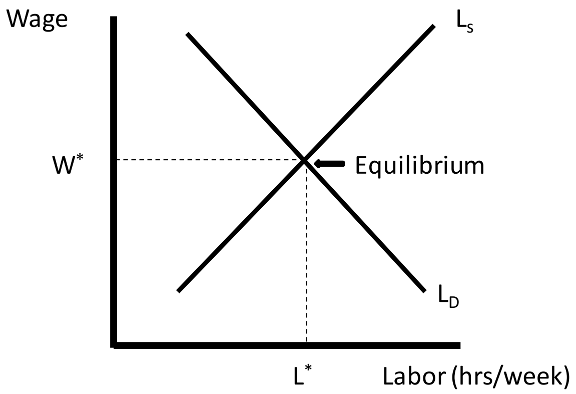
Week #5 Notes – Price Control ~ Deadweight Loss

*Covers only Labor Market and Price Controls. Please see Week #5 PowerPoint Slides for all.

1. **Labor Markets:**

- **Wage:** The price paid for labor services, this is an important determinant of labor demanded and supplied.



*We can also apply supply and demand analysis to markets for economic resources. In the labor market, workers sell their services to employers.

*The lower the wage, the greater the quantity of labor services demanded by employers

*The higher the wage, the greater the quantity of labor services generally supplied

(Follows the laws of supply and demand)

➔The *demand curve* for labor services is downward sloping—this reflects the fact that at a lower wage, employers are willing to hire more workers

➔The *supply curve* for labor is upward sloping—this reflects the fact that more people are willing to work at higher wages.

➔The lower the wage, the *higher* the quantity of labor services demanded by employers and the *less* the labor supplied by workers.

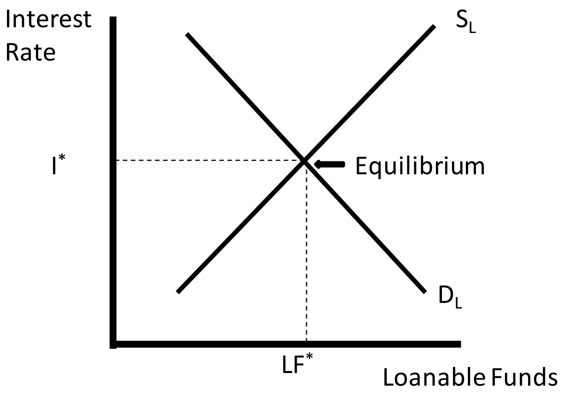
➔The higher the wage, the *less* the quantity of labor services demanded by employers and the *higher* the labor supplied by workers.

2. **Credit Markets: (Not required for now but might be useful later)**

- **Credit:** the use of *loanable funds* supplied by lenders to borrowers who agree to pay back the borrowed funds according to an agreed upon schedule. The price for loanable funds is called *interest*.

➔ When you borrow money from a bank to buy a car, the bank is the *creditor*, and you are the *debtor* —you will pay monthly payments that include an interest rate

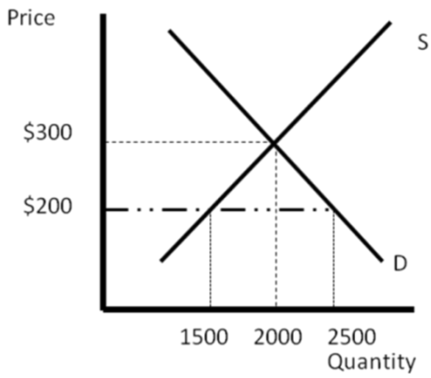
- **Interest**: *is a price and its level depends on the demand for and supply of loanable funds in financial markets where credit is available*. Interest is usually expressed as a percentage per dollar of funds borrowed. The amount of loanable funds supplied and demanded depends on interest rates.



3. **Price Ceilings & Price Floors:**

- **Price Ceilings:** is a maximum price that can legally be charged for a good or service. A price ceiling is said to be effective if it is set below the price that would otherwise emerge as the market equilibrium price.

Example: Rent control



➔Suppose the equilibrium rent is $300/month and at that price the quantity supplied & demanded is 2,000.

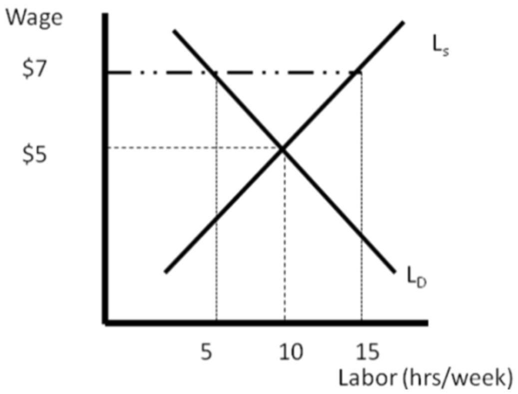
➔Now the government enacts legislation which says landlords cannot charge more than $200/month.

➔What happens at this new price?

At this price, the QD > QS (2500 QD, 1500 QS) which results in a shortage of housing.

- **Price Floors:** is a minimum price established by law. Two commonly used price floors are minimum wages and agricultural price supports.

Example: Minimum Wage



➔Suppose the equilibrium wage rate is $5/hr. The government imposes a law that says that the minimum wage is $7/hr.

➔What happens at this new wage level?

Now the Quantity of Labor Supplied (L_S) > the Quantity of Labor Demanded. This creates a surplus of labor.