# Analyzing Figures 8.1 and 8.2

Students should refer to Figures 8.1 and 8.2 (page 82) to answer the following questions. For extra assistance, the text on those pages may come in handy as well.

1. The quantity of apartments demanded is at the market equilibrium but increases / decreases to when a price ceiling is

imposed at $800.

1. The quantity of apartments supplied is at the market equilibrium but increases / decreases to when a price ceiling is imposed at

$800.

1. With a price ceiling at $800, the quantity of apartments demanded is greater than / less

than the quantity of apartments supplied, leading to a surplus / shortage of apartments.

1. The quantity of apartments demanded is at the market equilibrium and when a price ceiling is imposed at $1200.
2. The quantity of apartments supplied is at the market equilibrium and when a price ceiling is imposed at $1200.
3. At the price of $800, the amount of the shortage is units of housing.

# Analyzing Figures 8.1 and 8.2 Answer Key

Students should refer to Figures 8.1 and 8.2 (page 82) to answer the following questions. For extra assistance, the text on those pages may come in handy as well.

1. The quantity of apartments demanded is 2.0M at the market equilibrium but

**increases** / decreases to 2.2 M when a price ceiling is imposed at $800.

1. The quantity of apartments supplied is 2.0 M at the market equilibrium but increases / **decreases** to 1.8 M when a price ceiling is imposed at $800.
2. With a price ceiling at $800, the quantity of apartments demanded is **greater than** / less than the quantity of apartments supplied, leading to a surplus / **shortage** of apartments.
3. The quantity of apartments demanded is 2.0 M at the market equilibrium and 1.8M when a price ceiling is imposed at $1200.
4. The quantity of apartments supplied is 2.0 M at the market equilibrium and 2.2M when a price ceiling is imposed at $1200.
5. At the price of $800, the amount of the shortage is .4 M units of housing.\*

\***Teacher note**: Even though the answer is stated on Figure 8.2, remind students of this process - to find the shortage they need to find the difference between QD (point B) and QS (point A) at price $800. (2.2-1.8=.4)

# Price Ceilings

1. Circle the correct response in this series of questions about price ceilings:
   1. In relationship to the equilibrium price, the price ceiling is *above or below* the market

price.

* 1. Governments generally apply price ceilings in an effort to help the *buyer / seller* in the

market.

* 1. When a price ceiling is imposed in the market, a *surplus / shortage* is created.
  2. When a price ceiling is imposed in the market, search activities *increase / decrease*.
  3. Black markets *will / will not* develop when price ceilings are imposed.
  4. Price ceilings set above equilibrium are *relevant / irrelevant*.

1. The government imposes a price ceiling in the gasoline market.
   1. How are the price of gasoline and quantity sold affected?
   2. What economic situation is created by the government action?
   3. Who is adversely affected by the imposition of the price ceiling?
   4. What steps will the market take the deal with this economic situation?
   5. Why will some buyers go outside the market to get their gasoline?
2. Should the government take the step of placing price ceilings on goods and services? Explain.

# Price Ceilings Answer Key

1. Circle the correct response in this series of questions about price ceilings:
   1. In relationship to the equilibrium price, the price ceiling is *above or* ***below*** the market price.
   2. Governments generally apply price ceilings in an effort to help the ***buyer*** */ seller* in the market.
   3. When a price ceiling is imposed in the market, a *surplus /* ***shortage*** is created.
   4. When a price ceiling is imposed in the market, search activities ***increase*** */ decrease***.**
   5. Black markets ***will*** */ will not* develop when price ceilings are imposed.
   6. Price ceilings set above equilibrium are *relevant /* ***irrelevant.***
2. The government imposes a price ceiling in the gasoline market”
   1. How are the price of gasoline and quantity sold affected?

*(Price is below equilibrium and quantity sold decreases.)*

* 1. What economic situation is created by the government action?

*(shortage)*

* 1. Who is adversely affected by the imposition of the price ceiling?

*(supplier)*

* 1. What steps will the market take the deal with this economic situation?

*(Price will rise to return to equilibrium.)*

* 1. Why will some buyers go outside the market to get their gasoline?

*(They will find a black market and have to pay more for their gasoline – they will go outside the market because they need gasoline.)*

1. Should the government take the step of placing price ceilings on goods and services? Explain. *(Answers will vary. Those in support of price ceilings believe it assists those consumers that are less able to purchase the good at the higher equilibrium price. Those believing price ceilings cause too many inefficiencies will not.)*

# Analyzing Figures 8.3 and 8.4

Students should refer to Figures 8.3 (page 85) and 8.4 (page 86) to answer the following questions. For extra assistance, the text on those pages may come in handy as well.

1. The quantity of butter demanded is at the market equilibrium but increases / decreases to when a price floor is imposed at

$1.20.

1. The quantity of butter supplied is at the market equilibrium but increases / decreases to \_ when a price floor is imposed at $1.20.
2. With a price floor of $1.20, the quantity of apartments demanded is greater than / less

than the quantity of apartments supplied, leading to a surplus / shortage of apartments.

1. The quantity of butter demanded is at the market equilibrium and when a price floor is imposed at $.80
2. The quantity of butter supplied is at the market equilibrium and

when a price floor is imposed at $.80.

1. A price floor at $.80 is binding / non binding.
2. At the price of $1.20 per pound, the amount of the surplus is

units of butter.

# Analyzing Figures 8.3 and 8.4 Answer Key

Have students refer to Figures 8.3 (page 85) and 8.4 (page 86) and answer the following questions. For extra assistance, the text on those pages may come in handy as well.

1. The quantity of butter demanded is 10 M at the market equilibrium but increases /

**decreases** to 9M when a price floor is imposed at $1.20.

1. The quantity of butter supplied is 10M at the market equilibrium but **increases** / decreases to 12M when a price floor is imposed at $1.20.
2. With a price floor of $1.20, the quantity of butter demanded is greater than / **less than** the quantity of apartments supplied, leading to a **surplus** / shortage of apartments.
3. The quantity of butter demanded is 10M at the market equilibrium and 11M when a price floor is imposed at $.80
4. The quantity of butter supplied is 10M at the market equilibrium and 8M when a price floor is imposed at $.80.
5. A price floor at $.80 is binding / **non binding**.
6. At the price of $1.20, the amount of the surplus is 3.0M units of butter.\*

\* **note:** Even though the answer is stated on Figure 8.4, to find the surplus you need to find the difference between QS (point B) and QD (point A) at price $1.20. (12-9=3)