



Markets, Prices, Surplus, and Efficiency

Antitrust
Eric E. Johnson
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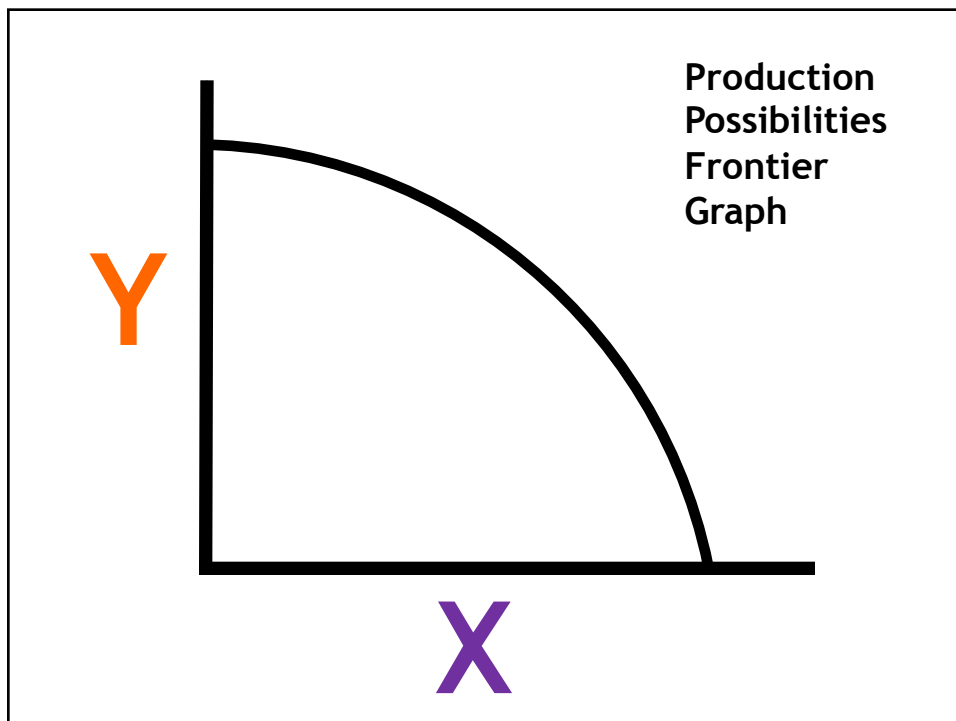


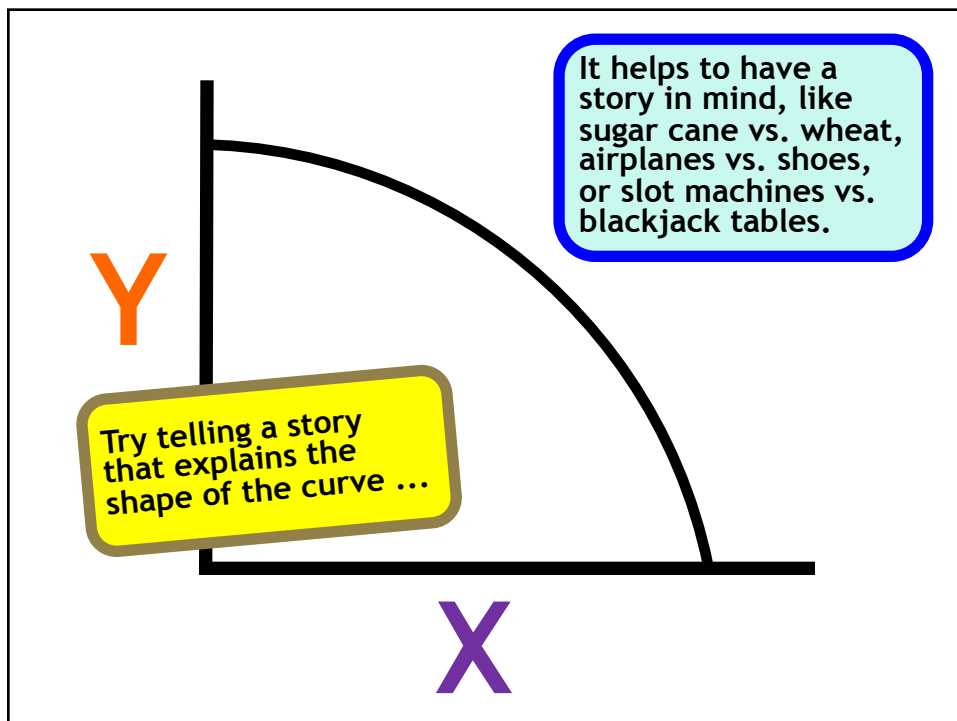
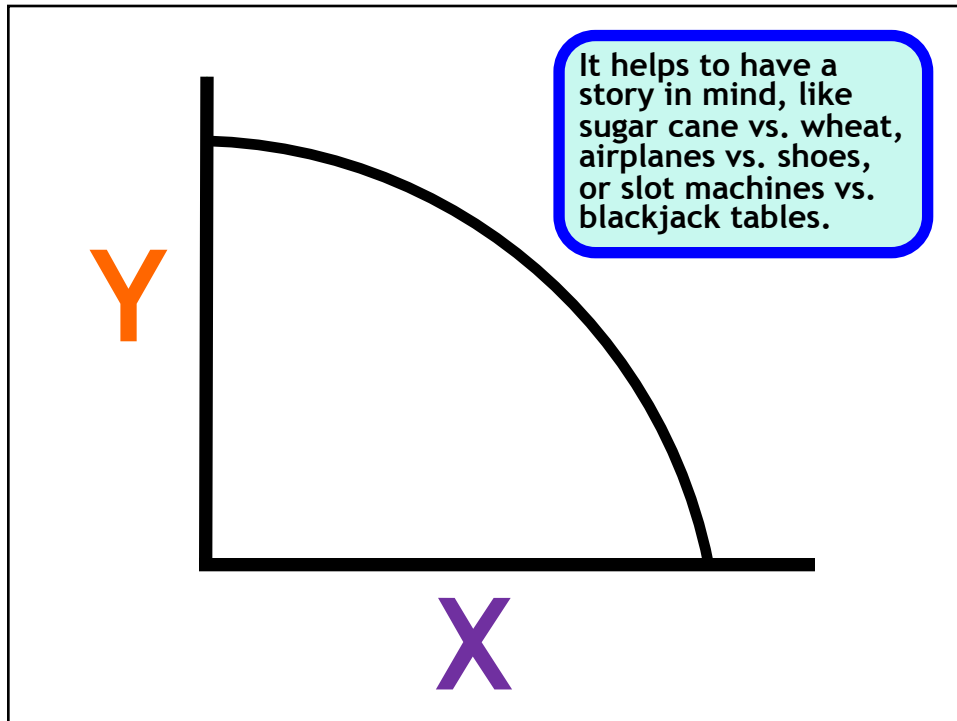
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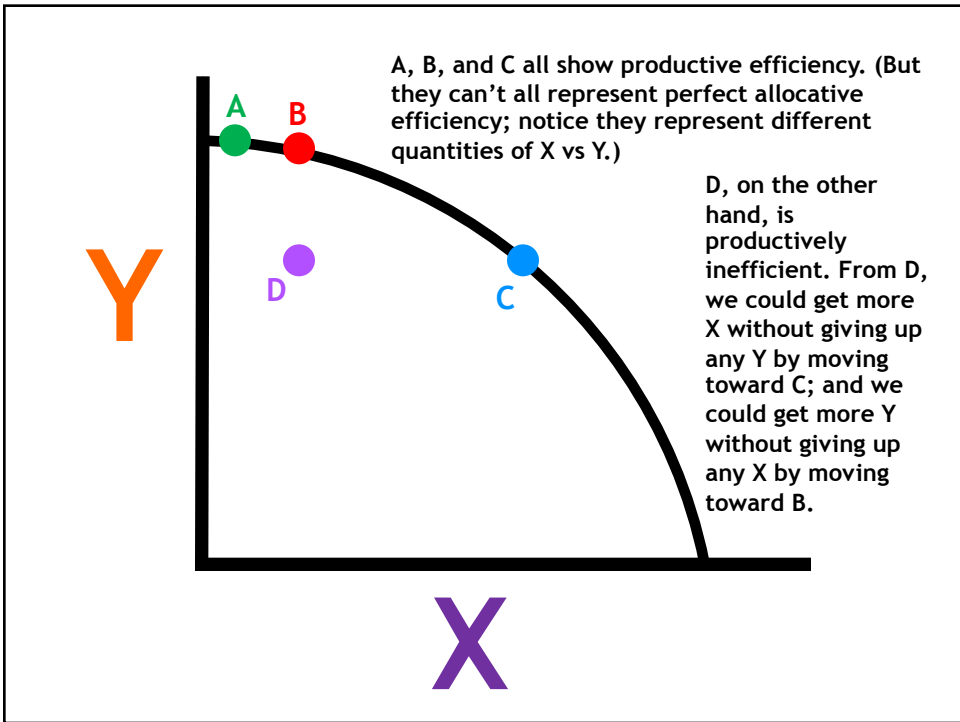
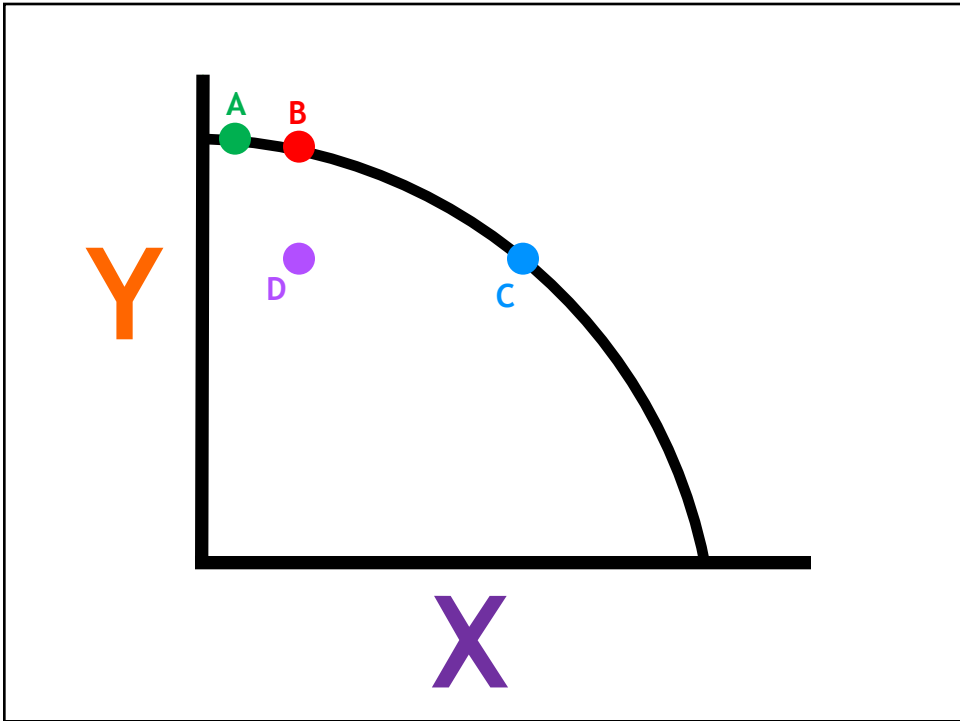
Two kinds of economic efficiency

- Productive efficiency
 - A state of affairs in which, under current circumstances of available resources and technological knowledge, it is not possible to produce more of one good without the trade-off of decreasing production of some other good.
- Allocative efficiency
 - The ideal ordering of production and consumption based on the desires of producers and consumers.
 - Allocative inefficiency is more or less the same thing as “deadweight loss.”
- Both productive efficiency and allocative efficiency are relevant to antitrust analysis.

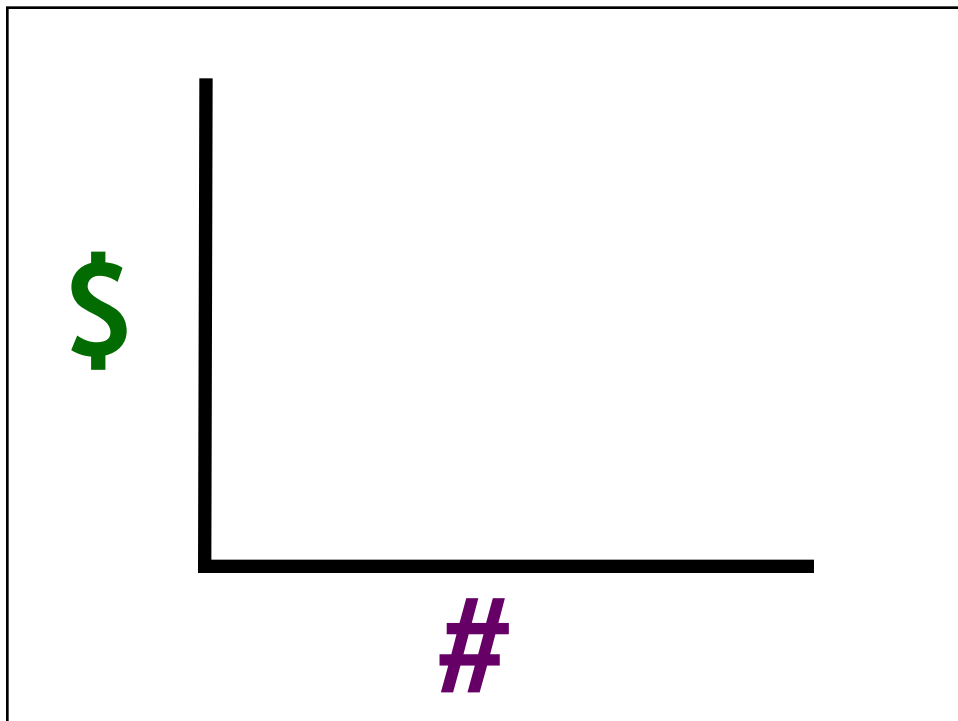
Productive Efficiency

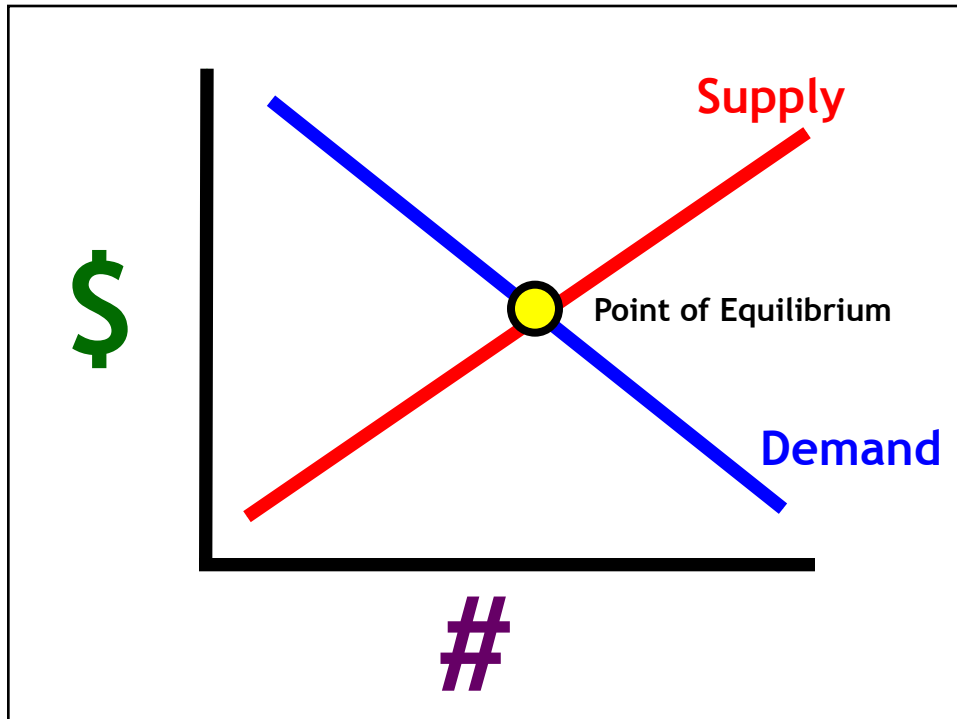






Allocative Efficiency and Producer and Consumer Surplus



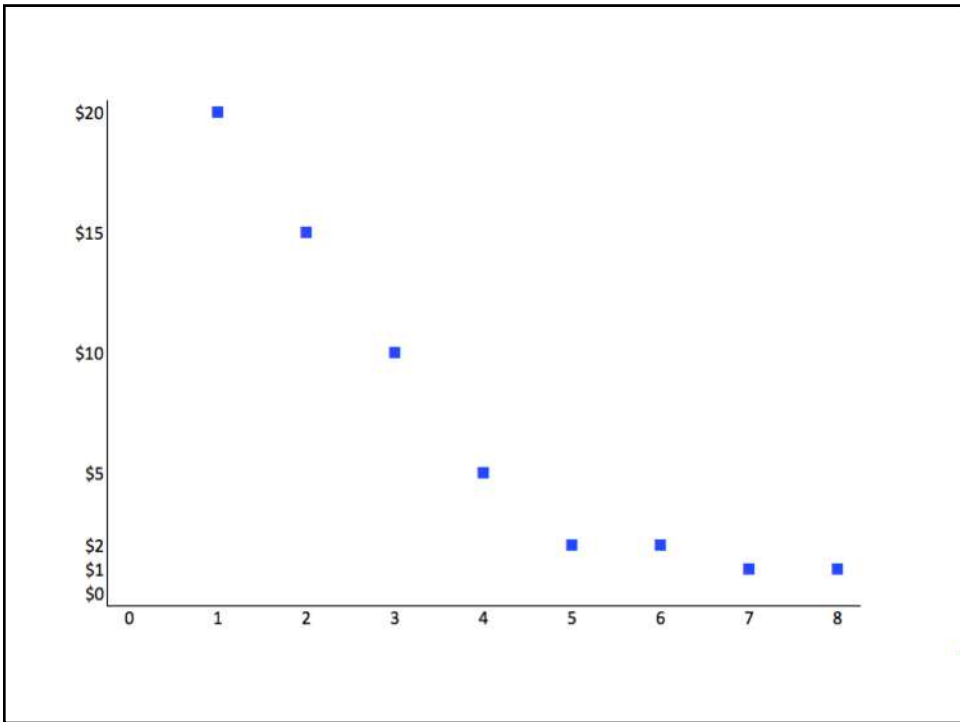
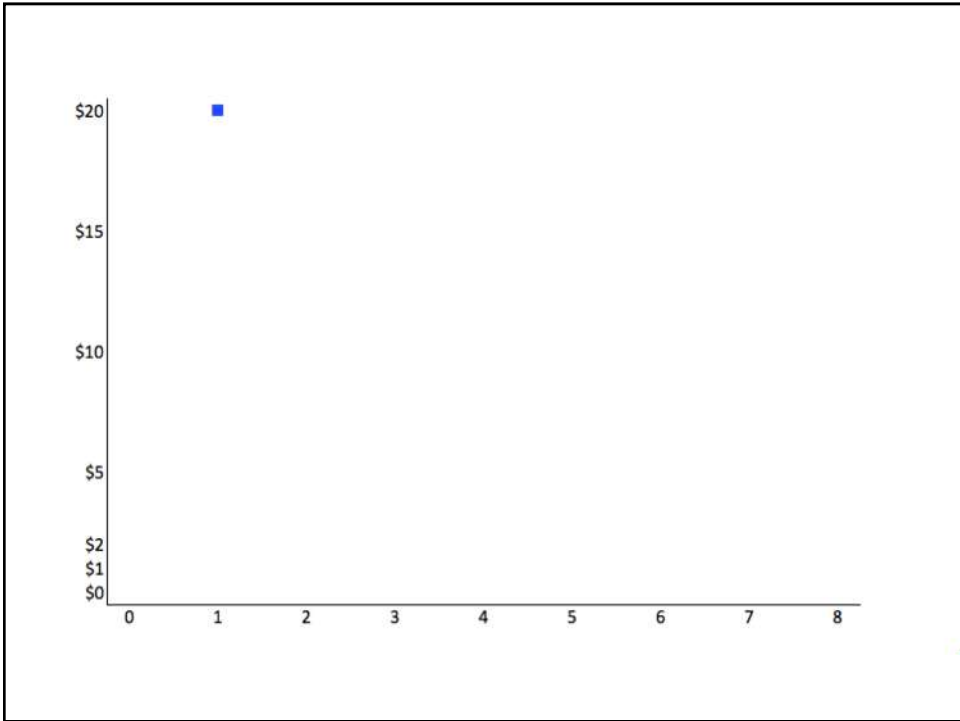


Example: Windchimes in Wendover on Wednesday

An economy with just eight people and one day:

- Allen, who adores windchimes and would pay \$20 for one.
- Bonnie, who thinks windchimes are okay, and would pay \$15 for one.
- Chuck, finds windchimes uncharming, but he would buy one at \$10 just to have the option of annoying his neighbor, Darla, if Darla's incense burning was annoying him.
- Darla hates windchimes and she would only pay \$5 for one, which she could use for smashing with a hammer to let off steam. If the price were \$2, she'd buy two. For \$1, she'd get up to 5 and smash them all.
- Wendy, loves making wind chimes, and she's good at it. She can churn out two out for \$5 each.
- Xavier likes making things out of metal and clay. It would be worth it for him to make one set of windchimes if it could fetch \$10.
- Yvonne like playing video games and not working. It would only be worth it for her to make one set of windchimes if she got \$15 for it.
- Zendaya is a successful celebrity actor and singer. For it to be worth it to her to make windchimes, she'd have to be paid \$20 each, and even then she'd mostly do it for Instagram value. But she's a fast worker, so she could make four.

What is the efficient number of windchimes for this society to produce?

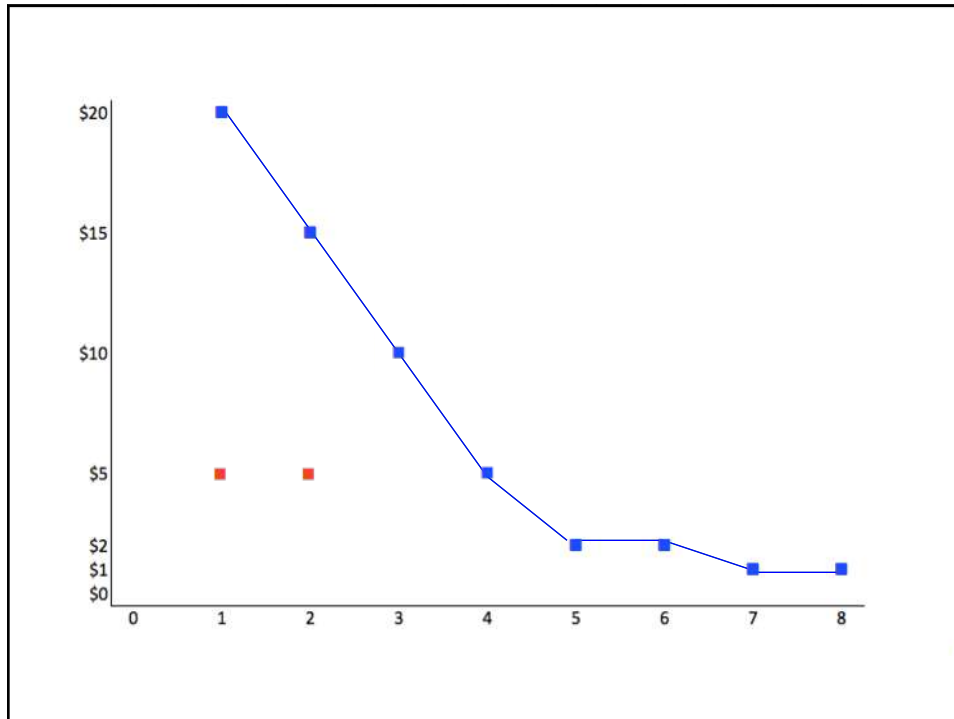


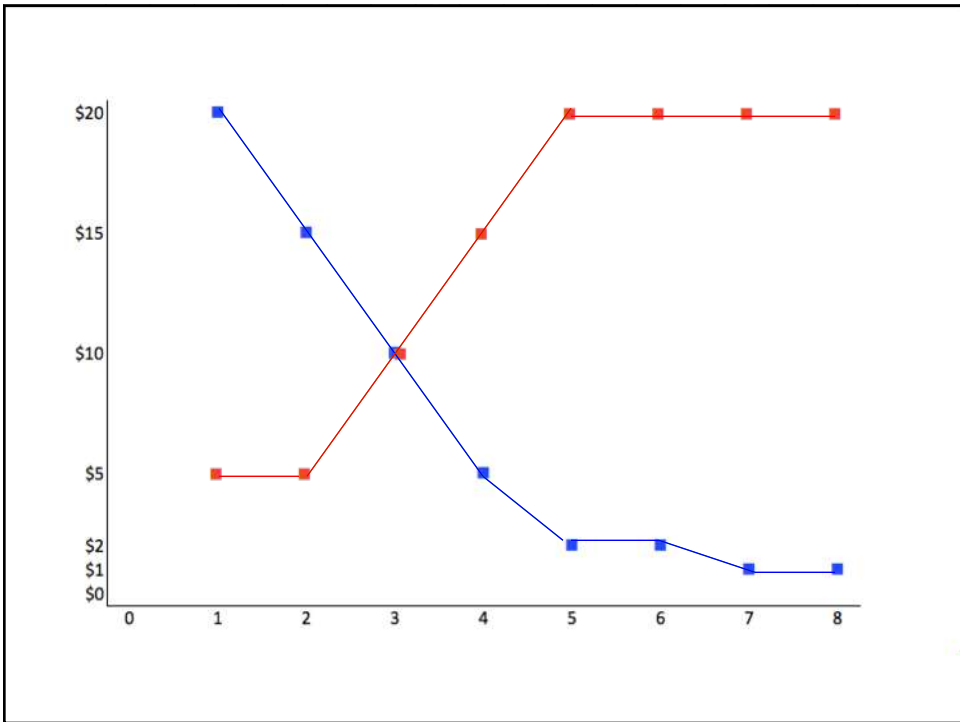
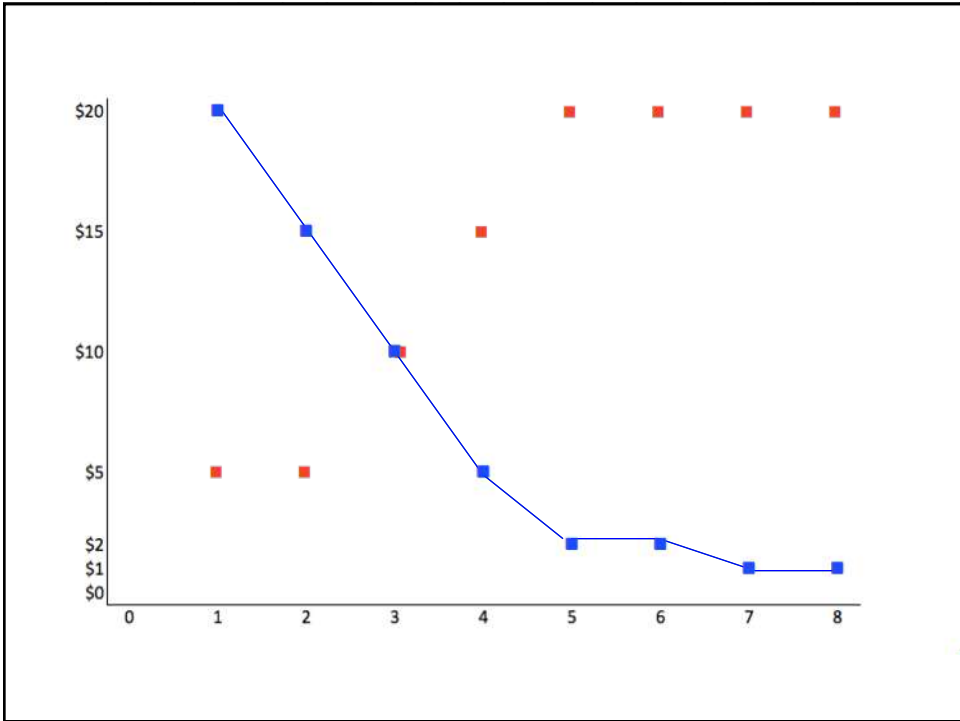
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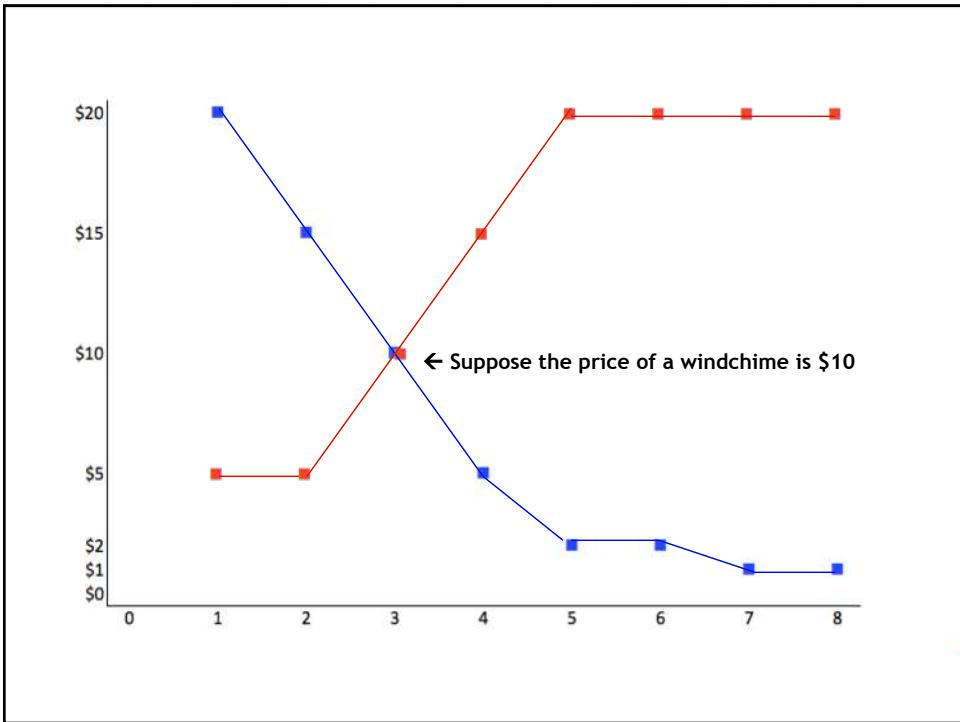
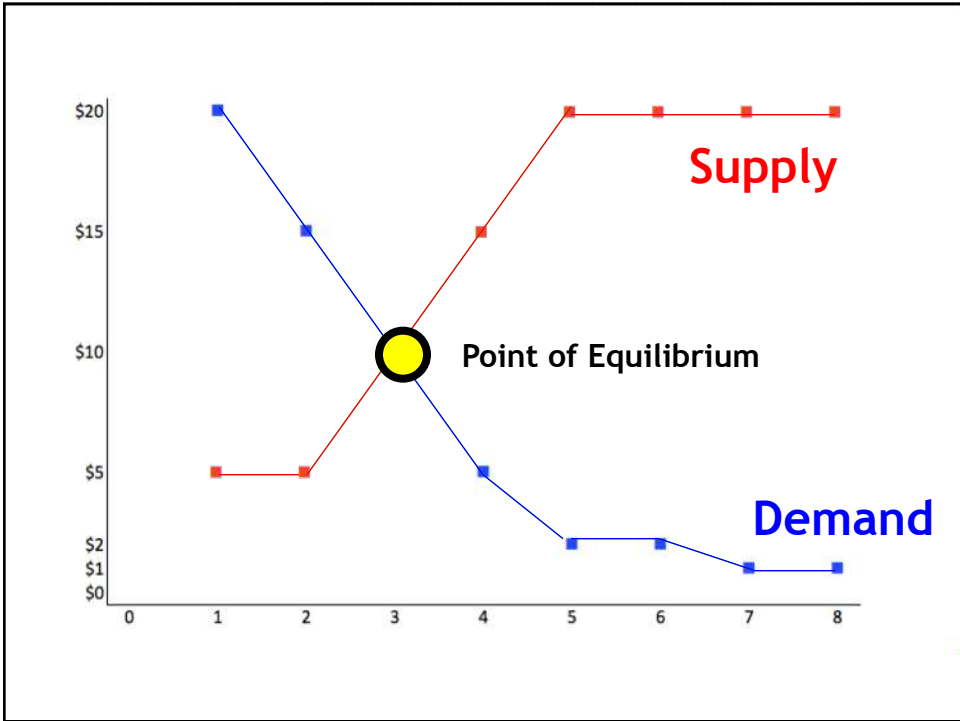
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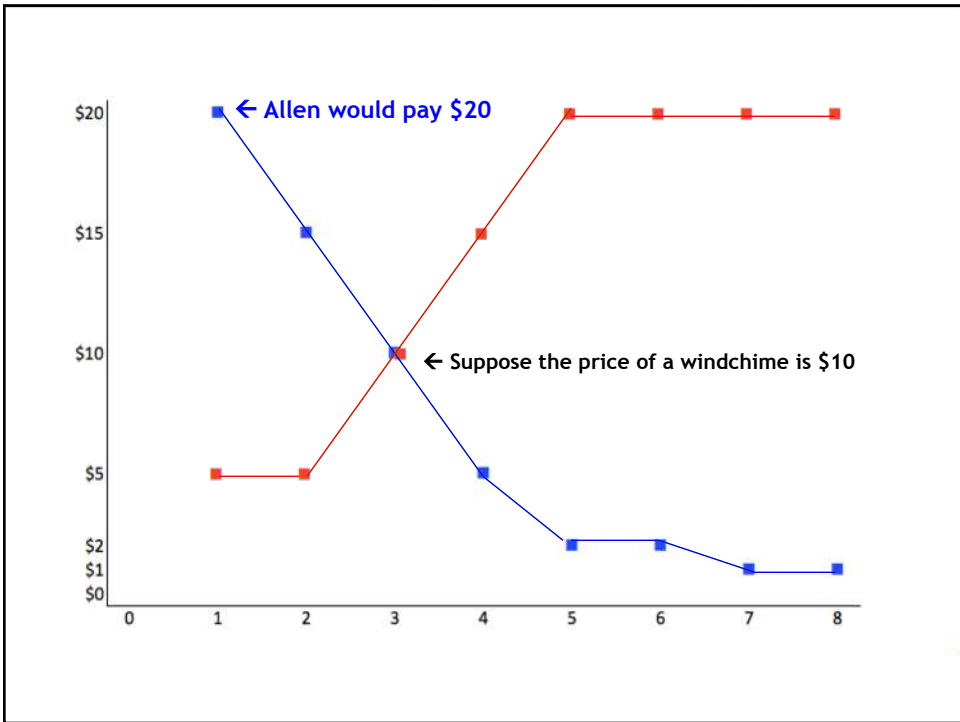
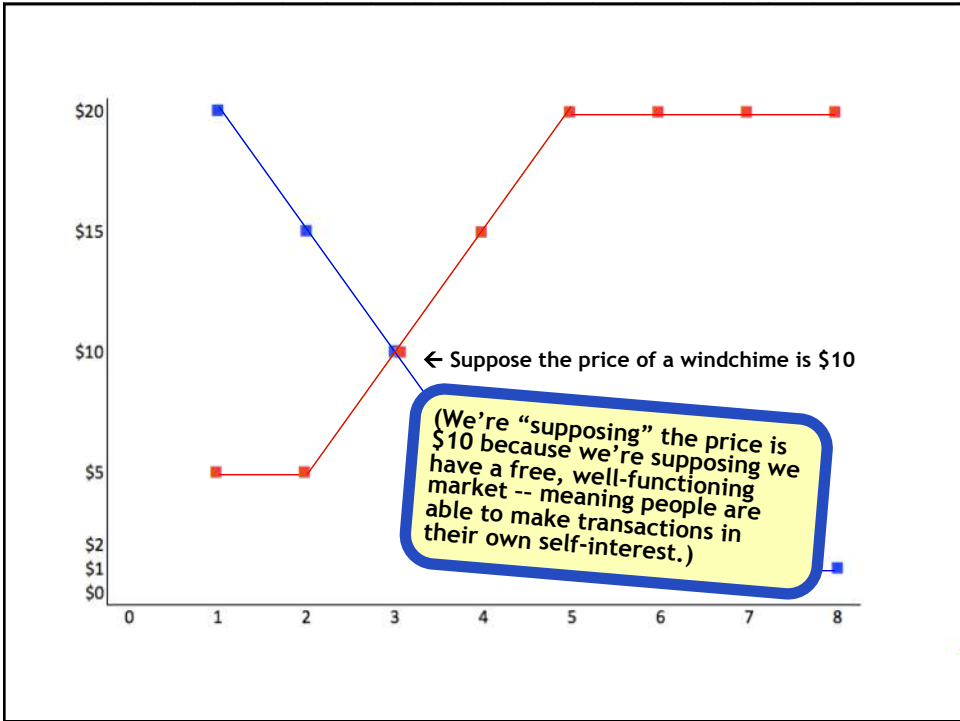
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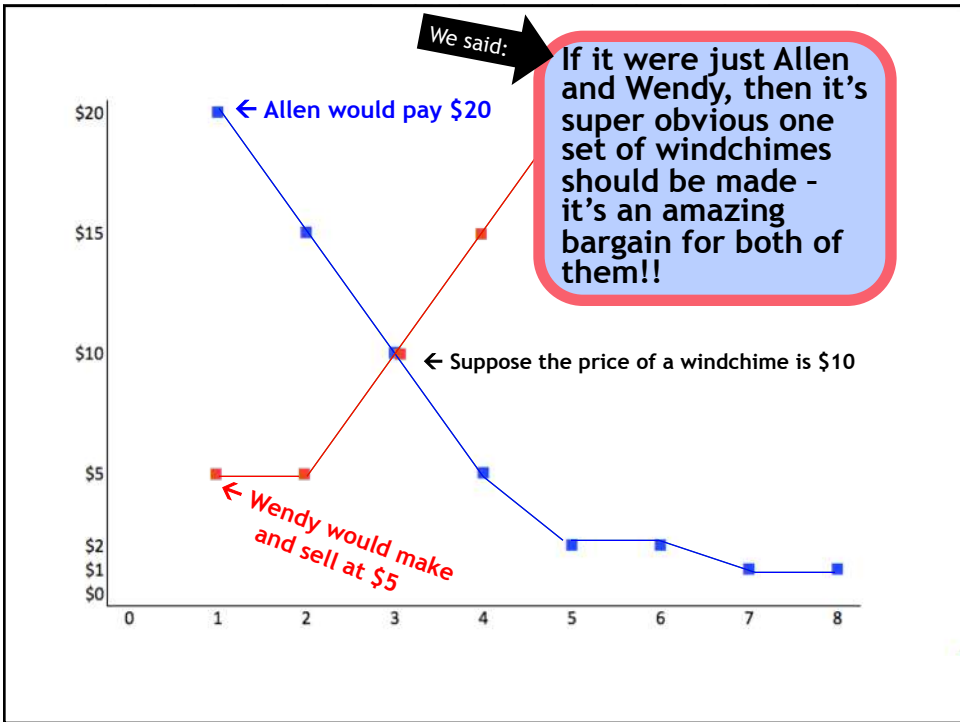
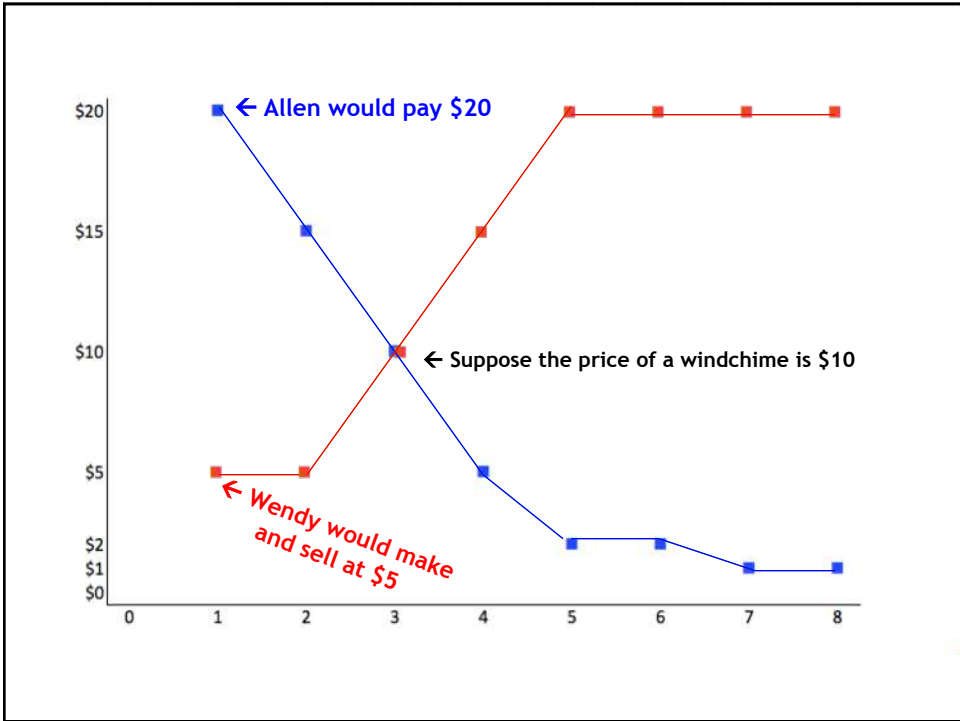
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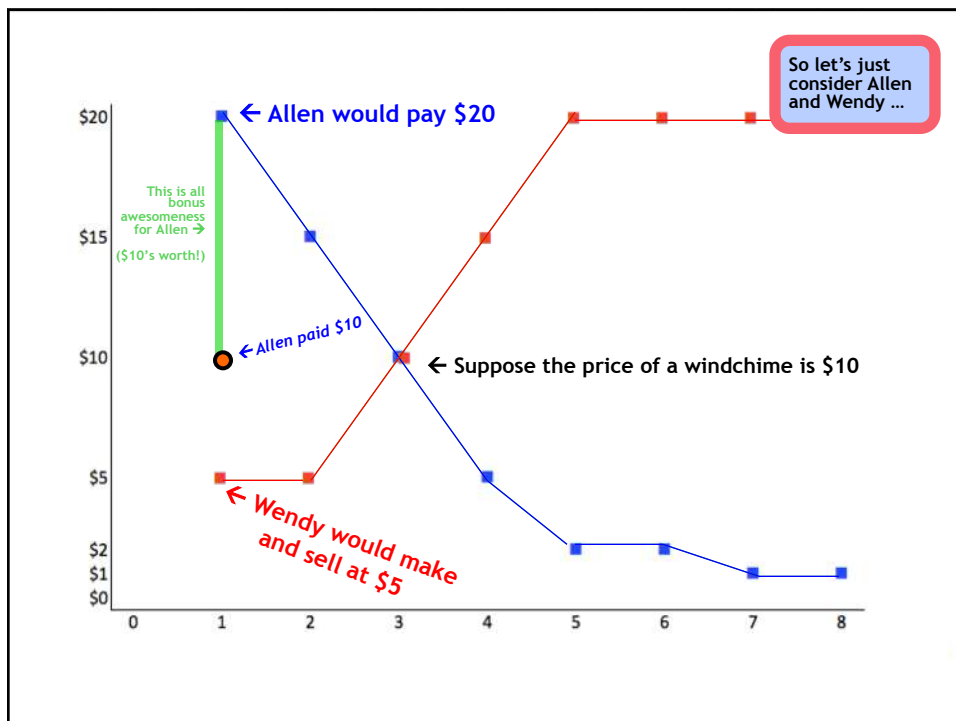
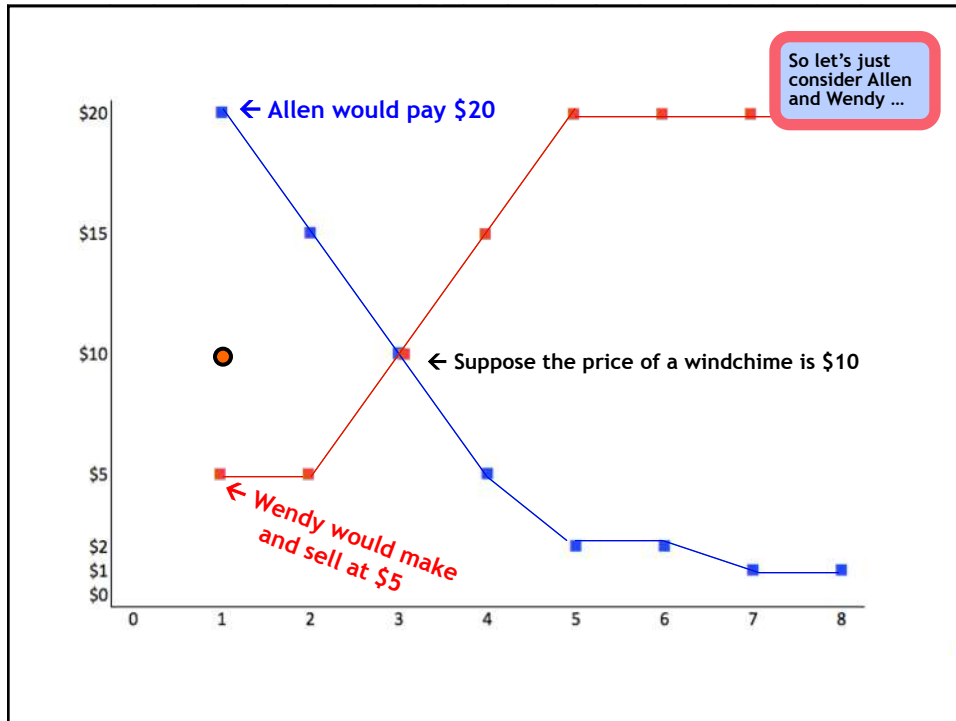


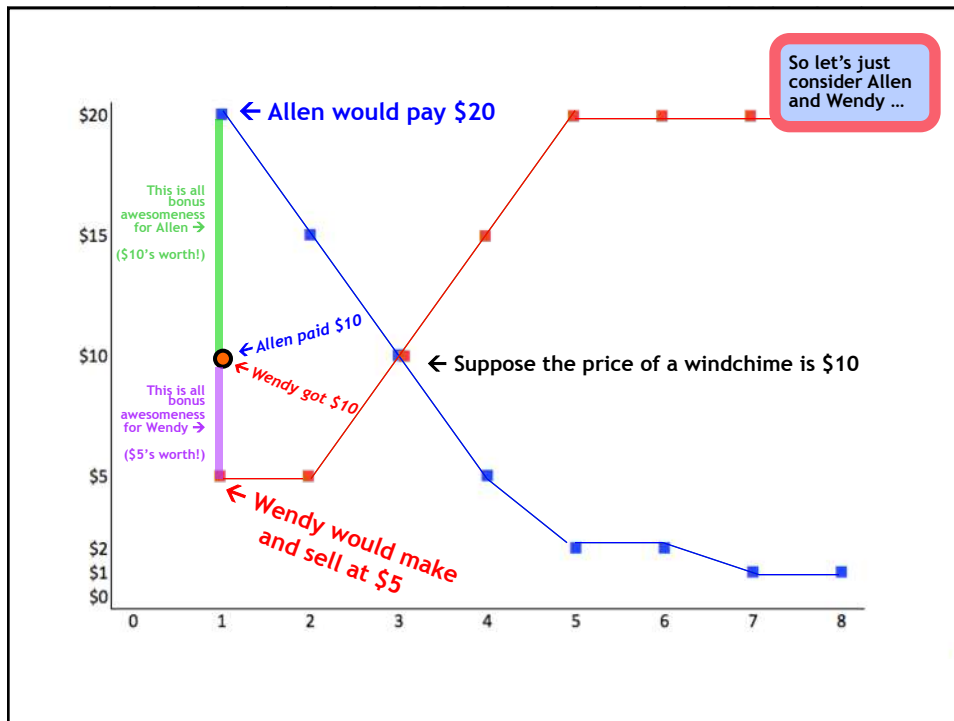


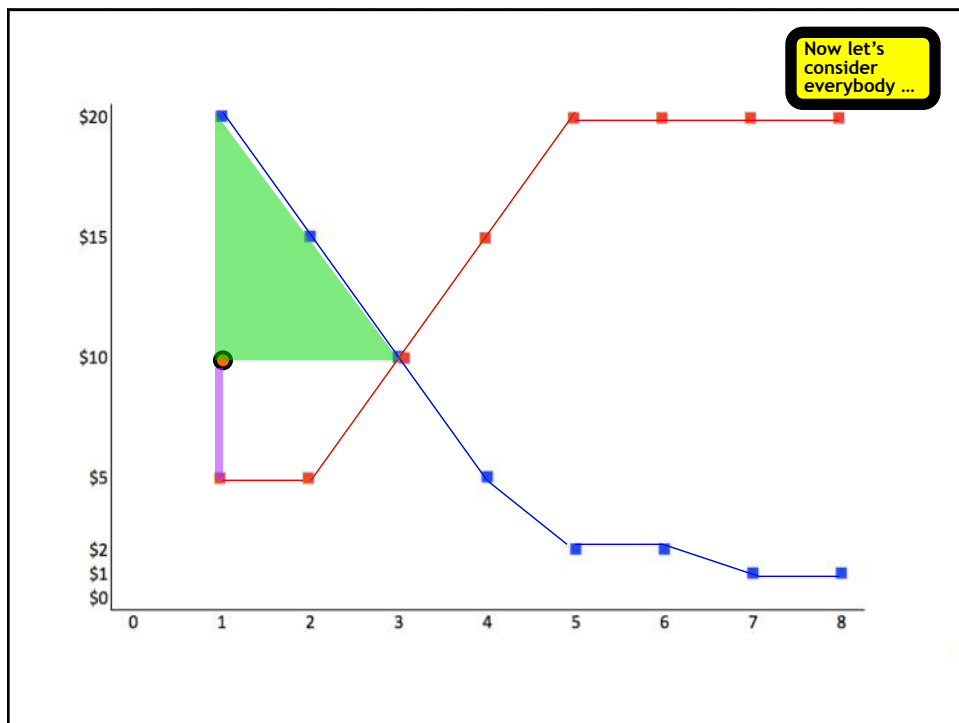
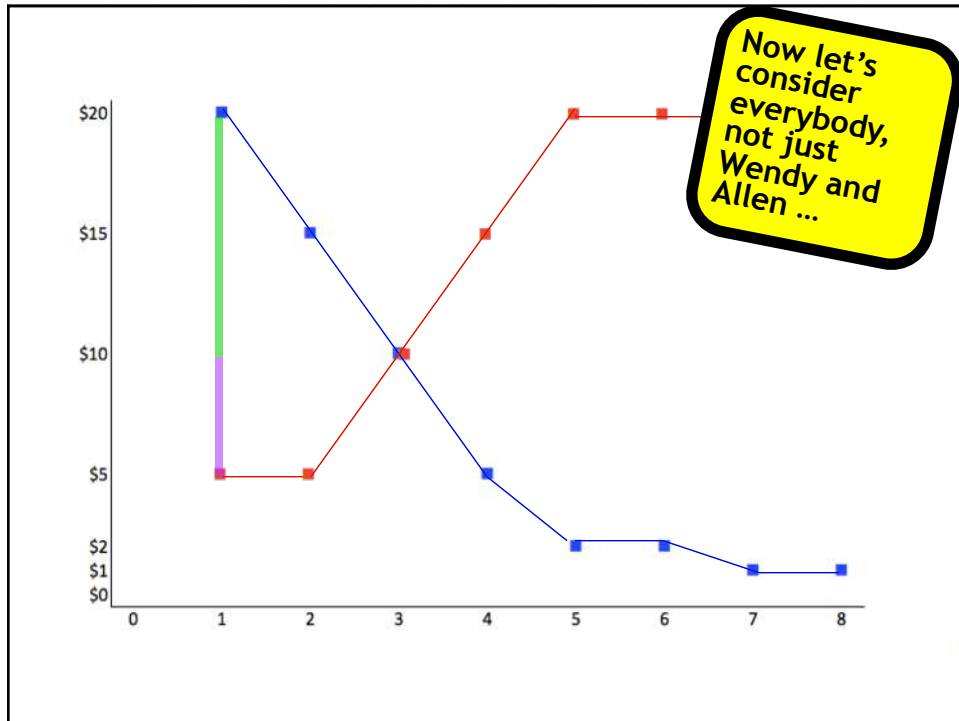


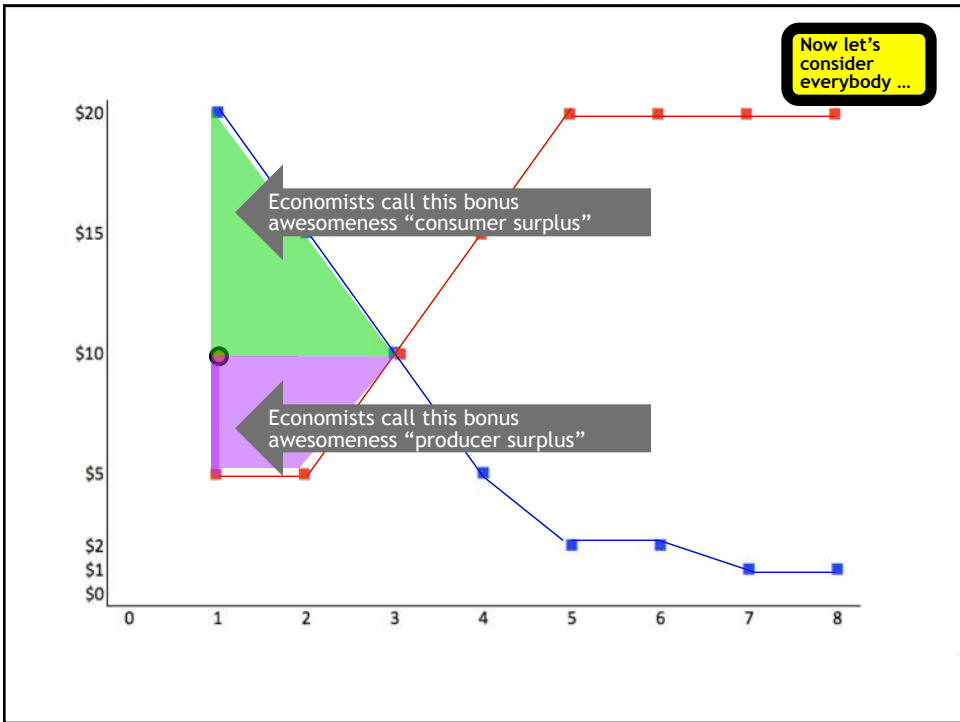
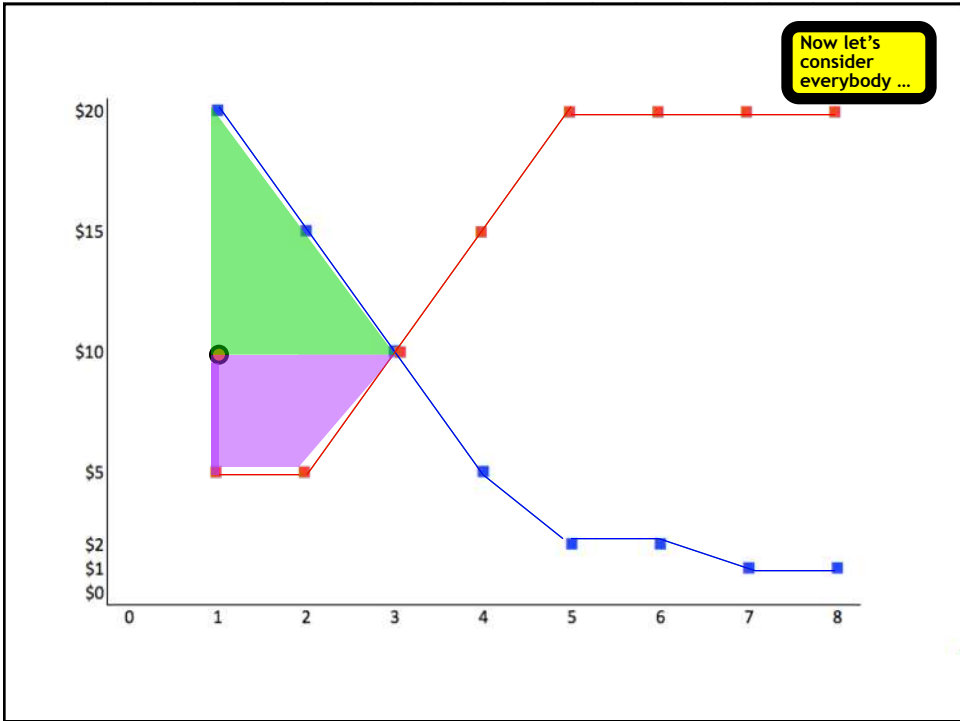


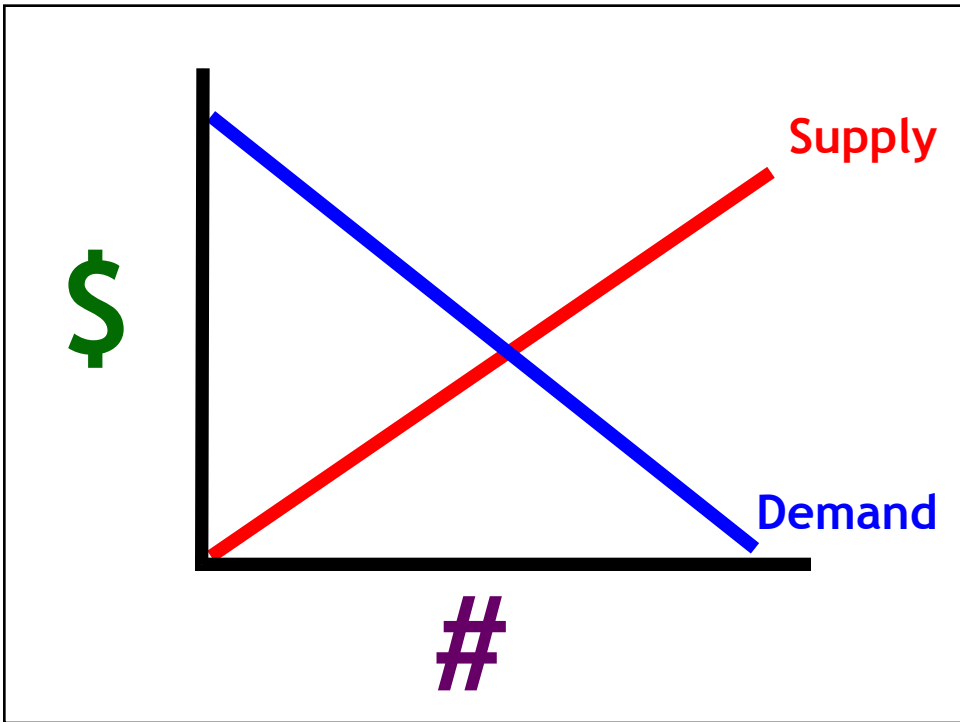
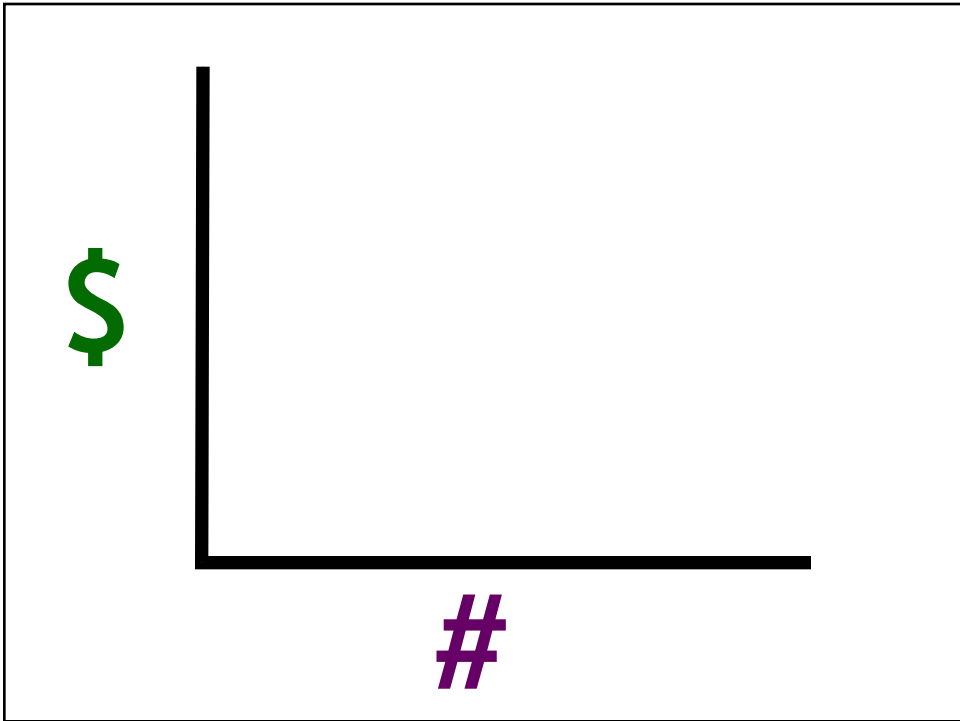


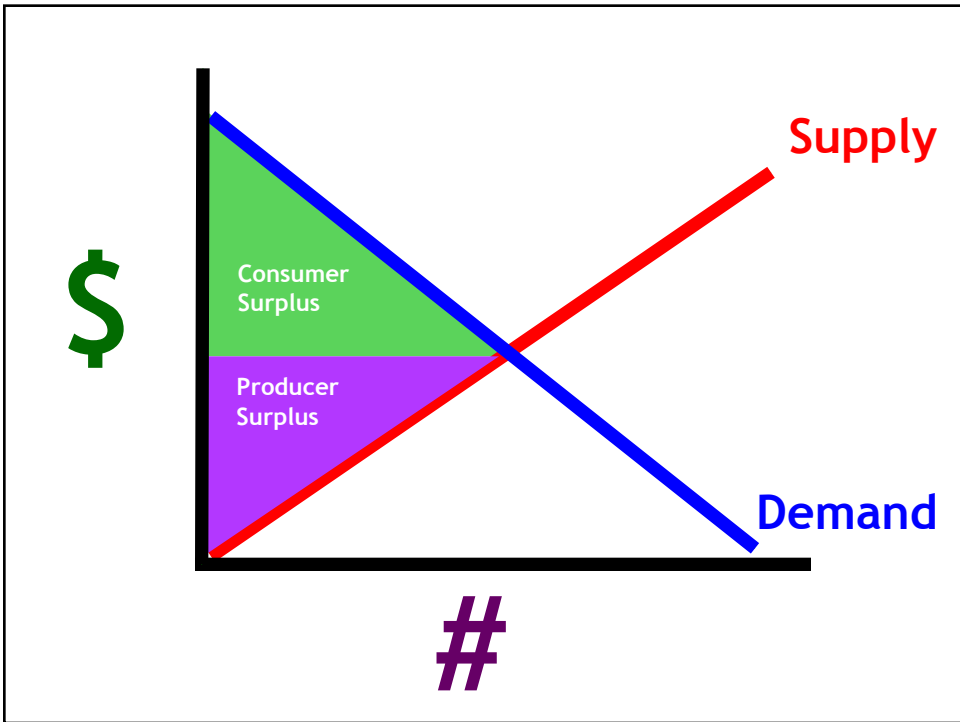
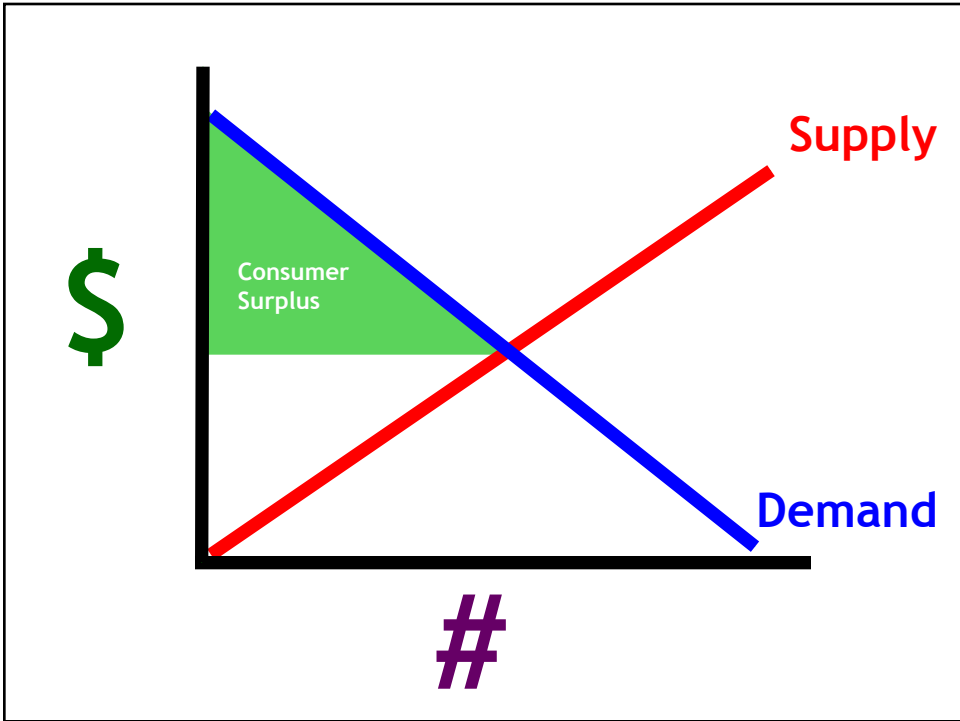


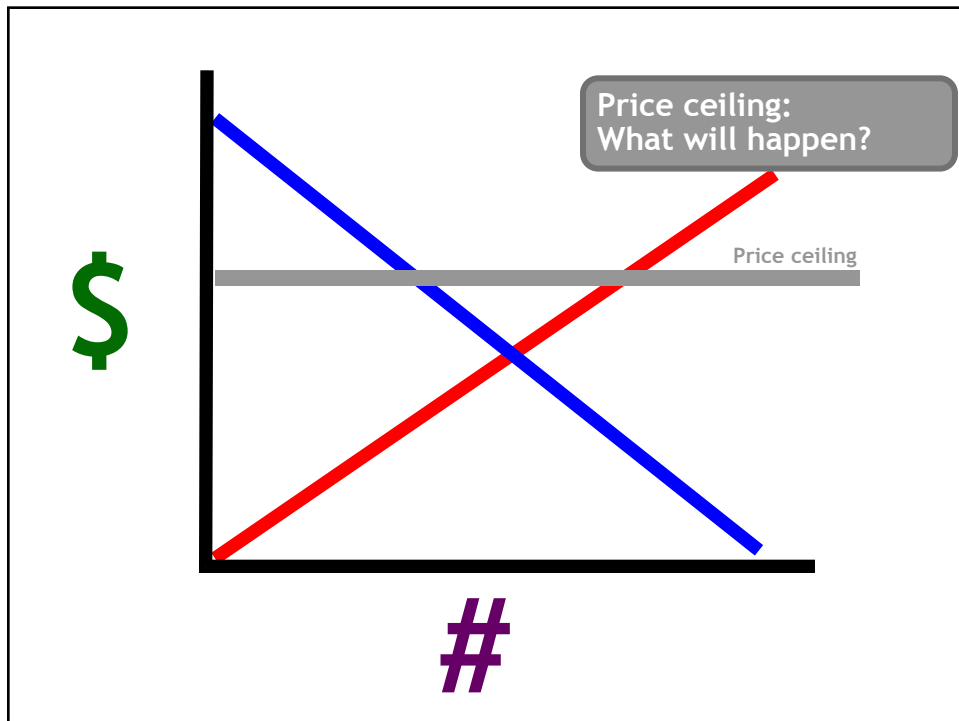
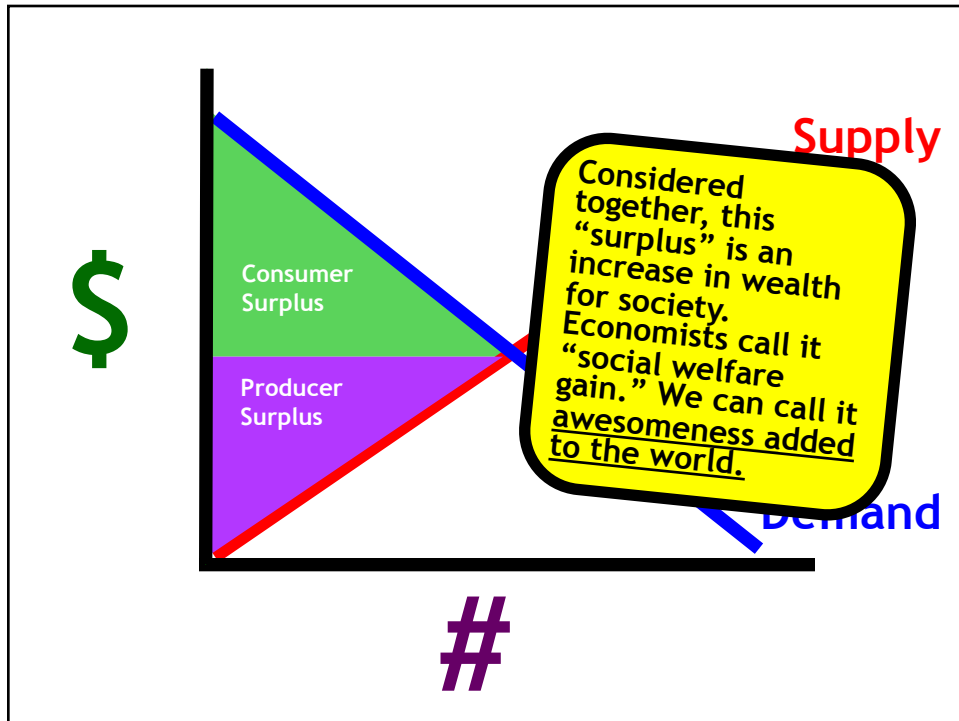


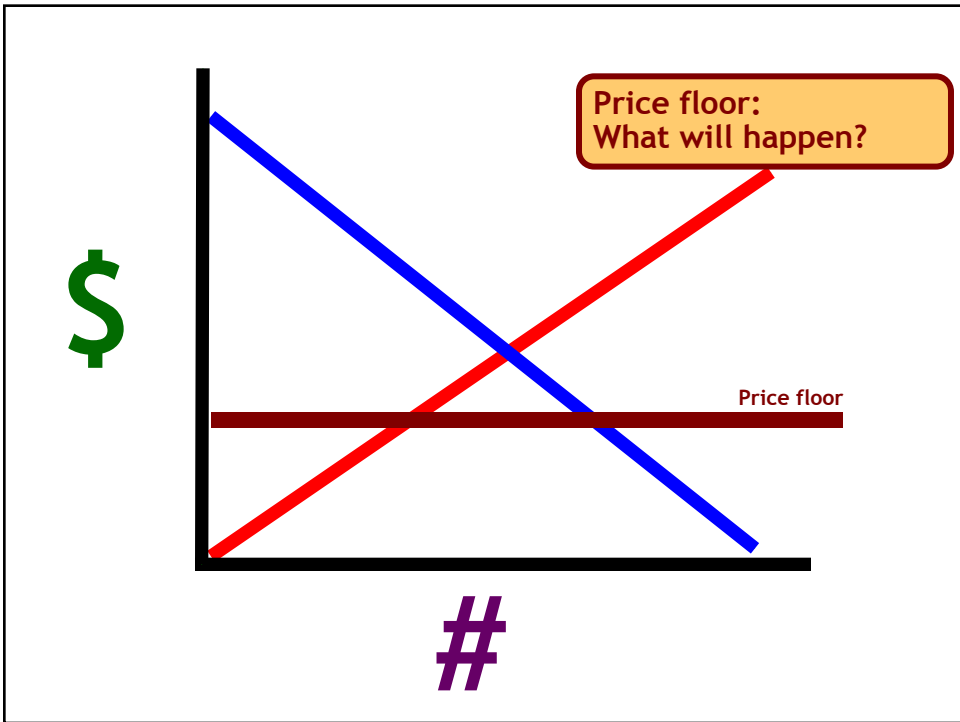
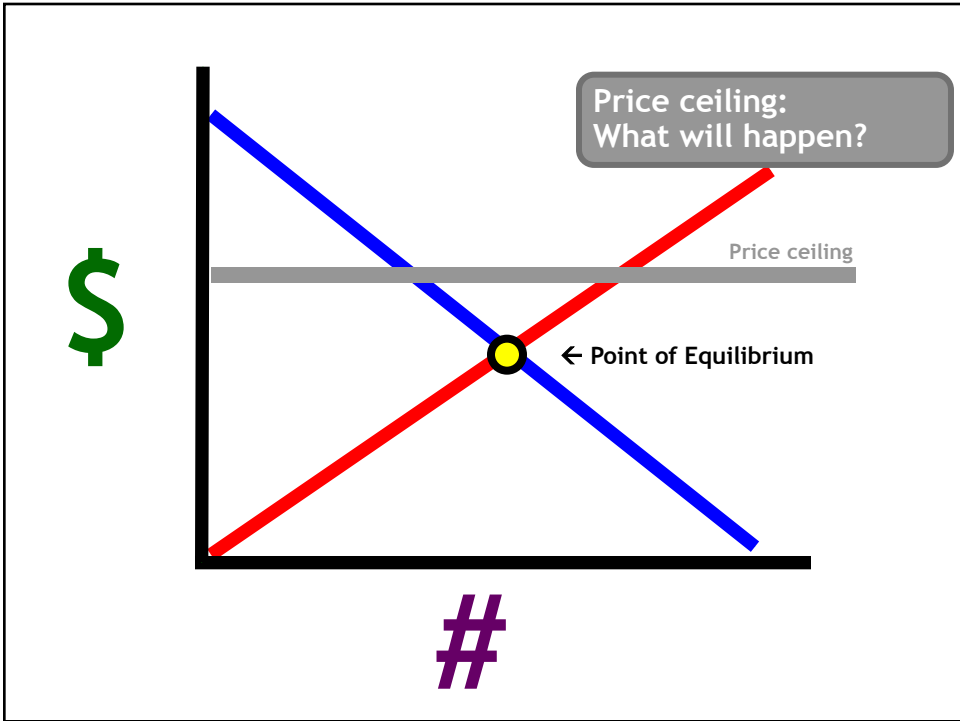


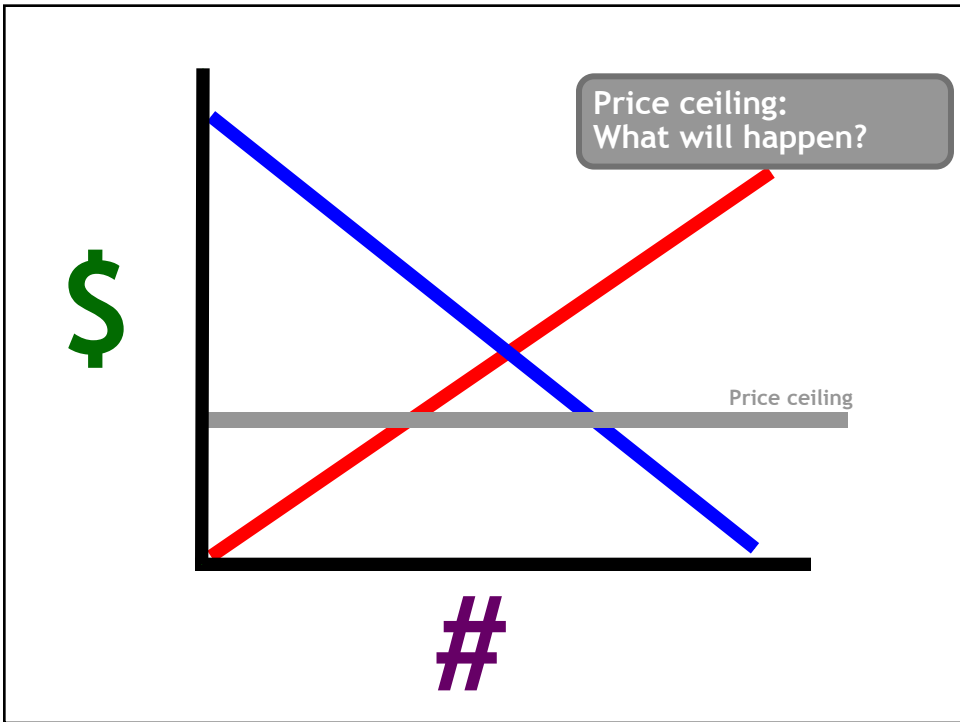
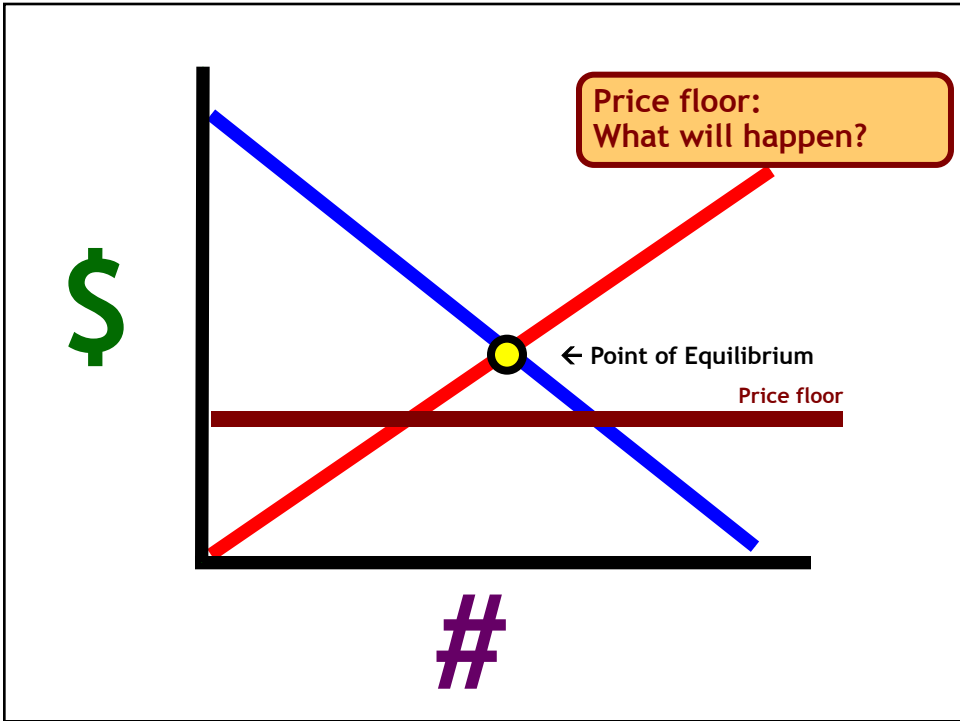


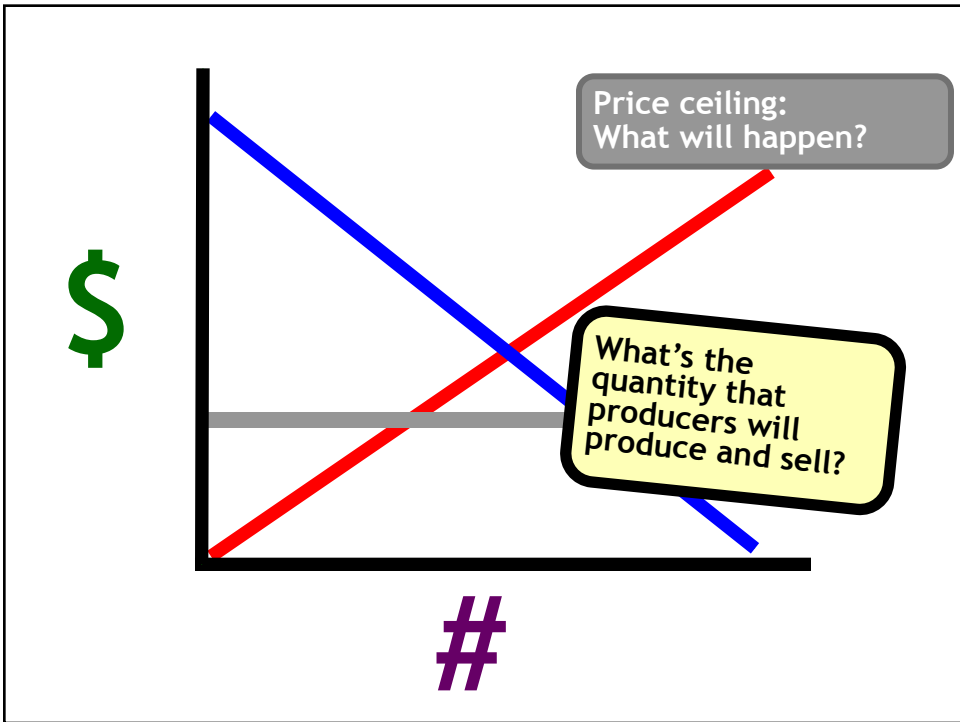
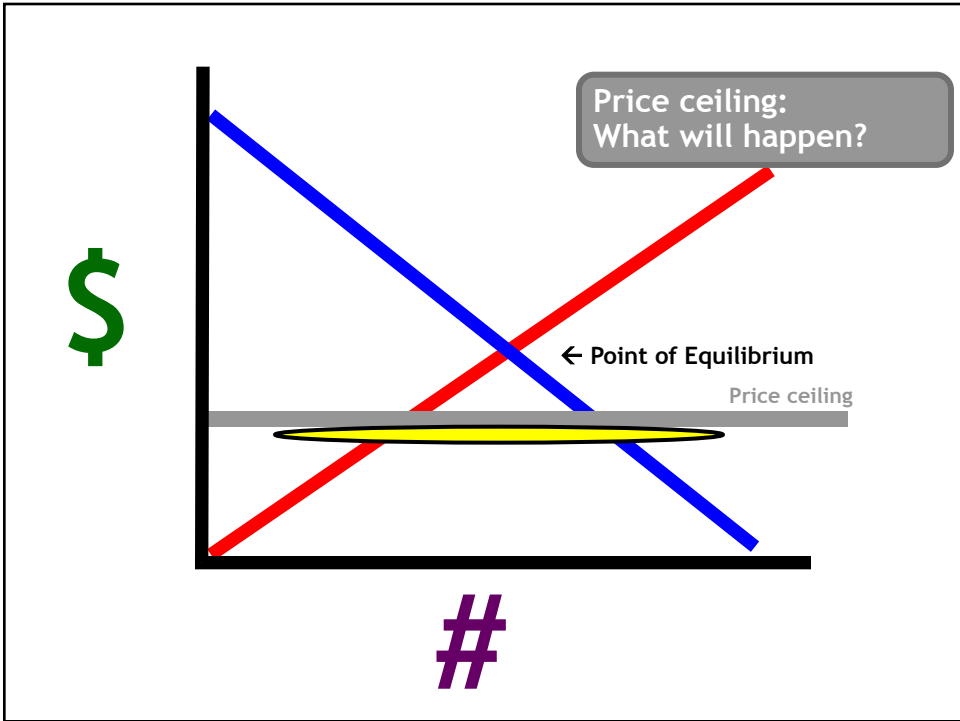


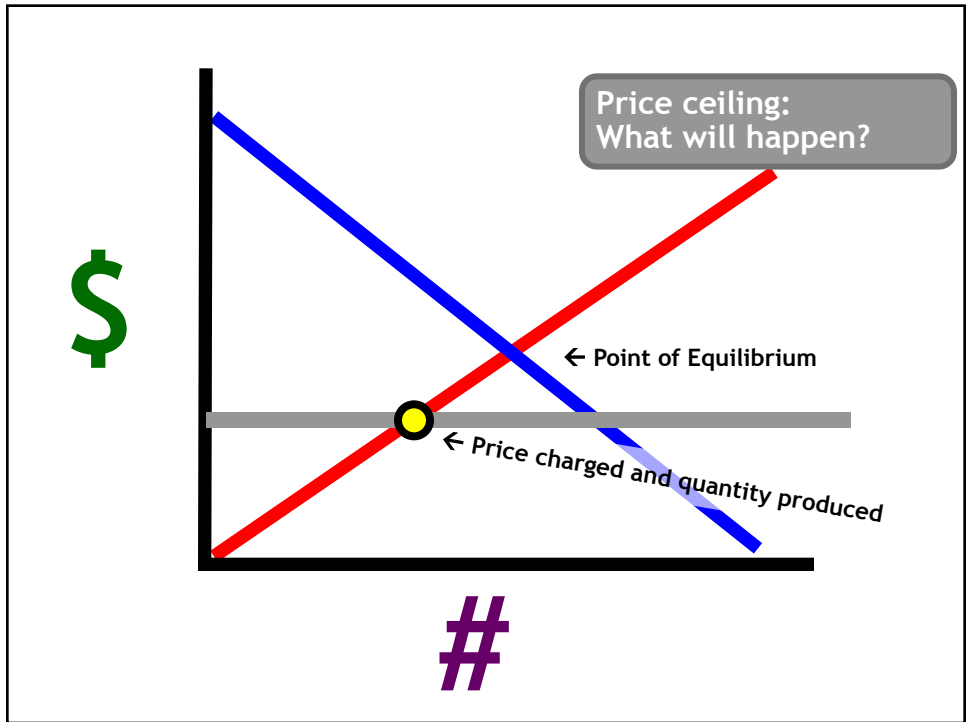
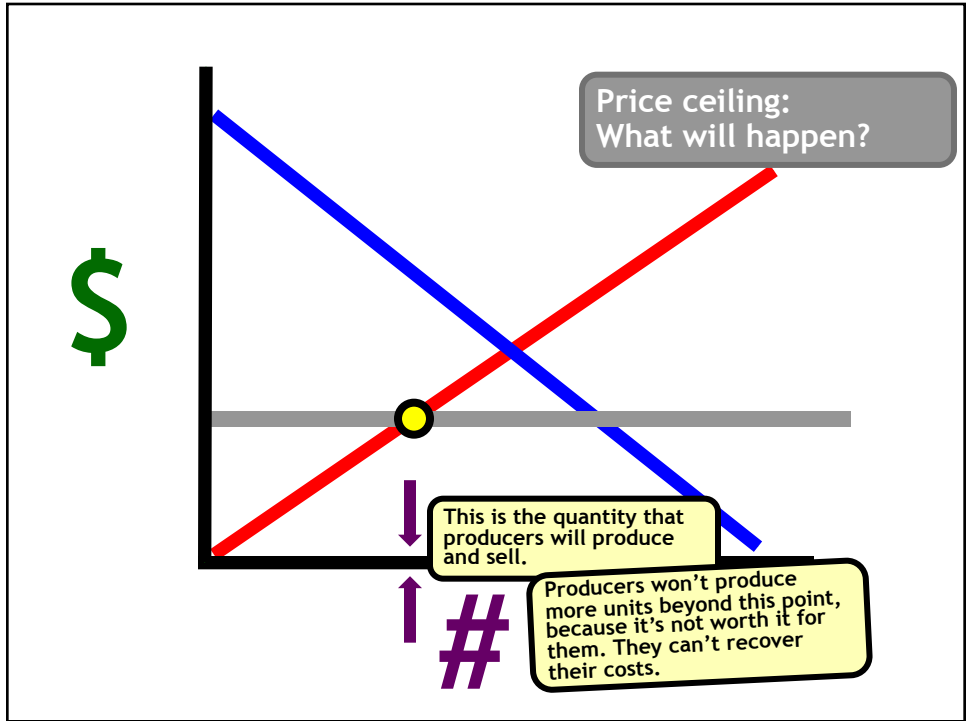


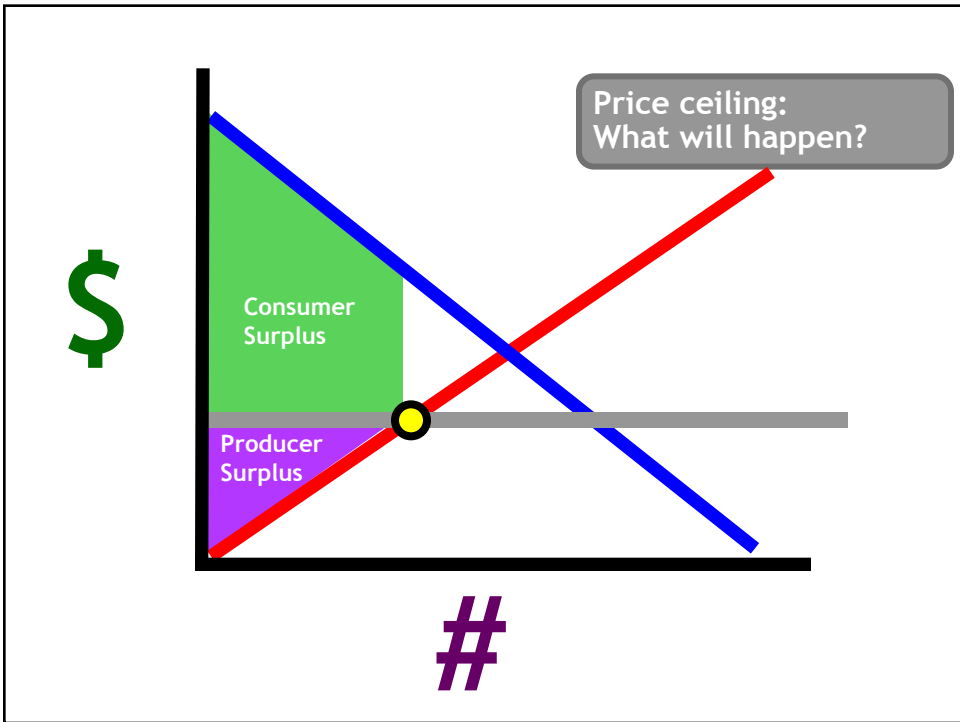
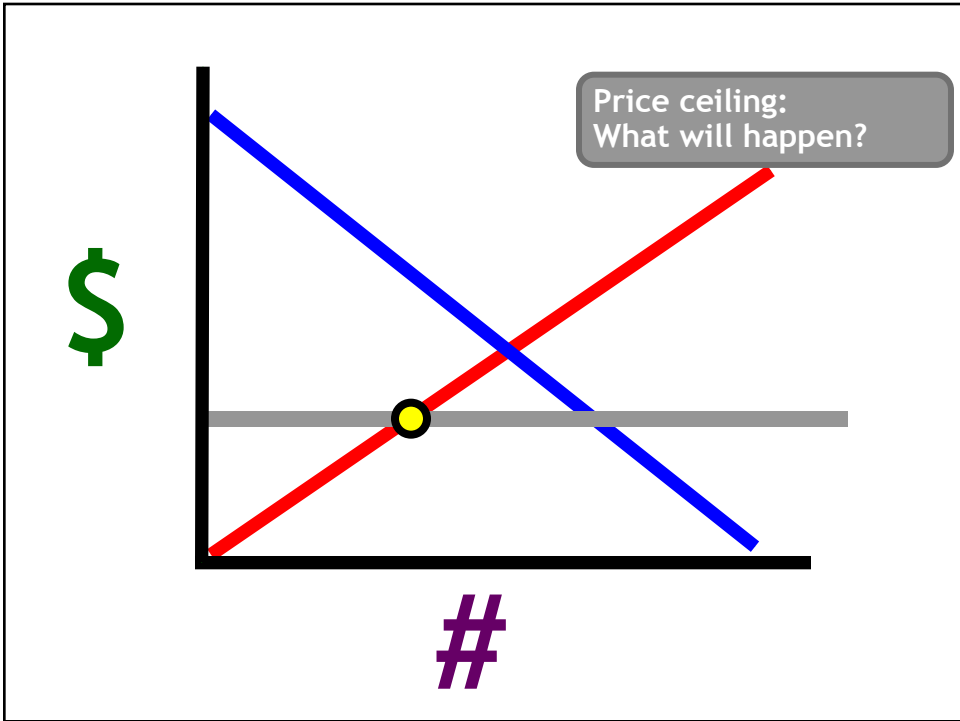


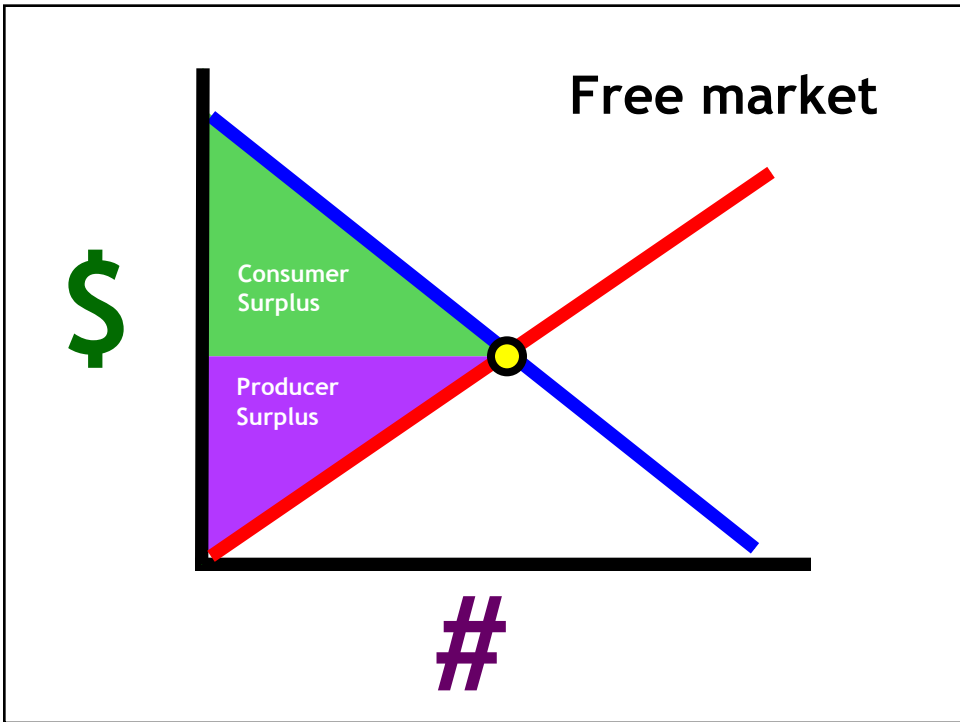
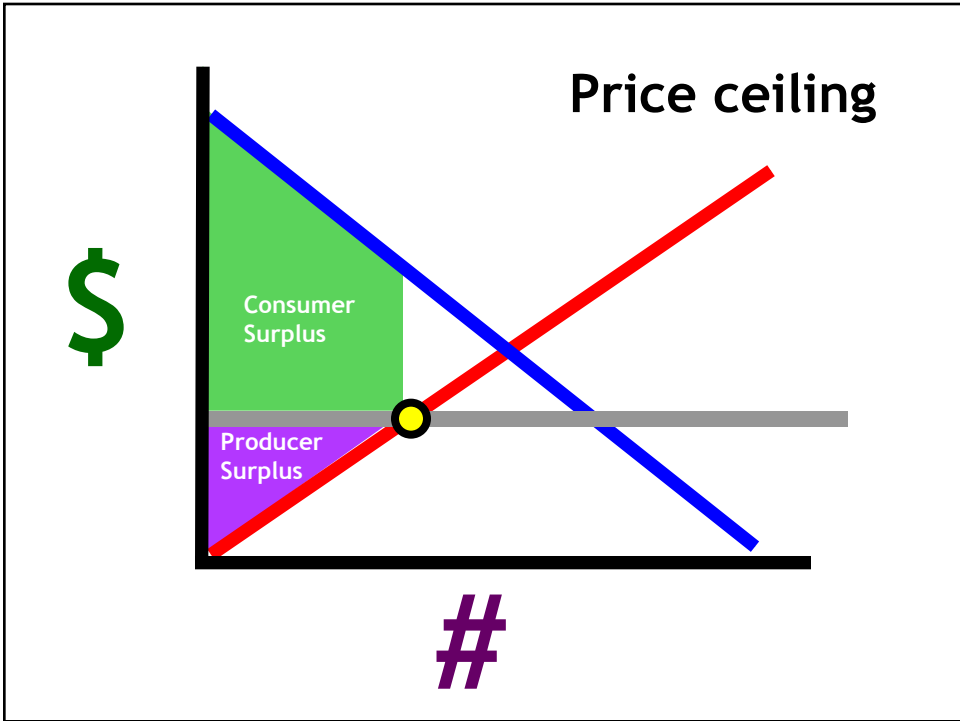


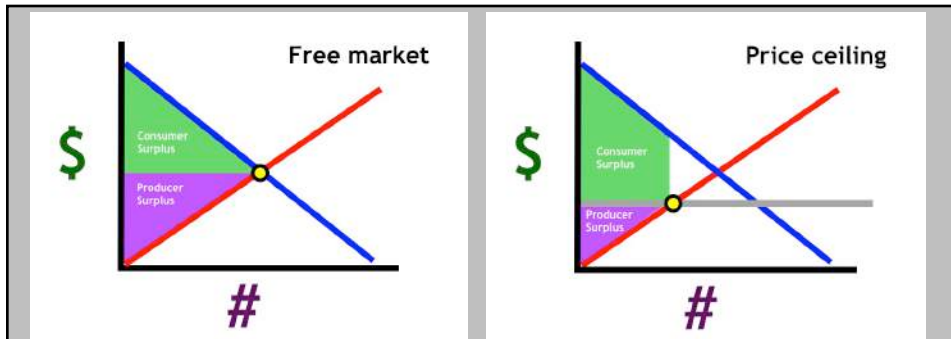






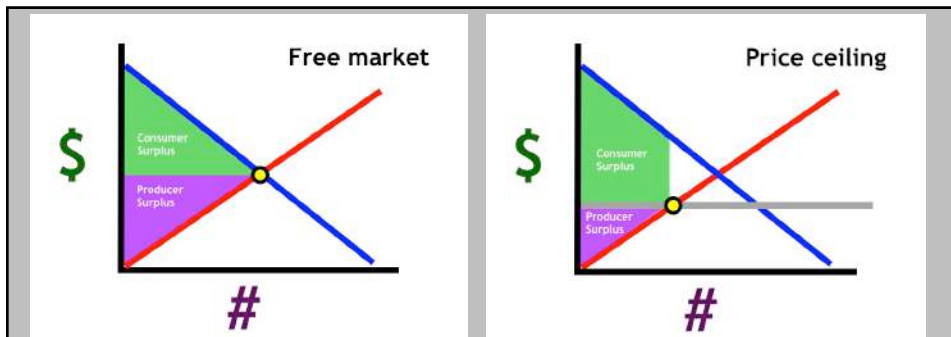






Notice that two things have happened:

- Some of the producer surplus became consumer surplus.
 - This means some consumers came out better than before (more bonus awesomeness).
 - And it means many producers lost out on surplus they would have gotten otherwise.
- Some deals that were made before aren't getting made.
 - So some consumers are disappointed they didn't get to purchase at the higher price they would have been happy to pay.
 - And some producers are disappointed they didn't get to produce and sell at the higher price some consumers would have been happy to pay.



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Let's get into this ...

