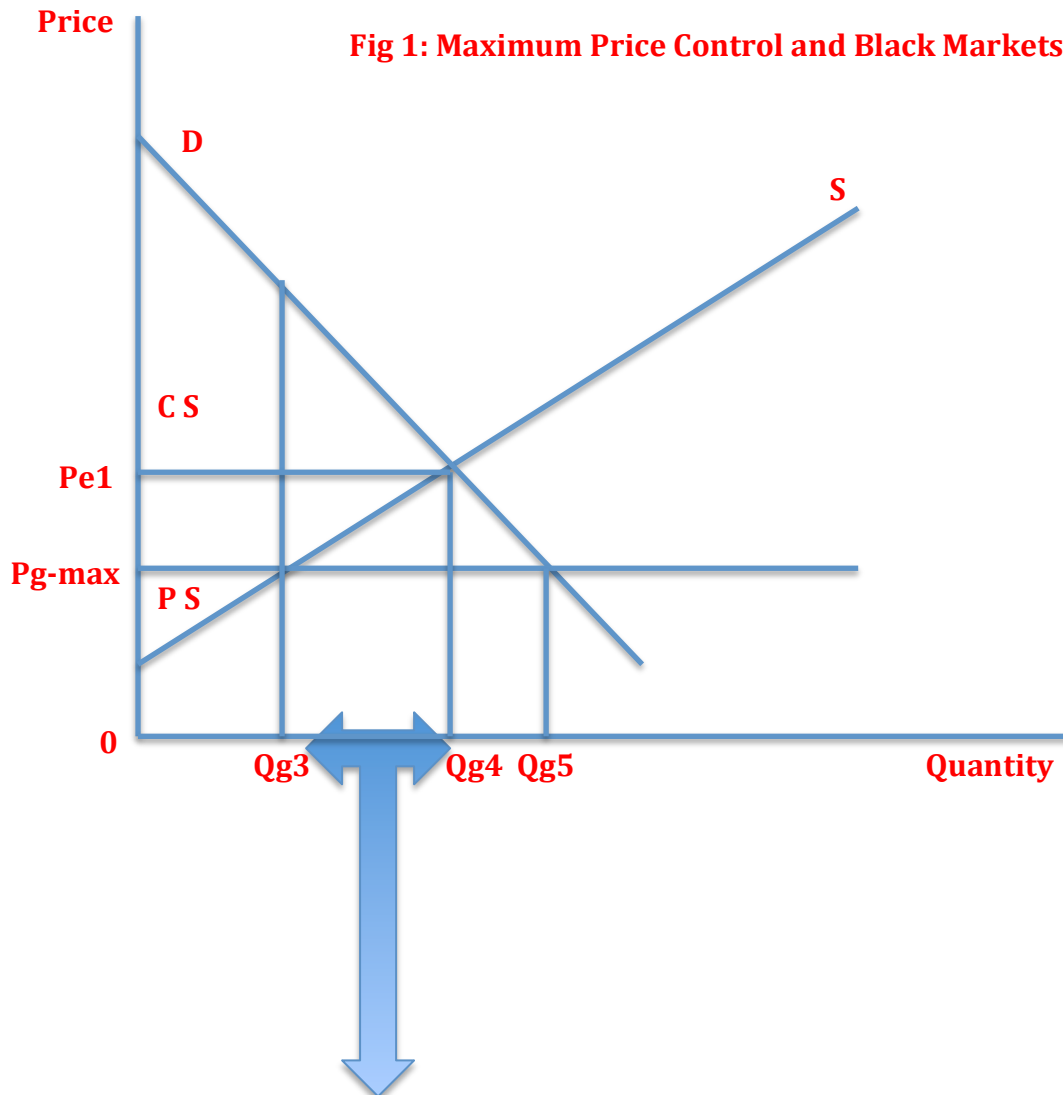


Why a black market?

Often a black market arises from Intervention by government to regulate unstable markets e.g. maximum/ceiling price control seen in Fig 1: P_{g-max}



Points to note:

1. C_s = consumer surplus increases as a result of max price control
2. P_s = reduced producer surplus as a result of max price control
3. $Q_{g3}-Q_{g5}$ = scarcity resulting from max price control
4. This $Q_{g3}-Q_{g4}$ may well find its way into a black market at prices at or above the original equilibrium price before the price control = P_{e1}
5. $Q_{g4}-Q_{g5}$ = additional demand due to price max
6. Black market develops with a quantity of $Q_{g3}-Q_{g4}$ made available illegally by firms in order to receive a price higher than P_{g-max} and possibly equal or greater than the original market price of P_{e1}

Fig 2: Black Market following introduction of Maximum price control

