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Economy of the Firm

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Abstract: **This research is about five circumstances that are held in different places. These five situations are to be economically analyzed in terms of how they affect the environment which they are in. The first three are supply/ demand analyses which concentrate on the effect of the price of a product and the demand to it. The last two events are Equilibrium and two variable inputs production analysis. The former is similar to demand/ supply case but the analysis is done when the price and quantity of a product are at specific positions where the latter does an analysis on the production of a certain firm.**

Keywords: **Economically analyzed, demand/ supply case, variable inputs production analysis.**

1. HIGH DEMAND, LIMITED SUPPLY PUSHES VANCOUVER HOUSE PRICES TO NEW HIGHS

The Globe and Mail Online

Topic: Demand/Supply

Summary:

The article, published in Globe and mail, is one the increasing prices, houses, located in Vancouver. The increase in price is dramatic and it has surprised many. However, there are couples of reasons for this evident and dramatic increase in the prices, of houses, which have been offered for sale. One of the reasons, identified by the author, is that Vancouver is a desirable place to live/dwell. For instance, the region has ocean and mountains. In addition, it is highly safe place, where people can freely move. In addition, the region provides various and numerous economic opportunities, which make Vancouver highly attractive. Another reason for the high price is that not many houses, for residence are available in the region. Because of the shrunk supply and high demand, prices are high.

Economic Analysis:

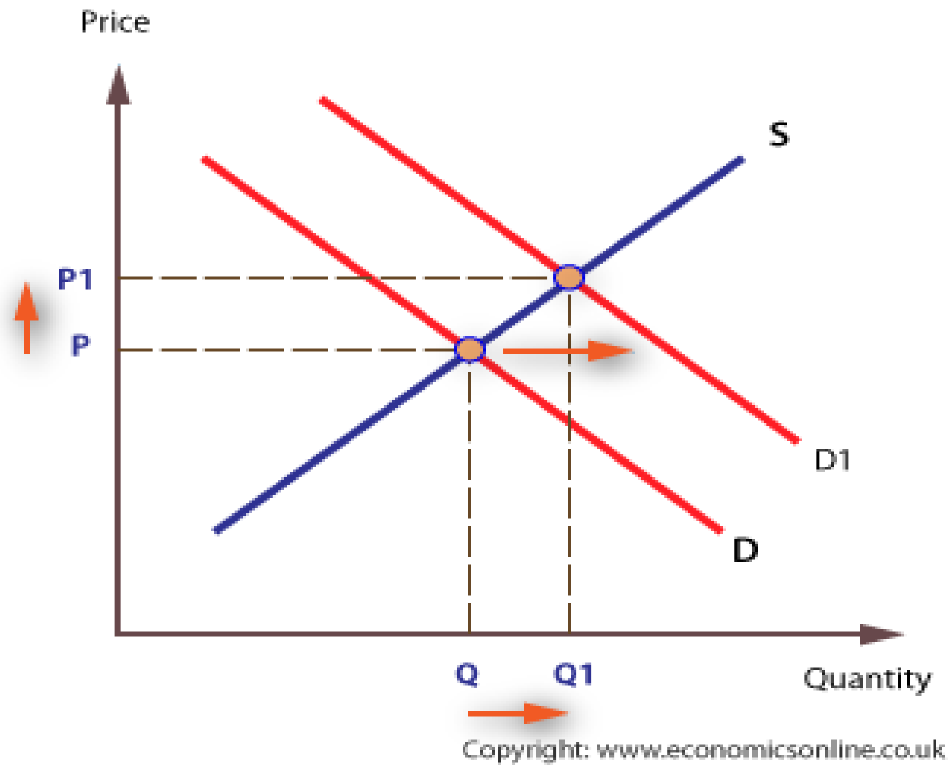
In economics, demand and supply has high relevance and in both Keynesian and Classical economic models, demand and supply brings market in equilibrium. Economists believe that demand and supply, if not tempered with, reflects true price, of a product.

Demand curve, which represents demand for a product or service, is negatively sloped, as it has negative relation with price (normal goods). The supply curve, which represents supply, of a product or service, is positively sloped. This is because the supply has a positive relation with price or direct relation with price. The increase in the demand will shift the demand curve to the right and vice versa, whereas increase in supply will shift the supply curve to the right.

In this case, the demand has increased for two reasons. One of the reasons is that region provides enormous social and economic opportunities. Economic activities, in this region, are intense, which makes Vancouver an attractive option to dwell. The other reason is that supply is tight for housing, which has created a kind of shortage, which has also played part in increasing the prices of houses, offered for sale in this region.

In near future, the prices of houses, will remain high, as the supply, of houses, takes time to expand, mean while demand will only rise, as the region continues to perform better in stern economic conditions, worldwide.

To decrease demand, supply must expand, more than the demand; otherwise, the prices of house will remain high, for an extended period.



It can be clearly seen in the graph that demand-curve has shifted to the right, because of the increase in demand for various exogenous reasons. The increase in demand has shifted the demand to right, which has also increased price, from P to Pt, and quantity from Q to Q1. However, the supply has remained the same, represented by S curve.

2. WE WANT A 'NATURAL' BIG MAC. WHY FAST-FOOD GIANTS ARE FINDING IT TOUGH TO DELIVER

Chicago Business Online

Topic: Demand/Supply

Summary:

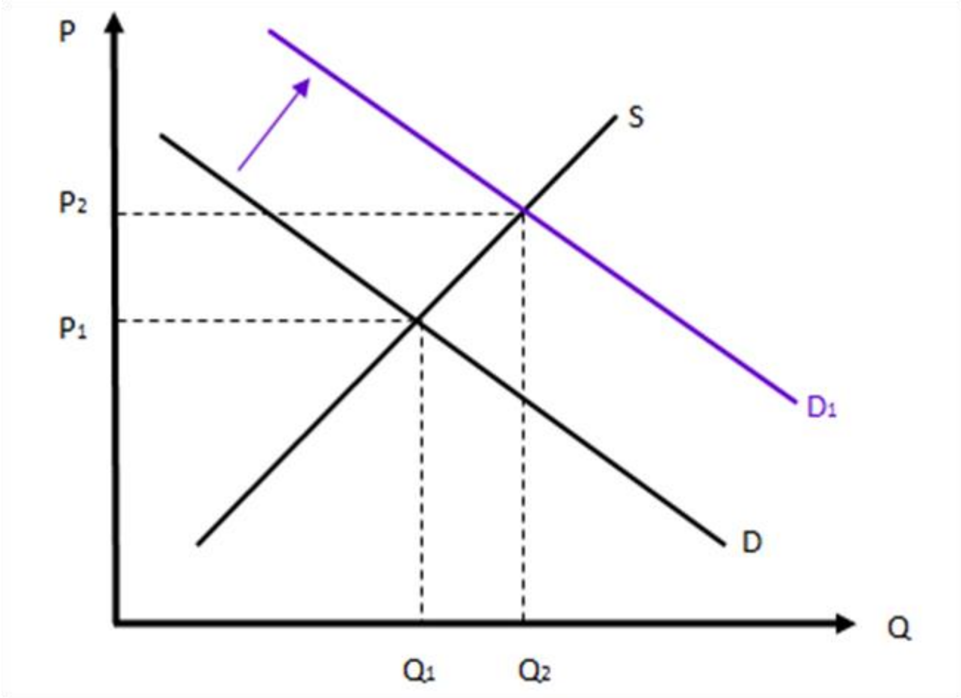
In this article, by Peter Frost, it has been revealed that most of the fast food companies, with an extensive chain of restaurants, are finding it extremely hard to find pure or all-natural meat. The increase in the demand for all-natural meat has put extra pressure on suppliers and this has increased this business more lucrative. The increase in demand, for all natural meat, is because of the fact that people have become more conscious about their health and they want to devour such food, which would not only be delicious but also healthy. The article also suggests that infrastructure, global and local, to supply all natural meat, is still maturing, which makes the supply more clutched.

Economic Analysis:

Demand and supply are vital economic mechanisms, which naturally bring market in equilibrium. The truly represent prices, of product and service, and quantity demanded or supplied, in market.

When we study or scrutinize this above-mentioned scenario, it becomes apparent that demand curve, which is negatively sloped, has shifted to the right for one core reason. This core reason is the demand for all-natural meat. In recent years, because of increased information, the conscious level, of people, has increased. People have become more sensitive about health and they are making more rational and healthy decisions, regarding food. Therefore, the demand for all-natural beef has increased and fast-food restaurants are desperate to secure this their customer-base.

However, because of the poor infrastructure and lack of investment, in this all-pure/natural beef, the supply is fragile and very thin. Therefore, it can be summed up that in the years to come, the investment, all-meat/beef industry will increase, because it is apparently highly lucrative business and it is offering high returns. In addition, until the supply expands, more the than the demand, the price of all-natural meat or its products will continue to remain high. In the long run demand will increase and so do the supply; however, the proportion, of increase, will determine price, for all-natural meat.



It can be seen in the graph that demand has shifted from D to D_1 and the supply remains the same. The shift in demand curve, to the right, has increased price, from P to P_1 and quantity, from Q to Q_1.

3. ARTICLE TITLE: OIL JUMPS $2, BREAKING RANGE AS SUPPLY SEEN EBBING

Reuters Online

Topic: Demand/Supply

Summary:

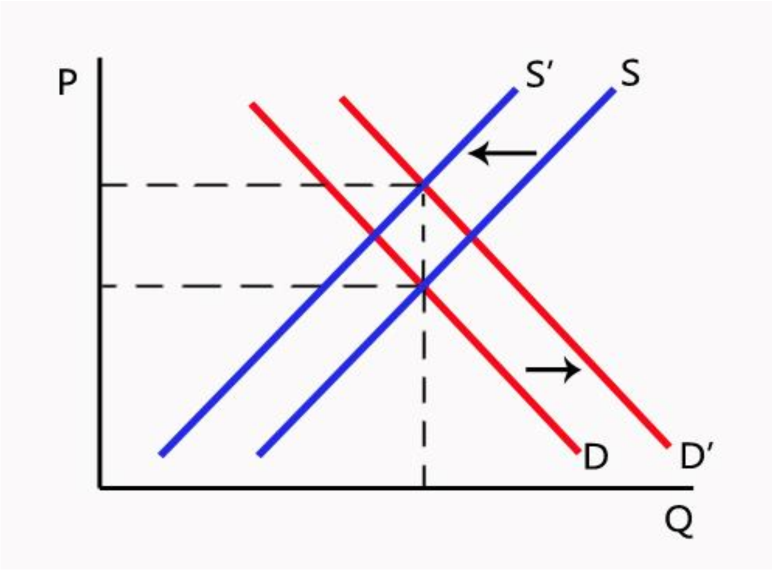
In this article, by Barani Krishnan, fluctuation, in oil-prices, has been discussed. Brian asserts that because of the reduced demand and increased supply, prices of oil dropped dramatically, which affected economies and currencies, in various ways. The article claims that reduced demand for oil and increased supply, by US, lowered oil prices. However, because of the slight increase in demand and **unexpected** decline in the supply, of oil, from US, has again increased the price of oil, up to $2 per barrel. The article also suggests that gradually, American supply of oil will deplete and demand will increase, which will increase oil prices, in the time to come.

Economic analysis:

Oil prices affect economies, directly. Therefore, economies or states are very sensitive, regarding fluctuation in oil prices. To mitigate the adverse affects of it, special policies are devised and implemented. These policies are flexible and they are not devised to cope up with current economic matters, but also they devised by keeping in consideration, possible future scenarios.

If we study the fluctuation, of oil prices, it becomes apparent that for quite some time, oil prices are incessantly decreasing. The reason, for this incessant decrease, was expanded supply for oil and reduced demand. In the recent years, many countries have increased their oil production. In addition, many countries, which were facing sanction, have started to provide oil, in the international market. The result, of these developments, was decrease in oil prices.

Recently, the supply of oil has decreased or shrunk. In addition, the demand for oil, in the international market, had also augmented. This has resulted increase in price. Experts, of the field, are conjecturing that in weeks to come, the supply will shrink further, as US has unexpectedly reduced its supply.



The demand curve, which is represented by negative sloped curve, has shifted to the right, whereas supply curve, which is represented by positively sloped curve, has shifted to the left, which symbolizes decrease in supply. As a result, price has increased, whereas the quantity has not been affected dramatically.

In the above-discussed scenario, price has increased but the article asserts that quantity has not altered dramatically. However, in the weeks to come, demand and supply may evidently shift quantity as well.

4. ARTICLE TITLE: OPINION: INCREASING MINIMUM WAGE IS WRONG TOOL TO ALLEVIATE POVERTY

Cal Matters Organization Online

Topic: Equilibrium problem

Summary:

The article, by Carson Bruno, is about minimum wage; how it is affecting labor market, in California. The article criticizes the state policy, to alleviate poverty. Ben Carson argues that price floor, which is set above the equilibrium price, has disturbed market and created more challenges and issues, not only for producers, but also for those, for whom this legislation, regarding minimum wage has passed. The article asserts that because of this new minimum wage policy, the income gap, between skilled and highly skilled labor has reduced, which has also pushed producers or employers to hire more highly skilled labors. The policy has created artificial increase in the supply of labor and artificial shortage of demand for labor.

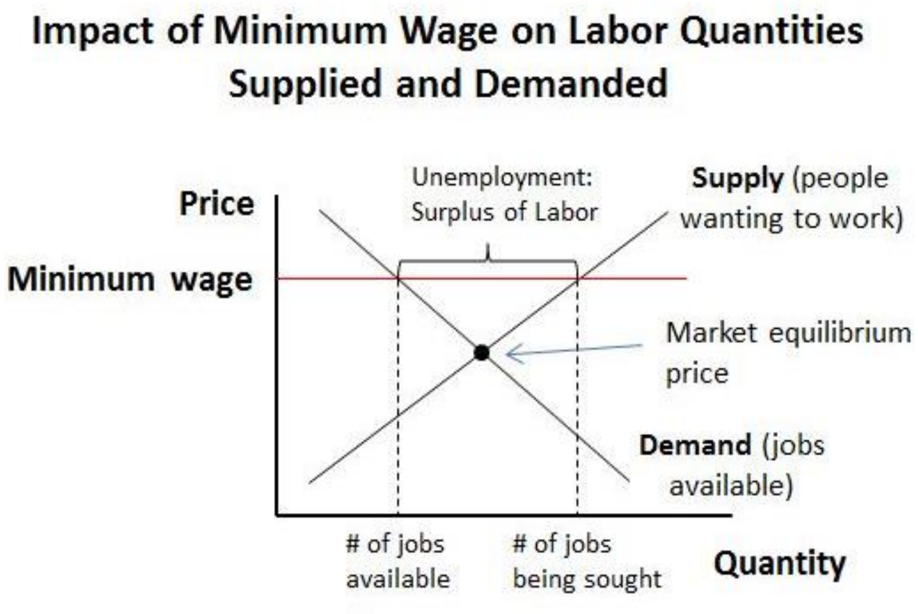
Economic Analysis:

In pure or classical economic systems, government does not play any role, apart from maintaining fair play and stability of system. Classical economists or neo-classical economists are of the view that government interventions disturb economic progress and equilibrium; therefore, only laissez faire economy can attain natural equilibrium and only through natural equilibrium reflects prices and quantity demanded or supplies, in a market or economy.

However, Keynesian economists believe capitalist economic systems are inherently unstable and inconsistent; therefore, natural equilibrium cannot be attained. This makes government intervention an imperative to keep system stable and consistent, so that long-term and short-term equilibrium can be maintained.

In this economic scenario, minimum wage, in state of California, has been increased to $9, which created many new economic challenges. One of the challenge is that it has artificially increased supply of labor. The second challenge pertains to the reducing of income gap, between low-skilled workers and high-skilled workers. Another adverse affect is that it only benefits, to certain extent, a small section of society or labor class, which less productive then their rivals, high-skilled labor.

The objective of the state was to alleviate poverty; however, it has opted for wrong instrument to alleviate poverty. Poverty can be reduced, by increasing marginal productivity of labor, through skill enhancing workshops and other such measures. The incentives can also be used to increase employment, be provoking more investment, and to enhance skills and knowledge, low-skilled labor.



The inefficiency, of price floor, can be understood through the figure.

Article Title: *How an obscure drug's 4,000% price increase might finally spur action on soaring health-care costs*

5. AUTHOR NAME: CAROLYN Y. JOHNSON

Washington Post Online

Topic: Cost/Application of Demand Supply

Summary:

The article, by Johnson, is related to medicine or pharmaceutical industry; how it is exploiting its research and break through to for profit or revenue. The article asserts that manufacturing or production cost, of a particular pill, is evidently low; however, pharmaceutical companies, which have research edge and produce a particular pharmaceutical product, charges huge price.

The demand and supply mechanism is not followed, in pharmaceutical industry, as there demand curve for pharmaceutical products is very horizontal or demand is highly inelastic as most these pharmaceutical products are imperative and must be consumed. The politicians and pressure groups have started to raise this issue, but because of strong pharmaceutical lobbying, it has become very difficult.

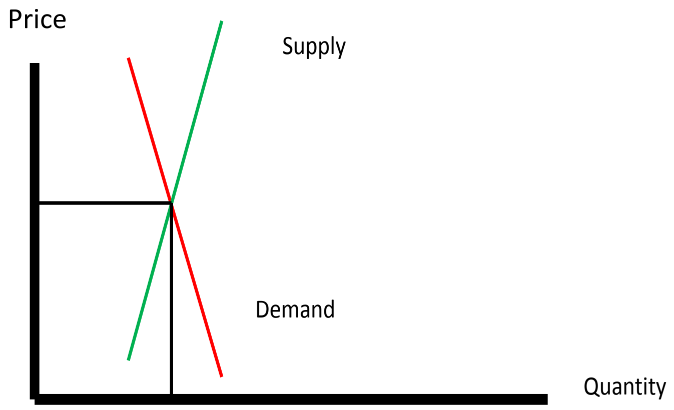
Economic Analysis:

It has been discussed, thoroughly, that demand and supply are imperative for the smooth functioning of market and also to attain natural equilibrium. However, it is not easy, sometimes, even in the matured and segmented economies, to apply demand and supply, in a market.

This because several imperfections exist in a market, which do not allow the demand supply mechanisms to properly function. Most of the times, these imperfections are result of corporate and political interests.

In this case, pharmaceutical companies are taking advantage of their numbers and the uniqueness of their products, to exploit consumers and to sore their revenues. These pharmaceutical companies are producing these products at a very low rate and selling them at a very high rate. This is possible because the demand for these products, pharmaceutical, is very inelastic and supply, of the products, is very controlled. Therefore, we are witnessing 4000% increase in price, of certain pharmaceutical products.

In such scenarios, it is imperative for the government to intervene to ensure fair-play and to ascertain that consumer is not being exploited, by certain pharmaceutical company. However, the intervention should be subtle and must emphasize on the application of demand and supply mechanisms.



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