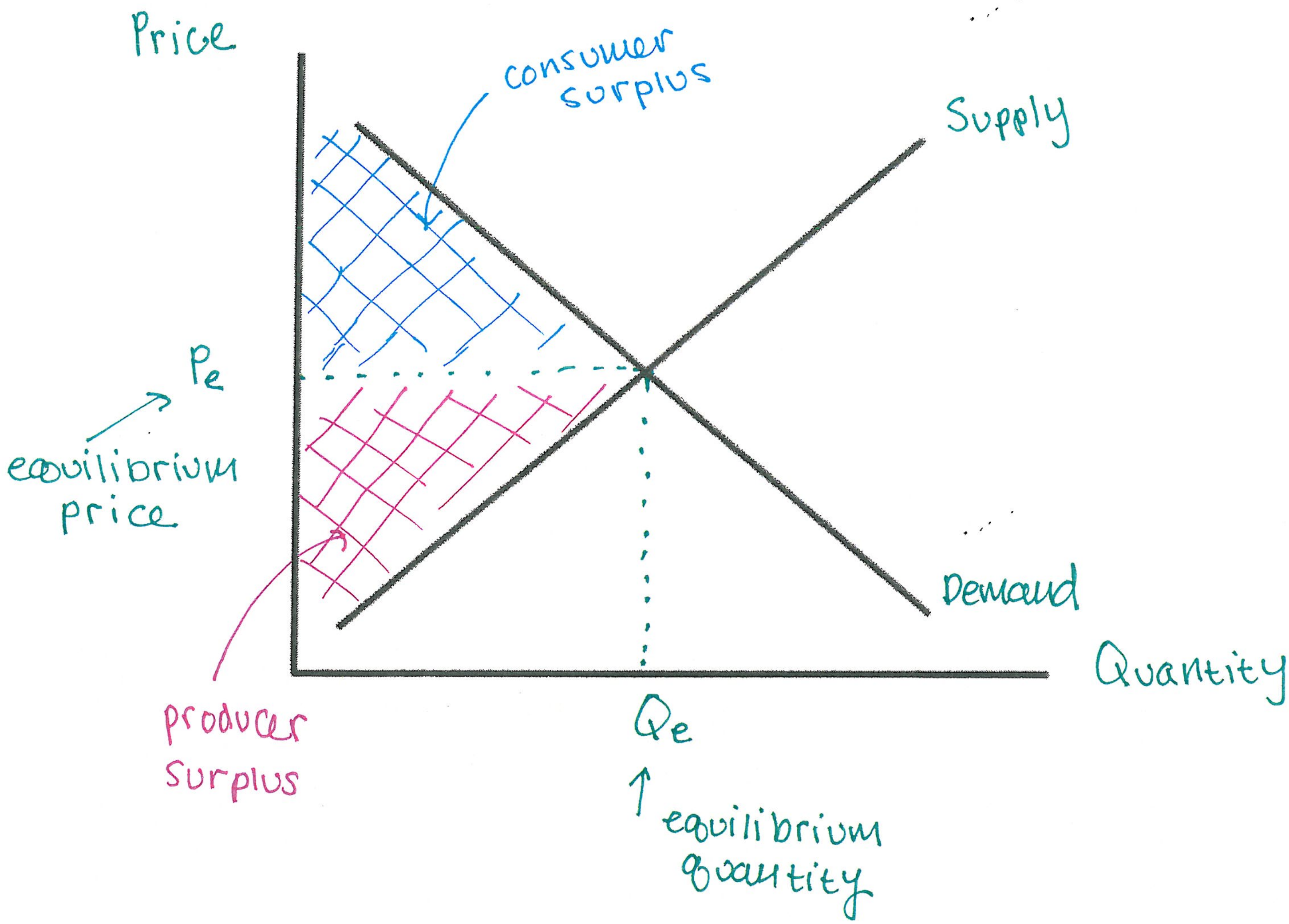
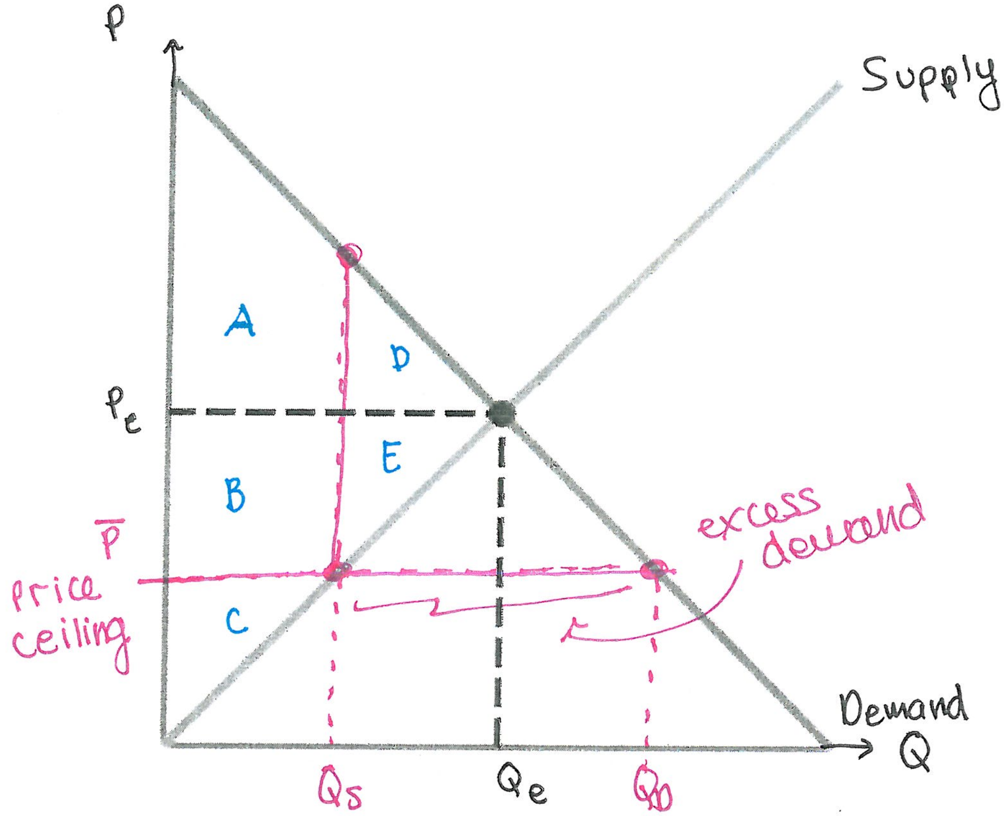
NAME: KEY 09/23/2015 (Week 5)

Label the market graph below. Include labels for the equilibrium price and the equilibrium quantity. Show which areas represent consumer surplus and producer surplus at the equilibrium price and equilibrium quantity.



NAME: KEY 09/23/2015 (Week 5)

Show what happens if the government imposes a maximum price below the equilibrium price (i.e., a binding price ceiling). Indicate what happens to quantity demanded and quantity supplied at the new price. Label consumer surplus, producer surplus, and deadweight loss with the price ceiling. Explain which groups gain and which groups lose the different parts of surplus.



At $\bar{P}$, quantity demanded is greater than quantity supplied. This means that there will be excess demand at that price.

A + B show the maximum consumer surplus, C shows the producer surplus, & D + E show the dead weight loss.

	before	after
CS	A+D	A+B
PS	B+C+E	C
DWL	none	D+E

Consumers lost D to dead weight loss, but gained B from producers.
Producers lost B, which went to consumers, & also lost E, which went to dead weight loss.

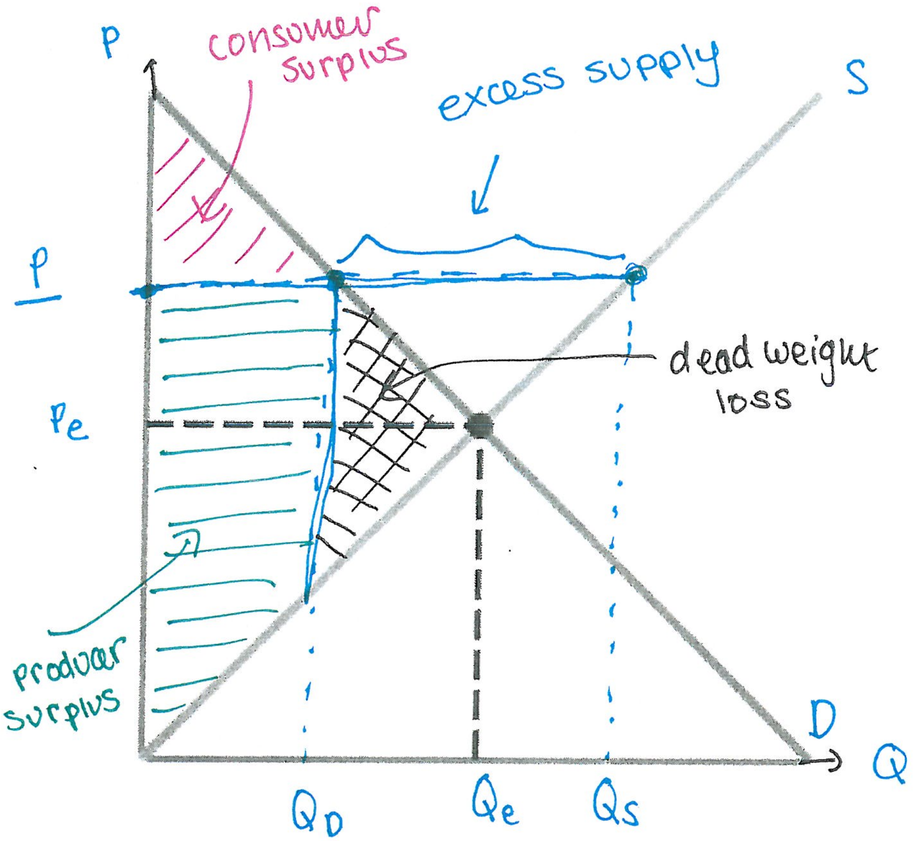
What is the quantity allocation problem in this situation, and what is one way that it could be solved?

More people will want to buy the good than will want to sell the good at the price ceiling price. The allocation problem is to decide which of those who want to buy the good will get to buy it. One possible way would be to have them fight for it.

NAME: Key

09/23/2015 (Week 5)

Show what happens if the government imposes a minimum price above the equilibrium price (i.e., a binding price floor). Indicate what happens to quantity demanded and quantity supplied at the new price. Label consumer surplus, producer surplus, and deadweight loss with the price floor. Explain which groups gain and which groups lose the different parts of surplus.



P = price floor

At P, quantity demanded (QD) will be below the equilibrium quantity, & below the quantity supplied (Qs), which will be greater than Qe. Because Qs is greater than QD there will be an excess supply.

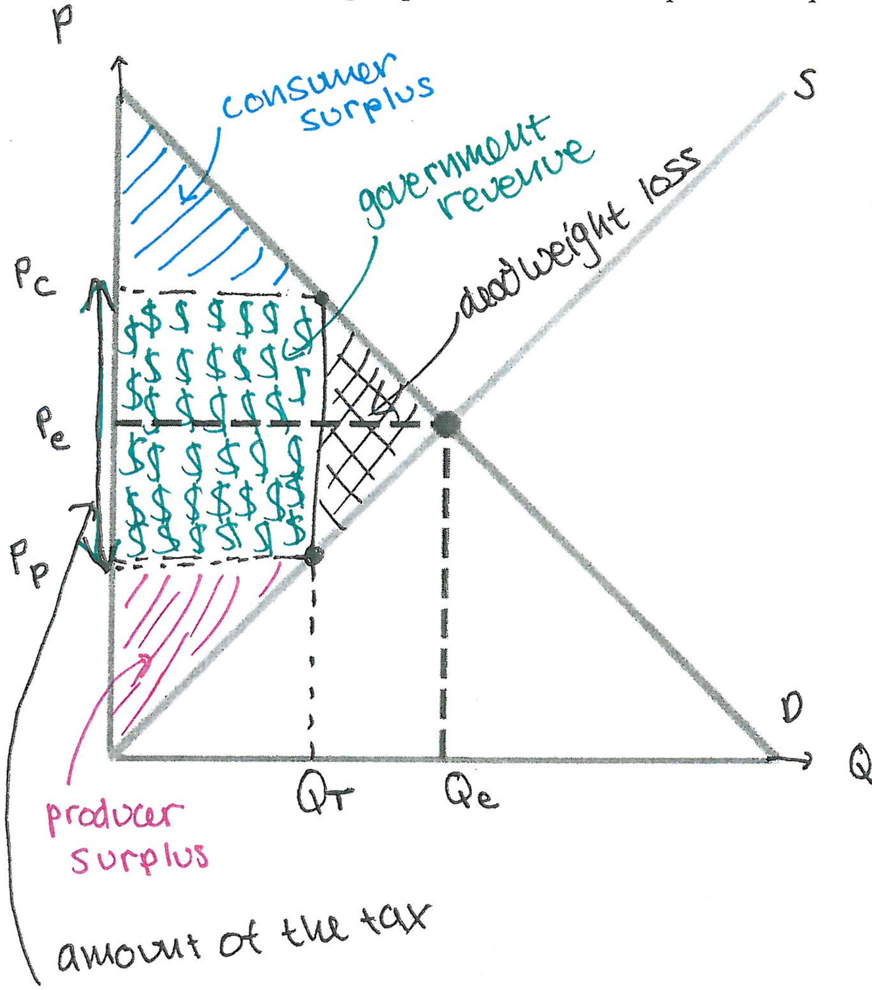
Consumers will loose surplus with the price floor. Some of their lost surplus is transfered to producers and some of it becomes dead weight loss.
Producers will gain some surplus from the consumers, but also loose a part of their surplus which becomes dead weight loss.

What is the quantity allocation problem in this situation, and what is one way that it could be solved?

More people will want to sell the good than will want to buy the good at the price floor price. The allocation problem is to decide which of them will actually get to sell it. One possible way would be to hold a competition and only allow the winners to sell.
(like a dance off maybe)

NAME: KEY 09/23/2015 (Week 5)

Show what happens if the government imposes a sales tax. Label the price consumers will pay, and the amount of the price that producers will get to keep with the tax. Label consumer surplus, producer surplus, government revenue, and deadweight loss with the tax. Explain which groups gain and which groups lose the different parts of surplus.



The graph shows the tax using the "wedge approach".

P_c = what consumers actually pay

P_p = what producers actually keep

The difference between what consumers pay & what producers keep is the amount of the tax. That money gets sent to the government by the producers & becomes government revenue.

Producers loose surplus. Some becomes government revenue & some becomes dead weight loss.

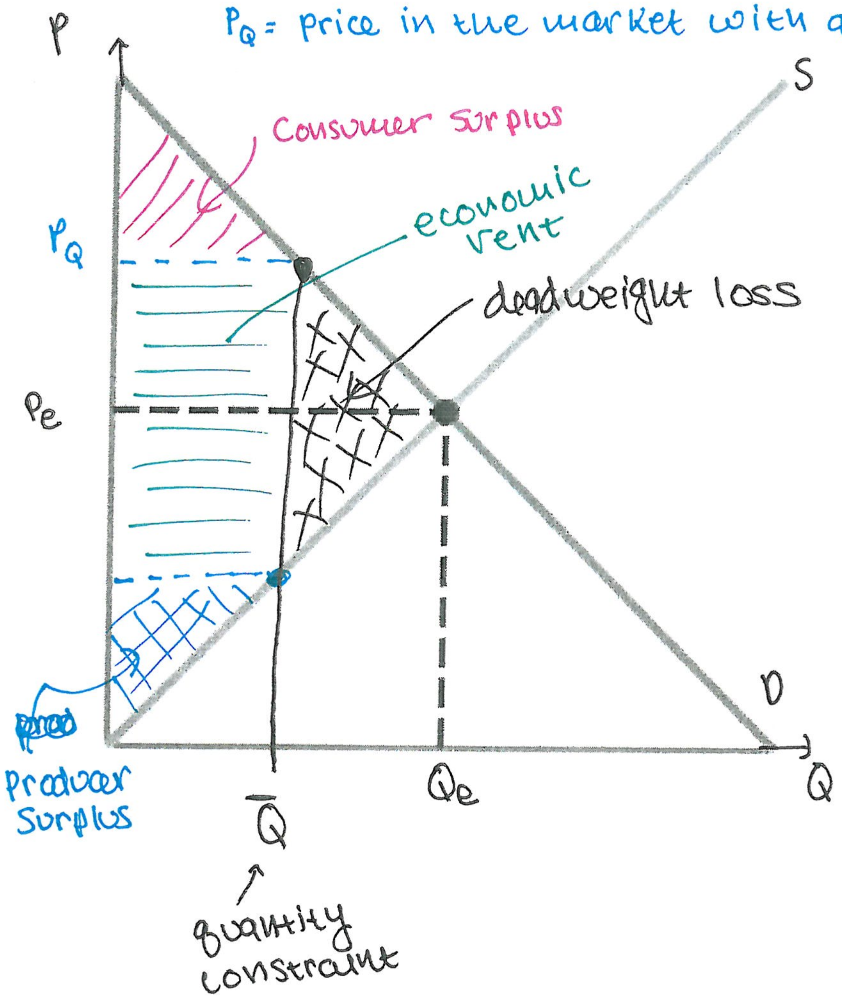
Consumers loose surplus. Some becomes government revenue & some becomes dead weight loss.

The market quantity bought & sold will be lower because of the tax.

NAME: KEY 09/23/2015 (Week 5)

Show what happens if the government imposes a maximum quantity below the equilibrium quantity. Indicate what the new price will be with the quantity constraint. Label consumer surplus, producer surplus, rent, and deadweight loss with the quantity constraint. Explain which groups gain and which groups lose the different parts of surplus.

P_Q = price in the market with quantity constraint $\bar{Q}$



Gains & loss similar to other examples.

What is the quantity allocation problem in this situation, and what is one way that it could be solved? The allocation problem is deciding who gets to produce the limited quantity. One way would be for goverment officials to give permits to produce to the companies that make the largest campaign contributions.