

How economic systems deal with economic scarcity



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In market system and command system, there are five fundamental questions to cope with economic scarcity. There are What goods and services will be produced? How goods and services will be produced? Who will get the good and services? How will the system accommodate change? and How will the system progress? ((Mc Connell, Brue, Flynn, 2009, pg 34)

Market System

What goods and services will be produced is referring to what type of goods and services the market decides to produce as long as earn a profit but not lose. So, the total revenue must more than total cost ($TR > TC$). Consumer sovereignty is crucial in determining types and quantities of goods produced. This means consumers spend their income on the goods they are willing and able to buy through dollar votes. (Mc Connell, Brue, Flynn, 2009, pg 34)

How goods and services will be produced is refer to what combinations of resources and technologic will be used to produce goods and services? How will the production be organized? The answer is in combinations and ways that minimum the cost per unit of the output. The most efficient production technique depends on- the available technology that is combination of resources that will produce the desirable results and the price of the needed resources. (Mc Connell, Brue, Flynn, 2009, pg 35)

Who will get goods and service is refer to who will buy the goods and services. Basically, any products will be distributed to consumers on the basis of their ability to pay its existing price. This is depends on the income of each consumers. If the consumer income is enough, they will spend more money in particular good. (Mc Connell, Brue, Flynn, 2009, pg 36)

How will the accommodate change means that the particular allocation of resources that is now the most efficient for a consumer tastes, range of technological alternatives, and amount of available resources will become obsolete inefficient as consumer preferences change, new techniques of production are discovered, and resources supplies change over time. This is because market system is dynamic: consumer preferences, technology, and supplies of resources all change. Normally, consumer tastes direct the expansion of some industries and the contraction of others and this adjustment conveyed to the resources market. (Mc Connell, Brue, Flynn, 2009, pg 36)

How will the system promote progress refers to how does the market system promote technological improvements and capital accumulation, both of which contribute to a higher standard of living for society. The market system provides strong incentive for technology advance and enable better products and process of supplant inferior ones. Technology advanced also included new and improvement methods that can reduce production costs. So that can let firm earn the maximum profit. The market system provides the resources necessary to produce those good through increased dollar votes for capital goods. And entrepreneurs and owner of business will register for these votes because they often use apart of income to buy capital goods so that doing such yields even greater profit income in the future if the technology innovation is successful. (Mc Connell, Brue, Flynn, 2009, pg 37)

Command System

In command system, government owns most of the property resources and economic decision making through the central economic plan. Central planning board means that government makes all the decisions to concern used of resources and the distribution of output and also organization of production. Furthermore, government owns all most of the business firms, who produce according government directives. (Mc Connell, Brue, Flynn, 2009, pg 30)

What will be produced will be produced by first forecasting an optimal level of consumption of future period and then specifically allocating resources projected to be sufficient to support that level of production. This is determined by central planners, which consist by government objectives rather than consumers desire. (Denise Woodbury)

How the product will be produced is refer to the process could focus on low cost production or high quality production or full-employment of relatively inefficient resources or any number of other government goals. (Denise Woodbury)

Who will get the product and services is refer to the demand of social desirable. The product can be allocated on class, queuing process, on a reward system for outstanding or loyal performance, etc. (Denise Woodbury)

References,

Mc Connell, Brue, Flynn, 2009, Economics 18th edition, McGraw-Hill/Irwin, a business unit of the McGraw-Hill Companies, Inc, New York

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Denise Woodbury, Economic system, market vs. command system, online, retrieved 25-Sept-2009, 2132 from [http://www. answers. com/topic/economic-system-1](http://www.answers.com/topic/economic-system-1)

Question 2a

Subsidies define as monetary assistance granted by a government to a person or group in support of an enterprise regarded as being in the public interest. So, if government decided to increase the state subsidies to the public colleges, it will increase the supply in public college. So, will caused right shifted in the supply curve.

Diagram shows the shifted leftward in demand curve from D0 to D1. And the supply did not change.

Market diagram for private college

References:

Define subsidies, online, available: [http://www. answers. com/topic/subsidy](http://www.answers.com/topic/subsidy), accessed 9. 30pm, 2 Oct 2009

Question 2b

Price ceiling is the price must set below the equilibrium price. The purpose is help consumer to obtain service or good they may not afford to buy it. (Mc Connell, Brue, Flynn, 2009, pg 59)

Price floor is the minimum price set by the government. At this price level, the price must above the equilibrium price. When society feels that the free

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functioning of the market system has not provided a sufficient income group of resources supplier or producers, then the price floor will be invoked. (McConnell, Brue, Flynn, 2009, pg 61)

Price ceiling will not have effect on the equilibrium price if it was set above the equilibrium price while price floor will not have any effect on the equilibrium price if it was set below the equilibrium price. Just as price ceilings and shortages can lead to undesirable rationing mechanisms, so can price floors and surpluses.

In the case of a price floor, some sellers are not able to sell all they want at the market price. The sellers who appeal to the personal biases of the buyers, perhaps because of racial or family ties are better able to sell their goods than those who do not.

On the other hand, when the government imposes a binding price ceiling on a competitive market, a shortage of the good arises, and sellers must ration the scarce goods among the larger number of potential buyers. The rationing mechanisms that develop under price ceilings are rarely desirable.

Price floors and ceilings are used to avoid price movements to correct these imbalances. When a price is set above equilibrium- price floor, supplier will produce more than the market can support, diverting resources away from more highly valued uses. Price ceilings result in an under allocation of resources toward a particular good, where the excess demand (shortage) reveals that consumers value the good (and therefore the resources used to produce it) more than what the market currently offers.

Question 3

Costs When falling in long run average total cost, this is 'economies of scale' (EOS), where the total cost decrease when output increase. This may happen in internal or external problem.

Diagram show the economics of scale.

Quantity

One of the reasons is specialisation of labour. For example, stationary industry- Faber Castle Company had divided the task properly to each of the labour. Each labour only has to focus in a one task that they are responsibility. Hence, this will increase the output and decrease the average total cost. The management must good in arrange this to minimum the average cost.

On the other hand, the company will buy larger and specialised machinery to increase their output. For example, Faber Castle Company had just bought the new machinery, which can help increase their output by the way also, decrease the average cost. So, this technology will help company to get the maximum output and minimum the average cost.

Before producing output, the company need the large amount of raw material. For example, before Faber Castle company produce pencil, pencil slat are needed. If Faber Castle buying pencil slat in bulb, the price per slat will be cheaper than if the company buy only the little amount of pencil slat. This is 'buying economic'.

One of the external problems will cause the falling price in average cost is better infrastructure prepaid by government. The government form an industry park with combine many firms in one area. Normally this industry park will nearby the airport, port etc. So, the transportation fee can be reduce. If Faber Castle factory near by these area, this can let them save more transportation fee. In this case, the average cost will decrease.

When business experience rising in average cost although the output is increase, this is ' diseconomies of scale' (DEOS).

Diagram show the Diseconomies of scale.

Costs

Quantity

The main factor causing this is because difficultly control the firm's operations when it became larger and larger. When in the small plant, the decision making is easy because small plant only relatively little amount of information. For example, Faber Castle growth into multinational company, the decision making process will be more challenging because they need more information on optimizing production. It is more hard to assemble the all the important information when the business in large scale.

One of them is miscommunications between the management such as when Faber Castle's staff in trouble, they blame each other's. Hence, they did not have teamwork. Therefore, this will lead the decision-making slowed down.

This is the clear evidence shows that the miscommunications will lead ATC increase.

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In addition, in massive production facilities workers feel alienated from their employers and care little about working efficiently. Opportunities to shirk, by avoiding work in favour of on the job leisure, may be greater in large plants than in small ones. Countering worker alienation and shirking may require additional worker supervision, which increases costs. (Mc Connell, Brue, Flynn, 2009, pg 169)

Question 4

The price elasticity of demand for youths is inelastic, because the percentage change in quantity demanded is less than the percentage change in price. When the price of cigarettes declines 10%, the demand increases 7% only, the percentage change in demand is less than the percentage change in the price.

The price elasticity of demand for adults is also inelastic because when President Clinton raised the cigarette excise tax as an expedient and politically correct source of federal revenue, Professor Gary Becker commented that the cigarette sales will drop 4% for every 10% increase in price. 'Only the first year will respond to the higher price,' he added. After three years, the cigarette consumption is likely to decline by 8% for every 10% increase in price. This also shows that the percentage change in quantity demanded is less than the percentage change in price.

This means consumers are less responsiveness to a change in price rising in cigarette price.

Price

The diagram show the inelastic demand curve.

Quantity

The reason PED for teenagers and adults is inelastic because most of the youth are experimental smokers. Consumer need time to adjust the change in price. They cannot immediately reduce their quantity demanded when the price suddenly rise. Moreover, smoking had become habits, so they cannot to stop it in the moment. Most of them cannot resist the temptation.

Another reason related to the income. When the pocket money or income for a person increases, the quantity demand will decline slightly although the prices increase. Therefore, the price elasticity is low.

The cigarette had become the necessities in their life. Hence, increase in price will not affect the quantity demand directly. For the smokers, they cannot live without smoking. Cigarette is not a luxury good for those who treat smoking as their part of life. They are willing to pay it although smoking is not good for health.