

1.e GOVERNMENT MEASURES – “the end”

We have now discussed the 4 most common government measures: minimum price, maximum price, tax, subsidy.

Finally, we will discuss the following topics:

1.e.a Quota (plural: quota)

1.e.b Critical approach to some examples of government measures

1.e.c Wealth impact of government measures

1.e.a. QUOTA

Fishermen are allowed less sole, fishing quota significantly reduced

Fishermen will be allowed to fish less sole in the North Sea next year. The catch quota will be reduced by as much as 170 percent.

Fishing opportunities for other fish stocks such as plaice and monkfish are also decreasing, posing new threats to the sector.



What external effect is being addressed here?

What does this government measure entail?

Advantage(s) of this government measure?

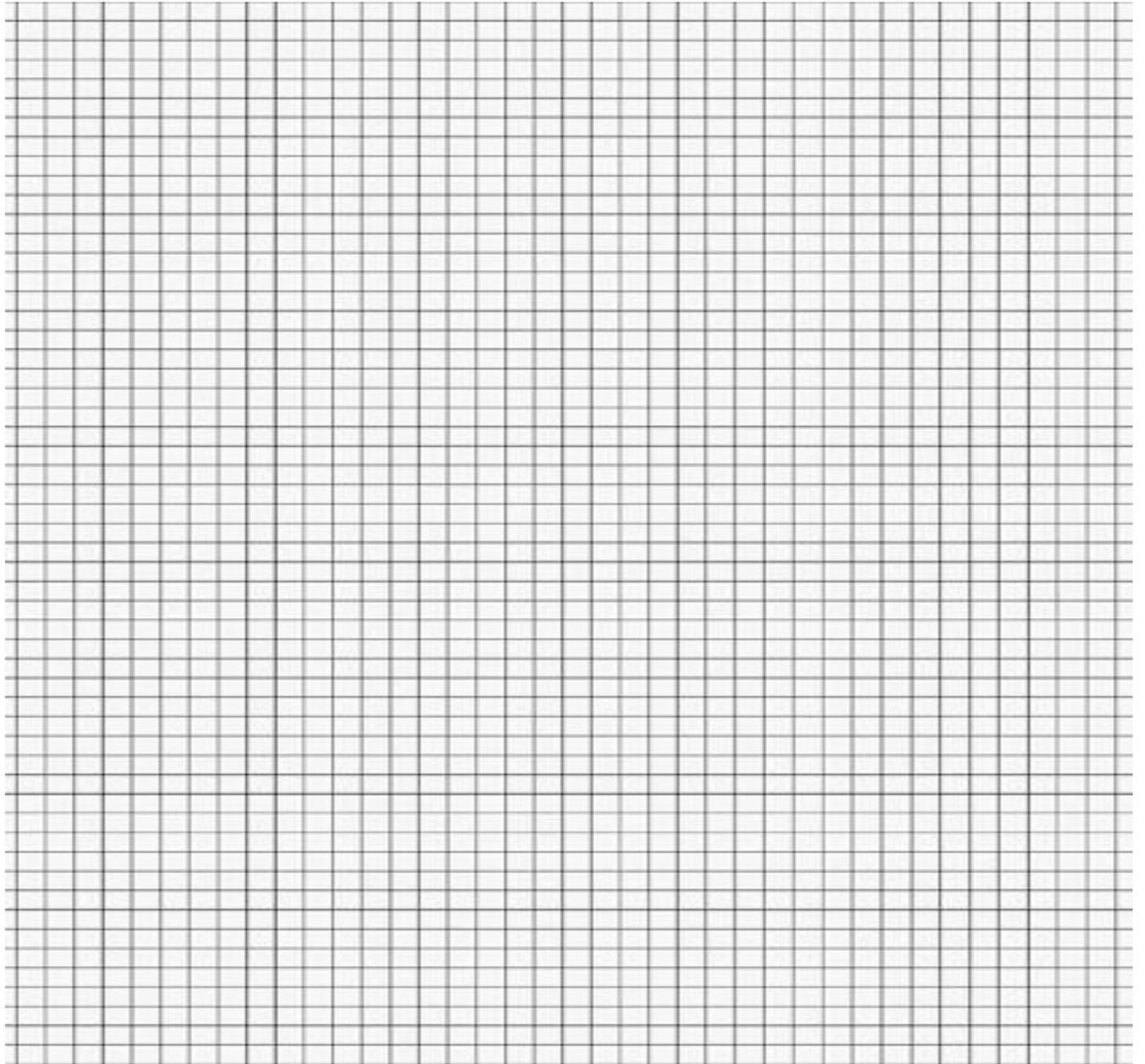
Disadvantage/disadvantages of this government measure?

Example:

$$Q_d = 50 - 0,5 P$$

$$Q_s = 0,5 P$$

- 1) Draw D, S,
market equilibrium**
- 2) Calculate market equilibrium**



3) Calculate CS, PS and TW

4) Imagine: government setting quota of 15

Draw quota = market limitation

Indicate new S curve

Indicate new market equilibrium

5) Calculate new market equilibrium

6) Calculate new CS, PS and TW

7) Calculate DWL and indicate on graph

1.e.b. CRITICAL APPROACHES TO SOME EXAMPLES OF GOVERNMENT MEASURES



| Measure | MINIMUM PRICE ON FAST FASHION |
|---------------------------------------|--|
| Negative externality | Climate impact of discarded clothing, online ordering/delivery Exploitation of labour (working conditions production) |
| Purpose | Behavioural change: buying sustainable, high-quality clothing (slow fashion) |
| Advantages | Can at least raise awareness, both among consumers and producers |
| Disadvantages | Clothing is becoming less affordable for people with a small budget Companies will make even more profit |
| Alternative approach to externalities | Stricter directives (EU), information |

Fast fashion is dirt-cheap, trend-conscious, low-quality clothing that is made to be worn for only a short time and is produced in a very short time. Instead of seasons, people speak of mini-seasons here.

| Measure | MAXIMUM PRICE ON SOLE DURING FISHING REST |
|---------------------------------------|--|
| Negative externality | Illicit trade/black market |
| Purpose | Keeping sole affordable |
| Advantages | Consumer income protection |
| Disadvantages | Checks cost time and money Less income for fishermen |
| Alternative approach to externalities | Fishing quota, education (promotion of other fish species) |



Fishing rest is a biological recovery period intended to allow fish stocks to recover; In this case, there is a scarcity/limited supply of sole

| Measure | TAX ON PLASTIC FRENCH FRIES TRAY |
|---------------------------------------|--|
| Negative externality | Climate impact of plastic waste |
| Purpose | Reducing plastic waste |
| Advantages | Can at least encourage awareness, both among consumers (e.g. using pot) and producers Tax is revenue for government |
| Disadvantages | Higher price tag for consumers |
| Alternative approach to externalities | Subsidies for environmentally friendly packaging, recycling of plastic (deposit), information |



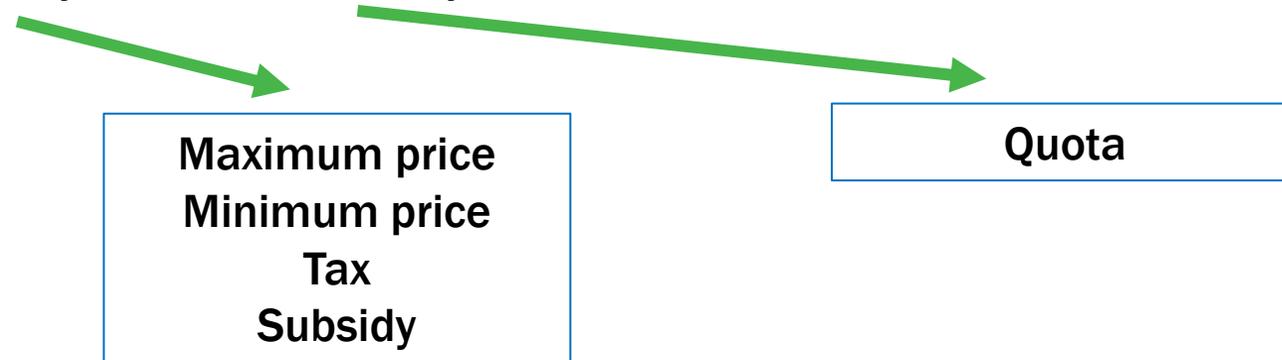
| Measure | SUBSIDY FOR REPAIR OF BROKEN ELECTRONICS |
|---------------------------------------|--|
| Positive externality | Sustainable economy |
| Purpose | Extending the life of electronics (instead of replacement) |
| Advantages | Can at least raise awareness, both among consumers and producers |
| Disadvantages | Subsidy is a cost for the government (effect???) |
| Alternative approach to externalities | Recycling system (is not always a solution for broken products, but it does reduce waste), quality guidelines for electronics, information |



1.e.c. WEALTH IMPACT OF GOVERNMENT MEASURES

| POSITIVE IMPACT | NEGATIVE IMPACT |
|---|--|
| Correction of market failures: such as taxes on pollution (Pigouvian taxes), or subsidies for education. This increases efficiency. | Distortions of market forces: all ways in which the government intervenes in the market lead to deadweight loss (loss of wealth) |

Monetary and non-monetary measures, as we have discussed, are affected by this impact.



But other non-monetary government measures, such as regulation, are also subject to both positive and negative wealth effects.

Example: increasing quality requirements for fast fashion

| POSITIVE IMPACT | NEGATIVE IMPACT |
|--|---|
| Correction of market failure: product becomes more qualitative and sustainable | Distortions of market forces: producer costs increase |

Example: smoking ban on horeca terraces

| POSITIVE IMPACT | NEGATIVE IMPACT |
|---|---|
| Correction of market failures: smoking is discouraged | Disruptions of market forces: turnover and profit in the horeca sector fall |

EXTRA

As already discussed several times, the government "intervenes" to correct a failure of the market.

This happens not only in domestic markets, but also in the global market:

| GOVERNMENT MEASURE: What + purpose? | EXAMPLES |
|--|-----------------|
| IMPORT DUTIES IMPORT TAXES What? Purpose? | |

GOVERNMENT MEASURE:

What + purpose?

EXAMPLES

EXPORT SUBSIDIES

What?

Purpose?

GOVERNMENT MEASURE:

What + purpose?

EXAMPLES

IMPORT QUOTA

What?

Purpose?