

OUTLINE — September 11, 2017

- Model of Supply and Demand, continued
 - Supply
 - Equilibrium
 - Change of Equilibrium
 - Adjustment Process
- The Price Mechanism

*Fill in the empty seats
Laptops closed; Cell phones silenced & put away*

*Announcements sent by e-mail
Extra handouts: in racks outside 532 Evans*

Supply Equilibrium Change of Equilibrium Price Mechanism

Supply

- For a particular product, what quantity will be offered for sale at each of many prices?
 - Individual firm supply
 - Market supply

Supply Equilibrium Change of Equilibrium Price Mechanism

Again, need more information

- Define market precisely
 - product characteristics
 - time period
- Make assumptions explicit
 - When I ask about response to change in price, assume
 - 1.
 - 2.
 - 3.
 - 4.
- "*Ceteris Paribus*" = "holding all else constant"

Supply Equilibrium Change of Equilibrium Price Mechanism

Supply Curve



Supply Equilibrium Change of Equilibrium Price Mechanism

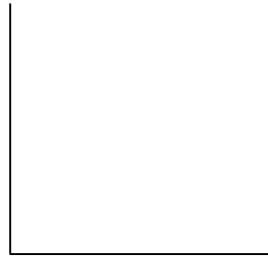
p and q_s are Directly Related

- Terminology important!
 - ✓ Supply
 - ✓ Quantity Supplied

Supply Equilibrium Change of Equilibrium Price Mechanism

Change in Input Costs

- ↑ cost of input



Supply Equilibrium Change of Equilibrium Price Mechanism

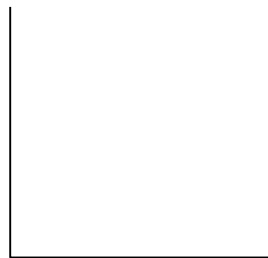
What Shifts Supply?

- $\Delta p \Rightarrow$ *MOVE ALONG* curve
- Δ anything else \Rightarrow *SHIFT OF* curve
- What shifts Supply? Recall our assumptions!
- If any of these things change, supply shifts
 - 1.
 - 2.
 - 3.
 - 4.

Supply Equilibrium Change of Equilibrium Price Mechanism

Change in Technology

- better technology



Supply Equilibrium Change of Equilibrium Price Mechanism

Change in price of “related products”

- Substitutes in production (either – or)



- ↑ price of substitute output

Supply Equilibrium Change of Equilibrium Price Mechanism

Change in price of “related products”

- Complements in production (by-products)



- ↑ price of complement output

Supply Equilibrium Change of Equilibrium Price Mechanism

Change in # of Sellers

- ↑ # of sellers



Supply Equilibrium Change of Equilibrium Price Mechanism

Market Equilibrium

- When price is at its equilibrium, quantity demanded equals quantity supplied
 - When $p = p^*$, $q_D = q_S$ (p^* stands for “equilibrium price”)



Supply Equilibrium Change of Equilibrium Price Mechanism

Adjustment Process

- If $p < p^*$
- If $p > p^*$

Supply **Equilibrium** Change of Equilibrium Price Mechanism

Change of Equilibrium

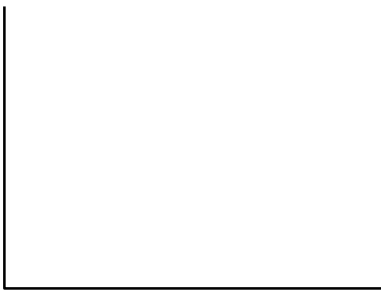
- Δ Demand or Δ Supply occurs when a "ceteris paribus" assumption is violated

Demand shifters

Supply shifters

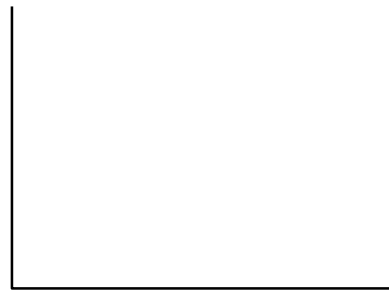
Supply Equilibrium **Change of Equilibrium** Price Mechanism

Heat Wave & California Wine



Supply Equilibrium **Change of Equilibrium** Price Mechanism

CA houses



Supply Equilibrium **Change of Equilibrium** Price Mechanism

Scalped 'Hamilton' Tickets



Supply Equilibrium **Change of Equilibrium** Price Mechanism

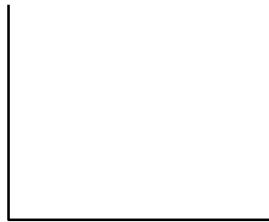
Example: We want more Bluetooth speakers



Supply Equilibrium Change of Equilibrium **Price Mechanism**

Price Mechanism

- *Positive* economic analysis
- Determines
 - What is produced
 - "Consumer Sovereignty"
 - For whom



Supply Equilibrium Change of Equilibrium **Price Mechanism**

Bottled Water after Katrina



Supply Equilibrium Change of Equilibrium **Price Mechanism**

Fairness of distribution (equity)

- *Normative* economic analysis
- “Price-gouging”

Supply Equilibrium Change of Equilibrium **Price Mechanism**

Bottled H₂O: Utility or Ability to Pay?

- Utility
 - A measure of satisfaction we derive from consuming a good
- If I'm willing to pay \$20 and you're willing to pay \$1, do I necessarily derive more utility?

Supply Equilibrium Change of Equilibrium **Price Mechanism**

Who gets bottles of water?

- Price rationing
- Non-price rationing

Supply Equilibrium Change of Equilibrium **Price Mechanism**