

The quantity demanded for stents will not

[Business](#), [Industries](#)



The article above addresses the issue of price controls which are types of government interventions occur when the free market economy does not satisfy the needs and wants of all producers and consumers. The goal of price controls is to achieve the best possible outcomes for society. There are two types of price controls, maximum price controls, and minimum price controls. In this case, the focus will be the maximum price which is also called price ceiling. To protect consumers, the government usually set a maximum price on necessities and merits goods. Merits goods are goods that benefit the whole society which creates positive externalities.

By setting a maximum price on merits goods, the price of them decreases and the affordability of them increases. When Indian government set a price ceiling on stents to decrease the price by 85%, it benefits consumers by making them affordable for most people. However, when the price of stents decreased, the quantity supplied also decreased because suppliers are unwilling to supply the quantity demanded at the new price ceiling piece. This creates a shortage in the stents market because the quantity demanded is higher than the quantity supplied.

This is shown in Diagram 1, where at the maximum price, the quantity Q_1 will be supplied by firms, which is less than the equilibrium quantity Q_e that suppliers would supply at price P_e . In addition, the quantity demanded for stents at the maximum price is given by Q_2 , which is greater than the quantity supplied Q_1 , thus excess demand is created. Since stents are considered to be necessities, it has an inelastic demand which means the quantity demanded for stents will not change much when the price of it changes. The diagram 2 shows why a price decrease in stents causes a

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decrease in total revenue received by stent companies. Before the price of stents decreases, the company received a total revenue $a+b$. After the price decreases, the company loses a as a part of their total revenue because the quantity demanded rises from Q_1 to Q_2 , but they gain c because of that. The excess demand of stents can lead to many problems.

It may lead to the emergence of an underground parallel market, where stents are sold at a higher price between the maximum price and the equilibrium price. This can cause serious consequences because stents are needed for people who have heart attack, without stents people requiring stents may suffer. For companies, when the price of stents decreases they can not cover the costs of production. When the market failed to produce enough stents (merit goods) for the public, it leads us to the issue of market failure because the decision of decreasing the price of stents did not benefit either consumers or producers which lead to a decrease of marginal social benefit which is the total benefit of society from one extra unit of good.

To solve this issue, the government can shift the supply curve to the left to reach an equilibrium price at the maximum price by increasing the quantity supplied. The most applicable way is to offer subsidies to companies to encourage them to produce more stents. As we can see in Diagram 3, when government subsidizes the stents industry, the supply curve shift to the right, the new equilibrium P_{Max} is reached. When government imposes subsidy, the quantity supplied of stents increase from Q_e to Q_2 and the quantity demanded also increase from Q_e to Q_2 . However, by doing that government will need to pay a high cost, not only the costs of subsidy but

also an opportunity cost which is the next best alternative when an economic decision is made. The money that government spends on stents production could be used in some other areas, such as education and public facilities.

The other way to alleviate the excess demand is to use substitutes.

According to the National Health Service (NHS), segments of a healthy blood vessel, called grafts are substitutes of stents which serve the same function.

However, the use of grafts may also be risky because the health artery may narrow again in the future which means further treatment is needed. On

Balance imposing a price ceiling on inelastic goods may benefit society,

however, the government must consider the consequences excess demand.

The decision to set a maximum price on inelastic goods need to be carefully made in order to achieve the goal of setting it by having the lowest possible opportunity costs.