

Government's job/Governments actions

Public goods

Government sits in circular flow

The rest of the world

Repeat specialization

FX market

Government actions: Tariffs, quotas, barriers, subsidies

Market failure

Tax incidence

Externality
Public goods

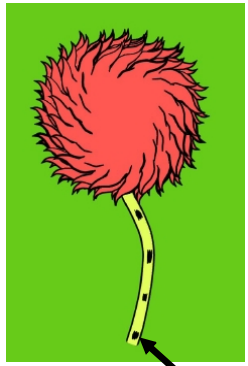
Info failures

Foreign Exchange
Trade

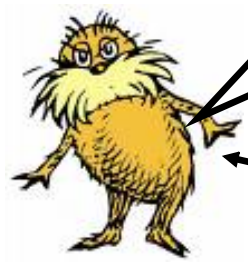
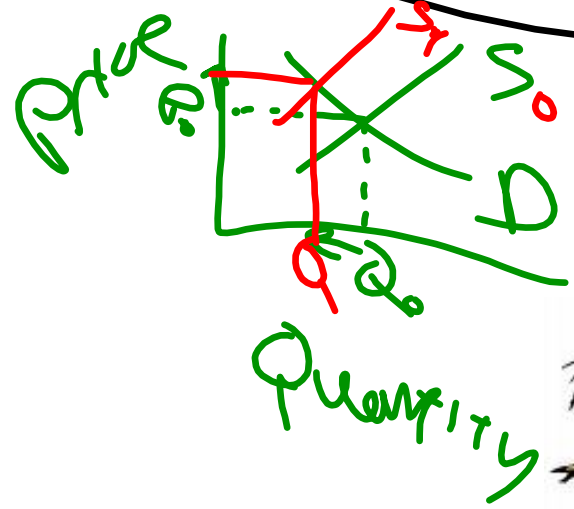
Circular flow again

I may be a scruffy looking cross between a walrus and a kidney bean, but I am not a bad economist.

Government interference in markets may generally cause an efficiency loss.
BUT, what if the market is broken and the seller of a good (Truffula trees) only charges for his opportunity costs. What if the trees have value to people who are not involved in the sale? Does the market work then? See for yourself:
- Draw the Thneed market where the Once-ler sell his Thneeds.
- Are we allocating resources correctly to Thneeds?
- What could the government do to fix this?
Draw the market after the government acts.
- Analyze the meaning of all the areas you can find in the graph.



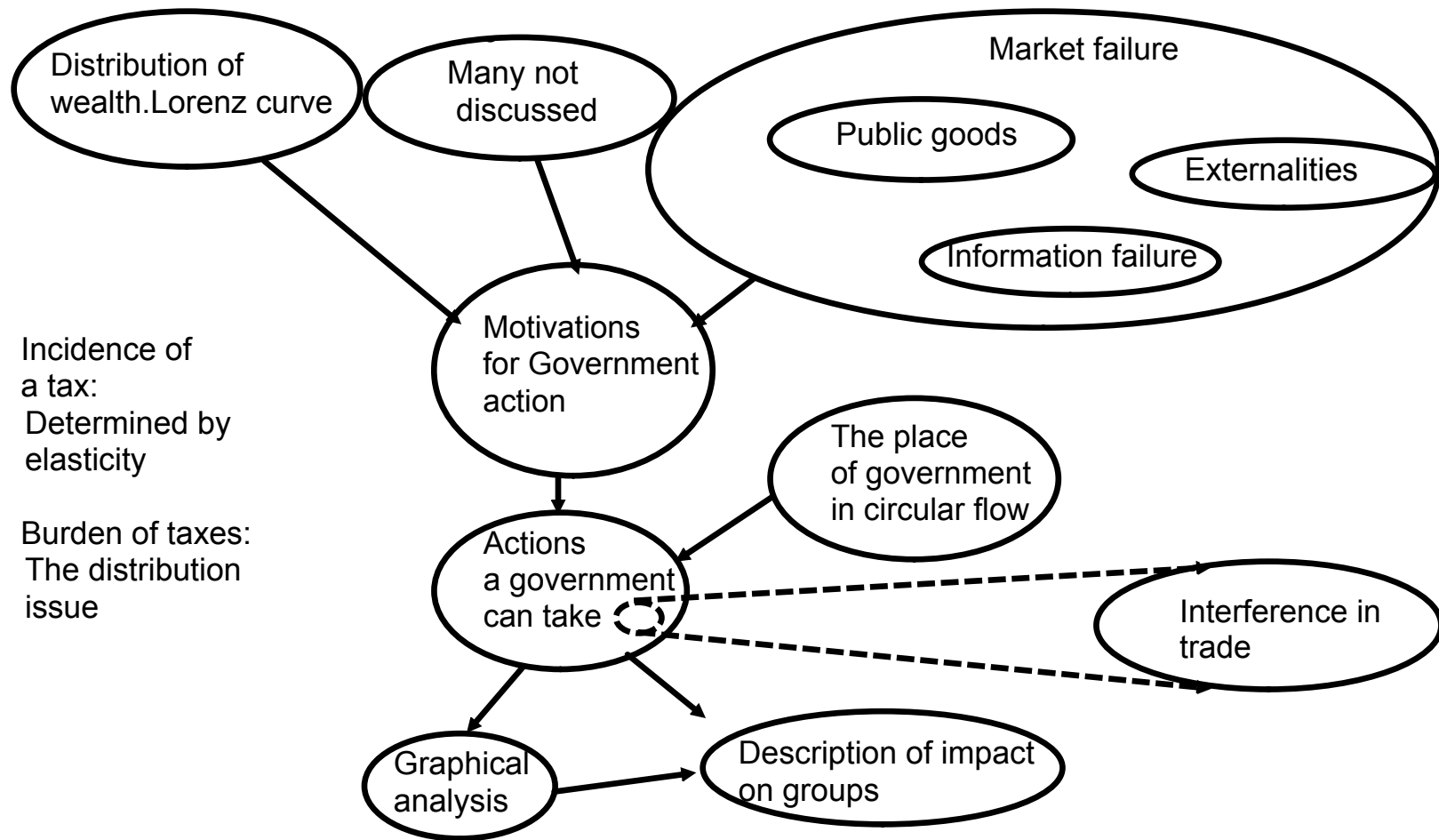
(Thneeds are made from Truffula trees by the Once-ler.)



(LORAX)



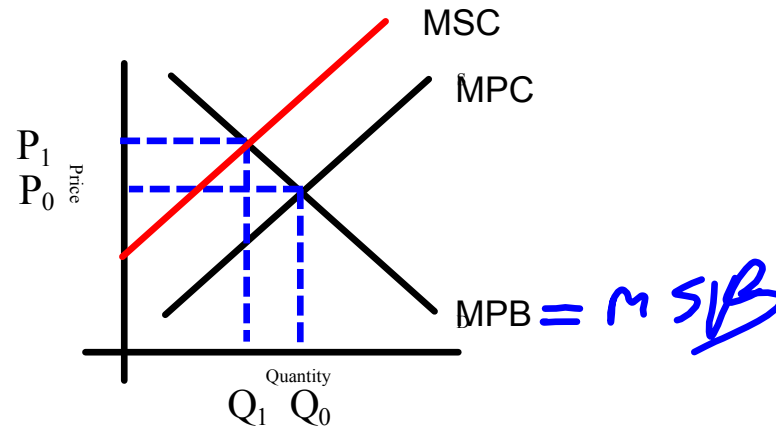
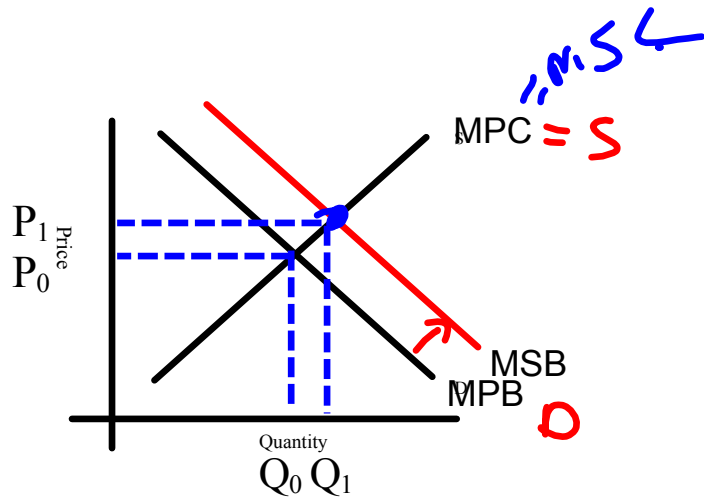
(Who looks mysteriously like a relative of that guy who lives on Mount Crumpet with the cute dog)



Incidence of a tax:
Determined by elasticity

Burden of taxes:
The distribution issue

Which is a positive externality? Why?



Which is an over allocation and which under allocation?

Is fluorescent light use connected to an externality?

Test for an externality:

Do you need the Lorax to speak for someone?

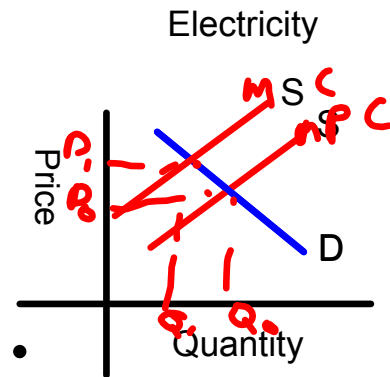
Is there a market involve in which either:

a cost to the world is not reflected in the cost structure of the firms who determine the supply curve

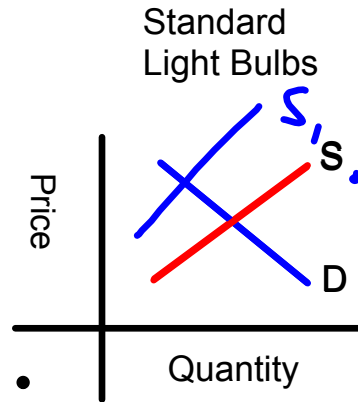
or

the bidding of the people behind the demand curve is not representing benefits of other people are enjoying?

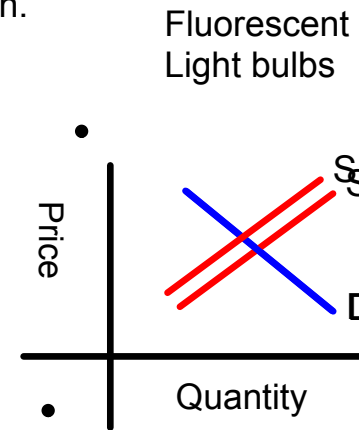
If so there is an under allocation or an over allocation.



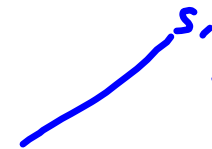
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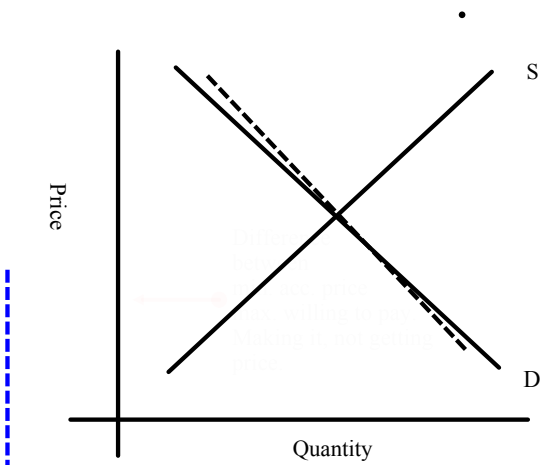
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Externalities - Costs



Where are we actually incurring cost, compared to what we are willing to pay?

Interference justified

Externalities are effects on the world that are not considered in the calculations of the suppliers or the consumers in a market.

The cost of pollution.

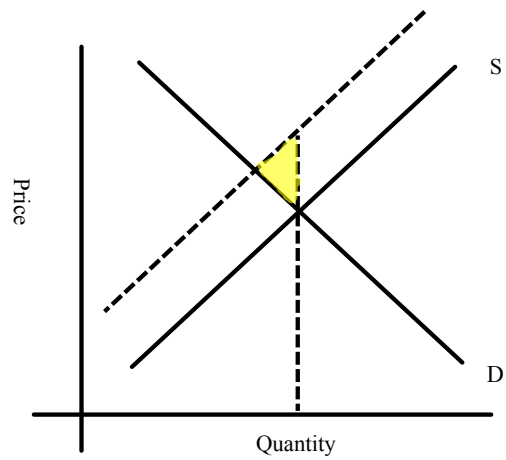
What is the efficiency effect?

Over production, first.

MSC



Externalities - Costs



What is the area of the total revenue in the market before the tax?

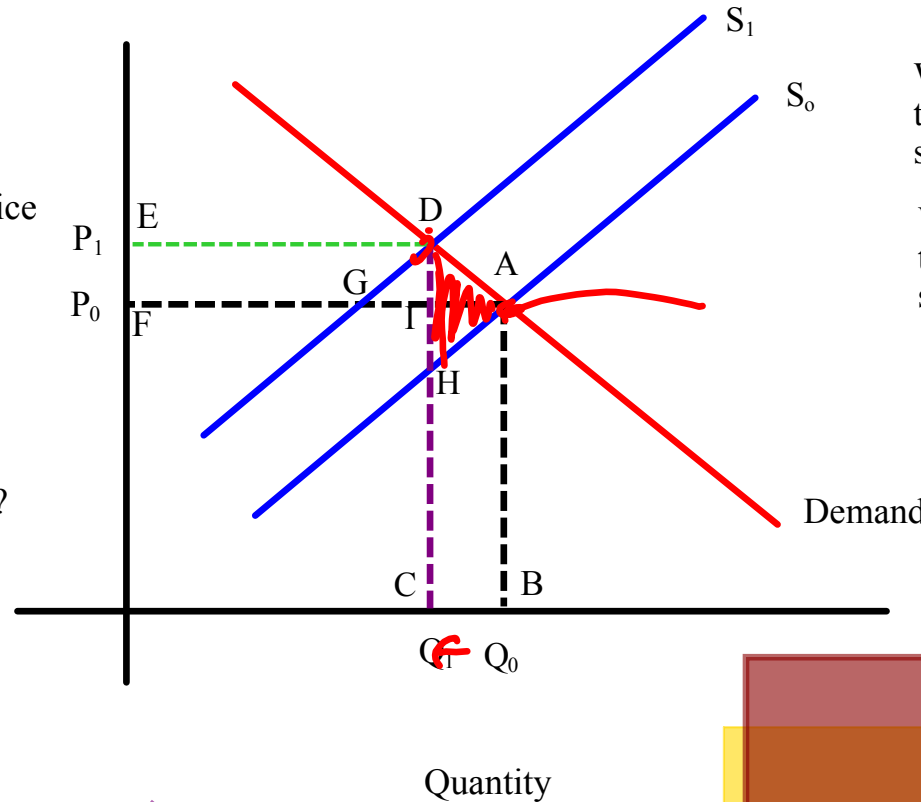
What is the area of the new total revenue and expenditure in the market after the tax?

What is the area of the producer surplus before the tax?

What is the area of the consumer surplus before the tax?

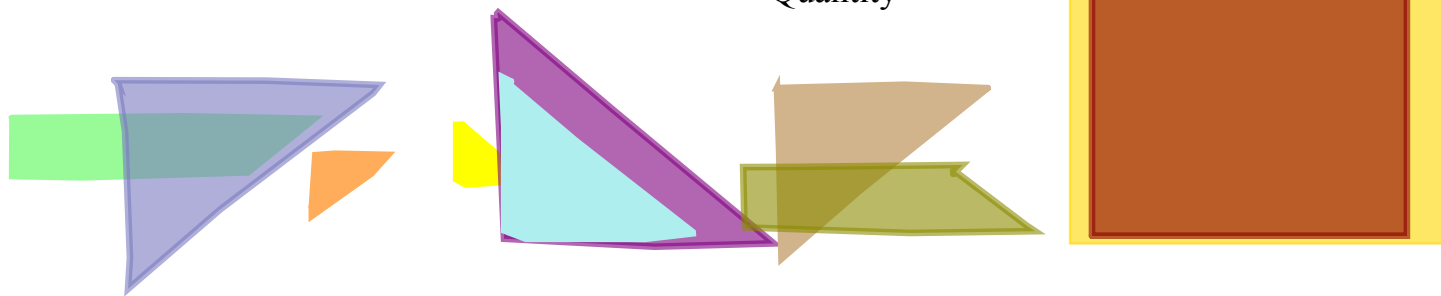
What is the area of the producer surplus after the tax?

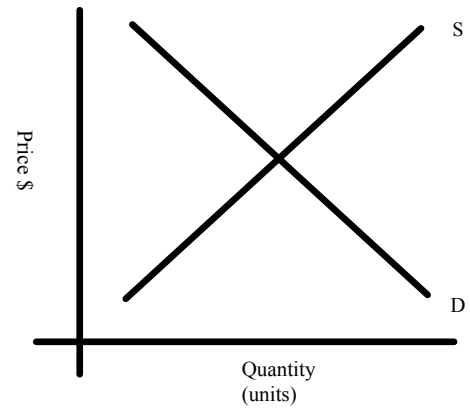
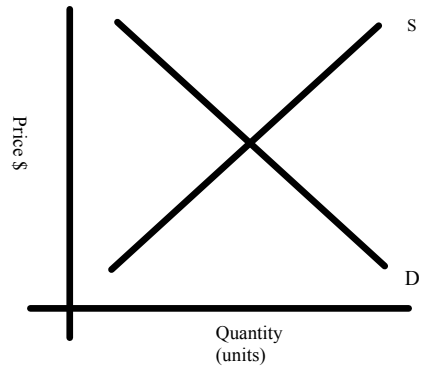
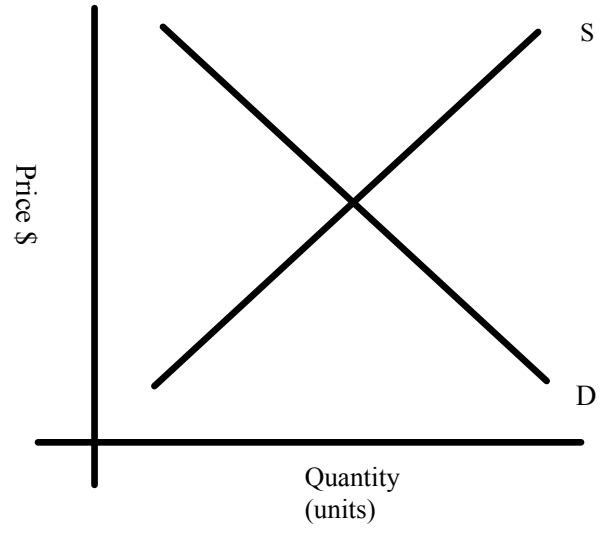
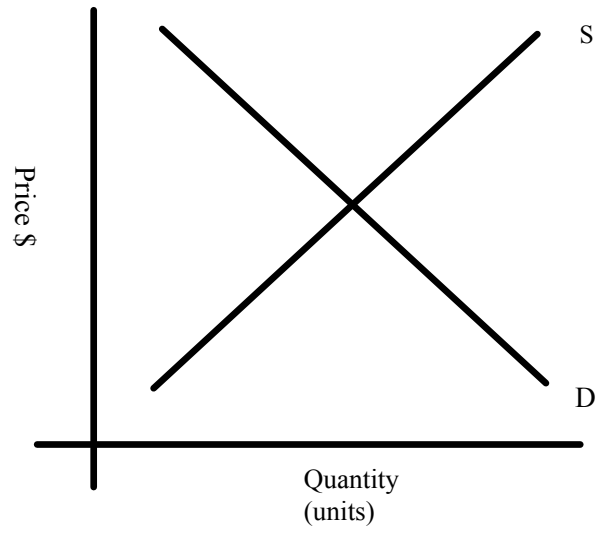
What is the area of the consumer surplus after the tax?

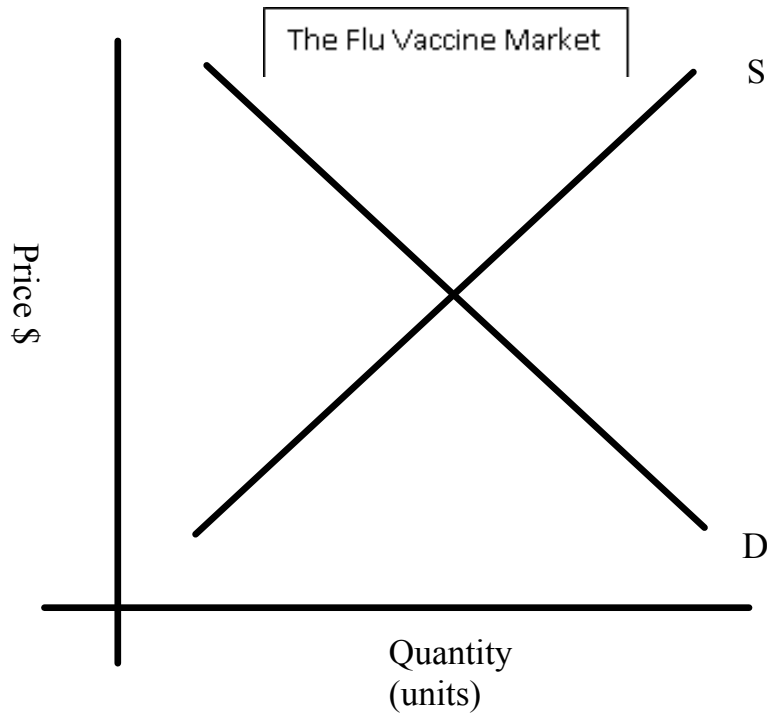


What are represents the change in consumer surplus?

What are represents the change in producer surplus?







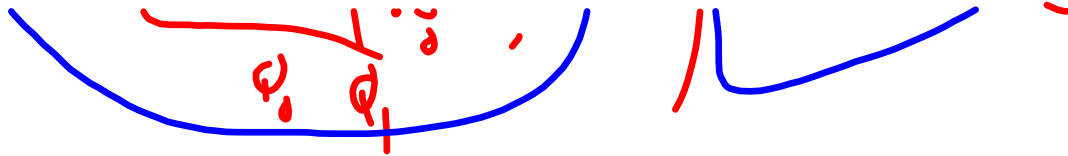
Flu vaccine bestows obvious benefits on the purchaser of the vaccine in reducing their risk of experiencing the illness. However every individual that is vaccinated also provides a benefit to the population as a whole. Each individual who cannot contract the disease becomes a dead-end in the process of the disease's spread. To the right is the flu vaccine market as it would stand without any government intervention.

Is this market achieving social efficiency?

If not describe why not.

What would the graph look like if the market reflected all of society's valuation of vaccines?

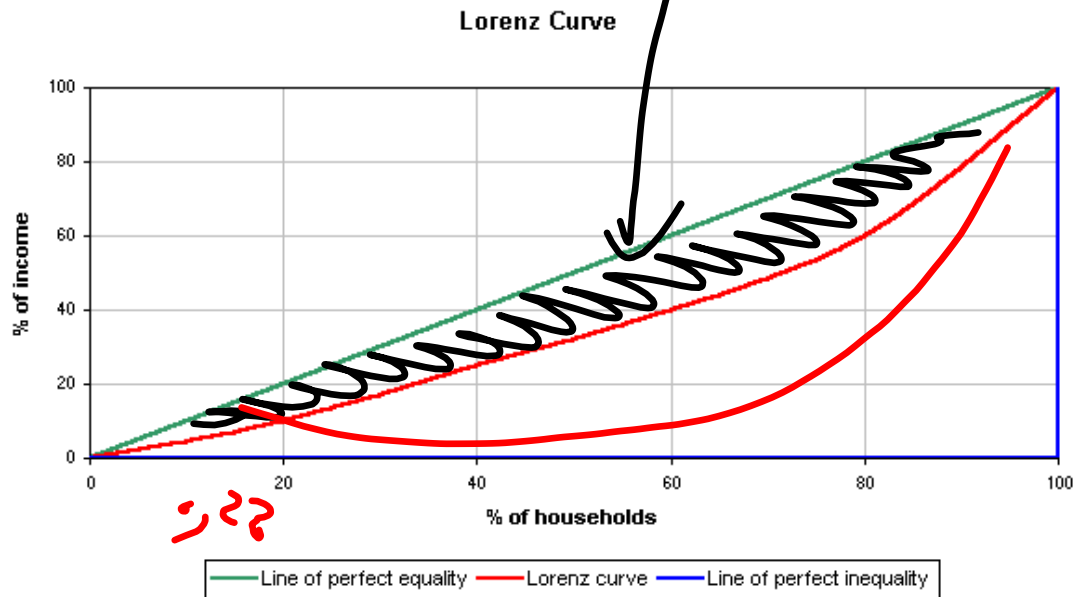
Describe a government action that could make the market achieve a result more consistent with society's priorities and draw the resulting graph?



Legal structure
Maintain competition
Redistribute income!
Lorenze curve
Reallocate resources

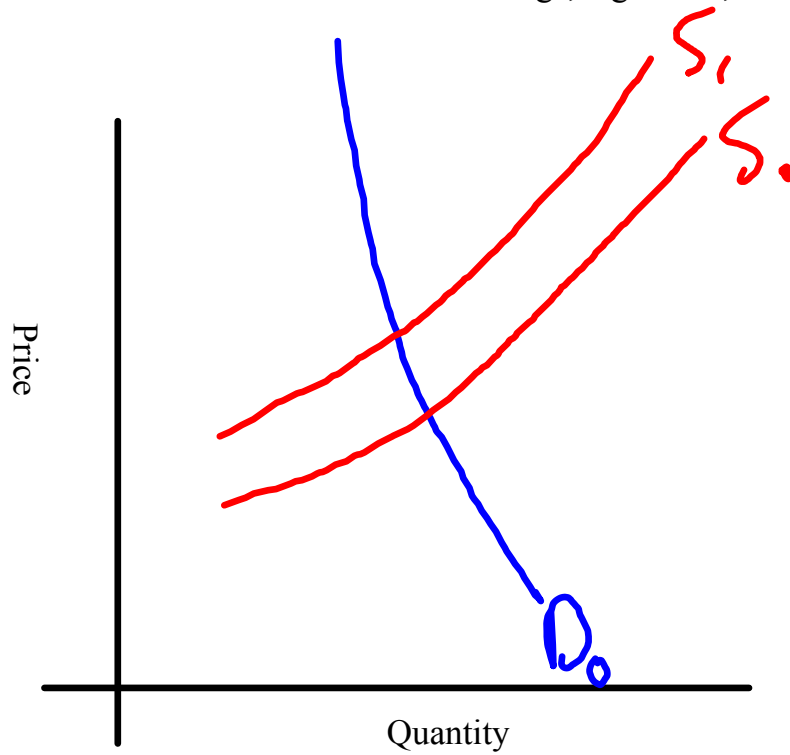
Disciplined discussion of
spillovers/externalities

Gini index



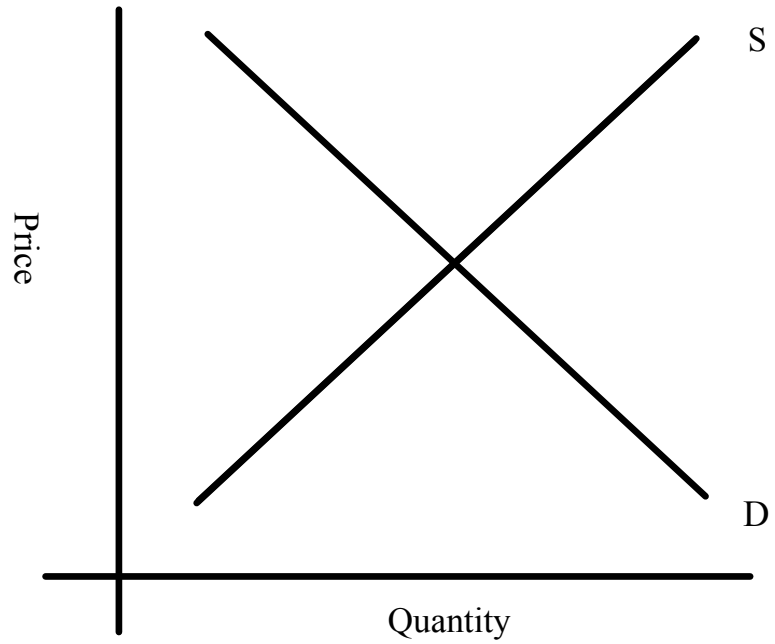
Policy perspectives:

Market for a vice: Drugs, cigarettes, etc.



What is the importance of elasticity to this tax policy?

Effects of Tariffs and Quotas



A tariff is a charge add to the price of goods coming into the country.

Is there an efficiency effect?

