txt. Book

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Econ Chapter 5: Supply, Demand, and Price: Applications

5-1) Tickets to the Big Bang Theory

- You can request tickets to view the taping of a television show
  - The price is \$0
  - Is the \$0 the market equilibrium price?
    - There will be a shortage of tickets to each of the 3 shows, with the shortage being larger for some shows than others.
    - Tickets for Big Bang Theory go fast so the tickets are rationed on a first come first serve basis
      - If the demand is less than supply, the equilibrium price is negative and producers may even pay people to view their show.
        - If the surplus of seats exists at zero price the producers will ask friends and family to sit in for the show.

5-2) Easier to obtain Loans and Higher Housing Prices

- If government wants to make it easier to buy houses, they push for lowered lending standards.
  - By making mortgage loans easier to get, they have indirectly increased the demand for houses.
    - As demand rises, so does price.
      - lower down payment + lower interest rates → easier to obtain loans → higher demand for houses → higher house prices.

5-3) The Price of an Aisle Seat

- Southwest Airlines does not let you pay for your seat when you pay for the ticket.
  - You choose your seat when you board.
    Even though there is no extra cost for the aisle seat, but you can instead pay \$20 for priority boarding.
    - Essentially, southwest airlines was charging \$20 for the aisle seat without directly doing it.

5-4) What Will Happen To the Price of Marijuana If The Purchase And Sale of Marijuana are Legalized?

- If marijuana becomes legal, people producing wheat and corn will likely choose to produce marijuana
  - The supply of marijuana will rise, the price will fall
    - However, more people will want to buy marijuana so the demand will increase
      - Marijuana price could stay same, fall, or raise

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5-5) Speculators, Prices/variability, and Patterns

- Speculators buy low and sell high
  - By doing so they change the pattern of price from $10 on 3 days and $14 on one to $11 for each of the four days.
    - They have moved the supply of good X from certain days to other days.
    - Speculators, by buying "low and selling high," "spread out" the pain of bad weather on food prices over time.
      - They move some of the "hurt" before the bad weather hits and as a result there will be less "hurt" after the bad weather hits
        - Make us pay a medium price instead of terrible price at dire circumstances.

5-6) Why is Medical Care so Expensive?

- Third party (insurance company) is involved in medical care, unlike in buying groceries.
  - In a third party system, the person who buys and receives medical care is you but the ~~ins~~ insurance company pays for it.
    - Buffet idea: You pay a price up front to medical insurance and get all you want health care at that set price
    - The existence of the third party makes it easier for you to get medical attention.
    - The dollar amount you pay for health care, out of pockets is minimal
    - If price of healthcare is 0, the quantity demanded is 100, but if the price is a positive dollar amount, the quantity demanded is 50.
      - lower the price of medical care, the higher the demand is
      - higher the price of medical care, the lower the demand is.
        - With rising demands for x-rays, the price becomes higher and thus you pay more for healthcare.

5-7) GPAs, SATs, ACTs

- Used as rationing devices for college admissions
  - Needed to supplement money price for determining admission
    - Nonprice rationing devices would not be necessary if the dollar price were fully rationing the good or service.

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5-8) Supply and Demand on a Freeway

- There is a demand for driving on the freeway and a supply of freeway space
  - The supply is fixed but the demand fluctuates
    - No price to drive on the freeway (no tolls)
- Charging a toll will clear the freeway market at 8:00 am (~~[illegible]~~ the demand is > than the supply at 8am)
  - tolls deal with congestion problem by adjusting price to equilibrium
  - encouraging carpooling helps reduce congestion too.
    - The price of driving on the freeway is too low and thus we have a surplus (congestion)

5-9) Are Renters Better off?

- Law 1: 30 days to vacate an apartment
- Law 2: 90 days to vacate
  - Less expensive to rent apartments under Law 1
    - Loses 90 days worth of rent under Law 2
      - Law 1: Renter pays lower rent but gets fewer days to vacate
      - Law 2: Renter pays higher rent but gets more days to vacate.
        - Renter 2 pays the 90 day vacancy period in his monthly rent.

5-10) Do you Pay for Good Weather?

- The demand for housing in San Diego is higher than North Dakota because the city enjoys good weather. Thus San Diegans pay for their good weather because they pay higher housing prices than they would if the area had bad weather.

5-11) College Superathletes

- What if an athletes worth to the college or university is greater than the dollar amount of the full scholarship tuition.
  - In this case the NCAA rule is actually a price ceiling (a below-equilibrium imposed price) on what the college may pay an athlete
    - The university gains at the expense of the athlete.
      - The scholarship may be less than the equilibrium wage for the superathlete because of a mandate that the athlete cannot be paid the difference between ~~[illegible]~~ his higher equilibrium wage and the dollar amount of his full scholarship.

5-12) 10 A.M. Classes in College.

- Since the demand for the 10 A.M. class than for the ~~[illegible]~~ 8 pm class, the equilibrium price for the morning class is higher than the equilibrium price for the evening class.
  - For some classes the quantity demanded of seats will be greater than the quantity supplied. Thus, some non-price rationing device will have to be used to achieve equilibrium. (first come first serve)

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5-13) <u>Salsa, Chips, and Beer</u>

- Chips are free because demand will go up. so will complement goods, such as beer which they can charge for.