MARKET OUTCOMES

Notice how the market mechanism resolves the basic economic questions of WHAT, HOW, and FOR WHOM.

WHAT

The WHAT question refers to the amount of Web tutorial services to include in society's mix of output. The answer at Clearview College was 39 hours of tutoring per semester. This decision wasn't reached in a referendum, but instead in the market equilibrium (Figure 3.6). In the same way but on a larger scale, millions of consumers and a handful of auto producers decide to include 16 million or so cars and trucks in each year's mix of output. Auto manufacturers use rebates, discounts, and variable interest rates to induce consumers to buy the same quantity that auto manufacturers are producing.

HOW

The market mechanism also determines HOW goods are produced. Profit-seeking producers will strive to produce Web designs and automobiles in the most efficient way. They'll use market prices to decide not only WHAT to produce but also what resources to use in the production process. If new software simplifies Web design—and is priced low enough—Webheads will use it. Likewise, auto manufacturers will use robots rather than humans on the assembly line if robots reduce costs and increase profits.

FOR WHOM

Finally, the invisible hand of the market will determine who gets the goods produced. At Clearview College, who got Web tutoring? Only those students who were willing and able to pay $20 per hour for that service. FOR WHOM are all those automobiles produced each year? The answer is the same: those consumers who are willing and able to pay the market price for a new car.

Optimal, Not Perfect

Not everyone is happy with these answers, of course. Tom would like to pay only $10 an hour for a tutor. And some of the Clearview students don't have enough income to buy any tutoring. They think it's unfair that they have to design their own Web pages while rich students can have someone else do their design work for them. Students who can't afford cars are even less happy with the market's answer to the FOR WHOM question.

WORLD VIEW

Dining on the Downtick

Americans aren't the only consumers who fall for packaging. Since late January, Parisians (not to mention TV crews from around the world) have been drawn to 6 rue Feydeau to try La Connivence, a restaurant with a new gimmick. The name means "collusion," and yes, of course, La Connivence is a block away from the Bourse, the French stock exchange.

What's the gimmick? Just that the restaurant's prices fluctuate according to supply and demand. The more a dish is ordered, the higher its price. A dish that's ignored gets cheaper.

Customers tune in to the day's menu (couched in trading terms) on computer screens. Among a typical day's options: *forte baisse du haddock* ("precipitous drop in haddock"), *vif recul de la côte de boeuf* ("rapid decline in beef ribs"), *la brochette de lotte au plus bas* ("fish kabob hits bottom"). Then comes the major decision—whether to opt for the price that's listed when you order or to gamble that the price will have gone down by the time you finish your meal.

So far, only main dishes are open to speculation, but co-owners Pierre Guette, an ex-professor at a top French business school, and Jean-Paul Trastour, an ex-journalist at *Le Nouvel Observateur*, are adding wine to the risk list.

La Connivence is open for dinner, but the midday "session" (as the owners call it) is the one to catch. That's when the traders of Paris leave the floor to push their luck *à table*. But here, at least, the return on their $15 investment (the average price of a meal) is immediate—and usually good.

—Christina de Liagre

Source: *New York*, April 7, 1986. www.newyorkmag.com

Analysis: A market surplus signals that price is too high; a market shortage suggests that price is too low. This restaurant adjusts price until the quantity supplied equals the quantity demanded.