

# The history about the macroeconomic issues economics essay

[Economics](#)



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## Assessment 1: Part A

(i) Low wages in certain service industries.- This issue could be either macroeconomic issues or microeconomic issues but mainly for the microeconomic issue. Because this issue is about the certain service industries which concerning on the national and society. Otherwise, this issue is not concerning about the national output, it also concerning on the individual wages in the certain service industries.(ii) The rate of exchange between the Australian dollar and Indian rupees.- This issue is considered as the macroeconomics issues. According to this issue, the rate exchange between Australia and India is concerning on the national and overall economy of the country. Therefore, the macroeconomic issue is focusing the issue as the whole national output not an individual issue.(iii) Why the price of tomatoes fluctuates more than that of cars?- This issue is considered as the microeconomics issues. According to the microeconomic issue which focuses on the individual choice in which three main categories (what, how, and for whom) are being used. This issue is about how tomatoes and cars been produced and what quantities as well as produced for whom.(b)On separate demand and supply diagrams for bread, sketch the effects of each of the following: (Draw graphs in each case and state your assumptions)(i) A rise in the price of wheatPriceQuantityThe supply curve will shift to the left: the price of bread will rise and the quantity sold will fall. Wheat is used to make flour, which is used to make bread. If wheat goes up in price, this will increase the cost of producing bread and hence shift the supply curve (upward) to the left.(ii) A rise in the price of butter and margarinePriceQuantityThe demand curve will shift to the left: the price of

bread will fall and the quantity sold will fall. Butter and margarine are complements for bread. If they go up in price, less 'bread-and-butter' will be consumed. (iii) A rise in the price of rice, pasta and potatoes

Price Quantity  
the demand curve will shift to the right: the price of bread will rise and the quantity sold will rise. Rice, pasta and potatoes are substitutes for bread. If they go up in price, less of them will be purchased and more bread will be purchased instead.

Question 2: (a) Assume that weekly market demand and supply of tomatoes are given in the table below: (i) Illustrate and show the equilibrium price and quantity. According to the table above, it shows the equilibrium relation between the price and quantity of the tomatoes. It can be seen that the lower the price tends to increase the demand of the tomatoes. On the other hand, the decreased prices also leads to the lower in the quantity tomatoes supplied. The quantity of the demand and supply will be the same when the minimum price is \$2.00 per kg of tomatoes. Moreover, the equilibrium is where quantity demanded equals quantity supplied:  $P = \$2.00$ ;  $Q = 50$  million. (ii) What will be the effect of the government fixing a minimum price? (a) \$3.00 per kilo If the government fixing a minimum price to be \$3.00 per kilo, the starting quantity demand for the tomatoes is 40 kg as well as the supplied has in the stock is 62 kg. With this rate of price, all the tomatoes produced cannot be sold due to the higher in supply than demand. (b) \$1.50 per kilo If the government fixing a minimum price to be \$1.50 per kilo, the starting quantity demand for the tomatoes and the supplied has in the stock are 55 kg and 45 kg, respectively. With this rate of price, all the tomatoes produced can be sold due to the higher in demand than supply. (iii) Suppose that the government

paid tomato producers a subsidy of \$1.00 per kilo. (a) Draw new supply schedule

Price \$per kg	Quantity demanded ('000 kg)	Quantity supplied ('000 kg)
3.00	2.50	2.00
2.50	3.00	2.50
2.00	3.50	3.00
1.50	4.00	3.50
1.00	4.50	4.00

(b) Show the new equilibrium price

According to the table above, it shows the equilibrium relation between the price and quantity of the tomatoes. It can be seen that the lower the price tends to increase the demand of the tomatoes. On the other hand, the decreased prices also leads to the lower in the quantity tomatoes supplied. The quantity of the demand and supply will be the same when the minimum price is \$1.00 per kg of tomatoes.

(c) How much will this cost to the government

According to the subsidize strategy, the government paid tomato producers a subsidy of \$1.00 per kilo. In order for setting the minimum value at \$3.00, \$2.50, \$2.00, \$1.50, and \$1.00 per kg, the government has to pay \$80,000, \$68,000, \$62,000, \$55,000, and \$50,000 for the subsidy respectively as shown in the table below.

Minimum price per kg (\$)	Subsidy from the government per kg (\$)	Quantity supplied ('000 kg)	Total cost for government (\$'000)
3.00	2.50	2.00	11111
2.50	2.00	2.50	80686
2.00	1.50	3.00	62555
1.50	1.00	3.50	55000
1.00	0.50	4.00	50000

(iv) Assume that now the government guarantees the tomato producers a price of \$2.50 per kilo

(a) How many kilos of tomatoes would it have to purchase to ensure that all the tomatoes produced were sold?

Price \$per kg	Quantity demanded ('000 kg)	Quantity supplied ('000 kg)
4.00	3.50	3.00
3.50	3.00	2.50
3.00	2.50	2.00
2.50	2.00	1.50
2.00	1.50	1.00
1.50	1.00	0.50
1.00	0.50	0.00

(b) How much would this cost to government? For the purchasing of 10 kg of tomatoes in

order to ensure that the produced tomatoes will sold out, the government need to pay \$25, 000. Question 3:(a) The following tables give the short-run marginal cost of producing different levels of insulated coffee mugs:(i) If Mugs R Us is a price taking firm with the above marginal costs and the price of the insulated coffee mugs is \$4. 00, what is the profit maximizing output for the firm and what producer surplus will it earn? (1 mark)

Output	Marginal Cost	Price	Producer Surplus
1	\$2. 75	\$4. 00	\$1. 25
2	\$3. 00	\$4. 00	\$5. 00
3	\$3. 50	\$4. 00	\$8. 50
4	\$4. 50	\$4. 00	\$11. 50
5	\$5. 75	\$4. 00	\$14. 25
6	\$7. 25	\$4. 00	\$16. 75
7	\$9. 25	\$4. 00	\$18. 75

Normally, the profit maximizing, the marginal cost and marginal revenue needed to be equal. Otherwise, in this case, there is no equal point in which the profit maximizing would be the one that shows the smallest difference between marginal cost and marginal revenue.

According to the calculated of the producer surplus above, it can be seen that the profit maximizing for the firm is 1 unit output with \$1. 25 of surplus earning.(ii) If the price is \$7. 50, what is the profit maximizing level of output and what is the producer surplus?

Output	Marginal Cost	Price	Producer Surplus
1	\$2. 75	\$7. 50	\$4. 75
2	\$3. 00	\$7. 50	\$12. 00
3	\$3. 50	\$7. 50	\$19. 00
4	\$4. 50	\$7. 50	\$25. 50
5	\$5. 75	\$7. 50	\$31. 75
6	\$7. 25	\$7. 50	\$37. 75
7	\$9. 25	\$7. 50	\$43. 25

Normally, the profit maximizing, the marginal cost and marginal revenue needed to be equal. Otherwise, in this case, there is no equal point in which the profit maximizing would be the one that shows the smallest difference between marginal cost and marginal revenue. According to the calculation, it can be seen that the profit maximizing for the firm is 1 unit output with \$4. 75 of surplus earning.(iii) Suppose the price remains \$4 per mug, but an increase in the price of plastic used to make the mugs adds \$1.

00 to marginal cost at every level of output. What effect does this have on the profit-maximizing level of production and on producer surplus?

Output	Marginal Cost	Price	Producer Surplus
1	\$3.75	\$4.00	\$0.25
2	\$4.00	\$4.00	\$4.00
3	\$4.50	\$4.00	\$7.50
4	\$5.50	\$4.00	\$10.50
5	\$6.75	\$4.00	\$13.25
6	\$8.25	\$4.00	\$15.75
7	\$10.25	\$4.00	\$17.75

For the profit maximizing, the marginal cost and marginal revenue needed to be equal. According to the calculated of the producer surplus above, it can be seen that the profit maximizing for the firm is 2 unit output with \$4.00 surplus earning instead 1 unit output \$1.25 of surplus earning. Therefore, the higher in marginal price lead to the higher output to reach the profit maximization point.

(b) Why does the government allow monopolies to continue in the supply of water and the transmission of electricity? Illustrate and explain. According to the monopoly, it exists when there is only one firm in the industry. In this case, the government allows only one firm or monopoly to continue in the supply of water and the transmission of electricity. Moreover, the natural monopolies are typically utilities such as water or electricity. According to the utilities service, the water and gas delivery service has a high fixed cost and low variable cost. There are several reason that the government allows monopoly to continue in the supply of water and the transmission of electricity including to prevent utilities from exploiting their monopolies with high price, to provide the less coercive if the land rent were shared by the members in the community as well as to desire the output at a lower social cost and the lower cost of production (Wiko and David, 2005).

Reference(1)Wako B., Davis H. (2005), Public good issues in target: Natural monopoly, scale economies, network effects and cost allocation, European

Central Bank Working Paper Series, No. 505(2)Reference Text BookQuestion 4:(a) Go to the Australian Competition and Consumer Commission . Click on the Media Centre, then on news releases. From these select and discuss two examples of anti-competitive behavior of the firms.(1) According to the Australian competition and Consumer Commission, it releases the latest indigenous consumer education film in order to aims the indigenous consumers to use their refund and warranty rights via the " Six simple rules" video. The author stated that many of the indigenous consumers are unaware of their rights when there is failure and incorrectly of goods or service. For this action, it will remind the business or firms that the customer guarantees provision in the Australian Consumer Law are not negotiable as well as the ACCC will pursue the firms who mislead indigenous consumers about their legal right. According to this issue, we can observe that one of the behaviors of the firms that can be found is the firm try to misleading the consumer on their legal right.(2)According for the Australian Competition and Consumer Commission report on " anti-competitive by health funds and providers in relation to private health insurance", it shows that some of the firm shows bad behavior by reduce the extent of health cover for consumers and increase their out-of-pocket medical and other expense. In this case, the insurers do not recognize certain types of allied healthcare provider who offer the same or similar service as other types of recognized provider.

Reference(1)ACCC releases new Indigenous consumer education film online, [online], Available: <http://www.accc.gov.au>(2)ACCC issues report on private health insurance, [online], Available: <http://www.accc.gov.au>(b) The table below gives the costs and benefits of an imaginary firm operating under

perfect competition whose activities create a certain amount of pollution. (i) What is the profit-maximizing level of output for this firm? Output (unit) Price per unit \$ (MSB) Marginal social costs \$ (MSC= MC+MEC) MSR

Output (unit)	Price per unit \$ (MSB)	Marginal social costs \$ (MSC= MC+MEC)	MSR
1	110	50	100
2	105	52	100
3	100	54	100
4	95	56	100
5	90	58	100
6	85	60	100
7	80	62	100
8	75	64	100
9	70	66	100
10	65	68	100
11	60	70	100
12	55	72	100
13	50	74	100
14	45	76	100
15	40	78	100
16	35	80	100
17	30	82	100
18	25	84	100
19	20	86	100
20	15	88	100
21	10	90	100
22	5	92	100
23	0	94	100
24	-5	96	100
25	-10	98	100
26	-15	100	100
27	-20	102	100
28	-25	104	100
29	-30	106	100
30	-35	108	100
31	-40	110	100
32	-45	112	100
33	-50	114	100
34	-55	116	100
35	-60	118	100
36	-65	120	100
37	-70	122	100
38	-75	124	100
39	-80	126	100
40	-85	128	100
41	-90	130	100
42	-95	132	100
43	-100	134	100
44	-105	136	100
45	-110	138	100
46	-115	140	100
47	-120	142	100
48	-125	144	100
49	-130	146	100
50	-135	148	100
51	-140	150	100
52	-145	152	100
53	-150	154	100
54	-155	156	100
55	-160	158	100
56	-165	160	100
57	-170	162	100
58	-175	164	100
59	-180	166	100
60	-185	168	100

For the profit maximizing, the marginal cost and marginal revenue needed to be equal. According to the table above, the profit maximizing level is the output 1 with the price per unit \$100 and the Marginal social costs with \$50. The surplus earning is \$50. (ii) What is the socially efficient level of output? (0.5 mark) According to the socially efficient level of output, it occurs when social marginal benefit = social marginal cost. Refer to the table above, socially efficient level is the output 1 with the price per unit \$50 and the Marginal social costs with \$50. (iii) Why might the marginal pollution costs increase in the way illustrated in this example? According to the table, the marginal external pollution cost (MEC) is increasing with the marginal cost to the firms might due to the higher in the production lead to the higher in the pollution produced from the production process in which lead to the increasing of the marginal external cost.

## Assessment 1: Part B

Question 1: What is the significance of the observations made in case regarding market failure, negative externality, global warming and reducing carbon emission. Why does the author suggest that carbon emission/pollution should be reduced? According to the market failure, the observation on the reasons of the failure such as environment as common resources, externalities, ignorance as well as intergenerational problems on the global warming and carbon emission and pollution due to the case



studies have been described below. Moreover, the reason of the reducing carbon emission/pollution due to the market failure also been discussed. For the market failure, the failure cause from the market system fail to provide an adequate protection for the environment for a number of reasons including the environment as a common resources, externalities, ignorance as well as intergenerational problems (Daniel, 2007). For the environment as common resources, all the environment resources being used are free to use and not privately owned. If one person used the environment resources, it will diminish the amount of quality available for the others. Due to the externalities, it is the major problems of the environment being in public goods. For the externalities, the cost are borne by the others sue to the environment been polluted by the people. The higher of this external cost means lower the socially efficient level of output. For instance, if one of the industrial polluted the air that will affect the individual in which the individual cannot do anything because the environmental resources are not privately owned. According to the case studies, the negative externality is the global warming and the climate changes caused by the carbon emission and pollutions. Moreover, the cause of the externality due to the carbon emission and pollution are the industries putting effluents into the rivers cause the water pollution as well as the air craft cause the noise pollution. Therefore, the relationship between the carbon emission/ pollution and the global warming are not fully understood. Otherwise, most of the people believe that the carbon emission and pollution will cause the long term effect on the global warming (Ferenc, 2005). Moreover, the ignorance is occurring when the people damaged the environmental resources without realizing it

especially when those effects have been done over a long time. For the intergenerational problems, the environments have been harmful effect of many activities in the long term. In fact, the industries usually frequently prepared to continue their activities that damage the environmental resources by leaving the failure to another generation to worry about their environmental consequences. The main problem is the reflection of the importance that people attach to the present relative to the future. Refer to the case studies, the example of the intergenerational problems due to the carbon emission and pollution are the greenhouse gas emission in which has no effect on the present generation but it will be effect to the later generations in the future. According to the author suggestion, the carbon emission/pollution needed to be reduced. Therefore, the reason that the reduction of the carbon emission/ pollution needed to be done because the emission will cause the market system fails to provide the protection for the environment. The fail to provide the environment protection will lead to the market failure. Reference(1)Daniel W. Bromley (2007), Environmental regulations and the problem of sustainability: Moving beyond " Market failure", *Ecological Economics*, Vol. 63, pp. 676-683(2)Ferenc Kovacs (205), Problems in the relationship between CO<sub>2</sub> emissions and global warming, *Acta Montanistica Slovaca*, Vol. 10, No. 1, pp. 9-18(3)Reference Text

BookQuestion 2: What is the negative externality caused by carbon pollution/emission? Illustrate and explain this negative externality. What are its three key features? Explain each with an example. In this part, the definition of the negative externality as well as the negative externality caused by carbon emission and pollutions has been discussed. Moreover, the

three key features of these negative externality such as intergenerational externality and the relationship between geographic locations and the carbon emission also have been discusses. According to the negative externality, the negative externality is occurring when the action imposes costs on another person and those costs are not borne by the person taking the action. Therefore, the higher of this external cost means lower the socially efficient level of output. However, if one of the industrial polluted the air that will affect the individual in which the individual cannot do anything because the environmental resources are not privately owned. Refer to the case studies; one form of the negative externality is the global warming and the climate change cause by the carbon emission and pollution. Therefore, there are three key features of this negative externality including the cause of the negative externality, intergenerational externality and the relationship between geographic locations and the carbon emission. Firstly, the cause of the negative externality is usually easy to identify such as air craft which cause the noise pollution as well as the industries putting the effluents into the rivers caused the water pollution. For instance, in 2010, the CO<sub>2</sub> emissions from fuel combustion were produced 43% from coal, 36% from oil and 20% from gas (IEA Statistics, 2012). Otherwise, the understanding of the relationship between carbon emission and the global warming and climate change is not fully understood (Ferenc, 2005). Therefore, the case studies stated the example of the intergenerational problems due to the carbon emission and pollution are the greenhouse gas emission in which has no effect on the present generation but it will be effect to the later generations in the future. By illustrate of the carbon emission, the carbon emission have

been increased steadily since the beginning of the industrial revolution as the risen from pre industrial level of 280 ppm to more than 380 ppm in which the level substantially higher than any level during the last 650, 000 years. Otherwise, the CO<sub>2</sub> emissions have an estimated atmospheric half life of 27 years means that one-third of today's emission will remain in the atmospheric for another 100 years (ASME, 2009). The last feature is the relationship between the carbon emissions and the geographic locations. According to the case studies, this author stated that there is no relationship between the carbon emissions and the geographic locations and any subsequent climate changes. Thus, in case that if Australia reduces the carbon emissions there will no effect on the global warming on Australia but the effect will be felt in another place in the world. For example, the ozone hole is another environmental damage cause from the carbon emission gas called CFC. This ozone hole is severely occurring in Australia than the other part of the world due to the location in the Antarctic zone for decades in which cause the Australian population the skin cancer (Eugene, 2001). Otherwise, China shows the highest CFC emission in the world.

Reference(1)Asme setting the standard (2009), Technology and policy recommendations and goals for reducing carbon dioxide emissions in the energy sector, [online], Available: <http://files.asme.org/asmeorg/NewsPublicPolicy/GovRelations/PositionStatements/17971.pdf>

(2)Eugene C. Cordero (2001), Misconceptions in Australian Student's

Understanding of Ozone Depletion, Melbourne Studies in Education, Vol. 41, pp. 85-97

(3)Ferenc Kovacs (2005), Problems in the relationship between CO<sub>2</sub> emissions and global warming, Acta Montanistica Slovaca, Vol. 10, No. 1, pp.

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9-18(4)IEA Statistics (2012), CO2 Emissions from fuel combustion highlights, International Energy Agency, 2012 Edition(5)Reference Text Book Question 3: Apply marginal-cost and marginal-benefit analysis to illustrate and explain how the system of emission tradable permits will impact on the level of carbon emission/pollution. For this part, the system of the emission tradable permit will be described as well as the applying of the marginal cost and marginal benefit analysis on the system will be done. Moreover, the impact of the emission tradable permits on the level of carbon emission and pollution will be discussed. According to the reduction of the carbon emission, for the reduction of carbon emission and pollution in Australia, it needed the using of the 2010 legislation for the introduction of the emission trading scheme or called Carbon Pollution Reduction Scheme (CPRS). The role of the CPRS is the emissions trading due to the system of the tradable permits. For the tradable permit, it is the combination of the regulations and market-based systems. A maximum of the permitted level of emission is set for the given pollutant for a given factory in which the firms is given a permit to emit the carbon up to this amount. In case that the firms emit the carbon less than the permission amount, it given a credit for the difference in which it can use in another of its factories or sell to another firms. Therefore, by selling the difference, another firm can emit the carbon level over the permission level given by the regulation. Moreover, the principle of the tradable permits can be used as the basis of international agreements on the reduction of the pollutions. For instance, each country could be required to achieve a certain percentage reduction in pollutant, but any country exceeding its reduction could sell its right to these emissions to other

countries. For the marginal-cost and marginal-benefit analysis, the marginal costs will be zero in case of no emitting waste. Otherwise, the marginal cost increase and the marginal benefit decrease with increasing of the pollution emitted. Due to the analysis, the marginal benefit of CO<sub>2</sub> abatement in 2002 is flat, where the marginal cost increases rapidly (McKibbin and Wilcoxon, 2002). Therefore, the higher in tax rate leads to a modest level of over reduction and modest deadweight loss. On the other hand, if regulators overestimate the true marginal cost of reduction under a tradable-permit framework, they will issue an undesirably large number of permits. Under the same marginal-benefit and marginal-cost assumptions, this leads to a substantial level of under reduction and a deadweight loss much larger than that under a tax (Jay, 2011). By using the emission tradable permits, it impact on the level of carbon emission/pollution by the political reduction of carbon emission. In the absence of uncertainty about reduction costs, tradable permits as well as the emissions taxes would be equally effective at bringing about the optimal level of pollution reduction (Jay, 2011). According to the marginal cost and benefit analysis indicate that the higher in pollution emitted the higher cost the firms need to pay as well as less of their profit. Moreover, the using of the tradable permit will decrease the amount of the carbon emission because the firm will needed to pay if they emit too high as well as they can get more money if they emit in low level of carbon and sale their credit difference to another firms. Reference(1)Jay R. Corrigan (2011), The pollution game: A classroom game demonstrating the relative effectiveness of emissions taxes and tradable permit, The Journal of Economic Education, Vol. 42, No. 1, pp. 70-78(2)McKibbin, W. J., and P. J.

Wilcoxon (2002), The role of economics in climate change policy, Journal of Economic Perspectives, Vol. 16, No. 2, pp. 107-129(3)Reference Text Book

Question 4: Critically discuss and explain the Australian policy on carbon pollution reduction scheme. Would the most efficient pollution control regulatory system necessarily ensure that there would be zero pollution? Do you think polluters should pay the price for carbon emission? Illustrate and explain your answer. According to the policy on the carbon pollution reduction, the Australian labor government shows the legislation for the introduction of an emissions trading scheme or called the carbon pollution reduction scheme (CPRS) as well as the correcting externalities will be discussed in this part. For the Mechanics of the trading scheme, there are several schemes for the trading which are emitters of the pollution need to acquire a permit or emissions unit for every tone of the pollution waste emitted, the quantity of the emissions produced by firm will be monitored reported and audited as well as the limited number of permits issued by the government. Therefore, the emission trading is the combination of the regulations and market-based systems in which the firms have to buy the pollution permits (Australian Government, 2008). Moreover, firms who have effective way to reduce their pollution emission will tend to sell some of their permit as well as those firm whose reduction of pollution emission cost are high would buy extra emission permits. In addition, for the emission permits, the permit is selling for free for the industries polluters in oversea market. According to the increase of the cost, the purchased of the permit lead to the increasing in firm's cost in which the government may loss the export markets. For the objective of the scheme, there are three objective of the

scheme including meeting Australia's carbon pollution reduction targets in the most flexible and cost-effective way, supporting an effective global response to climate change as well as providing transitional assistance for the most affected households and firms. Moreover, the carbon emission can lead to the market fail in which the government needs to correct the externalities in order to prevent the market fail. This approach is to tax the cost of the carbon emitted which should be equal to the marginal pollution cost in which the firm will have to pay in tax equal to the external cost it creates. The most efficient pollution control regulatory system cannot ensure that there would be zero pollution because the zero pollution is not possible. The reasons why the zero pollution are not possible are the reduction of pollution will have opportunity costs as well as the law of mass balance stated that the mass of outputs of any activity are equal to the mass of input in which a choice of zero physically is impossible. Moreover, any production or consumption activity must produce waste. According to my opinion, the polluters need to pay the price for carbon emission. There are several approaches to reducing the pollution emission which are cost-effective economic measures, emissions trading, using of revenues as well as the payment for the emissions (IATS, 2009). For the cost-effective economic measurement, the measurement of the economic to address the pollution emission must be cost-effective and non-discriminatory. Therefore, the emission trading which can lower its production, improve its energy efficiency as well as buy extra allowances from other firm that emits less than the quota. Moreover, the revenues from the economic measure under the scheme should be earmarked for environmental purposes. For the



payment for the emissions, the firms should be held accountable and pay for its carbon emission in order to achieve the goal to reducing the industry's global carbon emissions.