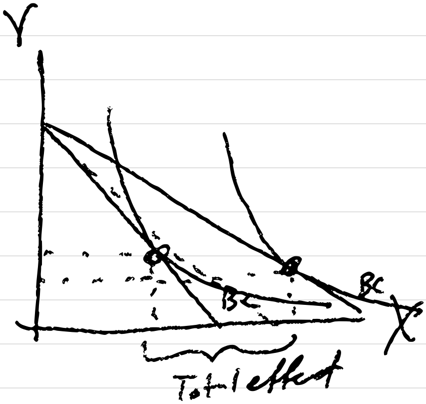
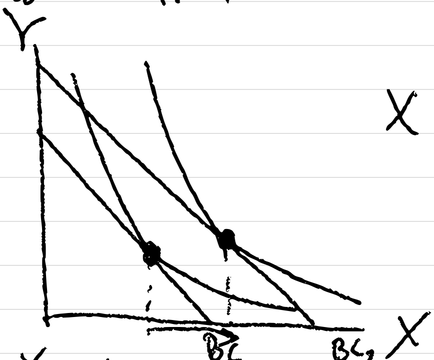
Dylan Black

Lecture 8
Market Demand

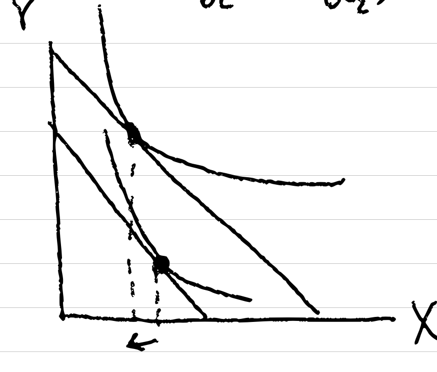
Total Effect of a Price Change



Income Effect

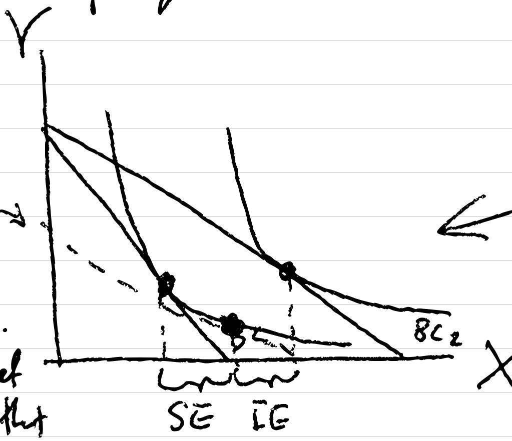


X and Y are normal goods



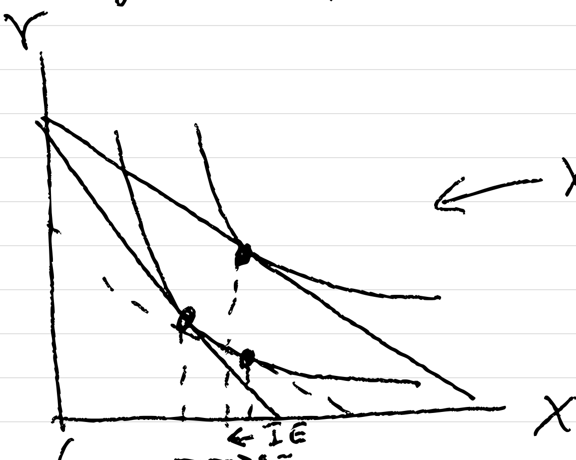
X is an inferior good (Y is still normal)

Decomposing the total effect

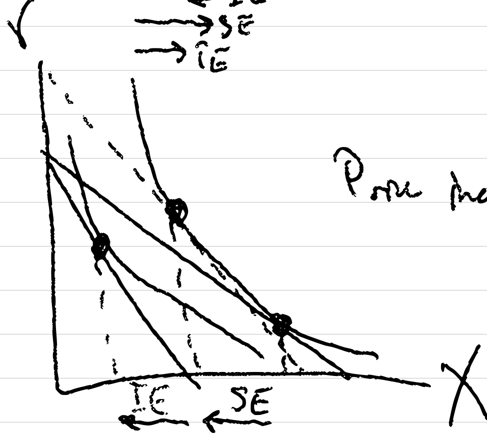


X is normal

aux. budget line that represents changes in relative prices

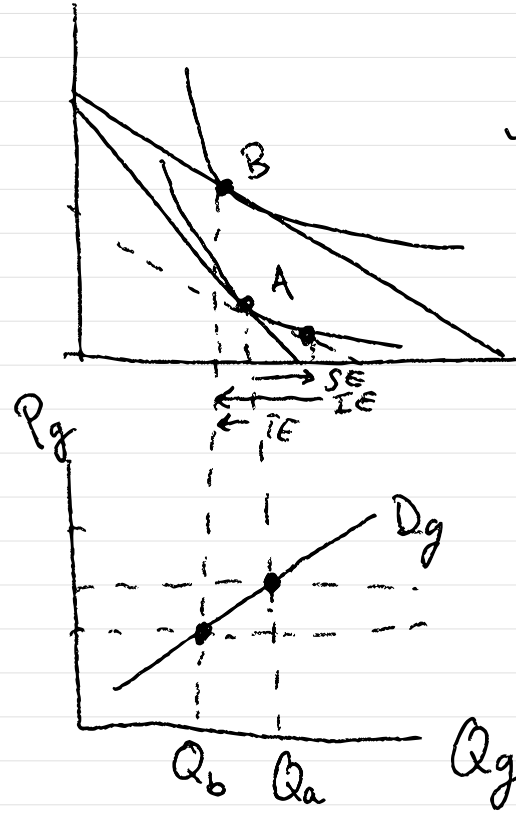


X is inferior



Price increase, X is normal

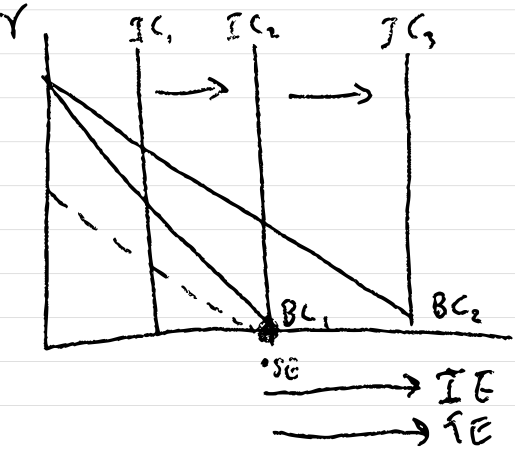
Giffen Goods



upward sloping demand curve

negative income effect dominates positive substitution effect

... ew



oooh

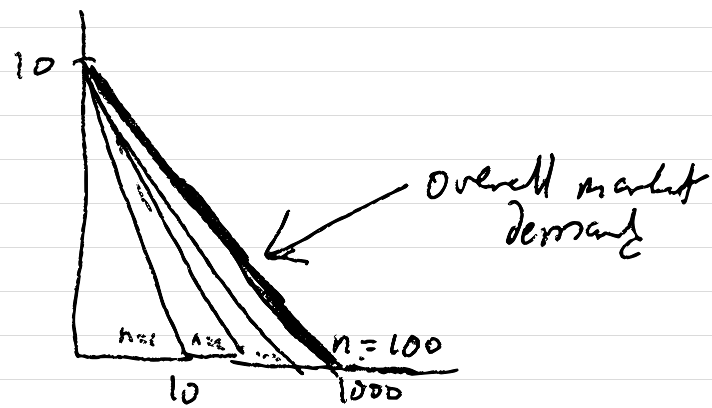
Market Demand

So far, we've derived an individual's demand curve

Market demand is found by horizontally summing individual demand curves

Ex. 100 consumers all w/ $Q_i^D = 10 - P$

$\therefore Q = 1000 - 100P$



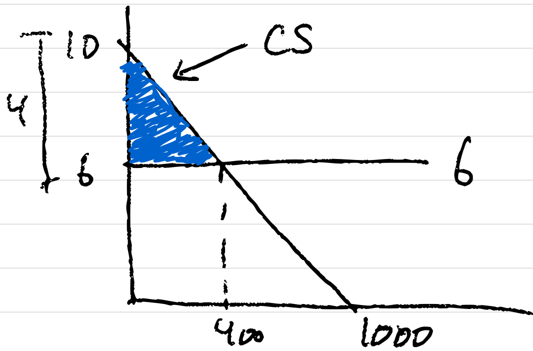
Consumer Surplus

↳ individual consumer surplus
- willing to pay vs. market price

↳ market surplus
- area under D & above market price

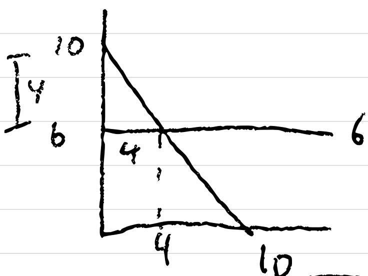
Economic surplus = CS + PS

Suppose $Q_d = 1000 - 100P$ and $P = 6$, what is CS?

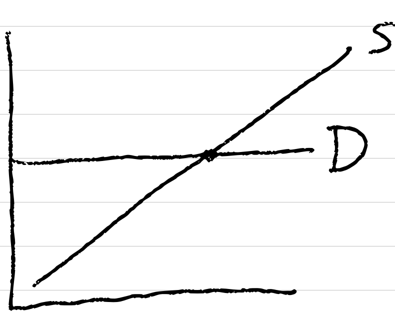


$\boxed{CS = 800}$ ← CS in the market

$Q_i = 10 - P$



$\boxed{CS = 8}$ ← individual



$CS = 0$