

**SANGAM SKM COLLEGE- NADI**

**Activity Solution- Week 1**

**YEAR 11**

**ECONOMICS**

**Activity**

- (i) Explain why the government may set a price ceiling.
- (ii) Explain what happens to the price if a price ceiling (maximum legal price) is imposed.
- (iii) Indicate whether a price ceiling creates a surplus or a shortage. Why?

**Solution**

- (i) The government may set a Price ceiling to protect the consumers and to ensure that certain essential goods and services are affordable.
- (ii) Price ceilings prevent a price from rising above a certain level that is, the prices are kept low below the equilibrium price.
- (iii) Price ceiling creates a shortage because quantity demanded will exceed quantity supplied.