The effect of a price ceiling

• An unregulated product sells for $P_o$. Sales are $Q_o$.
• Suppose the government sets a maximum price $P_{\text{max}}$.

Shortage!

There is more to the story.

• People try to evade the ceiling.
**The effect of a price ceiling**

- People try to evade the ceiling.
- If suppliers, they shift their supply curve up by $E_{\text{Evade}}$

$s_{\text{Evade}},$ the cost of evading

- Price goes up
- No Shortage!

- How big is this shift?
- If the regulations are a joke, $E_{\text{Evade}}$ is small.
Price Ceilings

The effect of a price ceiling

• How big is this

Small increase over market price.

regulations are a joke, $E_{\text{Evade}}$ is small.

Then the regulations have a major impact.

If the regulations are tough and toughly enforced, $E_{\text{Evade}}$ can be quite large.

Moral: if you are given the job of enforcing a price ceiling, don’t work too hard at your job. quite large.

End

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