Student 5: Low Achieved

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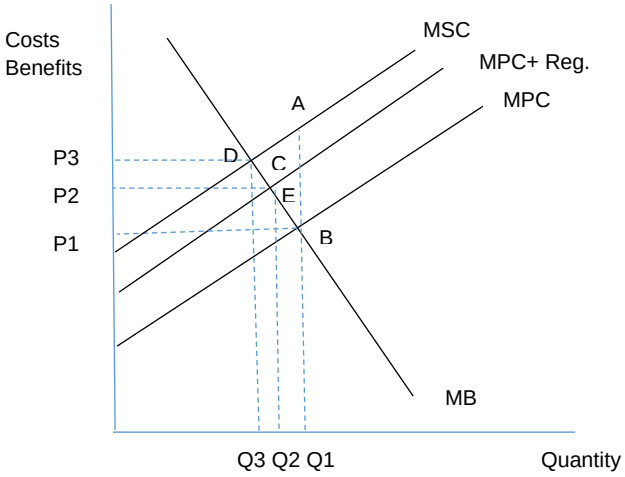
[Student included an explanation of the negative externalities associated with over-fishing and explained the policy of implementing an indirect tax on the fisheries market in terms of efficiency and equity, illustrating the market failure and the intervention on the SMC/SMB model.] 1

Policy 2: Direct Control

Regulation Efficiency: This social policy is already in use by the New Zealand government, and most fisheries around the world. This social policy would be implemented to control the amount of fish being harvested in certain at-risk areas (a ban on catching young or undersized fish) and/or to limit the areas where you can legally catch fish (to reduce the number of non-target fish kills) by controlling the industry with law. While implementing certain regulations, a complete ban on fishing would not be economically or socially desirable in an economy that earns more GDP from fish exports than ecotourism in the affected areas. 2 Producers now have to consider whether it is worth saving operating costs or save facing the consequences of huge fines, the closing of their business or potential jail time if they break these laws.



Placing regulations should encourage businesses to work more efficiently and sustainably, but will increase running costs and therefore move the MPC curve higher up on the graph to MPC+Reg., increasing the price of producing fish and the price will increase from P1 to P2. 2 Because of the increased costs of producing, the company will choose to produce less, moving Q1 to Q2. This would accomplish the goal of reducing the quantity of fish produced therefore bringing the market closer to social equilibrium and internalising the market failure.

Placing regulations on certain sizes of fish or certain types of fishing (such as shallow drift netting) is an equitable way to combat the market failure, as only the producers involved with the negative externalities would be affected. 3