

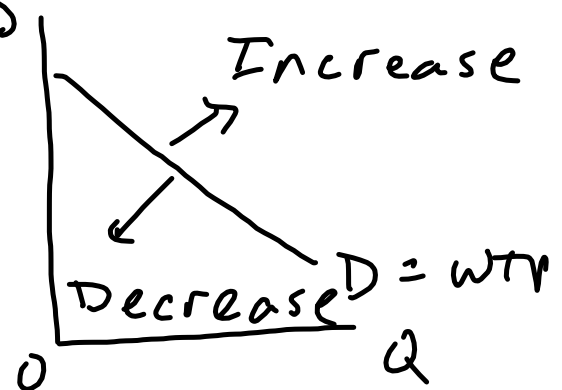
Markets - Chap 4 & 6 (examples)

Markets 2 sides to exchange

Demand - WTP - willingness to pay P

Law of Demand

- Shift - Income
 Tastes
 Prices of related goods
 Expectations

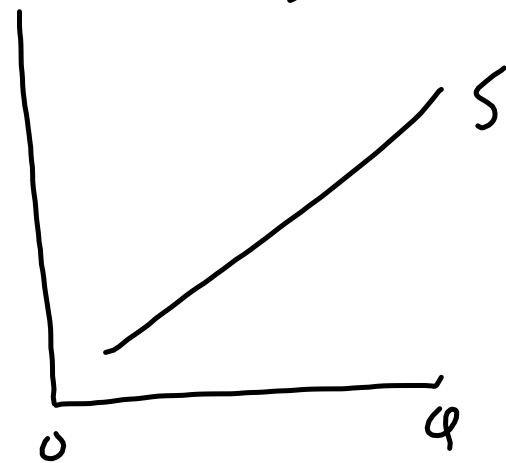


Supply - seller willingness to accept (WTA)

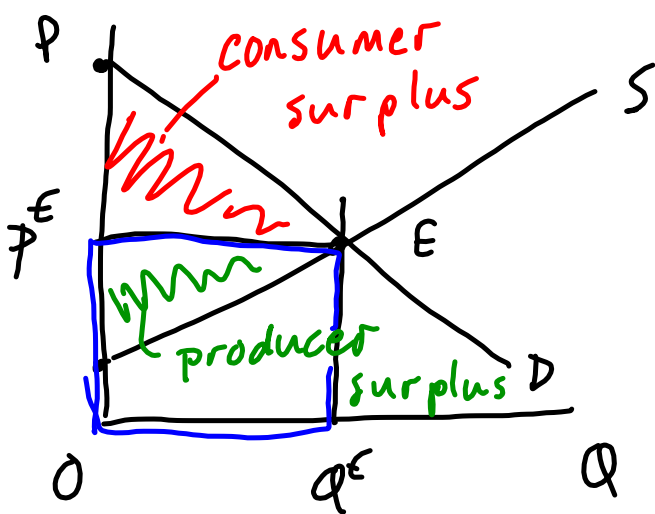
- Law of Supply $P \rightarrow P \uparrow \downarrow Q_s \uparrow \downarrow$

Shift -

- cost of inputs - cost of production
- technology - production
- expectations
- number of suppliers



D + S - Buyers + Sellers



- equilibrium
E

at E: $WTP = WTA$
 → with no exogenous shocks
 market stays at P^E + Q^E

for units 0 to Q^E $WTP > WTA$
 $(WTP - WTA)$ for all Q to Q^E
 gains from trade

Value of market

national income accounts - GDP

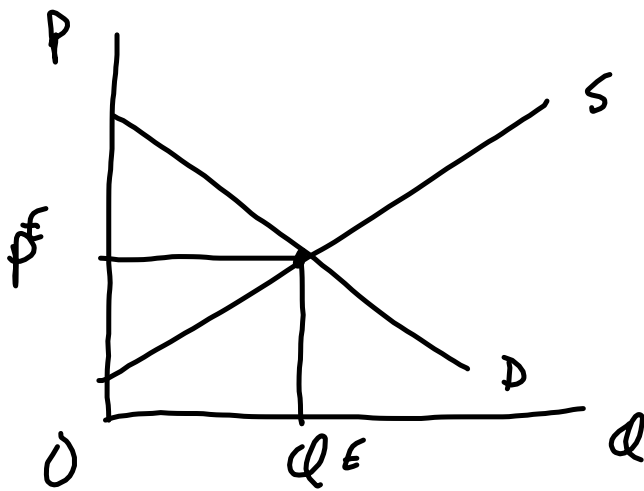
$P^E \times Q^E$ - total spent on good.

markets generate surplus

CS + PS

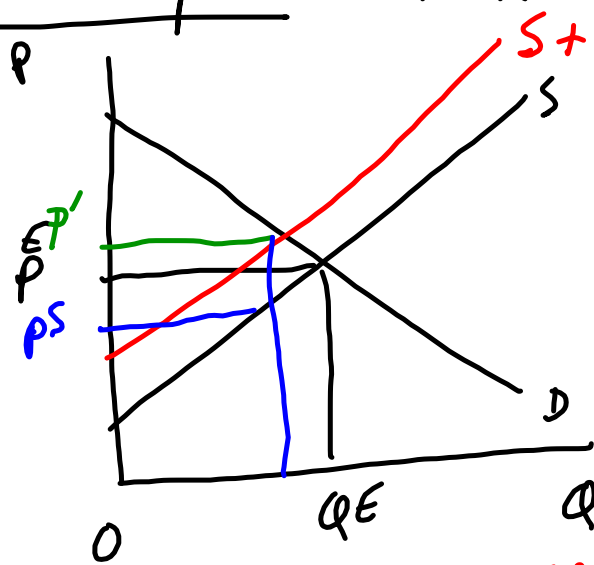
If make market go away - loss is
CS + PS.

create market - gain CS + PS



- answer questions regarding shocks to economy
 - comparative statics
 Before + After Equilibrium Equil.

Examples - tax - unit excise tax



- * - gas tax
- cig tax.
- % of value tax
- sales tax
- import tax
- royalty
- depletion] tax

gas tax - cost so WTA ↑

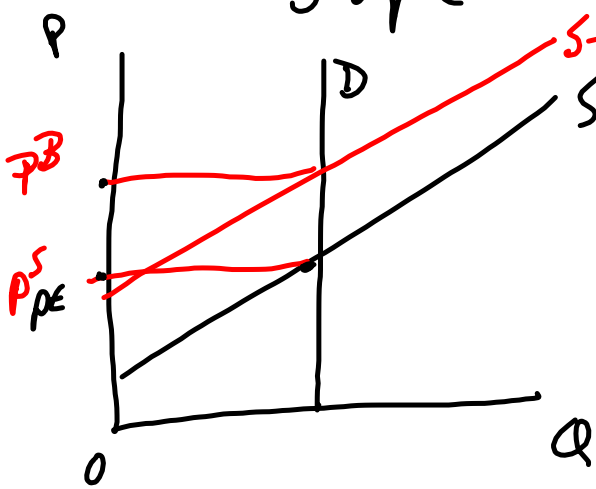
Buyers pay P' seller nets P^S

$(P' - P^S) = \pm \text{tax}$

Buyer pays $P' - P^E$
 Seller pays $P^E - P^S$

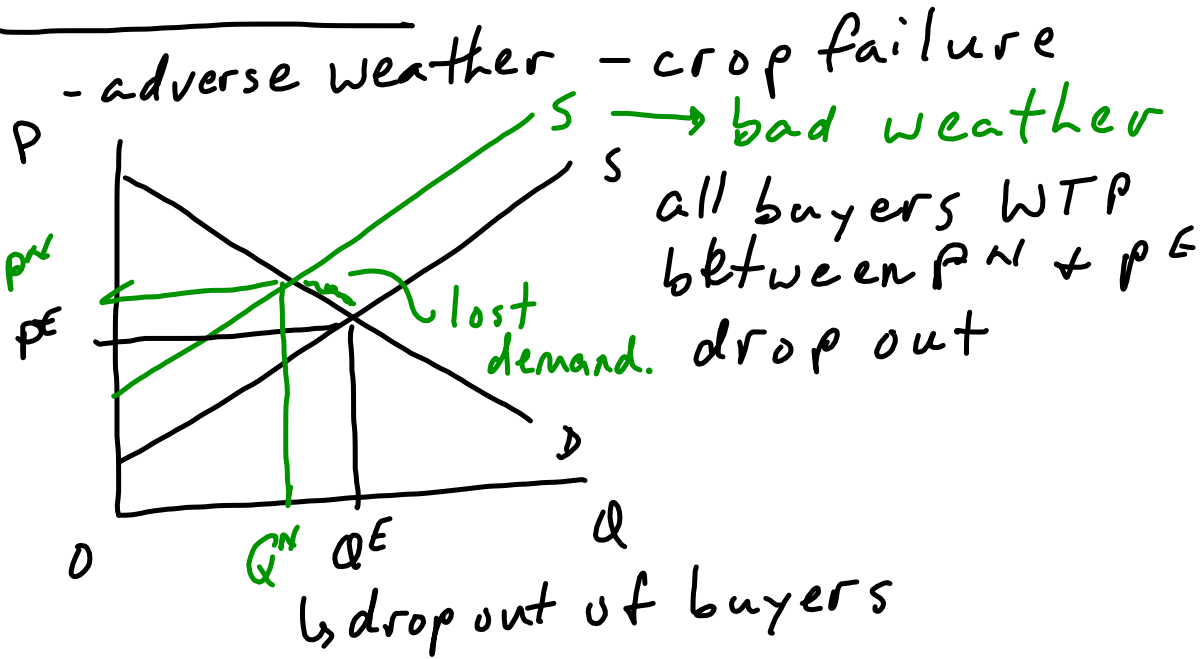
Incidence - Who pays?

Share of tax - depend on relative slope of $S + D$

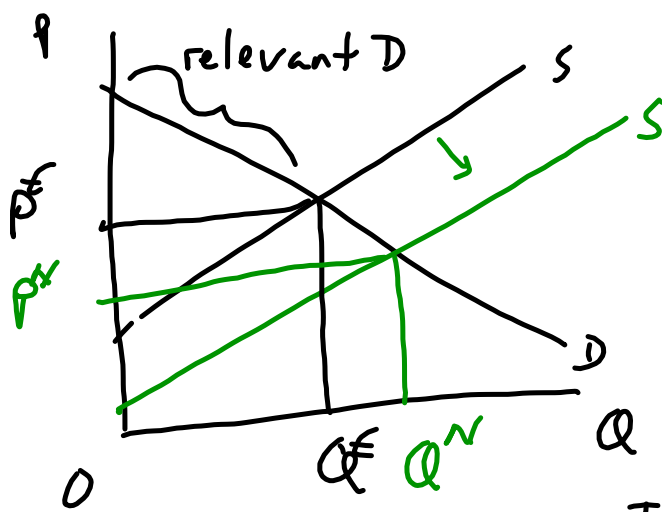


$P^B - P^S = \text{tax}$
all tax borne by buyer.

other shocks



"Green Revolution" - lower cost of



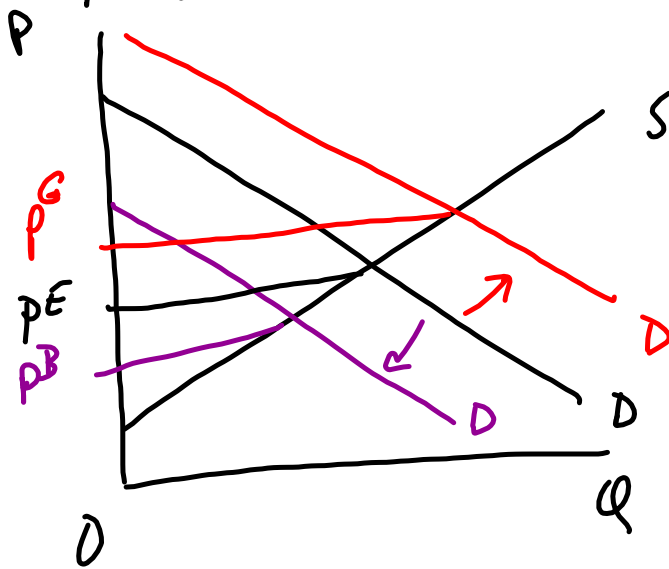
producing
crops
add D with
lower price.

Mechanization - ^{JD} Kubota.

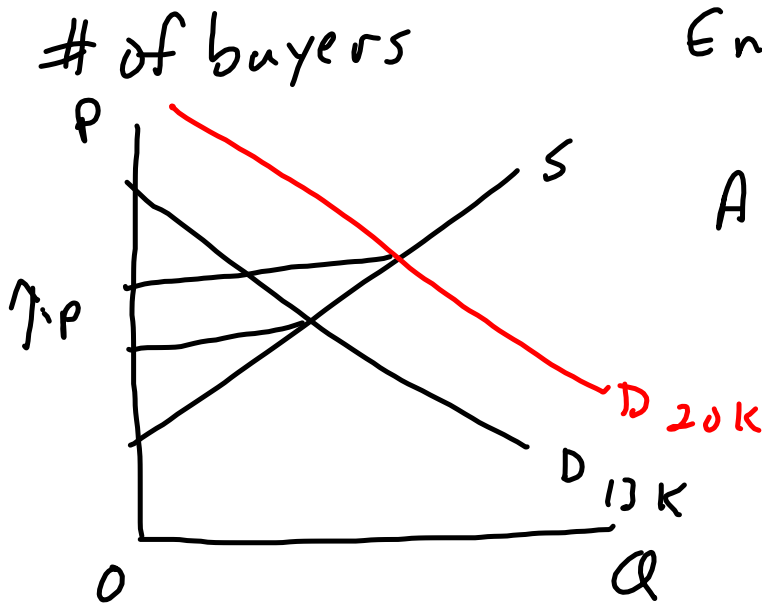
↳ lowers cost.

Fertilizers - electricity.

D. shocks - tastes - information
badvertizing
publicly
provided.
perception of value
to consumer.



beneficial good
bad good.
valid info.



Enrol - 13,000

20,000

A SU off campus parking

