## OUTLINE — September 12, 2018

- Price Mechanism
  - The Normative Question
  - Non-price rationing mechanisms
- Price Ceilings & Price Floors
- Consumer & Producer Surplus
- Taxes, Burdens, and Deadweight Loss

Midterm #1: Thurs evening 9/27, two weeks from tomorrow
Read the old midterms yet?

Video I made Fall 2017, expands on last item above,
URL is on syllabus

Bottled Water after Katrina
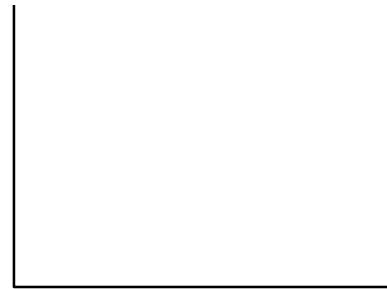
Fairness of distribution (equity)

- *Normative* economic analysis

- "Price-gouging"

Bottled H_2O: 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?

Who gets bottles of water?

- Price rationing

- Non-price rationing

Not equilibrium: Price Ceiling
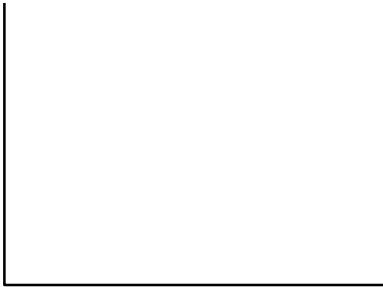
Not equilibrium: Price Floor

Consumer Surplus

- Compares
  -
  -
- *Difference* between the two is called *"consumer surplus"* (CS)

> NOTE!!!   This is different definition of "*surplus*" than "market *surplus* = $q_s - q_d$"

Consumer Surplus

Producer Surplus

- Compares
  - **Minimum** price sellers are willing to accept
  - Price sellers actually receive
- *Difference* between the two is called *"producer surplus"* (PS)

Producer Surplus

Markets Maximize Total Surplus

- When price is determined by the market, total surplus is maximized

Effect of a Tax Increase

- Sales or excise tax

    - If tax is remitted to government by seller

    - If tax is remitted to government by buyer

- *Same result either way*
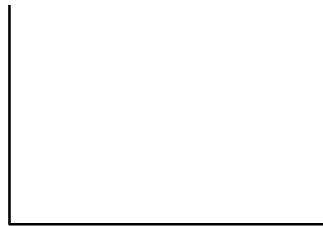
Price Mechanism   Ceilings & Floors   Consumer & Producer Surplus   **Taxes**

Effect of a Tax Increase

- Sales or excise tax

Price Mechanism   Ceilings & Floors   Consumer & Producer Surplus   **Taxes**

Burden of a Tax

- Tax on an item increases its price
    - But not by the full amount of the tax

- Who "bears the (greater) burden" of the tax?
    - Definition: Burden = % of tax paid

Price Mechanism   Ceilings & Floors   Consumer & Producer Surplus   **Taxes**

Slopes and "who bears burden"

Price Mechanism   Ceilings & Floors   Consumer & Producer Surplus   **Taxes**

Slopes and "who bears burden"

Surplus Falls with Tax Increase