How does a market economy deal with scarcity?

ASSIGN BUSTER

This is about how the market system and the command economy try to cope with the economic scarcity. In the market system, producer produces goods that the market demanded with the resources owned by the producer without the intervention of the government. Whereas in the command economy, the government owned all the resources, make choice on allocating the resources to produce product and also decide on how to distribute the product.

There is two market system that is market system and command economy faces the basic problem of what, how and to from to produce with economic scarcity. The problem of what to produce face by the market system is solving by this way. Consumer is assumed to be the ‘ king’ and have full decisions making to demand on what the producer needs to produce. While for the quantity to produce is based on the price mechanism. In how to produce, producer will use the most efficient way to produce the product. That is by using a mi intensive labor or intensive capital in the production to enable maximum profit and lowest cost for the production with the use of scarce resources to satisfy the consumer demand. In this system, for whom to produce is depend on the wages of the consumer; as the higher of income the consumer get, the more they are willing or able to buy and for the low income consumer, they will not able or willing to buy. So, the private sector and also the consumer make all the decision in the market system.

Beside that, the command economy, problem on what to produce is solving by this way. Products that need to be produced are set by the government, where the consumer is not able to choose the production. For the quantity of product needed to be produced and the price of the product are also set by

the government. The problem of how to produce, government will decide how the resources should be used to produce the goods. While for whom to produce is also based on the government to distribute it. In conclusion, command economy is control by the government in this situation.

The difference between market system and command economy can be differentiate by how the system cope with economic scarcity they face. The problem of what to produce, market system solved it by making decision from the private sector and consumer without intervention of government but command economy solved it by decision made by the government. The problem of how to produce, market system will solve it by using the most intensive way to produce the product, whereas command economy solved it by using capital intensive to produce the product. While the for whom to produce, market system produce the product to the consumer that demanded on it but command economy produce the product is to distribute it to the consumer. On the other hand, the aim of both the system are also different, firm in market system aim to get maximum profit only but command economy aim to virtue the consumer/citizen.

Question 2: PART A

The two determinants of price elasticity of supply are time period and ease of storing stock. Time period can separate into two parts. That is the short run (Figure 1) and the long run (Figure 2). In short run, if the number of products offered by producer is limited, means the supply is limited. The elasticity of supply will decrease. For example, in short run, a farmer sold carrot. One day, the price of carrot increase but the farmer cannot supply

more carrots because he is limited by the land that let him cannot produce more carrots. On the other hand, the long run means the producer got enough time to prepare to increase the production when the price of product increases. So the elasticity of supply will increase. For example, in long run, when the price of carrot increases, farmer has time to import the advance technology or work overtime to produce more carrot for supplying. Ease of storing stock is mean that the producer can store a large number of goods in a warehouse, if the price of stock raises, the producer can sell all these stock and gains a profit. In this situation, the supply in the market will increase.

Question 2: PART B

In the business, pricing strategy is the way to decide the price of the goods in the market. First, I will use two types of goods to explain how businesses use the concept price elasticity to decide on their pricing strategy. Normal goods are known as clothes, food, and travel. For example, if the prices of the rice increase slightly, the consumer will increase the demand to the rice because that is the needy to our life. The rice is elastic. The second type is inferior goods. For example, diamond is inferior good. If the price of diamond increases, there is no affection to consumer because it is not necessary in our life. The diamond is inelastic when the price changing.

Question 3: PART A

The three reason that effect the supply of a product increases are resources prices, technology, and taxes and subsidies. The resources prices are the most important in productivity because the product needs the resources to produce. The resources prices of good A decreased, the producer will

produce more good A to the market and the supply of good A in the market will increase. For example, if the price of rubber decreases, the supply of eraser will increase. The advance of the technology can let the company using fewer raw materials to produce more Good A and the supply of the Good A in the market will increase. For example, a rubber's firm imports a latest machine that can produce the eraser with fewer raw materials. So the supply of eraser will increase. The taxes and subsidies will affect the supply because the taxes and subsidies are very important in any business. For example, if the taxes of some goods or services decrease, it will make the sales price decrease and the supply will increase. By the way, the government subsidies a good for the producer, the producer will increase the production of the good. So the supply of the good will increases because of the cost of product is lower.

Question 3: Part B

The price floor and price ceiling is usually set by the government to the firm. A price floor is to set a minimum price for a good and it must be set above the equilibrium price, it will cause surplus in the market. A price ceiling is to set a maximum price for a good and it must be set below the equilibrium price, it will cause shortages in the market.

Rationing function of prices is a function that balances the supply and demand to the equilibrium as to prevent shortages and surplus. When the price floor is set, the amount of supply will be higher than the demand and it will cause a permanent surplus. With the reason on price floor is set, the firm are unable to decrease the price to the price equilibrium to solve the

problem of surplus. As this price floor is set to protect the supplier to earn minimum price for selling their good. By the way, if price ceiling is set, it will cause a permanent shortage because the amount of supply will be lower than the demand. It will unable the firm to increase the price to the price equilibrium as to solve the shortage. This price ceiling is set to benefits the consumer and it is also the way to control the inflation.

The resources allocation is usually done by the decision making of firm to efficiently produce the product with the limited resources. When the price floor and price ceiling is set, it will disturb the resources allocation. The permanent surplus cause by price floor will disturb the amount of product that producer need to produce in order to maximize profit and minimum the cost and also the allocation of the resources to produce the product. When price ceiling take place, the shortage will cause the firm to not able to increase the production as to solve the shortage. Because of the price ceiling, it only allows the goods to be sold at a price that is lower than the price equilibrium.

In my opinion, the price floor and price ceiling stifle the rationing function of prices and distort the resources allocation that will also lead to permanent shortage and surplus in the market.

Question 6: PART A

Consumer surplus is meaning that consumer buying a product that the price differences between the prices that he willing to pay for it and the actual price of the product. For example, in diagram 1, Mr Tan go to a café. He is willing to pay RM 5 for a cup of coffee. But the actual price of a cup of coffee

is RM 2. So RM 3 is the consumer surplus. Producer surplus means that producer sold a limited number of products, the total revenue is more than he desired. So, the part that more than producer desired is the producer surplus. For example, in diagram 2, Mr Tan hope he can earn RM 500 in his business. End of that day, he calculate that the total revenue is RM 1000. So, the producer surplus is RM 500.

In this graft, scarcity means the producer do not have enough raw materials to produce the product. So the production is cannot archive in the point of scarcity that shown in the graft.

On the other hand, the point of the choice on the curve means the producer can make full use of the raw materials in the production. The scarcity force the consumer to made the choice because there is a limited resource in the world.

The opportunity cost means when we have to do two things in one time, but we are limited by the space and time. So we have to decide to do one things and the other thing that we had forgo is the opportunity cost. The point D in the graft mean that if the producer decided to produce Goods A, then he or she cannot produce any Goods B.