

Economic problem: overview

[Economics](#)



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Along with the development of the earth is a series of social events need to be addressed, such as population growth, foodshortages and water shortages in many parts of the world. Specifically, people in Australia are facing with the threat of water shortage in the future. This problem has created an economic problem and urged the Australian government to find the solutions for this problem.

This essay will explain the economic problem and answer the question how do markets attempt to solve the problem of water scarcity in Australia, focusing on the economic problem, water scarcity in Australia, the role of markets and water market in Australia. The economic problem can be known as the competition between unlimited wants and scarce resources. Unlimited wants are goods and services that people want to have are unlimited. But, scarce resources, things to make products, are limited. Because people's want cannot be satisfied while resources needed to satisfy these wants is scarce, limited.

Bized (n. d) points out that because ourmoneyis limited, we cannot get everything we ' want'. Moreover, the scarcity of water is an economic problem. Water is a very significant part in our life, because everyone and everything in this world cannot live without water. However, population growth, intensive agricultural development, urbanization, industrial growth andenvironmentrequirements are all increasing demand for water. Not only that, the percentage of fresh water in the world is 3%, while 97% is salty water and it also cannot be reused or renewable.

Water is the main source of living things, so the earth will become dry as a planet in space if it has no water. So that this economic problem needs to be solve. In addition, the increase in demand of water use and reduce water availability is a problem in Australia. Between 1983 and 1997, 9400 GL water use is increasing every year (NLWRA 2001 cited in Australian Government). According to the Wentworth Group of Concerned Scientists (1965), excessive use of water makes the water become scarce in the future. In a word, water is in scarcity.

In order to solve the economic problem, we must choose how to use our scarce resources efficiently. If the choices are made, sources can be used efficiently. For instance, the Australian Governments is restoring the Balance in the Murray-Darling Basin to keep the water in this basin and protect the environment. They are making decision since the water is scarce. Australian Governments (2010) showed that water which available in Murray-Darling Basin declines, so this basin is likely to become worse. The problem is water in Australia is not unlimited. We therefore have to make choices.

The choice can be known as opportunity cost. Since we never have enough resources at our disposal, we have to give up something in order to get another thing we want. For example, Morton and Shippen have to make the decision between selling water to the government or keeping the water for their using and their agriculture. If they decide to keep the water, the money from selling water is forgone and vice-versa. So, scarcity forces making choice. The role of market can help solving the economic problem. A market can be known as an actual place where buyers and sellers interact to trade goods, services for money.

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They interact in the market to determine the price. The diagram shows the way market finds the price for water. At point E, quantity demanded equals quantity supplied and the price of goods that customers are willing and able to buy equals the price of goods that sellers are willing and able to sell. The market price helps to solve the economic problem because people who want to get the goods or services have to be willing and able to pay the price. This means price addresses the 4 production decisions: " What to produce? " " How to produce? ", " How much to produce? " and " To whom distribute? . For example, if the price of water increases, people and farmers will use water more efficiently. Price can control the demand of goods and services, because going with the increasing of price is the decline of demand. Customers always look at the price before deciding to buy a good and when the price is high, customer's want is less. In this diagram below, the Production Possibility Frontier curve has shifted to the right because of the decreasing in water and increasing in demand. When the price is P_e , demand is greater than supply. This means there is a shortage of water in the market.

Then market increased the price to P_{e1} , demand now declines with the point Q_{e1} . In addition, the supply also can be controlled by the price. If the price increases, supply will be affected by demand and it also decreases. Because demand decreases, fewer goods are produced to correspond to demand, sellers will sell less and make supply decreases. So, the economic problem can be solved by the role of markets and market prices. In this Production Possibility Frontier, supply curve has shifted to the left. Price has increased

from P_e to P_{e1} and the quantity of water was decreased in order to establish a new equilibrium. [pic]

Water in Australia is declining day by day by many. But these factors are the key element of the development in a country. So, Australian Government plans to create the water market to buy- back the water from irrigators looking to sell. In this market, water is a commodity that can be bought and sold between customers and sellers. Specifically, Australian Government's plan is restoring the balance in Murray-Darling Basin. The purpose of this program is using the water purchase from irrigators restores the environment (Australian Government- 2010). The water buy-back also will be used in the future to protect future living standards.

Another way to solve water scarcity in Australia is limited the amount of water use by increasing the water price. In this situation, price of water will be increased to reduce people's demand, so that they may use water more efficiently. However, price of water also reduce the supply of water because of the limitation in water use. The problem of water scarcity in Australia has forced the Government making choice, the choice between using money to buy-back water for the plan " water for the Future" and using money for develop the country. But, at the end, the government realized that water is our future.

In conclusion, economic problem is our want for goods and services to consume is greater than our ability to produce those goods and services, because of unlimited want and scarce resources. Moreover, the economic problem in Australia is water scarcity. It happened as people need and

cannot live without water, while water is scarce and cannot be reused or renewable. This problem is not only about the scarce of water, but also about the existence of human's life and environment. Therefore, the role of water market was found to solve this problem. In water market, price control the demand and supply of water, so it can be used more efficiently.