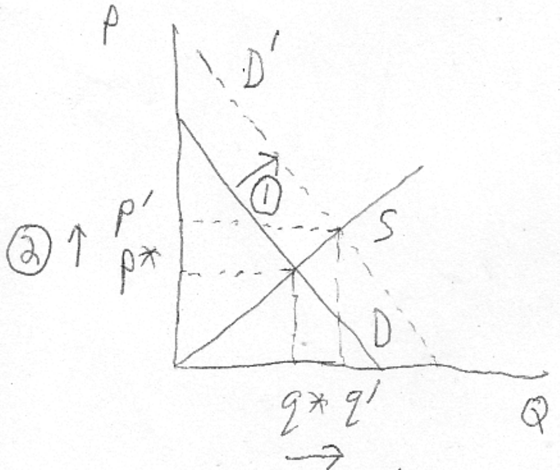
From Mankiw and Stossel

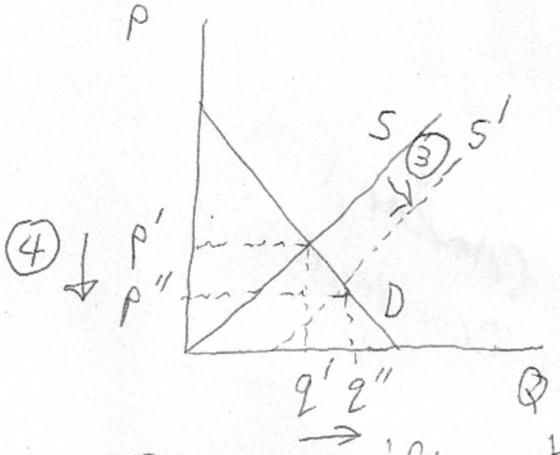
Economics of Disasters
(Hurricane Katrina in New Orleans)

Case I

market for Lumber in NOLA



During Reconstruction



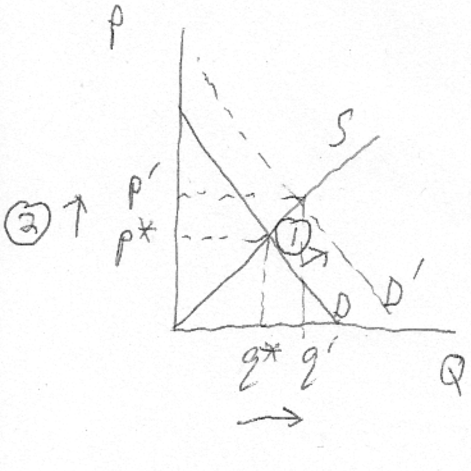
① Hurricane hits so D shifts-out as people seek lumber to rebuild

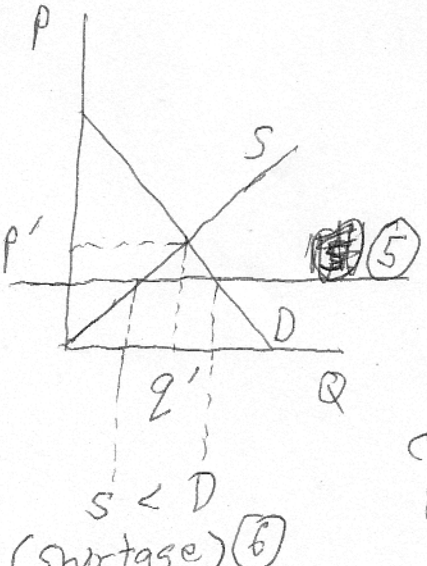
② P and Q increases so seen as increased profit to be made NOLA

③ Supply shifts-out as more people enter market to seek higher profits

④ P drops and Q increases as market allocates scarce resources during reconstruction

Case II





⑤ Politicians need to be seen as "doing something" so place price controls to prevent "gouging"

⑥ Price controls create shortage preventing reconstruction