

Chapter 8

The Market and Price

NCEA Level 1 Economics material in this chapter relates to Achievement Standard 90198 (Economics 1.4) 'The description of the market and market equilibrium'. This chapter covers:

- The definition of a market.
- Alternatives to markets.
- The diversity of operation of goods and services markets.
- The understanding that exchange usually occurs with the aid of money.

What is a market?

The NCEA examiners have a specific definition of a **market** which students must use if they want their answers to be accepted. It is a more restricted definition of a market as it covers only one type of market, but students who, in the past, have given the broader definition have been marked wrong. Examiners' comments and marking determines what is and is not acceptable in specific exams, and it is most important to follow what they say. Be aware that other examiners, for example those at tertiary level, may require the more inclusive definition. To be successful in any exam, students must give the answer which their specific examiners want.

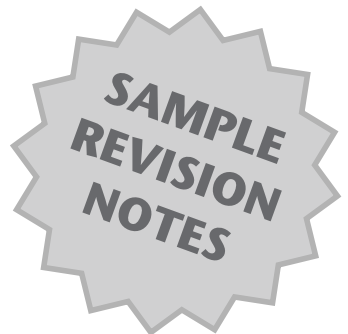
The NCEA definition is:

A market is a place or situation where goods and services are exchanged. (The word 'exchanged' can be replaced with 'bought and sold'.)

There are markets for goods and services, resources, borrowed money and foreign exchange.

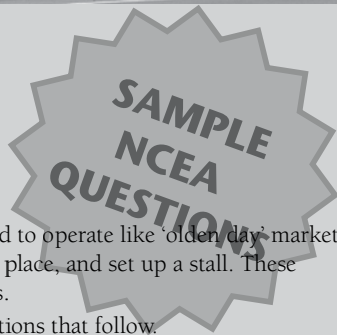
- Sometimes, the buyer and seller can see each other, such as over a shop counter or at a street market, at an auction or meeting each other as a result of an advertisement. In these cases the market is a **place**.
- At other times, the buyer and seller may not even know each other's name, let alone speak the same language – a lot of trading (buying and selling) is done by telephone, over the internet, using a fax or by letter. Goods can be dispatched across the world, or services can be sold by debit or credit card using the internet. These are examples of a market being a **situation**.

There are many different ways in which buyers and sellers can trade goods and services, but every time buying and selling happens, a market exists.



Activity 8A: Markets

1. What is a market?
2. For each of the following photographs, identify:
 - i. The type of market, eg retail shop, roadside stall.
 - ii. The good or service being traded.
 - iii. Why it is considered to be a market.



3. Many towns and cities have market places, which tend to operate like 'olden day' markets, when people brought what they had to sell to a given place, and set up a stall. These modern markets are not generally permanent markets.

Use the photo on p. 101 to help you answer the questions that follow.

- a. From your own experience or reading, identify some of the types of goods that are most likely to be found at markets such as that illustrated.
- b. From the point of view of the *seller*, name *one advantage* and *one disadvantage* of markets such as that illustrated.

- c. From the point of view of the *buyer*, name *one advantage* and *one disadvantage* of buying from the type of market illustrated.



SAMPLE
NCEA
QUESTIONS

4. *TradeMe* is a website where buyers bid for goods which sellers have to offer. When the auction closes, the web owners notify both the highest bidder and the seller, so they can arrange payment for, and delivery of, the goods.
- Is the market described here a place or a situation?
 - Give your reasons for your answer to **a.** above.

Activity 8A: Markets (page 100)

- A place or situation where buyers and sellers transact business. (A)
 - Vehicle auction.
 - Auctioning cars for clients (a service).
 - Buyers and sellers meet face to face to bid for cars. The highest bidder can buy the car.
 - Public telephone.
 - Telephone calls (a service).
 - The buyer (the person who wants to make a call) buys the service from the seller (*Telecom*) by either inserting money into the phone or using a *Telecom* card.
- Buyer and seller do not need to meet face to face.
- Stock saleyards.
 - Auctioning sheep for clients (a service).
 - Buyers and sellers can meet face to face as the buyers bid for the sheep. The highest bidder can buy the pen of sheep.
 - A roadside stall.
 - Coffee.
 - Buyers can visit the stall and buy coffee from the owners of the stall.
- (a. and b. correct – A; all correct – M)
- Secondhand goods, handmade crafts, cakes and sweets (or similar). (M)
 - Any one of the following* is acceptable, and there may be other answers too – use your own judgement as to whether your answer is correct.

SAMPLE
NCEA
ANSWERS

Advantage: The seller does not have the expense of maintaining a shop full time; sellers can offer their homemade goods for sale without having to find a retailer who will do this for them; sellers can offer as much or as little as they wish to sell.

Disadvantage: It is not easy to establish a regular clientele; sales are usually made with cash, not EFTPOS or credit card as the seller usually cannot offer these facilities, and may miss out on a sale because of this; there is usually no way of ensuring a good position or the same position in the market each week. (Any one advantage and one disadvantage – **M**)

- c. Any one of the following is acceptable, and there may be other answers too – use your own judgement as to whether your answer is correct.

Advantage: Goods are often cheaper; there may be goods for sale which cannot be bought at any other location.

Disadvantage: Definitely a case of 'buyer beware' (*caveat emptor*), as not all goods may be of top quality or consistent quality; must usually pay in cash; may not be possible to find exactly what is wanted; often not a continuous supply; usually not open every day, only on specific days. (Any one advantage and one disadvantage – **M**)

4. a. A situation. (**A**)
- b. In this market, buyer and seller need not meet face to face. They make contact on the internet, and only have their contact details given to each other once a sale has been agreed with the highest bidder. It is then up to the buyer and seller to arrange payment and delivery of the goods. The important point is that buyer and seller need not ever meet face to face. (**M**)

Glossary/Index

barter (107): the exchange of goods or services for other goods or services; swapping.

capital goods (42): goods bought by other producers to assist them in making their output.

capital-intensive (69): relatively more machines than workers used in production.

caveat emptor (112): Latin phrase meaning 'let the buyer beware'.

central government (39): parliament – including ministries, departments, SOEs.

centralised organisational structure (52): all managers report to general manager directly.

ceteris paribus (15): Latin phrase meaning 'holding everything else constant' or 'change only one thing at a time'.

chain of production (41): production process – consists of inputs, transformations and outputs.

choice (1, 4): because no one can have all they want because of scarcity, everyone must make decisions or choices; for every choice there is an opportunity cost.

circular flow (159): an economic model which demonstrates the movement of money, resources, goods and services in an economy.

circular flow diagram (160): model that demonstrates the relationships between the major sectors.

Companies Act (46): the legislation which sets out how companies are to be formed and administered.

competitor (147): another producer in the same market, producing an identical or very similar good or service.

complementary goods (12): goods or services which are consumed together, eg cars and petrol.