

Assignment 2: Price Floors and Price Ceilings

For your second assignment, you will be investigating a real life situation in which there is government intervention through price ceilings or price floors. You should identify why the government wanted to intervene (as in, wanted to help workers as with a minimum wage) as well as discussing what the actual effect is in the market according to our model from class. Finally you should think about a way (or two) in which people in the market have attempted to circumvent the law. If you absolutely cannot think of a way, you may instead (or in addition to) write about how the law in this market might affect another market. For instance:

Minimum wage

Stated Goal: Government wants to help workers.

Real effects: CS surplus goes down (hiring firms are worse off), PS is unknown (some gain higher wage, some become unemployed)

Way around law: Employers may hire undocumented workers, employees may be required to pay for a meal at the restaurant where they work each shift they work, etc.

Effect on other market: Minimum wage increase will cause price of Big Macs to go up due to higher labor costs, etc.

You cannot use the minimum wage as your example. I have only outlined the basics of what I expect. You should write your report up in normal prose, with paragraphs and full sentences.

Key points for the assignment:

- Find an example of a Price Floor/Ceiling, NOT A TAX
- Describe the STATED GOAL of the government, as best as you can
- Discuss the real effects, using CS, PS, and TS as we have in class
- Brainstorm a way around the law which people may use

Limit the length of the assignment to 2 pages, double spaced. You may find that you can complete the assignment in a couple paragraphs and less than two pages. That's totally fine, as long as you meet the other criteria.

Rubric for Peer Evaluation:

10 points: The submitter describes a price ceiling or a price floor (and does not use the minimum wage or a tax). They state a reasonable motivation for why the government implemented this policy. They accurately analyze what the effects on consumer, producer and total surplus would be according to what we discussed in class. The submitter offers at least one (actually possible) way that someone might attempt to work around the law or they correctly discuss how the price ceiling may affect a related market.

9 points: The submitter describes a price ceiling or a price floor (and does not use the minimum wage or a tax). They either: 1) forgot to include or incorrectly assessed the stated goal of the policy or 2) got a part of the analysis of CS, PS & TS incorrect. The submitter offers at least one (actually possible) way that someone might attempt to work around the law or they correctly discuss how the price ceiling may affect a related market.

8 points: The submitter describes a price ceiling or a price floor (and does not use the minimum wage or a tax). They either: 1) forget to include or incorrectly assessed the stated goal of the policy and got a part of the analysis of CS, PS & TS incorrect or 2) got the analysis of CS, PS & TS completely wrong or 3) offered an unrelated or wrong method of working around the law or incorrectly stated the effect on a related market.

7 points: The submitter describes a price ceiling or a price floor (and does not use the minimum wage or a tax). They either: 1) forget to include or incorrectly assessed the stated goal of the policy and got the analysis of CS, PS & TS completely wrong or 2) did not include a method of working around the law or an effect on a related market.

6 points: It seems like the submitter attempted to answer the question, and at least identifies a price ceiling or price floor, but the response otherwise is completely wrong or impossible to understand.

5 points: The submitter uses a Tax instead of a price ceiling/floor or uses the minimum wage as their example, but otherwise does the assignment correctly.

0-4: The submitter did not make an attempt to answer the assignment. A 0 will represent no effort while a 4 represents effort but completely off topic or the analysis of a tax with some errors in the analysis.

10 pt. Model Response:

One example of a price floor is the minimum wage. It keeps the price of labor above the equilibrium price. The stated goal of the minimum wage is to help workers, specifically to help them provide for themselves and their families and afford the things they need to live.

From class, we know that a price floor will lower consumer surplus. In this case, firms are the consumers, buying the labor from workers. We also know that a price floor will create a dead weight loss, so total surplus will go down. However, without more information, we cannot say how producer surplus (the surplus for the workers) will change. This is because while some of them will earn a higher wage, which is good for them, others will no longer be employed, which is bad from the workers' perspective.

One way firms might get around the minimum wage is to force workers to purchase a meal at the company restaurant. This way, some of their paycheck is going right back to the firm and it's as if they get paid less.