

## Answer on Question #44057 – Economics - Microeconomics

Briefly argue the case for and against price controls

### Solution

Price controls can take one of the following form :

1) *Maximum prices* – price can't rise above a certain level. This can reduce prices below the market equilibrium price. The advantage is that it may lead to lower prices for consumers. The disadvantage is that it will lead to lower supply. There will also be a shortage, demand will exceed supply; this leads to waiting lists and the emergence of black markets as people try to overcome the shortage of the good and pay well above market price.

2) *Minimum prices* are used to give producers a higher income. They are used to increase the income of farmers producing goods. For example, the EU had a Common Agricultural Policy (CAP). This increased the income of farmers by setting minimum prices.

The disadvantage of Minimum Prices:

- Higher prices for consumers. We had to pay more for food.
- Higher tariffs necessary on imports. The EU put tariffs on food to keep prices artificially high.
- May encourage oversupply and inefficient. The CAP encouraged farmers to produce food that no one actually wanted to eat.
- We had over-supply (butter mountains, wine lakes)