

COLLAPSE

WES MOORE

CHAPTER 6: Price controls hurt everybody Group Study Leader Guide

General Instructions:

- Have the students read the book chapter before meeting to discuss its principles.
- There is no handout for group members. Use the group study questions at the end of each chapter in the book as the basis for the discussion.
- The section below provides the location of answers (page and paragraph in the book), the answers themselves (in brief), and the goal of each question.

Chapter 6 Group Study Questions Discussion Key

1. What is a “price control,” and what is its goal?
 - a. Answer location: Page 58, paragraph 2 through page 59, paragraph 1.
 - b. Answer in brief: A price control occurs when the government sets the price of something instead of it being set by the free choices of buyers and sellers in the market. The goal is to correct some perceived price injustice, whether the perception that the price is too high (for prescription drugs, for example) or too low (for wages paid to employees).
 - c. Goal of the question: To help the student understand what price controls are.
2. The chapter discussed the hypothetical situation where Acme Drugs was forced to drop the price of its SugarCure diabetes medicine from \$5 per pill to \$1 (an 80% reduction). Based on this discussion, answer the following questions: a. Would any of Acme’s cost-cutting measures (to get it back to making a profit) affect its employees? Why would this be the case? b. Over the long run, would Acme shift from making SugarCure to some other product that did not have a government price control? Why or why not? and c. How willing will other drug companies be in the future to develop drugs that could be subject to a government price control? Why?
 - a. Answer location: Page 59, paragraph 4 through page 61, paragraph 1.
 - b. Answer in brief:
 - i. Cost cutting effect on employees: Employee jobs would be cut and remaining jobs may receive wage reductions.
 - ii. Acme’s shift in production: To improve profits, Acme would likely look to shift its production to products not subject to a price control.
 - iii. Other drug companies entrance into the market: Other companies would

- be unlikely to enter Acme’s market due to the price control.
- c. Goal of the question: To show the student the negative consequences of price controls.
3. Why can’t the owner of Benny’s Burger Shack just raise his prices to cover the increase in the minimum wage from \$8 to \$12 per hour? (Hint: Think about how Benny’s customers would react to this price increase.)
 - a. Answer location: Page 61, paragraph 2 through page 62, paragraph 1.
 - b. Answer in brief: If Benny raised his prices, his customers would buy less or go to other restaurants with lower prices. If all restaurants raised prices, Benny may be able to get by with the price increase.
 - c. Goal of the question: To show the student the complications that arise when prices are increased to cover higher wages.
 4. What is the effect on customers when businesses raise prices because of an increase in the minimum wage? (Hint: Do prices go up or down for them?) What does this say about who really pays for an increase in the minimum wage?
 - a. Answer location: Page 62, paragraph 2.
 - b. Answer in brief: All customers pay more for the products they buy. This means wage increases are not paid for ultimately by business owners but by customers.
 - c. Goal of the question: To reveal who really pays for wage increases—the customer.
 5. How does Parker’s Kitchen use technology to respond to continued increases in labor costs? What does this do to the jobs available for people?
 - a. Answer location: Page 62, paragraph 5.
 - b. Answer in brief: Parker’s Kitchen uses technology to replace employees in order to reduce labor costs. This reduces the overall number of jobs available for people.
 - c. Goal of the question: To reveal to students the consequences of high minimum wages on jobs.
 6. Why is the “living wage” not a good idea for the economy?
 - a. Answer location: Page 63, paragraphs 3-4.
 - b. Answer in brief: Minimum wage levels for individuals and families far exceed even the \$15 minimum discussed today. If wages were adjusted to truly cover the cost of living for workers, wages would need to exceed \$22 per hour. This extremely high minimum wage would cause prices to skyrocket and reduce the number of jobs even further.
 - c. Goal of the question: To help the student see how the concept of a “living wage” is not sustainable and comes with a number of negative consequences.

7. Why did the prices of the table maker in the chapter go up and down with the seasons? Was this fair or unfair? Why?
 - a. Answer location: Page 64, paragraph 4 through page 65, paragraph 2 .
 - b. Answer in brief: Prices changed because of changes in demand. This is completely fair because it is determined by the free choices of buyers and sellers.
 - c. Goal of the question: To help the student understand why prices change.
8. Explain why prices go up during the July 4th weekend? Is this fair or unfair? Why?
 - a. Answer location: Page 65, paragraph 3 through page 66, paragraph 2.
 - b. Answer in brief: Prices go up on holiday weekends because demand increases. Consumers are willing to pay more and businesses are trying to maximize profits on these occasions. When demand goes down, in the winter months, for example, prices go down because people are not willing to pay as much and businesses are trying to maintain sales levels. This is not unfair because price levels are determined by the free choices of buyers and sellers.
 - c. Goal of the question: To help the student understand why prices go up during high demand times.
9. Why do people not complain during off-peak times when gas prices are lower? What does this say about our understanding of how demand affects prices?
 - a. Answer location: This question is not specifically answered in the book, but the concept is addressed on page 66, paragraph 2.
 - b. Answer in brief: People don't complain when prices are lower because they are benefiting from the low price. They only complain when they think prices are "too high." This reveals that most Americans do not understand the basic laws of supply and demand.
 - c. Goal of the question: To help the student to see the inconsistency of complaining when prices are high but not being concerned for businesses when prices are too low.
10. Why is it best that gas prices go up on July 4th weekend, in terms of making gas available for those who need it most? Explain why this is so.
 - a. Answer location: Page 66, paragraph 4 through page 68, paragraph 2.
 - b. Answer in brief: If gas prices did not go up during high demand times, product supply would be used up rapidly, and people who needed the product and were willing to pay more to get it would not be able to buy any. This is known as the "rationing effect of price."
 - c. Goal of the question: To show the student the benefit of prices going up during high demand times.