

Economics, Markets and Organizations (Tutorial 1)



Introduction

■ Introduction

- Peter Foldvari, p.foldvari@uva.nl, REC-E ?, office hours 2-3PM on Wednesday and Friday (write an e-mail in advance)

■ Requirements and assignments

■ Group formation for assignments

■ Practicalities (starting time, break, teaching method etc.)





Continous exam

- Form stable groups of 3 (one group can be of 4)
- You have exactly 6 minutes to present your answers. The time limit is not negotiable and is enforced.
- You are not allowed to use notes or slides, only the whiteboard.
- Your presentation is graded according to content, intuition and presentation.
- Feel free to report free-riding.





A few useful Youtube channels for introductory economics

- <https://www.youtube.com/user/jodiecongirl>
- <https://www.youtube.com/user/economicfun>
- <https://www.youtube.com/user/MrUniversity>
- <https://www.youtube.com/user/economicurtis>
- Khan Academy videos on youtube: search by topic.





Prerequisite

- Read the respective chapters before the seminar.
- For today, you were required to read Chapters 1-3.





Key objectives

- Understanding the following key concepts: market, demand, supply, law of demand, law of supply, market equilibrium, normal good, inferior good, 'ceteris paribus' principle, comparative static.
- Understanding the difference between moving along the demand and supply curve and shifting them to the right or left.





Exercises (grouped thematically)





Group 1: moving along or shifting the curves

- Q2: Explain the difference between a movement along the demand curve and a shift of the demand curve.
- Q3: What can cause a shift in the Demand curve? What can cause a shift in the supply curve?
- Q7: What factors are held constant along the demand curve? What factors are held constant along the supply curve?





Group 2: Income effect on demand

- Q1: What is a Normal Good? Give some examples. What is an inferior good? Give some examples.
- Q6: What is likely to happen to the demand curve if money incomes of consumers rise, *ceteris paribus*? (What is meant by *ceteris paribus*?)





Group 3: The effect of substitutes and complements on demand

- Q4: Assume that goods A and B are both normal goods. Assume that there is an increase in the price of good B.
 - Describe by designing a demand schedule what will happen to the demand for good A if A and B are substitutes.
 - Describe by designing a demand schedule what will happen to the demand for good A if A and B are complements.
 - Will there be any shift in the demand schedule of Good B?





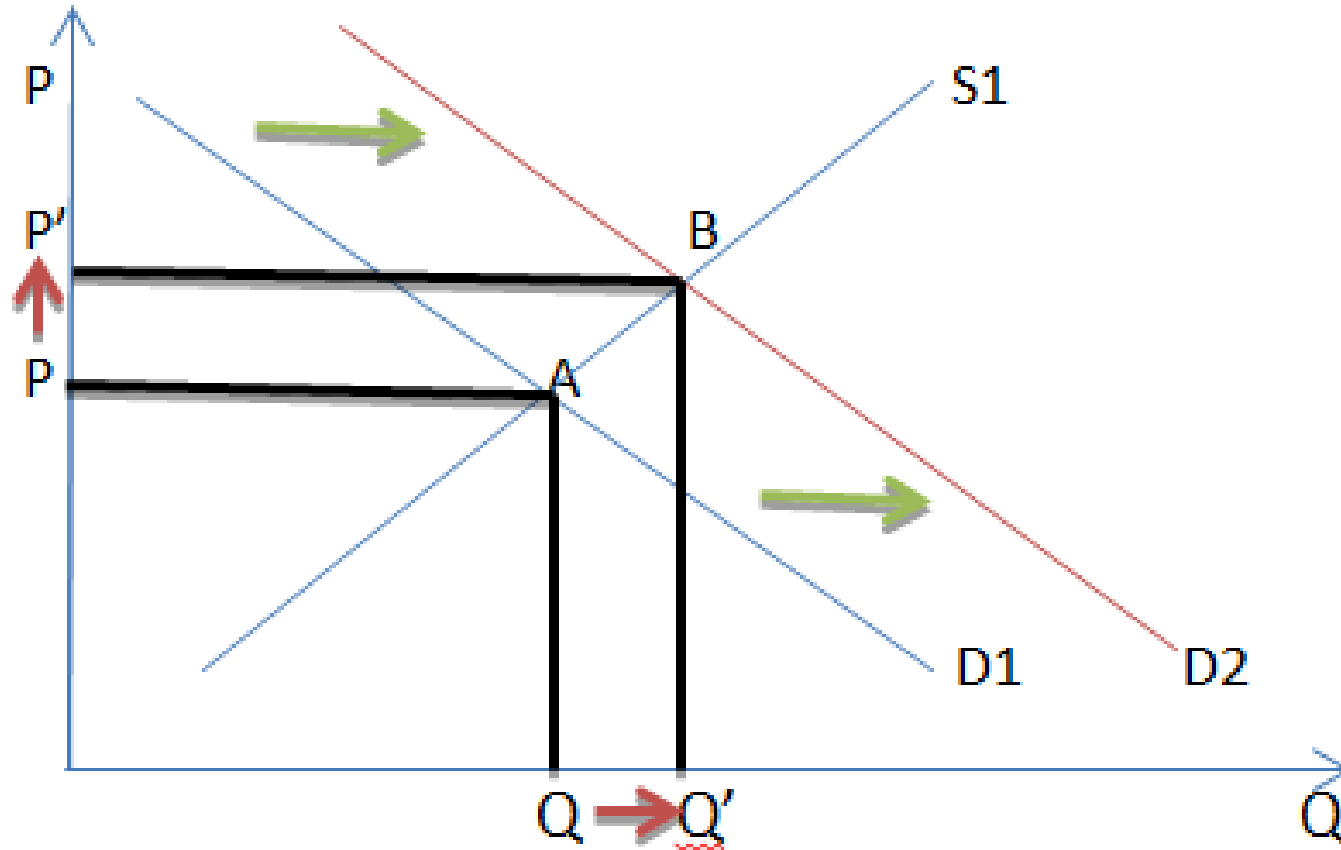
Group 4: Market equilibrium

■ Question 5

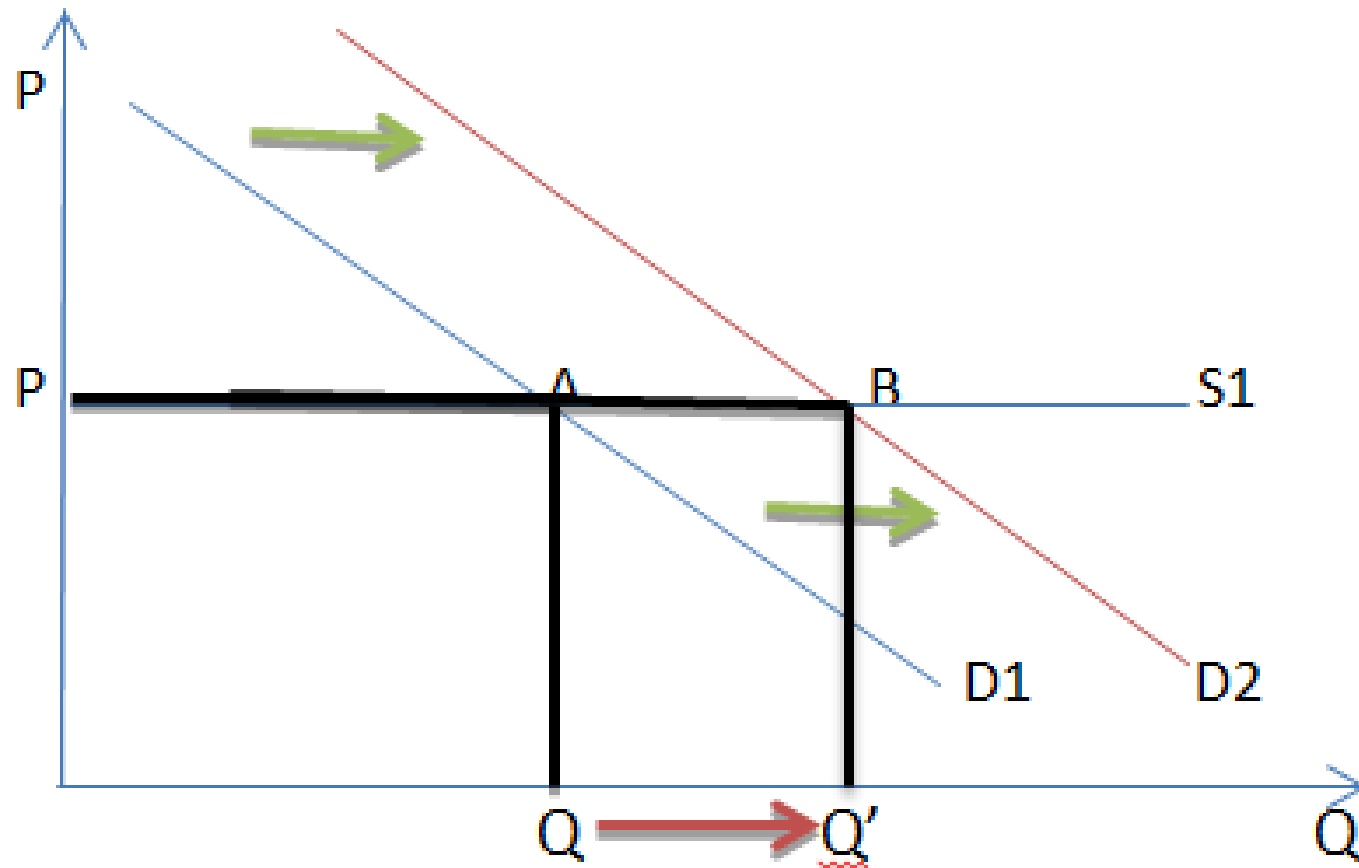
Provide a definition of market equilibrium. Assume that the market of good A is at equilibrium. Assume that there is an increase in the Demand for that good. In detail, and by using a graph, describe what will happen in the market for that good, following the increase in demand. To what direction should prices adjust? Now assume that there is a fall in the demand for good A. Answer all the above questions by adjusting your analysis appropriately.



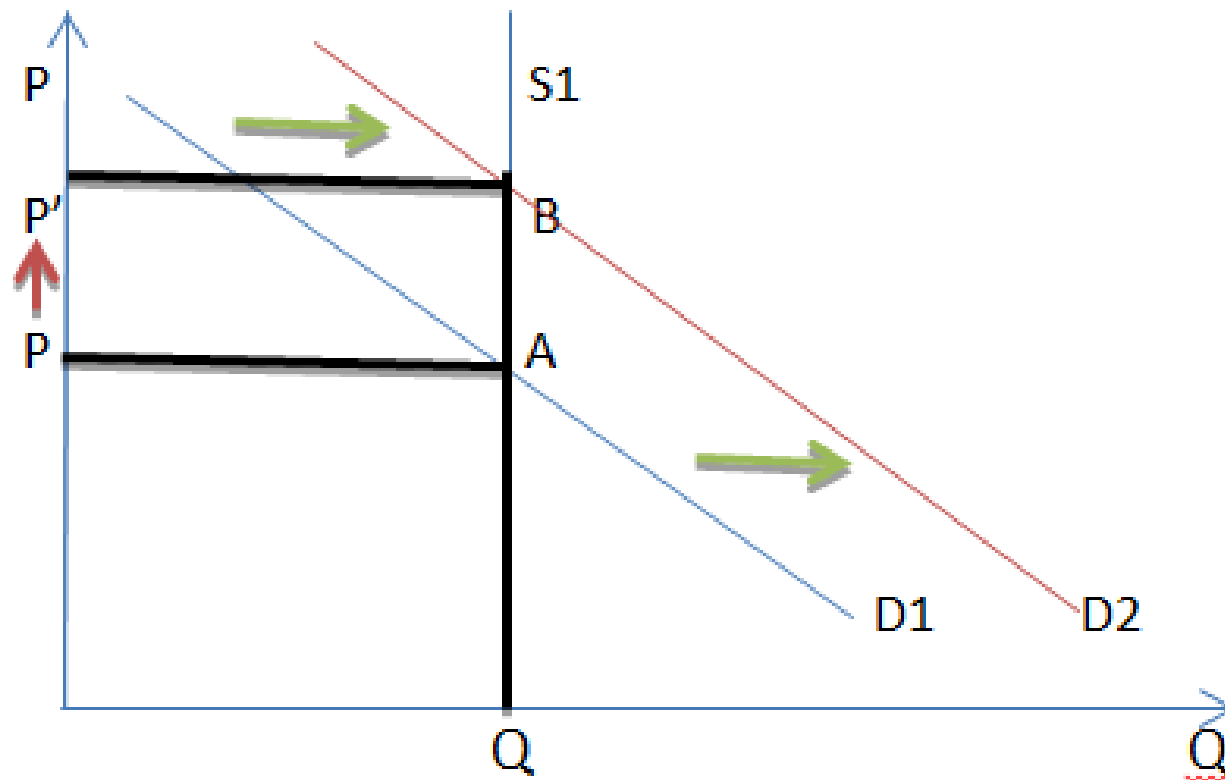
Case 1:



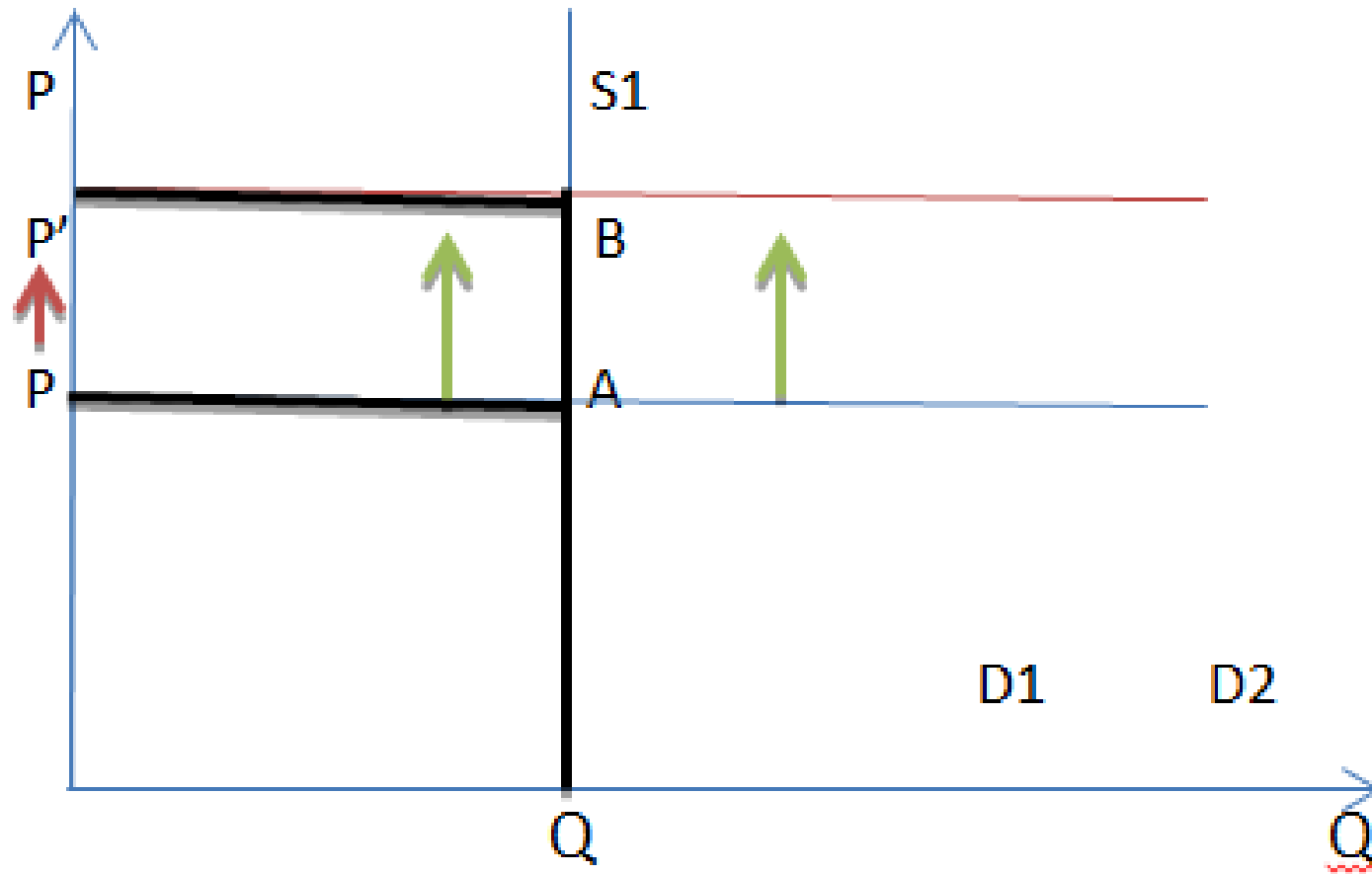
Case 2:



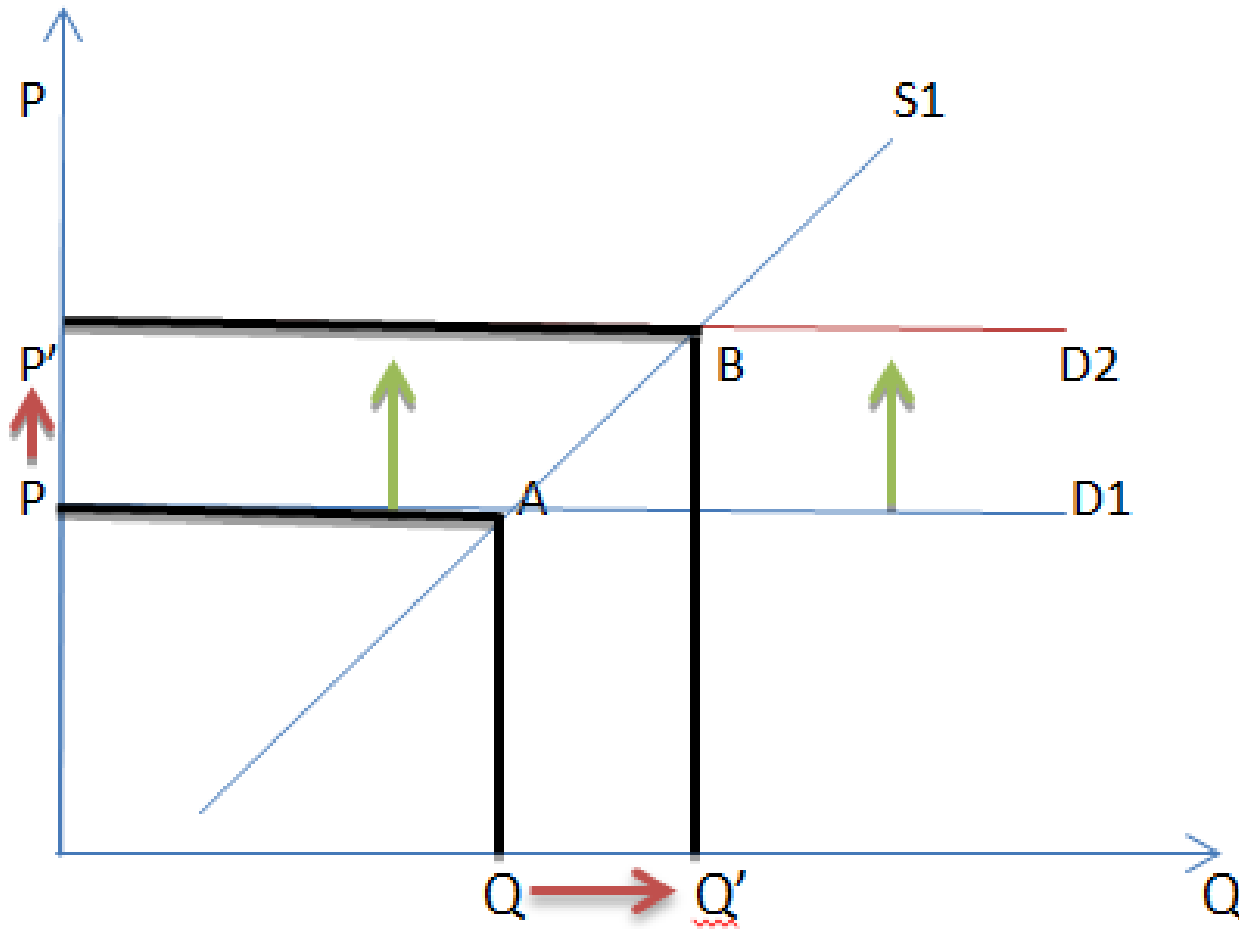
Case 3:

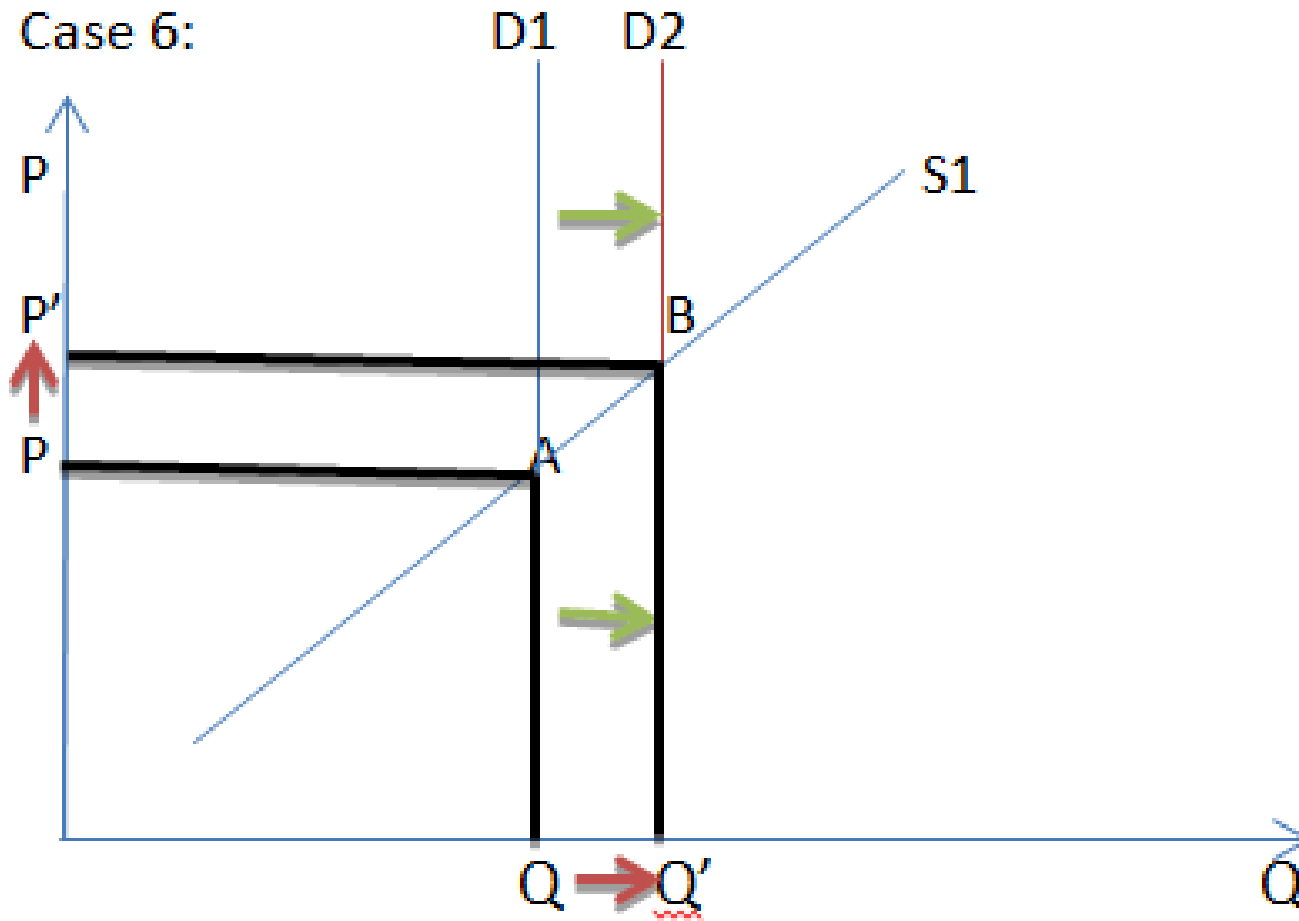


Case 4:

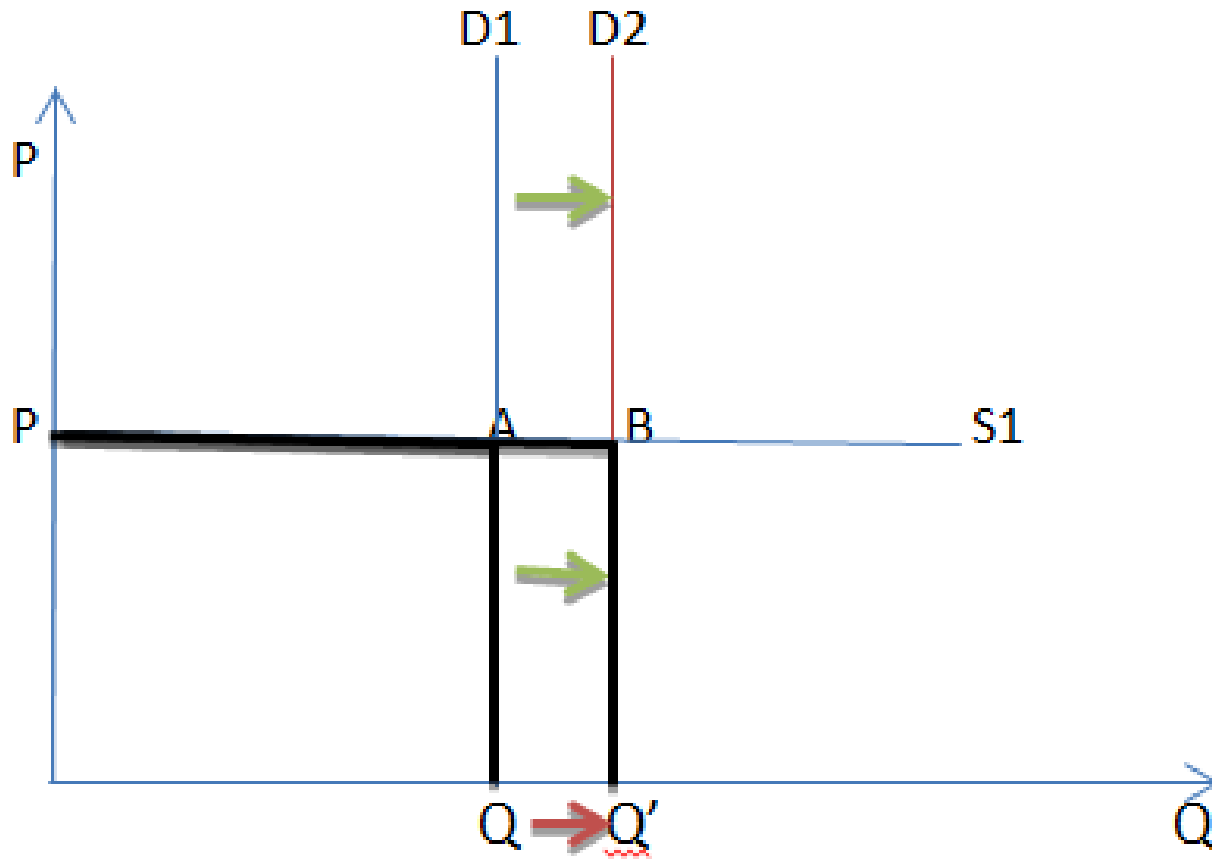


Case 5:





Case 7:





Group 4: Market equilibrium

■ Q8

Consider the (inverse) demand function $P=A-B \cdot X_1$ where X_1 is the quantity demanded. Draw this curve in a diagram with the price on the vertical axis and the quantity on the horizontal one. What might A represent? What information does B provide? In the same diagram, draw the supply curve $P=C+R \cdot X_2$ where X_2 is the quantity supplied. In equilibrium, demand and supply will be the same. Hence, $X_1=X_2=X$.

Task 1: Use the demand and supply equations and the fact that $X_1=X_2=X$ to find algebraically the equilibrium P and X as functions of the parameters. (Hint: note that in equilibrium $A-B \cdot X=C+R \cdot X$, now solve for X)

Task 2: Show graphically what happens to the equilibrium price and quantity if A increases. Can you see from your algebraic solutions the same effects?

Based on your interpretation of A , propose a short story to provide intuition for what you have just shown graphically and algebraically.

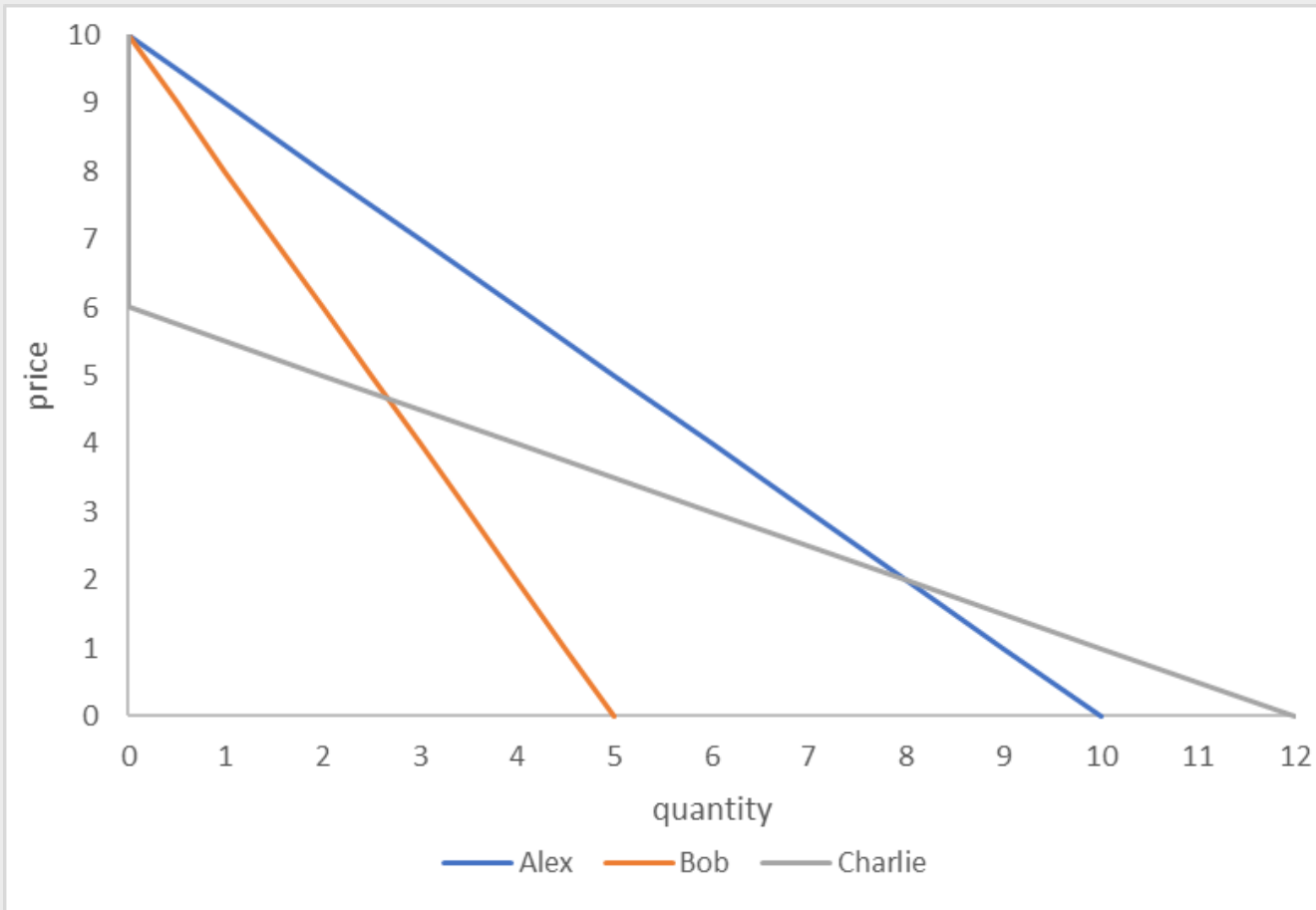


Group 5: individual vs. market demand

- Q9: Why is the market demand curve derived by horizontal (rather than by vertical) summation of the individuals demand curves? (well explained in the book on pages 44-45)



Individual inverse demand functions





Aggregating demand curves

price	Alex	Bob	Charlie	total demand
0	10	5	12	27
1	9	4.5	10	23.5
2	8	4	8	20
3	7	3.5	6	16.5
4	6	3	4	13
5	5	2.5	2	9.5
6	4	2	0	6
7	3	1.5	0	4.5
8	2	1	0	3
9	1	0.5	0	1.5
10	0	0	0	0



Aggregate demand curve

