Global economy

Business

Global Economy Question The commodity chosen is gold bullion. Price movements over the last twelve months have been represented in the graph below. The price of gold bullion rose steadily between October 2013 and November 2013. Afterwards it declined marginally, and then rose and dropped marginally by between December 2013 and October 2014.

Question 2

Gold is likely to have a very elastic price. This is because it has no substitute and therefore when the price goes drops people will buy it in large quantities (Mozes and Cooks, 2013: 115. Suppliers will also be limited because sellers will dispose of their gold at the best possible price.

Question 3

The product will have a positive income elasticity of demand. This is because gold is a luxury, and people tend to use their increased income to buy more luxury goods like gold than normal goods (Mozes and Cooks, 2013: 119).

Question 4

Oil is a highly elastic commodity, and such goods are often subject to sharp changes in price depending on supply and demand (Fibich, 2005: 70). The price of oil is very volatile and therefore managing it is extremely challenging.

Question 5

Food commodities like rice, bread, milk, maize flour, and cooking oil, are basic needs that large populations cannot live without. Manipulation of their prices has serious political consequences because citizens view any politician who “ denies” them these goods as not fit to hold public office (Martini and Phillips, 2009: 8132). The government should reduce import taxes and offer subsidies on these goods; this will reduce the price and increase supply.

Question 6

Fracking is reducing the economic and political power that Middle Eastern countries hold by increasing the oil and natural gas supply of the United States and other countries (Biello, 2013: 20). The practice is wrestling away control of the energy market from traditional powerhouses like Saudi Arabia and Iran and handing it to western nations.

Question 7

Commodity exchanges display prices and offer a way of managing price risk. This involves hedging with futures among other trading techniques (Radetzki, 2013: 270).

References

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