

Price Ceilings

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Sumner La Croix

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Supply, Demand, and Government Policies

- ◆ In an unregulated market system with open entry and exit, market forces establish equilibrium prices and quantities.
- ◆ While equilibrium conditions may be efficient, not everyone will be satisfied with the outcomes.
 - Consumers
 - Producers

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Price Controls...

- ◆ Are usually enacted when policymakers believe the market price is unfair to buyers or sellers.
- ◆ Result in government-created price ceilings or price floors.

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Price Ceilings & Price Floors

Price Ceiling

- ◆ A legally established maximum price at which a good can be sold.

Price Floor

- ◆ A legally established minimum price at which a good can be sold.

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Price Ceilings

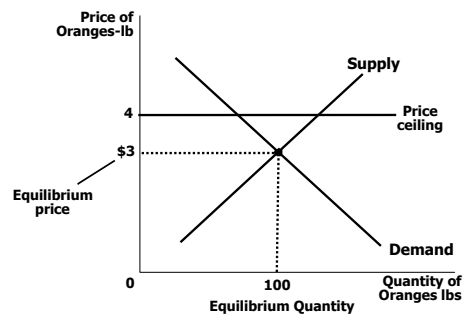
Two outcomes are possible when the government imposes a price ceiling:

- ◆ The price ceiling *is not* binding if set above the equilibrium price.
- ◆ The price ceiling *is* binding if set below the equilibrium price, leading to a shortage.

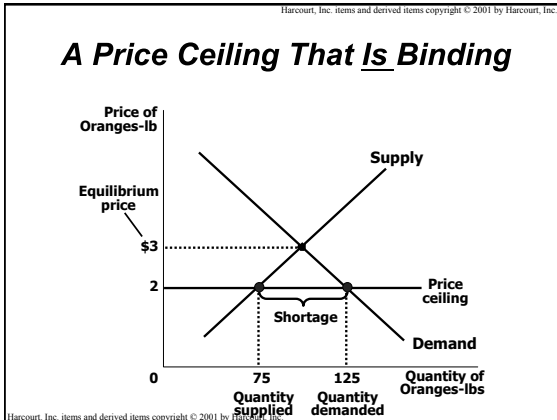
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A Price Ceiling That Is Not Binding



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Effects of Price Ceilings

A binding price ceiling creates...

- ... shortages because $Q_D > Q_S$
 - ◆ Gasoline shortage of the 1970s
- ... nonprice rationing
 - ◆ Long lines
 - ◆ Discrimination by sellers

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Rationing Resources

- ◆ **Price Rationing**
 - Efficient
 - Impersonal
- ◆ **Non-price Rationing**
 - Long lines
 - Waste buyers time → Inefficient
 - Discrimination by sellers:
 - Goods may not go to buyer who value it most highly → Inefficient
 - Potentially unfair

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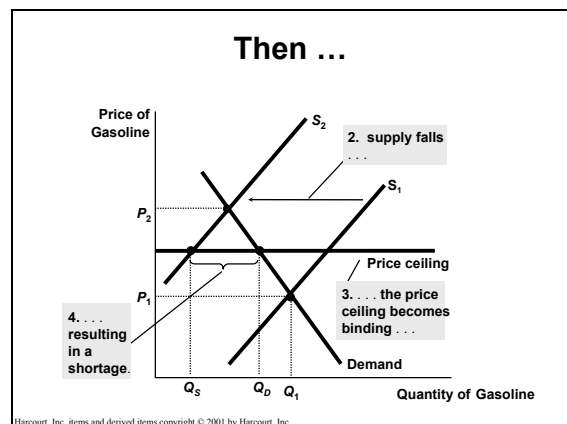
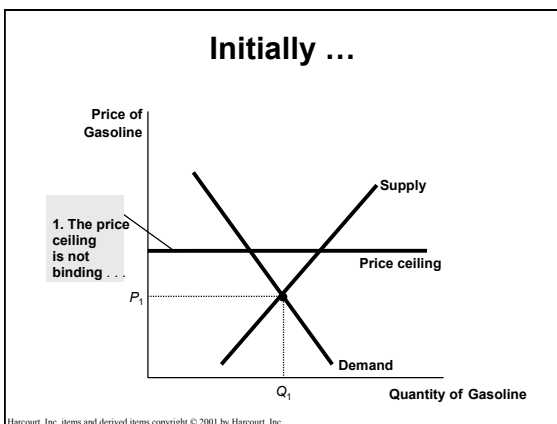
Lines at the Gas Pump

In 1973, OPEC raised the price of crude oil in world markets. Because crude oil is the major input used to make gasoline, the higher oil prices reduced the supply of gasoline.

What was responsible for the long gas lines?

Economists blame government regulations that limited the price oil companies could charge for gasoline.

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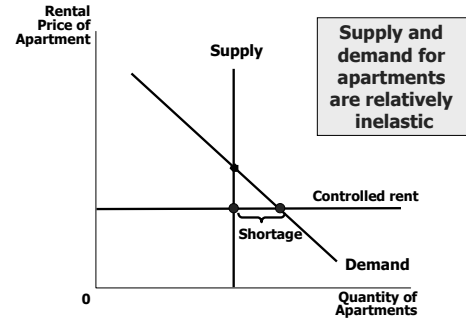


Rent Control

- ◆ Rent controls are ceilings placed on the rents that landlords may charge tenants
- ◆ Goal: to help the poor by making housing more affordable
- ◆ New York City rent controls were enacted as a WWII emergency measure
 - ◆ Some units still under rent control today
 - ◆ Many rich tenants in rich neighborhoods paying low WWII prices.

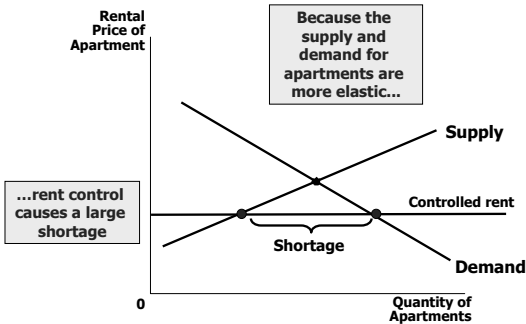
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Rent Control in the Short Run...



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Rent Control in the Long Run...



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Who would gain and Who would lose

From rent control in Honolulu?

- ◆ You are already in a desirable house?
- ◆ You are a UH student looking for a place to live?
- ◆ You are a member of a minority group subject to discrimination?
- ◆ You are poor and cannot afford market rents in an uncontrolled market?
- ◆ You are the owner of a rental unit?

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Effects of Rent Control

- ◆ Discrimination against any groups who are less favored by landlords.
- ◆ Bribery by potential tenants.
- ◆ “Key” money charged???
- ◆ Unbundling of services???
- ◆ Less maintenance or remodeling.
- ◆ Age of appliances.

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