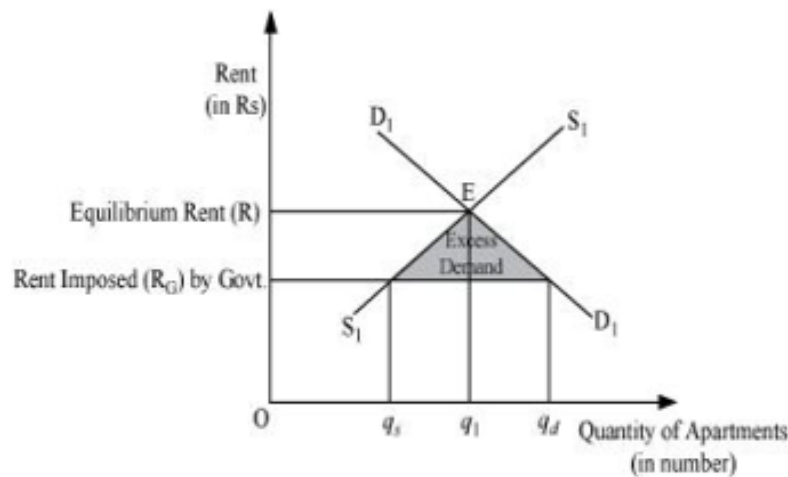




25. Suppose the market determined rent for apartments is too high for common people to afford. If the government comes forward to help those, seeking apartments on rent by imposing control on rent, what impact will it have on the market for apartments?

Ans:



The above figure depicts an equilibrium and an effect of price ceiling (maximum rent).

The market demand for apartments is depicted by the D_1D_1 curve and the supply of apartments is depicted by S_1S_1 . The equilibrium price determined is R and the equilibrium quantity is q .

If the government steps in and imposes rent ceiling (maximum rent) equivalent to R_G , then at this rent, there will be an excess demand. The quantity of apartments demanded will be q_d . Whereas, the quantity of apartments supplied is q_s . So, there exists an excess demand equivalent to $q_d - q_s$. At the rate R_G , common people can afford apartments to live in, which earlier they were not able to. However, besides this positive effect of imposition of maximum rent, it might happen that some landlords indulge in the practice of black marketing and offer apartments for rent at comparatively higher price.

***** END *****