#73403 Economics, Macroeconomics

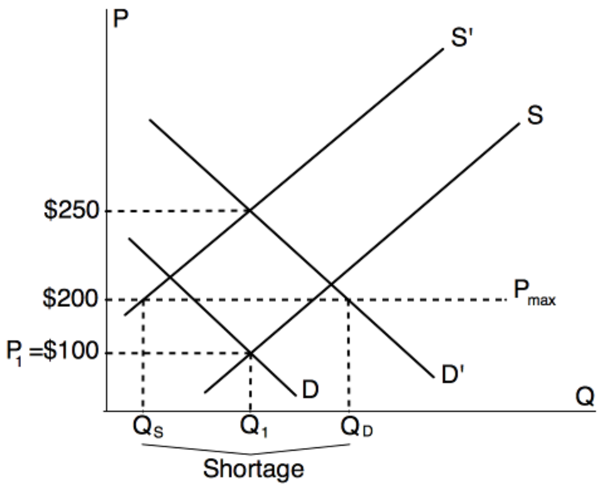
The storm created shortages of power generators. As a result, those products sold at prices much higher than normal. These high prices provoked cries of "price gouging" and calls on the government to impose price controls to prevent gouging. While no one likes to pay a higher price than normal for something, consider what would have happened with a price ceiling. The economic intuition is revealing. Draw a diagram showing the market for generators with an equilibrium price at $250. Now impose a price ceiling at $200 per generator. What would be the impact of the price ceiling on the quantity demanded? On the quantity supplied? Who would benefit from the price ceiling and who would be harmed? Did the price ceiling help the people it was designed to help? Explain the economic reasoning behind your analysis.

Answer:

Imposing governmental regulations can sometimes have unanticipated results on the market.

Imposing a price can create a problem when the demand for power generators is dramatically higher, since the supply of electricity was compromised. At the same time, the supply of generators will be less as a result of storm damage and the inability to travel.

Newly imposed price ceiling is likely to reduce the legal price of a product, and businesses will have less incentive to supply the product.



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