

# Microeconomics basic concepts assignment

[Economics](#), [Microeconomics](#)



In this article, people have a choice whether or not they want to pay more for air tickets as although airlines are akin profits, it can still lead to higher fares.

1. 2 Scarcity A good or service is scarce if the amount people desire exceeds the amount available at zero price. Because we cannot have all the goods and services we would like, we must continually choose among them.

Because goods and services are produced using scarce resources, they are themselves scarce and therefore are only available at a price.

Since fuel is one of the scarcest natural resources in the world, the price that it will be available at would naturally be higher and thus causing air tickets to be more expensive. 1. 3 Opportunity Cost Due to scarcity, choices have to be made and individuals make choices based on their own self-interest which are very often influenced by economic considerations. This leads to having opportunity cost, which is the expected benefit from the best alternative that is forgone.

This proves why the airlines would want to merge as although by merging they forgo the opportunity of earning more in the short run but instead get long term stability of the airline as merging would mean that competition is significantly reduced. 2. Demand 2. 1 Law of Demand The Law of Demand states that an inverse relationship exists between price and quantity demanded of a good, ceteris paribus. Thus when price increases, the quantity demanded of that good decreases, vice versa.

This shows that as prices of air tickets continue to increase, there will be a drop in the quantity demanded of it by consumers. 2. 2 Substitution Effect The Substitution Effect states that as prices of goods increase, buyers will

reduce their purchase of the good in question and buy more of an alternative good that is relatively cheaper but since there is a trend of airlines merging to reduce each other's competition, it results in fewer options for the traveler as they would have lesser or no alternative choices that are relatively cheaper and thus they have to pay higher fares for the air tickets. . 3 Income Effect The Income Effect states that as prices increase and with the same amount of income, consumers are able to buy less Of a good as their real income has fallen thus, this would result in the consumers' ability to buy air tickets to drop and thus causing the quantity demanded for air tickets to also decline. 2. 4 Determinants of Demand (Money Income) If money income increases, there would be an increase in demand for normal goods and if money income decreases, there would be an decrease in demand for normal goods, showing a direct relationship between money income and normal goods.

However, if money income decreases, demand for inferior goods increases and vice versa, showing an inverse relationship between money income and inferior goods. Thus, should money income of consumers increase, there would be more demand for airlines but should the money income of consumers decrease, they would have increased demand for inferior goods like going to Malaysia via bus. 2. 5 Determinants of Demand (Expectation of Consumers)

Should consumers expect the price of a good to rise in the future, they would buy more now before it actually rises or when they expect their money income to rise in the future. Thus should consumers see that air tickets'

prices are going to rise higher in the future, they would buy more now which would lead to an increase in demand for air tickets today. Also, shown in the article about Iota's optimism about last quarter's slightly higher economic growth and lower fuel prices than expected thus the factor price is lowered due to the fuel being a resource.

This would mean higher economic growth for the airline companies and with higher economic growth, it means expectations and thus the demand for airline tickets will also increase due to this fact and thus the supply will increase and if the demand's increase is more than the supply increase, prices will go up as demand is more than supply.

3. Supply

3.1 Law of Supply

The Law of Supply states that a direct relationship exists between price & quantity supplied of a good, ceteris paribus.