



2.7 Role of government in microeconomics (Price ceilings)

Objectives

Government intervention in markets

- Price controls - price ceilings

Government intervention in markets—consequences
for markets and stakeholders



Price ceiling

The government sets a **maximum price**, below the equilibrium price, which prevents producers from raising the price above it.

Imposed to help consumers.

Product is a necessity or a merit good.

e.g., rent controls, utilities (electricity, gas, water), prescription drugs, public transport fare caps, interest rate caps

Price ceiling

Rent controls

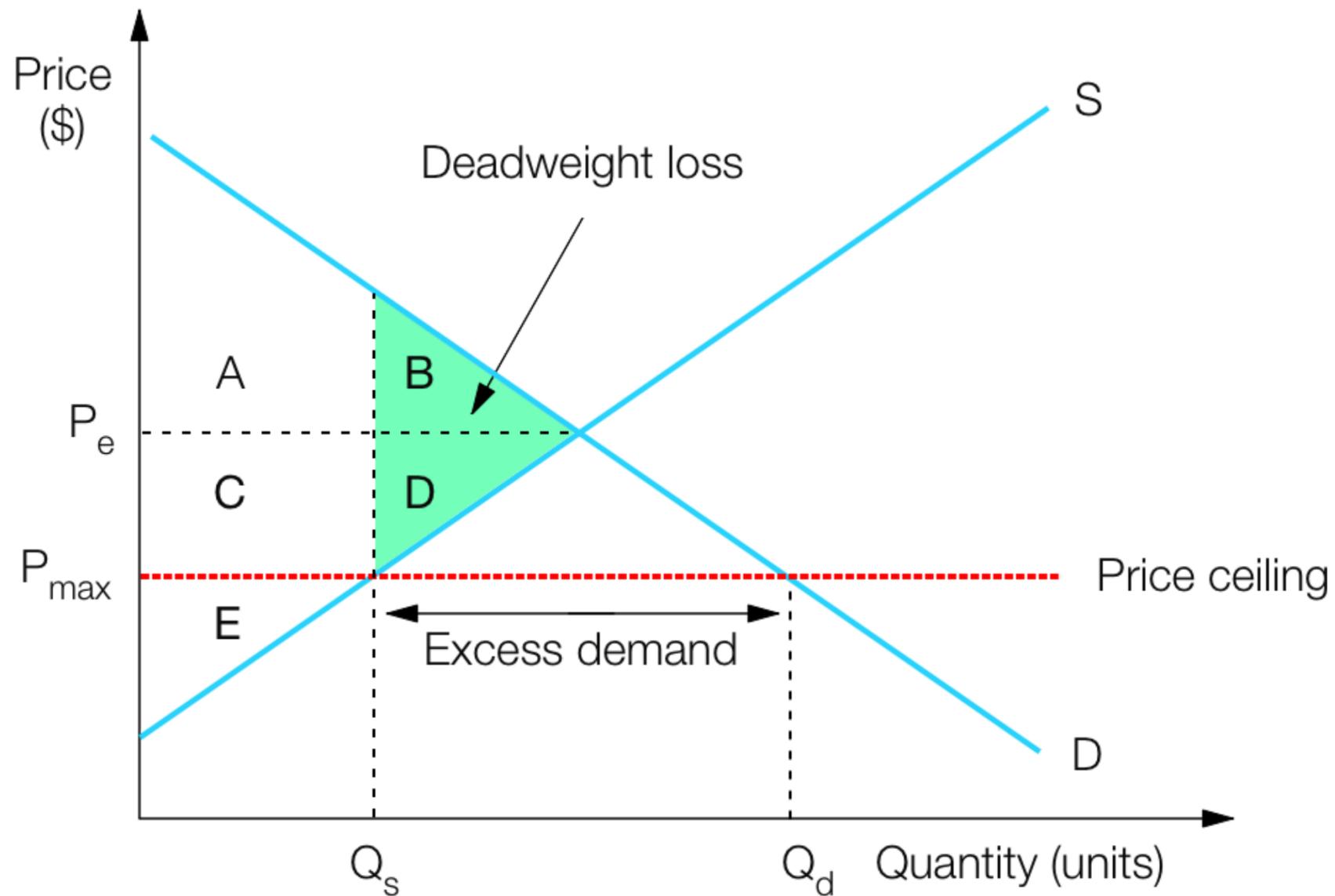
Maximum food price controls

Energy price caps

Fuel price caps

Caps on pharmaceutical prices

Price ceiling



Price ceiling (maximum price)

The price ceiling creates excess demand and a shortage for the product.

Consumer surplus changes from **A + B** to **A + C**.

Producer surplus is reduced from **C + D + E** to **E**.

Disadvantages of a price ceiling

A price ceiling creates shortages and excess demand in the market.

Reduced supply - a price ceiling reduces the incentive for producers to supply the good or service.

Quality deterioration - suppliers may reduce quality, service levels, or other non-price competition to offset the lower revenues.

Black markets - shortages may create a parallel black market, undermining the original intent of the price control.

Misallocation of resources - price ceilings distort market forces and therefore can result in an inefficient allocation of scarce resources.

Price ceiling

Paper 1 style questions

Explain why a government might set a price ceiling (maximum price) on a good [10 marks]

Explain why a government might decide to impose a price ceiling on rented housing [10 marks].

Using real-world examples, discuss the consequences of a price ceiling on stakeholders [15 marks]

Price ceiling

Washington State Standard

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QUICK READS

WA's new rent cap set just below 10% for 2026

BY: JAKE GOLDSTEIN-STREET - JULY 18, 2025 5:07 PM



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Barcelona rents down 8.9% a year after cap introduced

Seasonal lets in Catalonia up 52%, government figures show

Price ceiling



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Energy price cap plunges 7%

Ofgem has today (23 May) announced that the energy price cap will fall by 7% for the period between July and September of 2025.

Price ceiling

More Americans can now get insulin for \$35



By [Tami Luhby](#), CNN

🕒 5 min read · Updated 5:34 PM EST, Tue January 2, 2024



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EU agrees to extend Spain-Portugal gas price cap until end-December

By Reuters

March 28, 2023 10:30 PM GMT+8 · Updated March 28, 2023

