Name_____

1.) Consider the below S & D diagram for the market for crime with victims:

Expected Return from Offending / Number of Offenses

a.) (5 points) In the graph above, draw the supply curve that includes the expected sanction the offender faces. Define each component of the expected sanction in the space below.
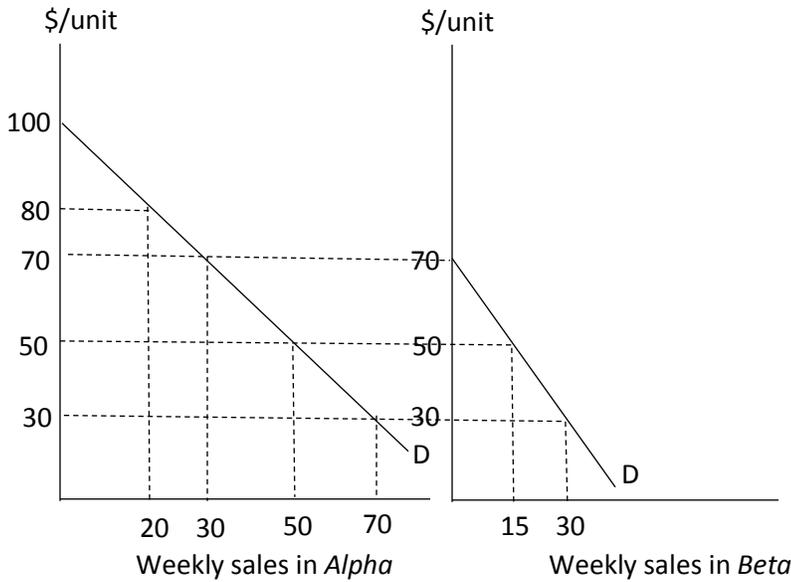
p_c: probability of conviction
s: expected sanction conditional on conviction

b.) (5 points) Suppose potential victims start exercising greater caution. Illustrate in the graph above how this impacts the equilibrium level of offending.

Demand shifts inward and equilibrium level of offending falls.

2.) Consider drug sales in two markets (i.e., two geographic areas), *Alpha* and *Beta*. Consumers from one area do not cross over and buy in the other area, but dealers sell in both areas, which is sufficient to equate prices in the two areas. Assume there are no sanctions for possession.

$/unit

$/unit

100
80
70
70
50
50
30
30
D
D

20 30   50   70   15 30
Weekly sales in *Alpha*   Weekly sales in *Beta*

a.) (5 points) In the space above to the right, graph the aggregated demand curve for the total market. When doing so, plot points on the aggregate demand curve at the following prices: $100, $80, $70, $50, and $30. At these points, make sure you indicate the corresponding quantity demanded. Make sure to carefully label your graph.
Graph above will have the following points:
($100, 0), ($80, 20), ($70, 30), ($50, 65), ($30, 100)

b.) (5 points) In your graph above, draw a supply curve (that includes expected sanctions imposed on sellers) such that dealers will choose to only sell in *Alpha*.
Supply should be positioned so far to the left so that equilibrium price is greater than $70.