

Price control

Price Floors and Ceilings

Laugher Curve

Q. How many conservative economists does it take to screw in a light bulb?

A. None.

If the government would just leave it alone, it would screw itself in.

Government Intervention in the Market

- Buyers look to government for ways to hold prices down.
- Sellers look to government for ways to hold prices up.

Price Ceilings

- A *price ceiling* is a government-imposed limit on how high a price can be charged.

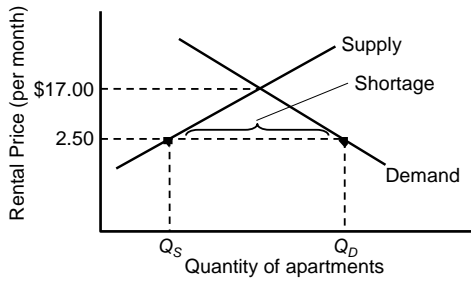
Rent Controls

- *Rent control* is a price ceiling on rents set by government.
- An example is rent control in Paris following World War I and World War II.

Rent Controls

- Rent control in Paris resulted in:
 - A huge shortage of living quarters.
 - New housing construction stopped.
 - Existing housing was allowed to deteriorate.
 - Many families had to double up with other family members.

Rent Controls



Price Floors

- A *price floor* is a government-imposed limit on how low a price can be charged.

Minimum Wage

- The minimum wage is an example of a price floor.
- A *minimum wage* is set by government specifying the lowest wage a firm can legally pay an employee.

Minimum Wage

- **The minimum wage creates winners and losers:**

- Those who can find work earn a higher wage.
- Others become unemployed.
- Production costs increase.
- Consumers pay higher prices.

Minimum Wage

- **Economists disagree about the effects of the minimum wage.**
