



Article

## State Regulation of Prices

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**Abstract:** The article examines the purpose and principles of state regulation of prices. A theoretical analysis of state regulation of prices is conducted. Adjustments and proposals for state regulation of prices are made.

**Keywords:** Prices, State, Mechanism, Institutions, Economic, Social, Political, Complex, Management Environment, Monopoly, Technological Innovations.

### 1. Introduction

In the modern market economy system, the mechanism of state regulation of prices is a complex and multifaceted process. The formation of this mechanism has historically evolved through the development of market institutions, the advancement of economic theory, and the accumulation of practical experience [1]. In order to understand the essence of price regulation, it is essential to analyze its economic, social, and political contexts in an integrated manner. The imperfection of market mechanisms, the presence of information asymmetry, and monopolistic powers make government intervention an objectively necessary measure.

In the process of studying the theoretical foundations of state price regulation, the differences and commonalities among various economic schools of thought become apparent [2]. From proponents of classical liberalism to modern institutional economists, a wide spectrum of perspectives is presented regarding the optimal boundaries and methods of government intervention. This theoretical diversity provides flexibility and context-specific adaptability in the formulation of practical policy [3].

The mechanism of state price regulation constitutes one of the key components of the modern market economy. The essence of this mechanism lies in addressing market failures, ensuring economic efficiency, and preserving social equity. The theoretical foundations of price regulation have evolved across a broad spectrum, ranging from classical economists to contemporary institutional economic theories.

The essence of state price regulation primarily lies in addressing the socio-economic problems that arise from the complete freedom of market mechanisms [4], [5]. As Alfred Marshall noted in his Principles of Economics, although the price mechanism serves as the main tool for achieving market equilibrium, it fails to function efficiently in the presence of monopolistic structures. In such cases, government intervention becomes essential.

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## 2. Materials and Methods

One of the founders of monopoly theory, Antoine Augustin Cournot, in his work *Researches into the Mathematical Principles of the Theory of Wealth*, mathematically demonstrated that in monopolistic conditions, prices tend to be set above the optimal level. This theoretical foundation later formed the scientific basis for the development of antitrust regulatory policy.

In modern economic theory, the main objectives of state price regulation can be summarized as follows:

**First**, preventing the abuse of monopolistic power. Monopoly situations lead to the concentration of market power in the hands of a few large producers, resulting in artificially inflated prices and a decline in consumer welfare. As Joseph Stiglitz pointed out, under monopoly conditions, social welfare remains below its optimal level because the monopolist sets a price that maximizes private profit, which is higher than the socially optimal level.

**Second**, regulating natural monopolies. In certain sectors - such as utilities, transportation, and communications - natural monopoly arises due to large initial investments and network effects. In these cases, state regulation is considered more efficient than artificially introducing competition. Paul Samuelson, in his writings, thoroughly explained the economic rationale behind regulating natural monopolies.

**Third**, ensuring macroeconomic stability. Sharp fluctuations in price levels can lead to economic instability. Therefore, through price policy, the government performs the task of controlling inflation and maintaining macroeconomic balance.

## 3. Results and Discussion

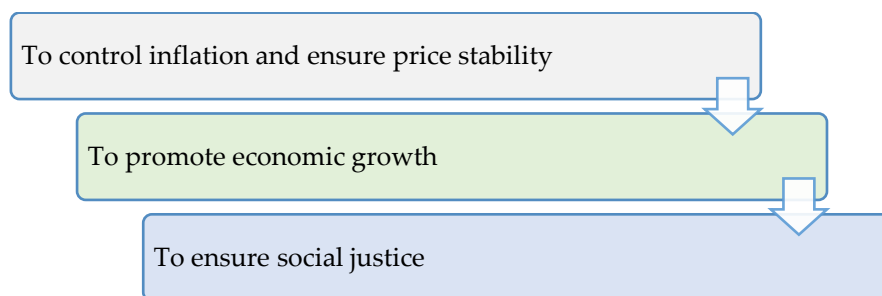
The theoretical foundations of state price regulation have been shaped within the frameworks of neoclassical, institutional, and modern economic theories. The neoclassical approach is primarily based on the concept of market failures. Arthur Pigou demonstrated that in the presence of externalities, market mechanisms do not yield optimal outcomes [6]. This theory provided an important foundation for justifying government intervention under conditions of monopoly.

Institutional economic theory considers price regulation within a broader context. In his seminal work *The Economic Institutions of Capitalism*, Oliver Williamson analyzed the effectiveness of regulatory mechanisms through the lens of transaction cost theory. According to Williamson, the choice between market and hierarchy (i.e., government regulation) depends on the level of transaction costs involved [7], [8].

**Table 1.** Theoretical Approaches to State Price Regulation.

Theoretical Approach	Key Representatives	Core Ideas	Basis for Regulation
Neoclassical	A. Pigou, A. Marshall	Market failures	Monopoly, externalities
Austrian School	L. Mises, F. Hayek	Market freedom	Minimal government intervention
Institutional	O. Williamson, D. North	Transaction costs	Institutional environment
Chicago School	M. Friedman, G. Becker	Market efficiency	Selective intervention
Post-Keynesian	J. Robinson, P. Sraffa	Distributional issues	Social justice

The objectives of state price regulation can be analyzed at both the macroeconomic and microeconomic levels. At the macroeconomic level, the main objectives include the following:



**Figure 1.** Main Objectives at the Macroeconomic Level.

To control inflation and ensure price stability. In his seminal work *A Monetary History of the United States*, Milton Friedman analyzed the relationship between monetary policy and prices, demonstrating that price stability is essential for sustaining economic growth. Price stability enables economic agents to engage in long-term planning and contributes to an improved investment climate [9].

Promoting economic growth. An optimal price level ensures the efficient allocation of resources and positively influences economic growth. Keynes analyzed the role of the price mechanism in achieving macroeconomic equilibrium.

Ensuring social justice. Through price regulation, it is possible to improve the living standards of low-income population groups. This is particularly important in regulating the prices of essential goods, which have a significant impact on basic well-being [10].

**At the microeconomic level, the main objectives of price regulation include:**

Limiting monopolistic power. Under conditions of monopoly or oligopoly, firms may use their market power to set prices higher than those in a competitive market. In such cases, government intervention becomes necessary to protect consumer interests [11].

Efficient management of natural monopolies. In sectors characterized by natural monopoly, the state seeks to protect consumer interests by imposing price constraints, while simultaneously maintaining a balance with the profitability of the firm's operations.

Preserving a competitive environment. Through antitrust policies, the state aims to safeguard market competition and eliminate barriers that hinder the entry of new producers into the market.

**Table 2.** Objectives and Instruments of State Price Regulation.

Objective	Microeconomic Level	Macroeconomic Level	Regulatory Instruments
Efficiency	Limiting monopolistic power	Optimal allocation of resources	Price caps, competition policy
Equity	Protecting consumers	Redistribution of income	Subsidies, social pricing
Stability	Reducing price volatility	Macroeconomic equilibrium	Monetary and fiscal policy
Growth	Encouraging investment	Long-term development	Tax incentives, government programs

Among the contemporary theoretical approaches to state price regulation, the ideas of the "New Institutional Economics" school hold a distinctive place. Douglass North analyzed the role of institutions in economic development and examined the institutional dimensions of government regulation. According to him, establishing an effective institutional environment is a task more fundamental than direct price regulation [12].

The theoretical foundations of antitrust regulation are reflected in Jean Tirole's modern theory of network organization. In his work *The Theory of Industrial Organization*, Jean Tirole presents optimal regulatory mechanisms for monopoly and oligopoly conditions through mathematical models. His theory primarily analyzes the relationship between the regulator and the regulated entity under conditions of asymmetric information [13].

Behavioral economics has also made a significant contribution to the development of the theoretical foundations of state price regulation. The "prospect theory" developed by Daniel Kahneman and Amos Tversky helps to understand consumer behavior in response to price changes. This theory plays an important role in accounting for the socio-psychological effects of government pricing policies.

In the context of the modern digital economy, new directions of price regulation are emerging. The growing importance of platform economics and strong network effects necessitate a re-evaluation of traditional regulatory approaches. Digital platforms often create "two-sided markets", which significantly complicates price-setting mechanisms [14].

The objectives of state price regulation have evolved over time. In the early 20th century, the primary focus was on restricting monopolies and protecting competition. In subsequent periods, additional goals such as macroeconomic stability, social justice, and environmental protection were incorporated.

Today, new directions have emerged among the objectives of price regulation, including ensuring digital competition, safeguarding data security, and protecting digital rights. These trends reflect the continuous evolution of state regulatory policies.

The modern paradigm of state price regulation implies a shift from static approaches toward dynamic and adaptive mechanisms. The rapid development of digital technologies, globalization processes, and the deepening of economic integration require a fundamental rethinking of traditional regulatory methods. In this new economic reality, state price policy must become more flexible, data-driven, and innovation-oriented. Moreover, the growing interconnection and complexity across sectors necessitate a systemic approach - one that replaces isolated regulatory measures with comprehensive economic policies [15].

Looking ahead, the future of price regulation lies in the development of more targeted, efficient, and transparent mechanisms. This process involves not only ensuring economic efficiency, but also promoting social justice, environmental sustainability, and technological innovation. The success of state regulatory policy will depend on the synthesis of theoretical economic achievements with practical experience, and on balancing national specificities with international best practices. In the future, price regulation mechanisms are expected to become more intelligent, predictive, and proactive.

#### 4. Conclusion

In conclusion, the essence of state price regulation lies in enabling government intervention when market mechanisms are insufficient. Its theoretical foundations span a wide spectrum - from classical economic theories to modern institutional and behavioral approaches. The main objectives - ensuring economic efficiency, social justice, and macroeconomic stability - have progressively expanded to include new and emerging policy priorities.

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