

CHAPTER 1

Exploring the World of Business and Economics

INSTRUCTOR MANUAL RESOURCES

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1.1 A WORD FROM THE AUTHORS

This chapter accomplishes three important tasks. First, it sets the stage for the remainder of the course and provides reasons why students should study business. Second, it provides an overview of the economy, competition, and different types of economic systems. Finally, it links events in American history to the present American business system. These concepts are essential to a basic understanding of the American economic system as a whole.

We begin Chapter 1 with a discussion of why students should study business and a definition of *business*. Then we explore the major types of economic systems. Next, we consider how a nation's economy and productivity are measured. An examination of the major types of competition follows. Finally, we discuss the historical development of business in the United States and the challenges that businesses can expect to encounter in the future.

1.2 TRANSITION GUIDE

New in Chapter 1: Exploring the World of Business and Economics

- A new Inside Business feature “Visa’s Vast Global Payments Empire” describes how global payments are enabling Visa to grow in a very competitive industry.
- Information about the current economic recovery is discussed in the introductory paragraph.
- Figure 1.1 “Who Makes the Most Money” now provides current salary information for employees with different levels of educational achievement.
- A new Personal App “Be the employee you’d like to hire!” describes how workers can become outstanding employees.
- In the section “Start Your Own Business,” a new example explains how Nick D'Aloisio, a young entrepreneur, developed apps that are worth millions.
- In the section “The Organized Effort of Individuals,” new information about the growth of online businesses is discussed.
- Updated information about General Mills and its social responsibility programs is provided in the section “Business Profit.”
- A new example about Ford Motor Company is used to illustrate the concept of a market economy.
- All statistics in the section “Gross Domestic Product” have been updated with the most recent information available.
- A revised Figure 1.6, “GDP in Current Dollars and in Inflation-Adjusted Dollars,” provides updated information about gross domestic product and real gross domestic product.
- A new unemployment rate statistic is included in the section “Important Economic Indicators that Measure a Nation's Economy.”
- In the section “The Business Cycle,” new information about the state of the U.S. economy at the time of publication is provided.

- New information about the size of the national debt is provided in the section "The Business Cycle."
- A new Career Success feature titled "Career Moves and the Business Cycle" describes how job seekers can find employment in both good and bad economic times.
- In the section "Monopolistic Competition," new examples are used to illustrate this type of competition.
- A new Entrepreneurial Success feature titled "Meet the Teenaged Founder of Fish Flops" describes how a teenage entrepreneur developed the concept for "Fish Flops" and turned her idea into a successful business.
- New information about how Procter & Gamble is competing around the world is provided in the section "The Global Environment."
- A new Social Media feature, "Government Agencies Go Global," describes how government agencies are providing information to both businesses and individuals.
- A new example describes how the economy affects business spending and business hiring in the section "The Economic Environment."
- The Test Yourself feature has been placed on the text website.
- The Chapter 1 Video Case has been updated to reflect new information about KlipTech—a building-materials company dedicated to sustaining the planet.

1.3 QUICK REFERENCE GUIDE

Instructor Resource	Location
Transition Guide	IM, pp. 2–3
Learning Objectives	Textbook, p. 2; IM, p. 5
Brief Chapter Outline	IM, pp. 5–6
Comprehensive Lecture Outline	IM, pp. 6–17
At Issue: Capitalism—Yes or No?	IM, p. 12
Career Success <i>Career Moves and the Business Cycle</i>	Textbook, p. 22
Entrepreneurial Success <i>Meet the Teenage Founder of Fish Flops</i>	Textbook, p. 26
Inside Business <i>Visa's Vast Global Payment Empire</i>	Textbook, p. 3
Social Media <i>Government Agencies Go Social</i>	Textbook, p. 30
Marginal Key Terms List	Textbook, p. 34
Concept Checks	Textbook, pp. 10, 12, 18, 20, 23, 27, 32 Questions and Suggested Answers, IM, pp. 18–22
Discussion Questions	Textbook, p. 34 Questions and Suggested Answers, IM, pp. 22–23
Video Case (KlipTech Turns Recycled Paper into Products and Profits) and Questions	Textbook, p. 34–35 Questions and Suggested Answers, IM, pp. 24–25
Building Skills for Career Success	Textbook, p. 35–36 Suggested Answers, IM, p. 25
IM Quiz I & Quiz II	IM, pp. 26–28 Answers, IM, p. 28
Classroom Exercises	IM, p. 29

1.4 LEARNING OBJECTIVES

After studying this chapter, students should be able to:

1. Discuss what you must do to be successful in the world of business.
2. Define *business* and identify potential risks and rewards.
3. Define *economics* and describe the two types of economic systems: capitalism and command economy.
4. Identify the ways to measure economic performance.
5. Examine the different phases in the typical business cycle.
6. Outline the four types of competition.
7. Summarize the factors that affect the business environment and the challenges that American businesses will encounter in the future.

1.5 BRIEF CHAPTER OUTLINE

I. Your Future in the Changing World of Business

- A. Why Study Business?
 1. For Help in Choosing a Career
 2. To Be a Successful Employee
 3. To Improve Your Management Skills
 4. To Start Your Own Business
 5. To Become a Better Informed Consumer and Investor
- B. Special Note to Business Students

II. Business: A Definition

- A. The Organized Effort of Individuals
- B. Satisfying Needs
- C. Business Profit

III. Types of Economic Systems

- A. Capitalism
- B. Capitalism in the United States
 1. Households
 2. Businesses
 3. Governments
- C. Command Economies
 1. Socialism
 2. Communism

IV. Measuring Economic Performance

- A. The Importance of Productivity in the Global Marketplace
- B. The Nation's Gross Domestic Product
- C. Important Economic Indicators That Measure a Nation's Economy

V. The Business Cycle**VI. Types of Competition**

- A. Perfect Competition
 - 1. The Basics of Supply and Demand
 - 2. The Equilibrium, or Market, Price
- B. Monopolistic Competition
- C. Oligopoly
- D. Monopoly

VII. American Business Today

- A. Early Business Development
- B. Business Development in the 1900s
- C. A New Century: 2000 and Beyond
- D. The Current Business Environment
 - 1. The Competitive Environment
 - 2. The Global Environment
 - 3. The Technology Environment
 - 4. The Economic Environment
- E. The Challenges Ahead

1.6 COMPREHENSIVE LECTURE OUTLINE

Our economy continues to adapt and change to meet the challenges of an ever-changing world. Our economic system provides an amazing amount of freedom that allows businesses that range in size from the small corner grocer to Visa to adapt to changing business environments. Within certain limits, imposed mainly to ensure public safety, the owners of a business can produce any legal good or service they choose and attempt to sell it at a price they set. This system of business, in which individuals decide what to produce, how to produce it, and at what price to sell it, is called *free enterprise*.

I. YOUR FUTURE IN THE CHANGING WORLD OF BUSINESS. To experience success, you must adapt to change in order to take advantage of the opportunities that are out there. To do so, you must bring something to the table that makes you different from the next person. Ask yourself: What can I do that will make employers want to pay me a salary? What skills do I have that employers need?

A. **Why Study Business?** Once you have an education and knowledge, no one can take it away. To begin with, there are economic benefits. (See Figure 1-1.) Further, there are at least five reasons why you should study business.

1. **For Help in Choosing a Career.** This business course will introduce you to a wide array of employment opportunities. One thing to remember as you think about

what your ideal career might be is that a person's choice of a career is ultimately a reflection of what he or she values and holds most important.

Teaching Tip: Ask students what careers they think might be the most in demand in the next 10 years. Link to the Bureau of Labor Statistics Occupational Outlook Handbook website for detailed information (<http://www.bls.gov/ooh/fastest-growing.htm>). Discuss with students the fastest growing careers listed on the website.

2. **To Be a Successful Employee.** To get a job in your chosen field and to be successful at it, you will have to develop a plan, or road map, that ensures you have the skills and knowledge the job requires. This course, your instructor, and all the resources available at your college or university can help you acquire the skills and knowledge you will need for a successful career.
3. **To Improve Your Management Skills.** To be an effective manager, you must be able to perform four basic management functions: planning, organizing, leading and motivating, and controlling. To successfully perform these management functions, managers must possess four very important skills: interpersonal skills, analytic skills, technical skills, and conceptual skills.
4. **To Start Your Own Business.** Some people prefer to work for themselves, and they open their own businesses.
 - a) To be successful, business owners must possess many of the same skills that successful employees have.

Teaching Tip: Ask students what the chief motivation is for starting a business—money or independence? Independence wins. Which is more important—creativity or self-discipline? Discipline wins.

- b) It also helps if your small business can provide a product or service that customers want.
 - c) Unfortunately, approximately 70 percent of small businesses fail within the first ten years. Typical reasons for business failures include undercapitalization, poor business location, poor customer service, unqualified or untrained employees, fraud, lack of a proper business plan, and failure to seek outside professional help.
5. **To Become a Better Informed Consumer and Investor.** By studying business, you will become a more fully informed consumer, which means that you will be able to make more intelligent buying decisions and spend your money more wisely. This same basic understanding of business will also make you a better informed investor.

Teaching Tip: Ask students if they are more likely to use price to determine quality if they have no knowledge or understanding of a product. Point out that low-priced private label brands are more likely to be purchased by people with more education than by those with less.

- B. **Special Note to Business Students.** This business course doesn't have to be difficult. All the features in each chapter have been evaluated and recommended by instructors with years of teaching experience. In addition, business students have critiqued each chapter. A number of student supplements to the text will help you explore the world of business, as well as the website that accompanies this edition.

II. BUSINESS: A DEFINITION. *Business* is the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs. To be successful, a business must be organized, satisfy needs, and earn a profit.

Teaching Tip: Ask students to state the three components of the definition of business: (1) it must be organized, (2) it must serve a need, and (3) it must earn a profit. You will probably need to help with the answers. Once you have the three components, ask them to give examples of outstanding companies in each area. For example, consumer products companies such as Procter & Gamble certainly seem to be well organized, serve a need, and make good profits. IBM is another example. Looking at profit relative to the need served can get good discussion flowing early.

- A. **The Organized Effort of Individuals.** For a business to be organized, it must combine four kinds of resources: material, human, financial, and informational. (See Figure 1-2.)
1. Material resources include the raw materials used in manufacturing processes, as well as buildings and machinery.
 2. Human resources are the people who furnish their labor to the business in return for wages.
 3. The financial resource is the money required to pay employees, purchase materials, and generally keep the business operating.
 4. Information is the resource that tells the managers of the business how effectively the other resources are being combined and used.
 5. Businesses are usually classified as one of three types.
 - a) Manufacturing businesses process various materials into tangible goods.
 - b) Service businesses produce services.
 - c) Marketing intermediaries buy products from manufacturers and then resell them.

6. Today many consumers prefer to shop online. *E-business* is defined as the organized effort of individuals to produce and sell for a profit the goods and services that satisfy society's needs *through the facilities available on the Internet*.
- B. **Satisfying Needs.** The ultimate objective of every firm is to satisfy the needs of its customers. When the business understands its customers' needs and works to satisfy those needs, it is usually successful.
- C. **Business Profit.** *Profit* is what remains after all business expenses have been deducted from sales revenue. (See Figure 1-3.) Negative profit, which results when a firm's expenses are greater than its sales revenue, is called a loss. The term *stakeholders* is used to describe all the different people or groups who are affected by an organization's policies, decisions, and activities. While stockholders and business owners generally believe that profit is the most important goal for a business, many stakeholders may be just as concerned about a firm's social responsibility record.

The profit earned by a business becomes the property of its owners. Profit is the reward business owners receive for producing goods and services that consumers want and for assuming the risks of ownership. One of these is the risk of not being paid (employees, suppliers, and lenders must be paid before the owners). Another is the risk of losing whatever was invested in the business.

Teaching Tip: *Apple has been monumentally successful with its iPhone products. Ask students what need the iPhone meets. What makes it different from other cellular phones? What other recent products can they name that meet an existing need?*

III. TYPES OF ECONOMIC SYSTEMS. *Economics* is the study of how wealth is created and distributed.

1. By "wealth" we mean anything of value. "How wealth is distributed" simply means "who gets what." The way in which people deal with these two issues determines the kind of economic system, or *economy*, that a nation has.
2. Economics is usually studied from two perspectives:
 - a) *Microeconomics*—The study of the decisions made by individuals and businesses.
 - b) *Macroeconomics*—The study of the national economy and the global economy.
3. *Factors of production* are the resources used to provide goods and services. There are four such factors.
 - a) Land and natural resources—Elements in their natural state that can be used in production, such as crude oil, forests, minerals, land, water, and even air.

Teaching Tip: *Ask students what resources in addition to oil and gas are in limited supply. Obviously, limitations create problems—but what opportunities might they also represent?*

- b) Labor—Human resources such as managers and employees.
 - c) Capital—Money, facilities, equipment, and machines used in the operation of organizations.
 - d) Entrepreneurship—The willingness to take risks and the knowledge and ability to use the other factors of production efficiently. An *entrepreneur* is a person who risks his or her time, effort, and money to start and operate a business.
4. A nation's economic system significantly affects all the economic activities of its citizens and organizations. A country's economic system provides answers to four basic economic questions.
- a) What goods and services—and how much of each—will be produced?
 - b) How will these goods and services be produced?
 - c) For whom will these goods and services be produced?
 - d) Who owns and controls the major factors of production?

Teaching Tip: Ask the students to regard the classroom as an economic unit. The goods produced are papers, discussions, and exam results. How are these goods produced? For whom? And most importantly, who has ownership?

- A. **Capitalism.** *Capitalism* is an economic system in which individuals own and operate the majority of businesses that provide goods and services. Adam Smith in his book, *Wealth of Nations*, published in 1776, argued that a society's interests are best served when the individuals within that society are allowed to pursue their own self-interest.
1. Adam Smith created the concept he called the *invisible hand*, which describes how a business owner's personal gain benefits others (through the product that is produced or through the wages that are paid to workers) and a nation's economy (through increased GDP, taxes, exports, etc.).
 2. Adam Smith's capitalism is based on four fundamental issues. (See Figure 1-4.)
 - a) First, the creation of wealth is properly the concern of private individuals, not of government.
 - b) Second, private individuals must own the resources used to create wealth, and the owners of resources should be free to determine how these resources are used.
 - c) Third, Smith contended that economic freedom ensures the existence of competitive markets that allow both sellers and buyers to enter and exit as they choose. The freedom to enter or leave a market at will has given rise to the term *market economy* (sometimes referred to as a free-market economy)—an economic system in which businesses and individuals make the decisions

about what to produce and what to buy; the market determines how much is sold and at what prices.

- d) Finally, in Smith's view, the role of government should be limited to providing defense against foreign enemies, ensuring internal order, and furnishing public works and education. With regard to the economy, government should act only as rule maker and umpire.

Teaching Tip: Ask students to debate whether federal, state, and local governments are properly involved in regulating business.

3. Smith believed that each person should be allowed to work toward his or her own economic gain, without government interference. The French term “laissez faire” describes Smith's system; loosely translated it means “let them do” (as they see fit).
- B. **Capitalism in the United States.** The U.S. economy is a *mixed economy* because it exhibits elements of both capitalism and socialism. In today's economy, the four basic economic questions are answered by three groups. (See Figure 1-5.)
1. **Households.** Households are consumers of goods and services, as well as owners of some of the factors of production. Approximately 70 percent of U.S. production consists of *consumer products* for personal consumption.
 - a) As “resource owners,” the members of households provide businesses with labor, capital, and other resources.
 - b) As “consumers,” household members use their income to purchase the goods and services produced by business.
 2. **Businesses.** Like households, businesses are engaged in two different exchanges. They exchange money for natural resources, labor, and capital; and they use these resources to produce goods and services. Then they exchange their goods and services for sales revenue.
 3. **Governments.** Government provides a variety of services that are considered important but either (a) would not be produced by private business firms or (b) would be produced only for those who could afford them (e.g., national defense, police/fire protection, education, and construction of roads and highways).
- C. **Command Economies.** A *command economy* is an economic system in which the government decides what will be produced, how it will be produced, for whom available goods and services will be produced, and who owns and controls the major factors of production. Two types of economic systems serve as examples of command economies.
1. **Socialism.** In a socialist economy, the key industries are owned and controlled by the government. Depending on the country, private ownership of smaller businesses is permitted to varying degrees. What to produce and how to produce it are determined in accordance with national goals.

2. **Communism.** In a communist economy, almost all economic resources are owned by the government. The basic economic questions are answered through centralized state planning, which also sets prices and wages. Emphasis is placed on the production of goods the government needs rather than on the products that consumers might want. Karl Marx was the father of communism.

At Issue

The American economy is primarily a free-market economy. It is based on several building blocks, including the private ownership of property and the free interchange of the forces of supply and demand. **Is the capitalistic system of producing goods and services the best economic system?**

For Capitalism

1. The capitalist economic system has survived the test of time (more than 225 years) and for most of that time has produced the highest standard of living in the world.
2. People decide what products to buy when they “vote” in the marketplace with their dollars. These individuals are the best judges of what to make, how much to make, and how it should be distributed.
3. Capitalism offers the freedom to select careers, products, services, etc., not available in other economies.

Against Capitalism

1. The capitalist economy has produced the greatest volume of consistent waste of any economy in human history.
2. People acting as independent and separate decision makers do not allow any opportunity for a more centralized planning system of utilization of scarce and necessary resources.
3. Capitalism as originally defined by Adam Smith in 1776 does not exist given the presence of so many huge corporations and an increasing amount of government intervention.

IV. MEASURING ECONOMIC PERFORMANCE

- A. **The Importance of Productivity in the Global Marketplace.** One way to measure a nation’s economic performance is to assess its productivity. *Productivity* is the average level of output per worker per hour. An increase in productivity results in economic growth.
- B. **The Nation’s Gross Domestic Product.** A nation’s *gross domestic product (GDP)* is the total dollar value of all goods and services produced by all people within the boundaries of a country during a one-year period.
 1. This GDP figure facilitates comparisons between the United States and other countries because it is the standard used in international guidelines for economic accounting.

2. To make accurate comparisons of GDP figures for two different years, we must adjust the figures for inflation or deflation. *Inflation* is a general rise in the level of prices. *Deflation* is a general decrease in the level of prices. “Real” gross domestic product is the total dollar value, using inflation-adjusted figures, of all goods and services produced by a nation. (See Figure 1-6.)
 - C. **Important Economic Indicators That Measure a Nation’s Economy.** There are other economic measures that can be used to evaluate a nation’s economy such as the *unemployment rate*, *consumer price index (CPI)*, which measures the changes in prices of a fixed basket of goods purchased by a typical consumer in an urban area, and *producer price index (PPI)*, which measures prices that producers receive for their finished goods. Table 1-2 in the text lists additional measures used to evaluate the economy.
- V. THE BUSINESS CYCLE.** A nation’s economy fluctuates rather than grows at a steady pace every year. These fluctuations are generally referred to as the *business cycle*; that is, the recurrence of periods of growth and recession in a nation’s economic activity. Generally, the business cycle consists of four states: peak (or prosperity), recession, trough, and recovery (or expansion).
- A. During the peak period, the economy is at its highest point, unemployment is low, total income is relatively high, and consumers are willing to buy products and services. Businesses often expand and offer new products and services.
 - B. Generally, economists define a *recession* as two or more consecutive three-month periods of decline in a country’s gross domestic product. Unemployment rises during a recession, and total buying power declines. Economists define a *depression* as a severe recession that lasts longer than a recession.
 - C. The third phase of the business cycle, the “trough” of a recession or depression, is the phase in which the nation’s output and employment reach their lowest levels. To offset the effects of recession and depression, the federal government uses both monetary and fiscal policies.
 1. *Monetary policies* are the Federal Reserve’s decisions that determine the size of the supply of money in the nation and the level of interest rates.
 2. The government can also use *fiscal policy* to influence the amount of savings and expenditures by altering the tax structure and changing the levels of government spending. Although the federal government collects about \$3 trillion in annual revenues, the government often spends more than it receives, resulting in the *federal deficit*.
 3. The total of all federal deficits is called the *national debt*.
 - D. The last economic state is recovery. Recovery is the movement of the economy from depression or recession to prosperity; a greater demand for products and services results.

VI. TYPES OF COMPETITION. Business *competition* is essentially a rivalry among businesses for sales to potential customers. Economists recognize four different degrees of competition, ranging from ideal, complete competition to no competition at all. These are perfect competition, monopolistic competition, oligopoly, and monopoly. (See Table 1-3.)

- A. **Perfect Competition.** *Perfect competition* is a 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. In perfect competition, buyers and sellers must accept the going price.
1. **The Basics of Supply and Demand.** The *supply* of a particular product is the quantity of the product that producers are willing to sell at each of various prices. The *demand* for a particular product is the quantity that buyers are willing to purchase at each of various prices. (See Figure 1-7.)
 2. **The Equilibrium, or Market, Price.** Under pure competition, the *market price* of any product is the price at which the quantity demanded is exactly equal to the quantity supplied. Market prices are affected by anything that affects supply and demand.
- B. **Monopolistic Competition.** *Monopolistic competition* is a market situation in which there are many buyers along with a relatively large number of sellers. The various products available in this market are similar and intended to satisfy the same need. However, each seller attempts to make its products different. *Product differentiation* is the process of developing and promoting differences between one's products and all similar products.
- C. **Oligopoly.** An *oligopoly* is a market situation (or industry) in which there are few sellers. These sellers are quite large and must make sizable investments to enter into their markets. Because there are few sellers, the market actions of each can have a strong effect on competitors' sales and prices.
- D. **Monopoly.** A *monopoly* is a market (or industry) with only one seller. A firm in a monopoly position must consider the demand for its product and set the price at the most profitable level. A natural monopoly is an industry that requires a huge investment in capital and within which any duplication of facilities would be wasteful. Many public utilities are still classified as natural monopolies, but competition is increasing in many industries.
1. In addition to natural monopolies, another type of legal monopoly—sometimes referred to as “limited monopoly”—is created when the federal government issues a copyright, patent, or trademark.
 2. Except for natural and limited monopolies, federal antitrust laws prohibit both monopolies and attempts to form monopolies.

Teaching Tip: Ask students to debate whether monopolies are always bad or if they should be permitted on occasions. Most European and Asian companies are larger than many American companies, and many are government owned or subsidized. For example, many national airlines such as Air France and Boeing's European competitor Airbus receive government subsidies. You could make an argument that we need very large companies to compete effectively in the global marketplace.

VII. AMERICAN BUSINESS TODAY. Compared with people in other countries, Americans have a high *standard of living*, which refers to a subjective measure of how well off an individual or a society is in terms of want satisfaction through goods and services. Understanding the current business environment is enhanced by understanding some of the history of business.

A. **Early Business Development.** Almost all families lived on farms, and the entire family worked at the business of surviving.

1. The early colonists used *barter*—a system of exchange in which goods or services are traded directly for other goods and/or services without using money.
2. The *domestic system* was a method of manufacturing in which an entrepreneur distributed raw materials to various homes, where families would process them into finished goods.
3. In 1793, Samuel Slater, an Englishman, set up a textile factory in Rhode Island to spin raw cotton into thread. Slater's ingenuity resulted in America's first use of the *factory system* of manufacturing, in which all the materials, machinery, and workers required to manufacture a product are assembled in one place.
4. A manufacturing technique called *specialization* was used to improve productivity. Specialization is the separation of a manufacturing process into distinct tasks and the assignment of different tasks to different workers.
5. The years from 1820 to 1900 were the golden age of invention and innovation in machinery.
6. At the same time, new means of transportation greatly expanded the domestic markets for American products.

B. **Business Development in the 1900s**

1. Industrial growth and prosperity continued well into the twentieth century. Henry Ford's moving automotive assembly line refined the concept of specialization and helped spur on the mass production of consumer goods.
2. Fundamental changes occurred in business ownership and management. No longer were the largest businesses owned by one individual; instead, ownership was in the hands of thousands of corporate shareholders.

3. The Roaring Twenties ended with the sudden crash of the stock market in 1929 and the near collapse of the economy. The Great Depression that followed in the 1930s was a time of misery and human suffering.
 4. After Franklin D. Roosevelt became president in 1933, the federal government got deeply involved in business for the first time by implementing programs to get the economy moving again.
 5. Major events that shaped the nation's economy occurred from 1940 to 2000:
 - World War II, the Korean War, and the Vietnam War.
 - Rapid economic growth and higher standard of living during the 1950s and 1960s.
 - The social responsibility movement during the 1960s.
 - A shortage of crude oil and higher prices for most goods in the mid-1970s.
 - High inflation, high interest rates, and reduced business profits during the early 1980s.
 - Sustained economic growth in the 1990s.
- C. **A New Century: 2000 and Beyond.** According to economic experts, the time period from 2000 to 2010 might be characterized as the best of times and the worst of times rolled into one package.
1. On the plus side, technology became available at an affordable price. The growth of service businesses and increasing opportunities for global trade have changed the way American firms do business. A *service economy* is an economy in which more effort is devoted to the production of services than to the production of goods.
 2. On the negative side, there is still a certain amount of pessimism surrounding the economy.
- D. **The Current Business Environment.** Business is affected by the following environments:
1. **The Competitive Environment.** Successful firms compete with competitors by satisfying customer needs.
 2. **The Global Environment.** The global marketplace has never been more competitive. Not only do American businesses have to compete with other American businesses, but they also must compete with businesses from all over the globe.
 3. **The Technology Environment.** Changes in manufacturing equipment, communication with customers, and distribution of products are examples of how technology has changed business practices. Many businesses now promote their products and services through *social media*.
 4. **The Economic Environment.** Managers and business owners do not have unlimited resources to pay for all the business activities they want to fund. This is especially important if the nation's economy drops precipitously or an individual firm's

sales and profits are declining. *Sustainability* has become a major concern for today's business managers.

- E. **The Challenges Ahead.** When our business system works well, it provides jobs for those who are willing to work, a standard of living that few countries can match, and many opportunities for personal advancement for those willing to work hard. But our system is far from perfect. It also gave us the Great Depression of the 1930s and the economic problems of the 1970s, the late 1980s, and the recent economic crisis.

The challenges to the U.S. economic system over the next decade are many. Some of the issues to be resolved include the following:

1. How can we create a more stable economy and create new jobs for the unemployed?
2. How do we reduce the national debt and still stimulate business growth?
3. How do we restore investor confidence in the financial system?
4. How can we use technology to make American workers more productive and American firms more competitive in the global marketplace?
5. How can we preserve the benefits of competition and small business in our American economic system?
6. How can we conserve natural resources and sustain our environment?
7. How can we meet the needs of two-income families, single parents, older Americans, and the less fortunate who need health care and social programs to exist?
8. How can we combat terrorism and resolve conflict with Iran, North Korea, and other countries throughout the world?

The answers to these questions are anything but simple. Yet they directly affect our own future, our children's future, and the future of our nation. Within the American economic and political system, the answers are ours to provide.

1.7 TEXTBOOK ANSWER KEYS

1.7a Concept Checks

Concept Check (p. 10)

1. What reasons would you give if you were advising someone to study business?

There are five compelling reasons for studying business described in this chapter.

- a. To help you choose a career.
- b. To help you be a successful employee.
- c. To help you improve your management skills.
- d. To help you start your own business.
- e. To help you become a better informed consumer and investor.

2. What factors affect a person's choice of careers?

Deciding what kind of career you want to devote your life to can be both daunting and puzzling, especially when you don't know what all the possibilities are. Choices range from small, local businesses owned by one individual to large corporations with offices and facilities in countries around the globe. There are also employment opportunities with federal, state, county, and local governments and with not-for-profit organizations. One thing to remember when choosing a career is that a person's choice of a career is ultimately a reflection of what he or she values and holds most important. What you choose to do with your life will be based on what *you* feel is most important.

3. Once you have a job, what steps can you take to be successful?

To get a job in your chosen field and to be successful at it, you will have to develop a plan, or road map, that ensures you have the skills and knowledge the job requires. This course, your instructor, and all the resources available at your college or university can help you acquire the skills and knowledge you will need for a successful career.

Concept Check (p. 12)

1. Describe the four resources that must be combined to organize and operate a business.

The four resources are (1) material resources, which include raw materials used in the manufacturing process as well as buildings and machinery; (2) human resources, who are the people that furnish their labor to the business in return for wages; (3) financial resources, which is money used to pay employees, purchase materials, and keep the business operating; and (4) information, which tells the managers of the business how effectively the other resources are being combined and used. Economists refer to the factors of production as the resources used to produce goods and services. They are land and natural resources, labor, capital, and entrepreneurship.

2. What is the difference between a manufacturing business, a service business, and a marketing intermediary?

Manufacturing businesses process various materials into tangible goods. Service businesses produce services. Marketing intermediaries buy products from manufacturers and then resell them.

3. Explain the relationship among profit, business risk, and the satisfaction of customers' needs.

The business that is able to successfully satisfy customers' needs is said to be the business that will realize the greatest profit potential. Profit is also the payment that business owners receive for assuming the risks of ownership. These risks include not being paid and losing whatever they have invested into the business.

Concept Check (p. 18)

1. What are the four basic economic questions? How are they answered in a capitalist economy?

The four basic economic questions are (1) what goods and services and how much of each to produce, (2) how to produce, (3) for whom to produce, and (4) who owns and controls the factors of production. In a capitalist economy, the first question is answered by consumers as they spend their money. The second question is answered by producers as they compete for sales and profits. The third question is answered by those who have the money to buy the product. The fourth question is answered by who provides the land and natural resources, labor, capital, and/or entrepreneurship. The distribution of goods and services, therefore, depends on the current prices of economic resources, goods, and services and who can afford to buy them.

2. Describe the four basic assumptions required for a laissez-faire capitalist economy.

- a. The creation of wealth is the concern of private individuals, not of government.
- b. Private individuals must own the resources used to create wealth and should be free to determine how these resources are used.
- c. The existence of competitive markets gives sellers and buyers the right to make decisions about what to produce and what to buy, and the market determines how much is sold and at what prices.
- d. Government's role should be limited to providing defense against foreign enemies, ensuring internal order, and furnishing public works and education.

3. Why is the American economy called a mixed economy?

The U.S. economy is a mixed economy because it exhibits elements of both capitalism and socialism.

4. How does capitalism differ from socialism and communism?

Capitalism is a market economy (sometimes referred to as a free-market economy). The basic economic questions are answered by private business owners who control the factors of production. Socialism and communism, on the other hand, are controlled by government

planning and government ownership. Decisions are made by government planners and, in many cases, the wants and needs of the government are more important than those of consumers.

Concept Check (p. 20)

1. How does an increase in productivity affect business?

As productivity increases, fewer workers are needed to produce a given level of goods and services. If demand doesn't increase, management may decide to reduce the workforce in order to generate more profit. This situation will result in higher unemployment. In this case, increased productivity is good for employers but not good for unemployed workers seeking jobs in a very competitive work environment.

2. Define gross domestic product. Why is this economic measure significant?

Gross domestic product (GDP) is the total dollar value of all goods and services produced by all people within the boundaries of a country during a one-year period.

GDP as an economic measure is important because it is a measure of a nation's economic output. It facilitates comparisons between the United States and other countries, since it is the standard used in international guidelines for economic accounting. GDP allows observers to determine, over several time periods, the extent of economic growth.

3. How does inflation affect the prices you pay for goods and services?

Inflation is a general rise in the level of prices. This means the value of money falls.

4. How is the producer price index related to the consumer price index?

The producer price index (PPI) measures prices of goods at the wholesale level. The consumer price index (CPI) measures the prices consumers typically pay for a specific good. Since changes in the PPI reflect price increases or decreases at the wholesale level, the PPI is an accurate predictor of both changes in the CPI or prices that consumers will ultimately pay when they purchase goods and services.

Concept Check (p. 23)

1. What are the four phases in the typical business cycle?

The four phases in a typical business cycle are the peak (sometimes called prosperity), recession, trough, and recovery (sometimes called expansion).

2. At the time you are studying the material in this chapter, which phase of the business cycle do you think the U.S. economy is in? Justify your answer.

Most students will be aware that the economy has been in a recession and some people still feel the impact of that recession. Generally, economists define a *recession* as two or more consecutive three-month periods of decline in a country's gross domestic product. Unemployment rises during a recession, and total buying power declines. The U.S. economy has experienced a slow recovery. Unemployment rates have declined and consumers are spending more. The housing market in many communities is slowly rebounding.

3. How can the government use monetary policy and fiscal policy to reduce the effects of an economic crisis?

The federal government uses both monetary and fiscal policies to offset the effects of recession and depression. The government uses monetary policies to determine the size of the supply of money in the nation and the level of interest rates. Through fiscal policies, the government can influence the amount of savings and expenditures by altering the tax structure and changing the level of government spending.

Concept Check (p. 27)

1. Is competition good for business? Is it good for consumers?

Business competition is essentially a rivalry among businesses for sales to potential customers. In a capitalistic economy, competition ensures that a firm will survive only if it serve its customers well by providing products and services that meet needs. Competition is good for business because it promotes the development of new and better product offerings. It is good for consumers because it generally results in better service and lower prices.

2. Compare the four forms of competition.

The four forms of competition are pure competition, monopolistic competition, oligopoly, and monopoly.

Under pure competition, 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. Under monopolistic competition, there are many buyers and a relatively large number of sellers who differentiate their products from the products of competitors. An oligopoly is a market situation in which there are few sellers, so the market actions of each seller have a strong effect on competitors' sales. A monopoly is a market with only one supplier of the product.

3. What is the relationship between supply and demand?

The *supply* of a particular product is the quantity of the product that producers are willing to sell at each of various prices. The *demand* for a particular product is the quantity that buyers are willing to purchase at each of various prices.

4. Explain how the equilibrium, or market, price of a product is determined.

Under pure competition, the market price of any product is the price at which the quantity demanded is exactly equal to the quantity supplied.

Concept Check (p. 32)

1. How does your standard of living affect the products or services you buy?

Standard of living is a loose, subjective measure of how well off an individual or a society is, mainly in terms of need satisfaction through goods and services. A relatively high standard of living generally results in a higher demand for products and services.

2. What is the difference between the domestic system and the factory system?

The *domestic system* was a method of manufacturing in which an entrepreneur distributed raw materials to various homes, where families would process them into finished goods. In the

factory system of manufacturing, all the materials, machinery, and workers required to manufacture a product are assembled in one place.

3. Choose one of the environments that affect business and explain how it affects a small electronics manufacturer located in Portland, Oregon.

The four different environments are (1) the competitive environment, (2) the global environment, (3) the technological environment, and (4) the economic environment. A small electronics manufacturer in Oregon would most likely find itself in a highly competitive environment where there are many buyers along with a relatively large number of sellers. To successfully compete in this environment, a small electronics manufacturer might differentiate its product from the competition by providing unique product features, an attention-getting brand name, unique packaging, services such as free delivery, or a lifetime warranty.

4. What do you consider the most important challenge that will face people in the United States in the years ahead?

Answers will vary but students may cite any of the following:

- How can we create a more stable economy and create new jobs for the unemployed?
- How do we reduce the national debt and still stimulate business growth?
- How do we restore investor confidence in the financial system?
- How can we use technology to make American workers more productive and American firms more competitive in the global marketplace?
- How can we preserve the benefits of competition and small business in our American economic system?
- How can we conserve natural resources and sustain our environment?
- How can we meet the needs of two-income families, single parents, older Americans, and the less fortunate who need health care and social programs to exist?
- How can we combat terrorism and resolve conflict with Iran, North Korea, and other countries throughout the world?

1.7b Discussion Questions

1. What factors caused American business to develop into a mixed economic system rather than some other type of economic system?

The shrinking size of the globe, the intervention of foreign competition, the Great Depression, World Wars I and II, and the ever-increasing age of our population (among other factors) have contributed to our mixed economic system.

2. Does an individual consumer really have a voice in answering the basic four economic questions described on pages 14-15?

Yes, each individual votes in the competitive marketplace with his or her dollars.

- 3. Is gross domestic product a reliable indicator of a nation's economic health? What might be a better indicator?**

Currently, gross domestic product is the measure used by the nations of the world. A system that measures only those goods and services that contribute *directly* to the standard of living of the nation's citizens might be better.

- 4. Discuss this statement: "Business competition encourages improved product quality and increased customer satisfaction."**

If there are several products of the same type, the consumer will purchase the products of better quality. Businesses are thus forced to improve their products constantly to maintain or enlarge their share of the market.

- 5. Is government participation in our business system good or bad? What factors can be used to explain your position.**

It can be argued that the government's participation in our business system is necessary. On the other hand, the argument can be made that the government interferes. The government provides goods and services that would not be produced by private enterprise or that would otherwise be too expensive for the average citizen. Taxation is necessary to pay for goods and services society needs.

Students' answers will vary based on whether they believe government participates in or interferes with the business system.

- 6. Choose one of the challenges listed on pages 31-32 and describe possible ways in which business and society could help to solve or eliminate the problem in the future.**

Students' answers will vary, depending on the challenge chosen by the student.

1.7c 0Comments on Video Case

KlipTech Turns Recycled Paper into Products and Profits

Suggestions for using this video case are provided in the Pride/Hughes/Kapoor Video Guide.

1. **Joel Klippert says he pays himself last, after he pays his vendors and employees. Explain this decision in terms of the principle of business profit. Do you agree with his payment priorities?**

Profit is what remains after all business expenses have been paid from sales revenue. Therefore, Klippert is using his sales revenue to cover expenses related to running his business by paying his vendors (who supply raw materials and supplies) and his employees before he takes any payment for himself. He needs to consider how much he will pay himself before he calculates the amount of profit, because his compensation is an expense that must be covered by sales revenue as well. Students who agree with Klippert's payment priorities may say that if he pays himself first but has little or no money left over to pay vendors and employees, he will soon be out of business. Students who disagree may say that the entrepreneur is entitled to payment as the business's manager and his compensation should be treated like any other business expense.

2. **When compared to larger manufacturing firms in the building products industry, what advantages have helped KlipTech become successful?**

One of KlipTech's most important advantages is the ability to move quickly and nimbly when the business environment changes. In contrast, larger businesses may need more time to react to what happens in the business environment. A second advantage is that KlipTech initially faced no competition for its two unique products, skateboard ramps and kitchen surfaces made from recycled materials. Students may cite other advantages, such as the founder's entrepreneurial enthusiasm, in addition.

3. **How have the competitive, global, technological, and economic environments helped KlipTech to become a successful small business? Which of the above environments might pose the most challenges in the next few years, and why?**

KlipTech initially faced no competition when it began producing green skateboard ramps and green kitchen surfaces. This allowed the company to attract customers and build sales revenue before potential competitors recognized how the market was changing. Also, KlipTech thinks in terms of a global marketplace, which means it has a much larger potential customer base than if it restricted itself to one country or one continent. Because customers worldwide are increasingly interested in eco-friendly products, KlipTech has taken advantage of this opportunity to increase sales year after year.

KlipTech relies on modern production technology to take recycled materials and transform them into finished products that are both functional and attractive. Without this technology, KlipTech would not be a viable business. Finally, the owner has learned how to operate successfully under different economic conditions. He clearly understands the need to cover his expenses before he takes any profit out of the business. Of the four types of environments, KlipTech might face the most difficult challenge from competition as larger rivals decide to make products that offer customers the same kinds of benefits as KlipTech's products. Larger

companies have more resources and can outspend KlipTech as they develop new technology and create advertising campaigns to promote their products.

1.7d Building Skills for Career Success

1. Social Media Exercise

Today, many companies have a social media presence on Facebook, Twitter, Flickr, and other sites beyond their corporate website. Think of three of your favorite car companies and conduct a quick search using a search engine like Google or Yahoo!

Then answer the following:

- 1. Name the social networks for each company.**
- 2. Compare each of their Facebook pages. How many “likes” does each company have? Are there multiple pages for the company? How much interaction (or engagement) is on each Facebook page?**
- 3. What business goals do you think each company is trying to reach through their Facebook presence?**

ANSWERS: Students will choose from many car companies; here are sample answers for Ford:

1. Facebook, Twitter, YouTube, Instagram, and Vine.
2. At this writing, Ford has over 3 million likes. The home page has pictures and videos and links to many additional sources of information.
3. Ford has a “Ford Social” website that features Ford postings from other areas of the Internet and connects to Ford’s different social media pages.

2. Building Team Skills

This end-of-chapter exercise gives students an opportunity to learn something about their classmates which will decrease fears, allow relationships and trust to develop, and help move the class toward being a team. The number of students in the class will determine how much time you can devote to each step in the process.

The instructor’s role is to keep track of the time and move the students along. Emphasize that time is a resource in the workplace and that time is money. How time is spent can make a difference in the results achieved. Use time wisely.

3. Researching Different Careers

The answers will vary depending on what information the students are able to find. An entrepreneurial environment spurs creativity and encourages new product development, while an entrepreneurial attitude allows an employee to take risks and try new and different things. Solving difficult problems requires moving outside a perceived set of assumptions; this is where an entrepreneurial attitude helps.

Employees are rewarded in many different ways—from cash to promotions. The philosophy of the company determines how it values entrepreneurship and how employees are rewarded for their efforts.

1.8 QUIZZES I AND II

Quiz I

True-False Questions

Select the correct answer.

1. T F Free enterprise is a system of business in which individuals decide what to produce and how to produce it.
2. T F Less than 50 percent of small businesses fail within the first five years.
3. T F Business is the organized effort of individuals to produce and sell, for a profit, the products and services that satisfy society's needs.
4. T F Adam Smith argued that the creation of wealth is properly the concern of private individuals, not the government.
5. T F The business cycle consists of two or more consecutive three-month periods of decline in a country's GDP.

Multiple-Choice Questions

Circle the letter before the most accurate answer.

6. A general rise in the level of prices is called
 - a. free enterprise.
 - b. inflation.
 - c. gross domestic product.
 - d. depression.
 - e. monopoly.
7. A market situation in which there are many buyers and sellers of a product and no single buyer or seller can control the price is
 - a. an oligopoly.
 - b. a monopolistic marketplace.
 - c. a monopoly.
 - d. pure competition.
 - e. a laissez-faire market.
8. A system of exchange in which goods or services are exchanged without using money is called
 - a. a barter system.
 - b. free enterprise.
 - c. monetary policy.
 - d. fiscal policy.
 - e. monopolistic competition.

9. The separation of a manufacturing process into distinct tasks is referred to as
 - a. barter.
 - b. specialization.
 - c. a factory system.
 - d. a domestic system.
 - e. an economy of scale.
10. A method of manufacturing in which all materials, machinery, and workers are assembled in one place is called
 - a. the economic system.
 - b. the domestic system.
 - c. Slater's system.
 - d. the factory system.
 - e. an oligopoly.

Quiz II

True-False Questions

Select the correct answer.

1. T F The definition of a service economy is an economy in which more effort is devoted to the production of goods to be used for services.
2. T F Walmart and Target are often referred to as marketing intermediaries.
3. T F Profit is the payment that business owners receive for assuming the considerable risks of ownership.
4. T F Approximately one-third of our nation's total production consists of consumer products.
5. T F A monopoly is a market (or industry) with only one seller.

Multiple-Choice Questions

Circle the letter before the most accurate answer.

6. Which of the following is *not* one of the four resources used by business today?
 - a. Material
 - b. Informational
 - c. Governmental
 - d. Financial
 - e. Human
7. Today, the U.S. economy is often characterized as a _____ economy.
 - a. laissez-faire
 - b. command
 - c. socialist
 - d. mixed
 - e. Smithsonian

8. Many economists refer to the average level of output per worker per hour as
 - a. productivity.
 - b. inflation.
 - c. the business cycle.
 - d. real GDP.
 - e. the trough.
9. Which of the following is *not* one of the four states in a business cycle?
 - a. Peak
 - b. Recession
 - c. Trough
 - d. Recovery
 - e. Deficit
10. Before leaving England, _____ memorized the plans for a water-powered spinning machine and set up a textile plant in Pawtucket, Rhode Island.
 - a. Eli Whitney
 - b. Franklin Roosevelt
 - c. Samuel Slater
 - d. Mark Cuban
 - e. Cyrus McCormick

1.9 ANSWER KEY FOR QUIZZES I AND II

Quiz I

True-False

1. T
2. F
3. T
4. T
5. F

Multiple-Choice

6. b
7. d
8. a
9. b
10. d

Quiz II

True-False

1. F
2. T
3. T
4. F
5. T

Multiple-Choice

6. c
7. d
8. a
9. e
10. c

1.10 CLASSROOM EXERCISES

1.10a Homework Activities

- **Correlating Current Events to Text Concepts.** Ask students to cite an article that discusses one of the challenges facing businesses today as discussed at the end of the chapter.
- **Researching and Following a Company Throughout the Course**

This exercise is a continuing exercise and will have optional homework exercises in the Instructor's Manual for many of the chapters.

Have students identify a public company in which they are particularly interested. Have them explain why they are interested in it, and have them make a list of potential sources they will use to research the company for the duration of the course. They should write a brief overview about the company indicating what industry it is in, who its major competitors are, and where the company headquarters are located. With each continuing assignment, students should document their sources of information, as they would with any research project.

1.10b Classroom Activities

- **Fun Quiz.**

Using the “So You Think You Know Business?” Fun Quiz as a handout or a PowerPoint, have students form groups of four or five and give them 10 minutes to see if they can come up with the answers. Then, use the answers from the quiz as a basis for discussion. This is an especially good exercise for the first day. It allows students to have a little fun and meet others in the class.

- **Resource Exercise: What Do I Need?**

Divide students into groups of three or four. Using the Resource Exercise as a handout or PowerPoint slide, ask the students to develop a list of the various resources they would need to start a part-time garage cleaning business. You may wish to mention here that Michael Dell started his computer business while still in college. This exercise should take no more than 10 to 15 minutes to complete. Suggested answers to the exercise appear after the handout.

- **Supply and Demand Exercise.**

Hand out the GarageWorks! fee schedule. Have students get into groups of four and decide how much they will charge to clean a garage. How much labor are they willing to supply at each price? And what happens to demand as they raise their prices? This exercise should take about 10 minutes and stimulate a lot of discussion, not only about how much demand there is for services at different prices but also about how much work people are willing to provide at what pay.

- **Productivity Exercise.**

This is a simple exercise that can be done in 10 to 15 minutes. Using the handout or slide, ask students to develop a list of techniques or strategies to help increase the productivity of a gardening hobby that has grown into a profitable little business. This exercise can also be used to lead into a discussion of the differences between services and goods. It is also helpful for introducing the subject of sustainability early in the semester.

1.10c Exercise Handouts Follow on Next Pages

“Fun Quiz”

So You Think You Know Business?

(Answer the following questions to see how much you really know.)

1. Since 1954, three companies have been No. 1 on America’s Fortune 500 list several times. They are:

2. What day of the week are employees most productive?

3. The air conditioner was developed by Willis Carrier in 1902. Its original purpose was not to cool homes. What was its purpose?

4. Which college football team inspired Gatorade?

5. What fast-food chain founded in 1964 was named for brothers Forrest and LeRoy Raffel?

6. True or False—Reebok is Turkish for “fleet of foot.”

7. In what city was America’s first stock exchange located?

8. What company today was originally named the Computer-Tabulator-Recorder Company (C-T-R)?

9. With what product did the term “brand name” originate?

10. What did the term “buck” originally refer to?

Sources: Adapted from American Business Trivia, www.journalofbusinessstrategy.com/articles/business-trivia.shtml, accessed July 16, 2006; Business & Finance Trivia, <http://morevalue.com/FinanceChannel/Trivia/TriviaEnter.htm>, accessed July 17, 2010.

Answer Key to “Fun Quiz”

1. Since 1954, three companies have been No. 1 on America's Fortune 500 list several times. They are:
General Motors
ExxonMobil
Walmart
2. What day of the week are employees most productive?
Tuesday
3. The air conditioner was developed by Willis Carrier in 1902. Its original purpose was not to cool homes. What was its purpose?
To remove humidity from air in printing and food production plants.
4. Which college football team inspired Gatorade?
University of Florida researchers were looking for a drink to rapidly replace fluids and help prevent dehydration—the drink was tested on the UF Gators football team.
5. What fast-food chain founded in 1964 was named for brothers Forrest and LeRoy Raffel?
Arby's. The name stands for RB—Raffel Brothers.
6. True or False—Reebok is Turkish for “fleet of foot.”
False—Reebok is an African gazelle.
7. In what city was America's first stock exchange located?
Philadelphia
8. What company today was originally named the Computer-Tabulator-Recorder Company (C-T-R)?
IBM
9. With what product did the term “brand name” originate?
Whiskey. Producers branded their names on the barrels they shipped out.
10. What did the term “buck” originally refer to?
Deerskins, which were a common method of exchange in frontier days.

Resource Exercise

What Do I Need?

You and three school friends have come up with a new business—GarageWorks! There are many people working in the landscaping, house-cleaning, and even car-cleaning and dog-washing businesses, but you are going to specialize in cleaning and organizing garages for suburbanites. Some are elderly, some are busy—so you will do the heavy work. What resources will you and your friends need? Initially, you will clean four garages a week while in school.

Work with your group members to come up with a short list of needs. This should take no longer than 10 minutes.

Material resources: What do you need to get started?

Human resources: How many people will you need?

Informational resources: What information do you need access to, and how will you know how well you are doing?

Financial resources: How much money do you need to get started?

Answers to Resource Exercise

A partial list might include:

Material resources: What do you need to get started?

- *Access to at least one large car or van to transport people and equipment/supplies*
- *Cleaning equipment—Heavy-duty sponges, brooms, rags, towels, sprayers, long-handled cleaners for ceilings*
- *Cleaning supplies—Wood cleaners, concrete and metal cleaners, rust remover, garbage bags, etc.*
- *Work shoes/boots and clothes—Aprons? Overalls?*
- *Organizing supplies—Nails, hammers, shelving, etc.*
- *Bins or boxes to hold and transport equipment and supplies*
- *Some place to keep supplies and equipment when not in use*
- *Other?*

Human resources: How many people will you need?

You have four people in your company. Will you always need—or even have—four people? How many hours do you need to do a “typical” job? How much time will you have to spend getting customers? Advertising? Organizing? Getting supplies? Etc. How will you decide who does what?

Informational resources: What information do you need access to, and how will you know how well you are doing?

Obviously, you need cost data, including the value of time. It would be helpful to have a potential customer database, whether generated from family, friends, neighbors, or some other source. You may wish to check the Internet or local library to find out which suburb has the most two-earner families on the assumption that they have the least time.

Financial resources: How much money do you need to get started?

This question is a bit tricky as you would have to know the cost of the equipment and supplies, opportunity cost of giving up your current job, and how many trips you would make and where in order to calculate gas and car maintenance costs.

Supply and Demand Exercise

GarageWorks! Fee Schedule

You and three friends have a garage-cleaning business. You are all carrying a full study schedule but need to make some extra money. You have handed out a questionnaire to potential customers to determine what they are willing to pay, and the results are as follows:

Total Profit	Total Costs	Profit per Person	Number of Customers
\$150	\$20	\$130	30
\$200	\$20	\$180	50
\$250	\$20	\$230	70
\$300	\$20	\$280	100
\$350	\$20	\$330	125
\$400	\$20	\$380	150
\$500	\$20	\$480	200

*Notes:

Price per cleaned garage is based on four people working four hours each.
Profit per person is the total profit divided by four people.
Profit per hour is how much each person makes as an hourly wage.
Based on the above schedule, how much are you going to charge? You will have 400 customers if you charge \$100, down to 10 customers if you charge \$500. Your costs (supplies, etc.) remain constant. Explain your choice.

GarageWorks! Instructor Notes

Most students will quickly see that they will maximize their income by charging the high price of \$500. However, there are only 10 people willing to pay that price. Clearly, demand falls as price rises.

Students who choose that price may argue that since the members of GarageWorks! have a full study schedule, they are better off just doing 10 garages and charging the maximum. This is not a full-time business for them. They may also suggest that after they finish the 10 at \$500 and wish to do more, they can always lower the price.

Other groups may feel that there is a long-term opportunity here and may wish to go with a lower price such as \$400 or \$350. They may feel there is still enough profit so that the original four members may wish to subcontract to friends on an as-needed basis.

It is unlikely that any groups will consider \$150 as a viable price. At \$16.25 an hour, opportunity cost would apply.

Service Sector Productivity Brainstorming Exercise Handout

Chapter 1 defines “productivity” as the average level of output per worker. An increase in productivity results in economic growth. The Internet along with automation has increased productivity in recent times. Productivity improvements are more difficult to achieve in the service sector than they are in manufacturing.

Your instructor has assigned your team the following scenario:

Your parents have recently retired and have turned their backyard gardening hobby into a small business growing organic vegetables and herbs. They start their seeds in the winter and plant as the weather allows in spring. Because they are organic, they do not use pesticides. All weeding and pest control is done by hand. The resulting foods are sold either at local farm markets or at a small stand in front of their house.

They are fortunate to live in a semi-rural suburb with little zoning regulation that is still close to urban and suburban areas where residents are willing to pay a premium for such foods. In fact, they are able to charge up to 15 percent more than local supermarkets do for similar organic foods. They have built up a strong clientele and could easily sell 50 percent more vegetables if they had more room and more help. They would love the extra money, but at their age are not anxious to buy more land, make huge investments in machinery, or start hiring staff. They also love the interaction with their customers. Clearly, this is a productivity issue.

In the next 10 to 15 minutes, develop a list of ways they could increase their productivity. Choose a group member to report the results as directed by your instructor.

Service Sector Productivity Brainstorming Instructor Notes

This is a simple exercise, given that there are no employees to be trained or motivated to perform at higher levels. Students should be organized into groups of three or four, with one student designated to report results. This exercise should take no longer than 15 minutes.

Students should be encouraged to discuss any service jobs they may have held and how productivity could have been increased in those jobs. They can then see if those can be adapted for the Mom and Pop Farm scenario. It should be fairly easy for them to suggest items such as the following:

- Establish contact with local agricultural schools for suggestions about time-saving techniques and equipment.
- Research the Internet and journals to see what advances are being made in sustainable farming techniques.
- Investigate the possibility of joining forces with other micro-farmers in the area.
- Consider specializing in a more limited product assortment of vegetables or herbs.
- Grow only the vegetables that provide the highest profit and are the easiest to grow.
- Provide part-time work for middle and high school students on a partnership basis.

This scenario makes it clear that these small-scale gardeners have no interest in growing a major business. As a follow-up, you may ask your students how their answers might change if that were not the case.