IB Economics – Government Intervention

1.11 Price Controls

IB Economics: www.IBDeconomics.com

1.11 PRICE CONTROLS: STUDENT LEARNING ACTIVITY

Answer the questions that follow.

1. DEFINITIONS

Define the following terms: **[10 marks]**

- Producer
- Costs of production
- Unit of output
- Free market
- Government intervention
- Producer surplus
- Consumer surplus
- Market price
- Welfare loss
- Opportunity cost
- Quantity demanded
- Quantity supplied
- Law of demand
- Law of supplied
- Consumer welfare
- Total revenue
- Government expenditure
- Consumer expenditure
- Deadweight loss
- Social surplus
- Competitive free market
- Price controls
- Price ceilings
- Shortage
- Excess demand
- Non-price rationing
- Underground parallel markets
- Market clears
- Staple food
- Rent control
- Minimum wage
- Price floor
- Surplus
- Excess supply

2. SHORT-ANSWER QUESTIONS

1. Distinguish between a price ceiling and a price floor. **[4 marks]**

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2. Explain the relationship between price ceilings **and** price floors and the laws of demand and supply. **[6 marks]**

3. Outline reasons why governments may impose: **[6 marks]**
   i. A price ceiling.
   ii. A price floor.

4. Distinguish between excess demand **and** excess supply. **[4 marks]**

5. Draw a diagram to show the effect of a: **[4 marks]**
   i. Price ceiling on the market for a good or service.
   ii. Price floor on the market for a good or service.

6. Explain the concept of "social welfare" **and** explain how a: **[4 marks]**
   i. Price ceiling will lead to a loss of social welfare.
   ii. Price floor will lead to a loss of social welfare

7. Explain the consequences of a price ceiling for: **[10 marks]**
   i. Consumers.
   ii. Producers.
   iii. The government.
   iv. Workers.
   v. Society as a whole.

8. Explain the consequences of a price floor for: **[12 marks]**
   i. Consumers.
   ii. Producers.
   iii. The government.
   iv. Workers.
   v. Society as a whole.
   vi. Foreign producers.

9. Distinguish between a surplus **and** a shortage. **[4 marks]**

10. The conservative government of a country is considering a $1.00 per kilogram maximum price for rice. **[6 marks]**
    i. Illustrate the market for rice before and after the maximum price.
    ii. Analyse the effects of the maximum price on the market for rice.
    iii. Examine the consequences of the maximum price for key stakeholders.

11. The liberal government of a country is considering a $2.00 per kilogram minimum price for butter. **[10 marks]**

    i. Outline reasons why the government may be considering implementing this minimum price.
    ii. Illustrate the market for butter before and after the minimum price.
    iii. Analyse the effects of the minimum price on the market for butter.
    iv. Examine the consequences of the minimum price for key stakeholders.

v. Suggest some possible unintended consequences that the liberal government should consider.

12. The conservative government of a country is considering a maximum price for electricity of $0.05 per kilowatt hour that electricity retailers can charge households and businesses. **[12 marks]**
    i. Illustrate the free market equilibrium price and quantity.
    ii. Illustrate the producer and consumer surpluses that arise in the free market.
    iii. Using a new diagram, Illustrate the equilibrium market price and quantity after the maximum price is imposed.
    iv. Illustrate the producer and consumer surpluses with the maximum price.
    v. Illustrate the surplus or shortage that arises in the market from the maximum price.
    vi. Calculate the surplus or shortage that arises in the market from the maximum price.
    vii. Illustrate the loss of social welfare that arises in the market from the maximum price.
    viii. Outline **one** advantage **and one** disadvantage to the government that should arise from this maximum price.

13. The moderate government of a country is considering a minimum price for electricity of $0.25 per kilowatt hour that electricity generating companies can charge for wholesale electricity generated from renewable sources such as wind, solar and hydroelectricity. **[12 marks]**
    i. Illustrate the free market equilibrium price and quantity.
    ii. Illustrate the producer and consumer surpluses that arise in the free market.
    iii. Using a new diagram, Illustrate the equilibrium market price and quantity after the minimum price is imposed.
    iv. Calculate the producer **and** consumer surpluses with the minimum price.
    v. Calculate the surplus or shortage that arises in the market from the minimum price.
    vi. Calculate the government expenditure required to purchase any surplus electricity.
    vii. Outline **one** advantage **and one** disadvantage to the government that should arise from this minimum price.

14. Explain why governments enact minimum wage legislation. **[4 marks]**

15. Illustrate a minimum wage and analyse its effects on the following market outcomes: **[10 marks]**
    i. The wage rate
    ii. Quantities of labour supplied
    iii. Quantities of labour demanded
    iv. Market disequilibrium
    v. Loss of welfare (deadweight loss)

16. Use a diagram to show the following effects of a minimum wage: **[6 marks]**
    i. Loss of employer surplus
    ii. Loss of worker surplus
    iii. Welfare loss (deadweight loss)

17. Examine the consequences of a minimum wage for various stakeholders. **[6 marks]**

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3. MULTICHOICE QUESTIONS

Complete each interactive quiz. **[50 marks]**

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