**Unit 2 Overview**

**Big Questions:**

What determines the market price for a good or service and what causes market prices to change?

How can we use elasticity measurements to analyze supply and demand with more precision?

How do we know when a market is allocatively efficient?

How does government policy affect market outcomes?

**Essential Understandings and Terms:**

**Students should be able to determine the equilibrium price and quantity of a good by analyzing demand and supply curves and schedules and explain how changes in demand and supply affect equilibrium price and quantity.**

Mastery Includes: Define the laws of demand and supply. Explain the relationship between price and quantity supplied and quantity demanded. Explain the determinants of demand and supply. Define and calculate shortages and surpluses.

Quantity Demanded VS Demand

Quantity Supplied VS Supply

Complements

Substitutes

Normal VS Inferior Good

Surplus

Shortage

**Students should be able to calculate price elasticity of demand, price elasticity of supply, income elasticity of demand, and cross-price elasticity of demand and explain how elasticity values can be used to predict changes in total revenue for businesses and consumer expenditures.**

Mastery Includes: Define all four measures of elasticity. Calculate all four elasticity values using data from a graph or a table. Explain (using graphs where appropriate) measures of elasticity and the impact of a given price change on total revenue and total consumer expenditures.

Price Elasticity of Demand and Supply and Appropriate Formulas

Total Revenue

Cross Price Elasticity and Appropriate Formula

Income Elasticity and Appropriate formula

**Students should be able to identify and explain how to determine areas of consumer, producer, and total surplus using graphs and explain how government intervention in the form of price floors and ceilings alters consumer, producer, and total surplus and creates deadweight losses.**

Mastery includes: Define and calculate consumer, producer, and total surplus. Define allocative efficiency. Define and show on graphs an ineffective and effective price floor and price ceiling. Define and calculate shortage and surplus. Define and calculate deadweight loss.

Price Floors and Price Ceilings

Consumer Surplus

Producer Surplus

Allocative Efficiency

Dead Weight Loss

Surplus

Shortage