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Assignment

Microeconomics

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The lumber demand is a derived demand. This is due to the uses of lumber mainly in housing, constrains the lumber demand. Therefore, High demand for lumber is due to their relatively low cost, environmental safety, durability and aesthetic appeal. In recent years, wood products have not lost their popularity, on the contrary, the demand for lumber has been steadily growing, and this despite the fact that new building materials are constantly appearing on the market. Moreover, lumber is actively used not only by owners of private houses and suburban areas, but also by residents of city apartments who use them for interior decorating. Wood processing companies have to increase production volumes from year to year, as an increase in construction rates often leads to demand outstripping supply, and developers have to make serious efforts to find quality lumber. The choice of lumber is very large. Only for the interior decoration of housing requires a wide range of wood products. This and molded lumber, and edged board, and sheet lumber, and much more. And for the exterior decoration of a wooden house you may need such a popular lumber, as lining. Thus, lumber is in high demand for any construction and repair work. Therefore, their production always remains in demand (Song *et al*., 2011).

Today, when finishing office, warehouse and retail premises, various types of synthetic building materials are actively used. However, in the construction and decoration of housing, almost everyone prefers to use natural wood, which creates a microclimate favorable to human health in the room. Therefore, the demand for lumber every year only grows.

**2. Market power:**

The ability of an individual subject or group of subjects to raise prices and maintain them at a level that exceeds the level caused by competition is called market or monopoly power.

**Explanation**

The consequence of the abuse of such power is economic stagnation, a decrease in the volume of production, deterioration of the welfare of society, and others. However, the existence of market power does not mean that the subject abuses it. But this allows the subject to intervene in the competitive process on the market and use their own economic strength in order to establish obstacles (restrictions) to effective competition. Therefore, in order to define market power, it is necessary to find out to what extent its existence meets the criterion of market activity efficiency. Market power is associated with the ability of a subject to influence profitably on price, quality, advertising, innovations, etc. and aims to distort competition to support and protect its own existence by raising the level of barriers, thereby reducing the potential of competitors to influence the competitive environment of this product market, as well as creating conditions for the abuse of a monopoly position, which leads to a restriction (violation) of the rights of subjects competitors.

3. The rationale for government regulation of firms with market power indicates that there is a failure in the working system of the market. Therefore, government tries to maintain a level of control over it in the interest of the public welfare. A regulated market economy is a free market economy, regulated by the state through a system of economic measures and professional legislation. There are three levels of market regulation. The first is self-regulation, that is, the freedom of action of the manufacturer, the subjects of production. The second is the regulation of market relations by institutions and means of civil society. The third level is government regulation. The extent of state intervention in the economy has long been a debate between theorists of different directions and schools (Stiglitz, 1993).

Economic functions of the Government

* ensuring the lawful structure for the functioning of personal company;
* Sewn competition. The domination of monopolies damages the whole society, therefore, antitrust activities and maintaining competition become functions of the government;
* The relocation of profits through the progressive tax classification and the system of transfer payments (pensions, benefits, compensation, etc.);
* financing basic science and environmental protection;

The government influence on the economy is carried out in two major areas:

* during the public sector;
* Continuing the impact on the implementation of the personal sector of the financial system through a variety of economic instruments

In all developed countries with proclaimed market economies, a real market mechanism complements the instruments of state regulation. In some countries, the market is even attempted to be paramount, thereby giving control of its long-term development to those who are concerned with building long-term scenarios in both foreign and, especially, global policy.

References

Song, N., Chang, S. J., & Aguilar, F. X. (2011). US softwood lumber demand and supply estimation using cointegration in dynamic equations. Journal of forest economics, 17(1), 19-33.

Stiglitz, J. E. (1993). The role of the state in financial markets. The World Bank Economic Review, 7(suppl\_1), 19-52.