

Markets + Competition – ‘On your bike’ Field Research

2 Objectives:

- ❖ **Microeconomics:** Understanding price differences in local markets (focus on oligopoly and price power)
Identify reasons for the price differences (elasticity, price power, location, type of market structure, price differentiation, price discrimination)
- ❖ **Macroeconomics:** Measure cost of a ‘basket of goods’ in relation to inflation in a macroeconomy

3 Tasks: Summary

- **Task 1: Research.** Select **5-10 Key Products** or services that are consumed regularly by a large number of consumers: E.g. Cola market in Duesseldorf E.g. toothpaste market in Duesseldorf or Any other single product/service market of your choice
- **Task 2: Research.** Build a basket of 50+ goods in Aldi for analysis using the guidelines in 2 below
- **Task 3: Presentation.** Build a presentation to show your research using the following research question: Research question: **‘How competitive are the prices you researched + where is the most expensive Aldi?’**

Data Collection: Research tasks (Task 1 and Task 2)

Task 1: Select **5-10** key products. You can use the same supermarket chain, or an alternative store that sells the same product/product. Try to find stores that serve a different purpose, although sell the same products...e.g. U-Bahn/main train stations, supermarkets in wealthy areas, cheaper supermarket chains...consider hairdressing or other services if you like e.g. cost of a haircut for a child

Task 2: Build an Aldi basket of goods to measure inflation. Build a basket of 50 or more goods that an average household would use on a regular basis. Each group must collect at least 50 prices in 3 different locations (for instance Lohausen, Kaiserswerth, Altstadt and Unterrath OR even on the Internet).

N.B. You must be careful to find a price for the exactly the same size and volume, type of product/service. Record your findings on a spreadsheet. This will record your raw data. Be sure to collect as much real data as possible and record this for your data analysis

Presentation: (Task 3)

Task 3: Your presentation.

Construct a table to present your prices. Try to be creative, but also ensure that this information is easy for the reader to interpret. Therefore the table should have a title and clear labels. Express price differences in **percentages** also e.g. between the 3 locations or for . Produce a graph using to illustrate your research.

- Prepare a presentation / report on your data/findings using the research question in 1 above. Ensure that you use the statistics (**and directly refer to them in your powerpoint!**).
- Define key terms. Make connections to PED/ and its determinants.
- Which prices are more price inelastic or price elastic in terms of demand? What are the reasons for the variations in price? Why might the prices of some goods not vary? How do the determinants of PED affect the price in the various locations?

Task 3: Your presentation (continued).

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- Are there factors such as location or brand loyalty that play role in pricing? Are substitute goods available? Is the market competitive?
- Why do goods prices vary so much? Do some firms have price power in the market? See webnote 207 here to find out the difference between perfect and oligopolistic competition. The table of your statistics should be included in the presentation.
- (think here about links to the type of competitive market (perfect-monopolistic-oligopoly and-monopoly))
- In your presentation what observations can you make about the market for your chosen product market? Are there limitations to your research? Can this data be used reliably to draw conclusions about the market structure these firms are competing in? How might people challenge your findings? Most significantly have you located competitive markets and have you noticed any connections with the Economics syllabus such as elasticity or theory of the firm (perfect competition-monopolistic-oligopoly-monopoly? Why are prices for the same goods so varied in different locations? Mention any such relevant findings in your presentation. (Each group has 15 minutes to present their findings. Use tables and graphs. Clearly explain your findings in relation to the research question.)

Research	Presentation	Competition	Inflation (the Aldi index)
Plan your research carefully.	Include graph and table of statistics	Objective here is to be able to make a judgement on how your firms are competing and what type of competitive model they are operating in	Do an inflation index based on 'Aldi'. Take 25+ products and measure the prices accurately recording the size, weight, volume and quantity etc
<p>How many locations will you visit? Use 3 cites in the area if possible or if not 3 suburbs in Dusseldorf.</p> <p>Consider a variety of locations pricing 5-10 individual products in the Altstadt or Hauptbahnhof/airport to find larger price differences for your products. Or try Edeka, Kaisers and Rewe or Real. You decide.</p>	<p>Use bullet points to make your arguments.</p> <p>Your presentation should include the following sections:</p> <ol style="list-style-type: none"> 1. Summary of data 2. Graphical representation of data 3. Findings for competition 4. Findings for inflation 5. conclusion 	<p>You should choose a number of 'substitutes goods' in your basket e.g. look at prices of 4 cola products and observe how they compete.</p> <p>How important is location in the markets you researched?</p>	<p>We will revisit Aldi in 6 months to record the price changes that have taken place and this should give us an accurate insight into the level of inflation in this market</p> <p>Another alternative is to try and find 3 baskets that have the same products in 3 different 'retailers' eg Aldi, Kaisers and Real etc. This would tell us the more expensive suburb in the city or if you are able to do process in different cities then the most expensive city in the region</p>
	<p>Possible 'findings'</p> <p>Why are prices very high in one location and lower in another for exactly the same product?</p> <p>Use 'Findings' as a heading in your presentation Market is competitive.</p>	<p>Possible 'findings'</p> <p>Focus on individual products or several products to make statements and draw conclusions about the market.</p> <p>You could focus on the individual products or several products or maybe even pass comment about the retailer.</p>	<p>Possible 'findings'</p> <p>You must have a strong basket of goods with 30-50 items in the basket. "Aldi" is a good choice here to measure inflation. We can return to Aldi in 6 months to find out if the cost of our basket has changed. Remember the German government measures basket with 700 goods. Take a look at http://www.destatis.de and you will see (also in English) how inflation is measured in Germany.</p>

	<p>You might Find that Some prices are suspiciously high + close' or low and close.</p> <p>Try and give reasons for these price differences.</p>	<p>Does price elasticity play a role in pricing decisions?</p> <p>How important is location in terms of pricing?</p> <p>Do you notice any barriers to entry in the market?</p>	<p>Will our basket be of any use to us now? Yes. If we can have prices for 3 baskets then we can identify the most expensive city or Suburb in your research.</p> <p>Is Kaiserswerth more expensive than Oberkassel? Is Duesseldorf more expensive than Duisburg or Moenchengladbach?</p>
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