



Berner Fachhochschule  
Haute école spécialisée bernoise  
Bern University of Applied Sciences

# Economics

Micro Economics – a whirlwind tour – government policies.

After today's lecture you will

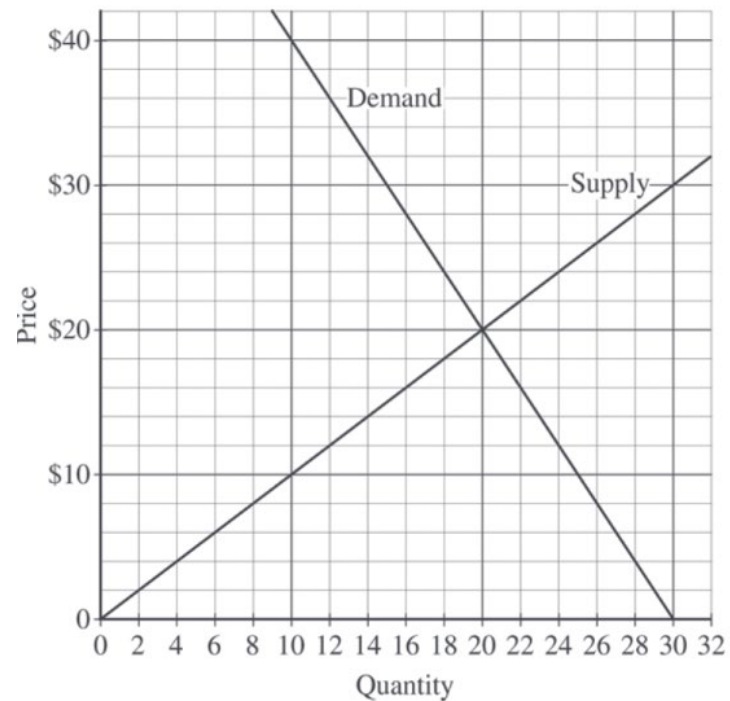
- be able to show the effects of various policy tools
- explain how these tools affect “economic welfare”
- understand how externalities cause market failure (next week)

# In our market there are several different interventions that governments make for a number of reasons

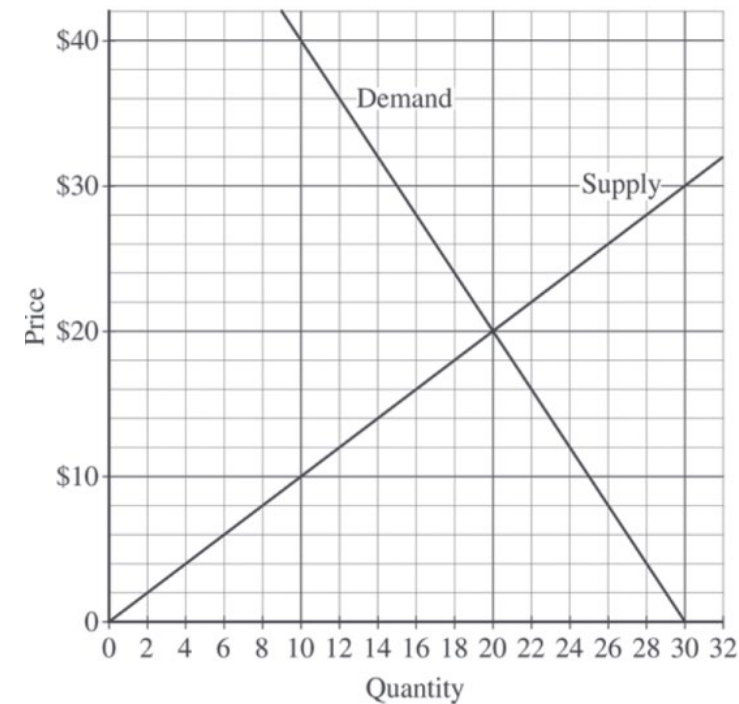
- ▶ What are the motivations for governments intervening in markets?
- ▶ What kinds of interventions to they make?

# What do these interventions look like in our model of «the market»?

► A price floor



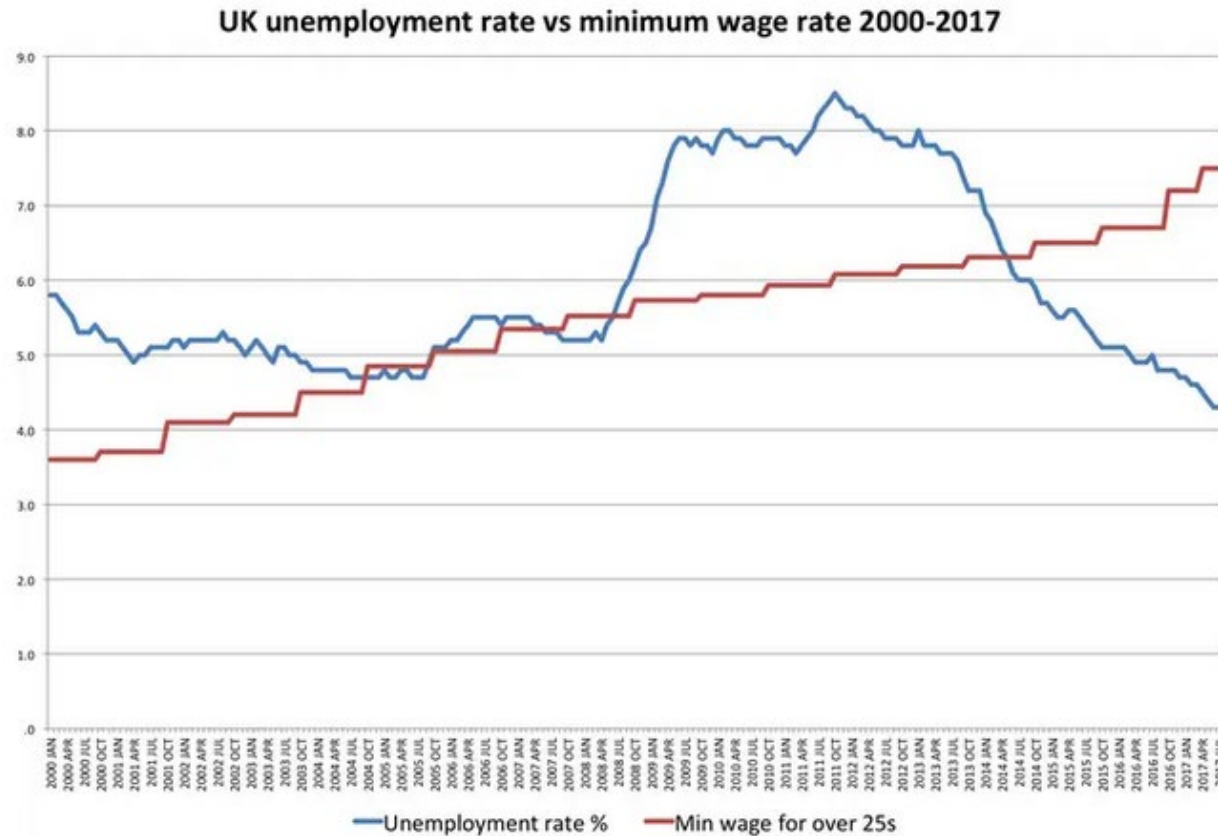
► A price ceiling



# Minimum alcohol prices Scotland

- ▶ Read the article from the «Addiction» – answer the questions below (15 minutes)
- ▶ Compare the evidence from your textbook (P161 5e) with the findings from the article.
- ▶ How to compare –
- ▶ What are the assertions from the textbook on price floors about demand, supply and welfare?
- ▶ What are findings from the report?
- ▶ Are the two sources arguing from the same standpoint?
- ▶ Compare what you found/understood with your neighbour. (10 minutes)

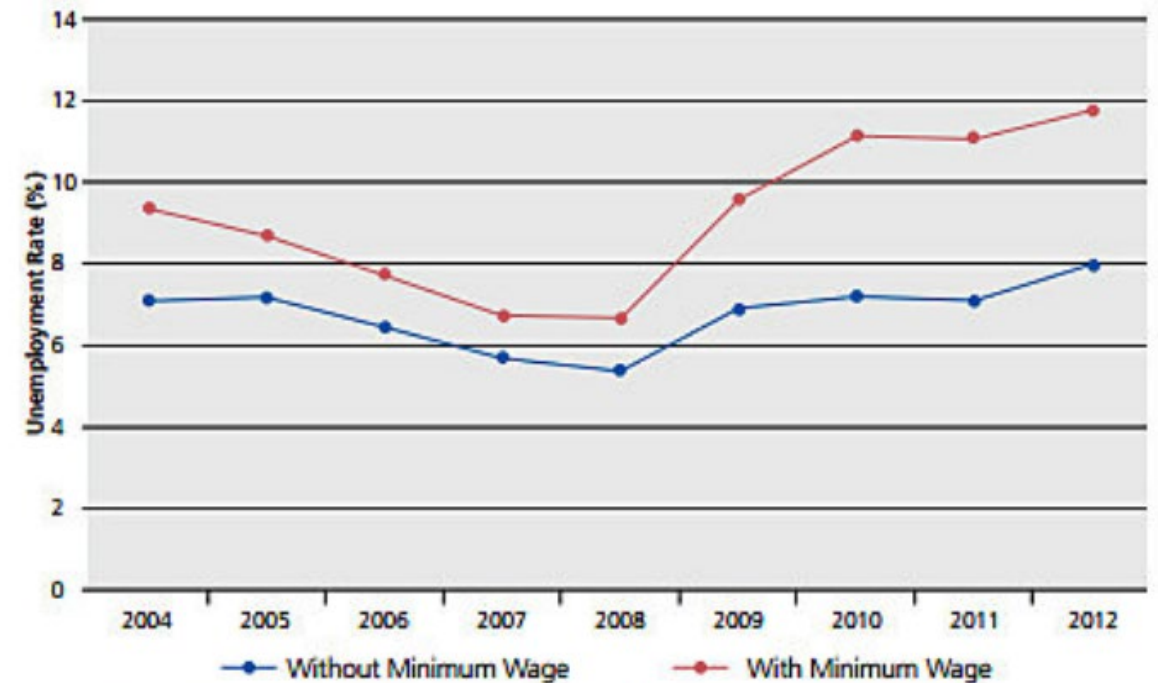
# Minimum wages and unemployment



ONS / Gov.uk

<https://www.businessinsider.com/britain-doubled-minimum-wage-with-no-effect-on-unemployment-2017-10?r=US&IR=T>

## Average Unemployment Rate of E.U. Countries With & Without Minimum Wages



Sources: Eurostat (Unemployment rates - Annual Average), and calculations by Prof. Steve H. Hanke, The Johns Hopkins University.

Note: The averages displayed in the chart are arithmetic means.

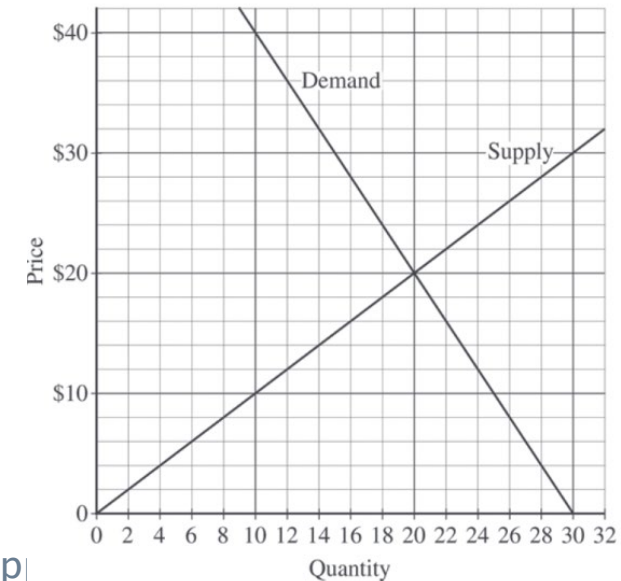
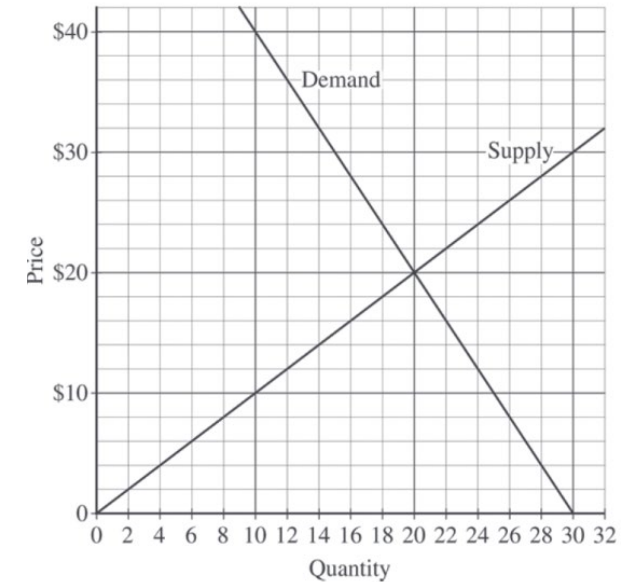
<https://www.cato.org/commentary/let-data-speak-truth-behind-minimum-wage-laws#>

# Minimum wages

- ▶ Read the Atlantic article on minimum wages (15 minutes)
- ▶ Answer the following question(10 minutes)
  - ▶ Does the article support or oppose the case for the minimum wage (justify your answer – identify supporting argument/counter arguments)?
  - ▶ Identify the standard economics argument against the minimum wage in the article.
  - ▶ How might a minimum wage actually increase company productivity?
  - ▶ What possible trade offs does the article identify?
  - ▶ What alternatives to the minimum wage are mentioned in the article?

# Taxes – a neoclassical economist's worst nightmare

- ▶ Direct vs indirect taxes
- ▶ Specific vs ad valorem
- ▶ Tax incidence (tax burden)

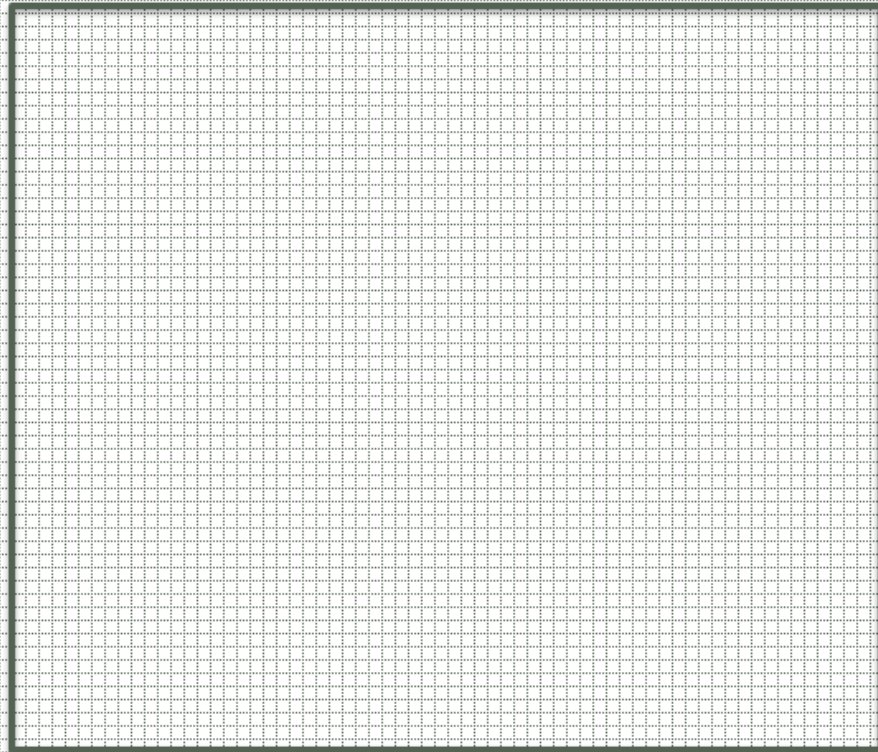




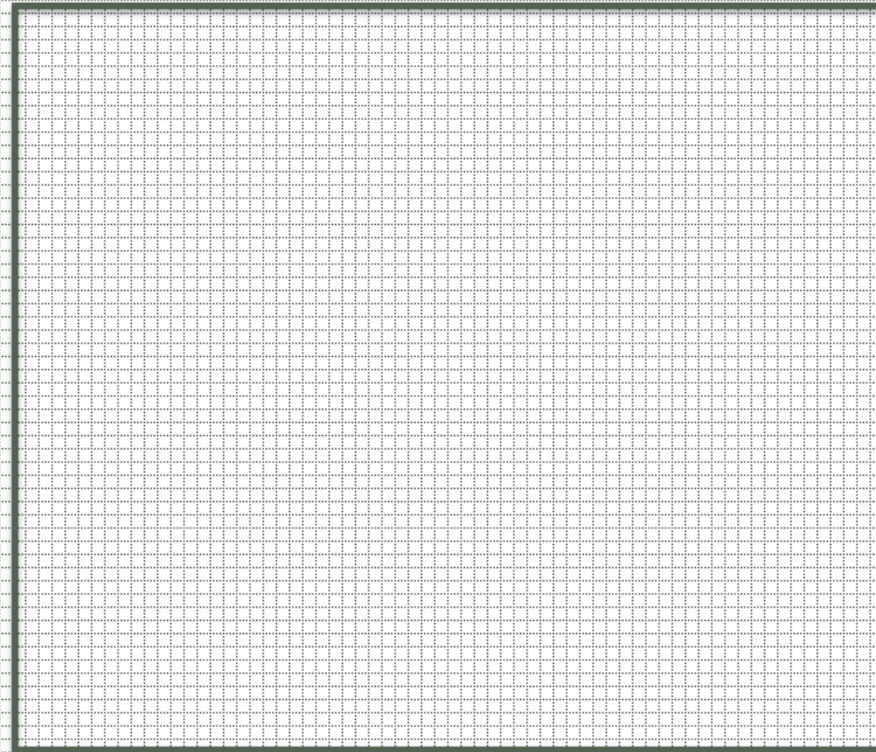
# Taxes

- ▶ What if a tax is placed on consumers? What if it is placed on producers?

▶ Taxes -



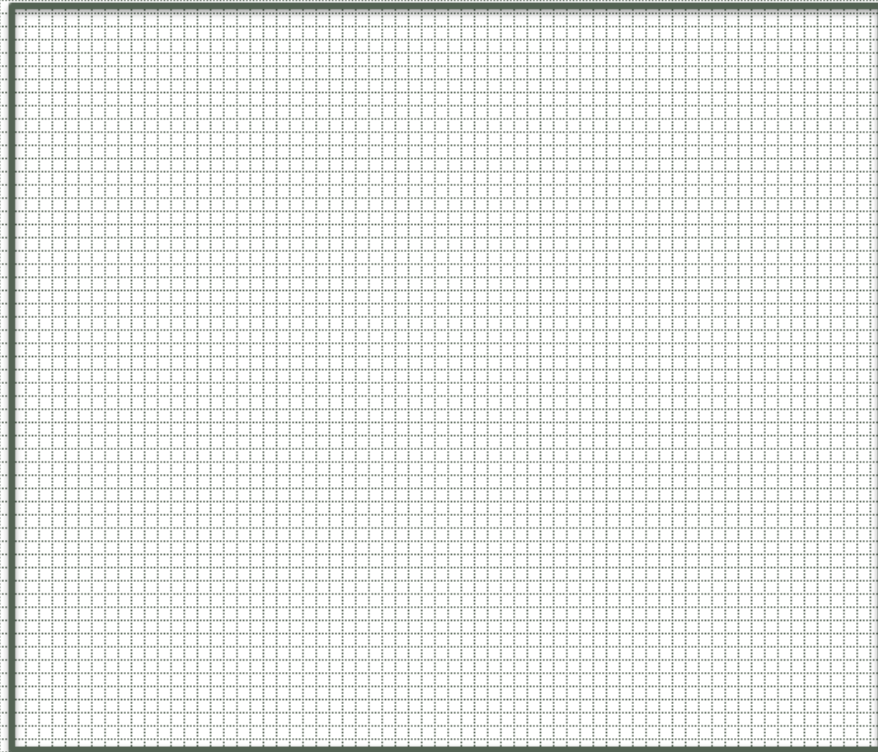
▶ Taxes



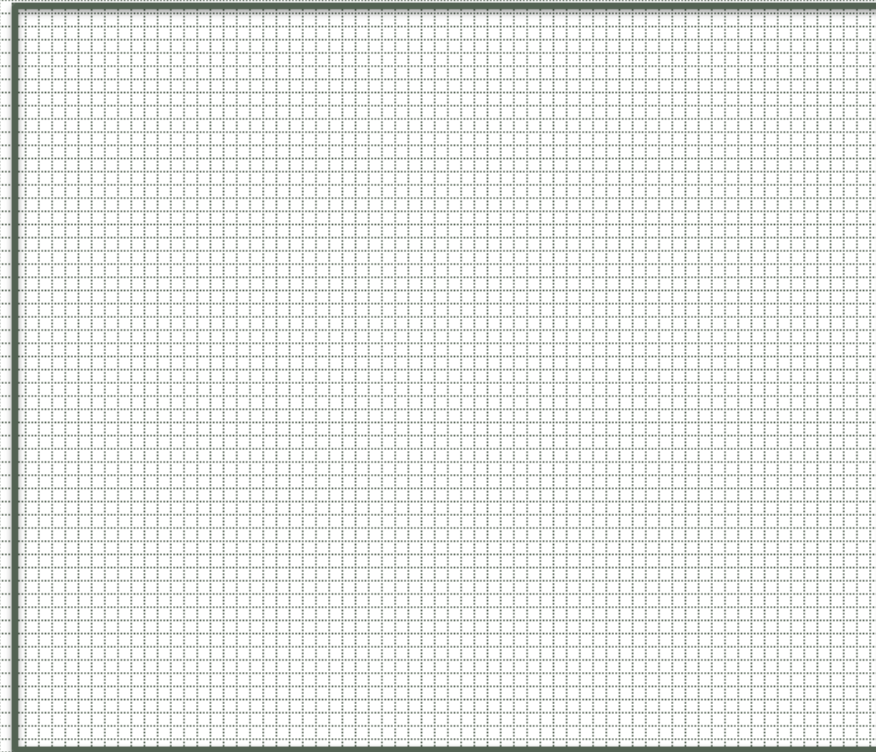
# Taxes

- ▶ Who pays how much of the tax? (consumers vs producers?)

▶ Taxes -



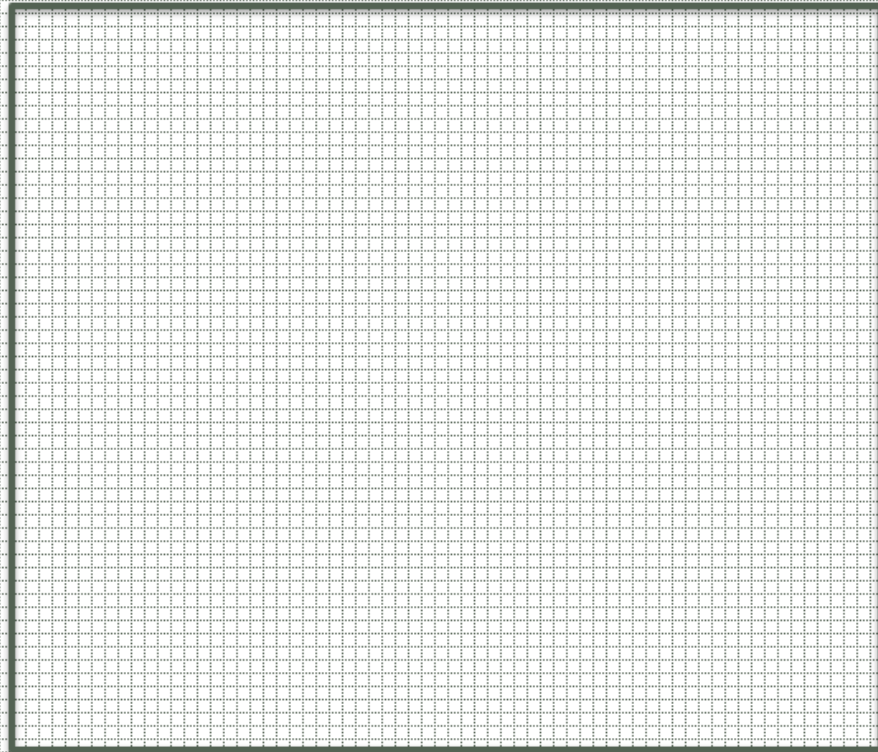
▶ Taxes



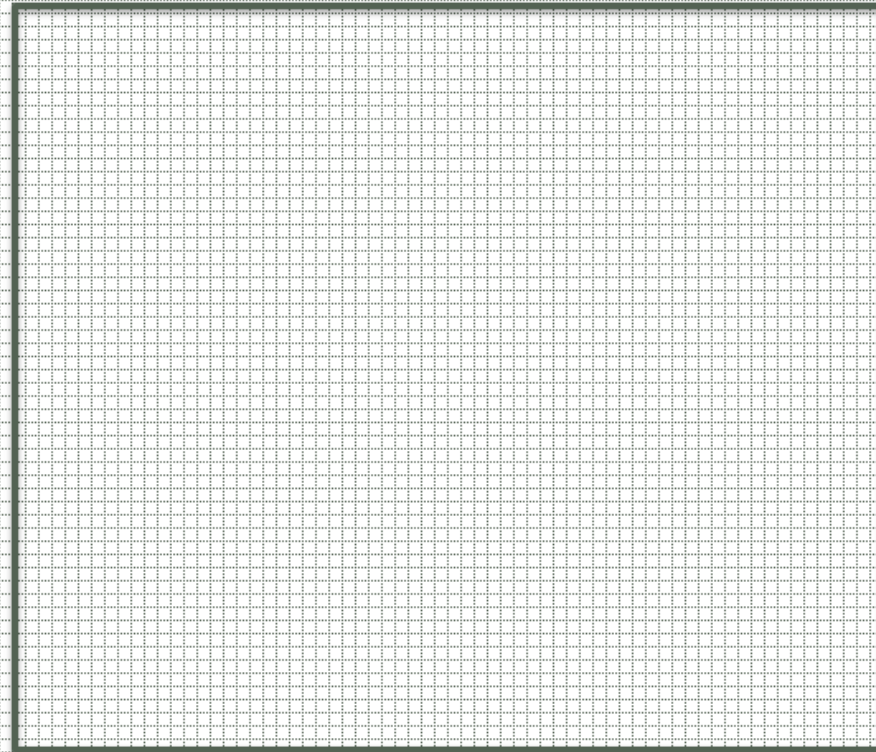
# Taxes

- ▶ What if suppliers/consumers can substitute from the good? (keyword: elasticity)

▶ Taxes -



▶ Taxes

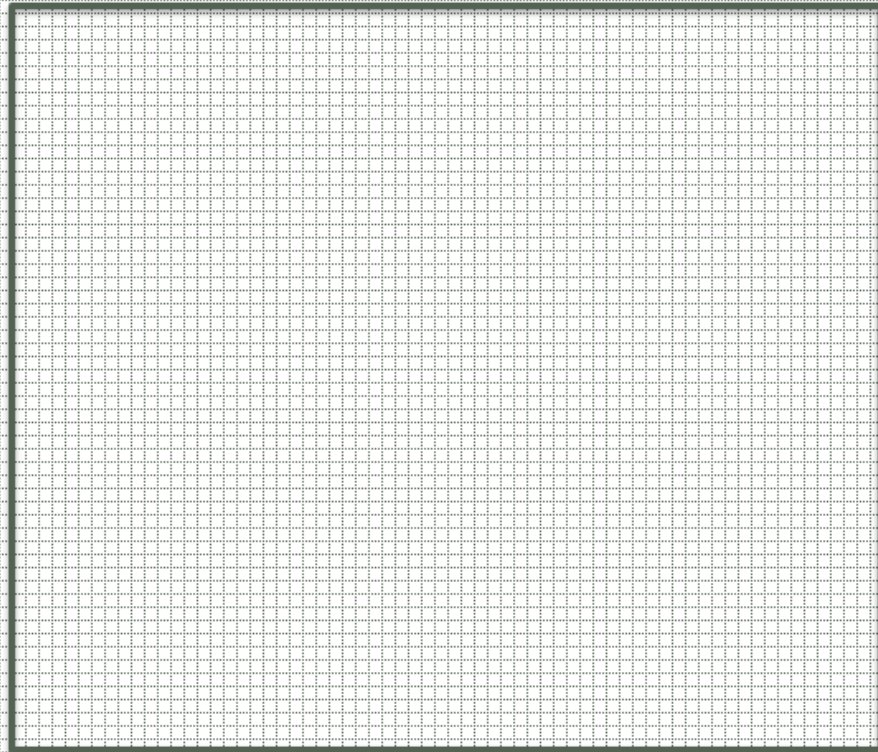




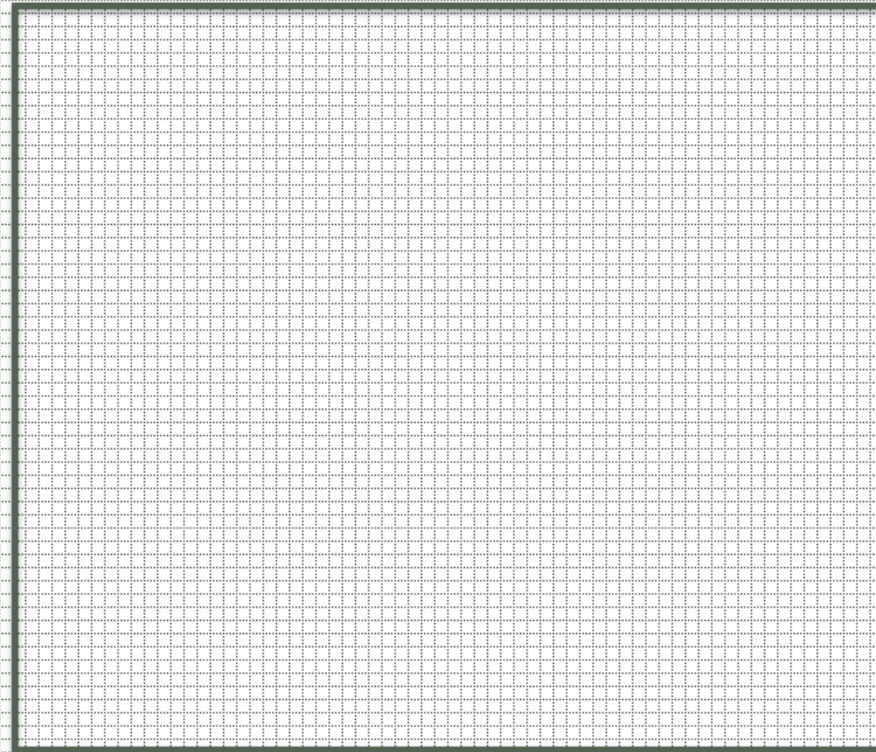
# Taxes

- ▶ How do taxes affect consumer and producer welfare?

▶ Taxes -



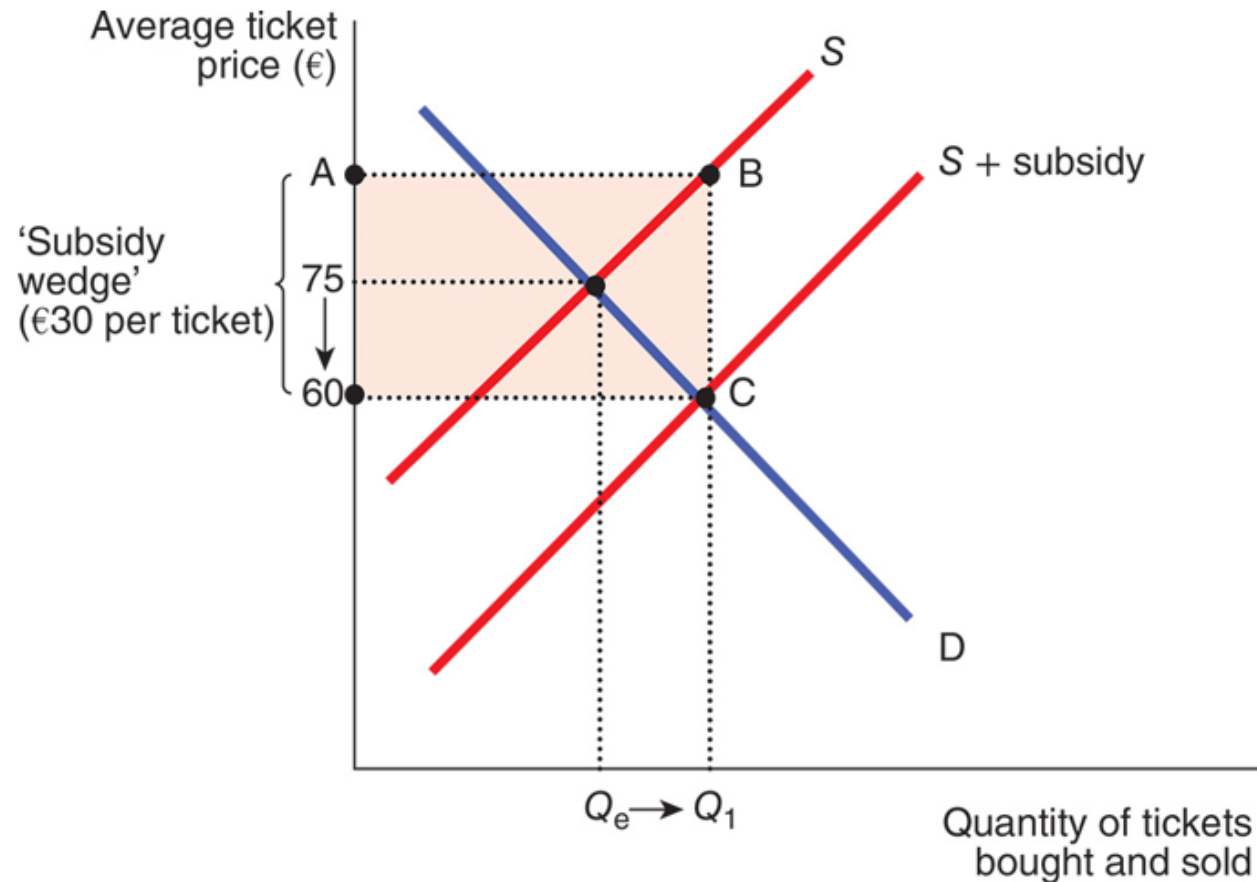
▶ Taxes



# Taxes - discussion

- ▶ What should be taxed?
- ▶ Look at this from a purely «textbook» perspective and from your opinions.

# Subsidies



- The government is paying 30 Euro per ticket on top of the market price ( $A = 90$ )
- Producers receive 90 Euro per ticket.
- The new market price is 60 Euro
- So the consumers benefit by 15 Euro and the producers by 15 ( $90 - 75$ )
- What is the coloured in area?
- What does the triangle B,C,D represent?

# Summary

- ▶ Price floors
- ▶ Price ceilings
- ▶ Taxes
- ▶ Subsidies
- ▶ Surpluses
- ▶ Further questions on Moodle
- ▶ Read Mankiw 7 & 8 (this week's content) & 9 (will come next week on market failure)