

Economist would approach the problem of alcohol abuse essay example

[Health & Medicine](#), [Alcoholism](#)



Question 1

Economists may apply some economical elements, as a way of thinking, when approaching the problem of the alcohol abuse. These element of economic way of thinking include, application of ceteris paribus, assumption to simplify, the coherent public responding to incentives, and marginal thinking.

During their analysis, economists apply assumption to make simplify complex concepts in order to be able to be more attentive on the basic elements that matters. The simplified assumption therefore, must critically analyze to determine their suitability (Schotter, 2009). On the other hand, the economists are interested on two main variables. Alcohol is considered as one of the variables and the effect of the alcohol is another variable. The marginal thinking will assist the economist to determine how a small change in one of the variable, alcohol or effect, would significantly result to the variation of the other variable. Therefore, economists will consider the cost associated with the abuse of alcohol and the cost associated with mitigating effects brought about by alcohol abuse while holding other factors constant. With regard to the coherent public responding to incentives, the economist assumes that people act rationally. This illustrates how people consume a commodity to satisfy their own self interest. It is assumed that people will change their consumption behavior as the benefits related to alcohol diminish (Marshall, 2011).

Two solutions that would be involved in mitigating the problem of alcohol abuse include tax policy or setting high minimum price for alcohol. These measures will result into increase in the price of the alcohol. As the price

increases the consumption of the alcohol diminishes. Therefore, these two ways would be effective in reduce the alcohol abuse in certain state.

Question 2

The close related good of prescription goods is the over the counter drug. Therefore, the change in supply and demand of prescription goods will subsequently affect the supply and demand of over the counter goods. Prescription drugs are often backed by subsidies by the government hence reducing their price and are widely supplied(Marshall, 2011). Consequently, low price of prescription drugs would lead to low demand of the over the counter drugs as people will tend to consume drugs that are offered at low price. On the other hand, as the supply of the prescription drugs increases, it will result to the increase of the demand for the over the counter drugs.

Question 3

The elasticity of demand is used to derive the relationship between the price and quantity demanded. On the other hand, the elasticity of supply is the responsiveness of quantity supply due to change in price. This concept is importance when analyzing the concept of shift in demand and supply curve. If the demand for a commodity is inelastic, the increase in price will result to no change of consumption of that commodity by the consumers. Therefore, the consumer will be forced to consume the product at an increased price, that is, they will pay more to the same commodity. Similarly, if the supply of a product is inelastic, the increase in price of the firms will still produce the same quantity.

An example to this scenario includes the policy that changes the elasticity of

both demand and supply. If the demand is inelastic the consumer will be forced to pay more for the taxed commodity while the suppliers are forced to pay more taxes in case of inelastic supply (Manki, 2011). This is due to the fact that the percentage increase in price will be higher than the quantity supplied or quantity demanded. This indicates that both demand and supply curve will maintain their slope. However, what changes is the position that is occupied by the curves on the graph. Therefore, as the price changes, the demand and supply curve will shift either to the right or left, concerning the change.

Question 4

The fundamental reason for the existence of increasing-cost industry is because the increase in demand results to the increase production cost due to the increase in minimum efficient scale of production. This might be due to the diseconomies of scale due the shortage of the resources or unfavorable regulation (Schotter, 2009). For instance, text industry faces a challenge of shortage of labor while tough regulations such as environmental increases the production cost in oil drilling company. The increasing-cost industry have positively supply curve because the increase in the market price will trigger high quantity of goods and services produced regardless of higher cost. In other words, price and quantity produced in this industry have positive relationship.

Question 5

The perfectly competitive markets are able to achieve economic efficiency because they are able to produce with no excess output and cost. The

associated firms produce at a point where marginal cost and average total cost are equal to price as shown below.

The perfectly competitive firms are able to achieve productive efficiency.

This is because they produce their goods and services at the minimum average total cost possible. The firms are also able to attain allocative efficiency because they do not produce excess products into the market.

However, the firms are able to achieve this efficiency only in the long run.

Reference

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A Schotter, (2009). Microeconomics: a modern approach. Mason, OH: South-Western Cengage Learning