Chapter Objectives

1. Identify participants, functions and external forces of business
2. Define economics & explain key questions of economics
3. Describe perfect competition & explain supply/demand interaction with price
4. Describe monopolistic competition, oligopoly, and monopoly
5. Understand criteria to assess economy
6. Discuss government’s role in economy

Business

• “...any activity that provides goods or services for the purpose of making a profit.”

For Profit

Vs.

Not-for-profit

Business Participants

Owners

Customers

Employees

Functional Areas of Business

- Management
- Operations
- Marketing
- Accounting
- Finance
Management

• “…planning, organizing, staffing, directing, and controlling a company’s resources so it can achieve its goals.”

Operations

• “…convert(s) resources…into goods or services…to ensure…products are…high quality.”

Marketing

• “…everything that a company does to identify customers’ needs and design products to meet those needs.”

Accounting

“…measure(s), summarize(s), and communicate(s) financial and managerial information…and advise other managers on financial matters.”

Fields of Accounting

- Financial Accountants
  1) Prepare financial statements
  2) Assess financial strength
- Managerial Accountants-Prepare internal reports

Finance

• “…planning for, obtaining, and managing a company’s funds.”
Economics

“...study of how scarce resources are used to produce outputs...to be distributed among people.”

Resources or Inputs and Outputs

Entrepreneurship  Land
Labor  Capital

Outputs
Goods  Services

Economists’ Questions

1) Goods & Services Should Be Produced...?
2) How Goods & Services Produced?
3) Who...Receive(s) The Goods & Services Produced?

Spectrum of Economic Systems

Planned systems  Free market systems
Communism  Socialism  Capitalism
High degree of government control  High level of social services
Low degree of government control  Low level of social services
Privatization

“...converting previously government-owned businesses to private ownership...”

Adam Smith

- *Wealth of Nations* (1776)
- “Invisible Hand”
- *Laissez-faire*

Perfect Competition Exists

Numerous Sellers

Standardized Product

Many Consumers

Supply & Demand

[Graph showing supply and demand curves with equilibrium point]

Monopolistic Competition

Many Sellers

Differentiated Product

Consumers Group A

Consumers Group B

Consumers Group C

Oligopoly

Seller A

Similar Product

Seller B

Consumers Group A

Consumers Group B

Consumers Group C
Monopoly

World’s Main Economic Goals & Measures

1) Growth - Gross Domestic Product
2) High Employment - Unemployment Rate
3) Price Stability - Consumer Price Index

Gross Domestic Product

“...market value of all goods and services produced by...economy in a given year...includes only...goods and services produced domestically.”

Business Cycle

Price Stability

- Inflation
- Deflation
- Consumer Price Index (CPI)
Economic Indicators

- "...statistic(s) that provide valuable information about the economy."

Lagging Economic Indicators

- "Statistics that report the status of the economy a few months in the past...."

Leading Economic Indicators

- "...predict the status of the economy three to twelve months in the future...."

1) Unemployment Claims
2) Average Weekly Manufacturing Hours
3) Building Permits
4) U.S. Leading Index
5) Consumer Confidence Index

Government & Economic Management

- Monetary Policy
  - Control = Federal Reserve
  - Expansionary

Fiscal Policy

- Control = government
- Taxation
- Spending
- National Debt

National Debt

- The big jump beginning in the 1980s reflects increased government spending, decreasing federal tax revenue.
- The rise between 1860 and 1870 reflects increased government spending due to the Civil War.
- The steady increase from 1950 to 1960 reflects increased government spending.
## Areas of Economics

- **Macroeconomics** - Study of the economy as a whole

- **Microeconomics** - Study of the economic choices of individual consumers & businesses