

# [I itself, as far as meaning is](https://assignbuster.com/i-itself-as-far-as-meaning-is/)

I think that it is right to begin with the Theory of consumer choice.

The above consumer has expressed his preference of choice. He has a taste for seafood which he prefers above all other types of food. This does not mean that he only eats seafood, but in line with the last two elements of the theory of consumer choice, he has shown his preference for taste and on that assumption, will do the best that he can for himself to consume as much seafood as he can. The elements of the theory which govern exactly how much seafood he will consume are the first two, namely the consumers income and the price of seafood. We can assume therefore, that the consumer will devote as much of his budgeted income for food, to as much seafood as he can afford in preference to other foods such as hamburgers. A budget line can be drawn up to show a trade off between say, fish suppers and hamburgers to indicate the combinations of fish suppers and hamburgers the consumer can afford given his income and the prices of each meal. Points on the buget line will all be within the consumers budget for food. All points below the line will show the possible combinations of dinners avaiable for his choice.

All points above the line wil be unaffordable. It will be possible to see how far the consumer could indulge his passion for seafood in one week.(Slope of budget line = -Pu/Pv)The next considerations that might be taken are the marginal rate of substitution of one meal for another without changing the total utility, the diminishing marginal rate of substitution which will hold utility constant and representation of taste as indifference curves. I will not elaborate on these at this point as I believe that the marginal utility and diminishing marginal utility are more relevany and pertinent to the question. I shall now contunue by defining utility. In economic jargon, utility is a numerical method of appreciating a consumers satisfaction.

The word itself, as far as meaning is concerned, has nothing to do with its meaning in everyday language. It has nothing to do with usefulness, it is a satisfaction based unit of measurement. Marginal utility on the other hand is, in a sense, an extra utility. What is meant in economic jargon by marginal is the additional pleasure a specific good gives to a consumer.

Diminishing marginal utility is the marginal utility lessening due to the growth of consumption. For example, a consumer consumes a pound of fish, and his utility is 10 units, and his marginal utility is 10 units. If the same consumer consumed two pounds of fish, his utility would be 15, but his marginal utility would be 7. The same effect on marginal utility would take place if the amount consumed further increase. Since marginal utility diminishes as the quantity of fish consumed increases, we are faced with diminishing marginal utility.

The point is that no matter how good the the consumers fish dinners are , the more that is consumed, the less satisfaction will the consumer have compared to the initial portion. This of course is down to personal taste, for consumer A may have a diminishing marginal utility that decreases a lot more slowly than consumer B. The fact remains, that at some point, both comsumers will become saturated by their love for seafood and the law of diminishing marginal utility will make itself apparent. Our consumer, as this point, will seek to substitute some of his fish dinners with hamburgers or another alternative. To conclude, the title question based on the argument above, the statement: I love seafood so much I cant get enough of it may be passionate, but economically speaking is implausible. Even if theoretically speaking the consumer had access to an infinite amount of seafood and an unlimited budget, in the end the good would not satisfy the consumer enough to remain a preferred good, thus this change in preference would result in the consumer literally having had enough. First we must consider suppy and demand.

Supply is the quantity of a good that sellers want to sell at every price. Demand is the quantity of a good that buyers want to buy at every price. Equilibrium is the point where the supply is equal to the demand. At a particular price these behaviours become quantity supply, quantity demand and equilibrium price. We must now look at the elasticity of supply and elasticity of demand. The elacticity of supply measures the responsiveness of the quantity suppled, to a change in the price of that good.

Supply elasticity = (% change in quantity supplied)(% change in price)The elasticity of supply informs us how the equilibrium price and the quantity will change if there is a change in the demand. The elasticity of demand shows us the shift in the equilibrium point if there is a change in supply. The elasticity of supply and the elasticity of demand directly affect each other in the following ways. As seen on the graphs below, the cross section changes. This results in a change of position for the equilibrium point.

In the particular case of a 5-pence per gallon tax imposition on petrol, considering that the current price of petrol is roughly 69. 6-pence per gallon, there is no drastic shift in the supply curve. Nevertheless, a slight shift in the supply curve triggers a slight shift in the demand curve as shown below.

This scenario is better portrayed in the lower left graph of the image below (fig. 15. 4). Since petrol in England has no substitute or alternative good, (unlike the U. S.), the consumer has no other mean of mobilizing his or her essential equipment of transportation. This automatically makes the demand elasticity low. It is needless to say that as a result of these minor shifts the deadweight loss is minimal.

The producer unlike the consumer, in this case will not be affected in terms of tax incidence, the reason being that as a producer of this specific good, there is no immediate obligation to bear the tax incidence himself, thus the burden of tax is loaded onto the consumer. The legislator, or better known as the government, will suffer no incidence of any sort. The only way the legislator will be affected is through the update of this particular tax, which is an annual bureaucratic budgeting process. Over the last century many countries throughout the world have experienced inflation as their major economic problem. Expensive wars have traditionally been recognized as the sources of inflation.

Governments, in effort to squeeze more production out of an economy, have often resorted to printing or releasing more money to finance the purchase of arms and soldiers1. In an economy already producing at full capacity, the issuing of additional money serves to bid up the prices of the output of the economy, resulting in inflation. It was generally assumed from past experience, that once the economy returned to its normal state, the persistent tendency for overall prices to rise would disappear, bringing inflation rates back to normal.

World War II brought the persistent inflation that economists came to expect. In the 50’s and early 60’s inflation resumed to very low rates concomitant with large growth increases and low unemployment. But, from 1967 to 1974 the rates of inflation reached alarming proportions in many countries, such as Japan and Britain, for no apparent reason. This acceleration in inflation has forced many economists to reevaluate their views, and often align themselves with a specific school of thought regarding the causes and cures for inflation. There are two opposite theories regarding inflation. Monetarism indicates that inflation is due to increases in the supply of money. The classic example of this relationship is the inflation that followed an inflow of gold and silver into Europe, resulting from the Spanish conquest of the Americas.

According to monetarists, the only way to cure inflation is by government action to reduce growth of the money supply. At the other end is the cost-push theory. Cost-pushers believe that the source of inflation is the rate of wage increases. They believe that wage increases are independent of all economic factors, and generally are determined by workers and trade unions. More specifically, inflation occurs when the wages demanded by trade unions and workers add up to more than the economy is capable of producing. Cost- pushers advocate limiting the power of trade unions and using income policies to help fight off inflation. In between the cost-push and monetarism theory is Keynesianism.

Keynesians recognize the importance of both the money supply and wage rates in determining inflation. They sometimes advise using monetary and incomes policies as complimentary measures to reduce inflation, but most often rely on fiscal policy as the cure. Before we can understand the policies suggested by these different schools of thought, we must look at the historical development of our understanding of inflation. For approximately 200 years before John Maynard Keynes wrote the General Theory of Employment, Interest , and Money, there was a broad agreement among economists as to the sources of inflationary pressure, known as the quantity theory of money2. The Quantity theory of money is easily understood through fisher’s equation MV= PY ( money supply times velocity of circulation of money equals price times real income)Quantity theorists believe that over an extended period of time the size of M, the money supply, cannot affect the overall economic output, Y. They also assume that for all practical purposes V was constant because short term variations in the circulations of money are short lived, and long term changes in the velocity of circulation are so small as to be inconsequential . Lastly, this theory rests on the belief that the supply of money is in no way determined by the economic output or the demand for money itself.

The central prediction that can now be made is that changes in the money supply will lead to equiproportionate changes in prices. If the money supply goes up then individuals initially find themselves with more money. Normally individuals will tend to spend most of their excess money. The attempt of people to buy more than they normally do must result in the bidding up of prices because of the competitive nature of the market, inflation. Also essential to the quantity theory is the belief that in a competitive market, where wages and prices are free to fluctuate, there would be an automatic tendency for the market to correct itself and full employment to be established. In figure 1, w stands for the real wage rate (the amount of goods and services that an individuals money income can buy), L d for the demand for labor and L s for the supply for labor.

Suppose now that the economic system inherited a real wage rate w 1, The supply of labor is L s1 while the demand for labor is only L d1. At this point there is substantial unemployment because labor is costly for employers to buy. According to Classicalists, The existence of an excess supply of labor will lead to a competitive struggle between the unemployed and employed for the available jobs. This struggle will lead to a reduction of real wages, thus employers will begin hiring more workers.

Eventually competition will drive down wages to an equilibrium called labor- arket clearance, where the demand and supply for labor is equal; this is We Le. Classicalists define Labor market clearance as the point of full employment. Thus, persistent unemployment can only be explained by a mechanism which interferes with a competitive market. They specifically blame monopolistic trade unions for preventing the wage rate from falling to We. Unions may use many threatening tactics to fight wage cuts. Those most effective mentioned in the textbooks are collective bargaining and strikes.

The Great depression, as experienced by the US and the countries of western Europe, cast a shadow over the Classical approach to economics3. The self-righting properties of classical economics were clearly not working when wages and unemployment failed to decrease. Blaming trade unions for these massive increases in unemployment seemed far fetched. John Maynard Keynes was the first writer to produce a non-classical, coherent, and convincing explanation of the inter-war depression.

He traced the sources of unemployment to a deficiency of effective demand. Put simply, unemployment occurred when total spending on output was not enough to fully employ the available workforce. Effective demand, called expenditures, was split into two groups by Keynes, consumption and investment. Consumption, the purchase of goods and services, far outweighed investment as the major component of effective demand.

At the theories” core lay Keynes’ belief that an economies” total production, Y, will eventually adapt itself to changes expenditures. Moreover Keynes argued that the equilibrium of wages exist when the output of producers is equal to the amount that consumers and investors are willing to spend on their output. Consider figure 2 Total expenditure, that is the sum of consumption and investment , is measured on the vertical and real income on the horizontal. For practical purposes investment will remain a constant in the graph and be represented by line I. If we add the consumption function and the investment line, we get the the sum total expenditures, line E (E = C+I). For any given amount of expenditures, Y can be located anywhere for a short time.

If Y is above E, then producers are simply accumulating unsold stocks of goods. Eventually they will be forced to cut back on production until they can sell their existing stocks, earning capital enough capital to restart production. Conversely, If Y is below E, producers will be selling out of goods. Normally they will increase production as soon as possible to catch up to the demand and make the most profit. This is where, the 45 line comes into use. Y, according to Keynes, will shift to the point where E intersects the 45 line. When Y intersects E at the 45 line, there is an equilibrium between expenditures and total output, and wages are stable.

In order to illustrate how Keynes’ principle of effective demand accounts for unemployment, let us assume that the economy starts off at full employment where Ld (demand for labor) equals Ls (supply). The label of the output necessary to sustain full employment is Yf, f denoting full employment. If expenditures were smaller than Yf, than Yf would adjust itself to the left on the graph to accommodate for this. Because the level of total output has shrunk, the demand for labor also has, and unemployment has risen correspondingly . If one accepts the Keynesian model, there are generally two things that can be done to raise the level of aggregate demand to a point where Y adjusts to full employment. Raising government expenditures, G, stimulating private investment, or lowering taxes, raising consumption because people will have more money to spend, will both raise the level of aggregate demand. Both these policies come under the heading of fiscal policy, which is deliberate manipulation of the government budget deficit in order to achieve an economic objective. During the great depression, many people rejected Keynes’ ideas on unemployment because they were scared to be different.

The contemporary orthodox view was that cuts in the money wages would automatically be accompanied by cuts in the real wages, thus raising employment. Classicalists prescribed the government a remedy for unemployment based on implementing money wage reductions. Keynes rejected this idea on both theoretical and empirical grounds. After the first World War, collective bargaining rendered the downward flexibility of wages highly improbable. Any attempts at cutting money wages would be fiercelyresisted, as seen as the 1926 General Strike in Britain painfully demonstrated.

Keynes regarded the trade unions’ resistance to wage cuts as a product of the rigid structure of wage differentials. This is actually just the relative position of the wages of a particular type of labor to all others, F. E. mechanics get paid 1$, Electricians get 2$, plumbers get 3$. If any one group received generally higher wages, other groups would surely demand higher wages to preserve the structure. On the other hand, if a single group wantonly decided to accept a wage cut, other groups would likely not follow.

Therefore labor groups vehemently resisted wage cuts. Theoretically, Keynes believed that drops in the money wages would eventually be accompanied by a drops in prices. This balanced deflation would bring real wages, the amount of goods that could be bought, to their original amount. Employers would not take on more workers because their real revenue, amount of goods they sell, would remain unchanged. In order to fully consider this statement, we must first look at the terms used and consider their definitions with respect to the larger content of the question. We will first consider Positive Economics. A positive economic statement is one which relies on real data, given true statistics and related directly to a true situation. Following this, we can say that a normative economic statement is one which is not purely objective although it is related to a positive economic situation.

What the normantive statement does is to follow on with an opinion which is subjective, biased and based purely on the personal feelings of the speaker. Positive economics is about what is; normative economics is about what should be. Economics, John B. Taylor, Houghton Mifflin Company, 1995, p. 25Now we must consider the definition of Fair. Fair: satisfactory, just, unbiased, according to the rules. The Concise Oxford Dictionary, Fifth Edition, Edited by H.

W. Fowler and F. G. Fowler, Oxford University Press, 1964