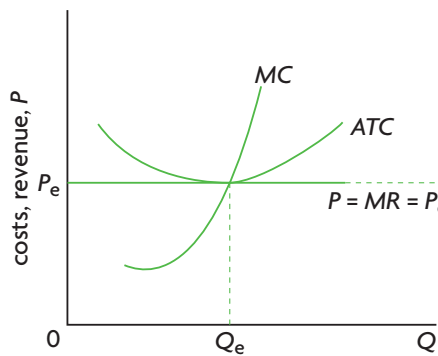
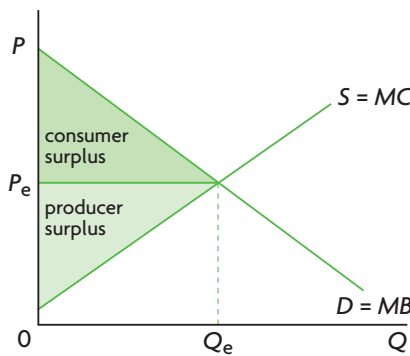


Figure 7.6 From short-run equilibrium to long-run equilibrium



(a) The firm



(b) The market/industry

Figure 7.7 Productive and allocative efficiency in perfect competition in the long run

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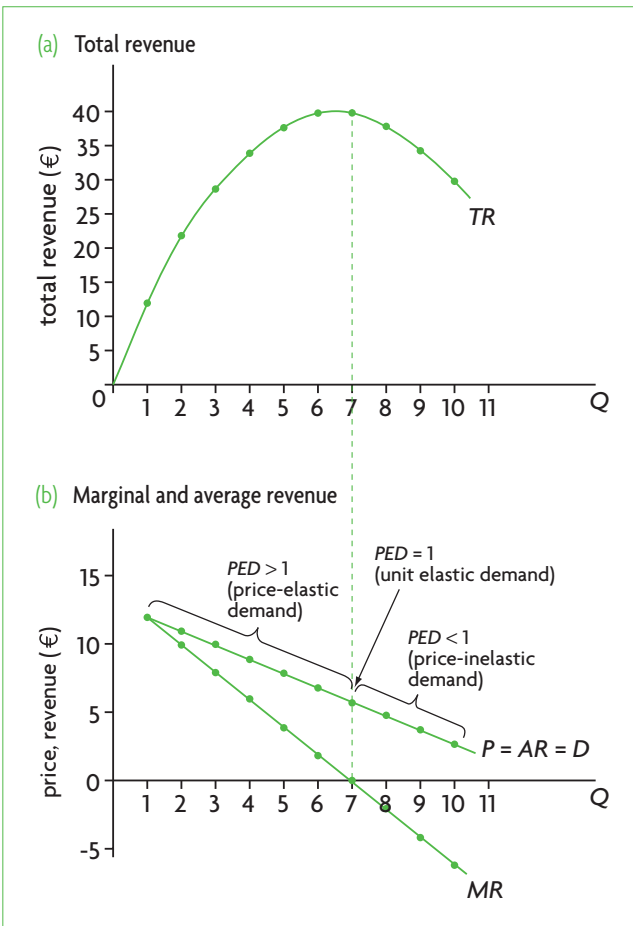


Figure 7.10 Revenue curves in monopoly

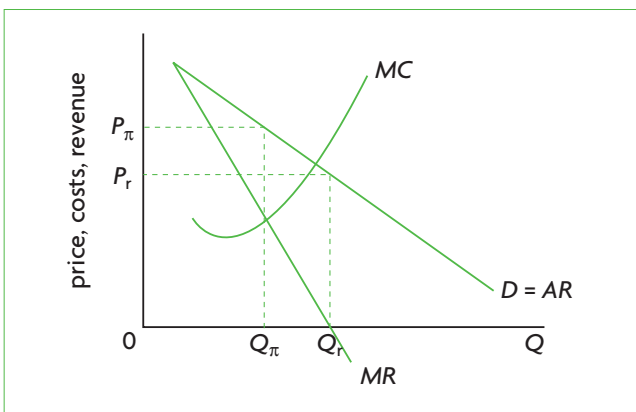


Figure 7.12 Comparison of profit maximisation and revenue maximisation by the monopolist

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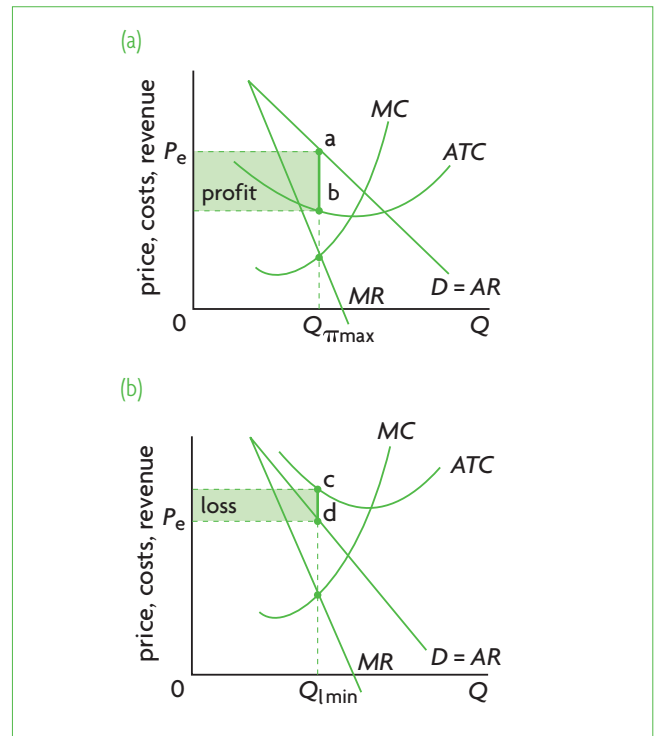


Figure 7.11 Profit maximisation and loss minimisation in monopoly: marginal revenue and cost approach

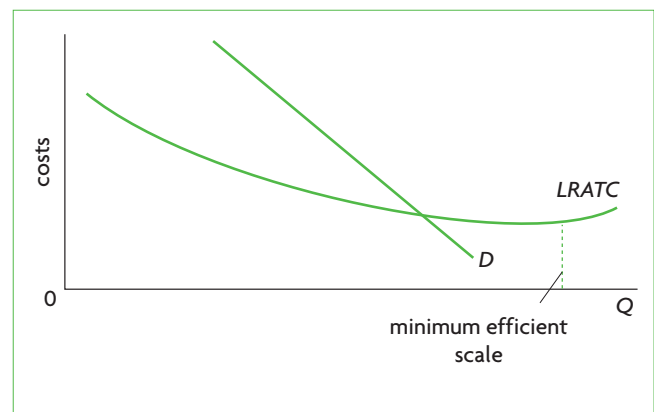


Figure 7.13 Natural monopoly

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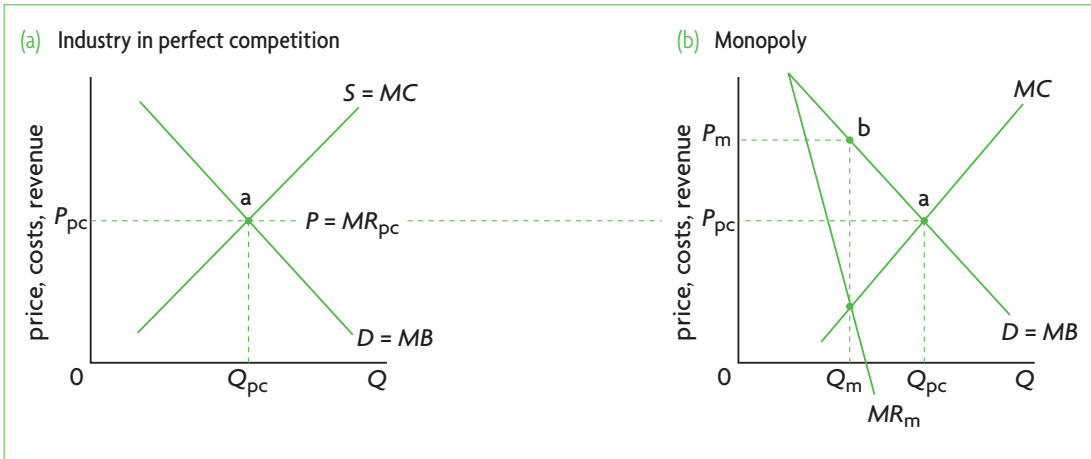


Figure 7.14 Higher price, lower output by the firm in monopoly

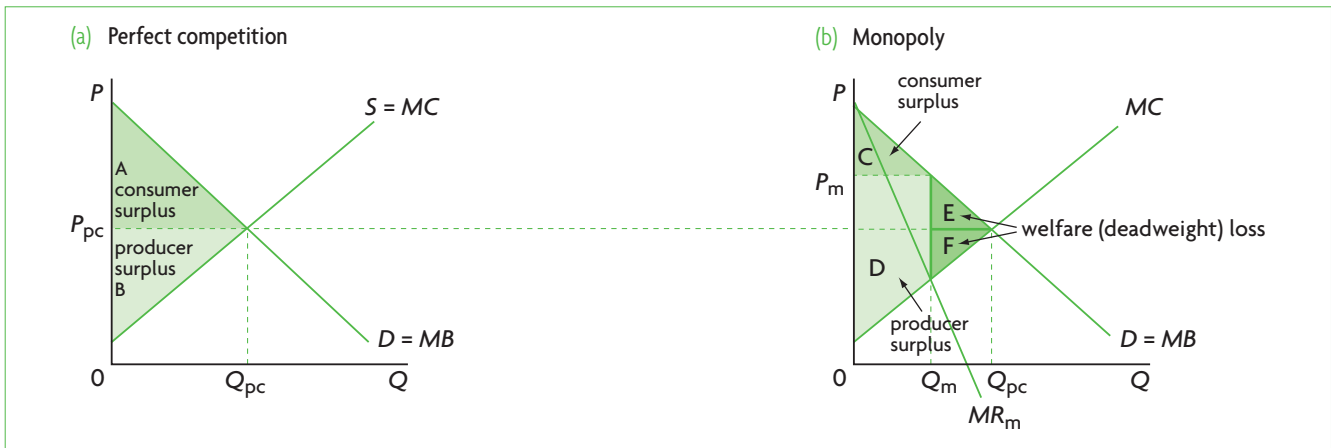


Figure 7.15 Consumer and producer surplus and welfare (deadweight) loss in monopoly compared with perfect competition

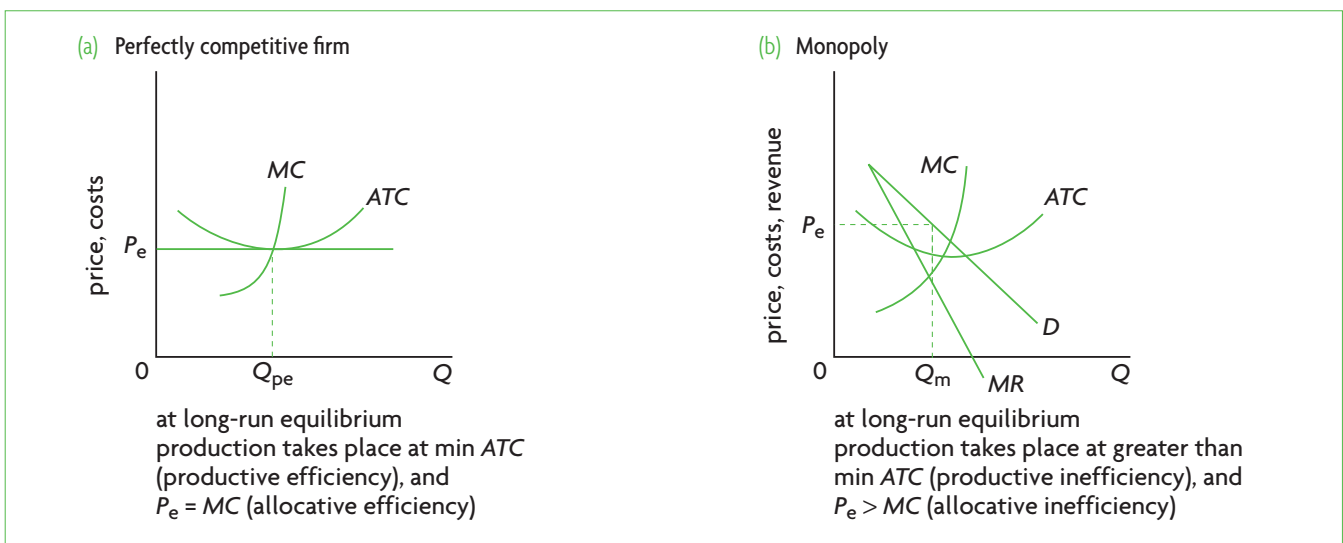


Figure 7.16 Allocative and productive inefficiency in perfect competition and monopoly

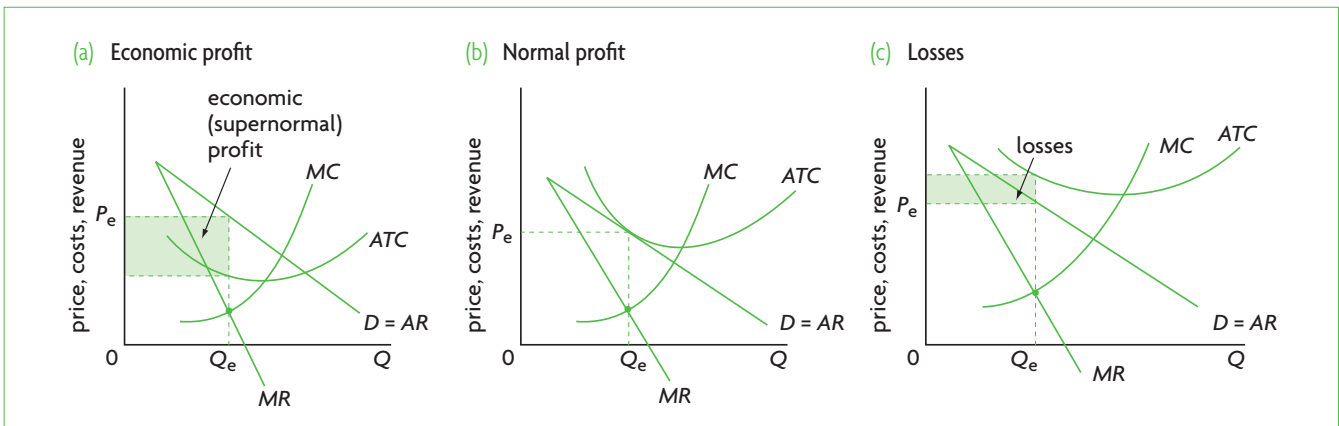


Figure 7.21 Short-run equilibrium positions of the firm in monopolistic competition

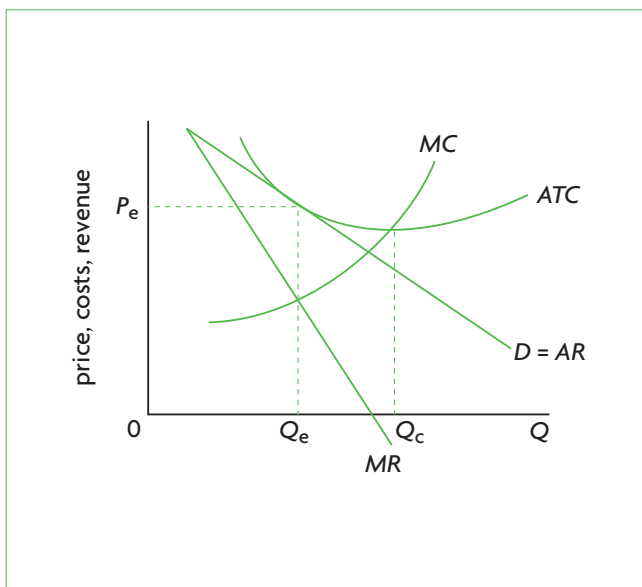


Figure 7.22 Long-run equilibrium of the firm in monopolistic competition

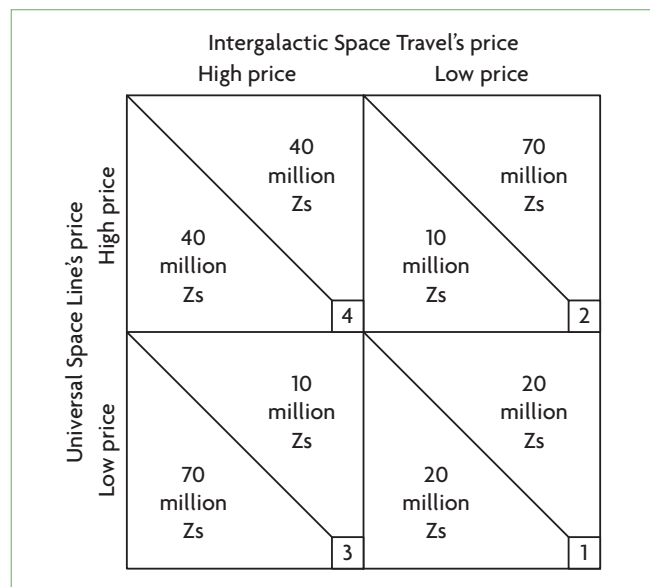


Figure 7.23 Game theory: the prisoner's dilemma

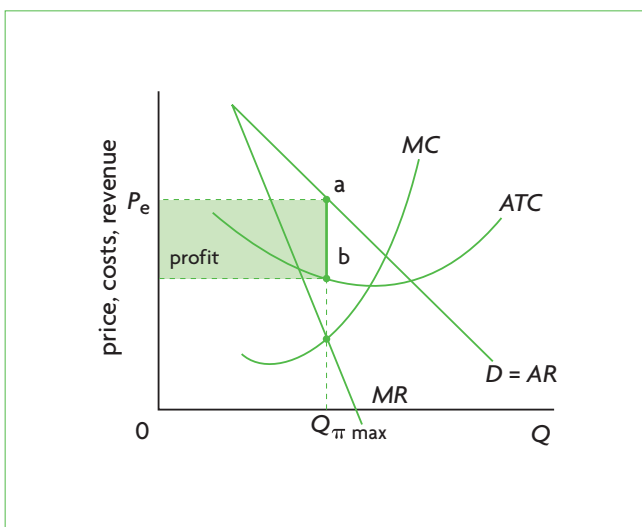


Figure 7.24 Profit maximisation by a price-fixing cartel

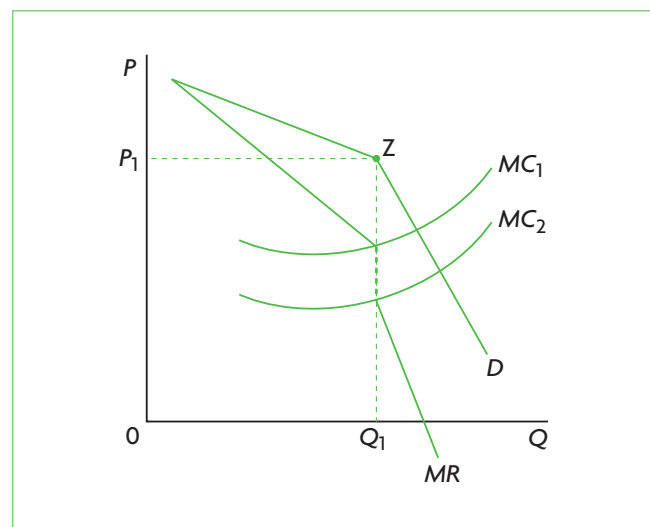


Figure 7.25 The kinked demand curve

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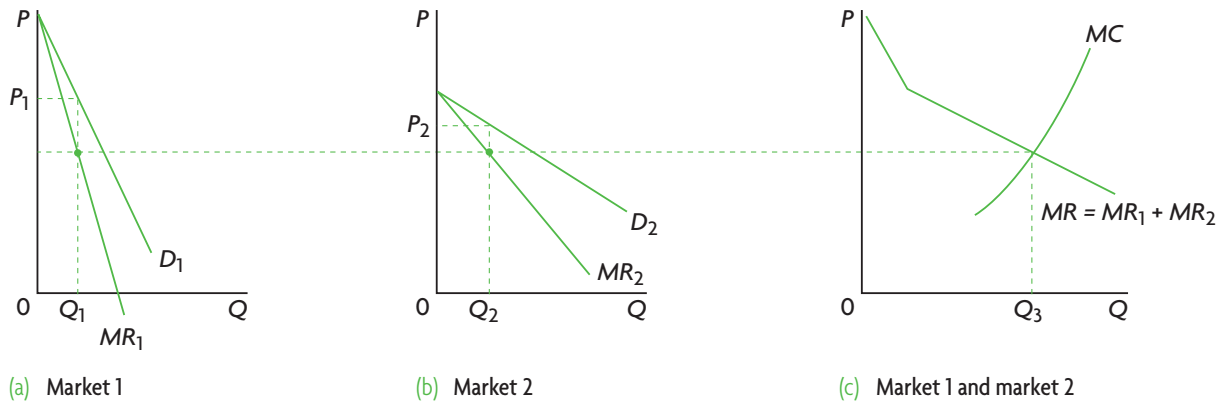


Figure 7.26 Third-degree price discrimination

Chapter 8 The level of overall economic activity

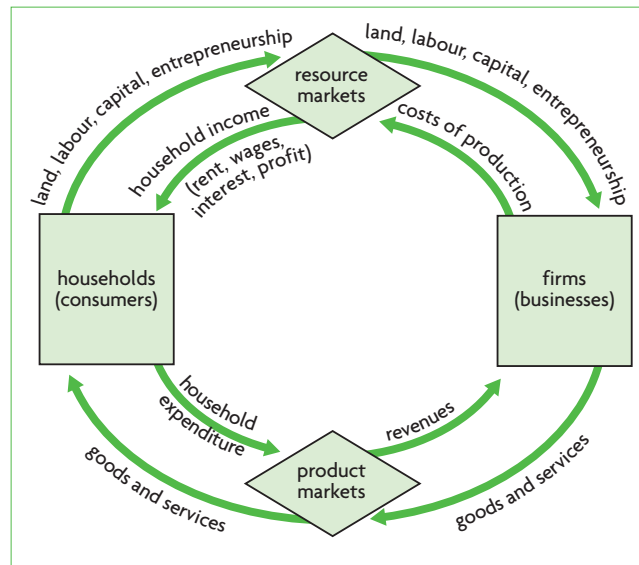


Figure 8.1 Circular flow of income model in a closed economy with no government

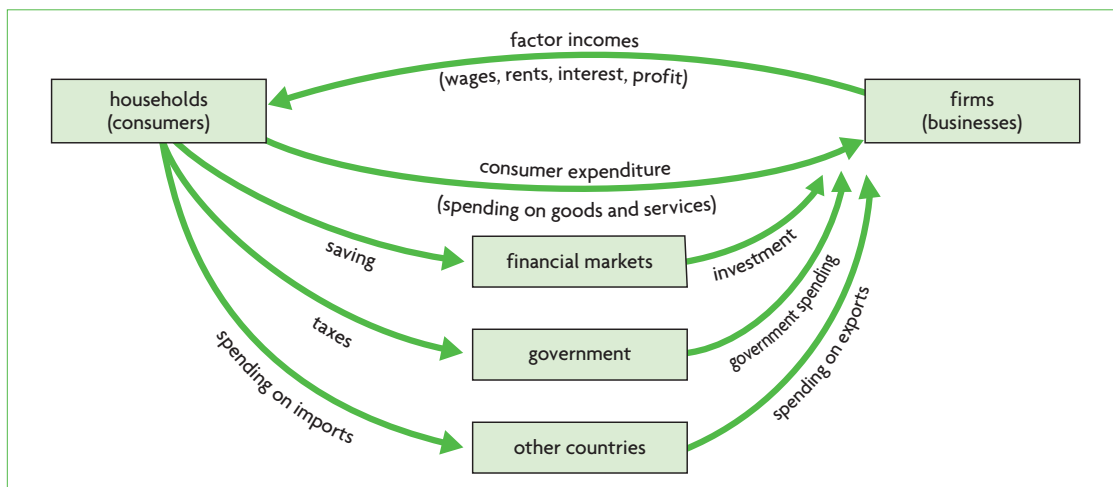


Figure 8.3 Circular flow of income model with leakages and injections

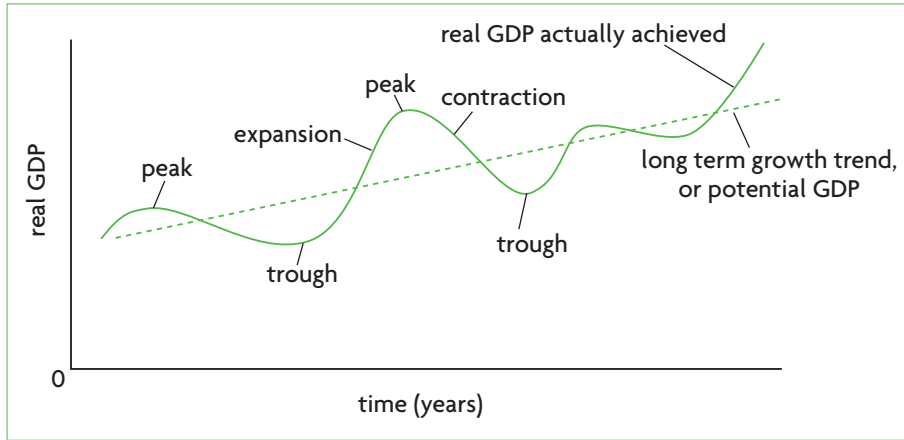


Figure 8.4 The business cycle

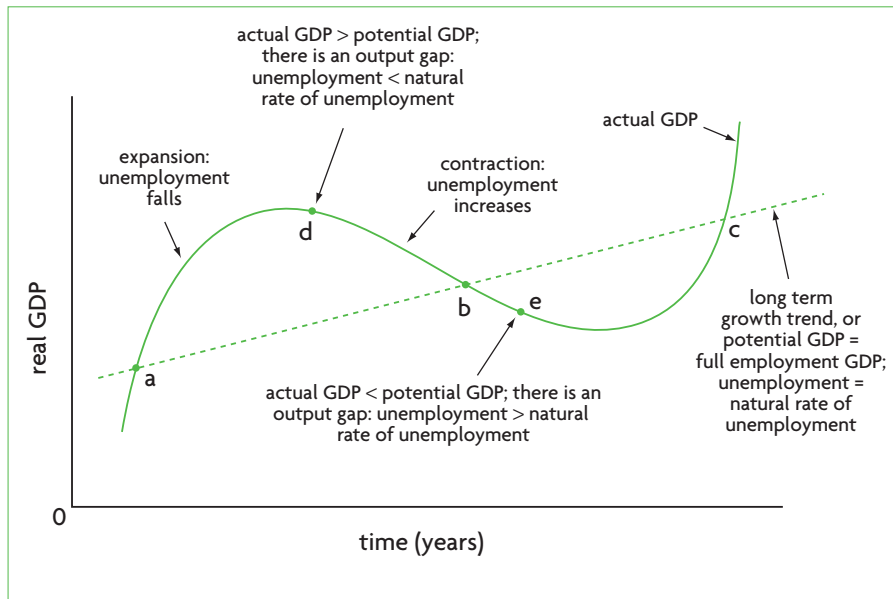


Figure 8.5 Illustrating actual output, potential output and unemployment in the business cycle

Chapter 9 Aggregate demand and aggregate supply

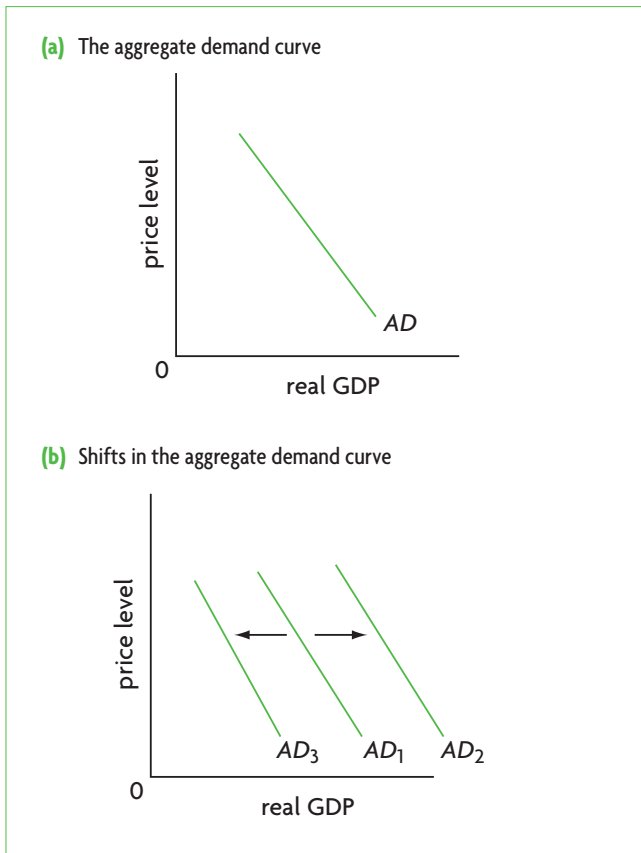


Figure 9.1 The aggregate demand (AD) curve



Figure 9.2 The short-run aggregate supply curve (SRAS)

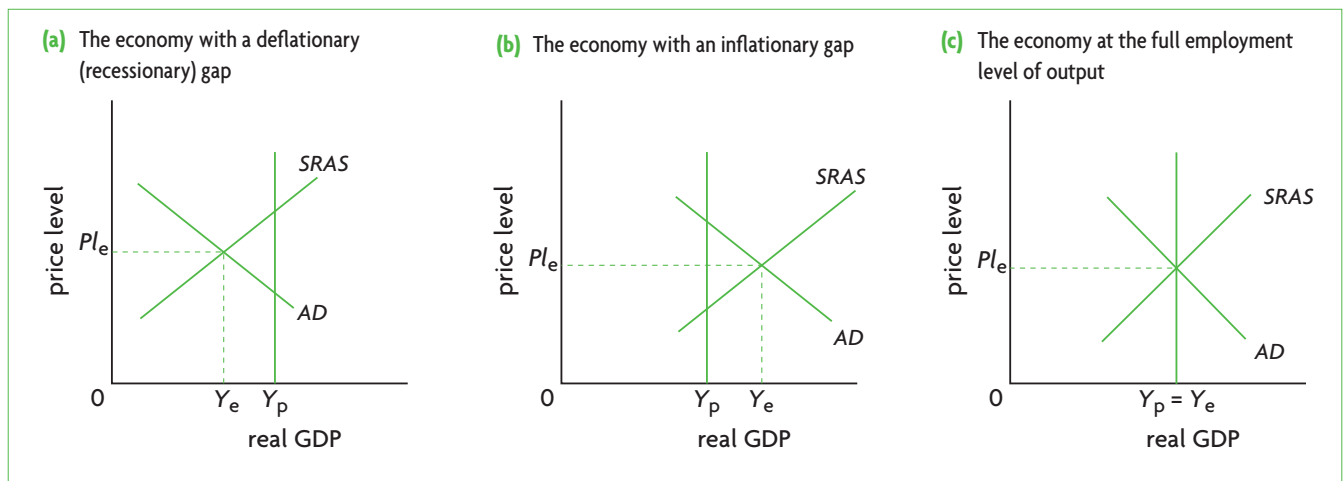


Figure 9.4 Three short-run equilibrium states of the economy

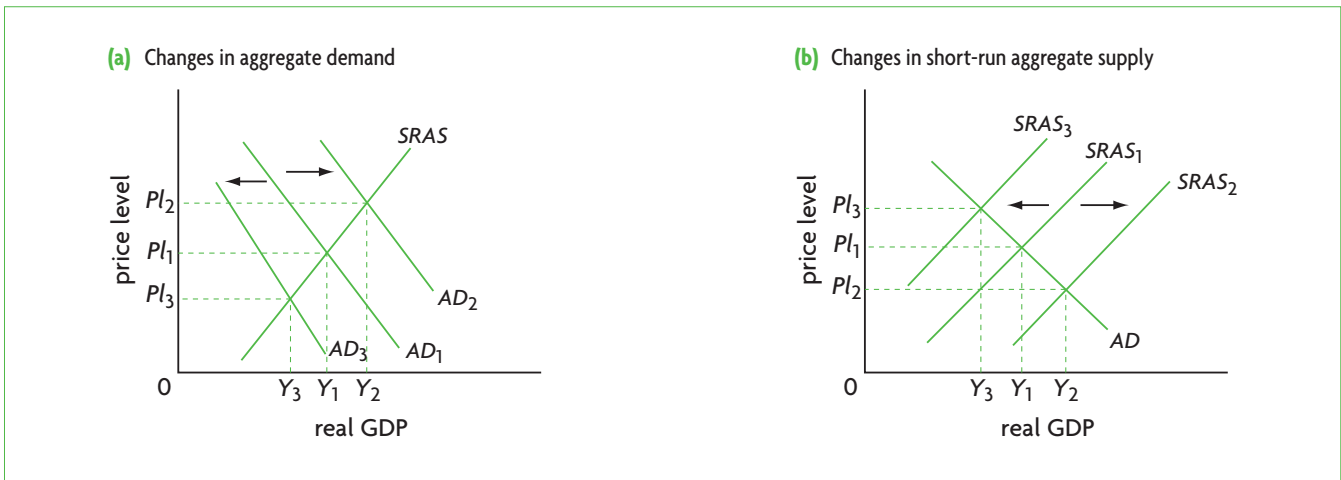


Figure 9.5 Impacts of changes in short-run macroeconomic equilibrium

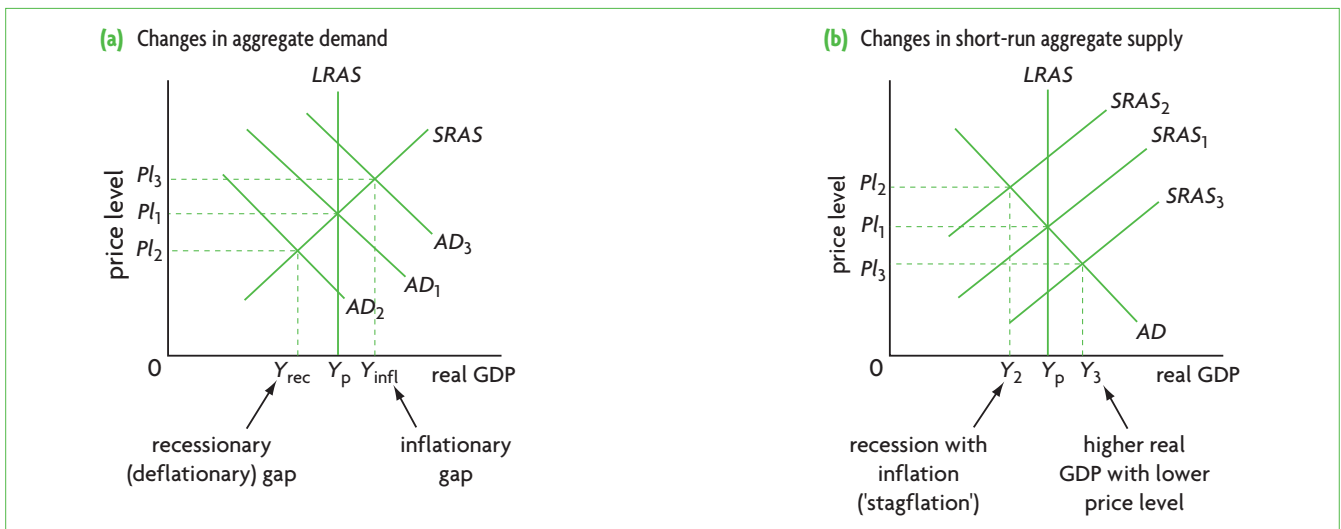


Figure 9.6 Possible causes of the business cycle

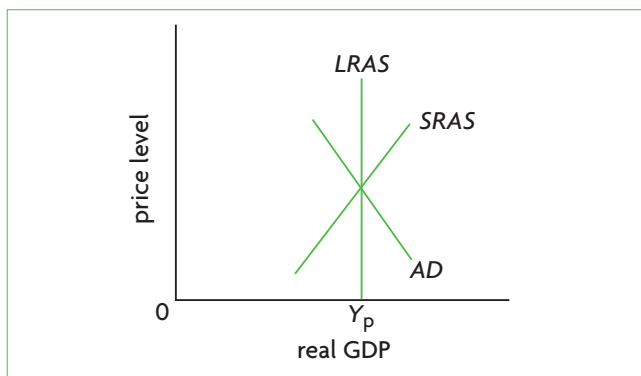


Figure 9.7 The LRAS curve and long-run equilibrium in the monetarist/new classical model

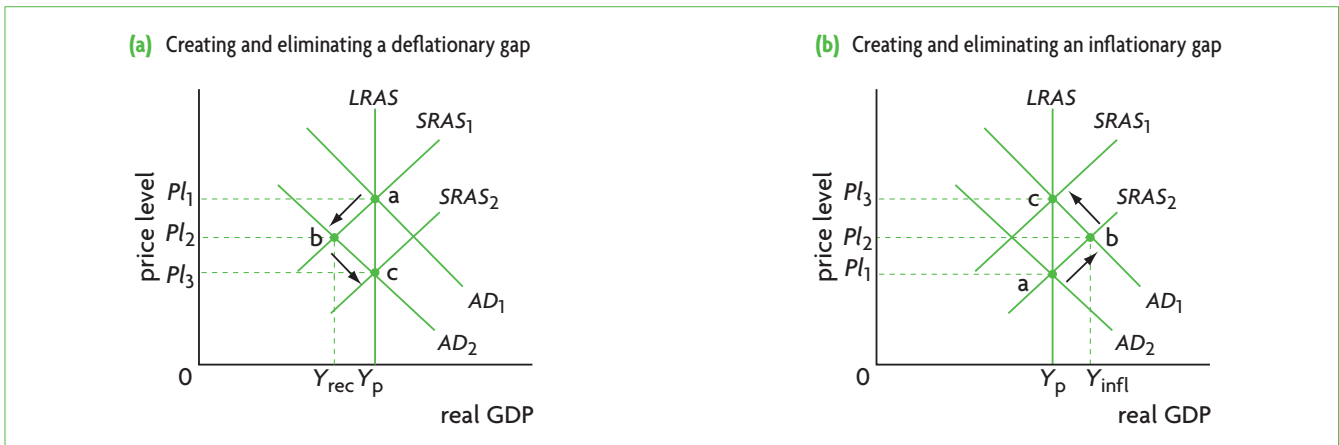


Figure 9.8 Returning to long-run full employment equilibrium in the monetarist/new classical model

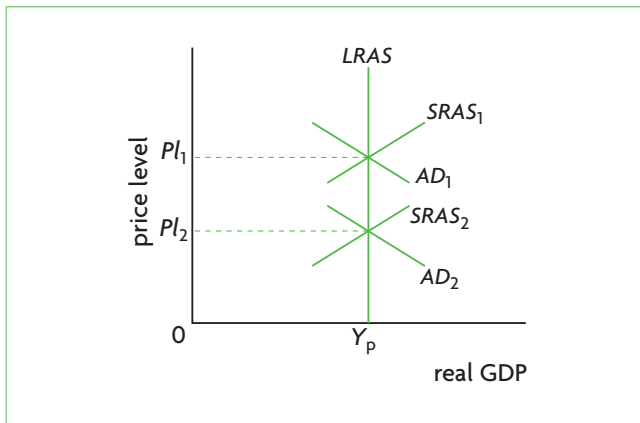


Figure 9.9 Changes in long-run equilibrium in the monetarist/new classical AD-AS model

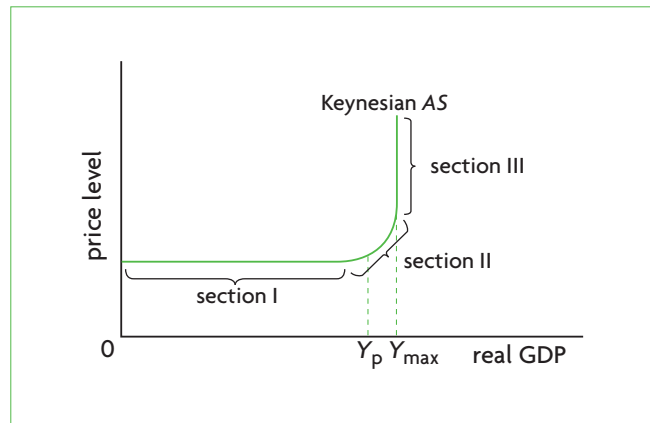


Figure 9.11 The Keynesian aggregate supply curve

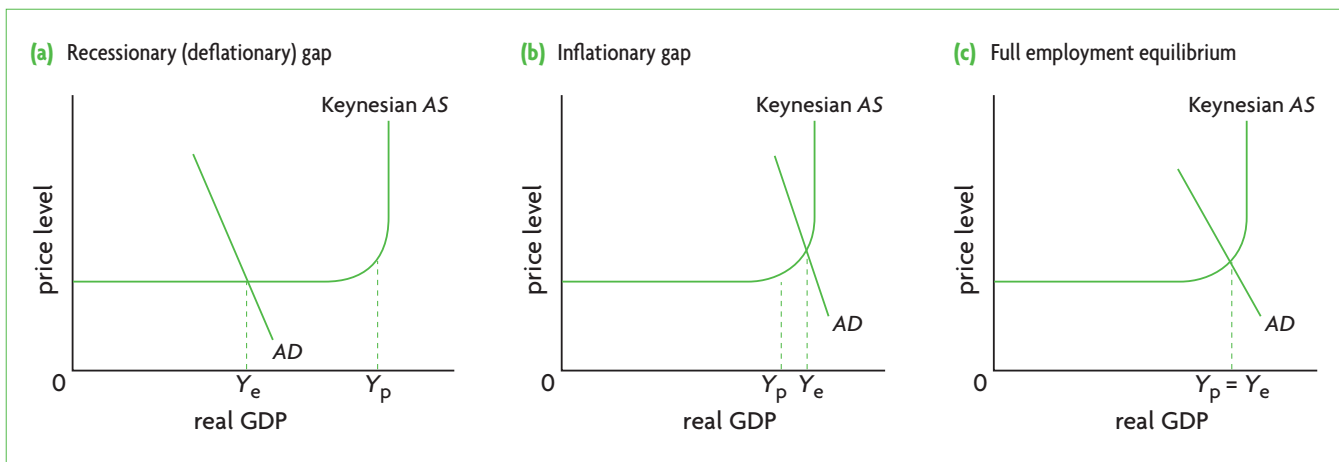


Figure 9.12 Three equilibrium states of the economy in the Keynesian model

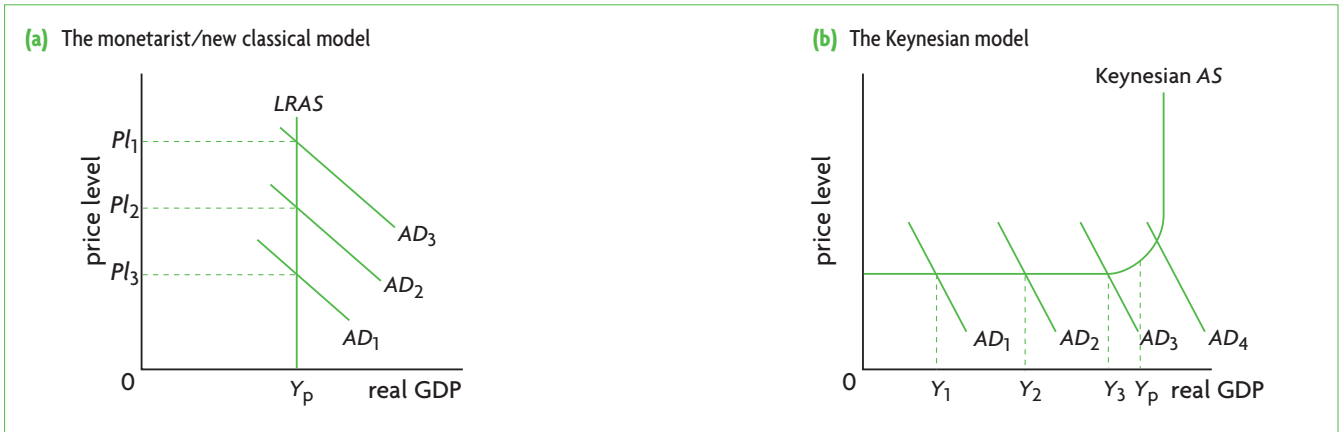


Figure 9.13 Effects of increases in aggregate demand on real GDP and the price level

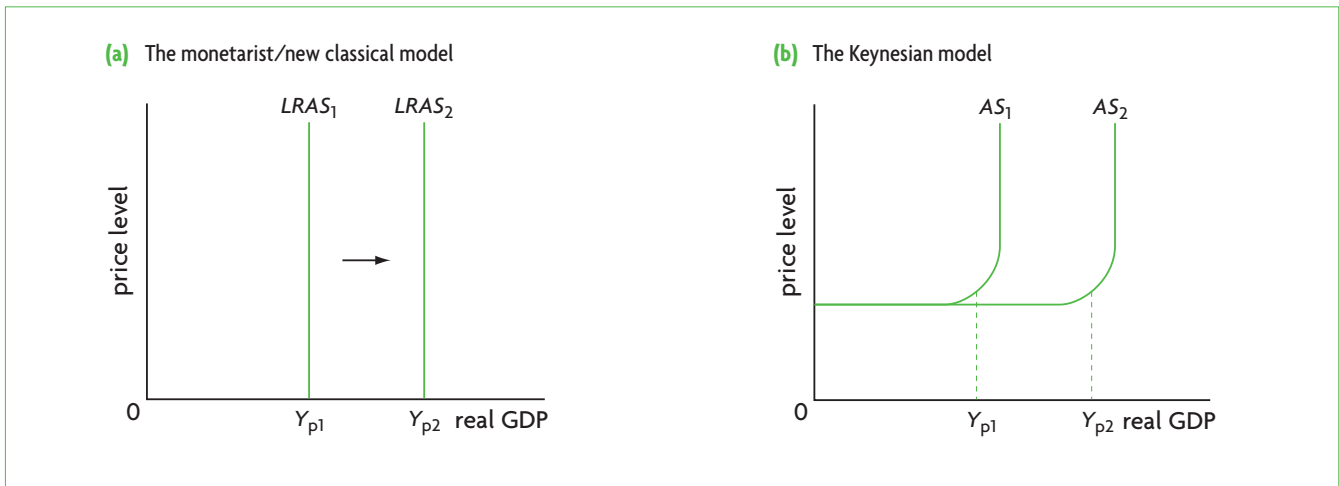


Figure 9.14 Increasing potential output, shifts in aggregate supply curves and long-term economic growth

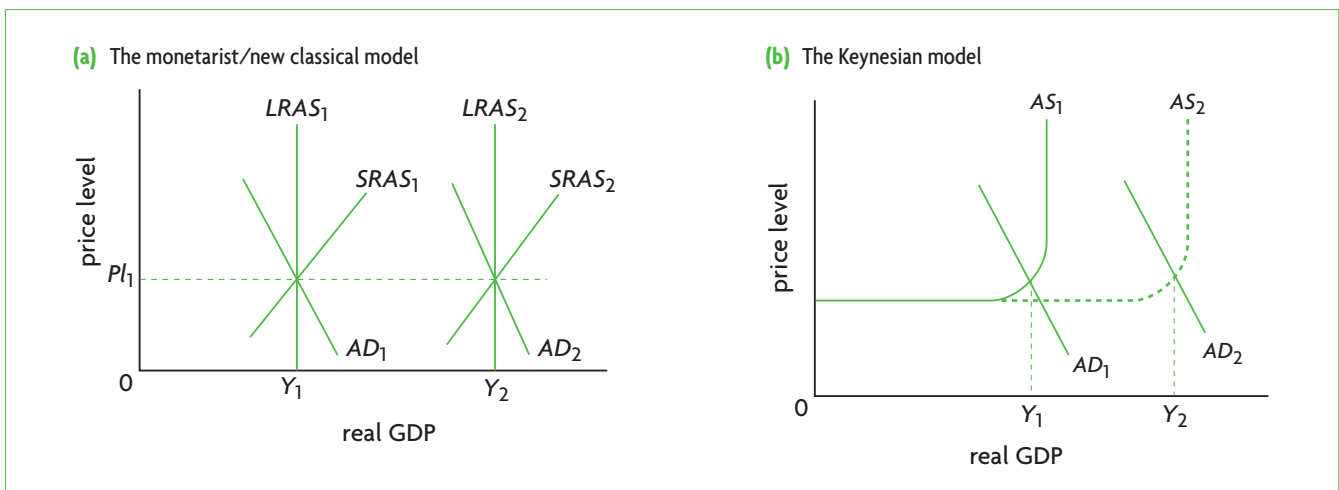


Figure 9.15 Long-term economic growth: achieving potential (full employment) output in a growing economy

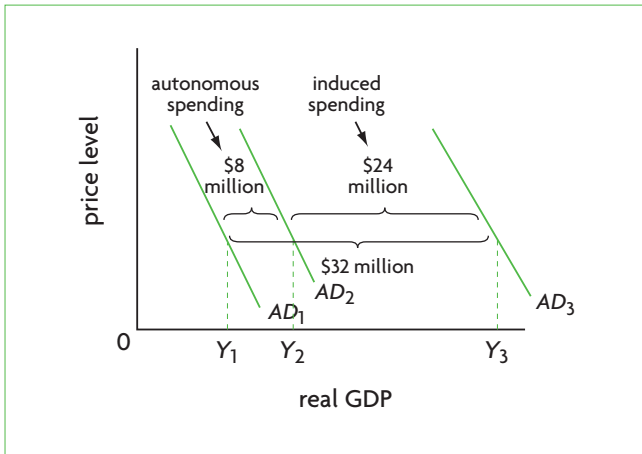


Figure 9.17 Aggregate demand, real GDP and the multiplier in the Keynesian model

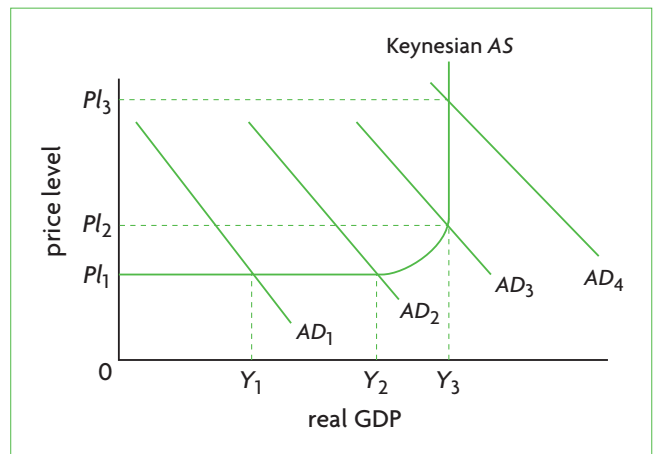


Figure 9.18 How the effect of the multiplier changes depending on the price level

Chapter 10 Macroeconomic objectives I: Low unemployment, low and stable rate of inflation

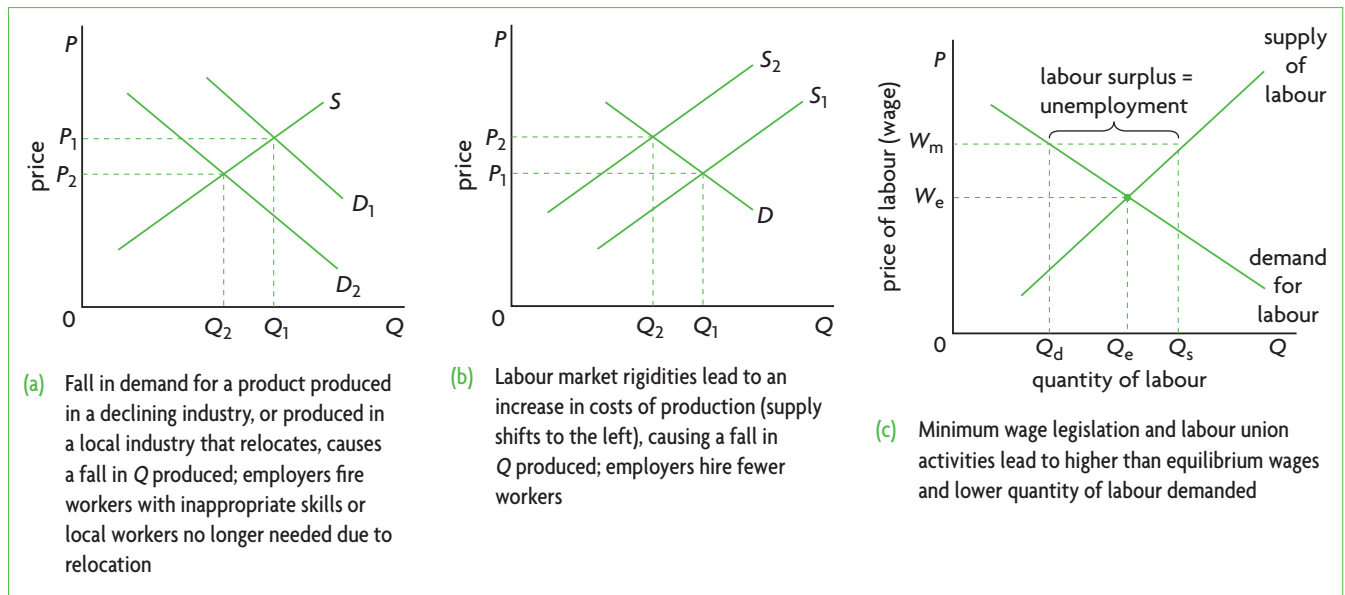


Figure 10.1 Structural unemployment

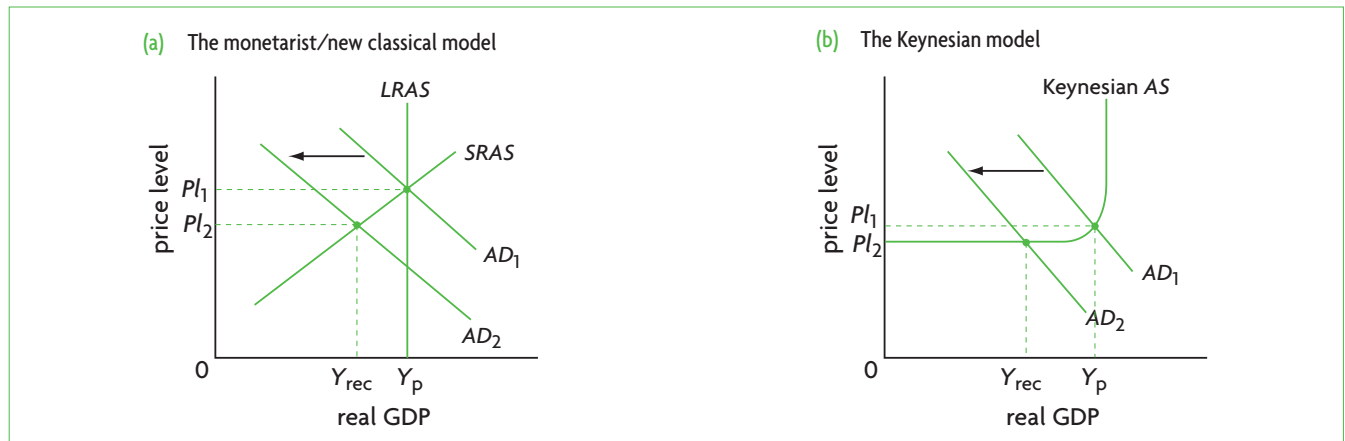


Figure 10.2 Cyclical unemployment

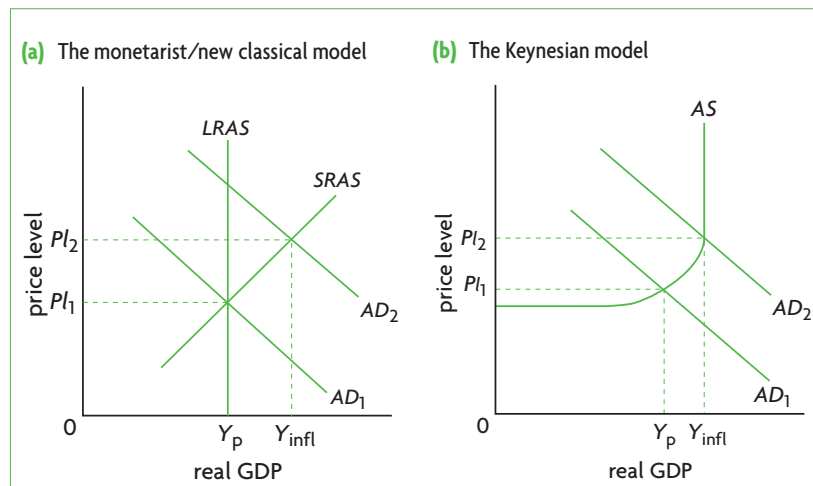


Figure 10.4 Demand-pull inflation

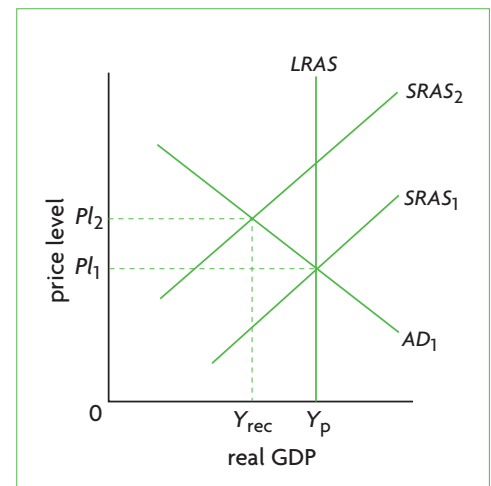


Figure 10.5 Cost-push inflation

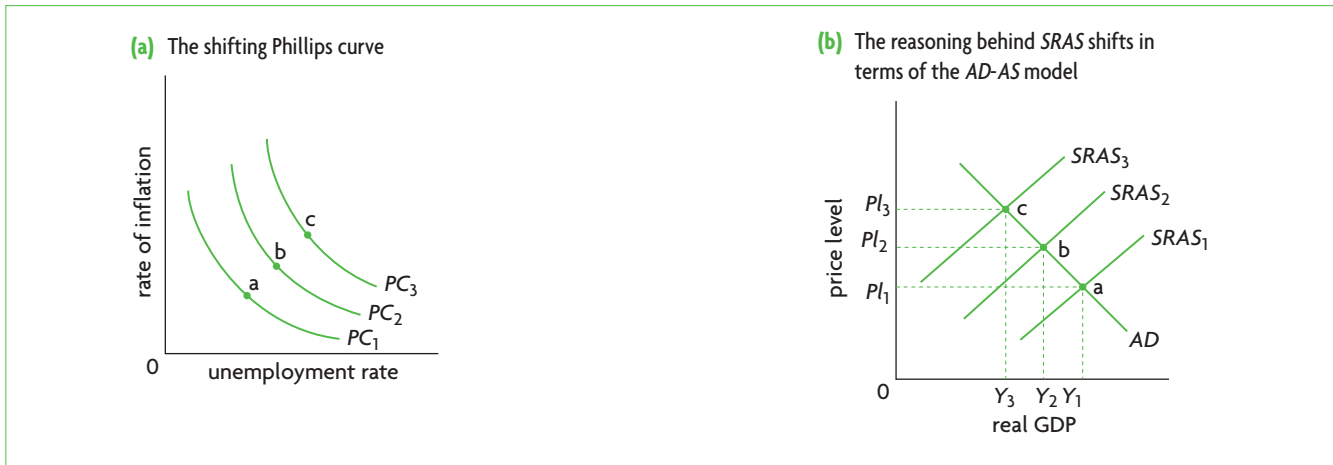


Figure 10.7 Stagflation: outward shifts of the short-run Phillips curve due to decreasing SRAS

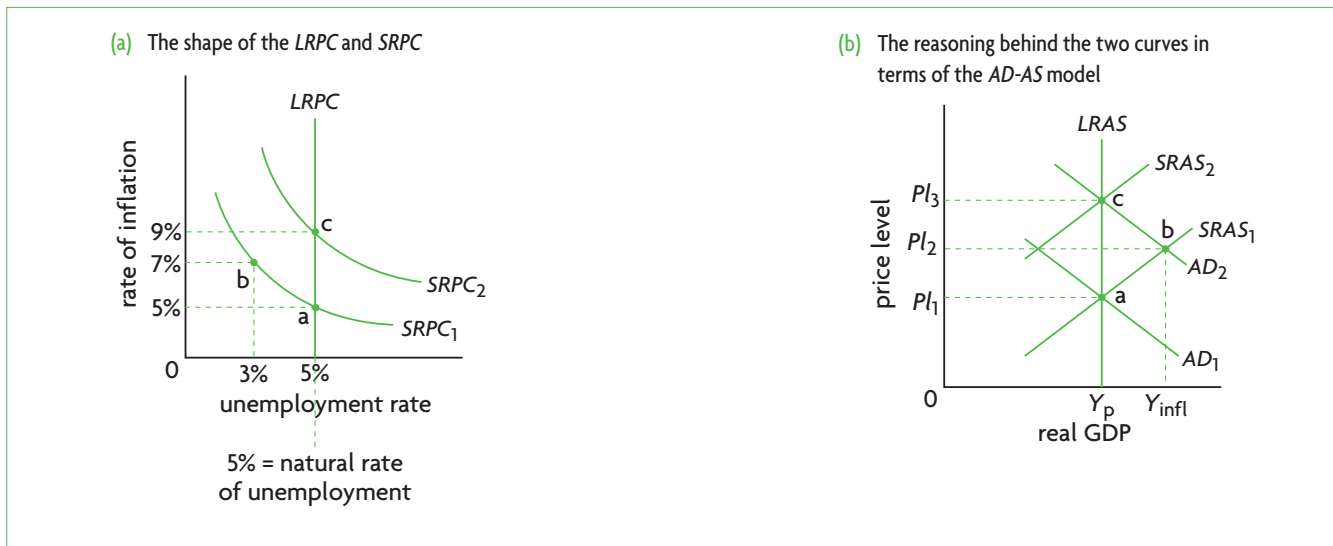


Figure 10.8 The short-run and long-run Phillips curves

Chapter 11 Macroeconomic objectives II: Economic growth and equity in the distribution of income

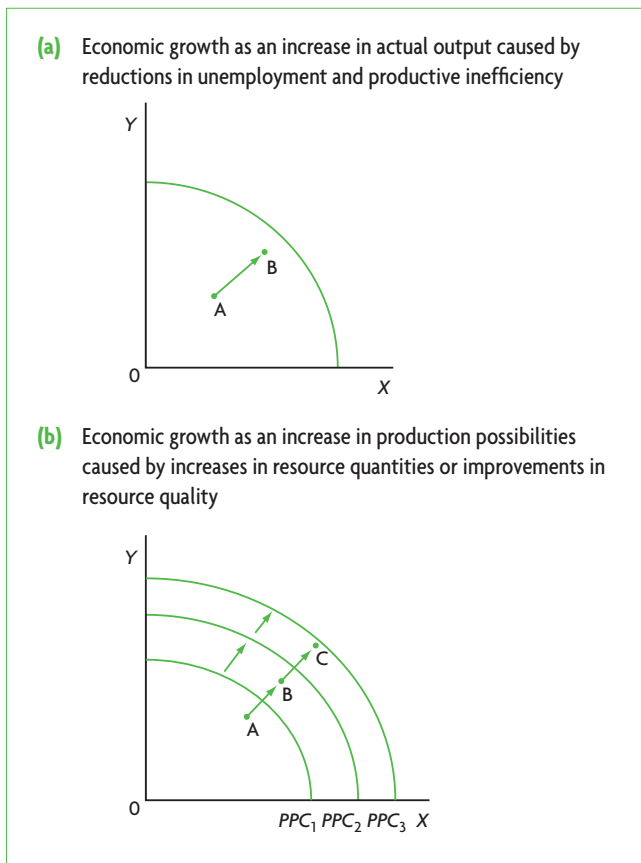


Figure 11.1 Using the production possibilities model to illustrate economic growth

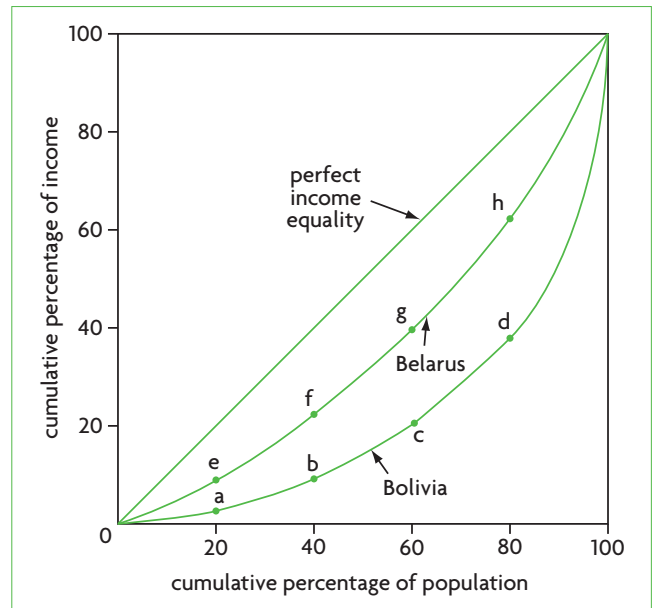


Figure 11.3 Lorenz curves: Belarus achieves greater income equality than Bolivia

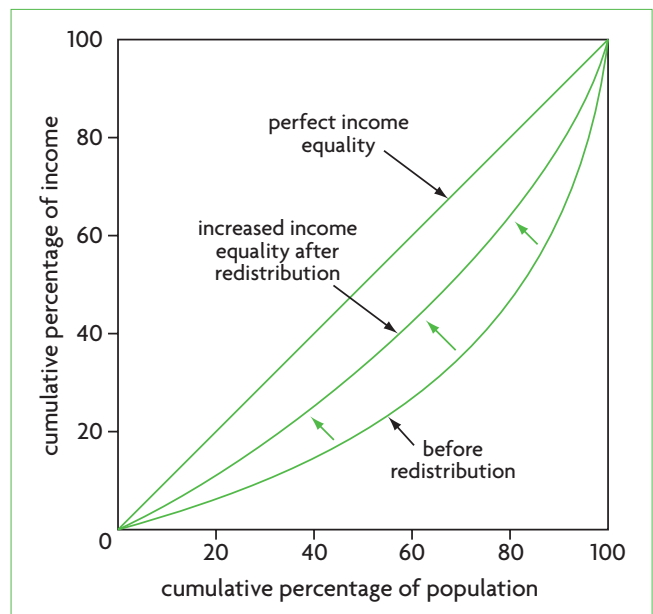


Figure 11.4 Lorenz curves and income redistribution

Chapter 12 Demand-side and supply-side policies

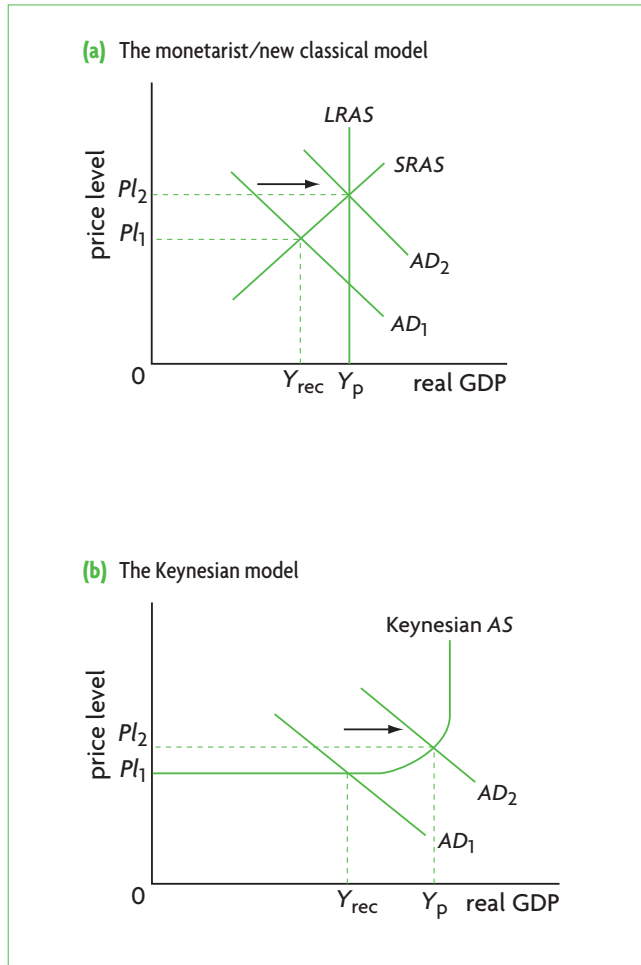


Figure 12.1 Effects of expansionary policy: eliminating a recessionary (deflationary) gap

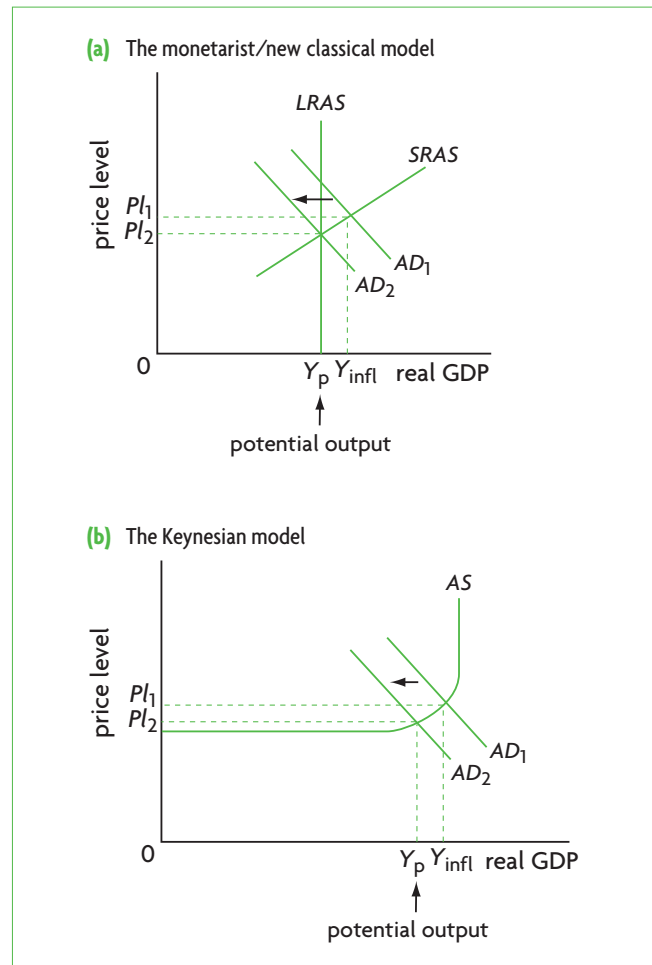


Figure 12.2 Effects of contractionary policy: eliminating an inflationary gap

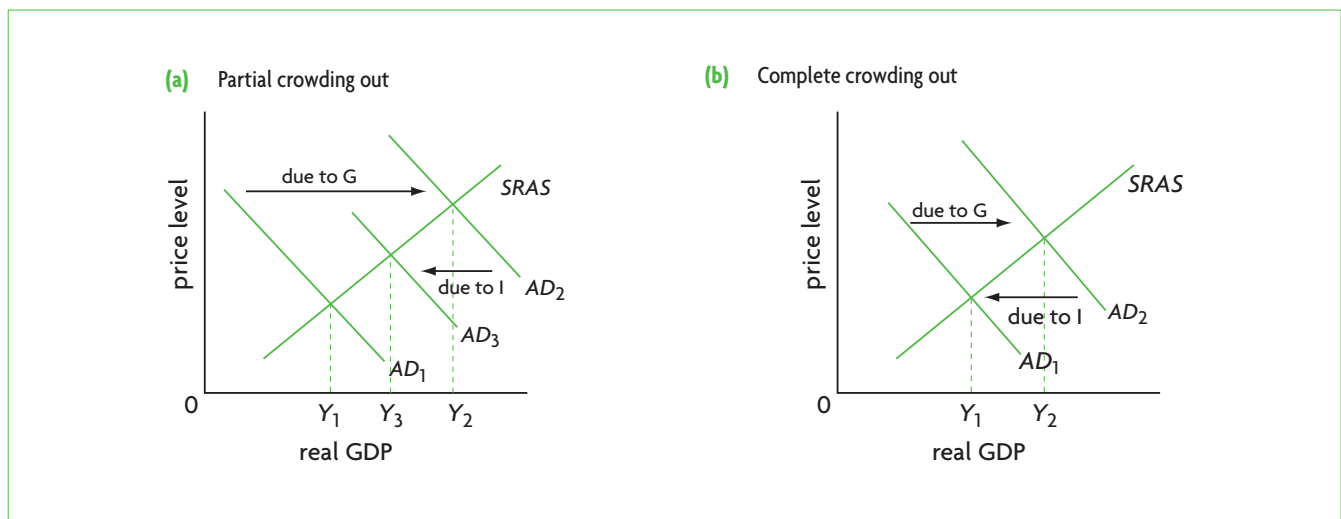


Figure 12.3 Crowding out of private investment

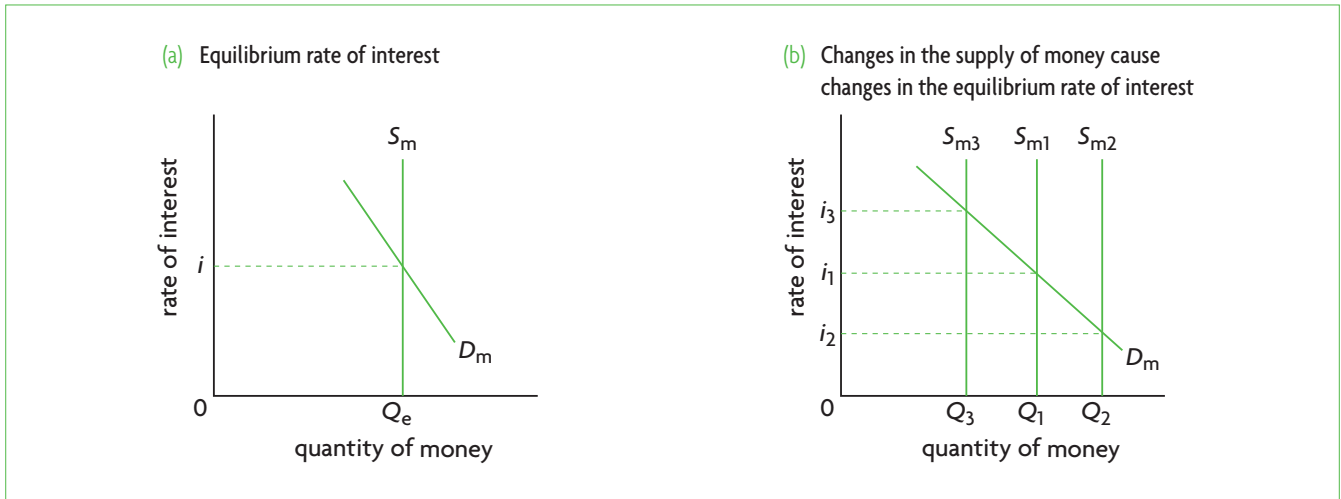


Figure 12.4 The money market and determination of the rate of interest

Chapter 13 International trade

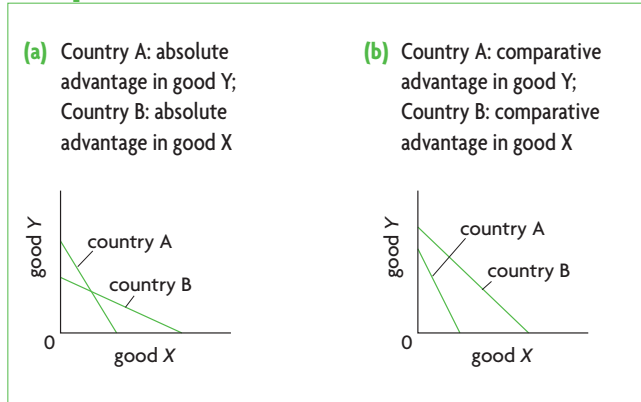


Figure 13.3 Absolute and comparative advantage

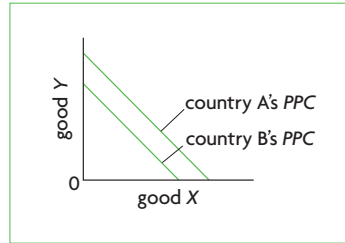


Figure 13.5 Identical opportunity costs: no gains from trade

	Production possibilities when each country produces only cotton or only microchips		Opportunity cost of cotton	Opportunity cost of microchips
	(1) Cotton	(2) Microchips	(3)	(4)
Cottonia	20	or 10	$\frac{10 \text{ units of microchips}}{20 \text{ units of cotton}} = \frac{1}{2}$	$\frac{20 \text{ units of cotton}}{10 \text{ units of microchips}} = 2$
Microchippia	25	or 50	$\frac{50 \text{ units of microchips}}{25 \text{ units of cotton}} = 2$	$\frac{25 \text{ units of cotton}}{50 \text{ units of microchips}} = \frac{1}{2}$

Table 13.2 Comparative advantage

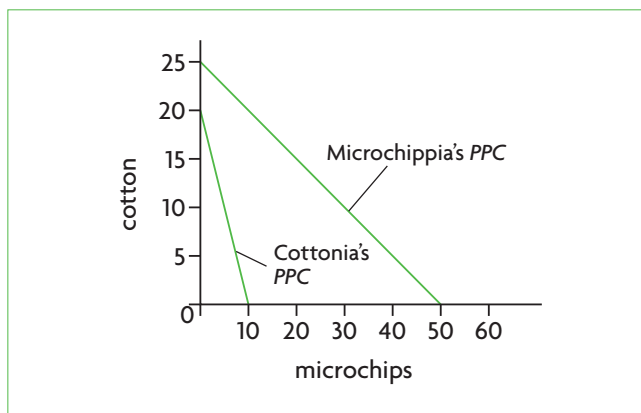


Figure 13.2 Comparative advantage

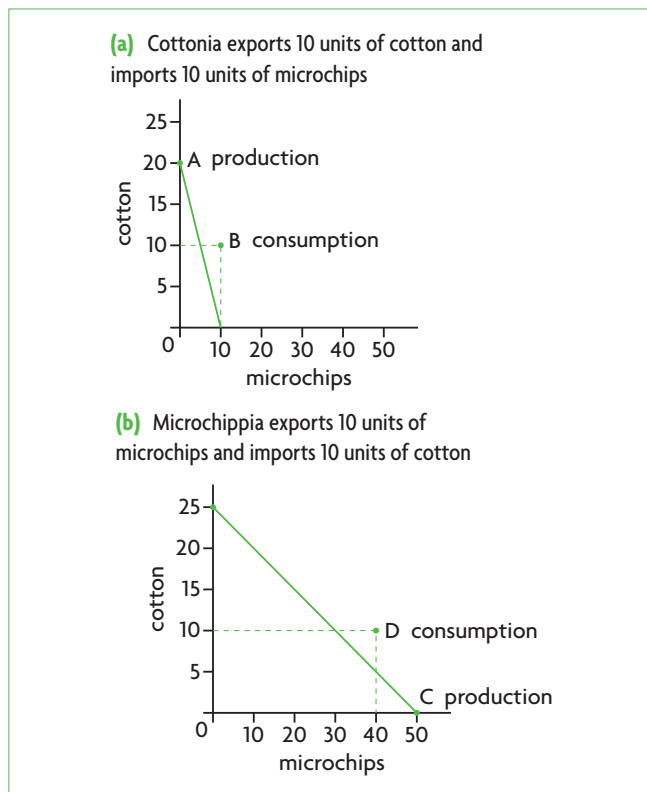


Figure 13.4 The gains from specialisation and trade based on comparative advantage: both countries consume outside their PPC

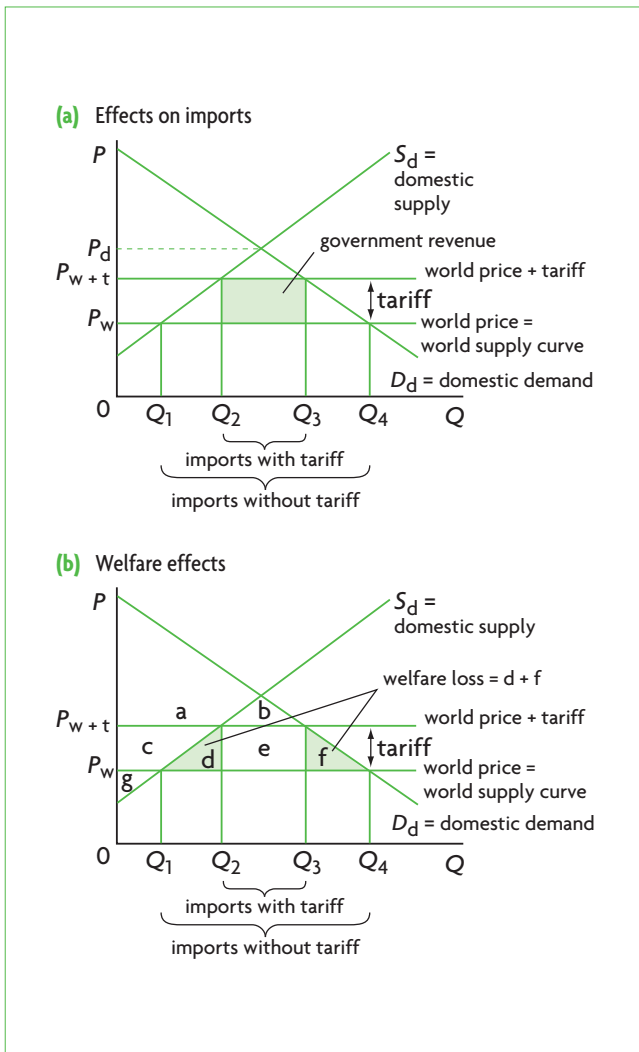


Figure 13.7 Effects of a tariff

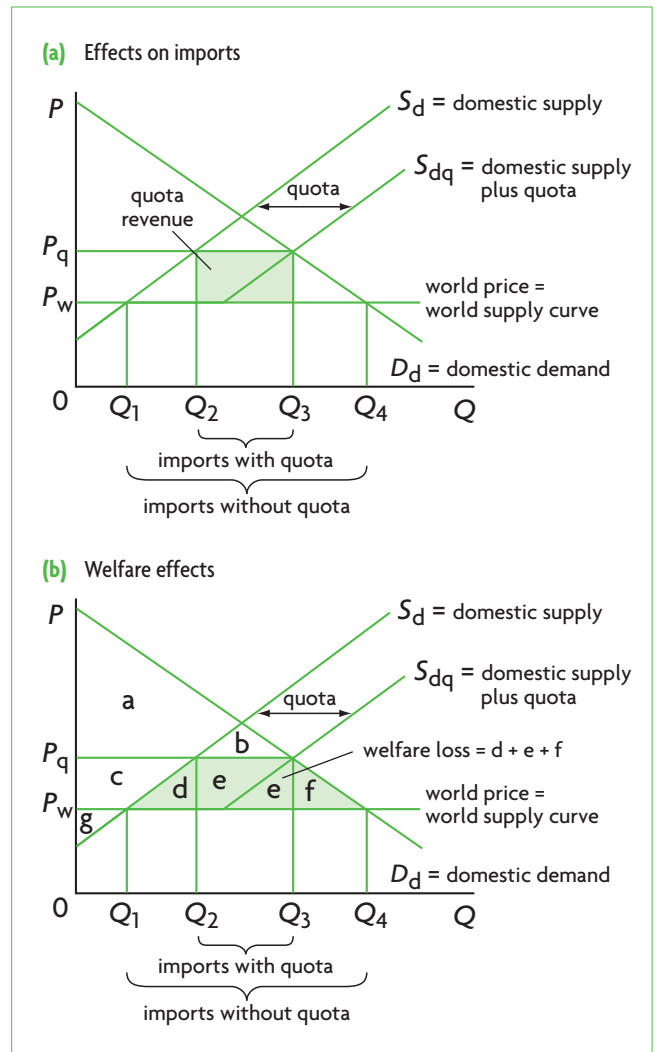


Figure 13.9 Effects of a quota

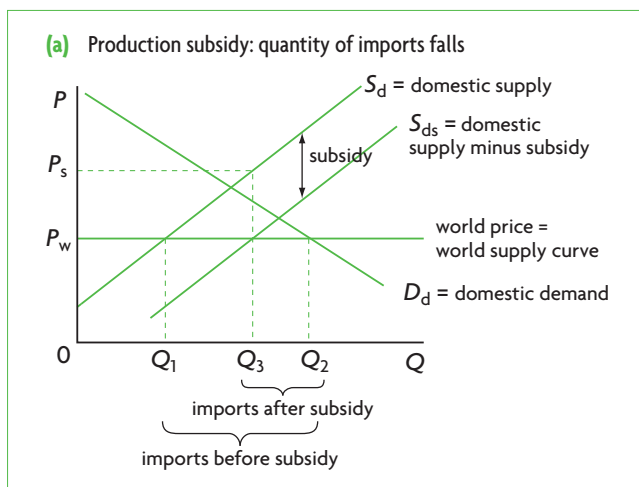


Figure 13.11 Production subsidies

Chapter 14 Exchange rates and the balance of payments

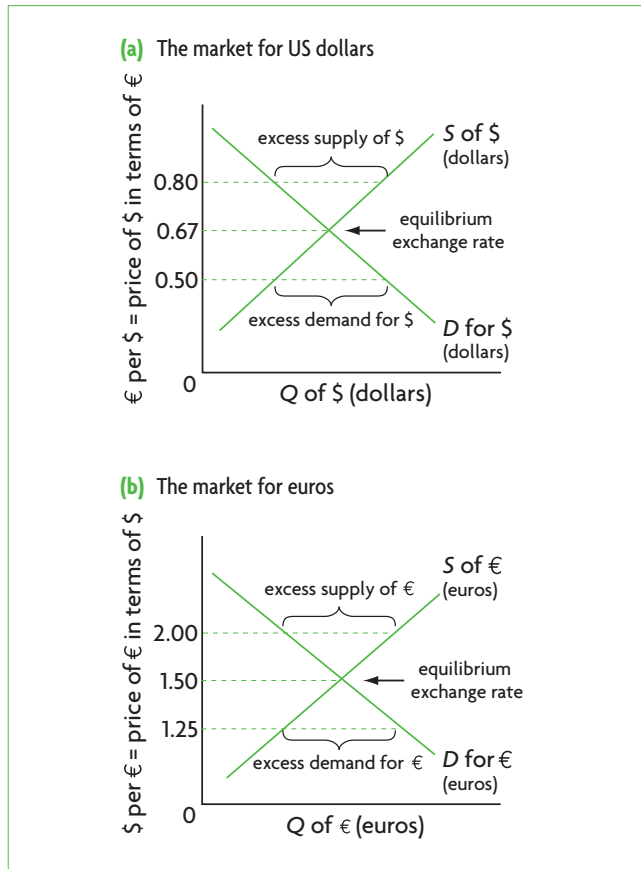


Figure 14.1 Exchange rate determination in a freely floating exchange rate system

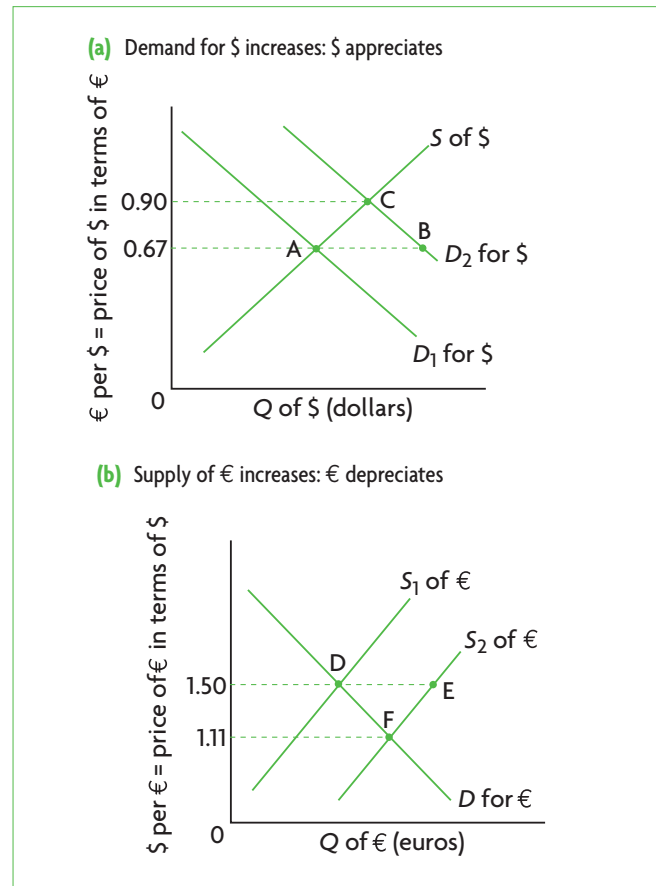


Figure 14.2 Exchange rate changes in a freely floating exchange rate system

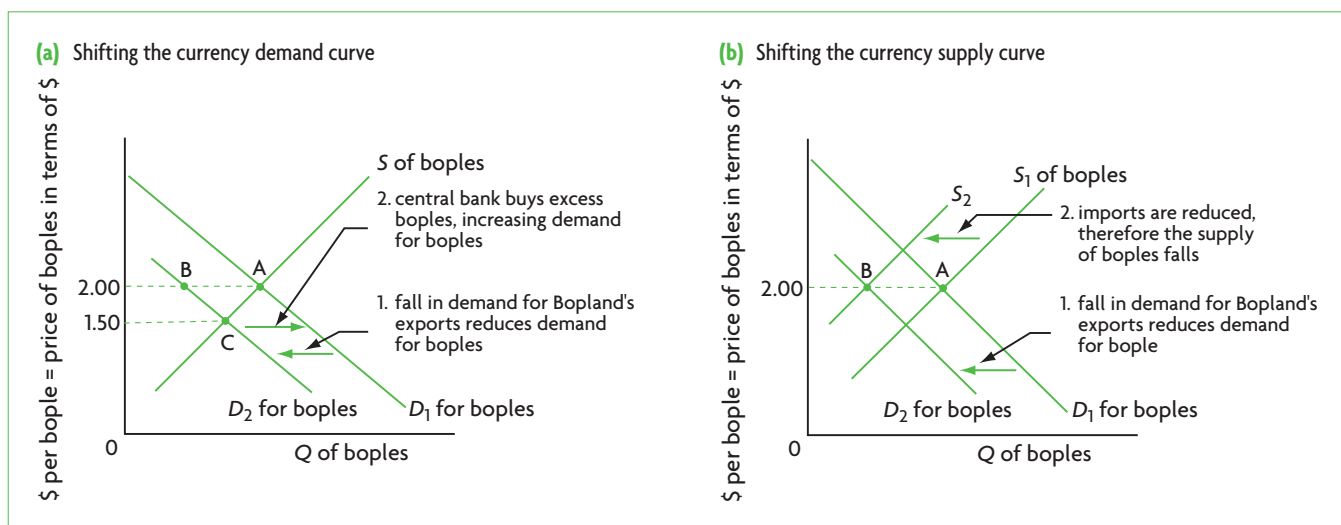


Figure 14.3 Fixed exchange rates: maintaining the value of the bople at 1 bople = \$2.00

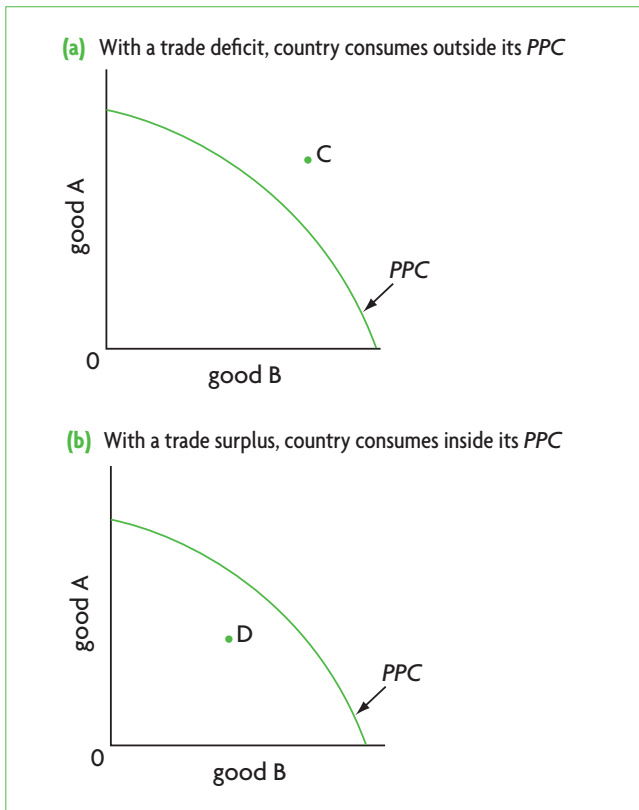


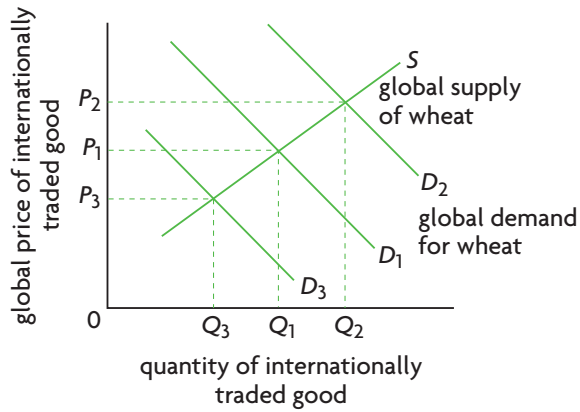
Figure 14.6 Using a *PPC* to illustrate a trade deficit and a trade surplus

Chapter 15 Economic integration and the terms of trade

HL Higher level topic

HL

(a) Changes in global demand: terms of trade and balance of trade change in same direction



(b) Changes in global supply: effects of terms of trade changes on the balance of trade depend on PEDs for exports and imports

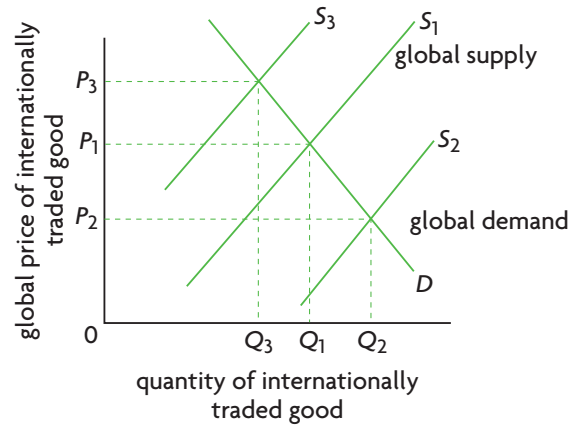


Figure 15.1 Changes in global demand or supply: terms of trade impacts on the balance of trade

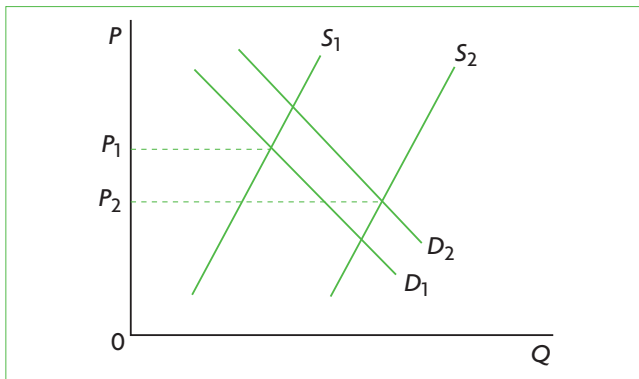


Figure 15.2 Long-term declines in primary product prices due to low growth in demand (due to low YEDs) and high growth in supply (due to technological advances)

Chapter 16 Understanding economic development

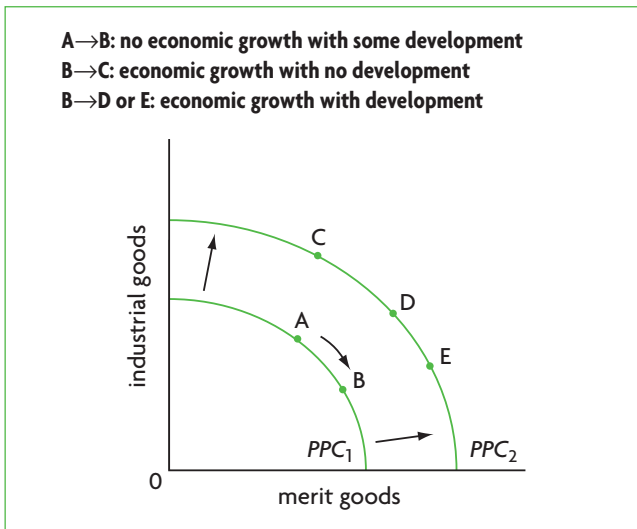


Figure 16.1 Economic growth and economic development

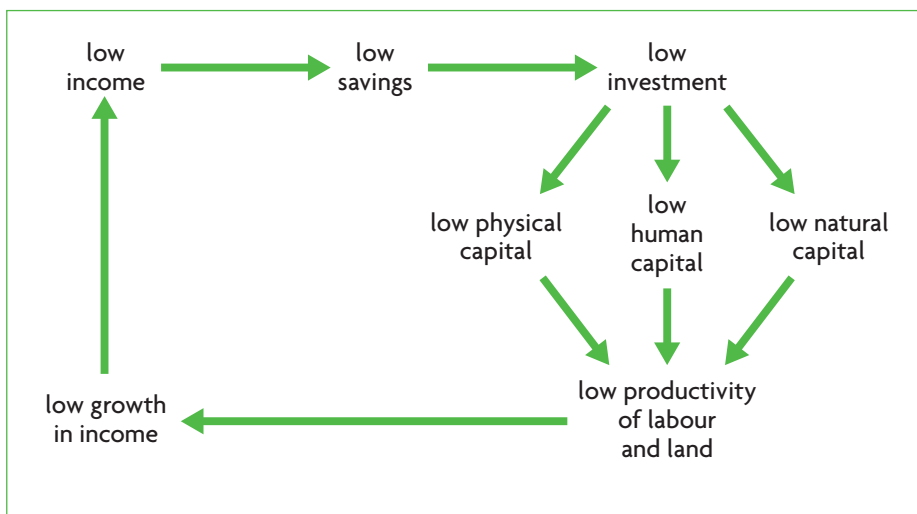


Figure 16.2 The poverty cycle (poverty trap)