

2.8- PRICE CONTROLS

2.8- Analyze the effects of price controls on the market.

KICKOFF:

- ❖ Go to Google Classroom and complete the assignment **“10/1- K0”**
 - Read the article on Bill Belichick and tell how his decision making reflects economic decision making.
- ❖ **Roll Call:** Favorite superhero



MARGINAL ANALYSIS

"I'm not saying it's a gut thing. It's an individual analysis based on the things that are pertinent to that game and that situation," he said. "I don't really care what happened in 1973 and what those teams did or didn't do. I don't really think that matters in this game -- or '83 or '90, pick out whatever you want."

ANNOUNCEMENTS

- ❖ **10/7-** Next Quiz
- ❖ Test next week, or early the following week
- ❖ Heels were so close
- ❖ Homeroom this week
 - Knight Time this week



CREATE YOUR OWN SUPPLY AND DEMAND SHIFT SCENARIOS

- ❖ At the top, right your name and the product you were assigned
- ❖ You will come up with a scenario for your product given each determinant of supply and demand
- ❖ As you complete the scenarios, complete the entire column pertaining to the effects of the scenario/shocks
- ❖ You may work with your partner but this does not mean divide and conquer
- ❖ Give detailed scenarios → entertain me when possible

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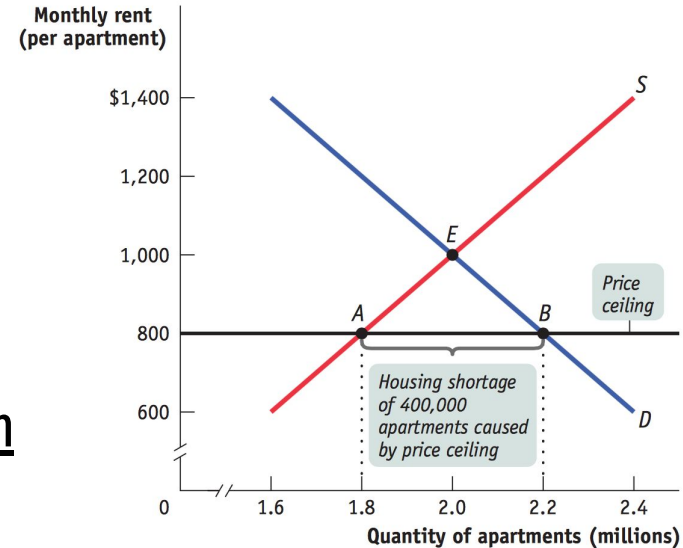
PRICE CONTROLS

- ❖ Legal restrictions on how high or low market prices may go
- ❖ Price ceilings & floors
- ❖ Cause inefficiencies in the market



PRICE CEILING

- ❖ A government set, maximum price sellers are legally allowed to charge
- ❖ Rational: Keep prices down for consumers
- ❖ Must be set below equilibrium price in order to be effective



EFFECTS OF (EFFECTIVE) PRICE CEILINGS

❖ Shortages

➤ Higher quantity demanded than supplied at price ceiling

❖ Wasted Resources (time)

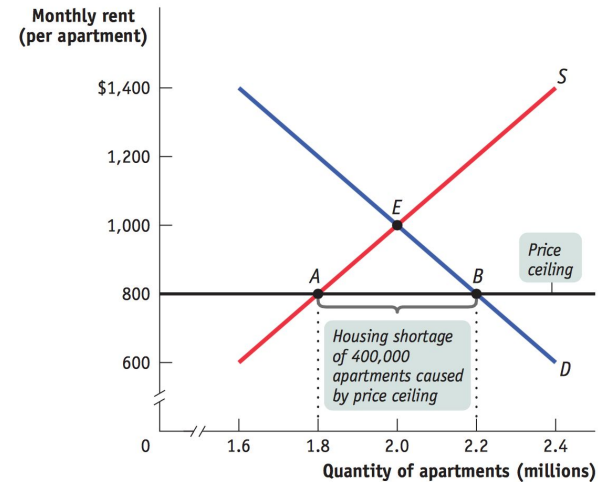
❖ Inefficient allocation (consumers)

➤ Those who want it most, may not get it

❖ Lower Quality

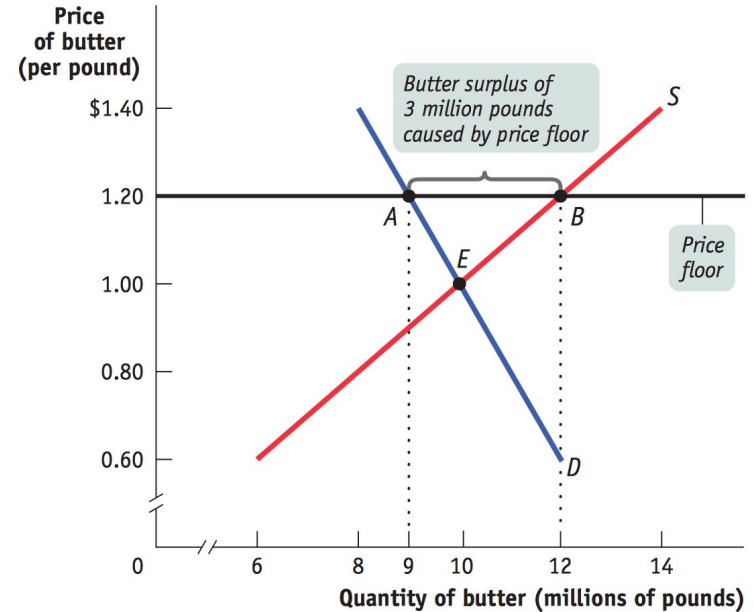
➤ Little incentive

❖ Black markets



PRICE FLOOR

- ❖ A government set, minimum price consumers are required to pay for a good or service
- ❖ Rational: help producers earn livable incomes
- ❖ Must be set above equilibrium price to be effective



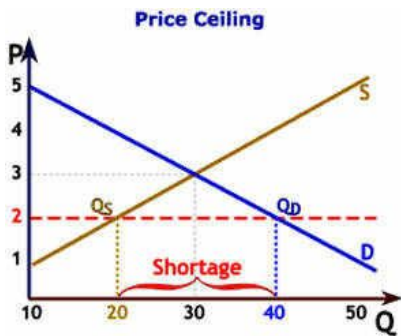
EFFECTS OF (EFFECTIVE) PRICE FLOORS

- ❖ Surpluses
- ❖ Wasted resources
- ❖ Inefficiently high quality
 - Higher quality goods are offered at high prices when buyers would prefer lower quality at lower prices
- ❖ Inefficient allocation (producers)
 - Those who are willing to sell good for cheaper, may not be able to sell at all
- ❖ Black/illegal labor

QUICK REMINDERS:

❖ Price ceilings

- Set below equilibrium price
- Cause shortages
- Initially hurts producers but also hurts consumers
- Shortage = $Q_d - Q_s$



❖ Price floors

- Set above equilibrium price
- Cause surpluses
- Initially hurts consumers but also hurts producers
- Surplus = $Q_s - Q_d$



ON THE BACK OF YOUR CREATE YOUR OWN SHIFTS PACKET...

- 1) Find the market price for your good
- 2) Given your answer to question 1, what would be the range of efficient price ceilings? What would this cause. Sketch a graph of this situation.
- 3) Given your answer to question 1, what would be the range of efficient price floors? What would this cause. Sketch a graph of this situation.

DOUBLE SHIFT

PRACTICE AND PRICE

CONTROL PRACTICE

CLOSURE

- ❖ Go to Google Classroom and complete the assignment “9/26- Closure”
 - Describe two scenarios that may cause a shortage in jelly beans.
 - Describe two scenarios that may cause a surplus in paper towels.