

# Good term paper on cip article 1: fuel prices plunge in spite of political tensio...

[Economics](#), [Insurance](#)



## **Introduction**

Economics is that branch of study that deals with how the people and the nation as a whole make choices so that there is optimal use of the resources that this world has given us. While studying economics it is very important to cite real life examples of the theory and analyses studied in the textbook in a classroom environment. Case studies are an important and indispensable part of the study of economics. It gives the student an idea about how the theory or the principle functions in the actual setting. More importantly, it allows us to analyze real life situations in economically correct manner. This makes us a responsible citizen who can aptly apply his rights. Furthermore, case studies create the acumen for research in the student.

In this discussion we present three case studies. The first one is on the issue of falling diesel gas prices. By delving into the causes we find that the falling demand and supply has jointly led to the fall in the prices of fuel. We have provided a graphical analysis for better understanding of the situation.

The second case study is a cost-benefit analysis of the new health insurance scheme that the Obama administration has introduced. The scheme has fuelled much debate. We go deeper and study both sides of the debate to understand the pros and cons of the new scheme. We make an endeavor to list the possible costs and benefits of the scheme.

The third study is on the fall in the cost of wind and solar power production. We find that fall in both fixed and average cost and economies of scale have been responsible for the fall in the production cost. This has led these two sectors to enter the competitive zone of the power market.

The political tension in the Middle-Eastern nations raises alert that the fuel prices would soar. But this year was an exception. First of all after the summer season is over the vacationers tend to settle to their work. That calls the end of the 'driving to vacation' season. From the beginning of winter the demand for gasoline and diesel starts falling. This is entirely a seasonal change in the demand pattern. But along with this fall the supply of gasoline has increased. The two forces together has resulted in the fall in the price of gas and fuel in the economy.

The energy sector is in boom this time. After the fiscal stimulus that the US government injected into the system recover the economy from the depression of 2007, the energy sector has received a wide impetus to grow. The result is the current expansion of this sector. The increase in supply and the fall in demand have lead to the unexpected fall in prices. Apart from that, the global demand for fuel is also at the low. So the crude oil producers from Saudi Arabia and other oil exporting countries have lowered the price of crude oil. This has resulted in an increase in the imports of crude oil. Though demand for domestic crude oil may suffer a set-back, the refineries are going to find more work and reason to employ more personnel.

## **PS0**

S1

P0

P1

D0

D1

Q

We can see from the diagram above that the demand has come down from D0 to D1 and the supply has increased from S0 to S1. The demand curve has shifted to the left and the supply curve has shifted to the right. The result is a fall in price from P0 to P1.

Sources: Allan Neuhauser, U. S. News and World Report, September 23, 2014.

#### CIP Article 2: Increased Health Insurance Cover in the US

Recent studies have proven that the increased health insurance cover in the US has resulted in improved health of the people in terms of fewer deaths. The Affordable Care Act has improved the health conditions of the average American citizen. At the same time it should be admitted that the cost of this scheme is stupendously high. The question now arises is the scheme worth the cost that is being incurred? A study by Michael Cannon from the Cato Institute has shown that the cost for saving one life by the Obama -care is around 4 to 5 million USD. Let us study the possible costs and benefits of the scheme.

While making any cost-benefit analysis in this area it should be stressed that to make a cost-benefit analysis we should be able to quantify all the cost and all the benefits arising out of the project in question. In this respect we can take the examples of restraining auto-emissions or the restrictions on the use of asbestos. These schemes are far more expensive. But it has saved lives of people.

The benefits of the new health insurance scheme do not lie solely in saving lives. It provides a sense of security, reduces medical bills that can be sky

high without the insurance scheme. The scheme also provides people with the flexibility to change jobs or be self-employed as the incumbent does not have to depend upon the employer for the health insurance coverage.

We cannot ignore the costs altogether. The new health insurance scheme has increased the market price of health insurance cover. Even young and healthy people have to purchase the insurance at a higher rate. The cost of providing health insurance cover to the employees has also increased. The employers are faced with rising costs. In the cost benefit-analysis the cost of distorting the health insurance market should also be taken into account along with all the benefits already discussed in this article.

Source: Jonathon Cohn. Obamacare Critics now admit the Law is Saving Lives, But say the price still isn't Worth It, New Republic, May 16, 2014.

CIP Article 3: Fall in the cost of Wind and solar energy production

The usage of solar and wind energy in the production of electricity have been limited so far. The main reason for this lower demand for these two environment-friendly sources of power was that these energy sources are quite expensive and they cannot provide continuous power supply. Both the fixed and variable costs are high for wind and solar power. The setting up of a wind or solar power producing unit is quite high. Though the running cost for wind and solar power is much low in areas where more sun or wind is available. This implies that the production of power through wind and sun involves much higher fixed and variable costs than the conventional sources like coal and natural gas. In this respect it is worthy of mention that the cost of establishing a coal fired combined cycle gas turbine is quite high. But in the past the utilities found coal or gas fired electricity less expensive. IN this

article we delve into the extent and causes of the reduction in cost of wind and solar power.

In the last five years a sea of change has occurred in the production of wind and solar power. The change was brought about by the subsidy scheme of the government. The subsidy was aimed at increasing the usage of wind and solar power. The ultimate objective was to have a cleaner environment in the future. The subsidy scheme has directly lowered the price of wind and solar power. The price of solar energy is 5.6 cents per kilo-watt hour and the price of wind energy is 1.4 cents per KWH. As against this the price of gas fired energy is 6.1 cents per kwh and that of coal is 6.6 cents per kwh. Even without the subsidy the price of wind and solar power is much less than it was before. The provision of the subsidy has allowed the producers to increase the scale of operation. They can now reap the benefit of the economies of scale which has brought down the cost of production to a considerable extent. Without subsidy solar energy now cost 7.2 cents per kwh and wind energy cost 3.2 per kwh. The fixed costs have also come down to a large extent due to the improvement in technology.

Source: Diane Cardwell, Solar and Wind Energy Start to Win on Price vs. Conventional Fuels, Wall Street Journal, Nov 23, 2014.

### Conclusion

The three cases that we have studied in the present discussions have given us deeper insight into the a few economic theories and principles that has been studied in the course. We have learned how the different economic and non-economic forces tend to influence demand and supply and how that in turn influences the price. We have seen a practical application of the cost

benefit analysis. Finally we also study a real life situation where a government policy has helped in the reduction in cost by reaping the benefits of scale economies. We have learned how to critically evaluate government policies and principles and look through the pros and cons of the controls imposed by the government. We can also analyze through economic theories what the ideal policy prescription should be in a given situation,