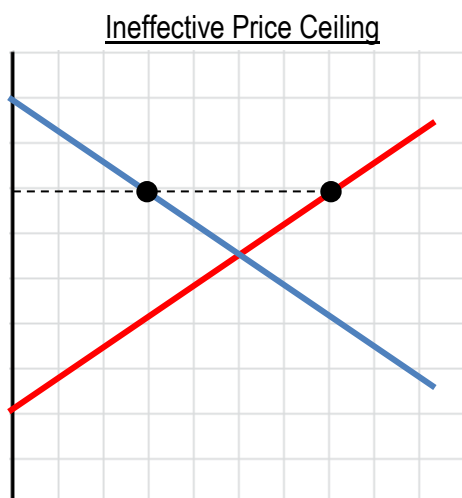


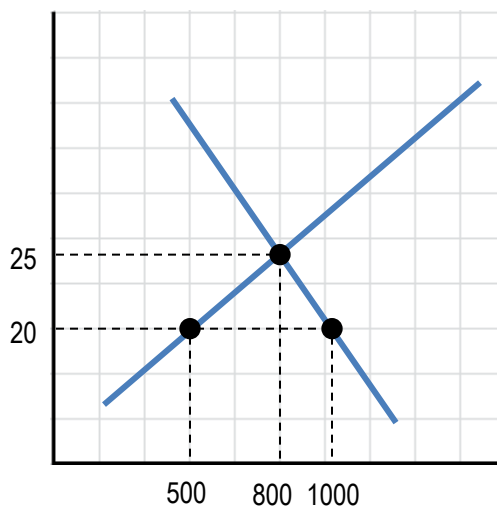
## CONCEPT: PRICE CEILINGS, PRICE FLOORS, AND BLACK MARKETS

- A **price ceiling** (or **price cap**) is the legally determined \_\_\_\_\_ price for a good.
  - ☐ For a price ceiling to be effective, the price ceiling must be \_\_\_\_\_
  - ☐ Effective price ceilings cause a \_\_\_\_\_ in the market.
  - ☐ Common price ceiling topics: Rent Control and Rationing Coupons



**EXAMPLE:** Consider the following graph. A price ceiling of \$20 would cause:

- a) A surplus of 500 units
- b) A shortage of 500 units
- c) A surplus of 1,000 units
- d) A shortage of 1,000 units
- e) No effect



**PRACTICE:** When the government imposes a binding price ceiling, it causes

- a) The supply curve to shift to the right
- b) The demand curve to shift to the right
- c) A shortage of the good
- d) A surplus of the good

**PRACTICE:** A price ceiling will have no impact on a market if it is set

- a) below last year's average price
- b) above the equilibrium price
- c) by knowledgeable government officials
- d) below the equilibrium price

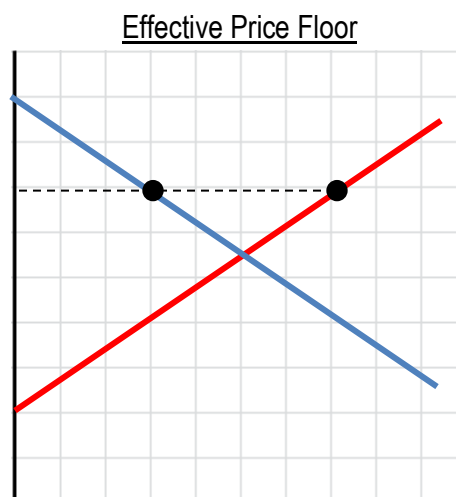
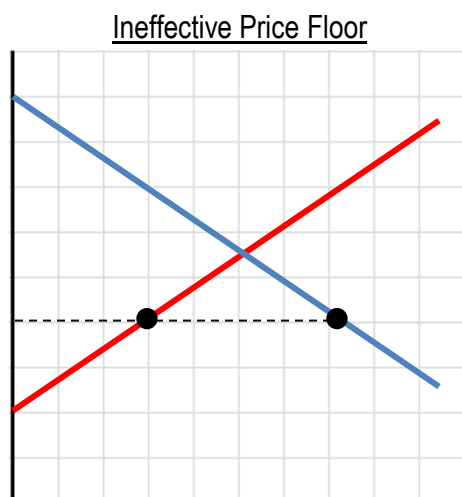
**PRACTICE:** All of the following are problems associated with price ceilings except:

- a) chronic excess demand
- b) an eventual decline in the number of suppliers
- c) the need to use ration coupons to purchase a good
- d) chronic excess supply
- e) landlords failing to maintain rent-controlled properties adequately

## CONCEPT: PRICE CEILINGS, PRICE FLOORS, AND BLACK MARKETS

● A **price floor** is the legally determined \_\_\_\_\_ price for a good.

- ☐ For a price floor to be effective, the price floor must be \_\_\_\_\_
- ☐ Effective price floors cause a \_\_\_\_\_ in the market.
- ☐ Common price floor topic: Minimum Wage Laws

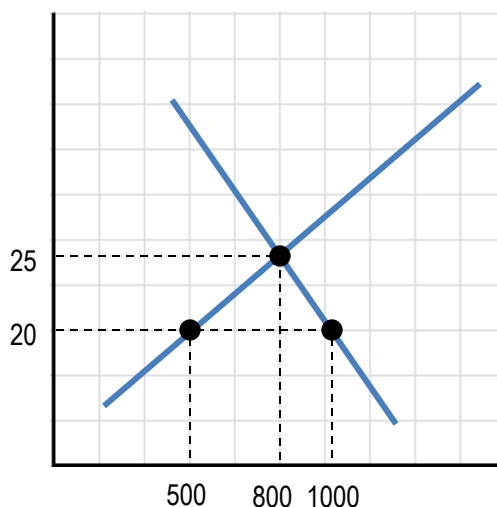


● Illegal trading of government-regulated goods occurs in a **black market**.

- ☐ Hiring workers at less than minimum wage
- ☐ Renting apartments above the rent-controlled limits
- ☐ Buying or selling illegal drugs

**EXAMPLE:** Consider the following graph. A price floor of \$20 would cause:

- a) A surplus of 500 units
- b) A shortage of 500 units
- c) A surplus of 1,000 units
- d) A shortage of 1,000 units
- e) No effect



**PRACTICE:** Which of the following statements regarding the expected effects of a price control imposed on a competitive market is false?

- a) A price floor above the competitive equilibrium price will result in a surplus.
- b) A price ceiling above the competitive equilibrium price will result in a surplus.
- c) A price ceiling below the competitive equilibrium price will result in a shortage.
- d) A nonbinding price floor will result in a quantity exchanged that is equal to the equilibrium quantity.