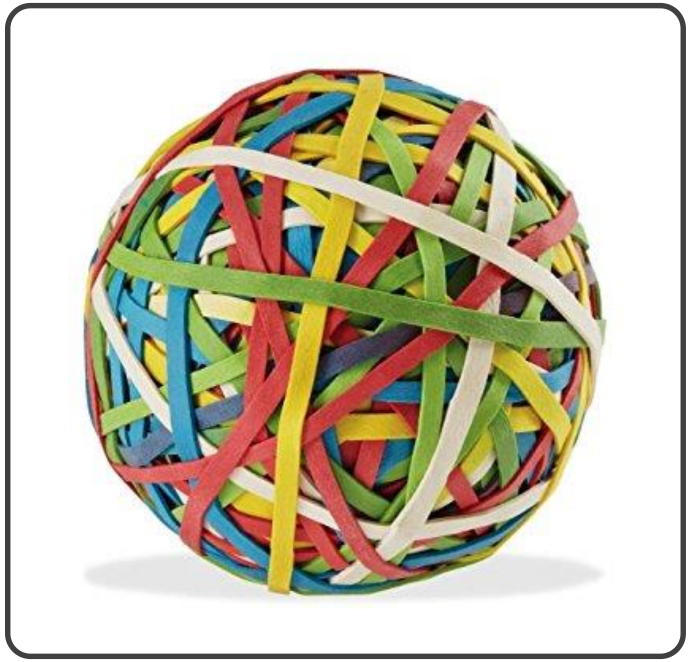


- **Outline:**
- I. Price Elasticity of Demand
- II. Price Elasticity of Demand - Graphically
- III. Determinants of Price Elasticity of Demand
- IV. Elasticity and Total Revenue
- V. Elasticity of Supply
- VI. Elasticity of Supply Graphically
- VII. Determinants of Elasticity of Supply
- VIII. Income Elasticity
- IX. Cross-Price Elasticity of Demand

Chapter 5 Elasticity and Its Applications, p. 81


TIME FOR
REVIEW

ICLICKER – REEF POLLING

Which situation below shows an ELASTIC consumer response?

A

B

When the New York City Opera was faced with a growing deficit, it cut its ticket prices by 20% hoping to attract more customers. At the same time, the New York City Transit Authority raised subway fares to reduce its growing deficit. Which group is assuming that the demand from their consumers is relatively inelastic?

A. New York City Opera

B. New York City Transit Authority

Josie’s Restaurant currently has this poster hanging in their restaurant. During “senior’s time” adults of age 55 and older pay 20% less than other people in the restaurant at the same time. The owners must be assuming that the demand of seniors for eating at their restaurant between 2:30-5:30 in the afternoon is relatively more _______than the demand of younger people.

A. ELASITC

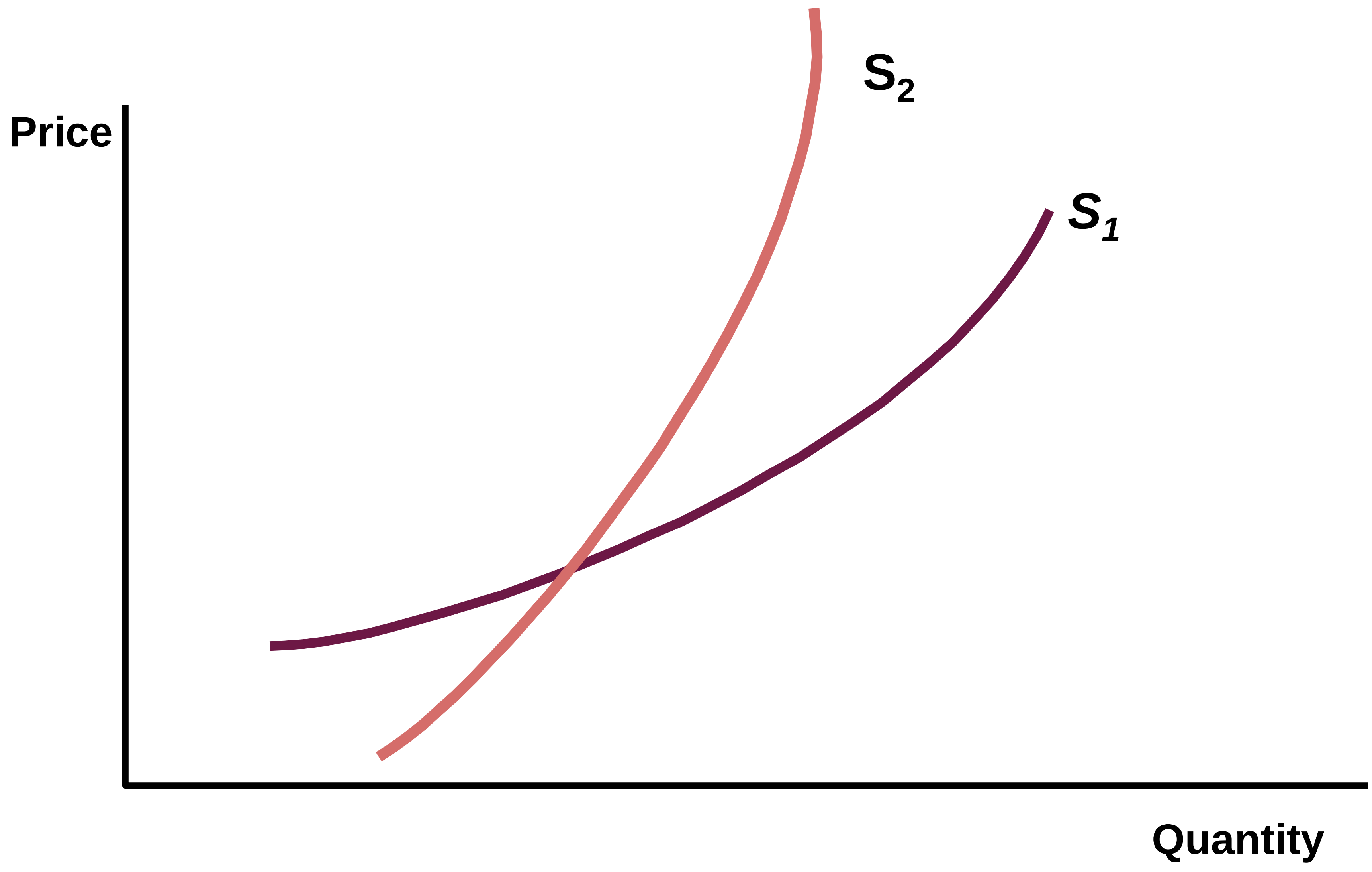
B. INELASTIC

The Impact of Hurricane Michael on Elasticity of Supply-2018


FEMA


DOLLAR

Decrease in overall elasticity of supply




TIME FOR
NEW
CONTENT

IX. Cross-Price Elasticity of Demand, p. 92

- $X_D = \dfrac{\%\ \Delta \text{ in Demand}}{\%\ \Delta \text{ in Price of Related Good}}$

- If $X_D > 0$
- As P related good rises, Q_D of X rises
- SUBSTITUTES IN CONSUMPTION

- If $X_D < 0$
- As P related good rises, Q_D of X falls
- COMPLEMENTS IN CONSUMPTION

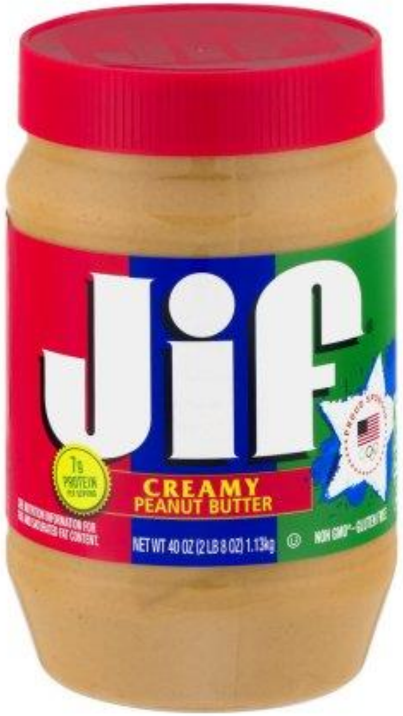
- What if $X_D = 0$?
- No relationship between the two products

Example: The price of peanut butter increases from \$2.50 to \$3.00 and the quantity of jelly demanded falls from 30 units to 24 units. Find X_D.

$$X_D = \frac{\frac{24-30}{54}}{\frac{3.00-2.50}{5.50}} = \frac{\frac{-6}{54}}{\frac{.50}{5.50}} = \frac{\frac{-1}{9}}{\frac{1}{11}} = \left(\frac{-1}{9}\right)\left(\frac{11}{1}\right) = \frac{-11}{9}$$

Since $X_D < 0$, goods are complements

Since $|X_D| > 1$, response is elastic



- heroin and cocaine?
- $X_D > 0$
- substitutes
- heroin and marijuana?
- $X_D = 0$
- no relationship
- cigarettes and marijuana?
- $X_D < 0$
- Complements
- cigarettes and alcohol?
- $X_D < 0$
- Complements

ICLICKER – REEF POLLING

If we calculate the cross-price elasticity of demand between regular cigarettes and e-cigarettes, we are likely to find a value

A. Equal to zero
B. Greater than zero
C. Less than zero
D. Equal to 1

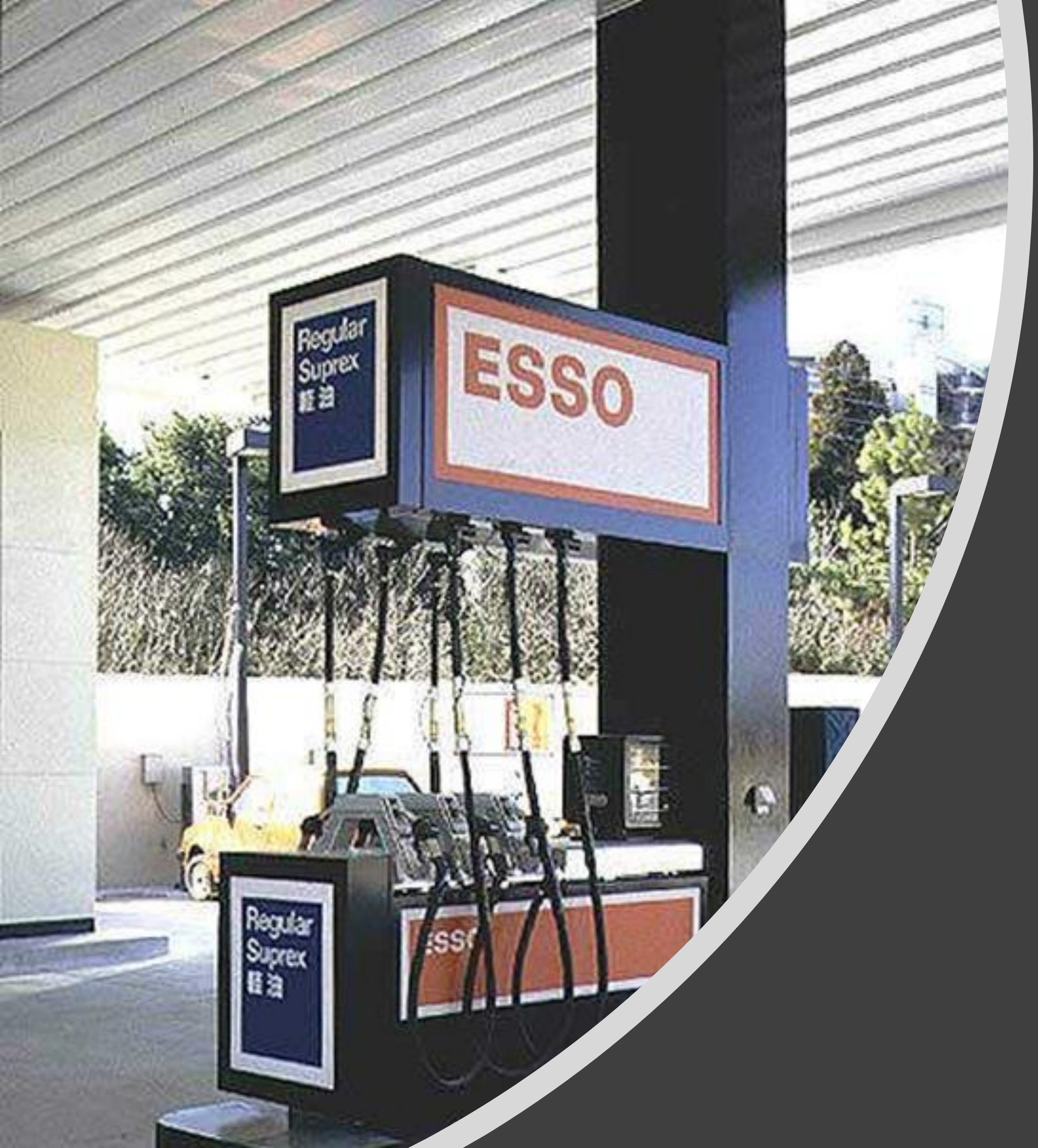
Suppose that the cross-price elasticity of demand between McDonald’s hamburgers and Burger King hamburgers is .08.

- X_{MB} = .08.
- What does this number mean? Interpret.
- What does this imply about competition between McDonalds and Burger King?
- If you were on the marketing team at McDonalds, how would you respond?

Government Intervention in the Market, Chapter 6, P.99

MARKETS DETERMINE PRICES

What if we are concerned that the market price is too high or too low?

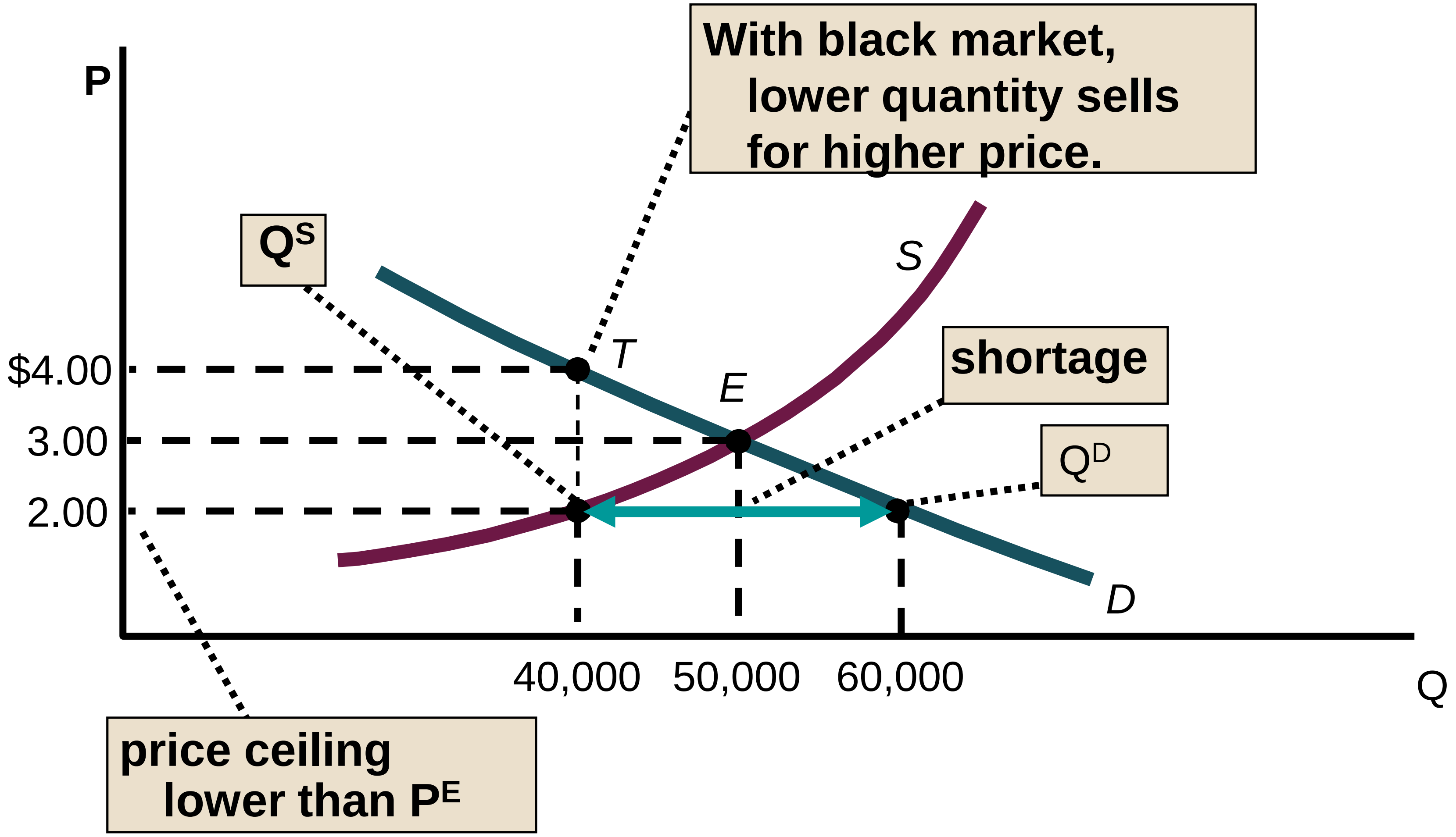


I. PRICE CEILING (PRICE CAP)
P. 99

A legal maximum on the price at which a good can be sold

Government in the Market Place, p. 99

<u>Price Ceiling - an upper limit on the price level</u>

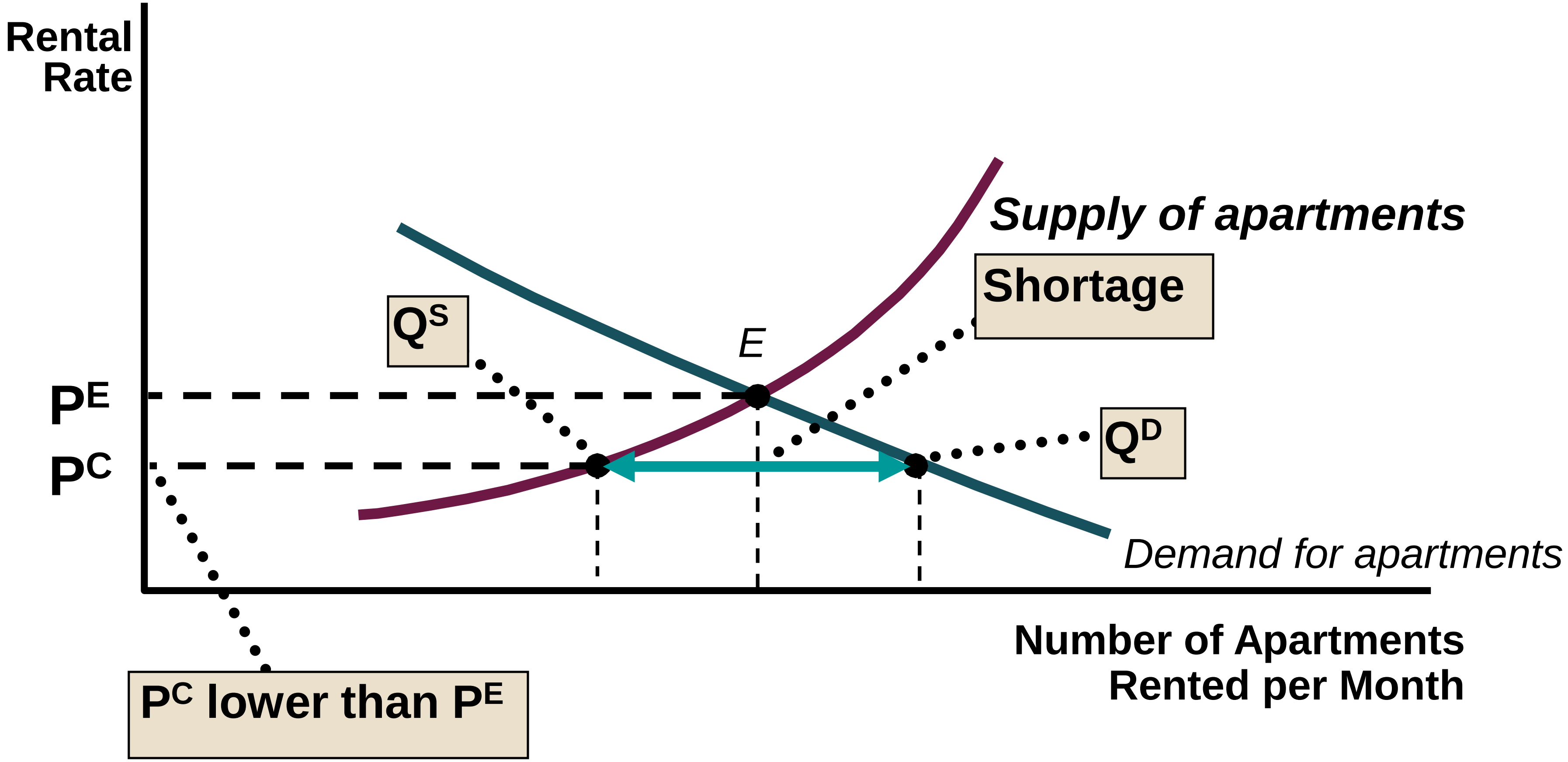


- If $P^C > P^E$, not <u>binding</u>
- If $P^C < P^E$, is <u>binding</u>
- Binding: keeps price from reaching equilibrium price level.
- <u>Result of binding price ceiling – shortage</u>

Application of Price Ceiling – Rent Control
p. 100 in packet

- **WHAT is it?**
- **WHY?**
- **WHERE?**

Rent Control



IMPACTS of Binding Rent Controls

- shortages - excess demand
- black markets-operates outside of the legal system
- nonprice ways of rationing emerge - entrance fees (“KEY MONEY”)
- higher search costs
- declines in the quality and maintenance of rental housing
- future supply will decline

ICLICKER – REEF POLLING

Price (in $s)	Quantity Demanded	Quantity Supplied
$1,200	1	13
$950	3	11
$800	7	7
$640	9	5
$450	13	4
$210	18	2
$95	22	0

If a price ceiling is placed at $950 in this market

A. There will be a surplus of 8 units.
B. There will be a shortage of 8 units.
C. There will be no shortage or surplus.

II. Price Floor, p. 101

- A legal minimum on the price at which a good can be sold
- Example: Agricultural price supports

Why government intervention in agricultural markets?

- Produces necessities
- Subject to natural disaster and volatile weather
- An “abundant” crop and the market

A Price Floor in the Market for Nonfat Dry Milk
Price Floor - a lower limit set on a price