University of California, Berkeley Spring 2007
ECON 100A Section 115, 116

Demand and Supply

I. Demand, Supply and Equilibrium

Demand: $Q_D = D(P)$

- How much of the good consumers want to buy for a given price

Supply: $Q_S = S(P)$

- How much of the good sellers want to sell for a given price

Equilibrium: $Q_D = Qs$

II. Properties of Curves

On the *same* demand/supply curve,

Elastic – |elasticity| > 1

Inelastic – |elasticity| < 1

For *two* demand/supply curves A and B,

A is *more elastic* than B if at every price |elasticity of A| > |elasticity of B|

Perfectly Elastic

- |elasticity| = ∞ at every point
- horizontal straight line

Perfectly Inelastic

- |elasticity| = 0 at every point
- vertical straight line

III. Shocks

Demand Increase

Three scenarios:

Supply Increase

Three scenarios:

IV. Partial and General Equilibrium

In this class *partial equilibrium* means consider one market—one demand and supply diagram—only, while *general equilibrium* means consider more than one (i.e. two) market.

V. Complements and Substitutes

Complements - Goods that are likely to be used together
e.g. Bread and Butter

Effect: Increase in price of one complement *decreases* the demand for the other

Substitutes - Goods that are likely to be substitutable for each other
e.g. Coke and Pepsi

Effect: Increase in price of one substitute *increases* the demand for the other

VI. Market Interventions

There are many forms of market interventions; in this section we shall only talk about one of them: tax/subsidy. Consult the textbook for a complete treatment on the subject