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Discuss the Proposition that an "Organisation" provides a viable and best alternative to the market place as a way of allocating resources.

Should the allocation of resources be dictated by operations within the market, or is it best achieved by the decision-making within organisations and if so, under what circumstances.

1). <u>How is a Market mechanism expected to work</u>
Of fundamental importance when investigating the interaction of the producer and the consumer within any competitive market is the contrasting objectives of each the parties and the amount of information available at that present time. The model of a competitive market is an important benchmark for understanding how a market functions and the basic principles that organisations tend to follow.
"How much should we produce" is one of a number of questions firms seek to answer in order for profit maximisation and sustainability.

The inter-relationship between supply and demand, which together determine price, will greatly affect the co-ordination of resources allocated by organistions according to the price mechanism. The price mechanism influences market co-ordination and if this mechanism works smoothly it should allocate "factors of production" in the most efficient and profit maximising way to satisfy not only the consumers needs but provide the relevant information within the market to make rational decisions, where this transaction may take place.

Hayek (1945) argues that "price contains all the information you need to base your transaction on: it is a sufficient statistic"

The co-ordination between the total quantity demanded by the consumer and the total quality supplied by the producer is achieved through the mutual interaction in the market, which indefinitely determines price. The demand curve is a graphical representation of a demand schedule. The law of demand states that at higher prices buyers demand smaller amounts, while at lower prices they demand larger amounts. However, with exception to that, price inelastic products (salt) will not change accordingly to a change in price as the consumer perceives them as having no substites. Fig.1 (a) shows a "negative" demand curve representing the decrease in demand with an increase in price.

Fig1(b)

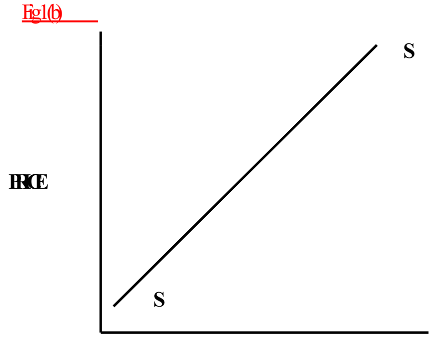
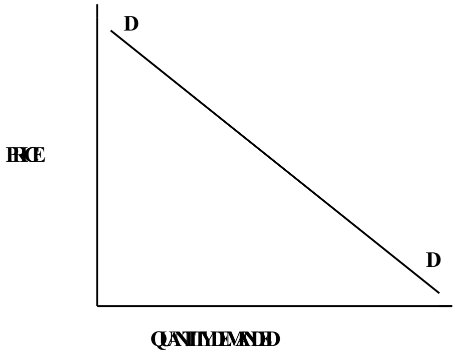


Fig1(a)

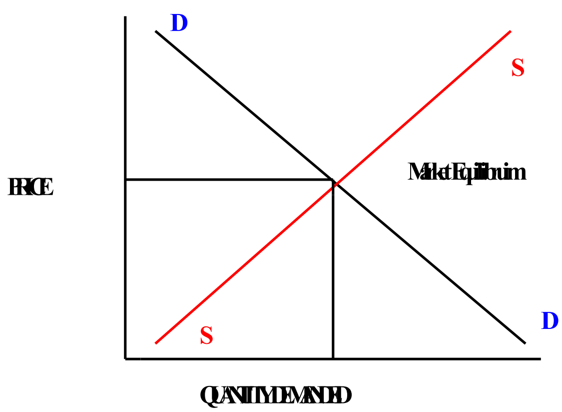


The position of the demand curve can be affected in a number of ways that will greatly influence the allocation of resources within an organisation. Consumers act as if they are maximising there utility, however, this is primarily depended upon the individual's income and one's rational behaviour i.e. the view that one product is of higher quality than the other.
The price of current substitutes is of importance as it may influence the market leader with reference to the market share and collusion of prices within the market.

In order to satisfy the needs of the consumer, organistions must be able to apply the necessary products of the right quality and at the right time. Supply is defined as the quantity of a good that sellers are willing and able to sell at every conceivable price possible i.e. the Effective versus Notional demand. The law of supply (diagramatilly graphed in Fig 1.b) states that the quantity offered for sale is positively related to the price

In order for profits to be gained by the organisation, they must examine other varaibles including the prices the supplier has to pay for labor, raw materials and other inputs and the technologies that are used to transform these inputs into the goods and services that the producer will sell.

Market Equilibruim – define and diagram-why important to resource allocation?



Pure market co-ordination, solely by means of the price mechanism, is an exceptional case

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