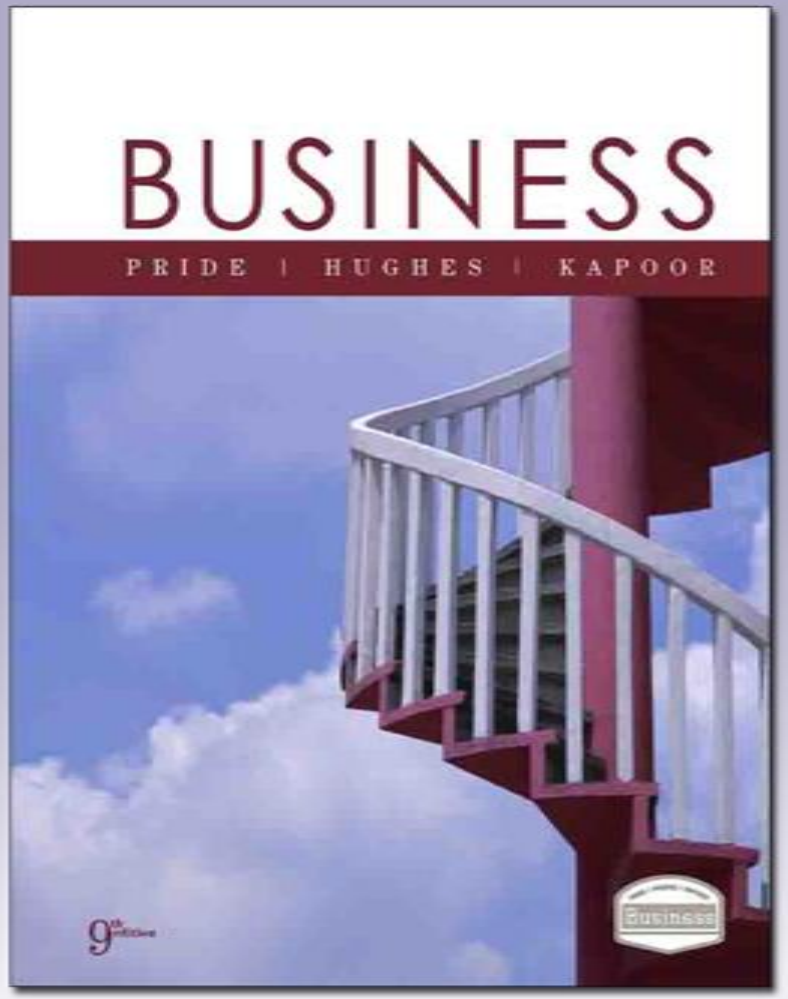


Chapter One

Exploring the World of Business and Economics

Learning Objectives

1. Discuss your future in the world of business.
2. Define *business* and identify potential risks and rewards.
3. Define *economics* and describe two types of economic systems: capitalism and command economy.
4. Identify the ways to measure economic performance.
5. Outline the four types of competition.
6. Summarize the factors that affect the business environment and the challenges that American businesses will encounter in the future.

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Why Study Business?

- For help in choosing a career
- To be a successful employee
- To start your own business
- To become a better informed consumer and investor

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Business: A Definition

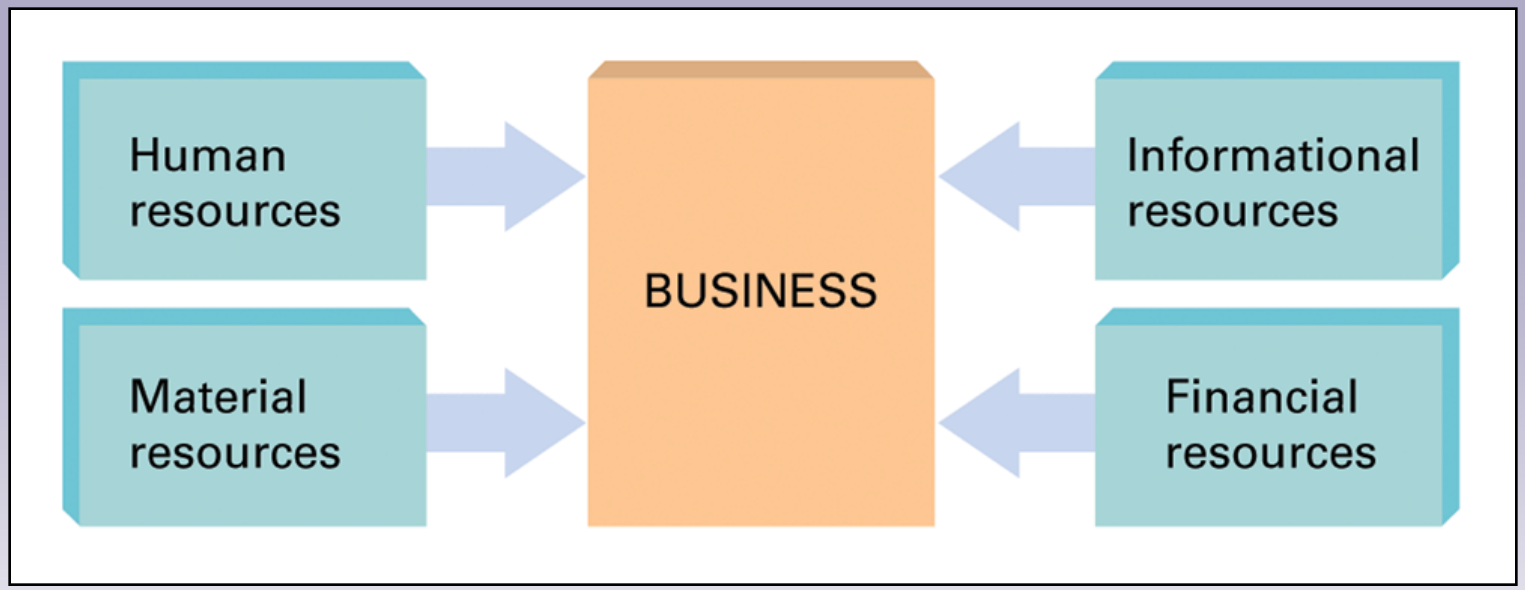


- The **organized effort** of **individuals** to produce and sell, for a **profit**, the goods and services that **satisfy society's needs**

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The Organized Effort of Individuals

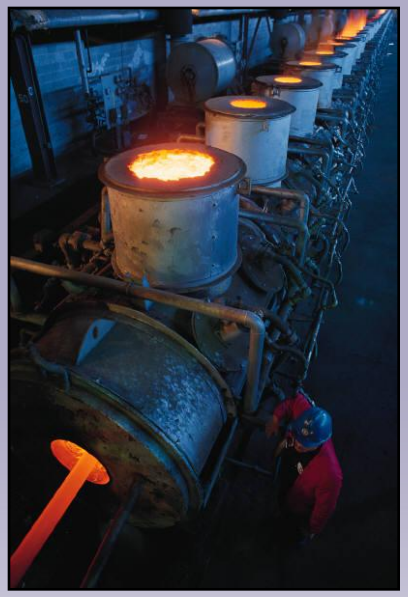
Combining Resources



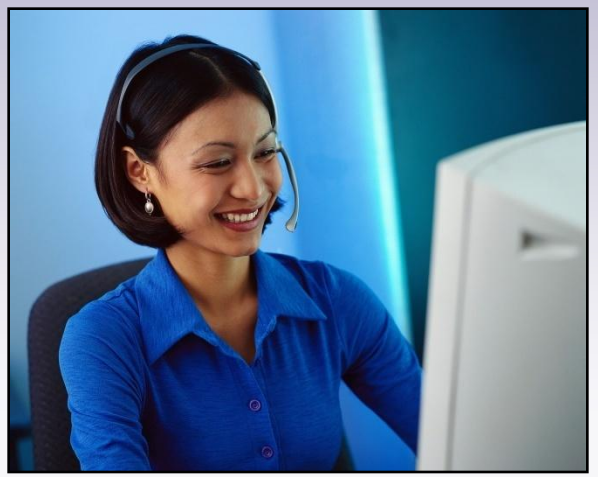
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Classification of Businesses

- Manufacturing businesses
  - Process various materials



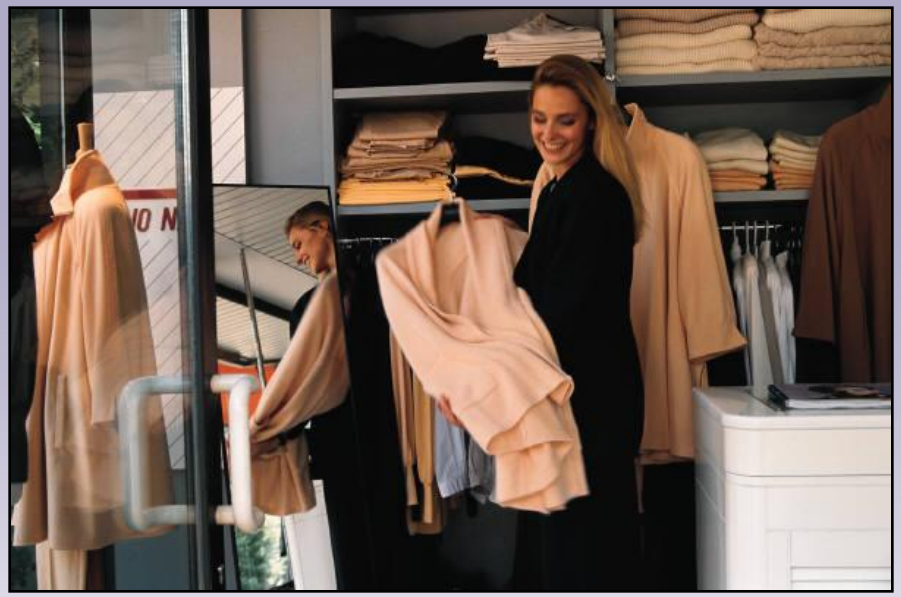
- Service businesses
  - Produce services (e.g., haircuts, legal advice, tax preparation)



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Classification of Businesses

- Marketing intermediaries
  - Buy products from manufacturers and resell



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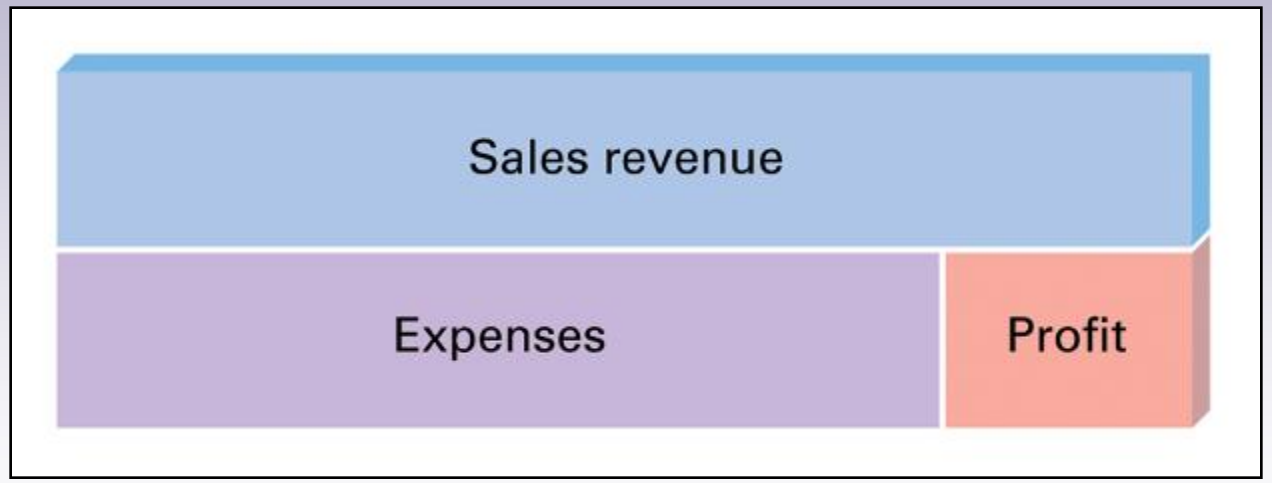
Satisfying Needs

- People buy goods and services not just to own them, but to satisfy particular needs
- Businesses that understand customer needs, and work to satisfy those needs, are usually successful

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The Relationship Between Sales Revenue and Profit

- Profit is what remains after all business expenses have been deducted from sales revenue. A loss (negative profit) results when a firm's expenses are greater than its revenues.



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Economic Systems

- Economics
  - The study of how wealth (anything of value) is created and distributed
- Economy
  - The system through which a society creates and distributes wealth

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Economic systems answer these questions

- what will be produced?
- how it will be produced?
- who gets what is produced?
- who owns and controls the major factors of production?

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Economic Systems (cont'd)

- Who owns the Factors of production?
  - Land and natural resources
  - Labor
  - Capital
  - Risk - Entrepreneurship)



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Types of Economic Systems

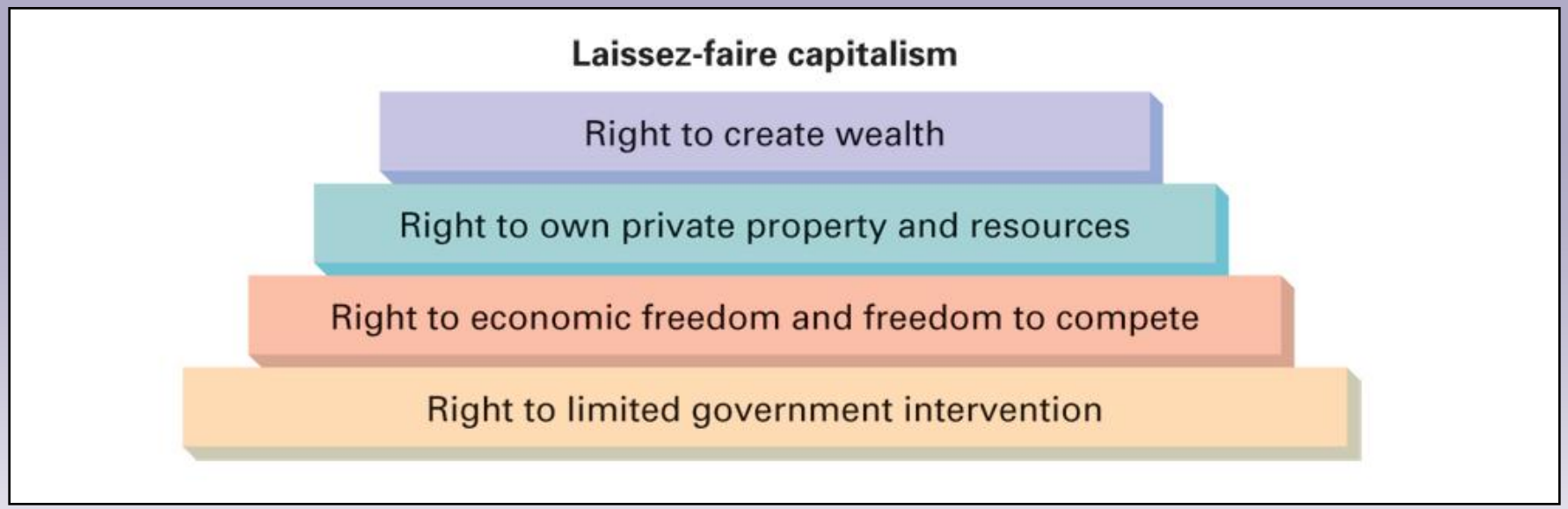
1. Capitalism

An economic system in which individuals own and operate the majority of businesses that provide goods and services

Derived from Adam Smith's *laissez-faire* capitalism

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Basic Assumptions for Adam Smith's Laissez-Faire Capitalism



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Types of Economies (cont'd)

Command economies

- Economic systems in which the government decides what will be produced, how it will be produced, who gets what is produced, and who owns and controls the major factors of production

2. Socialism

- Key industries are owned and controlled by the government
- Small-scale private businesses may be permitted and workers may choose their own occupations
- Production is based on national goals
- Distribution is controlled by the state
- Intent - the equitable distribution of income, elimination of poverty, social services to all who need them, elimination of the economic waste of capitalistic competition

3. Communism

- All factors of production are owned and controlled by the government
- Production is based on centralized state planning to meet the needs of the state
- The state dictates occupational choices and sets prices and wages
- Intent - to create Karl Marx's concept of a classless society

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Types of Economic Systems (cont'd)



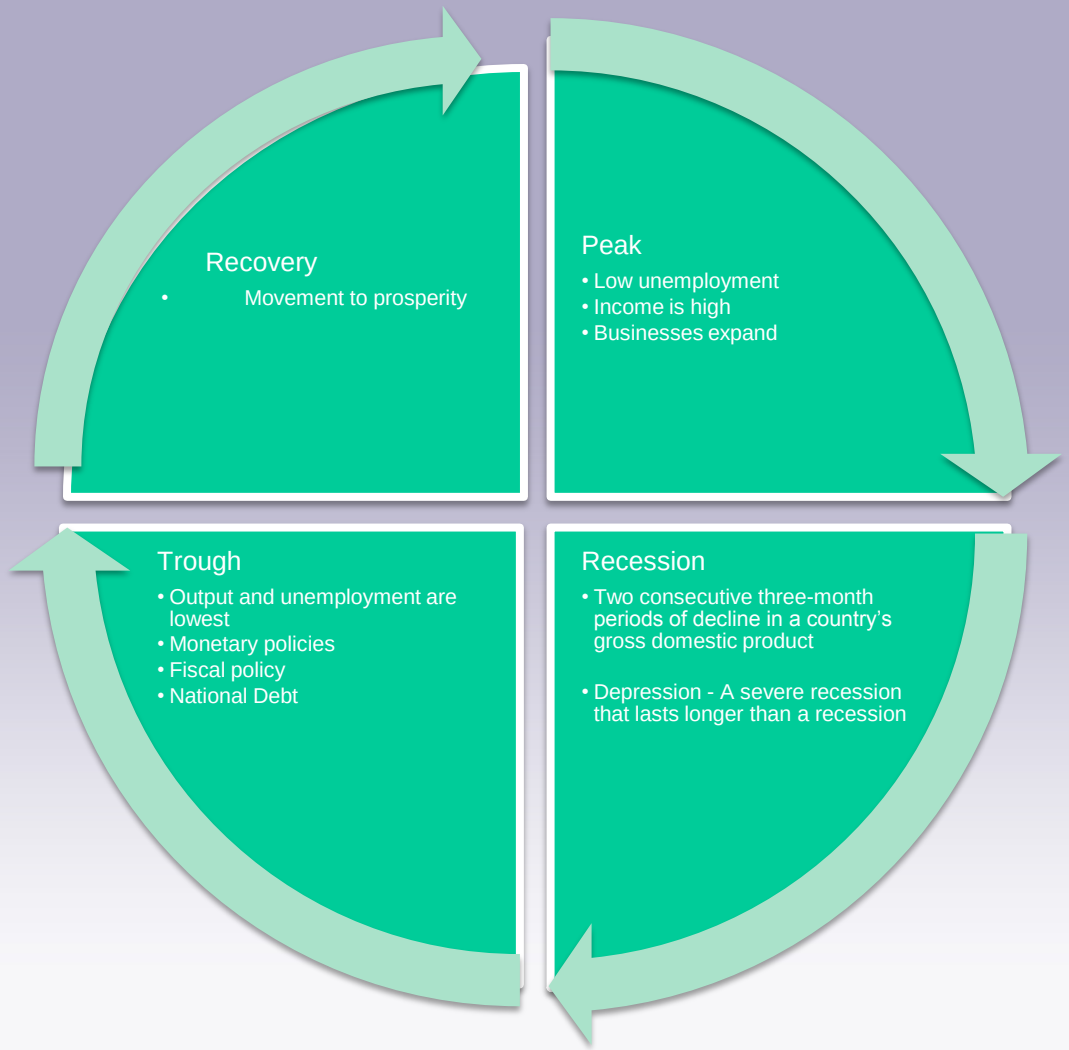
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Economic Indicators

Gross domestic product (GDP)	Inflation rate	Prime interest rate	Unemployment rate
• The total value of all goods and services produced by all people within the boundaries of a country during a one-year period	• An economic statistic that tracks the increase in prices of goods and services over a period of time; usually calculated on a monthly or annual basis	• The lowest interest rate that banks charge their most creditworthy customers	• The percentage of a nation's labor force unemployed at any time

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The Business Cycle - The recurrence of periods of growth and recession in a nation's economic activity



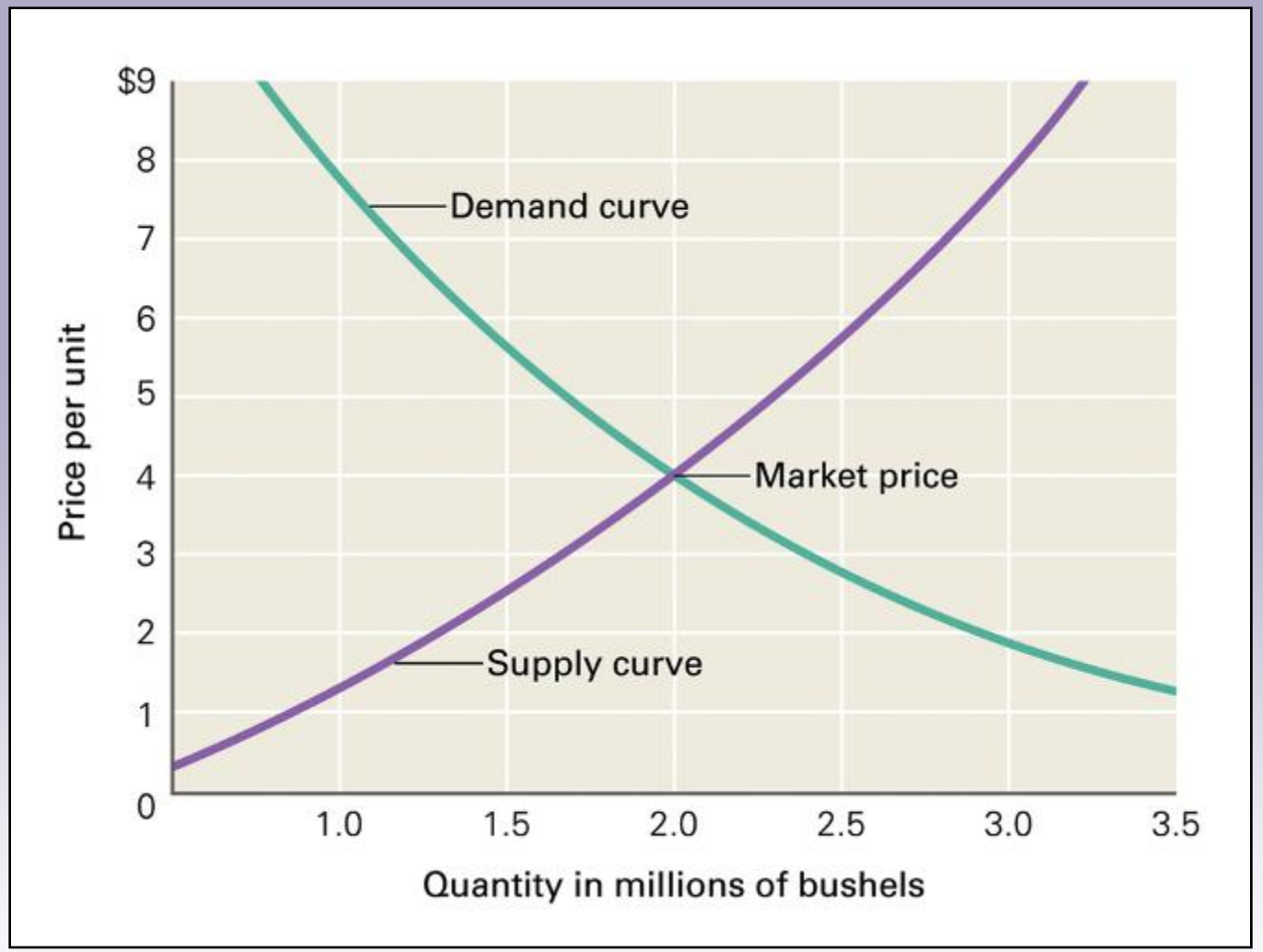
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Types of Competition

- Rivalry among businesses for sales to potential customers
- Perfect (or pure) competition
  - The market situation in which there are many buyers and sellers of a product, and no single buyer or seller is powerful enough to affect the price of that product
    - **Supply**: The quantity of a product that producers are willing to sell at each of various prices
    - **Demand**: The quantity of a product that buyers are willing to purchase at each of various prices
    - **Market Price (Equilibrium):** The price at which the quantity demanded is exactly equal to the quantity supplied

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Supply Curve and Demand Curve



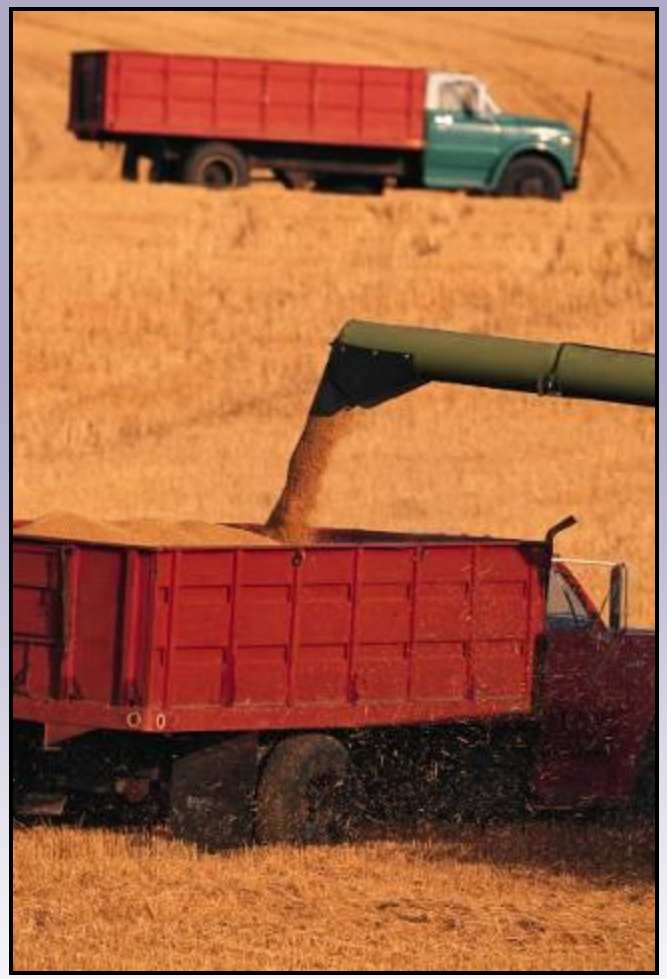
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Types of Competition (cont'd)

- Monopolistic competition
  - A market situation where there are many buyers along with a relatively larger number of sellers who differentiate their products from the products of competitors
  - Product differentiation
    - The process of developing and promoting differences between one's products and all similar products

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Types of Competition (cont'd)



- Oligopoly
  - A market situation (or industry) in which there are few sellers
    - E.g., automobile manufacturers, car rental agencies, and farm implement industries
  - Sizable investments are required to enter into the market
  - Each seller has considerable control over price
  - The market actions of one seller can have a strong effect on competitors

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Types of Competition (cont'd)

- Monopoly
  - A market (or industry) with only one seller
  - Natural monopoly
    - An industry requiring huge investments in capital and within which duplication of facilities would be wasteful and thus not in the public interest
  - Legal monopoly (limited monopoly)
    - A monopoly created when the federal government issues a copyright, patent, or trademark protecting the owners of written materials, ideas, or product brands from unauthorized use by competitors

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Class Exercise



- Choose a product that would be sold in each of the four types of competitive situations below. Also list the name of a specific firm in your area that would sell the product.
  - Perfect competition
  - Monopolistic competition
  - Oligopoly
  - Monopoly

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The Challenges Ahead

- How can we encourage Iraq and Afghanistan to establish a democratic and free society and resolve possible conflict with North Korea and other countries throughout the world?
- How can we create a more stable economy and create new jobs?
- As a nation, how can we develop a disaster crisis management program that will help people in times of peril?
- How can we meet the challenges of managing culturally diverse work forces to address the needs of a culturally diverse marketplace?
- How can we make American manufacturers more productive and more competitive with foreign producers who have lower labor costs?

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