

MICROECONOMICS AT WORK EXERCISE

COSTS, BENEFITS, THE PRICE MECHANISM, AND ROAD SAFETY

REFERENCE: ‘Let’s stick to a good thing’ (by John Quiggin), *The Australian Financial Review*, 5 June 2003, p. 62.

CHAPTERS RELEVANT TO THIS EXERCISE: Chapters 4, 5, 7.

OVERVIEW

Deaths as a result of motor vehicle accidents – generally referred to as the ‘road toll’ – entail economic costs in addition to the personal suffering that results. Measures taken by governments to reduce the road toll – generally referred to as ‘road safety’ measures – frequently take the form of the establishment, and enforcement, of laws. Governments can, for example, pass laws that impose certain requirements on the manufacturers of motor vehicles in respect of design (e.g. the types of braking system or the fitting of airbags). Such laws will affect the cost of production of motor vehicles and thus the price that consumers pay to own and, perhaps, to use them. The merit of such laws has to be assessed in terms of the benefits of these laws in relation to a lower road toll – to the extent that these benefits can be accurately measured in the context of *other* measures which may also serve to reduce the road toll. Such ‘other measures’ may take the form of laws which simply prohibit certain types of behaviour on the part of *drivers* of motor vehicles; failure to comply with these rules then results in punishment, such as the loss of the right to drive a motor vehicle or imprisonment. Such measures also have economic costs, and benefits. Most road-safety rules, in conjunction with making certain types of behaviour (e.g. exceeding a set speed limit) illegal, *also* make use of the *price mechanism* to modify the way that people behave. The principles of economic theory thus help us to analyse the issue of road safety rules.

QUESTIONS

1. Given the argument for mandating speed limits, identify the different means of ensuring that limits can be *enforced*.
2. Explain how fines for exceeding speed limits can be understood as using ‘the price mechanism’ to promote road safety. Can you think of any other examples?
3. Compare the Australian and US road safety records on the basis of data cited in the article. What conclusions can be drawn (or further questions asked) about the comparative record in relation to road safety rules?

4. Give some examples of 'design rules' that have been imposed on motor vehicle manufacturers in Australia. What analysis needs to be undertaken to assess the merits of governments imposing such rules?
5. Assess the claims that speed cameras are used 'simply as a revenue raiser' by governments and serve no other purpose.
6. How do you react to the proposal by the Victorian Opposition Leader (referred to in the article) to formalise a 10 per cent 'tolerance level' in respect to speeding?