4.2 Lecture 10: Welfare Economics

4.2.1 Government interventions

- Interventions in market can also lead to disequilibrium. For example, imposing a minimum wage means that more people will want to work than employers want to hire at the minimum wage. This creates unemployment. The cost of these interventions is found in reduced efficiency (trades that are not made); there may be benefits in greater equity.
  - **Price ceiling** is a legal maximum price that for a good or service. A valid price ceiling is usually before the equilibrium price. With price ceiling, at equilibrium, quantity demanded is greater than quantity supplied.
  - **Price floor** is a legal maximum price that for a good or service. With price floor, at equilibrium, quantity demanded is less than quantity supplied.
- These restrictions generate deadweight loss and efficiency loss.

4.2.2 TO KNOW – Conceptual Understanding

- Know what price ceiling and price floor are, and identify their effects in the market
- Know "what's wrong" with excess supply or excess demand

4.2.3 TO KNOW – Graphical and Math Understanding

- Analyze the effect of a price ceiling in a graph
- Analyze the effect of a price floor in a graph