M S U

Krugman and Wells
Chapter 6

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Overview

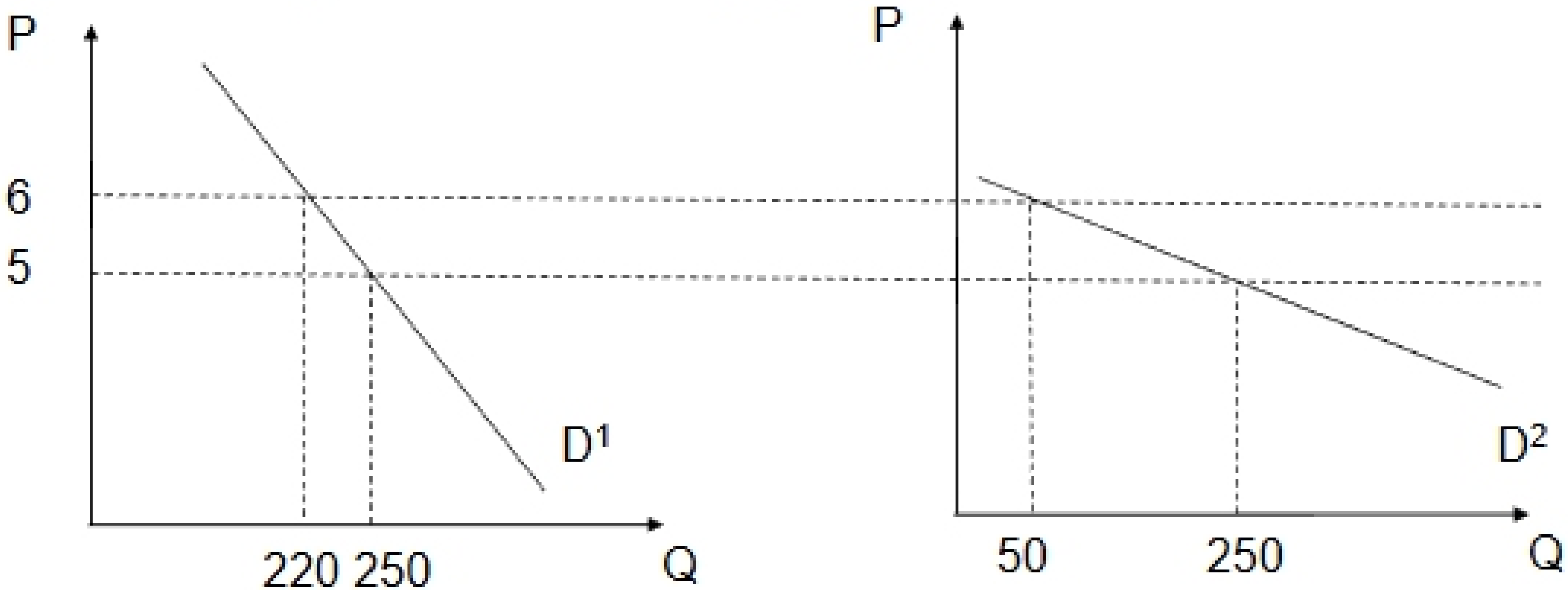
- Chaps. 3-5: lay out how competitive markets work
  - Chap 3: shifting S & D
  - Chap 4: welfare
  - Chap 5: price and quantity controls

- This chapter: <u>how much</u> do prices and quantities change?
  - Depends on the slopes of S and D and how much they shift
  - We measure these features with <u>elasticities</u>

- Note: I cover the same material in the chapter, but take a pretty different tack…

Caution: if you are uncomfortable with math, this week may look daunting. Let us help you! It isn't that bad.

Example 1: daily sandwich demand



- At \$5, you sell 250 for daily revenue of \$1250
- At \$6, you sell 220 for daily revenue of \$1320
  - Maybe no close substitutes nearby?

- At \$5, you sell 250 for daily revenue of \$1250
- At \$6, you sell 50 for daily revenue of \$300
  - Maybe another sandwich shop nearby?

You are a pastrami shop owner on Grand River. You're thinking about raising your price from \$5 to \$6. Should you?