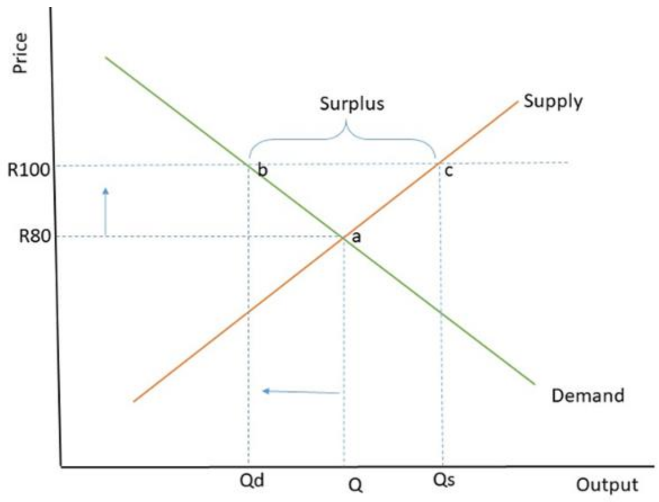
Answer on Question #81248- Economics - Economics of Enterprise

Question

Assume the market price for a 5 KG bag of rice is R80 and the government has announced that a 5KG bag of rice cannot be sold for less than R 100.
with the aid of a well labelled diagram, explain the effect the above government decision will have in the market for rice.

Answer



If the government increase the price for rice artificially, the consumers of this product will not buy rice in such quantity. Many of them cannot afford to buy it for this price. Therefore, the demand for rice will be Q_d.

The manufacturers will supply the rice as more as they can and the quantity will be Q_s .

Because R100 is above the equilibrium price, there is a surplus of rice equal Q in the market. The level of surplus is $Q_s - Q_d$.

Answer provided by https://www.AssignmentExpert.com