**Data response 2**

The prices of consumer electronics, such as toasters, satellite TV set-top boxes and MP3 players, have tumbled in recent years. Supermarket chains like Tesco now sell DVD players that previously cost hundreds of pounds for less than £10. So, why have the prices of these goods fallen? In part, the price falls reflect the falling price of the components that go into consumer electronics. Low prices also reflect the fact that there is now more competition in the market. In the past, consumers typically bought items such as TVs and computers from specialist retailers - for example, Currys and Comet. Today, the situation is somewhat different; in addition to these specialist retailers, consumers can now buy electrical goods over the internet and from supermarkets. Some industry analysts also believe that some of the supermarket chains are using set-top boxes and DVD players as loss leaders.

In today's ultra-competitive environment, manufacturers of consumer electronics face intense pressure from retailers to cut costs so that retail prices can be cut without any loss of profit margin. To cut prices without compromising product quality, manufacturers such as the Dutch giant Phillips have transferred production from the Netherlands to low-cost locations like China.

**Questions** (35 marks; 40 minutes)

1 Describe two characteristics of a highly competitive market. (4)

2 Explain why the market for consumer electronics has become more competitive. (4)

3 Examine three factors that would affect the competitiveness of a manufacturer of DVD players. (9)

4 a) Use a dictionary or A-Z to find out the meaning of the term 'loss leader'. (3)

b) Why do supermarkets use this tactic? (3)

5 Assess whether, in today's competitive market for consumer electronics, firms must constantly cut costs and prices if they are to survive. (12)