

BA Business Management

LCBB5008

Management Economics

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The project starts with the outlining of economic problems that are suggested in the case study. It evaluates the areas including product scarcities, crowd fluctuations and pricing hazards despite the supply chain restrictions. Market balance objectives of the 1950s will be evaluated, along with the issues the companies had to face and what factors determined the current market situation. The second task shows you how demand and supply are related to the real situation. Its scope covers starting from pricing strategies, competition, productivity, marketing, inventory management, financing attraction, employee retention and risk management for better performance regarding demand and supply fluctuations. Furthermore, the activity reviews the specifics between the particularities of the elastic and inelastic demand. For instance, fuel cost is prone to high volatility, and it affects the whole system.

Task 1(a): Fundamental Economic Problems

The Covid-19 pandemic generated the largest worldwide economic damage in recent history. This study magnifies the issue of the severe economic problem, where supply shutdowns, demand fluctuations, pricing pressure and the connections in supply chains are major factors. Looking at these problems from the perspective of economics leads to the understanding of the difficulties businesses faced and the elements that influenced disequilibrium in the market.

There were some disruptions due to the pandemic rules. The Covid-19 rules of doing business were a fundamental economic problem. Regulations imposed to control the virus disrupted business operations. This caused supply chain issues and shortages. Companies had to adapt quickly to the new rules while leading to economic challenges.

There was shortage in both demand and supply. The demand shortage for certain goods and services. At the same time, there was an increase in demand for other goods. As people stayed home, the demand for services like restaurants declined. However, the demand for groceries and home supplies surged rapidly. This mismatch between supply and demand led to shortages and price hikes across various sectors (Baker, 2003). The shortage of supply, particularly the lack of drivers, was a major economic problem. Many drivers left the UK due to Brexit and Covid-19. The severe lack of transportation workers slowed down the delivery of goods, which made problems in the supply chain even worse. The UK's departure from the EU added complexities and barriers to the free movement of goods, labour and services. Brexit's impact on supply chains was a fundamental economic problem. Businesses already had trouble with their supply chains. This made them worse by causing problems and shortages.

As news of shortages spread, consumers engaged in panic buying of scarce resources like fuel. This panic buying behaviour worsened the shortages and created a self-fulfilling cycle of scarcity and stockpiling. It was a significant economic problem that multiplied the existing supply issues (Baker, 2003).

Due to economic pressures, many individuals and businesses borrowed heavily to cover rising living costs. Taking on more debt put even more stress on the business. More and more debt and higher costs made things worse (Aigner-Walder, 2015).

As government aid programmes ended, many people lost their jobs and their income through furloughs and layoffs. This made it harder for them to buy things. And this hurt demand more. Households already had a hard time with money before they lost their jobs.

Rising expenses due to the high cost of living led to financial struggles. Businesses and individuals found it difficult to keep up with their debt obligations. This resulted in bankruptcies due to a lack of funds to pay the high borrowings.

Task 1(b): Various Ways of Solving the Challenges

The Covid-19 pandemic disrupted global supply chains that resulted in shortages and price increases. Companies faced fundamental economic problems like imbalances in supply and demand. Various stakeholders like governments, businesses and consumers must collaborate to resolve the issues and mitigate the impacts.

Government Intervention - The government can act in many ways. It can make new rules and policies. It can allow more people to work in the country. It can provide money to struggling businesses. The government can increase the ability of its agencies. Good communication is important. The government should engage with businesses. Taxes can be changed to help the situation.

Relaxing Covid-19 Rules - Strict Covid-19 rules can be relaxed. This means reducing limits on businesses and their operations. Restrictions on workers, production, and transportation can be eased. However, it needs extensive monitoring and observation. Public health is important. Rules should be relaxed carefully to prevent virus spread.

Shortage Management Strategy - Companies need plans to deal with shortages. They should have teams to manage shortages. Different suppliers can provide the same items. Critical items can be stocked up. Future demand should be forecasted. Right inventory levels must be maintained. Backup plans are required for disruptions (Andreyeva et al., 2010).

Create and Improve Supplier Network - Companies should build strong relationships with multiple suppliers. Having a diverse supplier base can reduce dependency on any single source. Regular communication and collaboration with suppliers is crucial. This allows companies to identify potential issues early and find solutions together.

Create Alternative Ways to Reduce Waste - Businesses must find innovative methods to minimise waste in their operations. This could involve recycling materials, implementing lean manufacturing processes, or developing new product designs that generate less waste. Reducing waste can help optimise resource utilisation and lower costs.

Assess and Improve Own Supply Chain - Companies should regularly evaluate their supply chain processes to identify inefficiencies or vulnerabilities. This assessment can lead to improvements such as adopting new technologies, optimising transportation routes, or streamlining inventory management. A robust and agile supply chain can better withstand disruptions.

Work with Suppliers to Reduce Price - Companies should talk to their suppliers. They can work together to find ways to lower costs. Suppliers may agree to give discounts for large orders. Or they may accept lower profits during tough times.

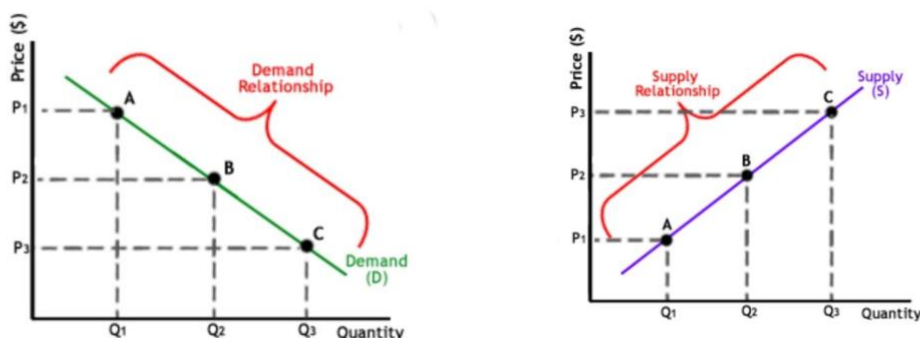
Companies can look for cheaper sources of materials and parts. Good relationships with suppliers can help get better prices (Baker, 2003).

Keep Stakeholders Informed and Up-to-Date - It is important to keep stakeholders updated on the situation. Stakeholders include investors, customers, employees, and partners. Companies should communicate regularly through emails, meetings, or public announcements. Provide accurate information on challenges faced and steps taken. Transparency builds trust and confidence. Stakeholders appreciate being informed and involved (Ballesteros and Romero, 2013).

Overcoming economic problems posed by the pandemic requires concerted efforts from all parties. Effective strategies encompass government interventions, relaxed regulations, robust shortage management plans, supplier collaborations, and transparent communication. By implementing these measures, economies can recover, supply chains can stabilise, and businesses can navigate future disruptions more resiliently.

Task 2(a): Relevance of Demand and Supply

Demand and supply are highly relevant concepts in the case study as they play a crucial role in understanding the economic challenges faced during the Covid-19 pandemic. The pandemic disrupted the balance of demand and supply that leads to shortages, increased prices, and supply chain pressures.



Source: Grover (2024)

Pricing strategies are essential tools for managing the pressures of demand and supply. Companies can lower prices to stimulate demand for products with excess supply. Conversely, raising prices can help curb demand for scarce goods and services. By adjusting prices strategically, businesses can better align supply with demand levels.

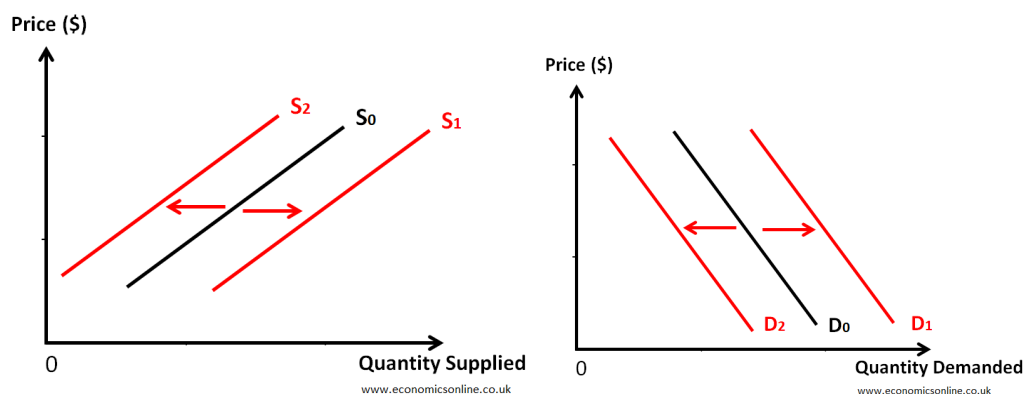


Figure: Any non-price factor shifting the supply curve (Ansari, 2023)

Competition among businesses is a driving force that helps lower prices and reduce costs for consumers. Firms strive to offer lower prices than their rivals to attract more customers. This competitive environment benefits consumers by providing more affordable options in the market (Griffith, 2003).

Effective management of demand and supply can also help businesses expand their productivity. Online platforms like Amazon leverage demand insights to optimise their inventory and logistics operations. By aligning supply with consumer demand, companies can streamline processes, reduce waste and improve overall productivity (Ellickson, 2013).

Marketing strategies play a vital role in influencing demand for products and services. Well-executed marketing campaigns can create awareness, shape consumer perceptions, and ultimately drive demand for a business's concept or offerings. By promoting their value proposition effectively, companies can generate interest and increase demand for their products or services (Bagwell, 2005).

Understandability of the demand tends to be the essence of the just-in-time system that needs to be taken into account on effective inventory management strategies. They can avoid both costly excess stock and unmet customer needs as they precisely foresee their demand, and regulate the inventory levels accordingly. It aids in decreasing the amount of wastage, storage charges, and improves the overall running of the economy too.

Demand and supply dynamics can also be the driving forces behind venture capitalists and private equity fund managers looking into businesses. Companies may seek funds for their projects from stockholders through the initial public offering (IPO). Such individuals may be very crucial for the increased business scale and capacity boost. Demanding products or services can create a lots of investment opportunities for the market of companies, because investors want to be a part of the trend of financial growth and growing profits (Ellickson, 2013). Additionally, remunerating employees with high-paying salaries can be a plus for organizations as the latter not only retain highly skilled workers, but also maintain high satisfaction among workers. Catering to an aggressive market, companies can afford to pay more wages that helps them to have higher employee loyalty and motivational readiness. This is fundamental requirement for obtaining raising demand and having production level in a steady state (Ballesteros and Romero, 2013).

Monitoring demand and supply trends allows companies to identify potential risks and take proactive measures to maintain equilibrium. By anticipating shifts in demand or supply, businesses can adjust their strategies accordingly, mitigating the impact of disruptions and ensuring continuity of operations (Foot and Gomez, 2006).

Finally, managing shortages and aligning supply with shifting market demand is crucial. Companies must continuously match their production levels with consumer demand to prevent shortages or oversupply. This involves forecasting consumer needs, adjusting production capacity, and implementing agile supply

chain strategies to respond to changes in demand quickly and efficiently (Ballestero and Romero, 2013).

Task 2(b): Difference between Elasticity and Inelasticity of Demand

Elasticity of Demand

Elasticity of demand shows how much the quantity demanded changes when the price or other factors change (keydifferences.com, 2017). It measures the response in demand to things like higher or lower prices, more or less income, and so on. If demand changes a lot when the price goes up or down, it is considered elastic. If demand barely changes despite price shifts, it is inelastic. Knowing the elasticity helps businesses make good decisions about pricing their products.

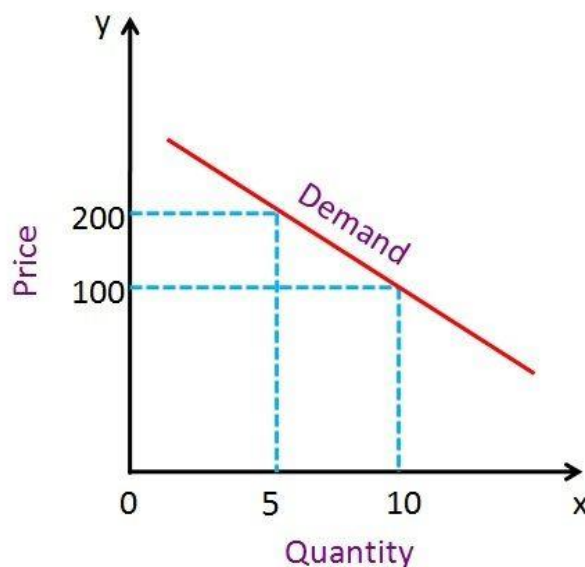


Figure: Elasticity of Demand (keydifferences.com, 2017)

Inelasticity of Demand

Inelasticity refers to when demand for a product barely changes even if the price goes up or down (keydifferences.com, 2017). Consumers keep buying about the same quantity regardless of price shifts. Products with inelastic demand are

usually necessities that have no good substitutes. Common examples are utilities, prescription drugs, and tobacco. For these items, businesses have more flexibility to increase prices since demand stays relatively constant. Necessities like healthcare tend to be inelastic, while luxury items are more elastic in demand.

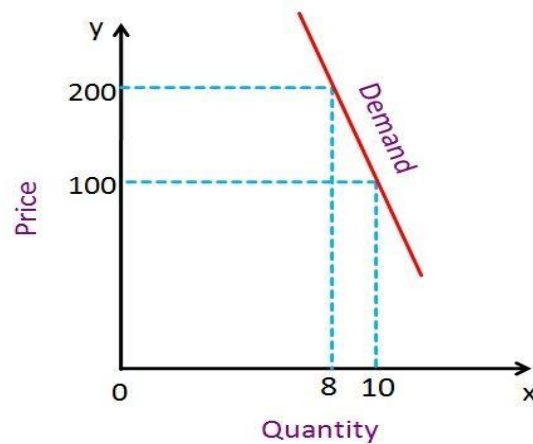


Figure: Inelasticity of Demand (keydifferences.com, 2017)

Here are the key contrasts between elastic and inelastic demand

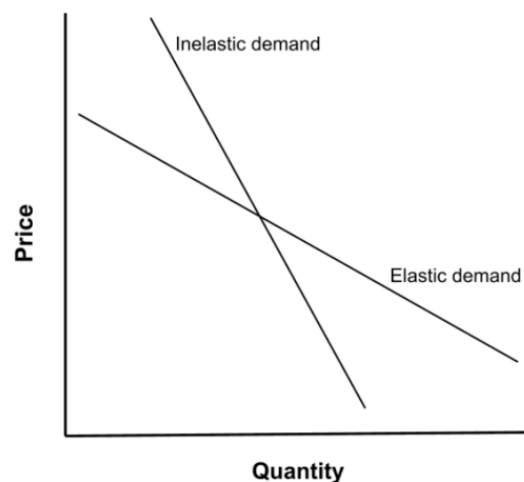


Figure: Elastic vs. Inelastic Demand (Indeed, 2023)

The Characteristics of Elastic demand and inelastic demand –

The price flexibility in elastic demand is lower as there is less pricing power, and customers are very sensitive to price changes. Businesses are vulnerable during economic ups and downs as demand fluctuates. The Entry barriers are low in regard of financial, legal, and regulatory barriers. Quantity demanded changes

significantly with price/income shifts. Some examples of elastic demand products are - Luxuries, entertainment, some foods/beverages.

Inelastic demand however the one with more flexibility. It could increase prices without losing significant demand and there are steadier demand shields businesses from market volatility. Entry barrier is elevated with higher costs and tighter rules restrict new competitors. As the products are regular necessities like utilities, medications, tobacco, the demand quantity stays roughly the same despite price movements.

The Pros & Cons of Elasticity of demand are as such –

It helps find the right price point to drive sales and make more money as businesses pay less in taxes. They could also, adjust prices according to demand can increase the number of items sold.

As for the cons, the companies must continually watch what competitors are doing with pricing. Elasticity is only valid for a period of time as customer preferences change.

The advantage and disadvantage of Inelasticity of Demand is, Companies can raise prices and see their revenues go up, since demand stays roughly the same. On the other hand, If prices are increased too much for inelastic products, it may lead to losing too many customers and hurting profits.

Task 2(c): The Laws of Supply and Demand

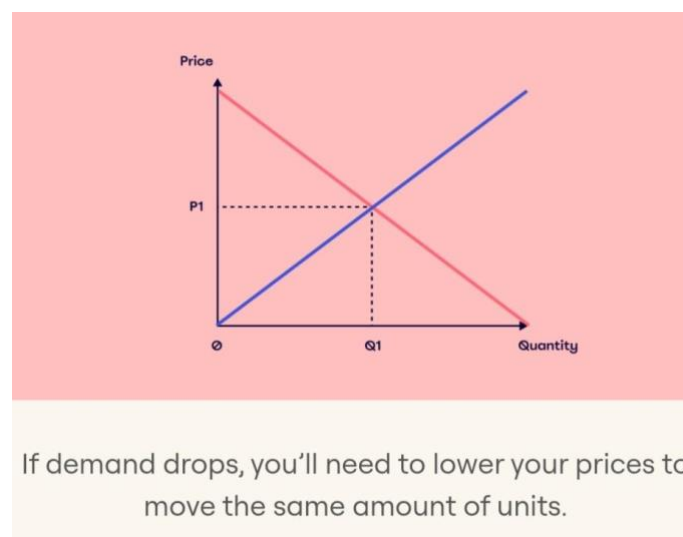
The laws of supply and demand outline how prices and quantities supplied adjust based on changes in market conditions.

Increased Demand - When demand for a product rises while supply remains the same, prices tend to increase along with quantities sold. Consumers are willing to pay higher prices as their desire for the product grows. This creates a profitable opportunity for sellers to raise prices and increase supply to meet the maximum demand (Shapiro, 1987).



Source: Miro (2022)

Decreased Demand - If demand for a good or service declines but supply stays constant, prices will likely drop. With fewer consumers interested in making purchases, market prices must be lowered to encourage buying. Suppliers face less profit potential which may push them to reduce production levels.

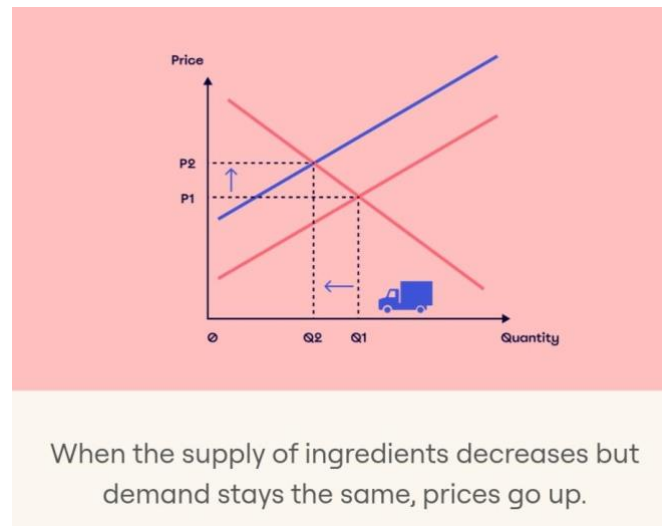


Source: Miro (2022)

Increased Supply - In such cases, goods and services become readily available from numerous vendors. To attract customers away from competitors, sellers have no choice but to lower prices. Oversupply forces them to be more competitive on pricing (OECD, 2015)

Decreased Supply - As availability of goods diminishes compared to the consistent demand, consumers are willing to pay premium prices to secure what's

available. Scarcity allows sellers to command higher prices without losing customers (Komesar, 2001).



Source: Miro (2022)

Understanding these four laws is crucial for businesses producing or selling goods. By monitoring demand trends and adjusting supply accordingly, companies can find the right price points to maximise sales and profits. Increasing supply when demand rises prevents shortages and lost sales. Likewise, cutting supply when demand decreases avoids wasteful overproduction (Cigliano, 1980).

The Covid-19 pandemic highlighted the interconnectedness of global economies and the vulnerabilities of supply chains. The fundamental economic problems discussed in this report, such as supply shortages, demand fluctuations, and pricing pressures, underscore the need for a concerted effort from various stakeholders to enhance resilience and preparedness. Governments play a crucial role through interventions, regulations, financial support, and effective communication strategies. Businesses must reevaluate their supply chain strategies, foster supplier collaborations, and develop robust shortage management plans to mitigate future disruptions. Transparency and open dialogue with stakeholders, including investors, customers, employees, and partners, are essential for building trust and facilitating collective responses. Moreover, adaptability and agility are key to navigating rapidly evolving market conditions. Continuous monitoring of demand and supply trends, coupled with swift strategic adjustments, can help businesses maintain equilibrium and meet consumer needs effectively.

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