

ECON 1 – Section 4

Demand & Supply.

Contact Details

- GSI: Ramon Estopina
- Office: Evans 508-5
- Office Hours: Tuesday 1-3 PM
- Email: estopina@haas.berkeley.edu
- Webpage: ...ep, you know, TBD

Section 4 Agenda

- Administrative stuff (aprox. 3 min).
- Review of Last Session & Lecture (5 min).
- Exercise 4-4 (5 min).
- Exercise 4-2 (5 min).
- Exercise 4-3 (5 min).
- Exercise 4-13 (15 min).
- Exercise 4-14 (15 min).
- Re-cap (aprox 3 min, let's see).

Administrative Stuff - reminder

- **PS-1 due Wednesday !!!**
- **Do you have name tags?.**
- **Please come on time !!!**
- **I can not make changes to sections. Students in waiting list will be notified by JAYA SIL (jsil@are.berkeley.edu) if accepted.**

Review of Last Session - 9/4th

- Problems in
 - Economic Surplus.
 - Opportunity cost.
 - Sunk cost.
 - Present Value.
- Exercises 2-6 / Extra 1 & 2 / Quiz

Review of Last Lecture - 9/4th

- Supply Curve (slope, what is plotted)
- Demand Curve (slope, what is plotted; P rises: substitution & budget)
- S & D diagram (labeling of axes)
- Equilibrium
- Disequilibrium (ES, ED, P vs equilibrium P)
- Free market equilibrium P (efficiency; MB=MC; social optimum)
- Government Intervention (ceiling, floor: examples, who likes each)
- Movement Along vs Shift of D & S curves (technology, regulation, input price, complements, substitutes)

Important to remember !!

- Supply: Curve showing the total quantity of a good that sellers wish to sell at each price.
 - Trick: Think in marginal cost.
- Demand: Curve showing the total quantity of a good that buyers wish to buy at each price.
 - Trick: Think in income.

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Exercise 4 – 4 (F&B page 99)

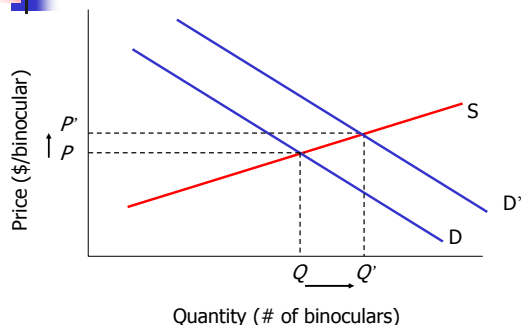
- An Arizona student claims he to have spotted an UFO over the desert outside of Tucson.
- How will this claim affect the supply of binoculars in Tucson stores?
- Remember:
 - Supply: Any change in costs of binoculars?.
 - Demand: Any change in willingness to buy more binoculars?

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Exercise 4 – 4 (cont'd)



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Exercise 4 – 4 (Conclusion)

- More willingness to buy causes
 - Increase in demand that makes
 - D curve shifts up-right.
- No change in supply. The UFO sighting doesn't affect the factors that govern the supply of binoculars.

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Exercise 4 – 2 (F&B page 99)

- How will each of the following affect the US market supply curve for corn?
- A new and improved crop rotation technique is discovered?
 - The discovery is a technological improvement.
 - The improved technique would enable more crops to be produced with the same inputs.
 - Less cost, supply will increase = curve will shift down-right.
- The price of fertilizer falls.
 - Fertilizer is an input. Lower input prices shift the supply curve to the right.
 - Less cost, supply will increase = curve will shift right (down).

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Exercise 4 – 2 (cont'd)

- The government offers new tax breaks to farmers.
 - The new tax breaks make farming relatively more profitable than before.
 - Thus those who were employed in a job that was just a little better than being a farmer would switch to farming.
 - Less cost, supply will increase = curve will shift right (down).
- A tornado sweeps through Iowa.
 - Tornadoes destroy corn. More costly to produce the crop.
 - More cost, supply will decrease = curve will shift left (up).

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Exercise 4 – 3 (F&B page 99)

- How will each of the following affect demand in the indicated market?
- An increase in family income on the demand for Adirondack vacations.
 - Demand shifts right: income has risen and vacations are a normal good.
- A study linking beef consumption to heart disease on the demand for hamburgers.
 - Demand shifts left: preferences have shifted from beef to other meats.
- A relaxation of immigration laws on the demand for elementary school places.
 - Demand shifts right: population has risen.

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Exercise 4 – 3 (cont'd)

- An increase in the price of audiocassettes on the demand for CDs.
 - Demand shifts right: the price of a substitute has risen.
- An increase in the price of CDs on the demand for CDs.
 - Demand is unaffected; there will be a movement along the curve—i.e., quantity demanded will fall.

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Exercise 4 - 13 (F&B page 100)

- What will happen to the equilibrium price and quantity of apples if apples are discovered to help prevent colds and fungus kills 10 percent of existing apple trees?
 - Trick: Study each effect separately:
 - Effect of apples are discovered to help prevent colds +
 - Effect of fungus kills 10 percent of existing apple trees

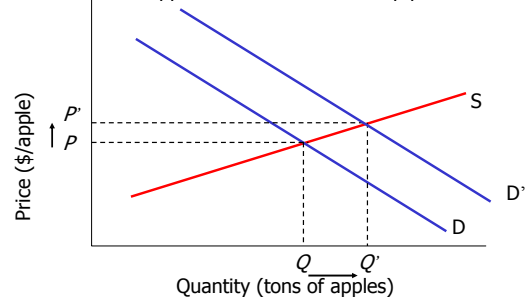
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Exercise 4 - 13 (continued)

- Effect of apples are discovered to help prevent colds



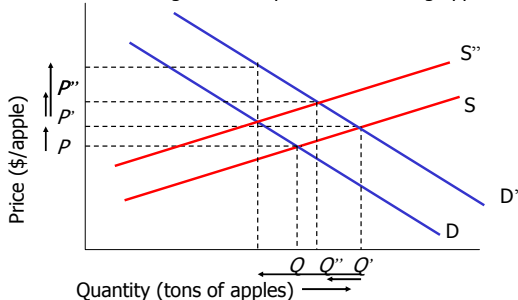
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Exercise 4 - 13 (continued)

- Effect of fungus kills 10 percent of existing apple trees.



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Exercise 4 – 13 (Conclusion)

- The discovery of the cold-fighting property causes a rightward shift in the demand curve for apples.
- The fungus causes a leftward shift in the supply curve.
- The equilibrium price of apples will rise, but the equilibrium quantity may go either down or up.

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Exercise 4 - 14 (F&B page 100)

- What will happen to the equilibrium quantity and price of corn if the price of butter increases and the price of fertilizer decreases?
 - Trick: Study each effect separately:
 - Effect of increase of price of butter.
 - Effect of decrease of price of fertilizer.
 - Butter and corn are complements.

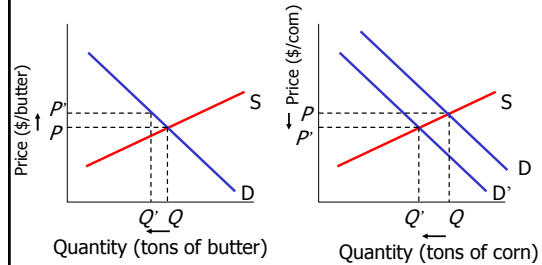
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Exercise 4 - 14 (continued)

- Effect of increase of price of butter



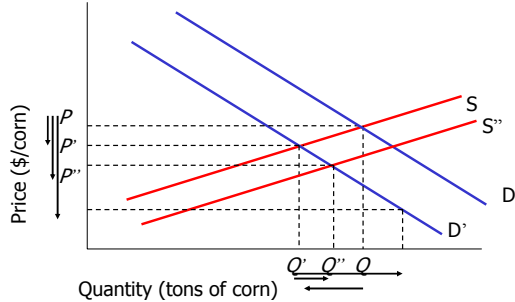
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Exercise 4 - 14 (continued)

- Effect of decrease of price of fertilizer.



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Exercise 4 - 14 (Conclusion)

- Since butter and corn are complements, an increase in the price of butter will cause the demand curve for corn to shift leftward.
- The fertilizer price decrease causes the supply curve for corn to shift rightward.
- The equilibrium price of corn falls, but the equilibrium quantity may go either down or up.

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Where to Get More Information

- Class Book: Chapter 4.
- Class Book: Chapter 5.

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Summary

- Terms:** Supply & Demand Curve. Equilibrium. Disequilibrium. Movement and Shift of D & S curves.
- Applied to:** 5 problems.
- Next Class:**
 - Section 5 – Wednesday, Sept, 11th
 - PS #1 DUE !!!!
 - Read ch. 5 & 6 before section
 - Come on time !!!
 - Please bring name tags.
- C-U WEDNESDAY.**

DO NOT FORGET !!

PLEASE !!

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