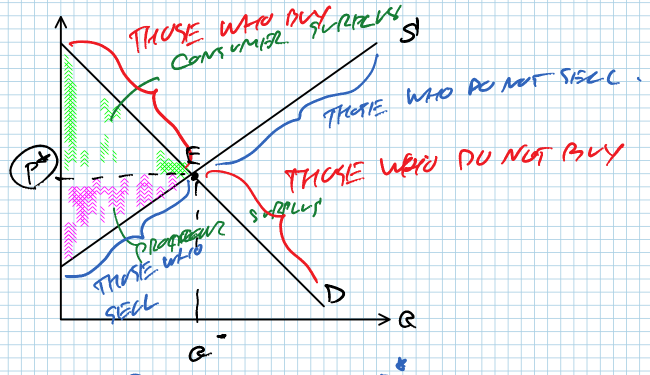
Thursday, September 01, 2011
11:02 AM

FROM LAST CLASS



RESULTS ?

$P = P^*$

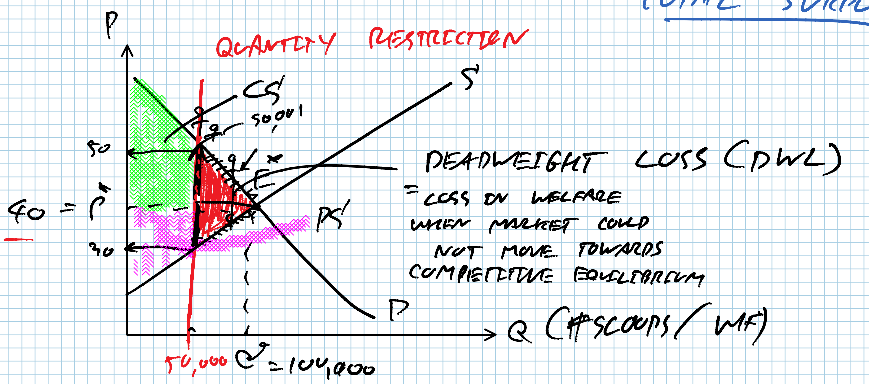
$Q = Q^*$

CS = GREEN AREA

PS = PINK AREA

TOTAL SURPLUS = CS + PS.

" COMPETITIVE MARKET LEADS TO THE BIGGEST TOTAL SURPLUS "



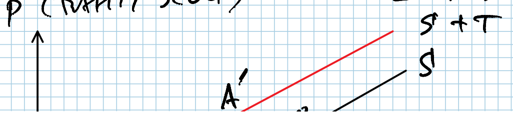
MARKET FOR ICE-CREAM

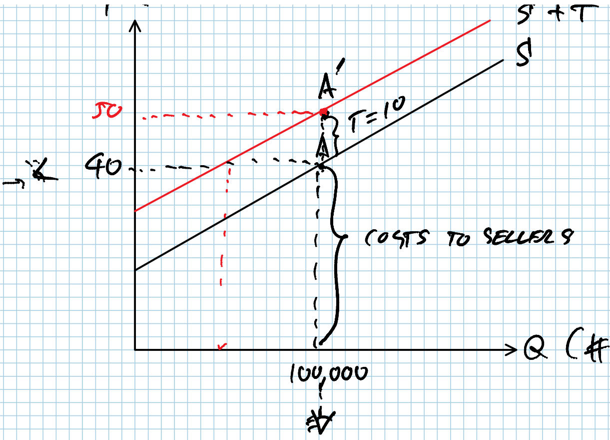
SO FAR, ...

- DEMAND
- SUPPLY
- MARKET EQUILIBRIUM
- ELASTICITY
- CS, PS, DWL.

APPLICATIONS

- EFFECT OF TAXES
- PRICE CONTROLS — PRICE CEILINGS / PRICE FLOORS



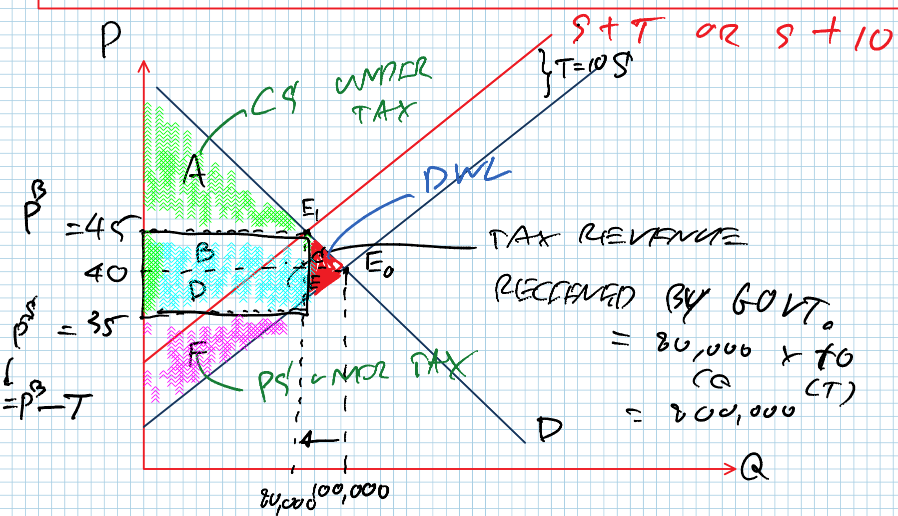


= MINIMUM PRICE THAT SELLER COULD ACCEPT IN ORDER TO INDUCE THEM TO SELL A GIVEN QUANTITY.

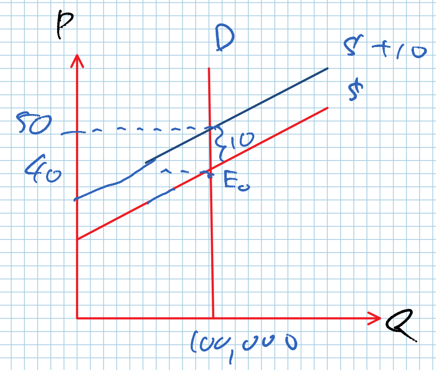
SUPPOSE: UNIT TAX IS INTRODUCED ON SELLERS

T = 10 BAHT / SCOOP.

HERE, WE COULD SEE THAT UNIT TAX ON SELLERS INCREASES THE COST TO THE SELLERS



TAX REVENUE RECEIVED BY GOVT.
= 80,000 × 10
(Q) (T)
= 800,000



RESULT #1 (ON Q) UNIT TAX ON SELLERS LEADS TO LOWER MARKET TRANSACTION
(MARKET BECOMES LESS ACTIVE)

RESULT #2 (ON P) : BUYERS PAY HIGHER PRICE
(FROM 40 → 45)
SELLERS GET LOWER PRICE
(FROM 40 → 35)

IMPLICATION ? SELLERS COULD SHIFT SOME TAX BURDEN TOWARDS BUYERS IN FORM OF HIGHER PRICES

RESULT #3 B/F A/F

RESULT #3

(ON WELFARE)

	B/F UNDER PERFECT COMPETITION	A/F UNDER UNIT-TAX	Δ IN WELFARE
CONSUMER SURPLUS	ABC	A	−B −C
PRODUCER SURPLUS	DEF	F	−D −E
GOVERNMENT	0	BD	+B +D
TOTAL SURPLUS	ABCDEF	ABDF →	−C −E

CONSUMERS ARE WORSE OFF.

PRODUCERS ARE WORSE-OFF.

DWL = WELFARE LOSS TO THE SOCIETY.