

EXERCISE 2

MAXIMUM PRICE

Data:

$$Q_d = 120 - 1,2P$$

$$Q_s = 0,8P$$

- 1 Draw D and S model
- 2 Draw market equilibrium
- 3 Calculate market equilibrium (P_e , Q_e)

- 4 Draw CS, PS, TW
- 5 Write-down formulas CS, PS, TW

6 Calculate CS, PS, TW

Imagine government sets maximum price of €40

7 Draw Pmax

8 Draw market limitation

9 Draw CS', PS', TW'

10 Write-down formulas CS', PS', TW'

11 Calculate CS', PS', TW'

12 Draw DWL

13 Calculate DWL

CS		CS'	
PS		PS'	
TW		TW'	

$$DWL = TW' - TW =$$