

Hurricane Katrina and rent control in New Orleans

The goal of this exercise is to get students to evaluate maximum prices in the context of housing and to show how key features can be illustrated using diagrams.

As an introduction, use the digital resource 'Maximum price' and show them the footage of Hurricane Katrina.

Divide the students into pairs and give them a copy of the rent control worksheet. They should answer the questions together.

The digital resource can be used to draw students' answers together and to model the correct answers.

Afterwards, to illustrate that this is still topical, you could use this interesting (left-wing) article on possibly introducing rent controls into the UK (plus some other interesting facts on the UK housing market).

<http://leftfootforward.org/2013/06/its-time-to-look-at-rent-controls/>

Follow-up

Once they have worked through the impact on the housing markets you could ask whether there are any other markets where prices are set below equilibrium. Examples often include pop concerts that sell out as soon as tickets go online, such as Kate Bush's 2014 concerts:

<http://www.theguardian.com/music/2014/mar/28/kate-bush-tickets-sell-out-in-under-fifteen-minutes>

Football and other sporting events, such as the Olympics, are other examples. It can be worth asking why they think that organisations deliberately set prices below the market clearing levels in cases such as these.

Some might also come up with the idea of food to help to correct income inequalities, in which case, these video links of what has happened in Venezuela when the government tries to control prices of goods directly can be quite useful:

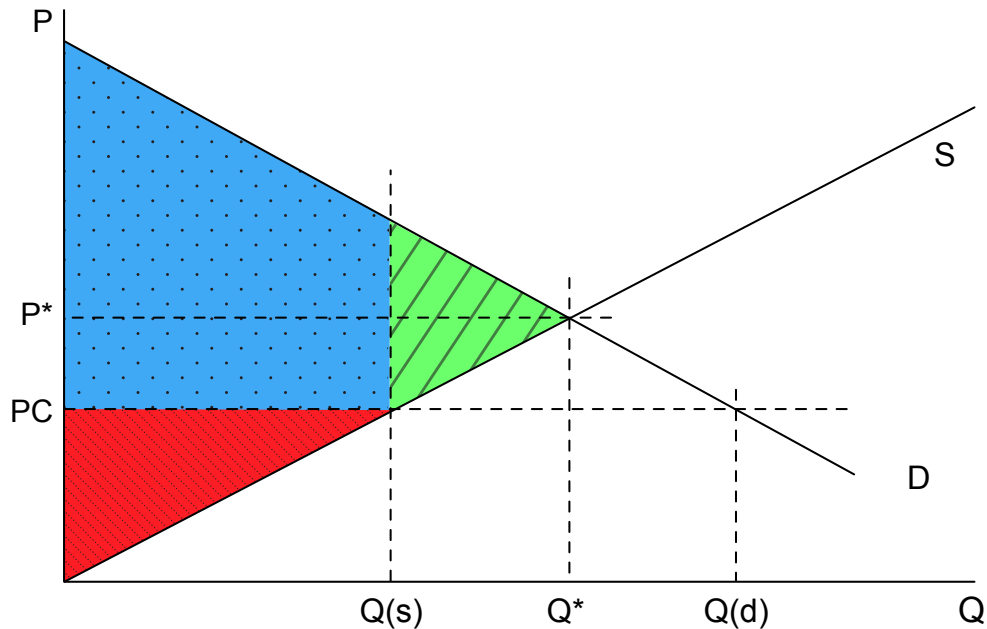
Food smuggling:

https://www.youtube.com/watch?v=uL_mrFZ4yp0

Huge queues at a department store following government-imposed maximum prices for technological goods:

<https://www.youtube.com/watch?v=brQ36rFEIdA>

Answers



There is permanent excess demand of $Q(s)Q(d)$ meaning that some people are unable to rent at all. The risk is that there may be a black market in which people have to rent outside the law, losing their rights.

Some consumers benefit – OQS consumers now get a lower rent and their consumer surplus rises. However, these may not be the poorest people – they may be those, for example, with the best connections.

Producers lose out – producer surplus falls to the red area, meaning that in the long run there will be lower surplus profits to invest, resulting in a reduction in the quality of housing stock. Also, landlords may be tempted to split properties into smaller units.

Technically this causes a welfare loss of the green area (because output is below the free market equilibrium), which could be seen as government failure.