

# Equilibrium & Price Controls



## **As a Young Historian, I will be able to...**

- Explain how supply and demand create equilibrium in the marketplace.
- Describe what happens to prices, quantities demanded, and quantities supplied when equilibrium is disturbed.
- Identify two ways that the government intervenes in markets to control prices and restricts the use of individual property.
- Analyze the impacts of price ceilings and price floors on the free market.

# Achieving Equilibrium

Prices are affected by supply, demand, & government action

Goal is to find a balance between sides of market



**Equilibrium-** Point of balance at which the quantity demanded equals the quantity supplied.

To find it, find the price at which the quantity supplied equals the quantity demanded

# Benefits to Buyers & Sellers

**In any market, supply & demand will be equal at only one price & one quantity**

**When equilibrium is met, buyers will purchase as much of a good as firms will sell**

**Equilibrium benefits both sellers & buyers!**



# Effects of Disequilibrium

**Disequilibrium-** When quantity supplied is not equal to quantity demanded in a market

**Shortage-** Excess demand, exists when quantity demand is more than quantity supplied

When the actual price in a market is below the equilibrium, you have a shortage- discourages sellers but encourages buyers

Let's look back at our pizza place...



# Surplus

**Surplus-** excess supply, when the quantity supplied exceeds quantity demanded & actual price of a good is higher than equilibrium

**Higher prices make more money, but discourage people from buying**

**Sometimes costs need to be cut down to meet equilibrium**



# Price Ceilings

**Price ceiling-** a maximum price that can be legally charged for a good or service.

*SET BELOW EQUILIBRIUM*

**Rent control-** Price ceiling placed on apartment rents to prevent inflation during housing crisis

Unfortunately, this can lead to some people having no home & government has to pass laws to support those with greatest need

Can you just end rent control?





# Consequences

**People who lived in rent controlled apartments might not be able to afford rent**

**Areas can push those who are poorer out, raising interest rates in area**

**Economists argue in favor of rent control!**





# Price Floor

**Price Floor-** Minimum price, set by government, that must be paid for a good or service

**Minimum Wage-** minimum price employers can pay for 1-hr of labor

There is a federal minimum wage, but states can make their own higher

Goal is to have a minimum wage below equilibrium!

