

# Notes — Week 2

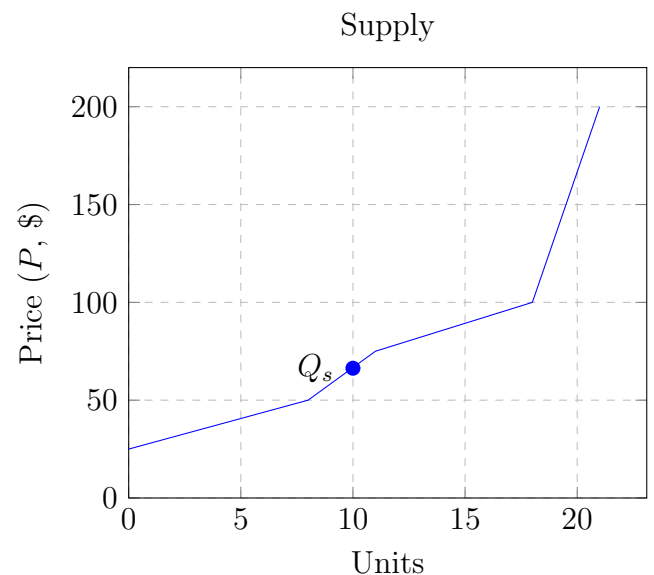
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## Period 3

1. Elasticity — If demand/supply is elastic, a small change in price has a big effect on quantity demanded (*i.e. a slope close to zero*), and vice versa
2. Determinants of Elasticity:
  - Urgency of Need
  - Availability of Substitutes
  - Proportion of Income
3. Supply — The schedule of quantities that would be offered for sale at all of the possible prices that might prevail in the market

Price, ( $P$ , \$)	Quantity Supplied ( $Q_s$ )
25	0
50	8
75	11
100	18
200	21



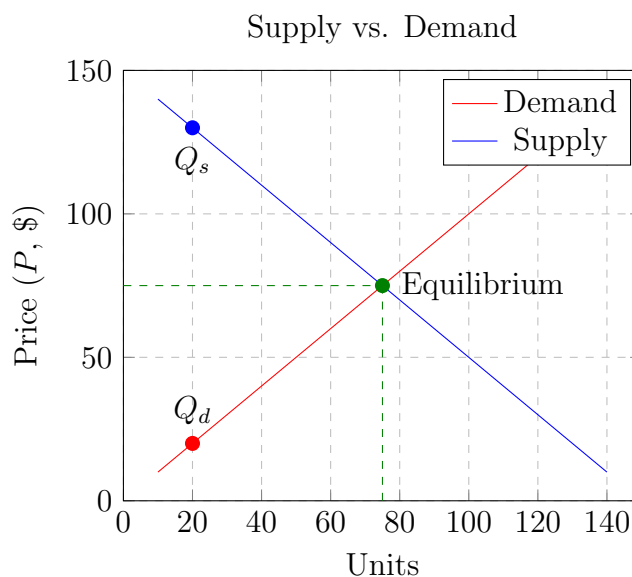
4. Law of Supply — The tendency of suppliers to offer more for sale at high prices than at low prices
  - Quantity supplied can only be changed by price

## 5. Determinants of Supply:

- (a) Change in the cost of factors of production
- (b) Change in technology — New technology often reduces producers' costs, leading to an increase in supply
- (c) Change in profit opportunities producing other products — If producers expect to make more selling something else the supply of what they currently produce decreases. If profit opportunities producing other things decrease, more sellers will begin producing this product, increasing supply
- (d) Change in producers' price expectations
- (e) Change in the amount of producers

## 6. Supply vs. Demand

- Demand is downward-sloping
- Supply is upward-sloping
- On one graph, the two lines intersect. The intersection point is equilibrium (sometimes called market-clearing point)
- If the price is too high, or demand is too low, there is a surplus
- If the price is too low, or demand is too high, there is a shortage



## 7. Using the Supply and Demand model to predict market outcomes

- Does an event effect supply/demand?
- Is supply/demand increasing or decreasing

- Draw a new curve
- Use the new curve to determine impact on price and quantity

## 8. Price Barriers

- Price Ceilings — A point above which the price can not be (ex. rent control)
  - There is always a shortage in rent-controlled environments
- Price Floors — A point below which the price can not be (ex. minimum wage)
  - There is always a surplus of labor (unemployment) in a wage-controlled environment