

Contents

0	Introduction	1
1	Supply and Demand	3
1.1	Markets and Competition	3
1.2	Demand	3
1.2.1	The Demand Curve	3
1.2.2	Market Demand	4
1.2.3	Shifts in the Demand Curve	5
1.3	Supply	7
1.3.1	The Supply Curve	7
1.3.2	Market Supply	7
1.3.3	Shifts in the Supply Curve	9
1.4	Supply and Demand Together	10
1.4.1	Equilibrium	10
1.4.2	Analyzing Changes in Equilibrium	11
2	Elasticities	15
2.1	The Elasticity of Demand	15
2.1.1	The Price Elasticity of Demand	15
2.1.2	Computing the Price Elasticity of Demand	16
2.1.3	The Midpoint Method	16

Chapter 2

Elasticities

2.1 The Elasticity of Demand

2.1.1 The Price Elasticity of Demand

- A good's price elasticity of demand measures how much the quantity demanded responds to a change in price.
- Demand for a good is elastic if the quantity demanded responds a lot to changes in price.
- Demand is inelastic if the quantity demanded doesn't respond a lot to changes in price.

Determinants of Price Elasticity of Demand

1. Availability of Substitutes: Goods with close substitutes are more elastic
2. Necessities v. Luxuries: Necessities are more inelastic and luxuries are more elastic
3. Market Definition: Goods in narrowly defined markets are more elastic, and goods in broadly defined markets are more inelastic.
 - Ex. Vanilla ice cream is a narrowly defined good, so it has lots of substitutes.
 - Ex. Food is a broadly defined good, so it has no substitutes.
4. Time Horizon: Goods are more elastic in the long term than the short term

2.1.2 Computing the Price Elasticity of Demand

2.1.3 The Midpoint Method