

Edexcel (B) Economics A-level
**Theme 2: The Wider Economic
Environment**

**2.2 Firms, Consumers and Elasticities of
Demand**

2.2.3 Types of non-price competition

Notes



The impact of marketing on the demand curve:

○ **Product differentiation**

Firms differentiate their products from other firms using branding. The degree of product differentiation can change how far the market is an oligopoly. It involves branding, packaging, advertising and product placement. If product differentiation is successful, it could shift the demand curve to the right, due to the increase in demand from consumers. Alternatively, the demand curve might become more price inelastic, especially if the business can increase consumer loyalty.

○ **Advertising and other promotional methods**

Advertising can result in an increase in demand and an increase in the equilibrium price and quantity of the market.

Advertising and marketing might be used to make the brand more known and influence consumer preferences. However, it is difficult to know what the effect of increased advertising spending will be. For some firms, it might be ineffective. This would make them incur large sunk costs, which are unrecoverable.

Brands are used to differentiate between products. If firms can increase brand loyalty, demand becomes more price inelastic. Increasing brand loyalty means firms can attract and keep customers, which can increase their market share.

○ **Distribution methods**

This can be used to make demand more price inelastic. It allows firms to charge a higher price for their products, so they can maximise their revenue and profit. Alternatively, the firm can pass higher prices onto the consumer without losing their revenue. It results in an inelastic demand curve. Distribution methods are rapidly changing, especially in relation to the digital economy.

Devising appropriate marketing approaches

The nature of the product determines which marketing strategy is used. Other factors which influence the marketing approach taken include the consumer and the type of market which the firm is in.

