Chapter 6 Section 3

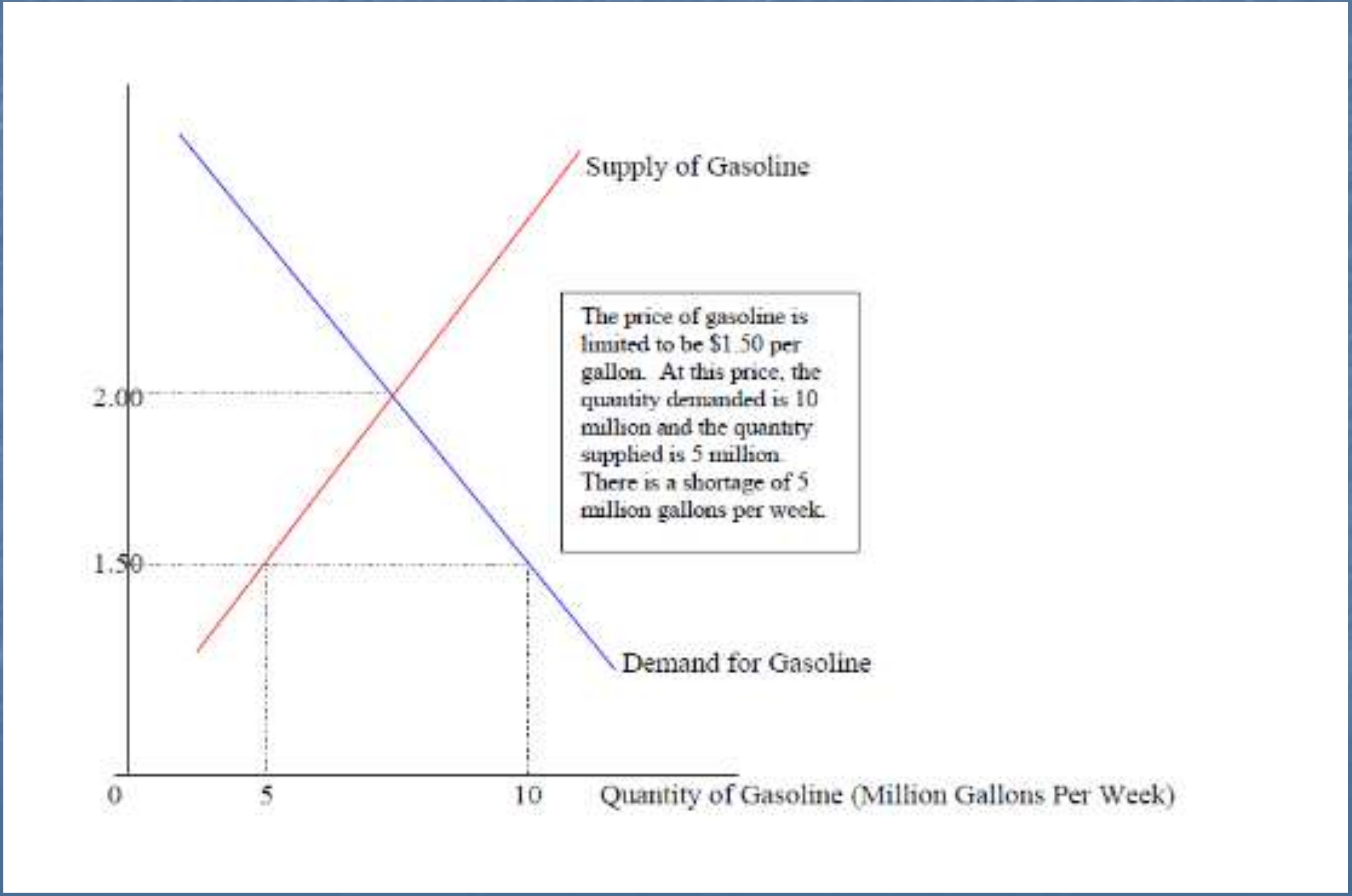
Interventions in the Price System

Price Ceilings

- A price ceiling is a legal maximum for which a product can be sold.
  - Rent control
  - Limiting ticket prices

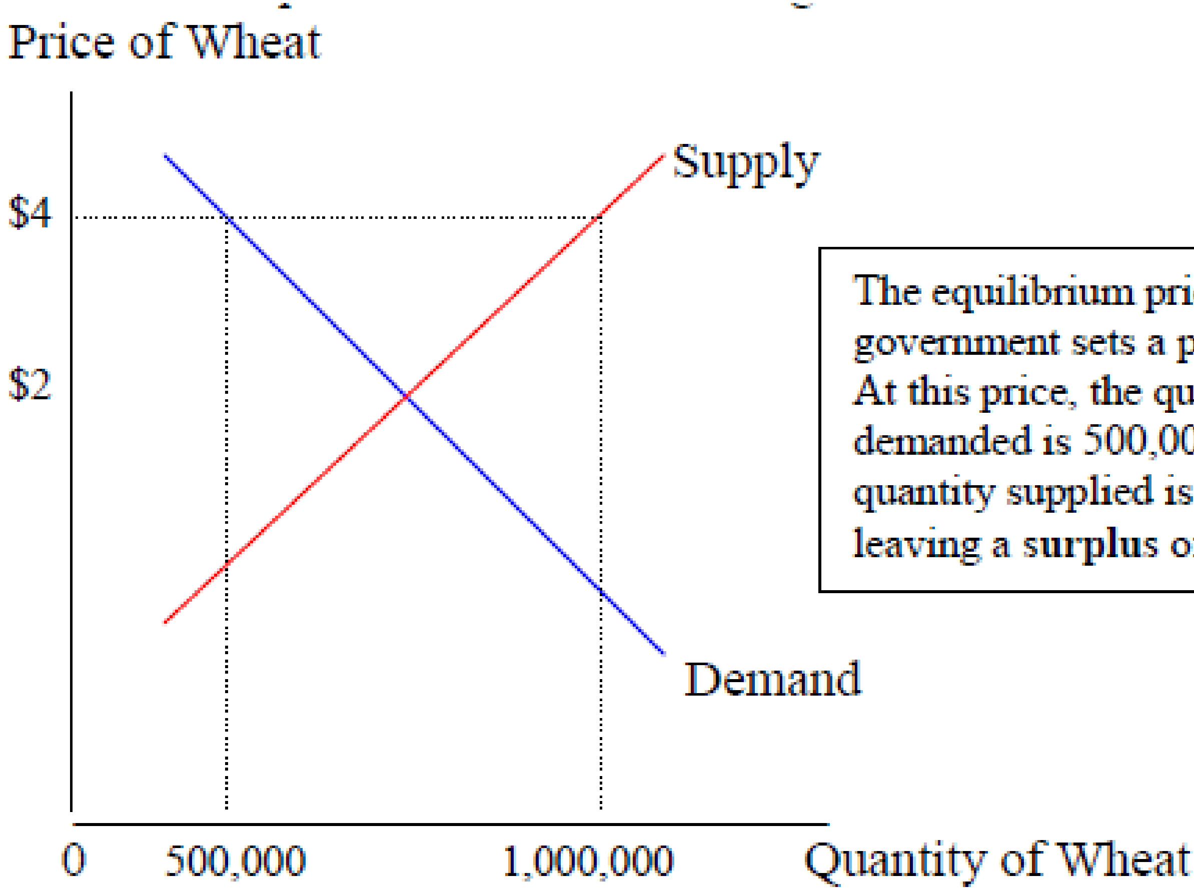
  - Price ceilings create shortages

From 1973 to 1981, there was price ceiling for gasoline.



Price Floors

- Price floors create a minimum price for which a good or service can be purchased
  - Minimum wage
  - Agricultural products
  - **Price floors always generate surpluses**



The equilibrium price is $2 The government sets a price floor at $4. At this price, the quantity demanded is 500,000 and the quantity supplied is 1,000,000 --- leaving a **surplus** of 500,000.

http://www.youtube.com/watch?v=0VfqHolaaQs

- http://www.youtube.com/watch?v=FwkdBS2aubw&NR=1
- http://www.youtube.com/watch?v=HrlxpYyOQsc&feature=related

Rationing

- Rationing: using something other than price to determine who gets what
  - Used in times of war
  - First come, first served
  - Lottery
  - Coupons allowing a certain quantity of item
  - This often leads to black market activity

- **Even if someone interferes with the market process, there are powerful forces to return to equilibrium.**
- **ANYTIME SOMETHING OTHER THAN S AND D DETERMINE PRICE, THERE IS INCENTIVE FOR BLACK MARKET ACTIVITY!!!!!**