

4.16: Assignment- Price Controls After a Storm

In 2014, a major ice storm hit the southeastern U.S. The storm brought down power lines and trees, cutting electricity in many areas, making travel difficult, and slowing down repair crews. Heating homes became a major challenge. The storm created shortages of power generators. As a result, those products sold at prices much higher than normal. These high prices provoked cries of “price gouging” and calls on the government to impose price controls to prevent gouging. While no one likes to pay a higher price than normal for something, consider what would have happened with a price ceiling. The economic intuition is revealing.

Draw a diagram showing the market for generators with an equilibrium price at \$250. Now impose a price ceiling at \$200 per generator. What would be the impact of the price ceiling on the quantity demanded? On the quantity supplied? Who would benefit from the price ceiling and who would be harmed? Let the graph guide your thinking. Don’t start with your gut reaction! Did the price ceiling help the people it was designed to help? Explain the economic reasoning behind your analysis.

Rubric

Criteria	Not Evident	Developing	Proficient	Distinguished	Weight
Analyze the consequences of the government setting a price ceiling					5
Graphically calculate a market’s equilibrium price and quantity					4
Graphically illustrate a market shortage					4
Calculate the impact of government regulations on price and quantity of a product produced					5
Articulation of response (citations, grammar, spelling, syntax, or organization that negatively impact readability and articulation of main ideas.)					2
				Total:	20

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