

Chapter 1: The Dynamics of Business and Economics

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SUMMARY

We begin our study of business in this chapter by examining the fundamentals of business and economics. First, we introduce the nature of business, including its goals, activities, and participants. Next, we describe the basics of economics and apply them to the U.S. economy. Finally, we establish a framework for studying business in this text.

LEARNING OBJECTIVES

- LO.1-1.** Define basic concepts such as business, product, profit, and economics.
- LO.1-2.** Identify the main participants and activities of business.
- LO.1-3.** Explain why studying business is important.
- LO.1-4.** Compare the four types of economic systems.
- LO.1-5.** Describe the role of supply, demand, and competition in a free-enterprise system.
- LO.1-6.** Specify why and how the health of the economy is measured.
- LO.1-7.** Outline the evolution of the American economy.
- LO.1-8.** Explain the role of the entrepreneur in the economy.
- LO.1-9.** Evaluate a small-business owner's situation and propose a course of action.

KEY TERMS AND DEFINITIONS

artificial intelligence (AI)	Relates to machine (computer) learning that is able to perform activities and tasks that usually require human intelligence.
big data	Large volumes of structured and unstructured data that are transmitted at very fast speeds.
blockchain	A decentralized record-keeping technology that stores linked.
budget deficit	The condition in which a nation spends more than it takes in from taxes.
business	Individuals or organizations who try to earn a profit by providing products that satisfy people's needs.
capitalism (free enterprise)	An economic system in which individuals own and operate the majority of businesses that provide goods and services.
communism	First described by Karl Marx as a society in which the people, without regard to class, own all the nation's resources.
competition	The rivalry among businesses for consumers' dollars.
demand	The number of goods and services that consumers are willing to buy at different prices at a specific time.
depression	A condition of the economy in which unemployment is very high, consumer spending is low, and business output is sharply reduced.
drones	unmanned aerial devices, can be programed with AI to perform human tasks such as delivering products or collecting environmental data and imagery.
economic contraction	A slowdown of the economy characterized by a decline in spending and during which businesses cut back on production and lay off workers.
economic expansion	The situation that occurs when an economy is growing and people are spending more money; their purchases stimulate the production of goods and services, which in turn stimulates employment.
economic system	A description of how a particular society distributes its resources to produce goods and services.
economics	The study of how resources are distributed for the production of goods

	and services within a social system.
entrepreneur	An individual who risks their wealth, time, and effort to develop for profit an innovative product or way of doing something.
equilibrium price	The price at which the number of products that businesses are willing to supply equals the amount of products that consumers are willing to buy at a specific point in time.
financial resources (capital)	The funds used to acquire the natural and human resources needed to provide products; also called capital.
free-market system	Pure capitalism, in which all economic decisions are made without government intervention.
gross domestic product (GDP)	The sum of all goods and services produced in a country during a year.
human resources (labor)	The physical and mental abilities that people use to produce goods and services; also called labor.
inflation	A condition characterized by a continuing rise in prices.
mixed economies	Economies made up of elements from more than one economic system.
monopolistic competition	The market structure that exists when there are a large number of businesses competing for market share and the differences among the goods they sell are small.
monopoly	The market structure that exists when there is only one business providing a product in a given market.
natural resources	Land, forests, minerals, water, and other things that are not made by people.
nonprofit organizations	Organizations that may provide goods or services but do not have the fundamental purpose of earning profits.
oligopoly	The market structure that exists when there are very few businesses selling a product.
open economy	An economy in which economic activities occur between the country and the international community.
product	A good, service, or idea with tangible and intangible characteristics

that provide satisfaction and benefits.

profit

The difference between expenses to produce and sell a product and what a customer pays for it.

pure competition

The market structure that exists when there are many small businesses selling one standardized product.

recession

A decline in production, employment, and income.

socialism

An economic system in which the government owns and operates basic industries, but individuals own most businesses.

stakeholders

Groups that have a stake in the success and outcomes of a business.

standard of living

Refers to the level of wealth and material comfort that people have available to them.

supply

The number of products—goods and services—that businesses are willing to sell at different prices at a specific time.

technology

Includes the methods and processes creating applications to solve problems, perform tasks, and make decisions.

unemployment

The condition in which a percentage of the population wants to work but is unable to find jobs.

CONTENT OUTLINE

The following section provides the flow of information using the **LEARNING OBJECTIVES** as a guide, **KEY TERMS** learners will need to take away from the course, and a notation of when to use **POWERPOINT SLIDES** with **LECTURE NOTES** to drive home teaching points. There is also a reminder on when **CONNECT** activities can be used. This feature was created to facilitate in-class or online discussions more effectively.

LO.1-1. • Introduction • The Nature of Business ○ The Goal of Business	Define basic concepts such as business, product, profit, and economics.	Key Terms: • Business • Product • Profit • Nonprofit organizations • Stakeholders
PowerPoint Slides: PPT 1.4 PPT 1.5 PPT 1.6	Lecture Outline and Notes: 1. The Nature of Business A. Business refers to the individuals and organizations who try to earn a profit by providing products that satisfy people’s needs. B. Products refer to goods or services with tangible and intangible attributes that provide satisfaction and benefits. A product can be a good, service, or idea. 1) Examples of tangible goods include an automobile, smartphone, jeans, and so on. 2) Examples of intangible goods include e-books or software. 3) Examples of services include dry cleaning, a telemedicine visit, a movie, a sports event, and so on. 4) A product can also be an idea. Accountants and attorneys, for example, generate ideas for solving problems. C. The Goal of Business: earn a profit while maintaining social responsibility. A profit is the difference between expenses to produce and sell a product and what a customer pays for it. 1. Businesses have a right to keep their profits as they choose—within legal limits—because profit is the reward they take in providing products. 2. Earning profits contributes to society by creating resources that support our social institutions and government. 3. Nonprofit organizations do not have the fundamental purpose of	

PPT 1.7	earning profits, although they may provide goods or services. 4. Both nonprofit organizations and businesses require management skills, marketing expertise, and financial resources; and they must abide by laws and regulations, act in an ethical and socially responsible manner; and adapt to economic, technological, and social changes. 5. Earning a profit requires: a. Management skills to plan, organize, and control the activities of the business and to find and develop employees so that it can make products consumers will buy. b. Marketing expertise to learn what products consumers need and want and to develop, manufacture, price, promote, and distribute those products. c. Financial resources and skills to fund, maintain, and expand its operations. d. The ability to face challenges such as abiding by laws and government regulations. e. Acting in an ethical and socially responsible manner. f. Adapting to economic, technological, political, and social changes. 6. To earn a profit, businesses need to produce quality products, operate efficiently, and be socially responsible and ethical in dealing with stakeholders—groups that have a stake in the success and outcomes of a business. a. <i>Primary stakeholders</i> are those needed for a firm's survival such as customers, employees, suppliers, and investors. b. <i>Secondary stakeholders</i> have an indirect relationship with the company and may include the media, trade associations, and special-interest groups.
LO.1-2. Identify the main participants and activities of business. o The People and Activities of Business	Key Terms:
PPT 1.8	D. The People and Activities of Business 1. <i>The people</i> involved in business activities are the owners, employees, and customers. (Note that owners, employees, and customers are the main stakeholders, whereas the external environment consists of competition; the economy; digital technology; legal, regulatory, and political forces, and social

PPT 1.10	responsibility and ethics.) a. Owners have to put up the resources to start a business. They can manage the business themselves or have employees as managers. b. Employees are responsible for the work that goes on within the business. c. The major role of a business is to satisfy the customers who buy its goods and services. 2. <i>The activities</i> of businesses include primarily management, marketing, and finance. a. Management is included in the same part of the circle (Figure 1.1) as employees because managers coordinate employees' actions to achieve the firm's goals, organize people to work efficiently, and motivate them to achieve business goals. 1) Production and manufacturing is another element of management. Managers plan, organize, staff, and control the tasks required to carry out the work of the company. 2) Management is also concerned with acquiring, developing, and using resources effectively and efficiently in a business. b. Marketing and consumers are in the same segment (Figure 1.1) because the focus of all marketing activities is satisfying consumers. 1) Marketing involves all activities designed to provide goods and services that satisfy consumers' needs and wants, including gathering information and conducting research to determine customer wants; planning and developing products; and determining price, distribution, and promotion. c. Finance: Owners and finance are in the same part of the circle (Figure 1.1) because although management and marketing deal with financial considerations, it is primarily the responsibility of the owners to provide financial resources for the operation of the business. 1) Finance refers to all activities concerned with obtaining money and using it effectively.
LO.1-3. Explain why studying business is important. ○ Why Study Business?	Key Terms:
PPT 1.11	E. Why Study Business?

	1. It can help you develop skills and acquire knowledge to prepare you for your future career. 2. It can help you better understand the many activities necessary to provide goods and services and appreciate the costs associated with these activities. 3. Business activities help create jobs and contribute to the health of local and global economies.
LO.1-4. Compare the four types of economic systems. • The Economic Foundations of Business ○ Economic Systems ○ The Free Enterprise System	Key Terms: • Economics • Natural resources • Human resources (labor) • Financial resources (capital) • Economic system • Communism • Socialism • Capitalism (free enterprise) • Free-market system • Mixed economies
PPT 1.12	2. The Economic Foundations of Business A. Economics is the study of how resources—or factors of production—are distributed for the production of goods and services within a social system. 1. Natural resources are land, forests, minerals, water, and other things not made by people. 2. Human resources (labor) are the physical and mental abilities that people use to produce goods and services. 3. Financial resources, or capital, are the funds used to acquire the natural and human resources needed to provide products. 4. Natural resources, human resources, and financial resources are related to the <i>factors of production</i>. 5. Factors of production are land, labor, capital, and enterprise used to produce goods and services.

PPT 1.15

PPT 1.17

	Businesses can decide where to locate, what goods and services to produce, what resources to use in the production process, and so on. 5. Many entrepreneurs are more productive in free enterprise societies because personal and financial incentives are available that can aid in entrepreneurial success.
PPT 1.18	
PPT 1.23-1.24	
LO.1-5.	Describe the role of supply, demand, and competition in a free enterprise system. ○ The Forces of Supply and Demand ○ The Nature of Competition ○ Economic Cycles and Productivity
	Key Terms: • Demand • Supply • Equilibrium price • Competition • Pure competition • Monopolistic competition • Oligopoly • Monopoly

	• Economic expansion • Inflation • Economic contraction • Recession • Unemployment • Depression
PPT 1.25-1.26	A. The Forces of Supply and Demand (Figure 1.2) Demand is the quantity of goods and services that consumers are willing to buy for different prices at a specific time. Consumers will usually buy more of an item as its price falls. Supply is the quantity of goods and services that businesses are willing to sell for different prices at a specific time. Usually, sellers are willing to sell more of a product at higher prices. - Supply and demand is the force that drives the distribution of resources (goods and services, labor, and money) in a free enterprise economy. - An equilibrium price is the point at which supply and demand curves intersect, indicating that supply and demand are equal at that point. - The supply and demand process is constantly changing in response to economic conditions, availability of resources, and degree of competition.
PPT 1.27	B. The Nature of Competition Competition is the rivalry among businesses for consumers' dollars. It is a vital element of free enterprise. - Free enterprise systems offer four types of competitive environments: Pure competition exists when there are many small businesses selling one standardized product. The trade in agricultural commodities, such as wheat, corn, and cotton, is an example. Monopolistic competition exists when there are a large number of businesses competing for market share and the differences between the goods they sell are small. Aspirin, soft drinks, and jeans are examples. - An oligopoly exists when very few businesses sell a product, and it is expensive for new firms to enter the marketplace. The

PPT 1.29-1.30	airline industry is an example. d. A monopoly exists when there is only one producer of a product in a given market. Utility companies are examples of monopolies. C. Economic Cycles and Productivity 1. Economic expansion occurs when an economy is growing and people are spending more money. a. Rapid economic expansion may result in inflation, a continuing rise in prices. 2. Economic contraction occurs when spending declines. a. It can lead to recessions, which are marked by a decline in production, employment, and income. b. Unemployment is measured as the percentage of the population that wants to work but is unable to find jobs (Figure 1.3). 1) Rising levels of unemployment tend to stifle demand, forcing prices down, a condition known as <i>deflation</i>. c. A depression is a severe recession in which unemployment is very high, consumer spending is low, and business output is sharply reduced. 3. Economies constantly expand and contract in response to changes in consumer, business, and government spending.
LO.1-6. Specify why and how the health of the economy is measured.	Key Terms: • Gross domestic product (GDP) • Budget deficit
PPT 1.31-1.32	4. Measuring the Economy: countries measure the state of their economies to determine whether they are expanding or contracting and whether corrective action is necessary to minimize fluctuations. a. Gross domestic product (GDP) is the sum of all goods and services produced in a country during a year (Figure 1.4) i. GDP measures only those products made within a country; it does not include profits earned from companies' overseas operations. It does include profits earned by foreign companies within the country being measured. ii. It also does not take into account the sum relative to the

PPT 1.33	country's population; GDP per capita does. b. Budget deficits occur when a nation spends more than it takes in from taxes. 5. Other Ways of Measuring the Economy (Table 1.2) a. <i>Trade balance</i>: The difference between our exports and our imports. If the balance is negative, as it has been since the mid-1980s, it is called a trade deficit and is generally viewed as unhealthy for our economy. b. <i>Consumer Price Index</i>: Measures changes in prices of goods and services purchased for consumption by typical urban households. c. <i>Per capita income</i>: Indicates the income level of “average” Americans. Useful in determining how much “average” consumers spend and how much money Americans are earning. d. <i>Unemployment rate</i>: Indicates how many working age Americans are not working who otherwise want to work. (Americans who do not work in a traditional sense, such as stay-at-home moms or dads, are not counted as unemployed.) e. <i>Inflation</i>: Monitors price increases in consumer goods and services over specified periods of time. Used to determine whether costs of goods and services are exceeding worker compensation over time. f. <i>Worker productivity</i>: The amount of goods and services produced for each hour worked.		
LO.1-7.	<table> <tr> <td data-bbox="456 1318 1065 1759"> Outline the evolution of the American economy. • The American Economy ○ The Importance of the American Economy ○ A Brief History of the American Economy ○ Technology and the Economy </td><td data-bbox="1065 1318 1507 1759"> Key Terms: • Standard of living • Open economy • Technology • Artificial Intelligence (AI) • Big data • Blockchain • Drones </td></tr> </table>	Outline the evolution of the American economy. • The American Economy ○ The Importance of the American Economy ○ A Brief History of the American Economy ○ Technology and the Economy	Key Terms: • Standard of living • Open economy • Technology • Artificial Intelligence (AI) • Big data • Blockchain • Drones
Outline the evolution of the American economy. • The American Economy ○ The Importance of the American Economy ○ A Brief History of the American Economy ○ Technology and the Economy	Key Terms: • Standard of living • Open economy • Technology • Artificial Intelligence (AI) • Big data • Blockchain • Drones		
PPT 1.34-1.35	III. The American Economy A. The Importance of the American Economy		

	1. Standard of living refers to the level of wealth and material comfort that people have available to them. 2. The American economy is an open economy, or an economy in which economic activities occur between the country and the international community. As an open economy, the United States is a major player in international trade. a. Open economies tend to grow faster than economies that do not engage in international trade. b. International trade is positively related to efficiency and productivity. 3. A positive relationship exists between a country's employment rate and economic growth. 4. Government public policy often moved quickly to protect the economy and drives the economy through job creation. a. The vast majority of taxes come from individuals. b. Businesses are also an important form of tax revenue. B. A Brief History of the American Economy 1. The Early Economy a. Colonists established an <i>agricultural economy</i>. b. Most people were self-sufficient and produced almost everything they needed. 2. The Industrial Revolution a. Machines and job specialization increased the speed and efficiency of production. 3. The Manufacturing and Marketing Economies a. Industrialization brought about the <i>manufacturing economy</i>, which was devoted to producing goods and services. b. The <i>marketing economy</i> emerged as businesses became more concerned with the needs and wants of consumers. 4. The Service and New Digital Economy a. As quality of life improved, people had enough income to hire others to provide services for them, which ushered in the <i>service economy</i>. b. Advanced technology contributes to new service products based on technology and digital media that provide: 1) Smartphones
PPT 1.36	
PPT 1.37-1.38	

	2) Social networking 3) Virtual worlds 4) E-commerce C. Technology and the Economy 1. Technology includes the methods and processes creating applications to solve problems, perform tasks, and make decisions. a. Artificial intelligence (AI) relates to machine (computer) learning that is able to perform activities and tasks that usually require human intelligence. b. AI is moving rapidly across business functions because it can resolve predictable business activities (Figure 1.5). c. While it has the potential to provide greater productivity and higher quality service, it also creates new challenges. d. Tracking communication, profiles, and other searchable information will accelerate with AI. 2. Big data refers to large volumes of structured and unstructured data that are transmitted at very fast speeds. 3. Blockchain is a decentralized record keeping technology that stores linked block of ordered transactions over time. a. Blockchain has the potential to make databases and the digital infrastructures more secure and trustworthy. 4. Drones are unmanned aerial devices can be programed with AI to perform human tasks such as delivering products collecting environmental data and imagery. Drones can be beneficial in a variety of industries such as construction, farming, defense, insurance, outdoor entertainment, and retail. 5. Robots can automate and optimize tasks to perform human-like actions.
LO.1-8. Explain the role of the entrepreneur in the economy. ○ The Role of the Entrepreneur ○ The Role of Government in the American Economy ○ The Role of Ethics and Social Responsibility in Business	Key Terms: ● Entrepreneur
PPT 1.40	D. The Role of the Entrepreneur 1. An entrepreneur risks their wealth, time, and effort to develop

	for profit an innovative product or way of doing something. 2. The free enterprise system provides the conditions for entrepreneurs to succeed. 3. Early American entrepreneurs were often inventors and captains of industry (Thomas Edison [light bulb and record player], John D. Rockefeller [Standard Oil Company], Andrew Carnegie [railroads and U.S. Steel Corporation], Andrew Mellon [Aluminum Company of America and Gulf Oil], Henry Ford [automobile industry], and J. P. Morgan [financial institutions]). 4. Modern American entrepreneurs are frequently changing business practices with innovative technologies Bill Gates (Microsoft software) and Frederick Smith (FedEx). D. The Role of Government in the American Economy 1. The United States is a modified capitalism system. 2. Federal, state, and local governments sometimes intervene with regulations aimed at promoting competition and consumer safety. 3. Government agencies such as the U.S. Department of Commerce measure the economy's health and intervene when economic health is at stake. E. The Role of Ethics and Social Responsibility in Business 1. Business scandals undermine public confidence in corporate America and spark debates about ethics in business (Enron, Countrywide, BP, Bank of America, Citigroup). 2. <i>Business ethics</i> generally refers to the standards and principles used by society to define appropriate and inappropriate conduct in the workplace. In many cases, these standards have been codified as laws. 3. Society is increasingly demanding that businesspeople behave ethically and socially responsibly toward customers and other stakeholders. 4. Diversity in the workforce is not only socially responsible, but beneficial to the financial performance of companies. 5. Businesses should determine what society wants and attempt to predict the long-term effects of their decisions. IV. Can You Learn Business in a Classroom? (Figure 1.6) The Organization of This Book A. Absolutely! To be successful in business, you need knowledge, skills, experience, and good judgment. B. This book can help students gain some of the knowledge, skills, and
PPT 1.42	
PPT 1.43	
PPT 1.44	

	experience needed to be successful in business.
LO.1-9.	Evaluate a small business owner's situation and propose a course of action.
	Key Terms:
PPT 1.45-1.47	V. Solve the Dilemma: <i>Mrs. Acres Homemade Pies</i> A. Produces specialty pies and sells them in local supermarkets and family restaurants B. In each of the first six months, sold 2,000 pies for \$4.50 each, netting \$1.50 profit per pie C. Had problems keeping up with demand. 1. To meet demand expanded operations, borrowed money, and increased staff 2. Production and sales increased to 8,000 pies per month, and profits soared to \$12,000 per month D. Shelly has several options: 1. Maintain current production levels and raises prices 2. Expand the facility and staff while maintaining the current price 3. Contract the production of the pies to a national chain, giving Shelly a percentage of profits with minimal involvement E. Critical Thinking Questions: 1. Explain and demonstrate the relationship between supply and demand for Mrs. Acres Homemade Pies. 2. What challenges does Shelly face as she considers the three options? 3. What would you do in Shelly's position? V. <i>(Answers appear under the End of Chapter Teaching Resources section of this Instructor's Manual.)</i>

BOXED TEXT DISCUSSION QUESTIONS WITH SUGGESTED ANSWERS**Enter the World of Business: Nvidia Chips in with Artificial Intelligence**

With demand for artificial intelligence technology skyrocketing, graphics-chip maker Nvidia is working to increase its supply of advanced AI chips. Nvidia, founded in California in 1993 by three entrepreneurs, is the largest chipmaker in the United States and is a leader in AI computing. The company has seen a significant sales increase thanks to growing interest in AI.

1. Describe what will likely happen to chip prices if Nvidia cannot keep up with demand.

If Nvidia cannot keep up with the demand for AI chips, prices are likely to increase. When demand exceeds supply, scarcity drives up prices because customers are willing to pay more to secure the limited number of available chips.

2. How has generative AI created new business opportunities for chipmakers?

Generative AI has created new business opportunities for chipmakers by increasing the demand for specialized semiconductor chips designed to handle AI tasks. Tools such as AI chatbots, image generators, and AI-powered business products require advanced computing power, which these chips provide. This demand allows chipmakers to expand their customer base beyond traditional industries like gaming and capitalize on the AI-driven growth in various sectors, such as technology, business automation, and content creation.

3. Explain how intense competition could affect the AI chip market.

Intense competition in the AI chip market could lead to innovation, price reductions, and improved chip performance as companies strive to outperform each other and capture market share. It might also drive new entrants, such as startups, to develop more cost-effective or unique solutions.

Responding to Business Challenges: Food Delivery Apps Crave Profit**1. Describe how food delivery apps earn money.**

Food delivery apps earn money by charging fees to both restaurants and consumers. Restaurants typically pay a percentage of each order's total, while consumers are charged a flat delivery fee. These revenues are used to pay drivers and cover operating expenses such as advertising and technology development.

2. Why do online food delivery companies struggle to earn a profit?

Online food delivery companies struggle to earn a profit because of the low-margin nature of their business. High operating costs, including driver payments, advertising, and technology investments, consume much of their revenue. Profit margins are further reduced by local

regulations that cap fees charged to restaurants. Moreover, heavy investments in growth and stiff competition in the market leave little room for immediate profitability.

3. Why do you think so many businesses are fighting for a slice of the low-margin food delivery market?

Many businesses are competing in the low-margin food delivery market because of its significant growth potential. Although the market is competitive, only 18 percent of global internet users have been captured so far, leaving room to attract new customers. Additionally, achieving large scale could eventually lead to profitability, and diversifying offerings (e.g., alcohol delivery) presents opportunities for higher-margin revenue streams. Businesses see long-term value in establishing dominance in this expanding market.

Technology and the Economy: *Big Tech Is Under Big Scrutiny*

1. Why are monopolies generally bad for consumers?

When a company has little competition, as with a monopoly, it can increase prices and reduce consumer choice. Monopolies are also considered bad for the economy.

2. What is the objective of antitrust legislation?

The objective is to prevent the formation of monopolies, as well as to promote competition in the marketplace.

3. Why is Big Tech under scrutiny?

Big Tech (Alphabet, Amazon, Apple, Meta, and Microsoft in the United States) is under scrutiny because of practices intended to eliminate competition. They have also tried to continually acquire competitors, becoming even bigger and more powerful. Their size and power in the market make fair competition increasingly difficult for smaller firms.

Consider Ethics and Social Responsibility: *Inside Another Tomorrow's Design for Social Responsibility*

1. What are the benefits of becoming a B Corporation?

B Corp certification is a voluntary program that for-profit companies can participate in as a means of measuring their impact and holding themselves to high standards. It is a way of publicly demonstrating performance and accountability.

3. How has the weather affected Another Tomorrow's supply chain?

Extreme weather patterns have threatened the availability of ethical wool, making Another Tomorrow's supply chain fragile.

4. Why might it be easier for a luxury brand to prioritize ethics and sustainability than a fast fashion brand?

Student responses will vary. It might be easier for a luxury brand to prioritize ethics and sustainability because their higher price points allow for greater margins, enabling investment in sustainable practices and ethical sourcing without significantly affecting profitability. In contrast, fast fashion brands rely on low-cost production and rapid turnover, making it harder to absorb the costs associated with ethical and sustainable practices.

So You Want a Job in the Business World

Why is it important to seriously consider what kind of job you want to have, and how do you help keep it once you have been hired?

It is important to seriously consider what kind of job you want because your job significantly impacts your happiness, sense of purpose, and overall well-being, given how much time you spend working. To keep a job once hired, you should stay adaptable to changing business environments, continually develop skills that match industry demands (such as data analysis or cloud-based computing), and contribute meaningfully to your role by aligning your work with the company's goals and values.

END OF CHAPTER TEACHING RESOURCES**Check Your Progress****1. What is the fundamental goal of business? Do all organizations share this goal?**

The fundamental goal of business is to earn profits. Nonprofit organizations do not share this fundamental goal, although they often provide goods and services.

2. Name the forms a product may take and give some examples of each.

- A good (automobile, calculator, beverage, or notebook).
- A service (dry cleaning, overnight mail delivery, a haircut, a checkup by a doctor).
- An idea (consultants and attorneys, for example, generate ideas for solving problems).

3. Who are the main participants of business? What are the main activities? What other factors have an impact on the conduct of business in the United States?

The main participants in business are owners, employees, and customers. The main business activities include management, marketing, and finance. Other factors having an effect on the conduct of business are legal and regulatory forces, the economy, competition, technology, and ethical and social concerns.

4. What are four types of economic systems? Can you provide an example of a country using each type?

- Communism (No true communist economy exists today that satisfies Karl Marx's ideal. However, China, North Korea, Vietnam, and Cuba all incorporate communist principles)
- Socialism (Bangladesh, Guyana, India, and Vietnam)
- Capitalism (United States, Canada, Japan, and Australia)
- Mixed economies (most nations operate as mixed economies)

5. Explain the terms *supply*, *demand*, *equilibrium price*, and *competition*. How do these forces interact in the American economy?

Supply is the quantity of goods or services that businesses are willing to sell at different prices at a specific time, while demand is the quantity of goods and services that consumers are willing to buy at different prices at a specific time. Equilibrium price is the price at which the quantity of products that businesses are willing to supply equals the quantity of products consumers are willing to buy at a specific point in time. Competition is the rivalry among businesses to convince customers to buy their products.

These forces interact in the American economy, causing the distribution of resources and products to be determined by supply and demand. Supply and demand change in response to changes in economic conditions, availability of resources, and degree of competition.

6. List the four types of competitive environments and provide an example of a product of each environment.

- Pure competition (agricultural commodities such as wheat, corn, and cotton)
- Monopolistic competition (aspirin, soft drinks, and vacuum cleaners)
- Oligopolies (aluminum industry, steel industry, automobile manufacturers, and airlines)
- Monopolies (utility companies)

7. List and define the various measures governments may use to gauge the state of their economies. If unemployment is high, will the growth of GDP be great or small?

The gross domestic product (GDP) is the sum of all goods and services produced by a country during a year. It measures only those products made within a country and therefore excludes profits from companies' overseas operations. It does include profits earned by foreign companies within the country being measured. The existence of a budget deficit indicates that a nation is spending more than it is taking in from taxes. Inflation is characterized by a continuing rise in prices. When unemployment is high, the demand for goods and services is low; thus, the level of production decreases. Accordingly, the growth of the GDP is small.

8. How did the Industrial Revolution influence the growth of the American economy? Why do we apply the term service economy to the United States today?

The Industrial Revolution led to an increase in factories as technology provided machines by which workers could make products more efficiently. Work in factories became more specialized. Transportation, especially railroads, allowed farmers to send their surplus crops and goods to markets. Innovations in farm equipment increased farm productivity; fewer workers were required on the farm, and more workers moved to factory jobs in the cities. The U.S. economy is devoted to the production of services that make life easier for consumers.

9. How has technology changed the business environment?

Technology is rapidly accelerating and is changing the environment of business. New technology associated with artificial intelligence enabled by big data and advanced computing systems is changing the way work is accomplished. The result is disruptive technology such as smart buildings, digital wallets, and drones, robotics, and machines that can communicate and make decisions like humans. This creates opportunities for new business models and job opportunities.

10. Explain the federal government's role in the American economy.

The U.S. economic system operates as modified capitalism because business is regulated to a certain extent through federal, state, and local governments. Most government regulation seeks to preserve competition and protect consumers and employees.

Get Involved

1. Who are today's most innovative entrepreneurs? How have they contributed to society and the world of business?

Student responses will vary. Sample response: Today's most innovative entrepreneurs include Elon Musk, Sara Blakely, and Patrick Collison. Elon Musk, CEO of Tesla and SpaceX, has revolutionized industries by advancing electric vehicles, renewable energy, and space exploration. Sara Blakely, founder of Spanx, disrupted the fashion industry with her innovative shapewear, empowering women and setting an example for female entrepreneurship. Patrick Collison, co-founder of Stripe, has transformed online payments by simplifying transactions for businesses worldwide, fostering global e-commerce growth and financial accessibility. Together, these entrepreneurs have reshaped industries and influenced how businesses operate globally.

2. Why is it important for the government to measure the economy? What kinds of actions might it take to control the economy's growth?

It is important for the government to measure the economy to determine whether corrective action is necessary to minimize fluctuations. One way that the government might try to spur growth is by reducing its interest rates or increasing its own spending on goods and services. In periods of inflation, the government might try to lower growth by raising interest rates to discourage spending by businesses. Students will likely come up with additional answers.

3. Is the American economy currently expanding or contracting? Defend your answer with the latest statistics on GDP, inflation, unemployment, and so on. How is the federal government responding?

Student responses will vary. Resources include: [U.S. Bureau of Economic Analysis](#), [U.S. Inflation Calculator](#), and [U.S. Bureau of Labor Statistics](#).

Build Your Skills: *The Forces of Supply and Demand*

Background

WagWumps are a new children's toy with the potential to be a highly successful product. WagWumps are cute and furry, and their eyes glow in the dark. Each family set consists of two adults and two children. Wee-Toys' manufacturing costs are about \$6 per set, with \$3 representing marketing and distribution costs. The wholesale price of a WagWump family for a retailer is \$15.75, and the toy carries a suggested retail price of \$26.99.

Task

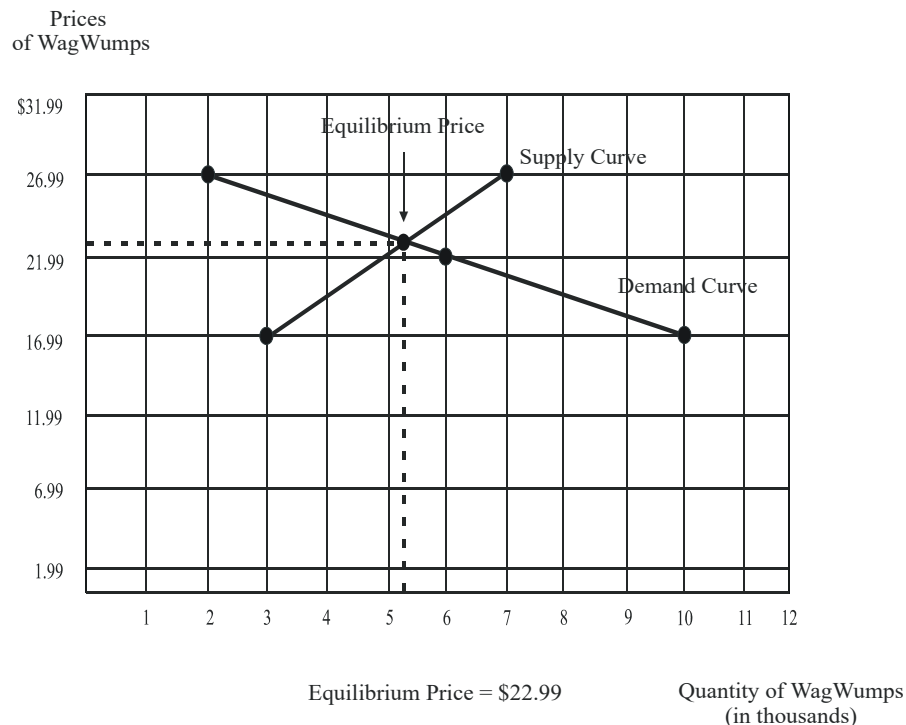
Assume you are a decision maker at a retailer, such as Target or Walmart, that must determine the price the stores in your district should charge customers for the WagWump family set. From the information provided, you know that the SRP (suggested retail price) is \$26.99 per set and that your company can purchase the toy set from your wholesaler for \$15.75 each. Based on the following assumptions, plot your company's supply curve on the graph provided in Figure 1.8 and label it "supply curve."

Quantity	Price
3,000	\$16.99
5,000	21.99
7,000	26.99

Using the following assumptions, plot your customers' demand curve on Figure 1.8 and label it "demand curve."

Quantity	Price
10,000	\$16.99
6,000	21.99
2,000	26.99

For this specific time, determine the point at which the quantity of toys your company is willing to supply equals the quantity of toys the customers in your sales district are willing to buy and label that point "equilibrium price."



Solve the Dilemma: *Mrs. Acres Homemade Pies***1. Explain and demonstrate the relationship between supply and demand for Mrs. Acres Homemade Pies.**

When Shelly Acres started selling her pies, she had to find her own customers. None of the local restaurants and supermarkets knew her products, so she had to offer an affordable product to interest restaurants and supermarkets in her products. As demand increased, Shelly started producing more pies to meet this demand. At the moment, she cannot supply all the demand. A way to decrease this demand is to increase prices. She can also increase the production level to meet the demand.

2. What challenges does Shelly face as she considers the three options?

The first option implies that Shelly's company is not going to grow since its current size will be maintained by keeping an artificially high price. The second solution requires Shelly to find the resources to finance the expansion of her activities. The third option leads Shelly to lose her specific know-how by providing it to the national restaurant chain. It also implies that Shelly does not own her business any longer.

3. What would you do in Shelly's position?

Answers will vary, but students should be able to defend the choices they have made.

Build Your Business Plan: *The Dynamics of Business and Economics*

We believe the best way to get the students excited about developing their business plans is to facilitate lively class discussions. Ask the students about the pros and cons of using an established product/business for their business plans. Students generally think it is easier to deal with an established product when, indeed, they have no idea that many companies are privately held and information may not be readily available. More importantly, students may not realize how difficult it can be to improve upon an established product or business. Unless the students come up with a unique promotional idea or distribution channel for the established product/service, students will end up doing a research project on a product that is already successful. That is not what the business plan project is about.

Encourage students to share their experiences of businesses they attempted, were successful in starting, or have desires to start. It may be a painting social media, or lawn care service. Push the students to identify what kinds of businesses/services they believe their communities need. Push students to think about how substantial the demand is for this good/service.

Suggestions for Group Formation

An ideal group size is four or five students. From Appendix A, you can see that the first assignment is to develop a business plan. If you are on a 15-week semester, this should be due around the third or fourth week of the semester. At that point, you will not have covered the marketing chapters, but the idea of the business proposal is just to get the groups to start thinking about what lies ahead. Require the groups to submit their idea of a good or service to you within the first 10 days/2 weeks of the course. This allows you to steer them in the right direction if they are in over their heads, or if their idea is not feasible.

History has shown that rotating the leadership of the group helps everyone to be more accountable for their actions (or lack of action). You might suggest that each week one student serve as the leader and coordinate/lead meetings, while the other serves as a recorder of meeting notes and tasks assigned to each group member. Over the course of the semester, students should be able to have each role at least once. Inform the students that they will be completing an evaluation of each group member's contribution to the group after the project is completed.

Consider having a business plan competition at the end of the semester and invite local professionals in to judge. You could require that all teams participate in the competition or it could be voluntary. Offer prizes for the best overall plan, the most likely to succeed, and the most creative business plan. The forum for this should be after their oral presentation to the class, which would give them some experience before presenting it to the judges. Consider involving all the other sections of the Introduction to Business course in this competition. Knowing they will be competing for a financial prize could serve as a great motivator for students.

See for Yourself Case: Has Netflix Won the Streaming Wars?

Case Overview

Netflix, the world's largest subscription streaming platform, was the first streaming service of its kind. Co-founder Reed Hastings launched Netflix as a DVD-by-mail service in 1999 after becoming fed up with late fees from brick-and-mortar VHS and DVD rental company Blockbuster.

DVDs, which were introduced in the United States in 1997, presented exciting business opportunities. Netflix's founders had the foresight to predict that the industry's future would eventually shift, however, from the DVD format to internet streaming. Netflix introduced streaming services in 2007. Key elements of Netflix's success include global expansion and original programming.

Netflix earns revenue from several sources, but it's much harder for streaming platforms to make money than traditional television networks because the customer acquisition cost is higher. Additionally, with viewership being spread across so many platforms, it can be difficult to determine where to best spend ad dollars. Some experts expect to see more

consolidation in the streaming landscape and more streaming platforms acting like traditional television networks.

Netflix, a pioneer in the streaming industry, enjoyed a strong first-mover advantage, revolutionizing the way audiences consume entertainment. However, as the streaming landscape evolved, Netflix now contends with a surge in competition. The company's success depends on its ability to meet customer needs and identify new business opportunities in digital entertainment.

1. How does Netflix make money?

Netflix earns revenue primarily through monthly subscription fees, offering different plans with varying features. It also generates income from its ad-supported membership tier and earns a small percentage of revenue from branded merchandise sales.

2. Why is it harder for streaming platforms to make money than traditional television networks?

Streaming platforms face higher customer acquisition costs and must compete for subscribers in a fragmented market where viewers are willing to pay for only a limited number of services. Additionally, advertisers often favor traditional television's broader audience reach over niche programming and dispersed audiences of streaming platforms.

3. How has intense competition affected the streaming market?

Intense competition has led to shifts in exclusivity, with platforms such as Max licensing popular content to Netflix to generate revenue. It has also driven platforms to introduce advertising, increase prices for ad-free tiers, and experiment with strategies to attract and retain subscribers in a saturated market.

Team Exercise

Major economic systems, including capitalism, socialism, and communism, as well as mixed economies were discussed in this chapter. Assuming that you want an economic system that is best for the majority, not just a few members of society, defend one of the economic systems as the best system. Form groups and try to reach agreement on one economic system. Defend why you support the system that you advance.

CONNECT EXERCISES

Below are the available exercises in Connect for this chapter. Please also see the Connect Asset Map in your Instructor Resource library for additional details on these exercises (including Learning Objectives, topics, Bloom's level, AACSB, etc.)

1. **Stakeholders—So Much Is at Stake (iSeeit! Video Case):** Demonstrate your understanding of business stakeholders and the role they play in the success or failure of a business.
2. **Grubhub Excels Amidst the Changing Business Environment (Video Case):** Demonstrate your understanding of the business environment.
3. **Economic Systems: Communism & Capitalism (Multiple Choice):** Demonstrate your understanding of the fundamental differences between communism and capitalism, two of the basic economic systems found in the world today, and how they address the distribution of resources.
4. **Basic Economic Systems: Capitalism, Socialism, and Communism (iSeeit! Video Case):** Describe how one's economic life would be under the three major economic systems of the world: capitalism, socialism, and communism.
5. **Supply and Demand (iSeeit! Video Case):** Understand how supply and demand influence prices in our capitalistic system.
6. **Concert Ticket Prices Sky-Rock-Et (Case Analysis):** Demonstrate your understanding of the concepts of free-enterprise and how a business may succeed or fail on the basis of market demand.
7. **Kiva: Giving Poor Entrepreneurs a Chance (Video Case):** Demonstrate your understanding of the economic foundations of business by watching a video about a company called Kiva, which was established to provide loans to entrepreneurs in developing countries.
8. **Varieties of Competition (iSeeit! Video Case):** Demonstrate your understanding of the four major types of competition that can exist within capitalism.
9. **Uber and Its Effect on the Sharing Economy (Case Analysis):** Demonstrate your understanding of the role of supply and demand and its impact on an industry's competition.
10. **To Expand or Not to Expand (Manager's Hot Seat Video Case):** Understand how economic factors such as job growth, access to supply, average labor costs, and competition are especially important to consider when making decisions about future growth and expansion opportunities.
11. **"Vetting" the Environment (Manager's Hot Seat Video Case):** Navigate issues related to an organization's environment by applying what you've learned to the video.
12. **Poshmark: Building a Shopping Community of People (Video Case):** Demonstrate your understanding of basic business concepts by applying what you've learned to the video.
13. **Truzios of Italy Makes Specialty Sauces (Case Analysis):** Demonstrate your understanding of the impact of supply and demand on pricing, profits, and decision-making.

BONUS TEACHING RESOURCES

Bonus Case: Tesla: More Than a Car Company

Tesla, an all-electric vehicle and energy generation products company, is widely admired for its industry-altering innovation built around its core vision of moving the world toward sustainable energy. Though Tesla got its start with electric vehicles (EVs) in 2003, the company has branched out to create a variety of renewable energy technologies from solar roof tiles to clean energy storage. Today, Tesla is one of the most valuable car makers in the United States.

Tesla did not invent the EV, but it was the first to create a viable EV for consumers and has set the standard of what an electric car should be. In 2003 Martin Eberhard and Marc Tarpenning set out to create a high-end performance EV, targeting wealthy car enthusiasts. Elon Musk joined the company in 2004 after investing \$30 million and becoming the chair of the board of directors. After years of testing and designing components and prototypes, the company finally introduced the Roadster in 2008, the same year Musk became Tesla's CEO.

Before the Roadster, companies were challenged by the tasks of creating a battery that could sufficiently power a vehicle and a motor that was effective and affordable. Though Tesla was successful in achieving these goals, the price of the Roadster, around \$100,000 at the time of its launch, and the long battery charging times were massive barriers to widespread consumer adoption. Today, Tesla's robust supply chain, including in-house battery cell production, is one of the key contributors to the company's success. Tesla's Gigafactories have enabled the car manufacturer to build economies of scale.

To follow up on the launch of its first EV, Tesla introduced the Model S, the world's first premium all-electric sedan, which was significantly more affordable than the Roadster at \$76,000. It also had the longest driving range of any EV, pushing standards even higher. That same year, Tesla introduced its first freestanding charging stations called Superchargers. Now, there are more than 16,500 Superchargers at more than 1,800 locations. Building on the success of its sedan, Tesla introduced the Model X in 2015, which became the safest SUV ever tested at the time. That same year, Tesla began rolling out an autopilot feature for partial autonomous driving, which enabled the cars to self-drive with active driver supervision.

With three successful vehicle launches under its belt, Tesla began to focus on the energy side of its business, unveiling Solar Roof solar tiles as well as Powerwall and Powerpack industry batteries to store converted solar energy. The company changed its name from Tesla Motors to Tesla, Inc., in 2017, signifying the company's shift from a car manufacturer to a sustainable energy solution company. Tesla's energy solutions enable homeowners, businesses, and utilities to manage renewable energy generation, storage, and consumption.

Since then, Tesla has introduced additional models, including the Model 3, Model Y, and Cybertruck. In addition to addressing more of the consumer market, Tesla is investing in heavy-duty trucks and high-passenger-density urban transport. For example, Tesla Semi, an electric semi-trailer truck, is designed to save owners at least \$200,000 over a million miles based on fuel costs alone. The truck accelerates faster than a traditional semi and can drive faster uphill. Plus, the Semi includes safety features such as Enhanced Autopilot to help truck drivers avoid collisions. Working to cover more forms of transport greatly expands Tesla's footprint and improves the carbon footprint of the transportation industry as a whole.

Tesla is always looking to the future. The company has made significant gains and has firmly established itself as a leader in EVs.

Sources: Tech Vision, "Why Tesla Is More Than Just a Car Company," YouTube, November 12, 2020, <https://www.youtube.com/watch?v=2m8PhQ8IF8k>; Andrew Greiner, Ivory Sherman, Tiffany Baker, Allie Schmitz, and Jen Tse, "The History of Tesla and Elon Musk: A Radical Vision for the Future of Autos," CNN, March 22, 2019, <https://www.cnn.com/interactive/2019/03/business/tesla-history-timeline/index.html>; Charles Morris, "The Definitive Story of Tesla's Beginnings, Told by Co-Founder Marc Tarpenning," Evannex, June 18, 2017, <https://evannex.com/blogs/news/the-definitive-story-of-tesla-s-beginnings-told-by-co-founder-marc-tarpenning>; Eric Reed, "History of Tesla: Timeline and Facts," TheStreet, September 13, 2019, <https://www.thestreet.com/technology/history-of-tesla-15088992>; Tesla, "About Tesla," <https://www.tesla.com/about>

Bonus Case Discussion Questions

1. What benefits do Tesla's products provide?

Tesla created a battery that could sufficiently power a vehicle and a motor that was effective and affordable. Their vehicles feature autopilot for partial autonomous driving enabling the cars to self-drive with active driver supervision, have the longest driving range of any EV, and are more affordable and safer.

2. As competition grows, do you think demand for Tesla's vehicles will decline? Why or why not?

Answers will vary but students should support their answers.

3. How has Tesla pushed the car industry forward?

Answers will vary—Tesla pushed the car industry forward by its focus on industry-altering innovation built around its core vision of moving the world toward sustainable energy. The company's efforts have resulted in more car companies focusing on renewable and sustainable energy.

Term Paper or Project Topic

These topics may be assigned as individual or collaborative projects:

1. The Life and Influence of Karl Marx
2. The Life and Influence of Adam Smith
3. How Railroad Transportation in the 1800s Affected the American Economy
4. Advantages and Disadvantages of Small Business Entrepreneurship

Guest Speaker Suggestions

1. A representative from the Small Business Administration or Small Business Development Center or a small business owner/entrepreneur to speak about the opportunities in small business or in entrepreneurship.
2. Students usually enjoy hearing about the experiences of international students and many instructors already have an international student in their classes. The instructor could set up a panel of students to discuss the economies and what life was like in their home country. If the instructor does not have any international students, most colleges have a campus international association that could provide access to speakers to discuss the differences between American business practices and those of other cultures.

Teaching Suggestions

1. Instructors may use the materials provided in this Instructor's Manual in a variety of ways. Many prefer to give a lecture interspersed with PowerPoint slides and/or transparencies. These have been designed to add to student understanding of the chapter content.
2. The lecture is generally followed by class discussion of Key Terms and Definitions, Check Your Progress, and Get Involved.
3. Supplemental lecture material follows the Lecture Outline and Notes. After discussing the course, the syllabus, and the next session's assignment, some instructors may wish to review boxed text discussion questions and suggested answers. In addition to the supplemental lecture(s), Term Paper or Project Topics and Guest Speaker Suggestions are provided for each chapter.
4. Role Play Exercises are provided with the Instructor Resources. These exercises enhance the learning outcomes of your introduction to business course. In these exercises, students experience realistic, simulated organizational challenges and increase their decision-making skills.

5. Instructors also have a variety of options for giving in-class and out-of-class assignments. The following are some possibilities:
- a. Instructors may assign a brief “writing to learn” exercise in which students summarize their thoughts or write answers. This may be a short in-class exercise in which students write answers to one or all of the boxed text critical thinking questions. The instructor may call on a random number of students to read their written exercises or to discuss answers in class.
 - b. A list of suggestions for guest speakers is provided for the chapter. The instructor may arrange for a speaker, although some instructors give class members or teams the responsibility of arranging for speakers. The number of speakers planned for the entire course and the amount of time allowed for each speaker must be considered by the instructor in planning the sequence of the course.
 - c. One suggestion that may help students prepare for tests is to have each student develop one test question (multiple choice, true/false, completion, etc.) based on the key terms and concepts. These questions and answers may be shared in pairs or in teams of individuals. For a unit test, some instructors use one or two questions submitted by students.
 - d. Term papers or project topics may be assigned to be completed over a long period of time. An option for a written term paper is to have a short oral presentation on the term paper or project topics. Many instructors give students a choice of topics from different chapters, allowing them the flexibility of choosing from the topics.