- So why have them?
  - Fairness and efficiency to give people apartments who usually could not afford them

Price Floors

- Minimum wage
  - Can pay above wage but not below
  - Effect of minimum wage depends on whether it is set above or below the market equilibrium wage rate
- Not efficient but trying to be fair

Taxes

- Does Congress decide who pays taxes?
- Tax incidence
  - Division of the burden of a tax between the buyer and the seller
- Excess burden
  - (Tax* demand loss)/2

August 20, 2013

Income Tax and Social Security Tax

- Taxable income
  - Total income minues a personal exemption and a standard deduction
- Marginal tax rate
  - Percentage of an additional dollar of income that is paid in tax
- Average tax rate
  - Percentage of income that is paid in tax
- Progressive tax
  - Tax whose average rate increases as income increases
- Proportional tax
  - Tax whose average rate is constant at all income levels
- Regressive tax
  - Tax whose average rate decreases as income increases
- Tax on labor income
- Taxes on capital income
  - Taxing the income from capital works like taxing the income from labor

Temporary Shutdown Decisions

- If a firm is incurring an economic loss that it believes is temporary, it will remain in the market, and it might produce some output or temporarily shut down

Monopoly

- Natural monopoly exists when the technology for producing a good or service enables one firm to meet the entire market demand at a lower price than two or more firms could
- Public franchise
  - Exclusive right granted to a firm to supply a good or service
- Government license
  - Controls entry into a profession or field
- Patent
- Copyright
- Price discrimination
  - Perfect price discrimination is perfect because there is no dead weight loss

Homework

- Chapter 6 #1
- Chapter 8 #6 optional

August 26,2013

Macroeconomics

- GDP
  - Gross domestic product
  - The market value of all the final goods and services produced within a country in a given time period
  - Final good or service
    - Good or service that is produced for its final user and not as a component of another good or service
  - Intermediate good or service
    - Good or service that is produced by one firm, bought by another firm, and used as a component of a final good or service
      - Paper in a textbook does not count in GDP
  - Public good or service

Nominal wage rate and real wage rate

- Real wage takes inflation into account
- Real interest rate
    - Nominal interest rate-inflation rate
    - Nominal interest rate is the dollar amount of interest expressed as a percentage of the amount loaned

August 28, 2013

Why is recession so difficult to predict?

- Shadow Banking
    - Not a bank
    - They can lend money to firms or individuals but are not regulated by Federal Reserve to do this
    - They can be a partner with big banks, like citi bank, and invest in loans by the bank
    - Systemic risk
        - If one big bank is going into distress, a lot of banks related to this bank will be in risk

Federa Budget

- Annual statement of the revenues, outlays, and surplus or deficit of the gov. of US
- Fiscal policy
- Budget balance=tax revenues – outlays (expenditures of govern.)
- Taxes are the income of gov
- Outlays are the deficit of government
- Budget surplus in the late 1990's and early 2000's
    - 24 million jobs added in 10 year after 1990-91 recenssion
    - ten year expansion
    - increased taxes
    - Budget enforcement act
        - Limit on annual federal expenditure
        - Required that any revenue or spending legislation that would increase the deficit (or decrease the surplus) by offset by a reduction in expenditures or an increase in revenue elsewhere in the budget