

# Market failure essay sample

[Economics](#)



The existence of the market have a very important function. For consumers, the market will make it easier to obtain goods and services daily needs. As for the manufacturers, the market becomes a place to facilitate the distribution process of goods production. In general, the market has three main functions, namely as a means of distribution, price formation, and as a promotion. However, with the passage of the economic circulation, a lot of things that would happen imbalance in it. Which must all aim to make a profit as much as possible regardless of the result of the surroundings. Therefore there will be market imperfections or market failures in the run the all functions.

So I will tell various things that would pertain to the market mechanism and its failure to operate as well as the causes and solutions of market failure.

## Contents

### 1. Market Definition and Function

The market is people who have a desire to be satisfied with money to spend and the willingness to spend it or it can be defined as a meeting place for buyers and sellers to conduct economic activity in the form of sale.

In general , the market has three main functions, namely as a means of distribution, price formation, and as a promotion.

#### a. Markets as a Means of Distribution

The market is a function of distribution locations expedite the process of delivery of goods or services from producers to consumers. With

the market, manufacturers can relate either directly or indirectly, to offer their products to consumers.

[pic][pic]

#### b. Market as Shaper Price

The market is a meeting place between sellers and buyers. In this market sellers offer goods or services to the buyer. Buyers who need the goods or services will try to bargain the price of goods or services, so that there was a bargain between the two parties. After the agreement, the price is formed. Thus, the market in that it can serve as a shaper prices.[pic] [pic]

#### c. Markets as a Means of Promotion

Market as a means of promotion means to market a place to introduce and inform the goods / services on the benefits, advantages, and distinctness to consumers. Promotions done to attract buyers to the goods or services are introduced. Promotion can be done in various ways, among others, put up banners, flyers, exhibition, by means of radio or TV. Many ways the campaign carried out by the manufacturer, making consumers more selective in choosing the items to be purchased. Usually the manufacturers who offer goods with cheap price and good quality will be the choice of consumers.

## 2. Market Mechanisms

The market mechanism is the trend in the market is free to change the price until the market is balanced (the quantity supplied equals the quantity demanded). Standard economic theory says that even when the institutions other than free market may produce an efficient and optimal allocation. In

other words, if the market does not exist, the allocation of resources will not occur efficiently and optimally. In some ways, the market mechanism can not work optimally on several natural resources.

[pic][pic]

Basically, the allocation of goods and services within a community can do at least through two types of mechanisms. That is through market mechanisms and bureaucratic mechanisms. With a number of the required conditions, the market mechanism is considered as a mechanism to encourage the efficient use of resources. But market failures can also occur in the allocation of goods and services. This could be due to its eksternalitasnya public goods. This is the kind of goods and services (with mixed goods) which will be distributed through bureaucratic mechanisms.

Due to the different market mechanisms, market prices had reached a different - different. Sometimes - sometimes the prices established in the market can cause harm to consumers or even losses for producers as well. Therefore, the government in certain limits sometimes necessary to intervene in the formation of prices with the prices established goals will not harm consumers and producers. It is usually taken by the government include: the determination of the highest retail price, the lowest retail pricing, tax assessment, and the provision of subsidies.

The market mechanism can not function without the existence of the rules made by the government. The government's role becomes more important as the market mechanism alone can not solve all economic problems. To ensure efficiency, equity and economic stability, the role and functions of the <https://assignbuster.com/market-failure-essay-sample/>

state in the economy is absolutely necessary as a controlling mechanism of the market. Although the system of market economy, major economic problems left to the market mechanism, but in some cases the government still had to intervene in order to avoid chaos in the economy.

### 3. Markets Equilibrium

Market equilibrium is achieved if the amount of product demanded equals the quantity of products offered, or the price of the same product offered at a price the buyer requested products. At that time it will be transactions between sellers and buyers, because there has been an agreement on the price and or the number of products. Here is a picture of the balance between market supply curve intersects the demand curve:

From the figure, vertical sources indicate the price of goods (P) is measured in dollars per unit. This is the price received for the sale of a certain number of bids and the buyer will pay for a certain number of requests. The horizontal axis shows the total demand and supply (Q) is expressed in units per period. In the graph, there is the intersection between the supply curve and the demand curve is called market equilibrium (equilibrium). The two curves intersect at the quantity and price equilibrium. At this price  $P_e$ , the amount of supply and demand are equal ( $Q_e$ ).

### 4. Defenition of Markets Failure

In microeconomics, the term " market failure" does not mean that the market is no longer functioning. Instead, a market failure is a situation in which a market efficiently organize production or allocate goods and services to consumers. Economists normally apply the term to situations where the

inefficiency is particularly dramatic, or when it is suggested that non-market institutions will give the desired results. On the other hand, the political context, stakeholders may use the term market failure to situations where market forces do not serve the “ public interest”, a statement which is usually made from the subjective moral or social development.

### 5. Causes of Market Failure

The four main types of causes of market failure are:

1. Monopoli or in other cases of abuse of market power where “ a” buyer or seller can exert significant influence over prices or output. Abuse of market power can be reduced by using the anti-trust.
2. Externalities, which occur in cases where “ the market does not take into account the impact of economic activity on outsiders / foreigners.” There are positive externalities and negative externalities. Positive externalities occur in cases such as where the family health program on television improving public health. Negative externalities occur when a company’s processes pollutes air or waterways. Negative externalities can be reduced by using government regulations, taxes, or subsidies, or by using property rights to force companies and individuals to accept the consequences of their economic activities were at the level they should.
3. The case where there is asymmetric information or uncertainty (information inefficiency). Information asymmetry occurs when one party to a transaction has more information and better than the other.

Usually penjual know more about the product than the buyer, but this does not always happen in this case. For example, the used car business may know mobil has been used as a delivery vehicle or taxi, information that is not available to the buyer. Examples where the buyer has better information

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than the seller an estate sale of a house, which requires testament. A real estate broker to buy a house may have more information about the house than the family members left behind. This situation was first described by Kenneth J. Arrow in health seminal article in 1963 entitled "The uncertainty and the Welfare Economics of Medical Care," in the American Economic Review. George Akerlof later used the term asymmetric information in his work in 1970 The Market for Lemons. Akerlof noticed that, in such a market, the average value of the commodity tends to decrease, even for excellent quality perfect goodness, because the buyer has no way of knowing whether the products they buy will be a "lemon" (a misleading product) .

#### 6. The solution to market failure

The solution to markets failure as follows:

##### a. Prohibition Ikhtikar

Ikhtikar means withholding or hoarding of goods, especially in times of scarcity in order to raise prices. As a result of this Ikhtikar public will be harmed by a small group of others. Although Islam gives freedom to every person in selling, buying, and the desire of his heart, but strongly opposes Islam that encourages selfishness and greed while the personal to accumulate wealth at the expense of others and personal enrichment, despite of raw materials to the needs of the . In order for prices to return to its original position, the government can undertake all efforts to eliminate this penimbuanan. But does not include is the buildup Ikhtikar done on situations when supply is abundant, such as stockpiling or retention at harvest large, and immediately sell it when the market requires.

##### b. Opening Access to Information

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Some of the prohibition against deceptive practices is essentially an effort to disseminate information disclosure so that the transaction can be both liked and fair. Some of these restrictions include: buying goods intercepted by vendors outside the city, includes understanding where among sellers collusion with each other to work together to deceive consumers, a deliberate attempt to obfuscate the information causes sellers take advantage of the ignorance of consumers to seek high profits. religion considers fraud and cheating against the measure, weight or quality of the goods as perbuatan sin. c. Price Regulation

According to Mannan quoted price regulation Ull P3EI team must demonstrate three basic functions: 1) economic function associated with increased productivity and income of the poor through the allocation and reallocation of economic resources. 2) The social function in maintaining social balance between the rich and the poor. 3) The function of moral values menegakkan Islamic law, particularly with respect to economic transactions such as honesty, fairness and expediency.

Basically, if the market is working perfectly, then there is no reason to set the price level. Pricing will only distort prices and eventually disrupt the market mechanism itself. So the price regulation to do in certain situations only. Government can do price regulation when the market is not perfectly competitive, and emergencies. If forced menentapkan price, then the concept of a fair price should be the guideline. As for some emergencies such as prices rose so high in the probe fairness, regarding the items urgently needed community, an injustice.



## CONCLUSION

Market failure is a market which can not be run completely in accordance with the initial function as a market and a situation in which all the forces that exist in the market, supply and demand, are in a state of imbalance. The causes of market failure are:

1. Monopoli or in other cases of abuse of market power where “ a” buyer or seller can exert significant influence over prices or output.
2. Eksternalitas, which occur in cases where “ the market does not take into account the impact of economic activity on outsiders / foreigners.” There are positive externalities and negative externalities.
3. the cases where there is asymmetric information or uncertainty (information inefficiency). Information asymmetry occurs when one party to a transaction has more information and better than the other. ailure.

Solutions to overcome market failures are

1. Prohibition Ikhtikar, we are forbidden to hold or hoard goods, especially in times of scarcity in order to raise prices.
2. Opening access to information, we must disseminate information disclosure so that the transaction can be both liked and fair.
3. Price Regulation,  
Price regulation must demonstrate three basic functions, namely, a) Function economy associated with increased productivity and income of the poor through the allocation and reallocation of economic resources. b) The social

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