

# UN1105 Principles of Economics

## Recitation 1

Sean Hyland

Columbia University

Fall 2020

# Outline

- Introduction
- Review of Concepts
- Q1: K&W Problem 3.1
- Q2: K&W Problem 3.8
- Q3: Short-answer Questions

# Introduction (i)

- Introductions.
- Comment on the course, general tips.
- Foundational concepts
  - (i) Economics: scarcity and incentives.
  - (ii) Opportunity costs.
  - (iii) Comment on efficiency, v. other considerations.
  - (iv) Comment on models in economics. [▶▶ Map](#)

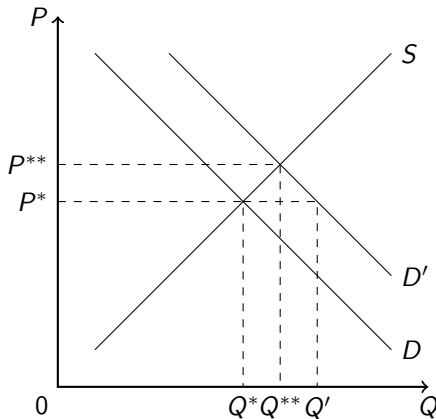
# Review of Concepts (i)

## 2. Demand and Supply Model

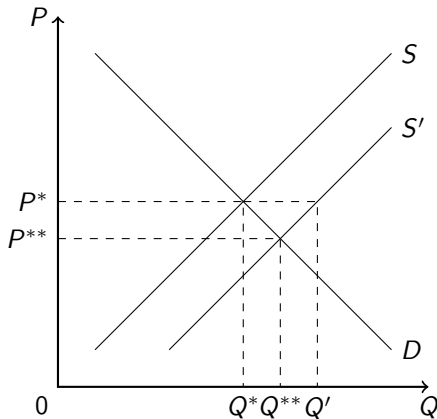
- (i) What type of market are we focusing on?
- (ii) Demand-side
  - Distinguish between movements along, and shifts of, the curve.
  - What factors shift the demand curve?
  - Normal v inferior goods.
  - Market demand v individual demand.
- (iii) Supply-side
  - Distinguish between movements along, and shifts of, the curve.
  - What factors shift the demand curve?
  - Market supply v individual supply.
- (iv) Equilibrium
  - Why does a competitive market move towards this point.
  - Comparative statics following an increase in demand/supply.

# Review of Concepts (iii)

(a) Increase in Demand



(b) Increase in supply



(a)  $D \uparrow \rightarrow$  shortage  $\rightarrow P \uparrow, Q \uparrow$ . Note  $P$  and  $Q$  move in the same direction.

(b)  $S \uparrow \rightarrow$  surplus  $\rightarrow P \downarrow, Q \uparrow$ . Note  $P$  and  $Q$  move in opposite directions.

## Q1: K&W Problem 3.1

A study conducted by Yahoo! revealed that chocolate is the most popular flavor of ice cream in America. For each of the following, indicate:

- the possible effects on demand, supply, or both
  - the possible change in the equilibrium price and quantity of chocolate ice cream.
- (a) A severe drought in the Midwest causes dairy farmers to reduce the number of milk-producing cattle in their herds by a third. These dairy farmers supply cream that is used to manufacture chocolate ice cream.
- (b) A new report by the American Medical Association reveals that chocolate does, in fact, have significant health benefits.
- (c) The discovery of cheaper synthetic vanilla flavoring lowers the price of vanilla ice cream.
- (d) New technology for mixing and freezing ice cream lowers manufacturers' costs of producing chocolate ice cream.

## Q2: K&W Problem 3.8 (i)

Suppose that the supply schedule of Maine lobsters, as well as the domestic and foreign demand schedules, all in pounds, are given by the following.

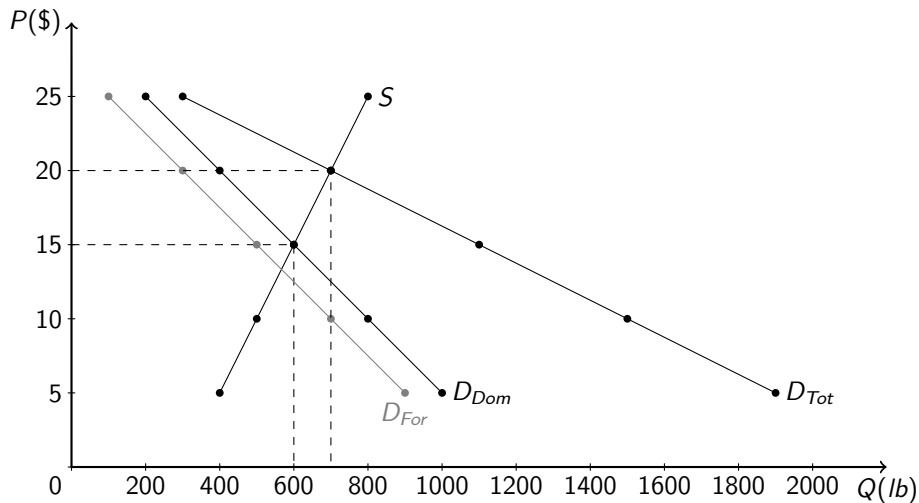
Table 1: Supply and Demand Schedules for Maine Lobsters

Price (\$)	Supply	Domestic Demand	Foreign Demand
25	800	200	100
20	700	400	300
15	600	600	500
10	500	800	700
5	400	1000	900

- (a) Draw the domestic demand curve and the supply curve for Maine lobsters. What are the equilibrium price and quantity of lobsters?
- (b) Now suppose that Maine lobsters can be sold internationally. What is the demand schedule for Maine lobsters now that foreign consumers can also buy them? Draw a supply and demand diagram that illustrates the new equilibrium price and quantity of lobsters. What will happen to the price at which fishermen can sell lobster? What will happen to the price paid by U.S. consumers? What will happen to the quantity consumed by U.S. consumers?

## Q2: K&W Problem 3.8 (ii)

Figure 2: Maine Lobsters





### Q3: Short-answer Questions (i)

- (a) You read that college tuition is rising every year, and yet more students attend college every year. Isn't this a violation of the law of demand? Discuss.
- (b) In the Midwestern United States, the price of an ear of corn is always lowest in the summer. This seems odd because consumers really enjoy eating ears of corn in the summer. Can you explain this?

►► D&S Graphs



# MTA Subway Map

## 1 Broadway - 7 Avenue Local

### Station Service

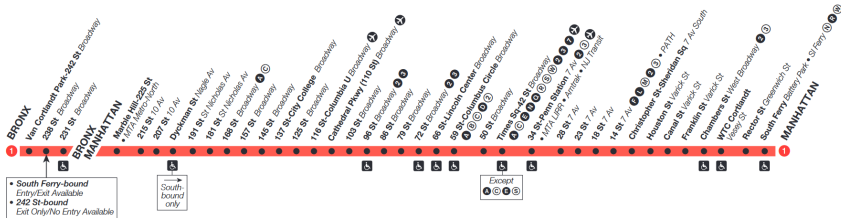
**FULL-TIME**  
Train always  
operates and  
always stops here.

**ACCESSIBLE  
STATION**

### Transfers

**A** Full-time  
**A** Part-time  
**NY** Transportation to  
airport available.

0001a19347\_cs



▶ Back