HW How the supply increases in each of these extreme cases?

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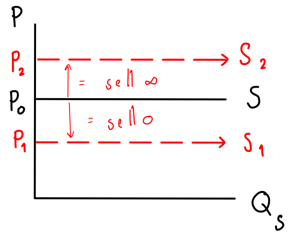
Extreme Cases of Supply Curve

- Horizontal Supply



At Price P_0

1) quantity supply is infinity
(The sellers can sell what ever they want at P_0)

2) If the price increases, the supply will also increase.
(If the price is higher at P_2, the buyers will have willingness to sell the product.)

3) It is the lowest price that the sellers are willing to sell.

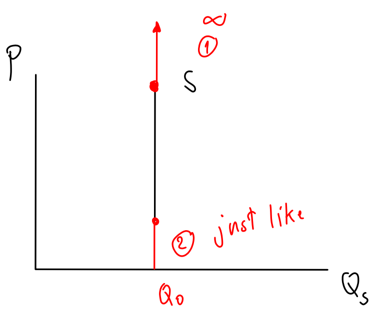
4) However, if it is lower that this at P_1, the buyers will not be willing anymore, which means there is no supply. ($Q_s = 0$)
(The buyers may not want to sell because if they sell at Price P_1. They will not get any profit.)

Note : At P_0, $Q_s = \infty$

Price $< P_0$ or P_1, $Q_s = 0$

Price $> P_0$ or P_2, $Q_s = \infty$

- Vertical Supply



The supply will increase to ∞ because every sellers want to sell products at very high price. Therefore, they will gain a lot of profit.

HW How the demand increases in each of these extreme cases?

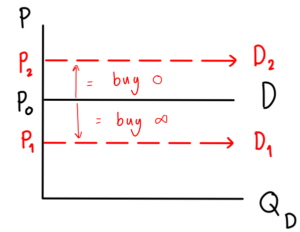
Extreme Cases of Demand Curve

- Horizontal Demand

At Price P_0

1) In Horizontal Demand, it means that the buyers will buy all the products that is available in the market and sellers can always sell all products ($Q_D = \infty$).

ex, Pepsi VS. Coke → If pepsi sell the products at higher prices comparing to the Coke. The coustomers will not buy Pepsi but will buy coke instade.



2) If the sellers increase the price, the quantity demand will be zero, ($Q_D = 0$) which means that the sellers will sell nothing.

☆ This will happen when the sellers sell the same products in the market ☆

3) If price is lower, it is ok to the buyers to buy a lower price at P_1.

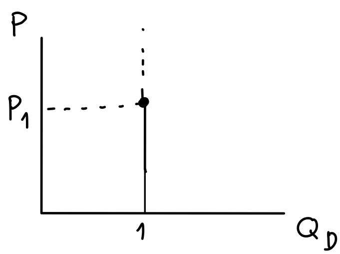
Conclusion:

at P_0, $Q_D = \infty$

Price $< P_0$ or P_1, $Q_D = \infty$

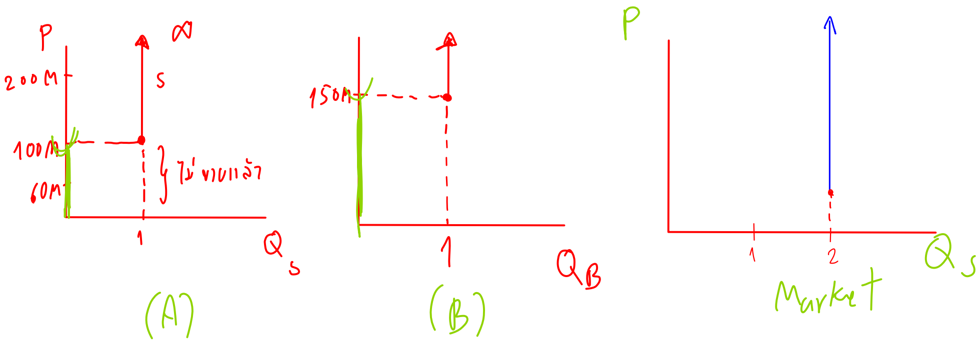
Price $> P_0$ or P_2, $Q_D = 0$

- Vertical Demand



The price will not increase infinity, but it depends on the ability of the buyer to pay for that product. If the buyer have no ability to buy. Then, it is no demand because the demand requires ability and willingness of the buyer to buy

Example: Suppose that it is legal to sell one's kidney. What is the individual supply of kidney of a person who wants to sell his kidney? Does the market supply has a positive slope?



1) The individual supply of kidney of the sellers will be vertical starting with the certain price like 100 millions Baht and grow all the way up

2) Market supply will have positive relationship with price

3) If the sellers increases the price, but the quantity supply will remain the same, which equal to 1

4) the quantity will responce on the price

ex// Case (A), If you start the price at 60 millions Baht, the quantity will be 0, but if you increase the price to 100 Millions Baht, the quantity will become 1.