“**Do successful business people benefit others when making their money, when spending it, both, or neither?**

Successful entrepreneurs, including businesses, are expected to positively impact society since their success is usually tied to the value they provide to people's lives through their products or services. However, this may raise questions about how the capitalist system is perpetuated and whether the benefits from business transactions truly qualify as advantageous for all parties involved.

In a well-functioning market economy, a prosperous business usually benefits the general public. Successful businesspeople contribute significantly to the economy. A successful business is profitable, and profitability is also connected to the type of business structure in which the commodity is being sold.

Hence, my essay analyses this question in the context of monopolistic competition. Thus, a successful business could be one referring to the consumption of fast-moving consumer goods. Its success hinges on its ability to generate supernormal profits.

Supernormal profit or abnormal profit are cases where profit is generated over and above a normal profit scenario, while normal profit cases are where firms break even and there is neither loss nor profit. To analyse this further, how was this success possible? It was possible by increasing production. This generates the question that if a business is successful, it will increase production!

According to the law of diminishing marginal returns, as additional units of a variable input are added to one or more fixed inputs, the marginal product of the variable input initially increases. However, at a certain point, it begins to decrease. This relationship assumes that the fixed inputs remain constant, along with the technology of production.So output can increase

a)In terms of quantity

b) In terms of efficiency

If we consider the first one in terms of quantity, we are stating that output is increasing at an increasing rate. In the short run, Output = F ( fixed and variable factors). The fixed factor is not changing, but labour, which is one of the variable factors, has to increase.

When the firm expands, there is a vast range of employment in the society because of which the production of the firm increases and at times, so does the efficiency, but the diminishing law of marginal return states that the marginal product of a variable input of labour at first increases. It reaches a maximum and then begins to fall the marginal product with the input of labour. The marginal product which has labor as its variable input at first increases and reaches its max with a certain number of laborers then begins to fall. , and then begins to fall; this pattern of increasing and falling of the marginal product begins to fall.

| Number of workers | Total Number of product | Marginal Product |
|---|---|---|
| 0 | 0 | - |
| 1 | 30 | 30 |
| 2 | 70 | 40 |
| 3 | 120 | 50 |
| 4 | 160 | 40 |
| 5 | 190 | 30 |
| 6 | 200 | 10 |

so when there were zero workers, there was no output at all. When there was one worker. There was an output of 30. The marginal product was also 30, but one could not work alone and do all the work.

The addition of workers led to varying marginal productivity, with diminishing returns due to overcrowding.
Increasing the number of workers could be advantageous for the society in the short term. However, if a company starts incurring losses, it may result in job losses for the employees, leading to a continuous cycle. Therefore, the ability to hire many workers does not guarantee profits for a company, even though it can be beneficial for society.

Moreover, when the demand for a product increases, the market for the raw materials or inputs used in its production also escalates, creating a higher demand for ancillary industries and subsequently contributing to increased employment opportunities.

Employment is a core macroeconomic objective linked to all other objectives. More job opportunities imply more demand for goods and services in the economy. In a microeconomic sense, this could mean more Consumer and producer surplus, as total output would increase.In a macroeconomic sense,, it would mean a shift of the aggregate demand curve upwards, which would lead to more economic output.

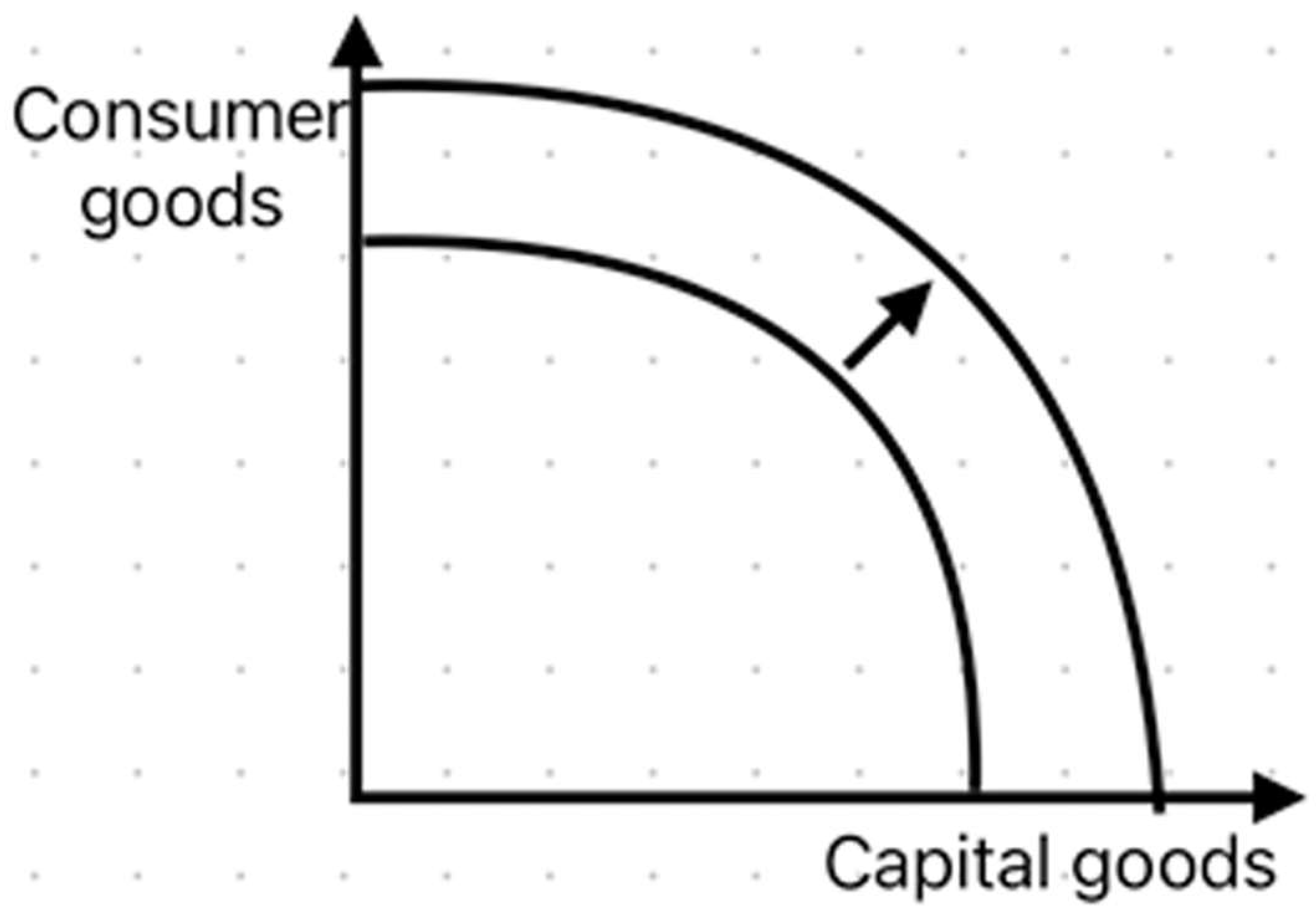
The other benefits of the increase in production would be:

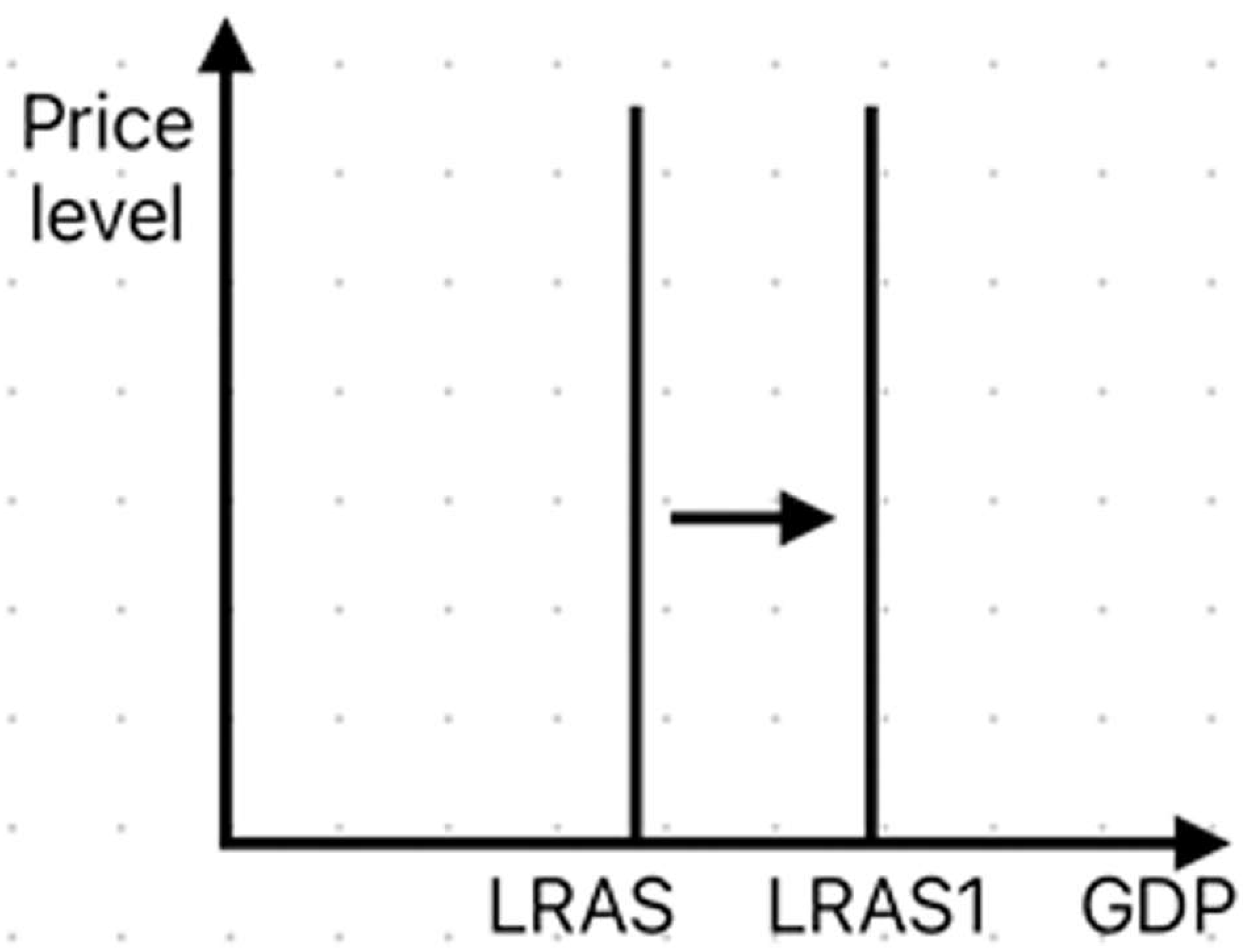
Innovation

Skill building

Research and development

All these will aid in shifting the PPC curve towards the right,-



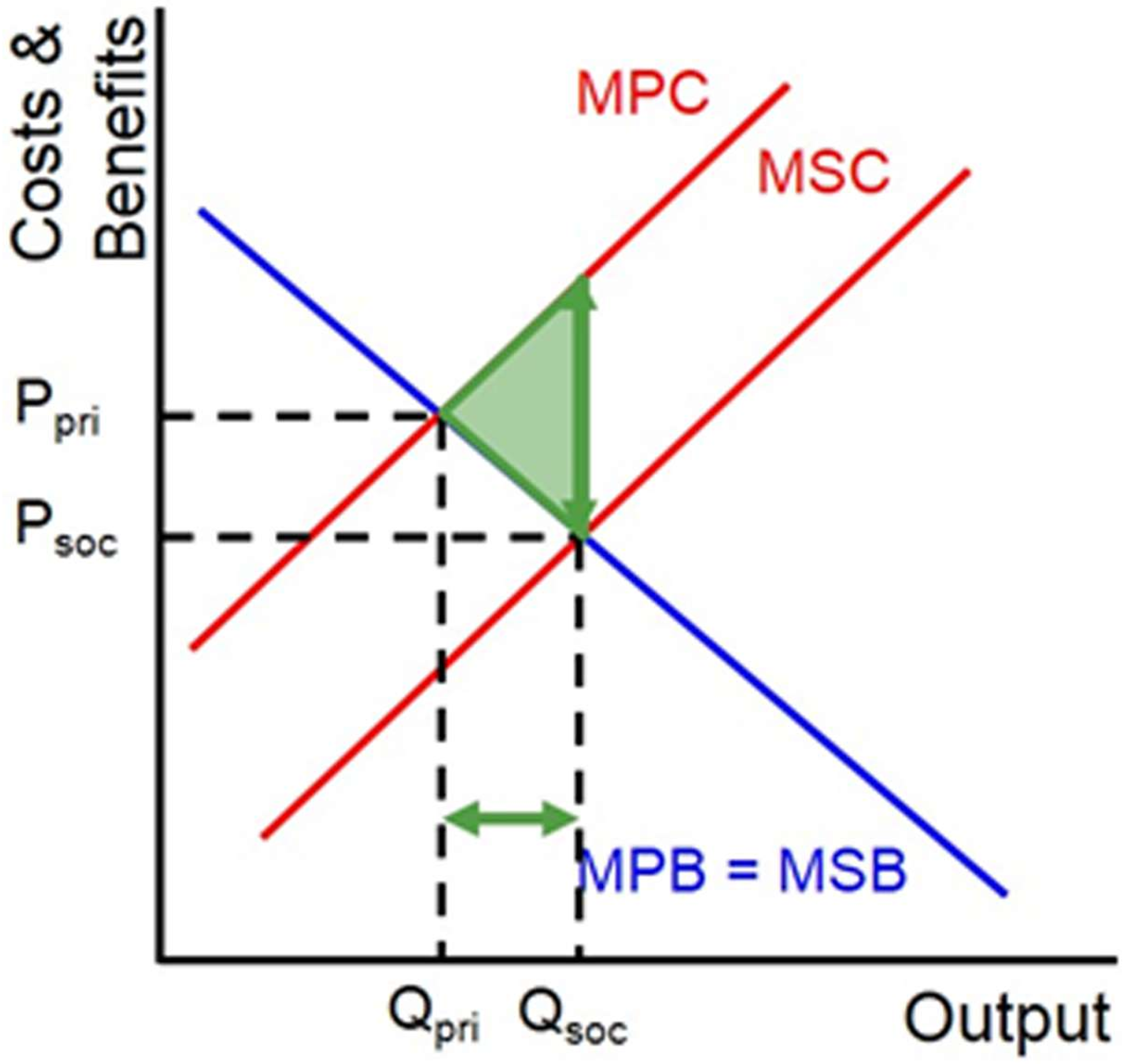



Any point inside the PPC indicates inefficiency in the production of available resources. Actual output is always inside the PPC, indicating resource unemployment. Movement towards the PPC indicates increased efficiency, with no opportunity cost in the short run. A concave PPC represents the concept of scarcity as resources are limited, requiring economies to make choices about which goods or services to produce.

So in the long run, the LRS shifts to the right and the PPC curve shifts to the right because of the advancements that have made. Since there is development in the business. There is success in the business. We can say that the business has invested in RND and develop new technology, increase their production efficiency. And now we can see that for the same price, we are receiving more goods or more quantity in the LRAS diagram. Then they were receiving before the advancements were made. Since more quantity is available at less prices, people are better off because of the success of other businesses

I would now like to elaborate on the second part of the question—will successful business people benefit the economy by spending more money? Money has two uses—it can be used to purchase goods and services or to save and accumulate wealth. In fact, in a two-sector economic model, it is stated that Y=C+S.

When business spends money on production. They tend to create external benefits. For example when being engaged in research and development and are able to develop new technology that throughout the economy, this leads to external benefits which is not only applicable to the firm but to the rest of the society, and the rest of the society starts to adapt such measures and such technology cost of research and development for other small businesses decreases

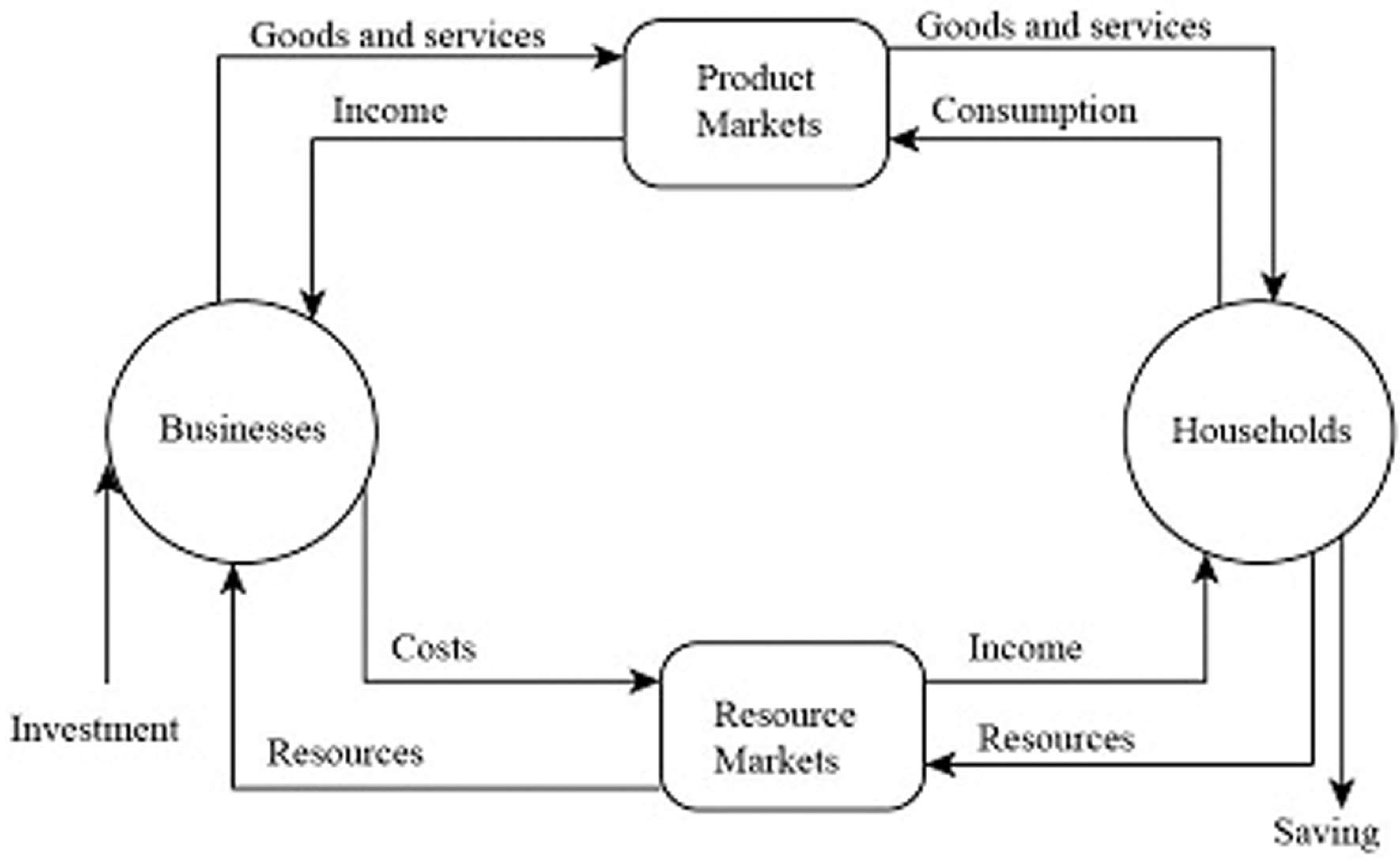



The MSC curve lies below the MPC curve, and the difference between the two curves is the external benefit the demand curve represents both the MPB and the MSB. Since the externality involves only production. The market gives rise to equilibrium quantity Qpri and the price Ppri, determined by the intersection of MPB and MPC curve, while the social optimum is given by Qsoc and Psoc, determined by the intersection of MSB with MSC curve

If successful people in the economy spend money on purchasing goods, they will increase the thriftiness of cash. In fact it will lead to more demand for money and that in turn will lead to more production and demand. As it is only when there is more income flow in the economy, there will be more production.

Demand, as stated, is a function of price, cetrius paribus. This is the basic domain of economic theory. Price, in other words, can be the value of money. So when demand increases, it is because the value of money has increased. This leads to an increase in the number of times that money can change hands. This is because someone's expenditure is someone else's income.

On the other hand, if successful people end up saving their money and not spending it, it will increase their wealth, but it will be a withdrawal from the income stream, which will lead to a further reduction in the income stream. The same can be reflected through the diagram below




The flow of income demonstrates that, within a specific time period, the value of an economy's food production equals the income generated from that output, which is equal to the expenditure made to purchase that output in a closed economy. In this closed economy scenario, there are no leakages or injections. The circular flow of income illustrates that households supply resources and raw materials, such as labor and land, to firms. In return, they receive factor income.

This factor income is then used to purchase goods produced by the firms. When people save money and reduce their spending on goods and services, it results in firms no longer needing more factors of production, as fewer goods are being sold. Consequently, firms produce less, leading to households receiving less factor income due to reduced demand for factors of production. However, in the long run, the money that households save is invested in businesses and banks, generating returns that inject the money back into the circular flow of income.

Another possible scenario arises when multiple successful businesses compete in the market, leading to a price war. This situation can benefit society by making goods more affordable. Furthermore, these businesses may expand their product offerings, providing consumers with a wider range of options. Typically, firms do not have formal agreements to eliminate or limit price competition, yet prices remain stable. If prices do change, they tend to change uniformly for all firms. This stability in prices occurs as firms strategically make pricing decisions.

Success in business can be defined in multiple ways from achieving the target sales, implementing strategies properly to making huge profits, choosing the right technology and a lot more. Success is the driving force of every business. A business only functions to become successful and to make it successful it has a lot of factors. The business depends on a lot of people, the majority of them are the stakeholders of the business. The stakeholders here are the customers, employees, government and the owners of the business. A business is like a plant if a plant grows all the parts of a plant to some extent similarly if a business were to grow other parts of it would grow along with it and by other parts we have the stakeholders.

Thus, the positive impact of successful business individuals can extend beyond personal gain to societal benefits, demonstrating a symbiotic relationship between wealth creation and community development. Ultimately, their actions can drive progress and foster a more inclusive and prosperous society.  So successful business people benefit the economy by making their money and spending it as well.

Bibliography

Economics for the IB Diploma Coursebook with Digital Access (2 years) Paperback – 30 July 2020
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