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