Econ 101 Discussion Section-Handout 2

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1 Introduction

Super Important Information: There is a change in My office hours for your convenience

Office Hours	Monday	2:30 P.M.-4:30 P.M.	Social Sciences 6473
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2 Review

- All about Demand: The demand captures the consumers, their desires for goods and how prices, income and other stuff shape their decision.

- Demand function: We say that the demand usually has a negative relation with prices, and positive relation with income, nevertheless this is not always the case.

  - Normal goods: If you get more income you demand more (e.g. clothes)

    * Inferior goods: If you get more income you desire less (e.g. dinning halls)

  - Demand Curve: The demand curve captures the relationship between price and quantity in a graph

    * Remember it is a convention to put the price in the vertical axis.

  - Demand Shocks: There are several shocks that can shift the demand curve.The main idea is that at the same price you Desiree it more or less

    * Change in taste and Preferences
      · Weather Usually change how much we enjoy a good.
    * Other Goods
      · Complements: If the price of one of the good falls, the other should be more demanded
      · Substitutes: If the price of one good falls, the other should be less demanded

  - Market Demand: Horizontal Sum of individual demands, be careful with the price range.

3 Problems

A)   Determinants of Demand:

1. Consider the case of Five Guys at State Street. They know that they face a downward sloping demand for regular cheeseburgers. The manager hires you predict the following scenarios. It is always a good Idea to make a graph of each of the questions.

   (a) The reduction of the price in a cheeseburger will lead to a_____ the demand curve of cheeseburgers

   (b) A blizzard that forces some students to stay at home will lead to a_____the demand curve cheeseburgers

   (c) A new campaign for weight loss identify cheeseburgers to be very unhealthy food, this advertisement will lead to a_____ the demand curve of cheeseburgers

   (d) The price of French fries decreases, this will lead to a_____ the demand curve of cheeseburgers

   (e) The price of Wendy's cheeseburgers decreases, this will lead to a _____the demand curve of cheeseburgers

B)   Demand Aggregation

1. Consider the following table that shows the quantity demanded at different prices of Donuts.

Price	Homer	Lisa	Bart	Market Demand
1.00	6	5	5	
2.00	5	3	4	
3.00	4	1	3	
4.00	3	0	2	
5.00	2	0	1	
6.00	1	0	0	

   (a) Complete the table for the market demand.
   (b) Get the equations of individual demands, assuming they are linear.
   (c) If you want to graph the market demand, how many kink points the market demand will have? Why?
   (d) Get the market demand equation?

2. The following equations describe consumption of brats in Wisconsin on a given day. The first equation represents the male population, the second one represents the female population.

$$P = 100 - \frac{1}{4}q_1 \quad P = 125 - \frac{1}{2}q_2$$

   (a) Side to side graph both demand curves.
   (b) Get the market demand equation and graph it next to the others.
   (c) What would happen to the kink in the market demand if the female demand changed to $P = 100 - \frac{1}{4}q_2$?