

Micro-Machines Snake Eyes Lazy
 $5 + 11H$ $5 + 11H + 1$ 1

Last Class

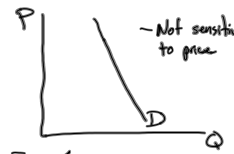
↳ Elasticities
 ↳ $\frac{\% \Delta Q_D}{\% \Delta P}$
 Price Elasticity

↳ As price changes, how does quantity demanded change?
 ↳ Elastic demand curve



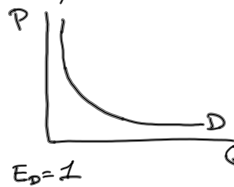
$E_D > 1$

↳ Inelastic



$E_D < 1$

↳ Unitary



↳ Cross-price elasticity

↳ $\frac{\% \Delta Q_D \text{ in good } X}{\% \Delta P \text{ in good } Y}$

↳ Substitutes

$E_{D_{X,Y}} > 0$
 As $P_X \uparrow$, $Q_{D_Y} \downarrow$

↳ Complements

$E_{D_{X,Y}} < 0$
 Two goods used in conjunction

↳ Income Elasticity

$\frac{\% \Delta D}{\% \Delta I}$

- The more you earn, the more you will demand - and vice versa.

$E_I > 0$ Normal good

↳ Proportional

Inferior Good

$E_I < 0$

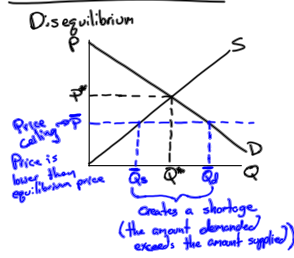
Luxury Good

$E_I > 1$

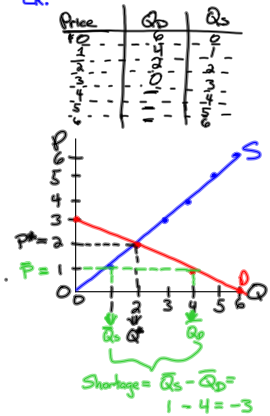
A 1% increase in

Today's Class

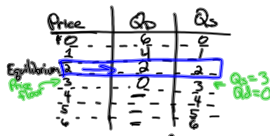
- ↳ Disequilibrium
 - ↳ What happens when the price or quantity are not equal to their equilibrium values.
- ↳ Consumer : Producer Surplus
 - ↳ Measures of welfare (well-being)
- ↳ Taxation



Ex:



Price Floor



What if we wanted prices to stay above \$3?

- ↳ Price floors prevent prices from falling below a certain amount.
- ↳ Price floors will lead to a surplus:

$$Q_S - Q_D = 3 - 0 = 3$$
 More units are supplied than needed.

Suppose that $Q_D = 3 - \frac{P}{2}$
 $Q_S = P$

What's equilibrium?

$$Q_S = Q_D$$

$$P = 3 - \frac{P}{2}$$

$$\frac{3P}{2} = 6 - \frac{P}{2}$$

$$\frac{3P}{2} + \frac{P}{2} = 6$$

$$\frac{4P}{2} = 6$$

$$2P = 6$$

$$P = 3$$

$Q_S = P \Rightarrow 3$

 $Q_D = 3 - \frac{P}{2} \Rightarrow 3 - \frac{3}{2} = 3 - 1.5 = 1.5$

What if prices were held at \$3?

$P = 3$, what is the surplus?

$$Q_S = P \Rightarrow 3$$

$$Q_D = 3 - \frac{P}{2} = 3 - \frac{3}{2} = 3 - 1.5 = 1.5$$

$$\text{Surplus} = Q_S - Q_D \Rightarrow 3 - 1.5 = 1.5$$

