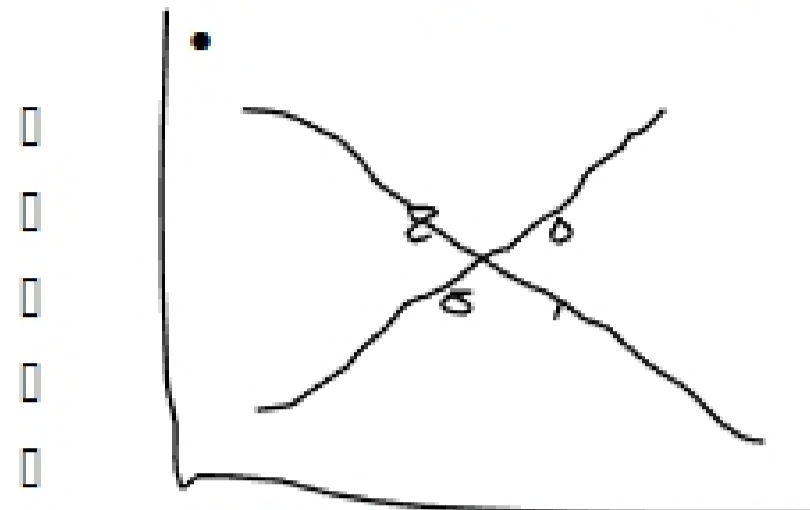


- On exam 2: part of chap 4, chap 5, chap 6 (plus some stuff)
-
- Finishing up the elasticity
 - What we have covered
 - What determines elasticity
 - Why we care about elasticity
 - How to calculate elasticity
 - How to use elasticity
 - Cross price elasticity
- $(\text{change in quantity demanded})/(\text{average quantity demanded})/(\text{change in price})/(\text{average price})$
-
- elasticity is not slope
 - when you move from the top to the bottom of a demand curve, the elasticity decreases
- cross price elasticity
 - cross price elasticity is positive if they are substitutes
 - it is the exact opposite for complements so they are negative 185
- elasticity of supply p 190
 - time is the only thing that will effect elasticity
 - as more time passes supply becomes more elastic
 - “if there is more time they can react to the price increase”
- income elasticity of demand
 - how does the quantity demanded change when your income changes
 - tooth paste compared to trips when you win the lottery
 - necessity: small income elasticity of demand
 - luxury: large income elasticity of demand

o inferior good: negative income elasticity of demand

□ combining elasticity with tax (not in book)



□ $\frac{\text{elasticity of supply}}{\text{elasticity of supply} + \text{elasticity of demand}}$

- percentage of any tax that will fall on the buyer

□ $\frac{\text{elasticity of demand}}{\text{elasticity of supply} + \text{elasticity of demand}}$

- that is the percentage that will fall on the seller

□

□ The more elastic the supply is , the more of the tax falls on the BUYER

□ The more elastic the demand is, the more the tax falls on the SELLER

P	Q	P	q
76	14	50	10
70	16	52	14

□ Calculates what portion of a 10 dollar tax will fall on the buyer and what portion on the seller.

□

□

□ Lab—

□ Private benefit + external benefit = social benefit

□

02/24/2014

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