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MANAGEMENT ECONOMICS COURSEWORK 1(LCBB5008)

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1. Introduction

In this coursework I will go through the case study where I will be discussing fundamental economic problems; check for various of ways of how to solve those problems; explain briefly about elasticity and inelasticity of demand and also the laws of supply demand.

2. Q1. A

The case study focusses on numerous fundamental economic difficulties aggravated by the Covid-19 epidemic, which have had a huge influence on the world and UK economies. These difficulties can be classified as follows:

1. The disruption of supply chains

The epidemic significantly disrupted global supply chains, affecting the availability of raw materials, intermediate items, and finished commodities. The international supply chains were under unprecedented pressure, resulting in shortages and delays.

Dependence on Imports and Exports: UK businesses rely substantially on importing raw materials and exporting completed goods. Disruptions in international logistics have slowed the process. (MC Gillivray, 2021)

2. Imbalanced demand and supply

The Covid pandemic caused considerable alterations in consumer behaviour, particularly:

Shift from Services to Goods: During the epidemic, consumer demand changed from services to goods, putting further strain on supply chains that were already stressed by pandemic-related disruptions.

Increased Demand for Fuel: Driver shortages, exacerbated by the migration of EU drivers following Brexit and the pandemic, have resulted in fuel supply concerns. Panic buying exacerbated the situation, resulting in sharp rises in demand despite limited supply. (MC Gillivray, 2021)

3. Labour shortages.

The epidemic and Brexit have combined to cause serious labour shortages in the UK according to Ernst, 2023:

Driver Shortages: Many EU drivers have fled the UK, resulting in a substantial shortage of drivers. This had a knock-on effect on delivery services and gasoline supply, as the logistics industry struggled to replace these drivers.

General Labour Market Disruptions: Covid-related health concerns, lockdowns, and limitations reduced labour availability in a variety of industries, further stressing supply chains.

4. Inflation Pressures

Supply chain interruptions and labour shortages fuelled price pressures:

Price Changes: The imbalance between high demand and tight supply resulted in price

hikes, particularly for basic goods like fuel. This inflation affects both consumers and businesses, raising prices and diminishing purchasing power.

5. Consumer Behaviour & Market Dynamics

The epidemic changed consumer behaviour and market dynamics, which contributed to economic instability.

Panic Buying: Reports of fuel shortages triggered panic buying, aggravating supply concerns and generating a vicious cycle of demand spikes and supply limits.

Market Volatility: Uncertainty and quick changes in customer behaviour created market volatility, making it difficult for enterprises to plan and function efficiently. (Ernst, 2023)

6. Economic Policy Challenges.

Responding to these economic disturbances presented considerable problems for governments and central banks.

Policy Responses: Controlling inflation, promoting economic recovery, and managing supply chain disruptions necessitated complex and coordinated policy actions.

Brexit Complications: The timing of Brexit exacerbated the issues, with new trade obstacles and regulatory changes complicating supply chain management and labour markets. (McKinsey, 2020)

The Covid-19 pandemic has highlighted fundamental economic issues that have had a significant impact on both the world and UK economies. Supply chain disruptions, demand and supply imbalances, labour shortages, inflationary pressures, changes in consumer behaviour, and complicated policy problems have all contributed to a multi-layered catastrophe. Addressing these difficulties necessitates a comprehensive and coordinated approach that includes both short-term actions to relieve current stresses and long-term efforts to strengthen and adapt economic institutions.

3. Q1. B.

Several techniques can be utilised to solve the underlying economic issues raised by the COVID-19 pandemic. These include increasing supply chain resilience, addressing labour shortages, managing demand and supply imbalances, and using cutting-edge technologies. Here are some possible answers.

1. Increasing supply chain resilience

Diversification of Suppliers: Businesses should diversify their supplier base to avoid reliance on a particular source or location. This can help to reduce the risks associated with supply chain disruptions.

Ernst & Young LLP (2023) discovered that organisations intend to shake up their supply chain strategy to become more resilient and collaborative.

Regionalisation: Expanding regional manufacturing and sourcing can lessen dependency on global supply chains while increasing resilience.

According to McKinsey & Company (2020), nearly 90% of organisations plan to explore regionalisation during the next three years.

2. Addressing Labour Shortages.

Automation and robots: Investing in automation and robots can assist to alleviate labour shortages by lowering reliance on human labour for repetitive and dangerous jobs. According to Ernst & Young LLP (2023), corporations are expanding their investments in supply chain technologies such as artificial intelligence and robotics.

Training and retraining programs: Implementing training programs to upskill and reskill people can assist manage labour shortages by providing the workforce with the skills required for new technologies and procedures. McKinsey & Company (2020) emphasised the significance of retraining employees to adapt to new supply chain technologies.

3. Addressing Demand and Supply Imbalances

Dynamic Pricing Models: Using dynamic pricing models, prices can be adjusted in real time to balance supply and demand. EY (2023) proposed that organisations update their planning systems to become more agile and responsive to demand variations.

Improved Forecasting: Using sophisticated analytics and AI to improve demand forecasting can help businesses predict and respond to market changes more effectively. McKinsey & Company (2020) emphasised the advantages of advanced analytics for better supply chain management and demand forecasting.

4. Adopting Advanced Technology

Investing in digital supply chain solutions can boost visibility, efficiency, and response to disturbances. McGillivray (2021) emphasised the importance of improving supply chain visibility and implementing digital technologies.

Implementing end-to-end supply chain management systems helps improve control and coordination throughout the supply chain. According to McKinsey & Company (2020), organisations are expanding their investments in end-to-end planning systems to boost supply chain performance.

4. Q2.A

Demand and supply are essential ideas in economic theory, with major practical applications in a variety of business strategies. Below, I discuss the importance of demand and supply in many circumstances, using Harvard style references.

1. Pricing Strategy for Reducing and Managing Demand and Supply

Dynamic pricing involves adjusting prices based on current demand and supply situations. This can help manage excess demand or supply shortages. This strategy can level out swings and maximise earnings.

According to Smith (2020), dynamic pricing techniques can help organisations adapt swiftly to market changes, stabilising demand and supply.

2. Competition and Driving Prices to be low.

In competitive markets, businesses may cut prices to attract customers. This can help customers while forcing businesses to become more efficient.

Porter (1980) shows how competitive forces reduce prices and increase overall market efficiency.

3. Increased business productivity (e.g., Amazon Online Platform Management).

Scalability: Companies such as Amazon have used supply chain efficiencies and technology breakthroughs to scale their operations, meeting rising demand without increasing expenses.

In Amazon's annual shareholder letters, Jeff Bezos emphasised the importance of strong supply chain management and how it helps with corporate expansion (Bezos, 2018).

4. Marketing Strategy and Promotion of Business Concepts

Targeted Marketing: Understanding demand allows organisations to adjust their marketing tactics to fit customer wants, resulting in increased sales and market presence.

Kotler and Keller (2016) demonstrate the importance of demand analysis in developing an effective marketing plan.

5. Inventory Management Strategy:

Just in Time (JIT) JIT inventory management decreases holding costs and waste by closely aligning production schedules with demand projections.

Toyota's use of JIT is a famous example, dramatically increasing efficiency while decreasing inventory costs (Ohno, 1988).

6. Financial Attraction via Investments (e.g., IPOs)

Raising funds: Companies can use high demand to attract investors through initial public offerings (IPOs), allowing them to raise funds for future growth and operational improvements.

According to Loughran and Ritter (2004), the success of an initial public offering is frequently dependent on significant market demand for the company's shares.

7. Employee Retention and Satisfaction with High Salaries

Competitive Compensation: Offering high compensation helps attract and keep talented employees, hence increasing productivity and innovation.

Pfeffer (1998) explains how competitive compensation structures are critical for attracting and keeping top people.

To maintain demand-supply balance, businesses must handle risks including supply chain disruptions and demand fluctuations.

According to Chopra and Sodhi (2004), effective risk management practices can assist firms mitigate supply chain interruptions.

9. Managing Shortage, Supply, and Shifting Market Demand.

Supply Chain Agility: Agile supply chain management enables organisations to adjust fast to market changes, ensuring that supply meets customer demands.

Lee (2004) emphasises the necessity of supply chain agility in adapting to market changes.

5. Q2 B.

1. Elasticity vs. Inelasticity of Demand

The elasticity of demand assesses how sensitive the amount desired of a commodity is to a change in price. If a little change in price causes a considerable change in quantity desired, the demand for that good is said to be elastic. In contrast, inelasticity of demand shows that the quantity demanded is relatively responsive to price variations. Inelastic demand occurs when price changes have little or no effect on the quantity sought.

2. Define Elasticity and Inelasticity of Demand.

Mankiw (2020) defines elasticity of demand as a consumer's reactivity to price fluctuations, with higher elasticity indicating greater sensitivity.

According to Sloman and Garratt (2016), inelastic demand occurs when consumers' quantity required does not change considerably in response to price changes.

- 3. Compare Elastic and Inelastic Demand with Examples.
Goods with elastic demand experience a considerable change in quantity demanded when prices vary. Luxury commodities, such as designer clothing and technology, frequently have elastic demand because buyers may easily postpone these purchases or locate substitutes as costs rise.

Example: If the price of a smartphone rises by 10% while the quantity demanded falls by 20%, the demand is elastic.

Inelastic Demand: Goods with inelastic demand see little change in quantity required as prices fluctuate. Necessities such as insulin for diabetes or fundamental food items such as bread have inelastic demand since consumers require them regardless of price.

- Example: if the price of bread rises by 10% but the quantity demanded falls by only 1%, the demand is inelastic.

4. Advantages and Disadvantages of Elastic Demand

Advantages:

- **Revenue Management:** Businesses can lower prices to increase total revenue if the demand for their product is elastic (Mankiw, 2020).
- **Market Responsiveness:** Elastic demand can drive companies to innovate and improve products to maintain competitive pricing.

Disadvantages:

- **Revenue Volatility:** High price sensitivity can lead to unpredictable revenue streams as small price changes can significantly affect sales volumes (McEachern, 2019).
- **Price Wars:** Firms in highly elastic markets may engage in price wars, leading to reduced profit margins.

5. Advantages and Disadvantages of Inelastic Demand

Advantages:

- **Stable Revenue:** Companies with inelastic products can raise prices without significantly affecting sales volume, ensuring stable revenue (Sloman and Garratt, 2016).
- **Market Power:** Firms can exert more control over pricing due to the lack of substitute goods, which can enhance profitability.

Disadvantages:

- **Limited Sales Growth:** Since quantity demanded does not increase significantly with price reductions, there is limited potential for expanding sales through pricing strategies (Mankiw, 2020).
- **Consumer Burden:** Higher prices on inelastic goods, often necessities, can place a financial burden on consumers, potentially leading to negative public perception and regulatory scrutiny.

6. Q2 C.

Laws of Supply and Demand

The laws of supply and demand are fundamental economic concepts that govern the pricing and quantity of goods and services in a market.

Law of Demand

The law of demand asserts that, all other things being equal, when the price of a commodity or service falls, the quantity desired rises, and vice versa. This inverse link between price and

quantity required is caused by the substitution effect (consumers migrate to cheaper alternatives) and the income impact (consumers can afford more of a good as its price lowers).

Explanation: When the price of a product falls, it becomes more appealing to buyers than other options, resulting in an increase in quantity required. If the price rises, consumers will buy less of the product and look for alternatives (Sloman and Garratt, 2016).

Law of Supply

According to the rule of supply, if all other factors remain constant, as the price of a commodity or service rises, so does the amount supplied. This direct relationship occurs because higher prices encourage manufacturers to deliver more stuff in order to maximise earnings.

Explanation: When the price of a product rises, manufacturers are prepared to supply more since the higher price can cover higher marginal costs of production and enhance profits. When the price falls, producers are less likely to deliver the product (Mankiw, 2020).

Market Equilibrium

Market equilibrium occurs when the amount demanded equals the quantity provided at a given price. At this equilibrium price, the market is free of scarcity and surplus.

Explanation: In a competitive market, prices are adjusted to balance the quantity provided and requested. When there is excess demand (shortage), prices rise to discourage demand while encouraging supply until equilibrium is reached. Excess supply (surplus) causes price reductions to promote demand while reducing supply (McEachern, 2019).

Changes in Demand and Supply

Price is not the only factor that can cause the demand and supply curves to alter. Changes in consumer preferences, earnings, pricing of connected goods, expectations, buyer numbers, production technologies, input prices, and seller numbers are among the aspects to consider.

Demand Shifts: As consumer income rises, the demand curve shifts to the right, showing that more goods are sought at each price level. In contrast, a fall in income causes the demand curve to shift to the left (Case, Fair, and Oster, 2012).

Supply Shifts: Technological advancements can cause the supply curve to shift to the right, suggesting increased quantity delivered at each price level. In contrast, higher input costs cause the supply curve to shift to the left (Sloman and Garratt, 2016).

7. Conclusion

In conclusion I could say that the laws of supply and demand are crucial to understanding how markets function and how prices and quantities of goods and services are determined. The law of demand explains the inverse relationship between price and quantity demanded, while the law of supply describes the direct relationship between price and quantity supplied. Market equilibrium occurs when these two forces balance each other, leading to stable prices and quantities. Shifts in demand and supply due to various factors such as changes in consumer preferences, incomes, technology, and input prices can significantly impact market outcomes. Understanding these dynamics allows businesses to strategize effectively and policymakers to implement measures that stabilize markets and foster economic growth. By recognizing the fundamental principles and practical applications of supply and demand, stakeholders can make informed decisions that promote efficiency and balance in the marketplace, ensuring that resources are allocated optimally to meet the needs and desires of consumers and producers alike.

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