Price Controls

• If the government applies a price ceiling or floor, the equilibrium price and quantity will change, potentially causing a shortage or surplus.

• Not all price controls affect equilibrium. For a price floor to work, it must be set above the equilibrium price. Conversely, a price ceiling must be set below the equilibrium price to be effective.

• The shortage or surplus is seen as the difference between quantity demanded and quantity supplied.
**Price Floors and Price Ceilings**

(a) Price floor for milk

- Price per gallon: $2.50
- Millions of gallons per month: $1.90
- Surplus

(b) Price ceiling for rent

- Monthly rental price: $1,000
- Thousands of rental units per month: 600
- Shortage