Laura's OH Notes (9/18)

I hate mondays... good thing the exam is on Tuesday!

Chp 2. #26, J

for students who attended my OH this morning; I realized I did not read this critical part of the question from the original question description:

"each works 4 hrs a day"

this clarifies a lot!

we know from earlier parts of the question that:

- Bianca should specialize in milk b/c
  her OC are: 1 milk = 1 apple < rosa's OC 1 milk = 2 apple
  2 > 1
- rosa should specialize in apple b/c
  her OC are: 1 apple = 1/2 milk < bianca OC 1 apple = 1 milk
  1 > 1/2

→ question K says:

(given B & R spend 4 hr. total working)

B: 2 hr apple 2 hr milk

R: " "

because of the theory of comp. adv. we know this is NOT efficient! if B & R specialize in what they have CA in, they can produce more total goods together.

→ thus it is most efficient for:

B: 4 hr milk bc she has CA in milk → 4 milk

R: 1 hr milk only in order to make 2 milk to fulfill question requirement of 6 milk

3 hr apple bc she has CA in apple → 12 apple

in total they can produce 6 milk & 12 apple > 6 milk and 10 apple from question

Chp. 2 #8.

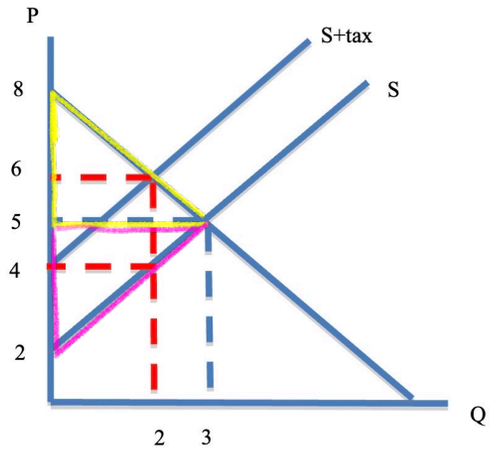
savings → bank → more money to lend to investors who put that money into capital

increase in capital shifts out PPC because economy can produce more than before

→ thus, the more a country saves, the more PPC shifts out. if a country saves some, but less than before, the country's PPC will still shift out but less than it did w/ greater savings.

Little tax recap

ex: chp. 5 #14



Calculation guide:

Original Consumer surplus

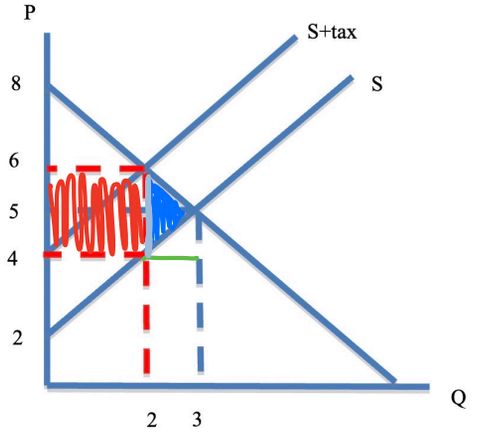
$\frac{1}{2}((3-0)\cdot(8-5)) = 4500$ (units of question in 1000s)

(3-0): x val; (8-5): y val

Original prod. surplus

$\frac{1}{2}(3-0)\cdot(5-2) = 4500$

total OG surplus = CS + PS = 9000



the following cut into Total surplus!

deadweight loss:

$\frac{1}{2}((3-2)\cdot(6-4)) = 1000$

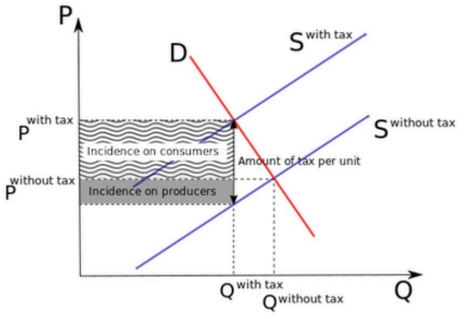
gov. tax revenue

$(2-0)\cdot(6-4) = 4000$

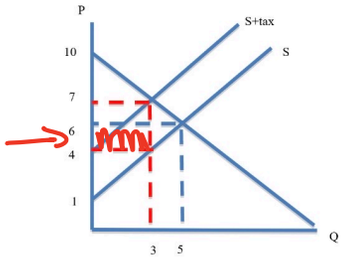
→ 1000 + 4000 = 5000 total loss to surplus

d. if tax revenue is returned, the gov. tax revenue square would go back to consumer / producer surplus. thus 5000 (total loss) − 4000 (gov. tax) = 1000 net reduction

Chp. 5 #18 Incidence : how the burden of the tax falls on participants (consumer / producer)



18. Using the graph determine what is the incidence that producers pay?



A) 4%
B) 2%
C) 1%
D) 66.7%
E) 3%

you are calculating the burden of the tax on the producer (aka. what part of the gov. tax square eats into prod surplus)

calc. area of prod
(6-4)(3-0) = 6

total tax burden (7-4)(3-0) = 9

$\frac{6}{9} = .6667$
→ in % form = 66.67%
producers bear that area of the total tax ☐ ◡̈

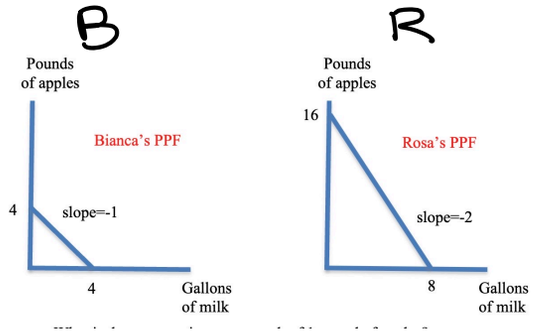
calculating comp. Adv.

Chp. 2 #26.

Bianca: 1M = 1A
Rosa: 2M = 4A

work 4 hrs a day

a & b.



apple = 4 - 1(milk)
↓
total amount of apples B can prod
4 x 1 = 4 hr

apple = 16 - 2(milk)
↓
4 hr x 4 apple = 16

c & d. calculate opp. cost

Bianca

1 M = 1 A

1 A = 1 M

takes less A to prod 1 M so B has CA in M

Rosa:

$\frac{2}{2}M = \frac{4}{2}A$

1 M = 2 A

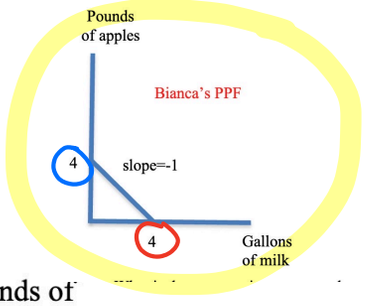
1 A = 1/2 M

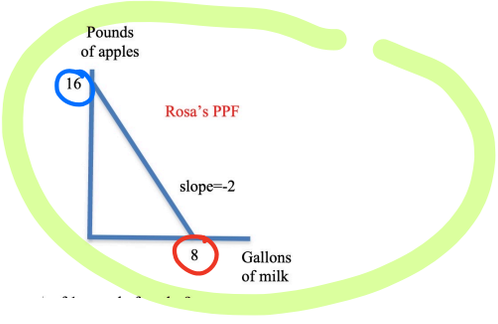
↳ takes less M to produce 1 A so R has CA in A

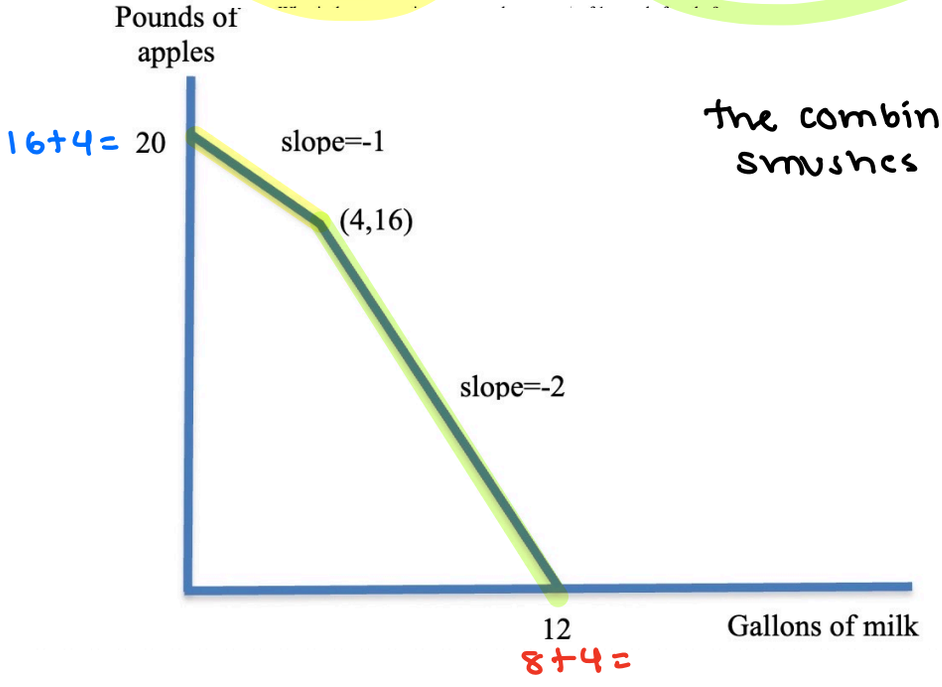
1 < 2

1 < $\frac{1}{2}$

j. joint PPF







the combined PPF simply smushes the two PPFs from earlier together

gains in trade:

google "calculate mutually beneficial price comparative adv." to find Lumen learning

https://courses.lumenlearning.com/wm-microeconomics/chapter/comparative-advantage-and-the-gains-from-trade/

has good calc. mutually beneficial trade example.

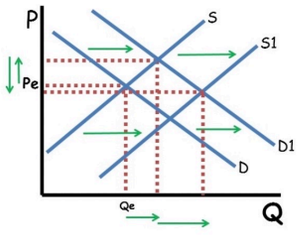
thank you guys who attended! best of luck!!

How do double shifts impact price and quantity?

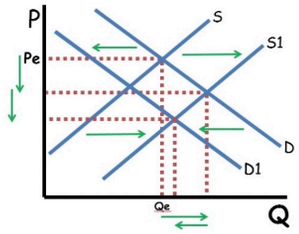
When supply and demand both shift, either price or quantity will be indeterminate. When supply and demand move in the same direction, price is indeterminate. That is because an increase in supply decrease price while an increase in demand will increase price. Since the price axis moves in both directions, the net effect is based on which shift is stronger. Since that cannot be known, the price will be indeterminate. Since both shifts increase equilibrium quantity, the quantity will definitely increase.

Similarly, when supply and demand move in opposite directions, quantity is indeterminate because one shift will increase quantity and the other will decrease quantity.

The key to figuring out the impact of double shifts is to graph out both shifts and see what happens to the equilibrium price and quantity with each shift. If the shifts conflict, that axis is indeterminate.



Demand & Supply Increase



Demand Decrease & Supply Increase

for the person who asked this