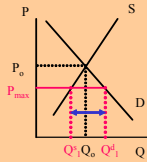


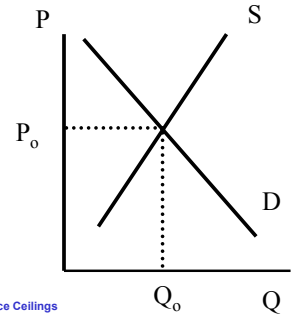
Price Ceilings



Lectures in Microeconomics-Charles W. Upton

The effect of a price ceiling

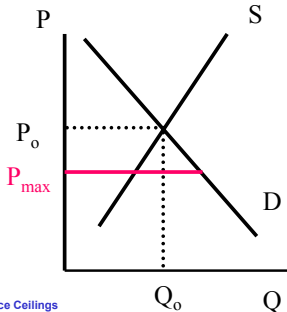
- An unregulated product sells for P_o . Sales are Q_o .



Price Ceilings

The effect of a price ceiling

- An unregulated product sells for P_o . Sales are Q_o .
- Suppose the government sets a maximum price P_{max} .

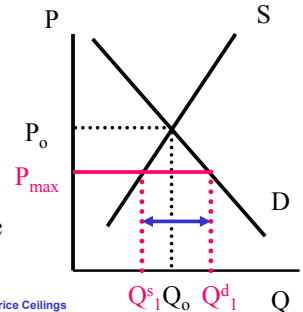


Price Ceilings

The effect of a price ceiling

- An unregulated product sells for P_o . Sales are Q_o .
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Shortage!

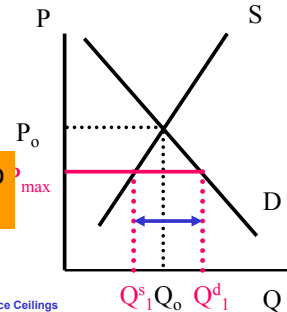


Price Ceilings

The effect of a price ceiling

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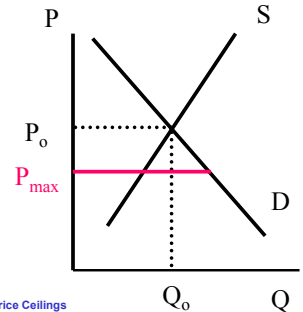
There is more to the story



Price Ceilings

The effect of a price ceiling

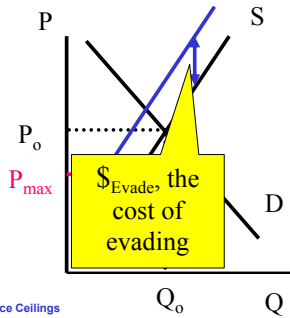
- People try to evade the ceiling



Price Ceilings

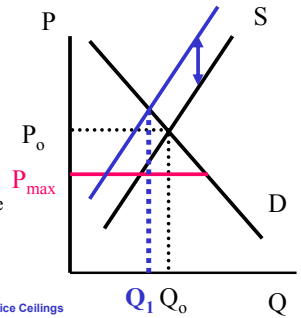
The effect of a price ceiling

- People try to evade the ceiling.
- If suppliers, they shift their supply curve up by $\$_{Evade}$



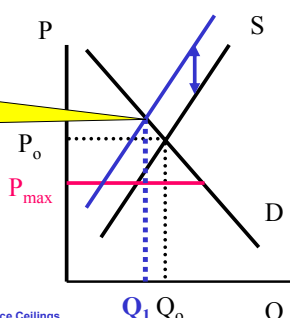
The effect of a price ceiling

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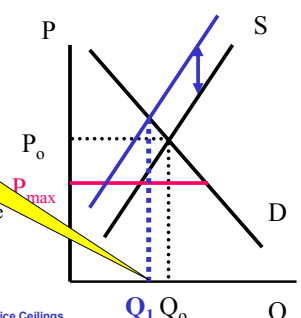
The effect of a price ceiling

- People try to evade the ceiling.
- Price goes up they shift supply curve up by $\$_{Evade}$



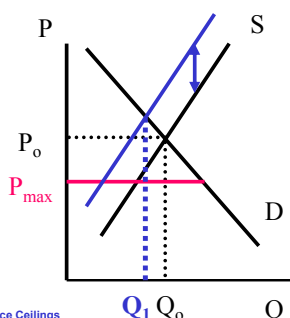
The effect of a price ceiling

- People try to evade the ceiling.
- No Shortage! they shift supply curve up by $\$_{Evade}$



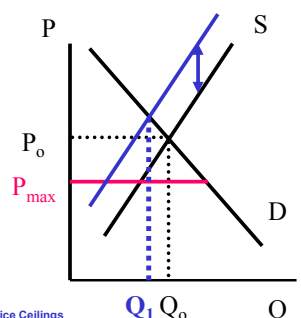
The effect of a price ceiling

- How big is this shift?



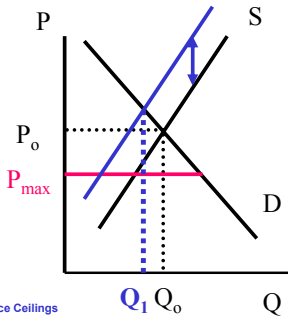
The effect of a price ceiling

- How big is this shift?
- If the regulations are a joke, $\$_{Evade}$ is small.



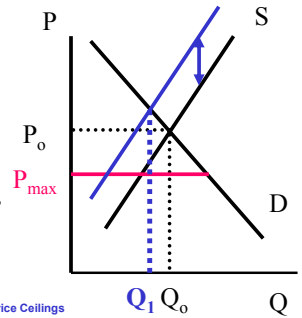
The effect of a price ceiling

- How big is this shift?
- Small increase over market price. regulations are a joke, $\$_{Evade}$ is small.



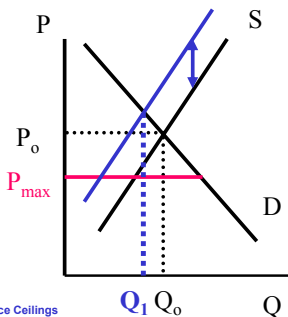
The effect of a price ceiling

- How big is this shift?
- If the regulations are tough and toughly enforced, $\$_{Evade}$ can be quite large



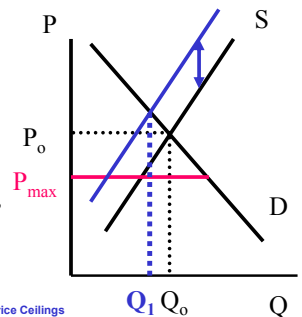
The effect of a price ceiling

- How big is this shift?
- Then the regulations have a major impact. are tough and toughly enforced, $\$_{Evade}$ can be quite large



The effect of a price ceiling

- How big is this shift?
- Moral: if you are given the job of enforcing a price ceiling, don't work too hard at your job. $\$_{Evade}$ can be quite large



End

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