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GOVERNMENT PARTICIPATION IN IDENTIFYING EFFECTS OF PRICE DISTRIBUTION AND ITS EFFECTS

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Abstract:

So as to ensure the enthusiasm of buyers government fixes the most extreme cost of the item. This greatest cost is by and large lower than the harmony cost. This is called control cost or maximum price tag. This cost is fixed by the legislature since needy individuals can't stand to purchase the item at balance cost. This circumstance emerges when the creation of a product is not as much as its interest. As the cost of the ware fixed by the legislature is not exactly the harmony value, it might make abundance request of the product which implies the purchasers are happy to purchase more than what the vendors are eager to sell. In order to protect the interest of consumers government fixes the maximum price of the commodity. This maximum price is generally lower than the equilibrium price. This is called control price or ceiling price.

Key Words: *Price, Control, Government*

Introduction

Government has significant role in regulating price and distribution to maintain smooth economy in nation. It has been established that if there is good production, but it has no value when the goods produced are not delivered to the end-users at the right time in the right quantity and at the reasonable price. Governments have been endeavouring to set greatest or least costs since antiquated occasions. The Old Testament denied enthusiasm on credits to individual Israelites; medieval governments fixed the greatest cost of bread; and as of late, governments in the United States have fixed the cost of gas, the lease on lofts in New York City, and the pay of incompetent work, to give some examples. On occasion, governments go past fixing explicit costs and attempt to control the general dimension of costs, as was done in the United States amid both world wars and the Korean War, and by the Nixon organization from 1971 to 1973.

The intrigue of value controls is justifiable. Despite the fact that they neglect to secure numerous shoppers and hurt others, controls hold out the guarantee of ensuring bunches that are especially unable to meet cost increments. Consequently, the disallowance against usury—charging high enthusiasm on credits—was planned to ensure somebody compelled to get out of urgency; the most extreme cost for bread should secure poor people, who relied upon bread to endure; and lease controls should secure the individuals who were leasing when the interest for lofts surpassed the supply, and landowners were getting ready to "gouge" their inhabitants.

Regardless of the successive utilization of value controls, be that as it may, and notwithstanding their intrigue, financial specialists are commonly restricted to them, with the exception of maybe for exceptionally concise periods amid crises. In an overview distributed in 1992, 76.3 percent of the market analysts reviewed concurred with the announcement: "A roof on rents decreases the quality and amount of lodging accessible." A further 16.6 percent concurred with capabilities, and just 6.5 percent oppose this idea. The outcomes were comparable when the financial experts were gotten some information about general controls: just 8.4 percent concurred with the announcement: "Pay value controls are a helpful approach alternative in the control of expansion." An extra 17.7 percent concurred with capabilities, yet a sizable dominant part, 73.9 percent, deviated (Alston et al. 1992, p. 204).

The staggering proof against value controls normally prompts thought of different techniques for bringing down obtaining costs. The private area utilizes various techniques that are both compelling and consonant with a market economy. Such methodologies, when utilized by the private market, are substantially less harming to financial welfare than an administration value control.

Another approach to get lower costs through the market is for an autonomous association to give data on the contending options in contrast to singular purchasers. Utilizing this data, an educated customer can distinguish the item that best meets her requirements and can request a limited cost when buying an alternate item. Numerous enormous organizations adopt this strategy with wellbeing plans for workers; the representative may pick among a lot of endorsed plans and the company gives evaluations or a scorecard to enable representatives to think about the plans. The evaluations cause intends to vie for clients on the cost and quality measurements.

In order to protect the interest of consumers government fixes the maximum price of the commodity. This maximum price is generally lower than the equilibrium price. This is called control price or ceiling price. This price is fixed by the government because poor people can not afford to buy the commodity at equilibrium price. This situation arises when the production of a commodity is less than its demand. As the price of the commodity fixed by the government is less than the equilibrium price, it may create excess demand of the commodity which means the buyers are willing to buy more than what the sellers are willing to sell. In India government has a control price or ceiling price of the commodities which it considers essential for the masses. For examples some goods such as wheat, rice, sugar, kerosene oil etc. have a control price. Due to excess demand for the commodity at ceiling price government resorts to rationing. Rationing means fixing of quota per head per unit of time. Due to excess demand of the commodity at ceiling price the problem of black marketing may also arise. Black marketing is a situation in which the seller illegally charges the price of the commodity which is much higher than the control price. The problem of black marketing can be solved through dual price policy which will be discussed in the later part of this lesson.

As explained earlier in this lesson that price control may lead to the shortage of the commodity because sellers are not willing to supply adequate quantity of the commodity at the price fixed by the government as the price is lower than the equilibrium price. This may also lead to black marketing of the commodity. To avoid this situation government adopts dual price policy under this policy a part of the production of the good is sold at control price through fair price shops and the remaining part is sold at prevailing market price which is determined by the forces of demand and supply. At this market price any quantity of the commodity can be bought. For example government sells wheat, rice and sugar to BPL (Below poverty line) card holder at control price through fair price shops and the producers are also allowed to sell their remaining production at equilibrium price in open market.

Price Control: The Maximum Price Legislation:

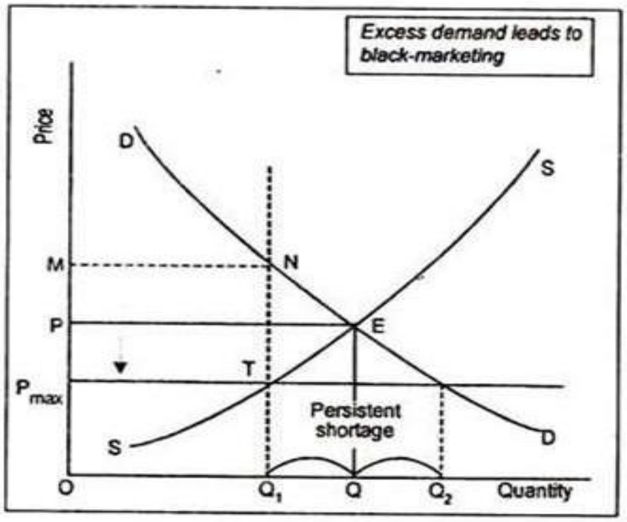
Government may find it wise to prevent rise in prices above the market equilibrium or to prevent fall in prices below the market equilibrium. Such method of intervention is called price control.

Sometimes businessmen create an artificial scarcity of an essential commodity with the motive of raising the price of the commodity. The basic motive is, of course, profit-maximization. In the process, consumers are exploited since they are now forced to purchase commodity at a higher price.

In order to protect the interest of the consumers the government imposes price ceiling or maximum price above which no one will sell the commodity. This is called ‘price ceiling’ or ‘maximum price legislation’.

Once more, costs of items may tumble if there are surplus creations. This happens essentially on account of rural items when there is a guard generation. "Excessively low" costs of such agrarian wares aim hardship to ranchers. To keep costs from falling further, the legislature may receive "least value enactment" to secure the interests of ranchers or makers,

The impact of greatest value enactment can be clarified regarding beneath figure where the DD and SS bends cut each other at point E. Balance value in this manner got is OP and the balance amount is OQ. Give us a chance to assume that the administration imagines that this OP cost is "excessively high". So, it fixes a maximum price at OP_{max}, below the equilibrium price ($OP_{max} < OP$).



Maximum Price Legislation

At this lower price, consumers demand a larger quantity OQ_2 but producers cut back their supplies to OQ_1. The prompt impact of this value roof is, hence, the rise of overabundance request or tenacious lack of the item. As a result of the lawful stipulation of cost, neither purchasers nor merchants dare enough to raise the cost to take out abundance request. Along these lines, abundance request in the market would remain.

Despite the fact that most extreme value enactment is made by the legislature to improve the welfare of the general population, a few people, all the while, gain, while some lose. Makers may lose as they should acknowledge lower costs. T his may compel a few makers not to create the ware. Further, a few customers lose, however not every one of; a few buyers who can buy the great at a lower value remain to pick up, yet the individuals who have been 'apportioned out' and can't bear to purchase the great at all remain to lose.

Now, sellers would devise various policies to allocate OQ_1 among the buyers. Firstly, sellers may adopt a democratic principle of distribution i.e., the principle of **'first-come, first-served'**. Secondly, sellers may hoard it **'under the counter'** and distribute it only to the favoured customers or friends. Normally, these distribution standards would absolutely put a portion of the purchasers in a disadvantageous position.

The primary strategy may prompt arrangement of long lines before the shop accordingly making the likelihood of unsettling influence in the territory. Despite the fact that majority rule, it isn't really reasonable. The second strategy is similarly unsuitable to certain purchasers, especially the individuals who don't have any connections with the merchants.

In the long run, the presence of unsatisfied interest will make a circumstance of 'dark advertising'. A circumstance of bootleg market is one in which dealers sell the products over the lawful least cost stipulated by the administration. Here, to fulfill unsatisfied need dark advertisers charge more expensive rates than the lawful most extreme cost.How much price will rise in the black market depends on the intensity of demand. Buyers are ready to buy the limited quantities, i.e., OQ_1 at the price OM. Thus OM is the price charged in the black market. In the process, black marketers stand to gain since legal maximum price is much below the black market price. For OQ_1 amount of goods, buyers are willing to pay $OMNQ_1$ amount.

Of this, P_m TNM would be received by the black market price. For OQ_1amount of good buyers are willing to pay $OMNQ_1$ amount. Of this, P_{max}TMN would be received by the black marketers as illegal receipts. Since not all buyers can afford to pay such high illegal price, part of the limited quantities would be supplied at controlled price and the rest at illegal price.

In this way, dark promoting rises against the scenery of restricted supplies. While trying to distribute constrained amounts, the legislature may think that its savvy to embrace an arrangement of proportioning. Under proportioning, the legislature limits utilization by allotting a quantity to every single individual with the goal that accessible merchandise can be circulated similarly.

By giving proportion coupons to every single individual, government may allot accessible merchandise among individuals impartially. Consequently, apportioning might be defended amid war or crisis when shortage of a specific ware or products hits the economy. At the end of the day, proportioning might be presented at whatever point there is a deficiency of fundamental items.

In spite of the fact that this strategy can't satisfy every one of the needs, value control with proportioning may yield great outcome toward this path. In this way, value control and apportioning are correlative to one another. These two can guarantee strength in costs. Genuinely, to make the value control a compelling instrument, an arrangement of proportioning ought to be presented.

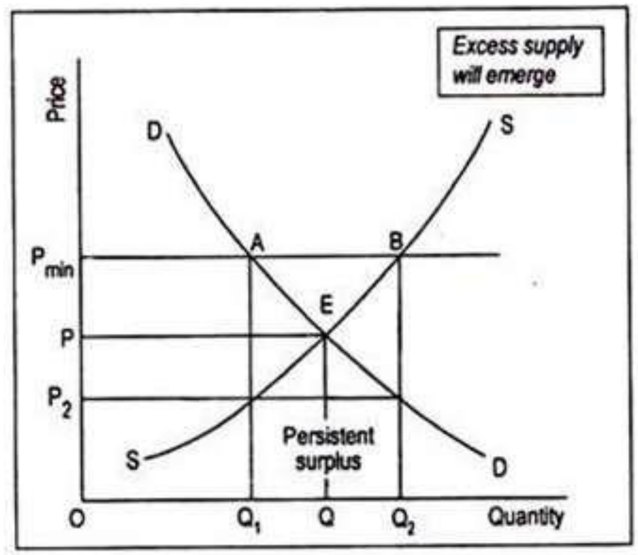
Note that proportioning is regularly depended on under uncommon cases. In typical occasions, proportioning is unjustified. Once more, value control with or without apportioning is probably going to offer ascent to an underground market. Further, regulatory wastefulness may sneak in the workplaces of proportioning office. This may lessen the adequacy of value control cum proportioning component.

Price Control: The Minimum Price Legislation:

The administration frequently passes law to fix the base cost or floor cost at which wares might be sold. This base value enactment is acquainted by the legislature with ensure the interests of makers, predominantly agriculturists.

At whatever point there is an accident in costs, state of wheat, because of guard generation, the administration issues roundabout that nobody would be permitted to sell wheat underneath the stipulated cost. Such is known as the base cost. Surely, the legitimate floor cost fixed by the administration is kept over the balance cost controlled by the interest and supply bends.

The effect of floor price has been shown in the below figure. OP is the equilibrium price determined by the intersection of DD and SS curves. Suppose, price crashes below OP—thereby causing great hardships to producers. To woo the producers, the government fixes the minimum price at OP_{min} below which no one will be allowed to sell.



Minimum Price Legislation

At this price, there occurs an **'excess supply'** or persistent surplus measured by the distance AB (= Q_1Q_2). Because of excess supply the possibility of black marketing does not arise. But some producers may try to sell their stocks of unsold goods at a price below OP_1, of course, in a clandestine manner.

We have just shown that, at the price OP_{min}, there occurs an excess supply of Q_1Q_2. The government, in order to safeguard the interests of producers, may purchase all the quantities at the price OP_{min}. This will result in an increase in governmental expenditure to the tune of Q_1Q_2BA. This is called 'subsidy to the producers.

In view of all these, champions of perfectly competitive market argue that the government intervention in normal market mechanism may bring dangers in the economy, particularly if such intervention is based on pure discretion rather than on any socio-economic consideration. Above all, maximum or minimum price legislation may bring disaster if government machinery becomes inefficient.

Under essential commodity act, all power emanates from the central government and state government or the authorities subordinates to it acts as the delegate of the centre within the scope of the authority assigned to it and subject to any condition imposed or directions given by central government regarding the exercise of the delegated powers. This enables the government to keep an overall control over various state governments and also create uniformity of practice all over the country (Sengupta, 2009).

With reference to unparalleled rise in prices of some essential commodities in the mid-2006, it is necessary to take immediate steps to alleviate the rising trend of prices of essential commodities. Representations from the Chief Ministers of Punjab and Delhi and also from the Governments of Andhra Pradesh, Rajasthan and Maharashtra were received for restoration of powers under the Essential Commodities Act, 1955 for undertaking dishoarding operations in view of the supposition that there is speculative holding back of stocks specifically of wheat and pulses in expectation of more increase in cost.

Central Government has already taken numerous steps to control the price rise in essential commodities by trying to increase supply including through imports by reducing the duty level on import of both wheat and pulses to zero. The situation of price control was re-evaluated by the Government and it was decided with the consent of the Cabinet to keep in abeyance some provisions in the Central Order dated 15.2.2002 for a period of six months with respect to wheat and pulses so as to tackle the crises on availability and prices of these commodities.

In order to facilitate the State Governments/UT Administrations to continue to take effective action for undertaking de-hoarding operations under the Essential Commodities Act, 1955, the price situation was further revised by the Government and it has been decided with the approval of the Cabinet to further enforce similar restrictions by keeping in abeyance some provisions of the Central Order dated 15.02.2002 for a period of one year with respect to edible oils, oilseeds and rice, so as to tackle the rising trend of prices as well as to ensure availability of these commodities to the common people. Though, it has also been decided that there shall not be any restriction on the inter-state movement of these items and that imports of these items would also be kept out of the purview of any controls by the State Governments. To summarize, it is responsibility of Government in any country to ensure impartial supply of essential commodities to people at reasonable prices. Government has to fix prices of commodities when there is huge production or if there is scarcity of products. It will help to distribute the commodities in appropriate time to right person.

Conclusion

In any case, this best case for value controls is feeble. The threat is that the painkiller might be confused with the fix. According to the general population, value controls free the fiscal expert from duty regarding expansion. Thus, the weights on the fiscal expert to stay away from subsidence may prompt a continuation or even increasing speed of exorbitant development in the cash supply. The investigation of value controls shows significant exercises free focused markets. By analyzing cases in which controls have kept the value system from working, we gain a superior valuation for its standard style and proficiency. This does not imply that there are no circumstances in which temporary controls may be effective.

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