

Get the Goods on Goods and Services

Economic Goods and Services

Objectives:

A Discuss economic goods and services.

B Explain how economic goods and services are classified.



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Economic Goods and Services

Erica and her friend Jon ran some errands this afternoon. First, they took Jon's guitar into the shop to have new strings put on it. Then, Erica needed to stop by the mall to pick up a pair of shoes she had ordered for prom. Afterward, they were starving, so they ate dinner together at Burger King. "Thanks so much for hanging out with me today," Erica told Jon. "I hate going to the mall alone."

You may not realize it at first glance, but Erica and Jon have affected the economy today by purchasing economic goods and services. They have also satisfied some of their wants. Can you tell which wants were economic and which were noneconomic? Or, can you name some of the consumer and industrial goods that were a part of the story? Read on to learn more about economic products—their influence on you, and your influence on *them*!



What do you want?

We all have **wants**—desires for things that we may or may not actually require. A want can be a craving—maybe for a deep-dish pepperoni pizza. A want can be a wish—perhaps to see your best friend who lives in another state. Or, a want can be a need—a warm place to sleep at night, for example.



◀ *Everyone has wants. For example, you might want to have pizza for dinner.*

Think of five things that you want right now. For most people, this is an easy task because they want many things. In fact, people want so many things that their wants are considered unlimited—when one want is satisfied, there is at least one other want waiting to take its place. Consider your want for that pepperoni pizza. After you get the pizza and your want is satisfied, another want will certainly appear in your mind—you might decide you want to play video games with your friends, take a nap, or get some dessert.

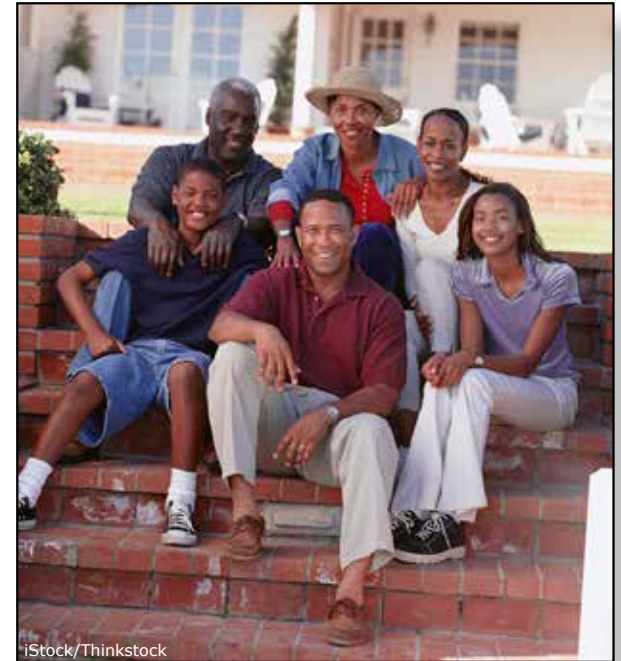
While we all have wants, those wants vary from person to person. What you want may be quite different from what your parents want, what your siblings want, or even what your friends want. Wants tend to vary from age group to age group. What a two-year-old wants will be quite different from what is wanted by a 16-year-old, a 30-year-old, or a 60-year-old. What wants are common to your own age group?

Our wants can also be considered competing. In other words, we may want more than one thing at the same time. You might want to go to a concert, but the concert takes place at the same time as a football game you also want to attend. These two wants conflict with each other, and you're faced with a decision about which want you will fulfill.

Economic v. noneconomic wants

Think back to your list of five wants. To obtain the things on your list, would you need to spend money? If you need to spend money to satisfy a want, it is considered an **economic want**. Desires for such things as sports equipment, cars, haircuts, manicures, jewelry, and furniture are economic wants because people will need to spend money to satisfy them. Can you list some more examples of economic wants?

You don't have to spend money for everything that you want, though. For example, you won't have to pay anything if you want to spend time sitting and talking to a friend or if you want to lie on the grass and watch the sunset. Wants that can be satisfied without spending money are known as **noneconomic wants**. Can you list some more examples of noneconomic wants? Although noneconomic wants are important, here we are concerned with how people satisfy their economic wants.



▲ *Wants aren't the same for everyone!
What you want may be totally different
from what your parents or siblings want.*

Economic goods

The “things” that people buy to satisfy their economic wants are called economic goods and services. Goods and services are not the same. For something to be called an **economic good**, it must have the following characteristics:

*It must be a physical (**tangible**) object.* In other words, you must be able to feel, smell, taste, see, or hear it. Books, perfume, food, clothes, and cars are examples of physical objects.

It must be useful. An economic good must be able to satisfy human wants. Many people want to plant flowers in their yards; therefore, flowers are useful. However, no one wants weeds in the yard; therefore, weeds are not considered useful and would not be classified as economic goods.

It must be scarce. When something is **scarce**, that means that there is not enough of it so that anyone and everyone can freely have as much as they want. The result is that people are willing to pay money to get it. For instance, you don't have to pay to breathe the air. Air is not scarce; it is abundant. However, if you want warm air when the weather is cold, or cool air when the weather is hot, you must pay because processed air is scarce.



▲ *Processed air, like all economic goods, is scarce.*

It must be transferable. Although some goods are tangible, useful, and scarce, they are not considered economic goods because they cannot be easily obtained. There are many oil reserves that exist under the ocean floor. In many cases, the oil is too costly to obtain; thus, ownership of the oil cannot be transferred from one person or business to another. The oil, therefore, would not be considered an economic good.

Learn more about economic goods by reading "Good" on AmosWEB:
http://www.amosweb.com/cgi-bin/awb_nav.pl?s=wpd&c=dsp&k=good.

Economic services

In addition to buying economic goods, people also buy **economic services**—productive acts that satisfy economic wants. Economic services include such acts as health-care, lawn care, and dry-cleaning. In each case, someone is paid to perform a service.

The major characteristics of economic services are very similar to those of economic goods. They must be useful, scarce, and transferable. However, services are not physical objects. Instead, they are intangible activities performed by other people for a certain amount of money.

Want to learn more about economic services? Check out this article, "Service," from AmosWEB: http://www.amosweb.com/cgi-bin/awb_nav.pl?s=wpd&c=dsp&k=service.



Some economic goods and services are paid for directly by consumers when they buy goods and services. Other goods and services are paid for indirectly with tax dollars. For example, police and fire protection, trash pickup, and public education are considered economic services that are paid for with tax dollars.

You can't always get what you want...

It takes money to obtain and to produce goods and services. Most **consumers**, people who use goods and services, simply do not have enough money to buy everything that they want. Likewise, producers have limited money and materials with which to make choices about what they will produce. This is why decision making is the heart of economics.

Consumers communicate their wants to producers as they purchase or fail to purchase goods and services. In this way, consumers are casting dollar, or economic, “votes” to let producers know their wants. They are voting for the product that they decide to buy and against the others. Through their buying or not buying, they can control what goods and services will be produced and even how much will be charged for them. For example, Apple discontinued its iPod classic because the non-touchscreen mp3 player simply wasn't as popular as its newer iPhones and iPads. You can read about the declining popularity of the iPod classic in this article by Nick Statt and Shara Tibken, “Apple Says a Silent Good-bye to iPod Classic”: <http://www.cnet.com/news/apple-says-goodbye-to-the-ipod-classic/>.

Can you think of some other products that are no longer produced because consumers don't want to purchase them anymore? As you can see, the money that consumers spend for goods and services spin the wheels of the economy.

Producers must keep in mind that people buy goods and services to satisfy their wants. Companies devote a great deal of time and money to finding out exactly what consumers want—this is called **market research**. They know that their success depends on keeping a careful eye on what sells and what doesn't sell, so that they can focus their limited resources on satisfying consumers' economic wants. If consumers do not want a certain product, its production will be cut back or stopped. On the other hand, if a product is very popular, more producers will begin to make it.



▲ Consumers communicate their wants when they purchase (or don't purchase) products. If a product is no longer popular with consumers, it may be discontinued.

What happens if consumers decide not to purchase anything but necessities? When consumers fail to buy, the influence is ultimately felt throughout the economy. Jobs are lost in retail and wholesale businesses. This forces producers to lay off additional workers. Consumers who lose their jobs are able to satisfy fewer wants because of decreased income. Thus, the decisions of consumers to buy or not to buy play a significant role in determining the health of the economy.

Summary

We all have wants—desires for things that we may or may not actually require. If you need to spend money to satisfy a want, it is an economic want. The “things” that people buy to satisfy their economic wants are called economic goods and services. For something to be an economic good, it must be tangible, useful, scarce, and transferable. Economic services are similar except they are intangible acts rather than physical objects. The economy depends on consumers and producers buying and producing goods and services.



▲ *Consumers have the power to determine the health of the economy with every buying decision.*

TOTAL RECALL

1. What are wants?
2. What is the difference between an economic want and a noneconomic want?
3. What is an economic good?
4. What is an economic service?
5. How does the relationship between consumers, producers, and economic products affect the economy?

THE GRAY ZONE

Clothing and accessories made with real animal fur are economic products, and many people wear them. Other people, however, feel that wearing fur is unethical and cruel to animals.

Some of these people even go so far as to verbally attack people who are wearing fur or throw paint on the fur to ruin it and make it unwearable. This often happens to Hollywood stars since they are so high profile. What do you think about fur as an economic product?

Is it ethical to sell it? To buy it?

To ruin it in protest?



It's Classified: Consumer and Industrial Goods

You know the difference between an economic good and an economic service. Now, let's take a look at how these goods and services can be classified. Basically, there are two broad groups, or classifications, of economic goods and services—consumer and industrial.

Consumer goods and services

In this group, we find all the goods and services that are purchased and actually used by the ultimate consumer. An **ultimate consumer** is anyone who personally uses a good or service to satisfy his/her own wants—the final user. We are all ultimate consumers because we all buy and use goods and services in this manner.

Think of all the goods and services that you buy for your own personal use. Examples might include food, gas, sunglasses, shoes, movie tickets, and so on. Can you list some more?



▲ What things do you buy for your own personal use? Gas, clothing, food? These are considered consumer goods.

Industrial goods and services

In this category, we find all the goods and services that are purchased by **producers** (the people who make or provide goods and services):

- For resale
- To make other goods and services
- To use in operating their businesses

Almost all producers must buy certain goods and services to carry out their day-to-day activities. They need things such as buildings, **equipment**, and office **supplies** to operate. In addition, many producers must purchase the **raw materials** they need to make their finished products. Farmers must buy seed to produce their crops. Automobile manufacturers must buy steel, tin, plastic, rubber, and glass to produce new cars. Businesses buy the services of advertising agencies to create ads, attorneys to handle legal arrangements, and accountants to prepare financial statements. All of these are examples of industrial goods and services, since they are used by producers rather than by ultimate consumers. These goods are also frequently referred to as “producer” goods and services.



▲ *When businesses hire attorneys to handle their legal arrangements, they are purchasing industrial services.*

What's the difference?

Do you think you can tell the difference between a consumer good or service and an industrial good or service? What about a regular old ink pen? Would that be considered a consumer good or an industrial good? Don't be confused! If you bought the pen for your own personal use, it is a consumer good. If a producer bought the pen for use in the office, it is an industrial good. As you can see, it is simply a matter of who buys the item and for what purpose.

Why classify?

Why does it matter to marketers whether a good or service is a consumer or an industrial product? The classification system helps them to select appropriate marketing activities for a particular good or service. The types of promotion, distribution, and selling a marketer uses are affected by a product's classification. Therefore, marketers use the classifications as a guide for marketing planning. They have found it useful to divide even further the categories of consumer and industrial goods.



▲ *Is a pen a consumer good or an industrial good? It depends on who buys it!*



Classifications of consumer products

Marketers classify consumer products based on consumer buying habits. They recognize four groups of consumer products—convenience products, shopping products, specialty products, and unsought products.

Classifications of Consumer Products				
Type:	Convenience	Shopping	Specialty	Unsought
Examples:	Bread, milk, car wash	Furniture, computers, college educations	Antiques, fine china, luxury spa services	Coffin, crutches, life insurance policy

Convenience products. Consumers purchase these items quickly and without much thought or effort. If the desired good or service is not available, consumers will select a substitute item. Convenience goods are usually low-cost items. They may be **staple items**, such as bread or milk, or **impulse items**, such as a candy bar at the checkout counter or a quick car wash on the way home from work.

Shopping products. When buying shopping products, consumers “shop around” to get the best quality, price, and/or service. They tend to pay more for shopping products than for convenience products, and they usually want the advice of a salesperson. Examples of shopping products include furniture, computers, large appliances, and college educations.



Specialty products. These are items with special or unique characteristics that consumers are willing to exert special efforts to obtain. In many cases, the special characteristic of the item relates to its brand name. Can you think of a time you were searching for a product or a specific brand? How far were you willing to go to get it? Consumers are not willing to accept substitutes for specialty products, and they are willing to pay higher prices to get them. Examples of specialty products include antiques, sports cars, fine china, and luxury spa services.

Unsought products. A common definition for unsought goods is that they are bought out of adversity instead of desire. This might include a coffin, a pair of crutches, or a life insurance policy—these are not items that consumers would like to think about needing, but circumstances might make them necessary. Many times, these goods require an explanation or demonstration from a knowledgeable salesperson.

Classifications of industrial products

Marketers classify industrial products according to their uses. These classifications include materials, parts, installations, equipment, and supplies.

Classifications of Industrial Products					
Type:	Materials	Parts	Installations	Equipment	Supplies
Examples:	Wheat, trees, gold	Bolts, screws, tires	Buildings, conveyor belts, blast furnaces	Computers, forklifts, telephones	Pencils, stationery, shipping materials

Materials. These items become part of a finished product after they have been processed. Some are considered raw materials because the producer receives them almost as they would appear in their natural state. Examples of raw materials include wheat, trees, and gold. Other materials have already been processed in some way when the producer receives them. Examples of these materials include yarn that will be used to make cloth and flour that will be used to make baked goods.



Parts. These items will become part of a finished product, but they do not need any additional processing. Examples of parts include bolts, screws, and tires.

Installations. These are high-cost, long-lasting items that are used to produce other goods and services. Installations affect the amount of goods and services that a producer can expect to make. Examples of installations include buildings, conveyor belts for assembly lines, and blast furnaces used to smelt iron.

Equipment. These products are used in the operation of a business but are not used in the actual production of a good or service. They cost less and have a shorter life span than installations. Examples of equipment include computers, forklifts, and telephones.

Supplies. These products are constantly being purchased and used up in the operation of a business. Supplies are usually the least costly type of industrial product. Examples of supplies include such items as cash register tapes, pencils, stationery, and shipping materials.

Summary

Consumer goods and services are those that are purchased and actually used by the ultimate consumer. Industrial goods and services are those that are purchased by producers for resale, to make other goods and services, and/or to use in operating their businesses. Classifications of consumer products include convenience, shopping, specialty, and unsought products. Classifications of industrial products include materials, parts, installations, equipment, and supplies.



Make It Pay!

Think about five economic wants you've fulfilled in the past month. Which wants were for economic goods and which were for economic services? Were the products you purchased convenience, shopping, specialty, or unsought products? Can you think of some industrial products that were involved in the making or delivering of the consumer products you purchased?

TOTAL RECALL

1. What is a consumer product?
2. What is an industrial product?
3. Why is it important for marketers to classify the differences between consumer products and industrial products?
4. Describe four classifications of consumer products.
5. Describe five classifications of industrial products.