

lb economics: practice internal assessment essay

Government



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The article "Chinese Dragon bites Local manufacture as Importers laughs last" stated that the imported products, majorly from China have become a threat to the local economy in Uganda. The Ugandan government have taken measure ease production on local traders by scrapping the pre-inspection fees and planning to construct industrial parks to lower the hiking cost of production of local products. Chinese products are cheaper and more competitive comparing to the local products in Uganda due to a low cost of production and government subsidy. The government subsidy paid to the small industries in China will lead to an increase in supply because it artificially reduce the cost of production of these producers. It is more likely that the Chinese importers will be encouraged to produce more therefore there will be an increase in supply. The graph below shows the results of the subsidy: The figure shows the subsidy shifting the supply curve to the right from S to S' . The increase in supply will lead to a decrease in price from P to P' , where P' represents the price paid to the Ugandan consumers after the subsidy is created.

Therefore the price drop will lead to an increase in the quantity demanded of the imported products among the Ugandan consumers. The Chinese importers and the individual Ugandan consumers are undoubtedly the largest group to benefit from the subsidy. The subsidy will shift the demand curve to the right, this will decrease the price paid by the Ugandan consumers and increase the profit gained by the Chinese manufactures. The Ugandan dealers who sells these subsidized product are also one the winners because these products cost so cheap at wholesale that they can make so much more profit on each sale. Ugandan products are relatively more

expensive due to the hiking cost of production, such as high electricity tariff, capital and labour shortages, and the dependency on importing materials with high taxes. The lack of resources and tax are the major determinants that contributed to the decrease in supply.

The tax levies of the raw materials will increase the Ugandan manufacture's expenses and cost of production, therefore decreasing their capacity to buy resource supplies and forcing them to reduce their supply. The results of tax and lack of resource supplies are shown below: In the above graph shows the shifting of the supply curve to the left from S to S' . The decrease in supply results in an increase in price from P to P' , whereas P' represents the price paid by the Ugandan manufactures after the tax is imposed. Thereby the quantity demanded of raw materials will be reduced from Q to Q' . The local Ugandan manufactures are effected negatively because tax levies will cause a high cost of production as the supply curve shift to the left.

The Ugandan traders who sell these locally produced goods are also losers because these products are so expensive at wholesale that they are less profitable due to the low quantity demanded. <http://www.independent.co.ug/index.php/business/business-news/54-business-news/3652-chinese-dragon-bites-local-manufacturers-as-importers-laugh-last>