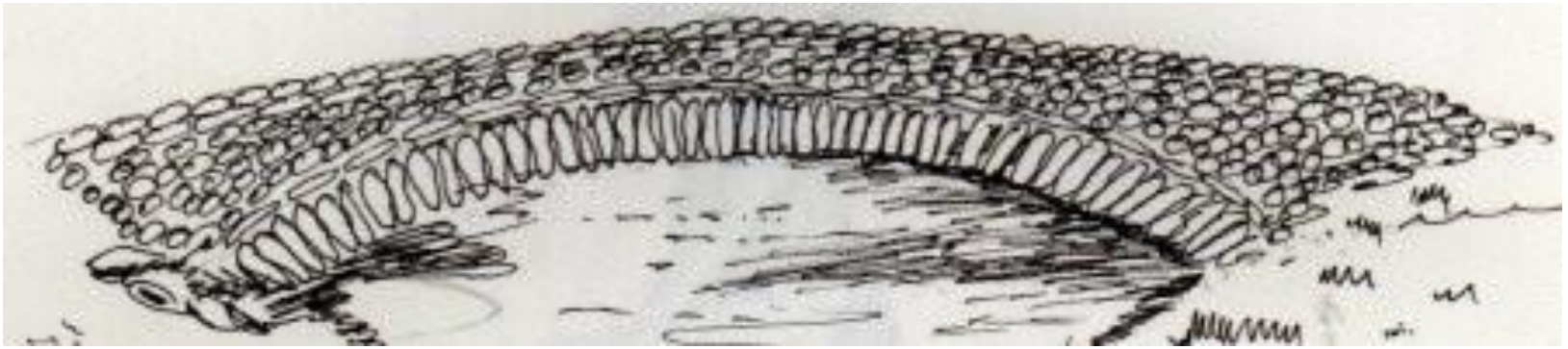


“Who would be a leader must be a bridge”

Colega Consulting Ltd
Bridgend
Wales

Some “Threshold Concepts”
(Focus on Micro)

Dr Charles Smith Brocca

Colega Consulting Ltd
and
University of Wales

Thinking about micro...

Price and cost,

Wages and prices,

Average costs and marginal costs

Money costs and opportunity costs

...are examples of where one ‘common sense’ concept becomes **differentiated** into several ‘discipline’ related concepts when we study Economics

It’s also possible for two concepts to ‘**coalesce**’ into one

e.g. in economics we often **coalesce** ‘wages’ and ‘prices’ - to some extent ‘wages’ can be seen as the ‘price of labour.

Economists also turn ‘properties’ into ‘relationships’

e.g. instead of seeing the price of a product such as a phone as a ‘**property**’ of the product, we view it as a set of RELATIONSHIPS, such as

- Supply, Demand and Quantity of the product
- Flows of output and sales of the product and a flow of consumption of the product

Threshold concepts are...

- Key concepts that **pervade** the whole subject matter of economics
- **Gateway** concepts or portals, that enable understanding of further links in a logical chain of reasoning
- **Integrative** concepts, they bring ideas together, and help **define** a subject
- **Transformational**, or life changing! They give you different **lenses** through which to view the world, compared with, say, accountants, sociologists, other passengers on the bus

Using and building on threshold concepts, a good economist can

- See how the different areas of economics link up

  * JOINED UP THINKING

- Use relatively simple techniques to identify structures and patterns and analyse complex problems and real world events

  * CLEAR THINKING

- Evaluate events and policies

  * CRITICAL THINKING

p.s.

Note the phrase “Structures and patterns”

….. These are far more important than

“number crunching”

Stocks, flows and ratios

VARIABLES	**Flows**	**Stocks**	**Ratios**
MAIN FEATURE	**Have a time dimension**	**Measured at a point in time (no time dimension)**	**Neither simple stocks or flows; might or might not have a time dimension S:S, S:F, F:F, F:S (% , index)**
EVERYDAY EXAMPLE	**The speed of my car**	**The weight of my car**	**The fuel consumption of my car**
ECONOMIC EXAMPLES	**income, investment, production, saving**	**wealth, capital, stocks, savings**	**price, elasticity inflation, unemployment rate, productivity, interest rate, exchange rates**

Ratios: example from outside economics: the fuel consumption of my car ... a flow divided by a flow

DISTANCE TRAVELLED over a time period ***DIVIDED BY*** FUEL CONSUMED over the same time period = MILES PER GALLON

2OO Miles per week

Divided by 4 gallons per week

(The *'per weeks'* cancel out)

RESULT : 50 Miles per gallon (mpg)

Note: most of the SUPPLY and DEMAND diagrams in textbooks, used by your teachers, and drawn in exams are WRONG

- Vertical axis : Price

- Horizontal axis : Quantity supplied and demanded

PER TIME PERIOD

Ratio: economic example

PRICE as a set of relationships (as opposed to being a 'property' of a product.

The price of cornflakes is a ratio of two flows:

The flow out of a household of money spent on cornflakes

divided by the flow of cornflakes into a household

eg. £10 per month

divided by 5 boxes per month

(the 'per months' cancel out)

Result : £2 per box

Stocks and flows are often related

Stocks are often accumulations of past flows.

e.g personal wealth is an accumulation of past income

(if income has been spent on permanent assets, as opposed to income spent on consumption)

So a flow can build up stocks

Ownership of a stock can also increase flows

e.g. ‘Money goes to money’ - or wealthy people tend to achieve higher earning power than poorer people.

Wealthier families can afford better housing, health care and education, which in turn improve ‘life chances’ and enable higher ernings throughout a career

Not a hard and fast rule, of course, but a tendency

Other, selected, ‘threshold concepts’

- Opportunity costs / trade-offs
- Average and marginal values
- Short run / long run
- Diminishing returns
- Equilibrium
- Multiplier effects

Recap: Threshold concepts are...

- Key concepts that **pervade** the whole subject matter of economics
- **Gateway** concepts or portals, that enable understanding of further links in a logical chain of reasoning
- **Integrative** concepts, they bring ideas together, and help **define** a subject
- **Transformational**, or life changing! They give you different **lenses** through which to view the world, compared with, say, accountants, sociologists, other passengers on the bus
- ……..AND they are **GRADE BOOSTERS,** if you understand them **thoroughly**

Threshold concepts in diagrams

Examples:

- Demand, supply, price
- Price elasticity along a straight line demand curve
- Production possibility curve / frontier
- Total, average, marginal product
- Total, average, marginal cost
- AD/AS; output gaps; Phillips Curve

Elasticities

Elasticity

In economics this word means…

responsiveness

or it describes

reactions

E.g. if consumers react strongly to a change in price, the market is said to be **PRICE-ELASTIC**;

If they hardly respond at all, then we say that demand is **PRICE-INELASTIC**

Price elasticity of demand (PED)

1. **The responsiveness of consumers to a change in price**

2. **The percentage change in quantity demanded of a product following a 1% change in price**

3. **PED =**

$$\frac{\text{percentage change in QD}}{\text{percentage change in P}}$$

IMPORTANT NOTE: This is "A" way of measuring elasticity. In exams it's WRONG to say it's "THE" way.

A typical exam question

Q. What are the determinations of the P.E.D. of a product?

A. Typical (weak) answers

> The good is a luxury / necessity

> The good is addictive

A better way of answering (not in the textbooks)

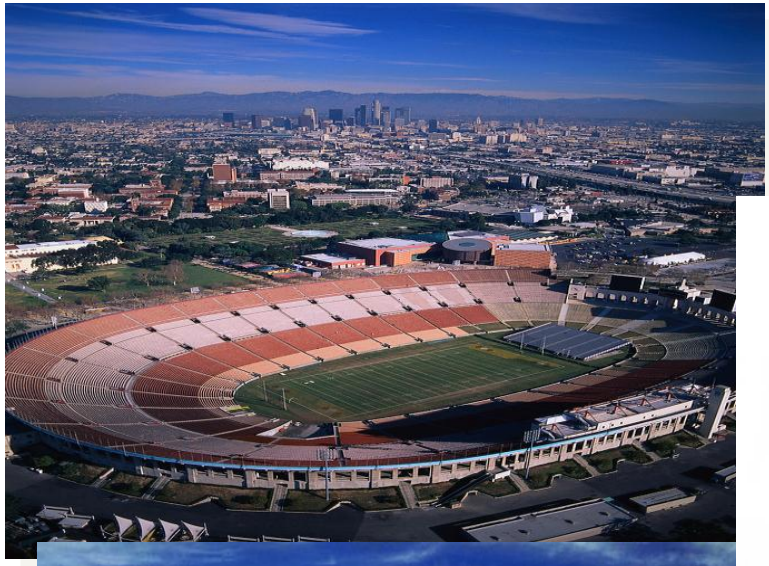
There may be other factors, but the price elasticity of demand of a product depends partly on its cross elasticity of demand with other, similar products and partly in its income elasticity of demand

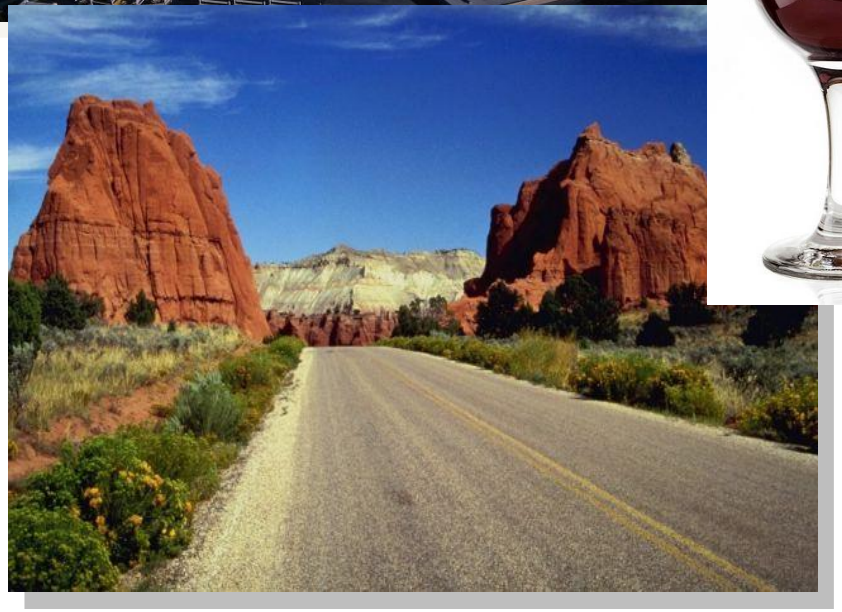
This is because of the SUBSTITUTION EFFECTS and INCOME EFFECTS of a price change.

(Defining P.E.D. as a positive number) ….

A product with a LOW C.E.D. with respect to its substitute goods and a LOW Y.E.D. will have a low P.E.D.

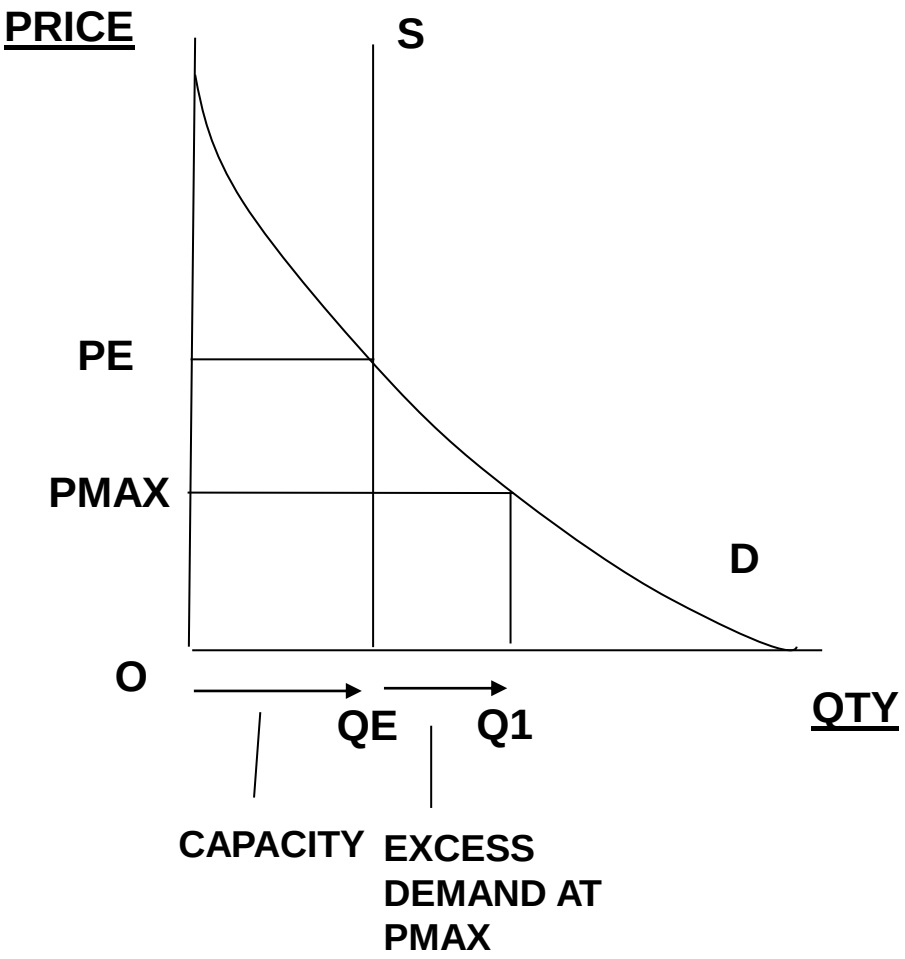
Case Studies



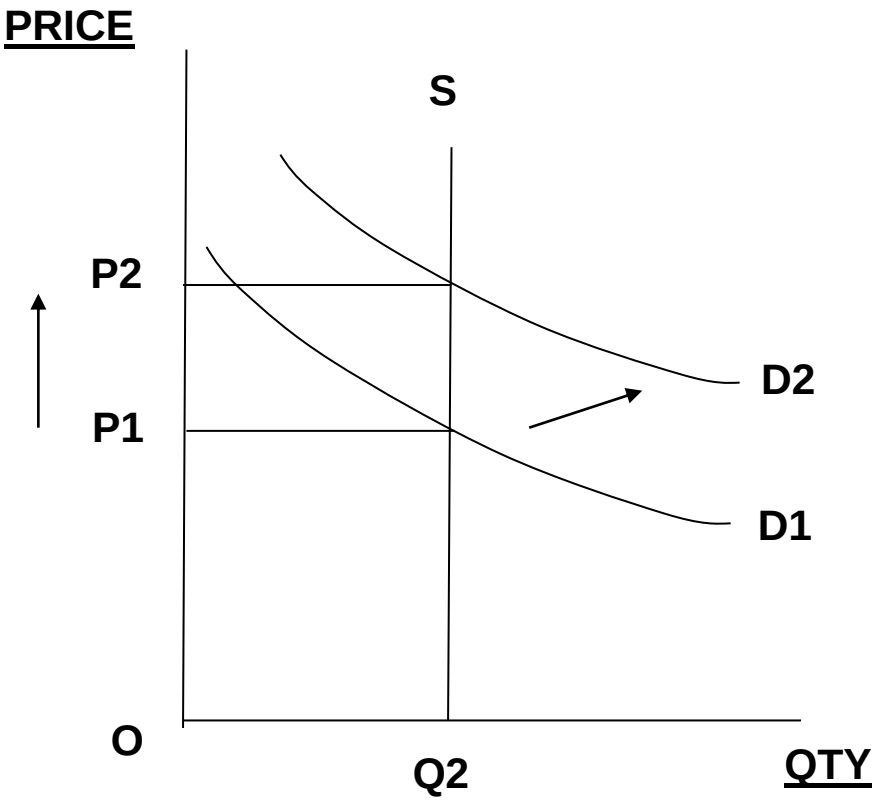


1. **Ticket touts: a parallel market**
2. **Road-space strategies**
3. **Sugary drinks & alcohol: taxation or minimum unit price?**

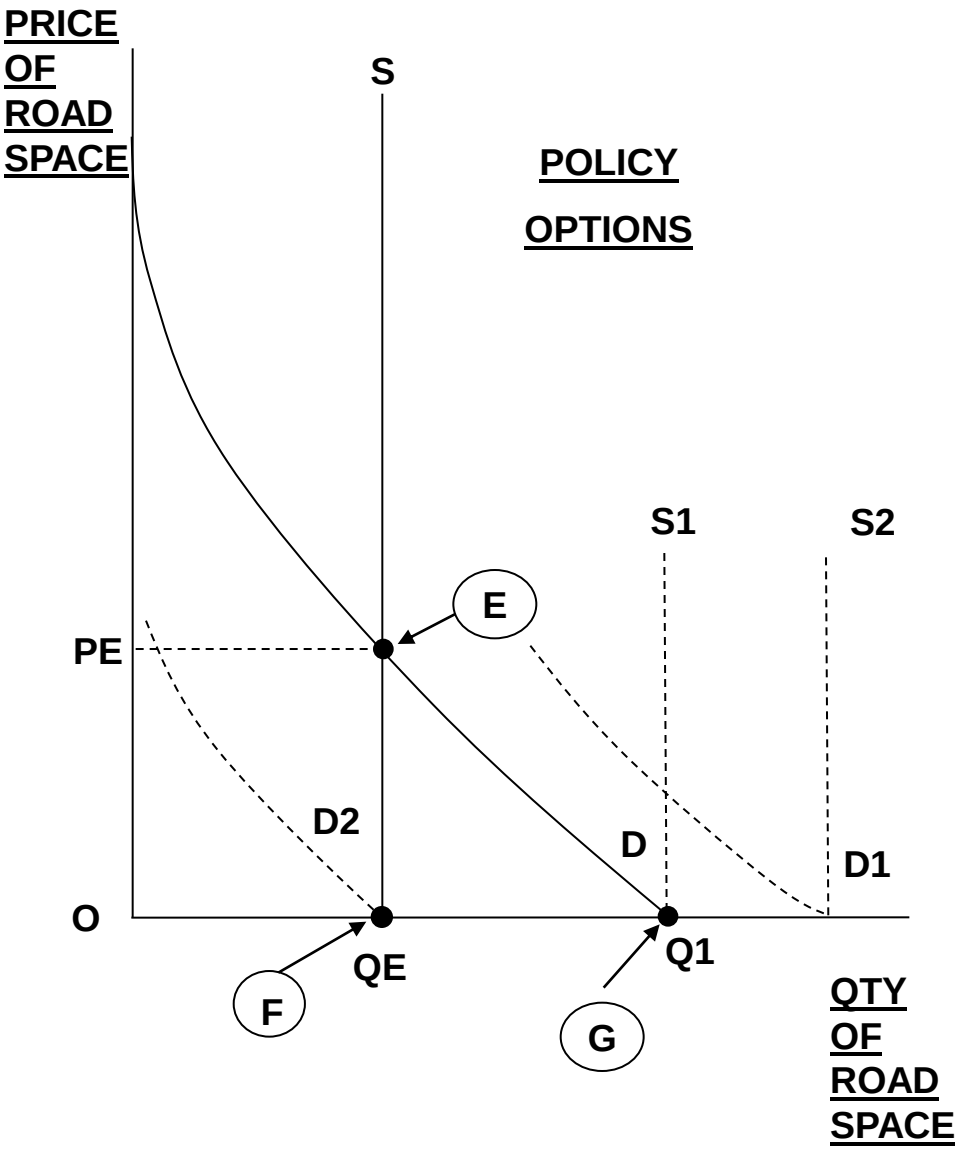
STADIUM PRICES
(Official market)



TOUT PRICES
(Parallel market)



Road-space strategies
THE SUPPLY OF AND DEMAND FOR ROAD SPACE



EQUILIBRIUM POINTS

E = road pricing

F = a tax on an associated item (petrol, diesel)

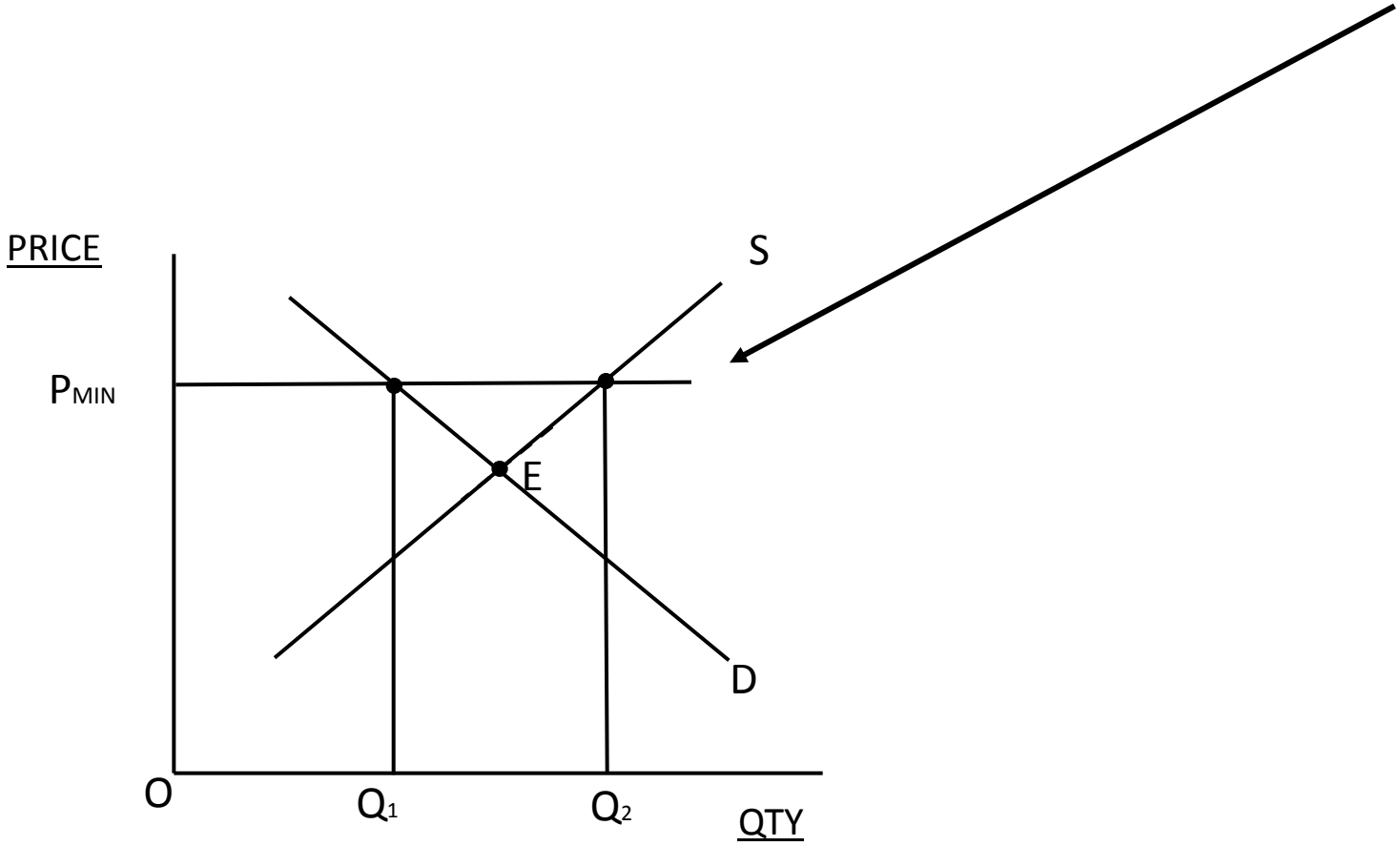
G = roads treated as a free good

Recent policy discussions:
A TAX on sugary drinks,
but a
MINIMUM UNIT PRICE on
alcoholic drinks.
Why the difference?

Minimum price controls

This diagram shows the effect of a FLOOR PRICE or a MINIMUM PRICE CONTROL.

The minimum price is shown as the horizontal line Pmin



Minimum price controls

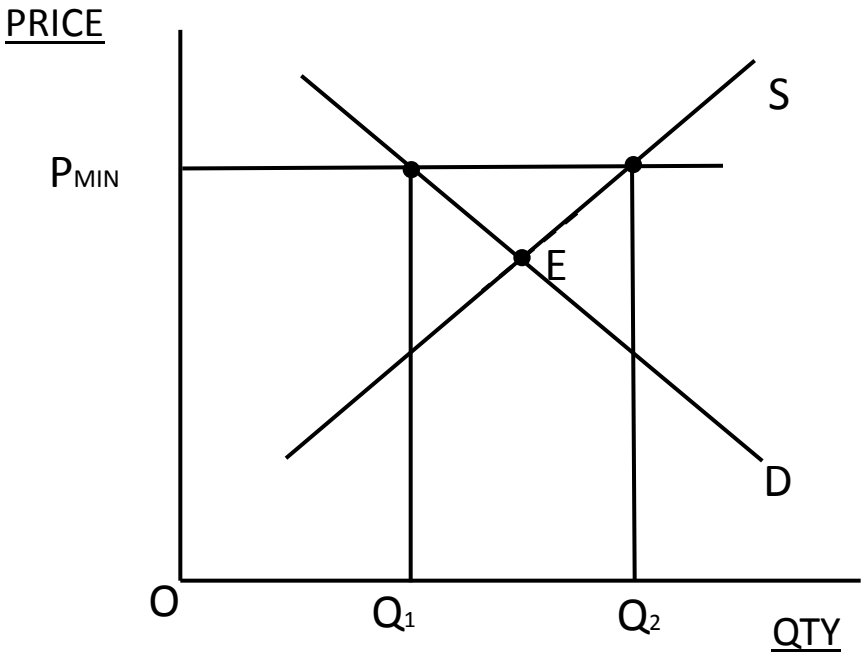
To avoid an excess supply of Q1Q2 the price fixing authority must

EITHER

- increase demand

OR

- reduce supply



Minimum price controls

In other words, the price fixing authority must

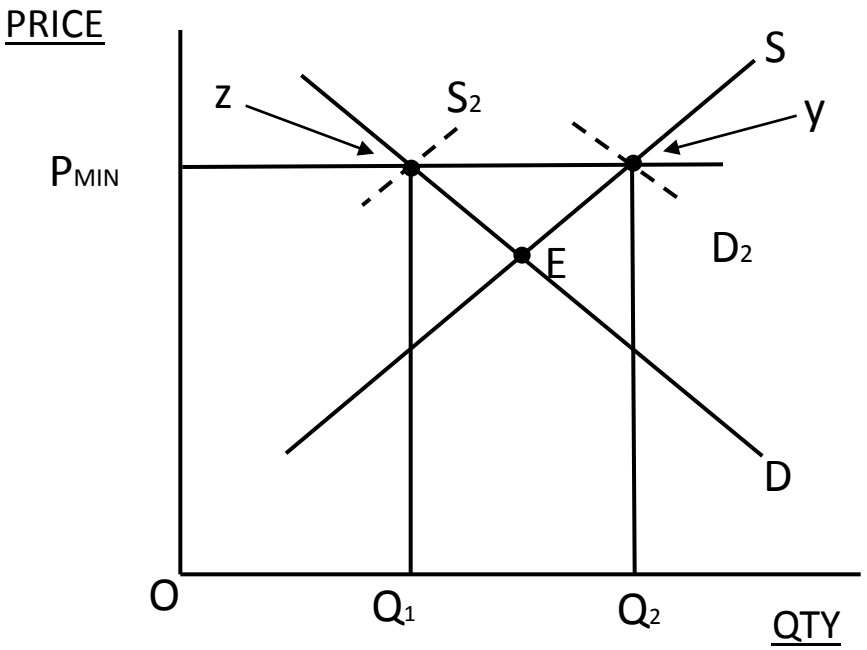
EITHER

- Shift the demand curve to D2 (aim at equilibrium point ‘y’)

OR

- Shift the supply curve to S2 (aim at equilibrium point ‘z’)

Unless the authority can influence either supply or demand, the minimum price CANNOT be held and the market will revert to equilibrium point ‘E’



Some other current topics

- Tourist taxes (hotel bed tax)
- Single-use plastics
- Plastic carrier bags

End