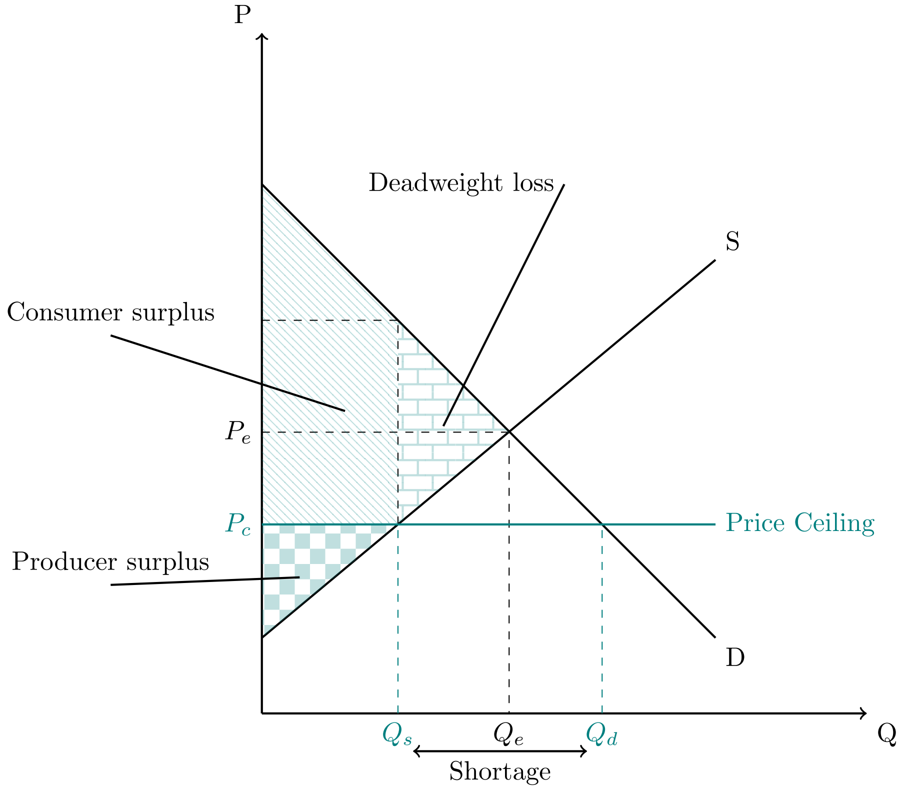
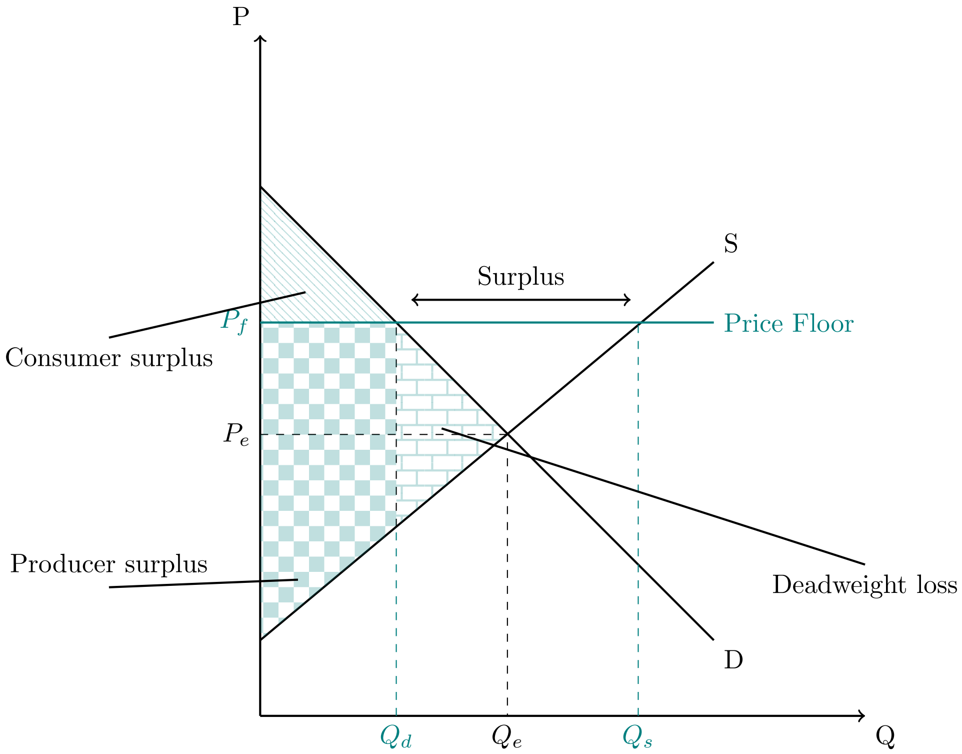
Minimum and maximum prices (ceilings and floors)

Price ceiling



A price ceiling is a government-imposed limit on the price of a product, set below the equilibrium price. This leads to a shortage because the lower price increases demand but decreases supply. Producers receive less for their goods, reducing producer surplus, while some consumers benefit from paying less, increasing consumer surplus. However, the market experiences a deadweight loss due to inefficiencies, as the price ceiling prevents the market from reaching equilibrium. This often results in non-price rationing mechanisms like long lines and black markets. While intended to make goods more affordable, price ceilings frequently cause shortages, and market inefficiencies.

Price floor



A price floor is a government-imposed minimum price for a product, set above the equilibrium price. This leads to a surplus because the higher price reduces demand but increases supply. Producers receive more for their goods, increasing producer surplus, while consumers have to pay more, reducing consumer surplus. The market also experiences deadweight loss due to inefficiencies, as the price floor prevents the market from reaching equilibrium. Common examples include minimum wage laws and agricultural price supports. While intended to help producers, price floors often result in excess supply and market inefficiencies.