UN1105 Principles of Economics

Recitation 1

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Columbia University

Fall 2020

Outline

- Introduction
- Review of Concepts
- Q1: K&W Problem 3.1
- Q2: K&W Problem 3.8

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Review of Concepts (i)

1. Foundational concepts
   (i) Scarcity
   (ii) Opportunity costs.
   (iii) Incentives matter.
   (iv) Economists focus on efficiency, but other considerations matter too.
   (v) Remark: Use of models within economics.

Review of Concepts (i)

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      - Distinguish between movements along, and shifts of, the curve.
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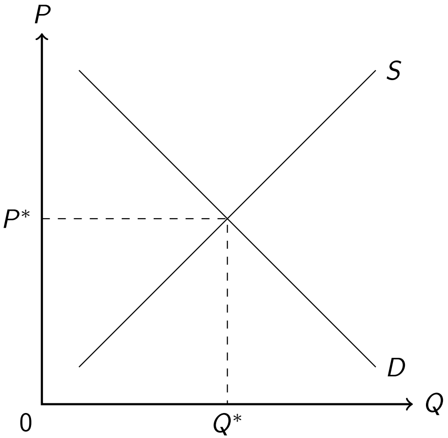
   (iv) Equilibrium
      - Why does a competitive market move towards this point.
      - Comparative statics following an increase in demand/supply.

Review of Concepts (iii)

(a) Increase in Demand



(b) Increase in supply

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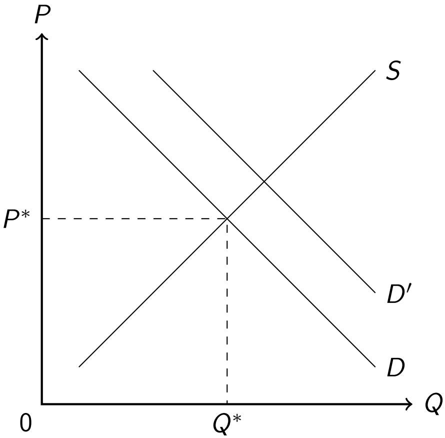

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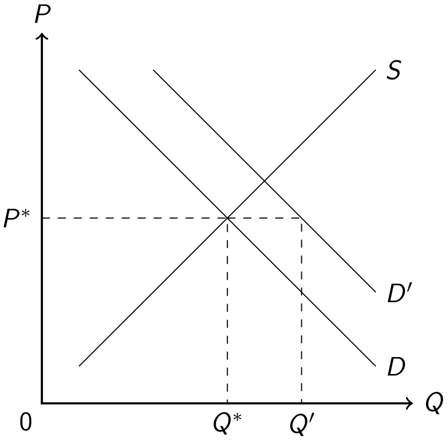

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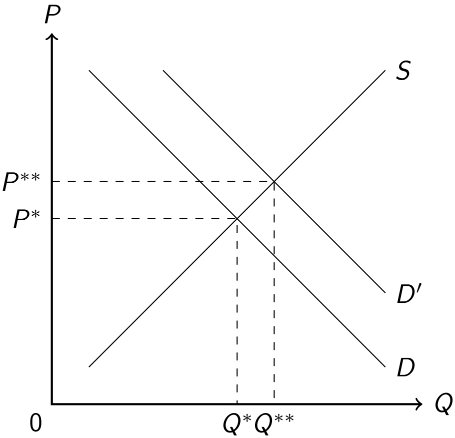

(b) Increase in supply

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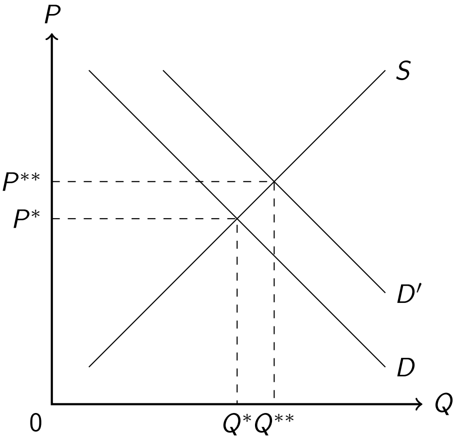
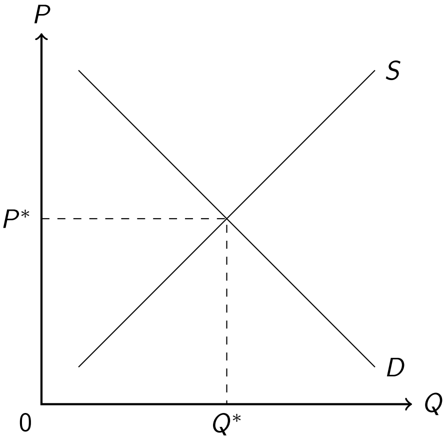
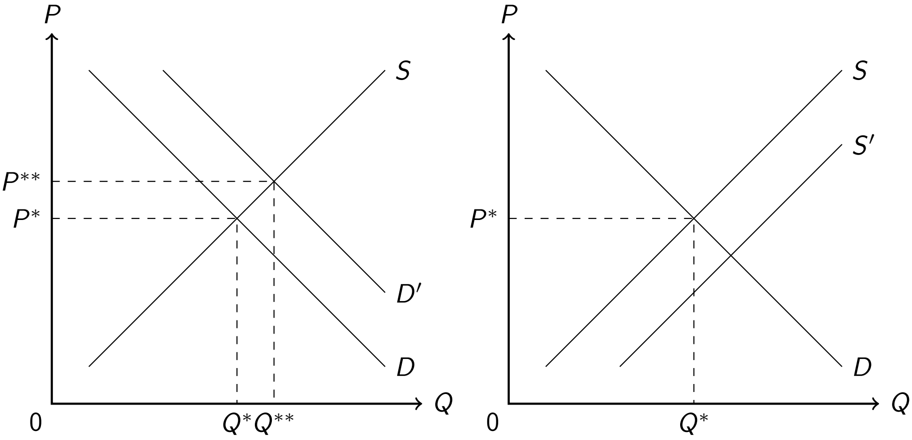


(b) Increase in supply



Review of Concepts (iii)

(a) Increase in Demand (b) Increase in supply



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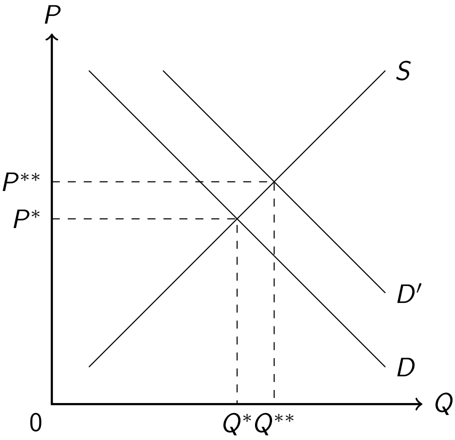
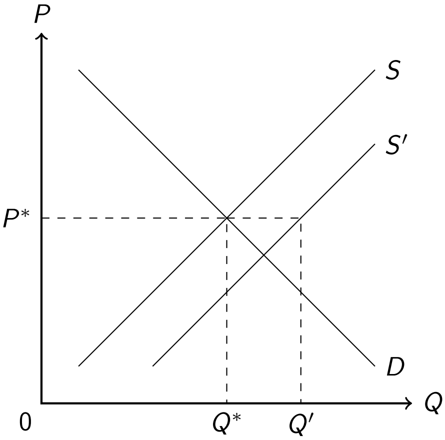


(b) Increase in supply



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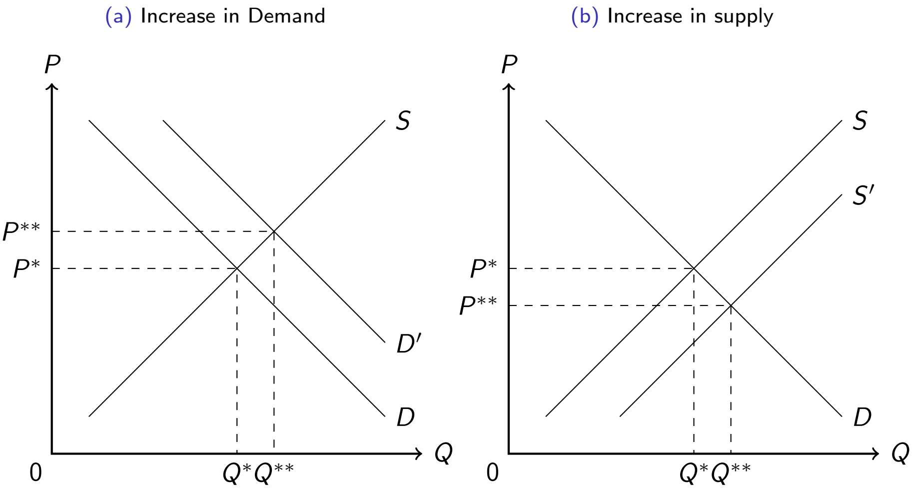

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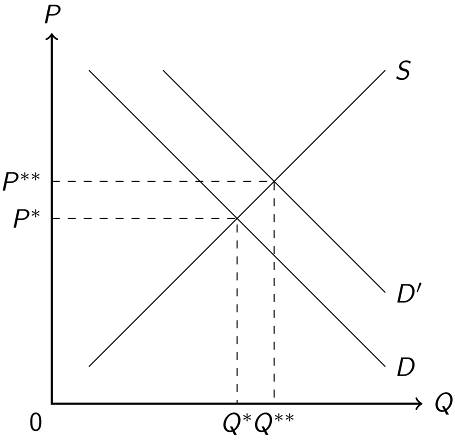

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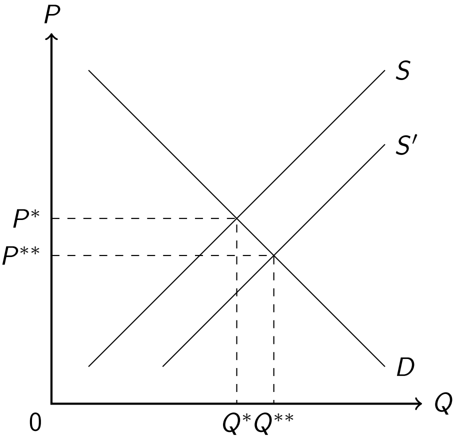

(a) D↑ → shortage → P↑, Q↑. Note P and Q move in the same direction.

(b) S↑ → surplus → P↓, Q↑. Note P and Q move in opposite directions.

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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.

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(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.

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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

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?

Q2: K&W Problem 3.8 (ii)

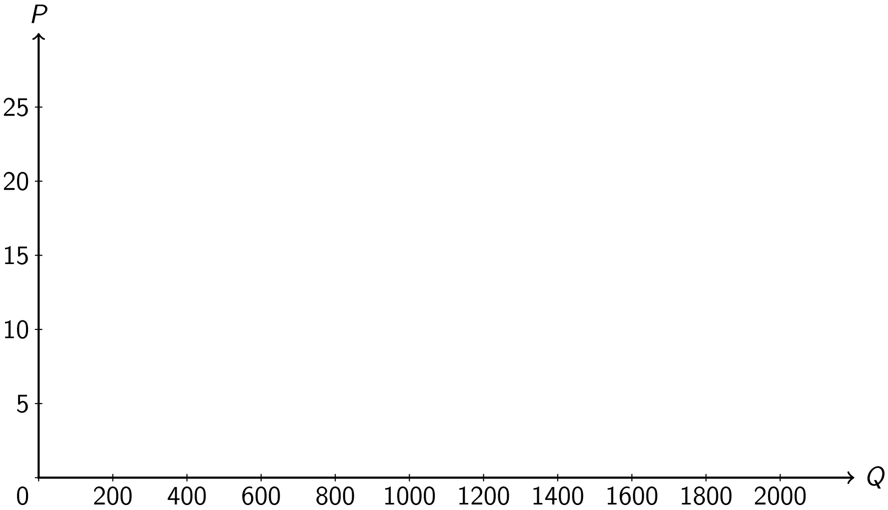

Figure 2: Maine Lobsters

Q2: K&W Problem 3.8 (ii)

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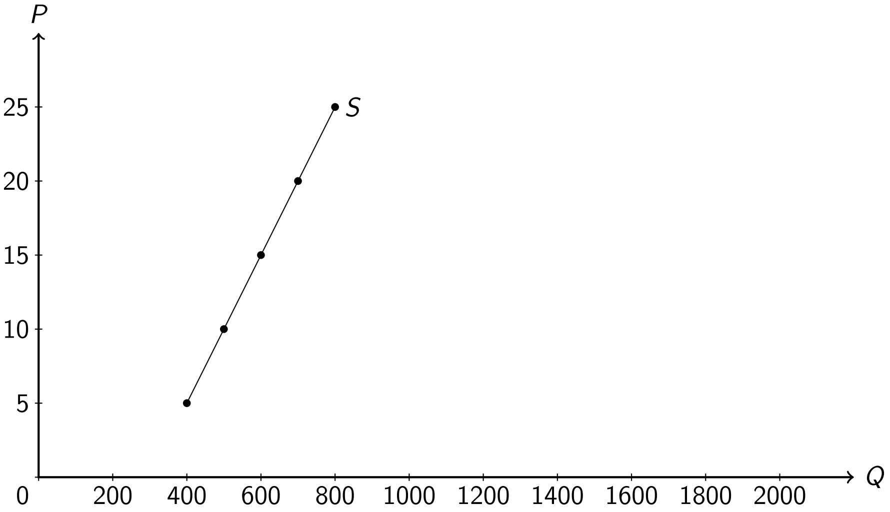

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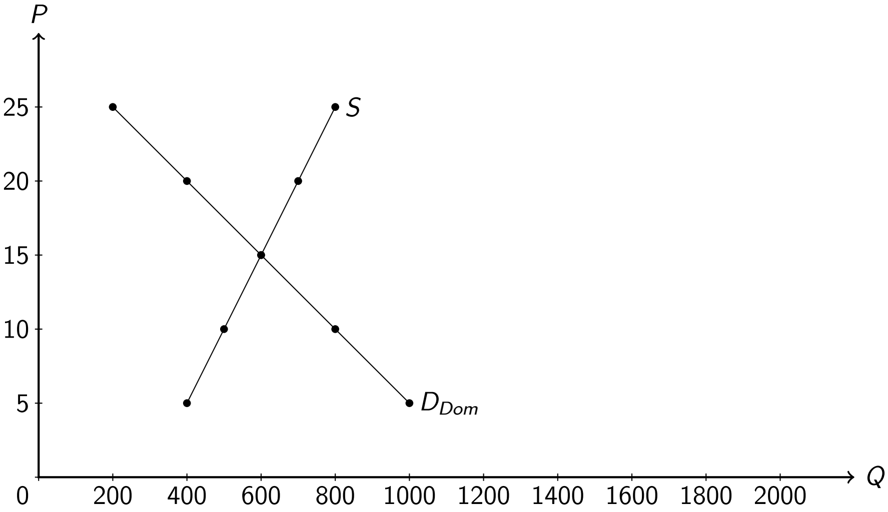

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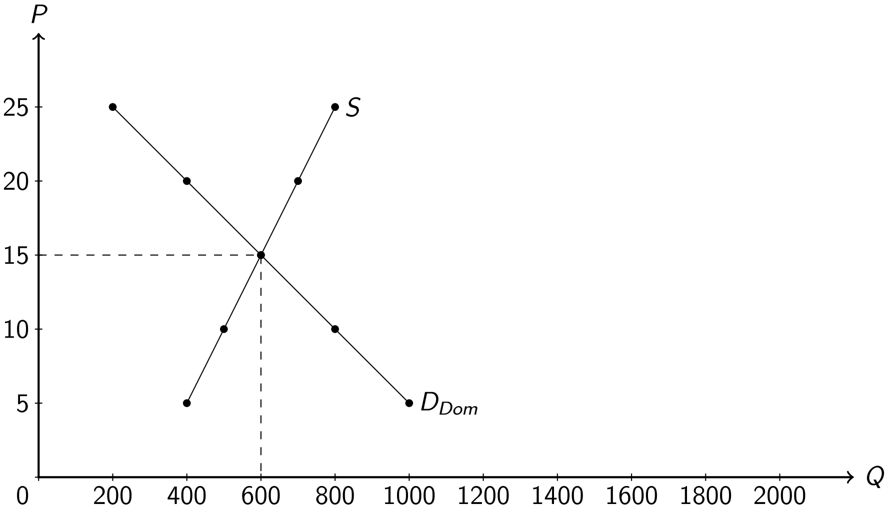

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(a) Draw the domestic demand curve and the supply curve for Maine lobsters. What are the equilibrium price and quantity of lobsters?

(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?

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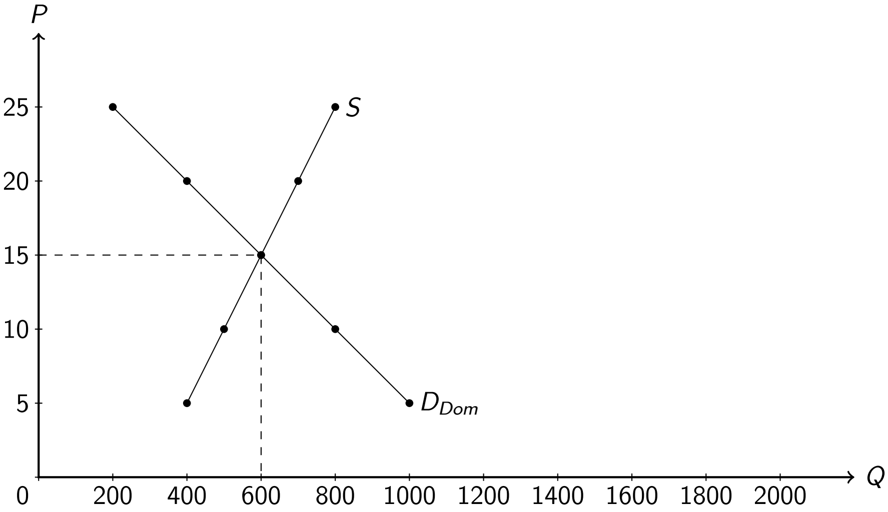

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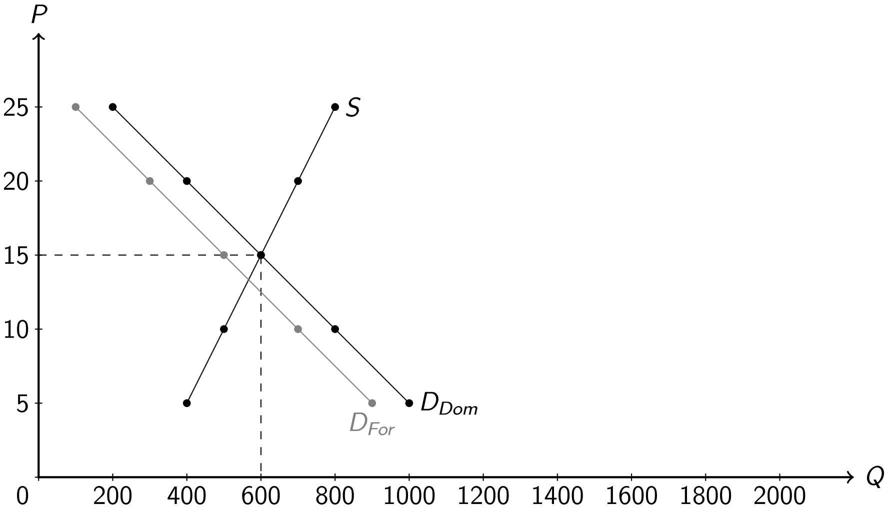

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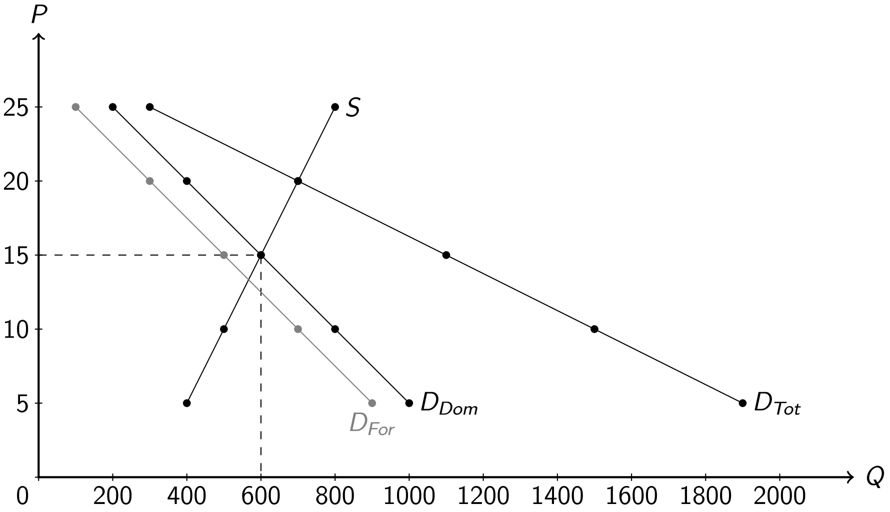

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