

Pindyck microeconomics study guide assignment

[Economics](#), [Microeconomics](#)



Chapter departs from the standard treatment of supply and demand basics found in most other intermediate microeconomics textbooks by discussing many real-world markets (copper, office space in New York City, wheat, gasoline, trial gas, coffee and others) and teaching students how to analyze these markets with the tools of supply and demand. The real-world applications are intended to show students the relevance of supply and demand analysis, and you may find it helpful to refer to these examples during class.

One of the most common problems students have in supply/demand analysis is confusion between a movement along a supply or demand curve and a shift in the curve. You should stress the ceteris paribus assumption, and explain that all variables except price are held constant along a supply or demand curve. So movements along the demand curve occur only with changes in price. When one of the omitted factors changes, the entire supply or demand curve shifts. You might find it useful to make up a simple linear demand function with quantity demanded on the left and the good's price, a competing good's price and income on the right.

This gives you a chance to discuss substitutes and complements and also normal and inferior goods. Plug in values for the competing good's price and income and plot the demand curve. Then change, say, the other good's price and plot the demand curve again to show that it shifts. This demonstration helps students understand that the other variables are actually in the demand function and are merely lumped into the intercept term when we draw a demand curve. The same, of course, applies to supply curves as well.

It is important to make the distinction between quantity demanded as a function of price, $Q = -1 D(P)$, and the inverse demand function, $P = D(Q)$, where price is a function of the quantity demanded. Since we plot price on the vertical axis, the inverse demand function is very useful. You can demonstrate this if you use an example as suggested above and plot the resulting demand curves. And, of course, there are “regular” and inverse supply curves as well. Students also can have difficulties understanding how a market adjusts to a new equilibrium.

They often think that the supply and/or demand curves shift as part of the equilibrium process. For example, suppose demand increases. Students typically recognize that price must increase, but some go on to say that supply will also have to increase to satisfy the increased level of demand. This may be a case of confusing an increase in quantity supplied with an increase in supply, but I have seen many students draw a shift in supply, so I try to get this cleared up as soon as possible. The concept of elasticity, introduced in Pindyck Microeconomics study guide CHI By vilely elasticity is the ratio of two percentages.

So, for example, if a firm’s product has a price elasticity of demand of -2, the firm can determine that a 5% increase in price will result in a 10% drop in sales. Use lots of concrete examples to convince students that firms and governments can make important use of elasticity information. A common source of confusion is the negative value for the price elasticity of demand. We often talk about it as if it were a positive number. The book is careful in referring to the “magnitude” of the price elasticity, by which it means the

absolute value of the price elasticity, but students may not pick this up on their own.

I warn students that I will speak of price elasticity as if they were positive numbers and will say that a good whose elasticity is -2 is more elastic (or greater) than one whose elasticity is -1 , even though the mathematically inclined may cringe. Section 2. 6 brings a lot of this material together because elasticity are used to derive demand and supply curves, market equilibrium are computed, curves are hefted, and new equilibrium are determined. This shows students how we can estimate the quantitative (not just the qualitative) effects of, say, a disruption in oil supply as in Example 2.

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Unfortunately, this section takes some time to cover, especially if your students' algebra is rusty. You'll have to decide whether the benefits outweigh the costs. Price controls are introduced in Section 2. 7. Students usually don't realize the full effects of price controls. They think only of the initial effect on prices without realizing that shortages or surpluses are created, so this is an important topic. However, the coverage here is quite brief.