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ch 5. Price Controls and Quotas: Meddling with Markets

Price Controls

- price ceilings
e.g. rent control
- price floor
e.g. minimum wage
prices of ag products

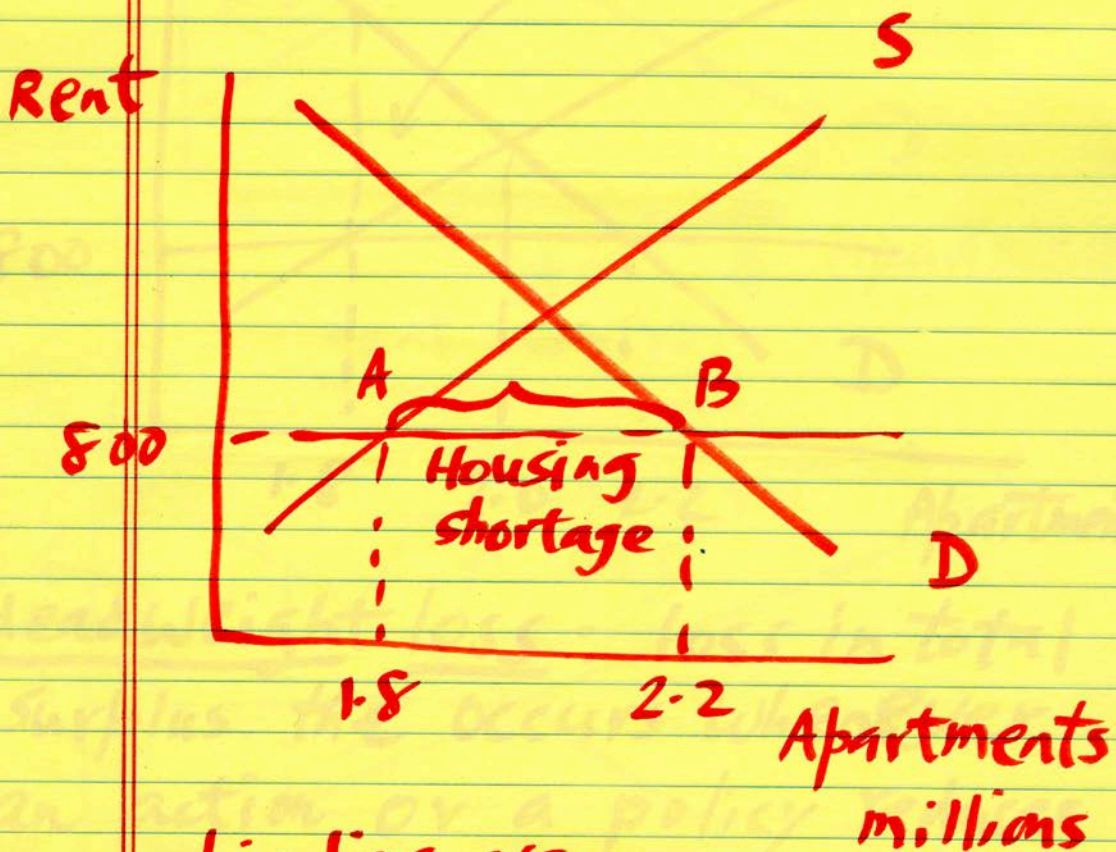
Quotas

- quantity controls
e.g. taxi medallions in

CF 2: PRICE CEILING AND SURPLUS

Price Ceilings

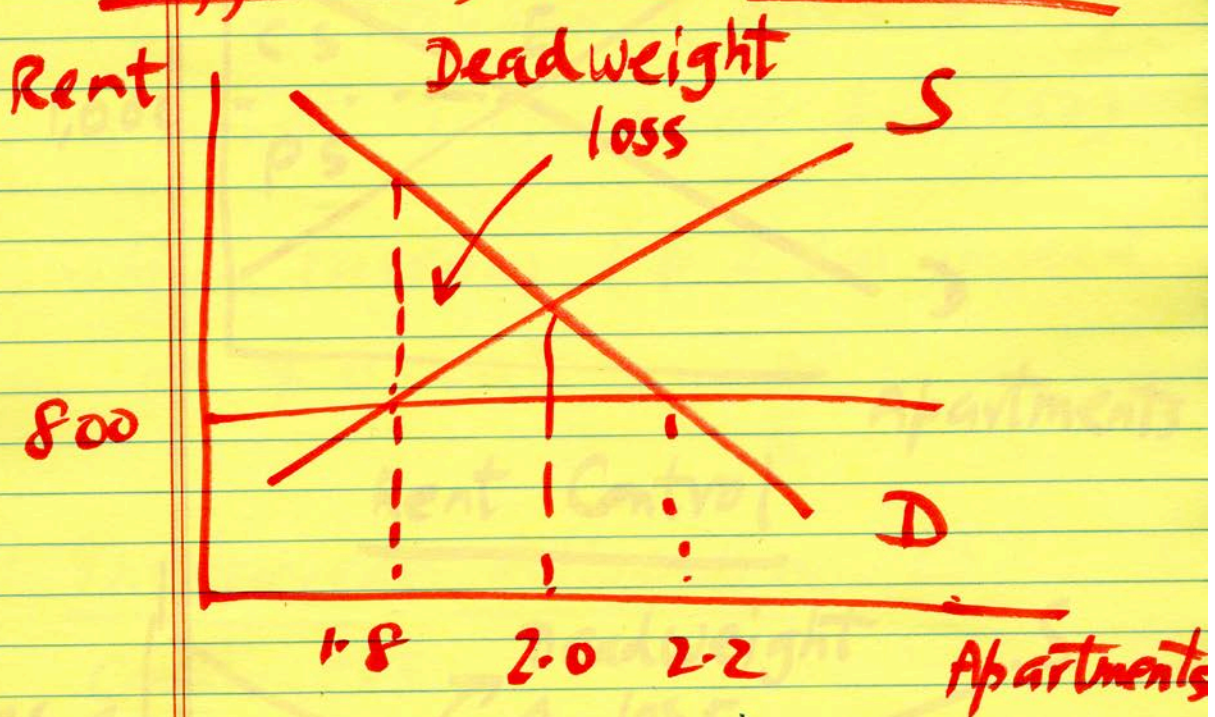
- maximum price
- no higher



- binding vs not binding

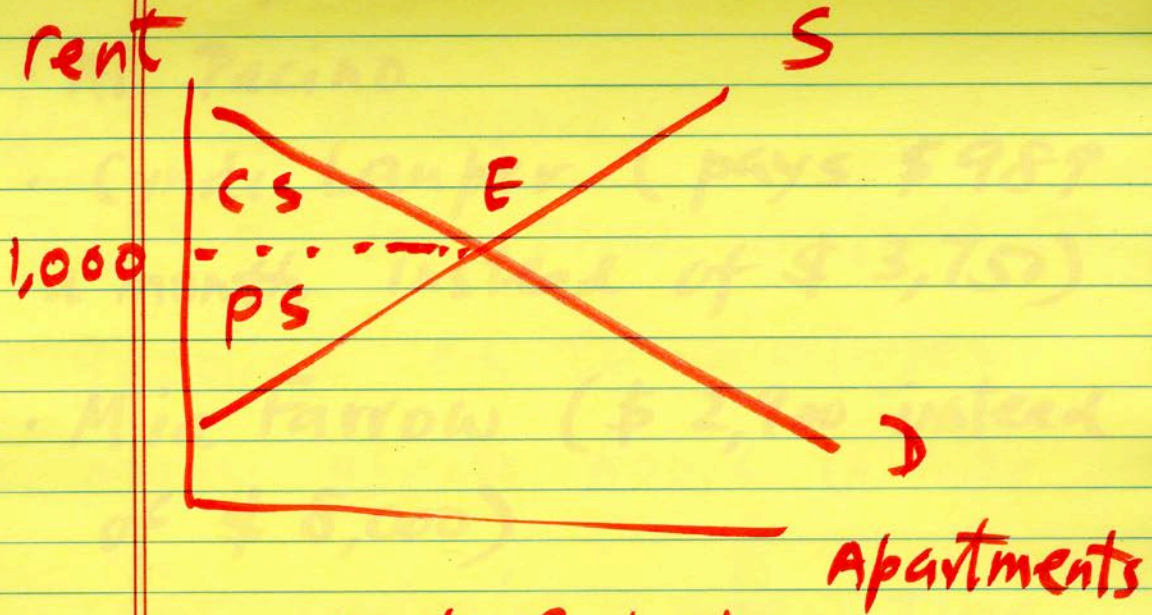
Inefficiencies

Inefficiently low Quantity

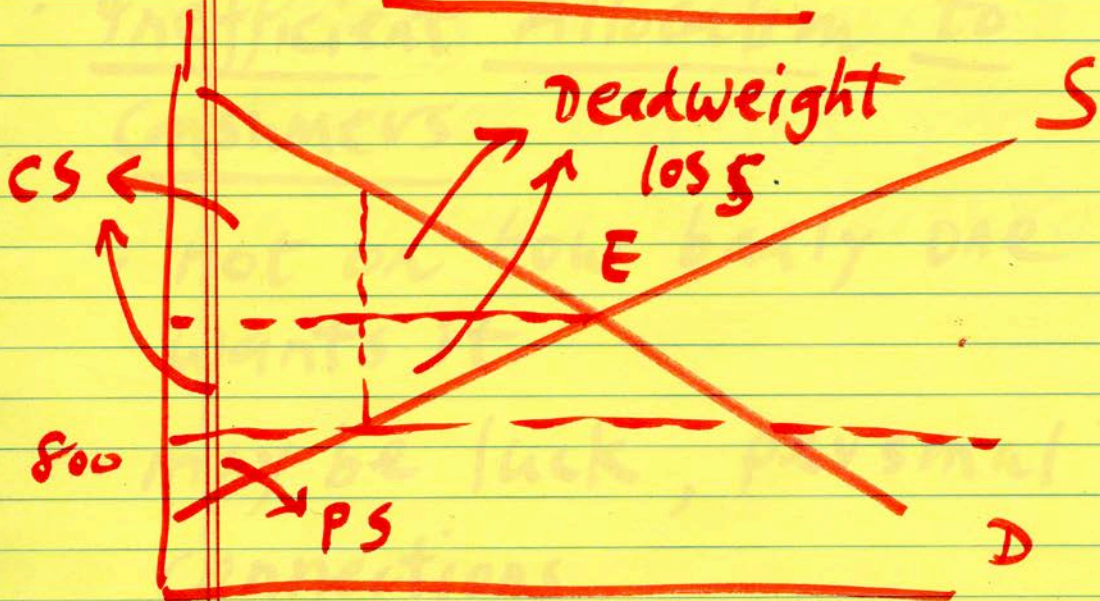


deadweight loss: loss in total surplus that occurs whenever an action or a policy reduces the quantity transacted below the efficient market equ. quantity

Winners and Losers



Rent Control



WINNERS AND LOSERS

In NYC, winners include

- Al Pacino
- Cyndi Lauper (pays \$989 a month instead of \$3,750)
- Mia Farrow (\$2,900 instead of \$8,000)
- Inefficient Allocation to Consumers
 - not on how badly one wants it
 - may be luck, personal connections

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- subletting is illegal

- Wasted Resources

- in 79, us price controls on gasoline led to shortages - many spent hours in line

- rent controls - spent time searching for apartments instead of working for more income or leisure

- no lower

- lead to surplus

Inefficiently low Quality

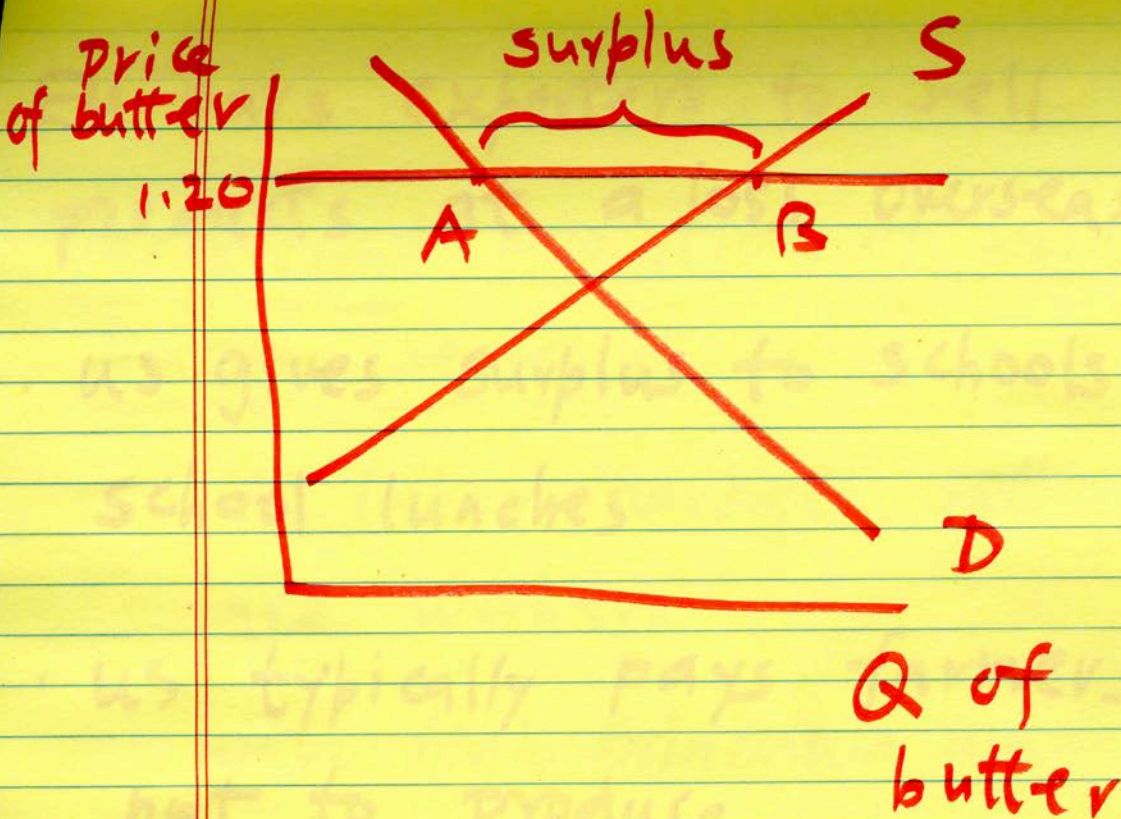
- additional payment for improvement considered a rent increase

Black Markets

- bribes to landlords

Price Floors

- minimum price
- no lower
- lead to surplus



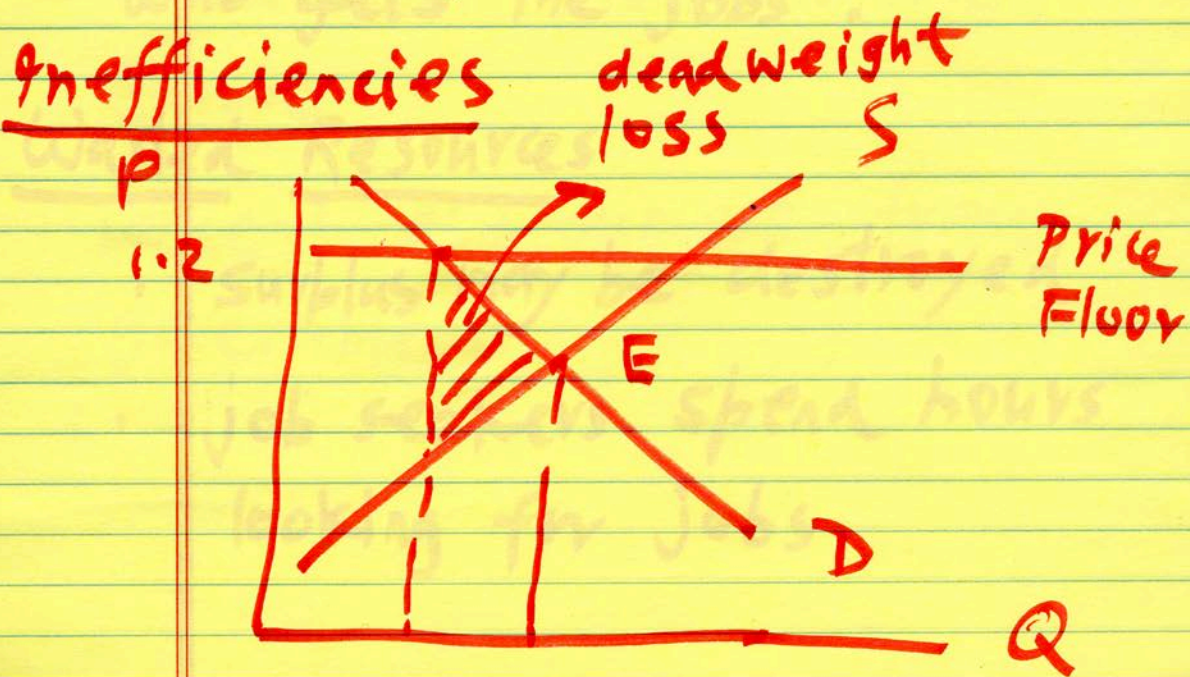
- Governments buy up surpluses
- warehousing thousands of tons of butter, cheese
 - EU once had 'butter mountain', same weight as the entire population of Austria

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EU pays exporters to sell products at a loss overseas

• us gives surplus to schools - school lunches

• us typically pays farmers not to produce



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- Inefficiently low Quantity

- Inefficient Allocation of Sales Among Sellers

- in labor market, sellers are workers

- with high minimum wage, who gets the jobs?

Wasted Resources

- surplus may be destroyed
 - job seekers spend hours looking for jobs

Inefficiently High Quality

• Inefficiently High Quality

- cannot compete in price when airlines regulated
- compete in services

• Illegal Activity

'black labor' in Southern Europe

- conceal employment from government

• ~~Justification of High Quality~~

• In Italy and Spain, many workers employed by companies paying them less than minimum, jobs unreported

• Italy's labor regulations apply only to companies with 15 or more workers

• In Prato region, manufacture of fine woollen cloth, average textile firm employ 4 workers

• for 24000 over 20000 = 20%

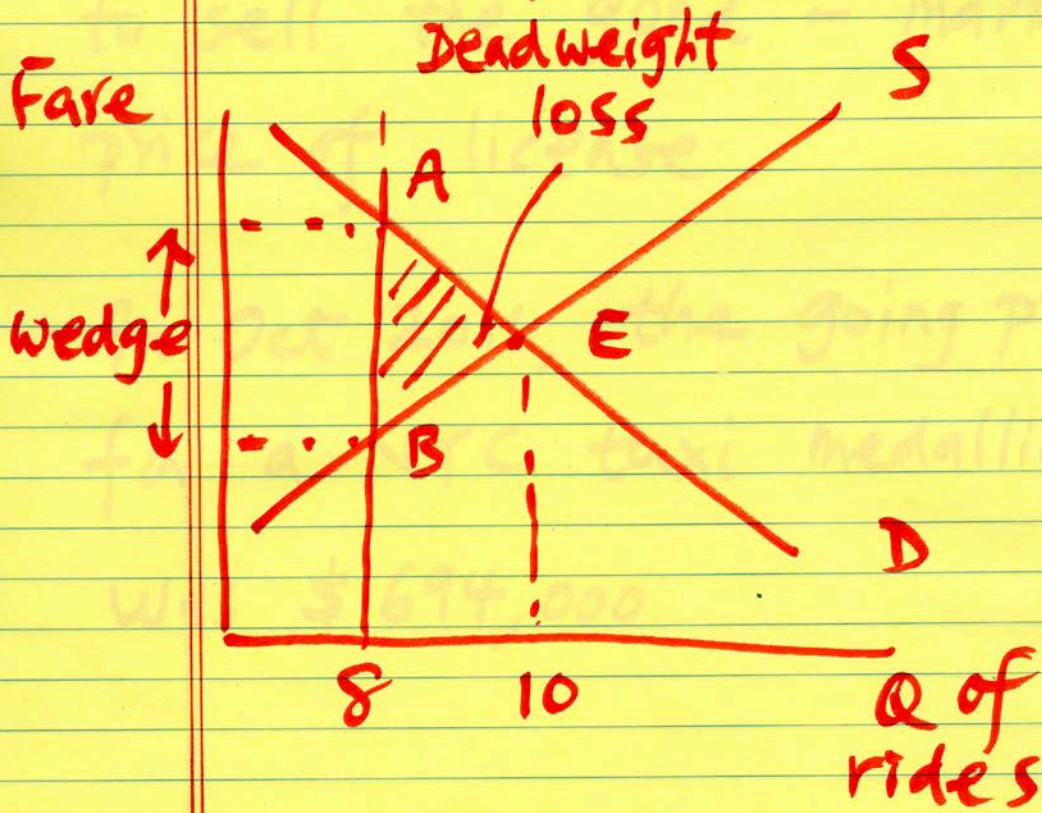
Controlling Quantities

- quota - quantity control
- demand price - price at which consumers want to buy a given quantity
- supply price - price at which suppliers will supply a given quantity

Compulsory Medallions

In NYC, need medallions to operate a taxi

Effects of a Quote



for NYC taxi medallion of 210,000 \$

Quota rent - earnings that accrue to the license-holder from ownership of the right to sell the good - market price of license

- In Oct 2011, the going price for a NYC taxi medallion was \$694,000