Problem
Hy Feshn owns and operates a necktie boutique in one of New York City’s trendy neighborhoods. The spring weather is mild, his clientele is loyal, and overall, his business prospers. A friend in the garment district tells him, however, that the coming fall’s new fad will be the starched turtleneck shirt worn without a tie. Hy knows that fads fade quickly, but he still worries about keeping his business going during the down season sure to come.

Investigation 1
Hy’s first line of defense is to cut expenses. He calls Cap Hill, his congressional representative, to see if he is eligible for any government help. Cap says no, but his mother would let him have her nearby rent-controlled apartment for a fee of $500 in addition to the usual rent. Hy decides to pay the $500 and convert the cheaper second-story quarters into a boutique. Hy takes inventory before he moves and finds he has no more $30 Speckle ties but nearly his full shipment of $50 Spott ties in stock. He plans to make some adjustments after he moves.

1. In what way does Hy benefit from government price ceilings?
2. How does Hy’s experience illustrate some of the problems connected with government price intervention?
3. What part of Hy’s inventory illustrates excess supply?

Investigation 2
Settled in his new location, Hy stocks a new shipment of Speckle ties and raises the price to $32.50. At the same time, he lowers the price of the Spott ties to $45. The Speckle ties continue to sell so well that Hy runs out of them before his next shipment arrives. This time he raises their price to $37 and does not run out until another shipment comes in. The Spott ties still sit on the shelf, however. Hy puts them on sale for $39, at which price he just meets demand and is able to sell them steadily until he runs out of stock. He does not reorder, however, because he learns that waste dyes used in their manufacture are discoloring the waters of his favorite lake.

1. (a) What problem of excess demand does Hy face?
   (b) How does he remedy it?
2. In what way is Hy’s market for Spott ties in disequilibrium?
3. (a) What is the equilibrium price for Hy’s Speckle ties?
   (b) For his Spott ties?
4. To what spillover cost does Hy object?

Investigation 3
As the dreaded fall season approaches, a new designer offers Hy an innovative “Soopt” tie suitable for the turtleneck collar. Hy orders 500 Soopt ties, which he prices at $75. The Soopt ties sell out in less than a week, with customers asking for more. Seeing the success of her ties, the designer offers her employees more than minimum wage to attract more workers. Before long her output rises, but she still cannot keep up with orders. Her problem eases when she starts charging Hy more for his orders, but Hy does not mind. His customers will pay up to $100 for a Soopt tie, even though other designers and stores have also started offering them.

1. What price floor appears in the Soopt tie story?
2. How does price flexibility serve the market for Soopt ties?
3. What role do profit incentives play in the success of Soopt ties?