

ECO 1201 : INTRODUCTION TO MICROECONOMICS

- (a) A price ceiling below the market equilibrium disrupts the natural balance of supply and demand, causing shortages. The long term effect will be a weakened market, with lower production, shortages and potentially higher prices in unregulated markets. In the short-term, customers may benefit from the lower price, which increases their purchasing power and access to maize flour. This artificially low price also leads to an increase in demand as more people seek to purchase the affordable maize flour. In long run, the overall market suffers due to reduced supply and persistent shortages.

Short term and long term effects on:

① Consumers :

- ④ Short-term effects - In the short term, consumers mostly the low-income households would benefit from the lower prices. The Maize flour would become more affordable allowing consumers to purchase more. This might relieve some economic pressure on low-income families.
- ⑤ Long-term effects - Overtime, the price ceiling leads to shortages. Because the price is low, the demand for maize flour would increase as more people can afford it. The producers may be unwilling or unable to supply enough at this lower price, resulting in long queues in shops or even black markets.

② Producers :

- ④ Short-term effect - Producers will experience reduced revenue because they are forced to sell the maize flour at lower price than the market equilibrium. Their profits will be low and this might cause smaller producers to suffer significantly due to financial challenges.

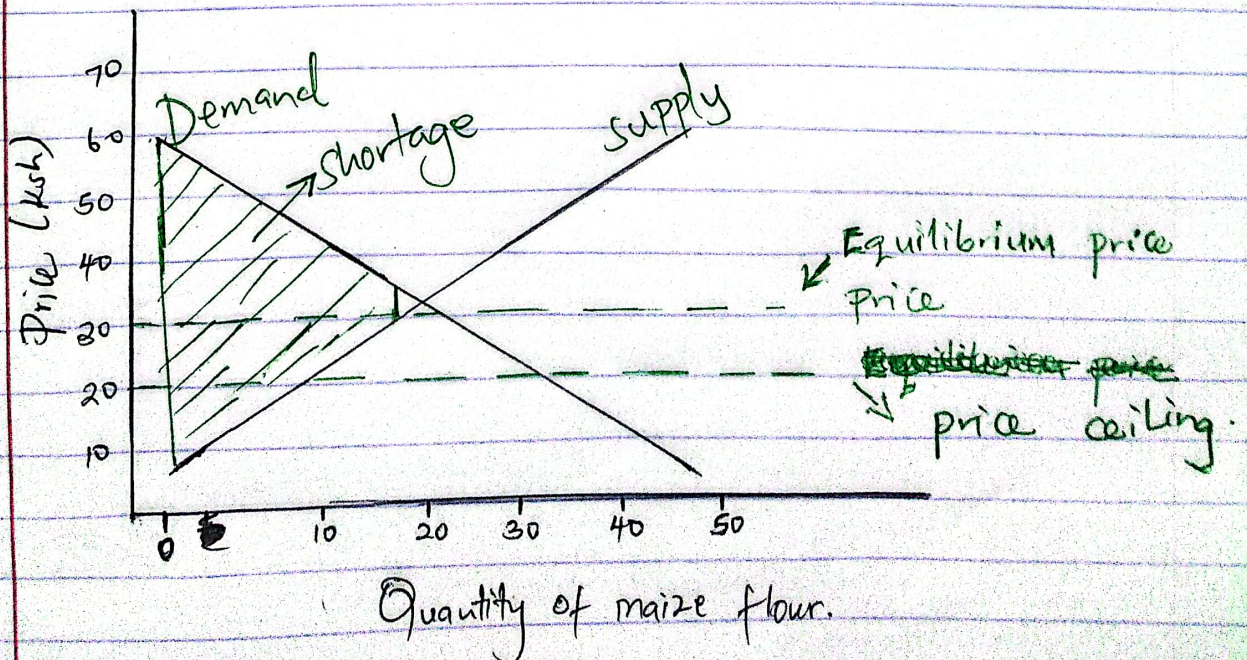
① long-term effect - In the long run, the price ceiling may - discourage investment in maize farming and milling, leading to decrease in production capacity. There might be a decrease in the quality of maize produced in the country if the producers try to cut costs of production to stay profitable.

③ The overall market of maize flour:-

① Short-term effect - Initially, the price ceiling would cause a surplus demand of maize flour over supply, leading to shortages in the market. The gap between the quantity demanded and the quantity supplied would increase.

② Long-term effect - Over time, the shortage could worsen as producers scale back production due to reduced profits. The market may develop inefficiencies as a result of these distortions, with resources not being allocated to meet - actual demand. Black markets could emerge, where maize flour is sold at higher price.

③



② Based on my analysis, I would advise against imposing a price ceiling on maize flour. While the intention is to protect the consumers, the resulting shortages and potential for market distortions may harm both producers and consumers. A more effective approach could be to provide subsidies or support programs for low-income households to improve access to maize flour without disrupting the market balance.