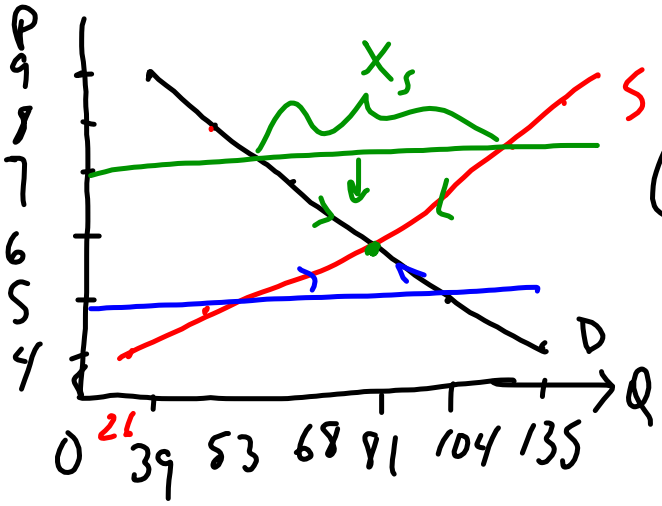
Test Friday - covers Chapters 1-6 - (only part of 6)
- problems / short answer

Q 8 p 81 D & S



D. interpolate points between data.

(P^e, Q^e) ? $P^e = 6$

$Q^e = 81$

$P = 7$ $Q_D = 68$

$Q_S = 98$

$X_S > 0$ 30

at #S $X_D = 51$

Problems

Q6 p87 - qualitative predictions
↳ direction not magnitude

$Q_D = Q_D(P, \ldots)$

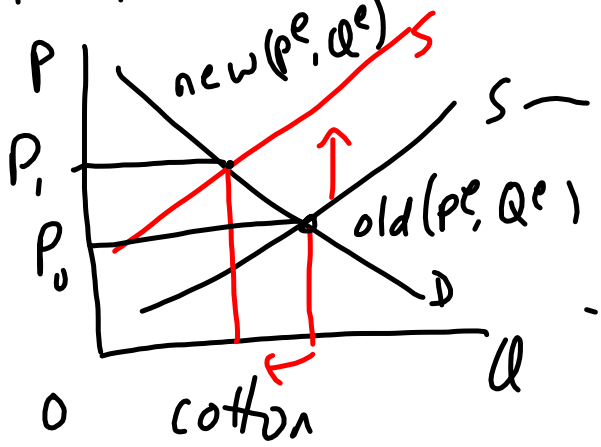
↳ Income
Expectations
Tastes
Related goods

→ Environmental amenity
Hedonic price

"Implicit" Function

Q 6 changes (shocks) to market

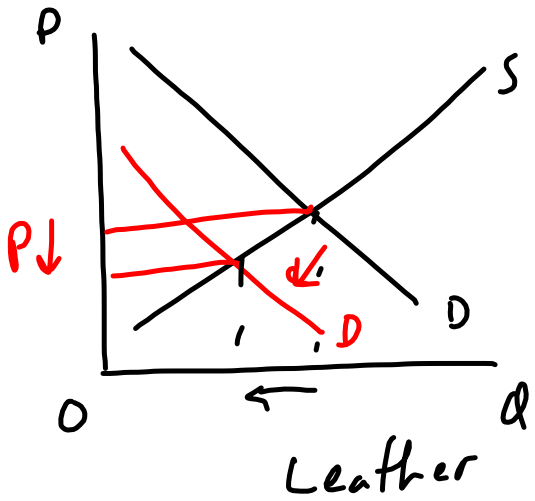
(a) Hurricane SC - cotton crop damaged



S — all producing areas
↳ subtract SC
- input → price of cotton goods ↑

(b) Price of leather jackets ↓
D for leather "derived" demand - derived from Demand for final product

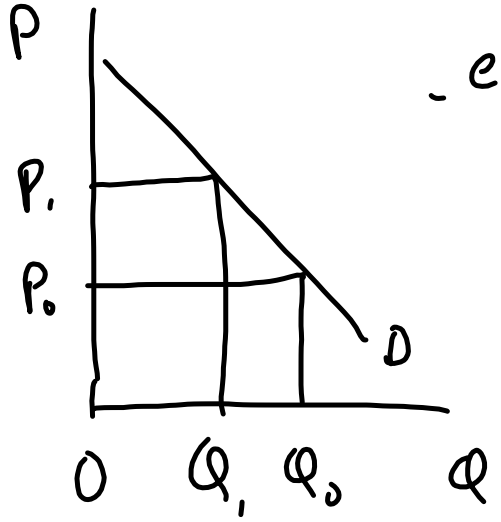
P ↓ jackets – fall in demand. "derived" demand



D & S → qualitative predictions
→ internal consistency

Elasticity Ch 5

↳ projections of changes into areas - outside data we have



- effect of change in price of good (own price elasticity)

$$\eta = \frac{\%\Delta Q}{\%\Delta P}$$ - absolute value

movement on D curve

$$Q_D = Q_D(P, P_R, I, \ldots)$$

income elasticity

$$\varepsilon = \frac{\eta_0 \Delta Q}{\eta_0 \Delta I}$$

cross price elasticity

$$\eta_{xy} = \frac{\eta_0 \Delta Q_x}{\eta_0 \Delta P_y}$$

x, y - complements

x, y - substitutes

complements $\eta_{xy} = \frac{\eta_0 \Delta Q_x}{\eta_0 \Delta P_y} < 0$

substitutes $\eta_{xy} = \frac{\eta_0 \Delta Q_x}{\eta_0 \Delta P_y} > 0$

complement $\eta_{xy} = \frac{\%\Delta Q_x \downarrow}{\%\Delta P_y \uparrow} < 0$

$P_y \uparrow \rightarrow Q \downarrow_y \rightarrow Q_x \downarrow$ - complementary

substitutes $\eta_{xy} = \frac{\%\Delta Q_x \uparrow}{\%\Delta P_y \uparrow} > 0$

$P_y \uparrow \rightarrow Q_y \downarrow \rightarrow Q_x \uparrow$ - D_x shifts to right

$P_y \downarrow \rightarrow Q_y \uparrow \rightarrow Q_x \downarrow$ D_x " " left

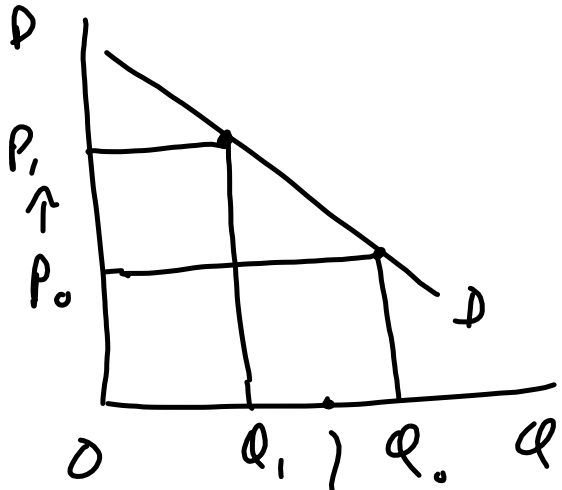
Own price

$$\eta = \frac{\%\Delta Q}{\%\Delta P}$$

$$\%\Delta Q = \frac{Q_0 - Q_1}{(Q_0 + Q_1)/2}$$

could use $\frac{Q_0 - Q_1}{Q_0}$

$$\%\Delta P = \frac{P_0 - P_1}{(P_0 + P_1)/2}$$



mid point

Fig 4 p97