

# Resource allocation

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# Market

# Market

- What is market?
- Can you give some examples of market?



# Market

- Is a market a physical location?
  - ❑ *No. It does not need to be a physical location.*
- In economics, a market is for *a particular* good or service.
- A market should include 2 economic groups:
  - ❑ *all producers*
  - ❑ *all consumers*

# Market

## **Different forms of market:**

- internet interactions** (e.g. purchasing from Taobao, booking a taxi via Didi),
- markets for complex goods** (e.g. foreign exchange market)
- genuine price discussions** (e.g. bids through Ebay).

# Market

- How large could a market be? Can you give some examples of different sizes of markets?
  - ❑ *a beauty salon - local market*
  - ❑ *national daily newspaper - national domestic market*
  - ❑ *Huawei smart phone - international market*
- Markets can be local, regional, national or even global.

# Market

## **Market:**

**A place where consumers and producers meet to exchange goods and services. Buyers and sellers will interact with each other in order to establish the price of goods and services.**

# **The role of markets in determining allocation of resources**

- We know that economic resources are scarce but demand for them is unlimited.
- Markets are one method of determining how these scarce resources get allocated among all those unlimited demands.



# The role of markets in determining allocation of resources

- As there are not enough resources to fulfill everyone's desires. Whose needs and wants will be satisfied first?
- Only individuals with sufficient wealth can purchase these goods. Therefore, the "price" of the goods determines who can consume them.

# How does a market determine the price of a good or service?

- 2 economic groups involved in a market:
  - ❑ *all producers*
  - ❑ *all consumers*
- When the price consumers are willing to pay equals the price producers are willing to receive, the price is determined.

# The function of price

- So, price acts as a way of sending a message between the seller and buyer. Price has three 'functions':

**□ Rationing**

**□ Signalling**

**□ Incentive**

# The function of price

- **Rationing** – it allows some people to afford the product/services but prevents others from being able to make the purchase.
  - This will depend on the individual's relative wealth and the value of that product compared to others (i.e. the opportunity cost of what must be given up).

# The function of price

- **Signalling** – the price signals something about the good/service that is important to buyers and sellers.

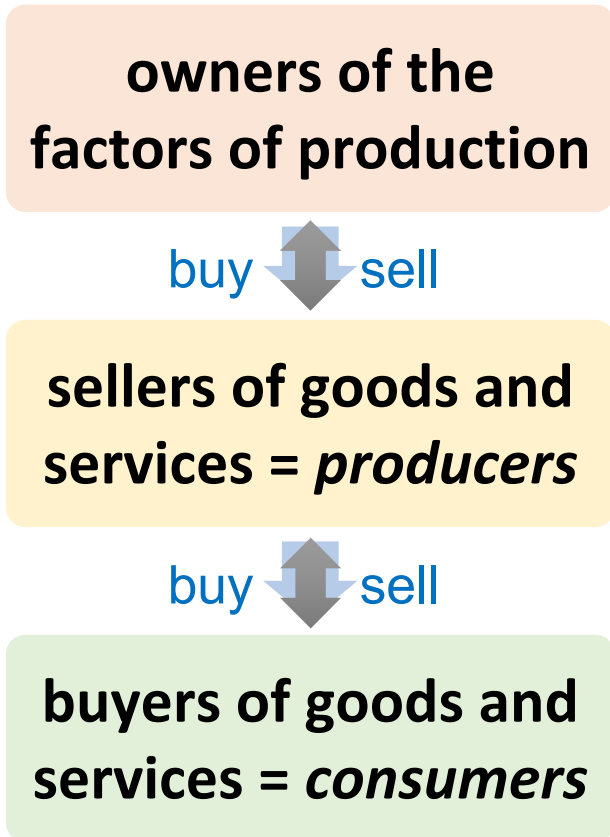
(What possible changes can you think of, if price change?)

- ❑ A price rise may signal an increase in the cost of production.
- ❑ A price fall may indicate that the seller may make a loss or even will no longer continue to provide the good or service.
- ❑ In the UK, healthcare is often 'free', this may signal the government wants to encourage consumption of health care.

# The function of price

- **Incentive** – the price of a good or service can act as an incentive for a supplier to provide it.
  - As prices rise, the supplier may make more profits and therefore receive a greater reward for investing in the supply of the product or service.

# Two types of markets



***Factor market:*** the market for buying and selling *resources / factors of production*.

***Goods/product market:*** the market for buying and selling *goods and services*.

# Factor and Product Markets

- Think of some examples for factor market:
  - ❑ A livestock market may trade in sheep or cows.
  - ❑ Markets for the trade in metals (e.g. aluminium).
  - ❑ A fish market may trade in fish caught daily in local seas and may be attended by fish mongers (to sell the purchased fish at retail) or by restaurants using the fish to make meals.



# Factor and Product Markets

- Think of some examples for product market:
  - ❑ McDonald's or Burger King to sell burgers
  - ❑ A retailer to sell smartphone
  - ❑ A local massage shop

Any market for the final product

# The difference between a product and a service

- What is the difference between a product and a service?  
(5-min discussion)

# The difference between a product and a service

- Products are physical objects or products that have been farmed, mined or created by a production process. Products can be transferred and delivered from buyer to seller.
- A service cannot be weighed or measured. A service is an activity of performing work for customers. At the end of the interaction, the service should provide satisfaction of the wants of the customer.

# The difference between a product and a service

- At the end of a transaction the ownership of the product passes from the seller to the buyer. At the end of the process, the ownership of the service remains with its provider.
- After transaction, a product can be returned or exchanged. Services, however, cannot be returned.

# Economic Sectors

# Economic Sectors

- Similar firms and productive activities are grouped together into industries. It is therefore useful to classify or group firms into economic sectors.
- An **economic sector** is a group of firms specializing in similar goods and services, or using similar production processes.
- Do you know any kind of industry?
- Manufacturing, retail, farming, electronic devices...

# Economic Sectors

- All of the industries in an economy can be generally categorized in to 3 different types....

# Industrial sectors

## 1. Primary sector

### Primary sector industries

- Crop and animal production
- Forestry and logging
- Fishing
- Mining
- Quarrying
- Oil and gas extraction





# Primary Sector

- **Primary Sector** is the sector of the economy which focuses on the extraction of raw materials such as coal or timber.
  - Industries in the primary sector in an economy specialize in the production or extraction of natural resources by growing crops, managing forests, mining coal and other minerals, and extracting oils and gases.

# Industrial sectors

## 2. Secondary sector

### Some secondary sector industries

- Food processing
- Textiles
- Paper, pulp and paperboard
- Chemicals
- Oil and gas refining
- Pharmaceuticals
- Rubber and plastic products
- Fabricated metals
- Computer, electronic and optical products
- Water collection, treatment and supply
- Electric power generation, transmission and distribution
- Construction



# Secondary Sector

- **Secondary Sector** is any part of the economy that is involved with the *manufacturing or assembly of products*.
  - For example, oil is used in plastics, glass is made from sand, and paper is made from wood. Many electrical products are made from metals and plastics.
  - Construction firms using materials to build homes, offices, roads and other infrastructure, and firms processing oil, gas and other fuels to supply electricity are also part of the secondary sector of an economy.

# Industrial sectors

## 3. Tertiary sector

### Some tertiary sector industries

- Wholesaling, retailing and repairs
- Transportation and storage
- Accommodation and food services
- Publishing and broadcasting
- Telecommunications
- Banking and insurance
- Real estate
- Public administration
- Defence services
- Education
- Arts and entertainment
- Health care
- Legal services



Can you find out the similarities among these industries?

# Tertiary Sector

- **Tertiary Sector** is any part of the economy that is involved in the provision of **services** that support the primary and secondary sectors.
  - There are many businesses providing **services that are used at every stage of production**, such as banking, insurance and transport.
  - Some firms also provide **personal services** such as hairdressing, decorating, health care and personal training.

# Practice

- Classify the following jobs into primary, secondary or tertiary activities:

- 
- |                                      |                               |
|--------------------------------------|-------------------------------|
| 1) drilling for oil                  | 6) working as a market trader |
| 2) driving a taxi                    |                               |
| 3) making tyres for a car            | 7) fishing                    |
| 4) working in a car-assembly factory | 8) building a hotel           |
| 5) growing coconuts                  | 9) working as a hotel cleaner |
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# Practice

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- |   |                               |
|---|-------------------------------|
| 1) drilling for oil                     | 6) working as a market trader |
| 2) driving a taxi                       | 7) fishing                    |
| 3) making tyres for a car               | 8) building a hotel           |
| 4) working in a car-assembly<br>factory | 9) working as a hotel cleaner |
| 5) growing coconuts                     |                               |
- 

- Primary: 1, 5, 7
- Secondary: 3, 4, 8
- Tertiary: 2, 6, 9

# The relative sizes of economic sectors may change over time

## Primary, Secondary and Tertiary Sectors in the UK

For many decades now, the tertiary sector has been the largest as a proportion of the total economy of the UK. Compare this to...

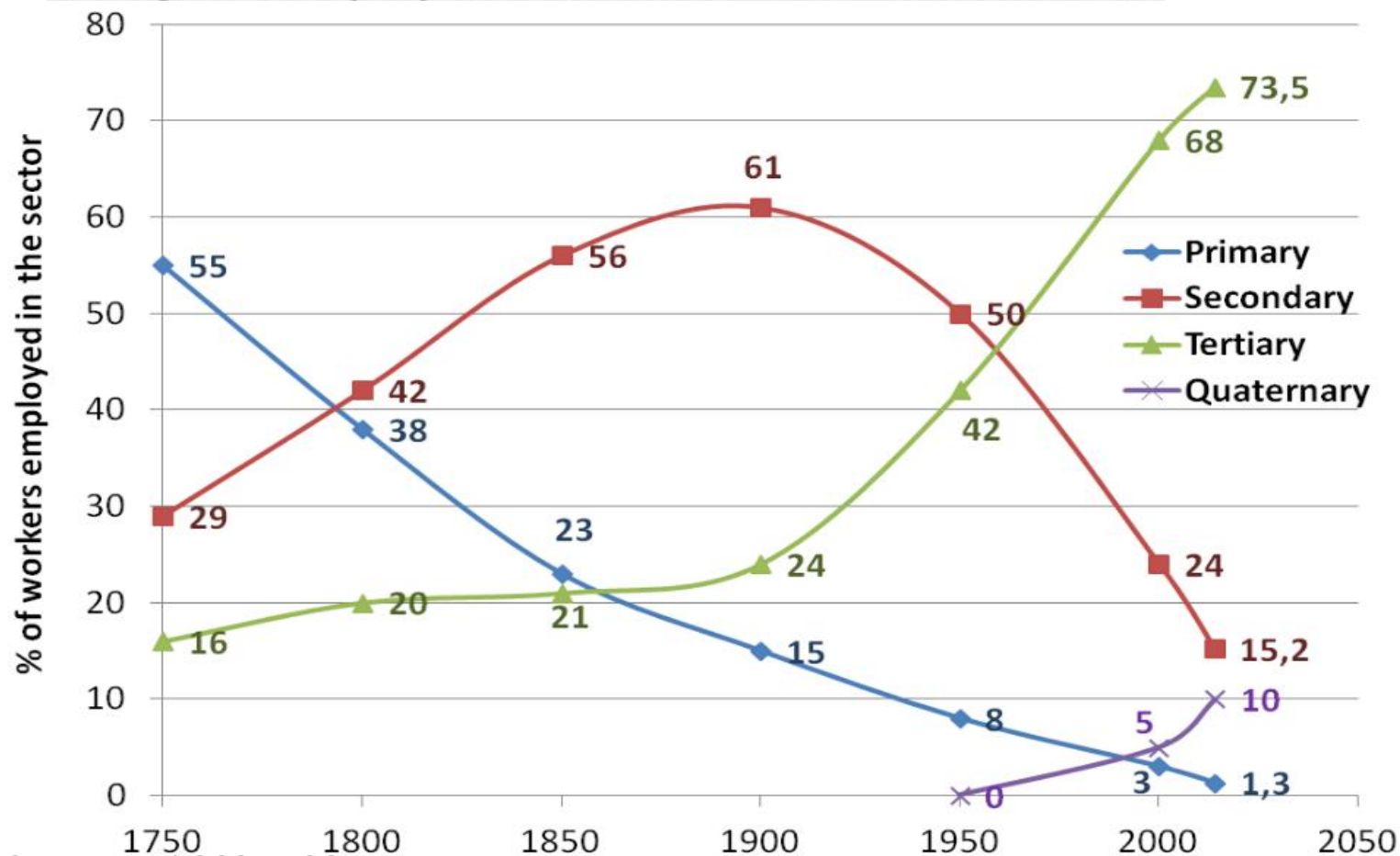
Country (2016 stats)	Primary	Secondary	Tertiary
UK	1%	19%	80%
Nepal	32%	14%	54%
Poland	3%	38%	59%

- What factors contribute to different distribution of economic sectors in different countries?
- How did the distribution change over time? What are the causes of such changes?



# The relative sizes of economic sectors may change over time

Changes in employment structure in the UK over time



# The relative sizes of economic sectors may change over time

- As economies develop, their economic structure changes and there is a progression from primary to secondary to tertiary activities.
- In developed economies, the tertiary sector tends to be the principal employer.
- For example, in the UK, around four out of every five people in employment were employed in the service sector.
- This is not the case in less developed economies. In Kenya, by way of contrast, similar proportions of workers are employed in the primary sector alone.

# Specialisation, division of labour, and exchange

# What is specialisation?

**Specialisation:** When a person, business or country focuses on the production of a limited number of products or focuses on a small number of tasks in order to gain greater efficiency.

Long long time ago...

- when people lived apart and they didn't know they can better off by producing different things, how could they make a living?
  - ❑ produce everything they needed or wanted for themselves
  - ❑ **self-sufficiency**

## How specialization began?

The cartoon tells a simple story of how a caveman named OG discovered the benefits of **specialization** over **self-sufficiency** by growing and exchanging tomatoes for other products.

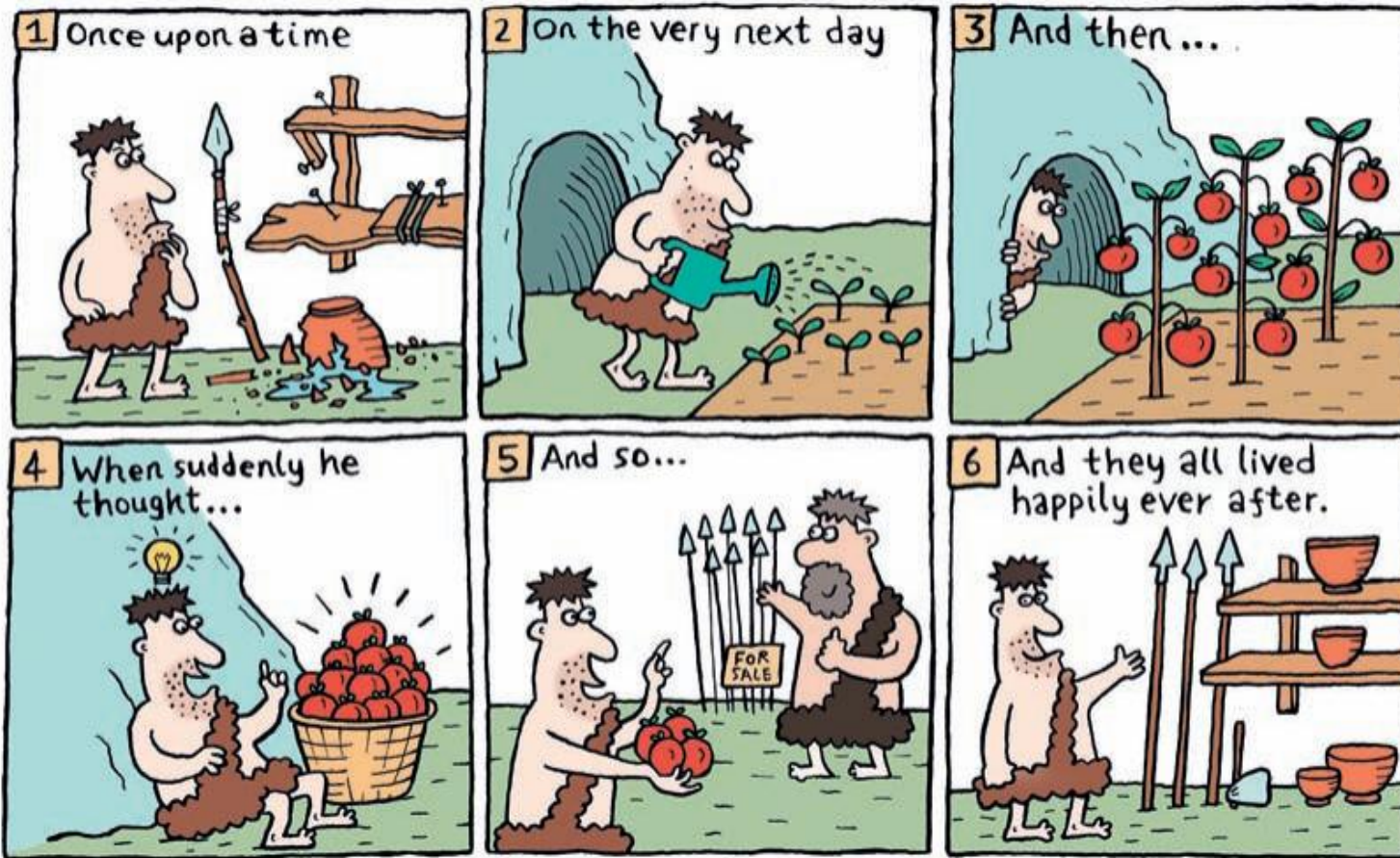
Write a story to go with the pictures and include as many advantages and disadvantages of self-sufficiency and specialization as you can think of.

### THE TALE OF OG... The First Economic Caveman!





# THE TALE OF OG... The First Economic Caveman!



• You can refer to the following clue words to complete the story.

❑ produce everything he needed for himself, including ....

❑ he was totally self-sufficient in every part of his life

- When OG only produced tomatoes, what did he do to improve his living condition?

- exchange tomatoes for other goods

- With whom could OG exchange?

- someone who had what he wanted and could accept the things he offered (tomatoes)

- **BARTER:** exchanging one good or service for another.

- OG's story shows us an example of individual specialisation.
- Research for different specialisations, specialisation of **country** / **company**?

□ specialisation of a country

*Many regions in Chile specialise in copper mining and tourism because of its natural advantages.*

□ specialisation of a company

*a firm may specialise in assembling cars because of its technical advantage.*



# Specialisation

- Specialisation was the first step towards a wealthier society. A community that practised specialisation was able to produce more than enough food, clothes and other things that it needed.
- However, with specialization people need to **exchange or trade**. If people specialized in producing one particular good or service, like OG and his tomatoes, then they must swap any they have left over for goods or services they want from others.

# Benefits & Costs

## Case Study: The Story of Ford Motor Company's Specialization

In the early 1900s, America was on the brink of a transportation revolution. Among the pioneers was Henry Ford, a visionary who believed that automobiles should be accessible to everyone, not just the wealthy elite. In 1903, Ford Motor Company was born, but it wasn't until 1913 that Ford would truly change the game.

### The Assembly Line Revolution

Picture a bustling factory in Michigan, filled with the sounds of machinery and the clatter of tools. Ford introduced the assembly line, a radical innovation that transformed how cars were built. Instead of skilled craftsmen assembling each vehicle from start to finish, workers were assigned specific tasks. Each worker repeated the same action, allowing cars to move down the line with unprecedented speed.

Imagine the astonishment of seeing a Model T come together in just 90 minutes, compared to the 12 hours it once took. This efficiency not only slashed production costs but also enabled Ford to sell the Model T at a price that ordinary Americans could afford. The dream of car ownership was becoming a reality.

### Vertical Integration

To maintain quality and reduce costs, Ford vertically integrated his operations, investing in steel mills and rubber plantations. This control over the supply chain gave him the confidence to innovate and ensure high standards in production.

### The Focus on the Model T

Ford's decision to concentrate on the Model T was a gamble. He poured resources into perfecting this one model, simplifying production and marketing. As the Model T rolled off the assembly line, it became a symbol of freedom and mobility for the American public.

But this focus came with challenges. What if consumer tastes changed? What if new competitors emerged with more diverse offerings? Ford's single-minded focus on the Model T made him vulnerable to shifts in the market.

### Standardization and Its Impact

To further streamline production, Ford standardized parts across his vehicles. This made assembly faster and repairs simpler for customers. Imagine a world where everyone could easily fix their own car, reinforcing Ford's commitment to affordability and accessibility.

However, this standardization also raised questions. Would the push for uniformity compromise quality? Could the same parts be used in different models without sacrificing performance?

### Discussion Points

As the story of Ford unfolds, students are invited to consider the following:

#### Benefits of Specialization

- How did the assembly line change the landscape of manufacturing?
- In what ways did focusing solely on the Model T help Ford dominate the market?
- What cost advantages did vertical integration provide Ford?

#### Costs and Challenges of Specialization

- How might the repetitive nature of assembly line work affect employee morale?
- What risks did Ford face by concentrating on a single model?
- Could standardization lead to quality issues, and how might this affect Ford's reputation?

# Advantages of specialisation

## **For individuals:**

- Improve people's standard of living: Consumers have access to a greater quantity of higher quality products with lower prices.

## **For companies:**

- Produce more products with lower average costs

## **For countries:**

- Allows a country to make full use of their economic resources
- Surplus can be exported, getting more national income

# Disadvantages of specialisation

## **For individuals:**

- Workers may become bored
- Workers may have few skills to offer in other jobs

## **For firms:**

- Risk of disruptions to production process
- vulnerable to market changes (e.g. change in customer' tastes)

## **For countries:**

- resources may run out (for a country)
- the country is more vulnerable to changes in demand.

# Division of labour

- What is specialisation?

**Specialisation:** When a person, business or country focuses on the production of a limited number of products or focuses on a small number of tasks in order to gain greater efficiency.

- What is division of labour?

**Division of labour:** When production of a good or service is split into a number of smaller tasks and employees then specialise in completing each of these tasks with the intention of increasing productivity.

□ *Specialisation is a general term and division of labour is an example of specialisation.*

# Example of labour division

## *Manufacturing process of a car*

- 1. Body Assembly:** One group of workers specializes in welding, shaping, and fitting the different parts together.
- 2. Engine Installation:** A group of workers focuses on installing the engine.
- 3. Electronics:** A separate team deals with the car's electronics, installing things like the wiring, dashboard components, and entertainment systems.
- 4. Painting:** A specialized team responsible for painting the car.
- 5. Final Assembly:** A final assembly team brings together all the different components – body, engine, electronics – to create the complete car.

# Advantages of division of labour

- **Increase productivity and output:** because an individual worker will become more competent at a task if he repeats many times. And this increase in productivity per worker also reduces the overall production cost per unit.
- **Be able to afford specific training:** The employer only needs to focus on one specific training, so the training is more affordable.
- **Cost effective:** Workers can repeatedly use a single tool, making it more cost effective for a firm to purchase tools.

# Disadvantages of division of labour

- **Easily get bored and lower level of morale:** When an individual repeats tasks many times, they may start to become bored with the job. This may lead to lower levels of morale which, in turn can lead to lower levels of output and quality of production.
- **Risk of structural unemployment** due to occupational immobility
- **Reduce choice for consumers:** An increase in mass-produced standardised goods (less innovation) may reduce choice for consumers.



**Thank you for  
your attention!**