

# Producer Theory

Lecture 15: Elasticity — Demand Recap & Supply Elasticity

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2026

# Welcome to Economics! 🙌

## Why study Economics? 🤔



Understand government policies



Navigate global markets



Achieve business success



Master supply & demand



Understand inequality



# Introduction

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 **In Canvas:** Syllabus, Calendar, Group Project

 **Schedule:** Thursdays & Fridays

# What is Economics?

## ECONOMICS

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studies how societies use **scarce resources** to produce valuable goods and distribute them among individuals.

Economics as a **social science** uses simplified hypotheses and relates variables to understand economic phenomena.

# What Does Economics Study?



## Institutions & Markets

How technology influences prices and resource allocation



## Finance

Behavior of financial markets and capital flows



## Society

Income redistribution and social welfare



## Cycles

Unemployment, inflation, growth

# The Two (main) Branches of Economics

# Macroeconomics

**The Big Picture** — Studies the economy as a whole



**GDP & Economic Growth**



**Monetary policy**



**Unemployment rates**



**International trade**



**Inflation trends**



**Government budgets**

*Example:* “Why did Portugal’s tourism revenue fall 50% in 2020?”

# Microeconomics

**Individual Decisions** — Studies specific agents and markets



**Consumer behavior**



**Competition analysis**



**Firm decisions**



**Market interactions**



**Pricing strategies**



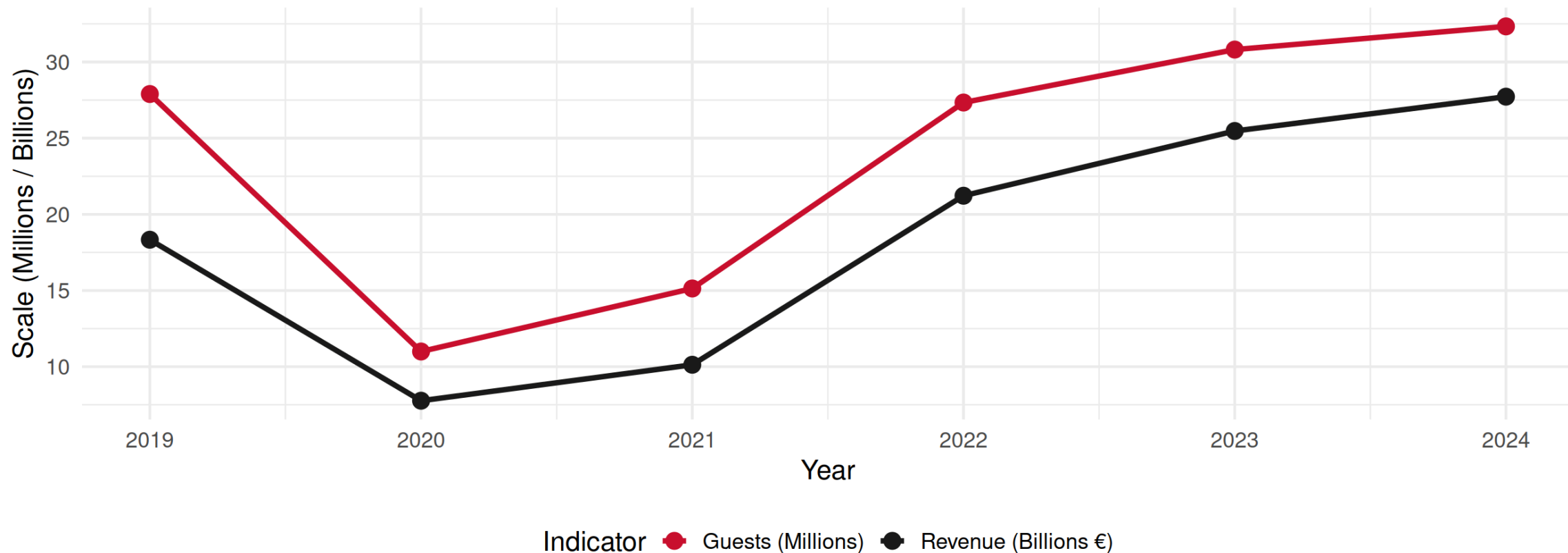
**Supply & Demand**

*Example:* “How should a hotel set its room prices?”

# Macroeconomics in Tourism

## Portugal Tourism Sector (2019-2024)

COVID-19 impact and recovery visible in macroeconomic data

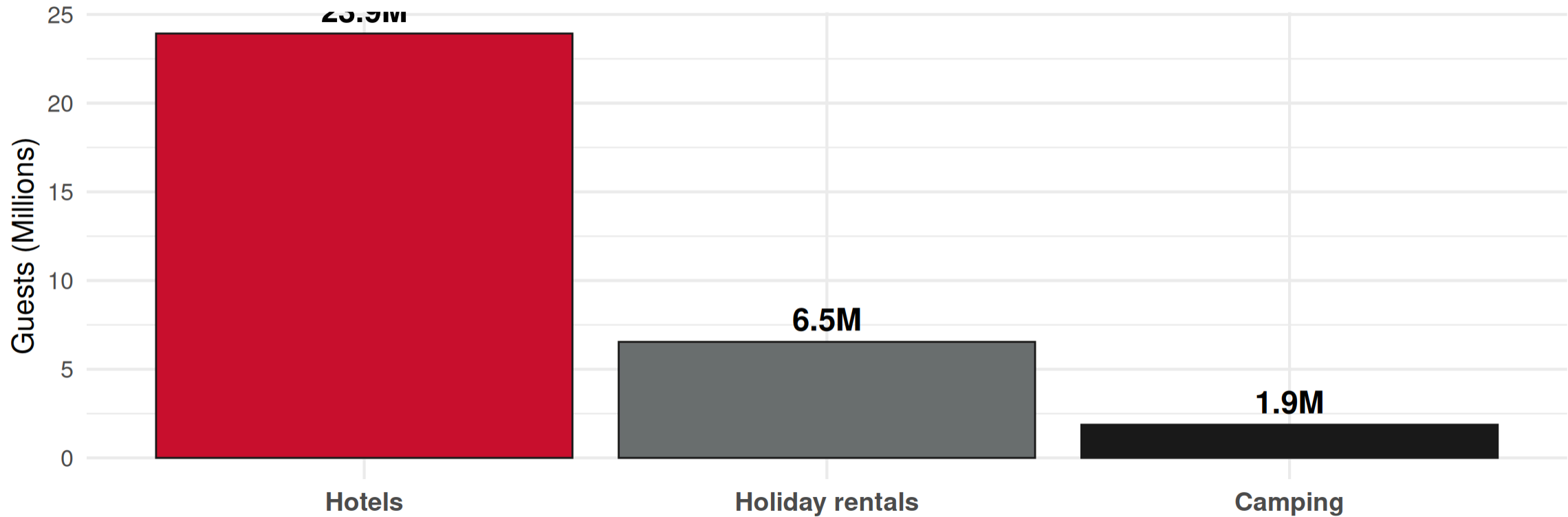


Source: Eurostat (tour\_occ\_arnraw, bop\_its6\_det)

# Microeconomics in Tourism 🏨

## Guests by Accommodation Type — Portugal 2024

Microeconomic analysis: which market segments attract more tourists?



Source: Eurostat (tour\_occ\_arnraw)

# The Fundamental Economic Problem

## SCARCITY

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Human wants are unlimited, but resources are limited


This leads to:

- 👉 **Trade-offs** — Choices involve compromises
- 👉 **Cost-Benefit Analysis** — Act only if benefits exceed costs
- 👉 **Efficiency** — Most effective use of resources

# Scarcity in Tourism: Lisbon Airport

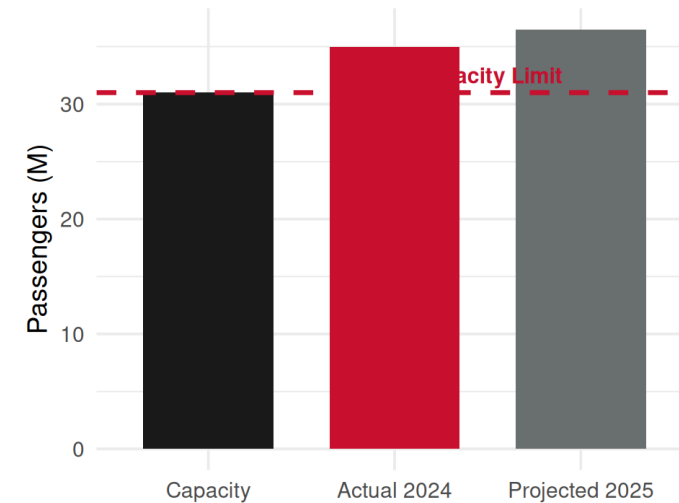
## Capacity Constraints (2024)

 Design capacity: ~31M passengers/year

 Actual 2024: ~35M passengers

 Growing demand, limited slots

**Trade-off:** More flights vs. congestion & delays



*Hypothetical illustration based on news reports*

# Efficiency

## ECONOMIC EFFICIENCY

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Situation where the economy produces and consumes goods at *socially optimal levels*:

- ✓ Getting the most out of available resources
- ✓ Using the least for current consumption level

# Pareto Efficiency

Cannot increase one person's welfare without harming another

## ✓ Efficient allocation

- Resources fully utilized
- No waste in production
- Optimal distribution

## ✗ Inefficient allocation

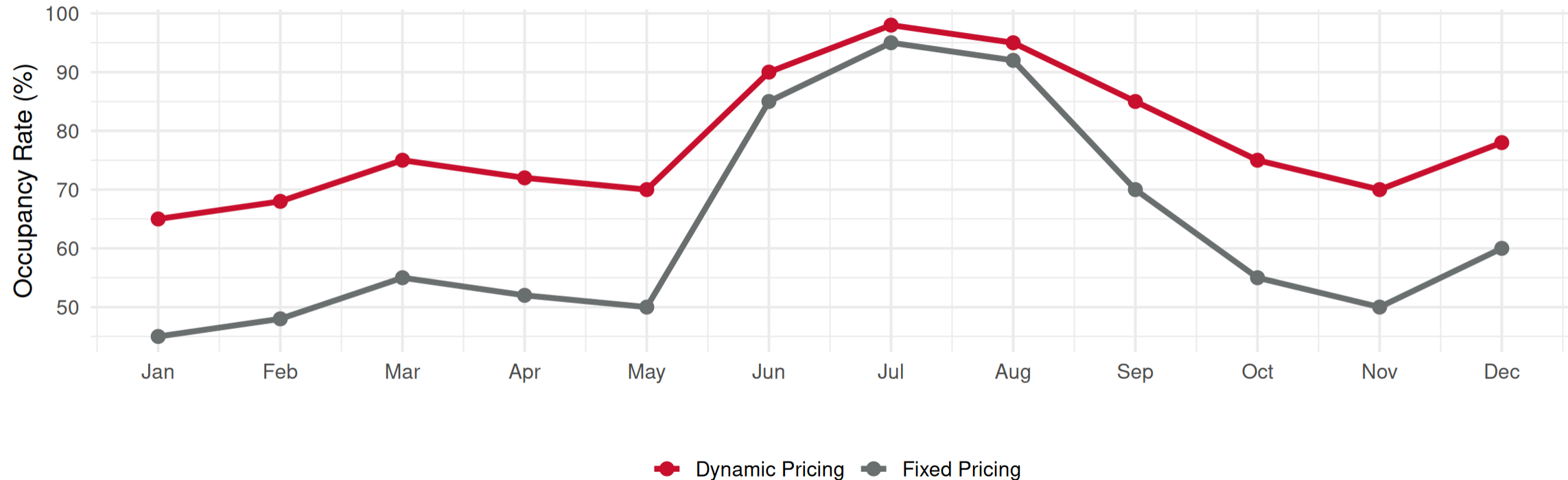
- Resources underutilized
- Production waste exists
- Room for improvement

# Efficiency in Tourism

## Dynamic Pricing Example

### Hotel Occupancy: Fixed vs. Dynamic Pricing

Dynamic pricing improves efficiency through better resource allocation (hypothetical)



# The Three Economic Questions ?

Every economy must answer:

Question	Description	Tourism Example
<b>WHAT?</b>	What goods to produce?	More hotels or museums?
<b>HOW?</b>	How to produce them?	Automated or human agents?
<b>FOR WHOM?</b>	Who gets the output?	Luxury or mass tourism?

*These require decisions based on: resources, technology, preferences, markets*

# Positive vs. Normative Economics

## Positive Economics

**Describes facts** — Can be tested

- Why do managers earn more than cleaners?
- Does tourism increase local incomes?
- What happens to prices in high season?

 *Answered with data and analysis*

## Normative Economics

**Value judgments** — Opinions

- Should government limit Airbnb?
- Should tourism revenue be redistributed?
- Should airlines reduce emissions?

 *Requires ethical/political debate*

# Key Concepts Summary

Concept	Definition
<b>Economics</b>	Study of scarce resource allocation
<b>Macroeconomics</b>	Whole economy (GDP, inflation)
<b>Microeconomics</b>	Individual decisions (firms, consumers)
<b>Scarcity</b>	Unlimited wants, limited resources
<b>Efficiency</b>	Optimal resource use (no waste)
<b>Trade-off</b>	Giving up one thing for another

# Exercises

**Time for practice!**

Let's test your understanding.

# Exercise 1: Multiple Choice

Which of the following is a MACROECONOMIC question?

- A. How should a hotel set its room prices?
- B. Why did Portugal's tourism revenue fall in 2020?
- C. Should a restaurant hire more waiters?
- D. How do travelers choose between two airlines?

**Answer: B** — Portugal's tourism revenue is an aggregate measure affecting the entire economy.

## Exercise 2: Multiple Choice

A museum has limited exhibition space. Choosing between a modern art or historical exhibition illustrates:

- A. Efficiency
- B. Scarcity
- C. Positive economics
- D. Macroeconomics

**Answer: B** — Limited space (scarce resource) forces a choice between alternatives.

## Exercise 3: Open Question

**Scenario:** A low-cost airline charges €50/ticket, sells 150 tickets (capacity: 180).

### Questions:

- a. Calculate current revenue per flight
- b. If price increases to €60, demand falls to 120 tickets. Calculate new revenue.
- c. Which pricing is more efficient? Why?
- d. Is this microeconomic or macroeconomic analysis?

# Exercise 3: Solution

a) Current revenue:

$$\text{Revenue} = 50 \times 150 = \text{€}7,500$$

b) New revenue:

$$\text{Revenue} = 60 \times 120 = \text{€}7,200$$

c) Efficiency:

- €50 price: Revenue €7,500, occupancy 83%
- €60 price: Revenue €7,200, occupancy 67%


👉 **First is more efficient:** higher revenue AND better utilization

d) This is **microeconomic** analysis (individual firm's decision)

# Next Lecture

**Lecture 2** (February 6, 2026):

- Three Fundamental Economic Problems (detailed)
- Market, Centralized, and Mixed Economies
- Economic Systems Comparison

 **Preparation:** Think about how tourism businesses make decisions in different economic systems!

**Thank You!** 🙌

**Questions?**

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*Next class: Friday, February 6, 2026*