

Edexcel (B) Economics A-level

Theme 1.3: Introducing the Market

Flashcards

This work by [PMT Education](https://www.pmt.education) is licensed under [CC BY-NC-ND 4.0](https://creativecommons.org/licenses/by-nc-nd/4.0/)



Define:

1. Effective demand
2. Individual demand
3. Market demand



Define: effective demand, individual demand and market demand

1. The quantity that consumers are willing to buy at the current market price
2. The demand of an individual or firm
3. The sum of all individual demands in the market

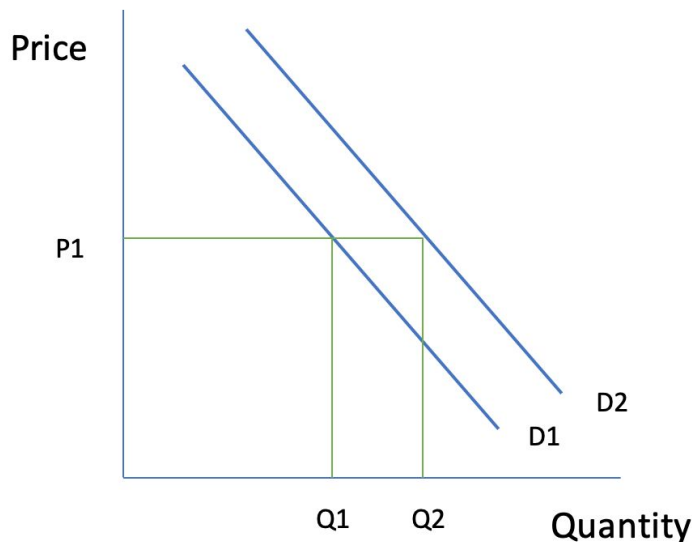


Draw an individual demand curve, and show what would happen to quantity given an increase in demand



Draw an individual demand curve and show what would happen to quantity given an increase in demand

As shown, an increase in demand leads to an increase in quantity, whilst maintaining price level 'P1'.



How do prices affect the demand/supply curve?



How do prices affect the demand/supply curve?

Prices cause movements along the demand and supply curves.

Prices do not cause shifts in the demand and supply curves.



What does each letter in the PIRATES
mnemonic stand for?



What does each letter in the PIRATES mnemonic stand for?

Population

Income

Related Goods

Advertising

Tastes and Fashions

Expectations

Seasons



What are the 3 different types of supply?



What are the 3 different types of supply?

1. Joint supply
2. Composite supply
3. Competitive supply



Recall 3 reasons why the supply curve
is upward sloping



Recall 3 reasons why the supply curve is upward sloping

1. If price increases, it's more profitable for firms to supply the good
2. High prices encourage new firms to enter the market
3. Larger output increases costs, which are passed onto consumers in the form of higher prices



What does each letter in the
PINTSWC mnemonic stand for?



What does each letter in the PINTSWC mnemonic stand for?

Productivity

Indirect Taxes

Number of Firms

Technology

Subsidies

Weather

Costs of Production



How will the exchange rates affect the level of supply?



How will the exchange rates affect the level of supply?

A decrease in the exchange rate boosts the costs of imports (raw materials), which increase the cost of production for firms, thus shifting the supply curve to the left.

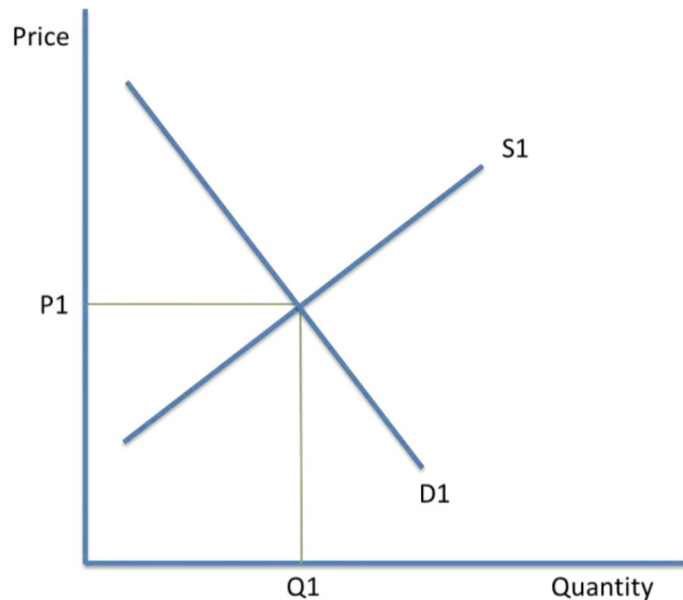


Define and draw the market
equilibrium price



Define and draw the market equilibrium price

This is the price where supply meets demand, and has no tendency to change (P_1Q_1).



Draw and describe a market in excess demand



Draw and describe a market in excess demand

- P_2 is below market equilibrium
- Demand $>$ Supply ($Q_3 - Q_2$)
- Price increases, firms supply more, consumers demand less and market returns to equilibrium (P_1)



What are the cons of using the supply and demand model to explain real-world problems?



What are the cons of using the supply and demand model to explain real-world problems?

- X They only show certain markets
- X Assume price increases means firms will supply more
- X Assume perfect information
- X Assume perfectly competitive markets



What phrase describes the mechanism that determines market price?

Hint: Adam Smith



What phrase describes the mechanism that determines market price?

The 'invisible hand of the market'



What are the 3 different functions of the price mechanism?



What are the 3 different functions of the price mechanism?

1. Rationing
2. Incentive
3. Signalling



What is the difference between a mass market and niche market?



What is the difference between a mass market and niche market?

A mass market is the largest group of consumers for a product.

A niche market is a smaller market, focused on a specific product.



Why are niche markets generally better at allocating resource?



Why are niche markets generally better at allocating resources?

As niche markets target the consumers directly, rather than generally, they are closer to the consumer and therefore have a better idea of who needs what goods.



Describe the difference between primary and secondary research



Describe the difference between primary and secondary research

Primary research is carried out directly (e.g. surveys), whereas secondary research is carried out via a third-party (e.g. governments).



Evaluate the use of primary research over secondary research



Evaluate the use of primary research over secondary research

Primary research is expensive but produces more specific findings than secondary research, which may not be as useful.



Define market research



Define market research

The collection of data in order to learn about the needs and wants of consumers.



What is a disadvantage to using samples to analyse the market?



What is a disadvantage to using samples to analyse the market?

The sample used may be biased, and therefore give invalid results.



What is market segmentation?



What is market segmentation?

This is when the market is divided into categories of consumers based on their characteristics, needs, etc.



How could market segmentation benefit firms?



How could market segmentation benefit firms?

By categorising consumers based on their needs/wants, firms can better target their goods to fulfill these specific needs.



How does a market map work?



How does a market map work?

It illustrates all the positions a product can take based upon two dimensions which are significant for consumers.

It then identifies which existing products meet which consumer needs, thus identifying gaps for new market participants to fill.



Give examples of dimensions used in
market mapping



Give examples of dimensions used in market mapping

High vs. low price

High vs. low volume

Heavy vs. light

Good vs. lesser quality



When does a firm have a competitive advantage over other market participants?



When does a firm have a competitive advantage over other market participants?

This occurs when the firm in questions produces better products than its competitors in the same market.



How can a firm gain a competitive advantage?



How can a firm gain a competitive advantage?

It can use price, quality, cost or a niche market to give itself a unique features that makes it stand out from its competitors in the same market.



What is product differentiation?



What is product differentiation?

The act of distinguishing one product from another.



How can value be added to products and services?



How can value be added to products and services?

Value can be added to a product using a brand, quality, good service, unique features and convenience for the customer.



How do firms in a perfectly competitive market determine the prices of their goods and services?



How do firms in a perfectly competitive market determine the prices of their goods and services?

Firms must take the equilibrium price of the market, where supply = demand.

N.b: these types of firms are price-takers.



Describe the difference between
stable markets and dynamic markets



Describe the difference between stable market and dynamic markets

A stable market rarely changes the prices of goods, whereas dynamic market prices are constantly changing.

