An analysis of a free market economy economics essay

Economics

In the article by Grain S. A they recommend the precise areas in which to plant in order to maximise the price per ton of various grains and that any areas planted above the recommended areas would not lead to optimal maximisation of profits. With regards to the article on grain production, farmers are not obliged to follow the recommendations made by Grain S. A as it is not an authorisation body. If the farmers decide to follow their self interests, this could easily lead to counter productivity in the market. Firstly, the perfect market could produce a distribution of income among the population that is considered unfair– this is ultimately a value judgement based on some notion of equity and justice. In this case the rich get richer and the poor get poorer. An example of this situation in the real world would be two farmers; one farming grain in the Western Cape on a prime ground and the second on the infertile farmlands in the Transkei, the Western Cape farmer is able to distribute his products very easily and has a bigger capital to work with resulting in better farming methods, a greater production and therefore greater profits. The Transkei farmer has very little distribution of his products, little capital to work with and therefore his profits are not great. Exogenous shocks are external factors that the business has very little or no control over. These include natural disasters, product price changes and trade barriers. Exogenous shocks usually result in the costs of the inputs rising sharply. An example of exogenous shock is the drought currently extending throughout Limpopo province. The drought results in very high outputs as the farmers need to import fodder and store it. Water for the irrigation of the crops need to be bought in as the areas water supplies are low, this results in transport costs of large tankers which increases the total cost of production leading to a rise in prices and less demand or a drop in profits. In order to maximise the optimal output of resources, the producers in the free market do everything they can to maximise their profits while the consumers do everything in their power to pay the lowest amount for the product in which they are purchasing. It is in the farmers' best interests to produce enough products at a price in which the consumers would be happy to pay, this results in the famers satisfying the demand without changing or compromising the price of the product. Inferior goods are defined as a commodity with negative income elasticity and the demand for them diminishes as the income increases therefore with maize being an inferior good, it is price elastic and has a high sensitivity to price changes. If Maize is over produced this will result in an excess supply as shown by the contrast in the article of which imported maize id R2000/ton versus that of exported maize which stands at R1000/ton . The surplus from the result of over production of the good will result in a decrease in price per unit and therefore will not result in allocation of resources efficiently. In the article it states how much Grain should be produced in order to maximise total output and efficiency as if the recommended Grain production was produced then the demand would meet the supply resulting in meeting the costs of production resulting in the maximisation of its resources efficiently instead of overproduction and inefficiency of its resources. Therefore it's in the farmers' best interests to produce their product according to the demand for the product in order to allocate resources efficiently. Demand Elasticity of a product has many determinants, the main one being the availability of substitute products. Maize is a product with very few close substitutes and therefore no substitutes can easily be shifted into production if it were to become unavailable for many reasons. GRAPH SHOWING THE SUPPLY AND DEMAND CURVES FOR A PRODUCT. The Equilibrium points are at points Q2; P1. There is an excessive supply and the new Equilibrium points lie at Q3; P2. The supply outweighs the demand and therefore there is a surplus of the product resulting in inefficient allocation of resources. THIS GRAPH SHOWS THE SUPPLY AND DEMAND CURVES . As the supply of a product decreases, the Equilibrium point increases from point A to point B. If the value is less than -1 then the product is elastic. The Equilibrium price is therefore close to import parity.

CONCLUSIONIn the current society particularly in the free market society, individuals are out there to pursue their own interests in order to maximise their profits and attempt to use their resources efficiently therefore answering the question to plant or not to plant it would be a question of the individuals view points. Grain S. A has made these recommendations in order to protect the market from exogenous shocks as the Grain production is a very sensitive market. They have made recommendations in order to maximise the individuals profits and resources efficiently per ton, however farmers have chosen against the recommendations and have pursued their own interests in order to maximise their profits and outcome, resulting in inefficiency of the allocation of their resources.