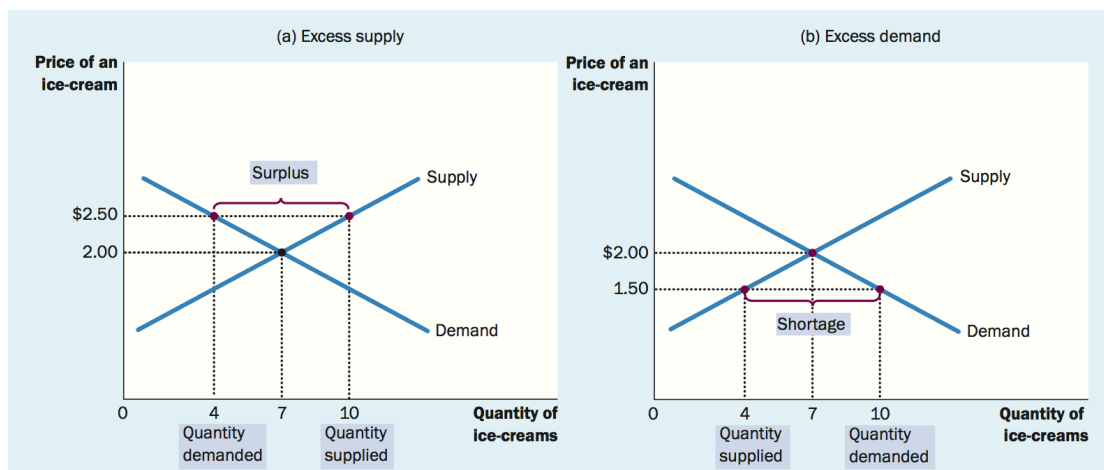


Supply

- Quantity supplied: The amount of a good that sellers are willing and able to sell
- Law of supply: The quantity supplied of a good rises when the price of the good rises
- Supply schedule: A table that shows the relationship between the price of a good and the quantity supplied
- Supply curve: A graph of the relationship between the price of a good and the quantity supplied
- Market supply: The sum of the supplies of all sellers

Equilibrium

- Equilibrium: A situation in which supply and demand have been brought into balance
- Surplus: A situation in which quantity supplied is greater than quantity demanded
- Shortage: A situation in which quantity demanded is greater than quantity supplied
- Quantity and price will always fall into equilibrium and thus over the long term as the level of supply and demand balance, prices will then allocate resources



Price elasticity of demand

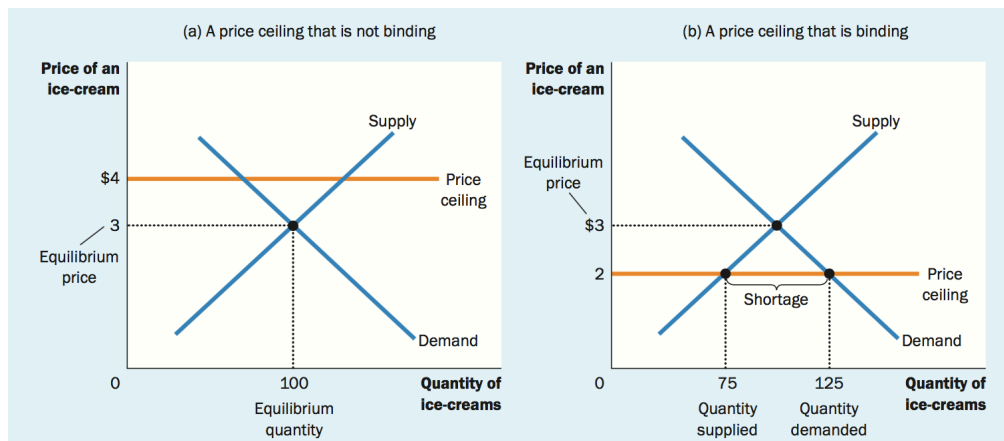
- Price elasticity of demand: A measure of how much the quantity demanded of a good responds to a change in the price of that good
- Demand is elastic if the quantity demanded responds substantially to a change in price
- Demand is inelastic if the quantity demanded responds only slightly to changes in price
- Factors affecting the elasticity of demand:
 - Availability of close substitutes
 - The degree of necessity of the good
 - The time horizon with goods tending to become elastic over the long term
- $\text{Price elasticity of demand} = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$
- Price inelastic: $0 > E > -1$
- Price elastic: $-1 > E > -\infty$
- $\text{Total revenue} = \text{Price} \times \text{Quantity}$
- If demand is inelastic, an increase in price causes an increase in TR
- If demand is elastic, an increase in price causes a decrease in TR
- Income elasticity of demand:
 - A measure of how much the quantity demanded of a good responds to a change in consumers' income
 - $\frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in income}}$
 - Normal goods have positive income elasticities
 - Inferior goods have negative income elasticities
- Cross-price elasticity of demand:
 - A measure of how much the quantity demanded of one good responds to a change in the price of another good
 - $\frac{\text{Percentage change in quantity of good 1}}{\text{Percentage change in price of good 2}}$
 - Substitute goods have a positive cross-price elasticity of demand
 - Complement goods have a negative cross-price elasticity of demand

Price elasticity of supply

- Price elasticity of supply: A measure of how much the quantity supplied of a good responds to a change in the price of that good
- Depends on the flexibility of sellers to change the amount of the good they produce
- $\text{Price elasticity of supply} = \frac{\text{Percentage change in quantity supplied}}{\text{Percentage change in price}}$
- Price inelastic: $0 < E < 1$
- Price elastic: $1 < E < \infty$

Price ceilings

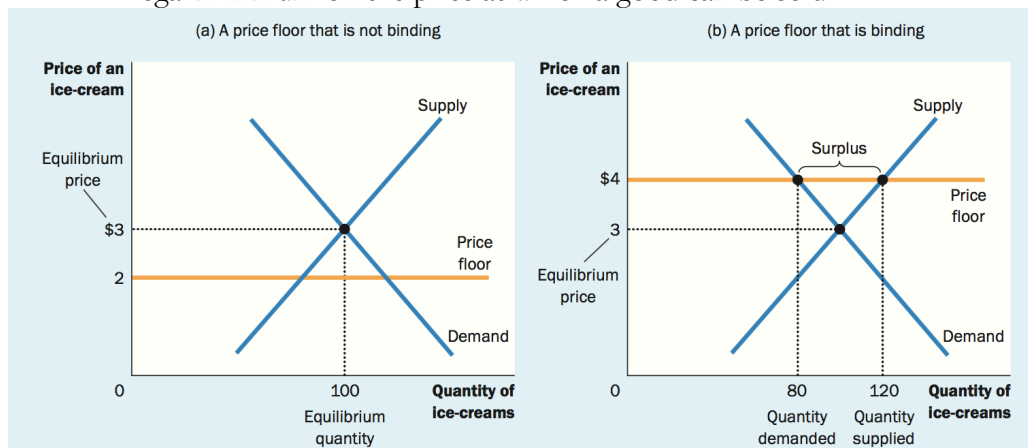
- A legal maximum on the price at which a good can be sold



- Price ceilings need to be set below the equilibrium price in order to have a binding affect
- This binding price ceiling then creates a market shortage and sellers must ration the scarce good among the large number of potential buyers
- The elasticity of supply or demand affect the magnitude of the shortage, with a greater inelasticity resulting in a smaller surplus

Price floors

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



- Price ceilings need to be set above the equilibrium price in order to have a binding affect
- This binding price floor then creates a market surplus
- Sellers must then appeal to buyers, enticing them to buy their product at a higher price