

Topic 6 – Price Controls

Big Question – How do price controls affect markets?

I. Types of Price Controls

a. A price ceiling is a _____ allowable price, specified by law.

Why would the government institute a price ceiling?

b. A price floor is a _____ allowable price, specified by law.

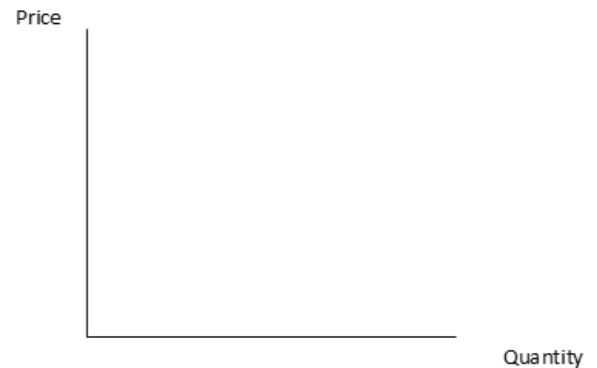
Why would the government institute a price floor?

II. Price Floor Example

Demand: $P = 200 - 2Q$

Supply: $P = 20 + Q$

a. Find the equilibrium price and quantity.

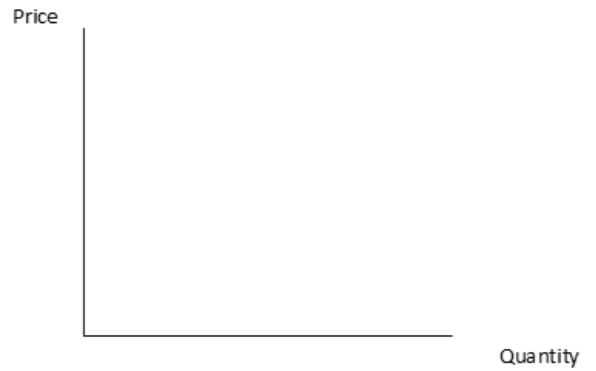


b. Calculate consumer surplus, producer surplus, and total surplus at the equilibrium.

c. What is the effect of a price floor at \$60 on the quantity exchanged?

d. What is the effect of a price floor at \$100 on the quantity exchanged?

e. How will the price floor effect consumer and producer surplus?



f. Calculate the loss in surplus (DWL) that results from the price floor.

Application: Minimum Wages

a. Goal of Policy:

b. Unintended Consequences:



c. Another Problem:

d. Alternate Policy Options:

III. Price Ceiling Example

Demand: $P = 150 - Q$

Supply: $P = 30 + 2Q$

- a. Find the equilibrium price and quantity.



- b. Calculate consumer surplus, producer surplus, and total surplus at the equilibrium.

- c. What is the effect of a price ceiling at \$120 on the quantity exchanged?

- d. What is the effect of a price ceiling at \$92 on the quantity exchanged?

- e. How will the price floor effect consumer and producer surplus?



- g. Calculate the loss in surplus (DWL) that results from the price ceiling.

Application: Rent Control

a. Goal of Policy:

b. Unintended Consequences:



c. Alternate Policy Options:

IV. Assignments

- a. Video Assignments 4 and 5 due on Brightspace at 11:00pm on 2/14/20.
- b. Problem Set 6 due in class on 2/13/20.