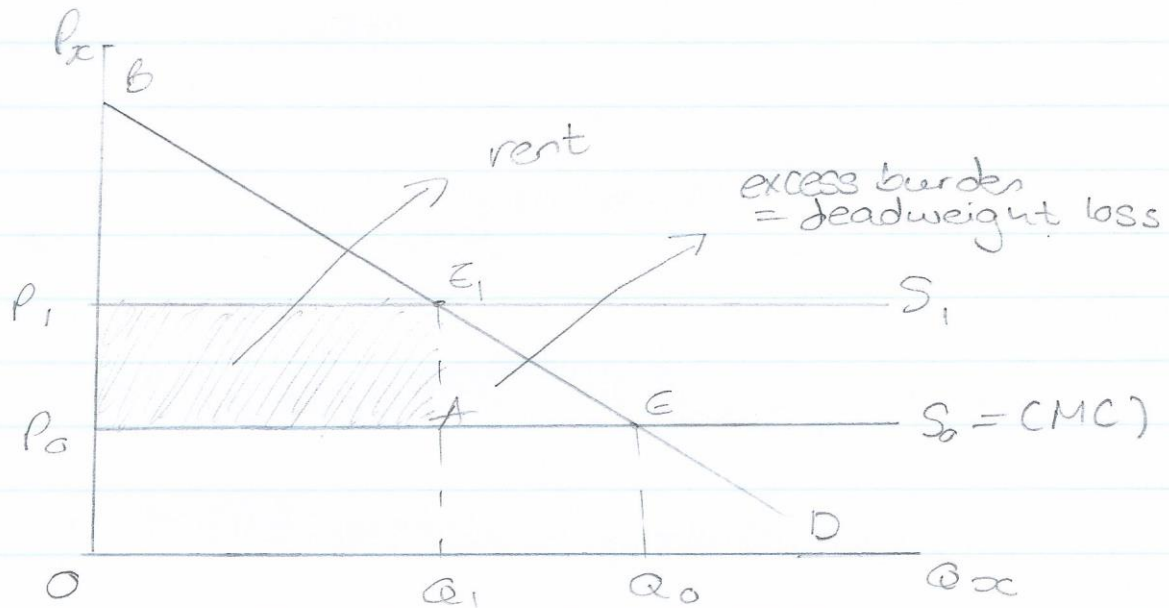


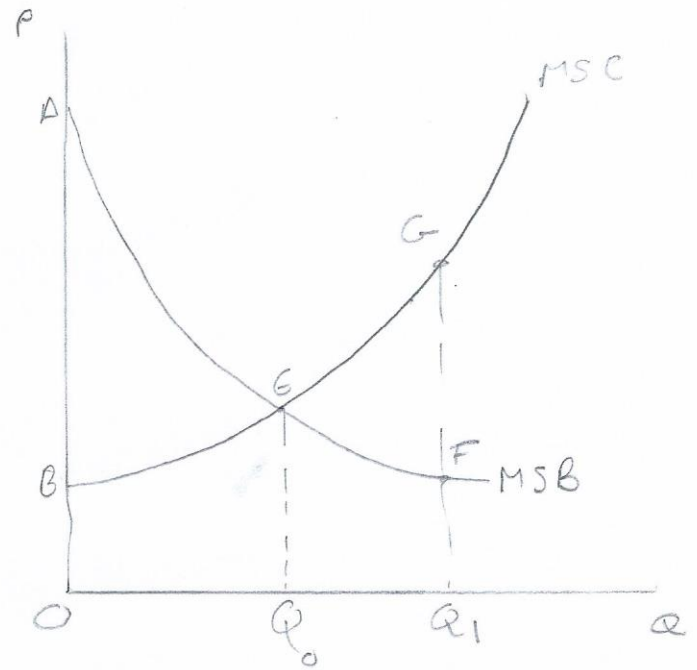
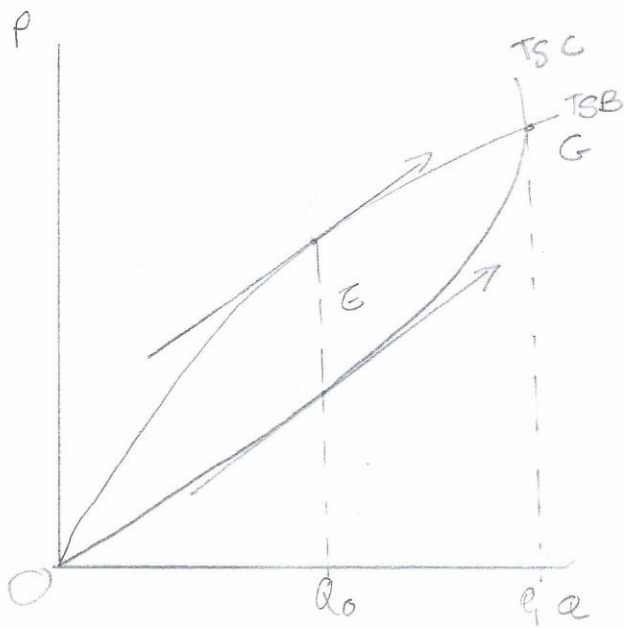
Oct / Nov 2012 SB: Q8 (cb) (10 marks)



RENT SEEKING

- economic rent similar to monopoly profits
- rent is artificially created by govt. through e.g. licenses and other restrictions
- assume horizontal supply curve S_0 ; demand curve D
- under $PC = P_0$ & Q_0 (equilibrium E_0)
- govt restricts output to $Q_1 \rightarrow \uparrow P_0$ to P_1 (new equilibrium E_1)
- consumer surplus \downarrow by P_1, E_1, E_0, P_0 (from $B P_0 E_0$ to $B P_1 E_1$)
- $P_0 A E_1, P_1$ is wealth (surplus) transfer from consumers to producers = artificial rent.
- $A E_0 E_1$ is ~~Decrease~~ deadweight welfare loss to society = inefficiency
- deadweight loss underbatement; producers will incur costs to capture rent for themselves
- if costs (e.g. lobbying) are internal to producers, $MCT \uparrow$ up to max of S_1 ($C = MC_1$)
- \downarrow prod share of profit (artificial rent); at S_1 derive no net benefit.
- lobby cost inefficient allocation of resources, ^{from prod to rent seekers.}
- social cost of state intervention new: $P_0 A E_1, P_1, A E_0 E_1 = P_0 P_1 E_1 E_0$

May / June 2013 SB: Q8: (b) (10 marks)



Bureaucratic Failure

- o Principal (voters) has less incentive to lobby for reduced taxes than agent (bureaucrats) has to \uparrow budget.
- o bureaucrats supply public good where total social costs = total social benefits.
- o Society prefers Q_0 to be determined where $MSC = MSB$
- o supply $>$ demand ... net welfare loss = EGF
 - ^{note} ~~note~~ the slope of the tangent to TSB and TSC measures MB & MC
 - Is Niskanen's model plausible? ... salaries not linked to size of budgets