THE ROLE OF INFORMATION TECHNOLOGY IN THE ECONOMY

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ABSTRACT

This is studied in the field of collective action and public choice theory. "Optimal welfare" usually takes on a Paretian norm, which is a mathematical application of the Kaldor–Hicks method. This can diverge from the Utilitarian goal of maximizing utility because it does not consider the distribution of goods between people. Market failure in positive economics (microeconomics) is limited in implications without mixing the belief of the economist and their theory.

The demand for various commodities by individuals is generally thought of as the outcome of a utility-maximizing process, with each individual trying to maximize their own utility under a budget constraint and a given consumption set.

Fixed cost (FC) – This cost does not change with output. It includes business expenses such as rent, salaries and utility bills.

Variable cost (VC) – This cost changes as output changes. This includes raw materials, delivery costs and production supplies.

Over a short time period (few months), most costs are fixed costs as the firm will have to pay for salaries, contracted shipment and materials used to produce various goods. Over a longer time period (2-3 years), costs can become variable. Firms can decide to reduce output, purchase fewer materials and even sell some machinery. Over 10 years, most costs become variable as workers can be laid off or new machinery can be bought to replace the old machinery .

Sunk Costs – This is a fixed cost that has already been incurred and cannot be recovered. An example of this can be in R&D development like in the pharmaceutical industry. Hundreds of millions of dollars are spent to achieve new drug breakthroughs but this is challenging as its increasingly harder to find new breakthroughs and meet tighter regulation standards. Thus many projects are written off leading to losses of millions of dollars.

Opportunity cost is closely related to the idea of time constraints. One can do only one thing at a time, which means that, inevitably, one is always giving up other things. The opportunity cost of any activity is the value of the next-best alternative thing one may have done instead. Opportunity cost depends only on the value of the next-best alternative. It does not matter whether one has five alternatives or 5,000.

Opportunity costs can tell when not to do something as well as when to do something. For example, one may like waffles, but like chocolate even more. If someone offers only waffles, one would take it. But if offered waffles or chocolate, one would take the chocolate. The opportunity cost of eating waffles is sacrificing the chance to eat chocolate. Because the cost of not eating the chocolate is higher than the benefits of eating the waffles, it makes no sense to choose waffles. Of course, if one chooses chocolate, they are still faced with the opportunity cost of giving up having waffles. But one is willing to do that because the waffle's opportunity cost is lower than the benefits of the chocolate. Opportunity costs are unavoidable constraints on behaviour because one has to decide what's best and give up the next-best alternative.

Price theory

Microeconomics is also known as price theory to highlight the significance of prices in relation to buyer and sellers as these agents determine prices due to their individual actions. Price theory is a field of economics that uses the supply and demand framework to explain and predict human behavior. It is associated with the Chicago School of Economics. Price theory studies competitive equilibrium in markets to yield testable hypotheses that can be rejected.

Price theory is not the same as microeconomics. Strategic behavior, such as the interactions among sellers in a market where they are few, is a significant part of microeconomics but is not emphasized in price theory. Price theorists focus on competition believing it to be a reasonable description of most markets that leaves room to study additional aspects of tastes and technology. As a result, price theory tends to use less game theory than microeconomics does.

Price theory focuses on how agents respond to prices, but its framework can be applied to a wide variety of socioeconomic issues that might not seem to involve prices at first glance. Price theorists have influenced several other fields including developing public choice theory and law and economics. Price theory has been applied to issues previously thought of as outside the purview of economics such as criminal justice, marriage, and addiction.

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