

**Dr.SNS RAJALAKSHMI COLLEGE OF ARTS AND SCIENCE  
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**DEPARTMENT OF COMMERCE WITH  
INFORMATION TECHNOLOGY**

**MANAGERIAL ECONOMICS  
Government Intervention and Pricing**

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# Core Drivers of Intervention



## Market Failures

Correcting instances where the market fails to allocate resources efficiently, such as in the case of monopolies or public goods.



## Externalities

Internalizing costs or benefits that affect third parties, such as pollution taxes or education subsidies.



## Equity & Social Welfare

Ensuring essential goods remain affordable for low-income segments to maintain social stability and basic standards of living.

# Price Ceilings: Protecting Consumers

## Maximum Legal Pricing

A price ceiling is a legal maximum price set by the government, typically **below** the market equilibrium price.

**Objective:** To keep essential goods (rent, fuel, medicine) affordable during crises or high inflation.

**Example:** Rent control policies in major urban centers designed to protect tenants from displacement.



# The Impact of Shortages

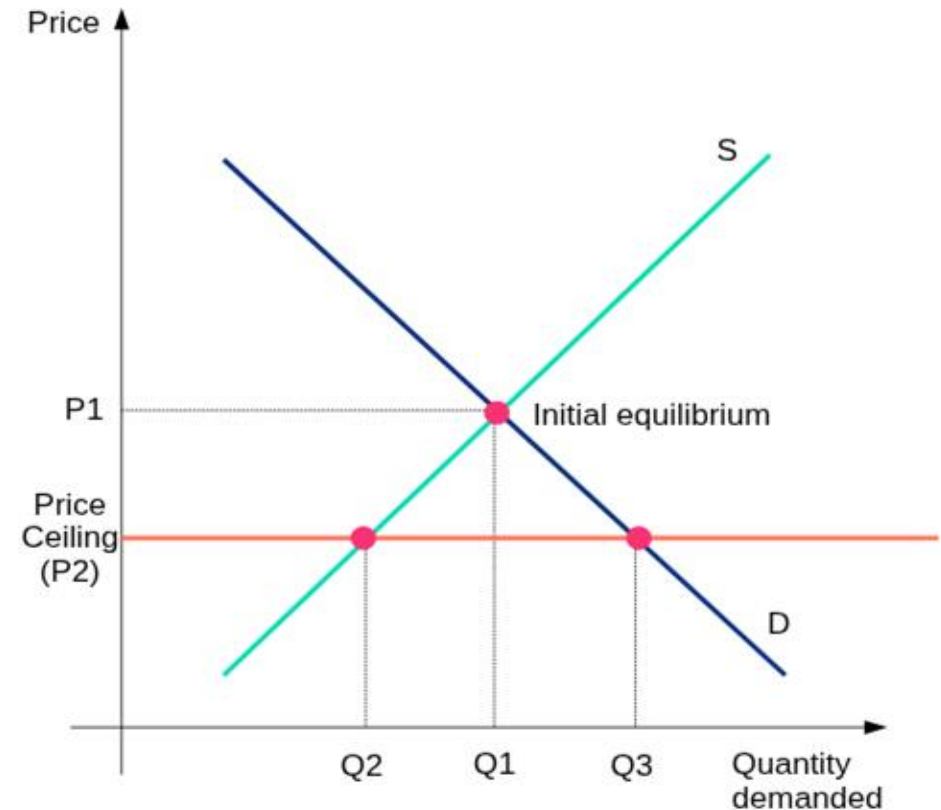
## Efficiency and Welfare Loss

When the government sets a price ceiling below equilibrium

:

$$Q_d > Q_s \text{ \&implics; Shortage}$$

This leads to persistent shortages, reduced quality of goods, and the emergence of black markets as buyers and sellers seek to bypass regulation.



# Price Floors: Supporting Producers

## Minimum Legal Pricing

A price floor is a legal minimum price set **above** the market equilibrium price to ensure producers receive a sustainable income.

- **Minimum Wage:** Ensuring workers earn enough to cover basic needs, preventing exploitation.
- **Agricultural Support:** Stabilizing farm incomes against volatile market fluctuations.



# The Problem of Surpluses

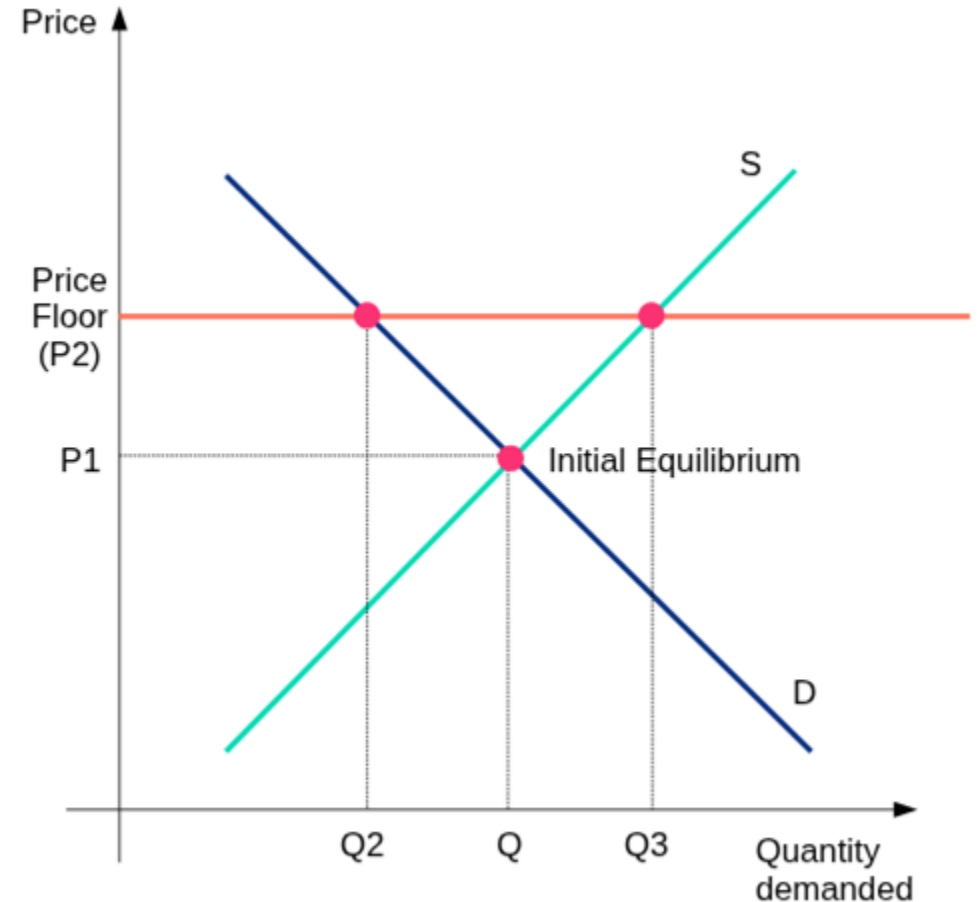
## Excess Supply Dynamics

Setting a price floor above equilibrium results in:

$$P_f \quad P_e$$

$$Q_s > Q_d \text{ implies Surplus}$$

In agriculture, this often forces governments to buy and store excess stock. In labor markets, high price floors can contribute to involuntary unemployment.



# Tax Incidence: Sharing the Burden



- Consumer Share (60%): Burden falls heavily on buyers when demand is inelastic.
- Producer Share (40%): Burden falls on sellers when supply is inelastic.

Tax incidence is determined by the **relative elasticity** of supply and demand. The more inelastic side of the market bears the larger share of the tax burden.

# Subsidies and Market Growth



Subsidies reduce the effective cost of production, shifting the supply curve downward and lowering the price for consumers, which incentivizes adoption and production in strategic sectors like renewable energy.

# Intervention Comparison Matrix

Method	Primary Objective	Market Outcome	Key Risk
<b>Price Ceiling</b>	Consumer Affordability	Shortage (Demand > Supply)	Black Markets / Low Quality
<b>Price Floor</b>	Producer Support	Surplus (Supply > Demand)	Waste / Unemployment
<b>Indirect Tax</b>	Internalize Costs / Revenue	Lower Quantity / Higher Price	Deadweight Loss
<b>Subsidy</b>	Lower Costs / Stimulate	Higher Quantity / Lower Price	High Taxpayer Cost