

Economics II

General equilibrium and microeconomic policy of the state

Part II.



INVESTICE DO ROZVOJE VZDĚLÁVÁNÍ

Introduction

- ❖ Imperfect competition (monopoly power)
- ❖ Externalities
- ❖ Public Goods
- ❖ Asymmetric information
- ❖ Conclusion

Imperfect competition (monopoly power)

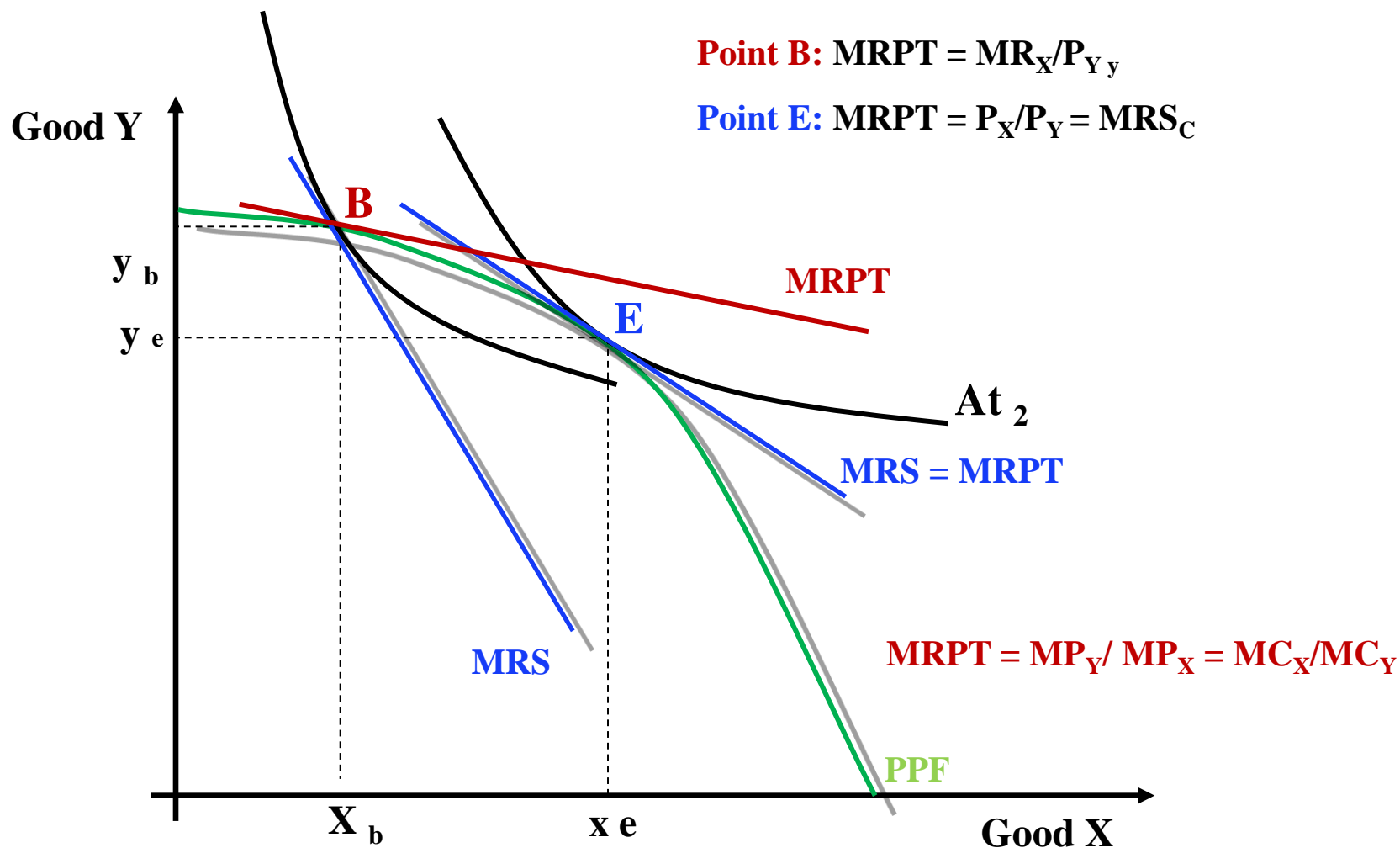
imperfect competition

For firm maximising the profit applies:

$$MRPT = MR_X/P_Y < P_X/P_Y = MRS$$

$$MRPT < MRS$$

Monopoly power and effectiveness



Externalities

Externalities

➤ *Negative externalities*

➤ *Positive externalities*

Externalities

Conditions of efficiency – negative ext.

Total marginal cost = marginal private cost of production + External ***marginal cost***

$$SMC = MC + EMC$$

The total marginal rate transformation product (SMRPT) = degree to which, the company can transform one goods in the second

$$SMRPT = SMC_Y / SMC_X$$

Externalities

Positive externalities:

$$SMU = MU + EMU$$

Condition of efficiency

Total marginal rate of substitution (SMRS)

$$SMRPT = SMRS$$

Externalities

negative externalities and effectiveness

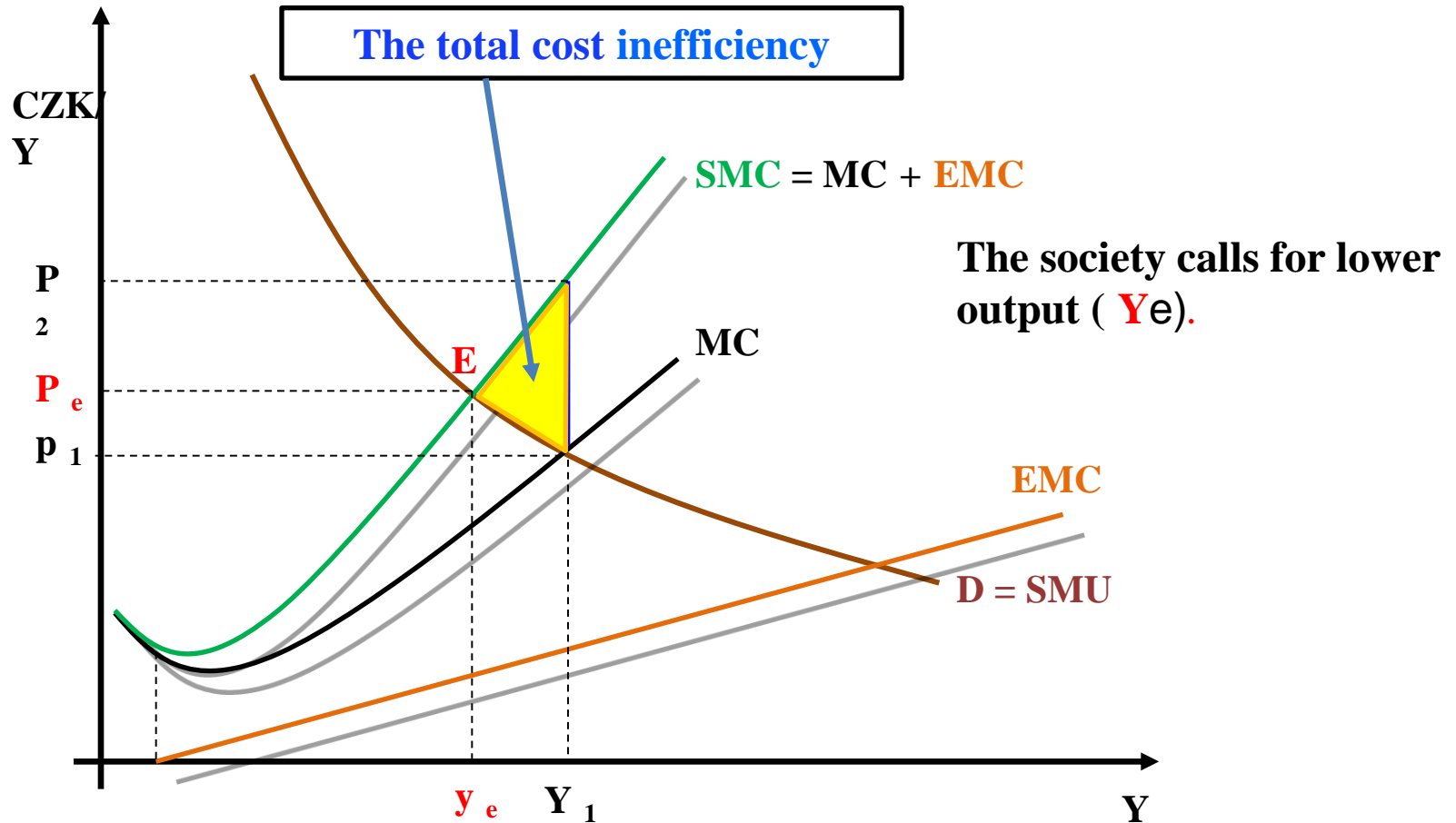
Negative externalities is characterised by inequality:

$$SMRPT > MRPT$$

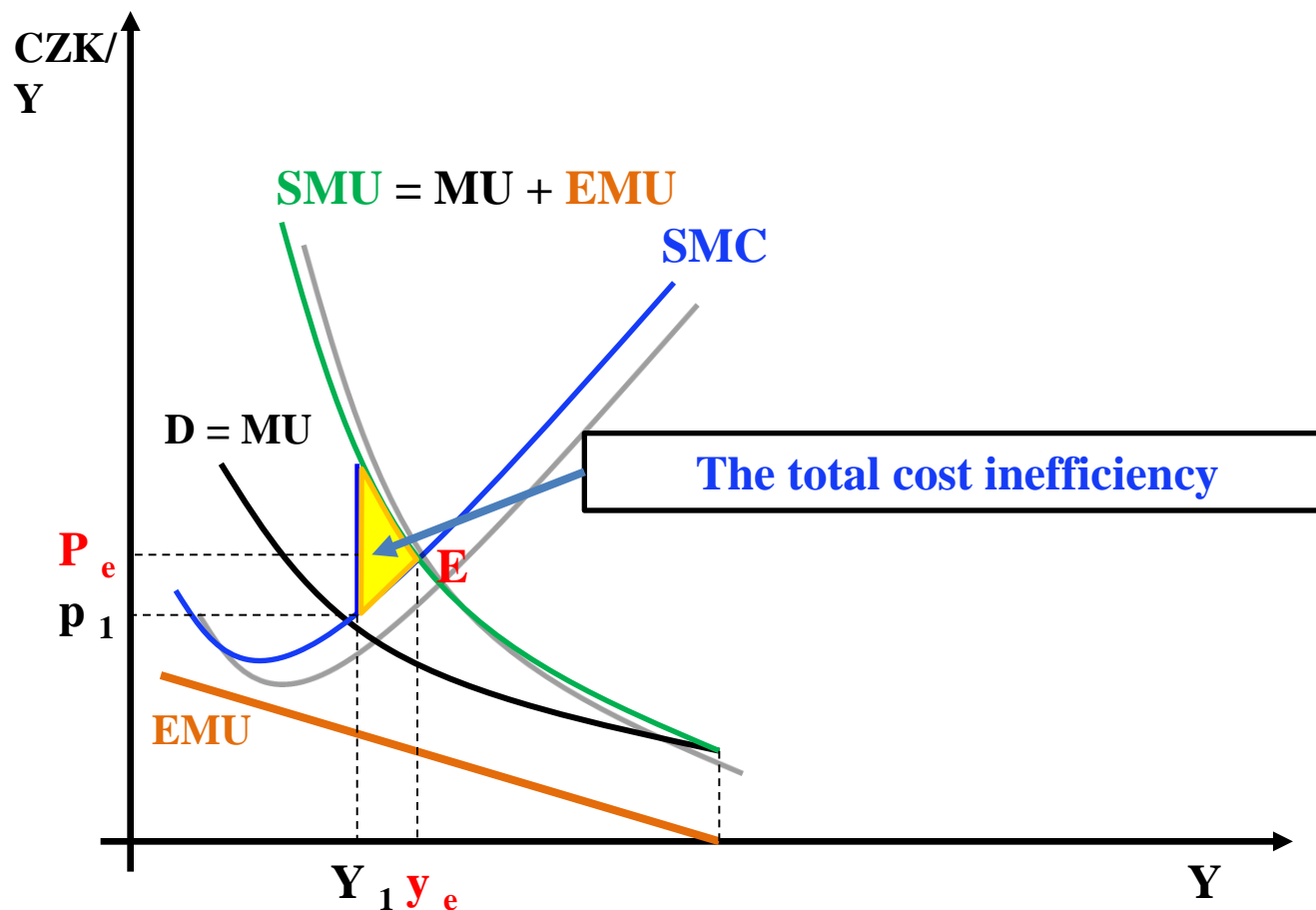
Socially efficient OUTPUT:

$$SMU = SMC$$

Social marginal utility



Positive externalities and inefficiency



Public Goods

(a) public goods

(b) private goods

(c) mixed goods

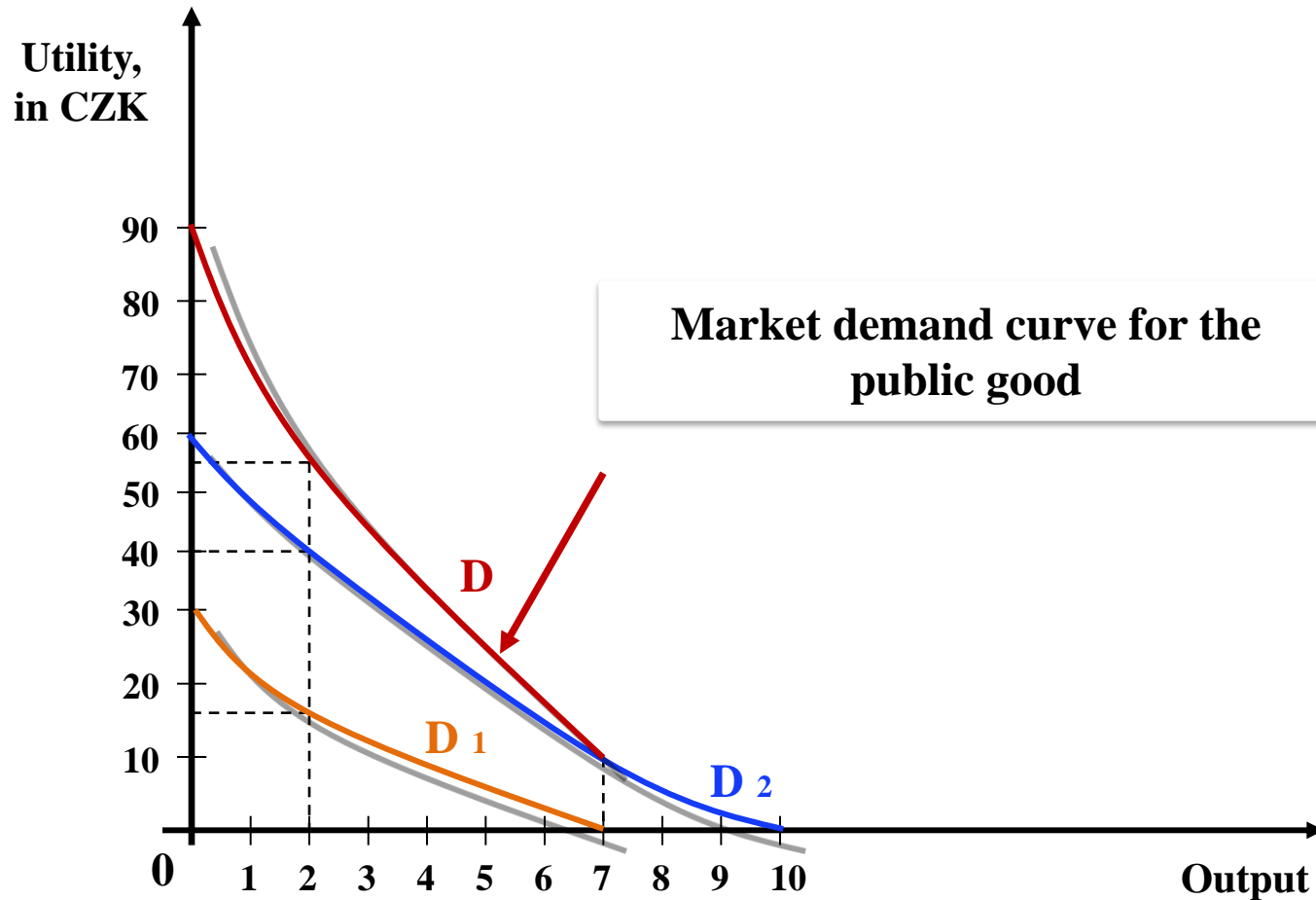
Public goods and the effectiveness

Condition of effective allocation of resources:

$$MRPT (V \text{ for } S) = SMRS (V \text{ for } S)$$

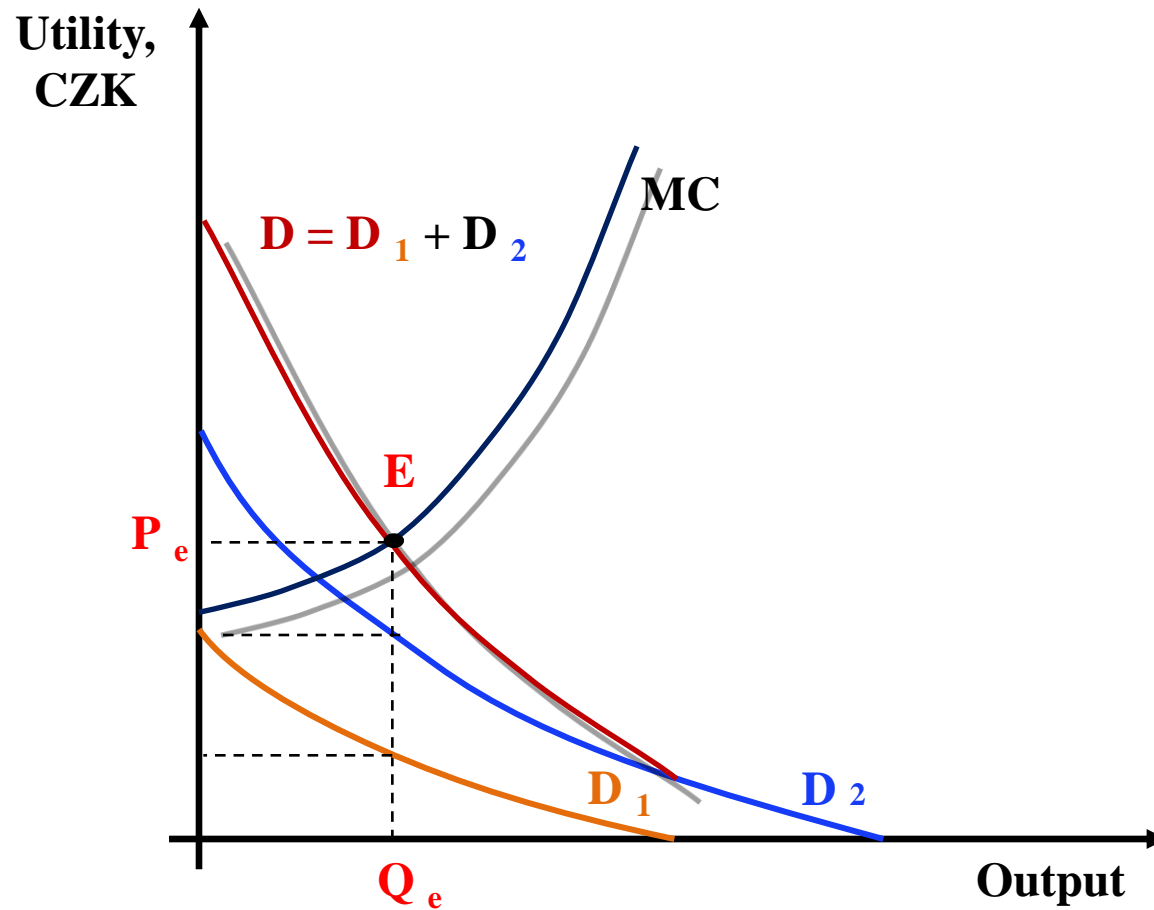
Public Goods

Optimal public good quantity



Public Goods

Optimal public good quantity



Asymmetric information

Asymmetric information

➤ As a result of **secret activities**

➤ As a result of **classified information**

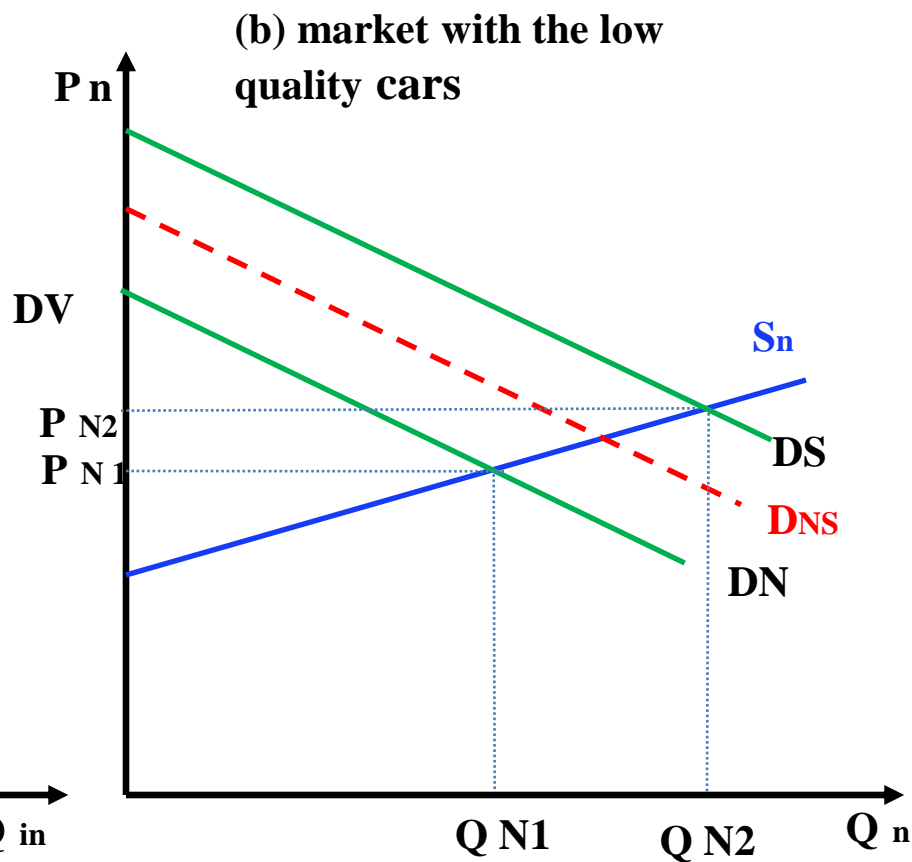
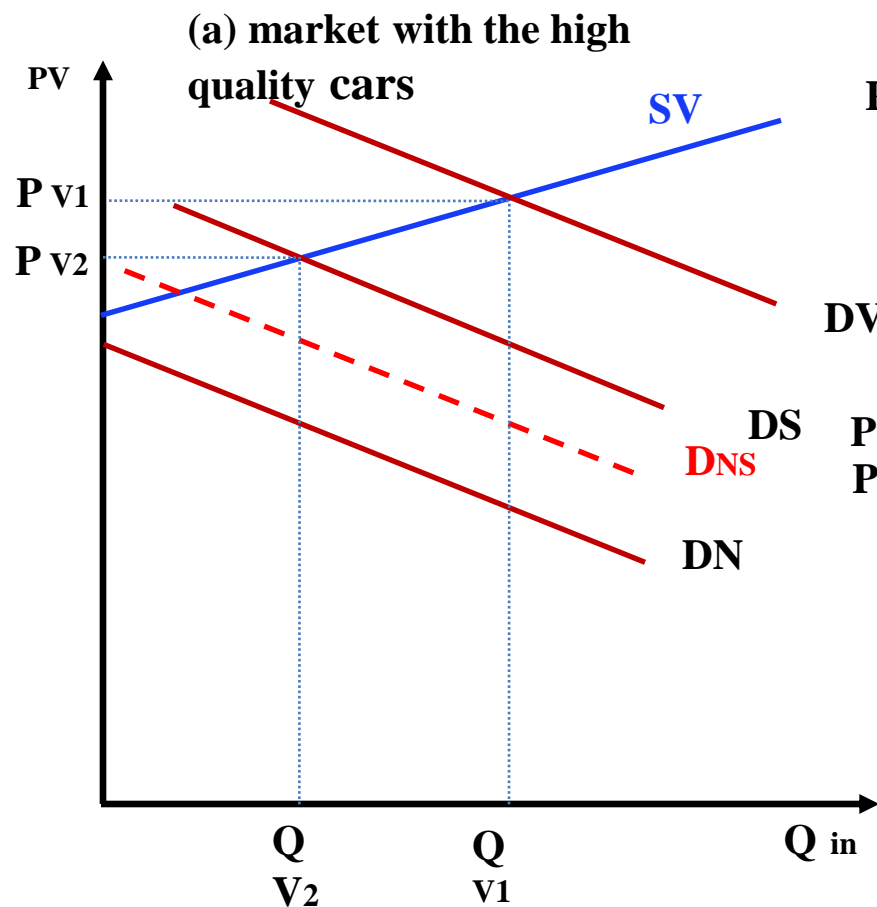
Asymmetric information is linked to the existence two sub-problems:

(a) moral hazard

(b) adverse selection

Asymmetric information

Negative selection



Thank you for your attention



INVESTICE DO ROZVOJE VZDĚLÁVÁNÍ