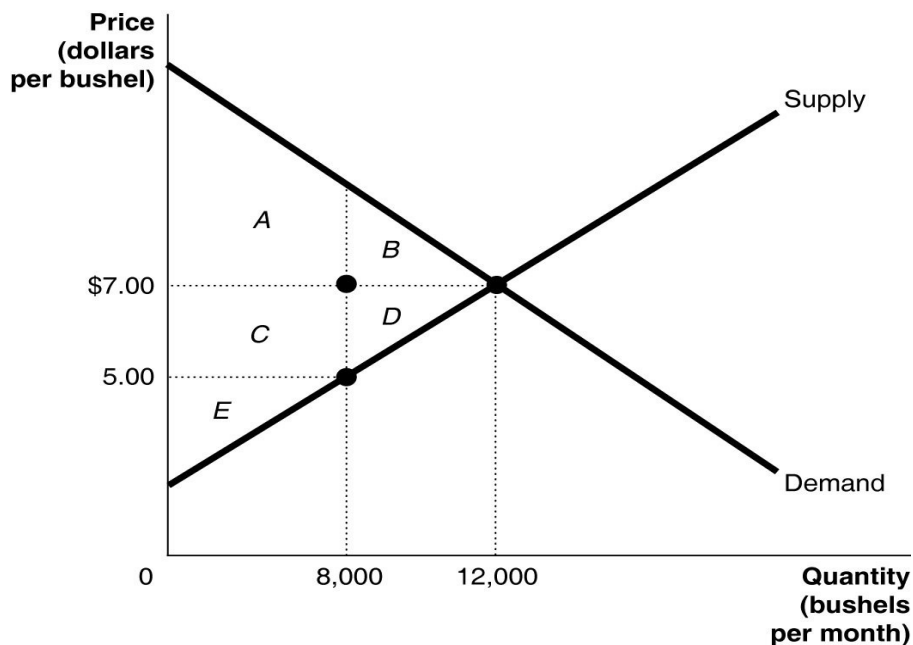


Practice for Chapter four

Fall 2017

The graph below represents the market for lychee nuts. The equilibrium price is \$7.00 per bushel. But the government believes that the equilibrium price is too high and sets a price at \$5.00 per bushel.



At the equilibrium price of \$7.00:

- 1, What area represents consumer surplus? **A+B**
- 2, What area represents producer surplus? **C+D+E**
- 3, what area represents economic surplus? **A+B+C+D+E**

At the price of \$5.00:

- 1, What area represents consumer surplus? **A+C**
- 2, What area represents producer surplus? **E**
- 3, what area represents economic surplus? **A+C+E**
- 4, What area represents the portion of producer surplus that has been transferred to consumer surplus as a result of the price ceiling? **C**
- 5, What area represents the deadweight loss after the imposition of the price ceiling? **B+D**