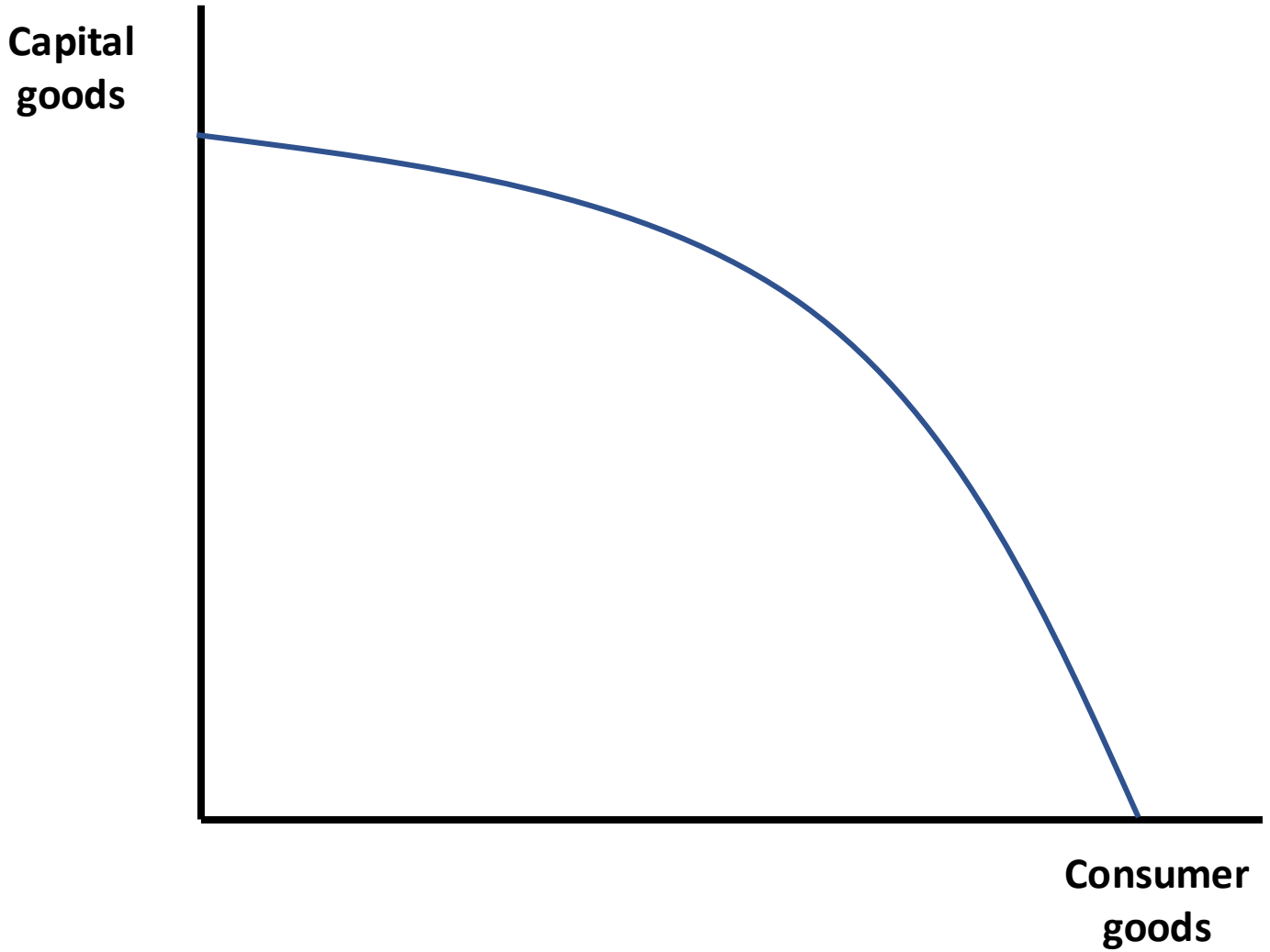
A-LEVEL ECONOMICS

ECONOMICS DIAGRAM BANK

ECONOMICS DIAGRAMS

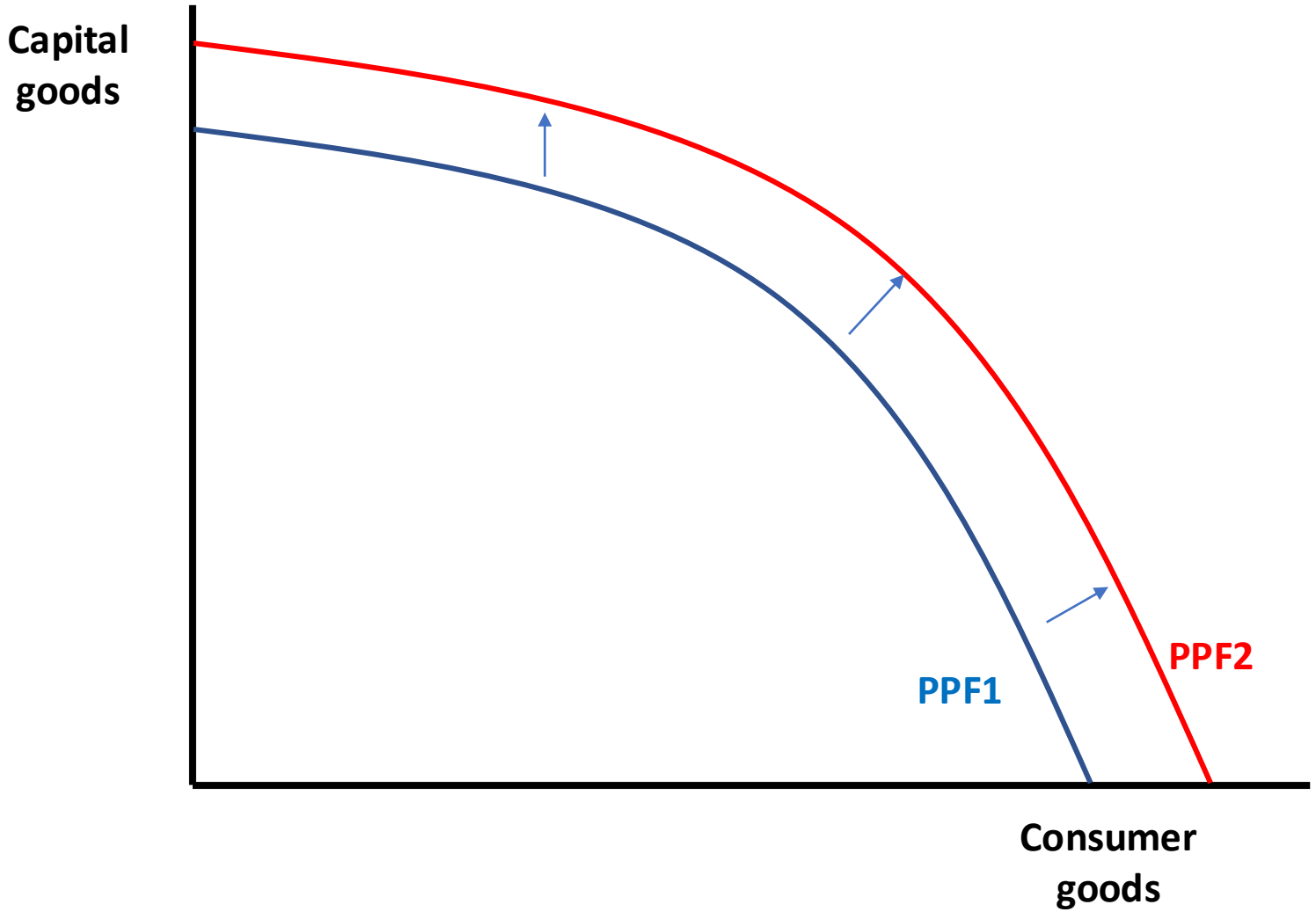
PRODUCTION POSSIBILITY DIAGRAMS

tutor2u

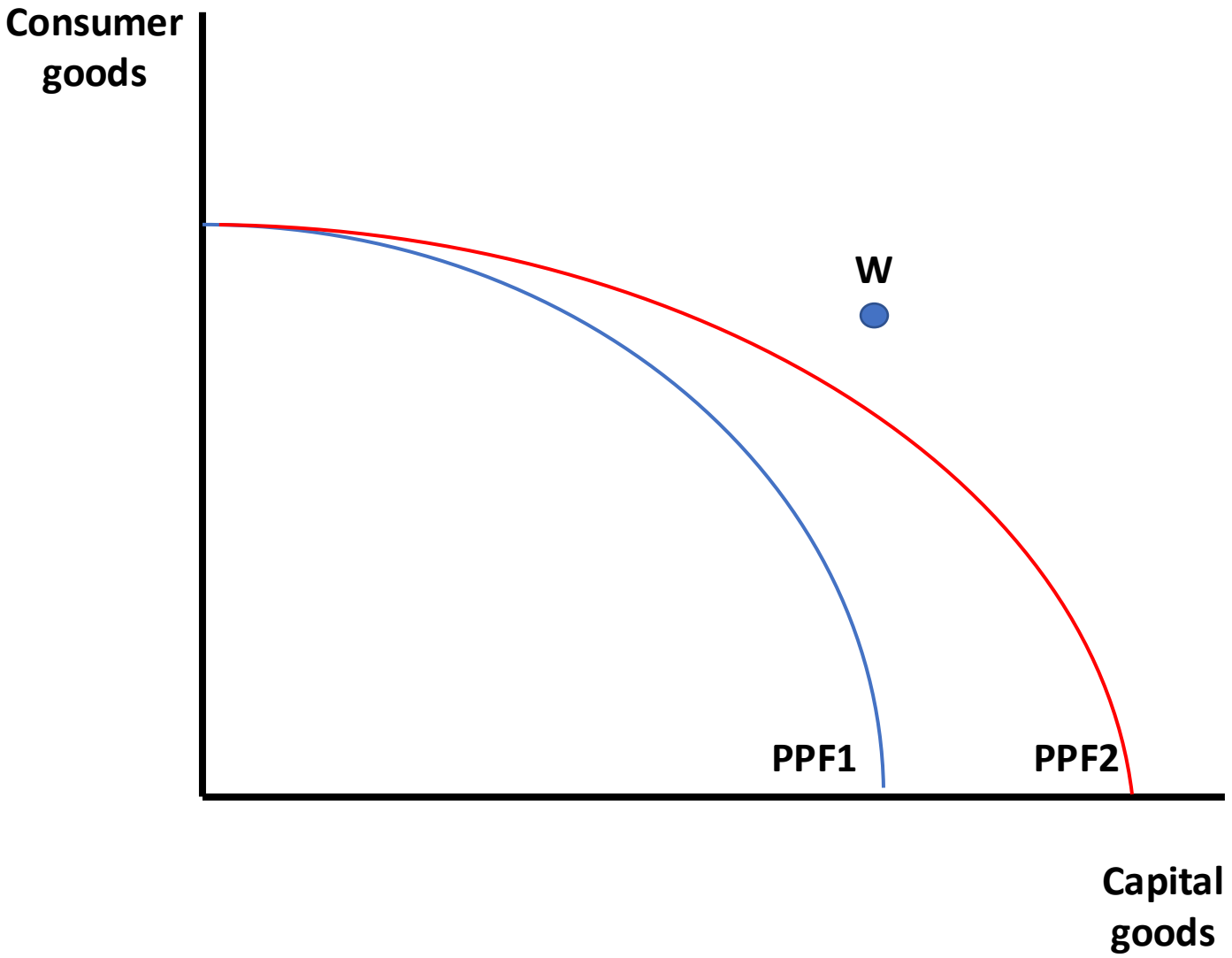


Production possibility frontier - macroeconomy

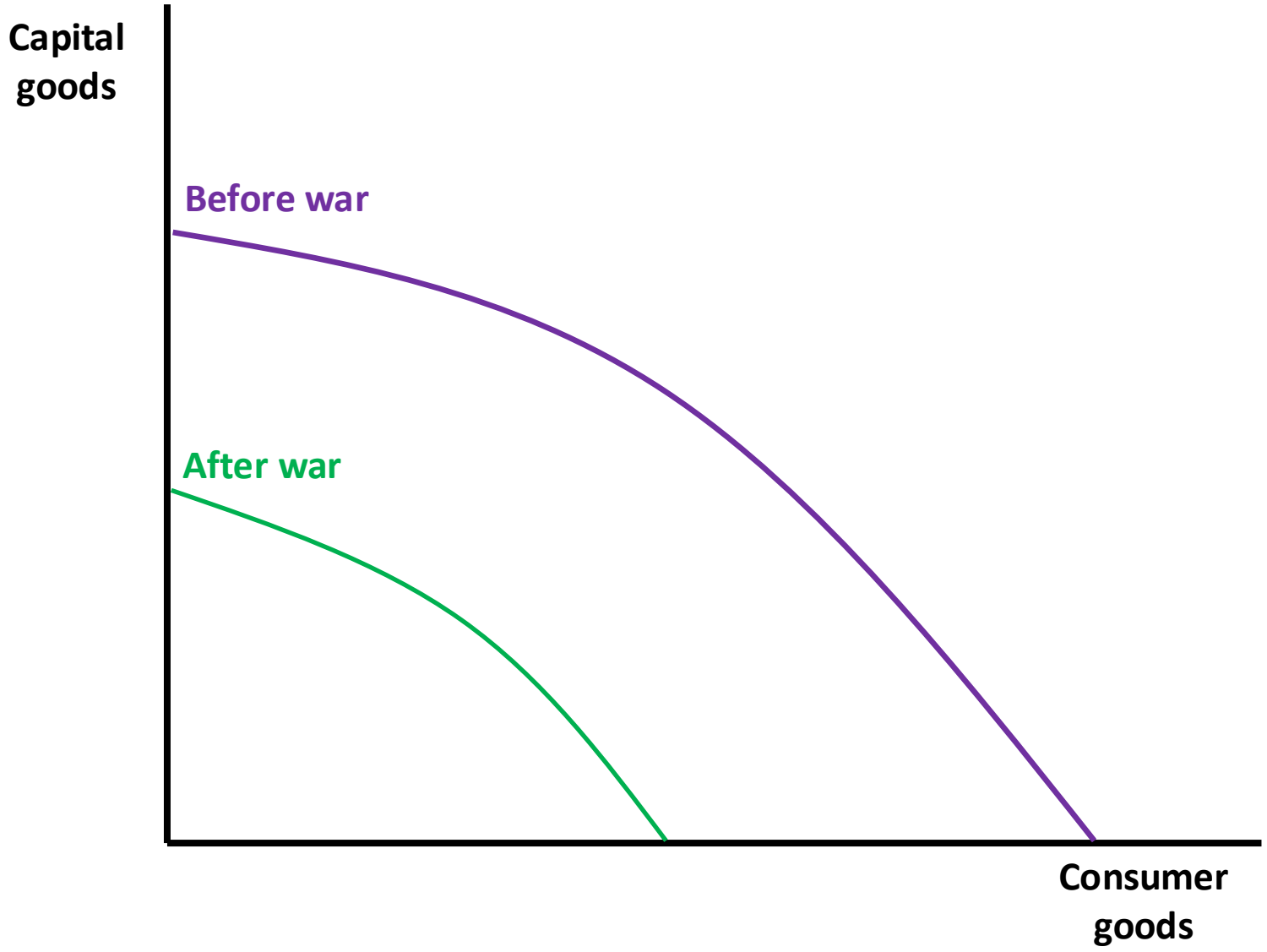
tutor2u



Outward shift in production possibility frontier – balanced economic growth



Increase in production possibility where change in technology affects the output of capital goods but not the output of consumer goods; Point W currently unattainable

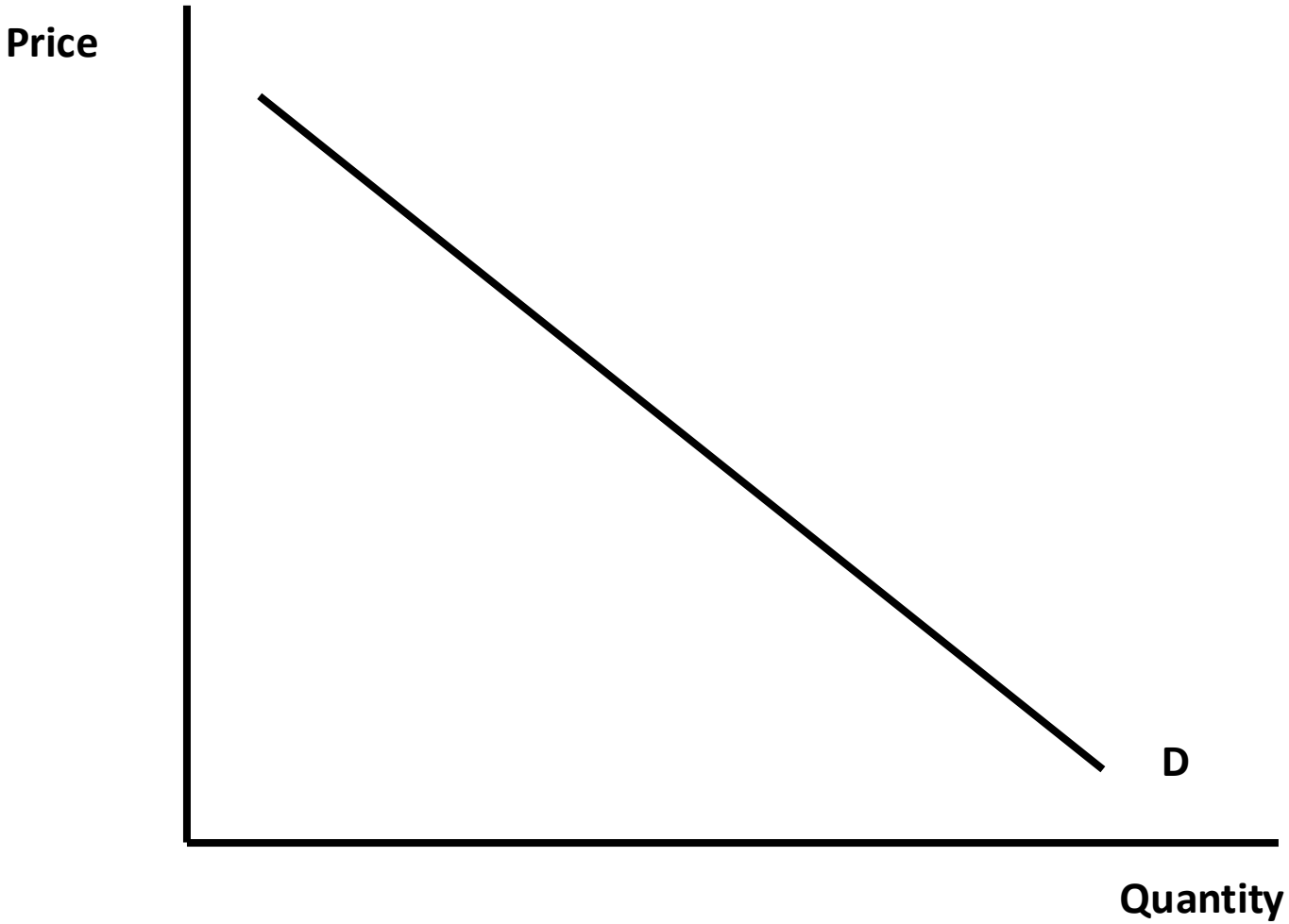


Impact of war on production possibility frontier

ECONOMICS DIAGRAMS

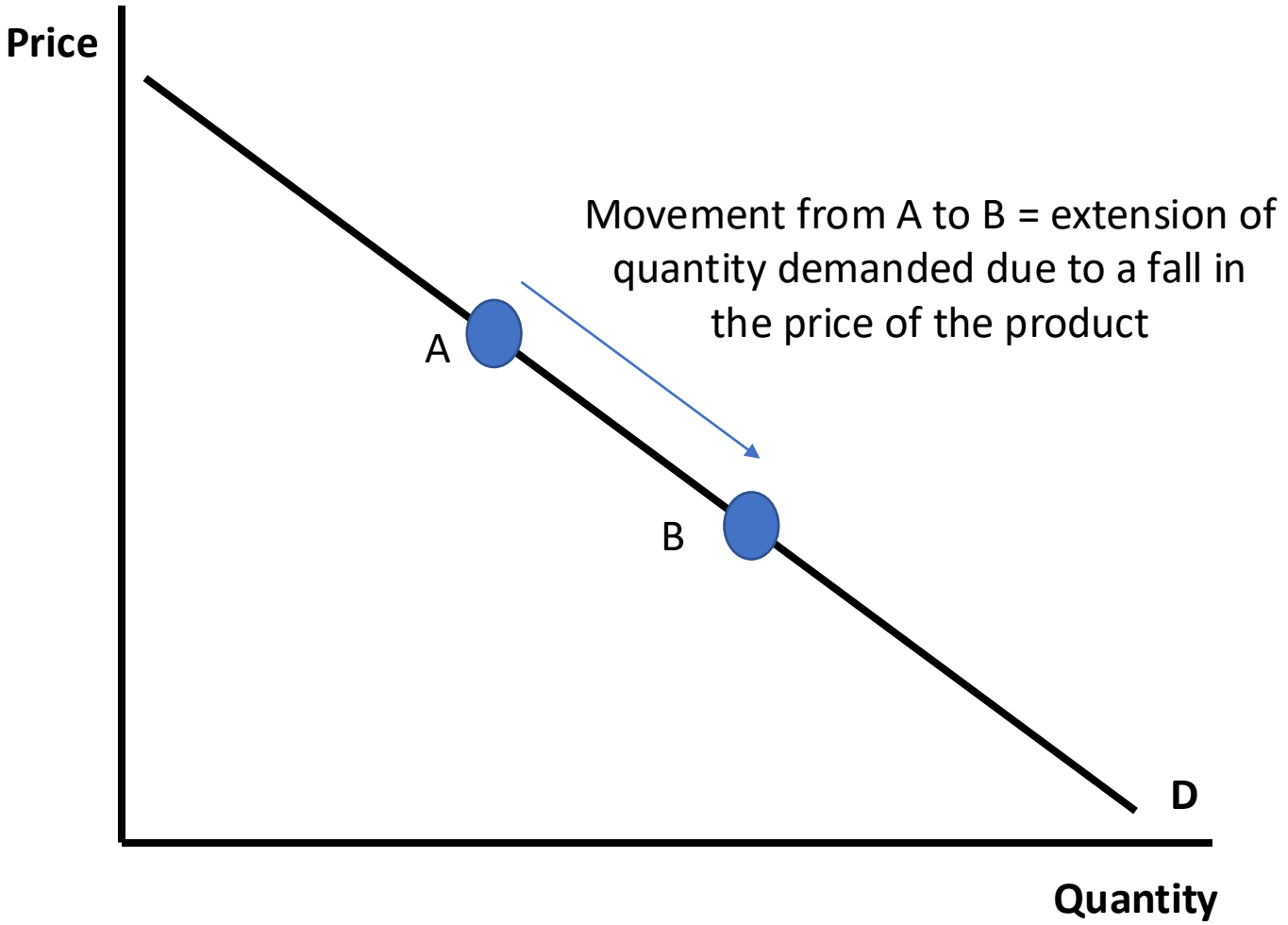
SIMPLE MARKET DIAGRAMS

tutor2u



Demand curve

tutor2u



Extension in demand

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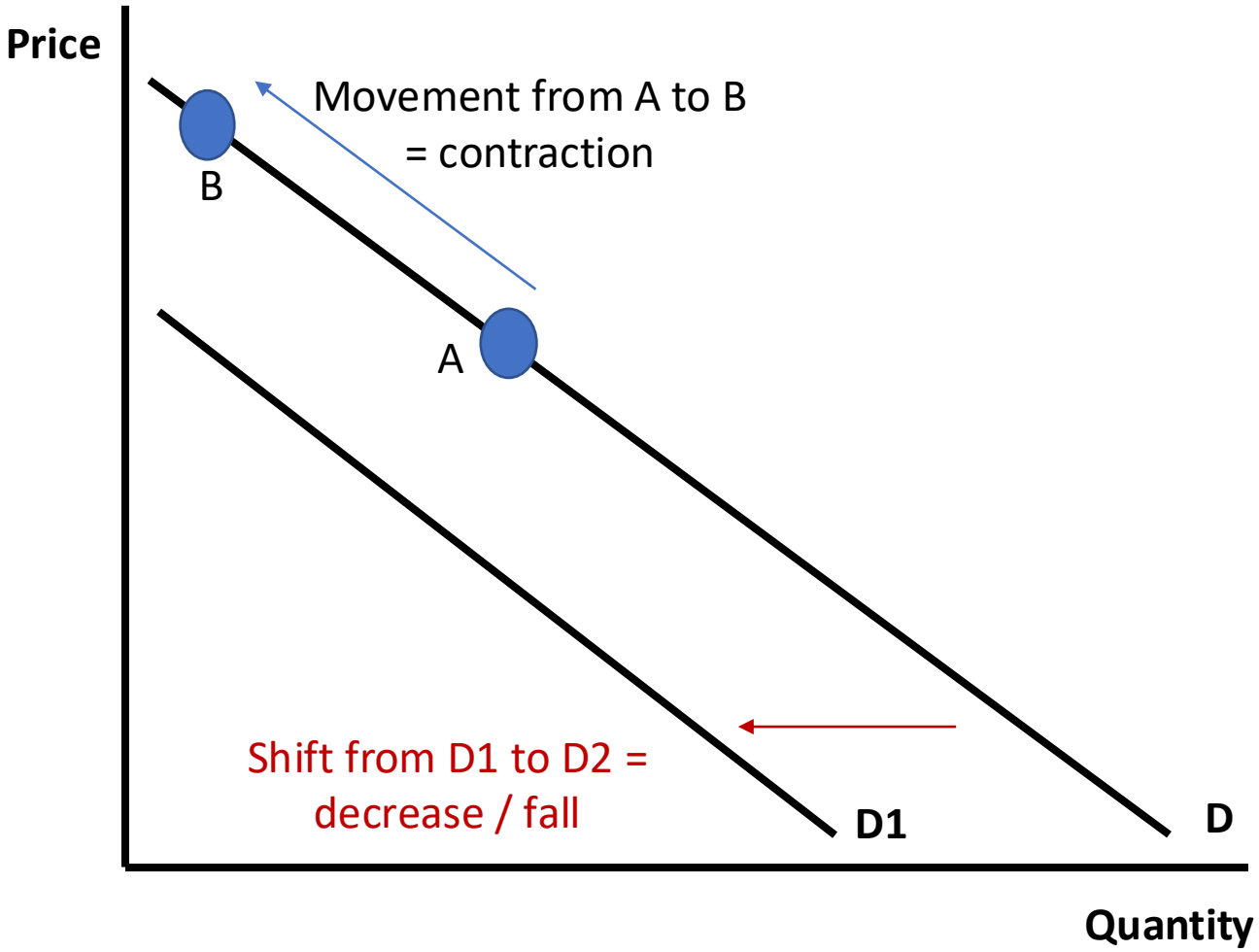

Contraction in demand vs decrease in demand

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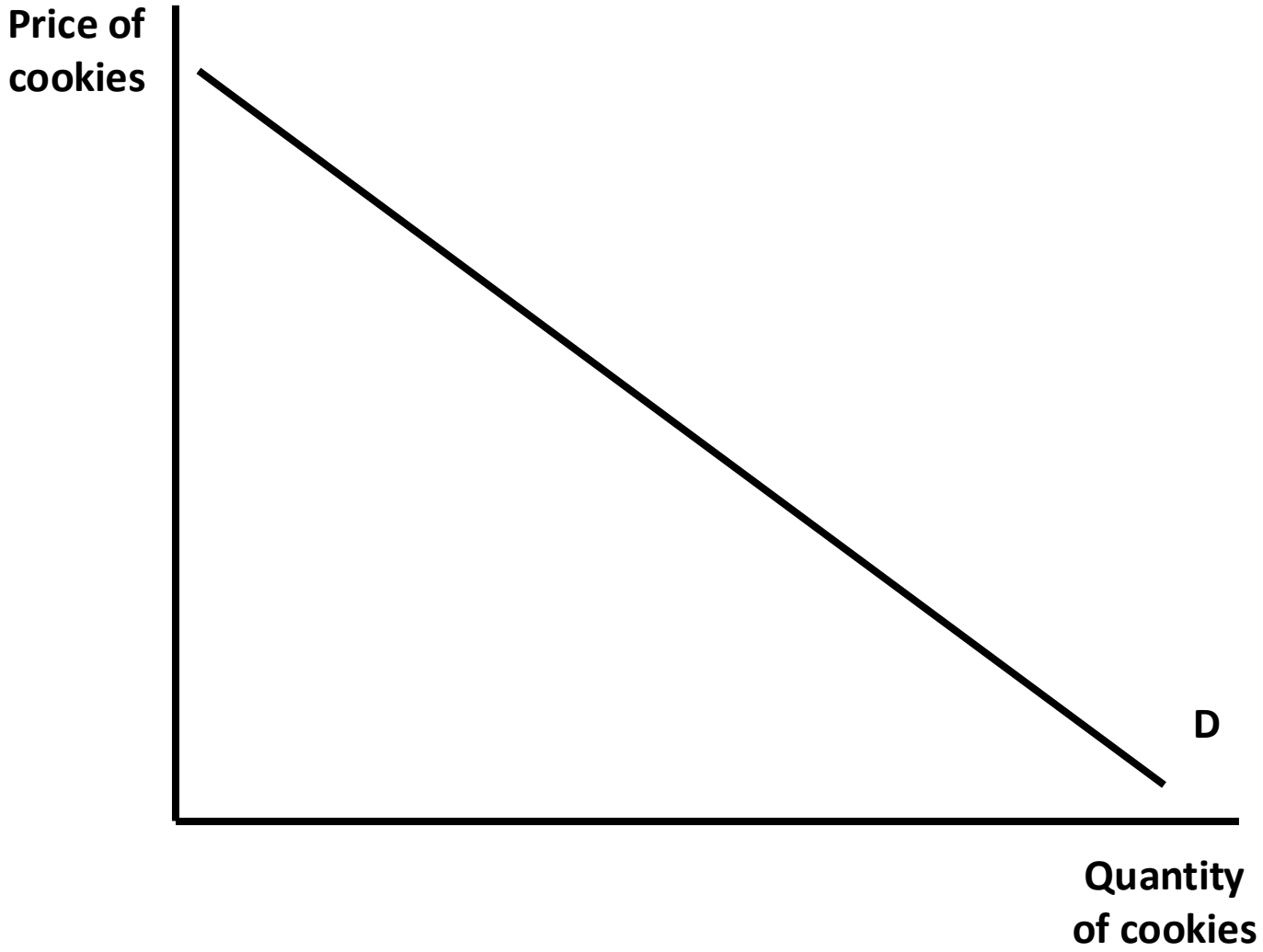
Increase in demand – demand shifts right; market demand is the sum of demand for individual firms



Demand curve in the cookie market

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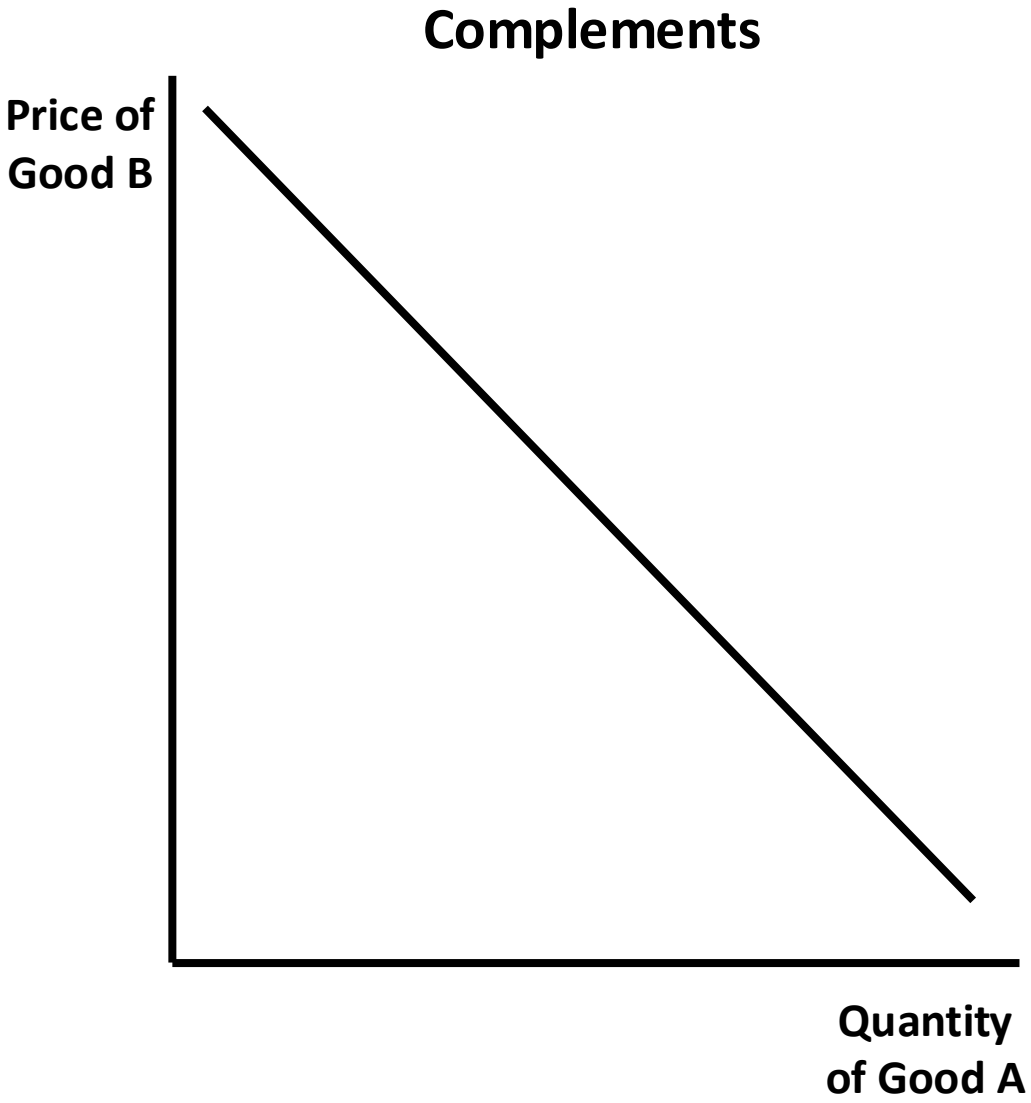
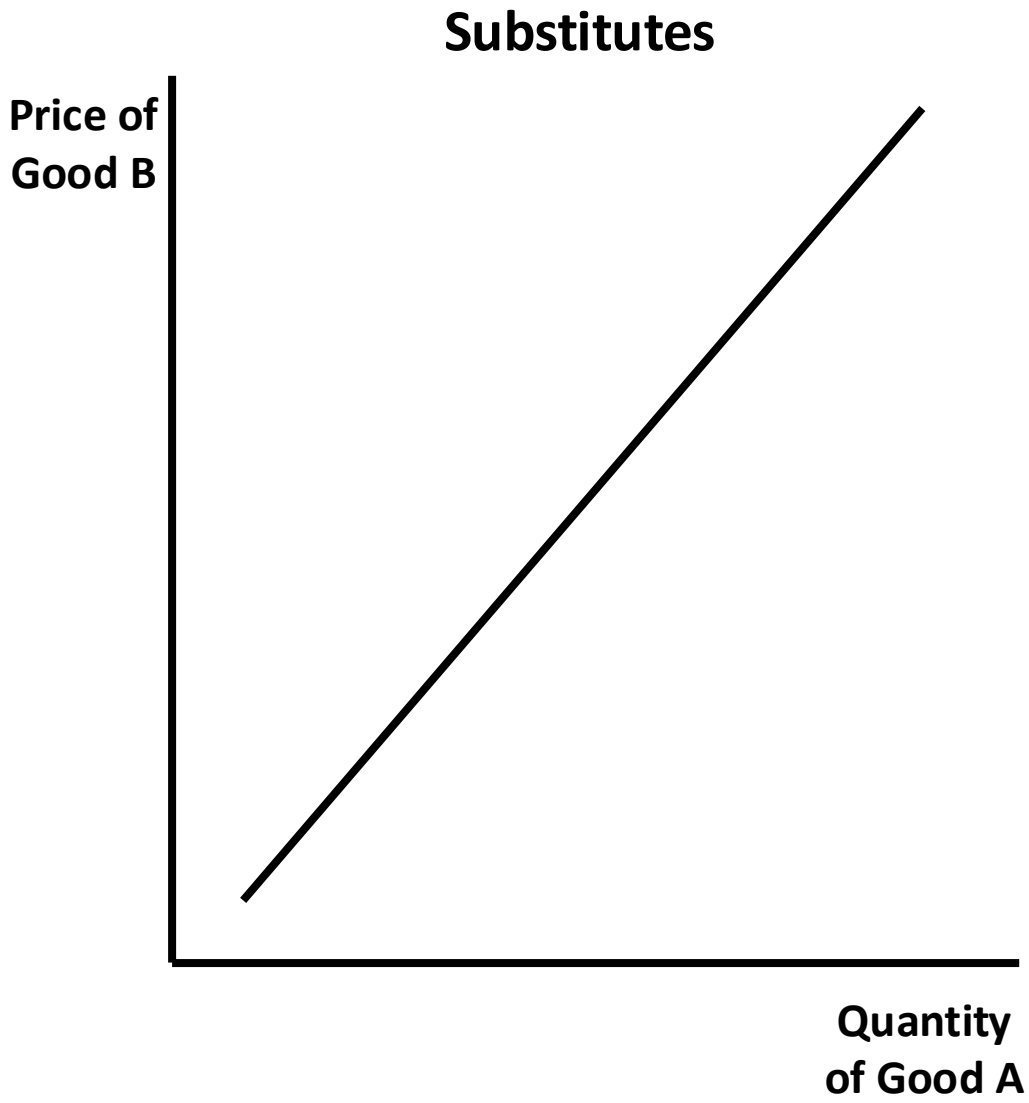
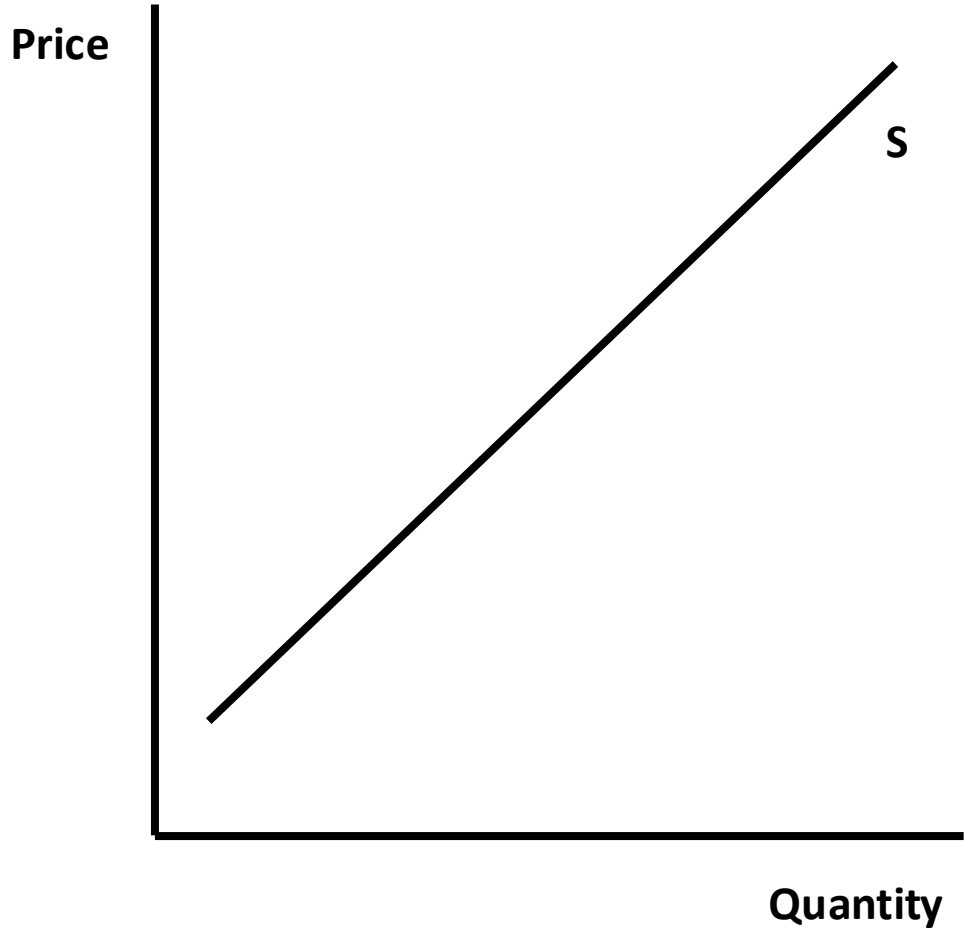




Diagrams showing complements and substitutes



Supply curve

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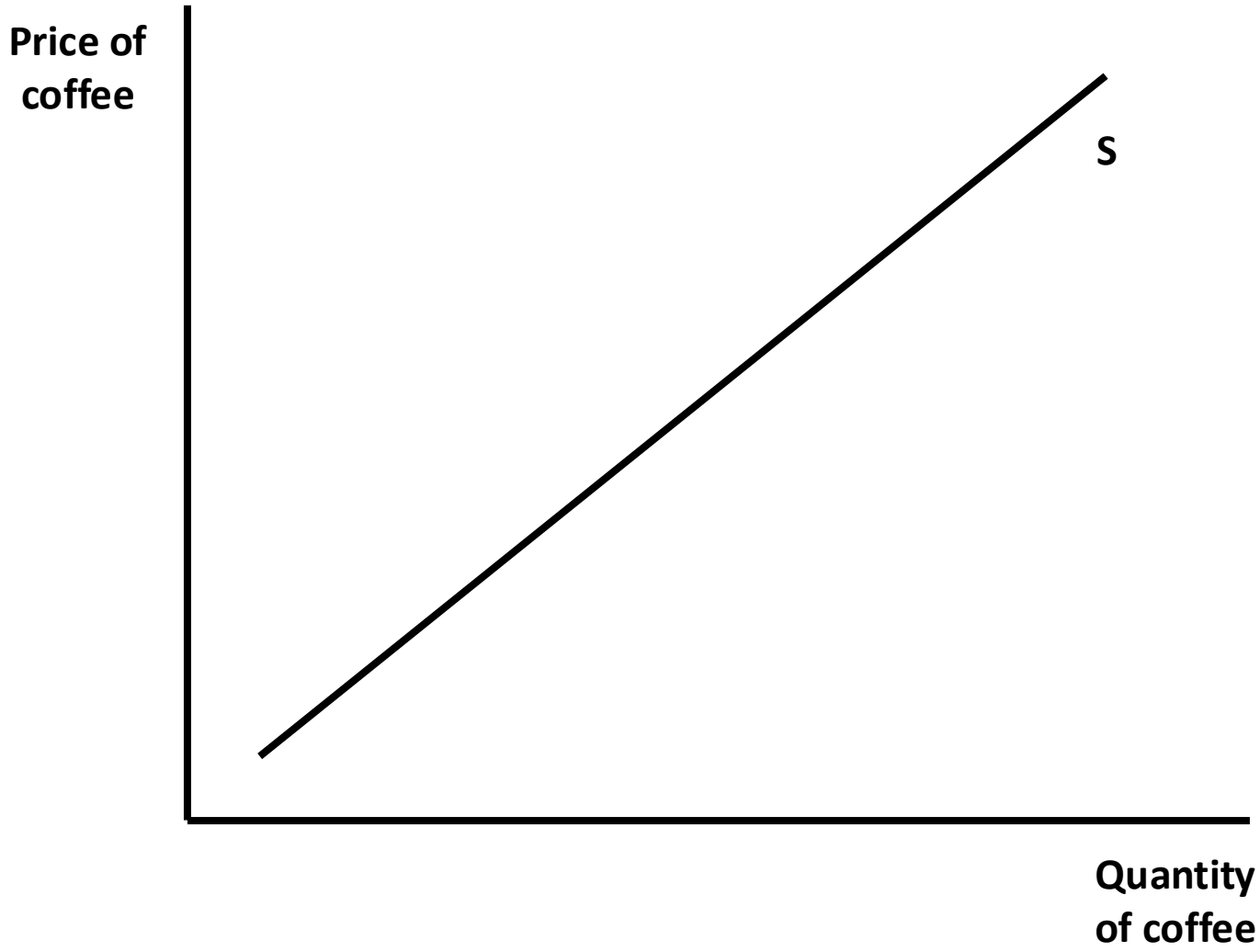
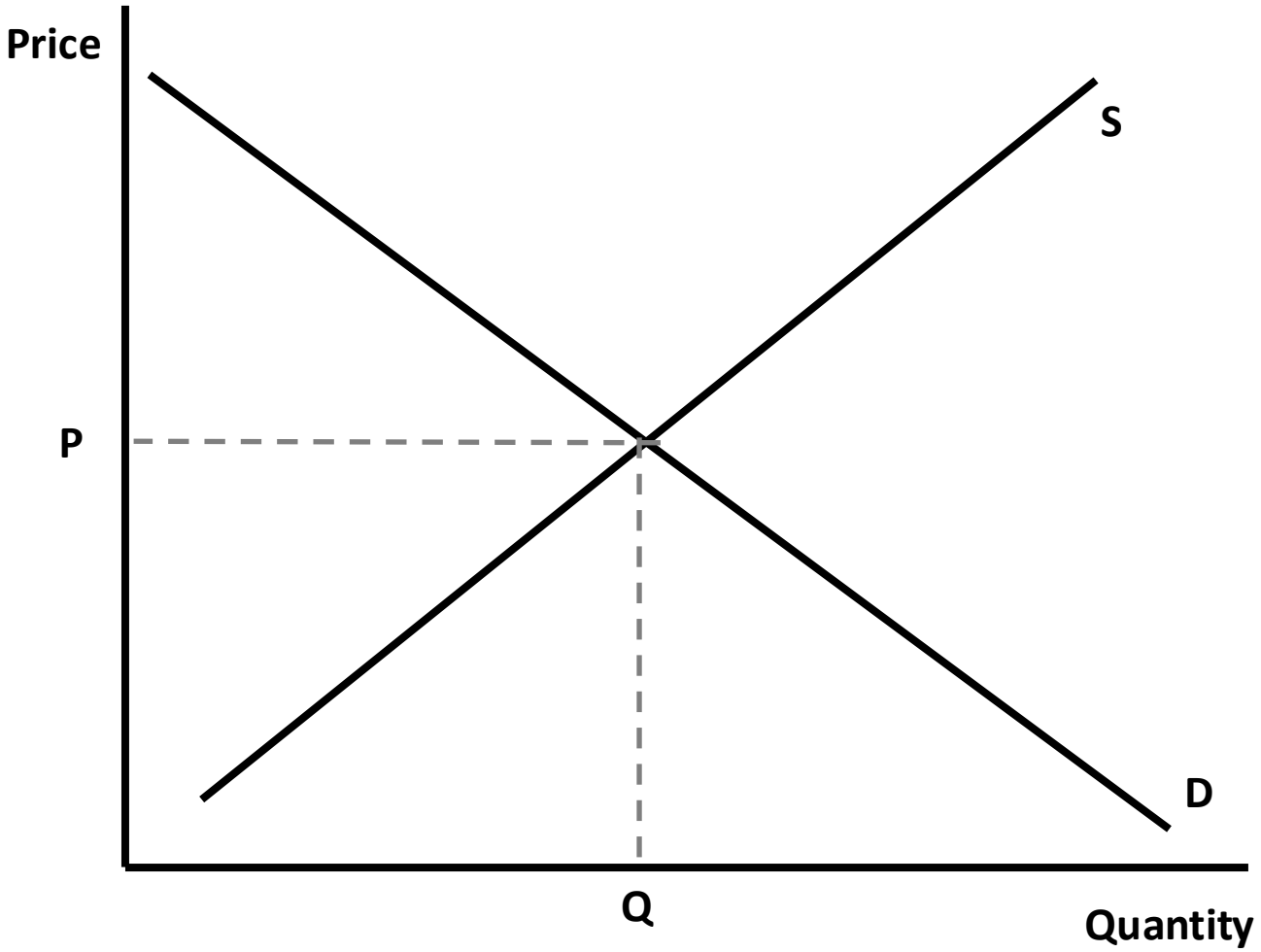


Supply curve in the coffee market



Market equilibrium

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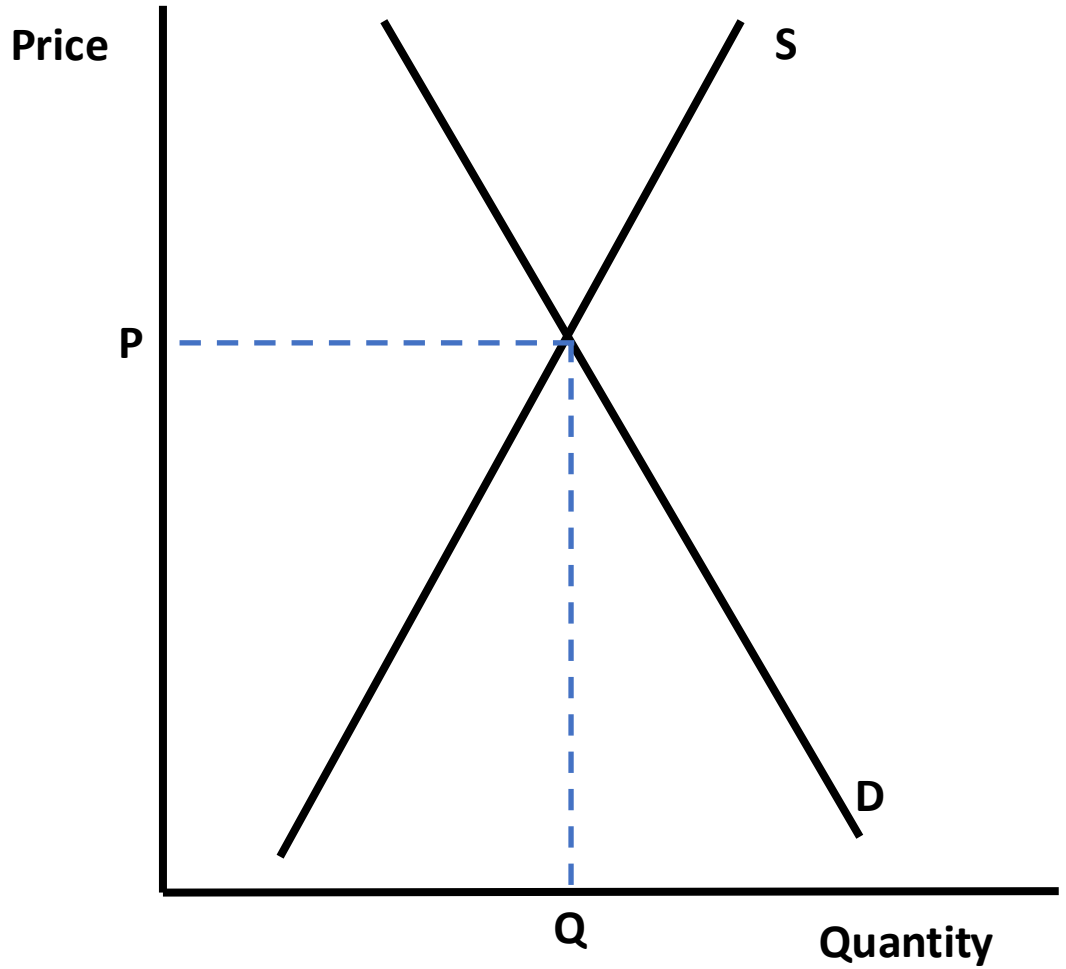
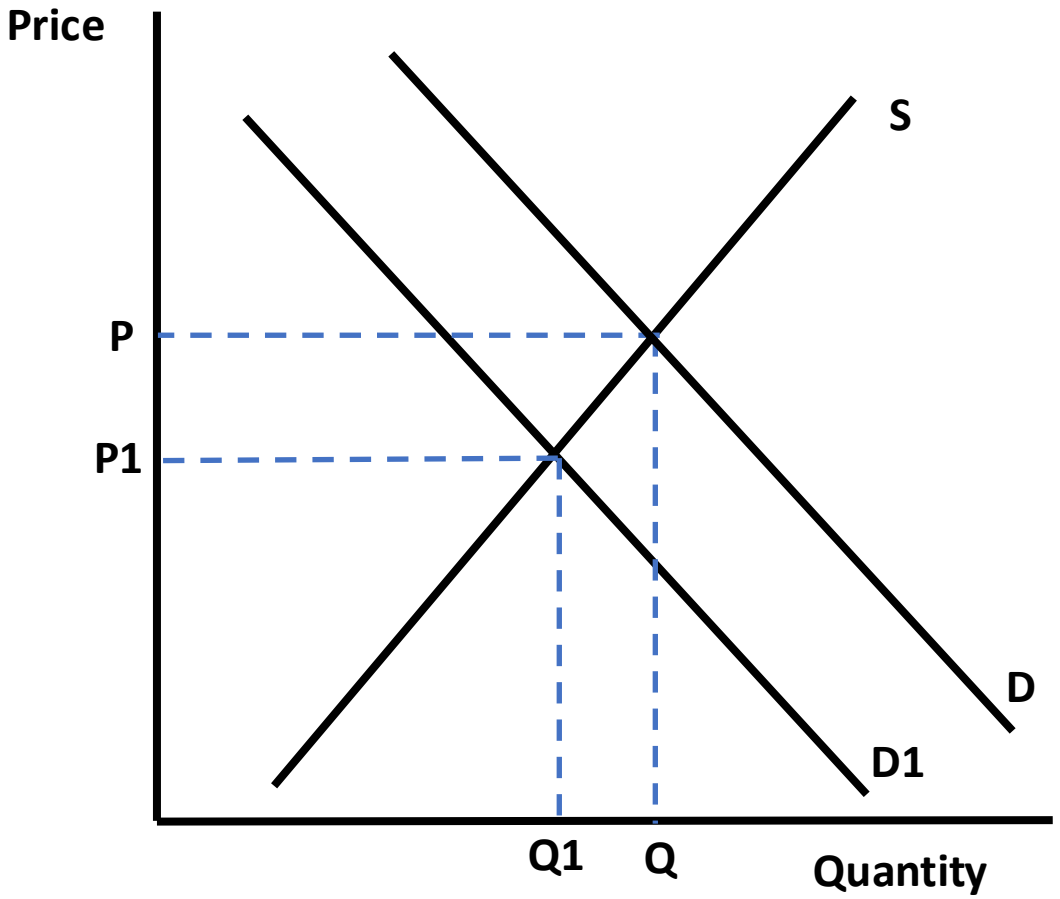
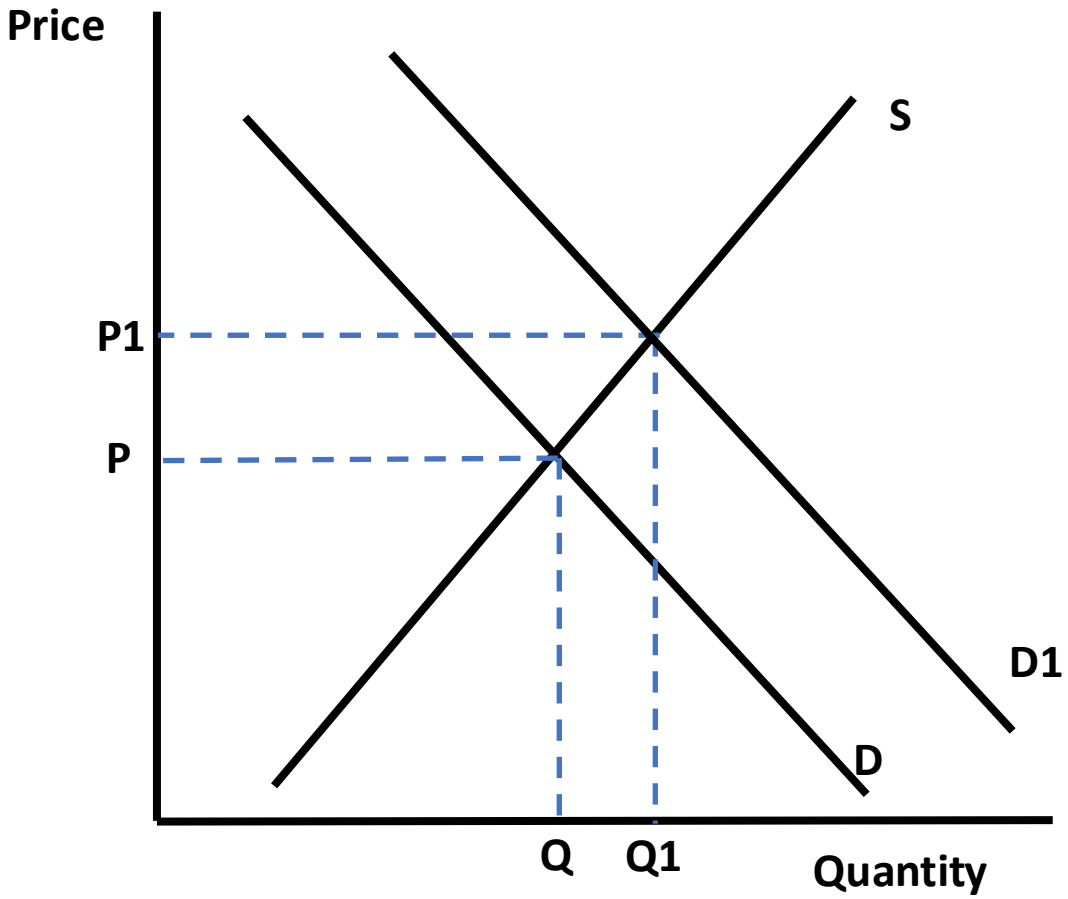


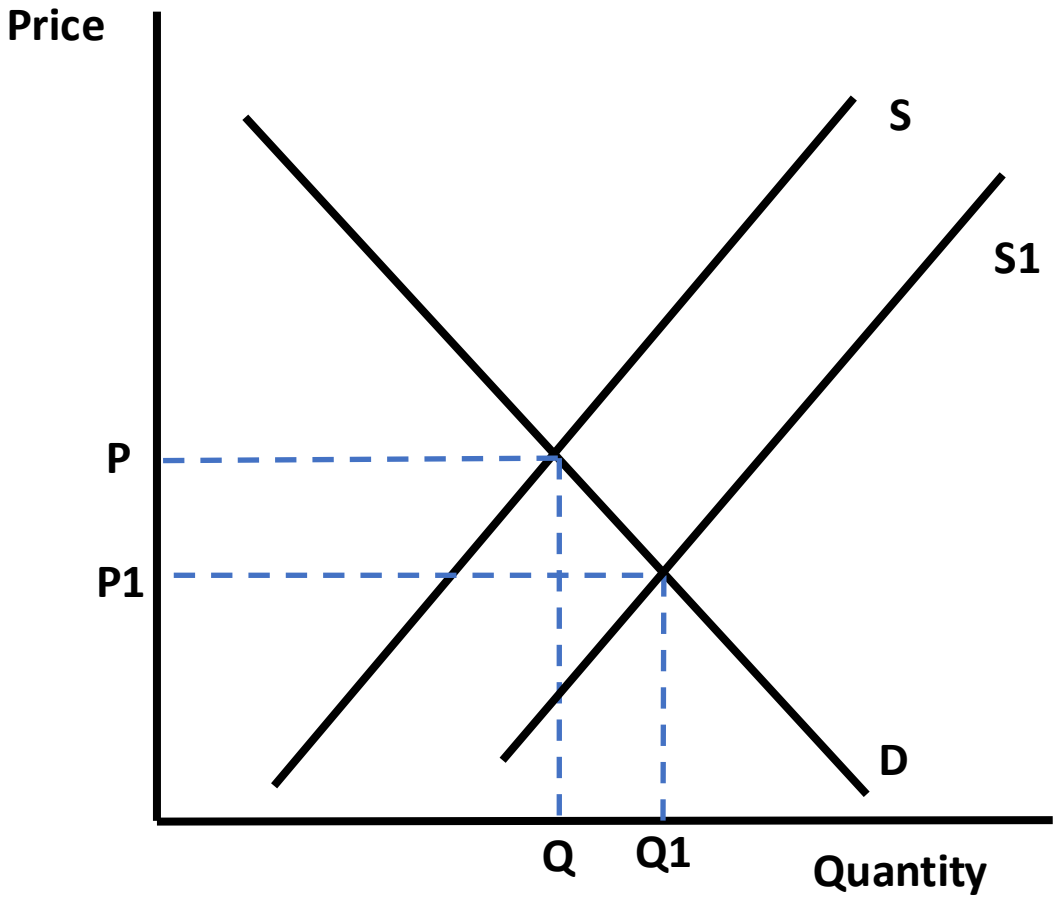
Market diagram equilibrium – relatively price inelastic demand and supply



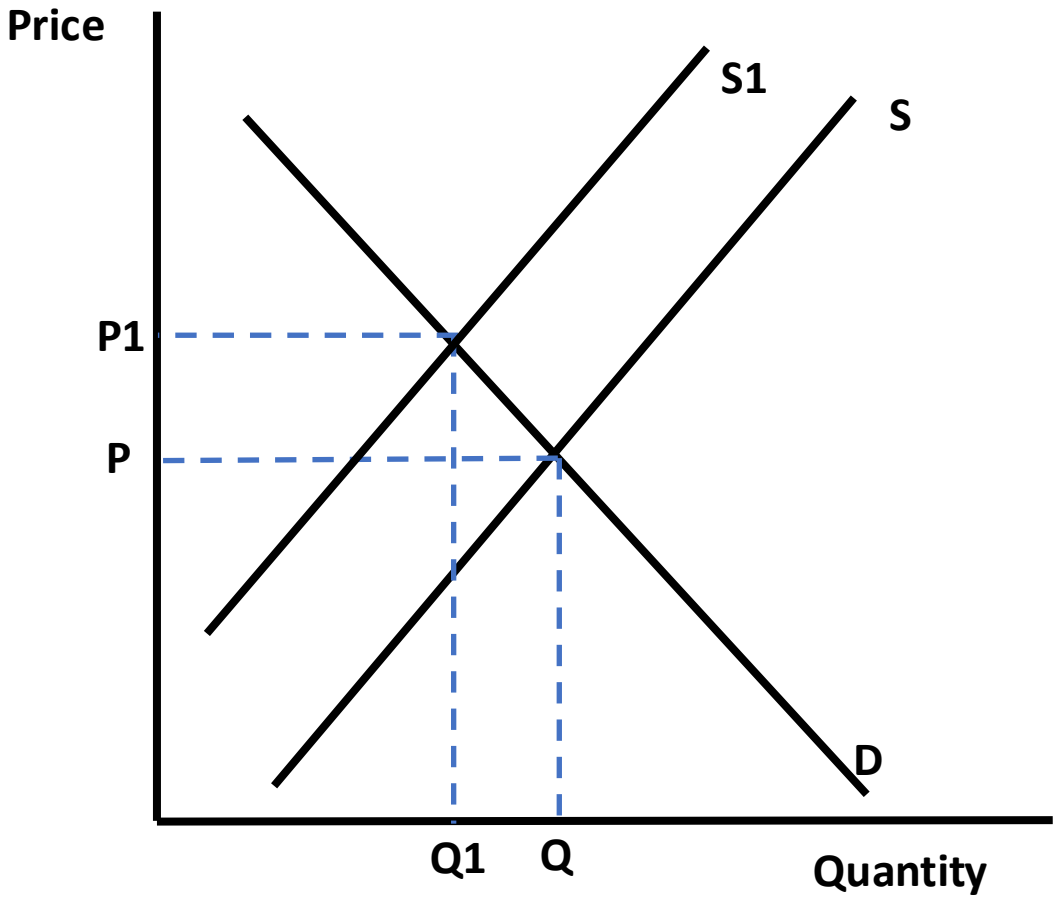
Decrease in market demand showing the impact on market equilibrium



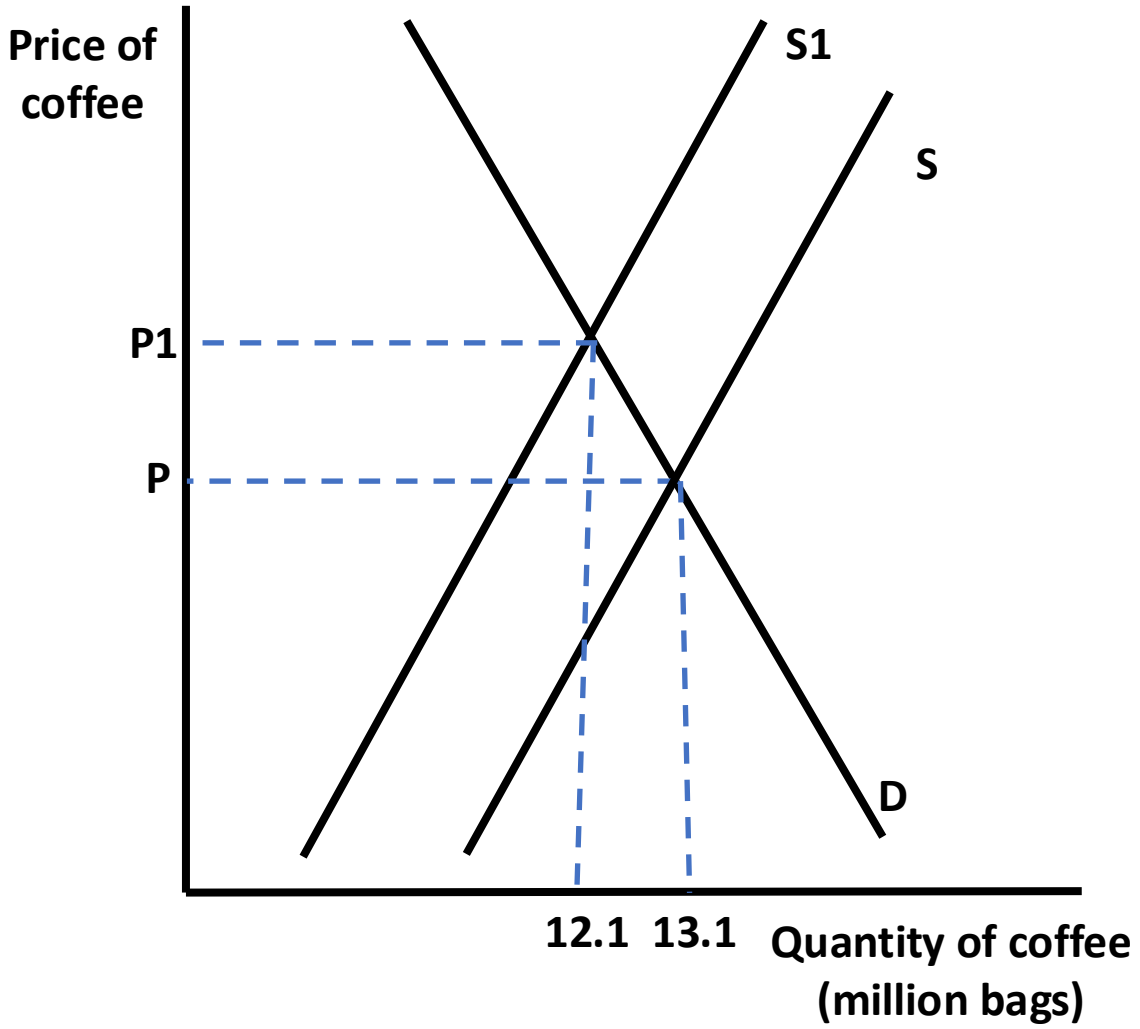
Increase in market demand showing the impact on market equilibrium



Increase in market supply showing the impact on market equilibrium



Decrease in market supply showing the impact on market equilibrium



Impact of decrease in market supply of coffee on the equilibrium price and quantity of coffee

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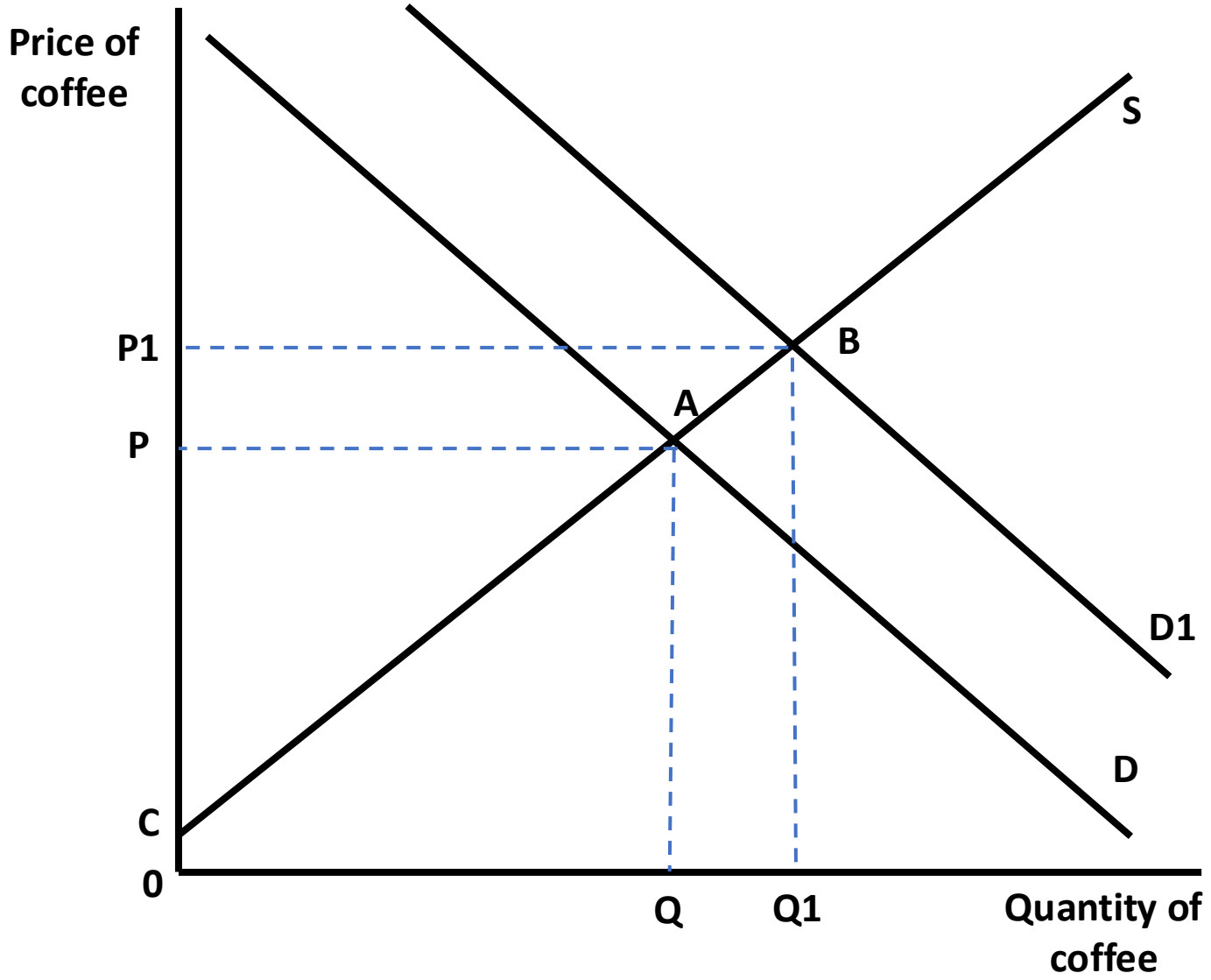
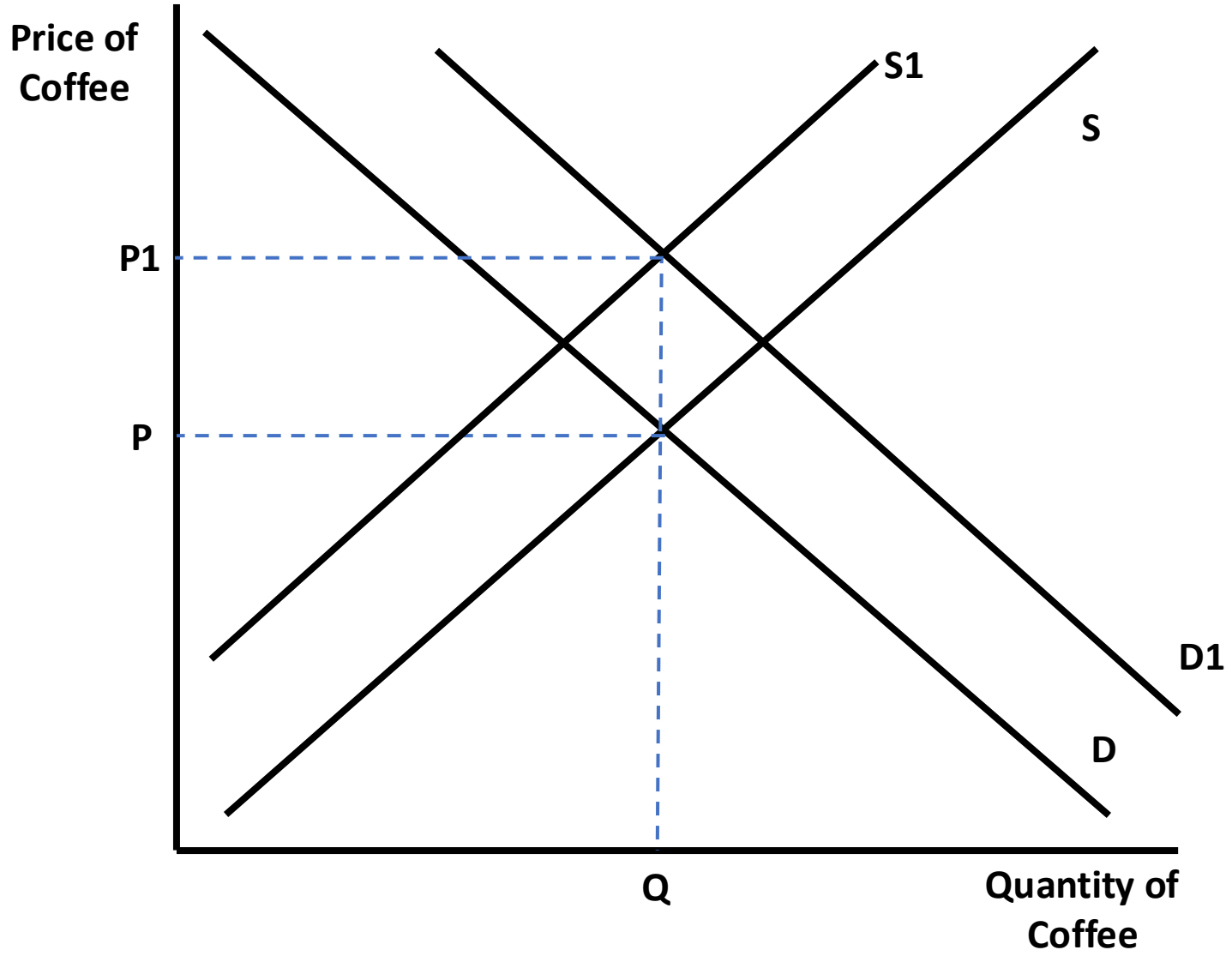
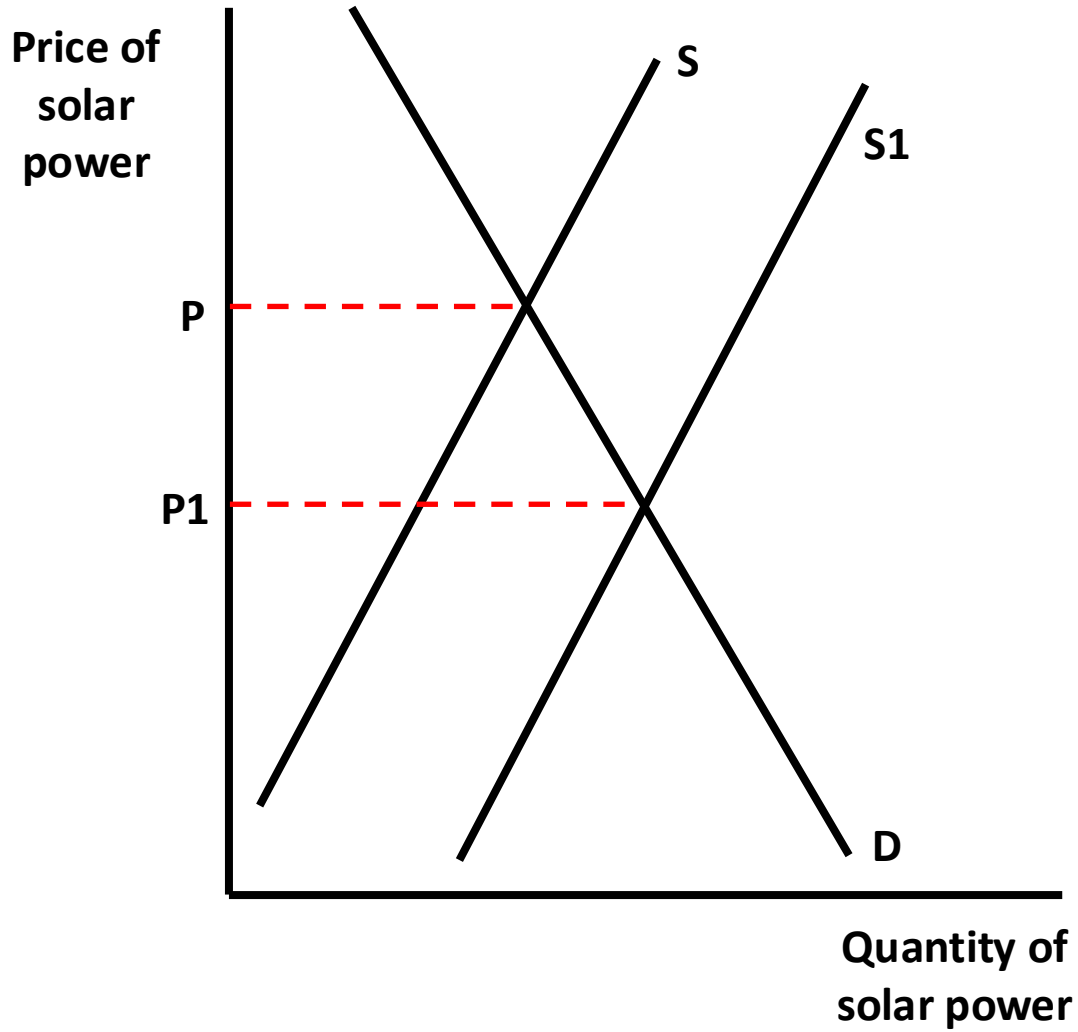


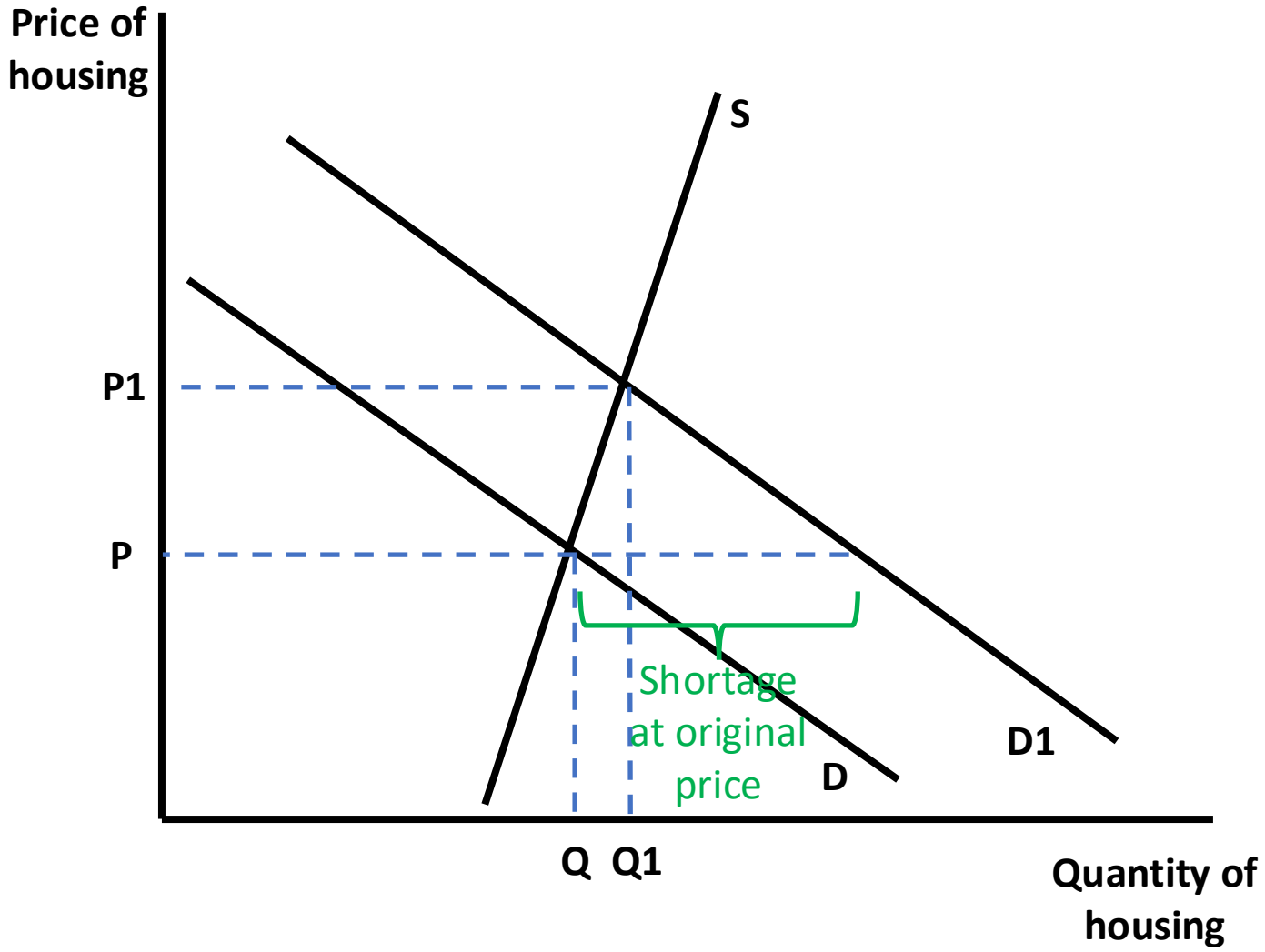
Impact of increase in market demand for coffee on the equilibrium price and quantity of coffee; increase in producer surplus from ACP to BCP1



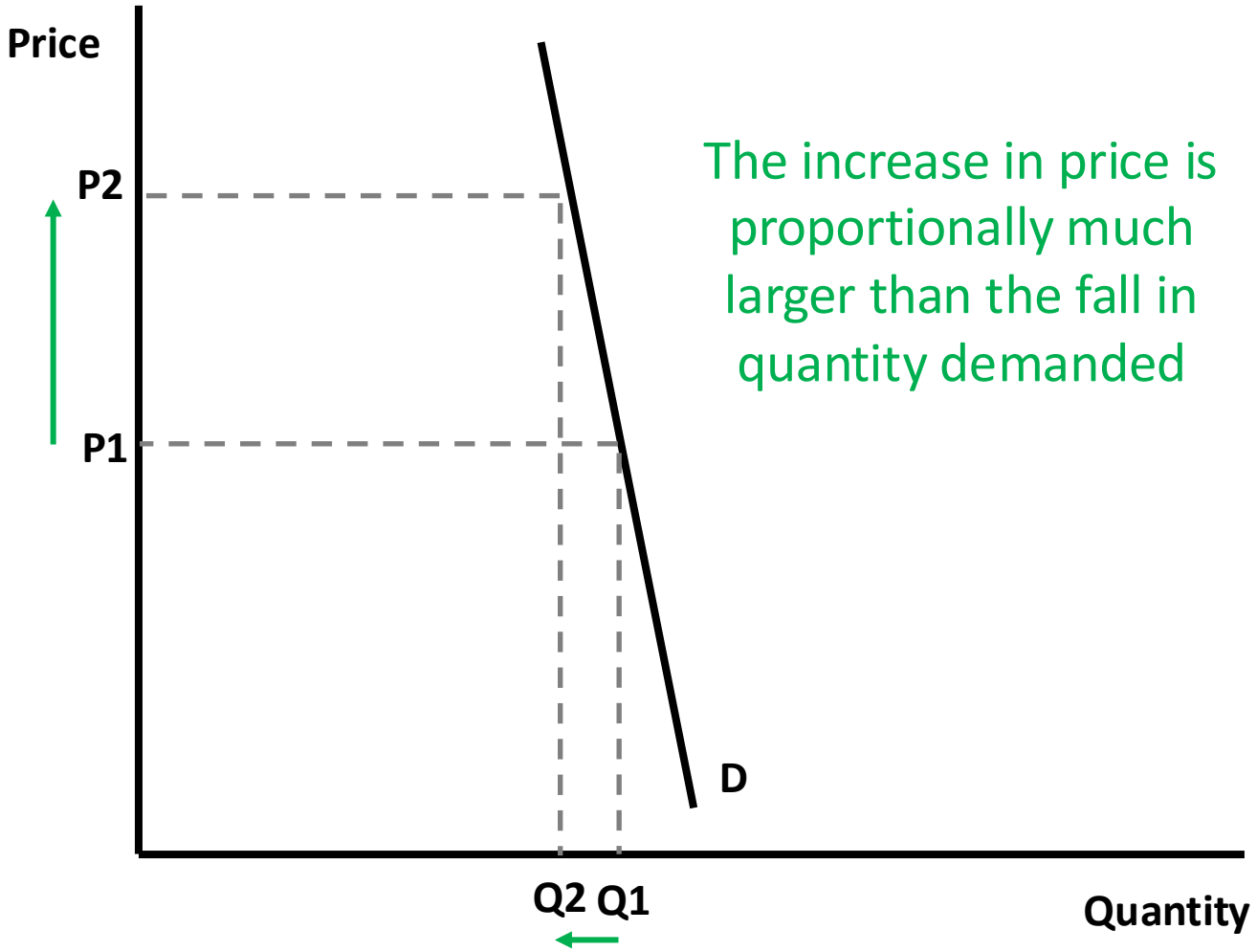
Impact of decrease in market supply and increase in market demand in coffee market on the equilibrium price and quantity of coffee



Decrease in the price of solar power caused by an increase in the supply of solar power



Adjustment to new market equilibrium in housing market after an increase in market demand showing excess demand at original price



The increase in price is proportionally much larger than the fall in quantity demanded

Price inelastic demand curve

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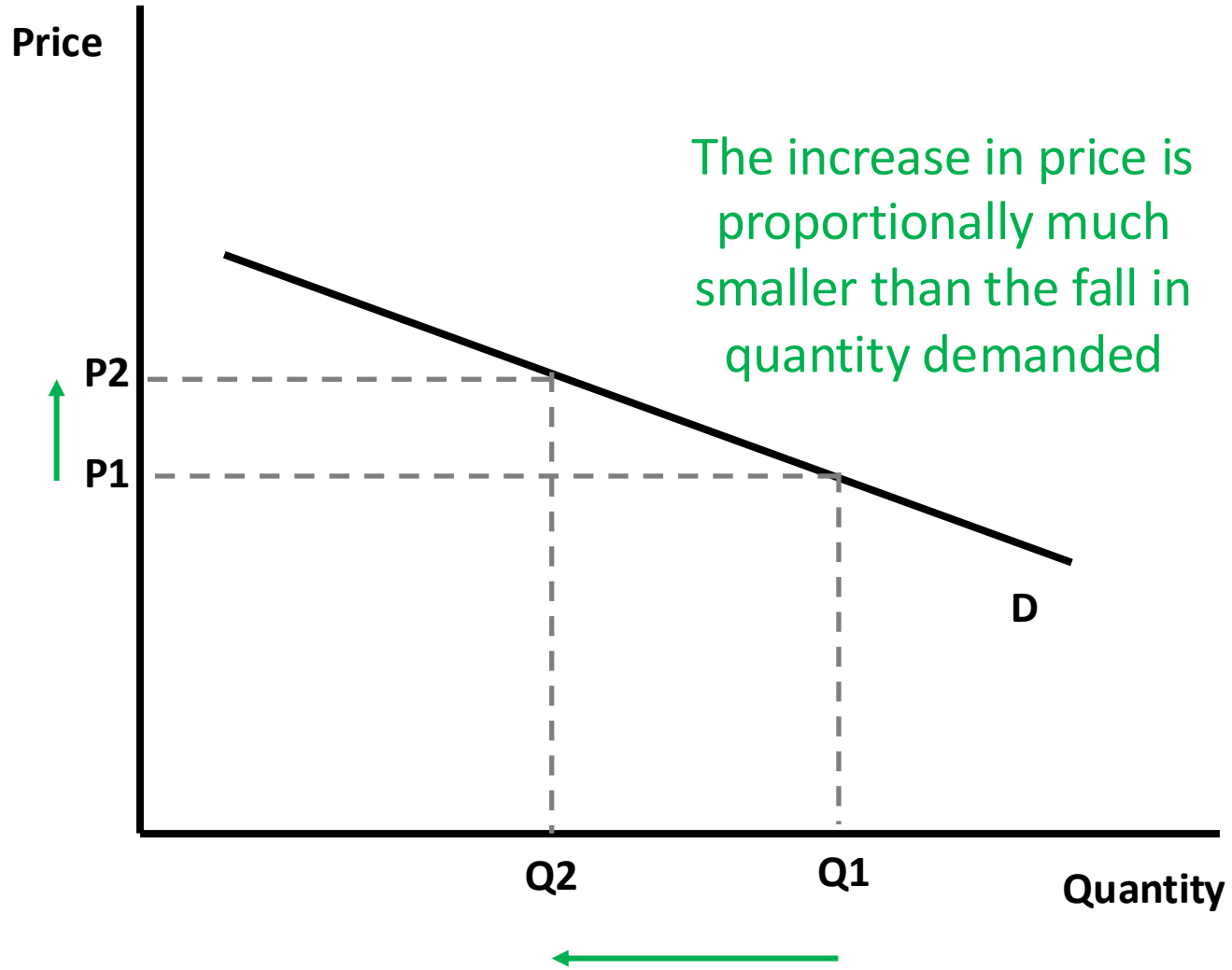

Price elastic demand curve

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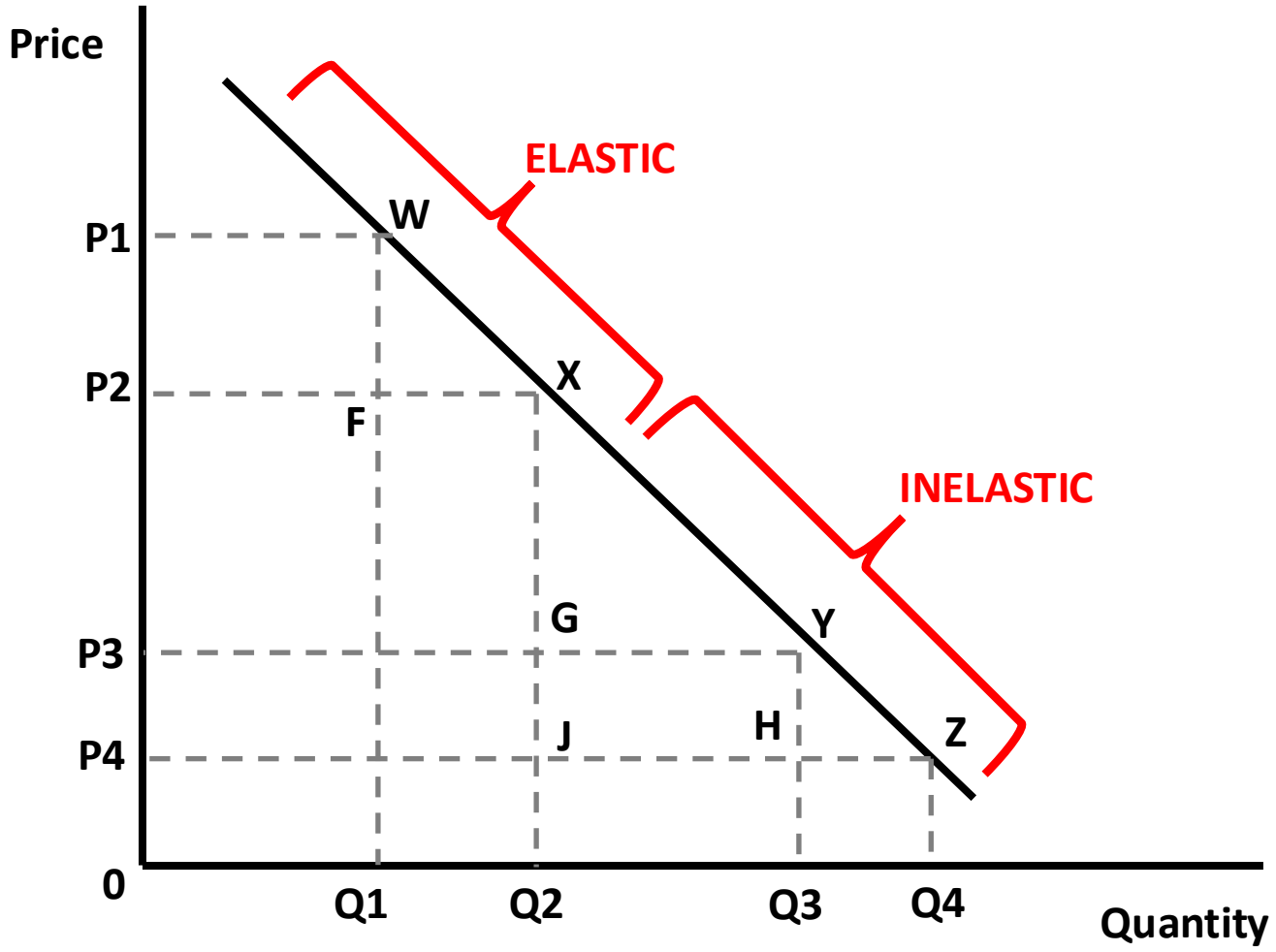
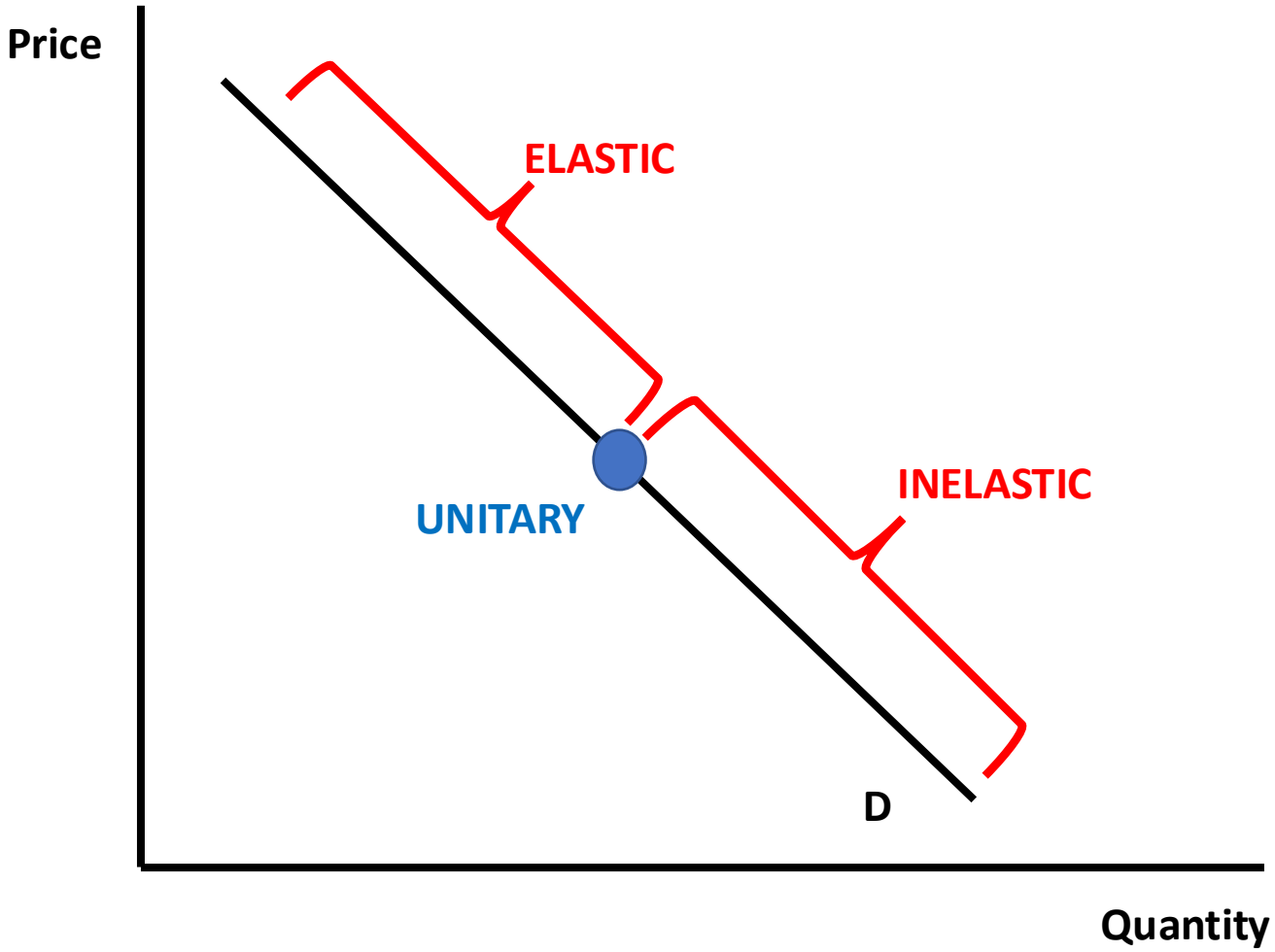


Changing price elasticity of demand along a straight-line demand curve (PED is not the gradient); letters can be used to analyse the impact on total revenue at each point along the demand curve



Unitary price elasticity of demand at midpoint (PED = -1)

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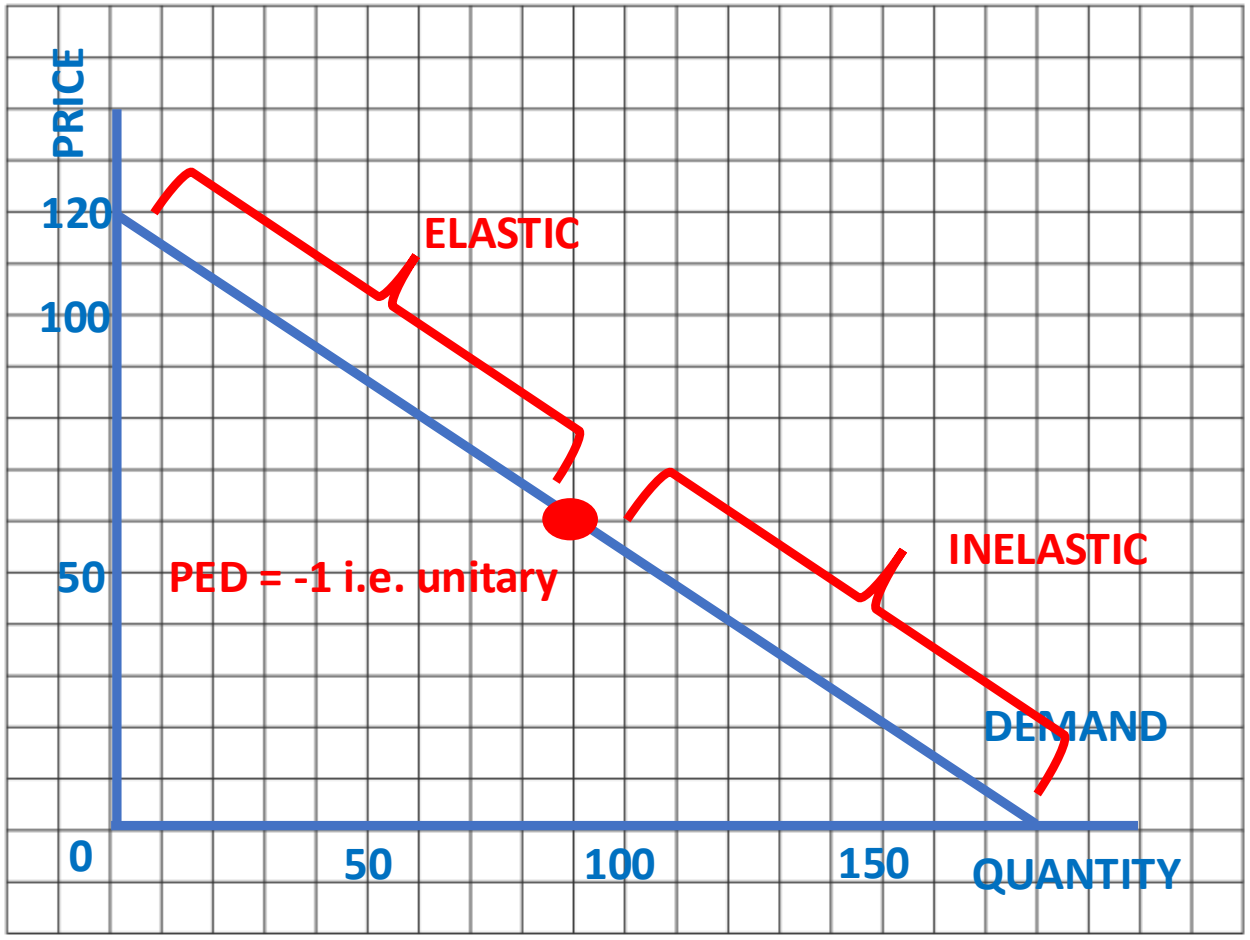
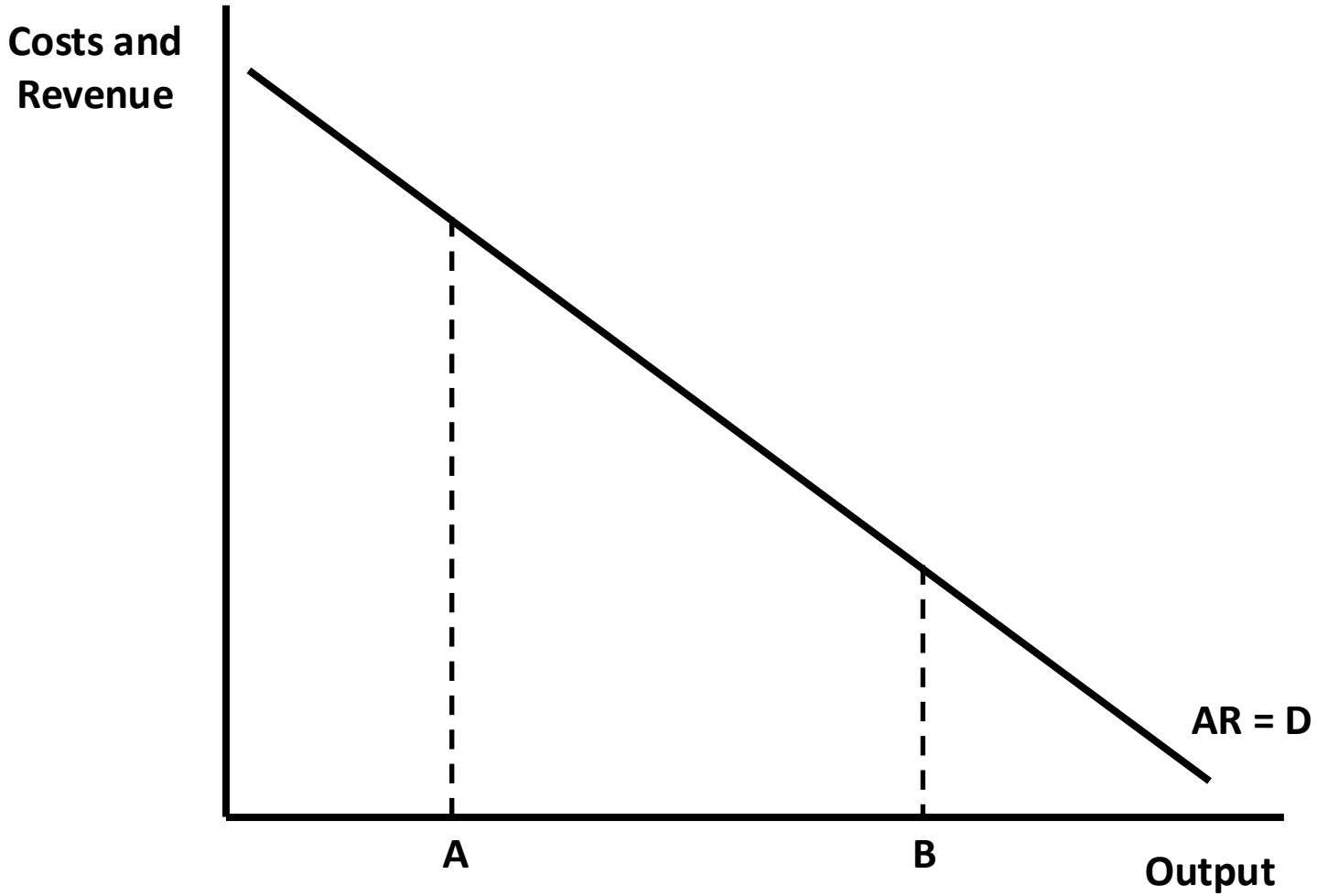
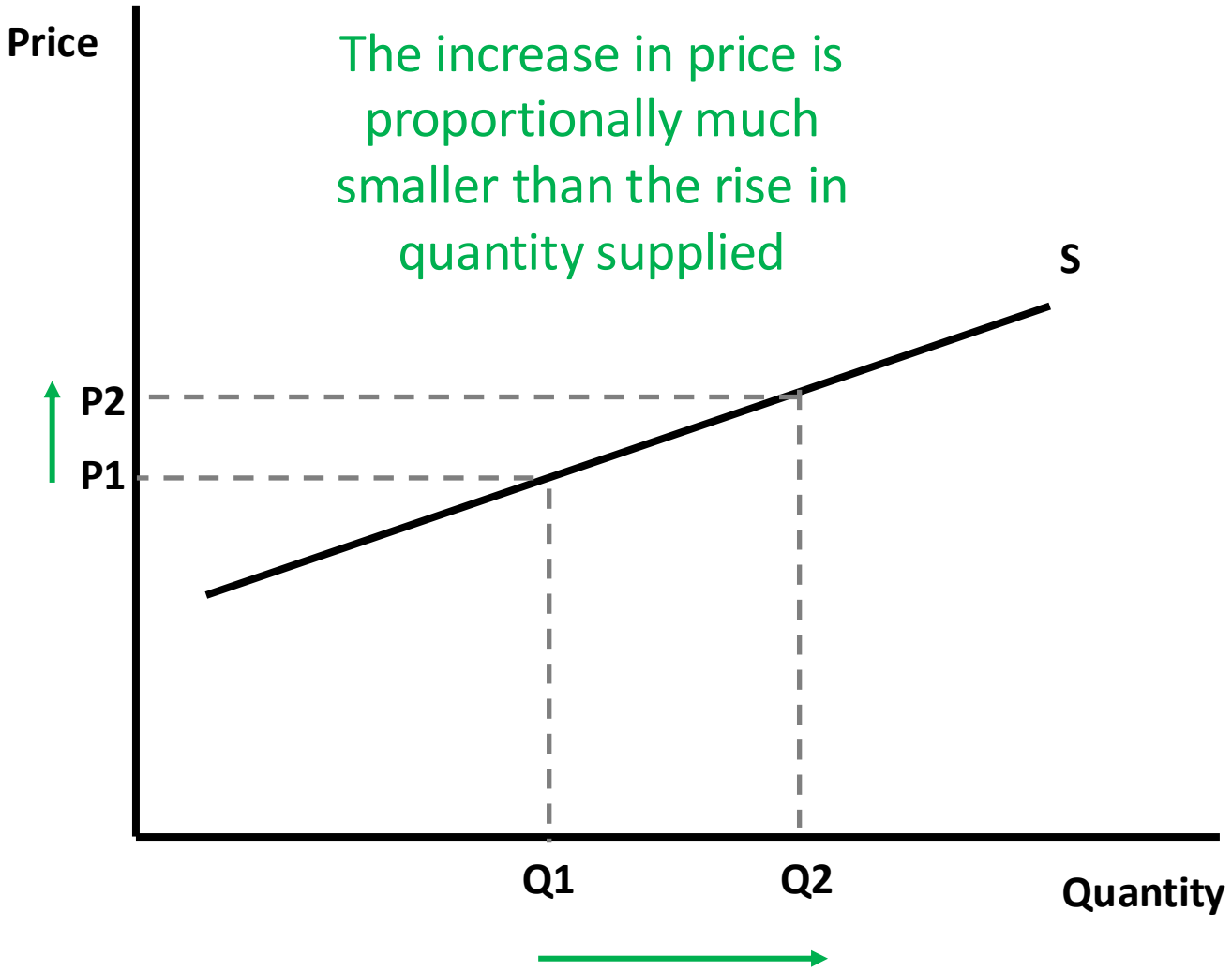


Changing PED along a straight-line demand curve, including numbers for deeper analysis



PED elastic at A and inelastic at B



Price elastic supply curve

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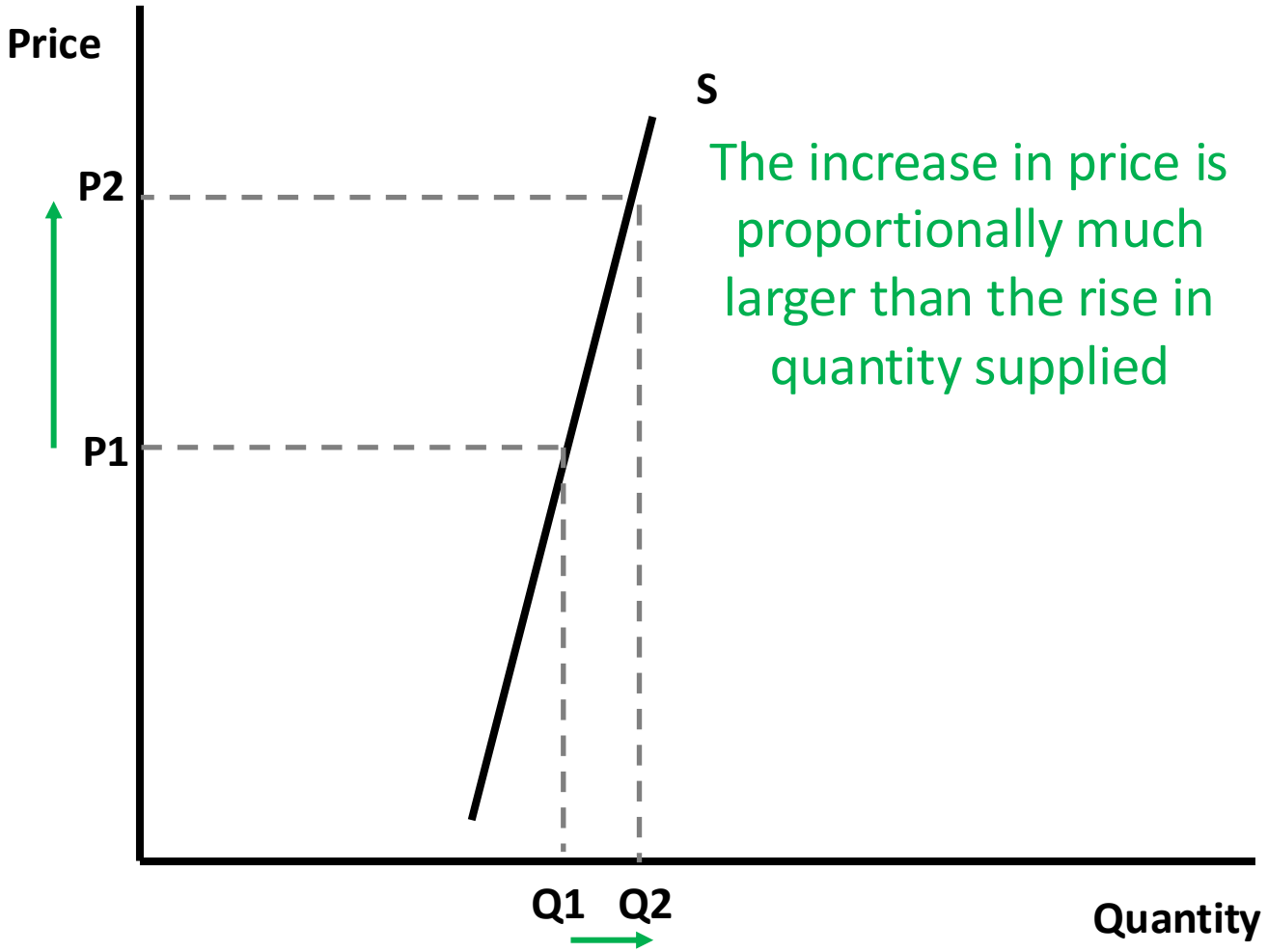
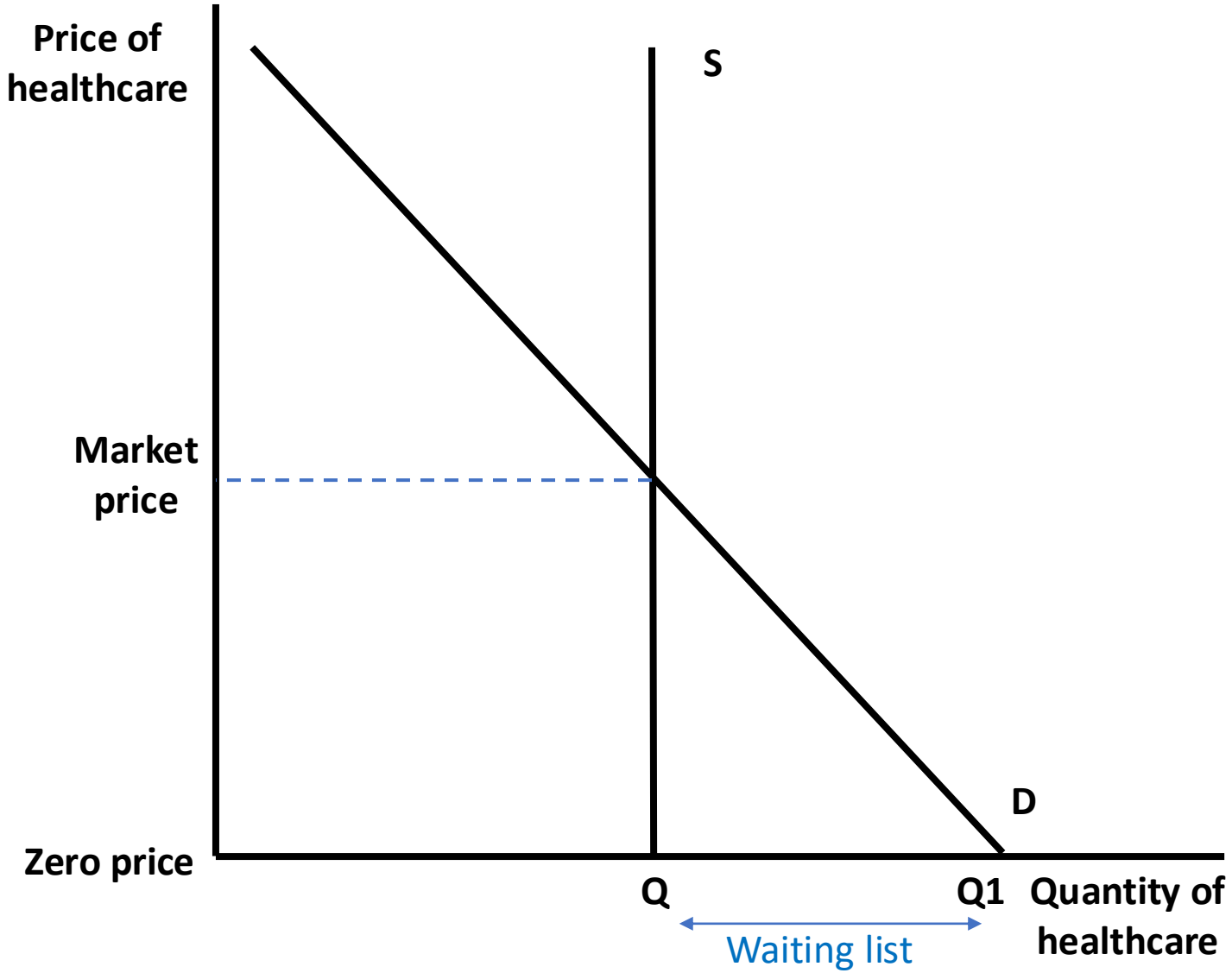


Price inelastic supply curve



Healthcare market: excess demand (waiting list) when healthcare is provided free at the point of use eg. NHS

ECONOMICS DIAGRAMS

CONSUMER AND PRODUCER SURPLUS, AND TOTAL REVENUE

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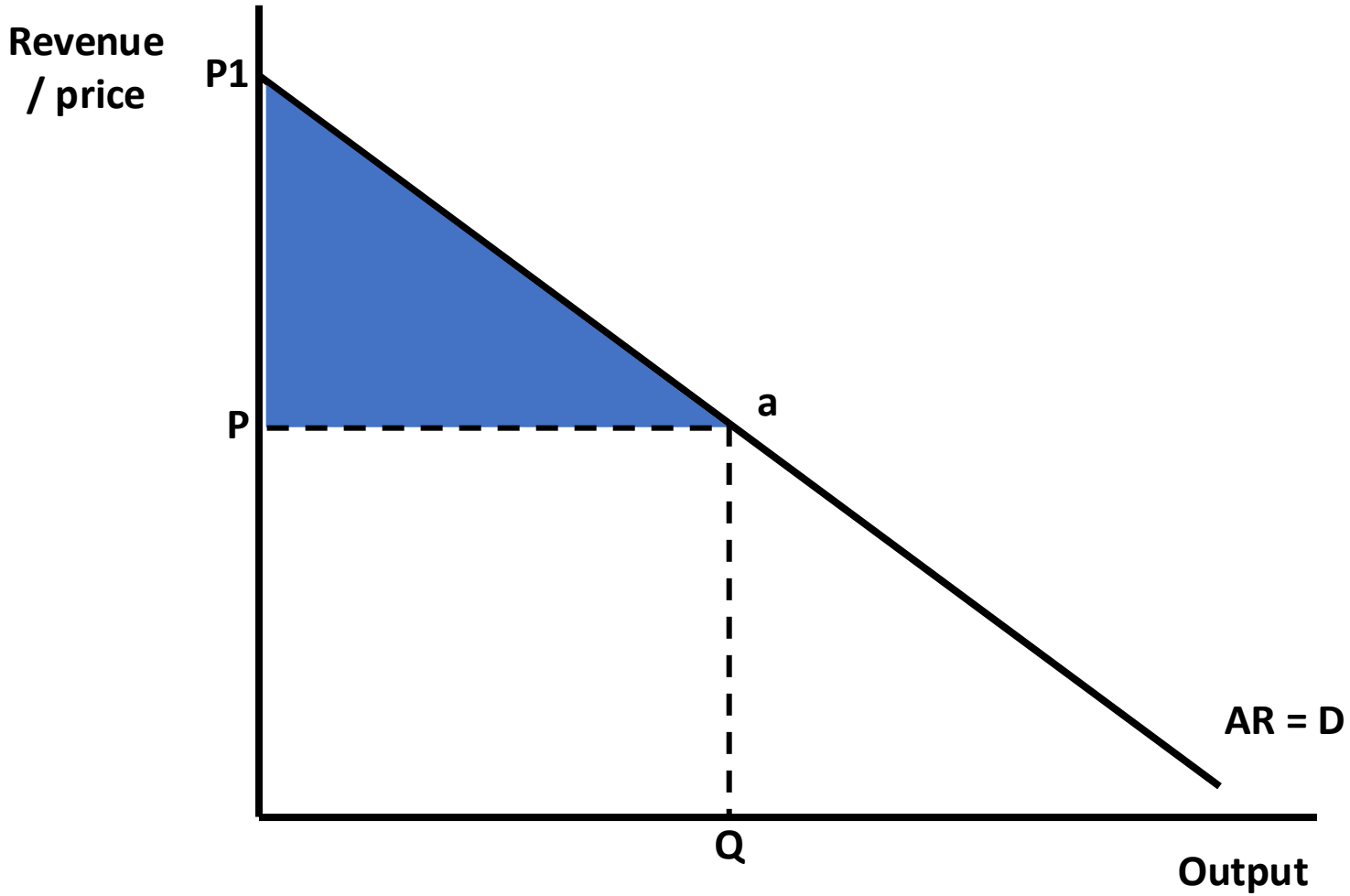
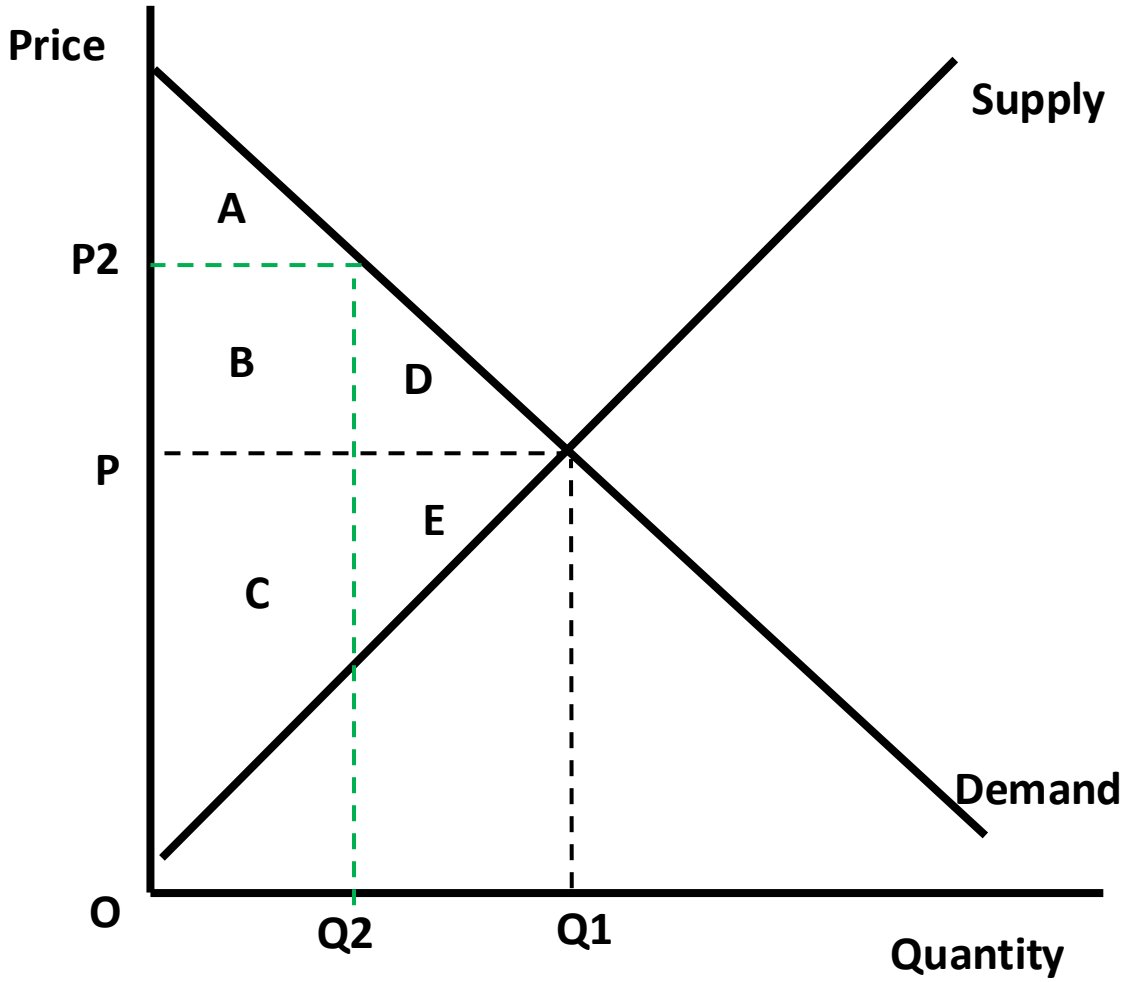
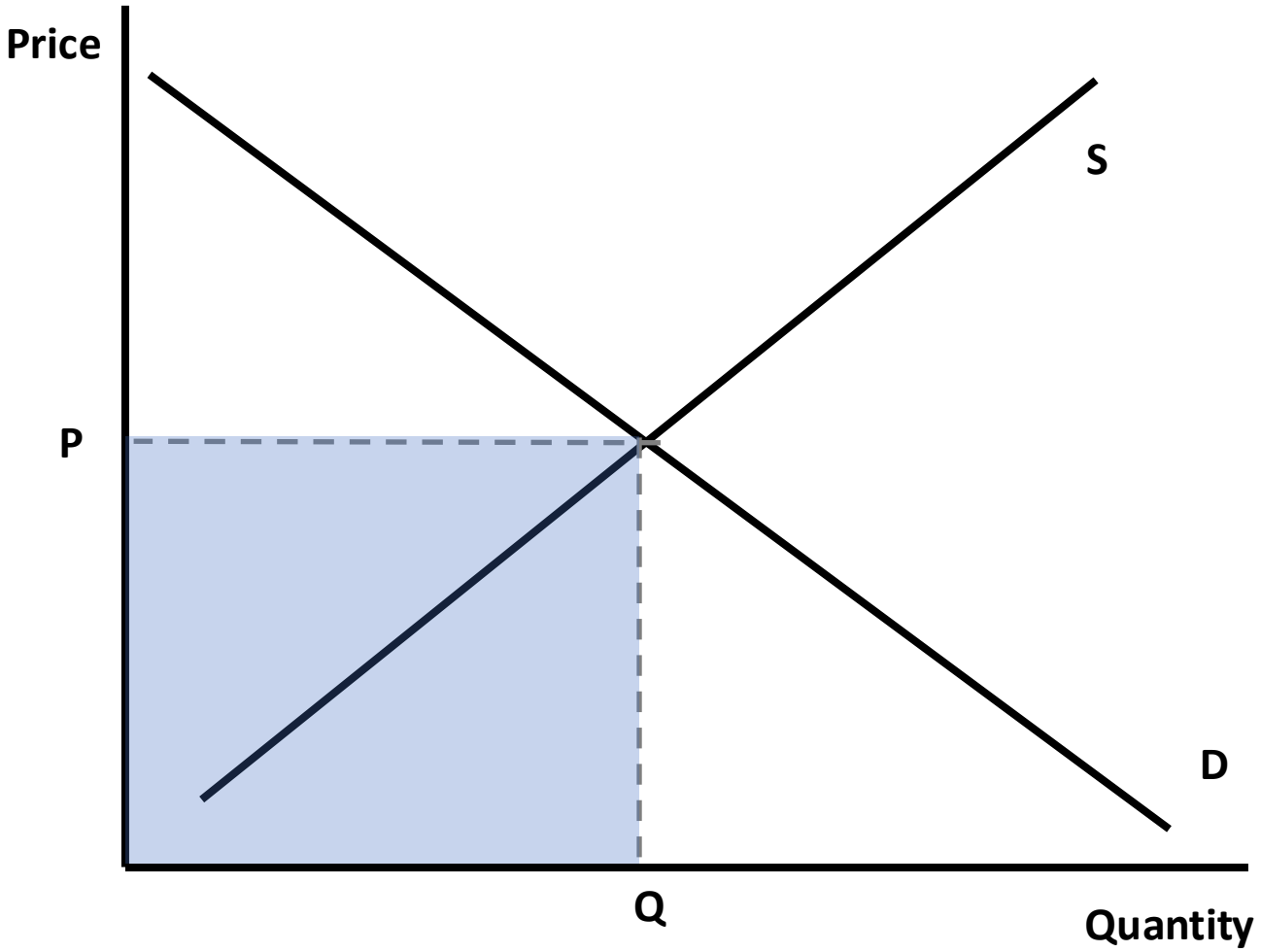


Consumer surplus

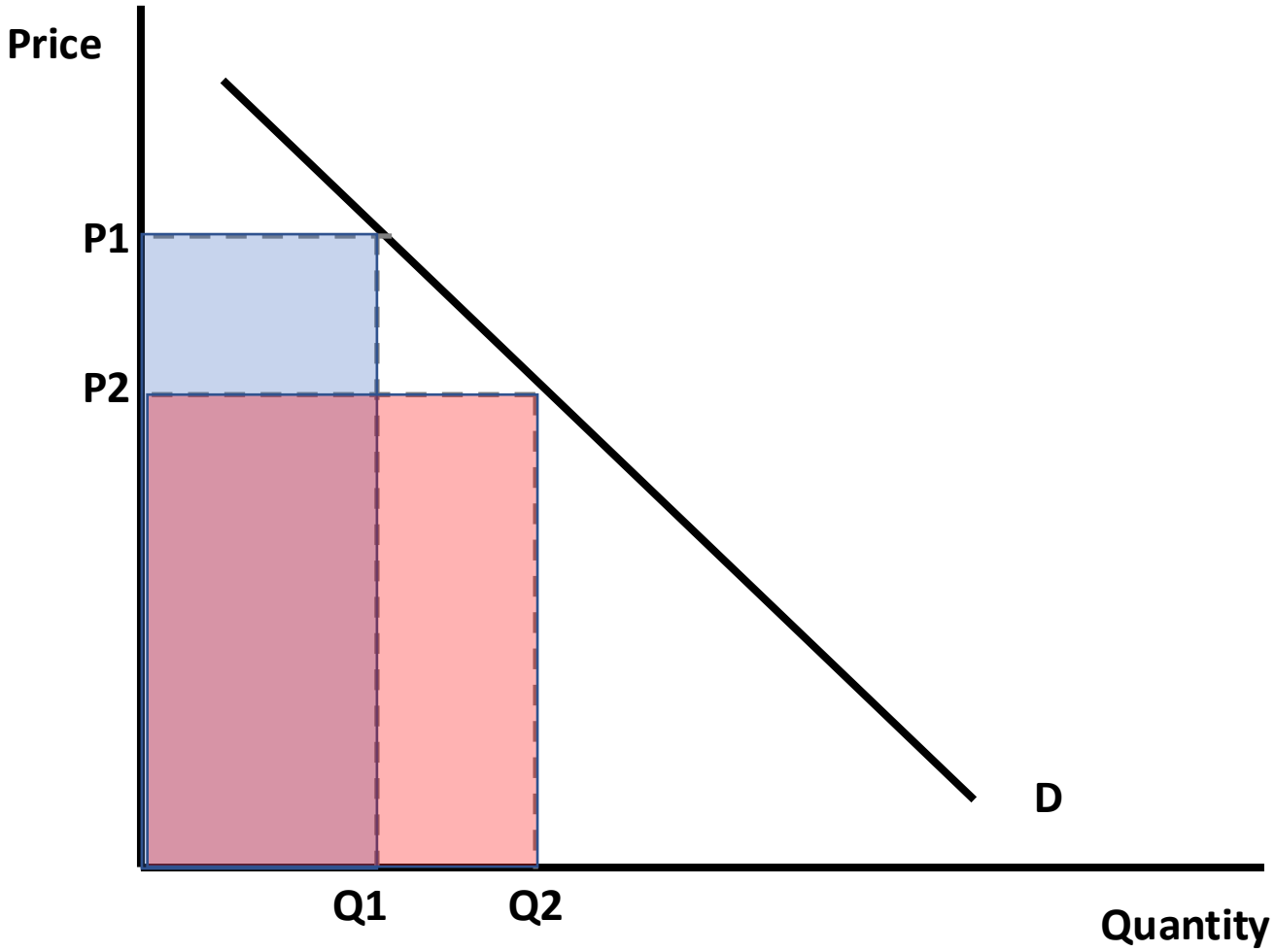
tutor2u



Changes in consumer and producer surplus when price rises from P to P2
Consumer surplus decreases from A+B+D to A and producer surplus changes from C+E to B+C



Total revenue at the equilibrium price and quantity (TR = P x Q)



Change in total revenue following a fall in price (TR=PxQ)

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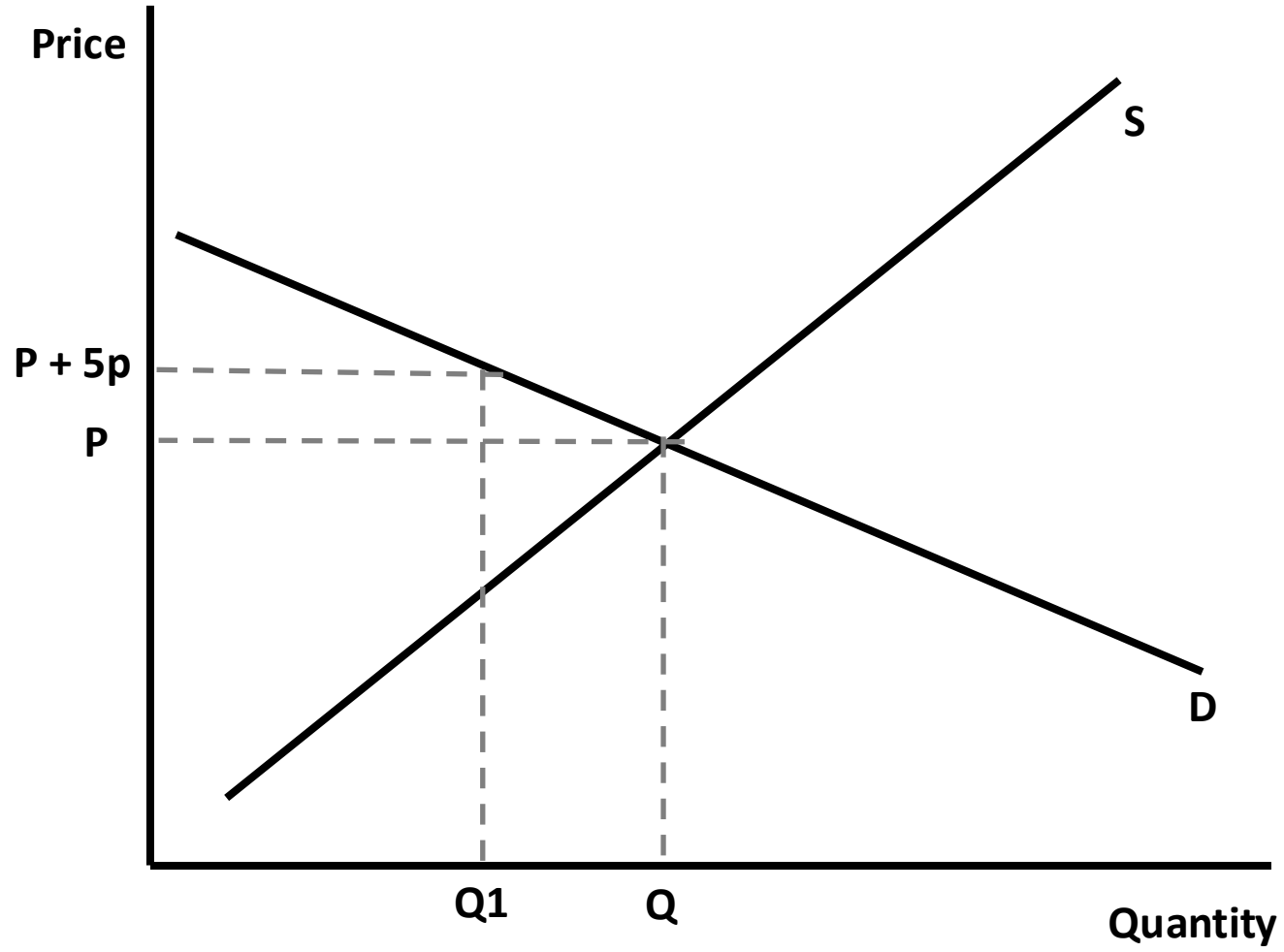
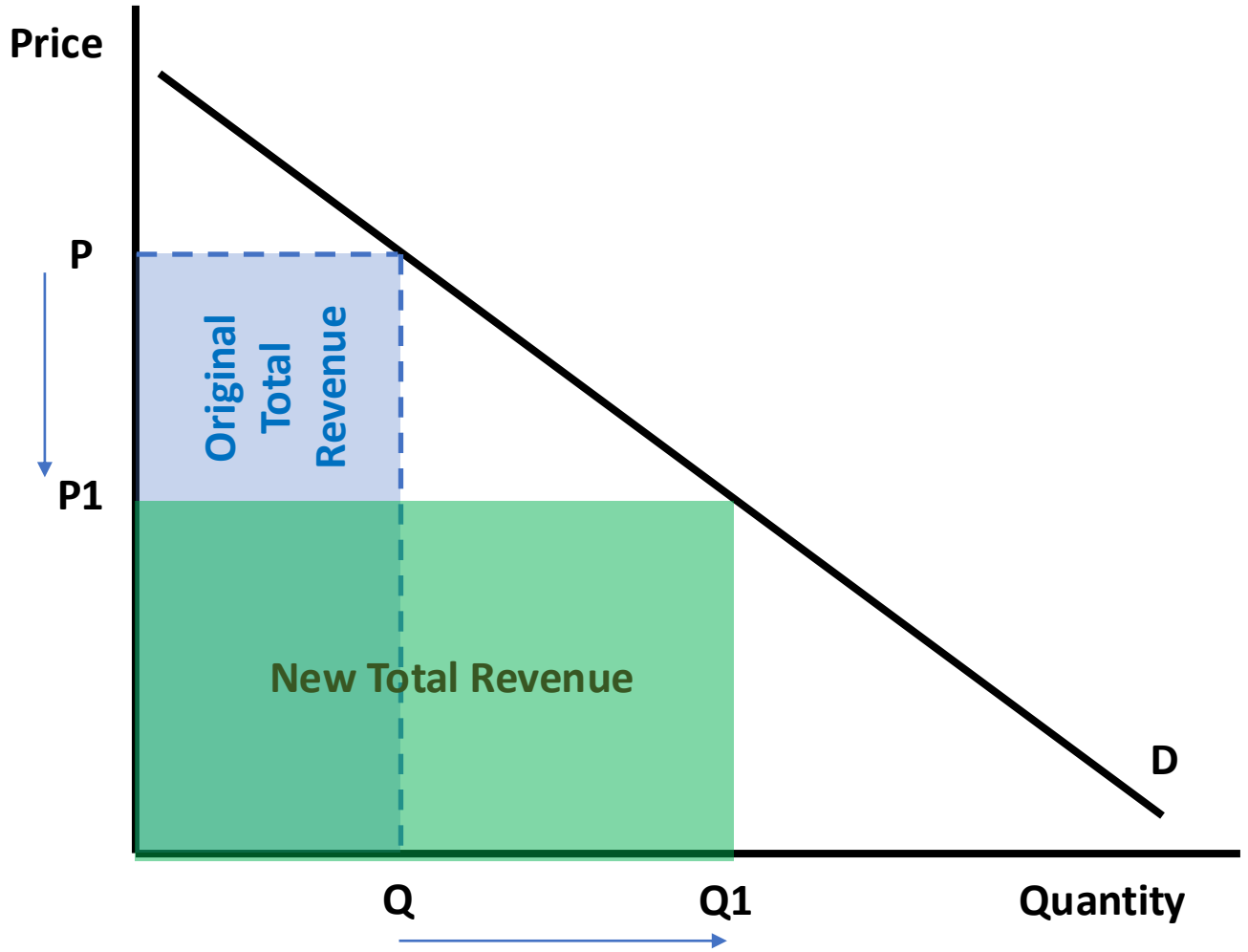


Change in total revenue after a 5p increase in price



Impact of a fall in price on total revenue (PXQ changes to P1xQ1)

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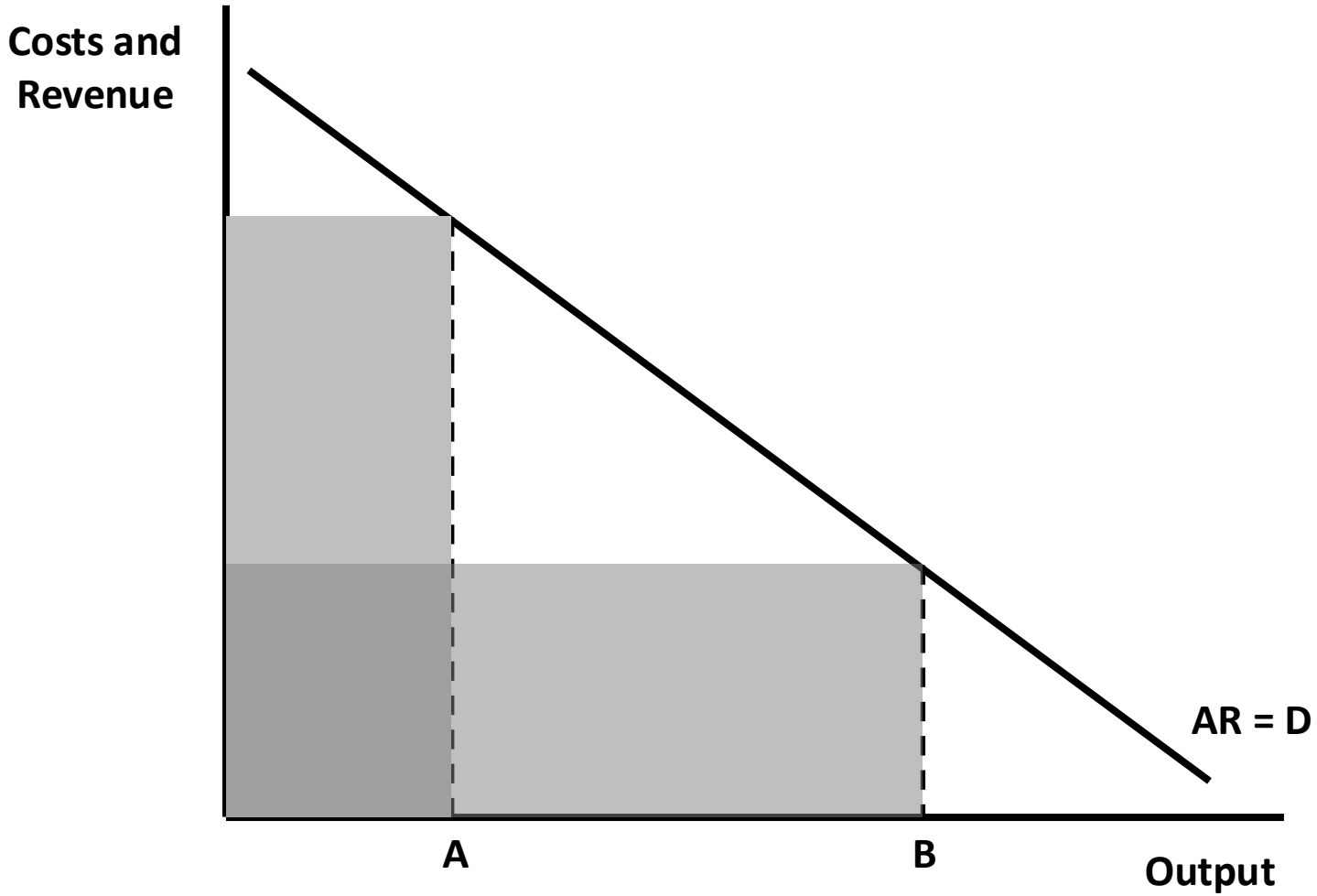
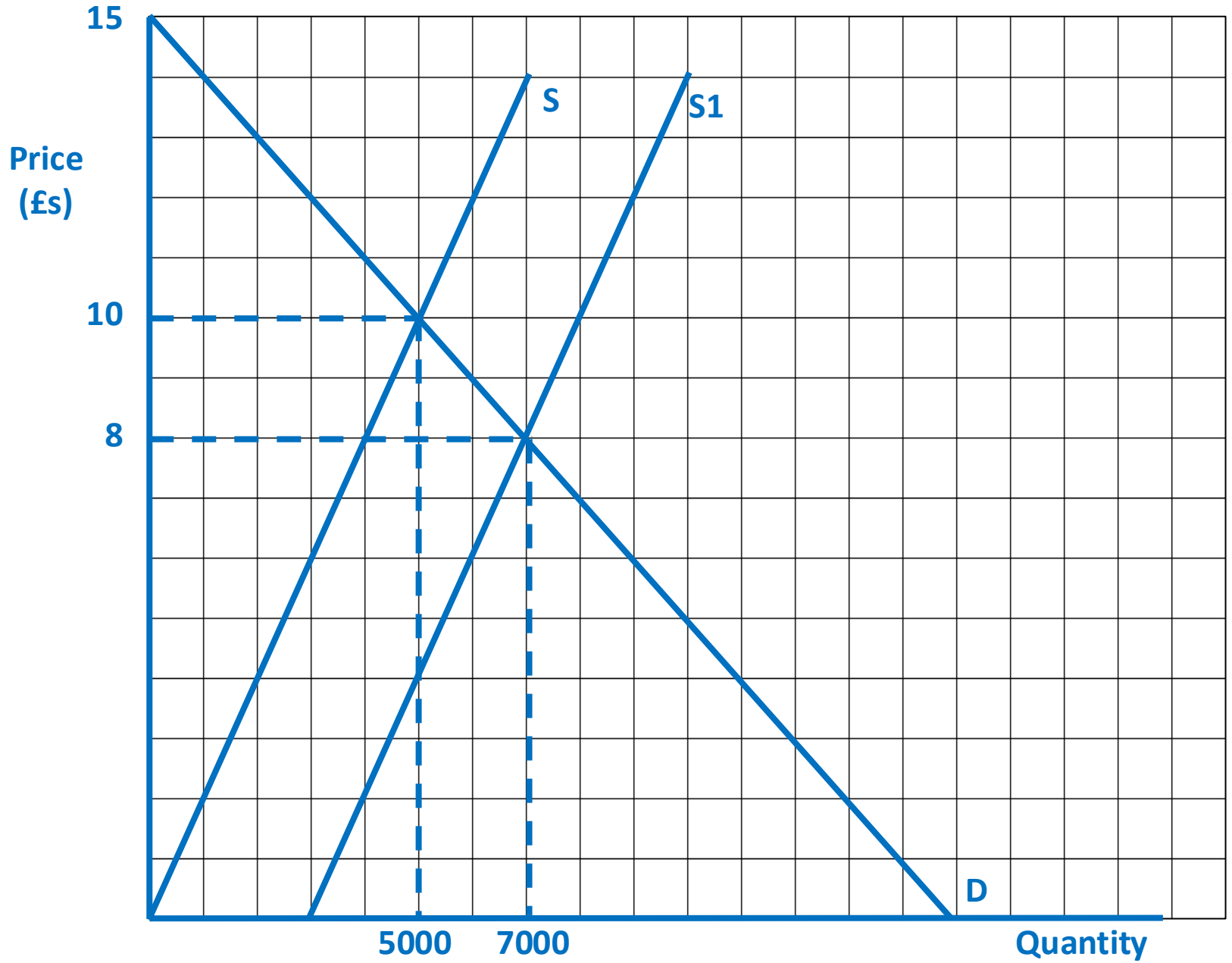
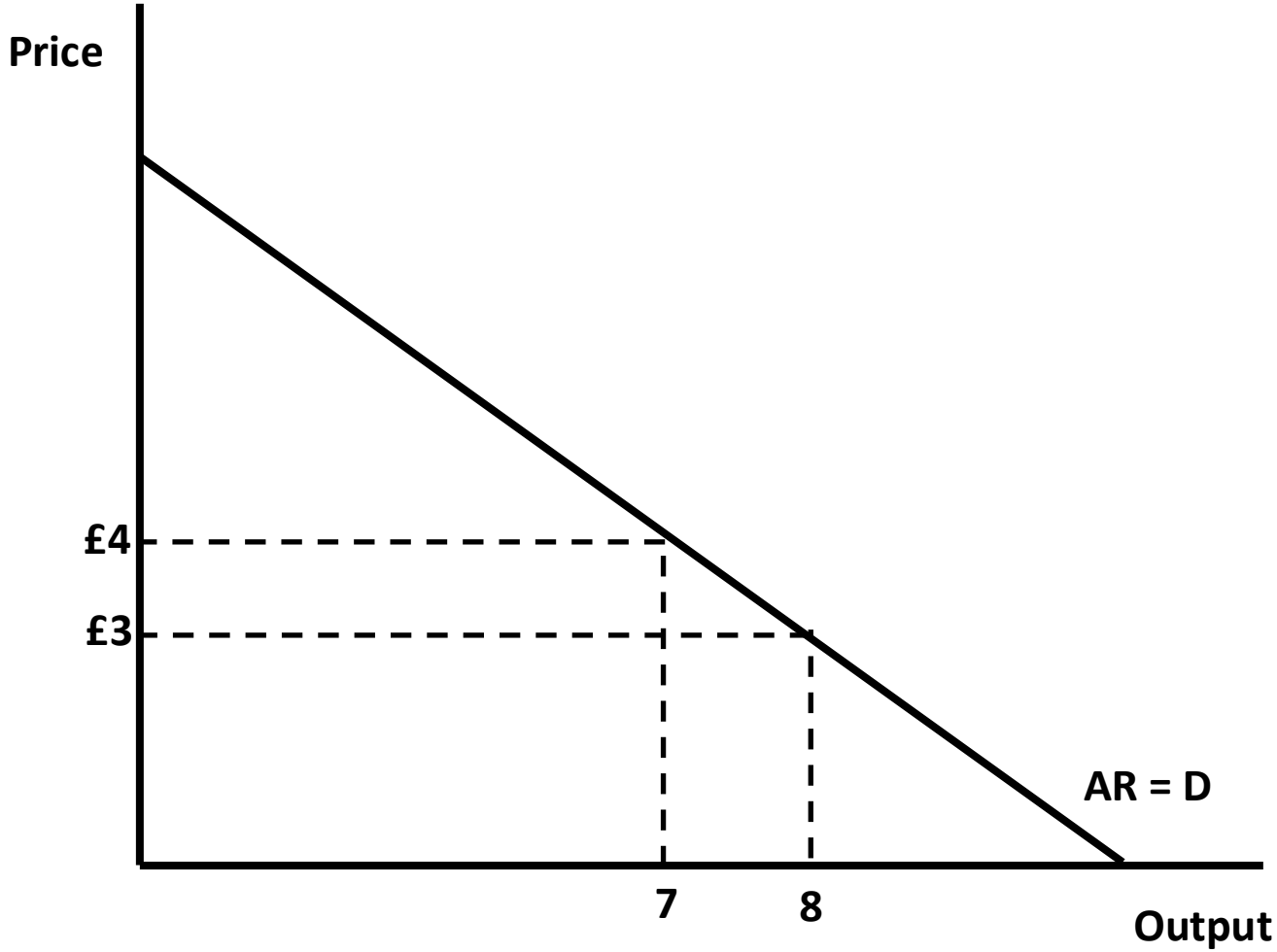


Total revenue = price x quantity, using AR rather than D



Increase in supply changes total revenue from £10x5000 to £8x7000



Change in total revenue when price changes. At price = £3, total revenue = £3x8; at price = £4, total revenue = £4x7

ECONOMICS DIAGRAMS

MARKET INTERVENTIONS

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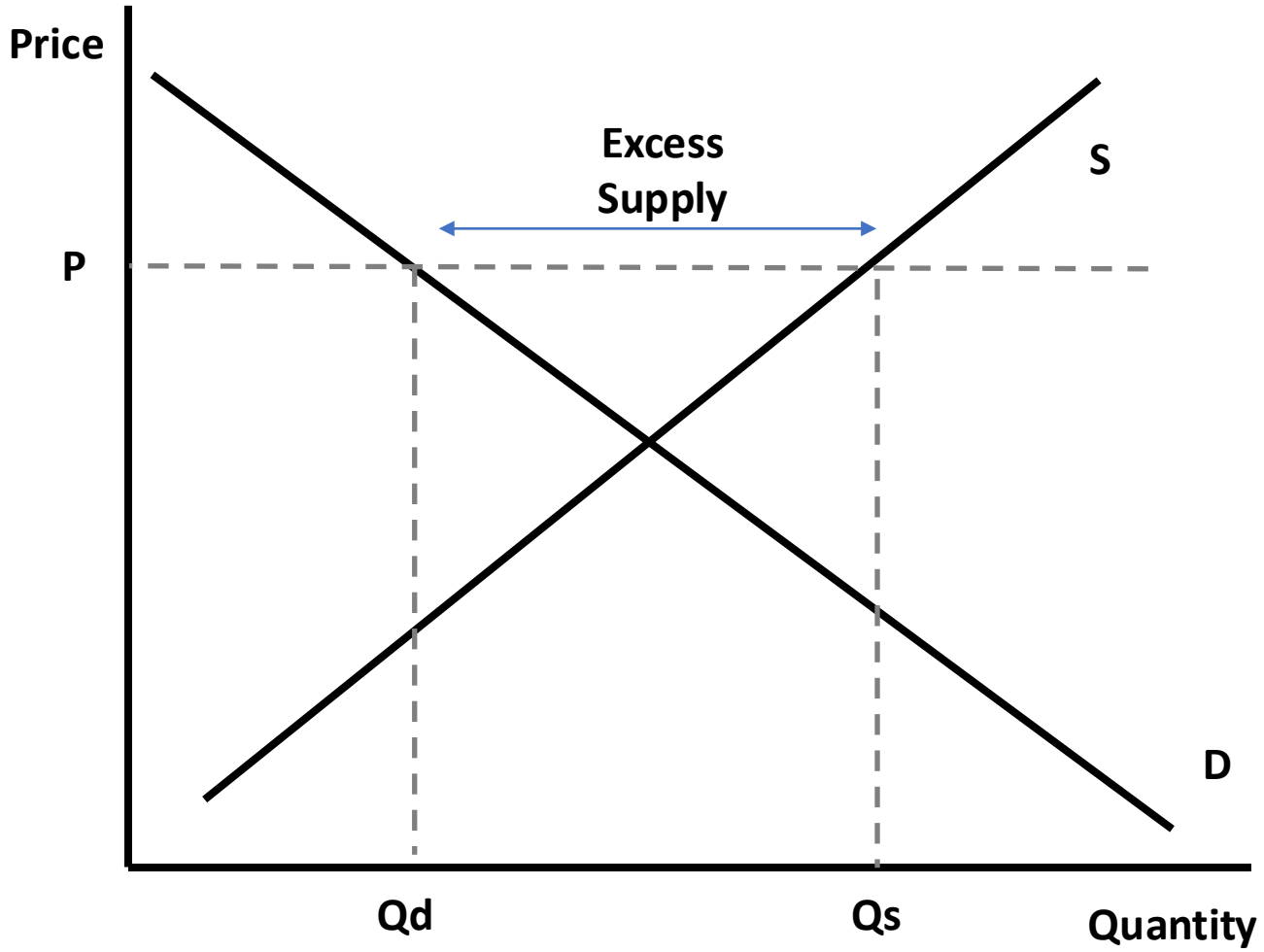
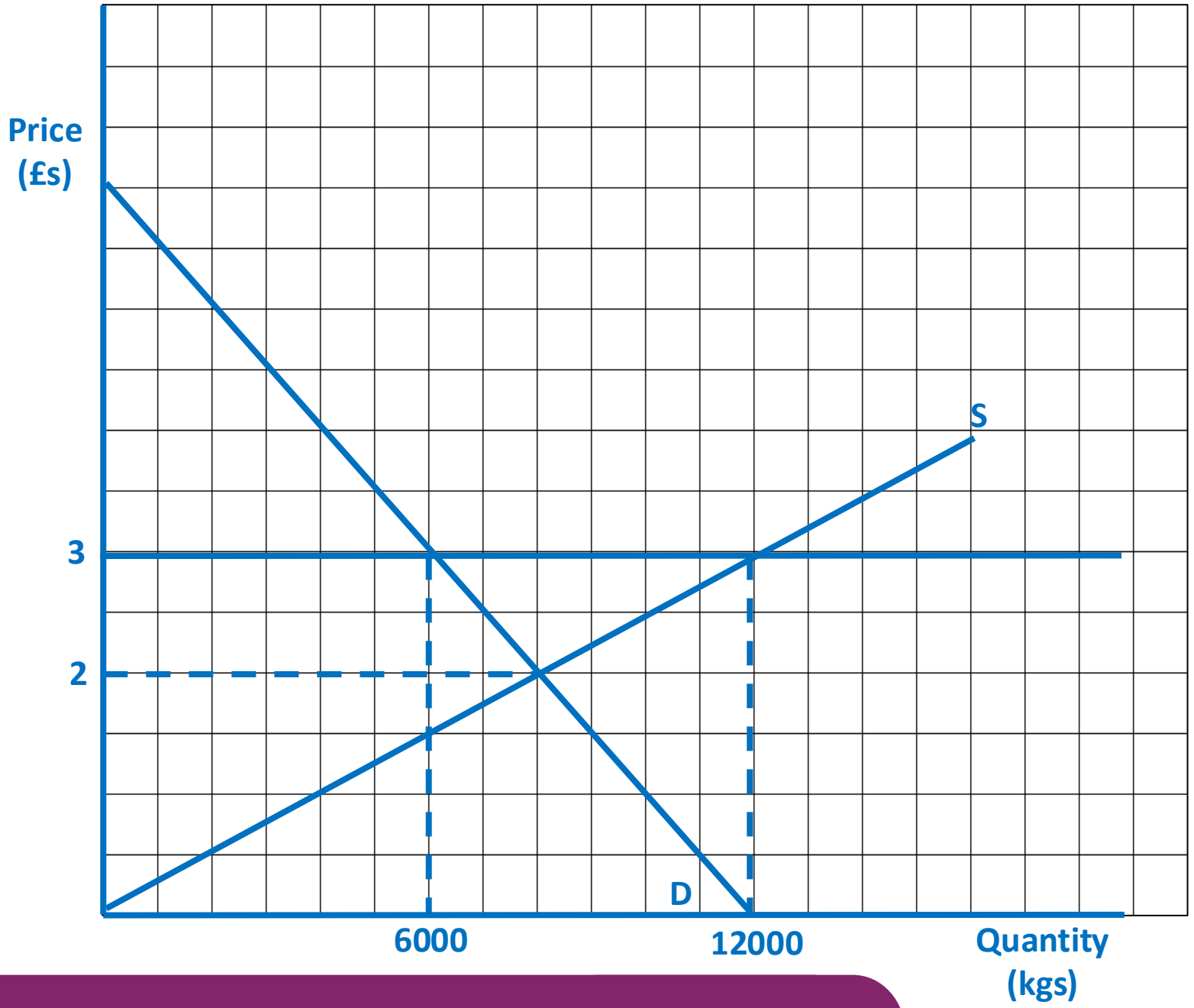
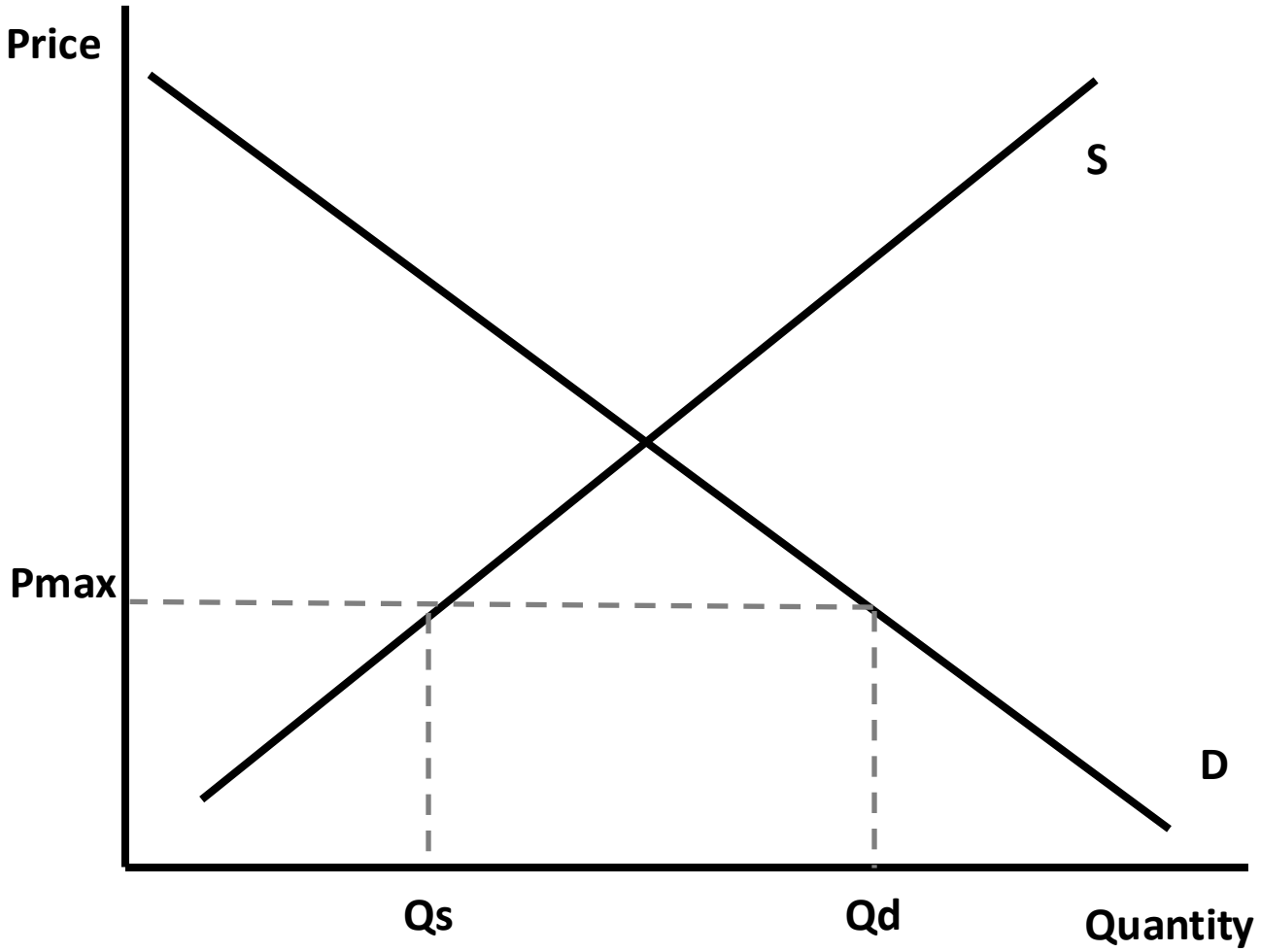


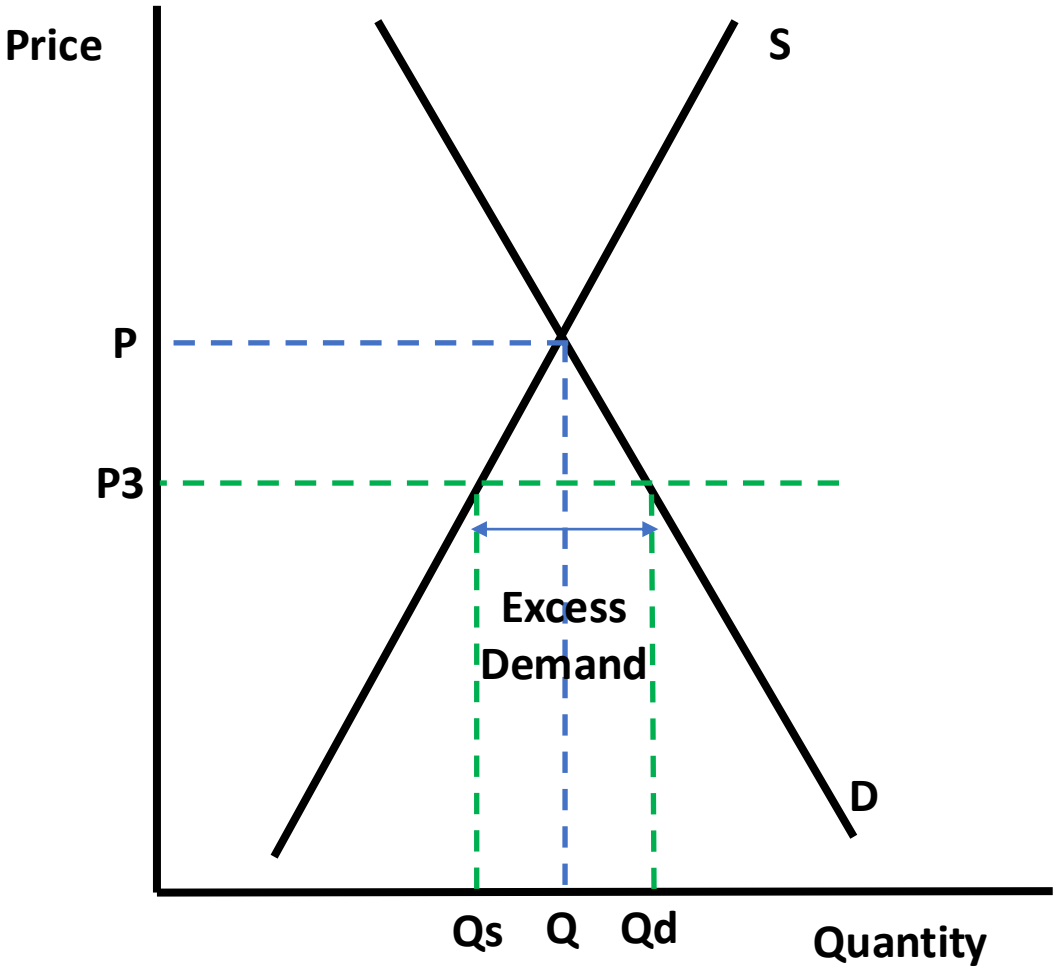
Market diagram showing an excess supply



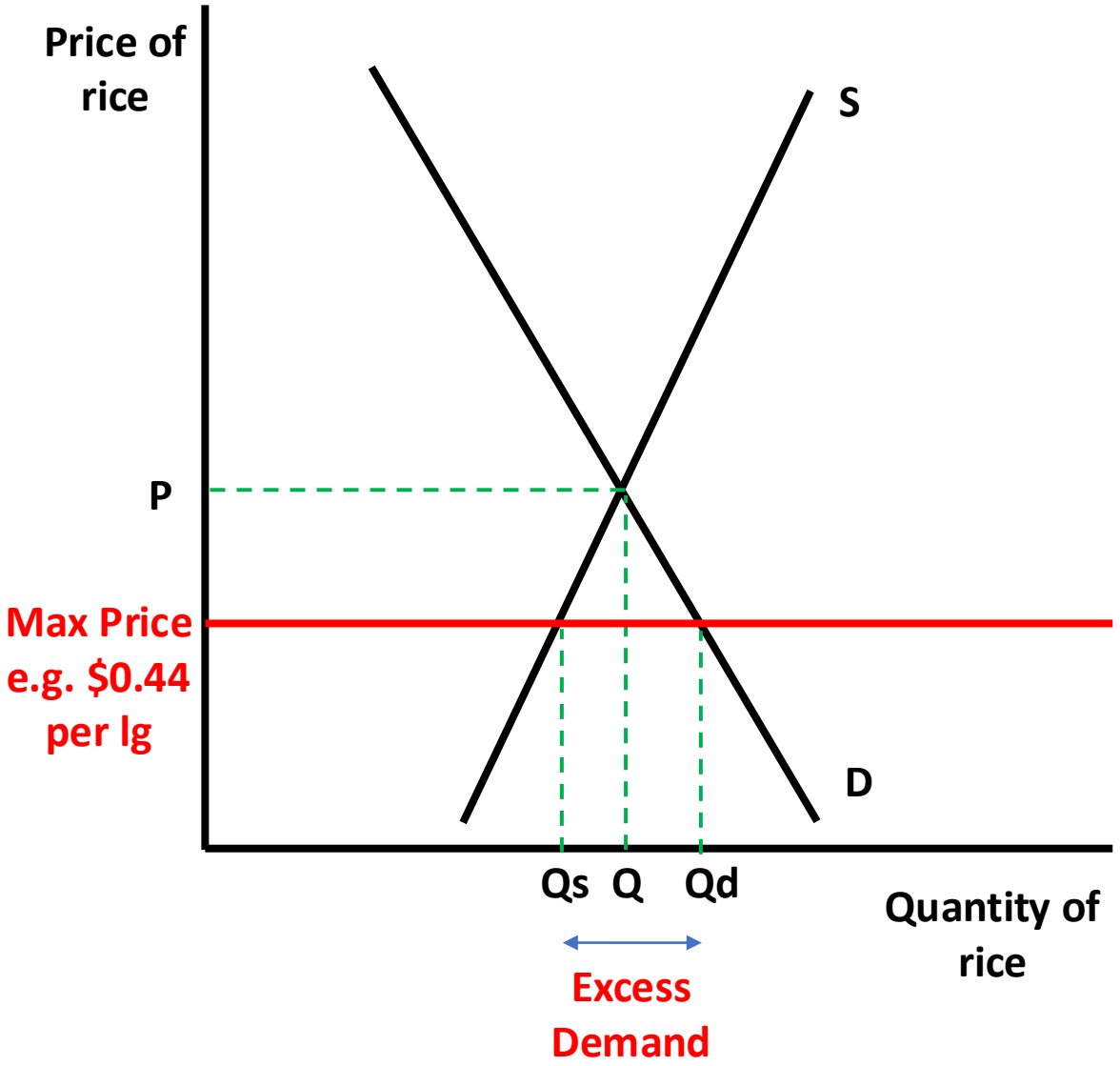
Excess supply at £3 is (12000-6000)kgs



Excess demand in market with maximum price



Excess demand at price below market equilibrium price



Intervention in the market for rice

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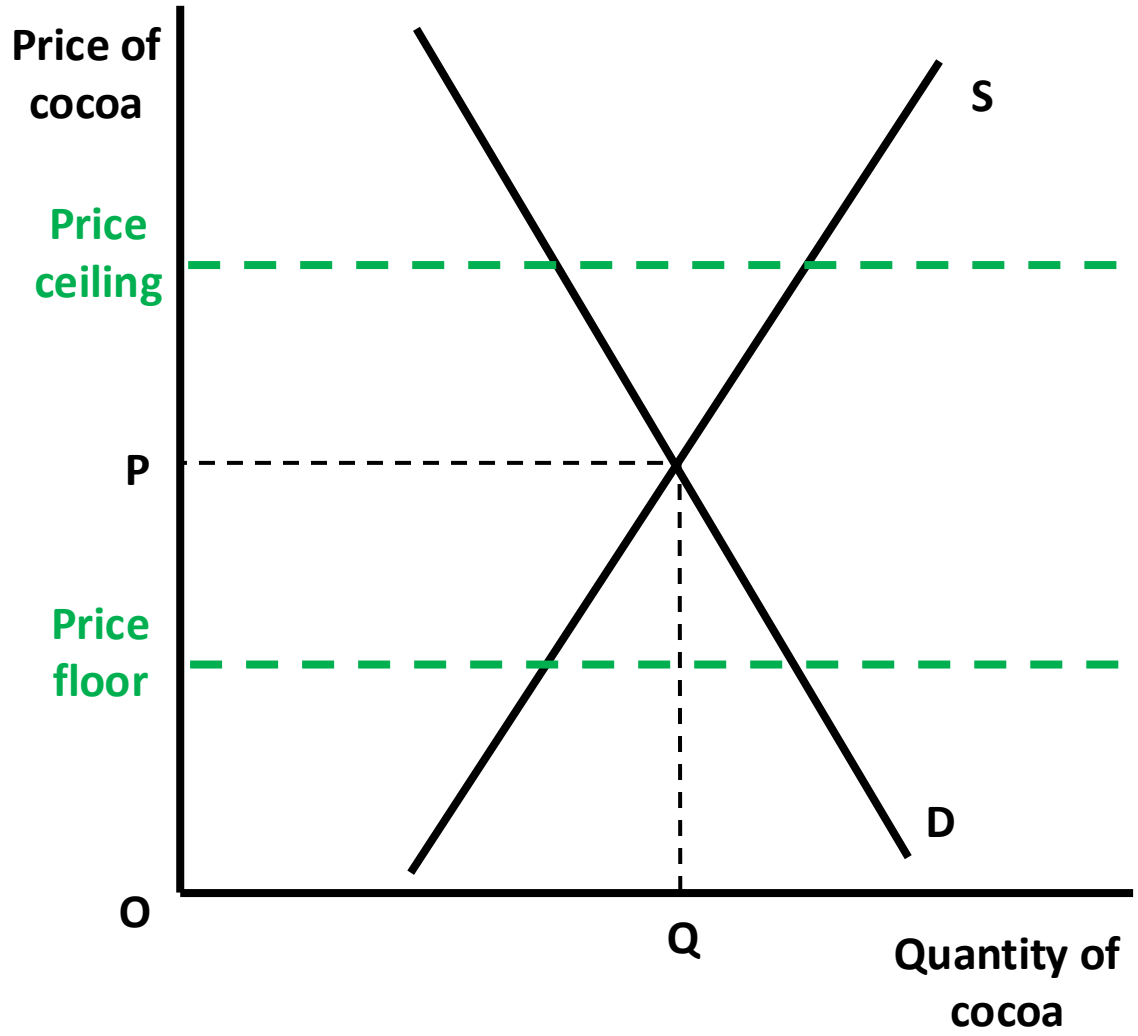
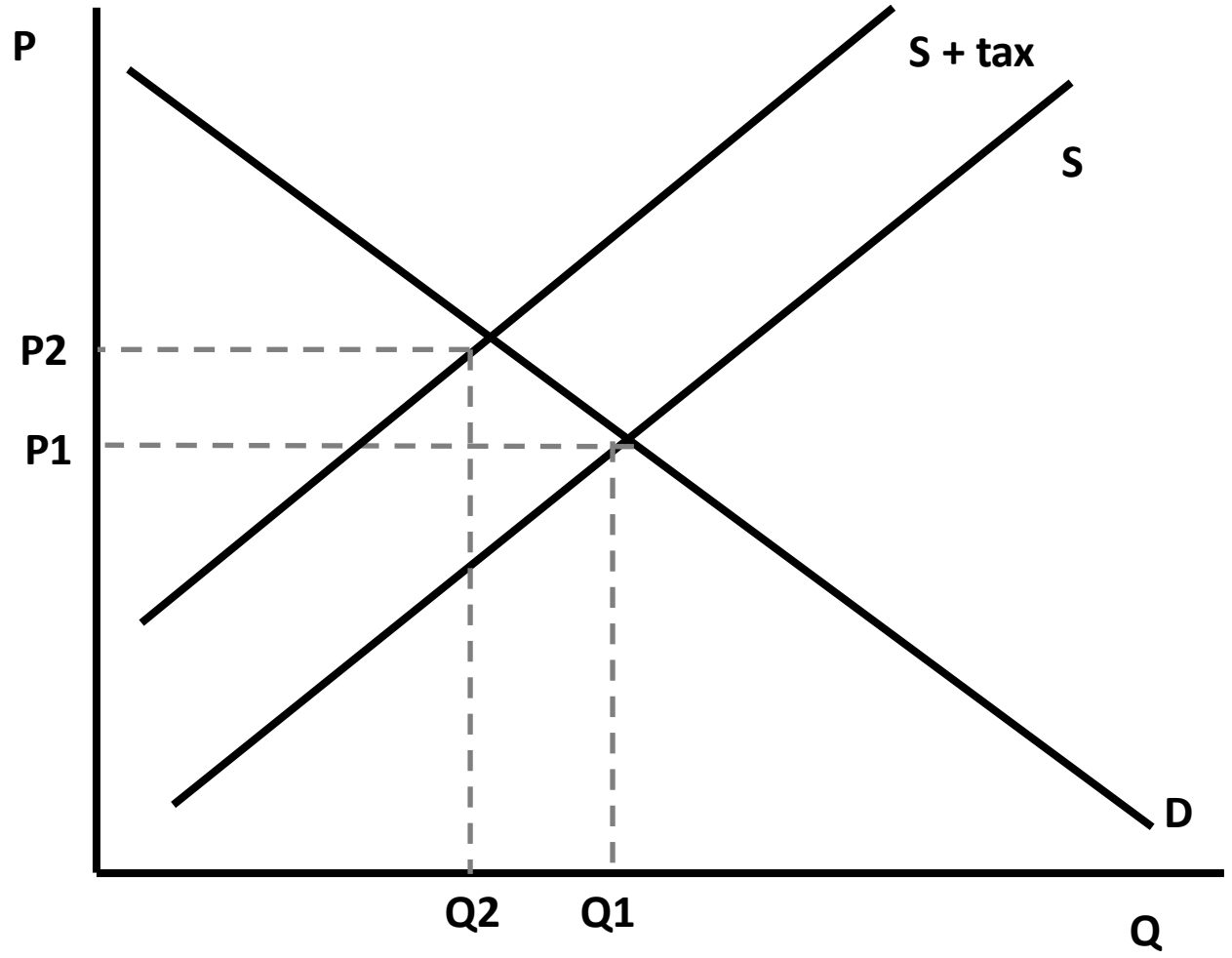
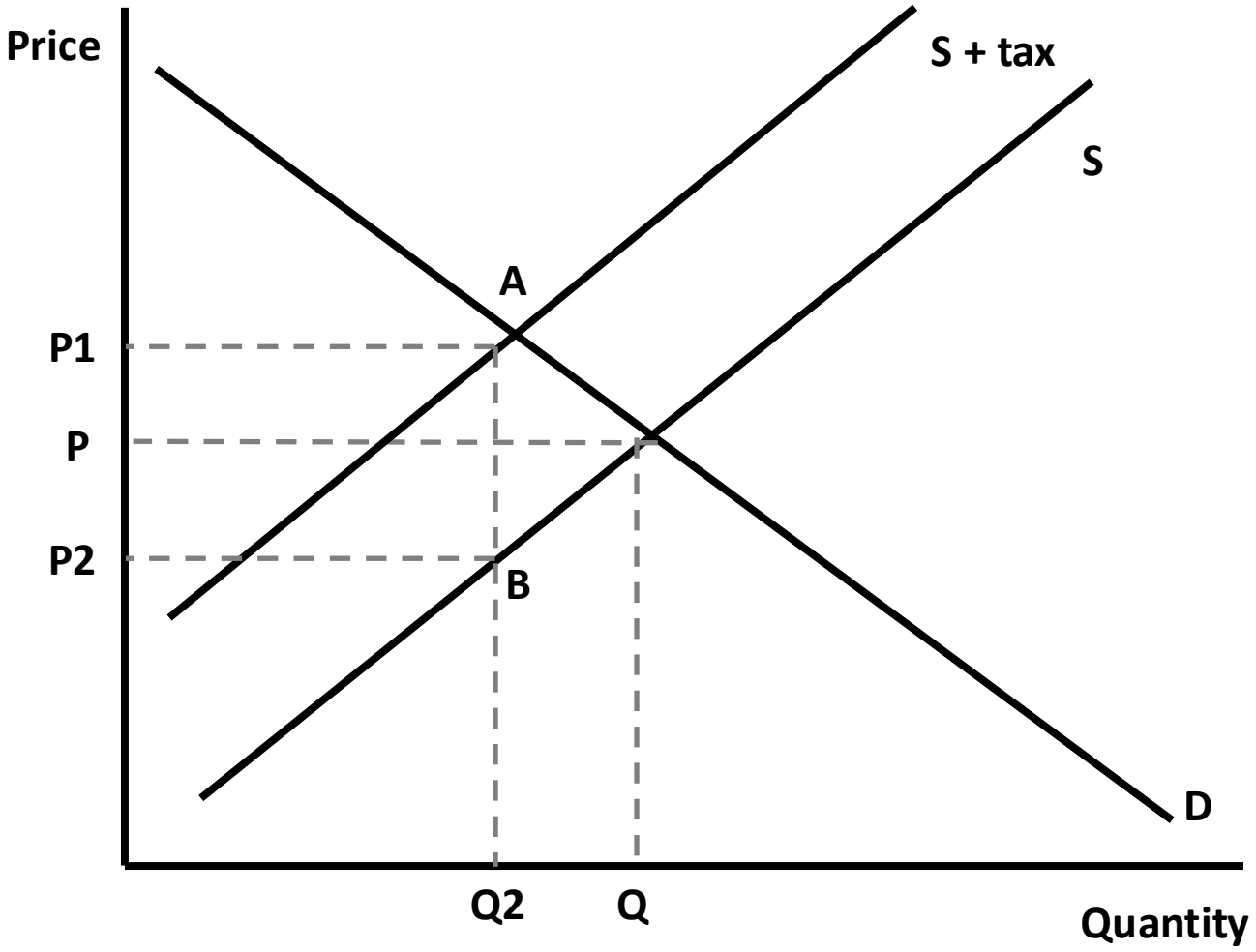


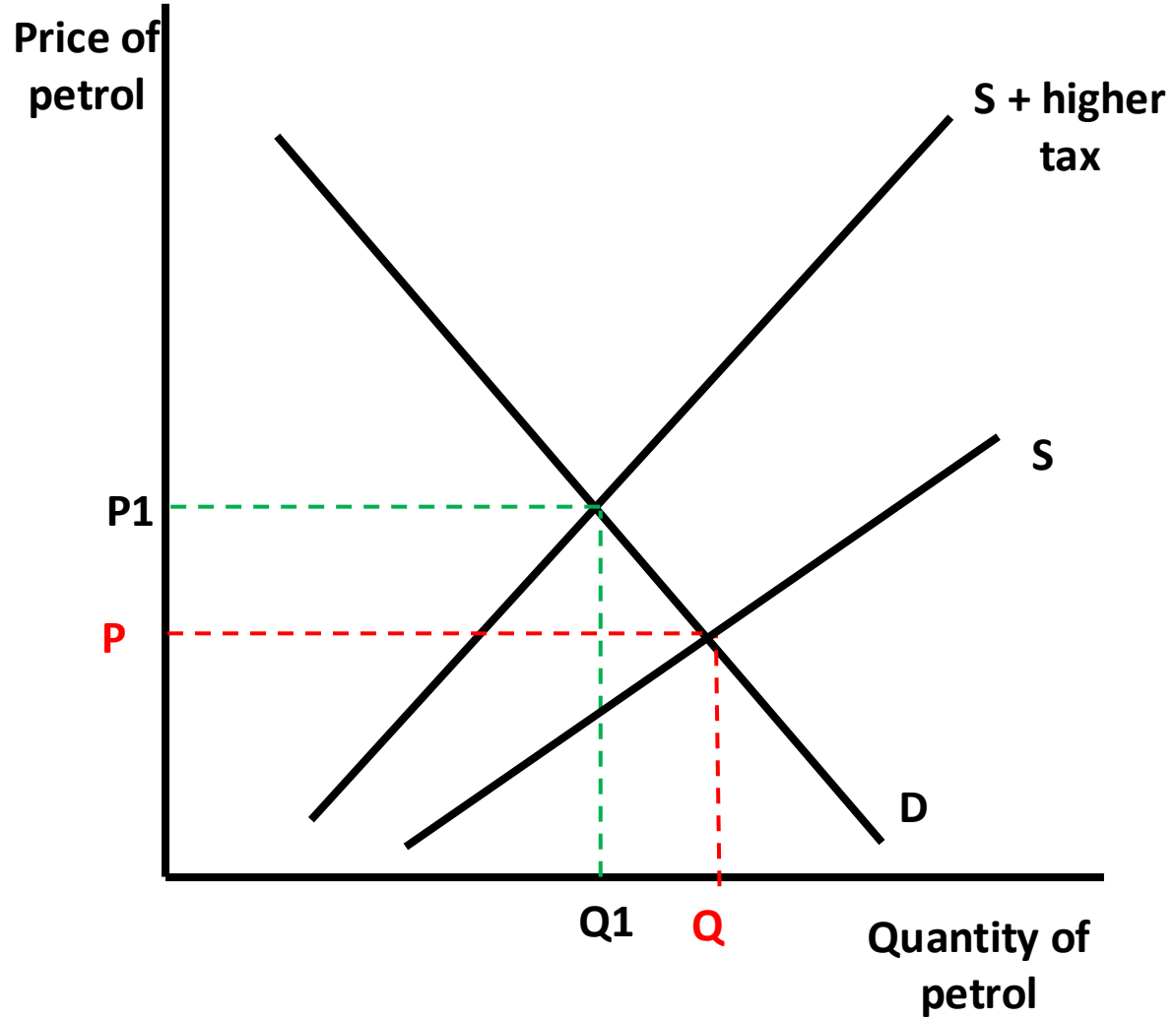
Diagram showing a price ceiling (maximum price) and price floor (minimum price) in the cocoa market



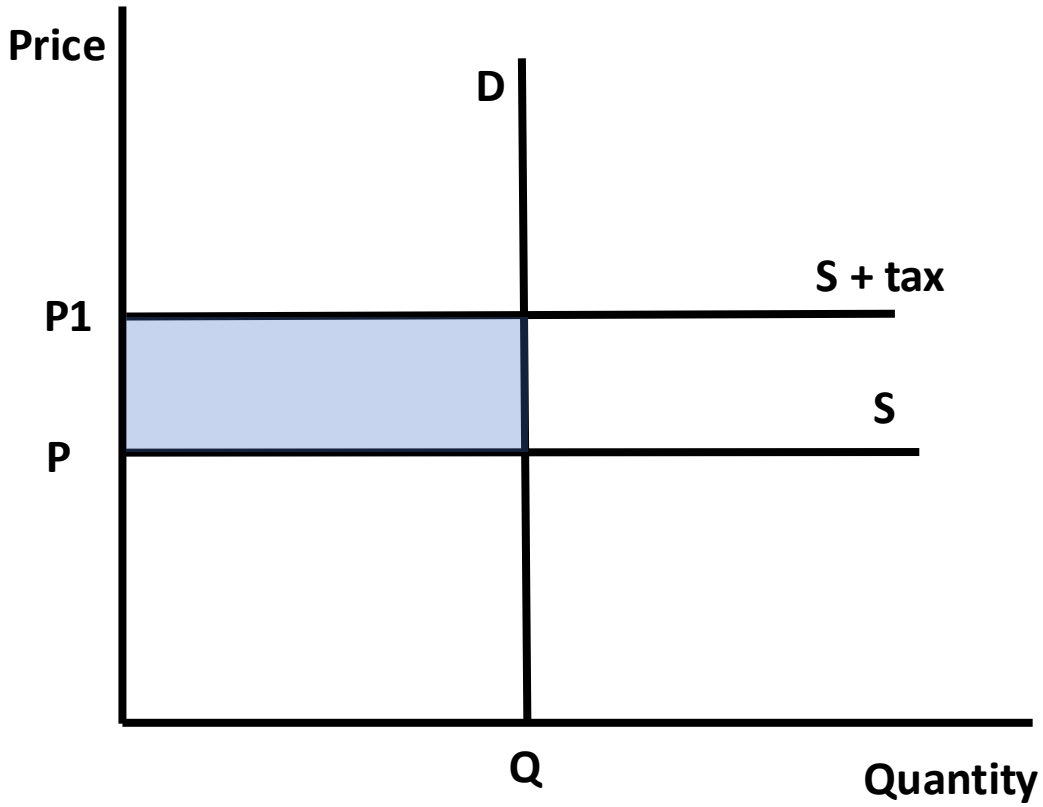
Impact of a specific indirect tax on the market

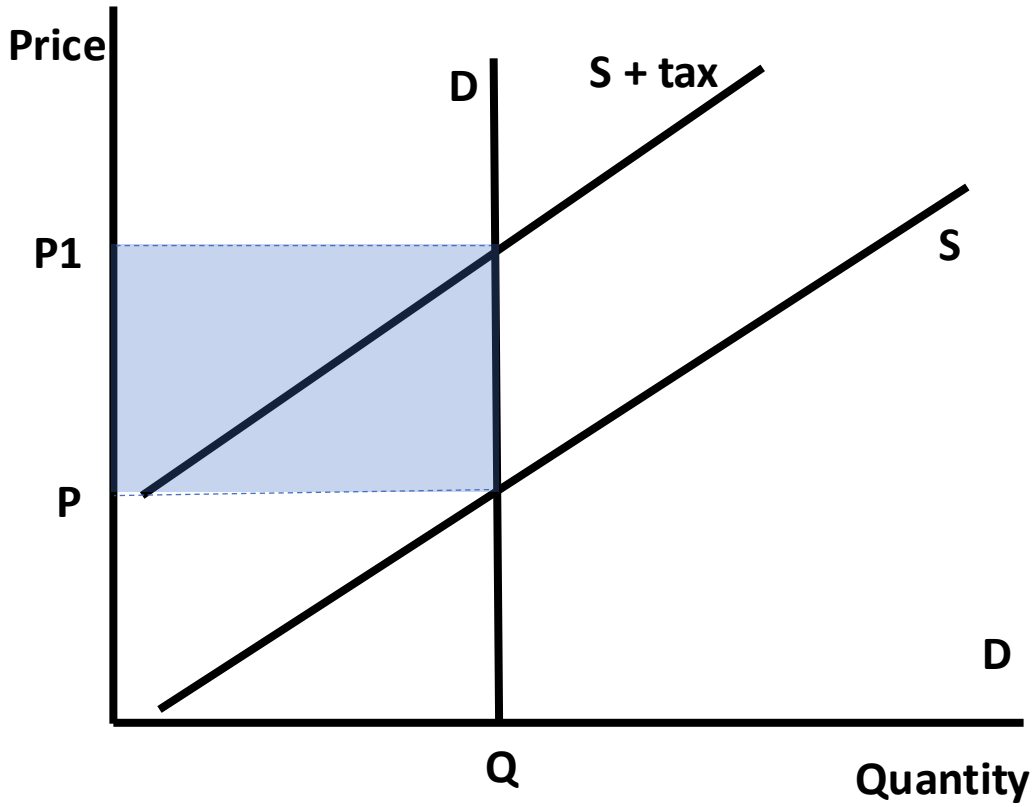


Tax revenue from an indirect tax = P1ABP2

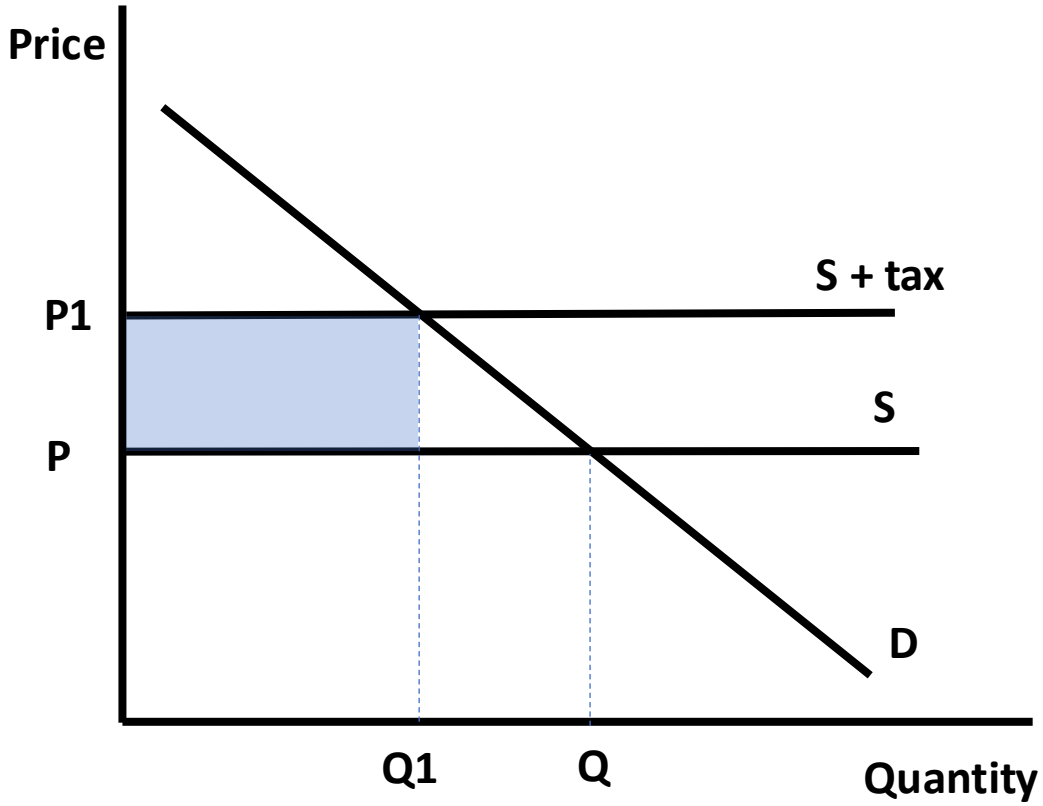


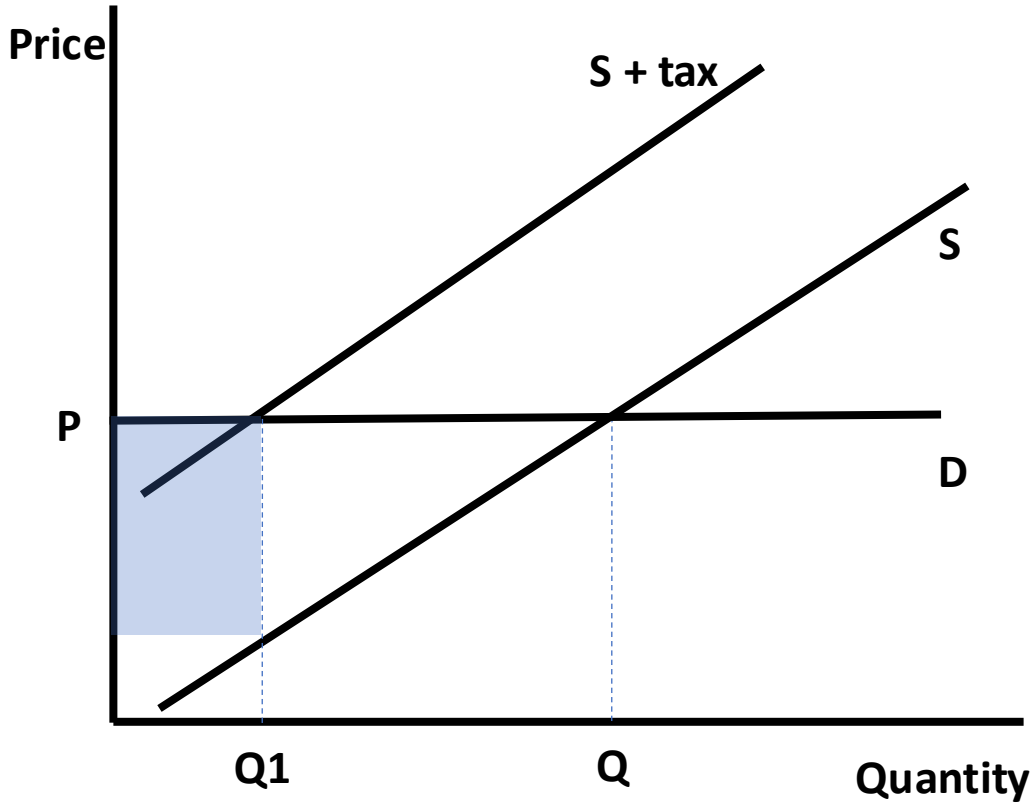
Impact of an increase in an ad valorem tax on petrol on the market price and quantity of petrol



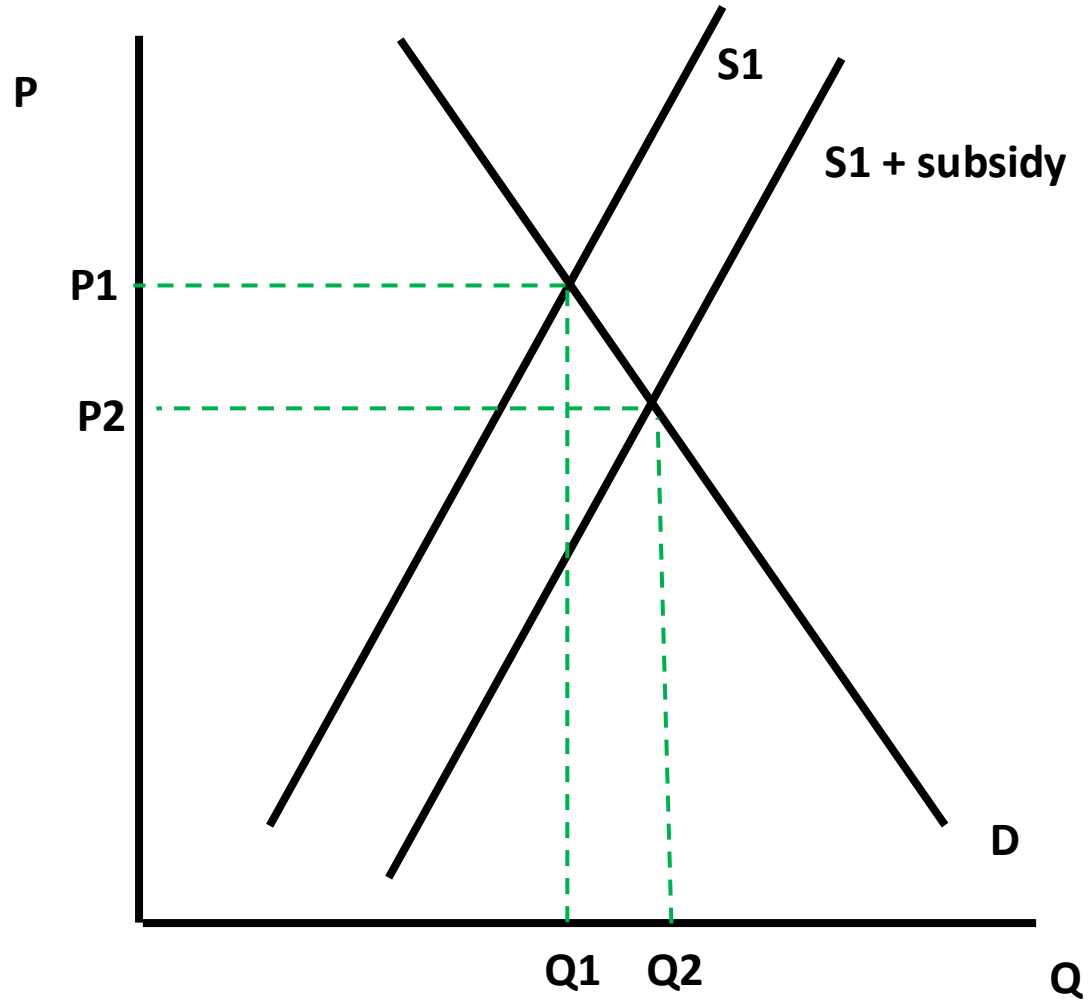


Impact of an indirect tax on market equilibrium price and quantity when demand is perfectly price inelastic and (i) Supply is perfectly elastic and (ii) supply is upward sloping. Blue areas indicate tax revenue raised from the tax.

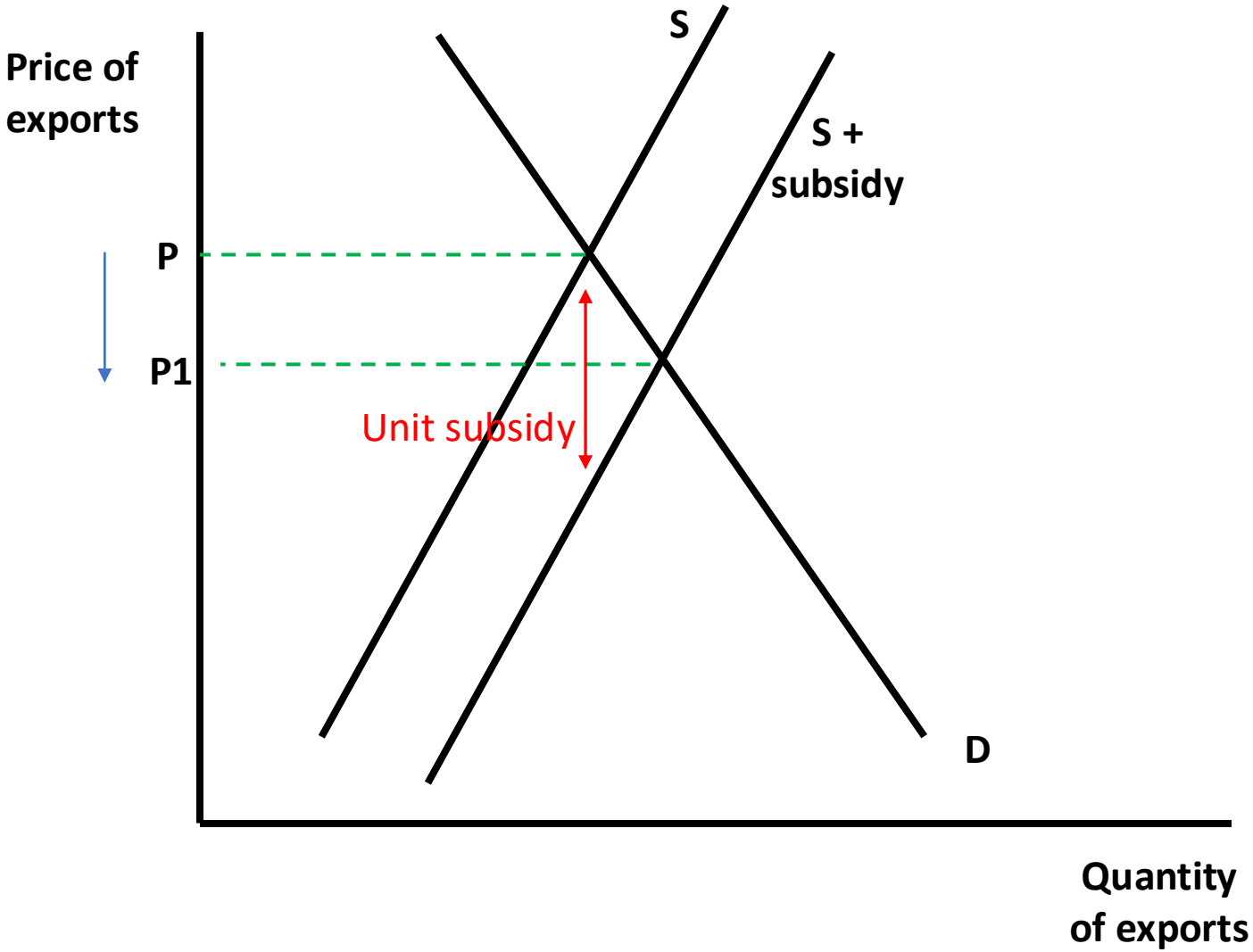




Impact of an indirect tax on market equilibrium price and quantity when (i) Supply is perfectly elastic and (ii) demand is perfectly price inelastic. Blue areas indicate tax revenue raised from the tax.



Impact of a per unit producer subsidy on market equilibrium price and quantity

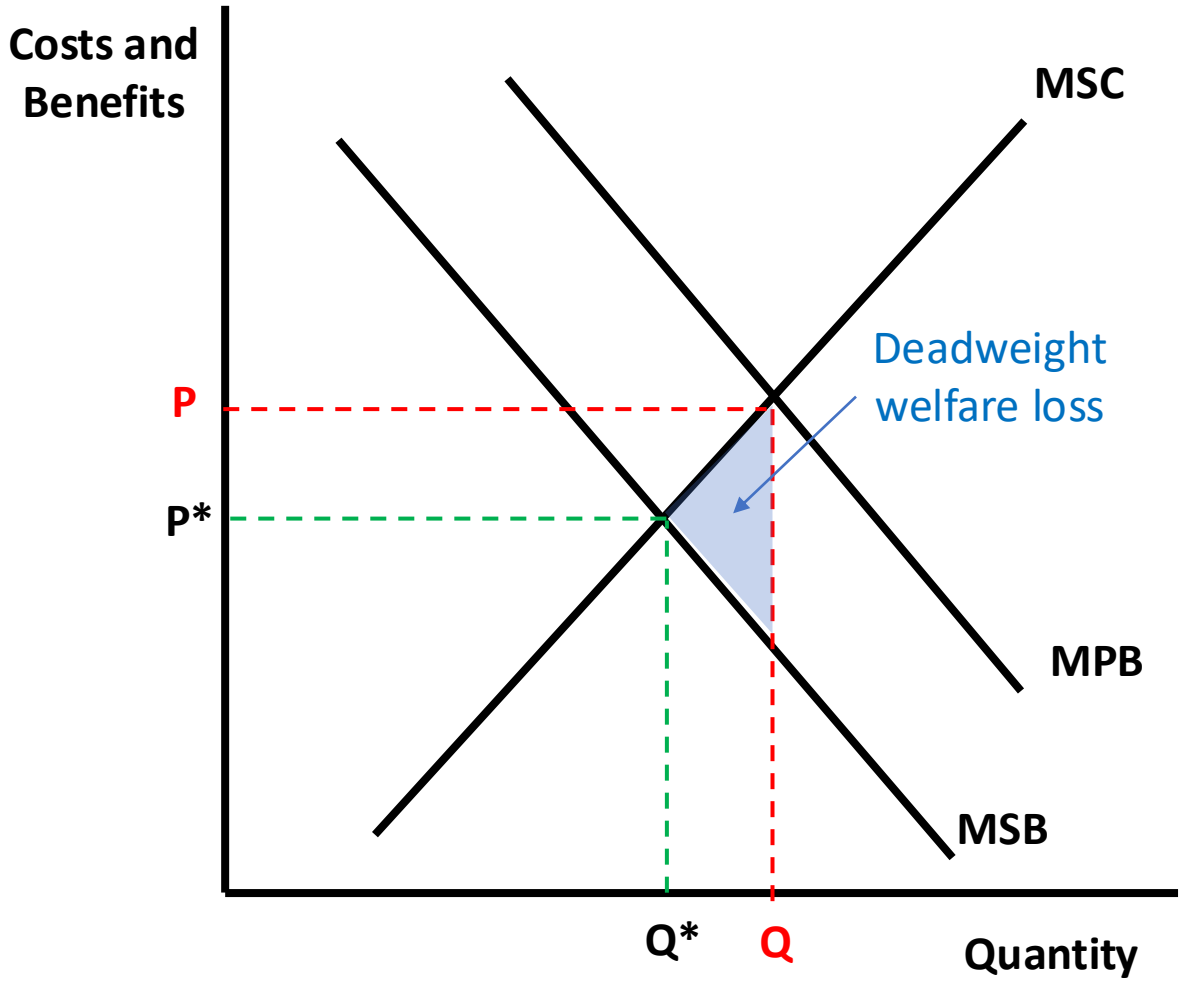


Impact of export subsidy on price of exports (vertical distance = subsidy per unit)

ECONOMICS DIAGRAMS

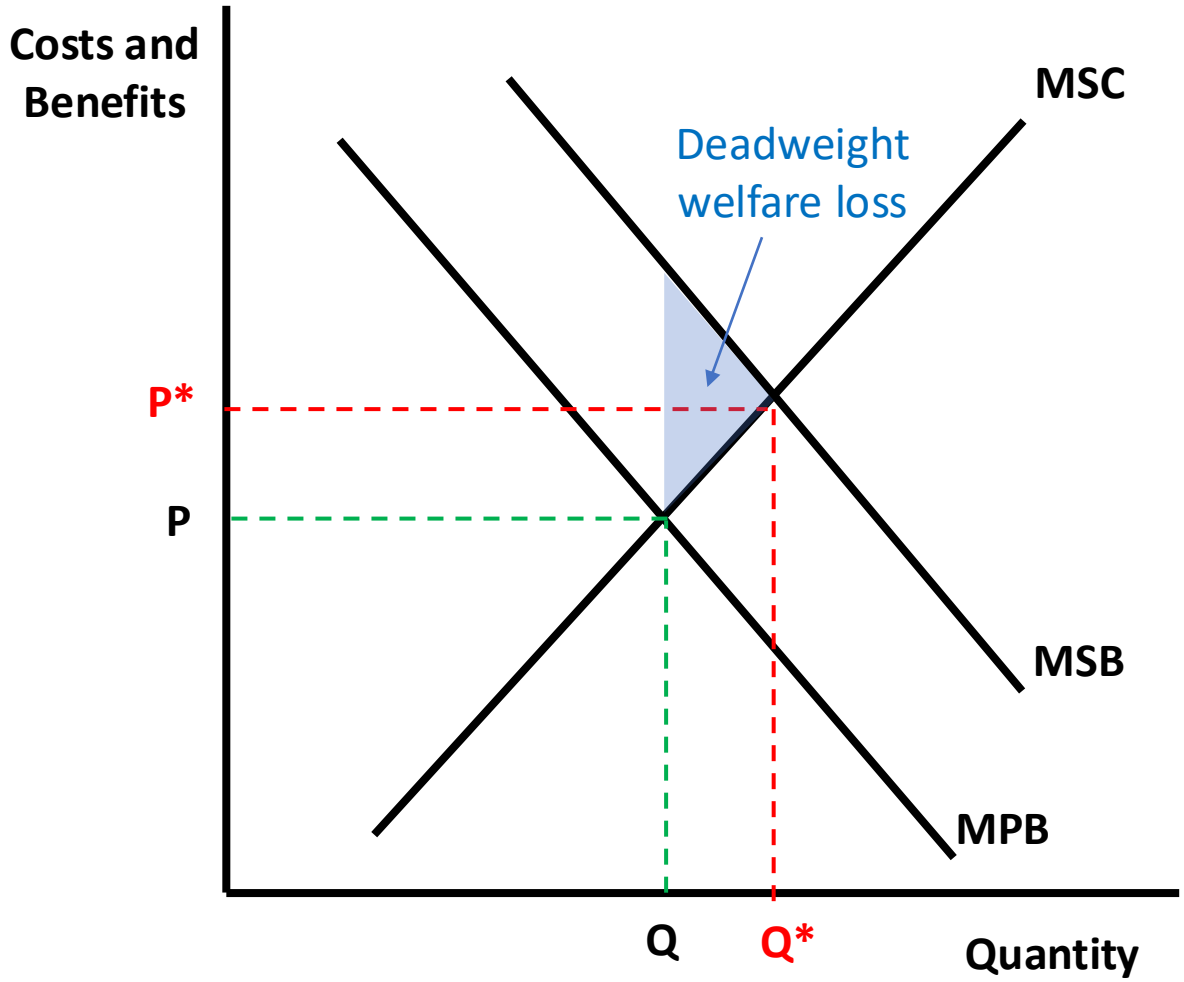
EXTERNALITY DIAGRAMS

tutor2u



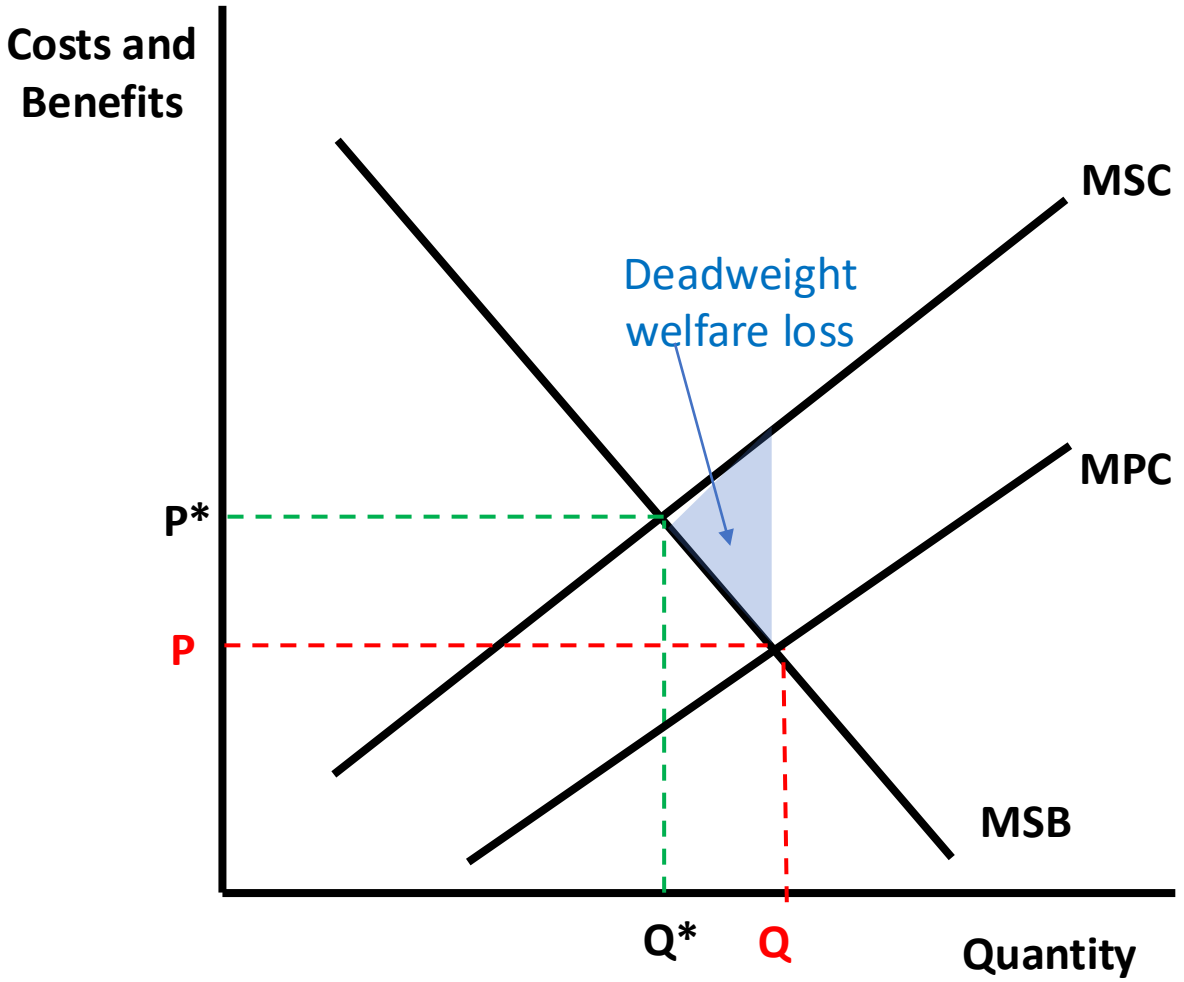
Welfare loss in the market when there is a negative consumption externality (MSB<MPB)

tutor2u



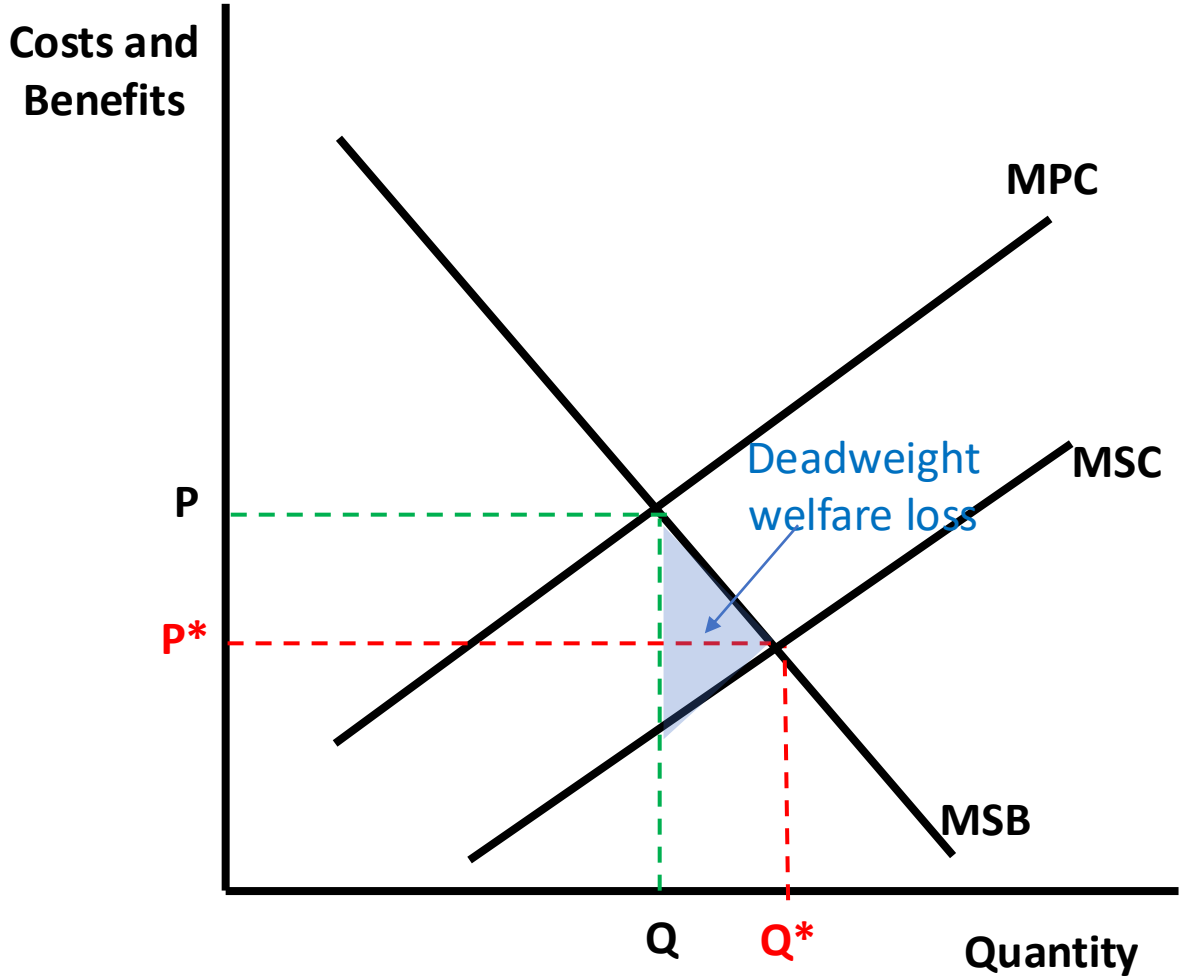
Welfare loss in the market when there is a positive consumption externality (MSB>MPB)

tutor2u

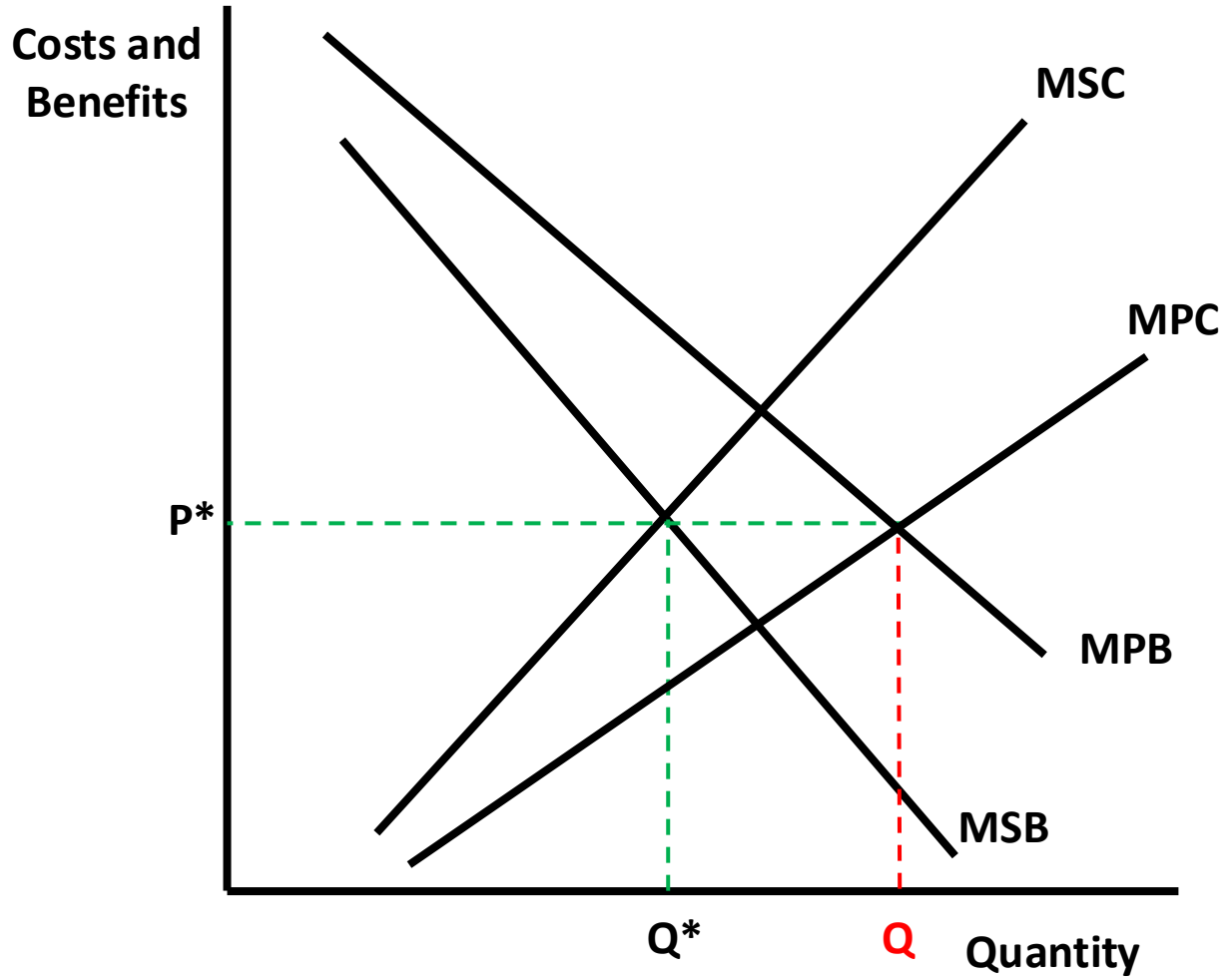


Welfare loss in the market when there is a negative production externality (MSC>MPC)

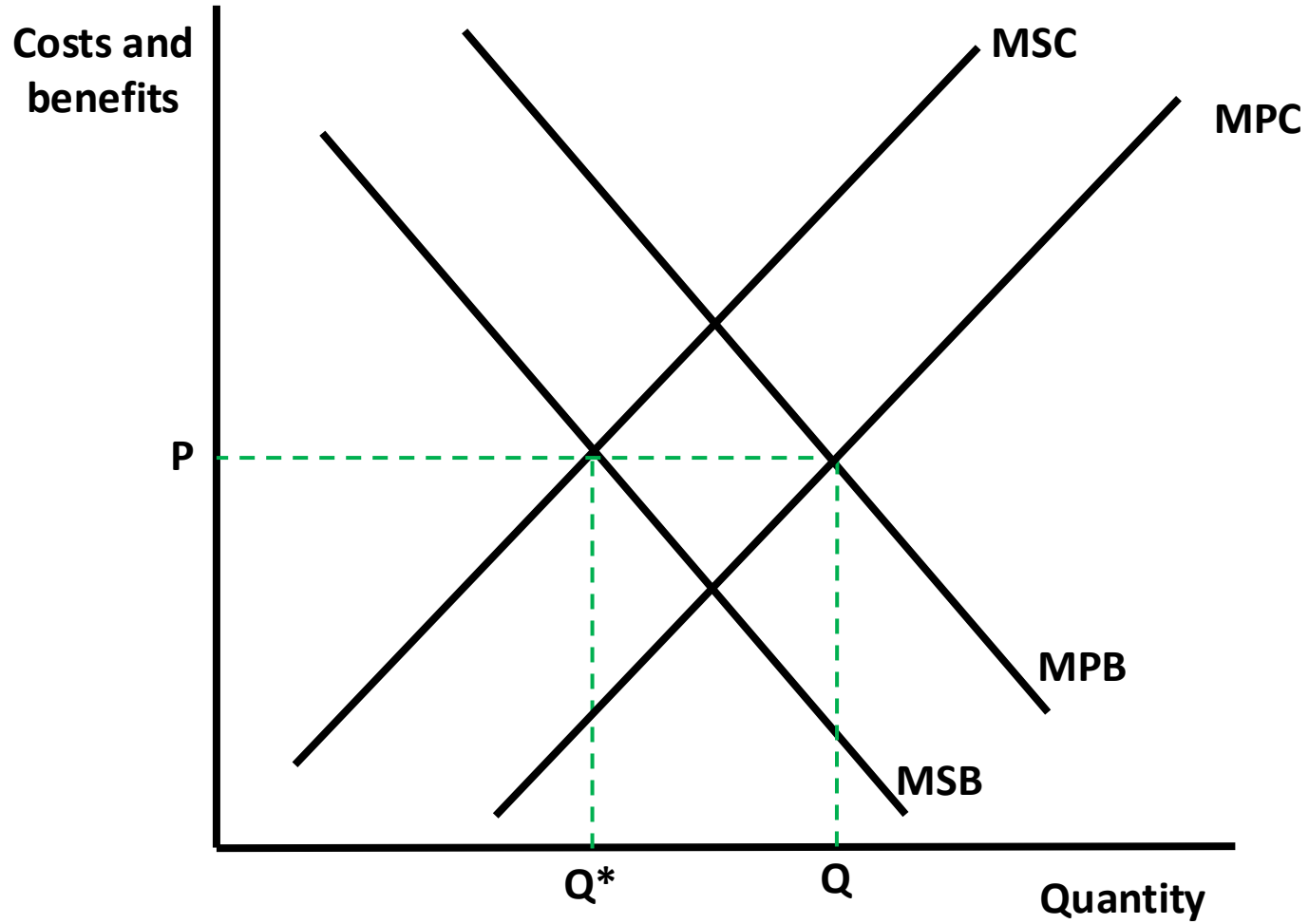
tutor2u



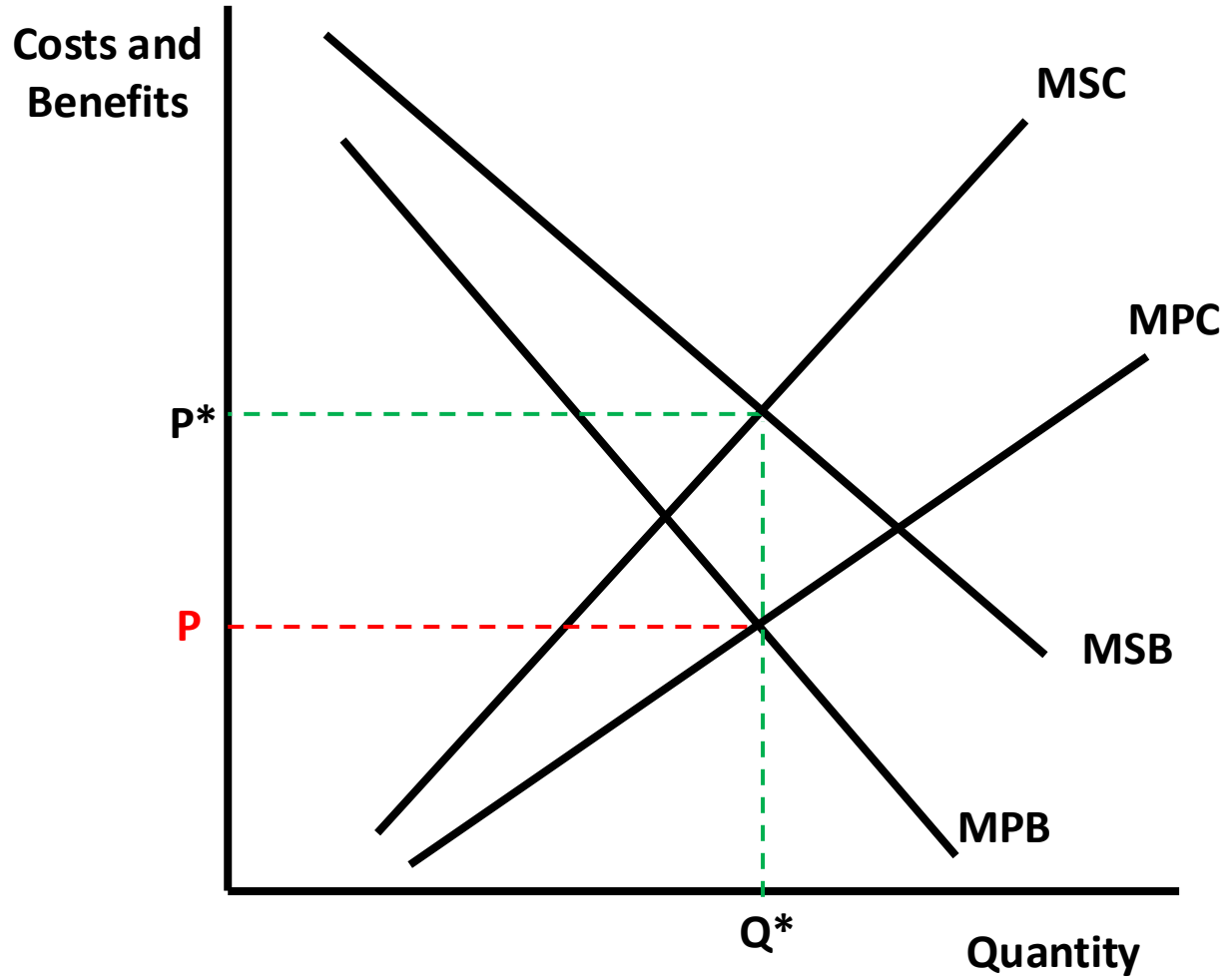
Welfare loss in the market when there is a positive production externality (MSC<MPC)



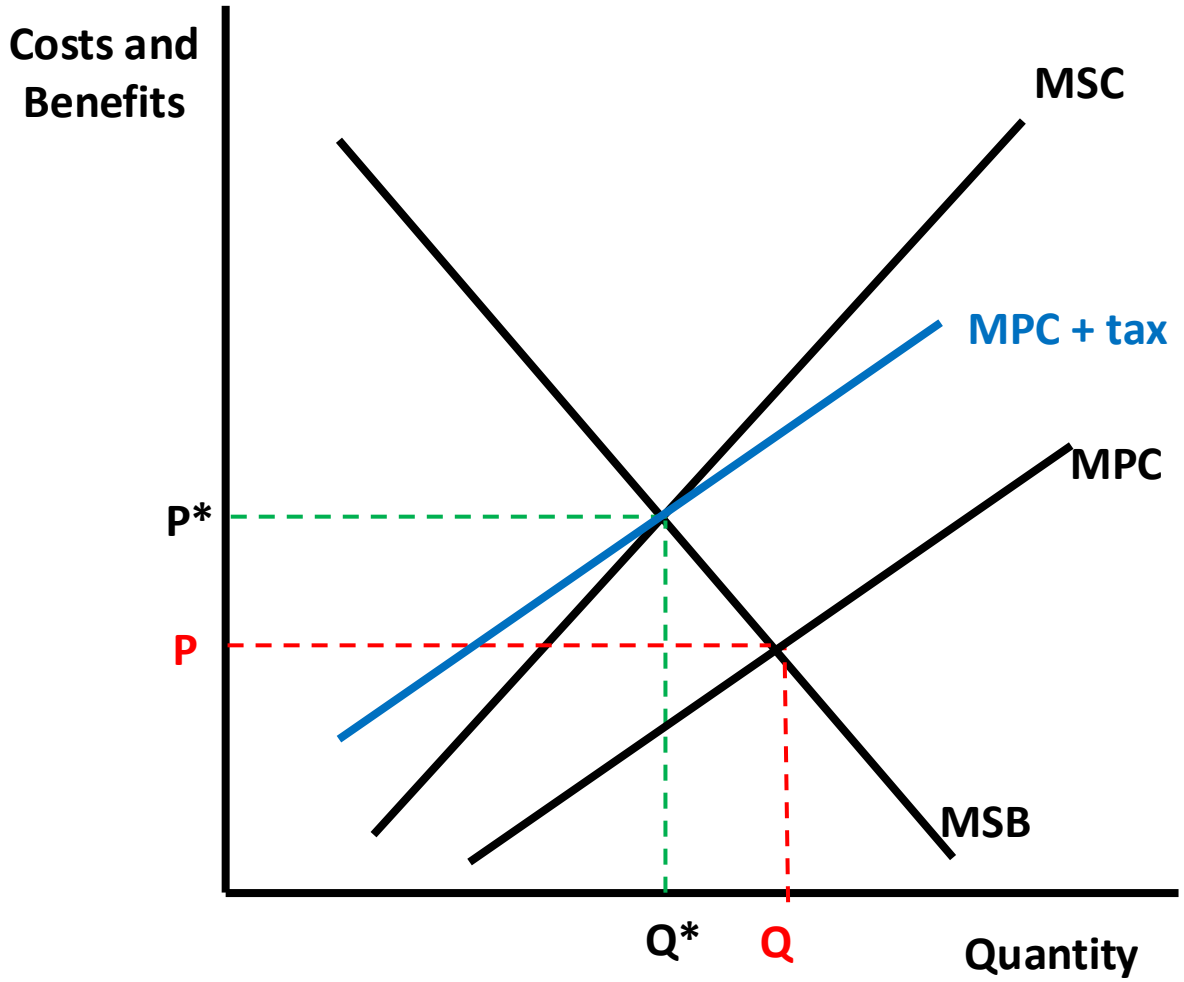
Market equilibrium compared to social optimum equilibrium a market with both negative production externality (MSC>MPC) and negative consumption externality (MSB<MPB)



Market with negative consumption externality (MSB<MPB) and negative production externality (MSC>MPC)

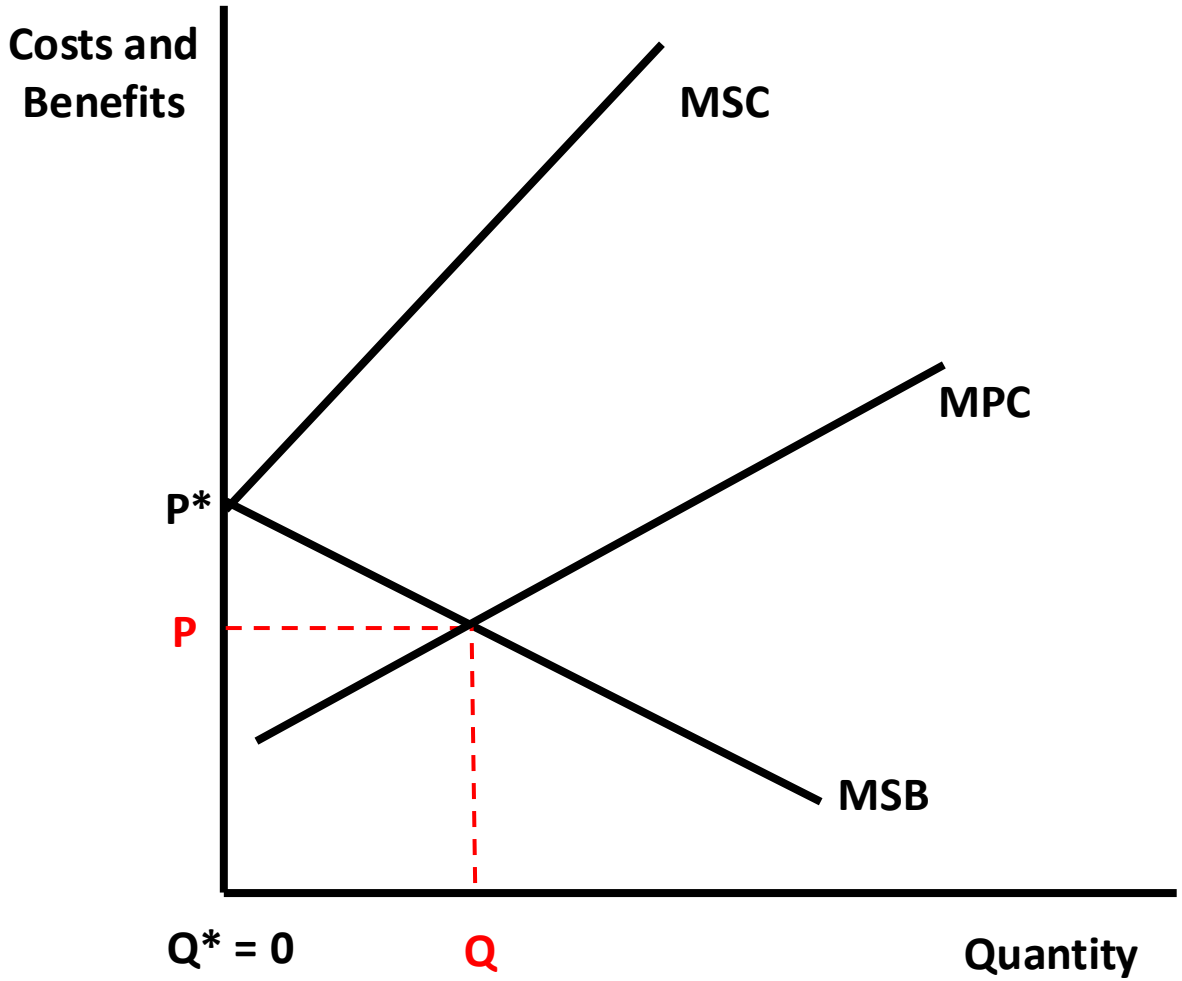


Market equilibrium compared to social optimum equilibrium a market with both a negative production externality (MSC>MPC) and a positive consumption externality (MSB>MPB)

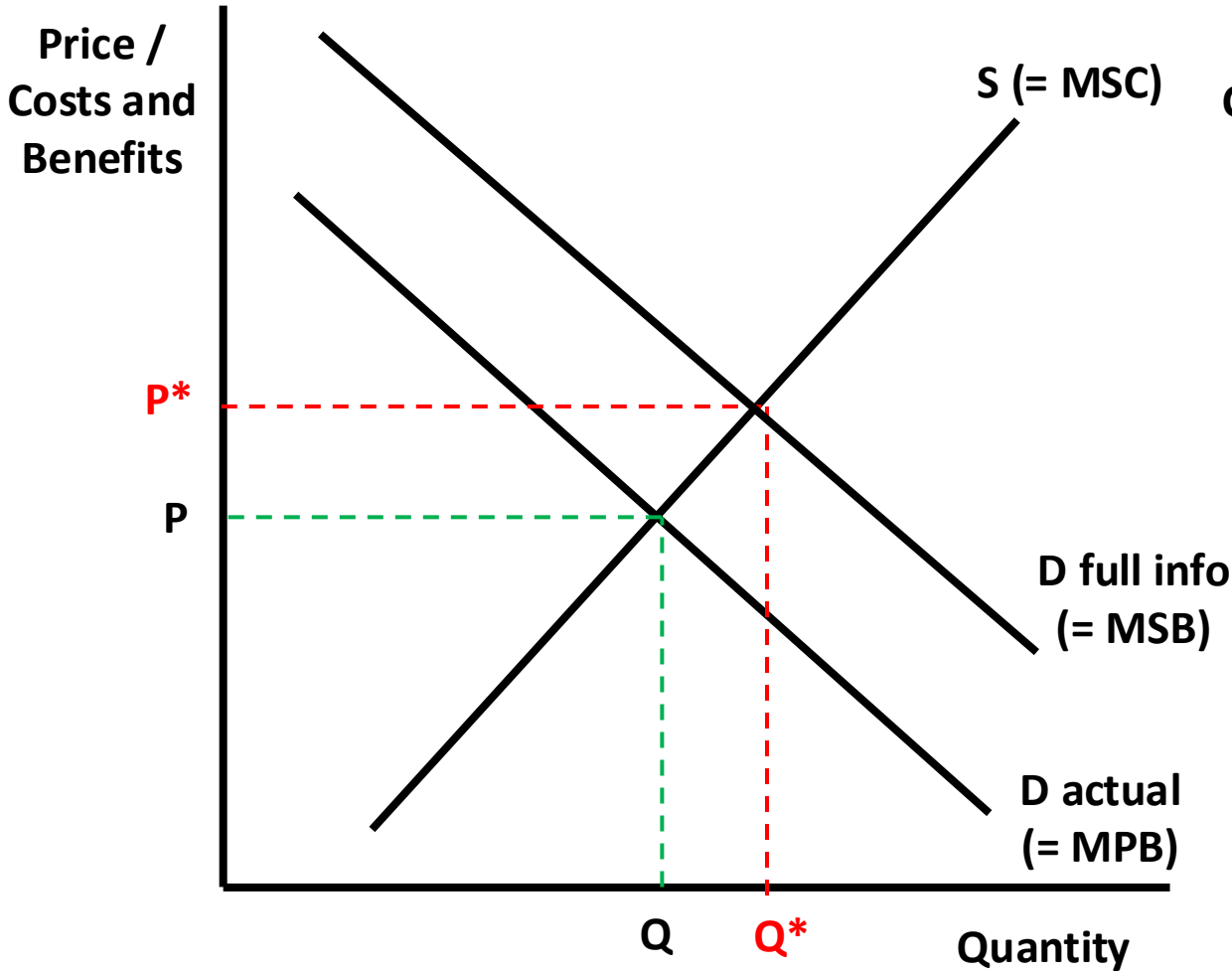


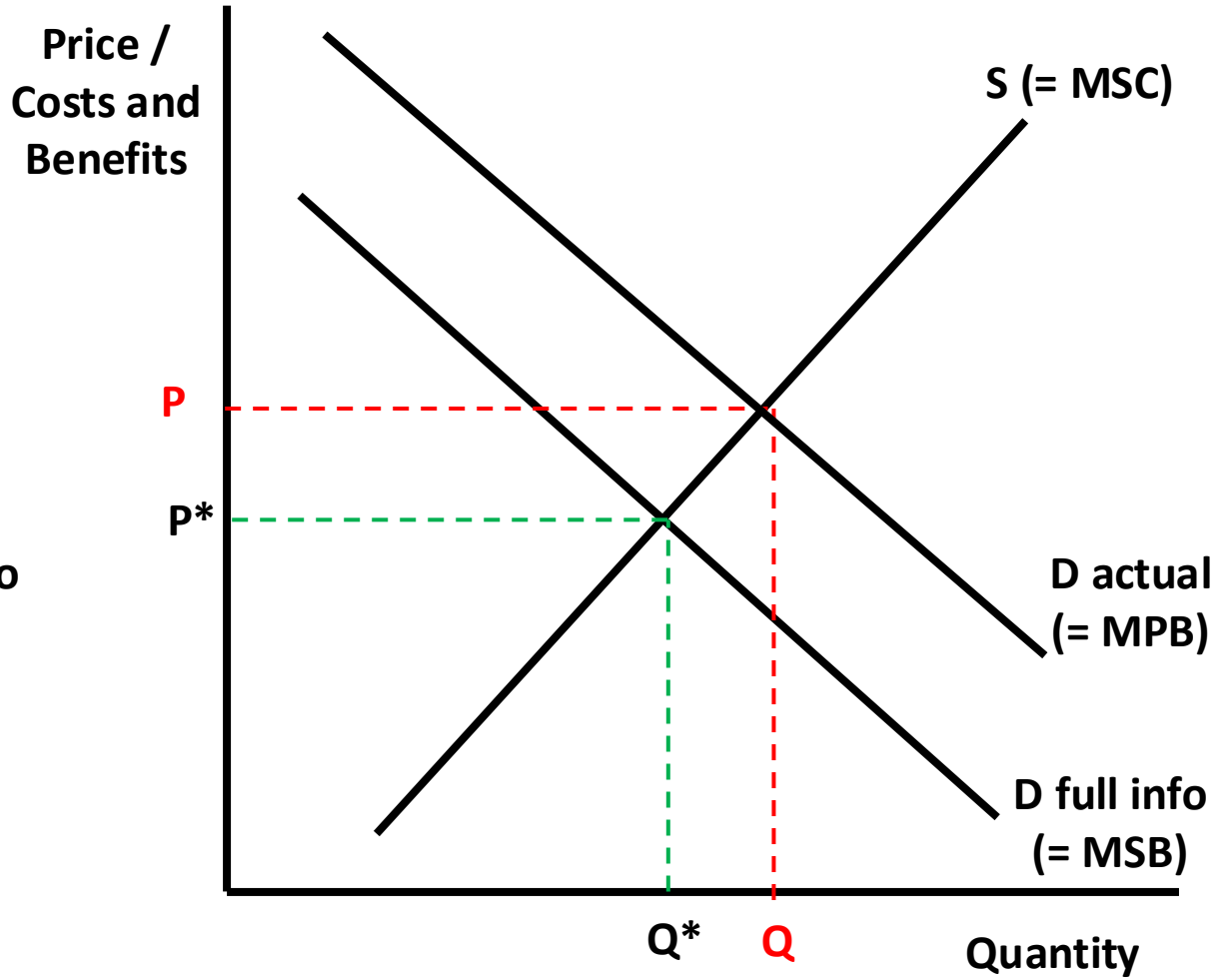
Using a specific/unit indirect tax to internalise a negative production externality

tutor2u

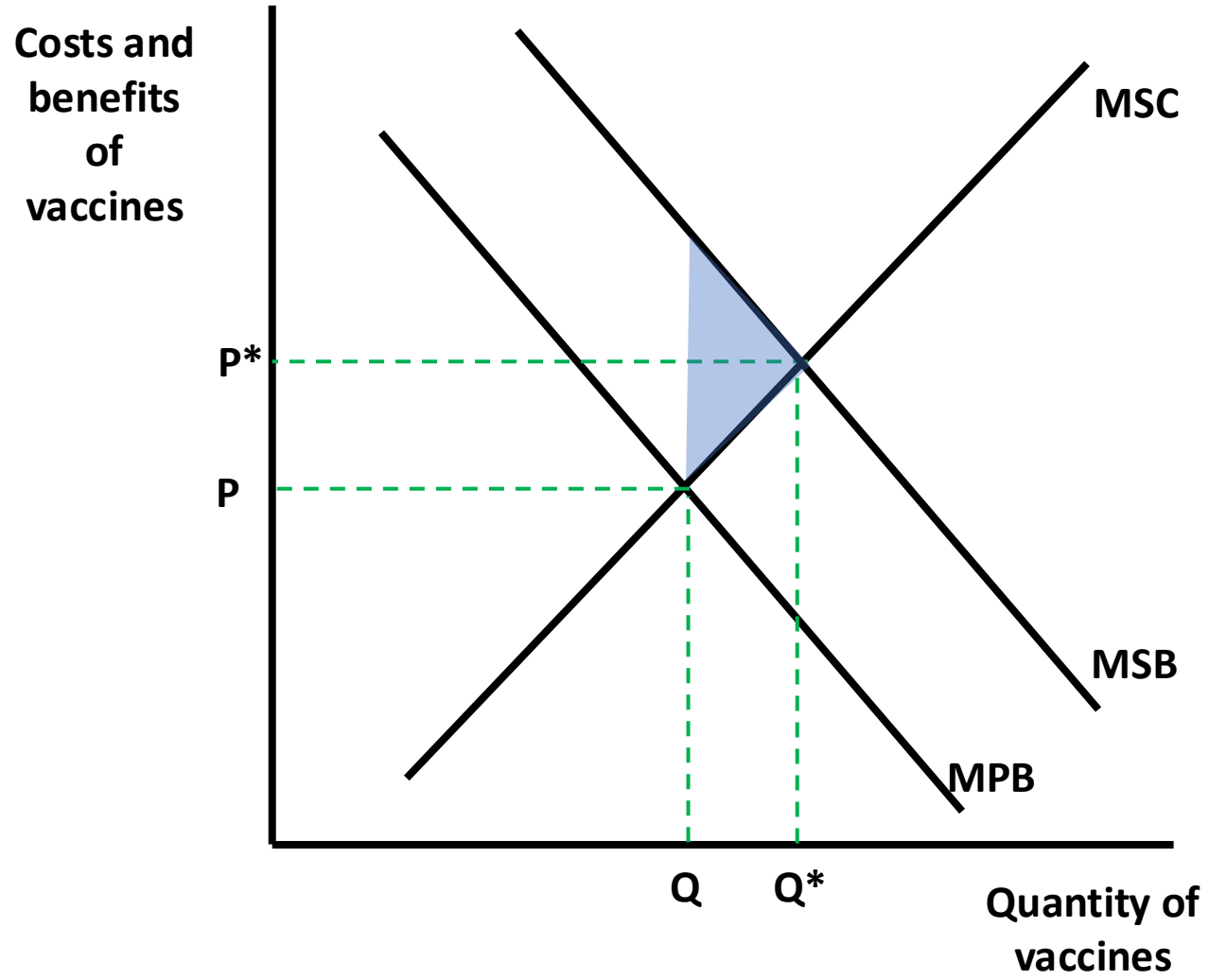


Market where the best government intervention option is to ban the good/service; social optimum at zero output



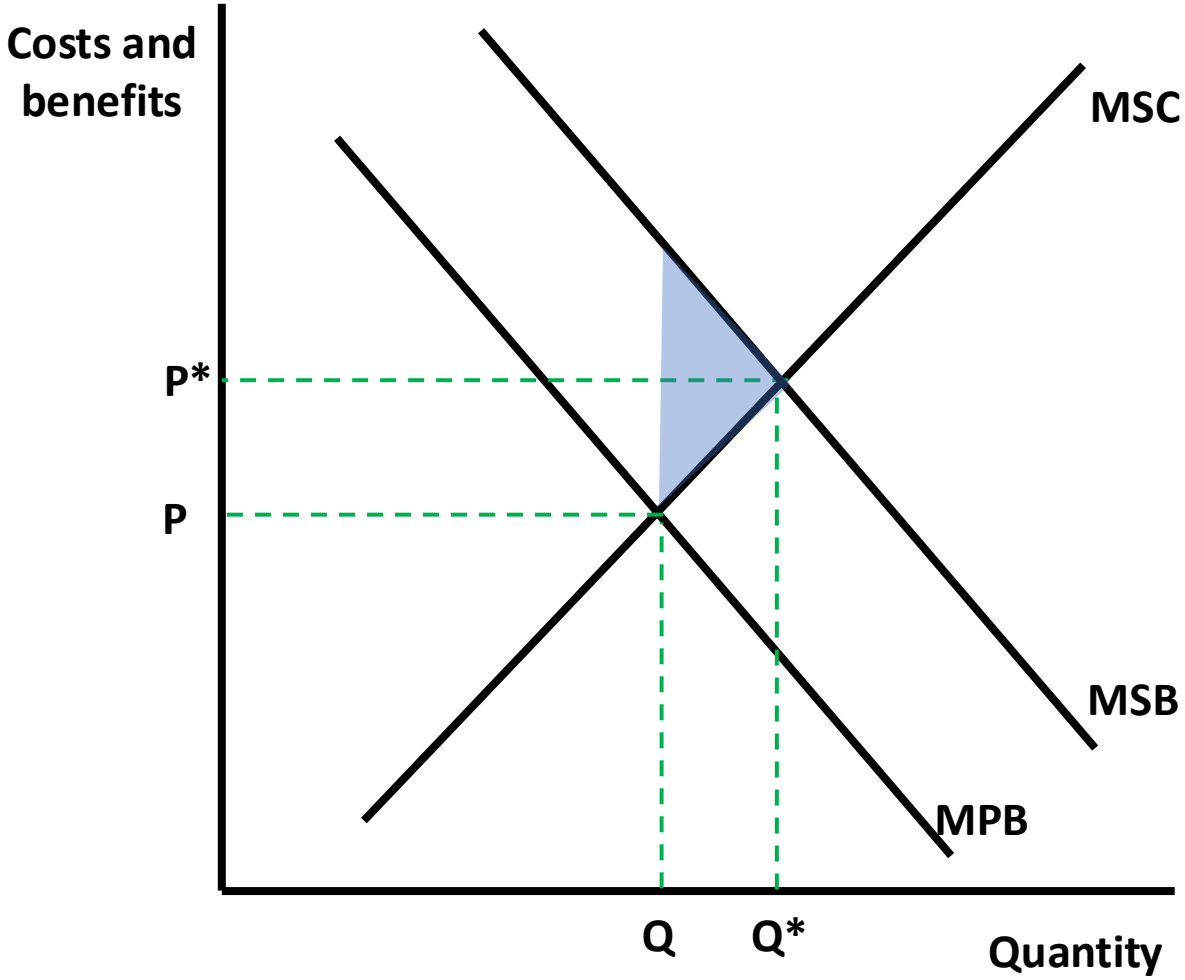


Information failure (i) Demand increases when consumer have full information (merit good) and (ii) demand decreases when consumers have full information (demerit good)

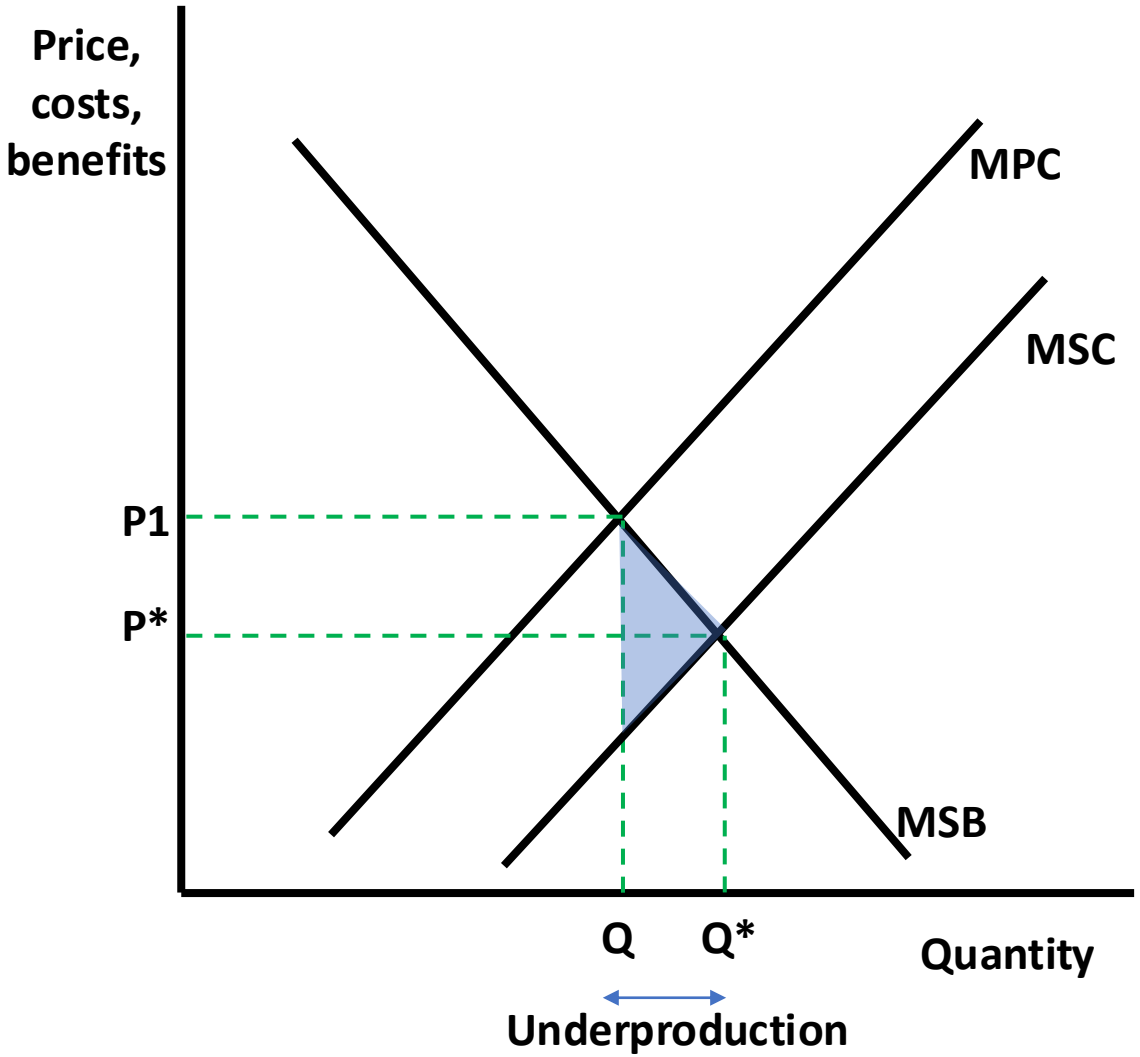


Positive consumption externality of vaccines

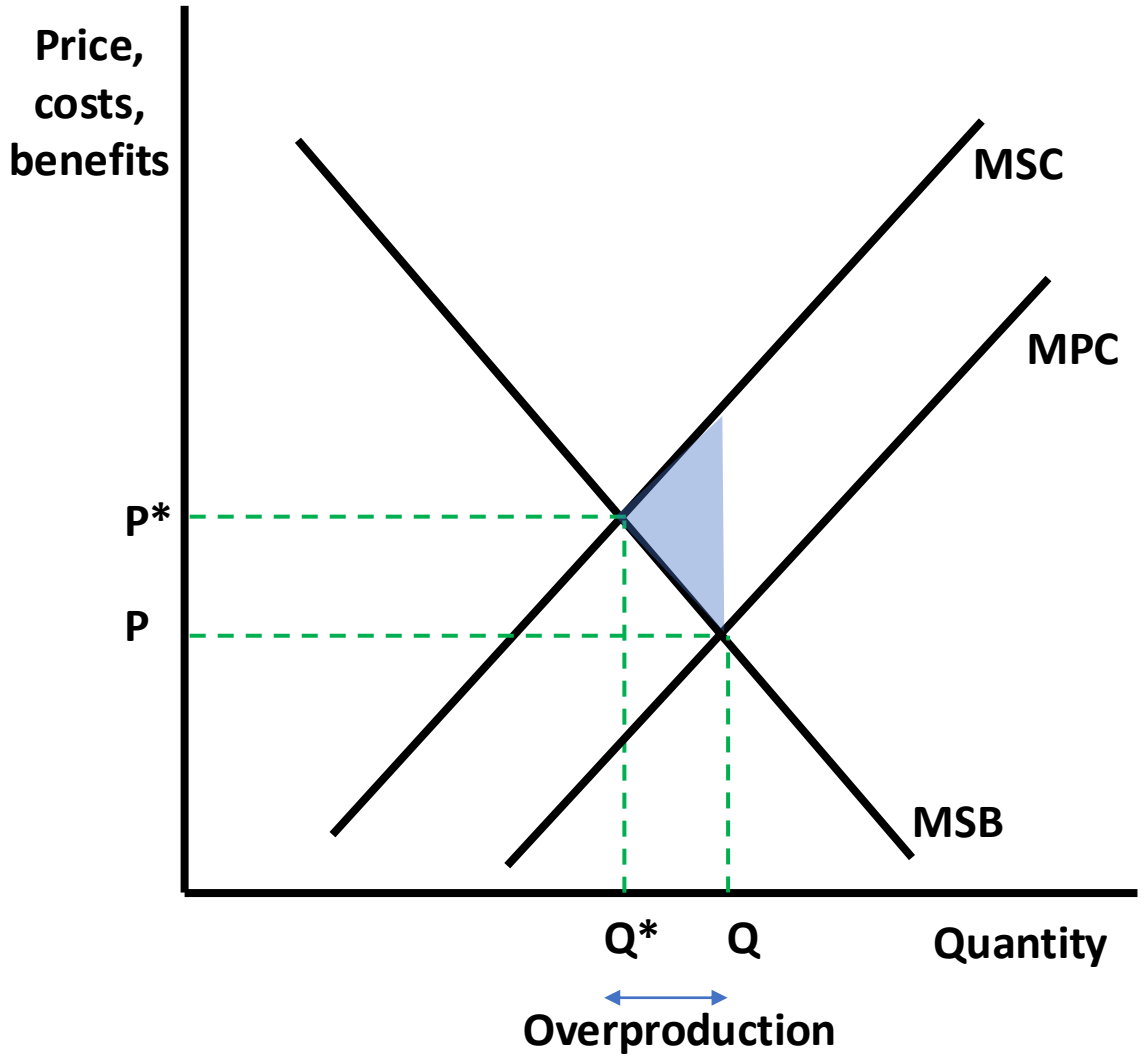
tutor2u



Positive consumption externality showing welfare loss area at market equilibrium

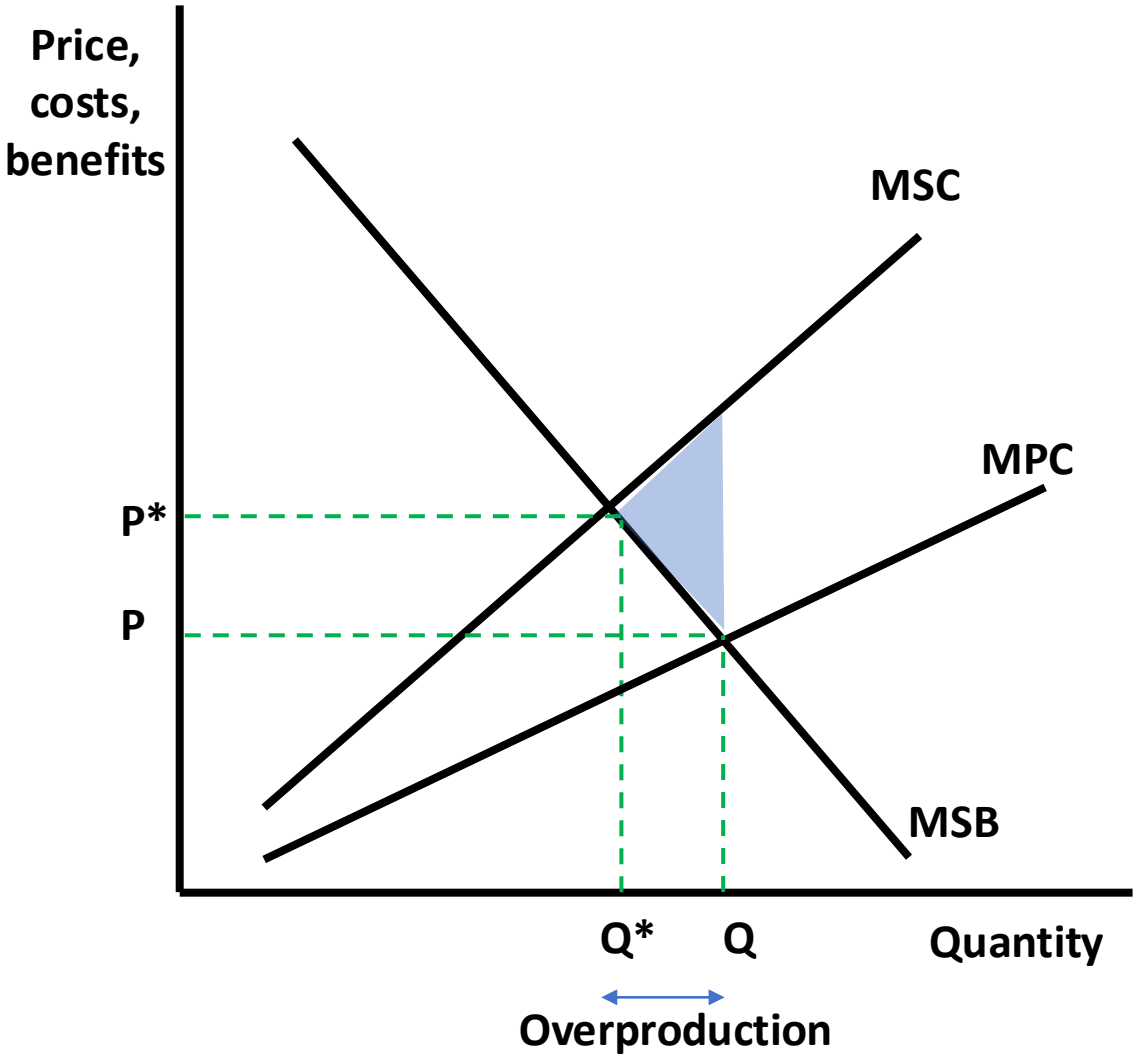


Underproduction in market with a positive production externality (MSC<MPC), with constant externalities



Overproduction in market with a negative production externality (MSC>MPC), with constant marginal external cost

tutor2u

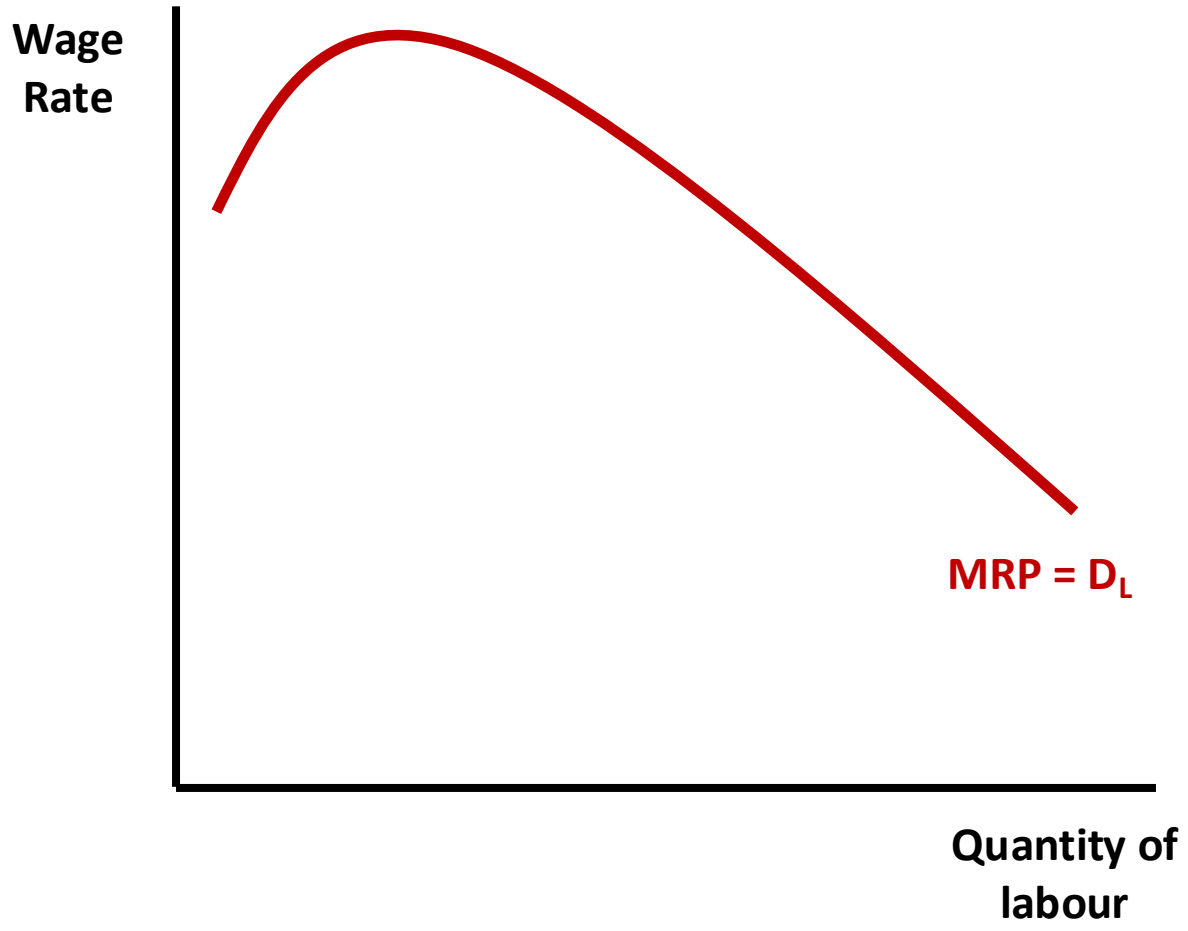


Overproduction in market with a negative production externality (MSC>MPC), with increasing marginal external costs

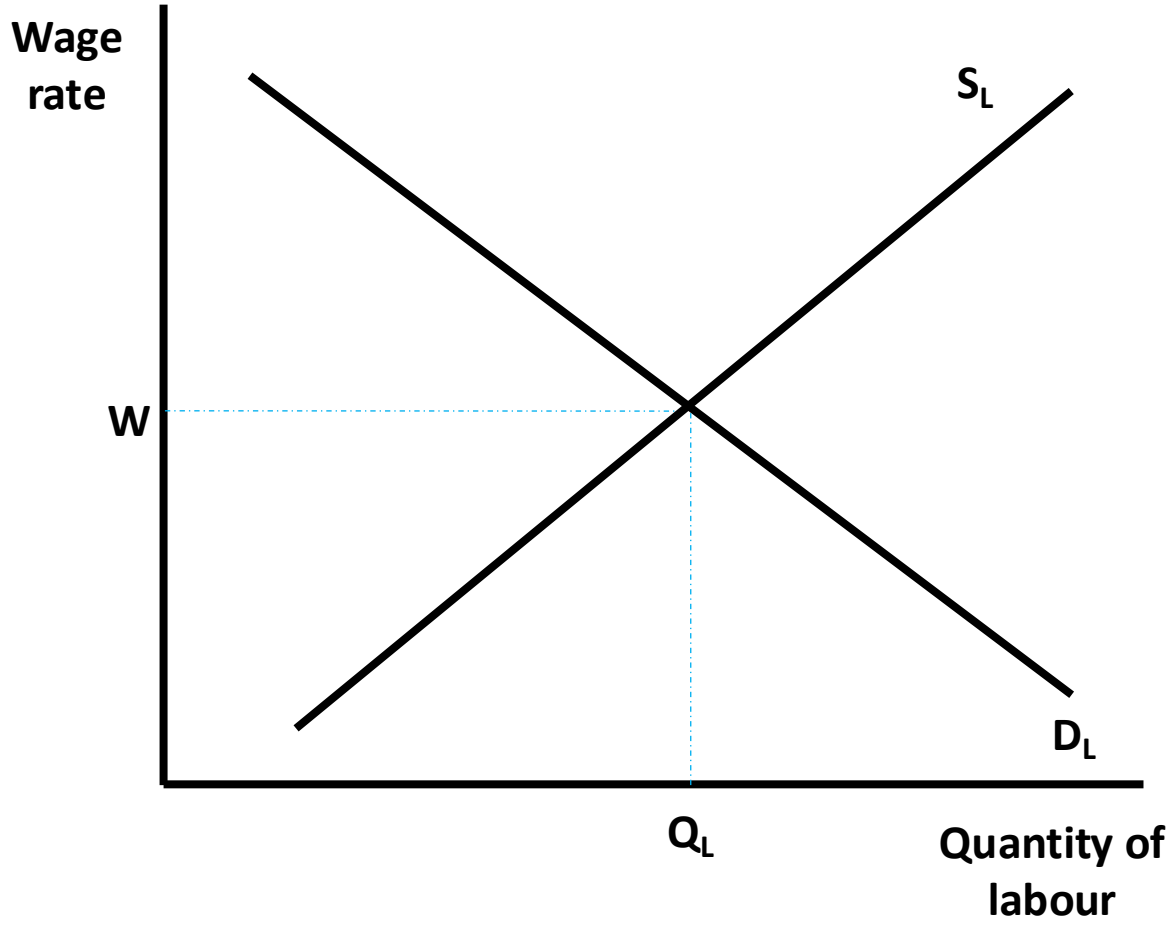
ECONOMICS DIAGRAMS

LABOUR MARKETS

tutor2u

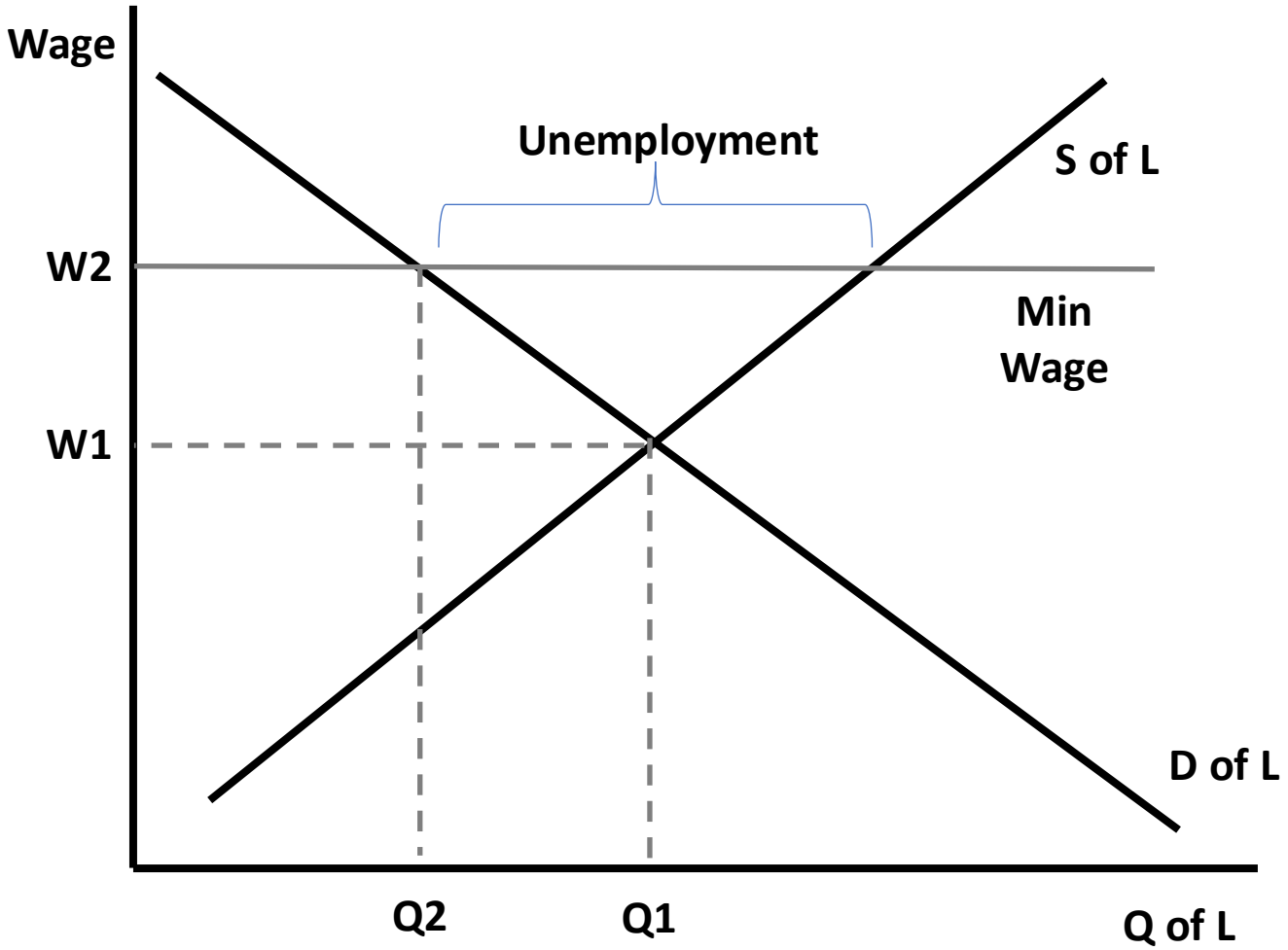


Marginal revenue product curve



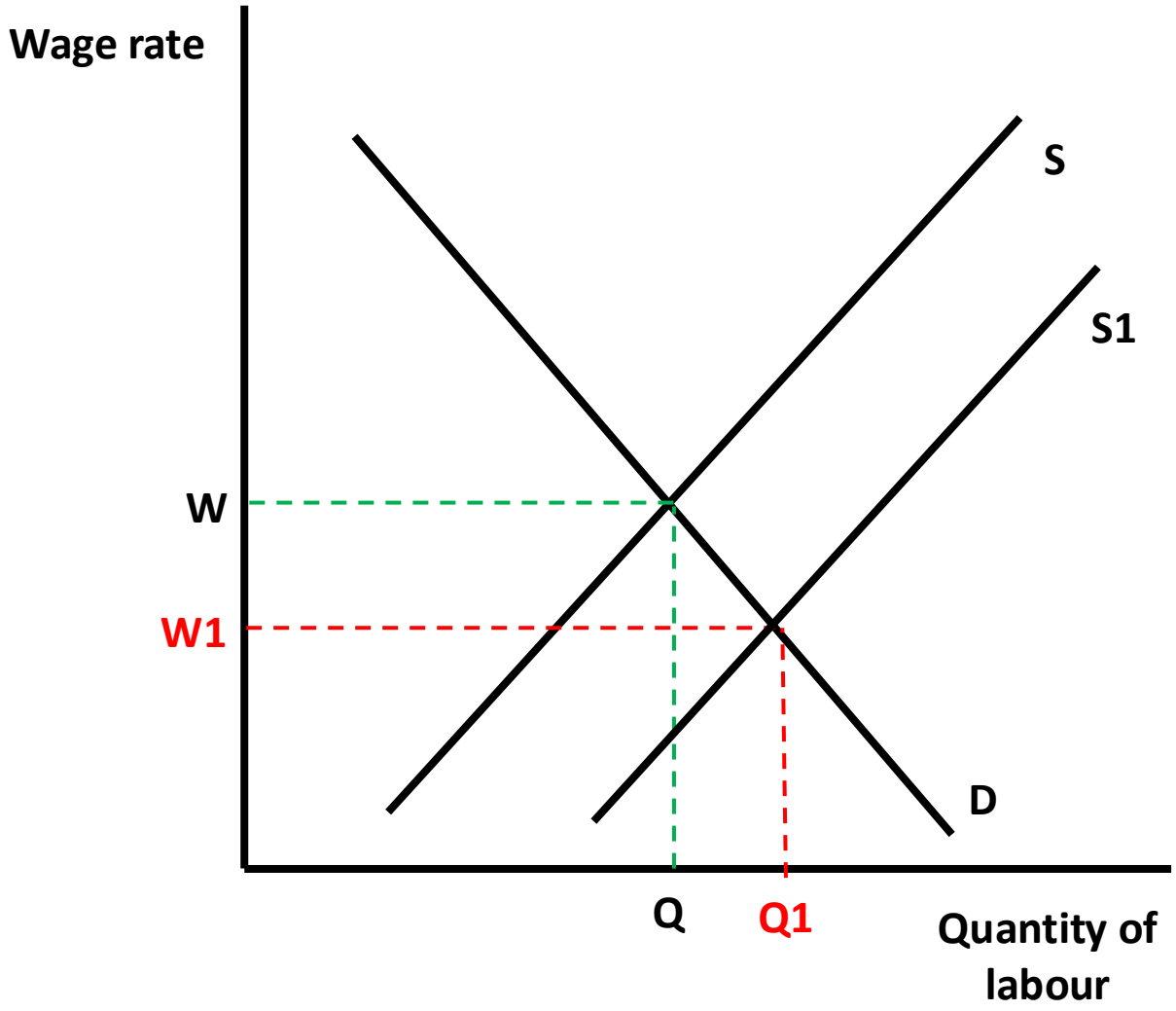
Labour market demand and supply in a competitive labour market

tutor2u



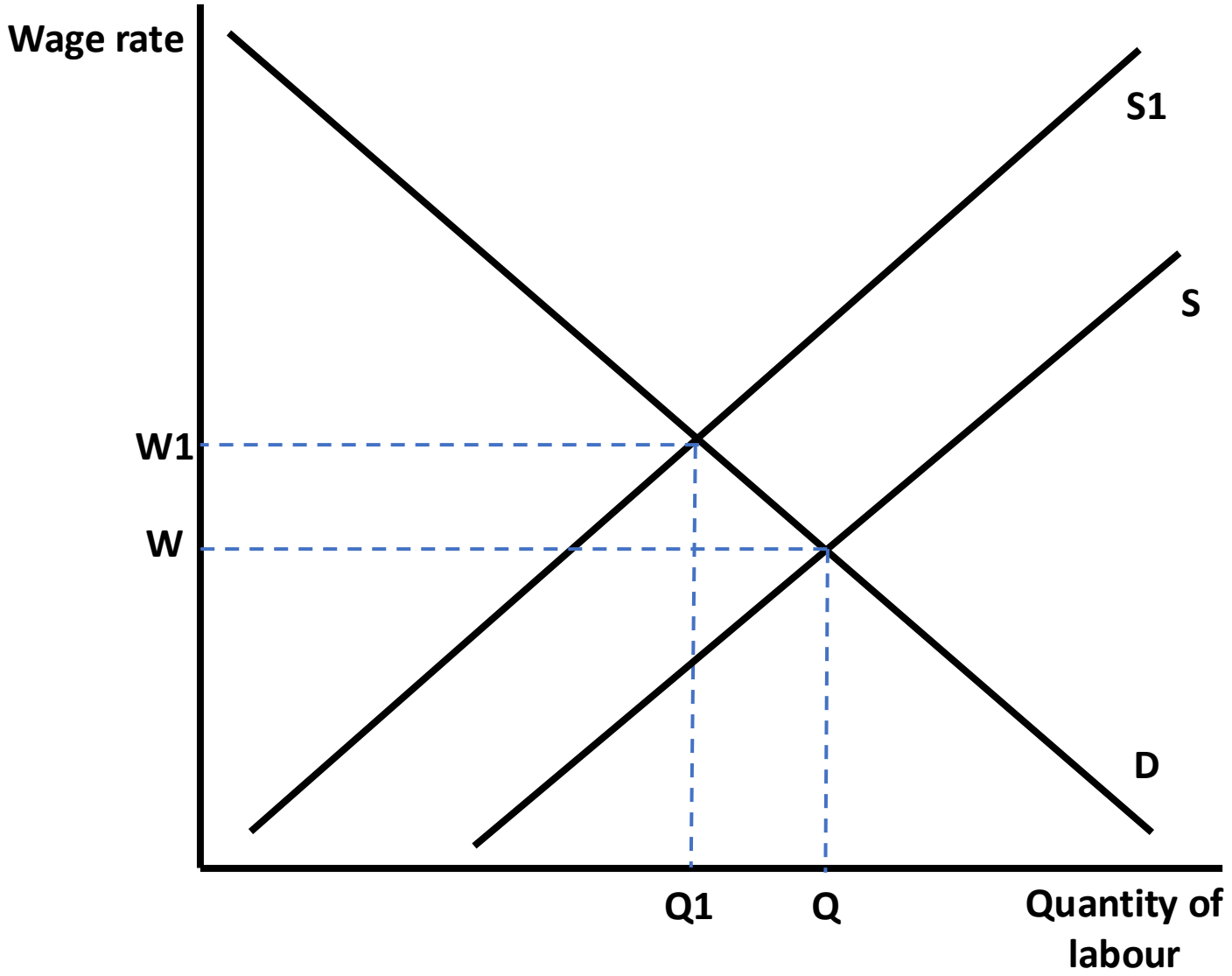
Unemployment as a result of a minimum wage in a competitive labour market

tutor2u



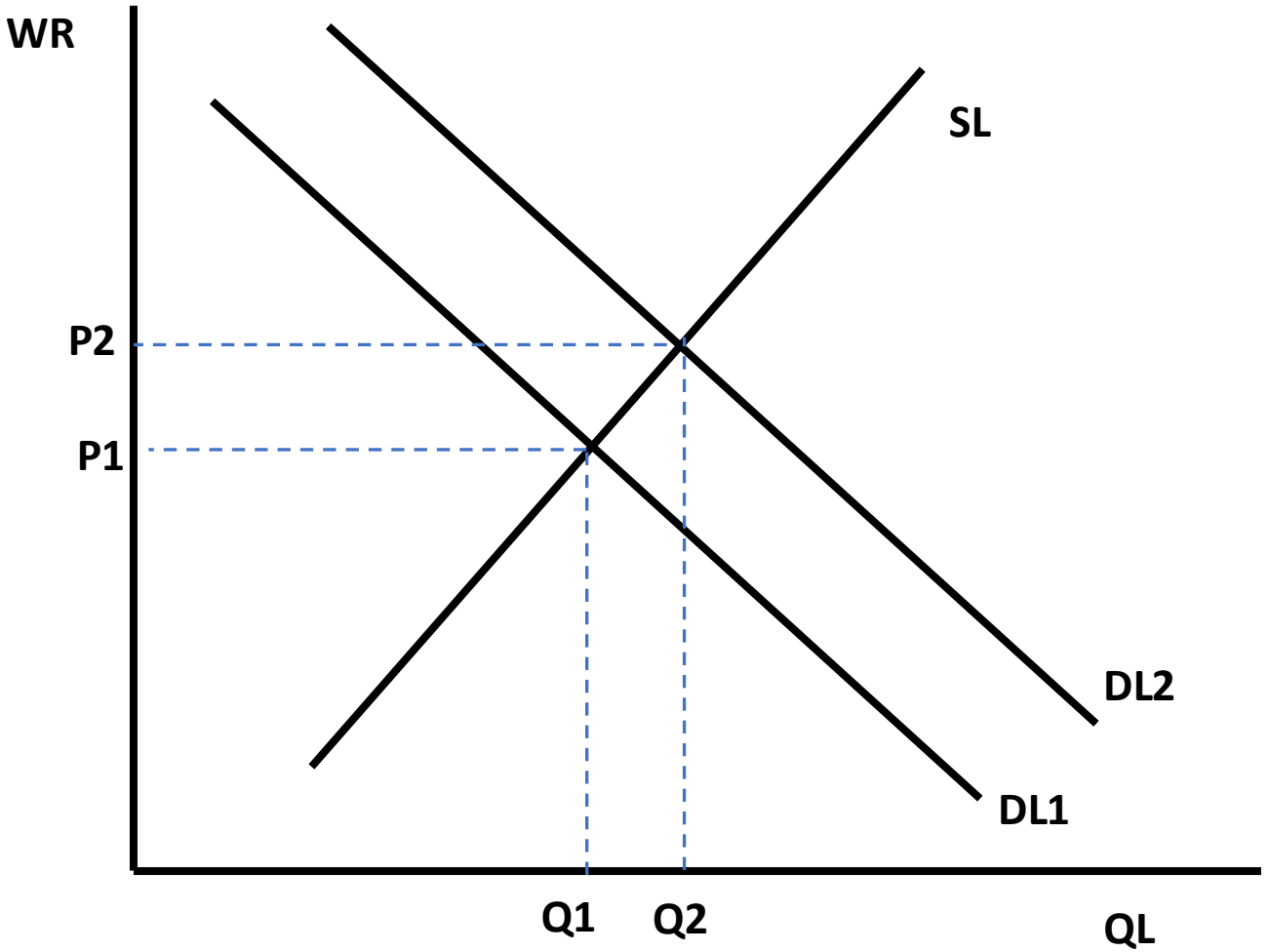
Labour market: Increase in the labour supply and the impact on equilibrium

tutor2u



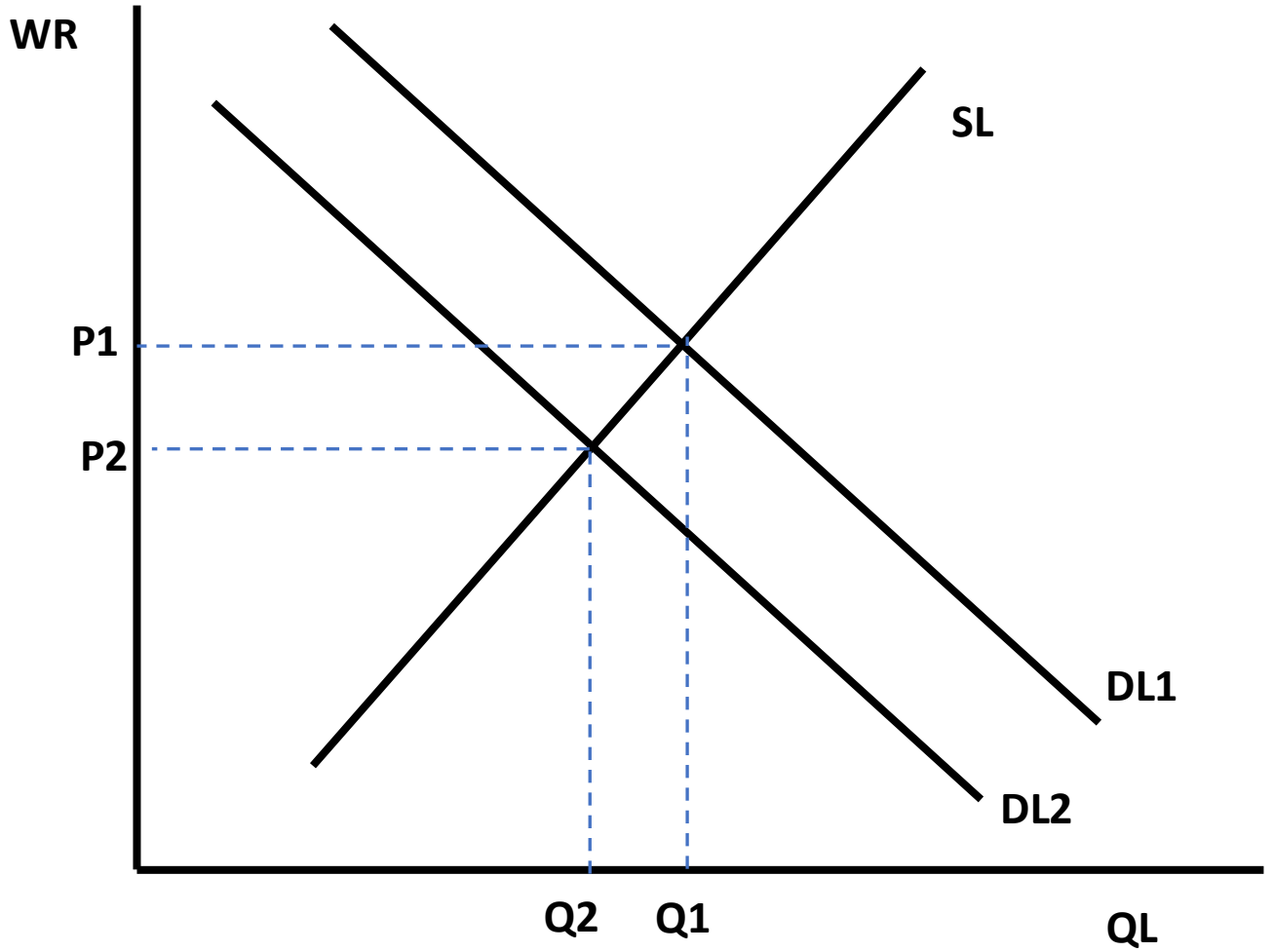
Labour market: Decrease in labour supply and the impact on equilibrium

tutor2u



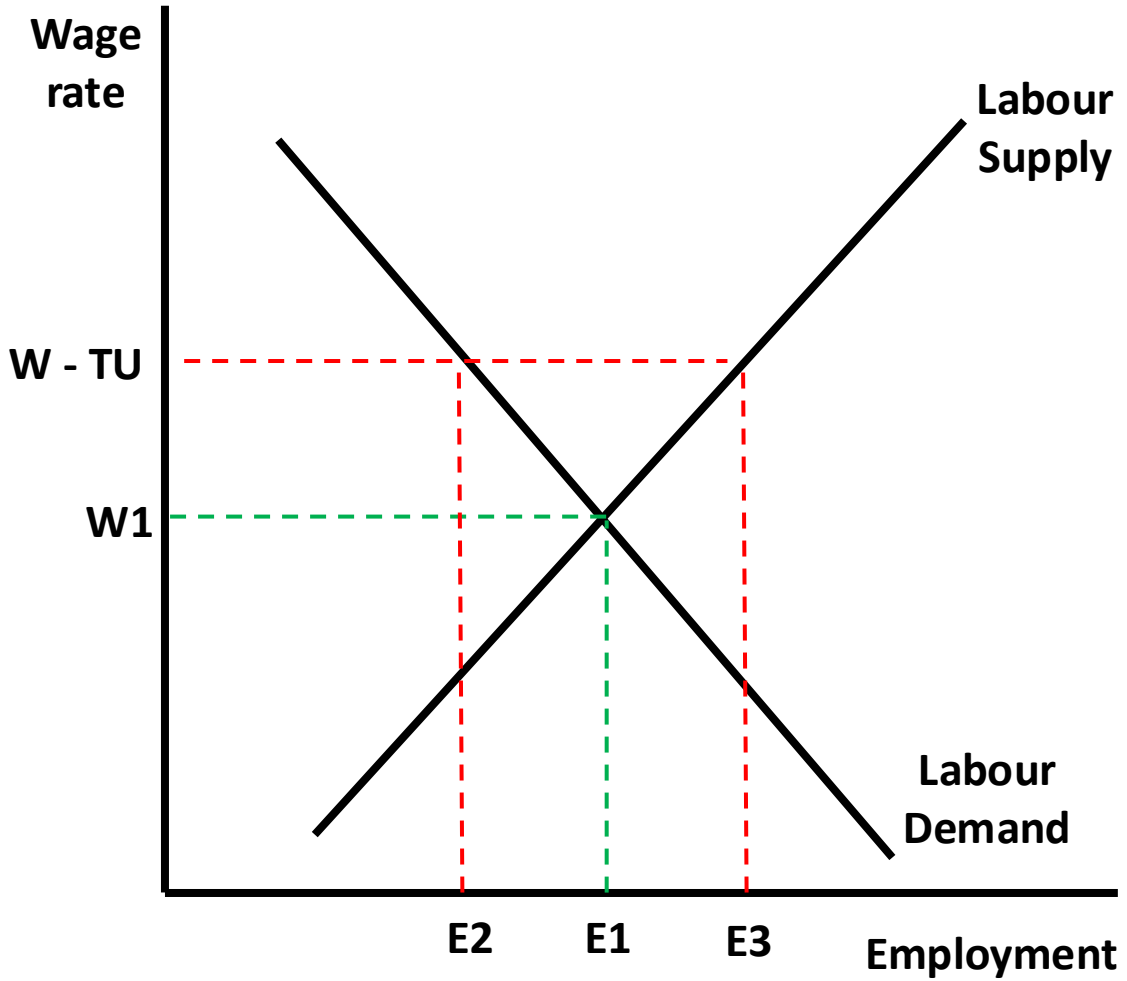
Labour market: increase in labour demand

tutor2u

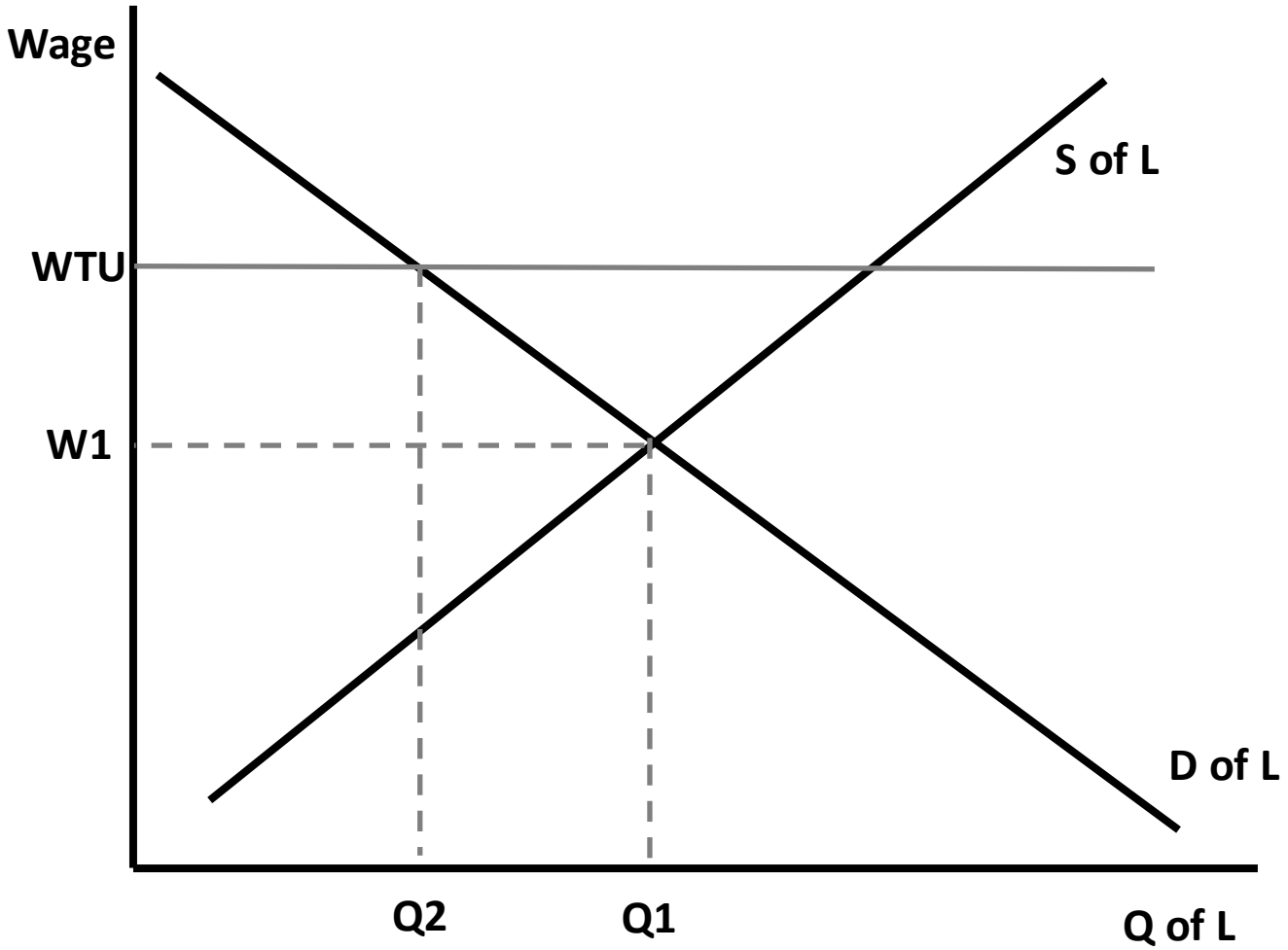


Labour market: decrease in labour demand and the impact on equilibrium

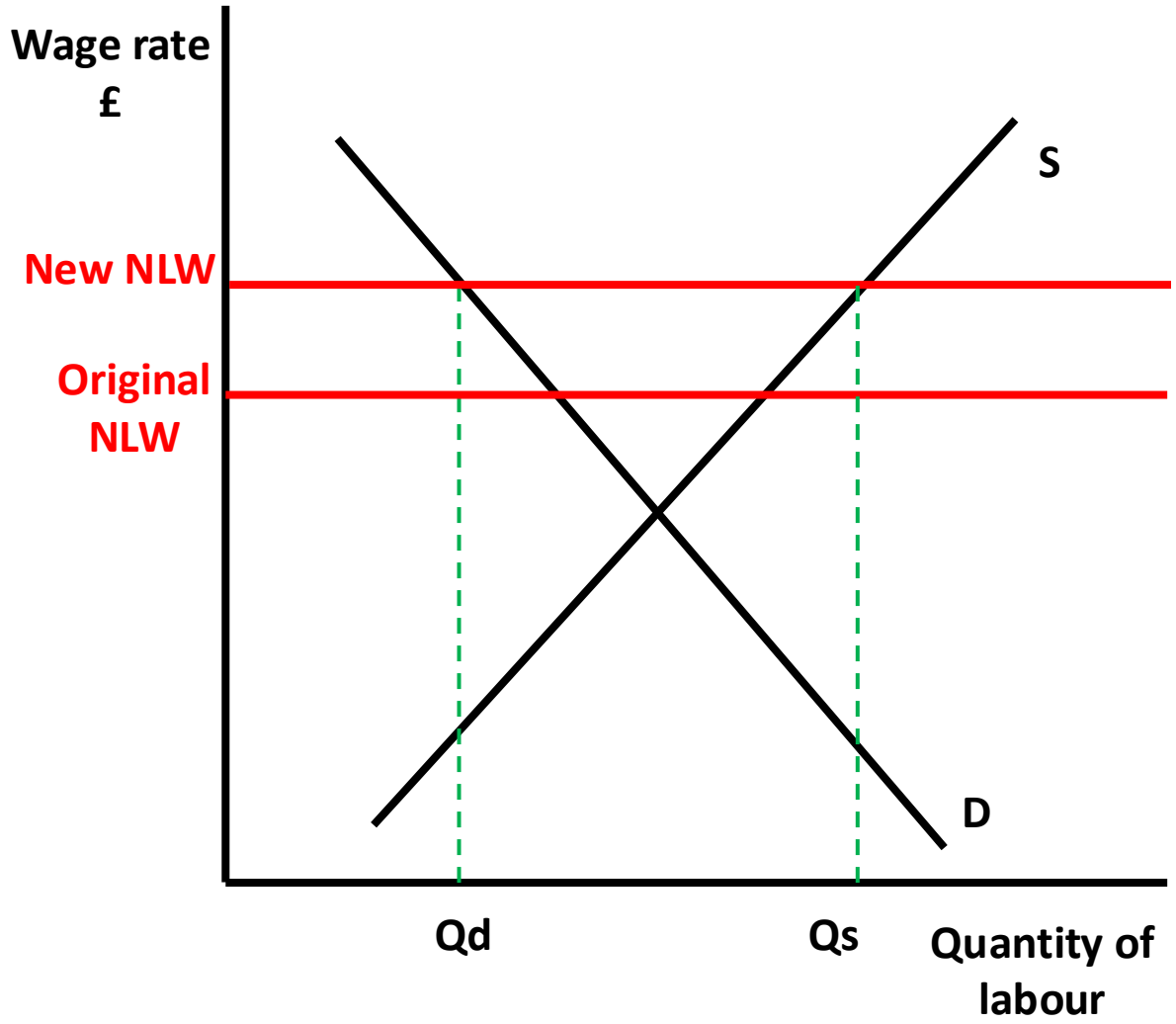
tutor2u



Impact on employment and unemployment of a trade union gaining a wage increase

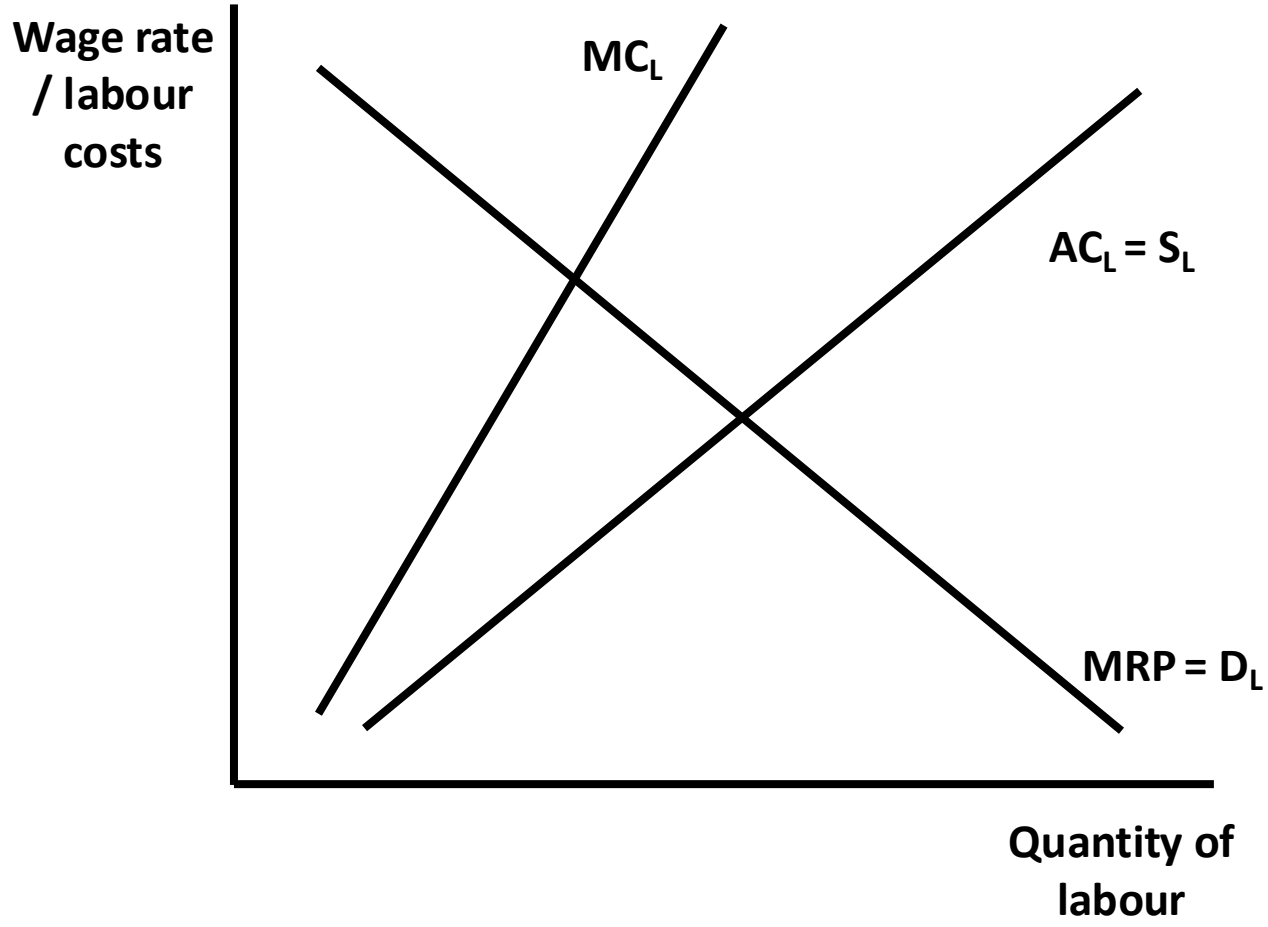


Labour market: impact of trade union wage causing a fall in employment (Q1 to Q2)

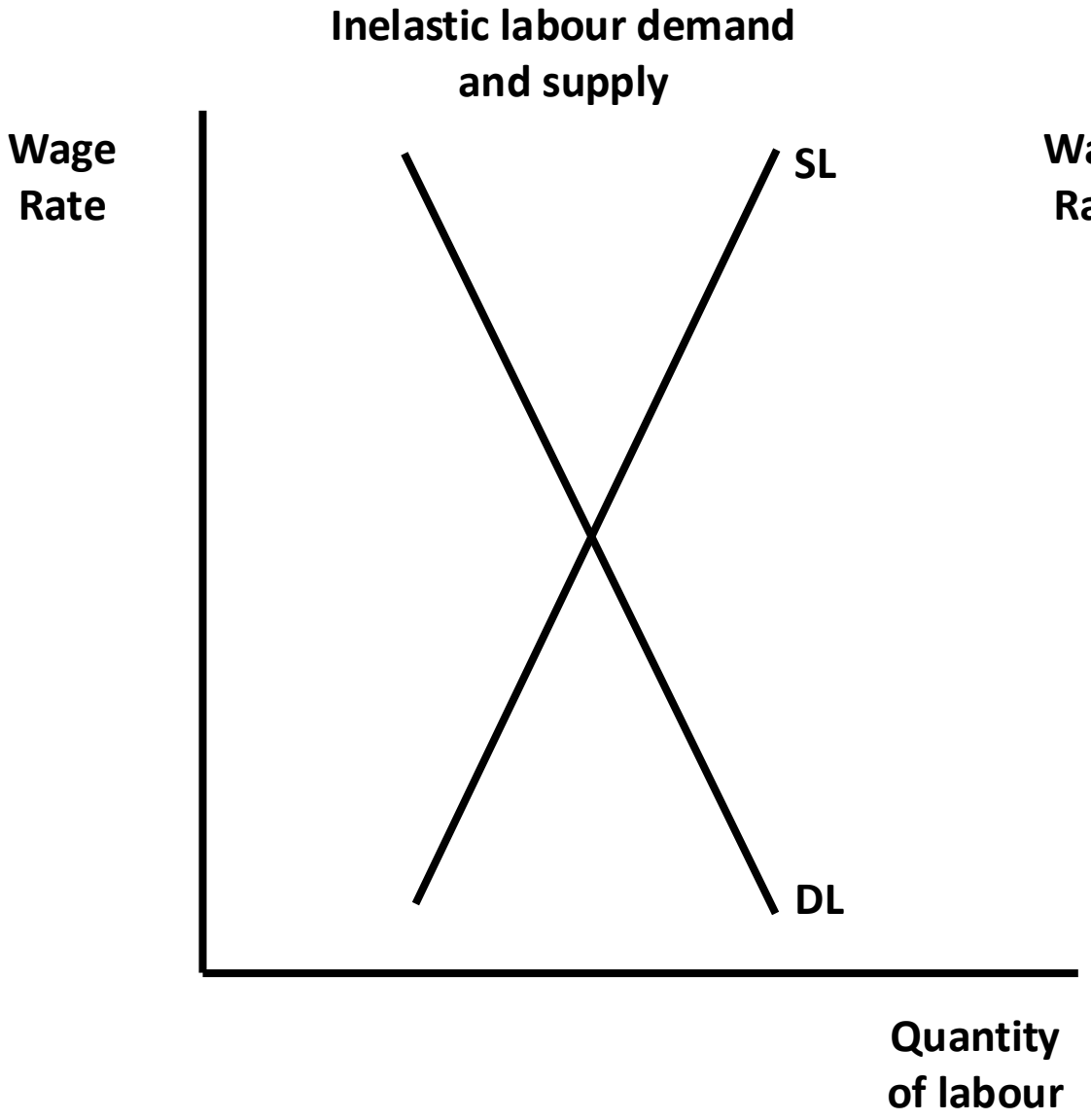


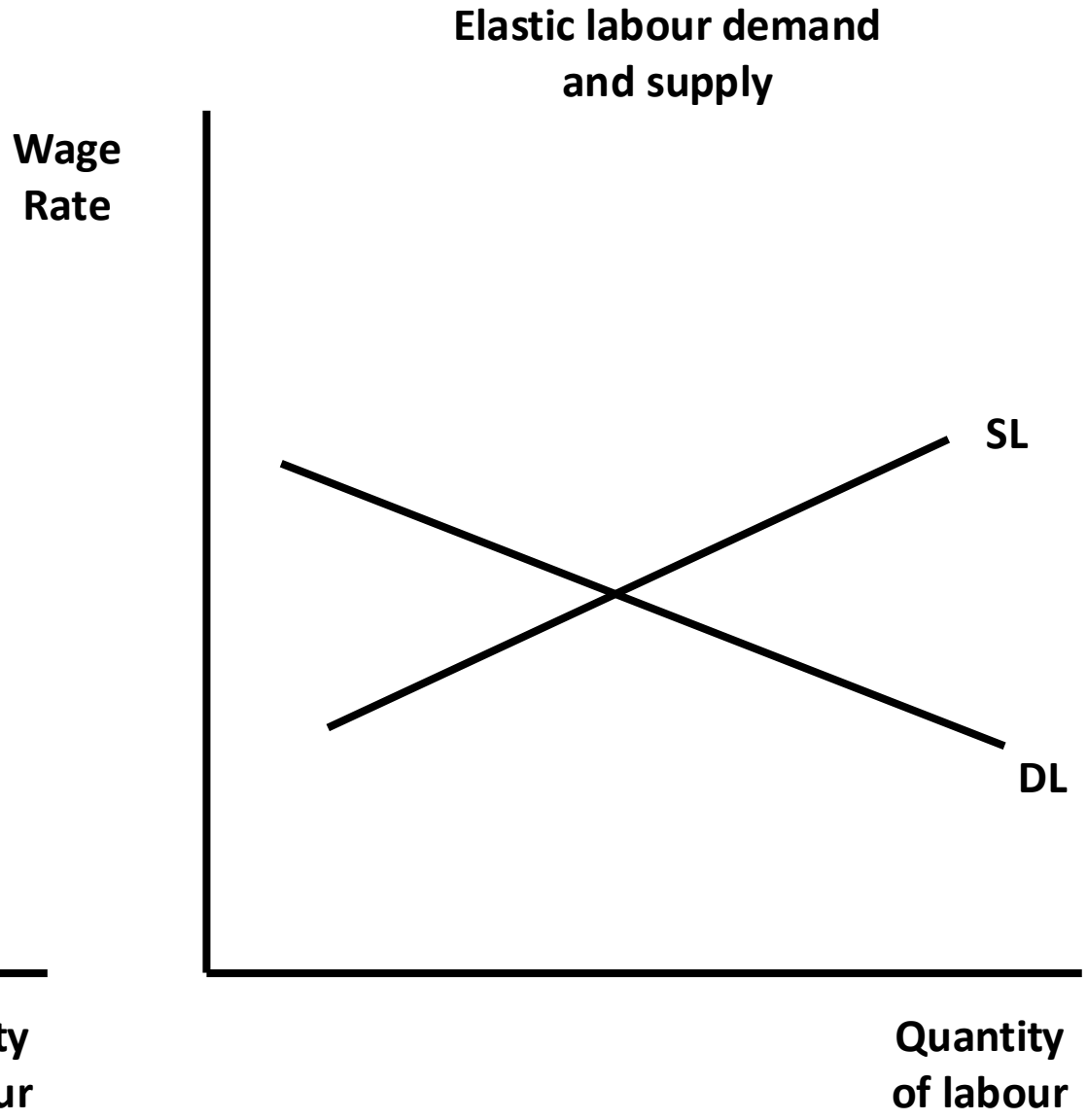
Labour market: Impact of an increase in the National Living Wage (new excess supply of labour =QdQs = real wage unemployment)

tutor2u



Monopsony labour market, without equilibrium indicated





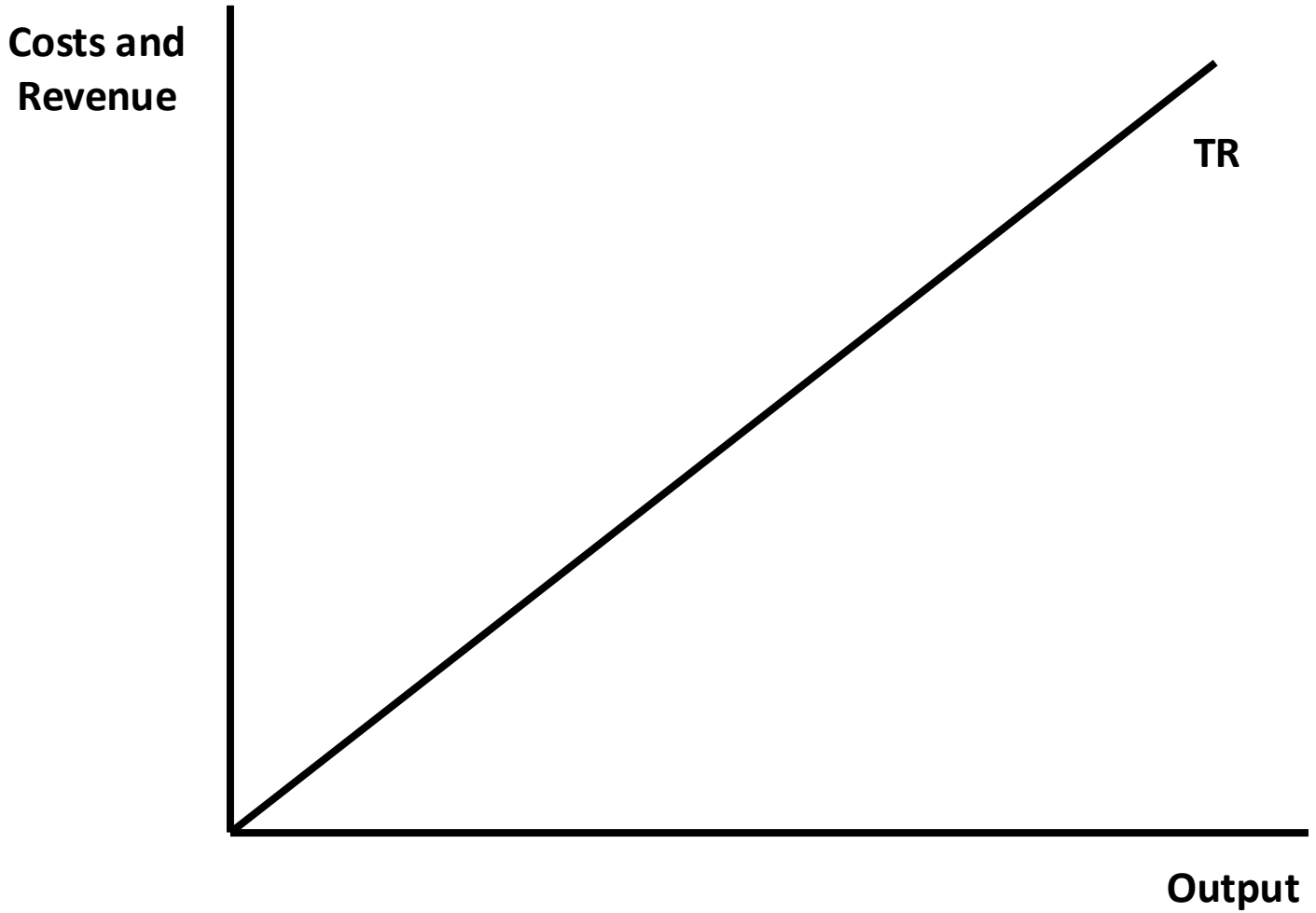
Wage elastic and inelastic labour demand and supply

tutor2u

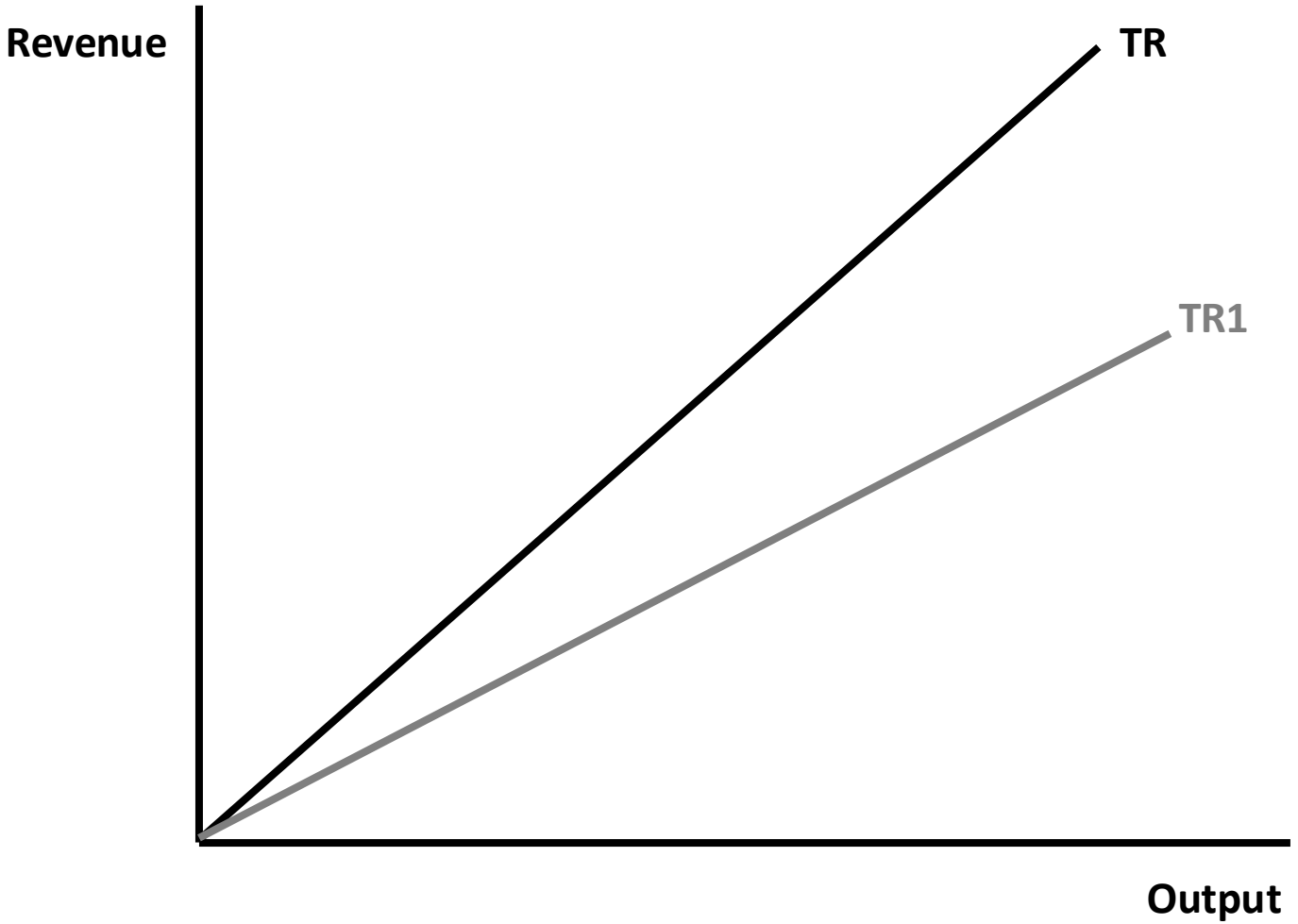
ECONOMICS DIAGRAMS

COST AND REVENUE DIAGRAMS

tutor2u

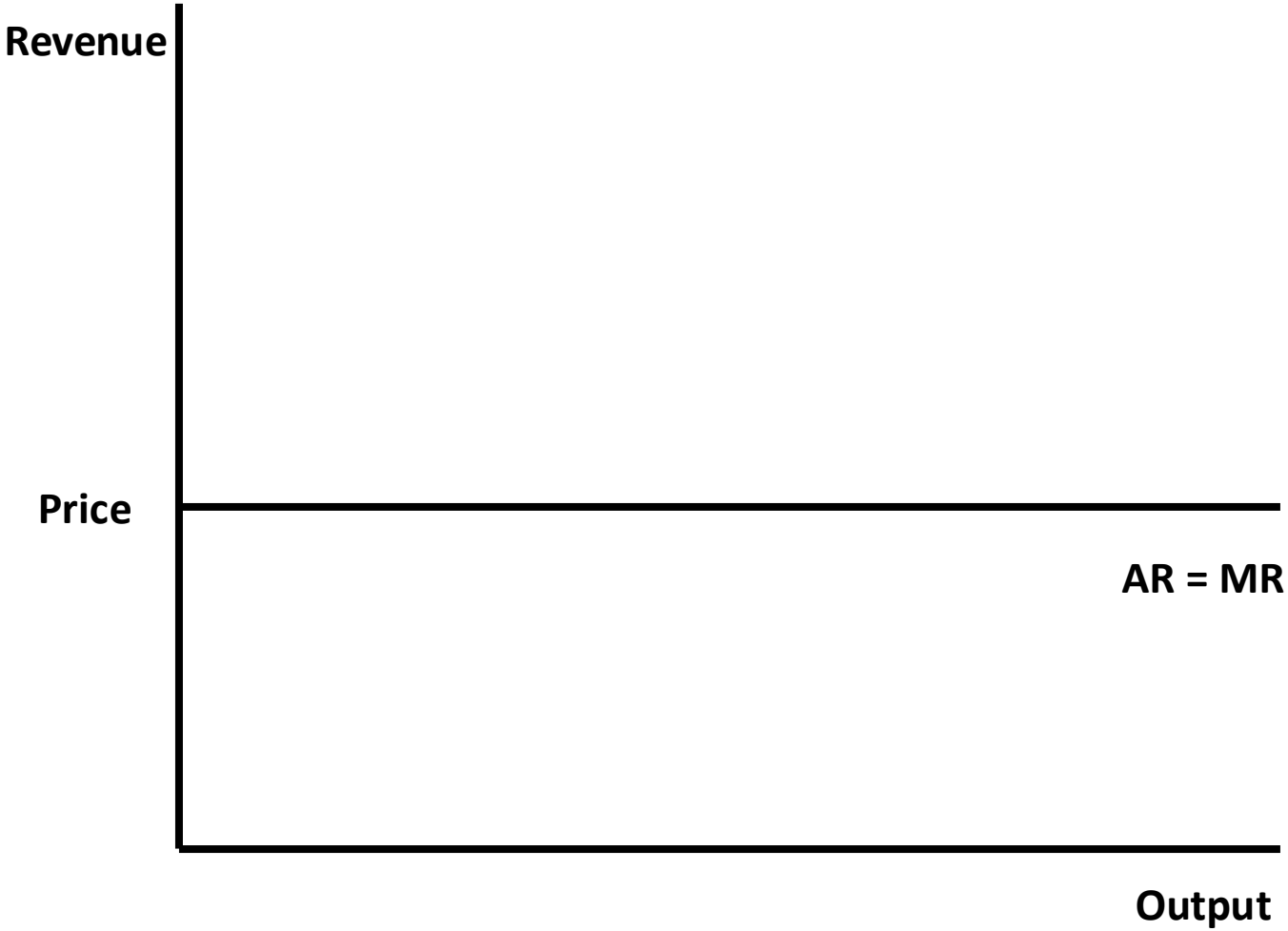


Total revenue curve for a price taker (perfect competition)



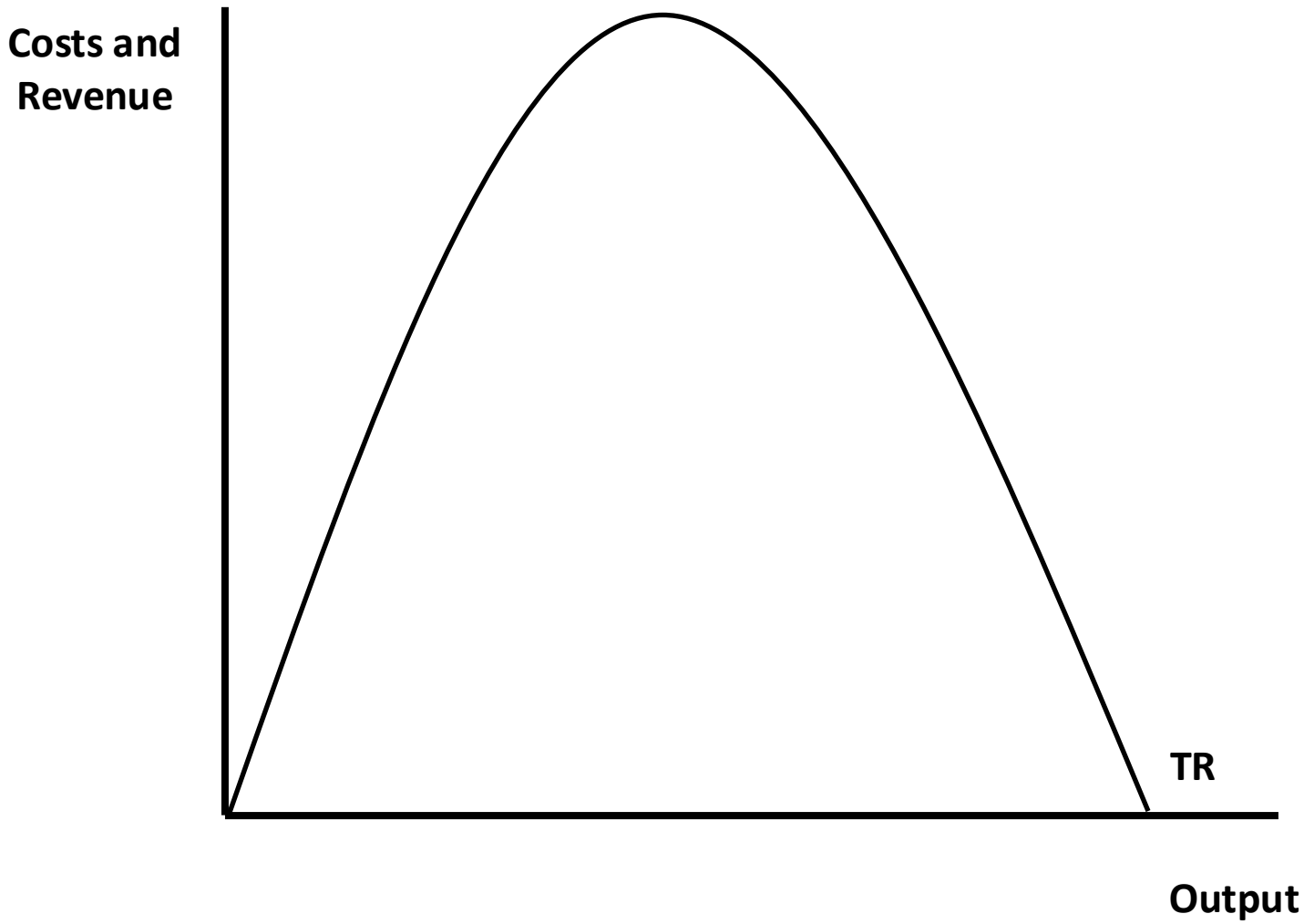
Decrease in total revenue for a price taker (perfect competition) due to fall in market price

Marginal Revenue MR curve for a price taker (perfect competition); MR is the gradient of the TR curve



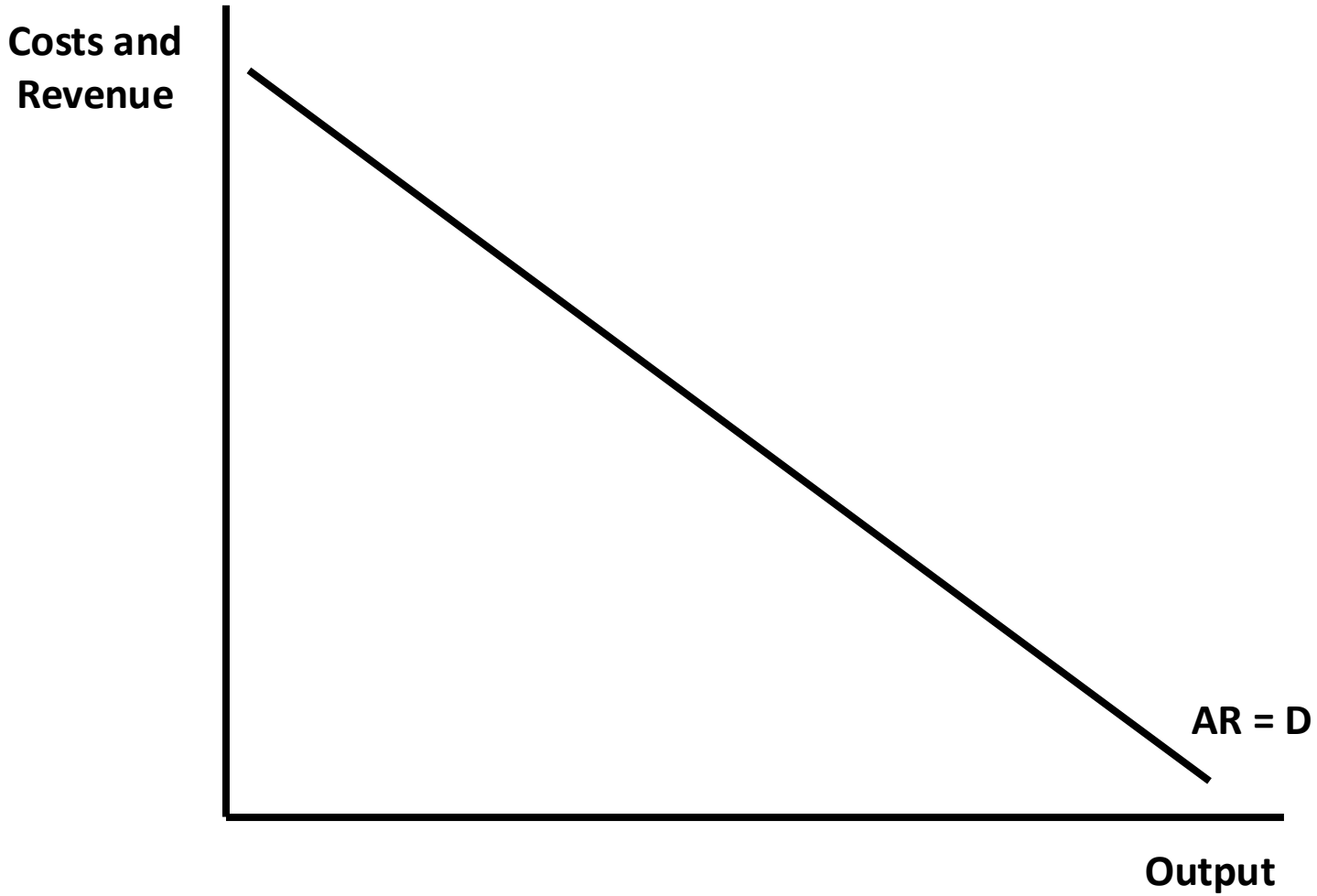
Average and marginal revenue curves for a price taker (perfect competition)

tutor2u

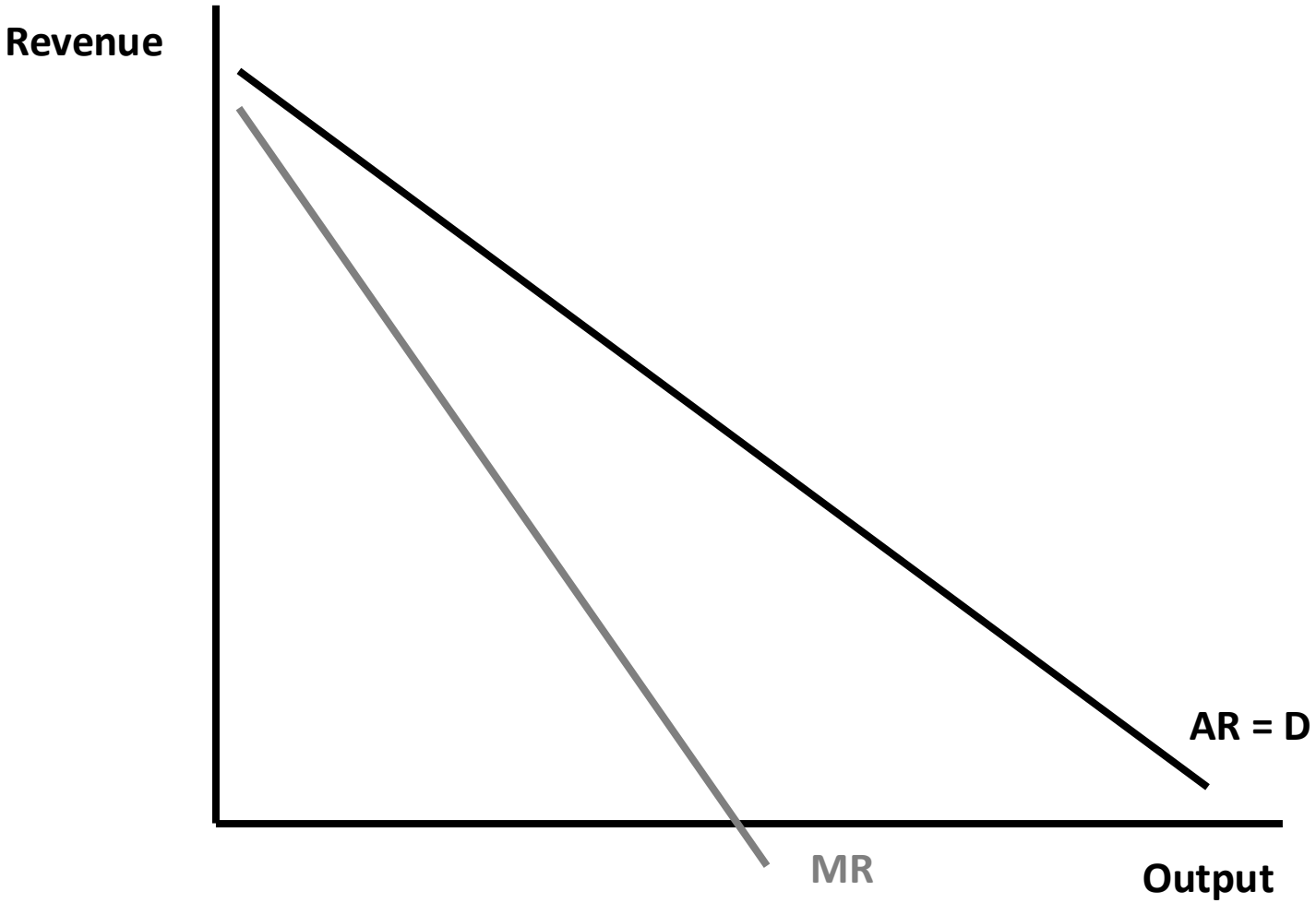


Total revenue curve for a price maker (imperfect competition)

tutor2u

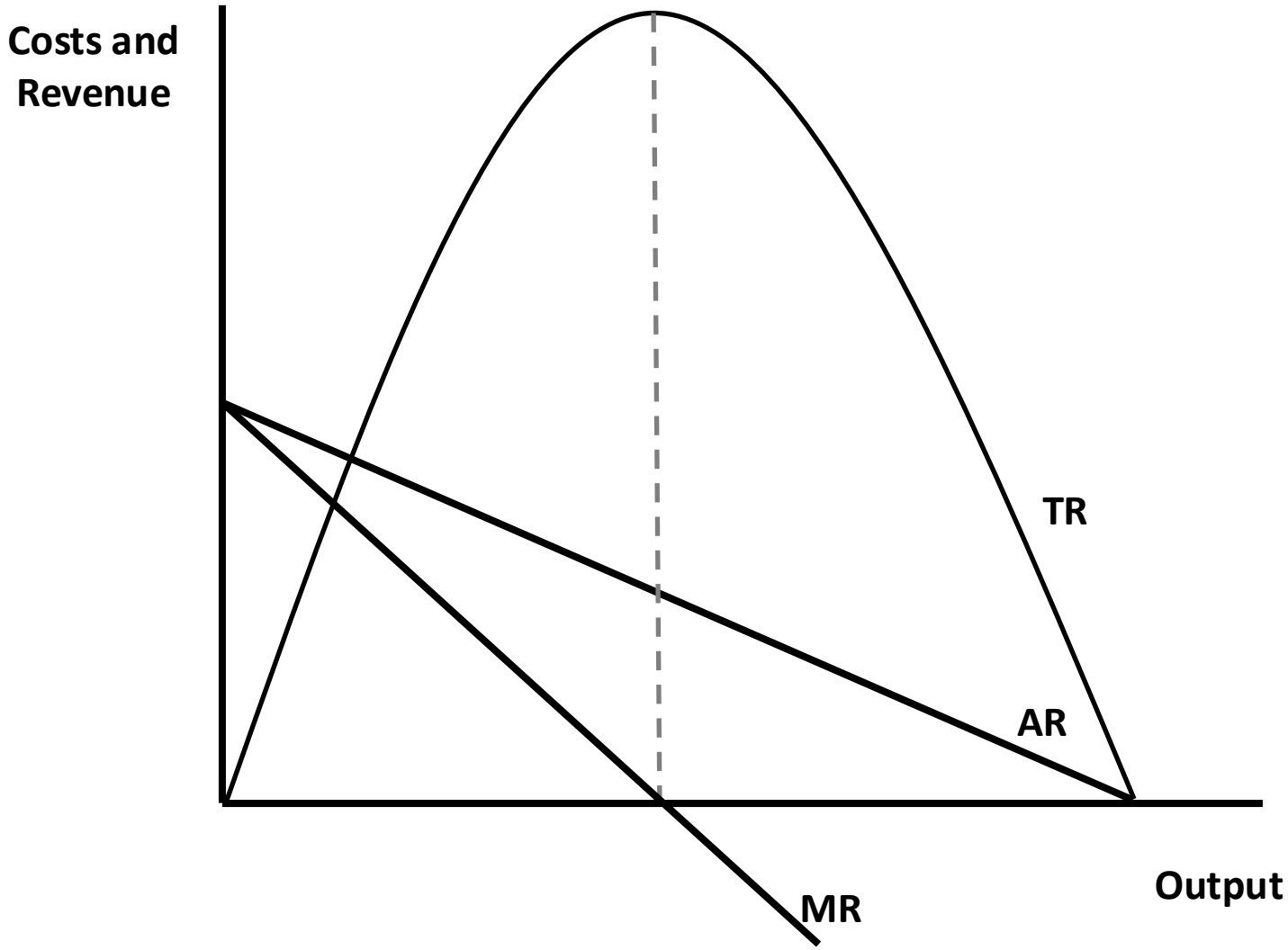


Average revenue curve for price maker

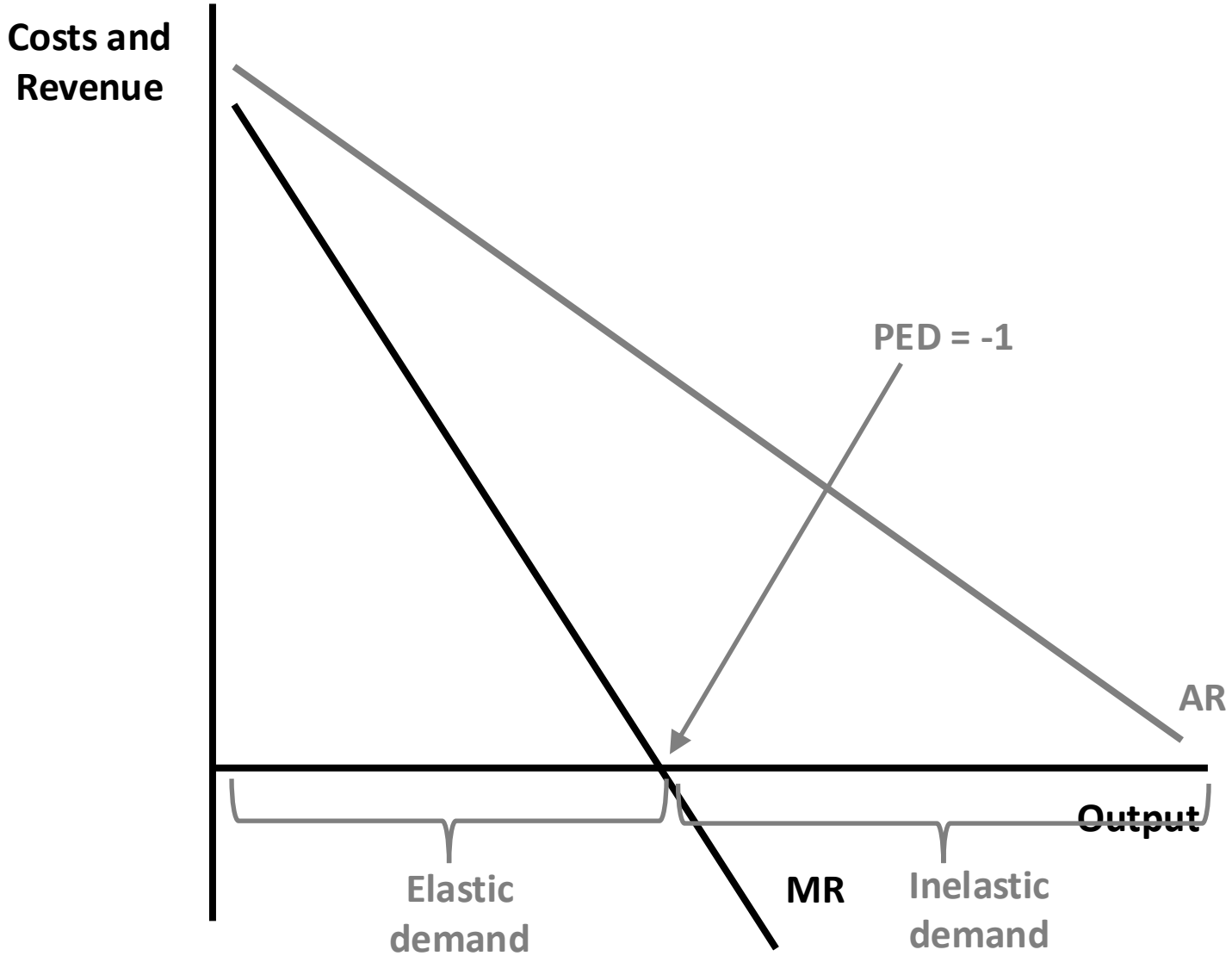


Average and marginal revenue curves for price makers (imperfect competition)

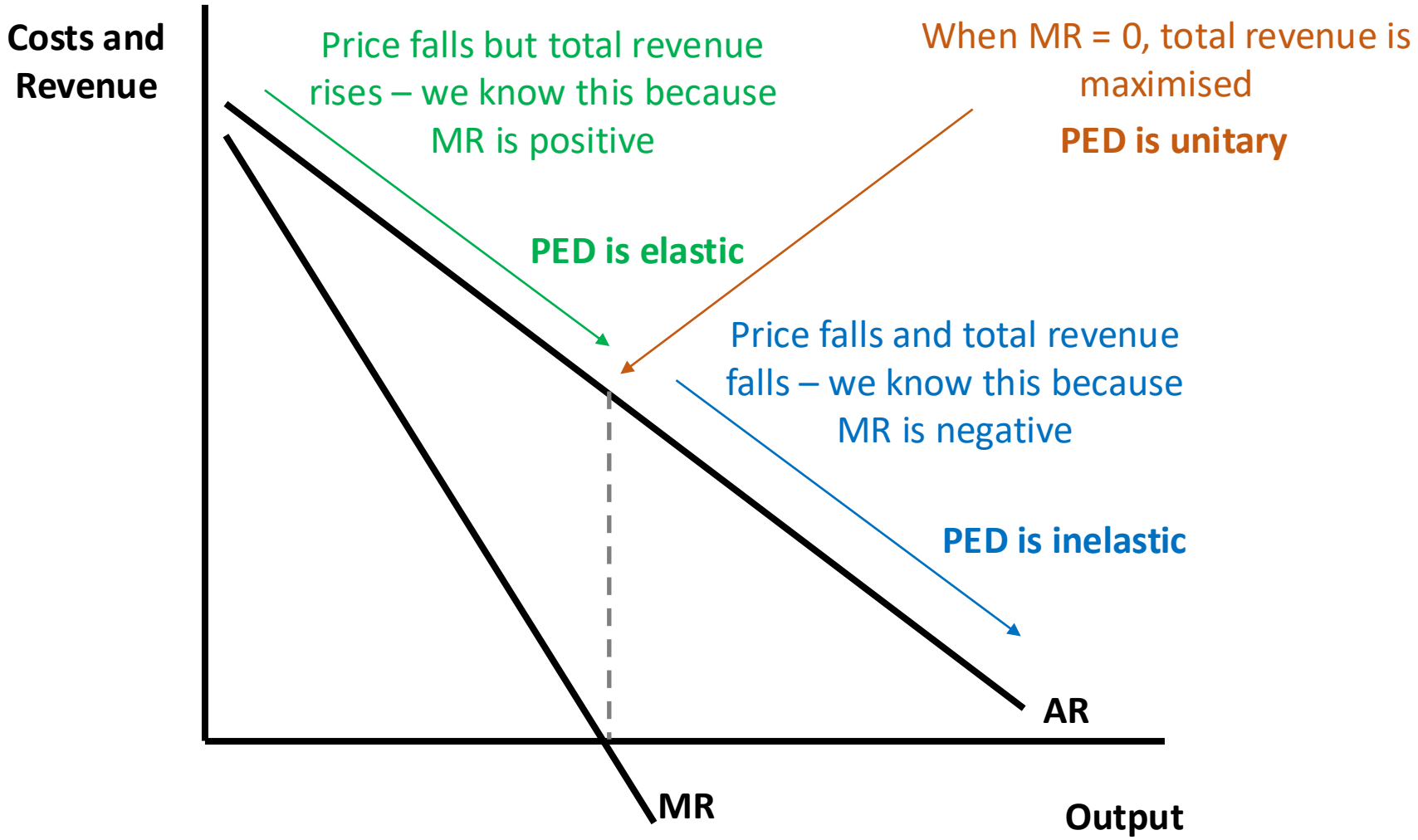
tutor2u



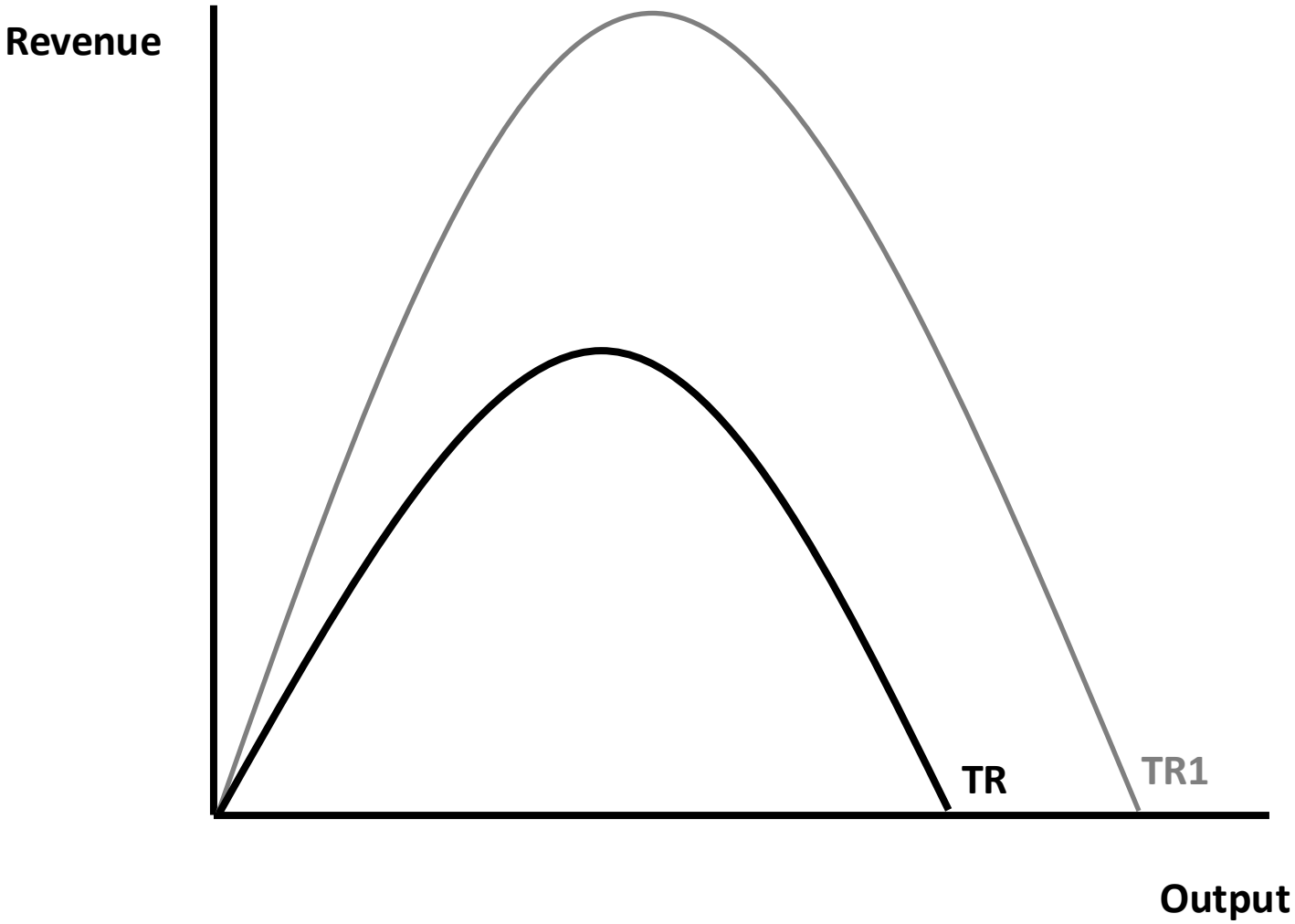
Relationship between total, average and marginal revenue for price taker



Outputs showing elasticity of demand derived from AR = D curve

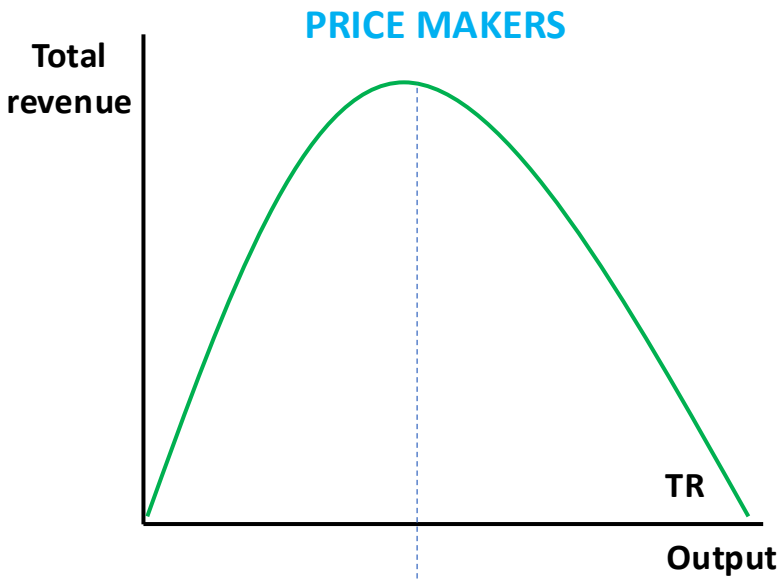


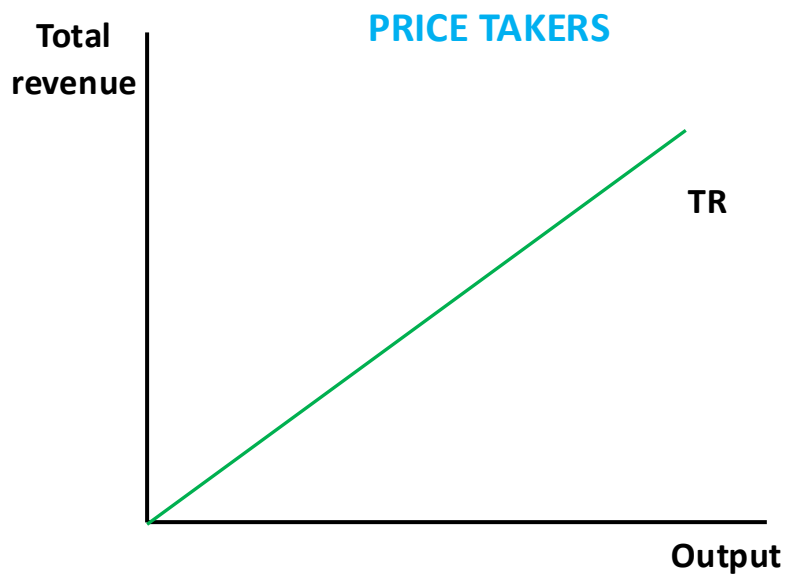
Relationship between PED and MR and AR curves

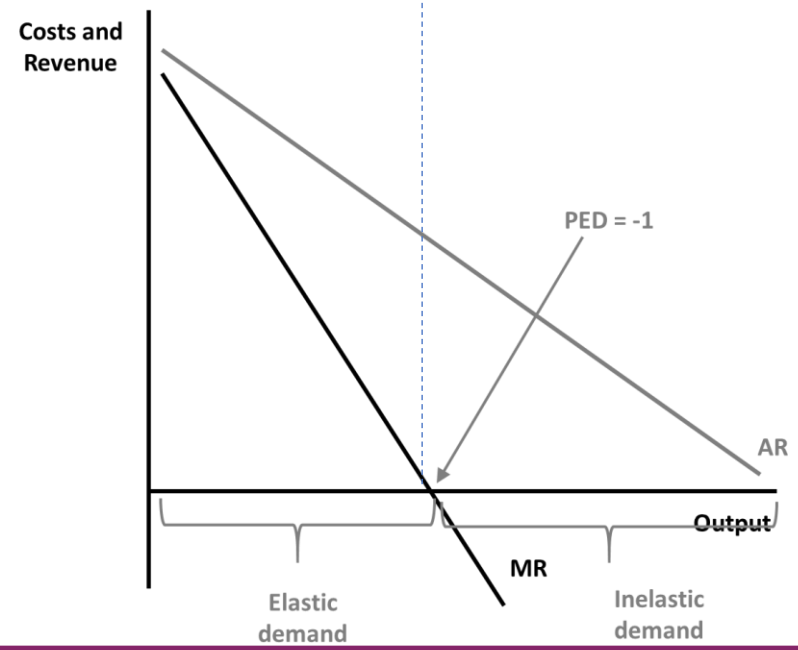


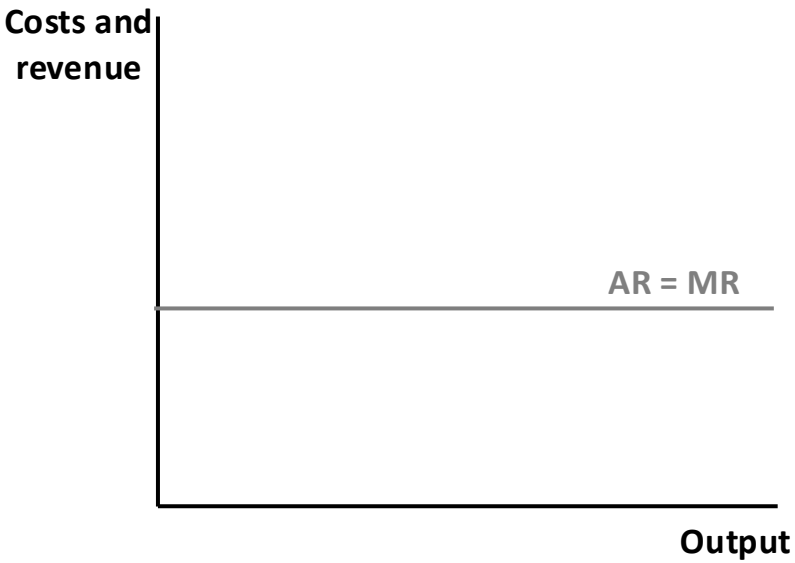
Increase in total revenue for a price maker (imperfect competition), due to increase in demand

tutor2u



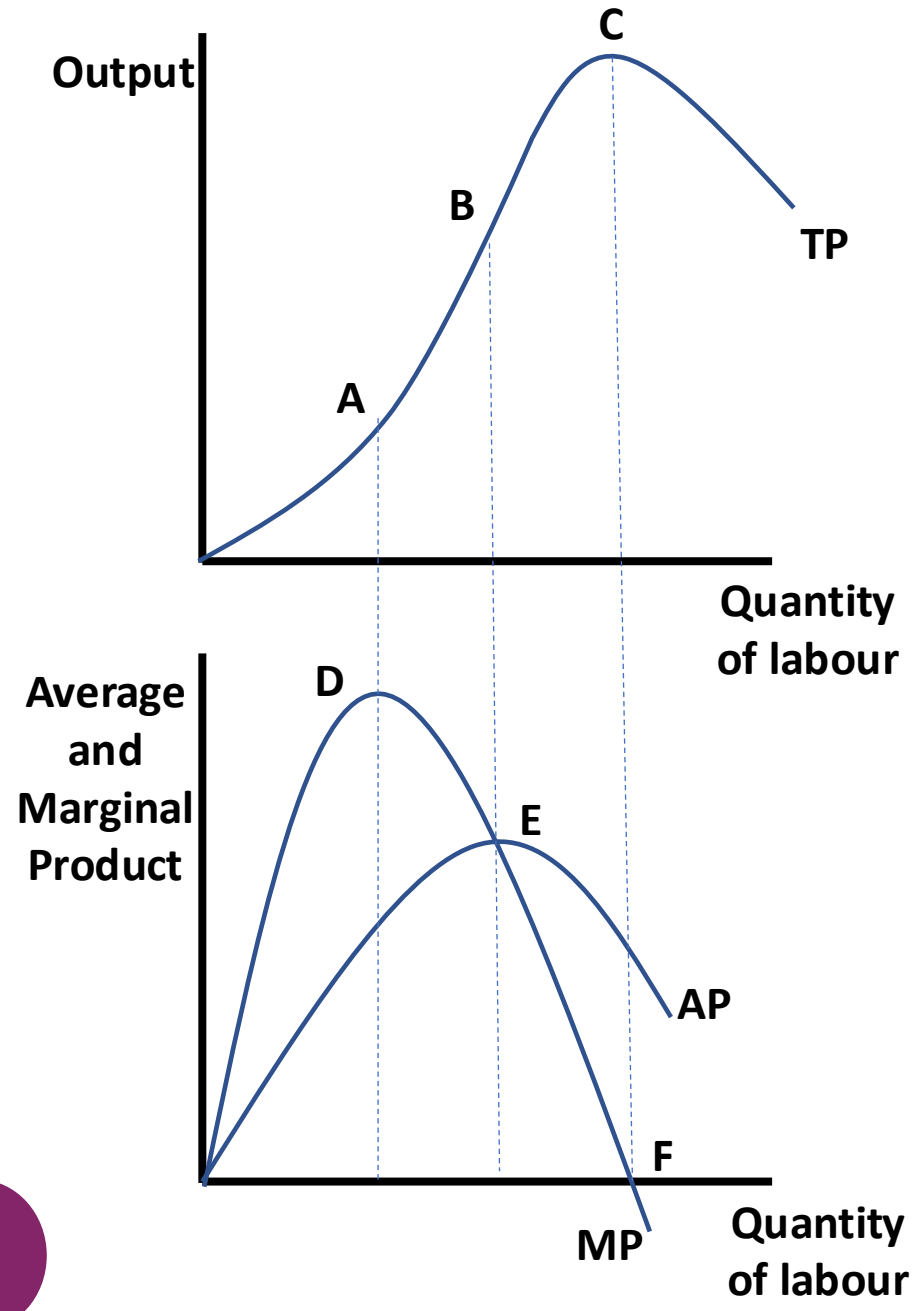




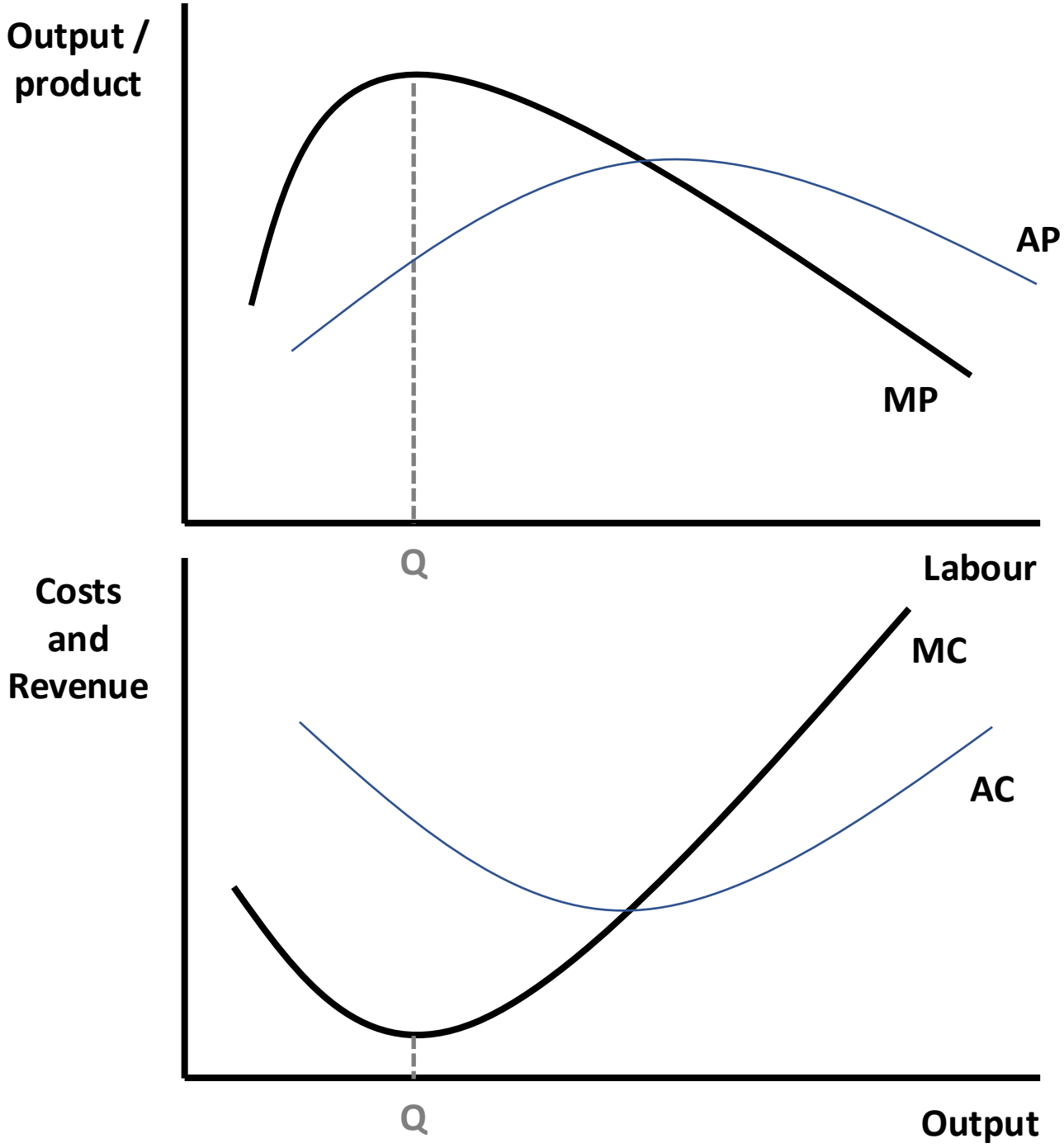


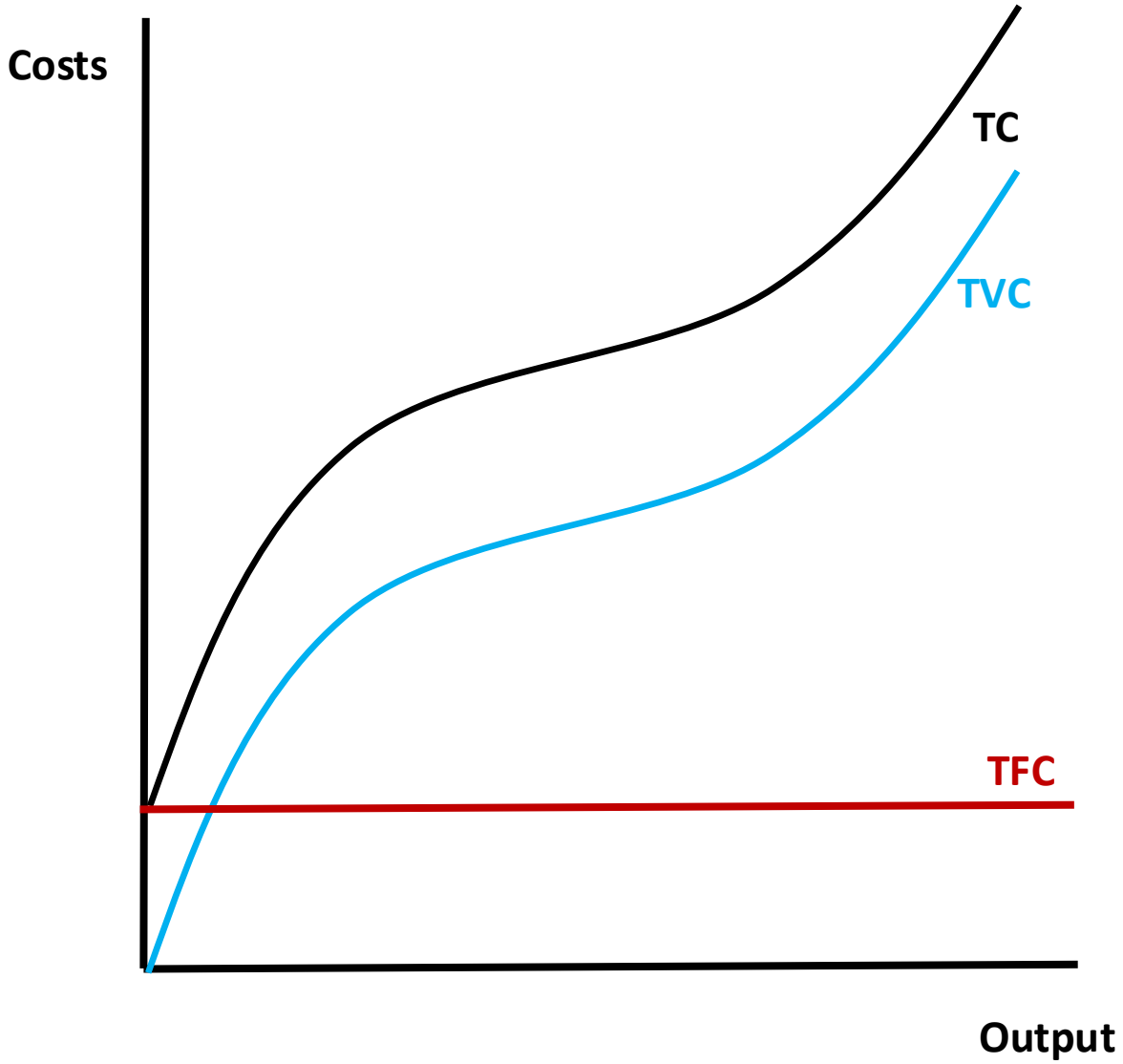
Revenue curves for price makers and price takers – a comparison

tutor2u



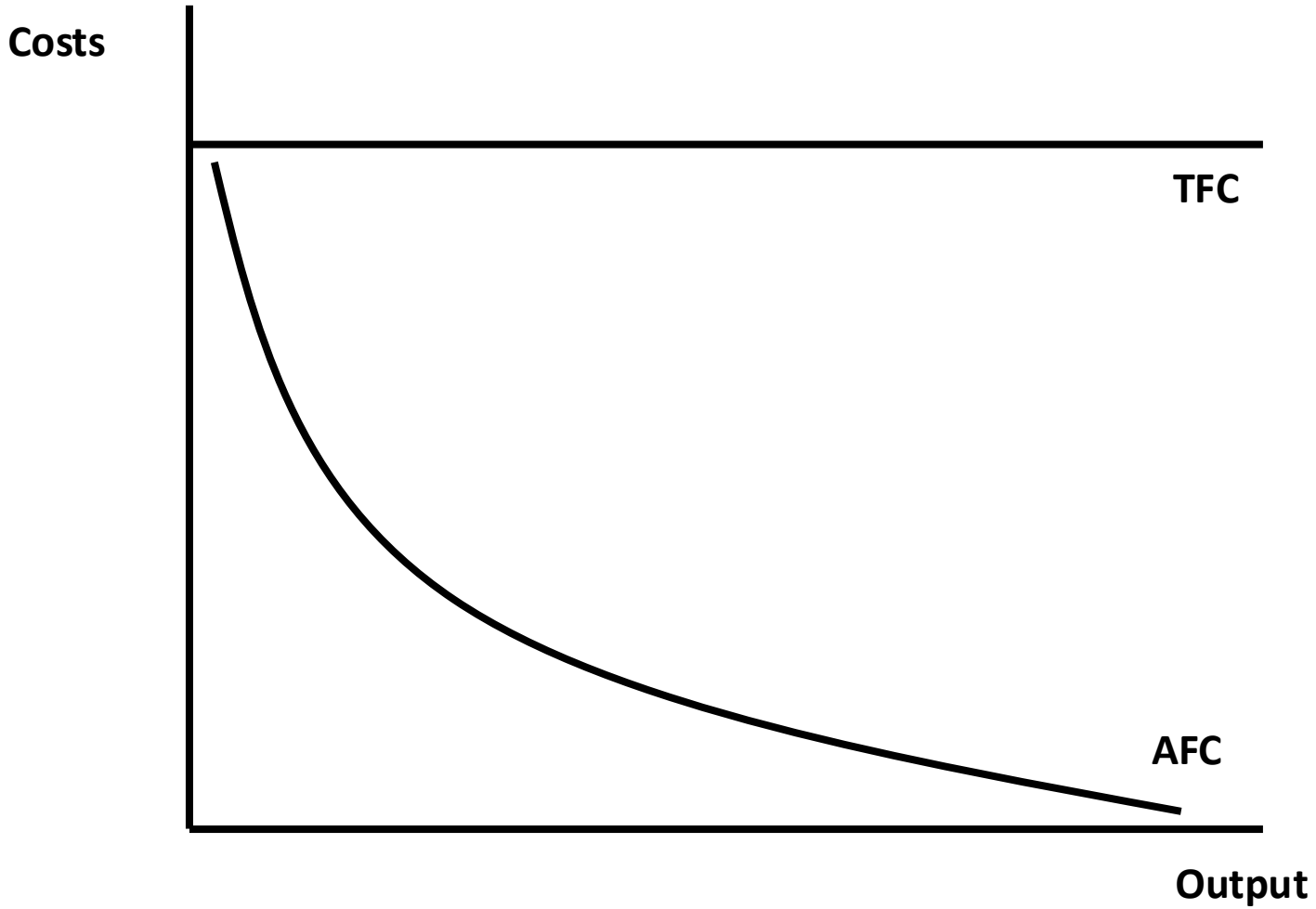
Relationship between total product curve and average product and marginal product curves. AP = TP/Qlab; MP is the change in TP when one more unit of labour is added – it is the gradient of the TP


Output / product
AP
MP
Q
Labour
Costs and Revenue
MC
AC
Q
Output

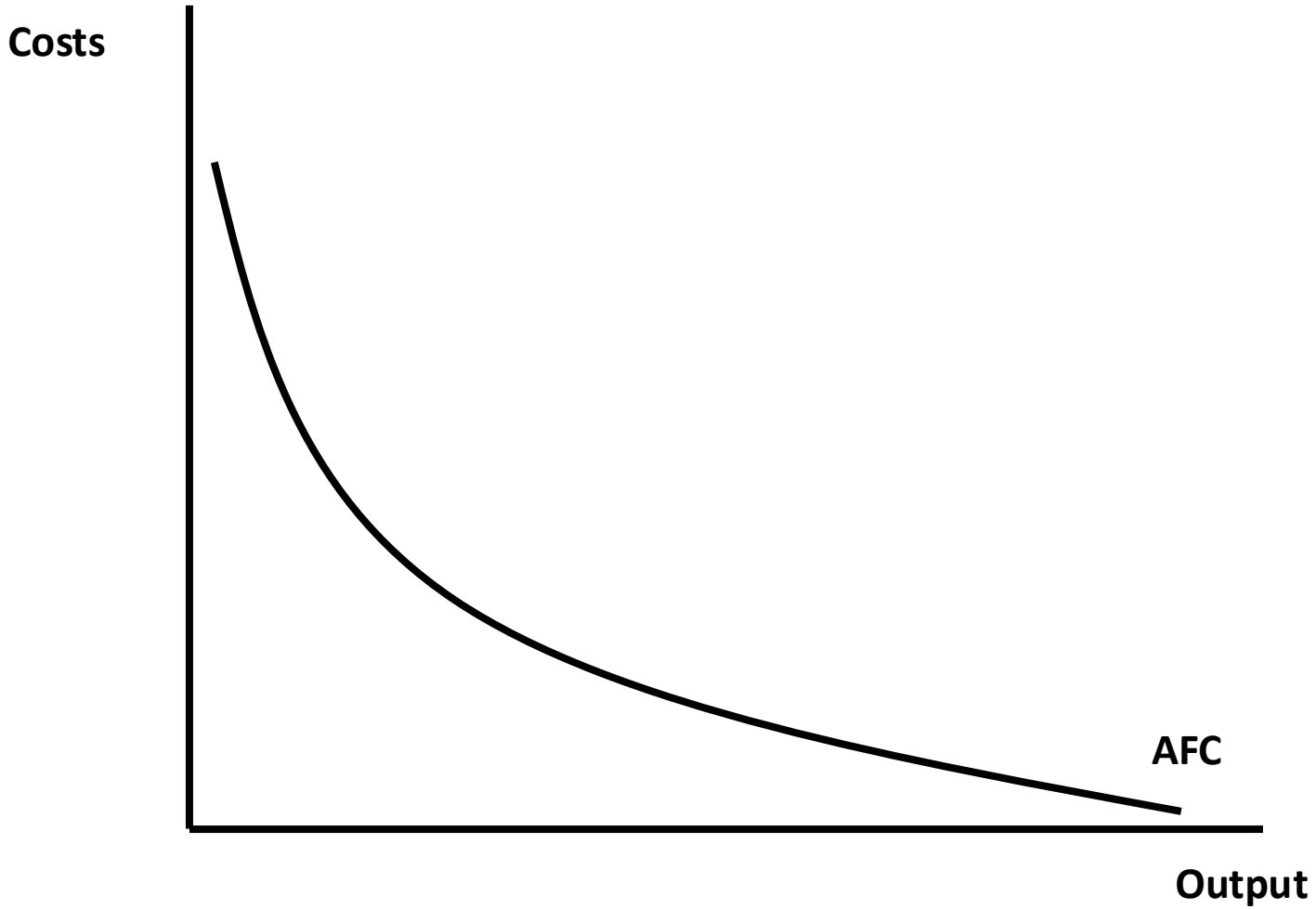


Total cost curves: TFC + TVC = TC

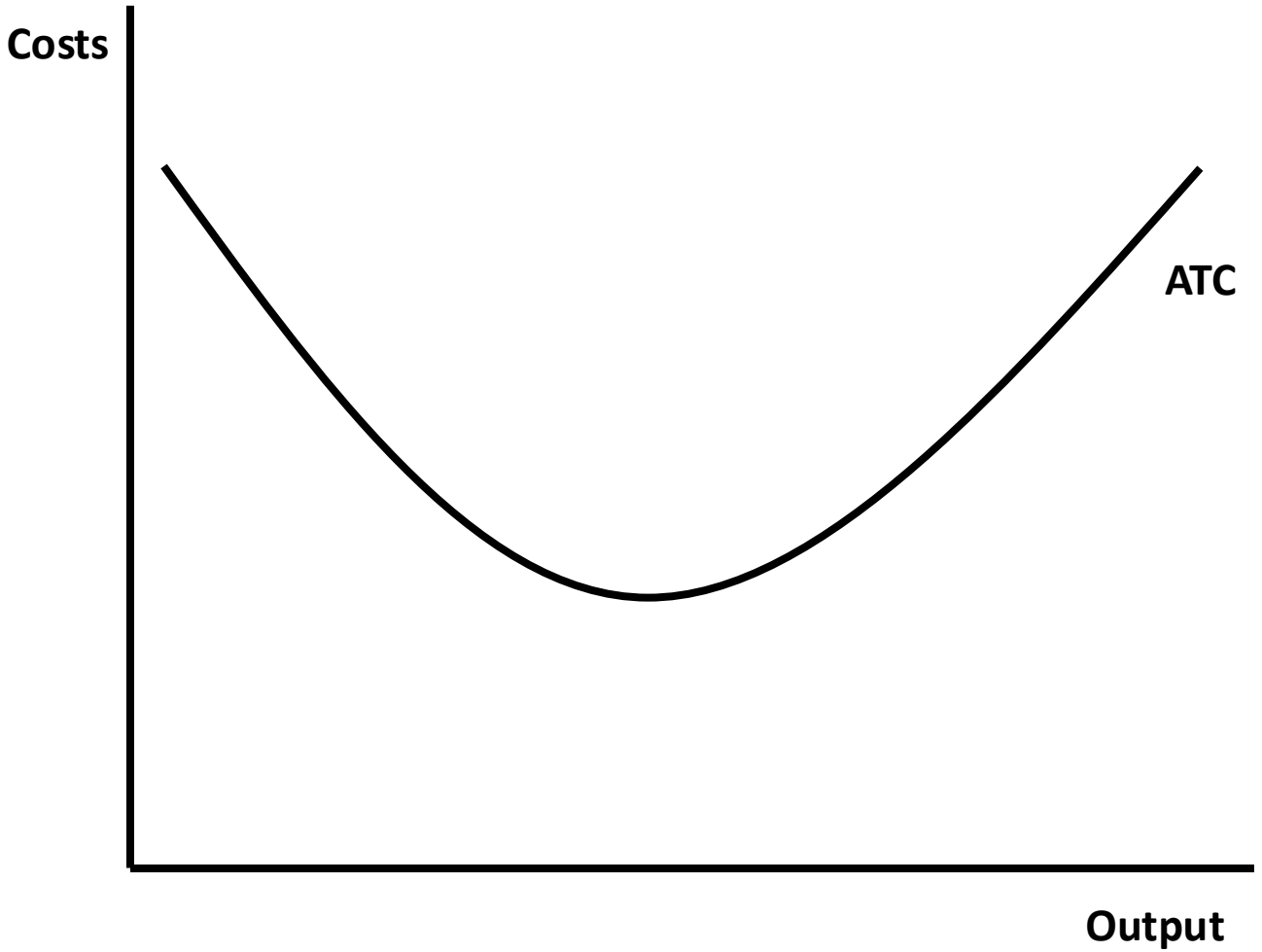
tutor2u



Total fixed cost and average fixed cost curves

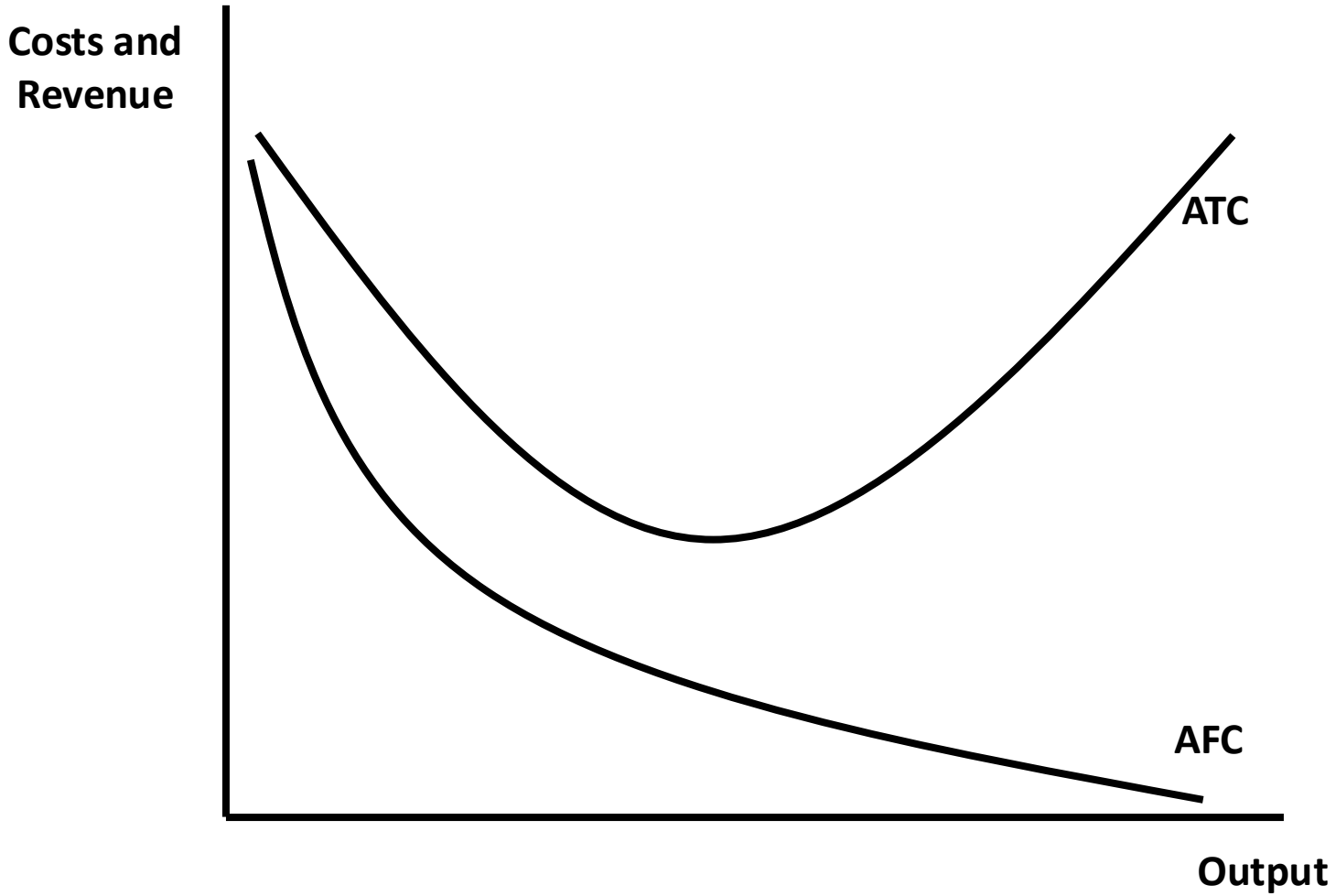


Average fixed cost curve

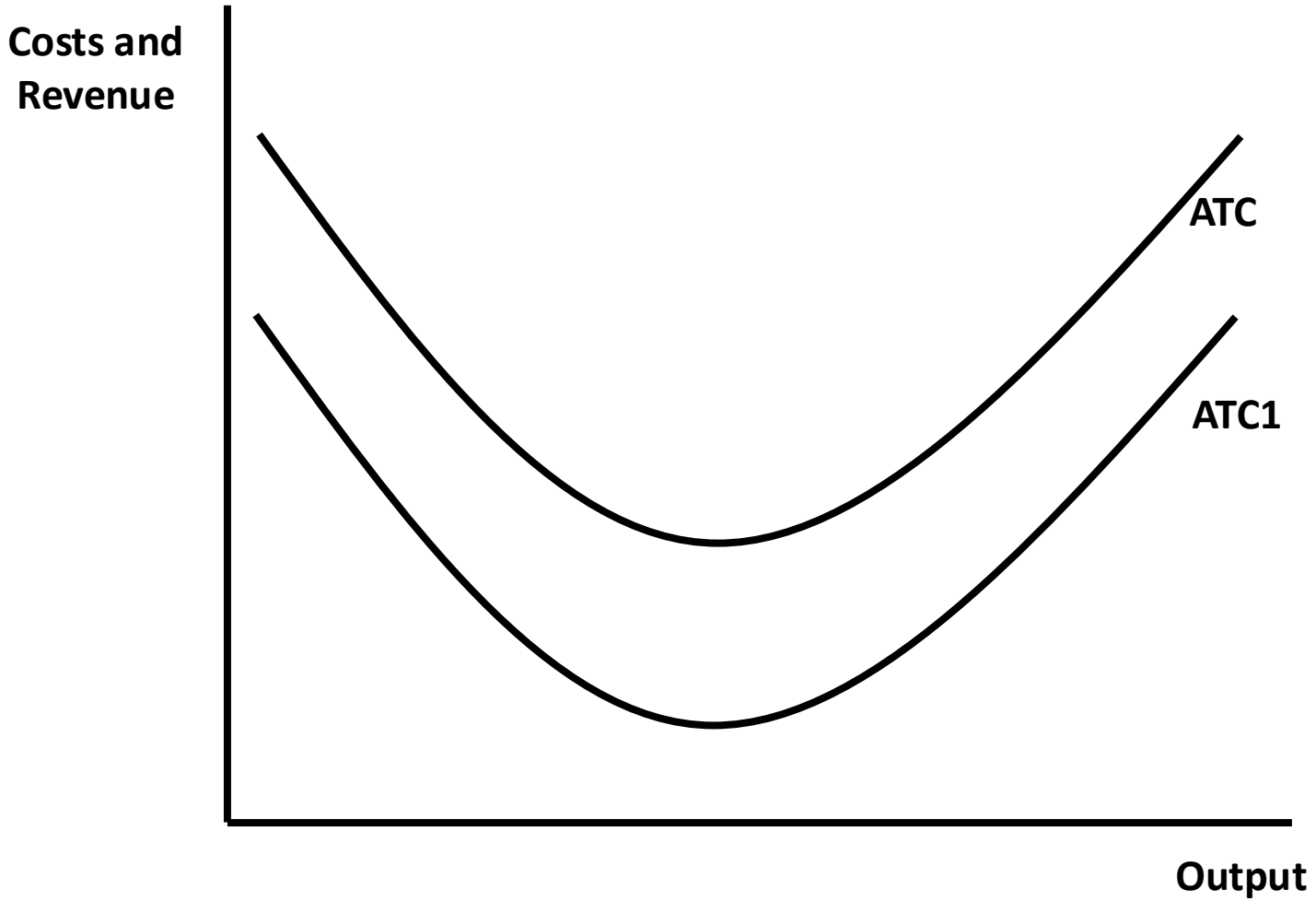


Average total cost curve

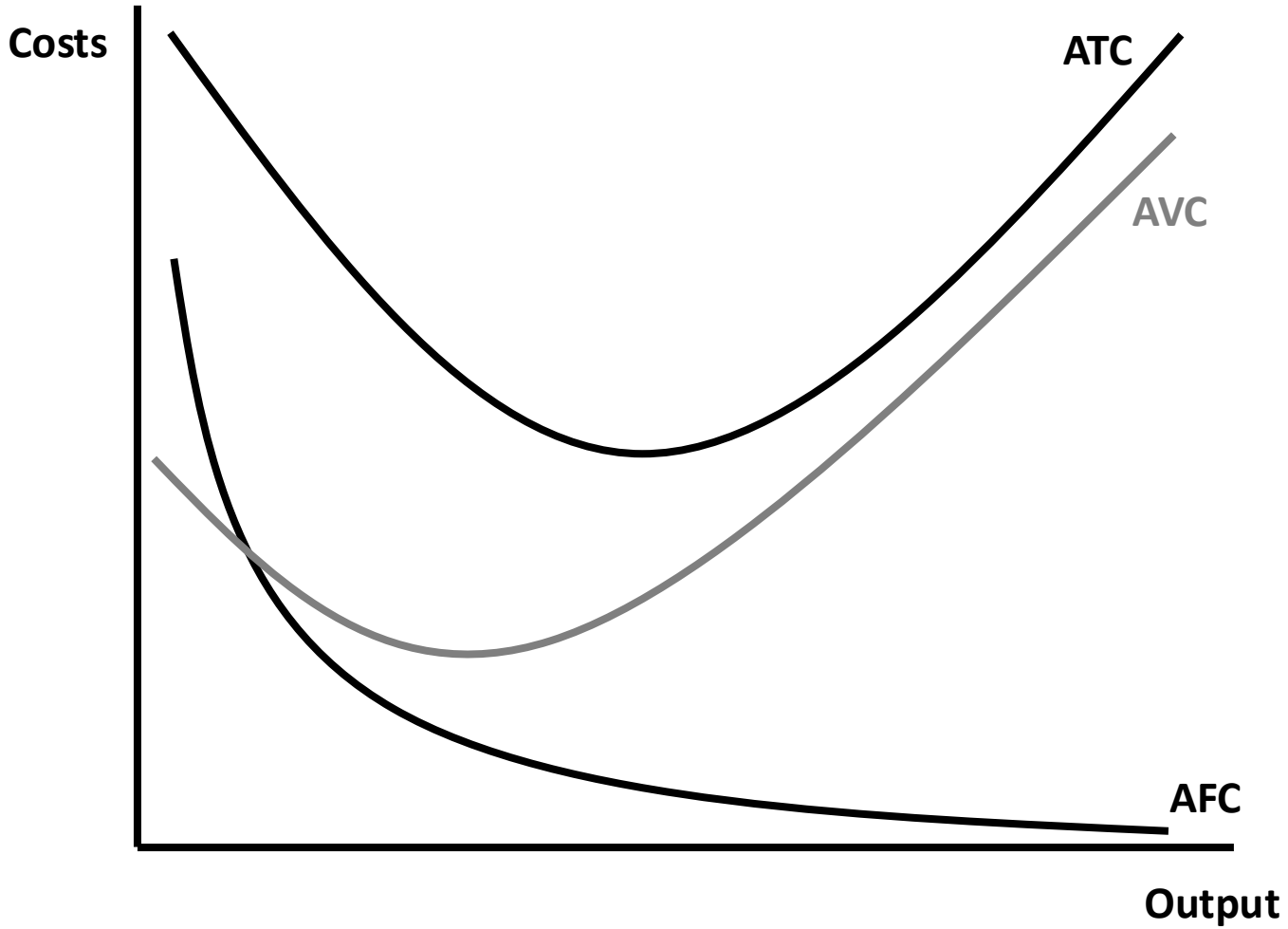
tutor2u



Average fixed cost and average total cost curves

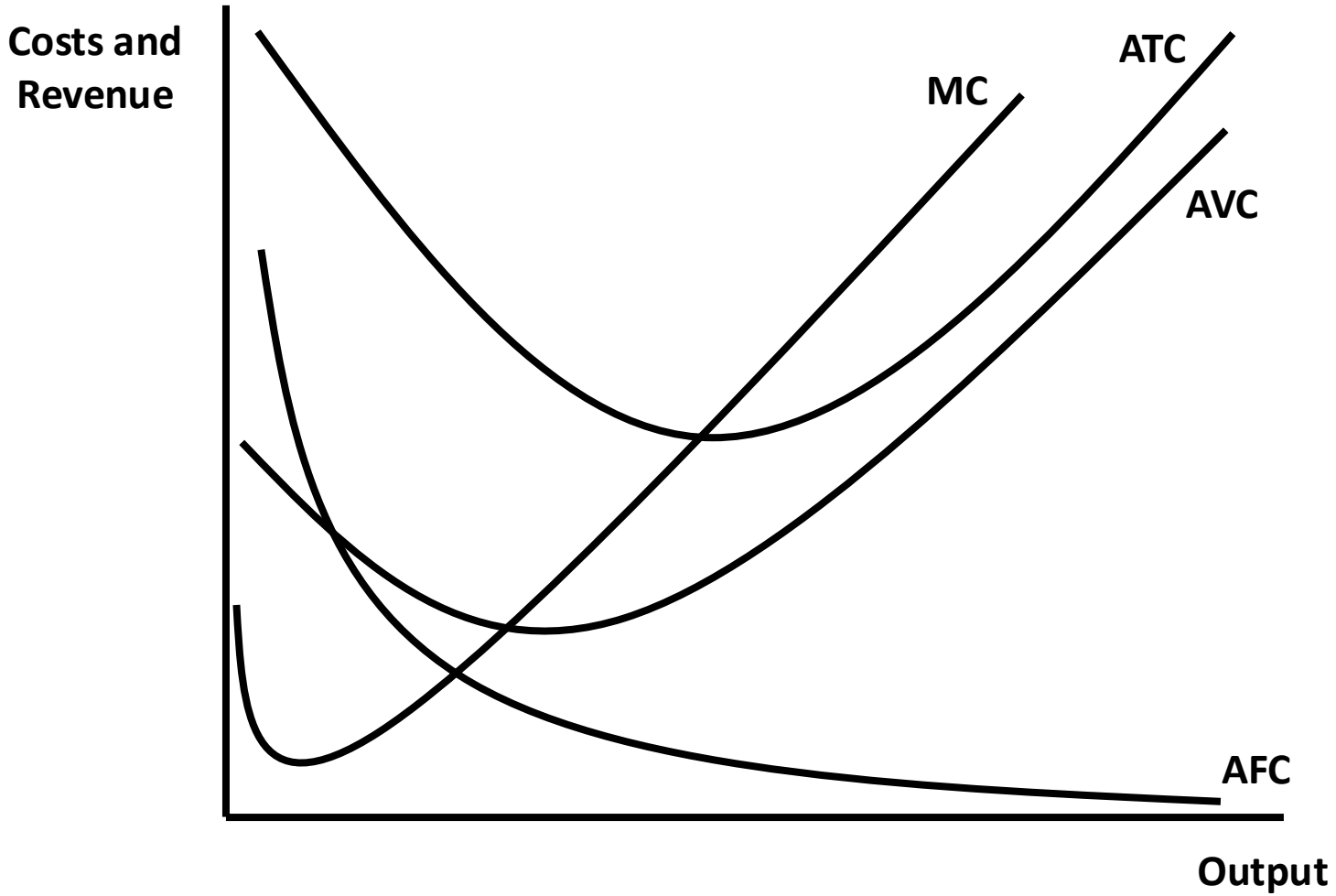


Fall in average total costs

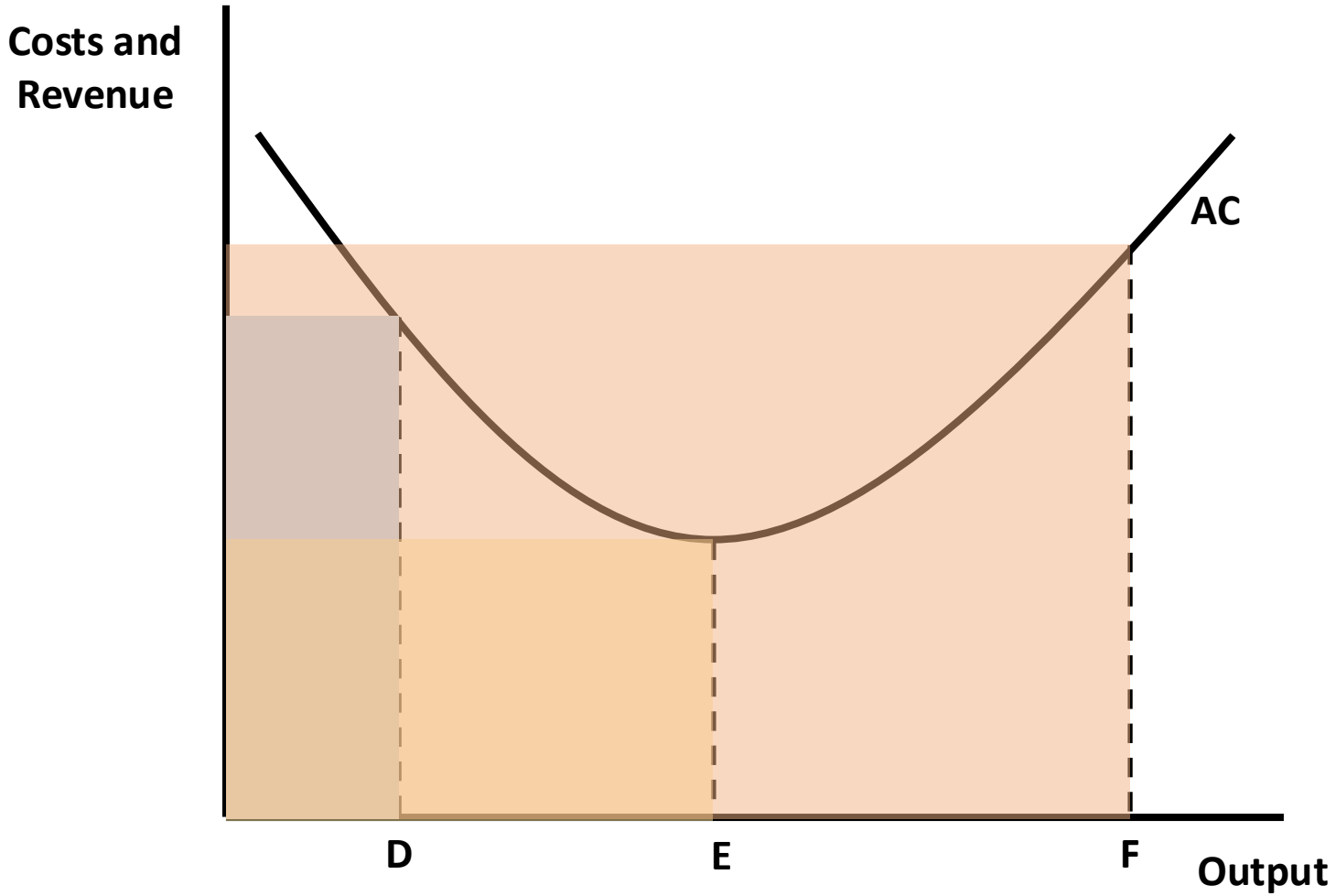


Average fixed, average variable and average total cost curves (ATC= AFC+AVC)

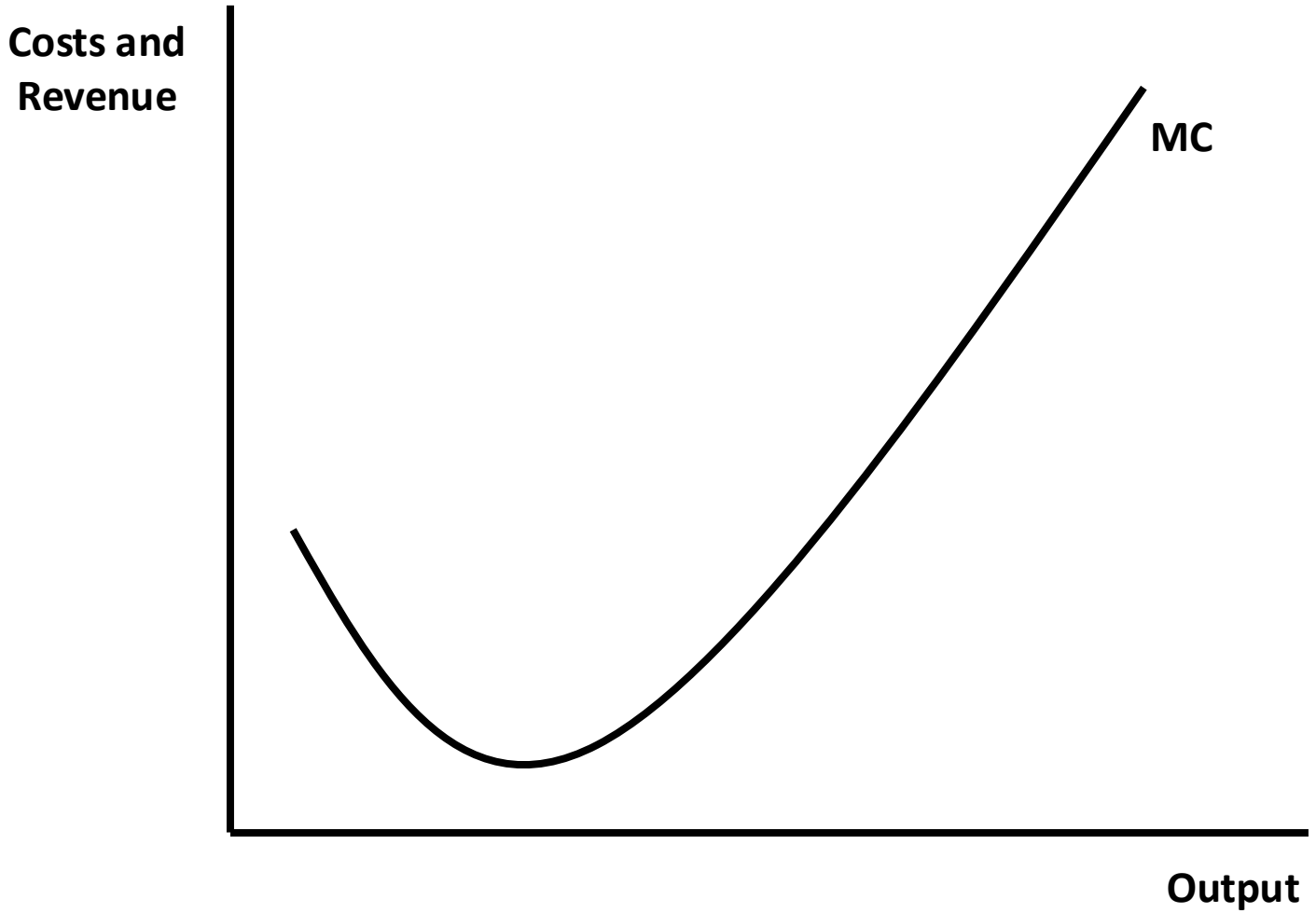
tutor2u



Short run cost curves (MC always cuts ATC and AVC curves at their minimum points)

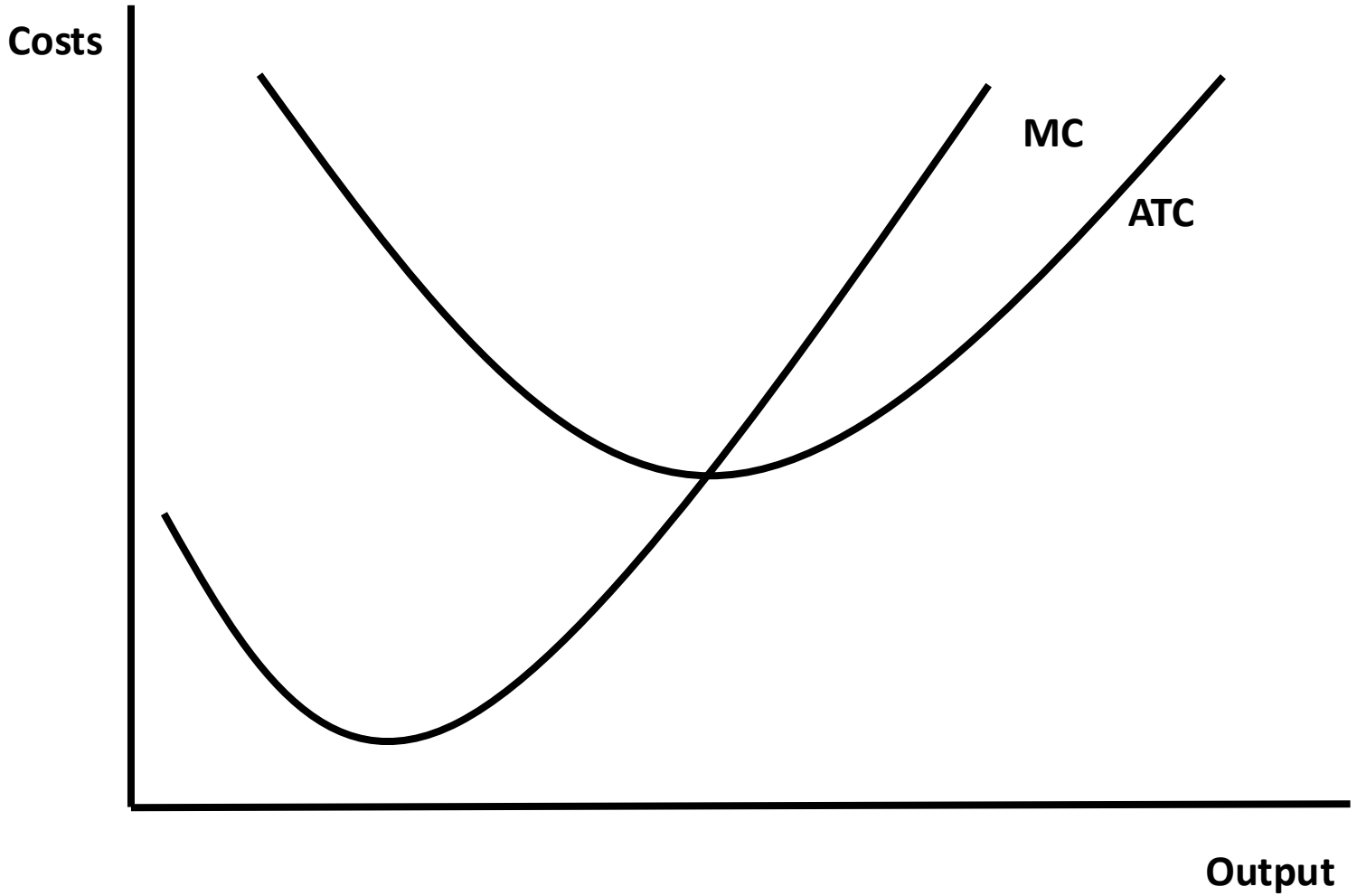


Total costs = average cost x output TC=AC x Q

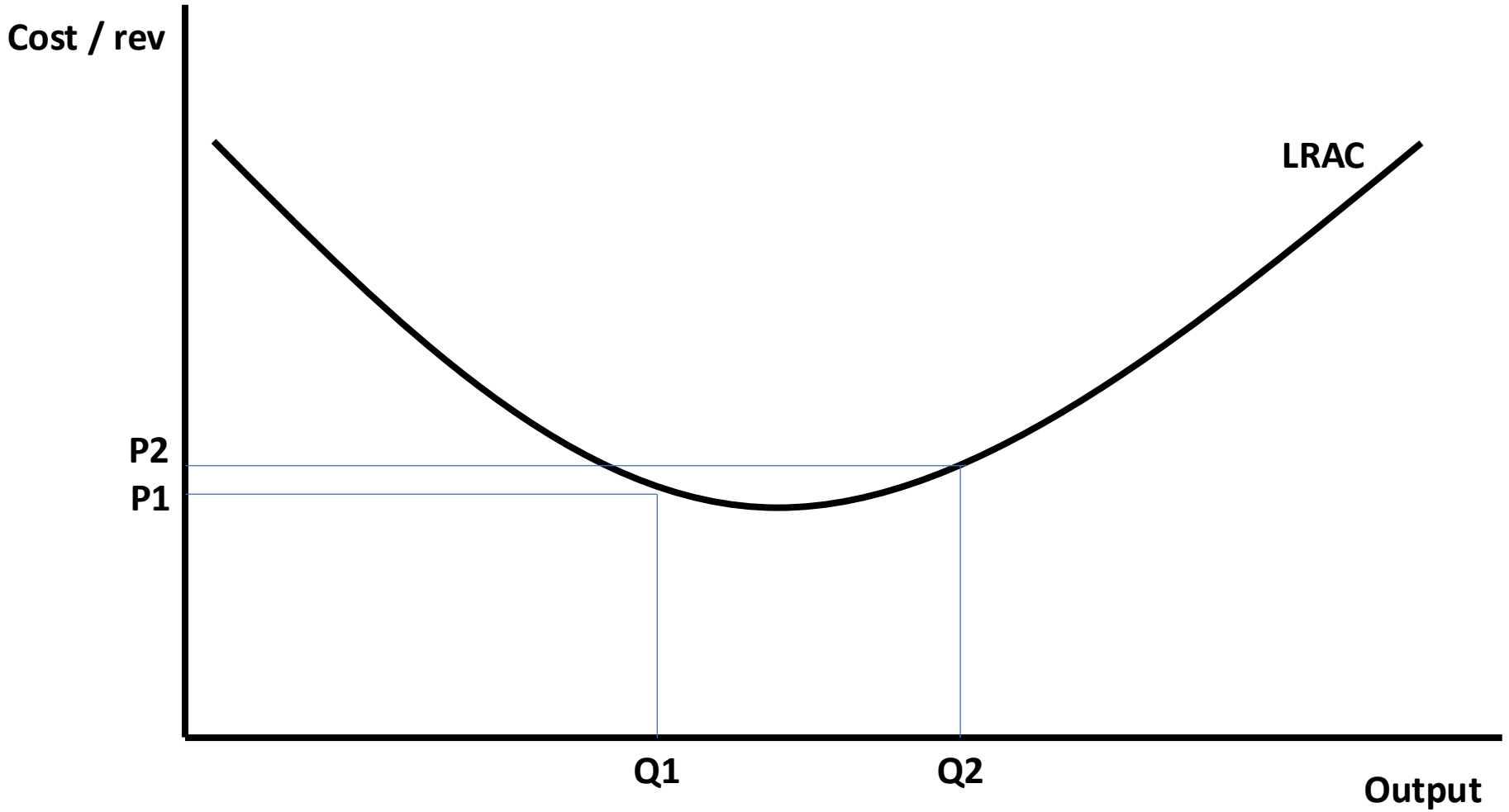


Marginal cost curve

tutor2u

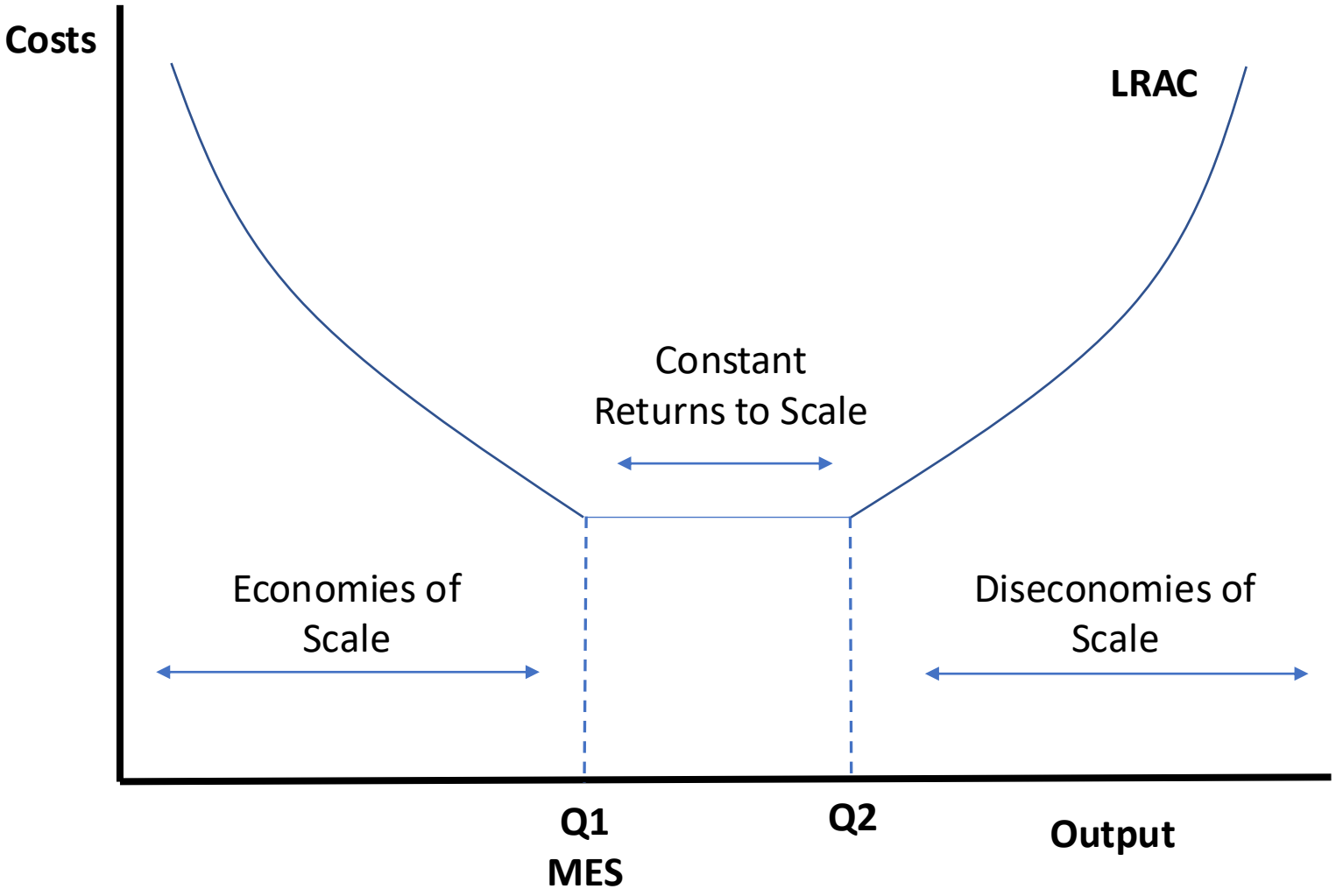


MC must cut ATC at its minimum point

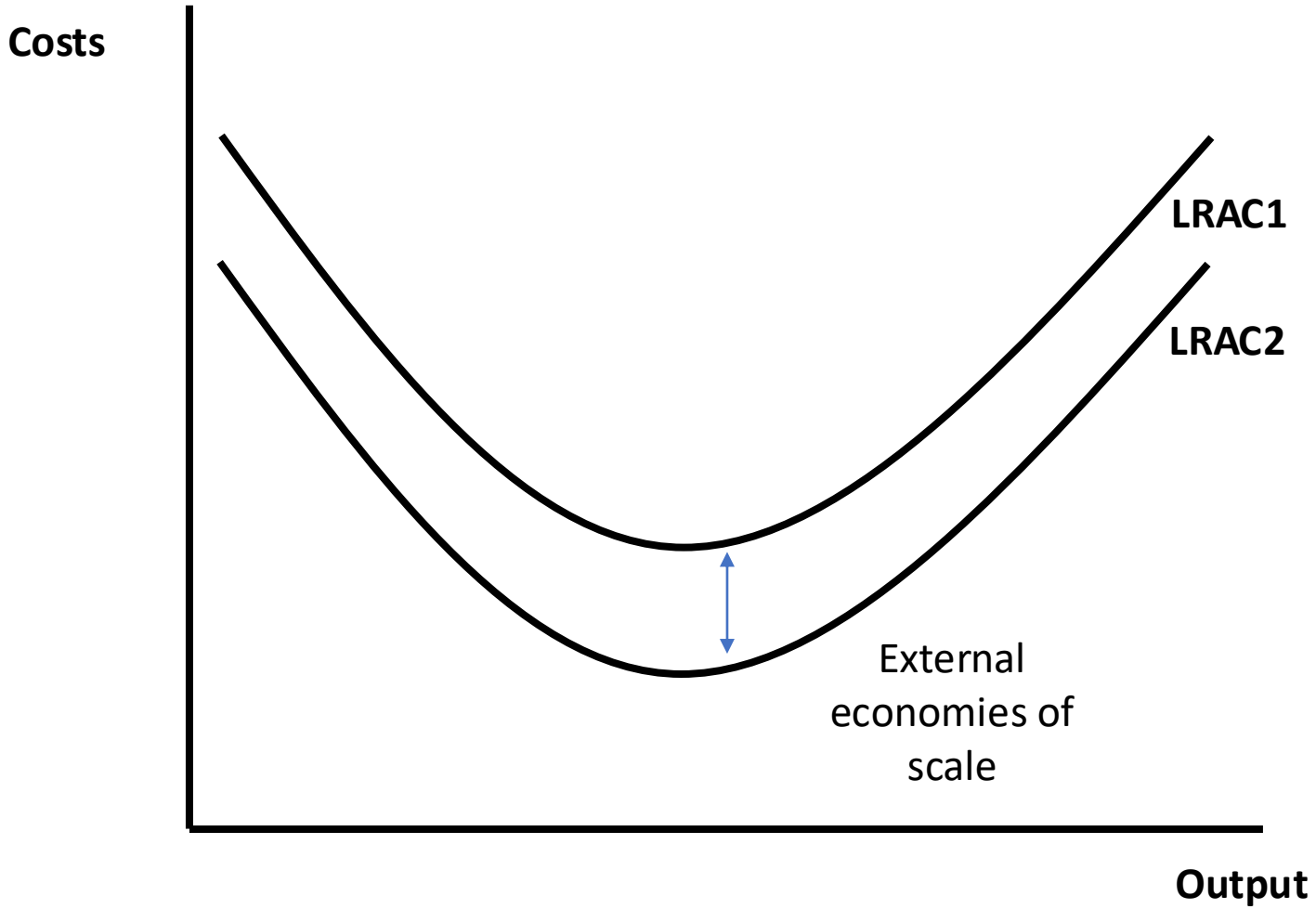


Long run average cost curve

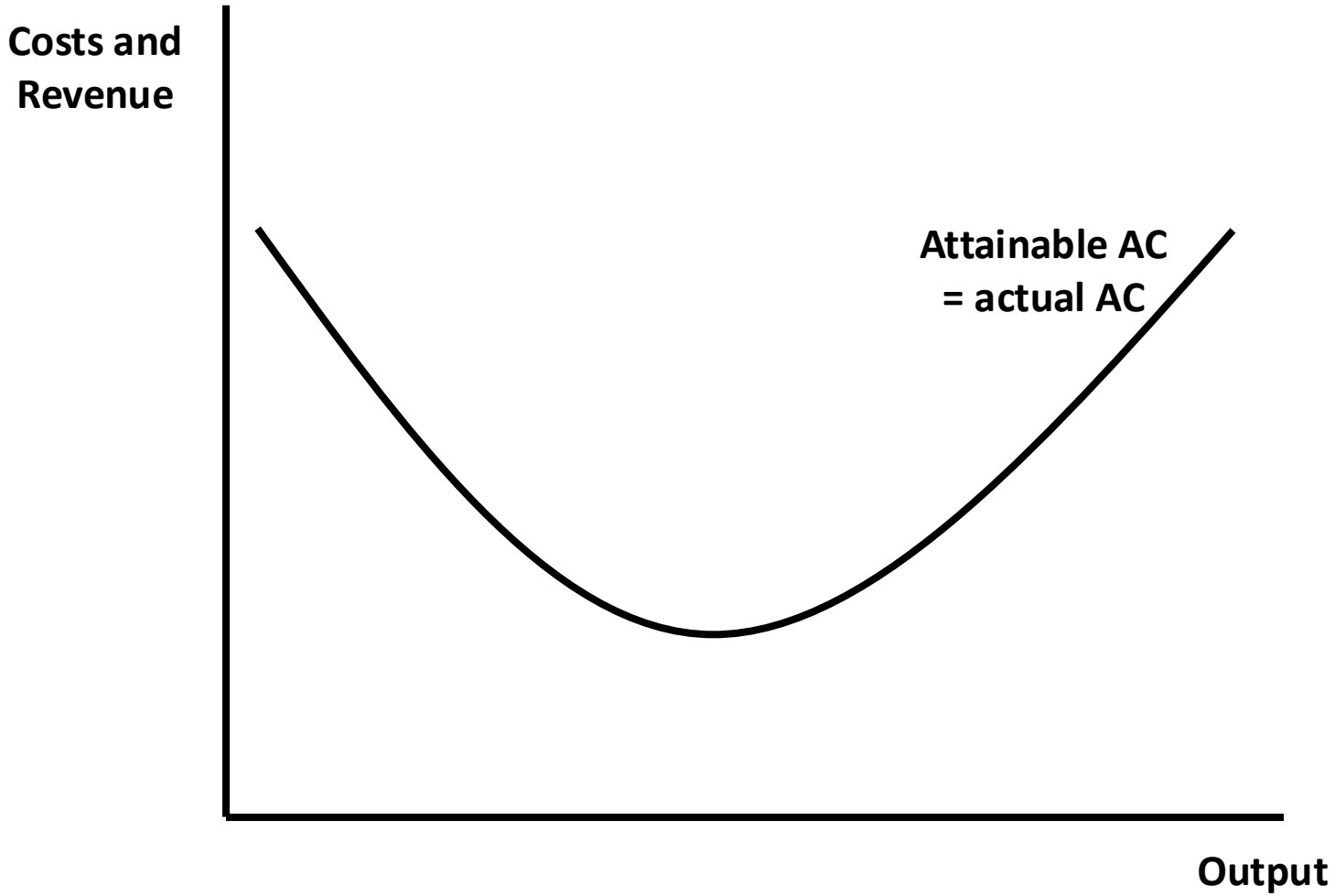
tutor2u



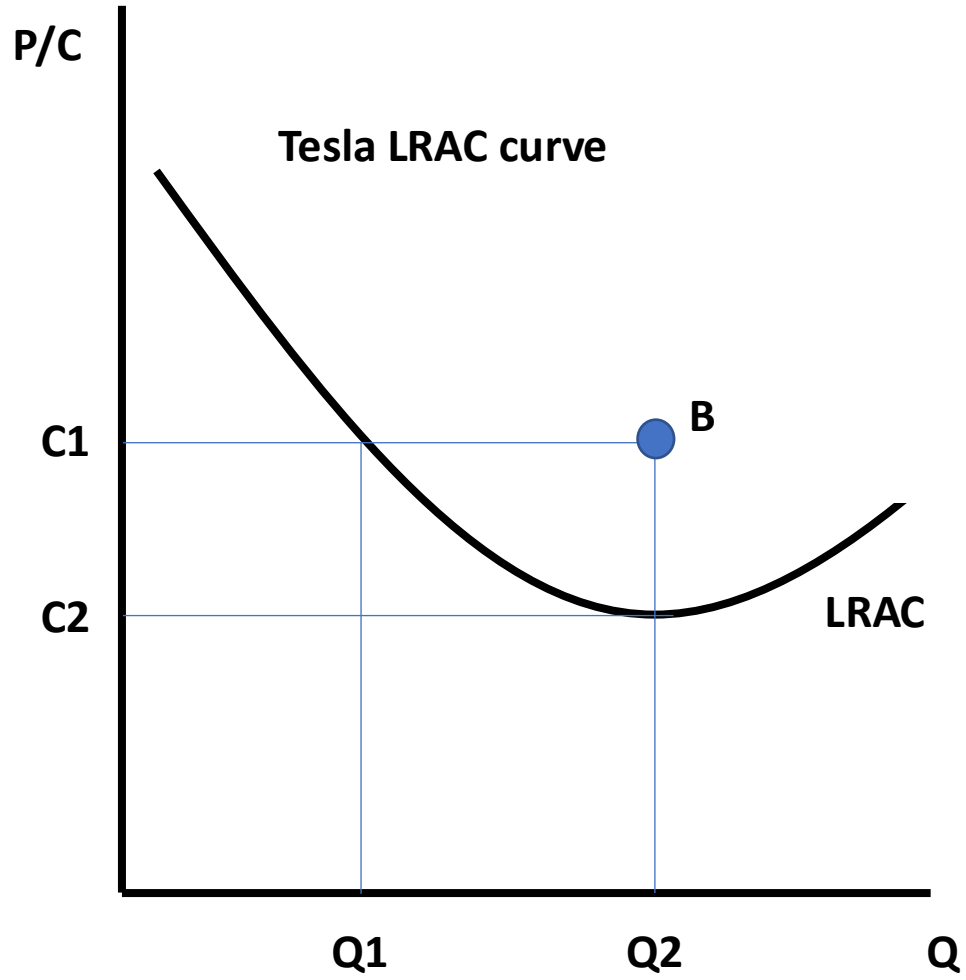
Long run average cost curve showing the returns to scale; productive efficiency (minimum LRAC) between Q1 and Q2. Q1 is the minimum efficient scale MES



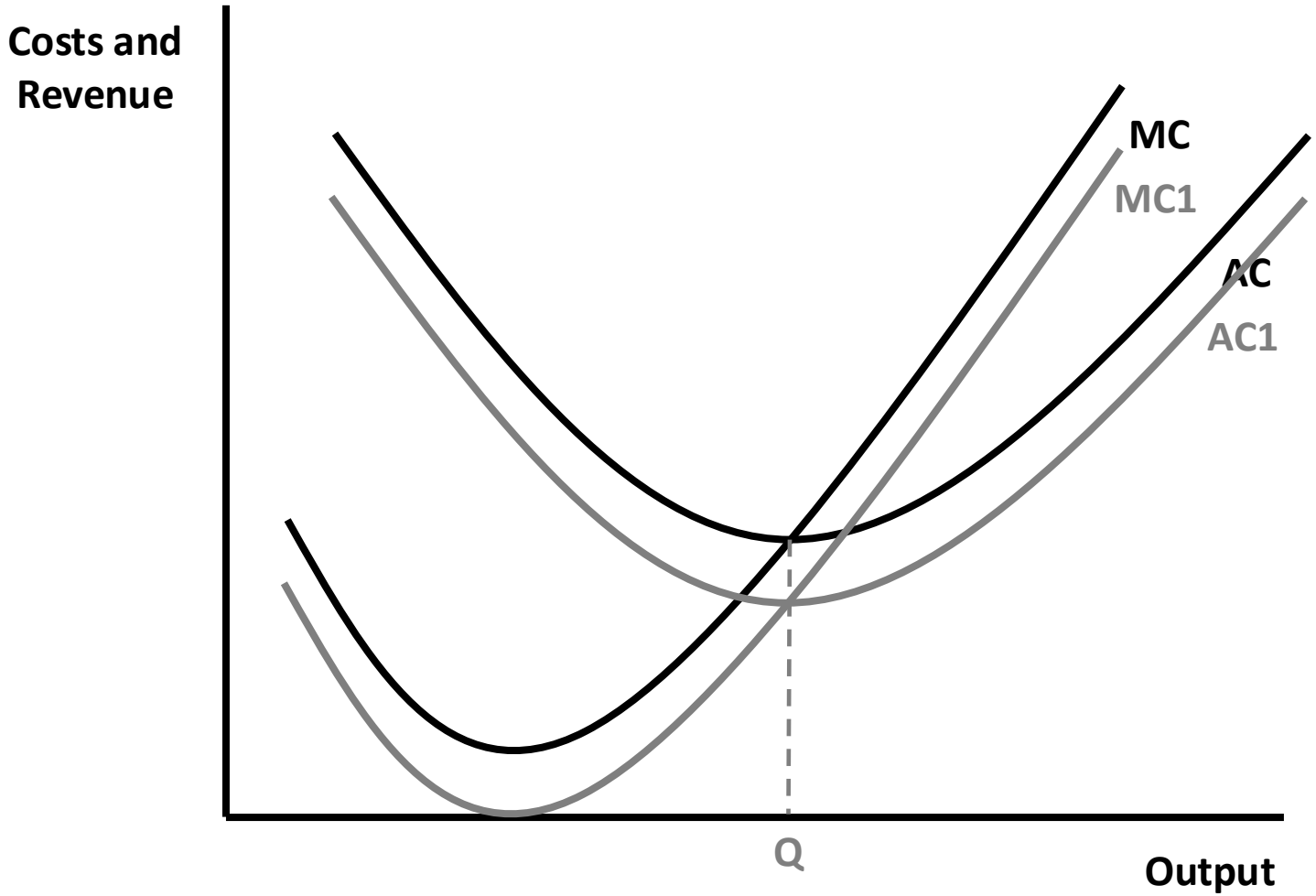
External economies of scale (LRAC shifts down)



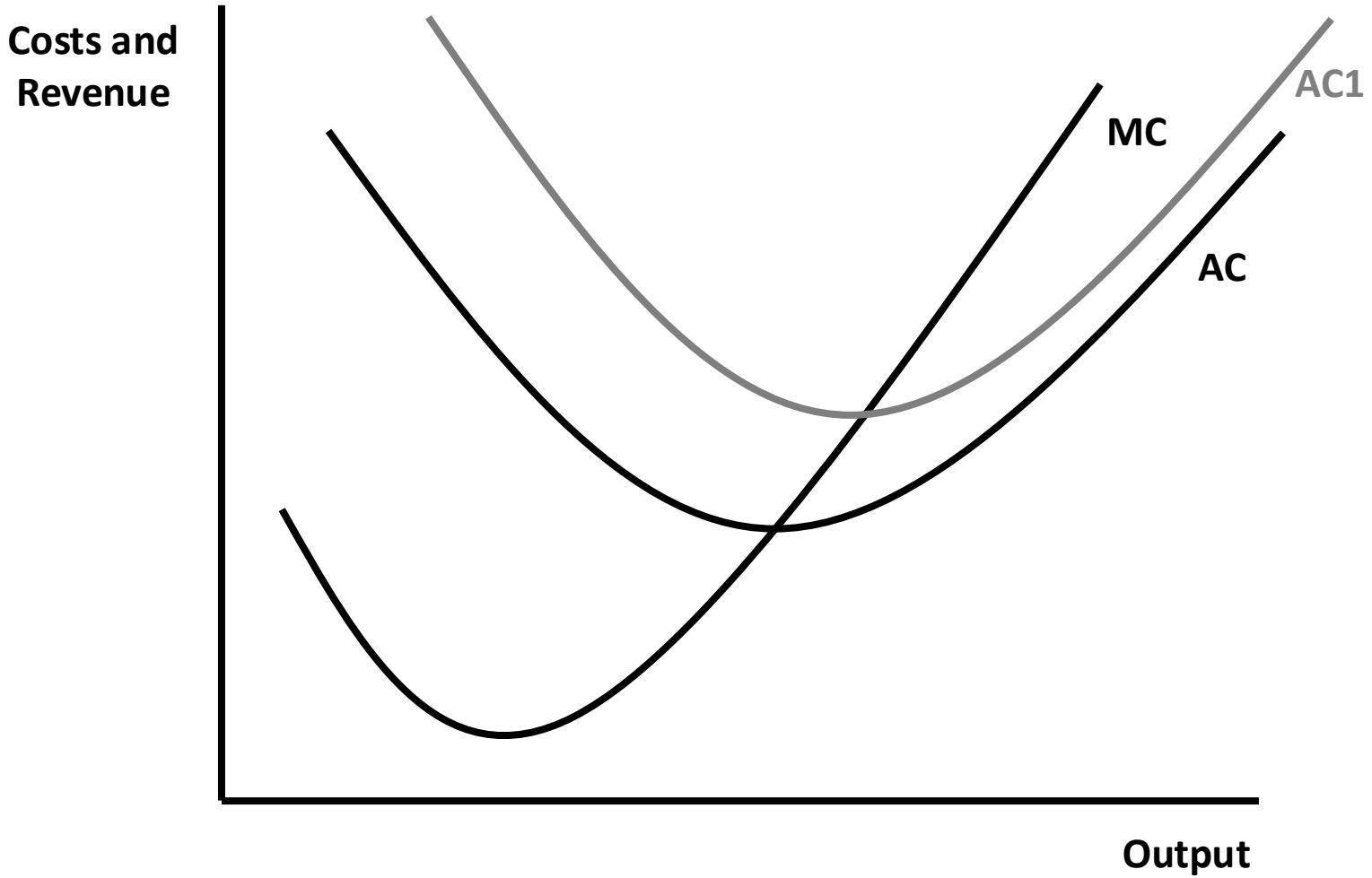
X-efficiency: Attainable AC = Actual AC



Long run average cost curve for Tesla (Point B shows some X-inefficiency)

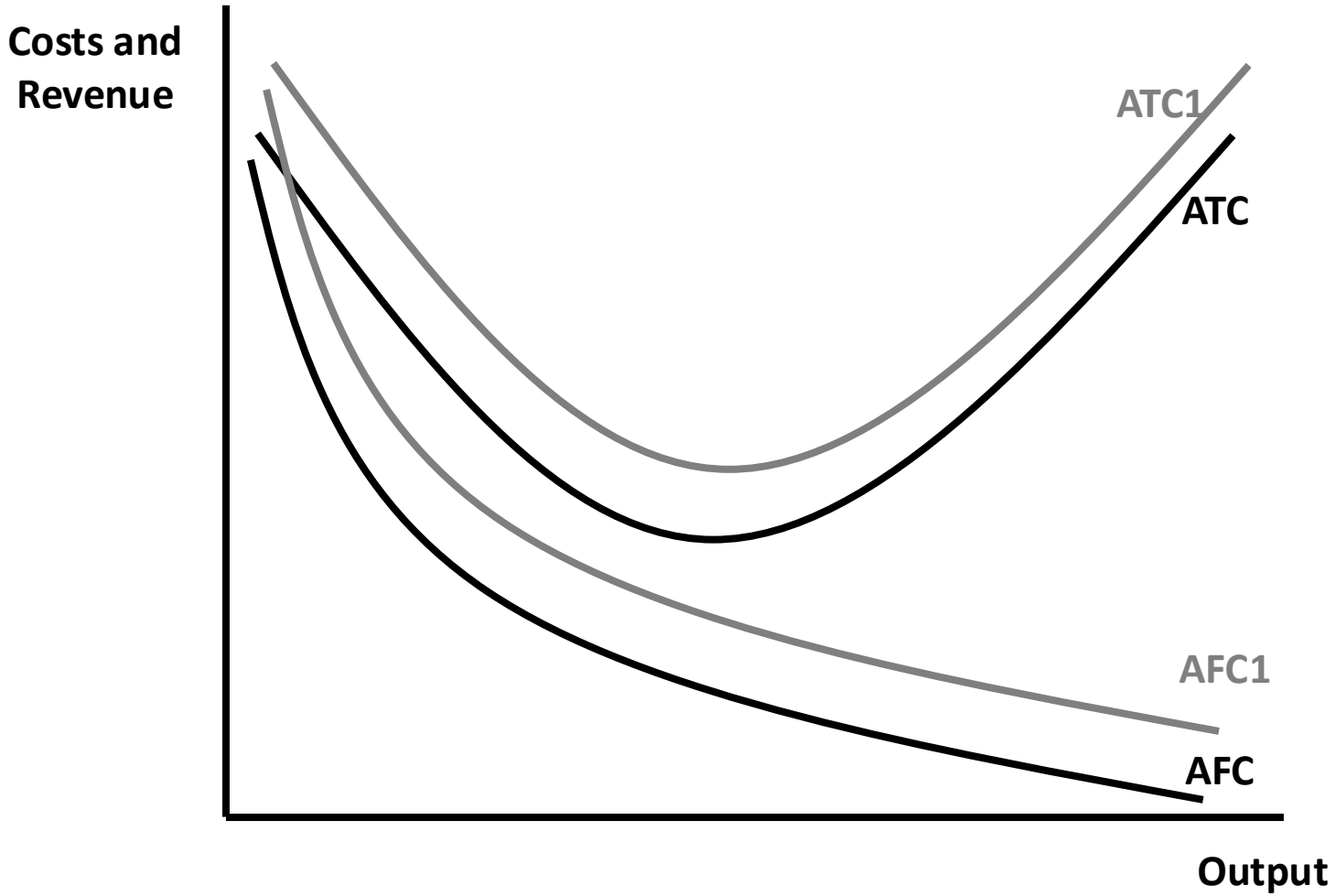


Shift down in MC and AC after a decrease in variable costs



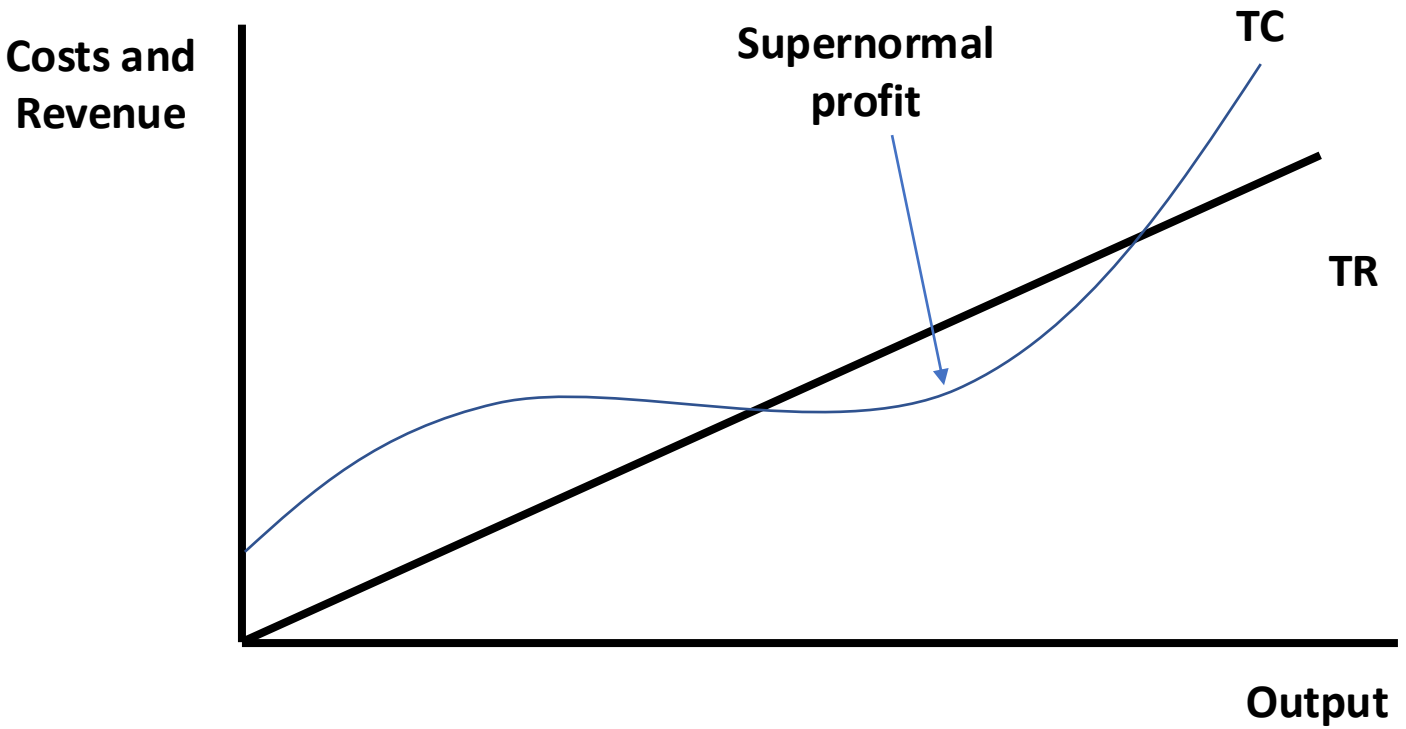
Impact of an increase in fixed costs on the average total cost curve; no change in MC

tutor2u



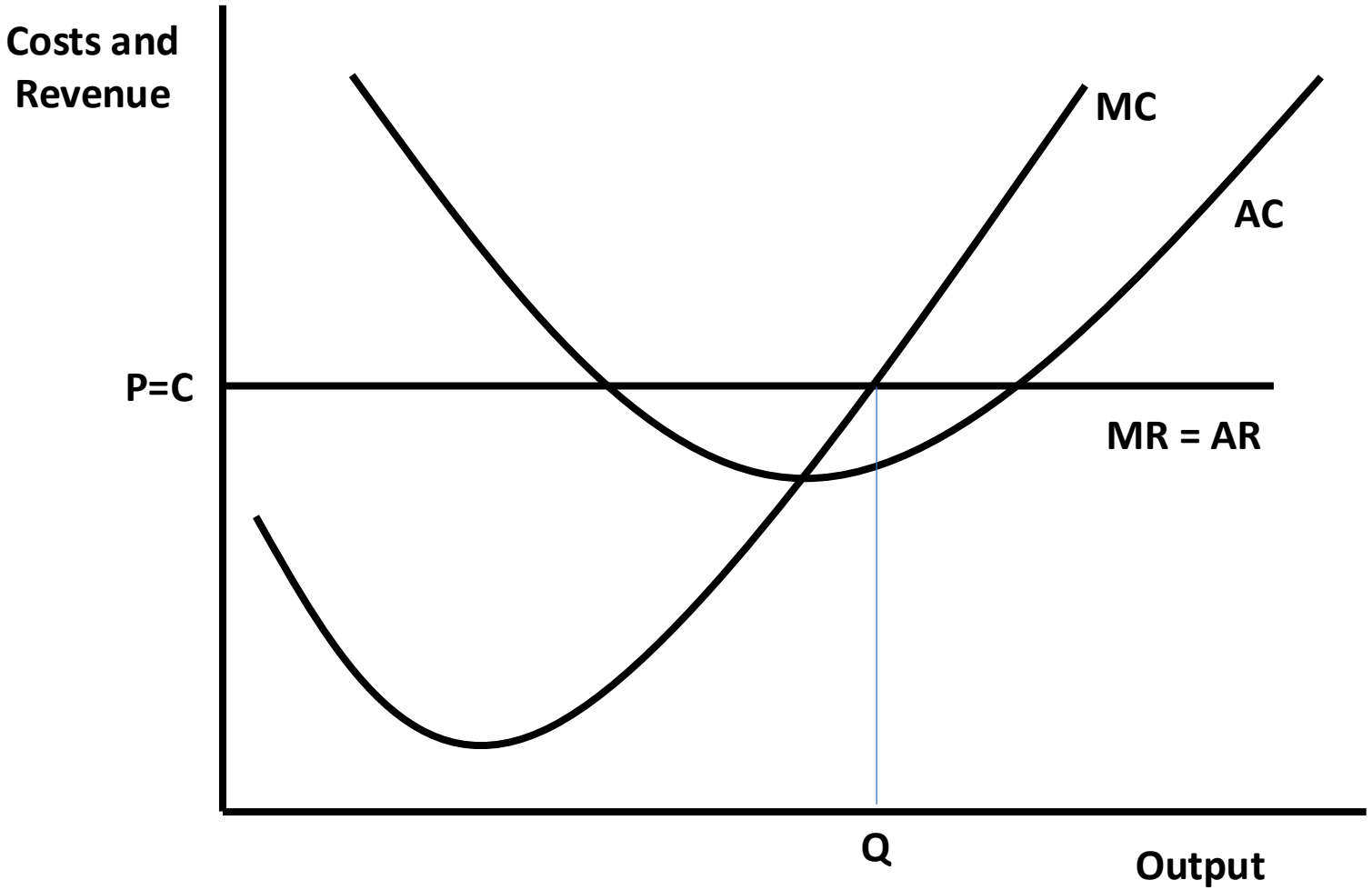
Impact of an increase in fixed costs on the average fixed cost curve and average total cost curve

tutor2u



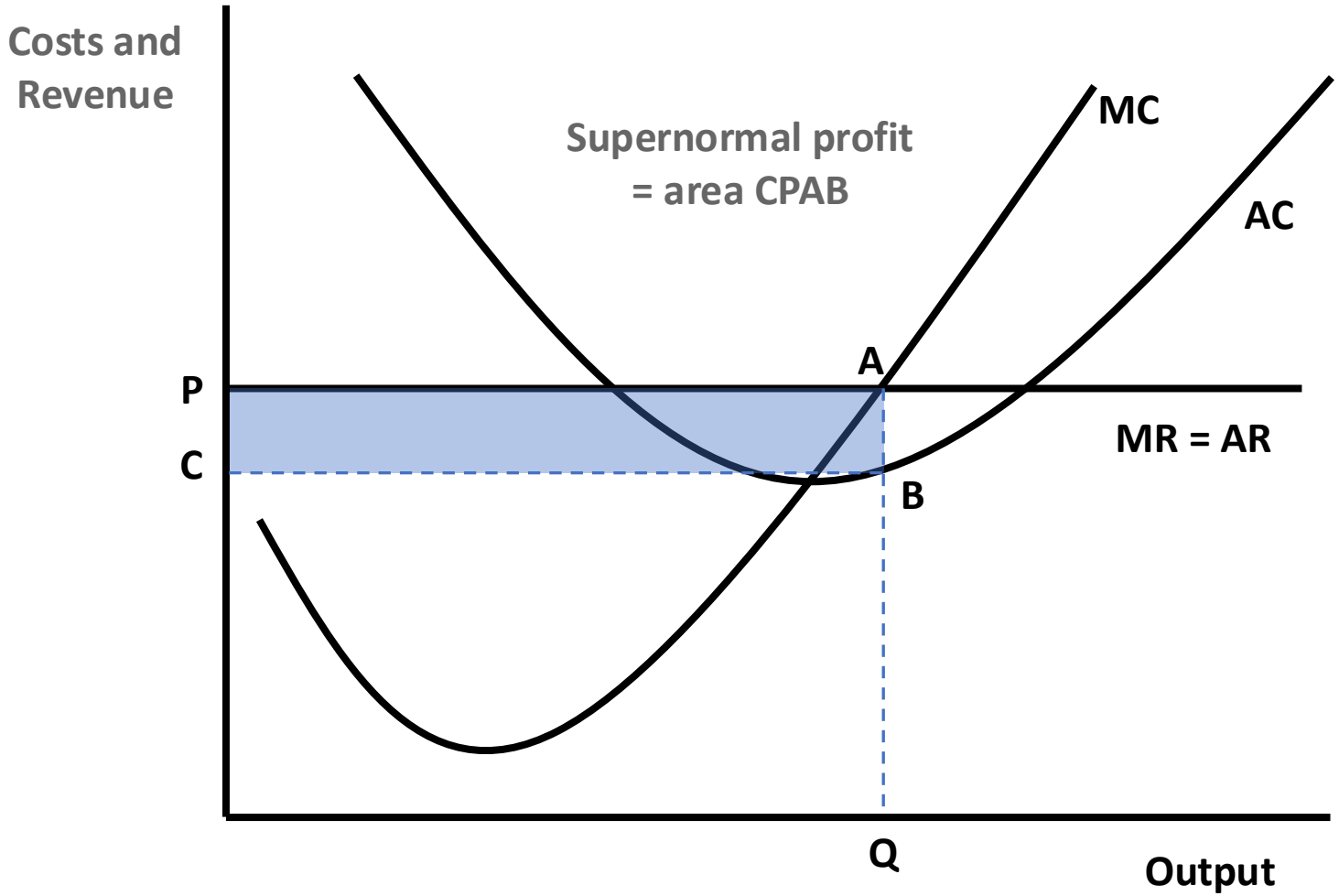
Total cost and total revenue for a price taker (perfect competition)

tutor2u



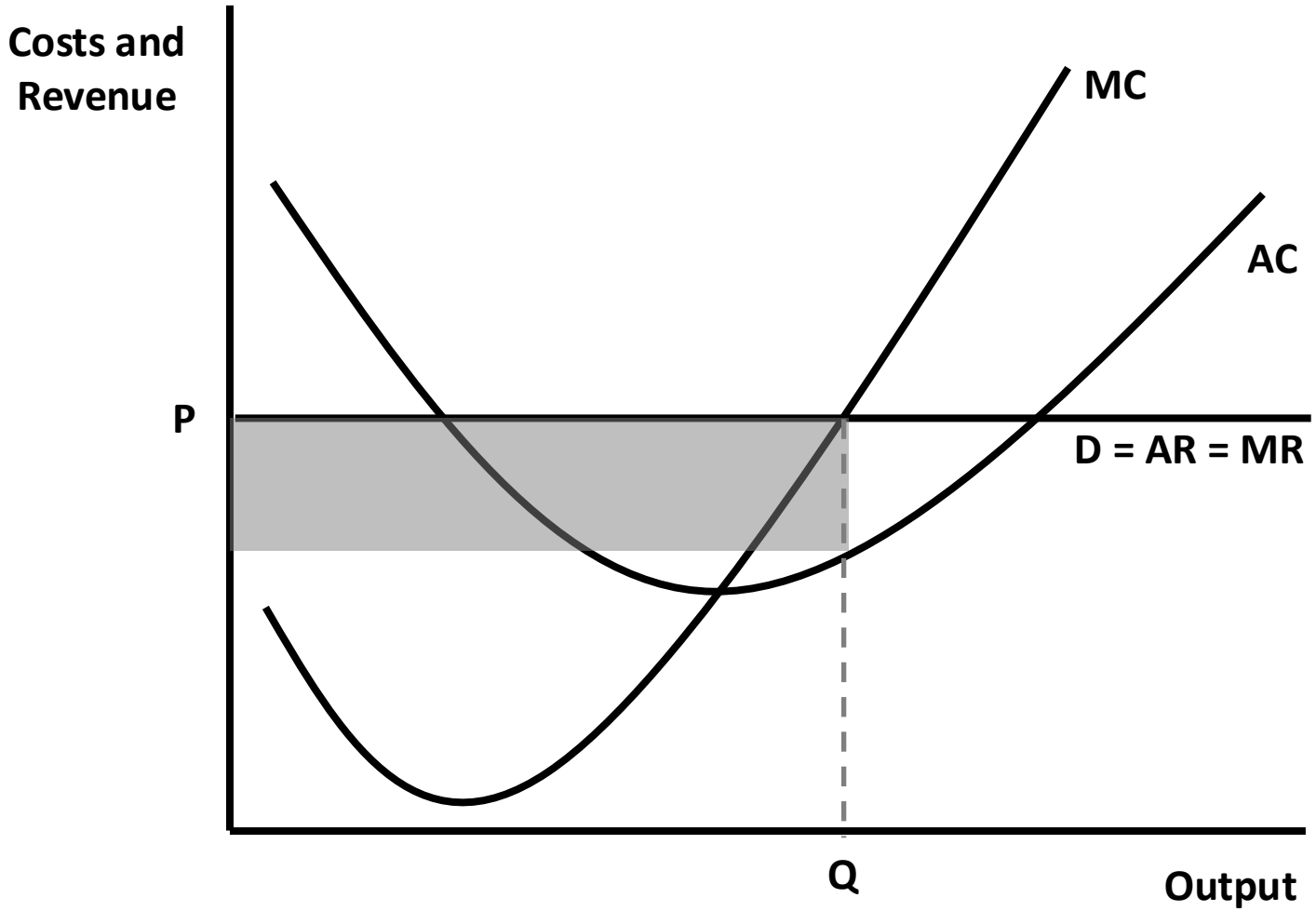
Perfect competition: Short run equilibrium

tutor2u

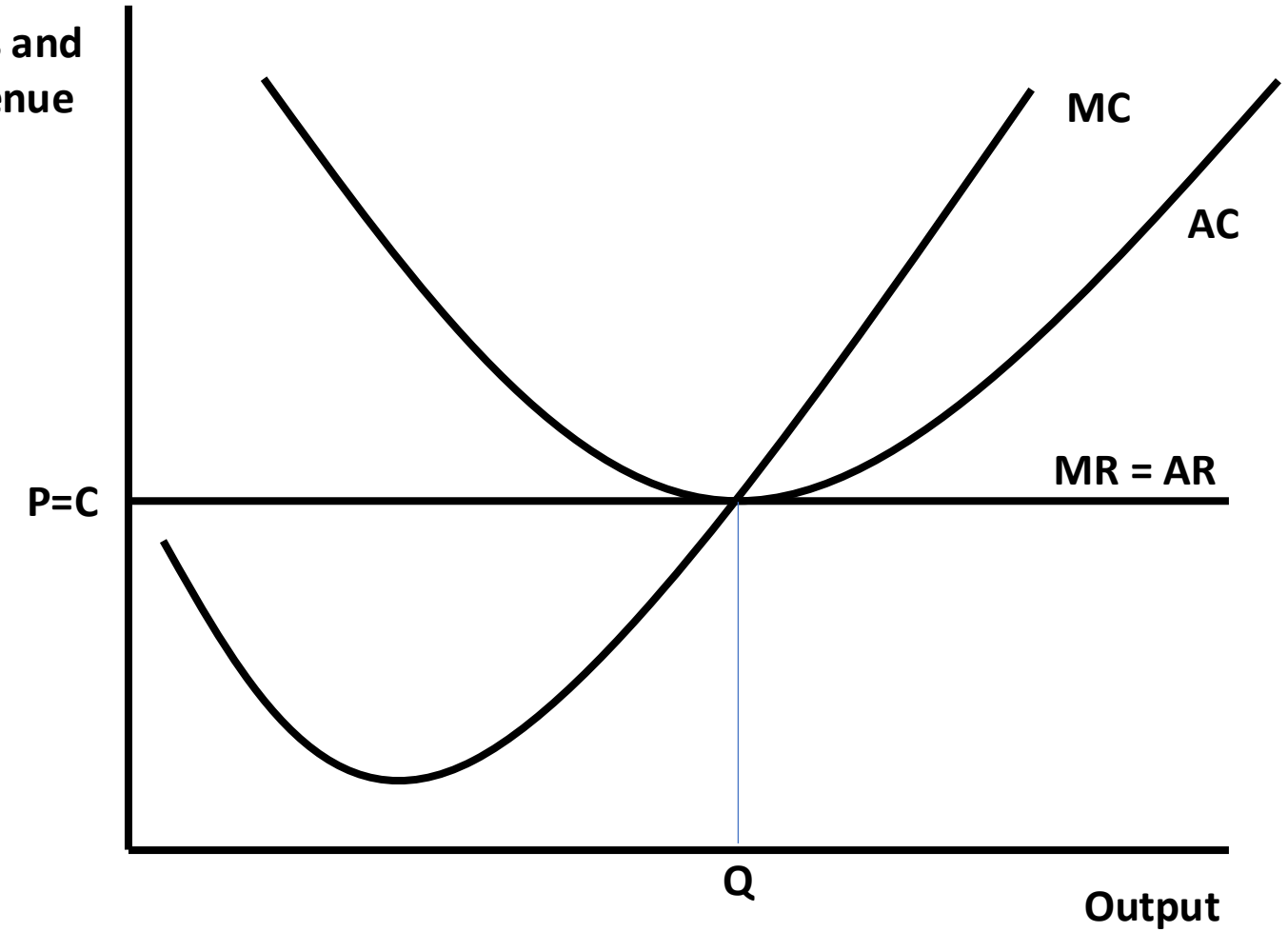


Perfect competition: short run supernormal profits

tutor2u

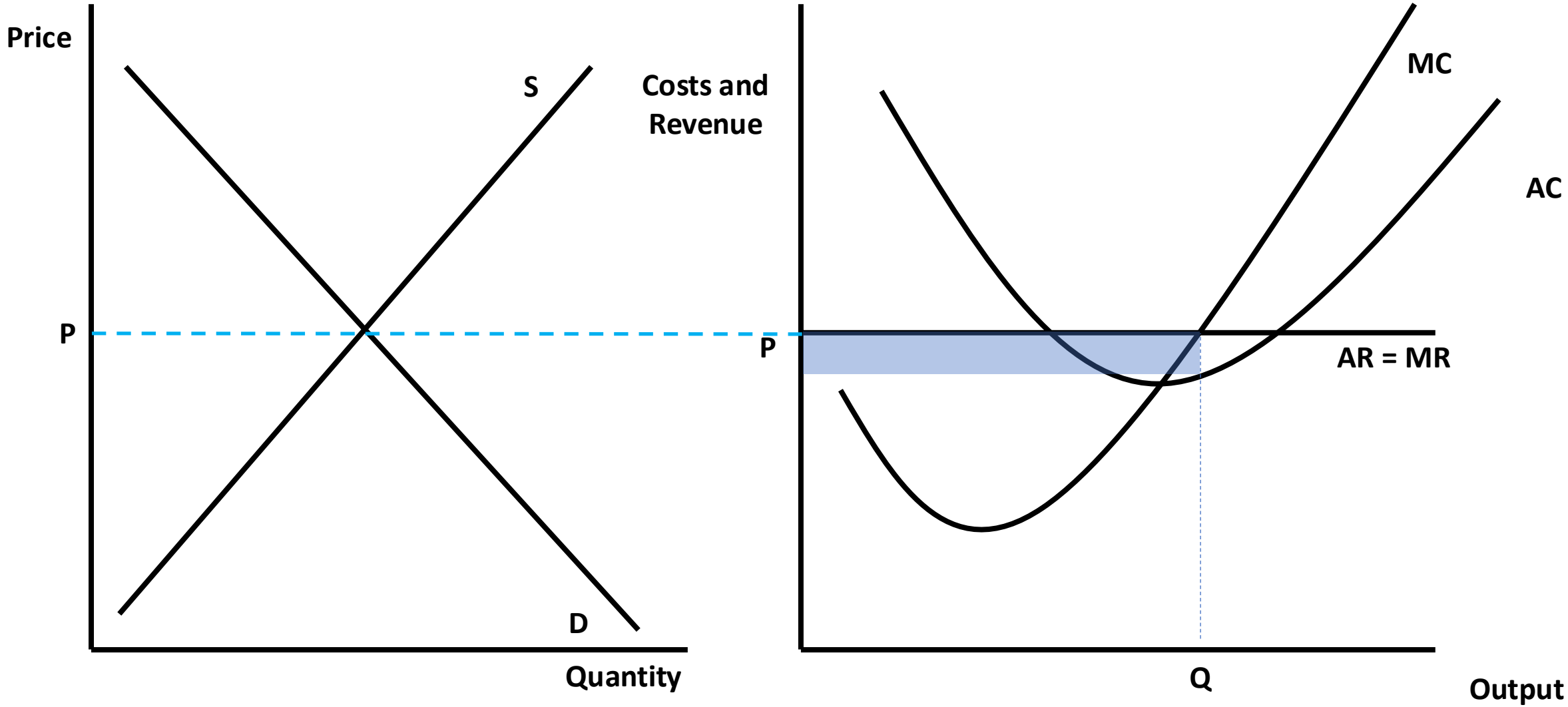


Short run profit-maximising equilibrium for perfect competition



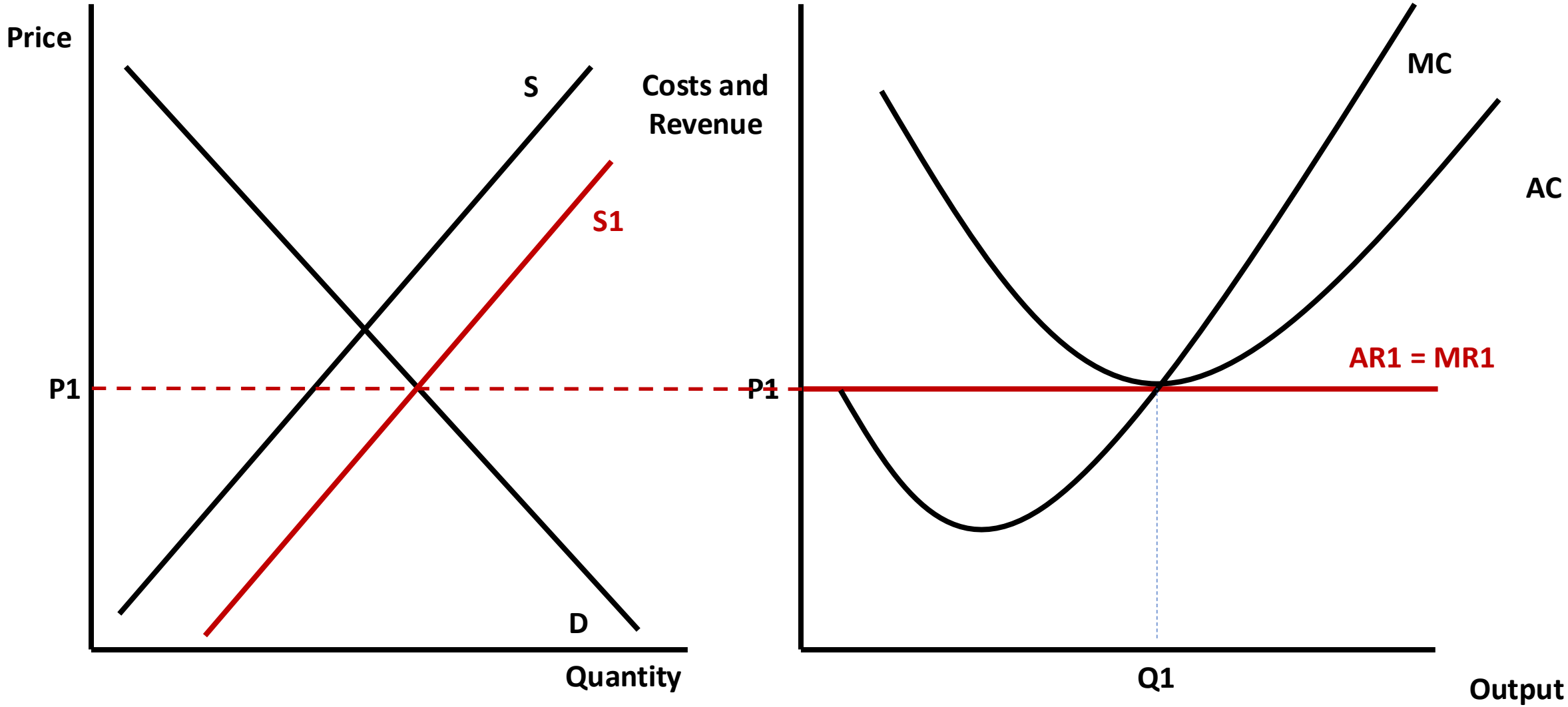
Perfect competition – long run equilibrium (Normal profit only)

Short-Run Equilibrium

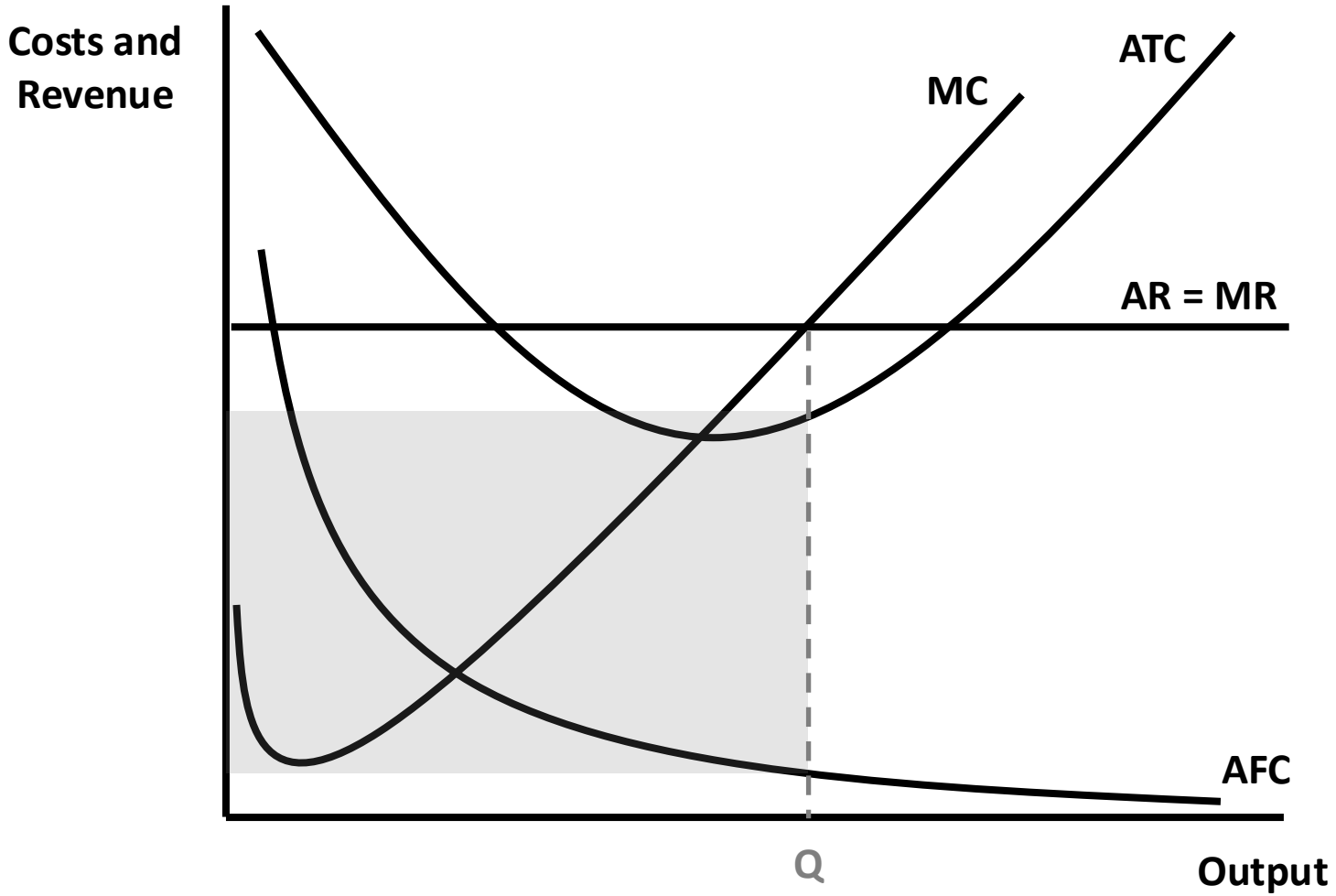


Market determines the price taken by the perfect competitor in the short run; supernormal profits can be made

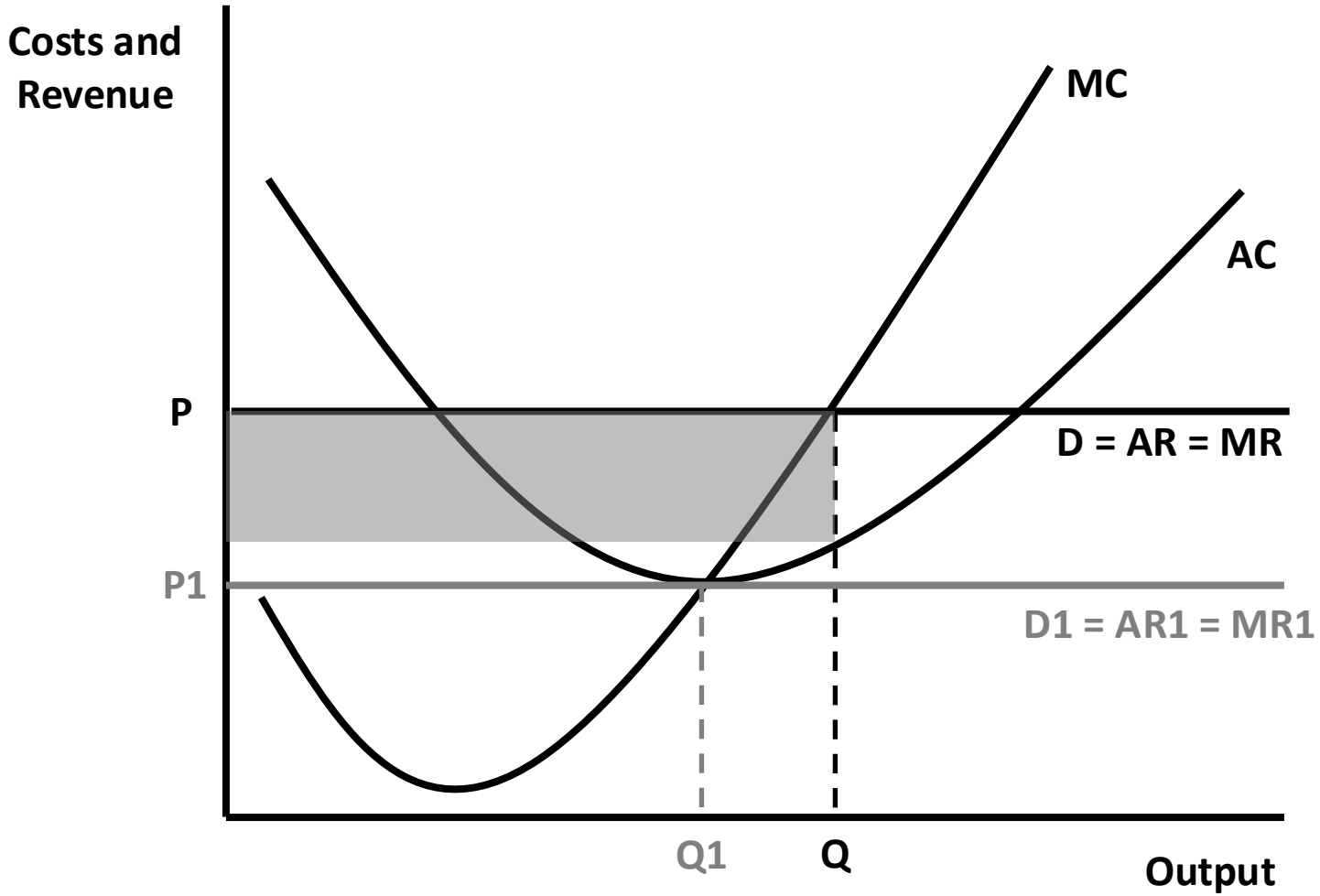
Long-Run Equilibrium



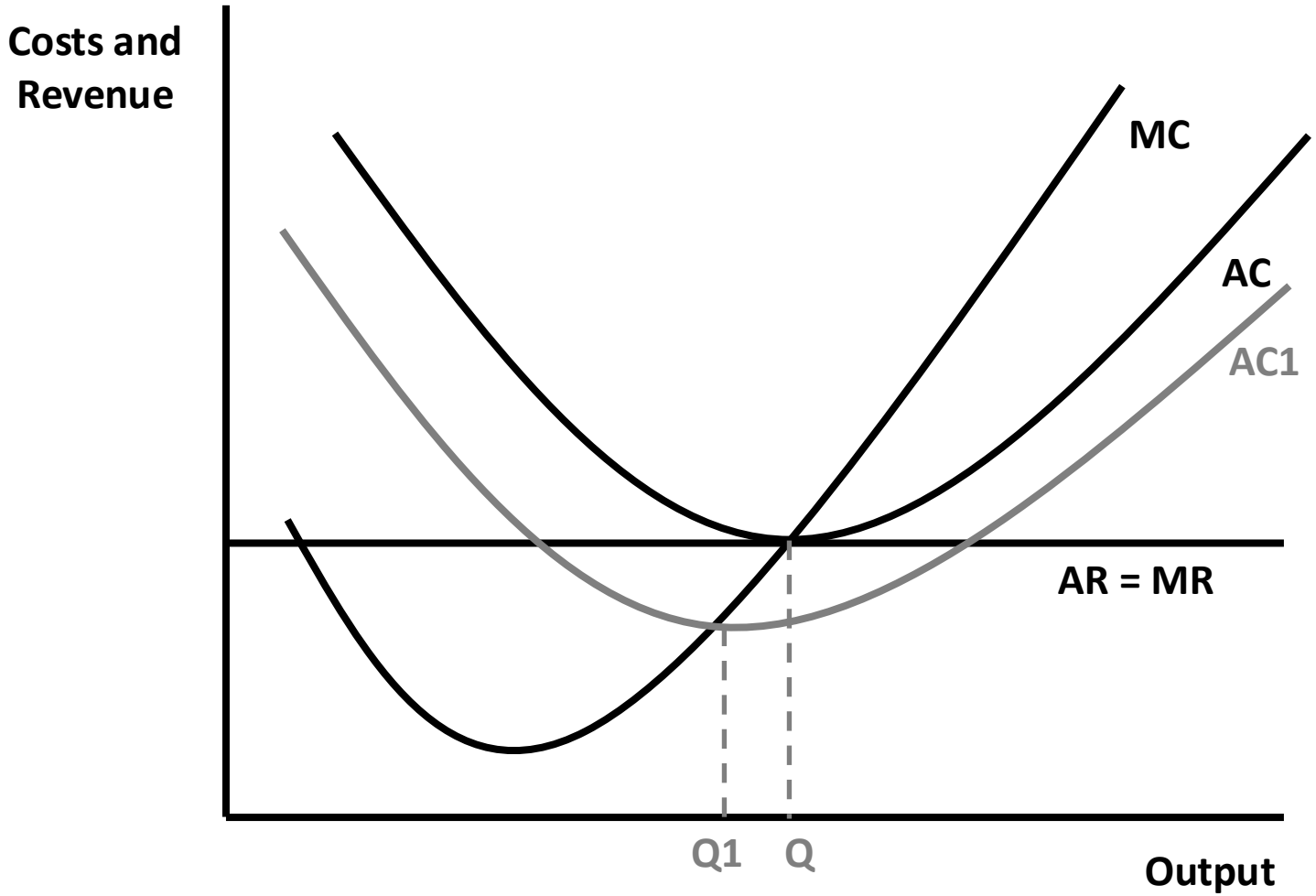
Short run supernormal profits attract new firms to join the market increasing the market supply and reducing the market price; this continues until all supernormal profits of the perfectly competitive firm are competed away in the long run



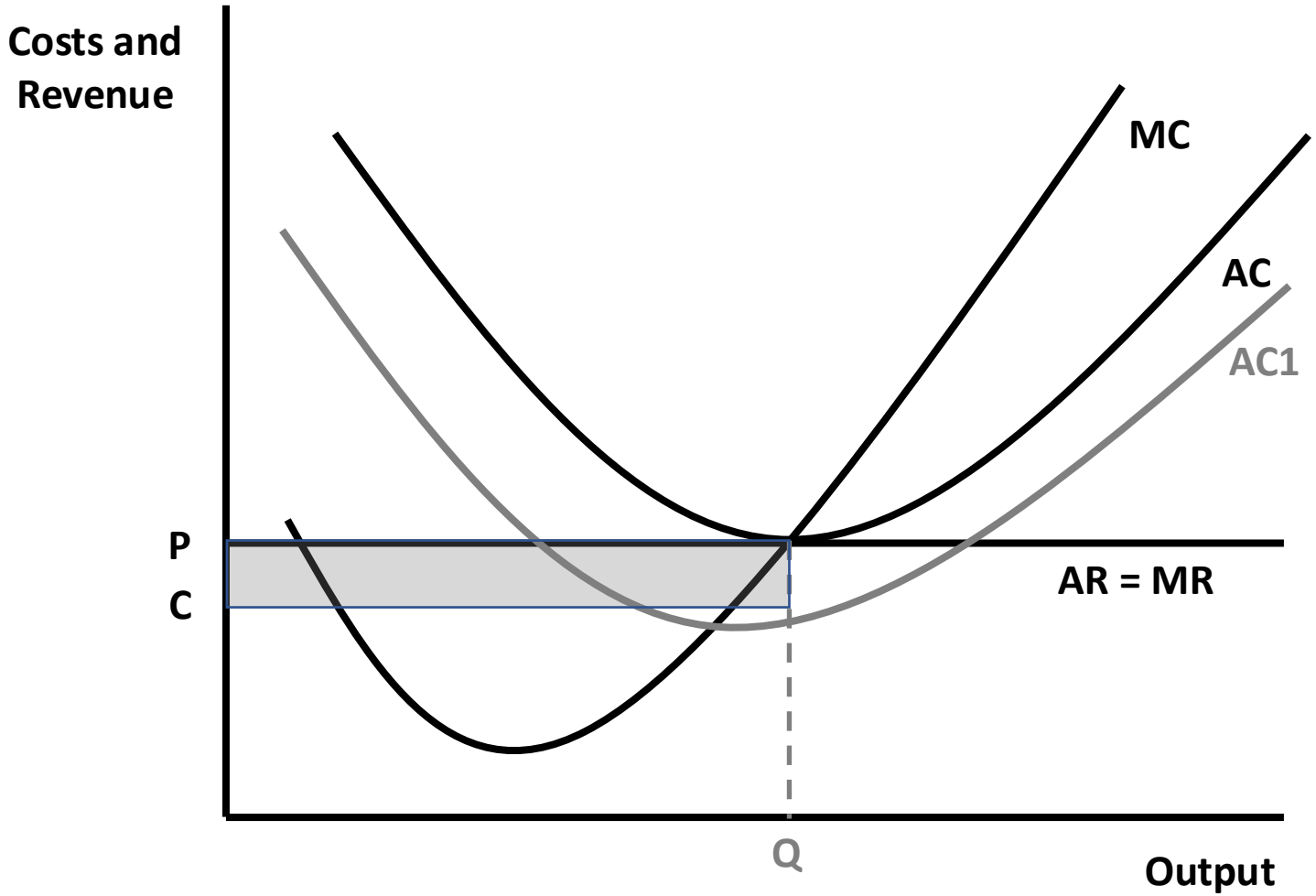
Area showing the total variable costs at the profit-maximising output in perfect competition. (AVC = ATC – AFC and TVC = AVCxQ)



Short run v long run equilibrium for perfect competition (Supernormal profit is competed away as new firms join the market reducing the market price)

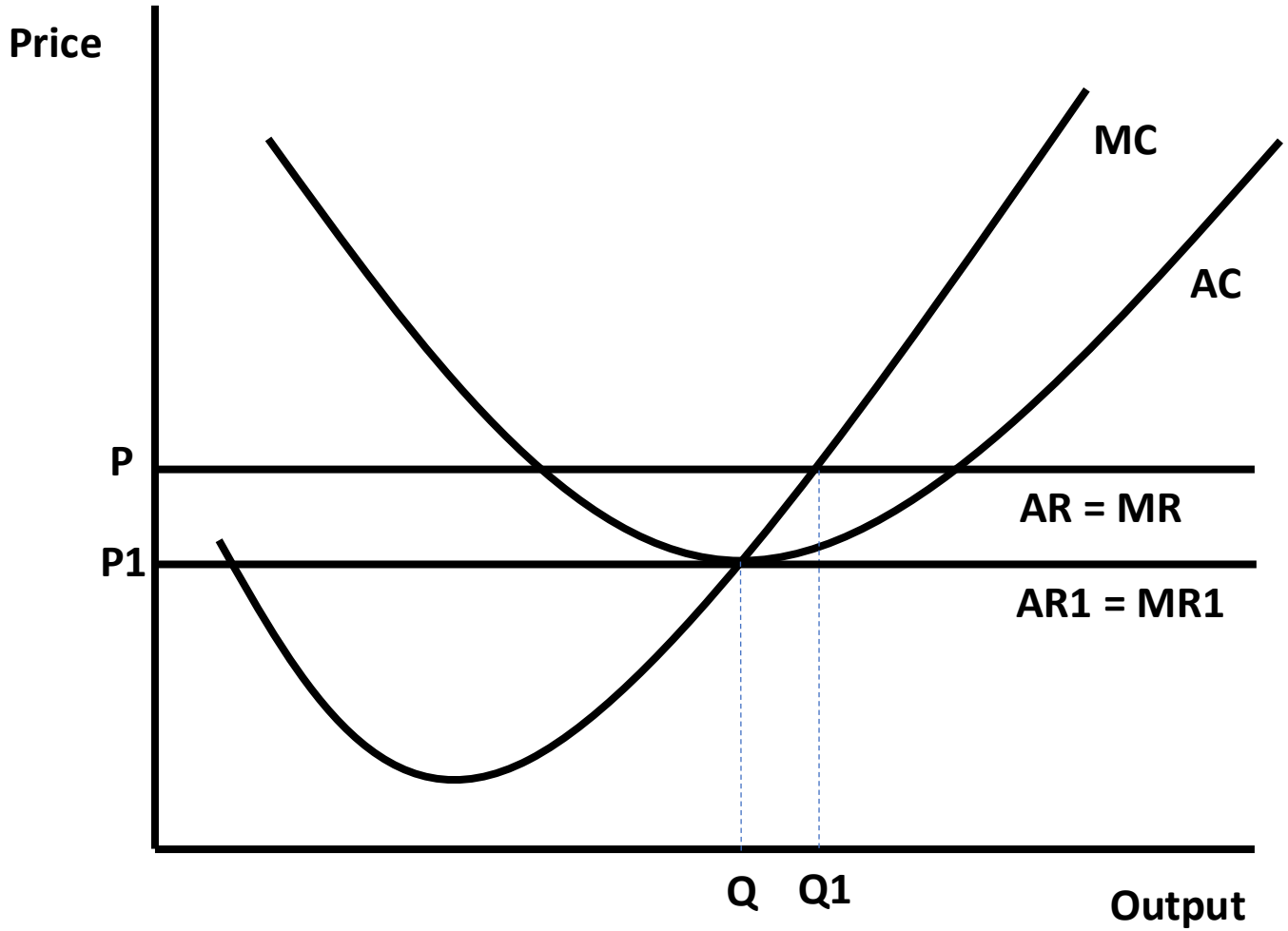


Impact on output of a fall in fixed costs in perfect competition

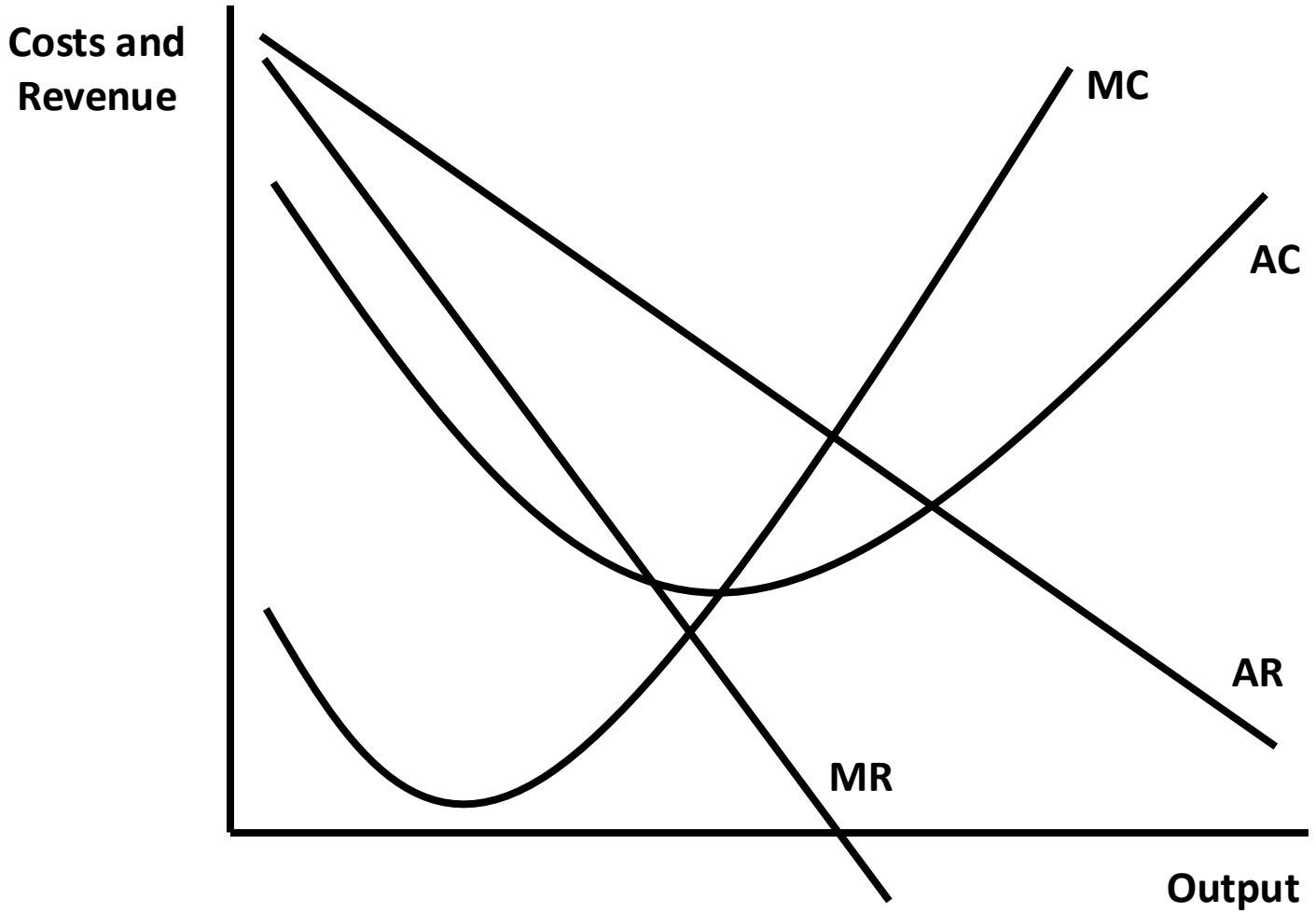


Impact on supernormal profit of a fall in fixed costs in perfect competition

tutor2u

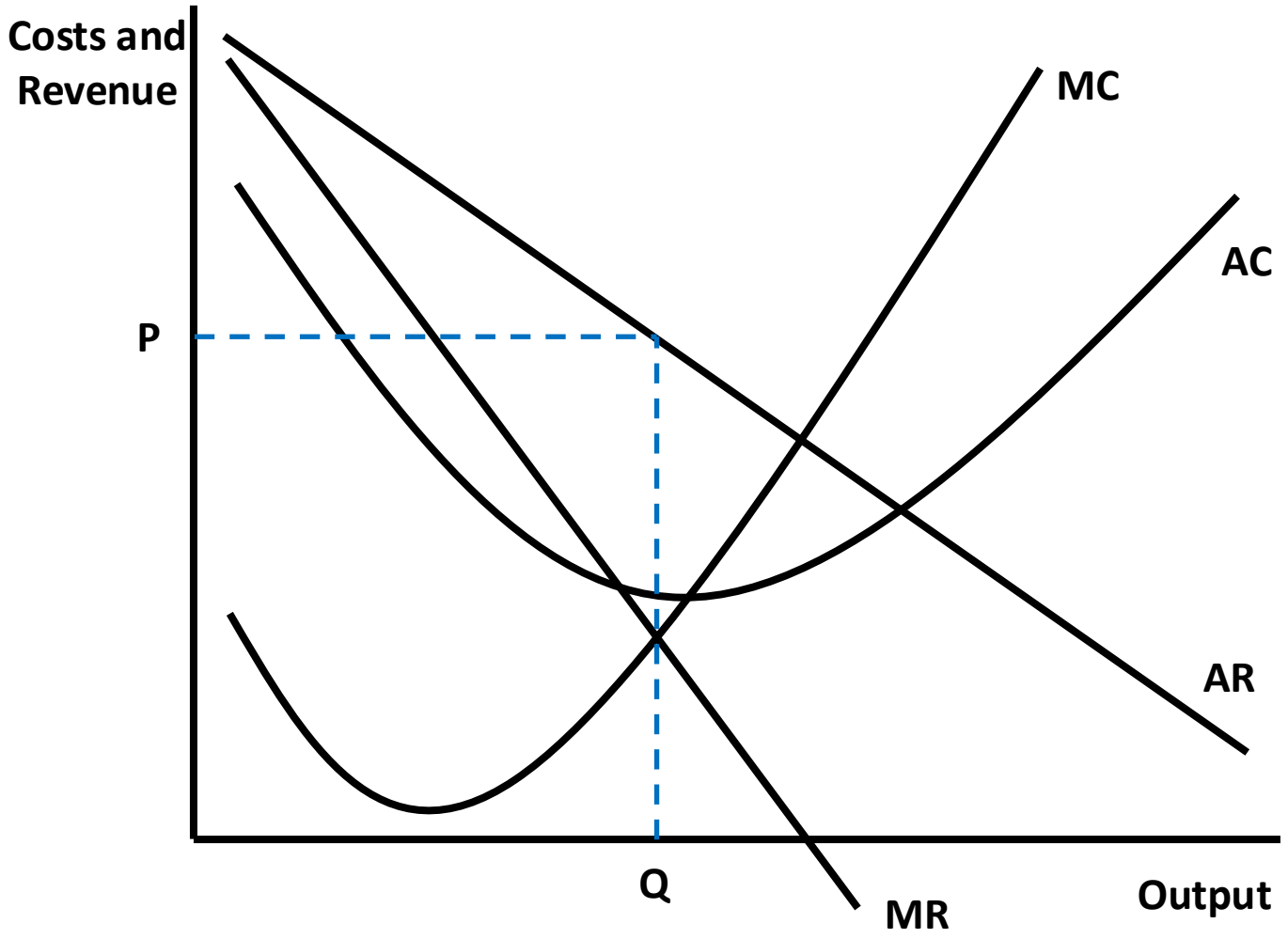


Impact on output of a fall in the market price in perfect competition – supernormal profit at price P becomes normal profit only at P1



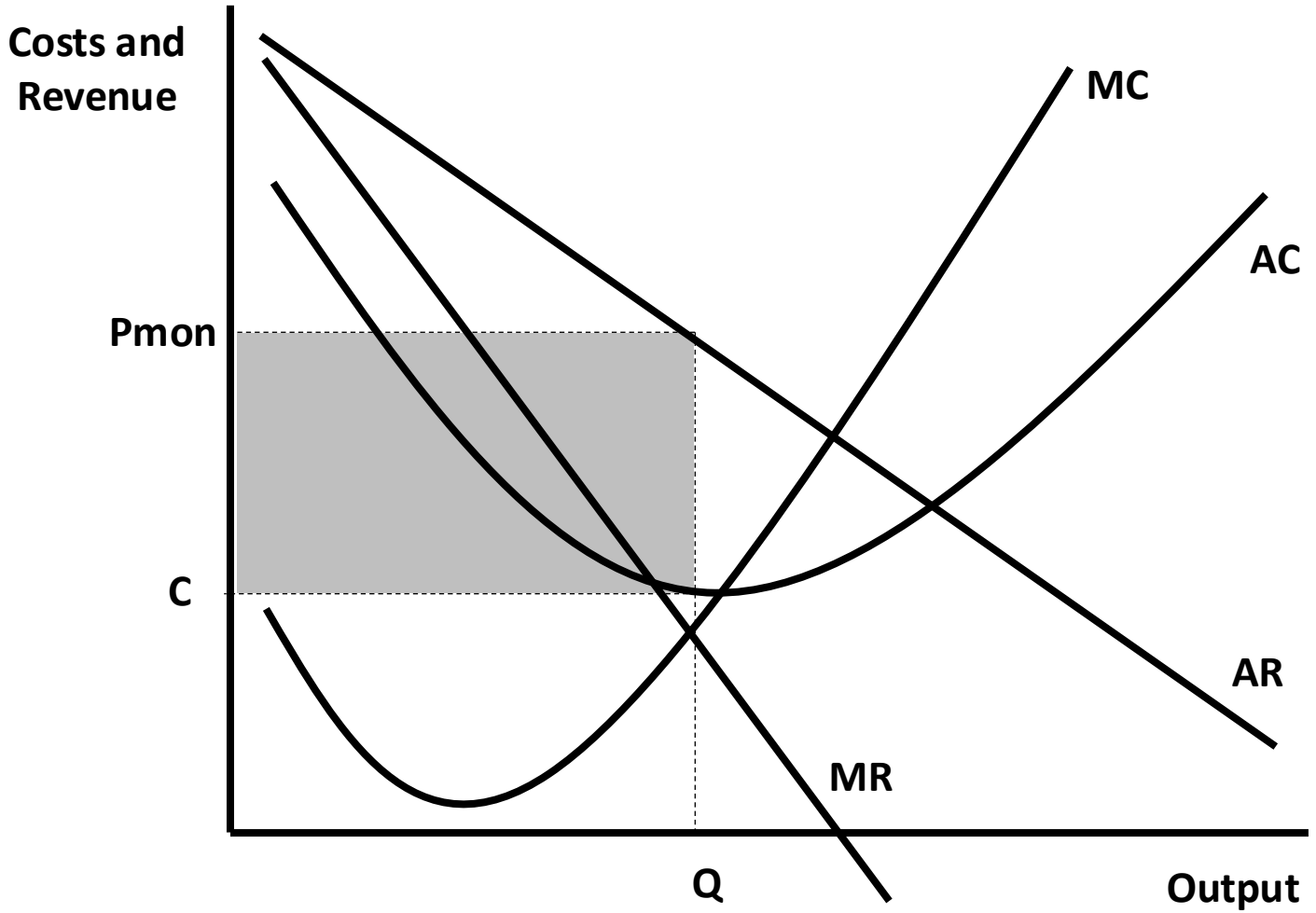
Cost and revenue curves for price maker (imperfect competition)

tutor2u



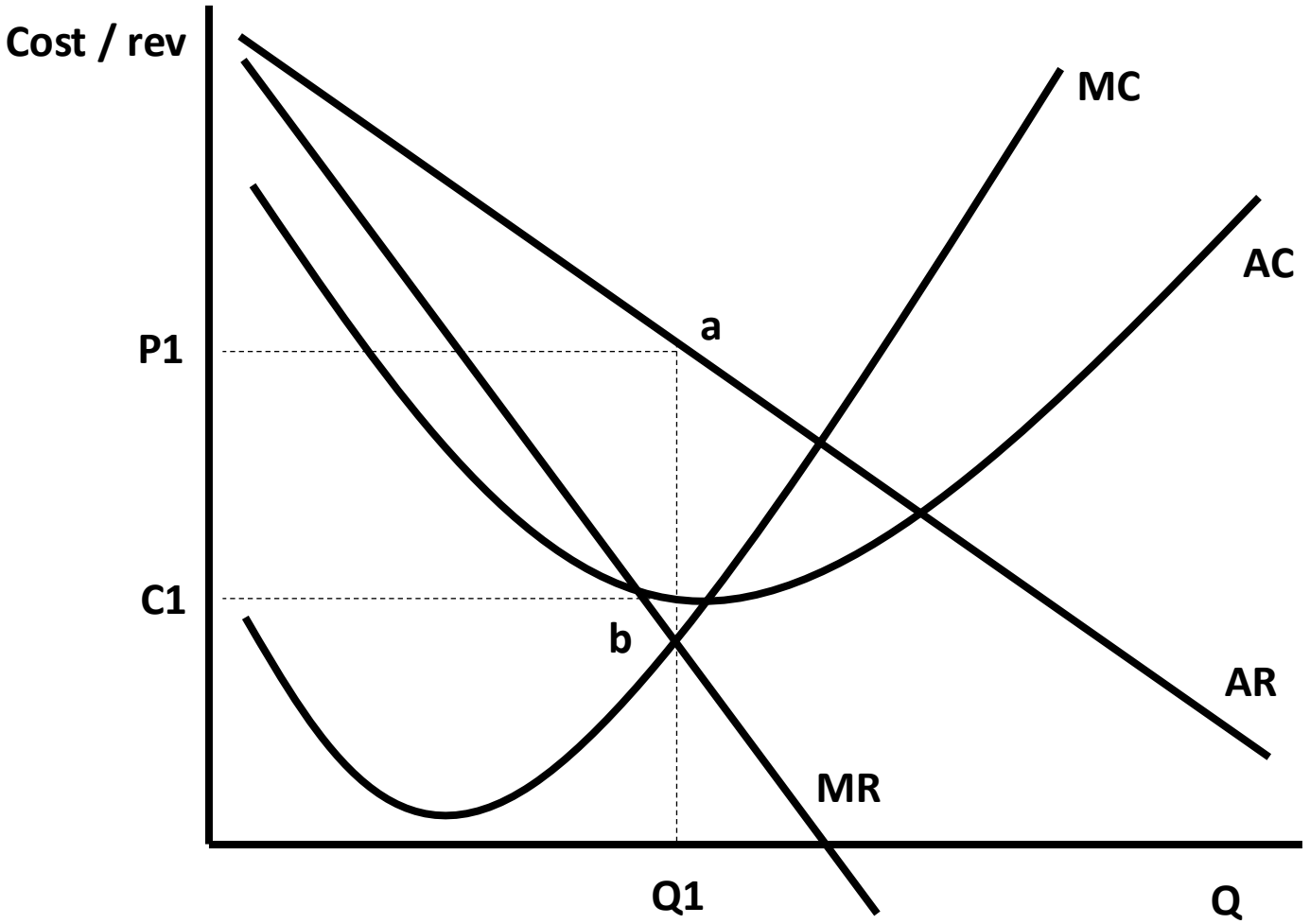
Profit maximising output and price for a price maker

tutor2u



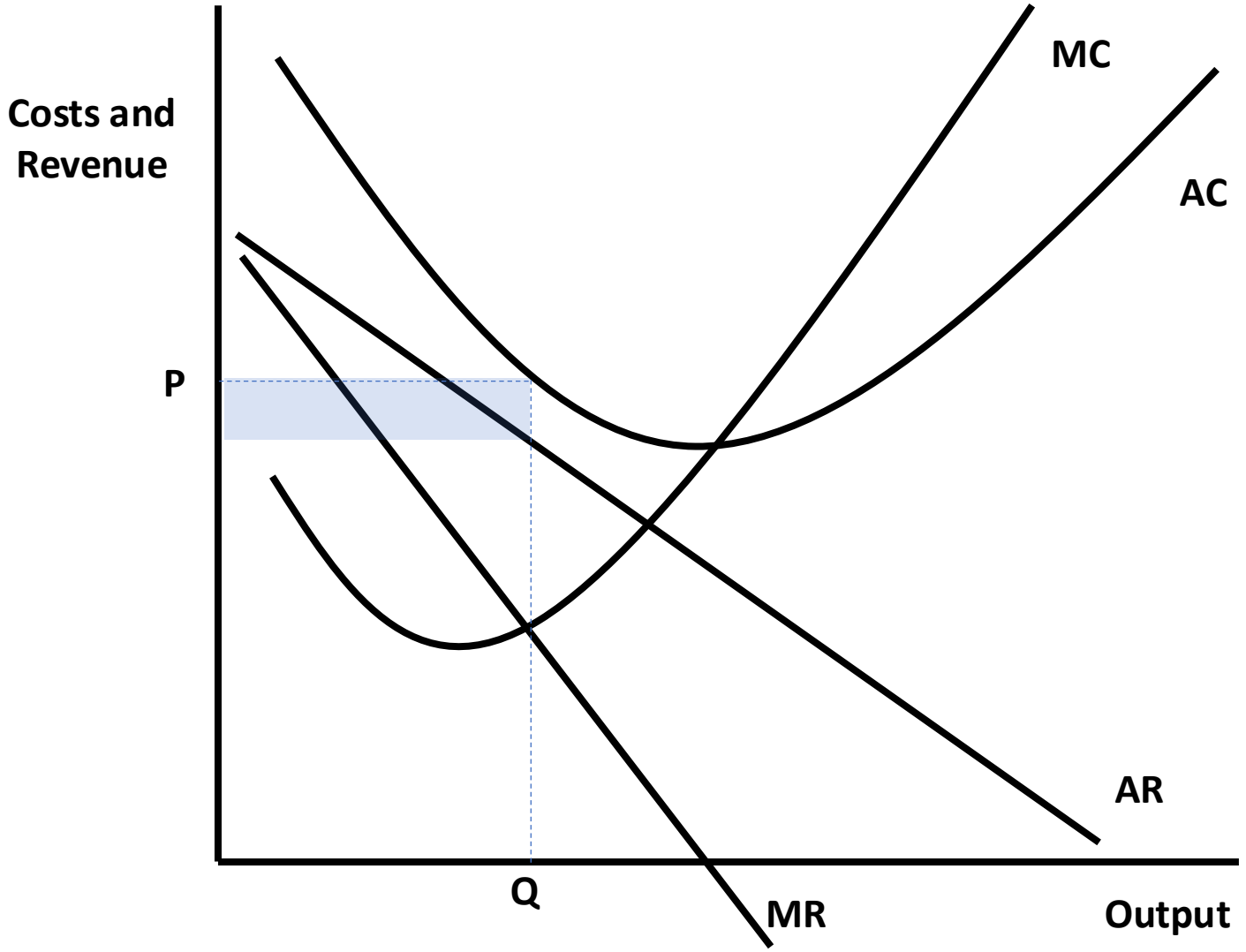
Supernormal profit for monopoly

tutor2u

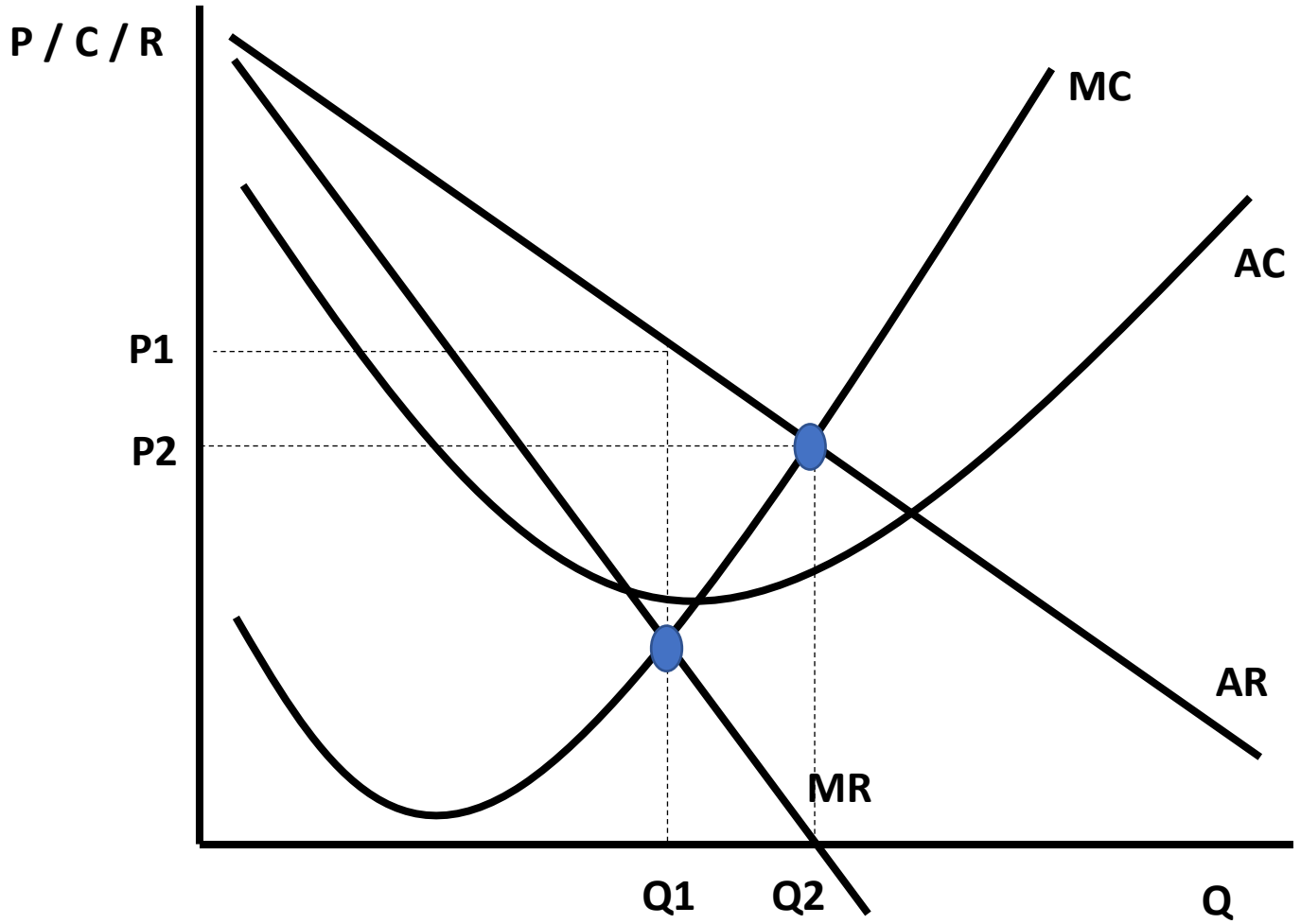


Profit maximising monopoly (output where MC =MR); supernormal profit = P1abC1 or P1C1 x Q1

tutor2u

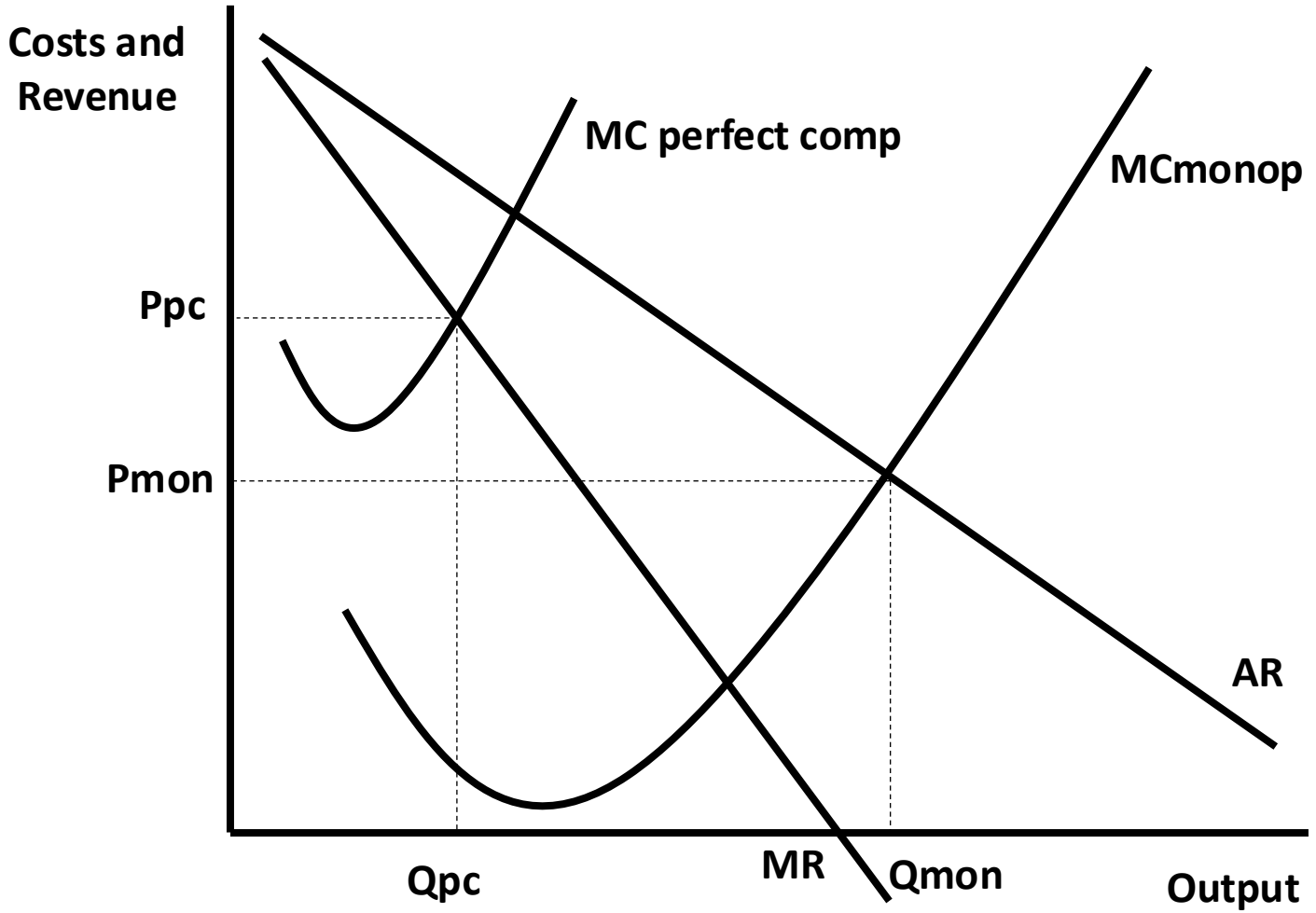


Loss minimising output and price for a price maker

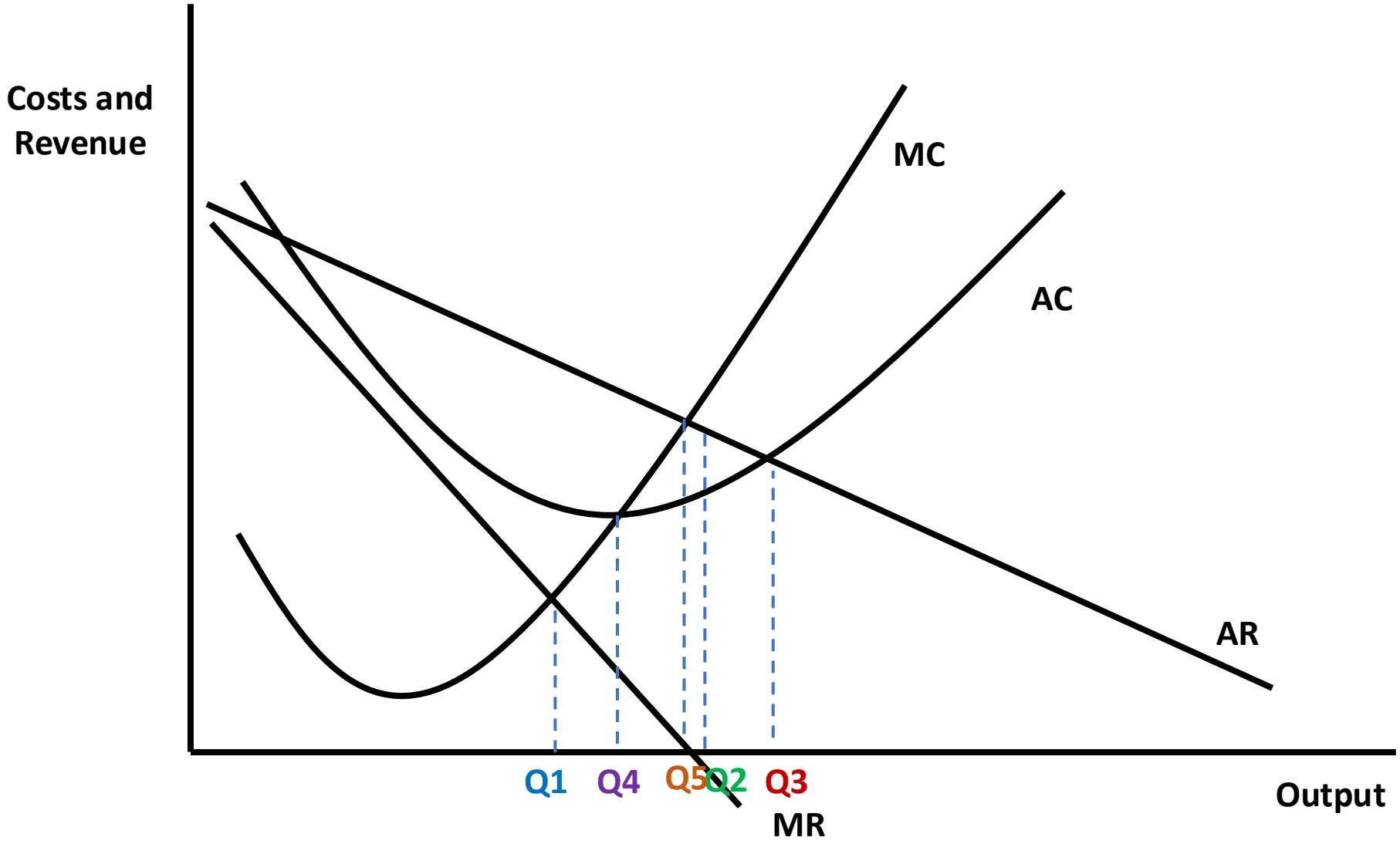


Monopoly profit-maximising output (MC=MR) compared to allocatively efficient output (MC=AR)

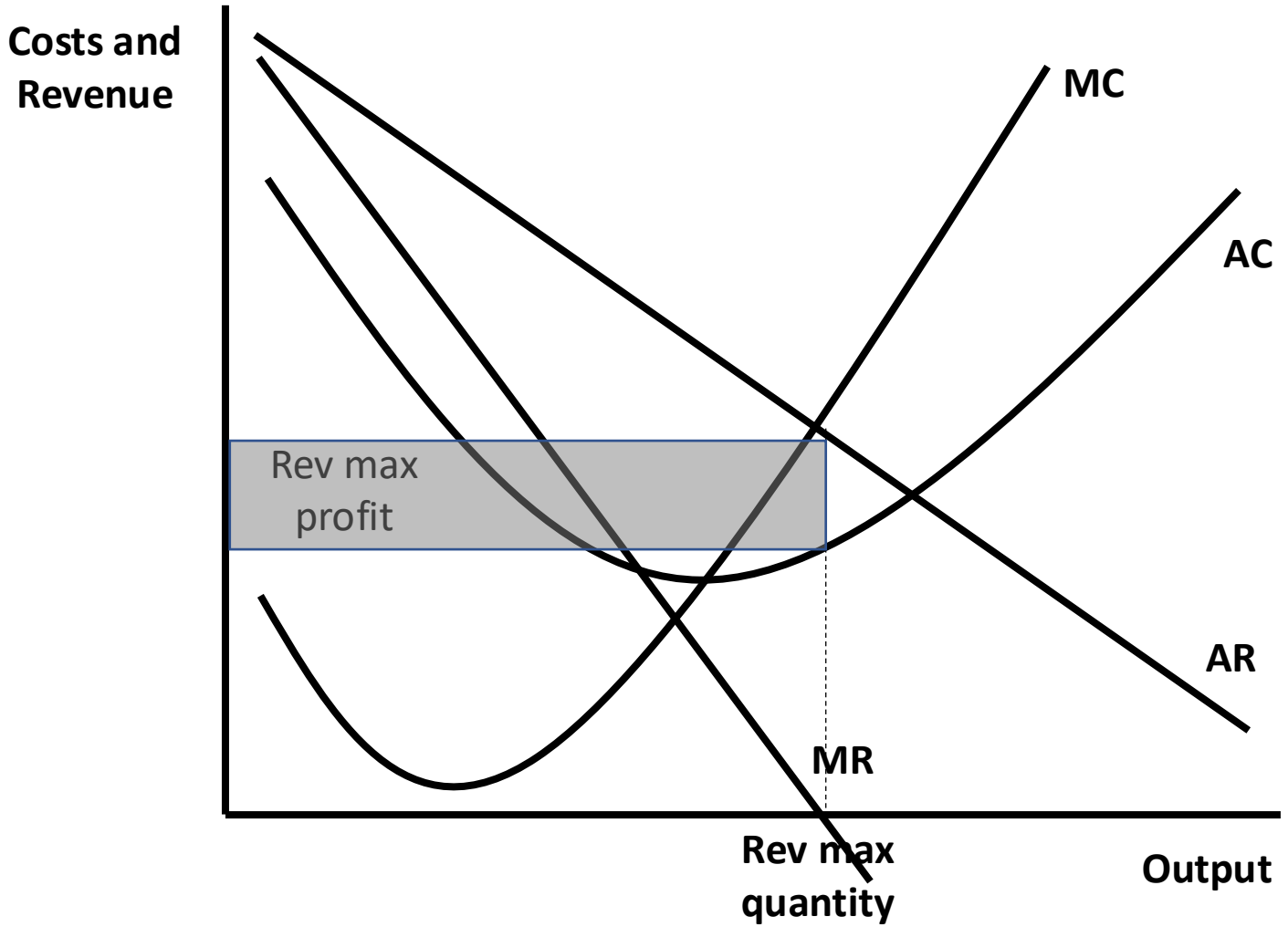
tutor2u



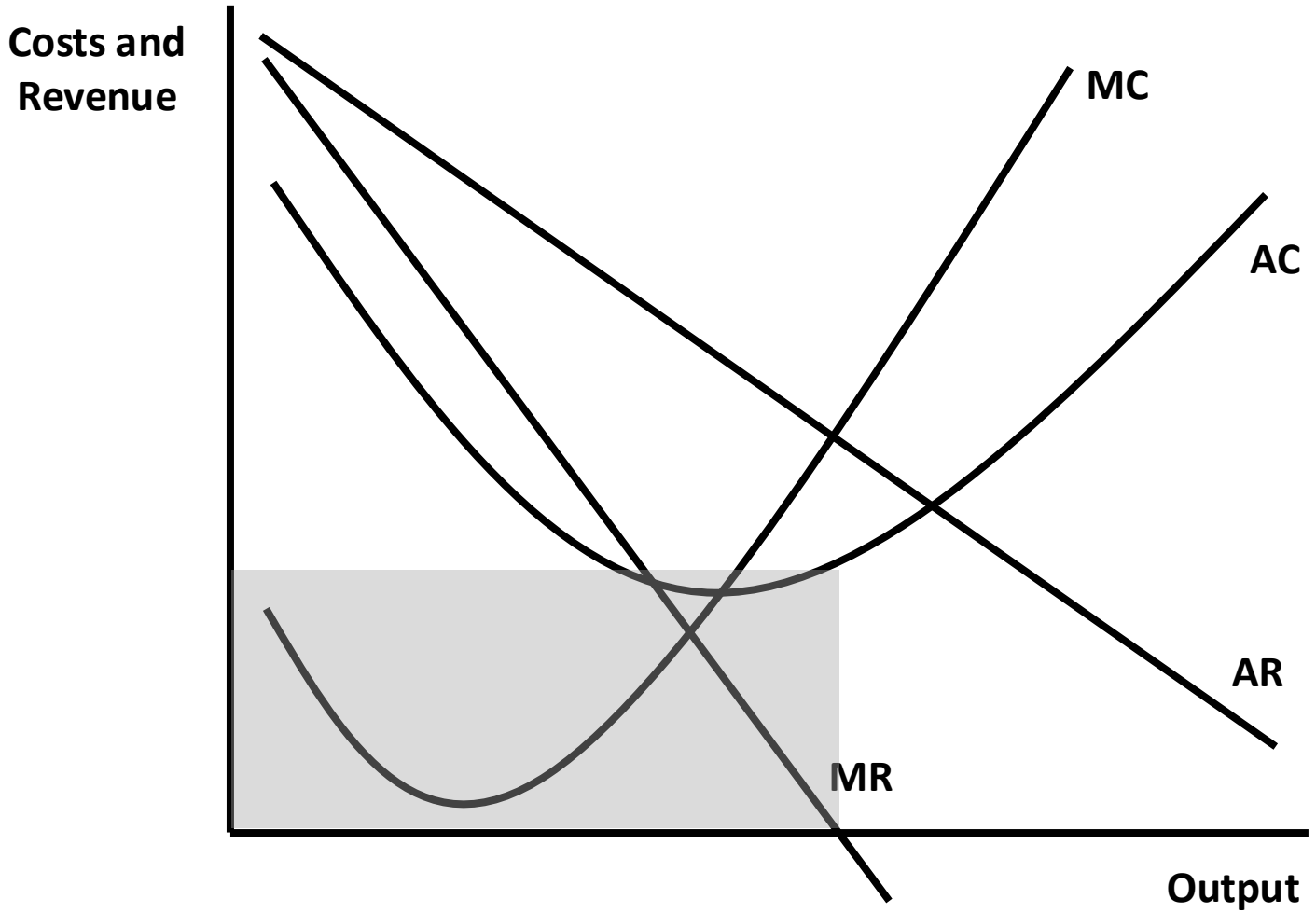
Showing how the monopoly price could be lower than the price under perfect competition if the monopoly can gain economies of scale



Q1 = profit-maximising output; Q4 = productively efficient output; Q5 = allocatively efficient output; Q2 = revenue=maximising output; Q3 = sales-maximising output

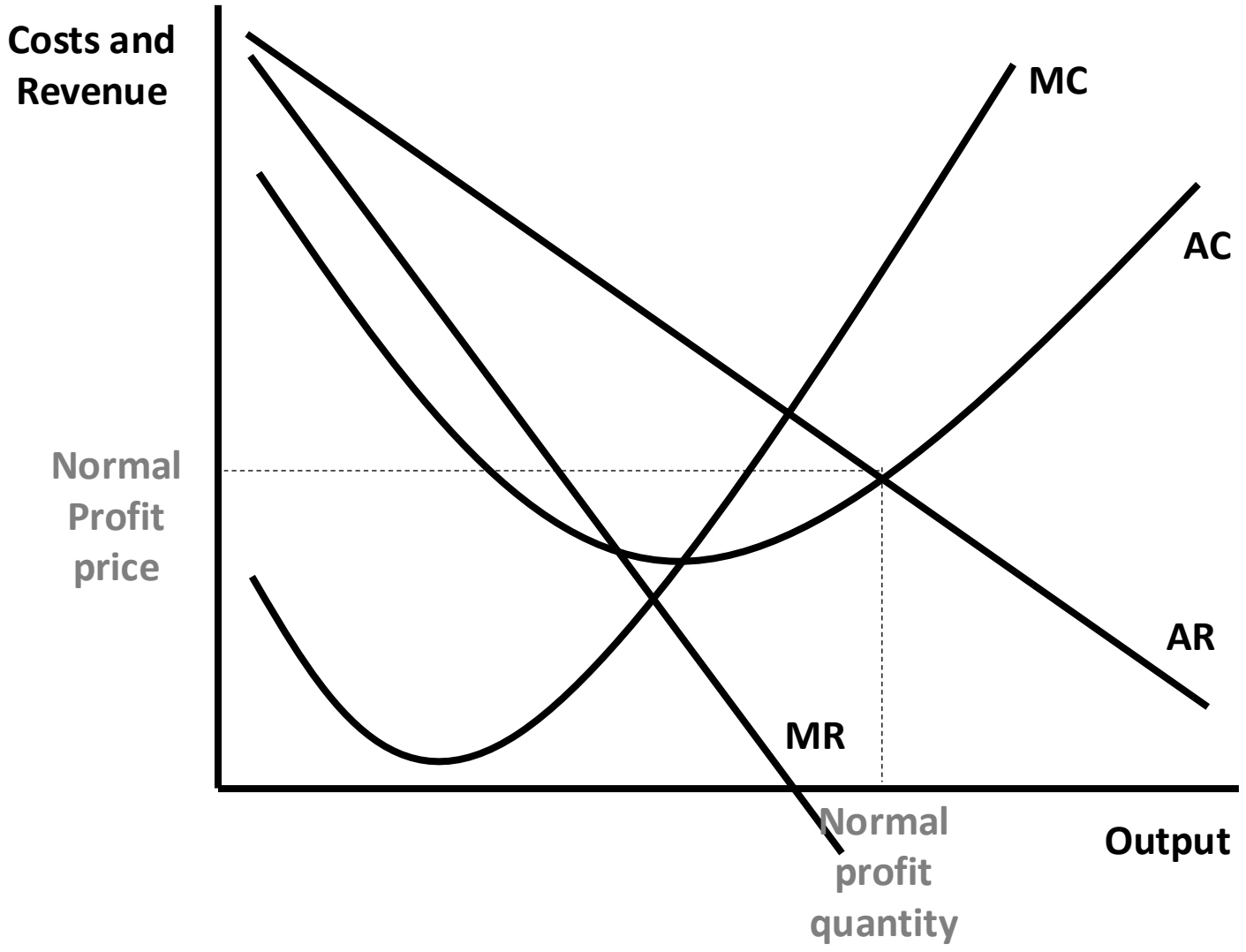


Supernormal profit at revenue maximising output

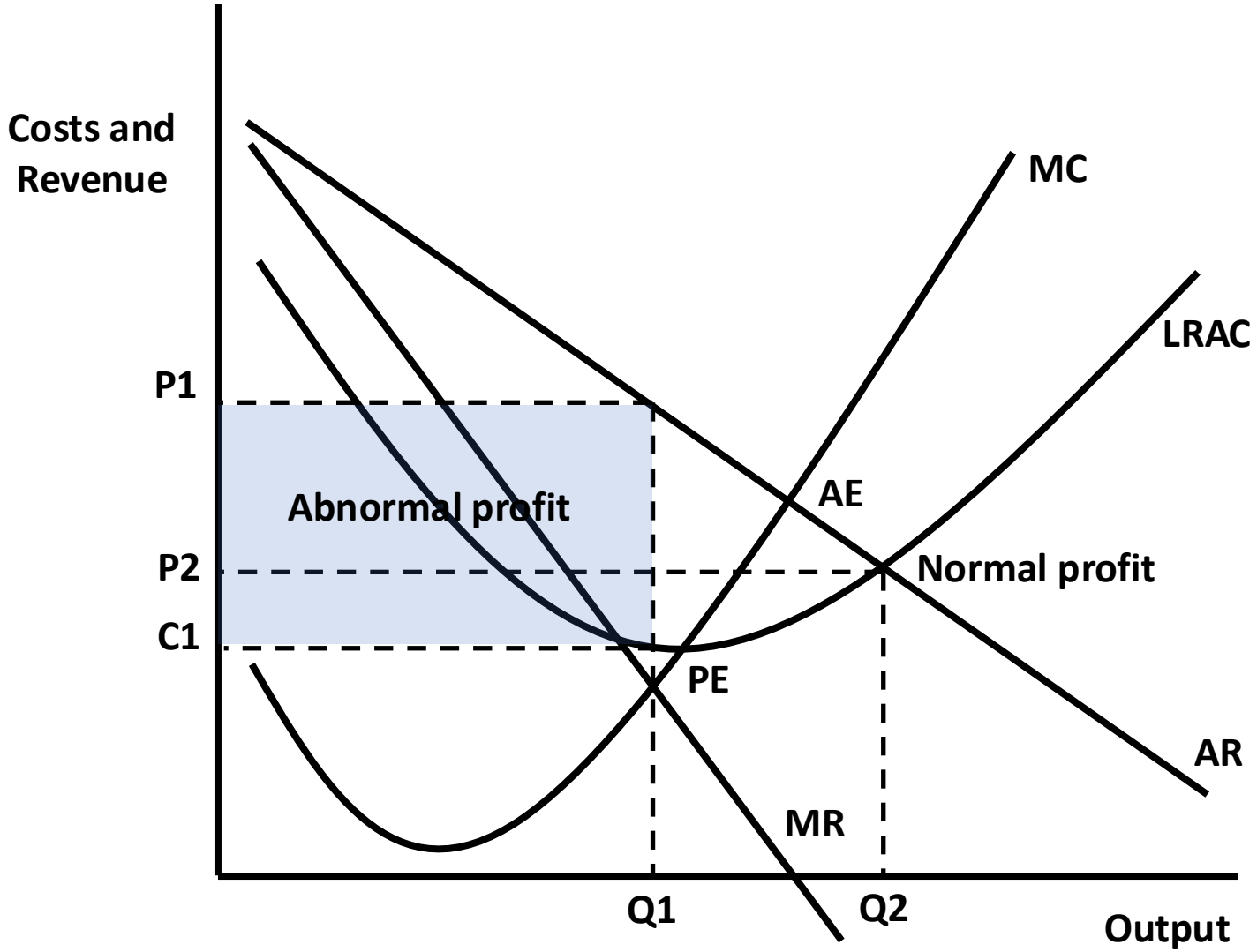


Total costs at revenue-maximising output

tutor2u

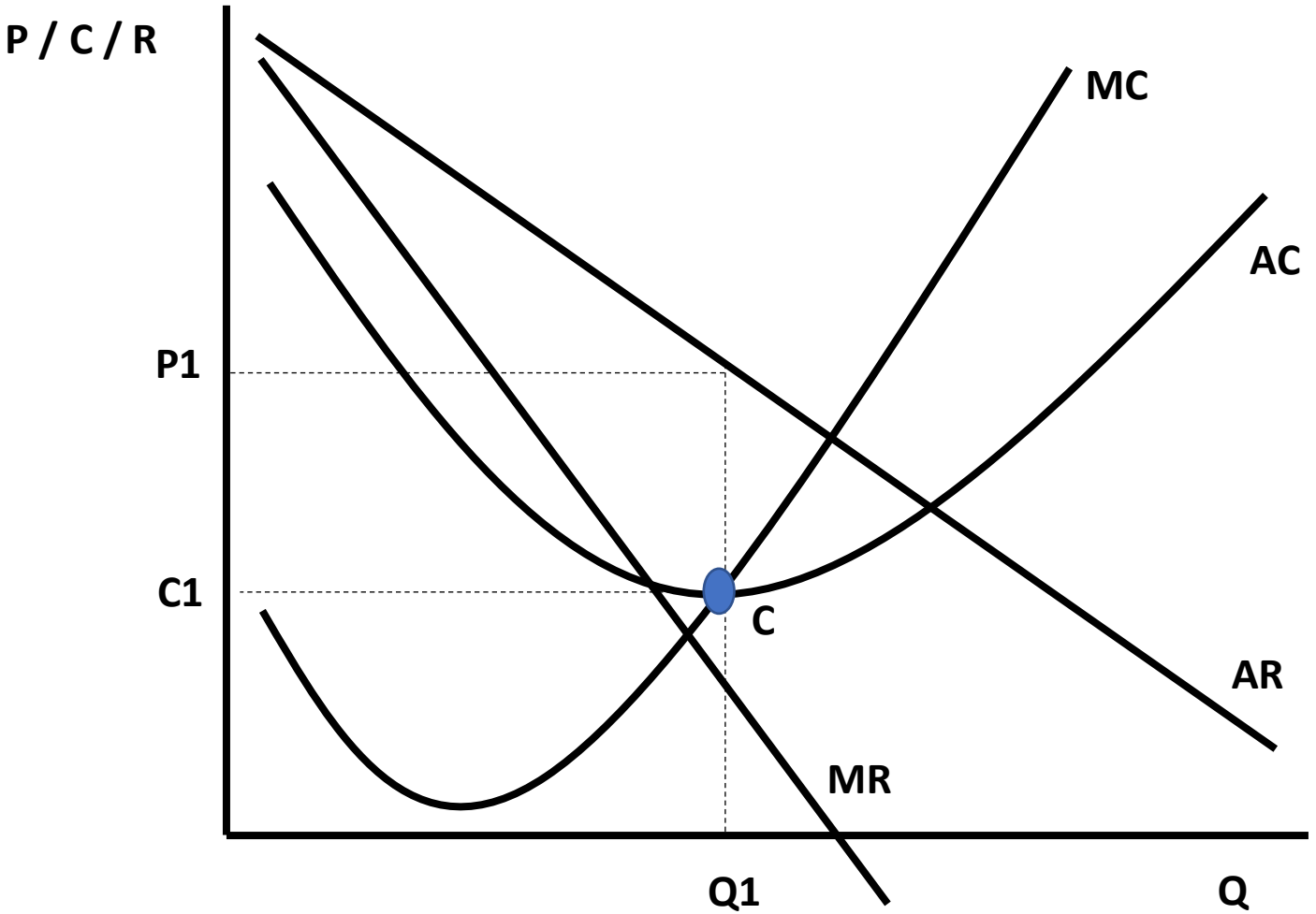


Sales maximising output (while making normal profit AC=AR)

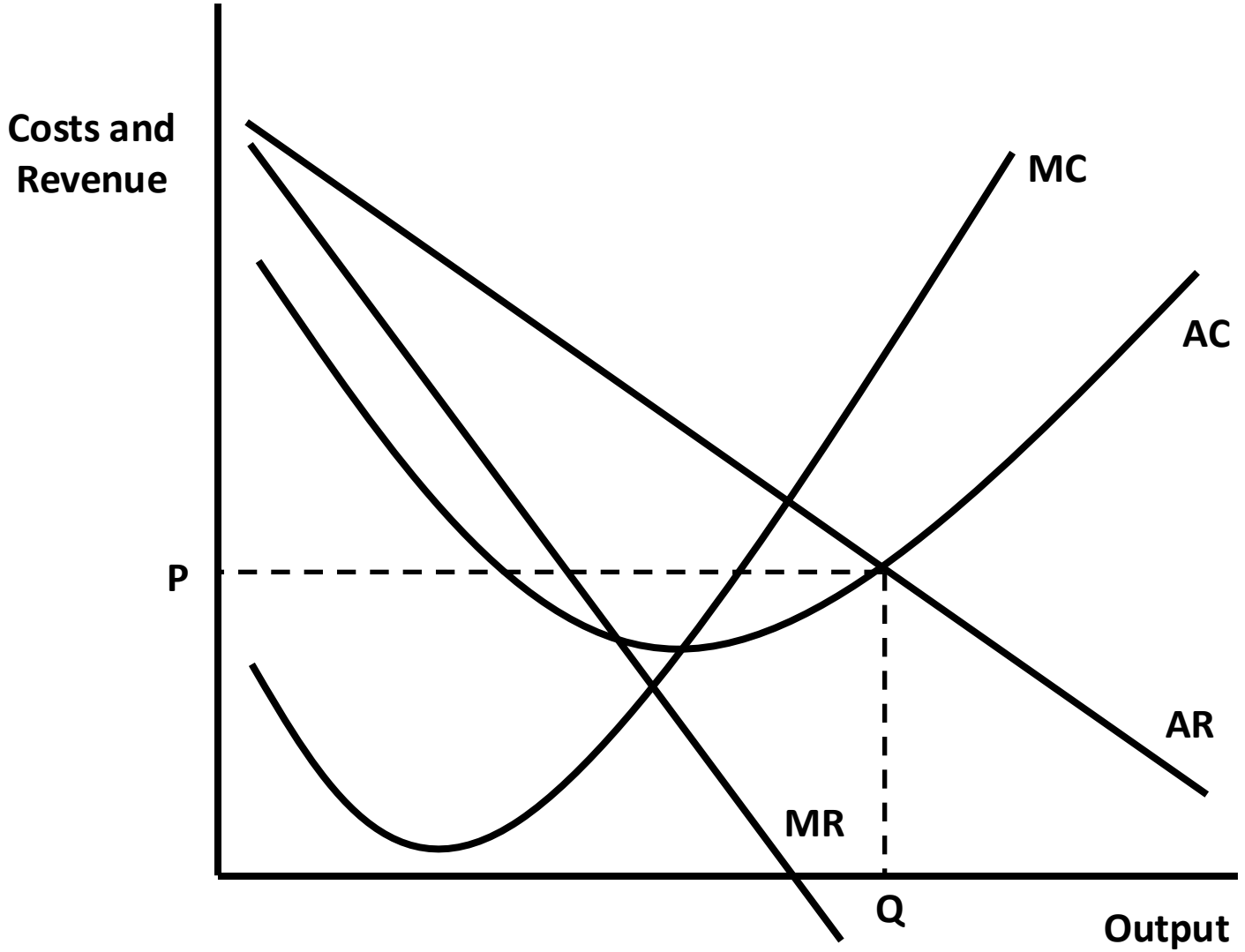


Comparison of profit maximisation to sales maximisation in imperfect competition

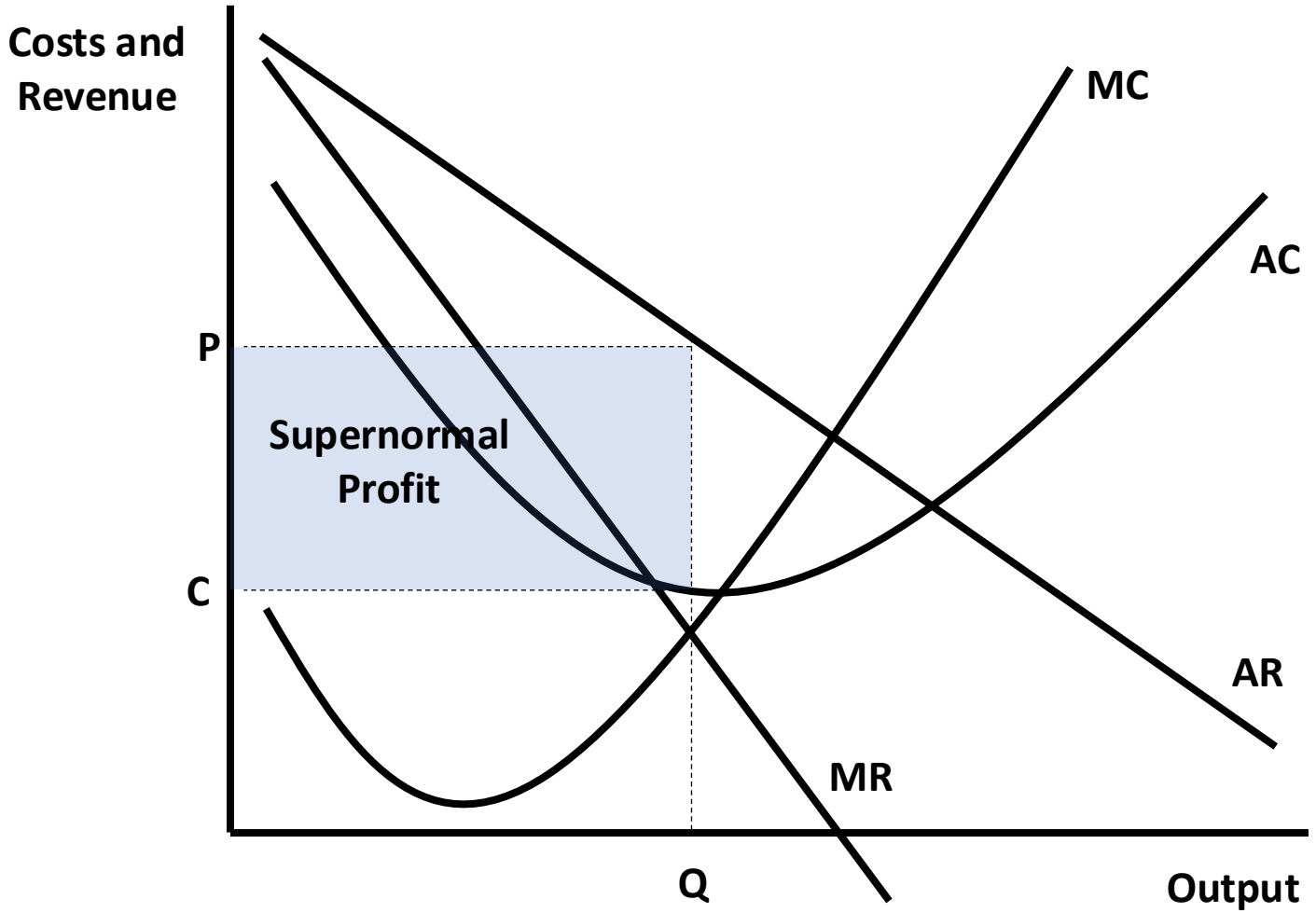
tutor2u



Monopoly operating at productively efficient output (minimum AC)

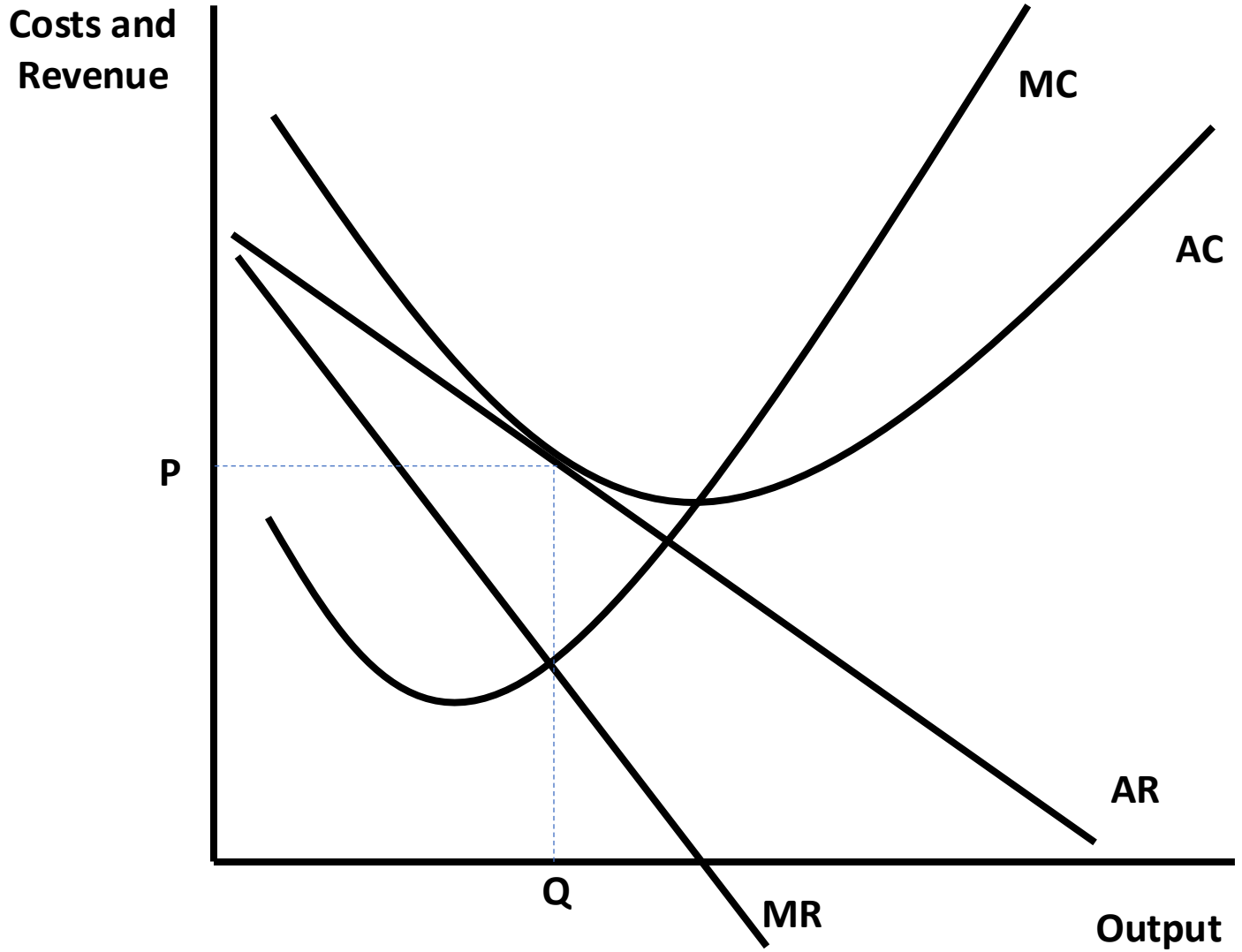


Equilibrium of firm that has sales-maximisation goal (AC=AR and normal profit only)

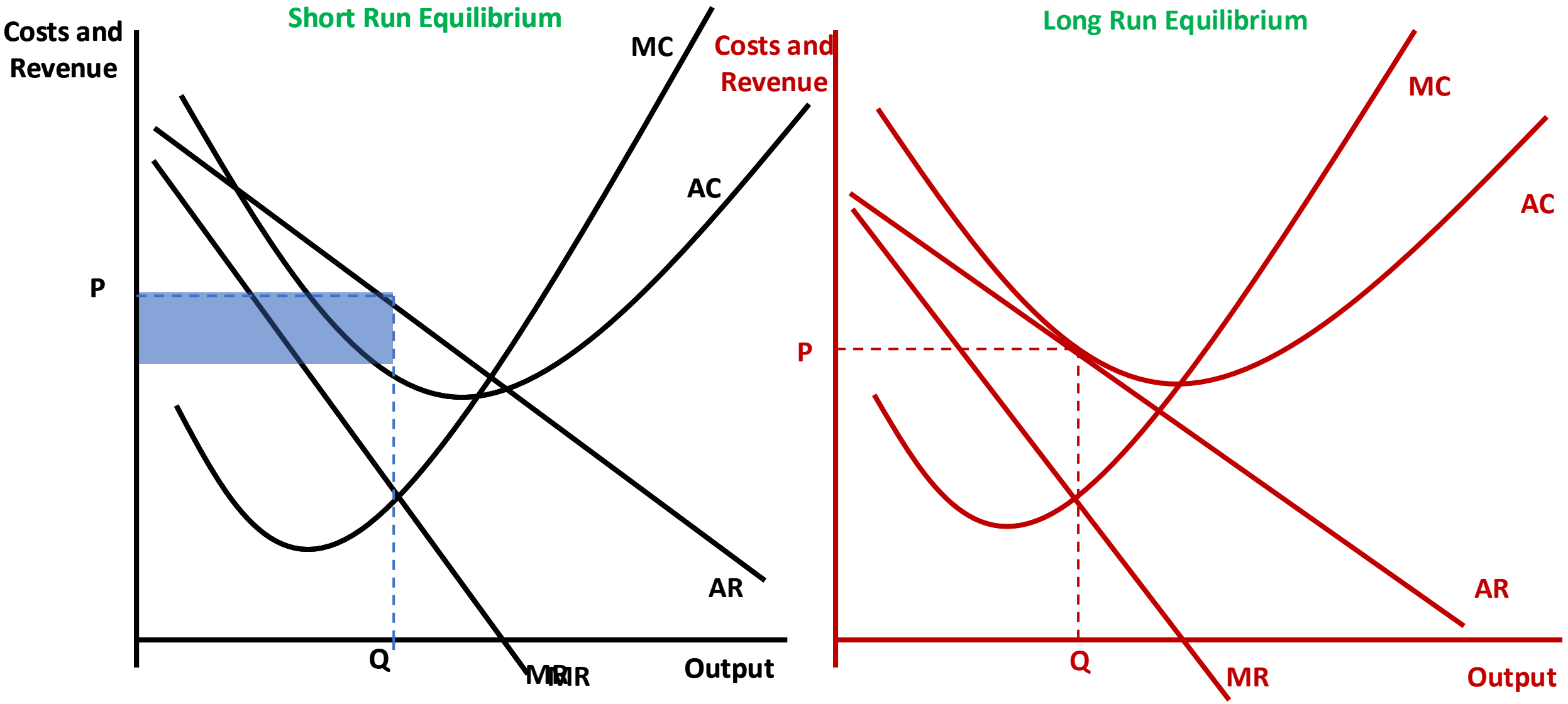


Supernormal profit in short run for monopolistic competition

tutor2u

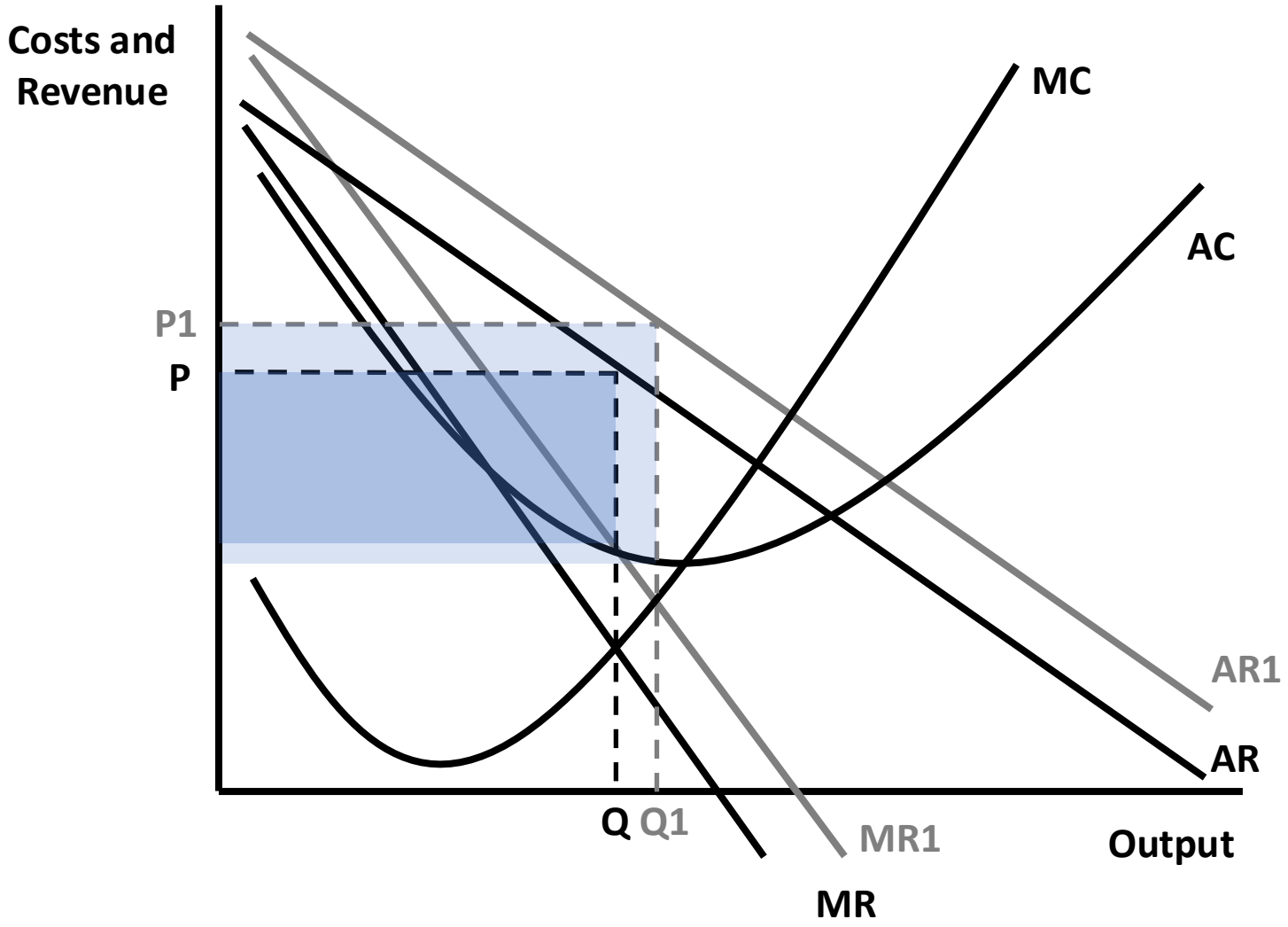


Monopolistic competition long run equilibrium



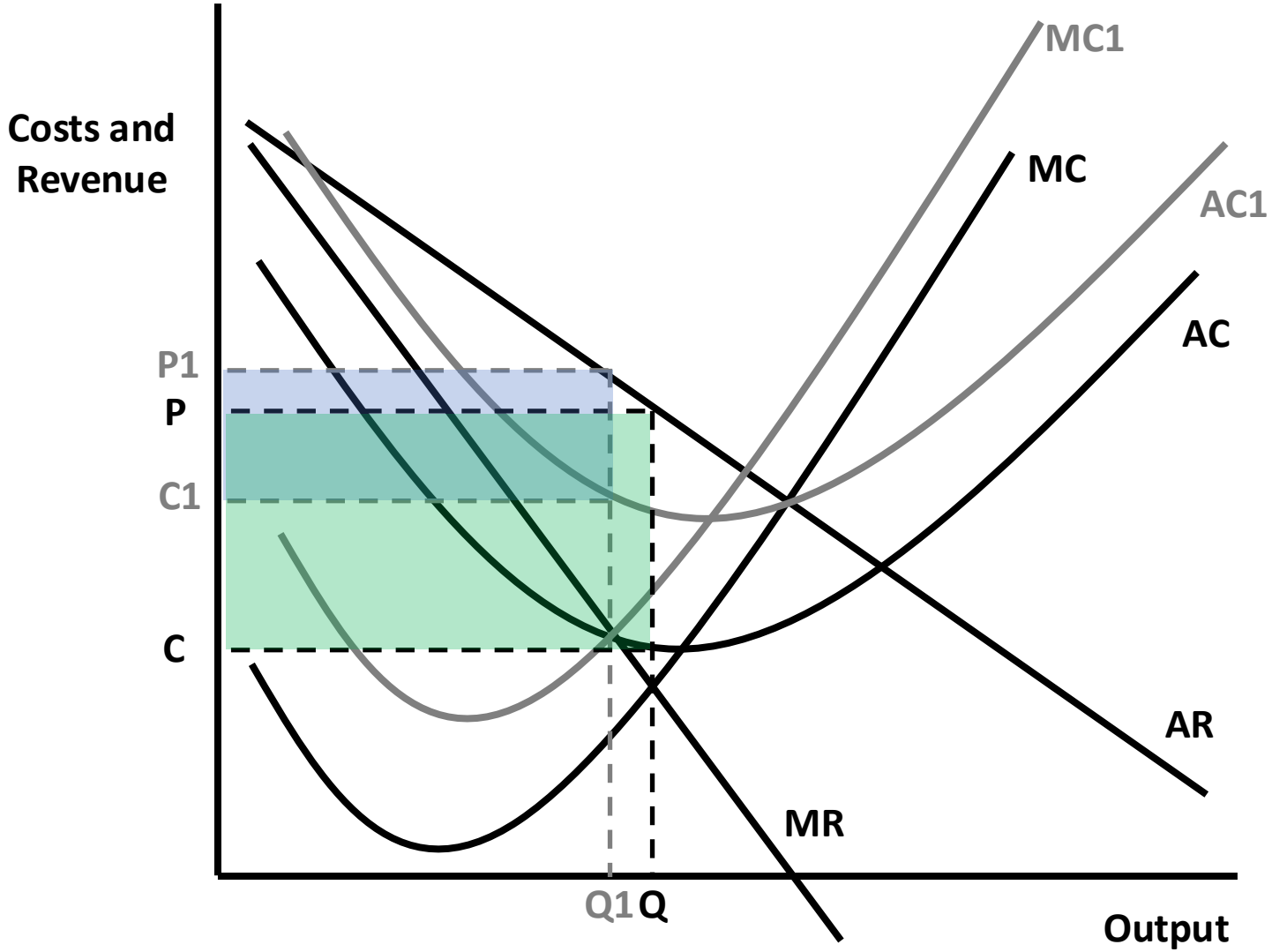
Monopolistic competition short run and long run equilibrium. Supernormal profit in the short run is competed away in the long run

tutor2u



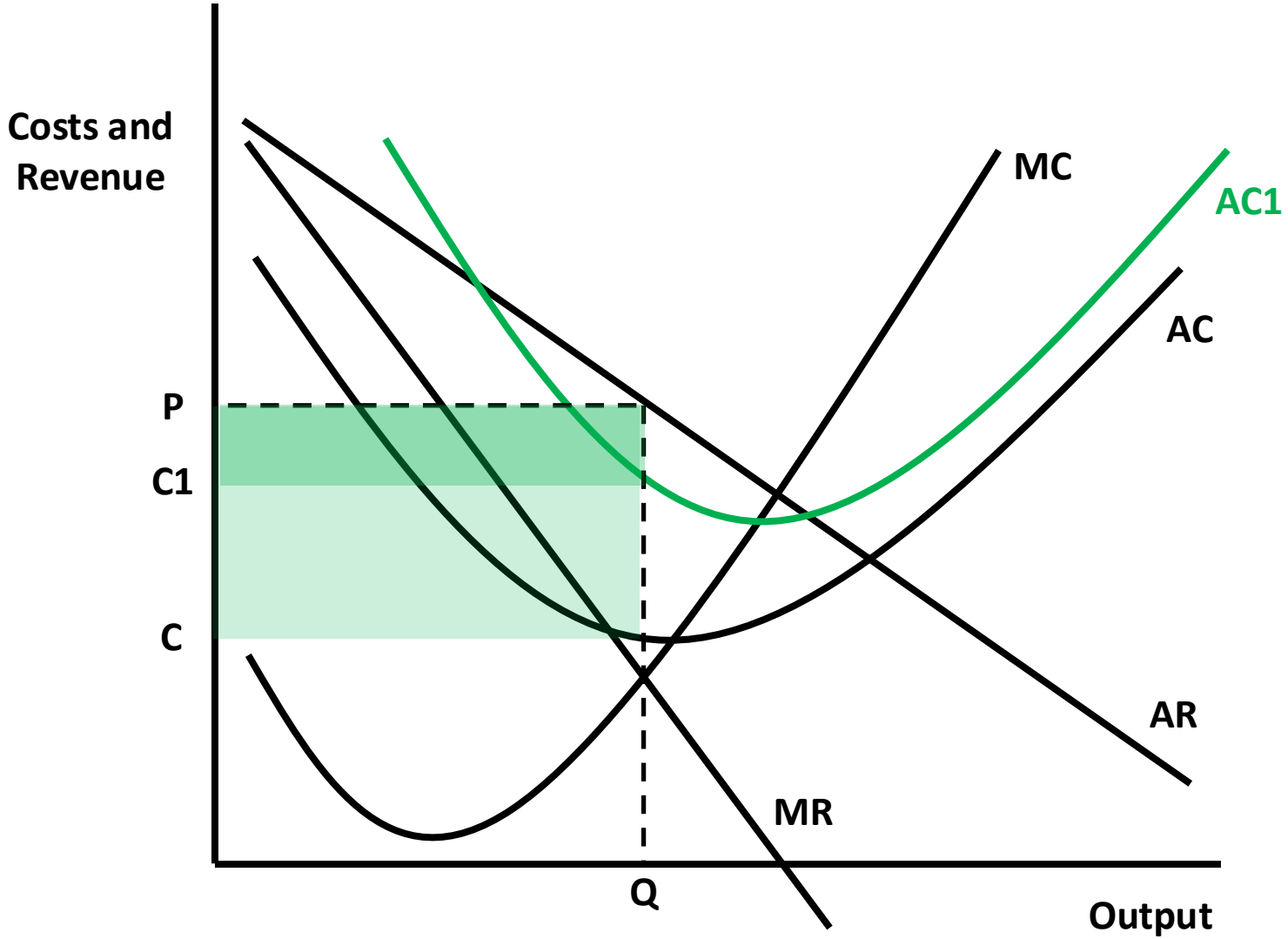
Impact of an increase in demand or revenue on price and output and profits for price maker

tutor2u



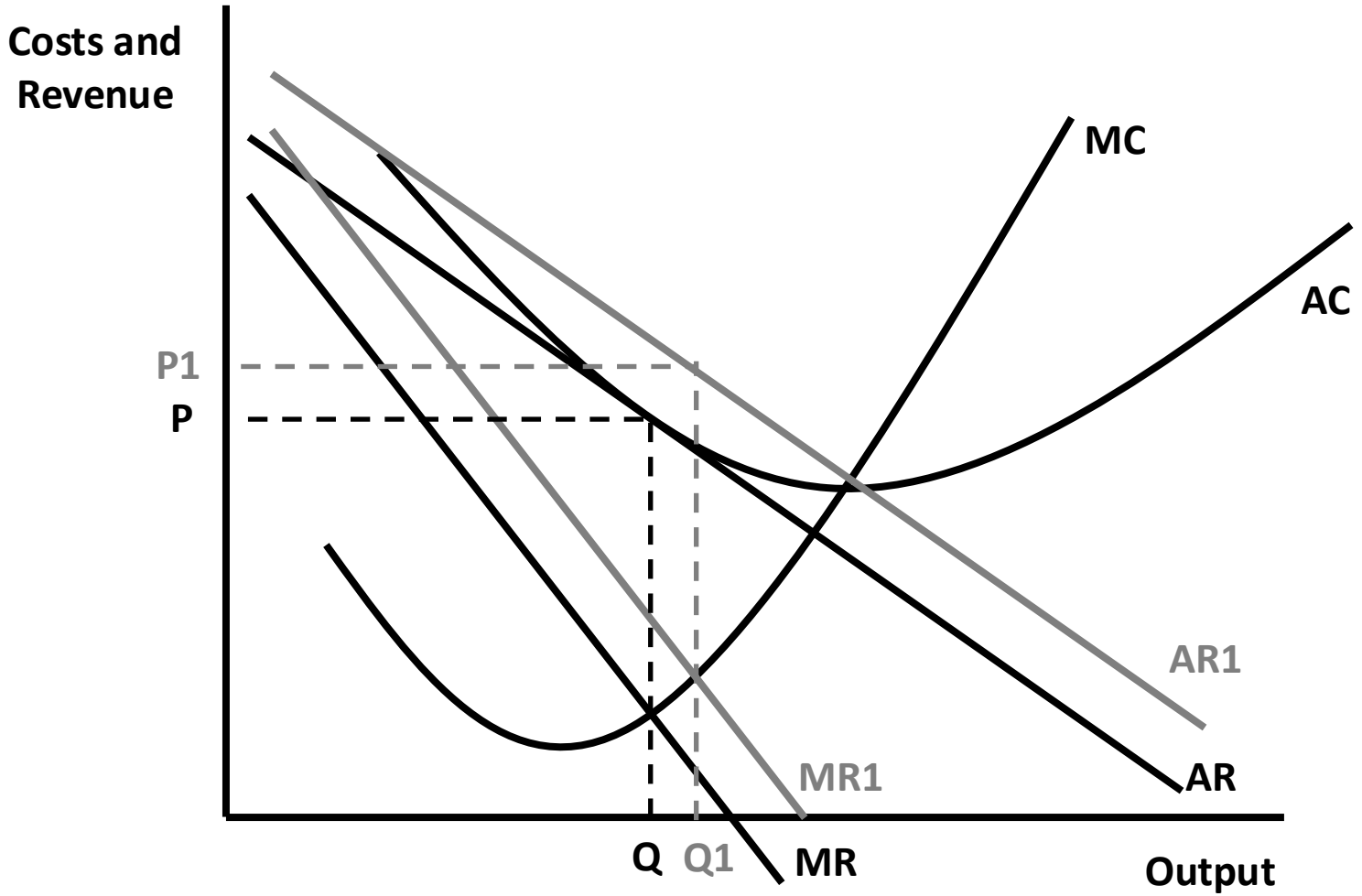
Impact of an increase in variable costs on supernormal profits for price maker (Decrease from PCxQ to P1C1xQ1)

tutor2u



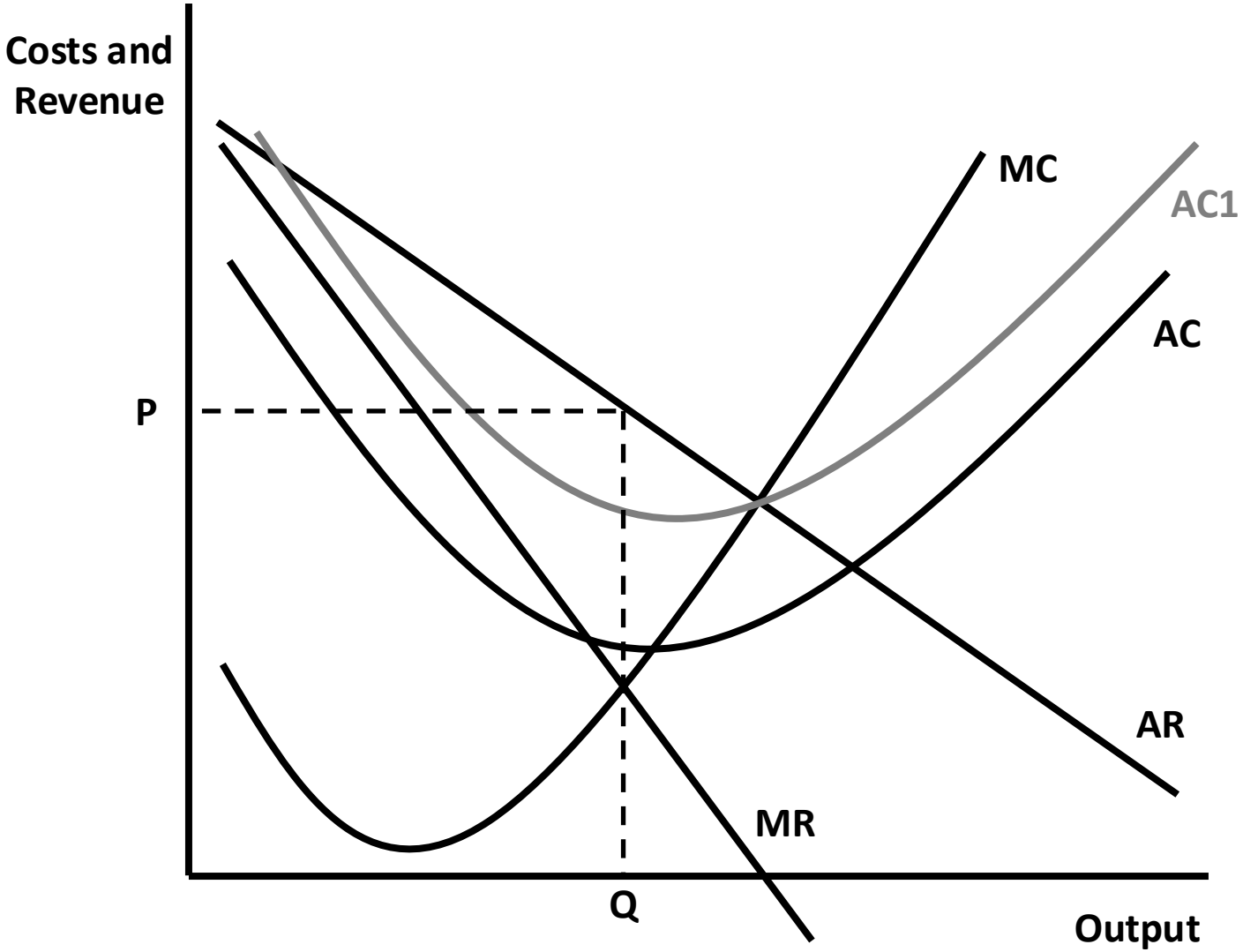
Impact of an increase in fixed costs on supernormal profits for price maker (Decrease from PCxQ to PC1xQ)

tutor2u



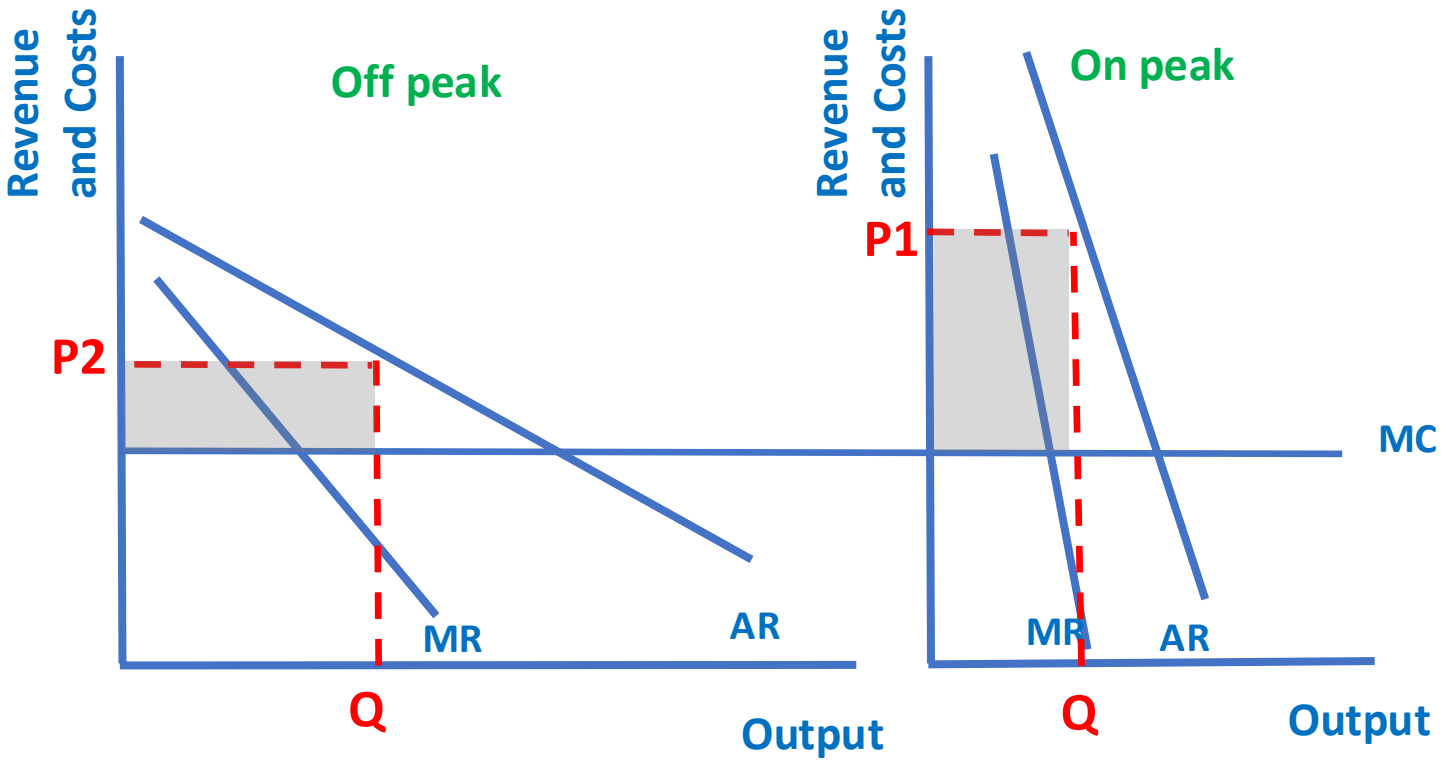
Impact of an increase in demand on price and output for a price maker (imperfect competition)

tutor2u



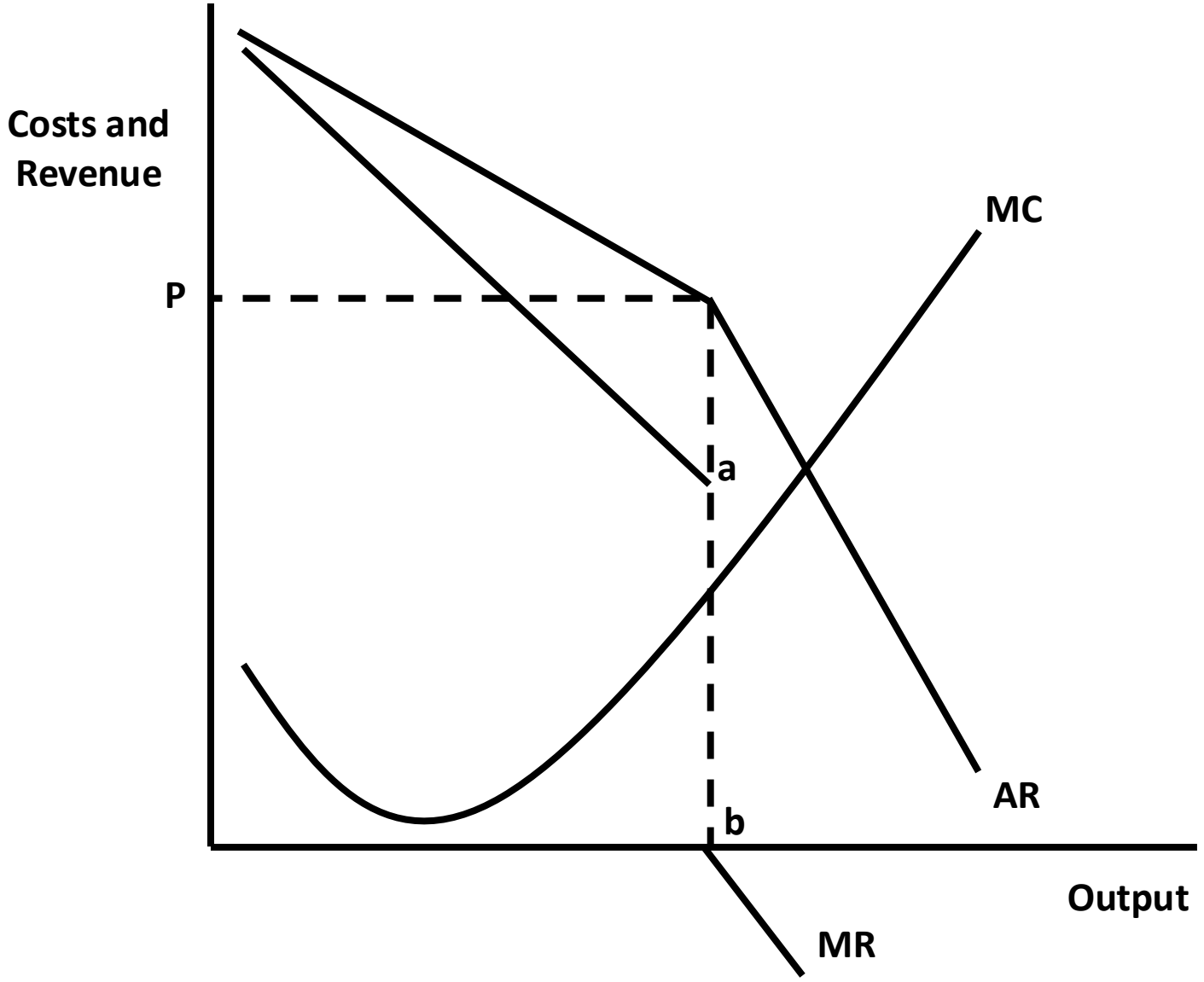
Increase in fixed costs in imperfect competition

tutor2u

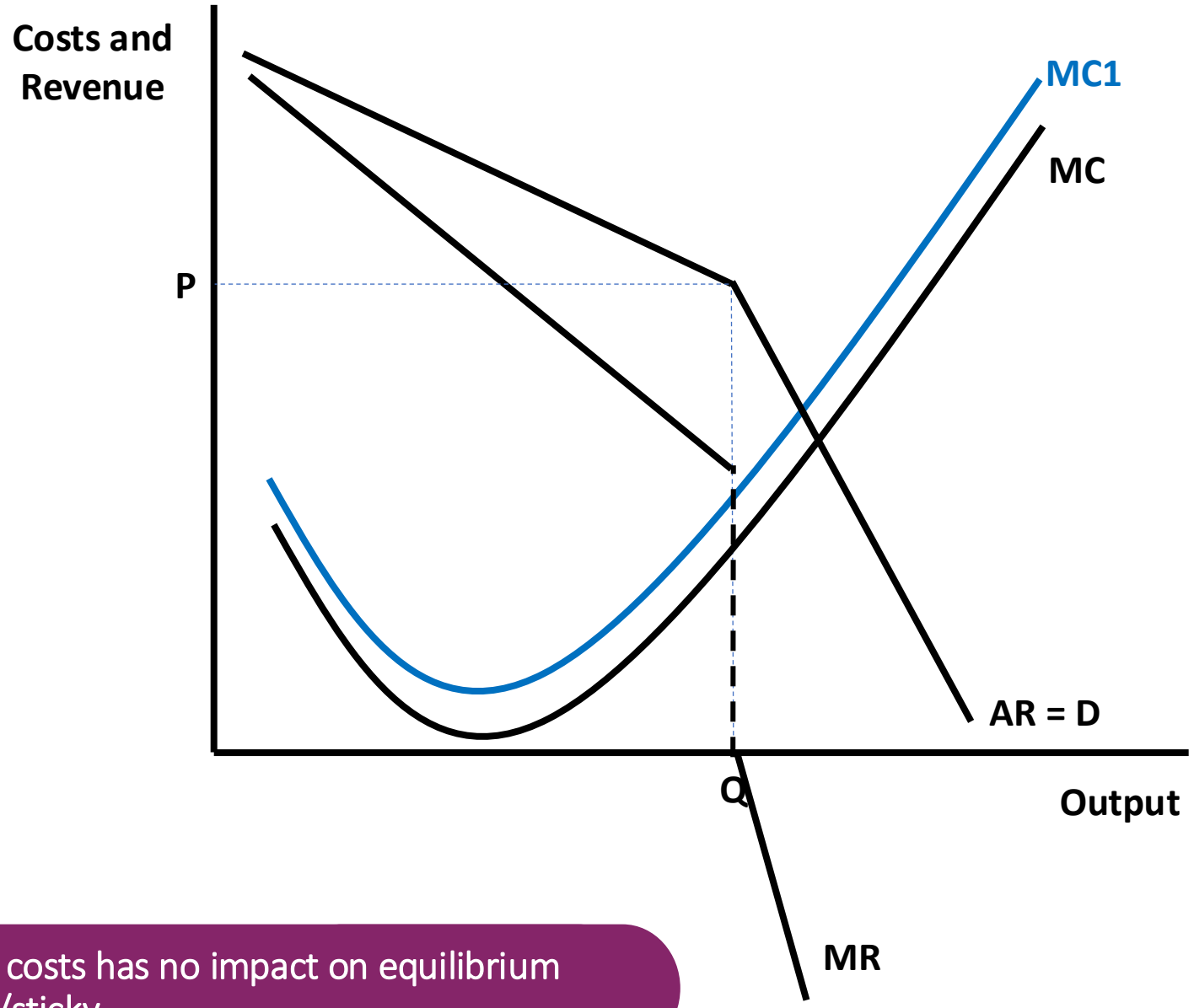


price discrimination for off peak and on peak goods/services

tutor2u

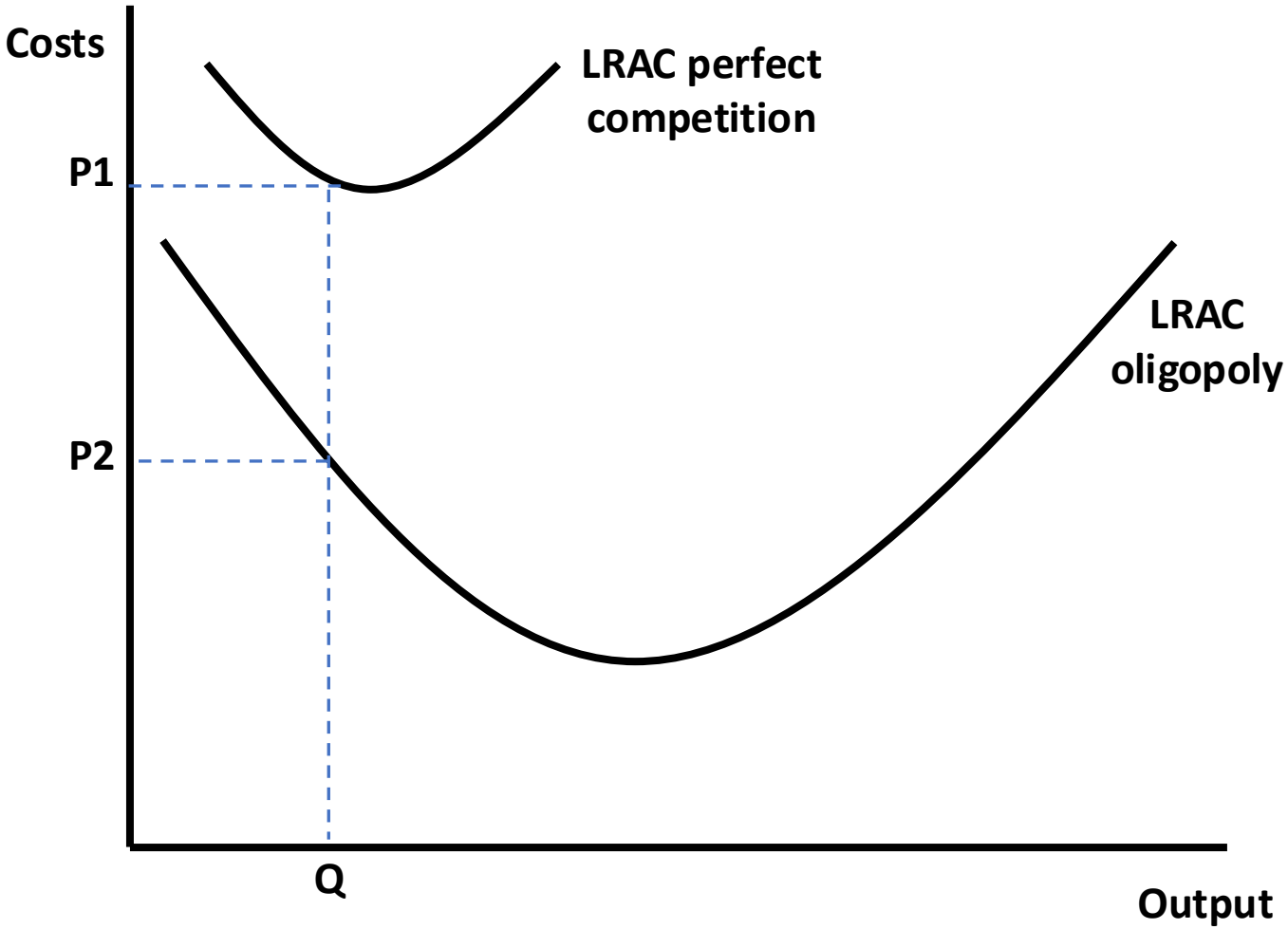


Oligopoly kinked demand equilibrium price and quantity for profit maximiser
MR is disjointed because of the kink in the demand (AR) curve

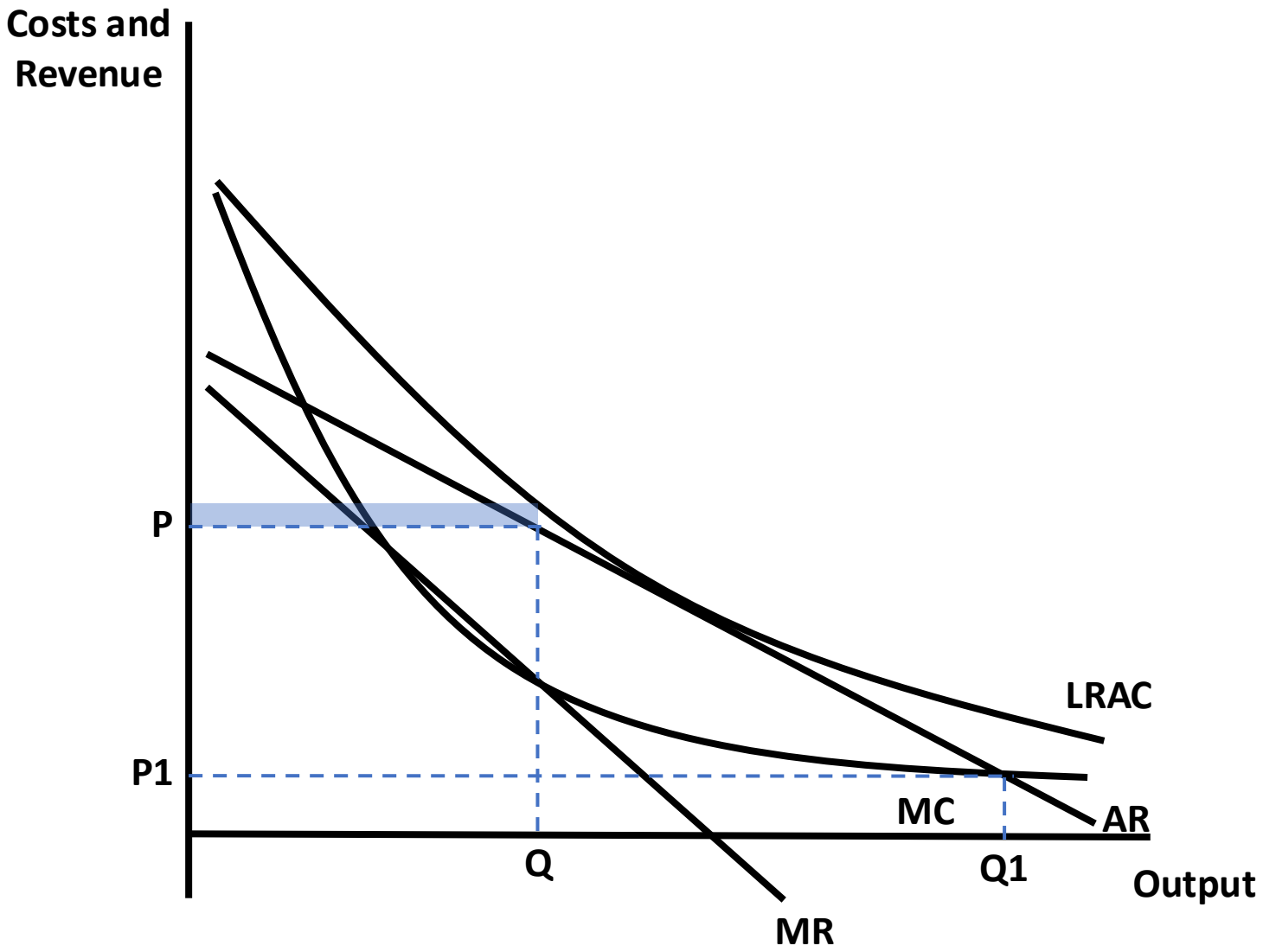


Kinked demand in oligopoly: increase in costs has no impact on equilibrium price and output; prices are rigid/stable/sticky

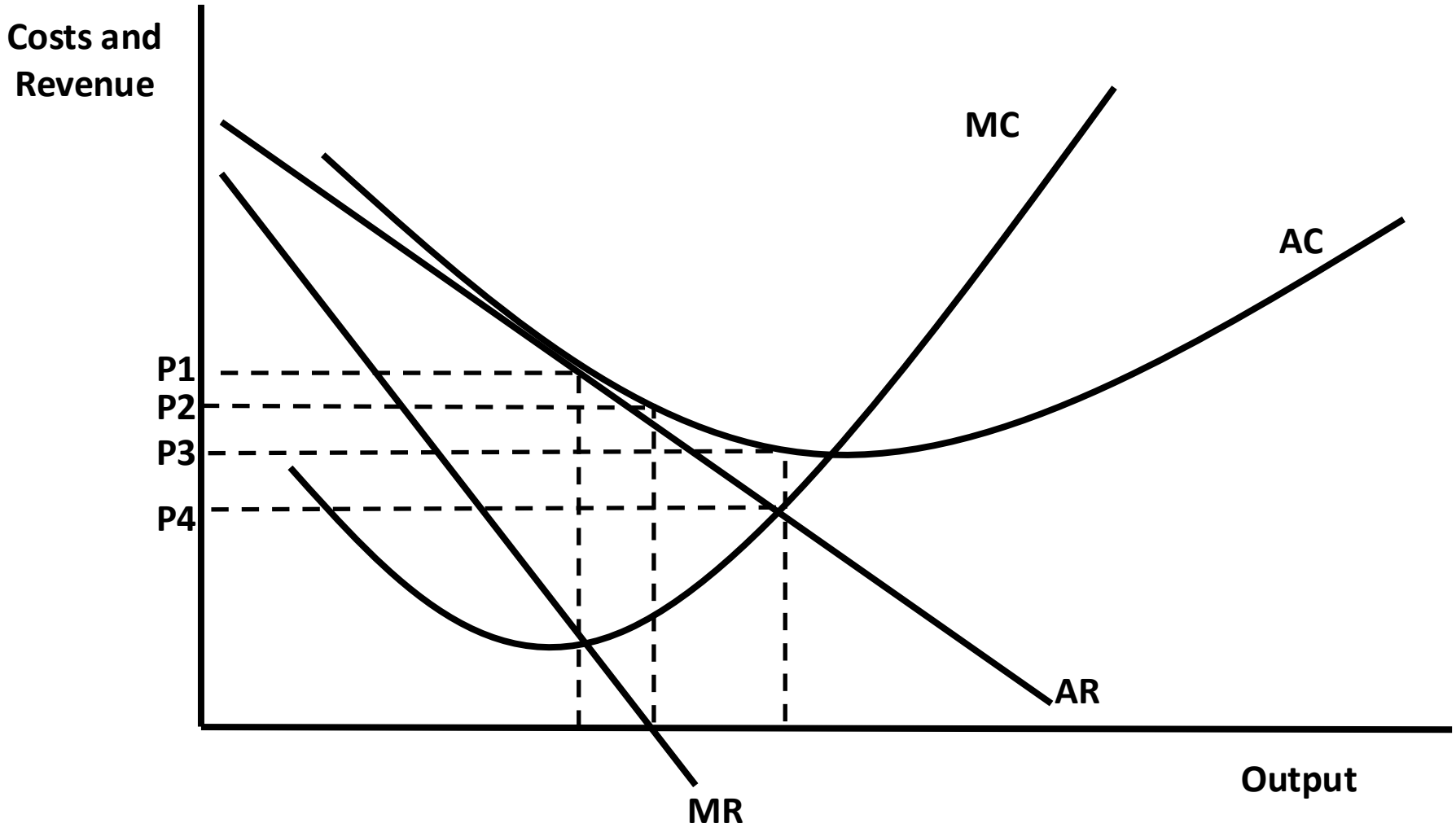
tutor2u



Lower average costs in oligopoly compared to perfect competition due to greater economies of scale



Natural monopoly; profit-maximising output is Q; if marginal cost pricing output is Q1 which achieves allocative efficiency but cause firm to run at a loss



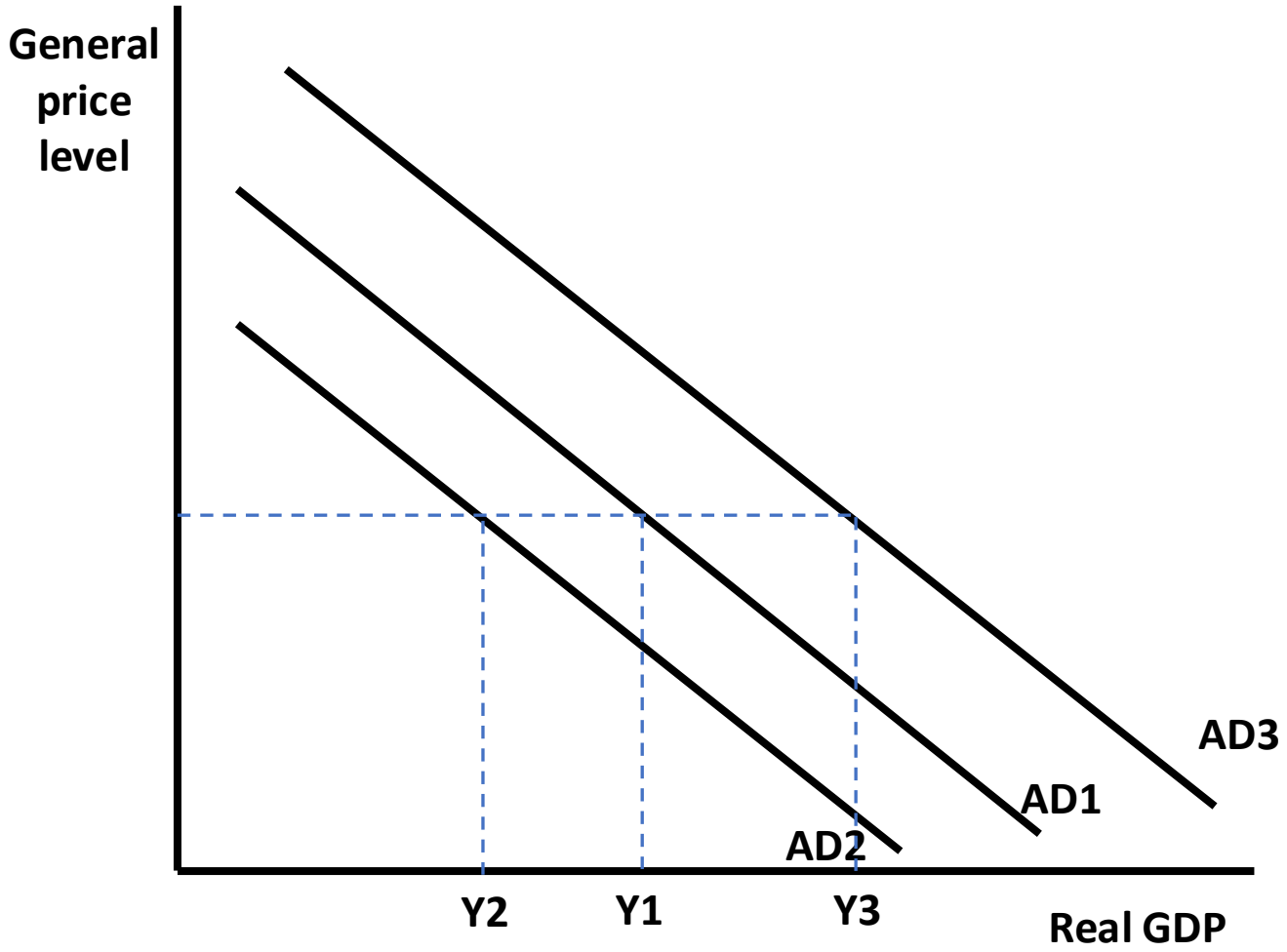
Possible pricing options for a firm in monopolistic competition in the long run

tutor2u

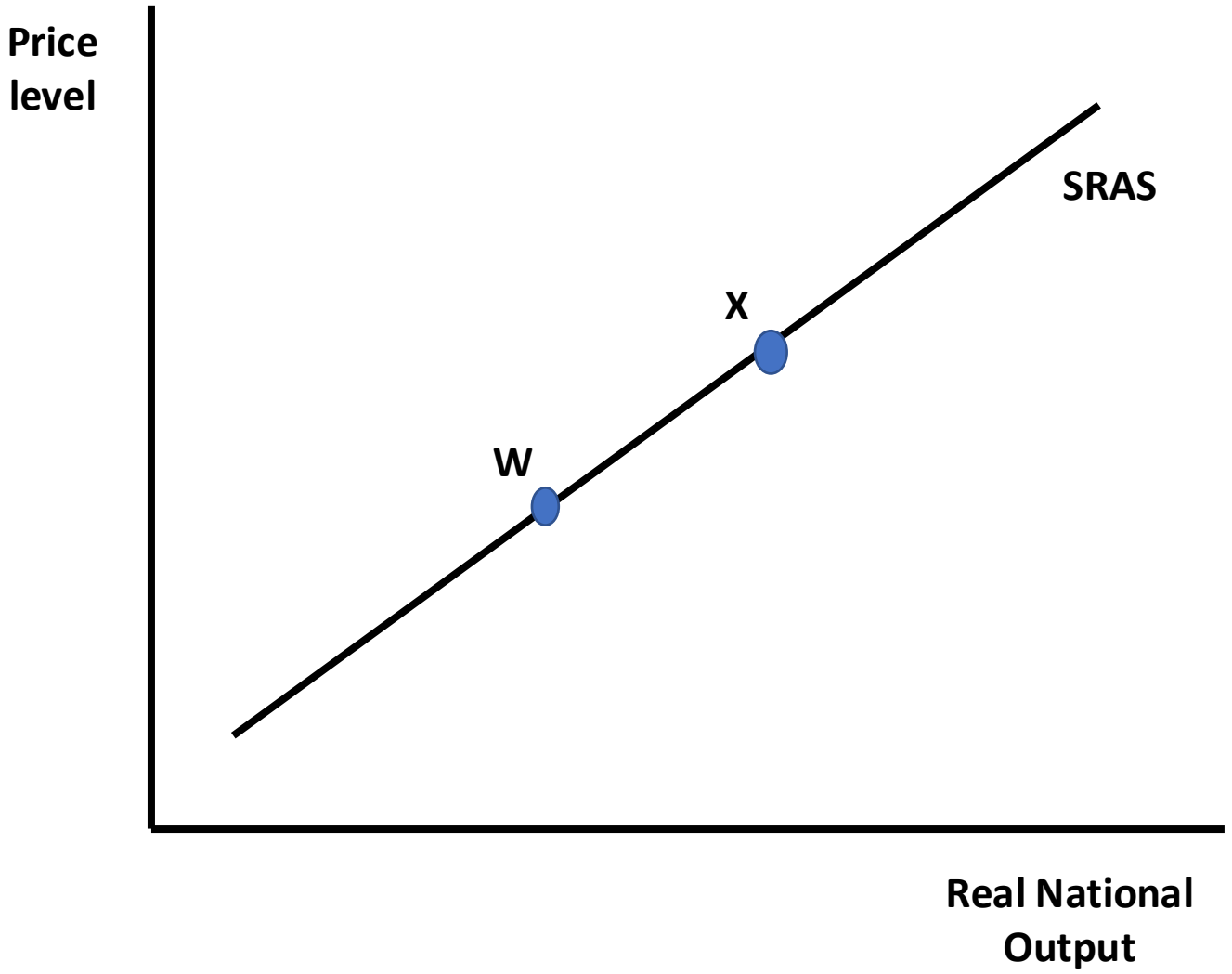
ECONOMICS DIAGRAMS

AD AND AS DIAGRAMS

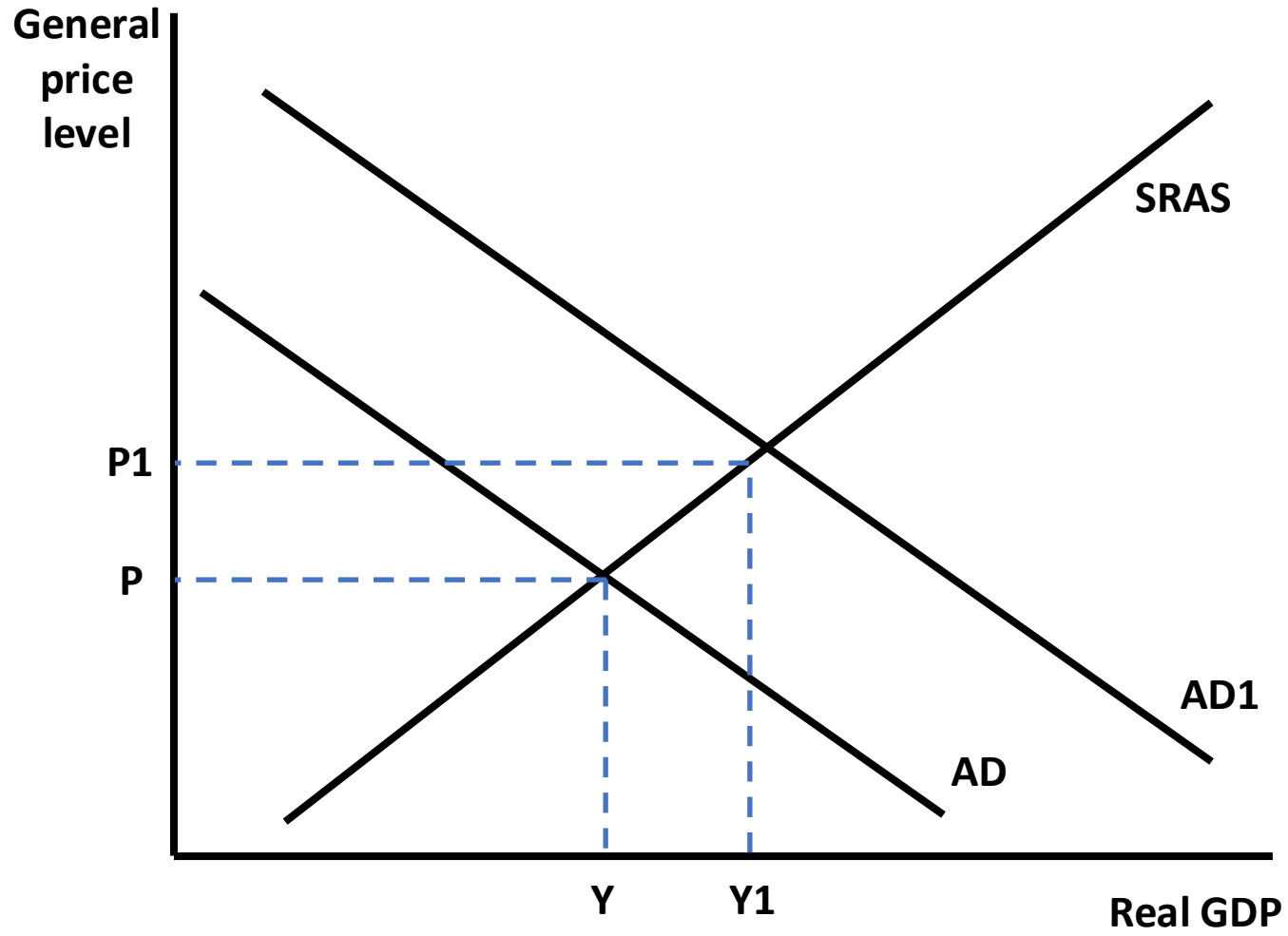
tutor2u



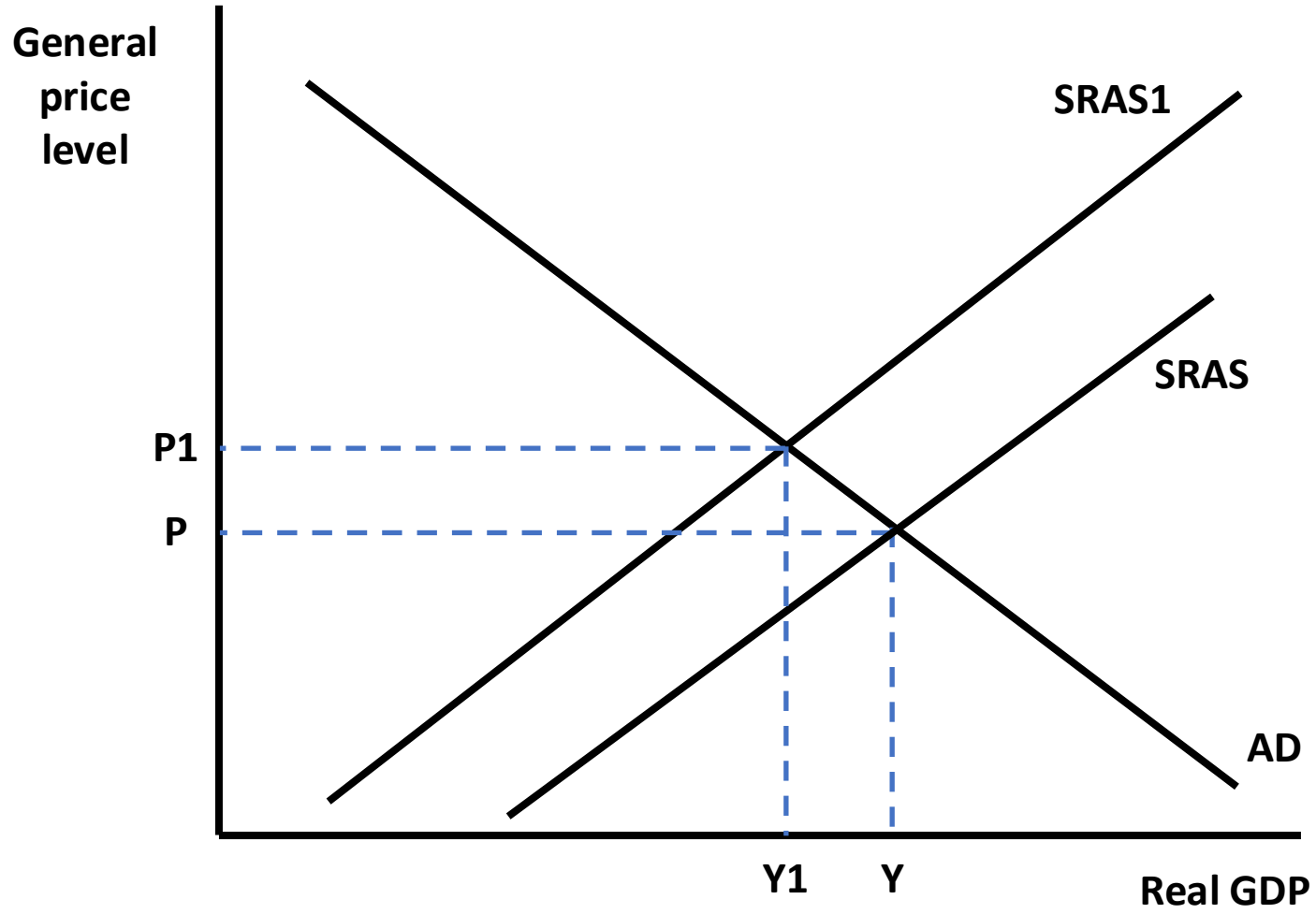
Decrease and increase in aggregate demand



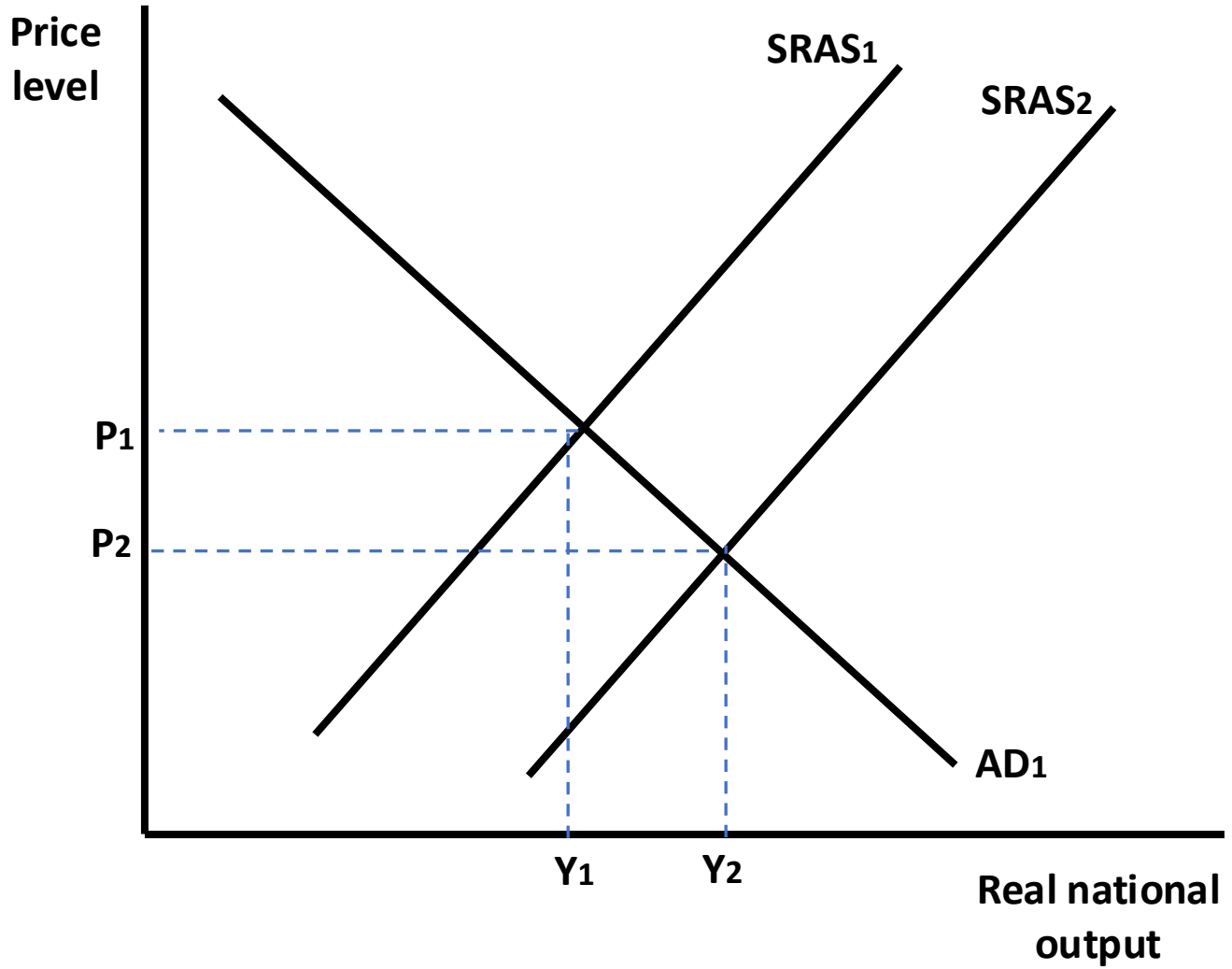
Short run aggregate supply – a change in the price level causes a movement along from W to X



Increase in aggregate demand (AD), and the impact on macro equilibrium

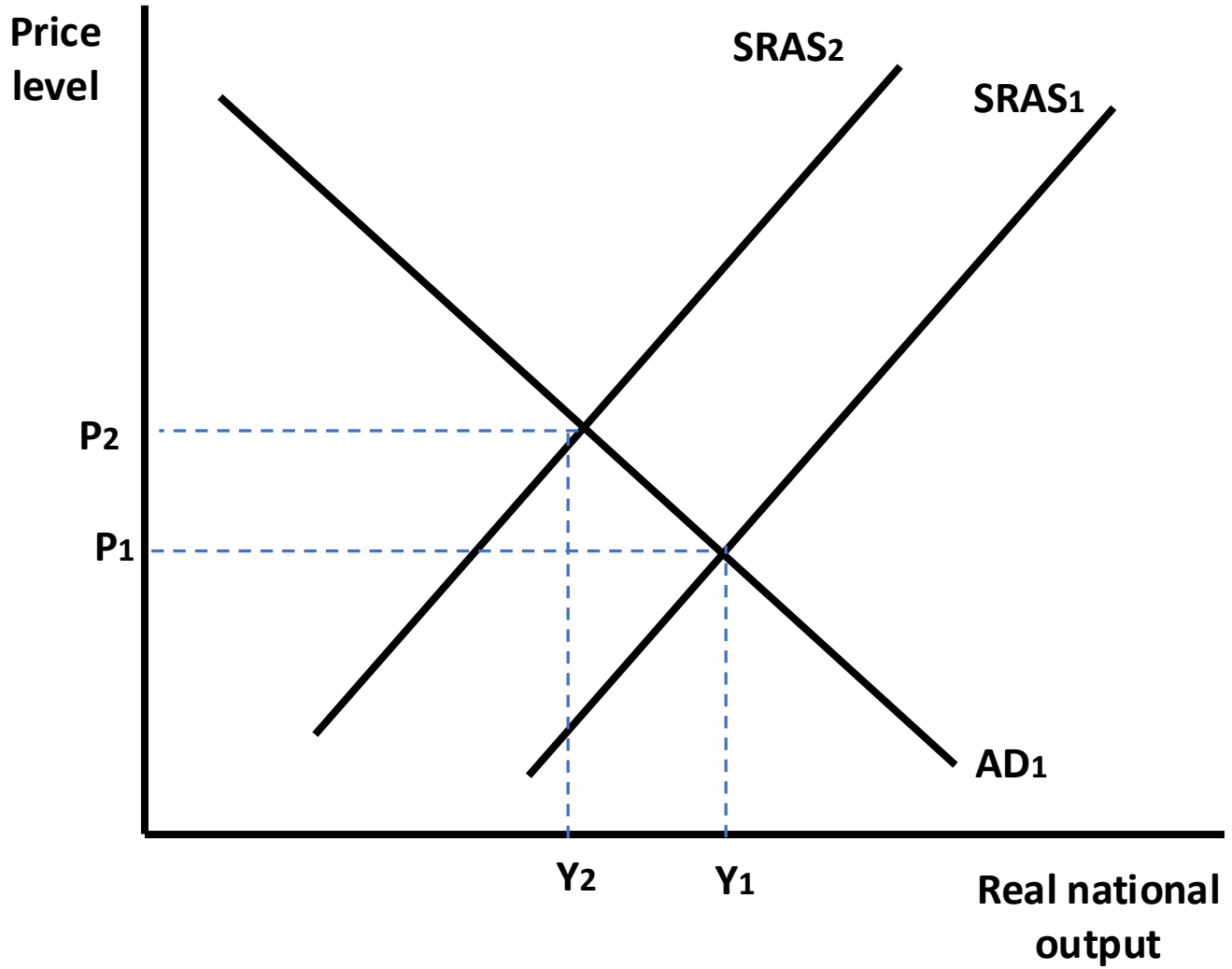


Decrease in short run aggregate supply (SRAS), and the impact on macro equilibrium

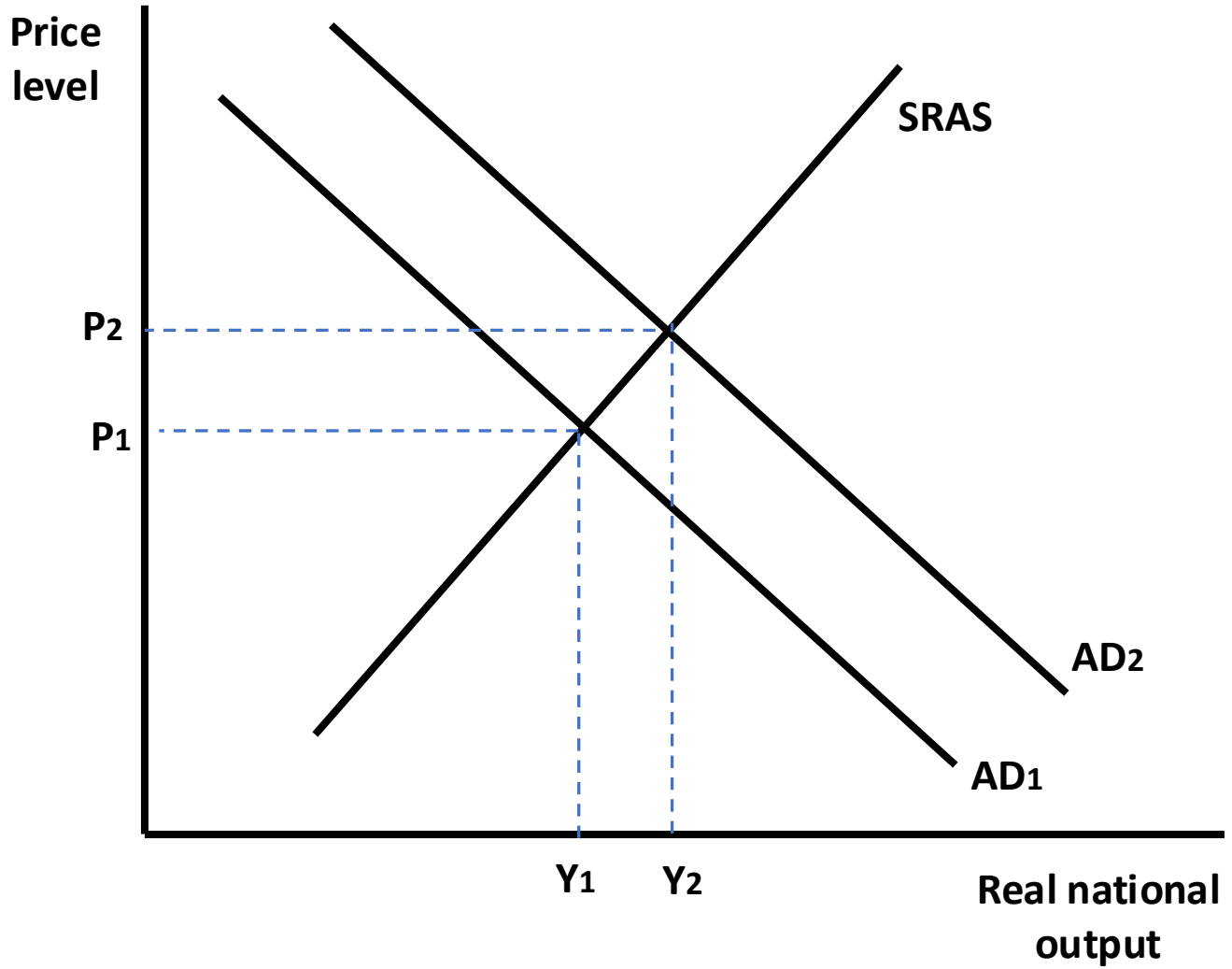


Increase in short run aggregate supply (Classical model), and the impact on macro equilibrium

tutor2u

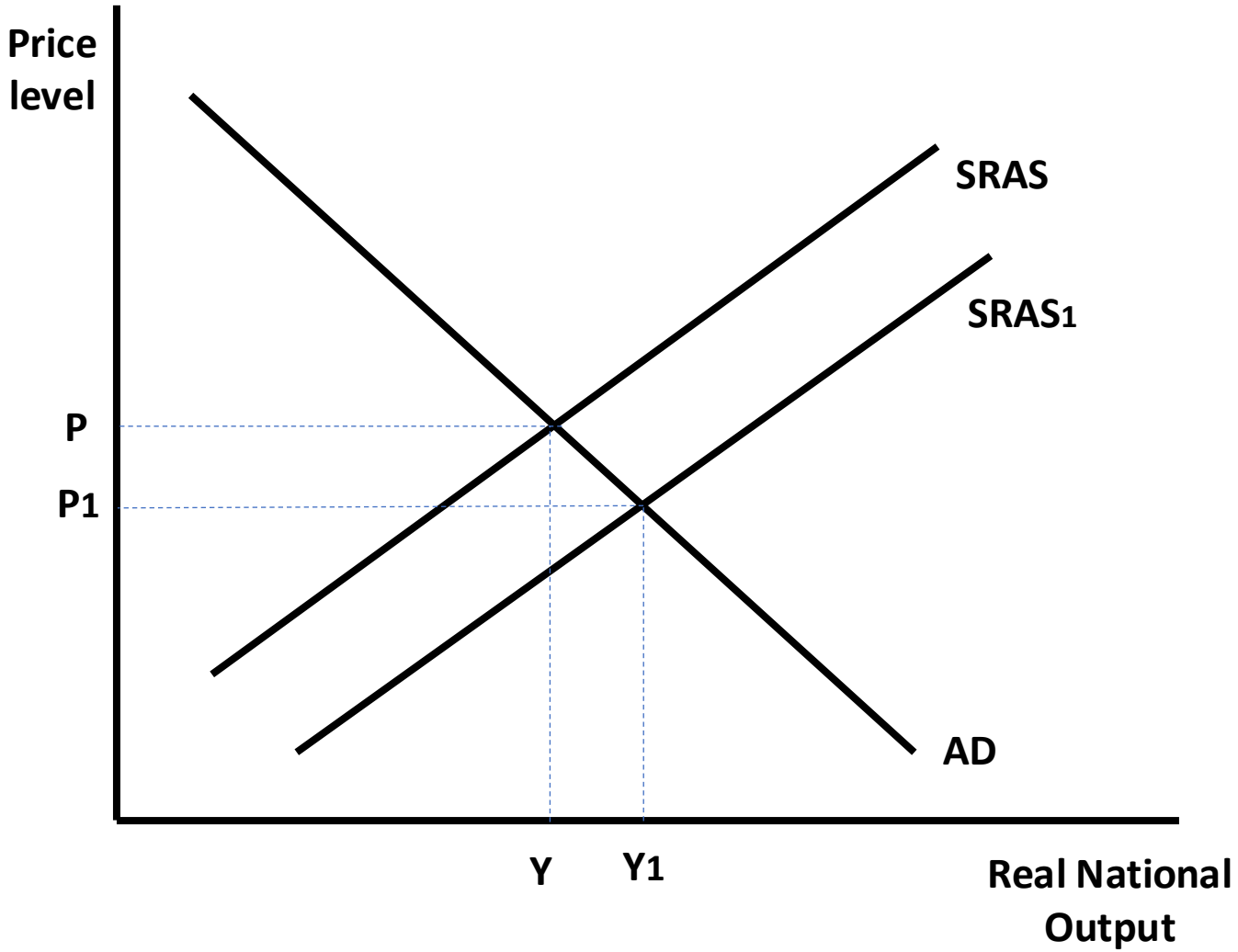


Decrease in short run aggregate supply (Classical model); shows cost-push inflation

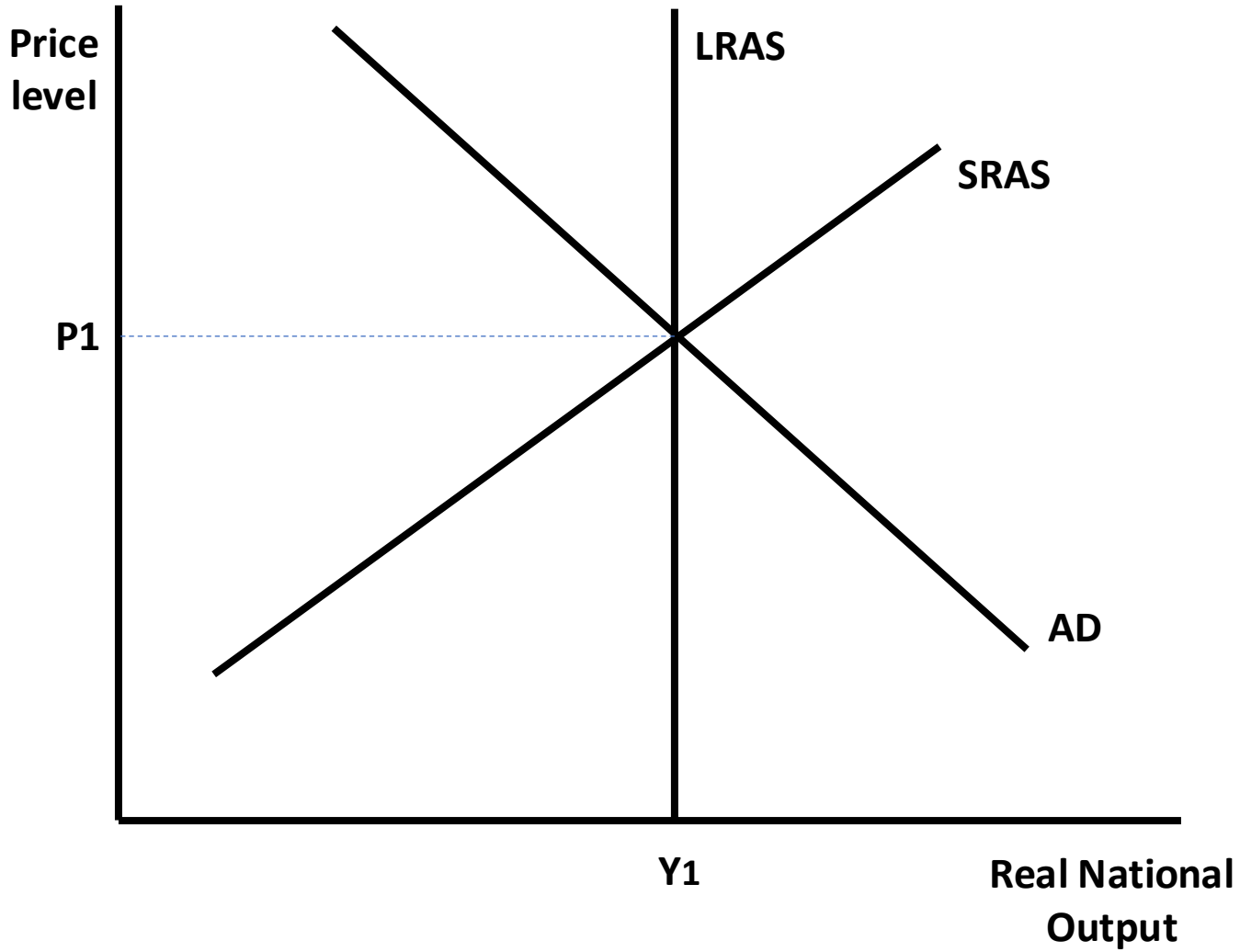


Increase in aggregate demand (Classical model); shows demand-pull inflation

tutor2u

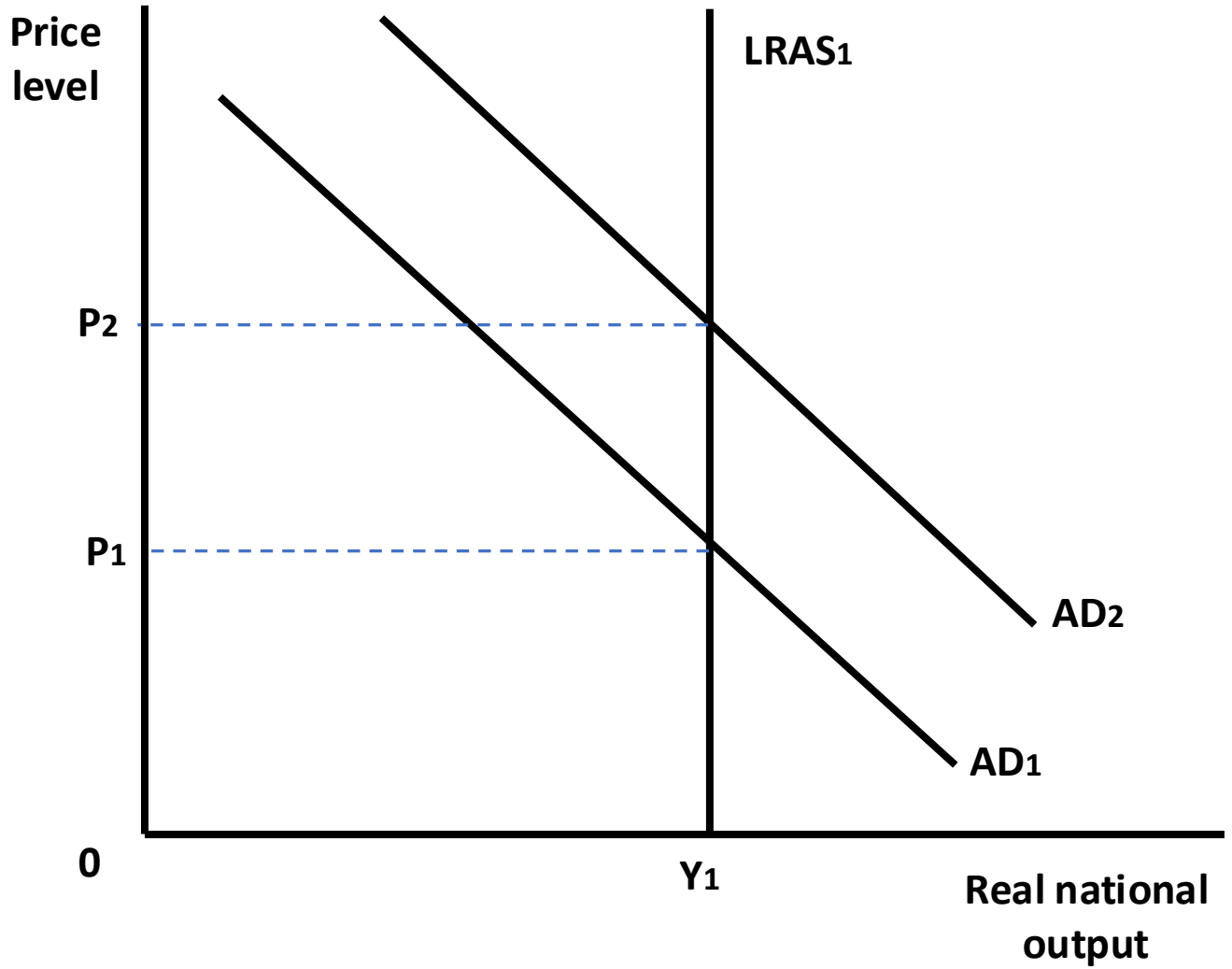


Increase in short run aggregate supply (classical model), showing disinflation or deflation due to falling costs in economy, eg lower oil prices



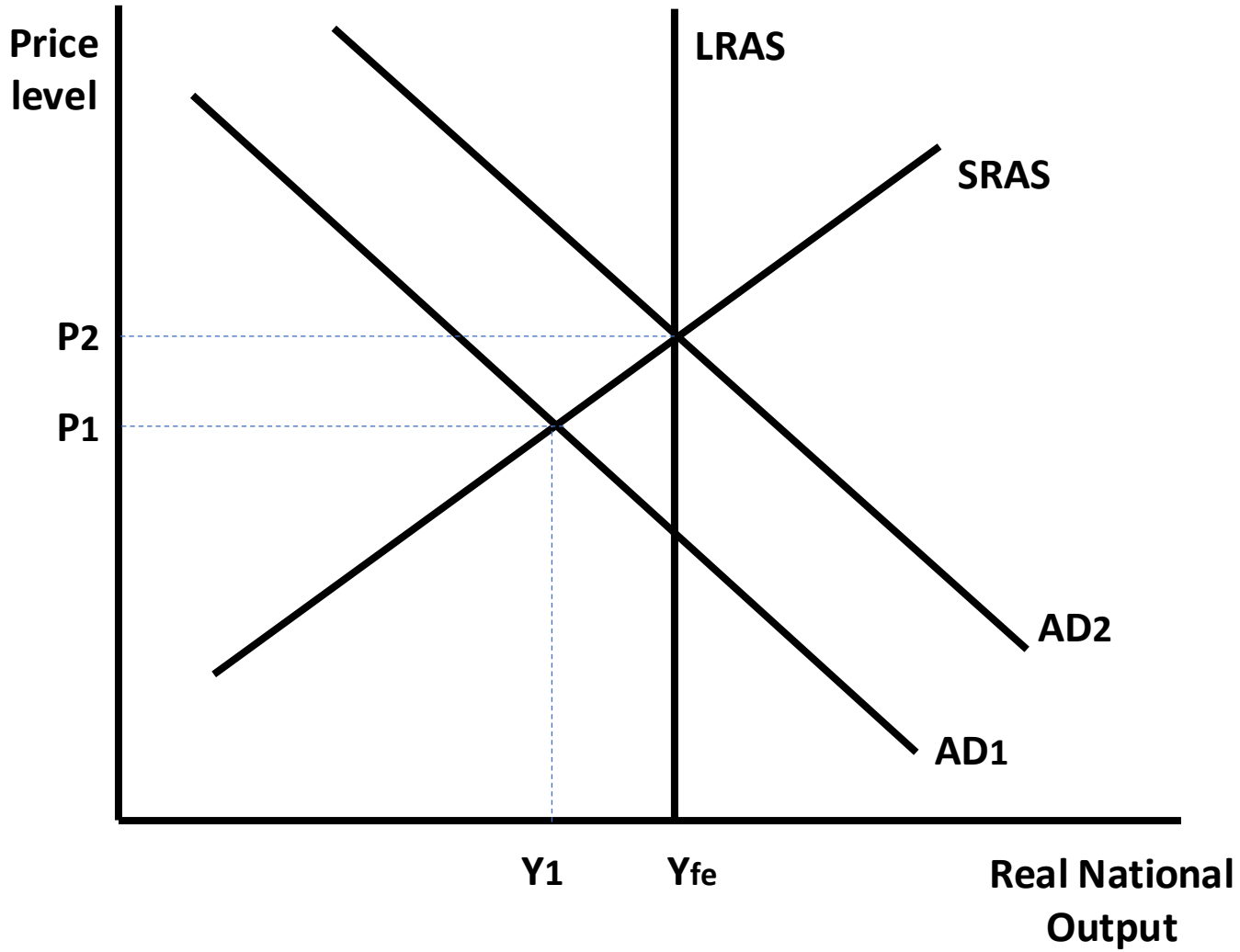
Long run equilibrium real national output and price level in the classical model

tutor2u



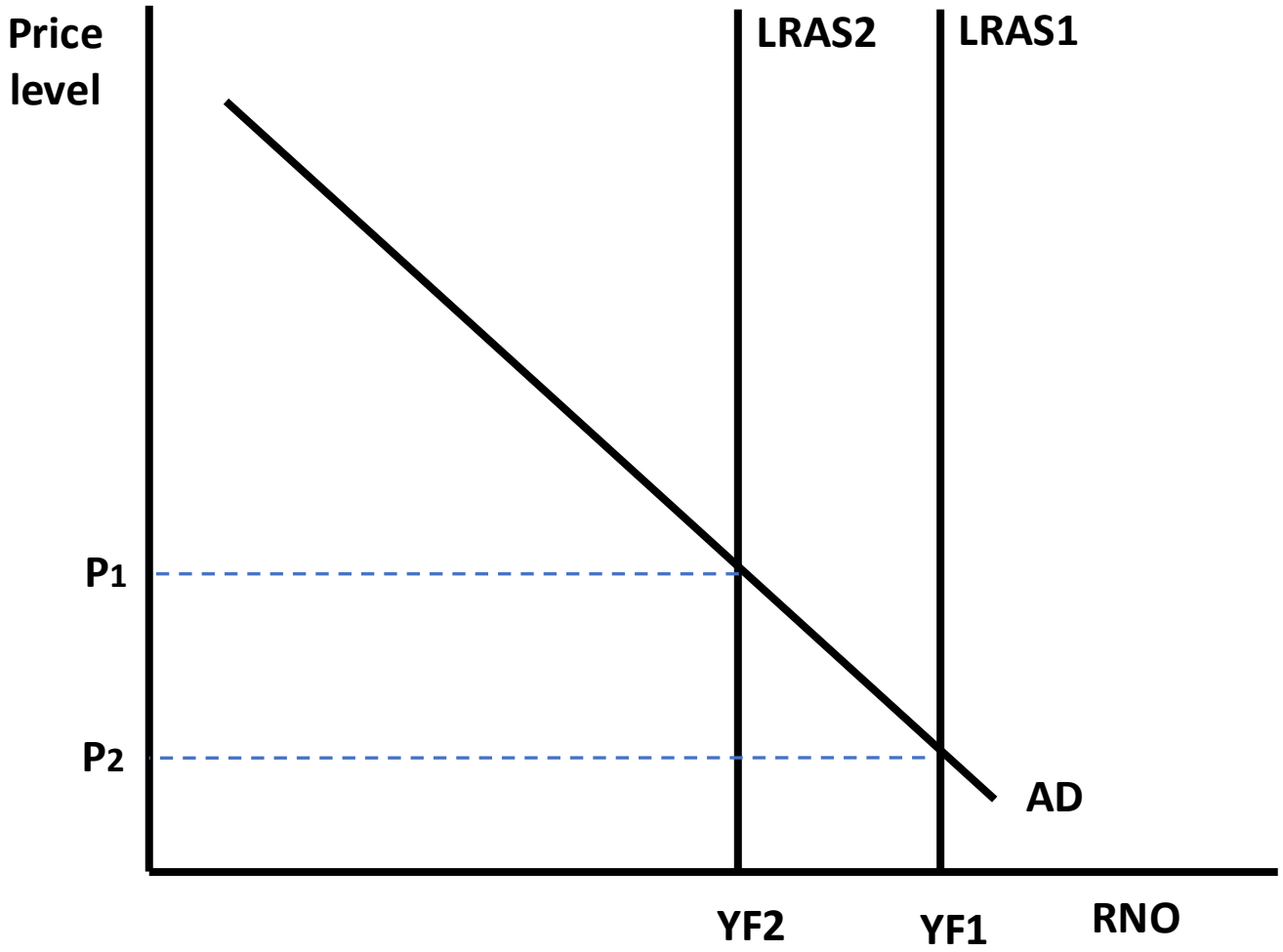
Long run effect of an increase in aggregate demand (Classical model)

tutor2u



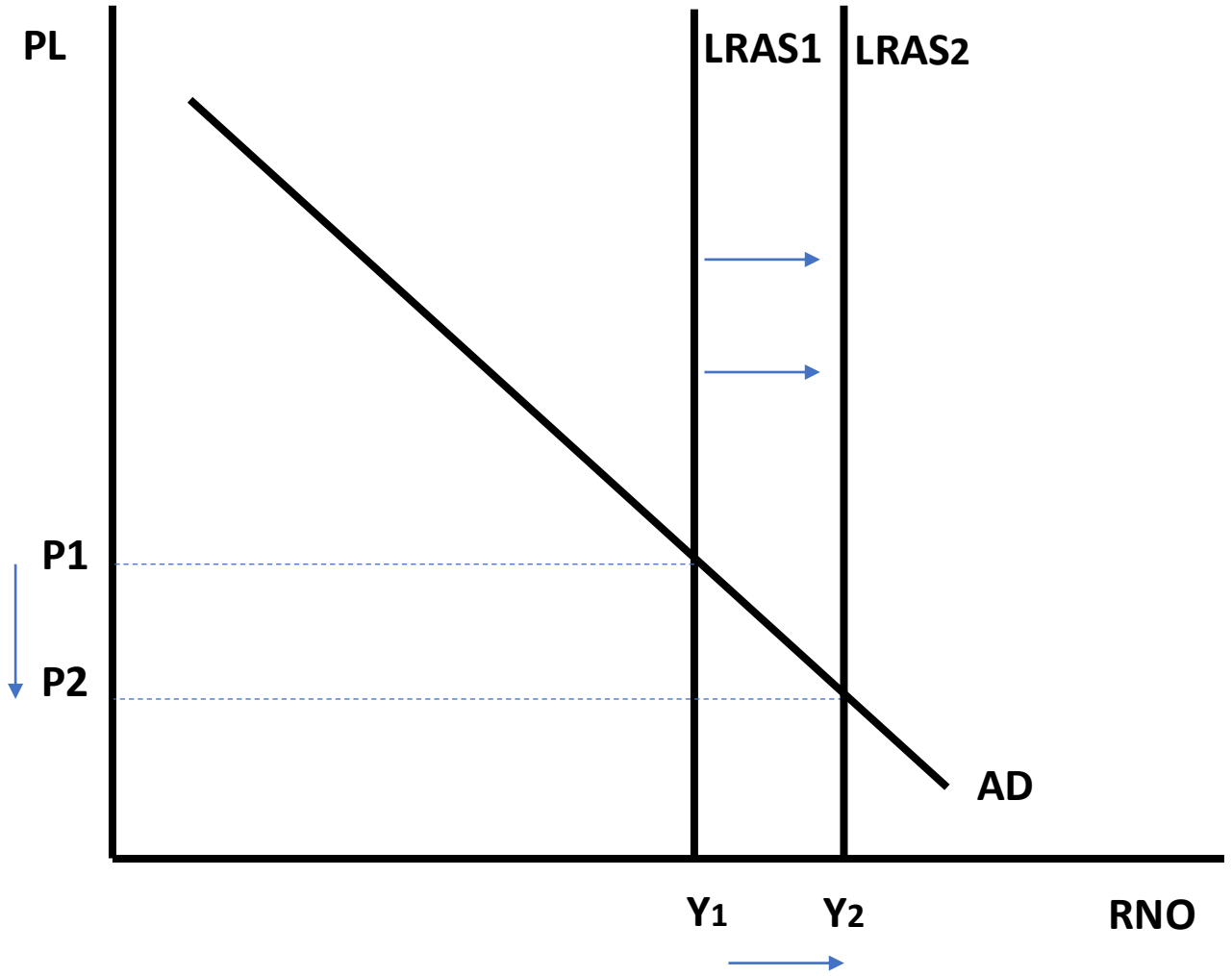
Increase in aggregate demand (Classical model)

tutor2u



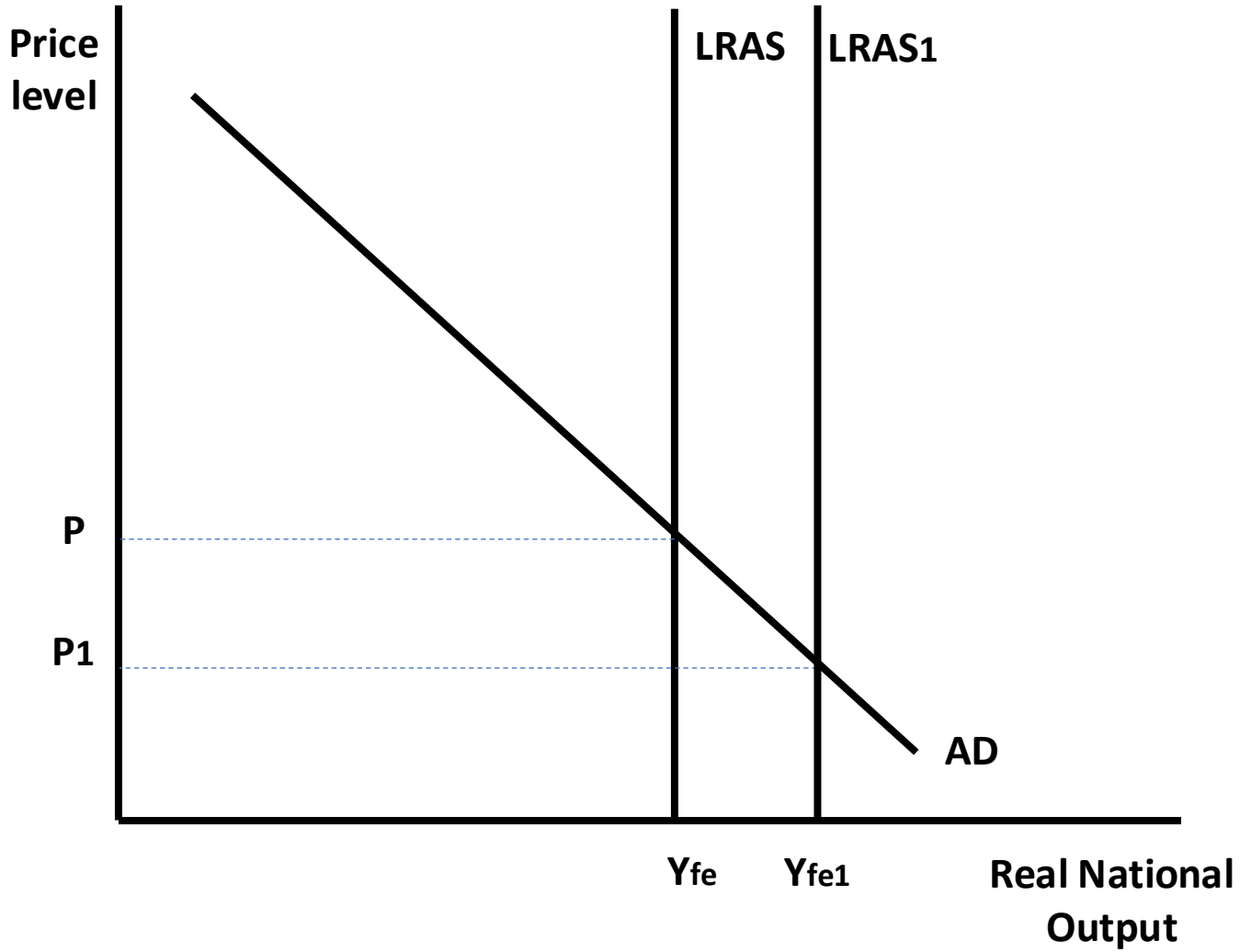
Decrease in long run aggregate supply (classical model)

tutor2u



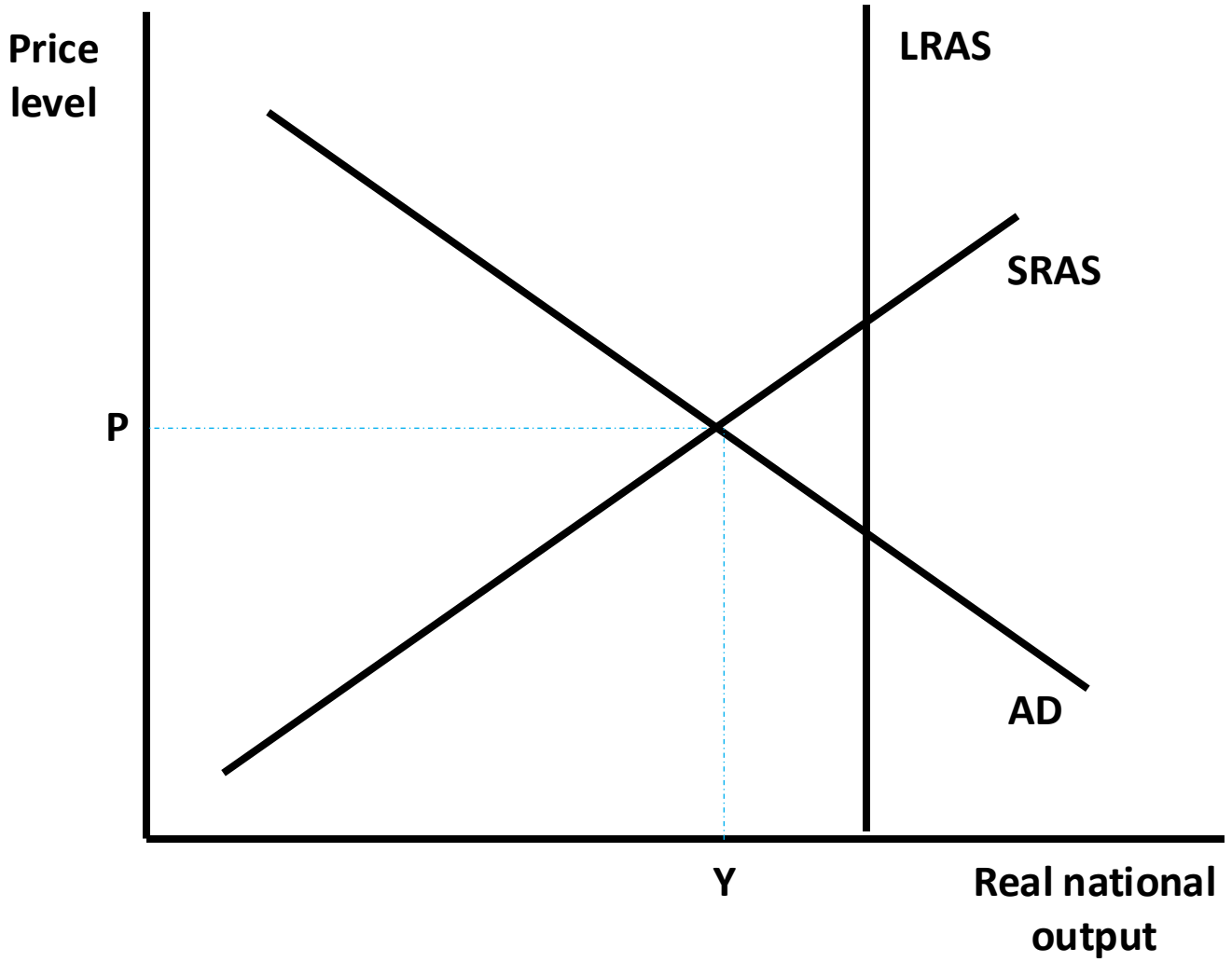
Increase in long run aggregate supply (Classical model)

tutor2u



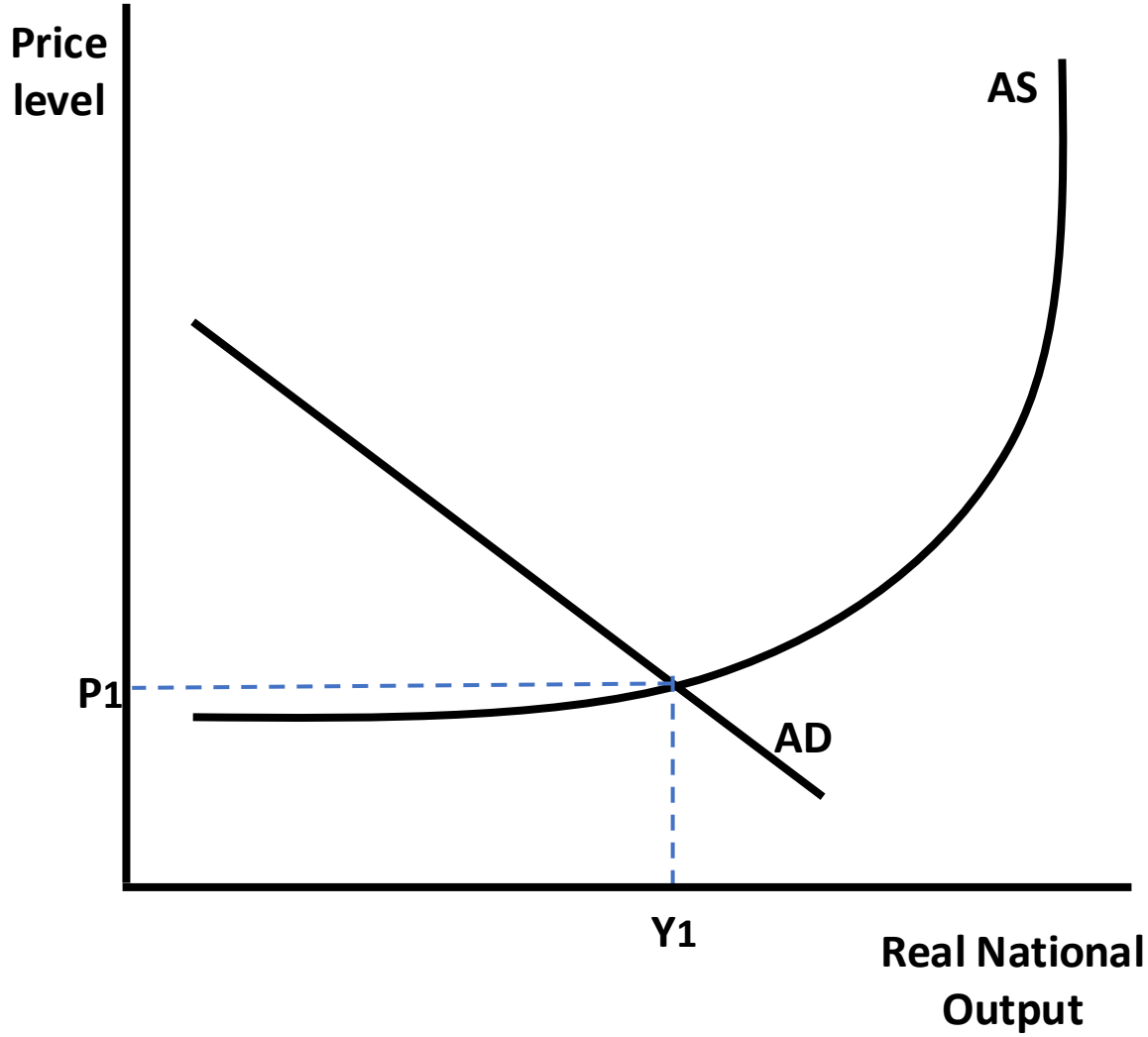
Increase in economy's productive potential; increase in long run aggregate supply (classical model) increasing the full employment level of real national output

tutor2u

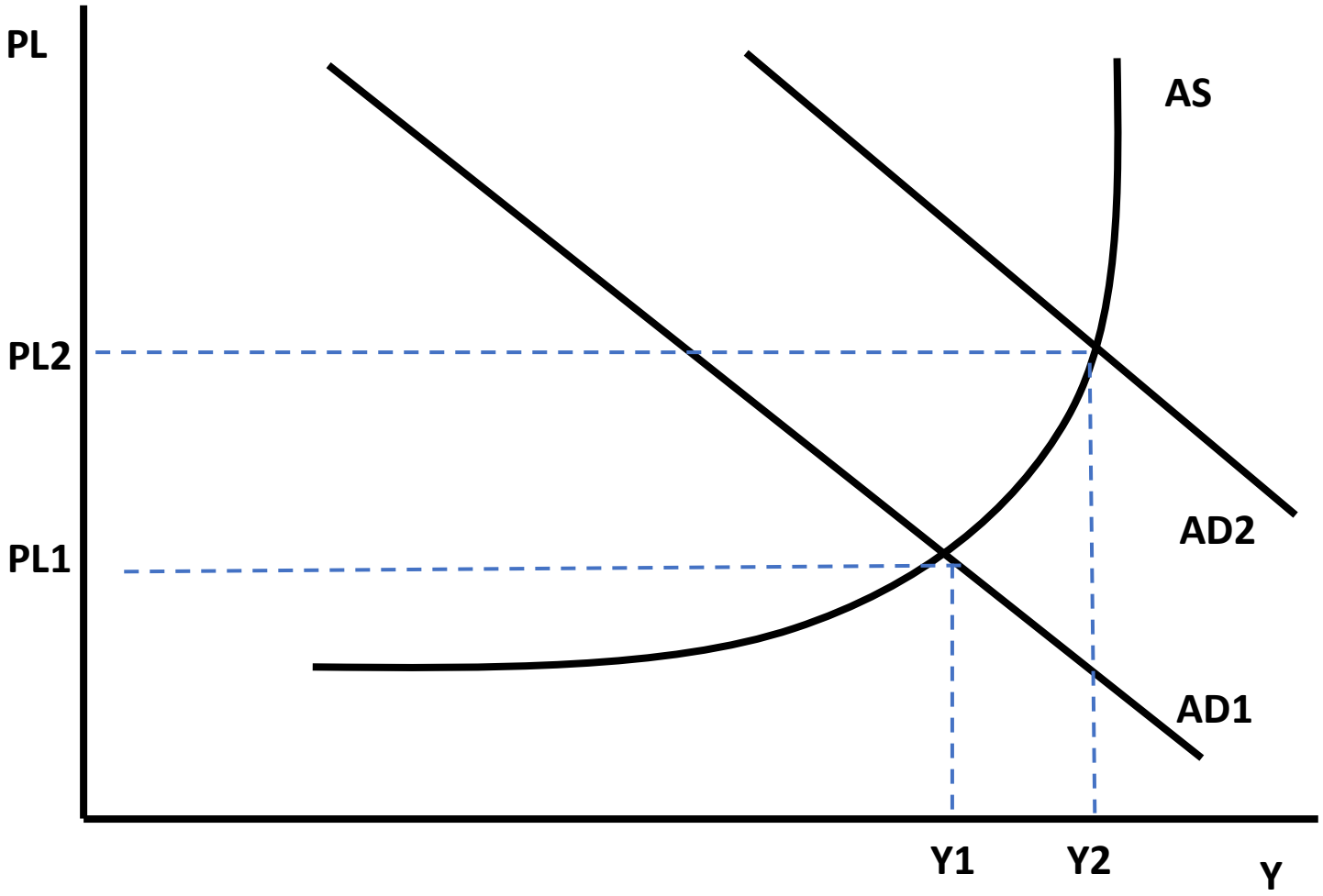


Negative output gap (Classical model)

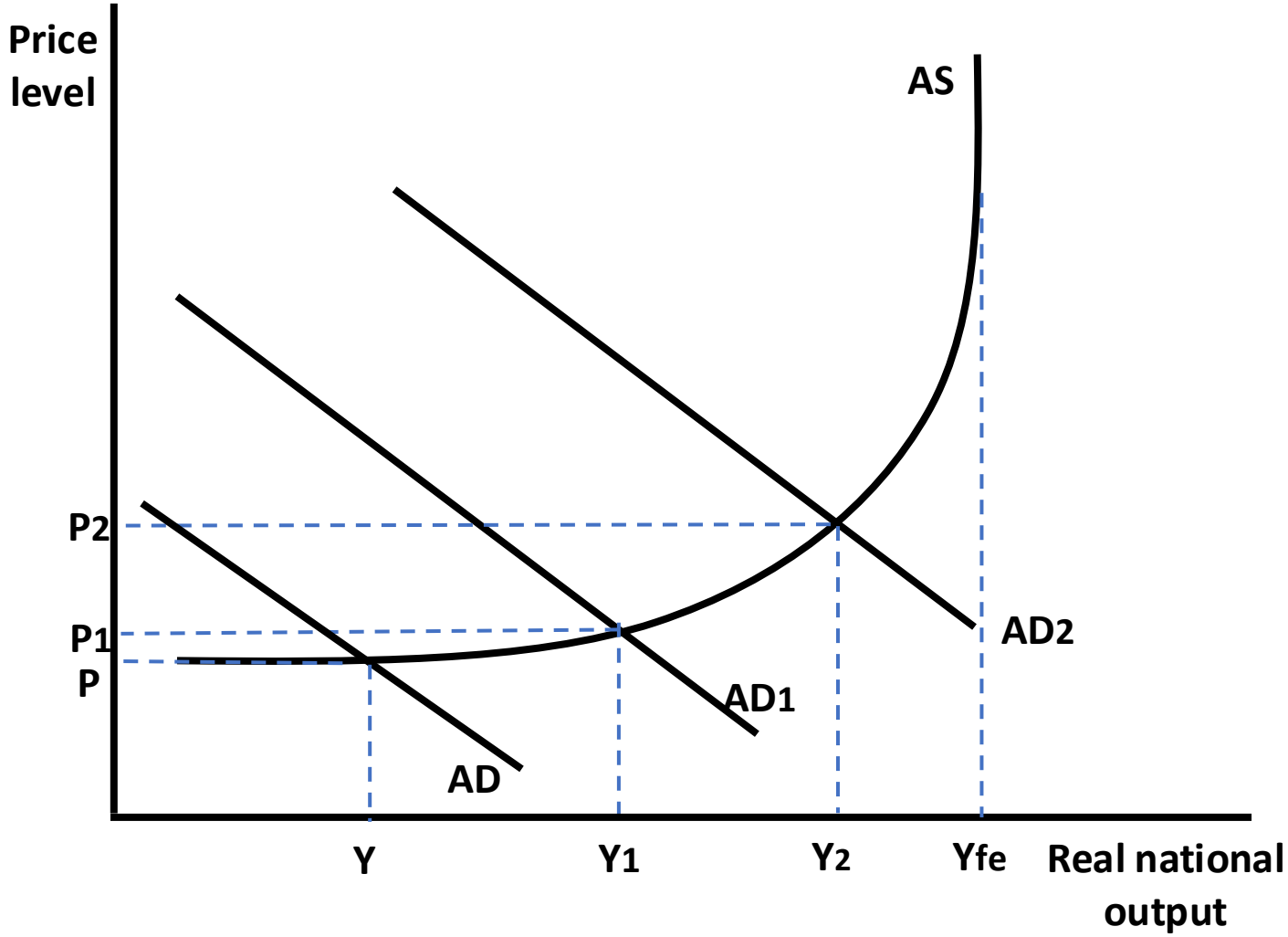
tutor2u



Macroeconomic Equilibrium (Keynesian model) with a large negative output gap



Increase in aggregate demand, Keynesian model



Increases in aggregate demand (Keynesian model), with additional multiplier effect

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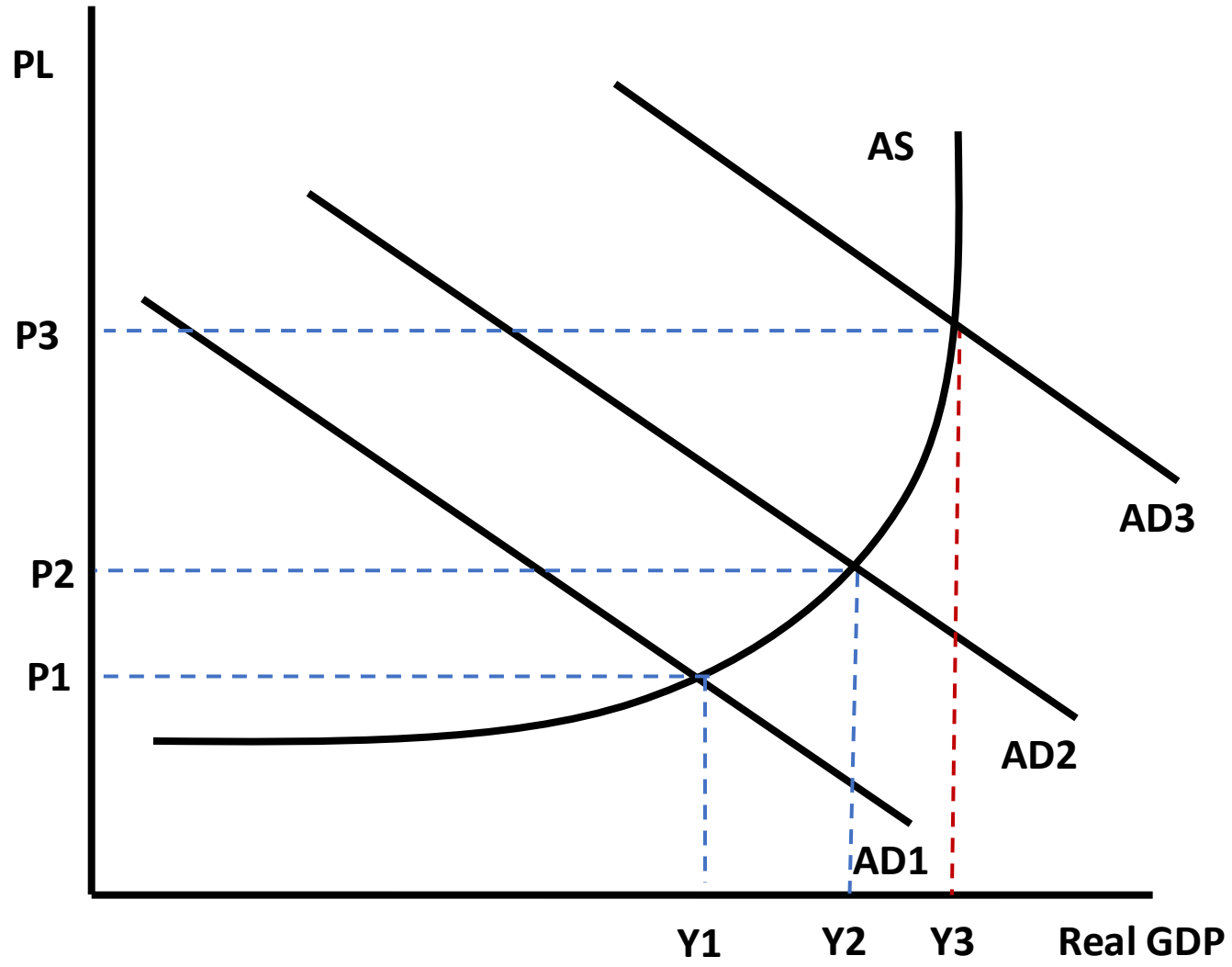
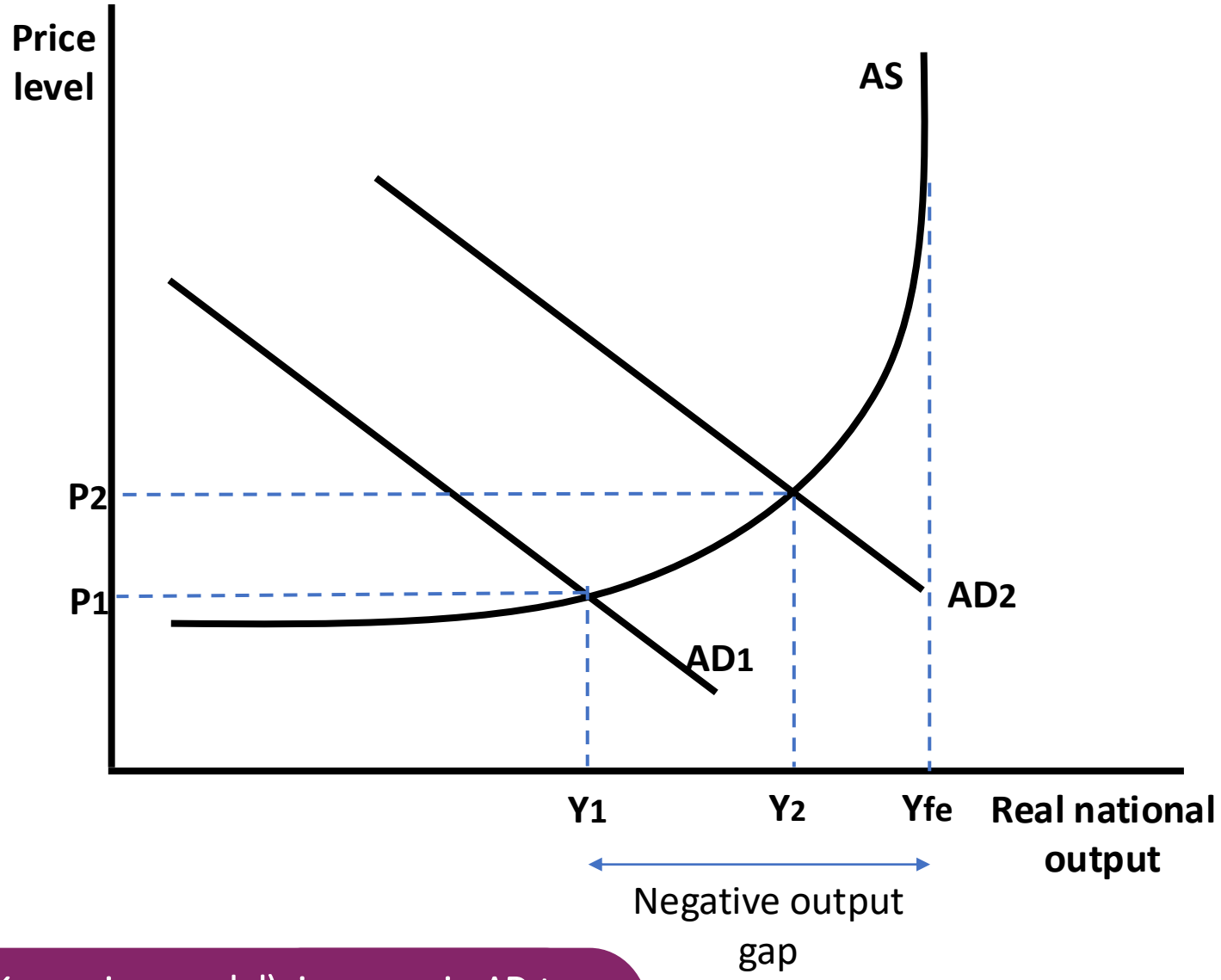
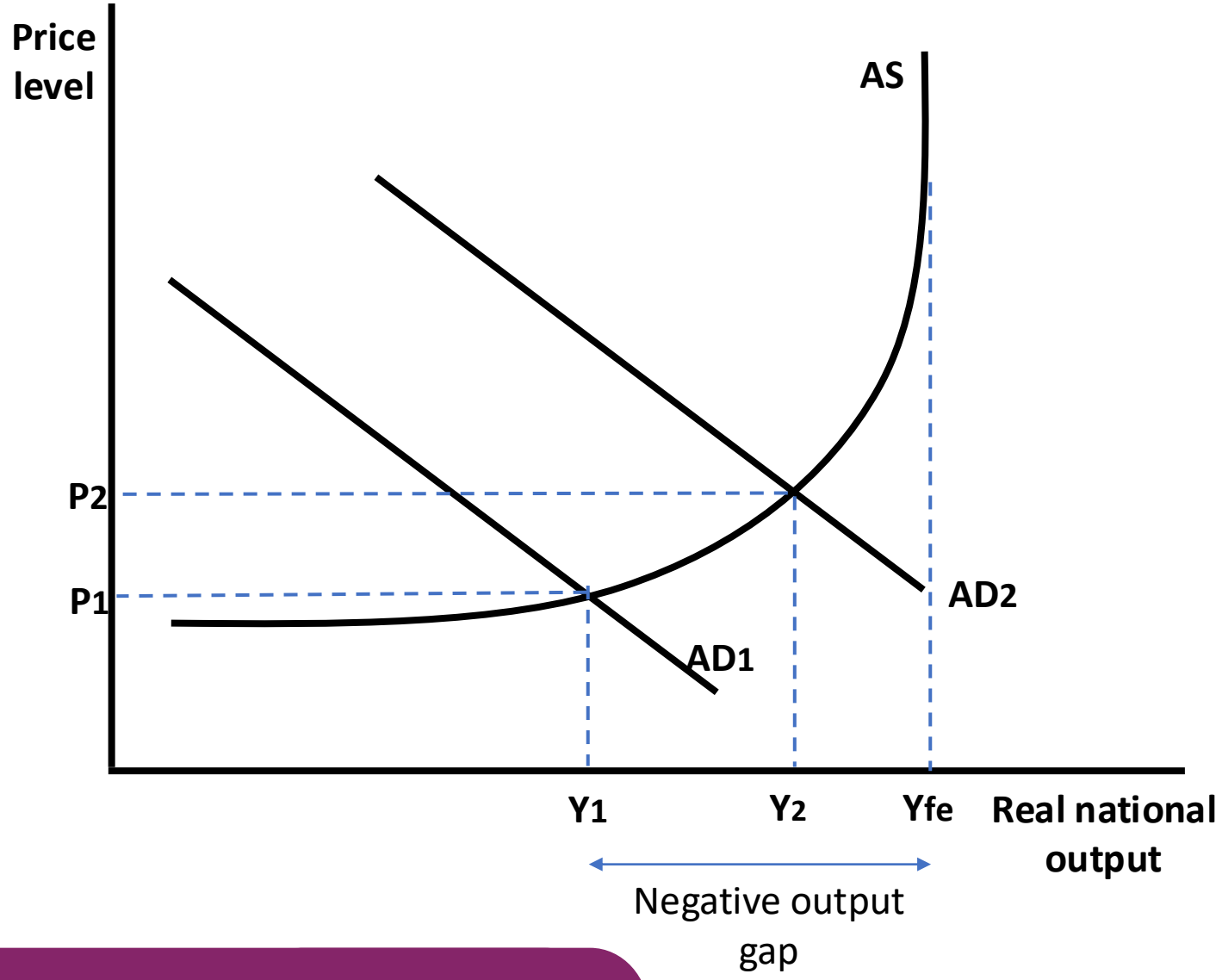


Increase in aggregate demand with multiplier effect (Keynesian model, leading to demand-pull inflation



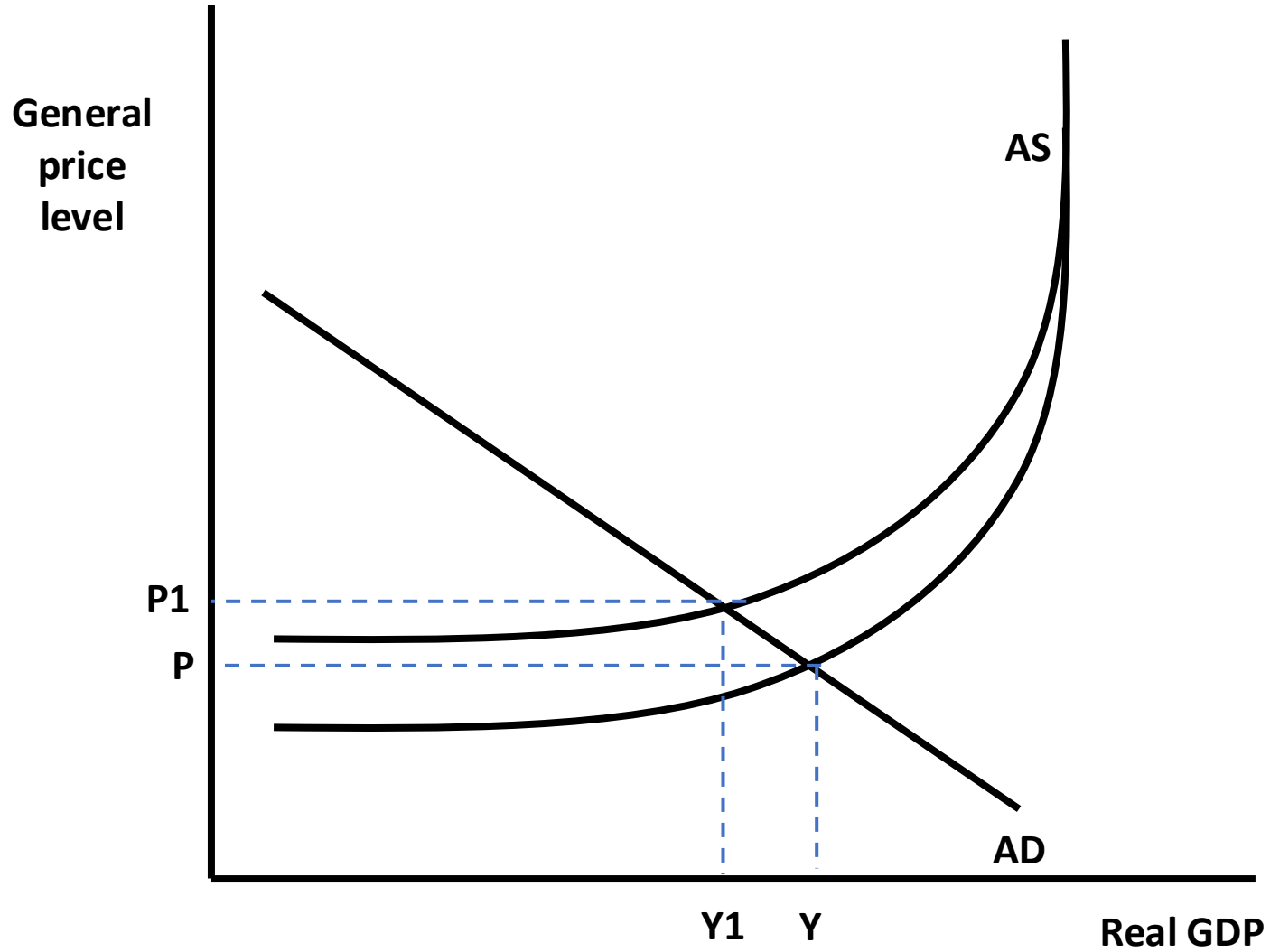
Negative output gap between Y1 and Yfe (Keynesian model); increase in AD to AD2 starts to close the gap

tutor2u

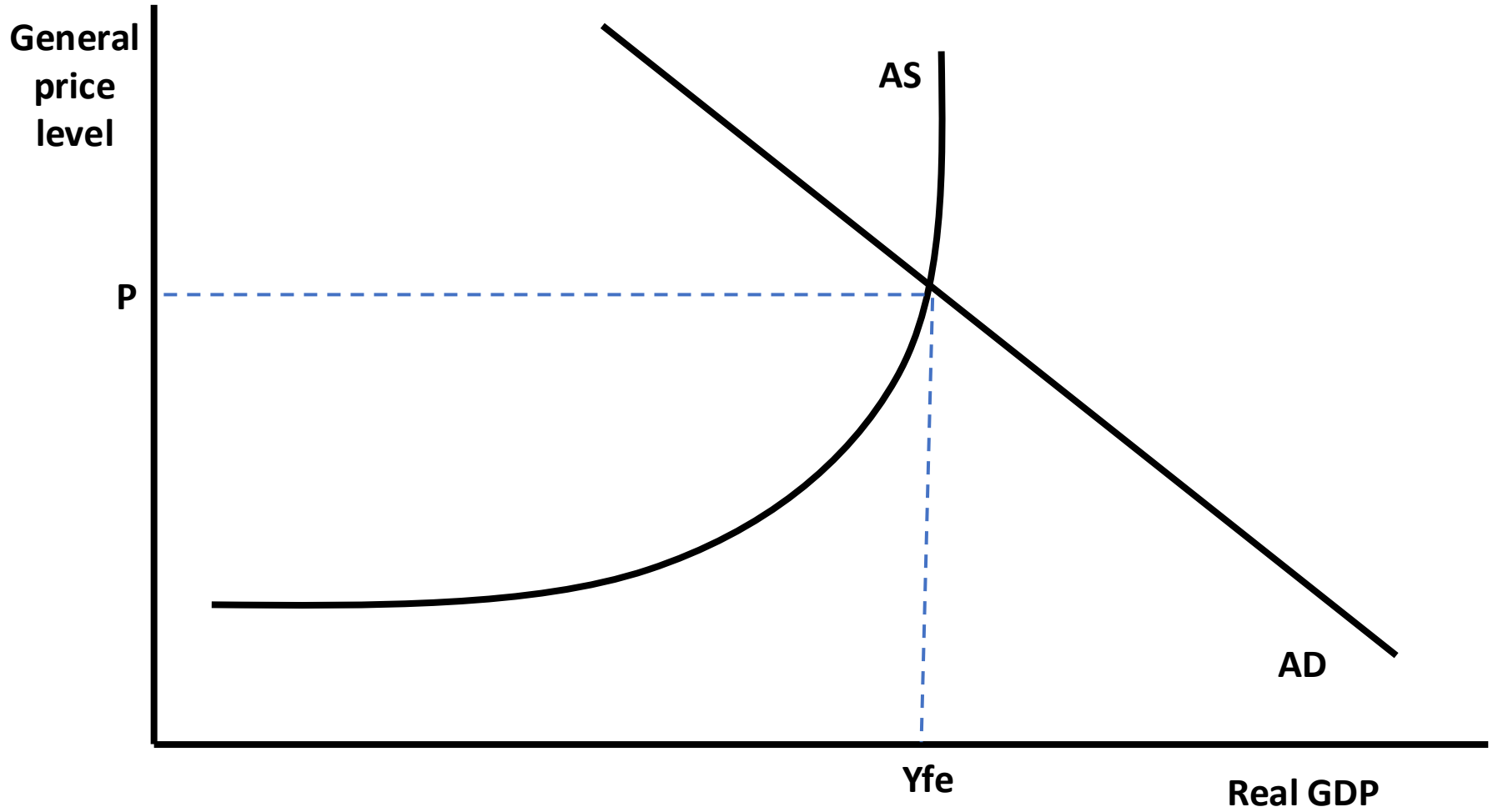


Decrease in aggregate demand (Keynesian model)

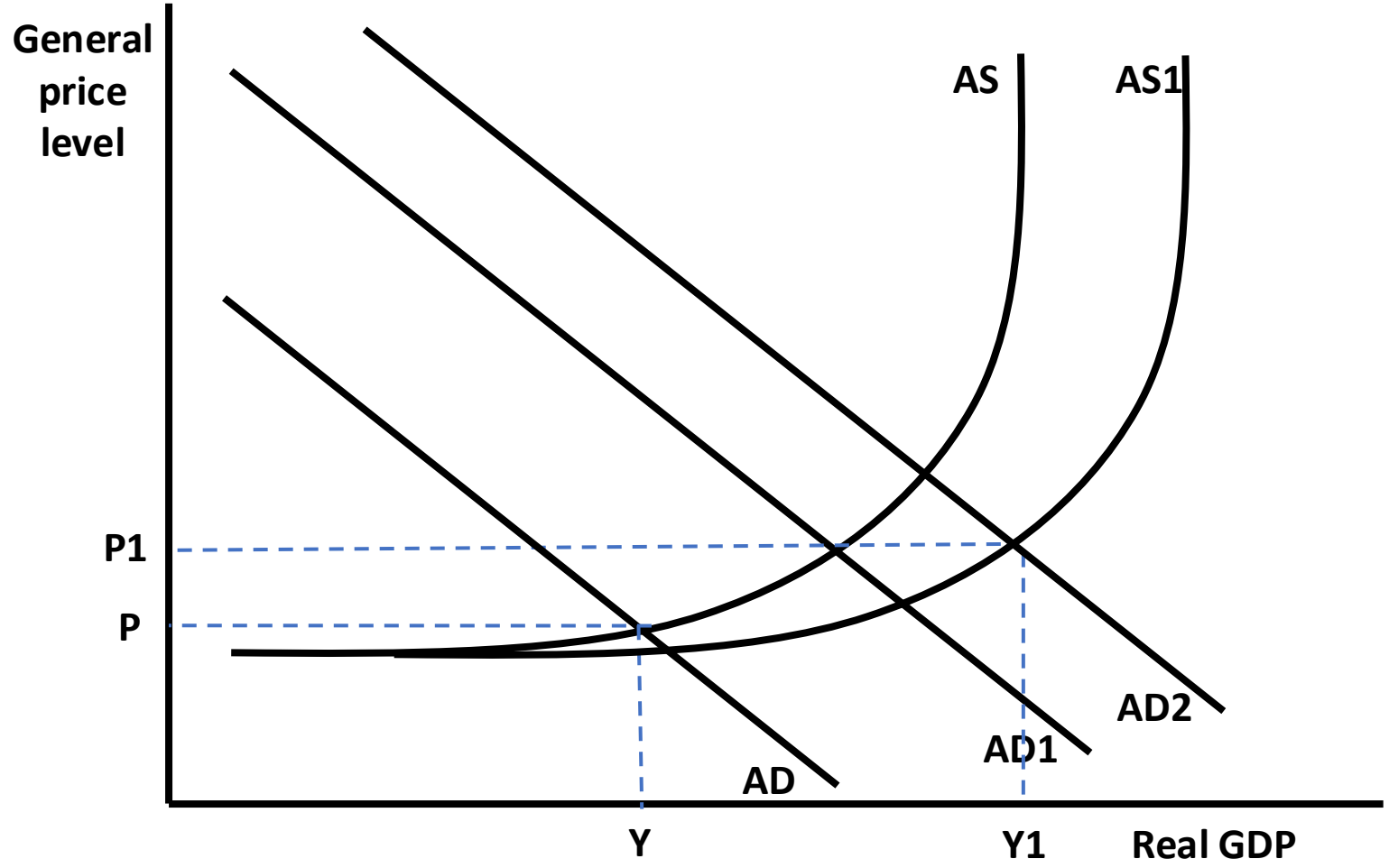
tutor2u



Impact of decrease in aggregate supply caused by short run factors (no change in productive capacity of economy)

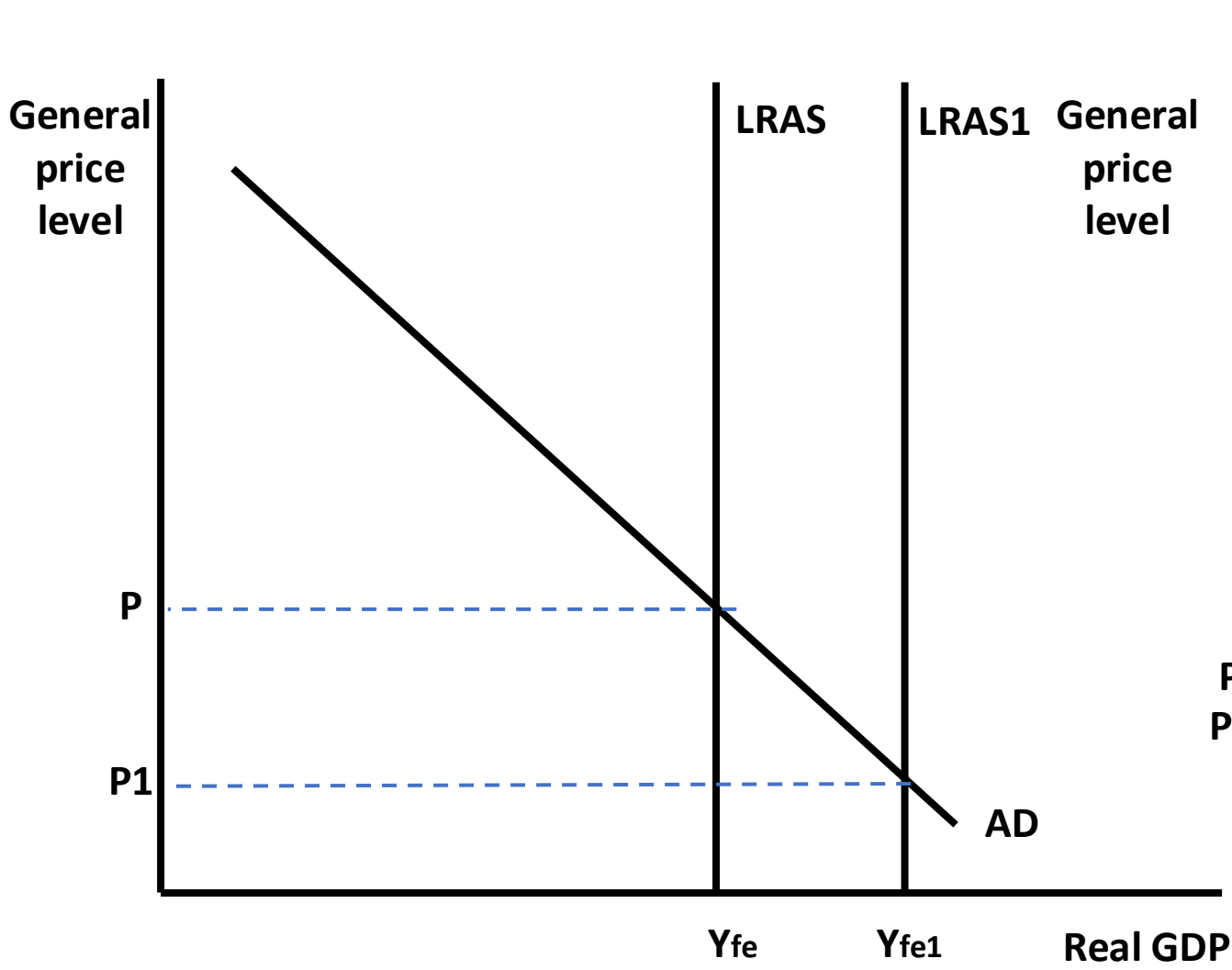


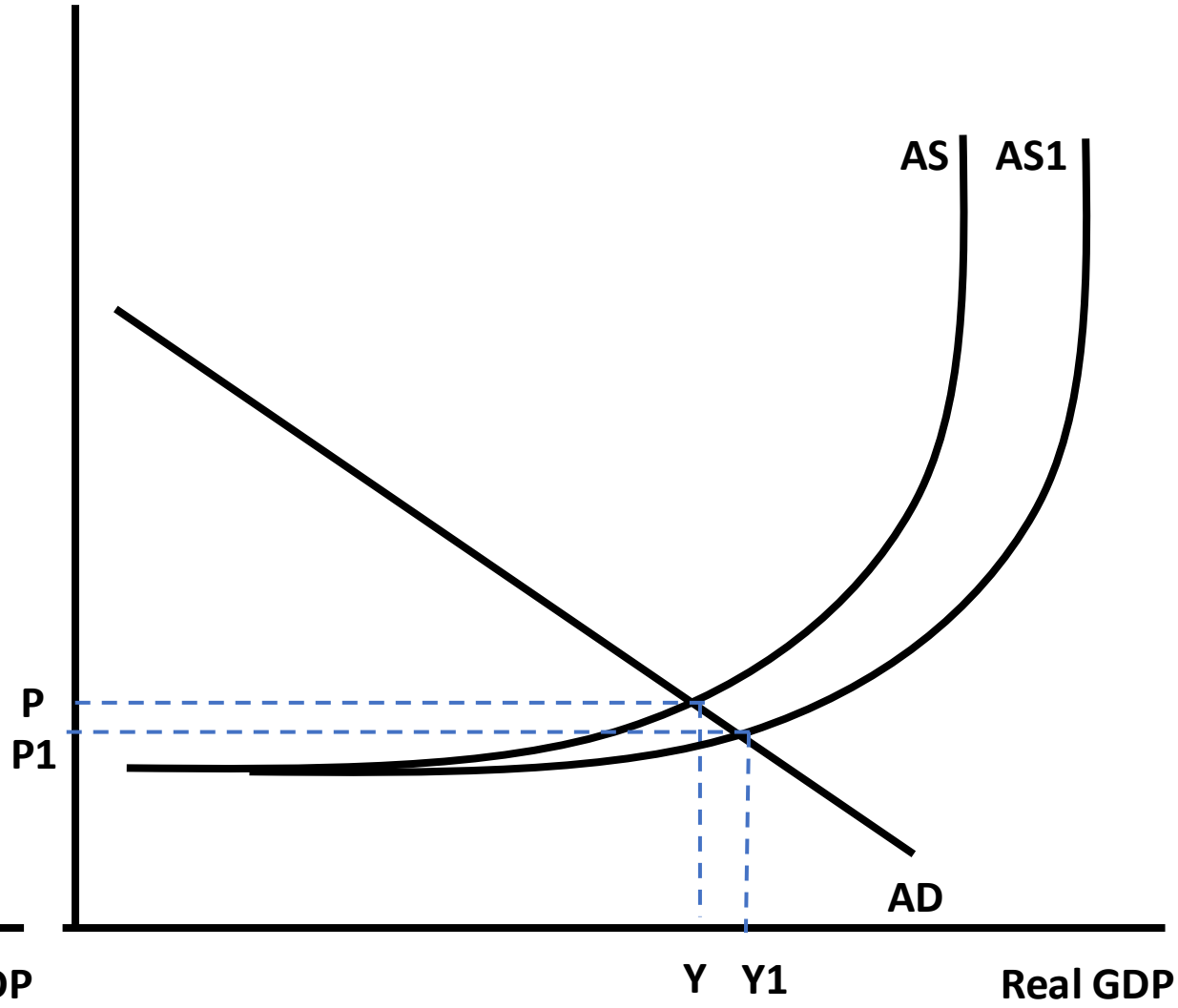
Aggregate demand required for economy to operate at full employment output



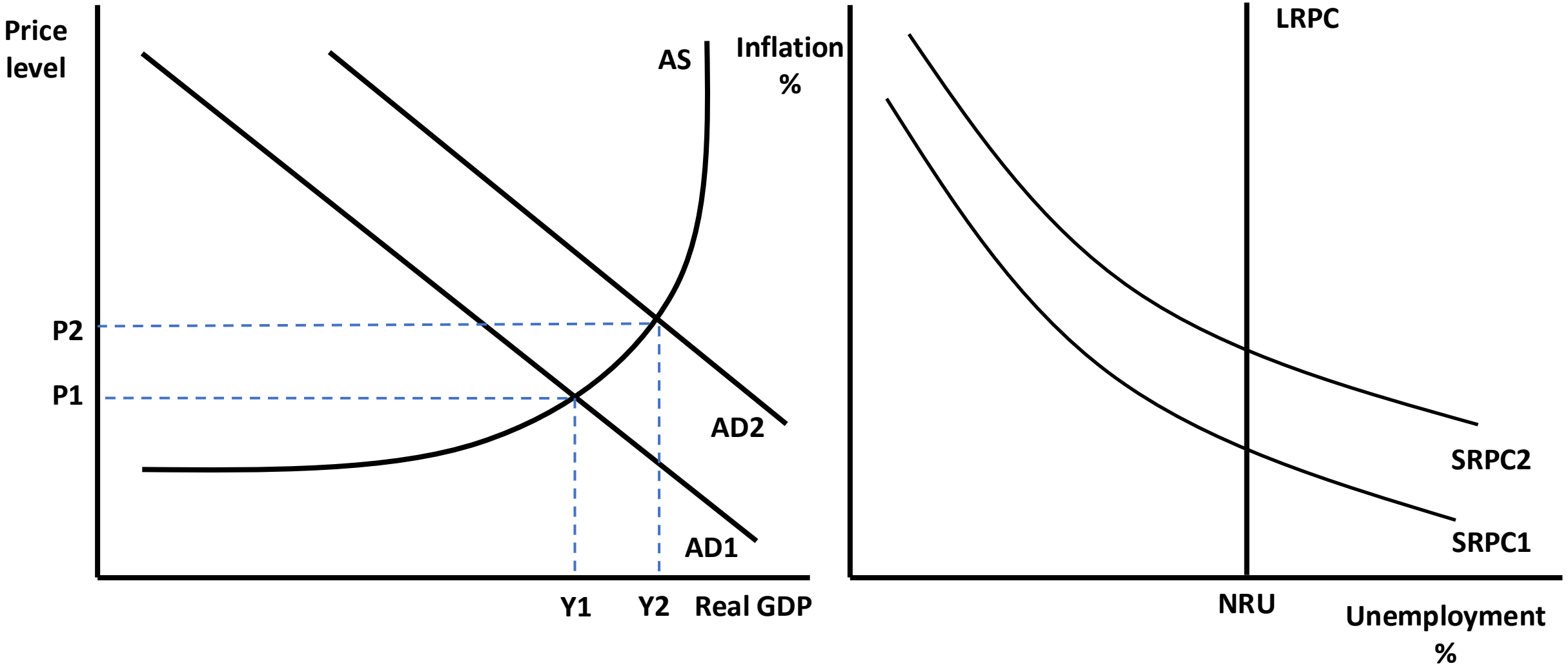
Impact of an increase in capital investment with multiplier effect on economy (Keynesian model)

tutor2u



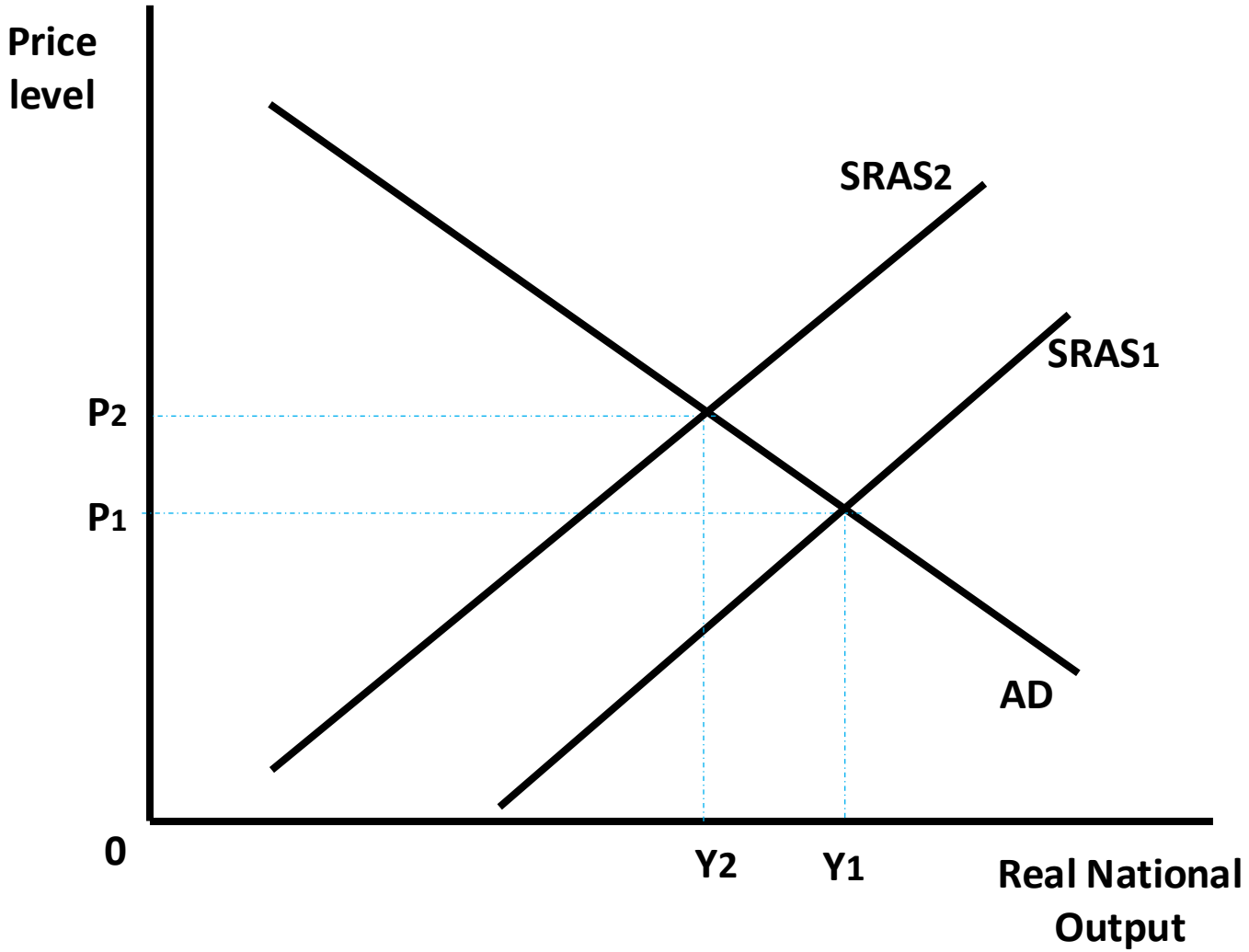


Increase in productive potential of economy (i) in classical model and (ii) in Keynesian model)



Relationship between AD/AS model and Phillips curve; increase in price level raises expectation of inflation shifting short run Phillips curve outwards

tutor2u



Cost push inflation (Classical model)

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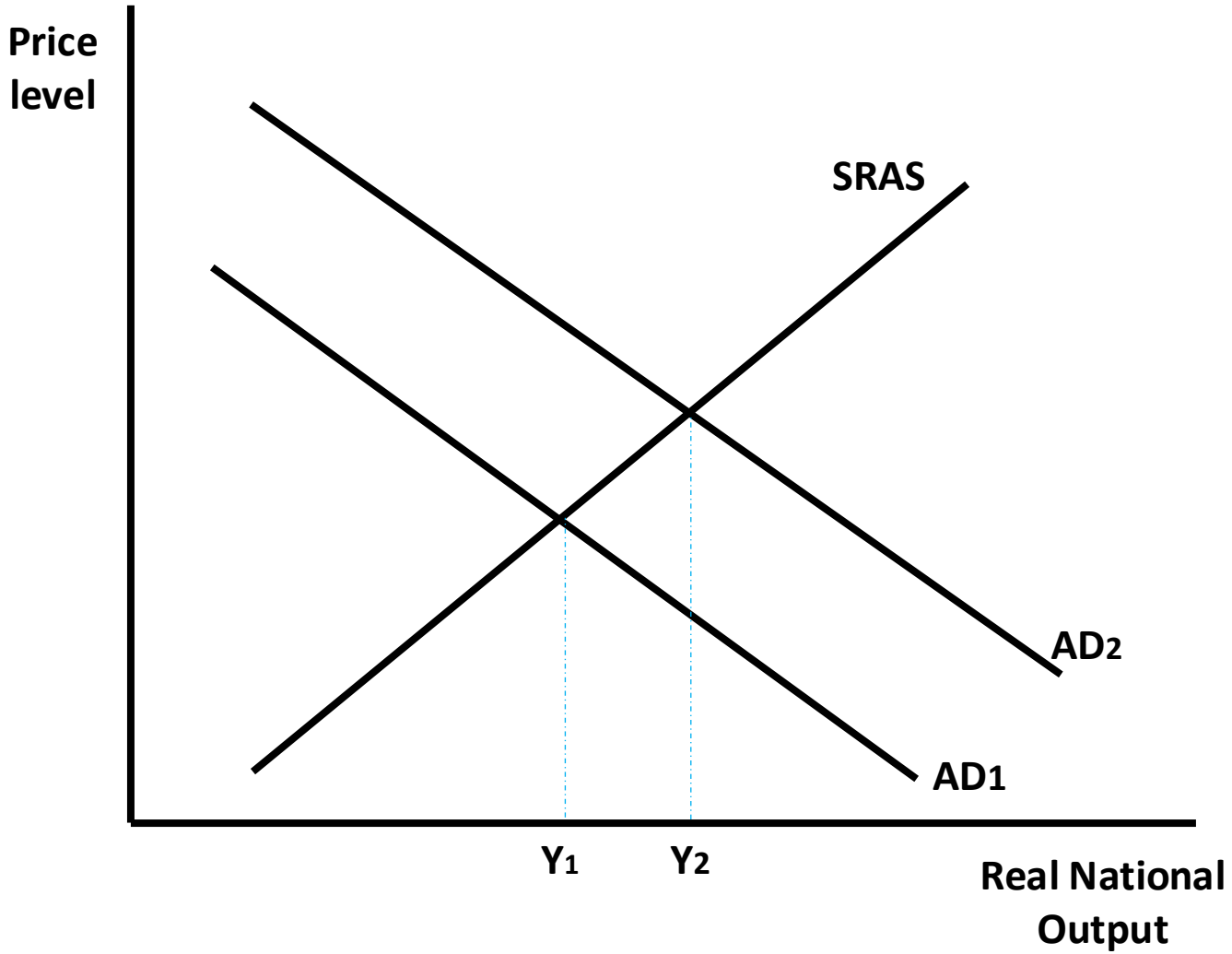

Demand- pull inflation (classical model)

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ECONOMICS DIAGRAMS

FINANCIAL MARKETS DIAGRAMS

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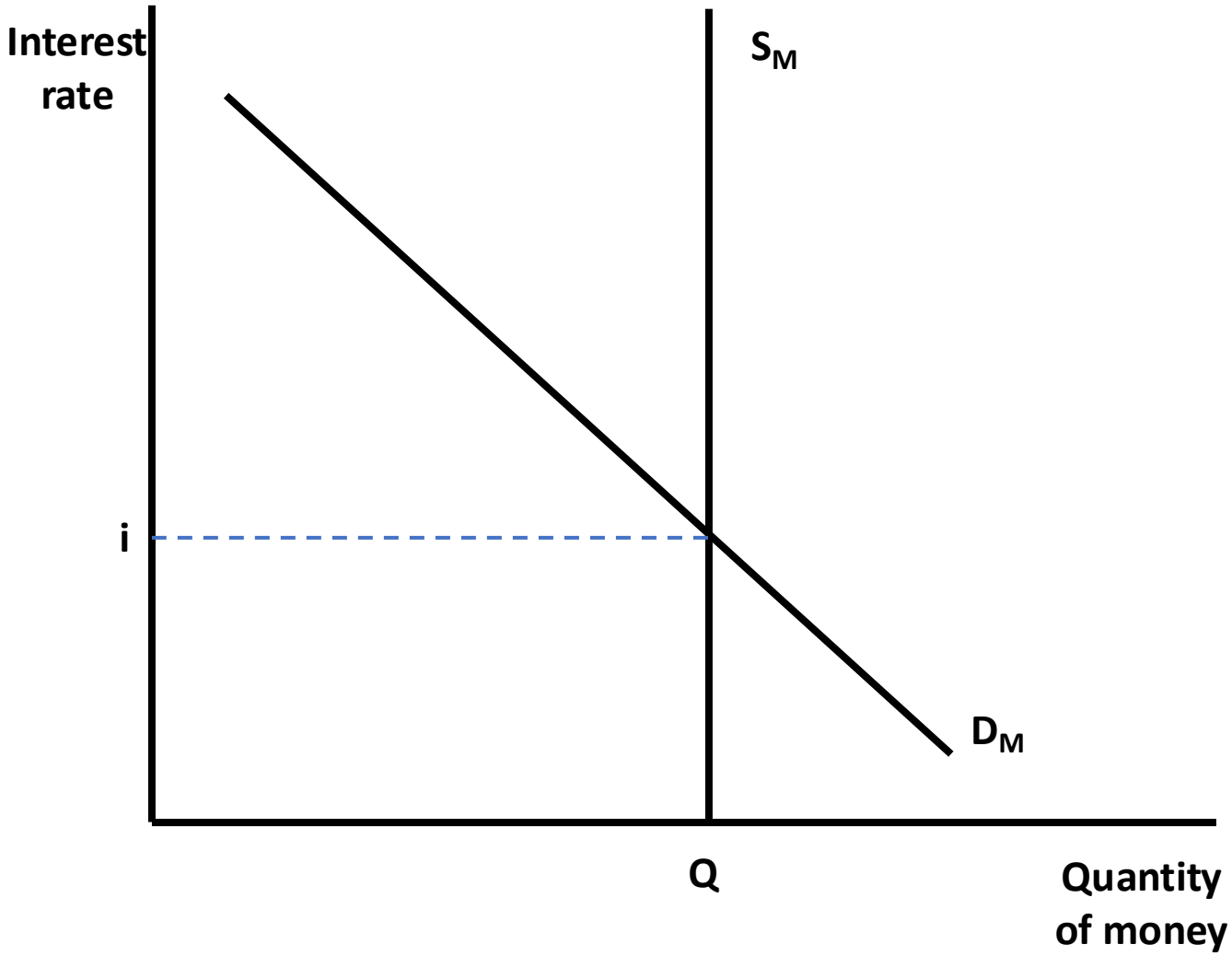
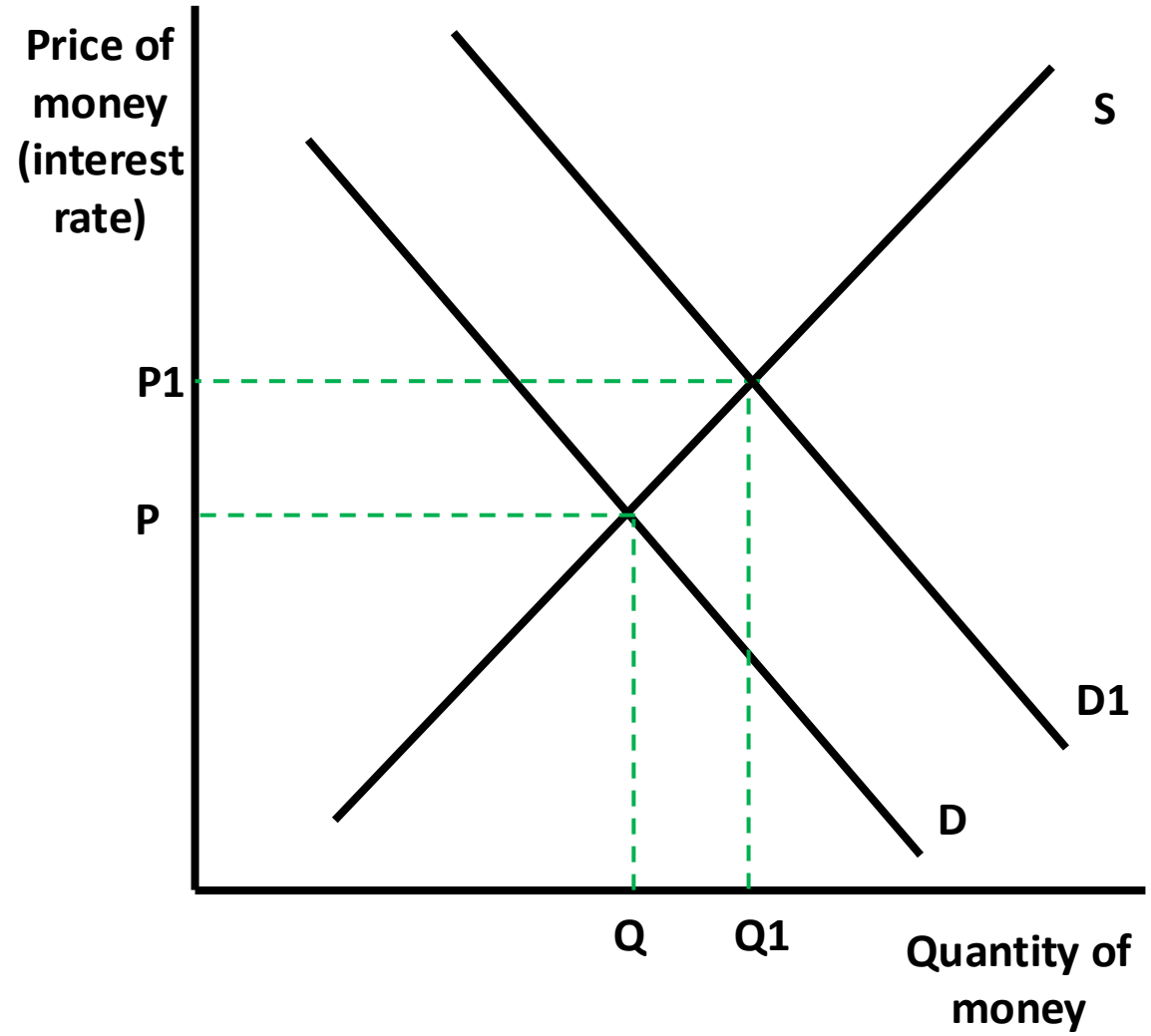
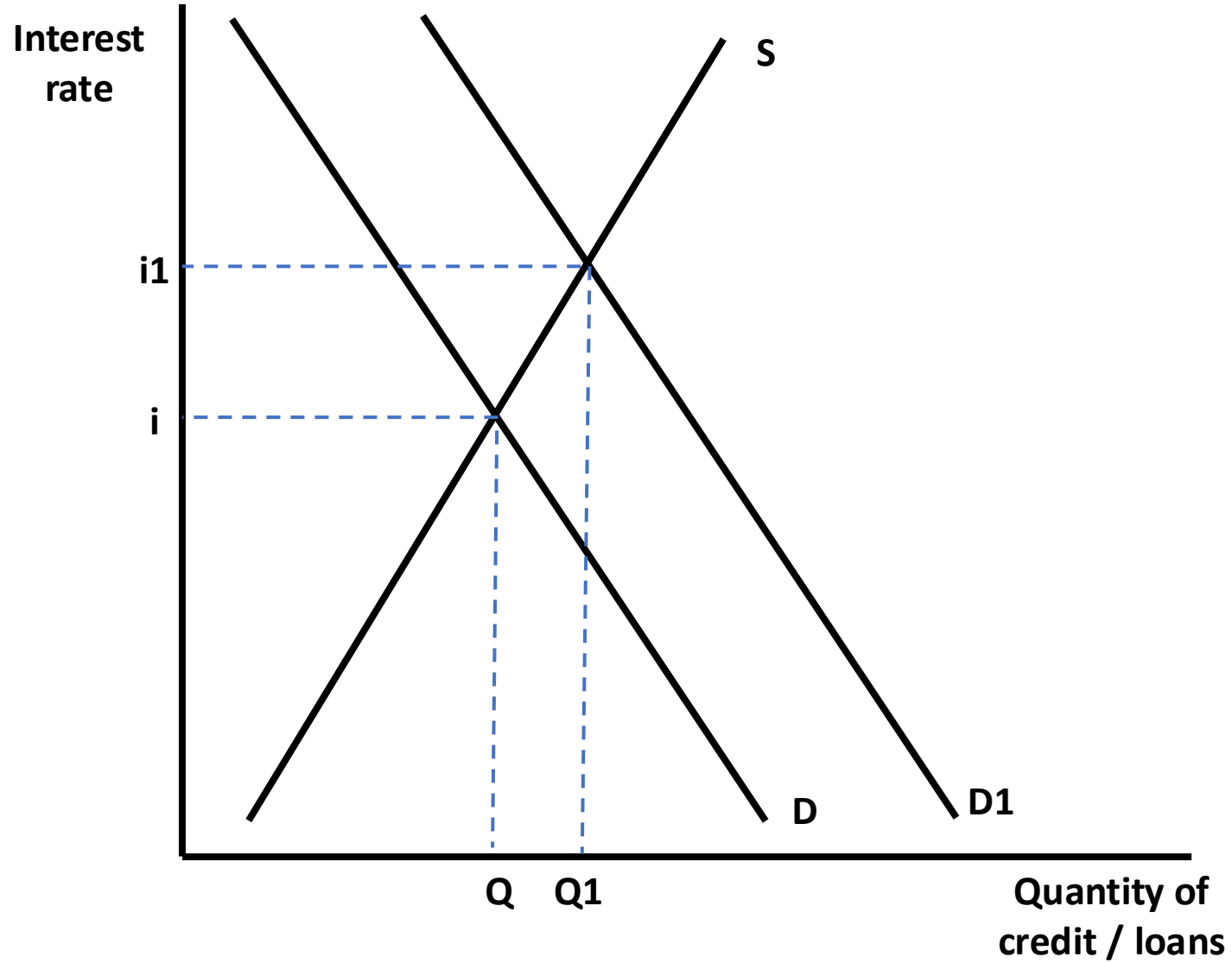


Money market equilibrium

tutor2u

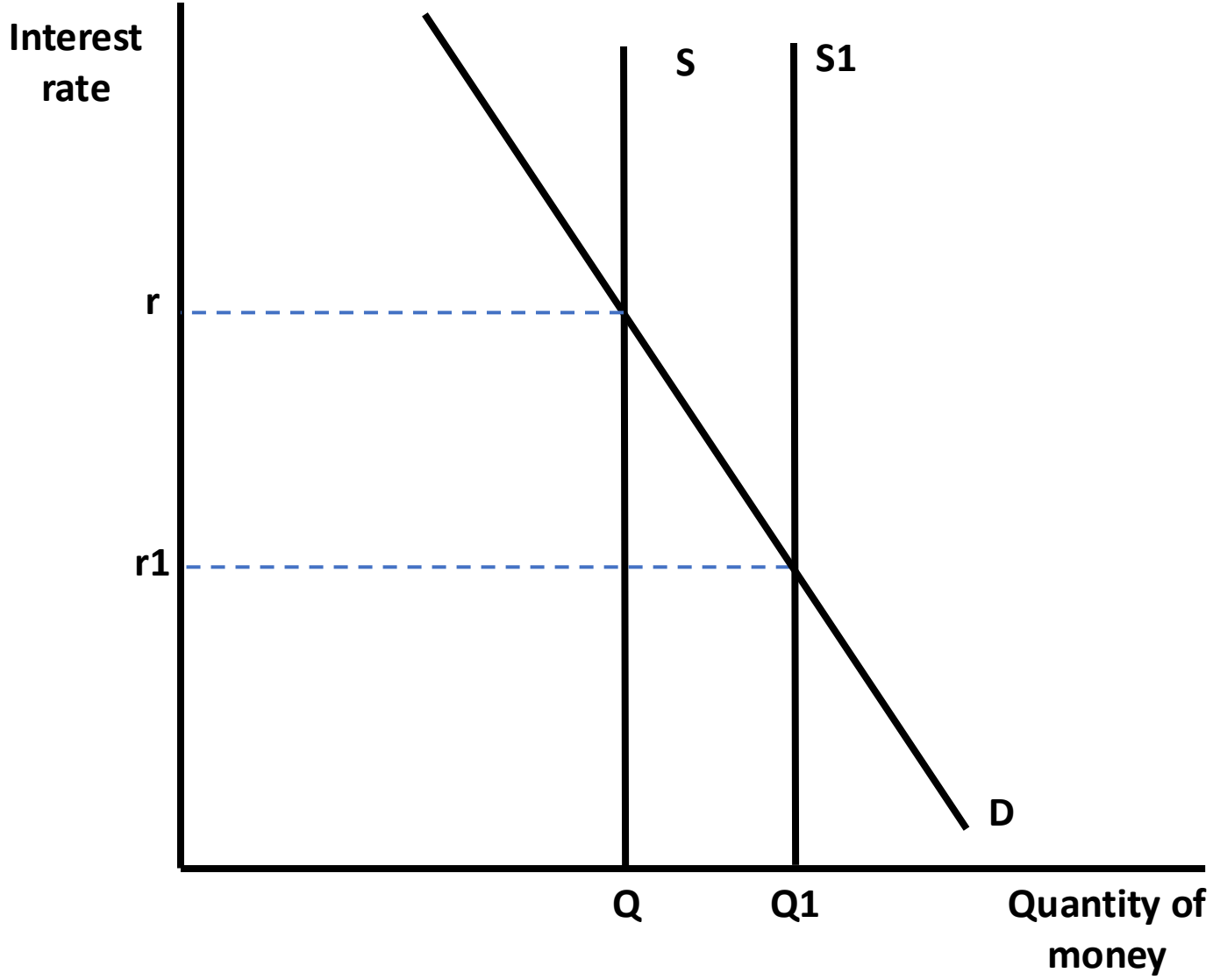


Alternative money market diagram



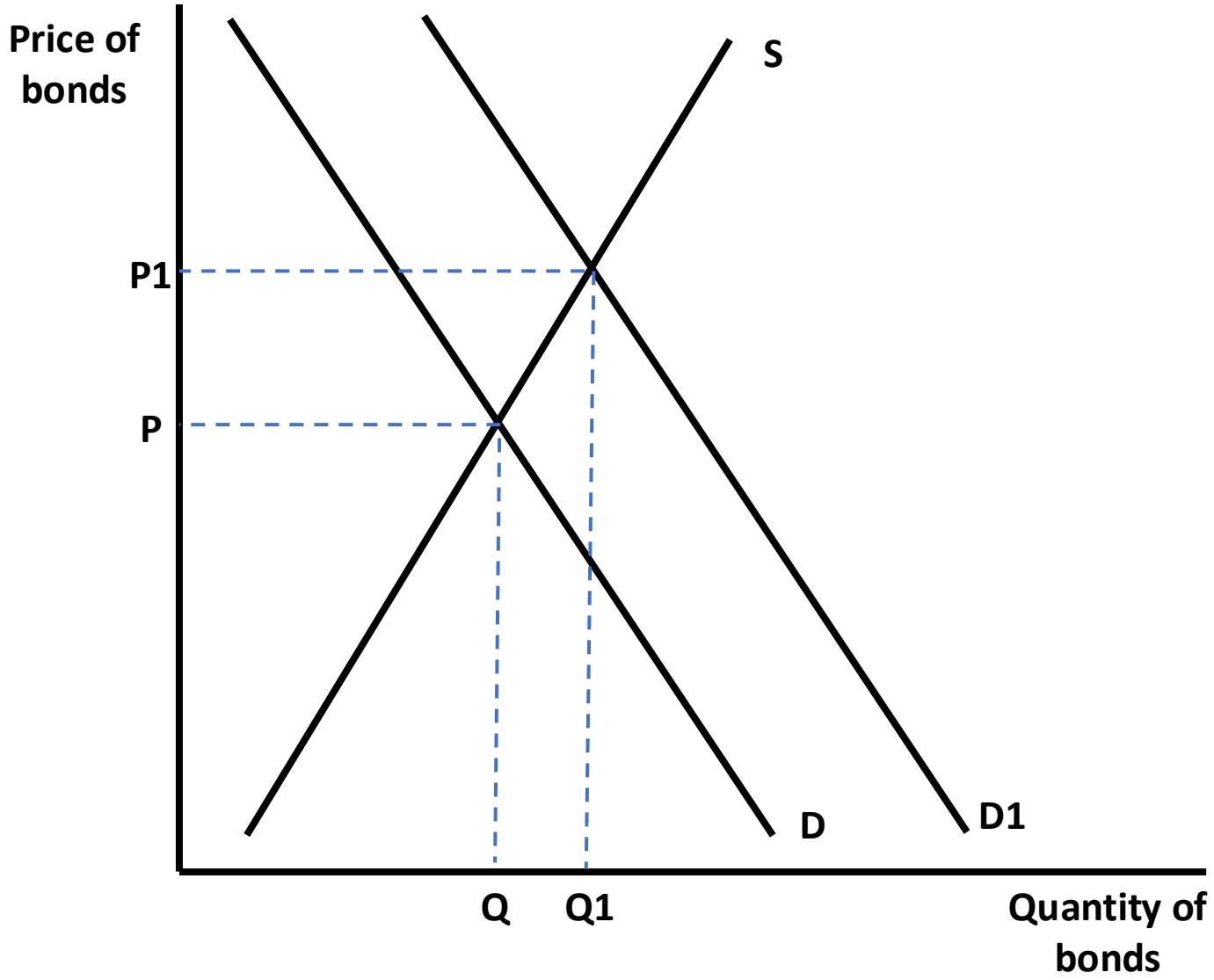
Money market: Increase in demand for money (credit/loans)

tutor2u



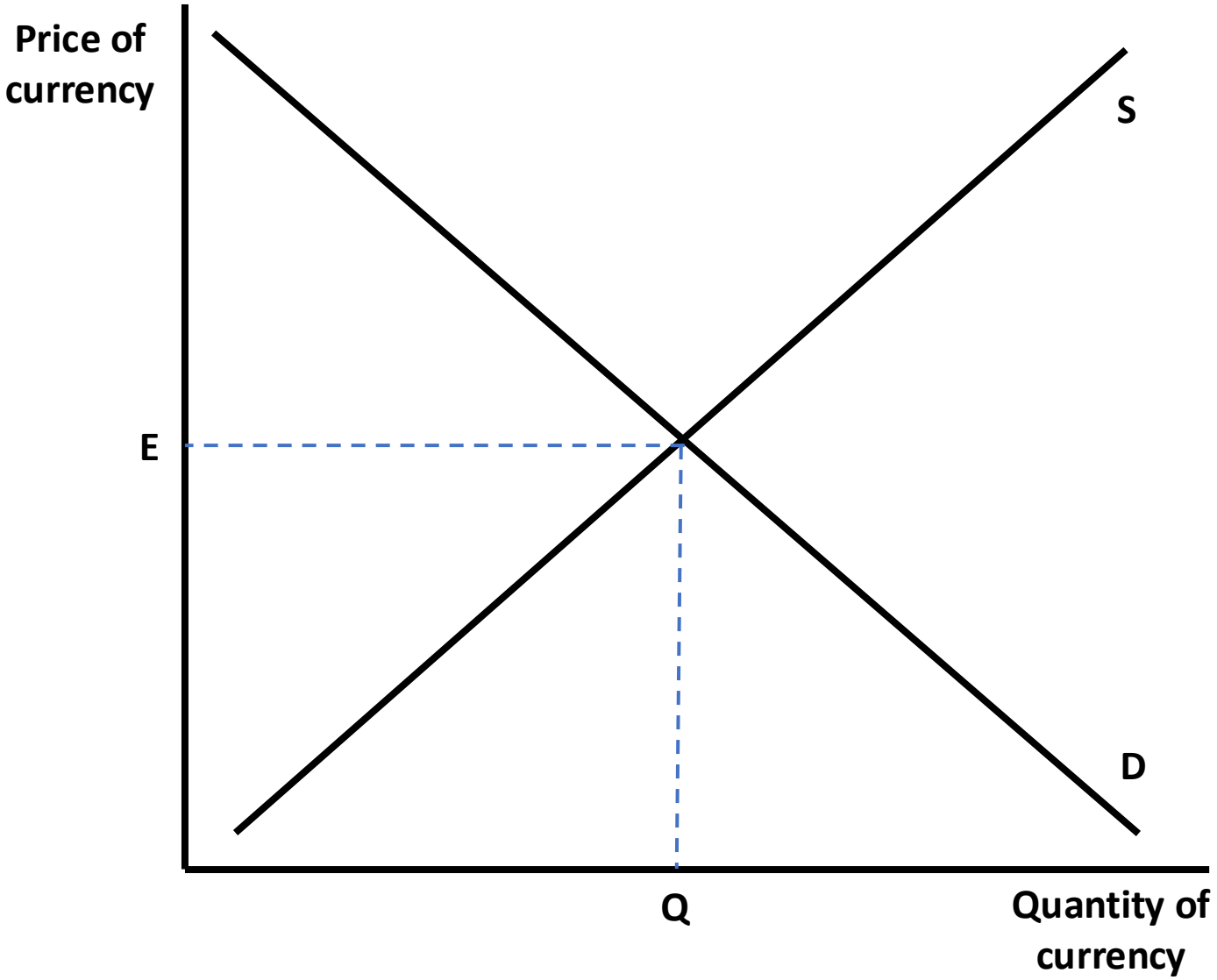
Money market: Increase in the money supply

tutor2u

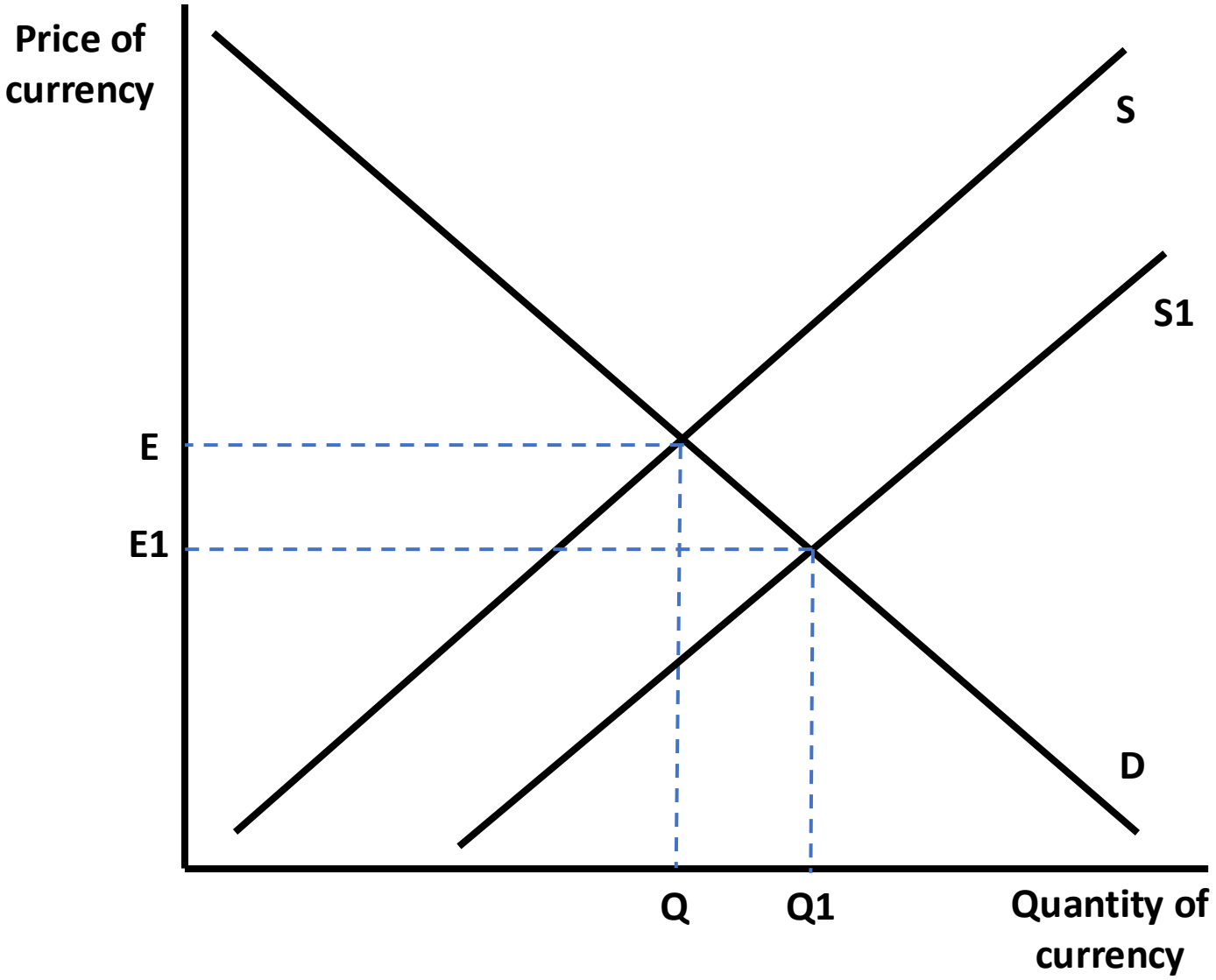


Bond market: Increase in the demand for bonds

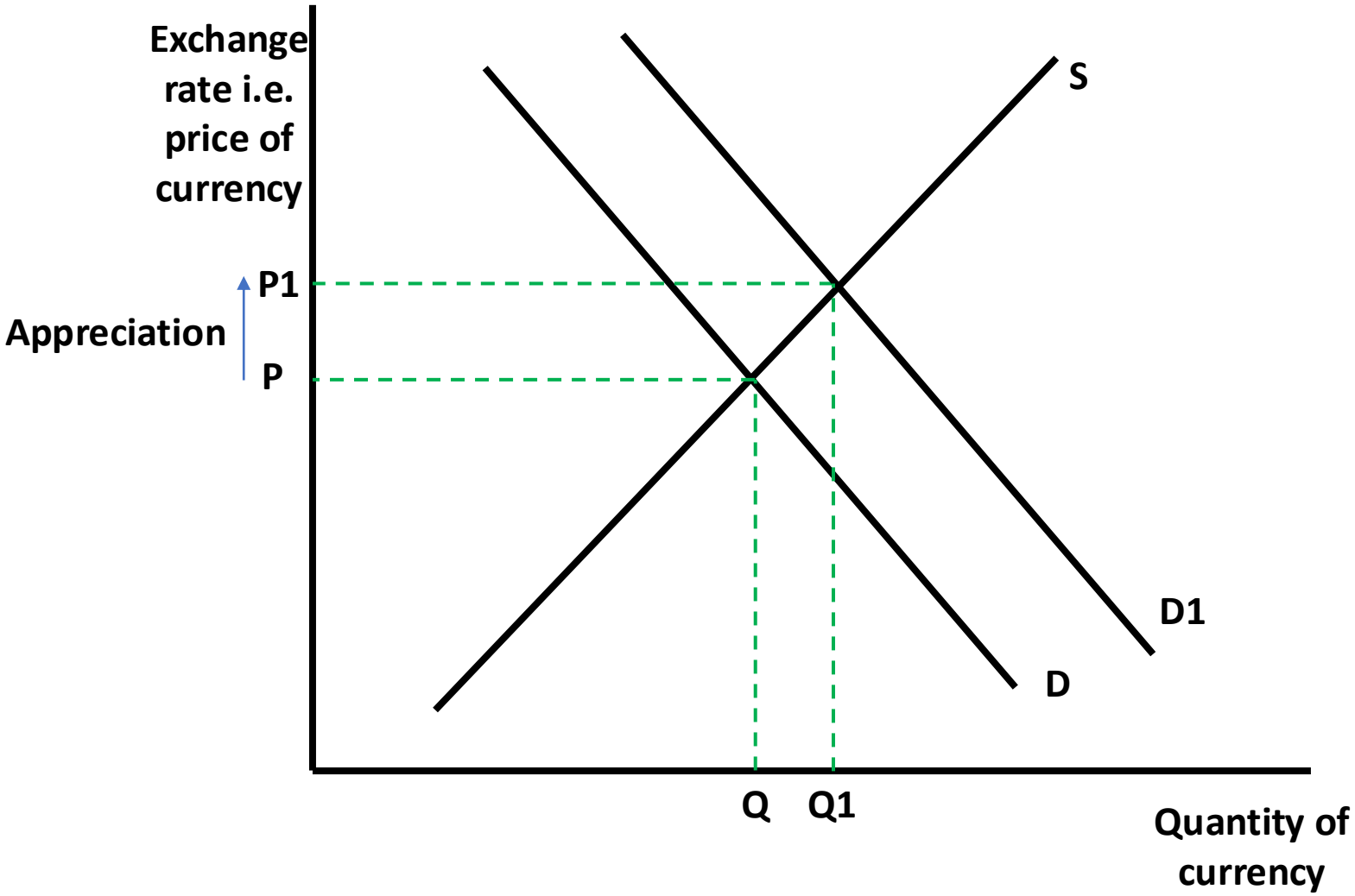
tutor2u



Foreign exchange (FOREX) market equilibrium

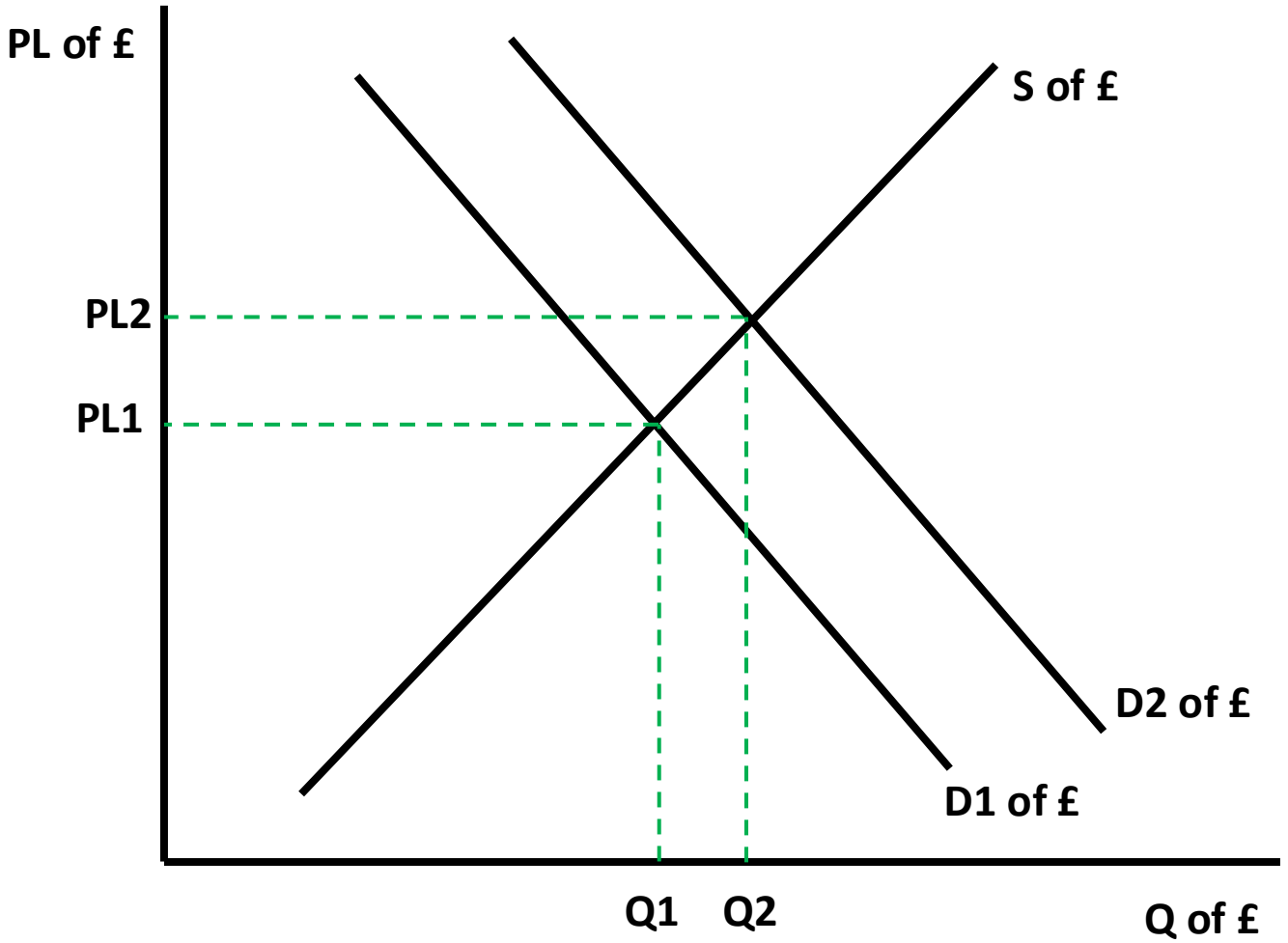


Increase in supply in a foreign exchange market

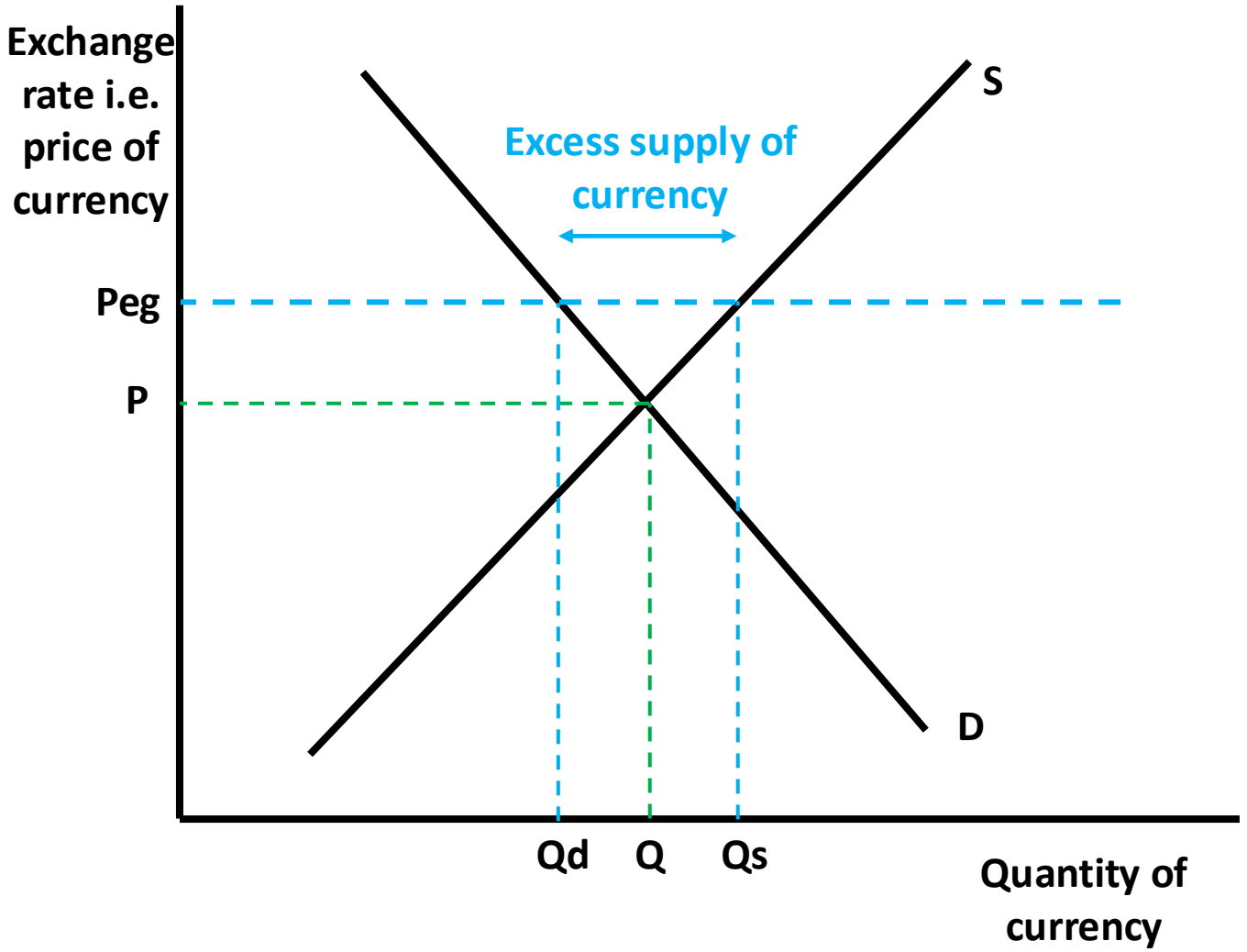


Foreign exchange market: increase in demand for a currency causing an appreciation

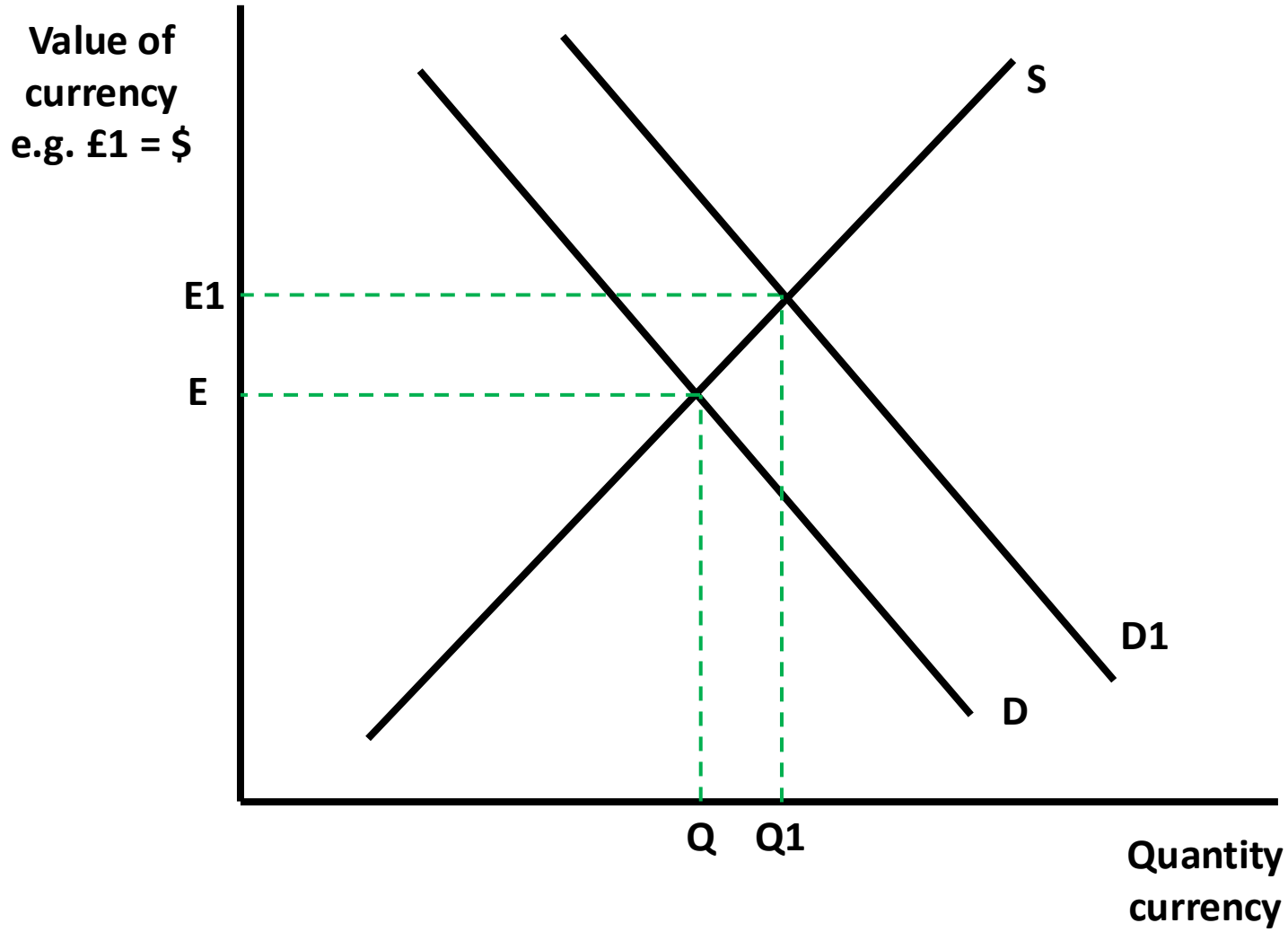
tutor2u



Foreign exchange market: increase in demand for £s causing a Sterling appreciation



Foreign exchange market: Excess supply of currency when price is above the market equilibrium



Foreign exchange market: increase in market demand for a currency

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ECONOMICS DIAGRAMS

GENERAL MACRO DIAGRAMS

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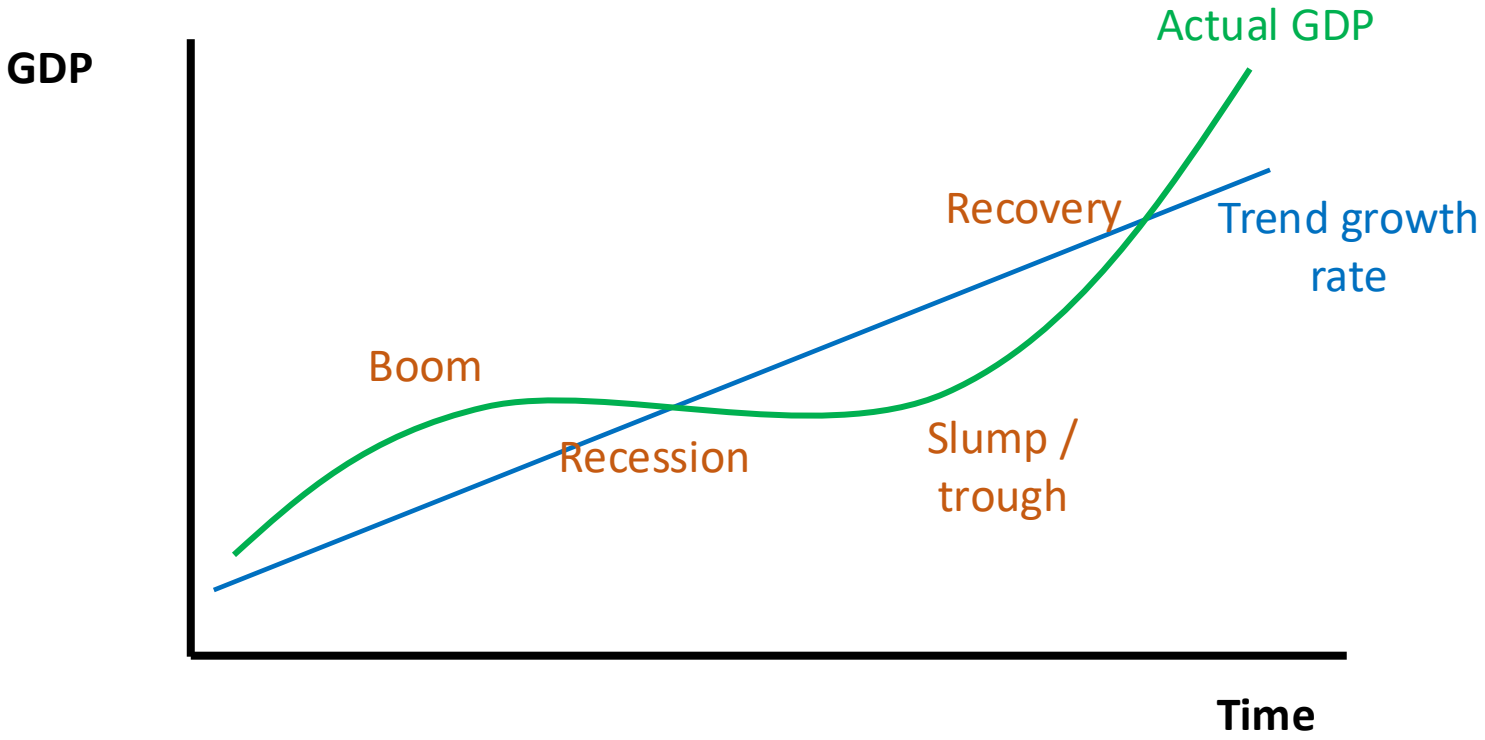
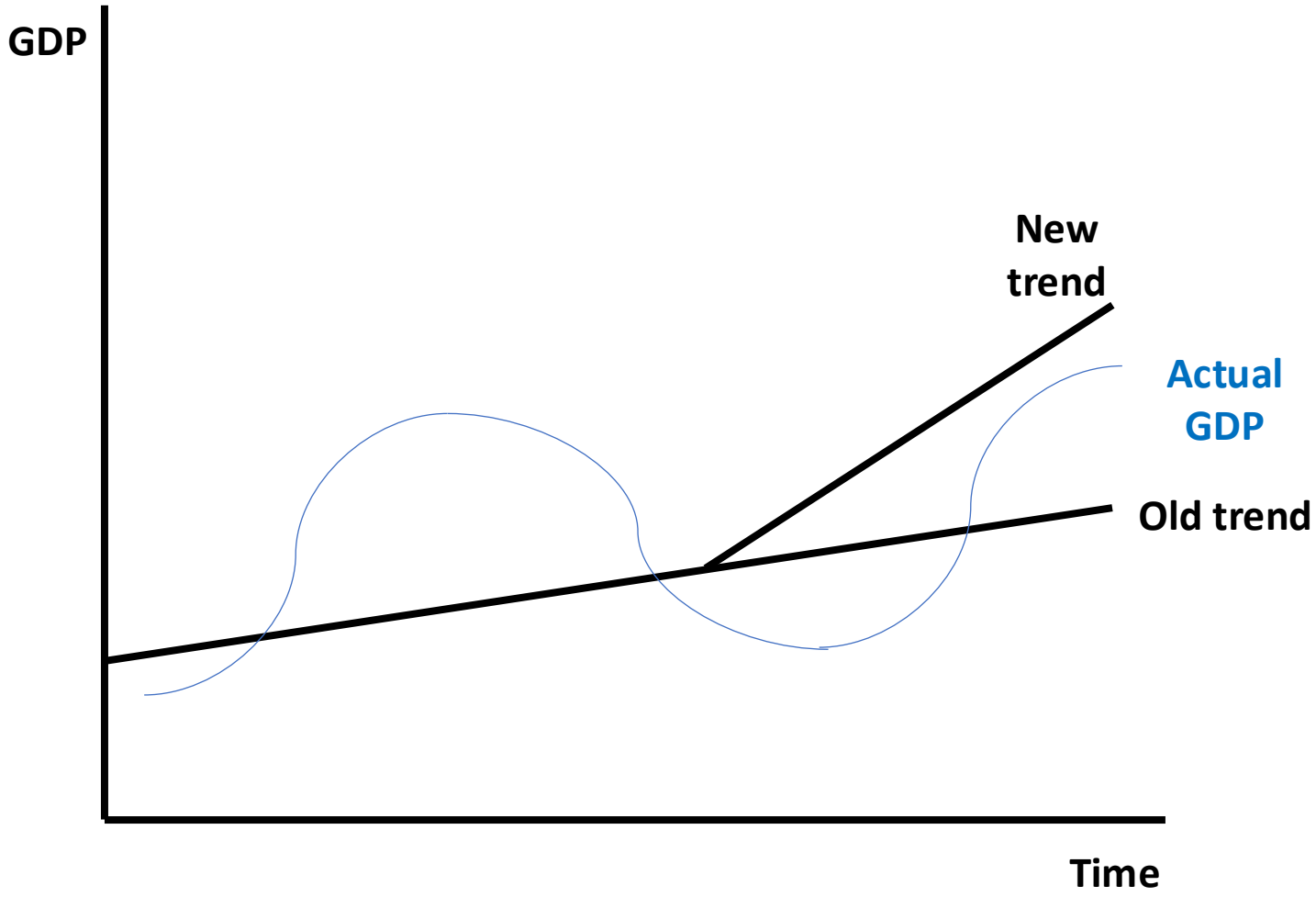
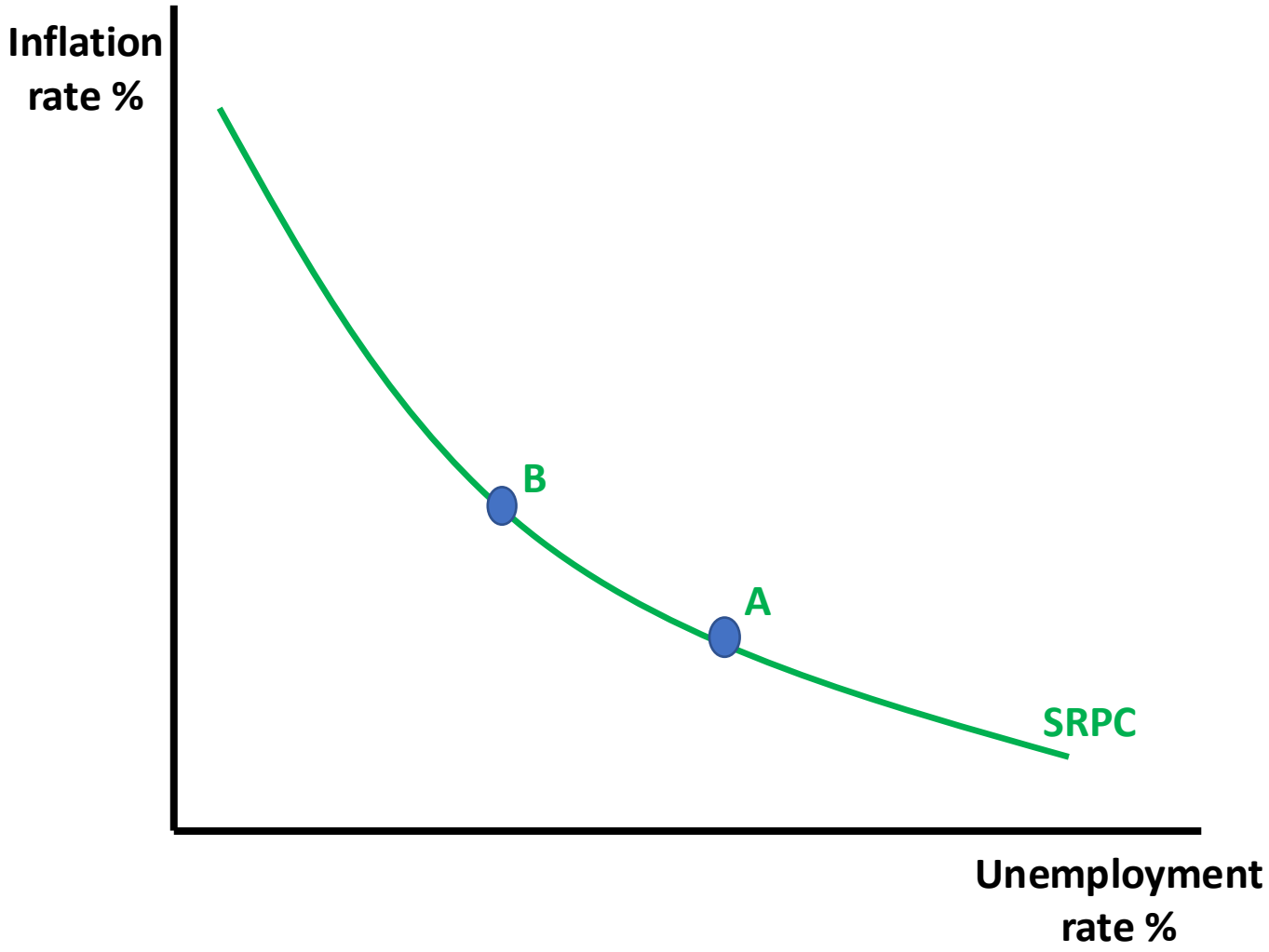


Phases in the economic cycle

tutor2u

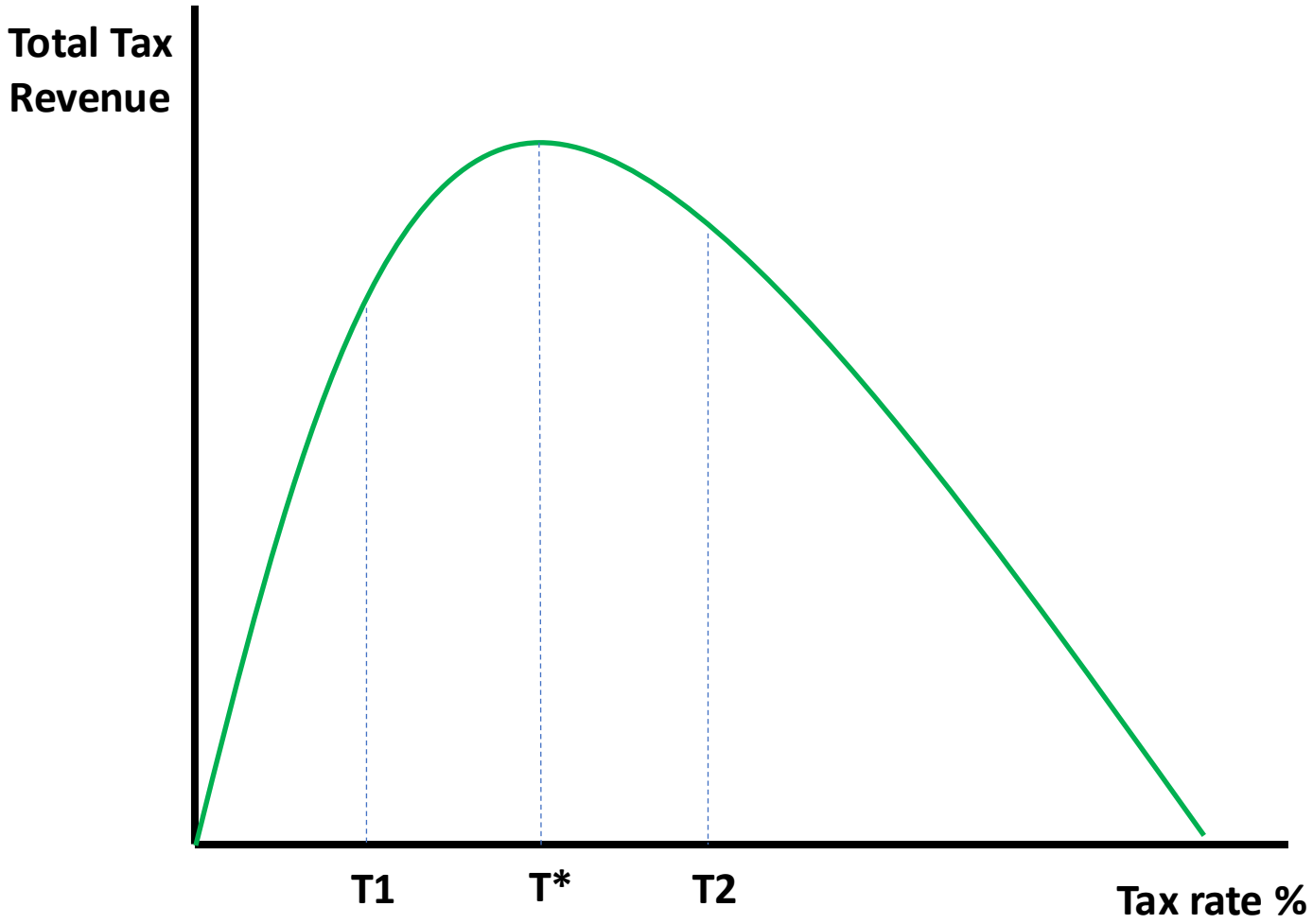


Impact of an increase in productive potential on trend GDP growth



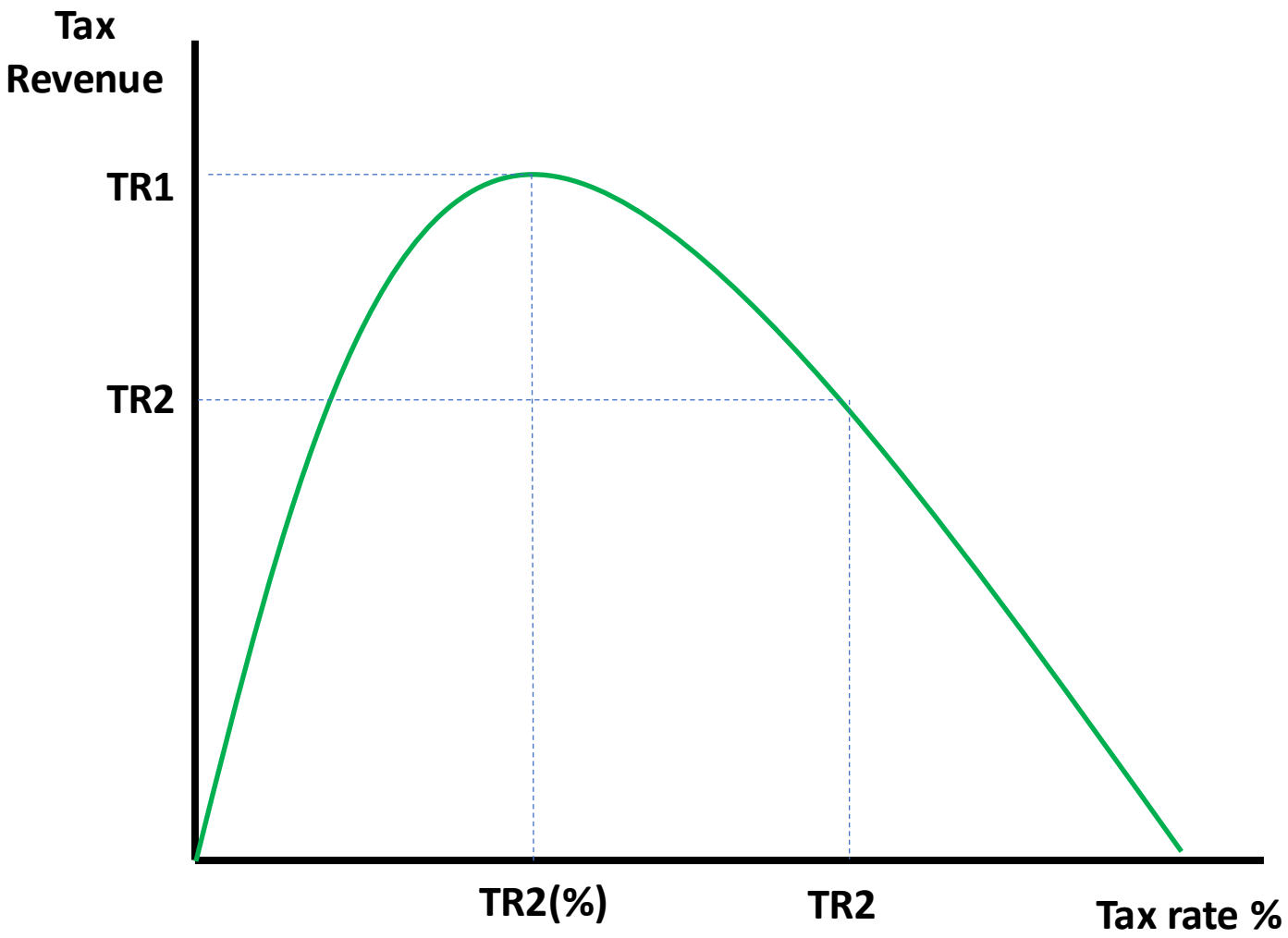
Short run Phillips curve (trade-off between inflation and unemployment)

tutor2u

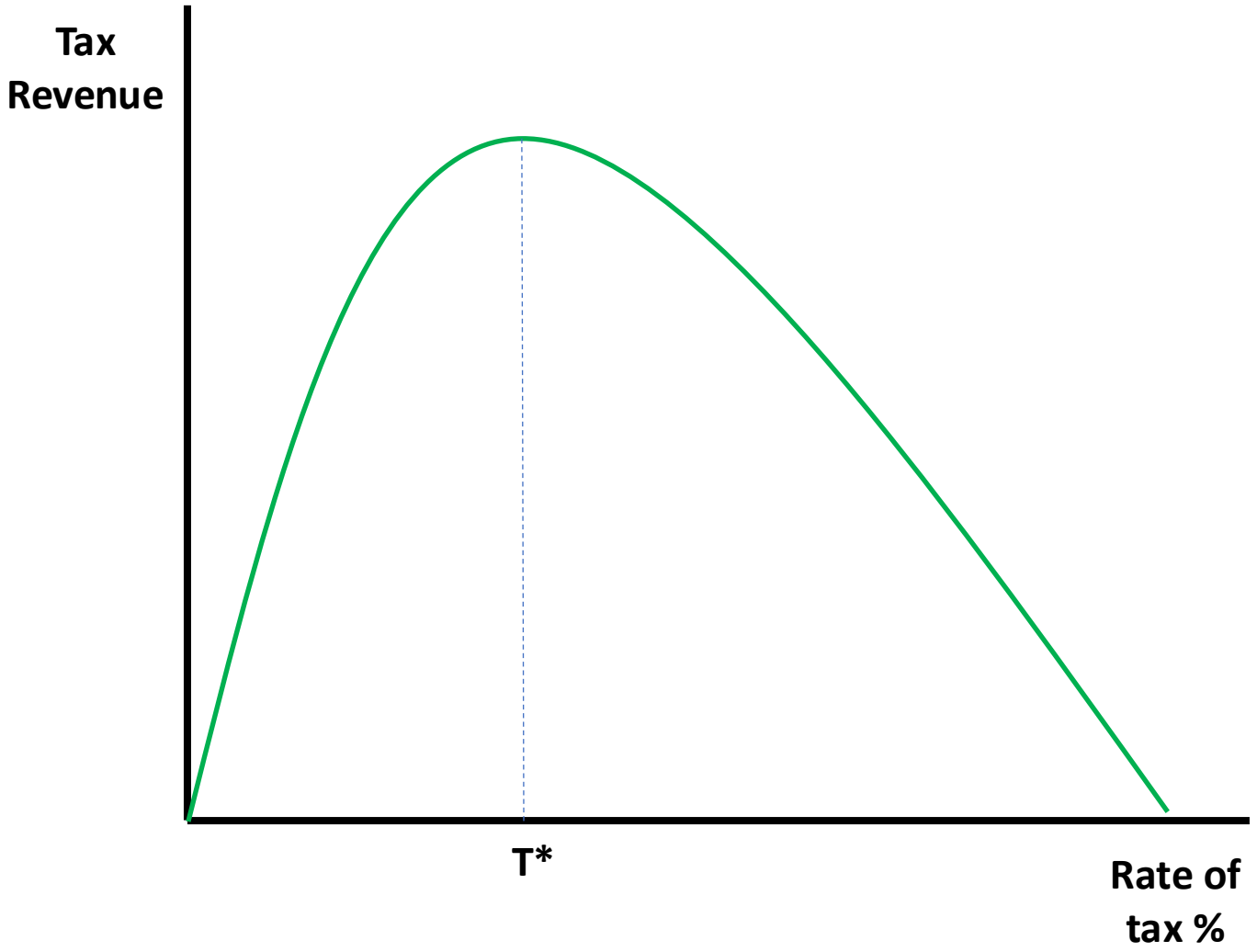


Laffer curve

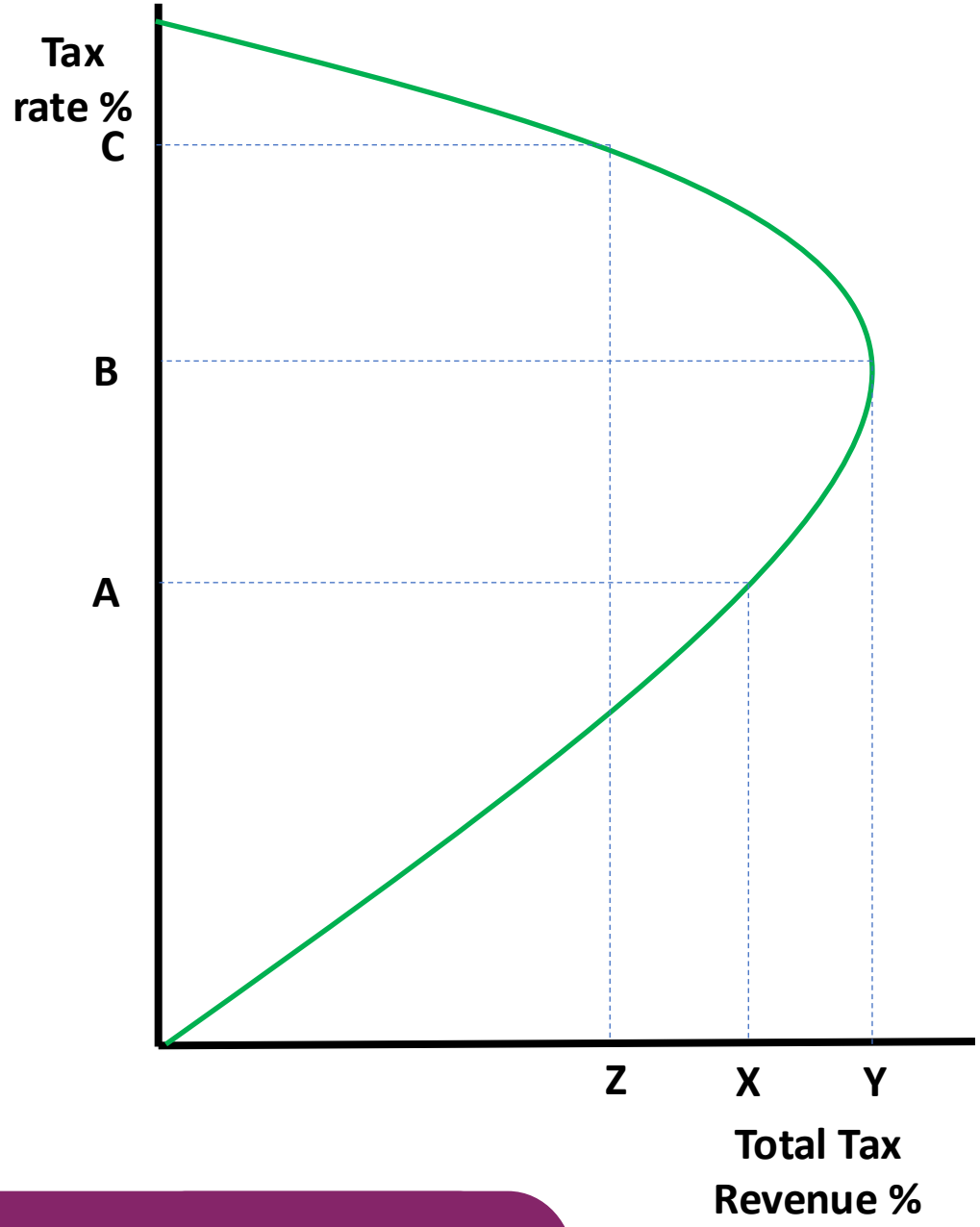
tutor2u



Laffer curve showing how a reduction in the tax rate could increase total tax revenue

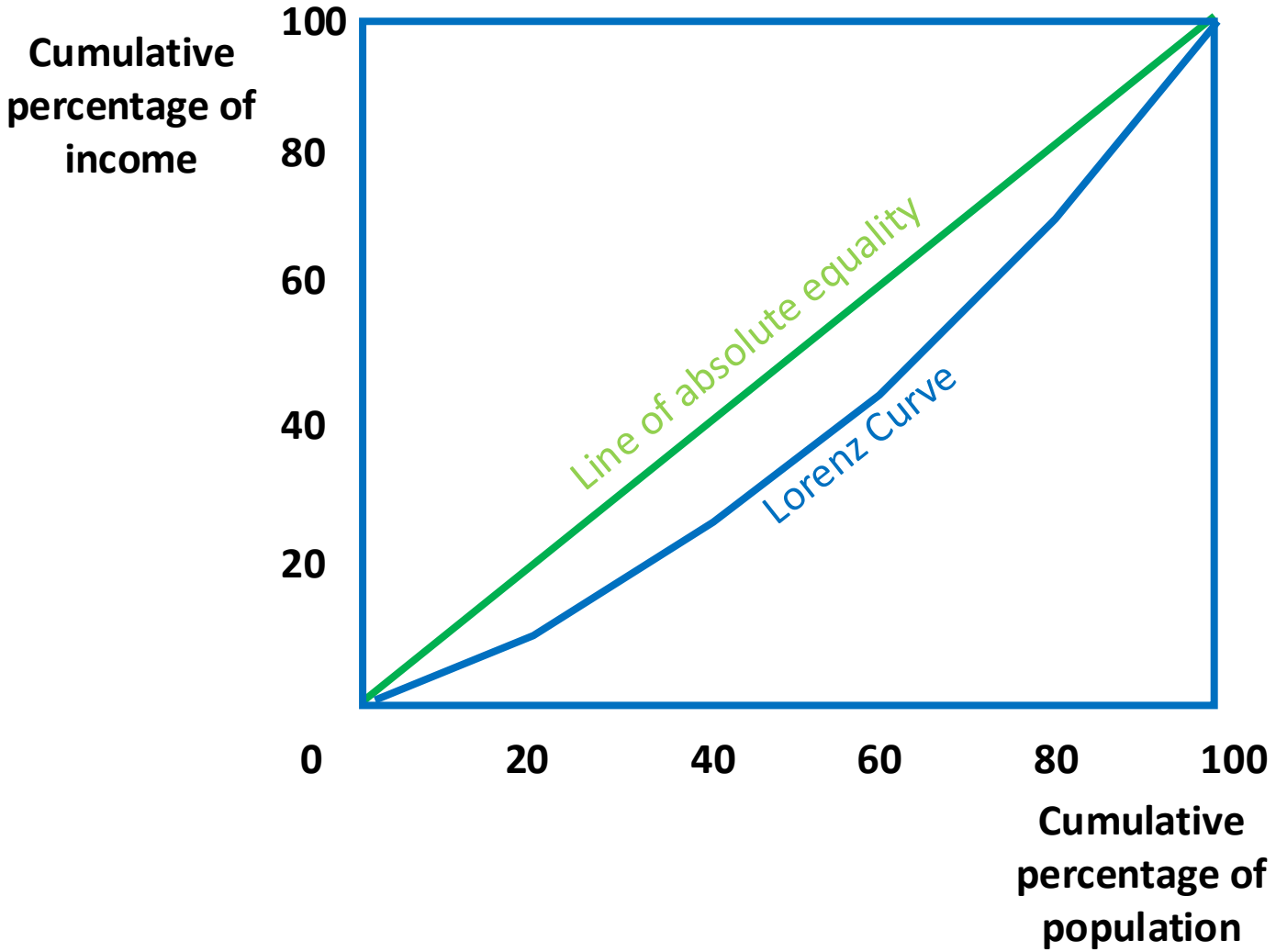


Laffer curve showing tax rate that creates maximum tax revenue



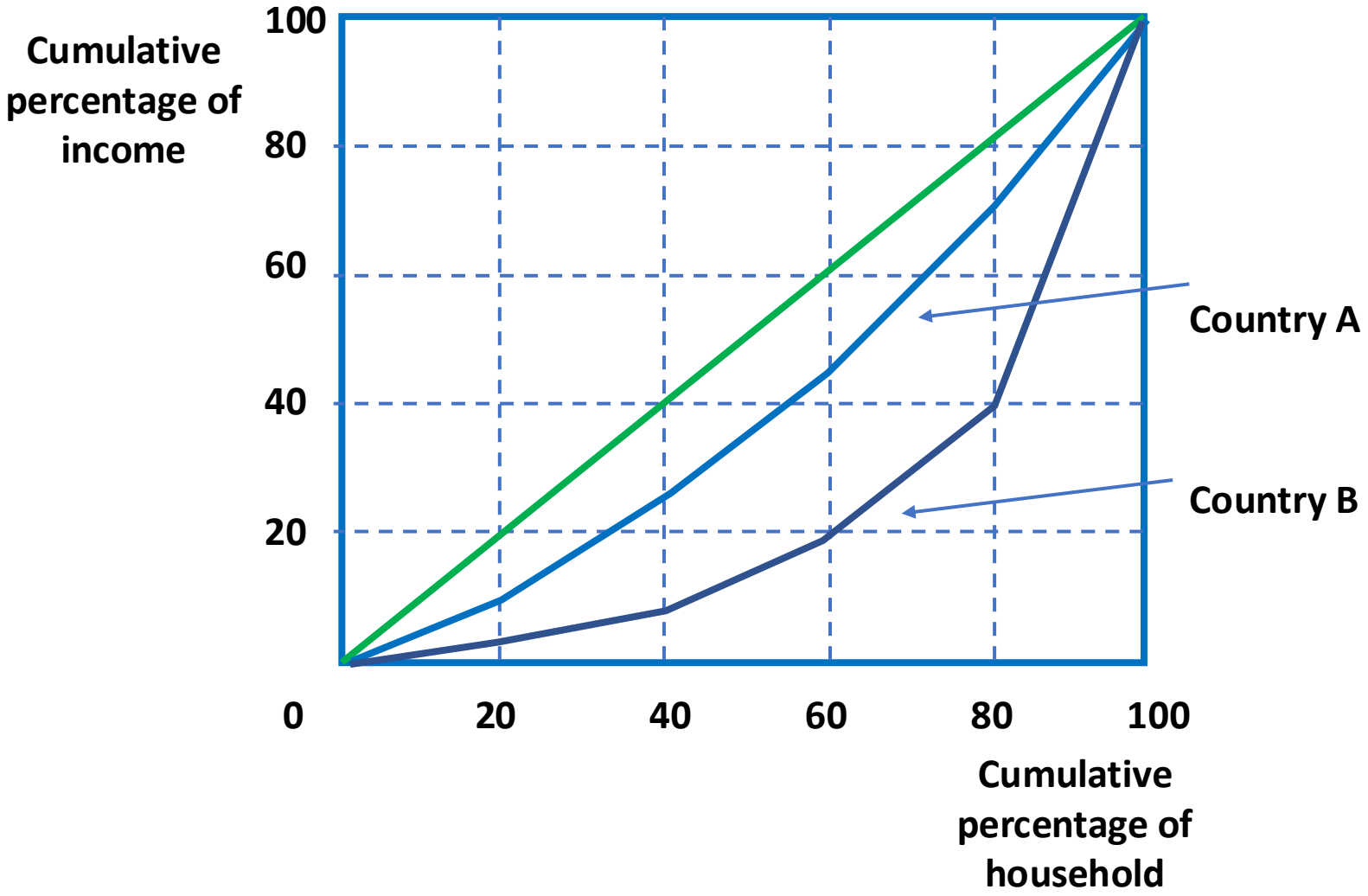
Alternative representation of the Laffer curve

tutor2u

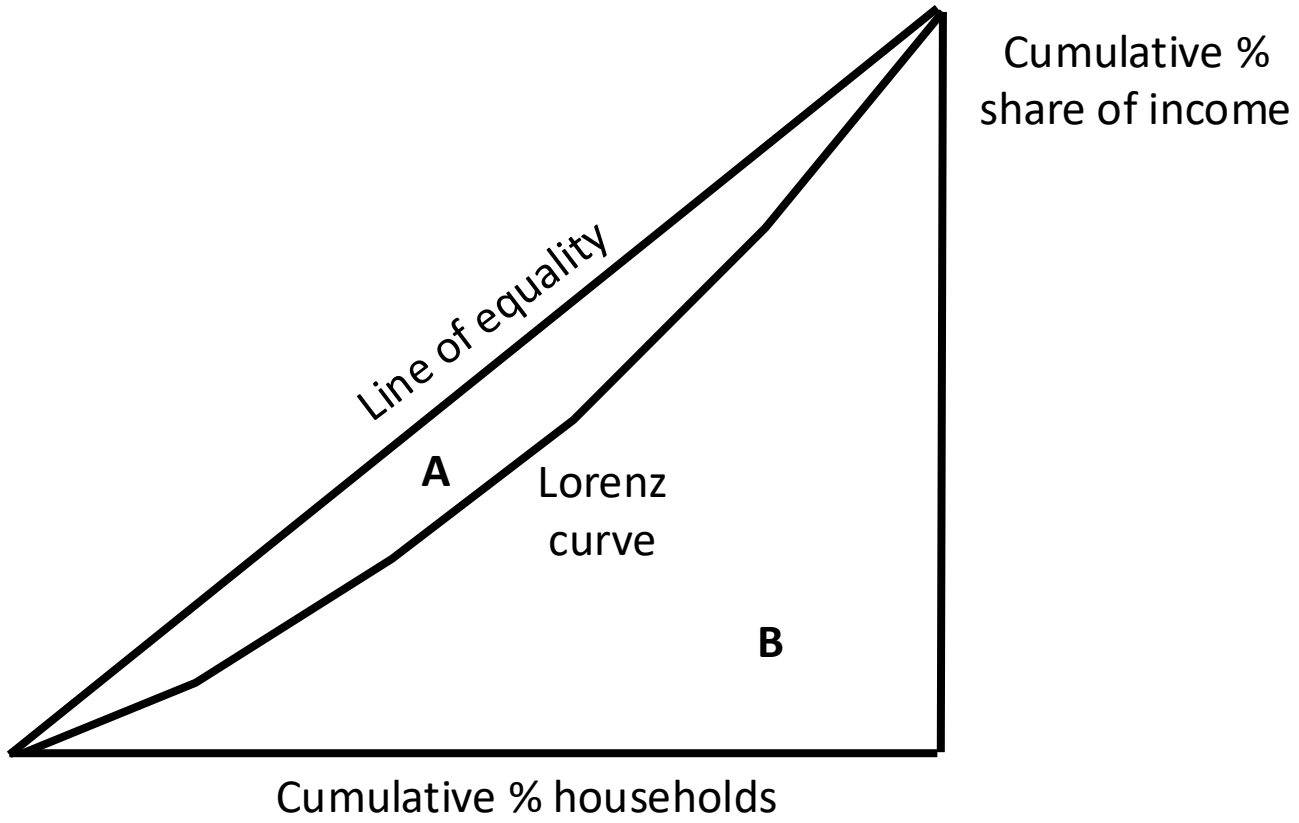


Income inequality: Lorenz curve used to find out Gini coefficient

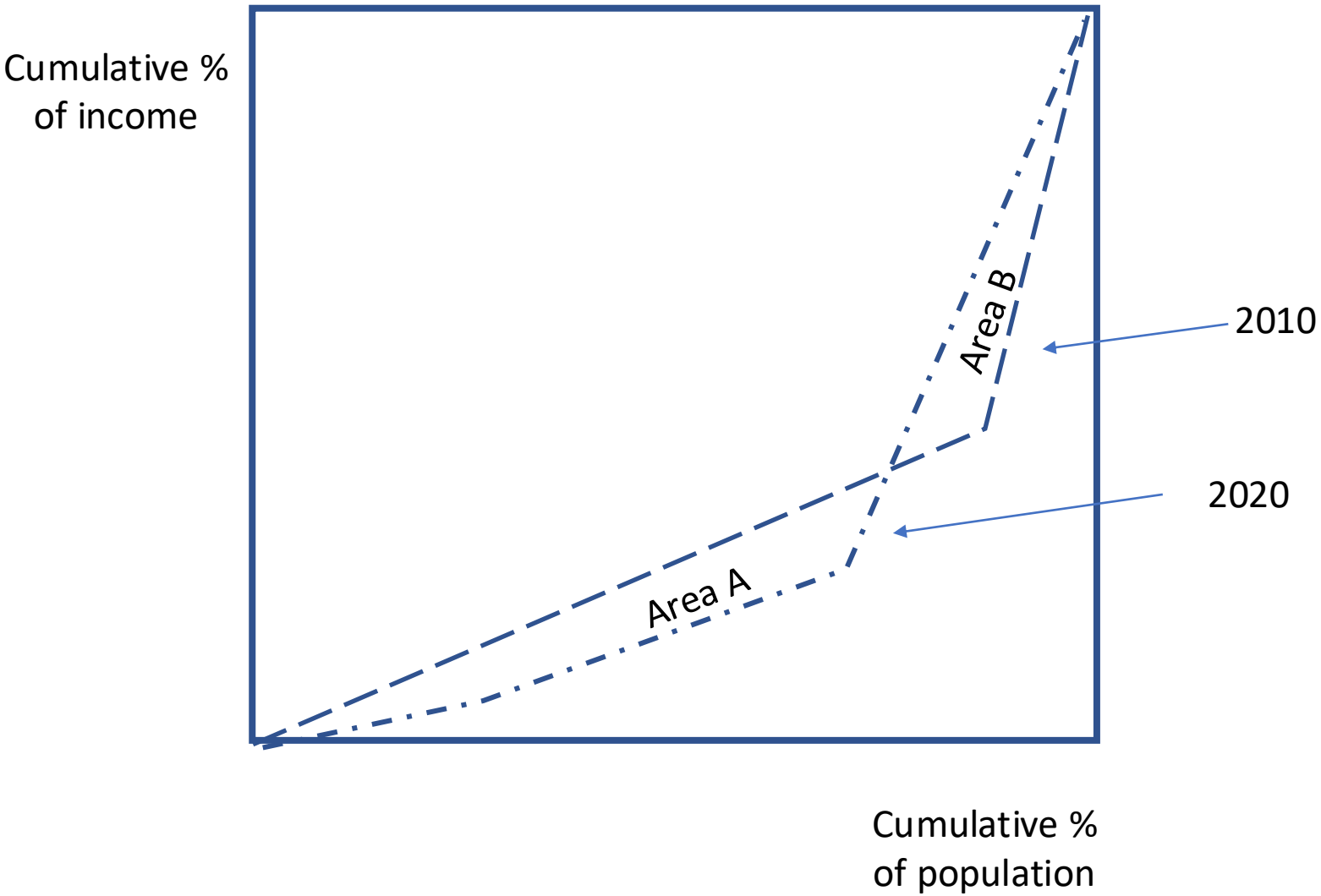
tutor2u



Income inequality: Lorenz curves used to find out Gini coefficient; Country A has less income inequality than Country B

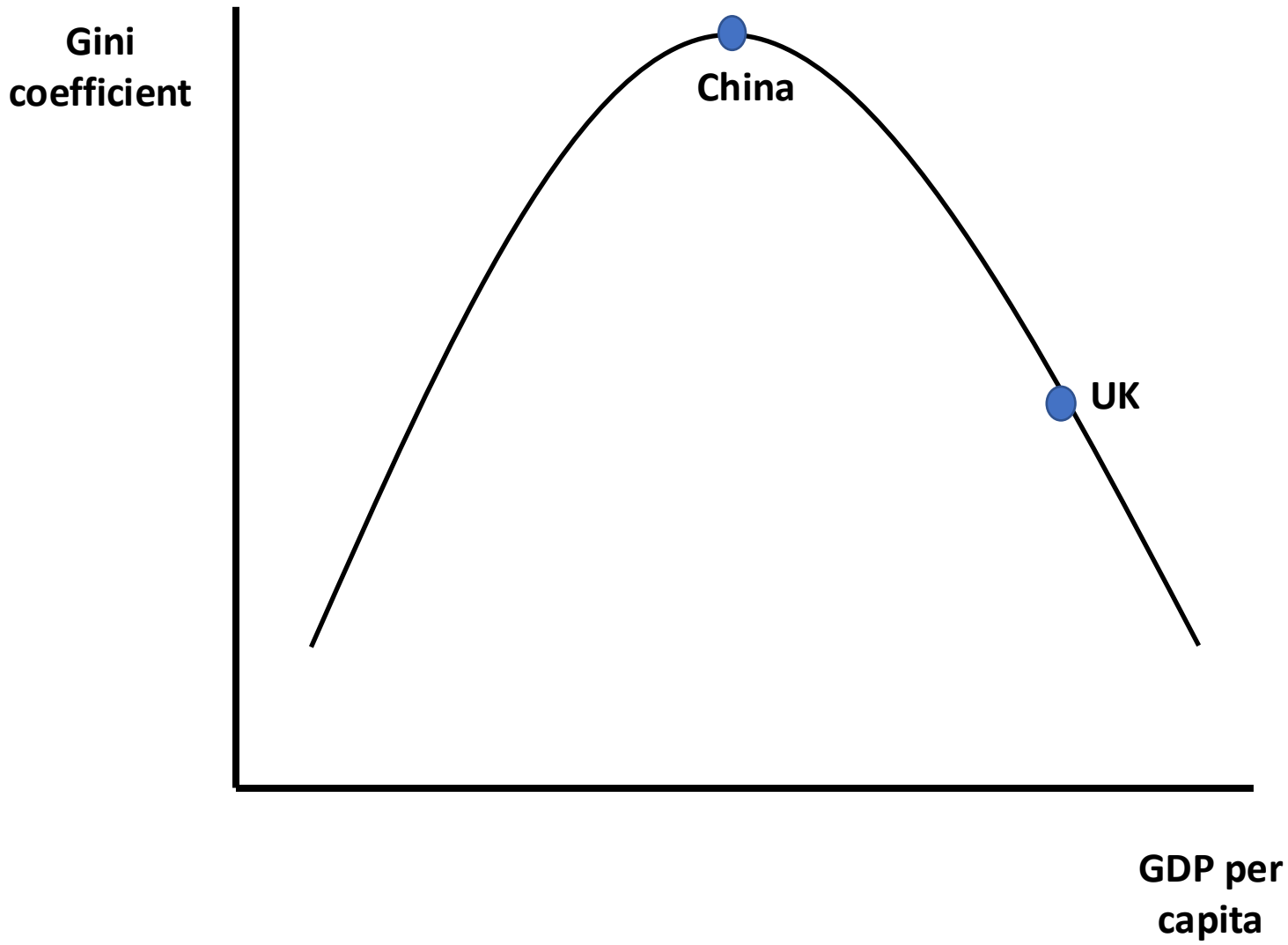


Income inequality: Gini coefficient is area A/(areas A+B)



How two different Lorenz curves (income distributions) can give the same Gini coefficient

tutor2u



Kuznets curve

tutor2u

ECONOMICS DIAGRAMS

TRADE-RELATED DIAGRAMS

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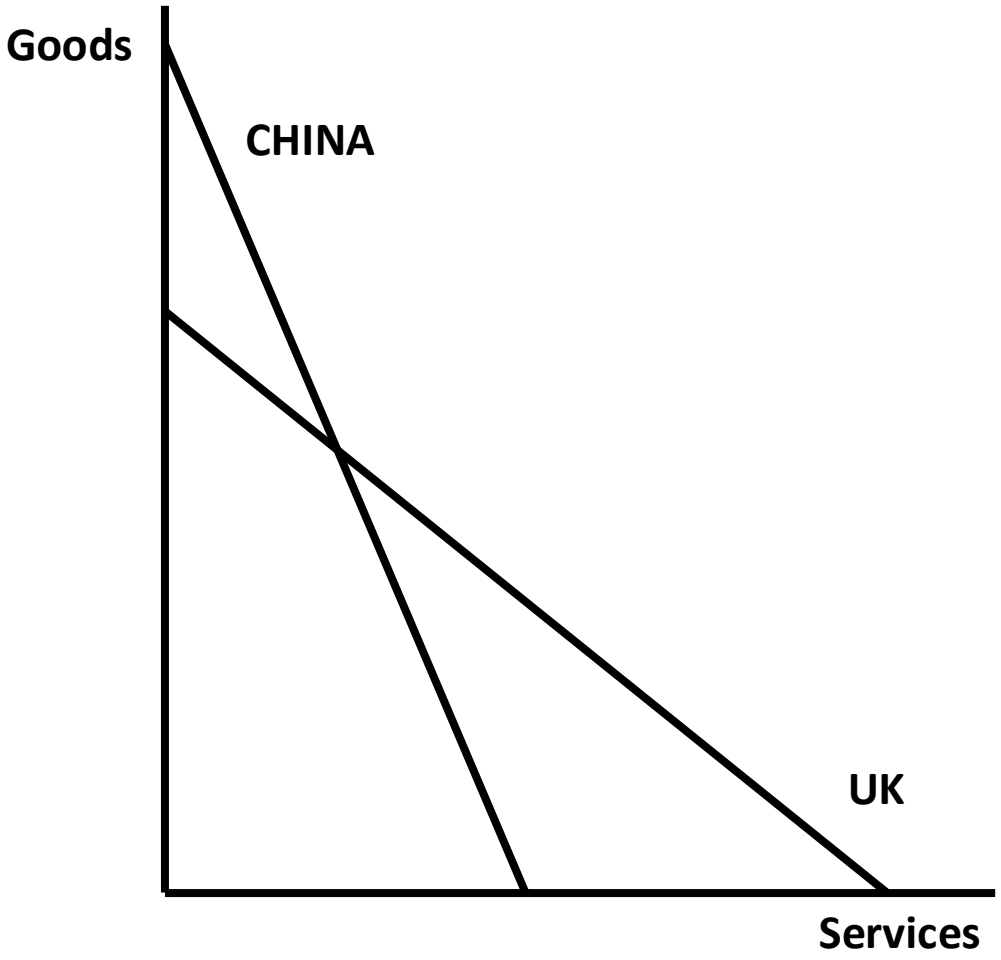
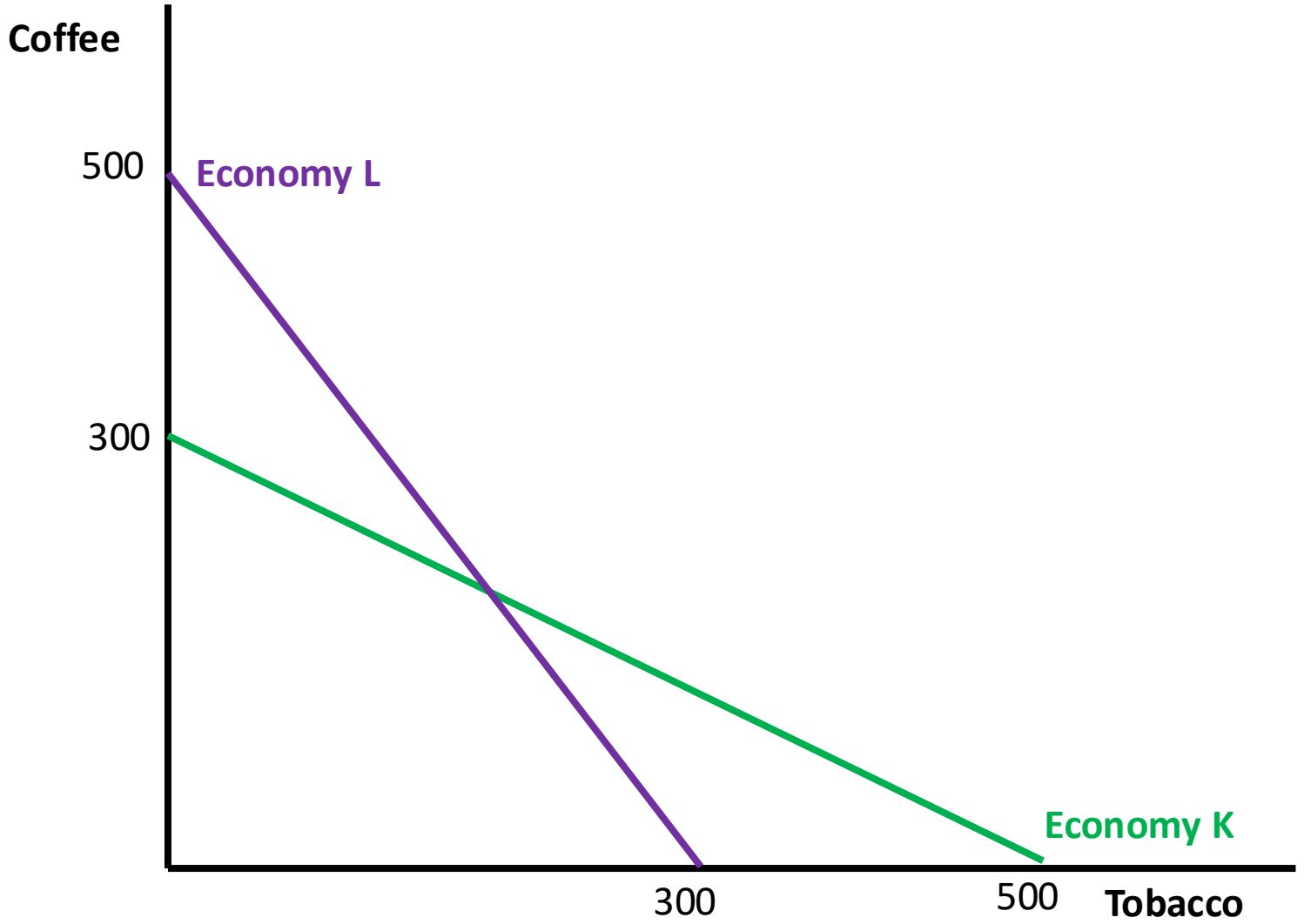


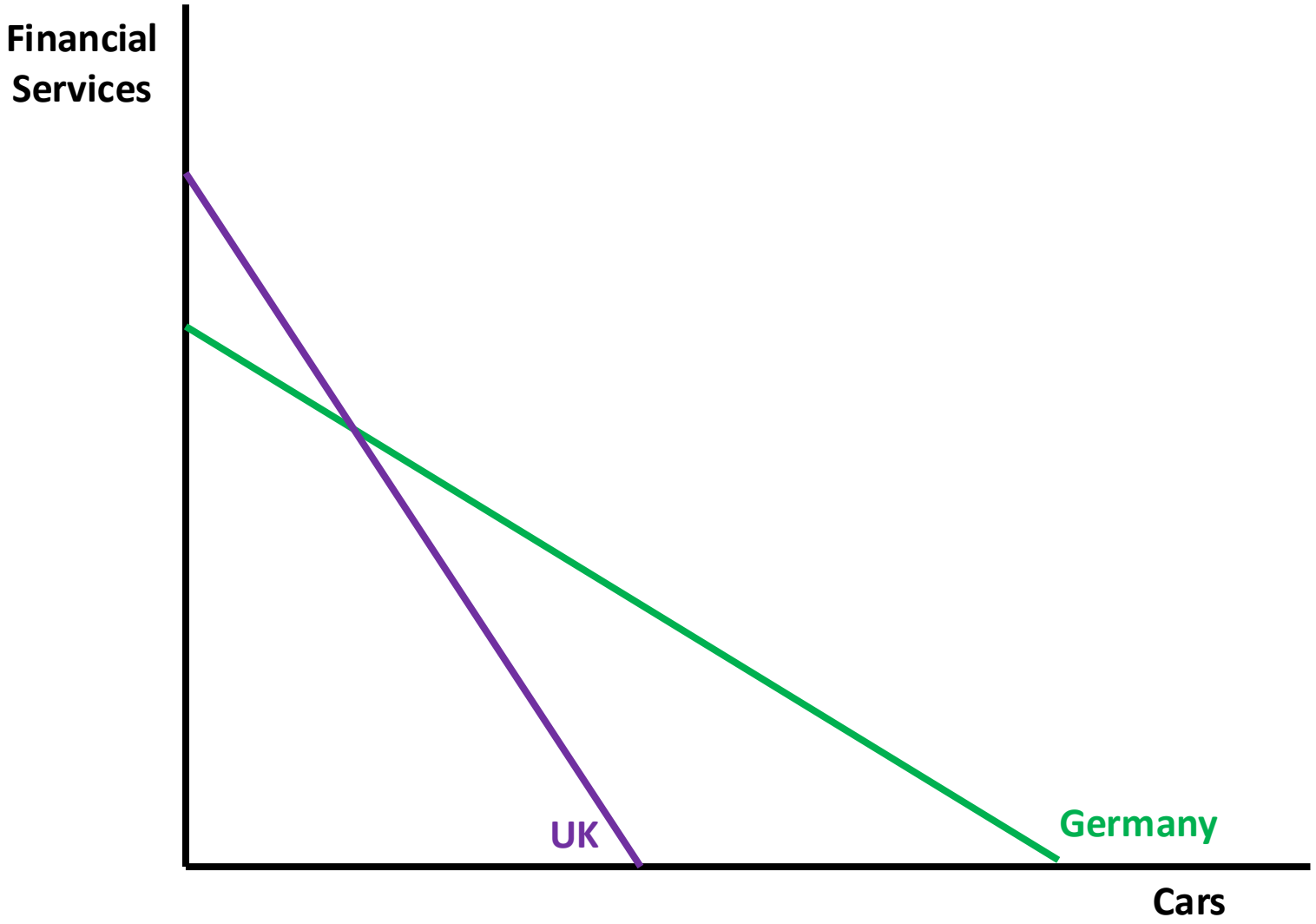
Absolute advantage: production possibilities

tutor2u



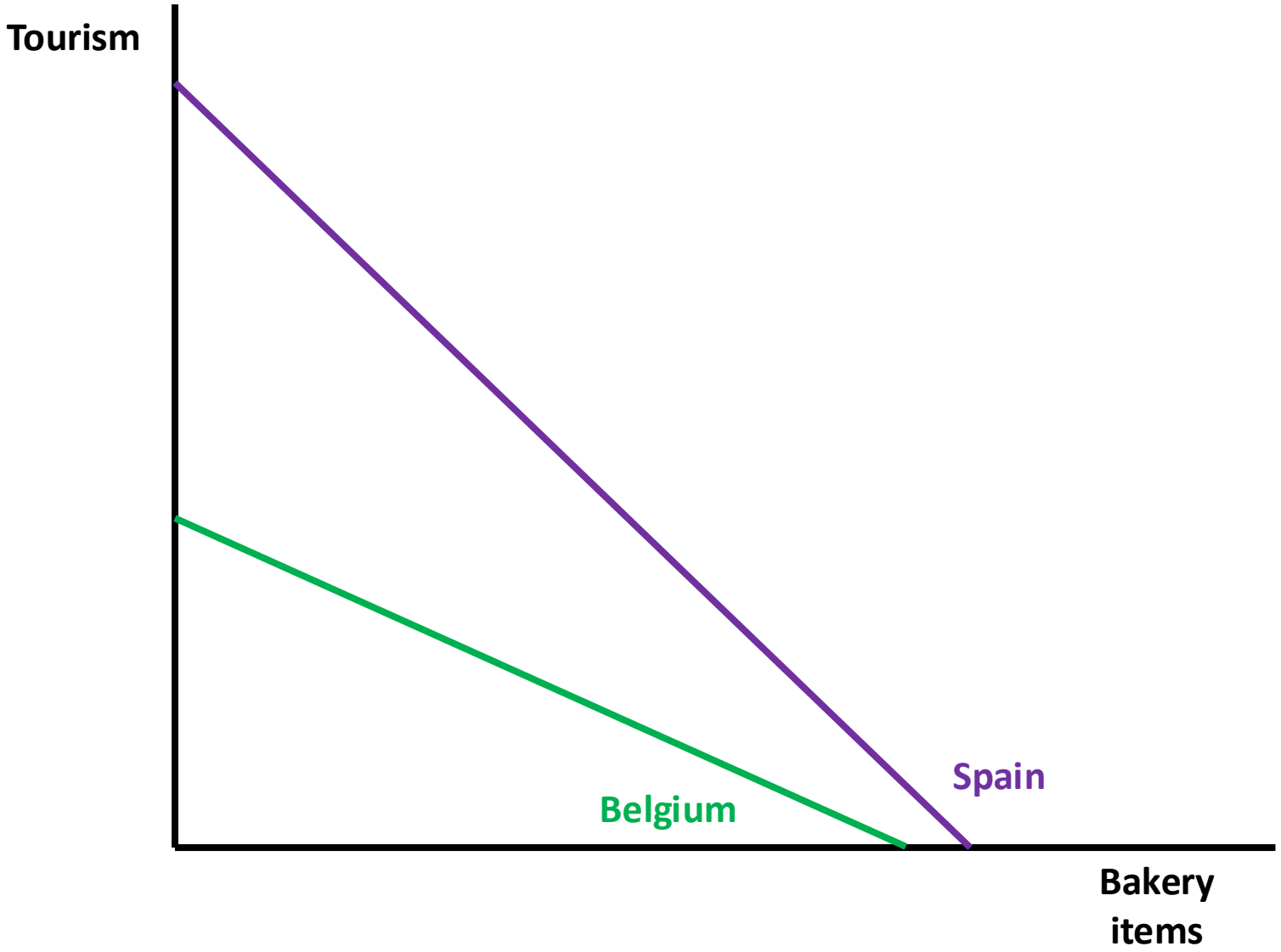
Absolute advantage production possibilities

tutor2u



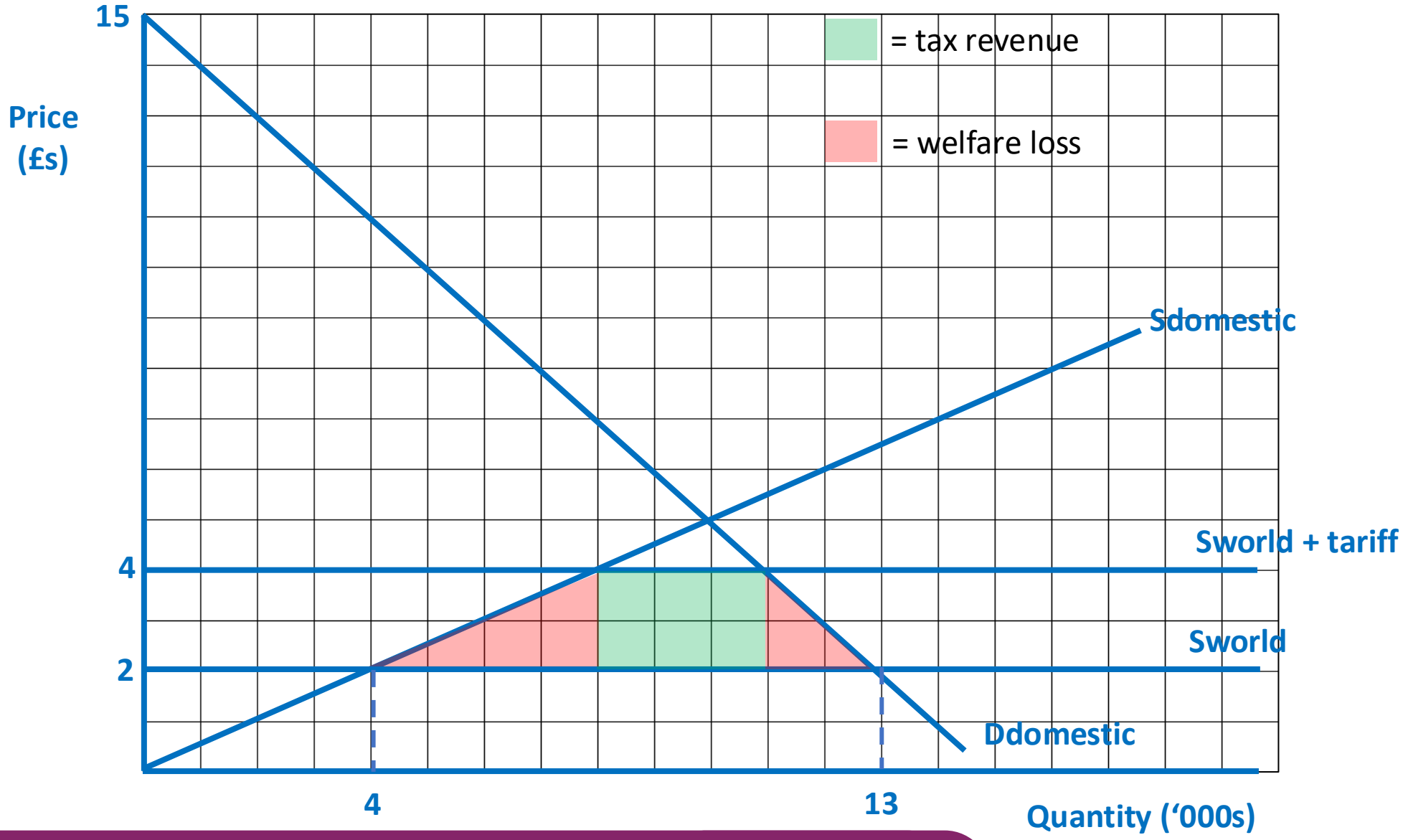
Absolute advantage production possibilities

tutor2u

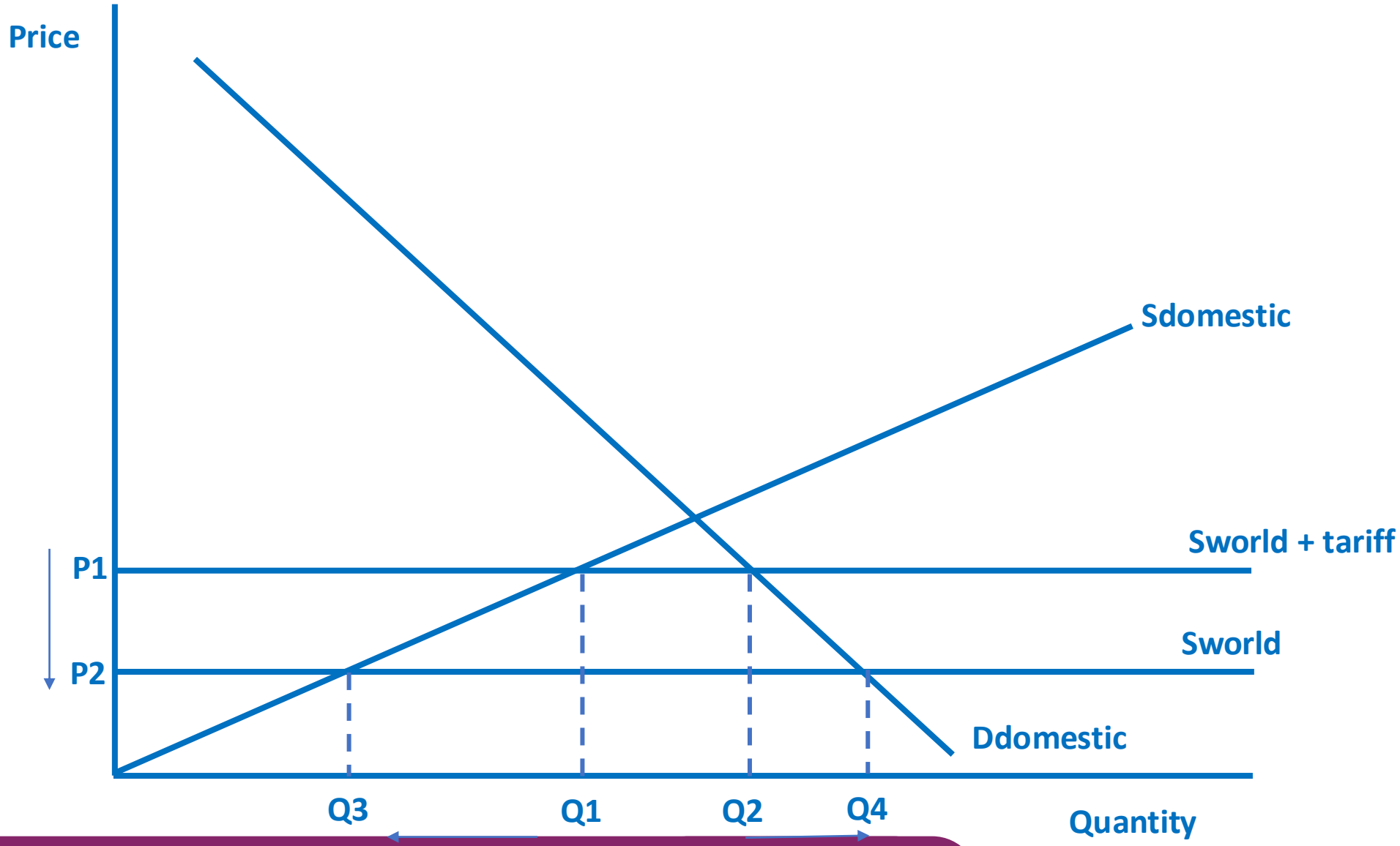


Comparative advantage production possibilities

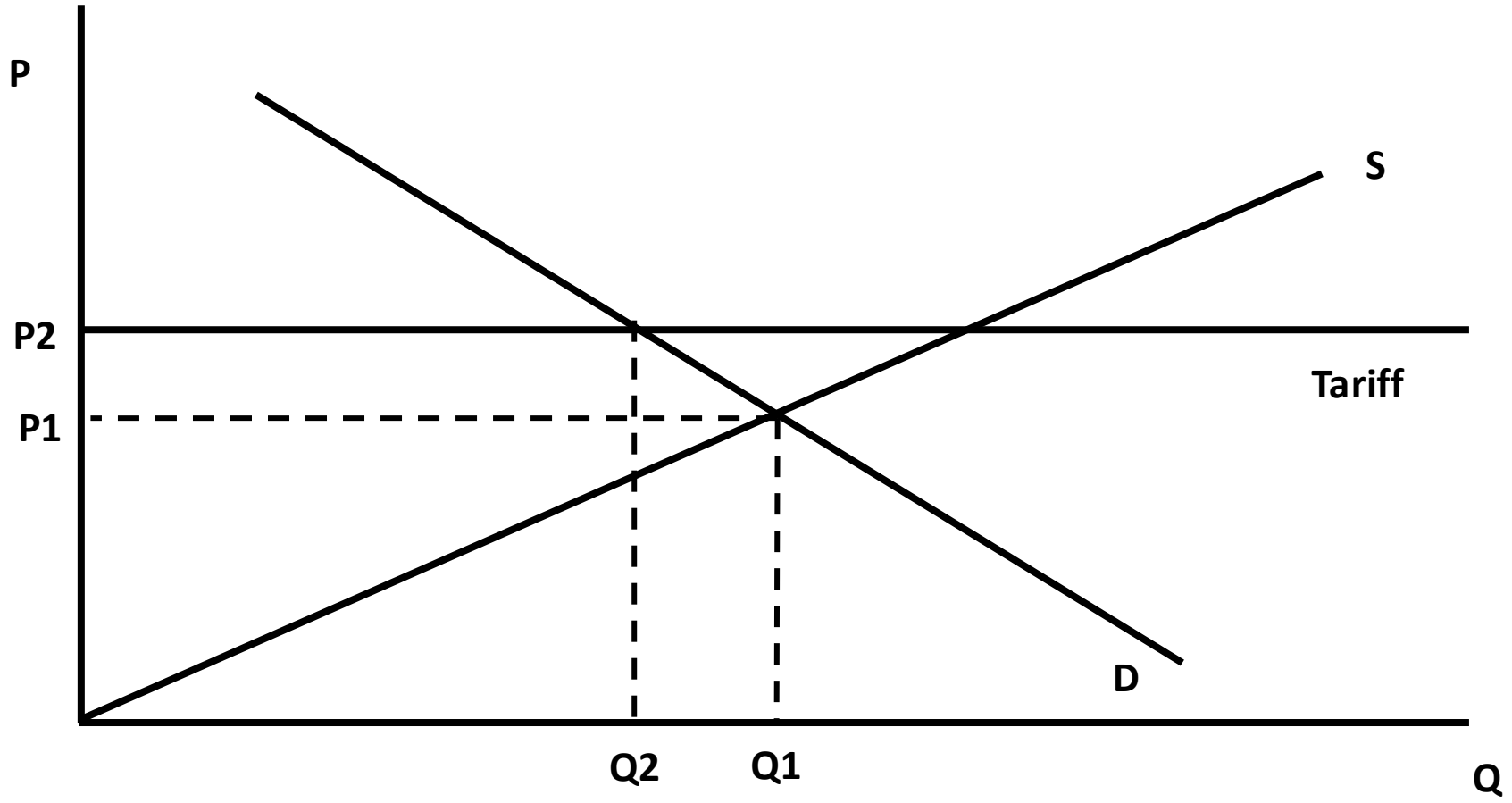
tutor2u



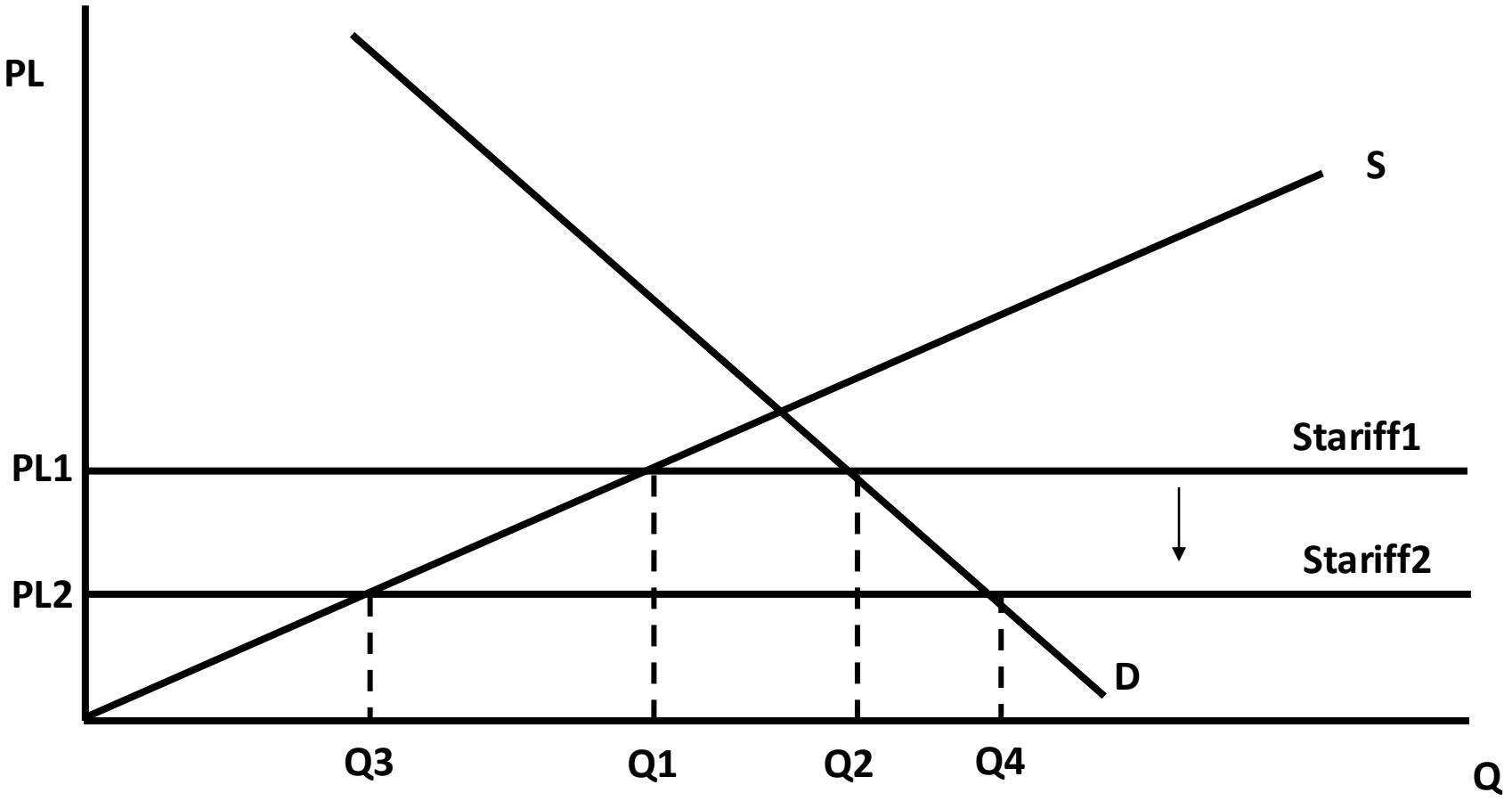
Tariff model; tariff imposed on good raises tax revenue but causes a welfare loss



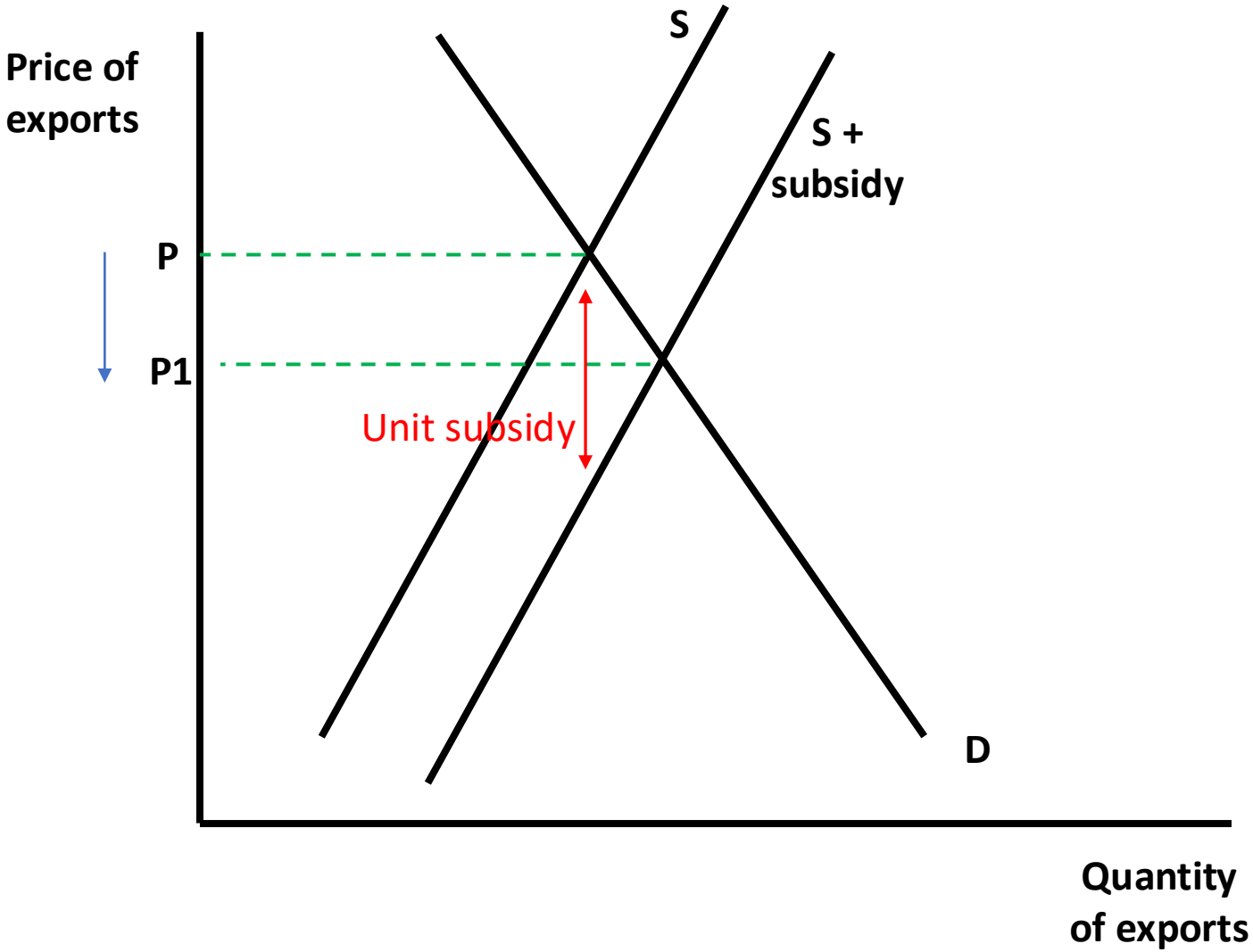
Removal of tariff increase imports from Q1Q2 to Q3Q4



Tariff set so price rises above domestic market equilibrium means there will be no imports and the market equilibrium will be determined domestically



Reduction in tariff



Impact of export subsidy on price of exports (vertical distance = subsidy per unit)