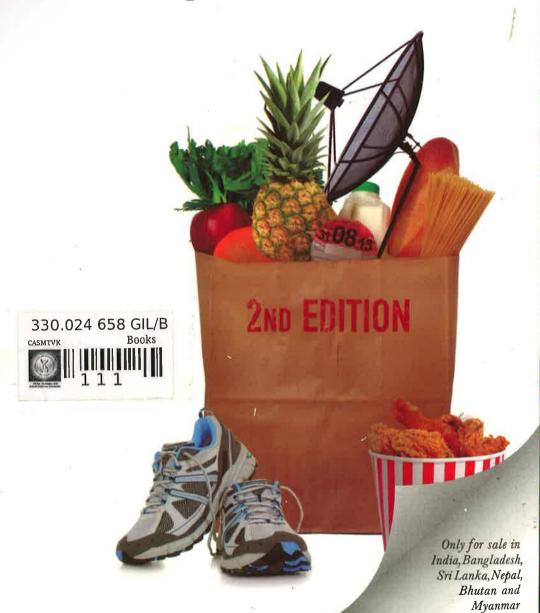
business economics

Andrew Gillespie



OXFORD

Brief contents

	Detailed contents	i>
	New to this edition	xvi
	How to use this book	xvii
	Online Resource Centre	××
	Acknowledgements	xxii
	Preface	xxiii
1	Introduction	1
2	Thinking like an economist	25
3	The fundamental economic problems	53
4	Demand	79
5	Costs and revenues	117
6	Supply	155
7	Markets	178
8	Market analysis: shares, currency, and labour markets	204
9	Perfect competition, monopoly, and price discrimination	245
10	Imperfect competition and alternative theories of the firm	272
11	Market failures and imperfections	301
12	Macroeconomics	331
13	Government macroeconomic policy	362

ŢS	CHECKLIST
ŢS	YAAMMUS
67	Why do economists disagree?
87	Are economists scientists?
97	Distinguishing cause and effect
97	Distinguishing fairness and efficiency
** **********************************	Normative and positive economics
	Rational decision-making
24	The marginal condition
68	Economiq models
22	What does an economist do?
52	Introduction
97	CASE STUDY
SZ	2 Thinking like an economiat
75	оие step further
SS man extracted the second traction of the second	DISCUSSION QUESTIONS
53	SHORT ANSWER QUESTIONS
23	СНЕСКГІЗТ
SS	YAAMMUZ
SS	Eaurent issues
50	Microeconomics and macroeconomics
81	The economic environment
27	Stakeholders
ετ	PESTEL analysis
ET	Business as an open system
II STEEVARTHED	Sectors of the economy
Of Chesital Guestions	noitouborq gniyiissalə
S. S. S. V. W. S. V. B. D. C. L. L. C.	Business as a transformation process
A LANGEST TOWN AND A DAMPHOUSE	Why all business managers should want to be economists
3	What is an economy?
Z	CASE STUDY
	1 Introduction
IIIXX	Preface
mulmukané	Acknowledgements
Heart Ricory	a muse semesan similio
xx orbeardian panething monne 15 e	
iiivx	How to use this book
iivx	noitibe eidt ot weN
	Stnatnoo balista[]
	ما در ادرا

25- 1-0 2		
391	Macroeconomic issues: unemployment and inflation	+

36	Macroeconomic issues: unemployment and inflation	t

хәриј кејегепсеѕ Glossary

SHORT ANSWER QUESTIONS	53
DISCUSSION QUESTIONS	52
ONE STEP FURTHER	52
3 The fundamental economic problems	53
CASE STUDY	- , 54
Introduction	, ¹ 54
Economic resources	55
Scarcity and choice	56
The production possibility frontier (PPF)	57
Economic growth	65
The output gap	66
The three fundamental economic questions	67
The free market	69
The planned (or command) economy	72
The mixed economy	75
SUMMARY	76
CHECKLIST	77
ORGANIZATIONS AND ECONOMICS	77
SHORT ANSWER QUESTIONS	78
DISCUSSION QUESTIONS	78
ONE STEP FURTHER	78
Gr.	
4 Demand	79
CASE STUDY	80
Introduction	80
Understanding demand	81
Marketing and demand	82
Price and demand	84
Consumer surplus	88
To what extent is a change in price likely to affect demand for produ	cts? 89
Price and revenue	94
How does the price elasticity of demand vary along a demand curve	? 97
Apart from the price, what else can affect the demand for products?	102
Shifts in demand	103
How might a fall in demand affect a business?	104
The income elasticity of demand	105
The cross-price elasticity of demand	109
Other forms of elasticity of demand	112
How much should you care if you lose one of your customers?	113
The demand for a business and the market demand	114
SUMMARY	114
CHECKLIST	114
DRGANIZATIONS AND ECONOMICS	115
SHORT ANSWER QUESTIONS	115

DISCUSSION QUESTIONS	116
ONE STEP FURTHER	116
5 Costs and revenues	117
CASE STUDY	118
Introduction	119
Profits	119
The short run and long run	122
Types of costs	123
Average and marginal costs	424
The law of diminishing returns and marginal costs	125
The relationship between average and marginal costs	128
Analysing average costs	129
A Section 1	134
Internal diseconomies of scale	138
The minimum efficient scale	139
External economies and diseconomies of scale	140
Problems reducing costs	141
Revenue	142
Determining the profit-maximizing price and output—the marginal	condition 147
Measuring the profits or losses made—the average condition	149
Producing in the short run—the shutdown point	150
Contribution	152
Producing in the long run—the break-even point	152
SUMMARY	153
CHECKLIST	154
SHORT ANSWER QUESTIONS	154
DISCUSSION QUESTIONS	154
ONE STEP FURTHER	154
Billian Samura Manura	in famous of polyther in spine.
6 Supply	155
CASE STUDY	156
Introduction	157
The supply curve	157
Producer surplus	158
Shifts in supply versus movements along the supply curve	161
The importance of labour productivity to supply	164
i i i i i i i i i i i i i i i i i i i	167
The price elasticity of supply	169
The industry supply curve	173
Joint supply	174
Government influences on supply conditions	174
SUMMARY	176
CHECKLIST	176
SHORT ANSWER QUESTIONS	reserving material and members 177

11 Market failures and imperfections	301
CASE STUDY	302
Introduction	302
Monopoly power	303
Externalities	306
Cost-benefit analysis	310
Property rights	312
Merit and demerit goods	313
Public goods	313
Factor immobility	314
Price instability	316
Imperfect information	320
Inequality	324
Government intervention	327
Government failure	327
Problems with financing intervention	328
The theory of the second best	328
Failures, imperfection, and managers	328
SUMMARY	329
CHECKLIST	329
SHORT ANSWER QUESTIONS	329
DISCUSSION QUESTIONS	330
ONE STEP FURTHER	330
12 Macroeconomics	331
CASE STUDY Introduction	332
The circular flow of income	332
Measures of national income: gross domestic product versus gross national product	334
Aggregate demand and aggregate supply	
Aggregate demand	340
Aggregate supply	341
Macroeconomic equilibrium: aggregate demand and supply	352
	356
	330
SUMMARY	550
CHECKLIST	360 360
SHORT ANSWER QUESTIONS	
DISCUSSION QUESTIONS	360 361
ONE STEP FURTHER	361 361
	301
3 Government macroeconomic policy	362
CASE STUDY	363
Introduction	363
Government economic policies	365
Fiscal policy	366

Monetary policy Fiscal versus monetary policies Demand-side policies Supply-side policies Supply-side versus demand-side policies Keynesian and monetarist views of the economy Problems for the government intervening in an economy SUMMARY CHECKLIST ORGANIZATIONS AND ECONOMICS SHORT ANSWER QUESTIONS DISCUSSION QUESTIONS ONE STEP FURTHER	372 380 381 381 386 387 388 388 389 390 390
1.4 Macroeconomic issues: unemployment and inflation	391
Introduction Unemployment Inflation Keynesians and classical economists Can the government reduce unemployment below its natural rate? SUMMARY CHECKLIST ORGANIZATIONS AND ECONOMICS SHORT ANSWER QUESTIONS DISCUSSION QUESTIONS ONE STEP FURTHER	392 393 394 404 415 417 418 418 419 420 420
15 Macroeconomic issues: growth and balance of payments	421
Introduction Economic growth Balance of payments Conflicting government economic objectives Forecasting economic change SUMMARY CHECKLIST ORGANIZATIONS AND ECONOMICS SHORT ANSWER QUESTIONS DISCUSSION QUESTIONS ONE STEP FURTHER	422 422 434 443 444 445 445 446 446 447
16 International business and trade	448
Introduction Why do countries trade?	449 449 450

Fire words	
Free trade	452
The benefits of trade	454
Exports	458
The importance of clusters	460
Protectionism	461
Trading blocs: free trade areas and customs unions	465
Organizations affecting world trade	467
The euro and the Eurozone crisis	469
Assessing overseas markets for international business	470
Entering overseas markets	471
The business implications of trade	472
Trade and the recession	
SUMMARY	472
CHECKLIST	473
	473
ORGANIZATIONS AND ECONOMICS	473
SHORT ANSWER QUESTIONS	474
DISCUSSION QUESTIONS	474
ONE STEP FURTHER	474
Glossary	475
References	481
Index	482
	102

New to this edition

- New insights from top business practitioners explaining how economics is used in their day to day work
- Tips from business practitioners on the essential skills and attributes they value in the workplace
- Updated coverage of the financial crisis
- Increased coverage of macroeconomics and game theory
- 90% of examples and cases have been updated to illustrate economics in business.

Every effort has been made to trace all copyright holders, but if any have been inadvertently overlooked the publishers will be pleased to make the necessary arrangements at the first opportunity.

Index

ABN Amro RBS takeover of 295 abnormal profits 121, 256, 274 absenteeism 138 absolute numbers 28-30 data analysis 32-3 absolute poverty 324 account money as unit of 373 accounting profit economic profit compared 121 acquisitions 294-5 Adam Smith Institute 77-8 administrative regulations as form of protectionism 462 adverse selection 321 Advertising Standards Authority IIS effect on markets 265 Age of Turbulence, The 298. aggregate demand 334, 336, 340-2, 349-50, 356 boosting 423-4 increase in 352 interest rate and 377-9 shifts in 356-8 aggregate supply 334, 341, 352-6 price elasticity of 354-5, 357 shifts in 356-8 agriculture percentage of income from 60 air travel taxes on 307 Akerlof, George 321 alcohol taxes 307 allocative efficiency 200, 257-8, 261 allocative inefficiency 305 Amazon 305-6 anti-competitive behaviour 262 antisocial behaviour unemployment and 402 appraisals 138 apprenticeships 385 Argentina protectionism 462 assets

Association of South-East Asian Nations (ASEAN) 465-6 asymmetric information 321-2 austerity 369 austerity programme 348 automatic changes fiscal policy 370-2 average condition 149 average costs 34, 124 analysing 129-34 definition 142 relationship with average variable cost and average fixed relationship with marginal costs 128-9 average fixed costs 130 definition 142 relationship with average cost 133 average product definition 141 relationship with marginal product 131 average revenue 142-4 average variable costs 131 definition 142 relationship with average cost 133 relationship with marginal cost 132 averages data analysis 33-4

backward vertical integration 294 Baird, John Logie [1888-1946] 453 balance of payments 434-42 definition 434 elements of 435-6 Bank of England 375-6, 379-81, 389 Monetary Policy Committee 377-8, 406, 412, 419 responsibility for monetary policy 372 banking crisis global 297-8

government rescue of 321-2 reserves 375 bargaining 182-3 barriers to entry 275 markets 250-3 monopolies 259 Bear Stearns 359 Becht, Bart 236 behavioural economists 41 benefit system changing income distribution by 326 benefits 366 changing system for 383 higher levels due to unemployment 402 how government can change 367 betting taxes 307 black cab taxis competition 252 bond sales 328, 348 bonds government 375 book price fixing 262 book publishing 305 book sellers 305 hoom definition 426-7 Bordeaux 460 borrowing 359 cost of 9, 162, 376 effect of higher interest rates 378 government 328, 368-9 restrictions on 375 brand loyalty 259 brands market dominance 263 Branson, Sir Richard 311-2 Brazil economic growth 432 break-even point 152-3 Bretton Woods Conference (1944) 387 BRIC (Brazil, Russia, India and China) economies 108, 437 exports to 459

Bright Food Group 454

Brundtland Commission on Environment and Development 433 Budget 2012 348 budget position government's 368-9 budgets 138, 388 economic cycle and 430 buffer stock scheme 317-8 building 385-6 bureaucracy reducing 383 Bush, President George Walker business economic cycle and 429-31 as transformation process 5-7 business activities types of 11-2 business failures 359 Business Link 446 business objectives 291-4 Business Protection from Misleading Marketing Regulations (2008) 291 business start-ups encouraging 383 business transformation 2 businesses 4 buyer power Porter's 'five forces' 289

Cable, Vince 436 Cadbury 137, 253 camera and film industry changing technology and 253 Cameron, David 339 Canon 253 capacity desired level of 249 determining whether to invest in more 393 capital 7 capital goods 10 market for 223-5 spending on 345-7 capital investment 164 Capitalism, Socialism and Democracy 263 cartels 279-81 definition 279 factors leading to 281 model of 280 Cartels and Competition Act (1998) 281 causation 47 cause

effect distinguished 46-7 cement production 279 Central American Free Trade Area (CAFTA) 465 champagne 250 chewing gum market for 253 China demography 15 economic growth 333, 393, 431-2 exports 456 GDP 338 international trade 454 protectionism 462 trade problems with US 439 choice resources 56-7 City of London 460 classical economists Keynesian economists compared 415-7 climate change 308 Clinton, President William Jefferson (Bill) 364 clusters importance of 460 Coase, Ronald 312 'cobweb' model 316-7 Commonwealth exports to 459 communications improvement of 385 community surplus 303 equilibrium and 200-2 companies biggest 12 disappearance of 263 comparative advantage 450, 458 comparisons data analysis 30-1 competition 255 avoiding 273 black cab taxis 252 exports and 458 impact of exchange rate change on 216 international trade and 453-4 minicabs 252 Competition Act (1998) 282 Competition Commission 295-6 competition law 259, 291 competition policy 305, 382 funding 328 Competitive Advantage of Nations, The 460 competitors

actions of 103 complements effects of price changes on 103 components cost of 162 concave production possibility frontier 62 concentration ratio 247-9 Confederation of British Industry (CBI) 77 confidence 345 congestion charges 307 conglomerate integration 295 Conservative Party 395 conspicuous consumption 87 construction industry 279 Consumer Credit Act (1974) 291 Consumer Credit Act (2006) 291 Consumer Prices Index (CPI) 405,412 consumer protection 291 Consumer Protection from Unfair Trading Regulations (2008) 291 consumer surplus 88-9 consumers choice 291 effect of indirect tax on 198 Consumers, Estate Agents and Redress Act (2007) 291 consumption 343-5 increase in 349 consumption demand 341 consumption products 10 contestability 288-90 contracts setting in own currency 216 contribution concept of 152 fixed costs 151 control problems 138 coordination problems 138 copyright 287 corporate social responsibility (CSR) 308 cost push inflation 406 cost-benefit analysis 310-1 costs falling 162 labour as percentage of total 231 problems reducing 141-2 production 162 reducing 153 types of 123-4 council taxes 9, 366 credit ratings 136

unemployment and 402 cross-price elasticity demand 109-11 importance to managers III cross-section data 30-1 cross-selling 137 Cuba economic conditions 21 currency buying in advance 216 changes in supply and demand 212-3 effects of depreciation 441-3 external demand for UK 208-9 selling for foreign currency 441 shifts in demand for 211 shifts in supply to foreign currency market 211-2 speculation 211, 216 targeting markets using same 216 value of 207 currency markets reaching equilibrium 211 current account deficit 437-41 problems with 439 reducing 440-1 customers loss of 113 customs unions 465-6

dairy products price fixing 281-2 data analysis 28-38 absolute figures and growth rates 32-3 absolute versus relative numbers 28-30 averages and totals 33-4 nominal and real data 32 trends and comparisons 30-1 debt Europe 50 decision-making rational 43 deflation 350, 409-10 value of 49-50 delivery costs 162 demand 71, 255, 302 changes in 69-70, 184-8 cross-price elasticity 109-11 currency 211-3 decrease in 185 definition 81 economic cycle and 430

effect of fall in 187 effects of interest rates on 378 effects of outward shift 191 excess T8T falling effect on business 104-5 ideal price elasticity of for product 100-1 impact of outward shift 184 income elasticity 105-8 increase in 187 labour 228-9 lack of as cause of unemployment 397-8 managers and 81-2 marketing and 82-4 price and 84-5, 195 price elasticity and 98-100 shifts in 103-9, 184-7 surges in 180 wage elasticity of 230-1 demand curve 84, 87 effect of price on 86 price elasticity and 97-8 demand pull inflation 405-6 demand-reducing policies 412 demand-side policies 19, 350, 381 supply-side policies compared 386-7 demerit goods 313 demographic change affecting labour market 353 demography China and US 15 Denso Corporation 280-1 depreciation effects of currency 441-3 deregulation 382-3 design registering 287 unique 101 development 385-6 diagrams analysis 36-7 differentiation strategy 100 diminishing returns marginal costs and 125-7 PPF and 61-2 direct taxes 366 disability benefit reform of 385 discretional changes fiscal policy 370-2 diseconomies of scale 134 external economies and 140-1 distributors access to 250-I

role in mergers, acquisitions and

takeovers 294

diversification 137 dividends 220 dominant position desire for 259 dominant strategy 284 Domino's Pizza 173 downward-sloping demand curve 87,90 Drucker, Peter [1909-2005] 81 Dubai land reclamation 7 Dubner, Stephen 240 Dutch auction 268 e-books collusion on price of 261-2 **EC** Treaty Arts.81 and 82 281 economic change 9 forecasting 444 Economic Consequences of the Peace, The 387 economic crisis (2008) 431 economic cycles 426-7 business and 429-31 economic growth 65-6, 422-6 aim of 363 benefits and costs of 432-3 China 393, 431 desirability of low 393 GDP and 422-3 India 393 rate of 393 economic policy conflicting government 443-4 economic profit accounting profit compared 121 economics current issues in study of 22 differences in structure of 60 managers and 3-5 Economics of Welfare, The 343 economies of scope 137 Economist, The 215 economists disagreements among 49

role of 27-39

of 393-4

control of 364

definition 3-4

elements of 4

economy

scientists compared 48

changes in structure of as cause

of unemployment 398

common indicators of health

thinking like 26-51

effect on labour market 353 effect on labour supply 232 spending on 383 Education Maintenance Allowance abolition of 385 educational achievement improving 385 effect cause distinguished 46-7 effective demand 81 efficiency fairness distinguished 46 elastic demand price 95 emerging markets 2 exports to 459 employee training 164 employees motivation 164 energy costs 162 enforcement competition law 291 Engels curve 107 enterprise 7 Enterprise Act (2002) 291 entry barriers 173 entry threat Porter's 'five forces' 289 environment effect of economic growth on monitoring external business 16 equi-marginal condition 241-2 equilibrium 69, 180-4, 336 currency markets 211 effect of indirect tax on 197-8 effect of subsidy on 199 labour market and 234-5 social welfare and community surplus 200-2 equilibrium price 71, 302 Essay on the Influence of a Low Price of Corn on the Profits of Stock 127 Estate Agents Act (1979) 291 euro 218-9, 333 countries adopting 469 Europe debt 50 European Central Bank (ECB) 218 European Commission (EC) probe into e-book price fixing European Union (EU) 218-9 exports to 459 protectionism 463

education

spending programmes 436 trade with 453 Eurotunnel 123 Eurozone crisis in 469-70 implications of joining 218-9 recession in 428, 431 excess demand 181 excess supply 181 exchange money as medium of 373 exchange rates 206-7, 333 exports and 458 impact of changes in 216 importance of changes in 213-4 overcoming problems of 215-6 expansion incentives for 367 expansion of industry external economies 141 expenditure-reducing policies 440 expenditure-switching policies 441 exploding cobweb 317 exports 342, 458-60 balance of payments 435 barriers to 458 China 456 desired level of 364 earnings from 437 factors affecting 458 impact of exchange rate change on 216 increase in 350 levels of 394 revenue from 451 spending on 349 external economies diseconomies of scale and 140-1 external environment 16, 18-9 externalities markets 306-10

failures managers and 328-9 efficiency distinguished 46 financial economies of scale 136 financial flows balance of payments 436 Germany first-degree price discrimination 2.68 fiscal policy 365-7 automatic and discretionary changes in 370-1 monetary policy compared 380 Fisher, Irving [1867-1947] 408 fixed costs 123

contribution to 151 flexible contracts 172 foreign aid balance of payments 436 foreign currency 209-10 government intervention in markets 217 selling currency for 441 foreign exchange market 206-7 foreign goods spending on 437 foreign investment effect of higher interest rates 378 foreign markets assessing 470-1 entering 47T foreign products spending on 451 Formula One 223 forward vertical integration 294 four-sector circular flow model 335 fraudulent investment schemes 71 Freakonomics 240-1 free goods definition to free market 69-70 concept of 68 managers and 70-1 planned (or command) economy compared 74 free trade 452 free trade areas 465-6 free-rider problem 314 freedom of movement 254 Friedman, Milton [1912-2006] 345, 376, 408 full employment aim of 363

game theory 282-5 General Agreement on Tariffs and Trade (GATT) 467-8 General Theory of Employment, Interest and Money, The 387 genetically modified (GM) crops 162-3 geographical immobility 315 labour 231 economic growth 425 Giffen good 87 Gini coefficient 324-5, 339 Gini, Corrado [1884-1965] 339 GlaxoSmithKline 262 global downturn (2008) 358-9 global economy economic growth and 431

global interdependence 431 goods combination of services and in economy 66 definition 10 taxation of 367 government bonds 375 government intervention 68, 202, foreign currency markets 217 government spending see public spending governments 4 borrowing 328, 368-9 failure 327-8 imposition of price controls 319 influence on investment 226 macroeconomic policy 363-90 problems for intervening in economy 388 protection creating monopolies 264 regulation 309 role in planned (or command) economy 73 subsidies 309 taking over supply 309 Greece debt levels 219 economic crisis 431, 469-70 Greenspan, Alan 298 gross domestic product (GDP) China 338 economic growth and 422-3 GNP compared 337-8 limitations of per person as measure of standard of living 339 US 338 gross investment definition 223 gross national product (GNP) GDP compared 337-8 growth factors preventing 295-6 forms of 294-5 growth maximization 293 growth rates data analysis 32-3 Russia and India 2

HBOS 375 healthcare 54 Helliwell, John 340 Heneage, James 305 high rewards 173 homogenous products 254

horizontal integration 295 house prices falls in 359 household incomes 74 household spending statistics TO8 households 4 housing market improving 384 labour supply and 232

How Life Imitates Chess 286 immigration immobility labour market 315-6 resources 314-20 imperfect competition 273-99 imperfect information 320-4, 327 imperfection managers and 328-9 market 302-29 imports 342, 364 balance of payments 435 changes in value of pound affecting 214 impact of exchange rate change on 216 reduction in 350 spending on 349 income changing distribution 326 circular flow of 334-7 distribution 339 effect on markets 265 expectations of future 345 falling 9 how earned 339 inflation and 410 levels of 324 percentage spent on product 99-100 redistribution 367 income distribution 324 income effect 87 income elasticity demand 105-8 importance to managers 108-9 income flows balance of payments 435

income levels

income tax 9

incomes abroad

exports and 458

target market 102

effect on labour supply 232

reduced by unemployment 402

index numbers 36-7 India differences in structure of economics 60 economic growth 333, 393 indirect taxation 174, 366 effect on equilibrium 197-8 effects of 175 matching to social costs 307 Indonesia protectionism 462 industry percentage of income from 60 industry supply curve 173-4 inelastic demand price 95 inequality income 324-6 infant industries protecting 461 inflation 404-15 analysing 412 anticipated 411 controlling 412 definition 404-5 effects of interest rates on 379 measuring 405-6 monetarist theory of 407-8 problems of 410-1 target for 377 unanticipated 411 unemployment and 412-5 wages and 413-5 information lack of affecting mobility 315 infrastructure improvement of 385 inheritance tax 367 injections planned 335-6 innovation providing incentives for 383 instability 318 Institute for Fiscal Studies (IFS) 78 intellectual property (IP) protecting 287 Intellectual Property Office (IPO) 299 interest rates 333, 345, 376-9 aggregate demand and 377-9 cutting 441 effect of increases 378 factors affecting 376-7

increase in 211

internal diseconomies of scale 138

US 359

internal economies of scale 134-6 international competitiveness inflation and 410 International Labour Organization (ILO) 395,419 International Monetary Fund (IMF) 380-1, 387, 439, 468-9 international trade 214, 449-73 benefits of 454-8 business implications of 472 China 454 competition and 453-4 economic cycle and 430 encouraging 383 purpose of 450-1 recession and 472-3 intervention government 202, 206 government in foreign currency markets 217 problems with financing 328 problems for government 388 investment 345-7 fraudulent 71 government influence on 226 importance of 226 increase in 349-50 level of 249 investment demand 342 involuntary unemployment 400 inward shift supply 163-4 Ireland economic crisis 431 highlighting importance of 308 economic crisis 469-70 J-curve effect 442-3 Japan exports to 459 government investment 76 lean production 167-8 Jidoka 168 iobs availability of information about 231 John Lewis 17 joint supply 174 JSTOR 267 just in time (JIT) production 167-8

kaizen 168

Kapital, Das 326

Kasparov, Gary 286

Keynes, John Maynard [1883-1946] 343, 380, 387 Keynesian economics 357-8, 380 Keynesian economists classical economist compared kinked demand curve model 277-8 Kodak 253 Kondratiev, Nikolai [1892-1938] 428 Kotler, Philip 82 Kyoto Protocol 433 I-shaped recession 428 labour demand for 228-9 determinants of price of 228-30 effect of fall in demand for 194 equilibrium and market for 234-5 factors affecting supply 231-2 geographical immobility 231 reasons for shifts in supply of 232 restriction in supply of 398 shifts in demand for 229, 237-8 shifts in supply of 238 skills and qualifications required 231 substitution 230 supply of 231-2 turnover 138 labour costs 162 Labour Force Survey (LFS) 395 labour market 228-30 changes in conditions 237-9 effect of minimum wage on 240-I factors affecting 353 immobility 315-6 inflation and 414 wage levels in 236 labour markets policies for 383-6 unemployment and 403 labour productivity importance to supply 164-6 methods of increasing 164 land 6 ease of use of 385-6 land reclamation Dubai 7 landfill tax 307 law effects of changes in 103 Law of Diminishing Returns 159 law of increased dimensions 135

Layard, Richard 340 lean production 167-8 learning curve as barrier to market entry 251-2 legal requirements as barrier to market entry 251 Lehman Brothers 359 Levitt, Steven 240 Lloyds Bank 321 bail out of 298 Lloyds TSB 375 location affecting mobility 315 location decision external economies 140 London Stock Exchange (LSE) 243 long-run production 152-3 long-run average costs 133-4 long-run decisions 122-3 long-run equilibrium monopolistic competition 275 in perfect competition 257-8 Lorenz curve 324-5 losses measuring 149 low-price approach marketing 100-1

McBurger index 215 macroeconomic equilibrium 356-8 macroeconomics 20-1 Madoff, Bernard 71 Maersk Lines 136-7 Major Economic Cycles, The 428 managerial economies of scale 135-6 managers business objectives 291-4 demand and 81-2 economics and 3-5 failures and imperfection and 328-9 free market and 70-1 importance of cross income elasticity to III importance of income elasticity to 108-9 markets and 199-200 relationship with shareholders 292 marginal and average revenue calculating 144-6 marginal benefit 42 marginal condition 42-3, 147-9

marginal costs 42, 124-5 definition TA2 diminishing returns and 125-7 labour 234 marginal revenue and 276 relationship with average costs 128-9 relationship with average variable cost 132 relationship with marginal product 127 relationship with total costs 128 marginal efficiency of capital (MEC) 224-6, 346-7 marginal product 125 definition 141 relationship with average product 131 relationship with marginal cost relationship with total product marginal propensity to consume 350-1 marginal propensity to import (MPM) 349, 437 marginal revenue 142-4 marginal cost and 276 relationship with total revenue 146 marginal revenue productivity of labour 234 marginal review product (MRP) 228-9 margins 43 market capitalization 221 market conditions different 195-6 market domination 277 market failures 302-29 avoiding 202 market forces 180 market mechanism see free market market research 81 market share 249 fight for 259 market structure profits and 288-9 relationship with minimum efficient scale 140 marketing demand and 82-4 factors influencing 83 low-price approach 100-1 time 103 Marketing Management 82

markets 180-202 barriers to entry 250-2 capital goods 223-5 chewing gum 253 costs of entering 251 determining which to target 393 exports giving access to 458 externalities 306-10 foreign currency 209-10 labour 228-30 legal requirements as barrier to entry 251 managers and 199-200 negative externalities 306-8 regulation 291 shares 219-20 targeting 265 types of 3, 205-6, 247, 254 variation 206 Marshall, Alfred [1842–1924] 21 Marshall-Lerner condition 442 Marx, Karl [1818-83] 326 materials costs 162 maturity phase products 101 maximax strategy 284 maximization limitations on models that assume 296-7 maximum price setting 319 Mercado Común del Sur (Mercosur) 465 mergers 294-5 merit goods 313 subsidizing 328 microeconomics 20-1 minicabs competition 252 minimum efficient scale (MES) 139-40 relationship with market structure 140 minimum wage effect on labour market 240-1 mission statements 138-9 mixed economy 68-9, 75 mobile phones development of 253 models 39-40 building 23 monetarism 376, 387 inflation and 407-8 monetary policy 365, 372-80 fiscal policy compared 380

recent 379-80

Monetary Policy Committee (MPC) Bank of England 377-8, 406, 412,419 money definition 372-3 demand for 376 money multiplier 373-4 money supply 372-6 monopolies 247, 259-64 barriers to entry 259 creating 264 monopolist definition 304-5 monopolistic competition 247, 274-6 monopoly definition 304 monopoly power 303-5 Moody's 136 Moore, Gordon 163 Moore's Law 163 moral hazard 321-2 most-favoured nation (MFN) 468 motivation employees 164 motivational problems 138 multiplier effect 350-1 Namibia distribution of income 339 Nash equilibrium 285 national debt 369 National Health Service changes to 54 national income 60 measures of 337-40 National Minimum Wage Act (1998) 240 National Planning Policy Framework 385 national treatment 468 nationalization 328 negative correlation 47 negative externalities markets 306-8 Netherlands differences in structure of economics 60 New Economics Foundation 340 New Homes Bonus 385 Nigeria 437 noise 312 nominal data data analysis 32 normal profits 121

normative economics 44-5

North American Free Trade Agreement (NAFTA) 465 Northern California 460 Northern Rock 321, 375 occupational immobility 315 Office for Budget Responsibility (OBR) 389 Office of Fair Trading (OFT) 281-2, 291 Office of National Statistics (ONS) 108 Ohno, Taichi [1912-90] 167 oligopoly 247, 277-8 Olympics (2012) cost of 366 open business culture developing 164 open market operation 375 opportunities definition 16 opportunity cost ratios 455-8 opportunity costs 8 Organization for Economic Co-operation and Development (OECD) 340, 390, 425 Organization of the Petroleum **Exporting Countries** (OPEC) 299 organizational slack 296 Osborne, George 322 'ostentatious' goods 87 Ottaker's Books 305 output 302 determining 147-9 government intervention to increase 309 maximum of country now and in future 65-6 outcome in monopolies 260 output gap 66, 424 outsourcing 2 overseas incomes increase in 211 overseas markets operating in several 216 overtime economic cycle and 430 part-time staff using when demand is high 172 patents 265, 287 pay increases whether to agree 393 perfect competition 247, 254-8 long-run equilibrium in 257-8

perfect price discrimination 269 PESTEL analysis 13-6 petrol taxes 307 Philipps curve 413-6 Phillips, Alban William [1914-75] Pigou, Arthur Cecil [1877-1959] place influencing marketing 83 planned injections 335-6 planned (or command) economy 68, 72-4 advantages and disadvantages 73 free market compared 74 role of government in 73 planning inflation and 410 planning policy improving 385-6 Poland Toshiba shifts production to 453 politics government intervention for reasons of 372 pollution 312 pool of profits 253 population 6-7 target market 102-3 Porter, Michael Eugene 289, 460 Porter's 'five forces' 289-90 positive correlation 47 positive economics 44-5 positive externalities markets 309-10 pound value of 214 price change in 231 changes affecting demand 89-92 demand and 84-5, 195 effect on demand curve 86 effect in short and long run 194 elastic demand 95 inelastic demand 95 influencing marketing 83 outcome in monopolies 260 quantity combinations and 85 revenue and 94-6 price changes effects on complements 103 response of managers to 172-3 price controls government imposed 319

relationship with total revenue 147 price discrimination 264-5, 267-8 price elasticity 90-2, 95-102 aggregate supply 354-5, 357 changes in 98 determinants of 98-100 ideal of demand for product 100-1 supply 169-71 price equilibrium 180-4 price fixing 281-2 e-books 261-2 price levels rates of change of 393 price sensitivity 206 price stability 394 price stickiness 278 price wars 264 price-makers 260 prices economic cycle and 430 other products 103 primary sector 11 Principles of Economics 21 Principles of Political Economy and Taxation 452 Principles of Political Economy, The 127 prisoners' dilemma 282-3 privatization 382 producer surplus 158-60 producers effect of indirect tax on 198 product demand and 99 influencing marketing 83 product development 249 incentives for 367 product differentiation 275 product markets 382-3 production classification of 10 costs 162 legislation to control 308 long run 152-3 methods of flexibility of 172 short run 150-2 taking control of 308 where to locate 393 production possibility frontier (PPF) 57-9, 64, 226, 381, 423,457 outside 64 outward shift 65 shape of 61-3

quantitative easing 379-80 productive efficiency 258 productive inefficiency 59, 305 effect in short and long run 194 products quantity combinations combinations on production price and 85 possibility frontier 58 ideal price elasticity of demand quotas 251 effects of 464-5 for 100-1 as form of protectionism 462 maturity phase 101 profit-maximization 255, 260-1, rational decision making 43 267-8, 274, 276 real data monopolists 304 data analysis 32 profit-maximizing output 148 real wage 384 profit-maximizing price rebalancing the economy 350 determining 147-9 profitability 291 recession definition 427 UK economy 31 international trade and 472-3 profits 119-22, 249 shapes of 428 definition 119 Reckitt Benckiser 236 importance of 119, 121 recovery inflation and 410 definition 427 market structure and 288-9 recruitment 393 measuring 149 economic cycle and 430 monopolistic competition 275 reflation 350 normal and abnormal 121 region risk and 297-8 effect on markets 265 shares 220 regulation promotion funding 328 influencing marketing 83 government 309 promotional spending 284-5 regulatory capture 327 property rights 312-3 relative numbers 28-30 prospect theory 42 relative poverty 324 prosperity increase in 74 economic cycle and 430 protectionism 439, 461-3 forms of 462-3 rents 9 research and development (R&D) reasons for 461 public goods 313-4 Reserve Bank of Zimbabwe 439 public policy effects of 103 macroeconomic policy 363-90 public sector net cash requirement resource allocation 314 resources (PSNCR) 369 immobility 314-20 public spending 342, 348 searcity and choice 56-7 increase in 350 transformation of 55 reducing 50 under use of 354 public-private partnerships (PPPs) 75 use of 8-9 pupil premium 385 waste in planned (or command) purchase economy 73 effect on markets of reason for Retail Prices Index (RPI) 405, 412 retailers purchasing economies of scale 136 role in mergers, acquisitions and purchasing power parity (PPP) 215 takeovers 294 retaliation qualifications fear of as barrier to market entry labour market 231 25I retirement age effect of shift in demand for

labour on 238

affecting labour market 353

return on investment (ROI) revenue 142-4 increasing 153 methods of raising 368-9 price and 94-6 revenue maximization 293 Ricardo, David [1772-1823] profits and 297-8 rivalry Porter's 'five forces' 289-90 Royal Bank of Scotland (RBS) 321,375 bail out of 298 takeover of ABN Amro 295 Sachs, Jeffrey 340 sales revenue maximization 292 sales targets 114 savings effect of interest rates on 378 resources 56-7 school leaving age affecting labour market 353 Schumpeter, Joseph [1883-1950] 262-3 scientists economists compared 48 screening 322 seasonal changes as cause of unemployment 398 second best theory of 328 second-degree price discrimination 269 secondary sector 11 senior managers rewards to 236 combination of goods and in economy 66 definition 10 percentage of income from 60 taxation of 367 share prices fall worldwide 359 importance of changes in 222-3 shareholders 220 relationship with managers 292 factors determining demand 220 increase in value of 220 market for 219-20 trading 220 Shiller, Robert .428

short-run production 150-2 short-run average costs 132 short-run decisions 122-3 shortages 73 shutdown point 150-2 signalling 322 Silicon Valley 460 Simon, Herbert [1916-2001] 297 Singapore 438 skills labour market 231 lack of causing immobility 315 definition 427 SMART objective 119 Smith, Adam [1723-90] 72, 182 smoking effects of ban on in public places 103 social costs matching indirect taxes to 307 unemployment 402 social marginal benefit (SMB) 200 social marginal costs (SMC) 200 social responsibility 17 social welfare equilibrium and 200-2 Sony 253, 453 Spain debt levels 219 economic crisis 431, 469-70 speculation currency 211 Spence, Michael 322 spending changing levels of 366 effect of higher interest rates 378 SSI 347 stable prices aim of 363 stakeholders 17-8 Standard & Poor's 136, 389 standard of living limitations of GDP per person as measure of 339 Sweden statistics household spending 108 steelmaking returns to Teesside 347 stockholding 317-8 straight-line production possibility frontier 62 sub-prime market crisis in 358-9 subsidies 175 targeting effect on equilibrium 199 markets 265 effects of 176 tariffs 251

as form of protectionism 462-3 governments 309 how government can change 367 substitutes 308 substitutes demand and 99 Porter's 'five forces' 289-90 subsidies for 308 substitution effect 87 success protecting 287-8 supplied-side policies 19 supplier power Porter's 'five forces' 290 suppliers access to 250-1 role in mergers, acquisitions and takeovers 294 supply 71, 157-76, 255, 302 changes in conditions 189-90 changes in currency 212-3 determinants of price elasticity of 171 effect of outward shift 189 effect of technology on 162 excess 181 government influences on conditions 174-5 governments taking over 309 importance of labour productivity to 164-6 inward shift 163-4 long run 194 outward shift 161 price elasticity 169-70 shifts in 161-2 short run 194 supply curve 158 definition 157 derivation of 159-61 supply-side policies 366, 381-6 demand-side policies compared 386-7 for economic growth 424-5 sustainable development 433 distribution of income 339 switching costs 99 takeovers 264, 294-5 government 328 target market income levels 102 population 102-3 target setting 138

effects of 464 as form of protectionism 462 Tata Steel 347 tax credits 386 tax rates 367 tax revenues unemployment reducing 50 tax system changing 383 taxation changing income distribution by 326 how government can change 367 taxes 366 levels of 367 technical economies of scale 134-5 technology effect on supply 162 flexible 172 impact of investment on 223 Teesside steelmaking returns to 347 temporary staff using when demand is high 172 tertiary sector 11 Thatcher, Margaret Hilda influence of Milton Friedman on 376 Theory of the Leisure Class, The 88 third-degree price discrimination 268 threats definition 16 time demand and 99 marketing 103 time lag economic cycles 430-1 time series data 30-1 Tokyo Electric Power (Tepco) 76 Toshiba 453 total costs 34, 123 relationship with marginal costs 128 total product definition 141 relationship with marginal product 126 total revenue calculating 144-6 definition 94 relationship with marginal revenue 146 relationship with price cuts 147 Toyoto 167-8 Toyoto Production System 167 Toyoto Production System: Beyond Large Scale Production 167

trade 4, 393 trade deficit 436 trade diversion 466 trade surplus 436 trade unions 239, 398 restricting power of 383 trademarks 287 Trades Union Congress (TUC) 243 trading blocs 465-6 training effect on labour supply 232 lack of causing immobility 315 spending on 383 transformation process 22-3, 180 business as 5-7 transport links improving 385 Treasury 389 trends data analysis 30-1

u-shaped recession 428 UK Trade and Investment (UKTI) unemployment 384, 392, 394-404 causes of 396-8 consequences of 401-2 definition 394-5 flows of 399 inflation and 412-5 labour markets and 403 low 394 measuring 395-6 natural rate of 400-1 rate of 393 reducing tax revenues 50 voluntary and involuntary 400 whether government can reduce below natural rate 417-8 unemployment benefits effect on labour supply 232 unemployment trap 232, 398 Unfair Terms in Consumer Contracts Regulations (1999) 291

unique selling proposition (USP) 264 uniqueness 101 United Kingdom anti-competitive agreements 281 differences in structure of economics 60 external demand for currency 208-9 shrinking economy 333 United Nations (UN) 446 **United States** anti-competitive measures 281 crisis in sub-prime market 358-9 demography 15 differences in structure of exports to 459 GDP 338 interest rates 359 protectionism 463 trade problems with China 439 Universal Credit 386 upward-sloping demand curve 87 v-shaped recession 428 money as store of 373 variable costs 123 Vebken, Thorstein [1857-1929] 88 vehicle taxes 307 differences in structure of economics 60 Virgin Atlantic 312

Virgin Money 375 Vision Express 173 voluntary unemployment 400 wage differences 235-6 wage elasticity

demand 230-1 wage rates 384 wages 9 above equilibrium 319

effect of shift in demand for labour on 238 factors affecting 240-1 government influence on 240 inflation and 410, 413-5 too high as cause of unemployment 396-7 wastage in planned (or command) economy 73 economic cycle and 430 Wealth of Nations, The 72 Wealth and Welfare 343 weighted indices 37-8 welfare maximizing output 44 welfare loss social burden area well-being 339-40 withdrawals 335 work incentive to 367 Work Capability Assessment work incentives improving 386 workforce planning 249 working conditions 231 working population extent of 231 World Bank 387, 496

World Trade Organization (WTO) 467-8 principles of 468 Wrigley's 253

Yazaki Corporation 280-1

World Happiness Report (2012)

Zara 173

Zildjian 254

Zimbabwe 438-9





'Our students consider this textbook to be accessible and clearly written, and I would unreservedly recommend it for all introductory business economics modules.'

Maurice Starkey, Lecturer in Economics, Sheffield Hallam University

- What determines demand for Apple's iPad?
- How can whole countries go bust?
- Why did Tesco's UK profits fall?

Featuring top practitioners from organizations including Deloitte, PricewaterhouseCoopers, Simon-Kucher & Partners, and Mission Burrito, Business Economics offers you real insight into how economics is used in business and why it is relevant to your future careers.

Renowned for his engaging style and clarity of explanation, the author carefully guides you through economic concepts and models, using stimulating examples and questions to help reinforce learning and test your understanding. Lively 'how to' video walkthroughs help explain more difficult economic concepts and give you the opportunity to go back over what you have learnt.

Packed full of engaging and topical cases, the text considers economics in the context of business and management, equipping you with the tools necessary to apply economics to business issues and decisions.

'More concise and engaging than other business economics textbooks.'

Dr. Joe Cox, Senior Lecturer/Economics Course Leader, University of Portsmouth

'Extremely well written and accessible with plenty of stimulating questions and activities.' Donna Brown, Senior Lecturer, Royal Holloway, University of London

New to this edition:

- New insights from top business practitioners explaining how economics is used in their day-to-day work
- Tips from business practitioners on the essential skills and attributes they value in the workplace
- Updated coverage of the financial crisis
- Increased coverage of macroeconomics and game theory
- 90% of examples and cases have been updated to illustrate economics in business



online resource centre

www.oxfordtextbooks.co.uk/orc/gillespiebusiness2e/

For students

- New and unique 'Jobwatch' feature to help understand how economics can be used in careers
- → Full solutions to questions in the textbook
- → Video walkthroughs of economics concepts
- → Self-test questions
- → 'One step further' material to stretch and challenge readers

For registered adopters of the textbook

- → Fully customizable PowerPoint slides
- → Case study teaching notes
- Group exercise tasks
- Test bank

Andrew Gillesple is Head of Business Studies, d'Overbroeck's College, Oxford, and Associate Lecturer, Oxford Brookes University, Oxford



www.oup.com



₹ 459