

Chapter 3

Core Principles

Equilibrium Principle - The chapter presents the concept of equilibrium in the context of the supply and demand model.

Efficiency Principle - Social welfare and market efficiency are presented in the chapter, both in terms of how markets can achieve efficiency and when they do not.

Important Concepts Covered

- Supply and demand model
- Equilibrium/market equilibrium
- Cash-On-The-Table Principle
- Efficiency
- Excess supply/demand
- Change in demand versus change in quantity demanded
- Change in supply versus change in quantity supplied
- Socially optimal quantity