



# Supply, Demand and Markets: Pricing Policies

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# Pricing Policies

## Price Ceiling

- Rent control

## Price Floor

- Minimum wage, Ag commodities

## Taxes and Subsidies





# Model Predictions

- How does policy effect
  - Price and quantity
  - Economic welfare
    - Consumer surplus
    - Producer surplus
    - Deadweight loss
    - Tax revenue or expenditure





# Price Ceiling



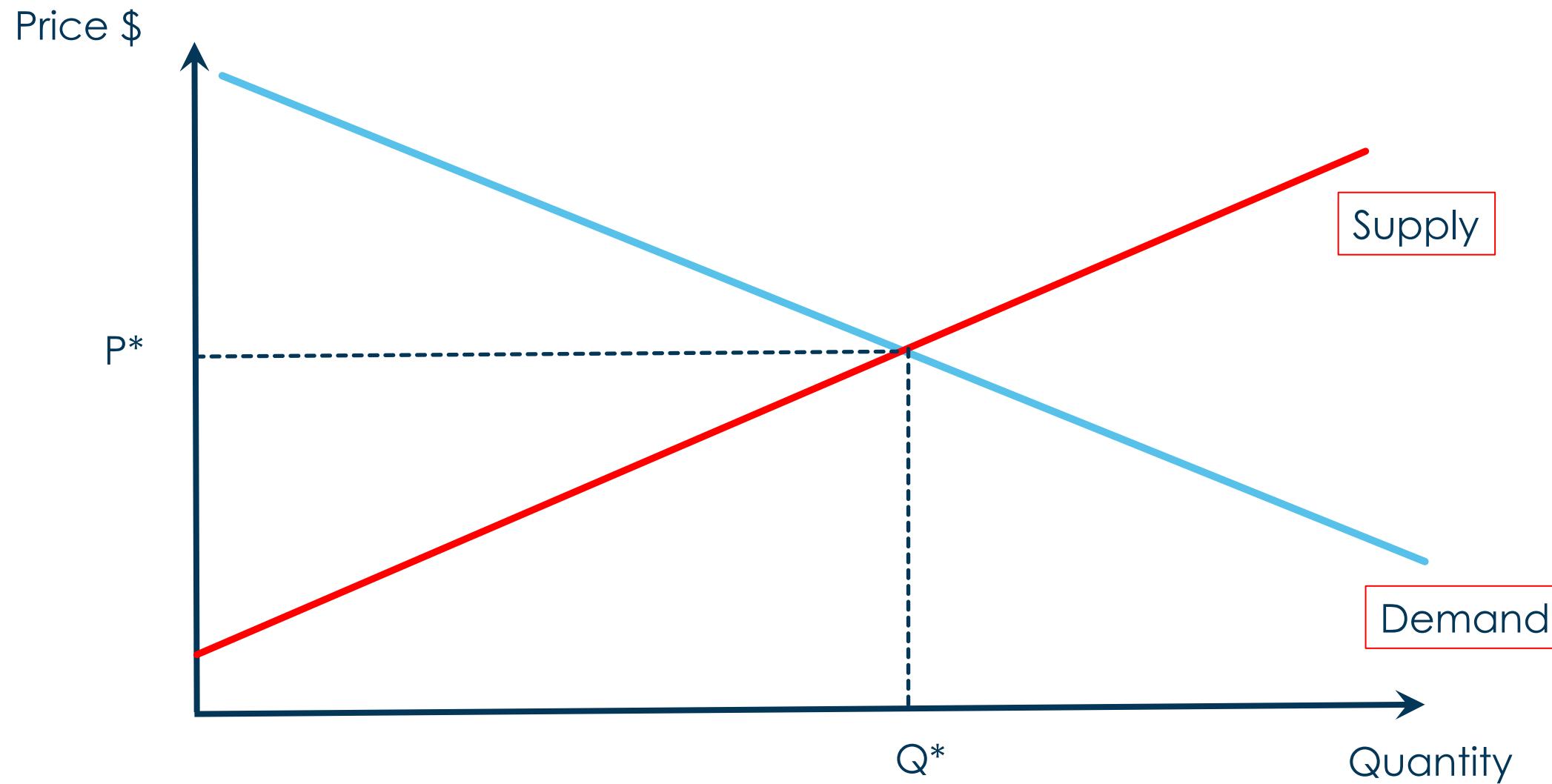
# Price Ceiling

- Price regulation that sets the highest price that can legally be paid



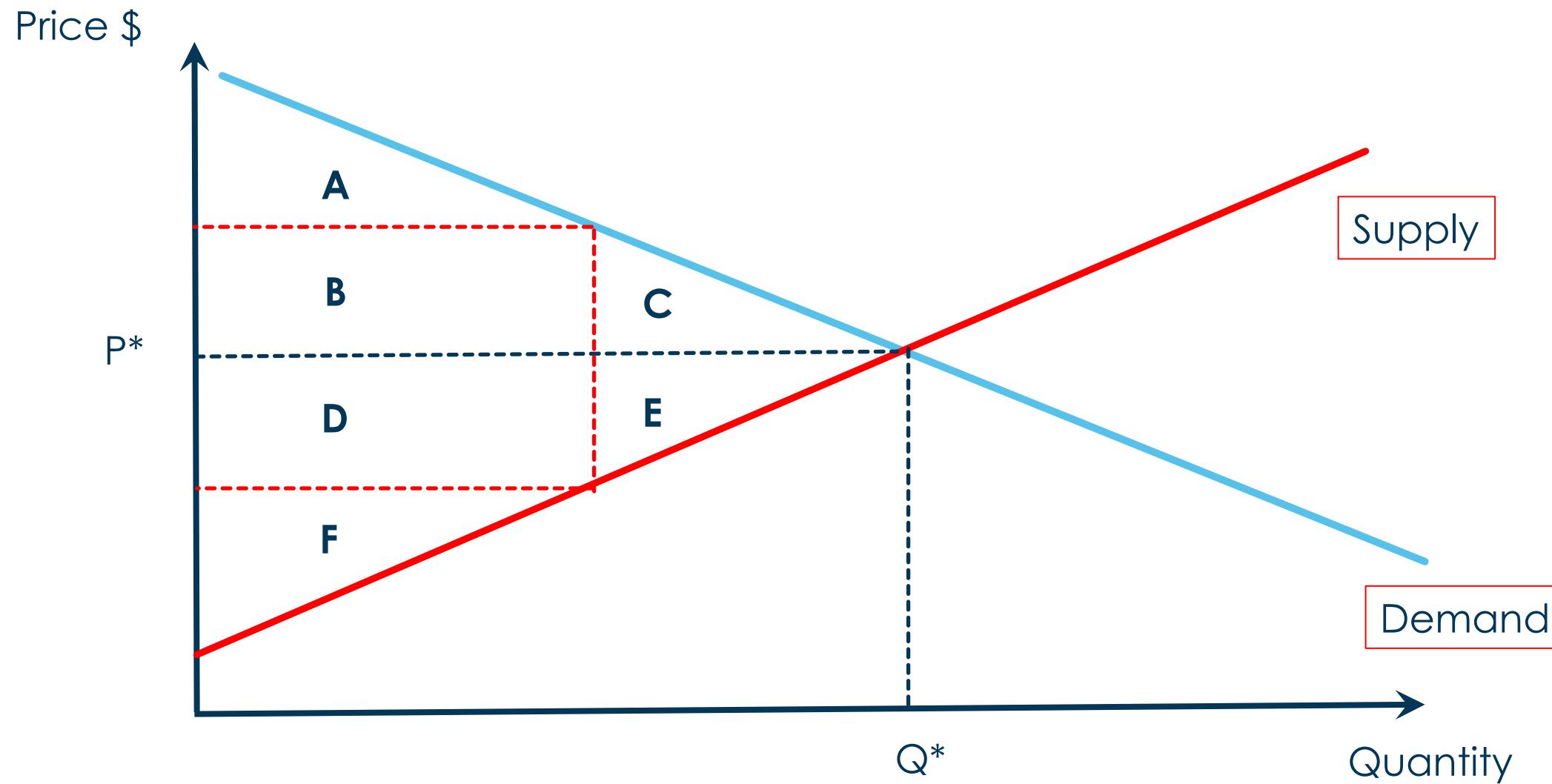


# Price Ceiling



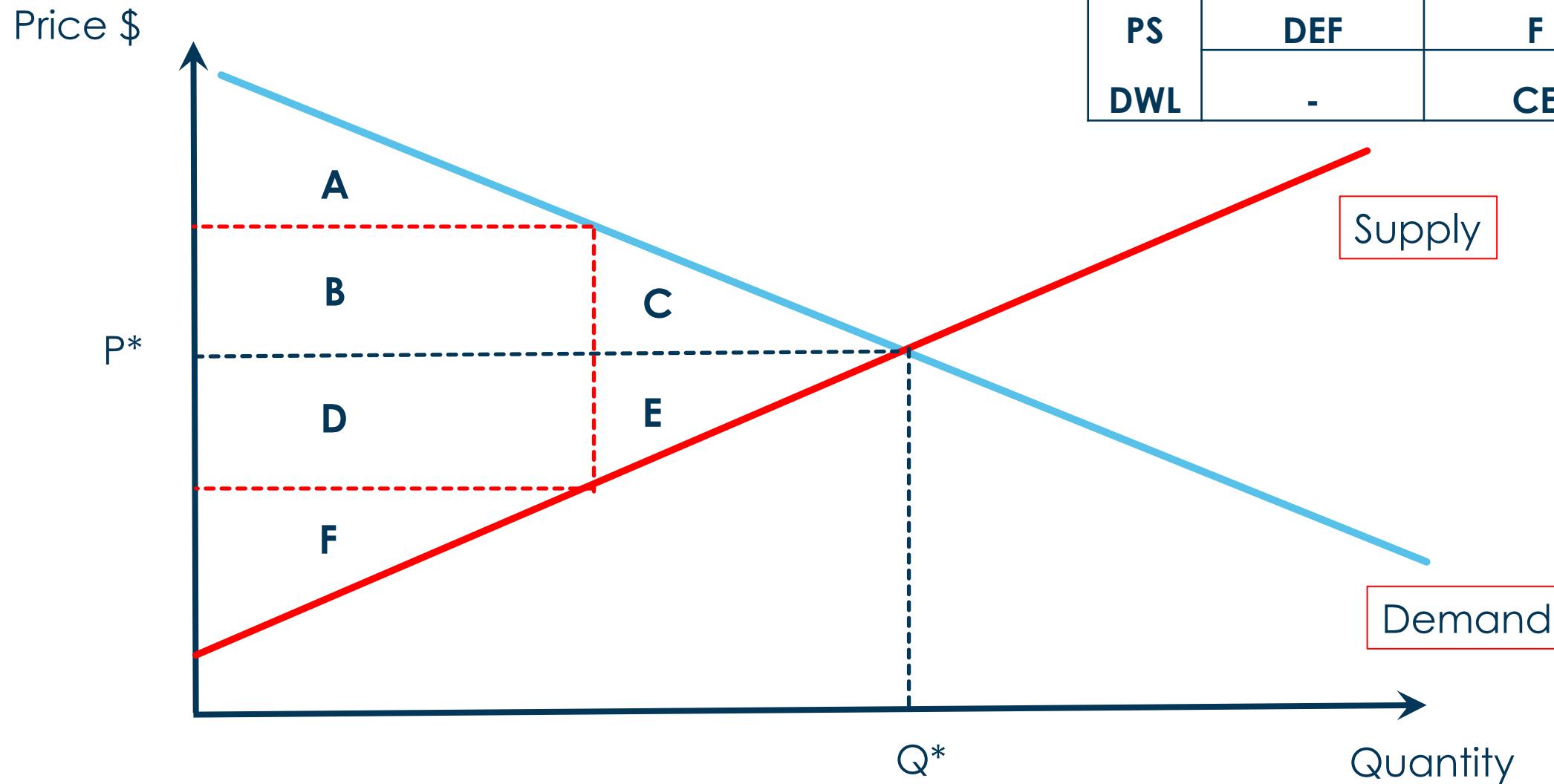


# Price Ceiling





# Price Ceiling



		Price Control
		$P^*, Q^*$
CS	ABC	ABD
PS	DEF	F
DWL	-	CE



# Price Ceiling: Deadweight Loss

- Deadweight loss
  - 1) Reduction in total economic surplus as a result of a market inefficiency
  - 2) Transfer of some **producer surplus to consumers**  
i.e. no free lunch





# Price Floor



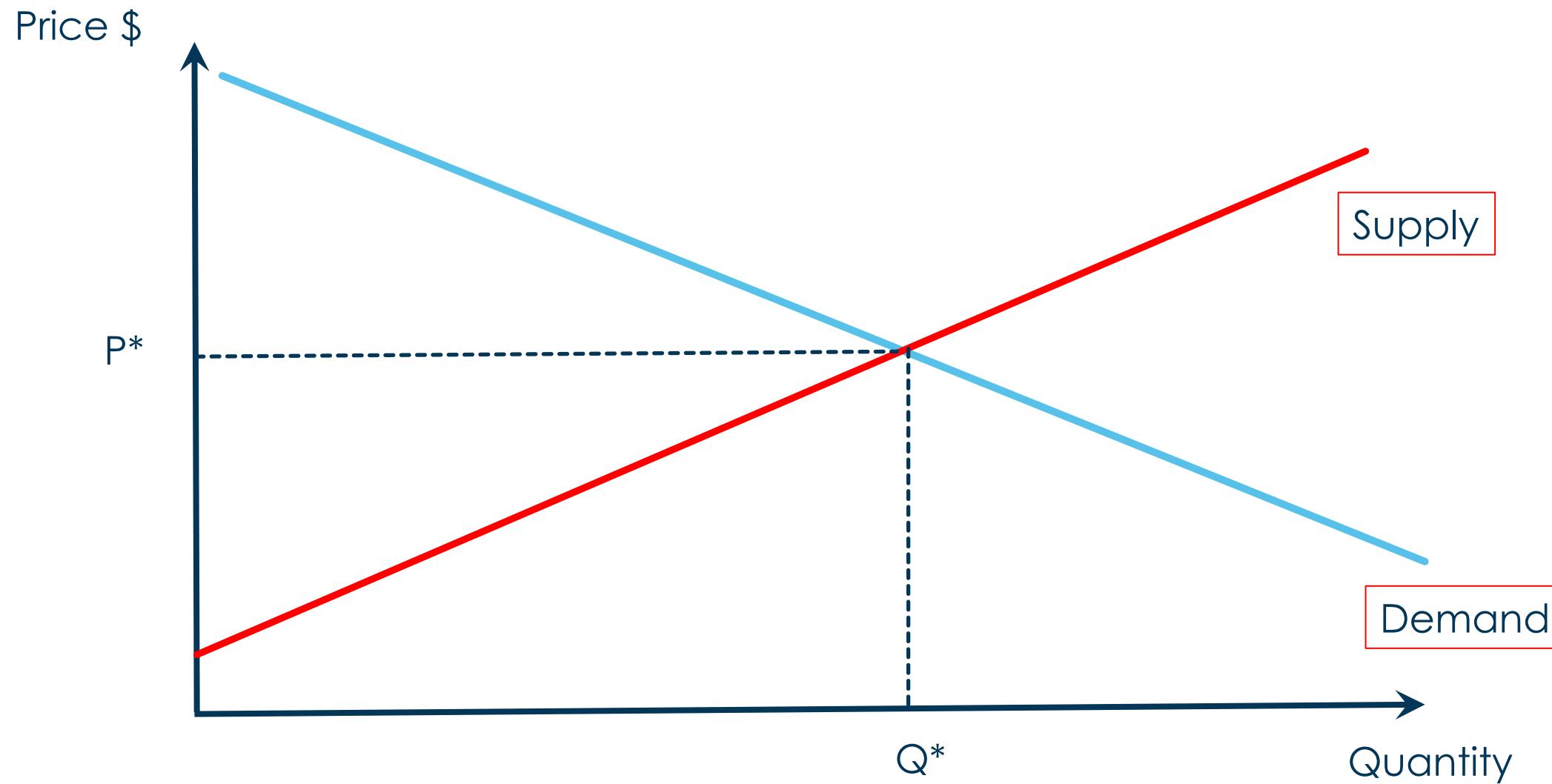
# Price Floor

- Minimum price allowable by law



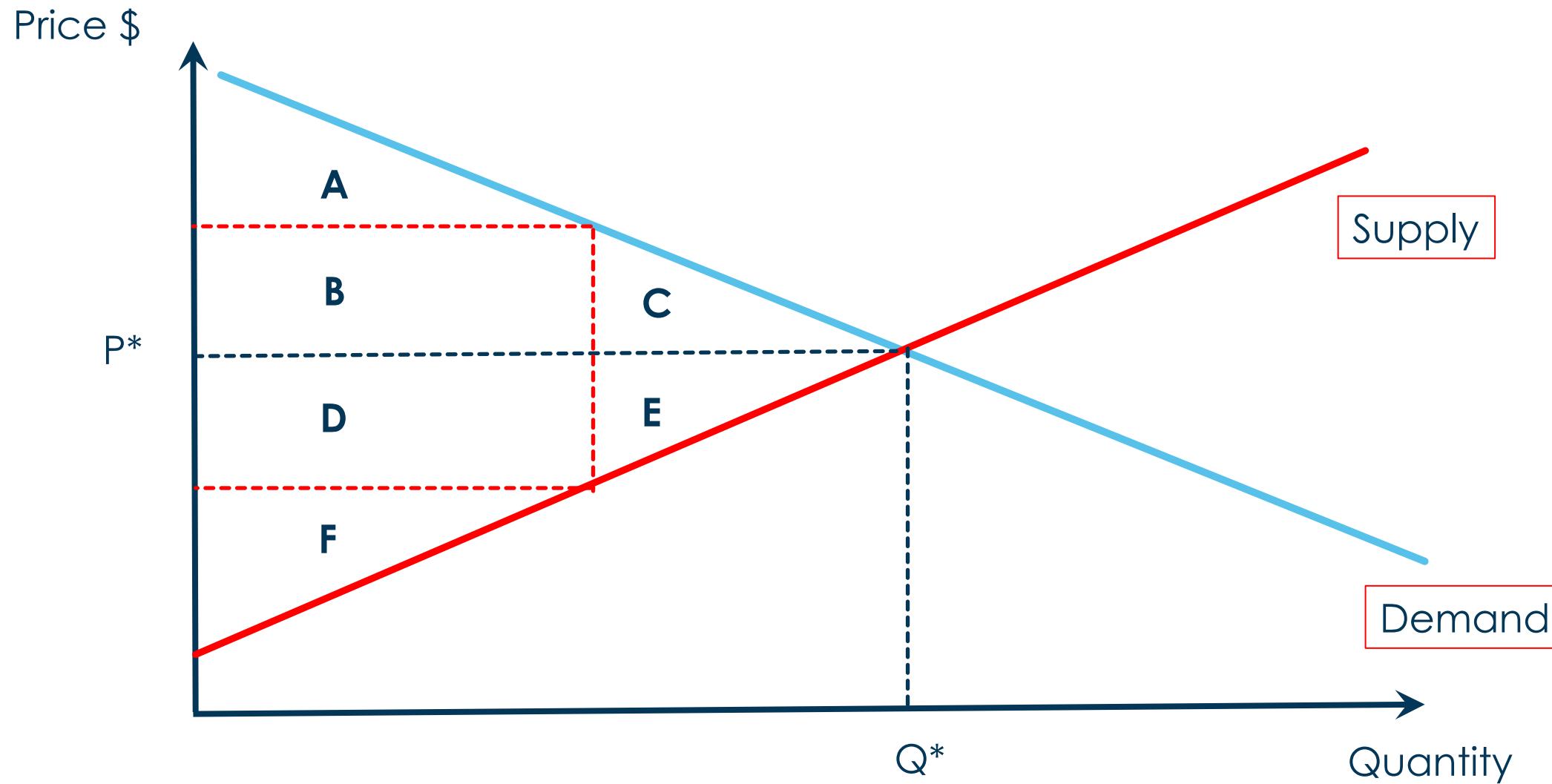


# Price Floor



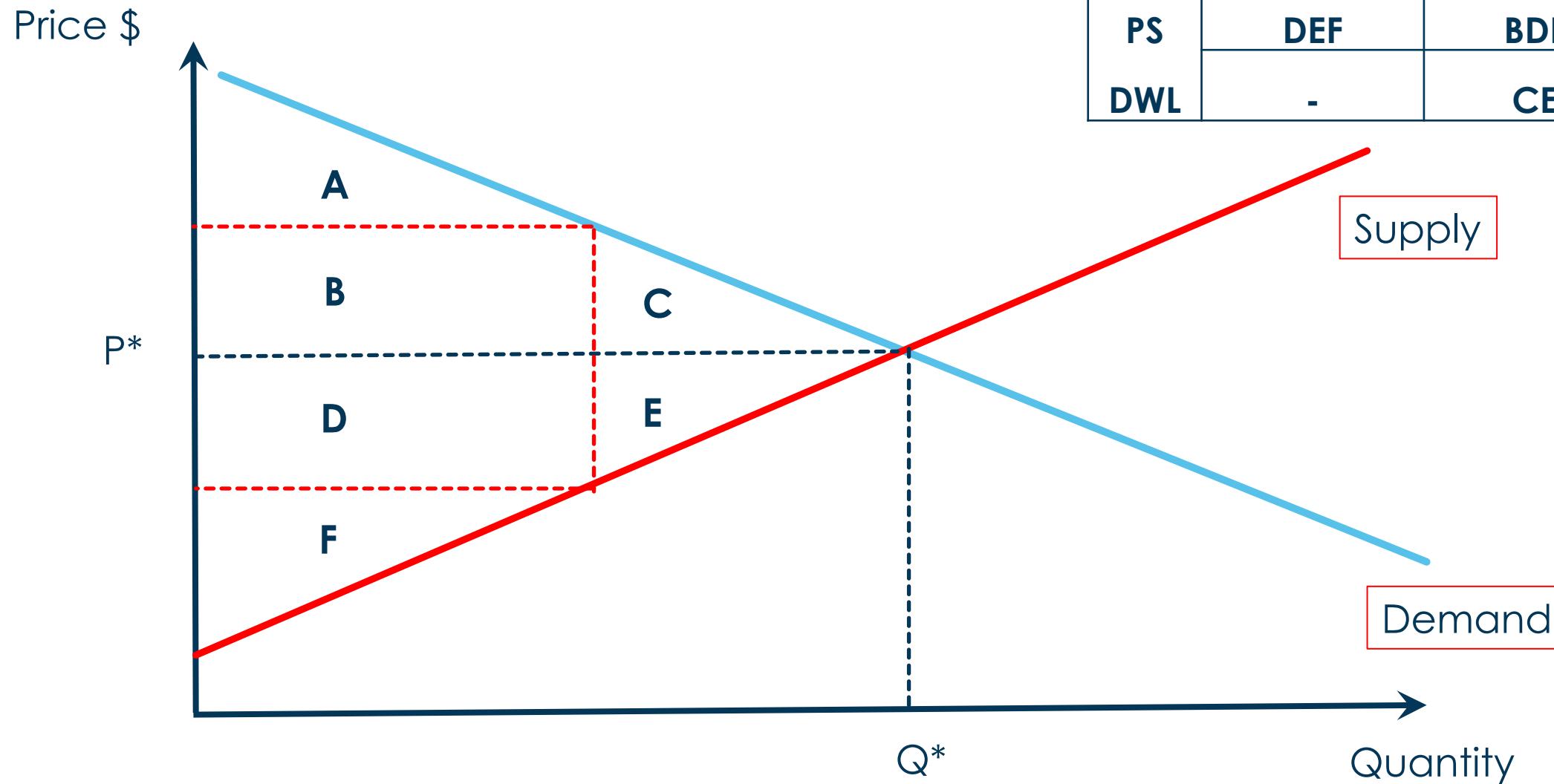


# Price Floor





# Price Floor



		Price Control
$P^*, Q^*$		
CS	ABC	A
PS	DEF	BDF
DWL	-	CE



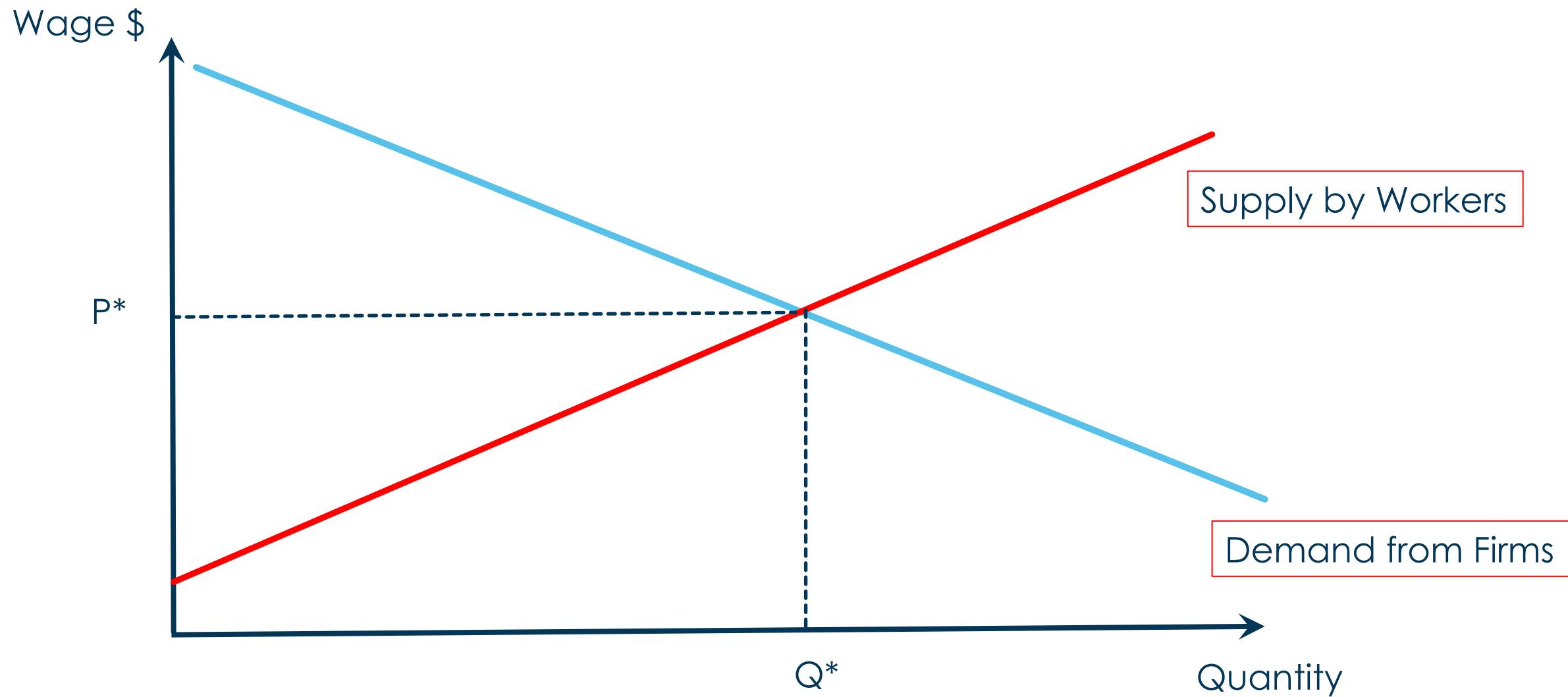
# Price Floor

- Minimum wage



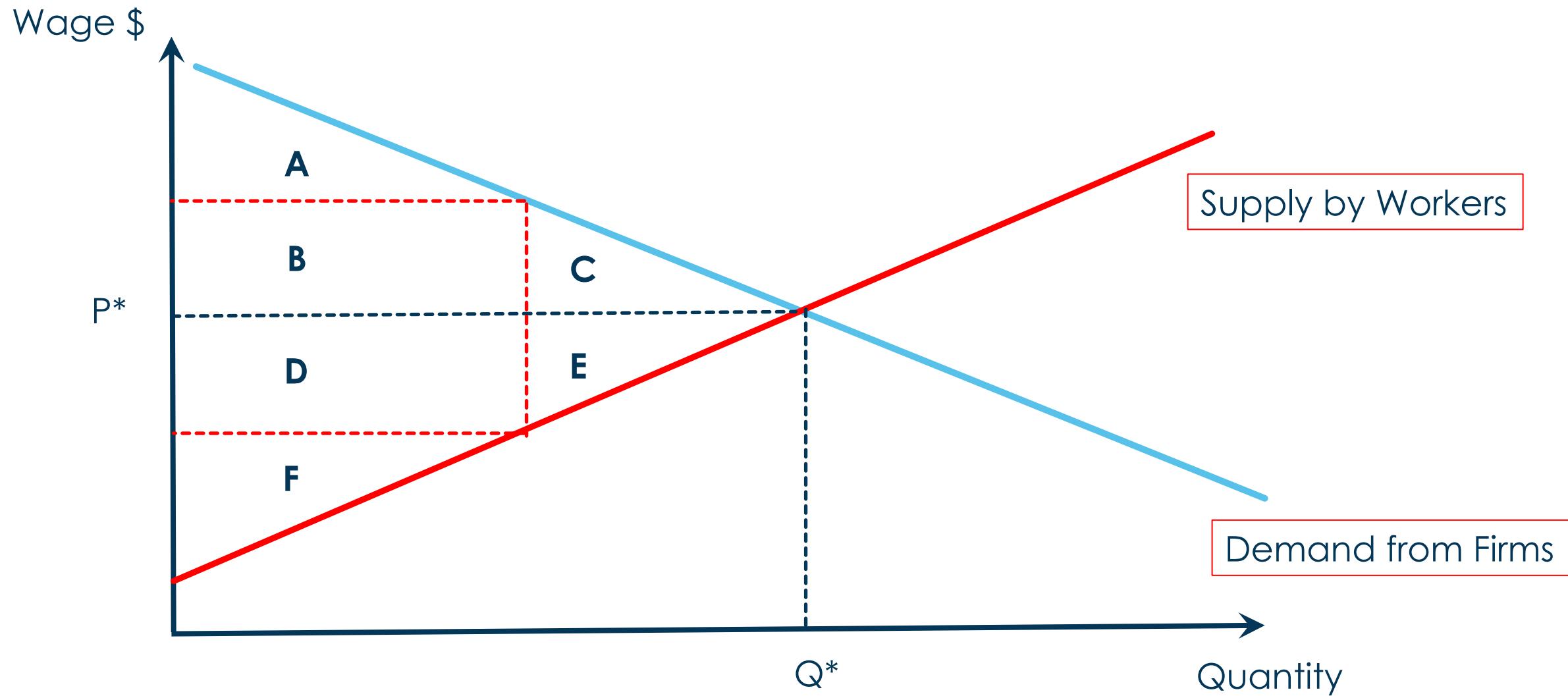


# Price Floor: Labor Market



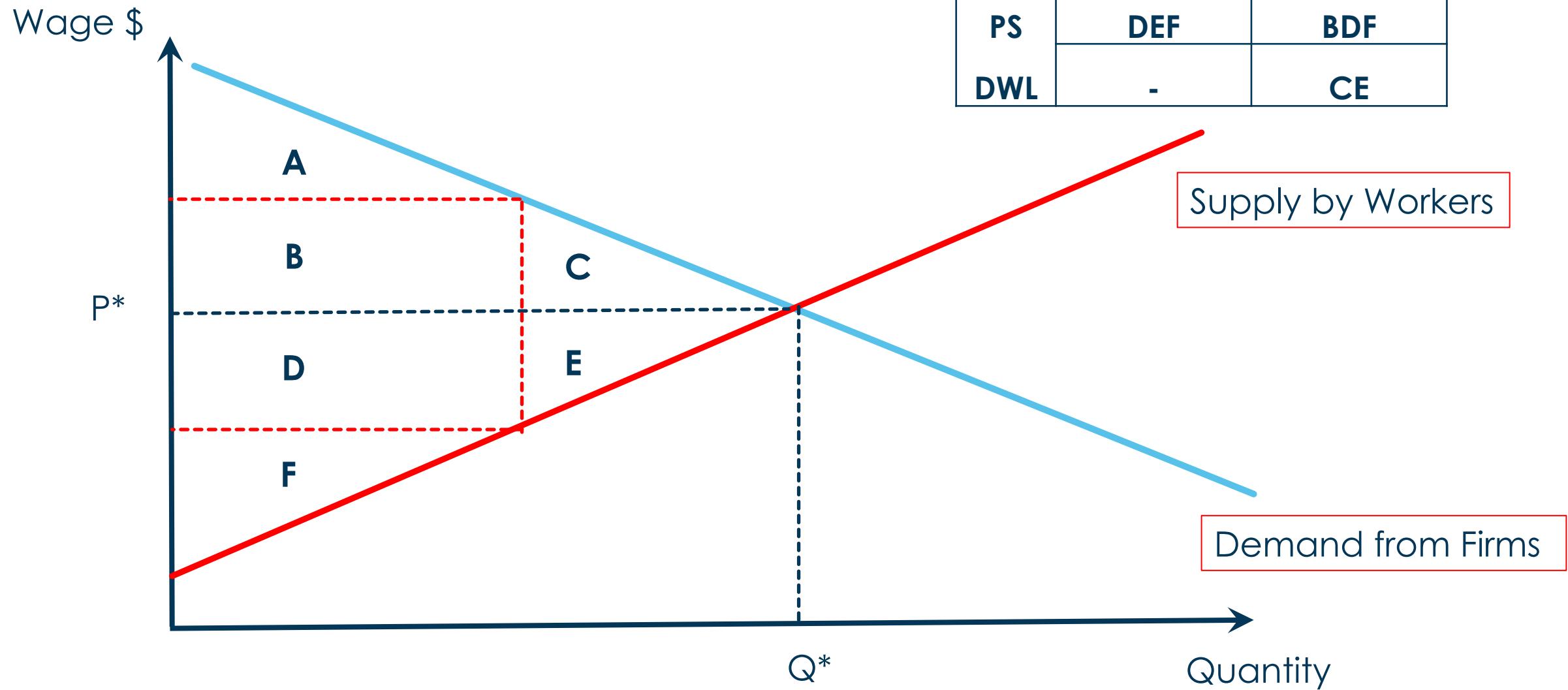


# Price Floor : Labor Market





# Price Floor: Labor Market





# Price Floor: Deadweight Loss

- Deadweight loss
  - 1) Reduction in total economic surplus as a result of a market inefficiency
  - 2) Transfer of some consumer surplus to producers  
i.e. no free lunch





# Tax



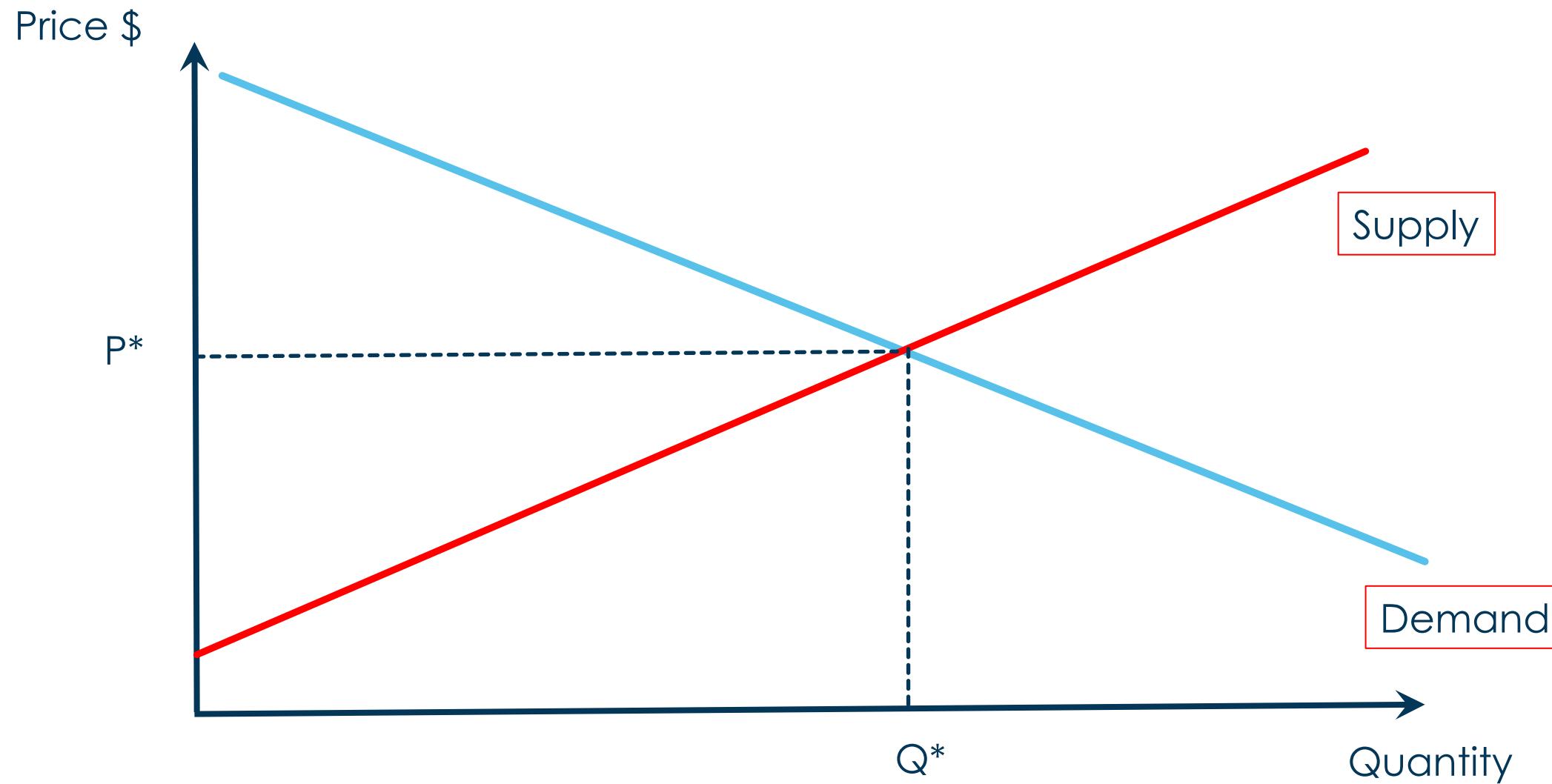
# Tax

- Per unit tax that goes to the govt. of the same amount for each unit bought and sold
- Separates the amount that buyers pay (higher) and sellers receive (lower)
- Tax wedge



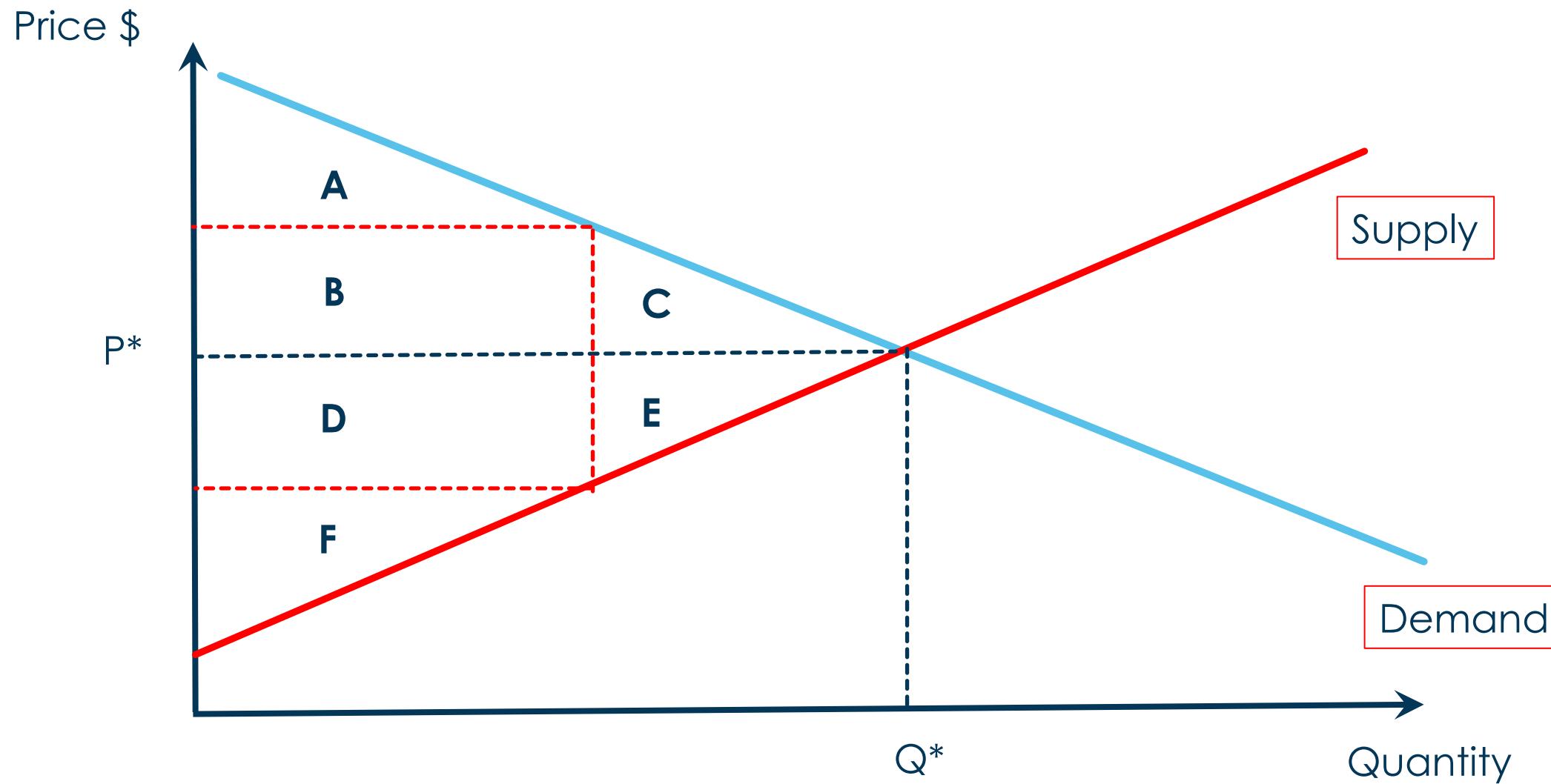


# Tax





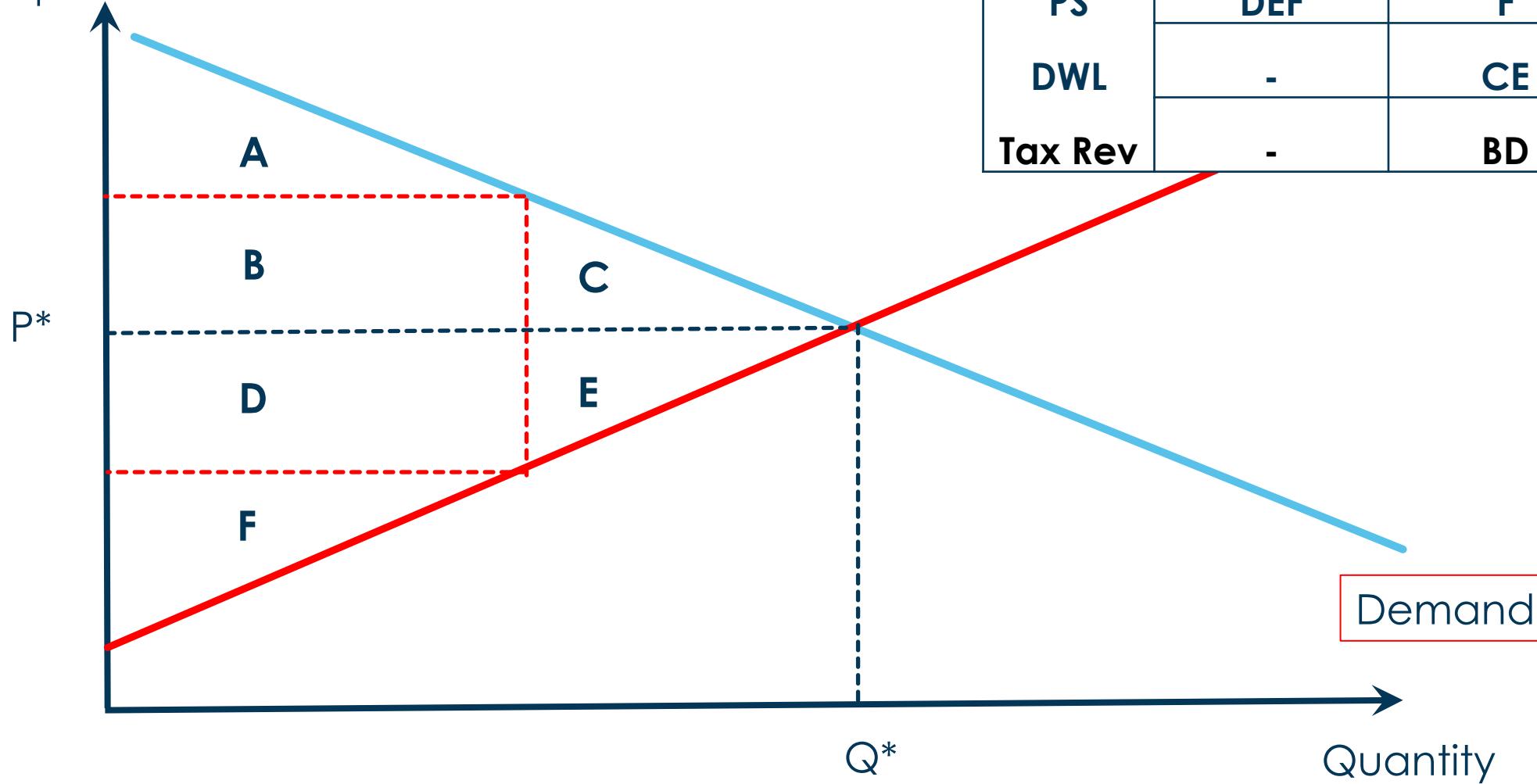
# Tax





# Tax

Price \$

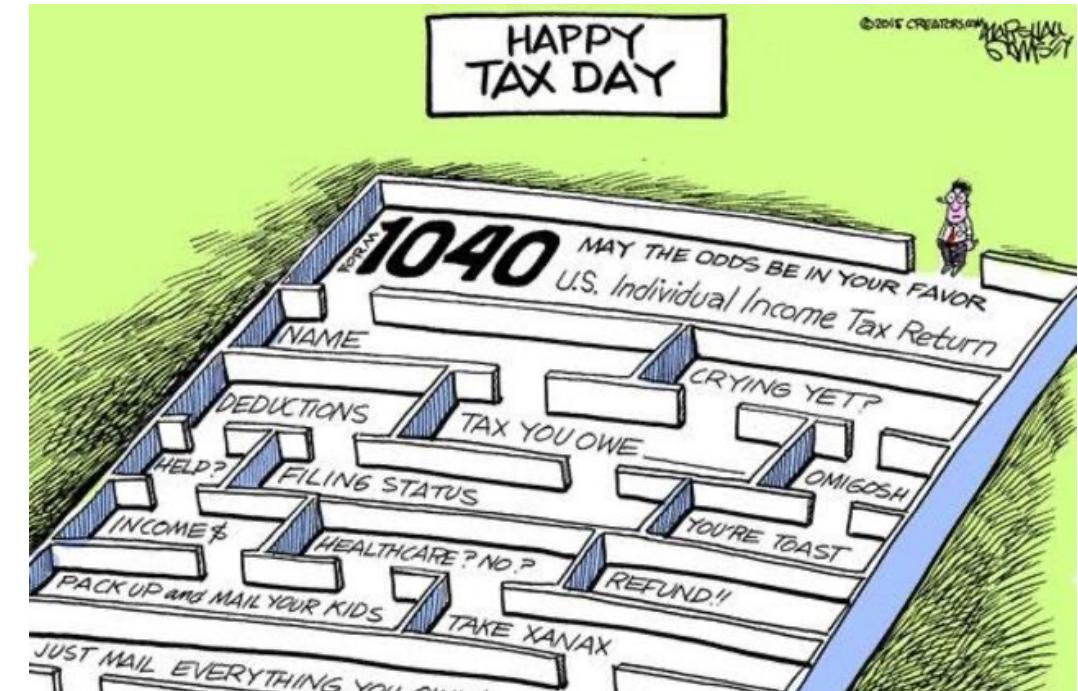


	$P^*, Q^*$	Tax
CS	ABC	A
PS	DEF	F
DWL	-	CE
Tax Rev	-	BD



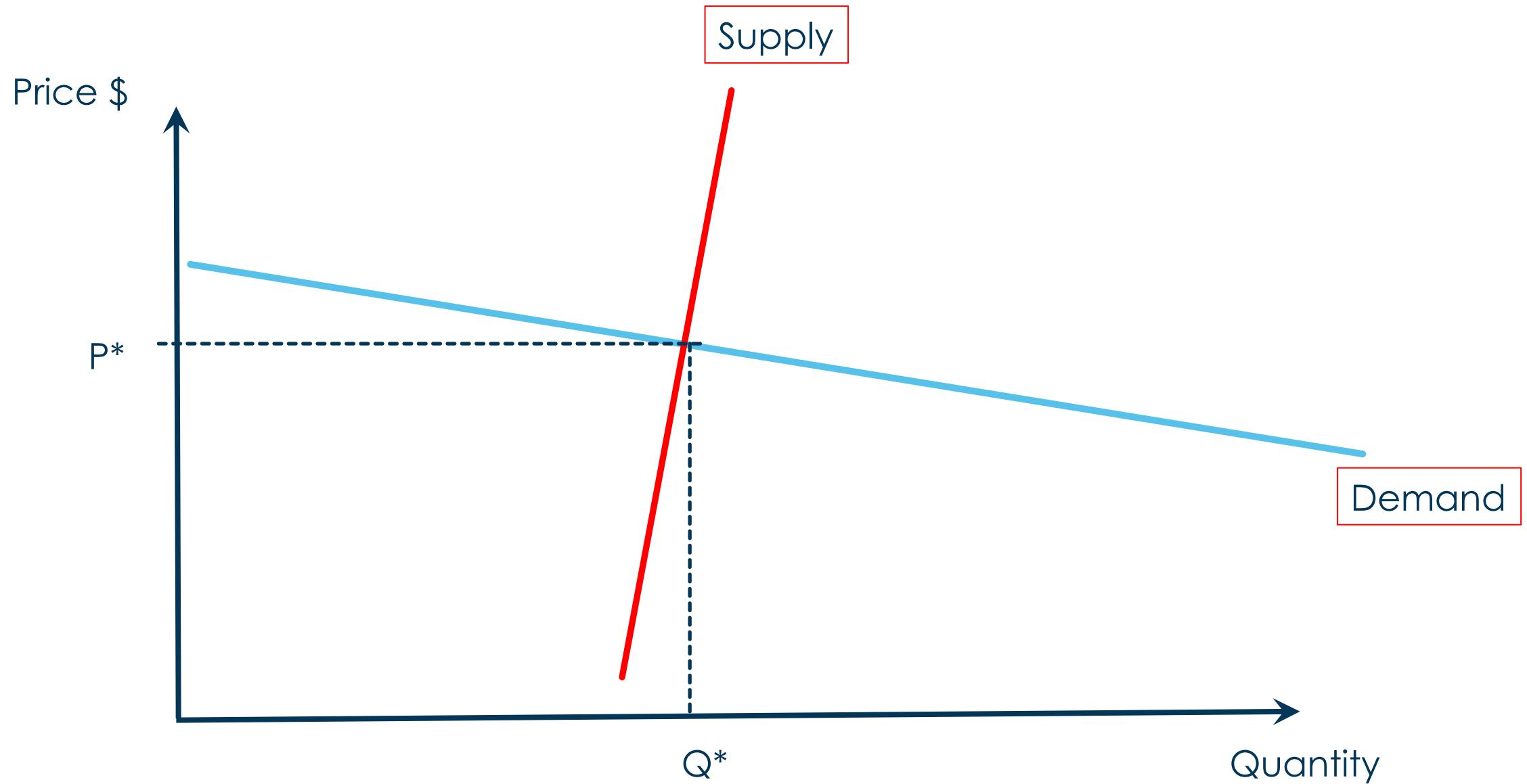
# Tax Incidence or burden

- Who actually pays the tax?
- This depends on the relative elasticities of consumers and producers
- Elastic side Escapes the tax



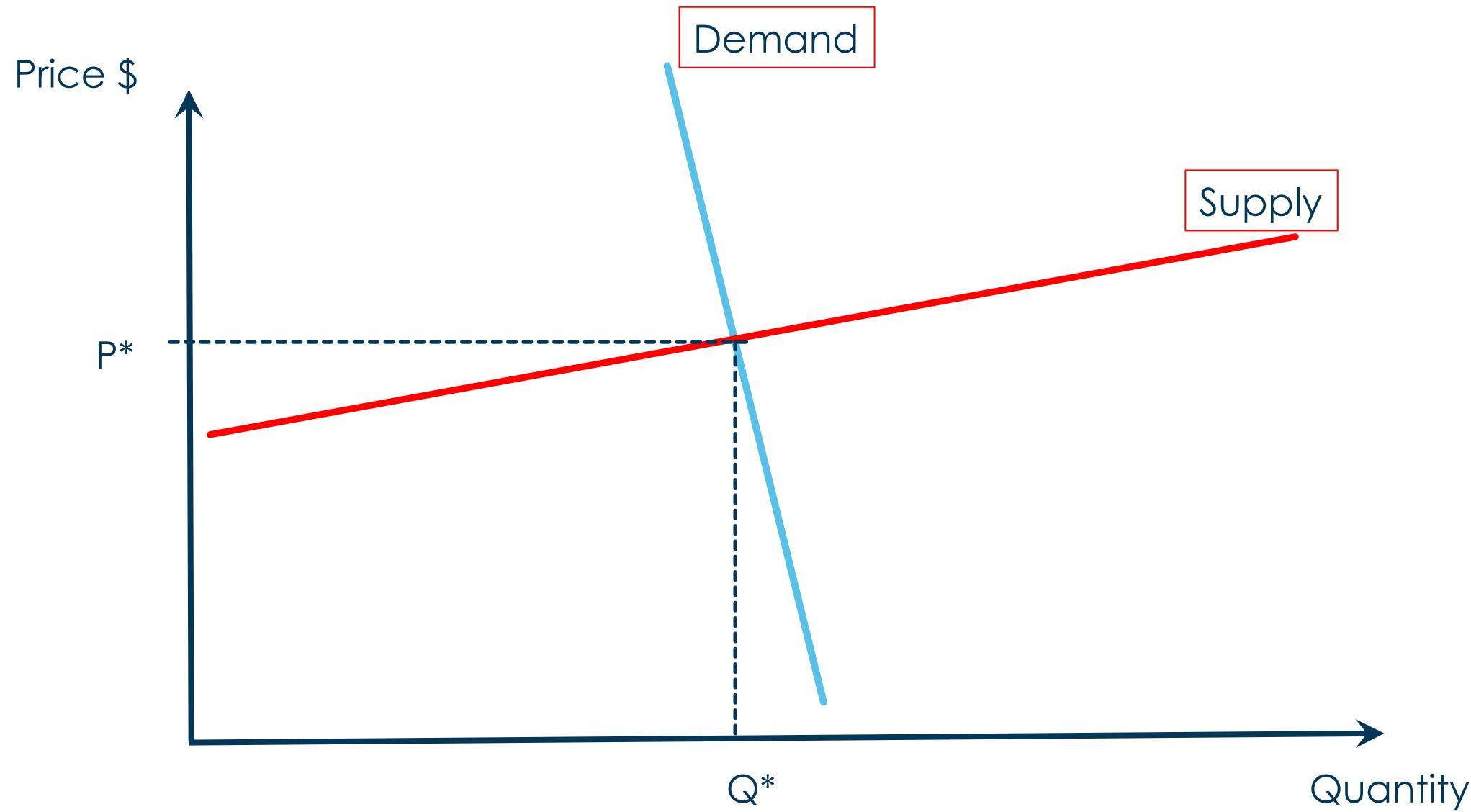


# Tax





# Tax





# Subsidy



# Subsidy

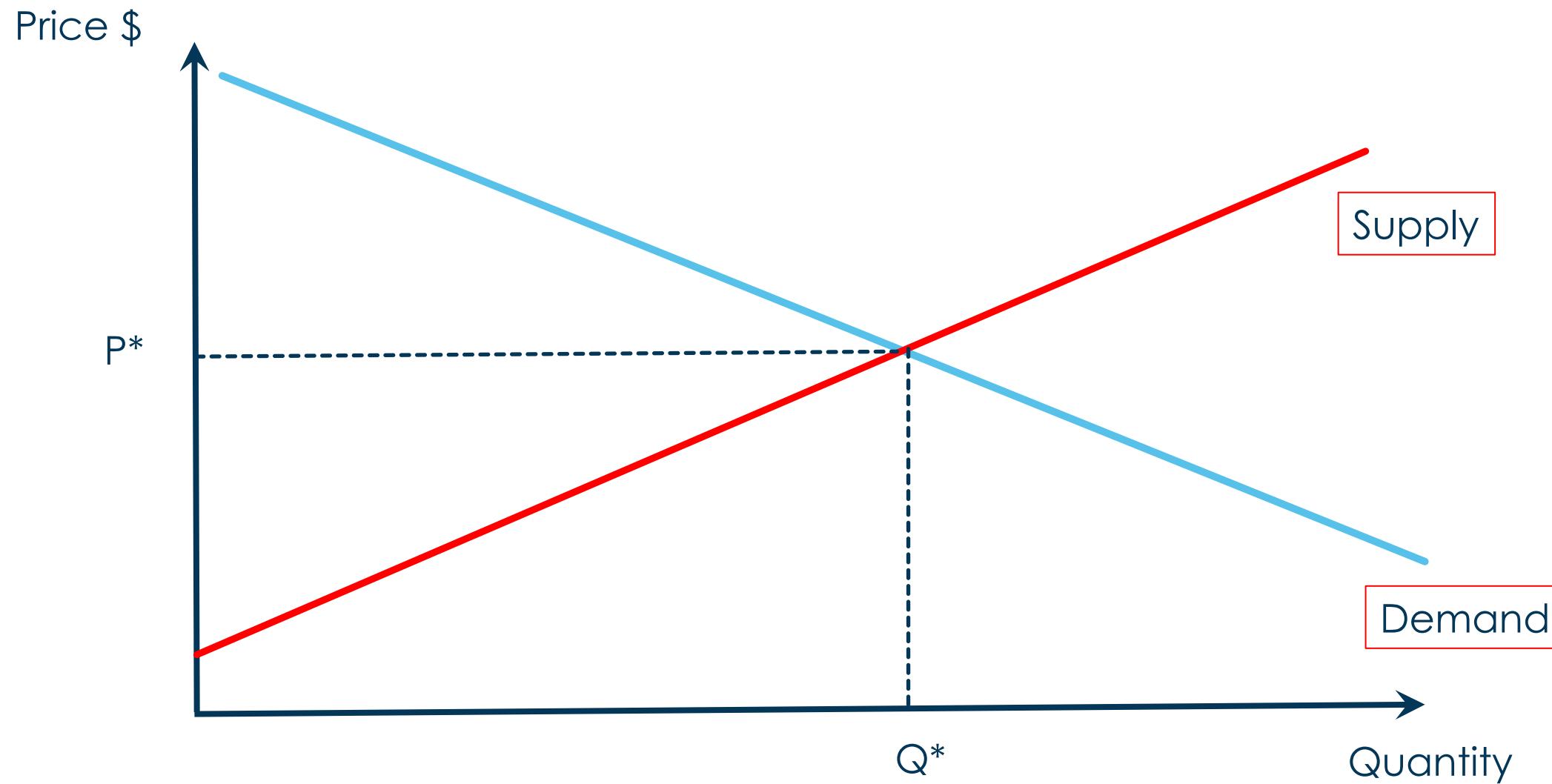
- Opposite of a tax
- Govt. pays for each unit to encourage production and consumption of a good or service
- E.g. Solar panels



**subsidy**

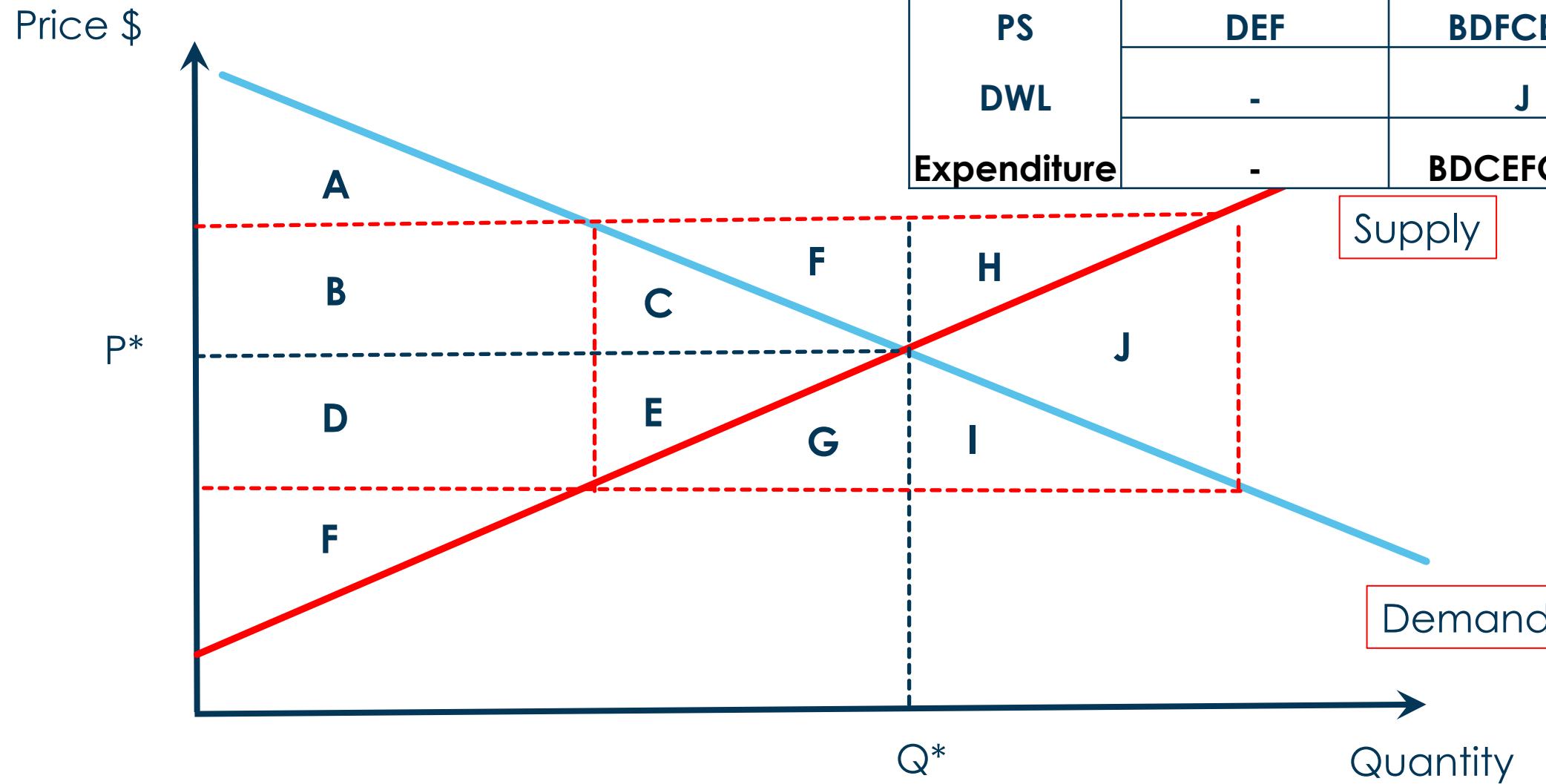


# Subsidy





# Subsidy



	$P^*, Q^*$	Price Control
CS	ABC	ABCDEGI
PS	DEF	BDFCEFHI
DWL	-	J
Expenditure	-	BDCEFGHIJ



# Conclusion

- How does policy effect
  - Price and quantity
  - Economic welfare
    - Consumer surplus
    - Producer surplus
    - Deadweight loss
    - Tax revenue or expenditure

## Model Predictions





# Conclusion



# Conclusion

