

Microeconomics, Module 1: “Consumer’s Demand, Producer’s Supply, and Equilibrium”

Micro module 1 reading from eighth edition: Landsburg, Chapter 1

(The attached PDF file has better formatting.)

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The laws of supply and demand are the foundation of microeconomic models. Chapter 1 of Landsburg’s text explains the principles of supply and demand and shows how to apply them to sales taxes, excise taxes, and other scenarios.

Read Section 1.1: A non-economist might say: when the price is high, demand is low, and as the price rises, demand increases. But demand is a relation (the demand curve), not a number; the *quantity demanded* is the number. Demand shows the relation between the price and the quantity demanded.

The demand curve assumes that other items are held constant, such as consumers’ income, their tastes, and the prices of other goods.

Illustration: the demand for beef depends on the consumer’s income (rich people eat more beef than poor people), their tastes (vegetarians avoid beef), and the prices of other goods (such as poultry and fish).

Read Section 1.2: Supply is the relation between the price and the quantity supplied. The supply curve assumes that other items are held constant, such as the size of the industry, the cost of resources, and the technology used to produce the good.

Illustration: The supply of beef depends on the size of the industry (the more cattle growers, the more beef can be supplied), the cost of resources (such as the cost of land), and the technology used to produce the good (affecting the time needed to raise a herd of cattle).

Section 1.3: The intersection of the supply and demand curves is the equilibrium price and quantity. Sales and excise taxes have the same effect on price and quantity. We state this concept as “the economic incidence of a tax is independent of the legal incidence.”

Exam Topics: The final exam, following Landsburg’s text, uses linear supply and demand curves. In truth, supply and demand curves can not be modeled by simple mathematical curves, but we use linear curves to keep the economic concepts clear.

The final exam tests the intersection of supply and demand curves with and without a sales tax or an excise tax. The practice problems show the type of problem you will get.

Review problems 6, 7, 8, and 9 on page 26. These problems review the concepts of supply and demand, correcting common misunderstandings. Review problems 10, 11, and 12 on

page 27; these problems deal with the basic relations underlying supply and demand. Review problems 14, 15, and 21 on page 28. Review problem 25 on page 29; Landsburg has a dozen problems like this to show the equivalence of sales and excise taxes.