

“Answer on question #60523-Economics - Microeconomics ”

- a) If the government adopts a ceiling price on rental units, graphically illustrate and explain the effect on consumer surplus and producer surplus.
- b) Graphically illustrate the effect on consumer surplus and producer surplus if the government adopts a floor price for an agricultural good.
- c) Compare the impact of a ceiling price and floor price on consumer surplus and producer surplus.

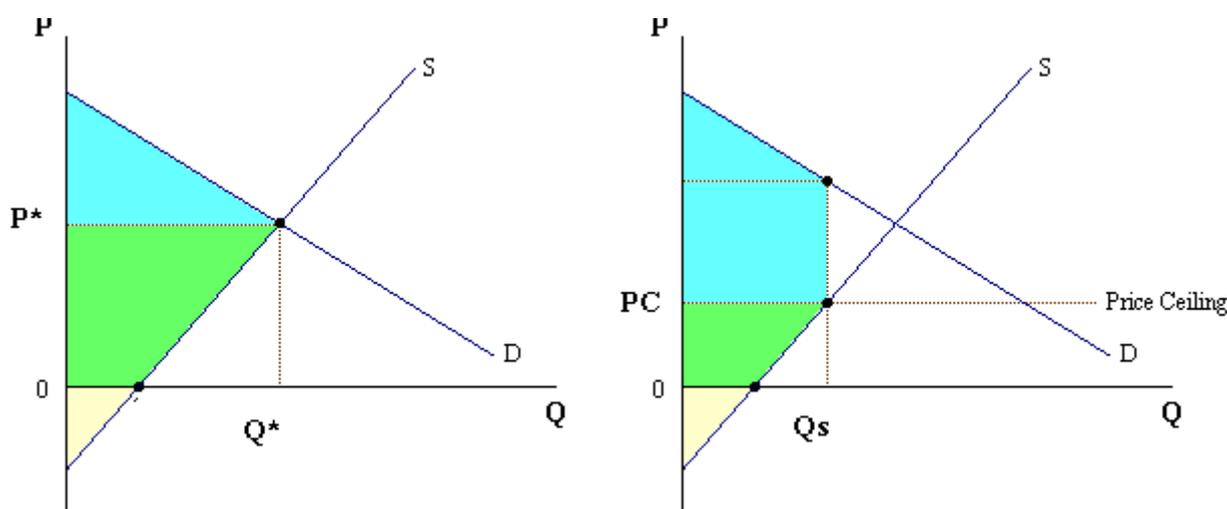
**Solution**

a)

When the government adopts a ceiling price on rental units, the consumer and producer surplus change. The ceiling price is below equilibrium price (market price) and the market receives shortage the rental units.

The price ceiling causes consumer surplus to increase and producer surplus to decrease.

The graph below shows change in consumer surplus –blue area and producer surplus –green area.

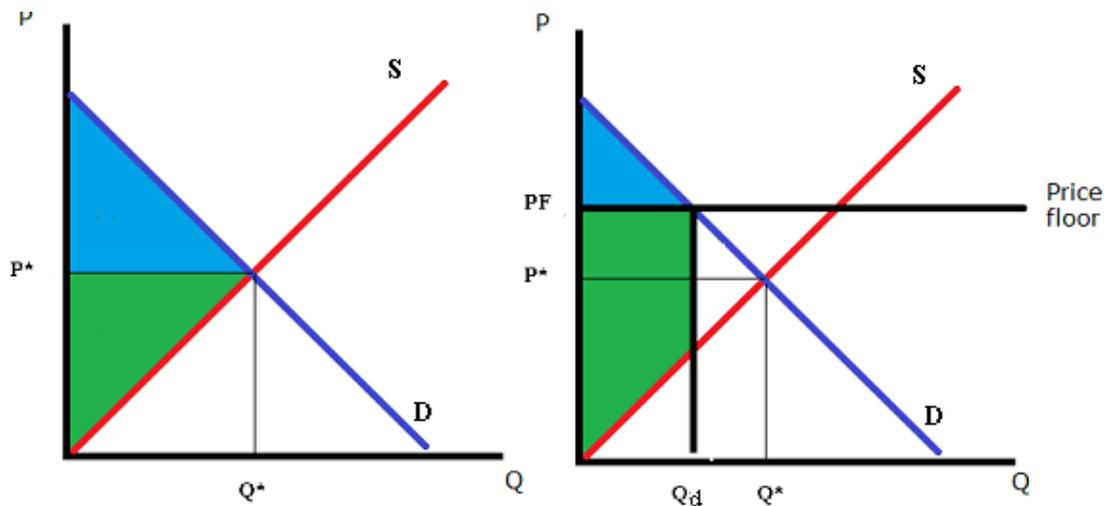


b)

When the government adopts a floor price for an agricultural good, the consumer and producer surplus change.

The price floor causes consumer surplus to decrease and producer surplus to increase.

The graph below shows change in consumer surplus –blue area and producer surplus –green area.



c)

With price ceiling causes shortage as quantity demanded is more than quantity supplied, shifts producer surplus to consumer surplus, creates deadweight loss, causes in efficient allocation of resources and society is worse off after price ceiling.

With price floor causes surplus as quantity supplied is more quantity demanded, shifts consumer surplus to producer surplus, creates deadweight loss, causes inefficient allocation of resources and net loss to society.

### Answer

- The consumer surplus will be increase the producer surplus will be decrease.
- The consumer surplus will be decrease the producer surplus will be increase.
- The inefficient allocation of resources and net loss to society after adopt price ceiling and price floor.