Answer on Question #39112 – Economics - Economics of Enterprise

A **price ceiling** is a government-imposed price control or limit on how high a price is charged for a product. Governments intend price ceilings to protect consumers from conditions that could make necessary commodities unattainable. However, a price ceiling can cause problems if imposed for a long period without controlled rationing. Price ceilings can produce negative results when the correct solution would have been to increase supply. Misuse occurs when a government misdiagnoses a price as too high when the real problem is that the supply is too low. In an unregulated market economy price ceilings do not exist. Somebody may incorrectly perceive a price ceiling as being on top of a supply and demand curve when in fact, an effective price ceiling is positioned below the equilibrium position on the graph.