

Answer on Question #54855, Economics / Microeconomics

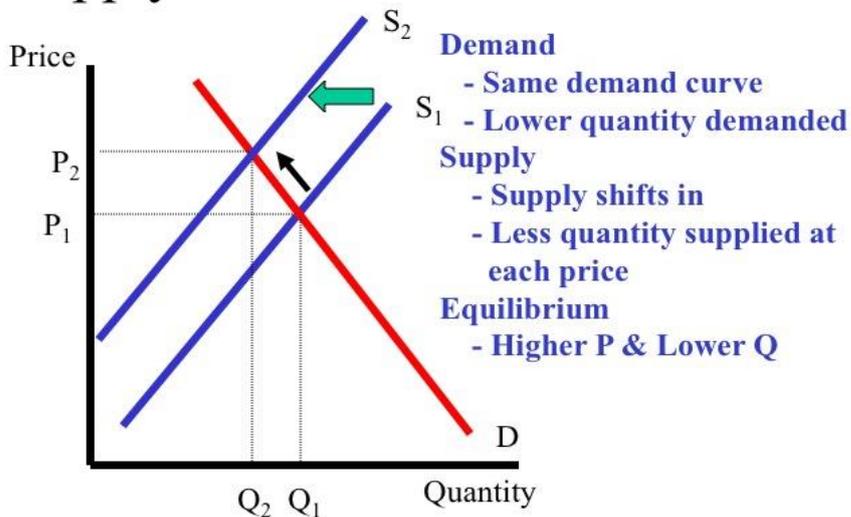
Question:

U.S. Government price supports for milk led to an unceasing surplus of milk. In an effort to reduce the surplus about a decade ago, Congress offered to pay dairy farmers to slaughter cows. Use two diagrams, one for the milk market and one for the meat market, to illustrate how this policy should have affected the of meat. (Assume that meat is sold in an unregulated market.)

Answer:

If U.S. Government price supports for milk led to an unceasing surplus of milk and in an effort to reduce the surplus about a decade ago, Congress offered to pay dairy farmers to slaughter cows, then in the milk market the supply will decrease, the surplus will disappear and the equilibrium price will increase.

Supply Shifts Left



On the meat market the supply will increase, which will cause equilibrium price to fall and equilibrium quantity to rise.