

UNIT 3 / SECTION 9 - REVIEW

Demonstrate an understanding of the demand curve and consumer choice.

By: Carter Greene

KICKOFF:

- ❖ Pick up both handouts on the way in
- ❖ Complete the one titled **“9.50- Extra Practice for your”**
- ❖ **Roll Call:** Sweet or Salty snacks



ANNOUNCEMENTS:

- ❖ **11/18-** Unit 3/Section 9 Test
 - Anything from notes or Modules 46-51 is fair game
- ❖ Knight Time tomorrow
 - 90 minute classes next week
- ❖ Get Kickoffs/Closures/GC work done
- ❖ Heels play tonight @ Pitt
- ❖ New Luke Combs Album

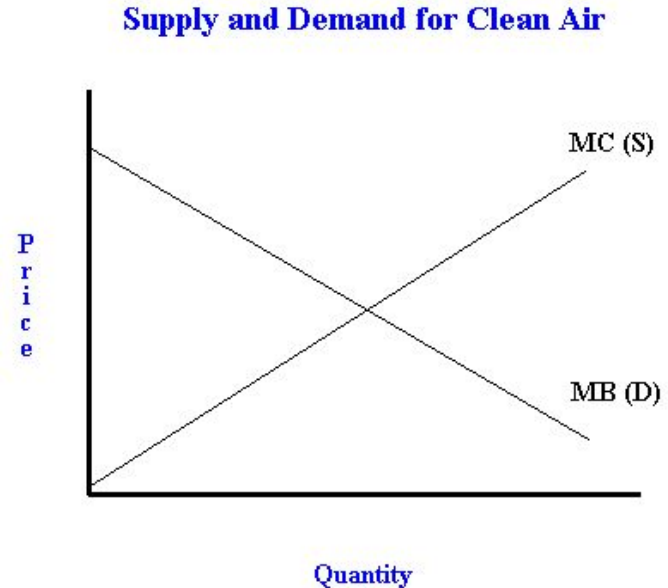


EATING THROUGH UTILITY

- ❖ You have 20 minutes to finish your “Eating Through Utility” assignment from Tuesday
- ❖ If you finish early:
 - You may work on the Unit 3 Nuts and Bolts handout you picked up on the way in
 - I will talk about it later

MARGINAL BENEFIT

- ❖ Amount consumer is willing to pay in order to consume one more unit of a product
 - Similar to marginal utility but values the product in terms of dollars instead of utiles
- ❖ $\text{Marginal Benefit} - \text{Cost} = \text{Consumer Surplus}$



FRO

PRACTICE

FRQ ANSWERS

Quantity of Water (in bottles)	Marginal Benefit of Water (in dollars)	Quantity of Good X (in units)	Marginal Benefit of Good X (in dollars)
1	24	1	24
2	18	2	18
3	12	3	12
4	6	4	6
5	3	5	3

- (c) Now assume the price of a bottle of water is \$3 and the price of a unit of good X is \$6. Dana spends her entire budget of \$30 on bottles of water and good X.
- Explain why Dana does not maximize her benefit when she purchases 2 bottles of water and 4 units of good X. Use marginal analysis to explain your answer.
 - What are the optimal quantities of good X and bottles of water at these prices?

$$(i) \frac{MB_w}{P_w} = \frac{MB_x}{P_x} \quad \frac{18}{3} \neq \frac{6}{6}$$

(ii)

UNIT 3 NUTS AND BOLTS

- ❖ This is not a comprehensive study guide
 - Completing this handout will not ensure you a 100
 - rather , it will make sure you know the nuts and bolts of this unit that are necessary to answer more difficult questions on the test

CLOSURE

- ❖ Whole class; ~35 MC and 1 FRQ
- ❖ 4 topics to break down:
 - Elasticity
 - Consumer and Producer surplus basis
 - Effects of Government interactions on the Market (CS, PS, DWL, Tax Rev, Expenditures, etc)
 - Utility

UNIT 3 CRASH COURSE

Demonstrate an understanding of the demand curve and
consumer choice.

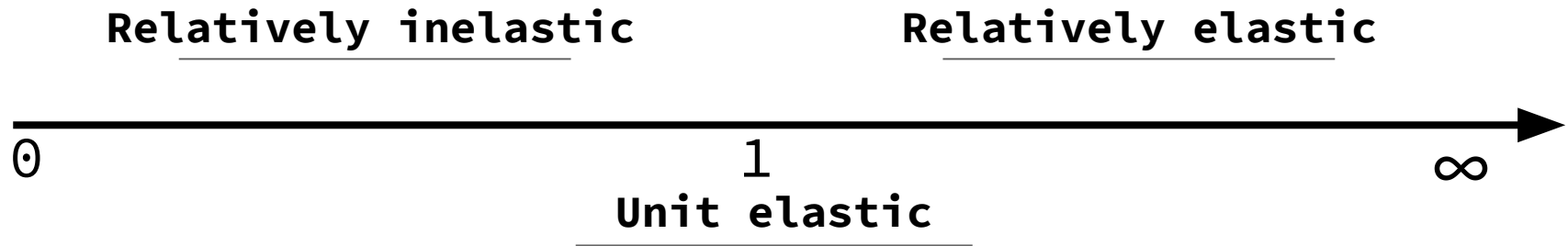
PRICE ELASTICITY OF DEMAND

❖ Price Elasticity of Demand

➤ Measures:

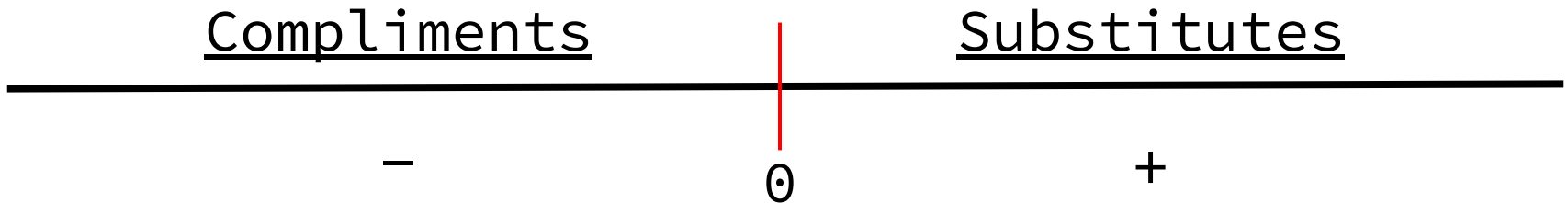
- Sensitivity of change in Q_d to change in P

➤ Formula:



INCOME ELASTICITY

- ❖ Measures:
 - Sensitivity of Q_d to changes in income
- ❖ Formula:

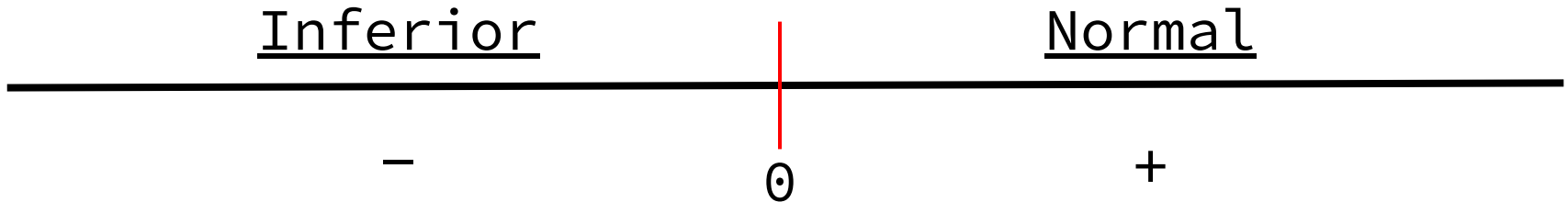


CROSS PRICE ELASTICITY

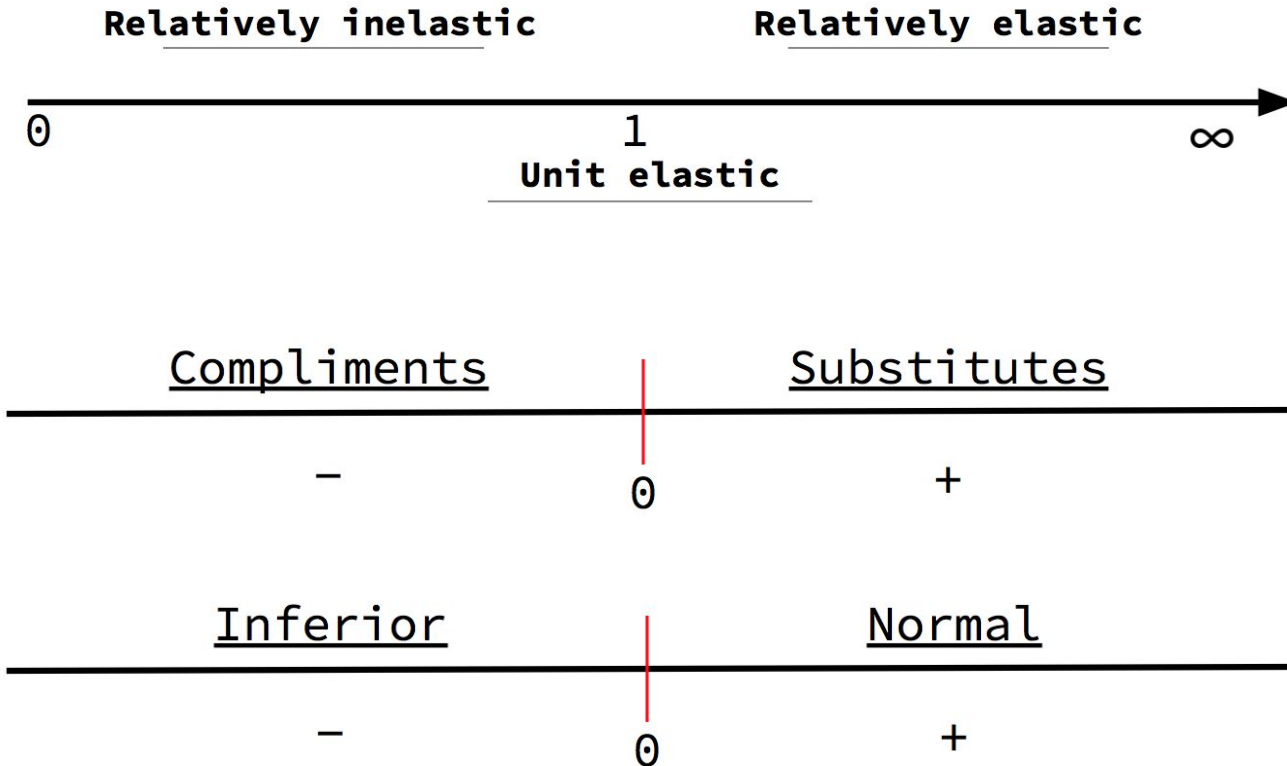
❖ Measures:

➤ Sensitivity of change in Q_d of good X to a change in P of good Y

❖ Formula:



ELASTICITY NUMBER LINES



ELASTICITY - GRAPHICALLY

