Price Gouging Contributes to Inflation
By Byron A. Ellis, Ph.D. – November 08, 2024

For the average consumer, the cause of inflation is often difficult to conceptualize. Inflation is a gradual loss of purchasing power. Economists argue that increases in the money supply cause inflation, too much money chasing too few goods and services.

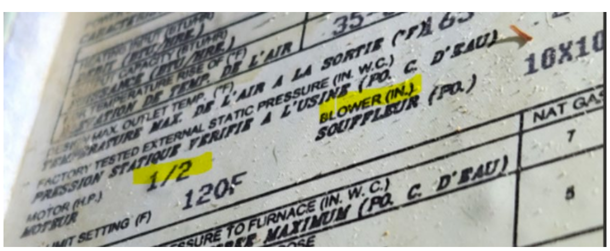
Suppliers can tacitly collude to drive up prices, which can also cause inflation. However, some economists believe that collusive behaviors cause the demand for goods and services to fall, reducing any inflation due to collusive behaviors.

Nonetheless, collusion among service providers eliminates market competition and causes prices to rise. For instance, recently my furnace blower motor failed. Every heating, ventilation, and air conditioning (HVAC) service provider that I contacted required a diagnostic fee of more than $90 before providing a quote for replacing the motor.

One local HVAC provider’s initial verbal quote after the diagnostic fee was over $850 to replace the blower motor and later it was reduced to $698, adding taxes, plus the diagnostic fee, the total cost was approximately $840.

When I asked why so expensive? The technician indicated that the motor was expensive. However, the cost of the motor online was a mere $120.

Moreover, the technician intended to replace the original ½ horsepower (HP) blower motor with a 1/3 HP motor. In essence, a motor that is 1/6 HP less than the manufacturer's specification. See the motor specification and online price of a new ½ HP blower motor below.



Motor Specification on the furnace

New Online Blower Motor

Subtracting the price of the motor from the HVAC service provider's written quoted price of $698 plus adding the diagnostic fee of $97, implies the total cost of labor and overhead costs would be $675 for less than an hour of work.

Say the technician makes $75 per hour, then the overhead cost is $600. It is this type of post-COVID-19 pandemic price gouging that has caused significant inflation.

If the HVAC supplier was not overcharging, the customer would be charged the true price of the motor plus motor overhead, the true cost of labor plus labor overhead.

Overhead is the ongoing costs of operating that companies incur while in business, such as office space, utilities, insurance, transportation, tools, and so on.

We can see from the above that price gouging contributes to inflation and how it ripples through the economy, even when the Federal Reserve (Fed) bank has been decreasing the money supply, M1 and M2, raising interest to reduce consumer demand, and hence prices.

M1 is the money supply composed of currency, demand deposits, and other liquid deposits, which include savings deposits and M2 is an estimate of the total money supply.

Figure 1 below shows that M1 has been declining since April 2022 and Figure 2 shows that M2 has also been declining since May 2022.

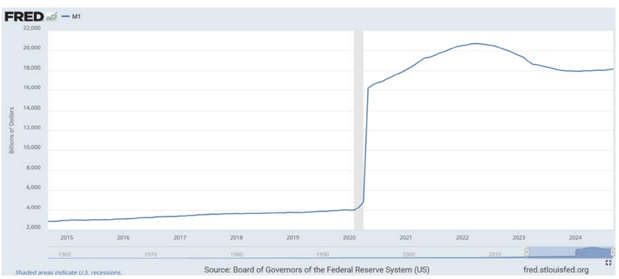


Figure 1 - M1

Figure - M2

To counter the HVAC provider's price gouging, I purchased the motor and installed it in less than an hour.

The replacement procedure was simple. It involves disconnecting electrical power from the breaker box and turning off the furnace switch to avoid to ensure that there is no electrical current flowing to the furnace during the repair process; removing the blower housing (two (2) screws), removing the control panel from the blower housing (two (2) screws), loosening the motor shaft set screw, removing the motor from the blower housing (three (3) bolts) and the ground wire attached to one of these bolts; all the motor wires to the control panel are color coded. Thus, one by one I removed the old motor wire from the control panel and replaced it with the same color wire from the new motor.

Economic theory tells us that a market is competitive when there are many sellers and many buyers. It also indicates that collusion between producers and service providers shifts competition from the market to the conference table where sellers divide the gains and prevent cheating. Thus, the ability of sellers to collude, as well as excess money in circulation contribute to inflation.

Governments can minimize price gouging by randomly auditing prices set by service providers and sanctioning merchants that engage in exploitative pricing behaviors.