

Review Notes – Market Demand and Equilibrium

- Market Demand
 - What is Market Demand? (especially in functional form)
 - What does market demand look like?
 - What is the market inverse demand curve (graphically and functional form)?
 - What does consumption on the intensive/extensive margin mean?
 - Does the law of demand still hold for both types?
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- Price Elasticity of Demand
 - What is price elasticity of demand?
 - You should know the meaning in words and math.
 - What is the point and arc formulas for elasticity?
 - We will use point formula. Why?
 - What do we need to know to calculate elasticity with point formula?
 - What is elasticity along a linear D and a nonlinear D?
 - Definitions of elastic, inelastic, unitary elasticity.
 - How does elasticity affect total revenue?
 - As $P \downarrow$ or \uparrow along a demand curve then $Q_d \uparrow$ or $\downarrow \Rightarrow$ does $TR \uparrow$ or \downarrow ?
 - Know the relationship between elasticity and $\Delta TR/\Delta P$.
 - Elasticity and Marginal Revenue
 - $MR = \Delta TR/\Delta Q$ – how is this related to elasticity?
 - Relationship between MR and D?
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- Income Elasticity of Demand
 - Definition; words and equation
 - Interpretation – Sign and Size?
 - Income elasticity averages for all goods at 1. Why? You don't need to know the proof itself just the argument.
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- Equilibrium
 - Define Equilibrium both generally and for S/D model.
 - How do we get to Equilibrium?
 - What happens to equilibrium P and Q as D and S change?
 - Impact of a tax on the market?
 - Does an equilibrium exist?
 - Does equilibrium quantity increase or decrease?
 - Does equilibrium price increase or decrease?
 - Graphically.

- Does a deadweight loss exist? How much is it graphically?
 - Impact of a subsidy on the market?
 - Does an equilibrium exist?
 - Does equilibrium quantity increase or decrease?
 - Does equilibrium price increase or decrease?
 - Graphically.
 - Does a deadweight loss exist? How much is it graphically?
 - Impact of a price ceiling/price floor on a market?
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