



Lecture 19

- **Evaluating the gains and losses from government intervention in a competitive market**
- **The efficiency of a competitive market**
- **Minimum prices**

Gains and Losses

- **Review: (Figure 9.1)**
 - Consumer surplus is the area between the demand curve and the market price
 - Producer surplus is the area between the supply curve and the market price
- **Application:**
 - Deadweight loss: net loss of total surplus
 - Price controls: (Figure 9.2 - 9.3)
 - Under an elastic demand
 - Under an inelastic demand
 - Price controls and shortages: example 9.1




Efficiency

- **A competitive market is efficient:**
 - There is no deadweight losses at the market-clearing price
 - Deadweight losses occur when price is held either above or below the market-clearing price (Figure 9.5 - 9.6)
- **Exceptions:**
 - Externalities
 - Market failure
- **The market for human kidneys:
(Example 9.2)**



Minimum Prices

- **Price floor vs. price ceiling:**
 - Kidney case: price ceiling
 - Labor market: price floor
- **Price floor:**
 - General case: Figure 9.8
- **Examples**
 - Minimum wage and unemployment: Figure 9.9
 - Airline regulation: Figure 9.10 and Table 9.1



Exercises

- Q1
- Q2
- Q4
- Q5

