Introduction to Economics I
Lecture 4

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Price Mechanism

Price mechanism refers to the system where the forces of demand and supply determine the prices of commodities.

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Price Mechanism

Price mechanism is the outcome of the free play of market forces of demand and supply.

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Price Controls

However, sometimes the government controls the price mechanism to make commodities affordable for the poor people too.

Price controls are government-mandated legal minimum or maximum **prices** set for specified goods.

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There are 2 main price controls

1. **price ceiling**
2. **price floor**

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Price ceiling

price ceiling A maximum price that sellers may charge for a good, set by government.

A price ceiling is a price control, or limit, on how high a price is charged for a product, commodity, or service.

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Price ceiling

Governments use price ceilings to protect consumers from conditions that could make commodities prohibitively expensive.

One of the most common price ceiling example is the rents.

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Price floor

price floor A minimum price below which exchange is not permitted.

A price floor is a government- or group-imposed price control or limit on how low a price can be charged for a product, good, commodity, or service.

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Price floor

The most common price floor example is the minimum wage laws.

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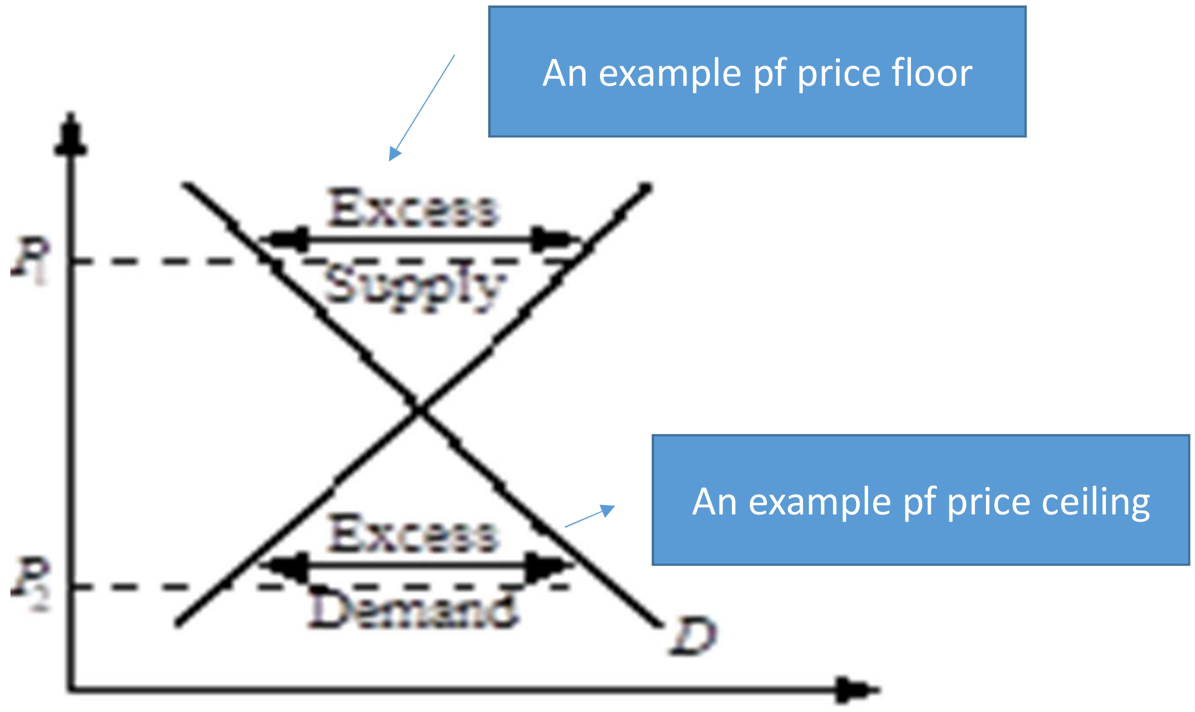

An example pf price floor
Excess
Supply
Excess
Demand
D
An example pf price ceiling