

Introduction to Economics

Basic terms, demand and supply curve, price and output determination.

- Demand

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- Supply

Basic terms, demand and supply curve, price and output determination.

- Price

Basic terms, demand and supply curve, price and output determination.

- Quantity

Distinguish between macro and micro issues.

Micro:
Individuals
and firms

Macro:
Countries and
Governments

Understand the meaning of 'scarcity' and its relation to production and consumption.

Non rival

Non excludable

Public good

Non rival

Non excludable

Understand how demand curves are constructed and be able to plot a demand curve from a table.

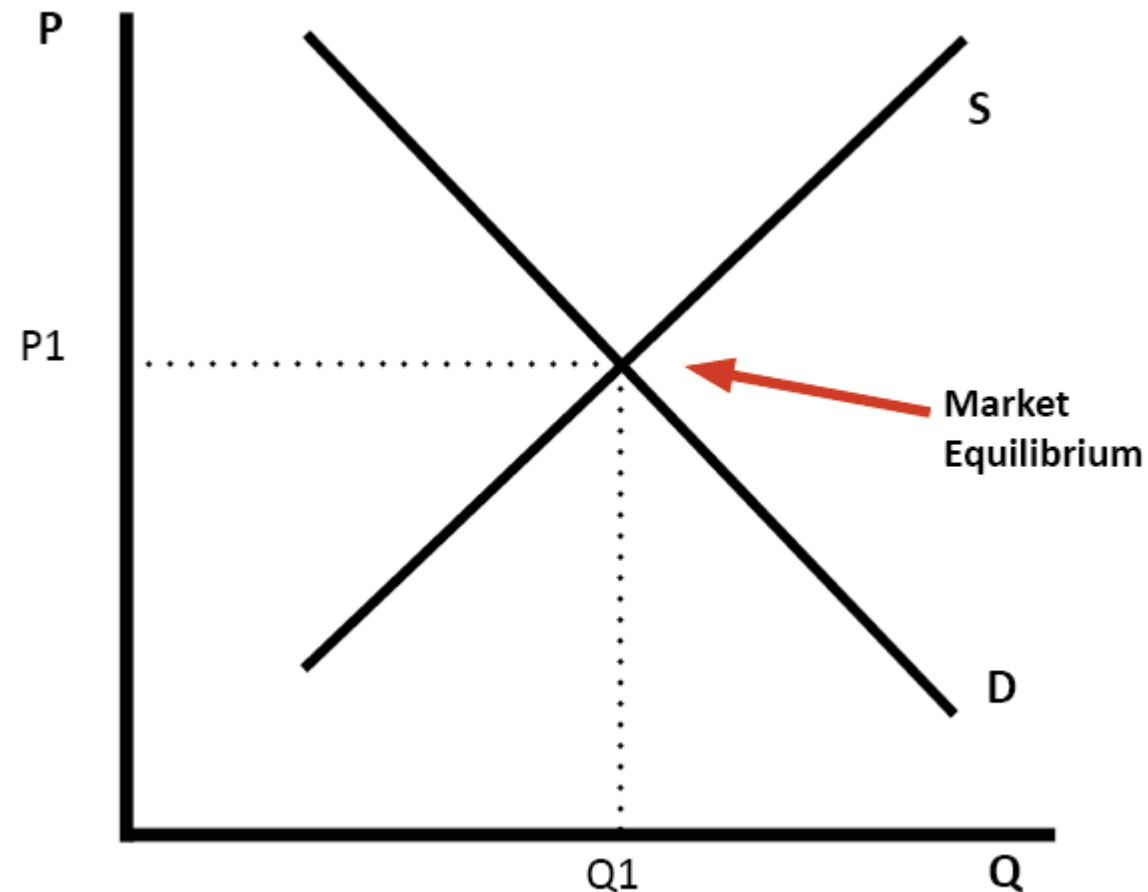
Price	Quantity consumed
50	10
40	20
30	30
20	40
10	50
0	Infinity

Understand how supply curves are constructed and be able to plot a supply curve from a table.

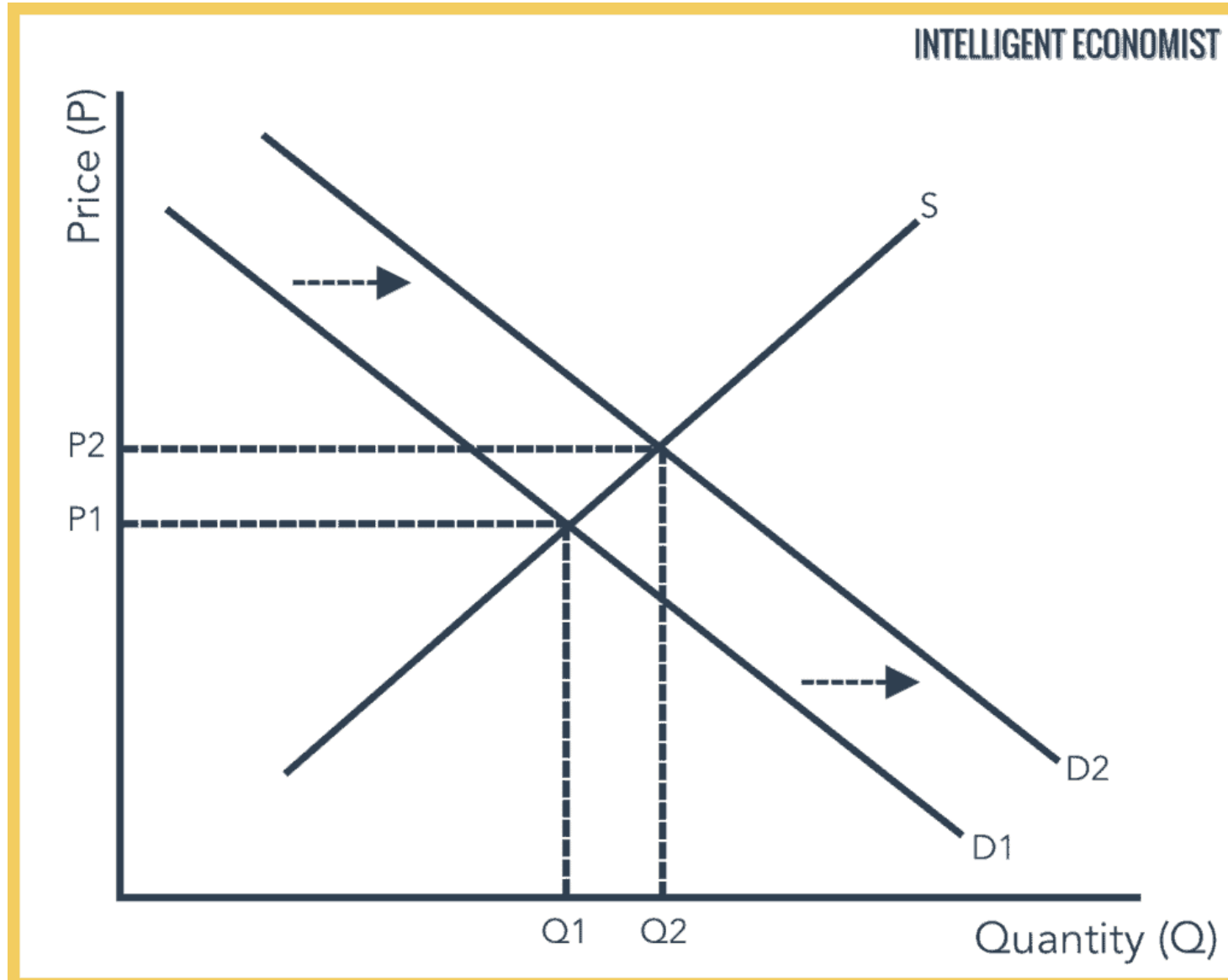
Price	Quantity produced
50	50
40	40
30	30
20	20
10	10
0	0

Understand the concept of equilibrium

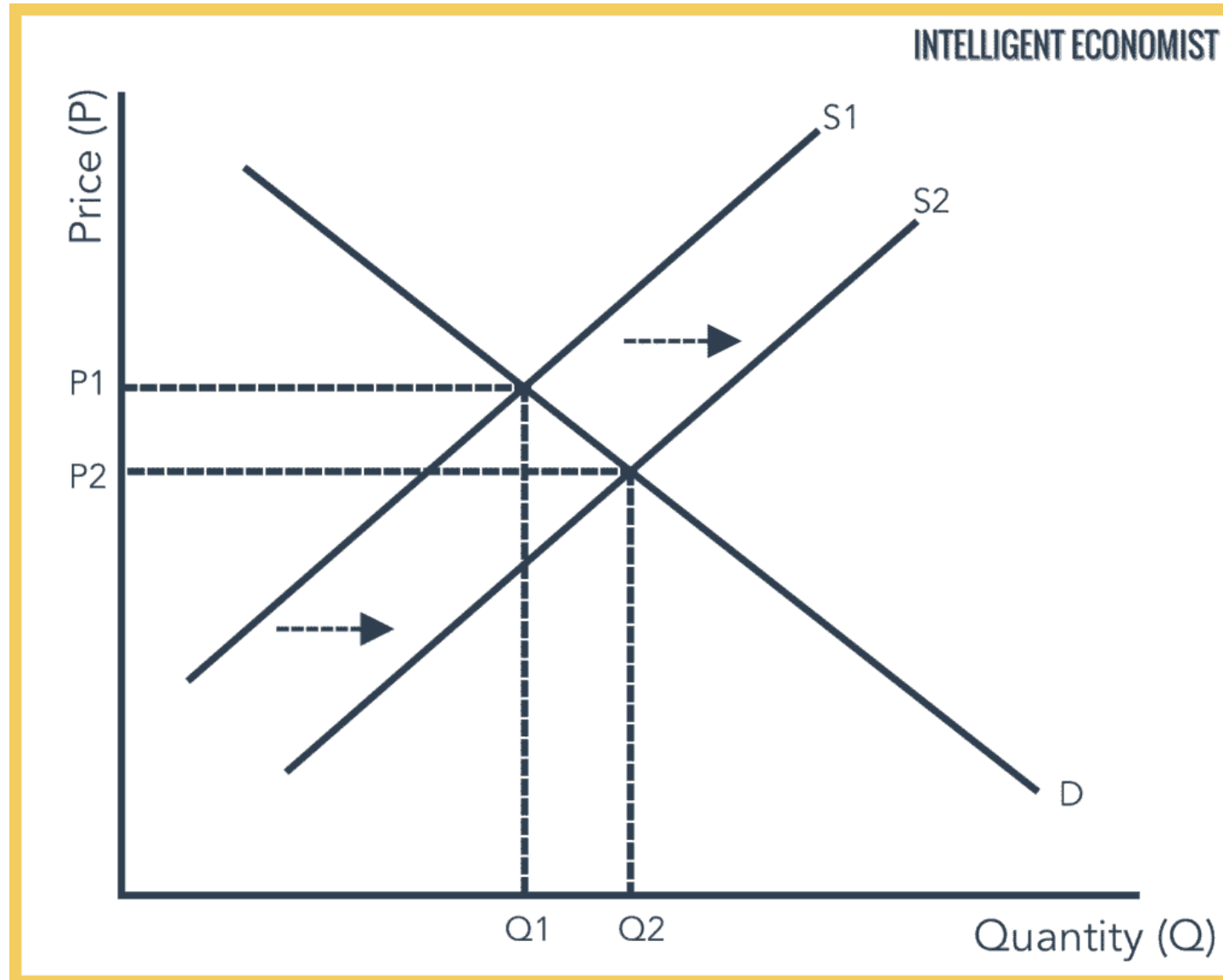
Based on the demand and supply curves, what is the market clearing price? (Where maximum is produced and fully consumed?)



When demand grows, but supply is unchanged



When supply grows, but demand is unchanged



Price controls: what happens with a price cap?



Unintended consequences...

What happens when markets can't clear?

Abundance and Shortage

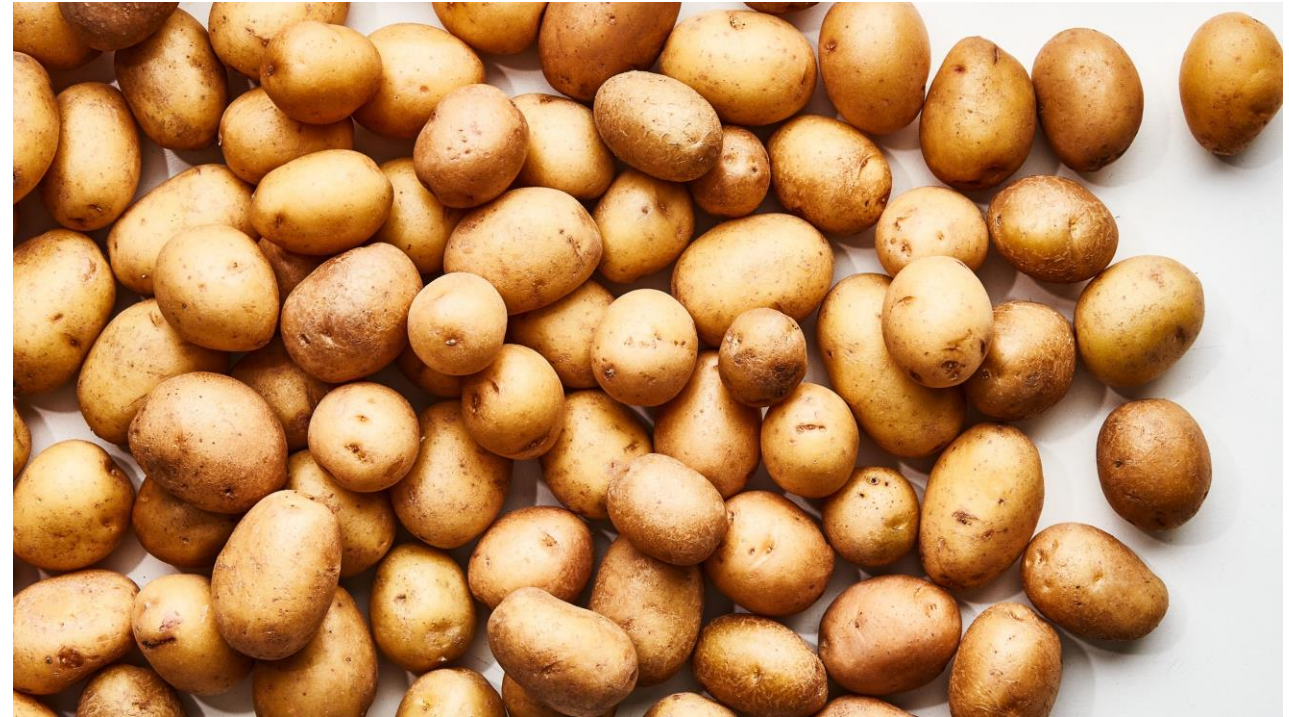


Complements and Substitutes



Understand the concept of elasticity in general and why it is measured in proportionate or percentage terms.

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	Demand Down	Demand Up
Price Down	Inferior Goods	Normal Goods
Price Up	Normal Goods	Superior Goods (aka Veblen Goods)

Veblen goods sell because of consumers' desire for conspicuous consumption – extravagant and ostentatious expenditure. Sellers of such items thrive on people's psychological craving for status, the esteem of others, or the belief that 'you get what you pay for'.

Understand the concepts of price, income and cross-price elasticities of demand

PED= % change in Price
/ % change in Demand

YED= % change in Income
/ % change in Demand

XED = % change in Price of Good 2
/ % change in Demand for Good 1

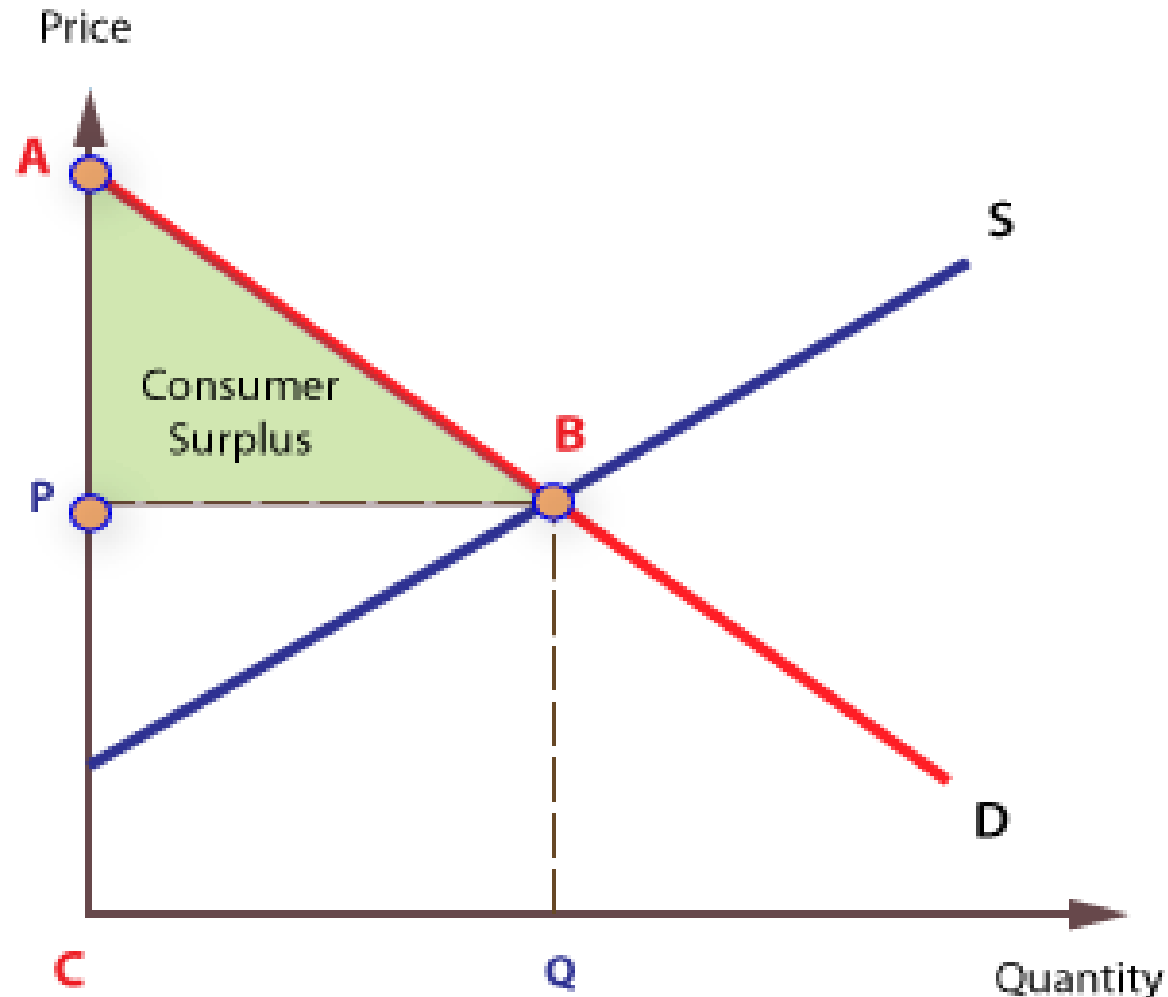
Identify the determinants of the various elasticities and explain why they affect elasticity the way they do

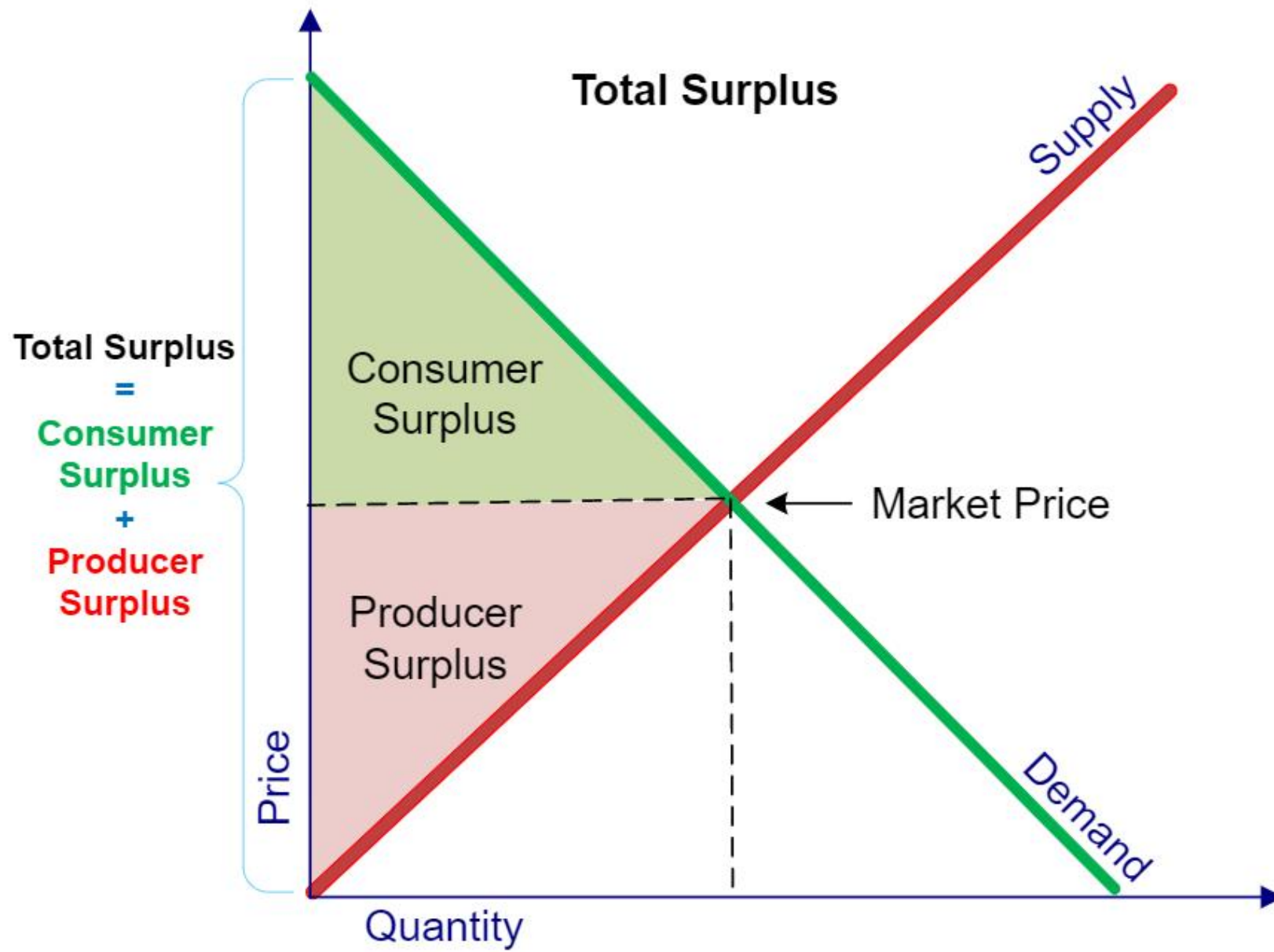
Price

Income

Cross-Elasticity

Understand the concept of the 'rational' consumer. Explain rational consumer behaviour in terms of maximising consumer surplus.

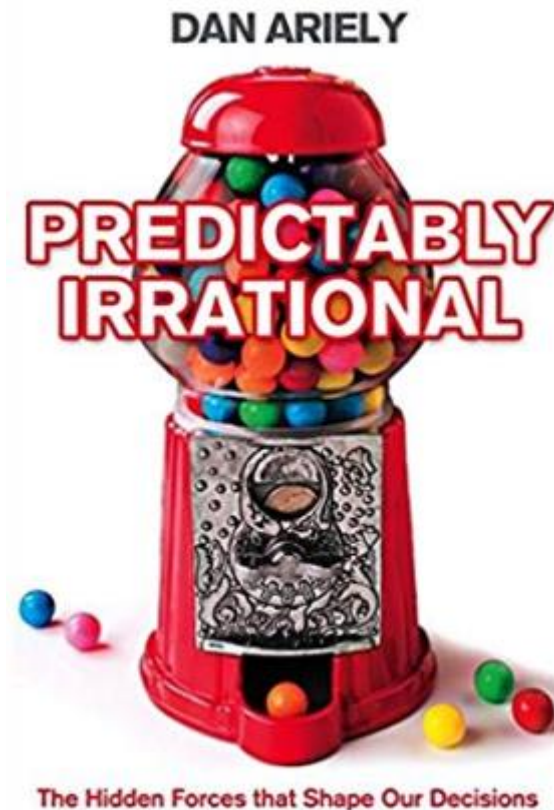




Rational consumer

- Broadly speaking, a rational consumer will maximise their consumer surplus and so will choose the good gives them the greatest utility for their spend.
- As such, rational consumers will pursue the cheapest version of a good.
- They will also substitute purchases to maximise their total utility, even if it means sacrificing consumption of a good that is now (relatively) too expensive

We'll come back to rationality



Substitution goods

Understand the distinction between **total** and **marginal** utility (and the principle of diminishing marginal utility)

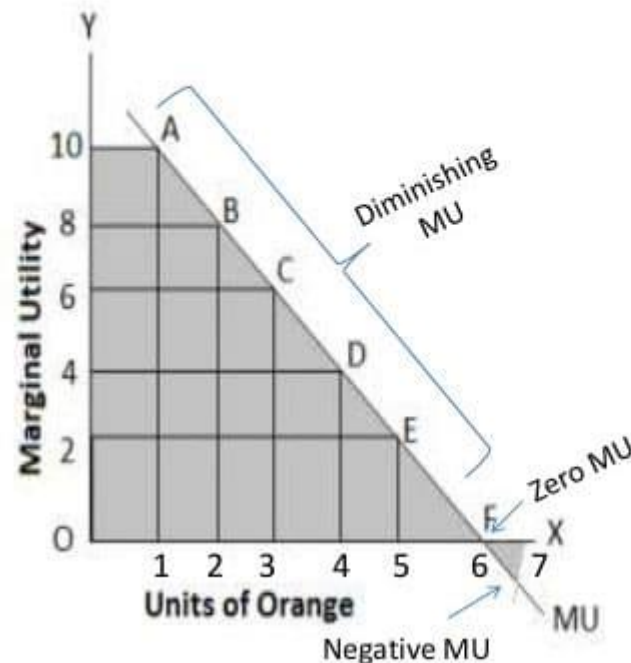
(and the principle of diminishing marginal utility)

Diminishing Marginal Utility

Law of Diminishing Marginal Utility

Units	Total Utility	Marginal Utility
1	10	10
2	18	8
3	24	6
4	28	4
5	30	2
6	30	0
7	28	-2

MU curve is downward sloping because of the fact that consumption of successive units gives less satisfaction.



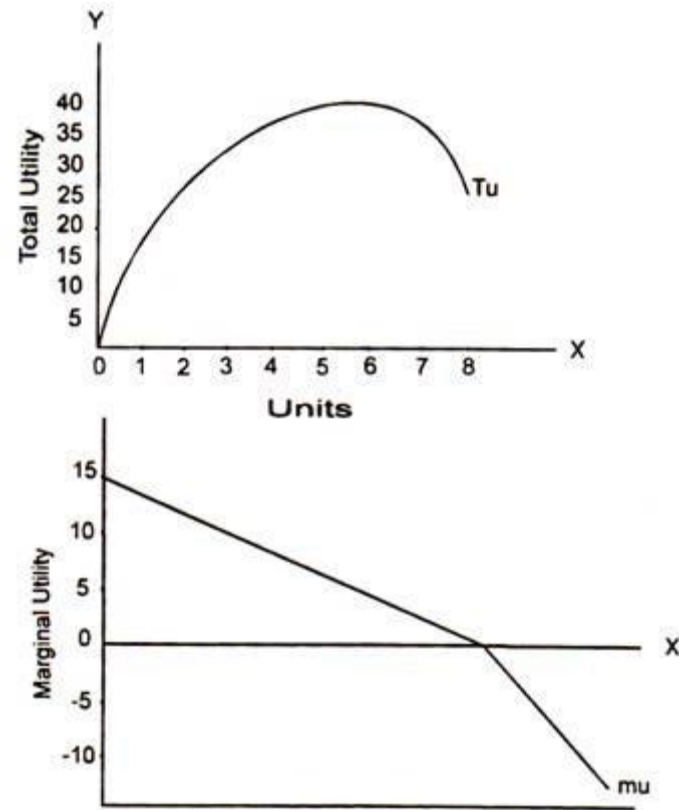


Fig.3. Diminishing Marginal Utility

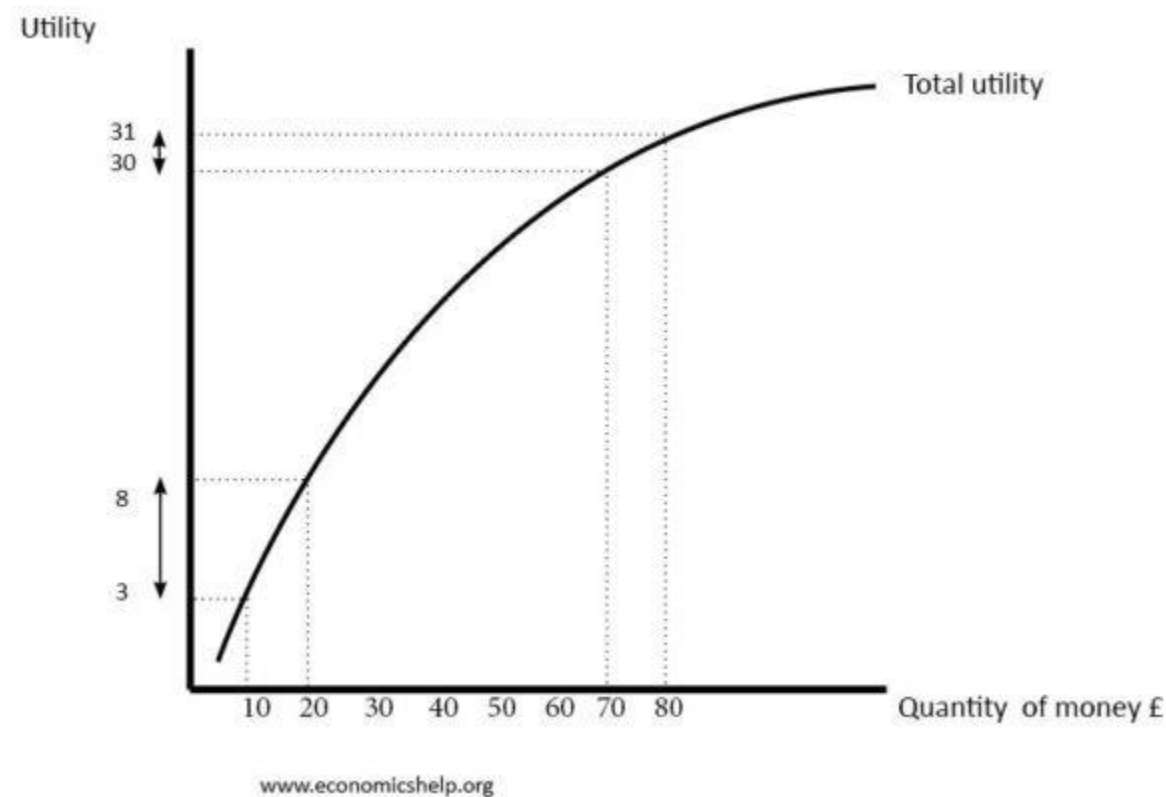
Understand the relationship between marginal utility and the elasticity of demand for a good.

Define risk and uncertainty and understand the meaning of favourable, unfavourable and fair odds, and the distinction between being risk loving, risk averse and risk neutral.

Lets talk about Expected Return

Probability	Return
20%	£ 100,000
20%	£ 10,000
20%	£ 1,000
20%	£ 100
20%	£ 10
Expected Return =	£ 22,222

Relate risk attitudes to the diminishing marginal utility of income.



Predictably irrational?! (10:47)



https://www.ted.com/talks/dan_ariely_asks_are_we_in_control_of_our_own_decisions?language=en

Economics reading: Academic

Begg: Economics for Business – [Link](#)

Varian: Intermediate Micro Economics - [Link](#)

Music Economics reading: PRS for Music

<https://www.prsformusic.com/what-we-do/influencing-policy/research>

A House Divided

Recession and Royalties

How to dance to ARPU

Interactive content

Key Videos:

Midem; Meeting the Needs of the On-Demand Fan

<https://www.youtube.com/watch?v=DR1wkDkhh5k#t=16>

Midem; Big Data Sets the Pace in Music

<https://www.youtube.com/watch?v=BHc7rL9Gcf8>

Additional Videos:

Rory Sutherland, The Lost Genius of Irrationality (the complexity of human behaviour)

<https://www.youtube.com/watch?v=4VuYiEbGQ9Q>

Rory Sutherland, Life Lessons from an Ad Man.

<https://www.youtube.com/watch?v=audakxABYUc>

Mike Masnick; Trent Reznor Case Study

<https://www.youtube.com/watch?v=Njuo1puB1lg>

Dan Ariely <https://www.youtube.com/watch?v=wfcro5iM5vw>

David McCandless <http://www.informationisbeautiful.net/>