

Quantity Demanded vs. Increase in demand?

- Increase in demand shifts the whole curve to the right
 - o Increase in income of normal good
 - o Decrease in the price of a compliment
 - o Changes in expectations/changes in tastes or preferences
 - o Population or number of buyers
- Decrease in Quantity demanded
 - o Shifts up and down the demand curve it self.

THRE QUESTION YOU SHOULD ASK WHENEVER YOU ENCOUNTER A COMPARATIVE STATICS QUESTION?

1. Which curve shifts?
2. Which way does it shift?
3. What happened to the equilibrium price?

What is the result of a “binding” price ceiling?

- A binding price floor – is set below – a legal = result is you always get

What is a “binding” price floor?

-

What is elasticity and how it is calculated?

- How easily demand can be altered in a product.
- The absolute value of: %change in quantity demanded/ % change in price
- Elastic Demand curve
- Inelastic curve -----



MIDPOINT FORMULA

- $E_d > 1$ Elastic
- $E_d = 1$ Unit Elastic

- $E_d < 1$ Inelastic

Elasticity is not constant along a linear demand curve



Cross Price Elasticity of demand: measures the response of demand for one good to changes in the price of another good $\% \text{ change in } Q_d \text{ for good 1} / \% \text{ change in price of good 2}$

Income Elasticity of Demand: Measure the response of Q_d to a change in consumer income:
Percent change in Q_d / percent change in income

Price Elasticity of Supply:

Consumer Theory:

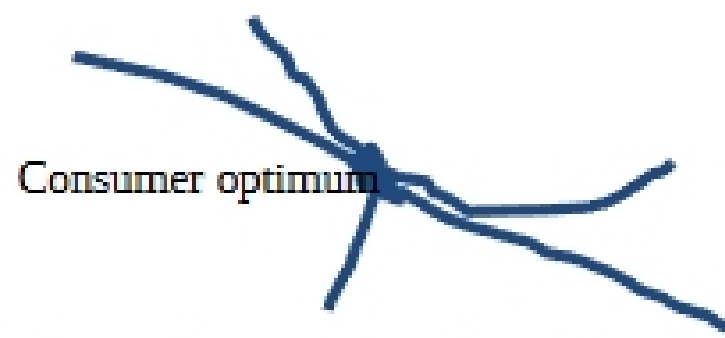
What are the principles of indifference curves? Capture the consumers tastes and preferences.

- Higher indifference curves represent higher utility
- Indifference curves never cross
- Indifference curves usually slope downward
- Indifference curves are usually convex – bowed inward toward the origin (sometimes called concaved up) **KNOW WHY THIS IS THE CASE**

Marginal Rate of Substitution MRS

- Measures the amount of good y you are willing to give up to get one more unit of X

What are the conditions for a consumer optimum



Why does the demand curve slope down ?

Substitution Effect?

Income Effect?

Combined Effect?