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IBECON

Diploma Programme

Economics HL Formula Booklet

For assistance during the course and NOT during the examinations. First examinations 2014

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Contents

Topic 1— Microeconomics (Theory of The Firm)

Total Cost (TC)	TC = Total Fixed Costs + Total Variable Costs or TC = Average Costs × Quantity
Total Fixed Cost (TFC)	TFC = Total Cost - Total Variable Costs or TFC = Average Fixed Costs × Quantity
Total Variable Costs (TVC)	TVC = Total Cost - Total Fixed Costs or TVC = Average Variable Costs × Quantity
Average Cost (AC)	$AC = \frac{Total\ Cost}{Quantity}$ or Average Fixed Costs +Average Variable Costs
Marginal Cost (MC)	$MC = \frac{\Delta\ Total\ Cost}{\Delta\ Quantity}$
Average Product (AP)	$AP = \frac{Total\ Product}{Quantity\ of\ Labor}$
Marginal Product (MP)	$MP = \frac{\Delta\ Total\ Product}{\Delta\ Quantity\ of\ Labor}$
Total Revenue (TR)	TR = Price × Quantity
Average Revenue (AR)	$AR = \frac{Total\ Revenue}{Quantity}$ = Price
Marginal Revenue (MR)	$MR = \frac{\Delta\ Total\ Revenue}{\Delta\ Quantity}$
Profit	Profit = Total Revenue - Total Cost
Supernormal Profit	Average Revenue > Average Cost

Subnormal Proifit	Average Revenue < Average Cost
Profit Maximization	Marginal Cost = Marginal Revenue
Revenue Maximization	Marginal Revenue = 0
Normal Profit, Sales Maximization Point, Economic Break-even Point, Entry Limit Price	Average Cost = Average Revenue
Allocative Efficiency	Demand = Supply, MSB = MSC, P = MC
Productive Efficiency	Minimum Point on Average Cost Curve, AC = MC
X Efficiency	At Any Point on Average Cost Curve
Dynamic Efficiency	Long Run Supernormal Profit
Minimum Efficient Scale	Lowest Quantity Level when AC Stops Decreasing
Shutdown Condition	Average Revenue < Average Variable Costs
Average Utility	$\frac{\text{Total Utility}}{\text{Quantity}}$
Marginal Utility	$\frac{\Delta \text{ Total Utility}}{\Delta \text{ Quantity}}$
Utility Maximization	Marginal Utility = 0
Social Cost	Private Costs + External Costs
Social Benefit	Private Benefit + External Benefit
Profit Maximization in Labor Market	Marginal Revenue Product = Marginal Cost of Labor

Topic 1—Microeconomics (Elasticities)

PED	Price Elasticity of Demand	$\frac{\%\ \Delta \text{ Quantity Demanded}}{\%\ \Delta \text{ Price}}$
PES	Price Elasticity of Supply	$\frac{\%\ \Delta \text{ Quantity Supplied}}{\%\ \Delta \text{ Price}}$
XED	Cross Elasticity of Demand	$\frac{\%\Delta \text{ Quantity Supplied of Good}}{\%\Delta \text{ Price of Good B}}$
YED	Income Elasticity of Demand	$\frac{\%\Delta \text{ Quantity Demanded}}{\%\ \Delta \text{ Income}}$

Topic 2—Macroeconomics

GDP	Gross Domestic Product	Output Method: Sum of All Goods & Services Produces in an Economy in a Year. Income Method: Sum of Factor incomes (Intrest, Wages & Salary, Rent, Profit) Expenditure Method: Total Spending in an Economy in a Year = Consimer Expenditure (C) + Investment (I) + Government Spending (G) + Net Exports(Exports - Imports=(X-M)) = C+I+G+(X-M)
	Nominal GDP	Quantity Goods and Services Produced × Current Prices
	Real GDP	Quantity Produced × Constant Prices or $\frac{\text{Nominal GDP}}{\text{Price Index*}} \times 100$ *any price index: CPI, RPI, GDP Deflator
	GDP Deflator	$\frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$
	GNI	GDP + Net Factor Income
	Green GDP	GDP - Environmental Costs
	Aggregate Demand	C + I + G + (X-M)
	GDP Per Capita	$\frac{\text{GDP}}{\text{Total Population}}$
M	Multiplier	$\frac{1}{\text{1-MPC}}$ or $\frac{1}{\text{1-MPW*}}$ *marginal propensity of leakages = marginal propensity to save + marginal propensity to import + marginal propensity to tax
UR	Unemployment Rate	$\frac{\text{Unemployed*}}{\text{Labor Force**}}$ *Actively searching for a job but don't have one (definition of unemployment) **Employed + Unemployed*

IDX	Index Number	$\frac{\text{Current Value}}{\text{Raw Value (In Base Year)}} \times 100$
%Δ	Percentage Change	$\frac{\text{Actual - Original}}{\text{Original}} \times 100$

Topics 3 & 4— International & Development Economics

Gini Coefficient	$\frac{\text{Area Between Lorenz Curve and Line of Perfect Equality (A)}}{\text{Area Beneath Line of Perfect Equality (A+B)}}$
Martial Learner Condition	PED(exports) + PED(imports) > 1
Terms of Trade	$\frac{\text{Average Index Price of Exports}}{\text{Average Index Price of Imports}} \times 100$
Taxable Income	Total Income Earned - Tax Free Allowance
Average Rate of Tax	$\frac{\text{Total Income Tax Payed}}{\text{Total Income}} \times 100$
Marginal Rate of Tax	$\frac{\Delta \text{ Total Income Tax Payed}}{\Delta \text{ Total Income}} \times 100$