

# Unit 43: Introduction to Businesses, Markets and the Economy

NQF Level 3: BTEC National in Business

Guided learning hours: 60

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## Unit abstract

Businesses do not operate in isolation. They carry out their daily activities in an environment that is very much influenced by the way the UK government manages the economy, within a chosen political framework. Businesses operate in a climate where political differences are solved through the ballot box and the economy is managed by the party in government according to its ideological principles and practical needs as expressed in its manifesto.

This unit is designed to introduce learners to the economic environment in which businesses operate and how this influences their behaviour and shapes their aims and objectives.

Learners will examine the different ways in which countries allocate their resources and how this encourages or stifles the growth of businesses. This will lead to an examination of the changing nature of business activity and how the various sectors and segments contribute to the economy. How the government deals with these changes will be of particular interest to learners.

Learners will also investigate the operation of markets and examine how these respond to changes in consumer demand, level of competition and government regulations. Learners will be encouraged to carry out research on how businesses compete with one another and through the free play of market forces come to the determination of price.

Finally, learners will have the opportunity to assess the impact of changes in the global economy and how these are affecting UK businesses and markets.

## Learning outcomes

On completion of this unit a learner should:

- 1 Understand businesses and the economic environment
- 2 Understand the operation of markets, competition and regulations
- 3 Understand the free play of market forces and the determination of price
- 4 Understand the importance of international trade to UK businesses

## Unit content

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### 1 Understand businesses and the economic environment

*Resource allocation and economic systems:* determination of priorities for the effective use of resources; maximisation of profits and/or satisfaction of needs; type of economic systems; command/central planning; free market; mixed economy; transitional economies; public and private sector initiatives

*Economic sectors and their contribution to the economy:* primary, secondary, tertiary sectors; contribution to GDP and employment in the UK; contribution to the economy by particular segments eg financial, housing, construction, manufacturing, leisure, farming, fishing, retailing, energy, private education, health, taxation and government contribution.

*Government role:* managing the economy; ensuring public sector effectiveness; supporting and regulating private sector organisation; protecting consumers; protecting the environment

### 2 Understand the operation of markets, competition and regulations

*Types of markets:* size of the market eg local, town/city, regional, domestic, European and international market; markets according to activity eg industrial, capital, commodities, services, financial, housing, labour, internal, money and stock market; markets according to level of competition: perfect competition, monopolistic competition, monopoly, oligopoly, duopoly, contestable market

*Pricing and Non-pricing strategies:* loss leader; penetration price; predatory pricing; skimming the market; discrimination/dual pricing; price wars; market price; cash-rich/time poor and cash-poor/time rich dichotomy and determination of strategies; advertising; product availability; range of products; customer service; promotional campaigns; shopping experience; unique selling points; Just-in-Time management approach; product development; economies of scale; mergers; take-overs

*Government intervention in markets:* reasons for intervention; restrictive practices; protection of consumers and smaller firms; encourage competition; ensure fair and honest trading; protect the environment; intervention mechanisms eg Office of Fair Trading, Food Standard Agency, Competition Commission; regulatory bodies eg Ofwat, Ofcom, Ofgem; National Lottery Commission; statutes eg Trade Description Act, Sales of Goods Act

### 3 Understand the free play of market forces and the determination of price

*Factors determining consumer demand:* effective demand; price; income levels; fashion; consumer tastes and preference; quality of product; price of substitute products; price of complementary products; product availability; level of competition; promotional campaigns by suppliers and/or government; demographic factors; elastic, inelastic and unitary elasticity of demand; abnormal demand curve

*Factors determining producer supply:* production costs; availability and price of factors of production; competitive character of product; innovation requirements and availability of new technology; effective market research information; logistic of supply eg transport, timing, packaging; number of firm; government policy; price of other commodities; elastic, inelastic and unitary elasticity of supply

*Market interaction:* market equilibrium; shifts in demand and/or supply and the effect on price; factors determining the operation of the price mechanism to regulate supply and demand; changes in markets; domestic and foreign competition; how businesses respond to changes in consumer demand

#### **4 Understand the importance of international trade to UK businesses**

*The importance of international trade:* impact on businesses and balance of payments; inflows and outflows of capital; UK trade with European Union and other countries; the effects of EU enlargement on businesses, trading blocs and World Trade Organization; the development of China and India as major sources of manufactured products; other emerging markets; the effects of globalisation on developing and developed countries; outsourcing; downsizing

## Grading grid

In order to pass this unit, the evidence that the learner presents for assessment needs to demonstrate that they can meet all of the learning outcomes for the unit. The criteria for a pass grade describes the level of achievement required to pass this unit.

Grading criteria			
To achieve a pass grade the evidence must show that the learner is able to:	To achieve a merit grade the evidence must show that, in addition to the pass criteria, the learner is able to:	To achieve a distinction grade the evidence must show that, in addition to the pass and merit criteria, the learner is able to:	
<p>P1 describe the economic environment, referring to: resource allocation, the contribution to the economy by the various economic sectors (highlighting the types of businesses that are to be found in them) and the role of Government</p> <p>P2 describe the type of market in which a selected business operates and the impact of pricing/non-pricing strategies and government intervention.</p> <p>P3 describe and illustrate changes in supply and demand for a selected product and market interaction</p> <p>P4 outline the importance of international trade to UK businesses and the economy.</p>	<p>M1 analyse the factors that resulted in the UK changing from a manufacturing to a services-based economy</p> <p>M2 analyse the key competitive strategies adopted by businesses in a selected market when responding to changes in consumer demand</p> <p>M3 analyse the factors determining changes in supply and demand for a product in a selected market.</p>	<p>D1 evaluate how government intervention in markets may impact on business operations and consumer demand</p> <p>D2 evaluate how the operation of the price mechanism results in market equilibrium and how it regulates business activities.</p>	

## Essential guidance for tutors

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### Delivery

The objective of this unit is to provide learners with a broader understanding of the market and economic environment in which businesses operate. It will link well with core Unit 1: Exploring Business Activity and specialist Unit 39: Exploring Business and the Economic Environment and specialist Unit 40: International Business.

Learners will be able to understand the ideological principles underlying the UK economy, which is fundamentally guided by the principles of satisfying people's needs and meeting people's wants through the existence of state-owned institutions and a well established system of privately owned businesses pursuing maximisation of profits. Learners will consider how the two combine and the role that the government plays in securing the effective operation of both sectors while ensuring consumer protection. The transformation of the UK economy from manufacturing to services industry and the implications for training and employment come into evidence by examining the contribution to GDP by the various economic segments. While the decline of manufacturing could be considered as evidence of economic stagnation it is also apparent that the expansion of the services industry can be seen as a demonstration of economic affluence. Higher standard of living requires more and better services and the UK is a case in point.

Markets can be differentiated for many reasons and given many labels. However, for the purpose of introducing learners to the work of businesses in markets and the economy, they will be separated on the basis of size, the activity that takes place or the product/service that is sold and the level of competition. The nature of these markets and the interaction of supply and demand result in what is the expected practice, but this might not always be the case. For example, the commodities market is fundamentally a market that brings together rich and poor countries as buyers and sellers, but in a manner that is different to what is normally expected. The commodities market is probably one of the few markets where in many instances the buyer has the upper hand. The buyer is normally the rich country that is able to determine the price of the product. What they pay for the product is not necessarily what the seller initially expected. It is a situation where the forces of supply and demand do not strictly behave according to economic principles. Why this is the case, will require a thorough examination of this particular market. On the other hand the sellers of commodities may adopt strategies directed to protect prices by manipulating supply. The Organization of Petroleum Exporting Countries (OPEC) is a prime example of how developing nations can influence the behaviour of markets to their advantage. Naturally, with oil being a strategic commodity, this is made easier.

The type of markets in which businesses are located will determine the degree of success or failure of their operations. While a business such as Microsoft enjoys the privilege of controlling a monopolistic situation others such as clothes retailing have to battle it out in a highly competitive environment that requires the adoption of pricing and non-pricing strategies. Their share of the market will be depending on the right use of these strategies as they will determine sales and the volume of consumer demand. Conversely, there are businesses such as Procter & Gamble and Unilever that compete against each other mainly. In a duopoly situation like this the two main players dominate the washing-powder market and are able to control prices and supply of the product in its many varieties. Similarly, food retailing is dominated in the UK by a few large supermarkets that although competing very intensively against each other, are able to maintain their position in the oligopoly pyramid by the absence of a larger number of competitors that could threaten their financial power. Mobile phones are in a similar category with the likes of Nokia, Motorola, LG, Samsung, Siemens and Sony Ericsson maintaining a firm hold in the market. Not even giants such as Apple are at the moment in a position to threaten this dominance. Apple's iPhone is expected to capture only 1% of the market by 2008, which is a reflection of the power of the major mobile phone players. The emergence of Original Design Manufacturers (ODMs), mainly in Asia has brought about an element of contestability in the mobile phone market, but this does not appear to be at the moment a serious threat to the dominant position exercised by the big mobile phone manufacturers. On the other hand, an examination of the increased entry into the newspaper market of free dailies can offer further opportunities for an assessment of contestable markets.

Government intervenes in markets to encourage and regulate competition, which is seen as beneficial to consumers and businesses. To this effect government appointed bodies exercise control over business decisions and practices. For example the Competition Commission's investigation of land acquisition by Tesco or the Office of Fair Trading checking on excessive bank charges are directed to prevent restrictive practices by businesses. In addition, government passes laws aimed at ensuring fair and honest trade and safeguarding people's safety and health. By doing so it might affect the operation of businesses and consequently their margin of profits. For instance, public houses and restaurants complain that the ban on smoking will affect demand and this may bring bankruptcy to some of them. But on the other hand, it is the right of government to act in areas that it believes are for the benefit of consumers and workers.

Government is one of many factors that may affect consumer demand for products. To be aware of these will help businesses to determine price and supply of the products. Learners may use their own experience to assess the reasons that motivate people to buy one product instead of another. Income level, price of substitutes and changes in taste and preferences are some of the so-called determinants of demand. Role-play to examine the relationship between sellers and buyers would contribute to illustrate the factors influencing supply and demand for a product. In the same way there are determinants of supply that influence the behaviour of sellers when deciding price and quantity to be supplied. The price of factors of production, changes in technology, number of firms and government policy are some of these.

The interaction of supply and demand and the determination of price can be examined through the various factors that produce shifts in demand and/or supply and it ultimately results in market equilibrium. The examination of the price mechanism to regulate supply and demand can help learners to explore concepts such as inflation and recession that will be further analysed in Unit 39: Exploring Business and the Economic Environment.

The importance of international trade to UK businesses has become more significant with the expansion of the global economy. The emergence of China and India as low-cost manufacturers of goods has offered businesses the opportunity to reduce their overall costs and thus maximise their profit margin. On the other hand, relocation of manufacturing has further precipitated the contraction of this sector in the UK with implications for a rise in unemployment figures. However, the changing nature of the British economy has allowed it to develop other sectors that have been able to absorb some of the displaced workers. European Union enlargement and the development of emerging markets such as Brazil and Russia offer further opportunities for British businesses to profit. Learners will be able to examine the implications for the UK from trade expansion and its effects in the balance of payments. In addition they should be able to assess the work of the World Trade Organization and how this encourages the setting of common tariffs in attempting to narrow the gap between rich and poor countries.

Access to national newspapers, specialised magazines and radio and TV news programmes will be of great help to learners when covering many of the topics referred to above

### **Assessment**

For P1, learners should describe the economic environment, referring to: resource allocation, the contribution to the economy by the various economic sectors of the economy that makes Britain rich (highlighting the types of businesses that are to be found in them), and the role of government. This will lead to the first merit criterion M1 that requires learners to analyse the various factors that resulted in the UK changing from a manufacturing to a services based economy. Learners will need to examine how internal and external factors contributed to this developmental change and the implications for employment and training.

In P2, learners should identify and describe the type of market in which a selected business operates and how it responds to consumer demand. The size of the business to be chosen will depend on the availability of information. Therefore, learners should select a business, which will allow them to gain information using primary and/or secondary sources. They can expand the information gathered to cover M2, which requires an analysis of the key competitive strategies adopted by businesses in a selected market when responding to changes in consumer demand. The mobile phone market is one which learners may be very familiar with, so an analysis of how Nokia, Motorola, Samsung, LG, Sony Ericsson and Siemens compete could be used for the purpose. Similarly, the fierce competition going on among Sony, Microsoft and Nintendo for control of the game consoles industry could help learners to analyse the features, technical aspects and marketing strategies used by the three dominant players. The D1 criterion will require from learners an evaluation of the impact on business operations and consumer demand from government intervention in markets. Learners can select a specific market or gather evidence from businesses in the various markets to produce the required evaluation.

For P3, learners can be given a scenario that will require them to illustrate and describe the changes in supply and demand for a selected product. The same scenario can be used for learners to cover M3 and analyse the factors that determined the changes in supply and demand for the product. Then, learners can tackle the D2 criterion by undertaking an evaluation of how the price mechanism results in market equilibrium and regulates business activities. Excess supply or excess demand will alter the equilibrium and will affect price. In the same way, too high a price or too low a price will affect the quantity supplied and the quantity demanded of a product and it may subsequently have an adverse effect on the business.

In P4, learners are expected to produce an outline on the importance of international trade to UK businesses and the economy. Learners can make use of statistics to describe the importance to the UK from international trade; especially the relationship with the European Union They could also make reference to the inflows of capital into the UK economy.

### **Links to National Occupational Standards, other BTEC units, other BTEC qualifications and other relevant units and qualifications**

This unit links with the following core unit:

- Unit 1: Exploring Business Activity

This unit also links with the following specialist units:

- Unit 39: Exploring Business and the Economic Environment
- Unit 40: Investigating International Business

### **Indicative reading for learners**

#### **Textbooks**

BPP – *Organisations, Competition and Environment* (BPP Publishing, 2003)  
ISBN: 0751712469

Brewster D – *Business Economics* (International Thompson Business P, 1998)  
ISBN: 1861524250

Cave S – *Understanding Consumer Behaviour in a Week* (Hodder & Stoughton, 2001)  
ISBN: 0340782471)

Clark A – *Organisations, Competition and the Business Environment* (FT Prentice Hall, 1999) ISBN: 0201619083

Dicken P – *Global Shift Transforming the World Economy* (Paul Chapman Publishing, 1998) ISBN: 1853963674

Gillespie A – *Business in Action* (Hodder & Stoughton, 2002) ISBN: 0340848200

Hornby W – *Business Economics* (Financial Times Prentice Hall, 2001)  
ISBN: 0273646036

Needle D – *Business in Context* (Thomson Learning, 2000) ISBN: 1861523580

Ridderstrale and Nordstrom – *Funky Business* (Prentice Hall, 2001) ISBN: 0273659073

Trout J – *Differentiate or Die* (Wiley, 2001) ISBN: 0471028924

Wiersema F – *Customer Intimacy* (Peoplebooks, 1998) ISBN: 1861976305

### **The Media**

Newspapers and magazines together with TV and radio programmes are of importance to keep an up-to-date knowledge of the business and economics environment. Of particular interest are the following:

BBC Radio 4's Today and PM News programmes

BBC, ITV and Channel 4 News programmes and special documentaries such as the BBC's Money Programme

The *Business Review Magazine*

The *Business Weekly Magazine*

The *Daily Telegraph* newspaper

The *Economist* magazine

The *Financial Times* newspaper

The *Guardian* newspaper

The *Independent* newspaper

The *Observer* (Sunday) newspaper

The *Sunday Times* newspaper

The *Times* newspaper

### **Websites**

[www.bankofengland.co.uk](http://www.bankofengland.co.uk)

[www.bized.ac.uk](http://www.bized.ac.uk)

[www.carol.co.uk](http://www.carol.co.uk)

[www.census.gov/ipc/www](http://www.census.gov/ipc/www)

[www.corporateinformation.com](http://www.corporateinformation.com)

[www.deloitte.com](http://www.deloitte.com)

[www.direct.gov.uk](http://www.direct.gov.uk)

[www.ecowin.com](http://www.ecowin.com)

[www.europgov.uk](http://www.europgov.uk)

[www.google.co.uk](http://www.google.co.uk)

[www.marksandspencer.com](http://www.marksandspencer.com)

[www.opec.org](http://www.opec.org)

[www.pwc.com](http://www.pwc.com)

[www.statistics.gov.uk](http://www.statistics.gov.uk)

[www.tesco.com](http://www.tesco.com)

[www.theredbox.gov.uk](http://www.theredbox.gov.uk)

[www.un.org](http://www.un.org)

## Key skills

Achievement of key skills is not a requirement of this qualification but it is encouraged. Suggestions of opportunities for the generation of Level 3 key skill evidence are given here. Tutors should check that learners have produced all the evidence required by part B of the key skills specifications when assessing this evidence. Learners may need to develop additional evidence elsewhere to fully meet the requirements of the key skills specifications.

Communication Level 3	
When learners are:	They should be able to develop the following key skills evidence:
<ul style="list-style-type: none"> <li>discussing and assessing what motivates consumers to buy one product instead of another</li> <li>conducting research on the importance of international trade to UK businesses and the economy, using charts or diagrams</li> <li>selecting two news articles relating to government intervention in markets</li> <li>comparing how different types of markets that businesses operate in determine the degree of success or failure of their operations.</li> </ul>	<p>C3.1a Take part in a group discussion.</p> <p>C3.1b Make a formal presentation of at least eight minutes using an image or other support material.</p> <p>C3.2 Read and synthesise information from at least <b>two</b> documents about the same subject. Each document must be a minimum of 1000 words long.</p> <p>C3.3 Write <b>two</b> different types of documents, each one giving different information about complex subjects. One document must be at least 1000 words long.</p>

<b>Information and communication technology Level 3</b>	
<b>When learners are:</b>	<b>They should be able to develop the following key skills evidence:</b>
<ul style="list-style-type: none"> <li>analysing the transformation of the UK economy from a manufacturing to a service-based industry</li> <li>exploring concepts such as inflation</li> <li>producing a report along with their presentation.</li> </ul>	<p>ICT3.1 Search for information, using different sources, and multiple search criteria in at least one case.</p> <p>ICT3.2 Enter and develop the information and derive new information.</p> <p>ICT3.3 Present combined information such as text with image, text with number, image with number.</p>
<b>Improving own learning and performance Level 3</b>	
<b>When learners are:</b>	<b>They should be able to develop the following key skills evidence:</b>
<ul style="list-style-type: none"> <li>planning and monitoring the preparation of their assessment evidence.</li> </ul>	<p>LP3.1 Set targets using information from appropriate people and plan how these will be met.</p> <p>LP3.2 Take responsibility for your learning, using your plan to help meet targets and improve your performance.</p> <p>LP3.3 Review progress and establish evidence of your achievements.</p>
<b>Problem solving Level 3</b>	
<b>When learners are:</b>	<b>They should be able to develop the following key skills evidence:</b>
<ul style="list-style-type: none"> <li>preparing and monitoring the preparation of their assessment</li> </ul>	<p>PS3.1 Explore a problem and identify different ways of tackling it.</p> <p>PS3.2 Plan and implement at least one way of solving the problem.</p> <p>PS3.3 Check if the problem has been solved and review your approach to problem solving.</p>

<b>Working with others Level 3</b>	
<b>When learners are:</b>	<b>They should be able to develop the following key skills evidence:</b>
<ul style="list-style-type: none"> <li>• preparing and planning for a group presentation or role play</li> <li>• producing a log of group meetings</li> <li>• producing a report on the outcome of their group presentation.</li> </ul>	<p>WO3.1 Plan work with others.</p> <p>WO3.2 Seek to develop co-operation and check progress towards your agreed objectives.</p> <p>WO3.3 Review work with others and agree ways of improving collaborative work in future.</p>