#1

A price ceiling is a legal maximum price for a particular good set by the government.

Market equilibrium is the balanced state achieved between demand and supply in a free market. such that there is neither surplus nor shortage, and $Q_s = Q_d$.

Shortage occurs when the quantity demanded exceeds the quantity supplied of a good.

a real life example of price ceiling would be the price ceiling of milk in Venezuela.

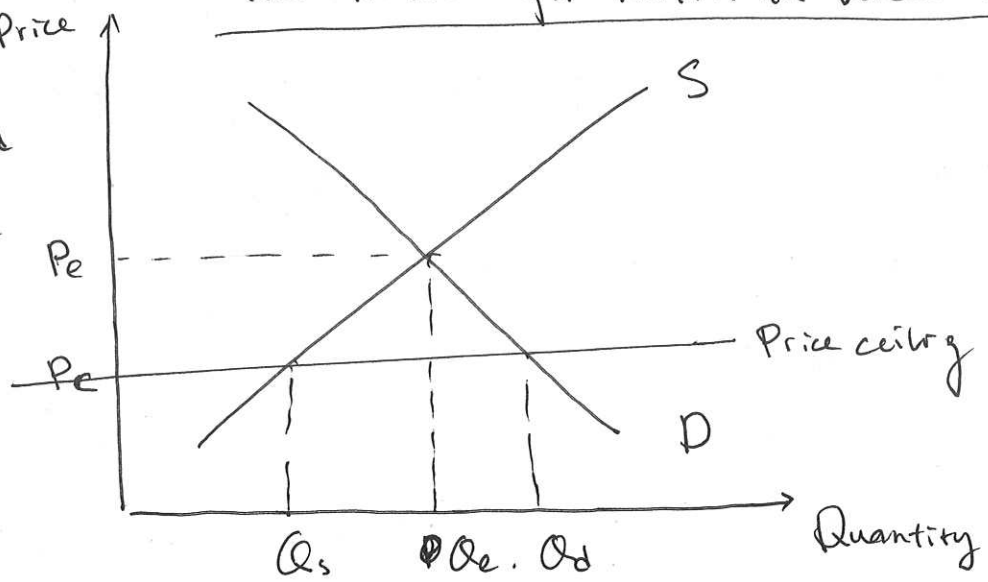

Figure 1.

Figure 1, shows the market for milk in Venezuela. In a free market, the market equilibrium is achieved at Pe, when quantity supplied and quantity demanded are both at Q_e, and there is neither shortage or surplus. However, after a maximum price Pc is imposed, the price can no long reach Pe, and can only stay at maximum

P_c, meanwhile forcing the quantity supplied become Q_s, and quantity demanded become Q_d. Since $Q_s > Q_d$, a shortage of milk is created in Venezuela.

Since the price $P_c < P_e$, milk is more affordable and more consumers will be able and willing to consume. As a result of the incentive function of price, Q_d increases.

At the same time, as the price decreases from P_e to P_c, the suppliers are going to receive less revenues for each quantity supplied, so they will be less incentive to produce milk as before. As a result, quantity supplied increases from Q_e to Q_d.

In this way, even though milk will become more affordable for consumers in Venezuela.

Some demanders willing and able to buy milk at price P_e will go unsatisfied, as a result of the shortage.

Subsidy is the payment to firms by government for more production of a certain good.

market for housing in Shanghai.

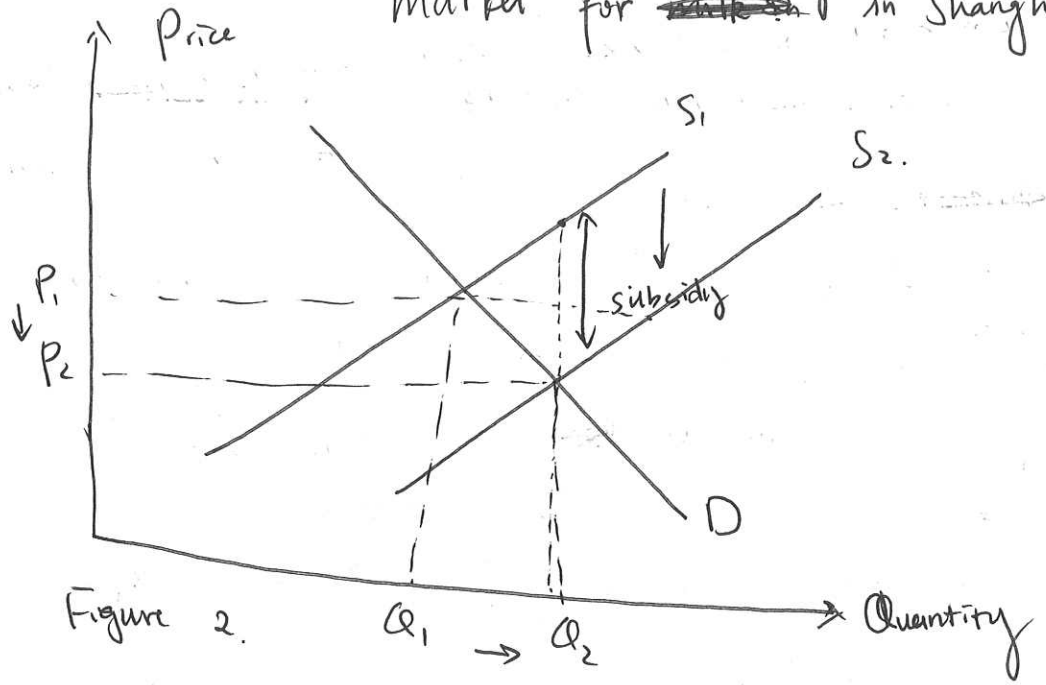

Figure 2.

As shown in Figure 2, at first, the market equilibrium is achieved at P_1, when $Q_s = Q_d = Q_1$. When a subsidy is applied, the cost of production decreases by the amount of the subsidy at each quantity supplied, resulting in a shift in supply from S_1 to S_2. As a result, equilibrium price decreases from P_1 to P_2, and equilibrium quantity increases from Q_1 to Q_2.

As the price decreases and quantity increases, the good becomes more affordable to consumers with lower income in larger quantities.

For example, in China, the Shanghai government imposes a subsidy on housing. As a result, the price of houses in

Shanghai decreases, and more young people could afford them.

Both subsidies and price ceilings as explained in Part A are measures governments can take to make goods more affordable for low-income groups. Yet both have both advantages and disadvantages.

First we consider the impacts of both policies on stakeholders. By applying subsidies, consumers are better-off because they can consume a good at lower price and in larger quantities. It's also more beneficial for suppliers as the equilibrium quantities increases, resulting in more revenues. and thus more profits. Labours are also better off, because the increase in quantity supplied will lead to more jobs available, so the employment rate increases. Government will be the only one that's worse off, because subsidies come from government revenue, which result in either increased tax in another good, or the deficit. In comparison, By applying price ceilings, Consumers ~~can be both better~~ get both benefit and loss. as the good will be more affordable for low-income group, it may ~~not~~ be less available for more people. For supplies, as quantity produced decreases, the revenue ↓ as thus worse off.