



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

BA BUSINESS MANAGEMENT

Assignment 1 – Essay

Module: Management Economics

Code: LCBB5008

Lecturer: Dr. Winifred Soribe

Name: Anderson Sanaguano Masache

Student ID: 2132325

SUBMITTED ON THE 19th December 2023

Table of Contents

Question 1	3
Question 2	7
References and Bibliography	14

Question 1

- a) Economic problems that have been sighted in the case study include the impact of the pandemic on the overall business environment for the UK and also other major countries. Evidently due to the lockdown the whole transportation system for the UK was halted and even if the transportation facilities were present they were available in limited numbers. Since there were measure challenges and shortages in supply of goods and services. This lockdown also prohibited entry of various imports from external markets of the UK and created major shortages in supply and disruptions in the supply chain. With the shortage of goods and services the prices increased during the period while again with deep into the lockdown during the pandemic higher demand was seen as the supply of goods and services could not cope up (Aigner-Walder 2015). Major factories and production units were working with half the labour and hence the product activity was lower than expected. With labour supply the total output also decreased and this reduced the overall finish goods that could also be exported outside the UK. Another impact of the pandemic was seen in the UK firms who were highly dependent upon raw materials and intermediate goods mainly imported for manufacturing the final products. Due to the disruptions in the international supply chains there were severe supply issues not only for the UK but also globally due to the lack of free trade between firms in raw materials and intermediate goods (Andreyeva, Long and Brownell 2010). It was also found that due to supply chain issues that was internationally happening there were changes in patterns of consumer behaviour. In the post pandemic period it was noticed that consumers had a greater appetite for goods rather than services which they

missed during the pandemic. In the postpaid period also there was a high influx of demand for consumer goods in the firms and manufacturing sector which increased the disruptions in the overall global supply chain. With labour shortages such a shortage of drivers there were severe fuel issues that the UK faced during the pandemic (Bagwell 2005). Another economic issue highlighted for the UK was the culmination of brexit which leads to the exit of many labours from the UK into the European Union. Hence the shortage of drivers for fuel supplied was also because of the brexit. Before the brexit UK economy was also run by immigrants from the European Union which now was absent and hence it was quite difficult for forms and organisations owning petrol stations to replace drivers for fuel supply after the labours from the EU return to the homeland. This issue in fuel supply to the consumers also lead towards increasing demands that increased the prices of fuel in no time during the pandemic. Evidently shortages of fuel supply that were recorded, accounted for about 20% during the peak of the crisis compared to 43% normally (Baker 2003). This mean to that the forecourts were left with lesser fuel to provide to the extra demand during the pandemic then the UK economic faced generally when there were no shortages of fuel or labours to cater to the consumers. A summary of the economic problems during the pending mostly related to the imbalance between supply and demand in the economy of UK it was found that which supply not being able to meet the demand can lead to major disruptions in the economic system which is majorly run by the market forces of demand and supply. External issues of supply chain were more profound during the pandemic because there were sudden hold in the transportation system in the external market vertex sports

and imports where diminished between the UK and other Nations along with the European Union. A supply chain disruption can be defined as a major event where not only a single firm is unable to supply but a series of firms are unable to supply into the economic system of production of goods and services causing a major global shortage (Ellickson 2013)

- b) The various economic issues do not have similar kinds of solutions. There are various mitigating methods when the issues in an economic system is vast and widespread. Issues related to supply chain disruptions can be mitigated using various types of government interventions along with policies made by the government that relax some of the Covid 19 rules. For example in order to mitigate the supply chain issues the Government of UK can take up financial support along with reduction of taxes that increase the income of the consumers. There can also be policies related to better communication to firms and other support to the business organisations that increase their productivity altogether (Schneider 2019). The functions can also undertake various management related policies that can save themselves from uncertain situations like the app and make and also not lead them towards a lesser inventory and a shortage of supply. For example better forecasting techniques can be undertaken during a crisis period such that production can be managed and analysis from beforehand resources can be allocated likewise. Other mitigation sources also include diversification of supply chains especially for the UK which has just left the EU due to the brexit. A more sustainable way of managing businesses is more efficient than the current one because sustainability brings about resilience and stability, which are essential requirements for a better and flourishing business environment

(Browning and Zupan 2020). Hence the firms can take up production models with lesser wastage and more recycling of resources such that they do not depend too much on external supply through imports. While certain aspects about the supplies situation can also be changed. Currently the firms of the UK have very limited suppliers, even in the domestic market as well as the global market. Hence there is a need for keeping in suppliers from various regions such that there is diversification and a continuous flow of services along with raw materials intermediate products which are required for production. The government can also take initiative to invest more in technology and advancement of the supply chain such that green supply chain can be initiated with lower cost of energy and further diversification. It is also important that the firms take initiative to engage their stakeholders in important decision making and keeps them informed about various situations and crisis conditions. This communication can effectively turn the management's relationship with the consumers and the investors as well as the suppliers (Cuellar 2023).

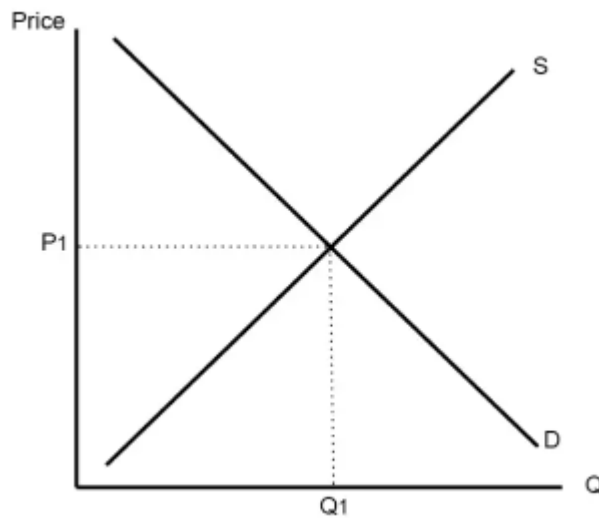
The role of the government does not end through only monetary or fiscal policies that impact the operational side of the suppliers like tax breaks and business support like which was given during the pandemic to support the losses incurred by the firms due to lockdown. This loss of businesses can be averted by major breakthroughs in technology of production. For example it has been seen that Amazon a transnational corporation have actually earned much higher profits during the pandemic than ever with their online services and provisions of online delivery of grocery items and other necessities (Gans, King Byford and Mankiw 2023). In the similar manner a complete transition of an economy towards

automated production with the help of some human resource can be useful in averting the crisis situations like the pandemic. With automated technology production would not be stopped and this can increase the revenues and sales even when a firm might be facing a crisis in the healthcare of the general public. The pandemic was a game changer for many firms and for many other firms, the pandemic was an eye opener to undertake necessary changes in technology and innovation that leads to greater and efficient supply. Hence for the multitude of issues being faced during the pandemic there are a multitude of solutions required (Cowell 2018).

Question 2

- a) In case of understanding the issues of demand and supply the relevance of demand and supply mainly depend upon the type of market the firms operate in. Demand and supply has one parameter in common as an impact factor and that is the price of the commodity. Demand is indirectly related to price and hence the demand curve is downward sloping while supply is positively related to price and is upward sloping. Demand and supply are relevant to understand because they are the two most important forces which determine the market price and the market equilibrium. Prices in a perfectly competitive market are set by the quantum of demand and supply which matches and produces the prices. These prices cannot be changed by the firms supplying neither the consumers demanding. However in some markets like that of imperfect competition the firms control the prices through their supply (Griffith 2003). There are various pricing strategies taken by the firms in an imperfect competition where there are fewer sellers and large numbers of consumers.

Due to fewer competition the firms are able to set their price according to the elasticity of the product.



Demand Supply model

This is known as the learners index by which the firms keep a markup above their marginal cost of production. The concepts of demand and supply are important for firms to manage their productivity and also to get a there customer base which is generally huge and the intend to increase with marketing techniques (Greenlaw et al. 2021). Understanding the demand in the market the firms take necessary steps to increase their supply and manage inventories because with low amounts of inventory sudden surges in supply cannot be handled. Thus analysing demand and supply forms are able to forecast their revenues, sales and profits in advance. Furthermore by analysing demand and supply and noting the targeted sales and revenues the firms and MNCs can finance their production through investments along with increasing their capital or by providing some of the stocks as a public offering to raise massive public money (Acemoglu, Laibson and List 2019). In this aspect the films of the MNCs no longer remain private entities but they are public limited companies. Public limited companies are liable to the stakeholders who publicly by

the stocks or shares of the company in the respective markets and any kind of revenue or profits are also earned by these shareholders in terms of dividends. Analysing and forecasting supply can also produce higher satisfaction rate among employees to work towards target revenues or sales. This can also bring about greater work or retention in the companies because due to higher sales and revenues the company can provide incentives and rewards for employees to work hard and achieve or rather overshoot their targeted sales and revenues (Mankiw 2020). With understanding between demand and supply various kinds of management list can be reduced because the company is far more prepared than it might operate under uncertain situations. Uncertain situations bring about lower business confidence which negatively impacts the investment atmosphere of any economy and leads towards pessimism that can bring about a slowdown of the entire sector. Furthermore, understanding and analysing demand and supply can also lead towards management of shortages and shift of demands such that the companies can be ready to increase or reduce their inventories as deemed by the market conditions. For example A sector catering towards sports goods suddenly sees a surge in demand when a football or cricket tournament is held. Even when these tournaments are pre-planned then also sudden surges in demand for say jerseys call for more inventory and hence more of the production of jerseys and not other products like the footballs (Pindyck 2018).

- b) Elasticity can be defined as the ratio between percentage change in quantity to percentage change in prices of the commodity. Hence quantity demanded or supplied in a market is responsive to changes in prices or other parameters like income of the consumers or price of the substitute product. Demand is elastic when the quantity changes to a higher percentage than the changes in

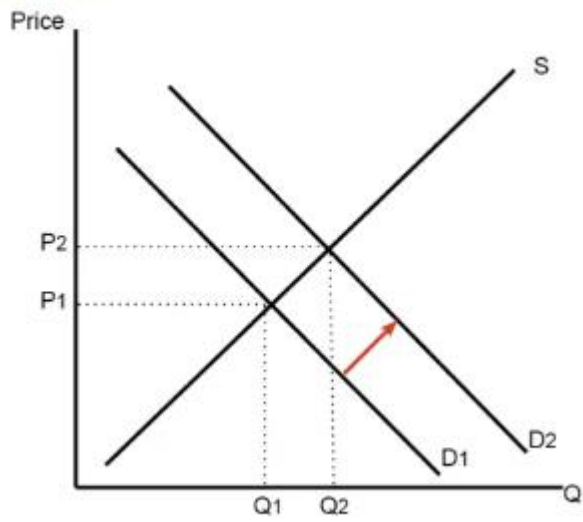
the prices. An example of elastic demand is the demand for mobile phones which is a not necessary product. Consumers drastically reduce their demand for mobile phone when the price is increased to a high level. Hence the percentage change in quantities is larger than prices. Similarly inelastic demand means that the quantity will change to a smaller amount than the changes in the prices. Example of inelastic demand is seen in case of fuel which is an necessary good. When the prices of fuel increases consumers do not change their demand and hence changes in prices are larger compare to changes in quantity demanded. Elastic demand curve is flatter while inelastic demand curve is much steeper shown in the diagram below (Besanko and Braeutigam 2020).

Price flexibility is very less in inelastic demand and during market fluctuations the firms get a protection when the demand is inelastic. This is because revenues tend to increase the price rises and the demand is inelastic. The opposite is true in case of elastic demand because firms can incur losses when the demand is elastic and the price rises. In case of elastic demand price flexibility is very high. Some important advantages of elasticity of demand is that firms can set an optimum price and might not have to pay high taxes and hence can increase their sales. The main disadvantages of elasticity is that elasticity is time dependent and hence overtime elasticity can change. Due to this factor only firms always need to monitor their prices such that they can take the best strategy against the competitors. There are also advantages of in elasticity of demand because firms will have to increase the prices of inelastic products to boost their revenues which is

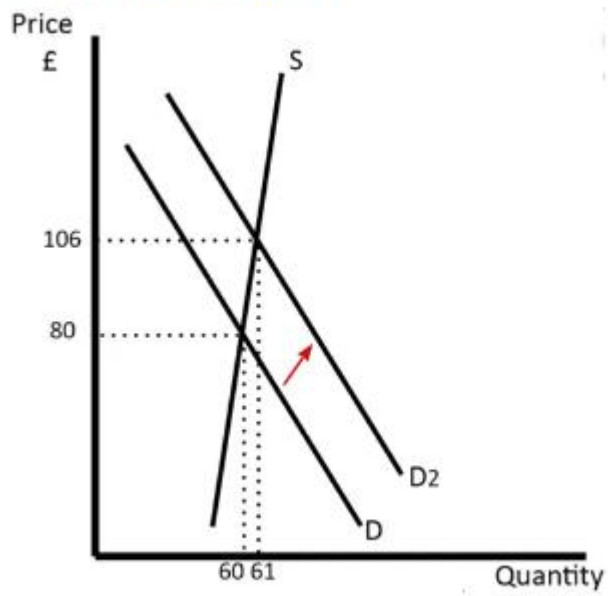
also a disadvantage (Browning and Zupan 2020). Price fluctuations caused pessimism among consumers who can always look forward to buying substitute products in the long run.

- c) The law of demand is related to the relationship between prices of a commodity and the total market demand of the same. According to law of demand when the prices increase they will be a increase in the quantity demanded (Schneider 2019). The demand curve will shift to the right when the demand rises keeping the price intact. Given that the supply does not change a increase in the demand leads to an increase in both equilibrium prices and quantities. On the other hand a left shift in the demand curve means that consumers reduced the demand irrespective of the price of the commodity, keeping the supply intact the equilibrium price and quantity will fall when the demand falls. In a similar manner keeping the prices same the supply can also increase and fall and their are two consequences to search situations (McConnell, Brue and Flynn 2018). Keeping the demand in that when the supply rises it respective of the price the market equilibrium will increase but the price is will fall.

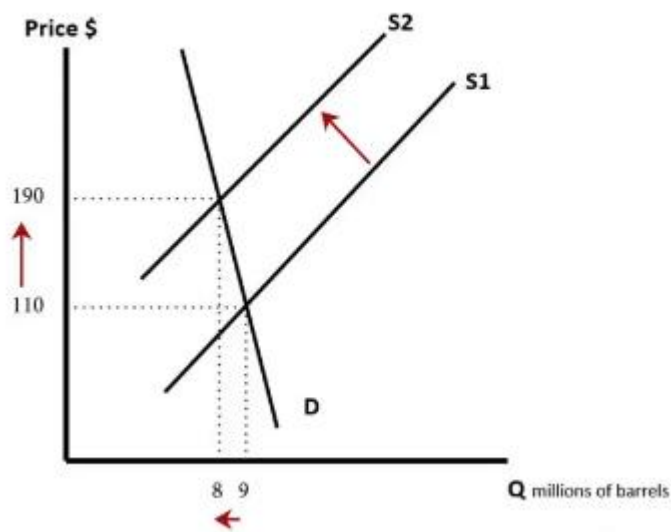
Increase in Demand



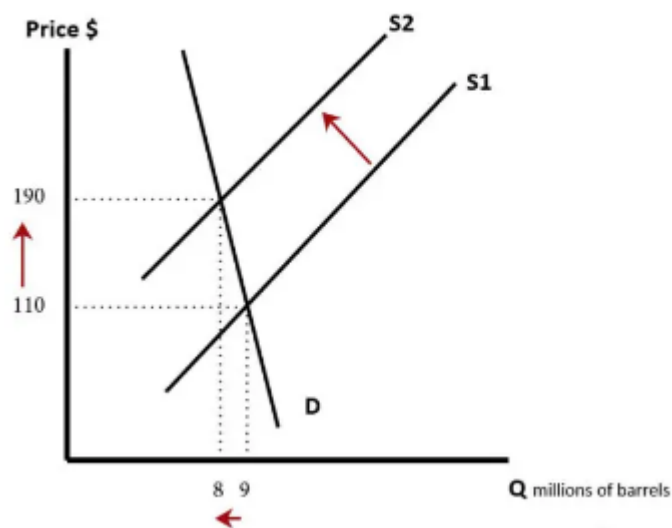
Increase in demand with inelastic supply



Supply Shifts to the left



Fall in Supply



On the other hand when the supply falls irrespective of the prices the market equilibrium quantity will reduce while the prices will increase. These are the situation when factors other than crisis influence both demand and supply. These factors include income of the consumers, prices of substitute products number of sellers in the market, number of consumers in the market the, technology of production and availability of substitute goods (Stevenson and Wolfers 2020).

References and Bibliography

Acemoglu, D., Laibson, D. and List, J.A., 2019. *Microeconomics*.

Aigner-Walder, B. (2015) Effects of the Demographic Changes on Private Consumption: An Almost Ideal Demand System Analysis for Austria. *Journal of Economic and Social Studies*, 5, 1, 33-57

Andreyeva, T., Long, M. and Brownell, K. (2010) The Impact of Food Prices on Consumption: A Systematic Review of Research on the Price Elasticity of Demand for Food. *American Journal of Public Health*, 100, 2, 216-222.

Bagwell, K. (2005) *The Economic Analysis of Advertising*. Columbia University Discussion Papers No. : 050601

Baker, J. (2003) Competitive Price Discrimination: The Exercise of Market Power Without Anticompetitive Effects (Comment on Klein and Wiley). *Articles in Law Reviews & Other Academic Journals*. Paper 278.

Besanko, D. and Braeutigam, R., 2020. *Microeconomics*. John Wiley & Sons.

Browning, E.K. and Zupan, M.A., 2020. *Microeconomics: Theory and applications*. John Wiley & Sons.

Cowell, F.A., 2018. *Microeconomics: principles and analysis*. Oxford University Press.

Cuellar, C., 2023. *Principles of Microeconomics*.

Ellickson, P. (2013) Market Structure and Performance. International Encyclopedia of the Social & Behavioral Sciences, Forthcoming; Simon School Working Paper No. 13-21

Foot, D. and Gomez, R. (2006) Population aging and sectorial growth: the case study of the UK, 2006- 2026. OJBE, 5:1

Gans, J., King, S., Byford, M. and Mankiw, G., 2023. *Principles of Microeconomics* 9e. Cengage AU.

Greenlaw, S., Aldrich, C., Pakula, J., Dolar, V., Fusillo, M., Haci, S., Kilpatrick, S. and Walker, M., 2021. Principles of microeconomics.

Griffith, G. (2003) The Impact of Supermarkets on Farm Suppliers. The Australian Economic Review, 37, 3, 329–336

Mankiw, N.G., 2020. *Principles of economics*. Cengage Learning.

McConnell, C.R., Brue, S.L. and Flynn, S.M., 2018. *Microeconomics: principles, problems, and policies*. McGraw-Hill.

Pindyck, R.S., 2018. *Microeconomics*.

Schneider, G., 2019. *Microeconomic principles and problems: A pluralist introduction*. Routledge.

Stevenson, B. and Wolfers, J., 2020. *Principles of microeconomics*. Worth Publishers.