

Macro Roundup Article

Headline: [Praise for Price-Gouging](#)

Article Link: <https://www.grumpy-economist.com/p/praise-for-price-gouging>

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Tweet: [. @JohnHCochrane argues "We should praise price-gouging. "Windfall" profits belong in the pantheon of saints along with price-gouging. In competitive industries, that's what encourages people to enter and offer new supply."](#)

Summary: The classic case of "price gouging" happens in a natural disaster or pandemic. A hurricane is coming, people run down to hardware stores and clean out the 4'x8' plywood to board up their windows. Stores raise their prices, people who have them sell at high prices to those that don't. In the pandemic, people got worried about toilet paper and went out to buy, cleaning out shelves. Stores that raised prices were accused of "gouging." Price gouging is fundamentally different from monopoly pricing, collusion, or price-fixing. Price gouging happens in perfectly competitive markets. There suddenly isn't enough to go around, either from a surge in demand or a contraction in supply. Prices rise sharply above what people are used to paying. Those that have inventories, bought when prices were lower, can turn around and make a temporary profit. Price gouging is wonderful for all the reasons that letting supply equal demand is wonderful. When there is a limited supply, then a sharply higher price directs that supply to those who really need it.

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