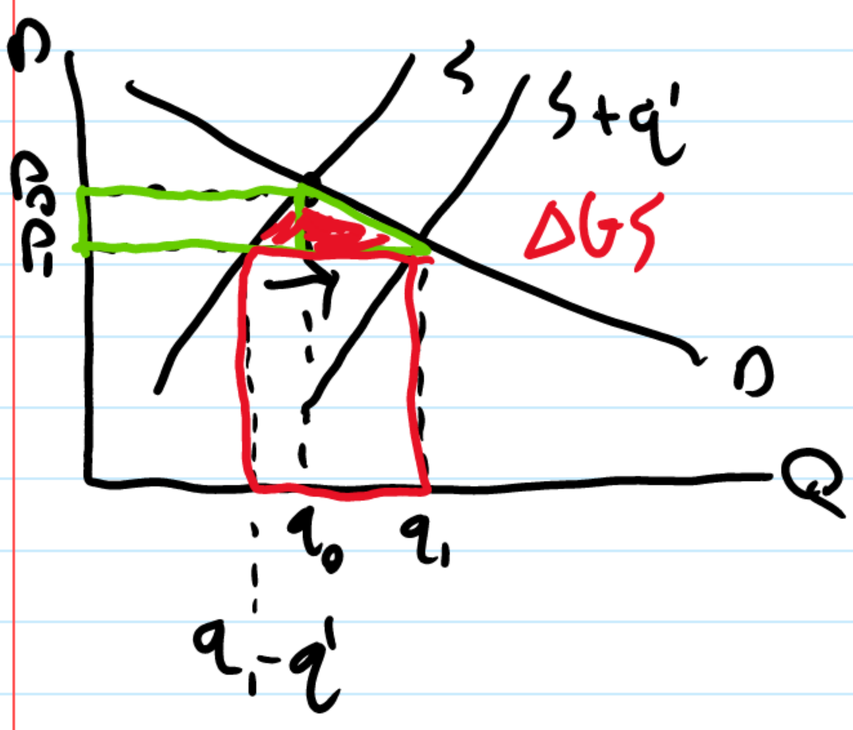
5.3 Efficient Output Markets - Direct Supply

Friday, September 11, 2020 12:05 PM



$$\Delta PS = -(P_0 - P_1)\cdot(q_1 - q') = \frac{-1}{2}(P_0 - P_1)(q_0 - q_1 + q')$$

$$\Delta CS = (P_0 - P_1)q_0 + \frac{1}{2}(P_0 - P_1)(q_1 - q_0)$$

$$\Delta PS + \Delta CS = q' \cdot (P_0 - P_1) \cdot \frac{1}{2}$$

$\Delta GS = P_1 \cdot q'$

- assuming Gov't sells at market price P_1

$$\Delta SS = \alpha_C \Delta CS + \alpha_P \Delta PS + (1 + MEBT) \cdot \Delta GS$$

$\alpha_C = \alpha_P = 1$

$$= q' \cdot (P_0 - P_1) \cdot \frac{1}{2} + (1 + MEBT) \cdot P_1 \cdot q'$$

assume given away, resale possible

$\Delta GS = 0$

ΔCS is higher by $P_1 \cdot q'$

- given away, no resale