ECONOMICS AND PUBLIC POLICY: MICROECONOMIC

M what efficiency means
- why a competitive market is efficient (short run and long run)
- why should efficiency matter

M how a competitive market works
- role of price
- role of profits

M what happens in a domestic market when there is international trade
- imports
- exports
- foreign exchange markets

M market distortions of otherwise competitive markets

price ceilings	-- "too little" output (MC < MWTP) -- rationing problem
price floors	-- "too much" output (MC > MWTP) -- disposal problem
taxes	-- "too little" output (MC [in terms of scarce resources]<MWTP)
subsidies	-- "too much" output (MC > MWTP [in terms of "true" benefit])
barrier to entry	-- MC = MWTP but "too little" produced because capital cannot move to markets with economic profits so there is no long-run supply response
prohibited markets	-- enforcement problem – different price and revenue effects when enforcing against suppliers and/or demanders
tariffs	-- "too little" specialization (loss in consumer surplus exceeds any gain in producer surplus)
quotas	-- "too little" specialization (loss in consumer surplus exceeds any gain in producer surplus)

1) WHY a "distortion"
2) examples of each
3) the effect of each distortion on an otherwise competitive market
   - actual price
   - amount bought and sold
   - amount demanded
   - amount supplied
   - long run effects
4) size of these effects
5) the effect of each distortion on efficiency
6) other consequences ("unintended effects")
7) what are the "policy" incentives (i.e., who wins and who loses)

M market failures/pathologies

monopoly	-- "too little" output (MC < MWTP)
negative externality	-- "too much" output (true or social MC > MWTP)
positive externality	-- "too little" output (MC < true or social marginal benefit)
public good	-- "too little" output (MC< true marginal benefit) -- free riding problem (MWTP < true marginal benefit)

1) WHY a "failure"
2) examples of each
3) the effect of each failure compared with the outcome in a competitive market
   - actual price
   - amount bought and sold
   - amount demanded
   - amount supplied
   - long run effects
4) size of these effects
5) the consequences for efficiency
6) what are the efficiency-enhancing public policy options and their effects
7) are there other solutions

M reason for market distortions and market failures/pathologies
1) prices provide incentives AND prices convey information
2) suppliers and demanders respond to incentives AND rely on the information conveyed
   therefore if prices are "wrong" (because of distortion or market failure), decisions will be "wrong" (relative to the efficient outcome)