

Firms and markets I

MPA 612: Public Management Economics

February 21, 2018

Fill out your reading report on Learning Suite!



Current events

Plan for today

Natural monopolies

Paperclips and equilibria

Changes in supply and demand

Natural monopolies

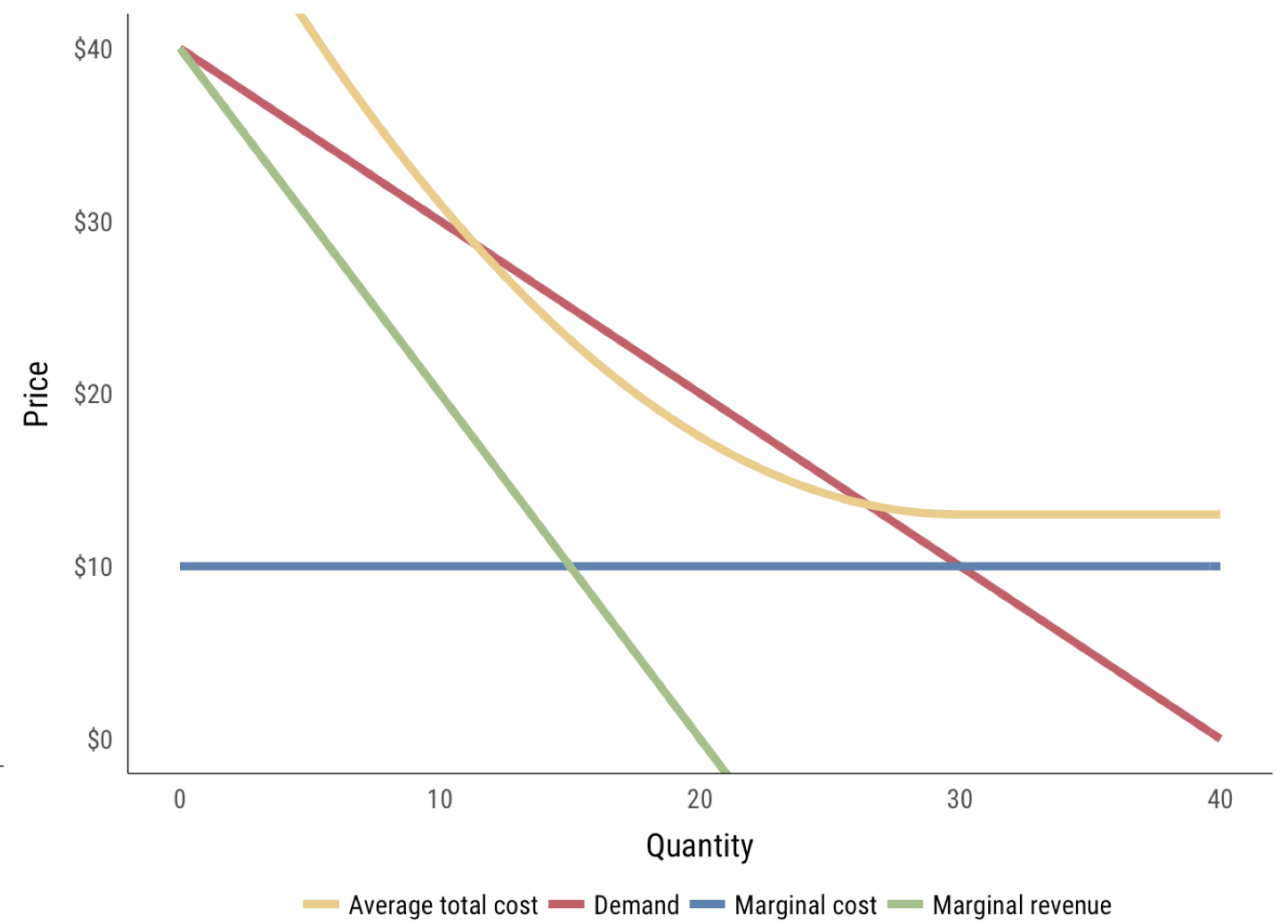
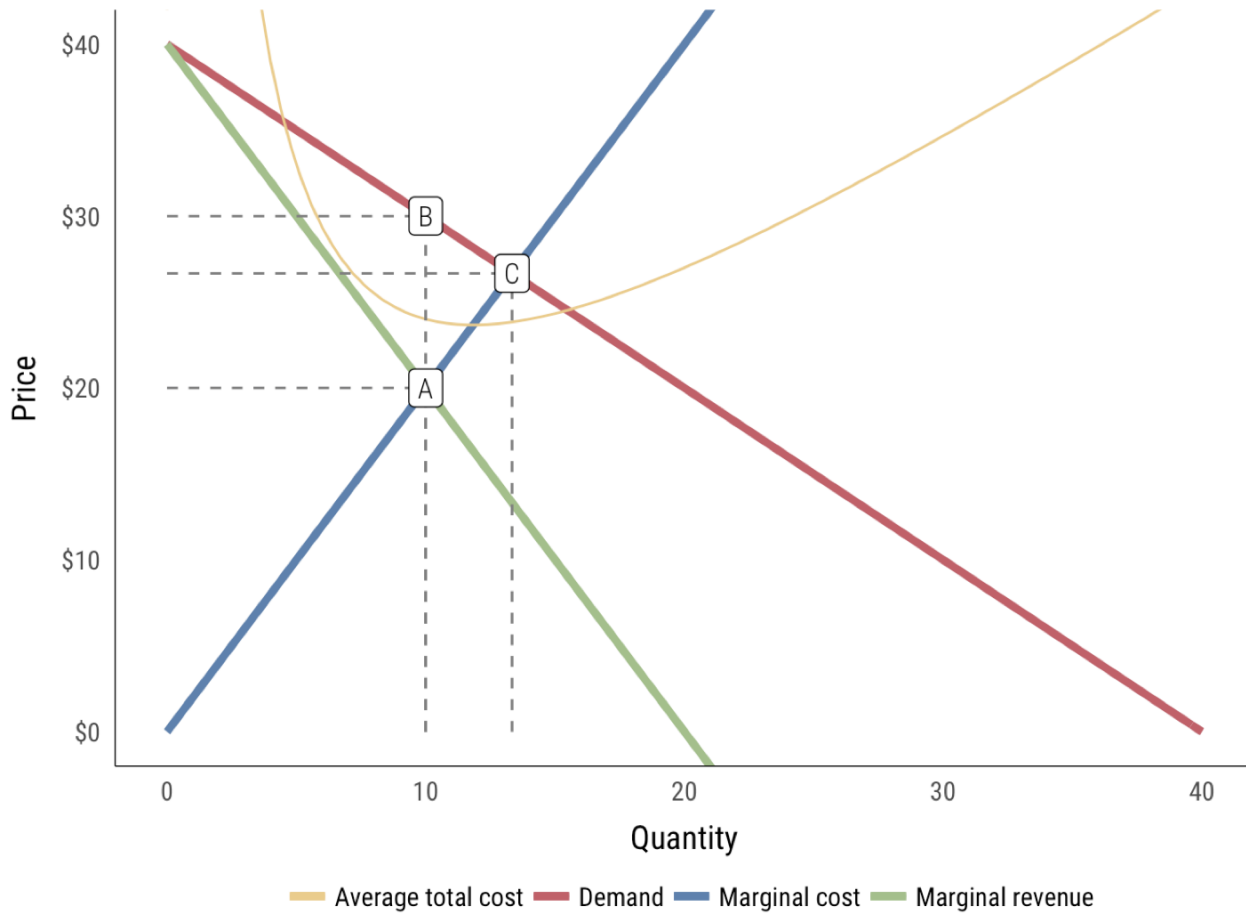
Natural monopolies

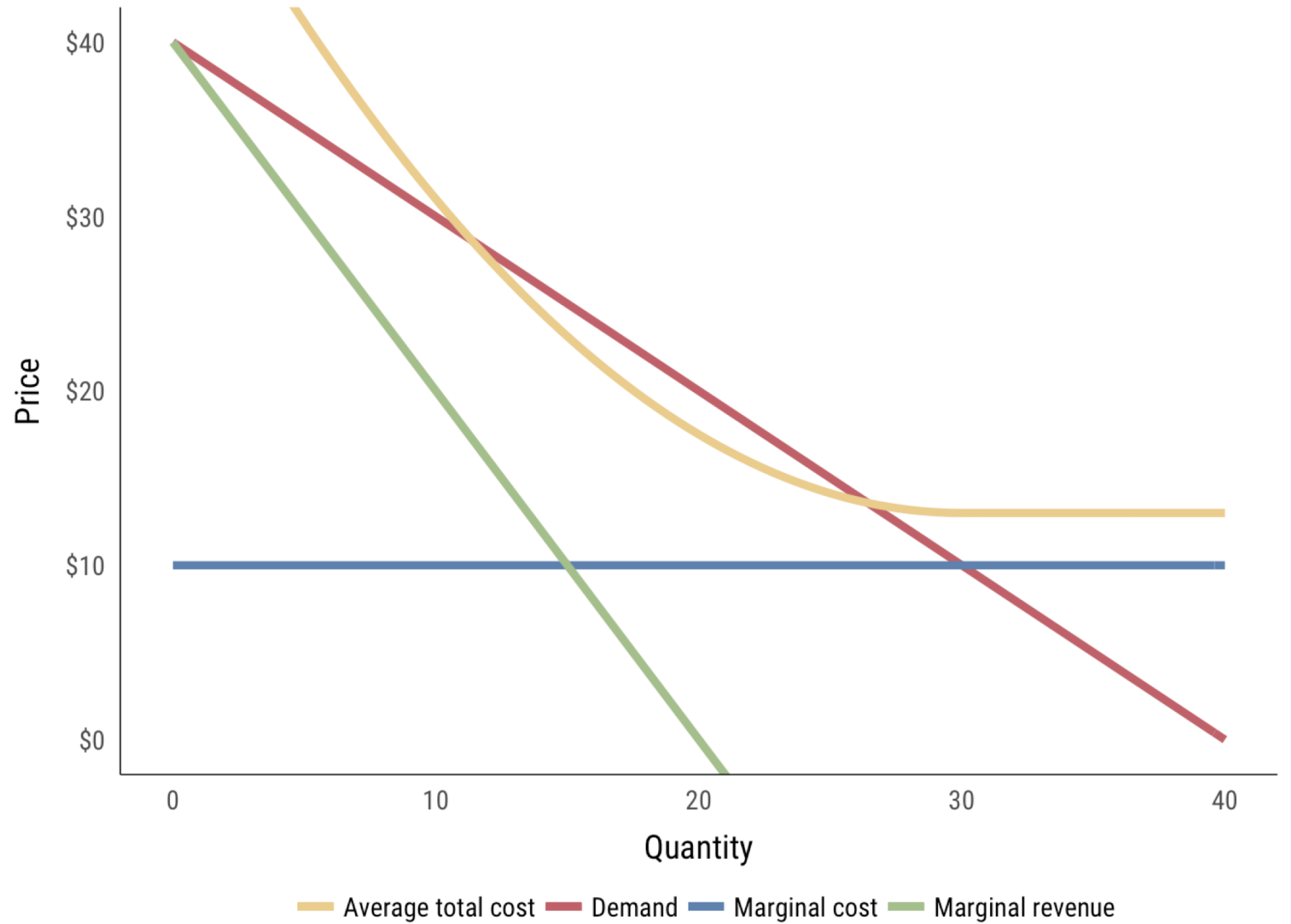
Big expensive things with large capital outlays and low marginal cost

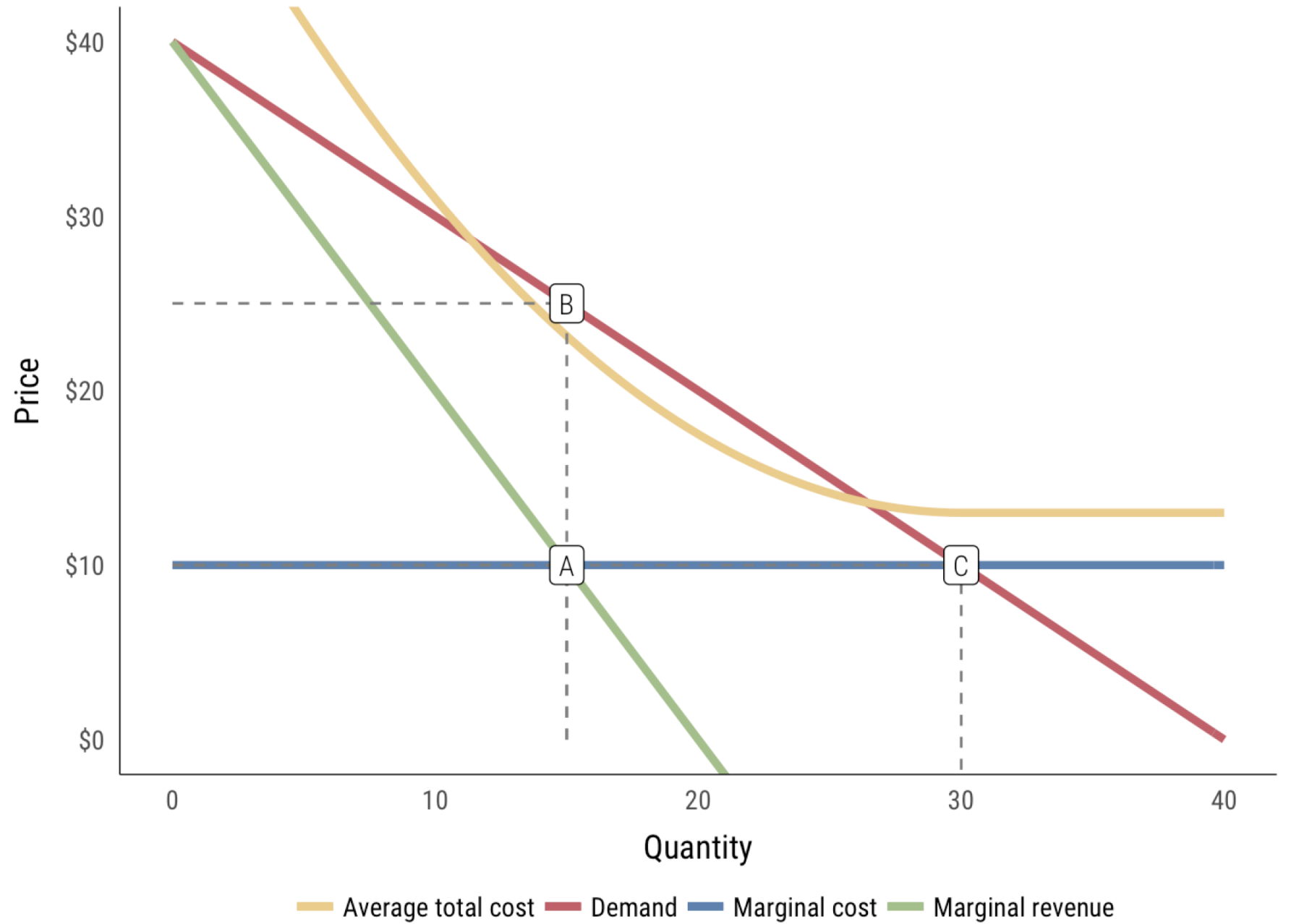
Generally more efficient to just have one firm handle it

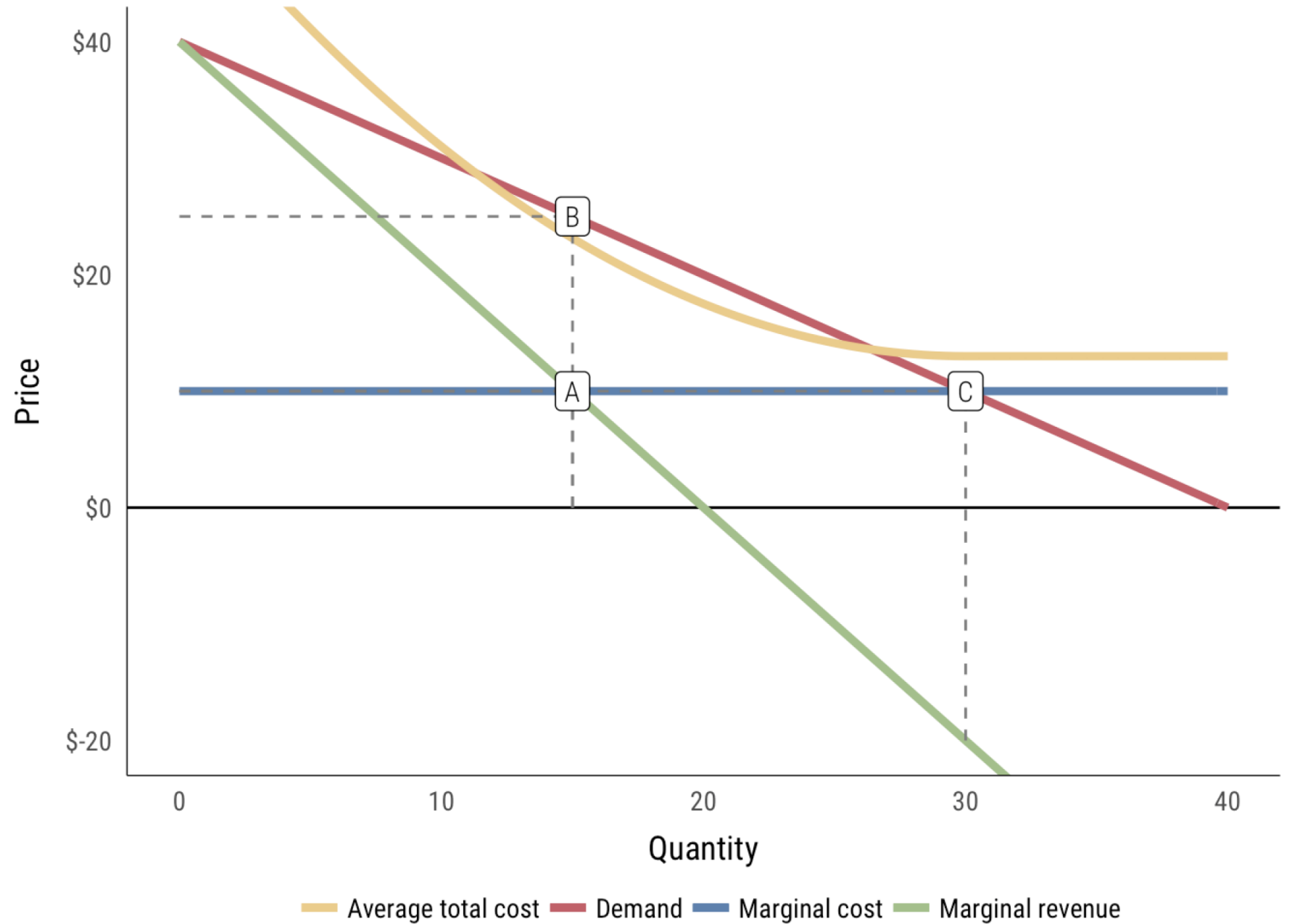
Utilities

Public transportation









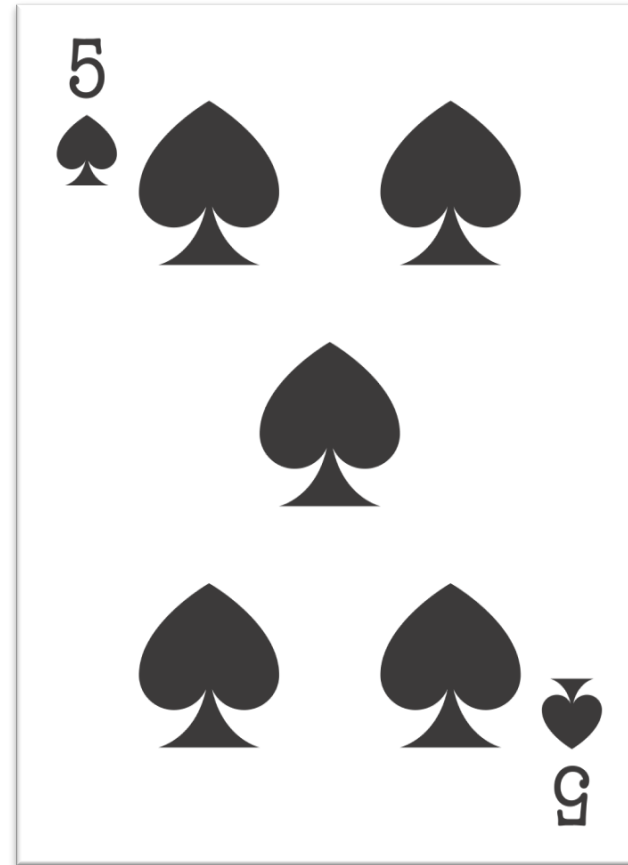
Paperclips and equilibria

I'm so sorry.

Sellers

Sell your paperclip for the highest possible price

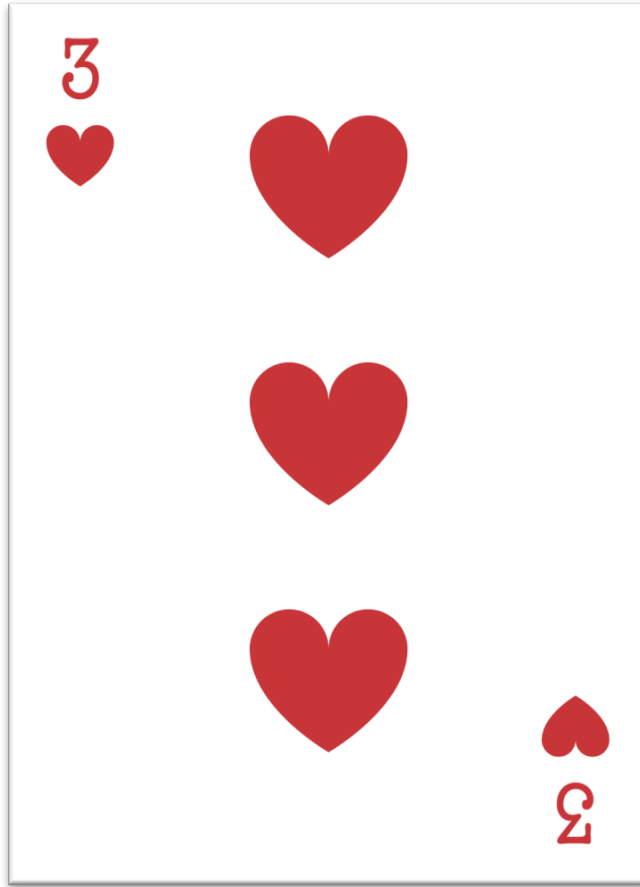
= your TC. You cannot sell below this number.



Buyers

Buy a paperclip for the lowest possible price

= your WTP. You cannot pay above this number.



Negotiate and haggle.

**Find a trading partner.
Verify trade at the front.**

Track your earnings.

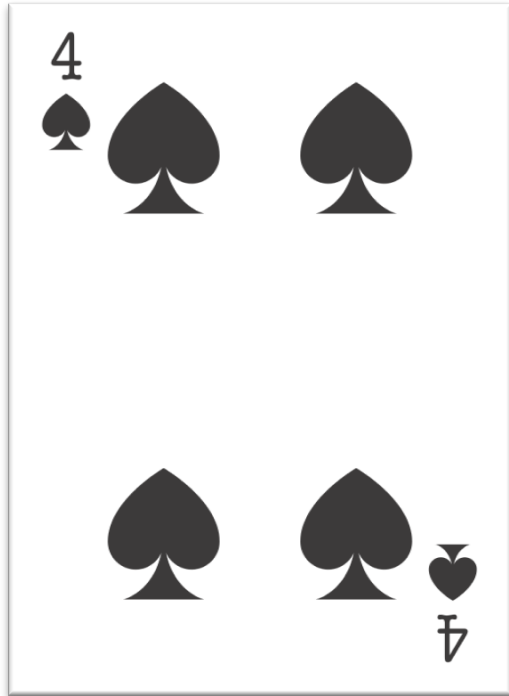
Keep it secret.

Keep it safe.

Make the best deal possible.

Prizes for sellers who charge high and buyers who pay low.

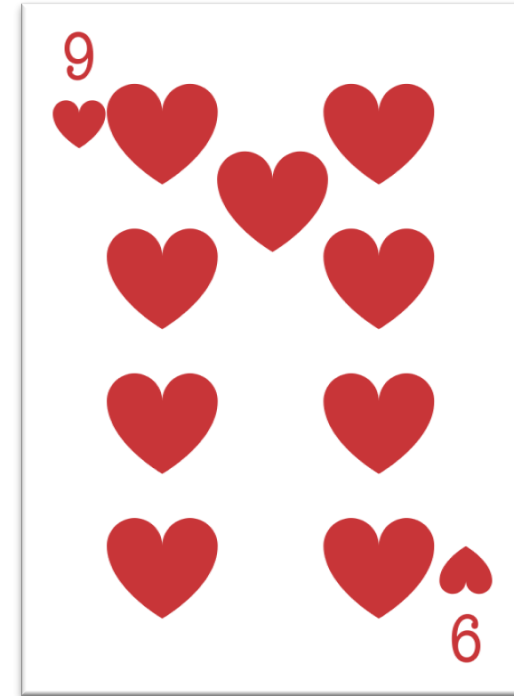
Seller



4 pieces of candy

\$8

Buyer



1 piece of candy

oh noes taxes

The government has imposed a tax of \$2 per paperclip, to be paid by sellers

Sellers who don't sell don't pay tax

Price must be at least \$2 above
number on seller's card

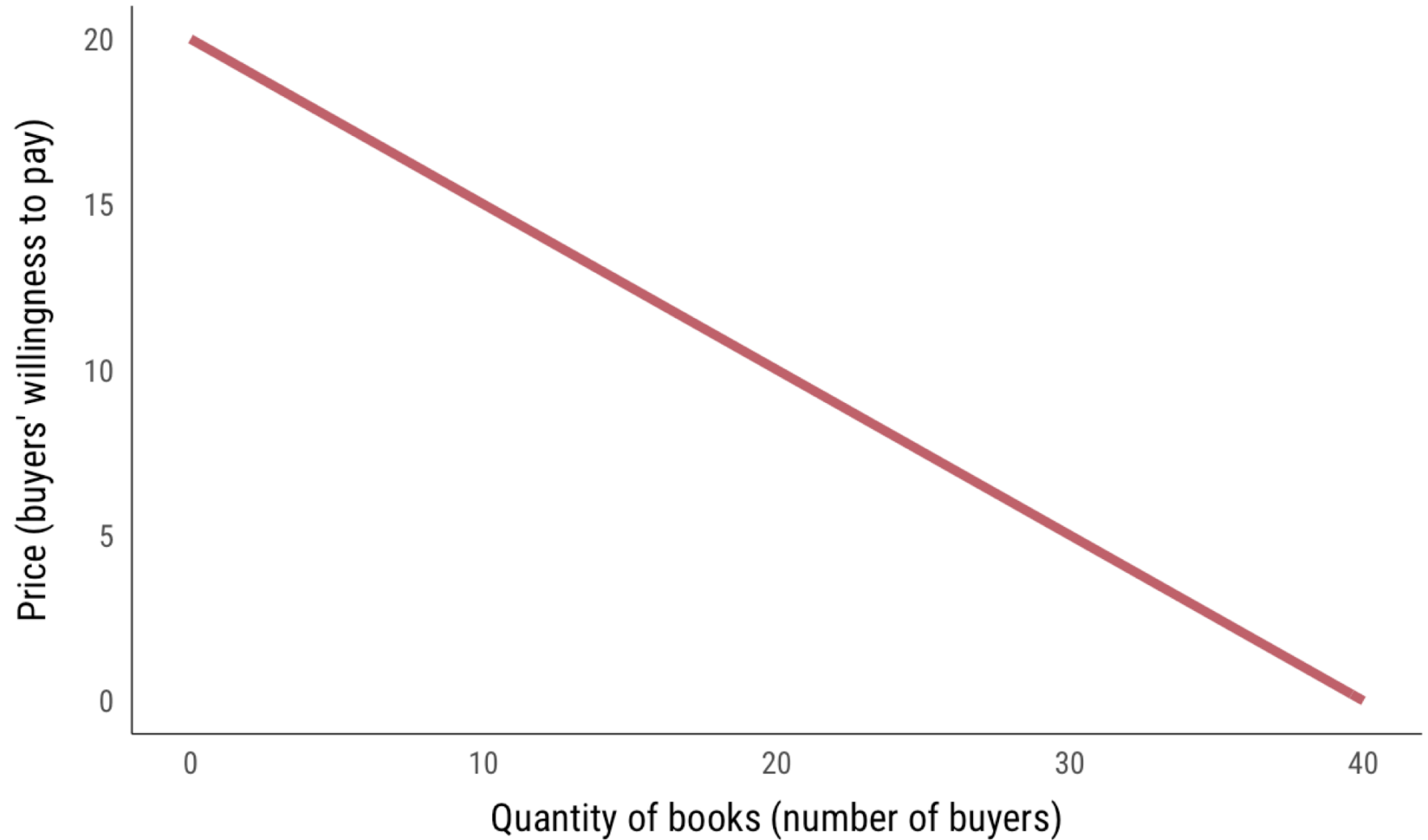
If your card says 4, it's really a 6

Zoinks! Price ceilings!

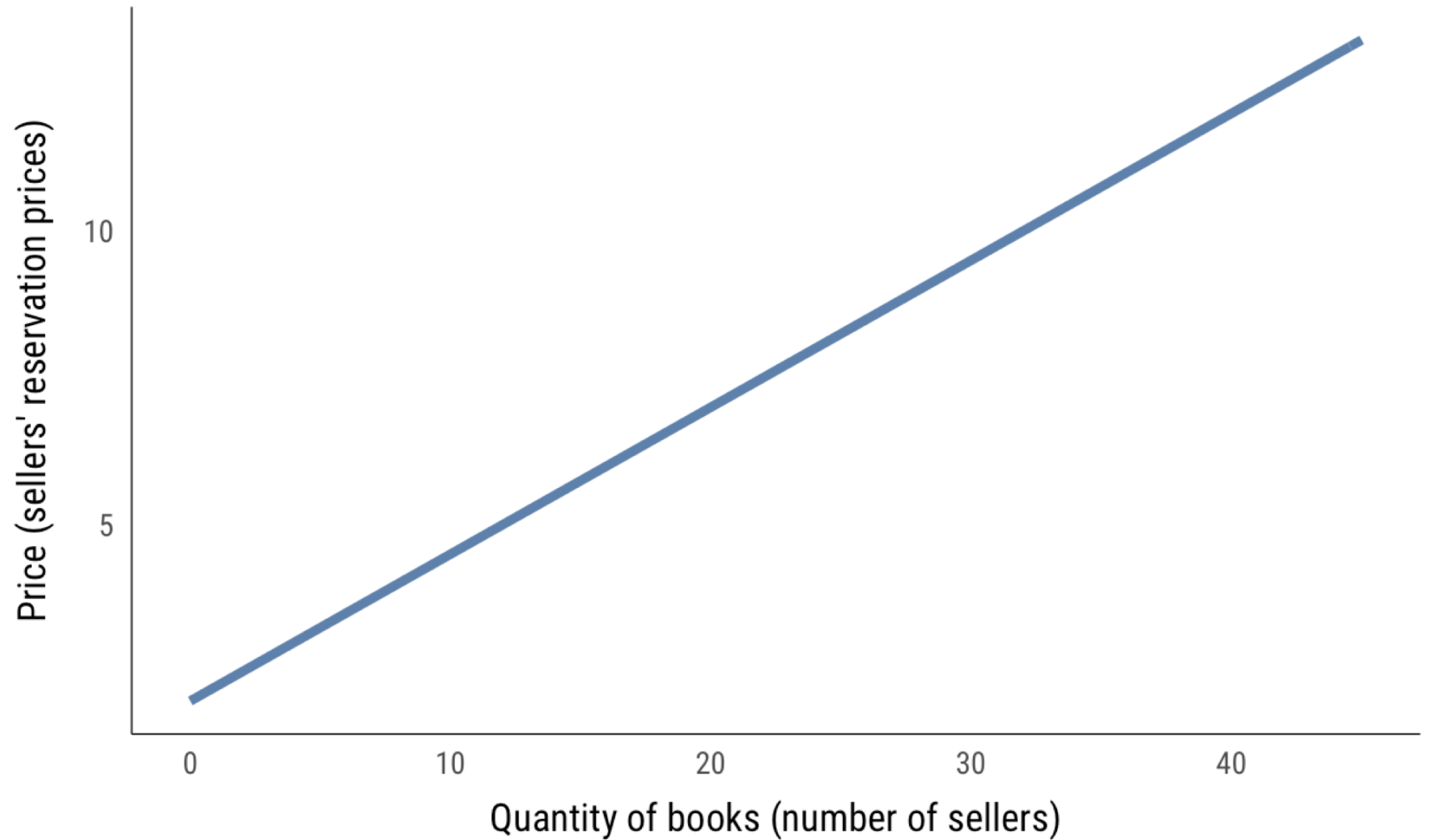
The government has imposed a price ceiling: no paperclip can be sold for more than \$4

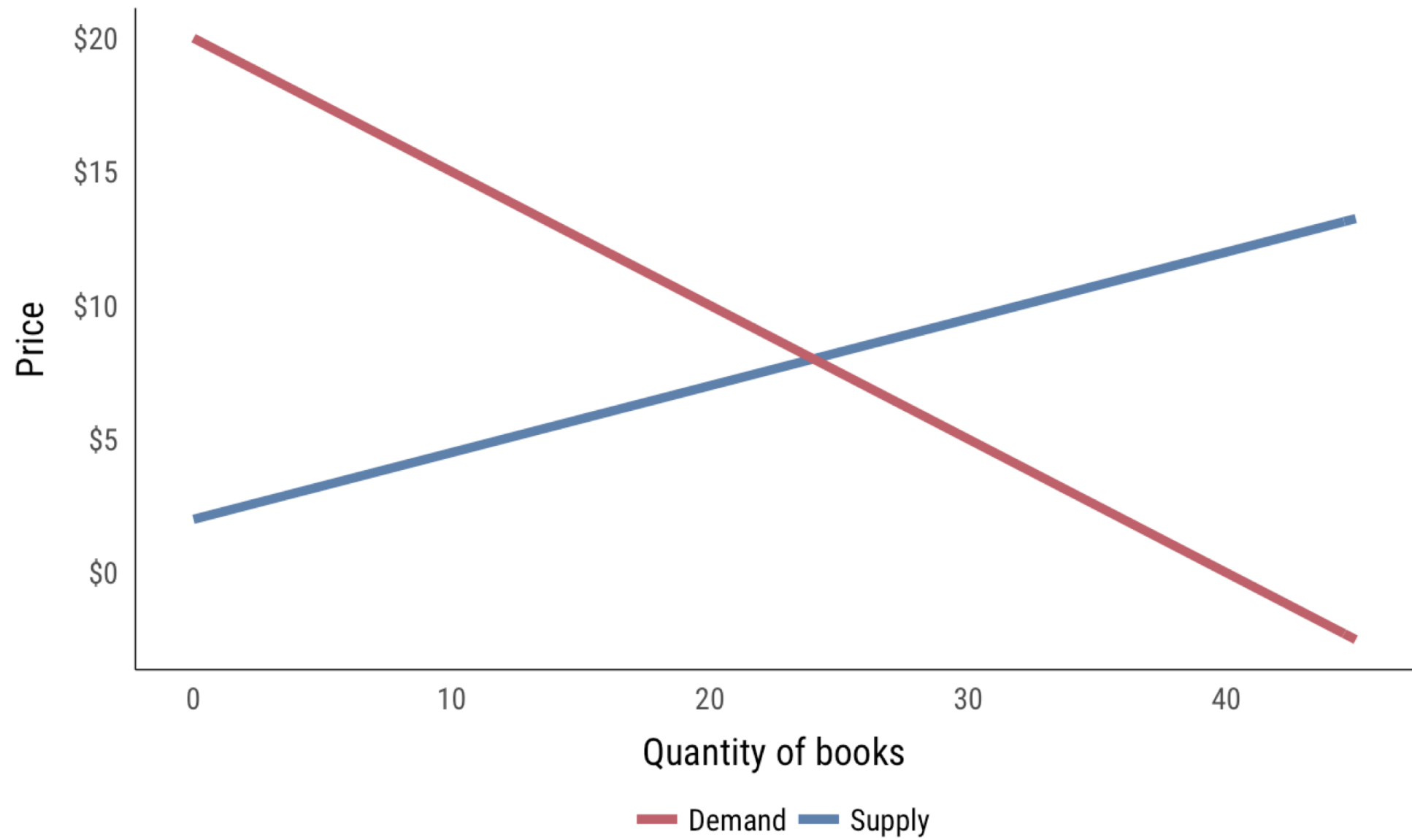
How'd we do?

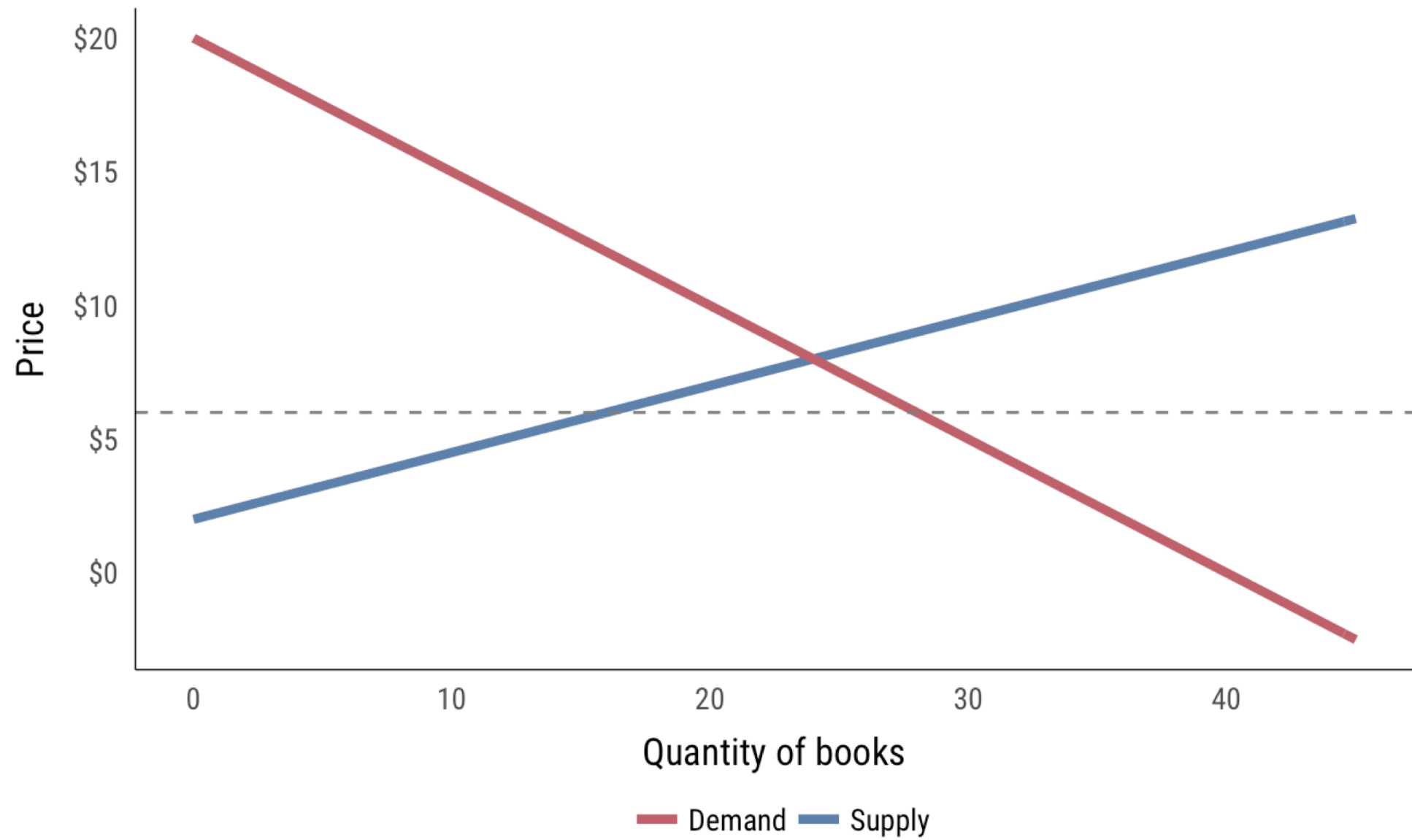
Demand = WTP = Marginal benefit

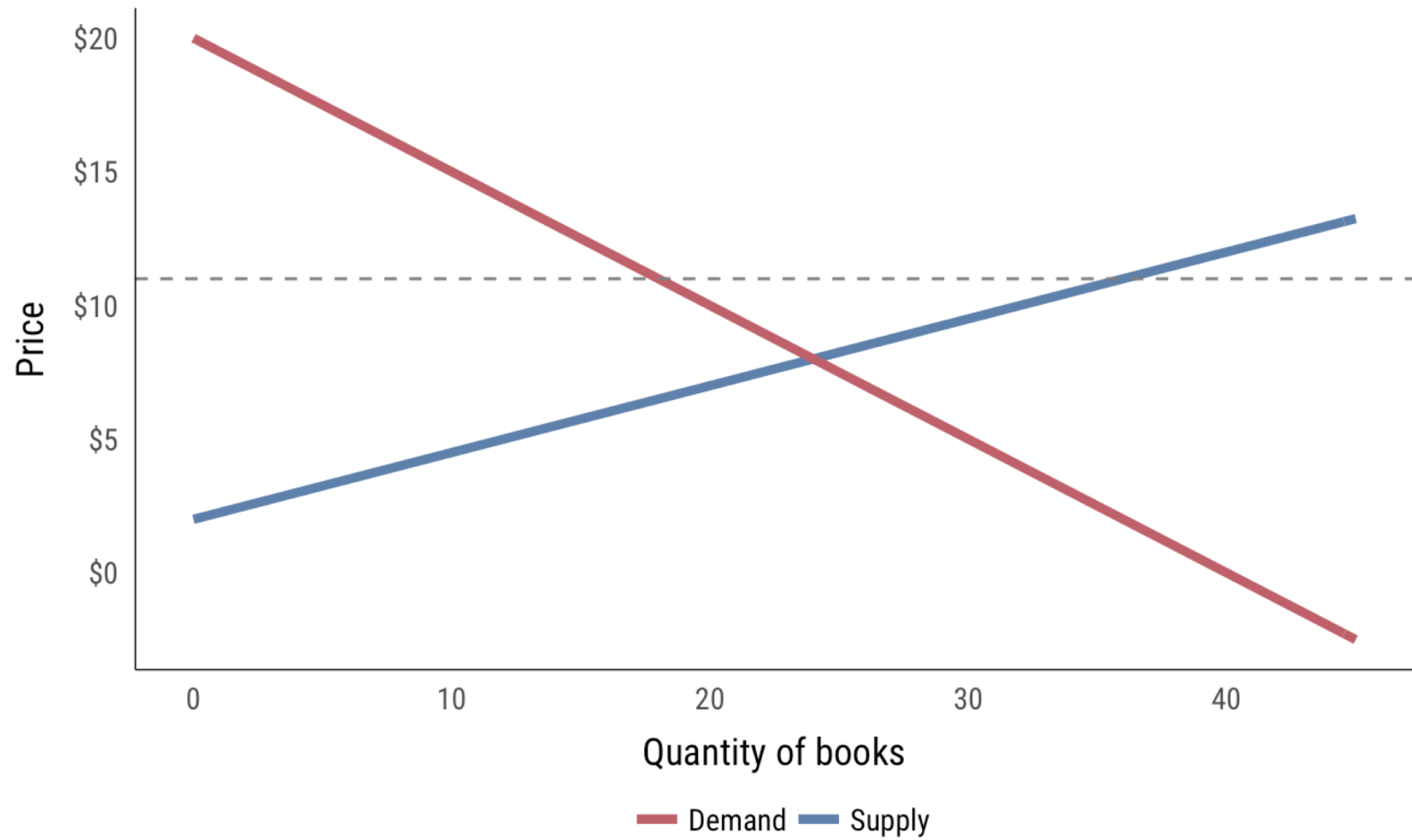


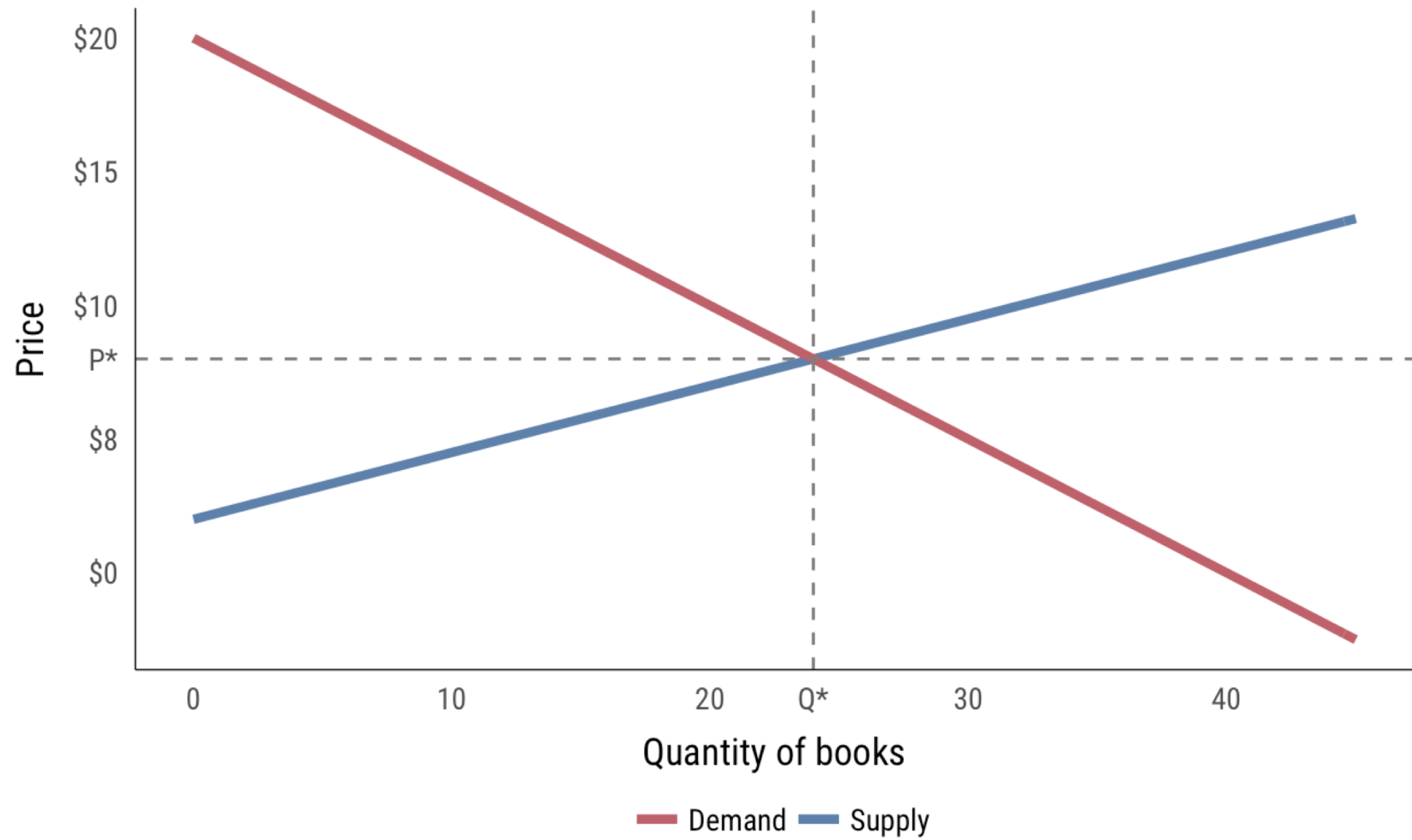
Supply = WTA = Marginal cost





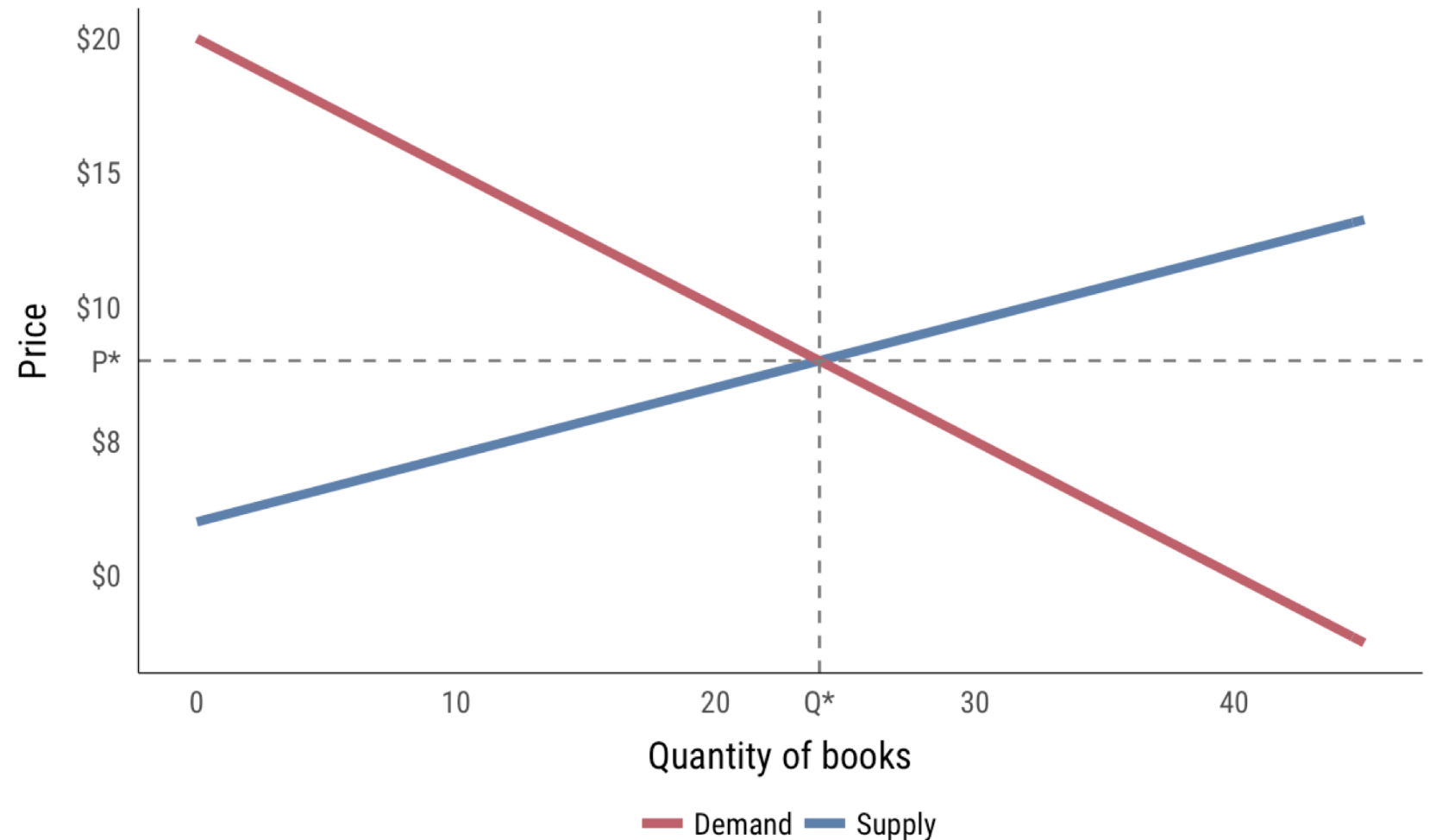






Demand: $P = -0.5Q + 20$

Supply: $P = 0.25Q + 2$





The Making of a Fly: The Genetics of Animal Design (Paperback)

by Peter A. Lawrence

[Return to product information](#)

Always pay through Amazon.com's Shopping Cart or 1-Click.
Learn more about [Safe Online Shopping](#) and our [safe buying guarantee](#).

Price at a Glance

List Price: ~~\$70.00~~

Used: from **\$35.54**

New: from **\$1,730,045.91**

Have one to sell? [Sell yours here](#)

All

New (2 from \$1,730,045.91)

Used (15 from \$35.54)

Show ☒ New ☐ Prime offers only (0)

Sorted by Price + Shipping

New 1-2 of 2 offers

Price + Shipping	Condition	Seller Information	Buying Options
\$1,730,045.91 + \$3.99 shipping	New	<p>Seller: profnath</p> <p>Seller Rating: ★★★★★ 93% positive over the past 12 months. (8,193 total ratings)</p> <p>In Stock. Ships from NJ, United States. Domestic shipping rates and return policy.</p> <p>Brand new, Perfect condition, Satisfaction Guaranteed.</p>	<p>Add to Cart</p> <p>or Sign in to turn on 1-Click ordering.</p>
\$2,198,177.95 + \$3.99 shipping	New	<p>Seller: bordeebook</p> <p>Seller Rating: ★★★★★ 93% positive over the past 12 months. (125,891 total ratings)</p> <p>In Stock. Ships from United States. Domestic shipping rates and return policy.</p> <p>New item in excellent condition. Not used. May be a publisher overstock or have slight shelf wear. Satisfaction guaranteed!</p>	<p>Add to Cart</p> <p>or Sign in to turn on 1-Click ordering.</p>



Paperclips: 212

Business

Available Funds: \$ 6.65

Unsold Inventory: 15

Price per Clip: \$ 0.14

Public Demand: 57%

Level: 1

Cost: \$ 100.00

Manufacturing

Clips per Second: 3

788 inches

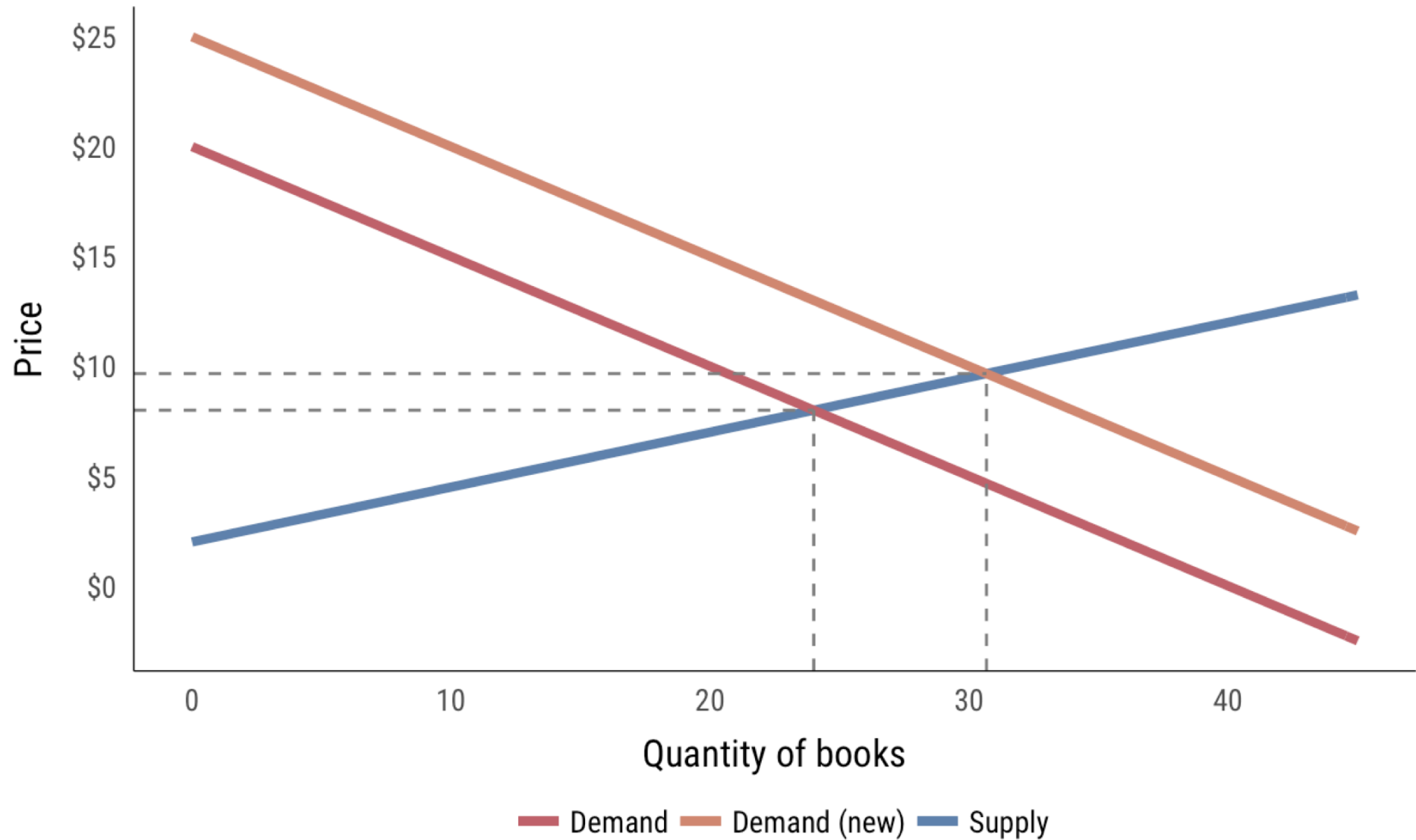
Cost: \$ 15

3

Cost: \$ 6.33

Changes in supply and demand

Change in demand



Change in demand

Demand higher at every possible point

Structural change

Price increases; quantity increases
(or decreases/decreases)

Supply remains the same

People start preferring hamburgers over pizza

Change in quantity demanded

Prices and quantity change...

...but not because of structural issues

Movement along demand curve

Supply remains the same

Price of pizza changes

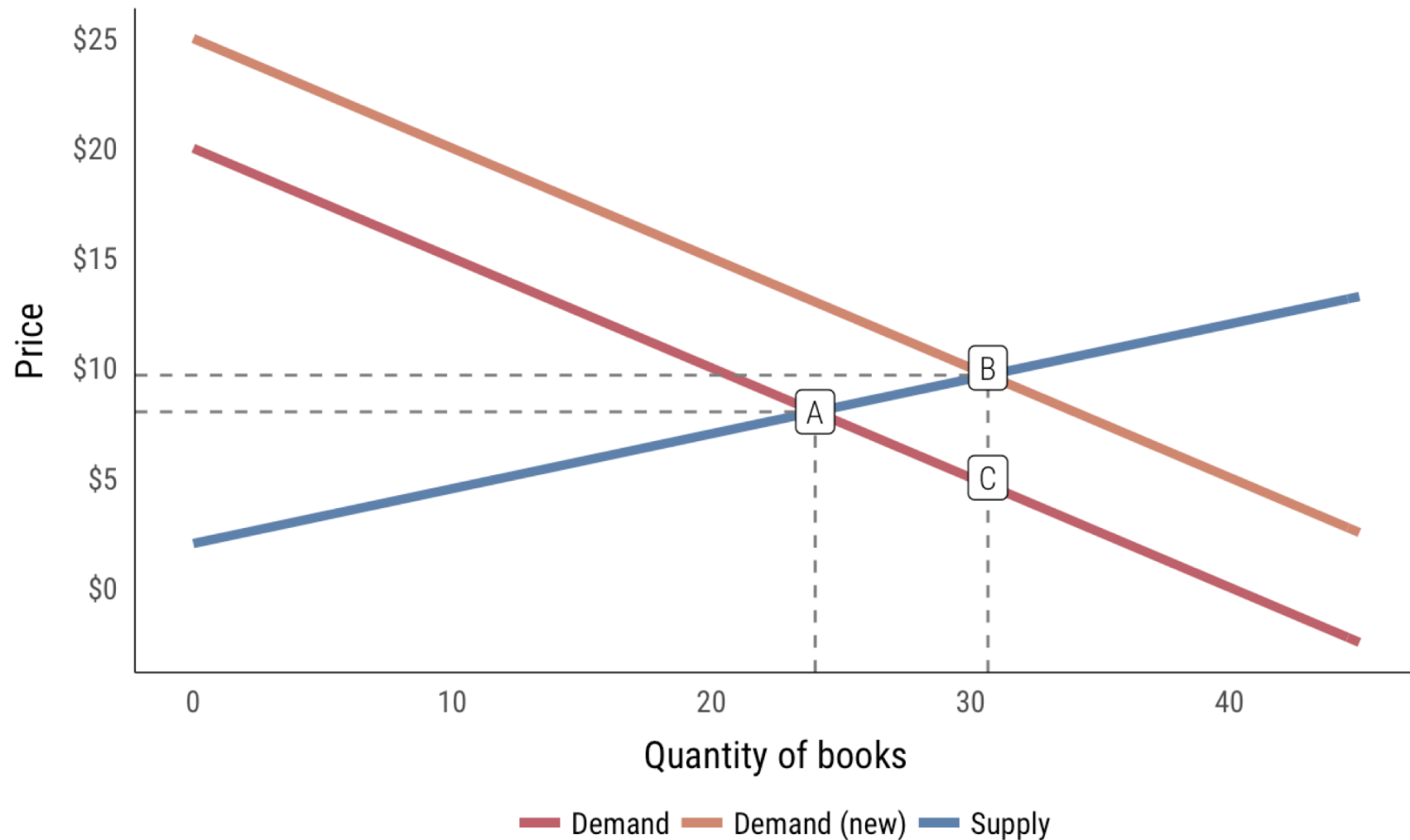
Two ways to get
from 24 to 17ish

A → C

Change in quantity
demanded
Only price changes

A → B

Change in demand
New demand curve



Factors that cause demand to shift

Change in price of
complementary goods

Change in
income

Change in price of
substitute goods

Change in
preferences

Change in population
of buyers

Expectation of
higher prices

Orange market

Dr. Oz promotes new fad diet where everyone eats 10 oranges a day

Car market

Consumer income rises

Car market

Gas prices double

Shoe market

More manufacturers make shoes

Lettuce market

Price drops by 10 cents

Next time

Surplus and distributional issues

Taxes

More imperfect competition

PS 5 posted on Friday

Midterm posted next Friday