5 Book Notes

Saturday, September 5, 2020 7:06 PM

Intro

Change in allocative efficiency:

$$\Delta SS = \Delta SS_O + \Delta SS_I + \Delta SS_S$$

output input secondary markets

5.1 Shadow Pricing

When no market price exists or it is obscured, shadow pricing exists

5.2 Valuing impacts in efficient markets

5.2.1 Direct increase in supply available to consumers

5.2.2 Direct reduction in costs to producers

5.3 Valuing impacts in distorted markets

If output market becomes distorted, hard to determine correct surplus changes

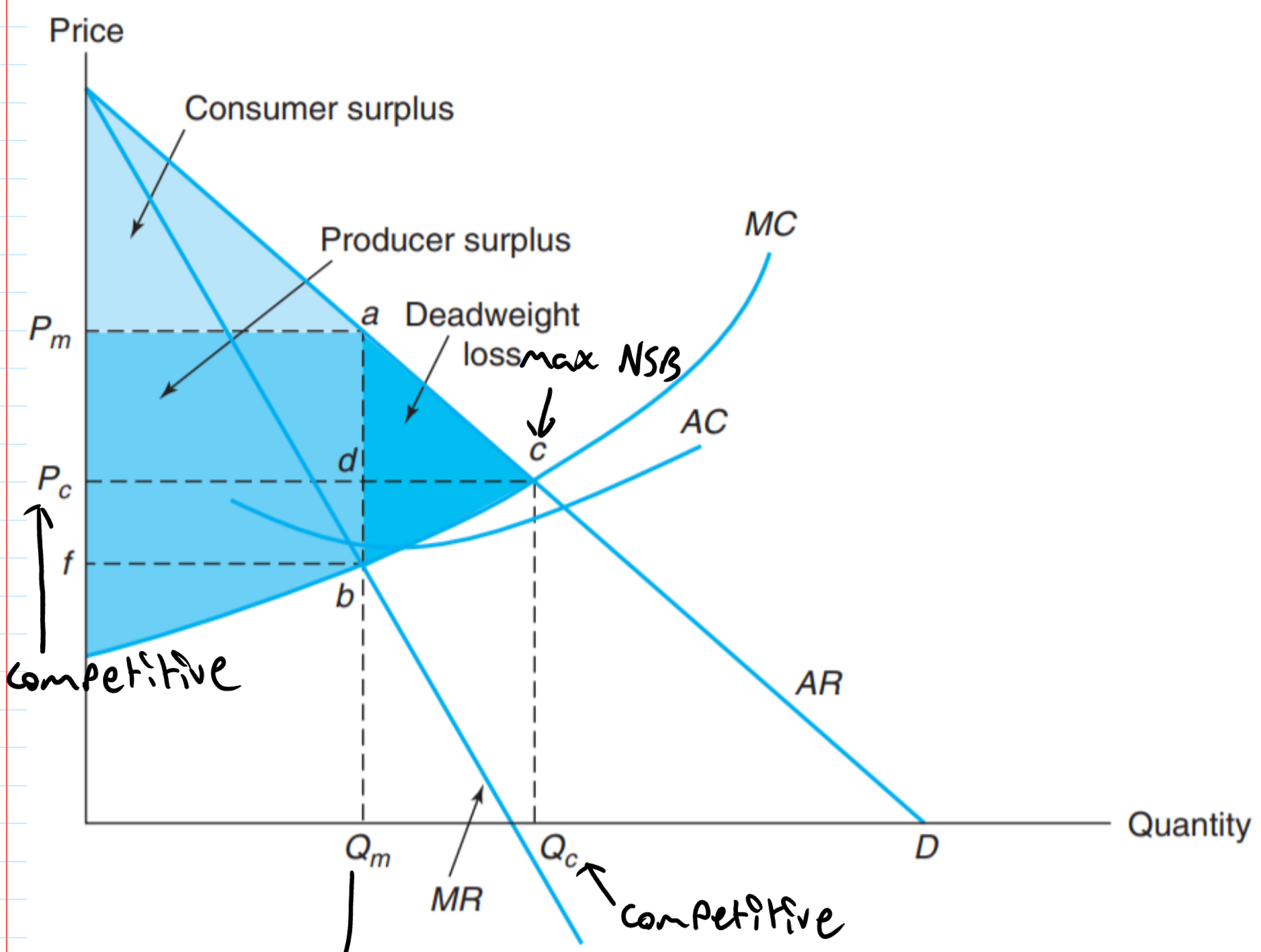
Five types of failures:

- monopoly
- information asymmetry
- externalities
- public goods
- addictive goods

5.3.1 Monopoly

results in DWL and reduces SS

Marginal revenue (MR) is below demand (AR)



maximize profit

MC = MR

SS = CS + PS

Monopolist maximizes profits

5.3.2 Natural monopoly

Natural monopoly enjoys economies of scale over a wide range of outputs

Large fixed costs relative to variable costs

MC < AC over range