

What is government intervention?

When governments “intervene” in markets, they create laws or regulations that make certain behavior in markets illegal. This distorts the efficiency of the market and has multiple consequences. But it may be politically valuable to do so.

SOCIAL GOALS

TYPES OF GOVERNMENT INTERVENTION

TAXES

A tax on a good or service raises costs for either sellers or buyers, shifting one or the other curve to the left.

COMMON EFFECTS

Underproduction

SUBSIDIES

A payment by the government to a private producer to help them be more economically competitive.

Overproduction

PRICE CEILINGS

A maximum legal price for something.

Shortages

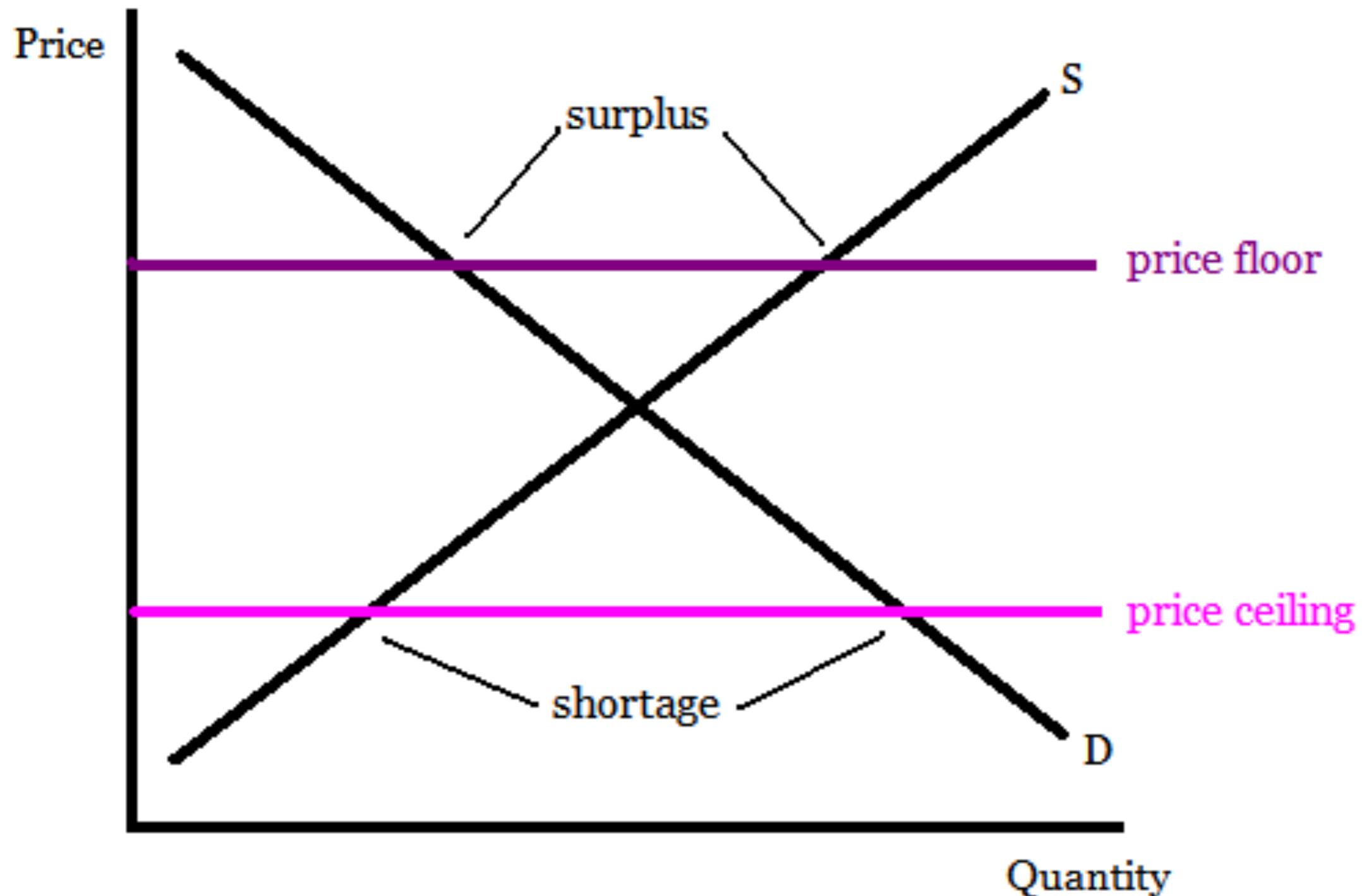
PRICE FLOORS

A minimum legal price for something.

Surpluses

A POSSIBLE CONFUSION

We are used to thinking of ceilings as above us and floors as beneath us, but they appear the opposite way on supply and demand graphs



PRICE CEILING

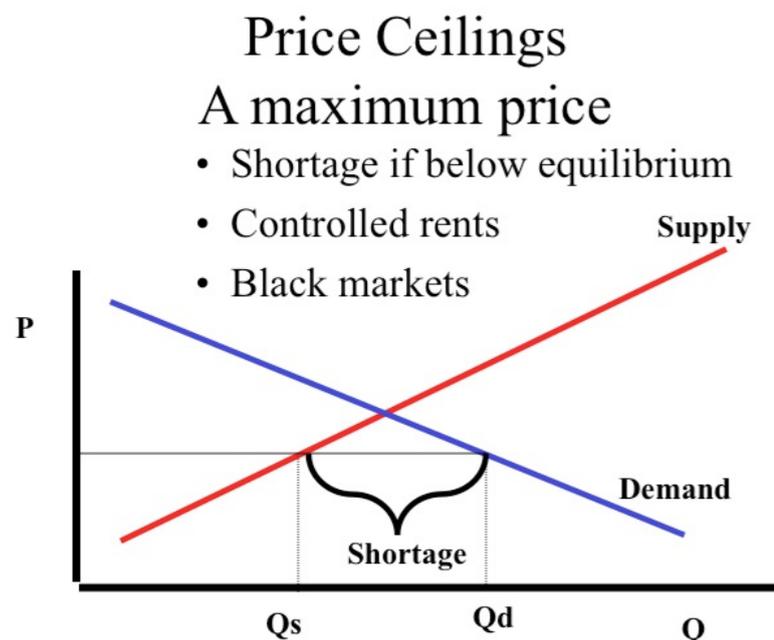
A law that sets a maximum price for a good or service.
The goal is to help **CONSUMERS** by making an important good more affordable.



Rent controls are an example of a price ceiling.

RESULTS OF A PRICE CEILING:

- Shortages** (less efficient; price no longer “figures out” who gets the product)
- Non-price rationing**
 - * Waiting in lines (get there first to get product)
 - * Ration coupons (everyone is only able to get some of the product, not all that they want)
 - * Favoritism (connections; who you know)
- Underground markets** (those who get it first, resell at higher price to those without; illegal sales above the ceiling, in order to meet demand)



Price ceilings and price floors: Who wins? Who loses?

PRICE CEILING (example: rent controls)

PRICE FLOOR (example: minimum wage)

	PRICE EFFECT	QUANTITY EFFECT	POSITIVE OR NEGATIVE? WHY?
Consumers			
Producers			
Society			

	PRICE EFFECT	QUANTITY EFFECT	POSITIVE OR NEGATIVE? WHY?
Producers			
Society			

Students only complete the left side table on Price ceilings (then do price floors later)

PRICE FLOOR

A law that sets a minimum price for a good or service.

The goal is to help PRODUCERS have a high enough price to survive.

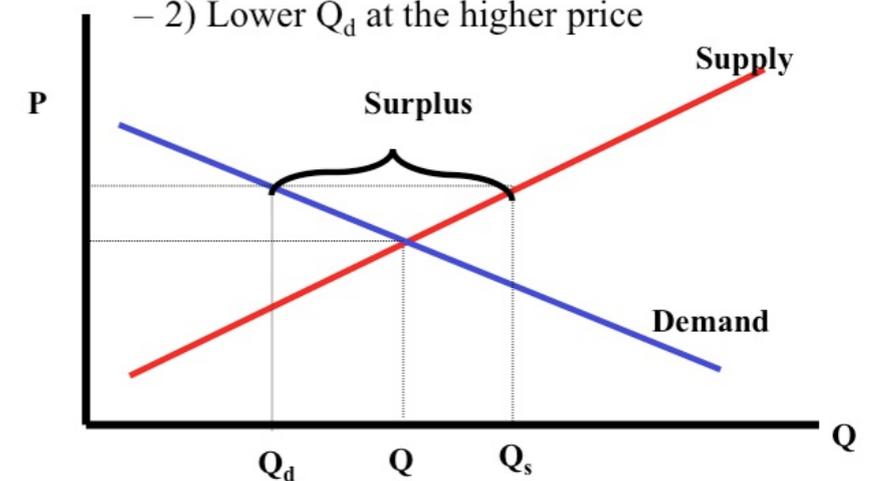
WHY GOVERNMENTS USE PRICE FLOORS:

- ❑ **To help farmers earn money by paying them higher prices for their products** (example: set a price floor for corn; government buys the surplus - OR - gov't pays farmers to only grow a certain amount)
- ❑ **To protect low-wage workers by providing them with a “living wage”** (example: minimum wage laws)

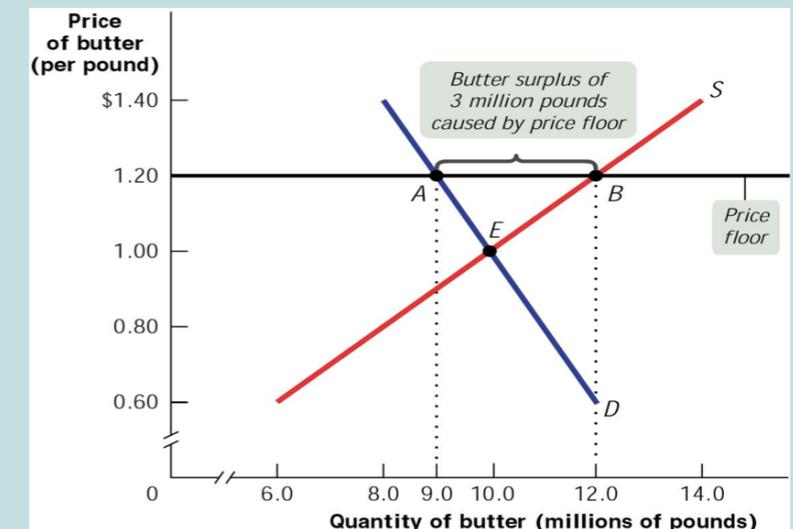
RESULTS OF PRICE FLOORS IN AGRICULTURAL MARKETS:

- ❑ **Surpluses** (overproduction)
- ❑ **Inefficiency**
- ❑ **Overallocation of resources to that good**

- Price Floor (a minimum price or wage)
- Creates a surplus if above equilibrium
 - 1) Greater Q_s at the higher price
 - 2) Lower Q_d at the higher price



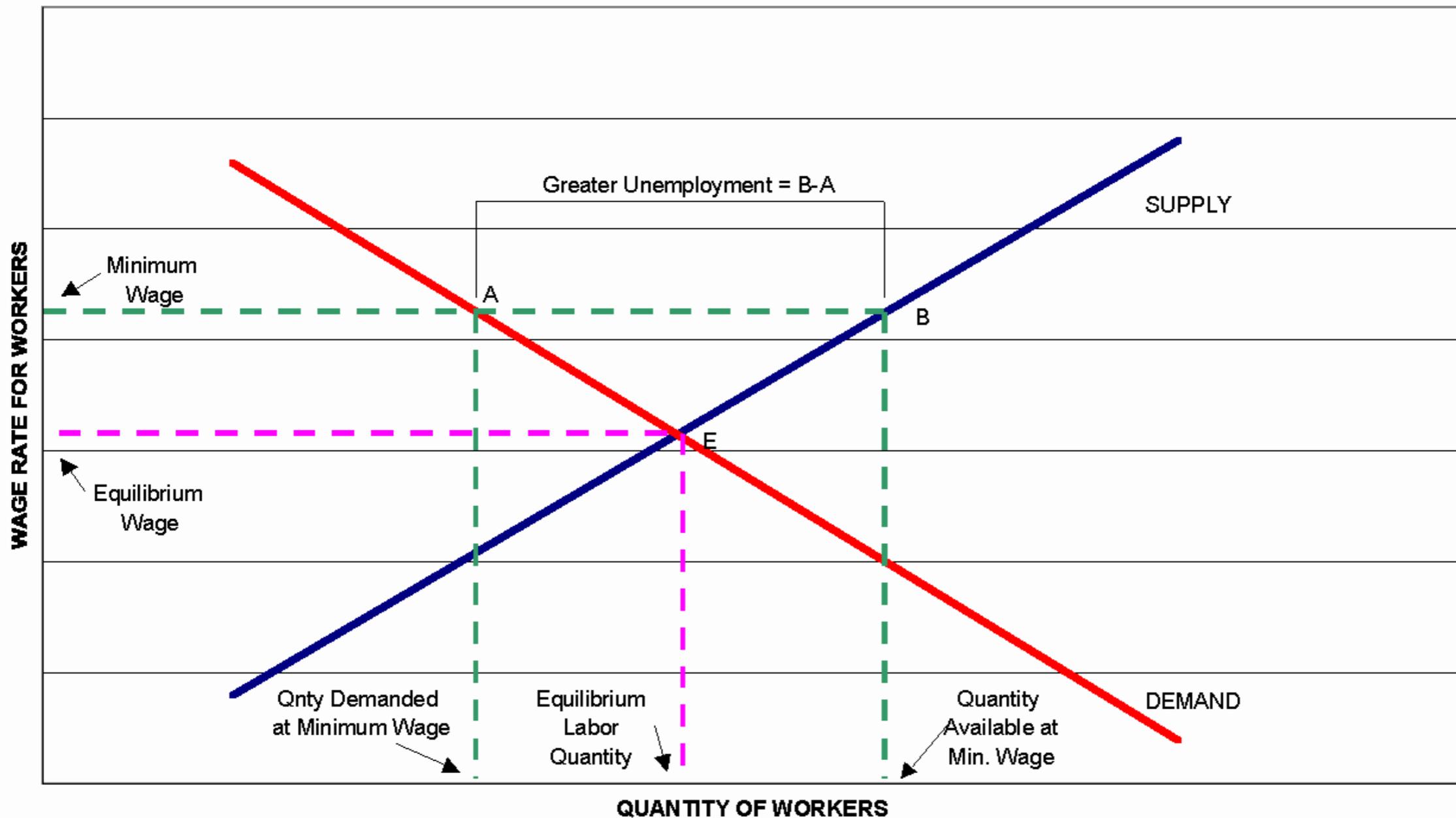
The Effects of a Price Floor



A LABOR MARKET

requires us to rethink what we mean by quantity and price, and by supply and demand.

WAGE RATES FOR WORKERS -
SUPPLY AND DEMAND CURVES FOR LABOR



NAME _____ PERIOD _____

Price ceilings and price floors: Who wins? Who loses?

PRICE CEILING (example: rent controls)

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PRICE FLOOR (example: minimum wage)

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