

CREDIT MARKETS AND MACROECONOMICS

MPA 612: Economy, Society, and Public Policy

March 13, 2019

*Fill out your reading report
on Learning Suite*

PLAN FOR TODAY

Escaping the price taking world

Competition and regulation

Monopoly practice

Money and time

What is macroeconomics?

Money

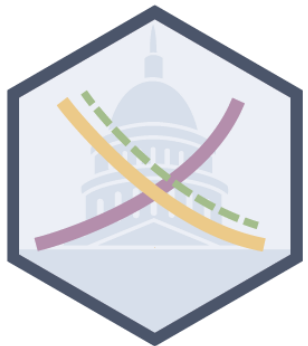
Capitalism, markets, and public policy

Growth Social dilemmas
Measurement Fairness

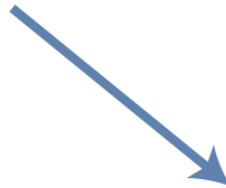


Scarcity, power, and inequality

Preferences Institutions Rights



ECONOMY, SOCIETY, AND PUBLIC POLICY



Evaluating and implementing policies

Cost-benefit analysis Experiments
Causal inference Politics



Market failures, governments, and politics

Externalities Public goods Rent seeking
Monopolies Government intervention



Economic models

Firms and markets Credit markets
Labor markets Macroeconomics

ESCAPING THE PRICE TAKING WORLD

Escape with market power!

Ability to influence market prices

This is why people get MBAs;
move market away from perfect competition price

WAYS TO ESCAPE

Price discrimination

Monopolies

Switching costs

Branding and differentiation

Cost and input controls

Government regulation

SWITCHING COSTS

**Make it harder for consumers
to switch away from you**

Brand-exclusive benefits

Technology constraints

Search costs

Network costs

BRANDING + DIFFERENTIATION

Make your stuff nonsubstitutable

Advertising

Brand loyalty

BRANDING + DIFFERENTIATION

If people are stuck with you
(or like you a lot, or believe in your product,
or if your stuff generally isn't substitutable)
you can charge them more

**Markup depends
on elasticity**

COST AND INPUT CONTROLS

Own the means of production

Control scarce inputs

Control cheap supply chains

GOVERNMENT REGULATION

Make the government stop others from competing with you

Patents and intellectual property

Licensing

Prohibition of competition

COMPETITON AND REGULATION

**Sometimes you have to mess
with capitalism and competition
to make markets more
capitalistic and competitive**

Price-making firm

Sets P and Q to maximize π

$$MC < P$$

Deadweight loss

Advertising and marketing

Lobbying to influence politics

Research, innovation,
prevention of copying

Price-taking firm

Sets Q to maximize π , given P

$$MC = P$$

Pareto efficient

Little advertising (public good)

Little lobbying (public good)

Little incentive for innovation
because of risk of copying

FIXING MONOPOLIES

State ownership

Pro: Better Q

Con: Waste (x-inefficiency)

Regulated monopolies

**Pro: Incentive
to be efficient**

**Con: Incentive to
maximize capital**
(gold-plated water coolers)

FIXING MONOPOLIES

Competitive bids

**Pro: Incentive
to be efficient**

**Con: Incomplete
contracts**

Antitrust laws

**Pro: Increases
competition**

**Con: Bad for
natural monopolies**

FIXING MONOPOLIES

Let the market go wild

Pro: If monopolist can price discriminate, probably okay

Con: Perfect price discrimination not possible + raises equity concerns

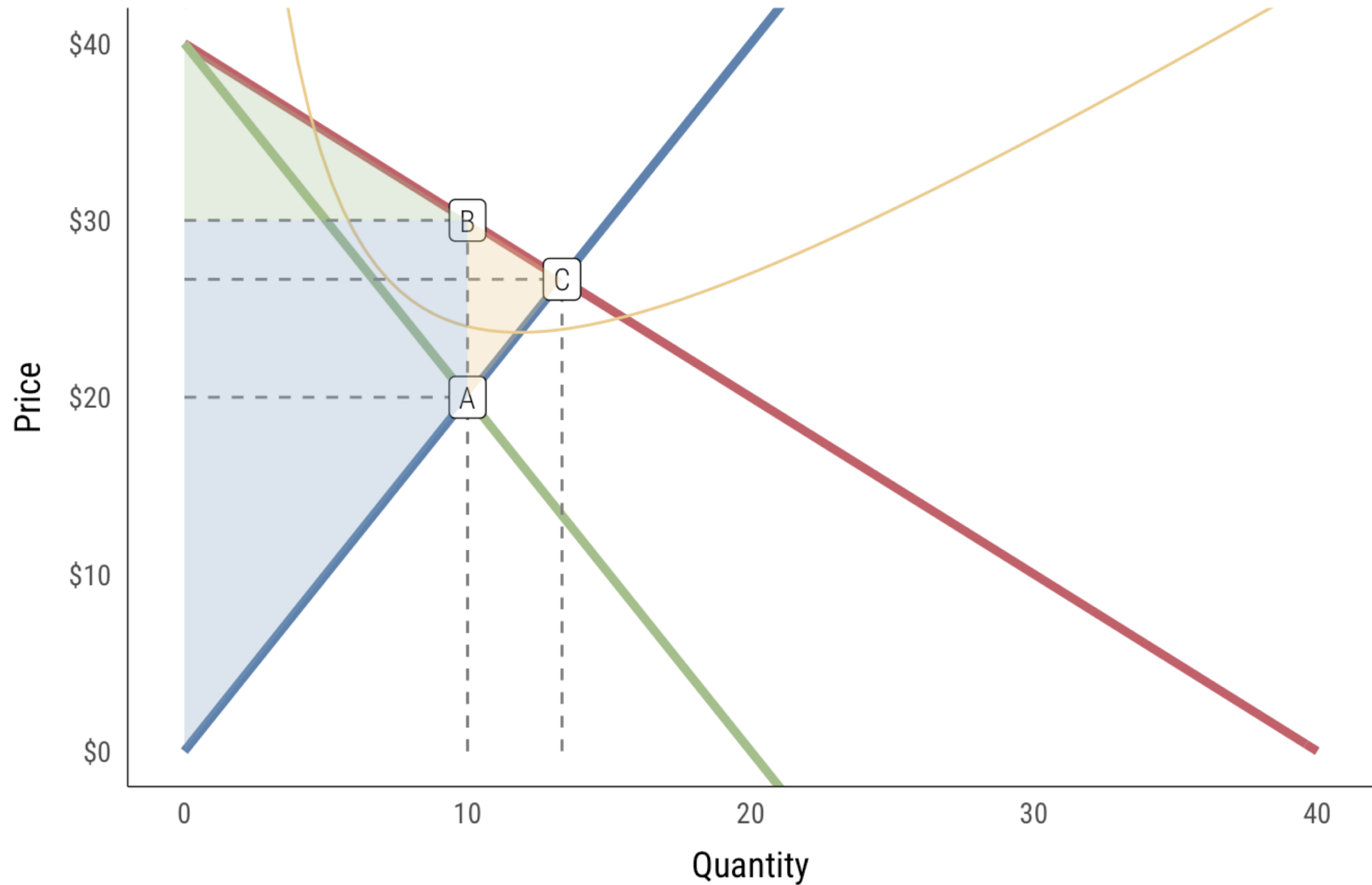
MONOPOLY PRACTICE

**Firms should set MR to MC
to maximize profit (π)**

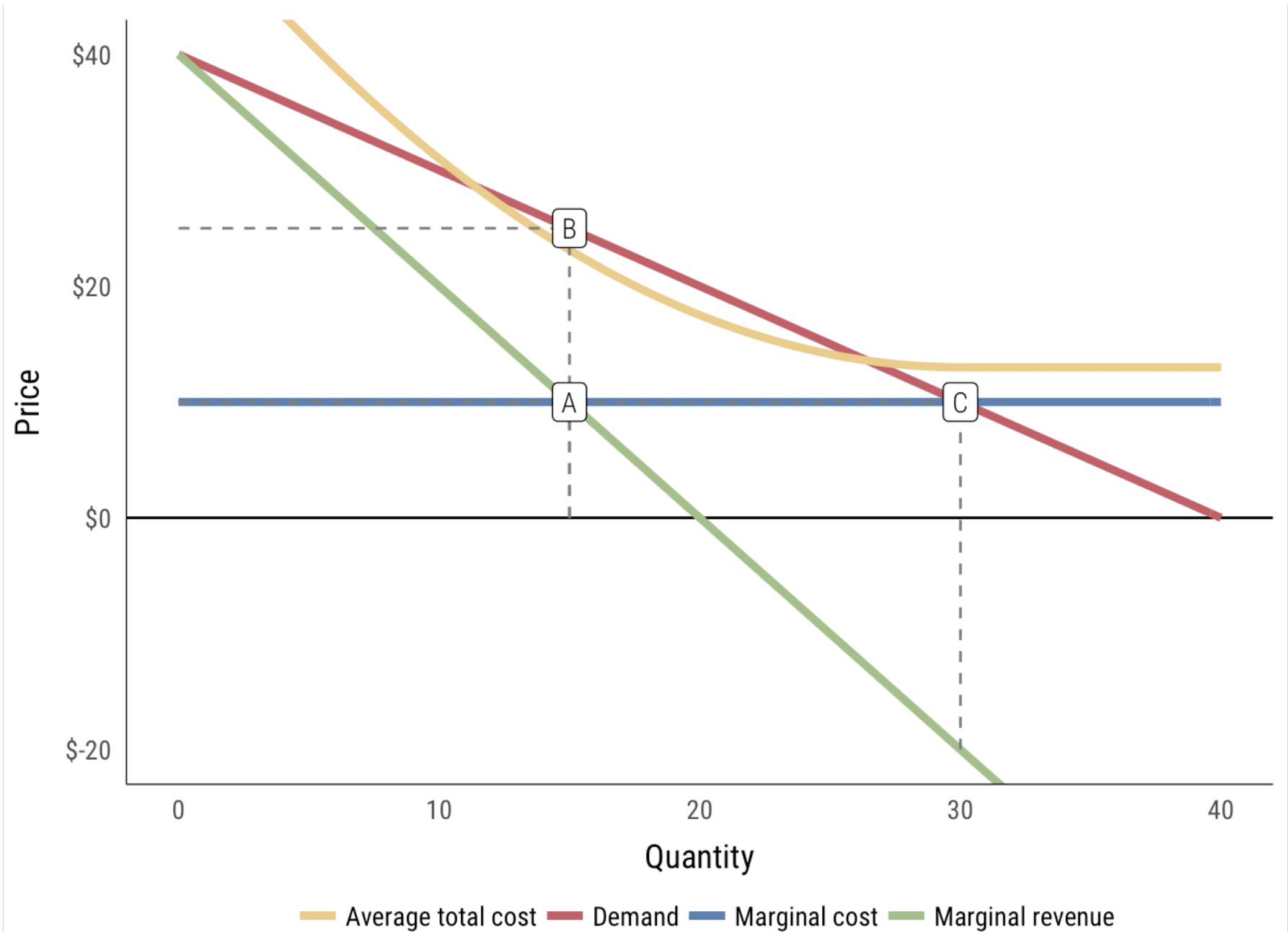
**Under perfect competition,
MR is the preexisting price**

**Market power lets firms
use their own MR curve**

**Monopolies will underproduce
and overcharge**



- Average total cost
- Marginal cost
- Consumer surplus
- Producer surplus
- Demand
- Marginal revenue
- Deadweight loss



THINGS YOU NEED TO FIND

Demand

$$P = -0.25Q + 50$$

Total revenue (TR)

$$TR = PQ$$

$$TR = (-0.25Q + 50)Q$$

$$TR = -0.25Q^2 + 50Q$$

Marginal revenue (MR)

$$MR = -0.5Q + 50$$

Total cost (TC)

$$P = 0.1Q^2 + 3Q + 10$$

Marginal cost (MC)

$$MC = 0.2Q + 3$$

SPECIAL POINTS

Maximum revenue **$MR = 0$**

Social Q and P **$MC = \text{Demand}$**

Maximum π **$MR = MC$**

Max π for monopolist **Q from max π ;
P from demand**

ELASTICITY

$$\varepsilon = - \frac{\% \text{ change in demand}}{\% \text{ change in price}} \quad \varepsilon = - \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$$

Coefficient for P if demand curve is written as $Q = aP + b$

Demand : $P = -2Q + 60$

Total cost : $P = 0.25Q^2 + 10Q + 100$

Max revenue Q and P

Social Q and P

Max π Q and P

€ at P = 20

€ at P = 5

Producer/consumer surplus & DWL

MONEY AND TIME

What is money?

Something that stores value

Something that can be converted
into goods and services

STOCKS AND FLOWS

Wealth

Stock

Income

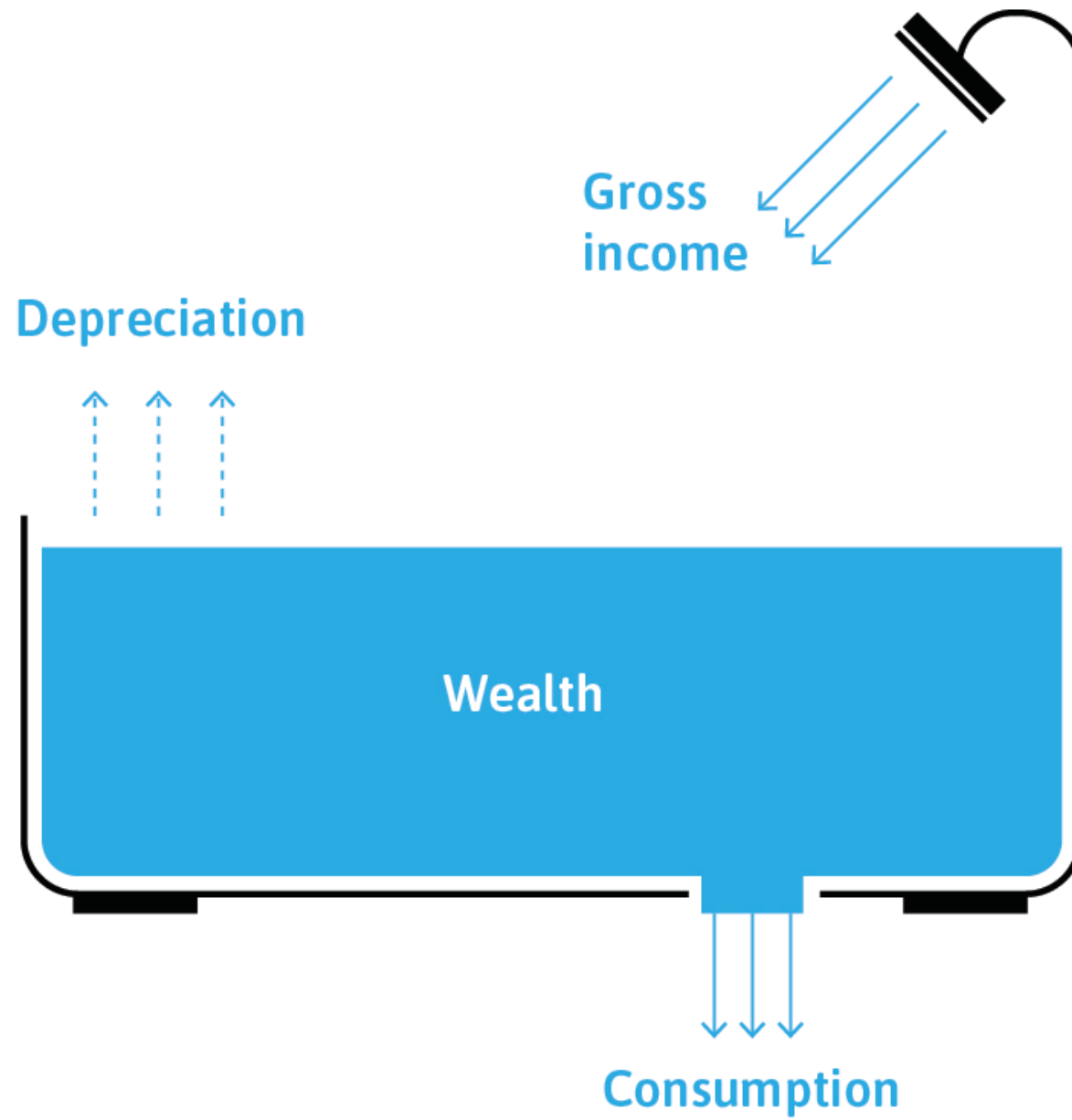
Flow

Depreciation

Flow

Consumption

Flow



WHAT IS MACROECONOMICS?

WHATCHYA DOING?

ECONOMICS.



MICRO AND MACRO

Microeconomics

How individuals and firms make decisions and interact and influence markets

Macroeconomics

How national and global economies work

THINGS MACROECONOMISTS WORRY ABOUT

Output

Income

Growth

Unemployment

Inflation

Interest rates

Fiscal policy

Monetary policy

PEOPLE HAVE... OPINIONS...

The Federal Reserve Explained in 3 Minutes

740,052 views



Joshua Owens

Published on Feb 21, 2013

See More Videos Here: <http://www.schoolhouseschock.com>

Money - whether its a tangible piece of paper or a number on a screen - is intrinsically worthless, yet it fuels the modern world. In America the ultimate control of money rests with the bankers of the Federal Reserve System. **Because of this it is detrimental that we as citizens understand how this shadowy - private - organization works and how it's ultimate goal is to forever enslave us in a descending pit of debt that we will never crawl out of.**

Category

Education



VeracityMedia 2 years ago

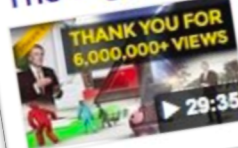
The most insidious form of covert soft slavery ever devised. Pure evil.

REPLY

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The Biggest Scam In The History Of Mankind - Hidden Secrets of ...
<https://www.youtube.com/watch?v=iFDe5kUUyT0>



Oct 15, 2013 - Uploaded by GoldSilver (w/ Mike Maloney)
Bonus Presentation here: <http://www.hiddensecretsofmoney.com> Who owns the Federal reserve? You are ...

MONEY

**Where does money
come from?**

Welcome to Smallville, USA

Home of XYZ Corporation and its subsidiaries

FRACTIONAL RESERVE BANKING

Money is created through lending

What happens when lending
doesn't match risk?

 This American Life

ArchiveRecommendedHow to ListenAbout

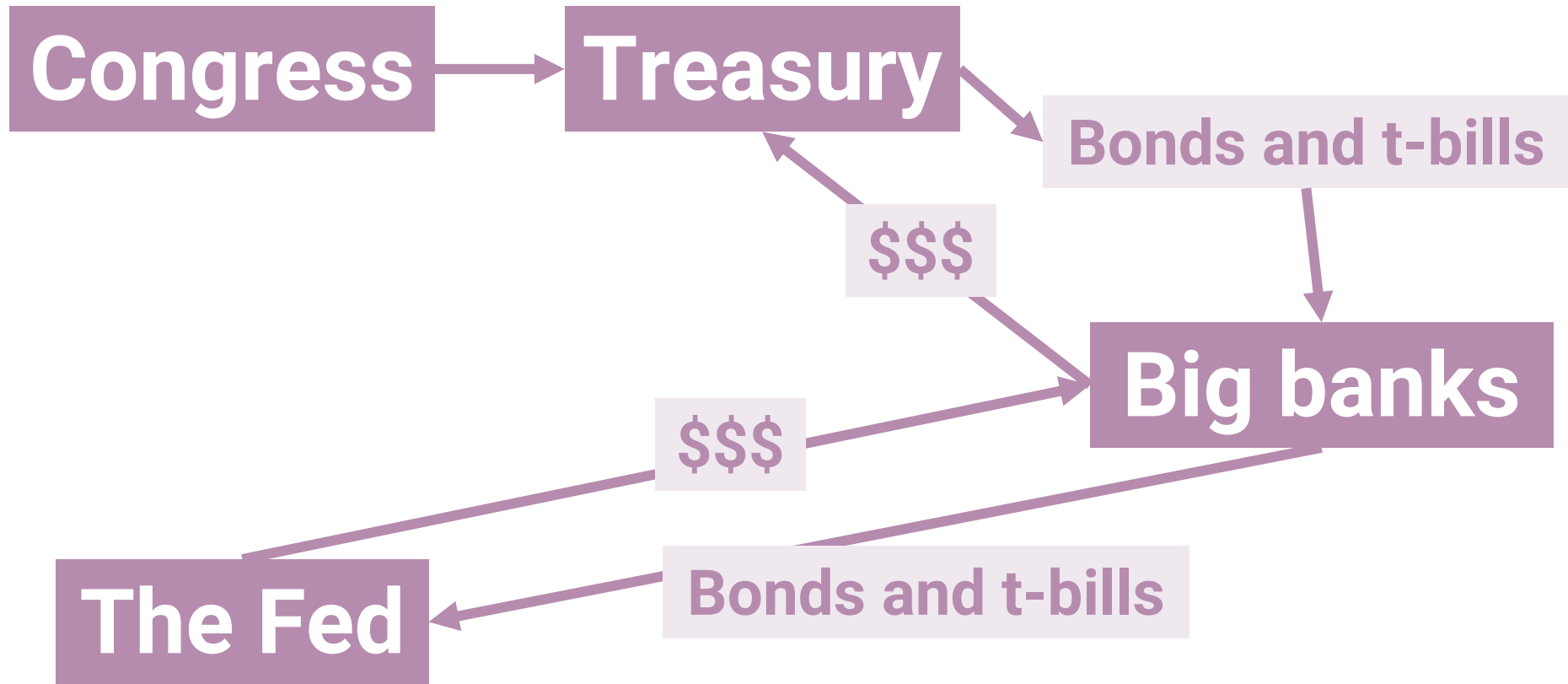
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355 | May 9, 2008

 The Giant Pool of Money

A special program about the housing crisis produced in a special collaboration with *NPR News*. We explain it all to you. What does the housing crisis have to do with the turmoil on Wall Street? Why did banks make half-million dollar loans to people without jobs or income? And why is everyone talking so much about the 1930s?

FUNDING THE FEDERAL GOVERNMENT



RESERVE REQUIREMENTS

Reserve Requirements

Make Full Screen 

Liability Type	Requirement	
	% of liabilities	Effective date
Net transaction accounts ¹		
\$0 to \$16.0 million ²	0	1-18-18
More than \$16.0 million to \$122.3 million ³	3	1-18-18
More than \$122.3 million	10	1-18-18
Nonpersonal time deposits	0	12-27-90
Eurocurrency liabilities	0	12-27-90