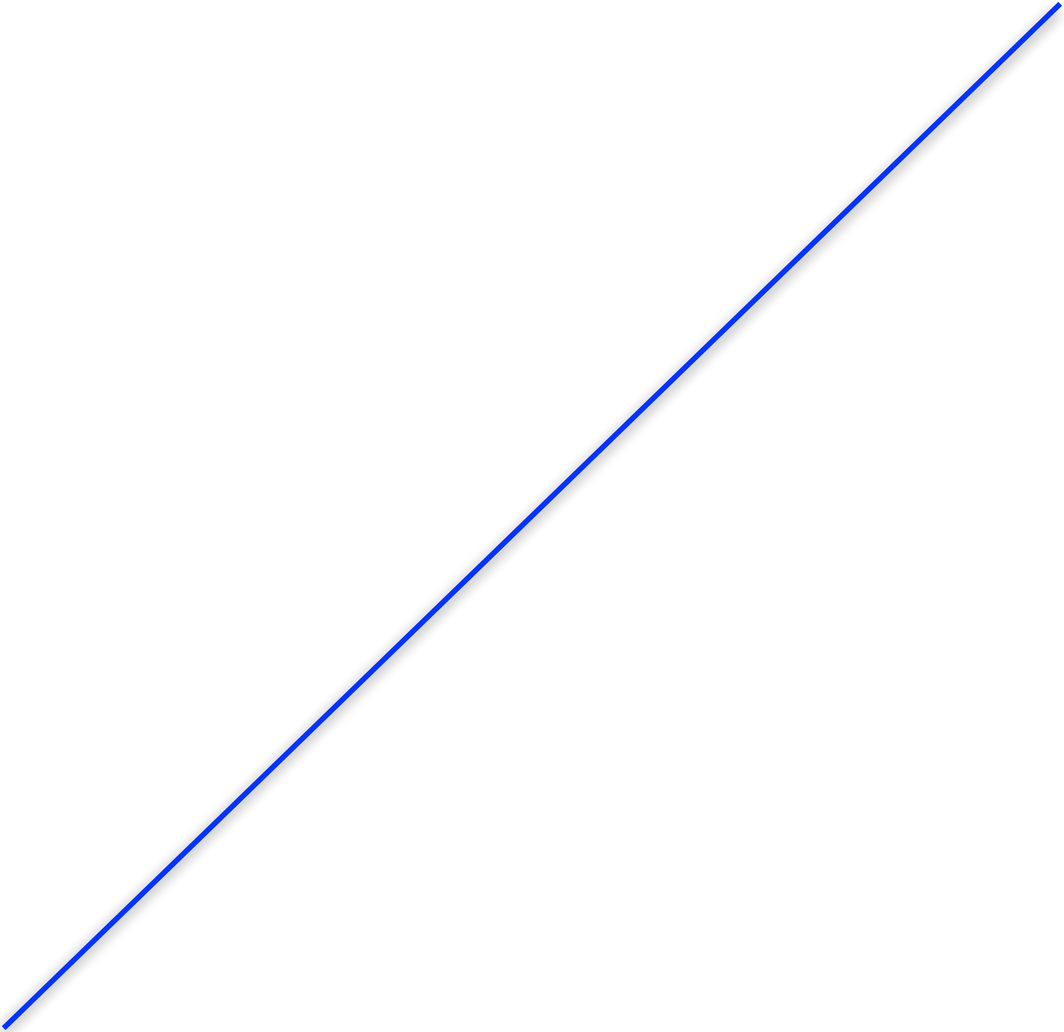
4%



Q_0

P_1

Q_1

Example: 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%

P_0

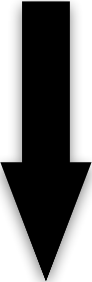
%ΔPe

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

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

[redacted]

[redacted]



Positive!!!!!

$$S_0$$

S_1

Example: Demand elasticity = -0.5; Supply elasticity = 1.5
If Supply increase by 4% calculate the resulting change in Equilibrium Price

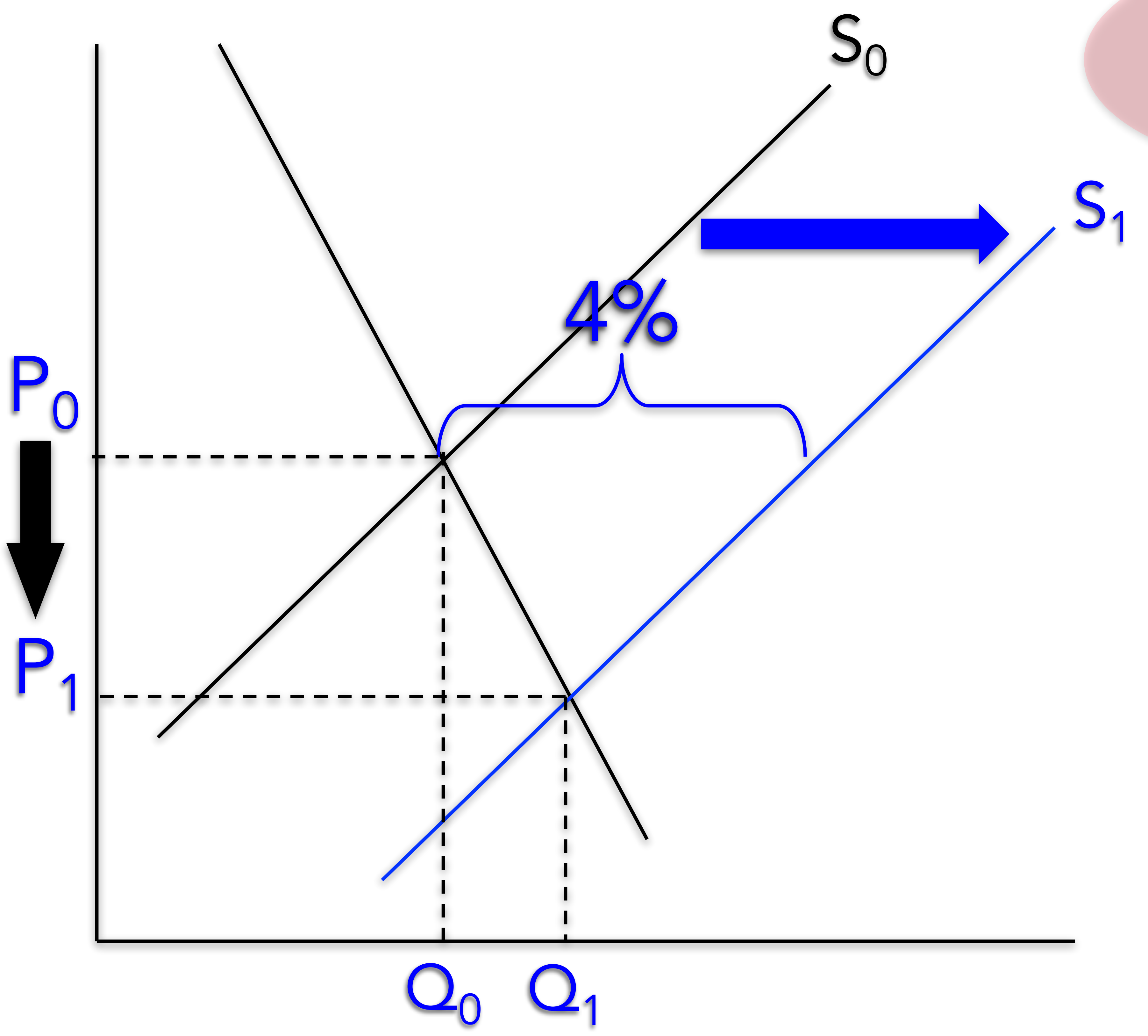
$$\%\Delta Pe = -\frac{\%\Delta Supply}{(|e^d|+e^s)} = -\frac{4}{(0.5 + 1.5)}$$

Positive!!!!!

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

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

The equilibrium price (Pe) decrease by 2%



The Effect of an Increase in Demand