

# Essay on microeconomics

[Economics](#), [Microeconomics](#)



**Thesis:**

Economic theories provide solutions to different problems encountered in the business environment including unfair pricing, unemployment, and costs of production. The stakeholders including governments, non-governmental institutions such as EU, and the private sector as well as consumers have a role to play in different capacities in the production, distribution, and consumption of products and services.

Different businesses have different business models. These business models are aimed at increasing the returns on shareholder capital. In this case, the company (Heinz) underwent an acquisition after the Brazilian owners bought the enterprise. Business model of the company changed and new Brazilian owner needed both short run and long run changes on the business model to increase the return on investment. In the short run, the new owners decided to engage in the replacement of nearly all the top executives with subordinates or 3G's own people. This was aimed at ensuring that the former administration is eliminated with their business models and new executives put in place to implement the new changes. However, in the long run, the new owners indicated that they would engage in a four year plan to reduce its global workforce by about 2, 000 jobs or 7 percent. This move is aimed at reducing the production costs as possible.

According to the cost-of-production theory of value, the price of a commodity depends on the sum of the costs of the resources that were used in the production of the product. These resources include the factors of production such as labor, land, and capital. According to the new owners of the company, they consider costs such as the costs related to employee

compensation as increasing the cost of production. Additionally, recreational expenses to the company executives like the freebies such as tickets to Cardinals baseball games needed to be curtailed in order to reduce the costs of production. The new owners had to redesign the lavish offices of the company executives to reduce the costs.

Some of the factors that control the pricing strategies include market driven market and supply forces and competition from available substitutes and complements. In the Gazprom case, the pricing strategy seems inelastic to demand and supply and competition. Due to monopoly of the European market and the company business model, which believes in the price of the commodity and not the volumes of sales, the pricing strategy failed to respond to the aforementioned factors. The United States has not only provided shale-gas to the European market, but also provided a cheaper substitute – coal – which Gazprom’s executives indicates to “hurt us as a gas supplier, and it hurts the environment.”

However, despite Russia’s stubbornness and refusal to reduce prices of its gas, the existence of alternatives and special interest organizations such as the European Commission have at times pushed Gazprom into price negotiations. However, due to protectionism strategies of the Russian government including banning state companies from cooperating with foreign regulators, the company has enjoyed price inelasticity. Due to monopoly, which allows Gazprom by law as the only Russian company permitted to export gas, the company had punished its markets with sometimes cutting gas supplies to countries such as Ukraine, which subsequently affects supplies to other countries in that line.

Countries like Poland entered into agreements willingly – without – cohesion or influence by the Russian government because they did not have an alternative. However, after finding gas deposits in the country, Poland have not only sought for new price negotiations and other importing options such as the United States and Germany, but also tried to find means of extracting its own gas off the ground. Such competitions have made the Russian authorities to reduce their inelastic prices. Western leaders accused Moscow of using its energy wealth to further its political goals especially in blackmail and intimidation. In the short run, the coal and shale gas from the United States might reduce the Gazprom European market share. However, with the growing environmental friendly campaigns, the use of coal as a source of energy is facing several criticisms. In the long run, Russia will regain its European Market share.

In this century, finding jobs in China for graduates has been as difficult as graduating from the vocational schools, which have been since turned into four year colleges. The parents in China as well as educators have trained children to look to government employment instead of the private sector. According to a Chinese student, when comparing Chinese and American investors, he indicated that in China, even famous entrepreneurs " have to bow to the government, which discourage initiative. Chinese economists have also lost trust in the education system indicating that, " The current education system does not produce people who are innovative." While comparing the studies between United States and Chinese students, research results reveal that Chinese students are unwilling to start up business, but instead opt for finding jobs in government departments. This

has also been encouraged by China's population-control policy, which has made parents to be conscious of the jobs that -their children seek - most parents fear that the private sector might be subjected to different disadvantageous factors such as inflation, thereby leading to business failures.

According to the classical theory, the basic principle is that the economy is self-regulating, which is always capable of achieving the natural level of real Gross Domestic Product (GDP) or output. At this level of GDP, the economy's resources have been fully put into use. According to this theory, the unemployment rates in the economy usually occur due to voluntary acts of the people actively seeking work. Voluntary unemployment refers to when people refuse to accept lower wages offered for jobs. In this case, Guo Yihan, a senior at Shanxi University's business school, says he would rather join the army than take an accounting job at the usual private-sector starting salary of about \$250 a month. Alongside other graduates, Chinese students have rejected jobs, especially from the private sector claiming that these sectors offer little compensation for labor. The classical theory believes that unemployment can be reduced if the job seekers accept the market rates offered by the employers.

## **Conclusion**

The cases presented above indicate that there are different stakeholders responsible regulations of business activities. Shareholders, customers, employees (including executives) have their roles in organization. While the executives implement the ideas of the stakeholders, the beneficiaries such as customers need to be considered in decision making as depicted by the

Heinz case. The Russian case reveals the power of monopoly in pricing. Finally, the Chinese case reveals that the unemployment rates in the country are as a result of the unwillingness of the job seekers to take up the available jobs at the prevailing market rates. Generally, the government plays a significant role on designing rules and regulations aimed at protecting both the businesses and the stakeholders.

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