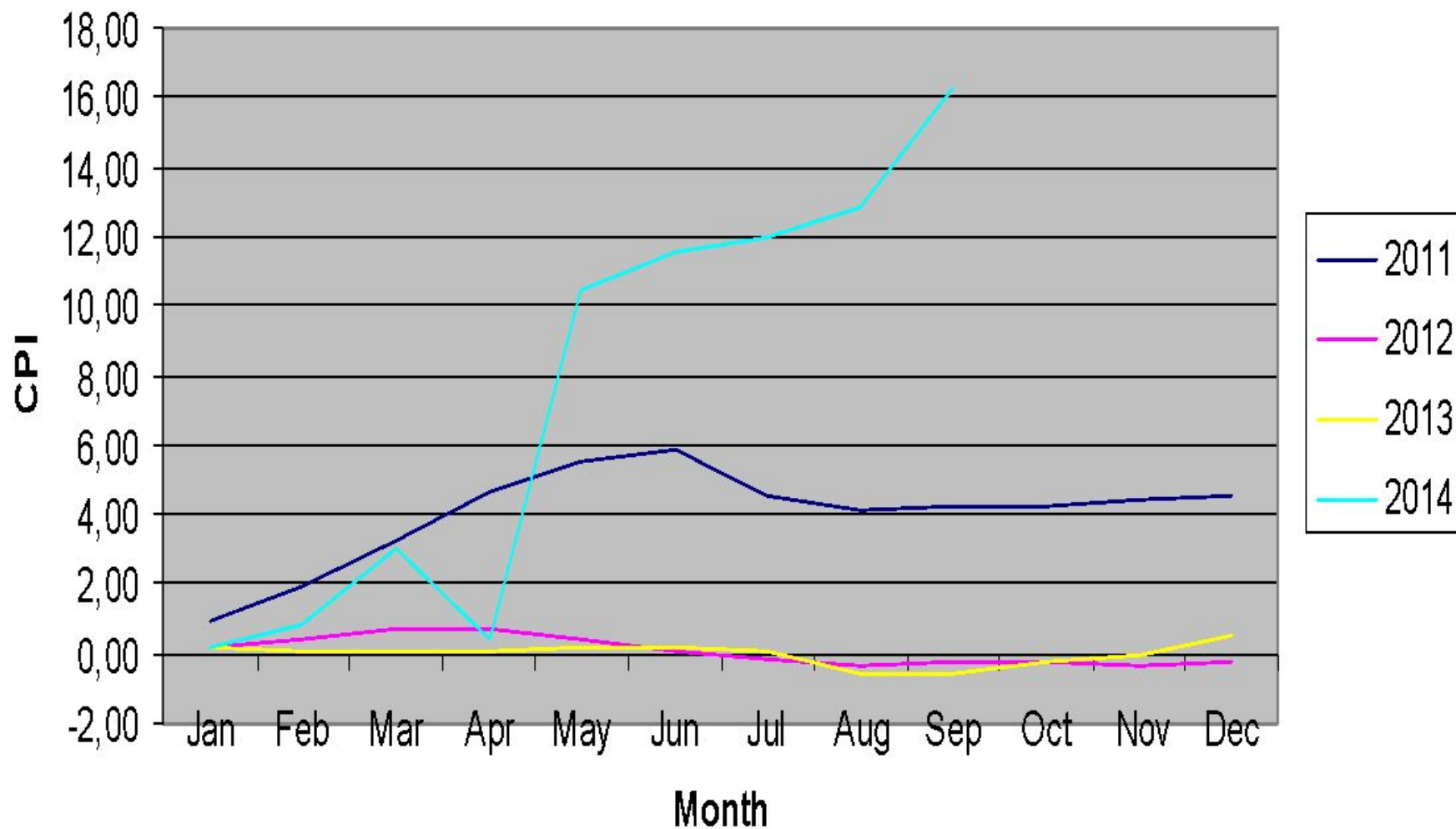


# Market Economy and Public Policy 2

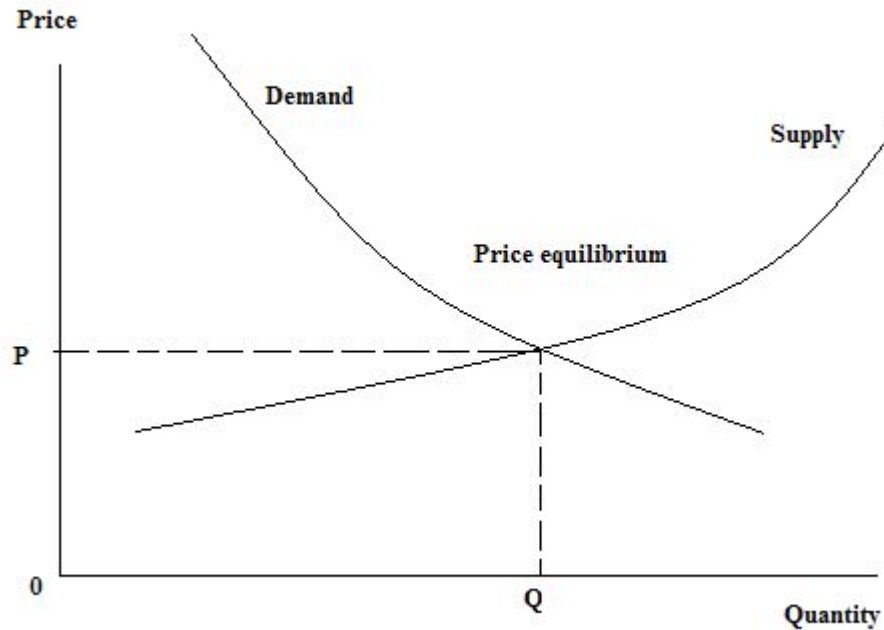
Yoshio Matsuki

## CPI (% changes to December of previous year)

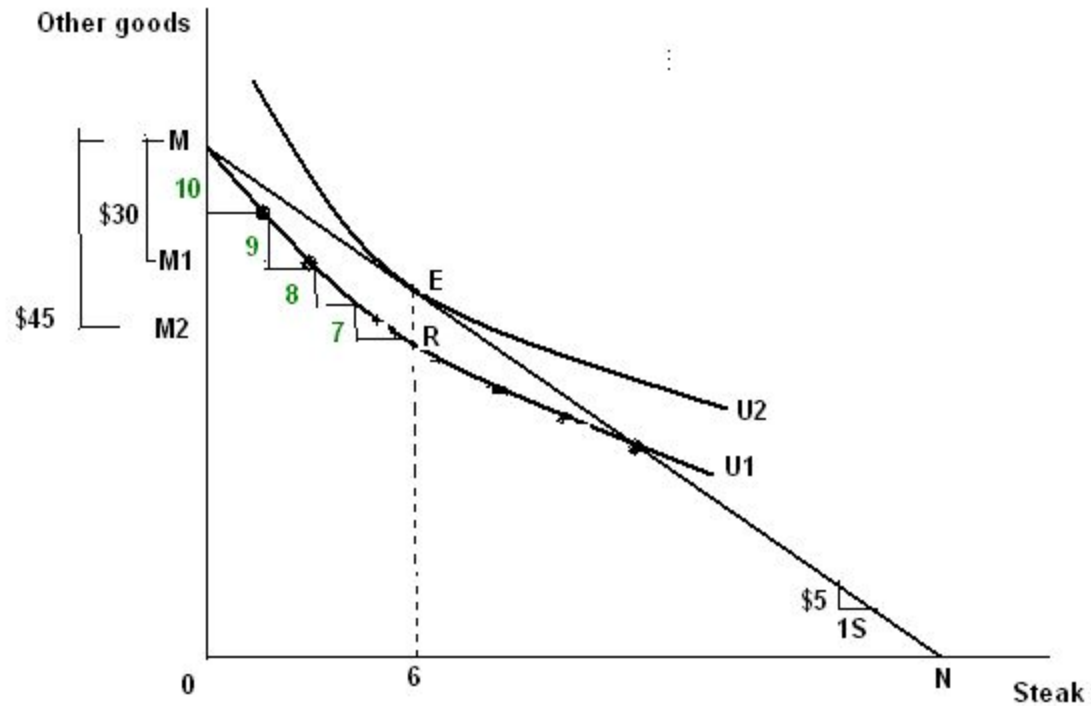


# How is price made?

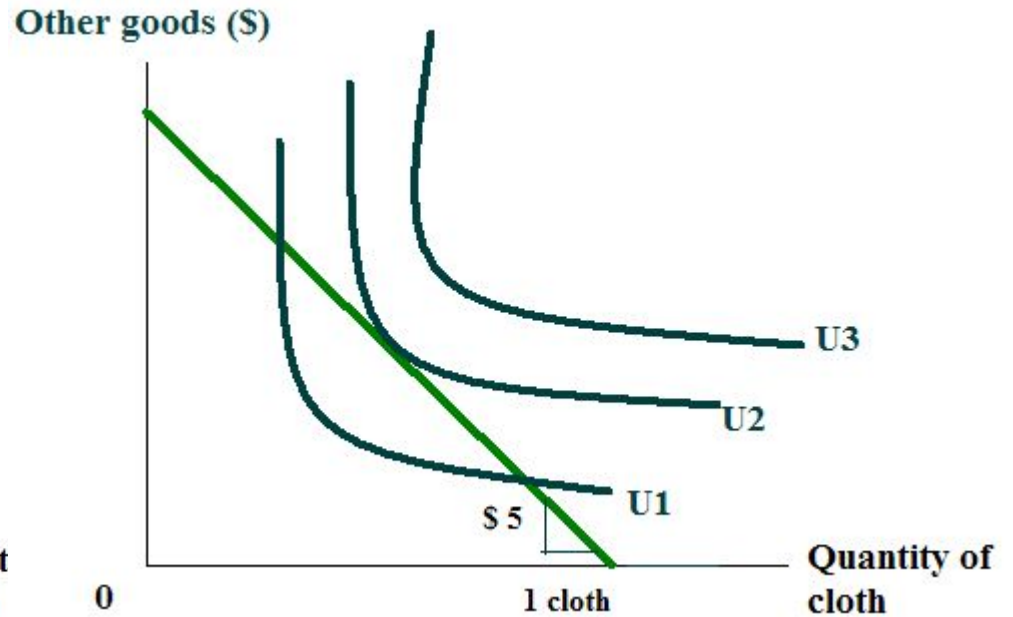
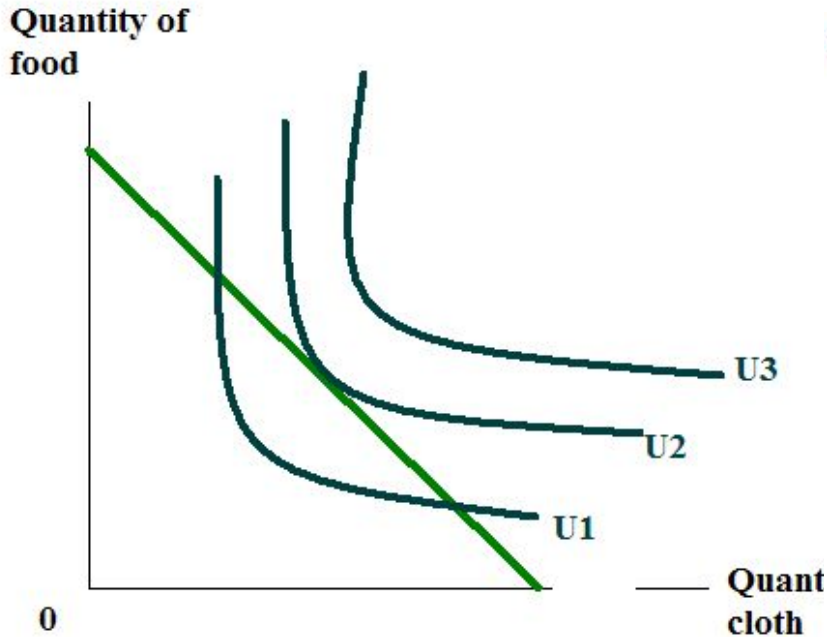
- In competitive market



# How is market demand measured?

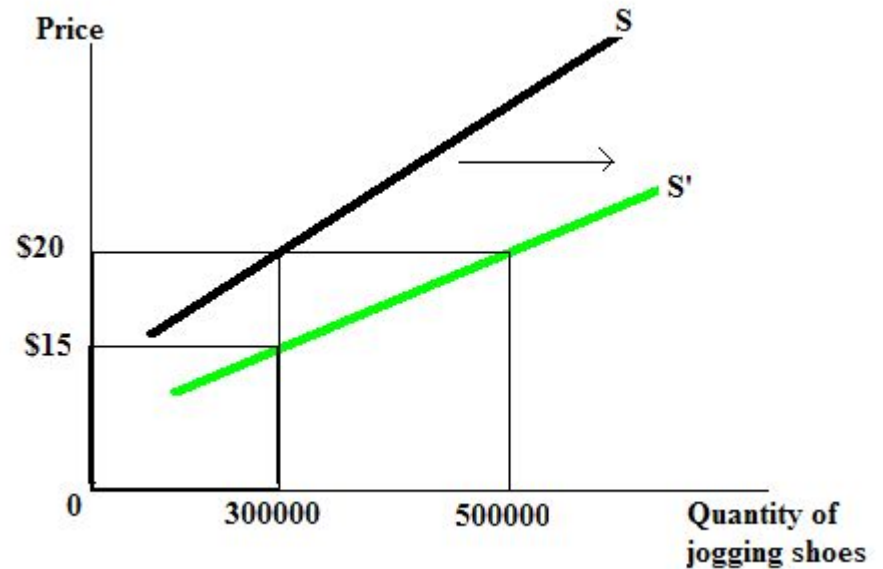
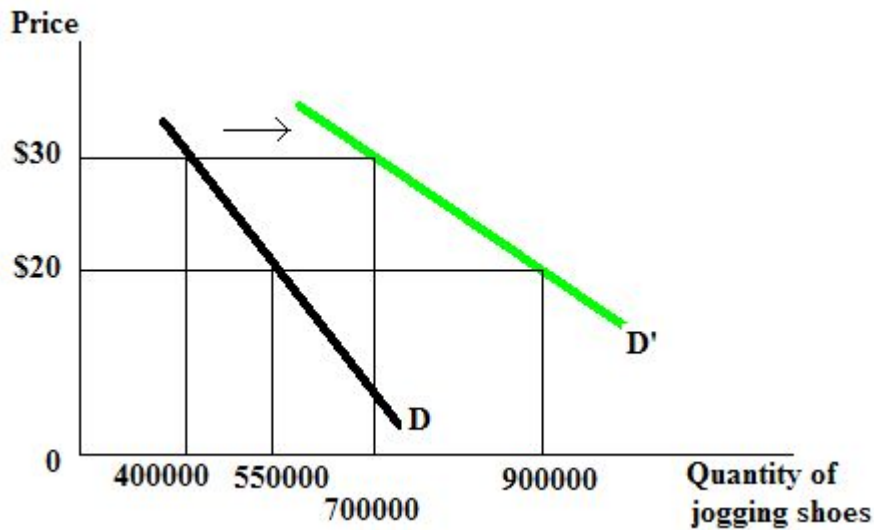


# How utility explains price?

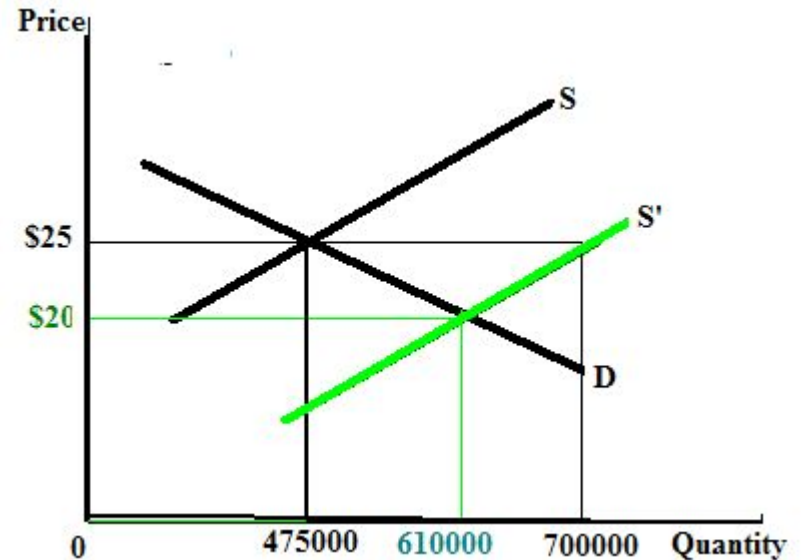
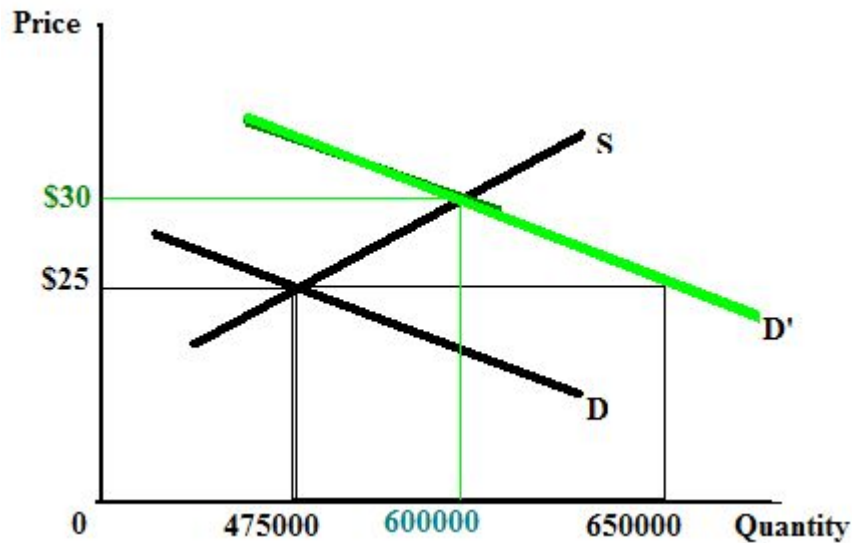


# What changes price?

- Shifts in demand curve
- Shifts in supply curve



# Market adjustment to changes in Demand and Supply

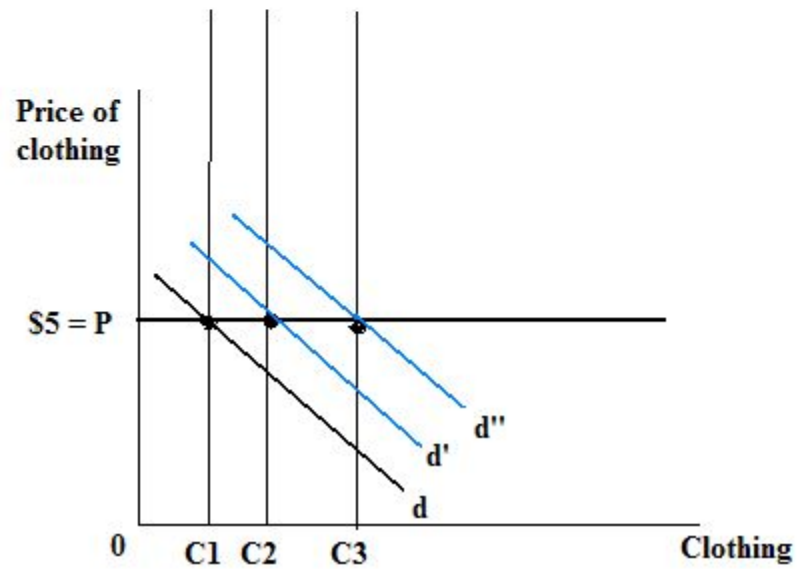
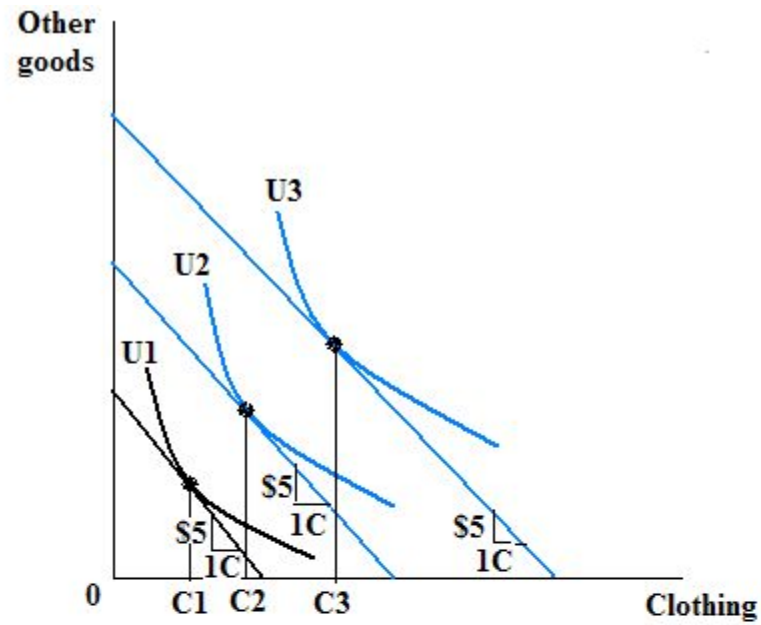


# What increases demand?

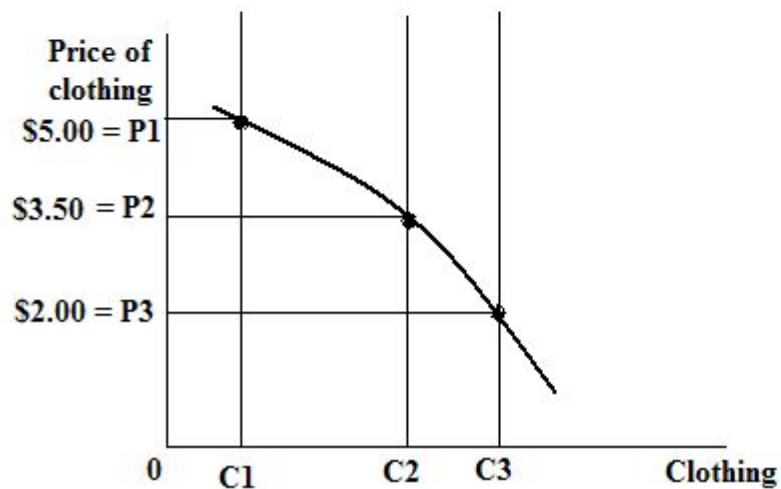
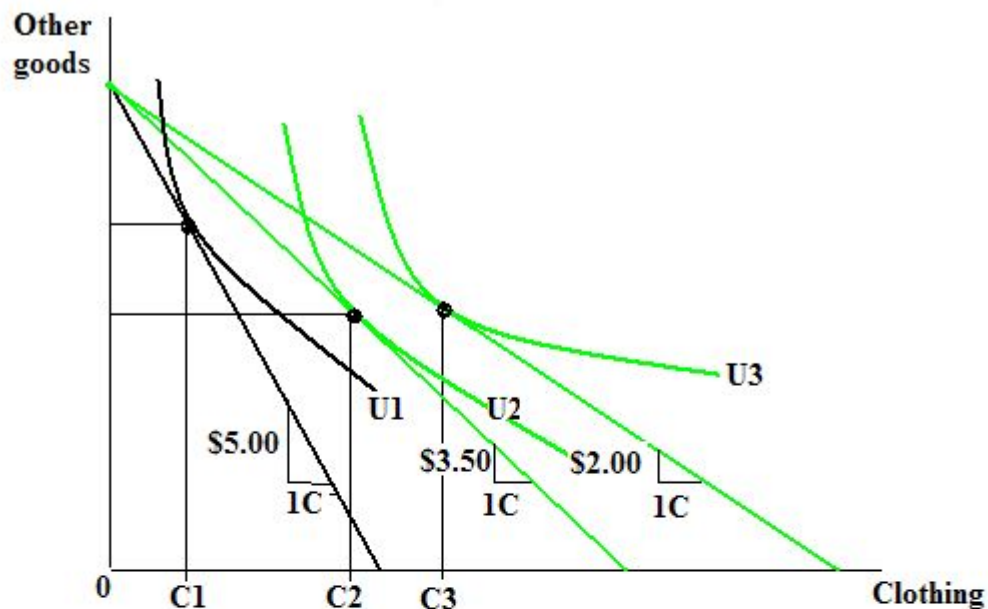
- Consumers' incomes
- Consumers preferences
- Prices of other goods



Higher  
income  
shifts  
Demand.



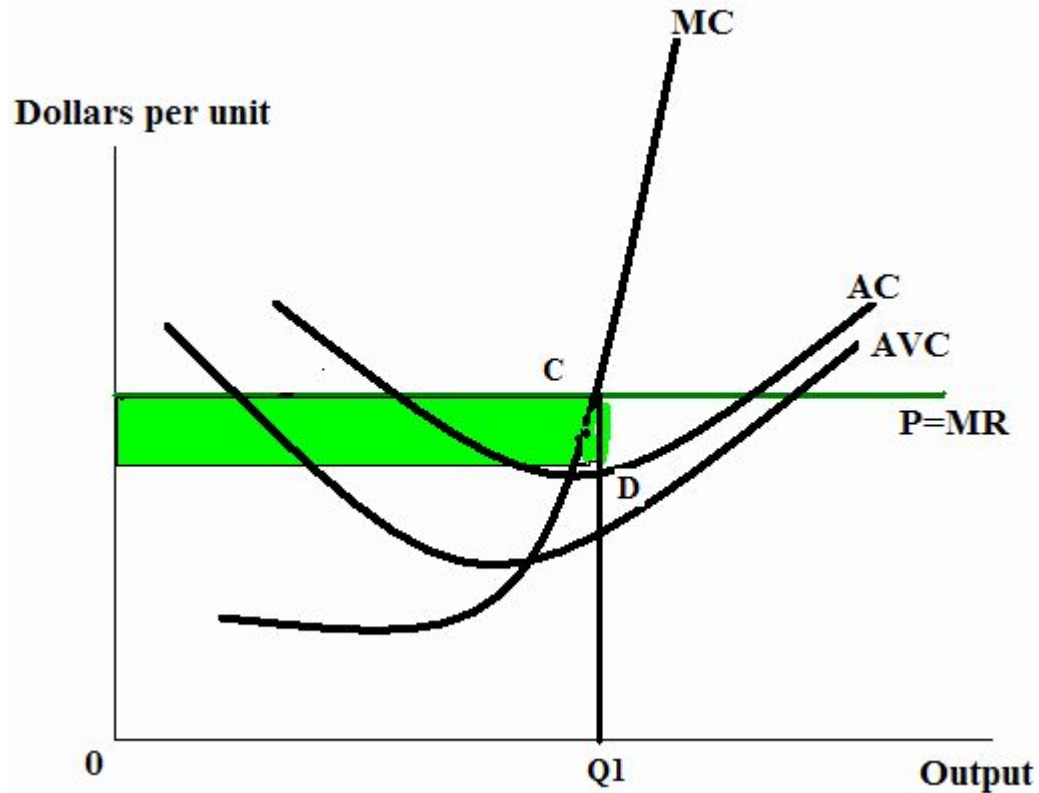
On the same demand curve:  
Prices of other goods: fixed.  
Income: fixed.  
Price of clothing reduced.



# What increases supply?

- Technology
- Input supply conditions

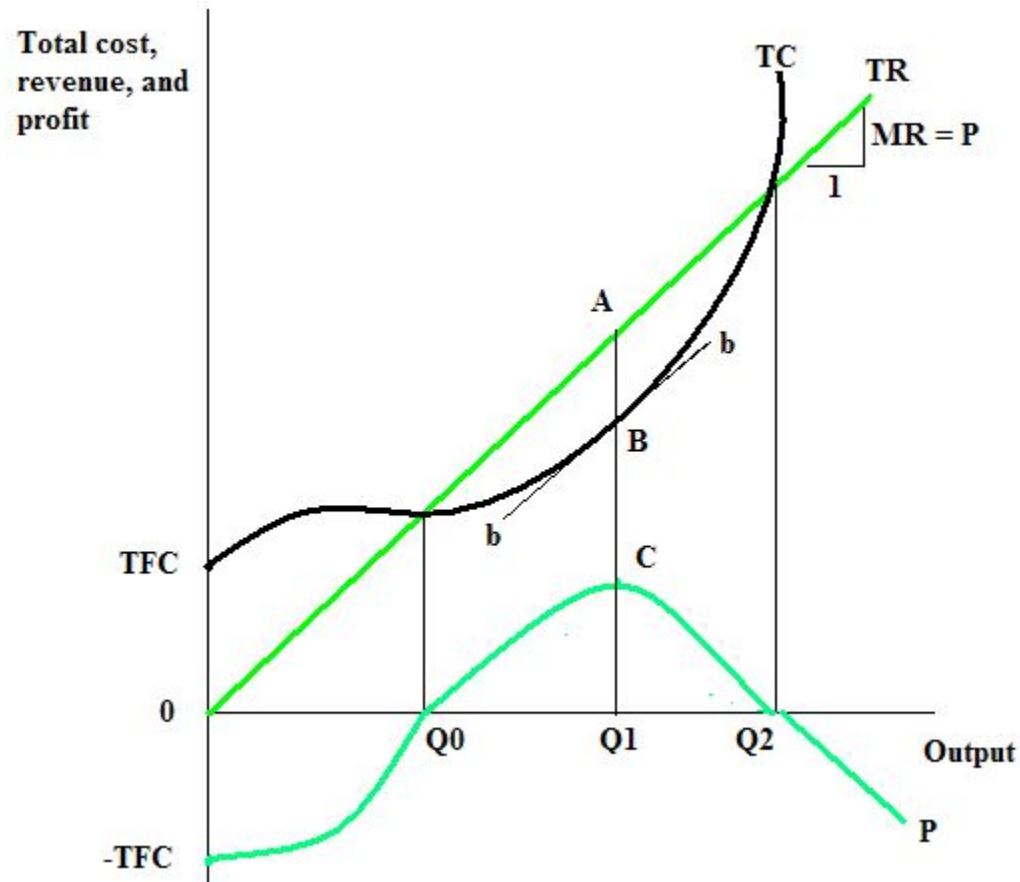
# How a company set the price in competitive market?



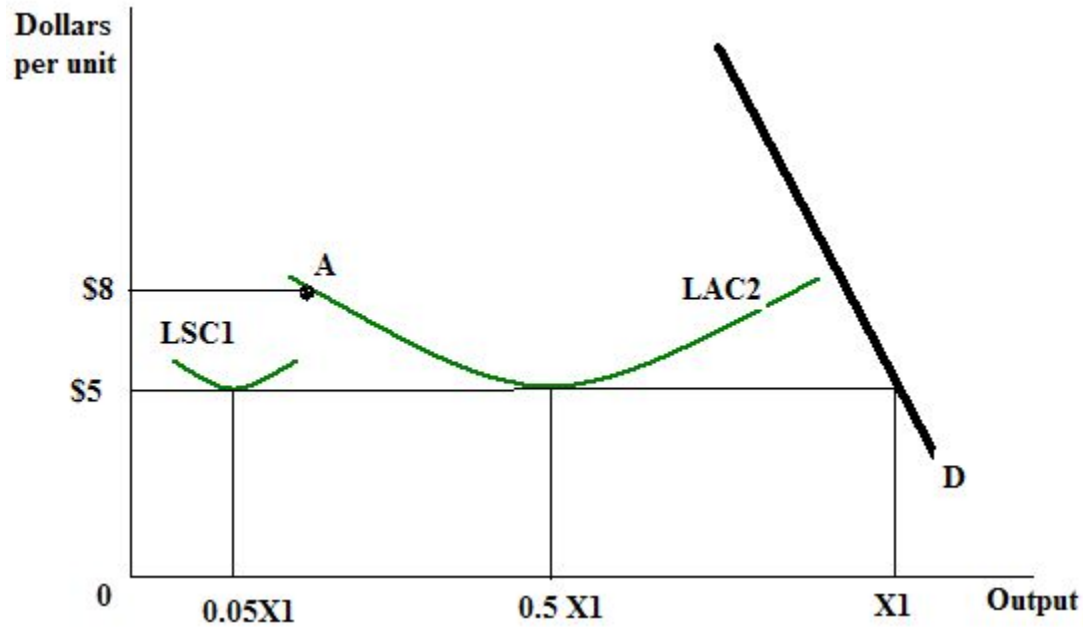
# Q, P, TR, TC, TVC, TP, MC, MR

Output	Price	Total Revenue	Total cost	Total variable cost	Total profit	Marginal cost	Marginal revenue
0	\$12	0	15	0	-15	-	-
1	12	12	25	10	-13	10	12
2	12	24	33	18	-9	8	12
3	12	36	40	25	-4	7	12
4	12	48	46	31	2	6	12
5	12	60	54	39	6	8	12
6	12	72	63	48	9	9	12
7	12	84	73	58	11	10	12
8	12	96	84.9	69.9	11.1	11.9	12
9	12	108	98	83	10	13.1	12
10	12	120	113	98	7	15	12
11	12	132	132	117	0	19	12
12	12	144	155	140	-11	23	12
13	12	156	185	170	-29	30	12
14	12	168	225	210	-57	40	12

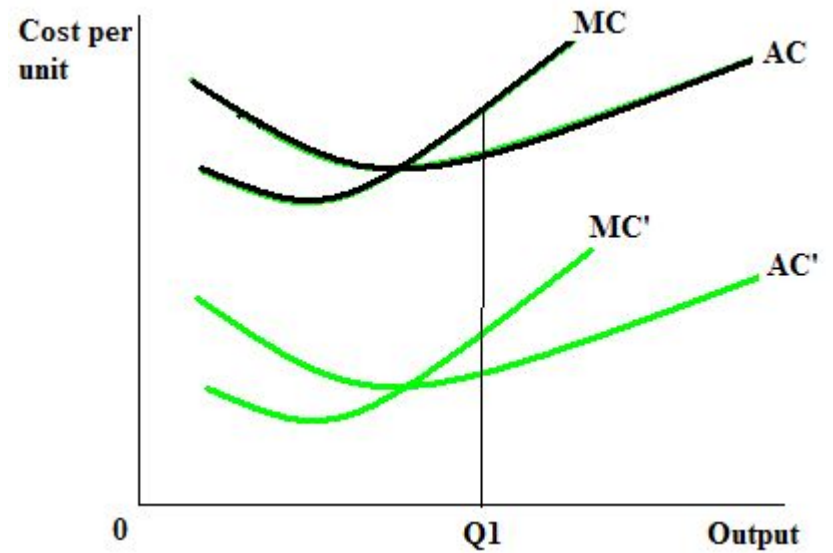
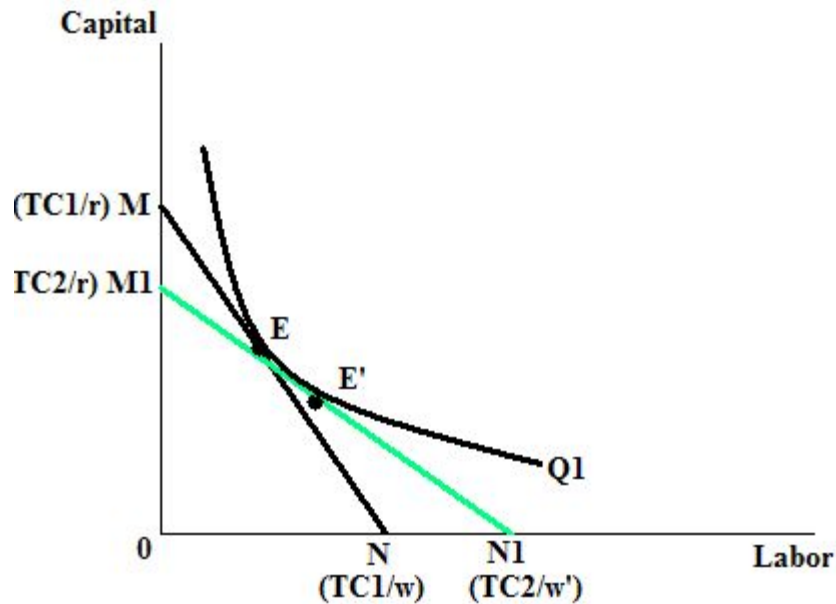
# Short-run profit maximization



# Cost curves and structure of industry

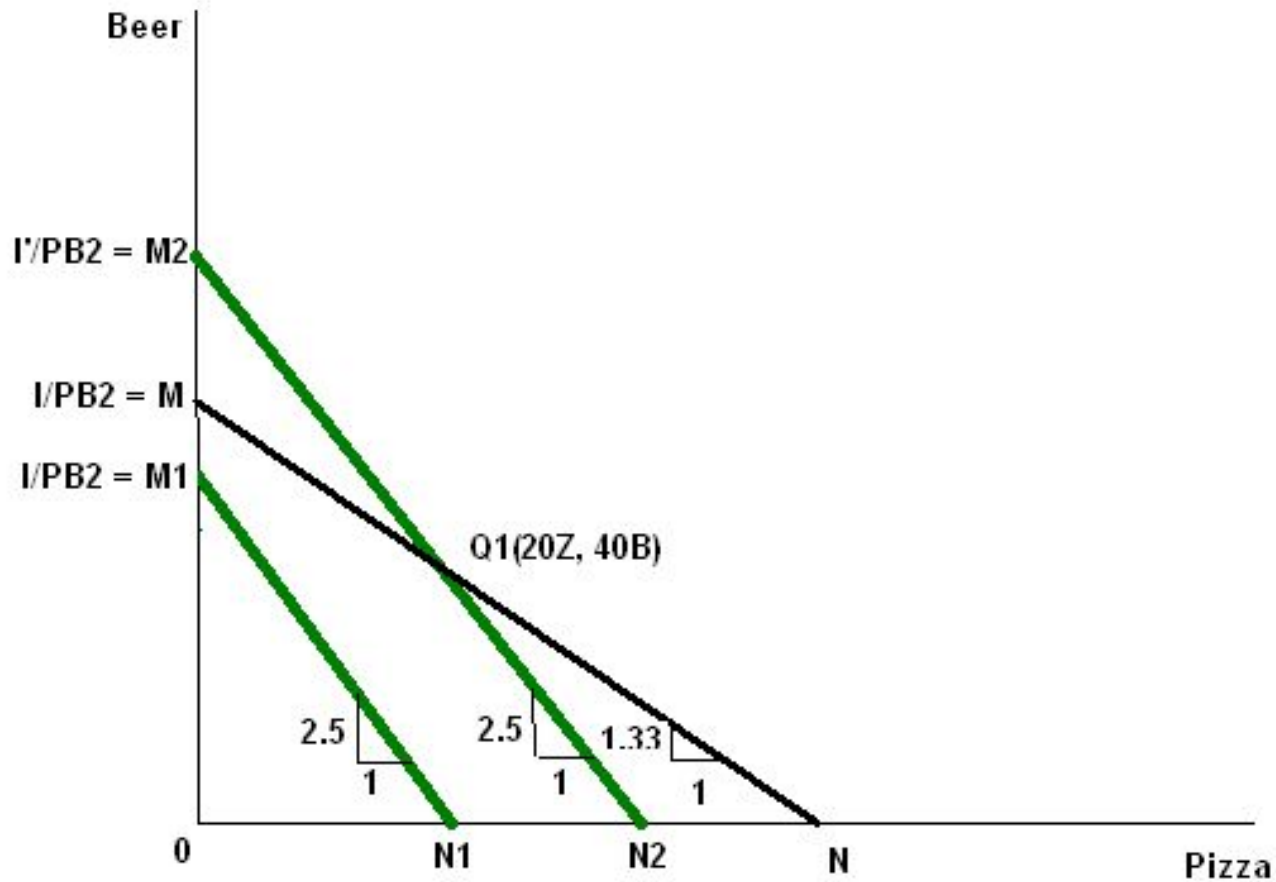


# A lower input price shifts cost curves downward





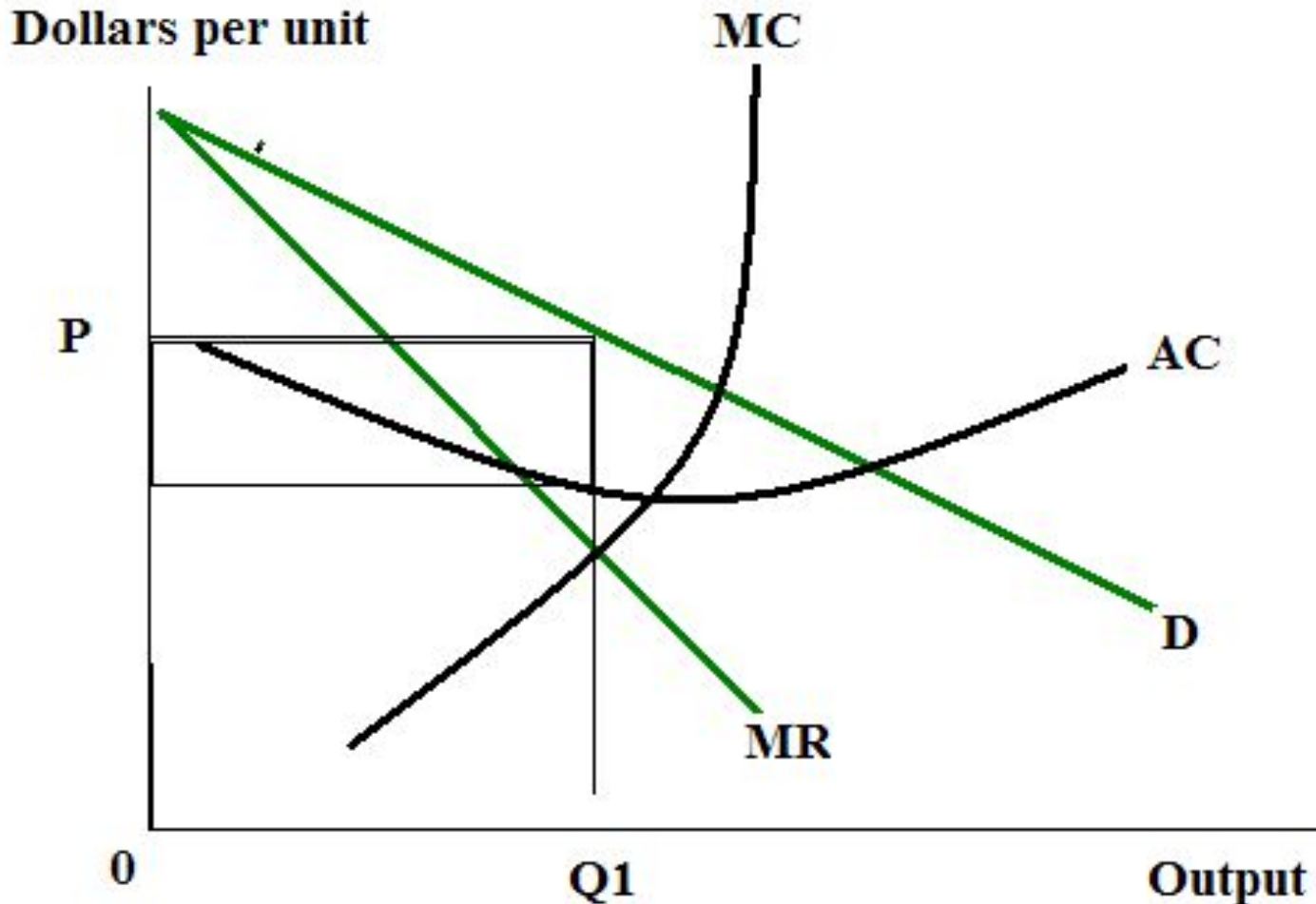
# Consumer Price Index



# Consumer Price Index

- Year 1:  $I = P^B_1 B_1 + P^Z_1 Z_1 = \Sigma P_1 Q_1$
- Year 2:  $I' = P^B_2 B_1 + P^Z_2 Z_1 = \Sigma P_2 Q_1$
- Price Index  $P^*$
- $P^* = I'/I = \Sigma P_2 Q_1 / \Sigma P_1 Q_1$

# How a company set price in a market, with no competitor?



# Question\* – taxi service in city

- a. Bus drivers go on strike.
- b. Bus fares increase after a strike by bus drivers.
- c. Taxi drivers must pass a competency test, and a third fail.
- d. Gasoline prices increase.
- e. Half the downtown parking lots are converted to office buildings.
- f. The population of the city increases.

# Question\*\*

Some economists get angry by the comment below:

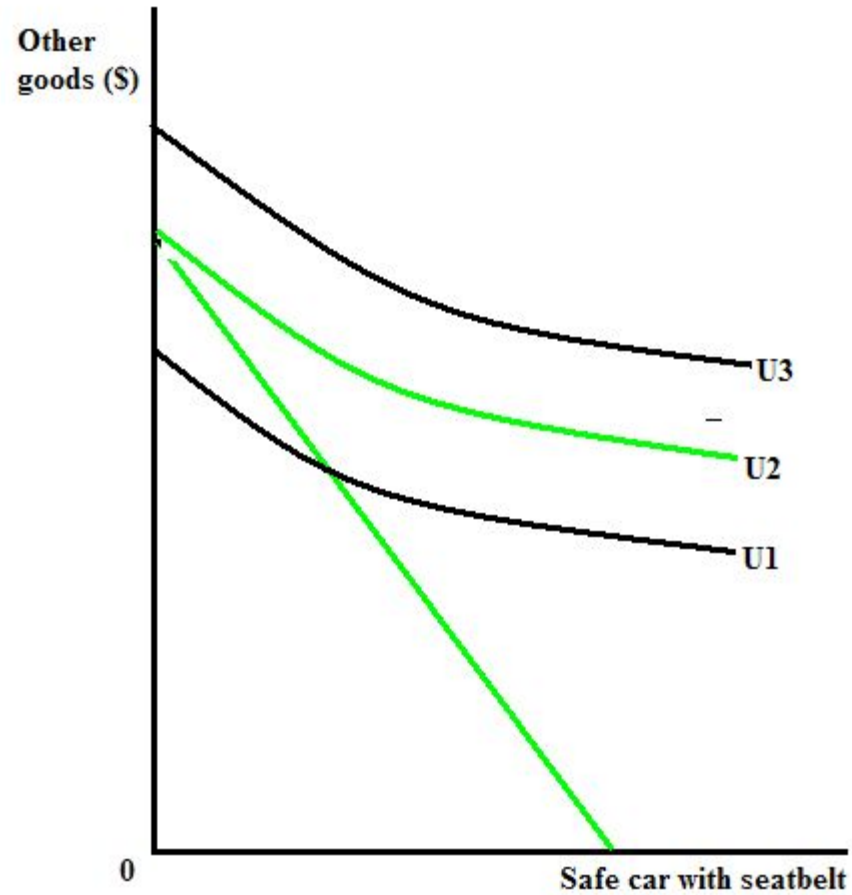
- Education is expensive, but nothing is more valuable.
- Ukraine needs more energy.
- Social Security should cover our basic needs in retirement.

# Question\*\*\*

## Car seat-belt

- Before seatbelt was not required by law, it was available as an option.
- The drivers knew that seatbelts reduced the injuries from accidents.
- But, the drivers did not buy them.
- Are the drivers irrational?

# Corner solution



# Homework \*

- A consumer must pay \$10 per unit of good X for the first 5 units, but only \$5 per unit for each unit in excess of 5 units. How does the budget line look like?



# Homework \*\*

## Translate below to Ukrainian

- Market adjustment to changes in Demand and Supply
- Consumer Price Index
- Inflation
- Corner solution