**Chapter 1: The Dynamics of Business and Economics**

**SUMMARY**

**[LEARNING OBJECTIVES](#_LEARNING_OBJECTIVES)**

**[KEY TERMS AND DEFINITIONS](#_KEY_TERMS_AND)**

[**CONTENT OUTLINE**](#_CONTENT_OUTLINE)

**[BOXED TEXT DISCUSSION QUESTIONS WITH SUGGESTED ANSWERS](#_BOXED_TEXT_DISCUSSION)**

Enter the World of Business: *Inside the Zoom Boom*

Responding to Business Challenges: *Taylor Swift Fights Scalpers*

Business Disruption: *Competition Is Brewing in Kombucha Market*

Technology and the Economy: *Up in the Air: Drones and Air Traffic Control*

So You Want a Job in the Business World

[**END OF CHAPTER TEACHING RESOURCES**](#_END_OF_CHAPTER)

Check Your Progress

Get Involved

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

Solve the Dilemma: *Mrs. Acres Homemade Pies*

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

See for Yourself Case: *Tesla: More Than a Car Company*

Team Exercise

**[CONNECT ACTIVITIES](#_CONNECT_ACTIVITIES)**

## GrubHub Excels Amidst the Changing Business Environment

## Uber and Its Effect on the Sharing Economy

## iSeeIt! Video Case: Supply and Demand

**[BONUS TEACHING RESOURCES](#_BONUS_TEACHING_RESOURCES_1)**

Term Paper or Project Topic

Guest Speaker Suggestions

Teaching Suggestions

# SUMMARY

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

# LEARNING OBJECTIVES

**LO 1-1** Define basic concepts such as business, product, profit, and economics.

**LO 1-2** Identify the main participants and activities of business.

**LO 1-3** Explain why studying business is important.

**LO 1-4** Compare the four types of economic systems.

**LO 1-5** Describe the role of supply, demand, and competition in a free enterprise system.

**LO 1-6** Specify why and how the health of the economy is measured.

**LO 1-7** Outline the evolution of the American economy.

**LO 1-8** Explain the role of the entrepreneur in the economy.

**LO 1-9** Evaluate a small business owner’s situation and propose a course of action.

# KEY TERMS AND DEFINITIONS

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| **big data** | Large volumes of structured and unstructured data that are transmitted at very fast speeds. |
| **blockchain** | A decentralized record-keeping technology that stores linked. |
| **budget deficit** | The condition in which a nation spends more than it takes in from taxes. |
| **business** | Individuals or organizations who try to earn a profit by providing products that satisfy people’s needs. |
| **capitalism (free enterprise)** | An economic system in which individuals own and operate the majority of businesses that provide goods and services. |
| **communism** | First described by Karl Marx as a society in which the people, without regard to class, own all the nation’s resources. |
| **competition** | The rivalry among businesses for consumers’ dollars. |
| **demand** | The number of goods and services that consumers are willing to buy at different prices at a specific time. |
| **depression** | A condition of the economy in which unemployment is very high, consumer spending is low, and business output is sharply reduced. |
| **drones** | unmanned aerial devices, can be programed with AI to perform human tasks such as delivering products or collecting environmental data and imagery. |
| **economic contraction** | A slowdown of the economy characterized by a decline in spending and during which businesses cut back on production and lay off workers. |
| **economic expansion** | The situation that occurs when an economy is growing and people are spending more money; their purchases stimulate the production of goods and services, which in turn stimulates employment. |
| **economic system** | A description of how a particular society distributes its resources to produce goods and services. |
| **economics** | The study of how resources are distributed for the production of goods and services within a social system. |
| **entrepreneur** | An individual who risks their wealth, time, and effort to develop for profit an innovative product or way of doing something. |
| **equilibrium price** | The price at which the number of products that businesses are willing to supply equals the amount of products that consumers are willing to buy at a specific point in time. |
| **financial resources (capital)** | The funds used to acquire the natural and human resources needed to provide products; also called capital. |
| **free market system** | Pure capitalism, in which all economic decisions are made without government intervention. |
| **gross domestic product (GDP)** | The sum of all goods and services produced in a country during a year. |
| **human resources (labor)** | The physical and mental abilities that people use to produce goods and services; also called labor. |
| **inflation** | A condition characterized by a continuing rise in prices. |
| **mixed economies** | Economies made up of elements from more than one economic system. |
| **monopolistic competition** | The market structure that exists when there are 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. |
| **standard of living** | Refers to the level of wealth and material comfort that people have available to them. |
| **supply** | The number of products—goods and services—that businesses are willing to sell at different prices at a specific time. |
| **technology** | includes the methods and processes creating applications to solve problems, perform tasks, and make decisions. |
| **unemployment** | The condition in which a percentage of the population wants to work but is unable to find jobs. |

# CONTENT OUTLINE

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

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| 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 organizations * Stakeholders |
| **PowerPoint Slides:**  **PPT 1.4** | **Lecture Outline and Notes:**   1. The Nature of Business 2. **Business** refers to the individuals and organizations seeking a profit by providing products that satisfy people’s needs. 3. **Products** refer to goods or services with tangible and intangible attributes that provide satisfaction and benefits. A product can be a good, service, or idea.    1. Examples of tangible goods include an automobile, smartphone, jeans, and so on.    2. Examples of services include dry cleaning, a checkup with your doctor, a movie, a sports event, and so on.    3. A product can also be an idea. Accountants and attorneys, for example, generate ideas for solving problems. | |

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| **PPT 1.5** | 1. The Goal of Business: 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.       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. |

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| O 1-2  LO 1-3 | Identify the main participants and activities of business.   * The People and Activities of Business   Explain why studying business is important.   * Why Study Business? | Key Terms: |
| **PPT 1.6**  **PPT 1.7** | A. The People and Activities of Business  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.  a. **Management** is included in the same part of the circle (Figure 1.1) as employees because managers coordinate employees’ actions to achieve the firm’s goals, organize people to work efficiently, and motivate them to achieve business goals.   * + - * 1. Production and manufacturing is another element of management. Managers plan, organize, staff, and control the tasks required to carry out the work of the company.         2. Management is also concerned with acquiring, developing, and using resources effectively and efficiently in a business.   b. **Marketing** and consumers are in the same segment (Figure 1.1) because the focus of all marketing activities is satisfying consumers.   * + 1. Marketing involves all activities designed to provide goods and services that satisfy consumers’ needs and wants, including gathering information and conducting research to determine customer wants; planning and developing products; and determining price, distribution, and promotion.   c. **Finance:** Owners and finance are in the same part of the circle (Figure 1.1) because although management and marketing deal with financial considerations, it is primarily the responsibility of the owners to provide financial resources for the operation of the business.  i. Finance refers to all activities concerned with obtaining money and using it effectively. | |

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| **PPT 1.8** | 1. Why Study Business?    1. It can help you develop skills and acquire knowledge to prepare you for your future career.    2. It can help you better understand the many activities necessary to provide goods and services and appreciate the costs associated with these activities.    3. Business activities help create jobs and contribute to the health of local and global economies. | |
| LO 1-4 | Compare the four types of economic systems.   * The Economic Foundations of Business   + Economic Systems   + The Free Enterprise System | Key Terms:   * Economics * Natural resources * Human resources (labor) * Financial resources (capital) * Economic system * Communism * Socialism * Capitalism (free enterprise) * Free market system * Mixed economies |
| **PPT 1.10** | 1. The Economic Foundations of Business 2. **Economics** is the study of how resources—or factors of production—are distributed for the production of goods and services within a social system. 3. **Natural resources** are land, forests, minerals, water, and other things not made by people. 4. **Human resources** are the physical and mental abilities that people use to produce goods and services. 5. **Financial resources**, or capital, are the funds used to acquire the natural and human resources needed to provide products. 6. Natural resources, human resources, and financial resources are related to the *factors of production.* 7. Factors of productionare: Land, labor, capital, and enterprise used to produce goods and services. 8. The firm can also have intangible resources such as a good reputation for quality products or being socially responsible. | |

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| **PPT 1.11**  **PPT 1.12–1.13** | 1. 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: 2. What goods and services and how much of each will satisfy the needs of the consumer? 3. How will the goods and services be produced? Who will produce them and with what resources? 4. How are the goods and services to be distributed? 5. Types of economic systems found in the world: communism, socialism, and capitalism (Table 1.1). 6. 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. 7. **Socialism** is an economic system in which the government owns and operates basic industries, but individuals own most businesses (Norway, Israel, & India). 8. 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. 9. Most socialist nations are democratic and recognize basic individual freedoms. 10. Socialist economies profess egalitarianism—equal distribution of income and social services. 11. Taxes and unemployment are generally higher in socialist countries. | |
| **PPT 1.15**  **PPT 1.16** | | 1. **Capitalism,** or **free enterprise**, is an economic system in which individuals own and operate most of the businesses that provide goods and services (the United States, Canada, & Japan). 2. Competition, supply, and demand determine which goods and services are produced, how they are produced, and how they are distributed. 3. 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. 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. Business laws illustrate the importance of government’s role in economy. 5. **Mixed economies** have elements from more than one economic system. No country practices a pure form of communism, socialism, or capitalism.   a. Many large economies are free enterprise—including the United States, Canada, and Japan.  b. Many communist and socialist countries apply free enterprise principles—including China and Russia.  c. Free enterprise allows a company to succeed or fail on the basis of market demand.   1. **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. 2. Individuals must have the right to own property. 3. Individuals and businesses must have the right to earn and use profits, within constraints of society’s laws. 4. Individuals and businesses must have the right to make decisions that determine how the business operates, within the limits of the law. 5. 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. | |

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| 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 1.17–1.18** | A. 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. Supply and demand is the force that drives the distribution of resources (goods and services, labor, and money) in a free enterprise economy. 4. An **equilibrium price** is the point at which supply and demand curves intersect, indicating that supply and demand are equal at that point. 5. The supply and demand process is constantly changing in response to economic conditions, availability of resources, and degree of competition. 6. Critics of supply and demand say that the system does not distribute resources equally among the wealthy and the poor. | |

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| **PPT 1.19–1.20**  **PPT 1.21**  **PPT 1.22** | 1. The Nature of Competition 2. **Competition** is the rivalry among businesses for consumers’ dollars. It is a vital element of free enterprise. 3. 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. 4. Economic Cycles and Productivity 5. **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. 6. **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).    3. Rising levels of unemployment tend to stifle demand, forcing prices down, a condition known as *deflation*.    4. A **depression** is a severe recession in which unemployment is very high, consumer spending is low, and business output is sharply reduced. 7. Economies constantly expand and contract in response to changes in consumer, business, and government spending. |

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| LO 1-6 | Specify why and how the health of the economy is measured. | Key Terms:   * Gross domestic product (GDP) * Budget deficit |
| **PPT 1.23**  **PPT 1.24**  **PPT 1.25** | 1. **Measuring the Economy:** countries measure the state of their economies to determine whether they are expanding or contracting and whether corrective action is necessary to minimize fluctuations. 2. **Gross domestic product (GDP)** is the sum of all goods and services produced in a country during a year (Figure 1.4) 3. 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. 4. It also does not take into account the sum relative to the country’s population; GDP per capita does. 5. **Budget deficits** occur when a nation spends more than it takes in from taxes. The national debt exceeds $27 trillion. 6. Other Ways of Measuring the Economy (Table 1.2)   a. *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.  b. *Consumer Price Index*: Measures changes in prices of goods and services purchased for consumption by typical urban households.  c. *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.   1. *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 stay-at-home moms or dads, are not counted as unemployed.)   e. *Inflation*: Monitors price increases in consumer goods and services over specified periods of time. Used to determine whether costs of goods and services are exceeding worker compensation over time.  f. *Worker productivity*: The amount of goods and services produced for each hour worked. | |

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| LO 1-7  LO 1-8 | Outline the evolution of the American economy.   * The American Economy   + The Importance of the American Economy   + A Brief History of the American Economy   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 * Can You Learn Business in a Classroom? | Key Terms:   * Standard of living * Open economy * Entrepreneur |
| **PPT 1.26–1.27** | 1. The American Economy    * 1. The Importance of the American Economy 2. The American economy is an *open economy*. As an open economy, the United States is a major player in international trade. 3. *Standard of living* refers to the level of wealth and material comfort that people have available to them. 4. Open economies tend to have a higher standard of living than economies that do not engage in international trade. 5. International trade is positively related to efficiency and productivity. 6. A positive relationship exists between a country’s employment rate and economic growth. 7. Government public policy also drives the economy through job creation. 8. The vast majority of taxes come from individuals. 9. Businesses are also an important form of tax revenue. 10. In 2017, the largest tax reform in the U.S. tax rate in over 30 years changed the corporate tax rate from 35% to 21%. 11. The tax reform was designed to stimulate the economy but will increase the national debt. 12. Businesses are also an important form of tax revenue. 13. The Biden administration proposes to increase both corporate income taxes and individual income taxes for those in higher income brackets | |

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| **PPT 1.28**  **PPT 1.29–1.30** | * + 1. A Brief History of the American Economy        1. The Early Economy   1. Colonists established an *agricultural economy*.   2. Most people were self-sufficient and produced almost everything they needed.      + 1. The Industrial Revolution  1. Machines and job specialization increased the speed and efficiency of production.    * + 1. The Manufacturing and Marketing Economies 2. Industrialization brought about the *manufacturing economy*, which was devoted to producing goods and services. 3. The *marketing economy* emerged as businesses became more concerned with the needs and wants of consumers.    * + 1. The Service and New Digital Economy 4. As quality of life improved, people had enough income to hire others to provide services for them, which ushered in the *service economy*. 5. Advanced technology contributes to new service products based on technology and digital media that provide:    1. Smartphones    2. Social networking    3. Virtual worlds    4. Online Retailing and E-Commerce (Figure 1.6)   **5**. Technology includes the methods and processes creating applications to solve problems, perform tasks, and make decisions.  a. Artificial intelligence (AI) relates to machine (computer) learning that is able to perform activities and tasks that usually require human intelligence.  b. AI is moving rapidly across business functions because it can resolve predictable business activities (Figure 1.5).  c. While it has the potential to provide greater productivity and higher quality service, it also creates new challenges.  d. Tracking communication, profiles, and other searchable information will accelerate with AI. |

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| **PPT 1.31** | 6. Big data to large volumes of structured and unstructured data this is transmitted at very fast speeds.  **7.** Blockchain is a decentralized record keeping technology that stores linked block of ordered transactions over time.  a. Blockchain has the potential to make databases and the digital infrastructures more secure and trustworthy.  8. Drones are unmanned aerial devices can be programed with AI to perform human tasks such as delivering products or human tasks such as delivering products, collecting environmental data and imagery. Drones can be beneficial in a variety of industries such as construction, farming, defense, insurance, outdoor entertainment, and retail.   * + 1. The Role of the Entrepreneur  1. An **entrepreneur** risks their wealth, time, and effort to develop for profit an innovative product or way of doing something. 2. The free enterprise system provides the conditions for entrepreneurs to succeed. 3. Early American entrepreneurs were often inventors and captains of industry (Thomas Edison [light bulb and record player], John D. Rockefeller [Standard Oil Company], Andrew Carnegie [railroads and U.S. Steel Corporation], Andrew Mellon [Aluminum Company of America and Gulf Oil], Henry Ford [automobile industry], and  J. P. Morgan [financial institutions]). 4. Modern American entrepreneurs are frequently changing business practices with innovative technologies Bill Gates (Microsoft software) and Fred Smith (FedEx). |
| **PPT 1.36** | D. The Role of Government in the American Economy  1. The United States is a modified capitalism system.  2. Federal, state, and local governments sometimes intervene with regulations aimed at promoting competition and consumer safety.  3. Government agencies such as the U.S. Department of Commerce measure the economy’s health and intervene when economic health is at stake.   1. The Role of Ethics and Social Responsibility in Business 2. Recent scandals undermined public confidence in corporate America and sparked a new debate about ethics in business (Enron, Countrywide, BP, Bank of America, Citigroup).    1. *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.    2. Society is increasingly demanding that businesspeople behave ethically and socially responsibly toward customers and other stakeholders.    3. Businesses should determine what society wants and attempt to predict the long-term effects of their decisions. 3. Can You Learn Business in a Classroom? (Figure 1.6) The Organization of This Book 4. Absolutely! To be successful in business, you need knowledge, skills, experience, and good judgment. 5. This book can help students gain some of the knowledge, skills, and experience needed to be successful in business. |

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| LO 1-9 | Evaluate a small business owner’s situation and propose a course of action. | Key Terms: |

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| **PPT 1.37–1.38**  **PPT 1.39**  **PPT 1.40** | 1. Solve the Dilemma: *Mrs. Acres Homemade Pies* 2. Produces specialty pies and sells them in local supermarkets and family restaurants 3. In each of the first six months, sold 2,000 pies for $4.50 each, netting $1.50 profit per pie 4. Had problems keeping up with demand. 5. To meet demand expanded operations, borrowed money, and increased staff 6. Production and sales increased to 8,000 pies per month, and profits soared to $12,000 per month 7. Shelly has several options:    1. Maintain current production levels and raises prices    2. Expand the facility and staff while maintaining the current price    3. Contract the production of the pies to a national chain, giving Shelly a percentage of profits with minimal involvement 8. Critical Thinking Questions:    1. Explain and demonstrate the relationship between supply and demand for Mrs. Acres Homemade Pies.    2. What challenges does Shelly face as she considers the three options?   3. What would you do in Shelly’s position?  *(Answers appear under the End of Chapter Teaching Resources section of this Instructor's Manual.)* |

# BOXED TEXT DISCUSSION QUESTIONS WITH SUGGESTED ANSWERS

## Enter the World of Business: Inside the Zoom Boom

Founded in 2011, Zoom entered the video conference technology market at a time when consumer and business demand was just starting to ramp up. It wasn’t until the COVID-19 pandemic struck the United States nearly a decade later that Zoom experienced an unprecedented surge in demand and became widely recognized as an industry leader.

The software company attracts many users to its free Basic account and attempts to convert these users into paying customers, a pricing model known as freemium pricing. Zoom has experienced record profits and has signed on big-name clients such as ExxonMobil and Activision Blizzard.

**1. How did the COVID-19 pandemic contribute to Zoom’s success?**

Social distancing and isolation in 2020 fueled the demand for video communication and dramatically increase new Zoom user registrations.

**2. What value and benefits does Zoom offer?**

Zoom offers high-quality, easy-to-use video conferencing tool with modern features that would operate on slow internet connections.

**3. What are the advantages of a freemium pricing model? Disadvantages?**

Although the answers will vary, but most students will state that it is an easy method to attract a large number of customers quickly. Disadvantages: Freemium pricing can be expensive for companies because it costs money to acquire new customers and to offer free access, making it especially painful when customers discontinue service after a free trial.

## Responding to Business Challenges: 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.

**2. 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.

**3. 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.

## Business Disruption: 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.

## 2. 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.

## 3. 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.

## Technology and the Economy 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.

## 2. 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.

## 3. 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. Many consumers support conserving biodiversity and promoting sustainability thus preserving the world’s resources. The Rainforest Alliance Certification gives a company credibility in the eyes of those consumers. When consumers see that seal, they know that the company has incorporated sustainability principles into its operations.

## So You Want a Job in the Business World

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

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. Most jobs are not with large corporations but are in small companies, nonprofit organizations, government, and even as self-employed individuals.

The fast pace of technology today means that students have to be prepared to take advantage of emerging job opportunities and markets. Once you have found a suitable position, you must learn to be flexible and to adapt quickly. You need to consider all of the changes in the workplace and the work that might affect your long-term position within your company, and what will help you be successful.

# END OF CHAPTER TEACHING RESOURCES

## Check Your Progress

**1.** **What is the fundamental goal of business? Do all organizations share this goal?**

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

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

A good (automobile, calculator, beverage, or notebook).

A service (dry cleaning, overnight mail delivery, a haircut, a checkup by a doctor).

An idea (consultants and attorneys, for example, generate ideas for solving problems).

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

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

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

Communism (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)

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

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

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

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

Pure competition (agricultural commodities such as wheat, corn, and cotton)

Monopolistic competition (aspirin, soft drinks, and vacuum cleaners)

Oligopolies (aluminum industry, steel industry, automobile manufacturers, and airlines)

Monopolies (utility companies)

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

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

**8.** **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 makes it more difficult for businesses and consumers to plan for the future.

**9.** **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.

**10. Explain the federal government’s role in the American economy.**

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

## Get Involved

* + 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, and so on. How is the federal government responding?**

Many students will probably say the economy is in a period of a mixed results with the economy expanding but with higher unemployment. Unemployment was at historically low levels before the COVID pandemic but shot up during the pandemic. It has declined and there is a current shortage of workers. The inflation rate was 2.1% before the pandemic. The supply chain was significantly disrupted during the pandemic and inflation has increased. These numbers will likely have changed by the time this book comes out.

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

**Background**

WagWumps are a new children’s toy with the potential to be a highly successful product. WagWumps are cute and furry, and their eyes glow in the dark. Each family set consists of 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 1.8 and label it “supply curve.”

Quantity Price

3,000 $16.99

5,000 21.99

7,000 26.99

Using the following assumptions, plot your customers’ demand curve on Figure 1.8 and label it “demand curve.”

Quantity Price

10,000 $16.99

6,000 21.99

2,000 26.99

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

Fig1-5

## Solve the Dilemma: Mrs. Acres Homemade Pies

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

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

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

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

**3. What would you do in Shelly’s position?**

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

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

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 good 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 good/service.

## 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 four or five students. From Appendix A, 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 lies ahead for the group. In order to avoid a disaster, require the groups to submit their idea of a good or service to you within the first 10 days/2 weeks of the course. This allows you to steer them in the right direction if they are in over their heads, or if their idea is not feasible.

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

Consider having a business plan competition at the end of the semester and invite local professionals in to judge. You could require that all teams participate in the competition or it could be voluntary. 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 presenting 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.

## See for Yourself Case: Tesla: More Than a Car Company

***Case Overview***

Tesla, an all-electric vehicle and energy generation products company, is widely admired for its industry-altering innovation built around its core vision of moving the world toward sustainable energy. Tesla did not invent the EV, but it was the first to create a viable EV for consumers and has set the standard of what an electric car should be. In 2003, Martin Eberhard and Marc Tarpenning set out to create a high-end performance EV, targeting wealthy car enthusiasts. Elon Musk joined the company in 2004 after investing $30 million and becoming the chair of the board of directors.

The company launched three successful vehicles and began to focus on the energy side of its business, unveiling Solar Roof solar tiles as well as Powerwall and Powerpack industry batteries to store converted solar energy. The company changed its name from Tesla Motors to Tesla, Inc., in 2017, signifying the company’s shift from a car manufacturer to a sustainable energy solution company.

In addition to addressing more of the consumer market, Tesla is investing in heavy-duty trucks and high-passenger-density urban transport. The company has made significant gains and has firmly established itself as a leader in EVs

**1. What benefits do Tesla’s products provide?**

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

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

Answerswill vary but students should support their answers.

**3. How has Tesla pushed the car industry forward?**

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

## Team Exercise

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

# CONNECT ACTIVITIES

## GrubHub Excels Amidst the Changing Business Environment

**Learning Objective:** 1-2: Identify the main participants and activities of business.

**Activity Summary:** GrubHub has been on a mission to change the way we eat since its founding in 2004. This scenario illustrates the story of GrubHub’s founding, its evolution, and value proposition as it looks to grow in the years ahead by hearing the perspectives of leaders in the organization.

**How to Use Activity**: This activity allows students to get inside the minds of GrubHub leaders—understanding what they do and why they do it. Beyond answering the video case questions, students can apply the same concepts and vocabulary terms GrubHub leaders reference (competitive advantage, global business environment, legal environment) and relate them to another familiar brand of their choosing.

**Class Discussion:** GrubHub is a business that has succeeded by not being stagnant. How has GrubHub evolved as time progressed? Why is this important? The four components of the business environment impact the success of GrubHub’s operation. What are some examples of aspects in the economic and legal environment, technological environment, competitive environment, and social environment that could affect GrubHub? Share reasoning behind your response.

## Uber and Its Effect on the Sharing Economy

**Learning Objective:** 1-5: Describe the role of supply, demand, and competition in a free enterprise system.

**Activity Summary:** The rapid rise of sharing economy has shaped consumer behavior and spurred the development of new businesses in less than one decade. With evolving consumer preferences and businesses entering markets at new angles, the result creates natural economic implications.

**How to Use Activity**: Divide students into five groups (one for each question) and assign each a question from the case. Give each group 5 min to read the case, and 5 min together to collaborate on the response to their question. After they’ve aligned on an answer, invite a student from each group to share their response and justification. Allow the class to agree or disagree with the group’s answer, self-grading each group. Provide expertise and arbitrate when necessary.

**Class Discussion:** How would you explain the concept of the sharing economy? Other than Uber, can you think of other companies whose businesses are founded on this principle of collaborative consumption? (*Note to Professor: Common examples may include Lyft, Airbnb, WeWork, Kickstarter, GoFundMe*.)

## iSeeIt! Video Case: Supply and Demand

**Learning Objective:** 1-5: Describe the role of supply, demand, and competition in a free enterprise system.

**Activity Summary:** Explore how one of the most fundamental economic concepts, supply and demand, is brought to life through a pair of jeans.

**How to Use Activity:** The Broadway blockbuster, *Hamilton*, continues to gross over $3 million each week in New York City. Its average ticket price is $300, more than double the second highest grossing show on Broadway (*Disney’s The Lion King*). Ask students to research on the internet the *Hamilton* ticketing scarcity and connect its pricing to the concepts of supply and demand.

*(Note to Professor: Hamilton uses a new technique in musical theater ticketing, dynamic pricing, where ticket prices are automatically adjusted based on supply and demand. Prices depend on a number of factors: time of day, seasonality, number of seats available, desirability of specific seat, and so on. In addition, scalpers often acquire almost every primarily sold tickets and increase the price even higher than what’s reported on the primary market. Yet, rooted in the basics of economics, this philosophy validates the basic economic concept: supply is low, and demand is high*.)

**Class Discussion:** How can the ticketing of the musical *Hamilton* relate to supply and demand? Some products have a steady price that don’t change too significantly over time (e.g., groceries); other products have pricing that adjusts wildly similarly to *Hamilton*. What examples can you think for each of these two classes of products—ones when price doesn’t seem to fluctuate often due to demand and conversely examples of when it does?

# BONUS TEACHING RESOURCES

## Term Paper or Project Topic

These topics may be assigned as individual or collaborative projects:

1. The Life and Influence of Karl Marx
2. The Life and Influence of Adam Smith
3. How Railroad Transportation in the 1800s Affected the American Economy
4. 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. Students usually enjoy hearing about the experiences of international students and many instructors already have an international student in their classes. The instructor could set up a panel of students to discuss the economies and what life was like in their home country. If the instructor does not any international students, most colleges have a campus international association who could provide access to speakers to discuss the 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, Term Paper or Project Topics, and Guest Speaker Suggestions are 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:
7. 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.
8. 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.
9. 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.
10. 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.