

ECON 203: Principles of Microeconomics

**Class 6: Price Elasticities of
Demand and Supply**

Knowledge Recap

- Simultaneous events that produce a shift in both the demand and supply curves have an ambiguous effect on either equilibrium price or equilibrium quantity.
 - Example: the increase in both demand and supply for the Rams tickets lead to an increase in quantity, but an unknown effect on prices.
- In those cases, the final effect on equilibrium price or quantity will be determined by:
 - The magnitude of the shifts of demand and supply.
 - How much will buyers and sellers respond to the demand and supply changes \square elasticities of demand and supply.

Elasticity

- Elasticity is a measure of how much buyers and sellers respond to changes in market conditions.
 - The response of buyers and sellers to changes in *prices* is measured by price elasticities of demand and supply.
 - Determines the shape (slope) of the demand and supply curves.