

# Unit 41: Business Markets and the Economy

<b>Unit code:</b>	<b>K/502/5509</b>
<b>QCF Level 3:</b>	<b>BTEC National</b>
<b>Credit value:</b>	<b>10</b>
<b>Guided learning hours:</b>	<b>60</b>

## ● Aim and purpose

The aim of this unit is for learners to consider the structure of the UK economy and to explain how business markets operate and shape the behaviour of business activity. Learners will look at how the potential problems that may arise when markets are unregulated are managed.

## ● Unit introduction

Through a study of government activities, and the operation of different types of business market, learners will analyse markets to explain how they work and how producers and consumers behave as supply and demand for goods and services interact to determine product price.

Less than perfect markets are usually tilted in favour of the supplier away from the buyer. It may be the other way round if buyers have a lot of power and sellers may be faced with a 'take it or leave it' stance from their customers. If sellers have too much power they can use it to the detriment of customers the government may then step in to regulate the market.

## ● Learning outcomes

**On completion of this unit a learner should:**

- 1 Understand the purposes of organisations and their goals
- 2 Know the characteristics of the UK economy
- 3 Understand the operation of market factors
- 4 Understand how markets are regulated in the UK economy.

# Unit content

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## 1 Understand the purposes of organisations and their goals

*Types of business organisation:* sole traders; partnerships; companies (public, private); co-operatives; charities; state enterprises; international businesses;

*Objectives:* profit maximisation, profitability; sales (value, volume); growth; internationalisation; market share; market power; welfare; stakeholders; coordinating activity to achieve goals

## 2 Know the characteristics of the UK economy

*Structure:* economic system; size; population; income; growth; employment; inflation; deflation; international trade; the structure of industry; sectors (primary, secondary, tertiary); role of the state; government policies

*Trends:* business cycle; trends in size, population, income, growth, employment, inflation, international trade; foreign investment; market concentration; mergers and acquisitions

## 3 Understand the operation of market factors

*Market types:* perfect competition; imperfect competition (monopoly; oligopoly, imperfect)

*Market factors:* demand; supply; costs; revenues; price determination; profit; output determination; elasticity; inelasticity; equilibrium

## 4 Understand how markets are regulated in the UK economy

*Role of government:* market failure; justification for intervention; market regulation; deregulation; unfair competition; competition policy; Competition Commission; privatisation; private finance initiative; government policies; subsidies; taxation

*International factors:* European Union; the single market (free trade, harmonisation, capital, labour, technical standards, simplified trading); monetary union; social chapter

## Assessment and grading criteria

In order to pass this unit, the evidence that the learner presents for assessment needs to demonstrate that they can meet all the learning outcomes for the unit. The assessment criteria for a pass grade describe the level of achievement required to pass this unit.

Assessment and grading criteria		
To achieve a pass grade the evidence must show that the learner is able to:	To achieve a merit grade the evidence must show that, in addition to the pass criteria, the learner is able to:	To achieve a distinction grade the evidence must show that, in addition to the pass and merit criteria, the learner is able to:
<b>P1</b> identify the objectives of a range of organisations [IE]	<b>M1</b> compare the methods used to achieve objectives in two contrasting organisations	<b>D1</b> analyse the performance of a selected business against its stated objectives
<b>P2</b> explain how organisations meet their objectives [IE, RL]		
<b>P3</b> outline the characteristics of the economy in the UK [IE]		
<b>P4</b> describe the role of the government in influencing the economy and business activity [RL, TW, EP]	<b>M2</b> explain how equilibrium is established in different types of market	
<b>P5</b> explain different types of market structure [IE]		
<b>P6</b> describe how business markets are regulated in the UK [IE, RL, CT]	<b>M3</b> explain why the government needs to regulate business markets.	<b>D2</b> evaluate the effectiveness of the regulatory regime in a selected market.
<b>P7</b> explain how EU requirements influence business markets in the UK. [IE, RL]		

**PLTS:** This summary references where applicable, in the square brackets, the elements of the personal, learning and thinking skills which are embedded in the assessment of this unit. By achieving the criteria, learners will have demonstrated effective application of the referenced elements of the skills.

Key	IE – independent enquirers	RL – reflective learners	SM – self-managers
	CT – creative thinkers	TW – team workers	EP – effective participators

# Essential guidance for tutors

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## Delivery

Walk through any street market late on Saturday afternoon and you will see the owners of stalls with produce left over offering fruit and vegetables for bargain prices. They are using the price mechanism to clear the market. It is better to get 50 pence for a kilo of tomatoes than to have them spoil and become unsaleable on Monday morning.

The stallholder is trying to maximise income and profit. Just like any other organisation the fruit and vegetable seller has objectives. In many respects, the vendors who work in the market are just like much larger business organisations in that they share similar goals. They both want to make a profit, to keep making money and to avoid losing sales income by having to throw things away. Other business organisations will have different objectives. In the healthcare market, hospitals have, as a priority, the need to ensure citizens are healthy so they will have preventative health care programmes. Imagine a tobacco company spending money on preventive care.

Street markets are good examples of perfect markets as it is easy to get a pitch and costs are not too high. It is easy to see what competitors are doing just by walking past their stalls and perhaps seeing that their apples are cheaper but their potatoes are more expensive. The competitive response is to align prices or perhaps to differentiate products, for example selling organically produced food. Other markets are less perfect. Mains water comes from monopoly suppliers. A householder who does not like their water provider cannot find a competitor who will supply cheaper water.

Less than perfect markets are usually tilted in favour of the supplier and away from the buyer. It may be the other way round if buyers have a lot of power and sellers may be faced with a 'take it or leave it' stance from their customers. If sellers have too much power they can use it to the detriment of customers. The government may then step in to regulate the market. The Water Services Regulation Authority (OFWAT) is the economic regulator of the water and sewerage companies in England and Wales. If the market was not regulated water companies could not think about charging the same amounts for a litre of pure drinking water as is charged by companies such as Nestlé and PepsiCo.

Learners will develop an understanding of important technical terms by using textbooks, case studies and web-based resources. Contemporary examples reported in the news (TV, internet or newspaper) should be used to ensure the currency of information and the relevance of theory to practice. Tutors can also develop banks of materials by drawing on local examples to illustrate topics and give learners the chance to calculate the impact of elasticity on output and profit. Case studies can be used as a means to promote group learning as well as providing vehicles for assessment.

Some initial background about businesses, their goals, economic systems and the UK economy needs to be provided to ensure that the analysis of business markets can be put in to a meaningful context. An understanding of business types and their goals is relevant to an understanding of markets and their regulation. A profit-maximising business in a perfectly competitive market will be constrained by market forces. However, a profit maximising business that has a monopoly might be able to behave in an unrestrained way against which consumers might have little power. For example, all train fares are regulated and the amount by which a train operating company can increase any individual regulated ticket is usually capped at Retail Price Inflation (RPI) plus a maximum of 6 per cent, within a group of fares that cannot rise overall by more than RPI plus 1 per cent per annum. A consumer can complain about rail fares to the office of the rail regulator.

Consideration of how the economy performs and has performed will identify the economic setting for business markets. The economy is mixed with the state accounting for in excess of 40 per cent of gross domestic product, whereas the proportion was 35 per cent 20 years ago. The rest of the economic activity can be characterised as free market capitalism. During the 1980s, Conservative governments opted to privatise state controlled industries and to promote more competition in markets that had been state monopolies. The 'credit crunch' of 2008 has seen the government take significant stakes in banks, effectively part nationalising an industry that extolled the virtues of unfettered capitalism. Business is cyclical and the government endeavours to promote stability by managing inflation, the balance of payments, employment levels and growth. Adjusting the controlling levers of the economy will impact on business markets. A cut in value added tax reduces prices and affects demand, so a new equilibrium will be established in a market depending on the price elasticity of demand for the affected product. Many general economic issues are covered in the broadsheet press and on TV so tutors can use current affairs as a basis for developing activities for learners to consider how market operation is influenced by government activities. It is useful for learners to look at other patterns of economic activity and the associated trends. The population is aging so there is a shift in demand for care but at the same time psychologists identify age compression and the emergence of 'kidults'. Products associated with children such as Harry Potter books and skateboards are bought and enjoyed by adults. The converse is evident as well. Children consume products associated with adults for example iPhones, netbook computers, cosmetics and designer clothes. These changes in taste and preference have a significant impact on many markets, these developments are widely chronicled so tutors can incorporate them in their teaching.

Market operation needs to look at the interaction of supply and demand in establishing price and output. Demand curves and the determinants of demand as well as supply curves and the determinants of supply need to be considered and can be related to specific examples. Learners will look at the responsiveness of demand and supply to price changes and the impact on businesses. In addition to perfect markets, the specific features of monopolistic, oligopolistic and imperfect markets can be reviewed as these market structures exist in the UK. This section of the unit is covered in many textbooks. Bized has a range of materials for tutors to use including PowerPoint presentations, simulations, exercises/worksheets, current case studies and supporting narratives that cover all relevant topics relating to markets.

The imperfections of markets may work to the detriment of consumers who find that power in the market is unevenly distributed between the customer and the supplier. Perfect markets have a built-in, self-regulating mechanism that imperfect markets do not. Governments may intervene to adjust market operations. Taxes on tobacco can be used to reduce the demand for tobacco products for health reasons. For nicotine, addicted consumers tobacco is inelastic with respect to price so the revenue-raising value of tobacco is recognised by governments. The government may intervene to promote efficiency in the operation of the market. The Competition Commission helps ensure healthy competition between companies in the UK for the benefit of companies, customers and the economy concentrating on mergers, particularly when competition is reduced, may be being prevented, distorted or restricted and in regulated sectors. Regulated sectors, especially evident in the wake of privatisation, have agencies such as The Water Services Regulation Authority (OFWAT) for the water industry and OFTEL for the telecommunications industry. As a consequence of being an EU member, UK markets will be affected by EU requirements in respect of competition as the EU considers transnational competition issues that fall beyond national jurisdictions.

## Outline learning plan

The outline learning plan has been included in this unit as guidance and can be used in conjunction with the programme of suggested assignments.

The outline learning plan demonstrates one way in planning the delivery and assessment of this unit.

Topic and suggested assignments/activities and/assessment
Introduction to unit and structure of the programme
Introduction to the UK economic system and business markets.
Individual, pair or group work on the types of business in the UK economy and their goals. This will be supported by tutor input on technical topics. Learners: <ul style="list-style-type: none"><li>• investigate types of business organisations</li><li>• investigate the legal forms of business ownership</li><li>• identify the range of stakeholders and their interest in organisations</li><li>• review the businesses controlled by the state</li><li>• discuss reasons for state ownership of businesses</li><li>• collect data on the goals of organisations</li><li>• investigate how organisations operate in order to achieve their goals.</li></ul>
<b>Assignment 1 – Business Objectives</b>
Individual, pair or group work on the structure of the UK economy. This will be supported by tutor input on technical topics. Learners: <ul style="list-style-type: none"><li>• investigate the economic system</li><li>• collect information of the features of the economy</li><li>• identify the government's macro-economic targets</li><li>• identify how the government manages its macroeconomic variables</li><li>• the sectoral structure of the UK business</li><li>• identify government policies that affect business markets</li><li>• research trends in the economy and business by collecting relevant data</li><li>• investigate market concentration in different sectors.</li></ul>
Individual, pair work or group work on the types of business market in the UK economy. This will be supported by tutor input on technical topics. Learners: <ul style="list-style-type: none"><li>• identify the characteristics of a perfect market</li><li>• identify the characteristics of a monopolistic market</li><li>• identify the characteristics of an oligopolistic market</li><li>• identify the characteristics of an imperfect market</li><li>• investigate the factors that affect demand</li><li>• investigate the factors that affect supply</li><li>• consider how equilibrium is established in a market</li><li>• assess elasticities of demand and supply</li><li>• examine the impact on markets of changes and shifts in demand</li><li>• examine the impact on markets of changes and shifts in supply.</li></ul>

## Topic and suggested assignments/activities and/assessment

### Assignment 2 – Role of Governments

Individual, pair work or group work on the regulation of markets in the UK economy. This will be supported by tutor input on technical topics. Learners:

- identify the reasons for market interventions
- investigate the role and activities of the Competition Commission
- investigate the role and activities of the statutory regulators
- research the responsibilities of the EU in respect of competition policy.

### Assignment 3 – Regulation

Supervised assignment time

Non-supervised study time and completion of assignments

## Assessment

For P1, learners will identify different organisations and their objectives. Different types of organisation with contrasting aims should be selected. It would be reasonable to expect selection of a profit maximising partnership and a welfare maximising hospital. If published accounts and annual reports are used to investigate organisations it is worth bearing in mind that these documents often only obliquely refer to objectives mentioned in textbooks and prefer softer objectives that are subsidiary to the main objectives. 'Providing good customer service' and being a 'good corporate citizen' are examples.

For P2, learners will need to consider the same organisations as for P1 and look at how they meet their objectives. For example, if profit maximising is identified then there should be some discussion of pricing policies and cost management. Current market examples can be found. Apple products, for example, attract a premium price compared with equivalent non-Apple products and there is almost no price competition suggesting there is price skimming

For P3, learners should identify the characteristics and structure of the economy in the UK. There is an extensive range of characteristics and an equally extensive range of information sources on the UK economy. The factors that most influence the nature of business markets should be identified, together with trend and cyclical patterns that are important for business markets.

For P4, learners need to describe the range of government policies that exist and influence business markets. Emphasis should be placed on local business markets and those policies which most impact on local business markets.

For P5, learners should explain the different types of market structure from perfect competition through to monopoly. This will involve looking at market characteristics, supply and demand conditions and how price and output are determined in different markets. The theory should be related to current business examples.

For P6, learners need to consider how governments intervene in markets to regulate them and can be linked to P4. Intervention can be through taxes and subsidies which are designed to distort the market to achieve specific objectives. The EU takes more than a passing interest in activities which favour industry in one EU nation over another. The work of the Competition Commission, and the offices of the regulators for the privatised but previously state-owned monopolies, should be examined to see the purpose and effect of government intervention.

For P7, learners can report on how EU policies and activities impact on UK business markets. One useful area to consider is in relation to aviation policy and how the EU has tried to put national flag carriers into a competitive framework which confronts national governments' protectionist practices and gives consumers a better deal.

For M1, learners should, for two selected organisations, compare their objectives and the methods used to achieve these objectives. Sufficiently contrasting organisations should be selected and the activity can build on the work for P1 and P2. For example, a welfare-maximising healthcare provider will provide screening and preventative services which help prevent more complex problems that would be costly to treat and eradicate.

For M2, learners should examine how equilibrium is established in markets of various types and look at how changes, and supply and demand, affect markets and result in a different equilibrium being established.

For M3, learners should build on the work for P6 and explain why governments intervene in markets and what the consequences of market interventions are. There are plenty of examples, reported on regularly where the regulators consider the consequences of industry activity on producers and consumers. For example, rail fares are increased annually and the proposals generate debate about balancing the interests of the train operating companies and passengers.

For D1, learners should look at the behaviour of a selected business and explain its behaviour in terms of the market in which it operates. A sole trading convenience store on a local high street near to a railway station might provide food for thought. It operates in an industry with few barriers to entry but it exploits its location by charging consumers high prices for bread and milk because for the weary homeward bound traveller they constitute distress purchases.

For D2, learners should evaluate the effectiveness of the regulatory regime in a selected market. If the banking industry is considered then the role of the Financial Services Authority in the period before the re-capitalisation of the banks will provide some contrasting views as to its effectiveness.

### Programme of suggested assignments

The table below shows a programme of suggested assignments that cover the pass, merit and distinction criteria in the grading grid. This is for guidance and it is recommended that centres either write their own assignments or adapt any Edexcel assignments to meet local needs and resources.

Criteria covered	Assignment title	Scenario	Assessment method
P1, P2, P3, M1, D1	Business Objectives	Scenario given.	Case study.
P4, P5, M2	Role of Governments	Scenario given.	Case study.
P6, P7, M3, D2	Regulation	Scenario given.	Case study.

Learners will be expected to produce evidence that shows their skills, knowledge and understanding in respect of business markets and the economy. It may include:

- identifying the objectives of a range of organisations
- explaining how organisations meet their objectives
- outlining the characteristics of the economy in the UK
- describing the role of the government in influencing the economy and business activity
- explaining different types of market structure
- describing how business markets are regulated in the UK
- explaining how EU requirements influence business markets in the UK.



## Links to National Occupational Standards, other BTEC units, other BTEC qualifications and other relevant units and qualifications

This unit forms part of the BTEC Business sector suite. This unit has particular links with the following unit titles in the Business suite:

Level 3
The Business Environment
Business Resources
Business and the Economic Environment
International Business

### Essential resources

For this unit learners should have access to a suitable business teaching environment and access to current resources about government policies and the economy. Current and specific information is easy to come by. Government websites and departments of state provide up-to-date detailed information. Various references books similarly provide details about UK business and the economy. The EU website provides comprehensive information on all EU activities. Local organisations and businesses can provide information about the impact of government from a personal perspective.

### Employer engagement and vocational contexts

Centres should develop links with local employers who will be affected by government policy and the associated economic environment. Many businesses look to employ business learners when they finish their programme of study. They may want some of the expertise learners gain as a result of having followed a vocational business programme of study.

### Indicative reading for learners

#### Textbooks

Gillespie A – *Business in Action* (Hodder Arnold, 2002) ISBN 0340848200

Mankiw N and Taylor M – *Economics* (Thomson Learning, 2006) ISBN 1844801330

Marcouse I et al – *Business Studies* (Hodder Arnold, 2003) ISBN 0340811102

Sawyer M – *The UK Economy, 16th Revised Edition* (OUP Oxford, 2004) ISBN 0199266514

Sloman J and Sutcliffe M – *Economics for Business* (Financial Times/Prentice Hall, 2004) ISBN 0273683357

#### Journal

*The Economist*

#### Newspapers

Business sections of broadsheet newspapers

*The Financial Times*

## Websites

[news.bbc.co.uk/1/hi/business/default.stm](http://news.bbc.co.uk/1/hi/business/default.stm)

The BBC website's business section.

[www.bized.co.uk](http://www.bized.co.uk)

Bized provides a selection of teaching resources.

[www.direct.gov.uk/en/index.htm](http://www.direct.gov.uk/en/index.htm)

This is the UK government's own site and there are links to a range of relevant data sources.

[www.esrc.ac.uk/ESRCInfoCentre/facts/index27.aspx?ComponentId=7102&SourcePageId=7079](http://www.esrc.ac.uk/ESRCInfoCentre/facts/index27.aspx?ComponentId=7102&SourcePageId=7079)

The ESRC has current UK data.

[europa.eu](http://europa.eu)

Website of the European Union

[www.ofgem.gov.uk/Pages/OfgemHome.aspx](http://www.ofgem.gov.uk/Pages/OfgemHome.aspx)

Office of the Gas and Electricity Markets – the regulatory authority. Each regulator has a similar site.

[www.statistics.gov.uk](http://www.statistics.gov.uk)

The UK Statistics Authority.

[www.ukpublicspending.co.uk](http://www.ukpublicspending.co.uk)

The site has data on public spending both current and historic.

## Delivery of personal, learning and thinking skills

The table below identifies the opportunities for personal, learning and thinking skills (PLTS) that have been included within the pass assessment criteria of this unit.

Skill	When learners are ...
<b>Independent enquirers</b>	<ul style="list-style-type: none"> <li>identifying the objectives of a range of organisations</li> <li>explaining how organisations meet their objectives</li> <li>outlining the characteristics of the economy in the UK</li> <li>describing the role of the government in influencing the economy and business activity</li> <li>explaining different types of market structure</li> <li>describing how business markets are regulated in the UK</li> <li>explaining how EU requirements influence business markets in the UK</li> </ul>
<b>Creative thinkers</b>	<ul style="list-style-type: none"> <li>identifying the need to regulate business markets in the UK</li> </ul>
<b>Reflective learners</b>	<ul style="list-style-type: none"> <li>applying ideas to explain how organisations meet their objectives</li> <li>considering how government policies influence the economy and business activity</li> <li>identifying how the regulatory rules apply to business markets in the UK</li> <li>identifying how EU requirements influence business markets in the UK</li> </ul>
<b>Team workers</b>	<ul style="list-style-type: none"> <li>gathering information about the role of the government in influencing the economy and business activity</li> </ul>
<b>Effective participators</b>	<ul style="list-style-type: none"> <li>discussing the role of the government in influencing the economy and business activity.</li> </ul>

Although PLTS are identified within this unit as an inherent part of the assessment criteria, there are further opportunities to develop a range of PLTS through various approaches to teaching and learning.

Skill	When learners are ...
<b>Independent enquirers</b>	<ul style="list-style-type: none"> <li>planning and carrying out research into the UK economy</li> <li>researching businesses and their objectives</li> </ul>
<b>Creative thinkers</b>	<ul style="list-style-type: none"> <li>identifying relevant sources of information about businesses and business markets</li> <li>following links to find information about business markets</li> </ul>
<b>Reflective learners</b>	<ul style="list-style-type: none"> <li>applying the rules of market behaviour to new and different situations</li> <li>setting goals with, success criteria, for completing work tasks</li> <li>inviting feedback on their own performance in group settings</li> <li>evaluating their experiences and learning to inform future progress</li> </ul>
<b>Team workers</b>	<ul style="list-style-type: none"> <li>working in a group to gather information about the economy and business markets</li> <li>discuss ideas, prepare materials and to set up selection interviews</li> <li>agreeing roles with others in researching and collecting information</li> <li>taking responsibility for own role</li> <li>managing activities to reach agreements and achieve results</li> </ul>

Skill	When learners are ...
<b>Self-managers</b>	seeking out challenges or new responsibilities and showing flexibility when priorities change dealing with competing pressures, including personal and work-related demands responding positively to change, seeking advice and support when needed
<b>Effective participators</b>	discussing and expressing views on the role of the government in influencing the economy and business activity in group discussions.

## ● Functional Skills – Level 2

Skill	When learners are ...
<b>ICT – Use ICT systems</b>	
Select, interact with and use ICT systems independently for a complex task to meet a variety of needs	researching information about the UK economy researching information about businesses
Use ICT to effectively plan work and evaluate the effectiveness of the ICT system they have used	producing a schedule of work to be carried out when researching the economy and business markets
<b>ICT – Find and select information</b>	
Select and use a variety of sources of information independently for a complex task	finding current and historic data about the UK economy analysing the impact of changed variables on market equilibrium
Access, search for, select and use ICT-based information and evaluate its fitness for purpose	exploring, extracting and assessing the relevance of information from websites with economic and business market-related information validating information by comparing data from alternative sources
<b>ICT – Develop, present and communicate information</b>	
Enter, develop and format information independently to suit its meaning and purpose including: <ul style="list-style-type: none"> <li>• text and tables</li> <li>• images</li> <li>• numbers</li> <li>• records</li> </ul>	bringing together a variety of materials gathered through research in respect of the economy, businesses and markets selecting suitable graphical tools to present information preparing information about the economy, businesses and markets producing diagrammatic information on business trends, the structure of business and market operation in various markets
Bring together information to suit content and purpose	
Present information in ways that are fit for purpose and audience	
Evaluate the selection and use of ICT tools and facilities used to present information	
Select and use ICT to communicate and exchange information safely, responsibly and effectively including storage of messages and contact lists	communicating with others when gathering information about business markets

Skill	When learners are ...
<b>Mathematics</b>	
Understand routine and non-routine problems in a wide range of familiar and unfamiliar contexts and situations	<p>using numerical data to calculate:</p> <ul style="list-style-type: none"> <li>trends</li> <li>market shares</li> <li>elasticities</li> <li>selecting formulae to calculate different elasticities</li> <li>interpret the significance of changes in market equilibrium in response to demand and supply changes</li> </ul>
Identify the situation or problem and the mathematical methods needed to tackle it	
Select and apply a range of skills to find solutions	
Use appropriate checking procedures and evaluate their effectiveness at each stage	
Interpret and communicate solutions to practical problems in familiar and unfamiliar routine contexts and situations	
Draw conclusions and provide mathematical justifications	
<b>English</b>	
Speaking and listening – make a range of contributions to discussions and make effective presentations in a wide range of contexts	<p>carrying out work when investigating the economy, businesses and markets</p> <p>asking questions when investigating the economy, businesses and markets</p> <p>attending meetings</p>
Reading – compare, select, read and understand texts and use them to gather information, ideas, arguments and opinions	<p>reading about economics, businesses and business markets</p> <p>analysing the factors that determine market equilibrium in different markets</p> <p>understanding the impact of the legal and regulatory framework on the operation of business markets</p>
Writing – write documents, including extended writing pieces, communicating information, ideas and opinions, effectively and persuasively	<p>preparing analyses of the UK economy</p> <p>examining the structure of UK business</p> <p>explaining market equilibrium and how changes in business variables affect market equilibrium.</p>