

# Contents

<i>Preface</i>	<i>ix</i>
<i>Publisher's acknowledgements</i>	<i>xiv</i>

## PART A INTRODUCTION

1 Business and the economic environment	2
1.1 The business organisation	6
1.2 The external business environment	11
1.3 The economist's approach to business	20
Box 1.1 A perfect partnership	3
Box 1.2 The airline industry	13
Box 1.3 The changing nature of business	19
Questions	24
Part end – additional case studies and relevant websites	24

## PART B MARKETS, DEMAND AND SUPPLY

2 The working of competitive markets	26
2.1 Business in a perfectly competitive market	26
2.2 Demand	28
2.3 Supply	32
2.4 Price and output determination	35
2.5 Elasticity of demand and supply	42
Box 2.1 Stock market prices	38
Box 2.2 UK house prices	40
Box 2.3 Shall we put up our price?	47
Box 2.4 Speculation	49
Box 2.5 Market intervention	51
Questions	53
3 Demand and the consumer	55
3.1 Demand and the firm	55
3.2 Understanding consumer behaviour	56
3.3 Behavioural economics	63
3.4 Estimating and predicting demand	66
3.5 Stimulating demand	71
Box 3.1 Rogue traders	59
Box 3.2 Problems for unwary insurance companies	62
Box 3.3 Using policy to change behaviour	66
Box 3.4 Global advertising trends: a new world	72
Box 3.5 Advertising and the long run	78
Questions	80

4 Supply decisions in a perfectly competitive market	81
4.1 Production and costs in the short run	82
4.2 Production and costs: long run	89
4.3 Revenue	98
4.4 Profit maximisation	100
Box 4.1 Diminishing returns and business	83
Box 4.2 Understanding your fixed costs	87
Box 4.3 Lights, camera, action	94
Box 4.4 Minimum efficient scale	96
Box 4.5 Cost, revenue and profits	99
Box 4.6 E-commerce	104
Questions	106
Part end – additional case studies and relevant websites	107

## PART C THE MICROECONOMIC ENVIRONMENT OF BUSINESS

5 Pricing and output decisions in imperfectly competitive markets	110
5.1 Alternative market structures	110
5.2 Monopoly	116
5.3 Oligopoly	121
5.4 Game theory	127
5.5 Alternative aims of the firm	134
5.6 Setting price	139
Box 5.1 A fast food race to the bottom	114
Box 5.2 Premier league football: the sky is the limit	120
Box 5.3 Market power in oligopolistic industries	125
Box 5.4 The prisoners' dilemma	130
Box 5.5 The Hunger Games	132
Box 5.6 Behavioural economics and the firm	137
Questions	143
6 Business growth and strategy	145
6.1 Strategic analysis	145
6.2 Strategic choice	149
6.3 Growth strategy	155
6.4 Financing growth and investment	165
6.5 Starting small	168
Box 6.1 Business strategy the Samsung way	150
Box 6.2 The ratios to measure success	153
Box 6.3 Strategies in uncertain times	161

Box 6.4 Hotel Chocolat	172	10.6 Unemployment	280
Questions	173	10.7 Inflation	284
<b>7 Multinational corporations and business strategy in a global economy</b>	<b>175</b>	Box 10.1 Doing the sums	268
7.1 The globalisation debate	176	Box 10.2 The economics of playing host	268
7.2 Multinational corporations	177	Box 10.3 Sentiment and spending	274
7.3 Business strategy in a global economy	183	Box 10.4 Inflation and unemployment: how costly?	286
7.4 Problems facing multinationals	190	Box 10.5 Airlines and the macroeconomy	289
7.5 Multinationals and the host state	191	Questions	291
Box 7.1 Cross-border merger activity	181	<b>11 National macroeconomic policy</b>	<b>293</b>
Box 7.2 Attracting foreign investors	187	11.1 Fiscal policy	295
Box 7.3 Grocers go global	189	11.2 Monetary policy	304
Box 7.4 Investing in Africa	193	11.3 Supply-side policy	314
Questions	194	Box 11.1 The fiscal framework in the eurozone	301
<b>8 Labour and employment</b>	<b>196</b>	Box 11.2 The central banks of the USA and the eurozone	309
8.1 Market-determined wage rates and employment	196	Box 11.3 The credit crunch and its aftermath	311
8.2 Power in the labour market	202	Box 11.4 Japan's volatile past and present	315
8.3 Minimum wages	207	Box 11.5 Productivity	321
8.4 The flexible firm and the market for labour	210	Questions	323
8.5 The labour market and incentives	215	<b>12 The global trading environment</b>	<b>325</b>
Box 8.1 New ways of working	198	12.1 International trade	326
Box 8.2 What do post, airlines, bins, buses and universities have in common?	205	12.2 Trade restrictions	333
Box 8.3 Does gender inequality still exist?	212	12.3 The world trading system and the WTO	341
Box 8.4 Education, earnings, productivity and talent	218	12.4 The European Union and the single market	345
Questions	220	12.5 Brexit	349
<b>9 Government, the firm and the market</b>	<b>221</b>	Box 12.1 The changing face of comparative advantage	330
9.1 Market failures	222	Box 12.2 Strategic trade theory	335
9.2 Firms and corporate responsibility	228	Box 12.3 Beyond bananas	338
9.3 Government intervention in the market	233	Box 12.4 Preferential trading	343
9.4 Environmental policy	235	Box 12.5 In or out?	347
9.5 Competition policy and business behaviour	244	Questions	353
9.6 The regulation of business	250	<b>13 The global financial environment</b>	<b>354</b>
Box 9.1 The problem of free-riders	226	13.1 The balance of payments	355
Box 9.2 The Body Shop	232	13.2 The exchange rate	358
Box 9.3 A Stern rebuke	237	13.3 The growth of global financial flows	368
Box 9.4 The problem of urban traffic congestion	241	13.4 Economic and monetary union in the EU	370
Box 9.5 Google 'Google'	247	13.5 International economic policy: managing the global economy	375
Questions	253	Box 13.1 The importance of international financial movements	361
Part end – additional case studies and relevant websites	254	Box 13.2 Exchange rate uncertainty and the plight of business	364
		Box 13.3 The euro/dollar seesaw	365
		Box 13.4 Global problems. global answers?	377
		Questions	379
		Part end – additional case studies and relevant websites	380
<b>10 The economy and business activity</b>	<b>258</b>	Websites appendix	W:1
10.1 The key macroeconomic objectives	258	Key ideas	K:1
10.2 Business activity and the circular flow of income	260	Glossary	G:1
10.3 The determination of business activity	264	Index	I:1
10.4 The business cycle	271		
10.5 Money, interest rates and business activity	275		

## PART D

## THE MACROECONOMIC ENVIRONMENT OF BUSINESS