

Commentary 1

Syllabus Section: Microeconomics

“Biden administration considers critical minerals price support.”

Source: Mining Technology

<https://www.mining-technology.com/news/biden-administration-considers-price-support-for-critical-minerals/?cf-view>

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Key Concept: Efficiency

Word Count: 719

Full Article:

Biden administration considers critical minerals price support

The measure is designed to support domestic critical minerals projects and reduce reliance on China.

Alfie Shaw

September 3, 2024

The Biden administration may intervene in the critical minerals market to support prices after an influx of cheap Chinese imports of metals such as lithium.

A US Department of Energy (DOE) official familiar with the matter told Politico that a price floor will be established and that when market prices of critical minerals fall below that level for minerals produced from certain US projects, the department will pay the difference.

The US is looking to reduce its reliance on China for critical minerals as the nation currently holds a market-controlling position in global supply chains. To support energy security and accelerate the energy transition, the Biden administration has looked to encourage domestic production of the minerals needed for clean energy technologies and electric vehicles.

However, many US mineral processing projects have been delayed or cancelled, despite the promise of a collective \$1bn in grants from the federal government. The department hopes the price floor measures will help overcome such issues.

“If we move forward on anything like this, the intent would be to give the nudge that is needed to set off the flywheel, versus create a permanent subsidy or cushion for a particular sector or company going forward,” the DOE official reportedly told Politico.

The official works in the DOE’s Manufacturing and Energy Supply Chains Office. They said that so far most of the work done by the office had looked at investing in the construction side of critical minerals, “but it feels warranted, given what we are hearing from the market, to think through, are there more creative ways where we can support projects so that they can... have the financial certainty to actually scale up?”

Nevertheless, there are questions over whether the fund will be possible without explicit authorisation from Congress, considering that federal agencies’ ability to intervene was curtailed drastically earlier this year when the Supreme Court overturned a judicial doctrine that enabled decades of intervention.

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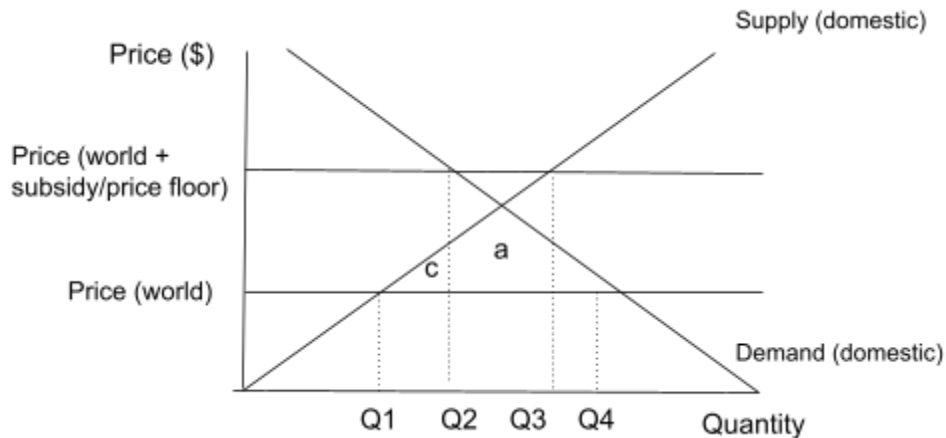
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This commentary examines the key economic concept of efficiency in the context of the Biden administration's proposed price support for critical minerals, as reported by Mining Technology. Efficiency, one of the nine key concepts in IB Economics, refers to the optimal use of scarce resources to maximise welfare and minimise waste. Allocative efficiency, a central dimension of this concept, is achieved when resources are distributed such that production aligns with consumer preferences. Productive efficiency is achieved when firms produce at the lowest possible average cost per unit. This commentary analyses how the proposed government intervention in the U.S. critical minerals market creates significant implications for both dimensions of efficiency and whether strategic considerations can justify the resulting welfare losses.

The United States depends heavily on Chinese imports of critical minerals such as lithium and nickel, essential inputs for electric vehicles, batteries, and defence technology. China has created a significant oversupply in the global market by exporting these minerals at prices well below American production costs, largely due to state-subsidised mining operations and its dominant share of global mineral processing capacity. This oversupply has depressed world market prices to a level that undercuts domestic U.S. producers, forcing firms out of business and discouraging investment in local extraction. Without government intervention, American firms would be unable to compete at the prevailing world price, domestic production would cease entirely, and the United States would become wholly reliant on Chinese imports for resources vital to its national security and ongoing industrial development.

To address this market failure, the Biden administration considered implementing a price support mechanism functioning as a price floor combined with a government subsidy. Under this policy, the government would guarantee domestic producers a minimum price for their output; if the world market price fell below this floor, the government would pay producers the difference. This allows domestic firms to receive a higher effective price than market conditions would dictate, incentivising continued production even when it would be unprofitable at world prices. Economically, this constitutes a form of producer subsidy that artificially sustains domestic supply above the level determined by free-market equilibrium, directly intervening in the price mechanism.



The diagram illustrates the critical minerals market. The domestic supply and demand curves intersect at the equilibrium point, above the world price depressed by Chinese exports. At the world price, U.S. firms cannot cover costs. The government's price floor is set above the world price, and the subsidy, shown in the graph, covers the gap. At the price floor, producers supply more than consumers demand at the world price, creating a surplus from Q2 to Q3 at the subsidised price.

The implications for efficiency are substantial. The price floor generates excess supply as producers expand output beyond the socially optimal quantity where marginal cost equals marginal benefit. This overproduction represents a departure from allocative efficiency, since scarce resources are directed toward extraction exceeding consumer demand. A deadweight loss arises because the marginal cost of surplus production exceeds the marginal benefit, representing a net welfare loss, represented by "c". Furthermore, by insulating firms from competitive pressure, the subsidy weakens incentives to innovate and reduce costs, potentially entrenching productive inefficiency and long-term subsidy dependence.

Nevertheless, important counterarguments exist. China's strategic pricing arguably constitutes a market distortion rather than natural competition, providing economic justification for intervention. By maintaining domestic production capacity, the U.S. reduces vulnerability to supply disruptions or export restrictions, with significant national security implications. The subsidy does not raise consumer prices, as buyers continue paying the world price while the government absorbs the differential, preserving consumer surplus. The policy may also stimulate long-term investment, potentially enabling firms to achieve economies of scale and lower average costs.

In conclusion, the proposed price support policy illustrates a fundamental tension between strategic objectives and economic efficiency. While the intervention protects domestic industry from China's oversupply, it does so at the cost of allocative and productive efficiency through overproduction, deadweight loss, and diminished competitive incentives. The policy's long-term success depends on whether the protected industry can develop sufficient efficiency to

compete without subsidies; if firms remain dependent on government support, persistent resource misallocation will result. This analysis demonstrates that achieving efficiency is complex when market forces intersect with strategic and geopolitical considerations, requiring careful evaluation of short-term protection against long-term efficiency gains.

Commentary 2

Syllabus Section: International / Global Economics

“US jobs grow by more than expected despite tariff turmoil.”

Source: BBC News

<https://www.bbc.co.uk/news/articles/c4grd0wqy22o>

Date of Publication: 02-05-2025

Date Written: 07-06-2025

Key Concept: Change

Word Count: 797

Full Article:

Natalie Sherman

BBC News

Published 2 May 2025

Hiring in the US remained solid last month, despite turmoil stemming from changes to trade policy.

Employers added 177,000 jobs in April, while the unemployment rate was unchanged at 4.2%, the Labor Department said.

The gain was bigger than many analysts had expected in a month marked by chaos in financial markets and rising concerns about the economy tracked in surveys of businesses and households.

The resilience of the US jobs market over the last few years has surprised analysts, helping to sustain spending even as households faced rising prices and a sharp jump in interest rates.

The latest figures have raised some hopes that the country may be able to weather the uncertainty from tariff policy without suffering a painful economic downturn.

But analysts expressed caution, noting that the impact of the sweeping import taxes announced by Donald Trump would take more time to be fully felt.

Olu Sonola, head of US economic research at Fitch Ratings, said it was a good jobs report, despite revisions showing employers added fewer jobs in January and February than initially estimated.

"The key message coming from the totality of the data this week is that the US economy was fundamentally strong through the first week of April, however, the outlook remains very uncertain," he said.

The Labor Department's surveys were conducted less than two weeks after Trump announced his "Liberation Day" tariffs, which have raised the average rate of import taxes in the US to the highest level in more than a century.

Many firms have said they are moving cautiously for now, citing rapid changes in policy and hope that Trump's promises of trade deals will bear fruit.

Hiring last month was led by healthcare, warehousing, and transportation firms.

Employment declined in the federal government - where Trump has vowed to cut spending - but that was offset by gains in local government.

Payrolls also dropped at manufacturing and retail firms.

Average hourly pay rose 3.8% over the last 12 months, according to the report.

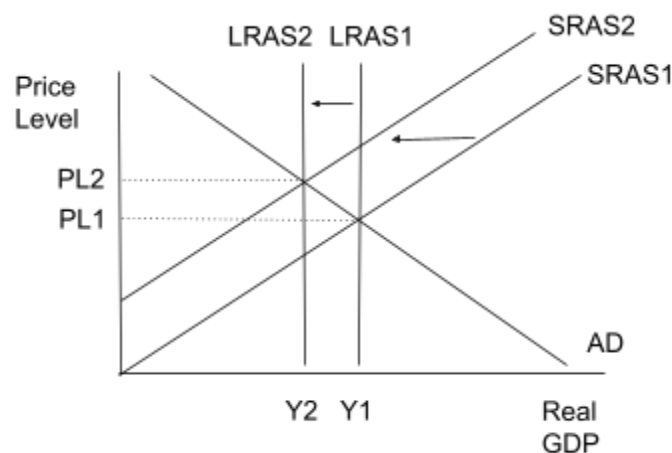
Seema Shah, chief global strategist at Principal Asset Management, said the figures suggested the US central bank does not face urgency to cut interest rates to support the economy.

"Why would the Fed start cutting rates right now when the unemployment rate is near record lows, the consumer is still fairly robust, and inflation is running above target?" she said.

"The economy will weaken in the coming months, with this underlying momentum, the US has a decent chance of averting recession if it can step back from the tariff brink in time."

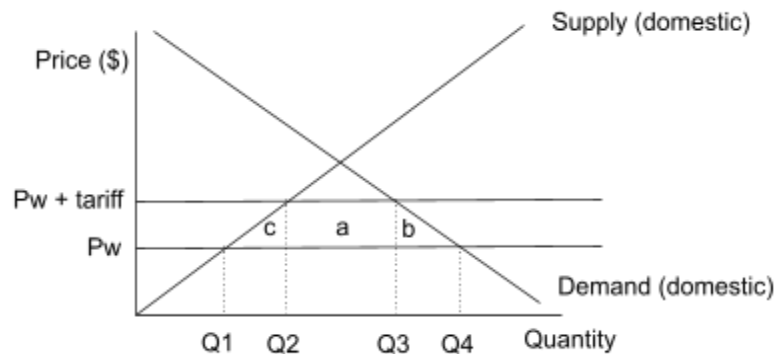
This commentary explores the key economic concept of change through the analysis of recent United States employment data amid significant trade policy shifts, as reported by the BBC. Change refers to how economic variables, conditions, and outcomes are altered by shifts in policy, technology, or external shocks, and how economies adjust to new circumstances over varying time horizons. The historically high tariffs introduced by President Donald Trump in early 2025 represent a major policy-driven shock to the global trading environment. This commentary analyses the short-run and long-run impacts of these tariffs on employment across key economic sectors, using a tariff diagram and the Classical AD/AS model to illustrate how such changes ripple through the economy and produce varied outcomes.

Recent figures from the U.S. Department of Labor revealed that while aggregate employment appeared stable, the effects of tariffs varied substantially across sectors depending on their degree of exposure to international trade. Manufacturing, which relies heavily on imported components and raw materials from countries such as China, experienced notable employment declines as tariffs raised production costs significantly, forcing firms to scale back output and consequently reduce their derived demand for labour. In the retail sector, higher input costs were passed through to consumer prices, particularly for imported goods, dampening consumer spending on luxury and non-essential items and consequently reducing hiring. Healthcare employment remained stable, as the sector is predominantly domestic and less exposed to trade disruptions. Warehousing presented a more nuanced picture: while reduced consumer demand might suggest lower warehousing needs, shifting trade patterns and supply chain restructuring may have sustained demand for logistics services. These varied outcomes illustrate how policy-driven change affects different parts of the economy depending on their integration with global trade.



The Classical AD/AS model provides a macroeconomic perspective on these effects. The long-run aggregate supply (LRAS) curve is vertical at the full-employment level of output, while the short-run aggregate supply (SRAS) reflects firms' willingness to produce given current input costs. When tariffs increase input costs, the SRAS shifts leftward from SRAS1 to SRAS2, as

firms reduce production willingness at existing price levels. The economy moves to a new short-run equilibrium with lower output and higher prices, a stagflationary outcome. A recessionary gap emerges as actual output falls below potential and unemployment rises. If inefficiencies persist through reduced investment or diminished competitiveness, the LRAS1 may also shift leftward to LRAS2, signalling a long-term reduction in potential output.



The tariff diagram illustrates how import tariffs affect domestic markets. The imposition of a tariff raises the domestic price from the world price (P_w) to P_w plus the tariff. At this higher price, imports contract as consumers demand less (Q_4 to Q_3) while less efficient domestic producers expand output (Q_1 to Q_2). For U.S. manufacturing firms dependent on imported inputs, this represents a direct increase in production costs transmitted through the supply chain, raising the cost of domestically produced goods and reducing export competitiveness. Moreover, welfare loss is experienced, meaning overall social welfare is reduced by areas “c” and “b.” On the other hand, the benefit of increased tax revenue may be seen, potentially reducing the government deficit (tax revenue denoted by “a”).

The 2025 tariffs aimed to protect domestic employment, yet the short-run evidence suggests the opposite effect in trade-exposed sectors. While some domestic producers may benefit from reduced foreign competition in the short term, the aggregate impact of higher input costs appears to outweigh these gains, leading to reduced output and rising consumer prices that erode real purchasing power. It is important to consider that the full effects of tariff policies take considerable time to materialise, and short-term disruptions may precede longer-term structural adjustments as domestic supply chains develop and firms find alternative input sources. A further complication is the inconsistent implementation of these tariffs, with frequent pauses, reversals, and exemptions creating pervasive economic uncertainty that itself dampens investment and hiring decisions independently of the tariff levels themselves, representing a significant obstacle to the structural adjustment that protectionist advocates envision.

To conclude, the imposition of tariffs in the United States illustrates how policy-driven change can produce far-reaching and often unintended consequences across interconnected markets. Despite the stated objective of stimulating domestic employment, the tariffs led to higher input costs, reduced output, and lower employment in trade-exposed sectors, while the resulting inflationary pressures eroded consumer purchasing power. As demonstrated through both the tariff diagram and the Classical AD/AS model, such policy changes shift aggregate supply leftward, creating stagflationary pressures with potentially lasting effects on long-run productive capacity. This commentary highlights that economic change, particularly when driven by significant policy shifts, rarely produces uniform outcomes and requires careful consideration of sectoral interdependencies, the distinction between short-run disruption and long-run adjustment, and the critical role of policy certainty in enabling effective economic adaptation.

Commentary 3

Syllabus Section: Macroeconomics

“Lithuanian government approves 2026 draft budget with record defence spending.”

Source: LRT English

<https://www.lrt.lt/en/news-in-english/19/2716517/lithuanian-government-approves-2026-draft-budget-with-record-defence-spending>

Date of Publication: 16-10-2025

Date Written: 15-01-2026

Key Concept: Intervention

Word Count: 800

Full Article:

The Lithuanian government on Thursday approved the Finance Ministry's draft budget for 2026, which includes a significant increase in spending and a record allocation for defence, before submitting it to the Seimas, the parliament, for debate.

Finance Minister Kristupas Vaitiekūnas said Lithuania's strong revenue growth this year allows the government to boost expenditures while maintaining fiscal discipline.

"We are seeing rapid growth in revenues across all budgets, which enables us to increase certain expenditures and ensure consistent national development and defence financing," Vaitiekūnas told a Cabinet meeting.

Under the proposal, the general government deficit is projected to reach 2.7% of GDP next year, while public debt is expected to rise to 45.1% of GDP in 2026.

The draft budget earmarks €4.79 billion for defence, equal to 5.38% of GDP, reflecting Lithuania's commitment to strengthening its military amid regional security threats.

Revenue and spending

Total state budget revenues, including European Union funds, are forecast to reach €21 billion, a 16.8% increase from this year, while expenditures are projected at €27.5 billion, up 18.9%.

Net government spending is set to grow 5.2%.

Recently approved tax changes are expected to generate an additional €278.5 million in state revenue in 2026.

Budget priorities

Vaitiekūnas said the key priorities are social needs, defence, infrastructure, and maintaining fiscal sustainability.

"Next year we can afford relatively rapid wage increases while also meeting the major challenge of generously funding our defence," he said.

The budget includes €438.4 million in additional funding for public sector wage increases.

- Teachers, higher education staff, and sports coaches will receive €148.8 million in raises.
- Medical workers will get an additional €148 million.
- Uniformed officers – including firefighters, police, prison, probation, and customs staff – will receive €24.1 million more.
- Cultural and arts sector employees will get €12 million in added funding.

Social measures

The minimum monthly wage will rise by €115, or 11.1%, to €1,153 before tax.

The average old-age pension will increase by 12%, reaching €750, and €810 for those with full contribution histories.

"This will affect more than one-fifth of our country's population," Vaitiekūnas said.

Various social benefits, including child payments, will grow on average by 5.4%.

Infrastructure and local budgets

The government plans to allocate €815.5 million for road projects, slightly more than this year, with additional borrowing possible to support infrastructure investments.

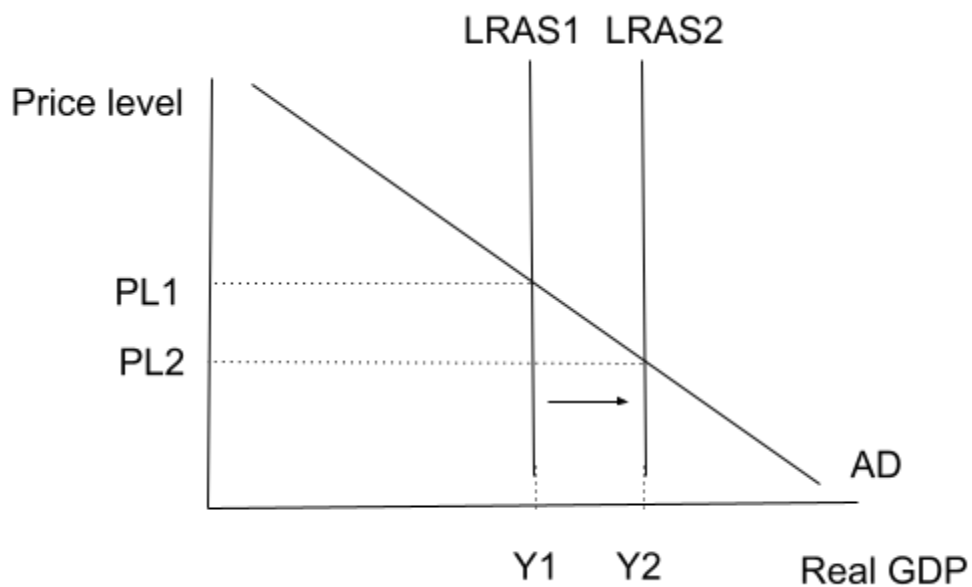
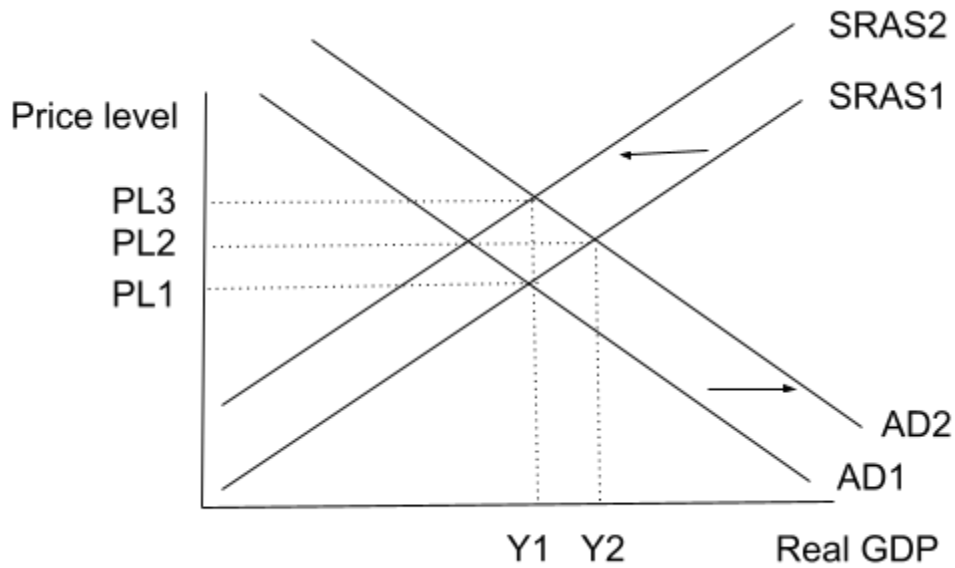
Municipal revenues are projected to grow 10.4%, exceeding €7 billion.

The government typically submits the budget to parliament by October 17, with final approval expected in December.

This commentary examines the key economic concept of intervention through the analysis of Lithuania's expansionary 2026 draft budget, as reported by LRT. Intervention, one of the nine key concepts in IB Economics, refers to the deliberate involvement of government in economic activity to achieve specific macroeconomic or microeconomic objectives, and encompasses fiscal policy, monetary policy, supply-side policies, and regulation. The effectiveness of any intervention depends on the nature of the policy, the current state of the economy, and the trade-offs involved. Lithuania's 2026 budget represents a significant fiscal intervention, featuring record-high defence expenditure equal to 5.38% of GDP, substantial increases in public sector wages and social benefits, and higher infrastructure investment, all financed by a projected budget deficit of 2.7% of GDP. This commentary analyses the short-run and long-run implications of this intervention through the Classical AD-AS model, with particular attention to aggregate demand, aggregate supply, inflation, and fiscal sustainability.

Expansionary fiscal policy, such as increased government spending, directly raises aggregate demand (AD). In the AD/AS framework, AD represents total expenditure in the economy ($AD = C + I + G + X - M$), and a rise in government spending (G) shifts the AD curve rightward. Lithuania's 18.9% increase in government expenditures constitutes a strong fiscal stimulus with demand-side effects. Specific measures include 438.4 million euros allocated for public sector wage increases, an 11.1% minimum wage rise, and a 12% pension increase, all of which directly boost household disposable income and thereby consumption expenditure. Higher spending on defence (4.79 billion euros) and infrastructure investment (815.5 million euros for road projects) provides further injections into the circular flow of income. In the short run, this rightward shift of AD1 (to AD2) should increase real GDP to Y2 and reduce cyclical unemployment, provided there is sufficient spare capacity. However, demand-pull inflation may result if the economy is operating near its productive potential, as increased spending competes for limited resources, as shown by PL1 to PL2.

It is also important to consider the short-run aggregate supply (SRAS) implications. Rapid public-sector wage growth can create upward pressure on private-sector wages through competitive labour-market effects, increasing unit labour costs, and potentially shifting the SRAS1 leftward toward the SRAS2. This cost-push could partially offset the expansionary effects of increased AD, contributing to inflation from both the demand and supply sides (from PL2 to PL3), thereby reducing the net gain in real output back to Y1. This dual pressure underscores the complexity of evaluating the intervention's short-run impact.



A significant portion of Lithuania's spending targets investments that can expand productive capacity in the long run. The 815.5 million euros for road construction enhances transport networks and reduces transaction costs, improving productive efficiency. Defence spending may generate technological spillovers benefiting industry. In the Classical model, LRAS is vertical at full-employment output. When intervention directs resources toward

productivity-enhancing areas, LRAS shifts rightward from LRAS1 to LRAS2, increasing potential output from Y1 to Y2 as shown in the diagram. This allows higher real GDP without persistent inflation. Prices may fall from PL1 to PL2, demonstrating that well-targeted fiscal intervention can achieve both short-run stimulus and long-run supply-side gains.

The effectiveness of this intervention depends on several critical factors. A key strength is that spending directed toward productive investment can raise LRAS, mitigating inflationary pressure over time. Lithuania's moderate inflation and sub-3% deficit suggest available fiscal space. However, the trade-off concerns fiscal sustainability: public debt projected at 45.1% of GDP creates future obligations. There is also a crowding-out risk, whereby government borrowing raises interest rates and displaces private investment, though improved infrastructure may offset this by enhancing business confidence. Stakeholders are affected unevenly: public workers and pensioners benefit directly, firms gain from stronger demand and better infrastructure, while taxpayers face future debt servicing costs. The opportunity cost of allocating substantial resources to defence rather than education or healthcare must also be evaluated.

In conclusion, Lithuania's 2026 budget exemplifies both the potential and the limitations of government intervention as a tool for achieving macroeconomic objectives. The expansionary fiscal policy is designed to stimulate aggregate demand in the short run while simultaneously laying the groundwork for long-run economic growth through supply-side investment in infrastructure and defence capabilities. However, the trade-offs of rising public debt, potential inflationary pressure from both demand-pull and cost-push sources, and the opportunity cost of resource allocation highlight that intervention involves complex judgements about economic priorities and timing. The ultimate success of this fiscal intervention depends on whether spending is targeted toward genuine productivity gains and whether fiscal discipline is maintained so that short-run stimulus translates into sustainable growth rather than persistent inflation and unsustainable debt accumulation. This analysis demonstrates that while government intervention through fiscal policy can drive meaningful economic change, its effectiveness rests on careful implementation and the balance between macroeconomic objectives.