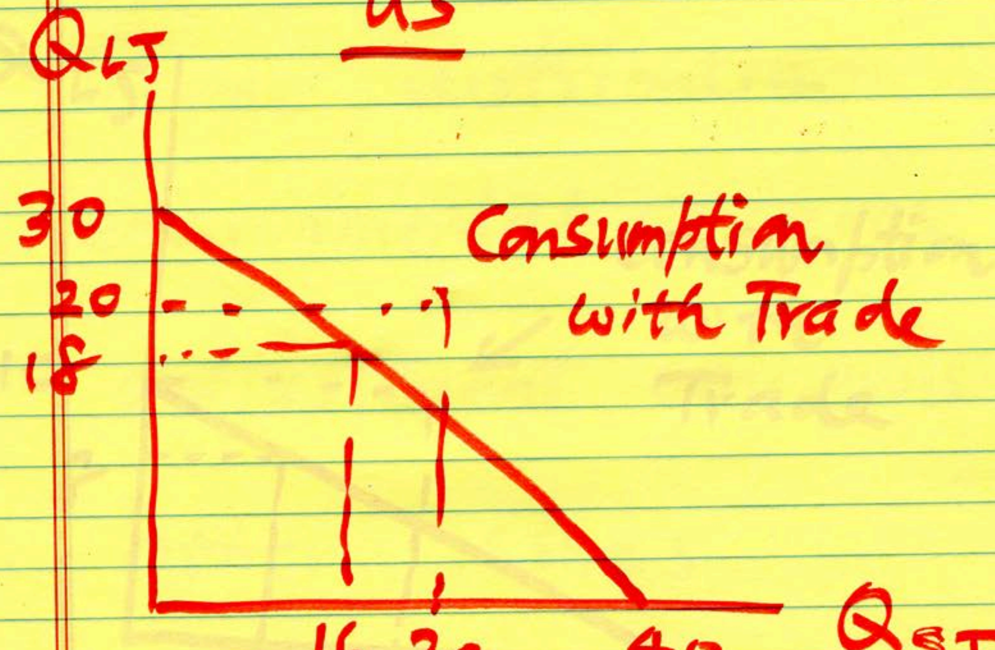
Example of Gains from Trade

		Without Trade Prod	Without Trade Consumption	
US	LJ	18	18	
	SJ	16	16	
Brazil	LJ	8	8	
	SJ	6	6	

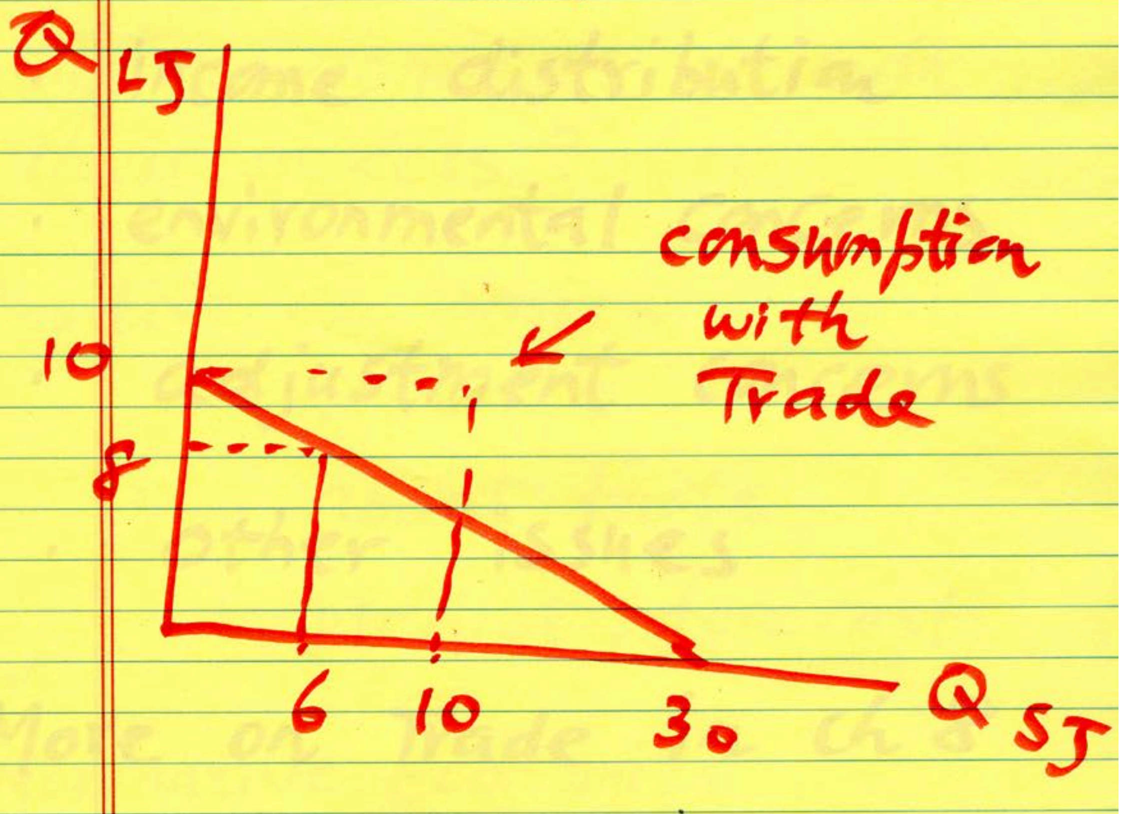
		With Trade		Gains
US	LJ	30	20	+2
	SJ	0	20	+4
Brazil	LJ	0	10	+2
	SJ	30	10	+4

Graphically

US



Brazil



Economists vs.
Non-Economists

Even for Economists

- income distribution
- environmental concerns
- adjustment concerns
- other issues

More on Trade in ch 8

Another Model:

circular-Flow Diagram

Using Models

What do economists do with their models?

Positive economics
- describe
- about facts
- predict, forecast

Normative economics
- value judgement
- "should"

When and Why Economists Disagree

- use different <u>models</u>
- different <u>assumptions</u>
- different <u>values</u>
- more disagreements in macroeconomics

Economists vs. Noneconomists

- Freer Trade
- Rent Control

but economists may still

- support subsidized training and rent subsidy

Economists, Beyond the Ivory Tower

Economists in financial firms
like Goldman Sachs

- in consulting firms
- in US Government
  White House Council of
  Economic Advisers
- in international organizations
  World Bank
  International Monetary Fund
  World Trade Organization

Chapter 3. Supply and Demand

Supply and Demand - A Model of a Competitive Market

Competitive Market - many buyers and sellers of the same good

- No one can influence the price at which the good is sold

5 Key elements

- the Demand curve
- the supply curve
- Factors shifting D and S curves
- Market equilibrium
- the way market equilibrium changes when D curve and/or S curve shift

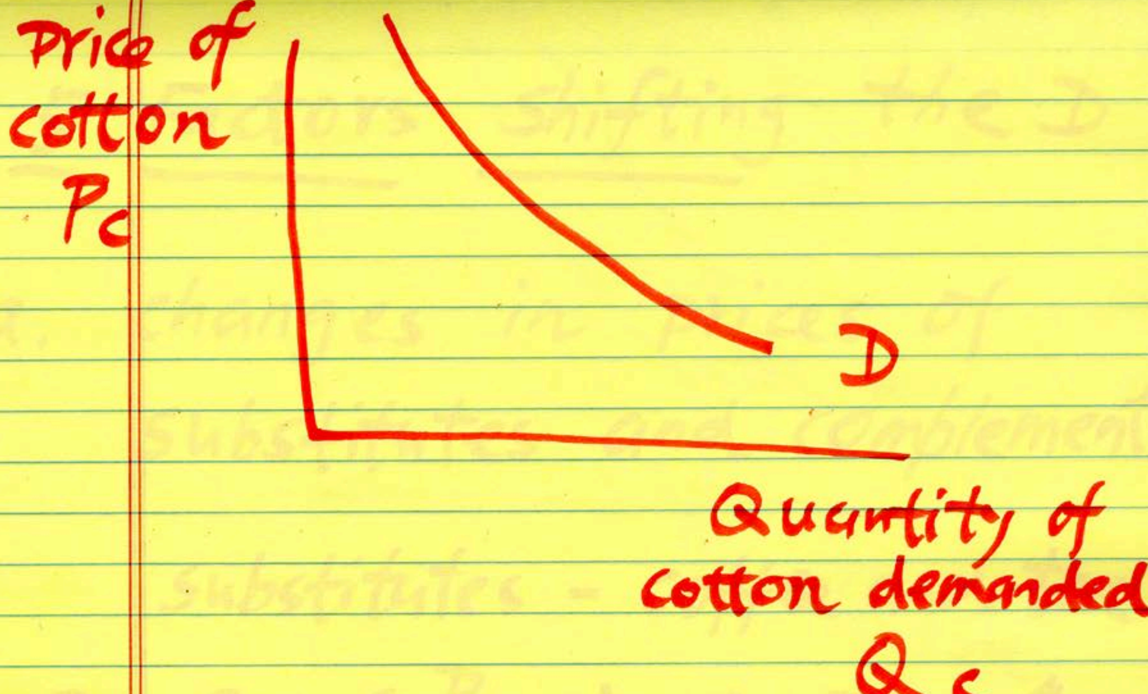
The Demand Curve

- ~~demand~~ ~~schedule~~ shows how much of a good consumers will want to buy at different prices

- quantity demanded - actual amount of a good consumers willing to buy at some price

- demand curve - graphical representation

- Price and quantity demanded



law of demand

a higher P_c, lower Q_c

- movement along the D
- shifts of D
- change in quantity demanded

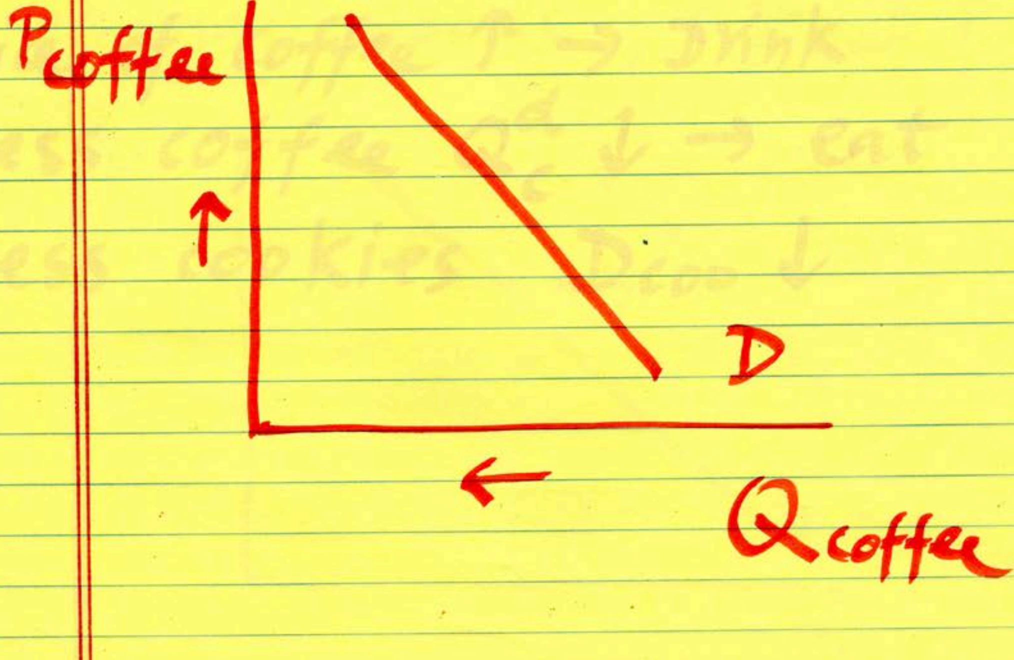
change in demand

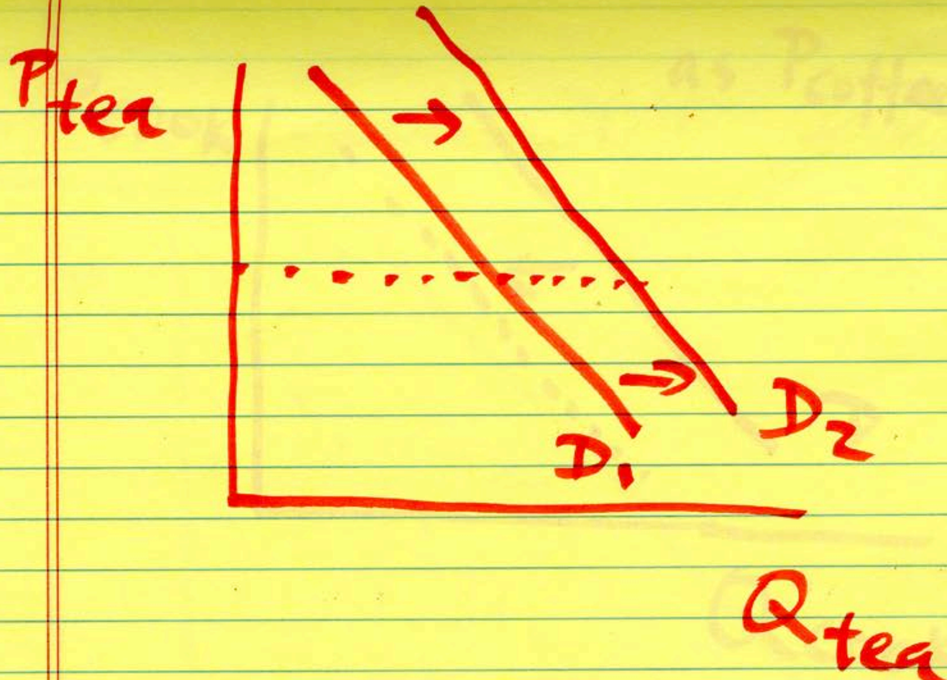
5 Factors Shifting the D

a. changes in prices of substitutes and complements

substitutes - coffee and tea

$P_{co} \uparrow \; Q^{D}_{co} \downarrow \Rightarrow D_{tea} \uparrow$

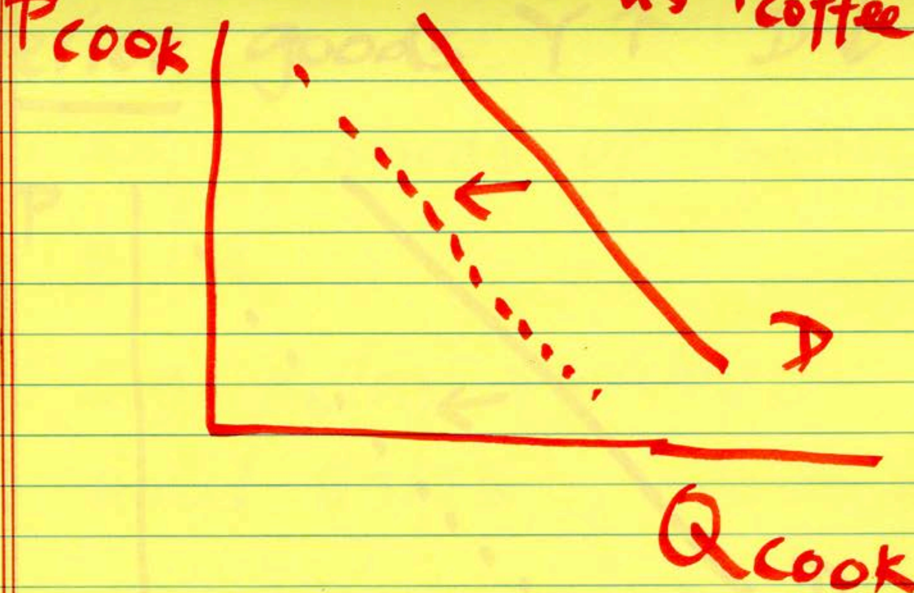




comblenents : coffee and cookies

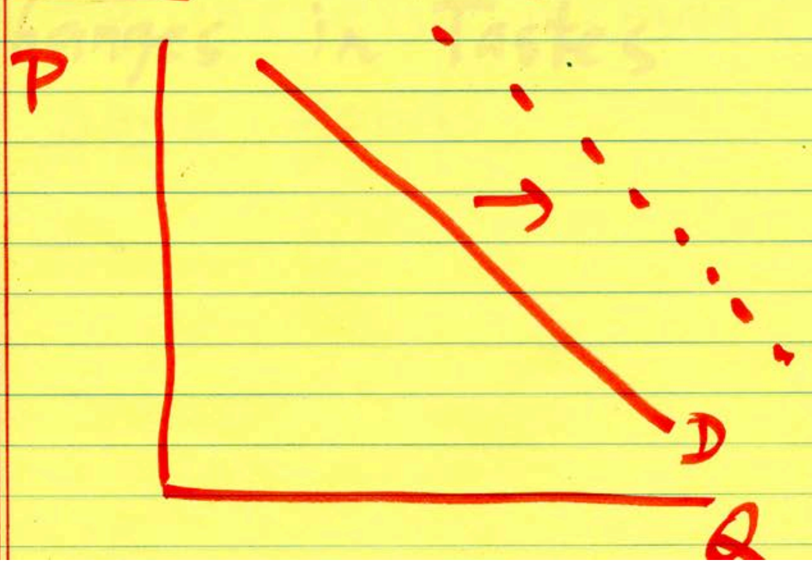
Price of coffee ↑ → Drink
less coffee Q^d_c ↓ → eat
less cookies D_{coo} ↓

as P_{coffee} ↑

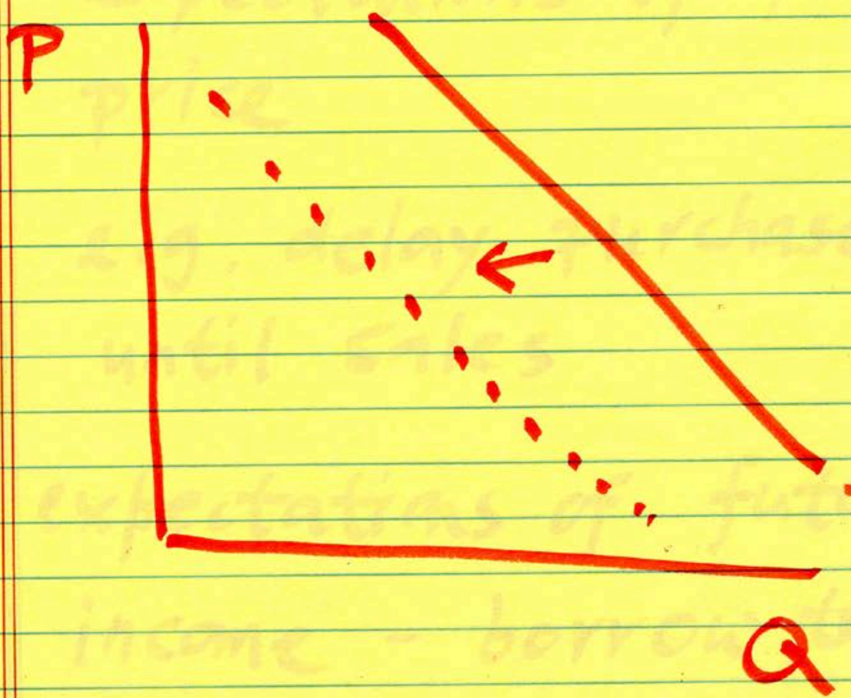


b. Changes in Income Y

<u>normal</u> goods, Y ↑ D ↑



<u>Inferior</u> goods Y ↑ D ↓



c. Changes in Tastes

d. Changes in Expectations

- expectations of future price

  e.g. delay purchase until sales

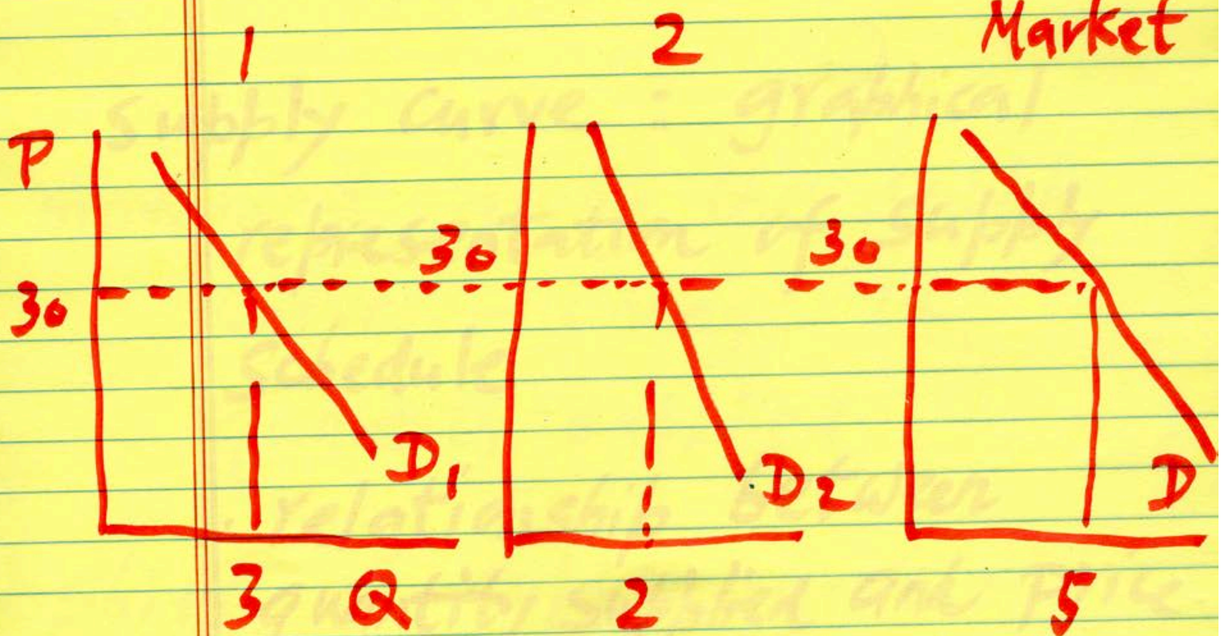
- expectations of future income - borrow today to increase demand of some goods.

e. changes in # of consumers

individual D

market D

horizontal summation



All 5 factors - see p. 75