The Cost of Price Controls | Worksheet

Matching

Match the definition in Column A with the term in Column B.

Column A

- __________ A minimum price set by the government.
- __________ When supply is greater than demand.
- __________ Government-imposed limits on prices.
- __________ The price where supply and demand are balanced.
- __________ A maximum price set by the government.
- __________ When demand is greater than supply.

Column B

a. Price Controls
b. Price Floor
c. Price Ceiling
d. Surplus
e. Market Equilibrium
f. Shortage

Multiple Choice

1. **What is the primary reason governments set price controls?**
   a. To allow businesses to maximize profits
   b. To help stabilize prices and make goods and services more affordable
   c. To discourage consumers from purchasing luxury goods
   d. To ensure that supply and demand always remain equal
2. **What is a common consequence of a price floor, such as minimum wage?**
   a. Increased employment opportunities for all workers
   b. A decrease in labor costs for businesses
   c. More businesses entering the market due to lower wages
   d. A surplus of workers looking for jobs, leading to higher unemployment
3. **Why do price ceilings, such as rent control, often lead to shortages?**
   a. Landlords are encouraged to build more housing to meet demand
   b. Consumers stop looking for housing when rent is low
   c. Landlords may not maintain properties or invest in new rentals due to low profits
   d. The government steps in to provide additional housing when there are shortages
4. **Which of the following best describes "market equilibrium"?**
   a. A point where supply and demand are balanced, and prices naturally adjust
   b. A situation where the government sets a maximum and minimum price for goods
   c. When consumers are unable to afford basic necessities
   d. A scenario where businesses are forced to sell goods at a loss

Application

Imagine you own a small bakery that sells fresh bread for $5 per loaf. The government passes a price ceiling that lowers the maximum price of bread to $3 per loaf to make food more affordable. Answer the following questions:

1) How might this new price ceiling affect your business?
2) What unintended consequences might arise for both you and your customers?
3) If you were the bakery owner, how would you respond to this change?

Scan to watch episode:

The Cost of Price Controls | Answer Key

Matching

Match the definition in Column A with the term in Column B.

Column A	Column B
b. A minimum price set by the government.	a. Price Controls
d. When supply is greater than demand.	b. Price Floor
a. Government-imposed limits on prices.	c. Price Ceiling
e. The price where supply and demand are balanced.	d. Surplus
c. A maximum price set by the government.	e. Market Equilibrium
f. When demand is greater than supply.	f. Shortage

Multiple Choice

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Sample Answer Key:

"If the government lowered the price of my bread to $3, I'd have a hard time making enough money to pay for ingredients, workers, and rent. Since I'd be losing money on every loaf, I might have to bake less bread, which means customers would probably see empty shelves more often. Some people might think a lower price is great, but if I can't afford to make enough, it could lead to shortages. To adjust, I might try using cheaper ingredients, cutting hours for my employees, or selling other baked goods at higher prices to make up for the loss. If none of that worked, I might even have to close my bakery or move somewhere without price limits."

Guidance for Grading

- [ ] **Impact on Business:** The student should explain that lowering the price to $3 reduces revenue per loaf, making it harder to cover costs (ingredients, wages, rent, etc.). The response should acknowledge the financial strain on the bakery and possible losses due to the enforced lower price.
- [ ] **Unintended Consequences**: The student should recognize that a lower price increases demand, but at the same time, the bakery may not be able to afford to bake as much bread (leading to shortages). A strong response may also mention quality reductions—the bakery may use cheaper ingredients or reduce portion sizes to stay profitable.
- [ ] **Business Owner's Response**: The student should suggest realistic business adjustments. A strong answer may consider whether the bakery might shut down or relocate due to unsustainable profits.
    - Reducing production (baking fewer loaves to avoid losses).
    - Cutting costs (using lower-quality ingredients, reducing staff, or shortening hours).
    - Exploring alternative revenue streams (selling other baked goods or increasing prices on untaxed products like pastries).