

FACTFILE: GCE BUSINESS STUDIES

AS1 MARKETS AND MARKET FORCES



Markets and Market Forces

Learning outcomes

Students should be able to:

- demonstrate and apply knowledge and understanding of the main features of the following types of markets:
 - consumer goods and services market;
 - capital goods market;
 - labour market; and
 - mass and niche markets;
- analyse the features of these markets;
- analyse how business activity is affected by the market;
- demonstrate and apply knowledge and understanding of the concepts of demand and supply; and
- analyse the factors which influence supply and demand, including the interpretation of simple supply and demand curves.



The concept of a market

A market is essentially an environment where buyers and sellers exist to exchange goods and services. Markets can be global, e.g. oil and copper, or more local, e.g. the housing market.

In the past, markets were thought of as physical places, however, in more recent times with advances in technology many virtual markets exist.

Types of markets

Consumer goods and services market

The consumer goods and services market provides the consumer with finished goods and services that they use for themselves and/or their family. Businesses operating in this market focus their efforts on manufacturing, distribution and marketing.

The goods and services within this market include consumer durables, like laptops and microwaves, and non-durables like food. The consumer goods and services market is also the market where personal services such as hairdressing and optometry exist.



Capital goods market

This is a business to business market where capital goods are traded. Capital goods are items which are necessary to enable other businesses to carry out their operations and be productive, e.g. tools, equipment and machinery.

Capital goods are not associated with the actual end product.

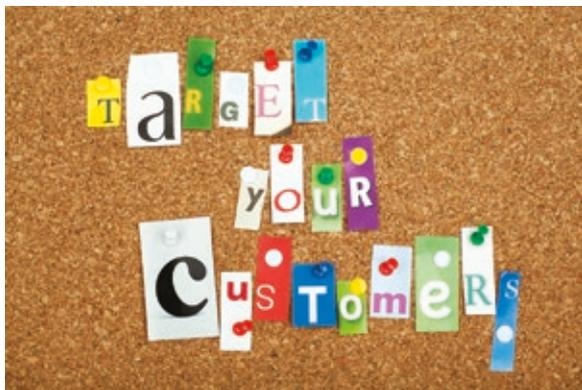
The labour market

The labour market is the market where employers and workers are brought together. Essentially, the employers are the buyers of the labour which is provided by the workers.

Some workers are skilled and others unskilled; these various workers will supply their labour to organisations for a payment.

Employers will compete to get the best workers and workers compete to get the employment which will offer them the highest levels of job satisfaction.

The current labour market must be very flexible due to the nature of economic change and advances in technology.

**Mass Markets and Niche Markets****Mass markets**

A mass market is a large market where consumer wants and needs are not specific. Products and services are produced for mass consumption as opposed to a particular type of customer.

There will be high levels of competition from a host of well known, established businesses. Products are widely available; examples: Walkers crisps and Nestle chocolate bars.

A business operating in a mass market will experience advantages including:

- Unlimited potential for a very large customer base could have positive implications for sales and profits.
- Customer needs and wants are general therefore a standardised product is acceptable.
- Economies of scale are gained as a direct result of high productivity.
- A widespread distribution network will enable higher potential for sales.
- There is a minimal degree of risk involved (when compared to a niche market).

Niche Markets

A niche market represents a small segment of a larger market sector. Businesses operating in a niche market (e.g. Rolls Royce, Vera Wang) address the need for a product or service which is not currently met by those operating in the main market sector. Some businesses do not value niche markets as they feel that operating in a mass market offers more opportunities for success. However, if approached and managed correctly, providing products for a niche market can be extremely lucrative.

Advantages of trading in a niche market include the following:

- if a good brand image is developed and maintained the business will gain a loyal customer base.
- a premium price can be charged for goods and services leading to high profit potential.
- a smaller degree of competition exists when compared to a mass market.
- a business operating in a niche market will be less likely to be affected by an economic recession.
- a business operating in a niche market will understand the needs and wants of its customers very well and this will enhance their market expertise.



Demand and Supply

In any market buyers will demand goods and services and sellers will supply the goods and services. The price charged for these goods and services will be influenced by the laws of supply and demand.

Demand

Demand for a good or service is the quantity of that good or service that customers would buy at a given price. For most normal goods, it would be expected that the lower the price, the higher the demand. We can conclude that an inverse relationship exists between the price and quantity demanded. This relationship can be illustrated on a graph.



The demand curve above illustrates the basic law of demand:

At the price of P1 the quantity of units demanded is Q1. When the price is lowered to P2 the quantity of units demanded is higher at Q2.

The higher the price the less the quantity demanded.

Factors which affect demand

The price of substitutes – e.g. butter and margarine are substitute goods; one can be replaced or substituted for the other. If the price of butter rises the demand for a substitute like margarine may increase.

The level of awareness of the good/service – high levels of customer awareness increases the potential for purchases.

The medium used for marketing/advertising – if campaigns are successful they may result in higher levels of demand.

Consumer incomes – if consumer incomes increase they may demand more goods and services of 'normal products'.

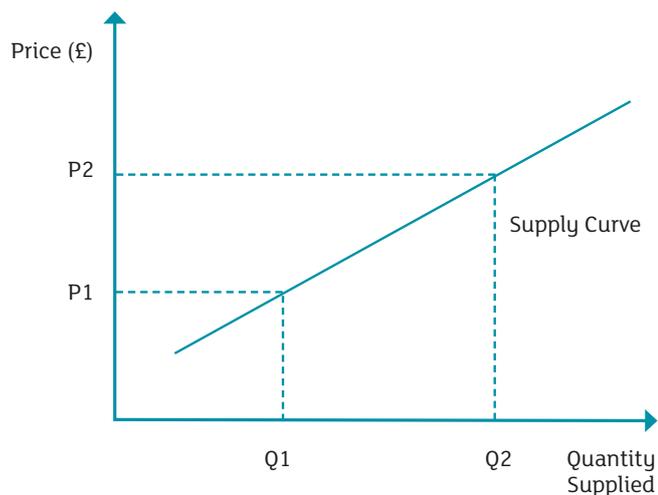
The level of competition in the market – competitor behaviour will influence demand.

The time of year/weather – seasonal products will experience higher demands when in peak e.g. ice-cream.

Trends, taste and fashion – current trends, tastes and fashion are often portrayed in the media which can influence demand.

Supply

The supply of a good or service is the quantity of that good or service that businesses would supply at a given price. For most normal goods, it would be expected that the higher the price, the higher the supply. We can conclude that a positive relationship exists between the price and quantity supplied of a good or service. This relationship can be illustrated on a graph.



The supply curve above illustrates the basic law of supply:

At the price of P1 the quantity supplied is Q1. When the price is increased to P2 the quantity supplied is increased to Q2.

A high price generally results in businesses being prepared to supply a high quantity to the market.

Factors which affect supply

Expectations of price changes – anticipating price changes will affect supply quantities in the future.

The costs of making the good – because of economies of scale some suppliers will be able to offer more goods for sale than other suppliers, for the same price.

Changes in technology – advances in technology mean that suppliers can become more efficient, producing a high quantity of goods for sale, either at a reduced price or matching competitors' prices.

Other factors e.g. changes in the weather (agricultural goods), natural disasters, etc.

Government policy – indirect taxes and subsidies.

? Revision Questions

1 Identify two different markets and explain their main features.

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2 Analyse two reasons why a business would choose to operate in a niche market.

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3 Analyse three factors which influence demand for a product.

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Revision Questions

- 4 Table 1 shows the quantity of bottled water a supplier is willing to supply at 5 different prices.

Price	Daily Production
£0.50	110,000
£0.60	115,000
£0.70	120,000
£0.80	125,000
£0.90	130,000

Table 1

- a) Draw a simple supply curve diagram for the bottled water.

- b) Explain the concept of supply using the diagram to support your answer.

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