

#### Introduction to Economics

Demand & Supply Continued Janet McCaig

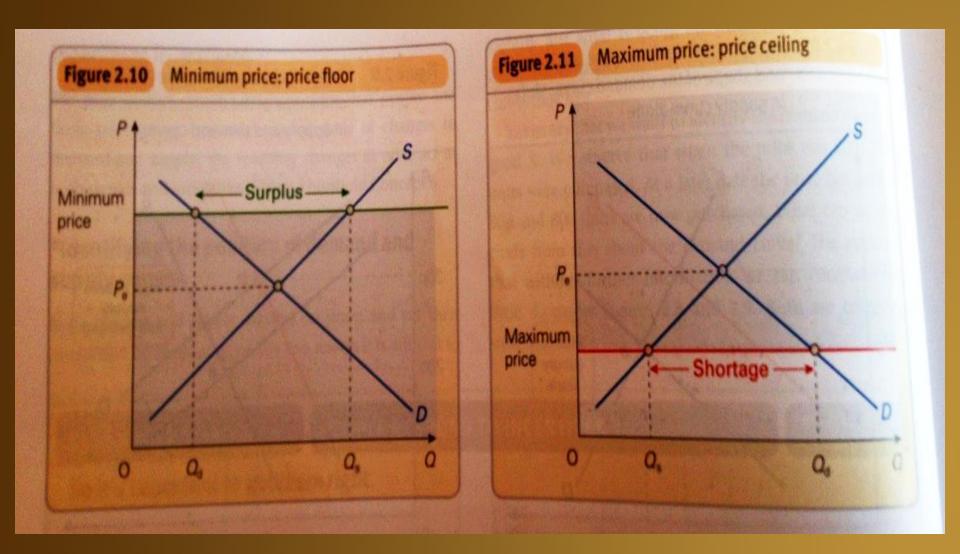


#### The Control of Prices

- At the equilibrium price there will be no shortage or surplus.
- May not be the most desired price Government intervention

- Government sets a minimum price above the equilibrium there will be a surplus
- Government sets a maximum price below the equilibrium there will be a shortage







### Minimum price

- A price floor set by government or some other agency
- The price is not allowed to fall below this level (although it is allowed to rise above it)



#### Maximum Price

- A price ceiling set by the government or some other agency.
- The price is not allowed to rise above this level (although it is allowed to fall below it)



## Setting a minimum (high) price

- To protect producers incomes (industries subject to fluctuations)
- To create a surplus ( to be stored for future shortages)
- In the case of wages to prevent workers wages falling below a certain level (gnvt policy on poverty and inequality)



# How do Gnvts deal with Surpluses associated with minimum prices?

- Buy & store, destroy, sell abroad
- Artificially reduce supply by restricting producers introducing quotas
- Raise demand ^ advertising, alternative uses impose taxes or subsidies on substitutes
- Problems evasion, inefficiency



## Setting a Maximum (low) price

- Fairness, famine, war
- Associated problems "first come first served"
- Preference to regular customers
- May lead to underground markets ignoring price and selling illegally
- Rationing gnvt restricts amount people allowed to buy



# Underground Markets

- Traditionally referred to as black markets
- Government prices and controls are ignored and people illegally sell at whatever price illegal demand and supply create



#### Activities

- Listen to the podcast <u>http://www.bbc.co.uk/programmes/b06yn9zv</u>
- Read the article and answer the questions

http://pearsonblog.campaignserver.co.uk/?p=19578