

Commentary	1
Title of the article	<i>Cigarette price hike strikes again</i>
Source of the article	http://www.nzherald.co.nz/bay-of-plenty-times/news/article.cfm?c_id=1503343&objectid=11777946 (Accessed 20 March 2017)
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Unit of the syllabus to which the article relates	Microeconomics
Key Concept being used	Economic well-being

Article

Bay of Plenty Times



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Cigarette price hike strikes again

10:00 AM Saturday Jan 7, 2017

3 comments

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Smoker Zoran Cacic is having to go cold turkey due to the cigarette price hike. Photo/Andrew Warner

The annual cigarette price hike has forced one Tauranga smoker to go cold turkey.

"I haven't got a choice now, the price is out of my budget," said Zoran Cacic, a smoker for 32 years.

He had not been able to buy a packet since the 10 per cent tax increase rolled into effect on January 1 2017.

In the 32 years since Mr Cacic started smoking he had tried to stop a few

times, finding the gum and patches ineffective.

"I had cut myself down to 3 to 4 smokes a day, I was slowly weaning myself off from the 20 to 30 cigarettes a day I used to smoke."

He said it had been nice to have the option to stop on his own terms but since the latest price hike, he's had to go cold turkey.

"I'm a stubborn person, I refuse to try to find the extra money. I'm sure it's not going to be easy."

An amputee and on the sickness benefit, Mr Cacic's budget just would not allow the price increase for him to continue his weaning off process - "and it's not like my circumstances are going to change in a hurry."

Mr Cacic had been smoking since he was 14 - when society told him it was cool and not lethal.

"All the sportsmen, movie stars smoked. No one was saying it was going to give me cancer and I got hooked," he said.

The price hike has been good news for electronic cigarette retailers in Tauranga, who have seen an upswing in converts in the New Year.

Ben Kitson, owner of E-Juice Bar on Cameron Rd, said the tax hike and New Year's resolutions were pushing people to an alternative.

"It's been huge, there have been hundreds of people coming in."

E-Juice Bar had to move to a bigger premises and take on three new staff members to keep up with the demand in the previous three months.

Naked Vapour in Papamoa owner Lia Haskett said they had been busy over the holiday period.

"Price has had an effect on people, it's always a factor in helping people along to make the decision to change over."

A staff member at Park Mini Mart said she noticed on December 30 and 31 people bought two packets instead of one, thinking of the price increase ahead.

"Now, people are not very happy. But they know they have to stop sooner or later."

She said the price hike made her worried the mart would be robbed as people get desperate for cigarettes - "this is what gave rise to the heinous acts last year."

"The punishment should be more for robbery - it's not enough at the moment."

Quitline CEO Andrew Slater said the holiday period saw a big influx of calls.

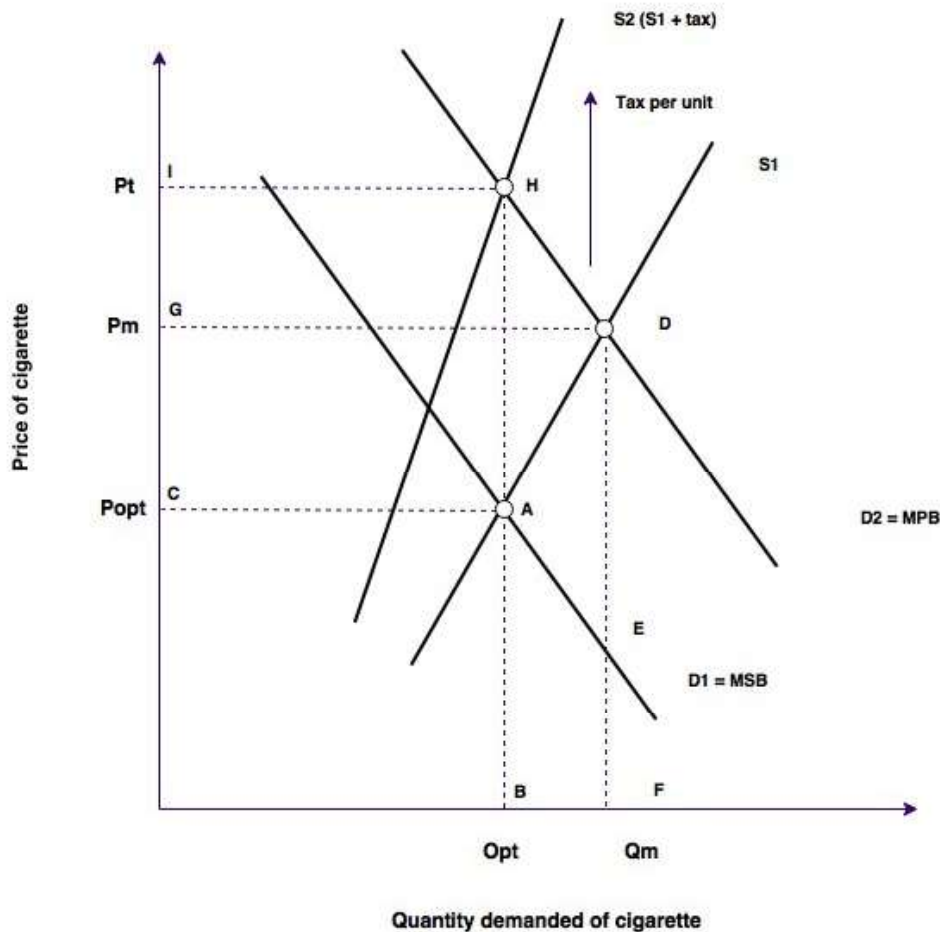
"Quitting smoking is not an easy thing for everyone, most people don't succeed on their first attempt, but you need to keep trying."

The Government will be increasing the tax on cigarettes every year for four years, hoping to become smoke free by 2025.

- [Bay of Plenty Times](#)

Commentary

The article discusses the response of cigarette consumers after the imposition of a cigarette tax in Tauranga, New Zealand. Excise taxes are fees levied on producers and consumers by the government. The tax introduced in the article is ad valorem tax, which is a fixed percentage of the price of the good or service¹ to curb the consumption of cigarette - a demerit good considered unhealthy or unfavorable for consumers. The government is looking after the **economic well being** of the nation, through present and future economic choices.

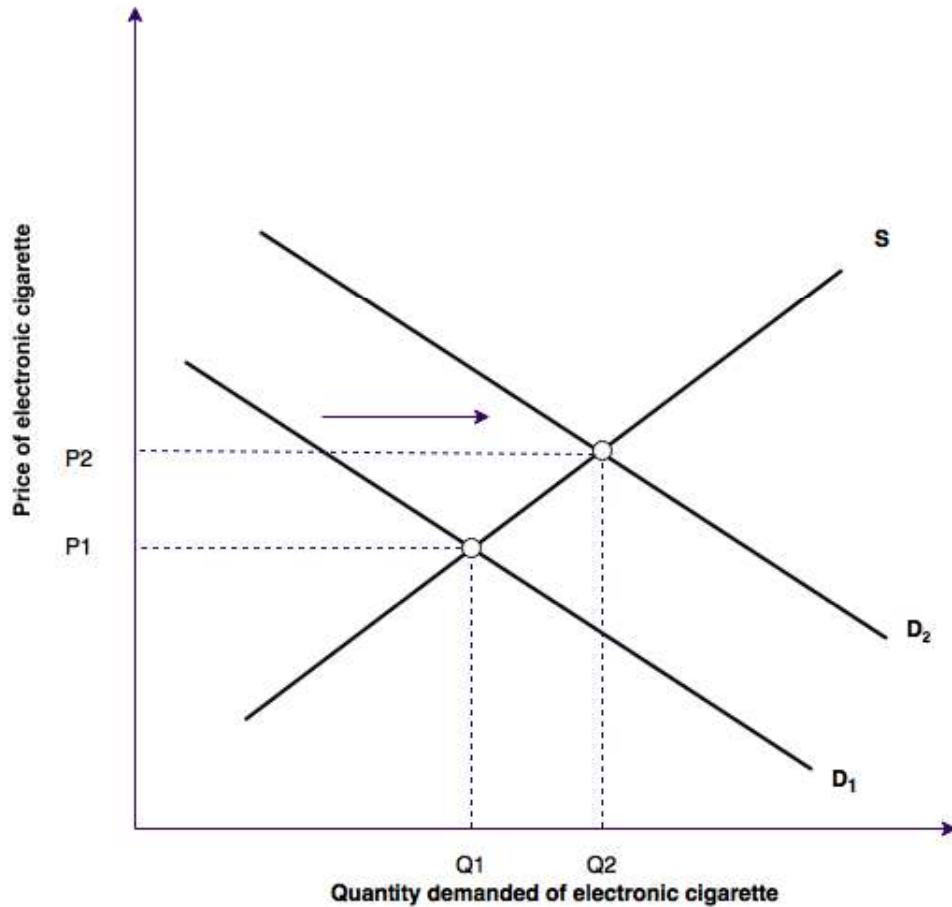


¹Tragakes, E. (2012). *Economics for the IB Diploma Second Edition*. Cambridge University Press. p.73

In January 1 2017, a 10-percent tax 'rolled into effect'. The tax is implemented to serve the purpose of bringing about the **economic well being** through correcting negative externalities - negative and harmful side-effects on the society. Negative externalities of the consumption of cigarettes are lung cancer and other health problems paid in the form of healthcare. Besides, using cigarettes put a constraint on the healthcare system due to the involvement of passivesmokers.

In the diagram, MPB curve is greater than the MSC because smoking creates external costs on non-smokers, so the society benefits as a whole less than the smokers themselves. This signals that there is an overallocation of resources to the production of cigarettes and the society would be better off if less than the level of output Q_m is produced.

The tax rate of 10% on cigarette results in an upward shift of the supply curve from S_1 to S_2 . This new curve is steeper than the original one because as the price increases, so does the tax per unit. The tax internalizes the negative externalities since it causes a decrease in the level of output. This is based on the ground that fewer smokers can afford cigarettes at price P_t . "...the price is out of my budget". Thus, an attempt at achieving economic well-being is being made through forced economic choices. If the tax equals external costs, the MSB curve will intersect MPB curve at the socially optimal level of output, and the quantity produced and consumed drops to the social optimum level. The tax therefore allows allocative efficiency to be achieved.



Substitutes and positive XED: demand for electronic cigarette

Since cigarettes and e-cigarettes are close substitutes, or in other words, products that satisfy a similar need and a fall in price of one results in a fall in the demand of the other², the demand for e-cigarettes is affected. This relationship is explained by the concept of cross-price elasticity (XED) which is a measure of the responsiveness of demand for one good to a change in price of another good³. In this case, “the price

² Tragakes, E. (2012). *Economics for the IB Diploma Second Edition*. Cambridge University Press. p.24

³ Tragakes, E. (2012). *Economics for the IB Diploma Second Edition*. Cambridge University Press. p.59

hike has resulted in an upswing in converts in the New Year” and “It’s (the demand for e-cigarettes) has been huge”. This proved that the absolute XED value of cigarettes and e-cigarettes is relatively high.

In the diagram, D_1 and D_2 represents the original and the new demand curves of e-cigarettes. When the price for cigarettes increases, there is a rightward shift of the demand curve from D_1 to D_2 of e-cigarettes. The movement results in the change in quantity demanded and supplied from Q_1 to Q_2 and an increase in price paid by consumers, which means electronic cigarette retailers earn a greater revenue ($Q_2 \times P_2$ as opposed to $Q_1 \times P_1$) and are better off in this decision. If the smokers recklessly continue substituting smoking to e- cigarettes, the government may begin intervening in the e-cigarettes market too to sustain the **economic well being** of the nation.

In the short run, the tax imposed is beneficial as its purpose is twofold: bringing about a source of revenue for the government, which is the area $ACIH$ in the diagram, and reducing the consumption of cigarettes. When they are produced less, there will be allocative efficiency as the capital investment and labour can be redistributed to merit goods. This, in the long run, leads to a healthier population with more productive capacity or enhanced **economic well-being** hence the government can focus their spending on other welfare.

Nevertheless, there are certain difficulties in this approach worthy of consideration. In the short term, the tax induces the underground markets where cigarettes are sold at

“people who get desperate for cigarettes”. Additionally, a lower amount of output means fewer workers are needed therefore there may occur some unemployment in the cigarette industry. Another downside of the approach might be the difficulties in measuring the value of external costs in order to completely eradicate the external cost. A key concept in this commentary is **economic well-being**. By implementing taxes, the government has brought about certain success to put an end to smoking in Tauranga, but it will also depend upon the consumers choices towards their own **economic well-being**.

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Commentary	2
Title of the article	<i>Markets see South Africa cutting rates to boost growth</i>
Source of the article	https://www.cnbc.com/africa/trending/sa-downgrade/2017/06/08/markets-see-south-africa-cutting-rates/ (Accessed 17 July 2017)
Date the article was published	7 June 2017
Date the commentary was written	27 July 2017
Word count of the commentary	762
Unit of the syllabus to which the article relates	Macroeconomics
Key Concept being used	Intervention

Article

Markets see South Africa cutting rates to boost growth

Reuters JUNE 7, 2017



Photo: Shutterstock.

Mfuneko Toyana | JOHANNESBURG

South African bonds priced in a higher likelihood of a 50 basis point rate cut by the central bank sooner than anticipated after the economy unexpectedly slipped into recession and raised the risk of further credit downgrades.

Forward rate markets on Wednesday were pricing in a nearly 30 percent chance of a 50 basis point interest rate cut at the next policy meeting in July, up from a 9 percent probability seen before the May policy meeting.

The South African Reserve Bank (SARB) has treaded a cautious policy path in the last 18 months; keeping benchmark rates on hold at 7 percent while signaling it had reached the end of a tightening cycle that began in early 2014.

The bank may however be pushed to act to save the economy by cutting lending rates sooner than planned to make money cheaper in a bid to boost consumer spending, analysts said.

Data on Tuesday showed the economy contracted by 0.7 percent in the first quarter of 2017 after shrinking 0.3 percent in the fourth quarter of last year.

At its policy meeting in May, Reserve Bank Governor Lesetja Kganyago played down the prospects of cheaper borrowing costs, citing risks to inflation posed by currency volatility in light of domestic political uncertainty and credit ratings downgrades.

Economists also said risks to inflation and the currency, posed by large capital and trade deficits, had faded.

“For a whole host of reasons the prospect of a rate cut has definitely increased. The bank could very well prioritize growth, putting it higher than has been case where inflation has been front and centre,” said director ETM Analytics George Glynos.”

“These traditional drags on the rand are no longer there and as a result they will probably feel a lot more comfortable in reducing interest rates.”

The country's trade balance swung to a 11.4 billion rand surplus in March and has remained in the black since then, while the current account narrowed to a six-year low in the first quarter.

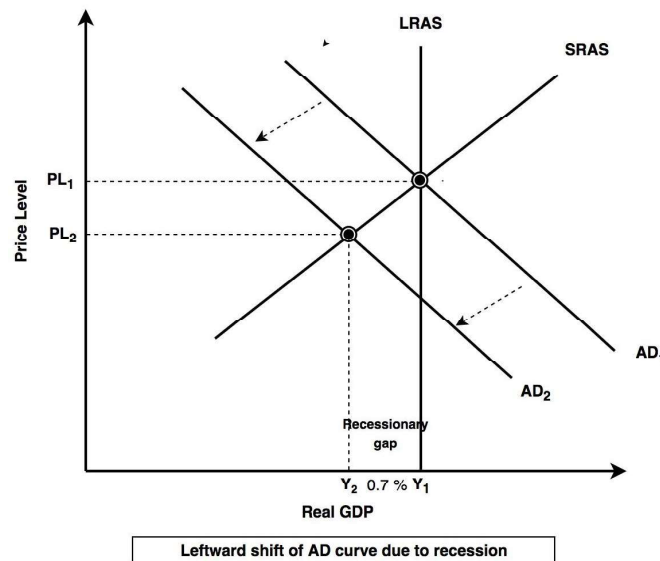
"Cutting next year would be too late and that will have driven the economy into a permanent recession," said senior economist at Old Mutual Johann Els.

"Cutting rates now would potentially boost confidence and the growth outlook and that would be positive for rating expectations because the agencies have said they're looking for growth possibilities that will aid fiscal sustainability."

(Reporting by Mfuneko Toyana; editing by Mark Heinrich)

Commentary

In the article *Markets see South Africa cutting rates to boost growth*, Reuters' journalist Mfuneko Toyana touches on the high possibility of the South African Reserve Bank (SARB) to sanction an interest rate cut, an **intervention** in response to the prospective recession, which is an economic contraction, where there is falling real GDP and increasing unemployment of resources. Interest rate is defined as “the percentage of the amount of the loan to be paid each year” (Tragakes 331). Adjusting the rate of interest is the responsibility of the central bank and is referred to as monetary policy.

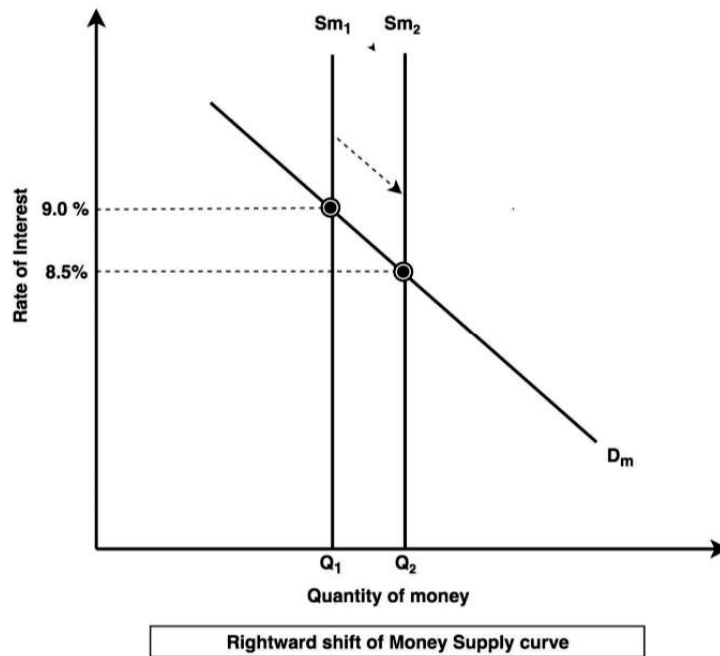


In the diagram above, there has been a leftward shift of the aggregate demand curve from AD_1 to AD_2 , resulting in a 0.7 % contraction of South African economy in the first

quarter of 2017. The shift has resulted in a fall in price from PL_1 to PL_2 and GDP

From Y_1 to Y_2 , creating a recessionary gap in the short-run. A variety of factors must have hindered the four components of the aggregate demand, including consumption, investment, government spending and net export. In fact, it is asserted in the article that “*trade balance swung to a 11.4 billion rand surplus*”, which means that the ability to consume imported goods has decreased, and the government **intervention** has been focusing on export to save the economy from further recession.

According to director ETM Analytics George Glynos, “*the prospect of a rate cut has definitely increased*”. Given such case, a target rate will be decided upon and the SARB will be incrementally adjusting the interest rate. In the diagram, the money supply curve shifts rightwards, resulting in an approximately a 50 basis point (0.5 per cent) rate cut, from 9.0% to 8.5%. This **intervention** means lower cost of borrowing, incentivizing consumption and investment. The ultimate effect is to increase aggregate demand, and thus to trigger the outward shift of the real GDP level of South Africa, clearly showing the Government **intervention** is an economic tool to achieve its economic objectives.



In the short run, the expansionary monetary policy will '*boost confidence and the growth outlook*', resulting in a short-term growth, rescuing South Africa from '*a permanent recession*.' The short-term recession experienced by South Africa only represents a temporary state of the economy, which occurred due to changes in determinants of the aggregate demand. However, over a longer period of time, without any improved conditions or **intervention** of the government, the economy might slip into a permanent recession in which, due to insufficient funding, there are degradation of technology, reduction in efficiency and inappropriate institutional changes. These factors will ultimately lead to a leftward shift of the LRAS curve, signifying an economic shrinkage over the long term.

In addition, the monetary policy will show several advantages in 'fine-tuning' the economy towards sustainability. In the short term, monetary policy, compared to fiscal policy, has quicker implementation, which will be beneficial in the case of South Africa when a solution is urgently needed. Secondly, in the long term, since its enactment does not impinge on the government's budget, this **intervention** will ensure the '*fiscal sustainability*' of the government, which entails the ability of the government to sustain current spending and other fiscal policies without posing a threat to its solvency (Krejd 2).

Nevertheless, the increase in money supply is not without disadvantages. This is the reason why the SARB took a prudent approach. Reserve Bank Governor Lesetja Kganyago pointed out that the government's pursuit of the **intervention** policy may not necessarily lead to cheaper borrowing due '*risks of inflation*' induced by '*currency volatility*' and previous '*credit ratings downgrades*', which had put South Africa in a less creditworthy position and would potentially push up the interest rate. Therefore, the bank has been maintaining the benchmark rates of 7 % despite the end of the tightening monetary period.

Furthermore, the policy does not guarantee its effectiveness in recession. Given the poor economic performance and volatile currency of the country, consumers and firms might hold back their borrowing and even spending or investment. At the other end, banks might not be willing to increase lending either.

The concept of **intervention** is extremely important here as it is aimed to be the chosen method to save the economy. Admittedly, the interventionist expansionary monetary

policy increases the money supply in the economy but also the several weaknesses of the policy implementation may not necessarily bring about the desired effect of improving economic growth. Nevertheless, this kind of government **intervention** will be the way forward for South Africa to boost growth.

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Commentary	3
Title of the article	<i>US sets final tariffs on softwood lumber from Canada</i>
Source of the article	BBC News: https://www.bbc.com/news/world-us-canada-41838828 (Accessed 15 November 2017)
Date the article was published	2nd November 2017
Date the commentary was written	30 November 2017
Word count of the commentary	779
Unit of the syllabus to which the article relates	Global Economy
Key Concept being used	Interdependence

22/11/2017

Article


BBC

NEWS

AD


WORLD FIRST

INTERNATIONAL MONEY TRANSFERS



US sets final tariffs on softwood lumber from Canada

2 November 2017 US & Canada



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Why are Trump and Trudeau fighting over trees?

The US Department of Commerce has said it has concluded that imports of Canadian softwood lumber are being unfairly subsidised.

In a statement released on Thursday, it said efforts to reach a negotiated agreement with Canada have failed.

Canada called the decision on countervailing and anti-dumping duties on lumber "unfair, unwarranted and deeply troubling".

This is the latest salvo in a lengthy dispute between the two countries.

The US has set final total tariffs for most Canadian softwood lumber producers at 20.8%. A handful of producers were singled out for individual duties, including one of up to 23.8%.

Except in one instance, those combined countervailing and anti-dumping duties are below preliminary tariffs issued earlier this year.

22/11/2017

US sets final tariffs on softwood lumber from Canada - BBC News

The view from the free trade front lines

The final tariffs will be set if the US International Trade Commission (ITC) makes a determination that the US industry was harmed.

An ITC decision is due by 18 December.

In a joint statement on Thursday, Canada's Foreign Affairs Minister Chrystia Freeland and Natural Resources Minister Jim Carr said they "will forcefully defend" the domestic softwood lumber industry.

"We are reviewing our options, including legal action through the North American Free Trade Agreement (Nafta) and the World Trade Organization, and we will not delay in taking action," they said.

Softwood lumber products, like pine, fir and spruce, are mainly used in the construction of single family houses.

The US has claimed for decades that Canada is unfairly subsidising its lumber industry by charging minimal fees to log public lands.

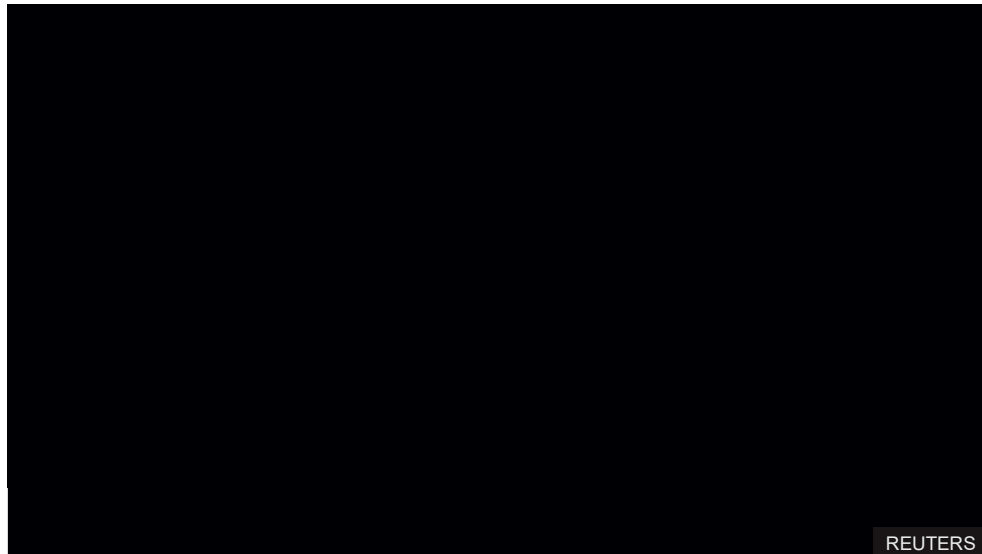
Commerce Secretary Wilbur Ross said in a statement that the US remains committed to "free, fair and reciprocal trade with Canada", and that the decision is based on "a full and unbiased review of the facts in an open and transparent process".

The department said it had determined that Canadian exporters have sold softwood lumber to the US at 3.2-8.89% less than fair value.

■ Trudeau and Trump discuss Bombardier row

It also maintains that the country is providing unfair subsidies at rates from 3.34-18.19%.

The US Commerce Department valued softwood lumber imports from Canada at C\$7.6bn (US\$5.6bn; £4.3bn) in 2016.



In June, Canada announced C\$867m (US\$640m; £500m) in relief for the country's lumber industry.

<http://www.bbc.com/news/world-us-canada-41838828>

2/7

Commentary

This article is about the subsidised lumber market in Canada and the following dumping of overproduction in American Markets. The United States has responded by placing tariffs on Canadian lumber imports. This article is about the **interdependence** of nations, consumers and producers and their strive for economic growth.

The subsidy provided was a sum of money that the Canadian government paid to lumber firms. When this happened, firms were able to supply more to consumers at lower prices while earning the same revenue. The article states that the “US Department of Commerce has concluded that imports of Canadian softwood lumber are being unfairly subsidised.” This means that the subsidies to Canadian producers have lowered prices, including those of exports. The **interdependence** of the American and Canadian lumber market is in jeopardy as they pursue their individual interest. The American market claims that the Canadian producers are dumping their excess supply at their subsidized lower prices. Dumping is the act of exporting a good at a price that is lower than the normal price. When this happens, domestic American firms will struggle to compete with the cheap imports and potentially shutdown or fail to grow. Therefore, in order to prevent this, the US government placed hefty tariffs on the imports of Canadian softwood lumber. This increases the overall price of the import, helping domestic firms stay competitive.

Figure 1: Subsidy of Canadian Lumber

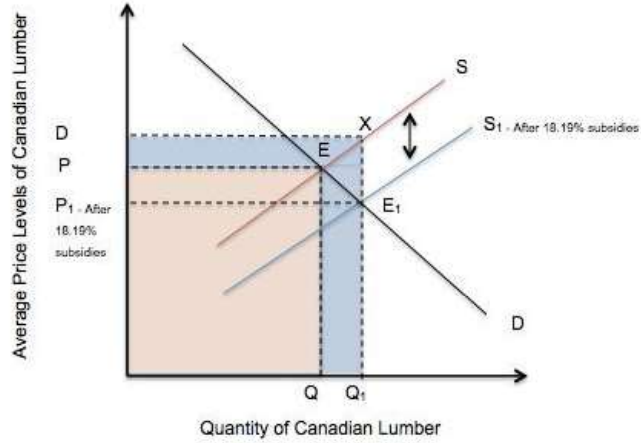


Figure 1 shows the effects of the subsidies the Canadian government gave to its firms. The supply curve, once the subsidy is granted at rates ranging from 3.34-18.19%, shifts downwards from S to S_1 . Maintaining

the same demand, the firms will now produce at E_1 , instead of at E . Initially, firms would have been earning revenue equal to the area PEQ . However, after the subsidy, firms are now earning revenue equal to the area DXQ_1 . The size of the subsidy can be seen here as the area DXP_1E_1 .

The blue area is the additional revenue the firm earns.

Subsidies are typically granted to either boost supply or lower prices. Subsidies will often cause firms to overproduce and this is what happened with Canadian lumber suppliers. In order to maximize revenue, this excess production was sold as exports to the American market and because the subsidy had lowered prices 3.2-8.89% below fair prices, this was considered dumping. Therefore, to protect domestic producers, the US government has implemented a tariff as a form of protectionism.

Figure 2: US Tariffs on Canadian Lumber Imports

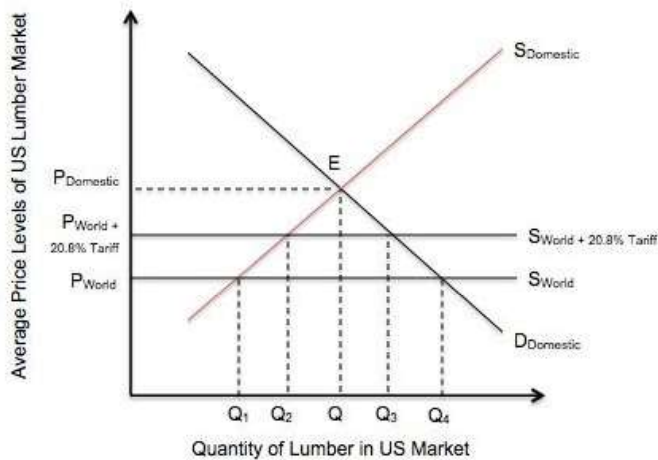


Figure 2 shows the effects of the US tariffs on the imports of Canadian lumber. When the US market is open to the Canadian imports, domestic demand falls from Q to Q_1 and the imports dominate the market as $Q_4 - Q_1$ where Q_4 is the total demand

within the market. Once the tariff of 20.8% is implemented, the world supply curve will shift upwards. When this happens, domestic supply increases from Q_1 to Q_2 and imports decrease from $Q_4 - Q_1$ to $Q_3 - Q_2$.