Markets
Suppose you have buyers and sellers of milk. This defines a Market.
How is the price of milk decided in a market?
Law of Demand

What happens to demand as price increases?
Law of Demand

What happens to demand as price increases?
- Substitution Effect
- Income Effect
- Law of Diminishing Marginal Utility
Shifts in Demand

1. Tastes/Preferences
2. Number of Consumers
3. Price of Related Goods
4. Change in Expectations
What happens to supply as price increases?
Shifts in Supply

- Price of Resources
- Number of Producers
- Technology
- Taxes & Subsidies
- Future Expectations
Where the two curves meet is called the Market Equilibrium Price.
What happens when the price is above the market price?
What happens when the price is above the market price? Surplus.
What happens when the price is above the market price?
What happens when the price is above the market price? Shortage.
To help everyone wake up, we’re going to play a game. The rules:

- We will have two groups: buyers (Phoenix) and sellers (QB)
- Every person will receive a (playing card). Buyers will be red cards, sellers will be black.
- For buyers, your number represents the maximum price you are willing to pay for high fives
- For sellers, your number represents the cost of supplying a high five (and the lowest price you are willing to sell)
- Each round, you will have 3 minutes in which to make a trade. This means finding a buyer if you’re a seller (and vice versa) and agreeing on a price to trade at. The buyer’s earnings will be the difference in the price and the number on their card, and the same for the seller.
- Suppose that your card is a 9 of Diamonds and you negotiate a purchase price of $4. Then you would earn: $9 - $4 = $5.
There are good used cars ("peaches") and defective used cars ("lemons")

Because many important mechanical parts and other elements are hidden from view and not easily accessible for inspection, the buyer of a car does not know beforehand whether it is a peach or a lemon.

This is an example of Asymmetric Information.

What happens in this market?
Fear of getting a lemon leads buyers to reduce how much they’ll pay for a used car.
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But lower prices lead the owners of peaches to leave the market.
Adverse Selection

- Fear of getting a lemon leads buyers to reduce how much they’ll pay for a used car
- But lower prices lead the owners of peaches to leave the market
- This in turn increases the likelihood that buyers will get a lemon!
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Fear of getting a lemon leads buyers to reduce how much they’ll pay for a used car. But lower prices lead the owners of peaches to leave the market. This in turn increases the likelihood that buyers will get a lemon! George Akerlof was awarded the 2001 Nobel Prize for this work.
Organ Donations

Statistics at a Glance

113,000+ Number of men, women and children on the national transplant waiting list as of January 2019.

36,528 transplants were performed in 2018.**

20 people die each day waiting for a transplant.
Primer on Kidney Donations

- Your kidneys remove wastes and extra fluid from your body.
- You have two kidneys, but you can be healthy with only one.
  - 0.03% increase in mortality and a slightly less than 2% increase in morbidity
- Very altruistic people sometimes will donate their kidney.
- 2/3’s of kidney transplants come from recently deceased individuals.
Should you be allowed to sell your Kidney?

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- Just 11 years later it had eliminated its kidney-transplant waiting lists.
- No other country has achieved this.
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Discuss

Should there be a market for organs?
Problems with an Organ Market

- The legal sale of organs is likely to exploit the poorest and weakest groups in society
- Possibly will lead to human trafficking
- Undermines altruistic giving
Networks and Graphs
Königsberg
Why do we care?

- Historical Reasons
- Insights
- Practical Applications!