

2.9- Quantity Controls

2.9- Describe how quantity controls create problems and can make a market inefficient.

By: Carter Greene

Kickoff:

- ❖ Go to Google Classroom and complete the assignment **“10/7- KO”**
- ❖ **Roll Call:** Favorite NFL team



Announcements:

- ❖ 10/9- Teacher workday
- ❖ 10/10- **Unit 2 Test**
 - Same format as last time
- ❖ Knight Time this week
- ❖ AK, Heels, and Panthers all won



Quiz:

- ❖ 16 questions
- ❖ 20 minutes
- ❖ ABSOLUTLEY NO TALKING EVEN WHEN YOU ARE DONE
- ❖ When you are finished read module 9 of the the textbook (on Google Classroom) if you have not already

2.9- Quantity Controls

2.9- Describe how quantity controls create problems and can make a market inefficient.

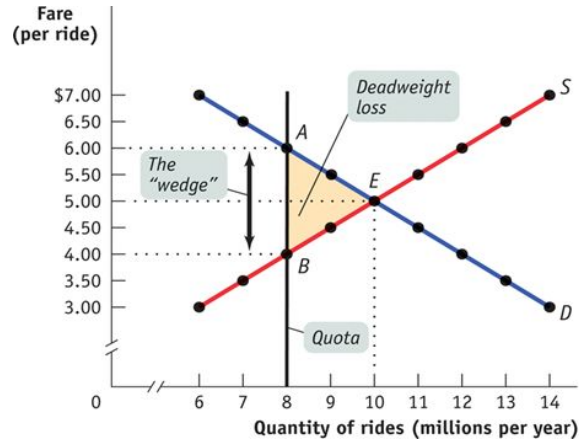
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Government Quantity Control

- ❖ Quota- upper limit on the quantity of a good or service that can be sold
 - What are some goods there are quotas on and why would the government enact a quota?
- ❖ License- document giving suppliers the legal right to supply a good/service
- ❖ Import quota- trade barrier that limits the amount of a good/service that can be brought into the country
 - Goal: protect domestic industry
 - Not what we're talking about in this class

Effects of Quotas → The Wedge:

- ❖ A “wedge” is driven in between demand price and supply price
 - Price distortion
- ❖ Quota rent- difference between supply price and demand price
- ❖ Causes Deadweight Loss
 - Value of missed opportunities



Fare (per ride)	Quantity of rides (millions per year)	
	Quantity demanded	Quantity supplied
\$7.00	6	14
6.50	7	13
6.00	8	12
5.50	9	11
5.00	10	10
4.50	11	9
4.00	12	8
3.50	13	7
3.00	14	6



Section 2

Crash Course

If you know nothing else before your test Tuesday... know
this...



Supply and Demand

- ❖ Desire, willingness, ability
- ❖ Law of Demand
 - Price and quantity are inversely related
 - Income effect, Substitution effect, Diminishing Marginal Utility
- ❖ Change in price causes
 - Movement along the curve

- ❖ Availability
- ❖ Law of Supply
 - Price and quantity are directly related
 - Price increase leads to profit increase, and as production increases, costs increase
- ❖ Change in price causes
 - Movement along the curve

Supply and Demand Shifts

❖ Caused by a determinant of demand

- # of **buyers**
- **Income**
- **Tastes**
- **Expectations**
- **Related Goods**
 - Compliments
 - Substitutes

❖ Increase → shift right

- Increase in E_q and E_p

❖ Decrease → shift left

- Decrease in E_q and E_p

❖ Caused by a determinant of supply

- **Subsidies/taxes**
- **Technology**
- **Other goods**
- **# of sellers**
- **Expectations**
- **Resource cost**

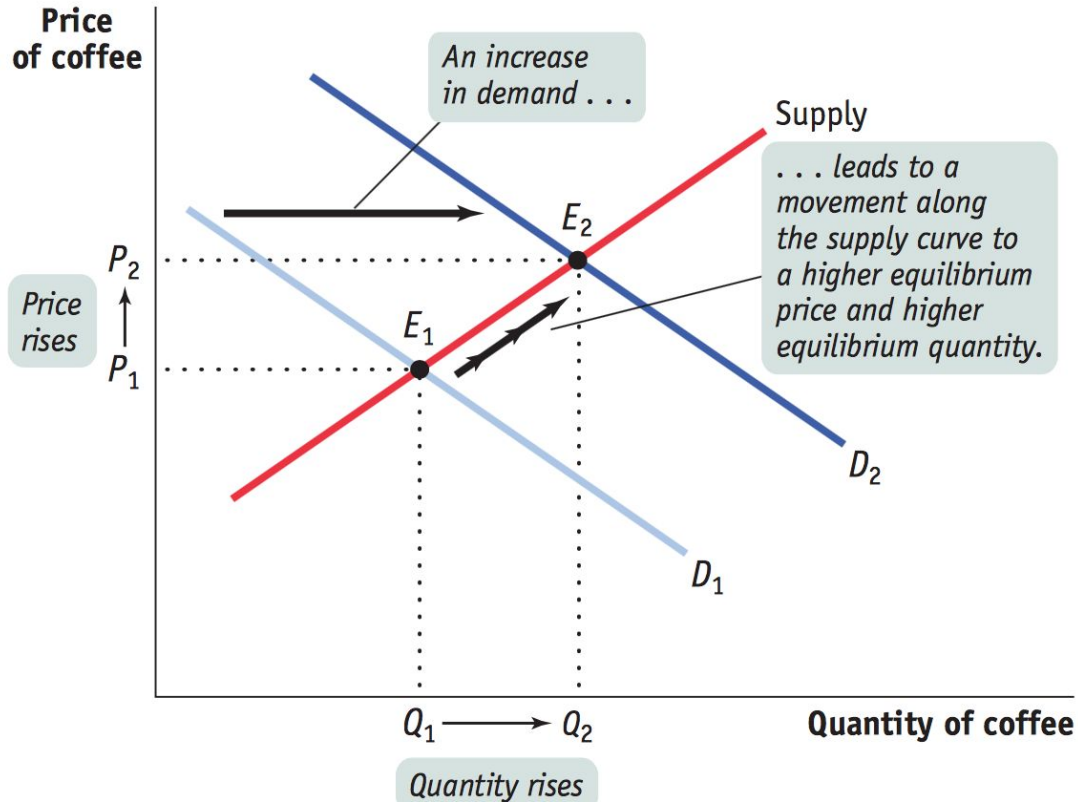
❖ Increase → shift right

- Increase in E_q , Decrease in E_p

❖ Decrease → shift left

- Decrease in E_q ; Increase in E_p

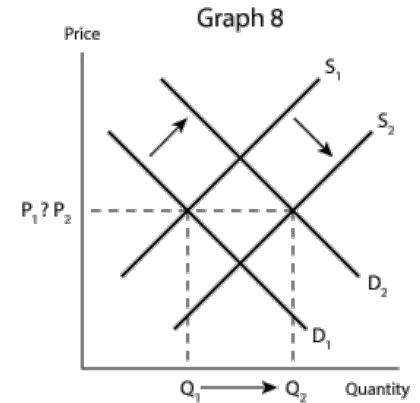
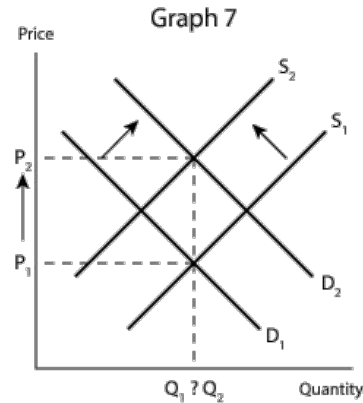
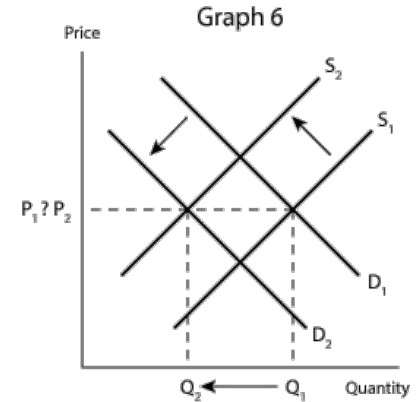
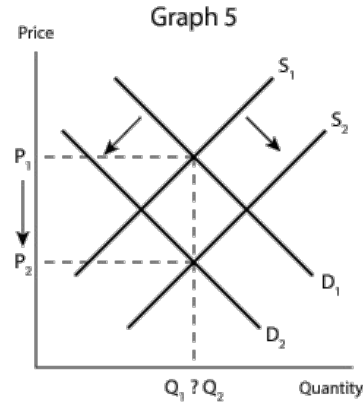
Change in Equilibrium Caused by shift... Step by Step



- 1) A determinant of Demand causes a rightward shift of the demand curve
- 2) In order to reach the new equilibrium, there is an upward movement along the supply curve
- 3) Equilibrium price and equilibrium quantity have both increased

Double Shifts

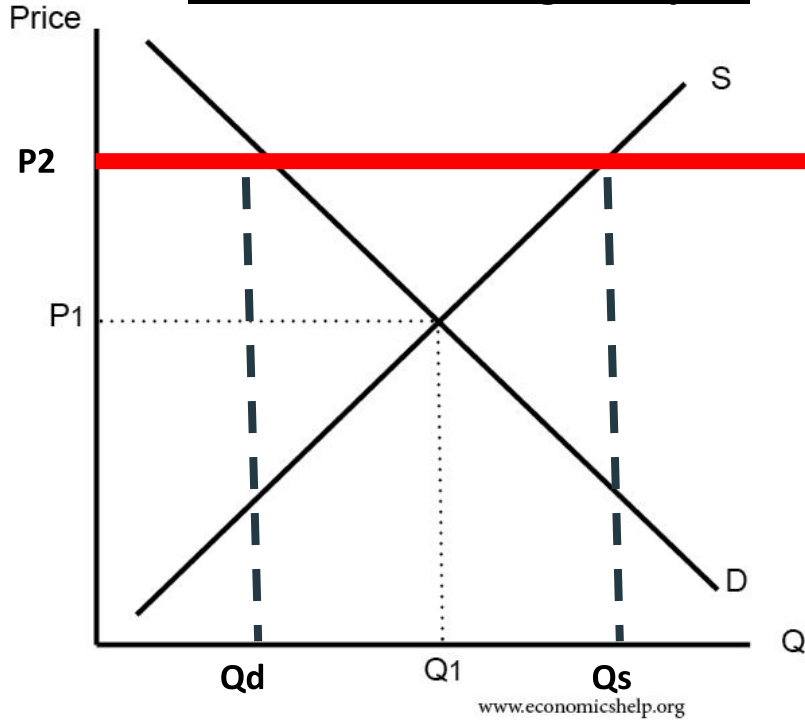
- ❖ **If shift in same direction:**
 - We know increase/decrease in quantity but not price
- ❖ **If shift in opposite directions:**
 - We know the increase/decrease in price but not in quantity



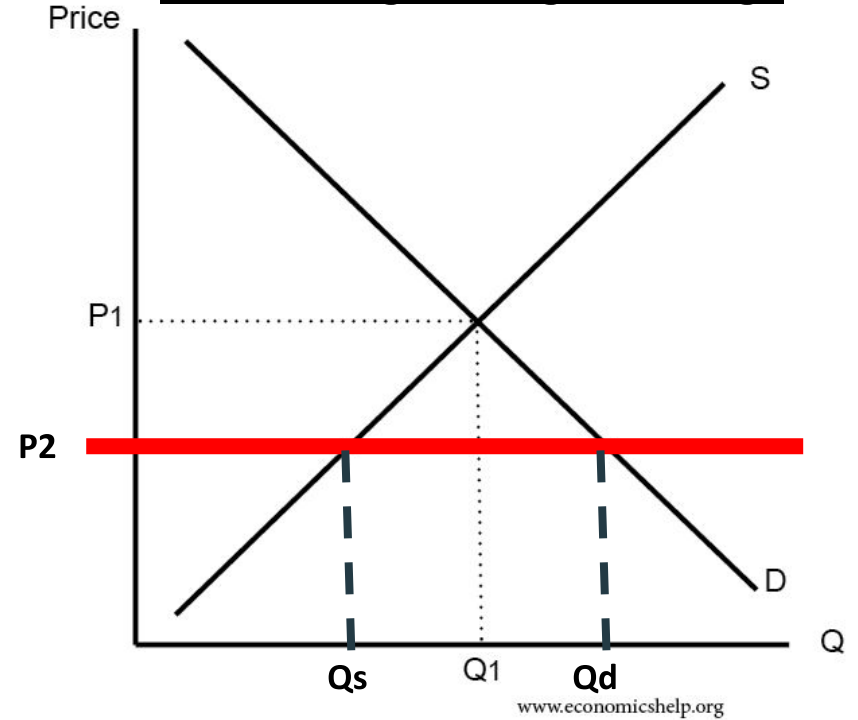
Shortage

- ❖ When price is too low, $Q_d > Q_s$
- ❖ **To calculate:**
 - At given price level: $Q_d - Q_s$
- ❖ **Causes:**
 - Markets are slow to react to an increase in E_p caused by a shift in supply and/or demand (sticky prices)
 - Good/service is simply priced too low
 - Price Ceilings
 - Set below equilibrium and cause market inefficiencies
- ❖ PUTS UPWARD PRESSURE ON PRICES
 - Prices need to increase to reach E_p and E_q

Price Floor causing a surplus



Price Ceiling causing a shortage



Surplus

- ❖ When price is too high, $Q_s > Q_d$
- ❖ **To calculate:**
 - At given price level: $Q_s - Q_d = \text{surplus}$
- ❖ **Causes:**
 - Markets are slow to react to a decrease in E_p caused by shifts in supply and/or demand (sticky prices)
 - Good/Service is simply priced too high
 - Price Floors
 - Set above equilibrium and cause market inefficiencies
- ❖ PUTS DOWNWARD PRESSURE ON PRICES
 - Prices need to drop to reach E_p and E_q

Practicing it all

- ❖ **Handout #1:** Graphing, shifts, effects of shifts, surplus/shortage
- ❖ **Handout #2:** Double shift practice
- ❖ Choose whichever you feel you need the most practice with to work on first
- ❖ Answers keys are in the back of the classroom
- ❖ May work with a partner



CLOSURE