

Microeconomics assignment

[Economics](#), [Microeconomics](#)



The notion of “ fairness” is often the justification given for the government intervention in the market. Do you agree or disagree. 1. 0 Introduction

Fairness in the market can be defined as the equally distribution in the proportion of economic pie to every party. In the past, the economic prosperity is not uniformly allocated among the members of society. The wealthier will have a larger proportion of the economic pie whereas the poorer parties will only occupy a smaller part of the economic pie.

However, there is a decrease in unfairness since the liberal market economies is introduced. 2. 0 Market mechanism Market mechanism is used in describing how the supply and demand work in the market economies. Supply and demand are important in the determining the price and quantity of goods and services that can be offer to sell in a free market. Graph 1. 0 shows the supply and demand curves Supply is the relationship of the quantities of a goods or services that the sellers are able and willing to sell at each price within a specific time period.

The law of supply claims that the increasing in the price of goods will leads to an increase in the quantity supplied. The quantity supply is directly proportional to the price of goods. Therefore, movement along the supply curve happens. A market supply curve was stable when everything is hold constant. However, when there is changes in one of the factors such as increase in the input price, this will result in the shifting in the supply curve. Shifts the supply curve to the right is called an increase in supply while shifts the supply curve to the left is called an decrease in supply.

Graph 2. 0 shows the shifting in supply curve In the other hand, demand is the relationship of the quantity of a goods or services that the buyers are able and willing to buy at each time within a pacific time period. According to the law of demand, the increase in the prices of good will decrease the quantity demanded. The quantity demand is inversely proportional to the price of goods. This will cause the movement along the demand curve. Like the market supply curve, when factors such as income of buyers changes, shifting of demand curve happens.

Shifts the demand curve to the right is called an decrease in demand while shifts the supply curve to the left is called an decrease in supply. Graph 3. 0 shows the shifting in demand curve Although the mechanism provides market with the most efficient economic exults possible, high efficiency for supply curve might not be the same as efficiency for demand curve. When the supply and demand curve is combined, the intersection point between both curves is the equilibrium point. The equilibrium point is the maximum efficiency reach by one party without harming the other party.

Therefore, the market had to be constraint in order to protect both seller and buyer at the same time. 3. 0 Government Intervention The main reason for government interventions in the market is to respond to market failures, to attain market economic efficiency and equity, and to revert abuse of market power. When policymakers feel that the market price of a good or service is unfair to either the buyer or the seller, the government will step in and take control of the price. In the market, buyers will always desire a lower price whereas sellers will always want a higher price.

This will cause conflict between both groups. In order to solve this problem, government intervenes the market using price ceiling, price floor, taxes and subsidies.

4. 1 Price Ceiling

Price ceiling is the legal maximum price that a seller is allowed to charge for a good or service. The government will impose a price ceiling when the price of a good or services is too high. It is one type of government intervention that can ensure the price of a good doesn't exceed above a certain level so that the buyers is able to pay for the goods or services. For example, the government set a price ceiling on taxi fares.

This can ensure the lower income individuals are able to afford it. Binding price ceiling is also implemented to prevent unethical price escalation by the sellers. There is an equilibrium point where the price that balances quantity supplied and quantity demanded. The price ceiling is not binding for the price ceiling is above the equilibrium price. When the price ceiling is set above the equilibrium price, the price ceiling is not binding. It has no effect on the price. Although there is a price ceiling, the natural market forces, also known as the invisible hand, will yet move the economy back to equilibrium.

This will not bring benefits for the party which originally the government intended to help as the price that balances both the supply and demand is below the price ceiling. When the price ceiling is set below the equilibrium price, the price ceiling is insider binding. The invisible hand will move the price of goods towards the equilibrium price. However, the price of goods will stop rising when it reaches the price ceiling. Hence, the market price of the good will be equal to the price ceiling, shortage will happens as the quantity demanded exceeds the quantity supplied.

Shortage will lead to rationing. The sellers have to ration the scarce goods among the huge number of potential buyers. Binding of price ceiling also will cause long lines in buying goods or services. Buyers are wasting their time by having to wait for the long lines. Discrimination according to seller bias is unfair and inefficient as the seller will not sell the good to the buyer who values it most highly. Shortage will also result in price gouging. Price gouging is referring to the sellers who are taking advantage to sell a product at an especially higher price under emergency conditions.

For instance, when there is a shortage in gasoline, the supplier of the gasoline tends to escalate the selling price of it. Sellers and buyers will face misery due to the especially high price. An example of price ceiling is the rental control. Rental control is imposed in any countries such as US, UK and most of the European countries. Reason of rental controls is to restrict the amount of rent a landlord can take from the tenant. It also prevents the prices of other rental housing from skyrocketing. Landlord's ability to evict a tenant is limited; a tenant can only be evicted under certain circumstances.

Graph 3. Shows the binding of price ceiling. In the diagram, the price ceiling is binding for the price ceiling is below the equilibrium price, shortage of the good arises. 4. 2 price Floor Secondly, government will impose a price floor to ensure the price of a good or services will not fall below a certain level. Price floor is defined as the legal minimum on the price of a good or services that can be sold. For instance, the minimum-wage laws determine the lowest price for labor that any employer may pay. The U. S Congress instituted a minimum wage with the Fair Labor Standards Act of 1938 to ensure the minimally adequate living standard of workers.

According to the federal law, the minimum wage was scheduled to \$7.25 by the year 2010. The following graph shows the market for labor. Workers determine the supply of labor and the firms will determine the demand. A binding price floor causes unemployment. Therefore the minimum wage further increase the income of those workers who are already employed, but decrease the income of those workers who cannot find jobs. Graph 4.0 shows the binding of price floor. The minimum wage is above the equilibrium level. This leads to unemployment as the quantity of labor supplied exceeds the quantity demanded.

Minimum wage affects teenage labor the most. Teenagers are the least skilled and have the least experience, thus the equilibrium wages of teenagers are low. Because of this teenage labor are willing to accept a lower wage or moieties no wage in exchange for job training. As a result, the minimum wage is more often binding for teenage labor. Teenagers that secure their job are better off as they will earn more while teenagers that lose their job are worse off. 4.3 Subsidies Us besides are used by the government for encourage the development of certain industry.

If subsidies are given for industry for example food industry, more producer willing to develop in this industry. Therefore, more food is supplied in the market. This will shift the supply curve to the right. The price for food is decreasing and the quantity demand is increased. More buyers demand for food. As a result, the market for food industry is more active. Graph 5.0 shows the subsidies on producer. 4.4 Taxes Taxes are used by the government for the raising for public projects. Tax is important for the

development Of country. All the taxes collected are used for public projects such as schools, hospitals, roads and national defense.

Without taxes, the government unable to build public facilities that beneficial for people and the country's development is retard. There are several types of taxes used by the government such as tax on income, taxes on payroll and ax on goods and services. Besides, taxes also can be categories into two groups; taxes for buyers and taxes on sellers. Although the tax is imposed on one party, both the sellers and buyers will share the burden of the tax. It depends on the elasticity of the supply and demand curves, the largest share of the tax burden will fall on the party with greater inelastic.

For example, if the supply is elastic and demand is inelastic, the buyers will have to pay more tax. When taxes are levied on buyers, the buyers have to pay more but only can get less quantity of goods. When the price of a certain good increases, a crease in demand will happens. The demand curve will shift to the left and the quantity of goods sold is decreasing. This type of taxes is usually used for discouraging market activities such as the consumption of cigarettes. Higher taxes on cigarettes will causes the buyers consume less cigarettes.

As for the sellers, the supply curve will shift to the right. Graph 6. 0 shows the tax on buyers 4. 0 Law of Unintended Consequences In the real world, the market is complex and uncertain. The law Of unintended consequences is when the government tries to standardize a complex system o a simple one. Government regulations turn out to be negative most of the time. The government in our country imposes subsidies for an example prices of

gasoline on everyone, its intention is to help the lower income society members so that they can afford to pay for the petrol of their transport.

However, the subsidies also had helped the higher income society members at the same time. Both the higher and lower income society members are better-off. Another example is when the government in our country imposes taxes on everyone, its intentions are to collect money from the higher income society members to develop and improve the facilities of our country. However, the taxes will have a negative impact on the lower income society members as they have to pay the same amount of taxes that has been charged by the government.

The law of unintended consequences did not stop the government from modifying the complex system although it often turns out to be negative.

The regulators should be thinking at the margin and rationally. 5. 0

Motivations for government involvement Even though the intentions of government are to benefit the market, but it will sometimes lead to failure. In recent years, the US president Barack Obama announced a program that costs \$75 billion to protect all homeowners from foreclosure. This program is said to have raised a false hope among citizens who cannot afford their homes.

Payments are sent by homeowners desperately in order to secure their home while the money sent could have been saved to purchase cheaper residential places. Due to false assumption on loan modifications, some borrowers have seen wasted their money. This program has not only failed but has worsened the situation for those in danger of foreclosure. In addition, taxes imposed by

the government may cause deadweight loss, the inefficiency results from market alteration. Taxes reduce an individual desire to purchase the good and it causes deadweight loss.

Deadweight loss creates a loss to the society as the money can be used in a more economically productive way instead of being collected as a tax.

Therefore, deadweight loss leads to market failure. 6. 0 Conclusion As a conclusion, we agree that the notion of ‘ fairness’ is often the justification given for government intervention in the market. The governments’ interventions have ensured that the economic pie is equally divided among the members of the society. It meets the main goal of the government interventions that is to help the members Of society who are most in need.