

Price Ceilings and Price Floors

Homework

DIRECTIONS

Each of these three news articles describes either a government-imposed price ceiling or price floor. Read the title and excerpt, and then answer the questions that follow.

RUSSIA MAY SET PRICE CEILING FOR STAPLE FOODS AS DROUGHT FUELS INFLATION

14 August 2010 - by Anton Doroshev & Maria Levitov (Bloomberg)

Russia may set retail price ceilings for basic foods, Deputy Industry and Trade Minister Stanislav Naumov said. The worst drought in at least 50 years has slashed harvests across Russia, fueling inflation...Naumov told reporters today in Moscow "It's necessary to institute a maximum retail price for those products that are in short supply"...President Dmitry Medvedev's top economic advisor said he opposes imposing maximum prices.

1) Suppose the following data represents the market for Russian staple foods. Use this data to construct the graph for this market.

Price (Rubles)	Demand	Supply
1	600	200
2	550	250
3	500	300
4	450	350
5	400	400
6	350	450

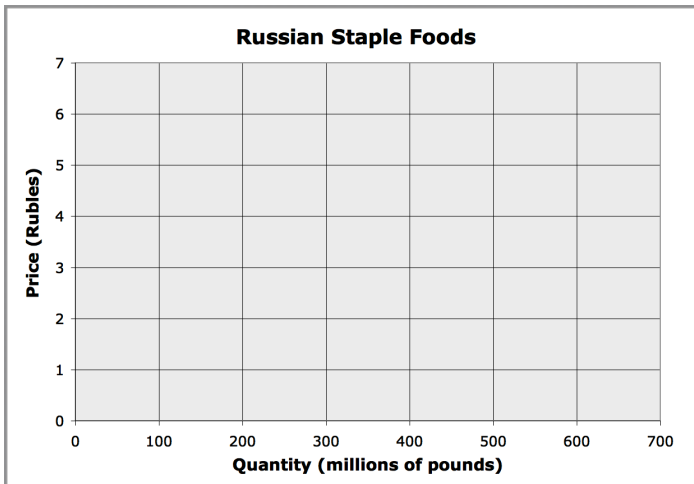
2) At equilibrium, what are the following?

- a) Price: _____
- b) Quantity Demanded: _____
- c) Quantity Supplied: _____

3) Suppose Stanislav Naumov decides to put a price ceiling at 3 rubles. Draw this price ceiling on the graph.

- a) New quantity demanded: _____
- b) New quantity supplied: _____
- c) Amount of shortage: _____

4) Why might Dmitry Medvedev's top economic advisor oppose a price ceiling?



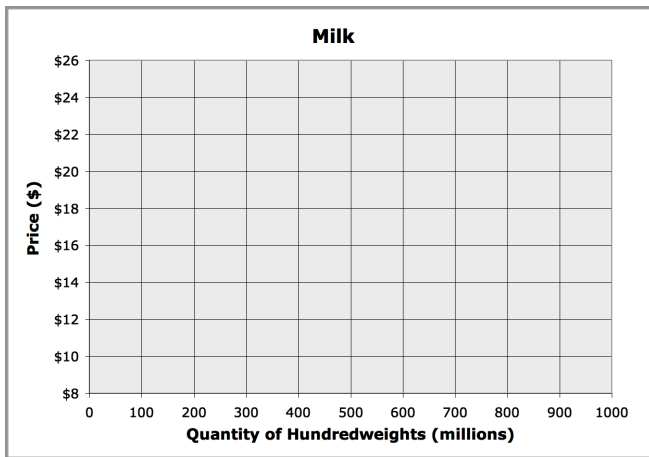
MILK PRICES DESERVE FLOOR

23 February 2012 - by Arden Tewksbury (Capital Press)

Several national and multi-state organizations have sent a letter to all members of Congress urging them to place a price floor of \$20 per hundredweight under all milk used for manufacturing dairy products...According to USDA figures the all-milk price in 2009 was \$12.80 per hundredweight and the average cost of producing milk in 2009 was \$22.28 per hundredweight.

5) Use the following data to construct the graph for the market for milk.

Price (\$)	10	12	14	16	18	20	22	24
Demand	400	375	350	325	300	275	250	225
Supply	200	300	400	500	600	700	800	900



- 6) At equilibrium, what are the following?
- a) Price: \$ _____
 - b) Quantity: _____
- 7) Suppose the price floor of \$20 gets approved. Draw the price floor on the graph.
- a) New quantity demanded: _____
 - b) New quantity supplied: _____
 - c) Amount of surplus: _____
- 8) The author is in favor of the price floor. Do you agree with him? Why or why not?

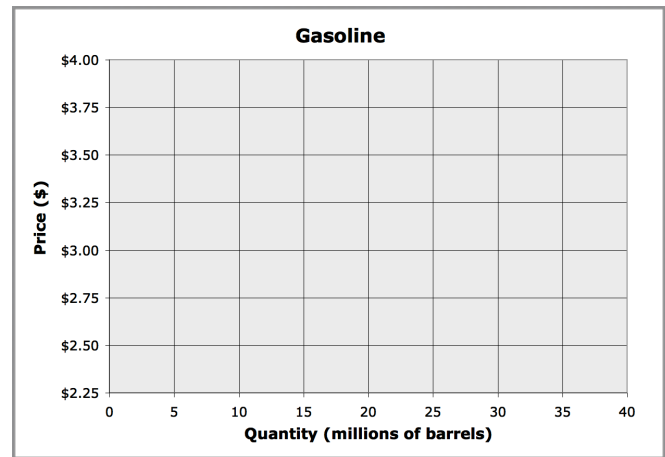
C) S.C. LEGISLATOR WANTS TO CAP GAS PRICES

6 June 2011 - by Ron Barnett (USA Today)

South Carolina state Sen. Dick Elliott has a solution for high gasoline prices: Cap how much oil companies can raise them..."I don't like to interfere with the competitive free enterprise system, but in this case we don't believe the competitive free enterprise system is fully at work," he says.

9) Use the following data to construct the graph for the market for gasoline.

Price (\$)	2.50	2.75	3.00	3.25	3.50	3.75
Demand	34	31	28	25	22	19
Supply	10	15	20	25	30	35



- 10) At equilibrium, what are the following?
- a) Price: \$ _____
 - b) Quantity: _____
- 11) Suppose a price ceiling of \$2.75 gets passed in Congress. Draw the price ceiling on the graph.
- a) New quantity demanded: _____
 - b) New quantity supplied: _____
 - c) Amount of shortage: _____
- 12) This price ceiling is designed to help consumers. How might it actually end up hurting consumers instead?