NINTH EDITION

ECONOMICS FOR BUSINESS

John Sloman, Dean Garratt Jon Guest and Elizabeth Jones



ECONOMICS FOR BUSINESS

Economics for Business

Table of Contents

rn	nt	۱ ۱	\cap	\sim	. , ,	$\overline{}$	r
1 ()				() '	Vθ	-1	ı

Half Title

Title Page

Copyright Page

About the authors

Brief contents

Detailed contents

Preface

Publisher's acknowledgements

Part A BUSINESS AND ECONOMICS

- 1 The business environment and business economics
 - 1.1 The business environment
 - 1.2 The structure of industry
 - 1.3 The determinants of business performance
 - Box 1.1 A Lidl success story

Box 1.2 The biotechnology industry

Summary

Review questions

2 Economics and the world of business

- 2.1 What do economists study?
- 2.2 Business economics: microeconomic choices
- 2.3 Business economics: the macroeconomic environment
- 2.4 Techniques of economic analysis
- Box 2.1 What, how and for whom?
- Box 2.2 The opportunity costs of studying economics
- Box 2.3 Looking at macroeconomic data

Summary

Review questions



3 Business organisations

- 3.1 The nature of firms
- 3.2 The firm as a legal entity
- 3.3 The internal organisation of the firm
- Box 3.1 Exploiting asymmetric information
- Box 3.2 Managers, pay and performance
- Box 3.3 The changing nature of business

Summary

Review questions

Additional Part A case studies on the Economics for Business student website

Websites relevant to Part A

Part B BUSINESS AND MARKETS

4 The working of competitive markets

- 4.1 Business in a competitive market
- 4.2 Demand
- 4.3 Supply
- 4.4 Price and output determination
- Box 4.1 UK house prices
- Box 4.2 Stock market prices
- Box 4.3 Controlling prices

Summary

Review questions

5 Business in a market environment

- 5.1 Price elasticity of demand
- 5.2 The importance of price elasticity of demand to business decision making
- 5.3 Other elasticities
- 5.4 The time dimension of market adjustment
- 5.5 Dealing with uncertainty
- Box 5.1 The measurement of elasticity
- Box 5.2 Elasticity and the incidence of tax
- Box 5.3 Adjusting to oil price shocks
- Box 5.4 Bubble, bubble, toil and trouble

Summary

Review questions

Additional Part B case studies on the Economics for Business student website



Websites relevant to Part B

Part C BACKGROUND TO DEMAND

6 Demand and the consumer

- 6.1 Marginal utility theory
- 6.2 Demand under conditions of risk and uncertainty
- 6.3 The characteristics approach to analysing consumer demand
- Box 6.1 Calculating consumer surplus
- Box 6.2 The marginal utility revolution: Jevons, Menger, Walras
- Box 6.3 Adverse selection in the insurance market
- Box 6.4 Dealing with moral hazard and adverse selection
- Summary

Review questions

Web appendix in the case studies section of the Economics for Business student website

7 Behavioural economics of the consumer

- 7.1 How does behavioural economics differ from standard theory?
- 7.2 Framing and the reference point for decisions
- 7.3 Caring about the pay-offs to others
- 7.4 Government policy to influence behaviour
- Box 7.1 Choice overload
- Box 7.2 The endowment effect
- Box 7.3 The best made plans
- Box 7.4 A simple experiment to test for social preferences

Summary

Review questions

8 Firms and the consumer

- 8.1 Estimating demand functions
- 8.2 Forecasting demand
- 8.3 Product differentiation
- 8.4 Marketing the product
- 8.5 Advertising
- Box 8.1 The battle of the brands
- Box 8.2 Different types of online advertising

Summary

Review questions



Additional Part C case studies on the Economics for Business student website Websites relevant to Part C

Part D BACKGROUND TO SUPPLY

9 Costs of production

- 9.1 The meaning of costs
- 9.2 Production in the short run
- 9.3 Costs in the short run
- 9.4 Production in the long run
- 9.5 Costs in the long run
- Box 9.1 Should we ignore sunk costs?
- Box 9.2 How vulnerable are you?
- Box 9.3 Lights, camera, action
- Box 9.4 Minimum efficient scale
- Box 9.5 Fashion cycles
- Summary

Review questions

10 Revenue and profit

- 10.1 Revenue
- 10.2 Profit maximisation
- Box 10.1 Costs, revenue and profits
- Box 10.2 Selling ice cream when I was a student
- Box 10.3 Monarch's turbulence
- Summary
- Review questions
- Additional Part D case studies on the Economics for Business student website
- Websites relevant to Part D

Part E SUPPLY: SHORT-RUN DECISION MAKING BY FIRMS

- 11 Profit maximisation under perfect competition and monopoly
 - 11.1 Alternative market structures
 - 11.2 Perfect competition
 - 11.3 Monopoly
 - 11.4 Potential competition or potential monopoly? The theory of contestable markets
 - Box 11.1 A fast food race to the bottom
 - Box 11.2 E-commerce



Box 11.3 Premier league football: the Sky is the limit

Box 11.4 'It could be you'

Summary

Review questions

12 Profit maximisation under imperfect competition

12.1 Monopolistic competition

12.2 Oligopoly

12.3 Game theory

Box 12.1 OPEC

Box 12.2 Oligopoly and oligopsony

Box 12.3 The prisoners' dilemma

Box 12.4 The Hunger Games

Summary

Review questions

13 Alternative theories of the firm

- 13.1 Problems with traditional theory
- 13.2 Behavioural economics of the firm
- 13.3 Alternative maximising theories
- 13.4 Multiple aims

Box 13.1 How firms increase profits by understanding 'irrational' consumers

Box 13.2 Constraints on firms' pricing

Box 13.3 Stakeholder power

Summary

Review questions

Additional Part E case studies on the Economics for Business student website

Websites relevant to Part E

Part F SUPPLY: ALTERNATIVE STRATEGIES

14 An introduction to business strategy

- 14.1 What is strategy?
- 14.2 Strategic analysis
- 14.3 Strategic choice
- 14.4 Business strategy in a global economy
- 14.5 Strategy: evaluation and implementation
- Box 14.1 Business strategy the Samsung way

Box 14.2 Hybrid strategy



Summary

Review questions

15 Growth strategy

- 15.1 Growth and profitability
- 15.2 Constraints on growth
- 15.3 Alternative growth strategies
- 15.4 Internal growth
- 15.5 External growth through merger
- 15.6 External growth through strategic alliance
- 15.7 Explaining external firm growth: a transaction costs approach
- Box 15.1 Global merger activity
- Box 15.2 How many firms does it take to make an iPhone?
- Box 15.3 The day the world stopped

Summary

Review questions

16 The small-firm sector

- 16.1 Defining the small-firm sector
- 16.2 The survival, growth and failure of small businesses
- 16.3 Government assistance and the small firm
- Box 16.1 Capturing global entrepreneurial spirit
- Box 16.2 Hotel Chocolat

Summary

Review questions

17 Pricing strategy

- 17.1 Pricing and market structure
- 17.2 Alternative pricing strategies
- 17.3 Price discrimination
- 17.4 Multiple product pricing
- 17.5 Transfer pricing
- 17.6 Pricing and the product life cycle
- Box 17.1 Personalised pricing in digital markets
- Box 17.2 A quantity discount pricing strategy
- Box 17.3 Selling goods separately or together? The impact of bundling

Summary

Review questions



Additional Part F case studies on the Economics for Business student website

Websites relevant to Part F

Part G THE FIRM IN THE FACTOR MARKET

18 Labour markets, wages and industrial relations

- 18.1 Market-determined wage rates and employment
- 18.2 Power in the labour market
- 18.3 Low pay and discrimination
- 18.4 The flexible firm and the market for labour
- Box 18.1 What do post, airlines, bins, buses, rail, tube and universities have in common?
- Box 18.2 UK tax credits
- Box 18.3 New ways of working
- Summary

Review questions

19 Investment and the employment of capital

- 19.1 The pricing of capital and capital services
- 19.2 The demand for and supply of capital services
- 19.3 Investment appraisal
- 19.4 Financing investment
- 19.5 The stock market
- Box 19.1 Investing in roads
- Box 19.2 The ratios to measure success
- Box 19.3 Financing innovation
- Summary
- Review questions
- Additional Part G case studies on the Economics for Business student website
- Websites relevant to Part G

Part H THE RELATIONSHIP BETWEEN GOVERNMENT AND BUSINESS

20 Reasons for government intervention in the market

- 20.1 Markets and the role of government
- 20.2 Types of market failure
- 20.3 Government intervention in the market
- 20.4 The case for less government intervention
- 20.5 Firms and social responsibility
- Box 20.1 Can the market provide adequate protection for the environment?



Box 20.2 A commons solution

Box 20.3 Deadweight loss from taxes on goods and services

Box 20.4 ESG scores

Summary

Review questions

21 Government and the firm

21.1 Competition policy

21.2 Policies towards research and development (R&D)

21.3 Policies towards training

Box 21.1 Expensive chips or are they?

Box 21.2 The R&D scoreboard

Box 21.3 The Apprenticeship Levy

Summary

Review questions

22 Government and the market

22.1 Environmental policy

22.2 Transport policy

22.3 Privatisation and regulation

Box 22.1 The economics of biodiversity

Box 22.2 Placing a price on CO2 emissions

Box 22.3 Road pricing in Singapore

Box 22.4 The right track to reform?

Summary

Review questions

Additional Part H case studies on the Economics for Business student website

Websites relevant to Part H

Part I BUSINESS IN THE INTERNATIONAL ENVIRONMENT

23 Globalisation and multinational business

23.1 Globalisation: setting the scene

23.2 What is a multinational corporation?

23.3 Trends in multinational investment

23.4 Why do businesses go multinational?

23.5 The advantages of MNC investment for the host state

23.6 The disadvantages of MNC investment for the host state

23.7 Multinational corporations and developing economies



Box 23.1 M&As and greenfield FDI

Box 23.2 Attracting foreign investment

Box 23.3 Grocers go shopping in the Eastern aisle

Summary

Review questions

24 International trade

24.1 Trading patterns

24.2 The advantages of trade

24.3 Arguments for restricting trade

24.4 The world trading system and the WTO

Box 24.1 Strategic trade theory

Box 24.2 Giving trade a bad name

Box 24.3 The Doha development agenda

Summary

Review questions

25 Trading blocs

25.1 Preferential trading

25.2 Preferential trading in practice

25.3 The European Union

25.4 The UK and Brexit

Box 25.1 Features of the European single market

Box 25.2 The Single Market Scoreboard

Summary

Review questions

Additional Part I case studies on the Economics for Business student website

Websites relevant to Part I

Part J THE MACROECONOMIC ENVIRONMENT

26 The macroeconomic environment of business

26.1 Introduction to the macroeconomic environment

26.2 Economic volatility and the business cycle

26.3 The circular flow of income

26.4 Unemployment

26.5 Inflation

26.6 Long-term economic growth

Box 26.1 Output gaps



Box 26.2 The duration of unemployment

Box 26.3 Output gaps and inflation

Box 26.4 The UK's stock of human capital

Summary

Review questions

Appendix: Measuring national income and output

Summary to appendix

Review questions to appendix

27 The balance of payments and exchange rates

27.1 The balance of payments account

27.2 The exchange rate

27.3 Exchange rates and the balance of payments

27.4 Fixed versus floating exchange rates

Box 27.1 Nominal and real exchange rates

Box 27.2 Dealing in foreign exchange

Box 27.3 The importance of international financial movements

Box 27.4 The euro/dollar see-saw

Summary

Review questions

28 The financial system, money and interest rates

28.1 The meaning and functions of money

28.2 The financial system

28.3 The supply of money

28.4 The demand for money

28.5 Equilibrium

28.6 Money, aggregate demand and inflation

Box 28.1 Financial intermediation

Box 28.2 Growth of banks' balance sheets

Box 28.3 Residential mortgages and securitisation

Box 28.4 Minsky's financial instability hypothesis

Summary

Review questions

29 Business activity, unemployment and inflation

29.1 The simple Keynesian model of business activity

29.2 Alternative perspectives on aggregate supply



- 29.3 Output, unemployment and inflation
- 29.4 Inflation rate targeting and unemployment
- 29.5 The volatility of private-sector spending
- Box 29.1 Short-run aggregate supply
- Box 29.2 The accelerationist hypothesis
- Box 29.3 Confidence and spending
- Summary
- Review questions
- Additional Part J case studies on the Economics for Business student website
- Websites relevant to Part J

Part K MACROECONOMIC POLICY

30 Demand-side policy

- 30.1 Fiscal policy and the public finances
- 30.2 The use of fiscal policy
- 30.3 Monetary policy
- 30.4 Attitudes towards demand management
- Box 30.1 The fiscal impulse
- Box 30.2 The evolving fiscal frameworks in the European Union
- Box 30.3 The operation of monetary policy in the UK
- Box 30.4 Quantitative easing
- Box 30.5 Monetary policy in the eurozone
- Summary
- Review questions

31 Supply-side policy

- 31.1 Supply-side problems
- 31.2 Market-orientated supply-side policies
- 31.3 Interventionist supply-side policies
- 31.4 Regional policy
- Box 31.1 Measuring labour productivity
- Box 31.2 Getting intensive with capital
- Box 31.3 Apprenticeships and the economic arguments for intervention
- Summary
- Review questions
- 32 International economic policy



- 32.1 Global interdependence
- 32.2 International harmonisation of economic policies
- 32.3 European economic and monetary union
- 32.4 Alternative policies for achieving currency stability
- Box 32.1 Trade imbalances in the USA and China
- Box 32.2 Optimal currency areas
- Box 32.3 The Tobin tax
- Summary
- Review questions
- Additional Part K case studies on the Economics for Business student website
- Websites relevant to Part K

Web appendix

Key ideas

Glossary

Index

Back Cover