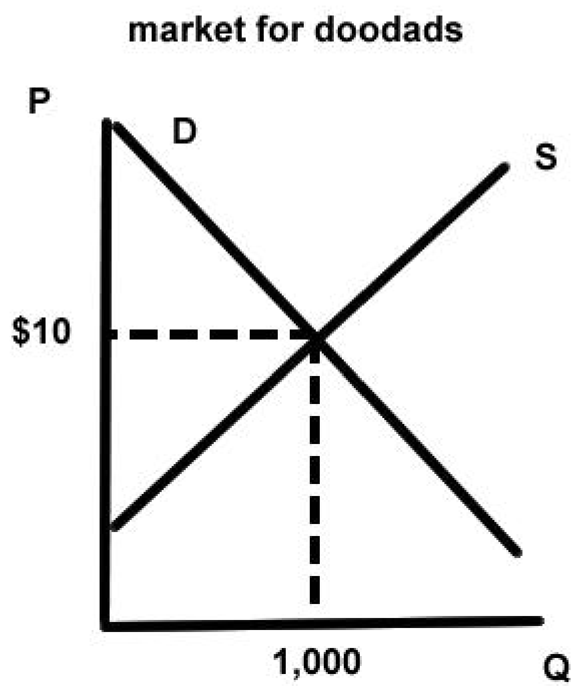
Price Control Free Response Question A rubric

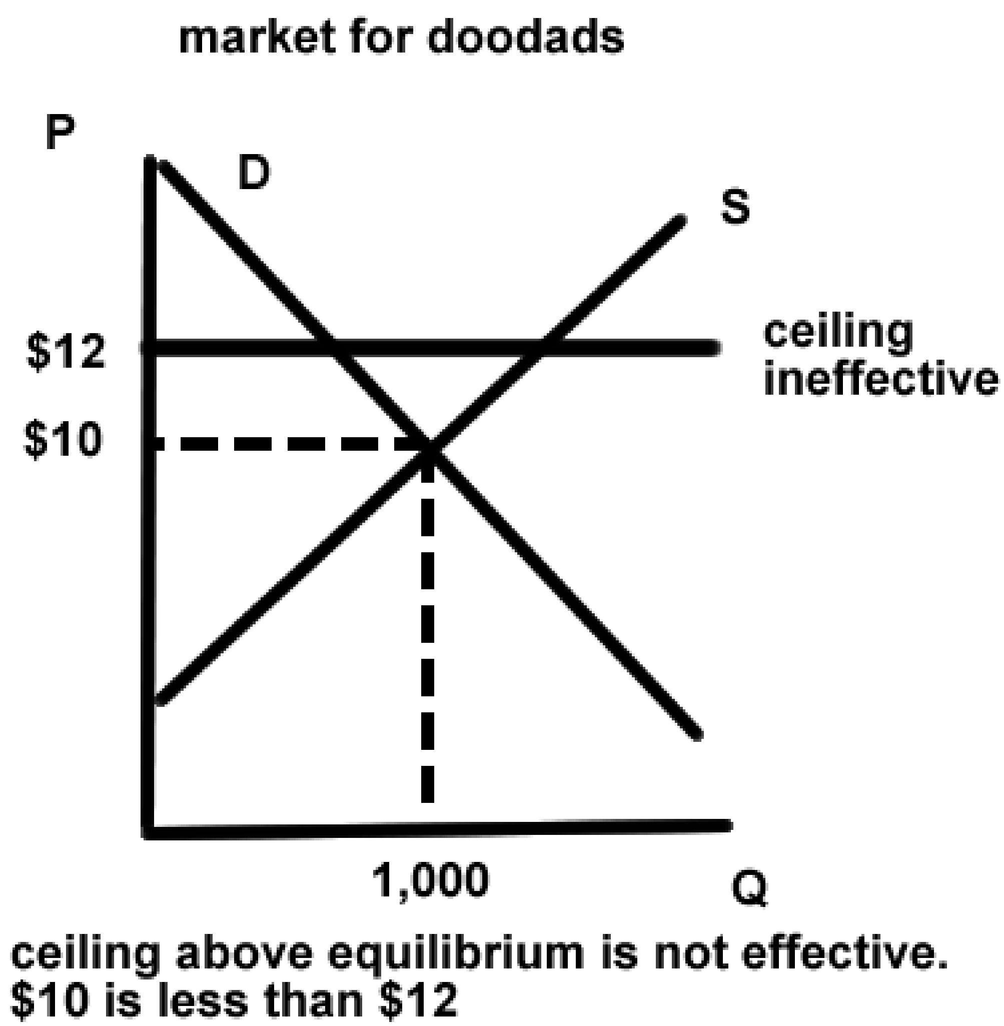
1. A. Assume that the market for doodads has an equilibrium price of $10. At this price suppliers produce 1,000 units. Draw a supply and demand graph illustrating the market doodads.

B. Indicate equilibrium price and quantity on your graph.



$10 = equilibrium price, 1,000 = equilibrium quantity

2. A. The government imposes a maximum price of $12 on the price of doodads. Explain the effect on the equilibrium price that this price ceiling will have?

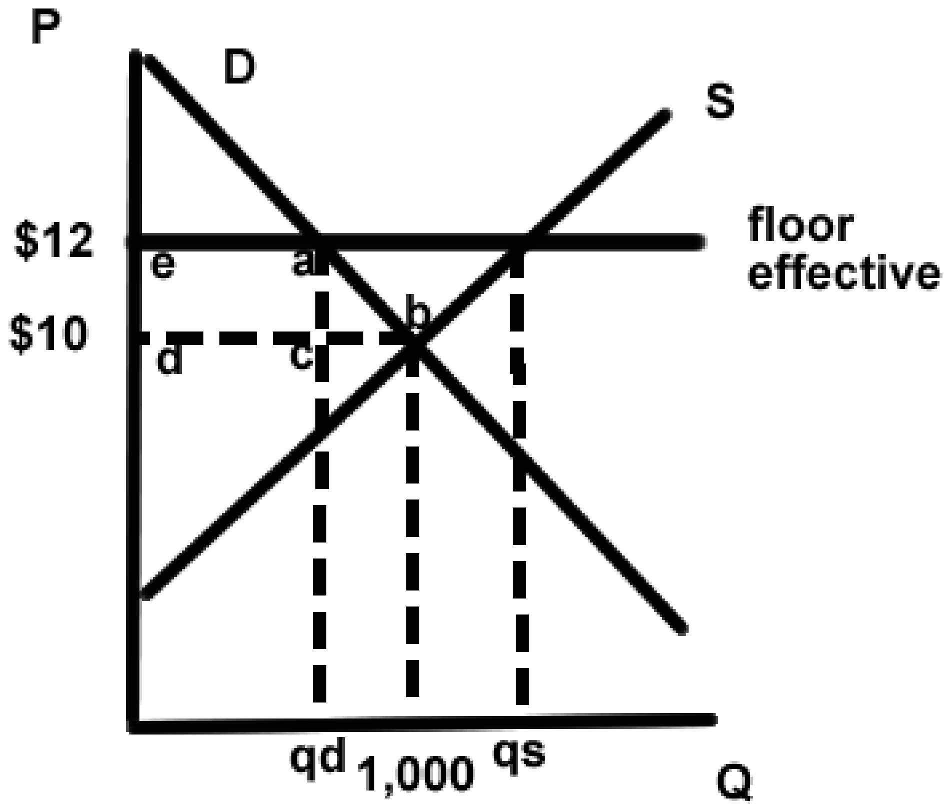


3. A. Now assume that the government imposes a minimum price of $12 on the price of doodads. Illustrate this price control on your graph.

B. Determine whether a shortage or surplus is created. Indicate the quantity of this shortage or surplus.

C. Illustrate the welfare loss that occurs at a price of $12.

market for doodads



Floor above equilibrium price = effective
qs > qd = surplus- abcde=welfare loss