

Maddie
47

Media Analysis

Subject:

Economics

Task No.

2

Final date for submission:

Tuesday 11th March

Task:

Media Analysis

Choose 3 current Australian microeconomic issues in the media at present and analyse each issue (what is happening and why). In completing this section of the assessment you should include the following

NB – Articles must be microeconomic in nature

- Content of the article – brief explanation of the article
- Economic issues – why they are important and what the effect is on the market.
- Include article at rear of assignment

Make sure you use S & D diagrams to explain your analysis



Assessment

Learning Requirements	Assessment Design Criteria
<p>1. know, understand, communicate, and apply economic concepts, principles, models, and skills</p> <p>3. evaluate the effects of interdependence on individuals, business, and governments locally, nationally, and globally</p> <p>4.</p> <p>6. critically analyse and evaluate the impact of economic change locally, nationally, and globally.</p>	<p>Knowledge and Understanding</p> <p>The specific features are as follows: KU1 Knowledge, understanding, and application of economic concepts, principles, models, and skills. AE1 Analysis and evaluation of economic issues and events (past and current) using economic models and the skills of economic inquiry.</p> <p>Analysis and Evaluation</p> <p>The specific features are as follows: AE1 Analysis and evaluation of economic issues and events (past and current) using economic models and the skills of economic inquiry.</p> <p>AE2</p> <p>AE3 Analysis and evaluation of the impact of economic change locally, nationally, and globally</p> <p>AE4 Evaluation of the effects of interdependence on individuals, business, and governments locally, nationally, and globally</p> <p>Communication</p> <p>The specific features are as follows: C1 The communication of economic principles, models, and skills.</p>

Assessment Criteria	Requirements	Grade
<p>Knowledge and Understanding</p> <p>KU1 Knowledge, understanding, and application of economic concepts, principles, models, and skills.</p>	<ul style="list-style-type: none"> Ability to apply economic principles accurately to real life situations - <i>understanding & very accurate</i> Accurate use of D&S diagrams - <i>excellent</i> 	<p>A, B, C, D, E</p>
<p>Knowledge and Understanding Overall Grade A+</p>		
<p>Analysis and Evaluation</p> <p>AE1 Analysis and evaluation of economic issues and events (past and current) using economic models and the skills of economic inquiry.</p> <p>AE2 Evaluation of the effects of interdependence on individuals, business, and government, locally, nationally, and globally.</p>	<ul style="list-style-type: none"> Analysis of issues through the use of appropriate economic models - <i>excellent</i> Evaluation of the effects of the issue on the whole economy and members within it - <i>very good, particularly the banks analysis</i> <p><i>* Overall, your Analysis was excellent.</i></p>	<p>A, B, C, D, E</p>
<p>Analysis and Evaluation Overall Grade A+</p>		
<p>On Balance Grade</p>		<p>A+</p>

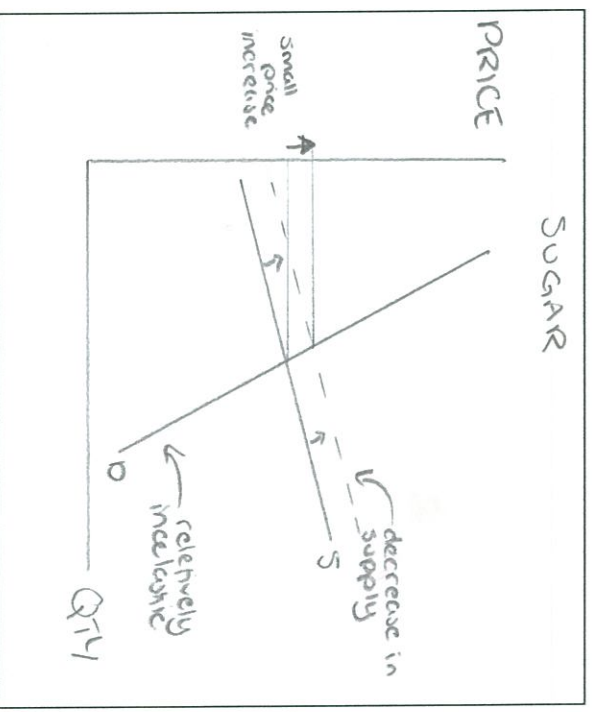
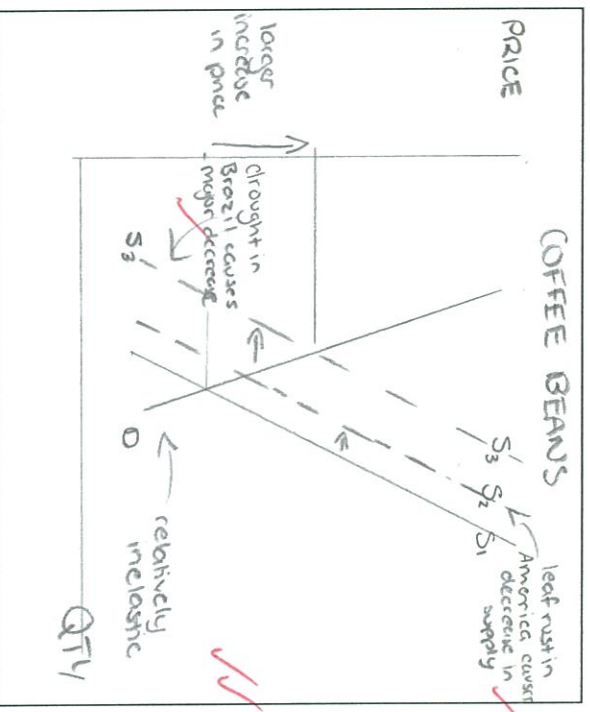
MEDIA ANALYSIS

Coffee Prices

Australia is expected to experience an increase in coffee prices due to a decrease in the supply of coffee beans.[✓] Extreme weather conditions in Brazil have affected the coffee bean crop drastically. The decrease in supply will cause a rise in coffee prices which will affect both suppliers and consumers, as both the supply and demand of coffee beans is relatively inelastic. **AE1**

The current hot and dry weather Brazil has been experiencing since January is affecting its coffee bean crops. Brazil produces a third of the world's coffee beans and therefore as the supply of coffee beans decreases, the price of the coffee beans increases. **AE1**
The market price is said to soon affect the consumers. The supply of coffee beans is relatively inelastic, since there is not a plentiful supply of resources. Since the demand for coffee beans is also quite inelastic as it is a necessity,[✓] an increase in the price of coffee beans will increase the total revenue of producers. **AE1**

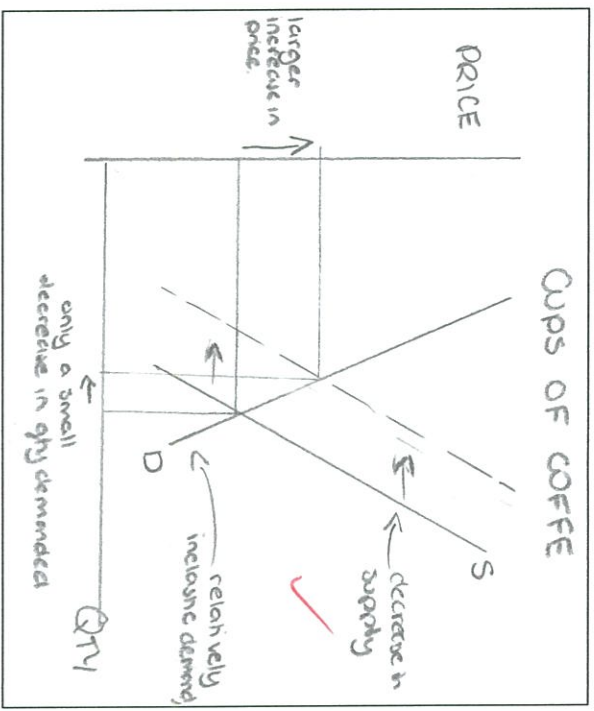
With the 50% rise in the price of coffee last year and the 25% rise in the price of coffee beans this month, the price of coffee beans has reached its highest since October 2012 because of the tight global supplies. ^{Or seen as over...}
Leaf rust disease on crops in Central America has caused a decrease in supply there for the last two years. ^{AE1}[✓] The minimal rain in Brazil has also affected the sugar crops. However, because of the many other sugar suppliers, the price of sugar is not expected to increase. Sugar is a relatively elastic product because of the higher availability of resources. Because Brazil supplies the majority of the market with coffee beans that the price of coffee is expected to rise. James Cordier founder of OptionSellers.com summarizes the situation, "The rain has the same implication for sugar, but there's a cap on sugar prices because there's other producers in the world. There isn't a cap on the price of coffee because Brazil produces such a large percentage." Brazil is responsible for 37% of global coffee output, including 46% of Arabica supply; therefore the decrease in supply is having a profound effect on the market. ^{AE1}



¹ <http://www.ausfoodnews.com.au/2014/02/24/coffee-prices-may-be-set-to-soar-as-the-global-market-skyrockets.html> accessed 26/02/14

² <http://www.businessweek.com/news/2014-03-05/coffee-jumps-above-2-to-highest-since-2012-on-supply-concerns> accessed 7/03/2014

In the short term, the price of a cup of coffee should remain stable, since many roasters will be under contracts with suppliers. However, as these contracts expire around winter, the price of coffee will increase around 20 cents each cup, as the roasters are forced to pay more for beans. This will affect the consumers who are paying for the coffee. The price of complementary products like sugar should not change much, since the supply of sugar is quite elastic. The decrease in supply affects the entire market, especially since supply is relatively inelastic due to the limited resources. The decrease in supply causes the price of the coffee increases affecting the producers and they in turn increase the price of the coffee they are selling in order to make a profit. However, since the demand for coffee is relatively inelastic, the quantity demanded will not be affected majorly.³



*Very well thought out response Madeline.
Excellent analysis of the situation.*

AE3

³ <http://www.ausfoodnews.com.au/2014/02/24/coffee-prices-may-be-set-to-soar-as-the-global-market-skyrockets.html>, accessed 26/02/14

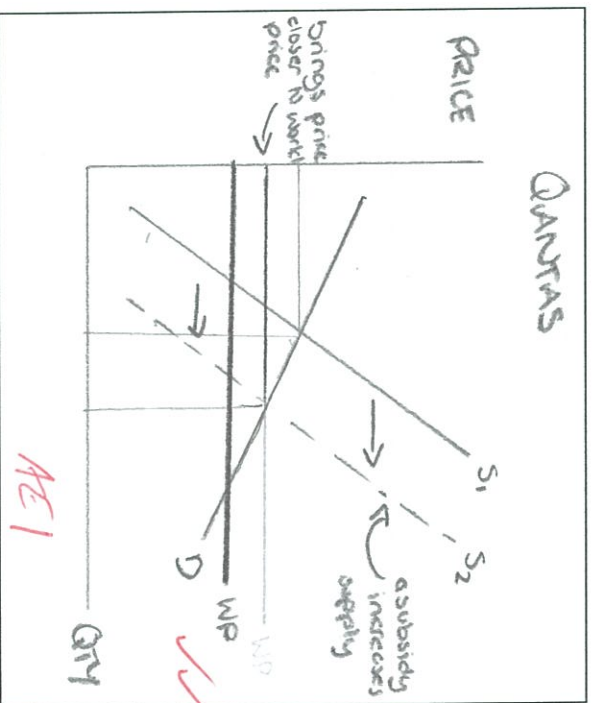
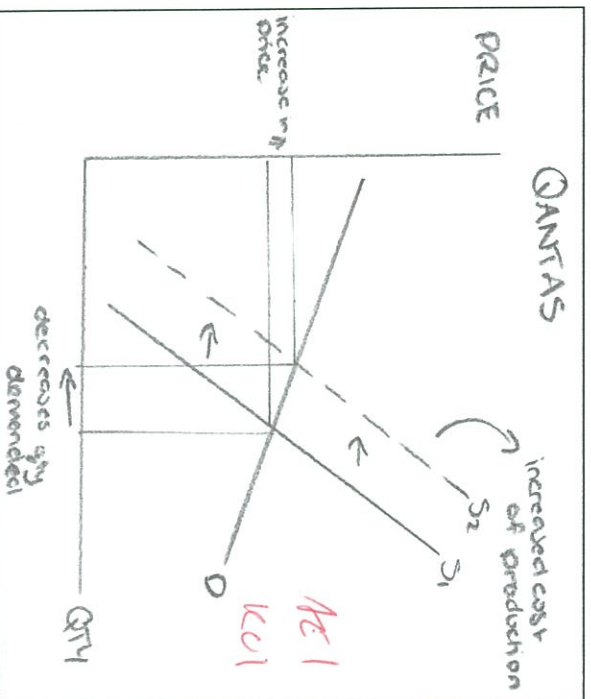
Qantas

Qantas is struggling due to a decrease in profit from their airline services. This has been caused by a decrease in demand and increased competition. There are many different airlines to choose from, so flying with a cheaper airline is the option many people choose. However it is hard to decide in what way the government can assist Qantas in order to stop the company from failing. AE 1

Internationally, Qantas is struggling to compete with many other Asian carriers, such as Singapore Airlines and Emirates. These carriers have cheaper fares, lower costs of production and more flexibility with staffing allowing them to out-perform Qantas's cabin service. The Asian carriers can also manage their airlines more efficiently since they are locally situated. In order to pay for the costs of production and high wages, Qantas has higher fares. There is a large supply of air travel so many people, especially those from the middle class, will choose to fly with less expensive airlines. ⁴

Qantas is a high priced airline because of both the competition between other airlines and also its own input costs. Qantas' carbon tax last year was \$106 million and its wages costs are 24% of its revenue. Improving technology also costs Qantas, however, the improvements in technology are necessary for product differentiation. The high input costs are causing a drain on the profit Qantas receives. KE 3

The real issue with Qantas is to how the government is going to assist them in their current crisis. Qantas could become an overseas company, thus reducing many of its input costs and becoming more competitive. However if Qantas became an overseas company, there would be a large loss of jobs, therefore raising the levels of unemployment in Australia. Or the government could assist Qantas by subsidising it. However, this would essentially affect the tax payers, since they would be paying the money to subsidise Qantas and taxes would be raised, or other sections like health and education would receive less money. ⁵



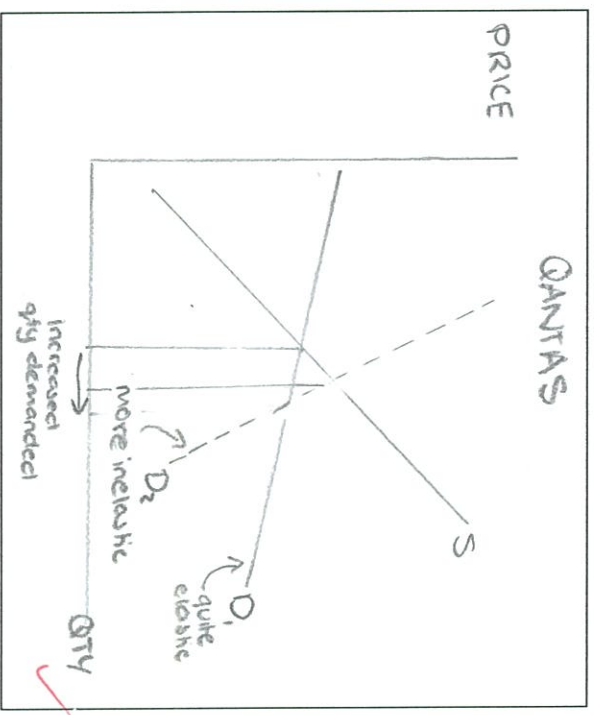
⁴ <http://www.theaustralian.com.au/opinion/columnists/skirting-the-vortex-of-decline/story-fn7078da-1226848444299#>, accessed 8/03/2014

⁵ <http://www.abc.net.au/tv/qanda/txt/s3946769.htm>, accessed 5/03/2014

The ideal thing for Qantas to do would be to lower their airfares. This will increase quantity demanded to fly with Qantas amongst the middle class, which have a lower household income. Also since the price of Qantas fares would be cheaper than substitutes, consumers would demand Qantas air fares more. However, since air travel has an Oligopoly market structure, lowering prices could cause a price war amongst other airlines. A price war wouldn't benefit the companies. *Ag 1 ✓*

Because there are many substitute air lines to fly with; the demand for Qantas is quite elastic. *✓* Causing the demand for Qantas to become more inelastic by getting better technology and increasing the standard of cabin service would benefit Qantas.

A subsidy would also assist Qantas. However, it would either cause a raise in taxes or a decrease in the money spent on education or health. If the government subsidizes Qantas it should also subsidize many other companies that are having trouble at the moment. This is why a subsidy is not the best option. *✓*



Excellat Analysis Made!

A Subsidy.

Butter and Margarine

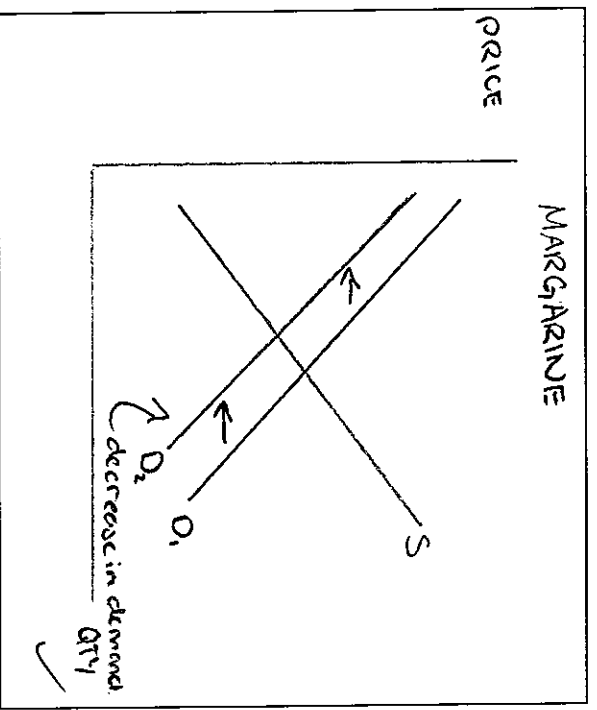
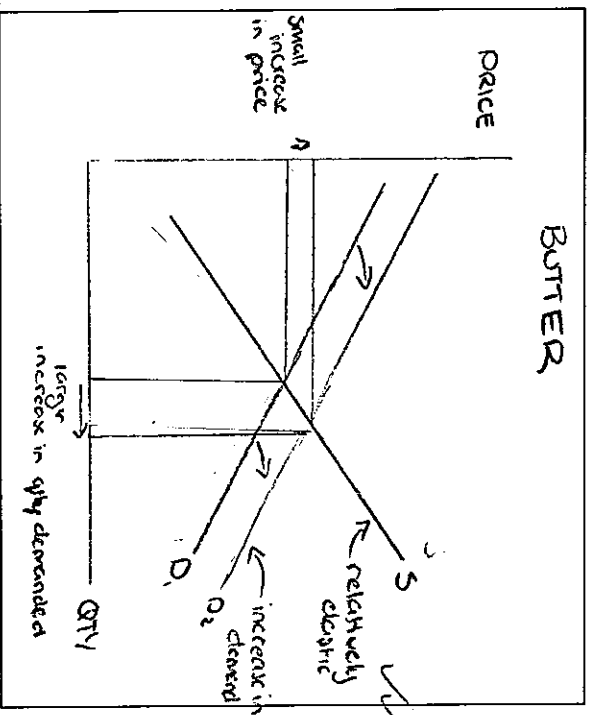
Butter sales have been increasing causing a decrease in the sales of margarine.

More Australian Grocery buyers are buying butter than they were five years ago. In 2013, 47% of grocery buyers bought butter; this is an increase of 3% from the 2009 sales where only 44% of shoppers bought butter. Butter is still not as popular as margarine; however the increase in the sales of butter is affecting the sales of margarine which have been decreasing since 2009. In 2013, 54% of grocery shoppers bought margarine; this is a 5% decrease from 2009, where 59% of shoppers bought margarine. *AE 1*

Household income has also had an effect on the purchase of butter. While grocery buyers with higher household incomes were more likely to purchase butter, lower income households have bought butter at an increase of 5% since 2009. Households which earn over \$110, 000 have seen a slight decrease in butter purchases of 1%, however all other households have increased the percentage of those buying butter by at least 3%.⁶

Houses with higher household incomes are more likely to buy butter since they are more likely to want quality ingredients in whatever cooking they do, and they can afford to spend the money. Advertising has had this affect on the sale of butter, causing it to be a more desired product.

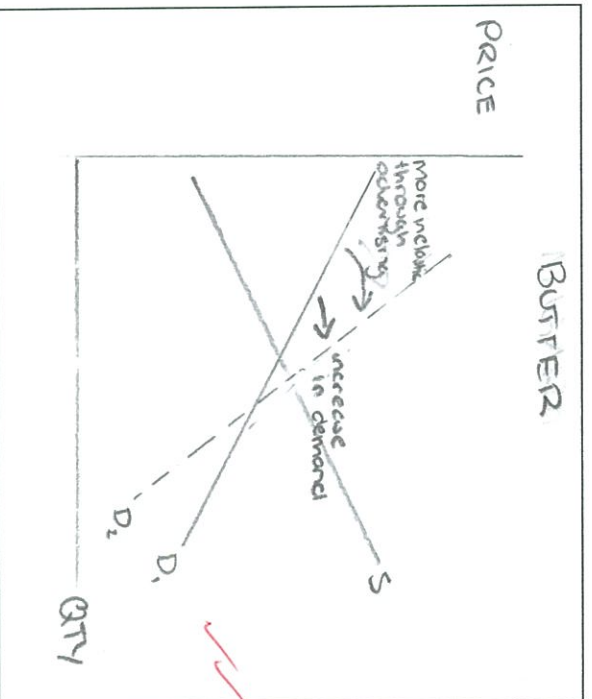
The increase in demand for butter has also been caused by its use in the cooking of famous chefs. This has caused butter to become more popular and also more inelastic since it has become a necessity to those who wish to cook like their stars. Jenna Marie Jaede of Le Pink Petite Patisserie states that "Not only do I use butter for baking my pastries, I use butter in a lot of my daily cooking. I love the French ways of cooking." She went on to say, "I don't think I am the perfect example of telling you which I think is better for you, but my preference is French butter, I never use margarine in my cooking." People, who wish to cook food at the level of famous chefs, want to use similar ingredients. This causes butter to become a necessity and since it doesn't greatly differ in price to margarine, it becomes the more desired product.⁷



⁶ <http://www.ausfoodnews.com.au/2014/03/03/butter-makes-a-comeback-in-australia.html>, accessed 8/03/14

⁷ <http://www.adelaidenow.com.au/lifestyle/more-australians-turning-back-to-butter-instead-of-margarine/story-fnz1zv-f-1226828852957>, accessed 18/03/14

The shift of sales from margarine to butter is partly due to the effect of advertising. Butter is no longer advertised to be as harmful for health, and it's also a better quality ingredient than margarine. As far as consumers are concerned, especially those with lower household incomes, the advertising has caused butter to become a necessity and therefore a more of an inelastic product. Geoffrey Smith from Roy Morgan Research said, "The shift towards quality food and ingredients — not to mention the discovery that it's not as bad for our health as previously believed — have no doubt contributed to butter's return to favour in recent years." Butter is also used by famous cooks and in restaurant, so the majority of the food loving population in Australia will want to use the same products in their own food. This will cause an increase in demand for butter, as well as an increase in its inelasticity as it becomes more of a necessity



This has been a very profitable piece of work Madis! Great effort!

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