

Interventionism

Lesson 17:

Price Controls

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4. Chapter: Lesson 17: Price Controls

1. Lesson 17: Price Controls Questions

4.1.1. What is "mixed" in the term mixed economy?

Author: Robert Murphy

What is "mixed" in the term mixed economy?

- A mixed economy combines features of both capitalism and socialism, namely private ownership and government direction.

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4.1.2. How can the quantity supplied of apartments fall, even in the short...

Author: Robert Murphy

How can the quantity supplied of apartments fall, even in the short run? Isn't there a fixed number of apartment units at any given time?

- Remember that the quantity supplied means the number of apartment units offered for rent. As the legally permissible price falls, more and more owners won't find it worthwhile to go through the hassle and risk of renting their physically available rooms to total strangers.

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4.1.3. How might price ceilings on gasoline impede the evacuation of a cit...

Author: Robert Murphy

How might price ceilings on gasoline impede the evacuation of a city in the path of an oncoming hurricane?

- At any given time, gasoline stations in a typical city don't have enough fuel in the underground tanks to withstand a mass exodus of the entire population, with every motorist filling up before leaving town. If the authorities impose price ceilings to prevent "gouging" after the news breaks, the stations will run out of gas before everyone has had a chance to refuel. Consequently some motorists will be stranded on the interstates, impeding traffic flow.

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4.1.4. *How can minimum wage laws reduce the long-run demand (not just sho...

Author: Robert Murphy

*How can minimum wage laws reduce the long-run demand (not just short-run quantity demanded) for labor?

- Business owners may respond to a minimum wage law by buying more machines and redesigning their workplaces to operate with a fewer number of higher-skilled employees. Once businesses have adapted in this fashion, the demand curve for labor will have shifted to the left, because even at the original wage level, businesses would now demand a lower quantity.

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4.1.5. How can a minimum wage actually hurt even the workers who stay on t...

Author: Robert Murphy

How can a minimum wage actually hurt even the workers who stay on the job?

- Employers could reduce workplace amenities and other perks to compensate for the higher labor expenses. It is possible that employees would actually prefer the original combination of pay and other benefits to the combination they receive after the imposition of the minimum wage

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4.1.6. Explain how interventionists vie for "the best of both worlds."

Author: Robert Murphy

Explain how interventionists vie for "the best of both worlds."

- The interventionists want to retain a market economy with private property, but have the government selectively "intervene" in order to correct certain features they dislike. Thus, the interventionists claim they are avoiding the excesses of pure capitalism and the horrors of pure socialism.

Sample Partial Credit Answer

The interventionists want a mixed system that is better than capitalism and socialism.

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4.1.7. Why would someone support a price ceiling?

Author: Robert Murphy

Why would someone support a price ceiling?

- Someone might support a price ceiling, thinking that this will help keep certain things affordable. For example, someone might support a price ceiling on apartments or baby food, so that poor people can access shelter and feed their infants.

Sample Partial Credit Answer

To help the poor.

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4.1.8. The textbook claims that price ceilings (a) cause immediate shortag...

Author: Robert Murphy

The textbook claims that price ceilings (a) cause immediate shortages and (b) lower long-run supply. What's the difference?

Use a specific example to illustrate.

- A price ceiling pushes down the price from its equilibrium level, moving along the original supply curve to a lower quantity supplied (and a higher quantity demanded). This is the immediate shortage, for example a million people might try to find apartments but only 800,000 are offered on the market. In the long run, investors don't build as many new apartment buildings because of the price ceiling, so that the whole supply curve of apartments shifts to the left, or at least doesn't shift to the right as much as it otherwise would have.

Sample Partial Credit Answer

A price ceiling pushes us along the original supply curve in the short run, and moves the supply curve in the long run.

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4.1.9. Explain why minimum wage laws lead to higher unemployment rates.

Author: Robert Murphy

Explain why minimum wage laws lead to higher unemployment rates.

- Minimum wage laws are set above the market-clearing level, meaning that the quantity of labor supplied by workers is higher than the quantity demanded by employers. This means some workers can't get hired, even though they want to work at prevailing wage rates. This is the typical definition of unemployment.
Sample Partial Credit Answer
Minimum wage laws make some workers too expensive to hire.

Check the answer of this question online at QuizOver.com:

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4.1.10. Explain how the poorest and most desperate are actually hurt by min...

Author: Robert Murphy

Explain how the poorest and most desperate are actually hurt by minimum wage laws.

- Immigrants and low-skilled workers can only compete by offering to do jobs at lower wages than native and high-skilled workers. Minimum wage laws make it illegal for them to undercut their rivals too much. Minimum wage laws effectively take away the one option that the poor and desperate have, to ensure that they can get a job.
Sample Partial Credit Answer
High-skilled workers can get hired above the minimum wage, so it doesn't directly affect their working conditions.

Check the answer of this question online at QuizOver.com:

Question: [Explain how the poorest and most desperate by Dr. Robert Murphy](#)

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4.1.11. Explain how minimum wage laws might lead to a decline in workplace ...

Author: Robert Murphy

Explain how minimum wage laws might lead to a decline in workplace quality.

- Employers attract workers through a combination of job features including salary (or wage), health benefits, length of lunch breaks, temperature of the workplace, etc. If minimum wage laws force an employer to offer higher monetary compensation than he otherwise would have, he might cut back on some of the other desirable features of the job to recoup the money.

Sample Partial Credit Answer

The employer might pay the higher wages by cutting back elsewhere, such as air conditioning.

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