WHAT’S IN IT FOR ME?
Understanding economic forces and how they affect businesses and consumers

MANAGING IN TURBULENT TIMES
The economic downturn: What does the future hold?

ENTREPRENEURSHIP AND NEW VENTURES
Business & entertainment: A match made in heaven?

EBERT \ GRIFFIN
The U.S. Business Environment

chapter one
After reading this chapter, you should be able to:

1. Define the nature of U.S. business and identify its main goals and functions.
2. Describe the external environments of business and discuss how these environments affect the success or failure of any organization.
3. Describe the different types of global economic systems according to the means by which they control the factors of production.
After reading this chapter, you should be able to:

4. Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.

5. Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.
The Concept of Business and the Concept of Profit

Business
- organization that provides goods or services to earn profits

Profits
- difference between a business’s revenues and its expenses
Dimensions of the External Environment

Figure 1.1 Dimensions of the External Environment

- Political-Legal Environment
- Economic Environment
- Technological Environment
- Global Business Environment
- Socio-Cultural Environment
- Domestic Business Environment

The Business Organization

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External Environment

- everything outside an organization’s boundaries that might affect it
Economic Systems

Economic system

- a nation’s system for allocating its resources among its citizens, both individuals and organizations
Factors of production

The resources that a country’s businesses use to produce goods and services.

- Labor
- Capital
- Entrepreneurs
- Physical resources
- Information resources
Types of Economic Systems

- **Planned Economy**
  - Economy that relies on a centralized government to control all or most factors of production and to make all or most production and allocation decisions
  - Communism, socialism
Market economy

- individual producers and consumers control production and allocation by creating combinations of supply and demand
Types of Economic Systems

- **Mixed market economy**
  - features characteristics of both planned and market economies

- **Privatization**
  - process of converting government enterprises into privately owned companies
Demand and Supply in a Market Economy

**Demand**
- the willingness and ability of buyers to purchase a product (a good or a service)

**Supply**
- the willingness and ability of producers to offer a good or service for sale
Demand and Supply

Figure 1.2

DEMAND AND SUPPLY SCHEDULES

<table>
<thead>
<tr>
<th>Price</th>
<th>Quantity of Pizzas Demanded</th>
<th>Quantity of Pizzas Supplied</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2</td>
<td>2000</td>
<td>100</td>
</tr>
<tr>
<td>$4</td>
<td>1900</td>
<td>400</td>
</tr>
<tr>
<td>$6</td>
<td>1600</td>
<td>600</td>
</tr>
<tr>
<td>$8</td>
<td>200</td>
<td>800</td>
</tr>
<tr>
<td>$10</td>
<td>1000</td>
<td>1000</td>
</tr>
<tr>
<td>$12</td>
<td>800</td>
<td>1200</td>
</tr>
<tr>
<td>$14</td>
<td>600</td>
<td>1300</td>
</tr>
<tr>
<td>$16</td>
<td>400</td>
<td>1600</td>
</tr>
<tr>
<td>$18</td>
<td>200</td>
<td>1800</td>
</tr>
<tr>
<td>$20</td>
<td>100</td>
<td>2000</td>
</tr>
</tbody>
</table>

When the price of pizza is high, fewer people are willing to pay for it. But when the price goes down, more people are willing to buy pizza. At the lower price, in other words, more people “demand” the product.
Figure 1.2

When the price of pizza is low, more people are willing to buy pizza. Pizza makers, however, do not have the money to invest in making pizzas and so they make fewer. Supply, therefore, is limited, and only when the price goes up will pizza makers be willing and able to increase supply.

When the pizza makers increase supply in order to satisfy demand, there will be a point at which the price that suppliers can charge is the same as the price that a maximum number of customers is willing to pay. That point is the market price, or equilibrium price.
Private Enterprise and Competition in a Market Economy

Private enterprise system

- one that allows individuals to pursue their own interests with minimal government restriction
- private property rights, freedom of choice, profits, and competition
1. **Private property rights**
   - ownership of the resources used to create wealth is in the hands of individuals

2. **Freedom of choice**
   - you can sell your labor to any employer you choose
3. **Profits**
   
   - the lure of profits leads some people to abandon the security of working for someone else and assume the risks of entrepreneurship

4. **Competition**
   
   - occurs when two or more businesses vie for the same resources or customers
**TABLE 1.1 Degrees of Competition**

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Perfect Competition</th>
<th>Monopolistic Competition</th>
<th>Oligopoly</th>
<th>Monopoly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example</td>
<td>Local farmer</td>
<td>Stationery store</td>
<td>Steel industry</td>
<td>Public utility</td>
</tr>
<tr>
<td>Number of competitors</td>
<td>Many</td>
<td>Many, but fewer than in perfect competition</td>
<td>Few</td>
<td>None</td>
</tr>
<tr>
<td>Ease of entry into industry</td>
<td>Relatively easy</td>
<td>Fairly easy</td>
<td>Difficult</td>
<td>Regulated by government</td>
</tr>
<tr>
<td>Similarity of goods or services offered by competing firms</td>
<td>Identical</td>
<td>Similar</td>
<td>Can be similar or different</td>
<td>No directly competing goods or services</td>
</tr>
<tr>
<td>Level of control over price by individual firms</td>
<td>None</td>
<td>Some</td>
<td>Some</td>
<td>Considerable</td>
</tr>
</tbody>
</table>

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For **perfect competition** to exist, two conditions must prevail:

1. all firms in an industry must be small, and
2. the number of firms in the industry must be large
Perfect Competition

1. The products of each firm are so similar that buyers view them as identical to those of other firms.
2. Both buyers and sellers know the prices that others are paying and receiving in the marketplace.
3. Because each firm is small, it is easy for firms to enter or leave the market.
4. Going prices are set exclusively by supply and demand and accepted by both sellers and buyers.
Monopolistic Competition

Market or industry characterized by numerous buyers and relatively numerous sellers trying to differentiate their products from those of competitors.
Oligopoly

A market or industry characterized by a handful of (generally large) sellers with the power to influence the prices of their products.
 Degrees of Competition

➤ Monopoly
  ➤ market or industry in which there is only one producer that can therefore set the prices of its products

➤ Natural Monopoly
  ➤ industry in which one company can most efficiently supply all needed goods or services
Economic Indicators

Economic indicators

- statistics that show whether an economic system is strengthening, weakening, or remaining stable
- help assess the performance of an economy
Economic Growth, Aggregate Output, and Standard of Living

» Business cycle
  - the pattern of short-term ups and downs (or expansions and contractions) in an economy

» Aggregate output
  - the total quantity of goods and services produced by an economic system during a given period
  - primary measure of growth in the business cycle
Economic Growth, Aggregate Output, and Standard of Living

- **Standard of living**
  - the total quantity and quality of goods and services that they can purchase with the currency used in their economic system
Gross domestic product (GDP)

- refers to the total value of all goods and services produced within a given period by a national economy through domestic factors of production
- measure of aggregate output

### TABLE 1.2 U.S. GDP and GDP per Capita

<table>
<thead>
<tr>
<th>2009 Gross Domestic Product (GDP) ($ Trillion)</th>
<th>2009 GDP: Real Growth Rate (%)</th>
<th>2009 GDP per Capita: Purchasing Power Parity</th>
</tr>
</thead>
<tbody>
<tr>
<td>$14.14</td>
<td>-2.6%</td>
<td>$46,000</td>
</tr>
</tbody>
</table>
Gross national product (GNP) refers to the total value of all goods and services produced by a national economy within a given period regardless of where the factors of production are located.
GDP, or gross domestic product, refers to the total value of all goods and services produced within a given period by a national economy through domestic factors of production. GDP per capita means “GDP per person” and is a better measure of the economic well-being of the average person. The current difference between GDP and GDP per capita reflects an increase in the rate of population growth, particularly from 1947 to 1966.

Note: This graph is shown in five-year increments until the year 2000, after which it is shown in one-year increments so as to provide more detail for recent periods. Hence, the curve artificially “flattens” after 2000.
Gross Domestic Product

- **Nominal GDP**
  - gross domestic product (GDP) measured in current dollars or with all components valued at current prices

- **Purchasing Power Parity**
  - the principle that exchange rates are set so that the prices of similar products in different countries are about the same
Productivity

Productivity

measure of economic growth that compares how much a system produces with the resources needed to produce it
Productivity

➤ Balance of trade
- the economic value of all the products that a country exports minus the economic value of its imported products
- Positive or negative balance

➤ National Debt
- the amount of money the government owes its creditors
Economic Stability

Stability
- condition in which the amount of money available in an economic system and the quantity of goods and services produced in it are growing at about the same rate

Inflation
- occurs when widespread price increases occur throughout an economic system
Economic Stability

Unemployment

the level of joblessness among people actively seeking work in an economic system
Economic Stability

➢ Recession
  a period during which aggregate output, as measured by GDP, declines

➢ Depression
  a prolonged and deep recession
Managing the U.S. Economy

- **Fiscal Policies**
  - policies used by a government regarding how it collects and spends revenue

- **Monetary Policies**
  - policies used by a government to control the size of its money supply
Stabilization Policy

government economic policy intended to smooth out fluctuations in output and unemployment and to stabilize prices
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