Case study on economic analysis

Business, Marketing

Among economists, the assertion that consumers drive the market is widely agreed upon. Consumers do not just buy what is in the market. If they are not satisfied by a product or service, they can easily stop purchasing it and take their business elsewhere. This consumer behavior is referred to as consumer sovereignty. It argues that it is consumers, and not producers, who determine what should be produced, and put in the market. They do this by using their purchasing power to influence the production of certain goods and not others.

Economists of the Austrian and Chicago schools argue that this phenomenon is only viable in a free market. This is a market without government intervention, where the forces of demand and supply determine what is produced. This is also applicable in a market where there are no cartels or monopolies. These two affect the ability of customers to determine what they want, as they have to purchase what is put in the market.

Marginal utility refers to the increase or decrease in value derived from consuming one more or one less unit of a good or service. Each good or service has its marginal utility different from the other. This is because people derive different levels of satisfaction from certain goods or services. When we talk about the diminishing law of marginal utility, we mean that the units consumed first gives one a higher utility. Subsequent units of the same good or service yields a reduced utility to the consumer. Consumption of a good continues until the marginal utility is equal to the marginal cost.

People intending to lose weight usually aim at reducing their intake of certain foods, and increase the intake of others. They reduce the intake of

those which may add to their weight. However, the utility derived from such goods tends to be high than those from other foods. For this reason, few units of the food will not give the required level of utility to the consumer. They end up taking more units of the same. This move is self-defeating. The foods they are advised to take provide disutility in most cases. People will avoid such goods and concentrate on the ones that provide the required utility.

A price ceiling is a price imposed by the government as the maximum price for which a certain product should be sold. Sellers are not allowed to sell at a price above this ceiling price. For it to achieve the intended purpose, a price ceiling must be set below the market equilibrium price. In most cases, the immediate effect of a price ceiling is a decrease in supply. In our case, if the price ceiling on the live cattle was implemented, the supply of the cattle would have reduced. This is because the sellers, not being able to obtain their preferred prices, will shift their business elsewhere. Some might even drop out of the market altogether.

The impact of this is reduced supply of the beef meat. Assuming that the price had been set below the equilibrium market price, then the consumers will be charged less. This will have the effect of increasing their demand for beef given the low prices. However, due to the reduced supply, there will be a shortage of beef in the market. When the forces of demand and supply interact in this case, the effect will be a high price for beef. At the end, consumers will end up paying high prices for beef, despite the reduced prices for live cattle.

A subsidy refers to any form of assistance that is granted by the government to proprietors in the private sector. A subsidy can take different forms, but the most effective one is the one given in terms of cash. The aim is to help the private enterprises lower their costs and increase production. In economics, subsidies are regarded as a protectionism measure. It is used to promote the development of local industries by shielding them from direct competition. Subsidies are most effective where the government wants to revive a non-performing sector or to improve their operations.

With respect to the question at hand, a subsidy would be highly recommended. As a common knowledge, private investors shy away from investments without a quick promise of profit. Giving them a subsidy will help reduce the level of capital they put in the investment. This will motivate them as they will not be worried of losing so much in case the investment collapses. Giving subsidies will also enable them to increase the level of their operations. If carried out in large scale, efficiency is more likely to be achieved. Costs are also reduced, and this increases the demand for their products as they go at a cheaper price. For this reason, they are highly recommended.

During a crisis, such as a catastrophe, the supply of goods is usually low. This is because the catastrophe, be it a hurricane or an earthquake, tends to destroy all or majority of the existing systems. Accessing goods and services becomes problematic. As a result of this, the demand increases as it remains unmet. When the goods that people require are availed, they can pay

whatever prices charged. According to the law of demand and supply, shortage in the market always results in a high price.

The law of unintended consequences argues that actions taken by people or the government may have effects different from the intended ones. In our case, following the passage of these laws, some people will come up with ways to circumvent them. They will continue selling the goods at premium prices because the demand is high. Again, preventing them from selling their goods may increase the people's suffering. This is because the government usually takes long to respond to such cases. Before government's assistance reaches the people, a lot of damage would have occurred.