

Types of markets in the uae economics essay

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Introduction

Market is a place where goods and services are bought and sold at a given price. These prices are set with the help of demand and supply of the goods and services. In every economy, goods and services are scarce and have to be allocated accordingly. Consumers and buyers have to work out on what they have to purchase according to their demand and their ability to buy. The scarcity of these goods leads to choice being created for the consumers; hence it results in opportunity cost. The cost of purchasing one good or service is to let go or forgo another good which yields maximum satisfaction. In every economy, societies want to satisfy their wants as much as possible with the given limited resources. Such problems related to the allocation of goods and services are then solved through the market mechanism.

Market Mechanism

Market mechanism is the process by which a market solves the problem of allocating goods and services. It is a way by which buyers and sellers set up a market price and the quantity or the level of output for a good or service to be exchanged in the market. The self allocation of demand and supply is a key in any economy to derive the best out of the good and service according to the needs of the people. (fenriswulfe, 2010)

Types of Markets in the UAE

In the UAE, mostly all the goods and services are allocated according to the free market forces of demand and supply. Such market involves the competitive market of a perfect economy. In which the level of demand and

supply of similar goods and services determines the price and output and the market mechanisms adjusts according to the market flow. In some industries though, it is controlled by the government. An example of such industry is the food industry in the UAE. Maximum prices have been set by government for food products, such as eggs, rice, chicken and even bottled water. This is a result of the inelastic nature of the goods, the high demand and shortage of supply could lead to lower output in the economy and a high price. But government has intervened to stop the free market forces of demand and supply to determine price and output. Because of this, the price systems will no longer work to determine the output, people will demand more because of low price and the market would continue to flow. (Amir, 2008). There are also few captive markets in the UAE such as the stock market. In such a market the consumers don't have enough options to purchase the goods and services. Goods and services have to be purchased from a particular supplier such as the securities exchange. Options for the buyer can also be limited in such a market due to shortages in the market, high price of substitutes, unique feature of the supplier or because of monopoly.

Aggregate Demand and Supply

Prices and output of goods and services are determined through the demand and supply. Aggregate demand is the total demand of a good or service in an economy, while the aggregate supply is the total supply of the good or service in an economy. The point where the demand interacts with the supply is known as the equilibrium point which is the point where the market accepts price and output of a particular good. For example, in the car industry in UAE, many new cars are manufactured every year. The new 2013

Mercedes has a price elastic demand and supply. It is a luxury item, which is purchased by few people who have the willingness and ability to buy. The aggregate demand of the new Mercedes increases as the model is new, and the brand loyal are eager to buy the car, but as the model gets old, its demand would start to decrease as new models would enter the market. The aggregate supply of the new Mercedes depends on the suppliers. The manufactures make the cars available according to the demand of the people and the available resources. The greater the demand and with the availability of resources, the supply would increase. If the demand is low, or the resources are not available due to any reason, there would be less supply in the market. The interaction of the demand and supply of the car, determines the price and the output demanded and supplied in the market. It determines the price at which the car is demanded and supplied through the forces of market mechanism. Mean while, a rise in price of the car due to shortage of supply, would decrease the demand and vice versa.

Factors affecting Aggregate demand and Supply

Aggregate demand is the total value of goods and services demanded in an economy in a year. Aggregate supply is the total value of goods and services supplied in an economy in a year. The component of aggregate demand includes, Consumption, Government spending, investment and net exports. The factors that affect these would include; Interest rate: This will cause an increase/decrease in the consumption and also in the investment. Direct and Indirect Taxes: This will cause an increase/decrease in the consumption and also in the investment. Increase in tax revenue: The government spending would increase due to an increase in the tax revenue. Quality of

infrastructure: This would result in an increase of investment leading towards development. Government tariffs: This could affect the imports of goods and services in an economy. Exchange rate: This could result in increase or decrease in the level of exports and imports. All such factors which cause an increase or decrease in the components of aggregate demand would shift the demand curve to the right or the left. The total supply in an economy can be affected by; Wage price: The price of wages could affect the aggregate supply in the economy. Technology: The level of technology in the economy can result in an increase or decrease in the aggregate supply of an economy. Energy prices: Key energy inputs such as petroleum and others that are necessary for the production of goods and services affects the aggregate supply. (AGGREGATE SUPPLY DETERMINANTS)

Conclusion

When both the aggregate demand and supply interacts with each other, it determines the prices and output level of an economy. Government policies such as fiscal and monetary policies are important and play a key role in affecting the aggregate demand and supply in an economy. It is important for the economy to maintain a balance between demand and supply through the market forces and try to fill any gaps and shortages which are causing increase or decrease in price and output.