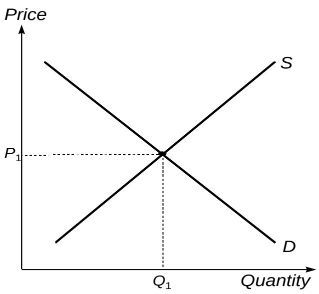
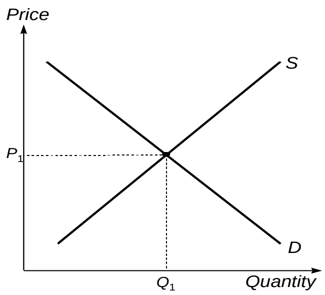
Tutorial 4
Market Equilibrium and Government Control

1. How will the following changes affect the market price of wheat flour (assuming that the market is initially in equilibrium)? In each case, graph what happens to the demand and/or supply curves and, as result, what happens to the equilibrium price.

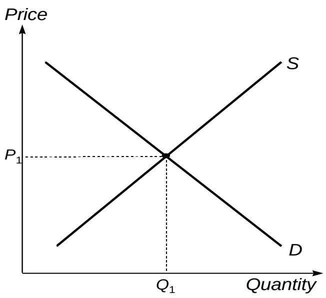
(a) People consume more bread.



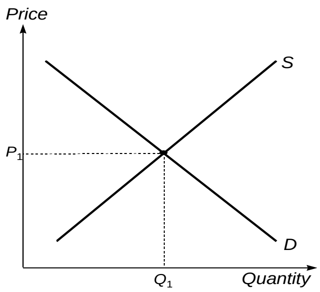
(b) The discovery of a new cheaper way of milling flour



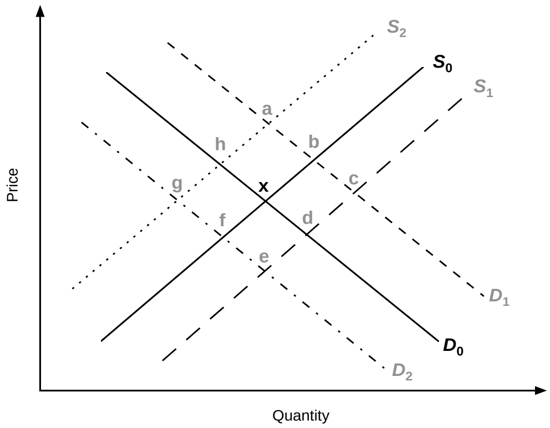
(c) The prices of wheat grains rise.



(d) Rice and potatoes fall in price.



2. The diagram below shows the demand for and supply of petrol. The market is initially in equilibrium at point *x*. There is then a shift in the demand and/or supply curves, with a resulting change in equilibrium price and quantity.
To which equilibrium point (a, b, c, d, e, f, g or h) will the market move from point x after each of the following changes?



The market for petrol

(a) A rise in the cost of refining petrol...
(b) A fall in bus and train fares...
(c) A fall in the price of crude oil and an increase in the price of cars. ....
(d) A rise in tax on petrol and a reduction in tax on cars..

3. Government Intervention

(a) Why does government intervene?

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(b) What are the three ways in which government intervenes in the economy?
______________________ , ______________________, _________________________

(c) What are the effects of governmebt intervention?
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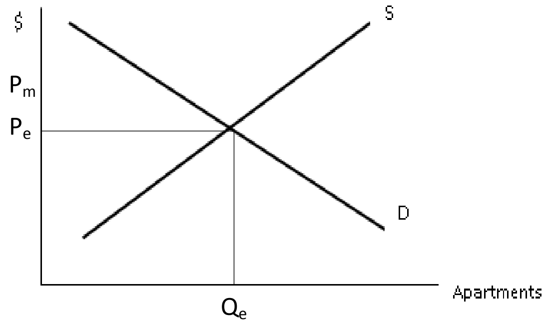
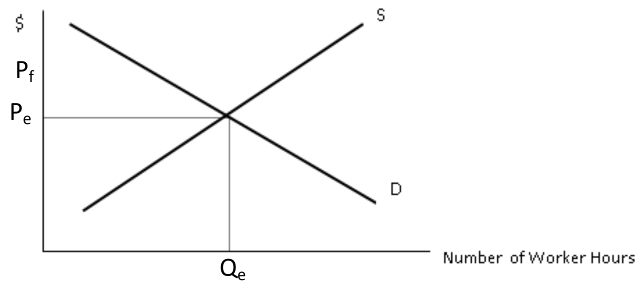
4. With the goal of making apartments more affordable to citizens, the government implements rent control and sets the legal maximum price at P_m above the equilibrium price as shown in the graph below.



a. What kind of price control is used here by the government?
b. What is the effect of this price control on the market?
c. What happens when there is a shortage of cement and building materials while price control was implemented?

5. In the graph below, the government sets the minimum wage (price floor) at price P_f.



(a) This price floor is (***binding/non-binding***).
(b) In a binding price floor, the legal minimum price is set (***below/above***) the equilibrium price.
(c) What type of disequilibrium (if any) occurs at P_f because of the minimum wage?
(d) What happens to the actual number of worker hours that firms are willing to hire compared to the free market number of worker hours?