

An analysis of the  
effects of government  
policies on the  
automobile industry in  
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{text: bookmark-start} {text: bookmark-start} Introduction {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} 1 Corporate Average Fuel Economy (CAFE) {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} Between the 1960s and 1970s, the abundant use of gasoline caused environmental issues (Conney & Yacobucci 2006), such as vehicle emissions which will pollute the air. Environmental policy plays an important role in auto industry.

In 1973, American enacted the CAFE which requires automakers to increase the average fuel economy of motor vehicles sold in the US to reduce the pollution (Bezdek & Wendling 2005), this led to major changes in car design as well as significant on the consumers marketing. {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} 1. 1 Automaker's response {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} 1. 2 Consumer's response {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} Consumer satisfaction is one of the factors that impact on the demand of automobile.

According to Mankiw (2007), the most obvious determinant of consumers demand is their satisfaction. Between 1975 and 1980, fuel price increased and the fuel economy of new cars increased by 50 percent (Brown 2002, p. <https://assignbuster.com/an-analysis-of-the-effects-of-government-policies-on-the-automobile-industry-in-the-united-states-assignment/>)

17). Because of the higher fuel price, consumers shift the powerful motors to fuel efficient motors. By reducing the gasoline demand, greater fuel economy cars are satisfied for consumers. During the time of higher price of gasoline, the demand of cars supplied under the CAFE standards increased and the sales of powerful cars began to shrink. {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} 1. Price of automobile {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} The aim of industry is to pursue maximum profits. Automakers obtain profits by increasing the price of large cars and using the profits which are from selling fuel efficient cars to support the lower price of their small cars (Type & Winston 1999). The powerful cars and fuel efficient cars are substitutes, so the automakers increase the price of large cars or reduce the price of fuel economy cars that leads to the increasing demand of fuel efficient cars. Because of the lower price of fuel efficient cars, consumers shift from the powerful cars to the fuel efficient cars.

In that case automakers should produce more fuel efficient cars to meet the consumers' demand and to get more benefits. {text: bookmark-start} {text: bookmark-start} 2 Gasoline Tax {text: bookmark-end} {text: bookmark-end} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} 2. 1 Price elasticity of demand {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-start} {text:



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Employment and wages {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} {text: bookmark-start} Conclusion {text: bookmark-end}

{text: bookmark-end} {text: bookmark-end} {text: bookmark-end} {text: bookmark-end} In the United States automobile industry is a very important domain because it provides jobs for millions of people in automotive industry or auto-related businesses and brings the development of economics. Automobile industry is interdependent with other industries such as rubber, steel plants, gasoline industry, which are related with auto industry.

US automakers are depending on two main ways to compete with others in the world, moving production to Canada and Mexico, researching new markets. In the history of America auto industry, government plays an important role in the development of automobile industry. The government policies make the automakers experience some changes in automobile design and consumer marketing. Government policies promote the automobile reform and improve the productivity of the automobile industry.

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