Price Controls

Economics

What happens when a price is fixed away from equilibrium.

Price ceiling

- Maximum price, set below equilibrium
- Creates a shortage
- Queues, rationing, quality decline
- Informal markets emerge
- Rent control is the classic case

Price floor

- Minimum price, set above equilibrium
- Creates a surplus
- Unsold stock or unemployment
- May need government purchase
- Minimum wage, farm support

THE DIFFERENCE THAT MATTERS

A control set on the non-binding side of equilibrium has no effect at all. Only binding controls change anything.

Controls redistribute between groups rather than removing scarcity. The shortage or surplus is the visible cost of that.