

Recitation 2 Notes
14.01SC Principles of Microeconomics

I. Price Elasticity of Demand

$$E_D = (\% \Delta \text{ quantity demanded}) / (\% \Delta \text{ price})$$

$$(\Delta Q/Q) / (\Delta P/P) = (\Delta Q/\Delta P) * (P/Q)$$

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

Example:

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

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

$$|E_D| = 1/3$$

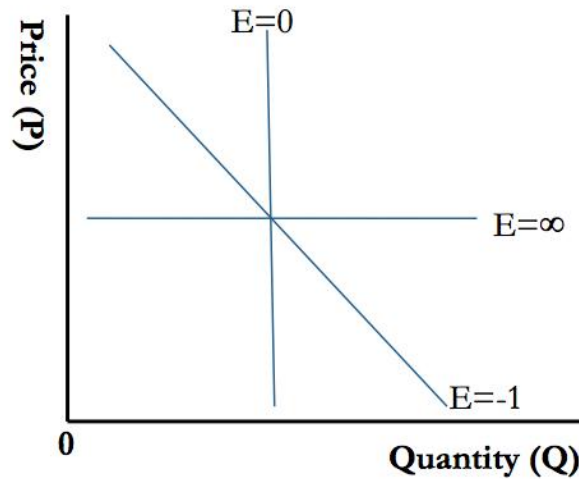
perfectly elastic $|E_D| = \infty$

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)

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