- Analyze how shortages and surpluses and their causes

Shortage and surplus

- Shortage- a situation in which the QD is greater than the QS at the current price
  - Price below equilibrium so suppliers raise prices
- Surplus- a situation in which QS is greater than QD at the current price
  - Price above equilibrium so suppliers generally lower price

- One of the suppositions of a free market economy is that when it operates without restriction market forces can eliminate shortages and surpluses. That is, a completely free market corrects itself.
- However, we operate in a mixed economy with government intervention. The government attempts to protect consumers and suppliers.
- What happens when government becomes involved in setting prices though price ceilings and price floors.

Price ceiling

- A legal maximum price that may be charged for a particular good or service.
- Price ceilings cause shortages because the QD goes up because of the lowered price but at the same time the QS goes down because of the lowered price

Price floor

- A legal minimum price below which a good or service may not be sold
- Tend to be more common than price ceilings to prevent prices from dropping to low
- Price floors cause a surplus