

## Answer on Question #53256, Economics / Microeconomics

The Municipal Corporation of a small college town decides to regulate rents in order to reduce student living expenses. Suppose the average annual market-clearing rent for a two bedroom apartment had been Rs.10000 per month, and rents were expected to increase to Rs.15000 within a year. The Municipal Corporation limits rents to their current Rs.10000-per-month level. Draw a supply and demand graph to illustrate what will happen to the rental price of an apartment after the imposition of rent controls. Do you think this policy will benefit students? Why or why not?

Answer:

The supply and demand graph will be as depicted below, so the rental price of an apartment after the imposition of rent controls will be fixed below the equilibrium level, which will create a shortage. This policy will benefit some students, but not the all of them, because some students will have no ability to rent a room because of a shortage.

