Good report on causes of market failure

Experience, Failure

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Introduction

Market failure is a concept encompassed in economic theory where the amount of products demanded by customers in a certain market is not equal to the amount that is supplied by manufacturers and suppliers. It is a situation where there is inefficiency in the allotment of goods and services by free markets3. This paper will delve into issues of market failure by analyzing examples of market failure by famous companies. The paper will also highlight the causes of market failure and its contribution to innovation failure. Finally, the paper will discuss how to manage and overcome market failure.

This is caused by a lack of equilibrium in the market due to the absence of particular economically ideal factors8. Some of the ideal factors that cause market failure include:

- Market power: significant start-up costs or economies of scale may feature in some industries. In such an instance, an inefficient market situation is possible if a firm successfully excludes other firms to the disadvantage of potential participants in the market5.

- Transaction costs: markets cannot function efficiently in cases where the costs of engaging in a trade are initially high4.
- Irrational actors: irrational actors might favor short-term benefits by ignoring long-term costs. Such actors weigh the factors inappropriately when making a trade1.
- Imperfect information: this occurs when one of the parties in a trade has material information that the other lacks, or information that could potentially affect the price or the probability of a certain trade4.
- Externalities: these are factors that are beyond the control of consumers or producers. These include negative factors like natural calamities, economic downturns. Positive factors like economic recovery and purchase of luxury products also might cause market failure6.
- Imbalance between perceived quality and the price of a product: in instances where consumers perceive the price to be fair given the quality, there is an increase in demand. If producers are not able to meet the increased demand, there will be a market failure4.

Market failure and its contribution to innovation failure

Market failure can contribute to an innovation failure. Market failure causes poor performance of a product. Poor performance results in loses due to failure to recover the capital invested in the product through increased sales4. Additionally, market failure reflects on the high cost of production. This implies that organizations invest a lot of capital in producing products4. This might be occasioned by high prices of raw materials and labor. For instance, industry regulations can be causes of market failure. The minimum wages policy can increase the cost of production by increasing the wage bill of an organization. These conditions kill innovation because organizations may not have the capital to invest in new products. This is also accelerated by instances where new products have not picked well in a free market6.

Companies that have experienced market failure

Famous companies have experienced market failures that have resulted in hundreds of millions of dollars in losses. Some of these famous companies include the following. One of these companies includes Microsoft. Microsoft has had a number of market failures with its products. In an attempt to curb piracy, Microsoft demanded that users of Xbox one required to be connected to the internet constantly while using the device9.

This angered the consumers because this translated to unexpected costs. Play station, a product of Sony benefited from this by making increased sales9. Other products of Microsoft that experienced market failure include Windows 8. The operating system changed windows too abruptly for its users. For instance, the new product did not have the start button. Instead, it was moved into a tile-based layout that was too cumbersome for the users of windows9.

Hewlett Packard is another famous company that has experienced market failure. Its product, the Touch Pad runs on a webOS operating system and a solid hardware. The product was reviewed to have better features than that of its competitors. Its technology was more cutting edge that that of its competitors and it had a competitive advantage. However, after seven weeks, HP slashed the price of the product and eventually discontinued it due to sales setbacks9.

How to manage and overcome market failure

Market failure can be managed and overcame by increasing market efficiency. This can be done by ensuring that the sellers and buyers in the market have ideal and complete information concerning prices and alternatives. Additionally, competition in the market must be enhanced7. Through competition by buyers and sellers, a equality between the supply price and the demand price is established. Finally, market failure can be managed and overcame by ensuring that all external costs and benefits in the market are abolished. The demand price ought to encompass all the value that is generated from a particular good. The supply price on the other hand out to reflect every opportunity cost of all forgone production2.

Conclusion

Market failures are situations that organizations and governments ought to avoid10. This is because market failures not only cause losses in the millions of dollars but also kill the innovation spirit of organizations. Organizations should do that which is necessary to avoid market failure10.

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