

PRICE FLOORS and BUTTER MOUNTAINS!!

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Sumner La Croix

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Price Controls: Two Types

Price Ceiling

- ◆ A legally established maximum price at which a good can be sold.

Price Floor

- ◆ A legally established minimum price at which a good can be sold.

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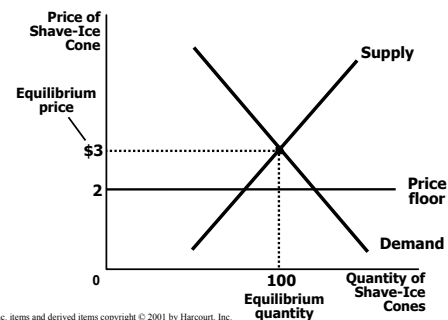
Price Floors

When the government imposes a price floor, two outcomes are possible.

- ◆ The price floor *is not* binding if set *below* the equilibrium price.
- ◆ The price floor *is* binding if set *above* the equilibrium price, leading to a surplus.

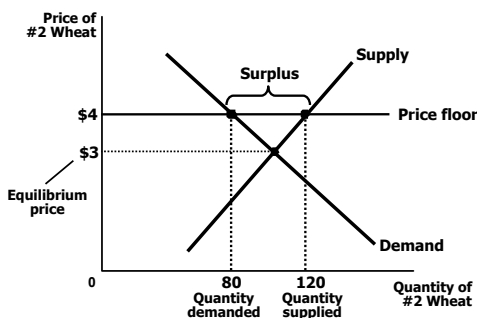
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A Price Floor That Is Not Binding...



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A Price Floor That Is Binding...



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Effects of a Price Floor

- ◆ A price floor prevents supply and demand from moving toward the equilibrium price and quantity.
- ◆ When the market price hits the floor, it can fall no further, and the market price equals the floor price.

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Effects of a Price Floor

A binding price floor causes . . .
 ... a surplus because $Q_S > Q_D$.
 ... **nonprice rationing** is an alternative mechanism for rationing the good, using discrimination criteria.

◆ Examples: The minimum wage, Agricultural price supports

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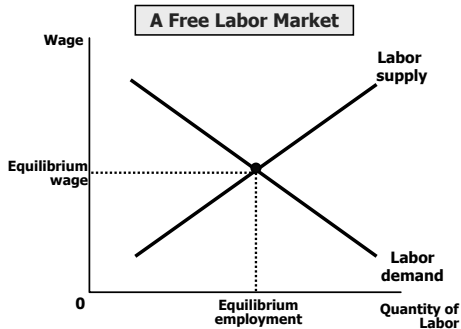
The Minimum Wage

An important example of a price floor is the minimum wage. Minimum wage laws dictate the lowest price possible for labor that any employer may pay.



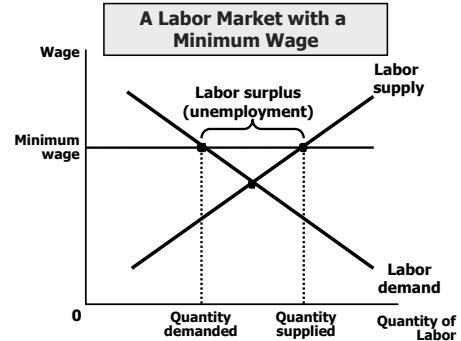
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The Minimum Wage



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The Minimum Wage



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Effects of Minimum Wage

- McDonald's employment?
- Employment on Macademia tree farms?
- UH research projects?
- Other attributes of a minimum wage job are diminished:
 - > Less likelihood of health insurance,
 - > less training,
 - > More discrimination in hiring

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Summary

- ◆ Price controls include price ceilings and price floors.
- ◆ A price ceiling is a legal maximum on the price of a good or service. An example is rent control.
- ◆ A price floor is a legal minimum on the price of a good or a service. An example is the minimum wage.

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