

SECTION NOTES 14

Covering material from Lecture on March 2nd

CLASS OUTLINE

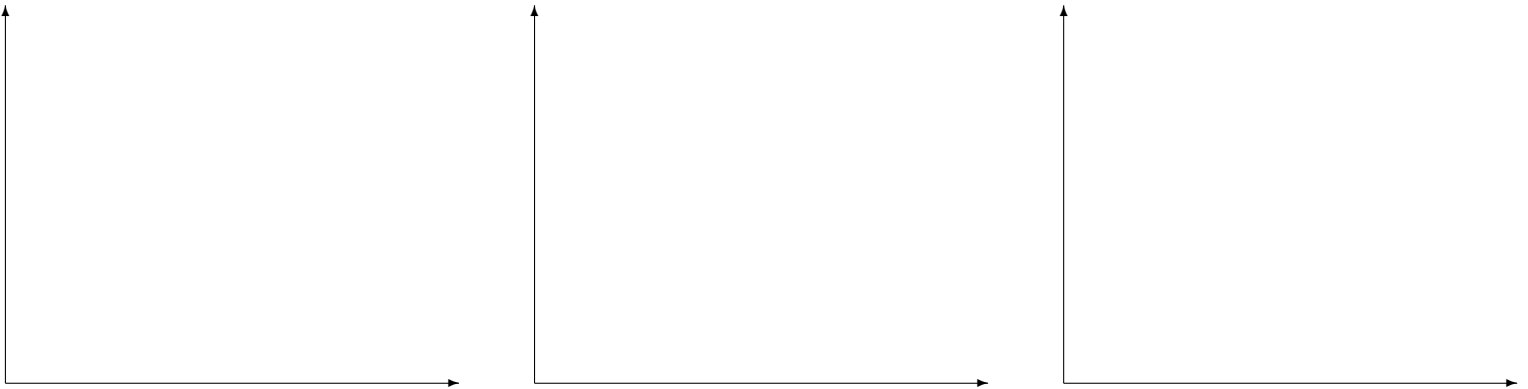
1. Shut Down vs. Entering a Market
2. Economic Efficiency: Aggregate Surplus
3. Surplus and Government Intervention

1 Shut Down vs. Entering a Market

Why would a firm decide to stay in production when they are running a negative profit? This may first seem counter-intuitive, but it has to do with the difference between fixed costs and variable costs. In order to understand this in greater detail, let's work through the last problem from the previous section notes.

2 Economic Efficiency: Aggregate Surplus

When looking at the entire market, economic efficiency can be determined by looking at consumer and producer surplus. This can be seen well graphically. Further, think through how this changes as the elasticity of the curves change:



3 Aggregate Surplus and Government Intervention

How do we do perform analyses of changes in consumer surplus and producer surplus from government intervention? This is best seen graphically. If we have actual supply and demand curves, then the algebra follows in a very straightforward way.

In the following graphs we will identify losses to producers and consumers, deadweight losses, as well as money given to the government for the following interventions.

1. Price Ceiling: p_{\max} .
2. Price Minimum (i.e. minimum wage): w_{\min} .
3. Market Failure:

