Microeconomics reforms assignment

Economics, Microeconomics

The basic mechanism of microeconomic reform is to reduce government intervention in product and actor markets (the capital or financial market and the labor market) in ways designed to increase the degree of competition in those markets. Microeconomic reform has been a major focus of the Federal government since the asses because Of the ineffectiveness Of short-term macroeconomic policy to improve international competitiveness, reduce the current account deficit and foreign debt and to increase domestic savings.

The fundamental objective of microeconomic reform is to improve the economy's technical, allocation and dynamic efficiency and thereby raise our material standard of paving. In distinction to conventional macro management – which focuses on stabilizing demand over the short term – microeconomic policy focuses on improving the supply (production) side of the economy over the medium to longer terms. Microeconomic policies have little impact on growth in the short term and may cause some structural change but microeconomic policies overcome the long term limitations of macroeconomic policies.

The issue with microeconomic reform is that in the short term, simply boosting AD eventually causes high inflation because the economy reaches a point here it cannot produce any more goods (capacity restraint). In the long term however, microeconomic policies aim to improve the efficiency of the economy, increasing aggregate supply, creating capacity for long term growth and dampening inflation. The result of the improved efficiency and productivity will increase Australia's productive output and raise living standards.

Microeconomic reform targets product markets through tariff reforms, industry reforms and policies, and taxation reforms. Tariff reforms exposes firms to greater levels of international competition forcing them to come more productive and efficient thus contributing to lower inflation, encouraging investment in efficient sectors, making the nation more internationally competitive, causing an increase in exports and thus fuelling economic growth.

Microeconomic reform targets factor markets through deregulation that is the removal of government restrictions from industries and appropriation, the sale of state owned enterprises. Both appropriation and deregulation encourage greater competition by removing government backed monopolies lowering production costs and improving the quality Of services or all firms. Microeconomics is broadly based on supply-side economics, where the focus is on aggregate supply, rather than on aggregate demand as in Keynesian economics.

The principal determinant of economic growth is seen as the allocation and efficient use of the factors of production, especially labor and capital. Microeconomic reforms are designed to improve productivity and economic efficiency. The effects of increase in efficiency will lead to an increase in output and a fall in the general level of prices in an economy. Sources of economic efficiency include technical or productive efficiency. This occurs where individual firms combine resources to produce goods and services at the lowest possible prices for consumers.

For example, labor market reforms and enterprise bargaining have reduced labor costs and increased productivity. Another type is allocation efficiency. Resources need to be allocated to industries that reflect demand by consumers. Competition increases allocation efficiency because firms who can use certain resources more efficiently can bid those resources away from firms that are less efficient. The reduction in tariffs, for example in the textile industry has seen a reallocation of resources to more efficient industries.

A further type is dynamic efficiency. Is the ability of a firm or industry to adapt to changes in consumer demand and technology to maintain competitiveness. For example, the deregulation in the telecommunications industry has led to reduced costs and increased access to new technologies. And also inter-temporal efficiency, which ensures that Australia’s resources are effectively allocated between current consumption and future investment.