**DANDI BORU SCHOOL**

**Economics G12 Handout (Unit II & III)**

# Unit II: Aggregate Demand and Aggregate Supply Analysis

## 2.1Aggregate demand (AD)

AD is the total demand for final goods and services in an economy at a given period of time. It is the total amount of money which all sections (households, firms, and governments) are ready to spend on the purchase of goods and services produced in an economy during a given period.

**Determinant Factors of Demand include:**

- Price of the products
- Taste or preference of consumers
- Income of the consumers
- Price of related goods
- Consumers expectation of income and price
- Number of buyers in the market

Major components of AD: household consumption demand (C), private investment demand (I), government demand for goods and services (G) and net export demand (X-M)

Thus, $AD = C + I + G + (X - M)$

- **Consumption (C)** is primarily determined by disposable income, which is personal income less taxes, household wealth, longer term trends in income, and the aggregate price level.
- **Investment (I)** spending includes private purchases of structures, equipment and accumulation of inventories. The major determinants of investment are the level of output, the cost of capital and expectation about the future.
- **Government Purchases (G)** of goods and services - This component of AD is determined directly by the government spending decisions.
- **Net Exports (X-M)** is the value of exports minus the value of imports. Net exports are determined by domestic and foreign incomes, relative prices and exchange rate.

## The Aggregate Demand Curve

The aggregate demand (AD) curve is a schedule that shows the amount of real output that buyers collectively desire to purchase at each price level, ceteris paribus (all other factors remaining constant). The relationship between the price level and real GDP demanded is inverse or negative. With other factors held constant (ceteris paribus), aggregate demand rises with a fall in the general price level and vice versa. Thus, the AD curve is a downward sloping curve indicating the output (goods and services) which will be demanded in the economy at various general price levels.

The inverse relationship, and the resulting downward slope of the AD curve, is explained by the *real balance* effect, the *interest rate*, and the *international trade* effect.

- The **real balance effect** states that the inverse relationship between the price level and the quantity demanded of real GDP is established through changes in the value of **monetary wealth**, or money holdings. A rise in the price level causes purchasing power to fall, which decreases a person's monetary wealth.
- **Interest Rate Effect** which is also called a "money supply effect" states that a rise in price with a fixed money supply, ceteris paribus, leads to tight money and produces a decline in total real spending. The inverse relationship between the price level and the quantity demanded of real GDP is established through changes in household and business spending that is sensitive to changes in interest rates. A higher price level increases the demand for money. So, given a fixed supply of money, an increase in money demand will drive up the price paid for its use. That price is the interest rate. Higher interest rates curtail investment spending and interest-sensitive consumption spending.
- **International Trade Effect** states the inverse relationship between the price level and the quantity demanded of real GDP, which is established through foreign sector spending. Suppose that the price level in Ethiopia rises, as this happens, Ethiopian goods become relatively more expensive than foreign goods. As a result, both Ethiopians and foreigners buy fewer Ethiopian goods and due to this, the quantity demanded of Ethiopia's real GDP falls.

**Change in Quantity Demanded Vs Change in Aggregate Demand**

- A change in the quantity demanded of real GDP is brought about by a change in the price level. For example, as the price level falls, the quantity demanded of real GDP rises, ceteris paribus. A change in the quantity demanded of real GDP is represented as a movement from one point to another along the same demand curve.
- A change in aggregate demand is a *shift* in the aggregate demand curve , say from $AD_1$ to $AD_2$

***Factors Affecting consumption, investment, government spending and net exports***

a. **Factors Affecting Consumption**

- ***Wealth***. Individuals consume not only the basis of their present income but also on the basis of their wealth. Greater wealth makes individuals feel financially more secure and thus, more willing to spend. Increases in wealth lead to increases in consumption
- **Expectations about future prices and income**. If individuals expect higher prices in the future, they increase current consumption expenditures to buy goods at the lower current prices. Similarly,

expectation of a higher future income increases consumption, which leads to an increase in aggregate demand.

- **Interest rate**. An increase in the interest rate increases the monthly payment amounts which are linked to their purchase and thereby reduces their consumption. This reduction in consumption leads to a decline in aggregate demand.
- **Income taxes**. As income taxes rise, disposable income decreases and when people have less take-home pay to spend, consumption falls. Consequently, aggregate demand decreases. Reduction in taxes has the opposite effect; it raises disposable income. In other words, when people have more take-home pay to spend, consumption rises and aggregate demand will increase.

b. **Factors Affecting Investment**

- ***Interest rate***. Changes in interest rates affect business decisions. For example, as the interest rate rises, the cost of a given investment project rises and businesses invest less. As investment decreases, aggregate demand also decreases.
- ***Expectations about future sales:*** businesses invest because they expect to sell the goods they produce. If businesses become optimistic about future sales, investment spending grows and aggregate demand increases.
- ***Business taxes****:* Businesses naturally consider expected after-tax profits when making their investment decisions.

c. **Factors Affecting Government Spending**

An increase in government purchases will shift the aggregate demand curve to the right as long as tax collections and interest rates do not change as a result. In contrast, a reduction in government spending will shift the curve to the left.

d. **Factors Affecting Net Exports**

The main determinants of net export are domestic and foreign incomes, relative price, exchange rate, domestic and foreign trade policies, and preferences and technology.

## 2.2 Aggregate Supply

Aggregate supply (AS) refers to the quantity supplied of all goods and services (real GDP) at various price levels, ceteris paribus. There is a direct or positive relationship between the price level and the amount of real output that firms offer for sale.

*Determinant factors of AS include:*

- Cost of input or change in input price
- Domestic Resource availability (managerial ability, land, labor and capital, price of imported resource, market power)

- Change in productivity
- State of technology
- Tax policy of government (business taxes and subsidies)
- Weather (applies particularly to agricultural output

Aggregate supply includes both short-run aggregate supply (SRAS) and long-run aggregate supply (LRAS).

- The Keynesian supply curve is horizontal. Firms will supply whatever amount of good is demanded at the existing price level since there is unemployment
- The classical aggregate supply curve is vertical, indicating that the same amount of goods will be supplied whatever the price level based on the assumption that the labor market is always in equilibrium with full employment of the labor force.

**The Upward Sloping Aggregate Supply Curve: The Short Run (SRAS)**

The short run is a time horizon during which at least one of the firm's inputs cannot be varied, whereas, the long run, is a time horizon that is long enough for a firm to vary all of its inputs.

The amount of output firms are willing to supply depends on the prices they receive for their goods and the amount which they have to pay for labor and other factors of production. Accordingly, the aggregate supply curve reflects conditions in the factor markets as well as the goods markets.

The short-run aggregate supply (SRAS) curve shows the quantity supplied of all goods and services (real GDP or output) at different price levels, ceteris paribus. Notice also that the SRAS curve is upward sloping: as the price level rises, firms increase the quantity supplied of goods and services; as the price level drops, firms decrease the quantity supplied of goods and services.

The **four** prominent models of **short-run** aggregate supply (SRAS) curve:

- *The sticky-price model*
- *The sticky-wage model*
- *The worker-misperception model and*
- *Imperfect information model*

Although these models differ in some significant details, they are also related in an important way, they share a common conclusion that short-run aggregate supply curve is upward sloping**.**

- **The sticky-price model:**

This model emphasizes that firms do not instantly adjust the prices they charge in response to changes in demand. Sometimes prices are set by long-term contracts between firms and customers. Even without formal agreements, firms may hold prices steady in order not to annoy their regular customers with frequent price changes. Some prices are sticky because of the way markets are structured: once a firm has printed and distributed its catalog or price list (menu cost), it is costly to alter prices.

- **Sticky wage model:**

To explain why the SRAS curve is upward sloping, many economists stress the sluggish adjustment of nominal wages. In many industries, nominal wages are set by long-term contracts, so wages cannot adjust quickly when economic conditions change. It is believed that wages are sticky or inflexible due to the fact that wages are "locked in" for a few years due to labor contract agreements entered into between workers and employers. If wages are sticky, a decrease in the price level (which pushes real wages up) will result in a decrease in output. This is what an upward-sloping *SRAS* curve represents: as the price level falls, the quantity supplied of goods and services declines.

- **Worker misperception model:**

This model, like that of the sticky-wage model focuses on the labor market. It assumes wages are **not sticky**, but they are free to equilibrate supply and demand in the labor market. Its key principle is that workers **temporarily** confuse **real** and **nominal** wages. An explanation for the upward-sloping SRAS curve holds that workers may misperceive real wage changes. If workers misperceive real wage changes, then a fall in the price level will bring about a decline in output.

- **Imperfect information model:**

Unlike the sticky–wage model, this model assumes that **market clear** i.e. all wages and prices are free to adjust to balance supply and demand. In this model, the short run and long-run aggregate supply curves differ because of temporary misperceptions about prices. The imperfect-information model assumes that each supplier in the economy produces a single good and consumes many goods. Because the number of goods is so large, suppliers cannot observe all prices at all times. They monitor closely the price of what they produce but less closely the prices of all the goods they consume. Because of imperfect information, they sometimes confuse changes in the overall level of prices with changes in the relative prices. This confusion influences decisions about how much to supply, and it leads to a positive relationship between the price level and output in the short-run.

**The Vertical Aggregate Supply Curve: The Long Run (LRAS)**

In the long run, the economy produces the full-employment real GDP or the natural real GDP. The aggregate supply curve that identifies the output the economy produces in the long run is the long-run aggregate supply (*LRAS*) curve.

It follows that long-run equilibrium identifies the level of real GDP that the economy produces when wages and prices have adjusted to their (final) equilibrium levels and there are no misperceptions on the part of workers. Furthermore, the level of real GDP that the economy produces in long-run equilibrium is natural real GDP.

The short-run AS curve is ***upward sloping***, whereas the long-run AS curve is ***vertical***. Interaction between AD and AS determines the equilibrium level of national output and price level.

## Unit III: Market Failure and Consumer Protection

The competitive market provides an efficient outcome. Allocative efficiency is achieved when it is impossible to change the allocation of resources in the economy in a way that will increase the welfare of society. This occurs when marginal social benefit is equal to marginal social cost. However, the existence of market failure contributes to nonattainment of such a position.

### 3.1 Market Failure

The theory of market failure is at the heart of several economic analyses that support government action (intervention) in markets for goods and services or that justifies outright government production.

Market failure is a case in which a market fails to efficiently provide or allocate goods and services in free market economy. In general terms, market failures are economic conditions where market forces, *demand and supply*, do not serve the perceived *public interest*. A market failure occurs when the price mechanism fails to account for all of the costs and benefits that are necessary to provide and consume a good. It occurs whenever the individuals in a group end up worse off than if they had not acted in perfectly rational self-interest. Such a group either incurs too many costs or receives too few benefits. The economic outcomes under market failure deviate from optimal amount and are usually not economically efficient.

The main types of market failure include: *asymmetric information, imperfect competition, externality, public goods, and factor immobility.*

#### a. Asymmetric Information

*Asymmetric information* is known as the information gap between buyers and sellers in an economic transaction, which can lead to market failure in the long run. It is also known as "information failure," occurs when one party to an economic transaction has more or better information than the other party. Theory of *asymmetric information* argues that markets may fail due to an imbalance in the information available to the buyer and the seller. Typically it is the seller that knows more about the product than the buyer; however, it is possible for the reverse to be true for the buyer to know more than the seller. Example of situation where the seller usually has better information than the buyer are numerous but include used car sales people, stockbrokers, real estate agents, life insurance transaction.

In general, information asymmetry deals with the study of decisions in transactions where one party has more information than another. This creates an imbalance of power in transactions which can sometimes cause the transaction to be inefficient, causing market failure in the worst case. Types of problems associated with asymmetric information are *adverse selection* and *moral hazard.*

**Adverse Selection**: is when sellers have information that buyers do not have, or vice versa, about some aspect of product quality. It is thus the tendency of those in dangerous jobs or high-risk lifestyles to purchase life or disability insurance where chances are greater they will collect on it. Consequences of Adverse Selection is that a seller may have better information than a buyer about products and services being offered, putting the buyer at a *disadvantage* in the transaction. For example, a company's managers may more willingly issue shares when they know the share price is overvalued compared to the real value; buyers can end up buying overvalued shares and lose money. In the secondhand car market, a seller may know about a vehicle's defect and charge the buyer more without disclosing the issue. The general consequence of adverse selection is that it increases costs since consumers lack information held by sellers or producers, creating an asymmetry in the market.

**Moral Hazard:** Refers to the risks that someone or something becomes more inclined to take because they have reason to believe that an insurer will cover the costs of any damages. The concept describes financial recklessness. In economics, the term "moral hazard" refers to a situation where a party lacks the incentive to guard against a financial risk due to being protected from any potential consequences. A moral hazard problem arises when an individual or situation does not bear the full consequences of its actions, and therefore has a tendency to act less carefully than it otherwise would, leaving another party to bear some responsibility for the consequences of those actions.

For example, a car driver may drive faster knowing that the damage on their car will be covered by the insurance company if they get in an accident.

- **Suggested Solutions to Asymmetric Information**

Suggested solutions include the introduction of regulations, offering warranties or guarantees on items sold, insurance, and bottom-up efforts to inform consumers of products' and sellers' quality and reputation.

One of the suggested solutions for *moral hazard and adverse selection* is signaling: this is the idea that one party (agent) conveys some meaningful information about itself to another party (principal). Employees signal the levels of their skills to employers by acquiring a certain degree of education.

The other potential suggested solution is *screening* refers to a strategy of combating adverse selection. Banks often screen people who are interested in borrowing money in order to weed out those who will not be able to repay the debt.

**b. Imperfect Competition**

Imperfect competition is one of the standard examples of market failure. In economic theory, imperfect competition is the competitive situation in any market where the conditions necessary for perfect competition are not satisfied. It is on this basis that economic policy is usually suggested as necessary in the presence of imperfect competition in order to reduce inefficiency.

Imperfect competition causes market inefficiencies, resulting in market failure. Imperfect competition usually describes behavior of suppliers in a market, such that the level of competition between sellers is below the level of competition in perfectly competitive market conditions. Conditions that lead to imperfect competition include: A limited flow of cost and price information, monopoly control of some suppliers, collusion of sellers to keep prices high.

*Market Structure /Forms of imperfect competition:*

- Monopoly , in which there is only one seller of a good
- Oligopoly, in which there is a small number of sellers
- Monopolistic competition, in which there are many sellers producing highly, differentiated goods.

In imperfectly competitive markets like monopoly, oligopoly, and monopolistic competition, it is often the case that sellers can increase profits at the expense of consumers through their ability to control quantity or price. This is good for the seller but is bad for society as a whole.

❖ **Suggested Solutions to Imperfect Competition**

An imperfect competition leads to a market failure and when a market failure occurs, there are many methods to correct it, primarily through the introduction of government activities, such as regulations, tax adjustments, and subsidies.

**c. Externality**

An externality is *a cost or benefit caused by a producer that is not financially incurred* or received by that producer. It occurs in the economy when a decision causes costs or benefits to individuals or groups other than the person making decision. In other words, the decision maker does not bear all of the costs or reap all of the gains from the decision. Thus, costs and benefits can be both private—to an individual or an organization—or social, meaning it can affect society as a whole.

In short , an externality occurs when the consumption or the production of goods has *positive* or *negative* effects on other people's utility in which these effects are not reflected in the price.

An externality can be positive or negative and can stem from either the production or consumption of a good or service. *Positive* externalities occur when there is a positive gain on both the private level and social level.

Investment on education is an example of positive externality that it leads to a smarter and more intelligent workforce. Companies benefit from hiring employees who are educated because they are knowledgeable. This benefits employers because a better-educated workforce requires less investment in employee training and development costs.

On the other hand, externalities are *negative* when the social costs outweigh the private costs. Most externalities are negative. Pollution is a well-known negative externality. A corporation may decide to cut costs and increase

profits by implementing new operations that are more harmful to the environment. The corporation realizes costs in the form of expanding operations but also generates returns that are higher than the costs.

Externalities can be generated by producers or consumers which are termed as a production or consumption externality.

- ***Production Externality*:** is an instance where an industrial operation has a side effect. Pollution by a firm in the course of its production, which causes nuisance or harm to others. For instance, an environmental catastrophe caused by improperly stored chemicals by a chemical company. Because of how the company produced its goods or protected its waste, an externality occurred.
- ***Consumption Externality***: occurs based on when or how a consumer base utilizes resources. Consider the example of how you get to work. Those who choose to drive are creating a pollution externality by driving their own car. Those who choose to take public transit or walk are not causing the same externality. Instead of a side effect occurring because something is being produced, an externality is caused because of an item being consumed.

***Externality and Coase Theorem***

Ronald Coase asserted that under perfect competition private and social cost will be equal and addressed well-known problem of market externalities known as the "Spillover Effect". This occurs when someone other than the buyer must share the benefits or costs of a product. The classic example of such a perception is pollution. Factories can either treat pollution which costs money or dump it into the air or water for free. If they choose dump, they may save their customers some money, but citizens who live near the factory will also pay a price in higher death and disease rates, less fertile land, environmental catastrophes, etc. Sometimes spillover effect is both positive and negative. A negative externality occurs when a cost spills over whereas a positive externality occurs when a benefit spills over.

For example an airport obviously benefits its customers but it also subjects the local neighborhood to various externalities. Positive ones include increased local business: negative ones include noise pollution.

Coase argued that individuals could organize bargains so as to bring about an efficient outcome and eliminate externalities without government intervention. The government should restrict its role to facilitating bargaining among the affected groups or individuals and to enforcing any contracts that outcome. This result or outcome, often known as the *Coase Theorem*, requires that:

- Property rights are well defined
- The number of people involved is small (the parties affected are relatively small).
- Bargaining costs are very small (zero or minimum transaction cost)

If all these three conditions apply then individual bargaining will solve the problem of externalities.

Therefore, according to Coase, given the above assumptions, the optimum outcome depends on the bargaining power of the parties and this outcome or result is known as the *Coase theorem*.
The main issue here is that if remedies are considered and needed a common law or statutory rule, which assigns rights over the externality to one party or another needs to be materialized. The market/pricing mechanism will then functioning in the same way as it does for ordinary goods and services over which rights clearly defined. Furthermore, if rights are well defined, the observed situation will be efficient and any further intervention will make matters worse rather than the better.

Thus, it can be concluded that though Coase theorem is subjected to series of criticisms and controversies due to its inadequate empirical relevance, yet at the same time, it has helped in the emergence of numerous policy formulations in the welfare imperatives of societies.

- **Suggested Solutions to Externalities**

There are solutions that exist to overcome the negative effects of externalities. These can include those from both the public and private sectors.
*Taxes*: one solution to overcoming externalities. To help reduce the negative effects of certain externalities such as pollution, governments can impose a tax on the goods causing the externalities, considered to be equal to the value of the negative externality.
This tax is meant to discourage activities that impose a net cost to an unrelated third party. That means that the imposition of this type of tax will reduce the market outcome of the externality to an amount that is considered efficient.

*Subsidies*: can also overcome negative externalities by encouraging the consumption of a positive externality. One example would be to subsidize orchards that plant fruit trees to provide positive externalities to beekeepers.

*Other Government Regulation:* Governments can also implement regulations to offset the effects of externalities. Regulation is considered the most common solution. The public often turns to governments to pass and enact legislation and regulation to curb the negative effects of externalities. Several examples include environmental regulations or health-related legislation. The primary issue with government regulation of externalities is the need for consistent and reliable information to track the externality is being managed or overcome. Consider regulation against pollution. The government put forth resources to ensure that the legislation put in place is actually being followed, including holding bad actors accountable for not properly addressing their externality.

### d. Public Goods and Common Property Resources

A market economy, when certain conditions are met, serves to secure an efficient use of resources in providing for private goods.

*A private good can be defined as having two distinguishing characteristics:*

- A private good is **excludable**. This means that owners of the good can prevent others from consuming it or enjoying its benefits. Purchasing a private good establishes an owner's legal right to exclude others from accessing the good.
- A private good is **rival**. This means that a unit of the good can be consumed by only one person at a time. So, if you are wearing a shirt, no one else can wear that shirt at the same time. Thus, a private good is excludable and rival.

***Goods Other Than Private Goods:***

These are public goods, common property resources, and artificially scarce goods.

A **public good** is a good whose benefits are freely available to anyone (non-excludable), and whose use by one person does not diminish its usefulness to others (non rival). A good that has the property that all consumers can enjoy it jointly, without any one individual's consumption reducing other's ability to consume. Thus, public good is difficult to produce for private profit, and it is difficult to get people to pay for its beneficial externalities. By definition, a public good possesses the following two properties:

- Non -rivalrous, meaning that its benefits do not exhibit scarcity of consumption, once it has been produced , each person can benefit from it without diminishing anyone else's enjoinment.
- Non-excludable, meaning that once it has been created, it is impossible (at least very difficult) to prevent people (non-payers) from gaining access to the good.

Public goods are said to be *pure* when they possess these two properties. Example national defense, clean air…

The problem with public good is that a free market is unlikely to produce its optimum amount. Some important public goods could be under-produced due to the existence of free-rider problem.

In the analysis of economics, free-riders are actors who take more than their fair share of the benefits or do not shoulder their fair share of the costs of their use of resource, involvement in a project, etc. The free-rider problem is the question of how to prevent free-riding from taking place, or at least limit its effects. Since it is difficult to exclude non-payers from benefiting, there is an incentive not to pay/to be free rider. It is this free rider problem that causes markets to operate inefficiently for public goods.

**Common Property Resource:** is produced by a sufficiently large resource system that makes it costly to exclude potential beneficiaries. A resource system can be regarded as a stock variable that is under favorable

conditions capable of producing a maximum quantity of a flow variable, without harming the stock or the resource system itself.

Thus, common property resources are ***non-excludable*** but ***rival.*** In other words, common property resources can be freely consumed or enjoyed by anyone, but their use by one person diminishes their availability to others. A classic example of a common property resource is the stock of fish in an open ocean fishery. Anyone with a boat can catch as much fish as he or she is able to. However, fish caught by one fisher are not available to be caught by anyone else.

Some resources may be classified as both a common property resource and a public good, depending on the circumstances. We mentioned above that a national park can be considered a public good. But if the park becomes so crowded that the benefits to each visitor start to decline, then we can say that the park no longer meets the strict definition of a non-rival good. In other words, the availability or quality of a common property resource eventually declines when demands on it increase. But a public good remains available in undiminished quality despite increasing demands.

**Artificially scarce goods**: are excludable but non-rival. Thus, artificially scarce goods can be simultaneously consumed by many people at a time, but those who do not pay can be excluded from enjoying the good. An example of an artificially scarce good is a toll road. Those who do not pay the toll can be excluded from using the road, but (at least up to a point) many people can simultaneously use the road.

- **Tragedy of Commons:** a situation in which an unregulated common property resource is seriously degraded due to overuse. It is a metaphor used to illustrate the conflict between individual interests and the common goods. A typical example of tragedy of commons is the shared plots of grassland in a village that can be used by all livestock farmers in that village. Each farmer keeps adding more livestock to graze on the commons, because it costs him or her nothing to do so. After few years a soil may deplete by overgrazing, as a result the Commons becomes unusable, and the village may perish.

The cause of any tragedy of the commons is that when individuals use a ***public good***, they do not bear the entire cost of their actions. If each seeks to maximize individual utility, he or she ignores the costs borne by others. The best (non-cooperative) short-run strategy for an individual is to try to exploit more than his or her share of public resources.

- **Suggested Solutions to the Problems**

In those cases where the private market fails to provide the efficient level of public goods, provision of public goods requires collective action. People need to realize that public goods' situation exists and either raise contributions from private individuals to fund the public goods or let the government provide the public goods.

One solution to the problem of the overuse of a common property resource is implementing a tax system. We could charge a fee for each fishing trip equal to the external cost imposed on others. Another solution is to institute **individual transferable quotas (ITQs)**. With this approach, an organization managing the resource

(such as a government agency) sets the total allowable fishing level, such as the number of fishing trips or the total harvest per season. This level of effort is set low enough to maintain the ecological integrity of the resource.

**e. Factor Immobility**

.Factor immobility occurs when a factor of production cannot move easily from one region of an economy to another. It indicates factors which do not move readily between sectors, regions, or countries when relative rewards or job opportunities change. The obvious example concerns the movement of labor. Immobility of labor between occupations may be due to lack of qualifications, or to inadequate information on job opportunities.

Factor mobility measures the extent to which factor inputs such as land, labor and capital can easily switch between alternative uses with no loss of efficiency. The two main types of factor immobility both of which are causes of market failure:

- Geographical immobility – When it is difficult to move from one geographical area to another.
- Occupational immobility – difficult to move from one type of work to another.

If factors are immobile it means that they're not being put to good use. They're either unused completely or underused. Therefore, resources are not being used in the best way possible. Inefficient use of resources is what leads to the market failure.

❖ **Suggested Solution to Factor Immobility**

Invest in training schemes for the unemployed to boost their human capital to equip them with new skills and skills that can be transferred from one occupation to another. Subsidizing the provision of vocational training by private sector firms to raise the skills level is also suggested a solution.

**3.2 Consumer Protection**

Consumer protection is the protection of buyers of goods and services against low quality or dangerous products and advertisements that deceive people. It means safeguarding the interest and rights of consumers. In other words, it refers to the measures adopted for the protection of consumers from unscrupulous and unethical malpractices by the business in order to provide them with speedy redressed of their grievances.

*Consumer protection is the* practice of safeguarding buyers of goods and services, and the public, against unfair practices in the marketplace. It refers to laws and regulations aimed (or *said to* be aimed) at protecting consumers from misleading, unsafe, or exploitative behavior.

Consumer protection laws are made to protect consumers from fraudulent business practices, defective products, and dangerous goods and services. Consumer protection act provides consumer rights to prevent consumers from fraud or specified unfair practices. These rights ensure that consumers can make better choices in the marketplace and get help with complaints.

Consumer protection is an important matter all around the world. It ensures fair and responsible treatment of customers. It allows customers to make informed, unbiased decisions when purchasing and using products and services.

Consumer protection makes markets work for both businesses and consumers. Consumers need to be able to obtain accurate, unbiased information about the products and services they purchase. This enables them to make the best choices based on their interests and prevents them from being mistreated or misled by businesses. Consumer protection policies, laws and regulations help increase consumer welfare by ensuring that businesses can be held accountable. Businesses that are known to treat consumers fairly will gain a good reputation and become more sought after. This increases their profitability and competitiveness which will also lead to economic growth in the long run. Consumer protection policies, laws and regulations guarantee that businesses are kept in check.

Moreover, consumer protection contributes to dynamic and effective markets for businesses to grow. Consumer demand drives ***innovation*** and economic ***development*** as businesses are required to maintain fair prices and good quality of their products and services.

***The main purposes of consumer protection include:***

- To protect consumers from unfair, unreasonable or improper trade practices.
- To protect consumers from misleading, deceptive, unfair or fraudulent conduct or actions.
- To provide for systems of dispute resolution and enforcement.

***Need for Consumer Protection***

The need for consumer protection arises from the need to protect consumers from the loss or injury or other prevailing malpractices and to ensure:

- Corporate Social Responsibility to provide quality and quantity of goods at fair prices
- Access to information/ Increasing Awareness.
- Consumer satisfaction.
- Social justice and Trusteeship
- Survival and the Growth of businesses.

***Social Responsibility****:* The business must be guided by certain social and ethical norms. It is the moral responsibility of the business to serve the interest of consumers. Keeping in line with this principle, it is the duty of producers and traders to provide the right quality and quantity of goods at fair prices to consumers.

***Increasing Awareness*:** Consumers are becoming more mature and conscious of their rights against the malpractices by business. There are many consumer organizations and associations which are making efforts to build consumer awareness, taking up their cases at various levels and helping them to enforce their rights.

***Consumer Satisfaction:*** Consumers' satisfaction is the key to the success of a business. Hence, business people should take every step to serve the interests of consumers by providing them the quality goods and services at reasonable prices.

***Principle of Social Justice:*** In keeping in line with this principle, it is expected from the manufacturers, traders and service providers to refrain from malpractices and take care of consumers' interest.

***Principle of Trusteeship:*** Manufactures and producers are not the real owners of business. This is because resources are supplied by the society. Businesses are merely the trustees of the resources and, therefore, they should use such resources effectively for the benefit of the society, which includes the consumers.

***Survival and Growth of Business:*** Businesses have to serve consumer interests for their own survival and growth. On account of globalization and increased competition, any business organization which indulges in malpractices or fails to provide improved services to their ultimate consumer should find it difficult to continue. Hence, in their own long run interest, they should become consumer oriented.

To sum up:

Comprehensive *consumer protection* statutes *need* therefore to extend to all consumer products. The concept of consumer protection is to safeguard the interests of the consumers. It adopts measures to protect consumers from unethical malpractices by businesses and provide a swift redresses of their grievances with regard to:

- Sale of adulterated goods such as adding inferior substances to the product being sold.
- Sale of counterfeit goods such as selling a product of lesser value than the real product.
- Sale of sub-standard goods such as the sale of products that do not meet the prescribed quality standards.
- Sale of duplicate goods.
- Use of malfunctioning weights and measures that lead to underweight of products.
- Black marketing and hoarding that eventually leads to scarcity of the product and a rise in the price of the same.
- Overcharging a product, i.e., charging a product above its Maximum Retail Price.
- Supplying of defective goods.
- Advertisements that are misleading, i.e., advertisements that falsely claim a product or a service to be shown as superior quality, grade or standard when not in real.
- Supply of inferior services, i.e., quality of service lesser than the condition agreed.