

Week 3

Arbitrage

Prices should be roughly the same across markets

Markets are connected: goods can be traded across

- space (by shipment)
- time (by storage)

Consider two markets separated by time: the market for **potatoes** in **Fall** and **Winter**.

VANTY FAIR

HOLLYWOOD

American Moviegoer Has Apparently Never Heard of Sneaking Snacks into Theaters, Sues AMC



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Concurrent Shifts

When both supply and demand shift, we know how **either** price **or** quantity will change, but not both.

Supply ↑, Demand ↓

New York Times (9/2/2022):

Trying to Sell Your Old Peloton Bike? So Is Peloton.

As its business slumps, Peloton is trying something new: selling its bikes to “value-minded” customers. It faces stiff competition.

Non-market allocations

Selective universities have a **persistent shortage** of spots

Instead of raising prices and enrolling only the wealthiest, they use a **non-market allocation** based on other criteria

Why?

Non-market allocations

UVA has some of the same motivations as the Dave Matthews Band:

- **Network externalities:** value of UVA is proximity to smart people, not wealthy people.
- **Alumni donations:** pay less now, more later
- **Fairness:** no 18-year-old can afford tuition
- **Efficiency:** students who benefit most aren't necessarily able to pay the most
- **Prestige:** exclusivity as advertisement.