# Government intervention

Government

Ferrari cars are known for their quality, and over time it has created a brand that cannot be offered by any other car dealerships. It has monopoly over the brand-- meaning it has the exclusive ownership through legal privilege, command of supply or concerted action over the Ferrari cars (Merriam, 2008). Although there are many alternative brands and substitutes for Ferrari cars, what makes them cost so much is only a few can afford to have them. In short, it is a status symbol.

If the government intervenes in the distribution of these cars like making the Ferrari cars for free, this goes against the basic marketing principles that underlie the brand—luxury and being above the bar in terms of economic status. The main reasons for government intervention are to correct for market failures, to achieve a more equitable distribution of income and wealth and to improve the performance of the economy (Riley 2006). One example of government intervention is government-imposed maximum price for a product, or price ceiling.

When a price ceiling imposed by government is above the equilibrium price, price ceiling has no effect on the economy, for it does not restrict supply nor encourage demand. Price ceilings essentially illegalizes for any producer to charge an amount that is higher than the price ceiling (Cram 2008). On the other hand, if the government impose price ceilings lower than the market's equilibrium price, suppliers can no longer charge the price the market demands but are forced to meet the maximum price set by the government's price ceiling.

The low ceiling price can drive the producers out of the market, while the lower price drives increases in consumer demand meaning shortage will

occur (Cram, 2008). The most efficient way of distributing the Ferrari cars that could not interfere in the equity of both the producer and consumer is through the price system. The price system is a means of organizing economic activity by coordinating the decisions of the consumer, producers, and owners of productive resource.

By having a price, relative valuations of different goods and the amount of labor hours needed to afford certain commodities or services can be ascertained by consumers. Through the price system, millions of economic agents who have no directcommunicationwith each other are led supply each other's needs and wants. In a modern economy, the price system enables a consumer to buy whichever product he wants to purchase, a product produced by a firm of whose existence he is unaware, which is operating with funds partially obtained from his own savings (Britannica, 2008).

The price of Ferrari car should be at the equilibrium where the demand curve and supply curve meet and should be left without intervention. Government interventions have positive and negative impact in the market. Assessing whether to intervene or not, requires balancing between inefficiencies of the status quo and the costs of intervention. In the case of Ferrari cars, there seems to be no market failures nor gross inequities that need to be corrected or mitigated. Ferrari cars are luxury goods and providing them for free is not a prudent government intervention.

Clearly, in the case of luxury cars, the best way of distributing them would be through the price system without any government intervention.

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