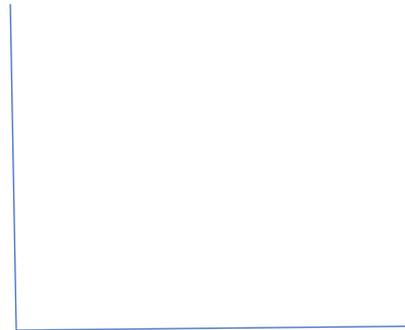
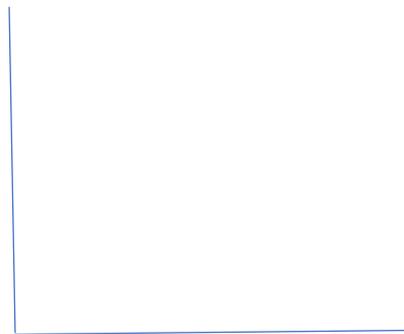


Instructions: After you've done the required readings for Lecture G, on price controls, complete these practice problems. We can discuss these problems when we return on **Tues., March 24.**

1. Draw a graph that illustrates a price ceiling. Make sure you label your axes and curves. Indicate the effect of the price ceiling on the graph. Make up some numbers of Q_d and Q_s , and illustrate how many *transactions* occur in the market when the price ceiling is in effect.



2. Draw a graph that illustrates a price floor. Make sure you label your axes and curves. Indicate the effect of the price floor on the graph. Make up some numbers of Q_d and Q_s , and illustrate how many *transactions* occur in the market when the price floor is in effect.



3. What type of price control is each? Circle PF for price floor, and PC for ceiling.

Rent control PF PC

Agricultural price support PF PC

Minimum wage law PF PC

Anti-price gouging law PF PC

4. Price controls make certain voluntary, mutually beneficial transactions illegal. By imposing price controls, government is preventing prices from serving their allocative function. Explain some of the other criteria that may replace prices in allocating scarce resources, in the cases of:

a. rent controls – who will end up getting rent controlled apartments, from among all the applicants for them?

b. minimum wage laws – who will end up getting the minimum wage jobs, from among all the applicants?

c. anti-price gouging laws – who will end up getting lumber to rebuild, from among all the consumers who would like to buy lumber after a hurricane?

5. Given price controls must reduce the number of transactions that will occur in the price controlled market (which must make society worse off), what do you think is the motivation for politicians to impose price controls? Who lobbies for them? Who lobbies against?