

NEW YORK UNIVERSITY
Department of Economics

V31.0010.04 (Intermediate Micro)
Assignment No. 1

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Due: TBA

1. Around NYU

a. A *Washington Square News* article (Dec. 4/02, p. 10) headed “Mets tickets priced to move/Amazin’s look to increase revenue with new ticket plan,” showed a table, “Pricing the Competition/2003 Mets ticket pricing,” which is excerpted here:

Price Range	Team/Timing
\$16 - 53	Chicago Cubs (opening day); NY Yankees (weekend)
\$14 - 48	Arizona (weekend); Atlanta (midweek)
\$12 - 43	San Diego (weekend); Florida (midweek)
\$8 - 38	Houston (midweek); Pittsburgh (midweek)

1. *What is the logic underlying this pricing scheme?*
2. *What conditions must be fulfilled for the Mets to achieve their revenue goal?*
3. *What role might uncertainty play in this pricing process?*

b. A *New York Times* article (June 10/03) dealt with fake Vuitton bags selling on Canal Street, not far south of Washington Square. While arrests of vendors of counterfeits are up this year, “such tactics have done little to stem the rush of knock offs.... Prices on Canal Street vary depending on bargaining savvy, even on the time of day.... Customers ... are rarely phased by signs of inferior workmanship or, for that matter, by the watchfulness of the police.”

1. *What are the elements of demand and supply in this illegal market?*
2. *Could asymmetric information be a crucial element in the market?*

2. Medical economics

a. According to the *Wall Street Journal* (March, ‘01), Medicare reimburses physicians more for surgically-performed breast biopsies than for needle biopsies. The number of the former vastly exceed the latter.

What might this observation indicate about physician incentives and their responses? What would you suggest to eliminate this apparent bias?

b. Health insurance companies have noted that the number of physician visits per patient are fewer when the patient pays a fee for each physician visit as opposed to paying a flat annual fee covering unlimited visits.

How can you explain the fixed annual payments health insurance companies charge their subscribers? Further, should it make a difference whether the insurance companies pay the physicians on a per visit basis as opposed to a fixed annual payment per registered patient?

c.”This Little Kidney Went to Market” is the cover story of a *New York Times Magazine* article (27 May ‘01). The descriptive blurb reads as follows: “To save his own life, Moshe Tati scraped together \$145,000 from friends to buy a kidney. To save his son’s life, Mehmet Piskin sold one of his, for \$10,000. Eager buyer, eager seller. Isn’t this how the market is supposed to work?”

What do you think? And, if you have reservations, do you have any alternative suggestions?

3. Wine (or is it Whine?) Economics

Pricing a bottle of upscale wine seems as much an art as a science. In a *NY Times* article headed "Why Wine Costs What It Does" (April 9/03), the author mentioned a number of decision-making considerations, among them scarcity. "Almost all of the high-priced wines around the world are produced in small amounts.... When you have a very small supply... you can charge a high price."

However, that reasoning is insufficient to explain why a bottle of wine that sold by the winery for \$67.50 (which presumably covered all production costs and yielded the vintner a profit) was priced \$135 on the retail market.

What could be the explanations for 3-digit wine prices?

4. Privatization: Is it really cost-effective?

A *NYTimes* article headed "Indictments Cite Corruption in Private Sanitation Service," highlighted a not atypical problem. Newark, NJ had turned over most of the services previously handled by its municipal Sanitation Department -- waste pickup and disposal, snow removal, recycling etc. -- to private contractors because it would be, in the words of Newark's mayor, "cost effective and prevents you from being held hostage by city employees." The federal prosecutor now alleges that the contractors have stolen over \$2 million in the past decade by false billing.

- a. *Why might private sector service delivery be more efficient than a government-operated delivery mechanism? (In passing, comment on the mayor's arguments.)*
- b. *Why might the reverse be true when considering all the costs involved, including the potential for corruption?*
- c. *A compromise might make sense -- contract out sometimes. Analyze the economic circumstances that would lead you to favor contracting out.*

5. Caviar, anyone?

The August 1998 price of beluga caviar in selected NYC outlets was as follows:

<i>Retailer</i>	<i>Price per ounce</i>
Caviar Russe	\$43.64
Caviarteria	50
Citarella	22.70
Paramount Caviar	36
Petrossian Paris	63.64
Urbani Truffles and Caviar	26.50
Zabar's	22.50

Provide some possible explanations for the price variation found in the table.