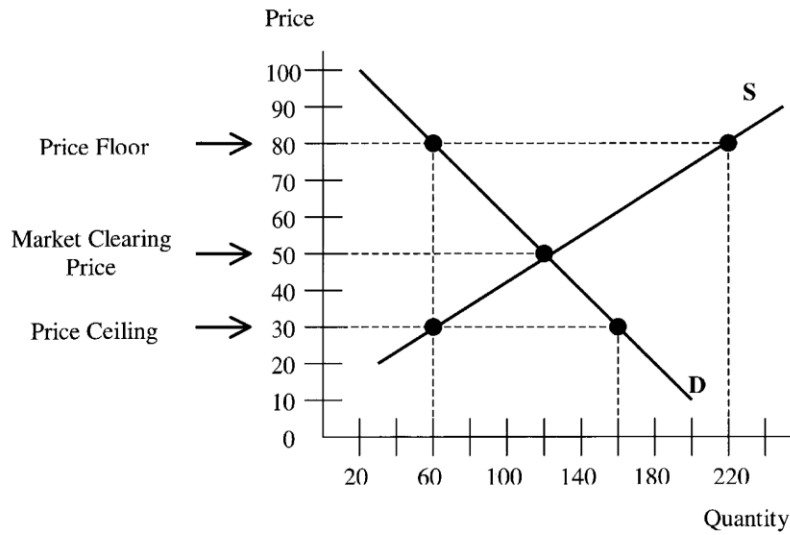


Activity 1

Price Floors and Ceilings

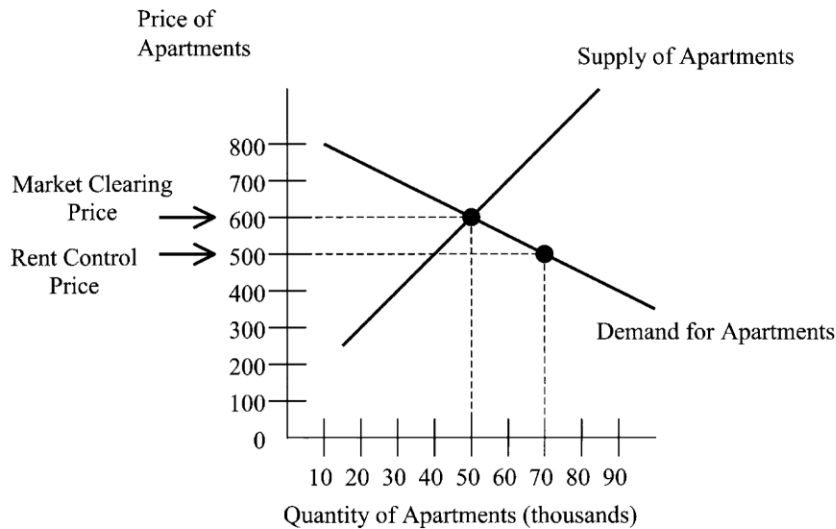
- What is the market clearing price in the graph below?
- What quantity is demanded and what quantity is supplied at the market clearing price?
 Quantity demanded _____
 Quantity supplied _____
- What quantity is demanded and what quantity is supplied if the government passes a law setting a maximum price of \$30?
 Quantity demanded _____
 Quantity supplied _____
- What quantity would be demanded and what quantity would be supplied if the government passes a law setting a minimum price of \$80?
 Quantity demanded _____
 Quantity supplied _____



Activity 2

Apartments to Rent, but How Many at What Price?

Ourtown is a Midwest city with about two million residents, which grew rapidly over the past 10 years. That growth caused rents on apartments in the city to rise rapidly, and four years ago a new mayor and several new city councilors were narrowly elected after promising to set rent controls to help low-income families and the homeless. The rent on a basic apartment with a kitchen, living room, dining area, and two bedrooms, with no more than 1,000 square feet, was set at \$500 a month. The debate over these rent controls is still heated, and the mayor and city council are now debating several options to deal with the problem. An economist at Ourtown University presented the following graph at the last meeting of the city council, which she feels shows the current market for these kinds of apartments in Ourtown.



Activity 2 (Continued)

Discussion Questions:

- A. Everybody wants a place to live, so how can it be true that more apartments will be demanded at a lower price than at higher prices?
- B. On any given day, there are only a certain number of apartments in the city, so why isn't the supply curve of apartments a vertical line? In other words, can it really be true that there will be more apartments for rent at high prices than at low prices?
- C. How many total apartments are available at the rent control price?
- D. How many apartments do people want to rent at the rent control price?
- E. What is the problem facing the city and the people who want to rent apartments?

The mayor and city council have been considering three options:

- Let apartment rents rise to the market price.
- Continue the rent controls, and let people find and rent apartments on a first-come, first-served basis. Anyone convicted of collecting or paying more than the rent control price will be subject to fines and imprisonment.
- Conduct random drawings each month to fill all vacant apartments.

Are any of these options fair? Who benefits and who loses under each option? Are there any other options that might work better? What do you think the mayor and city council should do?