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?

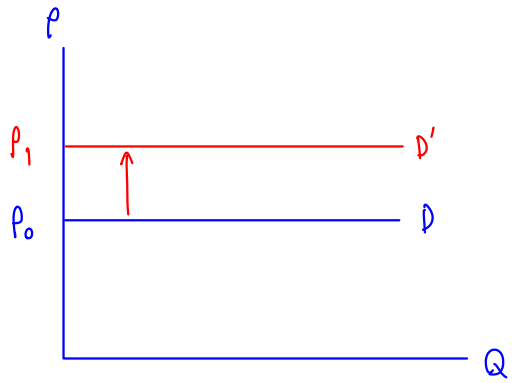
1.

Before: at Price $\leq P_0$, Q_D = "∞"

Demand increases - at same price → more Q_D

- at same quantity demanded the buyers are willing and able to pay higher price

A)



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

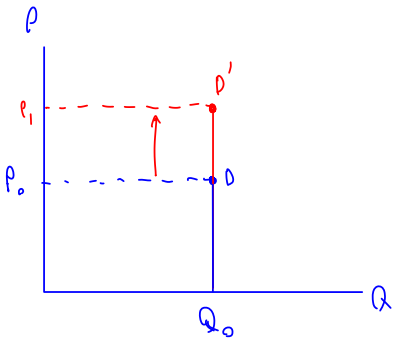
P_0 is determined by ability to pay

There are 2 cares.

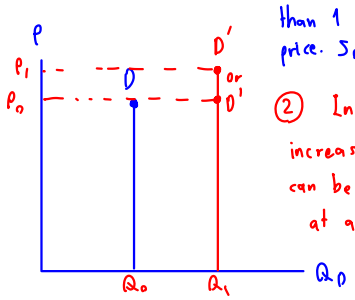
① Ex. heart transplant - Q_D would not increase b/c if demand increases, it does not mean that buyers need more than 1 heart, but the buyers are able to buy at a higher price. So new Demand is D' at P_1, Q_0.

② In the second case, if demand increases, it can increase quantity demanded at the same price level. Or it can be at a higher price too. For example, usage of water at a higher amount from 10 m^3 to 12 m^3.

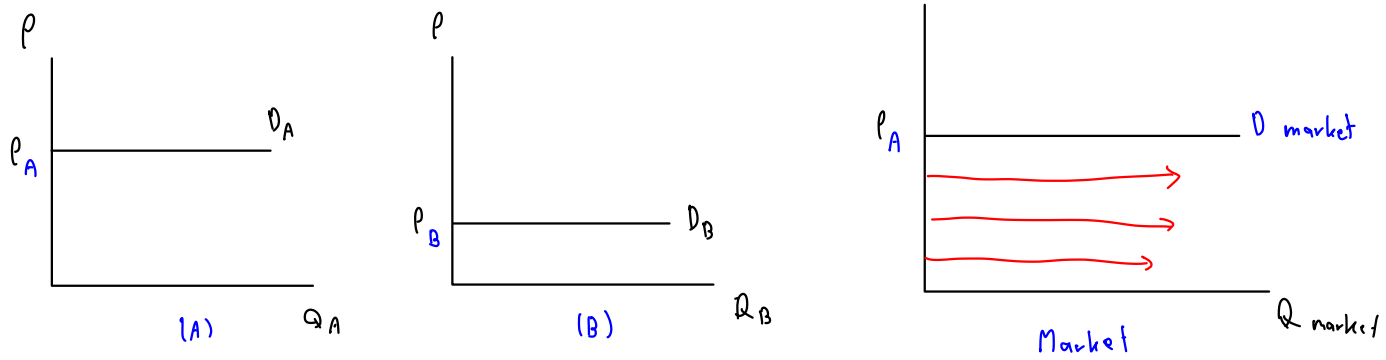
B)



or



2.



At P_A, quantity demanded is infinity in which P_A is the maximum price that the buyers are able to pay. Therefore, at $P_B < P_A$, the quantity demanded is still infinity. So the Q_D of market is the same as P_A level.