

9. The city council of a small college town decides to regulate rents in order to reduce student living expenses. Suppose the average annual market-clearing rent for a two-bedroom apartment had been \$700 per month, and rents are expected to increase to \$900 within a year. The city council limits rents to their current \$700 per month level.

a. Draw a supply and demand graph to illustrate what will happen to the rental price of an apartment after the imposition of rent controls.

The rental price will stay at the old equilibrium level of \$700 per month. The expected increase to \$900 per month may have been caused by an increase in demand. Given this is true, the price of \$700 will be below the new equilibrium and there will be a shortage of apartments.

b. Do you think this policy will benefit all students? Why or why not.

It will benefit those students who get an apartment, though these students may also find that the costs of searching for an apartment are higher given the shortage of apartments. Those students who do not get an apartment may face higher costs as a result of having to live outside of the college town. Their rent may be higher and the transportation costs will be higher.