

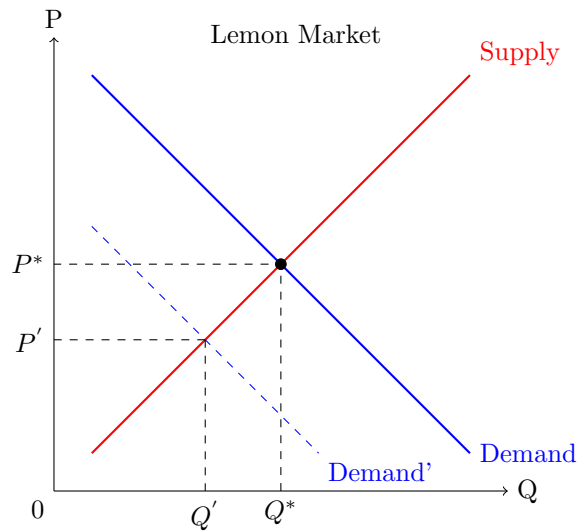
## Substitute and complementary markets

Suppose that tea and lemon are complementary goods, and that coffee and tea are substitutes.

- a) How will an effective price ceiling on tea affect the price of lemons, if at all? Explain your answer.
- b) How will an effective price ceiling on tea affect the price of coffee, if at all? Explain your answer.

## Solution

1. If the price ceiling for tea is set below the equilibrium price, there will be excess demand. Some people willing to buy at a higher price will be unable to do so. Since the equilibrium quantity of tea demanded decreases, people will also consume less lemon. **In the lemon market, this is reflected as a reduction in demand.**



2. In this situation, people will demand more coffee, as those unable to buy tea due to the shortage caused by the price ceiling will shift toward a substitute market: coffee. **This results in a shift in the coffee demand curve.**

