

Understanding Prosperity Through Scarcity, Price, & Economy

Explore: Hurricane Katrina

Hurricane Katrina

Hurricane Katrina was one of the worst hurricanes ever to hit the United States. On August 29, 2005, the storm hit New Orleans. Heavy rain and winds flooded the city. Everyone in the city was told to evacuate or leave their homes, yet nearly 100,000 people were trapped in the city when the storm hit. Homes and businesses were destroyed. An estimated 15,000-20,000 people were trapped inside the Superdome, an arena for football games. With no power, no sanitation, and very few supplies, the Superdome quickly became dirty and unsafe. Eventually the people inside the Superdome were evacuated to other places in Louisiana. Many went to Houston, Texas.



After the storm, prices rose significantly on goods causing many to think that foul play was at hand. Prices rose mostly from a sudden and dramatic increase in **demand** for a product, such as bottled water in the case of Hurricane Katrina.

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Katrina's storm damage made water unsafe to drink, thereby increasing demand for bottled water. Many roads used to deliver water were underwater or unsafe to drive on, thereby decreasing the supply of bottled water. Combined, the effect was the price of water rising dramatically, seemingly unfairly compared to prices in previous weeks. Similarly, with power outages denying electricity for air conditioning in the summer heat, generators to provide power were in high demand and short supply.

As communities attempted to rebuild, lumber and other building materials were in increasingly high demand. All of these price increases happened independently of human greed and were rather as functions of supply and demand. However, unethical behavior can make shortages worse. Some contractors took money promising repairs to homes or businesses and never did the work. Others charged prices considered too high, but is that from greed or extreme shortage of materials, labor, etc., all of which drive up cost? Ultimately, in these situations, many citizens clamor for someone to "do something," and politicians are willing to take action. They often do so by decreeing price ceilings on essential goods, above which it is not legal to charge. Sadly, these limits clash with the law of supply, reducing the incentive effect for others to supply more; thus, they actually decrease the supply coming to the disaster area, extending the shortage. What do you think should be done to protect people from high prices during a crisis?

Concluding Analysis

1. What factors of supply and demand led to the shortages of products after Hurricane Katrina?
2. How is this severe shortage of products during natural disasters, like Hurricane Katrina reflected in their new price? Discuss and explain your opinion of the "fairness" around the increase of prices of these essential products?
3. Are essential products going to be more available if prices are allowed to rise or if a mayor/governor mandates the prices of these essential products stay at or near the pre natural disaster price?