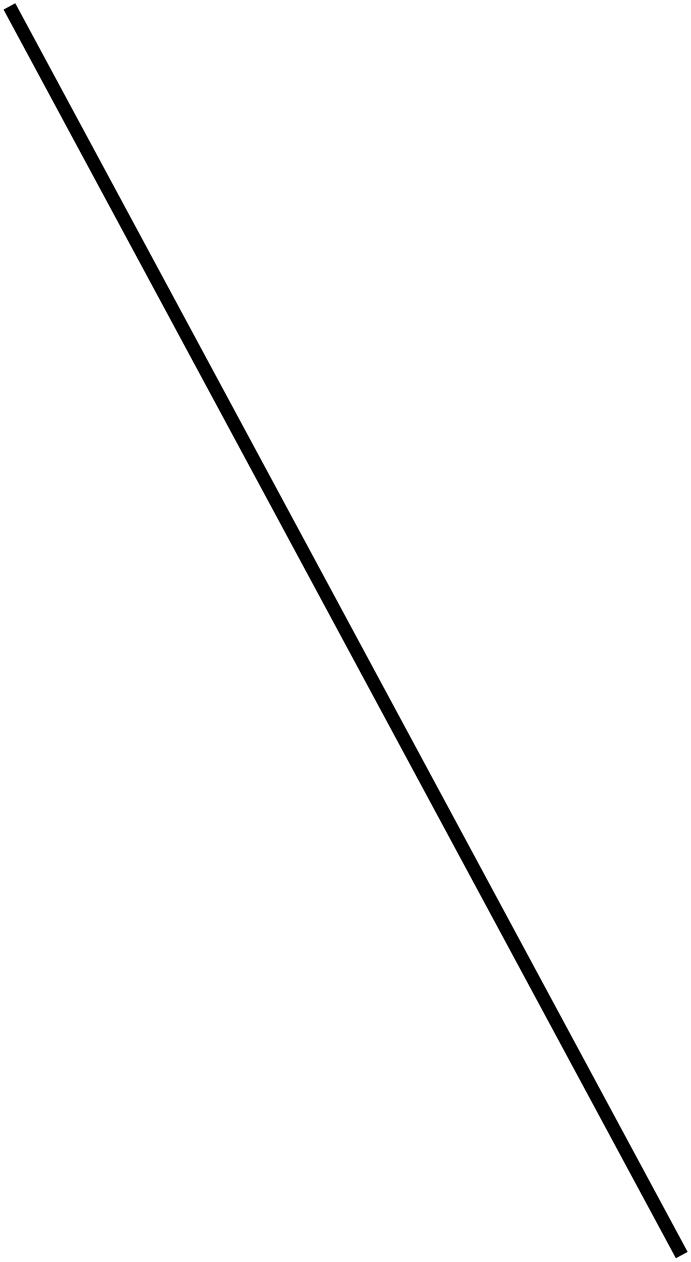
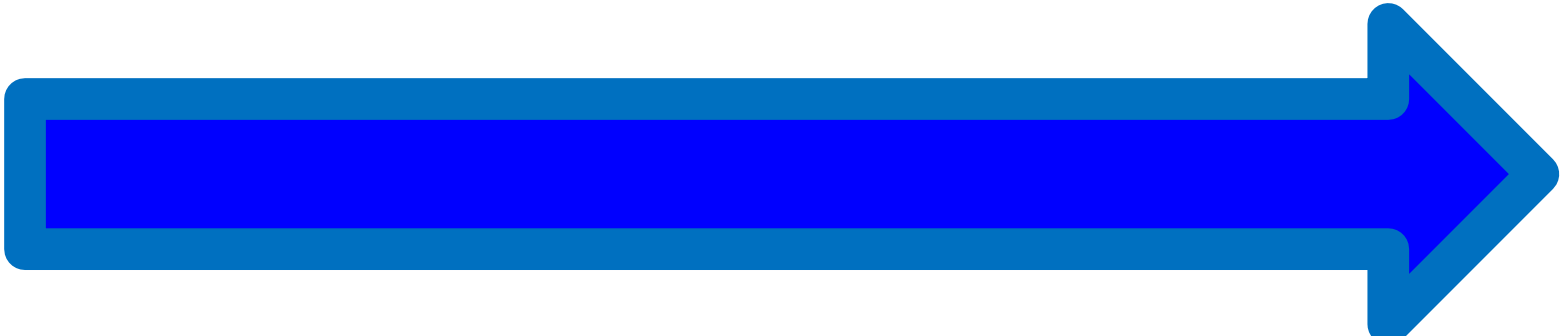
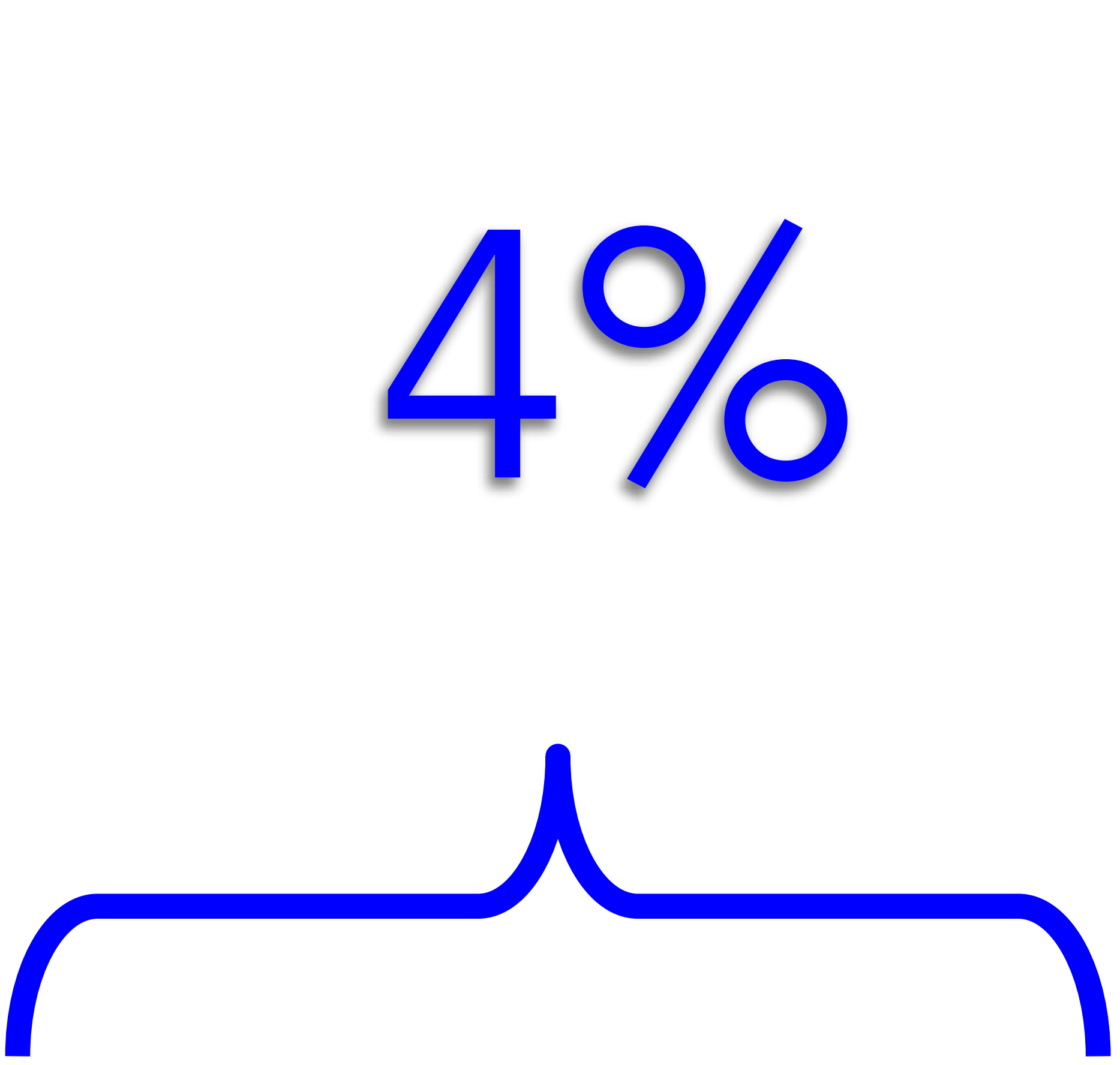
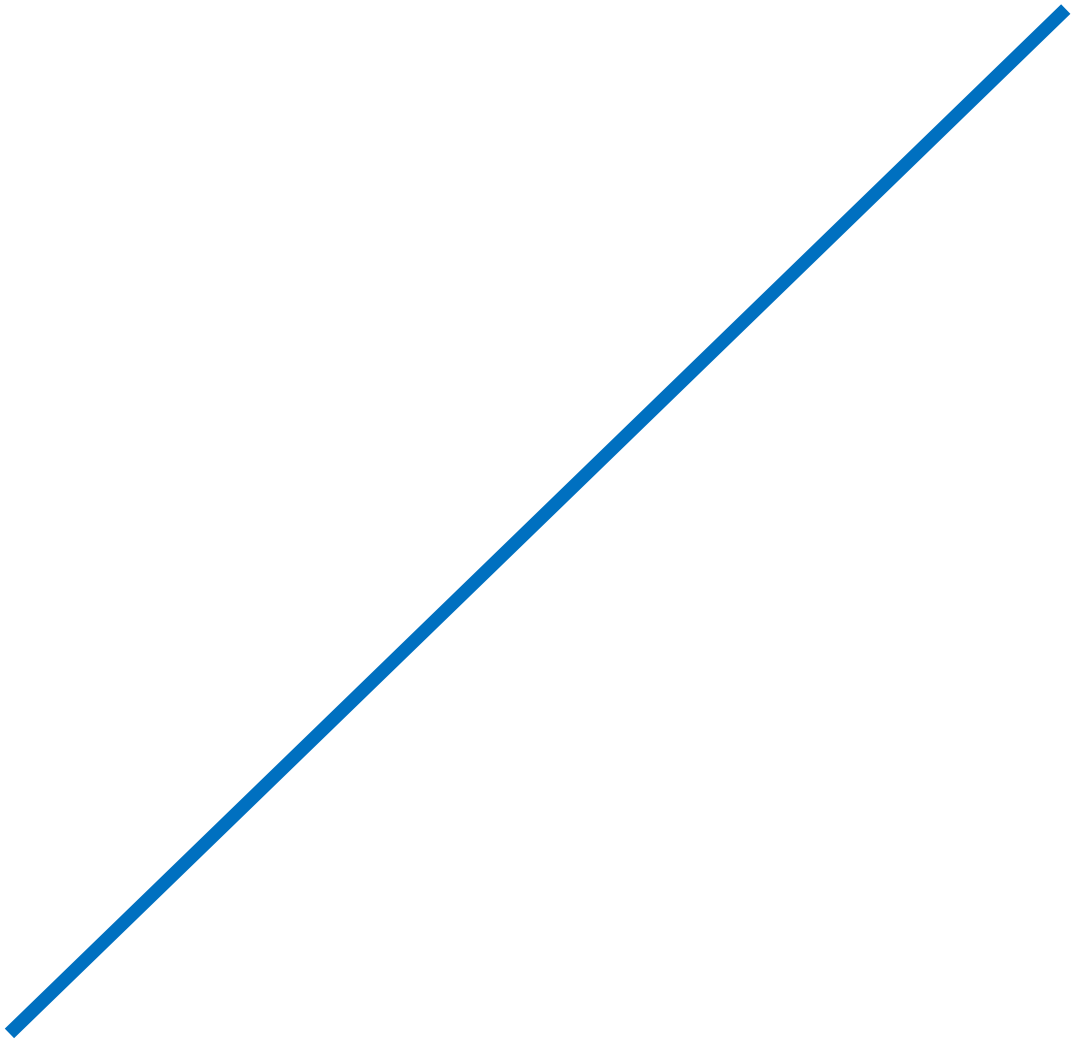


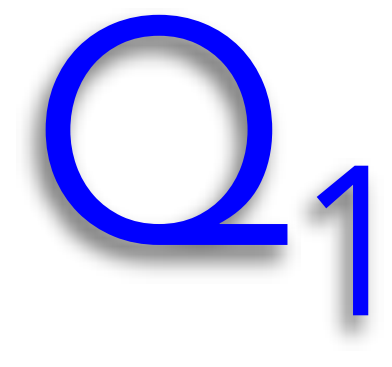



4%




Q0


P1


Q1

Demand elasticity = -0.5; Supply elasticity = 1.5

If Supply increase by 4% calculate the resulting change in Equilibrium Price

$$\%\Delta Pe = -4/2$$

$$\%\Delta Pe = -2\%$$

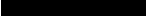
The equilibrium price (Pe) decrease by 2%

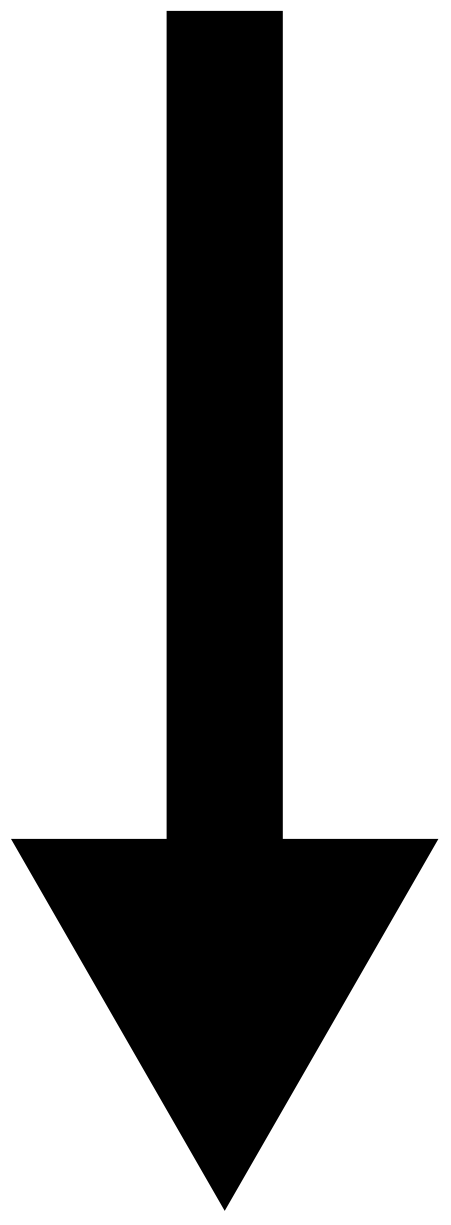

P0


%ΔPe

$$\frac{4}{(0.5 + 1.5)}$$

$$\frac{\%\Delta \text{Supply}}{(e^d + e^s)}$$






Positive!!!!!

Demand elasticity = -0.5; Supply elasticity = 1.5

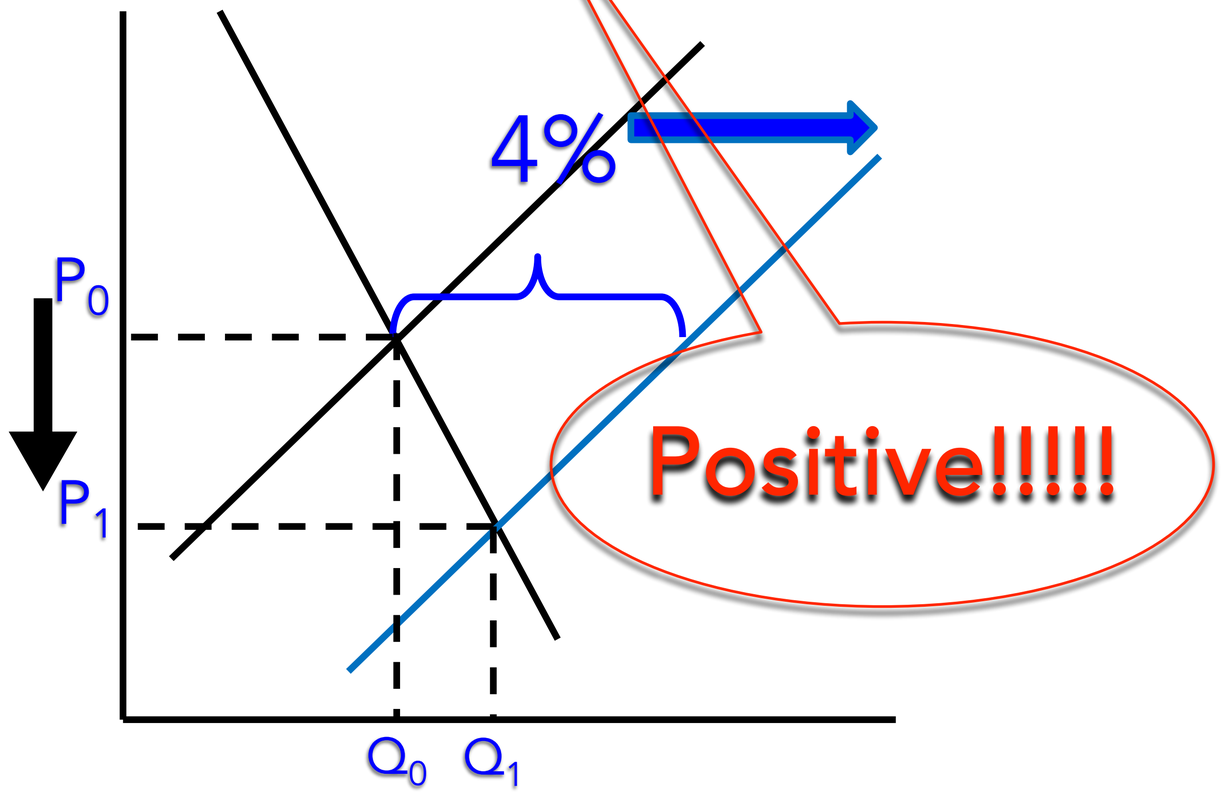
If Supply increase by 4% calculate the resulting change in Equilibrium Price

$$\%\Delta Pe = -\frac{\%\Delta Supply}{(|e^d|+e^s)} = -\frac{4}{(0.5 + 1.5)}$$

$\%\Delta Pe = -4/2$

$\%\Delta Pe = -2\%$

The equilibrium price (Pe) decrease by 2%



The Effect of an Increase in Demand