

## OUTLINE — September 16, 2019

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

*Laptops closed; Cell phones silenced & put away*

*PS2 distributed; due Sept. 26*

*Announcements sent by e-mail*

*Extra handouts: in racks outside 532 Evans*

## Watch the videos...

- **There are several slides that you are downloading that will not be covered in lecture.**
  - **I've tried to indicate which ones are "video only" by putting title slide in red**
- 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>

Economic Systems    Demand    Supply    Equilibrium

## 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 (in video)

- 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    Equilibrium    Change of Equilibrium    Price Mechanism

## Supply Curve



Supply      Equilibrium      Change of Equilibrium      Price Mechanism

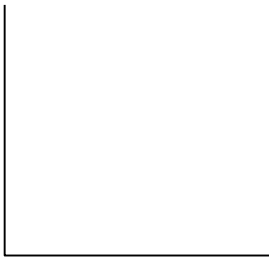
## p and $q_s$ are Directly Related (in video)

- Terminology important!
  - ✓ Supply
  - ✓ Quantity Supplied

Supply      Equilibrium      Change of Equilibrium      Price Mechanism

## Change in Input Costs

- ↑ cost of input



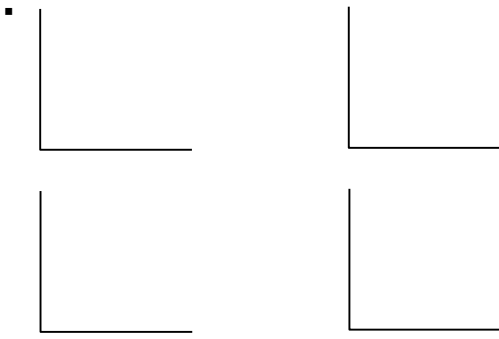
Supply      Equilibrium      Change of Equilibrium      Price Mechanism

## What Shifts Supply? (in video)

- $\Delta p \Rightarrow$  *MOVE ALONG* curve
- $\Delta$  anything else  $\Rightarrow$  *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
- **Examples are in the online youtube videos**

Supply      Equilibrium      Change of Equilibrium      Price Mechanism

## Shifts of Supply (watch videos!)



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 (in video)

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

Supply      Equilibrium      Change of Equilibrium      Price Mechanism

## Change of Equilibrium (in video)

- $\Delta$  Demand or  $\Delta$  Supply occurs when a "ceteris paribus" assumption is violated

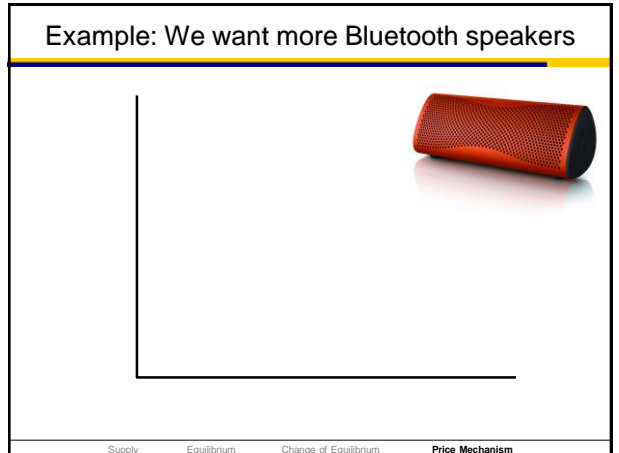
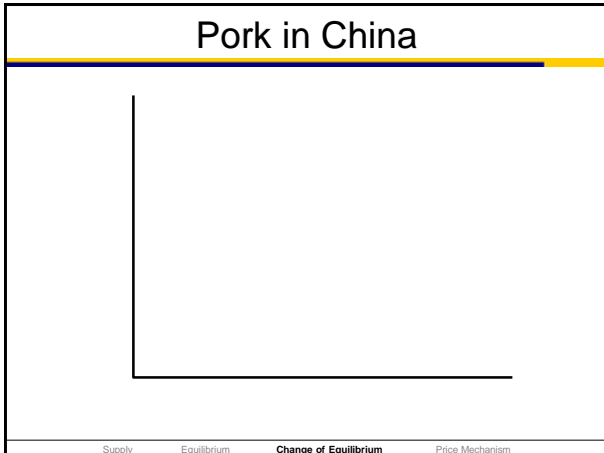
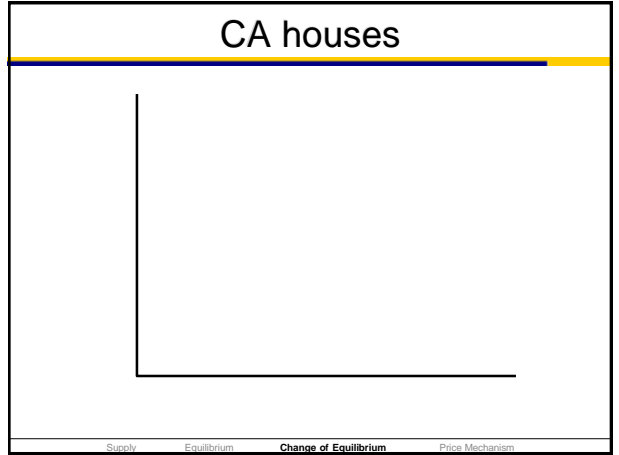
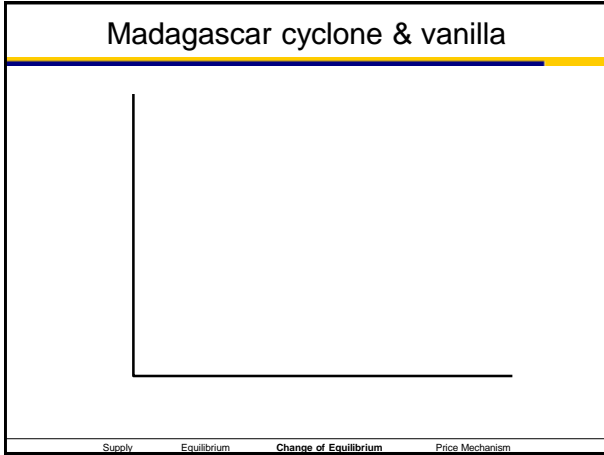
### Demand shifters

- income of buyers
- wealth of buyers
- all other prices
- buyer preferences
- buyer expectations

### Supply shifters

- input costs
- technology
- prices of related products
- number of sellers

Supply      Equilibrium      Change of Equilibrium      Price Mechanism



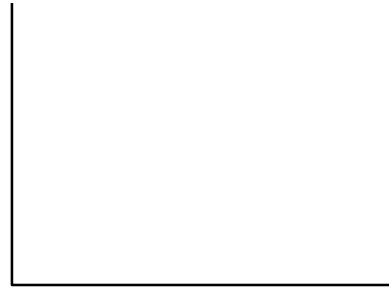
## Price Mechanism

- *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 H<sub>2</sub>O: 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**