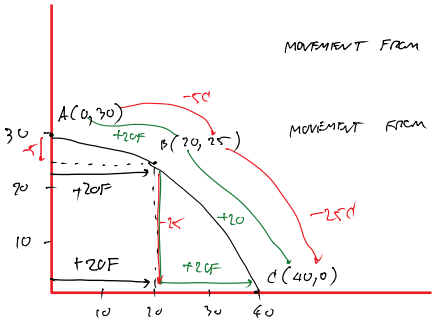
WEEK 2 OF 15

Tuesday, January 24, 2017 9:20 AM

FACT #6 IN REALITY, MOST OF CASES, PPC IS NOT A STRAIGHT LINE.

INSTEAD, IT IS CONCAVE WHEN YOU LOOK FROM THE ORIGIN (OR BOWED OUTWARD)

C



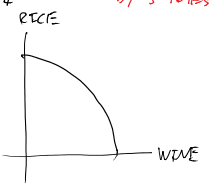
MOVEMENT FROM A→B: TO GET 20F, HE MUST GIVE UP 5C

" 1F " " $\frac{5}{20} = \frac{1}{4} = 0.25$

MOVEMENT FROM B→C: TO GET 20F, HE MUST GIVE UP 25C

" 1 " " $\frac{25}{20} = 1\frac{1}{4} = 1.25$

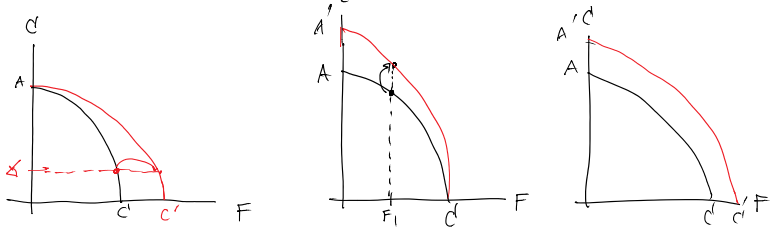
OPP. COST IS INCREASING BY 5 TIMES!!!



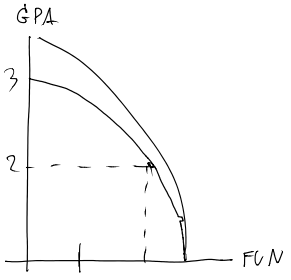
Q: WHY THE OPP. COST IS INCREASING?

A: DIFFERENCE IN SPECIALIZATION OR SKILLS OF YOUR RESOURCES.

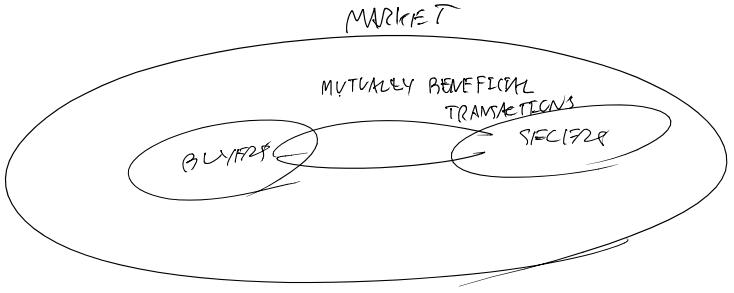
FACT #7



PPC & YOU



"SUPPLY AND DEMAND"



PERFECT COMPETITION

- LARGE NUMBER OF BUYERS & SELLERS
- NON-DIFFERENTIATED PRODUCTS
- FREE ENTRY & EXIT

} IMPLY THAT → BUYERS & SELLERS ARE "PRICE TAKERS"

MONOPOLY

- A SINGLE SELLER & MANY BUYERS
- PRODUCT W/O SUBSTITUTES
- BARRIERS TO ENTRY

DEMAND (BEHAVIOR OF BUYERS)

QUANTITY DEMANDED = AMOUNT OR QUANTITY THAT BUYER(S) IS (ARE) WILLING TO BUY AT A GIVEN PRICE.

LET'S CONSIDER MR. TOM AS OUR REPRESENTATIVE BUYER.

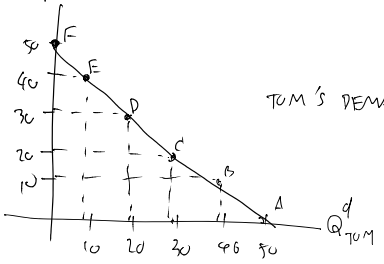
HE IS ABOUT TO BUY ICECREAM IN A PERFECTLY COMPETITIVE MKT.

$ / SCOOP | # SCOOPS / WK

	P	Q^d_{TOM}
A	0	50
B	10	40
C	20	30
D	30	20
E	40	10
F	50	0

P = PRICE OF ICECREAM

Q^d_{TOM} = QUANTITY DEMANDED OF ICECREAM BY TOM



TOM'S DEMAND CURVE FOR ICECREAM

DEMAND SCHEDULE: A LIST SHOWING THE QUANTITY OF A GOOD THAT CONSUMER(S) WOULD CHOOSE TO PURCHASE AT DIFFERENT PRICES, W/ ALL OTHER VARIABLES HELD CONSTANT. (= CETERIS PARIBUS)

DEMAND CURVE: A CURVE SHOWING AN INVERSE RELATIONSHIP BET. QUANTITY DEMANDED FOR A GOOD AND PRICE

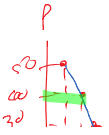
LAW OF DEMAND: WHEN PRICE OF A GOOD RISES, ITS QUANTITY DEMANDED WOULD FALL; AND WHEN THE PRICE FALLS, ITS QUANTITY DEMANDED WOULD RISE, ALL OTHER FACTORS THAT MAY AFFECT DEMAND HELD CONSTANT.

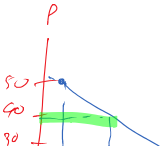
FROM AN INDIVIDUAL DEMAND CURVE TO A MARKET DEMAND CURVE

BASIC IDEA: CONSIDER 2 BUYERS: TOM & JERRY

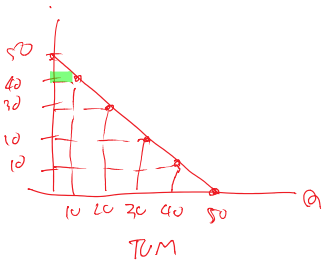
P	Q^d_{TOM}	+	Q^d_{JERRY}	=	Q_{TOTAL}
0	50		30		80
10	40		25		65
20	30		20		50
30	20		15		35
40	10		10		20
50	0		5		5

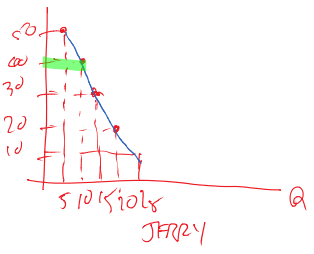
= MARKET QUANTITY DEMANDED OR TOTAL QUANTITY DEMANDED

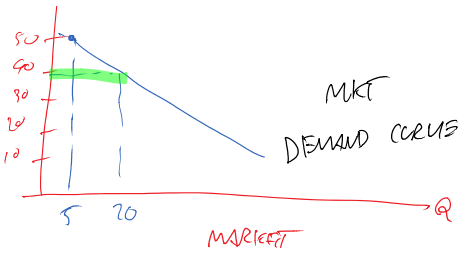




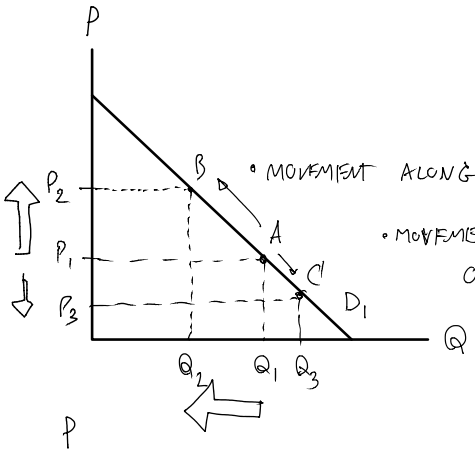
MKT



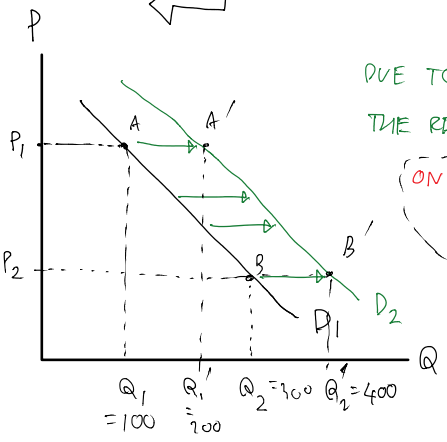




MOVEMENTS ALONG THE CURVE VS. SHIFTS OF THE CURVE



- MOVEMENT ALONG THE DEMAND CURVE FROM A TO B AS PRICE INCREASES.
- MOVEMENT ALONG THE DEMAND CURVE FROM A TO C' OCCURS AS PRICE DECREASES.

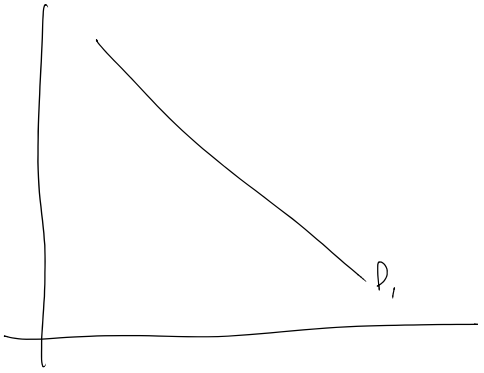


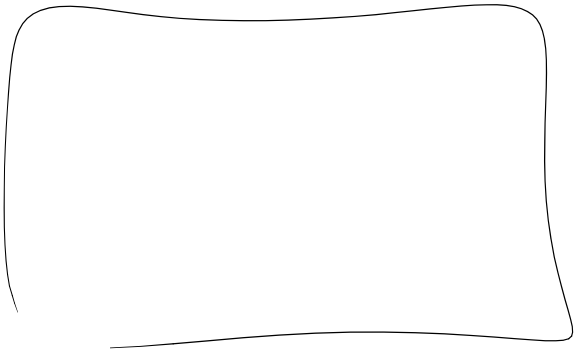
DUE TO HOT WEATHER, THE DEMAND CURVE SHIFTS TO THE RIGHT FROM D_1 TO D_2, IMPLYING THAT (ON EVERY OBSERVABLE PRICES, LIKE P_1, P_2, BUYERS WANT TO CONSUME MORE ICECREAM.)

≡

(QUANTITY DEMANDED HAS INCREASED AT EVERY OBSERVABLE PRICES.)

X201T at 26-Jan-17 10:16 AM



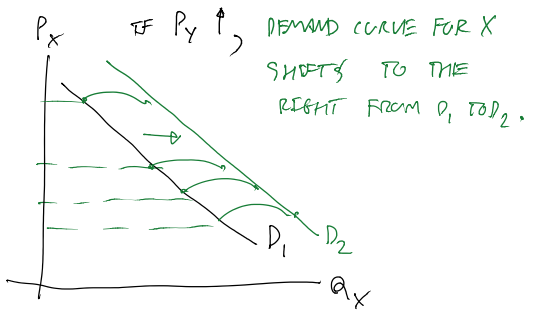


FACTORS THAT CAUSE DEMAND CURVE TO "SHIFT" (= DEMAND SHIFTERS)

- CHANGES IN WEATHER
- CHANGES IN BUYERS' INCOME
- CHANGES IN BUYERS' TASTES

- CHANGES IN NUMBER OF BUYERS
- CHANGES IN PRICE OF RELATED GOODS
- CHANGES IN BUYERS' PRICE EXPECTATION
- CHANGES IN BUYERS' INCOME EXPECTATION

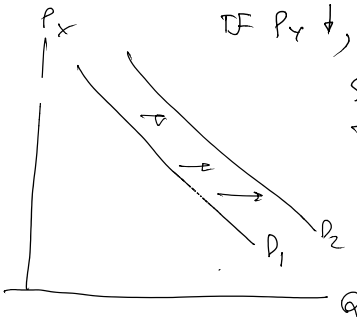
EX



IF $P_Y \uparrow$, DEMAND CURVE FOR X SHIFTS TO THE RIGHT FROM D_1 TO D_2.

CASE 1 X & Y ARE SUBSTITUTES

X: COKE
Y: PEPSI



IF $P_Y \downarrow$, DEMAND CURVE FOR NEW CARS SHIFTS TO THE RIGHT FROM D_1 TO D_2

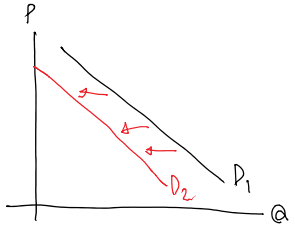
CASE 2 X & Y ARE COMPLEMENTS

X: NEW CARS
Y: GASOLINE

SUMMARY

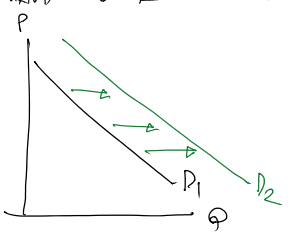
CHANGES IN DEMAND ≡ SHIFTS OF THE DEMAND CURVE

DEMAND DECREASES (≡ DEMAND CURVE SHIFTS LEFT)



MEANING: QUANTITY DEMANDED HAS DECREASED AT EVERY OBSERVABLE PRICE LEVELS

DEMAND INCREASES (DEMAND CURVE SHIFTS RIGHT)



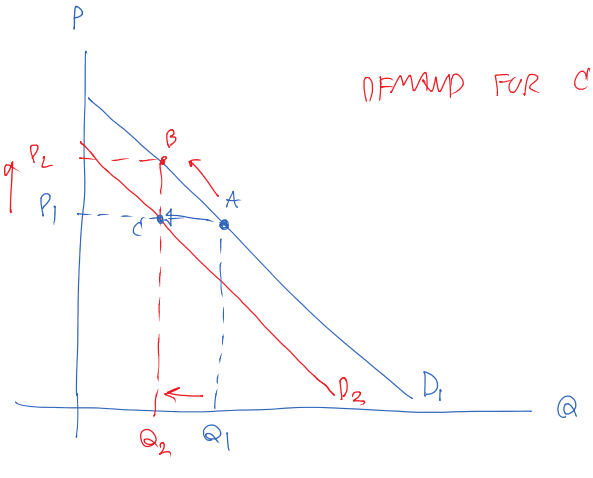
QUANTITY DEMANDED HAS RISEN AT EVERY OBSERVABLE PRICES.

1ST OPTION: ↑P

RESULT: A → B ALONG D_1 :(

2ND OPTION: EDUCATION

RESULT: A → C ON THE SAME PRICE LEVEL !



DEMAND FOR CIGARETTES BY TEENAGERS (YOUNG SMOKERS)