Assistance with University Projects? Research Reports? Writing Skills?

We've got you covered!

www.assignmentstudio.net

WhatsApp: +61-424-295050

Toll Free: 1-800-794-425

Email: contact@assignmentstudio.net

Follow us on Social Media

Facebook:
https://www.facebook.com/AssignmentStudio

Twitter:
https://twitter.com/AssignmentStudi

LinkedIn:
https://au.linkedin.com/company/assignment-studio

Pinterest:
http://pinterest.com/assignmentstudi

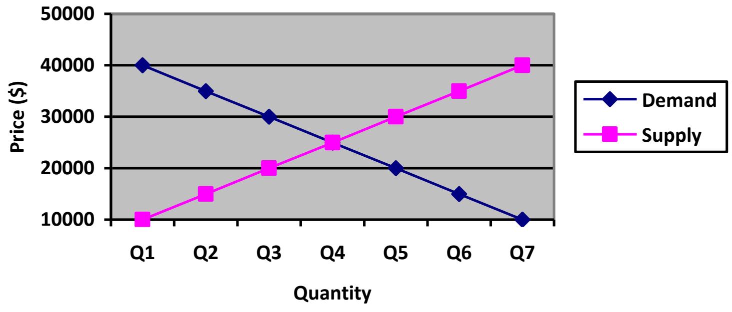
Assignment Studio © Copyright

Economics Assignment

Activity 1.

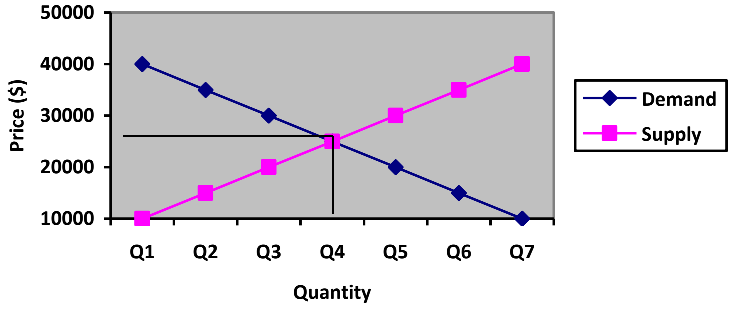
You are given the following information in relation to the market demand and supply of Ford cars:

Answer (i):



The x axis depict quantity of Ford, and Y reflect the prices ($).

Answer (ii):



The market equilibrium is defined as Equilibrium exists whenever the quantity of a good demanded is just equal to the quantity of the good supplied. So, in the above example, the equilibrium quantity is 25,000 with the equilibrium price being $35,000. The intersection point of demand and supply determines the equilibrium quantity and equilibrium price. Market equilibrium is a state where market is balance, with no profit no loss.

Answer (iii):

If the price is set above the equilibrium price, there would be lesser demand. This means, higher is the supply and lower is the demand. If Ford car prices are set at prices more than the equilibrium price, then:

Supply of Ford cars > Demand of Ford cars

There would be surplus of Ford cars available in the market. The existing surplus will give sellers an encouragement to lower the prices, thus again moving the prices back to the equilibrium level. As the price rise above the equilibrium, the demand is bound to fall due to customer behaviour. Similarly, the producer is induced to produce more and supply more, in urge to have higher profits. But as the demand falls, the supply has to be reduced effectively (Journal of Finance, 1968).

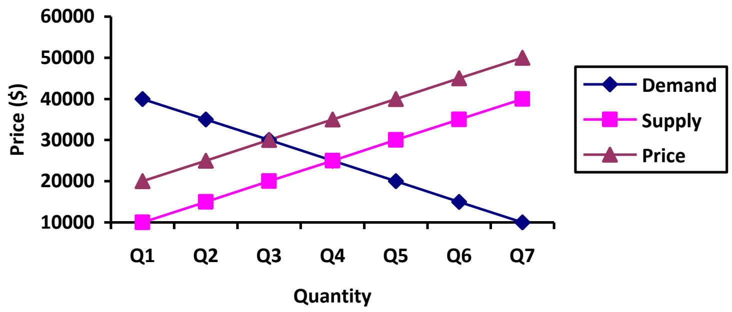
Answer (iv):

The price elasticity of demand is the measurement of rate of response of quantity demanded due to change in the price. The formula for price elasticity is

PEoD= (% change in Quantity demanded)/ (%change in price)

The **Price elasticity of demand (PED)** measures the change in the quantity demanded comparative to a change in price for a good or service.

A	B	C	D	E	F	G
Prices ($)	Quantity demanded/sold	Quantity supplied	% change in Quantity Demanded	% change in price	Price elasticity of demand (ColumnD/Column E)	Total Revenue (column A*column B)
20,000	40,000	10,000				8000,00,000
25,000	35,000	15,000	13%	25%	0.5	8750,00,000
30,000	30,000	20,000	14%	20%	0.7	9000,00,000
35,000	25,000	25,000	17%	17%	1.0	8750,00,000
40,000	20,000	30,000	20%	14%	1.4	8000,00,000
45,000	15,000	35,000	25%	13%	1.9	6750,00,000
50,000	10,000	40,000	33%	11%	3.0	5000,00,000



As per the table above, with the increase in prices the elasticity is also on an increase. The elasticity depicts how sensitive demand is towards the prices change. The higher the elasticity of price, higher is the sensitivity of consumers towards the price change. This means that the prices of Ford are very influential on the demand. So, as the managing director of Ford, I would aim at reducing the prices of Ford, so that more customers are tempted to buy the car. This would reduce the total profit, however at equilibrium the profit is $8750, 00,000. So, if the prices are decreased by $5,000 there is an increase in revenue. However, the decision should be based keeping elasticity in mind, at different prices, so as to assure maximum returns.

Answer (v):

As Ford is losing its competitiveness in car market, the government is providing with financial aids to the company. The government might have chosen to intervene in the price mechanism, so as to change the resources' allocation and to achieve what s perceived as economic and social wellbeing. There are merits and demerits of this government intervention.

Merits:

- **Correcting market failure:** Often the market failures are due to lack of information about the benefits, costs, and features of the products available in market. Government induces information sharing through proper labelling, anti-speed campaigns etc, to show right benefits of the product (car).
- **Passing of regulations to avoid anti competitive behaviours:** The government's laws of competition policy act against the anti competitive behaviours of the organisations, within the markets. Setting of minimum wages help in provision of legal protection to workers, thus giving the price floor in labour markets.
- To achieve a more **equitable distribution of income and wealth-** The tax and welfare payments are influenced by the government decisions. If the customer is from rich household, he would have to pay higher tax, as compared to a relatively medium category household. This would reduce the inequality of income.
- To improve the **performance of the economy-** The government's am in supporting the firm is to attain economic and social balance.

Demerits:

- The government does not always support only one organisation. It is always that if government has to provide support to all the producers in similar manner, else it creates "winners and losers". If government levies higher taxes to one product the change in consumer behaviour is bound to happen, and similarly effects the demand and prices of the competitors (Riley, 2006).
- Enforcement- It is difficult to access the correct level of regulation without accurate information. The firms might feel pressurised to follow the rules set by the government.
- This might lead to the shortage or surpluses, due to lack of information.
- If the government policies change often, it would be disruptive.

Activity 2:

Answer (i):

Accounting profit= Total Revenue-explicit cost (It does not consider opportunity cost)

Economic profit= Total Revenue-Total cost (Implicit+ explicit costs) (It includes the cost of opportunity)

Thus, the economic profit might be less than the accounting profit. The economic profit is positive, only when the accounting profit is greater than the opportunity cost of equity capital. In the long run, the firms under perfect competition earn zero economic profit.

The economic profit is attained as the revenue exceeds the cost of opportunity. And on the contrary, if the revenue exceeds accounting costs, the firm is said to have accounting profits.

We can say that accounting profit is the revenue after meeting all the economic costs of the firm.

Answer (ii):

Opportunity cost can be defined as fundamental costs in economics that are not recorded in books, but have influence on decision making by analyses of cost benefits of the project. It is the benefit of one thing that must be given away to achieve other. As every resource, even human can be put to n alternative use, so it has an opportunity cost attached. It is defined as the value of the best alternative foregone (Quarterly Journal of Economics, 1966). Here, the opportunity cost of aunt is $510,000 per year, as it would be sacrificed to earn from another source (hardware store).

If she thinks that she would be able to sell merchandise of $510,000, she should not open the store. As, the profit =Revenue-cost, $510,000-$500,000. So, in all she would only be earning $10,000 above the expenses incurred. As the profit earned is not more than the marginal cost, she should not opt for opening the hardware store.

Answer (iii):

Perfect competition is a market in which

- Numerous firms sell the same products to many buyers.
- There are no limitations to entry into the industry.
- Well-known firms have no advantages over new ones.
- Sellers and buyers are up to date about prices (McTaggart, Findlay and Parkin, 2012).
- Price discrimination is not possible.

Monopoly is a market in which

- Single seller produces to cater many buyers.
- There is no entry for the new firms, into the industry.
- Firm is the price maker.

- Sellers and buyers are up to date about prices.
- Price discrimination, i.e. different prices is charged from different customers.

The profit maximisation refers to producing that output level that attains the highest economic profit, given existing conditions of market and cost of product.

For a perfect competition, the production level has to be adjusted as per the changes in the market prices. Here, the economic profit can be used as a based to determine the production level. This economic profit is total revenue less total cost. The optimum level of output is the point where marginal revenue-= Marginal cost. To increase sales, firm can cater to advertising and influencing the customers.

However, under monopoly the firm fixes the prices. The average revenue> Marginal revenue. If the firm wants to enhance its sales, it can only be done by reduction in prices. With monopoly, the producer or seller has no close substitute, so the pricing is under full control of the firm.

Answer (iv)

The monopoly is more efficient, as they have no other competitors in the market. They also have monopoly in the labour market, so that the monopoly firms can exploit their workers. The monopoly can sell lesser quantity at higher prices, i.e. prices>marginal costs. All the things same as Perfect competition, the monopolies enjoy economies of scale that makes them more efficient. The perfect competition will yield maximum profits at p=MC=MR (profit=marginal cost=marginal revenue), i.e. no excess cost and price. Monopoly is more efficient as there is no competition, and better revenue generation.

Answer (v)

The real world examples are:

Monopoly- Nuclear power has monopoly of government, Indian Railways, State water board

Perfect competition- grocery stores, Reebok shoes (shoes manufacturers), Tata Motors (Car industry)

Answer (vi)

The monopolies should be regulated by the government, as if they are left unregulated, they might charge a price much higher than what is socially optimal and acceptable. They might also produce less, causing scarcity and in lieu of that can ask for any price, that customer ends up paying for. The government rules and price regulations can help in achieving a controlled environment. When the prices are above the competitive level, the customer buys lesser product, and whole of the society suffers. The monopoly reduces the income of society. So, government intervention is necessary to control the monopoly power.

Answer (vii)

In a free economy, the government tries to reduce the inequality of income through taxes, and different slabs of taxes. Public goods can be provided with tying up with government expenses. For eg: the lighting, protection and restrooms etc available to public cannot be charged due to its impracticability. So, the finances of these services are through the taxes paid by the citizens of the county. This also resolves the problem of individual property rights, and appropriate use of the economic resources (Bruce, 1990).

References:

- "Risk, Return and General Equilibrium: Some Clarifying Comments." Journal of Finance, (March, 1968), pp. 29-40.
- McTaggart, D., Findlay, C., & Parkin, *M.-Economics* (7th ed.). Sydney [MFP]: Pearson Education (2012).
- *Geoff Riley, (September 2006), Eton College.*
- Investment Decision Under Uncertainty: Applications of the State-Preference Approach," The Quarterly Journal of Economics (May, 1966), pp. 252-277.
- Benson, Bruce. *The Enterprise of Law*. (1990).