

HW#5 Due Feb 3, 2022

1) How the demand increases in each of these extreme cases

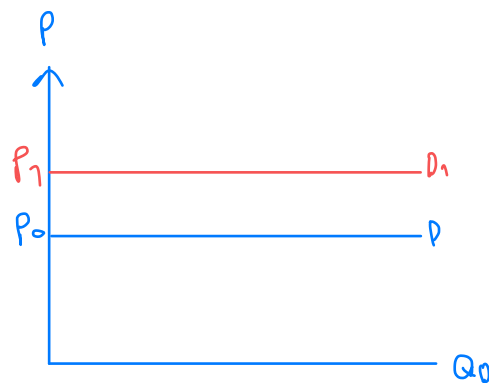
A) Demand is horizontal

B) Demand is vertical

2) If individual demands of two consumers are **horizontal** but at different prices, what will be the market demand derived from these two consumers?

1)

A) Demand is horizontal



$P_0 = \text{infinity quantities}$

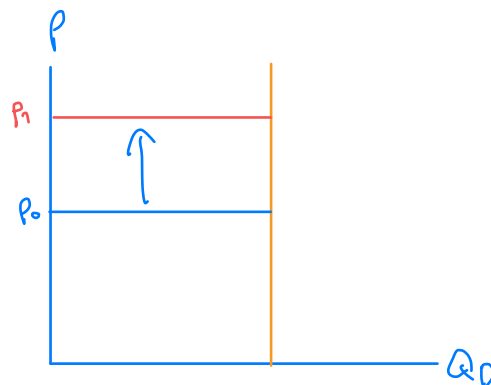
$P < P_0 = \text{infinity quantities}$

\therefore when $D \downarrow$ from $(D \rightarrow D_1)$

At P_1 , Q_D is 0

2)

B) Demand is vertical



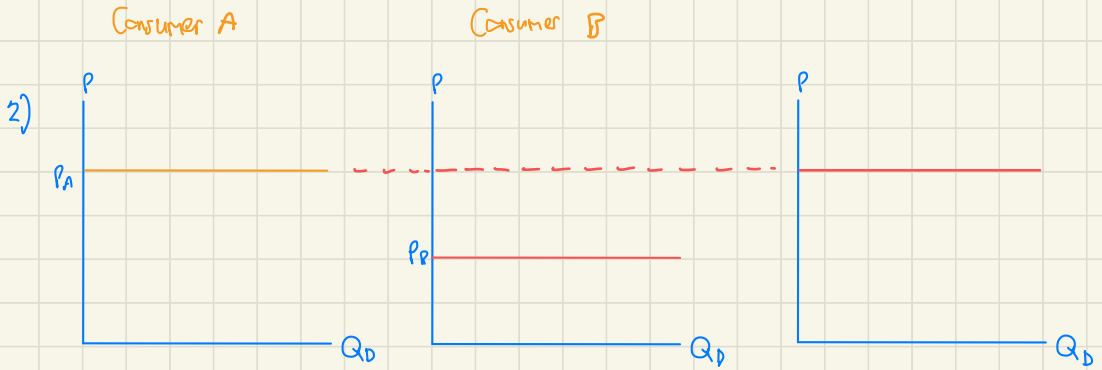
at $P \leq P_0$, $Q_D = Q_0$

P_0 is determined by ability to pay

(increase in Price from

$P_0 \rightarrow P_1$)

(D increase)



In Demand market, P_A is the limit that there are still people that have ability to buy, Q_D is infinity

But in market B, people have no ability to buy at P_A but still have $Q_D = \text{infinity}$