

BMBM4010

The Changing Business Environment

**Micro/Macroeconomics –
Influencing Strategy**



Introduction to Economics

- **Definition of Economics:** The study of how individuals, businesses, and governments make choices on allocating resources to satisfy their needs and wants.
- **Importance for Business Leaders:** Understanding economic principles helps leaders make informed decisions regarding resource allocation, pricing strategies, and market competition. It equips them with the knowledge to anticipate market trends and respond to economic shifts effectively.



Micro/Macroeconomics

microeconomics focuses on the actions of individuals and industries, like the dynamics of supply and demand.

In contrast, macroeconomics considers the economy as a whole, looking at concepts such as inflation, unemployment, and economic growth.



Microeconomics



What is Microeconomics?

Microeconomics examines the behaviour of individuals and firms in making decisions regarding the allocation of scarce resources and the interactions among these individuals and firms.

It delves into how these behaviours affect the supply and demand for goods and services, which determines prices, and how prices, in turn, determine the supply and demand of goods and services.



Microeconomics in Business

- Basics: Supply, demand, and market pricing mechanisms.
- Business Decisions: Microeconomics in pricing and product development.
- Competition Analysis: Understanding market dynamics and competitor strategies.
- Practical Application: Pricing strategies in different market conditions.



Key Concepts in Microeconomics

Supply and Demand:

The backbone of microeconomic theory, explaining how prices vary because of a balance between product availability and demand.

Market Equilibrium:

Achieved when the quantity of goods supplied equals the quantity demanded, leading to a stable market price.



Supply and Demand

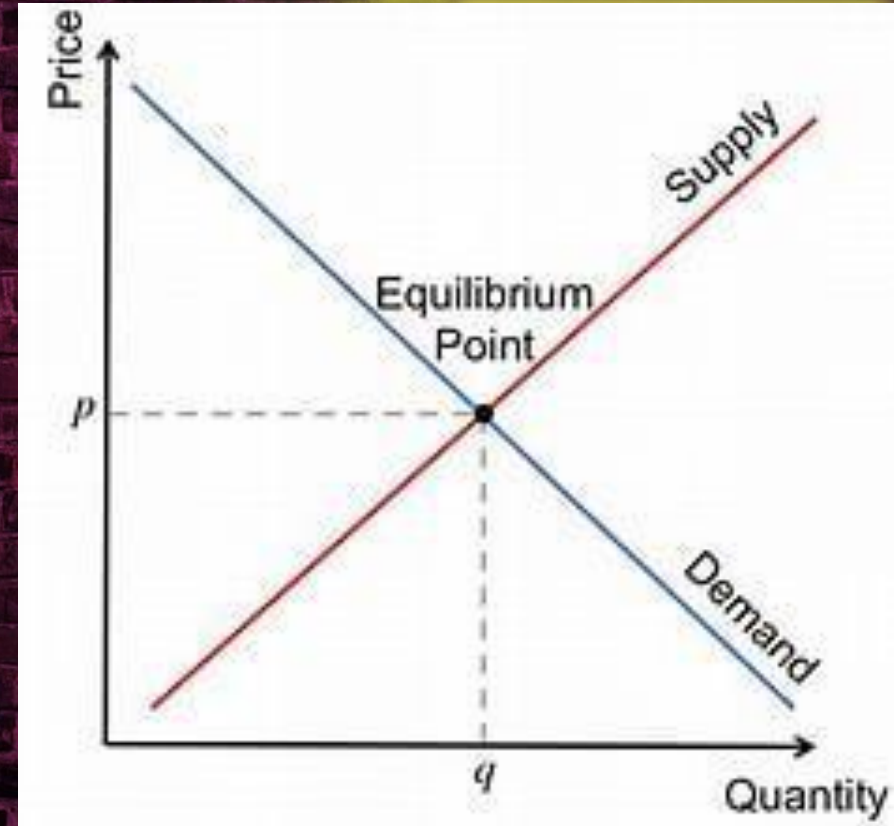
The **blue line** represents the **demand curve**, which slopes downward, indicating that demand decreases as price increases.

The **red line** represents the **supply curve**, which slopes upward, showing that supply of product to the organisation increases* as price to the customer increases.

- **producers are willing to supply more of a good or service.*

The **centre point** marks the **equilibrium price and quantity**, where the supply and demand curves intersect.

At this equilibrium point, the quantity that consumers are willing to buy equals the quantity that producers are willing to sell, and there is no surplus or shortage in the market.



The Law of Demand

This law states that, all else being equal, as the price of a product decreases, the quantity demanded by consumers increases, and vice versa.

Substitution Effect: As the price of goods falls, they become cheaper compared to substitutes, leading consumers to switch their purchases to the now cheaper product.

Income Effect: When the price of a good decreases, consumers have a "real" income, meaning they can afford to buy more.

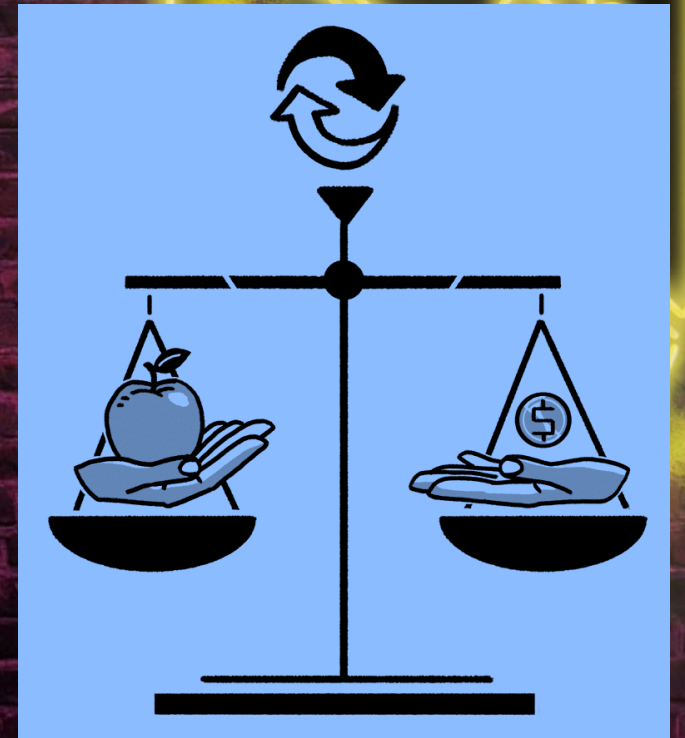


The Law of Supply

The law of supply posits that, all else equal, an increase in the price of a good or service will prompt an increase in the quantity supplied, and vice versa.

Cost of Production: As the price of a good increases, it becomes more profitable for firms to increase production, assuming they have the capacity.

Supply Curve: This is depicted as an upward-sloping curve on a graph, demonstrating the direct relationship between price and quantity supplied.

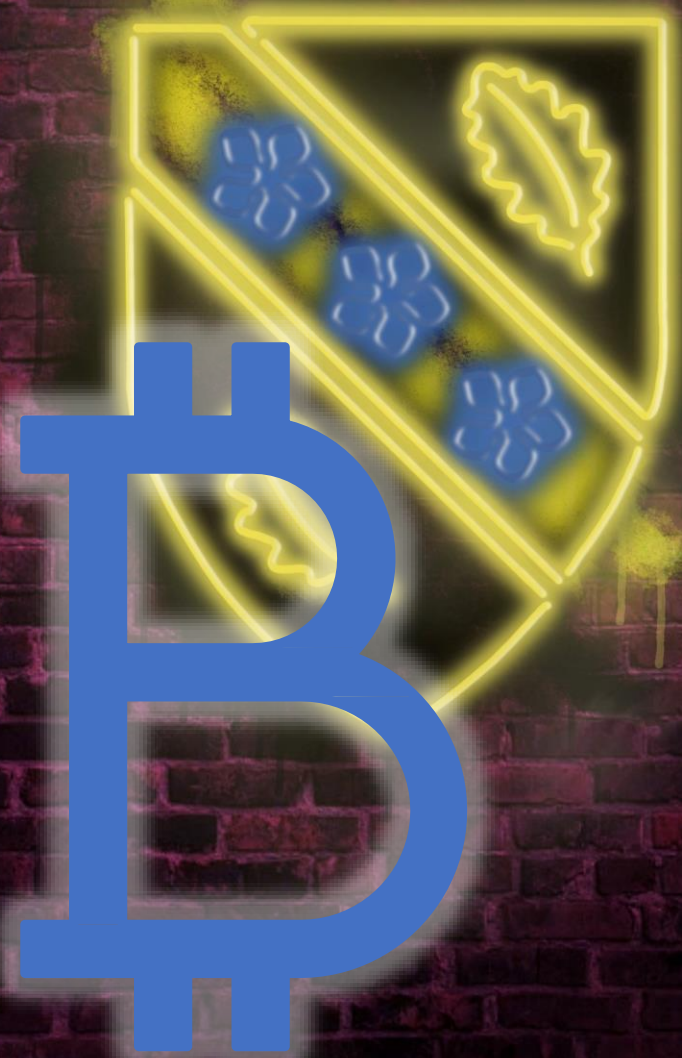


Market Equilibrium

The point where the quantity demanded by consumers equals the quantity supplied by producers. It represents a state of balance in the market with no tendency for change.

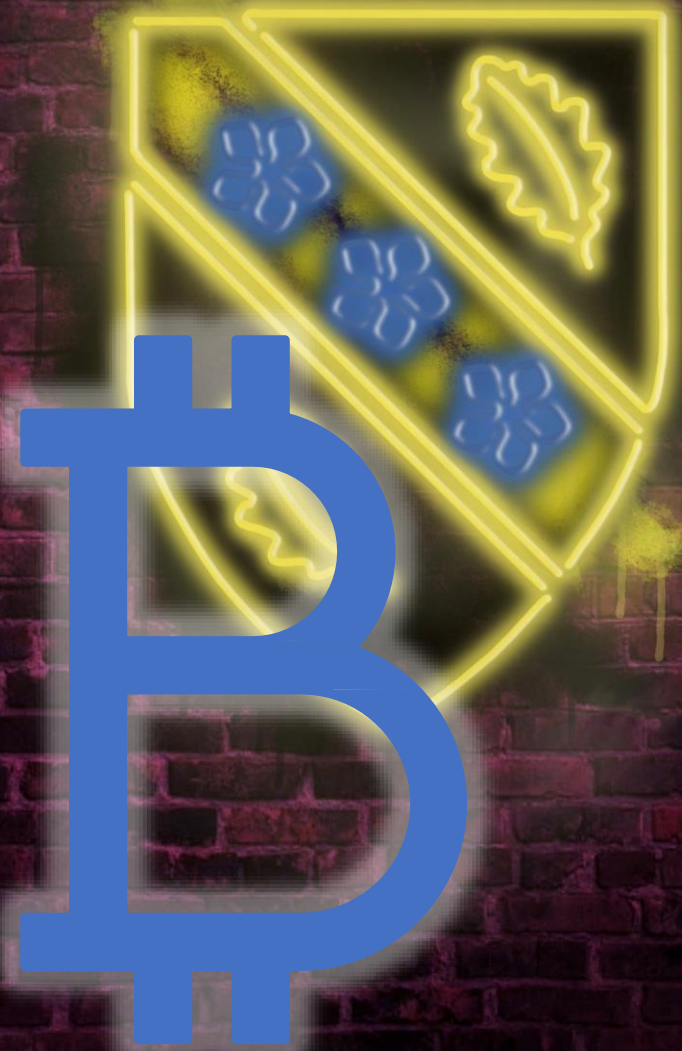
Demand: The relationship between price and the quantity of a good that consumers are willing to purchase.

Supply: The relationship between price and the quantity of a good that producers are willing to sell.



Implications of Market Equilibrium:

- No surplus or shortage of goods.
- Optimal allocation of resources - producers are selling all they want to produce, and consumers are getting all they want to buy.
- **Adjustment to Equilibrium:**
 - Prices adjust in response to surpluses and shortages.
 - Surplus: Price tends to fall until equilibrium is restored.
 - Shortage: Price tends to rise until equilibrium is restored.



Price Elasticity

A measure of the responsiveness of quantity demanded to a change in price.

High elasticity indicates demand is **sensitive** to price changes.

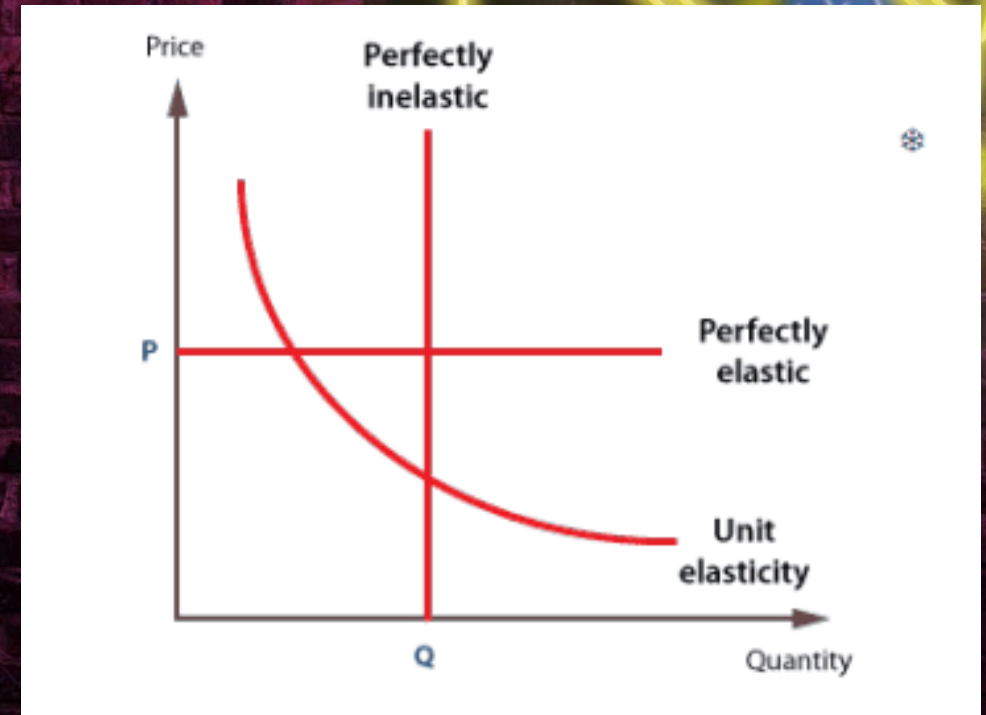
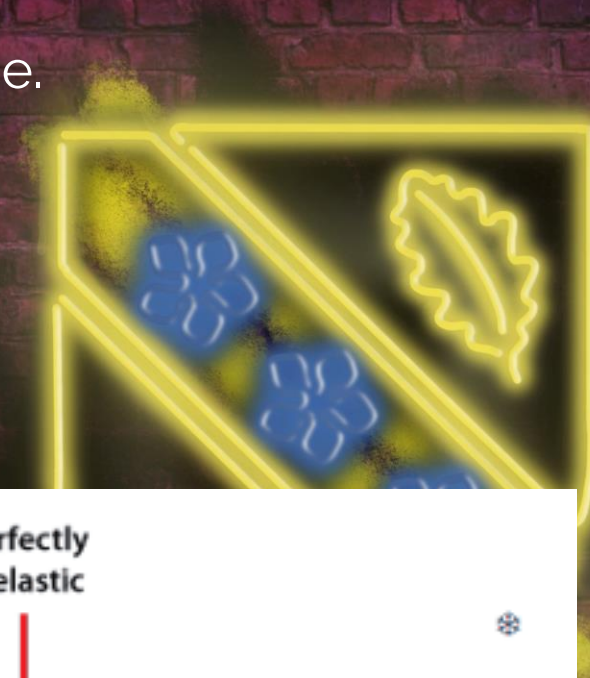
Low elasticity indicates demand is **insensitive** to price changes.

Or...

Elastic Demand ($E_d > 1$): Consumers are highly responsive to price changes.

Inelastic Demand ($E_d < 1$): Consumers are less responsive to price changes.

Unitary Elastic ($E_d = 1$): Proportional response of quantity demanded to price change.



Determinants of Price Elasticity



Time for
a break



Macroeconomics



Macroeconomics and Business Strategy

Overview: National economic trends and their broader impact.

Economic Health Indicators: Understanding GDP, unemployment rates.

Policy Influence: Fiscal and monetary policies shaping business environments.

Strategic Implications: Aligning business strategies with macroeconomic conditions.



Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

Components:

Consumption: Spending by households on goods and services.

Investment: Spending on capital goods that will be used for future production.

Government Spending: Expenditures by the government for goods and services that directly benefit the public.

Net Exports: Exports minus imports, representing the net trade balance.



Gross Domestic Product (GDP)

Types of GDP: Nominal and Real

Nominal GDP: Measures the value of all finished goods and services within a country using current prices.

Real GDP: Adjusts nominal GDP for inflation to reflect the true value of goods and services.

Importance:

Indicates economic health and growth rates.

Helps in comparing the economic performance of different countries.

Guides policymakers in making economic decisions.



Unemployment

- **Types of Unemployment:**

- **Cyclical Unemployment:** Linked to the natural ups and downs of the economy. Highlight how it increases during recessions and decreases during expansions.
- **Frictional Unemployment:** Occurs when workers are between jobs or are entering the workforce for the first time. It's a sign of a healthy, dynamic economy where workers can transition between roles.
- **Structural Unemployment:** Results from industrial reorganization, typically due to technological change, and mismatches between the skills of the workforce and the demands of the job market.



DISCUSS !!

“high unemployment can lead to slowing of economic growth.”

“extremely low levels of unemployment can have a negative economic impact”



National Income

Wages = compensation to employees

Rent = income from owning resources

Interest = income from owning capital

Profits = income from entrepreneurship).

Analysing the components of national income can provide insights into the health and structure of the economy, such as which sectors are growing or declining.

Therefore, distribution of national income can affect economic inequality and social stability



Inflation and Deflation

Inflation: A general increase in prices and fall in the purchasing value of money. Causes can include: demand-pull inflation, cost-push inflation, and built-in inflation.

Deflation: A general decrease in prices, often associated with a reduction in the supply of money or credit. It can be caused by a decrease in demand or an increase in supply.



Fiscal and Monetary Policies

- **Role of Government and Central Bank:**
 - **Fiscal Policy:** Government spending and taxation policies aimed at influencing economic conditions, including levels of employment, inflation, and economic growth.
 - **Monetary Policy:** Central bank actions, such as setting interest rates and controlling the money supply, aimed at controlling inflation and stabilizing the currency.



Economic Cycles

PHASES:

- **Expansion:** Characterized by rising economic activity, employment, and output.
- **Peak:** The highest point of economic activity before a downturn.
- **Contraction:** A period of declining economic activity, leading to increased unemployment and lower production.
- **Trough:** The lowest point of economic activity, setting the stage for recovery and the next phase of expansion.



ACTIVITY TIME



Zujaja... over to you!