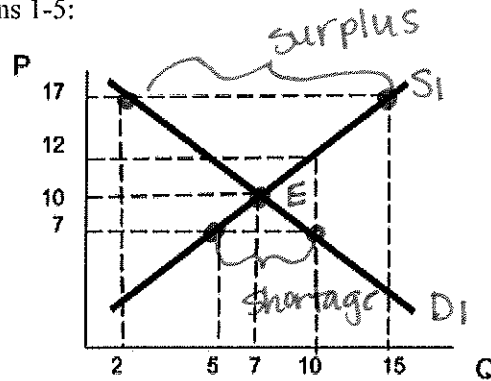


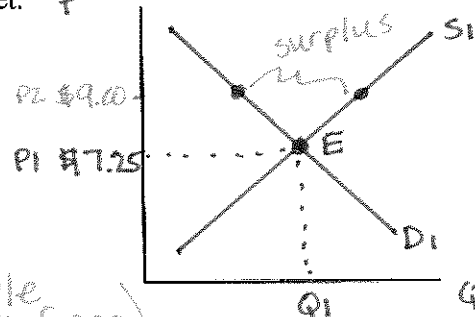
PRICE CEILINGS & FLOORS

Use the graph below to answer questions 1-5:



- What is the equilibrium price and quantity for cheese? P \$10 / Q 7
- If the price of cheese was \$7, what would be the result?
 - A shortage or a surplus? shortage
 - How much? Demand = 10 - supply = 5 = shortage of 5
- If the price of cheese was set at \$17, what would be the result?
 - A shortage or a surplus? surplus
 - How much? D 2 - S 15 = surplus of 13
- If the federal government imposed a price support of \$17 (the price of cheese could not fall below this amount), what this be an effective price ceiling or a price floor? Price floor (min)
- Would this \$17 price support be an attempt to help the farmer or the consumer? farmer
- Draw a graph, showing a market for unskilled (or low-skilled) labor in equilibrium at the current minimum wage level of \$7.25. Label both curves, both axes, and the market. P

Employers = buyers (D)
Labor (workers) = suppliers (S)



- wage increase would cause less demand for workers, but more workers would be supplied (more people enter workforce)
- If the minimum wage were raised to \$9.00 an hour, would this cause a surplus or shortage of low skilled labor in the marketplace? Surplus
 - Show the effect of this new minimum wage on the graph above.
 - Would this new minimum wage law be an example of an effective price ceiling or a price floor? price floor (min)
 - If the government created a law stating that gasoline prices could not rise above \$1.50 a gallon, would this be a price ceiling or floor? Price ceiling (max)
 - Are price ceilings designed to help the producer or the consumer? consumers
 - If the price ceiling is set below the market price, would this cause a surplus or a shortage of gasoline? Shortage

Price ceiling → → market price

• more people would demand gasoline, but there wouldn't be enough supply creating a shortage.