

IB Economics IA Coversheet

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Don't hike price of face masks for quick profit, Chong warns businesses amid Wuhan virus outbreak

BY RINTOS MAIL ON JANUARY 30, 2020, THURSDAY AT 3:31 PMNEWS, SARAWAK



Chong (centre) holds up an example of a surgical mask during the press conference. Photo by Chimon Upon

KUCHING: Manufacturers, wholesalers and retailers have been warned not to take advantage of the Wuhan coronavirus outbreak by increasing the price of face masks and hand sanitizer products.

Deputy Minister of Domestic Trade and Consumer Affairs Chong Chieng Jen said any business that arbitrarily hiked prices for unreasonable profit would be charged under the Price Control and Anti-Profitteering Act 2011.

He said an individual found guilty under the law faced a fine not exceeding RM100,000 or imprisonment for a term not exceeding three years jail for an individual and for a corporation, ia fine not exceeding RM500,000.

“While I am confident that most traders are ethical, I do not discount the fact that there may be some black sheep among them who will do anything for a quick profit. But as we are now caught in a global crisis situation, let us all work together to get out of the crisis,” he told a press conference at the ministry’s office here yesterday.

Chong said there were five types of face masks which have been listed as price control items under the Price Control and Anti-Profiteering Act 2011.

They are:

1. One layer face mask – RM5 per box wholesale price, RM7 per box retail price.
2. Two layer face mask – RM8 per box wholesale, RM10 per box/20 sen per unit retail.
3. Three layer face mask – RM25 per box wholesale, 80 sen per unit retail.
4. Three layer face mask, tied to the head – RM30 per box wholesale, 80 sen per unit retail.
5. N95 – RM100 per box wholesale, RM6 per unit retail.

Members of the public who find any shop selling any of the items above their respective maximum prices can lodge a report to any of the ministry's offices and their enforcement officers would take immediate action upon receiving such reports, Chong said.

"Our 2,300 enforcement officers and 1000 price checkers nationwide will also be carrying out inspection on outlets selling these items," he said.

He said while other types of face masks were not listed in the Price Control items, they were still subject to the same Act, but under a different section of the Act which prohibits profiteering.

Asked if his ministry had received any complaints about traders in Sarawak selling face masks above the control price, he said so far 10 complaints had been received from the public.

He said action had been taken, where the enforcement officers had gone to the ground to check and verify the allegation against the traders.

"But upon checking, the officers found that the shops were selling the items at control price or below the controlled price. This morning, I went to three pharmacies to check the stock and price and all of them are still selling the items at the controlled price or even below the controlled price," he said.

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Microeconomics Commentary

As the outbreak of Coronavirus became a global concern, people sought all possible ways to prevent the infection. Consequently, the demand increased drastically for N95, a respirator that helps prevent the spread of viruses. However, producers could not respond as quickly to the surging demand. Thus, the market drove the price up in order to ration the limited supply among the consumers who could afford them. To keep the price affordable, the Malaysian government imposed a price ceiling on N95 of a maximum of RM6 (\$1.45) per unit retail.

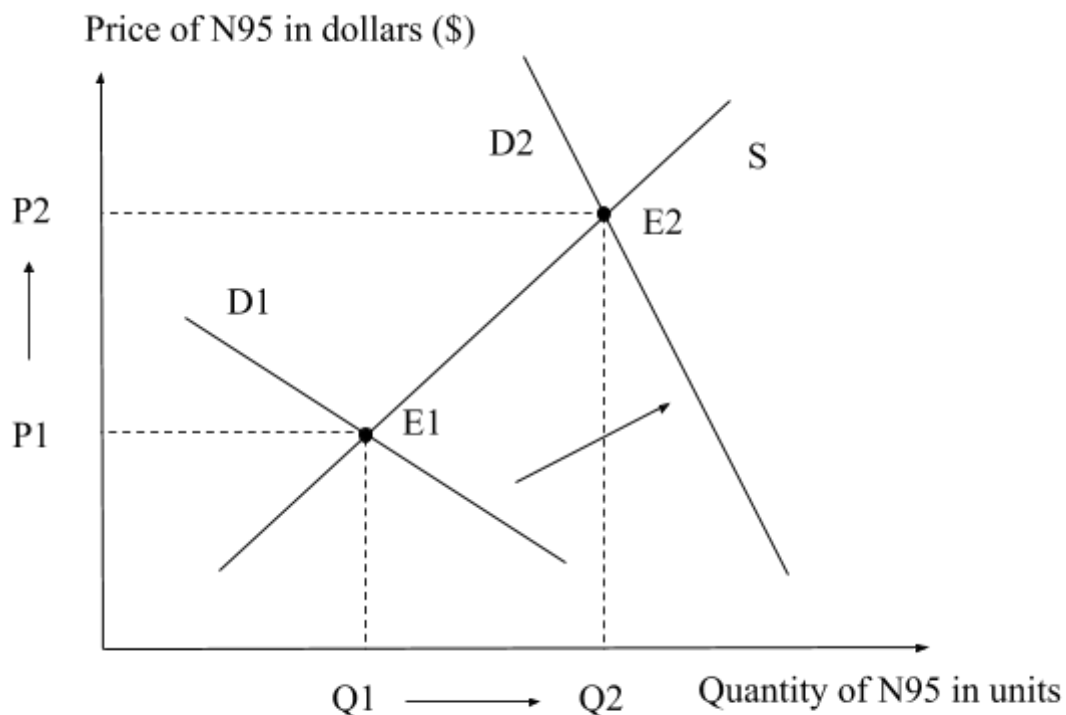


Figure 1: The Market for N95 in Sarawak

As shown in Figure 1, the demand for N95 was D_1 before the outbreak of Coronavirus. After being informed of the Coronavirus and the benefit of N95, consumers' preference for N95 increased and they were more willing and able to buy it, so demand increased from D_1 to D_2 . Accordingly, because of price mechanism, the price increased from P_1 to P_2 and the quantity increased from Q_1 to Q_2 . Meanwhile, because N95 prevents infection better than other masks, it has few substitutes and was a necessity for those in infected areas. Hence, consumers still demanded a large quantity regardless of proportionally big increases in price, which means the demand was inelastic. This is presented by the relative steepness of D_2 compared to D_1 .

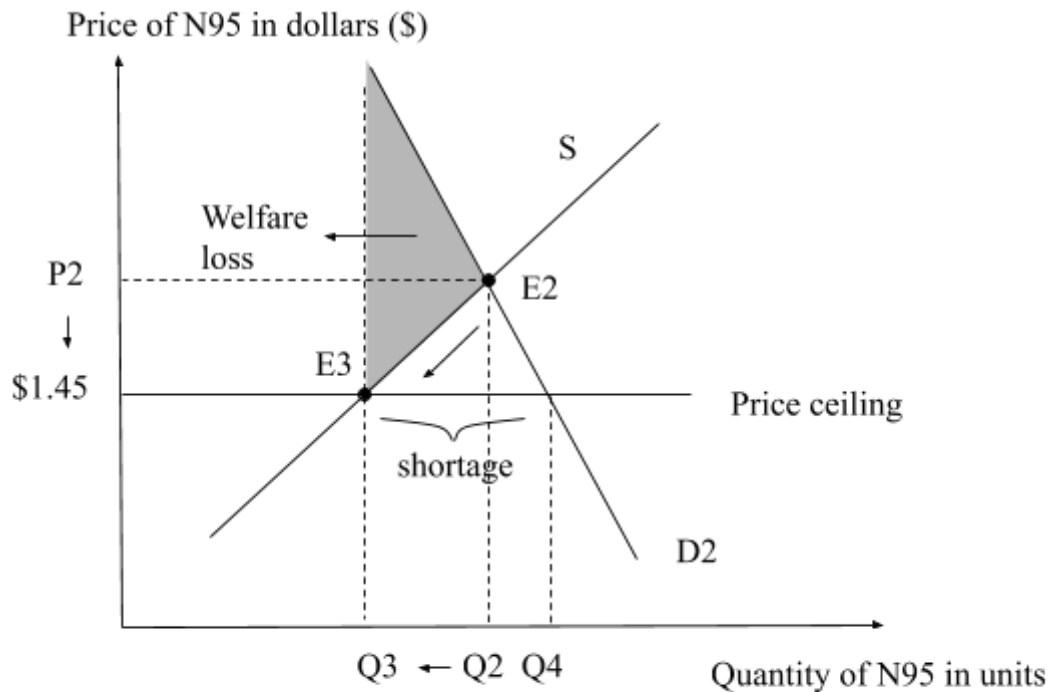


Figure 2: A price ceiling for N95 in Sarawak

To make N95 affordable, the government imposed a price ceiling of \$1.45, shown in Figure 2. The price ceiling did not let the price adjust to its equilibrium P_2 . Since at \$1.45, the quantity demanded was greater than quantity supplied, there was a shortage of Q_3Q_4 . Moreover, since only Q_3 of N95 was produced and consumed rather than the equilibrium quantity Q_2 , there was a welfare loss, the benefit lost to society due to misallocation, shown as the shaded area.

However, an assumption exists in this analysis. The reason was not clear why producers increased the price for N95 so rapidly. It might be due to shortage as we assumed, yet it was possible that producers were profiting off consumers' fear. They knew that the price elasticity of demand for N95 was decreasing, so the quantity demanded would remain high even if the price increased a lot. If this was the case, a price ceiling would mean not only a lower price for consumers but also no shortage in reality.

Apart from this assumption, the policy had pros and cons. On the one hand, a price ceiling was direct to design and implement; the resulting price was predictable by being fixed by the government at \$1.45; its effect on lowering the price was evident in a short time. In comparison, other methods like subsidies faced the challenge of deciding how much the government should pay and the effect on lowering the supply would be much slower to see. On the other hand, the price ceiling would worsen the shortage of N95. Because the price was lowered to \$1.45, producers had lower revenues and profits, and thus less incentive to produce. Then there was less quantity supplied and more shortage.

The price ceiling on N95 had various impacts on different stakeholders. Some consumers were better off because they could buy N95 at a lower price, but others went unsatisfied because fewer N95s were produced due to the price ceiling.

The producers were worse off at first glance. Producers who violated the price ceiling would be charged for a fine up to RM100,000 and put to prison under the law. Also, because of price ceiling, they sold N95 at a smaller quantity and lower price. Their revenues dropped from $P_2 \cdot Q_2$ to $\$1.45 \cdot Q_3$ in Figure 2. However, their revenues were still higher compared to those before the Coronavirus, which is the area $Q_1 \cdot P_1$ in Figure 1.

For the government, there were lots of difficulties in the compliance of the price ceiling, so extra budget was spent in its enforcement. This choice involved opportunity costs because these human resources and budgets could have been allocated elsewhere like the production of N95, improvement of the health system, etc. Nevertheless, there was also a gain in the government revenue because of the fines collected from the violation of the price ceiling. Also, the government was better in terms of political support from the consumers who could now afford N95.

Overall, though facing the potential danger of shortage, a price ceiling was an optimal solution, considering the assumption made in the analysis, the short term nature of the outbreak, and its advantages for most stakeholders.