

Example of critical thinking on economic questions

[Business](#), [Company](#)



Economic questions

Question 1

Economically, if people were to sell their organs rather than donate them as it is done nowadays for free, the price of the organs would drive away the patients in need. In addition, the low income families would have difficulties and may not afford them. This is because people who donate their organs attach little value to their organs and hence the patients get them free of charge. According to the law of demand, the low supply of organs compared to an increasing demand would lead to an escalation of prices. The lower the supply the higher the price of organs and therefore, the patients from lower income families would not get enough money to buy the organs.

Question 2

Before the World War II USSR were socialists where everything including trade and their market was controlled by the government. On the other hand, Western Europe had a free market from any intervention as they practiced a capitalist economy while Eastern Europe had a communism style of governance. In a market economy, the market is controlled by the law of demand and supply, where demand and supply is determined by market forces. The markets in the socialist economy face inefficiencies due to bureaucracy and this limit their size. Wages and factor prices for products like cars and other electronics in the internal market if controlled by the government do not reflect the real prices on the market. Therefore, this hinders the development of industries and the economy in general. USSR controlled its market to the extent that the prices of the products were

controlled, and this was different in the Western European countries. Eastern Europe on the other hand due to its communist state of governance severally intervened to control either the price of the products or the wage prices. Government intervention in economic activities of the market disrupts the market forces, which in turn disrupt the operations of the market. This lead to non-optimality in the production system and inefficient pricing and the amount of good supplied in the economy (Klein & Ludwig Von Mises Institute, 2010).

Question 3

Amway is a multinationals American direct selling company; the company sells different kinds of products like the beauty and health products. In addition, it sells products to consumers directly, home care markets for re-sale and other independent business operators. The company has adopted a way of selling their products by using sales persons unlike stores and distribution centers. This method as the organization argues that it leads to an addition of another layer of pricing. In economics, the use of salespersons leads to an addition cost of production to the company as it has to pay their employees. In addition, this cost is transferred to consumers in the form of increased prices, which leads to an increased cost of living. Therefore, the government is right in opposing direct marketing as a protective measure to protect the consumers.

Question 4

Companies incur the cost of production in producing services and products they offer to their customers. This cost may be either large or small

depending on the amount of production by the company. In addition, the more the company produces the cheaper it becomes due to economies of scale. All companies seek to reduce costs in their bid to make them viable in the market and increase their profits. However, one of the major costs that a company faces is the marketing cost. These are the costs that a company uses to advertise their products. In addition, the cost of production for most companies is transmitted to consumers by increasing the prices of the products (Rutten, Upadhya & Centre for Asian Studies Amsterdam, 1997). Hence, if the drug companies are able to reduce their marketing costs, the prices of drugs would reduce enabling consumers to buy at a cheaper price. Hence the argument in the Boston Globe is correct.

Question 5

Wal-Mart is an American retail corporation operating as a multinational. In addition, the corporation operates a chain of large discount stores and other warehouse stores. This company was ranked the third largest public corporation in 2012. In addition, the company sells some of its products at a lower price than what the competitors are charging their customers. This is possible because the company buys from the producers in large quantities and this hence at a very low price due to economies of scale. The lower the prices the higher demand and hence the corporation is able to attract more customers and driving the competitors out of business which leads to loss of jobs. If the company were to sell at the same price, it would make highly high profits but would allow the competitors to operate also. Mom and Pop store also provide employment opportunities and hence it would be good for the economy for it to operate.

Question 6

Hayek is an economist who differed with Keynes on various economic issues. First, the economist correctly identified the Keynes's argument on the futility of savings as being an argument what is classically known as the dangers of hoarding. This is the potentially pernicious consequence of the increase in demand for money, which is not accompanied by an increase in the supply of money by the same magnitude. Hence, in this case Hayek disagreed with the weight that Keynes put into the issue.

In addition, another issue that the economist disputed was that it matters not the form that spending took on either consumption or investment. In addition, he argued that savings of money into the securities was the best investment and not necessarily hoarding of the money.

References

Klein, P. G., & Ludwig Von Mises Institute. (2010). The capitalist and the entrepreneur: Essays on organizations and markets. Auburn, Ala: Ludwig von Mises Institute.

Rutten, M., Upadhyaya, C., & Centre for Asian Studies Amsterdam. (1997).

Small business entrepreneurs in Asia and Europe: Towards a comparative perspective. New Delhi: Sage Publications.