

Economics 2: Spring 2014

J. Bradford DeLong <jbdelong@berkeley.edu>; Maria
Constanza Ballesteros <mc.ballesteros@berkeley.edu>;
Connie Min <conniemin@berkeley.edu>

<http://delong.typepad.com/sdj/econ-2-spring-2014/>

Economics 2: Spring 2014: Supply and Demand

<http://delong.typepad.com/sdj/econ-1-spring-2012/>

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A Simple Setup: Lattes and Dragon-Training Flights

- Five producers:
 - Daenerys
 - Jon Snow
 - Viserys
 - Aemon
 - Tyrion
 - Lattes per Day:
 - 400
 - 500
 - 0
 - 50
 - 600
 - Flights:
 - 10
 - 5
 - 1
 - 1
 - 0
- Our unit of account will be the latte: £. 1£ will buy you 1 latte, always

A Simple Setup: Lattes and Dragon-Training Flights

- Five producers:
 - Daenerys
 - Jon Snow
 - Viserys
 - Aemon
 - Tyrion
- Lattes per Day:
 - 400
 - 500
 - 0
 - 50
 - 600
- Flights:
 - 10
 - 5
 - 1
 - 1
 - 0
- At what price paid per dragon-training flight will people choose to stop pulling lattes, and start riding dragons?
- Opportunity cost...

A Simple Setup: Lattes and Dragon-Training Flights

- Five producers:
 - Daenerys
 - Jon Snow
 - Viserys
 - Aemon
 - Tyrion
 - Lattes per Day:
 - 400
 - 500
 - 0
 - 50
 - 600
 - Flights:
 - 10
 - 5
 - 1
 - 1
 - 0
- At a price of 1?

A Simple Setup: Lattes and Dragon-Training Flights

- Five producers:
 - Daenerys
 - Jon Snow
 - **Viserys**
 - Aemon
 - Tyrion
 - Lattes per Day:
 - 400
 - 500
 - **0**
 - 50
 - 600
 - Flights:
 - 10
 - 5
 - **1 x 1 = 1**
 - 1
 - 0
-
- At a price of 1? **Viserys only.**

Ladies and Gentlemen, to Your i>Clickers

- How about at a price of 50?
 - A. Viserys only.
 - B. Viserys and Tyrion.
 - C. Viserys, John Snow, and Daenerys
 - D. Viserys, Aemon, and Daenerys
 - E. Everybody

Ladies and Gentlemen, to Your i>Clickers

- How about at a price of 50?
 - A. Viserys only.
 - B. Viserys and Tyrion.
 - C. Viserys, John Snow, and Aemon
 - **D. Viserys, Aemon, and Daenerys**
 - E. Everybody

A Simple Setup: Lattes and Dragon-Training Flights

- Five producers:
 - Daenerys
 - Jon Snow
 - Viserys
 - Aemon
 - Tyrion
 - Lattes per Day:
 - 400
 - 500
 - 0
 - 50
 - 600
 - Flights:
 - $10 \times 50 = 500$
 - $5 \times 50 = 250$
 - $1 \times 50 = 50$
 - $1 \times 50 = 50$
 - 0
- At a price of 50? **Viserys, Aemon, and Daenerys.**

Ladies and Gentlemen, to Your i>Clickers

- How about at a price of 100?
 - A. Viserys only.
 - B. Viserys, John Snow, and Tyrion.
 - C. Viserys, John Snow, Aemon, and Daenerys
 - D. Viserys, Aemon, and Daenerys
 - E. Everybody

Ladies and Gentlemen, to Your i>Clickers

- How about at a price of 100?
 - A. Viserys only.
 - B. Viserys, John Snow, and Tyrion.
 - **C. Viserys, John Snow, Aemon, and Daenerys**
 - D. Viserys, Aemon, and Daenerys
 - E. Everybody

A Simple Setup: Lattes and Dragon-Training Flights

- Five producers:
 - Daenerys
 - Jon Snow
 - Viserys
 - Aemon
 - Tyrion
- Lattes per Day:
 - 400
 - 500
 - 0
 - 50
 - 600
- Flights:
 - $10 \times 10 = 1000$
 - $5 \times 100 = 500$
 - $1 \times 100 = 100$
 - $1 \times 100 = 100$
 - 0
- At a price of 100? **Viserys, Aemon, Daenerys, and Jon Snow.**

Opportunity Costs

- Five producers:
 - Daenerys
 - Jon Snow
 - Viserys
 - Aemon
 - Tyrion
 - Lattes:
 - 400
 - 500
 - 0
 - 50
 - 600
 - Flights:
 - 10
 - 5
 - 1
 - 1
 - 0
 - OC:
 - 40
 - 100
 - 0
 - 50
 - ∞
- Productivities: D 10, JS 5, V 1, A 1, T 0
 - Opportunity Costs: D 40, JS 80, V 0, A 50, T ∞
 - *Comparative Advantage*: Viserys is inept at both dragon-training and latte-pulling, but more inept at latte-pulling. So he is the first person you want on the flight line.