

* Figure out implications of Tax in Perfect Competition

* Figure out
Trade sharing
rice and wheat

Key ideas from Review

Normal Good: most goods, \uparrow d when \uparrow income

Inferior Good: ie: Bus rides, cab rides, \uparrow d when \downarrow income

Price Elasticity of Demand:

$$\frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$

Elasticity $> 1 \Rightarrow$ ELASTIC

Elasticity $= 1 \Rightarrow$ Unit ELASTIC

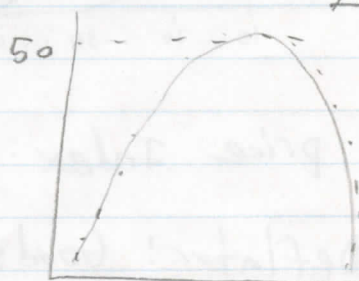
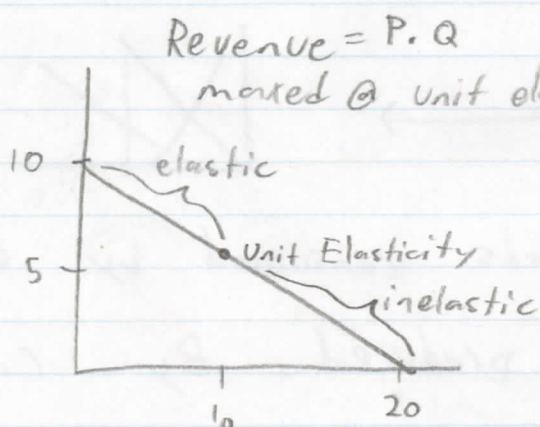
Elasticity $< 1 \Rightarrow$ Inelastic

Fiscal Policy:

Spend more/less money

Monetary Policy:

Δ change amount of money



For Tax purposes
when supply is more elastic, buyers bear most of the burden

when supply is inelastic, producers bear more

* also Demand elastic = producers pay more
Demand inelastic, consumers pay more

Recessionary Gap

Lower wages to correct on its own

Inflationary Gap:

Increase wages to correct on its own

O.C. Costs

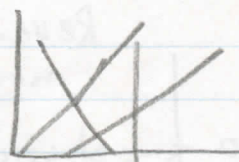
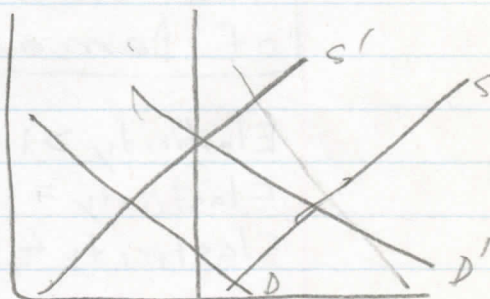
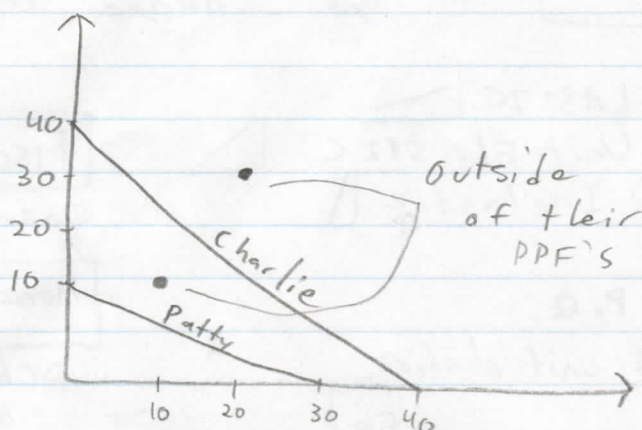
(Explicit)

(Implicit and Explicit)

Accounting cost
- costs you pay

Economic cost
- costs you pay + your next best alternative

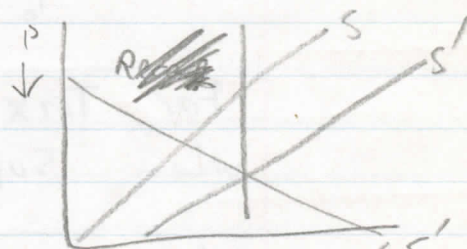
Gains of Trade



CPI price Index: Goods consumed by Canadians

GDP Deflator: Goods produced By Canadians

CPI (includes Imports)
Deflator (does not)



MC

① ☐ C x

$Y < Y^*$

② ☐ B x

③ ☐ D ✓

④ ☐ C x

⑤ ☐ D x

⑥ ☐ D x

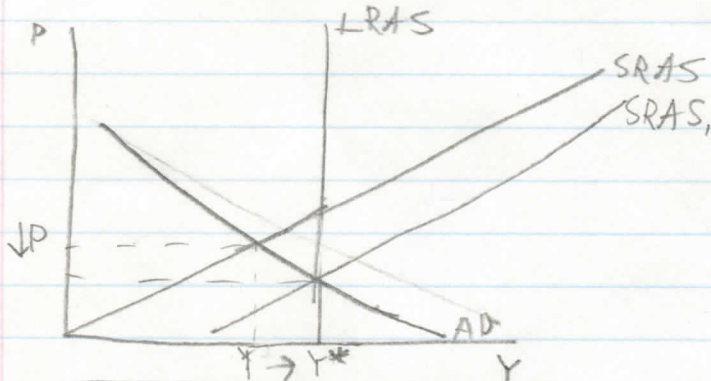
⑦ ☐ A ✓

$$30 - 20 = 10 - 10 + 20 - 3$$

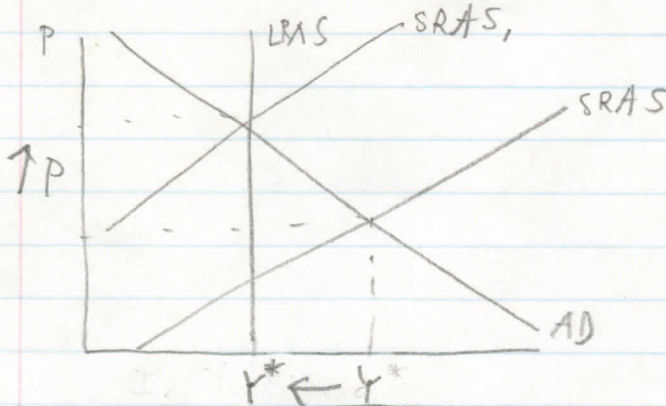
Sell bonds: decrease MS
Buy Bonds: increase MS

SRAS will eventually ~~move~~ shift naturally
Govt. can take action and move AD

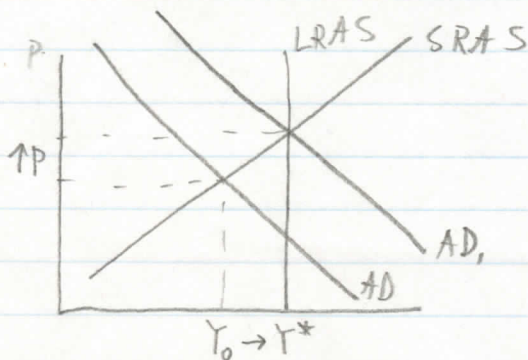
Output Gaps



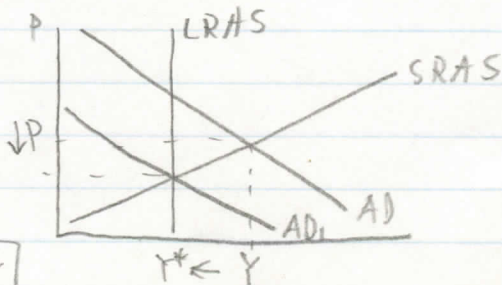
Recessionary Gap



Inflationary Gap



Expansionary Policy



Policy
Contractionary

Self Correcting

↓ Wages
↓ P
Movement along AD to the right
↑ Real GDP

Self Correcting

↑ Wages
↑ P
Movement along AD to the left
↓ Real GDP

Fiscal Policy (increase spending)

↑ P
movement along SRAS to the right
↑ Autonomous spending
"or"
↓ Taxes

Fiscal Policy (decrease spending)

↓ P
movement along SRAS Left
↓ Autonomous spending "or"
↑ Taxes