Objectives for Chapter 4  The Price System, Demand and Supply, and Elasticity

Price Ceiling / Floor
1. Define price floors and ceilings.
2. Explain the impact of a price ceiling on market equilibrium price and market clearing.
3. Explain the impact of a price floor on market equilibrium price and market clearing.

Consumer / Producer Surplus
4. Define consumer surplus and producer surplus.
5. Show consumer and producer surplus on a demand and supply graph.
6. Explain how these concepts relate to market efficiency.

Elasticity
7. Define the concept of elasticity.
8. Use the midpoint formula to measure price elasticity of demand.
9. Interpret the terms: elastic, inelastic, and unitary elastic in terms of the price elasticity of demand.
10. Predict the effect on total revenue of a price change, given the elasticity of demand.
11. State the determinants of price elasticity of demand.
12. Explain the effects of the three determinants of price elasticity of demand.
13. Calculate the cross-price and income elasticity of demand.
14. Distinguish between substitute and complementary goods using the cross-price elasticity of demand.
15. Distinguish between normal and inferior goods using the income elasticity of demand.
16. Calculate the price elasticity of supply.