

Econ 102- Principles of Macroeconomics
Discussion Section Handout #2

Announcement:

Homework #3 is due on Friday February 9th no later than 5pm. Drop it in your TA's mailbox-mailboxes are located on the 7th floor of the Social Science Building.

Key concepts:

Market equilibrium

Effect of changes in exogenous factors on the market equilibrium

Price floor vs. Price ceiling

Consumer surplus and producer surplus

Tax - Changes in the market equilibrium

- CS, PS, Dead Weight Loss

- Incidences

Examples:

1. The following table presents the individual supply of three producers and the demand of the market for beef at given price level. Suppose there are only three producers, but the beef market is perfectly competitive.

Price	Market demand	Producers		
		A	B	C
10	27	0	0	0
15	22	1	0.5	1
20	17	2	1.5	1.5
25	12	3	2.5	2
30	7	4.5	3	2.5

- a) Find the market equilibrium quantity and price of beef.
 - b) Suppose that the price of the feed for chickens increases. What would happen to the beef market?
 - c) In addition to the change in b), the price of the feed for cows also increases at the same time. What would happen to the beef market?
2. The demand for cars is $P=20-2Q^D$ and the supply for cars is $P=5+3Q^S$.
 - a) Calculate the consumer surplus and the producer surplus at the quantity and price level where the social welfare is maximized.
 - b) Suppose that the government imposes \$5 tax on the suppliers. Find 1) new market equilibrium 2) DWL 3) consumer burden and producer burden.
 - c) What if the government imposes the same amount of tax now on the consumers? Answer the same questions in b).