Price ceiling essay

Business, Marketing

A price ceiling is a form of price controls by the government used as an implicit tax on the producers and a subsidy to the consumers. It is a " maximum price that can be charged by any producer or seller as a result of government directive or intervention" (Krugman, & Wells, pg. 84).

The equilibrium price for a commodity will be determined by the market forces where there are no government interventions. This equilibrium price is sometimes deemed above board, hence the need for regulation. Regulation may also be due to a social need for instance to make a product available to the poor. Our case study focuses on this type of control, where the government intervenes to make the good available to the primary population. However, government intervention using the price ceiling has diverse effects such as “ black market, queues, wastages" Krugman, & Wells, pg. 89) among others.

It is a fact that lowering the price will make bread affordable to most people. However, this will be marked by increased demand since price and demand of a commodity are inversely related. On the other hand, there will be decreased supply of bread since supply is directly related to price. This difference in the bread demanded and the bread supplied is a shortage in the bread market. The producers will hold off bread either in anticipation of prices improving or for selling to the preferred seller through the black market. Favorite sellers, in this case, are the ones who are willing to buy at a price above the set price. And since there are others who are not willing to pay and are unable to pay, they will end up having to wait to buy the limited amount of bread. Consequently, this will lead to queues.

We have assumed that any time lost in the queue is taken to be a lost hour

of work. Therefore, there will be increased costs of work as fewer amounts will be sold, less revenue realized and yet the daily expenses will remain the same for the wages. Moreover, due to the excess demand and limited supply, sellers have to come with ways on how to distribute the limited quantity. One way is to serve people on the basis of " first come first served". " First come first served" basis calls for queuing as people have to wait to be served. Other buyers will contemplate coming early even before the selling centers are open so as to be the first to be served. They will have to wait until the centers are open promoting formation of queues.

- Gas shortages in 1970

This case is best illustrated by the gas shortages in the 1970's. The passing of the natural gas act in 1938 in USA regulated the price of gas leading shifts in the interstate and intrastate sales. Gas companies, therefore, stopped signing long term contracts " leading to shortages in supply" in the future (Krugman, & Wells, pg. 89). People were served on the basis of ' first come first served' and long lines were, therefore, observed in gas stations even at early morning hours as people waiting to be served.

- Pennsylvanian legislature

Another case was the passing of price controls by the Pennsylvania legislature in 1777-1778 in a bid to cushion the Washington's continental army. As a result, some farmers went ahead to sell their supplies to the British, who in turn paid them in gold. Others could not sell their stocks as they deemed the prices to be unfair or low. This non-compliance led to limited supply of goods, and the Washington army could not get enough

amounts to sustain itself. Furthermore, it almost led to starvation and the price controls were later to be lifted by the continental congress.

Works Cited

Krugman, Paul R., and Robin Wells. Microeconomics. New York: Worth, 2005. Print.