

## Summary of Learning Outcomes

### 1.1 The Nature of Business

1. How do businesses and not-for-profit organizations help create our standard of living?

Businesses attempt to earn a profit by providing goods and services desired by their customers. Not-for-profit organizations, though not striving for a profit, still deliver many needed services for our society. Our standard of living is measured by the output of goods and services. Thus, businesses and not-for-profit organizations help create our standard of living. Our quality of life is not simply the amount of goods and services available for consumers but rather the society's general level of happiness.

Economists refer to the building blocks of a business as the factors of production. To produce anything, one must have natural resources, labor (human resources), capital, and entrepreneurship to assemble the resources and manage the business. Today's competitive business environment is based upon knowledge and learning. The companies that succeed will be those that learn fast, use knowledge efficiently, and develop new insights.

### 1.2 Understanding the Business Environment

2. What are the sectors of the business environment, and how do changes in them influence business decisions?

The external business environment consists of economic, political and legal, demographic, social, competitive, global, and technological sectors. Managers must understand how the environment is changing and the impact of those changes on the business. When economic activity is strong, unemployment rates are low, and income levels rise. The political environment is shaped by the amount of government intervention in business affairs, the types of laws it passes to regulate both domestic and foreign businesses, and the general political stability of a government. Demographics, or the study of people's vital statistics, are at the heart of many business decisions. Businesses today must deal with the unique preferences of different generations, each of which requires different marketing approaches and different goods and services. The population is becoming increasingly diverse: currently minorities represent more than 38 percent of the total U.S. population, and that number will continue to increase over the next several decades. Minorities' buying power has increased significantly as well, and companies are developing products and marketing campaigns that target different ethnic groups. Social factors—our attitudes, values, and lifestyles—influence what, how, where, and when people purchase products. They are difficult to predict, define, and measure because they can be very subjective. They also change as people move through different life stages.

### 1.3 How Business and Economics Work

3. What are the primary features of the world's economic systems, and how are the three sectors of the U.S. economy linked?

Economics is the study of how individuals, businesses, and governments use scarce resources to produce and distribute goods and services. Today there is a global trend toward capitalism. Capitalism, also known as the *private enterprise system*, is based upon marketplace competition and private ownership of the factors of production. Competition leads to more diverse goods and services, keeps prices stable, and pushes businesses to become more efficient.

In a communist economy, the government owns virtually all resources, and economic decision-making is done by central government planning. Governments have generally moved away from communism because it is inefficient and delivers a low standard of living. Socialism is another centralized economic system in which the basic industries are owned by the government or by the private sector under strong government control. Other industries may be privately owned. The state is also somewhat influential in determining the goals of business, the prices and selection of products, and the rights of workers. Most national economies today are a mix of socialism and capitalism.

The two major areas in economics are macroeconomics, the study of the economy as a whole, and microeconomics, the study of households and firms. The individual, business, and government sectors of the economy are linked by a series of two-way flows. The government provides public goods and services to the other two sectors and receives income in the form of taxes. Changes in one flow affect the other sectors.

### 1.4 Macroeconomics: The Big Picture

4. How do economic growth, full employment, price stability, and inflation indicate a nation's economic health?

A nation's economy is growing when the level of business activity, as measured by gross domestic product (GDP) is rising. GDP is the total value of all goods and services produced in a year. The goal of full employment is to have a job for all who can and want to work. How well a nation is meeting its employment goals is measured by the unemployment rate. There are four types of unemployment: frictional, structural, cyclical, and seasonal. With price stability, the overall prices of goods and services are not moving very much either up or down. Inflation is the general upward movement of prices. When prices rise, purchasing power falls. The rate of inflation is measured by changes in the consumer price index (CPI) and the producer price index (PPI). There are two main causes of inflation. If the demand for goods and services exceeds the supply, prices will rise. This is called demand-pull inflation. With cost-push inflation, higher production costs, such as expenses for materials and wages, increase the final prices of goods and services.

### 1.5 Achieving Macroeconomic Goals

5. How does the government use monetary policy and fiscal policy to achieve its macroeconomic goals?

Monetary policy refers to actions by the Federal Reserve System (the Fed) to control the money supply. When the Fed restricts the money supply, interest rates rise, the inflation rate drops, and economic growth slows. By expanding the money supply, the Fed stimulates economic growth. The government also uses fiscal policy— changes in levels of taxation and spending—to control the economy. Reducing taxes or increasing spending stimulates the economy; raising taxes or decreasing spending does the opposite. When the government spends more than it receives in tax revenues, it must borrow to finance the deficit. Some economists favor deficit spending as a way to stimulate the economy; others worry about our high level of national debt.

### 1.6 Microeconomics: Zeroing in on Businesses and Consumers

6. What are the basic microeconomic concepts of demand and supply, and how do they establish prices?

Demand is the quantity of a good or service that people will buy at a given price. Supply is the quantity of a good or service that firms will make available at a given price. When the price increases, the quantity demanded falls, but the quantity supplied rises. A price decrease leads to increased demand but a lower supply. At the point where the quantity demanded equals the quantity supplied, demand and supply are in balance. This equilibrium point is achieved by market adjustments of quantity and price.

### 1.7 Competing in a Free Market

7. What are the four types of market structure?

Market structure is the number of suppliers in a market. Perfect competition is characterized by a large number of buyers and sellers, very similar products, good market information for both buyers and sellers, and ease of entry into and exit from the market. In a pure monopoly, there is a single seller in a market. In monopolistic competition, many firms sell close substitutes in a market that is fairly easy to enter. In an oligopoly, a few firms produce most or all of the industry's output. An oligopoly is also difficult to enter, and what one firm does will influence others.

### 1.8 Trends in the Business Environment and Competition

8. Which trends are reshaping the business, microeconomic, and macroeconomic environments and competitive arena?

To remain competitive, businesses must identify and respond to trends in the various sectors of the business environment. As the population ages, large numbers of baby

boomers are approaching retirement age. Companies must plan for this exodus of employees and find ways to retain the vast amounts of knowledge they represent. Many older workers are choosing to continue working after traditional retirement age, creating a five-generation workforce. Worldwide demand for energy, especially from China and India, is challenging oil companies to increase supplies or to find alternative technologies to produce more oil, such as fracking. U.S. vulnerability to disruptions in energy supply became painfully apparent when Hurricane Katrina put Gulf Coast refineries and offshore drilling rigs out of commission. Companies are using relationship management and strategic alliances to compete effectively in the global economy.