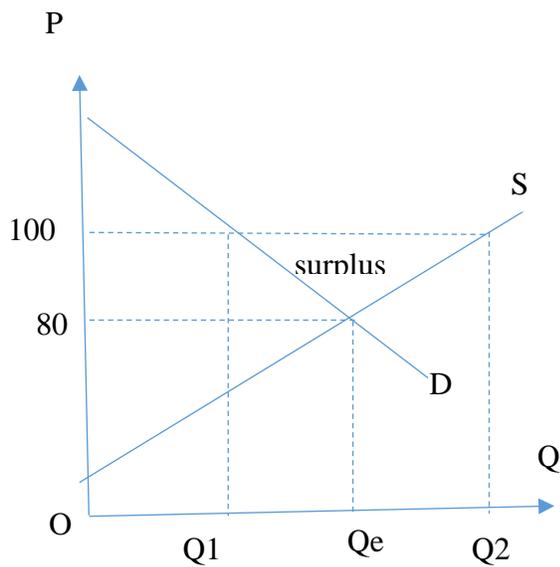


Answer on Question 81363-Economics - Microeconomics

Assume that the market price for a 5kg bag of rice is R80 and the government has announced that a 5kg bag of rice cannot be sold for less than R100. With a well labeled diagram explain the effect the above government decision will have in the market

Answer.



After the introduction of the price floor of R100 the quantity supplied exceeds the quantity demanded ($Q_2 > Q_1$) and there is surplus in the market.

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