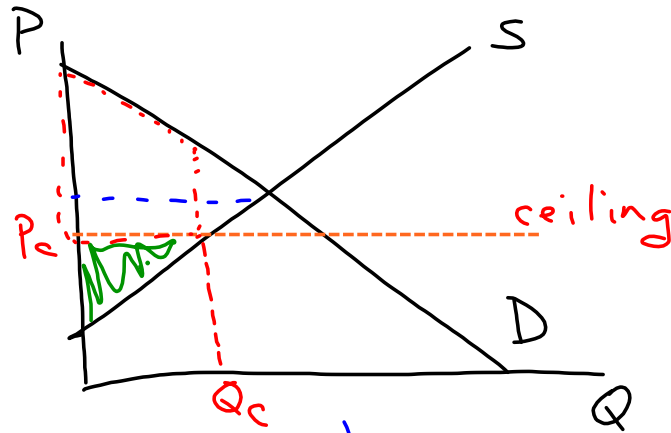
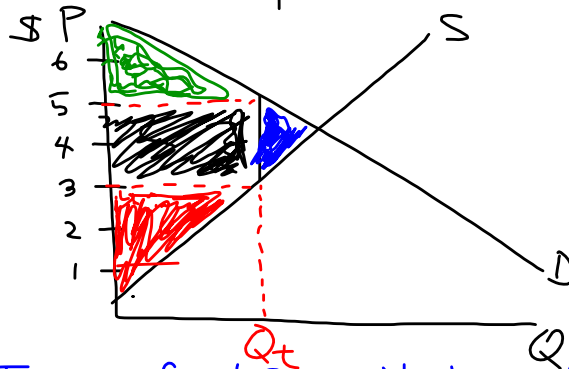


What does effective price ceiling do to consumer, producer, total surplus?



Producer Surplus ↓  
Consumer Surplus ?

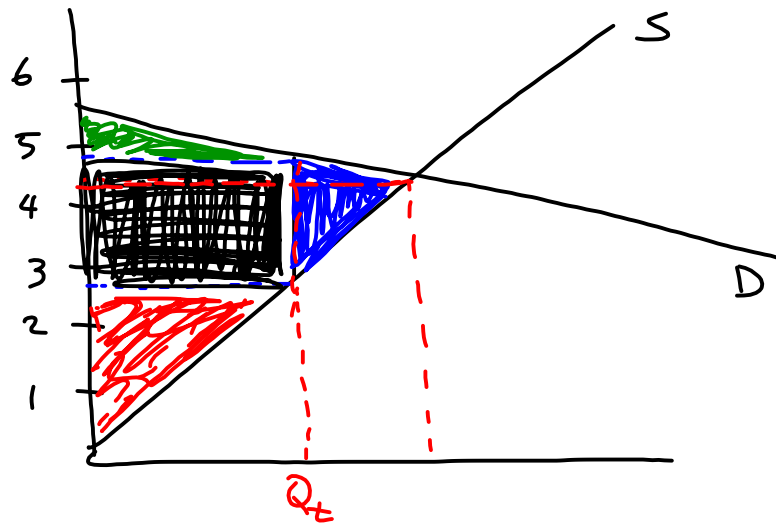
Tax incidence - effect of tax on cons., prod., total surplus.



Tax of \$2/unit levied on this item. Show effect on cons, prod, DWL.

Identify total tax

Same scenario:

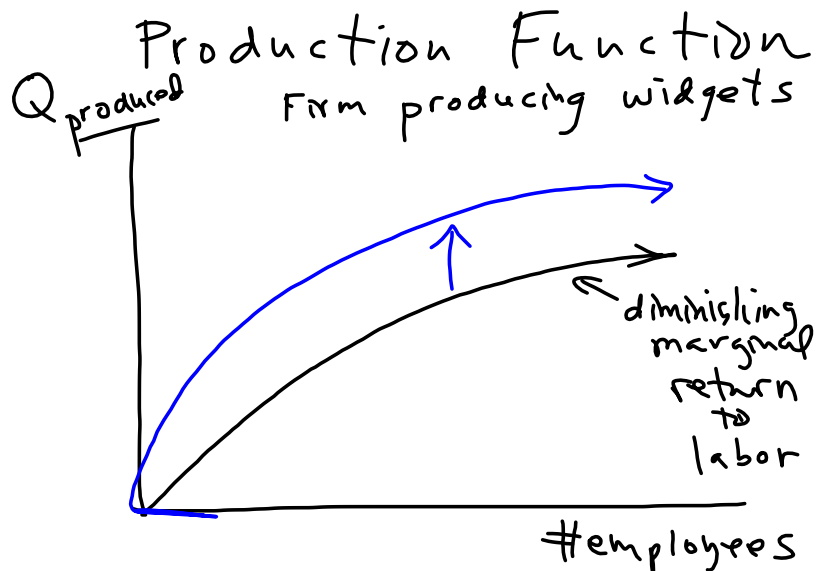


on cons, prod, DWL.

Identify total tax

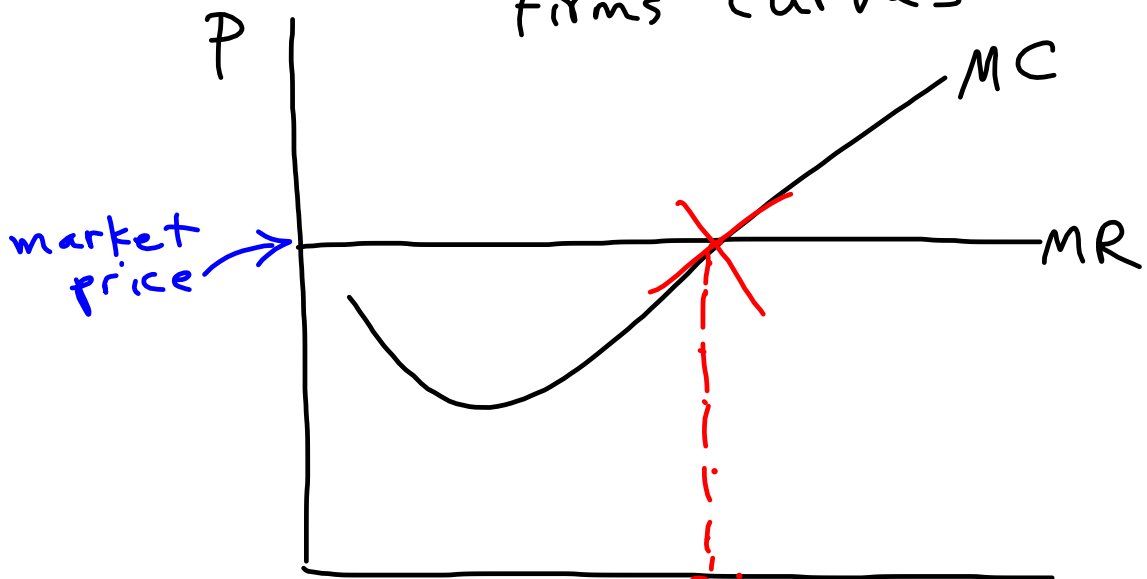
What contributes to high elasticity?

- close substitutes
- luxury goods



Scenario: firm buys a new, highly efficient widget-making machine.

### Profit Maximization Firm's Curves



Show quantity this firm  $Q$  would produce.