

Mankiw Macro Chapter VI: Supply and Demand and Government Policies

Introduction (pg 111)

As Scientists, Economists study the way world is (positive econ)

As policy advisors, Economists study how the world should be (normative econ)

We have already discussed the Government role in regulating tobacco

And shown how complex the possible motivations are,

Reduce smoking, punish smokers, raise revenue

And how policies seem to assume different things

Is demand inelastic, or not? Why oppose vaping?

The above are all examples of

The LAW OF UNINTENDED CONSEQUENCES

Any policy designed to change the behaviour of consumers or producers, will do so both in ways intended and predicted, and also in ways unintended, and unpredicted, and sometimes perverse.

See: the Peltzman effect from chapter 1.

In this chapter, we are going to start adding government to our models...

Controls on prices.

How to protect Thai Consumers from a rise in prices?

The 2011 price ceiling on cooking oil.

A price ceiling of 46 baht was placed on the cost of cooking oil.

This prevented stores from “hoarding”, and profiting, from a supply shock.

Example: OPEC and the Price of gas, and U.S. price controls 1979-80

Example: Rent Control in the SR, and the LR

Price Floors.

Binding and non-Binding

Example: the Minimum Wage

The elasticity of supply and demand.....

Government Mandated prices: lowering Transaction costs
When information is imperfect

Example: The taxi Meter

Taxes.

What are Taxes?

Why are they collected?

The funding of Public Goods

The funding of Publically Provided Private Goods

Types of taxes:

VAT

Sales Tax

Income Tax

Tarrifs

Excise tax

Fees, licencing requirements, etc.

And many, many more.....

Tax Incidence and Tax Burden

The Tax Burden is who a tax is levied on.

So who pays the Thai VAT, consumers or producers?

Tax Incidence is who actually pays the tax

So a simple example....

Adding a tax to the cost of a car

In this case, we will tax the auto PRODUCER

O.K., lets tax cigarettes again.... (turn sideways)