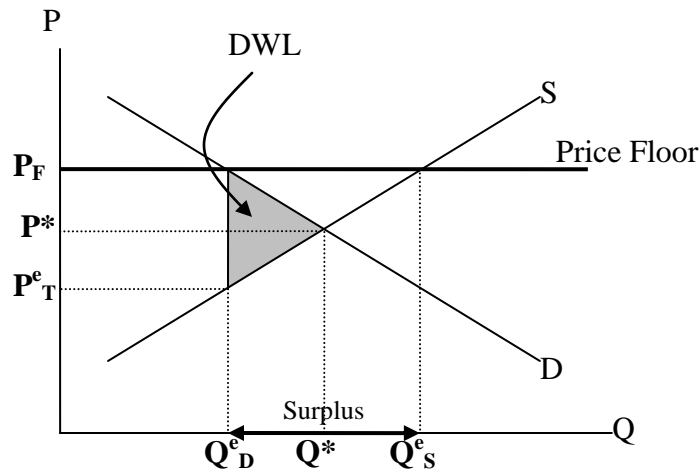


## LECTURE 09: PRICE CONTROLS II

- I. Price Controls and Unintended consequences
  - a. Generally price ceilings come about because people think a certain good should be cheaper (and thus easier) to buy. But as we see, for many people it actually makes it more difficult to buy because it creates a shortage.
  - b. It also creates a distinction between the true price ( $P_T$ ) and the price ceiling ( $P_C$ ), where the true price actually exceeds what we would have seen without the control.
  - c. This difference can manifest in many ways, and not always in a higher monetary price. It takes longer to find an apartment. You might have to pay a bribe to be considered for a place. Or to rent it. You might need to be friends with the right people. Landlords can more easily discriminate based on race, religion, gender, or age.
    - i. These artificial costs are particularly hard to overcome, especially for the working poor and the elderly. Hence the perverse consequence of rent control: those that are supposed to be helped are those that are most harmed.
- II. The Market for Human Organs
  - a. Because all organs, by law, must be donated (and not sold), it should not be surprising that there's a tremendous scarcity for organs (even if we assume demand is inelastic).
  - b. Not surprisingly, the true price manifests through personal connections or even the occasional under-the-table payment. Meanwhile, there are those willing to sell and buy organs (a practice which could save lives) but instead people die.
- III. The Minimum Wage
  - a. There are many examples of price ceilings but very few of price floors ( $P_F$ ). However, the minimum wage is a prominent one.
  - b. In the market for labor, employees are the supply curve and employers are the demand curve.



- c. Once again we see deadweight loss as those who wish to be hired at a lower wage cannot get employment even from those that would be willing to higher at that wage.
- d. Instead of a shortage, we see a surplus (also known as unemployment<sup>1</sup>). Lots of people want to work for the higher salary (perhaps they are looking for a second job, want to work longer hours, or want to stop being a stay-at-home parent). At the same time, fewer people wish to hire at that wage (perhaps they decided to produce less, close shop, or invest in automation).
- e. Again, the true price is different than the price floor (this is especially noticeable in other countries where the minimum wage and similar legislation makes hiring very expensive). It takes a long time to find a job. Personal contacts become more important. Firings become more likely. These are all costs the employee must bear.
- a. Once again, those that most need a higher wage (immigrants, the mentally handicap, and new adults) are the ones most likely not to get any wage at all: they have the hardest time justifying the higher wage.

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<sup>1</sup> There are many reasons unemployment exists, some unavoidable and some not. The minimum wage is one of those avoidable reasons.