
Market A has no Govt. Intervention
Market B has a $20 Tax on Chickens

Socially Optimal

Market A

Market B

Predicted unregulated private outcome

Socially Optimal

MC_{Private} = WTA = S_{Private}

MC_{Social} = S_{Social}

$20/unit external costs.

$20/unit

MB = WTP = D

Q: Q_s & Q_d for the entire market
## Market A, Round 5

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Hmmm … I think I know the best level of output to choose if I know price. But what is the price likely to be?

### Market A

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### Market B: What Was a Good Choice? Where is the Market Headed?

#### Market B, Round 5

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</table>
Hmmm … I think I know the best level of output to choose if I know price. But what is the price likely to be?

Here's a look at Market B (tax). What is the optimal quantity at each price?

In order to maximize profits, use marginal decision making

1) Figure out what marginal cost you incur if you change production by one
2) Apply the following rules
   a) If your Marginal Benefit > your MC, do more
   b) If your Marginal Benefit = your MC, stop
   c) If your Marginal Benefit < your MC, do less

<table>
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<th>Market B</th>
<th>Q</th>
<th>P</th>
<th>Avg. q_{Firm}</th>
<th>( \pi ) max q @ that price</th>
<th>Avg. firm has incentive to:</th>
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</table>
A Flashback: The Results from Fall 2005

Market A: No Tax on Chickens

Round 5 Outcome

Market B: $20 Tax on Chickens

Round 5 Outcome