

The role of marketing

[Business](#), [Marketing](#)



1. Markets bring together buyers and sellers of goods and services. In some cases, such as a local fruit stall, buyers and sellers meet physically. In other cases, such as the stock market, business can be transacted over the telephone, almost by remote control. We need not go into these details. Instead, we use a general definition of markets. 2. What the term market means A market is a shorthand expression for the process by which household's decisions about consumption of alternative goods, firms' decisions about what and how to produce, and workers' decisions about how much and for whom to work are all reconciled by adjustment of prices

Prices of goods and of resources, such as labour, machinery and land, adjust to ensure that scarce resources are used to produce those goods and services that society demands. 4. Economics studies markets and prices Much of economics is devoted to the study of how markets and prices enable society to solve the problem of what, how, and for whom to produce. Suppose you buy a hamburger for your lunch. What does this have to do with markets and prices? You chose the café because it was fast, convenient and cheap.

Given your desire to eat, and your limited resources, the low hamburger price told you that this was a good way to satisfy your appetite. You probably prefer steak but that is more expensive. The price of steak is high enough to ensure that society answers the “for whom” question about lunchtime steaks in favour of someone else. 5. The seller's viewpoint Now think about the seller's viewpoint. The café owner is in the business because, given the price of hamburger meat, the rent and the wages that must be paid, it is still possible to sell hamburgers at a profit.

If rents were higher, it might be more profitable to sell hamburgers in a cheaper area or to switch to luxury lunches for rich executives on expense accounts. The student behind the counter is working there because it is a suitable part-time job which pays a bit of money. If the wage were much lower it would hardly be worth working at all. Conversely, the job is unskilled and there are plenty of students looking for such work, so owners of cafes do not have to offer very high wages.

6. Prices guide your decision

Prices are guiding your decision to buy a hamburger, the owner's decision to sell hamburgers, and the student's decision to take the job. Society is allocating resources – meat, buildings, and labour – into hamburger production through the price system. If nobody liked hamburgers, the owner could not sell enough at a price that covered the cost of running the café and society would devote no resources to hamburger production. People's desire to eat hamburgers guides resources into hamburger production.

However, if cattle contracted a disease, thereby reducing the economy's ability to produce meat products, competition to purchase more scarce supplies of beef would bid up the price of beef, hamburger producers would be forced to raise prices, and consumers would buy more cheese sandwiches for lunch. Adjustments in prices would encourage society to reallocate resources to reflect the increased scarcity of cattle.

7. We have adopted a general definition of markets

There were several markets involved in your purchase of a hamburger. You and the café owner were part of the market for lunches.

The student behind the counter was part of the local labour market. The café owner was part of the local wholesale meat market and the local market for

<https://assignbuster.com/the-role-of-marketing/>

rented buildings. These descriptions of markets are not very precise. Were you part of the market for lunches, the market for prepared food, or the market for sandwiches to which you would have turned if hamburgers had been more expensive? That is why we have adopted a very general definition of markets which emphasises that they are arrangements through which prices influence the allocation of scarce resources.