**ECON 136: Week 5, Wednesday**

**Choice 🡪 Demand**

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| First name | Last name | Pair |
| Jessica | Bernal | 1 |
| Jenna | Myers | 1 |
| Sara | Gladwin | 2 |
| Agatha | Sloboda | 2 |
| Johannah | CordonHill | 3 |
| Liz | Kellam | 3 |
| Shamial | Ahmad | 4 |
| Simona | Clausnitzer | 4 |
| Megan  | Kilmer  | 5 |
| Lisa | Merrick | 5 |
| Finn | Arffmann | 6 |
| Anisa | Salat | 6 |
| Betsy | Helm | 7 |
| Alison | Spain | 7 |
| Sophia | Weinstein | 8 |
| Kelsey | Weymouth-Little | 8 |
| Maria | Gomez Mercedes | 9 |
| Ian | Oxenham | 9 |

My goal for today: Back up, start again, and make sure everyone understands the transition from solving individual choice problems to the concept of the demand curve.

Please sit by your number and say hello to your partner.

We started off with two isolated individuals:

 Imagine a world with two people, David and John, who produce and consume wood and shortbread cakes

 David

Ignoring each other, David chooses 2 cords of wood and

2 dozen shortbread cakes (2,2)

John chooses 3 cords and 8 cakes (3,.75)

 John

John is much better at producing wood than David, but at current consumption levels, he has a much stronger preference for shortbread.

Our Complete Economy:



By trading, both can reach higher levels of satisfaction



Gains to trade arise until they reach a deal in which David and John have the same MRS

David gets

(4,1.25)

John

(1,1.5)

The exchange, hence the mutual gain in welfare, is entirely voluntary

The Gains from Specialization

John and David can be better off if they recognize that each has different opportunity costs in production. David is relatively better at producing shortbread and John is **relatively** better at producing wood.

 David

 John

If John specializes in producing wood, and David in shortbread, then they can move from a (5,2.75) economy to a (6, 3.5) economy and both be better off.

If John is producing 6 cords of wood and David 3.5 dozen shortbread cakes, now there is a lens of trading opportunities between the consumption bundles (hence utility levels) they achieved through their previous bargain which left

 David at (4,1.25) and John at (1,1.5)

An exchange equilibrium for this economy has David producing 3.5 dozen shortbread cakes, John producing 6 cords of wood, David consuming 4.5 cords of wood and 20 shortbread cakes (1.75 dozen), and John consuming 1.5 cords of wood and 16 shortbread cakes (1.25 dozen)



What happens when we raise price? 