Price Ceilings and Price Floors

Notes

"PRICE CEILINGS AND PRICE FLOORS" LEARNING TARGETS

Knowledge

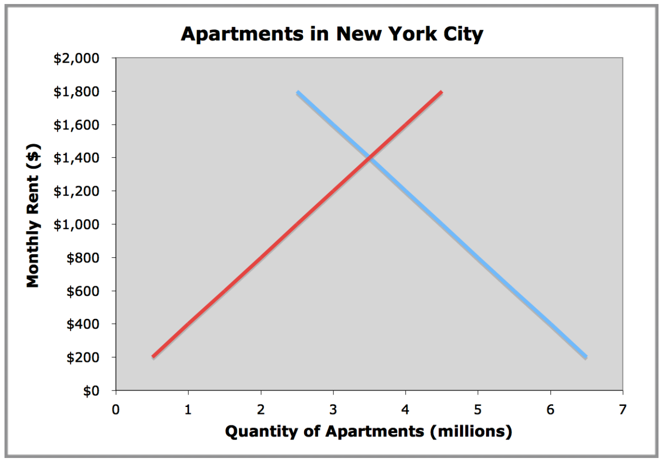
Reasoning

PRICE CEILINGS

Governments occasionally intervene in the free market by creating a **price ceiling**, which is a maximum price sellers are allowed to charge.

1) **The Price Ceiling**
   A)
   B)
   C)

2) **Shortages**
   A)
   B)



PRICE CEILINGS ARE INEFFICIENT

Price ceilings cause a market to be inefficient because there are missed opportunities for transactions.

1) **Inefficient Allocation**

2) **Wasted Resources**

3) **Inefficiently Low Quality**

4) **Black Markets**

PRICE FLOORS

Governments occasionally intervene in the free market by creating a **price floor**, which is a minimum price buyers are required to pay.

1) The Price Floor

A)

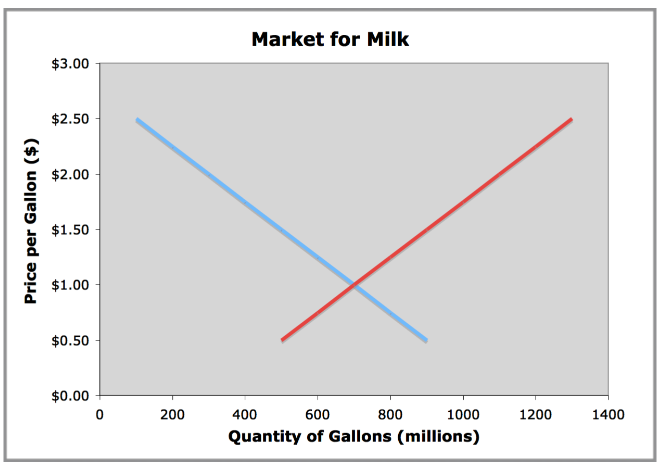
B)

C)

2) Surpluses

A)

B)



PRICE FLOORS ARE INEFFICIENT

Price floors cause a market to be inefficient because there are missed opportunities for transactions.

1) Inefficient Allocation

2) Wasted Resources

3) Inefficiently High Quality

4) Illegal Activity

QUANTITY CONTROLS

Governments can also intervene in the free market by controlling quantity. A **quota** is the highest quantity of a good or service that can be supplied.

1)

2)

3)

4)

PROS AND CONS OF PRICE CONTROLS

Pros	Cons