



UNIVERSITY EXAMINATIONS: 2024/2025

SCHOOL OF BUSINESS

ECO 1201: INTRODUCTION TO MICROECONOMICS

QUESTION

The price of maize flour has been increasing in recent months, causing concern among low-income households, as maize flour is a staple food in many parts of the country. Some members of the public believe that the government should intervene by setting a maximum price, or a price ceiling, on maize flour to make it more affordable for low-income families.

(a) Using the theory of supply and demand, explain the potential effects of the government imposing a price ceiling on maize flour that is below the current market equilibrium price.

Discuss both the short-term and long-term effects on:

(3 Marks)

- Consumers
- Producers
- The overall market for maize flour.

(b) Use a supply and demand diagram to illustrate the effects of a price ceiling. Clearly label the price ceiling, the equilibrium price, and the resulting shortage or surplus in the market. **(3 Marks)**

(c) Based on your analysis and the diagram, would you advise the government to impose a price ceiling on maize flour? Justify your answer by considering both the economic and social implications. **(4 Marks)**