Demand and Supply Review

Outline

I. Supply and Demand - Chapter 2
   A. Demand
      1. Schedule, Graphically and Algebraically
      2. Change in Demand vs. Change in Quantity Demanded
   B. Supply
      1. Schedule, Graphically and Algebraically
      2. Change in supply vs. Change in Quantity supplied
   C. Equilibrium Price and Quantity
      1. Graphically and Algebraically
      2. Changes in Equilibrium
         a. Market
         b. Government - ceilings and floors – Application: Organ markets
I. Demand

Law of demand:

Schedule:

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Graphically:

Algebraically:

Change in Quantity Demanded

Change in Demand

Shifters:
II. Supply
Law of supply:

Schedule:

<table>
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Graphically:

Algebraically:

Change in Quantity Supplied

Change in Supply
III. Equilibrium

Graphically:

Algebraically:
2.a. Changes in Equilibrium - Market

“Diet fads fatten ranchers' wallets”. *Chicago Tribune* Dec 23, 2003  Blaine Harden

…After years of having been seldom seen, local ranchers are stomping into the only jewelry store in this cow town. You name the bauble. Men with manure-crusted boots are buying it for their wives this Christmas season.…

Part of it is weather. Severe drought across much of the West has seared rangelands since 1998, stunted grasslands, dried up reservoirs and water holes, and forced ranchers to cull herds.

The number of cattle in the United States has fallen to a seven- year low, according to the Agriculture Department. There were 103.5 million cattle in 1996 and 96.1 million at the start of this year.

Many ranchers around Dillon have been forced to cut their herds because five consecutive years of drought have shattered rainfall records that date to the Dust Bowl days of the 1930s.…

In addition, a ban on imports of Canadian beef and cattle--after a single cow was confirmed in May as having mad cow disease--....

What makes U.S. ranchers smile, though, is that the declining supply of cattle is coinciding with a jump in consumer demand for beef. …

Tweezing out reasons for increased demand is not an exact science. But association officials say that the rising popularity of Atkins, South Beach and other diets that emphasize protein over carbohydrates has played an important role.…

It appears unlikely that Americans will ever again eat as much beef as they did in the 1970s. Although per capita consumption has increased since the mid-1990s, it was just 64.4 pounds last year.

The silver lining for ranchers is that consumers are eating much fancier beef than ever before. The Agriculture Department says consumers have acquired a taste for high-end beef--known as "choice" in grocery stores--that is more expensive to buy and more profitable to produce.

"Choice beef is more toward what restaurants are serving," Gustafson said. "It will eat more consistently from purchase to purchase, and the beef comes from younger animals."

Choice beef comes from cattle that are slaughtered between the ages of 16 and 24 months, that have spent a considerable amount of time eating grain in a feedlot and that have been genetically selected so that their fat is marbled into their muscle. All this makes choice beef taste better--mostly because it is tender and flavored with fat.…

Suppose this graph shows the market for beef

Explain verbally and graphically what happened in the beef. Precisely describe changes in demand (supply) vs. changes in quantity demanded (supplied) and changes in P* and Q*. 
2.b. Government Imposed Disequilibrium

A. Price Floor
   defined:
   examples:
   goal:

General Case:

B. Price Ceiling
   defined:
   examples:
   goal:

General Case:
Application: Market for Human Organs


Equations for
D:
S:
P*
Q*

What does it mean for the supply curve to have a negative Y-intercept?

Effect of law on market?

Institutional Details about US
Living donors

Cadaveric Donors

Informed Consent – Opt-in

Matching managed by United Network for Organ Sharing (UNOS), non profit

Monopoly

Underfunded

Organs allocated by point system

Organ procurement organizations comply w/ UNOS voluntarily
Positive Analysis

Or…

- Price of zero

- Technology

- Presumed Consent (assume you’re a donor unless relatives say otherwise) versus Informed Consent - Abadie and Gay paper
  - 22 countries over 10 years - Compare two types of countries
  - Higher Donations in ________________
  - Causation or correlation?
    - What else might cause higher cadaveric donation?

Normative Analysis

- Xenotransplantation

- Education

- Financial Incentives

- Improve organ exchange mechanisms