

Price Taking Behavior and Efficiency

News Item

Review Elasticity

What Economists Mean by Efficiency

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Efficiency and Marginal Cost Pricing

Comments on Midterm

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DTH: BBall Ticket Distribution

Ticket distribution policy unveiled

By: Katy Doll, Assistant University Editor

Posted: 9/24/07

The new student ticket distribution policy was rolled out Friday, with changes including general admission for students and phased-in entrance times for men's basketball games.

The online policy has one round of lottery selection in which winners receive two tickets. Tickets are printed with a phase that details how early before tip-off students can enter.

DTH: Music Events Ticket Distribution

New ticketing policy in works

May involve a Union 'campout'

Breaken Brenneator, Staff Writer

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University officials are putting together a new policy for event ticket distribution that maintains a camping-out atmosphere while addressing safety concerns.

The policy isn't finalized yet, but a new method of ticket distribution is planned that would allow students to line up in the Great Hall of the Student Union at night and buy tickets there the following morning.

The new policy will try to address student safety by providing them with a safe environment when they line up, said Debra Watkins, associate director at the Union.

The policy will be used for major musical events at Memorial Hall, such as the Homecoming appearances by the Avett Brothers and Gym Class Heroes.



Students camp outside Memorial Hall in February 2007 for tickets to a Bar Potts solo concert. SAC is developing a new concert ticketing policy.

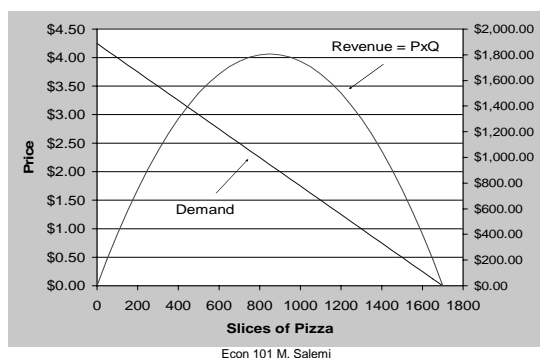
Review Elasticity

Price Elasticity of Demand measures the **responsiveness** of the quantity demanded to price.

Price Elasticity of Supply measures the **responsiveness** of the quantity supplied to price.

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Demand and Revenue



Demand is more elastic if ...

Good substitutes for the product exist.

The product accounts for a larger share of the budget of a typical consumer.

If a longer period of time is allowed for consumers to adjust to the price change.

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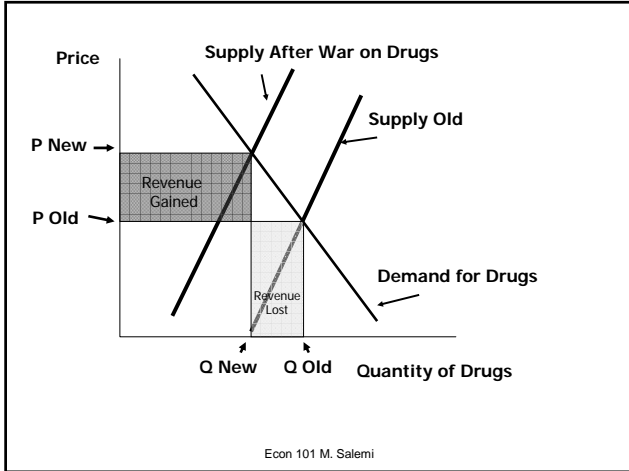
Use Your Clicker to Answer the Following Graded Question

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Reducing the supply of drugs is not likely to lower property crime because demand for drugs is ____ and lowering the supply of drugs will _____ the amount of money that drug users spend on drugs.

- A. Elastic, Raise
- B. Elastic, Lower
- C. Inelastic, Lower
- D. Inelastic, Raise

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Economic Efficiency

Economies allocate goods and services to individuals.

An allocation is efficient if it is not possible to reallocate goods in a way that makes someone better off without making someone else worse off.

If it is possible to make someone better off without making anyone else worse off, an allocation is inefficient.

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Economic Efficiency

Mrs. Doubtfire is a care giver for Jan and Ari. She has allocated one Snickers and one Package of Oreos to each child.

The children's reservation prices for each snack are given in the table.

Reservation Prices		
	Jan	Ari
Snickers	\$1.00	\$0.50
Oreos	\$0.75	\$1.00

Is the allocation efficient?

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Use Your Clickers to Answer the
Following
Graded Question.

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Is the Allocation Efficient?

- A. No, Ari should get an Oreo from Jan and give a Snickers to her.
- B. No, Ari should get a Snickers from Jan and give an Oreo to her.
- C. Yes, Both Ari and Jan have the same reservation price for their favorite snack.
- D. Yes, Because Ari and Jan have different reservation prices for Oreos.

	Jan	Ari
Snickers	\$1.00	\$0.50
Oreos	\$0.75	\$1.00

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Is there an allocation that would make either Ari or Jan better off without making either worse off?

Ari trades a Snickers to Jan for an Oreo.

Ari's surplus increases by $\$1.00 - \$0.50 = \$0.50$

Jan's surplus increases by $\$1.00 - \$0.75 = \$0.25$

	Jan	Ari
Snickers	\$1.00	\$0.50
Oreos	\$0.75	\$1.00

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Market Allocations and Efficiency

Provided that...

Buyers and sellers are well informed.

Buyers and sellers are price takers.

Demand and Supply schedules reflect all the benefits and costs associated with consumption and production of the good.

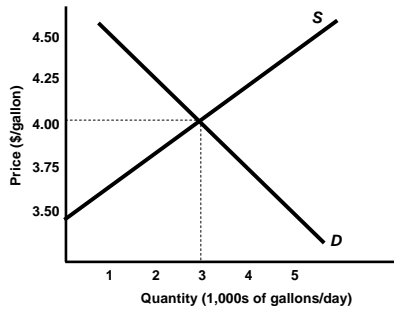
Then...

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The Allocation Achieved by the Equilibrium Price Is Efficient.

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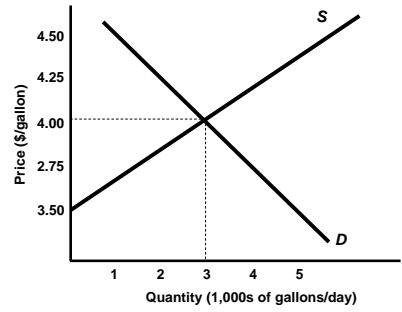
Consider Equilibrium in the Gasoline Market after Hurricane Ike



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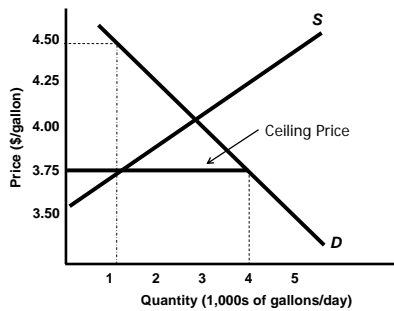
At the Equilibrium Price for Gas...

There is no opportunity for a "side trade" that makes someone better off without hurting someone else.



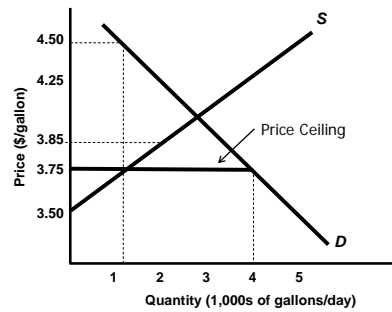
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At a Ceiling Price for Gas of \$3.75...



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There are Trades that Could Make Some Better Off Without Making Anyone Worse Off.



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At the Ceiling Price of \$3.75...

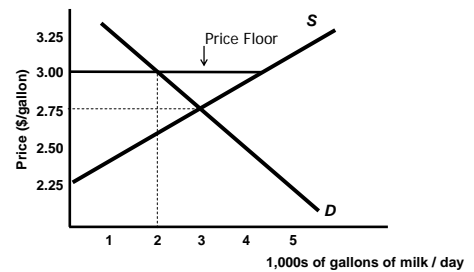
There are demanders whose reservation price for an additional gallon of gas is \$4.50.

There are suppliers who will willingly supply additional gallons at \$3.85.

The price system has failed to bring these two potential traders together.

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A Binding Price Floor is Also Inefficient. Consider the Market for Milk.



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At a Floor Price of \$3.00 per gallon...

There are suppliers who would willingly supply a gallon of milk for any price above \$2.60.

There are demanders who would willingly buy additional gallons at a price less than \$3.00.

The price system has failed to bring these two potential traders together.

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Economic Efficiency of Airline Bumping Policies

Airlines routinely sell more seats on a flight than the capacity of the aircraft.

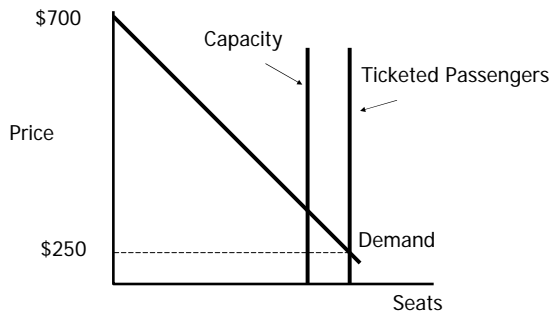
Airlines expect some who booked seats to be "no shows".

Occasionally, more ticket holders show up than the aircraft can carry.

How should the airline handle this situation?

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Is there an efficient way to “bump” passengers?



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Is There an Efficient Way to “Bump” Passengers?

Bumping the last ticket passengers to arrive at the gate is likely to take seats away from those with high reservation values.

Offering a side payment to those who volunteer will take seats away from those with low reservation values.

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Efficiency and Marginal Cost Pricing

Markets are efficient when the value paid by the last buyer of a good or service just equals the marginal cost of producing the good or service

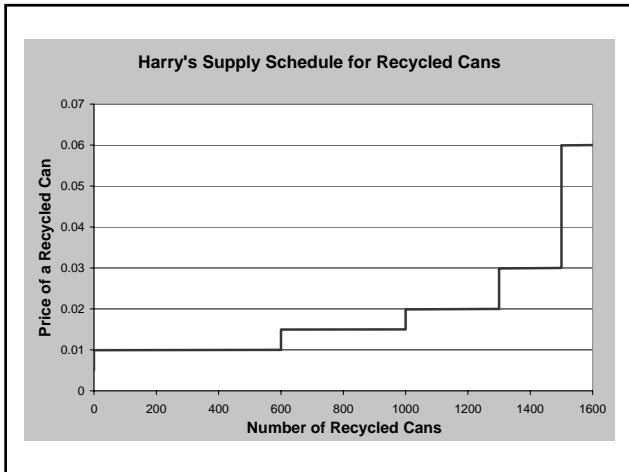
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Marginal Cost Pricing

When suppliers are price takers and when all costs of production are reflected in the supply schedule, then ...

The supply schedule records the marginal cost of providing the good or service to society.

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Marginal Cost Pricing

When price is determined by demand and supply, the market price equals the marginal cost of producing the last unit of the good or service sold.

Thus the market reveals to everyone the marginal cost of production.

Those who buy the good are those, and only those, who are willing to pay the marginal cost.

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Use Your Clickers to Answer The
Following
Non-Graded Question.

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Durham gets water from three sources. The following table shows the cost and capacity of each source.

Source	Capacity millions gals. per day	Cost per gallon
Spring	2	\$.01
Lake Michie	2	\$.015
Kerr Lake	2	\$.03

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If Durham residents normally use 5 million gallons of water per day, Durham should charge _____ per gallon for water.

- A. \$.01
- B. \$.015
- C. \$.016
(average cost)
- D. \$.03

Source	Capacity millions of gals. per day	Cost per gallon
A	2	\$.01
B	2	\$.015
C	2	\$.03

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Why should Durham charge \$.03 per gallon when its average cost is only \$0.16?

The marginal cost to Durham of a gallon of water is \$.03.

Households have substitutes available.

Households should make the decision to use water or a substitute based on the true marginal cost of a gallon of water.

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The Midterm Exam Curve

Midterm Exam Statistics

Statistics		Tentative Grade Thresholds				
Mean	Median	A-	B-	C	D	F
23.5	24	27	23	18	16	<16
		.265	.342	.331	.047	.015

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Midterm Exam Appeals

There is an appeal process explained on the web page.

Consult it before you consider talking about your grade with your TA.

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Price Taking Behavior and Efficiency

For economists, efficiency means not being able to make someone better off without making someone else worse off.

When buyers and sellers take price as given, the market produces an efficient allocation.

It is efficient to face every buyer with the true marginal cost of producing a good.

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