

ECON 101: Principles of Economics I

Lecture Note 6

University of Michigan at Ann Arbor

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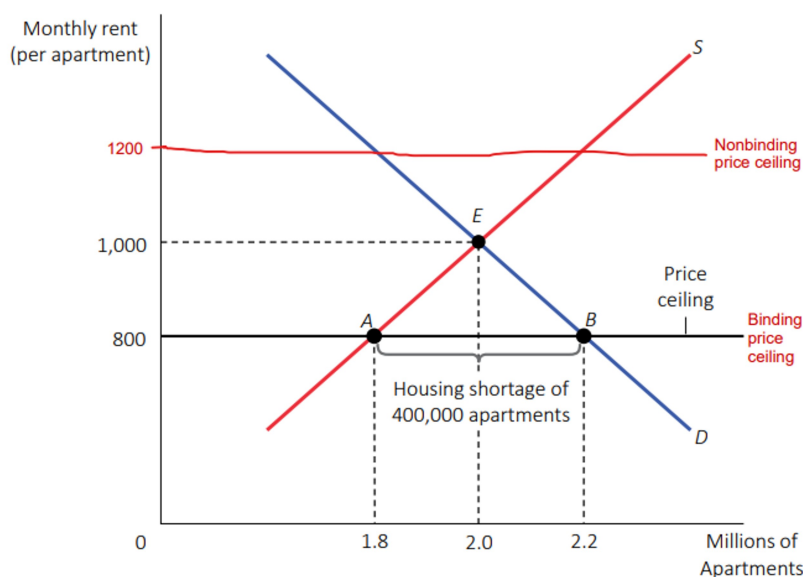
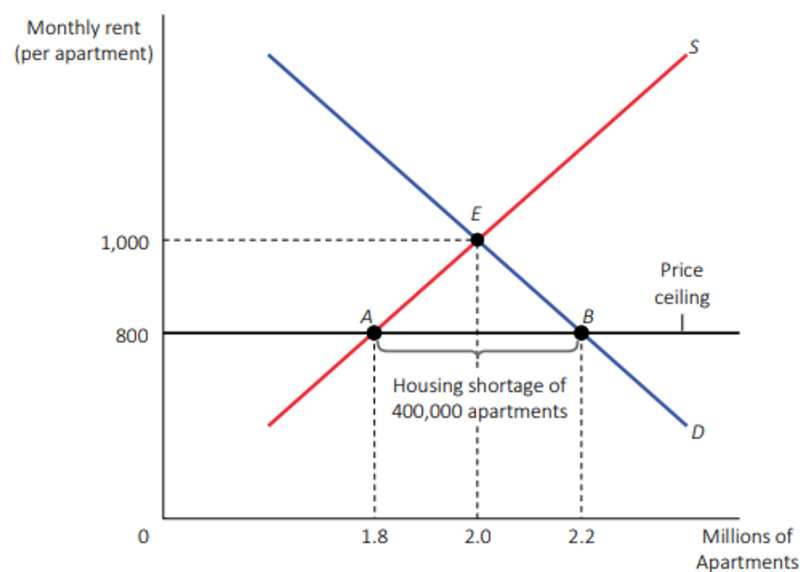
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Lecture 6: Government Controls

Monday, September 26, 2022 11:28 AM

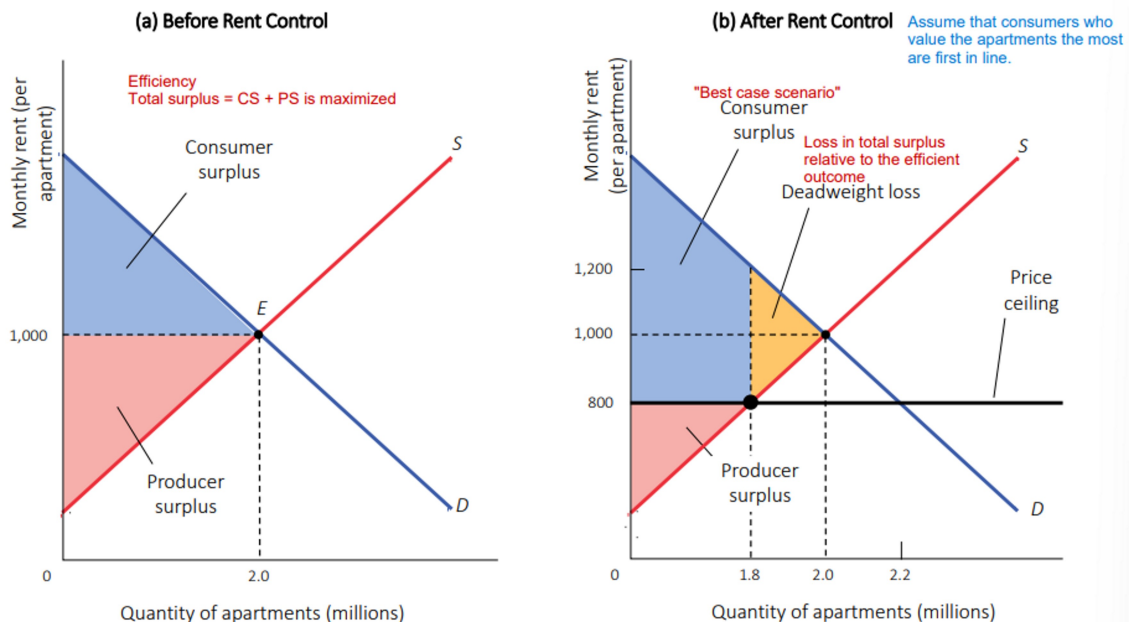
Price Ceiling (maximum limit on a price)



If the price ceiling is above the equilibrium, the price is non-binding price ceiling

If the price ceiling is below the equilibrium, the price is binding price ceiling

Welfare Effects of a Price Ceiling (Assume consumers and producers are the only parts of the society affected by this market)



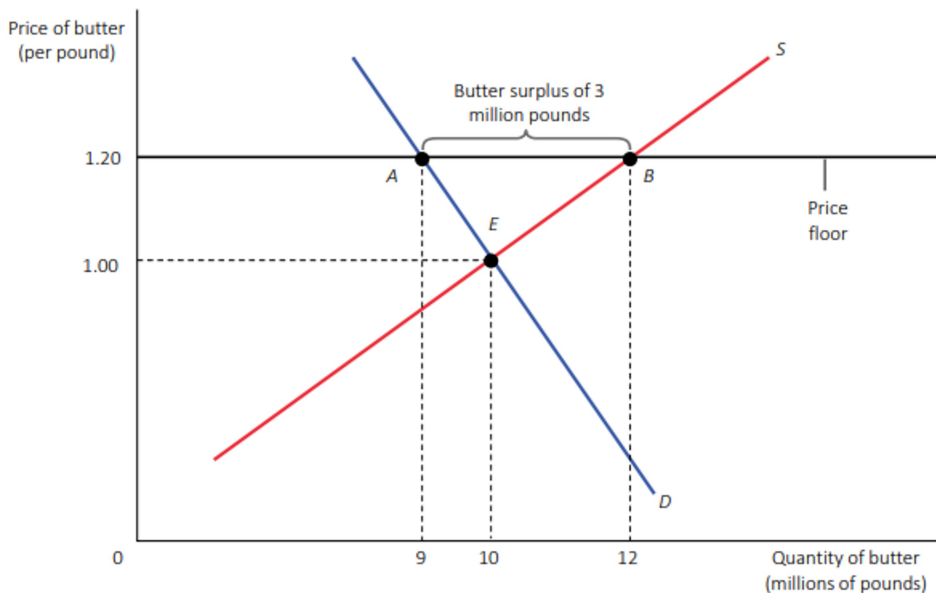
Price Ceilings Causes Inefficiency

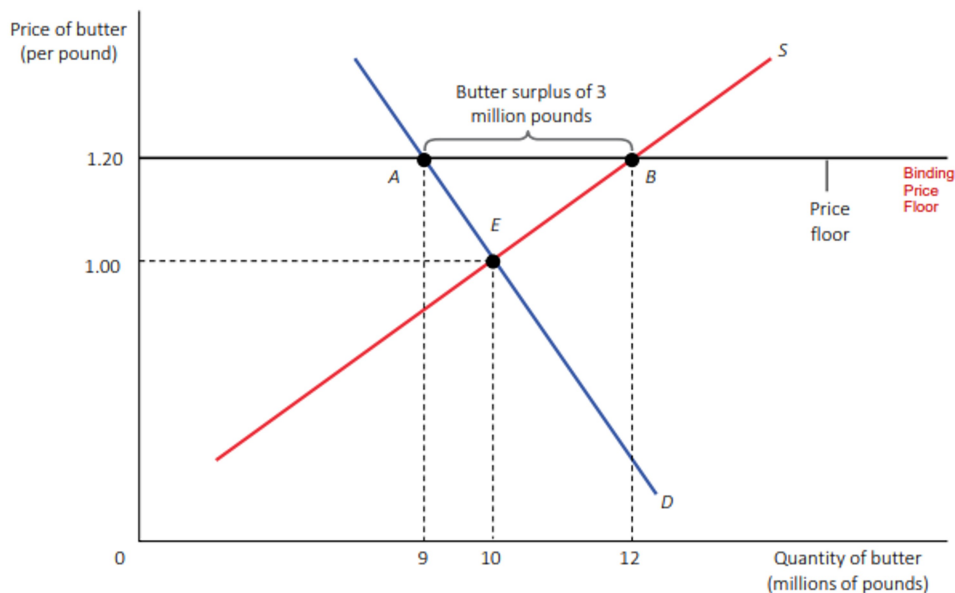
Inefficient - There are missed opportunities to make some people better off without making other people worse off

Price ceilings often lead to inefficiency in the forms of:

- Inefficiently low quantity
- Inefficient allocation to consumers
- Wasted resources
- Inefficiently low quality

Price Floor (minimum limit on a price)





Price Floors Cause Inefficiency

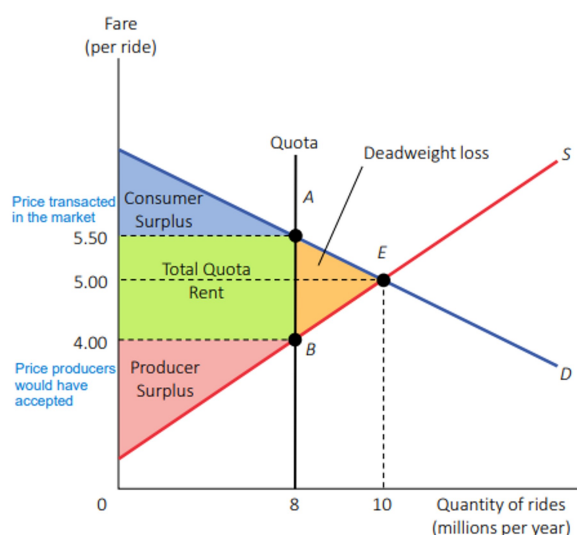
Price floors often lead to inefficiency in the forms of:

- Deadweight loss from inefficiently low quantity
- Inefficient allocation of sales among sellers
- Wasted resources
- Inefficiently high quality

Production Quotas (current equilibrium quantity is too much)

Quantity control, or production quota: an upper limit on the quantity of some good that can be sold in the market.

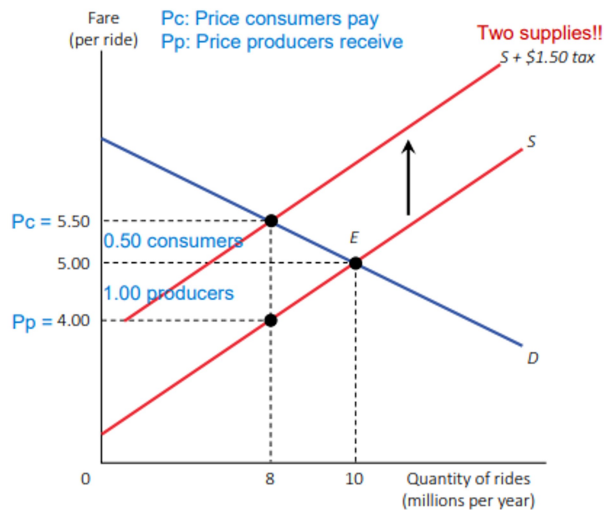
While production quotas are often used to resolve market failure problems, our analysis today will base I our simplified assumption that there is no market failure, and thus the market equilibrium is efficient.



Fare (per ride)	Quantity of Rides (millions per year)	
	Quantity Demanded	Quantity Supplied
\$7.00	2	14
6.50	4	13
6.00	6	12
5.50	8	11
5.00	10	10
4.50	12	9
4.00	14	8
3.50	16	7
3.00	18	6

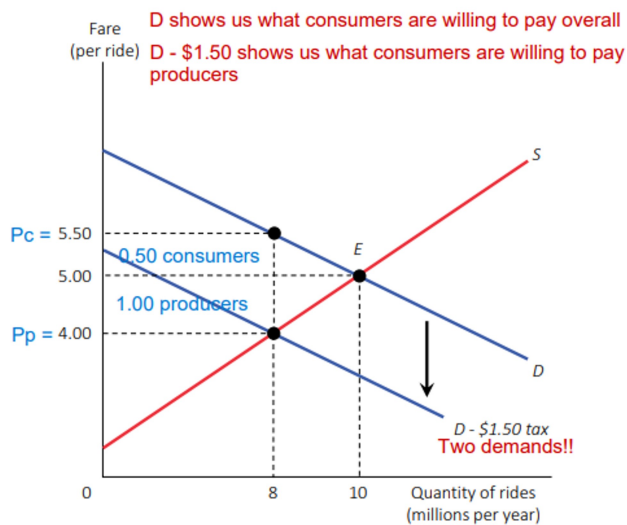
Taxes

Tax levied on producers (Producers are responsible for sending the tax to the government)



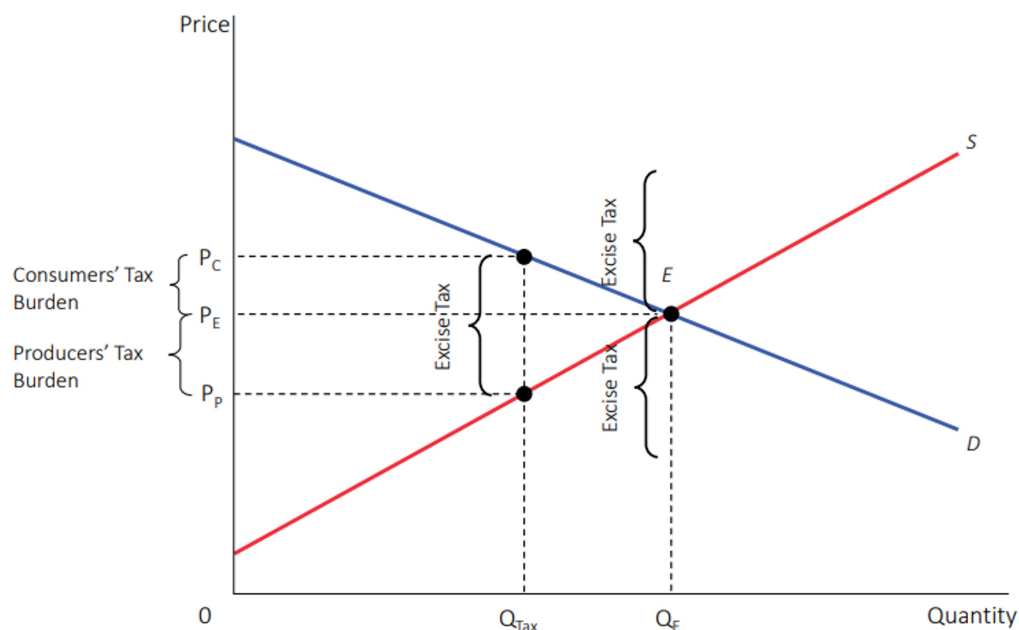
Fare (per ride)	Quantity of Rides (millions per year)	
	Quantity Demanded	Quantity Supplied
\$7.00	2	14 8.50
6.50	4	13 8.00
6.00	6	12 7.50
5.50	8	11 7.00
5.00	10	10 6.50
4.50	12	9 6.00
4.00	14	8 5.50
3.50	16	7 5.00
3.00	18	6 4.50

Tax levied on consumers (Consumers are responsible for sending the tax to the government)

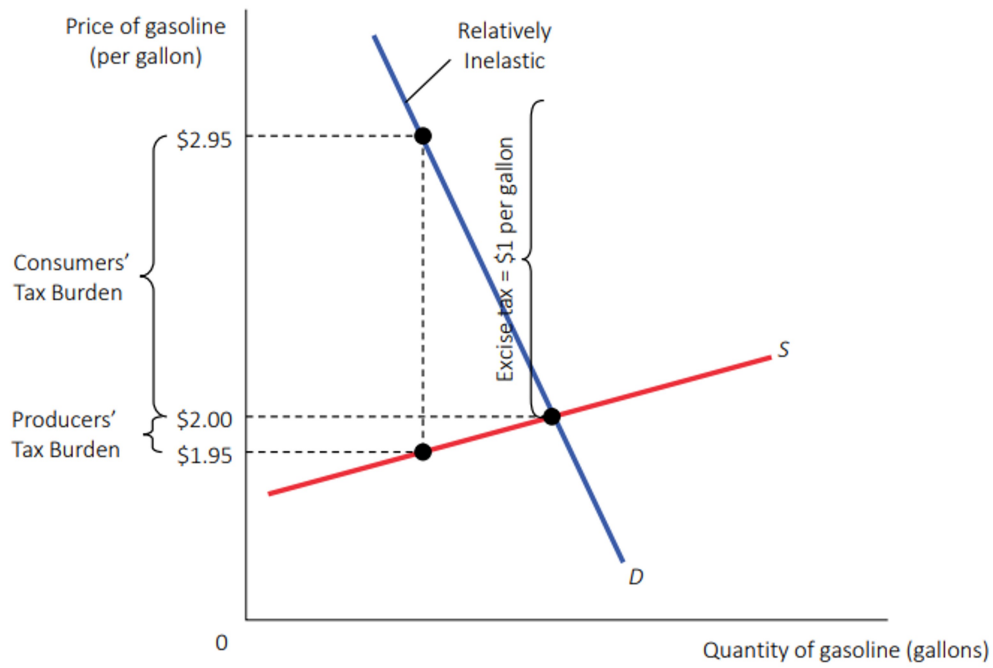


Fare (per ride)	Quantity of Rides (millions per year)	
	Quantity Demanded	Quantity Supplied
\$7.00	5.50 2	14
6.50	5.00 4	13
6.00	4.50 6	12
5.50	4.00 8	11
5.00	3.50 10	10
4.50	3.00 12	9
4.00	2.50 14	8
3.50	2.00 16	7
3.00	1.50 18	6

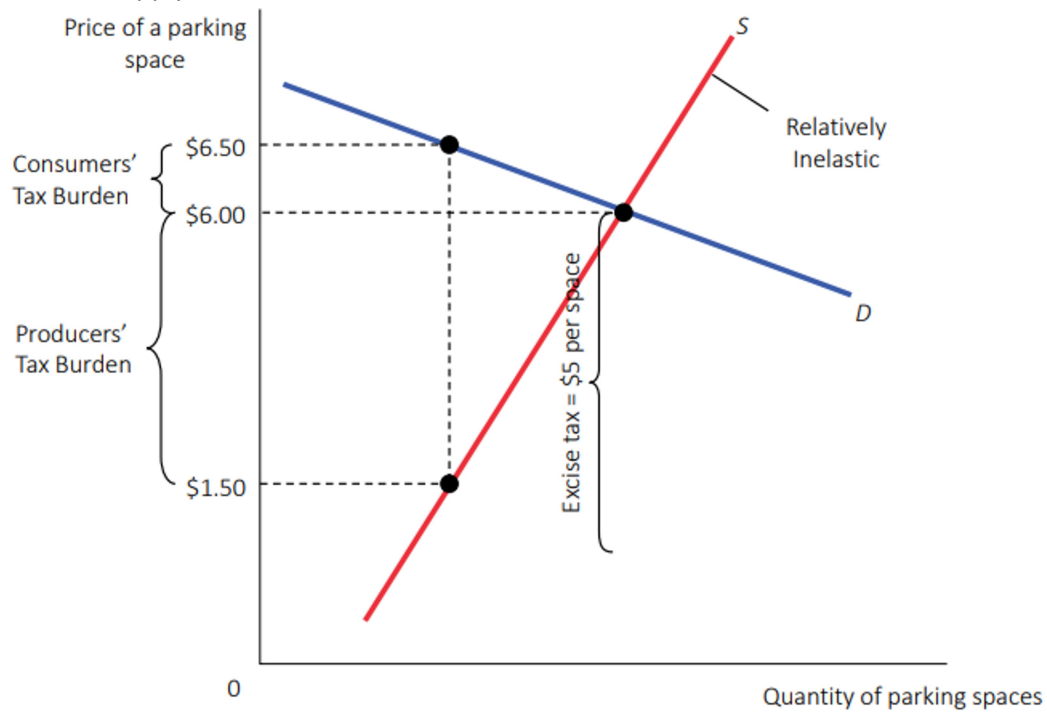
The tax wedge and burdens



Price elasticity and the tax burden
Inelastic demand



Inelastic supply



The welfare of a Tax

