

## MICROECONOMICS AT WORK EXERCISE

### THE MEANING AND SIGNIFICANCE OF PRICE

**REFERENCE: ‘Price not the only yardstick in European farming’** (by Paul-Henri Ravier), *The Australian Financial Review*, 30 December, 2003, p. 47.

**CHAPTERS RELEVANT TO THIS EXERCISE:** Chapters 1, 3, 17.

### OVERVIEW

This article is about the European Community’s Common Agricultural Policy, through which European farmers are subsidised. The principal means of subsidy is the maintenance (by government decree) of the price of most agricultural products (the price received by farmers and thus paid by consumers in the European Community) at a level that is higher than the ‘world price’ i.e. the price set by the forces of (world) supply and demand. This would be the price relevant to European producers and consumers in a regime of completely free international trade. (This policy is referred to as one of *price support*.) One consequence of the policy is that producers in other agricultural producing and exporting nations (including Australia) find it more difficult to compete in the European market (in many instances it is effectively closed to them). However, the policy is defended on what are essentially *social* grounds. The free market, and the notion of price as established by free market forces, is thus explicitly rejected. Moreover, the terms in which the issue is frequently discussed (as is evidenced by this article)... ‘the job [of farmers]’ i.e. keeping them producing ‘has a price’... the ‘cost’ of the policy... also raises the issue of the very meaning and significance of these terms.

### QUESTIONS

1. How (as suggested in the article) does farming in Europe differ from its equivalent in countries such as the US and Australia?
2. Critically analyse the statement: ‘if prices are left to market forces there is no chance they will generate a proper return in terms of income’.
3. What is the essential difference between the policies of ‘price support’ and ‘direct payments’ as means of subsidising European farmers?
4. What is the meaning of the statement: ‘the job [of European farmers] has a price’?
5. Explain the significance of the analogy that is drawn between compensation by governments for natural disasters and the subsidies provided to farmers.

6. Evaluate the comment that 'EU [European Union] members spend 3 per cent of their total expenditure on supporting farmers, which is far from a folly'.