

Syllabus content

Section 1: Microeconomics

1.1 Competitive markets: Demand and supply

Sub-topic	SL/HL core	HL
Markets		
The nature of markets	<ul style="list-style-type: none"> Outline the meaning of the term market. 	
Demand		
The law of demand	<ul style="list-style-type: none"> Explain the negative causal relationship between price and quantity demanded. Describe the relationship between an individual consumer's demand and market demand. 	
The demand curve	<ul style="list-style-type: none"> Explain that a demand curve represents the relationship between the price and the quantity demanded of a product, <i>ceteris paribus</i>. Draw a demand curve. 	
The non-price determinants of demand (factors that change demand or shift the demand curve)	<ul style="list-style-type: none"> Explain how factors including changes in income (in the cases of normal and inferior goods), preferences, prices of related goods (in the cases of substitutes and complements) and demographic changes may change demand. 	
Movements along and shifts of the demand curve	<ul style="list-style-type: none"> Distinguish between movements along the demand curve and shifts of the demand curve. Draw diagrams to show the difference between movements along the demand curve and shifts of the demand curve. 	

Sub-topic	SL/HL core	HL
Linear demand functions (equations), demand schedules and graphs		<ul style="list-style-type: none"> • Explain a demand function (equation) of the form $Q_d = a - bP$. • Plot a demand curve from a linear function (eg. $Q_d = 60 - 5P$). • Identify the slope of the demand curve as the slope of the demand function $Q_d = a - bP$, that is $-b$ (the coefficient of P). • Outline why, if the “a” term changes, there will be a shift of the demand curve. • Outline how a change in “b” affects the steepness of the demand curve.
Supply		
The law of supply	<ul style="list-style-type: none"> • Explain the positive causal relationship between price and quantity supplied. • Describe the relationship between an individual producer’s supply and market supply. 	
The supply curve	<ul style="list-style-type: none"> • Explain that a supply curve represents the relationship between the price and the quantity supplied of a product, <i>ceteris paribus</i>. • Draw a supply curve. 	
The non-price determinants of supply (factors that change supply or shift the supply curve)	<ul style="list-style-type: none"> • Explain how factors including changes in costs of factors of production (land, labour, capital and entrepreneurship), technology, prices of related goods (joint/competitive supply), expectations, indirect taxes and subsidies and the number of firms in the market can change supply. 	

Sub-topic	SL/HL core	HL
Movements along and shifts of the supply curve	<ul style="list-style-type: none"> • Distinguish between movements along the supply curve and shifts of the supply curve. • Construct diagrams to show the difference between movements along the supply curve and shifts of the supply curve. 	
Linear supply functions, equations and graphs		<ul style="list-style-type: none"> • Explain a supply function (equation) of the form $Q_s = c + dP$. • Plot a supply curve from a linear function (eg, $Q_s = -30 + 20P$). • Identify the slope of the supply curve as the slope of the supply function $Q_s = c + dP$, that is d (the coefficient of P). • Outline why, if the “c” term changes, there will be a shift of the supply curve. • Outline how a change in “d” affects the steepness of the supply curve.
Market equilibrium		
Equilibrium and changes to equilibrium	<ul style="list-style-type: none"> • Explain, using diagrams, how demand and supply interact to produce market equilibrium. • Analyse, using diagrams and with reference to excess demand or excess supply, how changes in the determinants of demand and/or supply result in a new market equilibrium. 	
Calculating and illustrating equilibrium using linear equations		<ul style="list-style-type: none"> • Calculate the equilibrium price and equilibrium quantity from linear demand and supply functions. • Plot demand and supply curves from linear functions, and identify the equilibrium price and equilibrium quantity. • State the quantity of excess demand or excess supply in the above diagrams.

Sub-topic	SL/HL core	HL
The role of the price mechanism		
Resource allocation	<ul style="list-style-type: none"> Explain why scarcity necessitates choices that answer the “What to produce?” question. Explain why choice results in an opportunity cost. Explain, using diagrams, that price has a signalling function and an incentive function, which result in a reallocation of resources when prices change as a result of a change in demand or supply conditions. 	
Market efficiency		
Consumer surplus	<ul style="list-style-type: none"> Explain the concept of consumer surplus. Identify consumer surplus on a demand and supply diagram. 	
Producer surplus	<ul style="list-style-type: none"> Explain the concept of producer surplus. Identify producer surplus on a demand and supply diagram. 	
Allocative efficiency	<ul style="list-style-type: none"> Explain that the best allocation of resources from society’s point of view is at competitive market equilibrium, where social (community) surplus (consumer surplus and producer surplus) is maximized (marginal benefit = marginal cost). 	

Theory of knowledge: potential connections

To what extent is it true to say that a demand curve is a fictional entity?

What assumptions underlie the law of demand? Are these assumptions likely to be true? Does it matter if these assumptions are actually false?