

Price Controls Quiz

1. A government wishes to keep the cost of cheap rented accommodation low in a city, by imposing legal maximum rents on properties of a certain size. In doing this they aim to:
 - provide low-cost rented accommodation for people on low incomes
 - provide *more* rented accommodation for people on low incomes
- a. Draw a diagram to show the effect of the maximum rent legislation on the market for rented accommodation.
- b. Explain the situation facing those people who rent out their properties
- c. Explain the situation facing those people who wish to rent properties (consumers).
- d. Suggest measures that the government might take to ensure that they achieve both of their stated aims above.

2. A government wishes to increase earnings for those workers who are on low wages, by introducing minimum wage legislation in order to raise wage levels above the equilibrium wage. In doing this, they aim to:
- ensure higher wages for low-paid workers
 - increase the number of the workers employed
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- a. Draw a diagram to show the effect of the minimum wage legislation on the market for low-paid workers.
 - b. Explain the consequences of the minimum wage for the workers.
 - c. Explain the situation facing the employers.
 - d. Suggest measures that the government might take to ensure that they achieve *both* of their stated aims above.

Key Price Controls Quiz

3. A government wishes to keep the cost of cheap rented accommodation low in a city, by imposing legal maximum rents on properties of a certain size. In doing this they aim to:
 - provide low-cost rented accommodation for people on low incomes
 - provide *more* rented accommodation for people on low incomes
- a. Draw a diagram to show the effect of the maximum rent legislation on the market for rented accommodation. (2pts)

Diagram should have a S and D curve with a horizontal line drawn BELOW the E pt. They need to label the Excess Demand or Shortage

- b. Explain the situation facing those people who rent out their properties (1 pt)

The people who rent out their properties will be in trouble because the price is set lower than equilibrium which means that they will lose profits. They may not make enough money to cover their costs of maintaining apartments so they'll either have to charge key money (a payment separate from rent) or they'll have to sublet for higher prices OR they'll stop renting out their apartments. They could sell.

- c. Explain the situation facing those people who wish to rent properties (consumers). (1 pt)

SOME people will benefit because rent prices will be lower. However, because less people will be willing to supply apartments at that price, less people will be able to get apartments than before because the QD will far exceed QS. That means there will be a shortage of apartments.

- d. Suggest measures that the government might take to ensure that they achieve both of their stated aims above. (1 pt)

The government will have to do something to deal with the shortage. Although some low cost accommodation is provided, there will actually be a shortage. One way to deal with this shortage is to subsidize apartment owners, which would shift the supply curve to the right. The problem with this is that the money for subsidies has to come from somewhere. The government has to ensure that it doesn't have to raise taxes to poor people to subsidize housing because that would totally defeat the purpose of the subsidy.

The government could also provide the housing themselves to increase the supply.

OR they could set space/buildings aside that are especially meant to be used for low-cost housing.

4. A government wishes to increase earnings for those workers who are on low wages, by introducing minimum wage legislation in order to raise wage levels above the equilibrium wage. In doing this, they aim to:
 - ensure higher wages for low-paid workers
 - increase the number of the workers employed

- e. Draw a diagram to show the effect of the minimum wage legislation on the market for low-paid workers. (2 pts)

Diagram should have a clear equilibrium point with a horizontal line drawn ABOVE the E point. The diagram should also have a labeled Excess supply or surplus of workers.

- f. Explain the consequences of the minimum wage for the workers. (1 pt)

Some workers will make more money but overall there will be a lower supply of jobs because employers will be unable to hire as many people at the higher salary.

- g. Explain the situation facing the employers. (1 pt)

Employers will have to hire less people or might even go out of business if they can't afford the extra cost of production that a salary increase requires. They might try to pay workers like illegal immigrants under the table so they don't have to pay them as much as the price floor requires. Either way the supply of jobs will decrease (shift to the left).

- h. Suggest measures that the government might take to ensure that they achieve *both* of their stated aims above (1 pt)

Although SOME poor people will get higher wages, the government will have to deal with increased unemployment (too much supply of workers) by subsidizing employment or giving business more money to pay their workers. This would increase the demand for workers because the businesses would get money from the government to cover the extra cost. Governments could also try to restrict supplies of cheap workers so that more businesses are forced to pay higher wages to Americans but this would still be at an added cost to consumers of workers (businesses) so there would probably still be somewhat of a surplus of workers for the higher wages.