

A NOTE ON RATIONING, PRICE CONTROL, AND
CONSUMER WELFARE

David Laibman

1. *Introduction*

In intermediate microeconomics courses, I present a simple argument comparing two regimes: one in which the quantity purchased of a good X is subject to an upper limit per period of time (a rationing constraint), while its price is also subject to control; and the complementary case in which both quantity and price are uncontrolled. In Figure 1, the good subject to rationing and price control is X ; Y is "all other goods." The ration quantity is \bar{X} . The Figure shows the situation of two consumers, Poor (P) and Rich (R), with "R" having approximately twice the spending power as "P." Budget lines are drawn for each consumer in each of the two regimes, with the uncontrolled price of X shown as twice the controlled price. The budget lines are subscripted for the two consumers R and P in the controlled (C) and uncontrolled (U) situations, in an obvious notation.

As drawn, the indifference curves reveal that quantity-and-price control turn out to be beneficial to P, whose loss from the quantity constraint is more than replaced by the advantage of purchasing X at the controlled price. Compare the indifference curves attained at the two equilibria for P, E_{PC} and E_{PU} . By contrast, the