PRICE ELASTICITY OF DEMAND: LECTURE 2

I. As we move down the demand curve, why does TOTAL REVENUE first increase, reach a maximum (or peak), then decrease?

A. Here's another curve ball folks!

1. All linear demand curves can be divided into 3 distinct sections that differ in elasticity.

2. If a price change causes TR to move in the opposite direction from the price change, we are in the elastic portion of the demand curve.

   Therefore, if _____ P -----> _____ TR
   
   OR

   _____ P -----> Elastic
   
   OR

   if _____ P -----> _____ TR

3. If a price change causes TR to move in the same direction as the price change, we are in the inelastic portion of the demand curve.

   Therefore, if _____ P -----> _____ TR

   OR

   _____ P -----> Inelastic
   
   OR

   if _____ P -----> _____ TR
B. Remember:

1. The two demand curves have the 3 sections of elasticity

2. We use the terms relatively inelastic or elastic here as a means of saying that over the whole range (3 sections) the average elasticity of demand is either inelastic or elastic.

    and

3. When:

    a.

    b.

    c.
C. Practical Use: Would a producer facing a negatively sloped demand curve for
the commodity he sells ever want to operate in the inelastic range of the demand
curve?

1. ANSWER: __________________

2. Because:

a. Don't you think the total cost of producing ____ is _________ the
total cost (TC) of producing ___________

b. _____ = _____ - _____

c. [_____ = _____ - _____] > [_____ = _____ - _____]
D. Another Practical Use: The Basic Tenet of Ag. Programs

1. Relatively _________ demand to begin with, why would you ever want to produce in the inelastic portion of a relatively inelastic demand curve.

2. Many agricultural commodities are produced in the inelastic portion of the demand curve.
   
a. One of the main reasons we have acreage control programs and price supports.
II. Determinants of Demand Elasticity and some extreme cases

A. Determinants:

1. Relatively inelastic demand:
   a. very few acceptable substitutes
   b. 
   c. 

2. Relatively elastic demand:
   a. 
   b. 
   c. 

B. Extreme cases:
C. Remember:

1.

2.

3. For example: