MANAGERIAL ECONOMICS

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Introduction:

The learner in this section deals with the subject managerial economics. The topics covered are the effects of change in demand and supply on equilibrium due to change in price and quantity in the economy.

PART A:

Question 1:

1.a Effect of supply and demand on Milk produced

The introduction of new scheme by the government will increase the price of the milk. The increase in price will result in decrease in the demand. The quantity of the milk produced will increase and hence there will be excess supply of milk at equilibrium. The introduction of this scheme will result in recovering only the production cost of the dairy farmers.

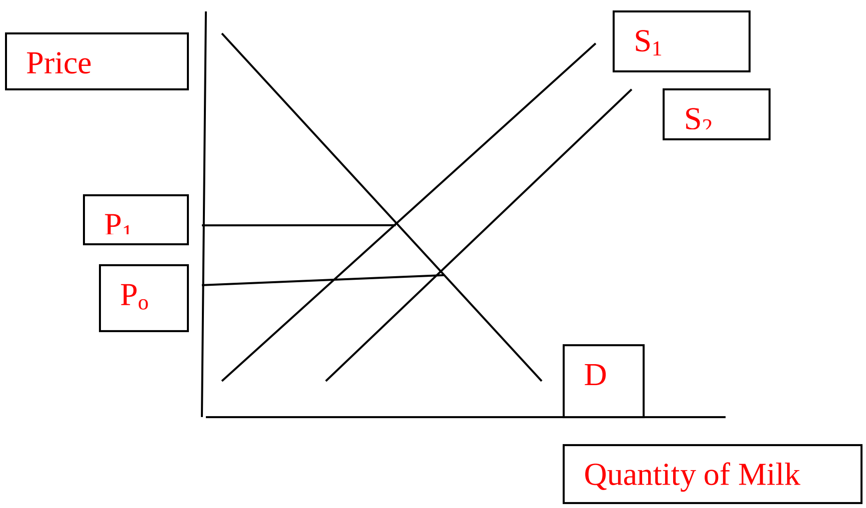

Figure 1: Diagram showing Effect of supply and demand on Milk produced

(Source: Created by author)

1.b Benefiters and losers from the scheme

The introduction of price support scheme for dairy products will result in the increase in the prices of the dairy products. Hess (2010) says that the consumers will be worse off due to prices doubling at the time of introduction of the scheme. The producer will be better off as the producer surplus would increase because increase in the quantity would result in government purchasing the excess dairy product at higher prices.

1.c Illustration of the effect of the price support scheme

The price and quantity of the cheese produced will be increased because the government would absorb the excess cheese in the economy at a higher price. However, the cost of production of cheese will increase because of increase in the price of milk.

Question 2:

2.a Change in supply and demand in the fuel market in 2011.

Chinese fuel market faced a lot of turbulence in 2011. With the onset of winter, the construction activities and factory deliveries increased its surge of completion. China faced shortage of fuel and led to excessive demand in the market. This resulted in the fall in price of the fuel.

McGuigan, Moyer & Harris (2010) pointed out that if the prices of the fuel were unregulated, the Chinese fuel market would have experienced increase in price due to hoarding. The supply would be ceased and the demand would increase. The profit making organisations would sell the fuel at a very high price.

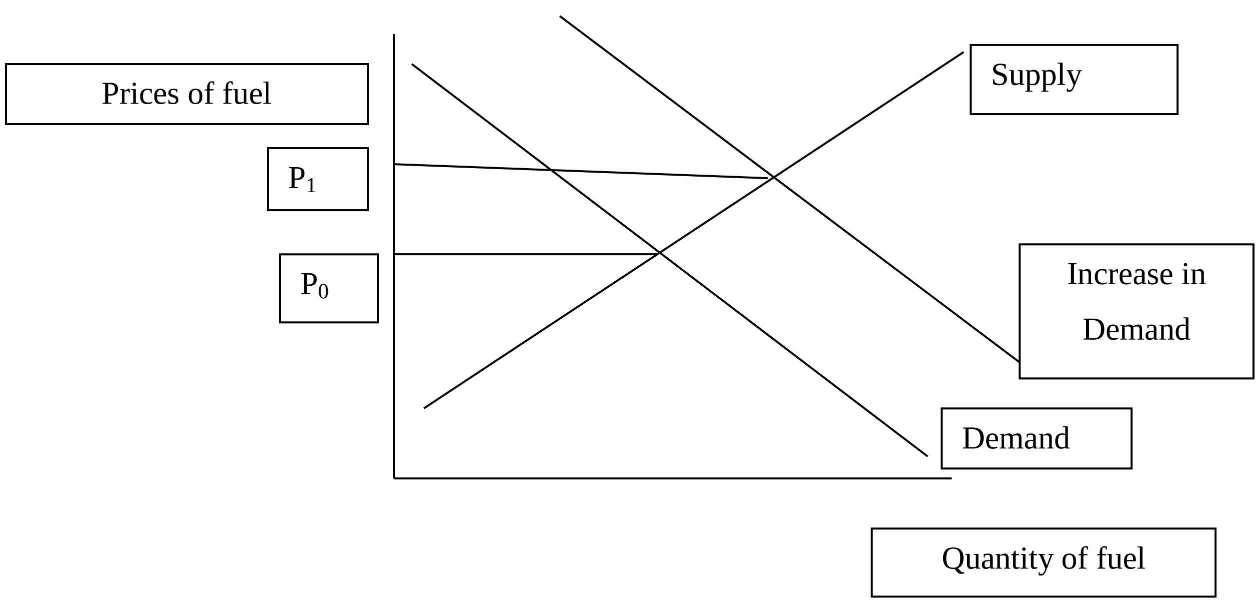

Figure 2: Diagram showing Change in supply and demand in the fuel market in 2011

(Source: Created by author)

2.b Impact of price controls on the fuel market

Geetika, Ghosh & Chaudhary (2011) stated that The price control enables the profit making firms to maintain the price at a subsistence rate. Peersman & Robays (2012) suggested that the price regulation ensures that hoarding of the fuel would decrease and result in the price stability of the equilibrium. Price controls enabled the Chinese market to experience market stability with less in the excessive demand for fuel.

2.c Welfare Implications of price controls

In the free market, the main policy of market makers is that the prices increase with decrease in supply. According to Kilian (2009), the price ceiling helps in maintaining a price level beyond which the company cannot charge any price. This affects both the producers and the consumers and it leads to disequilibrium in the economy. The consumers pay low prices for the fuel while the producers have to produce at lower rate. The net result is fall in the total welfare of the economy.

Question 3:

3.a Barriers to entry for firms in accordance with Monsanto's market power

Monsanto is one of the leading biotech seed companies. Since Monsanto's market is almost a monopoly market, Mohaddes & Williams (2012) pointed out that the new firms face lots of competition. Since Monsanto has market power and efficiency in using its resources at its best, the main barrier to entry for the new firms would be high economies of scale from the existing firms. Besides, ownership control of the corn seeds would also be a barrier to enter in to the market. The set up cost and the cost incurred in R&D for the new firms would be very high.

3.b Abolition of Monsanto’s Seed Market

If the Monsanto’s production of biotech, molecular breaded seeds were declared as anti competition, then the market power would slip from the hands of Monsanto. The cancellation of patents would directly hit the competitive advantage of the company. The market would face decrease in the supply of the seeds. The other competitive firms would also face similar threats from the legislation and the supply of various quality seeds would fall. (admissions.ucdavis.edu, 2015)

3.c Implications of legislations for economic efficiency

Lower levels of protection of intellectual property (IP) in the seed market would experience in efficiency in the economic development. Monsanto will be adversely affected by the lower protection of IP. The economic efficiency would fall and the development in the seeds industry would decline.

Question 4:

4.a Fixed cost and marginal costs in Traditional grocery store and online supply of groceries:

Traditional or offline grocery shops are excessively different from the online supply of groceries. The fixed cost borne by the traditional grocery store is the floor space of the shop and a warehouse to keep its inventory. However, with the introduction of online supply of groceries, the fixed cost has reduced to only one warehouse in the city. This is an advantage for the online stores as it can increase its inventory. Marginal cost is the cost of increase in one additional unit. However, a change in fixed cost will not affect the marginal cost of the online stores.

4.b.i Short- run effect of the introduction of online supply of groceries

According to Shiva, Daniel & Shalini (2013), the short-run is the period where at least one factor of production is fixed. In the short-run, the fixed cost does not have any effect on it. Since it is assumed that the market is perfectly competitive, the marginal cost curve is the supply curve in the short run for the online supply of groceries. This implies that the marginal cost will be equal to the price. However, for an online supply of groceries the marginal cost is low because the cost incurred in increasing one additional unit of output is low, hence the price charged by them will also be low. This will result in gain in the super normal profit. (whatiseconomics.org, 2015)

4.b.ii Long-run effect of the introduction of online supply of groceries

Perfect competition market in the long run results in attaining the economic efficiency. However in the long run, the firms face competition from the other industry and thus the profits start to decrease. Panwala (2009) pointed out that new firms like online supply of grocery would enter in the market. This will result in the decrease in the super normal profit of the traditional firms. This is because the price charged by the online suppliers is lesser than the market price. The online suppliers have better access to the various brands and hence the quantity supply increases. The equilibrium shifts from a higher price level to a lower price levels.

PART B:

a. Present market structures of taxis in Melbourne

The taxi industry faces very high regulation from the Australian Government. The government has taken measures like quantity regulations that refer to the offering high prices for the licenses. This leads to check the number of taxis in the city. The second regulation is the industry structure. In order to gain taxi network authorisation the drivers have to apply to the Director-general of Transport. The third regulation is the service regulation that is the no. of passengers to be carried is set by the regulator. The taxi must accept the hiring as soon as the destination is offered.

Price regulation is another control set by the government. Thus, the present market structure of the taxis is in Melbourne is highly regulated. This results in the miserable condition of the taxi drivers. However, the consumers are the gainers due to this regulation. (taxi-library.org, 2015)

b. Effect of the entry of Uber on the prices and profits:

The urban population welcomed the introduction of Uber as the new era taxi. This is because Uber operated on the basis that the waiting time of the customers decreased. The introduction of Uber in the taxi industry has decreased the profit of the taxi industry. Uber has brought in technological innovation where only a person has to download there app and he or she can call for a taxi any time he or she wants. The introduction of Uber has enabled transparency in the prices. The Prices of the Uber are higher than the normal taxis, yet profits have increased reasonably. Thus, the introduction of Uber has resulted in the decrease in the profits of the over regulated taxi market.

c. Advantages of Uber over the existing Taxi

Uber is a mobile application that connects passengers with the willing taxi drivers who pick them up and drive them to their destination. Uber is available on the app on smart phones. The taxi is made available to the passenger on demand by passengers. The advantages of Uber taxi over the existing taxi is that the Uber Company promises it’s passengers to arrive within 10 minutes. This became convenience to customer during late night hours or in other emergency. This calls for customers' attraction to the service. The pricing strategy of Uber is also reasonable which make Uber efficient in attracting more consumers. The whole experience in Uber is 1.5 times effective and efficient than the existing taxi drivers.

Uber pricing strategy has three main pricing formations- they have fixed airport rates, standard fees (a mile/ minute charge) and dynamic pricing. Although their pricing structure is not much indifference with the existing taxi service but the conveniences, the service they provide help them maintain competitive position in the market.

d. Cost-benefit analysis of Uber for consumers

The utmost cost-benefit analysis of Uber for the consumer is that the pricing is indifferent with the existing taxi services, which causes a demand for Uber taxi service. Uber uses the technology of smart phone app. The app technology is easily available in iphone/ Android devices. The consumers with smart phone can easily download the app and make the service available at their convenience.

The other cost-effective benefit for the consumer is that the pricing structure of Uber include fixed ride to the airport and standard fees charges as mile/minute. Although, the pricing structure of Uber is much higher than the other cabs Uber does not charge the additional amount and maintain a reasonable fare charge for its passengers.

Uber also make available the facility of electronic payment for its consumers. Therefore, if a customer is willing to make payment for the fees online they can do so by making use of this facility. They can keep their credit card information updated with Uber.

However, the success of Uber depends solely on the function of the app technology it employs. The non-smart phone users are disabling to use this service.

e. Barriers to the entry of Uber in the taxi market

Weizsacker (2012) states that barriers to entry is defined as obstacles that make the entry of new firm (new technology or innovation) difficult in the market. There are several barriers of entry for Uber in the taxi market. The effective use of technology was first barrier for Uber.

The pricing strategy of Uber was also a challenge face by the company, as they have to meet the demand of the consumer, charge them reasonable fares, bring profit to the company and remain at competitive edge in the market.

Recently, Uber is facing legal issues. The laws that protect the rights of taxi and limousine owner and regulate the industry drag Uber to court claiming the deformity of taxi law by the company. The other market barriers include monopoly; duopoly or oligopoly existed in the Australian taxi market.

f. Government regulation on the entry of Uber

In 2010, Uber faced complication in its home market- San-Francisco where Uber was forced to seize its operation. Uber was inspected and restricted because they advertised themselves as Uber taxi while no drivers under Uber posses such medallion onto operate in San Francisco. Later, the company modified themselves as Uber and continue their operation in San-Francisco (taxi-library.org, 2010).

The law that regulates and protects the rights of taxi and limousine owner has made Uber entry difficult in the market. The contention includes the Uber reservation to the customers' arrangement compatibility with the definition of taxi and limousine. The investments in maintaining the taxi medallion policy, registration and purchase of license plate by the taxi and limousine driver are generally expensive. The new entrant in the taxi market threatens these drivers as they see cut-offs in their rides.

Conclusion:

The learner assessed the effect of change price and quantity in different industry and its effect on the market structure. The learner also pointed out the effect of entry of new technology in the market and its effect on the profit of the present industry and the new industry.

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