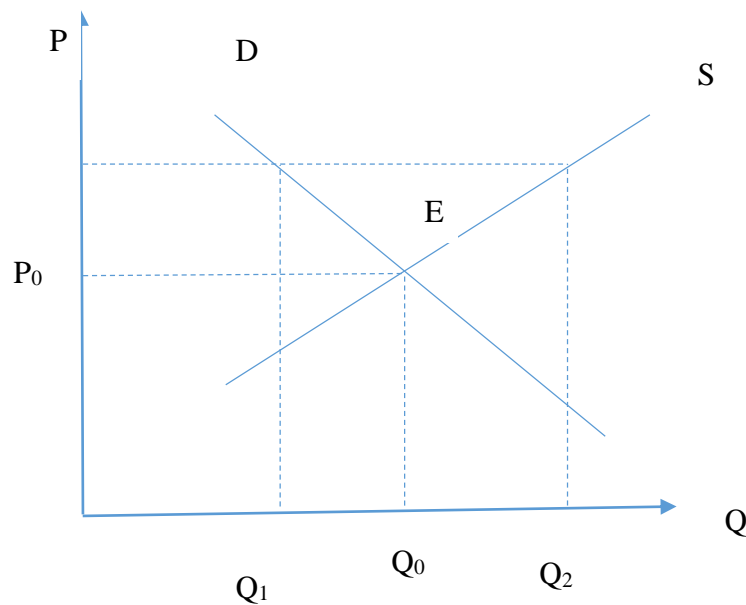


Answer on Question 65584 -Economics - Microeconomics

Imagine that to preserve the traditional way of life in small fishing villages, a government decides to impose a price floor that will guarantee all fishermen a certain price for their catch.

Answer.



Establishing a price floor would lead to the fact that everyone in the village will want to be fishermen and the market supply of fish and the catch will increase (up to Q_2). At the same time putting a price higher than the equilibrium one would reduce demand to Q_1 . Thus, there is a surplus in the market. if the situation will last for a long time, this can lead to local ecological disaster, because the fish will be exterminated and putrefy unclaimed.

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