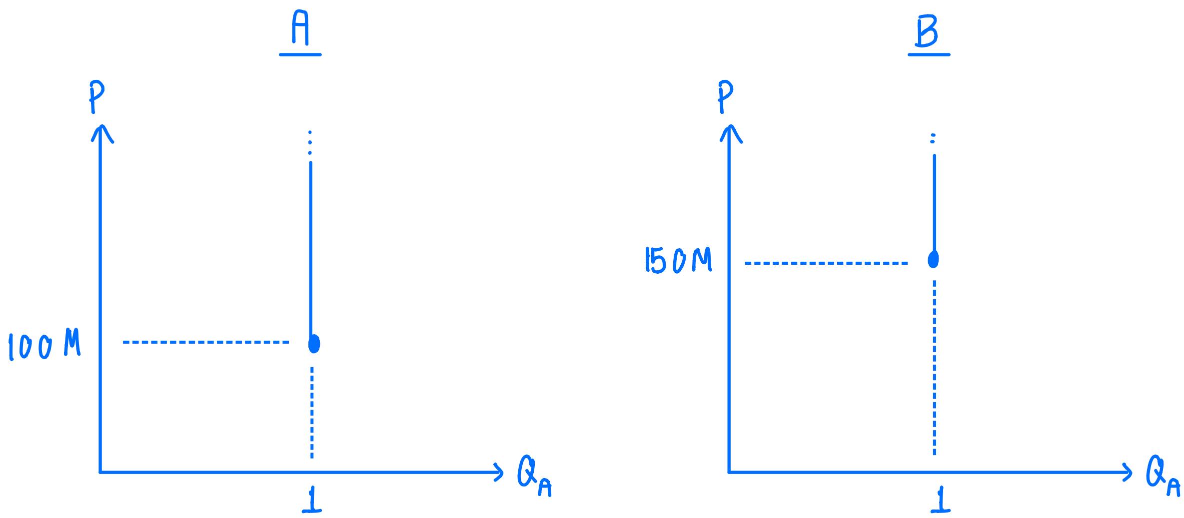
HW 3 Due Thursday, February 11, 2021

1. Suppose that it is legal to sell one's kidney. What is the individual supply of kidney of a person who wants to sell his kidney? Does the market supply respond with a higher quantity supplied if the price of kidney increases?

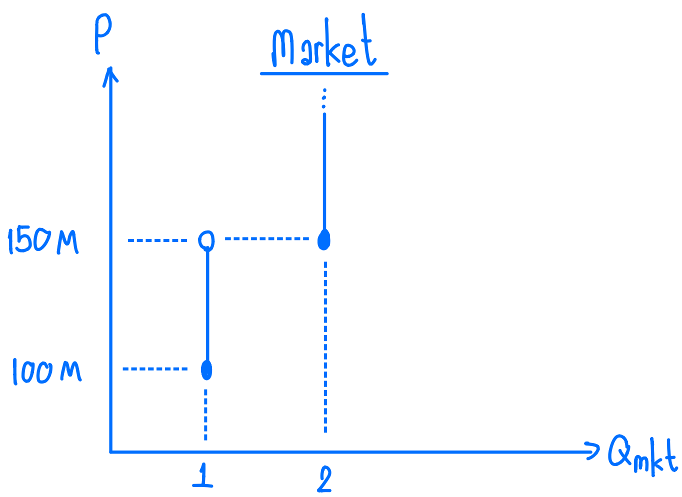
Suppose there are only 2 sellers, A and B, in the market for kidney



They have only 1 kidney available for sell. Thus, the quantity supplied (for individual A & B) is fixed at 1.

A is willing and able to sell 1 kidney at any price equal to or greater than 100 M., While B is willing and able to sell 1 kidney at any price equal to or greater than 150 M.

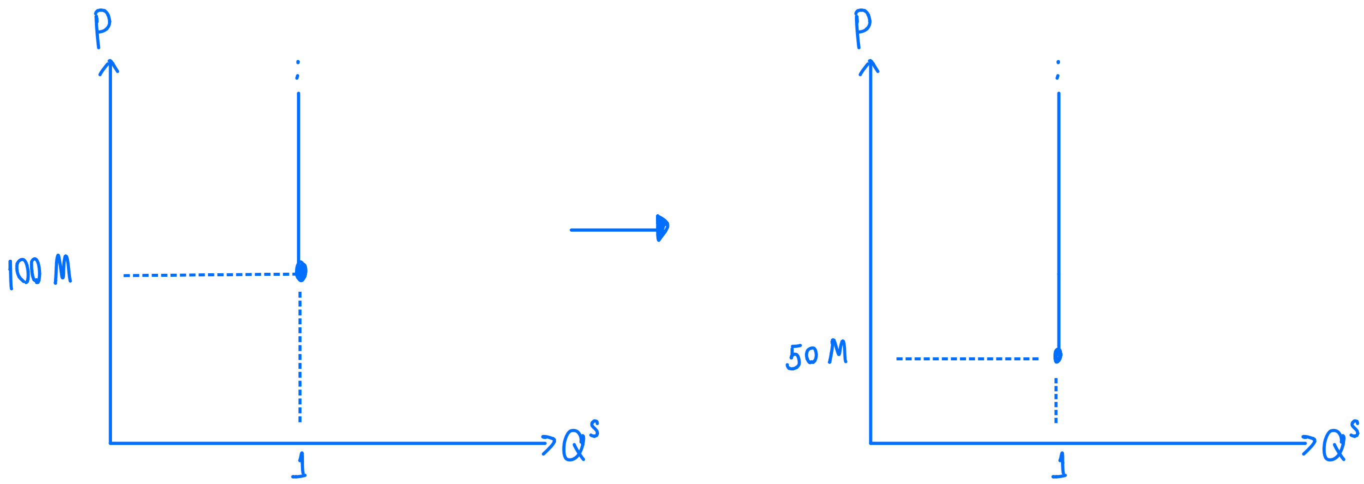
Therefore, the market supply of kidney is ...



- At the price $100M \leq P < 150M$, A is able and willing to supply 1 kidney while B does not supply at all. Thus, quantity suppied is equal to 1.
- At the price $P \geq 150 M$, A and B are willing and able to sell 1 kidney individually.

Therefore, quantity supplied is equal to 2. Even the price goes extremely high, the market quantity supplied would still be equal to 2 because each seller can supply at most only 1 kidney.

2. Let A be a person who is willing to sell one of his kidney so that his supply of kidney is vertical at $Q_S = 1$ with any price at least 100 million baht. If A's supply of kidney increase, how would his Supply curve change?



When supply increases, the seller is willing and able to supply at the lower price. For example, as illustrated above, A initially supplies 1 kidney at the minimum price = 100 M, then supply increases. A, now, would be able and willing to sell 1 kidney at the minimum price = 50 M.