4.2: Introduction to Price Ceilings and Price Floors

What you'll learn to do: analyze the economic effect of government setting price ceilings and floors

In this section, we will explore the outcomes, both anticipated and otherwise, when government intervenes in a markets either to prevent the price of some good or service from rising "too high" or to prevent the price of some good or service from falling "too low."

First, we will take a look at what happens when prices are held below the equilibrium level. Governments typically set a price ceiling to protect consumers by making necessary products affordable, but you'll come to see how this sometimes backfires by creating a market shortage.

Next, we will see what happens when a price floor forces prices above a minimum standard, such as a minimum wage. While a minimum wage seems like a great benefit for workers, you'll see that some effects of a minimum wage can actually hurt those in the workforce.

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