

# Business Economics

## **Introduction:**

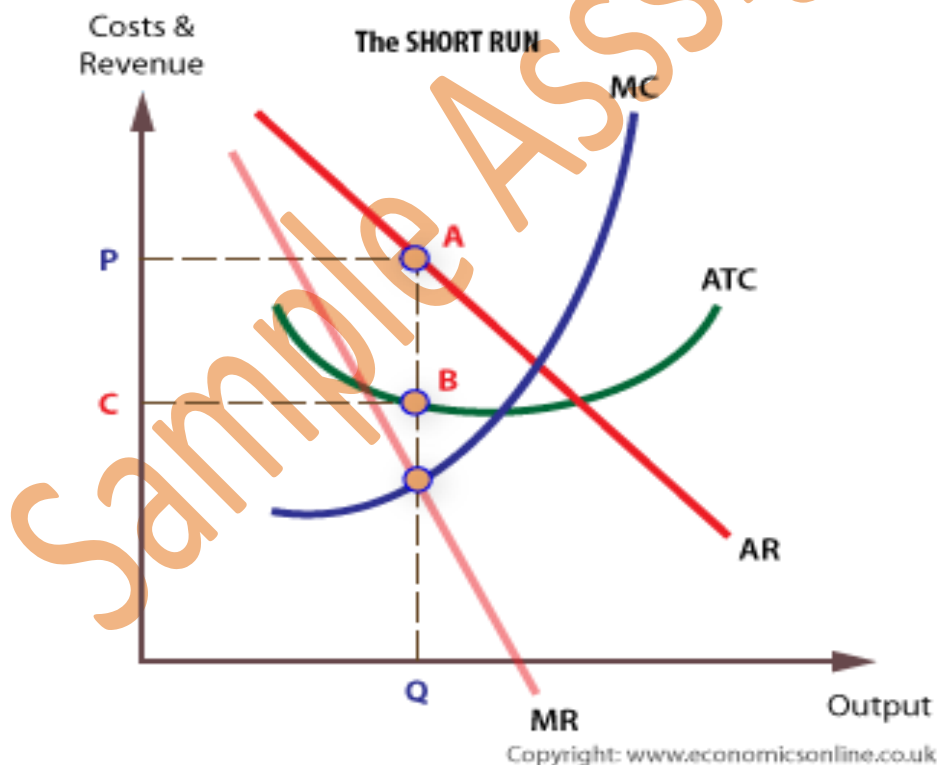
After globalisation the level of competition has significantly increased among the business units in each and every industry. In present economic scenario there has been stiff competition that is seen in each and every sector in the market. After globalisation, various business units have to compete with not only the local competitors but the global competitors as well. Thus it is very important that the business units establish competitive advantage in the market and they also achieve their core competencies for attracting the consumers and attaining higher market share in the industry. There are several factors that can significantly affect the business units in every industry. The business units have to take into consideration all these factors for implementing effective strategy in the market. These factors can include the market position, the trend in the market, the demand structure for the product, the tastes and preferences of the consumers, the market structure, and the competitors in the market. These are the microeconomic factors that can affect the business. On the other hand the macroeconomic factors like the economic, social and political condition of a nation can also affect the business as it is the external environment where the business operates (Krugman and Wells, 2013). It is argued that the recent price wars in the supermarket and mobile phone industry can significantly benefit both the consumers and the respective industries. So the main aim of the assignment to critically analyse the statement using the relevant theoretical models.

## **Market Structure and the Equilibrium:**

At present the supermarkets and the mobile phone markets follow monopolistic competitive market structure. It is known that the market structure can also affect the strategies imposed by business units. Thus the market structure of supermarkets and the phone industry can be discussed here (Pindyck and Rubinfeld, 2013). It is known that the competition among the supermarkets and in the mobile phone markets have increased significantly and thus the features of monopolistic market structure can be presented here.

It is known that in the monopolistic competitive market there are many buyers and many sellers, selling partly homogenous but differentiated products to the consumers. The products are not

perfect substitutes of one another and each product has their unique features or qualities. It is an intermediary market position and thus it resembles perfect competition as well as monopoly. In the monopolistic competition no single buyer or seller can impact the changes in the price in the market and thus no one has complete control over the market (Pindyck and Rubinfeld, 2013). There is a certain limit of control or power that is enjoyed by the producers in the market. Non-Price competition is one of the major features of a monopolistically competitive market. The producers apply various non-prices competitive techniques like brand value increase, advertising and promotion for competing in the market. There are a few barriers to entry and exit. The market equilibrium usually occurs where the marginal revenue (MR) of the firm equals the marginal cost (MC). The firm sets the price in terms of the average revenue curve and the firms maximises the profit at that point. The supply and the demand for the product are also taken into consideration. The producer produces and supplies the products on the basis of the market demand (Sloman and Jones, 2011).



Source: (Economicsonline.co.uk, 2014)

## **Mobile Phone and Supermarket industry and Price War:**

In present economic scenario, there has been extreme price war that is seen in supermarket as well as mobile phone industry. Here it can be said that the level of competition has significantly increased in these industries, especially after globalisation. Various organisations has extended and established their operations at worldwide scale and thus they have been involved in price war as well along with non-price competition (Pindyck and Rubinfeld, 2013). They are offering high quality products to the customers at lower price for acquiring large market share in the industry (Sloman and Jones, 2011). It is very important to create a brand perception among the consumers and implement effective marketing strategies for attracting the consumers.

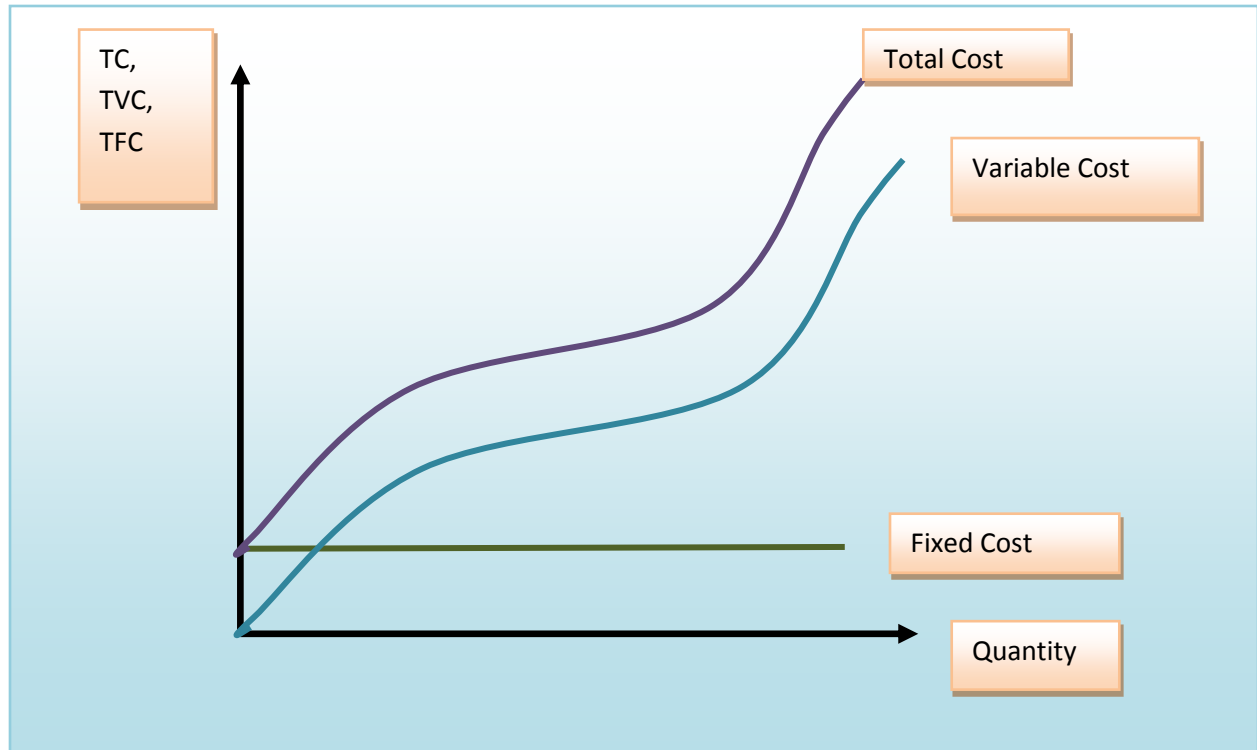
Price discrimination can be referred as one of the pricing strategies that are implemented by business units or extracting maximum consumer surplus. By price discrimination the producer's implements different pricing strategies for similar products and that can influence the buyer's behaviour. The supermarkets and the mobile phone industries also implement such strategies for achieving higher market share. The opportunity cost on the other hand refers to the cost of best forgone alternative for an organisation (Krugman and Wells, 2013). When there is a limited resource and various mutually exclusive choices, an organisation has to select the most feasible and optimal choice. The opportunity cost in this case incurs by not enjoying the benefits of undertaking the second best alternative. The opportunity costs can be implicit or explicit. Thus in this context it can be said that there are various choices for the organisations as well and they implement the best option for the growth of the company.

It is evident that in recent years there has been increased competition in the supermarket and mobile phone industry. It is known that in the monopolistic competitive market, the firms engage in non-price competition. But at present the organisations are engaged in price war. That means they are offering higher value to the consumers at a lower possible price. Thus the organisations are lowering the price of the product and as a result the monopolistically competitive prices are moving towards competitive price (Kreps, 2013). It is known that efficiency in perfect competition is higher than other imperfect market structures. Thus it can be said that price war is significantly increasing the efficiency in the market for the consumers and the producers as there is more competition.

### **The Cost Trend and Structure:**

The costs of mobile phones have fallen significantly in recent years and that helped in reducing the price of the product. Thus the organisations engage in price war within an industry. It can be said that much larger segment of the consumers can afford the product due to the lower price of the product caused by lower cost. In this context it can be said that the consumers will be benefitted by this trend as a large group of people will be able to afford the product. Now the cost structure can be discussed as well.

There are basically two categories of operational cost that incurs in the production process in every industry. The expenses or the cost can be divided into two categories that are fixed cost and variable cost. The fixed costs are the costs that are fixed, no matter what the production quantity is. These costs are not dependant on the level of products produced. These costs are salaries, rents etc. on the other hand the variable costs are those costs that depends upon the quantity of goods produced. The variable costs change in proportion to the produced products in an organisation (Hsu and Wee, 2006). Variable costs are also called as the marginal costs. The total cost is the sum of fixed cost and variable cost. If the planned output increases then the cost of inputs will also increase. But an organisation can achieve the benefits of the scale economies and they can gain the advantage of economies of scale. An organisation can gain the benefits in large scale production, when the output increases the cost increases less proportionally.



### Macroeconomic Factors:

There are various macroeconomic objectives in the society and these objectives include the growth and development of an economy, lower inflation rate, lower unemployment rate, higher GDP, and a favourable exchange rate. These factors must be controlled and thus the government implements several policies to control the factors in the economy. It is known that the industrial development can significantly affect the economic growth and development as it is one of the major contributors in the GDP of an economy (Hubbard and O'Brien, 2013). An expansion in the industrial sector can also increase the employment rate in an economy as the people can be employed in this sector. The inflation can also be reduced due to lower price rate in the economy due to increased competition level. The exchange rates are also affected by these industries as the industries at present are involved in international transaction especially after globalisation.

### Economic Theory Relevance and Limitations:

Here it can be said that there are various economic theories that are significant in influencing the managerial decision for an organisation. The management can use these theories for decision

making in terms of the market condition. The theories can help in maximising the profits for an organisation and also it can provide the competitive advantage. But there are certain limitations of the theory (Wetzstein, 2013). It is known that the theories are usually build on specific assumptions and thus in real life scenario the decisions taken can provide a result that is deviated from the desired result. These theories cannot be applied in every scenario as there can be market failures and exceptional cases of the theories. But the theories have some credibility in providing a framework for analysis and decision making in various industries.

### **Conclusion:**

In conclusion it can be said that in present economic scenario the competition in each and every domain and industry is increasing significantly. Increased industrial pressure and moving ahead in the industry is the sole aim of each company. It is also evident that the monopolistic and oligopolistic companies are reducing and competition is promoted in economies for increasing the efficiency in the market. The consumers are able to gain benefits in terms of lower price of the product. Thus competition is desirable at present for increased efficiency.

### **References**

- Economicsonline.co.uk, (2014). *Monopolistic competition*. [online] Available at: [http://www.economicsonline.co.uk/Business\\_economics/Monopolistic\\_competition.html](http://www.economicsonline.co.uk/Business_economics/Monopolistic_competition.html) [Accessed 9 Dec. 2014].
- Hsu, P. and Wee, H. (2006). Discounting decision for enterprises with high fixed cost and low variable cost. *Int Trans Operational Res*, 13(2), pp.111-124.
- Hubbard, R. and O'Brien, A. (2013). *Microeconomics*. Boston: Pearson.
- Kreps, D. (2013). *Microeconomic foundations*. Princeton: Princeton University Press.
- Krugman, P. and Wells, R. (2013). *Microeconomics*. New York, NY: Worth Publishers.
- Pindyck, R. and Rubinfeld, D. (2013). *Microeconomics*. Boston: Pearson.

Sloman, J. and Jones, E. (2011). *Economics and the Business Environment*. 3rd ed. Pearson Education Canada.

Wetzstein, M. (2013). *Microeconomic theory*. Milton Park, Abingdon, Oxon: Routledge.

Sample Assignment