

Example 3.K Price control and Welfare

Consider the market for apartment rentals in Chicago. The price of rent is determined by the following system of equations.

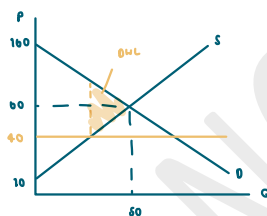
Demand: $p = -2q_d + 160$

Supply: $p = q_s + 10$

- What is the equilibrium price and quantity in the market for apartment rentals?

$$\begin{aligned}
 -2q + 160 &= q + 10 \\
 150 &= 3q \\
 q^* &= 50 \\
 &= -2(50) + 160 &= (50) + 10 \\
 &= -100 + 160 &= 60 \\
 &= 60 \\
 p^* &= 60
 \end{aligned}$$

- Suppose the government tries to control the rent prices through a price ceiling of \$40. Discuss the implication of this policy. Is there any deadweight loss?



This policy sets by the government to limit the price from being too high and impossible for consumers to consume. In this case the minimum price sets at \$40 from what the original price located which is \$60

In this situation there is a deadweight loss