

Recap on prices changes

$\delta Q / \delta P > \text{or} < 0$?

$\delta Q / \delta P < 0$ as we substitute away
toward cheaper similar goods
(**substitution** effect)

But we also know **that**

$\delta Q / \delta I > \text{or} < 0$

Depending on the type of good and
consumer

$\delta Q / \delta I \gg 0$ for superior luxury

$\delta Q / \delta I > 0$ for superior necessary

$\delta Q / \delta I < 0$ for inferior

And that δP make us richer (if < 0) or
poorer (if > 0):
a lot ? little?

Income effect of price changes

So $\delta Q / \delta P > \text{or} < 0$?

Imagine **$\delta P < 0$**

1) $\delta Q^S > 0$ as we substitute away from
the more expensive similar good
(substitution effect)

But **2)...**

If $\delta P < 0$, **I am richer**

So:

If the good is superior, added **$\delta Q^I > 0$** (stronger if luxury)

1+2) $\delta Q \gg 0$ (luxury) $\delta Q > 0$ (necessary)

In both cases: NORMAL GOOD **$\delta Q / \delta P < 0$**

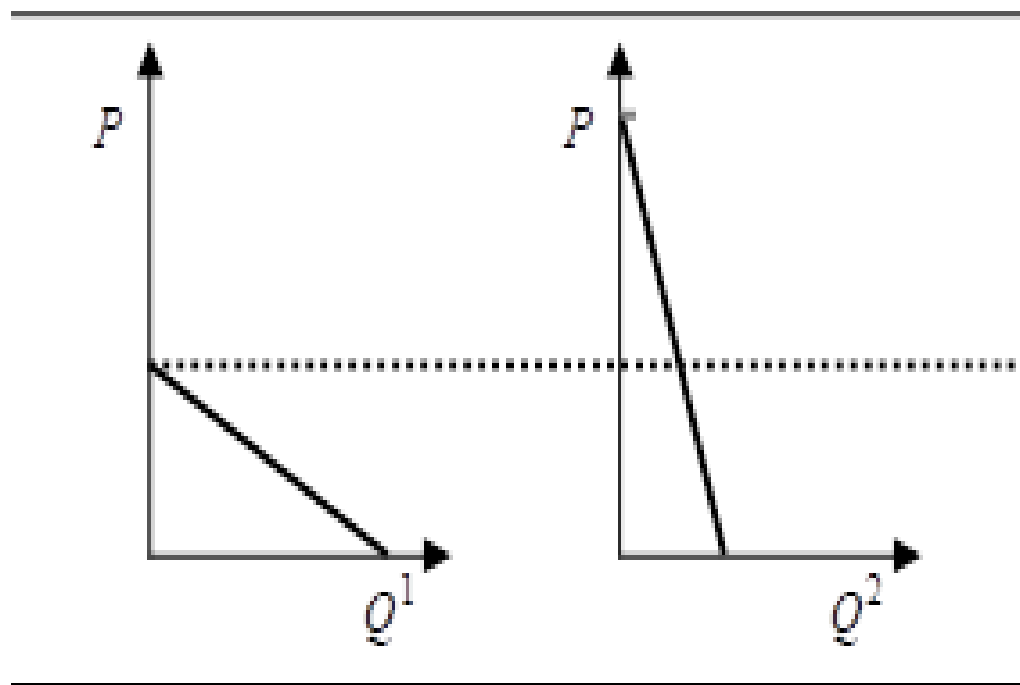
If the good is inferior, counter **$\delta Q^I < 0$**

How much inferior?

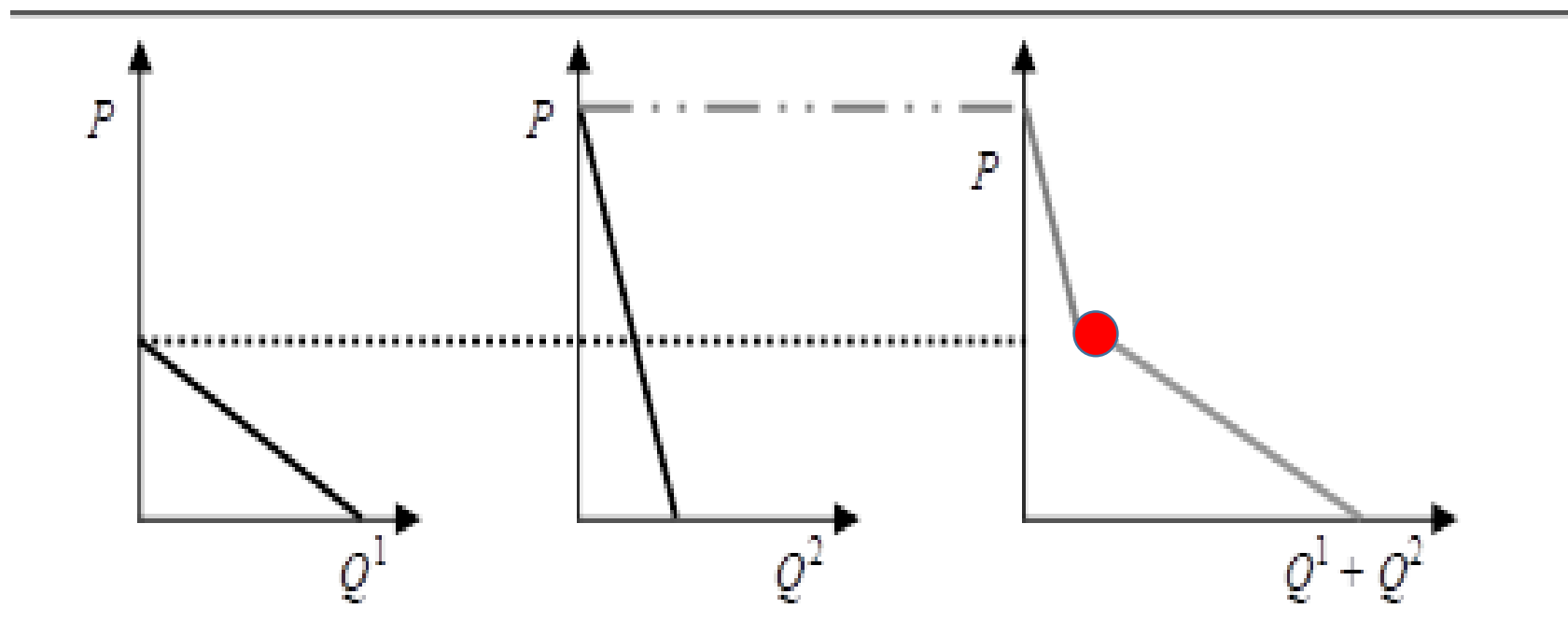
1) little? δQ^S dominates, still NORMAL GOOD **$\delta Q / \delta P < 0$**

2) a lot? δQ^I dominates, GIFFEN GOOD **$\delta Q / \delta P > 0$**

The aggregate demand curve



The aggregate demand curve

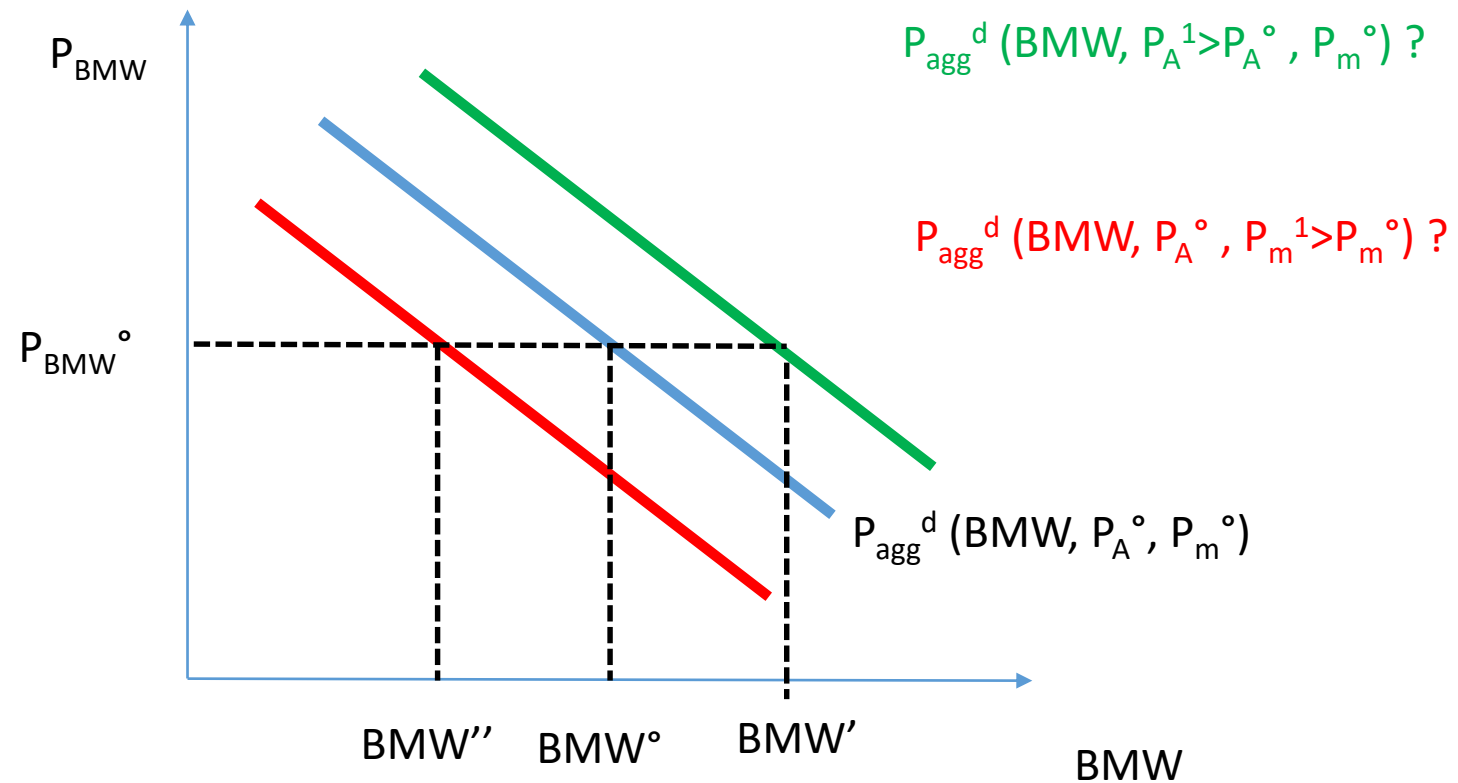




Shifts of the aggregate demand curve

P_m = price
of
maintenance

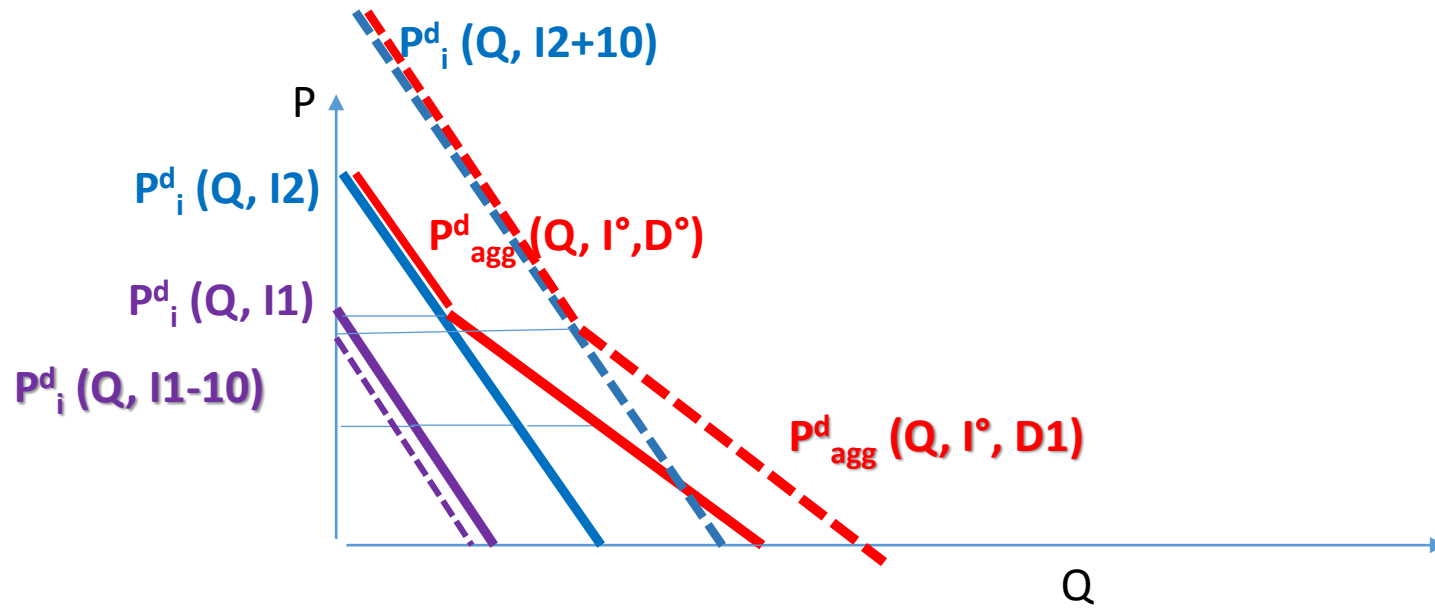
P_A = price of
Audi





Shifts of the aggregate demand curve

a) Country's income $I^o = I_1 + I_2$ is unchanged, but its distribution D changes.

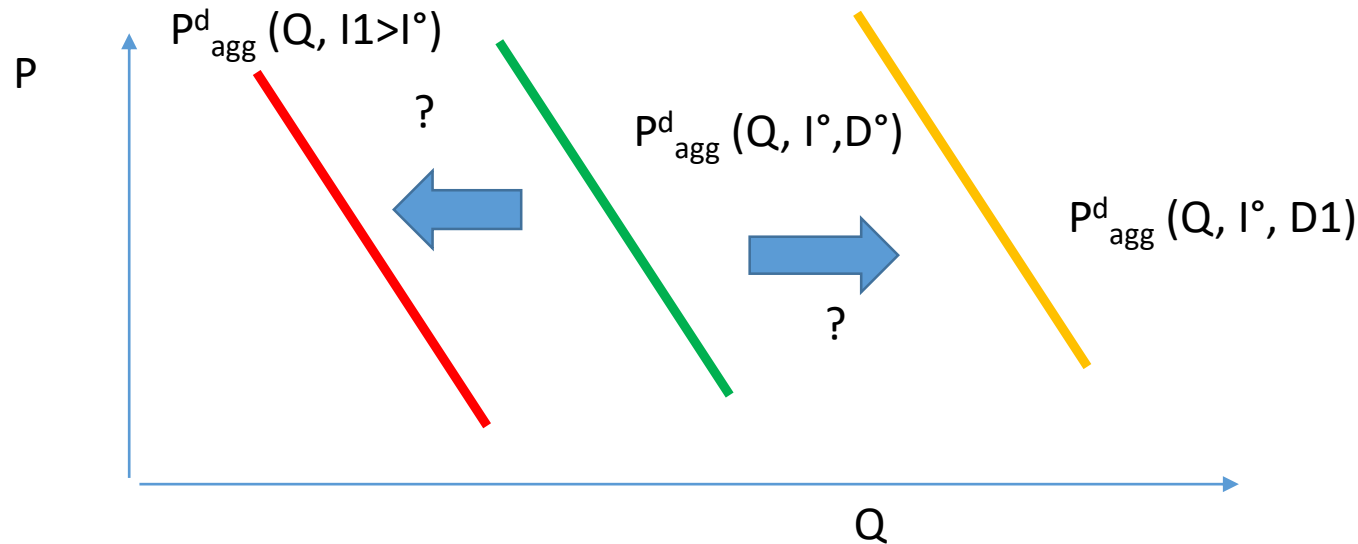




Shifts of the aggregate demand curve

a) Country's income is unchanged, but the distribution of it changes.

b) Rise in total income from I^0 to I_1 , and for a good **superior** for **all** citizens.

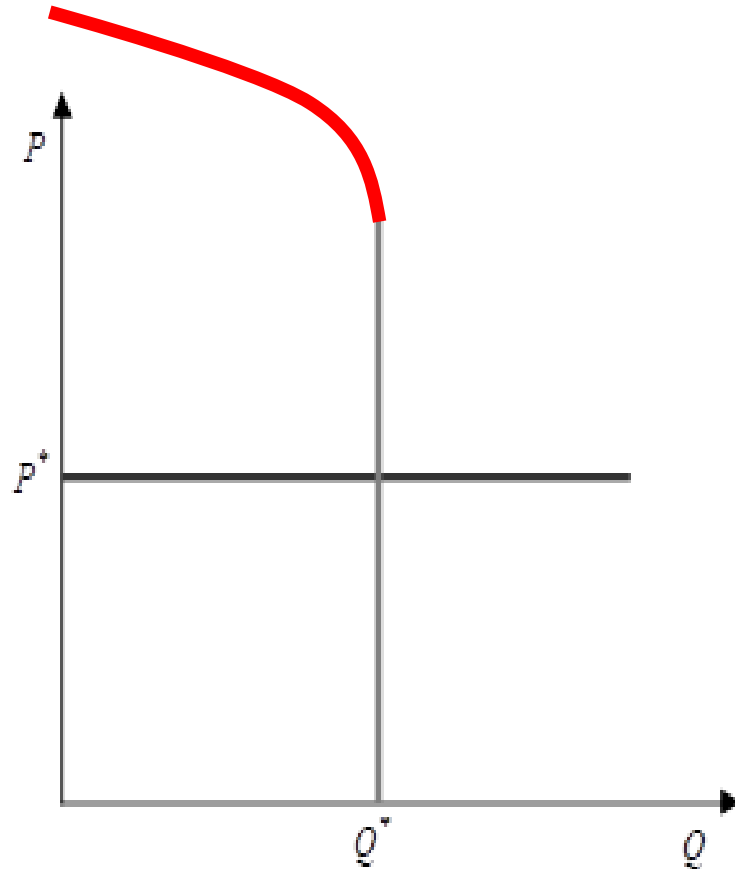


Imagine a rise in the income of one citizen by 10 mn € and the decline by 1€ for 1 mn citizens.
Richer citizen demands: + 1. Each poorer citizen demands: -0,5. Total: + 1-500.000 = -499.999



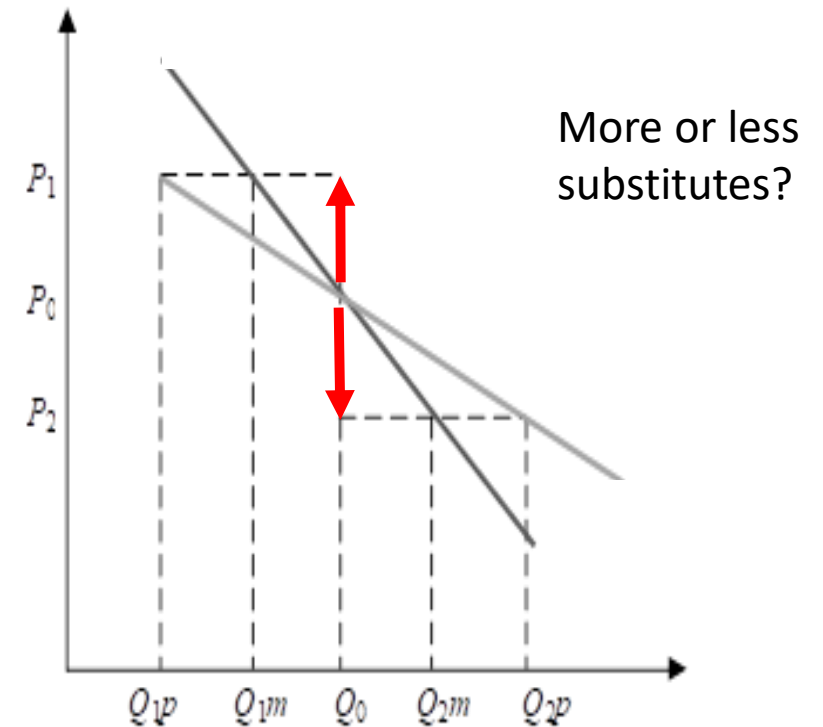
Demand curves and elasticity again ...

1 pack of
Barilla in Tor
Bella
Monaca and
one in Torre
Angela?



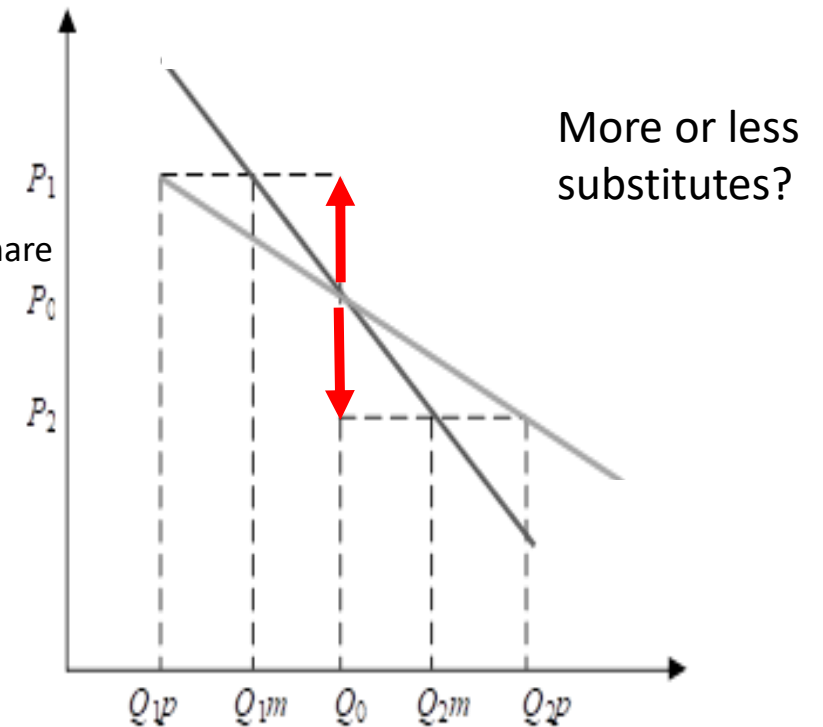
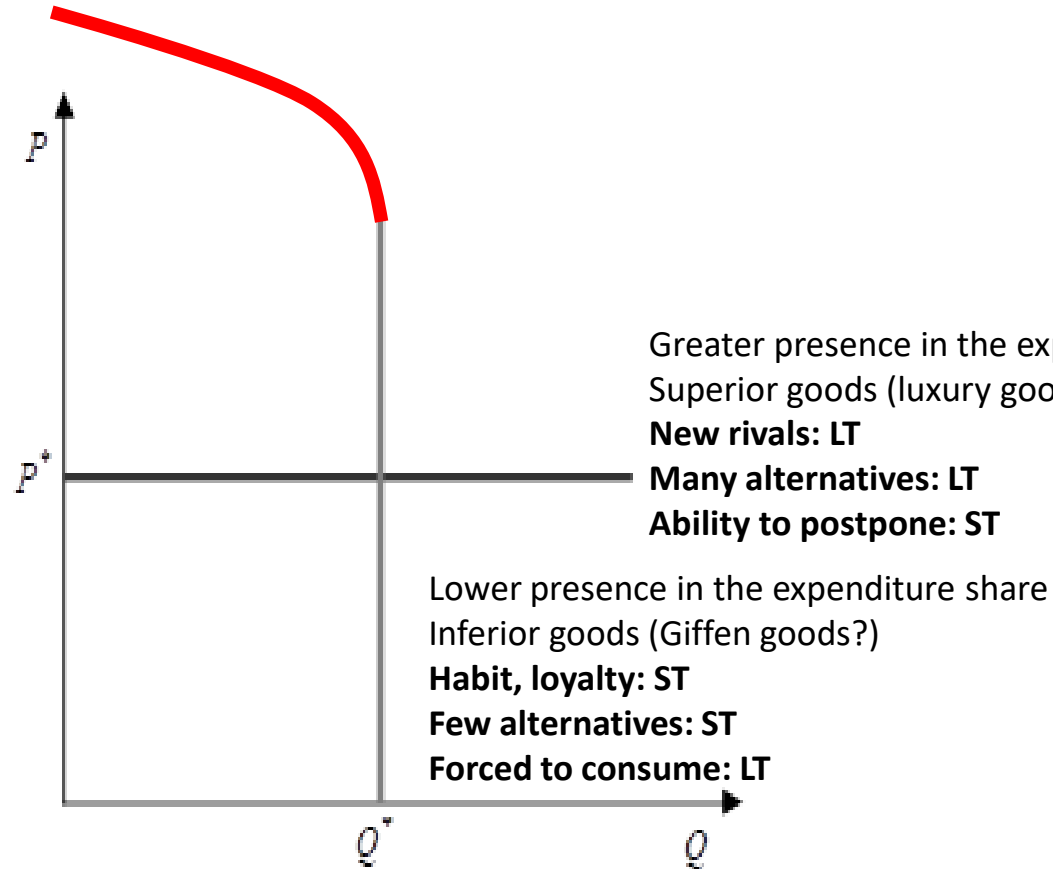
The demand
curve for
love. .
 $Q^*=24\text{h/day}$

Would you give up really everything for love?



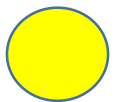
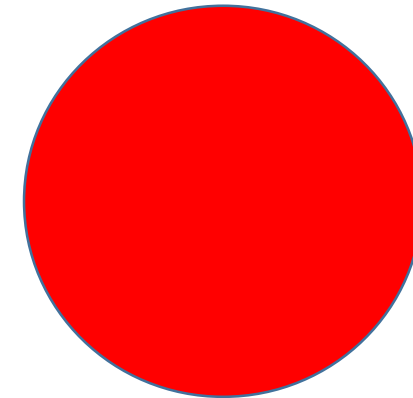
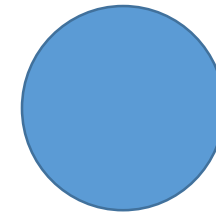
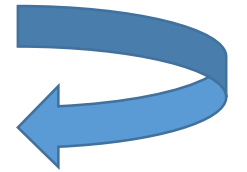


Demand curves and elasticity again ...



>0 or <0?

Small or
large?



Small!

Large!

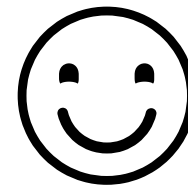
$$\varepsilon = \frac{\frac{dq_j}{dp_i}}{\frac{q_j}{p_i}}$$

Antitrust:
Market concentration
in the
«relevant market»

The surplus theory



?



The surplus theory

C, composite good, and T

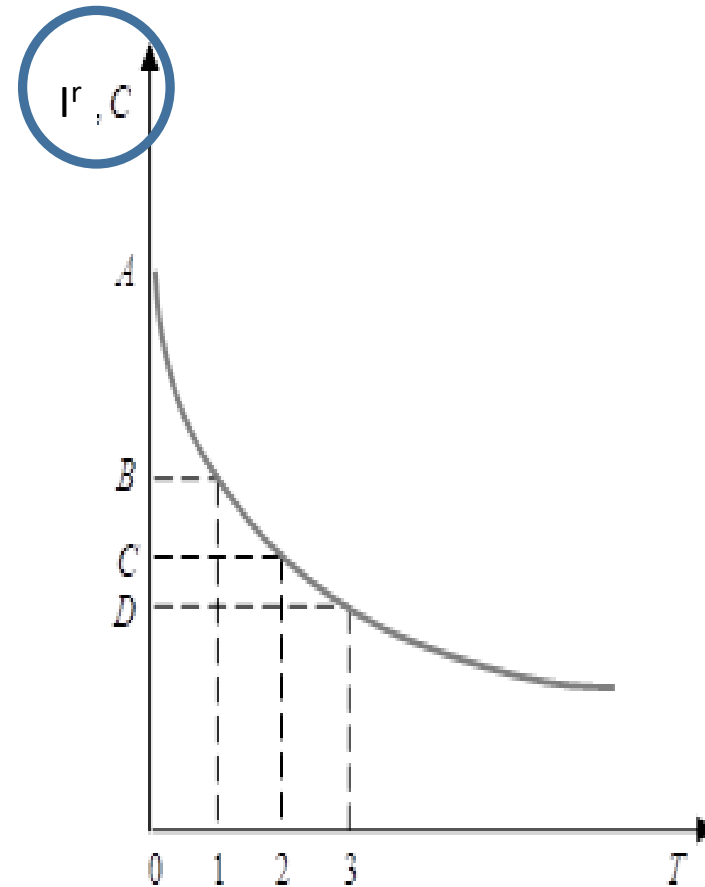
$$P_C \mathbf{C} + P_T \mathbf{T} = C + P_T T = I$$

with $P_C = 1$; C: «Marshallian money»

$$C = I - P_T T \quad \text{if } T = 0, C = I$$

For a given T° ,

$$\begin{aligned} I - P_T T^\circ &= C^\circ \quad (\text{max. consump. of MM}) \\ &= P_C C^\circ \quad (\text{max. spending on MM}) \\ &= I^r \quad (\text{residual income}) \end{aligned}$$

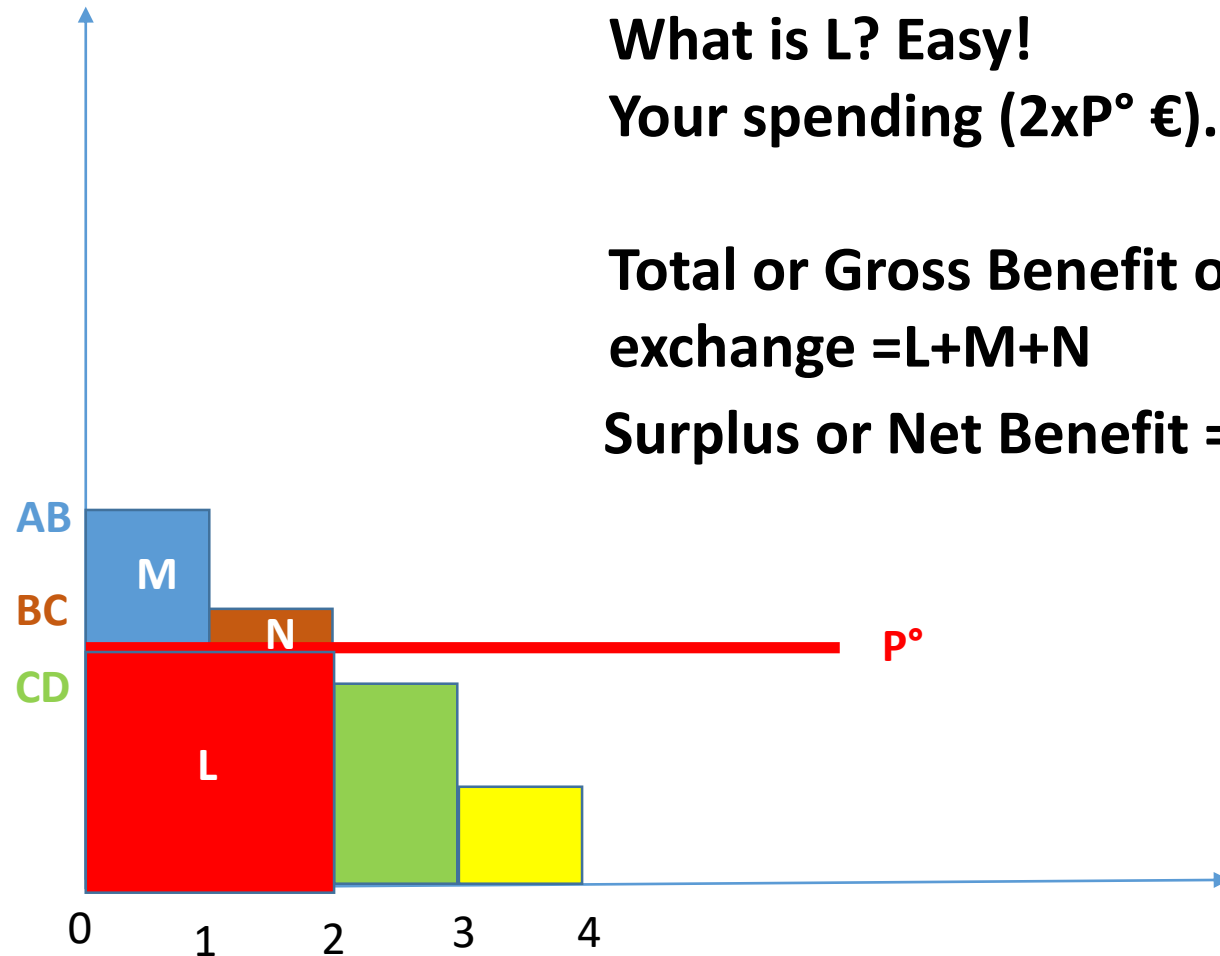




Surplus theory

Price €

Availability
to Pay €

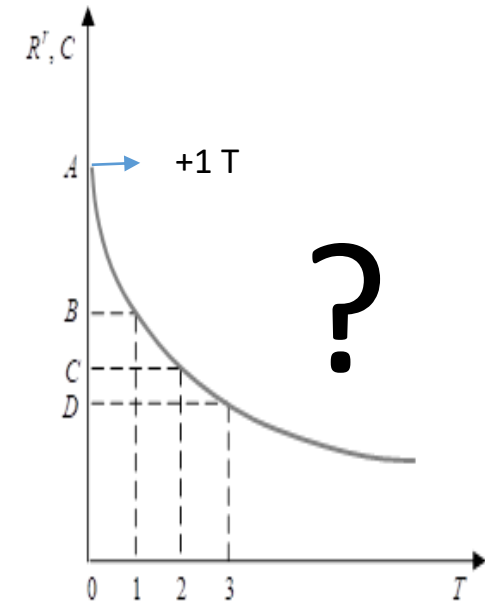


What is L? Easy!

Your spending ($2 \times p^\circ$ €).

Total or Gross Benefit of the
exchange = $L+M+N$

Surplus or Net Benefit = $M+N$

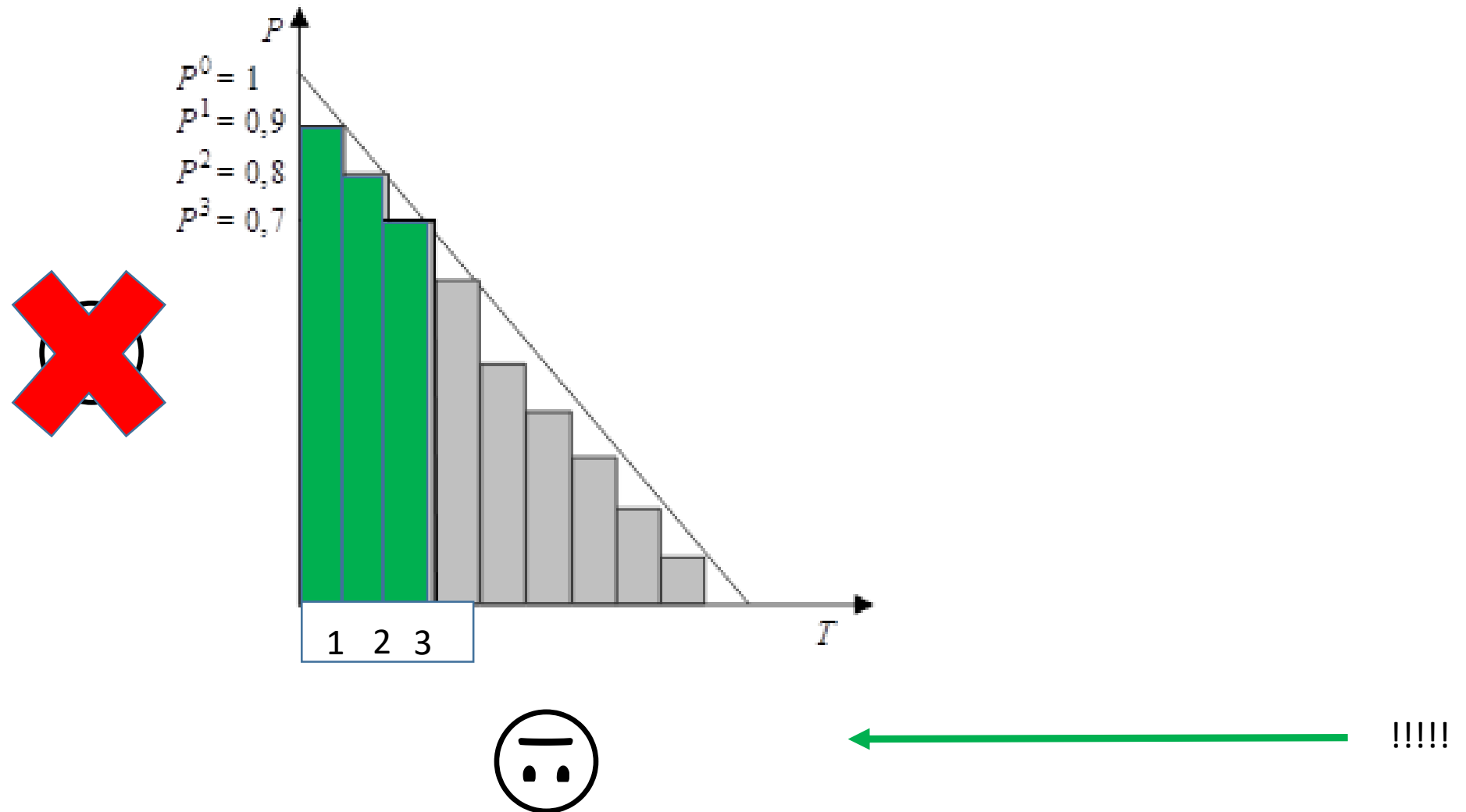


Consumer surplus. It represents the minimum amount of euro which the consumer would require to be willing to give up the consumption of the 2 hours of tennis lessons, without being damaged by the subtraction of this exchange opportunity. The consumer surplus therefore appears to be an objective measure of the subjective value of the exchange.

T

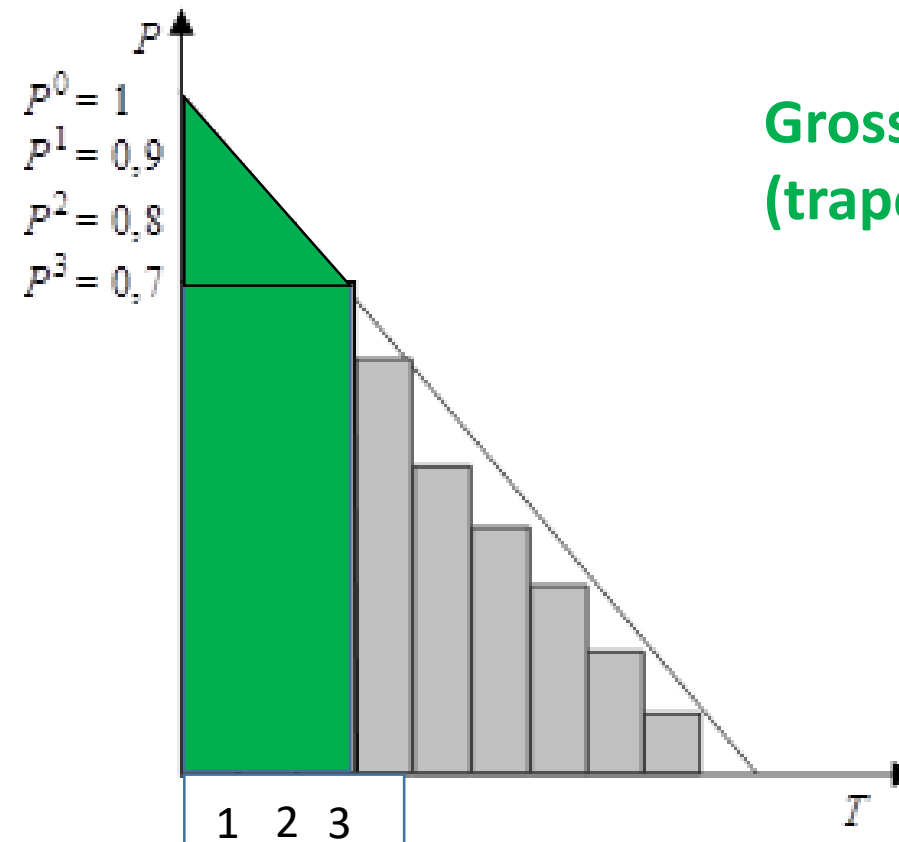


The demand curve ... revisited

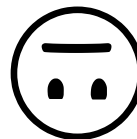




The demand curve ... revisited



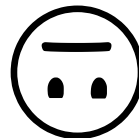
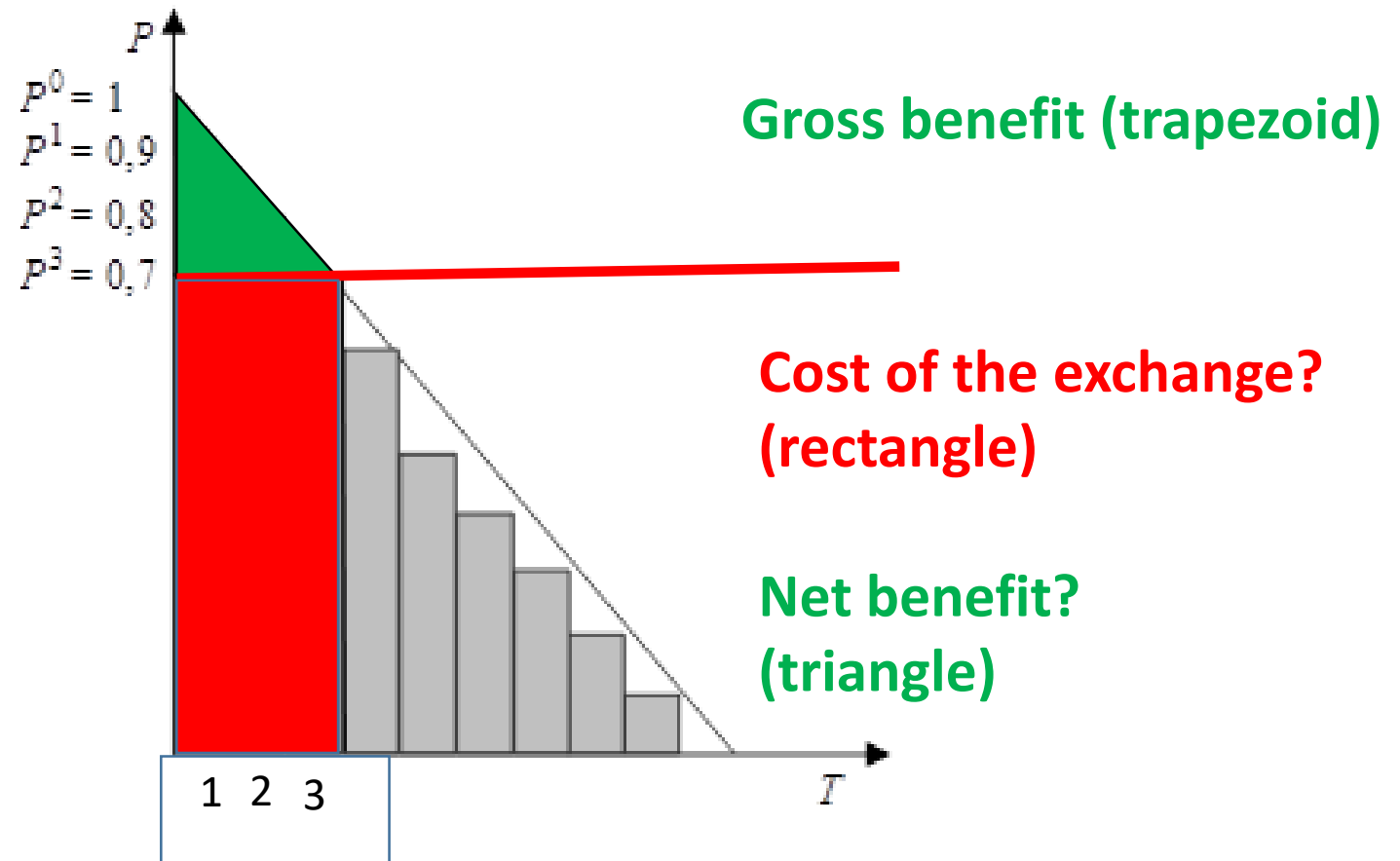
Gross benefit of the exchange:
(trapezoid)





The demand curve ... revisited

Now suppose
the price is
 $P=0,7$





The practice of surplus

Surplus?

1st unit: Min ? max ? euro

1st unit: Min 20 max 30 euro

2nd unit: Min 10 max 20

3rd unit: Min 0, Max 10

Total: Min 30 Max 60

Total spending: ?

210 euro

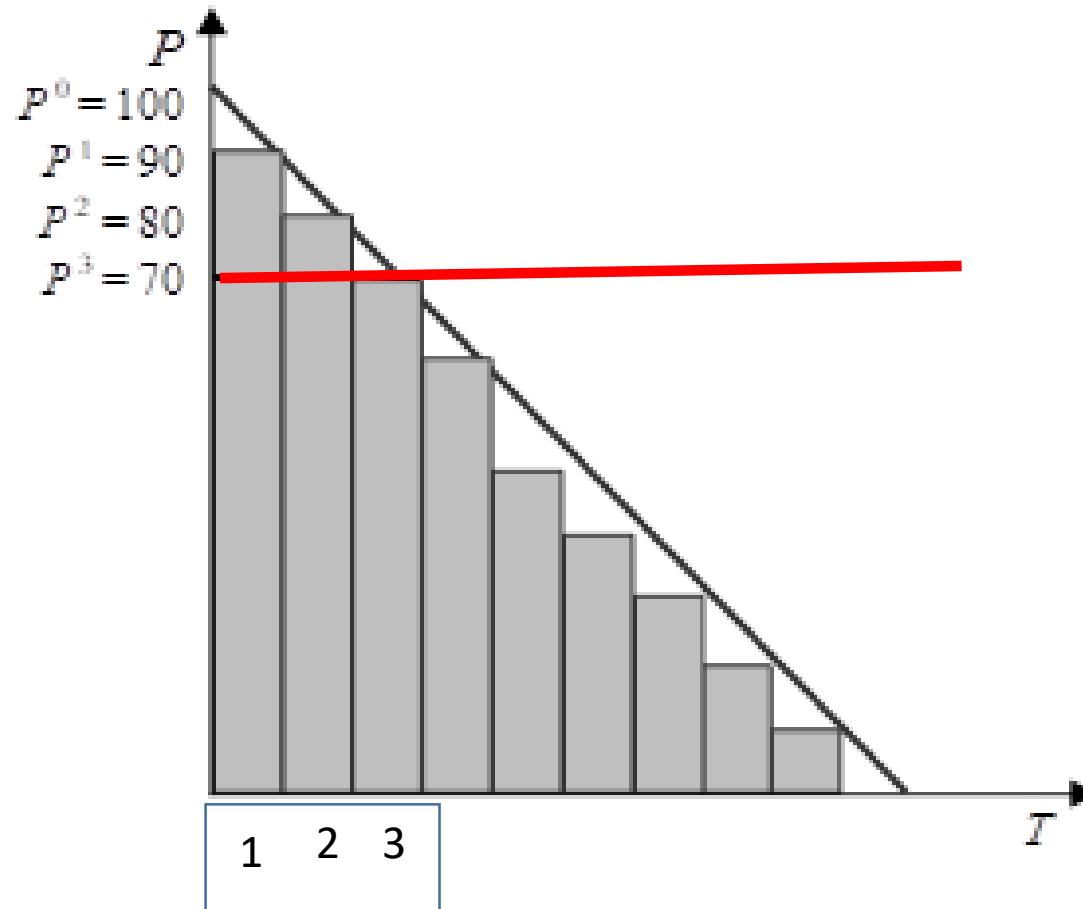
Availability to pay:

Min 240

Max 270

Net Surplus?

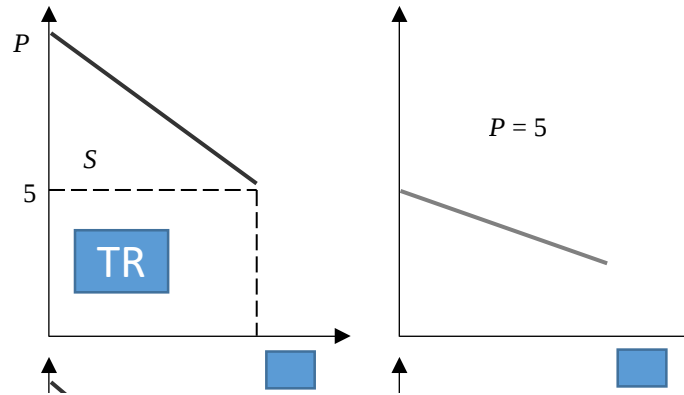
Min 30 and max 60 euro



The surplus practice – Information goods

Mark-up pricing

$P = (1 + \text{markup}) \times VC$?



Strategy 1 – One only price , $P = 5$

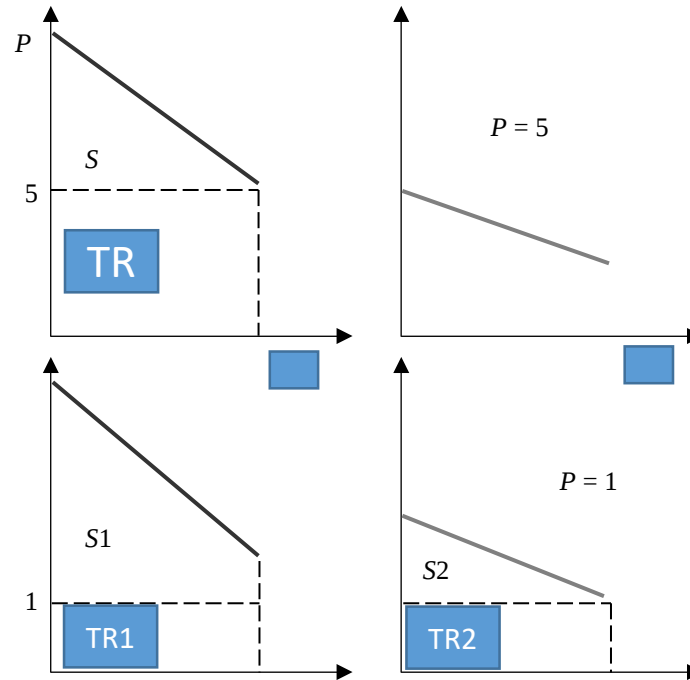
What price strategy to adopt?

The role of the different elasticities of different groups of consumers and the connected market segmentation according to the willingness to pay of consumers.

Information goods: those goods whose content can be digitalized. Like books, datasets, papers, movies, web sites



The surplus practice



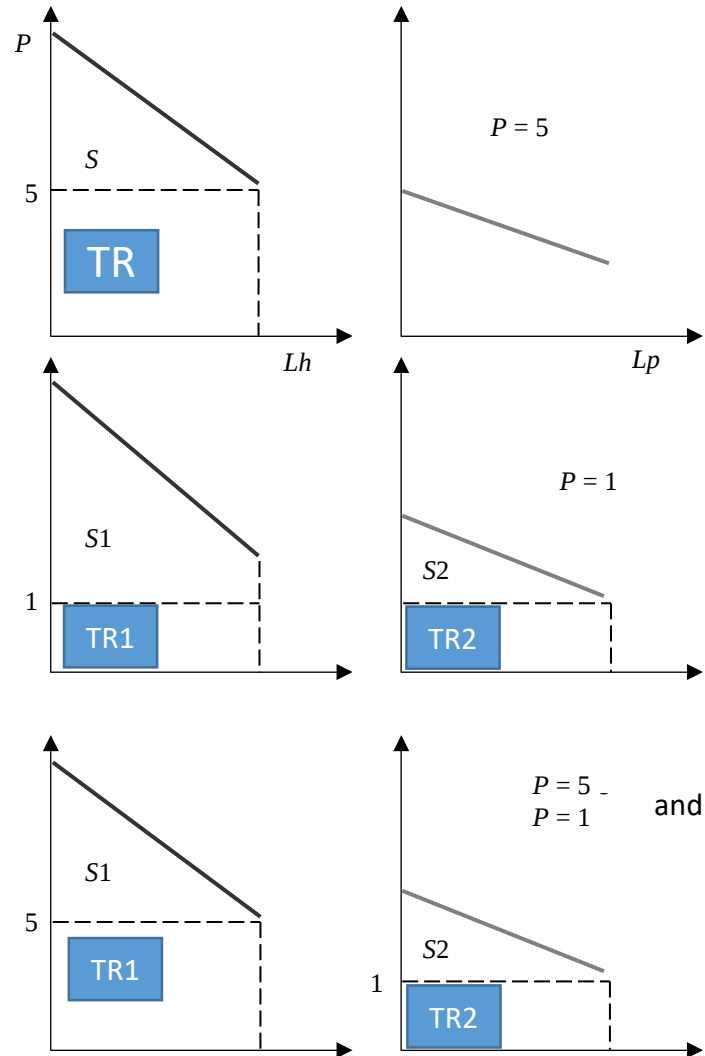
Strategy 2 – One
only price , $P = 1$



The surplus practice

Lh = hardback edition

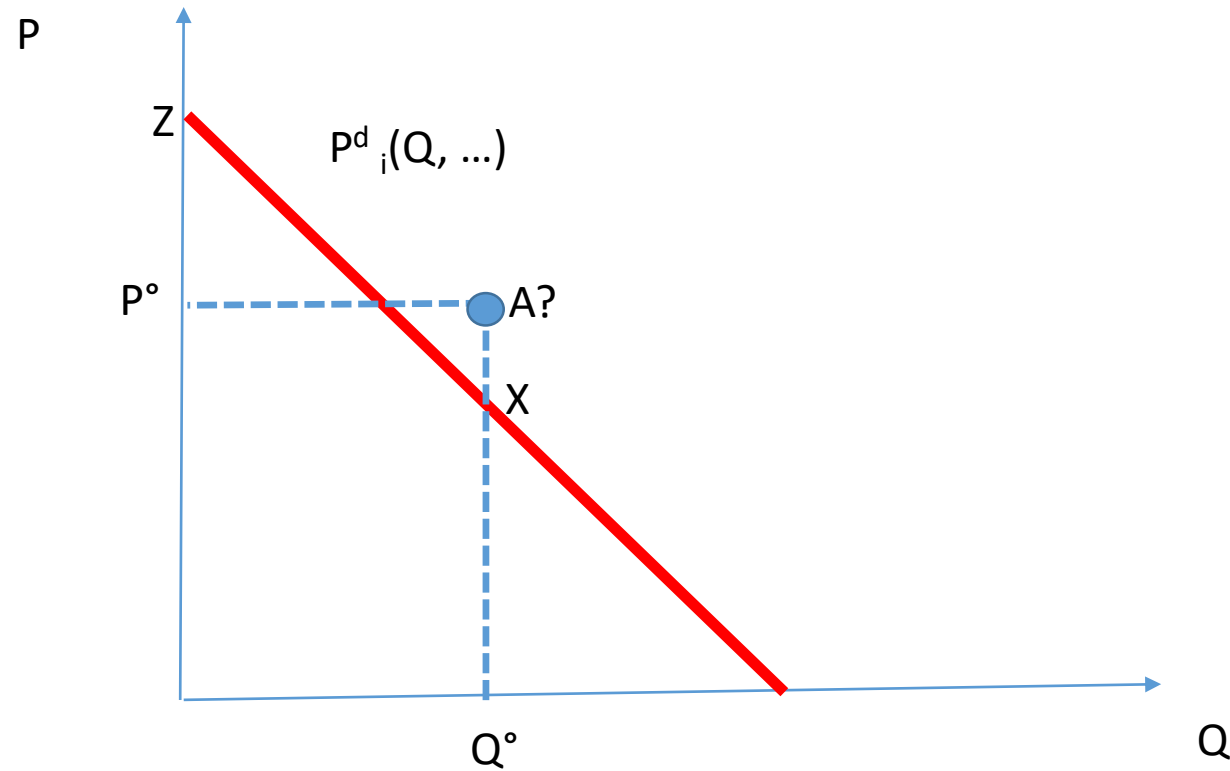
Lp= paperback edition



Strategy 3 – Two prices

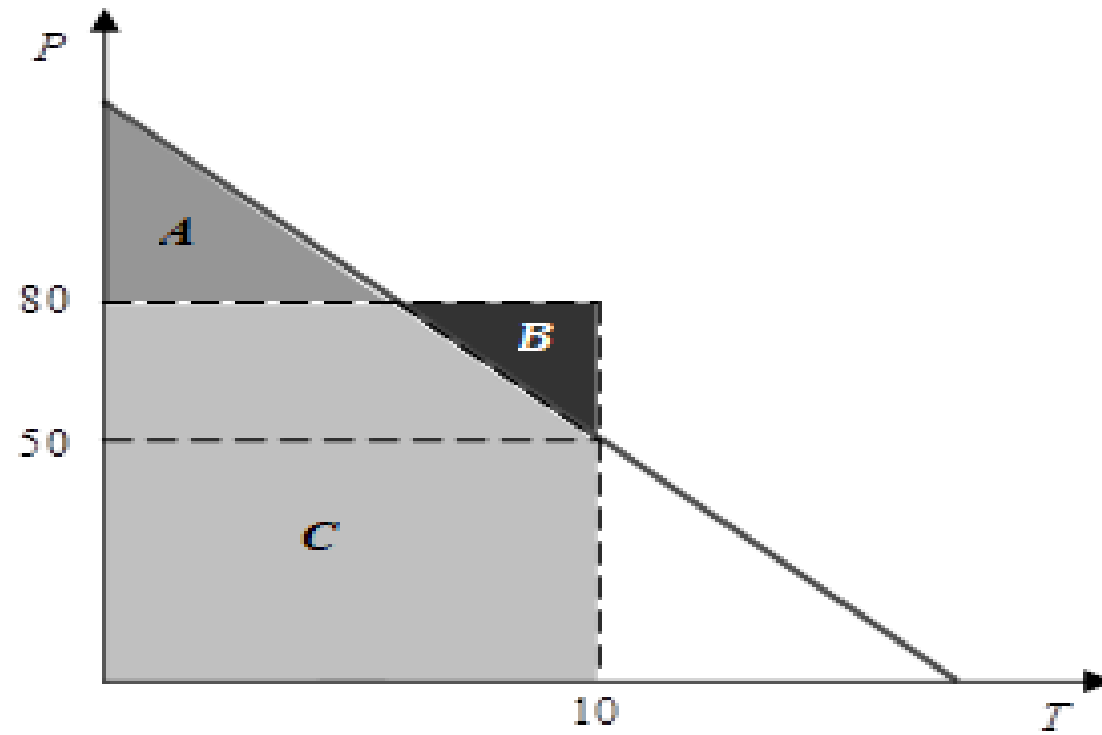


Take it or leave it?





Take it!





What about now?

