

# **ECON 203: Principles of Microeconomics**

**Class 7: Applications of Economic  
Analysis and Government Policies**

# Knowledge Recap

- The demand and supply curves describe the interaction between buyers and sellers in markets.
- Market equilibrium occurs when price is at a level where quantity supplied equals quantity demanded.
- A shift in either demand or supply leads to movements along the supply and demand curves.
- Price elasticity tells us how much  $Q$  will change as a response to a change in  $P$ .
- Price elasticity determines the magnitude and (in some cases) direction of the change in  $P$  and  $Q$  that occurs due to a shift in demand and supply curves.

# Application: Policy Analysis

- Use knowledge on market equilibrium and elasticities to evaluate government interventions.
- General policy interventions.
  - Effects of drug interdiction and education programs.
- Price controls.
  - Price floors.
  - Price ceilings.
- Taxes