Economics is concerned with the efficient use of scarce resources for the purpose...

Literature, Russian Literature

In society we face an economising problem of unlimited wants but a very limited amount of resources available for use. It is for this reason that economics is concerned with using those scarce resources as efficiently as possible to attain the maximum amount of production to satisfy the wants of society. Therefore efficiency can be explained as the process by which limited resources are used in such a way to maximise the production and provide society with more goods and services without increasing the amount of resources available to them. This can be achieved through three different types of efficiency, dynamic efficiency, productive efficiency and allocative efficiency. Dynamic efficiency, which consists of the firms ability to utilise the technological innovations of the time and adapt their products and services to changes in the consumers taste. It is concerned with investing in technological innovations that may assist in improving production to its optimal rate. This includes improved machinery, or an increase in management of human capital which may involve high costs in the short run but will ultimately but can be seen as an investment to decrease the long run average cost curves. Productive efficiency is concerned with the production of goods or services using the least amount of resources to attain a maximum level of output at the lowest possible cost. Therefore a firm is said to be productively efficient when it operates at the lowest point of the average cost curve. Allocative efficiency occurs when the consumer's preferences is taken into account to reach an optimal level of distribution of goods and services. This may mean making slight changes to the products or services that they offer to cater for what the market wants at that point in

time. The efficiency of an economy can be simplified using the production possibilities curve where the trade offs between two goods or services produced in an economy are compared in order to demonstrate where resources are used efficiently, and where improvement can be made. Points along the production possibilities curve is considered efficient where the maximum attainable output is achieved, whereas points that lie inside the curve is considered inefficient. Perfectly competitive markets consists of many firms selling a homogeneous product, and is therefore price takers and is unable to set prices for their products. Perfectly competitive markets make use of the three types efficiency described above in various ways to achieve a maximum amount of output in order to satisfy material wants. Firstly allocative efficiency in perfectly competitive markets is very evident as they produce at the point P= MC, where the economy produces at the point where price and marginal cost intersects and thus allocative efficiency is achieved. They are unable to beat a competitor's price without exploiting them Dynamic efficiency also plays a role in the allocation of resources for perfectly competitive markets in the sense that all products are homogeneous; hence there is little room for innovation. There would be little or no incentive to be dynamically efficient in the sense that innovations will be quickly copied and the markets often does not earn a super normal profit to fund these innovations. Productive efficiency in a perfectly competitive market occurs when the economy produces at the minimum point of the average cost curve. This does not occur in the short run average cost curve but does occur in the long run average cost curve of a perfectly competitive

market and is therefore productively efficient in the long run. The three different types of efficiency is not only evident in a perfectly competitive market but also in a monopolistic market. Monopolistic markets exists for products of which there is only one supplier for which there is no close substitute. This type of market is usually seen as the price maker and therefore it has the entire market demand curve to itself as it blocks all potential competitors. As monopolistic markets have no close substitute for its products and therefore no real competition monopolistic markets are often said to be less efficient than perfectly competitive markets. When looking at allocative efficiency the monopolistic markets are clearly inefficient as they do not operate at the point which price is equal to the marginal cost but rather where the price is greater than the marginal cost of production as consumers are willing to pay more than the opportunity cost involved in producing the extra units. Monopolistic markets are also found to be less efficient when looking at dynamic efficiency as they have no reason to produce at the minimum average cost and may not use the best techniques of production either as there is no real competition for their products. Consumers will keep on purchasing their products, as there is no close substitute up the point where they are unable to afford it any more. Inefficiency is also the case when looking at dynamic efficiency, as monopolies are unlikely to initiate in innovative improvement, as they would not have the incentive to do so. This may be because there is no competition to which customers may be lost in the event that they do not improve. There is no competitive pressure. Therefore it is evident that through the efficient

use of scarce resources the maximum level of production at the least amount of cost can be achieved in an attempt to satisfy the unlimited wants of society. Efficiency can be achieved by working towards a allocative, dynamic, and productive efficient market and hence producing the products that the consumers prefer at the lowest cost possible.