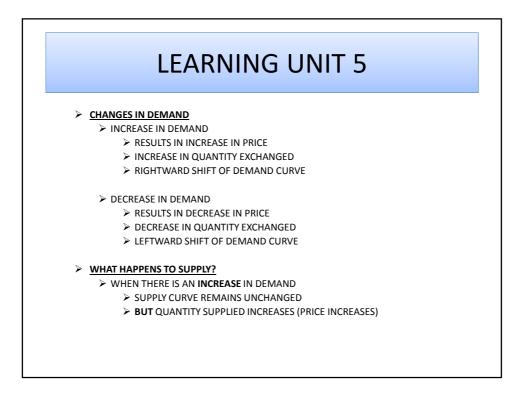
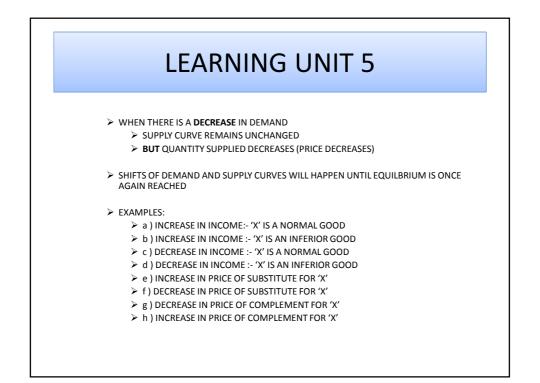
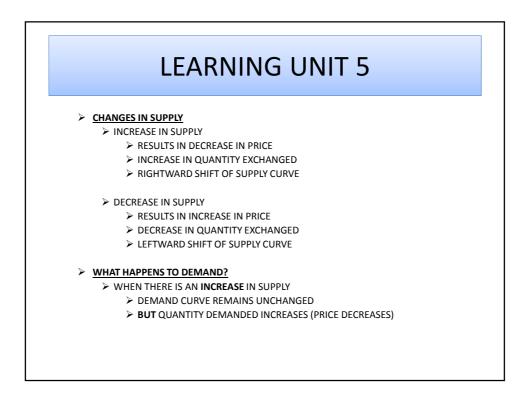
- DATE: MARCH 2014
- MODULE: PMIC6111
- TEXTBOOK REFERENCE: pgs 135 -150
- THEME: Demand and Supply in Action
- <u>OBJECTIVES</u>: BY END OF LEARNING UNIT 5 YOU SHOULD KNOW THE FOLLOWING:
 - > WITH AID OF A DIAGRAM, SHOW HOW A CHANGE IN DEMAND OR SUPPLY WILL AFFECT EQUILIBRIUM PRICE AND QUANTITY
 - > EXPLAIN HOW SIMULTANEOUS CHANGES IN DEMAND AND SUPPLY WILL AFFECT EQUILIBRIUM PRICE & QUANTITY IN MARKET
 - > EXPLAIN HOW CHANGES IN (1) ONE ASPECT CAN AFFECT EQUILIBRIUM
 - > EXPLAIN THE IMPACT OF GOVERNMENT INTERVENTION MIN & MAX PRICE SETTING
 - > WELFARE COST OF MAXIMUM AND MINIMUM PRICE SETTING
 - ➢ GOVERNMENT INTERVENTION





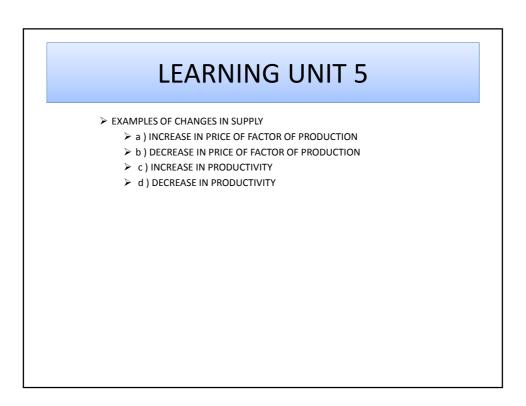


2

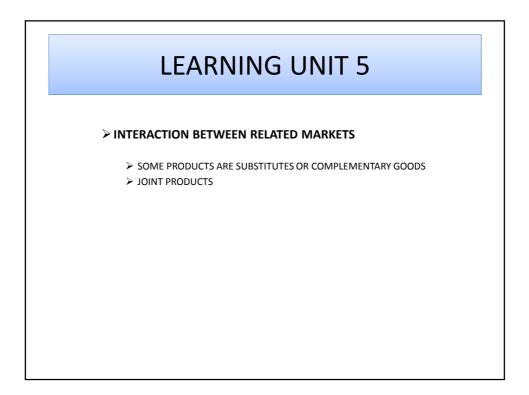
> WHEN THERE IS A **DECREASE** IN SUPPLY

- DEMAND CURVE REMAINS UNCHANGED
- BUT QUANTITY DEMANDED DECREASES (PRICE INCREASES)

SHIFTS OF DEMAND AND SUPPLY CURVES WILL HAPPEN UNTIL EQUILBRIUM IS ONCE AGAIN REACHED



LE	ARNING	G UNIT !	5
 SIMULTANEOUS C POSSIBLE TO PREI DEMAND OR SUP MORE DIFFICULT EQUILIBRIUM PRI RELATIVE SIZE OF 	DICT WHAT WILL HA PLY CHANGE TO PREDICT WHEN	APPEN TO EQUILIBRI SIMULTANEOUS CHA	UM WHEN ONLY
Change in Demand	Change in supply	Change in price	Change in quantity
Increase	Increase	Uncertain	Increase
Increase	Decrease	Increase	Uncertain
Deserves	Increase	Decrease	Uncertain
Decrease	Increase	Deciease	Uncertain





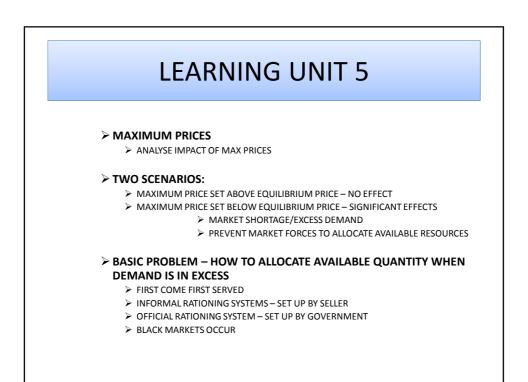
> GOVERNMENT INTERVENTION

> DECISION BY GOVERNMENT TO INFLUENCE PRICES

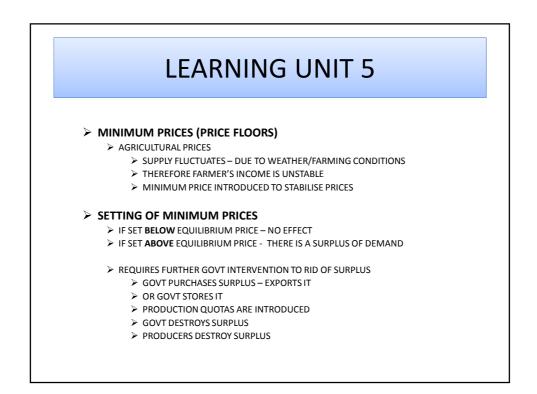
CONSUMERS, TRADE UNIONS, FARMERS CAN PUT PRESSURE ON GOVERNMENT TO INFLUENCE PRICES

> FORMS OF INTERVENTION

- > MAXIMUM PRICES "PRICE CEILINGS"
- > MINIMUM PRICES "PRICE FLOORS"
- > SUBSIDISING PRODUCTS
- > TAXING PRODUCTS



- ➢ NORMALLY SEEN AS DOING THE BEST FOR SOCIETY
- BUT CREATE PROBLEMS:
 - EG RENT CONTROLS
 - IMPLEMENTED TO PROTECT TENANTS FROM BEING EXPLOITED BY LANDLORDS AFTER WAR
 - SHORTAGE OF HOUSES SOLDIERS COULD NOT AFFORD HOUSING
 - ➤ THEREFORE RENTALS KEPT LOW
 - > OWNERS COULD REACT IN FOLLOWING WAYS:
 - ➢ SELL FLATS UNDER SECTIONAL TITLE
 - CONVERT INTO OFFICES
 - LOWER OPERATING COSTS BY KEEPING REPAIRS & MAINTENANCE LOW
 - STOP RENTING OUT NEW PLACES



- ➢ BETTER OPTION WOULD BE TO SUBSIDIZE PRODUCERS
- ➢ GIVE SURPLUS TO POOR − ENTAILS DISTRIBUTION COSTS
- > PROBLEM WITH SURPLUS COULD RE-SELL AT A LOWER PRICE
- > DISADVANTAGES OF MINIMUM PRICES:
 - ➢ ALL CONSUMERS HAVE TO PAY A HIGHER PRICE
 - BULK OF BENEFIT ACCRUES TO LARGE FARMERS
 - ➢ INEFFICIENT PRODUCERS ARE PROTECTED
 - DISPOSAL OF SURPLUS ENTAILS EXTRA COSTS

LEARNING UNIT 5 WELFARE COSTS CONCEPTS OF CONSUMER AND PRODUCER SURPLUS CAN BE USED TO ILLUSTRATE WELFARE LOSS SEE DIAGRAM PG 150