Resource Pack for the Economics Curriculum (Secondary 4-6)

Guiding Students to Write Economics Essays to Enhance Their Learning of Economics

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BACKGROUND

Questioning about daily observation in a systematic way, applying the economic knowledge acquired to explain and analyse the observation and thinking critically about the analyses made are essential means to test one’s understanding of economic theories and keys to be a successful economics learner. And writing economic essays is believed to be an effective way for students to consolidate and demonstrate their learning of economics.

To enhance students’ learning of economics through essay writing, the Education Bureau carried out a pilot scheme “Guiding students to write economics essays” in 2012-13. This booklet is published with the aim of sharing resources designed for the pilot scheme including “Questioning to get better understanding”, “Check list for evaluating an essay” and “Exemplars of economics essays” written by Dr. Stapleton Paul from Hong Kong Institute of Education.

If you have any comments or suggestions on this booklet, please send them to:

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Guiding Students to Write Economics Essays to Enhance Their Learning of Economics
Traditional economics assumes that we make decisions based on what brings us the best value. Although we sometimes make mistakes in our decisions, economic theory claims that in the end, we will return to the fundamentals of market forces and behave like economic animals who try to maximize our values.

Recently, many popular books about economics explain that human behavior is not so simple. The new field of behavioral economics explores how humans make decisions in their everyday actions that are often contrary to getting the best value. This field teaches us that our decisions are influenced not only by our selfish desires, but also emotional factors, as well as systematic errors that most humans make.

The units in this program of study focus on economic issues by beginning with a scenario or question that requires some thinking. A suggested answer is provided below the question and the organizational patterns and linguistics structures are made transparent via color-coding and descriptions in the margins. The answers are not meant to be definitive, but suggestive. Topics have been tailored to the local Hong Kong context in order to be both accessible and stimulating for students. Units can be followed in the order that they appear or teachers may wish to select them at random. Upon completion, students should have solidified some basic economic theory as well as the ways in which these theories can be communicated in writing via practical examples.

Stapleton Paul
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**PREFACE**

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Guiding Students to Write Economics Essays to Enhance Their Learning of Economics
I. QUESTIONING TO GET DEEPER UNDERSTANDING*

Economics is a social science that studies and explains human behaviour. Nurturing students’ awareness of daily issues and providing them with an organised thinking framework can enhance their skills of applying economics concepts to explain authentic issues and hence foster their learning of economics.

The following questions formulate a thinking framework that helps deepen and widen students’ understanding of an issue and also outline an economics essay (relevant questions can be selected subject to the scope of the essay).

**Question at issue - problem, issue**

1. What is the issue/experience/observation that you are going to investigate into?
2. Is there any information or evidence supporting your observation?

**Purposes, goals and objectives**

1. What are you trying to accomplish here (in face of the observation/experience)?
   - Are you going to identify the factors leading to such observation?
   - Are you going to figure out the consequence of such observation?
   - Are you going to explore the implications of such observation?
   - Are you going to comment others’ views on such observation?
2. Who is the audience of the essay?
   
   *People who know economics??* - Can economics jargons be used without elaboration?

**Information - data, facts, observations, experience**

1. On what information are you basing that comment?
2. What experience convinced you of this? Could your experience be distorted?
   
   *(Search or based on one-hand information)*
3. How do you know this information is accurate? How could you verify it?
4. Are there any considerations that you miss out?
Concepts and Ideas

1. What is the main idea you are using in your reasoning? Could you explain that idea?
2. Are you using the appropriate concept(s)?

Assumptions

1. What assumptions underlie your point of view?
2. Why are you assuming that?
3. What alternative assumptions might we make?

Implications and consequences

1. What are you implying when you say…?
2. Have you considered the implications of this policy (or practice)?

Conclusions

1. How did you reach your conclusion?
2. Could you explain your reasoning?
3. Is there an alternative plausible conclusion?
4. Given all the facts, what is the best possible conclusion?

Viewpoints or perspectives

1. From what point of view are you looking at this?
2. Is there another point of view you should consider?

* Adapted from “The Thinker’s Guide to Analytic Thinking” The Foundation for Critical Thinking
II. CHECK LIST FOR EVALUATING AN ESSAY**

The following list can help check the quality including clarity, accuracy, precision, relevance, logic and the breadth and depth of an essay produced.

- **Purpose:** Is it well-stated or clearly implied? Is it justifiable?
- **Issue:** Is the question at issue well-stated, clear and unbiased?
- **Information:** Does the writer cite relevant evidence, and/or information essential to the issue? Is the information accurate and directly relevant to the question at issue? Does the writer address the complexities of the issue?
- **Key ideas:** Does the writer clarify key ideas when necessary? Are the ideas used justifiably?
- **Assumptions:** Does the writer show sensitivity to what he or she is taking for granted or assuming.
- **Inferences/conclusions:** Do the inferences and conclusions made by the author clearly follow from the information relevant to the issue, or does the author jump to unjustifiable conclusions? Does the author consider alternative conclusions where the issue is complex?
- **Point of view/perspectives:** Does the writer show sensitivity to alternative relevant points of view or lines of reasoning?
- **Implications:** Does the writer display sensitivity to the implications and consequences of the position he or she is taking?

**Adapted from “The Thinker’s Guide to Analytic Thinking” The Foundation for Critical Thinking**
III. EXEMPLARS OF ECONOMICS ESSAYS

To provide students with exemplars of economics essays appropriate to their academic level, the Education Bureau has invited Dr. Stapleton Paul from Hong Kong Institute of Education to prepare the following ten essays.

The essays start with an interesting observation that triggers an inquiry for exploration. The writer attempts to explain the observation with economics reasoning and principles and a further question to encourage further investigation may be raised in the end of the essay. The first seven pieces essays are mainly on economics.

The essays are annotated with key ideas (e.g. logical connector, intensifier) indicating what an economics essay should include and how it could be presented in an organised way. The meaning and function of the key ideas are briefly illustrated below:

**Logical connector:** words and phrases used as sequencers (e.g. first(ly), second(ly), then, next); contrasters (e.g. however, on the one hand); generalizers (e.g. generally speaking, in most cases); and topic-introducers (e.g. with regard to, regarding)

http://vlc.polyu.edu.hk/common/logical_connectors.htm

**Intensifier:** words e.g. very, really and extremely used to make adjectives stronger


**Hedging:** words are used to show the strength of the claim you are making e.g. whenever there is a penalty for disobeying the rules, people generally try to avoid it, the word ‘generally’ here makes the claim not that definite as there may be some people who do not behave in the way claimed.

http://www.uefap.com/writing/feature/hedge.htm
MTR in Hong Kong

Teaching point: Economies of scale

The MTR in Hong Kong is one of the most modern rail networks in the world. Most parts of Hong Kong are within easy reach of the network even though the MTR rail lines are built through mountains and under (or over) the harbor. However, what is really special about the MTR is the price of using the system. Compared to other major cities around the world, passengers enjoy remarkably low fares. While the lowest fare in Hong Kong is less than $4, in London, the lowest fare is about $25. Paris is similarly expensive. In Tokyo, although the cheapest fare is “only” about $13, it can easily cost well over $100 a day for many commuters. As for American cities, the fare is about double that of Hong Kong on average.

Question: Why is rail transport in Hong Kong so cheap compared to other major cities?
Hong Kong has an impressive public transportation system. Most striking among the many forms of transportation is the MTR. It is clean, fast, frequent and close to where most people live. Even more remarkable is the difficult geography that the rail lines are built upon. Some of the lines go through mountains or under the harbor and have been built by blasting through solid rock. Unlike many other cities such as London where the tunnels were built decades ago and have been fully paid for, the MTR is relatively new, so the construction costs are still fresh. Despite all these difficulties, the MTR is much cheaper than the rail transit systems in other major cities in developed countries.

One of the main reasons for such low fares is related to the principle of “economies of scale.” If you travel on the MTR at almost any time of day, it is unlikely that you will be able to sit down. This is because the trains are often full of people and sometimes they are jam-packed. Naturally, the more people that are squeezed on a train, the more cost effective it becomes. Each time a passenger enters a train, the unit cost goes down a little. On the other hand, very early in the morning, the economies of scale are quite poor because the cost to run the train are the same as in rush hour, but there are fewer passengers paying a
Because Hong Kong is more densely populated than most cities in the world, the trains are almost always full which provides good economies of scale, and this means the MTR can afford to keep fares very reasonable.

Although this is one reason helping explain the low fares, there are other important factors. As you travel on the MTR, you see thousands of people in a very narrow space, which is a perfect venue for advertising. Notice the signs on the walls in stations and on trains. The MTR can charge very high monthly fees for these, especially in stations such as Central where there is so much passenger traffic. In this way, the advertising helps to subsidize the train fares.

Another very important reason for the low fares on the MTR is related to property sales. The MTR Corporation owns the land at the station. Because this land is limited and desirable for commuters, there is a high demand which makes it very valuable. Therefore, the MTR Corporation can charge high rent or sell it at a high price. In this way, similar to the advertising, the high rent and land sales price helps to subsidize fares on trains.

Finally, there is one more reason for the low train fares. Since Hong Kong has a highly developed road network, the MTR must compete with other forms of transit such as buses. This competition, or supply, prevents them from raising prices too high. If they do, then passengers will switch to buses.

Although transit systems in other cities also benefit from some of the same factors enjoyed by the MTR, Hong Kong’s special circumstances make it very advantageous for getting around the city at low cost.
A day care center in Wanchai had a problem. Although parents were supposed to pick up their children each day by 4 P.M., often they would arrive late. This meant that some children and teachers had to wait, causing stress for both. In order to try to solve this problem, two economists offered their help. They created a plan that charged parents a $20 penalty each time they arrived later than ten minutes after 4 o’clock. This penalty was added to the parents’ monthly fee of $2000. Soon after the new system started, however, a strange thing happened. The number of late pick-ups actually increased. In the end, the number of parents arriving late more than doubled. Instead of improving the situation, the economists’ plan made things worse.

Question: Why do you think the plan had the reverse effect? How would you change it?

Whenever there is a **penalty** for disobeying the rules, people **generally** try to avoid it. **However,** in this case, the **penalty** had the reverse effect; the new **penalty** actually increased the bad behavior that the daycare center was trying to avoid. **Therefore,** there must be a deeper principle working to produce this behavior.

The failure of this plan at the day care center helps us understand something about economics. The $20 penalty is **actually** an “incentive” to arrive on time. **Incentives** are an important concept in economics. They teach us how people get what they want in a world where **most** people want the same things. In childhood, we **quickly** learn about **incentives**. If a child touches a flame, it hurts. Pain is an **incentive** not to touch the flame. When you get good marks at school, your parents buy you a computer. The computer is an **incentive** to study hard. **Basically,** **incentives** encourage us to do good things and avoid doing things that bring us harm.

There are three kinds of incentives: economic, social, and moral. Imagine you are on foot waiting at a red light at a small street beside a police station. **Even though** you are in a hurry, you don’t cross on the red light because you are afraid the police might see you and **fine** you. This is an economic **incentive**, similar to the day care example.
above. If there are no police nearby, but others are also
waiting at the red light, you may feel the eyes of other
watching you. If you do not cross, this is an example of a
social incentive. If it is midnight and no one is around, and
you still don’t cross, then this would be an example of a
moral incentive. You don’t want to do something wrong.

This discussion of incentives provides a hint for answering
our question about the day care center penalty. The $20
fine was an incentive to encourage parents to arrive on
time. However, this incentive was simply too small. It was
only one percent of the monthly fee. This still doesn’t
explain why there was an increase in the number of late
coming parents. Before the new system began, parents
who arrived late may have felt guilty. Therefore, at that
time there was a social and moral incentive to avoid being
late. When the new fine was applied, however, parents
probably felt that if they paid the penalty, they no longer
needed to feel guilty. Thus, parents realized that they
could take away their guilty feelings by paying money.

The unpredicted outcome of the $20 penalty at the day
care center is only one of many similar examples showing
the complex nature of incentives. Another instance
concerns blood donations. In a study conducted in order
to better understand what motivated people to give blood,
it was found that it is best not to pay for donations. Now
when people donate their blood, it makes them feel
morally good. It is like giving to a charity. However, if
a payment is given for blood, it becomes an economic
incentive. Unless the reward is big enough – say $1000 –
people may actually end up donating less.

Understanding how incentives affect our lives, therefore,
reveals the complex nature of economics. Even though
we often think that economics always has something to
do with money, it can also have a connection to our social
senses and our morality.
Teaching point: Scarcity

If you make coffee at home, you can pay as little as $1-2 for your hot drink. On the other hand, if you buy a cup of coffee from a café, such as Pacific Coffee or Starbucks, you will pay much more, even 10 or 20 times as much. The same applies to coffee in airports. In hotel lobbies, coffee is even more expensive. Although the price of coffee beans has risen in recent years, it still seems outrageously expensive to pay so much for a simple cup of coffee.

Question: Why do cafes and hotels charge so much for coffee?
In order to answer this question, it is best to examine the expenses that coffee shops have. Naturally, the cost of making a cup of coffee involves more than just the beans. Equipment, such as an espresso machine, is needed. Also, the costs of electricity, coffee cups, and the labor of the barista have to be considered. However, each of these expenses is relatively minor. Assuming this is true, why doesn't another company locate next door to Starbucks or Pacific Coffee and start charging half the price and take away their business?

You may have already worked out the answer to this question because there is one expense not included in the list above: rent. Most cafes are in busy locations such as stations, airports and shopping malls in the center of the city. Landowners at these places can charge high rents at these locations because there are so many people walking by. When you are downtown, if you want a freshly-brewed cup of coffee, you are left with only one choice: the expensive conveniently-located café.

The economic principle at work here is the “power of scarcity or the “availability of substitutes.” The number of places to sit down with a coffee in a comfortable atmosphere downtown is limited. Most people who want a coffee have little time or energy to look for a coffee that might save them a few dollars. Therefore, they are willing
to pay a little more for the convenience. Property owners also recognize this and they charge the maximum amount of rent possible. Because of this economic principle, if another café moves in next door to Pacific Coffee, they would soon go out of business if they charged half the price (or even 80% of the price) for their coffee. They would simply be unable to afford the rent along with all of the other expenses.

Customers at downtown cafés are not only buying a convenient cup of coffee, they are also paying for their chair and table. Therefore, if you order a coffee to take out, you are paying extra because you are not using the chair offered to you, which is included in the price. The same is especially true in hotel lobbies, which sometimes charge incredibly high prices for coffee. Once again, it is not so much the coffee that you are buying, but the spacious and elegant surroundings.

Until this point, we have only discussed straight coffee, but cafés serve many other products such as cappuccino, latte, etc. and in different sizes. All of these cost the café only a little more money to make than straight coffee. After all, the ingredients of drinks represent one of the smallest costs of a café. Yet the prices can sometimes be double and even triple for these special or large types of coffee. Again, the reason cafés can charge so much is that these specialty coffees are difficult to find. The scarcer the product is, the higher the price becomes.

What is the message we should take from this chapter? The best way to get your money’s worth at Starbucks is to order a plain coffee, find a seat, and sip it slowly.
Clocks and iPhones

Teaching point: Cost-benefit

Imagine you want to buy a clock. You see one that you like in a shop close by your house for $200. Then a friend tells you that she saw the same one downtown for $100. Would you make a special trip downtown to buy it for $100?

Now consider a similar question. You are planning to buy a new iPhone. You saw one at a neighborhood shop for $5000, but a friend tells you he saw the same one downtown for $4,900. Would you make a special trip downtown to get a lower price?

Question: Explain the reasoning you use for your answers.
If you are like most people, you would choose to go downtown for the clock, but buy the iPhone in your neighborhood shop. However, if you did this, your thinking is not so logical because your “cost-benefit” is the same in both situations: $100. By going downtown you save 50 percent on the price of the clock and only two percent on the iPhone; however, your real savings is the same in both cases: $100. Therefore, thinking in terms of percentage is not so logical in this situation.

“Cost-benefit” is one of the most basic economic principles. It says that you should take an action only if the extra benefit is greater than the extra cost. In the example above, because the benefit of going downtown is the same in each case, your answer, whether it is “yes” or “no,” should be the same for both situations.

Now let’s try another situation. Imagine that you are a volunteer in an experiment in which you are grouped together with another volunteer participant. Before the experiment begins, the leader explains that the two of you can share $1000 (ten $100 bills) which is placed on the table in front of you; however, the other volunteer has complete power as to how much of the $1000 she will offer to you. If you reject the offer, neither of you will receive anything.
She offers you $200 and she will receive $800. Do you accept?

If you are similar to most people, you probably said “no.” Economists used to think that people are completely rational and will always try to maximize their profit. However, experiments, such as the one above, have been performed on many people and they show that humans have a very strong sense of fairness. Most people perceive a 20 percent share as very unfair, even though they would receive 20 percent for doing nothing. Walking away from $200 seems stupid at first because you have nothing to lose in terms of cost-benefit; however, there is actually a rather large psychological cost. This game is clearly unfair to you and this inequity is a kind of cost. The thought of watching another volunteer make such an unfair decision seems too painful. Therefore, people tend to prefer to avoid this cost, even though they must sacrifice some benefit. New theories suggest that humans have evolved a very deep sense of fairness that is used to punish cheaters. This game has been played many times and the usual result is that the first volunteer normally offers 40 to 50 percent of the share, and the second volunteer will not accept any offer less than 20 percent.

The two situations in this passage show that economic decisions sometimes involve deep and complex factors related to human emotions. This shows that there is a hidden side to many practical issues, and we learn that money is just one part of economics.
Before Mid-Autumn Festival each year bakeries and cake shops make good profits selling mooncakes. Traditionally, the season for selling mooncakes began up to a month before Mid-Autumn Festival. In recent years, however, mooncakes have been appearing for sale earlier and earlier. Now it is not unusual to find them in shops and hotels as early as July or even June. This seems rather strange because people are unlikely to want to buy them this early.

**Question:** Why does the mooncake selling season start so early?
Mooncakes have become a big business. Years ago, the simple mooncake with a duck egg in the middle was the standard treat at Mid-Autumn Festival. Now mooncakes come in many different sizes with an amazing variety of ingredients. Some are even made of ice cream! It is not only the number of ingredients that are being stretched; the selling season is also. The increasingly early start to the mooncake selling season is a phenomenon that is seen in many different aspects of competition. Early Christmas music in stores is another example. As competitors see an advantage by moving in one direction, sometimes they reach extreme limits.

Selling mooncakes a month or even two months earlier than usual costs a store very little extra money, yet they may catch a few shoppers in the mood to buy them. In this way, they gain an advantage over their competition. However, other shops soon notice that their competition is starting the season earlier and they also begin earlier the following year. Over the years, one or two more shops or companies join in and we see mooncakes for sale even earlier. Soon after, all of the competition matches the new starting date. In this way, we now arrive at the present July (or even June) beginning of the mooncake season.

So does this mean that we can expect to find mooncakes for sale in May within the next few years? Perhaps. But at
some point, shoppers will think that mooncakes at such an early point in time seems ridiculous and it may even take away the special seasonal feeling that mooncakes bring. This would mean that we have reached a point of “diminishing returns.” This is a common term in economic theory and it even exists in nature.

**Diminishing returns** even exists in the natural world. The peacock is a male bird that has long beautiful tail feathers. Scientists believe that the female of this species of bird prefers males that have extra long feathers. Although she has no sense of beauty, animal experts suggest that the peahen prefers long tails because they reflect good health in the peacock. **Therefore,** when selecting a peacock mate, she uses the length of a male’s feathers as a signal of good genes. Some peacock feathers are up to one meter in length, which seems very long indeed; however, such long feathers can be a big handicap to the peacock. They make it easier for them to be noticed and killed for food by other animals. **Therefore,** there must be a limit to how long the peacock’s feathers grow. Up to a certain length, the feathers bring an advantage to the peacock against his competition to attract females. If the feathers grow longer than that, the advantage can disappear. **Perhaps** a peacock with feathers 1.5 meters long could attract every peahen, but such long feathers would prevent it from flying and escaping from predators. **As a result,** beyond a certain length, peacock feathers produce “diminishing returns.” **Thus,** even in nature, we see economic theory at work.

Just as mooncake sales in May would reach a point of **diminishing returns** for shops, so does the length of a peacock’s tail feathers at some length over one meter. These two examples show that basic economics applies to many areas of life where there is **competition.**
If you are a woman, you have probably noticed that women nearly always have to pay more for clothes than men, even if a product is made by the same manufacturer using the same material. This seems especially unfair because women are generally smaller than men, so less material is needed to make clothes. This price differential is seen in many other areas as well. For example, women pay more for haircuts than men, and more for dry cleaning a blouse than men pay to dry-clean a shirt.

**Question:** Why do women have to pay more for these goods and services? Here are some products to consider.

- clothes / shoes
- dry cleaning
- haircut
Usually when there is a consistent pattern of pricing, there is a good reason behind it. If the higher prices for women’s goods and services were really unfair, then someone, perhaps a business woman, would enter the market and advertise with the following slogan: “No extra charge for women.” This has not happened. Therefore, there must be sound economic reasons for the difference.

In the case of clothing, there are several reasons that explain the pattern. Women’s clothing tends to require more labor because the patterns are more sophisticated. For example, the tightness of fit and length of clothing often changes from year to year. Even the numbered sizes on women’s clothes have changed over the years. This may be because women tend to be more fashion-conscious so patterns change more frequently and this requires designers.

Not only do designs change, but colors do also. A fashionable color for a woman’s blouse this year may go out of fashion next year. This dynamic nature of women’s fashion means garment makers produce rather small quantities of each item. On the other hand, the color and style of men’s clothing does not change as quickly, so huge numbers of shirts and jeans of the same color can be manufactured. The greater the number that is made of a certain product, the cheaper the price. This is called
“economies of scale.” Smaller numbers of a certain color of a woman’s blouse are made because if too many are made, they may not sell in the following year. The result is higher prices for women’s clothing.

Another less obvious reason is that women’s clothing tends to be sold in more expensive locations. Walk into any department store. Usually the entire ground floor is given over to products for women. Naturally, the ground floor has the highest rent, so products there cannot be cheap. Women’s cosmetics and brand name clothing, shoes and bags for women are the most common items. Men’s underwear is seldom found there. Owners of these stores understand the shopping patterns of men and women. They realize that women spend more money on their appearance than men.

A similar principle applies to haircuts and dry cleaning. Stylists take longer when cutting women’s hair because their hair tends to be longer and requires more attention to detail. Likewise, a woman’s blouse takes more time to press after it has been dry cleaned because of the intricate patterns and designs and the more delicate material. For example, women are more likely to wear silk than a man. In both cases the principle, “time is money” applies.

In conclusion, the reason for charging a higher price for women’s clothing and services is related to both economies of scale and the amount of time required to produce (time cost involved in producing) the good or service. The deeper reason, however, is related to fundamental differences in male and female behavior towards their outward appearance.
Life is expensive these days. Education, rent, transportation, and food all take a big bite out of our budget. Still, there are some things that remain amazingly cheap. Printers, for example, often cost well under $1000 and sometimes are even included for free when you buy a computer. Another example is the mobile phone, which is sometimes included for free as part of a package with the telephone company.

**Question:** How can printers and mobile phones be sold at such low prices or given away for free?
When you buy a product, in many cases, there is an essential component, without which, the product is useless. A good example of this is a watch. Without a battery, most watches these days will not work. This pairing of an essential component in a product is called “complementary demand,” and many of the products we use every day have components of complementary demand. However, in the case of time pieces, most watchmakers have standardized the slot for batteries; therefore, consumers can buy a replacement battery from any maker. Another example of standardization is the USB port. Flash memories from any maker can be used; for example, a Buffalo drive works equally well in an iMac or a Lenovo computer. A flash memory, however, cannot be called a complementary component because it is not necessary to make the computer work. It is simply an accessory.

In the case of printers, the story is different. Although printers are not usually free, they are often very cheap. However, all printers these days require an essential complementary component: the ink cartridge. These cartridges also tend to be very expensive and unique to a certain brand. This means that you cannot easily buy a no-name ink cartridge when your ink runs out. It is also very difficult to refill old ones with ink. Some makers even include electronic chips that are so sensitive that the printer will not work if a refilled
cartridge is used. Printer makers do this purposely. They attract you with their low-priced printers, but then, once you buy the product, they know that they have caught you. You may feel surprised and deceived, but you have no choice but to buy their expensive cartridges if you want to continue using their printer. Printer makers avoid standardizing their cartridges, and continually create new types of cartridges in order to prevent ink makers from taking business from them. This practice of bundling may be anti-competitive because other makers of ink cartridges are prevented from offering an alternative product.

In the case of mobile phones, the story is similar in the sense that the phone has a complementary component: the telephone network. However, unlike the case of the printers and ink, the costs here are more transparent. Consumers who are tempted to buy the “free” phone are generally well aware that the phone comes as part of a package. In other words, the “free” phone is simply a marketing ploy.

Why does bundling, complementary demand develop sometimes and other times not? This bundling practice may be most usual in cases where a product that requires complementary components can easily be made by the same company. For example, printer makers may feel they have the expertise to make ink cartridges, while watchmakers don’t feel they have the ability to make batteries; or perhaps watchmakers think it is too easy for battery makers to produce a battery for their watches.

Finally, we should be appreciative of the many standardized components such as batteries or flash memories in our lives. If all complementary components were proprietary, such as ink cartridges, our lives would be much less convenient and much more expensive.
Walk into any supermarket and you will notice that products are placed in a consistent pattern. Fish and meat are usually at the back. Dairy products are also generally quite deep into the store, as is rice. Meanwhile, fruit and vegetables are often near the front. In convenience stores we see similar patterns in their floor plans even though different companies may have small differences. Drinks are always at the back. Magazines and newspapers are near the front. Dairy products are also near the back and snacks are in the middle. Given that fish and meat are one of the main reasons for visiting a supermarket, it seems illogical that these products are in the most distant part of the store. Likewise, although drinks are the most popular purchases at the convenience store, they are at the back. It would seem to be more convenient to put these products closest to the front.

**Question:** Why do supermarkets and convenience stores place their most popular products in the most inconvenient places?
In the world of business, the reason for most decisions is connected to the **bottom line**. Therefore, when trying to understand certain trends or patterns, the need to make a **profit** is the first **place** to look. The fact that most supermarkets and convenience stores have similar **floor plans** for the **position** of their products must mean that this pattern produces the best sales.

The principle behind this **floor plan** is “the more you see, the more you buy.” The companies that own supermarkets understand that their best selling products are fish, meat, and dairy products. **Therefore**, they **place** these foods in a part of the store that requires shoppers to walk past as many other products as possible. The more products that shoppers pass, the better chance they will stop and buy one. The thinking is the same in convenience stores where customers have to walk by many products before reaching the drinks.

There are other consistent patterns for products near the **front** as well. For example, **where** are flowers usually found in a supermarket? If you answered “near the **front,”** you would be correct. The **same goes** for gum, mints, and cigarettes. Purchases of these products **tend to** be less planned than food purchases such as fish and milk. Shoppers notice them while waiting in line and sometimes pick them up after buying some other staples such as
meat or rice. If flowers and mints were positioned at the back of the supermarket, their sales would surely be much lower.

Other nuances in the supermarket and convenience store concern the height of products on the shelf. Storeowners realize that products displayed at about 150cm above the floor, in other words, eye-level, bring in the best sales. Therefore, they place the products that bring in the highest profit at this level. Products on the lowest shelves near your feet tend to be the worst sellers. This same thinking also applies to products placed at the end of the aisle. This is considered one of the best positions in the store.

The basic philosophy for store floor plans is similar: try to get the customer to see as many products as possible. The ones that are viewed most sell best. The ones that sell best tend to be those that make the store the most money.

Although all of this seems very logical, it does have a negative side. The products that sell best and make the most profit are often the least healthy. Supermarkets tend to make the least money on healthy products such as fruit and vegetables. They quickly go bad and often have to be discarded. They also require much more labor because they don’t easily fit on shelves.

In the end we should remember two things. The store’s job is to make money, and if we shop with more knowledge and awareness, we can make better purchasing decisions.
In Pacific Place in Admiralty or the Landmark in Central, there are many shops with large windows displaying products for sale. The most common products in these shops are clothes, cosmetics, watches, shoes, and bags. The prices on these products are far higher than similar products that you find in many other shopping malls in Hong Kong. Because of this, their products are considered luxury brands. Inside the shop, there is another unique characteristic: there are few products and a spacy atmosphere. Despite the high price of these products, many people buy them. Some of these luxury brand goods shops even have line ups outside the door.

**Question:** Why do people buy these luxury products? Try to state three reasons.
Most large companies try to create an image around their name. This is called “branding.” Companies attempting to create a brand hope that the image they produce is both positive and memorable so that when consumers look for the type of product that they sell, they will choose their company. For example, when you hear the name “Starbucks,” what image comes to your mind? Now, what image comes to your mind when you hear the name “Gucci?” If a clear image has come to your mind, then the company has succeeded in branding itself to you (as long as the image is positive). In very rare cases, a company succeeds in creating not only a brand, but a luxury brand. How does a company do this?

The simple answer to this question is: “very clever marketing.” This is not completely true, however, because the product must first be very high quality. Still, there are plenty of companies whose products are of high quality, yet they are not considered luxury brands. Therefore, successful luxury brand companies use other techniques to achieve their high status. One technique is to sell their products only in their own shops. This way they have complete control over the sales staff and the atmosphere of the shop. For example, by having very few products in their shops, they create a quiet feeling of luxury. Another characteristic is “premium pricing.” Customers
generally feel that when they pay an extra high price for a product, that it is high quality. When a product seems too cheap, people often think that there must be something wrong with it.

A notable characteristic of luxury brands is that they seldom call their locations “shops” or “stores.” Instead, they are “boutiques,” “emporios,” or “maisons.” These French (and Latin) words convey an image of luxury that English cannot. In addition, the shops are usually located in the most fashionable parts of town, in high-class hotels, or major international airports.

When a customer purchases a luxury brand product, the choice is seldom strictly a logical one, although choosing a high quality product is certainly sensible. It is also emotional. Buyers often unconsciously want to show others that they have reached a certain higher status. Another reason for buying these products is simply to give ourselves a treat.

Actually, we can all afford to treat ourselves to a luxury brand in a minor way. Every convenience store and supermarket sells a variety of ice cream brands. One or two of these costs more than double the average price. Check their ingredients and you will find that they are higher quality (no vegetable fat, for example). However, this small difference in ingredients does not justify such a large increase in price. Here, premium pricing is used to establish the ice cream as a luxury brand.

The points discussed here reflect some of principles behind luxury brands: produce a top quality product, charge a very high price, strictly control how it is sold, advertise cleverly, and hope that your product acquires a high-class image.
In 1995, a British woman submitted a few chapters of her manuscript to several publishers in the hope of getting her first book published. She was a 30-year-old single mother without a job who suffered from depression which led to thoughts of suicide. Her manuscript, which was written on a manual typewriter, was rejected by the first 12 publishers who viewed it. Although the chairman of the thirteenth publisher, in London, agreed to publish her book, he advised the woman to get a job because her book would probably make little money.

The Harry Potter series now has the highest sales of any book series in history with over 450 million copies sold in 67 languages. The British woman, J. K. Rowling, is now one of the richest women in Britain.

Question: What two lessons about life does this story teach us? Write a short essay including your own examples to support each lesson.
Rowling’s story teaches us a couple of lessons about life. The first lesson is about perseverance. Imagine what would have happened if Rowling, after receiving the twelfth rejection, had given up. After all, to be rejected a dozen times is surely very upsetting. Most people would be very discouraged even after half a dozen times. If Rowling had given up, she would probably now be living in a small flat and struggling to pay her rent. Instead, she has a choice of three large homes that she now owns, one of which is in the most expensive district in London.

Another way of looking at this is to imagine that Rowling continued to be rejected by many more publishers who saw no potential in her manuscript. In fact, after 12 rejections, her thirteenth attempt was the exceptional one. Apparently, the eight-year-old daughter of the chairman of that publisher happened to read the first chapter of the first Harry Potter manuscript and she liked it. Now imagine again if the chairman had not given those chapters to his daughter. In other words, what we learn is that Rowling was probably incredibly lucky.

Many success stories follow a similar pattern. If we track the series of events that led to the success of the richest and most famous people in the world, in every case, we would find that random events were very important factors.
So does this mean that randomness controls our lives? Before answering that question, again it is instructive to consider what Rowling did after being rejected a dozen times. Rather than giving up, she persevered. And this is a characteristic of many successful people. Although Rowling could not force each publisher to pass her chapters to their young daughters, she did have some control over something else: the number of times that she tried after failing.

Naturally, in Rowling’s case, we are discussing a person who is a very talented storyteller. Eventually, even if she was rejected many more times, she would have achieved some success…or maybe not. We will never know.

Nevertheless, the point of this story is to highlight the key ingredients of success. Many people tend to overestimate the importance of talent. We sometimes believe that very successful people are extremely intelligent and worthy of their achievements. However, in most cases, some random events are at least partly responsible for helping them. Likewise, very unsuccessful people are often thought to be lazy or irresponsible. In fact, part of their failure may be simply bad luck.

On the other hand, in most cases, successful people are the ones who did not give up when they failed. Instead, they continued to try and try again. In the words of Thomas Watson the long-time head of IBM: “If you want to succeed, double your failure rate.”

What we learn then is that during our lives there are two basic forces that determine our economic success beyond our natural talent. One of them is the random forces that are beyond our control. The other is our own reaction to failure, which is something we can control.