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/total margin mean?
    • Does the law of demand still hold for both types?

• 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 ↓ or ↑ along a demand curve then Qd ↑ or ↓ => does TR ↑ or ↓?
    • Know the relationship between elasticity and ∆TR/∆P.

• Elasticity and Marginal Revenue
  ▪ MR = ∆TR/∆Q – how is this related to elasticity?
  ▪ Relationship between MR and D?

• 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.

• 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?