

1 What does “labour-intensive” mean?

2 Why might governments take interest in the health of labour-intensive industries?

3 Using the info from the 1st two paragraphs and the table, make a judgement about which type of market structure best explains the UK MVR industry.

4 Estimate the likely 4 firm concentration ratio for the UK MVR industry.

11 What is the opposite of heterogeneous?

10 Why does heterogeneity result in a downward sloping demand curve?

9 What is meant by ‘barriers to entry’ and why might barriers to entry be low in the MVR industry?

8 Define Income Elasticity of Demand (YED).

7 Comment on the likely YED value for new cars.



CASE STUDY

MVR Industry Placement

Motor Vehicle Repair (MVR) is very labour-intensive work. In 2014, it was estimated that the UK MVR industry market was worth £23bn and it employed just over 200,000 people in about 38,000 businesses. Statistics show that the industry is dominated by small and medium-sized businesses with over half of the workforce employed in businesses of fewer than 10 people.

The vehicle repair and servicing industry is very heterogeneous. There are general repairers, specialist repairers, dealers and petrol stations – not to mention car washes! Table 1 shows many of the different services offered.

The MVR industry grew rapidly after the Second World War. As the volume of cars grew so the motor repair sector began to expand, providing employment to the many mechanically trained ex-servicemen. The market grew so quickly that there was little chance of erecting entry barriers. For example, although there were moves to introduce specific qualifications for mechanics, this was never fully established.

The Motor Vehicle Repair industry has performed reasonably well over recent years. Low levels of consumer and business confidence following the economic downturn discouraged people from purchasing new vehicles, with many instead opting to pay for the repair and maintenance of existing vehicles, stimulating strong industry growth. However, the economic recovery has resulted in a steady increase in new car sales. Although new cars tend to require fewer repairs, the greater the number of cars on the road, the greater the demand for industry services.

Industry Products

- Repairs
- Servicing and MOT tests
- Body work
- Car Washes

Industry Activities

- Repairing mechanical problems
- Repairing electrical components
- Servicing motor vehicles
- Repairing bodywork
- Painting motor vehicles
- Repairing windscreens
- Repairing tyres
- Washing and polishing cars
- Repairing motor vehicle parts

5 Using the data, explain the concept of derived demand.

6 Comment on the likely XED relationship between cars and motor vehicle repairs.

SYNOPTIC PLACE MAT SUGGESTED ANSWERS

1 What does “labour-intensive” mean?

Work/production requiring a large workforce (relative to capital) or a large amount of work in relation to output e.g. agriculture, mining, hospitality

2 Why might governments take interest in the health of labour-intensive industries?

Governments are generally sensitive to the needs of voters who may be concentrated in these industries; politicians tend to seek re-election, and to do this they must be appealing to voters – voters with jobs may be more likely to vote to retain the government status quo. This partially explains the US government decision to bail-out the American car manufacturers after the Great Recession 2007.

7 Comment on the likely YED value for new cars

YED for new cars is likely to be positive (i.e. a normal good) – this is supported by the evidence in the extract which says that the economic downturn led to a fall in demand. Cars are generally expensive, luxury items that are also expensive to run, therefore YED is likely to be above 1.

8 Define Income Elasticity of Demand (YED)

The responsiveness of demand to a change in income

3 Using the info from the 1st two paragraphs and the table, make a judgement about which type of market structure best explains the UK MVR industry

The fact there are many small businesses, with no indication that there are any firms with market power, implies that the market structure is either perfect competition or monopolistic competition. It certainly cannot be oligopolistic or monopoly. The extract also states that the industry is heterogeneous, and this is supported by the information in the table showing a range of services. Therefore it is likely to be monopolistically competitive.

4 Estimate the likely 4 firm concentration ratio for the UK MVR industry.

Given the information provided, the 4-firm concentration ratio would be very low.

9 What is meant by ‘barriers to entry’ and why might barriers to entry be low in the MVR industry?

Barriers to entry (BTE) are any obstacles that prevent new competitors from easily entering an industry or area of business. BTE appear to be low in the MVR industry because there are no minimum training requirements enforced by law.

5 Using the data, explain the concept of derived demand

Derived demand refers to the demand for a good/service which is a consequence of the demand for something else.

6 Comment on the likely XED relationship between cars and motor vehicle repairs

XED refers to the responsiveness of demand for one product to a change in the price of another. Cars and motor vehicle repairs are complements. The utility of the car is enhanced/improved/increased by the purchase of repairs. They are likely to have a negative XED value.

10 Why does heterogeneity result in a downward sloping demand curve?

Homogeneity would imply that a consumer can get exactly the same good/service from another provider and, therefore, if the price increased, no rational consumer would shop there, so firms face a perfectly elastic (horizontal) demand curve. This is different under heterogeneity, because products are differentiated enough that when prices increase, firms won't see their market share fall to zero as they have some ability to retain customers wanting their exact service/good.

11 What is the opposite of heterogeneous?

Homogeneous – all products are exactly the same.