MARKET

The market economy is a complicated mechanism for the automatic coordination of people, activities and firms through a market system. A market is an economic area specializing in the exchange of activities among individual economic subjects through an exchange of goods. Sellers meet buyers in the market to exchange their products and services by means of money.

The market is an arrangement where buyers and sellers interact and influence one other and determining of price and quantities of commodities. Some markets exist at a given place, by phone, or computer networks.

Market functions
The market gives answers to the economic question: **what** , **how**, and for **whom** to produce. It allocate scarce resources in the economy effectively.

Market areas
The first market was a local. The division of labour and development of transport helped to local and regional markets in the national market and world market.

Types of markets
Markets can be divided according to the subject matter of sale and purchase:
- *markets of products and services*
- *markets of factors of production*
- *financial markets*

Market agents
- *individuals* and *households* enter the market as buyers to satisfy their needs
- *firms* enter the market to exchange their products for money, and the maximalization of profit
- *the government* enters the market to regulate its working

Market elements
- *supply* – represented by the goods being sold
- *demand* – expressing the interest of the buyers to purchase the commodities offered
- *the market price* – a figure determined by the relation between the supply and the demand. On the graph is a point of intersection of the demand and supply curves, it is equilibrium in the market.
- *competition*

a) aggregate supply and demand
b) market supply and demand
c) supply and demand for certain commodity of an individual

AGGREGATE SUPPLY
Can be characterized as the total of all sales projected by sellers, it corresponds to the real GNP. According to supply-side economics, governments should encourage economic growth by trying to increase aggregate supply.

AGGREGATE DEMAND

Is the total of all intended purchases that the buyers can actually afford. It can be expressed as the total expenditure in the economy. According to demand-side economic theory, the government can regulate aggregate demand by controlling money supply with the help of monetary tools.

GENERAL EQUILIBRIUM

Is the ideal state of an economy. All markets provide goods as are demanded by the consumer.

Consumers in the market

The consumers buy goods to satisfy their needs but are limited by the disposable income, purchasing power of the currency and goods offered. The degree of consumer satisfaction is called utility.(Law of Diminishing Utility). The marginal utility is diminishing. Price change leads to an income effect. If the price of a commodity rises, real income diminishes.

A price leads to a substitution effect, as the consumer tries to find a substitute a cheaper article. Supply and demand must be elastic.

Market failure

- *imperfect competition* – where one or several firms become strong to dictate their conditions to the market.
- *externalities* – external effects of production that do not pass through the market.
- *inability* to provide in amount or quality public goods.
- *depressions* – when the market was not able to restore the economic balance.