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
d) Hotels
b) Insurance
e) PMVs
c) Agricultural cooperatives f) Sports stadiums

d) Hotels

Market Failures: Externalities

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

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