Macroeconomics: Micro Fundamentals

White Board Material

Supply & Demand Framework

* Label axes & lines.
* Identify equilibrium values.
* Equilibrium as abstraction under constant buffeting.
* What if P\* too low (too high ) to clear market?

Suppose the government wants to control prices?

* price ceiling on rice? … rent control?
* price support for farm-gate prices?

Cournot (1838) formulation of demand

* D = F(p)
* Y = F(X)
* How to graph?
* Cournot: downward sloping demand under market power … game theory

Marshall (1890) formulation of demand & supply

* underpinning for demand/price relationship: diminishing marginal utility
* underpinning for supply/price relationship: increasing marginal (opportunity) cost
* efficient outcome … subject to perfect competition
* vs orderly outcome from price axis