Assignment 1

What if the government imposes a price ceiling or a price floor on an apple?

When the government imposes a price ceiling on an apple, the price is set lower than the equilibrium price. This results in a surplus of apples because the quantity demanded is greater than the quantity supplied. The surplus causes sellers to lower their prices, leading to a decrease in the quantity supplied and an increase in the quantity demanded. The price ceiling forces the market to operate below its equilibrium point, creating shortages and decreased consumer welfare.

When the government imposes a price floor on an apple, the price is set higher than the equilibrium price. This results in a shortage of apples because the quantity demanded is less than the quantity supplied. The shortage causes buyers to bid up the price, leading to an increase in the quantity demanded and a decrease in the quantity supplied. The price floor forces the market to operate above its equilibrium point, creating shortages and decreased producer welfare.

Graphically, the price ceiling shifts the demand curve down and the supply curve up, resulting in a surplus of apples. The price floor shifts the demand curve up and the supply curve down, resulting in a shortage of apples.

Why is it that a firm can't operate at an equilibrium point?

A firm cannot operate at an equilibrium point because it would mean that the price is equal to the marginal cost. This would result in a profit of zero, which is not sustainable in the long run. A firm must operate at a point where the price is greater than the marginal cost to make a profit. At this point, the firm can increase its profit by producing more output, as long as the price remains above marginal cost.

What are the benefits and drawbacks of a price ceiling?

Benefits: Price ceilings can be used to protect consumers from high prices, especially in times of economic hardship. They can also be used to ensure that essential goods and services are available to all, regardless of income. Drawbacks: Price ceilings can lead to shortages, as producers are incentivized to produce less at lower prices. This can lead to long lines and black markets. Price ceilings can also lead to a decrease in the quality of goods and services, as producers may be less likely to invest in research and development.

What are the benefits and drawbacks of a price floor?

Benefits: Price floors can be used to protect farmers from low prices, especially in times of economic hardship. They can also be used to ensure that essential goods and services are available to all, regardless of income. Drawbacks: Price floors can lead to surpluses, as producers are incentivized to produce more at higher prices. This can lead to waste and higher prices for consumers. Price floors can also lead to a decrease in the quality of goods and services, as producers may be less likely to invest in research and development.

How do price ceilings and price floors affect the demand and supply curves?

A price ceiling shifts the demand curve down and the supply curve up, resulting in a surplus. A price floor shifts the demand curve up and the supply curve down, resulting in a shortage.

What is the relationship between supply, demand, and price?

The relationship between supply, demand, and price is determined by the law of supply and demand. Supply refers to the quantity of a good or service that producers are willing and able to sell at a given price. Demand refers to the quantity of a good or service that consumers are willing and able to purchase at a given price. Price is the amount that consumers are willing to pay for a good or service.

The law of supply and demand states that the price of a good or service is determined by the interaction of supply and demand. When the demand for a good or service is greater than the supply, the price will increase. When the supply of a good or service is greater than the demand, the price will decrease. When the demand and supply are equal, the price will be at its equilibrium level.