

Chapter 1: Consumers and producers

Overview

On television news, current affairs programs and other media, we frequently hear politicians and commentators referring to the 'Australian economy'. What is the 'economy' and how does it work? In simple terms, the Australian economy is the total of all activities undertaken within Australia, for the purpose of producing, distributing and consuming goods and services.

You are an important part of the economy because you spend money whenever you choose to buy goods and services to satisfy your needs and wants. (Even if you don't spend the money yourself directly, other people — such as your parents — may spend money on your behalf or for your benefit; for example, by paying for your visits to the doctor or dentist, clothes, food and education.)



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FIGURE 1 Goods and services bought by or for you make you an important part of the economy.

Businesses rely on consumers like you to buy their goods and services. By choosing to spend some of your money, you send a signal to **producers** to keep making the products you buy and to continue employing people to make the products or provide the services you buy. Employees who work in a business are also **consumers** because they spend the money they have earned on the goods and services they wish to buy.

So, as a consumer, your purchase of an item of clothing, an iPod, a snack or any other good or service makes you a part of the economy. Similarly, any work that you do, whether as a part-time or casual employee, involves you in the production side of the economy. Your contribution may not be as great as a shipload of coal, or have the same impact as that of a large business or full-time employee, but it does have an influence on the way the economy works.



FIGURE 2 Many teenagers have part-time jobs that contribute to the economy.

STARTER QUESTIONS

1. Identify three items you have purchased in the last week. How do you think the choices you made have affected businesses that you bought from?
2. How do you think your choices have affected businesses you have not bought from?
3. In what way do you think the choices you make can affect the Australian economy as a whole?

4. Do you shop around at a number of different places to find the best price for something you wish to buy? Explain why you do or do not follow this practice.
5. Australia is very involved in trading with other countries. How many items have you bought lately that have come from other countries? What sort of effect do you think these purchases might have on the Australian economy?

1.1 The importance of businesses as producers

It is sometimes said that 'money makes the world go around.' Of course this is not physically true, but it does sum up the way the economy works. In simple terms, the economy consists of producers, who make and sell goods and services; and consumers, who buy the goods and services. Producers pay their employees with money, and also hope to make money themselves out of what they sell. This money is used to buy goods and services from other producers. Producers rely on consumers to buy from them, and consumers rely on producers to provide the goods and services they want. Money allows this relationship to work.

Needs and wants

Imagine you have survived an aeroplane crash and find yourself alone on a desert island. In order to survive, you will have to find those things that are essential for survival — food, water and shelter from the weather and from danger. These are the basic **needs** that we must all have whether we are on a desert island or in the comfort of our home.



FIGURE 1 Even on a desert island, you have basic needs that must be satisfied if you are to survive.

As well as these needs, there are additional things we might like to have on the desert island to make life more comfortable. These could include a bed, a torch, a fishing rod, a comb or a toothbrush, and a table and chair. These things are called **wants**. Although we would like to have these possessions, we could survive without them.

Table 1 Needs versus wants

	Definition	Examples	Properties
Needs	Goods or services that are essential for life	Water, food, shelter, air, clothing, medication	<i>Finite list:</i> <ul style="list-style-type: none"> • They must be satisfied if life is to continue. • They remain throughout life. • They temporarily wane when satisfied.
Wants	Non-essential goods and services	Torch, bed, fishing rod, armchair, toothbrush	<i>Unlimited list:</i> <ul style="list-style-type: none"> • Life can continue without them. • Wants change throughout life. • New wants arise once others are satisfied.

Goods and services

In order to satisfy our needs and wants, we purchase goods and services. **Goods** are classified as the physical items that satisfy our needs and wants, and that we can see and touch. They include food, TV sets, cars, refrigerators, bottles of soft drink and clothing. **Services** are classified as the actions done for you by others, which are designed to satisfy needs and wants. They include the services provided by doctors, dentists, banks, mechanics and teachers. If you are stranded alone on a desert island, you will have to find or make all the things you need and want. In effect, you would be a one-person economy because you would be responsible for both producing and consuming all the goods and services. In a modern economy, we generally rely on businesses to provide us with goods and services.



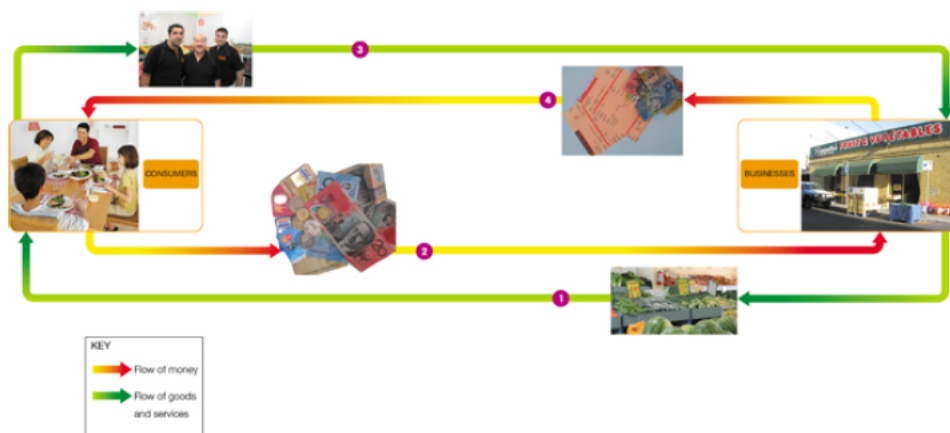
FIGURE 2 In a modern economy, we generally rely on businesses to provide us with goods and services.

The relationship between businesses and consumers

In the Australian economy, we satisfy our needs and wants by working to earn money and then buying goods and services from businesses that produce those goods and services. When we are working, we are providing our **labour** to contribute to the process of producing goods or services for other consumers to buy. When we are spending our money, we are consumers, purchasing goods and services that others have produced in order to satisfy our needs and wants.

In order to satisfy needs and wants, consumers like you make economic decisions every day. For example, you may decide to buy milk from a supermarket rather than from a dairy, catch a bus to school rather than walk, use a loose-leaf folder rather than a bound notebook, buy a can of Australian tinned food rather than one from overseas. Your decisions influence the businesses that are producing or providing the goods and services and therefore affect the economy.

We can examine the relationship between businesses and consumers by looking at the model in figure 3. It demonstrates how labour is exchanged for money, and how that money is used to purchase goods and services.



- 1 Businesses are producers that make or supply goods and services that are distributed to consumers.
- 2 Consumers use money, cards and cheques to purchase goods and services.
- 3 Consumers are usually also employees, who provide businesses with their labour in the production of goods and services.
- 4 Employees receive money in the form of wages for their labour.

FIGURE 3 The interrelationship between consumers and business

ACTIVITIES

REMEMBER

1. What is the difference between needs and wants?
2. What do we mean by the term 'labour'?
3. Name three types of business that provide goods.
4. Name three types of business that provide services.

EXPLAIN

5. In what ways can an individual be both a producer and a consumer in an economy?
6. In what ways are producers and consumers dependent on each other?

PREDICT

7. Could the relationship between producers and consumers succeed without money? What do you think might have to happen if there was no such thing as money?

THINK

8. List five goods and five services that you or members of your family have purchased in the last week.
 - a. Identify one good from your list, and name the business that most benefited from that purchase.
 - b. Examine the components that make up that particular good. Identify any other businesses that might have benefited indirectly from the purchase of that good.
 - c. Identify a service from your list, and name the business that most benefited from that purchase.
 - d. What equipment did the supplier of that service use? Identify any other businesses that might have benefited indirectly from the purchase of that service.

1.2 Responding to consumer demand

Any producer wishing to be successful in business must supply goods or services that correspond with the needs and wants of consumers. It is no use trying to sell something that nobody wants to buy. The ability to understand and act on consumer preferences is an important skill for anyone wishing to go into business.

The marketplace

A market is any organised exchange of goods and services for money. This can occur in a physical marketplace such as a shopping centre, but it can also occur without any actual physical location. When we purchase goods or services online or over the telephone, we are still participating in a market.

A market has to provide a means for consumers to find out about the goods and services available. This can occur when consumers physically walk into a shop and examine the goods on display. It can also occur when consumers visit a website, or look up different businesses in a telephone directory such as the Yellow Pages.