



## DEMAND

Demand is the amount of a good or service that a consumer is **WILLING** and **ABLE** to buy over a **SPECIFIED PERIOD OF TIME**

**Effective demand:** demand matched by a willingness to pay

**The demand curve:** Shows the relationship between the amount demanded and price

**Shift in demand:** A change in quantity demanded caused by something other than price

**Movements along the demand curve:** A change in quantity demanded caused by a change in price.

**Elasticity:** A measure of responsiveness

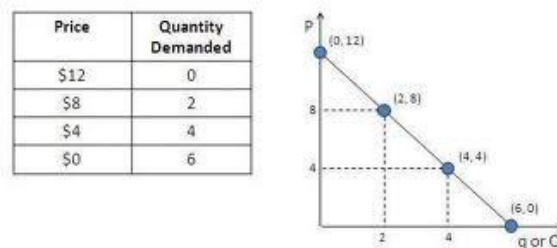
**Price elasticity:** A measure of responsiveness of quantity demanded to a change in price.

**Income elasticity:** A measure of responsiveness of quantity demanded to a change in income

**Cross elasticity:** Measures the responsiveness of the quantity demanded of a good to a change in the price of another good.

### DEMAND AND PRICE

There is usually an inverse relationship between price and quantity demanded. This can be shown in a demand schedule (table showing the relationship between price and Qd) and a demand curve.



The demand curve is downward sloping from left to right because it shows that quantity demanded usually rises and price falls.

A change in price causes a **MOVEMENT** along the demand curve.

When price changes from \$8 to \$12 we will move up the demand curve and there is a **CONTRACTION** in quantity demanded.

When price changes from \$8 to \$4 we will move down the demand curve and there is an **EXTENSION** in quantity demanded.

### FACTORS AFFECTING DEMAND

These are the non-price factors that influence the demand for goods and services.

#### (1) INCOME

For **NORMAL** goods, a rise in income will lead to a rise in demand (and vice versa)

For **INFERIOR** goods, a rise in income will lead to a fall in demand (and vice versa)



## (2) PRICE OF SUBSTITUTES

Substitutes: Goods in rival demand (Pepsi v Coke). A rise in the price of a substitute, may lead to a rise in the demand for our good and vice versa.

## (3) PRICE OF COMPLEMENTARY GOODS

Complementary Goods: Goods in joint demand (CD and CD player). A rise in the price of a complimentary good may lead to fall in the demand for our good and vice versa.

## (4) TASTES AND FASHION

This may be positive (a fashion craze) or negative (a health scare, bad publicity, downturn in demand)

## (5) ADVERTISING

Advertising can be persuasive and informative. Advertising is designed to stimulate the demand for a good or service

## (6) POPULATION (SIZE AND STRUCTURE)

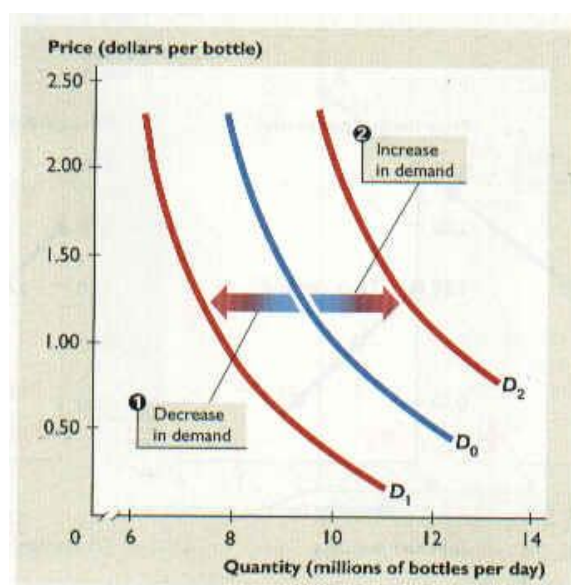
Size: How many people there are. The more people, the higher demand may be.

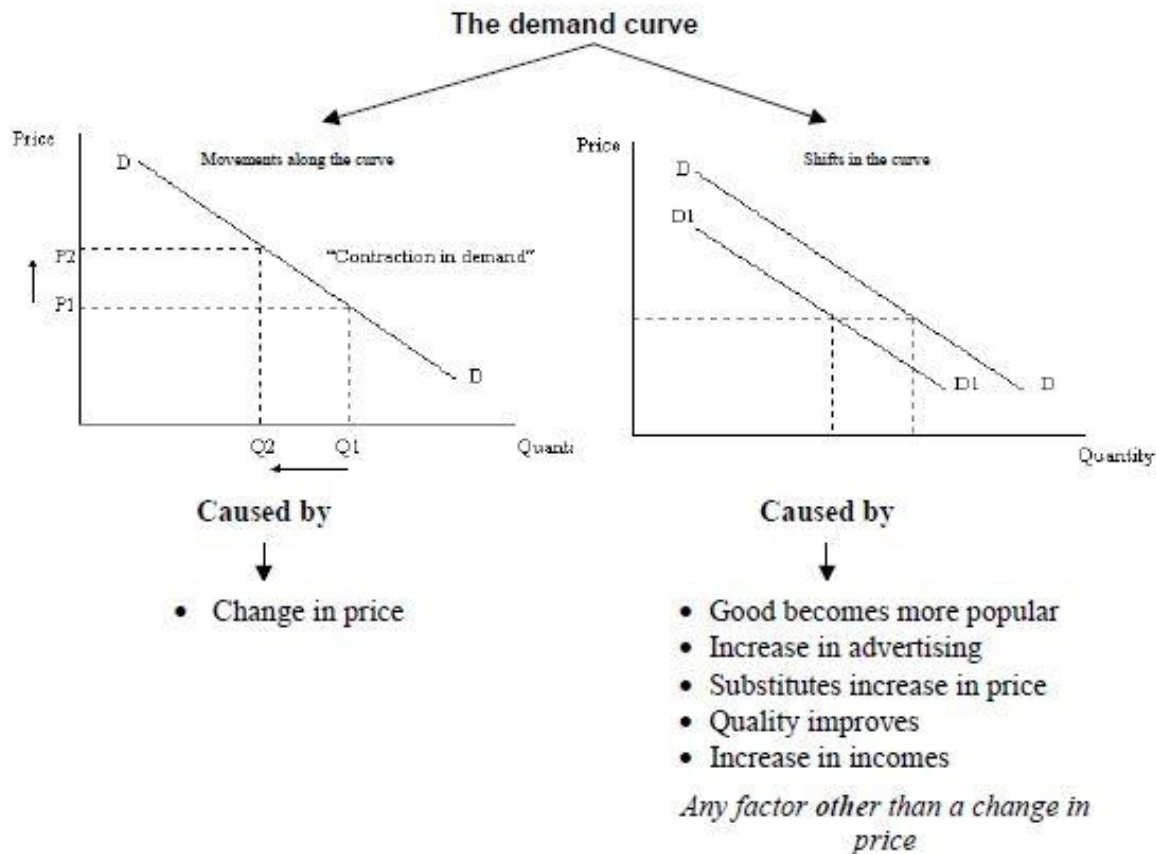
Structure: The age distribution of the population. This may influence which products are demanded. For example, an ageing population may lead to a rise in the demand for health care and SAGA holidays but a fall in the demand for education and nightclubs!

## (7) INTEREST RATES

The demand for some goods is influenced by interest rates (the price of borrowed money) in the economy. This is because some goods are purchased with borrowed money. When money is borrowed, using a bank overdraft or a credit card, for example, interest has to be paid to the lender. Consequently, if interest rates rise it becomes more expensive to borrow. Therefore demand for good purchased with borrowed money will fall.

Changes in these conditions of demand (non-price) cause the whole demand curve to SHIFT:





## ELASTICITY OF DEMAND

There are 3 key elasticities of demand:

- (1) Price elasticity of demand: Measures how responsive quantity demand is to a change in the price of the product
- (2) Income elasticity of demand: Measures how responsive demand is to a change in income
- (3) Cross elasticity of demand: Measures how responsive the demand for a good is to the change in the price of a related good (substitute or compliment)

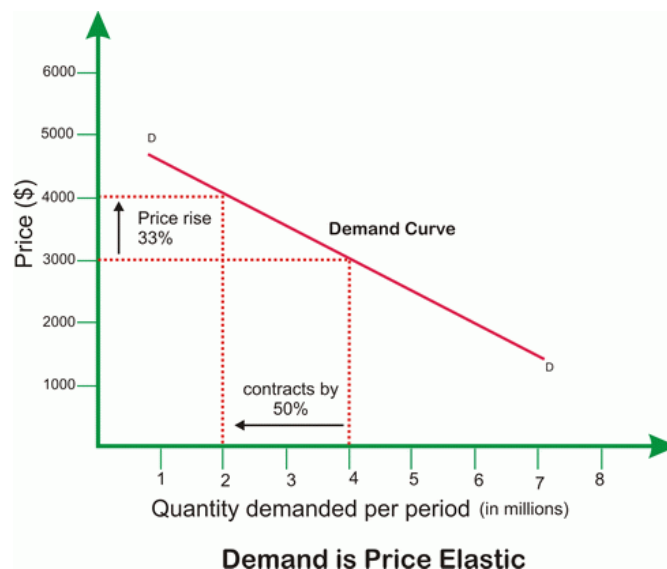
### (1) Price Elasticity of Demand

There are 3 alternatives:

- (1) Demand is price elastic: A % change in price leads to a bigger % change in quantity demanded
- (2) Demand is price inelastic: A % change in price leads to a smaller % change in quantity demanded
- (3) Demand has unitary price elasticity of demand. Any % change in price leads to an identical % change in quantity demanded.

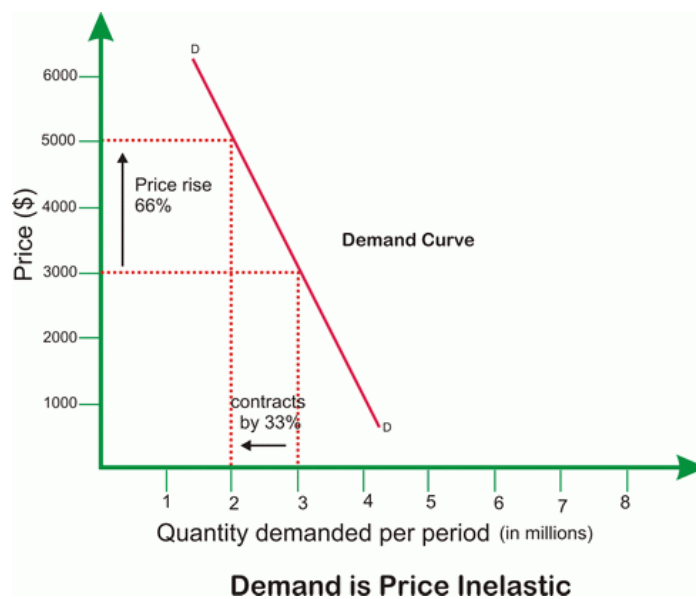
Demand for a product is said to be **ELASTIC** if the percentage change in demand is more than the percentage change in price.

**THE VALUE OF PED IS MORE THAN 1.**



When there is a smaller percentage change in quantity demanded as compared to the percentage change in its price, the product is said to price **INELASTIC**.

*THE VALUE OF PED IS LESS THAN 1.*



What determines whether demand is price elastic or inelastic?

Demand is more likely to be price elastic if:	Demand is more likely to be price inelastic if:
There are lots of substitutes	There are few substitutes
The good is a luxury	The good is a necessity
The good takes up a high proportion of your income	The good takes up a small proportion of your income
The good is durable (lasts a long time)	The good is consumable (gets used up)
The good is heavily branded and has a lot of brand loyalty	The good is not branded



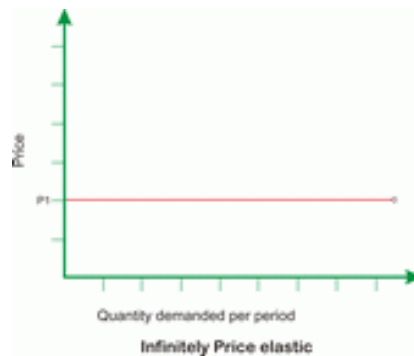
### Why is PED information useful?

(1) It can inform pricing decisions

If a product has price elastic demand, a firm can increase TOTAL REVENUE by putting prices DOWN.  
If a product has price inelastic demand, a firm can increase TOTAL REVENUE by putting prices UP  
If there is unitary elasticity of demand, changing price has no effect on TOTAL REVENUE and so is pointless

(2) It can inform stock decisions- for example a firm is told by a wholesaler that the price of tinned salmon has risen. If the firm know that salmon is price elastic they will foresee a fall in demand and stock less.

### Perfectly Inelastic demand



In this case the  $PED = 0$

That means, any change in price will not have any effect on the demand of the product. Or in other words, the percentage change in demand will be equal to zero. It is hypothetical situation and does not exist in real world.

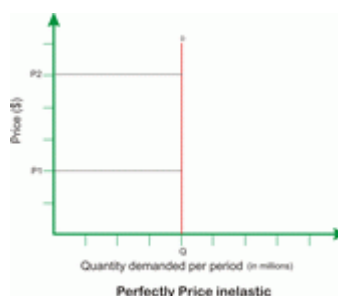
### Perfectly elastic demand.

In this case the  $PED = ?$

The demand changes infinitely at a particular price. Any change in price will lead to fall of demand to zero. It is hypothetical situation and does not exist in real world.

However Normal goods have value of PED between 0 and ?.

These can be classified as inelastic demand when a product has a PED less than 1 and greater than 0, it is said to be have an inelastic demand. The percentage change in demand is less than the percentage change in price of the product.





## (2) Income Elasticity of Demand

There are 3 outcomes:

- (1) Demand is **INCOME ELASTIC**: A % change in income leads to a bigger % change in demand
- (2) Demand is **INCOME INELASTIC**: A % change in income leads to a smaller % change in demand

Why is it important?

Knowledge of IED can inform firms about what is likely to happen when there are changes in income.

For example:

- (a) A firm knows that it produces an **INCOME ELASTIC** good or service. If incomes fall (during a recession) they may predict a downturn in demand and attempt to move into other markets- for example producing inferior goods or income inelastic normal goods
- (b) A firm knows that it produces **INCOME INELASTIC** good or service. This firm will not need to be as concerned about changes in income levels

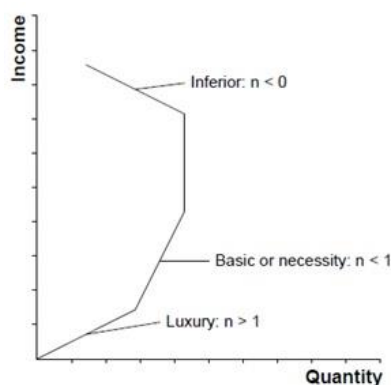
**Normal goods:** an increase in income leads to an increase in consumption, demand shifts to the right. Thus YED is positive for normal goods.

**Inferior goods:** Income elasticity is actually negative for inferior goods, the demand curve shifts left as income rises. As income rises, the proportion spent on cheap goods will reduce as now they can afford to buy more expensive goods.

For example demand for cheap/generic electronic goods will fall as people income rises and they will switch to expensive branded electronic goods.

Basic or necessity goods have a low income elasticity i.e.,  $0 < \eta < 1$ . Quantity demanded will not increase much as income increases (income elasticity for food = 0.2)

Luxury goods have high income elasticity i.e.  $\eta > 1$ . Quantity demanded rises faster than income. For restaurant meals income elasticity is higher than for food, because of the additional restaurant service.



In different types of economies, the demand for goods and services are determined by the income elasticity. As economies grow, firms will want to avoid producing inferior goods. The reason being as income increases more and more people will switch from inferior goods to superior goods.

### (3) Cross Elasticity of Demand: Why is it important?

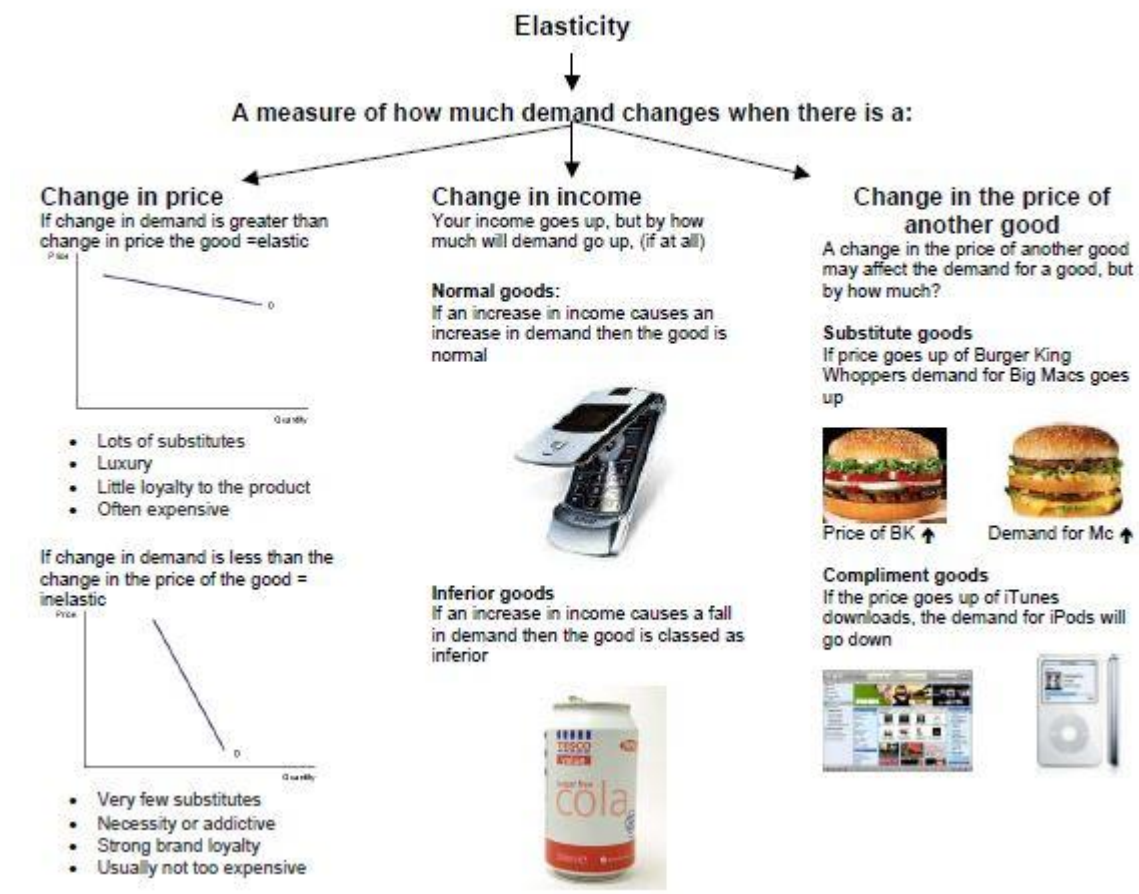
There are 3 alternatives:

- (1) Demand is **CROSS ELASTIC**: A % change in the price of a compliment or substitute leads to a bigger % change in the demand for our good. This is likely to happen when it is a very close compliment/substitute
- (2) Demand is **CROSS INELASTIC**: A % change in the price of a compliment or substitute leads to a smaller % change in the demand for our good. This is likely to happen when the goods are linked but not that closely (or there is strong brand loyalty in place)

Knowledge of CED can alert a firm to how concerned they need to be about changes in the price of related products and how they might adapt to this.

### Examples

- (1) McDonalds know that there is cross elastic demand between Big Macs and Whoppers. If the price of Whoppers falls, McDonalds can predict a fall in demand for Big Macs. They will have to respond- either by cutting the price of Big Macs or trying other offers and promotional deals.
- (2) HMV stock Wiis and Wii games. They know that the 2 have very cross elastic demand. If they know that the price of Wiis is going to fall, they can predict a big rise in the demand for Wiis AND Wii games. This might make them stock more of both products. They may also devise promotional offers that take advantage of the link between the products.





## SUPPLY

Supply is the amount of a good or service that a producer is **WILING** and **ABLE** to produce over a **SPECIFIED PERIOD OF TIME**.

**Profit:** the difference between revenue less costs; accounting definitions are **not** required.

**The supply curve:** Shows the relationship between the amount supplied and price.

**Shift in supply:** A change in quantity supply caused by something other than price.

**Movements along the supply curve:** A change in quantity supply caused by a change in price.

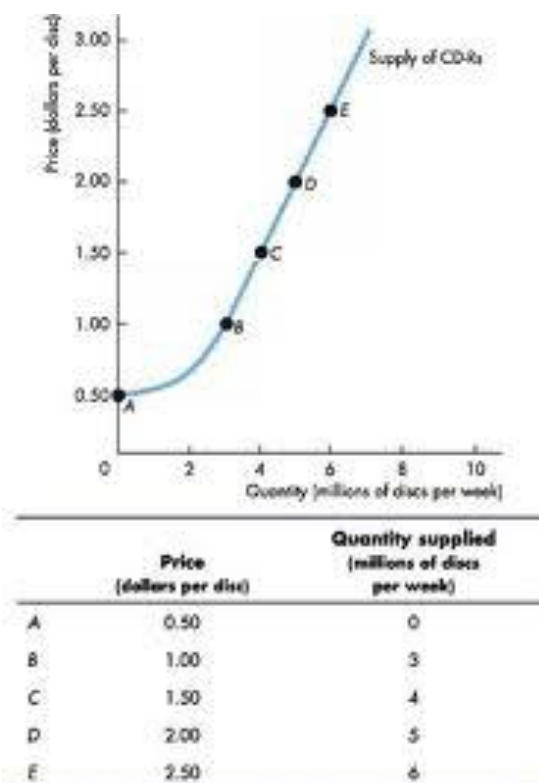
**Price Elasticity of supply:** the rate of response of quantity supplied due to a change in price.

### SUPPLY AND PRICE

There is a positive relationship between price and supply. When price rises, producers are willing and able to supply more of a good or service because the potential to make profit is greater

When price falls, producers are less willing and able to supply a good or service because they will make less profit from it. They may wish to re-allocate their scarce resources into more profitable uses.

This can be shown is a supply schedule and a supply curve



A change in price will lead to a **MOVEMENT** along the supply curve.

A rise in price from £1 to £1.50 will lead to a movement from B to C and an **EXTENSION** in quantity supplied

A fall in price from £1 to 50p will lead to a movement from B to A and a **CONTRACTION** in quantity supplied.



## FACTORS AFFECTING SUPPLY

These are the non-price factors that affect supply. They do so because they affect the firm's willingness and ability to supply.

### (1) COSTS OF PRODUCTION

The higher the costs of production, the lower the profit margins will be. When costs increase, supply will be fall. When costs fall, supply will increase

### (2) INDIRECT TAXES

A tax is a sum of money that a business has to pay to the government. Tax acts like an extra cost of production. If taxes rise, profits fall and supply will decrease. If taxes fall, profits will increase and supply will increase.

### (3) SUBSIDIES

A subsidy is a sum of money that the government gives to a business. This is usually to encourage the firm to do something that brings external benefits, for example training or re-locating in an area of high regional unemployment. A subsidy is an additional source of revenue for the firm. It therefore increases profit and increases the willingness to supply.

### (4) CHANGES IN TECHNOLOGY

Technology means new capital. New capital can increase supply because it makes firms more physically able to produce more AND because it might make production cheaper, thus increasing profits and willingness to supply.

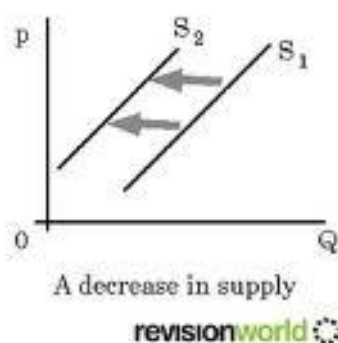
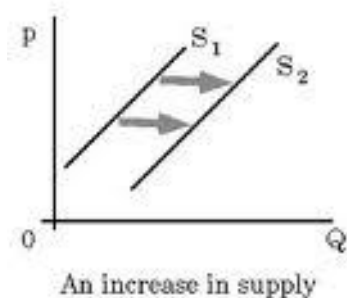
### (5) NATURAL FACTORS

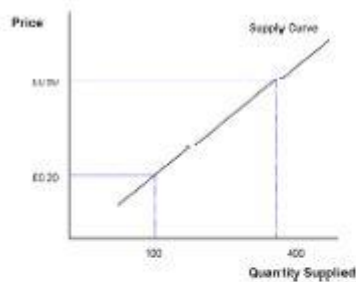
Primary products will be particularly affected by things such as climate and natural disasters

### (6) PRICES OF OTHER GOODS

It is possible for some producers to switch production from one good to another. A change in the price of another good can affect the quantity of supply of the goods to the market.

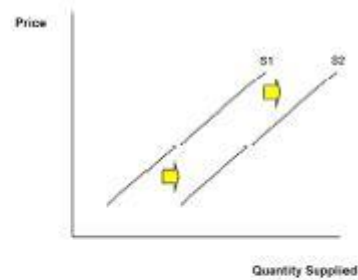
Changes in these conditions of supply (non-price) cause SHIFTS in the supply curve:





Caused by

- Change in price



Caused by

- Cheaper raw materials
- More efficient production
- Better productivity
- New technology

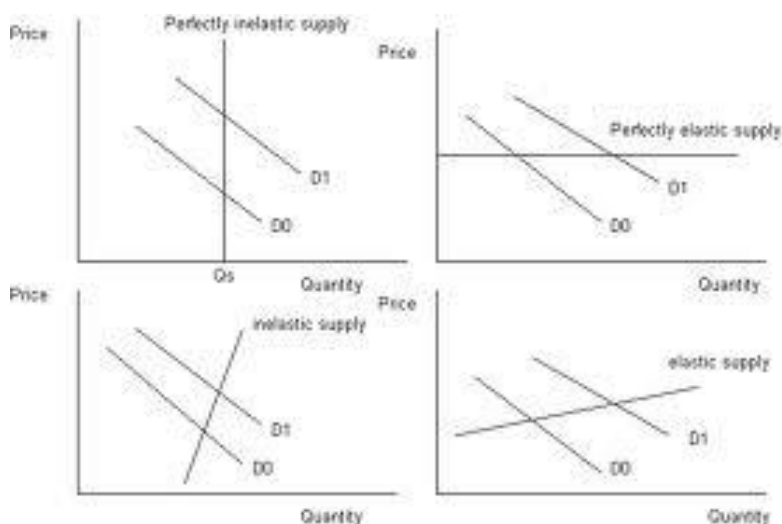
## PRICE ELASTICITY OF SUPPLY

Price Elasticity of Supply measures how responsive supply is to a change in the price of the product. There are 3 alternatives.

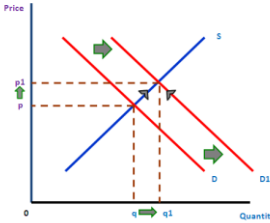
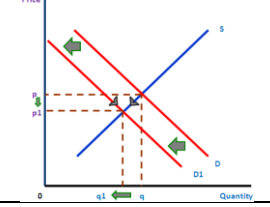
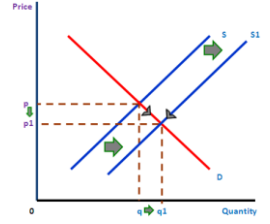
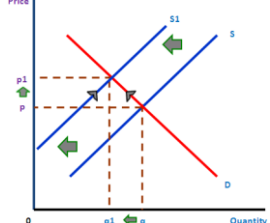
- (1) PRICE ELASTIC SUPPLY: A % change in price leads to a bigger % change in quantity supplied
- (2) PRICE INELASTIC SUPPLY: A % change in price leads to a smaller % change in quantity supplied
- (3) UNITARY ELASTICITY OF SUPPLY: A % change in price leads to an equal % change in supply

The factors affecting price elasticity of supply:

Supply is more likely to be price elastic if...	Supply is more likely to be price inelastic if...
The production process is short- eg making cakes	The production cycle is long- eg building houses, growing crops
The firm is currently operating under capacity and has spare resources to put into extra production	The firm is already operating at full capacity
The firm makes a range of similar products- resources can be switched from one product to another	The firm cannot easily switch resources from other products
In the long term. As time goes on, firms have time to hire new workers, buy more supplies, lease bigger premises etc	In the short term- firms do not have the ability to quickly get hold of the resources that they need to increase production



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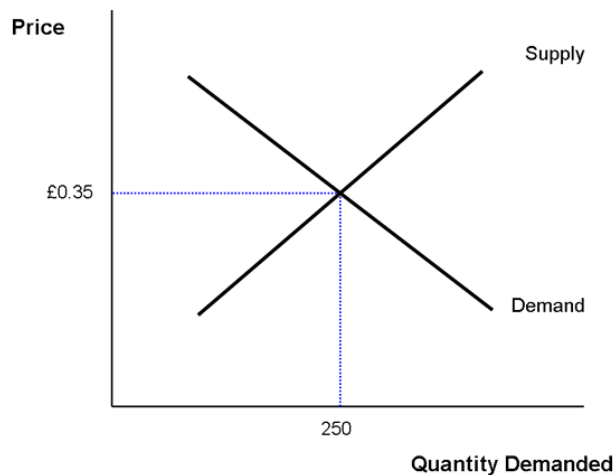
Market Change	Reason for Change	Diagram	Market Surplus or Shortage?	Change in Price	Movement along the Demand Curve	Movement Along the Supply Curve	Change in Quantity
<b>Increased Demand</b>	<ul style="list-style-type: none"> <li>• Successful Advertising or change in Fashion.</li> <li>• Increase in Income (normal good).</li> <li>• Decrease in Income (inferior good).</li> <li>• Seasonal change.</li> <li>• Increased population.</li> <li>• Increase in price of Substitutes.</li> <li>• Reduction in price of Complements.</li> </ul>		Market Shortage	Increase	Contraction	Extension	Increase
<b>Decreased Demand</b>	<ul style="list-style-type: none"> <li>• Decrease in Income (normal good).</li> <li>• Increase in Income (inferior good).</li> <li>• Seasonal change.</li> <li>• Decreased population.</li> <li>• Decrease in price of Substitutes.</li> <li>• Increase in price of Complements.</li> </ul>		Market Surplus	Decrease	Extension	Contraction	Decrease
<b>Increased Supply</b>	<ul style="list-style-type: none"> <li>• Reduced cost of production;               <ul style="list-style-type: none"> <li>○ New technology</li> <li>○ Lower wages</li> </ul> </li> <li>• New Raw Materials.</li> <li>• Reduction in Indirect Taxation.</li> <li>• Increased Subsidies.</li> <li>• Increased supply of a good in Joint Supply.</li> <li>• Reduced demand for a good with composite demand.</li> </ul>		Market Surplus	Decrease	Extension	Contraction	Increase
<b>Decreased Supply</b>	<ul style="list-style-type: none"> <li>• Increase cost of production, (higher wages).</li> <li>• Exhaustion of Raw Materials.</li> <li>• Increased Indirect Taxation.</li> <li>• Reduced Subsidies.</li> <li>• Reduced supply of a good in Joint Supply.</li> <li>• Increased demand for a good with composite demand.</li> </ul>		Market Shortage	Increase	Contraction	Extension	Decrease



# MARKET FORCES AND THE ALLOCATION OF RESOURCES

Resources will be allocated by MARKET FORCES.

Market forces are the forces of DEMAND and SUPPLY. Demand and supply interact to give EQUILIBRIUM PRICE and EQUILIBRIUM OUTPUTS



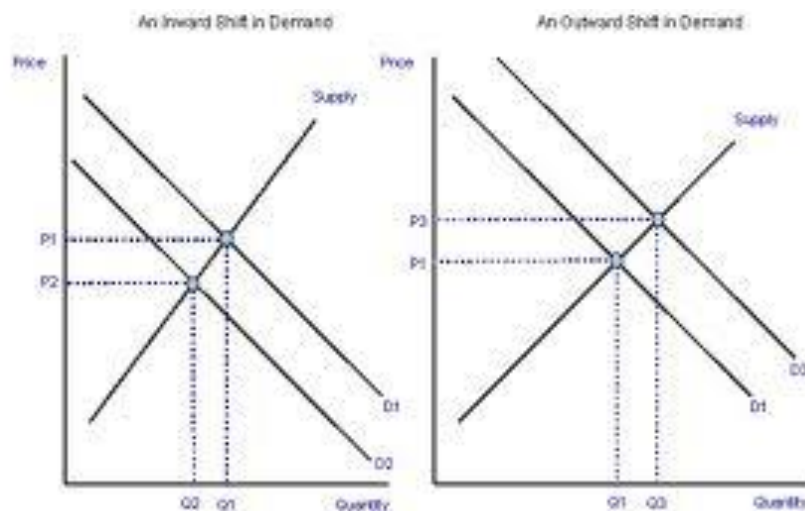
The equilibrium price is 35 pence

The equilibrium output is 250

Equilibrium means that this is a stable market outcome where there is no tendency to change (unless demand and supply change).

Prices, and equilibrium outputs will only change when there are changes in market conditions. This means that there are changes in demand and supply.

Examples:



## THE BASIC ECONOMIC PROBLEM

### What is it?

The basic economic problem is the fact that **RESOURCES** are **SCARCE** (limited in supply) but **WANTS** are **INFINITE** (never ending). As a result of this, consumers, producers and the government have to make **CHOICES** about how to **ALLOCATE** scarce resources.

When we choose one thing, we often sacrifice or give-up something else. **OPPORTUNITY COST** is the highest valued alternative that we forego because scarce resources allocated elsewhere.

### **Unlimited Wants**

Human beings, in order to survive need a lot of things. Some of these things are very important for our existence. For example, food, clothing, water, shelter and air. These things can be classified as **Needs**. Apart from this there are things which are needed by us but they are not important for our survival and we can live without them also. For example, going on an expensive holiday, owning a 57 inches Plasma TV. These are known as **Wants**. This list is never ending and is continuously increasing.

### **Limited Resources**

On the other hand, we have limited resources to produce these goods and services we want. There are not enough car factories to provide cars to everybody on earth. Everything on this planet has some limits except for our Wants.

When unlimited wants meet limited resources, it is known as **SCARCITY**.

### **Alternative Uses**

All the resources we have on this planet can be utilized in a number of way. They have alternative uses. For example, a piece of land can be used for making a factory, or doing farming or constructing a school and so on. Therefore, we have to **choose** what is best for us. If we talk from an economist point of view it means 'making the optimum use of resource available'.

### **Opportunity Cost**

Though we have alternative uses, we have to select the best way to use these resources. When we choose best alternative, the next best alternative which is left out is known as the Opportunity cost of making a choice. In other words, the benefits we lost and could have achieved from the next best alternative.





### Examples of Opportunity Cost

A person who invests \$10,000 in a stock denies themselves the interest they could have earned by leaving the \$10,000 dollars in a bank account instead. The opportunity cost of the decision to invest in stock is the value of the interest.

If a city decides to build a hospital on vacant land it owns, the opportunity cost is the value of the benefits forgone of *the next best thing* which might have been done with the land and construction funds instead. In building the hospital, the city has forgone the opportunity to build a sports center on that land, or a parking lot.

### Economic Problem

The problem then becomes how to determine what is to be produced and how the factors of production (such as capital and labour) are to be allocated. Economics revolves around methods and possibilities of solving the economic problem.

## ECONOMIC SYSTEMS

All economies face the basic economic problem. However, they may have different approaches to addressing it and allocating resources. The approach they choose is known as an “economic system”:

- (a) **PLANNED ECONOMY:** All resources are owned by the **PUBLIC SECTOR** (the sector of the economy owned and controlled by the government). The public sector determines what goods and services are made and how. Goods and services are “shared out” amongst the population.

In a planned economy, the **factors of production are owned and managed by the government**. Thus the Government decides what to produce, how much to produce and for whom to produce.

### Features:

- All resources are owned and managed by the government.
- There is no Consumer or producer sovereignty.
- The market forces are not allowed to set the price of the goods and services.
- Profit is not the main objective, instead the government aims to provide goods and services to everybody.
- Government decides what to produce, how much to produce and for whom to produce.

### Advantages:

- Prices are kept under control and thus everybody can afford to consume goods and services.
- There is less inequality of wealth.
- There is no duplication as the allocation of resources is centrally planned.
- Low level of unemployment as the government aims to provide employment to everybody.
- Elimination of waste resulting from competition between firms.

### Disadvantages:

- Consumers cannot choose and only those goods and services are produced which are decided by the government.
- Lack of profit motive may lead to firms being inefficient.
- Lot of time and money is wasted in communicating instructions from the government to the firms.

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### Examples of Planned economies

- North Korea
- Cuba
- Turkmenistan
- Myanmar
- Belarus
- Laos
- Libya
- Iran
- Iraq (until 2003)

(b) **FREE-MARKET ECONOMY:** All resources are owned by the **PRIVATE SECTOR** (the sector of the economy owned and controlled by private individuals). Goods and services are allocated via the **MARKET MECHANISM**, that is via demand and supply (prices).

### THERE ARE PROS AND CONS OF PLANNED AND FREE-MARKET ECONOMIES:

	Pros	Cons
<b>Planned Economy</b>	It is fair, everyone will get something Theoretically, everyone can be given a job The government can provide merit goods such as health and education, and public goods such as defence	There is no incentive to be efficient There will be little choice for consumers or workers There may be corruption Economic growth tends to be great low because of the lack of profit incentives
<b>Free Market Economy</b>	There is competition- this is good for consumers (Low prices, better quality, more choice, more innovation) There is more incentive to be efficient as low costs can allow low prices which may be important if markets are competitive	Inequality- there will be absolute and relative poverty- poor people will be reliant on charity and will have no choice Public and merit goods may not be provided/will be under produced/consumed- eg not enough access to education and health care Environmental costs (eg pollution) is likely and there is no incentive to look at sustainable use of resources

(c) **Mixed Economy:** Relies on both the public sector and the private sector to provide goods and services. In reality, most economies are mixed. This means there is a mixture of a public sector and a private sector owning and allocating the scarce resources.

Because of the fact that there is scarcity of resources and unlimited wants, it is always a problem to allocate resources in an efficient manner. We are constantly facing three basic questions. These are:

- What to produce?
- How to produce?
- For whom do we produce?

A **mixed economy** is an economic system that incorporates aspects of more than one economic system. This usually means an economy that contains both privately-owned and state-owned enterprises or that combines elements of capitalism and socialism, or a mix of market economy and planned economy characteristics. This system overcomes the disadvantages of both the market and planned economic systems.

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### Features:

- Resources are owned both by the government as well as private individuals.  
i.e. co-existence of both public sector and private sector.
- Market forces prevail but are closely monitored by the government.

### Advantages:

- Producers and consumer have sovereignty** to choose what to produce and what to consume but production and consumption of harmful goods and services may be stopped by the government.
- Social cost of business activities may be reduced** by carrying out cost-benefit analysis by the government.
- As compared to Market economy, a mixed economy **may have less income inequality** due to the role played by the government.
- Monopolies** may be existing but **under close supervision** of the government.

The UK has a mixed economy that is moving towards being more free market:

*Public Sector: Education, Health, Police, Defence*

*Private Sector: Water, Electricity, Gas, Rail, Airlines, Supermarkets, Clothes stores*

*Examples of how the UK has become more free-market: Privatisation; de-regulation; contracting out; Free Schools and Academies*

### UNDERSTANDING THE KEY DIFFERENCES BETWEEN THE PUBLIC AND PRIVATE SECTOR

This can be summarised below:

	Ownership	Control	Aims	Finance
<b>Public Sector</b>	The government on behalf of the people (tax payers)	A government minister will oversee control	To provide a good quality public good or service To allow as many people as possible access to the good or service	Money will be raised from the taxpayer.  Any losses will be funded by the taxpayer.  The business/area could continue even if it was loss making
<b>Private Sector</b>	Private individuals from: Sole Traders (1) Partnerships (2-20) Private and Public limited companies (shareholders)	Owners/Shareholders will lead the strategic direction.  Managers will exercise control on a day to day basis	Mainly to make a profit (unless it is a charity)  Wider aims and objectives (see later notes)	Finance will be from:  Savings Loans Redundancy payments Share issue

## MARKET FAILURE

### What is it?

Faced with the basic economic problem, it is important that scarce resources are used as efficiently as possible.

In a market where there is equilibrium, the resources are allocated in the best possible manner and there is 'allocative efficiency'.

Allocative efficiency is when situation where Marginal cost is equal to Marginal revenue.

However, this is not possible in the real world. Market failure exists when the resources are not allocated efficiently. Community surplus is not maximized and thus there is market failure. From a community's point of view, producer surplus is not equal to consumer surplus.



### Market failure is thus caused by:

- Abuse of monopoly power
- Lack of public goods
- Under provision of merit goods
- Overprovision of demerit goods
- Environmental degradation
- Inequality in distribution of wealth
- Immobility of factors of production
- Problems of information
- Short termism



## THE DIVISION OF LABOUR - SPECIALISATION

The DIVISION OF LABOUR is a system whereby workers concentrate on performing a few tasks and then exchange their production for other goods and services. This is an example of **SPECIALISATION**.

### Advantages of specialisation / division of labour:

#### To the business:

- \* Specialist workers become quicker at producing goods
- \* Production becomes cheaper per good because of this
- \* Production levels are increased
- \* Each worker can concentrate on what they are good at and build up their expertise

#### To the worker:

- \* Higher pay for specialised work
- \* Improved skills at that job

### Disadvantages of specialisation / division of labour:

#### To the business:

- \* Greater cost of training workers
- \* Quality may suffer if workers become bored by the lack of variety in their jobs

#### To the worker:

- \* Boredom as they do the same job
- \* Their quality and skills may suffer
- \* May eventually be replaced by machinery

## TYPES OF SPECIALISATION

It can be argued that using resources in a more specialised way is more efficient and increases production. There are different types of specialisation:

	What is it?	Potential Advantages	Potential Disadvantages
<b>Specialisation of labour (division of labour)</b>	The production process is organised so that workers all have a very specific (and often quite narrow) job role so that they repeat a particular task often	Increased productivity as a result of expertise and repetition. Time is not wasted moving from one job to another  Makes more efficient (planned) use of scarce capital  Requires less training (in unskilled contexts) as workers only have to do a limited range of tasks	Repetition leads to boredom, de-motivation and a reduction in productivity  A break/weakness in the chain (eg a an unproductive worker) could affect the whole production process  For workers, wages may be lower if tasks are unskilled

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<b>Product specialisation</b>	<p>A firm focuses its production on one, or a very narrow range of products</p>	<p>The firm can buy resources to make the product in bulk</p> <p>The firm gains a reputation as an “expert” in the field- this can stimulate demand and make it more price inelastic</p> <p>The above could contribute to a degree of monopoly power in the market</p> <p>The firm can have very specialist buyers and sellers and can focus its research and development budget on one product</p>	<p>It is very risky “all the eggs in one basket” - a decline in the demand for the particular good or service would be catastrophic for the firm</p> <p>It cannot take advantage of cross-subsidising products</p> <p>It does not take advantage of having existing customers who may wish to also buy a range of products from the firm, including compliments (and impulse buys)</p> <p>Consumers increasingly want to buy a range of products under one roof for convenience- they may go elsewhere</p>
<b>Regional specialisation</b>	<p>Certain areas have specialized in certain industrial production e.g. coal mining in Yorkshire, pottery in Stoke.</p> <p>A particular region is focussed on producing a particular good or service.</p> <p>This means that a lot of the jobs in that area are provided by the specialist industry</p> <p>Eg historically:</p> <p>Sheffield – Steel Lancashire- textiles West Midlands- Cars East Anglia- Shoes</p>	<p>Firms in the industry may benefit from external economies of scale (the idea that the growth of an INDUSTRY) leads to lower average costs. This will arise because:</p> <ul style="list-style-type: none"> <li>• There are skilled workers in the local area</li> <li>• The local infrastructure is set up to meet the needs of the industry (roads etc)</li> <li>• Local banks are financially supportive of the industry</li> <li>• Suppliers move to the region, reducing transport costs and making supplies more flexible</li> </ul>	<p>The area is very vulnerable to a fall in demand for the product</p> <p>If demand falls there will be high levels of regional unemployment and the regional problem may arise:</p> <p>Low demand for other G&amp;S in the area Increased crime Poor morale- low educational attainment Increased social problems New firms are reluctant to locate to the area because of the above problems</p> <p>There is a cycle that leads to absolute and relative poverty</p>

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<p><b>International specialisation</b></p>	<p>Certain countries have advantages in producing certain goods. They may have natural resources or they may be able to produce goods more cheaply (e.g. Sri Lanka Tea, Japan electronics). They then trade these goods for those produced in other countries.</p> <p>They have absolute or comparative advantage</p>	<p>World output of goods is increased as all countries focus on what they are good/efficient at and then trade</p> <p>Because Average Costs are lower, prices may be lower</p> <p>Encourages free trade, competition and choice- good for consumers</p> <p>Takes account of the fact that climates and resource endowments vary between countries</p>	<p>Requires trade to allow the exchange of goods and services- this may be affected at times of war/unrest</p> <p>Countries may be unable to access certain G&amp;S if trade is disturbed</p> <p>Some products (such as primary products) have lower prices and more unstable prices. Countries specialising in these find it hard to develop and grow (LDC's)</p> <p>Countries will be vulnerable if there is a downturn in world demand for the products that they specialise in</p> <p>Trade and international competitiveness may be undermined by fluctuations in exchange rates</p>
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