PRICE CONTROLS - MAXIMUM AND MINIMUM PRICES

The government may set a maximum (1)	, below the (2)	price,
which then prevents producers from raising the	price above it. This is sometim	nes known as
the (3) price.		
prices are usually set to protect in markets where the product in question is a negovernments may set maximum prices in agricult shortages to ensure low-cost food for the poor caccommodation to attempt to get affordable and Maximum prices will, however, lead to (5)	ecessity and/or a merit good. ural and food markets during toor they may set maximum pric ccommodation for those on I	For example, times of food ses on rented
The (6) may set a (7) then prevents producers from reducing the price (8) price.		
Minimum prices are mostly set for one of two refor producers of goods and services that the gagricultural products; or to protect workers by ensure that workers earn enough to lead a rehowever, lead to excess (10)	government thinks are import y setting a minimum (9)	tant, such as , to

CEILING EQUILIBRIUM EXCESS FLOOR GOVERNMENT MAXIMUM MINIMUM PRICE SUPPLY WAGE

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KEY

PRICE CONTROLS - MAXIMUM AND MINIMUM PRICES

The government may set a maximum price, below the equilibrium price, which then prevents producers from raising the price above it. This is sometimes known as the ceiling price.

Maximum prices are usually set to protect consumers and they are normally imposed in markets where the product in question is a necessity and/or a merit good. For example, governments may set maximum prices in agricultural and food markets during times of food shortages to ensure low-cost food for the poor or they may set maximum prices on rented accommodation to attempt to get affordable accommodation for those on low incomes. Maximum prices will, however, lead to excess demand.

The government may set a minimum price, above the equilibrium price, which then prevents producers from reducing the price below it. This is sometimes known as the floor price.

Minimum prices are mostly set for one of two reasons: either to attempt to raise incomes for producers of goods and services that the government thinks are important, such as agricultural products; or to protect workers by setting a minimum wage, to ensure that workers earn enough to lead a reasonable existence. Minimum prices will, however, lead to excess supply.

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