2.1 The Role of Markets

Key Words

Market	A way of bringing together buyers and sellers.
Product market	Where producers and consumers buy and sell the end products of goods and services.
Factor market	Where the SERVICES of the factors of production (not the actual factors of production) are bought and sold.
Goods	Goods are tangible things that are produced, bought or sold, then finally consumed.
Services	Services are activities that other people or businesses do for you.
Specialisation	When individuals, firms, regions and whole economies concentrate on only producing the goods and services they are the best at producing.
Exchange	The giving up of something the individual or firm has in return for something they need. This used to be done by bartering (directly giving up one resource for another) but exchange is now done by using money.

Sectors of the economy

Primary sector: direct use of raw materials or natural resources

Secondary sector: processing or manufacturing or construction sector

Tertiary sector: provision of services such as legal, medical, financial, tourism, entertainment

Costs and benefits of specialisation and exchange in markets

Specialisation

	Benefits	Costs
Worker	• Increased skill • Increased job satisfaction • Increased living standard	• Demotivation • Deskilling • Unemployment
Firm	• Higher output • Higher quality • Economies of scale	• High labour turnover • Dependency • Diseconomies of scale
Region	• Efficient use of resources • Creates jobs for residents • Infrastructure development	• Risk of fall in demand • Loss of advantage • Resource exhaustion
Country	• More jobs • Improved living standard • Increased government revenue	• Unemployment • Overdependence • Negative externalities

Exam Questions

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Specification

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