

Price Ceilings & Price Floors

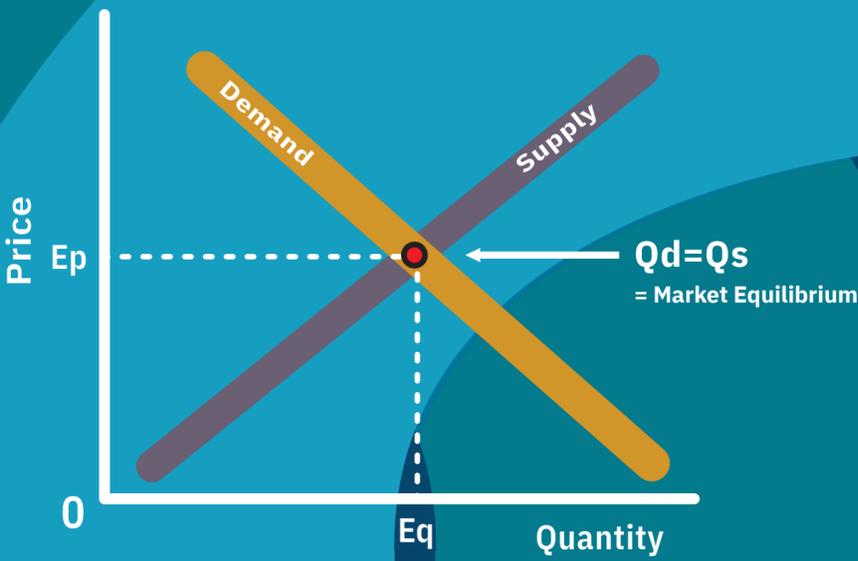
What effect do price ceilings and floors have on markets?
MICROECONOMICS

Market Equilibrium

When a market is in equilibrium, the quantity demanded equals the quantity supplied at the price that clears the market. This is the equilibrium price.

E_p = Equilibrium price

E_q = Equilibrium quantity

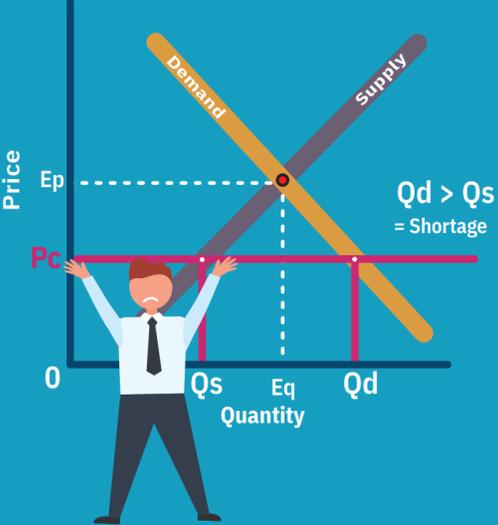


What happens if markets can't reach equilibrium due to local, state, or federal government policies?

Binding/Effective Price Ceiling

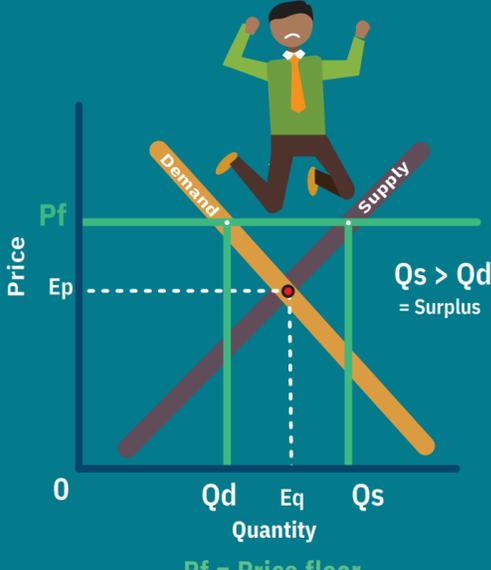
A government-mandated maximum price that can be charged for a good or service

P_c = Price ceiling



Binding/Effective Price Floor

A government-mandated minimum price that must be paid for a good or service



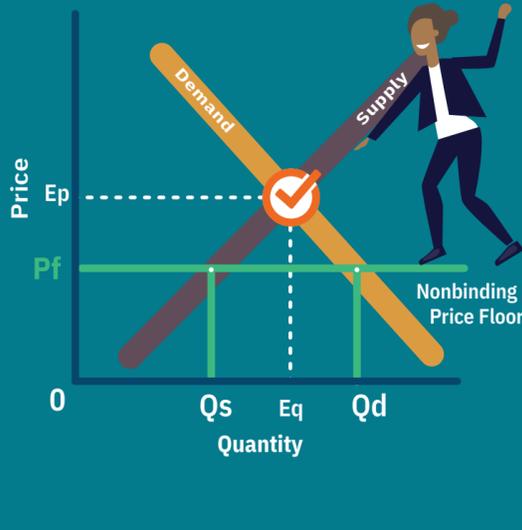
Nonbinding Price Ceiling

A price ceiling is nonbinding when it doesn't have an effect on the market price. A nonbinding price ceiling occurs when the price level is greater than or equal to the market equilibrium price.



Nonbinding Price Floor

A price floor is nonbinding when it doesn't have an effect on the market price. A nonbinding price floor occurs when the price level is less than or equal to the market equilibrium price.



REAL WORLD EXAMPLES

Price Ceilings

- Rent Control
- Gasoline



Price Floors

- Agricultural Products
- Minimum Wage

