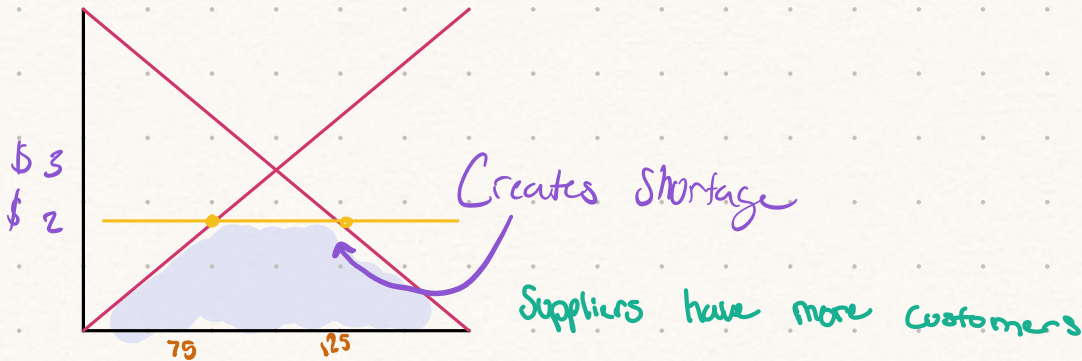


Gov't Policies in Markets

Price Ceiling / Price Cap: Legal Maximum on price a good is sold at

- Cannot increase price over price ceiling

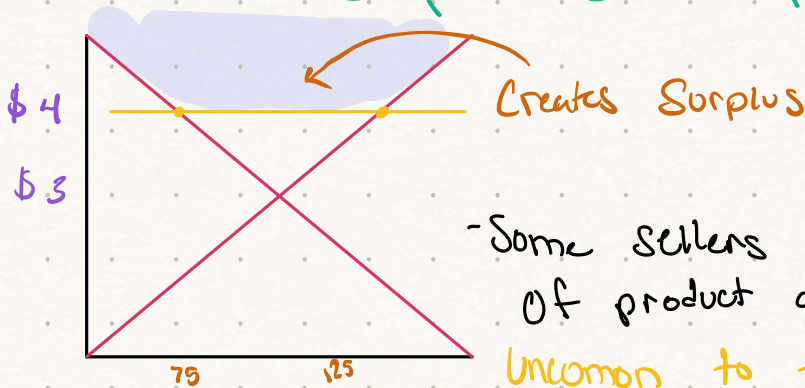


- In Housing Market: Rent Ceiling \Rightarrow Creates shortage \rightarrow incentivize trade \rightarrow illegal
- long run shortage is elastic \hookrightarrow Reduces Quality & will be large
 - Will Raise cost renters are willing to pay. incentivizes black market

Expectation of ceiling will lower quantity of goods

Price Floor: Minimum Price a price can be sold

- Cannot decrease price below price floor



- Some sellers cannot get rid of product at this price

Uncommon to find price floor, gov't.

tries to create affordability.

• typically political

- harms consumers
- good for when # of seller > # of buyers (labor)

Minimum wage

- Minimum wage increase = Unemployment Rise
- Large costs small business
- Inefficiency // Raising income of unskilled workers
- Discouraged firms from hiring - more illegal work

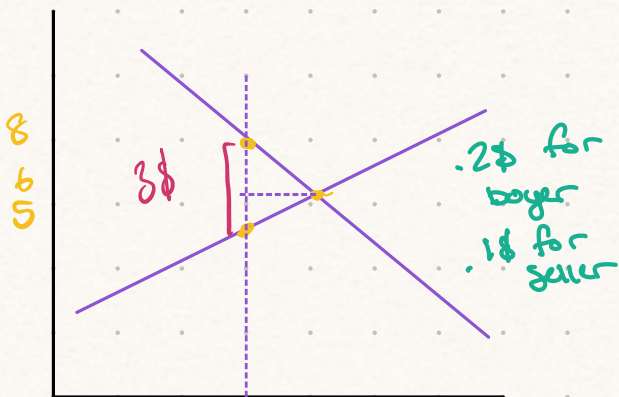
Policies Increase Equity but decrease efficiency

- Government creates policies for political benefit
- Increase / Decrease livelihood of supporters / opponents
- Housing Vouchers = better
 - ↳ encourage more rental buildings
- Wage Subsidies = better
 - ↳ encourage firms hiring

per unit tax = taxed at fixed dollar amt instead of percentage

- discourages buying of item
- demand shifts by same amt as tax

- Burden shared btw. buyer + seller // depends on elasticity



Tax Incidence: Actual division of Burden of tax

buyer pays more of tax if more inelastic demand

Higher elasticity demand = more tax incidence
 lower elasticity demand = less tax incidence

Higher elasticity supply = more tax seller
 lower elasticity supply = more tax buyer

seller more pays
 buyer more pays