

# BUSINESS & ECONOMY



# Learning Goals:

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- Be able to understand the philosophy behind the Free Enterprise System
  - Be able to understand the concept of supply & demand
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# FREE ENTERPRISE SYSTEM

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- our economic system
- encourages individuals to start and operate their own business.
- system is modified because the government intervenes.
  - ex. regulate: pricing, striking (airlines), monopolies.
- competition regulates product prices and improves quality.

**Patent:** a govt. issued exclusive right to make, use, or sell an invention for up to 20 years

**Trade secret:** info a company keeps for its use only, but is not patented.

Ex: Coca-Cola's formula

Ex: KFC's secret recipe of herbs and spices

**Trademark:** word, name, symbol, sound, or color that identifies a good or service and cannot be used by anyone but the owner. Can be renewed.

Note: when a company wants to use another's logo (ie: NFL logo on a shirt), must get permission to do it and pay a fee.

**Copyright:** exclusive right to reproduce or sell a work authored by an individual such as writings, music, or artwork. (Usually valid for life of author + 70 years)

**Competition:** struggle between companies for customers.

It is an essential part of the free enterprise system since it forces companies to produce better quality goods at lower prices

- **Think of an entrepreneur (famous person, family member, etc.).**
- **List two qualities that make them successful in the free enterprise system.**

A man with a full beard and a grey hooded jacket is standing on a street. He is holding a white sign with black text that reads "I WAS FIRED!". The background shows a road with traffic lights and some buildings.

**I WAS  
FIRED!**

# MONOPOLY

- when the market is controlled by a company because there is no competition.

**Say NO to**



**Monopolies**



# COMPETITION

## NONPRICE COMPETITION

VS.

## PRICE COMPETITION

- based on quality, service, reputation.
- ex. luxury stores. Nordstroms, Mercedes

- based on prices.
- ex. Sams Club



**RISK-** potential for loss or failure. Greater the earning potential, high the risk. ex. investing in the stock market compared to the bank.



- **PROFIT**- amount of money left over after all costs and expenses are paid. Profit for most businesses is between 1-5%
- The economy suffers when businesses are unprofitable. Stock falls and investors lose money, reduces funds for new products, leads to layoffs, unemployment rises, and less taxes are paid to the economy. Profitable businesses lead to more investing, more employment, and more taxes paid to the government and attract competition.

- **Think of three things our government does for you.**

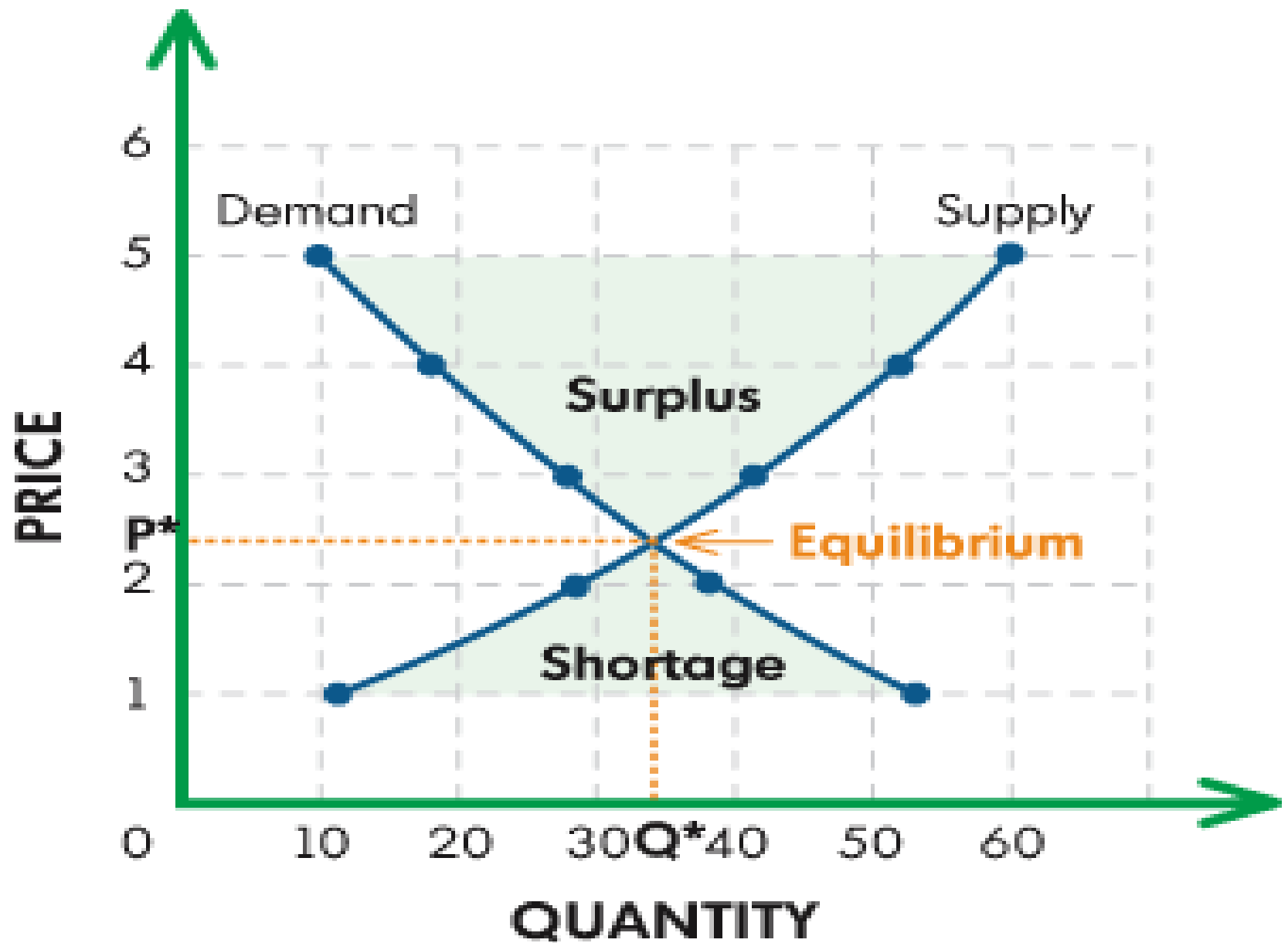
# ROLES OF THE GOVERNMENT

- Provide services (military protection, fire, police, education).
  - Support businesses (when in trouble).
  - Regulate (make laws to protect rights: OSHA, FDA, licensing agreements)
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- Competitor
  - Consumers decide which businesses survive and determine demand for products which helps determine prices.

# SUPPLY AND DEMAND THEORY

- **DEMAND** – consumers willingness and ability to purchase products.
- **SUPPLY** – amount of goods producers are willing to make and sell.
  - a **surplus** occurs when supply exceeds demand.
  - **shortages** occur when demand exceeds supply.
- **EQUILIBRIUM** – point that supply and demand equal.

# Supply and Demand





- Think of a product that has a surplus.
- Think of a product that has a shortage.



# ■ DAILY JEOPARDY

# Learning Goals

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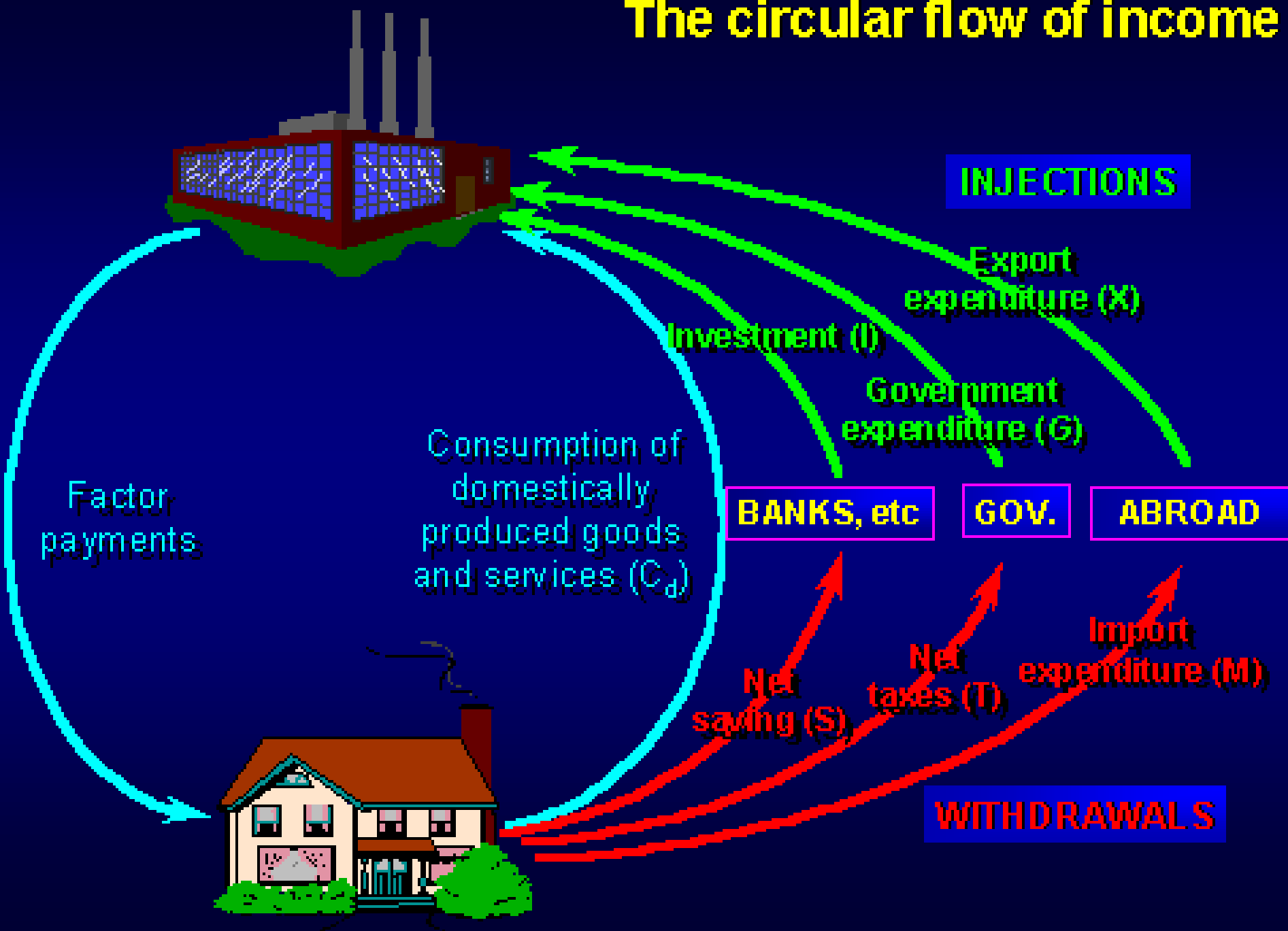
- Be able to understand how the factors of production influence business and economy
- Be able to understand different philosophies of global economies
- Be able to understand the stages of the business cycle

# FACTORS OF PRODUCTION

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- The term economist use for resources.
- Labor – all the people who work in the economy.
- Capital – money needed to start and operate a business.
- Land – everything on earth in its natural state (natural resources).
- Entrepreneurship – skills of people who are willing to risk their time and money to run a business. They organize the factors of production to create products.

# The circular flow of income



# ECONOMIES

- **Market** – U.S. is a market economy. The market runs the economy opposed to the government.
- **Command** – the government runs the economy.
- **Mixed** – the government and the market decide the economy.
  
- Almost all economies in the world today are mixed.
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- \***Capitalist**- economic system based on private ownership, and marketplace competition. (Have a Democracy)
- \***Socialist**- democracy with more government involvement.
- \***Communist** – the government runs everything.

# PRIVATIZATION

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- The process of selling government owned businesses to private individuals.
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- **Think of 3 goals a healthy economy needs to achieve.**

# Understanding the Economy

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- A healthy economy has 3 goals:
  - 1. Increase productivity
  - 2. Decrease unemployment
  - 3. Maintain stable prices



**Productivity:** output per worker for a period of time

**GDP:** Gross domestic product: output of goods and services produced by labor & property within a country

**GNP:** Gross national product: total dollar value of goods and services produced by a nation

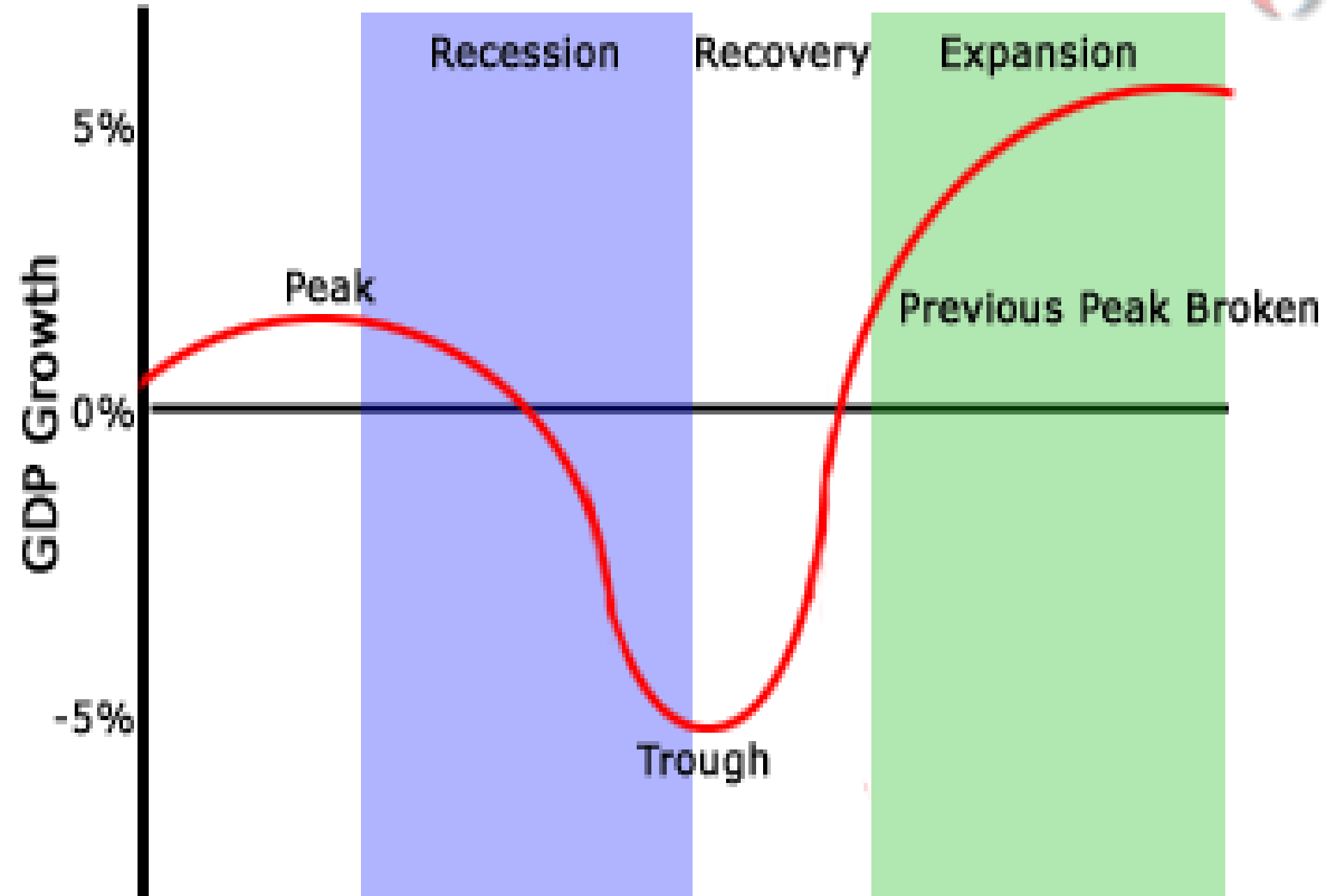
**Inflation Rate:** refers to rising prices. Low (1-5%) = good; Double digit (10%) = bad. When inflation is increasing, dollar loses its value.

- **CPI: Consumer Price Index (or cost of living index):** measures the change in prices over a period of time of some 400 specific retail goods and services used by the average household
- **PPI: Producer Price Index:** measures wholesale price levels in economy
- **Unemployment Rate:** the higher it is, the greater chance of an economic slowdown

# THE BUSINESS CYCLE

- The movement of the economy through expansion, recession, trough, and recovery.
- Expansion (Prosperity)- a period of high economic growth. Low unemployment, an output of products, and high consumer spending.
- Recession- period of economic slowdown. Unemployment rises, fewer products are produced, and consumer spending decreases.
- Trough (Depression)- long period of deep recession. Unemployment is very high, low production of products, consumer spending is very low. Poverty rises.
- Recovery- period of renewed economic growth following a recession or depression.

# Phases of the Business Cycle



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**■ DAILY JEOPARDY**

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# Learning Goals

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- Be able to understand the definition of a business.
- Be able to understand the functions of a business.
- Be able to understand the concept of business ethics.

# BUSINESS

- Activities involved in producing a good or service

# **FUNCTIONS OF A BUSINESS**

- **Production**- creating, manufacturing, or improving a product.
- **Marketing**- process of developing, promoting, and distributing products.
- **Management**- process of achieving company goals.



# BUSINESS ETHICS

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Ethics-

- The three ethical questions marketers must answer:
  - 1. Is the practice fair & honest
  - 2. What would happen if the product was marketed differently?
  - 3. What practice will result in the greatest good.

- **Think of one positive and one negative ethical experience you have had with a company.**

# CONSUMERISM

- Societal efforts to protect consumer rights by putting legal, moral, and economic pressure on business.

# Workplace trends in today's society

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- Telecommuting
- Flex time
- Child care
- Family leave
- Health care

# INCOME

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- **Disposable income-** \$ for all expenses
- **Discretionary income-** \$ used for personal or entertainment purposes after basic expenses are paid.

# List some of today's psychographic trends:

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- Having fun
- Exercising
- Green marketing
- Shopping for value

# The Industrial Market

- Manufacturers
- Wholesalers (distributors)
- Retailers
- Extractors



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**■ DAILY JEOPARDY**

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# Learning Goals

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- Be able to understand the scope of international trade.

# International Trade



# International trade is the exchange of products between nations.

- Imports- Products purchased from other countries
- Exports- Products sold to other countries

- Think of one product the U.S. imports and one product the U.S. exports.

# U.S. imports and exports

In July, the U.S. imported \$167 billion in goods and exported \$100 billion. Top goods imported and exported in three major categories, in billions:

■ Imports  
■ Exports

## Industrial supplies and materials



### Top imports include

Crude oil	\$19.0
Petroleum products	\$4.2
Natural gas	\$2.9
Fuel oil	\$2.9

### Top exports include

Organic, other chemicals	\$4.3
Plastics	\$2.5
Petroleum products	\$1.6

## Capital goods, except autos



### Top imports include

Computer accessories	\$5.0
Industrial engines, machines	\$4.6
Telecomm. equip.	\$3.6
Computers	\$3.1

### Top exports include

Commercial aircraft	\$5.0
Industrial engines, machines	\$4.9
Semiconductors	\$4.0
Telecomm. equip.	\$2.8
Electronics	\$2.7

## Consumer goods, except foods



### Top imports include

Apparel, textiles	\$7.1
Pharmaceuticals	\$6.0

### Top exports include

Pharmaceuticals	\$4.0
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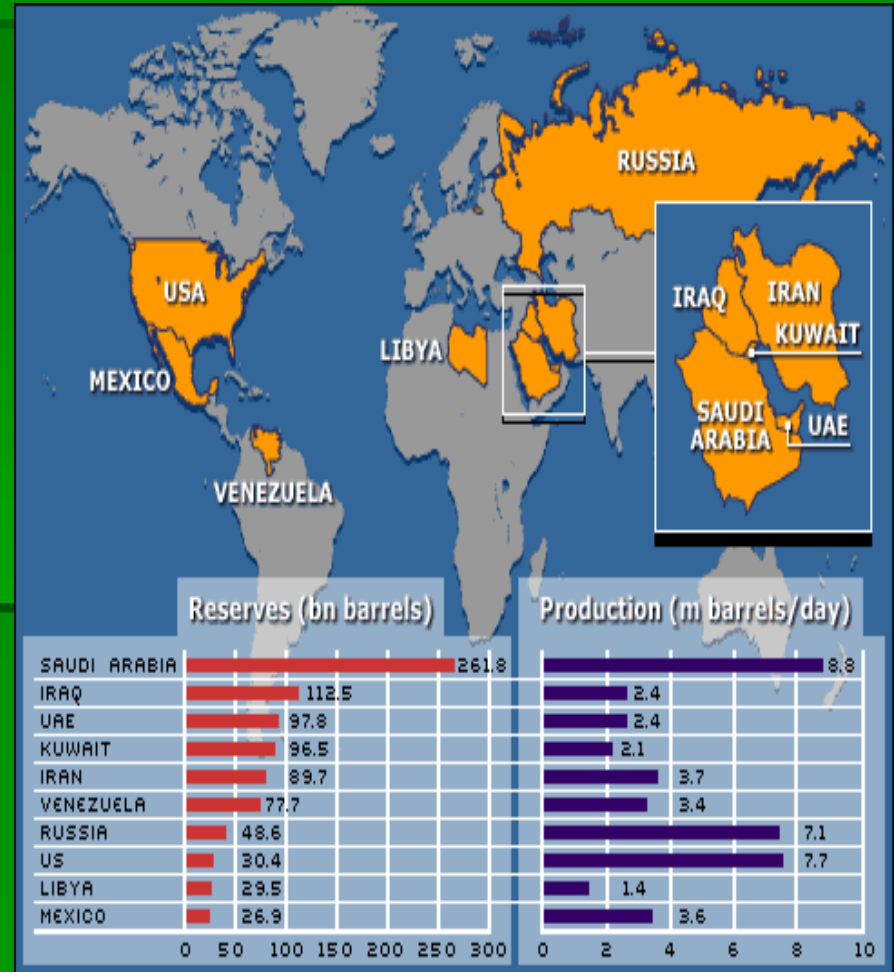
# Economic Interdependence

- The need for a country that is not self sufficient to obtain products from other countries.



# Absolute advantage

- A country that has a special natural resource that allows a country to produce a given commodity at a lower cost.



# Comparative Advantage

- The value a nation gains by selling goods it produces more efficiently.





- Think of one advantage of trade and one disadvantage of trade

## Advantages of trade vs. Disadvantages of trade

- More competition & expansion
  - Can provide more jobs
  - Usually improves the economy & standard of living
- Can put domestic businesses out of business
  - Job opportunities can be relocated to other countries

# Governmental Influences of Trade

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- Balance of trade- Difference in the value between exports and imports
- Trade barriers- Restrictions to limit trade
  - \* **tariffs**- Taxes on imports
  - \* **quotas**- Limits on the quantity or value on imports
  - \* **embargoes**- Bans on specific goods

- Trade Support – Organizations set up between nations to support trade.
- Trade Agreements- Trade alliances with other countries.

# DAILY JEOPARDY

