

PRICE CEILINGS

Not all markets are ones in which price is allowed to move freely. Governments may set some prices by rule, and prices set in this way may differ from the equilibrium price. When a price set by rule differs from the equilibrium (market-clearing) price, the result will be a shortage or a surplus in the market. A shortage of products occurs when the price is set lower than the market-clearing price. A surplus occurs when the price is set higher than the market-clearing price.

What Would Happen If?

Read the following descriptions and decide if there will be surplus or a shortage of the product in each situation. CHECK the correct answer and then briefly EXPLAIN why.

- A.** A very popular singer is coming to a town to perform a concert in a concert hall that seats 10,000 people. The ticket price for the concert is \$30.00 per person. There are 30,000 fans in the area who are willing to pay \$80.00 per seat to listen to the concert. What will happen?
- ___ Shortage of seats
- ___ Surplus of seats
- B.** A very popular singer is coming to town to perform a concert in a concert hall that seats 10,000 people. The ticket price for the concert is \$30,000 per person. There are 3,000 fans in the area who are willing to pay \$80.00 to listen to the concert. What will happen?
- ___ Shortage of seats
- ___ Surplus of seats
- C.** The Ford Motor Company has designed a new car that resembles a Ford model that was popular 40 years ago. Ford plans to produce 100,000 of the new-old cars each year. Ford will price these cars at \$24,000 and require dealers not to change that price. There are 200,000 people per year who wish to buy the car. What will happen?
- ___ Shortage of cars
- ___ Surplus of cars
- D.** The Fish and Wildlife Department in a West Coast state decides to allow people to dig for razor clams on the ocean beaches three days each year. There is a small charge (\$10) for a license to dig these clams. Millions of people enjoy eating razor clams. During most of the year they buy razor clams from fish markets for \$20 to \$30 a dozen. What will happen on the days when people can dig clams for themselves?
- ___ Shortage of clams
- ___ Surplus of clams
- E.** Schools ask students to take good care of their textbooks during the year and to return them to the school on the last day of school. Often students turn back the books in poor condition. In an effort to encourage students to take better care of the books, the School Board offers to pay students \$2,000 for any textbook returned in good condition. What will happen?
- ___ Shortage of books
- ___ Surplus of books

PRICE CONTROLS – TOO HIGH OR TOO LOW ?

Price Floors and Ceilings

1. What is the market clearing (equilibrium) price in the graph below?
2. What quantity is demanded and what quantity is supplied at the market clearing price?
Quantity demanded _____
Quantity supplied _____
3. What quantity is demanded and what quantity is supplied if the government passes a law setting a maximum price of \$30? (see price ceiling in graph)
Quantity demanded _____
Quantity supplied _____
4. What quantity would be demanded and what quantity would be supplied if the government passes a law setting a minimum price of \$80? (see price floor in graph)
Quantity demanded _____
Quantity supplied _____

