

Floors and Ceilings

Goals

- Play with consumer and producer surplus in the context of price controls.
- Get intuition on DWL, what it looks like in real life and where you expect to see a lot of it.

When We Divide up

- Odd number breakout rooms have Supply and Demand very sensitive to price.
- Even number breakout rooms have Supply and Demand very insensitive to price

Odd Rooms

Even Rooms

Task 1

Show your market with a price ceiling.

- Changes in CS and PS from unconstrained
- DWL
- Any transfers between buyers and sellers

What Did You Find?

Summary

- PS ↓
- Transfer from sellers to buyers
- DWL

Task 2

Lower the price ceiling.

- How PS changes as price ceiling decreases.
- How CS changes as price ceiling decreases
- How DWL changes as price ceiling decreases.
- How Transfers change as price ceiling decreases.

Hint: CS can increase or decrease depending on diagram. True in Real life too.

What Did You Find?

Summary

- PS could increase or decrease. There is a range where price ceiling decreases help and a range where it hurts.
 - It has to do with the relative size of the transfer vs the consumer share of DWL.
- CS ↓
- DWL ↑

Now Lets Switch to Floors

Keep your same supply and demand functions.

Show your market with a price floor.

- Changes in CS and PS from unconstrained
- DWL
- Any transfers between buyers and sellers

What Did you Find?

Discussion about Sensitivity to Price Changes

- Slope is one measure, but we will learn about elasticity later.
- With Floor, highly sensitive demand yields high DWL
- With Ceiling, highly sensitive supply yields high DWL.