

Price Controls

Price Controls - attempt to set or manipulate prices through government involvement in the market
- meant to ease perceived burdens on the pop.

Price Ceiling - legally established max. price for good/service

" Floor - " " min. price " "

e.g. on Price Ceilings - Rent

Goal - help low-income find places

Unintended consequences on rent control:

- Shortages ($Q_d > Q_s$)
- ↓ Long-term stayers
- ↓ Apartment quality
- Landlords with hidden costs
- Housing gridlock

Price gouging - laws that place temp. ceiling on prices usually after natural disasters/emergency

Consequences: Restricted prices can't ration efficiently
Resources may not go to places most needed
Goods people need disappear due to shortages

Price Floors - The producers set the min. price
an example - minimum wage

Conclusion - Prices act as signals and give info to consumers and producers

Price controls distort signals

Price control policy should be done with caution