Barick Chung

Employment:
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2012-2014 Lecturer, School of Economics and Finance, University of Hong Kong.
2006-2012 Instructor, Department of Economics, CUHK – Hong Kong.

Education:
2003-2007 Ph.D. (Business) Indiana University – Bloomington.
1987-1991 BS.Sc. (Economics) Chinese University of Hong Kong – Hong Kong.

Research paper:
Chung, Barick, "Two Level Price Discrimination and Vertical Relationship" (March 05, 2012). Available at SSRN: http://ssrn.com/abstract=1997070.

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ECO 2011 (Sections L07-10)
Basic Microeconomics

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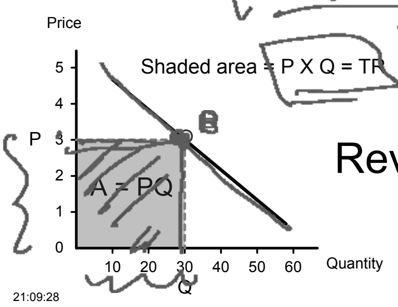
Total revenue (TR = P × Q) is the amount paid by buyers and received by sellers of a good, computed as the price of the good times the quantity sold.

TR = P × Q

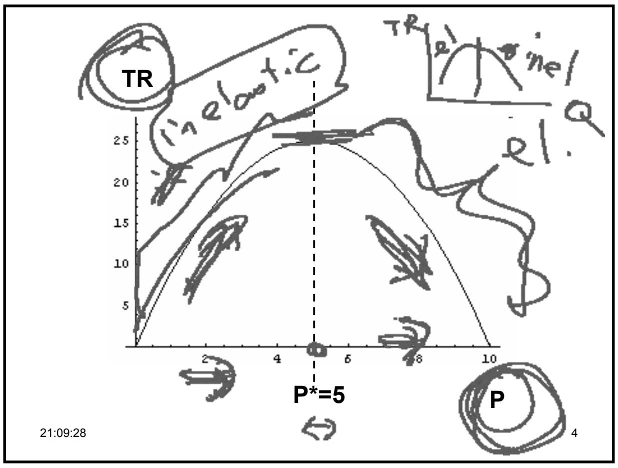
$6/kg.

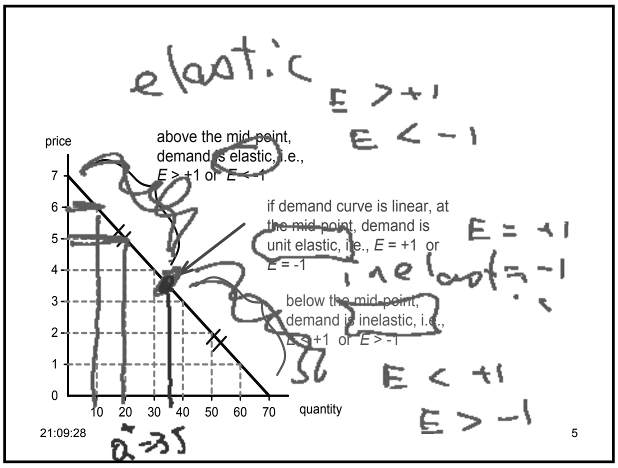
1000 kg



Revenue

= $6000





$TR = P \times Q$

Q	P	TR	MR	%ΔP	%ΔQ	Elasticity	description
0	7	0	–	–	–	–	–
10	6	60	6	-0.15	2.00	13.00	elastic
20	5	100	4	-0.18	0.67	3.67	elastic
30	4	120	2	-0.22	0.40	1.80	elastic
40	3	120	0	-0.29	0.29	1.00	unit elastic
50	2	100	-2	-0.40	0.22	0.56	inelastic
60	1	60	-4	-0.67	0.18	0.27	inelastic
70	0	0	-6	-2.00	0.15	0.08	inelastic

Elastic

P ⇓ TR ⇑

+ MR

P ⇑ TR ⇓

- MR

Inelastic

P↑ Q↓ TR↑ MR > 0

P↑ Q↓ TR↑
Q↑ TR↓ MR < 0

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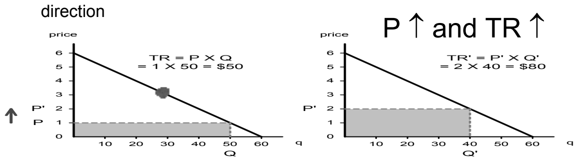
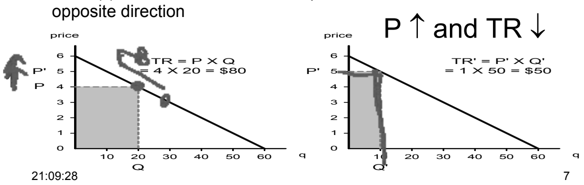
Case (i): when demand is inelastic: price and TR move in the same direction

P ↑ and TR ↑



Case (ii): when demand is elastic: price and TR move in the opposite direction

P ↑ and TR ↓



Mankiw, Gregory, *Essentials of Economics*, 2012, p. 96:

(i) If demand is inelastic, price and TR move in the same direction;

(ii) If demand is elastic, price and TR move in the opposite directions;

(iii) If demand is unit elastic, TR remains constant when the price changes

Example 4.6.
Price Elasticity Estimates for Selected Products

Good or service	Price elasticity
Green peas	-2.8
Restaurant meals	-1.63
Automobiles	-1.35
Electricity	-1.2
Beer	-1.19
Movies	-0.87
Air travel (foreign)	-0.77
Shoes	-0.7
Coffee	-0.25
Theater, opera	-0.18

~~kw/hr~~ kwhr

liter

kg / tons.

Estimates

Mankiw, Gregory, *Essentials of Economics*, 2012, pp.90-91:

Determinants of Price Elasticity of Demand:

1) Availability of **close substitutes**

2) **Necessities** (inelastic) versus **luxuries** (elastic)

3) **Definition of market** (narrowly defined market tend to have more elastic demand than broadly defined markets)

4) **Time horizon** (demands are more elastic over longer time horizons)

1) Availability of close substitutes

Mankiw, Gregory, *Essentials of Economics*, 2012, p. 90:

Goods with **close substitutes** tend to have more elastic demand because it is easier for consumers to switch from that good to others.

2) Necessities versus luxuries

Mankiw, Gregory, *Essentials of Economics*, 2009, p. 90:

Necessities tend to have inelastic demands, whereas luxuries have elastic demands.

ness...

"When the price of doctor's visit rises, people will not dramatically reduce the number of times they go to a doctor"

lux...

"When the price of sailboats rises, the quantity of sailboats demanded falls substantially"

inferior normal.

E_I

0 necessity luxury.

Necessity good
https://en.wikipedia.org/wiki/Necessity_good
Accessed 20211014
… Necessity goods are product(s) and services that consumers will buy **regardless of the changes in their income levels**, therefore making these products less sensitive to income change. Examples include … tobacco, … electricity and water, and critical medicine such as insulin. …

Luxury goods
https://en.wikipedia.org/wiki/Luxury_goods
Accessed 20211014
Luxury goods have **high income elasticity of demand**: as people become wealthier, they will buy proportionately more luxury goods. This also means, however, that should there be a decline in income its demand will drop more than proportionately. …

3) Definition of the market

Mankiw, Gregory, *Essentials of Economics*, 2012, p.90:

Narrowly defined markets tend to have more elastic demand than broadly defined markets because it is easier to find **close substitutes** for narrowly defined goods.

Mankiw, Gregory, *Essentials of Economics*, 2012, p.90:

For example, food, a broad category, has a fairly inelastic demand because there are **no good substitutes** for food. Ice cream, a narrower category, has a more elastic demand because it is easy to **substitute** other desserts for ice cream.

4) Time horizon

Mankiw, Gregory, *Essentials of Economics*, 2012, p. 90:

Goods tend to have more elastic demand over longer time horizons.

The end