

The three main economic questions



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In a given society where individual lives are based on country economy problem, these question usually arise. Such as, the problem of inflation, consumer wants etc. In a given economy there are important questions that must be answered, whenever people argue on economy questions what come to people's minds is how to deal with inflation, reduced unemployment and lastly is how to keep developing the economy. But these are not the three basic economic questions.

The real ones are....

What to produce?

How to produce?

For whom to produce?

Economic Systems

The economy system of a country is based on how the country handled these three questions. The economic system of a country is the decision making of that country that can answer these questions.

Presently in the world there are four main types of economic systems, the market economy, the command economy, the traditional economy, and the mixed economy. And there are unlimited amounts of variations of these systems.

Traditional economy, this is an economy that gives answers to the three questions based on social customs and the way the society had dealt with

these questions in the past history. Country's customs may differ to that of a neighboring country so traditional economies vary from one another.

Second one is the market economy, this type of economy being used in United States and these questions are answered in the marketplace by the interaction of buyers and sellers. For example, the question of what to produce, this may be based on what is vogue at the moment in a society. The company or a producer produced a product that they think the public will buy well in order to make profit. Normally the question of how to produce is based on the producer's choice. The producers decide to use more workers in production or decide to produce by using machines and computers to save labor costs. The question of, for whom to produce is determined on the buyer who decides what they want or need and the price they are willing to pay for it.

Market economy is good in motivating workers to work harder because they get paid based on what they do. An employee can increase their income or profit by working harder and this is a kind of motivation for and it makes them do a quality work.

The next one is the command economy in this kind of economy the government are the one to answered all these questions. The government decides what they want or need, the government decides these questions for the country, and citizens were not given a chance to decide. Meanwhile this type of economy the citizen find it difficult because it is not possible for the government to know what is best for each and every citizen.

Furthermore, in command economy there is nothing like worker motivation because the entire employees are given same salaries and the same standard of living. An employee working citizen would not be given a bonus for extra work done because they cannot increase their standard of living any greater it was they are just as much as a person who do little or no effort.

But in mixed economy, the economic system answers the three questions both in the marketplace and in the government. The United States government makes use of this mixed economy; the economy usually involves the producers working with the government. They do this in the United States so the US economic system practiced market economy.

The economic system of a country is based on what is the best for that country. People might think market economy is the best for a country but it may not work for another. In determining how an economy works can help in making a decision as a citizen and involved in of the economy as a whole. Becoming an economically-effective individual helps the entire country to benefit

It must be noted that the three basics economics questions was able to be given an answer based on the concept of economics right in the market. That is capitalism, the system by which individuals was able to act for their interest in the market place.

The private property is a concept in the opinion of economics right. The product, service rather and the production are organized by individuals. Being the producer of productizes resource; people have the freedom to

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make use of their property as they wish. So the people that owned the property will gain the reward or bears the risk of the economic decision they make. Being the owners of factors of production, the people are rewarded with rents because they use their land, given wages in exchange for labor and interest on capital, profit as a reward for their entrepreneurships. Government or public is the opposite of private ownership of the means of production. Public ownership comes before individual decision making, so this tend to reduce the peoples economic choices.

In a capitalist economy market people's decision are influenced by their own self interest. This self interest is obtained by reacting to the economic incentives system. Meanwhile Positive economic incentives encourage economic decision makers while negative economic incentives discourage economic decision makers. Both positive and negatives economics incentive served as a guide to resources allocations towards the productions of quality goods and services that people in the society wants, there are when the production of goods and services are not wanted by society. In this respect, a business owner is trying to obtain his own economic self interest that will benefit society as a whole. The producer desire for profit would encourage taking this productizes resource into the production of quality goods and quality services that will entice a high demand in the marketplace. In order to avoid losses the producer would be discouraged from involving in productizes resources into the production of quality goods and quality services that people will not like. in this respect, the consumers always looking for cheap goods and avoid price that are high for the goods they want, the savers look for high interest rates and avoid low ones employee

are advice to engage their labor in jobs that earn high wages and shift their labor away from those occupations that earn low wages or the one that is a high in unemployment. Reacting to these positive and negative incentives, economic decision makers pursue their self interest. Researcher like Adam Smith, the father of capitalism, noted that if everyone pursues his own economic self interest, everyone will benefit.

Competition among the producer in the marketplace is the best means of controlling excesses individual self interest. In order to perform this important function in a capitalist system, there are certain conditions that are necessary. One of the conditions is that there must be a lot of purchaser and sellers at the market area for competition to take place. These numbers must be large that a single buyer or seller will not be able to determine the demand or supply of the product or service. Another one is this condition is the freedom of entry or exit from the marketplace. In any market place if one business commands a kind of high price for it products it sells, some other producers must have free entry to move into the marketplace and compete with the existing product in the market, therefore, there should not be barriers that will stop the entry or exit from the marketplace. Furthermore, the knowledge of markets and prices is another condition. The consumers and producers must know the entire products that exist in the market and the prices of products that have being sold in all the markets. For example, if a town has many restaurants, and consumers are unaware that is more than one, the impact of their ignorance will gives room for the one restaurant they are knows to monopolize it product in the marketplace. If all the conditions needed for the competitions are available in the market place, we must know

that if there is a kind of competitions in the market the price will be low, with quality variety, and better goods. All the aforementioned above are the benefits required by all consumers of product in the marketplace.

The price system is the only way the buyer and seller desires are communicable. The purchaser were able to interact with nice product, rather quality services, the buyer are willing to buy at different prices, and the sellers also interact the amount of those goods they are ready and able to sell at different prices. In order words, the dealings of the purchaser and sellers will resulted in a market price. Evidenced from Adam Smith theory he said he believed that market place acted as an “invisible hand” which operating in a balance desires of both the purchaser and sellers and this establish a price that both could have agree on. The Prices of goods and services that is determined in the market place helped in answering the question of What, How, and for Whom.

What is property? How can we define property in its idealized form, a property right gives its holder a strong

Form of ownership right over an asset, called ownership. Ownership can be viewed as a “collection of sticks”

This comprises of the following rights:

C: The power to control the asset and decide on how to use.

V: An opportunity to the value the asset generates.

E: The power to exclude others from using the asset.

T: The power to transfer the collection C, V, E, T to another holder.

It must be noted that the property rights do not regulate the relationship between the owner and his property, but it regulate the relationship between the owner and other persons, with respect to the property. Different to the contract, is the one that regulates the relationship between specific parties, property rights are rights against the world. The Owners of property can be individuals, or groups of individuals, organizations, or state, and this property owned can be tangible, for example personal property or real property (land), or intangible, like corporate stock or intellectual property.

Furthermore, the property rights may or may not be recorded formally, and can be granted perpetually (e. g., patents, copyrights).

The property rights may be necessary but not sufficient condition for capitalism. Because everyone has some form of property rights, even the past ancestors seem to have had property rights, although forms of property were quite basic (Rubin, 2002)

Evidence from, Bailey (1992), even relatively primitive tribes studied by anthropologists have reasonably efficient property rights systems. For instance, property rights are defined in agricultural land when crops are being grown, but the land is available for hunting in the fallow season. These societies cannot in any sense be said to be “capitalistic.” It must be known that, capitalism need more than property rights. Never the less, capitalism cannot survive without property rights.

Some other institutions which are needed for capitalism, in addition to property rights, are free markets, is includes capital markets and

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competition to organize exchange; the notification of (profit maximizing) firms and entrepreneurs to organize production; and the enforcement of contracts. This essay tapes the reason why private property is essential for the working of capitalist economies. It does not attempt to look in to all aspects of property rights but the major focus is on the relationship between property rights and capitalism.

Business Performance Excellence can be attained when an organization is generating the maximum level of profitability possible given the financial, human, capital, and other resources that it possesses. (Luftig, 1998)

All companies wanted to be the best in their market. But most never succeed. Many of the ones one's that do, is temporarily and later lose their position through misunderstanding how they got there and what needed to be done to maintain the best. Very few, as Jim Collins has stated, are capable of going from " Good to Great."

The following are the major determinants of Business Performance

Practical and technological training for workforce

In order to improved the business skills training must be organized for the employees of a company so that the productivity and efficiency of that company's worker can be improved through the training within a short period of time. This training must involved the services of an expert who have an excellent experience in business Intelligent and business managements' (BM) and this also must involved the amount of services rather in the training in cash which will have to be done by an expert

employers in order to enhance the professionalism of (BI) and its improvements so that the long-term objectives of the company's capacity and lucrative can be achieved within a given period of time.

Increasing the number of participate in the workforce

A quality and intellectual business workforce must be the major objective of a business employer. Such as, the incentives, confidence, push-push and bonuses all those things can improves the employees' efficiency within a short period, because it is the mystery of lucrative businesses in the business world where they gives room for bonuses and encouragements for the workforce.

Large number of capital investment

These are some of the benefits which are discussed.

The innovative and imported mechanical equipments can improved the hours of the workforce so the employee may be able to earn the highest amount of profitable.

More capital investment will enhance the overall efficiency of the company.

Huge amount of money input will bring fort the highest amount of efficiency and output to company and the company will have less resources and capital.

The use of best quality raw materials

the usage of best raw materials will not only enhance capacity of the machines, but it will enhance the outside work of the business by producing

more quality amount of production. In other words, it would enhance the overall business efficacy.

Analytical method

Nevertheless, business intelligence (BI) in this regard the ability to enhance all the business efficacy is the main objective of the producer. They put larger number of investment in businesses by introducing latest technologies to get maximum profit. The introduction of business training to the workers comes into consideration through the incentives of the business employers so that all efficacy of the workforce can be lifted up within a short period of time.

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As argued that a company's managers ability to make effective decisions in its allocation of resources are very essential to its organic growth within such organizations. Not surprisingly, many companies are currently spending billions of dollars on research for information on how to make efficient decisions in exploring opportunities and solving their market problems and challenges. Given these aforementioned large spending and investments, managers have been charged with the sole responsibilities of how to optimally allocate its limited resources and efficiently demonstrate that those chosen investments would yield the desired returns for their firm.

Under this section, I tried to highlight a two unique stage process for resource allocation.

Stage one tried to depict how a model of demand could be estimated. This is because the model of demand empirically assesses managers' decision

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impact on company's actions in consumer demand for its products. In stage two, estimates from the demand model are used as input in an optimization model that attempts to maximize profits. This stage takes into account costs as well as firm's objectives and constraints (e. g., minimum market share requirement).

Over the last decades, managers and practitioners have adopted many methods and approaches that explicitly or implicitly follow any of these two stages in determining how resources are to be allocated. I have categorized these approaches into a 3 groups, which summarily suggests that there are three different approaches in stage one which is demand estimation (the decision calculus, experiments and the econometric methods), and also there are separate three different methods in stage two known as economic impact analysis (i. e. descriptive approach, what-if approach and formal optimization approach). Included in this discussion are the pros and cons of each of these approaches and their illustrations through some practical applications.

Demand Estimation

Decision Calculus

Decision calculus uses managerial input to estimate the demand function that can be subsequently used in stage-2 for optimization (Lodish 1971).

Since Little's 1970 article, a series of studies have used decision calculus to calibrate demand models and allocate resources successfully (Wierenga et al. 1999, Divakar, Ratchford and Shankar 2005, Natter et al. 2007). In two forecasting situations where managers made real-time forecasts, Blattberg

and Hoch (1986) show that statistical models and managerial judgment achieved about the same level of predictive accuracy, while a combination of model + manager outperformed either decision input. They suggest that while models are better at combining complex data in a consistent and unbiased fashion, managers are better at incorporating intangible insights about the market and the competitive environment.

Experiments

Experiments provide a useful way to assess consumers' response to stimuli. By allowing a manager to control for factors that otherwise may influence the outcome; they enable him to isolate the impact of the marketing instrument under study. Experiments are also useful to gauge consumer response to new activities that the firm has not tried historically.

Catalog and credit card companies with millions of customers find it very useful to set up test and control samples to assess the effectiveness of various direct marketing programs.

Econometric Approaches

With the increasing availability of data, improved computer power and advances in econometrics, it is now easier for firms to harness their historical data to estimate the impact of various marketing instruments on consumer demand. In the consumer packaged goods industry, the advent of scanner data has revolutionized marketing resource allocation through this approach.

This approach is most useful when markets are relatively stable such that historical estimates provide a good indicator of the future market conditions.

A method based on historical data is unable to capture situations where the

industry dynamics or a firm's strategy has undergone major changes. Therefore, model recommendations are relevant only within the range of historical data.

Economic Impact Analysis

Descriptive Approach

This approach uses parameter estimates of the demand equation to make directional recommendations. For example, high consumer price sensitivity for a brand may suggest allocating more promotional dollars to this brand. Parameter estimates can be converted into demand elasticities, which can be compared across various marketing instruments to guide resource allocation (Steenburgh 2007).

Simulation or “What If” Analysis

To handle complex interactions mentioned above, optimal resource allocation can be achieved using simulations or “what if” analyses. Effectively, a manager can try various marketing plans as inputs into the demand model and simulate the effects on sales and profits. Increasing computer power makes it easy to conduct hundreds of such simulations in a short period of time.

Simulations have two key limitations. First, as the number of options (marketing actions and their budget levels) increase, the potential combinations for simulation can increase exponentially. Second, simulation is effectively a coarse grid search over the profit function. In other words, it provides an approximate rather than an exact solution to the optimization problem.

Optimization

The most sophisticated and complex approach is the build a formal optimization model that uses demand parameters from stage-1 as inputs and sets up a profit function that is maximized using operations research algorithms. These algorithms may include linear, integer or dynamic programming methods. This approach also allows managers to put in business constraints as part of the optimization algorithm.