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# 1 Consumers and producers



## 1 Consumers and producers

### 1.1 Overview

#### 1.1.1 Your role in the economy

On television news, current affairs programs and other media, we frequently hear politicians and commentators referring to the 'Australian economy'. What is the 'economy' and how does it work? In simple terms, the Australian economy is the total of all activities undertaken within Australia, for the purpose of producing, distributing and consuming goods and services.

Video

What is economics?

You are an important part of the economy because you spend money whenever you choose to buy goods and services to satisfy your needs and wants. (Even if you don't spend the money yourself directly, other people — such as your parents — may spend money on your behalf or for your benefit; for example, by paying for your visits to the doctor or dentist, clothes, food and education.)

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**Figure 1** Goods and services bought by or for you make you an important part of the economy.



Businesses rely on consumers like you to buy their goods and services. By choosing to spend some of your money, you send a signal to **producers** to keep making the products you buy and to continue employing people to make the products or provide the services you buy. Employees who work in a business are also **consumers** because they spend the money they have earned on the goods and services they wish to buy.

So, as a consumer, your purchase of an item of clothing, an iPod, a snack or any other good or service makes you a part of the economy. Similarly, any work that you do, whether as a part-time or casual employee, involves you in the production side of the economy. Your contribution may not be as great as a shipload of coal, or have the same impact as that of a large business or full-time employee, but it does have an influence on the way the economy works.

**Figure 2** Many teenagers have part-time jobs that contribute to the economy.



## 1 Consumers and producers

### 1.2 The importance of businesses as producers

#### 1.2.1 Producers and consumers

It is sometimes said that 'money makes the world go around'. Of course this is not physically true, but it does sum up the way the economy works. In simple terms, the economy consists of producers, who make and sell goods and services, and consumers, who buy the goods and services. Producers pay their employees with money, and also hope to make money themselves out of what they sell. This money is used to buy goods and services from other producers. Producers rely on consumers to buy from them, and consumers rely on producers to provide the goods and services they want. Money allows this relationship to work.

Do you believe that money makes the world go around? Is too much or too little importance placed on money in our society? [Critical and creative thinking]

#### 1.2.2 Needs and wants

Imagine you have survived an aeroplane crash and find yourself alone on a desert island. In order to survive, you will have to find those things that are essential for survival — food,

water and shelter from the weather and from danger. These are the basic **needs** that we must all have whether we are on a desert island or in the comfort of our home.

**Figure 1** Even on a desert island, you have basic needs that must be satisfied if you are to survive.



As well as these needs, there are additional things we might like to have on the desert island to make life more comfortable. These could include a bed, a torch, a fishing rod, a comb or a toothbrush, and a table and chair. These things are called **wants**. Although we would like to have these possessions, we could survive without them.

**Table 1** Needs versus wants

	Definition	Examples	Properties
<b>Needs</b>	Goods or services that are essential for life	Water, food, shelter, air, clothing, medication	<p><i>Finite list:</i></p> <ul style="list-style-type: none"> <li>• They must be satisfied if life is to continue.</li> <li>• They remain throughout life.</li> <li>• They temporarily wane when satisfied.</li> </ul>
<b>Wants</b>	Non-essential goods and services	Torch, bed, fishing rod, armchair, toothbrush	<p><i>Unlimited list:</i></p> <ul style="list-style-type: none"> <li>• Life can continue without them.</li> <li>• Wants change throughout life.</li> <li>• New wants arise once others are satisfied.</li> </ul>

### 1.2.3 Goods and services

In order to satisfy our needs and wants, we purchase goods and services. **Goods** are classified as the physical items that satisfy our needs and wants, and that we can see and touch. They include food, TV sets, cars, refrigerators, bottles of soft drink and clothing.

**Services** are classified as the actions done for you by others, which are designed to satisfy needs and wants. They include the services provided by doctors, dentists, banks, mechanics and teachers. If you are stranded alone on a desert island, you will have to find or make all the things you need and want. In effect, you would be a one-person economy because you would be responsible for both producing and consuming all the goods and services. In a modern economy, we generally rely on businesses to provide us with goods and services.

**Figure 2** In a modern economy, we generally rely on businesses to provide us with goods and services.



### 1.2.4 The relationship between businesses and consumers

In the Australian economy, we satisfy our needs and wants by working to earn money and then buying goods and services from businesses that produce them. When we are working, we are providing our **labour** to contribute to the process of producing goods or services for other consumers to buy. When we are spending our money, we are consumers, purchasing goods and services that others have produced in order to satisfy our needs and wants.

In order to satisfy needs and wants, consumers like you make economic decisions every day. For example, you may decide to buy milk from a supermarket rather than from a dairy, catch a bus to school rather than walk, use a loose-leaf folder rather than a bound notebook, buy a can of Australian tinned food rather than one from overseas. Your decisions influence what businesses produce and therefore affect the economy.

We can examine the relationship between businesses and consumers by looking at the model in the [figure 3](#) interactivity. It demonstrates how labour is exchanged for money, and how that money is used to purchase goods and services.

Interactivity

**Figure 3** The interrelationship between consumers and business

## 1.3 Responding to consumer demand

### 1.3.1 What consumers want

Any producer wishing to be successful in business must supply goods or services that correspond with the needs and wants of consumers. It is no use trying to sell something that nobody wants to buy. The ability to understand and act on consumer preferences is an important skill for anyone wishing to go into business.

### 1.3.2 The marketplace

A market is any organised exchange of goods and services for money. This can occur in a physical marketplace such as a shopping centre, but it can also occur without any actual physical location. When we purchase goods or services online or over the telephone, we are still participating in a market.

A market has to provide a means for consumers to find out about the goods and services available. This can occur when consumers physically walk into a shop and examine the goods on display. It can also occur when consumers visit a website, or look up different businesses in a telephone directory such as the Yellow Pages.

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**Figure 1** The internet is an important tool that allows consumers to find out about goods and services available to them.



A market also has to provide a means for consumers to pay for the goods or services they are purchasing, and a means for them to receive those goods or services. In a physical shop, this is fairly simple: we visit the premises, receive the good or service, and then pay (by handing over cash or using a card or smartphone) as we leave. An online market usually

requires some means of online payment, and a postal or other delivery service to bring the goods to the consumer.

We usually think of a market in relation to the particular goods and services being sold. For example, there is a market for groceries, where different businesses compete with each other to provide consumers with different products. There is a market for takeaway food, with different restaurants offering a variety of choices for consumers. If one shopping centre has two or more hairdressers, this constitutes a market for hairdressing services.

**Figure 2** Hairdressers compete with each other in a market for hairdressing services.



### 1.3.3 Responding to consumer demand

How does a business owner find out what consumers want?

- *Analyse the business's sales.* There is no point in stocking products that no-one wants to buy, so a business owner will always be monitoring sales to identify the most popular products and ensure that sufficient quantities of them are held in stock.
- *Carry out market research.* This includes surveys of consumers to identify possible future consumer preferences.
- *Examine social trends.* This requires finding out what sorts of issues people are concerned about and then responding to those concerns. Examples include the desire for a healthy lifestyle, environmentally friendly products and organic food.

#### Healthy lifestyle

We regularly see and hear stories in the media suggesting that much of our modern lifestyle is harming our health. Obesity is a growing problem, and eating unhealthy foods and not exercising are seen as a danger to wellbeing. As consumers become more aware of possible health issues, they are likely to look for healthy options when buying goods and services. Producers respond to these concerns by trying to make their products appear as healthy as possible.

We see this most commonly in food packaging. Phrases such as 'low in cholesterol', '98 per cent fat-free' and 'no added sugar' are all designed to appeal to the health-conscious consumer. Packaging laws in Australia require that all ingredients are listed on food packets, so we have a way of checking some of these claims and comparing different products. While not all health claims on food packaging are necessarily honest or accurate, competition between similar products in the marketplace allows consumers to make the healthiest choices if they wish to do so.

Concerns about health also lead to new goods and services being introduced into the economy. Next time you visit a supermarket or pharmacy, take note of the huge number of vitamins and other dietary supplements on sale. This has been an area of enormous growth in recent years, with millions spent on TV advertising to promote the latest products. In addition, gyms and personal trainers have increased in number as consumers try to adopt healthier lifestyles. All of this growth in the businesses providing such goods and services is an example of the way markets can respond to consumer preferences.

**Figure 3** Gyms and personal trainers have increased in number as consumers become more health conscious.



## Environmentally friendly products

Over the past 40 years, we have become more aware of our impact on the environment and the need to reduce pollution. Businesses that can demonstrate that they used environmentally friendly methods to produce the goods and services they provide might be more appealing to consumers. You may have seen cans of tuna with the claim 'pole and line caught' on the packaging. For many years, tuna fishers have used methods that accidentally caught many other types of fish, some of them endangered species. Pole and line fishing allows only tuna to be caught, and so is more environmentally friendly. Consumers have shown a preference for this type of product.

**Figure 4** Consumers have shown a preference for environmentally friendly methods of catching tuna.



Due to consumer demand for fish produce, the population of bluefish tuna in the ocean has dramatically decreased in recent years, with some estimates being that the current population is now only 4 per cent of what it once was. Is buying pole and line caught tuna enough, or should we be doing more to protect the ocean environment? [Ethical capability]

Other examples of environmentally friendly products include cosmetics produced by The Body Shop, which endorses environmentally sustainable production methods and has always promoted the fact that none of its products are tested on animals. Washing detergents will often advertise that they are biodegradable and so will not harm the environment. Electrical goods are often sold with a sticker indicating their level of energy efficiency. All of these are examples of producers responding to consumer concern for the environment.

### Organic food

Combining both environmental concerns and a desire for healthy food options is the growth in demand for organic food. It is generally understood that food labelled as 'organic' has been grown without the use of pesticides and other chemicals, and so is a more healthy choice. In addition, if the grower has not used these chemicals, there is less risk of them causing damage to other plants or animals, or harming the environment in other ways. As well as fresh fruit and vegetables, many packaged foods now carry the word 'organic' on their packaging to appeal to consumers. Successful businesses will always make sure they are aware of consumer preferences, and will attempt to adapt their goods and services to meet these preferences.

**Figure 5** Organic fruit and vegetables are seen to be both healthier and more environmentally friendly.



### Gallery

Responding to consumer demand

[Gallery: Responding to consumer demand](#)

## 1.3.4 Your turn

### Activity

1 Consumers and producers

## 1.4 Determining prices

### 1.4.1 Deciding on price

One of the most important decisions that any business owner has to make is how much to charge for their goods and services. This will have a major impact on the success of the business, as prices set too high may drive away potential customers while prices set too low may make it difficult to achieve a **profit**.

Businesses can determine their prices by using the recommended retail price, following price leaders, using percentage mark-ups, pricing according to what the market will bear, or offering quotes to customers.

### 1.4.2 Recommended retail price

Sometimes the manufacturer of a product may provide a recommended price that can be used by **retail** businesses selling that product to consumers. Manufacturers of electrical goods often do this. This price is known as the recommended retail price (RRP). Such a price can only be a recommendation, as it is illegal in Australia for any manufacturer to dictate the price at which any product can be sold to the public. Nevertheless, the RRP can

provide a useful guide to the retail business owner, particularly when starting a new business.

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**Figure 1** Electrical goods often have a recommended retail price.

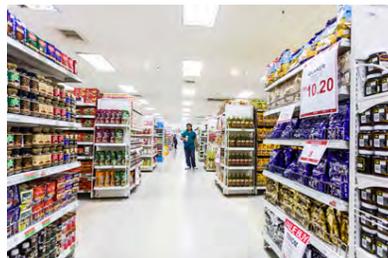


### 1.4.3 Price leaders

Some businesses are more influential in a particular market than others. These businesses are often price leaders — they tend to set the prices rather than follow the prices set by others in the market. In the food and grocery market, the two big supermarket chains (Coles and Woolworths) tend to be price leaders. To survive, smaller supermarkets must be competitive with at least some of the prices of those larger stores, so their owners will carefully monitor the price leaders. All businesses need to adjust their prices from time to time to ensure their prices are competitive when compared with the prices charged by other suppliers in the same market. They will often look to price leaders as a guide to what is a reasonable price.

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**Figure 2** Large supermarkets are often price leaders in the grocery market.



### 1.4.4 Percentage mark-ups

Using a **percentage mark-up** is a common way of determining prices. If it costs a certain amount for the retail business to buy the product, a percentage can be added to that cost to

ensure the retailer makes a profit. Assume a clothing store has a percentage mark-up of 25 per cent. A pair of jeans is bought by the business for \$100. With a 25 per cent mark-up, the jeans will have a selling price of \$125. This \$25 is used to cover the other costs of the business, such as wages and electricity bills, and to contribute to the business' profits. The business owner has to calculate an appropriate percentage mark-up to allow this to happen.

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**Figure 3** The percentage mark-up on products is used to cover business expenses and provide a profit to the business owner.



### 1.4.5 What the market will bear

When setting prices according to what the market will bear, the seller attempts to get as high a price as possible while ensuring that the price is not too high for consumers to pay. The best example of this type of price setting can be seen at an auction. Many houses and other properties are sold through this method. People attending the auction determine the price by bidding against each other until one of two things happens: either one bidder outbids all other buyers and becomes the successful buyer, or the property does not sell because no-one is prepared to pay the price the seller wants. In the latter case, the seller and the highest bidder can come together after the auction to negotiate a price that is acceptable to both of them.

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**Figure 4** House auctions are a good example of prices being determined by what the market will bear.



Of course, not all businesses can sell their goods or services through an auction process, so determining prices based on what the market will bear often comes down to the experience of the business owner. An ability to understand consumer preferences is an important skill for a business owner. Listening to customers, following what is happening to the products throughout the market, and monitoring the prices charged by competitors are all important activities for a business owner.

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**Figure 5** Listening to customers can help a business owner to determine what level of prices the market will bear.



### 1.4.6 Quotes

Many service businesses will set a price by offering a quote to a consumer to perform certain work. A business such as a plumber or electrician might find that the amount of labour and the cost of materials used can vary from job to job. Preparing a quote for each new job may be a better way to determine the price. A quote is an estimate of the costs involved in an individual job, plus a certain amount so the business makes a profit. Consumers will sometimes seek out quotes from a number of competing businesses before choosing one.

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**Figure 6** Tradespeople such as plumbers often use quotes as a means of determining the prices they charge.



1 Consumers and producers

## 1.5 Influencing overseas producers

### 1.5.1 Exports and imports

Australia is a major trading nation. Australian businesses import (buy goods and services from other countries) and export (sell goods and services to other countries) in order to meet the needs and wants of Australian and overseas consumers. Producers all over the world will not only try to satisfy the demands of consumers within their own country, but will also look for every opportunity to sell goods and services to consumers in other countries as a means of increasing profits.

### 1.5.2 Exports and Australia

Australia has always been involved in trade, ever since the colonial days. From the 1820s we exported wool to many other countries, particularly Great Britain. In the 1850s, the discovery of large deposits of gold meant that we became one of the world's largest exporters of this precious metal. We have also always imported many of the goods we want. With a comparatively small population, it has always been expensive to set up factories in Australia to make the goods we need, so it has often been cheaper to import goods from other countries.

**Figure 1** Australia was a major exporter of wool for more than 100 years.



### Why are exports important?

According to recent government statistics:

- More than 44 500 different businesses in Australia are currently exporting goods and services to other countries.
- Exports bring in over \$300 billion in income for Australian businesses each year.
- Almost 25 per cent of Australia's total income comes from exports.

It is through exports that much of our national wealth is created. In addition, money that we earn from our exports can be used to pay for imports of the goods and services we need.

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**Figure 2** Australia is a major trading nation, exporting and importing many different goods and services.



### 1.5.3 Imports and Australian consumers

Australia imports a wide range of products. There are many reasons for this, but the cheaper cost of imported goods is usually a major factor.

Australian manufacturers may not be able to make a product as cheaply as it can be made in another country, so they simply import the product. Most of the electrical goods that we buy, for example, are manufactured in various Asian countries. Everything from flat-screen TVs to washing machines and air conditioners are manufactured in countries such as Japan, South Korea and China. It is difficult to find an Australian-made product in these categories.

Many imports are brought into the country as cheaper alternatives to the Australian-manufactured products. You can see this on the supermarket shelves, where the cheaper home-brand version of a particular type of food is often an imported alternative to the Australian-made product. Imported ingredients or components are often used in products that are assembled in Australia. For example, Australian juice companies that use fruit from local suppliers may still import juice concentrate from overseas and mix it with the local product.

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**Figure 3** Electrical goods such as flat-screen TVs are usually imported from Asian countries.



### Australian consumers influence overseas businesses

Most imported goods coming into Australia are purchased by Australian retail businesses expecting to sell these on to local consumers. Although consumers in this country are increasingly buying goods from overseas themselves through online purchases, it is mostly retail businesses that import large container loads of electrical goods, footwear, clothing, toys, sporting equipment and other goods from producers in other countries. Just as Australian manufacturers are influenced by Australian consumer preferences to produce particular types of goods and services to match those preferences, businesses that import goods must also be aware of those preferences. This means they will only order goods from overseas producers that they know Australian consumers will buy. Those overseas producers may have to be aware of consumer preferences in a variety of different countries (not just Australia) if they are to be successful.

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**Figure 4** Workers in a textile factory in Laos manufacture clothes to sell in Australian shops.



## Advantages and disadvantages of importing goods from overseas

Importing goods and services can have both positive and negative effects on the Australian economy. This is illustrated in [table 1](#).

**Table 1** Advantages and disadvantages of imports

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• There is a much larger range of goods and services for consumers to buy.</li><li>• It forces Australian producers to make goods and services more efficiently, as they have to compete against cheaper imported products.</li><li>• Importing goods from other countries can encourage people in those countries to buy products from us.</li><li>• Australian workers have the opportunity to live and work overseas and learn other languages and cultures.</li><li>• Trade between countries encourages peaceful relationships between those countries.</li></ul>	<ul style="list-style-type: none"><li>• Australian jobs may be lost to countries with lower wages, particularly in manufacturing.</li><li>• Australian industries have found it difficult to compete with the lower production costs of some overseas countries. This has led to a closure of industries, such as motor vehicle manufacture.</li><li>• Money leaves the country, adding to the wealth of overseas producers instead of remaining in Australia.</li><li>• We may become too dependent on imported goods and lose the skills to produce these ourselves.</li><li>• Harmful animal species as well as diseases, such as bird flu, may inadvertently be brought into the country on ships bringing in imported goods.</li></ul>

### Activity

You may choose to start a class discussion about this topic by recording your thoughts. To do this highlight the text 'Advantages and disadvantages of imports' and use the Add Discussion function.

learn MORE

Go to your Resources section for

**Weblink:** Australian Government Department of Foreign Affairs and Trade

## 1.6 SkillBuilder: Communicating information in tables and graphs

### 1.6.1 Tell me

In [subtopic 1.4](#) we discussed the different methods of determining prices for goods and services, including 'what the market will bear'. This method of price setting usually involves some interaction between buyers and sellers, where the buyers want to pay as low a price as possible while the sellers would like to charge as high a price as possible. From these two different sets of preferences, the market will usually arrive at a price that is acceptable to both buyers and sellers. We can demonstrate how this works by using simple tables and graphs.

### 1.6.2 Show me

Imagine a fruit and vegetable market such as the Queen Victoria Market in Melbourne, Paddy's Markets in Sydney, or the Fremantle Markets in Western Australia. These markets have a number of different businesses all competing against each other, allowing buyers to browse the different stalls and compare prices and quality. All stalls sell potatoes, and most sellers agree on the following:

- If they could charge \$10/kg, they would happily supply 100 kg of potatoes for sale each day.
- If they could only charge \$5/kg, they would only provide 50 kg for sale a day.
- If they could only charge \$2/kg, they would only supply 20 kg of potatoes for sale a day and concentrate on selling other fruit and vegetables that would make a bigger profit.

Buyers have a different point of view: they want to buy at the cheapest price possible. They agree on the following:

- If potatoes cost \$10/kg, only a small number would buy potatoes and then only in small quantities: a total of 20 kg in any given day.
- If the price dropped to \$8/kg, buyers might purchase 30 kg a day.
- If the price fell to \$6/kg, buyers might purchase 40 kg a day.
- If the price fell to \$4/kg, buyers might purchase 60 kg a day.
- If the price fell to \$2/kg, buyers might purchase 80 kg a day.

We can see that as the price rises, suppliers will supply more but consumers will demand less. As the price falls, consumers will demand more but suppliers will supply less. What is the likely price that will be acceptable to both buyers and sellers? We can start to answer this by putting the above data into tables:

#### Sellers' preferences

Price	Quantity supplied
\$2	20 kg
\$5	50 kg
\$10	100 kg

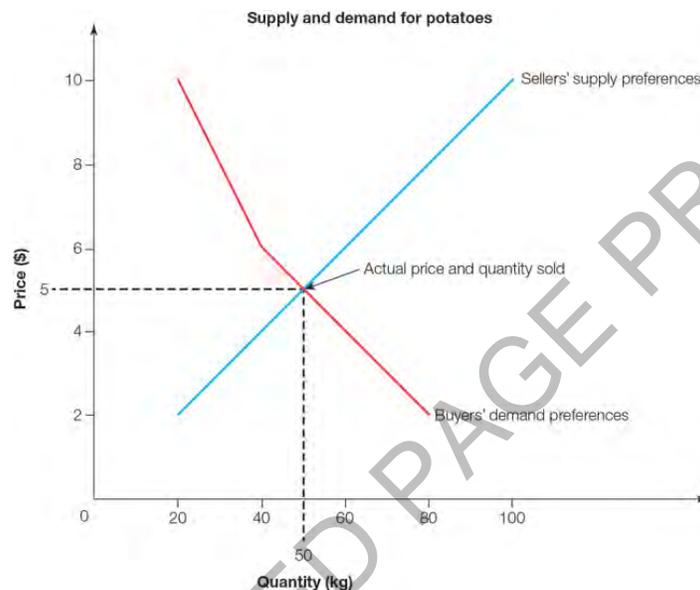
#### Buyers' preferences

Price	Quantity purchased
\$10	20 kg
\$8	30 kg
\$6	40 kg
\$4	60 kg
\$2	80 kg

The data from these tables can now be entered into a graph (see [figure 1](#)). If we place the different prices along the vertical axis and the different quantities along the horizontal axis, we can plot the preferences of both buyers and sellers on the graph. The sellers' preferences

are shown with the blue line, while the buyers' preferences are shown with the red line. The point at which the two lines intersect will be the price that the market will bear. The market for potatoes will settle at a point where 50 kg of potatoes will be sold each day at a price of \$5/kg. Sellers know that if they have 50 kg of potatoes in stock on any given day, they will be able to sell them all at this price.

**Figure 1** Supply and demand graph for potatoes



### 1.6.3 Let me do it

#### Activity

1 Consumers and producers

## 1.7 Review

### 1.7.1 Summary

The Australian economy is the total of all activities undertaken within Australia for the purpose of producing, distributing and consuming goods and services. We participate in the economy in many ways:

- We purchase goods and services to satisfy our needs and wants.
- Employees provide labour to businesses and receive money in return, enabling them to purchase goods and services from other businesses.

Much of our participation occurs in a market:

- A market is any organised exchange of goods and services for money, with many different markets operating in the economy as a whole.
- Markets in Australia are influenced by what consumers wish to buy, including products that are healthy and environmentally friendly.

When participating in a market, we are concerned about the price we have to pay:

- Businesses can determine their prices by using the recommended retail price, following price leaders, using percentage mark-ups, pricing according to what the market will bear, or offering quotes to customers.

Some of our participation in the economy involves trade:

- Australia is a major trading nation, with large volumes of exports and imports traded with countries all over the world.

## 1.7.2 Your turn

Activity

### learn MORE

Go to your Resources section for

**Interactivity:** Consumers and producers crossword