Economics - dq 2

ASSIGN BUSTER

1. How do oligopolies and monopolistic competition determine the level of output which they produce? Please provide real life examples. (200 - 250 words)

Logically speaking, a firm is a profit maximizing entity which sets its pricing and level of production at a point where its earnings are the highest possible. For imperfectly competitive markets, it is assumed that buyers are price takers and that sellers are huge that have the capacity of setting the prices. For an oligopolist and monopolies, the level of output produced is equivalent to the demanded quantity when marginal revenue is equal to marginal cost. It should be noted that in the case of these imperfectly competitive producers, producing over or under this point will lead them to less profits. However, the point where marginal cost and marginal revenue intersects represents output which is less than maximum capacity. Thus, there lies inefficiency in production as these firms control the level of supply in order to regulate the prices.

This is true in the real world. For example, monopolist firms in developing countries especially those in the provision of public utilities like water and utility set prices too high while controlling quantity. They do not operate in their full efficiency in order to bid up the prices of their goods and services. Thus, most countries where utilities are monopolized are where the highest electricity costs are found. Monopolists take advantage of the situation by using their capacity of influencing price level.

2. How does globalization lead to greater competition in the market place? (200 - 250 words)

Globalization is characterized by the entry of foreign firms in the domestic market and vice versa. This is also a process by which business

organizations operate anywhere in order to take advantage of profit opportunities. Globalization is seen as the way of increasing the number of competitors in the market through the entry of new players and the survival of the most efficient ones. Yes, globalization intensifies the market competition in a given country.

It is irrefutable that multinationals or huge business organizations operating on three or more markets have gained significant economies of scale and are the most efficient ones. The entry of these players in the domestic market often threatens the local players who are less efficient. Thus, competition heats up as these smaller players cope with the ability of large foreign firms to operate more efficiently and profitably. In so doing, it also tries to safeguard its shares by equipping itself with competencies. Local manufacturers often go beyond their limit. The entry of foreign players pressures them to improve their processes, strengthen their brand image, produce higher quality products, and even double their efforts of surviving in the market. When the foreign firm response to these, competition often becomes more intense as it also try to attract and capture buyers from local players.

Bibliography

Nordhaus, W. & Samuelson, P 2005, Economics. New York: Irwin, McGraw-Hill.