Market structure

With reference to the Bank of America: Compare and Contrast Public Goods, Private Goods, Common Resources, and Natural Monopolies Goods differ in whether they are rival or excludable. A rival good is a good whereby one person’s consumption reduces other persons’ consumption (Mankiw 2004). An excludable good is a good whereby a person can be prevented from using it (Mankiw 2004). Private goods are both excludable and rival while public goods are non-excludable and non-rival. Common resources are goods that are non-excludable but are rival goods. These include things like the resources of the ocean (for example, fish) and the environment. Both of these resources can be impacted on by the way in which they are used thereby reducing the number of fishes or the quality of the environment. If a good is excludable but not rival it is a natural monopoly. Public goods like common resources are not excludable. They are available for the use of everyone free of charge. Common goods like private goods are rival goods because one person’s consumption reduces other persons’ consumption. Natural monopolies like private goods are excludable because persons’ can be prevented form consuming the good. According to Pashigian (1997) a natural monopoly exists when a given quantity can be produced by a single firm at the lowest cost. Bank of America is a financial institution offering financial services. Some of its financial services are non-excludable because anyone can access them. However, customers can be prevented from accessing loans if they do not qualify in terms of their ability to pay. The services that the bank provides are also non-rival because one person’s use of the service does not reduce other persons’ use of the service. It therefore means that Bank of America is not a natural monopoly because it is non excludable. Neither does the institution provide a private good because its

services are non-rival. It also does not qualify as a common resource because it is a rival good. It is therefore implies that the services of Bank of America is a Public good which all customer can benefit from in some way. The Bank does not exclude any one from accessing its services. Explain how labor market equilibrium is affected by the supply and demand of labor According to Rittenberg and Tregarthen (2009), the demand and supply of labor is dependent on both the marginal product of labor MPL and the price of the product or service (in the case of Bank of America) the firm produces. The demand of all firms are added together to obtain the market demand for labor. The supply of labor depends on the population and their work preferences. The supply of labor in the financial industry like any other depends on the skill, knowledge and training which are required for the job as well as the wages that are available in alternative occupations. Equilibrium wages in the labor market is determined by the intersection of demand and supply. Therefore, changes in demand and supply will affect wages. An increase in the demand for labor or a reduction in the supply of labor will cause wages to increase. An increase in supply or a reduction in the demand for labor will lower wages. The equilibrium price is where demand is equal to supply. The diagrams below illustrate how demand and supply for labor works at Bank of America. The first two diagrams show how labor market equilibrium is affected by shifts in the demand curve. Diagram 1 Diagram 2 Diagram 1 above illustrates leftward shift in the demand curve from D1 to D2 has resulted in a reduction in the quantity of labor demanded from q1 to q2 and a leftward movement on the supply curve. The wage rate has fallen from W1 to W2. This change has resulted in a shift in the labor market equilibrium from E1 to E2. Diagram 2 on the other hand illustrates

that a rightward shift in the demand curve from D1 to D2 has resulted in an increase labor demanded from q1 to q2 and an increase in wages from W1 to W2. This change has resulted in a shift in the labor market equilibrium from E1 to E2. The diagrams below illustrate how labor market equilibrium is affected by a shift in supply. Diagram 3 Diagram 4 Diagram 3 above illustrates that a leftward shift in the supply curve for labor from S1 to S2 has resulted in a reduction in supply from q1 to q2 and an increase in wages from W1 to W2. When Supply is at S1 the labor market equilibrium is at E1 and when Supply is at S2 the equilibrium is at E2. Diagram 4 above illustrates that a rightward shift in the supply curve for labor from S1 to S2 has resulted in an increase in labor supplied from q1 to q2 and a reduction in wages from W1 to W2. When Supply is at S1 the labor market equilibrium is at E1 and when Supply shifts to S2 the equilibrium moves to E2 References

Rittenberg, L. and Tregarthen, T. (2009) Principles of Economics. Flat Word Knowledge: Retrieved from: http://www. flatworldknowledge. com/pub/1. 0/principles-economics/31872#web-31872 Mankiw, N. G. (2004). Principles of Economics. 3rd ed. US: South-Western