PRICE CONTROLS – MAXIMUM AND MINIMUM PRICES

The government may set a maximum (1)___________, below the (2)___________ price, which then prevents producers from raising the price above it. This is sometimes known as the (3)___________ price.

(4)___________ prices are usually set to protect consumers and they are normally imposed in markets where the product in question is a necessity and/or a merit good. For example, governments may set maximum prices in agricultural and food markets during times of food shortages to ensure low-cost food for the poor or they may set maximum prices on rented accommodation to attempt to get affordable accommodation for those on low incomes. Maximum prices will, however, lead to (5)___________ demand.

The (6)___________ may set a (7)___________ price, above the equilibrium price, which then prevents producers from reducing the price below it. This is sometimes known as the (8)___________ price.

Minimum prices are mostly set for one of two reasons: either to attempt to raise incomes for producers of goods and services that the government thinks are important, such as agricultural products; or to protect workers by setting a minimum (9)___________, to ensure that workers earn enough to lead a reasonable existence. Minimum prices will, however, lead to excess (10)___________.

CEILING EQUILIBRIUM EXCESS FLOOR GOVERNMENT MAXIMUM MINIMUM PRICE SUPPLY WAGE

KEY

PRICE CONTROLS – MAXIMUM AND MINIMUM PRICES

The government may set a maximum price, below the equilibrium price, which then prevents producers from raising the price above it. This is sometimes known as the ceiling price.

Maximum prices are usually set to protect consumers and they are normally imposed in markets where the product in question is a necessity and/or a merit good. For example, governments may set maximum prices in agricultural and food markets during times of food shortages to ensure low-cost food for the poor or they may set maximum prices on rented accommodation to attempt to get affordable accommodation for those on low incomes. Maximum prices will, however, lead to excess demand.

The government may set a minimum price, above the equilibrium price, which then prevents producers from reducing the price below it. This is sometimes known as the floor price.

Minimum prices are mostly set for one of two reasons: either to attempt to raise incomes for producers of goods and services that the government thinks are important, such as agricultural products; or to protect workers by setting a minimum wage, to ensure that workers earn enough to lead a reasonable existence. Minimum prices will, however, lead to excess supply.