Economics

Chapter 6 Study Guide

Elasticity, Consumer Surplus, and Producer Surplus

**Terms to Identify:**

*Price Elasticity of demand*

*Midpoint formula*

*Elastic demand*

*Inelastic demand*

*Unit elasticity*

*Perfectly elastic demand*

*Perfectly inelastic demand*

*Total revenue*

*Total-revenue test*

*Price elasticity of supply*

Market period

Short run

Long run

Cross elasticity of demand

Income elasticity of demand

Consumer surplus

Producer surplus

Efficiency losses

**You should be able to:**

* define price elasticity of demand and compute its coefficient when given the demand data
* State the midpoint formula for price elasticity of demand and explain how it refines the original formula for price elasticity
* State two reasons why the formula for price elasticity of demand uses percentages rather than absolute amounts in measuring consumer responsiveness.
* Explain the meaning of elastic, inelastic, and unit elasticity as they relate to demand.
* Define and illustrate graphically the concepts of perfectly elastic demand and perfectly inelastic demand
* Apply the total-revenue test to determine whether demand is elastic, inelastic or unit elastic
* Describe the relationship between price elasticity of demand and the price range for most demand curves
* Explain why the slope of the demand curve is not a sound basis for judging price elasticity
* Illustrate graphically the relationship between price elasticity of demand and total revenue
* List the four major determinants of the price elasticity of demand and explain how each determinant affects price elasticity.
* Describe several applications of the concept of price elasticity of demand
* Define the price elasticity of supply and compute its coefficient when given the relevant data
* Explain the effect of time (short and long run) on price elasticity of supply
* Describe several applications of price elasticity of supply
* Define cross elasticity of demand and compute its coefficient when given relevant data
* Use the cross elasticity of demand to categorize substitute goods, complementary goods, and independent goods.
* Give applications of cross elasticity of demand
* Define income elasticity of demand and compute its coefficient when given relevant data
* Use the income elasticity of demand to categorize goods as normal or inferior
* Provide some insights using the concept of income elasticity
* Define consumer surplus and give a graphical example
* Define producer surplus and give a graphical example
* Use consumer surplus and producer surplus to expain how allocative efficiency is achieved in a competitive market
* List the three conditions for achieving allocative efficiency at a quantity level in a competitive market.
* Use a supply and demand graph to illustrate efficiency losses when the quantity is greater or less than its equilibrium in a competitive market
* Use the concept of elasticity of demand to explain why different consumers pay different prices