Free research paper about consequences of price floors

Business, Marketing

In this paperwork, I am going to respond to the following question- whether price floors are economically efficient. It is depicted that when a price floor is set, then a certain minimum price of a good or a service has to be paid. Setting up the price floor above the market price will result to no direct consequence, but setting it, the price floor, above the market price will entice the producers to produce more, thereby, resulting to the generation of excess supply.

It is important to note that price floors are examples of strategies implemented by the government so as to get involved in the free market, in so doing, altering the market equilibrium. The government recognizes both the commodities and services that are being sold unfairly in the market, hence resulting to the implementation of price floors- minimum prices set by the government. It is the role of the government to make sure that the producers are not exploited by the markets. If a producer is continuous exploited by the market, then he or she will arrive at a point, whereby, producing new items will be next to impossible, hence resulting to the closure of the business- it would, therefore, result in the importation of those products from other producers, thereby, raising the prices of those products and services, since it involves a lot of expenses importing goods and services, such as transportation cost. The government, therefore, have a role to play in preventing, such a situation from happening by helping its producers sell both their goods and services fairly in the market (Holmes, 1989).

It is important to note that price floors have no upshot if they are set below market clearing price, but setting price floors above the market equilibrium price is an issue. The producers will be allured to produce more of their goods and services when the price floors are set above the market price. The move conducted by the producers will result to excess supply in the market, hence resulting to a surplus in the market, since the consumers will not be willing to buy more as a result of the higher prices- those goods will, therefore, go unsold. Through a literature review, experts have it that the manufacturers can gain as a result of this strategy, setting the price floor above the market equilibrium, but their supply curve must be relatively elastic , hence leaving no room for net loss. At that point, it can be considered as being economically efficient- to producers. The implementation of this policy, setting the price floors above the market equilibrium, will most likely affect the consumers negatively, since they will have to pay more than they were initially paying. It is important to note that some of the consumers will be priced out of the market, since their purchasing power will not be sufficient to meet the new set price. According to the customers' point of view, this move, setting the price floors above the market equilibrium price, will not be economically efficient, since they are forced to pay more than they were paying before. The move, setting the price floors above the market equilibrium price, will devalue the customers' purchasing power- not economically sufficient to customers (Craig, 2006). Through a literature review, it is depicted that the government has numerous strategies that it can use, so as to implement this policy- price floor setting. Simple price floor, setting production quotas, and using a price support are some of the strategies that I am going to discuss in this paperwork. Setting up a simple price floor supports is economically efficient to both the producers and the customers, since the government does not get in the way of the initial prices of the goods and services. The customers' purchasing power is, therefore, retained and there is no occurrence whereby some of the customers are eliminated in the market, since they get to buy the goods and services as before. The producers, too, are not left out by this policy, setting up a simple price floors, since the government ensures that it has bought up any excess supply, thereby, preventing the producers from lowering the prices of their goods and services, so as to get rid of their excess supply. The implementation of this strategy, setting up a simple price floors, ensures that both the producers and consumers needs are maintained, hence, according to my stand, the strategy is economically efficient. It is important to note that the move is depicted as being more costly for the government, since it has to buy up any excess supply, thereby, draining its saving. It is, therefore, a fact that both the consumers and the producers should be prepared of facing a problem in the future, since the government will have to polish its way of collecting taxes so as to recover from its debts. It is important to note that one of the ways that the government gets revenue is collecting taxes. The government can also adopt the production quotas, setting production quotas, whereby, the prices are raised, but the government restricts the producers from producing goods and services . The government achieves this strategy, the production quotas, by giving incentives to businesses or using mandated quotas so as to reduce their production. The strategy is mostly used in agriculture, whereby, the farmers are paid by the government, so as to keep some of their portion of their fields unattended, thus uplifting prices. Through a literature review, it is depicted that the policy would be more economically efficient if the government was to directly subsidize the farmers instead of imposing production restriction (Craig, 2006). According to my stand, the government implementing the production quotas, will only be efficient to producers, since they will have to enjoy the rise in prices as well as the incentives provided by the government, but the customers will be forced to pay more for those goods and services, hence devaluing their purchasing power. There is the likelihood of losing some of the customers as a result of the rise in prices, since they will not be in a position of meeting the new set prices; hence it is not economically sufficient (Holmes, 1989).

Through a literature review, it is depicted that the U. S market wage rate for low skilled workers are above the U. S. minimum wage rate, hence the minimum wage rate has no effect in this economy- the U. S. According to the U. S government, I can, therefore, say that the policy is economically efficient, since the employers are willing to offer a higher wage, which is above the minimum wage rate, to their employees- low skilled employees. It is also important to note that some countries have their minimum wage rate set above the market wage rate , hence resulting to the increase in the pool of the unemployed- low skilled workers are more likely to go unemployed. According to a literature review, some low skilled workers will enjoy a higher pay, but others, and the majority, will end up losing their jobs-being laid off, hence the policy cannot be classified as being economically efficient (Craig, 2006). To those, low skilled employees, who have the advantage of enjoying a higher pay as a result of this policy will have a positive perspective regarding to this policy, setting the minimum wage rate above the market wage rate, as being economically efficient (Dufwenberg, 2002).

As depicted in this paperwork, the question on whether the price floors are economically efficient depends on the person in question or the person going through these policies. According to my stand, price floors are economically efficient, since they informs both the customers and the producers on the minimum prices of goods and services- both the customers and the producers are informed, hence reducing the chances of consumers exploiting the producers. The government should not set the price floors above the market equilibrium price so as to minimize the likelihood of getting rid of some consumers. Getting rids of these consumers' means that the goods and services demanded by the market will have to reduce, thereby, creating more harm to the producers (Holmes, 1989). When it comes to implementing minimum wage rate, the government should ensure that that the policy, minimum wage rate, does not results to persons losing or being unemployed. It is, therefore, important for the government not to set the minimum wage rate above the market wage rate. If the government was to observe all these measures, according to my stand, then it would be able to meet the needs of both parties positively, hence making it possible to have a conducive environment for doing work- setting price floor would, therefore, be economically efficient. Literature review has it that the policy, setting price floor, has worked positively in the U. S. economy, hence the reason why, if implemented smartly by other countries, it would be economically efficient in other countries. The government should, first, learn the problem, then come up or implement the appropriate strategy that would ensure that the price floors are economically efficient. As depicted in this paperwork, Setting up the price floor above the market price will result to no direct consequence, but setting it above the market price will entice the producers to produce more, thereby, resulting to the generation of excess supply. It would, therefore, be prudent to set the price floor at or below the market price (Craig, 2006).

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