



Worksheet 6.2

Gold's Glitter and Hidden Costs

[This article](#) points out some disturbing facts about the production of humanity's favorite adornment. This called to mind how, as a young economics student, one of my professors told me a story. Being Lebanese, and living in the Midwest of the United States (Indiana) at the time, he enjoyed the homespun wisdom he sometimes heard from the mouths of us Hoosiers. He was in a bar and a guy told him that the only money to be made was in real estate and gold. 'Why those two things?' my professor played along. 'Because,' the fellow said, 'they ain't making the stuff anymore'.

With apologies to the Netherlands and Singapore (who actually are making more of that land stuff), his quote had the ring of truth. And if the current economic crisis, with house prices everywhere, seems to have taken the lustre out of real estate, it has done the opposite with gold. As of this writing, gold sits high above the price quoted in the article, now at \$1800 per ounce!

But, as the article painfully demonstrates, that gold is harder and harder to find. Mining it, which companies have a greater incentive than ever to do, can do heavy damage to the surrounding environment.

Application questions:

1. Using a diagram, explain why the price of gold had been increasing during this period.
2. How would you explain, using a diagram and appropriate market failure terminology, the cost of cleaning up the metal mining pollution of the American West.
3. Explain why some advocate a sales tax on gold. Would this be effective?
4. Explain how World Bank subsidies appear to be counter productive in this context. So why does the World Bank do it?
5. Evaluate other means of solving the issue, using information from this text and your own knowledge of economics.