

**Price Floors with an Allocation by Lottery**

Submit your answers by email to [psets@caseybmulligan.com](mailto:psets@caseybmulligan.com)

Consider a price floor regulation in a single industry, and assume that the height of the floor is above the unregulated price. Assume further that the discrepancy between supply and demand at the floor, if any, is allocated by lottery.

- (1) Ignoring the lottery for a moment, name an industry, product, or service where there is a price floor regulation.
- (2) Assuming that, by law, buyers cannot resell the good subject to the price floor, and that sellers cannot resell or subcontract their opportunity to supply, use a supply and demand diagram to indicate the number and types of market participants that lose the lottery.
- (3) Assuming as in (2), use a supply and demand diagram to show the gain or loss to suppliers of having a price floor.
- (4) Is your answer to (2) different if sellers with a “winning” lottery ticket – that is, the right to supply at the floor price – can sell the ticket it to another seller of the good?
- (5) Assuming as in (4), use a supply and demand diagram to show the gain or loss to suppliers of having a price floor.