

Tutorial 04 The Market Forces of Supply and Demand

(4.2.3) Case Study | Two Ways to Reduce the Quantity of Smoking Demanded

1. Public policies

- Public service announcements, mandatory health warnings on cigarette packages, and the prohibition of cigarette advertising on TV
- Shift the demand curve to the left

2. Raising the price of cigarettes through tobacco taxes

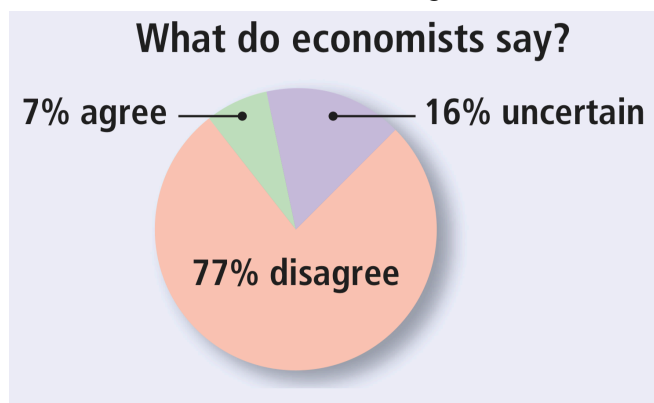
- Lower the quantity demanded (a movement along the original demand curve).
- This will decrease teenager smoking by a lot.
- Tobacco and marijuana are complements.

(4.4.2) In the News | Price Increases after Disasters

- John Carney, 'Is Price Gouging Reverse Looting?', *CNBC*, Oct 31, 2012.
- When a disaster such as a hurricane strikes a region, many goods experience an increase in demand or a decrease in supply, putting upward pressure on prices. Policymakers often object to these price hikes, but this opinion piece endorses the market's natural response.
- According to AG Schneiderman's release, all price increases on "necessary goods and items" count as gouging.
- Price gouging can occur only when there is a shortage of the goods in demand.
- We could have some sort of rationing program.
 - Each person could be assigned a portion of the necessary goods according to their household need. (This is something the U.S. resorted to during World War II.)
 - Rationing requires an immense amount of planning & an impossible level of knowledge.
- We could simply sell goods on a first come, first serve basis.
 - Speed seems a poor proxy for justice.
- Allowing prices to rise at times of extreme demand discourages overconsumption.
- Next time disaster strikes, we should hope for a bit more gouging and a lot fewer empty store shelves.

(4.5) Ask the Experts | Price Gouging

- "Connecticut should pass its Senate Bill 60, which states that during a 'severe weather event emergency, no person within the chain of distribution of consumer goods and services shall sell or offer to sell consumer goods or services for a price that is unconscionably excessive.'"



- Source: IGM Economic Experts Panel, May 2, 2012.