

Micro Ch. 5

1. Designing website
 - a. Price: \$200 per website, quantity: 12 a month
 - b. P2: \$250, how many fewer questions will be sold
 - c. Elasticity= $E = \frac{\% \text{ change quantity}}{\% \text{ change price}}$
 - d. Price rises by 10%, quantity decreases by 20%, what is E?
 - e. $20\%/10\% = 2$
 - f. Price increases by 20%, quantity goes down by 5%
2. Elasticity
 - a. Elastic
 - i. Many substances
 - ii. Luxury
 - iii. Narrow (peanut butter compared to all food)
 - iv. Long time period
 - b. Determinants
 - i. Number of close substances
 - ii. Necessity or luxury
 - iii. How broadly defined is the product
 - iv. Time horizon (think of gas)
 - c. Inelastic
 - i. Few substances
 - ii. Need market equilibrium
 - iii. Broad (all leg wear compared to just jeans)
 - iv. Short time period
 - d. Determinants of Elastic Supply
 - i. How easily can quantity change when price changes
 - e. Income Elasticity
 - i. $\% \text{ Change quantity} / \% \text{ change income}$
 - ii. Toilet paper = 0
 - f. Cross-price elasticity
 - i. $\% \text{ Change quantity} / \% \text{ change price}$ NOTES