SPHERE Teaching Civic Culture Together

REAL WORLD ECONOMICS

Price Controls: Unintended Consequences in Action

GRADE LEVEL: 9TH–12TH GRADES
TIME ESTIMATE: 50 MINUTES

Lesson Overview

In this lesson, students will learn to evaluate and analyze the effectiveness and unintended consequences of price controls. Price controls are government policies that aim to regulate the prices of goods and services. The best-known type of price control is rent control, which is a policy that limits the amount landlords can charge for rent. Despite the good intentions of rent control (intending to make housing more affordable for low-income renters), it has many unintended consequences. One unintended consequence is that it can lead to a shortage of rental housing. Another is that landlords may be less inclined to build or maintain rental properties if they cannot charge market prices for rent.

Another unintended consequence of rent control is that it can lead to discrimination against certain groups of renters. Landlords may be less likely to rent to people who are more likely to stay in a rental property for a long time, such as families with children, if they cannot charge market prices for rent. This can make it more difficult for these groups of renters to find housing. In many cities around the world, rent control policies have failed to achieve their intended goal of making housing more affordable.

Rent control policies may seem like an easy solution to the problem of high housing costs, but they have unintended consequences that can make the problem worse. It's important to consider the potential drawbacks of rent control and other price controls before implementing such policies.

Objectives

In this lesson, students will

- learn why well-intended price controls have been used throughout history;
- learn the unintended consequences of price controls; and
- will use the concepts of supply and demand (and optional graphing) to analyze the effects of price controls.

Vocabulary

- Law of unintended consequences
- Rent control
- Law of supply
- Law of demand
- Price ceiling
- Shortage
- Incentives
- Quantity demanded
- Quantity supplied

Materials

Printed copy of this article from the Cato Institute: Rent Control: An Old, Bad Idea That Won't Go Away.

Prework

This lesson can be done anytime and with multiple subjects but is a good fit after students have learned the basics of supply and demand.

Warm-Up (5–10 minutes)

Begin by asking the class a few questions:

- What prices do you think are unfair? (Answers will likely include items such as blue jeans, gas, college education, or rent.) Write the student-generated list on the board.
- Should the government regulate these prices to make goods more affordable?

Acknowledge that students surely have good intentions in asking the government to lower prices. Then ask the class if they can think of any unintended consequences that might result if the government fixed a low price, much below the market equilibrium.

Ask students if the government should mandate that these goods and services not exceed a certain price. Tell the class that the maximum allowable price is called a price ceiling, and define the term: A price ceiling is a government-imposed limit on the maximum price that can be charged for a good or service.

Activity Part One (15 minutes): Price Controls in the 1970s

Step One: Show the class the following quote by the famous economist Frédéric Bastiat:

> **"There is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen."**
>
> **— Frédéric Bastiat**

Define the **law of unintended consequences**: The actions of people and governments always have effects that are unintended or unanticipated.

Show the class this video by Marginal Revolution University (3:49 minutes): Price Ceilings: The US Economy Flounders in the 1970s.

Step Two: Have students answer the following questions about the video. You may either discuss these questions with the class or give them to students on a worksheet to answer.

- How did price controls in the 1970s affect the availability of goods and services?
- What were some of the unintended consequences of price controls in the 1970s?
- How did the implementation of price controls affect the incentives of producers and suppliers?
- How does the failure of price controls in the 1970s inform the current debate on rent control and affordable housing policies?
- What alternative policies could have been implemented to achieve the goals of price controls while minimizing the negative consequences?

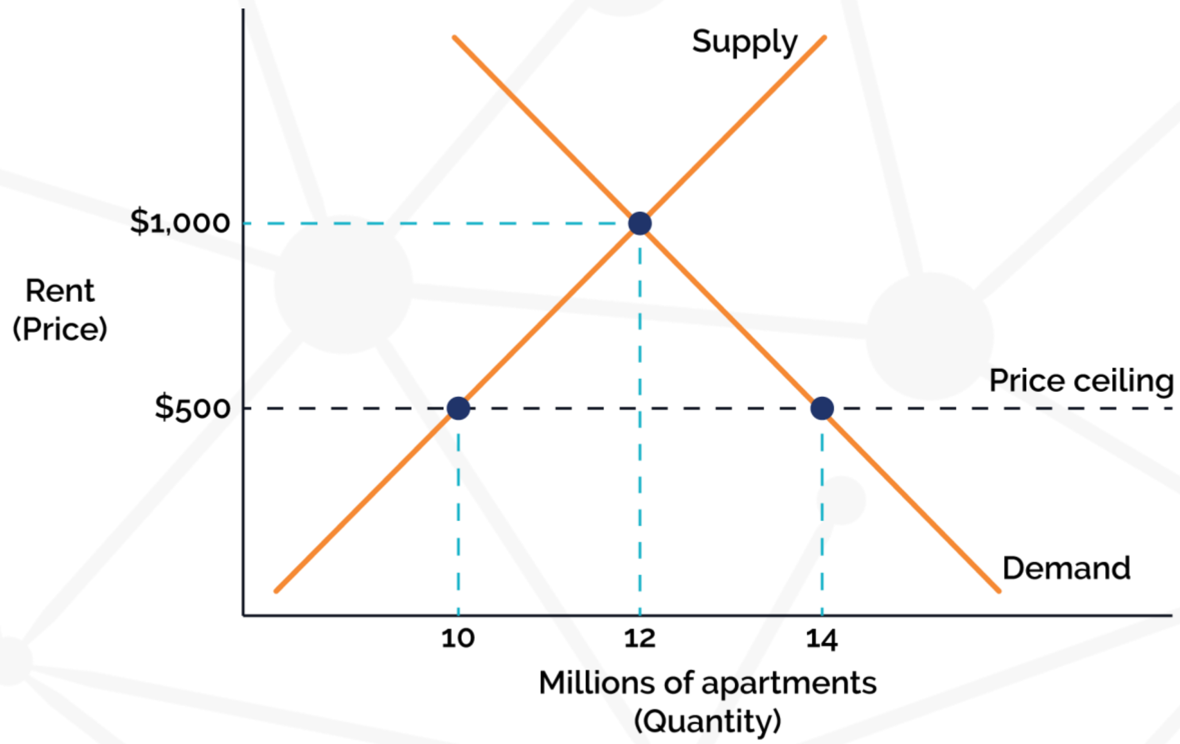
Activity Part Two (10 minutes): Rent Control

Step One: Tell the class that at present, there is much debate about how to make housing more affordable, and cities in the United States and around the world have been considering or have passed rent control laws. Define **rent control** to the class as a policy that limits the amount landlords can charge for rent to make housing more affordable for low-income renters.

Step Two (optional graphing): If you have already taught the basic supply-and-demand model to students, you can draw a price ceiling on a graph or project Figure 1.1 and show how a rent control is a price ceiling that results in a shortage. If the market price is $1,000 a month, there are 12 million apartments for rent. If the government mandates a maximum price of $500, there will a quantity demanded of 14 million apartments—but at a lower price, landlords will only want to offer 10 million apartments for rent, reducing the quantity supplied from the initial 12 million apartments. This results in a shortage of 4 million apartments (14 – 10 = 4 million).

If you prefer not to graph, skip that activity and simply define the terms below and discuss the shortage.
Quantity demanded: The quantity that people are willing to buy at a certain price.
Quantity supplied: The quantity that suppliers are willing to sell at a certain price.
Shortage: When the quantity demanded exceeds the quantity supplied.

Figure 1.1



Activity Part Three (20 minutes): Pros and Cons of Rent Control

Step One: Ask the class for some arguments in favor of rent control, and write their list on the board. Here are some common arguments from the pro–rent control side to share with the class if they were not already given by students:

- Some people will benefit from lower rents, especially in the short-term.
- It reduces current renters from being displaced or evicted, as well as all the resulting negative consequences that arise from housing instability.
- It can take decades for new housing to be built, so rent control can provide immediate help to renters to buy time until the housing stock increases.
- It can help reduce gentrification of historically culturally diverse neighborhoods.

Step Two: Read the following article from the Cato Institute as a class: Rent Control: An Old, Bad Idea That Won't Go Away.

Step Three: Have students answer the following questions in small groups, then discuss as a class.

- The article suggests that rent control can lead to a decrease in the supply of rental housing. Can you think of any examples of how this might happen in practice?
- How did landlords in San Francisco respond to the expansion of rent control? Do you think most economists would have predicted this result? Why or why not?
- The article claims that rent control can also result in a deterioration of existing housing units. What evidence is presented to support this claim?
- The author argues that rent control policies are regressive, disproportionately affecting low-income renters. Do you agree or disagree with this statement? Why?
- The article suggests that alternative policy options to address housing affordability should be considered instead of rent control. Can you think of any examples of such policies and how they might be more effective in addressing the issue?
- The article states that rent control can lead to a decrease in investment in the housing market. How might this happen, and what implications could it have for renters?

Activity Part Four (20 minutes)

Step One: Define these terms if you haven't yet covered them in class:

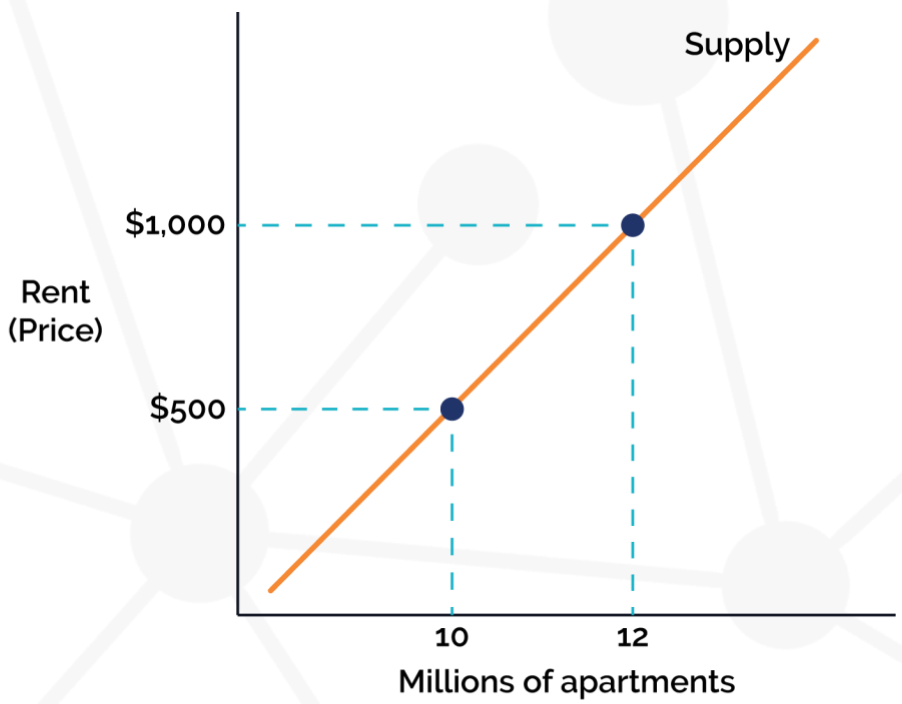
- **Law of supply**: As the price of a good or service increases, the quantity supplied increases, and vice versa.
- **Law of demand:** As the price of a good or service increases, the quantity demanded decreases, and vice versa.

Step Two: Show students this video from Stossel in the Classroom: How Rent Control Hurts Renters (6:25 minutes). Then have students answer the following questions, or discuss as a class.

- What examples does the video give to support the argument that rent control leads to housing shortages and reduced housing quality?
- Why do you think the mayor of St. Paul no longer supports price controls on rent?
- Use your knowledge of the law of supply to explain how rent control created housing shortages.
- Can you think of any counterarguments or alternative perspectives on rent control?

Step Three (optional graphing): To show how higher prices can alleviate a supply shortage, draw a supply graph or project Figure 1.2 to explain the law of supply. Show how the quantity supplied increases from 10 to 12 million as the price of rent increases from $500 to $1,000.

Figure 1.2



Extension

Show the video Rent Control in Mumbai (8:42 minutes) by Marginal Revolution University, which gives an excellent description of housing problems resulting from rent control in Mumbai, India. After showing the video, here are some possible questions to discuss or have students answer.

- Describe the underlying causes of the poor condition of the buildings shown in the video.
- List the many unintended consequences shown in the video.
- What steps can be taken to improve the rent control policy in Mumbai?

Have students develop their argumentative and critical thinking skills by writing a persuasive letter to the editor, arguing in favor of or against rent controls in their local area.