

Market Efficiency

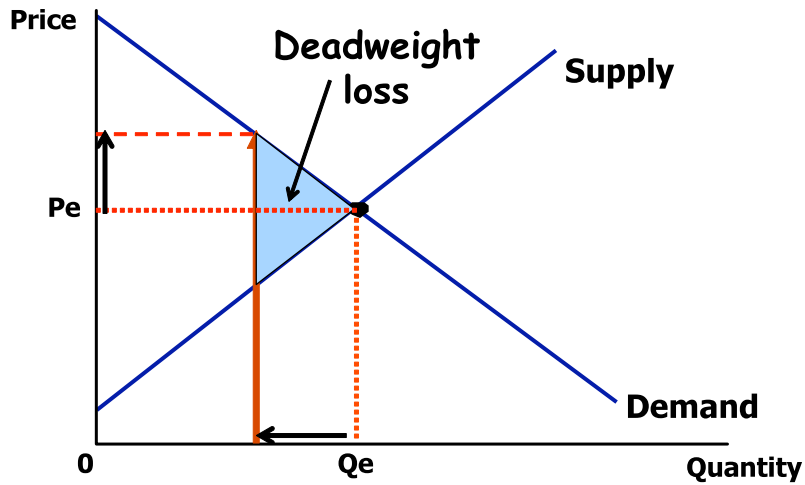
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PowerPoint available from www.etawa.asn.au

Market Efficiency

- The competitive market is efficient because at the equilibrium quantity, marginal benefit equals marginal cost
- The sum of consumer and producer surplus (total surplus) is maximised at this efficient level of output.

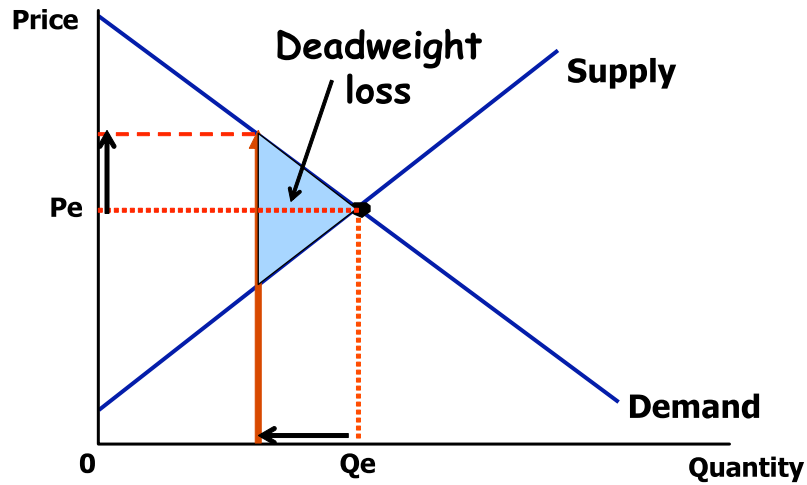
Taxi Market



Market Efficiency

- Many examples of restricted/regulated markets
 - Taxis
 - Potatoes (Potato Marketing Corp of WA)
 - *Marketing of Potatoes Act 1946*
 - Water
- In each of these markets, economic welfare (total surplus) & efficiency is reduced

Taxi Market



Water Scarcity

- Water has rarely been treated as an economic good – treated more as a '**free good**'
 - belief that water is a basic human right & should not be subject to market forces
- Water has been priced well below its **full cost & scarcity value** – this is the main reason why water supplies are misused & abused

Water Scarcity

- The price of water should reflect its **economic scarcity**
- The price of water should reflect the real cost of supplying water - both private and social costs: **$P = MSC$**
- Policies that subsidise water to reduce its price, while politically popular are economically disastrous – they promote the inefficient use of water

Water Scarcity

Increase price to save water

The price of water should be raised to limit the need for water restrictions & encourage more recycling and desalination plants. . .

Scientists & conservationists applauded Treasury's call for Australia's water supply crisis to be dealt with on economic grounds . . .

Price increases for water would provide incentive for investment in additional supply and infrastructure.

"We don't ration petrol. As petrol gets scarcer the price goes up & we make our individual choices"

[West Australian 6th March]

Water Scarcity

