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?

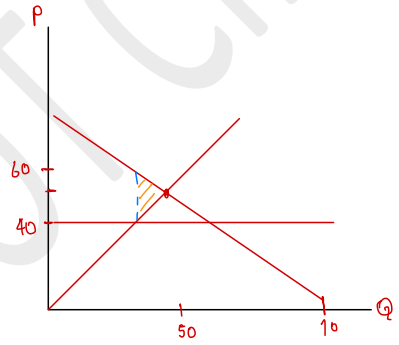
$-2q + 160 = q + 10$

$150 = 3q$

$50 = q^*$

$p^* = 60$

- 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?



There is dwL in this graph if government try to control the rent price through price ceiling of 40\$