MI 3

SSEMI3 The student will explain how markets, prices, and competition influence economic behavior.

- b. Explain and illustrate on a graph how price floors create surpluses and price ceilings create shortages.

SETTING PRICES

- Governments sometimes set prices & ration goods in order to avoid instability and protect producers and consumers from dramatic price swings.

PRICE CEILINGS

- **Price Ceiling = a government regulation that sets up a <u>maximum</u> price for a certain good**
  - Means you can't be charged any more than that OR pay any more than that price
  - Example: rent control in major cities

PRICE CEILINGS

- price ceilings are placed below the market-clearing price, as Pc is in the picture, the Market Equilibrium of Pe becomes illegal.
- At the ceiling price, buyers want to buy more than sellers will make available.

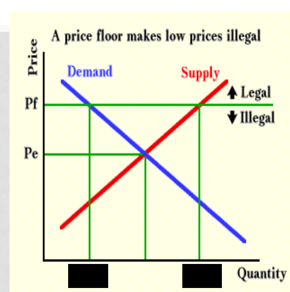
THIS ALWAYS CAUSES SHORTAGES!!!

PRICE FLOORS

- **Price Floor = a government regulation that sets up a <u>minimum</u> level for prices**
  - Means that you cannot pay any less or be charged any less for that good
  - Example: **minimum wage = the lowest amount an employer can legally pay a worker**

PRICE FLOORS

- The graph illustrates a price floor with price Pf. It is illegal to charge or pay less than this price.



THIS ALWAYS CAUSES SURPLUSES!!!