

Commentary	1
Title of the article	<i>Commerce Commission denies Vodafone, Sky merger</i>
Source of the article	Otago Daily Times - https://www.odt.co.nz/business/commerce-commission-denies-vodafone-sky-merger - Accessed 6 March 2017
Date the article was published	23 February 2017
Date the commentary was written	14 March 2017
Word count of the commentary	795
Unit of the syllabus to which the article relates	Microeconomics
Key concept being used	Efficiency

Article

Otago Daily Times

Vodafone and Sky are not allowed to merge into a single entity, the Commerce Commission announced this morning.

Commission chair Dr Mark Berry said proposed merger would have created a strong vertically integrated pay-TV and full service telecommunications provider in New Zealand owning all premium sports content.

"We acknowledge that this could result in more attractive offers for Sky combined with broadband and/or mobile being available to consumers in the immediate future. However, we have to take into account the impact of a merger over time, and uncertainty as to how this dynamic market will evolve is relevant to our assessment," he said.

He added that about half of all households in New Zealand had Sky TV and a large number of those were Sky Sport customers.

"Internationally, the trend for bundles that package up broadband, mobile and sport content is growing. Given the merged entity's ability to leverage its premium live sports content, we cannot rule out the real chance that demand for its offers would attract a large number of non-Vodafone customers," Dr Berry said.

To clear the merger, the Commission would need to have been satisfied that it was unlikely to substantially lessen competition in any relevant market.

"The evidence before us suggests that the potential popularity of the merged entity's offers could result in competitors losing or failing to achieve scale to the point that they would reduce investment or innovation in broadband and mobile markets in the future.

In particular, we have concerns that this could impact the competitiveness of key third players in these markets such as 2degrees and Vocus."

This was also against a backdrop of fibre being rolled out, making it an opportune time for the merged entity to entice consumers to a new offer, Dr Berry said.

"If significant switching occurred, the merged entity could, in time, have the ability to price less advantageously than without the merger or to reduce the quality of its service. Given we are not satisfied that we can say that competition is unlikely to be substantially lessened by the proposed merger, we must decline clearance."

Sky TV CEO John Fellet said in a statement to the NZX the Commission's decision was disappointing.

"This is a very disappointing conclusion to a merger we saw as enhancing New Zealand's communications and media landscape. From here we will continue to strive to deliver innovative ways to curate and deliver entertainment to all of New Zealand."

The merger would have seen Sky TV buy Vodafone NZ for \$3.44 billion, funded by a payment of \$1.25b in cash and the issue of new Sky TV shares at a price of \$5.40 per share. Vodafone would in turn become a 51 per cent majority shareholder in Sky TV, in what amounts to a reverse takeover.

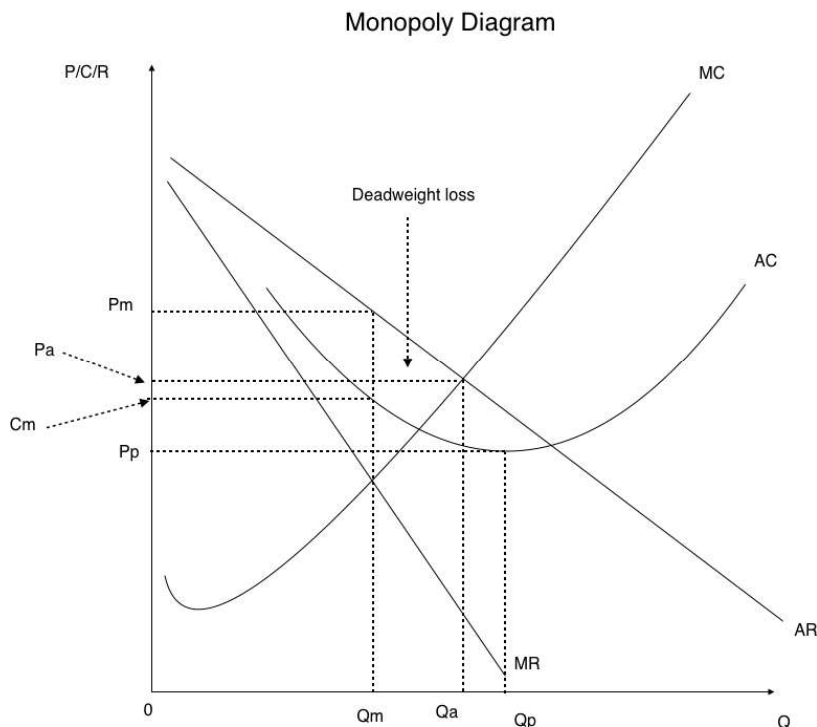
Sky would have then borrowed \$1.8b from Vodafone to fund the purchase, repay existing debt and for working capital.

Vodafone chief executive Russell Stanners would have headed the merged business.

Commentary

The New Zealand Commerce Commission denied the merger between Vodafone and Sky TV as the report says. As it might result in competitor losing, and the uncertainties in the future, they turned it down due to the likely consequences of monopoly and **inefficient** allocation of resources.

Monopoly is a situation when there is only one firm in the market who is a price maker, also there are no close substitutes and there are strong barriers to entry the market. When a firm like Monopoly wants to make maximum profit, it would produce the output where at marginal cost (MC) is equal to marginal revenue (MR). As Diagram 1 shows, the monopolist will produce at quantity Q_m and price P_m , where cost is C_m . It does not achieve neither **allocative efficiency nor productive efficiency**. **Allocative efficiency** is when MC is equal to AR, when the consumers pay a market price that is equal the private marginal cost. **Productive efficiency** is when the firm is producing at lowest average cost. Because of this, market failure would occur when there is monopoly exists. From the graph we can see that in this market, the product is overpriced, under-produced and a triangle-shape deadweight loss occurs when the monopoly is making supernormal profit, which is the triangle with sides AR, MC and dot line Q_m .

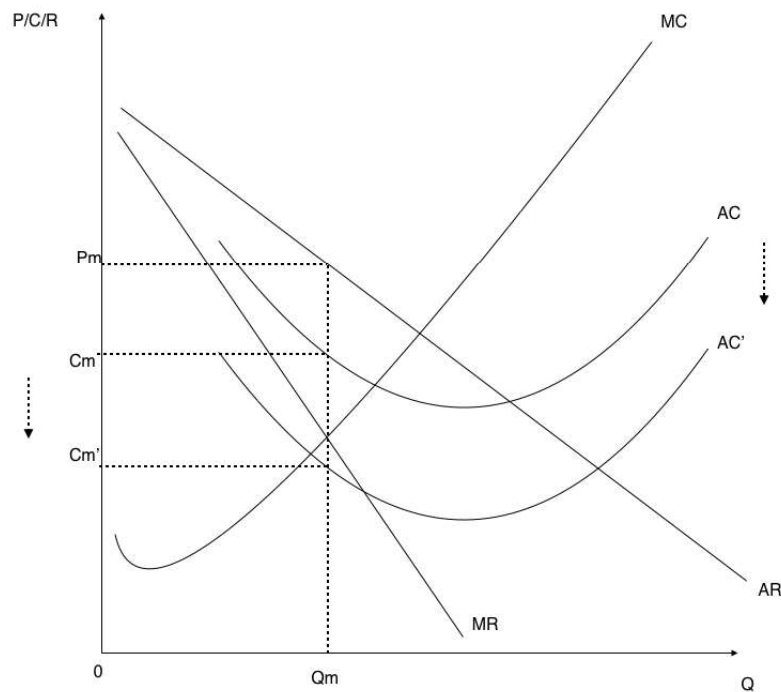


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As the report says, half of the households in New Zealand have Sky TV. With this large number of customer base, once two firms merged, it is very likely that in the future, more and more households switch to Vodafone from Vocus or 2degrees due to the bundle sell. Eventually they might push other firms out due to the large number of customer base and gain significant monopoly power. Then they could raise the price and possibly decrease the quality of services as explained above. What is more, due to the possible consequence that the consumers of other firms might switch to them, other firms would have less customers and less revenue, therefore, they are likely to have insufficient funds to innovate. These firms would not be able to become more **efficient** by gaining economies of scale. From this perspective, it is reasonable that the Commerce commission denied the merger to prevent the monopoly happens.

Arguably the price might become lower due to the economies of scale, as the diagram2 shows. As two firms merged together, the average cost might decrease as the possible **efficient** gain of administration and the bulk buying, etc. Therefore, from the graph we can see that the average cost (AC) shift down to form AC', where at this point, the cost has decreased from C_m to C_m' . Possibly they would drop price as the AC decreases or they might improve the quality of service while maintaining the price. In addition, as they would be making supernormal profit, arguably they would have more funds to innovate, besides, they could provide communication convenience due to their large customer base as the CEO of Sky TV claimed.

Monopoly economy to scale gain diagram



2

Nevertheless, it is still understandable to deny the merger as it could form monopoly and deadweight loss still exists even though the price is lower. Most importantly, when there is no or minimum competition, consumers would have less choice; the possibility of lack in innovation would also be harmful for the industry to improve. The positive consequences they claimed might not happen, but if there are competitions, they must innovate, keep the price low and providing quality service anyway, not just an uncertainty.

Last but not least, the Sky TV has already taken half of the market share, and Vodafone is also a large firm. This would further increase the chance that the new entity become monopoly, which is unfavourable situation to have for households and the Commerce Commission.

In consider of the possibility that the new entity does not necessarily decrease the price or maintain the quality of services once the monopoly happens, and the negative consequences are very likely to happen according to theory, the deny of the merge seems to be reasonable as the Commerce Commission doesn't want to take the risk.

In conclusion, the Commerce Commission has made a wise decision to deny the merger on the basis of the relative **efficiency** gains and losses. Although the merged firm could arguably gain economies of scale and be more **productively efficient**, it was felt that this could be outweighed by the potential loss of **allocative efficiency** due to possible higher prices for consumers and the prevention of competing firms **gaining efficiencies** themselves as customers may be lost to the new firm.

It is clear that the somewhat contrasting concepts of **productive and allocative efficiency** are at the heart of this decision. While **productive efficiency** is likely to benefit firms, it may, in this case, lead to **allocative inefficiency**, to the detriment of consumers.

Commentary	2
Title of the article	Emmanuel Macron plunges head-first into labor reform
Source of the article	Politico – www.politico.eu/article - date accessed 15 June 2017
Date the article was published	23 May 2017
Date the commentary was written	30 June 2017
Word count of the commentary	796
Unit of the syllabus to which the article relates	Macroeconomics
Key concept being used	Economic well-being

Article

Emmanuel Macron plunges head-first into labor reform

France's new president is counting on divisions in the labor movement and fast-track legislation.

By PIERRE BRIANÇON | 5/23/17, 2:02 PM CET | Updated 5/27/17, 6:29 AM CET

Source: www.politico.eu

PARIS — Emmanuel Macron on Tuesday got down to the nitty-gritty of running the country, with a marathon discussion on the reform on which he has staked his reputation: the labor market.

...

This is the reform Macron wants to pass first, and fast. It is also the one that, should he fail, would trip his presidency before the end of the year.

...

Employers eagerly anticipate what they consider long-overdue changes in the way working regulations are implemented in France, while most trade unions have warned they will oppose Macron's plans just as they opposed similar reforms that his predecessor François Hollande tried to push through last year.

Macron's plan is to convince and divide. He wants to spare no time explaining that the aim of his reform — a wide decentralization of collective bargaining to individual company level — is to make French businesses, notably small and mid-size firms, more agile and adaptable so that they can create more jobs.

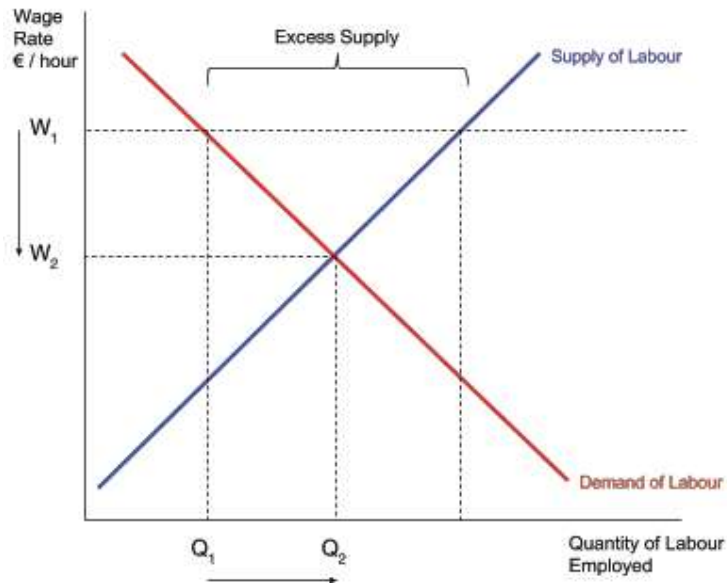
If implemented, the reform would nudge labor relations in France closer to the German or Scandinavian model. Unions would have more latitude to strike deals on work time and pay within companies or even individual work sites. This would give firms more flexibility than the current system, which forces them to abide by sector-wide agreements that are difficult to adapt.

Commentary

The balance of power between workers and employers in the labour market in France is an important issue. The trade unions in France are very powerful. They “opposed similar reforms.... last year” indicating that they were able to prevent such reforms. Newly elected president Emmanuel Macron has prioritised the market reform as “The reform he wants to pass first” although they could “trip his presidency before the end of the year”. He clearly sees labour market inflexibility as a major obstacle to the promotion of **economic well-being**, but there will be major opposition.

Macron has targeted solving the issues of inflexibility of contracts and trade union collective bargaining through the use of market orientated supply-side policies and more specifically labour market reform.

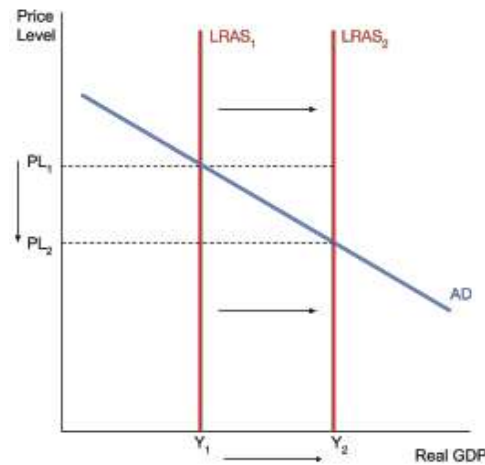
In the current French labour market, with strong unionization, many wage rates are negotiated on a “sector-wide” basis. If unions agree to increase wage rates by a certain amount, all firms must raise their workers’ wages by the same. Given that in a dynamic economy individual companies have different supply and demand conditions, this means that in many cases their labour markets do not clear. In some cases, the wage rate is above the equilibrium, while in others the employer might wish to increase wage rates to attract more workers but is not able to do so.



The inability to alter wages based on individual company performance often results in struggling firms having to raise their wage rates, something that they can't afford to do. As shown by the graph, this leads to an excess supply of labour as employers are not willing and able to offer jobs at the higher wage rate of W_1 . By lowering wages to W_2 , firms are able and willing to hire more workers and therefore the quantity of employed workers increases from Q_1 to Q_2 . In addition to this, lower costs of production enjoyed by the firms, could lead to higher profits from firms and therefore more investment into new technology and research and development.

The main effect of this change, however, is its effect on unemployment. As shown on the graph above, a fall in the wage rate has increased the quantity of labour employed, which means that there are fewer unemployed workers in the French economy. The natural rate of unemployment has thus decreased.

This affects the economy as a higher natural rate of unemployment reduces a country's potential output. Combined with an advancement in technology and increased R&D, a lower rate of unemployment will increase France's potential output and shift their LRAS curve to the right. This occurs due to advancements in technology allowing France to increase their national output from the same amount of inputs, as well as this less unemployment means are utilizing their workforce more than they were before. These changes increase France's production potential and therefore shifts LRAS to the right. This shift will increase France's national income



An increase in France's national income holds obvious benefits such as improved quality of living and improved **economic well-being** for its residents due to the ability to buy more goods and services and improved public infrastructure due to higher tax revenue for the government. Despite this, there are some drawbacks. Supply-side policies involve a certain time lag which means that it will take much longer than monetary or fiscal policies to take effect on the economy.

The other, more significant, detractor of supply-side policy and in particular labour market reform is the effect that the policy has on the distribution of income.

Although the long-term effects of a reform would benefit the entire economy, in the short run, reduced union power, cut unemployment benefits and lower wage rates for low income earners would all contribute to inequality in the distribution of income. Because of these effects, proposed reforms by previous presidents such as Jacques Chirac and Francois Hollande have been blocked by mass protests.

Despite this, Macron's shock victory in the presidential election and his party's overwhelming success in the parliamentary elections suggest a tide is turning in French politics and a labour reform may be met with a positive reception. Macron has stated that he wants to "convince and divide", with the primary role in this plan being to convince unionists that these changes are in the best interest of the country, while past presidents have been unable to carry this out. The sixth highest unemployment rate in the EU and little to no economic growth since 2008 may have been enough to persuade the French public otherwise.

A key concept in this commentary is **economic well-being**. By implementing labour market reforms, Macron is aiming to increase France's potential output, therefore leading to an increase in national income, which will allow citizens to purchase more goods and services, therefore increasing their wellbeing.

Commentary	3
Title of the article	Exporters demand devaluation of currency opposed
Source of the article	The Nation http://nation.com.pk/business/12-May-2017/exporters-demand-devaluation-of-currency-opposed accessed 15 May 2017
Date the article was published	12 May 2017
Date the commentary was written	4 June 2017
Word count of the commentary	794
Unit of the syllabus to which the article relates	The Global Economy
Key concept being used	Equity

Article

Exporters demand devaluation of currency opposed

12th May 2017

Commentary written 4 June 2017

ISLAMABAD - Islamabad Chamber of Small Traders on Thursday said demand of the export sector to devalue currency to boost exports is against the national interests.

Devaluing the weakest currency in the south Asia will increase cost of debt servicing, stoke inflation and make imports costly which are already double than the exports, said Patron Islamabad Chamber of Small Traders Shahid Rasheed Butt.

He said that government should not compromise the interests of masses to benefit a cartel of industrialists which is addicted to subsidies, bailout packages, tax breaks etc.

Shahid Rasheed Butt said that foreign debt has already touched mark of 79 billion dollars, four years ago it was 63.5 percent of the GDP but now it has reached to 66.5 percent of the GDP.

The export sector which has never accepted challenge of facing competition should improve their competitiveness leaving demand of exchange rate depreciation as it will damage masses.

He said that further erosion in the value of rupee will hit importers and masses and it will send a very negative signal. Devaluation will not support the exports as expected therefore the export industries should focus on cost reduction, skill development, value addition and upgradation, he added.

The business leader said that masses should not pay the price for the weakness of exporters and decision to appoint incompetent officials at key positions.

Irresponsible exporters are addicted to subsidies, tax breaks, bailouts while devaluing rupee will deprive them of incentive to upgrade machinery, improve quality and find new markets, he stressed. He said the situation will lead government to borrow more to stabilise forex reserves which is a recipe for economic disaster.

FPCCI calls for promoting domestic commerce

The Federation of Pakistan Chamber of Commerce and Industry (FPCCI) on Thursday asked the government to promote domestic commerce to trigger economic growth. Exports are not picking up despite best efforts and heavy investment, said Chairman of FPCCI Regional Committee on Industries Atif Ikram Sheikh.

Therefore, he said, now government should focus attention on the neglected sector of domestic commerce which has thirty two percent share in the GDP while it employs twenty percent of the workers.

Atif Ikram Sheikh said that government should announce a comprehensive policy to promote domestic commerce and consider establishing a separate ministry for its promotion.

Improved domestic trade will result in expansion of businesses, employment opportunities, improved revenue and surplus production that can be exported to earn foreign exchange, he added.

The business leader said that road and rail network should be improved, GT Road should be upgraded, motorway should be made affordable for commercial vehicles, and ports as well as dry ports should be developed to make business a bit easy.

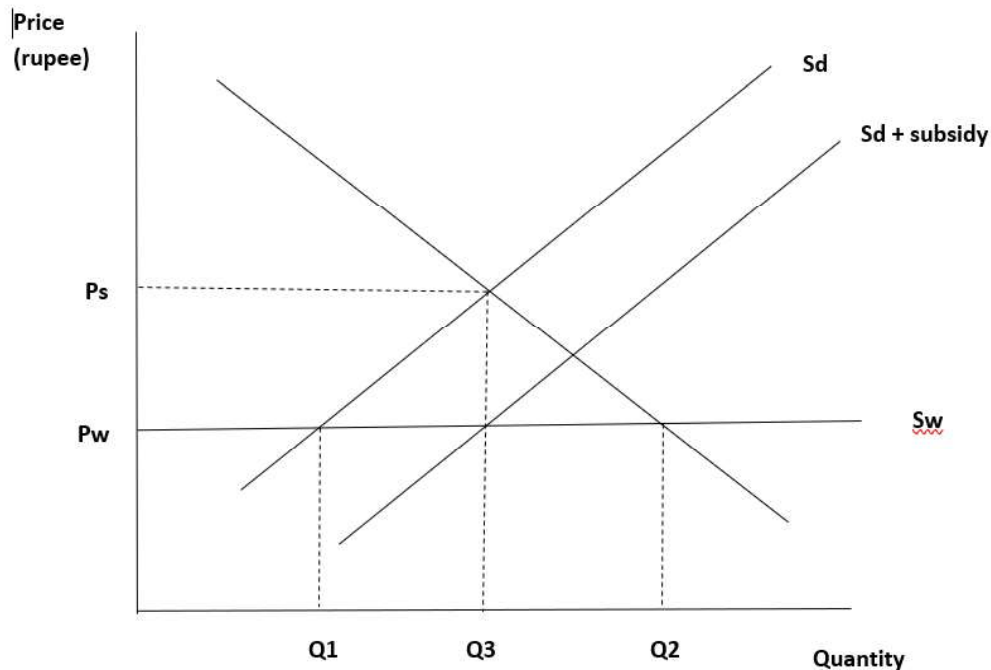
He said that the issue of intellectual property rights should also be tackled as weak implementation continues to damage local brands while legal system delays resolution of dispute for decades which is a great impediment.

Commentary

This article discusses the opposition to proposed measures to devalue the Pakistani rupee in order to benefit their export sector, and the negative effects of such a devaluation. Although a key theme is the extent to which governments should intervene in the allocation of resources, the driving concept for the arguments is **equity**, as a devaluation would harm “the masses” and benefit “a cartel of industrialists”. Devaluation is a reduction in the exchange rate under a fixed exchange rate system. Such a devaluation will affect the general populace, increasing the price of their imports, debt servicing costs, and inflation. However, it is desired by the export sector as it makes their products relatively cheaper, thus increasing demand for exports.

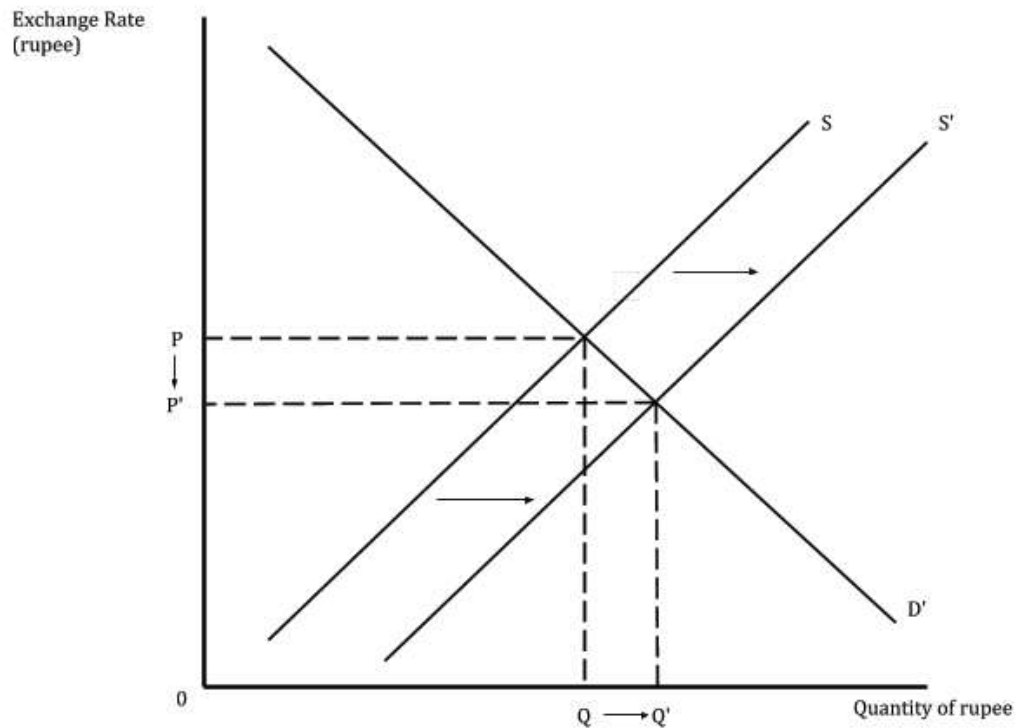
This would mean that they don’t need to increase their productive efficiencies in order to lower their prices. This is described as a criticism of the export sector, saying that such devaluations “deprive them of incentive to upgrade machinery,

improve quality". If the currency remained stable they would have to become more productively efficient and cut costs, meaning that currently, these industries are relying on the government. Not implementing this policy of devaluing the rupee could force increases in productive efficiency, increasing international competitiveness and comparative advantage in the long term. This can be shown in the following diagram:



This shows how before the use of “subsidies, bailout packages, tax breaks” which the exporting companies are used to, there are imports of Q_1 to Q_2 , whilst after the imposition of the subsidy, shifting the domestic supply curve from S_d to $S_d + \text{Subsidy}$, there are lower imports of Q_3 to Q_2 , and a higher price received by the domestic producers, shown at P_s , showing how these measures lead to a higher price received by producers, and increased quantity sold, reducing the need to cut costs, and allowing them to export at this lower price, undercutting international competition and increasing revenues.

In order to implement the policy of devaluation to aid such exporting companies, the article suggests that the Pakistani government will need to borrow more to "stabilise forex reserves", which is as the central bank will need foreign currency to finance the devaluation of the rupee. This is shown in the following diagram:



To devalue the rupee, foreign currency is purchased, increasing the supply of rupees, causing a rightward shift. This increase in supply from S to S' will have the effect of the exchange rate falling from P to P', and the quantity of rupees increasing from Q to Q'. A problem with this is that there is a large opportunity cost for the government, as it requires them purchasing large amounts of foreign exchange to manipulate the currency, which could potentially be better used in other areas of government, such as welfare payments.

The article discusses the negative effects which a currency devaluation will have on Pakistan, such as increased costs of debt servicing. This occurs as the interest on the debt which Pakistan has is from foreign sources, and as such must be paid back

in foreign currency. This foreign currency will be more expensive to purchase as a result of a rupee devaluation, thereby increasing the cost of servicing the debt. A similar effect will cause possible increases in inflation, as goods which are imported to the country must be purchased with foreign currency, which will again be relatively more expensive, thus making imports more expensive, leading to imported inflation. Additionally, this imported inflation means that in general, imported goods will be increasing in price in Pakistan, leading to increased uncertainty for businesses, as it is harder to predict raw material costs.

However, the management of the exchange rate will possibly have benefits for the export sector, as it may lead to higher total revenue for them, as well as increased certainty with regards to the price their goods will sell at in the future, as the exchange rate is being controlled by the government, as opposed to market forces. Additionally, the article comes from a release by an association representing small traders, and as such will have biases towards not supporting the devaluation, and in the article we may not see other arguments for devaluing the currency.

Overall, a devaluation of the rupee would lead to higher revenues for exporting companies, at the expense of the populace, which would see increased prices for imports, higher inflation, and increased uncertainty. Therefore, it is argued that such a policy is **inequitable**, as the industrialists who are already rich will become richer while the “masses”, many of whom are in poverty, will suffer a reduction in their economic well-being. This combined with the government having higher debt servicing costs and a large opportunity cost mean that this is most likely not a good policy to implement.