

EE211

PRINCIPLES OF MICROECONOMICS

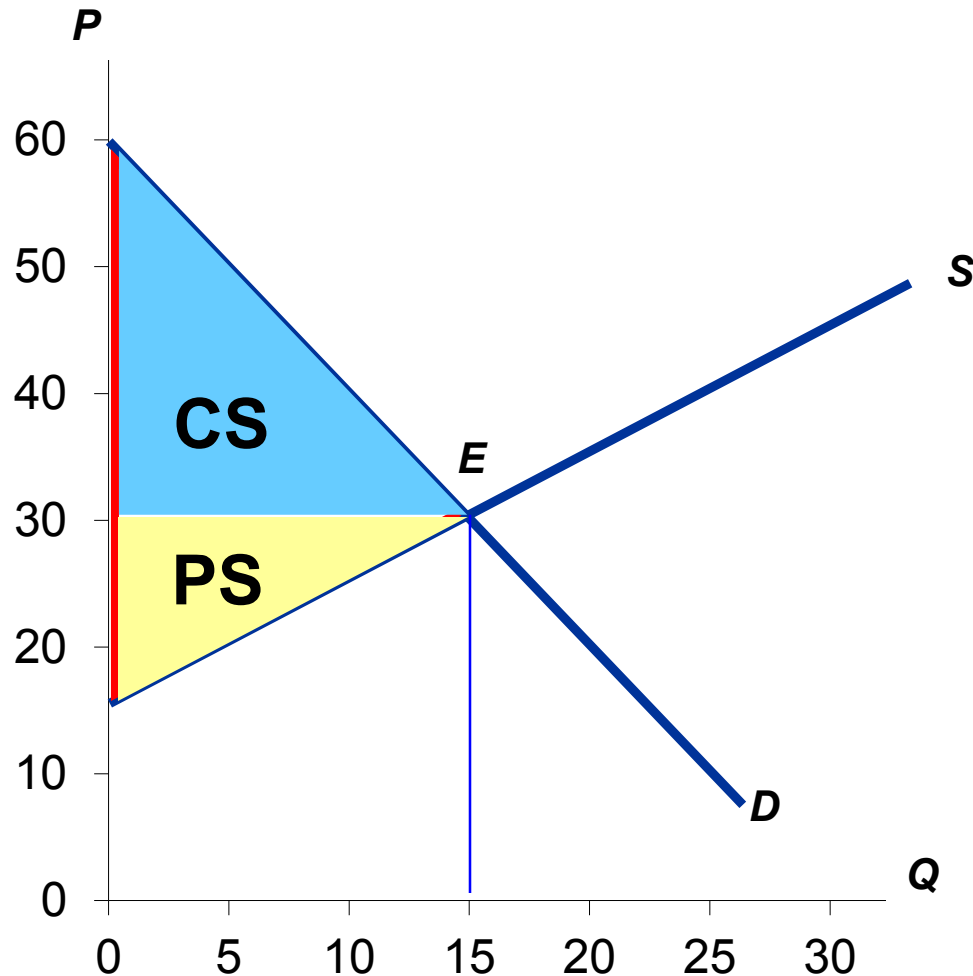
Topic 5:

Applications on Demand, Supply, and Government
Policies

Topics

- Price floors (Minimum Price)
- Price ceilings (Maximum Price)
- Tax/subsidy

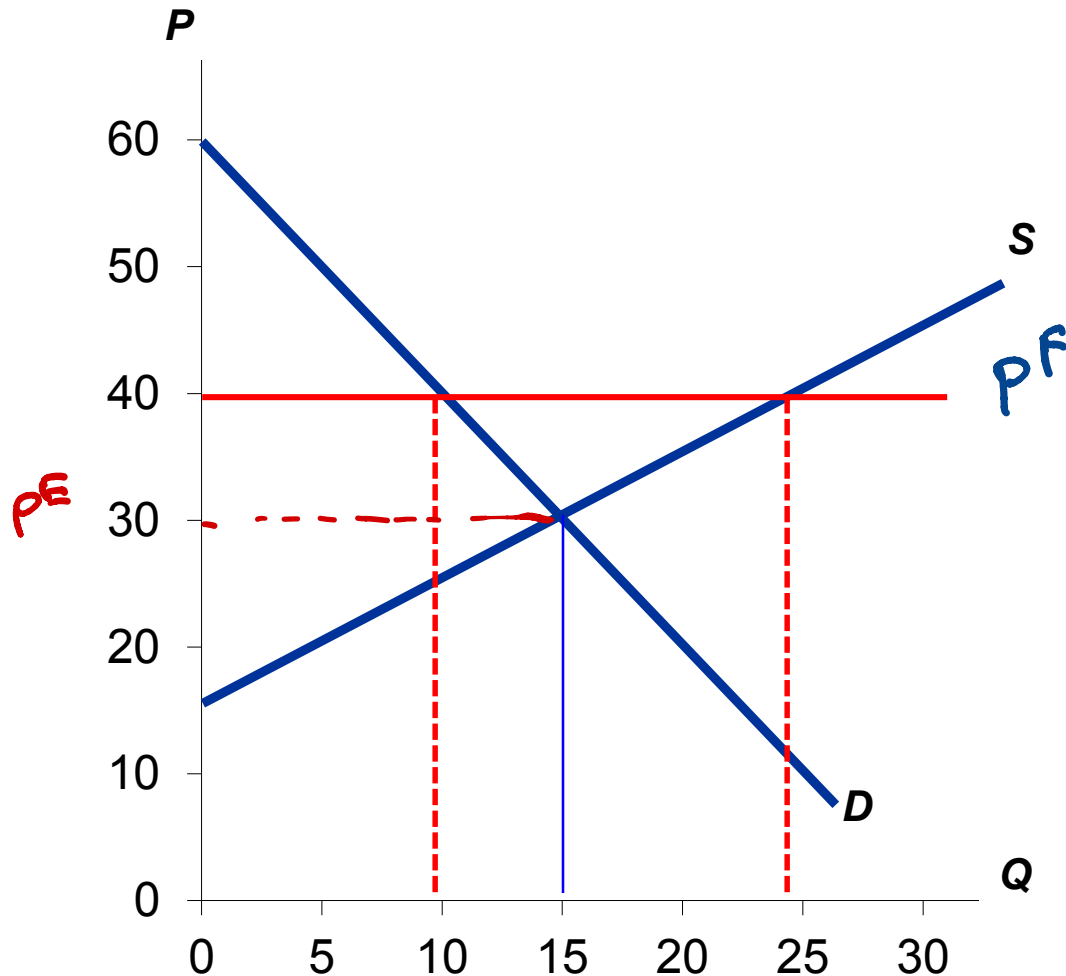
Market Equilibrium



- Recall:
Total surplus (or social welfare) is maximized at the market equilibrium.

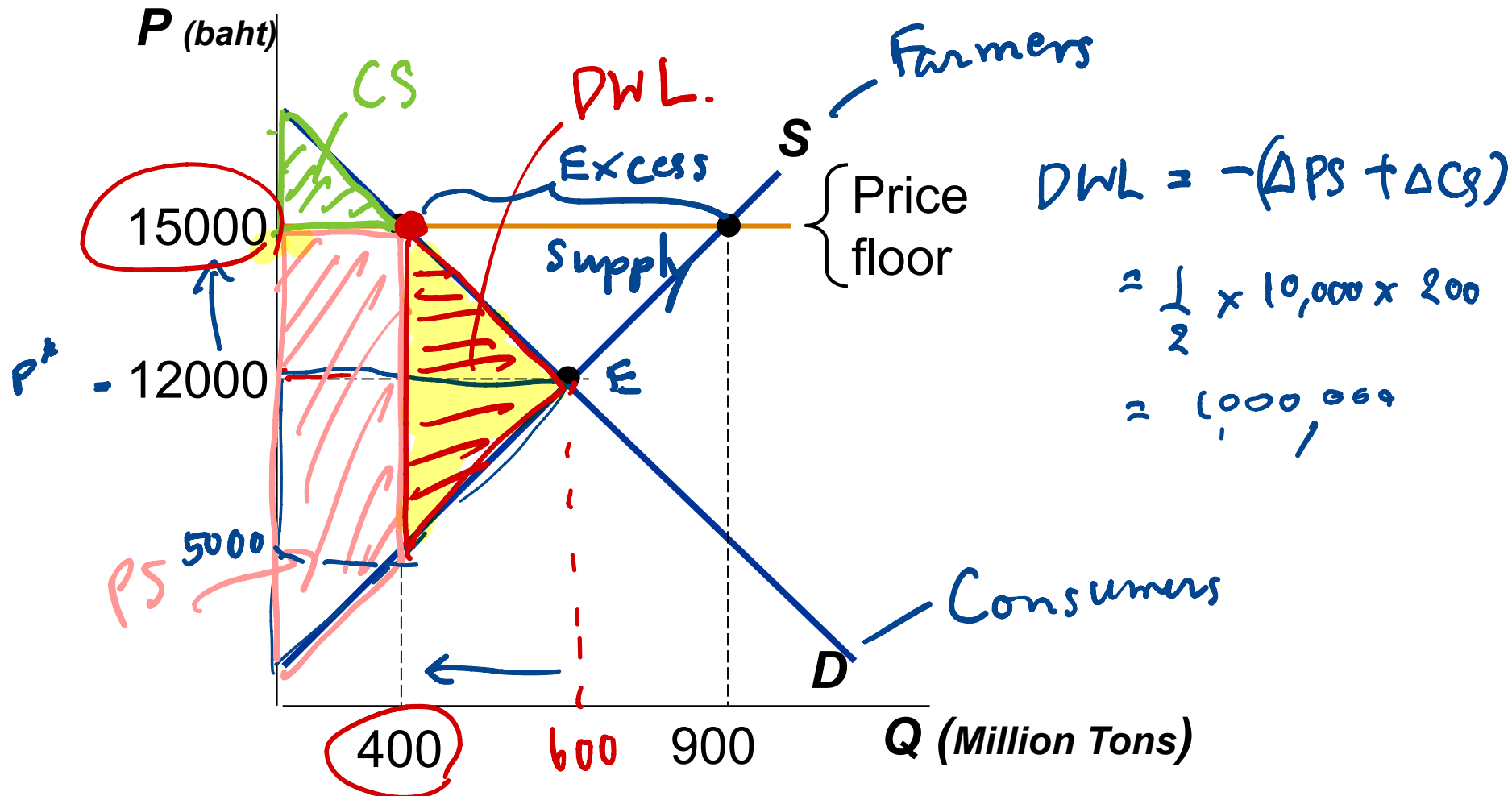
Price Floors (Minimum Price)

above eqm P.



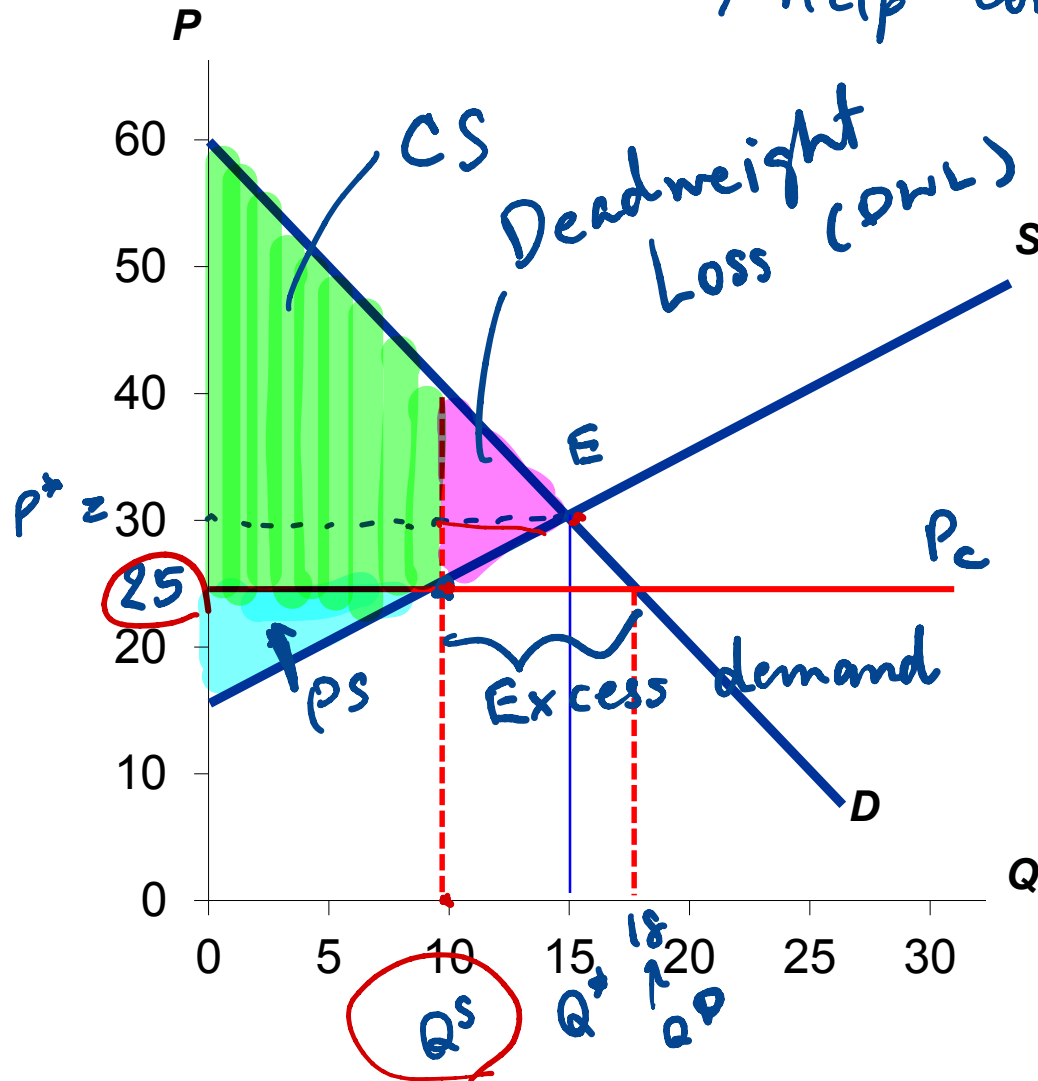
- **Price floor:** a legal minimum on the price of a good or service.
- *Example:* minimum wage, agriculture price
- **Question:** Can the government set the price floor below the equilibrium price?

Example: Agriculture Price Guarantee Scheme



Price Ceilings (Maximum Price)

↳ help consumers.



- **Price ceiling:** a legal maximum on the price of a good or service.
- *Example: rent control*
gas
- Can the government set the price ceiling above the equilibrium price?

Example: The Market for Apartments

