

2. Price controls in the Florida orange market

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The following calculator depicts the market for Florida oranges, which are sold in units of 90-pound boxes. The upward-sloping (orange) line represents supply, and the downward-sloping (blue) line represents demand.

Use the calculator to help you answer the following questions. You will not be graded on any changes you make to the calculator.

Tool tip: Use your mouse to drag the horizontal green line on the graph. The values in the boxes on the right side of the calculator will change accordingly. You also can directly change the values in the boxes with the white background by clicking in the box and typing. The graph and any related values will change accordingly.



Based on the graph, in this market, the equilibrium price is \$12 ✓ per box, and the equilibrium quantity of oranges is 500million ✓ boxes.

Explanation:

Open ▾

A congressman from New York, facing pressure from constituents alarmed at increases in the price of orange juice, introduces a bill to set a price ceiling of \$6 per box of oranges. If the market price arbitrarily starts at the price ceiling of \$6 per box, the quantity of oranges demanded will be 1,000million ✓ boxes, while the quantity of oranges supplied will be 400million ✓ boxes. Therefore, there will be a shortage ✓ of 600million ✓ boxes of oranges in this market. In the absence of any price controls, this would exert upward ✓ pressure on orange prices until the market achieves equilibrium.

Explanation:

Open ▾

However, with a price control in place, the market may or may not be able to reach its equilibrium. (Economists call a price ceiling that prevents the market from reaching equilibrium a *binding price ceiling*.) Which of the following price ceilings (per box of oranges) would be binding in the previously discussed market? Check all that apply.

- ✓ \$15
- ✓ \$8
- ✓ \$6

Explanation:

Open ▾

Because it takes many years before newly planted orange trees bear fruit, the supply curve in the short run is almost vertical. In the long run, farmers can decide whether to plant oranges on their land, to plant something else, or to sell their land altogether. Therefore, the long-run supply of oranges is much more price sensitive than the short-run supply of oranges.

Assuming that the long-run demand for oranges is the same as the short-run demand, you would expect the long-run effect of a binding price ceiling on quantity supplied to be larger ✓ than the short-run effect.

Explanation:

Open ▾

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