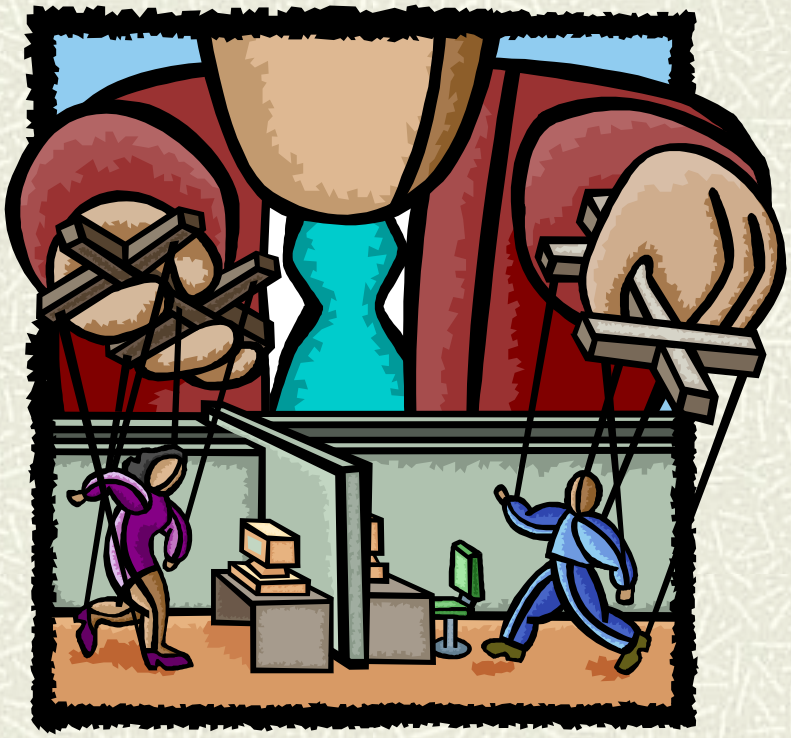
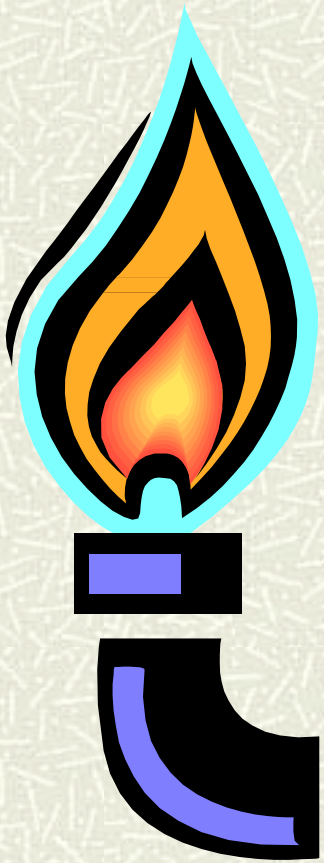
Examples of Price Controls



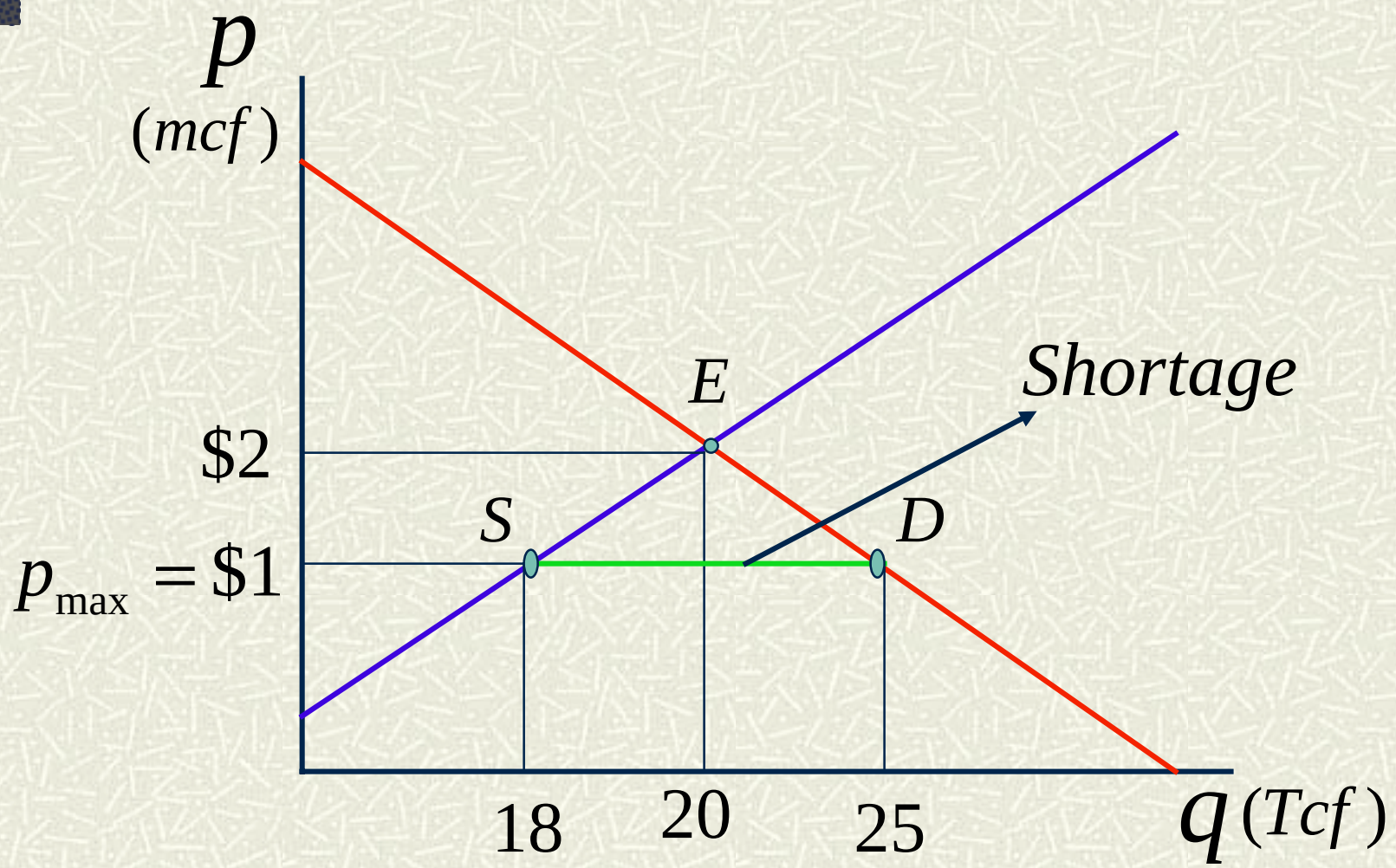
- Price controls and natural gas shortages
- Minimum wage
- Production quotas
- Price supports

Natural Gas

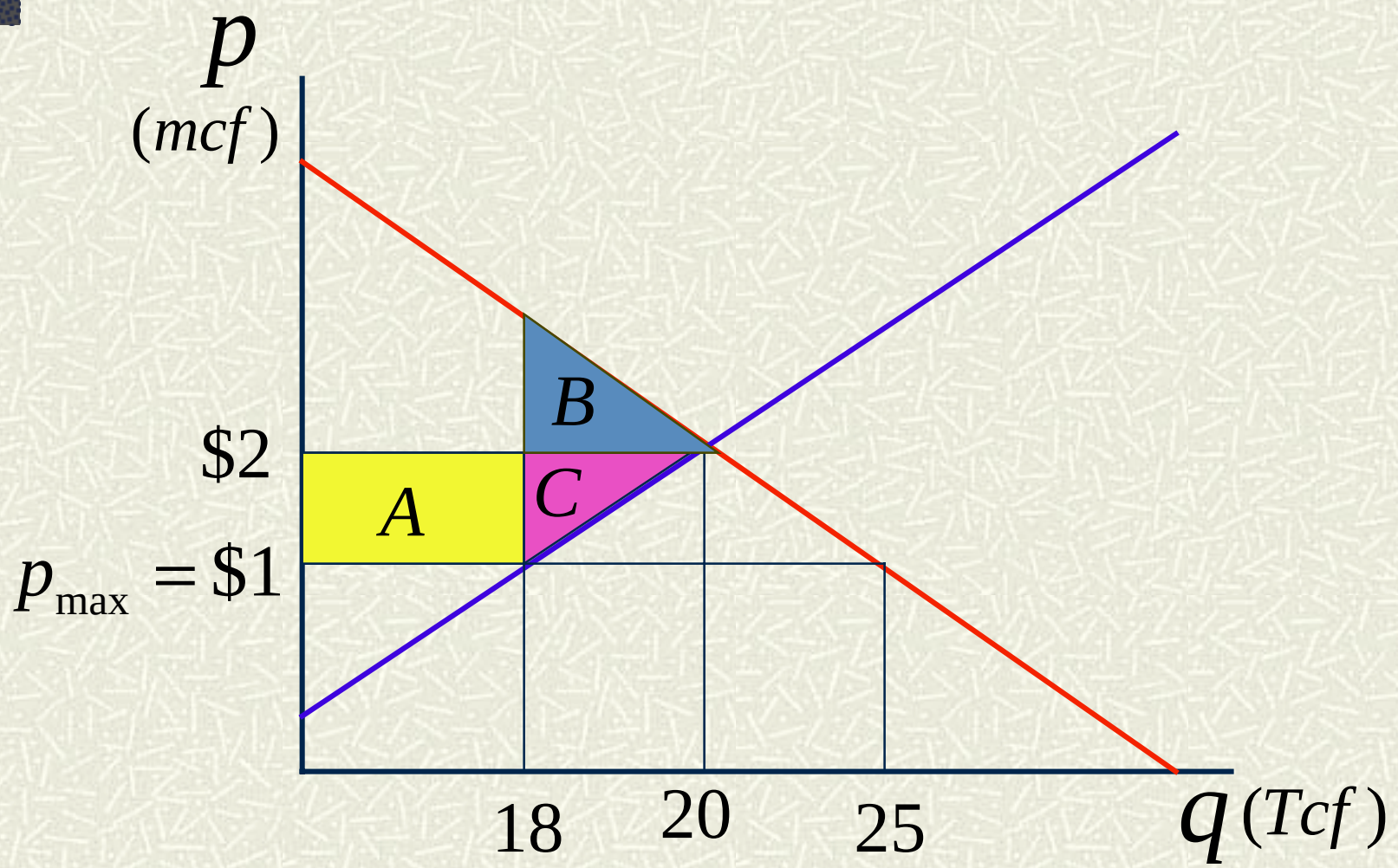


- In 1954, regulation of wellhead price of natural gas introduced
- In the 1970s, price ceiling became binding
- In the 1980s, price controls lifted

The Natural Gas Market in 1975



Welfare Effects of Price Controls



Deadweight Loss and Gains From Price Controls in 1975

- Consumers: gain A and lose B

$$A - B = 18 - 0.4 = \$17.6 \ billion$$

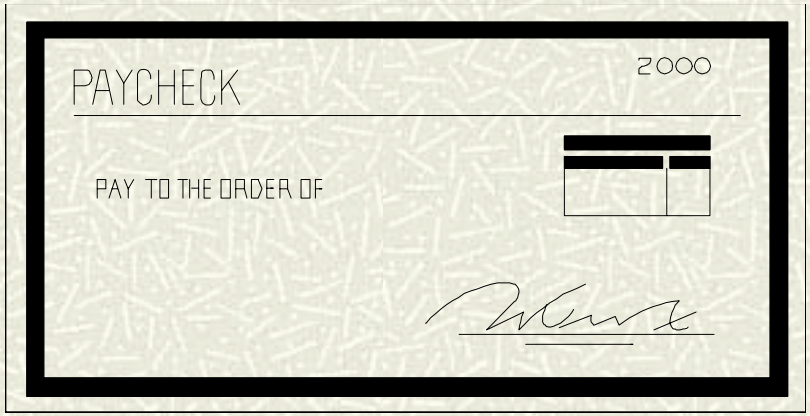
- Producers: lose A and C

$$-A - C = -18 - 1 = \$19 \ billion$$

- Total: lose B and C

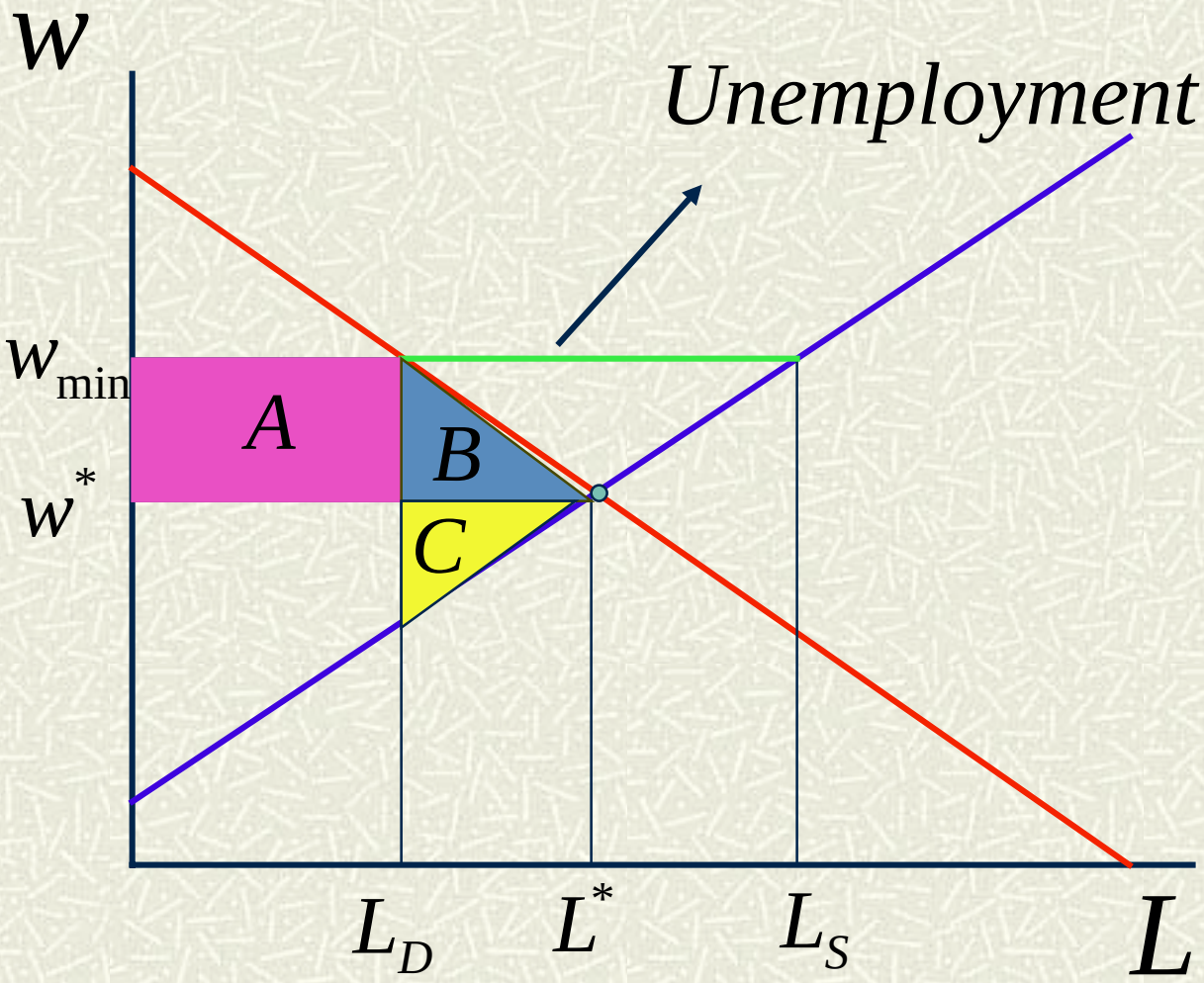
$$-B - C = -\$1.4 \ billion$$

Minimum Wage



- 1938 FDR introduces minimum wage with Fair Labor Standards Act
- Federal minimum wage: $4.25 in 1996, $5.15 in 1999
- Covered about 10 million Americans in 1997

Minimum Wage



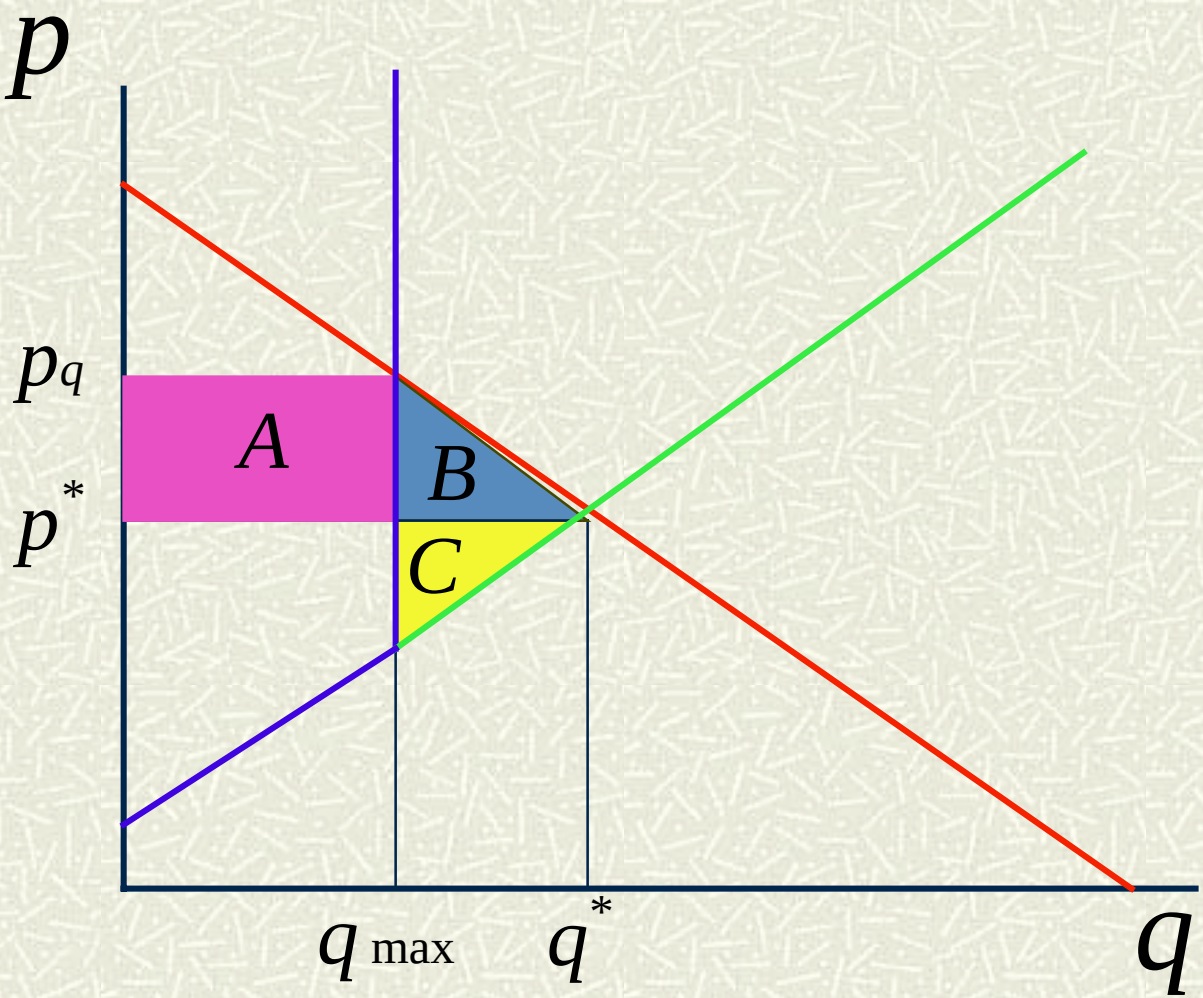
Minimum Wage

- Firms ("Consumers"): lose A and B
- Workers ("Producers"): gain A and lose C
- Total deadweight loss: B+C

Production Quotas

European Union keeps price of certain agricultural products (milk) relatively high by imposing production quotas to each member country

Production Quotas



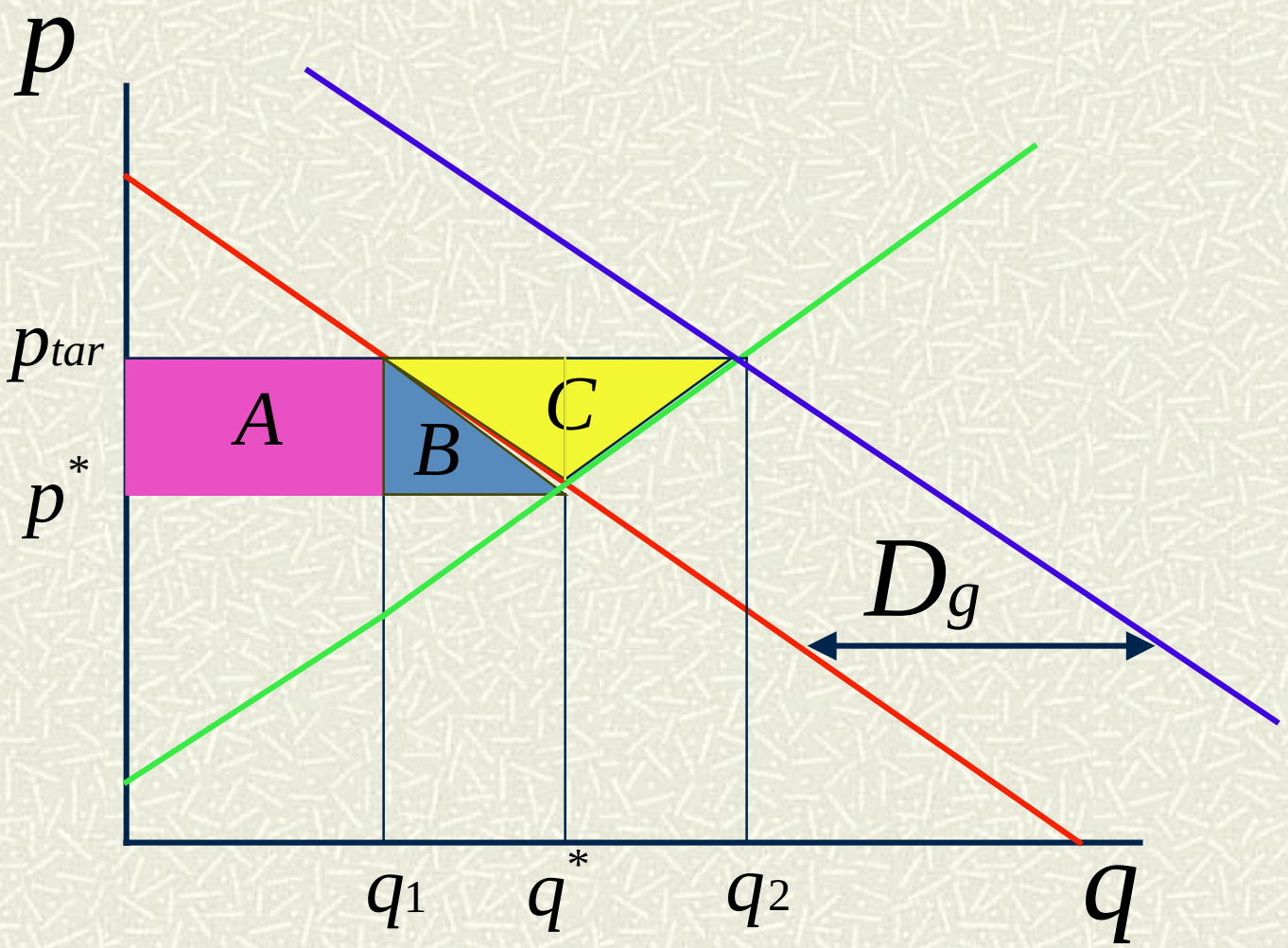
Production Quotas

- Farmers (“Producers”): gain A and lose C
- Consumers: lose A and B
- Total deadweight loss: B+C

Price Supports

- The government can keep the price of certain products relatively high by buying whatever amount is needed to keep the market price at that level
- US: dairy products, corn, peanuts, tobacco

Price Supports



Price Supports

- Farmers ("Producers"): gain A, B, and C
- Consumers: lose A and B
- Government spends: $D_g(p_{tar})$
- Total deadweight loss: $D_g(p_{tar}) - C$