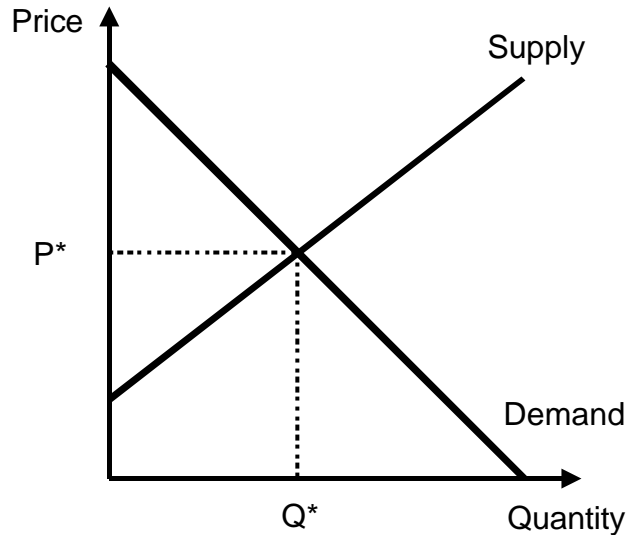


Price Controls

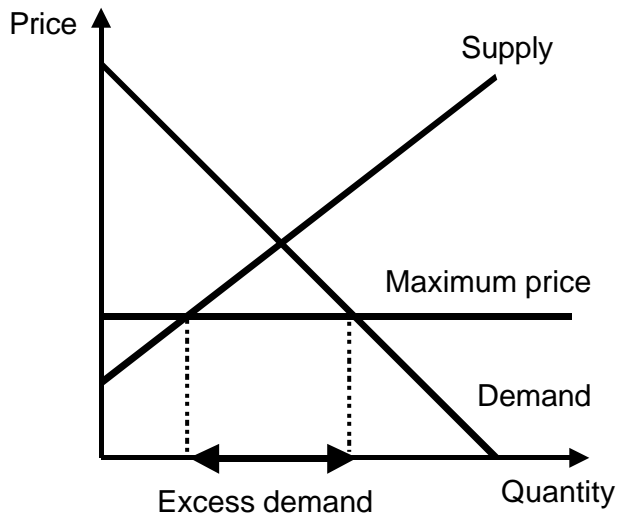
1 Market equilibrium: Prices and quantities by market forces



At the equilibrium point (P^*/Q^*): Quantity supplied = Quantity demanded

2 Price controls by the government

21 Price ceiling

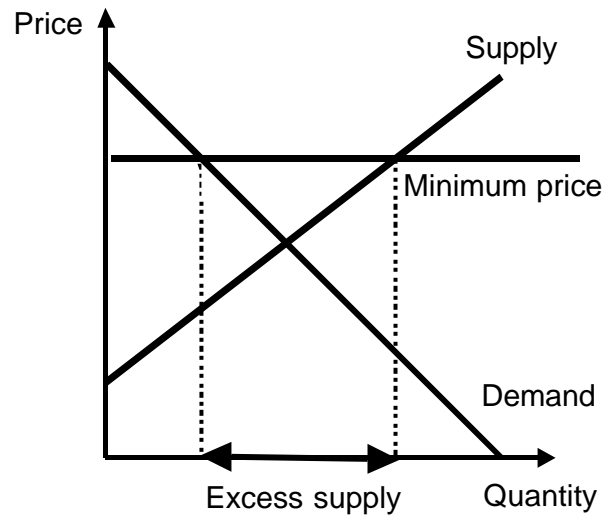


Quantity demanded > Quantity supplied

Example: Maximum rent (Price = Rent)
(to 'benefit' the demand side)

Resulting in queues, shortages, black market

22 Price floor



Quantity supplied > Quantity demanded

Example: Minimum wage (Price = Wage)
(to 'benefit' the supply side)

Resulting in unemployment