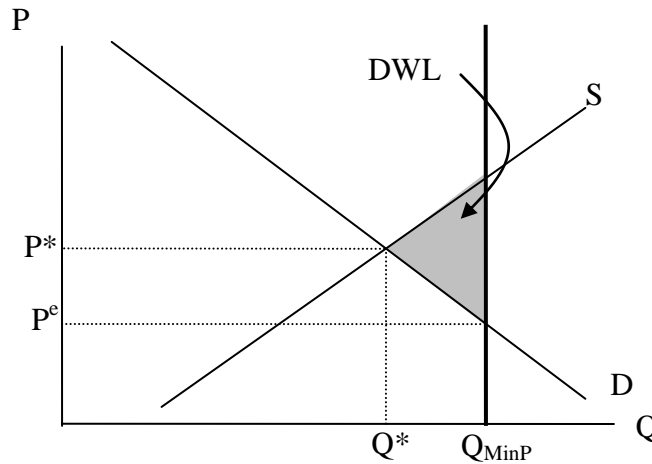


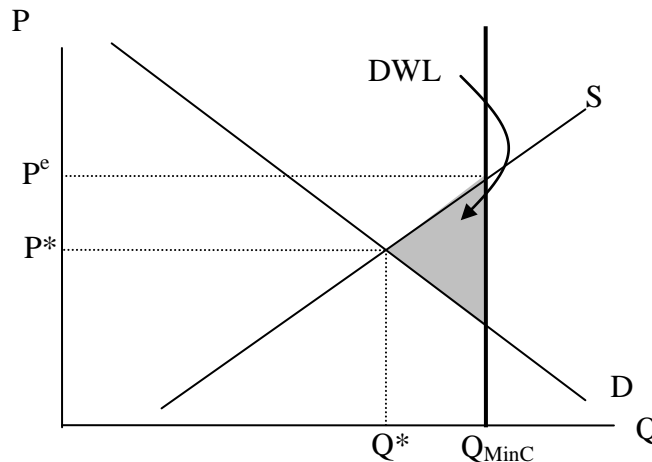
LECTURE 30: QUOTAS

I. Minimum Quotas

- a. Quotas are just like price controls except they set quantity rather than price. They come in two stripes: production quotas and consumption quotas
- b. Consider this minimum production quota, set above equilibrium.



- i. In the above diagram, companies are required to over-produce. With so much in the market, the price, as determined by Demand, is lower than the market price.
- c. Now consider this minimum consumption quota set above equilibrium.

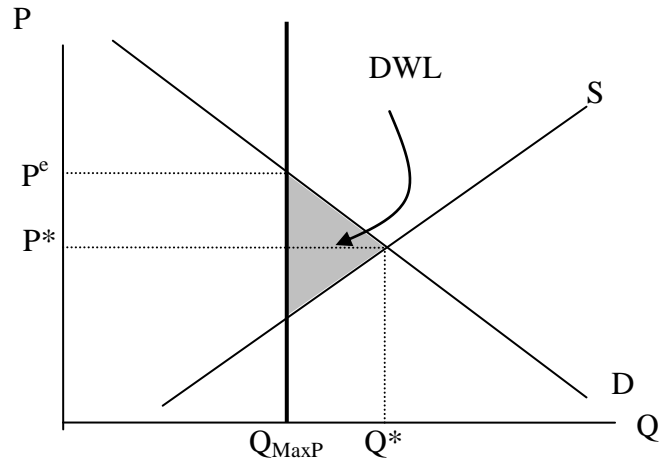


- i. Now that consumers are forced to overconsume, the price is above the optimal, rather than below it.

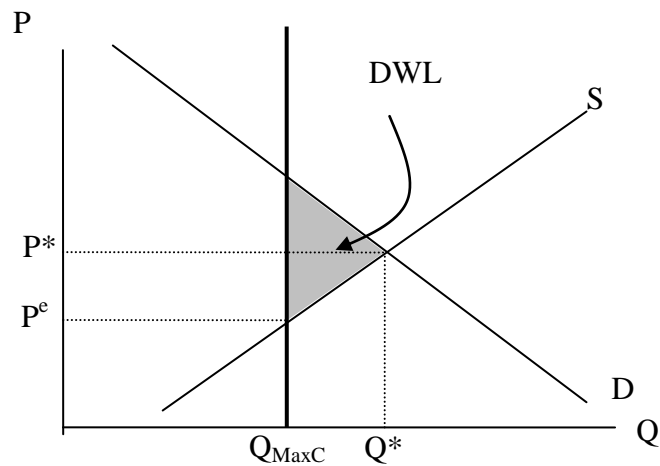
- d. Like price controls, production quotas can be completely ineffective. Minimum quotas set below equilibrium do nothing.

II. Maximum Quotas

- a. Now consider this maximum production quota set below equilibrium.



- i. With companies not allowed to produce more, prices rise (note the similarity between this and our monopoly model).
- b. And here's a maximum consumption quota set below equilibrium.



- i. With so few people allowed to buy, the price falls.
- c. Maximum quotas set above equilibrium do nothing.