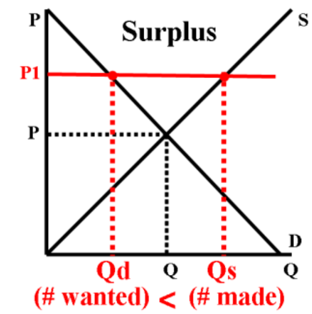
MAKE-UP ASSIGNMENT: FOR CREDIT COPY ONTO YOUR OWN WORKSHEET
Save a tree… return this to the handouts file when you are finished with it

Economic Efficiency Notes

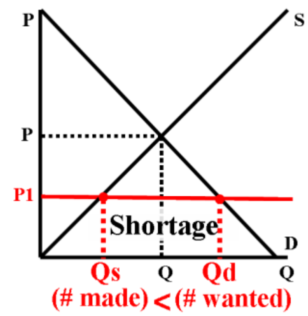
Surplus = when Qs is greater than Qd. More products are produced than people want to buy. There are products left on the shelf.

Solution = lower the price so more people will buy more.

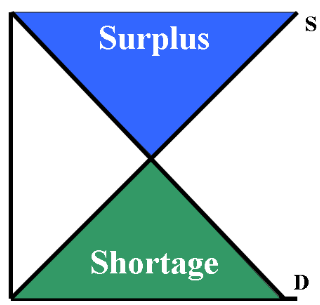


Shortage when Qd is greater than Qs. People want to buy more than is produced. People have to go home without the product.

Solution = raise the price so fewer people want to buy it.



MEMORY TRICK:
Shortages are short, on the bottom



Price System = Prices will always level out to equilibrium because producers have incentives to raise and lower prices. Too many products = loss of profit they could have gotten from sale, too few products = loss of profit because they could have sold more + unhappy customers.

Economic Efficiency = all the products people want most are produced AND the products are made in the least costly way and sold at the lowest possible price.

- Supply and Demand will cause the right products to be made
  -people “vote with their $$ by buying or not buying a product
- Self-interest will bring about the least costly way of production
- Competition will bring about the lowest price

Invisible Hand = (Adam Smith) idea that the combination of all 3 will bring about economic efficiency without gov’t interference

So why do Governments interfere?
They worry about

1. **Public Goods** – products companies can't charge people for.
   Free-rider problem = they can be consumed without paying
   Examples: national defense
   Solution: government produces the product using tax money

2. **The Environment** – sometimes the easiest/cheapest way hurts people or the planet
   Example: pollution
   Solution – laws preventing abuse

3. **Consumer Rights** – need protection from bad suppliers
   Example: poison, scams, and other harmful goods and services
   Solution: regulations that force businesses to do the right thing

4. **Lack of competition** causing high prices
   Example: Monopoly = only one producer of a product
   Solution: Anti-trust laws to make it illegal

Argument against government production of goods
Tragedy of the Commons – people will not take care of something if they don't have ownership of it
Example: private bathrooms are clean, public bathrooms (like a school's) are really gross

Solution – gov't should give property rights so people will take care of their resources

Free Market Economists = believe the only thing gov't should do is give property rights