

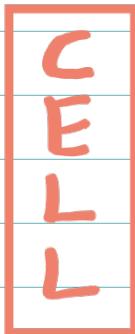
July 12nd Economy

basic economic problem

needs and wants

economic/free goods

capital/consumer goods



Capital:

Enterprise

Labor:

Basics and Factors of Production

Limited resources and unlimited wants.

leads to
scarcity

how to make choices best

finite/renewable resources
not unlimited

needs: necessary for survival

wants: not necessary but human desire

economic goods: require resources

to produce, have an opportunity cost

free goods: e.g. wind, light

capital goods: use in production

consumer goods: for satisfaction

Labor: human resource → wages / salaries O↑ G↓

Land: natural resource → rent O↑ G↓

Capital: manufactured resource → interest varies

Enterprise: make key decisions → profit. O↑ G↑
(Entrepreneur) bear uncertain risks

Quantity: Investments

Quality: advance tech

gross investment minus depreciation equals net investment (profit)

Quantity: policy, educated labor.

Quality: experience

Mobility Occupational
Geographical education training

Quantity: size of population, age structure, retirement age.

Quality: length of working day, duration of overtime, length of holiday

Quality: labour productivity, education, training, health care

Identify: list points

Discuss: on both sides.

Describe: need to explain points

Explain: better version of describe

Analyse

July 13rd Economy

What is opportunity cost?

For consumers

For workers

For producers

For government

What is production possibility curve?

Opportunity Cost PPC

- The best alternative forgone

Limited income

→ choose → forgo → opportunity cost

Limited time and energy

ad. / research

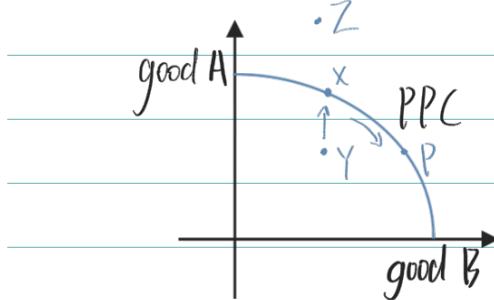
↓
short term

↓
long term

defense / edu. / infrastructure / healthcare

Production possibility curve: a curve that shows the maximum output of two types of products and combination of those products that can be produced with existing resources and technology.

CELL



2 types of products

curve / frontier / boundary

X: resources are used and efficient

Y: unemployment

Z: unattainable

X to Y: no opportunity cost

X to P: reallocate resources

Productive capacity

The maximum combination achieved on current tech and res.

OC of making a choice = Benefits of choosing the best alternative B - Benefits of choosing the choice A

OC can be zero, but can't be negative

For an Economy: Goods v.s. Services

July 13rd Economy

economic agents

what is microeconomics /
macroeconomics
and their relation

three basic economic
questions

different economic
systems

Micro/Macroeconomics Market

individuals/
household consumers, workers, savers
firms
government

earn profit
aim

Private Sector

- Public Sector

Provide a Service

a strong economy

(stable inflation, full employment)

Microeconomics: the
study of the behaviour
and decisions of
households and firms,
and the performance
of individual markets.
e.g. car industry

Macroeconomics:

the study of the whole
economy. e.g. inflation, economic growth

influence

combination
quantities

1. What
2. How - best combination of factors
3. For whom - problem of distribution

1. planned economic system (Soviet Union)
2. market economic system (past U.S.A.)
3. mixed economic system (now)

July 14st Economy

Market E.S. features

what is market
economic system

Demands and supply

Market equilibrium
disequilibrium <

Aim

Market

- No government interference
- Resources allocated based on financial return
- Goods and services on the basis of price
- Competition → choice → 多样性
(multiple sellers)

Market economic system:

an economic system where consumers determine what is produced, resources are allocated by the price mechanism and land and capital are privately owned.

the willingness and ability to ^{buy}_{sell} a product.

demand = supply (equal)

demand > supply (shortage)

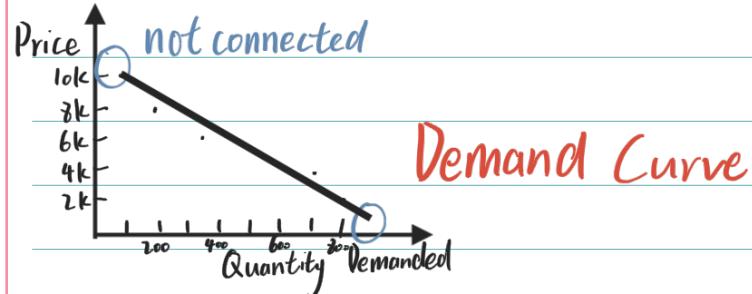
demand < supply (excess)

achieve maximum profit

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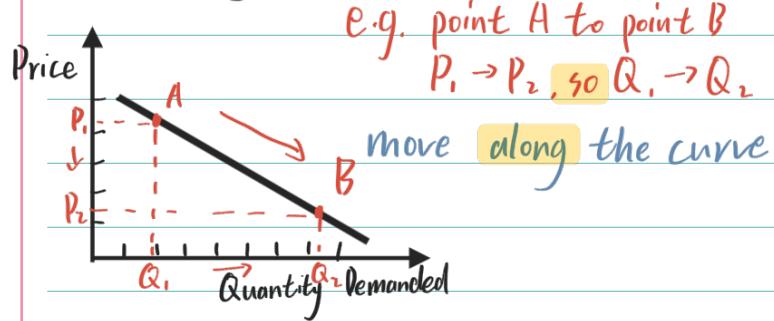
The relation between price and demand

Demand curve

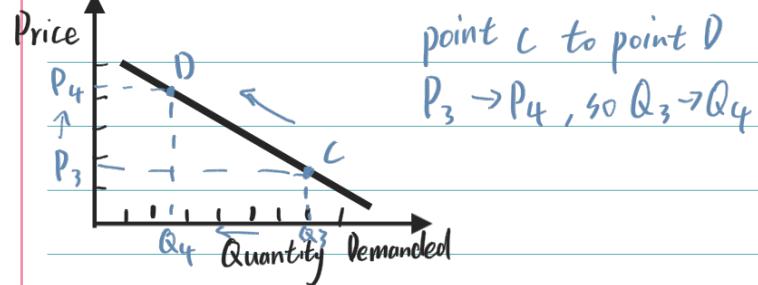


Extension in demand

Caused by the fall of price



Contraction in demand



Law of demand

As the price of a good or service increases, the quantity demanded for the product decreases and vice versa, ceteris paribus.
P and QD is negatively related.

July 14st Economy

Changes in demand

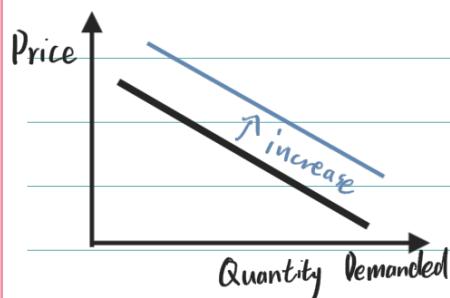
Changes in Demand

Causes the shift of demand curve.

Caused by non-price factors.

Increase: demand ↑ at any given price, cause D.C. shifts right

Decrease: demand ↓ at any given price, cause D.C. shifts left



Causes of Changes in Demands

① Income ↑ → Purchasing Power ↑

{ Normal Goods: I↑ → D↑

{ Inferior Goods: I↑ → D↓ e.g. 快过期的食物

② Changes in the prices of related products

{ Substitute (可口, 海康)

{ Complement (汽车, 石油)

③ Advertisement

④ Changing Population

⑤ Changes in taste and trends

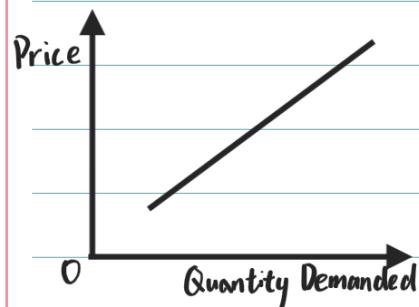
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What is Supply

Supply

the willingness and ability to sell a product
resources, tech etc.

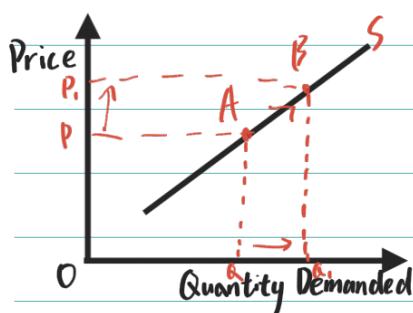
Supply Curve



supply ≠ total amount produced
STOCK / INVENTORY

wanting to supply ≠ supply

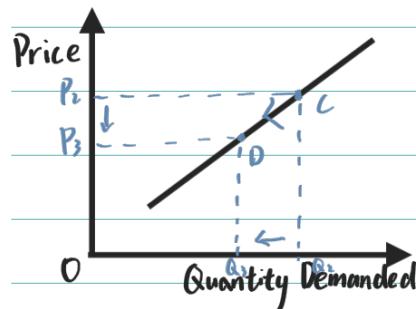
Extension in Supply



$P \rightarrow P_1$, so $Q \rightarrow Q_1$, move right

Change in price of itself: move ALONG the curve

Contraction in Supply



$P_2 \rightarrow P_3$, so $Q_2 \rightarrow Q_3$, move left

Law of supply

As the price of a good or service increases, the quantity supplied for the product increases and vice versa, *ceteris paribus*.
 P and QS is positively related.

Individual Supply

the supply of one firm

Market supply

the total supply of a product supplied by all the firms in the industry at different prices.

July 15th Economy

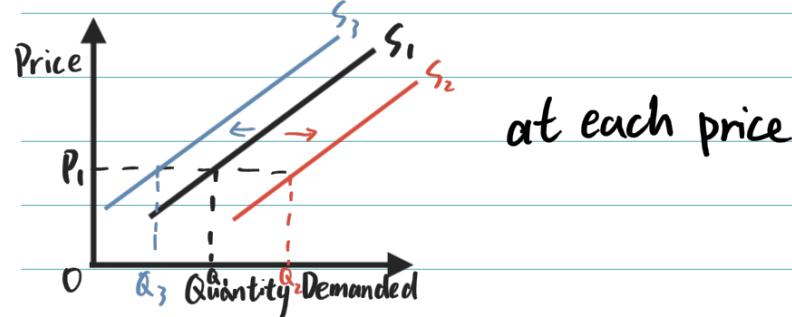
Reasons causing shift
of demand curve

Increase in Supply
Decrease in Supply

Causes
① - ⑦

Direct taxes and Indirect
taxes

non-price factors



① Changes in the cost of production

• basic resource $\begin{cases} \text{price of labor} \\ \text{productivity} \end{cases}$ changes

② Improvements in technology (shift right)

• raise the productivity of capital

③ Taxes {
cost ↓ supply ↑
direct tax: income → demand
indirect tax: goods and services → supply

• tax ↑ supply ↓

• tax ↓ supply ↑

④ Subsidy $\begin{cases} \text{to firms} \\ \text{to stimulate production. Granting} \end{cases}$ increase supply

⑤ weather, health, etc.

⑥ ↓

July 15th Economy

Changes in Supply

Causes

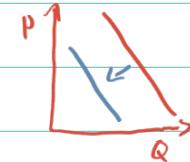
⑥ Prices of other products



Price of A ↑

Produce more of A

Supply curve of B shift leftwards

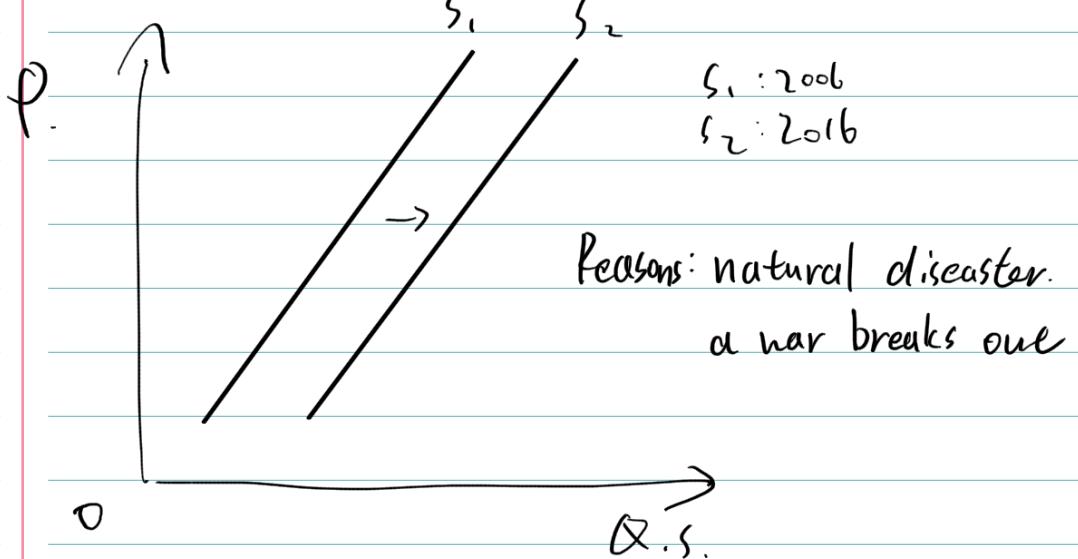


- by-product: e.g. if price ↑ 牛皮 supply ↑

⑦ Discoveries and depletions of commodities 资源

Change in cost of production

a change in price / productivity of factor of production



July 15th Economy

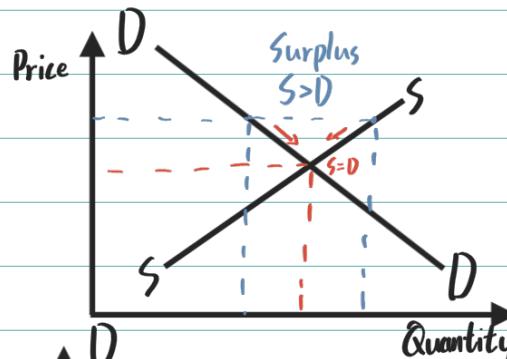
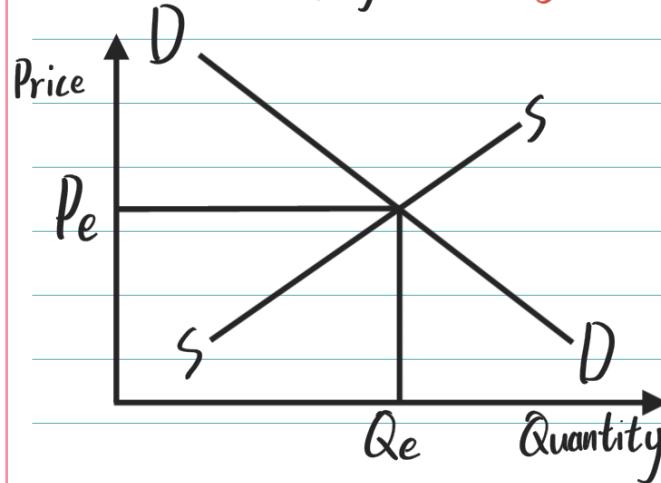
Market equilibrium

Price determination

Demand = Supply : Equilibrium Price / Market Clearance Price

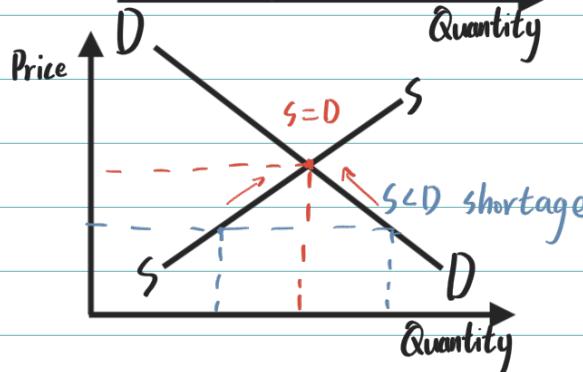
Demand < Supply : excess / surplus

Demand > Supply : shortage



total revenue = total

Consumption
= 消費量 ×
當時價格



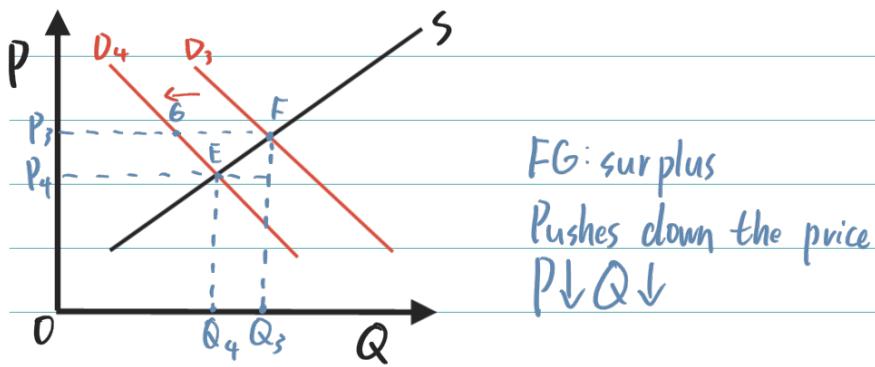
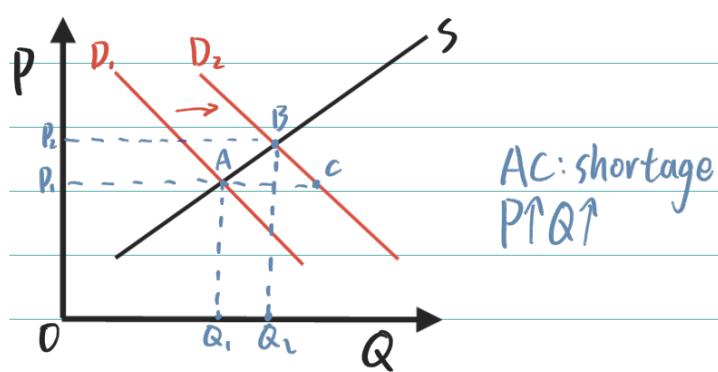
Equilibrium Price

market clearing price where the demand and supply are equal, there is neither shortage nor surplus.

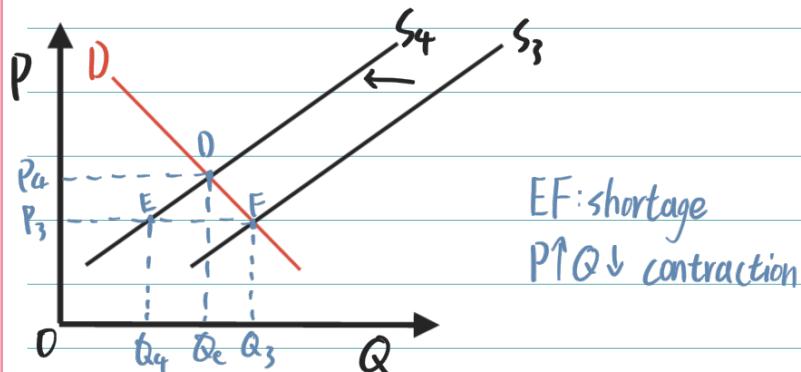
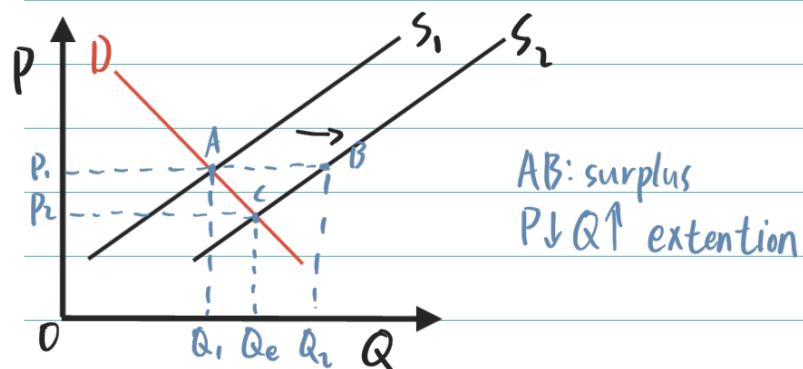
Disequilibrium : a situation where the demand and supply are not equal.

July 15th Economy

The effect of changes in demand



The effect of changes in supply

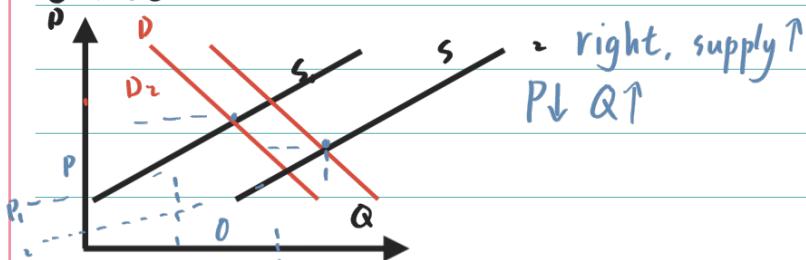


July 15th Economy Changes in demand/supply

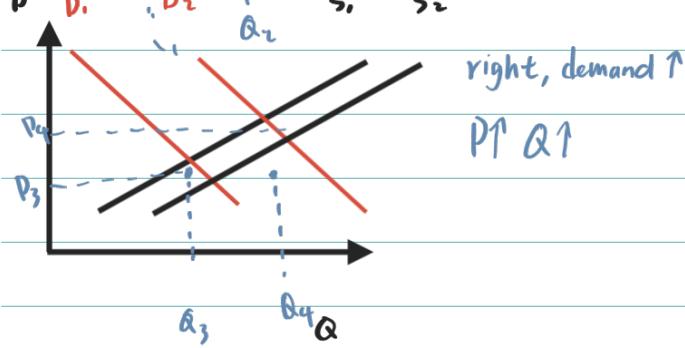
Factors

① direction

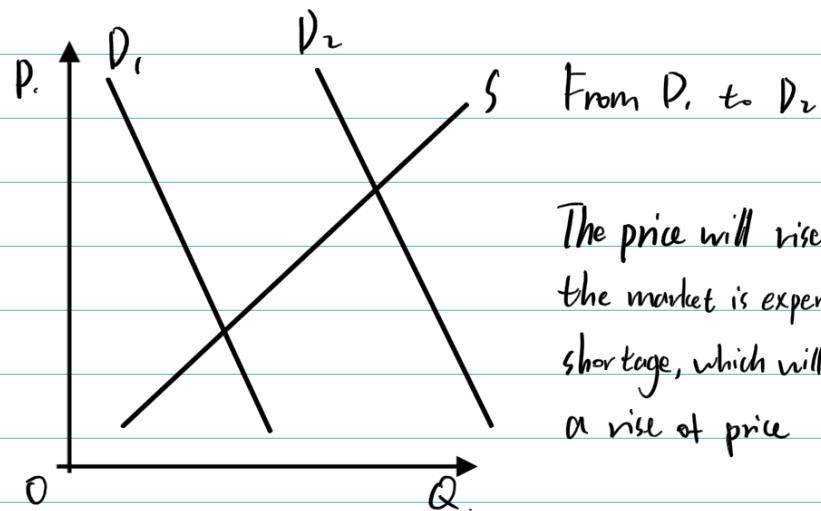
② size



right, supply ↑
 $P \downarrow Q \uparrow$



right, demand ↑
 $P \uparrow Q \uparrow$



From D_1 to D_2
The price will rise, because
the market is experiencing a
shortage, which will result in
a rise of price

July 19 Economy

What PED measures

Price Elasticity of Demand

the changes in quantity demanded changes when the price of the product changes.

$$PED = \frac{\% \Delta QD}{\% \Delta P}$$

Negative

$$\% \Delta QD = \frac{\text{changes in } QD}{\text{original } QD} \times 100\%$$

$$\% \Delta P = \frac{\text{changes in } P}{\text{original } P}$$

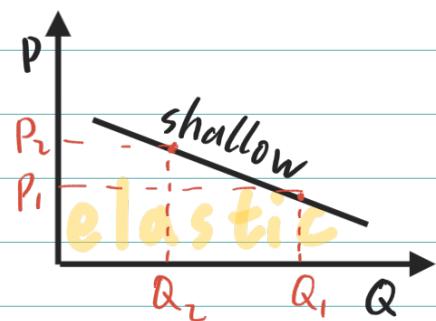
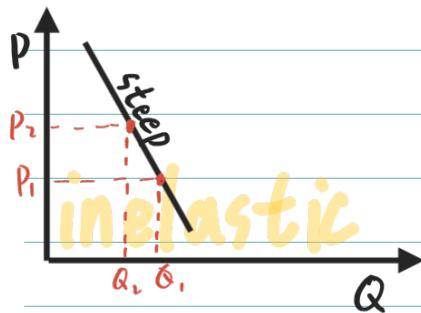
Individual Activity 1 P.83

b. $\frac{\Delta QD = -20}{QD = 200} \times 100 = 10\% \quad PED = \frac{-10\%}{20\%} = -0.5$

- ① sign : 符号 Inverse relationship between demand and price e.g. -0.8
② size : 绝对值 e.g. -2 > -0.8 $P \uparrow 1\% D \downarrow 0.8\%$

Interpretation of PED

Elastic and inelastic demand



Inelastic: $|1 > PED > 0|$

Price \uparrow Total revenue \uparrow

$$PED: -2, -1.25, -1$$

July 19 Economy

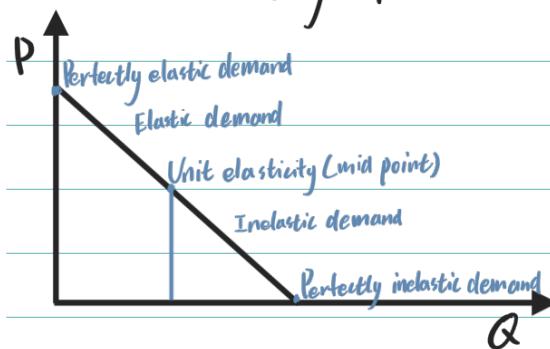
Determinants of PED

Price Elasticity of Demand

- ① substitute if have a close substitute, elastic.
- ② proportion of income spent on the product. Small proportion: inelastic
Large proportion: elastic
- ③ necessity v.s. luxury
- ④ addictive in.
- ⑤ purchase can be delayed e.
- ⑥ the narrower the definition, the more substitutable e.
- ⑦ time period under consideration

Special conditions

{ Perfectly elastic demand: very competitive
Perfectly inelastic demand: very uncompetitive
Unit elasticity of demand: $PED = 1$ revenue is constant



The effect of shift of demand curve on PED

Right: $QD \uparrow \% \Delta QD \downarrow PED \downarrow$

Left: $QD \downarrow \% \Delta QD \uparrow PED \uparrow$

Consumers: elastic: low price high quality

firms: distinctive: less competitive Implication = Significance

government: taxation / subsidy: e: effective in: ineffective

Implications of PED for decision making

July 20 Economy

Price Elasticity of Supply

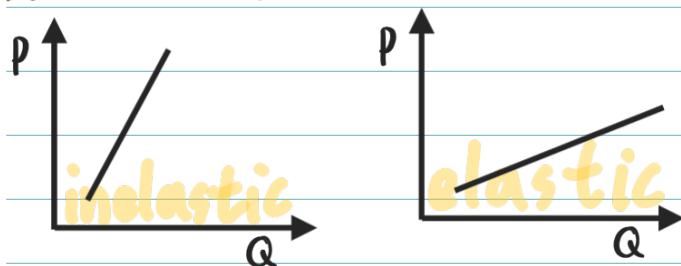
$$PES = \frac{\% \Delta Q_S}{\% \Delta P}$$

Positive $PES > 0$ more responsive

Elastic and inelastic

Elastic: $PES > 1$

Inelastic: $1 > PES > 0$



Determinants of PES

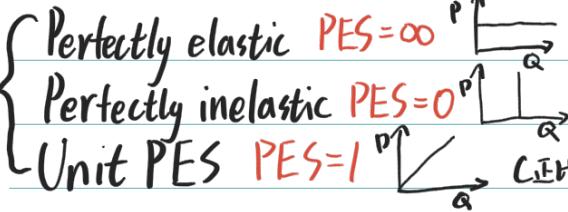
① The time taken to produce quick: e slow: in

② The cost of altering its supply low: e high: in

③ The feasibility of storing it (stock) perishable: in

e.g. agricultural products

Special conditions



$$\% \Delta P = \frac{P_2 - P_1}{P_1} = \frac{kQ_2 - kQ_1}{kQ_1} = \frac{Q_2 - Q_1}{Q_1} = \% \Delta Q_S$$

Changes

① Time period producers more time to alter supply

② Advances in technology reduce time and cost

consumer: elastic

producer: elastic: quicker to respond → more profit

government: elastic: subsidy more effective

Implications of PES

More firms producing sth.: more competition ①

close substitute ②

if price rise, consumers switch to other firms ③

so more elastic ④

July 21st, Economy

Competitions

Incentives

Vocabularys

Advantages

Disadvantages

Market economic system

{ Actual rival firms in the market

{ Potential easy to enter or leave the market

Choice, Lower price, Higher quality

Respond to the demands quickly = rewards (Apple)

entrepreneurs / workers slowly = punishment (Kodak)

Stat-owned enterprises (SOEs) / national industries.

Privatisation (私有化) / Nationalisation (国有化)

- ① Very responsive to changes in demand Consumers = sovereign
- ② Resources change automatically and quickly
- ③ Increased consumer choice
- ④ Cost and prices may be low
- ⑤ Quality may be high

Market Failure fail to allocate resources efficiently

- ① Private sectors only care about themselves
- ② Competition should ensure efficiency but may be none.
Loligopoly 寓头 monopoly
- ③ Not able to response
- ④ Public goods → free riders "non-excludability" "non-rivalry"
- ⑤ Advertising distorting information
- ⑥ Unfairness
- ⑦ Differences in income will increase over time.
- ⑧ Wasteful Competition
- ⑨ Lack of concern for the environment.

Primary sector : 農林漁石

Secondary sector : 工業

Tertiary sector : 服务业

Quaternary sector : high-tech

Public limited company → private sector

July 22nd Economy

Allocative efficiency
(consumers' side)

Efficiency / Market failure

Produce the right products in the right quantity
maximize consumer satisfaction
less: under-production more: over-production

Productive efficiency

Produce at lowest cost making full use of resources
any point on PPC is efficient

Dynamic efficiency

over time, spend money on research and development.

Planned — Mixed — Market
North Korea China Sweden USA

Social benefit
total
Social cost
total

= private benefit + external benefit
第三方受益 without paying

Third parties: those not directly involved in producing or consuming a product.

= private cost + external cost

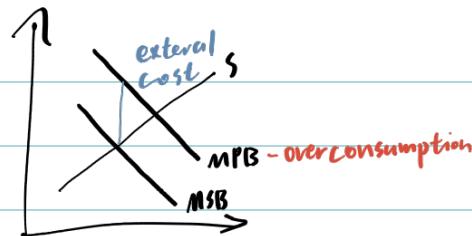
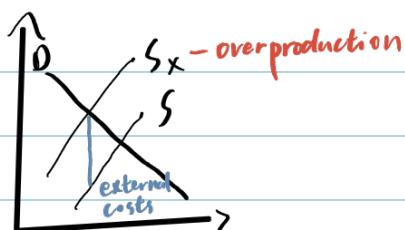
{ lack of information
inaccurate information

Public good: a product which is non-rival and non-excludable and hence needs to be financed by taxation.

Information failure

Causes of market failure

- ① external costs/benefits → over/under-production
- ② public goods
- ③ ^{subsidy} merit goods / ^{taxation} demerit goods e.g. healthcare, vaccine, free primary education
- ④ abuse of monopoly power
- ⑤ immobility of resources



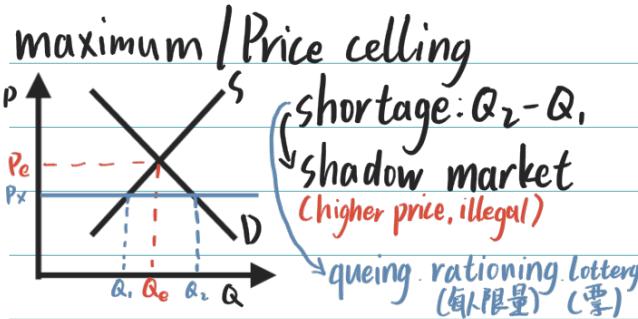
July 23rd Economy

Price control

Effects

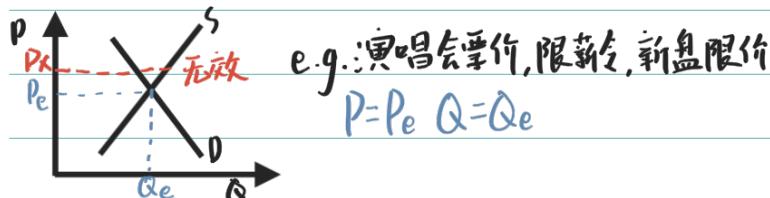
Aim

Mixed economic system

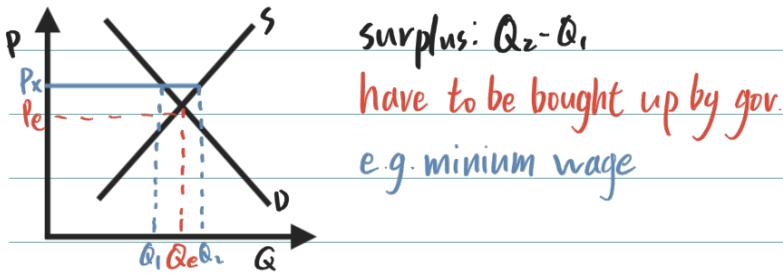


Mixed economic system: an economy in which both the private and public sectors play an important role.

may in order to enable the poor to afford basic necessities

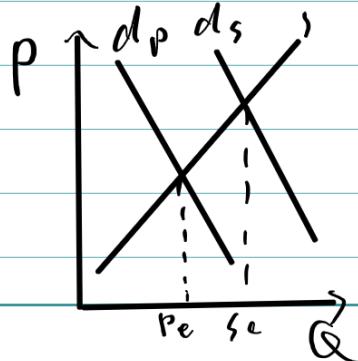


minimum / Price floor



to encourage production of a product

If $P_{min} < P_e$, 无效. $P = P_e$, $Q = Q_e$



How resources are allocated in mixed economic system. Public sector: resources allocated by gov.
products produced by SOEs to overcome market failure.
Private sector: market economic system...

Mixed economic system

Role of government

- take into account all costs and benefits
- encourage the consumption of merit goods
- finance the production of products that can't be charged directly
- seek for the maximum use of resources
- devote more resources to capital goods, so that short-termism does not happen

Minimum wage

- more wage → higher production cost → price rise
- surplus → higher unemployment

Regulations

- instructs the producers and consumers "how to behave"
- demerit goods restricted and merit goods encouraged.
- made to take into account both external costs and benefits
- may not be followed. Costs money to check whether they follow.
- regulations work only if most people agree with it.
- do not directly compensate for those who suffers from market failure
- buy firms to save jobs.
public firm/ SOEs: to maximize social welfare, social benefit / no shareholders / might not overproduce
listen directly to the gov.
difficult to manage / lack profit motive
abused by "political reasons"

Nationalization

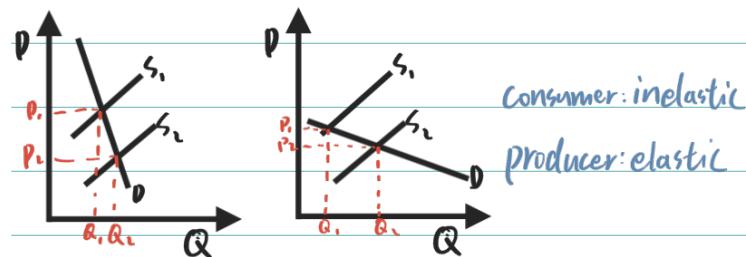
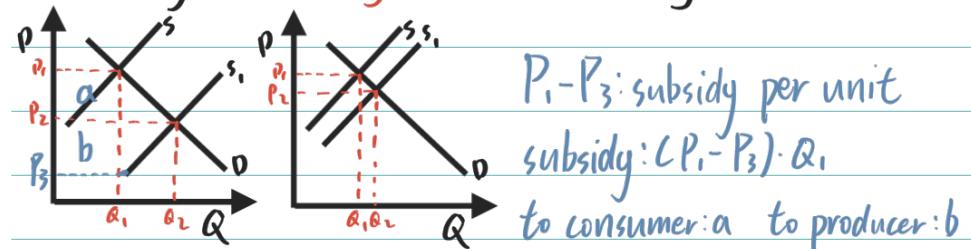
Direct provision : public goods / merit goods provided by gov.

July 23rd Economy

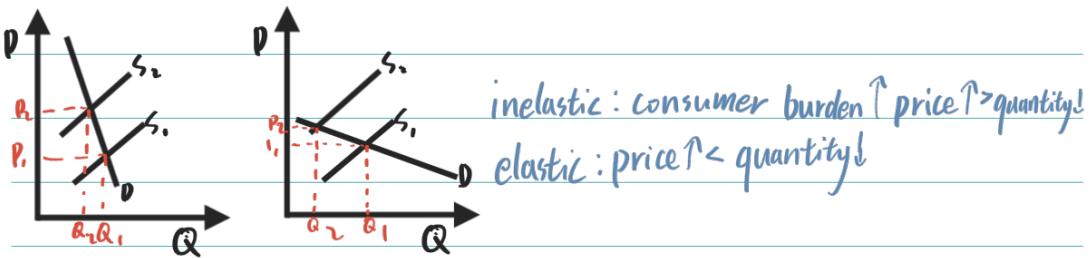
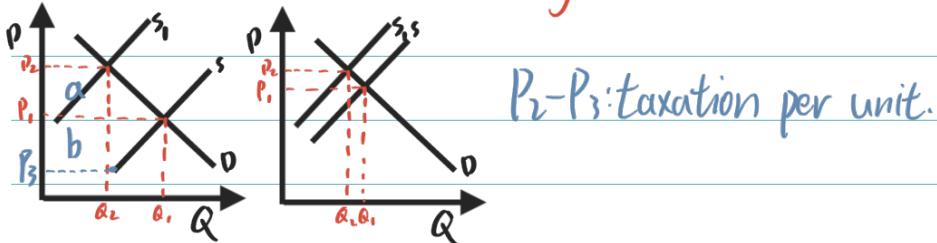
Gov. measures to address market failure

How to overcome drawbacks of market economy

① subsidy (to merit goods) influenced by the size and PED



indirect taxes (to demerit goods)



CBA: cost benefit analysis

② regulations (e.g. price control)

③ Nationalisation and privatisation

④ Direct provision (public goods, education, merit goods)

July 27th, Economy

Forms of money

Function

Characteristics

Banks

① medium of exchange (products-money-products)

② store of value (can be saved)

③ unit of account it量单位

④ standard of deferred payments (can be borrowed / lend)
current / savings account. → overdrawn 透支

① 不一定有价值 (金银 vs. 纸币)

② generally accepted → barter

③ limited supply

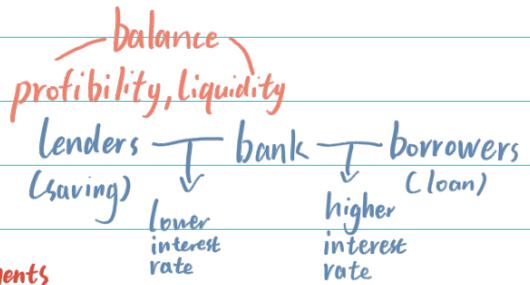
④ durable / portable / divisible (不同面值) / homogeneous (同面值一样)
recognisable

Commercial Bank

① accept deposit

② lend loan / overdraft (透支)

③ enable customers to make payments



Central Bank

① banks providing services for gov.

② banker to commercial banks

③ operate monetary policy → inflation low and steady

interest rate
exchange rate
issue note
foreign currency reserve

Liquidity: being able to turn an asset into cash quickly without a loss.

Legal tender

any form of payment that must be accepted in settlement in a debt of law.

August 2nd Economy

Disposable income

Influences on spending

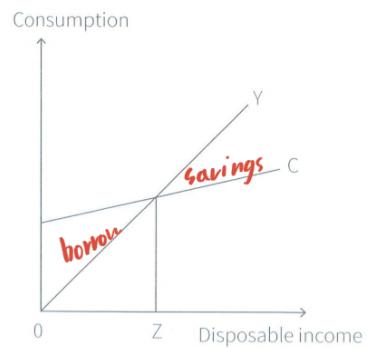
Spending

= income - tax + benefits

- ① disposable income ↑ amount ↑ percentage ↓
- ② wealth (shares → dividend) mortgage 抵押 / 房贷
- ③ confidence in career prospect
- ④ rate of interest cost of borrower ↑ savers income ↑ spend ↑ ^{total} spend less
- ⑤ technology rate of interest
- ⑥ distribution of income

Income and consumption

APC



Saving ratio

$\frac{\text{saving}}{\text{disposable income}}$

Spending ratio

$1 - \text{Saving ratio} / \frac{\text{spending}}{\text{disposable income}}$

August 3rd Economy

Saving

Influence factors

- ① disposable income
- ② wealth
- ③ rate of interest
- ④ tax treatment of saving
- ⑤ range and quality of financial institutions
- ⑥ age structure
- ⑦ social attitudes

Borrowing

Factors influencing choice of occupation

- ① the availability of loans and overdrafts
- ② the rate of interest → cost rise → less borrowing
- ③ confidence
- ④ social attitudes

earnings = wage + overtime pay + bonuses + commission
佣金

Wage time rate system

piece rate system: the amount produced.

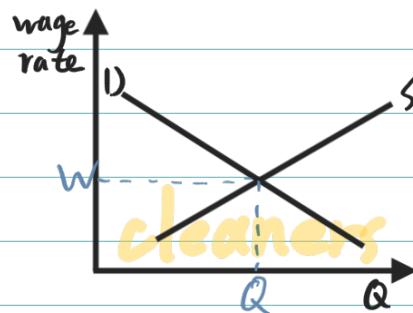
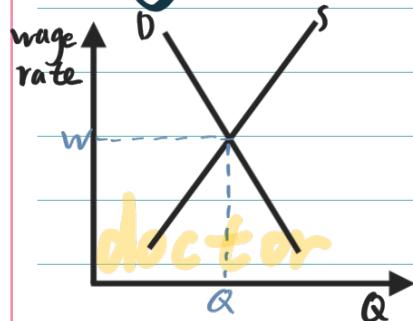
- non-wage factors:
- ① job satisfaction
 - ② type of work
non-manual work
 - ③ working conditions
 - ④ working hours
 - ⑤ holidays
 - ⑥ pensions
 - ⑦ fringe benefits
 - ⑧ job security
 - ⑨ career prospect
 - ⑩ size of firms
 - ⑪ location

APC: Consumption / disposable income

Augst 4st, Economy

Demand and supply

Wage determination



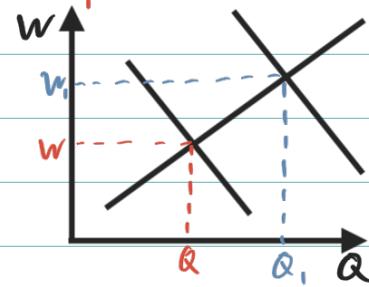
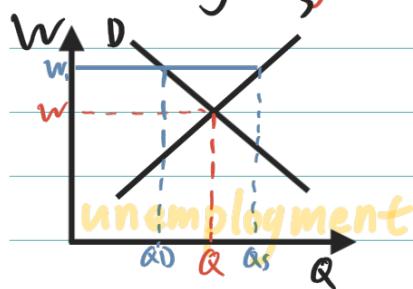
The higher the demand for, the lower the supply of, the higher the pay is likely to be.

Relative bargaining power of employers and workers

Government policies

*~~as~~: difficult to replace
workers' union

minimum wage: higher than equilibrium



Discrimination

discrimination towards women

income ↑ consumption ↑ demand ↑ product ↑
demand ↓ labor ↑ D → D.
no unemployment rising employment

Wages

Why wages change

① changes in demand of labor

an increased demand for the product

a rise in labor productivity

a rise in the price of capital

② changes in supply of labor

a fall in the labor force

a rise in the qualifications or length of training to do the job

a reduction in the non-wage benefits

a rise in the wage or non-wage benefits

③ changes in the stages of production

Primary sector : 农林渔矿业

Secondary sector : 工业

Tertiary sector : 服务业

Quaternary Sector : high-tech

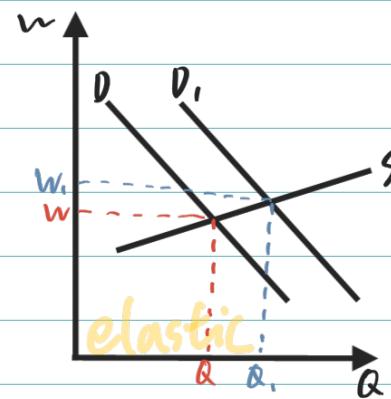
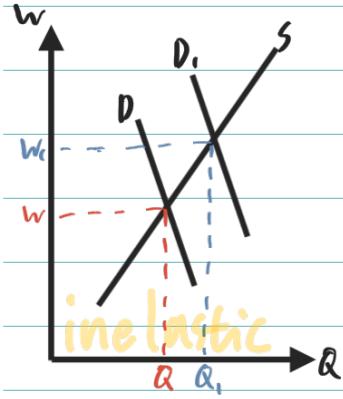
④ Changes in bargaining power

⑤ Changes in government policy

⑥ changes in public opinion

⑦ changes over time

Elasticity of demand for labour



Determinants of EDL

- ① the proportion of labour costs in total costs ↑ elastic
- ② the ease with which labor can be replaced by capital ↑ elastic
- ③ the PED for the product produced wage ↑ cost ↑ price ↑ demand ↓ demand_{4 labour}
demand for product more elastic, demand for labours more elastic.
- ④ the time period

Determinants of elasticity of supply of workers

- ① the qualifications and skills needed ↑ in
- ② the length of training period ↑ in
- ③ the level of employment if most workers employed, in.
- ④ mobility of labour
- ⑤ the degree of vocation 职业归属感
- ⑥ the time period ↑ e.

Specialisation and division of labor

- ① more efficient
- ② lower cost
- ③ lack diversity
- ④ not flexible

Trade unions

definition

association of workers which would support its members

Craft unions

same skill

Industrial unions

same industry

General unions

a range of industry

White collar unions

non-manual workers

Roles

① negotiate on behalf of their members (wages / job security)

② provide information (training / education)

③ pressure their government (legislation / NMW)

④ finance (strike pay / sickness pay)

Protect its members

① ensuring members paid fairly (every month / overtime)

② protecting jobs

③ ensuring satisfactory working conditions

· health and safety

· equal opportunities

Collective bargaining

: representatives of workers negotiating with employers' associations

single worker not powerful enough

Reasons to increase wage

- ① deserves it / working hard
- ② affordable because more profit
- ③ wage rise for similar workers

Industrial Actions

- ① overtime ban
- ② strike {
 numerous workers
 working days lost}
- ③ work-to-rule (only fulfill minimum requirements)
- ④ go slow (do things slowly)
- ⑤ sit in (sit here and don't do the work)

Factors affecting strength of trade union

- ① A high level of economic activity → able to increase pay
- ② A high number of workers → more fund
- ③ High output, all workers employed → competing for workers

Factors affecting strength of members

- ① High level of skill
- ② Consistent demand for the product produced by the workers
- ③ Favorable gov. legislation

Advantages

negotiating power / employment conditions / benefits for sick / job satisfaction / advice and financial support

Disadvantages

Fees / actions they don't want to / Capital than labour

Chapter 20

Firms

Classifications

Stages of production

Size of firms

Determinants

Public Limited Company

Causes of growth

internal increase size	greater market share greater sells increased profit
Lower cost reduce risk increase market share	

external merger / takeover agreement	hostile
--	---------

Merger

Horizontal: same indust/same stage
Vertical: same indust/diff stage
Conglomerate: different indust

Merger: horizontal conglomerate vertical { forward direct outlet
同業 竖式 guaranteed supply
元老 上下游 backward

Economies of scale

Diseconomies of scale

Constant return to scale

Internal

External EoS

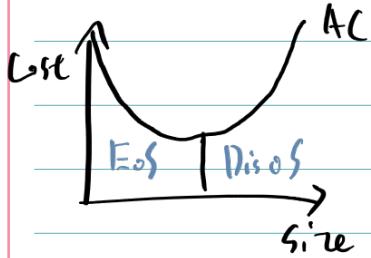
External diseconomies of scale

Scale ↑ cost ↓

Scale ↑ cost ↑

hard to manage
communication problems
poor industrial relations

Scale ↑ cost —



Buying in bulk, lower avg.
Selling packaging / transport
Managerial specialist staff
Labour division of labours
Technical advanced machinery

a skilled labour force
a good reputation
improved infrastructure
specialist suppliers
specialist service
specialist markets

Overconcentration

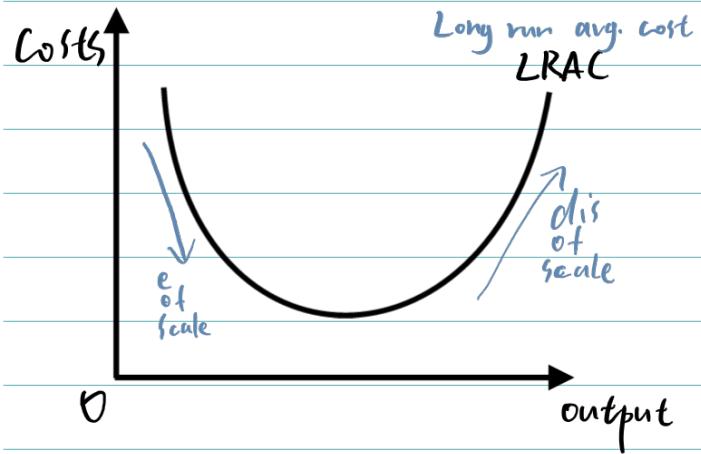
cost of production ↑

skilled labour demand ↑

roads overcrowded, transport cost ↑

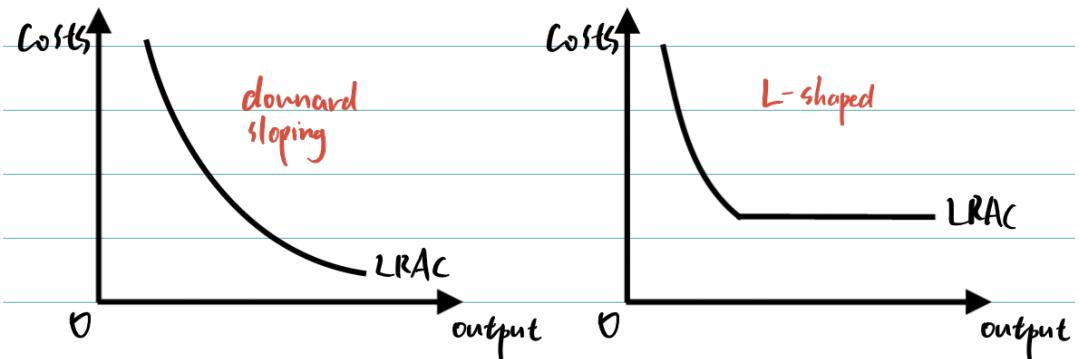
Stay small: retain control / market small / specialised product /
EoS: financial: fund, borrow,
managerial: employ specialist

Internal economics of scale graph



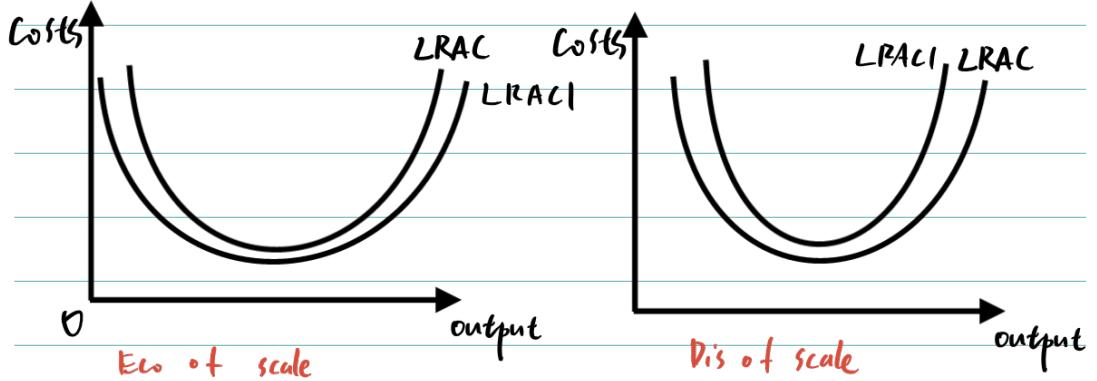
U-shape

Internal economics of scale graph for high capital-intensive firms



L-shaped

External economics of scale graph



Firms and Production

Labour intensive

Advantages

- availability and cost if plentiful labour
- flexible machine hard to change
- personal service interact with consumer
- meet consumer need

Disadvantages

- Cost long run
- Low supply certain type of labour
- Less efficient
- Labour relations

Capital intensive

Advantages

- Lack of labour/skill shortage
- Uniformity better recognize
- Greater output mass production
- Mass market market share
- Technical economies of scale avg. cost ↓
- Working hour

Disadvantages

- Cost initial cost
- Inflexible
- Small/Large scale mass production might not suitable
- Lack of initiative machines don't think
- Depreciation

Factors of production
employed

Altering FoP

Factors affecting demand
for labour

Factors affecting demand
for capital

Factors affecting demand
for land

Production

Productivity

substitutes / complements

short run: at least one fixed

long run: all variable.

econ conditions / demand & product / productivity / higher profit /
cost of capital

price / profit level / tax / disposable income → Consumption / interest rate

productivity / city center / demand for natural resources

total output over specific time

natural factors / tech / infrastructure / gov. policies

a measure of output take FoP into account

tech / raw materials / management / mobility of FoPs / culture of firm

Chapter 22

Firms, costs, revenue and objectives

Total cost

Average cost

Fixed costs

the total amount that has to be spent on F.o.P

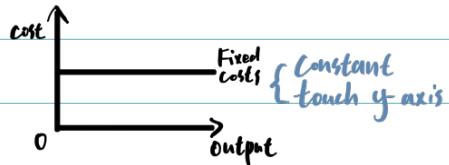
$$\frac{\text{total cost}}{\text{total unit of output}}$$

Average fixed costs

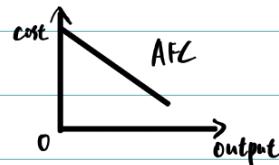
don't vary with the output in short run (e.g. rent)

Salaries : paid monthly

Wages : "variable"

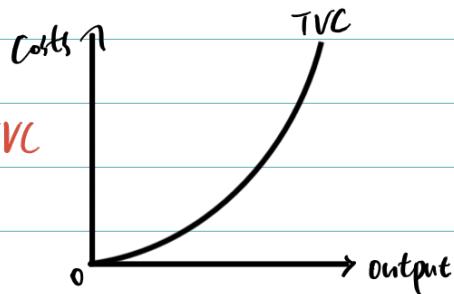


$$\frac{\text{total fixed cost}}{\text{output level}}$$



Variable costs

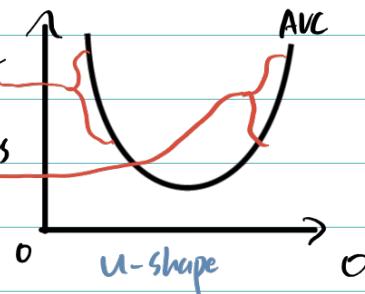
* draw straight TVC line during exam



slowly at first
then rise more rapidly

Average variable costs

- increase pay little or no increase by asking workers to work hard
- then need to employ more workers

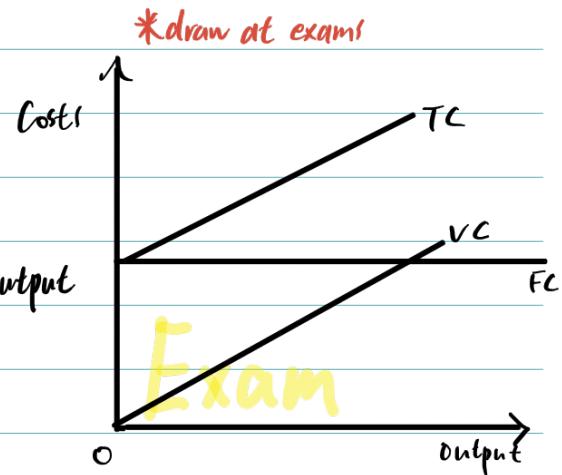


Total cost
(short run)

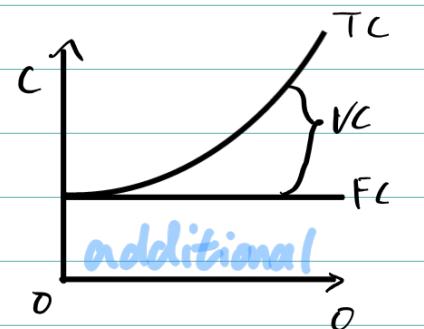
Total fixed cost + total
variable cost = total costs

TC parallel to VC

Assume VC changes at same pace as output

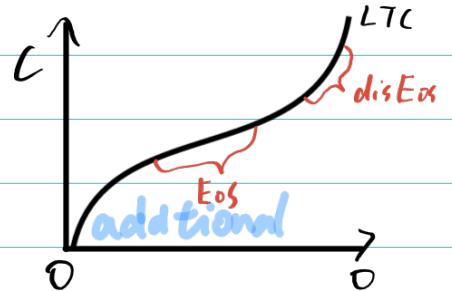
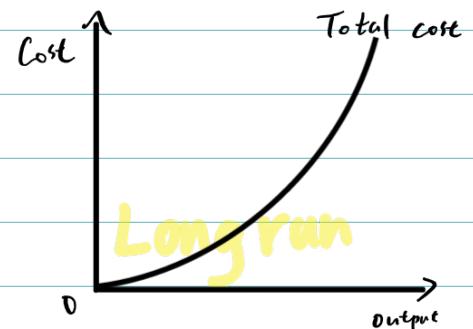


Assume VC changes faster as
output increases
Short run



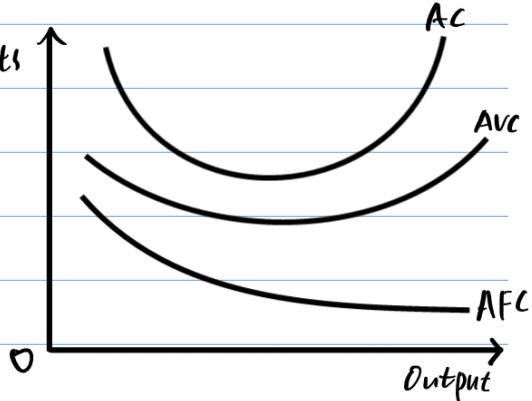
Total cost
(long run)

- no fixed cost
- all F.o.P variable



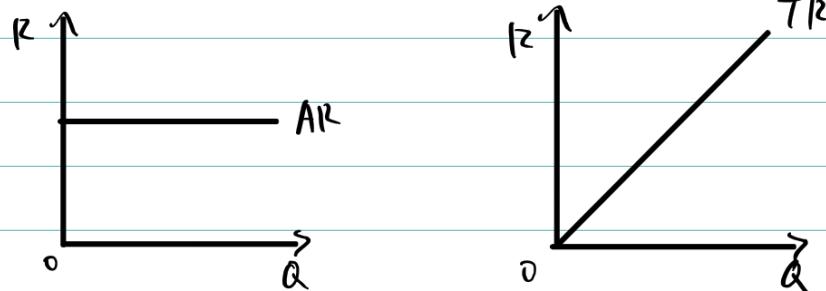
Avg. Total Cost
 Avg. Variable Cost
 Avg. Fixed Cost

keep falling with output
 Fall at first, then rise
 Fall at first, then rise with AVC



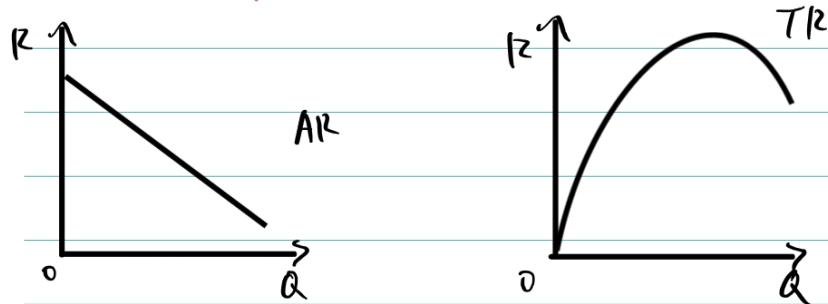
Avg. Revenue
 Total Revenue
 in perfectly competitive market

Avg. Revenue no change TR straight line



AC TC
 in monopoly market

Avg revenue fall when sold rises
 Firms as "price makers"



Firms and stakeholder objectives

include shareholder

Firm pursue

- survival - key for start-ups / recession / strong competitors
- growth
 - [Business Owners: internal EoS, low cost, high profit]
 - [Firm grow in size: more control - higher revenue - high profit]
 - [Employees: get promoted, higher pay / status / job security]
- social welfare
 - [State Owned Enterprises: aimed by Gov. → low price]
 - [Private Firms: improve public image → reputation → higher profit]
- profit satisficing - give up some profit to benefit outside shareholders (staff facilities)
- profit maximization - main objective

Returns to shareholders

investors of firms, "owners" of the companies

Aim: increase share price and dividends

by increasing profit and performing well.

How to increase profit

• Lower cost

1. cheap materials (CSR)

2. advance machine (LR)

3. Mergers → EoS

• Increase Revenue

1. Inelastic PED 3. Advertising

2. Market share

Effect of changes in profit

• Increase

1. incentive for other firms

2. more finance to grow (internal)

3. easier to get finance from bank (external)

4. easier to attract top managers / workers

• Drop

cut back or cease production if profit remains low.

Chapter 23

Market Structure

Market structure

competition

competitive market

perfect competition \rightarrow monopoly

different firms trying to sell similar firms to consumers

a market with a number of different firms that compete with others

- many buyers and sellers
- "No" entry requirements no barriers
- firms being price taker accept price rather than decide it
 - { efficient keep cost low \rightarrow keep price low
 - innovative new methods to reduce cost or dev. new products.
- products similar or identical
perfectly competitive

* consumers have full information about the products.

Price competition

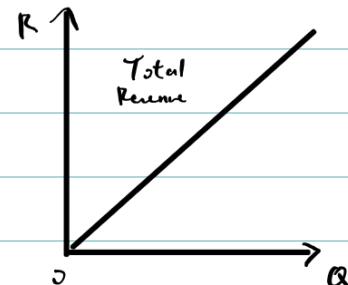
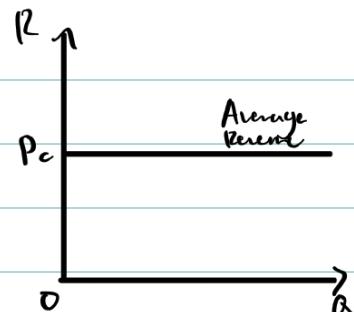
firms lower the price to gain consumers and market share.

only works when demand is elastic

big firms can handle, small firms have limited financial capital

Non-price competition

- quality
- specialist / personalized products
- marketing
- product differentiation



Quality

Advantage: Producers need to maintain quality to keep consumers.

Dis: With fall in price, producers may reduce quality to cut costs.

Choice

A: "price differentiation" increase range.

D: small sellers going out of business. Less choice.

Profit

A: small sellers going out business, higher market share.

D: Lower profit, just enough to survive.

Marginal Cost: Marginal revenue.

cost of making an additional of produce
revenue of selling an additional of produce

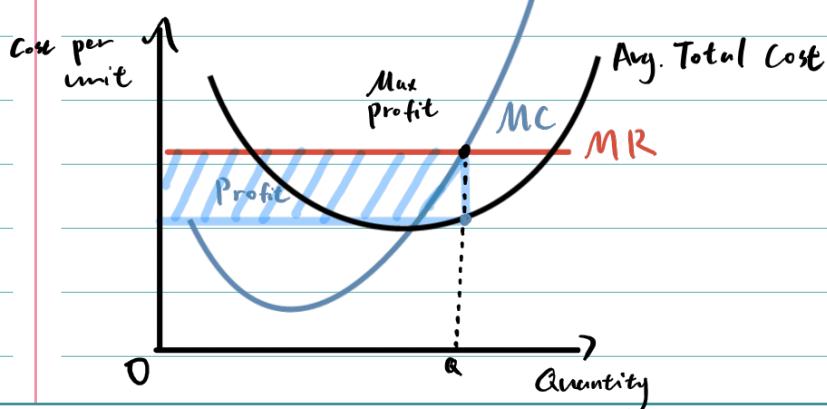
Pricing strategy in perfect competition

maximize profit: $MR = MC$

AR = price \rightarrow unchanged

"normal profit" $AR = AC$ "supernormal profit" $AR > AC$
just enough to cover cost.

caused by no entry barrier



Monopoly

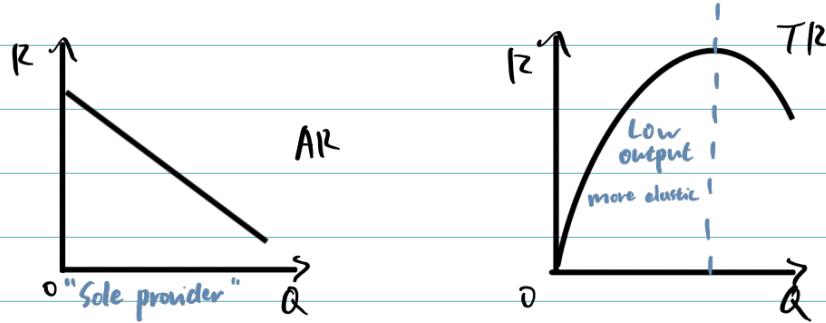
no competition

firms as "price maker"

firms has control over supply but not demand

Characteristics

- Sole supplier
- Price setter/maker firms can determine price or quantity
- Barriers to entry brand loyalty / control raw materials
- Supernormal profit
- Profit not only goal for govt. owned firms
- Imperfect information



Why does monopoly arise?

- Firms cutting the cost and respond to consumer taste
- Mergers or takeovers
- Firm owns the "natural resources"
- "Patent" and high entrance barrier

Why does monopoly continue?

- Entrance barrier
- Price war large firms has EoS → lower cost
- Cost of setting up
- Brand loyalty
- Control over important resources and retailers
- Barriers to exit [sign a long-term contract
sunk cost]

Disadvantages of Monopoly

- Inefficiency no competition → low efficiency → high price
- Low wages only employer for certain skills.
- Exploitation of suppliers only buyer of raw materials → low price
- Lower incentive no competition → less choice + low quality

Advantages of Monopoly

- Economics of Scale low cost → lower price
- Avoiding wastage of resources prevent duplication
- International competitiveness domestic monopoly
- Research and development profits used for R and D
invest in new technology

Regulating competition

- regulating the price and service levels of monopolies
- imposing fines on firms that abuse market power
- force large firms to break into smaller, competing firms