

The imposing of goods and services tax economics essay



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The imposing of Goods and Services Tax (GST) will replace the Malaysian service and sales tax. GST has been implemented in US, Singapore, Thailand and Japan where Malaysia's GST will be charged four percent for buying and selling transactions. The basic necessities like sugar, flour, and oil are free from GST in Malaysia. GST is a consumption tax where everyone can be charged of all the supplies of goods and services. For example, if the total price of a good is RM10, then consumers will have to pay an extra 40 cents after GST is charged. However, GST will affect the middle and low income group in Malaysia who use their income for basic necessities.

Government impose taxes on the buyers and sellers. When there is a tax on buyers, they will buy less and this discourages consumptions of goods and services. Tax on buyers will increase the cost of buying and hence demand decreases. The demand curve will shifts to left by the tax. Buyers will need more money to buy the goods produced and services performed. When there is a tax on sellers, they will sell less and discourages production of goods and services. Tax on sellers will increase the cost of production and hence decrease the supply of goods and services. As a result, the quantity of the goods sold will decline. The supply curve will shifts to left by the amount of the tax. Buyers and sellers both will have to bear with the tax. The buyers will have to pay more for the goods while the sellers receive less profit. The sellers will earn less if the tax is imposed. The government use the revenue from taxes to subsidy the items which needed by the citizens. Rice, petrol, oil, sugar and chicken are examples that government subsidies for the people. These items are very crucial in their daily life. In my opinion, taxes should be imposing on the selling of cigarettes and alcohols. If the

government impose tax on these two items, the demand of cigarettes and alcohols will reduce. This is because cigarettes and alcohols have negative impact in our body. The people slowly realise the importance of having a healthy lifestyle. If the price of cigarettes and alcohols increases, people will consume less. This is because the population of the country mainly consist of lower income group. This group of people do not have enough money to buy when the price goes up. The diagrams below show the illustrations of tax on buyers and tax on sellers.

P

S

P_{sellers}

P without tax

P_{buyers}

Tax

D1

D0

Tax on buyers

0

Q

S1

P

S0

Pwithout tax

Pbuyers

Tax

Psellors

D

Q

0

(b) Tax on sellers

Besides tax, price control also regulates the market when the markets fail. Price control consists of two acts which is the ceiling price, the maximum price charged to the consumers and floor price, the minimum price producers sell. Ceiling price is the maximum limit set by the government for goods and services. This is to help the buyers which are the lower income group in Malaysia. The ceiling price is set based on basic necessities like sugar, oil and rice. Ceiling price increases the quantity demanded of a good for consumers and decreases the quantity supplied by the producers or sellers. Sellers cannot sell goods and services above the ceiling price. As a

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result, they will leave the market. When the quantity demanded is more than quantity supplied, this will incur shortages for goods and services. Producers will not have the incentive to produce more while the consumers will demand more than normal condition. The producers would likely to produce low quality products.

Price ceiling have been impose on the sugar market and rice market in Malaysia recently. The producers of sugar will not want to sell their products at ceiling price. Then, the sugar producers will supply less sugar in the market. Hence, the consumers will be facing panic-buying where the consumers scared that they will not have enough sugars to make cakes and drinks especially during festive celebrations. Consumers will be healthier if they have less consumption of sugar. This policy will cause hardship to Malaysians. In contrast, consumers will enjoy the benefit of having a low price for goods and services. Consumers would like to pay less than more on goods and services and save more for their futures.

However, the shortage caused by the suppliers or producers creates a black market. This is where the goods and services are bought and sold illegally. Black market creates problem for the poor people. The poor people will not get the goods if they do not have enough money. In a black market, people who bid and willing to pay the highest will get the goods. If the ceiling price of a good in Malaysia is lower than the price in worldwide, the producers will sell the good to other country other than Malaysia. The main reason is they can earn extra profit if they sell overseas through smuggling. Black market always associated with criminal activities like selling firearms, tobacco and drugs. The diagram below shows the illustration of the ceiling price.

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Price

Equilibrium price

Supply

Equilibrium point

Price ceiling (binding)

P_e

P_n

Shortage

Demand

Q_e

0

Quantity demanded

(c) Ceiling price

The objective of floor price is to raise the revenue of producers. Government set the minimum price for the goods and services that offered by the producers. For example, when the price of petrol increases, the quantity demanded by the consumers decreases. When the quantity demanded reduces, there will be more supply in the market, then surplus of goods and services incur. When surplus occurs, producers will produce too much and

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consumers demand too little. The surplus bought by the government can be used when there is shortage of goods and services at ceiling price.

Consumers would have to pay a higher price for goods and services. The suppliers or producers are guaranteed to a higher price and hence they increase production. However, the producers are guaranteed temporarily as there are more competitions in their own industry. The diagram below shows the illustration of floor price.

Surplus

P

Floor price (binding)

P_n

S

Equilibrium price

D

Equilibrium quantity

0

Q

(d) Floor price

In conclusion, the Goods and Services Tax and price control increase the efficiency of the market and have some positive and negative impacts in different public policies. The GST has to be fair with either to suppliers or consumers. Besides public policies, the distribution policy can also increase the efficiency of a market. Ceiling price and floor price are affecting the consumers' demand and the suppliers' supply curve. The government has to care for the lower income group in order to decrease the cost of basic goods and services in their daily life.