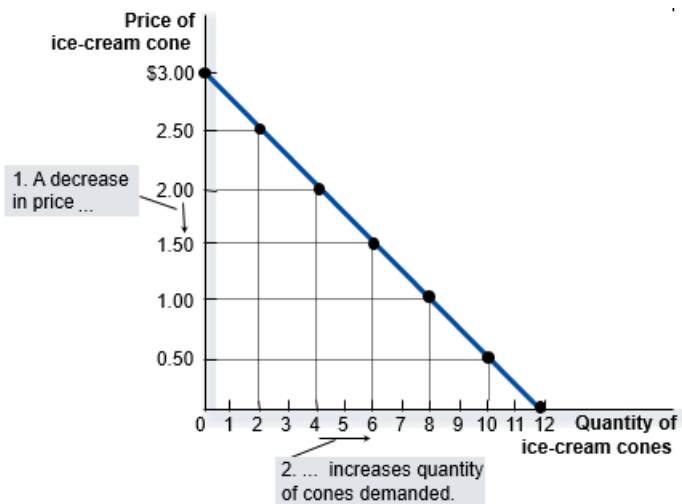


The demand curve

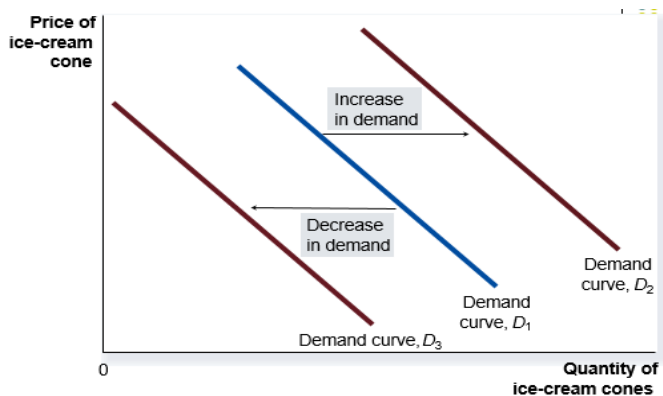
Shows what quantities the consumer is willing to purchase at different prices

- When the opportunity cost of buying an item increases, the less inclined someone is to buy it
- Market demand refers to the sum of all individual demands for a particular good



As price **increases**, the **quantity demanded decreases**

- Change in **quantity demanded** is caused by a change in price and creates movement along the demand curve
- Change in **demand** is caused by any non-price factor that alters quantity demanded and shifts entire curve left or right



Price elasticity of demand

Elasticity measures consumer responsiveness to changes in price

- Elastic demand: substantial changes in quantity demanded after price is lowered/raised
- Inelastic demand: very little change in quantity demanded after a change in price

$$\text{Price elasticity of demand} = \frac{\% \text{ change in } Q \text{ demanded}}{\% \text{ change in } P}$$

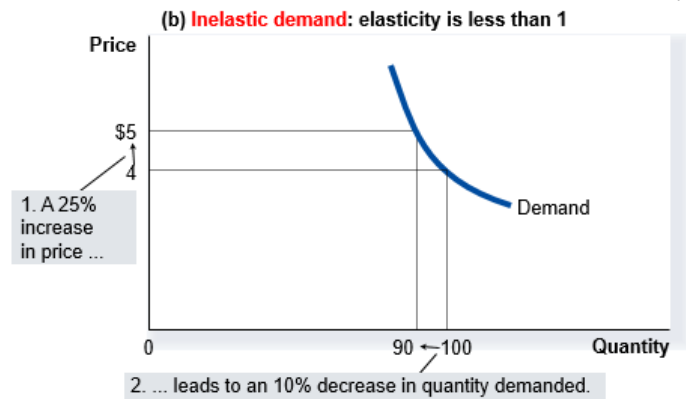
$$\text{Price elasticity of demand} = \frac{\text{New } Q - \text{Old } Q}{\text{Old } Q} \div \frac{\text{New } P - \text{Old } P}{\text{Old } P}$$

Inelastic = elasticity < 1

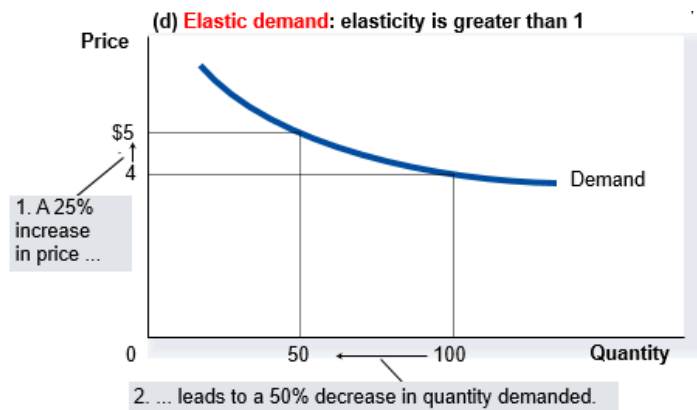
Unit elastic = elasticity = 1

Elastic = elasticity > 1

Inelastic demand



Elastic demand



Total revenue = price (\$) of good x quantity sold

$$TR = P \times Q$$

Inelastic demand = as price rises, total revenue rises

Elastic demand = as price rises, total revenue drops (because Q sold will drop dramatically)

The supply curve

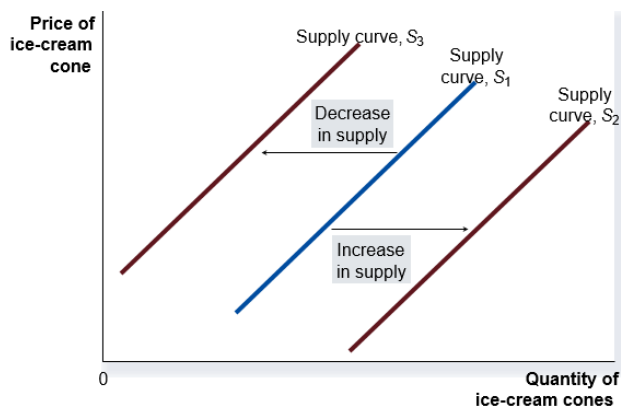
Quantity supplied: the amount of a particular good sellers are willing to supply and sell

Market supply refers to the sum of all individual quantities supplied by all sellers of a good



Quantity supplied **rises** when the **price rises**

- Changes in **quantity supplied** is caused by change in price of the good being sold and causes movement along the supply curve
- Changes in **supply** is caused by any non-price factor and shifts entire curve left or right



Price elasticity of supply

- Elastic supply: substantial changes in quantity supplied after price is lowered/raised
- Inelastic supply: very little change in quantity supplied after a change in price

$$\text{Price elasticity of supply} = \frac{\% \text{ change in } Q \text{ supplied}}{\% \text{ change in } P}$$

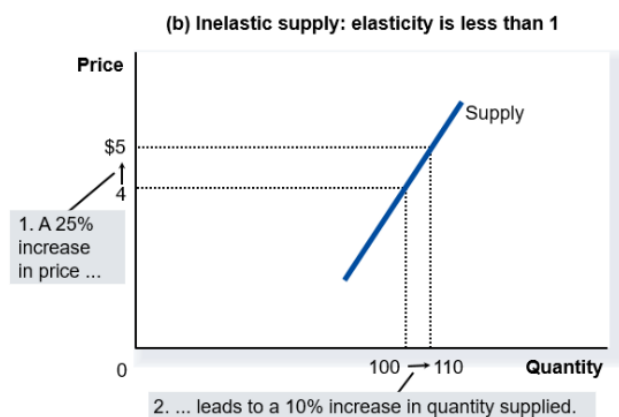
$$\text{Price elasticity of supply} = \frac{\text{New } Q - \text{Old } Q}{\text{Old } Q} \div \frac{\text{New } P - \text{Old } P}{\text{Old } P}$$

Inelastic = elasticity < 1

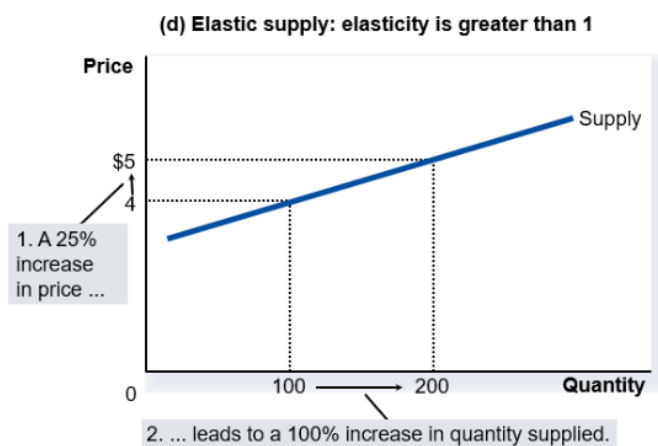
Unit elastic = elasticity = 1

Elastic = elasticity > 1

Inelastic demand



Elastic demand



Elasticity can be influenced by the seller's ability to change the quantity of goods they supply;

- Books, cars, manufactured goods = elastic
- Beach-front land = inelastic
- Medical research = inelastic

Supply of a good becomes more elastic over longer periods of time