

# EE211

## Principles of Microeconomics

Chapter 2 (cont.)  
Effects of Government Intervention:  
Price Controls

### Effects of Government Intervention

- Government does something that prevent the market mechanism from operating freely.
- What will happen to
  - The market? Can equilibrium be maintained?
  - The allocation of resources?
  - The production?

### Price Controls: Two Types

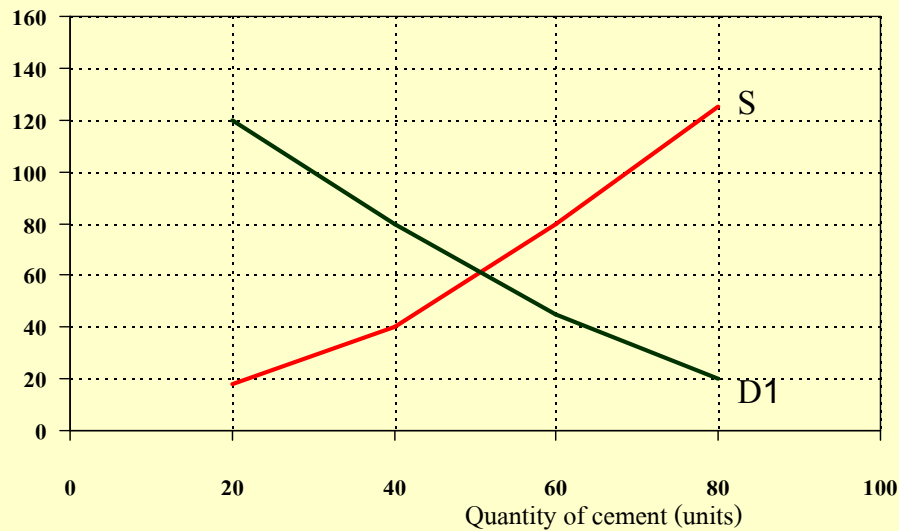
- Price Ceilings
  - = legal maximum price
- Price Floors
  - = legal minimum price

### Price Ceilings

- Legal maximum price
- assume: 100% enforcement of policy
- consider the market of cement powder

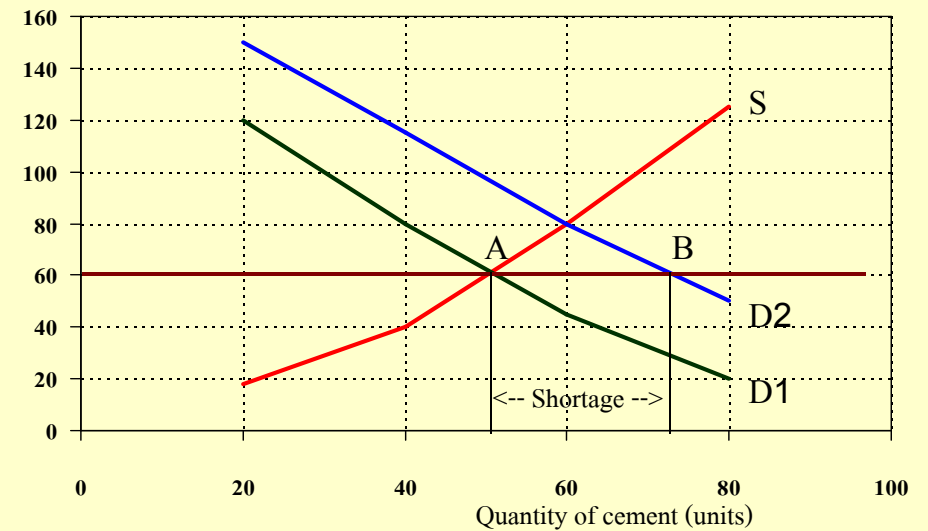
## Price Ceilings

Price per unit



## Price Ceilings

Price per unit



## Impacts of Price Ceilings

- Persistent shortage results.
- What can govt/ suppliers do to clear the market?
  - select the qualified consumers BUT the key question is who is qualified !
  - Average distribution for fairness
  - queuing: first-come, first-served basis
  - close relationship, eg: friends, relatives.
  - Limit purchase

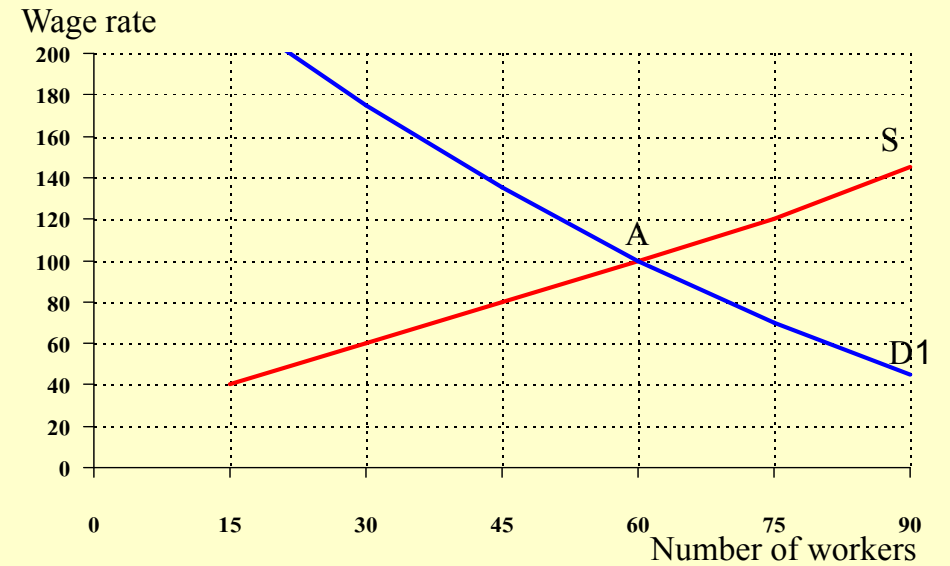
## Impacts of Price Ceilings

- If the enforcement is not efficient, what will happen?
- Offer 'tea money' / under-table money
- Black market
  - a market where product is sold at prices illegally higher than a regulated price.
- example: controls of tuition fee in private schools induce a number of parents willing to pay 'tea money' in extra of annual fee.

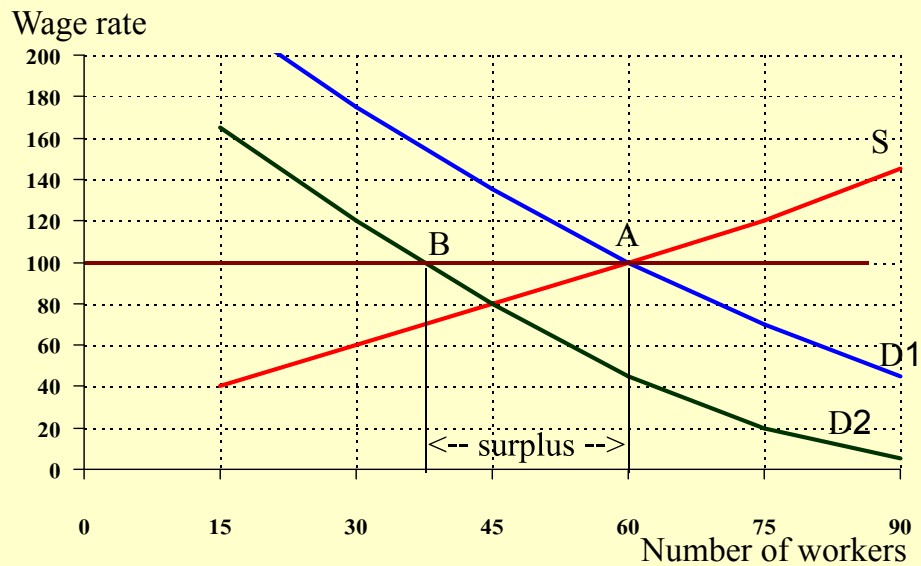
## Price Floors

- Legal minimum price
- eg: the minimum wage in labour markets

## Price Floors



## Price Floors



## Impacts of Price Floors

- Does it benefit all the workers?