

## Problems Done on Overhead

Ordinarily, it will not be possible for me to prepare slides of the problems done on overhead.

However, you need to be able to see them!

So, you need to tell me when the projector is out of focus!!!

		American	
		Raise	Leave Same
United	Raise	A gets \$5500 U gets \$5500	A gets \$2000 U gets \$8000
	Leave Same	A gets \$8000 U gets \$2000	A gets \$6000 U gets \$6000

United's Decision:

If A plays R, U plays R  
Since  $5500 > 2000$

If U plays R, A plays L

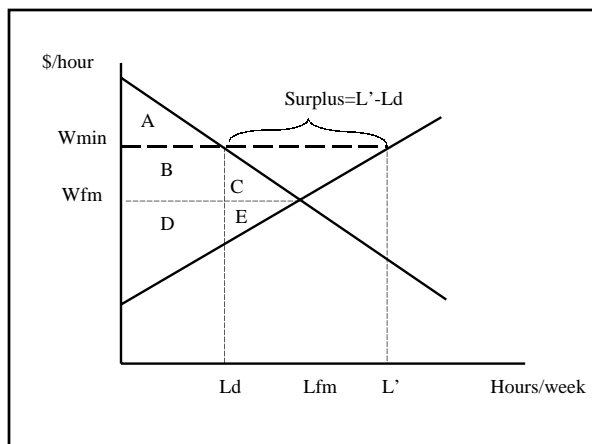
American's Decision

If A plays L, A plays L

If U plays L, A plays L

Example of PD game, R dominant for A & U.  
Would be better off with each playing L

Show the Change in CS, PS and any DWL from a price support, such as minimum wage.



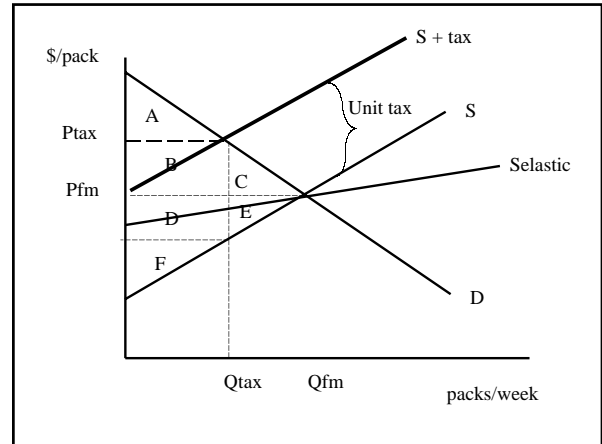
### Price Support: Change in Surplus

	Free Market	Min Wage
CS	A + B + C	A
PS	D + E	B + D
Total	A+B+C+ D+E	A+B+D

Change = Support - Free = - C - E  
Waste is DWL = C+E

## Problems Done on Overhead

Show change in PS, CS and any DWL on a tax on cigarette consumption. Discuss the effect of elasticity of supply.



**Tax: Change in Surplus**

	<u>Free Market</u>	<u>Tax</u>
CS	A + B + C	A
PS	D + E + F	F
Govt	0	B + D
Total	A + B + C + D + E + F	A + B + D + F

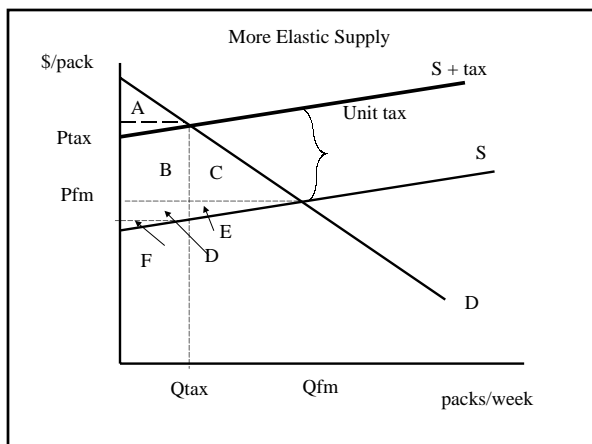
Change = Tax - Free = - C - E  
Waste is DWL = C + E

With more elastic supply expect more burden of tax to fall on consumer. After-tax price rises relatively more.

(Recall extreme case of perfectly elastic supply, to help remember. I do.)

With more elastic supply, get more distortion. Get higher DWL.

Summary slide from lecture 4 included at end.



**Burden & DWL (Lec 4)**

Distortion: Change in Behavior due to tax

Tax reduces quantity demanded (except inelastic)

Lower distortion gets lower DWL.

Quantity falls more for elastic demand & supply  
Quantity falls less for inelastic demand & supply

Burden: Reduction in surplus from tax

Price rises more, more burden on consumer  
Inelastic demand, Elastic Supply  
Price rises less, more burden on producer  
Elastic Demand, Inelastic Supply