MobLab
A playground for decisions

Controls on Prices

Price Ceilings and Floors

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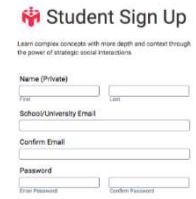
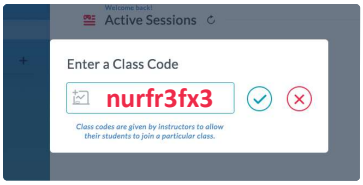
1. Sign up as a student using your NTU student Email
2. Join the class





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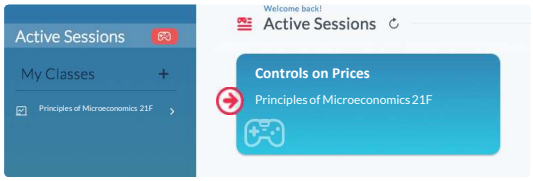
Enter the Activity



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Market Forces

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Game Instructions

Market Forces

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Groups of 5 sellers and 5 buyers. Trade to maximize your profits!

Orange producer, selling oranges

Hungry consumer, buying oranges

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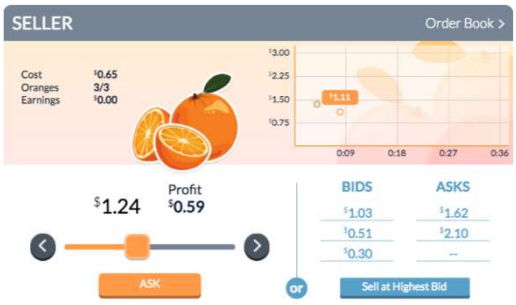
SELLERS



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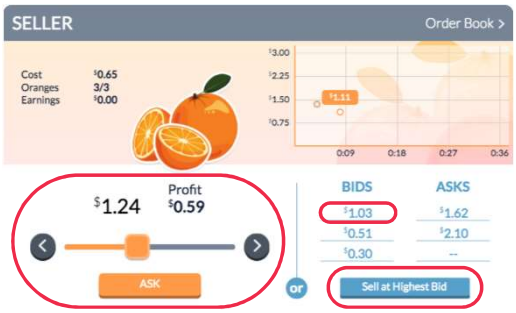
Submit an **ASK** using the slider, or **Sell at Highest Bid**



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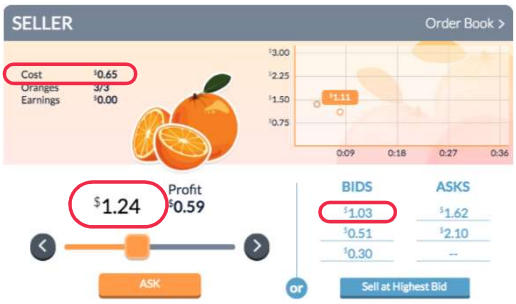
Seller's Profit = Sale Price – Cost



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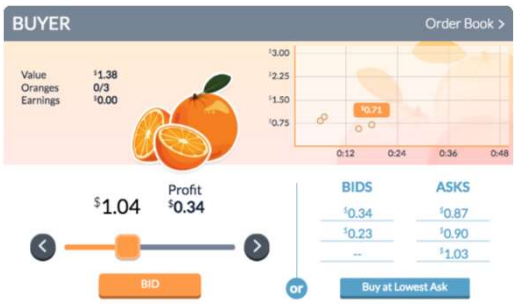
BUYERS



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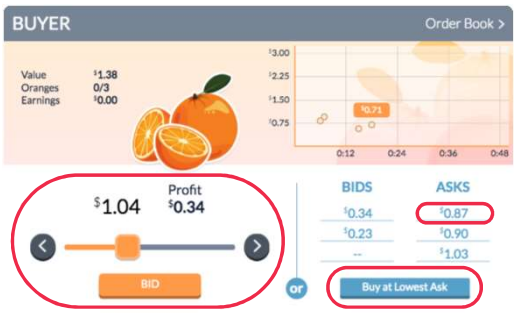
Submit a **BID** using the slider, or **Buy at Lowest Ask**



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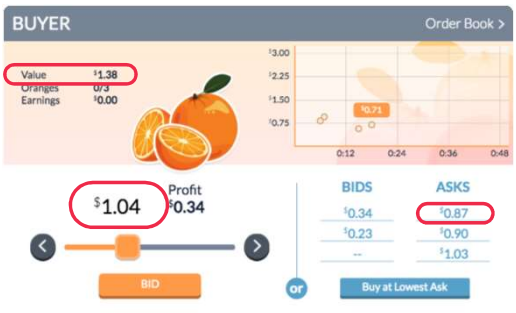
Buyer's Profit = Value – Purchase Price



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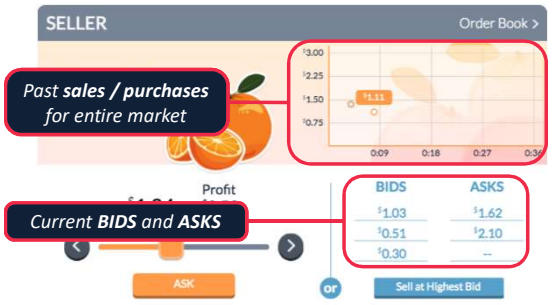
Bids are offers to buy, **Asks** are offers to sell



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When does a transaction occur?

- Someone uses Buy at Lowest Ask Sell at Highest Bid
- A Buyer places a BID higher than the lowest outstanding Ask (Purchase Price at Lowest Ask)
- A Seller places an ASK lower than the highest outstanding Bid (Sale Price at Highest Bid)

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What happens when a transaction occurs?

- Buyers
  - The value for the next orange is lower than the previous orange
- Sellers
  - The cost to supply the next orange is greater than the previous orange

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As a **seller**, what is your profit if someone accepts your ask of $1.24?

Sale Price – Cost = $1.24 - $0.65 = $0.59

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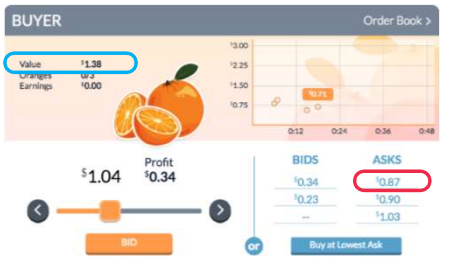
As a **buyer**, what is your profit if you "Buy at Lowest Ask"?



***Value – Purchase Price* = $1.38 - $0.87 = $0.51**

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What will Price and Quantity be?

Let's find out:

- You've been told to maximize your own profits.
- The Law of Supply and Demand predicts your group's behavior.
- Will the prediction be accurate?

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Game Time!

Market Forces

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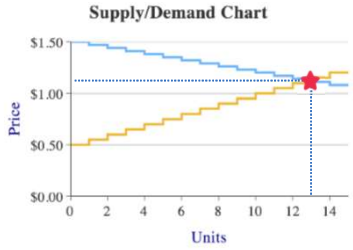
What was the Equilibrium Price and Quantity of your market?



Equilibrium P: $1.12 *Equilibrium Q: 13*

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Price Floor of $0.50

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Game Time!

Market Forces

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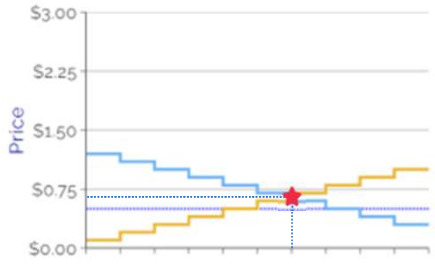
What was the Equilibrium Price and Quantity of your market?



Equilibrium P: $0.65 *Equilibrium Q: 6*

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Price Floor of 1.00

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Game Time!

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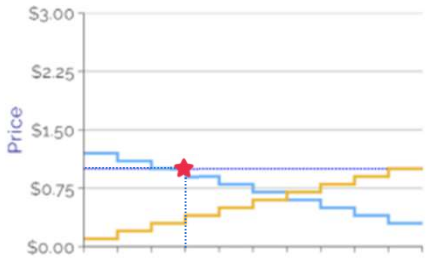
What was the Equilibrium Price and Quantity of your market?



Equilibrium P: $1.00 Equilibrium Q: 3

Supply Demand Price Floor ($1.00)

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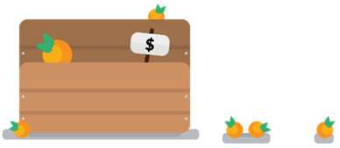
What will happen to Price and Quantity?

Let's find out:

- Suppose that due to a hurricane the government institutes a price ceiling of $0.50 on food such as oranges to combat price-gouging.



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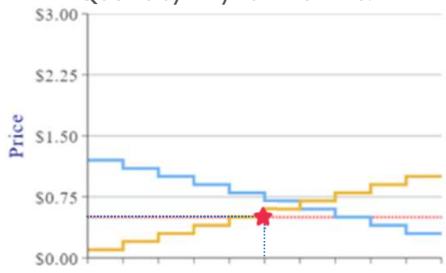
What was the Equilibrium Price and Quantity of your market?



Equilibrium P: $0.50 Equilibrium Q: 5

Supply Demand Price Ceiling ($0.50)

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Results Discussion

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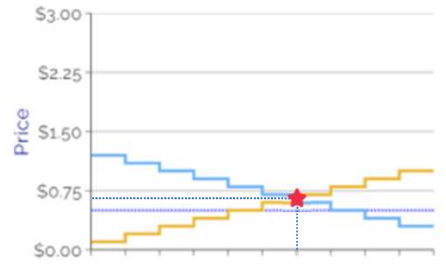
What was the Equilibrium Price and Quantity for a Price Floor of $0.50?



Equilibrium P: $0.65 Equilibrium Q: 6

Supply Demand Price Floor ($0.50)

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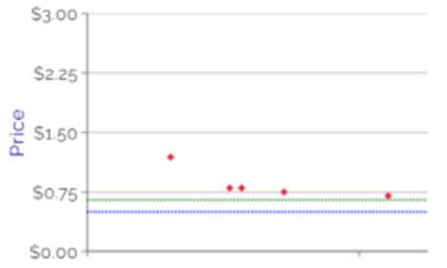
What happened to Price and Quantity?



Equilibrium P: $0.65 Equilibrium Q: 6

Transactions Equilibrium ($0.65) Price Floor ($0.50)

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What happened to Price and Quantity?

Equilibrium P: $0.65 Equilibrium Q: 6

Transactions Equilibrium ($0.65) Price Floor ($0.50)

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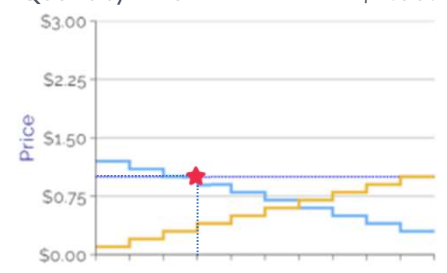
What was the Equilibrium Price and Quantity for a Price Floor of $1.00?



Equilibrium P: $1.00 Equilibrium Q: 3

Supply Demand Price Floor ($1.00)

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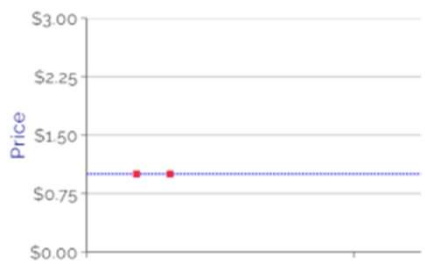
What happened to Price and Quantity?



Equilibrium P: $1.00 Equilibrium Q: 3

Transactions Equilibrium ($1.00)

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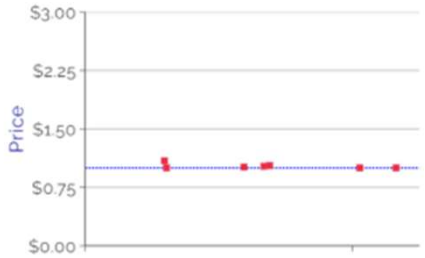
What happened to Price and Quantity?



Equilibrium P: $1.00 Equilibrium Q: 3

Transactions Equilibrium ($1.00)

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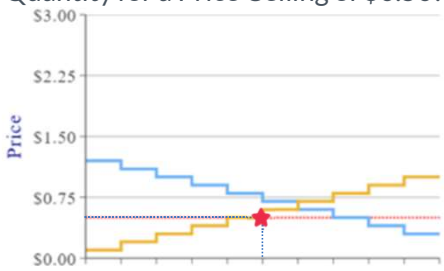
What was the Equilibrium Price and Quantity for a Price Ceiling of $0.50?



Equilibrium P: $0.50 Equilibrium Q: 5

Supply Demand Price Ceiling ($0.50)

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What was the Equilibrium Price and Quantity for a Price Ceiling of $0.50?

Equilibrium P: $0.50 Equilibrium Q: 5

Transactions Equilibrium ($0.50)

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What was the Equilibrium Price and Quantity for a Price Ceiling of $0.50?

Equilibrium P: $0.50 Equilibrium Q: 5

Transactions Equilibrium ($0.50)

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Concept Review

Controls on Prices

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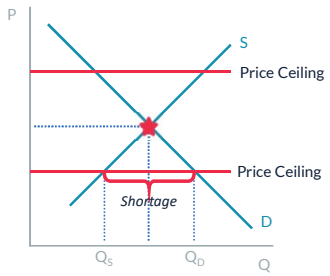
Not Binding!



Quantity Supplied is **less** than Quantity Demanded

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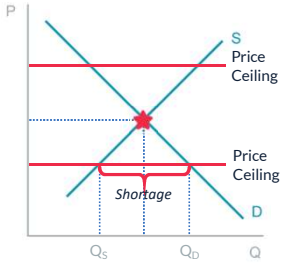
Price Ceilings

- If the ceiling is above equilibrium, it is not binding.
- If the ceiling is below equilibrium, Quantity Supplied is less than Quantity Demanded.
- This creates a shortage.



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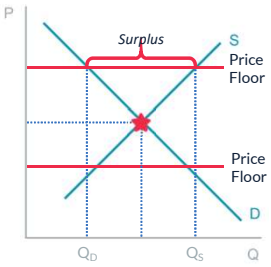
Price Floors

- If the floor is below equilibrium, it is not binding.
- If the floor is above equilibrium, Quantity Demanded is less than Quantity Supplied.
- This creates a surplus.



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Completed!

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