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ANGLE TAB
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GUIDES AND FOLDERS

CATALOG NO. 50939

Factor proportions is micro-econ —

and is central to gen. of

employment.

Weed

- ✓ AP & ΔP . Poo-poo max. AP. "Productivity."
- ✓ Empl. # where $\Delta P = \Delta C$
- ✓ Δ pop. depress wage rate?

Capital help? May sub., bring dim. ret. to labor sooner. Increase AP, lower ΔP - ~~new~~ new wrinkle on problem. In very crowded lands, very rich people. Ec. rent

vs. Malthus

- a. Higher welfare $\rightarrow$ lower b.r.
- b. Fallacy of composition - not nec. dim. ret. to whole ec.
- a. Poorer families, regions, nations, higher b.r.
 - Religion? Fr., Ireland.
 - Urbanization? Fr., Ireland
 - Gov. policies
 - Empl. opp. for young - U.S. postwar
 - War
 - Paternalism
 - Nutrition
 - Boredom
 - Intellectualism - ec. dept.

Obiter dictum - extrapolation fallacies. Sam. p. 26-1
p. 29 - is his pop. upsurge to continue? Probably no.

Correction - Net reproduction rate is handy concept.

But note it is at any time imponderable - you don't know what the women will do between now & menopause.

Young generation, 1939, born lucky.

Military prospects: ^{burnish} our own common foe, allies dying off.

✓ b. Incr. wt. to whole cc.

Decreasing cost ind-y.

Big mfr

Xp'tn. Δ trade, thus land supply

Distrib. nets.

Specializ-n - of persons, areas, capital

Greater variety of raw materials, skills - more combos.

Assoc-n of minds. Research. No limit

Food no exception. Surpluses

So Malthus no problem - can do. But will we?

Social org. may break down. Japan. U.S. interstate barriers.

France before Colbert; Eng. before Tudors. China. Grass for fuel; dung for fuel in Pakistan. U.S. depression, people left; also back to hills.

^{Barriers among minds. Make ideas pvt. prop. Patents.}

Or social org. may be dominated by groups wishing to

✓ create artificial scarcity of nat'l. res. Proclamation

Line; Wakefield Plan. Latin Am. Italy.

In U.S.: ^{Raleigh airport} Urban land, tax-dead; farm land - soil bank; raw materials - mil. stockpiling; mmpy; water power - low dams; Maldistrib-n of pop.

3

~~#~~ Immigration restrictions, (& unions) (& ^{segregation} master race doctrines) (caste system)

Poor subst. for positive policies of break'g down
artificial scarcity of land.

are miserably poor countries w/o immigration or crowding
In U.S., immigrants to N., wages still higher there.

Δ pop. may Δ wages as much as lower. Essential thing is
access to land, & social org-n.

Register for summer school

Wed. 8.

Elast. of demand

PQ

MR

MR & elast.

S & D

Mnpy

Earth is round, but on small view appears flat.

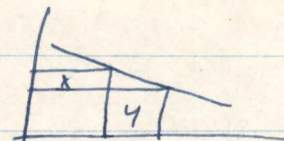
So indiv. firm's demand curve vs. mkt.

Introduce elasticity
saying this is ~~explanation~~
useful to understand
deviltry some are up to.

Farm program
GM price policy
etc.

Mon. 8

1. Review sheets, guss.
2. Conditions favoring comp.
3. Dim. ret. (ch. 15)



$$\cancel{MR = y - x}$$

$$\cancel{y = \Delta Q (P - \Delta P)}$$

$$\cancel{x = \Delta P \times Q}$$

$$\cancel{y - x = P \Delta Q - \Delta P \Delta Q - \Delta P \cdot Q}$$

$$\cancel{\left(MR = P - \frac{P}{e} \right) \left(= P - \frac{Q \cdot \Delta P}{\Delta Q \cdot \dots} \right)}$$

$$\cancel{\text{Let } \Delta Q = 1}$$

$$\cancel{\text{Then } y - x = P - \Delta P - \Delta P \cdot Q}$$

$$\cancel{\frac{MR}{\Delta Q} = \frac{P}{\Delta Q} - \Delta P - \frac{\Delta P \cdot Q}{\Delta Q} = \frac{P}{\Delta Q} - \Delta P - \frac{P}{e}}$$

$$y - x = P \Delta Q - Q \Delta P = P \Delta Q - \frac{P}{e} \Delta Q$$

$$e \text{ is } \frac{P \cdot \Delta Q}{Q \cdot \Delta P}$$

$$MR \text{ is } P \cdot \Delta Q - Q \cdot \Delta P$$

$$MR = P \cdot \Delta Q - \frac{Q \cdot \Delta P}{P \cdot \Delta Q} \cdot P \Delta Q = P \cdot \Delta Q - \frac{1}{e} P \cdot \Delta Q$$

$$= P \cdot \Delta Q \left(1 - \frac{1}{e} \right)$$

$$\text{Let } \Delta Q = 1, \& MR = P - \frac{P}{e}$$

Another view: $TR = PQ$. If $\% \Delta P > \% \Delta Q$, lose rev.

Review ~~it~~ again --- cut across material at different angle.

(Think in different categories) (use different systems of coordinates)
(See from different point of view ... essence of wisdom, ability to translate)

How free ec. works?

2 angles:

1. = mgmt principle. Started w. resources, asked how to allocate them ideally.
Took resources as units, applied to
different uses until Δ output = at mgn.

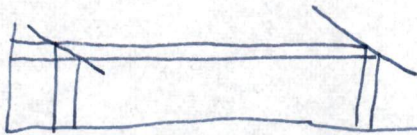
2. Started w. consumer demand, took products as units, - a little trickier, since no longer have one common unit
found ideal where resources moved into each use
until $MC = P$. Thus got maximum satisfaction of
consumer demand, since MC in one product represents
foregone production of others.

Well.

Next time, ch. 6.

Exam goes on text

1. Contrast of individ. vs mkt elust., & MR



Individual gains by ΔQ ; industry losses; society gains. 3 levels of evaluation. Loyalty to self interest is

Small firms vs large. Comp-n depends on free entry; on credit to small firms

loyalty to human race, despite jibes.

2. Conditions

Comp-n is desirable. Otherwise $MR = S$.

As ~~how~~ what conditions make good comp-n.

a. Small firms, large no.
i. ~~Can't hope for ideal horizontal curve.~~
ii. ~~So opt size~~ But if every producer knows ~~if he doesn't~~ ΔQ , others will take his place, no inhibition

b. Wide mkt
Dense population
Good xptn, no trade barriers, low n.s. rates
Large middle class: no segregation

c. Easy entry
Available sites, raw materials

Low cap. req. (cheap land, small size).
Basic public utilities publicly provided.

Credit, venture capital

No license etc gov't barriers

Access to patents

Community accepts outsiders. Greatest progressive ec. cities have been full of firms.

Pessimism, to weigh down land p.

common carrier basis. Preferably provided very cheap, some cost paid from land tax, keeps down financing problem.

Our gov't dom. by pressure groups, representing 2 tiers of interests. Thus gov't reg-n anti-social, individualism better sometimes. Too bad, discredits gov't, which can be good.

"Trust Problem"

1. What is it? Combo. problem

"Trust" as such is gone, almost, except Mass.

Turn stocks over to trustees, get trust certificates.

Public turned vs big combos when most were 'trusts', name stuck.

Kinds:

a. Pools — unstable federations. (Cartels, syndicates, joint ventures, etc)

Enforcement problem

(Here, Anti-trust effective. We won't enforce contracts. & prosecute vs. them. - return) (Cite Fair Trade; ag. coops)

b. Trust.

c. H.C.

1889, NJ legalized. Incorp. in state where laws favorable

d. Merger

K-F - W

Le T - West-se

e. "Gentleman's Agreements" — usually weak, not much honor among thieves

Can see legish. to promote comp. must be carefully drawn, lest it hit only form, not substance. Combos are hydra-headed, resourceful: chop off one, others rise

E.g. death sentence vs PUHC doesn't prevent merger.

Loophole in Death Sentence (no outlaw mergers)

Kick, p. 114, mixes mpy of nat. res. & nat mpy.

p. 114, N.B., n.r.s transferred coal to others - fate of much anti-trust.

p. 114, fnte. Anthracite, big ~~holder~~ n.r.s held more^{to} than they produced.

Iron, timber, same. Financial strength. Corp. a fuel inst.

p. 115 Standardized. No. Agglomerations - U.S.S. - & Vertical.
pick up much, no regard to efficiency. Having fuel strength,

Fetter,

Conc. - one or a few producers in one industry. & ownership of
each highly conc., interlocking.

If say "are $6\frac{1}{2}$ m stock owners, widely distrib.", what
wrong? Ave., misleading.

TNEC figures.

Pyramiding, too. So a few men swing a lot of weight.

~~Pools - unstable federations. Unenforceable. (cartels)~~

~~Trust - combs of corps. Trust certif. 1890, outlawed, sugar trust case.
(what else happened '90)~~

~~H.C. - Name some.
1889, N.J. legalized. (Hence SONG. No oil in f-y)
Hold's timber?~~

~~Merger - (PU HC can be replaced).
Recent mergers - K-7~~

Unwritten agreements.

~~(The Sherman Act weak, hit forms, not substance? Ccl. always
change forms)~~

2. How far has it gone?

Farther than most of us wd like to think.

Autos.

~~Auto Mfg.~~

Alum., & other light metals

Steel

Cement .. Universal Atlas

Cameras

Copper

Cans

Even lumber, pretty conc:
W-a, C-Z, Int'l P&P

Oil

Banking - rapid growth of K America

Anthracite

Insurance

& some out & out imps:

Sulphur

Moly.

Shoe Mach. (United Shoe Mach Co.)

Bananas

& all interlocked at top levels ..

Du Pont & GM

USS & Univ. Atlas

Alcoa & Dow

Largest 200 non-fuel corps ~~hold~~ produce c. $\frac{1}{2}$.
Also, conc. ownership of big co.s, read figures. 7 Pyramid. Employ less 90 men
Hold more 90 n.e. --
another part of problem.

3. When do mergers ~~occur~~, combos occur?
recent combo.

3 great ~~merger~~ movements. In times of buoyant optimism,
prosperity. For that's when public will buy new issues & that's
how they grow, more than from internal fnig.

1896 - 1907 ... stopped by anti-trust, & heavier n.e. taxes -- e.g.
on timber!

1920 - 1929 -- " " mkt crash

1946 - present " " ?

Getting worse? In boom it does — Largest 200^{non-fuel} grew

~~over~~ 2-3 times faster than other corps, '20s.

2,000 controlled
most whole corp. ec

4. Why do mergers occur?

1. Easier for bigger to raise M.

Whole > sum parts.

Le T.

Grace. F.M. etc.

Inv. bankers, buy for 10 m, sell for 15

Credit not allocated by equingnd, MP; but by collateral sec.
Bank is a place.....

On large scale, & on small. Weakens whole ec., top to bottom ---
e.g. big, large firm can always borrow more & buy more land.

Big corps acquire more & more assets, use them less & less
intensively --- have more than can mng effciently. Overcentralized

Low demand elast. So don't expand business they're in, but
branch out, buy other bus. - Grace. Are they buying F&K bees
more effc. at mngg that business?

~~E~~ Character of assets: they have great advantage in buyg
assets w long life expectancy. W-n's timber, 100 yrs of virgin.

C-3's damsite. Most of value in remote future. $\frac{F_n}{(1+i)^n}$ By

time you've raised $(1+i)$ to 100th power, makes quite a

diff. what i.e. you use. ... \$14 vs \$1.

Large corps, much land, low turnover. Cf. carney.

In timber, well estab, when future rise expected, conc. Ad.
1900-1907. & now again. The greater future component to
your assets, the greater the imp. of low m.

	1 yr	20	35	50 yr	100 yr
2%	98	67	50	37	14
4%	96	46	25	14	1

~~No. 2. Inst.~~

~~Patents~~

2. Nat. Mopies, unreg., no common carrier

S.O., pipelines & Pa. r.r.

Logging access roads

United Fruit

3. Inst. ~~sp~~

a. Patents.

17 yr mopy.

Icing

Court battles - best financed win. Hartford Empire Glass

Int.-l. Fantastic as it seems,

Am Shoe

Nazis used Am-n patent system to slow our war preparations.
I.G. Farben, 2,000 Am. patents, jointly w. S.O.N.G. - to hold up Am. aircraft
output. Light metals, aviation gas, bombsights, Pratt & Whitney

b. Tariffs.

Fn Comp

Eng.

c. Licenses -- e.g. Cal. liquor sales.

Ptd. milkshed quota

d. Unions.

Professional Assoc. Taught unions all they know

Industry wide org.

Other hand, if they can't org. ingrate, push men out to develop new competitish.

e. Govt. action, misc.

NRA

AAA

Fair Trade - govt policing.

Sanitary reg - e.g. milk distrib.

Safety regs. - e.g. vs self-servo gas

Bank regulation

When mergers etc. more frequent? Why?

2 great merger movements: 1896-1907 Anti-Trust stopped

1920-29

& now

Why combine? Raise M.

✓ p. 126. Nonsense on USS

Do they occur because of greater efficiency? Hardly.

a. Merge finances, control, not op'ns. TNEC.

b. " unrelated enterprises

c. Owners lose control. Colossal swindles, ^{nepotism, apathy} Directors who do not direct. K&T. TNEC quotes.

a. Importance of Anti-trust.

Some say N.Z. is far from perfect, but does some good

1. Stopped 1st merger movement - w. ~~Δ~~ taxes on large ~~land~~ holdings of
natural resources, e.g. timber.

2. Diamond Walnut. Are many mergers it can stop.

b. What is anti-trust?

1. Legislation

2. Admin.

3. Courts

4 rules against combos.

1. Common law (what's?) vs "unreasonable restraint"
2. " " vs h.c. - but statutes now allow. N.J. 1889
3. Statute vs restraint of trade (Sherman, Clayton, FTC, etc)
4. "Rule of reason", courts use to soften statutes. - comes back to 1.

Active Trust-busters - p. 130. NRA vs Th. Arnold

First, govt used Sherman little, because were few new mergers, due to depression. also, Knight case (sugar trust), govt lost suit.

T.R. started trust-busting big way. 1904, N-n Sec. Co. case.

Not so important for own sake, but chilled other mergers - knowing govt could bust, made less attractive to commence. - harder to sell stock

1911, Taft, dissolved S.O. & Am Tobacco.

1920, USS, let free. - court said not a monopoly.

1914, Clayton Act

Prohibits 1, Local P discrim.

2. Tie-in contracts.

3. ~~Prohibits~~ Buying stock of competitor where that lessens comp.
(But permits buying assets - same as P.U.H.C. act?)
" " merger. & h.c. acquiring both. etc.

4. Interlocking directorates among competitors.

Who enforces? ICC to r.r.; Bd. of Gov'n's of FRS to banks; FTC to others.

1914 FTC Act. 5 members, Pres. appts, 7 yrs.

To prevent unfair methods of comp. Before mny actually achieved.

(Other acts enforced by Anti-trust div. of AHy - genl.)

Has issued many cease & desist orders.

1924, USS, ended Pittsburg Plus on order. But subbed multiple basing pt. (recent decision vs that? Cement?)

1933, NRA trade ass.s. Exempt from anti-trust. '35, unconst.

1936, Robinson-Patman, ~~Fair Trade~~ anti-chain store

Prohibits discounts on quantity, where they will lessen comp.
- probly subject to elastic interp.

We have 2 ~~govt~~ govt agencies prosecut'g mpy.

FTC

Anti-trust.

cf. Sherman & Clayton. - has teeth, gets down to cases. Wilson.

As courts make law, remember outstanding decisions:

D'Arcy vs Allen, 1603

1894, Knight Sugar Case

1904, N-n Securities

1911, SO & Am Tobacco

1920, USS let free - shows gmtd changed attitude of times.

1936, threw out NRA. Opened new trust busting era.

1953 Recently, pro-trust tendency in decisions. - Alum. e.g. Du Pont.

New merger era at hand.

Effect of war? WWI & 2 reduced mpy, under pressure of war. Opened restricted industries. .. d'd capacity. Recall, how slow we were gett'g started in war, '42, "bus. as usual". - fear of flood'g mkt's, mpy think'g. War, built tremendous plant, broke bottlenecks, lowered many real costs, took advantage of ec.s to scale, R.R.s etc. - deluged with overproduction? Postwar boom, false prophets.

But most obvious facts hidden from those who will not see. Restrictive philosophy return'g - ag. e.g., now take up.

Question:

~~The Clayton Act forbids a corp. to interlocking directorates & acquisition of stock in~~

1. ~~What does Clayton Act prohibit?~~

2. " ^{seems to you to be} ~~the main loophole?~~

4. The Clayton Act ^{of 1914} prohibits a, local p disc, b, Tie-in contracts.

a. What else does it prohibit?

b. ^{Does it} Do you think it leaves a big loophole?

Myopic comp:

As Δ demand, Δ s your 'costs'
making you economize on the
fixed factor - your trademark -
hence Δ output.

(Or fixed factor might be your
urban site)

SCANNED

AS

FOUND

202, Wed. (Mid-tm, 2 wk from today)

1. Clear up loose ends.

a. Sources of mnpy power

Sources of mnpy power.

Nat. resources. Jump ahead to ppty valuation.

Nat. mnpy - always involves land, space. Can extend, by discrim.
tie-ins.

Patents

Licenses

Tariffs etc.

Discrim. taxes - e.g. anti-chain store, marg.

Fair Trade

Police power - P.M.A., etc.; oil "conservation"; NRA; banks - prohibits
int. mdd., limits entry, etc;

SEC

b. Evaluate mnpy

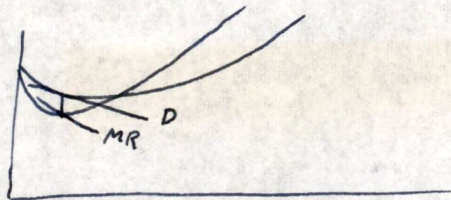
Keeps resources from most productive use. - or any use Unempl.
Low wages -- since resources, key to mnpy, which mnpy unused, are not labor usually.
Rewards mnpst for anti-social activity. Penalizes others.

Splits society into warring camps.

Freezes technique.

Lowers wages, reduc'g empl. in basic industries, & in all
inds that depend on them. E.g. cheap power not only means jobs
creating power, but in subsid. industries.

Monopoly Comp.



K & H say, drive back, so firms ~~too small~~ produce too little.

Oversimplified. Adv-s may have many effects, depends on product, & conditions.

May adv. to ΔP & reduce sales, ok. - to
also, adv. to expand sales. - make curve more
elastic to right. Wd be pretty poor adv-g that made curve
less elast. to rt.

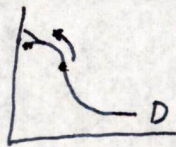
also, S.C. like FC, push cost curves to rt. (also up)
also, " creates new item of overhead, good will, even long run, want to spread overhead.
also, entry flattens d curves.

etc.

So analysis not foolproof, tho maybe something to it.

Usually, if adv-g assoc. w mnpy, achieve mnpy mainly by other means.

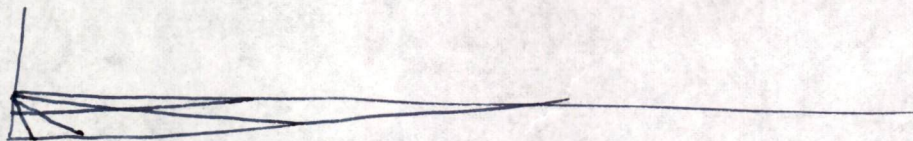
Imp't pt. How is P.P. distn.? If split, hi & lo, no middle,
use adv. to hit small mkt, hi p - to back up. No pt in expandg.



If middle class, can have comp.

Oligop.

1. Some say, ea. will figure on keepg same % of mkt, as all cut p.
As ea. has same elast. as mkt.



I say, original p cutter stands better chance than any to expand sales. Esp if small, others won't - ΔP for long time. E.g. Bank of Berkeley - quadrupled, but no dent in others

But sometimes unconscious collusion does inhibit firms from ΔP - fear of P war. But usually fear of other kinds of retaliation: violence, law, cut-off raw, etc.

~~Can't find answer on curves.~~

Unky, as long as newcomers have access to basic raw materials, patents, licenses etc, small will cut in on big.

We have oligop, ok, but not bcs of unconscious collusion.

Fri:

1. P discrim. Many e.g. Shows how common are imperfect impts.
2. This A.M., consider a couple of boogey-men, raised by those who believe comp. can't work

Mkt share's

advertising

Monopolistic comp.

(Middleton pic)

Free entry, but differentiation. SC

before after
No great harm. Firms in '80s, vs advertg.

Result: smaller firms. - less output, i.e., more of them.

Dynamic aspect, analysis overlooks. More producers, flatter demand.

Oligop:

Limited entry, several firms

K&H, p440, judge by amt of output. False. More imp. is

what they hold, don't use for output.

Power of USS not in its 40% output; but 81% ore reserves.

Anthracite. Alum.

Indirect effects of p cuttg. If each oligopst figures other will follow his p cuts, 2 together act like 1 monopolist.

If each ignores other, like comp.-n.

But 2 tend to become same size. Like ^{old, battered} cheap car &

new. ~~When~~ New gives in, has more to lose

When get to ass. 16, prop. valuation, see opposite forces.

But usual analysis ignores supply side - cut output, just cut your own, not industry. Drive resources to competitors. So only effective mpy is

P leadership.

keep resources idle, or out of occup'n. Focus on how that done, not on "mkt situations" etc. & on how get to be just a bear

K&H 6s, hi fixed costs "make it difficult to adjust outputs to demand"

K&H reason in vacuum. Must be lever of control. USS, ore. S.O.,

pipelines, Tex. any comm, n.r. connections,

Leader loses mkt share - oligop principle.

Keep resources idle - calls for great fuel power.

P discrim. Good cheap. Ch. 24

$\Delta MR, \Delta Q$.

Disc. by class, place, use, persons,

commodities (i.e. n.r. hauls cheaper for

heavy goods, bcs haul is much of p, demand elast. for

discourages shippg finished goods, causes to ship more heavy raw goods
n.r. service. Finished goods v.v. (Also, thus

640
55000

3200000
320

35200000

202, Tues. another special session.

Fallacy you often hear:

"Cost of production has fallen, due to techn. advance, in producing wheat. That shd. lower price".

Must ΔQ to $-\Delta P$. $\&$ Machines in ag. do not ΔP nec., may just displace men, Δ rent.

Or take westward movement as e.g., effect on e-n farms:

Δ wages, lowered price of what they sold. So did they produce less?

A little. But ^{mostly} just took less rent.

Or take union question. USS says ΔP because union demands higher wages, Δ cost of production. BS. S & D det's price.

Passing on taxes, same.

Deflation effects, same.

~~Producers~~ Members of some ind., asking congress for special privilege like tariff, present mgmt producer as typical of industry, imply all mgnts go out of business.

Some mgnts will go out, bcs resources more vble in other industries.

Others stay in, lower inc. — not a loss, but a xfer.

Those infra mgnts, lower ~~costs~~ ^{price}, also thereby lower costs, stay in.

If firm is tnt, all explicit & obvious.

.. owns resources, possible confusion. Revalue fixed assets.

"Normal price" — a will-o-the-wisp. Goes back to days when thought supply $\propto$ elast., was a "cost of production". Now, realize "cost of production" depends on demand.

So USTariff commission sets rates on certain products ~~so~~
so firms can't bring here below our cost of prodn.

- a. Defeats whole purpose of IT
- b. "Cost" depends on tariff.

So get firmly in mind sloping S & D curves. Understand what mean. Don't let anyone speak of "the farmer" or "the typical firm".

Use of curves:

Effect of strikes.

Hi fixed cost, vulnerable to strike.

Do unions force employers to
 Δ prices?

Use curves to analyze strike

--- if MC rises fast, not so good

Effect of Δ wages, labor unions on prices. & other Δ cost of production -- Δ in a. Δ elect. etc.

" " various taxes - are they passed on

Whether ec. tends to allocate resources efficiently

Whether is efficient for firm to produce at more than min ac

" big firms more eff. than small - opt. size (anti-trust suits)

" your own firm is too big or too small. How to figure: how much add to inc.? how much to costs. So can follow acct's & never know

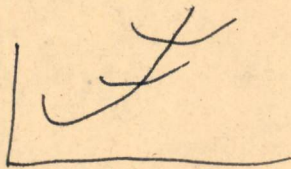
Understand factors that influence price, supply side - what makes a real condition of a co. in industry

supply curve - effect of time on response of supply to Δ demand.

Effect of P control

" " mnp on output & p; & on efficiency of allocation.

Do unions gain from employers, or consumers?



Is everything ok as long as $MC = price$?

No - always produce there. $P > ATC$, long run
 $P > AVC$, short run

(MC rise for 2 reasons: Δ techn., & ΔP)

Effect of P controls.

To see what is best for economy; to see if system tends to work out that way.

First: Supply & demand, solution. Fm price supports.
AR & MR

MR & elastic. - unit elast, mgnt rev. = 0

✓ Changes in demand schedule vs changes in demand.

✓ Ave. & mgnt costs.

Cost of production affects p only by affecting supply - p. 372.
(e.g. inflationary spiral nonsense)

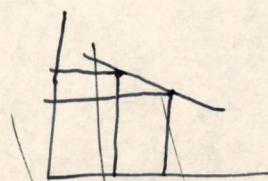
— "Opp. Cost" — skip 373 Opp cost at margin:

Explicit & implicit costs.

Effect of time on supply. ("mkt")
~~short run~~ Immediate, short run, long run.

p. 377, K&H. good.

Mkt supply - immediate. Reservation P_r . So immediate result of ΔP is ΔS .



$$MR = P - \frac{P}{e}$$

$$e = \frac{\frac{\Delta Q}{Q}}{\frac{\Delta P}{P}} ; \frac{P}{e} = P \frac{\frac{\Delta P}{P}}{\frac{\Delta Q}{Q}} = \frac{\Delta P}{\Delta Q} Q$$

Don't let anyone say "the" cost of production.

" " " "the" farmer, "the" businessman" etc.

Any sentence so begun bound to be wrong

Applies to tariff etc. Also to deflation.

Distinguish cause & effect. Cost not sole cause, p result.

S & D mutually det. P - & that det. many costs (inelastic ones)

Producer surplus
Rent result of p , not cause.

Have applied to one ind. Now to all of one kind factor.

Land, esp. all inc. is $p.s.$ - ex. rent.

Franchises, too (form of landhold'g)

R.R. rates - fixed % on "inv. cap.," what is "inv. cap."

K & H. hard. So listen carefully, avoid read'g. Play around w curves yourself.
9. Shrt & long run p.

Have we repealed S&D? No - just must understand it.

- a. Long run decreasing costs. (Kieck. mentions) (Thus far hr. bn ass. Δ costs)
(Due to hi fixed costs. ATC going down, while AVC going up)
- b. Monopoly
- c. P control. (P control of monopoly good)

— ch. 24 good. ass

ch. 23 virtually incomprehensible. Ass 9810
just remember what I already told you.

About cost curves & supply curves; long & short run.

— Equilibrium price. K & H. confused. Say in pure comp. all firms identical. B.S. then no supply curve.

— "Normal" price ... meaning long run, cost of production. classical concept.

Cost of production of mngtl producer. "Producer surplus".

Analysis by "firm" obscures fact that it is resources that must move into industry to Δ prod'n. Speak of mngtl resources, not firms. over

10. "Special cost problems"

Fixed supply goods. - long run, means land. No cost of production
Last a long time, how value.

~~K & H. very confusing. Link w. 'cap-o' - a very int'g subject, which with~~

~~covers, but no connection w present problems.~~

2 problems in valuing: 1. no cost of production. 2. Discount futures.

Weed, Sources of Monopoly power. Read FTC, Iron Ore, 94-101, 133-5. & Nicolson,
Fallacy of Easy M, HBR, Aut '38, p 31-4

— Changes in demand.

First, move up shrt run supply; then long.

Δ supply. Skip K & H. LR Δ demand > shrt. run. Autos. (roads)
LR decr. costs.

Speculators, & cum. changes in demand. - disequilibrat'g, when Δ dem.

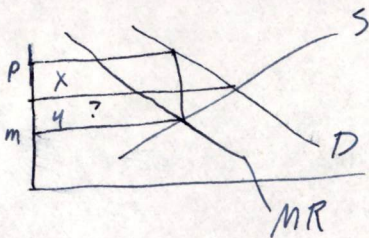
When say comp. drives down excess profits of all firms to zero, mean profits of firms as such - as disembodied spirits, or as just mgmt.

Thus obscure fact that certain resources cannot enter w/o limit.

Firm's income from them goes up. But must impute inc to them as a cost, so get no excess profits.

Profits are competed away or imputed away - one lowers P , other raises cost.

Long run, if all factor's supply ~~are~~ perf. elastic, S curve wd. be flat. Only rises bcs some are limited. Hence ea. rise indicates a rise in price of some fixed factor.



Long run, S curve consists of min. ac of individ. firms. So is an AC curve. So mnp profit per unit is vertical distance between curves.

Now "y" is no Δ gain. But it changes from being cons. surplus to being mnp profit. "x" is new mnp profit. Since it wd take a price of only m to draw out that much product. If add MMC, also get a cut from pushing down labor etc rates.



But can't show it separately. But it exists.

Oligop:

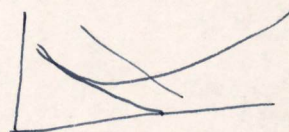
Large firms give way to small, tend to equalize, if only problem were p policy. Cf. elasticities. Cf. p policy. add fact that small takes customers from big, to make him very elastic, just as elastic as in comp. But big has no one to take from.

Mkt sharing - due to collusion.

Some say unconscious collusion - each firm knows it is faced with mkt demand, act in concert as monopst. But wrong: small firm, higher elast.

So must be something else that explains why firms remain diff. sizes. Credit rationing etc. E.g. of USS, iron ore, lever of control. p leadership.

Monopstic comp. Not on exam.



Largely b.s. Advertising not nec. restrictive, by self.

For Mon. 15 & 16

Hell's canyon Wed.

What 202 class needs, as shown by exam:

1. Rock bottom is min AVC, sh+run.

1. More practice writing.

2. MR & elast.

3. Slope & elast.

3½. Many said t.p. imputed away in sh+run, competed away long run.

4. Sh+run & long run ~~etc.~~ Ag & deer. returns.

5. Answer qn - use what you know, bring it to bear on qn; most effective way. e.g. cf. elasticities of large & small firm - not other aspects.

e.g. "Under what conditions" are t.p. imp. & comp. away

Many just gave formal curves. Wanted you to see behind them.

Especially, do have that concept well in mind.

6. Many thought changes in demand were key to wheat question.
If graphs are optional, don't use them just to prove you know them.

20 min. quiz:

What is MR?

What is elast?

cf. elast. of 3 pts.



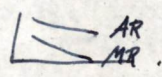
Where should bus fares be set, ^{in terms of} ~~relative to~~ costs & demand. Why

~~What is the relation~~

Might it ever be economical to subsidize a public utility? How would you know if it were not economical?

Mon.

AR & MR.

Same as AP & MP. As long as AR falling, MR lower. & AR always is falling, - or at best const. So gurdy  Why does MR fall, as move to right? $\% \text{ increase in } Q \text{ is less; } \% \text{ loss in } P \text{ is more}$

What in the world is practical mng of all this?

MR when $e = \infty$; 1; 0

Δ demand curve vs Δ demand.

— — — — —

(To intro. S & D)

S curve - how look?

How S & D work together? - thy. hammered out over time, ~~despite~~ cost of production, then m.u., then Marshall.

Now break down S into components - individ. firms.



Start with ATUC & MC (no matter if shrt or long run).

These are just AP & MP upside down.

Use this, rather than MP, to analyse individ. firm. Why? Bes can show P changes separately. (Penalty - can't show ^{rise} cost of inputs changes separately. But keep mum on that now)

What mean by "costs"? Implicit vs. explicit - we count them all the same. To avoid confusion, think of entrep. as a tenant ... who does no work himself, but hires it done. ^{Disembodied spirit.} Thus make all costs explicit, easier to remember. But analysis still applies when costs are implicit - cost is foregone gain.

U.S.S.; Stephenson rubber plan.
Great advantage of mgnt competitors.

So why don't small firms move up on big ones?

2 opposing trends, cross purposes:
Lower mr when bigger.

As bigger firm acquires more & more, uses it less & less ... U.S.S.

& more mgnt firms arise on mgnt land - empty center, busy fringe, but fringe risky. - a prime reason ec. is so unstable.

Wed.

Why doesn't process I described Mon. continue until all firms same size?

Evans: What do S & D curves for firm products look like? Why support some, not others.

1. S & D



Cost of production, vs mgnl ut.

~~Low~~ Very simple, yet very meaningful. Tell us that men producing for mkt, trying to earn M , are serving society best. — grasping for M ok, — if do it by producing things people want & need — not by preventing such production, nor getting on govt gravy train.

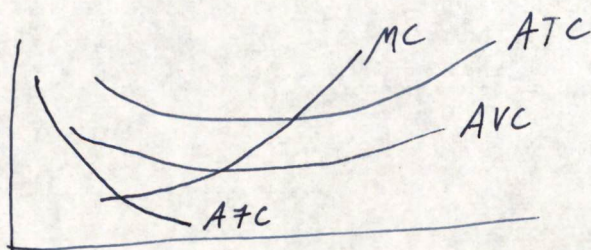
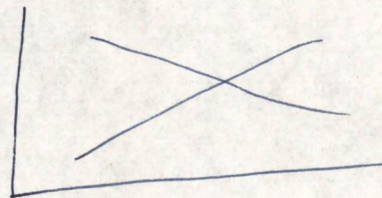
D. curve tells us what people want.

S costs to produce it — in terms of foregone gain.

P & C surplus.

What's "THE" Cost of production" — at mgn, is what = P .
(Tariff commission nonsense)

2. Now analyze costs of individ. firms — whose contributions make up S curve.

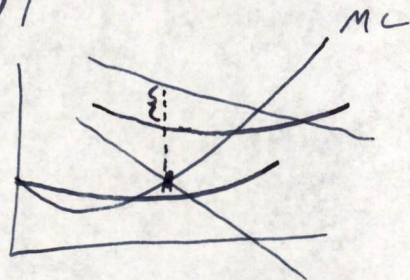


An for exam.

(Suppose tariff or fm p support advocate says tariff won't hurt consumer, for still have comp.

Answer: unlimited entry of ents possible. Not of land. LX

4. Monpy! Shtrun

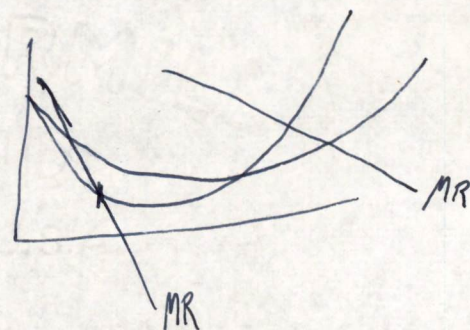


Monpy profits.

Who is monpy? Anyone big, relation to mkt. Current reaction vs attacks on bigness as such — but something to it.

5. Monpy, long run.

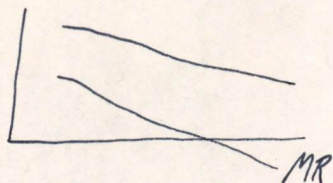
Move to most efficient size? Not nec. Go where $MR = MC$. — too big or too small usually.



(Error in K & H, who say firm, if competitive, moves to where $LR AC = P$)

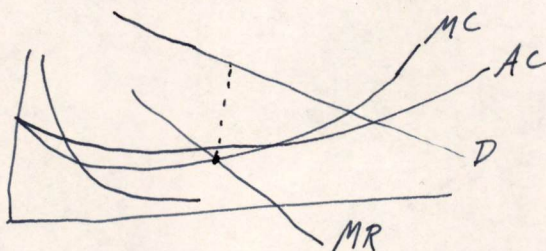
Fri

Mnpy



Even if $MC = 0$ i.e. all costs are fixed --- restrict output.

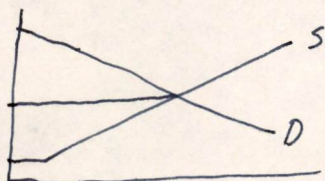
Normally:



Where $MR = MC$

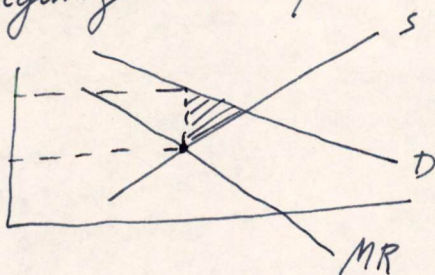
(error in K&H, p 423-4)

Cf. an industry when competitive, & mnpzed:



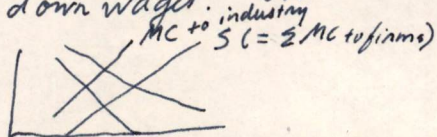
Comp. produces to where $S = \text{demand}$. Ideal. Demand is measure of what public thinks product worth. S more of MC to produce it.

Mnpy organizes industry:



Drive wedge between S & D . Drive up p . Drive down wages. Lose triangle; & redistrib. inc. to mnpst. (impute inc. to source of mnpy)

Drive down wages? Another mnpy motive: mnpshy.



Monopoly discrim.

T-phone

Rwy rates

Postal rates.

Causes of monopoly:

Strategic sites, ~~or~~.

Nat'l. monopoly: strategic sites, & deev. cost.

Big: n.s. + utilities.

Patents

Law

1. Nat'l monopoly

Strategic sites; ^{routes, rts of way} deev. cost.

Admits to much: n.s. & utilities are
hi-opo.

2. Due to fronl advantages which aren't op-g ec.s.

3. Artificial

Patents

Licenses

NRA

AAA

etc ad inf.

Unions

4. Any combo.

Ultimate aims: ~~we~~ know what determines prices: ^{output} size of firms; effect of public policy - need for real. proj.s.
restriction; understand what moves resources to certain uses - evaluate op'n of free mkt. - takes crop
Tools to analyze - intellectual capital. effect of mktg.
Decide Supply curve  is are cost? Don't know. Will eventually

show at mgn, is are cost of mgnl fm - other fms have lower are. cost,

Begin with S & D curves for whole mkt. S curve consists of many producers. 2 viewpoints: industry, & individual.

Preview: Ricardo's Law of rent. Intensive & extensive margins.

Low MP per unit of input is another way of saying hi MC per unit of output. Turned inside out.

So as demand Δ s, 2 adjustments: exist'g fms produce more; new firms.

✓ $\rightarrow$ Each firm will have diff. ~~AC~~ AC; but same MC

Whole Mkt supply. 3 pds. Define.

✓ — Elast. of supply. What is abs. incl.

Short run supply, analyze costs of each firm. 

Wed. (check file on ec. for honest people)

Exams: apply equingnl princ. to max. total grade allocate time.

e.g. a. Smith spent 10 yrs writg Wof. N.; "as shown in film Wed" - in audio-vis, etc...

~~Don't~~ Price - long dir, whole p. - then misplaced dec. pt.

Strain at gnat, swallow camel.

Don't worry - just study.

If grade too low, come & see - glad to change. Be prepared to justify why got as much as did.

~~Some~~ Some mixed mercantile & guild systems; or putting out.

Contrasting laissez faire & merc., stress internat. aspects of each. - at home, the same.

Few mentioned unions keep labor from flowing to where most productive.

Everyone said main idea of merc. to import gold. No-Nazis.
Spain. Merc. want to improve terms of trade. Org. nation as mummy is
fours.

Re ch. 26

"How to produce" —

= mgmt. Arrive at it

via efficiency def.

Start w. machine, fuel efficiency.
after a while, $\Delta \$$ on machine brings
no more than $\Delta \$$ on fuel, so there is

~~to, Wed. forgot to give~~

~~assignment.~~

ex. limit to how far carry "efficiency"
on fuel.

Same w. "efficiency" of labor.

could add land until get all "there is"
from labor, max AP, but to do so ~~and spend~~
 $\Delta \$$ on land brings $< \Delta \$$ on labor.

MP land = 0 where ~~MP~~ AP labor max.

Hire to where MP = ~~MP~~ MC, of each.

Demand - effective vs potential. We use effective.

S&D. LX How will demand change if S increases?

"General law of demand": lower price, ΔQ .

Due to principle of dim. m.u.

Also princ. of dim. returns.

Bring in new buyers.

Effect of time

a msn of how quantity responds to price changes.

Elasticity:

$$\frac{\frac{\Delta Q}{Q}}{\frac{\Delta P}{P}} \quad \% \quad (\text{which comes first?})$$

Unit elasticity - divi'd line - $PQ = K$

abs. inel.

" el.

Are those the extremes?

Perverse elast; hyper. elast.

(They are somewhat the same - differ in degree.)

Elast. changes from top to bottom of straight line.

What products have elast. & inelast. demands?

What makes them have elast. demand:

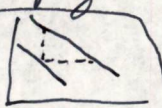
S slowly dim. utility

Substitutes. (lack of differentiation)

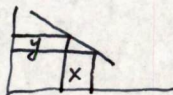
Speculators

Inelastic?

Complements - e.g. tires.

Fai 1/2. Explain old quiz. If haven't learned morality, learned 0. On ya hna
 1. Quiz  You don't like secret police, all Americans

2. MR

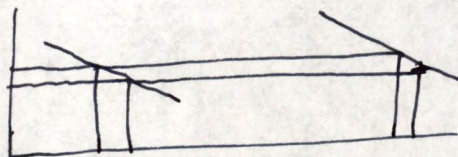


$$x = y, MR = 0$$

$$x > y, MR > 0$$

$$x < y, MR < 0$$

Large co. vs small



MR & elast.

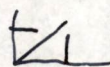
$$MR = P - \frac{P}{e}$$

$$= x - y$$

$$\left(\frac{P}{e} = \frac{P \frac{\Delta P}{P}}{\frac{\Delta Q}{Q}} = \frac{\Delta P}{\Delta Q} Q. \text{ But } \Delta Q = 1. \right)$$

$$\left(\text{So } \frac{P}{e} = \Delta P Q = y \right)$$

3. Supply elast.

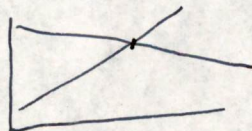


Easy for mathematicians.

"Mond supply price"

~~the~~ ... from viewpoint of buyer, to get more, must bid up price of all

4. Meaning of S & D



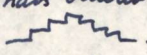
S curve means o.c. --- alternative use.

What influences elast. of supply?

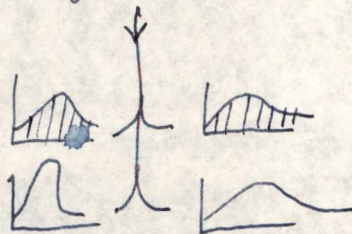
Equimarginal princ. (show dim. mgmt ut. & returns first?)

allocate resource's so last unit going into each use brings same mgmt return. Then is just problem of how measure.

Emphasize ec. a matter of how much; ^{as well as} ~~not~~ "either-or". Quantitative, ~~not~~ as well as qualitative. Shall we build a bridge or a hospital? Or both? How big?

1. ^{First} ~~Next~~ show water-level thing: emphasize takes more pressure to get water farther up tubes. Principle of equal pressure. Ocean ^{penetrating} moving into bays, coves & inlets, wrapping around headlands, all seem'g to have ordered by one transcending principle. Finds level contour. Then transcribe to Wmte Val.; show . Intensive & extensive margins, & rent. (Tubes can't show intensive margin)

2. ^{Then} ~~or~~ show flow of water, to distribute to diff. farms. What princ. to follow? Same amt to ea. fm? To ea. acre? Same ave. yield per acre?

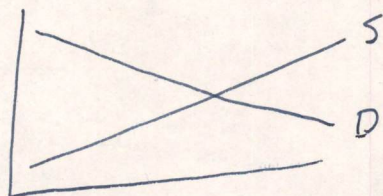


Show mp as vertical line first

Now suppose is more water? Δ ea. in same prop? By same amt? etc? No: equimarginal. Raise p until no surplus.

How assure? Put price. Perf. mkt. Just as water distributes surface self so surface makes 1 level contour, so ec. resources

Mnpy.



Competitive ind., move to $S = D$.

Why? Bcs, for individ. firm, elast. of demand very high. —
~~firm's demand is very elastic~~

regardless of ind. Demand.

E.g. firm — Takes 20% $-\Delta P$ to bring 10% Δ sales, (maybe)

— so what is e ? —

But for individ. firm, a tremendous % Δ in Q comes w/o any appreciable $-\Delta P$.

So individ. comp. firm, flat demand curve. $MR = P$

Mgmt firm, Min. ATC, L.R., = P . Ideal allocation.

— Mnpy. — same technical set-up. Same plants. That's how it usually is.
MR replaces P . Wd. cause withholding, even if no MC.

& what is his long run MC? S curve. Just as it is MC to society. E.g. add mgmt ^{plant} ~~firm~~, at its min. AC, that is MC of additional units (~~here we can't add~~ (Assume plants small, draw continuous curve))

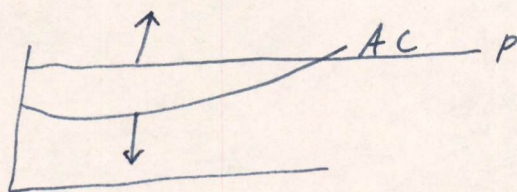
So he produces where $MC = MR$. Means he keeps some resources idle. ^{or partly idle.} Dog-in-manger. Alcoa.

Low dam at Boulder Canyon

2d restrictive element may enter. Mngt doesn't own all resources he uses. E.g. suppose mngt of lumber mills. As buy more, bid up stumpage.

So $MC \text{ to you} > MC \text{ to soc.}$ "Mngt supply P" - unhappy term. Just "MC to mngt" OK. "Mngt's MC" = MMC.

From viewpoint of individ firm: (w-in mngt set-up)



By restricting, raise p, & lower costs, make mngt profit.

ch. 22

Monopoly & monopoly power.

Sherman Act & rule of reason

Ec. st doesn't judge, merely describes. -- ad nauseam.

Defines monopoly as ability to influence P (by influencing Q, maybe)

Monopoly, too.

Comp'n requires uniform products, many sellers & buyers, no collusion, free entry.

(another dull chap.)

Many sellers & buyers in one area. (fn of city)

Uniform vs differentiated products.

Seller of diff. product must "consider" 4 vbles: product, s.c., P, & a.

Oligop. commonest - table, p. 424

Collusion, types of.

Ease of entry imp-tnt. Blocked by hi cap. costs, lack of raw mat. access, control of wholesale or retail (or other) distrib., cons. resistance, patents

Monopistic comp'n. Hi profits lure in more firms, but none lowers p, all underuse capacity. Gas stations.

Oligop. - fear of retaliation. P. leadership.

Why few sellers? Large scale more effr.

Hard qns - no answers. -- re whether good or bad.

Chap. 23

Consequences of Monopoly Power

(Like tax, drives wedge between MC & P)

Cf. compet. & monopoly ind-y, ass. same D & MC . Monopolist finds ways to reduce below $MC=P$ ---- don't say how far

Qualify — 1, monopolist may consolidate plants, be more efficient (Ecs of scale can be achieved by smaller firms in city, esp where utilities cheap, etc.)

2, Don't mention he may be less efficient, w/ spur of comp.

2, Monopolist may advertise, Δ demand.

3, " " fear public reprisal

4, If all ind-y monopolized to same degree, get good allocation (b.s. — unused land, low inv. & labor opps) (a pernicious Rolphian doctrine) (& Frisch)

Keeps using nat. monopolies as e.g. of how bigness is more eff.; but doesn't distinguish them clearly from other firms. & identifies ecs of scale w. monopoly

Boner, p. 440, says public reg.s "price & output" of p.u.

No recognition of multi-plant monopolies.

Price discrim. — good & bad.

To help poor; to let firm exist; to Δ output, spread overhead.

To create mmpy

Quantity discounts?

Thuggery, etc, all a thing of the past, p. 446. No goon squads today.

B.S. Complacency.

Misrepresentation

1931 Raladam case, obesity 'cure' injured consumer. But Supreme Ct. said no competitor was being injured, so law didn't let them stop it. Law since amended so can.

Tying Agreements & Exclusive Dealer Arrangements

Full-line forcing.

These are illegal only if they 'lessen comp-n'. B&C look from mmpsts view, see it seems very 'reasonable'.

Unfair-Practices Acts — outlaw selling below "cost". The Calif law includes every conceivable mark-up as 'cost'; & admits trade ass. 'studies' as prima-facie evidence.

(So many men spend lives as parasites — contemptible)

Fair-Trade Laws

Hi retailer margins. Encourages slow turnover, excess capacity in retailing

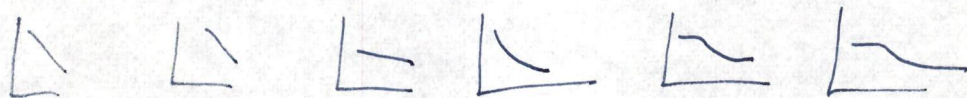
Large firms develop prt. brands, take mkt, small retailers & medium pushed out (another case where public, destroys, or failing to create atmosphere for comp'n, destroys ~~and~~ it)

Best we can hope for, maintain workable comp'n.

Perfect comp. achieves most effr. alloc-n

(Also assures that no producer earns $>$ cost of production --- + rent)

Start w demand curves. Object of ec is to satisfy them as much as possible.



How know which ones to hit first, & how much? ~~Depends~~

~~start~~ start w. highest? No sense. Depends on cost of producing --- which means sacrifice of something else, at its value at margin.

So put cost curves on same graph ---- market supply curve, sum of MC curves. (Why commensurable? b/c cost reps foregone gain in other professions)

Where they meet, $MC = P$: i.e. increment to cost rises to equal increment to consumer satisfaction, which falls to meet it.

Mon.

1. Preview

2. Sheet on desk

3. In perf. comp, move out to $S=D$. Ideal ... $MSB = MSC$
Consumer & producer surplus (value in use & in exch)

4. Why all this fuss about elast.? $S=D$ is ideal, regardless of elast.

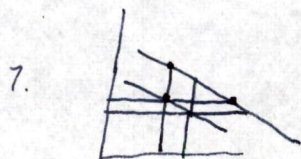
Ideal from social view, yes. But not from view of particular industry. E.g. firms may earn less by producing more.
(which firms ... sam. weak on that)

Elast. imptnt bcs tells us how industry will behave when organized; or how individ. firm behaves when influences P some.

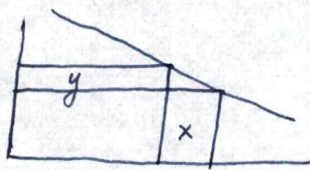
Bes tells us how revenue changes as $- \Delta P$.

5. Define elast.: $\frac{\% \Delta Q}{\% \Delta P}$

6. El. = 0, ∞ , 1. E.g.s.



8. Perfect comp'n: ea. firm so small, no influence on P , or little. But actually, if 20 firms, & one Δ output by 10 units, same effect on P as if whole ind. did. But larger proportional ΔQ . That's why we worry when firms get big - large vested int. in what cd sell w/o expanding



$$MR = x - y = P\Delta Q - Q\Delta P$$

$$= P\left(\Delta Q - \frac{Q\Delta P}{P}\right)$$

Say $\Delta Q = 1$ unit

$$= P\left(1 - \frac{Q\Delta P}{P}\right) = P\left(1 - \frac{1}{\epsilon}\right)$$

$$x = \Delta Q \times (P - \Delta P)$$

$$y = Q\Delta P$$

$$x - y = P\Delta Q - \Delta P\Delta Q - \Delta P Q$$

Let $\Delta Q = 1$

$$x - y = P - \Delta P - \Delta P Q$$

$$= P\left(1 - \frac{\Delta P}{P} - \frac{\Delta P Q}{P}\right)$$

8. Free entry best guarantee of comp-r. Newcomer has nothing to lose. New & old car, bluffing.

Wide mkt help too: good xptn;

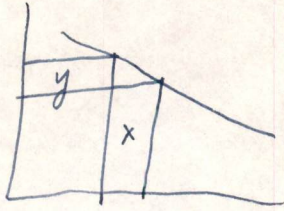
~~Among other things, that means~~

Equal inc. distrib. --- large middle class mkt. Makes demand curves flatter. Split society in 2, get mmpy. White consumers wd benefit in many lines if mfr cd bring in vast new colored mkt by slight P reduction.

9. $MR = P - \frac{P}{e}$

Next time, put microscope on cost curves.

$$MR = P - \frac{P}{e} = P - \frac{P \frac{\Delta P}{P}}{\frac{\Delta Q}{Q}} = P - \frac{\Delta P Q}{\Delta Q}$$



$$x - y = P \Delta Q - Q \Delta P \stackrel{?}{=} P - Q \frac{\Delta P}{\Delta Q}$$

Let $\Delta Q = 1$

and so

they are equal

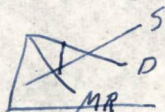
Slipshod math?

" Henry Ford's Greatest
Invention "

(Lower price, 4 volume)

Why build excess capacity, not use?

As weapon vs intruders.



Monopolist can cut p pretty low to swamp intruder, but won't work if he can't meet demand.

Must ration. Leaves unsatisfied customers, for competitor.

Sale prices, winter rates,
etc., are not nec. evidence
of mnpy, but seasonal
fluctuations in demand
for flow resource.