

Attempt to allocate resources effectively economics essay



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The paper discusses different types of economic systems like socialism, state economy, and other economic systems, assesses how each economic system attempts to allocate resources effectively, explains the UK government policies (namely monetary, fiscal, social, and competitive policies) and assesses the impact of all the above-mentioned policies on a chosen UK based organization. The paper describes market structure types (namely, perfect competition, monopoly, monopolistic competition, and other market structures. Finally, the paper explains the ways market structures define the output and pricing strategies of the companies

P4: Explain how economic systems attempt to allocate resources effectively

Throughout the history, the term capitalism has been closely associated with other related notions, including: market capitalism, laissez-faire (pure capitalism), economic liberalism, private enterprise etc (Kumar 1978). Capitalism transformed feudalism in the Western world, namely Britain, from where it had flourished throughout Europe predetermining economic, cultural and political developments of the then society. Later on, over the 19th and 20th centuries, capitalism formed the grounds of industrialization (Saunders 1995).

Nevertheless, namely the eighteenth century became crucial in the foundation of capitalism concept after the first economic school was established in Britain. The school has produced much of the fundamental thought in the field of classical political economy supported by the invaluable contributions of Adam Smith, David Ricardo, Jean-Baptiste Say, John Stuart Mill and others, who thoroughly researched various ways goods were

produced, distributed and exchanged under market conditions. Namely, those classical thoughts have set the foundations of the contemporary perception of capitalism (Slideshare. net 2007). During 1930-s, John Maynard Keynes had a tremendous influence on the notion of capitalism and the role of monetary policy. The British economist emphasized on the important functions of monetary policy within economic policy. Keynes claimed that the economic mode particular to the capitalist society could sustain its indefinite equilibrium even in spite of high unemployment. At that, during the 1930s Keynesian approach to economics assumed that laissez-faire capitalist economics was self-sufficient and did not need any intervention from a state to cut down unemployment or boost aggregate demand.

Furthermore, Keynes suggested ' pump-priming' approach to save the economy from recession in the period of economic down-turn, which involved increase in government borrowing and spending as well as cutting-down taxes. In such a way, Keynes put forward his idea of cutting real wages through the system of their control from the state and deterring from holding money during inflation. This indicates that Keynes much favored state regulation as an effective tool to eliminate economic slowdown. Actually, Keynesian policies enabled the capitalism recovery afterwards the state of the Great Depression (Friedman 1970). The contemporary academic research on the concept of capitalism is largely grounded on neoclassical economics and the relevant approaches developed by the Chicago School. The modern perception of capitalism therefore favors neutral government regulation and coordination of markets with the focus being placed on property rights' maintenance; deregulation of labor markets; promotion of

corporate governance by private owners; development of transparent financial systems with capital market-based financing in their core.

Milton Friedman, known as a dedicated follower of Adam Smith's thinking, claimed that within the framework of free competition, social responsibility becomes an integral part of business activity. Herewith, Friedman showed that self-interest is able to benefit the contemporary society (Friedman, 1970). The major distinctive features of capitalist society were pointed out throughout the 20th century while experts compared and contrasted due system with the centrally planned economic system. In due respect, capitalism has always enabled consumers with free choice, while producers were able to satisfy a consumer demand. By contrast, in the planned economies the production was entirely controlled and directed by a hierarchically-led state policy. Thus, capitalism alone has achieved sufficient delivery of goods and services through the privatization of previously state-owned means of production and infrastructural objects. In addition to this, the notion of capitalism is closely associated with the abolishment of subsidies and free trade wherein capitalist society is prone to perform both rational and irrational actions that are often unpredictable. Namely the last 25 years of the previous century showed the increasing trend towards overall mobilization of capital and human resources. Globalization alone has opened a new avenue for the development of both capitalist and non-capitalist models. Today, capitalism is regarded by many as world system featured by all the peculiarities of capitalist trade. Analysts state that such perception of capitalism dates back to the early 20th century imperialism.

Following the same fashion, imperialistic policies emphasized on the promotion of capitalistic principles of free trade among countries.

Taking the abovementioned features of the contemporary capitalism into account, it is noteworthy that along with many positive effects global capitalism has caused the state of global inequality in income rates, social security, access to strategic resources, and redistribution of world capital. In due respect, since the times of the Industrial Revolution there have been considerable changes boosted by economic growth in such areas as life expectancy, access to educational resources and information and communication technologies, literacy, infant mortality, child labor etc. By and large, global capitalist economy has been dramatically shifted by the invention and fast application of telecommunications within the last thirty years. Information and communication technologies (ICT) have enabled most of the business transactions in virtually any part of the globe (Evans 1997). Overall, capitalism promotes economic growth and social standard of living measured by GDP. According to Adam Smith, free market alone allocates necessary resources and controls production and price, which is particular to the contemporary world capitalist system.

Furthermore, capitalist economy, if compared to conventional economic systems and feudal or socialist societies, provides vast opportunities to raise individual income while engaging in new professions or launching private business ventures, for example. As Milton Friedman puts it, competitive capitalism leads to economic freedom and subsequently to the political one where there is no place for the centralized control of economic activity or political repression from the state. Conversely, the variety of market

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economy transactions causes wide diversity of activities and/or their free choice. In accordance with John Maynard Keynes and Friedrich Hayek, capitalism is a reflection of economic freedom which is essential for social survival and development (Bellamy 2003).

Thus, many capitalism supporters claim that namely the decentralized system of coordination is the most powerful feature of capitalism.

Particularly, the decentralization of economic processes leads to free competition and optimal solutions to the arising challenges. Even the slightest control from the state, according to the Austrian School thinkers, can potentially cause serious inefficiencies since economy then becomes unpredictable in the long-term perspective. One of the major causes of the Great Depression, for instance, was the immense interventionist policy led by the Federal Reserve. Today we understand capitalism as an economic system that assumes private ownership and control of wealth and the means of its production. In due respect, state ownership bears limited relation to the essence of capitalism.

Both private individuals (entrepreneurs) and companies (corporations and small and medium-sized enterprises) own, operate, and trade capital and labor, as well as other resources for the sake of profit-making. In the contemporary conditions, capitalism is an indispensable component of market economy which entirely excludes any government intervention in the transactions that involve investments, income, production, distribution, cost and delivery of goods and services etc. Furthermore, labor as such is a distinguishing feature that characterizes capitalism in the contemporary conditions of fierce competition. Based on appropriate knowledge and skills, <https://assignbuster.com/attempt-to-allocate-resources-effectively-economics-essay/>

human resources are viewed as the most valuable asset by the majority of employers. Herewith, market rules make up a regulatory framework that determines economic developments in the contemporary capitalist state.

In most instances, the role of a state is limited to the provision of relevant infrastructure and public goods. This indicates that economic developments are predominantly grounded on the so-called 'laissez-faire' principle envisaging a minimum state intervention into the economy. Consequently, the contemporary notion of capitalism highlights the ultimate importance of the control over the means of production by private owners wherein the state role is mainly limited to the protection of property rights. However, such conclusion would be correct only from the pure capitalism viewpoint.

By and large, the well-developed contemporary economies present a mixture of public and private ownership and therefore are reasonably referred to as the capitalist mixed economies, where both private capital and state serve their particular roles. In its essence, classic political economy has is closely interconnected with classic liberal doctrine that reduces government's economic intervention to the minimum. At that, economic and social realms were clearly distinguished, wherein state could provide necessary public goods and services (Lane and Ersson 2002). The phenomenon of globalization is considerably changing national economies. In many countries the transitive process from 'monopolistic' regulation to the market economy principles requires much time and effort.

P5: Assess the impact of fiscal and monetary policy on business organizations and their activities

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This section explains the UK government policies (namely monetary, fiscal, social, and competitive policies) and assesses the impact of all the above-mentioned policies on a chosen UK based organization. Economic globalization from below is empirically implemented through transnational flows of investment and financial capital as well as transnational production and services' networks. Overall, neo-liberal convergence assumes wide macroeconomic policies primarily focused on tight fiscal policies, monetary stability, trade liberalization, privatization, as well as liberalization of the domestic capital and financial system.

The patterns of neo-liberal convergence grounded on Anglo-American capitalism assume sound interaction between government, banks and businesses, independence of central bank, equity financing of corporate sector, and strong positions of bond and stock markets. In accordance with the liberal globalization theory, the nation states are constraint from below as a result of transnational economic globalization. Trans-nationalization of production and services as well as the extended capital mobility intensify the market forces' pressure on the national state policies and government authority regarding budget and account balance, as well as fiscal and financial policies, labor standards, investment regulations, and governance. Ohmae claims that the globalised world economy is featured by the increasing mobility in:

(1) Investment flows through capital markets;

(2) Industry developments through the operations of transnational corporations;

(3) Information technology advances; and finally

(4) Individual consumers (Ohmae 1995).

In macroeconomic terms, the US recession in 2008 produced a modest aversive affect on UK's real GDP growth. Under the conditions of global economic growth slowdown, some countries (China, Australia and Sweden) have tightened their monetary/fiscal policies aiming to prevent inflation. Conversely, the United Kingdom has eased their monetary policies while reacting to the weakening economic growth. The domestic fiscal policies were aimed at the correlation of supply and demand, while the Government has managed relative inflation, interest rate differentials, moderate economic growth, deficits and debt as well as the country's export competitiveness.

The National Bank has managed to sustain a strong and highly-competitive exchange rate of the national currency compared to other major currencies. To attain this, the domestic fiscal policies were aimed at the correlation of supply and demand, while the Government has managed relative inflation, interest rate differentials, moderate economic growth, deficits and debt as well as the country's export competitiveness. The government assigns various policies to achieve both internal and external balance goals. According to the Mundell's framework of effective market classification, the authorities assign their policy instruments to obtain the greatest relative impact.

Consequently, the net costs of the balance of payments will be eliminated.

Simultaneously, fiscal and monetary policies are used to expand output. On <https://assignbuster.com/attempt-to-allocate-resources-effectively-economics-essay/>

the other hand, according to the Keynes' assumptions claiming that fiscal policy is more direct and is featured by fewer time lags, fiscal policy has the greatest relative impact on the target and monetary policy and their effects on the balance of payments.

Herewith, external balance is impacted by the increase in exports caused by non-domestic policies. In particular, faster growth overseas leads to the higher exports of the UK goods and services. Relative advancement in the UK competitiveness is due to the rise of relative foreign price as well as the appreciation in foreign exchange rates. The analysis of the relevance of Keynesian policy options to the today's UK economy suggests that the implementation of the Expenditure Changing Policy (ECP) is possible by means of re-inflation/deflation through fiscal, monetary, and exchange rate policies. Prior to such implementation, however, it is vital to critically assess internal economic position of the UK. Alternatively, the application of Expenditure Switching Policy (ESP) is possible through such policy means as devaluation or revaluation. The implementation of ESP is possible outside the fixed exchange rate system and therefore not within the European Monetary Union.

Finally, the implementation of Direct Controls (DC) is possible through tariffs, non-tariff barriers, and exchange controls. However, direct controls are abandoned by the mainstream policymakers considering the WTO trends as well as the free trade orthodoxy (Krugman and Obstfeld 2009). A holistic view of economy should be developed to incorporate internal and external balance policies. Loan-financed domestic investment programs should be vastly applied as the means to raise the level of unemployment within the

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British economy. ' Pump-priming' approach should be applied to safeguard the country's economy from the recession. This involves cutting-down taxes and the increase in government borrowing and spending. Real wages should be cut through the state control and deterrent from holding money over the inflation.

The economic stabilization should be achieved through the strong position on unemployment decrease, interest rates rise, and management of internal and external currency. State regulation is the most effective means to prevent further economic slowdown for the UK economy. Ryanair is currently positioned as the Europe's largest low fares airline. Ryanair is well-acknowledged brand wide and far as the world's reputable and favoured airline which holds 37 bases and offers over 950 low-fare routes in 26 world countries. Strategically, the company connects some 150 destinations. The company's powerful fleet consists of 210 Boeing 737-800 aircrafts which number will increase in the foreseeable future (2-3 years) up to some 315 aircrafts (Ryanair 2012).

All these and other staggering achievements and successes have become possible due to the effective marketing of services, as well as smart and loyal HR policies effectively applied by the corporate management which currently sustains and leads the impressive number of staff that exceeds 7, 000 employees. Such internal competitive advantage enables the company to build up huge plans for the external operations. In 2012 fiscal year, the company intends to penetrate up to 66 m. passengers internationally. In 2011, Ryanair's showed 15% growth and reached 59m passengers. To sustain this positive tendency, the company's management has already <https://assignbuster.com/attempt-to-allocate-resources-effectively-economics-essay/>

arranged to deliver 18 new aircrafts and therefore increase its fleet capacity up to 181 Boeing 737-800 NG aircrafts. The company is due to open four new bases in Europe (including Bologna, Alghero, Edinburgh, and Cagliari), as well as to launch 223 new routes (Ryanair, 2012).

P6: Evaluate the impact of competition policy and other regulatory mechanisms on the activities of a selected organization

Over the years of successful operation, Ryanair has established a strong and recognizable brand that enabled it to win a reputation of the company that loyally provides the passengers with the lowest air traffic fares. Hence, in marketing terms, the company has placed its major strategic focus on offering “ unbeatable prices and punctuality” (Ryan Passenger Service Charter 2009). The overall corporate commitment therefore is concentrated on responsive air services and incomparable pricing options. This has made the company the number one international provider of low-cost air services. The company’s main product (air services) is successful among its target markets due to the reasonably charged price.

However, another core factor is the promotion of the company’s services on the international markets. Herewith, statistics on the Ryanair’s successful operations and its successful performance over the last two decades indicate that the company has smartly and effectively applied marketing mix to synergize its product offerings and win target markets internationally. The corporate marketing strategy with the marketing mix in its core helps the company to identify and critically evaluate its business opportunities, better concentrate on the core target markets, implement market segmentation,

and conduct relevant marketing research on each stage of its operation.

Ryanair marketing department considers the air services it provides in terms of: seasonal demand; affordability; economics; and branding. The dynamic pricing for the offered air services is calculated with the consideration of such strategic issues as:

(1) Cost plus value added cost which is comparatively lower than those of competitors’;

(2) Price fluctuations with regard to the current demand; as well as

(3) Optional seasonal discounts. Finally, namely owing to the promotional campaigns, Ryanair raises customer awareness while conveying its target messages via various media channels.

This approach enables the company to explicitly identify its target markets and subsequently win them over from the company’s main rivals. Most importantly, effective promotional strategy enabled Ryanair to make the brand recognizable and wanted among target markets. Thus, one of the main external competitive advantages consists in establishing a positive public opinion on the company’s product (Kotler and Keller, 2005). The company’s marketing mix involves the following strategic components:

(1) The lowest affordable prices to all the passengers within all the routes operated by the company regardless of the ongoing competition on such routes;

(2) Ryanair applies the fare guarantee known as ‘ Double the Difference’ to ensure that in case a passenger finds a lower rate provided by any of the <https://assignbuster.com/attempt-to-allocate-resources-effectively-economics-essay/>

company's competitors, the company repays the passenger with a ' double fare difference' between the differing ticket prices providing such a passenger agrees to books a travel with Ryanair.

Hence, Ryanair ensures passenger convenience by claiming that its passengers are always provided with the lowest fares on available the market for their journeys providing they book Ryanair services via corporate webpage [www. Ryanair. com](http://www.Ryanair.com).

Furthermore, in terms of open and comprehensive customer-oriented communication, Ryanair always ensures its passengers are well-informed about the applied terms and conditions with regard to the individually chosen fares (including, applicable fees, charges and taxes). The company ensures that passengers are always saved from any price increase and fuel surcharges. Furthermore, all Ryanair's passengers are guaranteed with immediate notifications with regard to any possible force-majeure circumstances, including cancellations, postponements, delays, diversions etc (Ryanair 2010). While effectively marketing its services, Ryanair is fully aware of social corporate responsibility before its stakeholders, staff, customers and environment. As the Europe's largest low fares airline, Ryanair has achieved a steady growth in a sustainable and environmentally-friendly manner. Over the last decade, the company has made an enormous investment in the cutting-edge engine and aircraft technologies to reduce its CO2 emissions almost by half as well as the burnt fuel. Over 1998-2008, the company applied eco-friendly policies based on smart and effective commercial and operational decision-making approaches to eliminate the environmental impacts.

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Hence, the company is also highly-reputable with regard to the environmental efficiency. In 1999, Ryanair invested €17bn to advance its fleet replacement and expansion programme. As a result, 11 Boeing 737-200 aircraft was substituted by Boeing 737-800, referred to as the next aircraft generation. Such strategic step enabled Ryanair to position itself as the European youngest and most fuel-efficient aircraft fleet. The competitive and comparable advantage is that the company operates the youngest, safest, and most environmentally sustainable aircraft fleet in Europe (Ryanair 2009). Owing to the strong competitive advantages and smart service marketing, Ryanair managed to overcome numerous challenges posed by the global economic crisis and adverse affects of recession. More than that, Ryanair managed to increase its market share over the recent period of economic meltdown and recession.

P7: Explain how market structures determine the pricing and output decisions of businesses

Competitive companies vastly apply marketing mix to combine product offerings to reach target markets. At that, product refers to physical products and services offered and provided on the marketplace. It is crucial to define right features of any product/service to make it successful, and therefore each component makes sense for the Bank's sales success. As well as this, product/service means good quality and warranty, as well as a customer's legal right to return it back to the selling organization in case of its incompliance to the initial customer's requirements or/and expectations. Secondly, price is a sum of money (amount) paid for the product. Thirdly, place means the right location of a product, and that is why place also <https://assignbuster.com/attempt-to-allocate-resources-effectively-economics-essay/>

stands for distribution channel, including physical stores (supermarket) or/and Internet sites like e-Bay. Finally, promotion, as was already indicated, presents the most complicated and therefore important elements of marketing mix. This component is not only physical but predominantly psychological to impact customers' decisions. Overall, promotion includes the whole variety of communications managed by a marketer may within the marketplace. Huge part of it belongs to media advertising and other means of mass influence (Lauterborn 1990).

Herewith, along with identification of business opportunities, selection of target market, market segmentation, and market research - marketing mix represents a part of a company's marketing strategy. At that, product component should consider: product life cycle, design (aesthetics), function, economics, environmental impact, packaging, branding. In turn, price is based on the one of the following pricing strategies: cost plus (addition of value added cost); price skimming (charging high initial price in order to recoup the development costs); premium pricing (the price is set out by the high-quality brand); dynamic pricing (constant change of prices depending on current demand); and discriminatory pricing (different prices (discounts) are charged to different customers for the same product).

And finally promotion, which is generally aimed at raising customers' awareness by conveying the message through media channels and identifying target market. At that, advertising methods may vary, including: sales promotion to support marketing process by applying free samples, competitions, gift coupons, trade promotions and other devices; and public

relations, including establishing and maintaining sound public opinion regarding the product.

Ryanair is a perspective player on the European air market that will further win new destinations and customers through the effective marketing and supplying customer-oriented services. Making up the marketing summary of Ryanair operation, most experts agree that the price has been always a decisive factor in customers' choice among airlines. Ryanair managed to offer its passengers the lowest fare in Europe. Furthermore, this not solely lowest cost that attracts customers, but the whole range of convenient customer-oriented services that are rendered in effective, responsive and punctual manner. Next, compared to other European air carriers, the company gained a comparative advantage by having reduced oil cost.

The company's aircraft capacity consisting of new generation Boeings as well as operation of new airports and bases enables to serve more than 100 million passengers a year. Continuous lead customer service in the industry combined with the falling oil charges and air fares altogether enabled Ryanair to prosper regardless of the global economic crisis and gain profits from its international operations. Therefore, there is all evidence to state that the company is sure to double its profits and traffic capacity by the end of 2012.

Apparently, in the course of the next few years Ryanair will become the biggest and most demanded airline in Europe. In terms of service marketing, the company should further promote its well- established marketing mix concept. Furthermore, the company's leadership should add more

technological options to make the customer services faster and more convenient. Such approach will help the company to penetrate new destinations and win larger market shares as well as target markets in the future. Ryanair's strategic positioning is designated by appropriate pricing techniques.

Ryanair's strategic positioning is determined by the choice of appropriate pricing techniques. While emphasizing on high quality of its products, effective promotion and sound advertising, as well as value for money, the company applies competitive pricing strategy to ensure that the adjusted prices do not exceed those of the competitors' (Kotler and Keller 2005). This strategic choice is reasonable and justified since regardless of individual taste preferences or any other essential factors, consumers regard product value as one of the most decisive factors while making their purchasing decisions. Therefore, Ryanair cannot apply skimming pricing technique in the course of designing and launching a new product. This technique can be applied under the conditions of inelastic demand (Boone and Kurtz 1992).

In addition to the effectively applied competitive pricing strategy, Ryanair focuses on cost plus pricing which helps the company to maximize its profits. While accurately accounting all its costs, Ryanair reaches optimal supply and demand balance and well-balanced positioning on the market compared to its competitors. Alternatively, Ryanair applies positioning pricing to set up the prices with the consideration of demand-side concerns. Through polling and surveying its target markets, Ryanair's experts designate the optimal price range that would satisfy the majority of the consumers. This positioning technique is particularly applied to better sell Ryanair's services.

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Optimal trading also depends on the financial capacity of the demand-side. Therefore, Ryanair applies demand-based pricing to critically assess the purchasing power of the majority of its consumers. Only under such conditions the company is able to trade its services in accordance with the strategically planned volumes. Hence, selling at the customer's price brings Ryanair profits, good reputation and positive feedback from the majority of its customers.

Ryanair should develop new services and promote them domestically as well as internationally. Such service/market growth approach will ensure that the company has diversified range of products which are available and well-recognizable in many countries of the world (Ansoff 1965). Such strategic choice will provide the company with enormous comparative advantages over its competitors and will help it to better cope with the hurdles of the global economic crisis.

However, considering the challenges of the global competitive markets, this strategy will not be suitable any longer. Hence Ryanair should transform it into more powerful and innovative global image.

The variety of new high-quality and reasonably-priced services will add value to the business activity of Ryanair and will win new overseas markets for the company. This task would require the company to carefully design and develop innovative brands of its services which are not yet present on any of the foreign markets, and which will be potentially demanded by the consumers (Ansoff, 1957).

While developing innovative products and penetrating overseas markets, Ryanair should initially consider the demand-side of its target markets.

Among the most important criteria are the following:

- (1) Average income;
- (2) Average spending amount on one-time supermarket/store purchasing;
- (2) Average amount consumers are ready to spend on air services;
- (3) PESTLE analysis of the target market with the consideration of the adverse affects caused by the global economic meltdown; and
- (4) Porter analysis of the targeted market.

Such wide coverage of strategic issues will win Ryanair competitive advantage and increase its share on the foreign markets.

Ryanair's choice of the optimal marketing strategy should consider their chances of success in terms of market diversification. To reach optimal market diversification, the company should ensure that its new product adheres to the customers' needs and preferences. Extensive market research will help Ryanair to explicitly identify its potential target markets for new services. Herewith, Ryanair's marketers should consider the following strategic factors:

- (1) Financial health of the targeted market;
- (2) Purchasing capacity of target market;

(3) National and individual preferences of target market;

(4) Previous experiences of target market in terms of purchasing the same services provided by competitor companies;

(5) SWOT analysis in each individual case will ensure that Ryanair eliminates all the possible constraints to the minimum and transforms the threats into potential opportunities.

Realistic and achievable strategic objectives should be set in accordance with the SMART approach whic