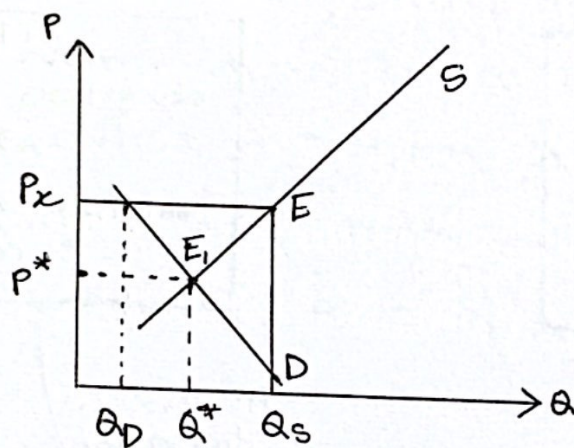


# How does an effective price flooring create market inefficiency? Explain with diagram.

⇒ Firstly price flooring means setting up the minimum price. Secondly, when the minimum price is set above the equilibrium price, that's called, effective price flooring. But if the minimum price is set below the equilibrium price, it's not effective price flooring. Now let's see a diagram.



Here we can see  $Q_S > Q_D$ . It is a diagram of effective price flooring. Effective price flooring brings in inefficiency in market because it brings excess supply in market. We called this surplus and this is definitely not good for market. That's why effective price flooring brings inefficiency in the market.