Experiment 1

There are four rounds. Do NOT trade coupons except for the current round.

You do not *have* to trade. Sometimes the best action is to wait until you have a better value or cost.

In each round, you may make only one transaction.

For a transaction to be recorded, you must be standing in line in front of the Market Manager when the whistle blows (5 minutes). I will generally give advance warnings.

Buy low, sell high.

Your market manager will record price, value, cost and the names of both traders.

Buyers: Give the check to the seller but keep your buyer's value coupon.

Sellers: Give the product coupon to the buyer, but keep your cost coupon.

In experiment 1.4, there were 82 transactions total.

The average buyer value was 39.51 - just two buyers had value 20.

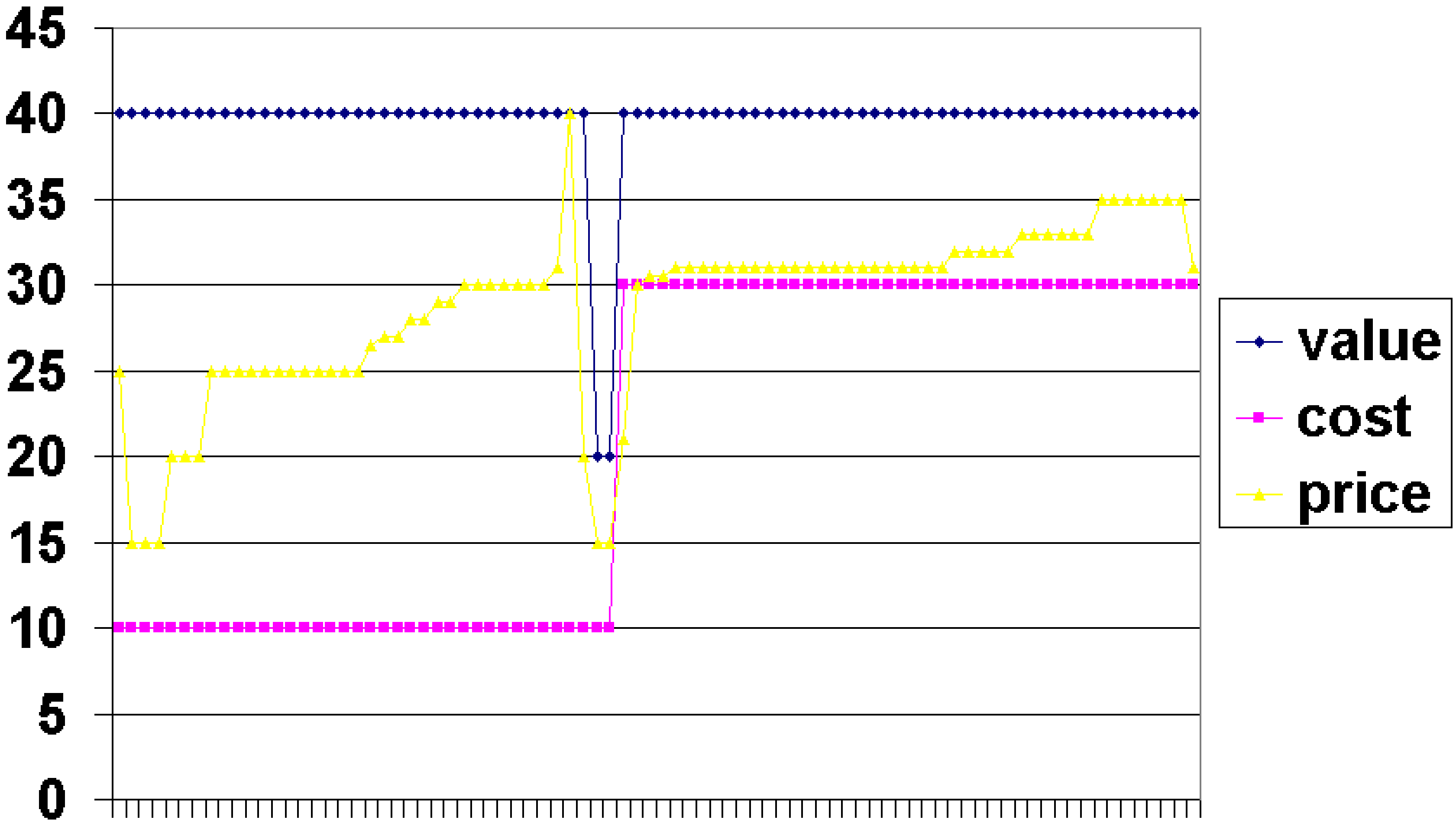
The average seller had cost 20.98.

The average price was 28.69, and ranged from 15 to 40.

There were 85 buyers with value 40, and 80 of them traded.

There were 44 sellers with cost 10, and 38 of them traded.

Overall, the high value sellers and the low value buyers succeeded in trading.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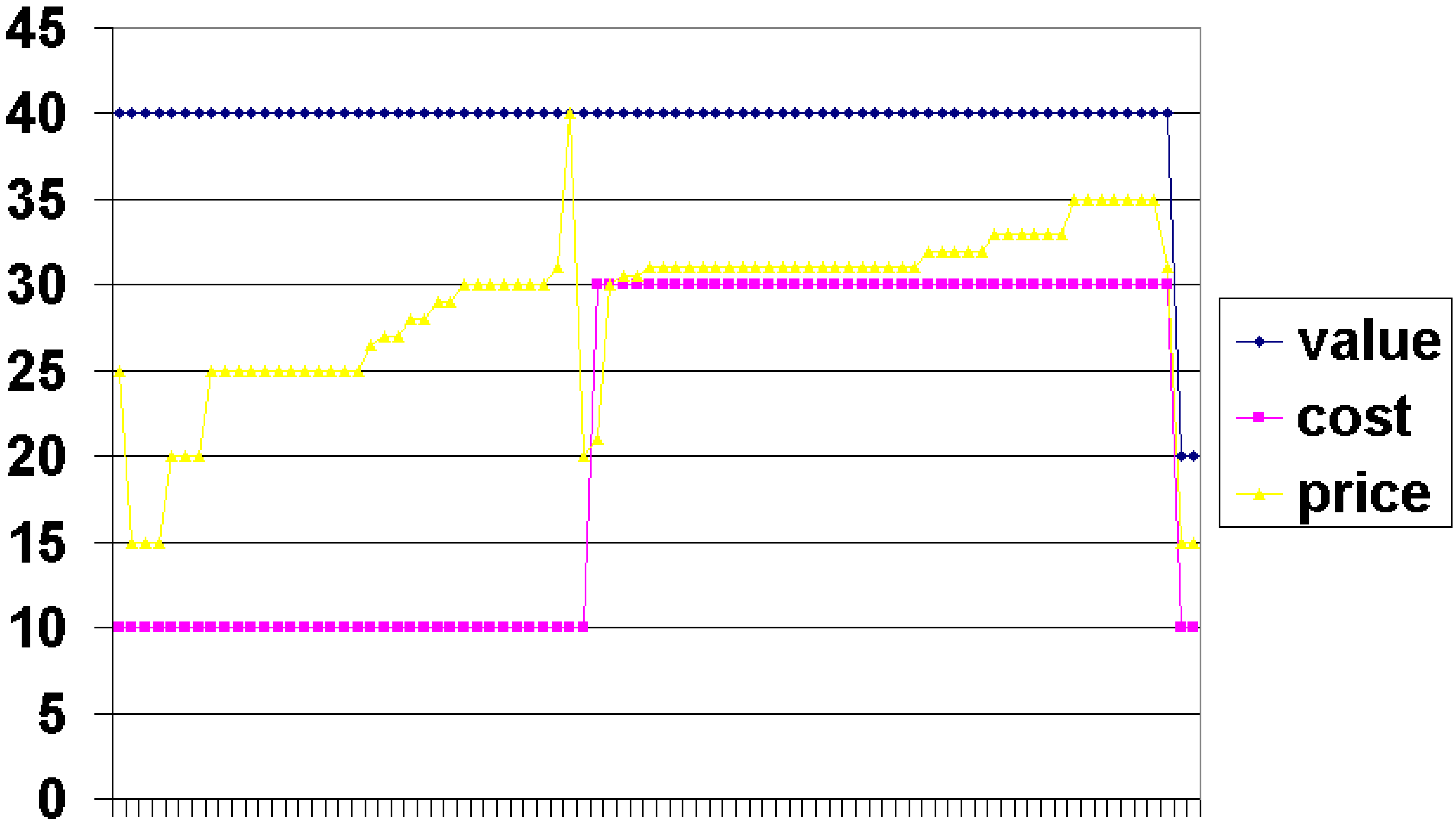
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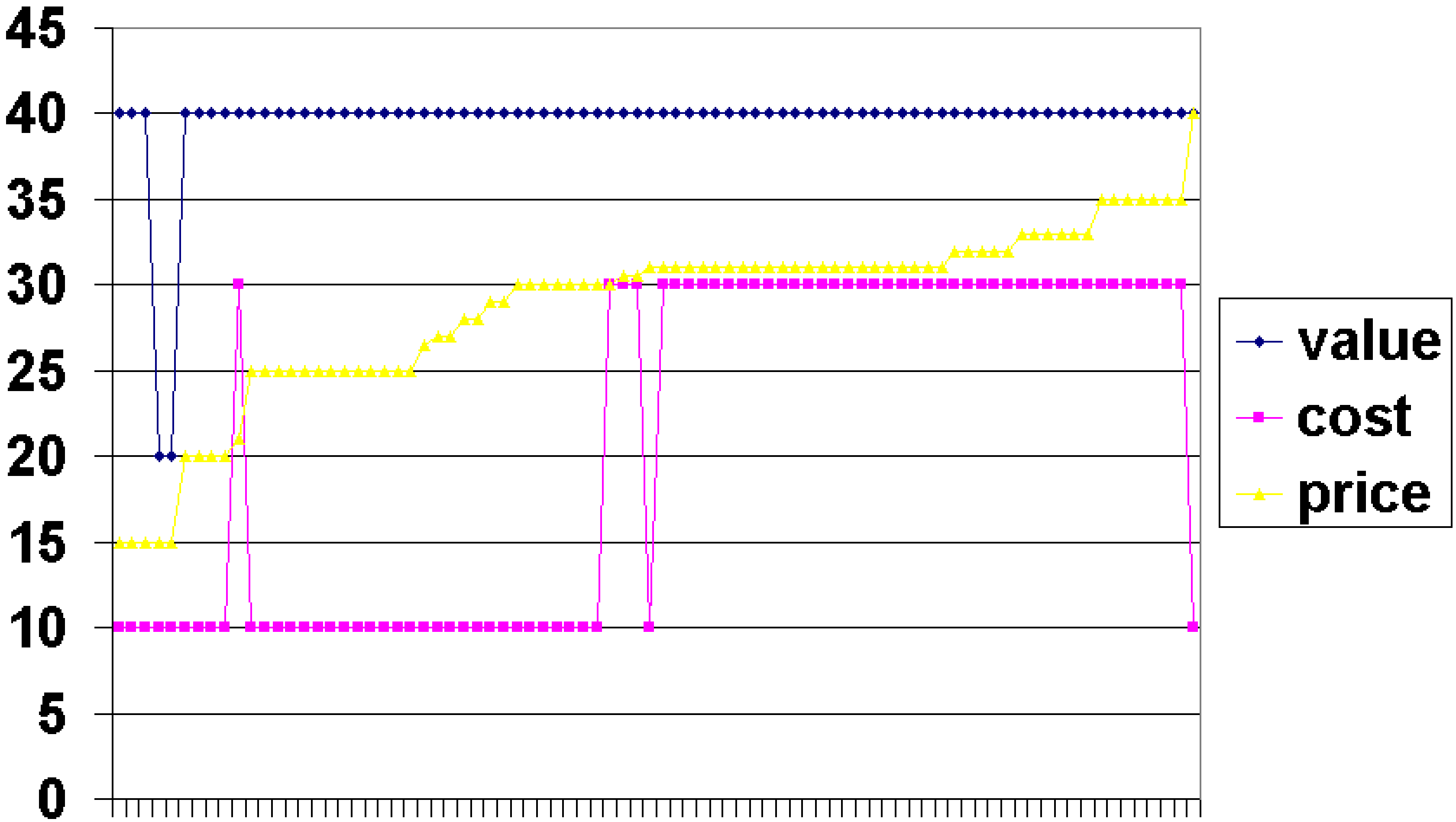
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Approximate data for experiments 1.4 with a group size of 60:

Two types of buyers: *40 and *20. There were twice as many *40 buyers as *20 buyers, so 10 *20 buyers and 20 *40 buyers.

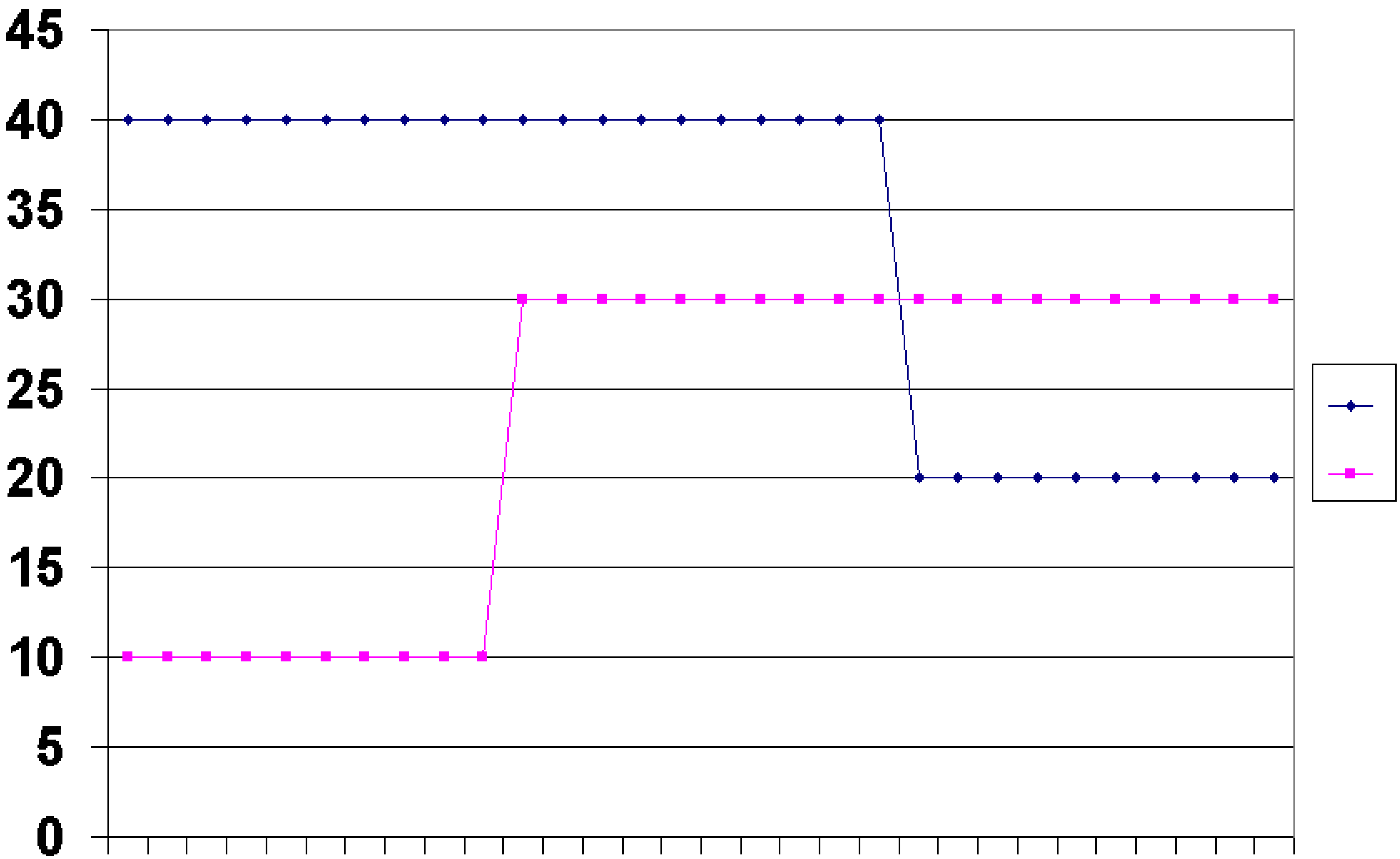
Two types of sellers, *10 and *30. There were twice as many *30 sellers as *10 sellers, so 10 *10s and 20 *30s.

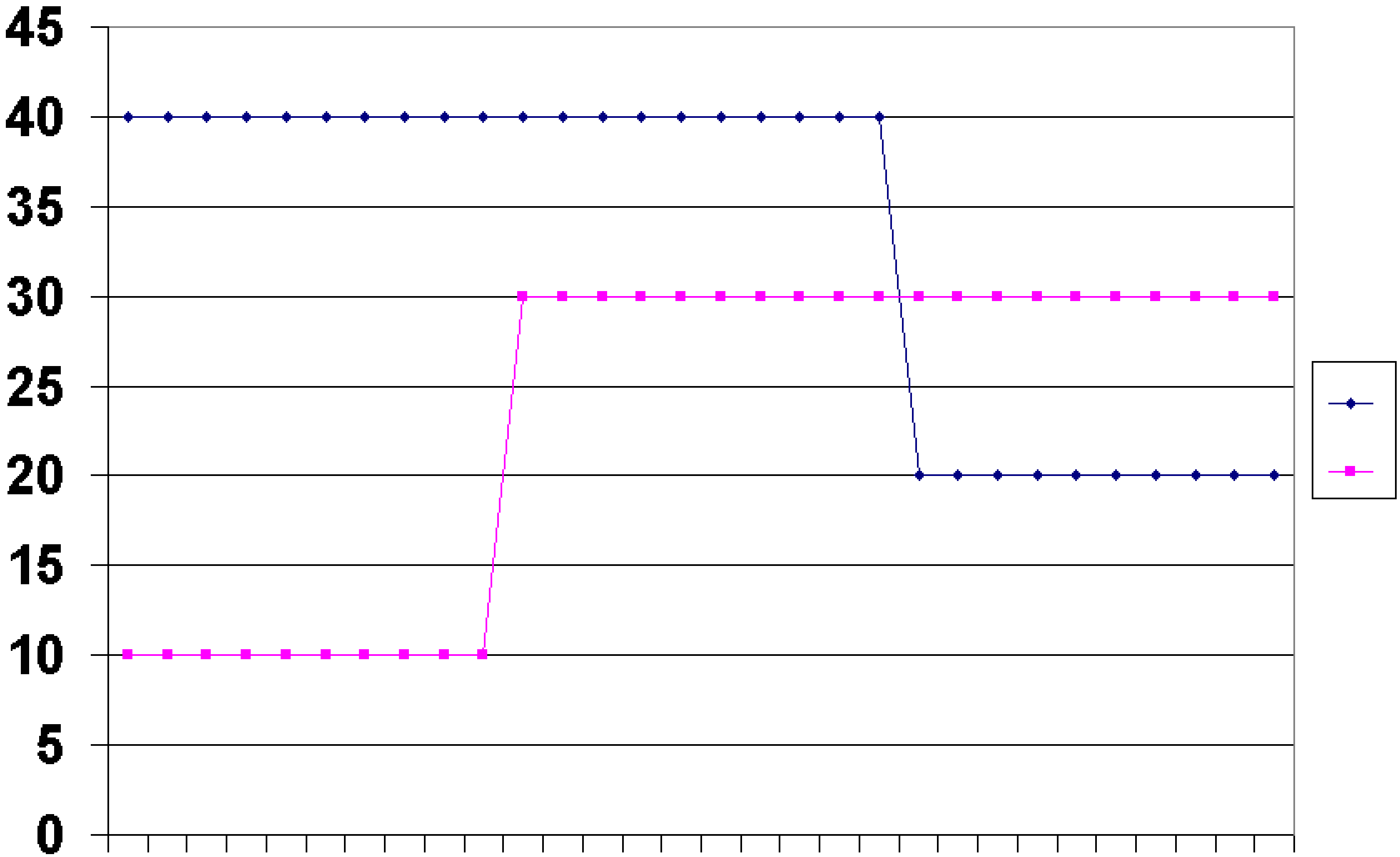
Price	# Buyers	# Sellers	Excess Buyers
45	0	30	-30
35	20	30	-10
25	20	10	10
15	30	10	20
5	30	0	30

At any price above 30, there will be at most 20 buyers and 30 sellers, or *excess supply*.

At any price below 30, there will be at least 20 buyers and at most 10 sellers, or *excess demand.* The equilibrium price is *10.

Experiments 1.3 and 1.4





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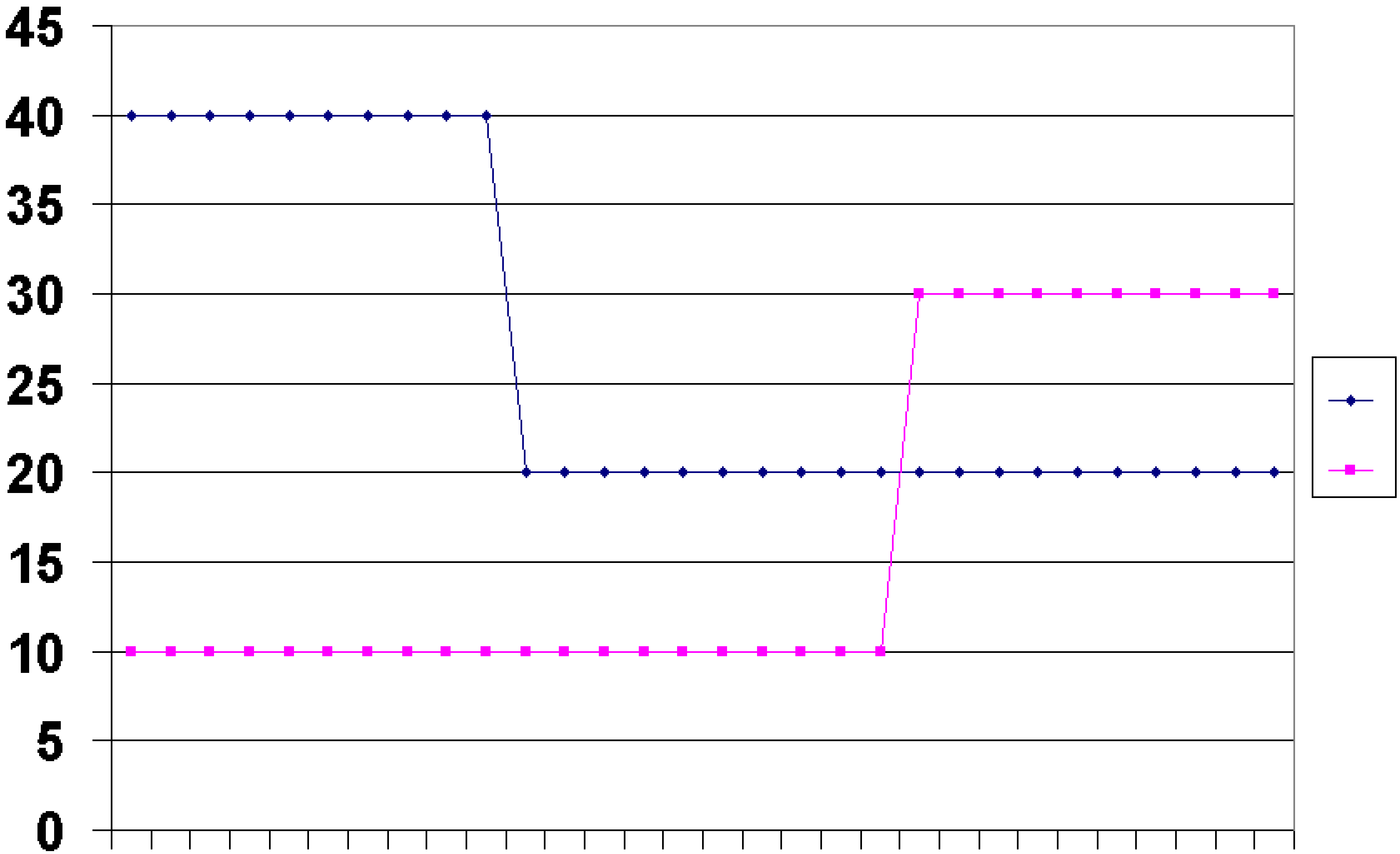
Experiments 1.2 and 1.3



The relationship between the number of units that buyers will purchase and the price is known as demand.

It tends to slope downward because a lower price attracts more buyers.

Note that demand is given by values - demand gives the number of people who value a good more than the price.

Do people intentionally buy goods that they value less than the price?

Similarly, the relationship between the number units offered for sale and the price is known as supply.

Supply tends to slope upward because a higher price attracts more sellers.

A number of factors influence demand.

1 Prices of other goods.

Example: Price of computers fell, and demand for typewriters ↓

2 *Income*

Example: My income rose and my demand for travel ↑

3 Population

This doesn't affect individual demand but does affect market demand, because one is adding the individual demands of more people. The demand for meals in restaurants is greater in Dallas than here.

4 Tastes and Preferences

This might be called *other factors*. Demand for brandy in Wisconsin is high: Wisconsinners consume 10 times the national average.

5 *Use Value*

The situation and environment make products more useful some places than others; Canadians have a higher demand for snowshoes than people in Austin.

Good Y is a *substitute* to good X if an increase in the price of Y increases demand for X.

Good Y is a *complement* to a good X if an increase in the price of Y decreases demand for X.

Good X is a normal good if an increase in income increases demand for X, otherwise it is *inferior*.

Changes in demand should be distinguished from changes in the quantity demanded. *The demand does not change when the good's price changed, but the quantity demanded does*.

Increase in demand summary:
Price of substitute ↑
Price of complement ↓
income ↑ (normal good)
income ↓ (inferior good)
population ↑ (market demand only)
taste change in favor of good
use value ↑
The quantity supplied is the amount that will be offered at a particular price.

The *Law of Supply* dictates that an increase in price tends to increase the quantity supplied, other things equal.

You are willing to sell if the price covers your opportunity cost of producing so many units of the good, then the higher price does as well.

Thus the supply gives the *marginal cost* of each unit.

One potential exception to the law of supply is the supply of labor. Labor supply is *backward bending*, at low wage rates, increase in the wage tend to increase the quantity of labor supplied. At high wage rates, people want more leisure and the quantity of labor supply tends to fall.

What factors alter supply?

1 Prices of other goods

e.g. input prices

2 *The number of suppliers*

Has two effects, more resources devoted to supply and more competition.

3 *Technology*

Price of calculators

An increase in supply is represented by a shift down and to the right, *not* a shift up!

A good Y is a substitute in supply for X if an increase in the price of Y decreases the supply of X, and otherwise is a complement in supply of X.

Many complements in supply are joint products.

- natural gas and oil
- lumber and wood chips
- copper and silver
- beef and hides

Market supply is computed like market demand: for each price, sum the quantity supplied over individuals.

The notion of an *equilibrium price* is based on the following logic. When a *shortage* exists, that is, when the price is such that the quantity demanded exceeds the quantity supplied, some buyers will be unsatisfied, and will offer more, or some sellers will charge more, and the price will be driven up.

Similarly, when a *surplus* exists, and the quantity supplied exceeds the quantity demanded, some sellers will be unable to sell and they will lower the price, driving prices down.

An increase in demand increases the price and quantity traded.

An increase in supply decreases the price and increases the quantity traded.