

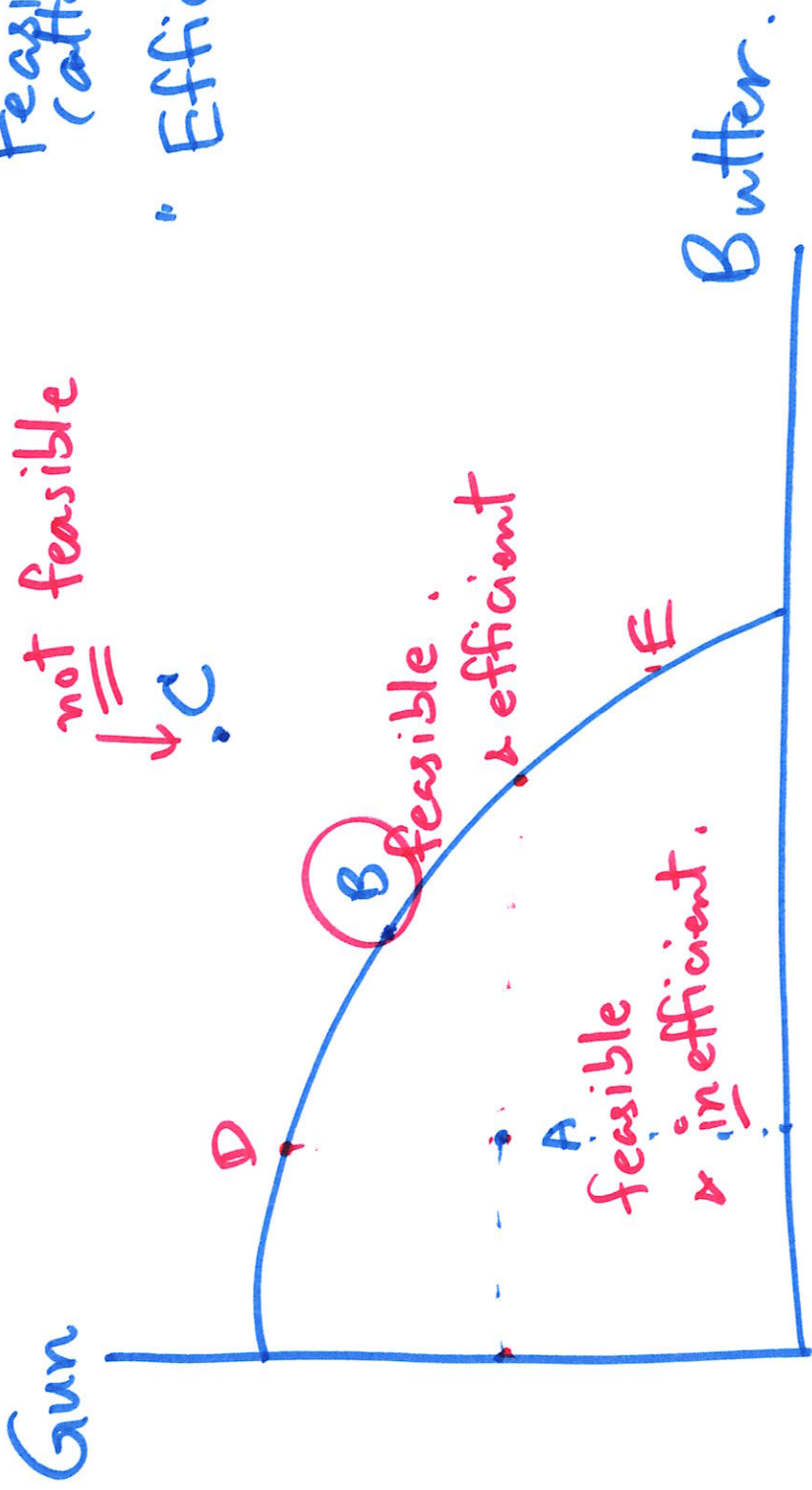
25 Aug 2020

①

Revisit PPF (Production Possibility Frontier)

" Feasible (attainable) "
" Efficient "

not feasible
↓
C



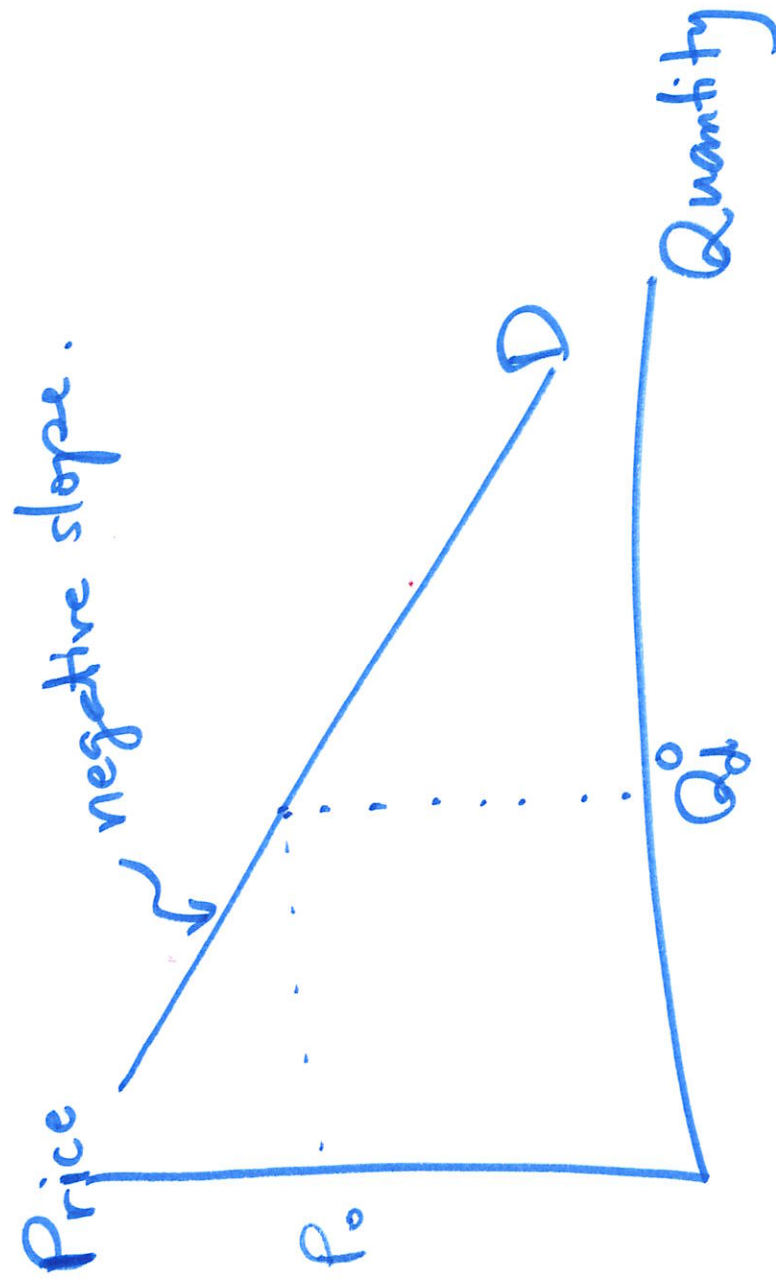
1) Which combination(s) is feasible? B, A

2) " is efficient? B

②

Demand

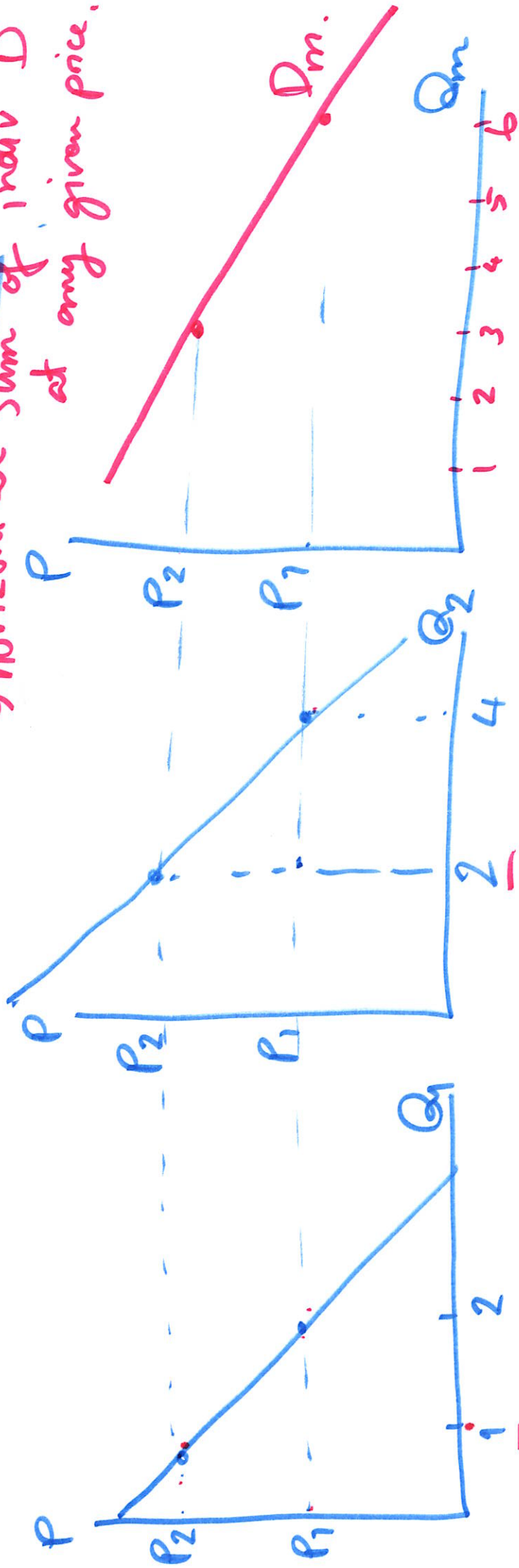
Quantity demanded vs. Demand Curve.



③

Individual demand vs. Market demand

↳ horizontal sum of indiv D at any given price.



Person 1

Person 2

Market.

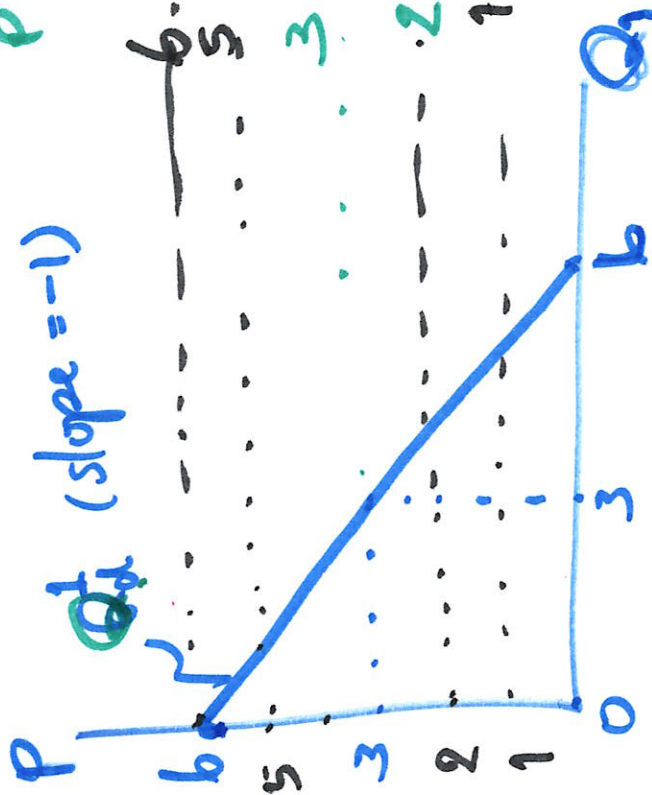
$$Q_1 + Q_2 = Q_m$$

$$\text{At } P_1, Q_m = 2 + 4 = 6 \text{ units}$$

$$\text{At } P_2, Q_m = 1 + 2 = 3 \text{ units.}$$

Person 1

$$P = 6 - Q$$



$$P = 6 - Q$$

$$\hookrightarrow Q_1 = 6 - P$$

$$P = 0 \Rightarrow Q = 6$$

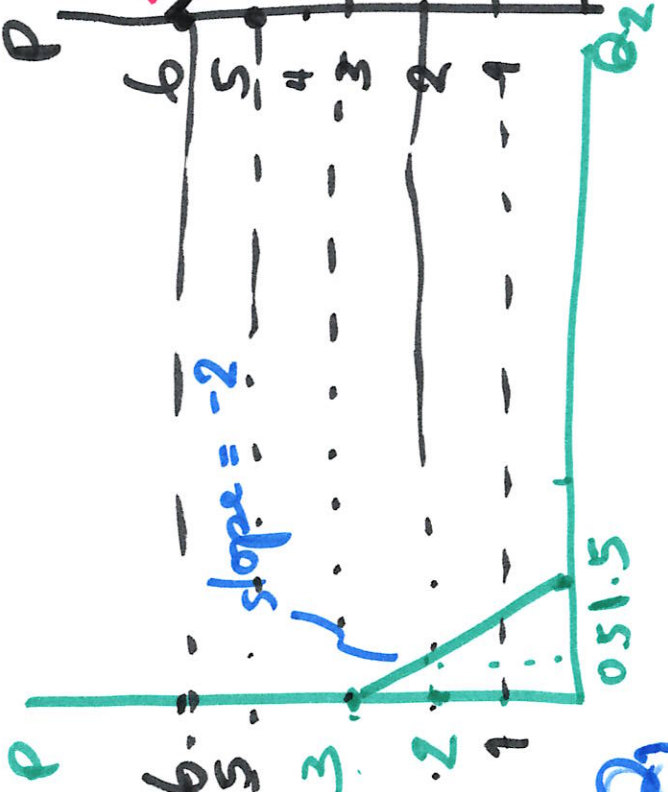
$$P = 6 \Rightarrow Q = 0$$

$$P = 3 \Rightarrow Q = 3$$

$$P = 5 \Rightarrow Q = 1$$

Person 2

$$P = 3 - 2Q$$



$$P = 3 - 2Q$$

$$\hookrightarrow Q_2 = 1.5 - 0.5P$$

$$P = 0 \Rightarrow Q = 1.5$$

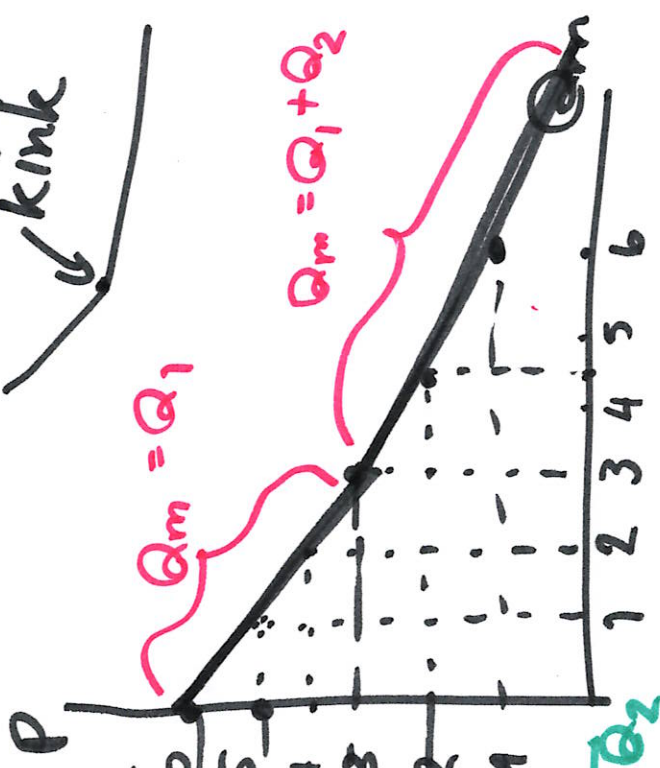
$$P = 3 \Rightarrow Q = 0$$

$$P = 2 \Rightarrow Q = 0.5$$

④

Market

Demand



$$P = 6, Q_m = Q_1 = 0$$

$$P = 5, Q_m = Q_1 = 1$$

$$P = 4, Q_m = Q_1 = 2$$

$$P = 3, Q_m = Q_1 = 3$$

$$P = 2, Q_m = Q_1 + Q_2 = 4 + 0.5 = 4.5$$

$$P = 1, Q_m = Q_1 + Q_2 = 5 + 1 = 6$$

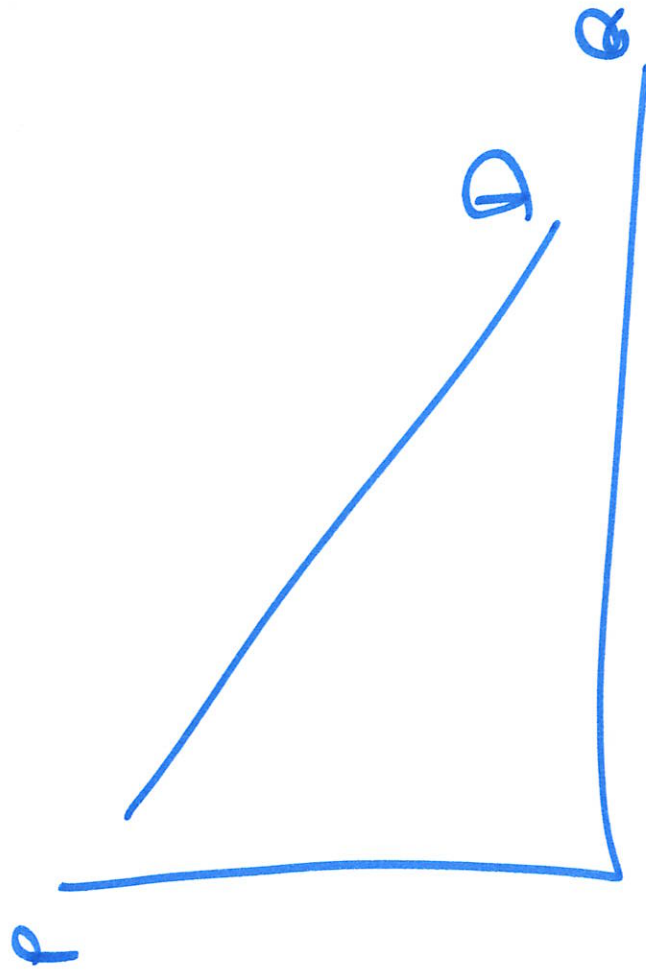
5

Market demand

$$Q_m = \begin{cases} Q_1 & \text{if } P \geq 3 \\ Q_1 + Q_2 & \text{if } P < 3 \end{cases}$$

$$Q_m = \begin{cases} 6 - P & \text{if } P \geq 3 \\ (6 - P) + (1.5 - 0.5P) = 7.5 - 1.5P & \text{if } P < 3 \end{cases}$$

Market demand



⑥

- 1) Is it possible to have an upward-sloping demand?
↳ "Giffen" good
- 2) Is Examples of horizontal and vertical demand curves?

⑦

+ve -slope demand curve

P D for "Giffen" good.

↳ necessity

staple eg. potatoes.

Price of potatoes $\uparrow$

Substitution
effect

Income
effect.

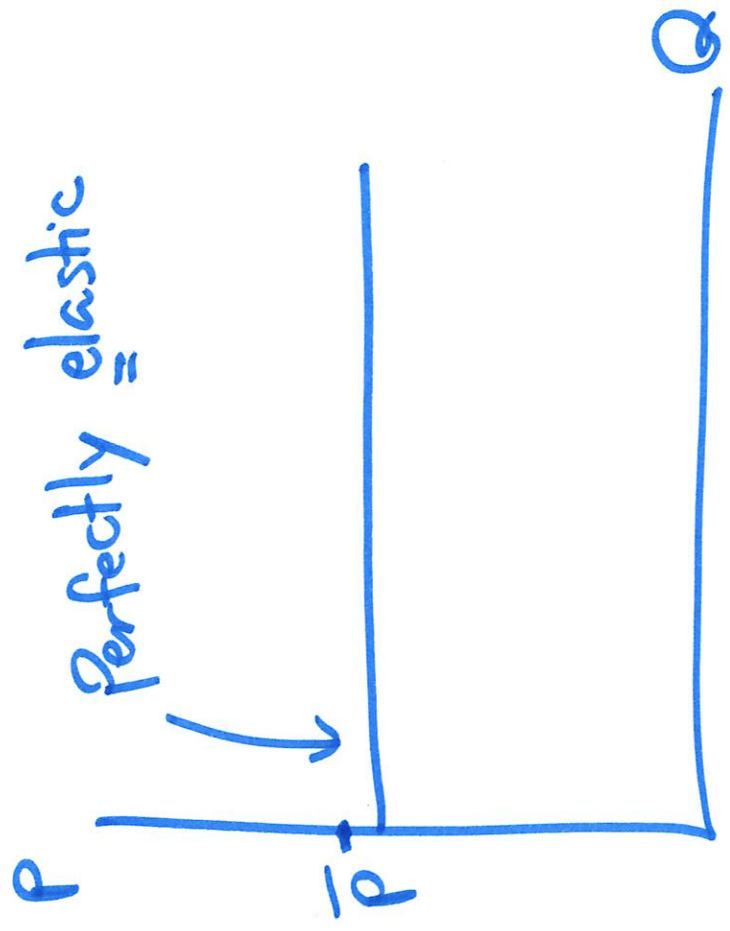
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⑧



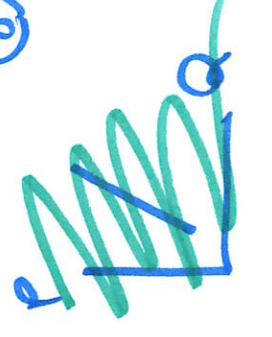
Horizontal
demand

Perfectly elastic



⇒ "Luxury" or not necessary

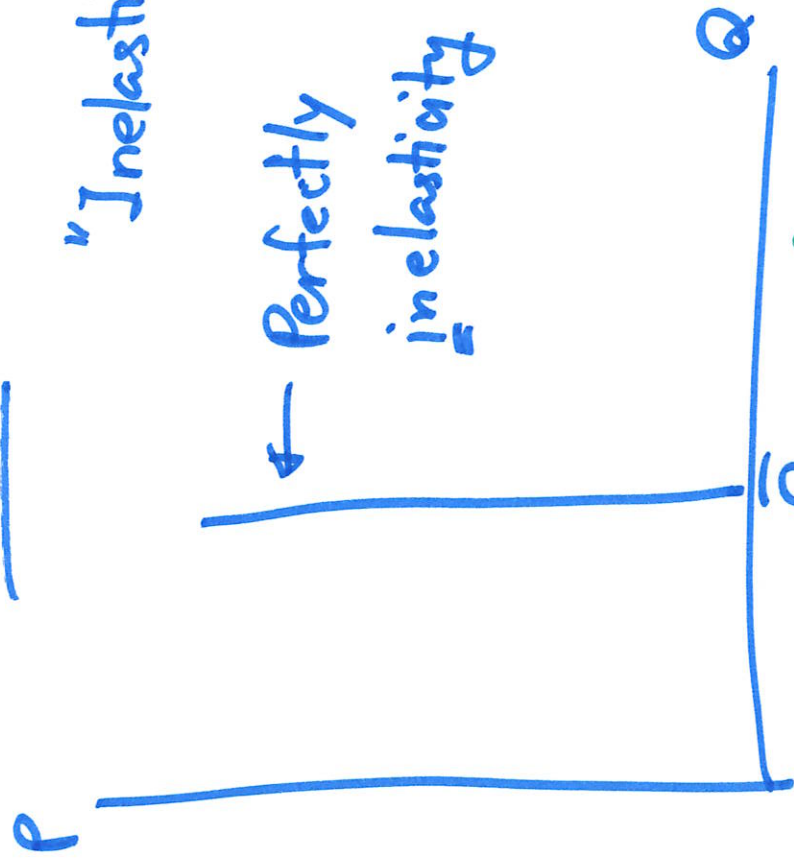
⇒ Many substitutes.



Vertical
demand

"Inelastic"

← Perfectly inelasticity



⇒ "Necessity"

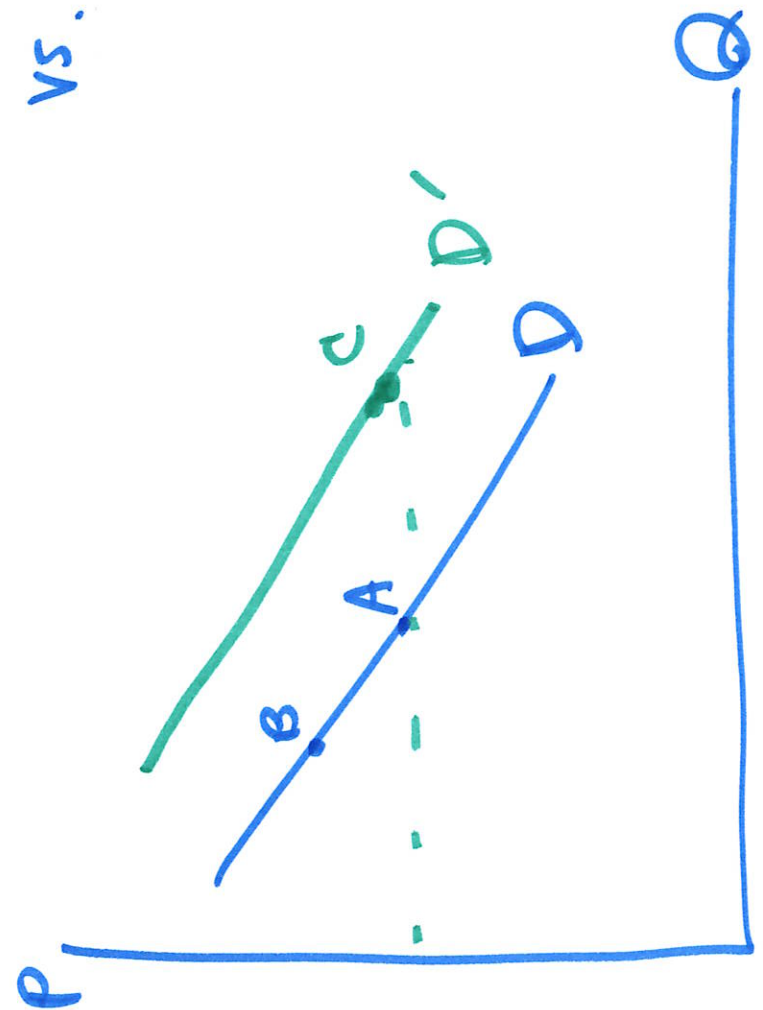
↳ life-saving drugs

⇒ No or few substitutes.



Next-time : Change in quantity demanded

vs. Shift of demand curve.



A $\rightarrow$ B: movement along demand curve.

A $\rightarrow$ C: shift of demand curve.