Recitation 2 Notes
14.01SC Principles of Microeconomics

I. Price Elasticity of Demand

E_D = (% Δ quantity demanded)/(% Δ price)

(ΔQ/Q) / (ΔP/P) = (ΔQ/ΔP) * (P/Q)

$E_D = (dQ/dP) * (P/Q)$

Example:

$Q_D(P) = 24-2P$, P=3, Q=18

$E_D = -2(3/18) = -1/3$

$| E_D | = 1/3$

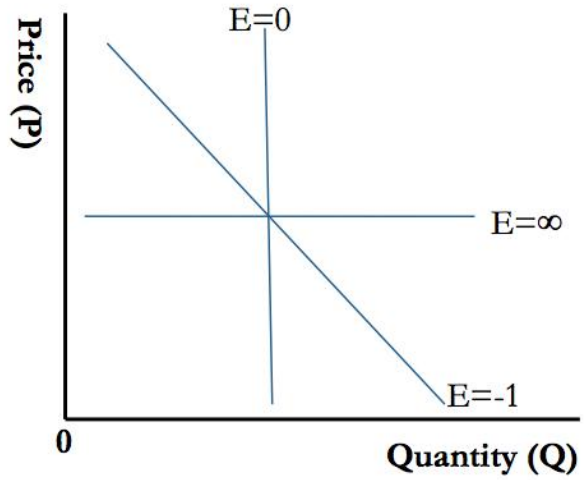
perfectly elastic $|E_D| = \infty$

perfectly inelastic $|E_D| = 0$

elastic $|E_D| > 1$

inelastic $|E_D| < 1$

unit elastic $|E_D| = 1$



II. Price Elasticity of Supply
   a. Income/cross price elasticity – tell about sensitivity of curve behavior in response to changes in income and other input factors

III. Taxes – Public Economics
   a. Sales Tax – ad valorem tax (tax is fraction of price)
   b. Gas Tax – specific /unit tax (added per unit sold of a good)