Think About It 11.1

1. Can you think of any stakeholder group that might benefit if one firm were to dominate a market?

- The investors
- The managers and employees

2. What percentage share of a market do you think that it is acceptable for one firm to have? Explain your choice.

In the UK a business may be investigated if it has 25% or more share of a market; however this does not assume that this is undesirable but assumes it might be. You may think this needs to be higher or lower. A lot, of course, depends on how the market is defined.

Business Analysis 11.1

Do you think that Amazon should be controlled and prevented from growing?

Answers might include:

- May depend on how you think they have gained this share- have they behaved well until now? Have they achieved this through being innovative and providing excellent value for money?
- May depend on how they grow e.g. what if they grow into new countries or new markets? This may be different than gaining a bigger share of its existing markets.

Think About It 11.2

Technology should enable governments to tax motorists for every mile they travel. Do you think that this would be a good way of taxing car drivers for the external costs that they generate?

It would depend on the price and whether this reflects the true value of the external costs but it would be a way of making motorists pay for the pollution they generate.

Business Analysis 11.2

1. What are the negative externalities that might be generated by a football match?

Answers might include:

- The noise
- The litter created by the crowd
- The congestion caused by the crowd
- Disruption to local businesses
2. What about positive externalities?

*Answers might include:*
- May help bring trade to some local businesses
- May raise the profile of a town or city
- May help build the brand of town or city

3. Should clubs pay for extra policing?

*Answers might include:*
If they have generated the external cost there is an argument they should although they might argue they generate benefits that offset the costs.

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**Think About It 11.3**

**Do you think that it is right to try to put a monetary value on quality of life?**

May seem undesirable but with limited resources choices have to be made on how best to use them so inevitably injuries and life have to be valued.

**Business Analysis 11.3**

**Do you think that Ford was right to undertake a cost–benefit analysis in these circumstances?**

*Answers might include:*
Seems unethical and unacceptable in many ways but organisations do have to put a value on injuries and death etc (e.g. insurance companies, pharmaceutical companies and hospitals). There is always a risk involved e.g. in cars and companies will consider will weigh up benefits and costs before deciding on e.g. introducing new safety measures.

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**Business Analysis 11.4**

**Discuss the possible case for and against creating a third runway at Heathrow.**

*Answers might include:*
- Consider
- Benefits to trade
- Benefits to households wanting to travel
- Benefits to business importing and exporting
- Environmental impact
- Impact on local residents
- Opportunity cost
Think About It 11.4

Why is the socially optimal level of noise not zero?

*Answers might include:*
Because generating noise creates a benefit e.g. enjoyment at a party or production of goods; therefore, need to consider the extra benefit derived from another unit of noise relative to the extra cost. If the benefit of the units produced that creates the noise exceeds the extra costs, it is worth doing up to the point where the marginal benefit equals the marginal cost.

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Think About It 11.5

Which of the following statements are true and which are false?

A: Negative externalities occur when the social benefit is greater than the private benefit:
False; when the social cost is greater than the private cost.

B: Some products are overproduced in the free market because of negative externalities:
True

C: Governments may want to subsidize products with positive externalities to encourage their consumption:
True

D: A deadweight social burden area occurs when the social marginal cost is greater than the marginal benefit:
True

E: If production generates a negative externality, it should be stopped:
False; it should be reduced until the level of output where the social marginal benefit equals the social marginal cost.

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Think About It 11.6

1. The cobweb model assumes that farmers continually base next year’s planting decision on this year’s prices. Do you think that this is a realistic assumption? On what else might they base their decisions?

This is known as adaptive expectations. At some point you would imagine farmers would realize what was happening and look ahead; this is known as rational expectations.

2. If demand is more price elastic than supply, the cobweb is imploding—that is, the price changes each year, moving back towards equilibrium. Can you illustrate this using supply and demand diagrams?

Over to you!
Think About It 11.7
Do you think that the government should intervene to stabilize the prices of agricultural products?

Answers might include:
May consider:
- Costs of intervention
- Opportunity cost
- Benefits e.g. security of supply of agricultural products
- Effectiveness of the scheme e.g. does it lead to surpluses each year

Business Analysis 11.5
What do you think the consequences of removing the CAP might be?

Answers might include:
- Major political issues due to impact on farming community in different countries- farmers can be an important lobbying group and important for votes
- May save the EU money
- May free up funds for other projects
- Effect depends on each country e.g. how much it contributes and funding received by farmers

Think About It 11.8
Do you think that claims for whiplash should be banned? Do you think that people claiming should have to prove that they have suffered from whiplash?

Answers might include:
If injured people have right to claim given that they have paid insurance premiums. If they can prove whiplash this would remove the problem of asymmetric information but may be difficult to prove.

Suggested Answers to Short Answer Questions
1. When the social costs are greater than the private costs.
2. May tax production to increase private costs to the level of social costs; may limit output.
3. Occurs when there are units on which the social marginal benefit is greater than the social marginal benefit which are not produced.
5. Society thinks the benefits of this product are greater than individuals appreciate.
6. Regional immobility, occupational immobility.
7. Training, more information, give help moving.
8. Government buys up excess stock in “good’ years; releases these on to the market in “bad” years.
9. Because demand is not known in advance so an “average” price is charged.
10. Occurs when there is a single seller that can push up prices.