

Economics Internal Assessment

Commentary	1 Microeconomics
Title of News Article	Govt urged to impose surcharge on tobacco products in budget 2020-21
URL of article	https://dailytimes.com.pk/624477/govt-urged-to-impose-surcharge-on-tobacco-products-in-budget-2020-21/
Source / Publisher	Dailytimes
Date of article	10 June 2020
Date begin writing	3 September 2020
Conceptual focus	Intervention
Final Word Count	800 words

Article

Anti-tobacco activists on Tuesday urged the government to increase taxes on tobacco products. Speaking at a press conference at National Press Club in Islamabad, HDF CEO Azhar Saleem said that now is the high time for government to increase taxes on tobacco products to save youth from the menace. He said currently the government is facing a financial crunch due to the pandemic, adding that the total economic cost of smoking in Pakistan is estimated at Rs 143 billion, which includes direct healthcare costs and costs due to lost productivity. By levying a surcharge of Rs 10 per pack of cigarette, the government can generate up to 40 billion in revenues, he said. "Moreover, if the government levies a surcharge of Re 1 per 250ml of sugary drinks, around 8 to 10 billion more can be generated in revenues. These additional revenues can help in facilitating the relief packages that the government has announced," he added.

He said in order to adjust the inflation rates in the upcoming budget, the government needs to increase the current FED on tobacco products to at least Rs 20. By doing so, revenues for the government will increase which can be channelized into health program initiatives of the government, he said. "The other forms of tobacco products i.e. smokeless tobacco, electronic cigarettes and vaping products, need to be regulated as well. By regulating all tobacco products, more revenues can be generated for overcoming financial distress, funding of health initiatives and relief packages for the people," he added.

Secretary General at PANAHA Sana Ullah Ghumman said the World Health Organisation has confirmed that smokers are at a greater risk due to Covid-19. "The government has to focus on reducing the health burden caused due to the pandemic. The health cost incurred by the government and individuals due to consumption of tobacco products is an added burden in these testing times," he added.

Sajjad Cheema, Executive Director SPARC, stated that the most effective strategy to make tobacco products inaccessible for youth is to increase taxes which will lead to increase in the prices of these products. This increase in prices will ultimately lead to tobacco products becoming inaccessible to youth. An average of 1200 children become smokers on a daily basis, he added.

Commentary

This article is about anti-tobacco activists urging the government to increase taxes imposed on tobacco products. They aim to make tobacco inaccessible for youth by imposing specific tax. This is a fixed indirect tax on a good's price. Consumption of such demerit goods is discouraged for youth as it causes negative effects on consumers and negative externalities. Negative externalities occur when the product's consumption results in a cost to third parties. These tax impositions will also raise tax revenue for the government, later used for healthcare and production of merit goods. This revenue's necessity is demonstrated by linking it to the pandemic and imperative healthcare. The key concept relevant to this essay is "**intervention**", which in an economic context, means that the government can **intervene** within the market to ensure achieving societal goals such as equity, economic well-being or to limit negative externalities.

Figure 1

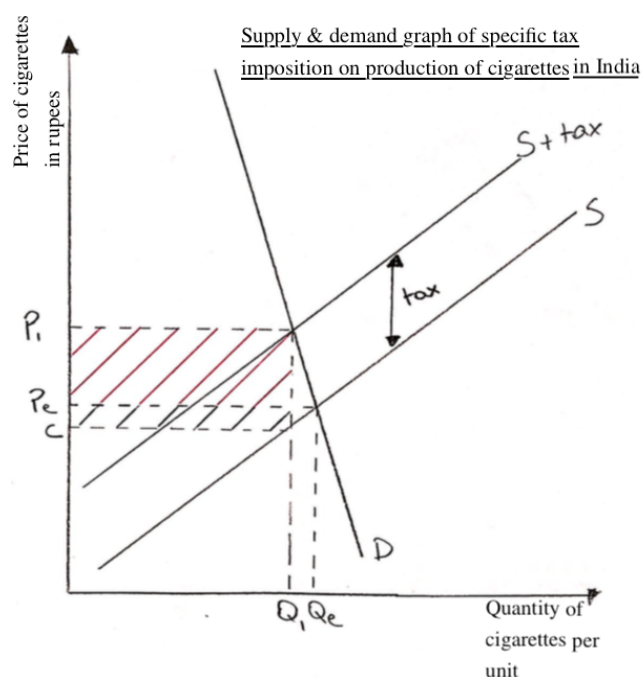


Figure 1 demonstrates supply and demand after government **intervention** (tax imposition) in India. Market equilibrium occurs at $Q_e P_e$. The government **intervenes** by imposing a specific tax ($P_1 - C$) on the production of cigarettes, causing the supply curve to shift leftwards as producers are unwilling to produce the goods at the new price. The equilibrium changes to $Q_1 P_1$, where price per quantity demanded increases by $(P_1 - P_e)$. Demand's inelasticity causes a tax burden, predominantly on consumers. Consumer tax burden, red, is $((P_1 - P_e) \times Q_1)$ and producer tax burden, black, is $((P_e - C) \times Q_1)$. Tax imposition consequently decreases quantity demanded for cigarettes. Moreover, governments raise tax revenue to supposedly fund other merit good markets. The decrease in demand for cigarettes also benefits third parties, decreasing negative externalities.

Figure 2

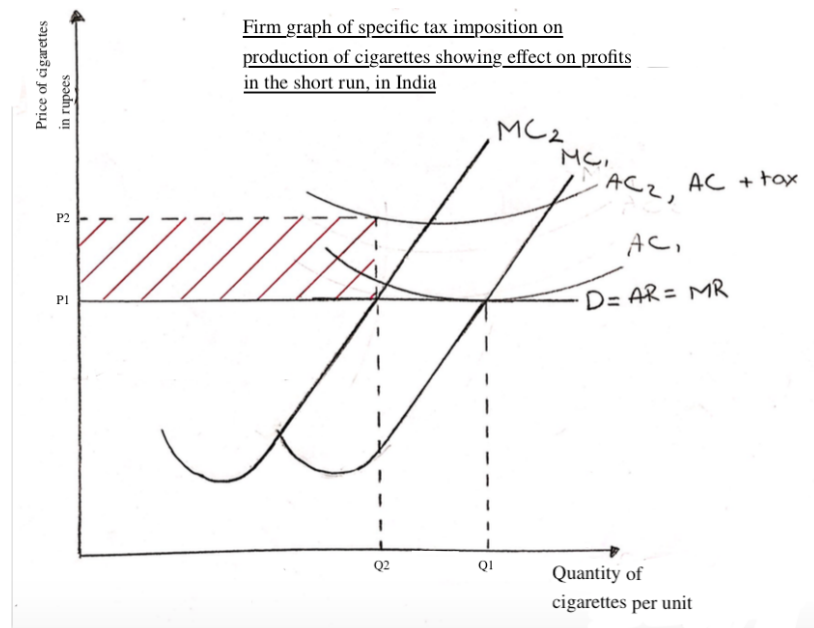


Figure 2 demonstrates costs, revenues, and demand, in the short run after **intervention** (tax imposition) in India, showing the firm's losses. Cigarette market in India is a perfect competition. Initially, the firm produced at $MR(\text{Marginal revenue}) = MC(\text{Marginal cost})_1$ as it's the profit maximization point, producing Q_1 at price P_1 . The firm makes normal economic profit as $AC(\text{Average cost}) = AR(\text{Average revenue})$. Tax imposition shifts AC curve upwards and MC curve rightwards. The perfectly competitive market causes demand to remain constant. A new profit maximization point is introduced; $MR = MC_2$. Now the firm makes a loss of $((P_2 - P_1) \times Q_2)$ as $AC > AR$. Abnormal losses lead to firms leaving the market until demand rises for all firms in the market to make normal profits in the long run as firms exiting causes a distribution of its customers amongst remaining firms. Demand for every firm increases until $AR = AC$. This benefits the government and society as the market size decreases.

India tried decreasing demand for cigarettes through various strategies, excluding government **interventions**. Nevertheless, they remained unsuccessful. In theory, a major determinant of demand is advertising. In reality, cigarette demand was unaffected by mass advertising with anti-smoking, because when made aware of our mortality, we protect ourselves from any fear in our lives. Hence, anti-smoking ads based on fear are ineffective, especially if smokers receive their self-esteem from smoking because it makes them "cooler". Thus, government **interventions** may be necessary to reach some economic goals.

This relates to my key concept as it considers government **intervention** (taxation) benefitting the Indian economy. In conclusion, evidence shows **interventions**, especially tax impositions, are a better strategy on demerit goods than negative advertising. Although advertising is a determinant of demand, it is ineffective compared to tax impositions, as high prices affect customers more. Long-term, government benefits from tax revenues, to advertise merit goods or solve other economic concerns. Considering long run, this benefits consumers, as it improves their standard of living by saving their wages and improving health. Furthermore, if youth doesn't smoke, habits are formed and passed to following generations, benefiting the economy and other global issues, including global warming. Consumers will temporarily suffer from the **intervention** as their severe addiction causes them to pay higher prices, decreasing living standards, affecting their health and causing negative externalities. Ideally, demand decreases after tax, causing lower revenue for producers of these demerit goods. Considering short run, this causes many firms to exit the market, harming their living standards by terminating a revenue stream. We assume that majority of consumers are youth, ensuring tax impositions to help the government reach their goal of limiting youth buying cigarettes. We also assume that families of targeted youth are not wealthy enough to be unaffected by taxes. Because most cons are short-term and benefits are long-term, it is a more suitable strategy to implement a specific tax on cigarettes, rather than advertising and we prioritize the long run effects. Another strategy is increasing the legal minimum age to consume tobacco, cutting off a fraction of youth consuming this product. This article shows that government **intervention** is ideal for economic goals that require control of human nature, as issues like addictions can make an individual spend money in wrong places.

Commentary	2 Macroeconomics
Title of News Article	SA unemployment rate slightly up, hits new record high
URL of article	https://www.news24.com/fin24/economy/just-in-sa-unemployment-rate-slightly-up-hits-new-record-high-20210601
Source / Publisher	News24
Date of article	01 June 2021
Date begin writing	17 June 2021
Conceptual focus	Choice
Final Word Count	800 words

Article

The official unemployment rate has marginally increased, growing to a record high of 32.6%, data from Stats SA shows.

Minor changes resulted in the official unemployment rate increasing by 0.1 of a percentage point from 32.5% in the fourth quarter of 2020 to 32.6% in the first quarter of 2021 - the highest since the start of Stats SA's Quarterly Labour in 2008.

Economists had expected the official unemployment rate to hit a new record of 33.4%, as a result of new job seekers such as school leavers and graduates entering the labor force. However, the country's jobless remained almost unchanged from the fourth quarter at around 7.2 million, Stats SA said.

The expanded unemployment rate - which takes into account those who were discouraged from looking for work or for having other reasons that stopped them from job searching - increased slightly by 0.6 of a percentage point to 43.2%. The amount of discouraged work seekers increased from 2.9 million in the previous quarter to 3.1 million. This means that contrary to economists' expectations, the labor force participation rate had decreased.

Among the highest unemployment rates were recorded for the youth (those aged between 15 and 24) at 63.3% and those aged between 25 and 34 at 41.3%. Unemployment among the black African population remains higher than the national average at 36.7%, up from 36.5% recorded in the fourth quarter. Black African women are the most vulnerable with an unemployment rate of 38.3%, according to Stats SA.

According to Stats SA, the construction, trade and private household sectors recorded the largest employment losses. While employment mainly increased in finance, community and social services, utilities, mining and manufacturing.

Covid-19 impact

Other survey findings show that of the 15 million persons who were employed in the first quarter, eight out of 10 were expected to work during the lockdown. Of those who were employed during the lockdown, 91.3% continued to receive payment, compared to 88.9% recorded in the fourth quarter. About 14% of those who received pay, had to get by with reduced salaries.

Commentary

This article discusses South Africa's unemployment rate, the forms and reasons for unemployment.. The author attempts to consider demographic groups to identify a possible cause. Unemployment rate is the total number of individuals out of work, expressed as a percentage of the total labor force. The labor force is made up of all people in an economy of working age that are either employed or seeking work. Hidden unemployment is a form of unemployment, which is more difficult to resolve as it affects the economy more than the individual. It comprises long-term unemployed individuals, ones that stopped seeking work, and those working in positions they are overqualified for. The key concept relevant to this essay is "**choice**". In economics, this means that the government has a **choice** where to allocate their limited resources or a **choice** of implementable strategies to solve economic problems, which in this case is unemployment.

Figure 1

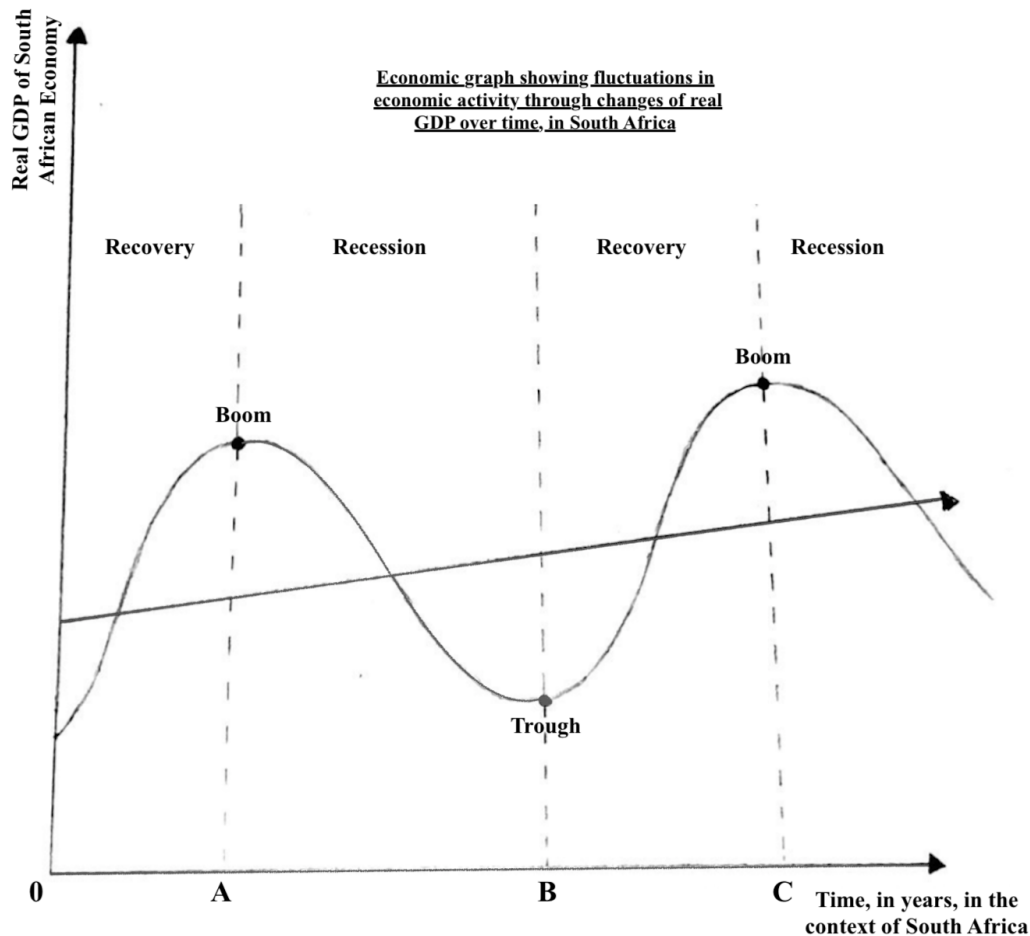
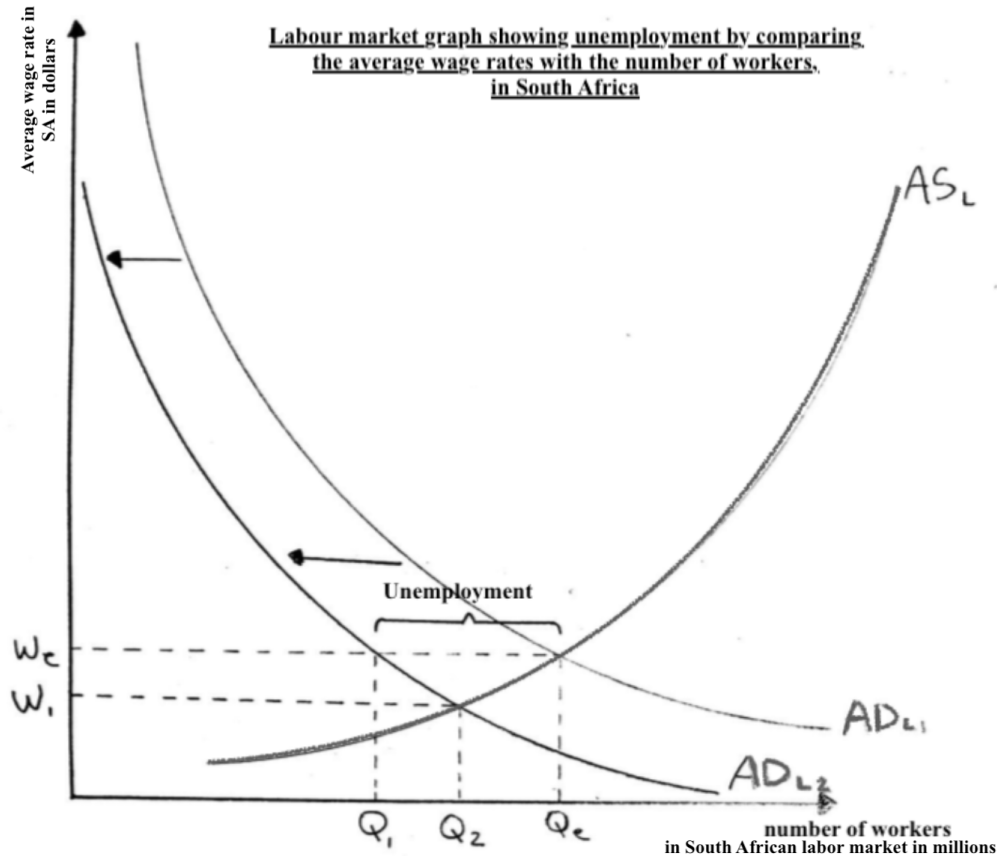


Figure 1 depicts the South African economy's real GDP over time. At 0, households increase consumption, increasing AD, causing a recovery. At A, higher spending causes booms as increasing demand for goods and services leads to inflation, an increase in the average price of products and services. Labor is scarce and workers demand higher wages to produce goods at customers' needs. At B, inflation allows the population to spend less on consumption as it is too expensive and their capital resources are not worth the goods. Unemployment occurs as demand decreases, thus, supply decreases to reach equilibrium. Firms **choose** to discharge workers to allocate resources better. A to B, two consecutive quarters of negative GDP growth causes a decline in AD, and rising unemployment, causing a recession. A trough (B) occurs when government intervention stabilizes GDP. They **choose** to intervene to achieve economical societal goals. These goals increase consumption by subsidizing or advertising goods and services, increasing AD, decreasing unemployment. This is a perpetual cycle. Real GDP continues to increase in the long run as it is determined by factors such as workforce contribution. During a recession South Africa achieved an unemployment record of 32.6%. The government effectively **chose** to increase job awareness continuing to increase unemployment. Consequently they had a **choice** between the possible strategies when intervening during the recession/trough. However, their strategy failed and unemployment continued to increase.

Figure 2



The labor market graph depicts average wage rates in relation to the number of employees in the context of demand-deficient unemployment, which can be induced by economic recessions. At $Q_c W_c$, the market is in equilibrium. As the economy enters a recession, the aggregate demand curve for labor shifts to the left, as previously stated (ADL_1 ADL_2). Wages should fall to W_1 because firms may lay off workers due to reduced demand for products and services. Wages are “sticky” downwards. At $Q_2 W_1$, the market finds a new equilibrium, resulting in unemployment of $(Q_c - Q_1)$ as $ASL > ADL_2$.

This article relates to my key concept as it shows how the South African government caused their population to suffer an ineffective **choice** of strategy. Increasing the unemployment rate has many side effects for the economy. In conclusion, the government’s **choice** to increase job awareness was ineffective as the public was satisfied with unemployment benefits, causing them to be entirely discouraged from looking for work. This resulted in a significant increase in unemployment. Therefore, reducing unemployment benefits would be a more effective **choice** of strategy as it affects their living conditions. Decreasing unemployment benefits assists consumers and firms in the economy in the long run, while benefiting the government as well in the short run as it decreases costs. Unemployed are encouraged to seek work to then get paid wages. With higher disposable income, they increase their living conditions. Producing firms benefit from this as motivated unemployed people seek work in their firms. As the supply for labor increases, resulting in higher production for low wages. By reducing unemployment benefits, the government saves resources or other economic issues. They also have drawbacks from this in the long run and some consumers in the short run. More money spent on goods will cause AD to shift to the right, and labor scarcity causes inflation. Consumers face short-term drawbacks due to reduced unemployment resulting in insufficient money to pay for merit goods. In extreme cases this causes deaths. We prioritize long run benefits more than short-term drawbacks, hence, this is a good strategy. We assume that hidden unemployment is a fraction of the unemployment, making it feasible to solve. We also assume there are no ideal strategies to target specific demographic groups as they are too specific and risky. This article shows that governments have a **choice** for the implementation of policies, which is significant as a wrongly applied policy can negatively affect the economy in the long and short run.

Commentary	3 Global Economics
Title of News Article	Assistant FM: Economic integration 'priority' for Egypt to achieve development in Africa
URL of article	https://www.egypttoday.com/Article/1/110174/Assistant-FM-Economic-integration-priority-for-Egypt-to-achieve-development
Source / Publisher	Egypt Today
Date of article	22 November 2021
Date begin writing	24 November 2021
Conceptual focus	Economic well-being
Final Word Count	Max 800 words

Article

CAIRO - 22 November 2021: Assistant Foreign Minister Ambassador Soha Gendy said that Egypt's hosting of the COMESA summit at this time is a "clear message that economic integration is one of Egypt's top priorities to achieve the required development in Africa."

Ambassador Soha Gendy added - in a statement to "Extra News" channel Monday, that during Egypt's presidency of COMESA, work will be done to achieve the dimension of economic integration, supporting economic development projects, investment in small and medium-sized projects, and investment in humans.

She stressed that Egypt is a leading country in the African continent, noting that Egypt has a real willingness and desire to share its growth with the African continent and these successful strategic plans that can be replicated in other states.

She pointed out that COMESA is one of the African organizations that will be the nucleus of the largest grouping, which is the free trade agreement, in which all African member states will participate.

Tomorrow, Tuesday, Egypt is scheduled to assume the presidency of the 21st COMESA Summit in the Administrative Capital, which will be held under the slogan "Strengthening resilience through strategic digital economic integration." To enhance the ability of the 21 members of the assembly to withstand the repercussions of Corona.

Commentary

This article discusses the government of Egypt's need to prioritize economic integration for them and Africa to achieve economic development. The author simply explains the Egyptian Assistant Foreign Minister Ambassador, Soha Gendy's desires and strategies to improve growth, development and initiate economic integration with the help of the organization COMESA (Common Market for Eastern and Southern Africa), supporting economic development projects, investment in small and medium-sized projects, and investment in humans. Economic integration happens as nations coordinate their economic policies; as a consequence, improving the level of economic integration reduces barriers to trade between nations by more closely aligning economic policies. Regional economic integration is when this occurs between countries from a common region. A free trade agreement is formed as nations agree on trade responsibilities, investor protections, and intellectual property rights. The key concept relevant to this essay is “**economic well-being**”. A country's **economic well-being** is defined as having "financial security," or gain access to and the capacity to manage economic resources now and in the future, so that people can obtain the goods and services needed to satisfy their demands and maintain standards of living

Figure 1

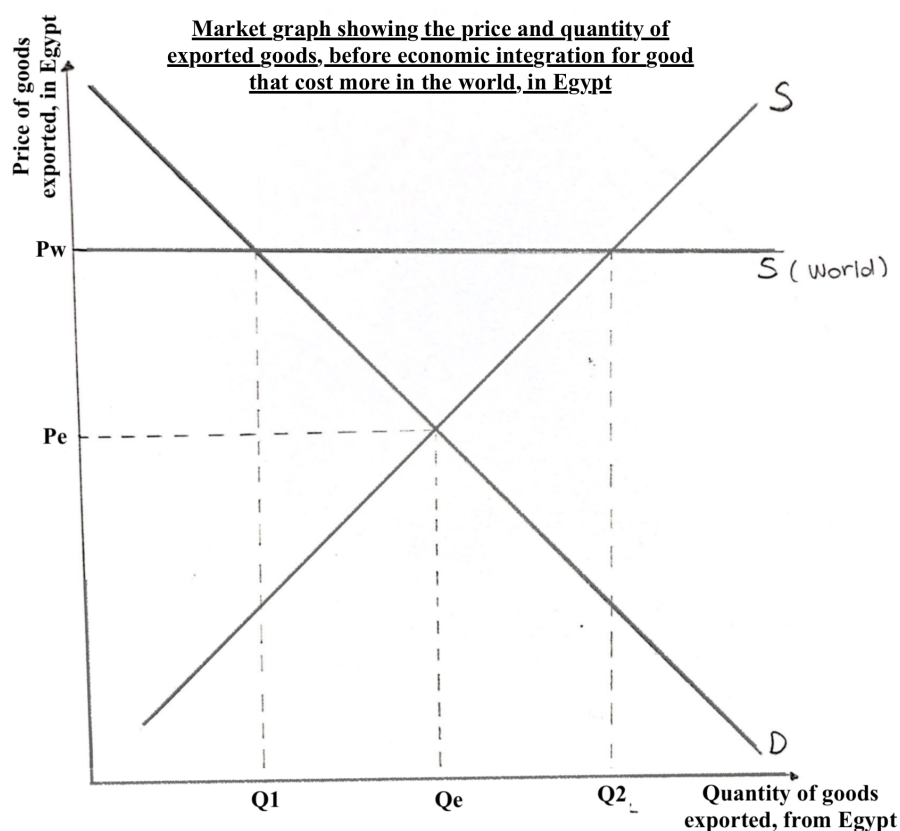


Figure 1 depicts the Egyptian economy's exports in millions over time for goods that cost higher in the rest of the world than Egypt, like oil, with no protectionist measures, which shows Egypt's exports prior to the integration At $Q_e P_e$ the market is in equilibrium, where domestic producers produce goods at Q_e for P_e . However, if they consider the rest of the world, they can export at price P_w . Thus, they produce Q_1 goods domestically, because of the higher price demand falls, and produce from Q_1 to Q_2 and export these goods at the price P_w . With international trade, they are able to sell more goods for a higher price. A higher number of goods produced at a higher price improves Egypt's **economic well-being** immensely

Figure 2

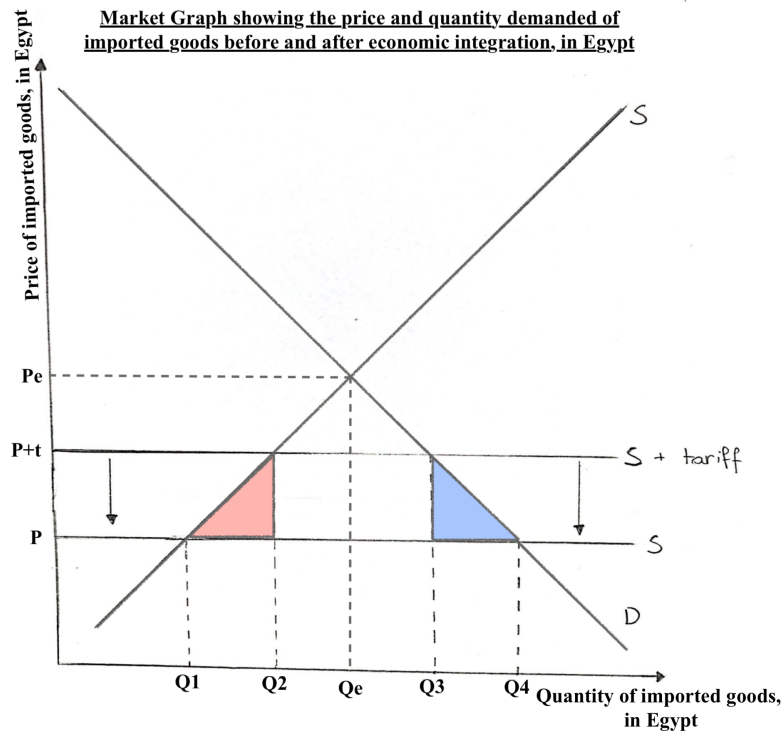


Figure 2 shows the Egyptian economy's imports over time, after economic integration with the continent, causing trade creation. At Q_e and P_e , the market is again in equilibrium. Before the integration, goods can be imported at the price $P+t$ from all African countries, with low **economic well-being** because of the limit to access of resources. Goods can be imported but they are more expensive, and only a limit of goods can be imported at the same price. After the integration, the tariffs between member nations are dropped, thus supply of African countries shifts downwards, from $S+t$ to S . This in turn improves **economic well-being** as it gives Egypt better access to resources at a lower price. Also, the world efficiency increases by the red shaded area and consumer surplus increases by the blue shaded area. This again improves **economic well-being** globally as the entire population can acquire resources easier due to increased efficiency.

This article relates to **economic well-being** as it shows how integration can lead to access and management of more economic resources at a lower price. This **economic well-being** may contract as well as an effect of integration. To conclude, economic integration is a great strategy implemented by the Egyptian government to increase development in the continent for trade efficiency. World efficiency also increases with consumer surplus. This improves **economic well-being** for African countries, including Egypt. Limitations are that there is no information on the tariff rates for different countries, hence we cannot measure to what extent Egypt and Africa really benefits from this. Also, another limitation is that we also don't know what the exact price differences are between producing certain goods and services domestically compared to international exporters. This may affect **economic well-being** for Egypt, but still improves for other African countries. This makes it difficult to see how much Egypt really benefits from the integration. We assume that theoretically, all income is distributed equally amongst the African population, thus imports will not have a change on economic inequality in the population as tariffs can be passed on to the consumers. Hence, **economic well-being** would remain unchanged. The stakeholders that benefit from this are other African countries as they can freely trade with Egypt, a leading country in the continent willing to share its growth. Egypt does face drawbacks from this integration as it makes importing goods from other countries more expensive due to trade diversion and protectionist measures. But because Egypt is aware of this and aims to spread its growth amongst the continent, we prioritize the benefits of COMESA countries and, thus, prioritize the **economic well-being** of the continent rather than Egypt. An advantage is that the countries in the integration benefit from economies of scale and with the freedom of labor, there are better employment opportunities. A disadvantage is that trading with multilateral countries is now more expensive and harder, which limits the countries to certain resources.