Chapter 1: The Dynamics of Business and Economics

Use this Instructor’s Manual to facilitate class discussion and incorporate the unique features of the text’s highlights. Follow-up via the Connect exercises is then encouraged to provide a holistic understanding of the chapter. Use the hyperlinked Table of Contents below to jump to different sections of the manual.

Table of Contents

[Chapter Forecast 1](#_Toc60067230)

[Learning Objectives 2](#_Toc60067231)

[Key Terms and Definitions 2](#_Toc60067232)

[Content Outline 4](#_Toc60067233)

[Boxed Text Critical Thinking Questions 11](#_Toc60067234)

[Are You Prepared // to Take Advantage of Emerging Job Opportunities? / 12](#_Toc60067235)

[Bonus Teaching Resources 12](#_Toc60067236)

[Chapter Review Questions 16](#_Toc60067237)

[Connect Exercises 17](#_Toc60067238)

[Class Discussion Questions 18](#_Toc60067239)

[Build Your Business Plan 18](#_Toc60067240)

[Video Case: Redbox Succeeds by Identifying Market Needs 19](#_Toc60067241)

[Team Exercise 21](#_Toc60067242)

[Build Your Skills 21](#_Toc60067243)

[Suggestions for Group Formation 22](#_Toc60067244)

[Term Paper or Project Topics 23](#_Toc60067245)

[Guest Speaker Suggestions 23](#_Toc60067246)

[Teaching Suggestions 23](#_Toc60067247)

# Chapter Forecast

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 United States 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.

# Key Terms and Definitions

**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

**Capital**

The funds used to acquire the natural human resources needed to provide products; also called financial resources

**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

**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 his or her 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**

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**

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 fewer businesses than in a pure-competition environment 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 or service with tangible and intangible characteristics that provide satisfaction and benefits

**Profit**

The difference between what it costs to make 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

**Supply**

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

**Standard of living**

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

**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 section on which **CONNECT** activities can be used in the chapter. This is created so that you can facilitate in-class or online discussion effectively.

|  |  |
| --- | --- |
| **LO 1-1 Define basic concepts such as business, product, profit, and economics.*** Introduction
* The Nature of Business
	+ The Goal of Business
 | **Key terms:*** Business
* Product
* Profit
* Nonprofit organization
* Stakeholders
 |
| **PowerPoint Slides****PPT 1.4****PPT 1.5****PPT 1.6****PPT 1.7****PPT 1.8****PPT 1.9** | **Lecture Outline and Notes:**1. The Nature of Business
	1. **Business** refers to the individuals and organizations that seek a profit by providing products that satisfy people’s needs.
	2. **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, a computer, a phone, and a coat.
		2. Examples of services include dry cleaning, having a physical with your doctor, the performance by a basketball player, and a musical concert.
		3. A product can also be an idea. Accountants and attorneys, for example, generate ideas for solving problems.
	3. The goal of business is to earn a **profit**, the difference between what it costs to make 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 providing employment, which in turn provides money that is reinvested in the economy.
		3. **Nonprofit organizations** do not have the fundamental purpose of 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:
			1. 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. Managers must also oversee the firm’s operations to ensure that resources are transformed into goods and services.
			2. Marketing expertise to learn what products consumers need and want and to develop, manufacture, price, promote, and distribute those products.
			3. Financial resources and skills to fund, maintain, and expand its operations.
			4. The ability to face challenges such as abiding by laws and government regulations.
			5. Acting in an ethical and socially responsible manner.
			6. 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.
 |
| **LO 1-2 Identify the main participants and activities of business.*** The People and Activities of Business
 | **Key terms:** |
| **PPT 1.10****PPT 1.11****PPT 1.12****PPT 1.13****PPT 1.14** | 1. The people 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, information technology, legal and political forces and social responsibility.
	* 1. Owners have to put up the resources to start a business. They can manage the business themselves or have employees as managers.
		2. Employees are responsible for the work that goes on within the business.
		3. The major role of a business is to satisfy the customers who buy its goods and services.
2. The activities of businesses include primarily management, marketing, and finance.
	* 1. 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.
		2. 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.
		3. 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.
3. 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 1-3 Explain why studying business is important.*** Why Study Business?

**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
* Financial resources
* Economic resources
* Communism
* Socialism
* Capitalism (free enterprise)
* Free-market system
* Mixed economies
 |
| **PPT 1.16****PPT 1.17****PPT 1.18****PPT 1.19****PPT 1.20****PPT 1.21-1.24****PPT 1.25****PPT 1.26****PPT 1.27** | 1. The Economic Foundations of Business
	1. **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** 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 sometimes called *factors of production*.
		5. The firm can also have intangible resources such as a good reputation for quality products or being socially responsible.
	2. An **economic system** describes how a society distributes its resources to produce goods and services that satisfy the needs of its people. All economic systems must answer three questions:
		1. What goods and services and how much of each will satisfy the needs of the consumer?
		2. How will the goods and services be produced? Who will produce them and with what resources?
		3. How are the goods and services to be distributed?
	3. Types of economic systems found in the world: communism, socialism, and capitalism (Table 1.1).
		1. Karl Marx described communism as a society in which the people, without regard to class, own all the nation’s resources. Also called command economies (China & Cuba).
			1. Central government planning determines what products will satisfy citizens’ needs, how they are produced, and how they are distributed.
			2. In theory, communism appears efficient and equitable, but in practice, communist economies have been marked by low standards of living, critical shortages of consumer goods, high prices, and little personal freedom.
			3. Many countries have turned away from communism and begun to experiment with economic systems governed by supply and demand rather than by central planning.
		2. **Socialism** is an economic system in which the government owns and operates basic industries, but individuals own most businesses (Sweden, Israel, & India).
			1. Central planning determines what and how basic goods and services are produced and distributed, but individuals and small businesses provide other products based on consumer demand and the availability of resources.
			2. Most socialist nations are democratic and recognize basic individual freedoms.
			3. Socialist economies profess egalitarianism—equal distribution of income and social services.
			4. Taxes and unemployment are generally higher in socialist countries.
		3. **Capitalism**, or **free enterprise**, is an economic system in which individuals own and operate most of the businesses that provide goods and services (U.S., Canada, & Japan).
			1. Competition, supply, and demand determine which goods and services are produced, how they are produced, and how they are distributed.
			2. There are two forms of capitalism:
				1. Pure capitalism, or a **free-market system**, exists when all economic decisions are made without government intervention. Adam Smith, the father of capitalism, believed that the *invisible hand of competition* would best regulate the economy.
		4. **Mixed economies** have elements from more than one economic system. No country practices a pure form of communism, socialism, or capitalism.
			1. Many large economies are free-enterprise—including the U.S., Canada, and Japan.
			2. Many communist and socialist countries apply free-enterprise principles—including China and Russia.
		5. Free enterprise allows a company to succeed or fail on the basis of market demand. Modified capitalism differs from pure capitalism in that the government intervenes and regulates business to a certain extent.
			1. One way of regulating business is through laws.
			2. Federal Trade Commission Act created the Federal Trade Commission.
			3. Importance of government’s role in economy.
	4. The Free-Enterprise system provides an opportunity for a business to succeed or fail on the basis of market demand. A number of basic individual and business rights must exist for free enterprise to work and businesses to succeed.
		1. Individuals must have the right to own property.
		2. Individuals and businesses must have the right to earn and use profits, within constraints of society’s laws.
		3. Individuals and businesses must have the right to make decisions that determine how the business operates, within the limits of the law.
		4. Individuals must have the right to decide what career to pursue, where to live, what goods and services to purchase, and more. Businesses can decide where to locate, what goods and services to produce, what resources to use in the production process, and so on.
 |
| **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 1.28****PPT 1.29****PPT 1.30****PPT 1.32****PPT 1.33****PPT 1.34****PPT 1.35****PPT 1.36****PPT 1.37** | * 1. The Forces of Supply and Demand (Figure 1.2)
		1. **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.
		2. **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.
		3. An **equilibrium price** is the point at which supply and demand curves intersect, indicating that supply and demand are equal at that point.
		4. Supply and demand constantly change in response to economic conditions, availability of resources, and degree of competition.
		5. Critics of supply and demand say that the system does not distribute resources equally among the wealthy and the poor.
	2. The Nature of Competition
		1. **Competition** is the rivalry among businesses for consumers’ dollars. It is a vital element of free enterprise.
		2. Free-enterprise systems offer four types of competitive environments:
			1. **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.
			2. **Monopolistic competition** exists when there are fewer businesses than in a pure competition system and the differences between the goods they sell are small. Aspirin, soft drinks, and vacuum cleaners are examples.
			3. An **oligopoly** exists when very few businesses sell a product, and it is expensive for new firms to enter the marketplace. The airline industry is an example.
			4. A **monopoly** exists when there is only one producer of a product in a given market. Utility companies are examples of monopolies.
	3. Economic Cycles and Productivity
		1. **Economic expansion** occurs when an economy is growing and people are spending more money.
			1. Rapid economic expansion may result in **inflation**, a continuing rise in prices.
		2. **Economic contraction** occurs when spending declines.
			1. It can lead to **recessions**, which are marked by a decline in production, employment, and income.
			2. **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 deflation.
			3. 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.
		4. Hyperinflation
 |
| **LO 1-6 Specify why and how the healthy of the economy is measured.** | **Key terms:*** Gross domestic product (GDP)
* Budget deficit
 |
| **PPT 1.38****PPT 1.39** | * + 1. Countries measure the state of their economies to determine whether they are expanding or contracting and whether corrective action is necessary to minimize fluctuations.
			1. **Gross domestic product (GDP)** is the sum of all goods and services produced in a country during a year (Figure 1.4)
				1. GDP measures only those products made within a country, not profits earned from companies’ overseas operations. It does include profits earned by foreign companies within the country being measured.
				2. It also does not take into account the sum relative to the country’s population; GDP per capita does.
			2. **Budget deficits** occur when a nation spends more than it takes in from taxes. The national debt exceeds $25 trillion in 2020.
		2. Other Ways of Measuring the Economy (Table 1.2)
			1. *Trade balance*: 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.
			2. *Consumer Price Index*: Measures changes in prices of goods and services purchased for consumption by typical urban households.
			3. *Per capita income*: Indicates the income level of “average” Americans. Useful in determining how much “average” consumers spend and how much money Americans are earning.
			4. *Unemployment rate*: 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 househusbands/housewives, are not counted as unemployed.)
			5. *Inflation*: Monitors price increases in consumer goods and services over specified periods of time. Used to determine if costs of goods and services are exceeding worker compensation over time.
			6. *Worker productivity*: The amount of goods and services produced for each hour worked.
 |
| **LO 1-7 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

**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:*** Standard of living
* Open economy
* Technology
* Artificial Intelligence
* Big Data
* Blockchain
* Entrepreneur
 |
| **PPT 1.40****PPT 1.42****PPT 1.43****PPT 1.44****PPT 1.45** | 1. The American Economy
	1. A Brief History of the American Economy
		1. **Standard of living** refers to the wealth and material comfort that people have available to them. The United States, Germany, Australia, and Norway have a high standard of living.
		2. The Early Economy
			1. Colonists established an *agricultural economy*
			2. Most people were self-sufficient and produced almost everything they needed
		3. The Industrial Revolution
			1. Machines and job specialization increased speed and efficiency of production
		4. Manufacturing and Marketing economies
			1. Industrialization brought about the *manufacturing economy,* which was devoted to producing goods and services
			2. The *marketing economy* emerged as businesses became more concerned with the needs and wants of consumers
		5. The Service and New Digital Economy
			1. As quality of life improved, people had enough income to hire others to provide services for them, which ushered in the service economy
			2. Advanced technology contributes to new service products based on technology and digital media that provide:
				1. Smartphones
				2. Social networking
				3. Virtual worlds
		6. Technology and the Economy
			1. Artificial intelligence (AI) relates to machine (computer)learning that is able to perform activities and tasks that usually require human intelligence such as decisions, visual perception, and speech recognition.
			2. Big data refers to large volumes of structured and unstructured data this is transmitted at very fast speeds.
			3. Blockchain is a decentralized record keeping technology that stores linked block of ordered transactions over time.
	2. The Role of the Entrepreneur
		1. An **entrepreneur** risks his or her 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 Fred Smith (FedEx)).
	3. The Role of Government in the American Economy
		1. The U.S. 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.
	4. The Role of Ethics and Social Responsibility in Business
		1. Recent scandals undermined public confidence in corporate America and sparked a new debate about ethics in business (Enron, Countrywide, BP, Bank of America, Citigroup).
		2. Business ethics 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. Businesses should determine what society wants and attempt to predict the long-term effects of their decisions.
2. Can You Learn Business in a Classroom?
	1. Absolutely! To be successful in business, you need knowledge, skills, experience, and good judgment.
	2. This book can help students gain some of the knowledge, develop skills, and gain experience needed to be successful in business.
 |

# Boxed Text Critical Thinking Questions

## Taylor Swift Fights Scalpers

1. **Describe how the supply-demand problem is offering opportunities for scalpers.**

The demand for concert tickets is high and fans must often hurry to purchase tickets before they are sold out. There are a limited number of seats, demand is high, and the equilibrium price is also high. This situation creates opportunities for ticket scalpers.

1. **Scalpers raise the equilibrium price once they control the supply. How do you think this Ticket - master Verified Fan System will affect this ability?**

The Verified Fan system locates fans less likely to resell their tickets. Fans register and—if they are identified by Ticketmaster’s Verified Fan system—they are sent a link that gives them early access to tickets.

1. **As a service provider, do you think performers like Taylor Swift should take an active role in fighting against scalpers? Why or why not?**

Answers will vary with some students answering that performers should take an active role because they have the power whereas consumers do not. Other students will argue that the concept of supply and demand should apply, and performers shouldn’t care if fans resell the tickets because they already have their money.

## Competition is Brewing in Kombucha Market

1. **Why is the competition in the kombucha industry an example of monopolistic competition?**

Because kombucha is relatively easy to produce, manufacturers take steps to differentiate their products, such as developing drinks in a variety of unique, fruity flavors.

1. **How are the forces of supply and demand convincing more established brands like PepsiCo to enter the industry?**

Consumer interest in the beverage is skyrocketing, and the demand is encouraging the entrance of new competitors. Coca-Cola has a stake in a kombucha company and Pepsi doesn’t want to miss a market opportunity.

1. **If more and more entrants enter the industry, what do you think will happen to the price of kombucha?**

Based on the concept of supply and demand, with an increase in the number of sellers, the price should decline.

## Up in the Air: Drones and Air Traffic Control

1. **How does this situation demonstrate a modified capitalist economic system?**

Air traffic control is run by the government to regulate and manage air space. While this type of government control works for airplanes, the rise of a new type of product taking to the skies calls for a more autonomous type of control. So free enterprise is encouraged but the government needs to regulate the overall system.

1. **What is the difference between the current air traffic control system and the proposed air traffic control system for drones?**

Unlike the air traffic control system for airplanes, this drone system is private. The FAA will define a drone traffic management framework that commercial operators will follow.

1. **Why would it be harder for the government to maintain as much control over drones as it does for airplanes?**

As many as 7 million drones could be in the sky at once, according to the Federal Aviation Administration (FAA). The sheer number of drones and companies involved would make it impossible for the government to control.

# Are You Prepared // to Take Advantage of Emerging Job Opportunities? /

**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?**

Because you spend most of your waking hours at work, it is imperative that you explore all avenues when determining what line of work you would like to enter. You need to consider all of the trends in business and the economy. “Research indicates that you won’t be that happy with your job unless you enjoy your work and feel that it has a purpose. Because you spend most of your waking hours every day at work, you need to seriously think about what is important to you in a job.”

# Bonus Teaching Resources

This section offers bonus teaching resources for class discussion. This is offered in addition to what’s offered in the *M: Business* text.

## “Walmart Supercenters” MiniCase

Walmart Supercenters have opened in more than 3,000 locations throughout the United States since their inception in 1988. These outlets offer a retail format that can have major economic and quality of life impacts on a community. Customer satisfaction, a primary goal of Walmart, is achieved through convenience (one-stop shopping) and low prices. Walmart usually manages to out-compete other generalists, such as Kmart and Target, through effective marketing and aggressive expansion policies. Target has shifted its focus to higher quality products at reasonable prices, while Kmart made a less than successful attempt to compete directly with Walmart by opening its own supercenters, known as Big Kmart (or Big K). Target has also begun to open its own supercenters. Walmart’s margins reflect a competitive advantage, however, and customers keep returning because of the low prices.

Emergence of a new Walmart Supercenter means many things to smaller trade areas. For example, when a 213,000 square foot Walmart Supercenter with approximately five acres of floor space opened its doors in Fort Collins, Colorado, the store was in addition to a previously existing, but smaller Walmart Supercenter on the other side of Fort Collins. The city has less than 160,000 residents but is surrounded by several smaller cities and communities that expand the trade area to over 200,000. When it first opened, sales revenues at this store were expected to average $2 million per week, yielding annual sales tax revenues for the city estimated at $2.2 million. The development of the surrounding shopping center was expected to lead to large volumes of traffic. A number of retail stores rent space inside the massive facility, including a fast-food chain, a hair salon, and a portrait studio. The adjacent shopping center includes a Home Depot, a bike shop, a bank, other service providers, and several restaurants.

The effect of a Walmart Supercenter on the local economy is not limited to increased sales tax revenues and business. It also can have negative effects on local retail operations (sometimes referred to as “Mom & Pop” stores) that cannot offer the same low prices and variety as Walmart. Supercenters have driven Walmart to become one of the largest corporations in America. In addition, Walmart is currently the highest volume grocery seller, surpassing chains such as Safeway, Albertson’s, and Kroger, which focus specifically on groceries and do not provide the complete product lines found in a Walmart Supercenter. Many people argue that the introduction of such a large retailer causes local businesses to fail. Citizens also sometimes fight against using limited city budgets for infrastructure development, such as roads, traffic lights, and water/sewer lines, to support Walmart and accompanying sprawling development.

Special interest groups, ranging from environmentalists to older citizens not wishing to see their small town turn into a metropolis, often oppose the development of a new facility. In some instances, even historic sites have fallen victim to urban sprawl and development. In Davidson County, Tennessee, for example, re-zoning was approved by a business-friendly city council for a Walmart and Lowe’s shopping center that destroyed a Native American burial site and a historic civil war site on the Cumberland River. In Russell County, Virginia, a similar controversy emerged over the proposal of a Walmart Supercenter in an industrial site of marginal industrial (coal mining) capacity. Local residents feared that a precedent might be set allowing other, perhaps more lucrative, industrial sites to become commercial space for large multinational corporations, thus hurting local economic development. Local businesses also feared the competitive advantage a large retailer would have, possibly resulting in a negative effect on the local economy. Over 150 communities in America and Canada have pressured “big-box” retailers such as Walmart into withdrawing plans or have publicly voted to reject their retail development. Citizen groups usually employ a number of delay and avoidance tactics. These may include lawsuits, protests, pigeonholing of local politicians, and town hall meetings. Most of these citizen-based initiatives fail, however.

There have been success stories of small towns preventing construction of Walmart Supercenters. For example, residents of the small town of Old Saybrook, Connecticut, were able to fight off a Walmart Supercenter. To do so, the citizens had to raise sufficient money to hire professional help and legal counsel, organize protests, circulate petitions, and raise awareness of the issue. They were able to convince three local political bodies to block the multinational corporation and have since established a website to help other small communities to follow their successful methods.

In spite of the controversies surrounding their introduction, one Walmart Supercenter may bring more than 450 jobs to an area. Many of these positions are not full-time and they may pay low wages, but a number of the positions are higher-paying store managers, assistant store managers, pharmacists, and the like. This increase in jobs can be good for local economies, as well as national employment figures. In fact, Walmart is the nation’s leading employer. While some small businesses may fail, it is often claimed that more jobs are created by the opening of a supercenter. In addition, Walmart often pays higher wages and offers better benefits than a small mom and pop store can pay its employees.

So, what effect does Walmart have on smaller towns and smaller companies? In a study of competition and retail structure published in the Journal of Marketing (1999), authors Miller, Reardon, and McCorkle explored the relation of “superstores,” such as Walmart and Kmart, to saturation (measured as number of stores per household) of the competitors. They found that as saturation by a generalist (such as Walmart) increased, broad-line specialist (for example, sporting goods, electronics, and furniture stores) saturation did as well. However, the positive effect did not carry over to saturation of limited-line specialist (e.g., “Mom and Pop” stores). The authors did not test the potential negative effect of generalist saturation on limited-line specialist saturation.

Other studies have shown that most shoppers prefer to do their shopping at large discount stores because of the time and money savings, potentially disrupting business on small towns’ main streets and downtowns. Some studies show that Walmart can be good for downtowns, but highly disruptive to surrounding (within a 20-mile radius) communities’ downtowns, as customers are likely to drive to another town to do their shopping. These studies indicate a negative trend for other retailers when a Walmart Supercenter emerges in the town. Indeed, many downtowns have become vacant in an attempt to directly compete with Walmart, while some have thrived. The secret of which stores do well in a downtown setting may rely on customer focus and finding a niche. Even though there may be controversy, the growth of Walmart Supercenters is expected to continue at a rapid rate.

**Sources:**

“About Us: History,” Walmart Stores, http://corporate.walmart.com/our-story (accessed May 9, 2016); Anthony Bianco and Wendy Zellner, “Is Walmart Too Powerful?” *Business Week,* October 6, 2003, pp. 100-110; Tom Daykin, “Communities Force Big Box Retailers to Rethink Designs,” [www.jasonline.com/bym/biz2biz/ljun01/daykcol15061301a.asp](http://www.jasonline.com/bym/biz2biz/ljun01/daykcol15061301a.asp) (accessed November 2, 2001); “Boycott Walmart/Lowe’s and JDN Realty Corporation, Ravagers of Native America,” [www.horizons.k12.mi.us/~aim/walmart.html](http://www.horizons.k12.mi.us/~aim/walmart.html) (accessed November 2, 2001); “PBS—Store Wars: Communities Opposing Megastores,” [www.pbs.org/storewars/communitylist.html](http://www.pbs.org/storewars/communitylist.html) (accessed August 2, 2010); C.E. Miller, J. Reardon, and D.E. McCorkle, “The Effects of Competition on Retail Structure: an Examination of Intratype, Intertype, and Intercategory Competition,” *Journal of Marketing*, 1999, 63:107-120; Robert Buan, “Walmart Sets Sail,” *[Fort Collins] Coloradoan*, October 24, 2001, pp. A1, A2; Robert Buan, “Shoppers Flock to Walmart,” *Coloradoan*, October 25, 2001, pp. A1, A2; “Fort Collins (city) Colorado,” *United States Census Bureau,* <http://quickfacts.census.gov/qfd/states/08/0827425.html> (accessed May 9, 2016); “Our Stores,” Walmart, <http://corporate.walmart.com/our-story/our-stores> (accessed September 30, 2012).

### Discussion Questions for “Walmart Supercenters” MiniCase

1. **Do you feel the entry of a Walmart Supercenter in a small trade area (<200,000 population) is positive or negative for the quality of life in that area? Defend your answer after taking a positive or negative position.**

Students’ answers may vary. Some reasons for support could include lower costs and more convenience for consumers, jobs for more members of the community, the attraction of more people to the community from surrounding areas, and better business for broad-line specialist stores like sporting goods stores. Some reasons against could include causing mom and pop stores to go out of business, higher congestion around stores, the destruction of historic sites, and environmental degradation.

1. **Which members of a community might typically oppose a Walmart Supercenter? What are their objections? How can Walmart answer these complaints?**

Members most likely to object include owners of mom and pop stores, environmentalists and other special interest groups, and local citizens who fear the stores will have a negative impact on their economy. Objections range from Walmart’s tendency to boot out local businesses because they cannot compete with the super chain, the increased money in taxes that may be needed to support the superstore’s large infrastructure, traffic congestion around the stores, and the fear of environmental degradation. Students’ answers to the last question will vary, but may include having

Walmart’s sustainability manager address citizens to assure them that Walmart will take precautions against environmental damage, create large parking lots to reduce traffic congestion, choose open areas in which to build so that local landmarks remain unaffected, work directly with the community to reduce negative impacts, and improve employment by offering jobs to local citizens.

1. **Find information on a small town (other than those mentioned) that has fought Walmart. Give a brief description of the history and tell why you believe the town won or lost.**

Student answers will vary.

## Controversial Issue: Knowing Business vs. Knowing the Business

This can be used in a discussion board or for in-class discussion.

Some people might argue about whether a quarterback or a wide receiver is more important to a football team. The rational answer is that both are important, and a football team would be handicapped if deprived of the services of either.

In operating a business, success is more likely if those in control know business as well as know the business. It would be foolish to ask which type of knowledge is more important. Let’s look at these two types of knowledge.

The phrase “knowing business” refers to an accumulated knowledge of basic procedures and attitudes that have proved useful in running any kind of business. A person who knows business understands accounting, the handling of personnel, marketing, cash flow, inventory control, and effective decision making.

The The phrase “knowing the business” refers to an accumulated knowledge of a particular field such as the automotive industry, oil, journalism, professional sports, processed foods, textiles, and transportation, to name a few. In the past, there have been champions of the idea that a good manager could be effective in any business. But the various waves of mergers and acquisitions have sometimes shown this idea to be less than universally applicable. Here is a fictional sketch to convey what has sometimes happened when managers branched out into new fields.

Wavemaster Shipbuilding, Limited, acquired Hoffman-Torcell Publishing, Midwest Sports Network (MSN), and Fluffy-Lite Bread Bakery. Wavemaster executives, with eyes always on the bottom line, made drastic cuts in the operations at Fluffy-Lite, Hoffman-Torcell, and MSN. The cuts administered by executives who knew nothing of publishing, baking, or sports broadcasting crippled the newly acquired firms, and their fortunes sagged. Wavemaster eventually had to get rid of the three firms. Wavemaster ruined the firms because its decision makers knew nothing of the businesses in which the three firms operated.

A different example would be the fabulous cook who opens a restaurant. Entrepreneurs need to know the business, but the cook of our story does not understand business. The food is so good and so inexpensive that the restaurant is filled for every meal. At such low prices, the business loses money on every meal. The cook needs someone who knows business.

Knowing business and knowing the business—both kinds of knowledge must be present for a firm to be a success.

### Discussion Questions for Knowing Business vs. Knowing the Business

1. **What does “knowing business” mean?**

The phrase “knowing business” refers to an accumulated knowledge of basic procedures and attitudes that have proved useful in running any kind of business. A person who knows business understands accounting, the handling of personnel, marketing, cash flow, inventory control, and effective decision making.

1. **How does “knowing the business” differ from “knowing business”?**

The phrase “knowing the business” refers to an accumulated knowledge of a particular field. There is a lot of value in knowing a particular field well.

1. **How can a manager utilize these two types of knowledge to be a success?**

A manager needs a combination of specialized knowledge of his or her chosen field, combined with general knowledge about basic business practices and attitudes that are useful in any field of business. If a manager has general knowledge about business, but no specific knowledge of the field, he or she could make poor decisions and vice versa.

# Chapter Review Questions

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.

1. **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).

1. **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.

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

Communism (China, North Korea, Vietnam, and Cuba)

Socialism (Sweden, India, Denmark, and Israel)

Capitalism (United States, Canada, and Australia)

Mixed economies (most nations operate as mixed economies)

1. **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 products 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.

1. **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)

1. **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 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 getting from taxes. Inflation is characterized by a continuing rise in prices. When unemployment is high, the demand for products and services is low; thus, the level of production decreases. Accordingly, the growth of the GDP is small.

1. **Why are fluctuations in the economy harmful?**

Fluctuations in the economy are associated with inflation and unemployment. They are a major cause of human distress. Moreover, the potential for fluctuations in the economy make it more difficult for businesses and consumers to plan for the future.

1. **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.

1. **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 to protect consumers and employees.

# Connect Exercises

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

1. **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.
2. **Economic Systems: Communism & Capitalism (Click & Drag):** Demonstrate your understanding between 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.
3. **Basic Economic Systems: Capitalism, Socialism, and Communism (iSeeit! Animated Video Case):** Describe how one's economic life would be under the three major economic systems of the world: capitalism, socialism, and communism.
4. **Supply and Demand (iSeeit! Video Case):** Understand how supply and demand influences prices in our capitalistic system.
5. **Truzios of Italy Makes Specialty Sauces (Case Analysis):** Demonstrate your understanding of the impact of supply and demand on pricing, profits, and decision-making.
6. **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.
7. **Varieties of Competition (iSeeit! Animated Video Case):** Demonstrate your understanding of the four major types of competition that can exist within capitalism.
8. **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.

# Class Discussion Questions

1. **Discuss the economic changes occurring in Russia and Eastern European countries, which once operated as communist economic systems. Why are these changes occurring? What do you think the result will be?**

Russia and eastern European countries have turned away from communism and toward economic systems governed by supply and demand rather than by central planning. Before the Soviet Union fell, the economy was stagnant and there was serious political unrest. After the Soviet Union fell, many of the countries that had been taken over by the Soviet Union also began to move away from communism. Despite the potential inequalities that might lie in supply and demand relationships, many feel it is the best way to create an efficient marketplace. In many communistic countries without competition, growth tends to stagnate.

In terms of the results, student answers might vary. However, it is not easy to transition from a communist country to a more competitive supply and demand system. Instructors might want to draw students’ attention to Cuba. Facing severe economic constraints, Cuba laid off thousands of government workers and began pushing more for private enterprise. However, many of these workers will not have much experience in the private sector in a country where entrepreneurship was—and to a certain extent still is—highly discouraged by restrictive laws.

1. **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 for 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.

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

Many students will probably say the economy is in a period of economic contraction since we are still very much in the recovery period from the most recent recession. However, unemployment has begun to decrease, and GDP has been going up since the recession. In 2011 the GDP was about $15.09 trillion, GDP per capita was about $48,100, the unemployment rate was about 9 percent, and the inflation rate was 3 percent. These numbers will likely have changed by the time this book comes out. The government has reduced interest rates to encourage borrowing to aid in the recovery process. It also enforces laws to prevent anticompetitive practices such as monopolies. Competition helps keep prices closer to their equilibrium, which helps to create a more efficient marketplace. Students will likely have many more examples of how the government is responding.

# Build Your Business Plan

I think the best way to get the students excited about developing their business plans is to facilitate lively class discussions. Ask the students for the pros and cons of using an established product/business for their business plans. Students are going to think it will be 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 do not realize how difficult it may 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 service, an eBay service provider, or a lawn care service. Push the students to identify what kinds of businesses/services they believe their communities need. Students need to realize how important it is for them to think about how many others in the community share their desire for a particular product or service. Often students will suggest another video store, pizza parlor, or workout gym for their new business or service. You need to force the students to think about how substantial the demand is for this product/service.

# Video Case: Redbox Succeeds by Identifying Market Needs

Redbox’s telltale bright red kiosks in stores and fast-food restaurants across the country have become an image of what a great business model can accomplish. The company’s ability to offer customers a convenient and inexpensive DVD rental option has allowed them to grow despite the widespread growth of streaming services such as Netﬂix and Amazon. In addition, Redbox has responded competitively by partnering with Verizon to offer their own streaming service in conjunction with DVD rentals. As one of the top rental companies in the United States, Redbox is a true entrepreneurial success story.

Building Redbox into a successful ﬁrm was not easy, however. It was fraught with challenges. Like most successful companies, Redbox started out by identifying a need. It recognized that consumers could not often ﬁnd the movies they wanted in convenient locations. Like all good ideas, Redbox required funding to get started. This proved to be a major difﬁculty. Realizing that customers did not want to pay much for renting movies, Redbox decided to charge only one dollar. Yet the kiosks, which contain over 800 components, required a large amount of capital. The combination of the capital-intensive nature of the business and the low prices was not an attractive recipe for venture capital funding.

However, Redbox was certain that demand for its product offerings would exceed the costs. The company ﬁnally found a partner in the more established Outerwall, formerly known as Coinstar, which already had partnerships with many different retailers. The alliance opened the way for Redbox to begin installing kiosks at the front of stores.

Redbox did not immediately expand across the country. Instead, it took a cautious approach toward its business model. It began by focusing its efforts on making one kiosk proﬁtable, then replicating this way of thinking regionally and nationally. In this way, Redbox was able to test its concept without taking the risk of widespread failure.

Even though it was expanding, it was some time before Redbox was able to earn a proﬁt. Like all entrepreneurs, the founders of Redbox had to take many risks if they wanted the company to succeed. “The risks for starting Redbox were signiﬁcant,” said Marc Achler, vice president of new business, strategy, and innovation. “The ﬁrst couple years we had some red ink. It took us a while before we turned proﬁtable.” Yet with persistence and continual relationship building with retailers, Redbox has been able to secure more than 50 percent of the DVD-rental market.

One way that Redbox has been able to secure such a large share of the market is by meeting the needs of a variety of stakeholders. Redbox views its customers as its ﬁrst priority and has developed its kiosks and database to meet their needs. For instance, customers can reserve movies online and pick them up at their nearest kiosk. If a kiosk happens to be out of a particular movie, customers can search the Redbox database to locate the movie at a nearby kiosk. This combination of convenience and low prices has attracted customers who desire a simpliﬁed process to renting movies. The same is true for their streaming service, Redbox Instant by Verizon, which offers unlimited streaming for the same price as competitors and the option to purchase DVDs from the site.

Additionally, Redbox has created a process that also beneﬁts the needs of its retail partners. Redbox kiosks help attract consumers to the store, where they may purchase additional products. Customers must come back the next day to return their movie, where they may once again purchase more products from the retailer. In this way, Redbox creates a win-win situation for both itself and its partners.

This is not to say that everything is easy for Redbox. For instance, it must continually safeguard against allowing underage children to rent inappropriate (rated-R) movies. And while Redbox has approached this changing and dynamic marketplace proactively, it must continue to do so in order to maintain its competitive position. The company’s ability to price rentals and streaming services at 70 percent of the price of competitors and still make a 6 percent return is impressive, but this can easily change as competitors ﬁnd ways to lower their prices or consumers’ desires change.

**Sources:**

Kevin Kelleher, “The Rise of Redbox Should Spook Netflix,” *CNNMoney*, February 10, 2012, http://tech. fortune.cnn.com/2012/02/10/therise-of-redbox-should-spook-netflix/ (accessed May 14, 2014); Marc Graser, “Redbox Now Controls More than 50% of Home Video Disc Rental Biz,” *Variety*, July 25, 2013, http:// variety.com/2013/biz/news/redboxnow-controls-more-than-50-of-homevideo-disc-rental-biz-1200568295/ (accessed May 14, 2014); Joan E. Solsman, “Verizon-Redbox Venture Advances,” *The Wall Street Journal*, December 12, 2012, http://online. wsj.com/news/articles/SB1000142 412788732429660457817565342 3616518 (accessed May 14, 2014); Kyle Stock, “Redbox Sacrifices Margins to Drive DVD Rentals,” *Bloomberg Businessweek*, September 17, 2013, www.businessweek.com/ articles/2013-09-17/redbox-sacrificesmargins-to-drive-dvd-rentals (accessed May 14, 2014).

## Video Case Discussion Questions

1. **Why are consumers so willing to rent from Redbox?**

Redbox has developed its kiosks and database to meet customer needs. Its videos are inexpensive compared to other rental stores. Customers can reserve movies online and pick them up at their nearest kiosk. If a kiosk happens to be out of a particular movie, customers can search the Redbox database to locate the movie at a nearby kiosk. This combination of convenience and low prices has attracted customers who desire a simplified process to renting movies.

1. **How was Redbox able to overcome some of its earliest challenges?**

Redbox overcame initial funding challenges by partnering with Coinstar, which also had established partnerships with retailers that helped Redbox get their kiosks into popular retailers. Redbox was careful to expand a little at a time to make sure the kiosks would be profitable and mitigate the risk of wide-scale loss. Its continual expansion, popularity with consumers, and partnerships with retailers has enabled the firm to become profitable. It also tries to create certain controls to obey applicable laws, such as not allowing underage children to rent R-rated movies.

1. **What are some recommendations for ways that Redbox can maintain its high market share?**

Students might have some different answers, but Redbox should definitely maintain its consumer orientation and monitor trends in the competitive environment to keep track of what competitors such as Netflix are doing. The firm might want to create additional partnerships to perhaps eventually expand its offerings into more online streaming, since streaming appears to be increasing in popularity. Further partnerships with film companies and video game firms could also increase Redbox’s selection of products.

# 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.

# Build Your Skills

## 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 a mother, a father, 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 1.6 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 1.6 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.”



# Suggestions for Group Formation

If this is a first-year course, it probably makes sense to assign students to groups since they do not know each other. An ideal group size is 4 or 5 students. From the Appendix at the end of Chapter 1, you can see that the first assignment is to develop their business proposals. If you are on a 15-week semester, this should be due around the 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 is ahead for the group. In order to avoid a disaster, require the groups to submit their idea of a product or service to you within the first 10 days/two 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. Maybe the first time you do it you might ask for teams to volunteer. Offer financial prizes (maybe $100 each) to the best 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 doing it for 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.

# Term Paper or Project Topics

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. Eli Whitney: An Innovator of Standardization in Manufacturing
5. 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. A professor or teacher from economics or social science to talk about economic system changes in Russia.
3. A professor or representative of a campus international association to speak on differences in 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. One supplemental lecture is provided for each chapter. After discussing the course, the syllabus, and the next session’s assignment, some instructors may wish to use the Supplemental lecture material as a beginning lecture on the first day. In addition to the supplemental lecture(s), a Controversial Issue is provided for each chapter.
4. Additional material is provided in the textbook and in the boxed texts. Also, discussion questions are provided in the Instructor’s Manual for “Going Green” and “Business Challenges” boxed material.
5. A quiz is provided for each chapter. This quiz may be used as a practice quiz or as an in-class quiz. As an alternative to giving the quiz at the conclusion of the lecture, some instructors prefer to give the quiz at the beginning of class (prior to a lecture) to determine how well students have read the chapter assignment or to use the quiz as a means for discussing the chapter.
6. Instructors also have a variety of options in giving in-class and out-of-class assignments. The following are some possibilities:
	1. 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 Additional Discussion Questions and Exercises. The instructor may call on a random number of students to read their written exercises or to discuss answers in class.
	2. 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.
	3. Some students are not test wise. 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.
	4. Term paper or project topics may be assigned to be completed over a long period of time. An option to 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.