The effectiveness of markets

Finance, Market

Discuss the effectiveness of markets at allocating resources and the role of incentives in guiding behavior. What do you think of the specific examples or illustrations that were used to demonstrate the role of markets and incentives? Are they appropriate and generalizable? A market, in basic terms, is the place of purchase and sale, that encourages or creates anenvironmentwhere the two opposing parties get to interact with each other, search for items, selection, negotiate on prices and discounts / incentives offered by the seller on the offering, resulting in an effected sale.

Markets play a central role in determining the supply and demand of goods and services in the economy, allowing efficient allocation of resources, human and non-human, to provide goods and services to all buyers willing to receive them at a set / agreed price. Ideally, markets allow the free flow of goods and services, contributing towards an increase in prices of items that are short in supply so that only the individuals willing to pay the highest prices can receive those goods.

Although the allocation of these resources in the markets should be equitable, in free and actual market economy, the system is not as effective as it should be. Inappropriate pricing, unavailability of goods, space and resources are only some of the factors. In such a case, three factor and four factor economies are the most efficient where the government intervenes through levying taxes and subsidies to control these shortcomings. However, the gist of market system allows the supply of goods of those and services to those who are able to pay price for them.

Markets allocate resources in the form of motives that guide buying behavior, in the form of incentives / discounts that may be financial or nonfinancial. Incentives have a large role to play, determining whether they are guided morally (is it bad?) or economically (is it profitable?). A very large role that incentives get to play, it is their positive or negative reinforcement that causes individuals and markets to exhibit / prohibit a behavior.

Since a market serves as a commonplace for buyers and sellers to interact, incentives drive the participation from both parties, and ensuring the purpose and operations of a market. These incentives encourage consumer's behavior thereby stimulating the demand, acting as a signal towards effective purchases. In my view, the examples are quite idealistic in nature, ignoring the fact that free markets are the actual determinants of the effectiveness by which a market aptly allocates its resources, offering incentives, moral, economical and social to the buyers and sellers to carry their trade in the provided environment.

These examples cannot be generalized to today's market where there are other major forces as well that route a market's behavior and direction, including its operations. Free market operations allow for sellers to decide the methods and offerings of goods and services that they wish to offer, without restrictions from any side. The intervention from government means that sellers are restricted and hence their directing their behavior more towards protectionism in offering their goods / services in the economy.

Question 2: Do people (e. g. athletes or scientists) really cheat simply because the expected gains exceed the cost? Is this the whole story? This is a topic that largely debates on the rationality of human beings and the circumstances under which they cheat. It is often found that people do cheat, however, under a veil of rationality knowing when and where to cheat.

In any such case, importance to internal cost is imposed at a much greater extent, while ignoring the external costs.

The Rational Choice Theory suggests that the amount ofcheatingvaries directly with the perception of people that relative gains from cheating exceed the cost in doing so, while ignoring all external variables. In simple words, the approach to any problem and the determination about whether to cheat or not, can be based on the premise of a market involving buyers and sellers that " the choices made by buyers and sellers are the choices that best help them achieve their objectives, given all relevant factors that are beyond their control.

" (Green) This theory postulates that people give their best under prevailing circumstances, trying to be as much rational as possible. In the market environment, where buyers and sellers have access to information, is where chances of cheating are optimal. For example, it is required for sellers to know: 1. That the buyer is authentic, what he claims to be 2. That the buyer will actually pay for the goods and services Similarly any buyer in the free market mechanism would like to know: 1. That the seller is authentic 2. That the seller is proficient in providing goods and services desired by the buyer

3. That the quality and value derived from the goods / services is in accordance with the price demanded by the seller 4. That the seller has not hidden any information from the buyer, that may deem the product as inappropriate 5. That the seller has not communicated anything to the buyer, either directly or through market that cannot be directly verified. It is simply the fact that while observing the environmental variables such as

surveillance, chance of getting caught, people compare the marginal benefit of cheating with its marginal cost.

If this exceeds, cheating is well justified. People do not cheat when they have sufficient information about the transaction / exchange they are getting into. It is only when intended outcome cannot be directly observed where people are assumed to have cheated. Also, in cases, where the actions of sellers cannot be verified, buyers would assume that the seller is acquiring means to cheat. People do not forge, hide or cheat unless they perceive that such an act would help them attain something exceeding the cost of their effort.

However, many economists, sociologists suggest that there are a variety of moral, social, economic (Half Sigma) and emotional aspects involved in exhibiting such a behavior that direct individuals to determine if they are justified in doing such acts.

Works Cited

Green, Steven L. " Rational Choice Theory: An overview. " Rational Choice Theory. Baylor University, 2002. Half Sigma. The economics of cheating. 27 May 2005. 03 February 2009 .