

Student response _____

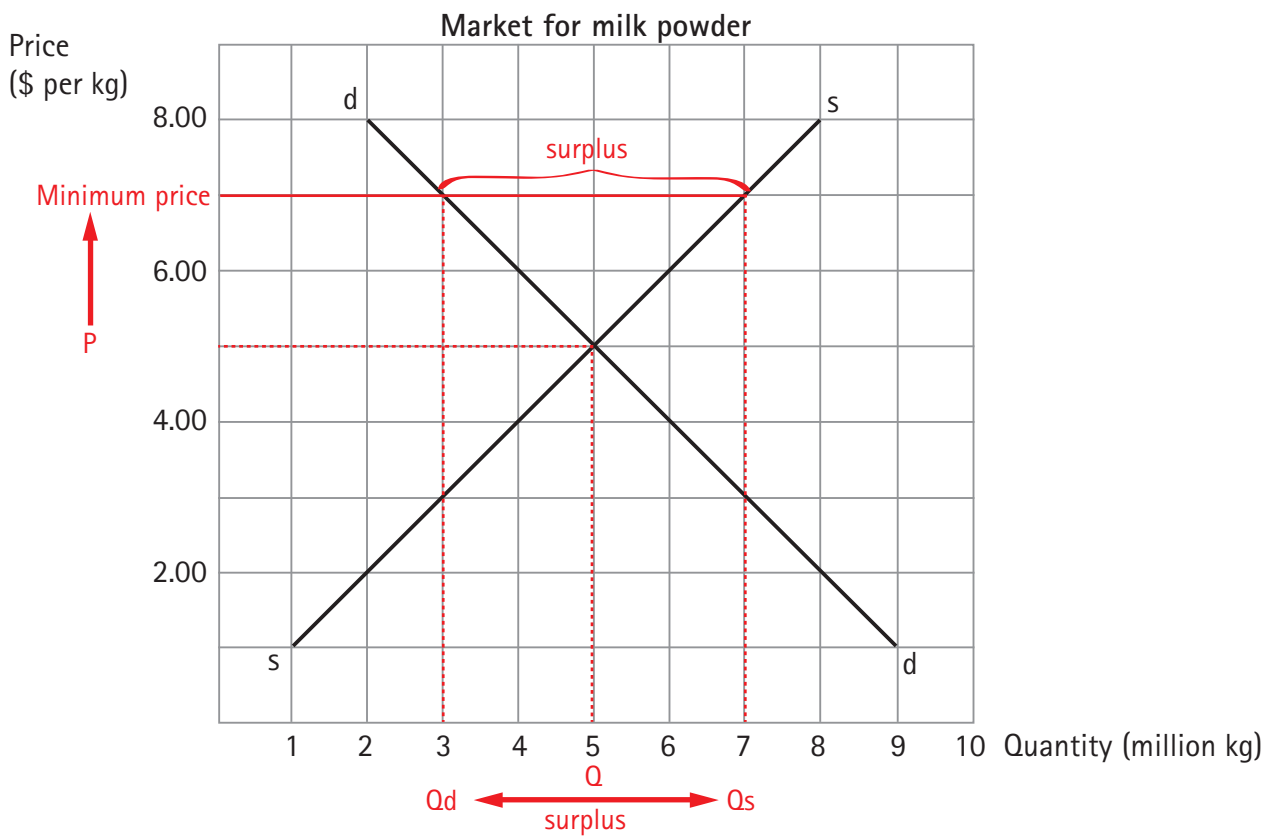
The graph shows the market for milk powder. The vertical axis represents Price (\$ per kg) and the horizontal axis represents Quantity (million kg). The demand curve (d) is downward-sloping, and the supply curve (s) is upward-sloping. They intersect at an equilibrium price of \$5.00 per kg and a quantity of 5 million kg.

Quantity (million kg)	Price (\$ per kg) - Demand (d)	Price (\$ per kg) - Supply (s)
1	7.00	1.00
2	6.00	2.00
3	5.00	3.00
4	4.00	4.00
5	3.00	5.00
6	2.00	6.00
7	1.00	7.00
8	0.00	8.00

- What is the correct economic term for this option?
- Show the effect on the graph of the government imposing a price control of \$7.00 per kg.
- What difficulty does the government face with getting a price control of \$7.00 per kg?
- Why might a government impose a minimum price?

eLearneconomics: Price Controls – Minimum Price (1a)

Solutions



Minimum (floor) price.

The government has to decide what to do with the resulting surplus, usually stockpile it and sell it at a later date.

The government may impose a minimum price to protect producers from receiving unreasonably low prices for their output.

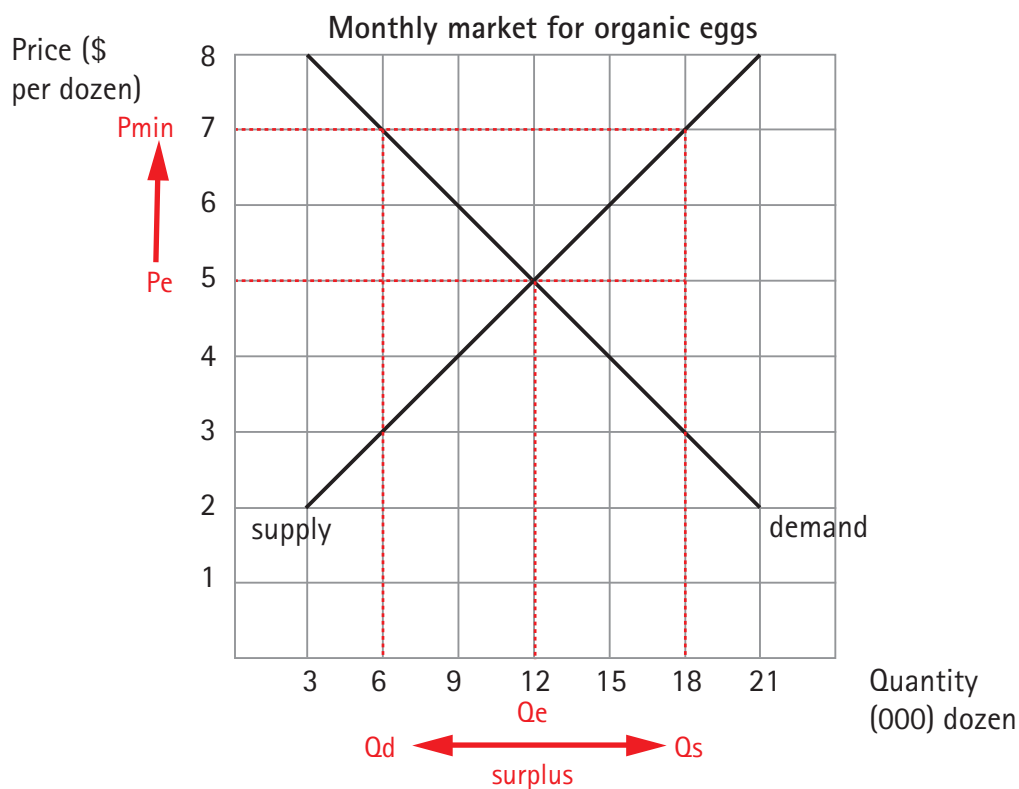
Student response

- b Fully explain the effects of introducing a minimum price for organic eggs on egg producers. In your answer you should:
- explain the change in price, the change in quantity demanded and quantity supplied
 - explain the effect on organic egg producers. Refer to the data.

[illegible]

eLearneconomics: Price Controls – Minimum Price (2a)

Solutions



A minimum price control is a price control set by government when the market price is not allowed to fall below a minimum (floor) level, in this case \$7 per dozen for organic eggs.

The quantity demanded by consumers falls from Q_e (12 000 dozen) to Q_d (6 000 dozen). The quantity supplied of organic eggs increases from Q_e (12 000 dozen) to Q_s (18 000 dozen).

Egg producers' revenue increases from \$60 000 to \$126 000. Organic egg producers will switch resources into organic egg production because it is relatively more profitable. Egg producers now receive P_{min} (\$7 per dozen) instead of P_e (\$5 per dozen).

Explains minimum price in depth. Shows the change on the graph and uses appropriate economic terms.