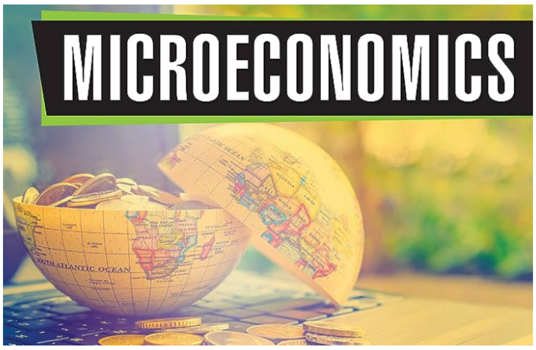
Chapter 02: Introduction To Micro-Economics



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Objectives

- at the end of this chapter the students will be able to:
  - develop the comprehension of economic texts;
  - understand the determinants of supply & demand;
  - differentiate between types of competition in a market structure.

Subject 1 : Supply and Demand theory

I

Supply and demand definition:

figure 1

it is an economic model that describes the relationship between the quantity of a good or service that producers are willing to offer for sale, and the quantity that consumers are willing and able to buy at different prices, **holding all other factors constant**.

- **Supply curve**: the function that represents the relationship between the price and the quantity of products or services that producers are willing to supply at any given price point;
- **Demand curve:** the function that represents the relationship between the price and the quantity of products or services that consumers are willing to purchase at any given price point;
- **Equilibrium**: the point of intersection between the supply and demand curves, representing the price-quantity point where the market stabilizes[1].

1. The Law of Supply and Demand:

Behind the interaction between consumers and producers is the theory known as the law of supply and demand. This law is defined by the relationship between the price of a product or service and the willingness of market actors to either provide or consume that product or service based off that price.

- **The law of demand**: states that the higher the price of a good the lower the quantity consumers will wish to buy;
- **The law of supply**: states that the higher the price of a good the more producers will want to supply.

2. The main demand determinants:

1. **The price of substitutes:** If the price of a competing product decreases, the demand curve for its substitute will shift outwards;
2. **The price of complements:** If the price of a good in joint demand increases, the demand curve for its complement will shift inwards.
3. **Consumers' disposable income:** If consumers' disposable income increases, the demand curve for a good will shift outwards.
4. **Consumer preferences and tastes:** Tastes and preferences may be influenced by advertising. If a company pursued a successful advertising strategy, the demand curve for their product will shift outwards;
5. **Population. An increase in population:** will mean that there is more demand for a good, which would shift its demand curve outwards.
6. **Seasonality:** There are some goods such as the greater bairam, or almaoulid nabaoui decorations,, which are in high demand at that time of the year. This leads to an outward shift in their demand. They are in low demand throughout the rest of the year, which leads to an inward shift in their demand.

3. The main supply determinants:

Supply determinants (also known as supply conditions) are all the other factors that affect supply apart from the price.

The main supply determinants:

The most prominent supply conditions (or supply determinants) are listed below in two categories: production costs and other factors.

3.1. Production costs (often firm-specific)

1. **Cost of labor**: If the wages of workers employed by the firm increase, the firm's supply curve will shift inwards.
2. **Cost of raw materials**: If the price of raw materials increases, the firm's supply curve will shift inwards.
3. **Cost of energy**: If the price of energy decreases, the firm's supply curve will shift outwards.
4. **Borrowing costs**: Businesses often have to borrow money from a bank to finance their expenditures. If there is a decrease in the interest rate on the bank loan, the firm's supply curve will shift outwards.
5. **Labour productivity:** If the productivity of labour increases, the firm's supply curve will shift outward as they will produce more output per unit of time

3.1.1. Other factors (often affect the market supply)

1. **Technology:** An improvement in technology will shift the market supply curve outwards, as new technology often introduces improvements and efficiency into the production processes;
2. **Taxes and subsidies:** If the government raises corporate tax, the market supply curve would shift inwards. However, if the government provides a subsidy to a particular sector of the economy, the market supply curve for that sector would shift outwards;

3. **Natural conditions**: Natural conditions are important for industries such as agriculture. If there are significant adverse weather conditions in a particular year, the market supply curve for agricultural output will shift inwards [2].

Subject 2 : Market Structure

II

Definition: Market structure definition

in economics, refers to how different industries are classified and differentiated based on their degree and nature of competition for goods and services. It is based on the characteristics that influence the behavior and outcomes of companies working in a specific market.

1. Market structure determinants

Some of the factors that determine a market structure include:

- the number of buyers and sellers;
- ability to negotiate;
- degree of concentration;
- degree of differentiation of products;
- and the ease or difficulty of entering and exiting the market.

2. Types of Market Structures

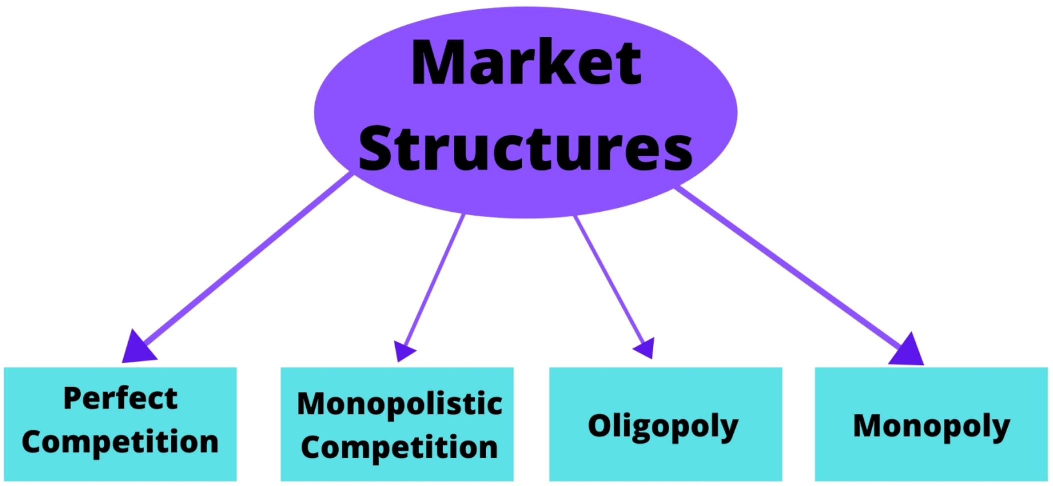

figure 2

1. **Perfect Competition:** Perfect competition occurs when there is a large number of small companies competing against each other. They sell similar products (homogeneous), lack price influence over the commodities, and are free to enter or exit the market.
   Consumers in this type of market have full knowledge of the goods being sold. They are aware of the prices charged on them and the product branding. In the real world, the pure form of this type of market structure rarely exists. However, it is useful when comparing companies with similar features. This market is unrealistic as it faces some significant criticisms described below;
2. **Monopolistic Competition :** refers to an imperfectly competitive market with the traits of both the monopoly and competitive market. Sellers compete among themselves and can differentiate their goods in terms of quality and branding to look different. In this type of competition, sellers consider the price charged by their competitors and ignore the impact of their own prices on their competition.
   When comparing monopolistic competition in the short term and long term, there are two distinct aspects that are observed. In the short term, the monopolistic company maximizes its profits and enjoys all the benefits as a monopoly.
3. **Oligopoly :An oligopoly:** market consists of a small number of large companies that sell differentiated or identical products. Since there are few players in the market, their competitive strategies are dependent on each other.
   For example, if one of the actors decides to reduce the price of its products, the action will trigger other actors to lower their prices, too. On the other hand, a price increase may influence others not to take any action in the anticipation consumers will opt for their products. Therefore, strategic planning by these types of players is a must;
4. **Monopoly :** In a monopoly market, a single company represents the whole industry. It has no competitor, and it is the sole seller of products in the entire market. This type of market is characterized by factors such as the sole claim to ownership of resources, patent and copyright, licenses issued by the government, or high initial setup costs.All the above characteristics associated with monopoly restrict other companies from entering the market. The company, therefore, remains a single seller because it has the power to control the market and set prices for its goods [3].

term	translation	term	translation
Supply & demand theory	نظرية العرض والطلب	Tastes	أذواق
Economic model	نموذج اقتصادي	Influenced	يتأثر
Offer for sale	يعرض للبيع	Advertising strategy	استراتيجية التسويق
Supply curve	منحنى العرض	Company	شركة
Demand curve	منحنى الطلب	Population	الكثافة السكانية
Equilibrium	حالة التوازن	Seasonality	الموسمية
law	قانون	Costs	تكاليف
Market actors	ممثلي السوق	Increase	ارتفاع
Provide	يوفر	Decrease	انخفاض
Determinants	محددات	The firm	المؤسسة
Decrease	انخفاض	Borroing costs	تكاليف الاقتراض
Shift outwards	يتجه نحو اليمين	To Finance	تمويل
Shift inwards	يتجه نحو الايسار	Expenditure	نفقات
Disposable income	الدخل المتاح	Interest rate	معدل الفادة
preferences	تفضيلات	Bank loan	قرض بنكي

figure 03

Note:PS

Most terms in the table above are already explained in the lesson