Economics & Marketing

Why Is Economics Important To Marketing?

Successful marketing isn't only effective with creative marketing, it also relies on the principles and concepts of economics.

Knowledge of economics and how decisions are made can help improve marketing decisions and increase customer satisfaction, which results in higher profit for the company.

Companies must use economic information to improve their marketing strategies.

WHAT IS ECONOMICS?

Economics deals with the making, distributing, selling and purchasing of goods and services.

Economics is important in marketing because businesses want consumers to purchase the two things they can sell, which are:

Goods

Services

Businesses decide what goods and services to provide based off of what YOU want and need.

Wants and Needs drive the economy and that is how marketing decisions are made!

Needs

Economics is all about making choices and satisfying the wants and needs of consumers.

Needs are things that are required in order for you to survive. Needs are essential.

Examples of Needs:

- Water
- Food
- Clothing
- Shelter

THINK ABOUT IT…

- Can you think of any other things that are needs in our life?

Wants

Wants are things that you do not have to have to survive, but you would like to have.

Examples of wants:

- Smartphones
- Games
- Watches
- Etc.

Wants can change from day to day.

Wants add to the quality of life, because it adds comfort and pleasure.

Wants

- There are two types of wants in economics. Material goods and services.
- Material Goods-
  - Clothing, Housing, Cars, etc.
- Services-
  - Hair styling, medical care, etc.
- Needs and Wants are unlimited, you are only limited by your mind, if you can imagine it then your business can provide it.

THINK ABOUT IT…

- With a partner next to you, talk about an item that you had to have last year, that you do not use or care for today.

Personal vs. Businesses
Wants and Needs

- Just like individual people, each business has their own wants and needs.
- Examples of some business needs:
  - Electricity
  - Employees
  - Computers,
  - Etc.
- Examples of some business wants:
  - Uniforms
  - Decorations
  - Etc.

Satisfying wants and needs

People satisfy their wants and needs by buying goods and services.

Goods are products that you can physically touch and see.

Services are tasks that businesses perform.

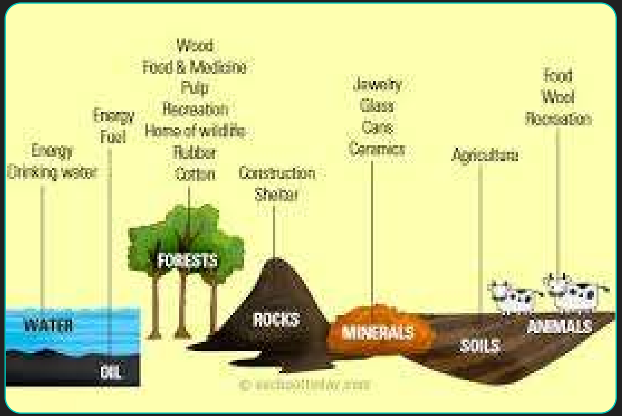
People and Businesses obtain their goods and services through resources.

Money

Fuel

Labor

Types of Resources



- In order to create useful goods and services, a business may use three types of economic resources.
  - Natural – Raw materials supplied by nature
    - Oil, minerals, rivers, etc.
  - Human- People who create goods and services
    - Agriculture, manufacturing, distribution, retail, etc.
  - Capital- The assets used in the production of goods and services
    - Buildings, equipment, supplies, etc.

Unlimited needs and wants

- People have unlimited wants and needs
- The issue with this?

….No person, business, or nation has enough resources (money, fuel, and labor) to satisfy all of their wants and needs. This is known as having **Limited Resources.**

How to deal with limited resources

Businesses and individuals can make the most of their resources by making the best choices about what they should buy.

Always satisfy your needs first and then your wants.

It helps to use the decision making process:

1. Identify the problem
2. Identify the choices
3. Determine the pros and cons
4. Make a decision
5. Review your decision

Note, some decisions will be quicker than others.

A decision to buy a new computer should take more thought than buying new shoes.

Review

- What is the basic economic problem?
- What are two things that businesses provide you?
- Do we have unlimited resources?
- What are the 3 types of resources?

Role of Business in Economics

- Businesses occupy a key position in a market economy. For it's the businesses who ignite the economy's engine, activating and stimulating all economic activity.
- Supply and Demand
  - Entrepreneurs play an important part in supplying goods and services to meet the demands of the consumers.
- Capital Investment and Job Creation
  - Businesses need money to help run their business, sometimes this is with their own money or investors money. This may be used to buy a building, equipment, hire employees, etc. This then gives job opportunities to the community too!
- Change Agents
  - Many businesses create products that change the way people live and conduct business.
    - Example: Apple, Google, Amazon, etc.

How Economic Decisions Are Made

- Different Economic systems exist throughout the world. However all economics must answer three questions.
  - 1. What goods and services will be produced?
  - 2. How will the goods and services be produced?
  - 3. For whom will the goods and services be produced?
- The Economics Systems will determine how these three questions are answered.

Types of Economic Systems

Command-

- The government determines what, how, and for whom goods and services are produced

Market-

- Individuals and businesses decide what, how and whom goods and services are produced

Traditional-

- Goods and services are produced the way they have always been produced.

Mixed-

- When elements of the command and market economies are combined.

Functions of Business

- In a market economy, a business is free to produce and offer consumers any legal product or service. Knowledge of business activities will help satisfy customers and make a profit. These activities, or functions of business include the following:
  - Production- creates or obtains products or services for sale.
  - Marketing- To attract as many customers as possible.
  - Management- Operates your business smoothly while developing, implementing your business.
  - Finance- planning and managing the financial records and functions of the business.

What Affects Price?

In a market economy, individual consumers make decisions about what to buy, and businesses make decisions about what to produce.

Consumers are motivated to buy goods and services that they need or want.

Business owners are driven by the desire to earn profits.

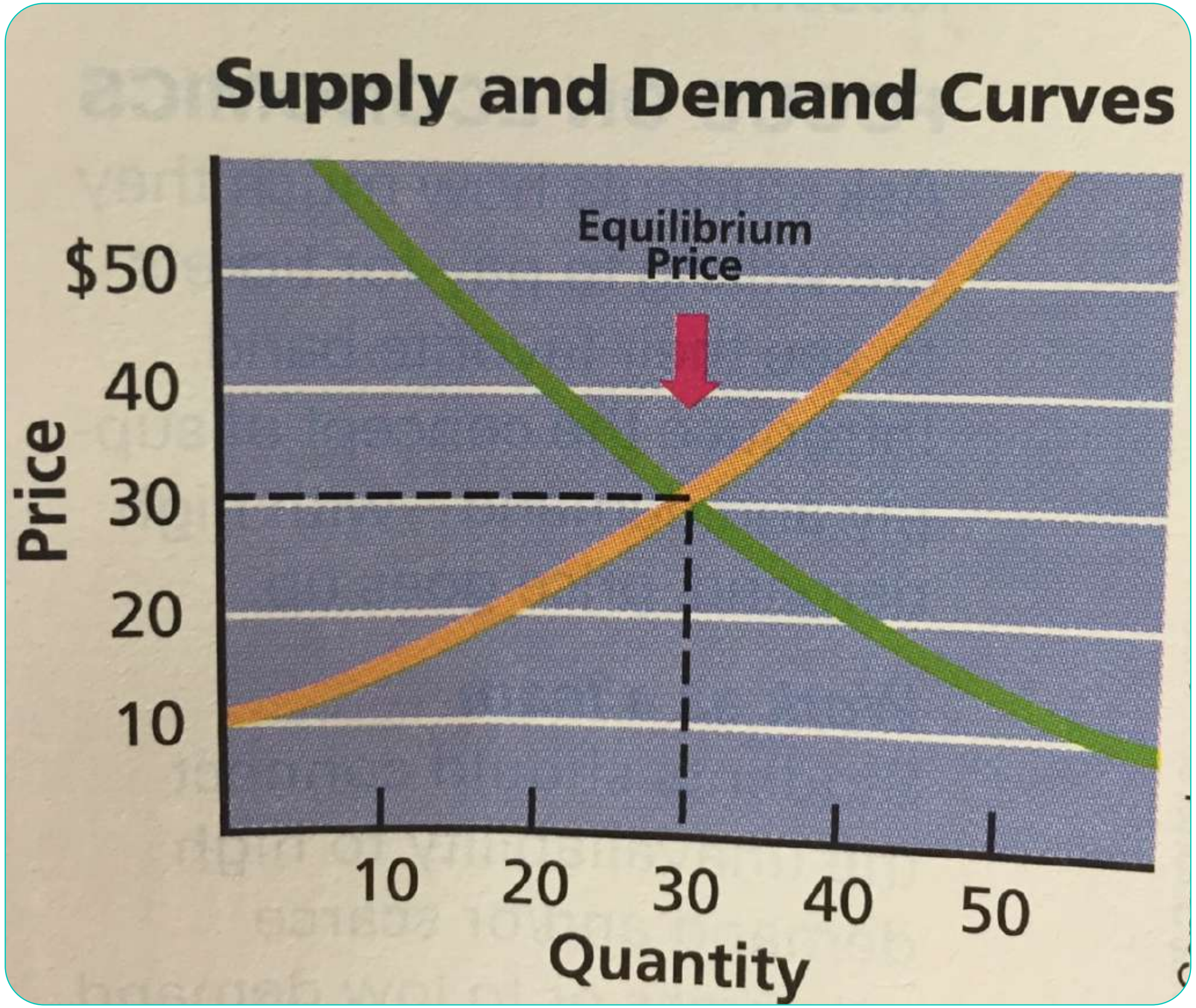
These two groups, consumers and producers, together determine the quantities and prices of goods and services produced.

Supply and Demand

- Supply- is the quantity of a good or service a producer is willing to produce at different prices.
- Demand- is the quantity of a good or service that consumers are willing to buy at a given price.

When Supply and Demand Meet

- As the price of the service or product decreases, consumers are willing to purchase more of the product or service. Demand rises as the price falls, as shown in the graph.
- This point which the supply and demand curves meet is known as equilibrium price and quantity.



Costs Of Doing Business

- Businesses need to know how much it costs to produce their goods and services. To do this they must consider all factors:
  - Goods and services they are offering to determine price
  - Resources such as an office, materials, labor, and equipment.

Fixed and Variable Costs

Every business has fixed and variable costs

Fixed Costs: are costs that must be paid regardless of how much a good or service is produced.

Variable Costs: are costs that go up and down depending on the quantity of the good or service produced.

Marginal Benefit and Marginal Cost

- Businesses make decisions based on the concepts of marginal benefit and marginal cost.
- Marginal Benefit: is the additional satisfaction or utility that a person receives from consuming an additional unit of a good or service.
- Marginal Cost: the cost added by producing one additional unit of a product or service.

Market Structure and Prices

- Market structure is the interconnected characteristics of a market, such as the number and relative strength of buyers and sellers and degree of collusion among them, level and forms of competition, extent of product differentiation, and ease of entry into and exit from the market.
  The Four Major Market Structures:
  - Perfect Competition- consists of a very large number of businesses producing nearly identical products and has many buyers.
  - Monopolistic Competition- has a large number of independent businesses that produce goods and services that are somewhat different.
  - Oligopoly- when a market is dominated by a small number of businesses that gain the majority of total sales revenue.
  - Monopoly- where there is only one provider of a product or service.

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