

AP® Microeconomics – Market Failure

Case Study Questions: Market Failure

ITEM 1: BREAKING BUSINESS NEWS

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Business Tues Nov 15, 2016 6:56am EST

Australian business leaders debate carbon pricing in the economy

SYDNEY



It's getting hot in here! Sydney, Australia. November 16, 2016.
REUTERS/MILENA BAENSCH

In a major speech, Australia's Minister for the Environment suggested that the country should adopt a carbon tax. She also said that the price of carbon should be done in mind with anticipating an eventual global price and that Australia should look at power generation solutions other than coal.

Former CEO of one of the world's largest mining companies, BHP, said yesterday that he believed that taking action before the rest of the world would damage Australia's economy and international competitiveness. He also said that a carbon tax would have little overall effect on Australia's, or indeed, global emissions.

AiGroup chief executive Heather Riddout said a carbon tax was an option worth considering, but had many of the same problems as a cap and trade scheme. "However, we need to acknowledge that all of the competitiveness issues associated with a pollution trading scheme are also present with a carbon tax. From that point of view there is no real advantages to using a tax versus a trading regime, she said.

EDITOR'S CHOICE



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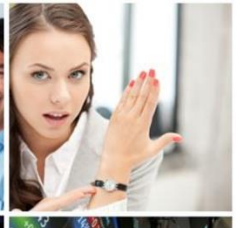
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AP MICROECONOMICS CASE STUDY QUESTIONS – MARKET FAILURE

Read the above article and answer the following questions.

QUESTIONS

1. Explain how a carbon tax **and** a tradeable pollution scheme (cap and trade) would affect the international competitiveness of Australia's businesses. Use diagrams. **[10 marks]**
2. Explain how a carbon tax **and** a tradeable pollution scheme (cap and trade) could result in reduced carbon emissions. Use diagrams. **[10 marks]**
3. From the perspective of Australian businesses, evaluate which of the two policies is better in lowering carbon emissions. **[10 marks]**