

Outline the nature of the economic problem essay sample

[Economics](#)



**ASSIGN
BUSTER**

Examine the ways a mixed market economy addresses the issues of the allocation of resources and the distribution of goods and services.

Every individual and economy in the world faces the economic problem. The economic problem is there are finite resources and infinite wants. The mixed market economy like every other economy attempts to solve this problem. Unlike every type of market economy the mixed market economy uses strategic government intervention and consumer sovereignty to solve the problem. The mixed market economy is the most common type of economy used around the world.

The economic problem is a problem all around the world that every individual faces. The problem is there are unlimited wants and limited resources. This theory can be shown by opportunity cost in a PPF. As you can see in the PPF above the opportunity cost of ... capital is ... labour. This explains how there are limited resources. Therefore we can see that the economic problem is the problem of unlimited wants and limited resources.

The mixed market economy is an extremely common economy used around the world. This economy uses consumer sovereignty, the price mechanism and strategic government intervention to control the economy. The mixed market economy makes choices on allocation of resources and how to distribute resources. These two categories can be split into 4 processes, which are: What to produce, how much to produce, how to produce and how to distribute production.

What to produce is decided by different choices within the economy. These choices are based on consumer sovereignty, price mechanism and
<https://assignbuster.com/outline-the-nature-of-the-economic-problem-essay-sample/>

government intervention. Consumer sovereignty is the spending patterns of consumers. When private companies see these patterns they allocate their resources accordingly. The price mechanism is supply and demand. This decides how much a product will be sold for. These two aspects of a mixed market economy, consumer sovereignty and price mechanism, make up approximately 75% of choices. The other 25% comes from strategic government intervention. The government makes decisions such as public goods and laws and regulations. In a mixed market economy the decisions on what to produce are decided by consumers and the government.

How much to produce is another problem the mixed market economy has to face. The way it is solved is very similar to what to produce in the market economy. It is decided by consumer sovereignty, the price mechanism and strategic government intervention. In the case of how much to produce the price mechanism is used to avoid surpluses and shortages. The government uses its intervention to control how much is produced by using tax, and subsidies. In the market economy how much to produce is controlled by the consumers and intervened with by the government.

The third problem that every economy faces is how to produce. The market economy solves this problem by choosing between capital and labour to produce goods this decision is driven by profit and restricted by some government laws. Private enterprise driven by profit chooses the cheapest option out of labour or capital to produce goods. These options are regulated by laws such as, working age, and quality control which are imposed by the

government. Government laws and a drive for maximum profit decides how to produce in the mixed market economy.

The final problem that every economy has to solve is distribution of production. In most market economies this problem is approached with the idea that if you contribute to production you participate in consumption. In the mixed market economy this is the same approach but because of government intervention in a welfare state there is welfare payments for those who cannot work. This means those who contribute to production participate in consumption as well as those who don't because of strategic government intervention in the form of welfare payments to those who cannot contribute to production in the mixed market economy.

In an attempt to solve the economic problem different economies enforce different methods. In the mixed market economy the economic problem attempts to be solved by using a mixture of consumer sovereignty and strategic government intervention in the economy. The government enforces laws and regulations to control the economy. The mixed market economy is the most successful attempt at solving the economic problem around the world in any economy today.