OUTLINE — September 11, 2019

- Trade: Winners, Losers, and Opposition
- Economic Systems
- Model of Supply & Demand (watch the videos too!)
  - Demand
  - Supply
  - Equilibrium

Fill in the empty seats

PS1 due tomorrow 8pm via Gradescope <u>and</u> bcourses

Announcements sent by e-mail

Extra handouts: in racks outside 532 Evans

Gains from Trade

- "Gains": increases in total output possible when there is trade instead of self-sufficiency
  - Gain in rice? 100 units of rice
  - Gain in corn? 180 units of corn
- Does <u>everyone</u> gain?
- Or, are costs borne unevenly?

Should there be specialization?

- It's a *normative* question!
  - What's the goal?

U.S. comparative advantage: higher education
Japan comparative advantage: cars

- <u>Other goals</u> economies might have can make specialization <u>a bad idea</u>

Opposition to Trade

- Some causes of opposition
- How restrict trade (trade protection policies)

Who decides: What, How, For Whom?

- Depends upon the "Economic System"
  - Command Economy
  - Laissez-Faire Economy
    - Commonly called free or open market system
    - "Consumer Sovereignty"
  - Mixed Economy

Watch the videos…

- There are several slides that you are downloading that will <u>not</u> be covered in lecture.
- The links to the youtube videos are in the syllabus
- Also there's a link to all Olney youtube videos on Olney's homepage: http://www.econ.Berkeley.edu/~olney

Model of Demand & Supply

- Question
  What determines the price & quantity of a product?
- Simplifications
  2 groups: "Buyers" and "Sellers"
- Assumptions
  ✓ Buyers do what maximizes satisfaction ("utility")
  ✓ Sellers do what maximizes profit

Demand

- For a particular product, what quantity will buyers be willing and able to buy at each of many prices?
- A question for you
  - If jeans cost $5, how many pairs would you buy?
  - What if instead, p = $400 ?

Need more information

- Define market precisely
  - product characteristics
  - time period
- Make assumptions explicit
  - When I ask about response to change in price, assume only price is changing
    - income constant
    - wealth constant
    - all other prices constant
    - preferences constant
    - expectations constant
  - *"Ceteris Paribus"* = "holding all else constant"

Demand for new jeans

p and q_D are Inversely Related

- Terminology
  - Individual Demand
  - Market Demand
- "Law of Demand"
- More Terminology – *very important!*
  - Demand
  - Quantity Demanded

Change in Income: Normal Good

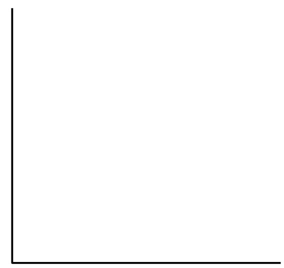
- ↑ Buyer Income

What shifts Demand?

- Δ price ⇒ *MOVE ALONG* curve
- Δ anything else ⇒ *SHIFT OF* curve
- What shifts demand? Recall our assumptions!
- If any of these things change, demand shifts
  - income of buyers
  - wealth of buyers
  - all other (relevant) prices
  - buyer preferences
  - buyer expectations

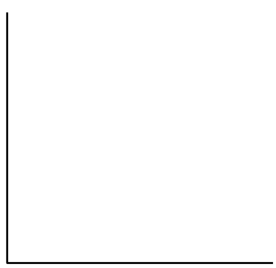
Change in Income: Inferior Good

- ↑ Buyer Income



Change in Wealth: Normal Good

- ↑ Buyer Wealth



A Different Example

- Instead, think about demand for a 50-yardline alumni-section ticket to the Cal-Stanford football game.

Complements	**Substitutes**

Change in "Other Prices"

- Complements in Demand:
  - ↓ P of complement

Change in "Other Prices"

- Substitutes in Demand:
  - ↑ P of substitute

Change in Preferences

- Preference shifts away from good:

Supply

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

Again, need more information

- Define market precisely
    - product characteristics
    - time period
- Make assumptions explicit
    - When I ask about response to change in price, assume
        - all input costs constant
        - technology constant
        - prices of related products constant
        - # of sellers constant
- "*Ceteris Paribus*" = "holding all else constant"

Supply Curve

p and q_S are Directly Related

- Terminology important!
    - ✔ Supply
    - ✔ Quantity Supplied

Change in Input Costs

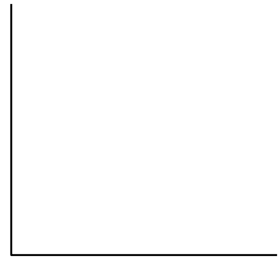
- ↑ cost of input

What Shifts Supply?

- Δ p ⇒ *MOVE ALONG* curve
- Δ anything else ⇒ *SHIFT OF* curve
- What shifts Supply? Recall our assumptions!
- If any of these things change, supply shifts
  - input costs
  - technology
  - prices of related products
  - # of sellers

Change in Technology

- better technology



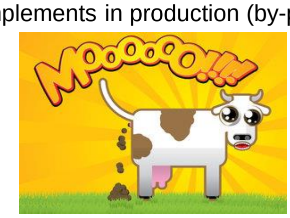
Change in price of “related products”

- Substitutes in production (either – or)

  - ↑ price of substitute output

Change in price of “related products”

- Complements in production (by-products)



  - ↑ price of complement output

Change in # of Sellers

- ↑ # of sellers