

# PRINCIPLES OF MICROECONOMICS, SEMESTER 1 2016

## Tutorial 8 (Due end of Week 11)

### Competition Policy

**Q1.** Consider the fuel retail sector in PNG:

- a) What type of market structure would the fuel retail sector in PNG be in the big cities? What about in the small towns? What about in remote villages?
- b) Mobil seeks permission from the PNG government to acquire Puma's petrol stations across the country. What advice would you give the government, and why?
- c) The PNG government is concerned about rising fuel prices throughout the country. List as many different *feasible* strategies as you can think of that the government could adopt to help address the rising prices.
- d) From your list, what do you think is the best strategy? Why do you think your chosen strategy is the best?

**Q2.** Why do you think it that when firms engage in 'refusals to deal' (boycotts), it is a bad thing for society? Who is it bad for?

**Q3.** Consider each of the following industries. Should the government have SOEs in these industries? Why / why not?

- a) Water supply
- b) Insurance
- c) Agricultural cooperatives
- d) Hotels
- e) PMVs
- f) Sports stadiums

### Market Failures: Externalities

**Q4.** Classify the following externalities as production *or* consumption; and negative *or* positive.

- a) Passive smoking
- b) Healthcare
- c) Pollution from the Ramu Nickel mine
- d) Loss of natural environment from logging
- e) A company providing first aid training to its staff
- f) Traffic congestion

**Q5.** How would you address the negative externalities? Illustrate this on a diagram.

**Q6.** How would you address the positive externalities? Illustrate this on a diagram.