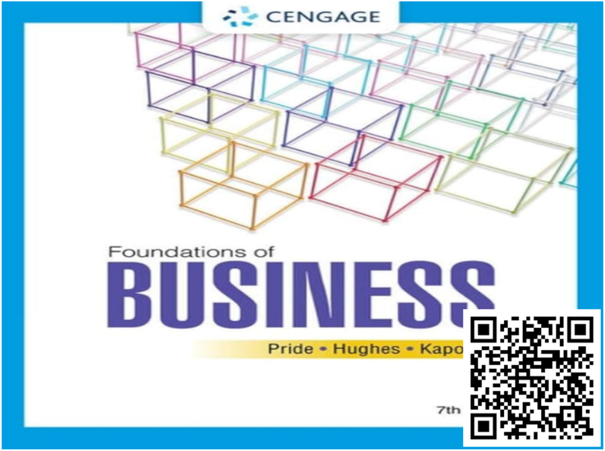
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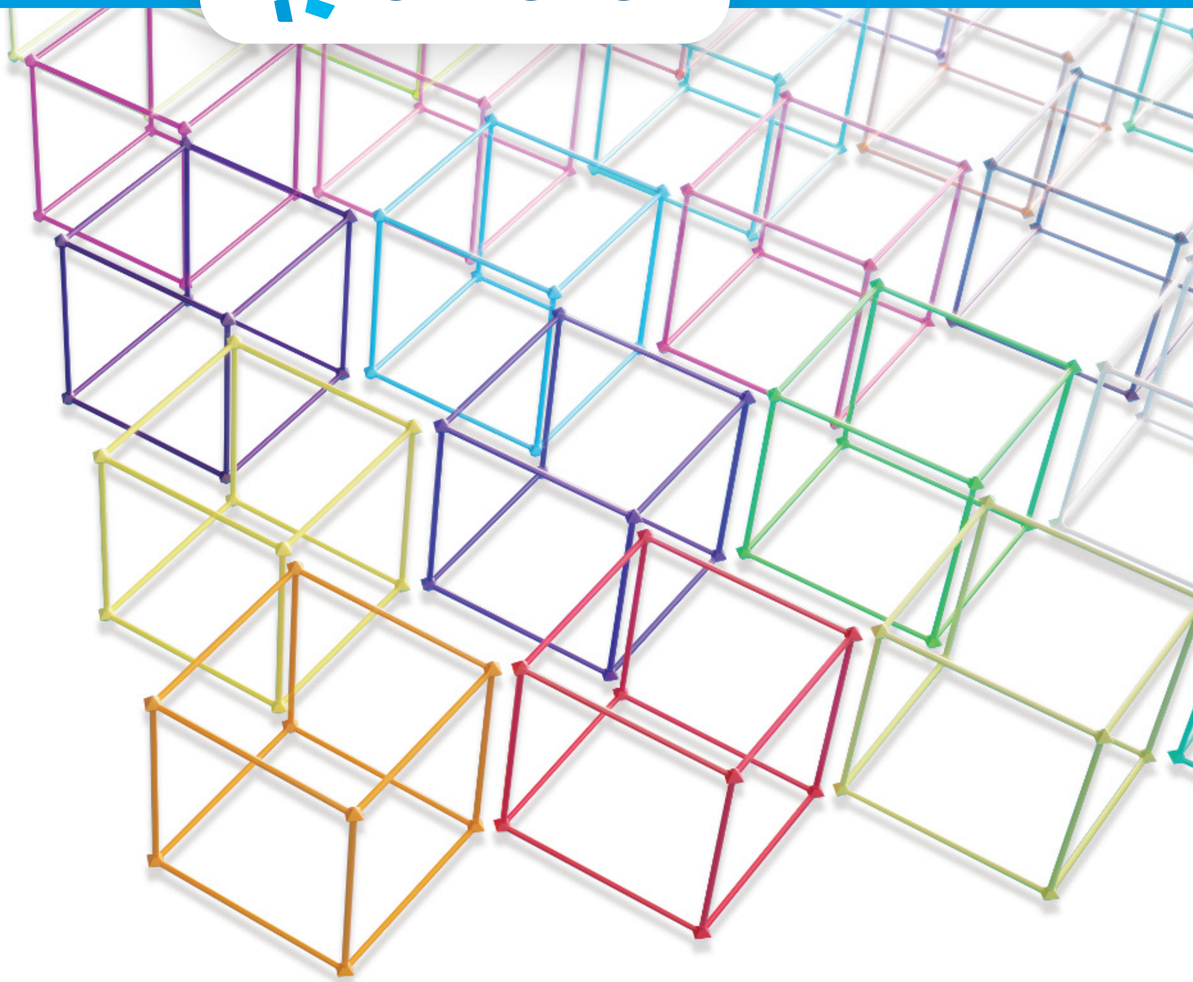

Foundations of BUSINESS

Pride • Hughes • Kapoor

7th Edition

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William M. Pride
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Dallas College - Richland Campus

Jack R. Kapoor
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***Foundations of Business*, 7e**
William M. Pride, Robert J. Hughes, and Jack R. Kapoor

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LETTER FROM THE AUTHORS

Dear Business Students,

Take a moment and imagine what your life will be like in 5, 10, or 20 years from now. For some, life becomes a joyous experience that brings the rewards of a life well lived. For others, life doesn't turn out quite the way you imagined. Often, the difference is the decisions you make as you go through life. Those decisions can make the difference—a real difference—in the type of life you experience. Regardless of your personal goals, we have written this text with one purpose: to provide the information you need to make decisions that will help you succeed in today's business world and in your personal life.

This new edition of *Foundations of Business* is packed with information that can help you reach your personal goals and launch a successful career. We worked hard to make sure there's something in every chapter to help you understand the world of business and become a better employee, a more informed consumer, and, if it's your dream, a successful business owner. Each chapter contains an opening case and an end-of-chapter case that showcase how companies like Walmart, Google, Whole Foods, S.C. Johnson, Southwest Airlines, and Taco Bell tackle real-world problems. In addition, each chapter includes special box features that provide information about careers, social responsibility, technology, environmental issues, and entrepreneurship.

We also realize that students learn in different ways. Information and feedback from students helped guide the development of different activities that can help you learn the important concepts needed for a successful career. We're especially proud of the following learning activities in the text and its website:

- Concept Checks at the end of major sections in every chapter
- Chapter Summaries and Discussion Questions
- Social Media Exercises
- Building Team Exercises
- Career Research Activities
- Student PowerPoints®
- Learning activities and assessment material in the MindTap learning system that accompanies the text

As authors, we believe that success is measured not only by the grade you receive in this course, but also by how you use the information in this text to build a foundation for a better life. It's time! Take the next step and read Chapter 1 to see how the new edition of *Foundations of Business* can help you learn about business and enjoy success in not only your career, but also your life.

Sincerely,

Bill Pride
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Bob Hughes
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Jack Kapoor
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To Nancy, Allen, Carmen, Gracie, Marie, Mike, Ashley, Charlie, J.R., Anderson, and Maggie Pride

To my wife Robin and the memory of my mother Barbara Hughes

To my wife Theresa; my children Karen, Kathryn, and Dave; and in memory of my parents Ram and Sheela Kapoor

Brief Contents

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The following Online-Only Chapters and Appendices appear on the companion site and within the MindTap Reader:

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Many talented professionals at Cengage Learning have contributed to the development of *Foundations of Business, 7e*. We are especially grateful to Erin Joyner, Thais Alencar, Joe Sabatino, Heather Thompson, Clara Kuhlman, Allie Janneck, Stephanie Hall, Megan Guiliani, Angela Sheehan, Sara Greenwood, Hannah May, Amanda Ryan, Tony Winslow, Cara Suriyamongkol, and Nick Perez. Their inspiration, patience, support, and friendship are invaluable.

W. M. P.
R. J. H.
J. R. K.

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William M. Pride is Professor of Marketing at Mays Business School, Texas A&M University. He received his PhD from Louisiana State University. He is the author of Cengage Learning's *Marketing*, 20th edition, a market leader. Dr. Pride's research interests are in advertising, promotion, and distribution channels.

Dr. Pride's research articles have appeared in major journals in the fields of advertising and marketing, such as *Journal of Marketing*, *Journal of Marketing Research*, *Journal of the Academy of Marketing Science*, and the *Journal of Advertising*. Dr. Pride is a member of the American Marketing Association, Academy of Marketing Science, Society for Marketing Advances, and the Marketing Management Association. Dr. Pride has taught Principles of Marketing and other marketing courses for more than 45 years at both the undergraduate and graduate levels.

Robert J. Hughes

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Robert J. Hughes (EdD, University of North Texas) specializes in business administration and college instruction. He has taught Introduction to Business for more than 35 years both on campus and online for Richland College—one of seven campuses that are part of the Dallas College System. In addition to *Business* and *Foundations of Business*, published by Cengage Learning, he has authored college textbooks in personal finance and business mathematics; served as a content consultant for two popular national television series, *It's Strictly Business* and *Dollars & Sense: Personal Finance for the 21st Century*; and is the lead author for a business math project utilizing computer-assisted instruction funded by the ALEKS Corporation. He is also active in many academic and professional organizations and has served as a consultant and investment advisor to individuals, businesses, and charitable organizations. Dr. Hughes is the recipient of three different Teaching in Excellence Awards at Richland College. According to Dr. Hughes, after 35 years of teaching Introduction to Business, the course is still exciting: "There's nothing quite like the thrill of seeing students succeed, especially in a course like Introduction to Business, which provides the foundation for not only academic courses, but also life in the real world."

Jack R. Kapoor

College of DuPage

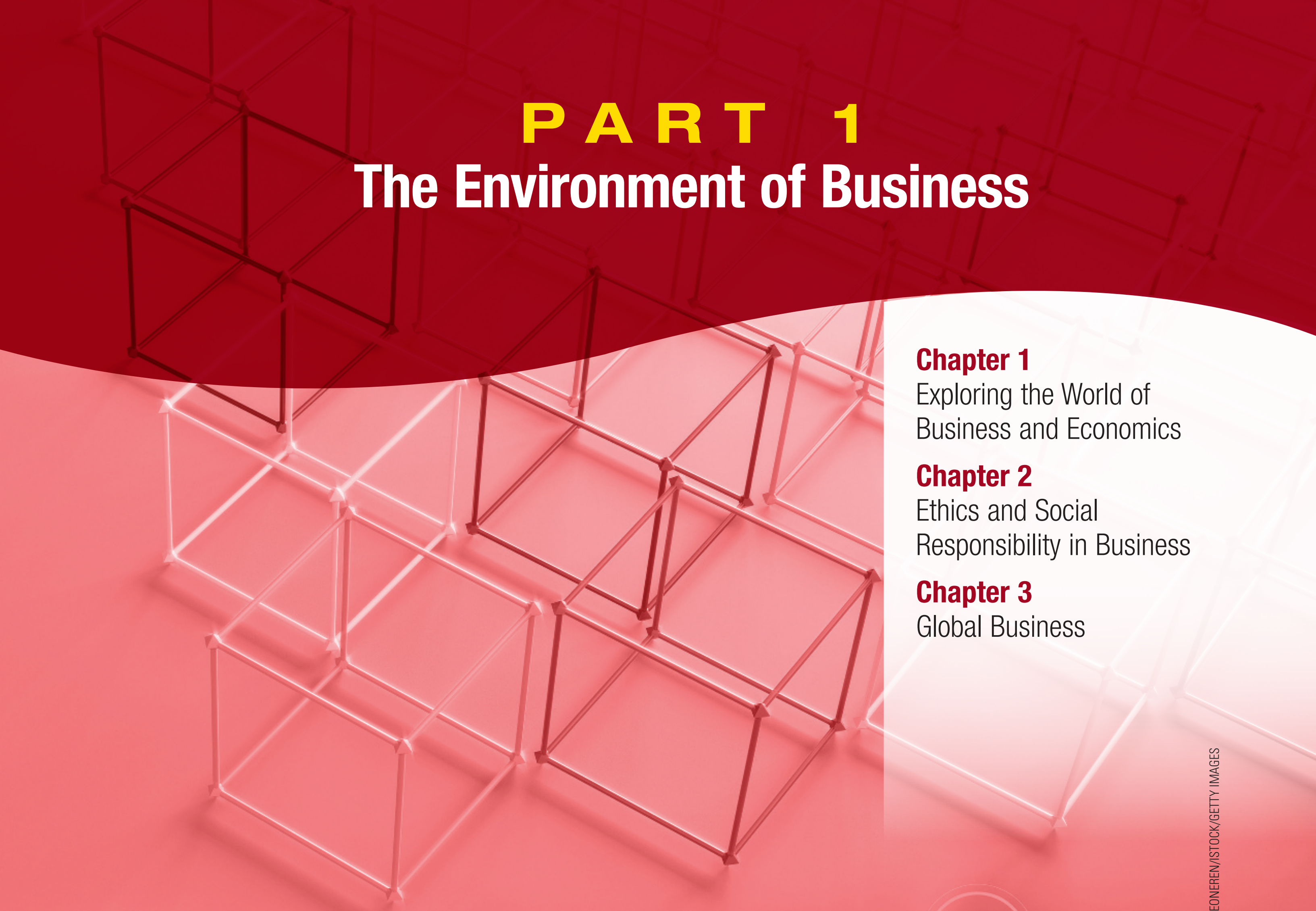
Jack R. Kapoor (EdD, Northern Illinois University) has been a Professor of Business and Economics in the Business and Technology Division at the College of DuPage, where he has taught Introduction to Business, Marketing, Management, Economics, and Personal Finance since 1969. He previously taught at Illinois Institute of Technology's Stuart School of Management, San Francisco State University's School of World Business, and other colleges. Professor Kapoor was awarded the Business and Services Division's Outstanding Professor Award for 1999–2000. He served as an Assistant National Bank Examiner for the U.S. Treasury Department and as an international trade consultant to Bolting Manufacturing Co., Ltd., Mumbai, India.

Dr. Kapoor is known internationally as a coauthor of several textbooks in Business and Personal Finance, including Business MindTap (Cengage Learning), has served as a content consultant for two popular national television series, *Dollars & Sense: Personal Finance for the 21st Century* and *The Business File: An Introduction to Business*, and developed two full-length audio courses in business and personal finance. He has been quoted in many national newspapers and magazines, including *USA Today, U.S. News & World Report*, the *Chicago Sun-Times, Crain's Small Business*, the *Chicago Tribune*, and other publications.

Dr. Kapoor has traveled around the world and has studied business practices in capitalist, socialist, and communist countries.

PART 1

The Environment of Business



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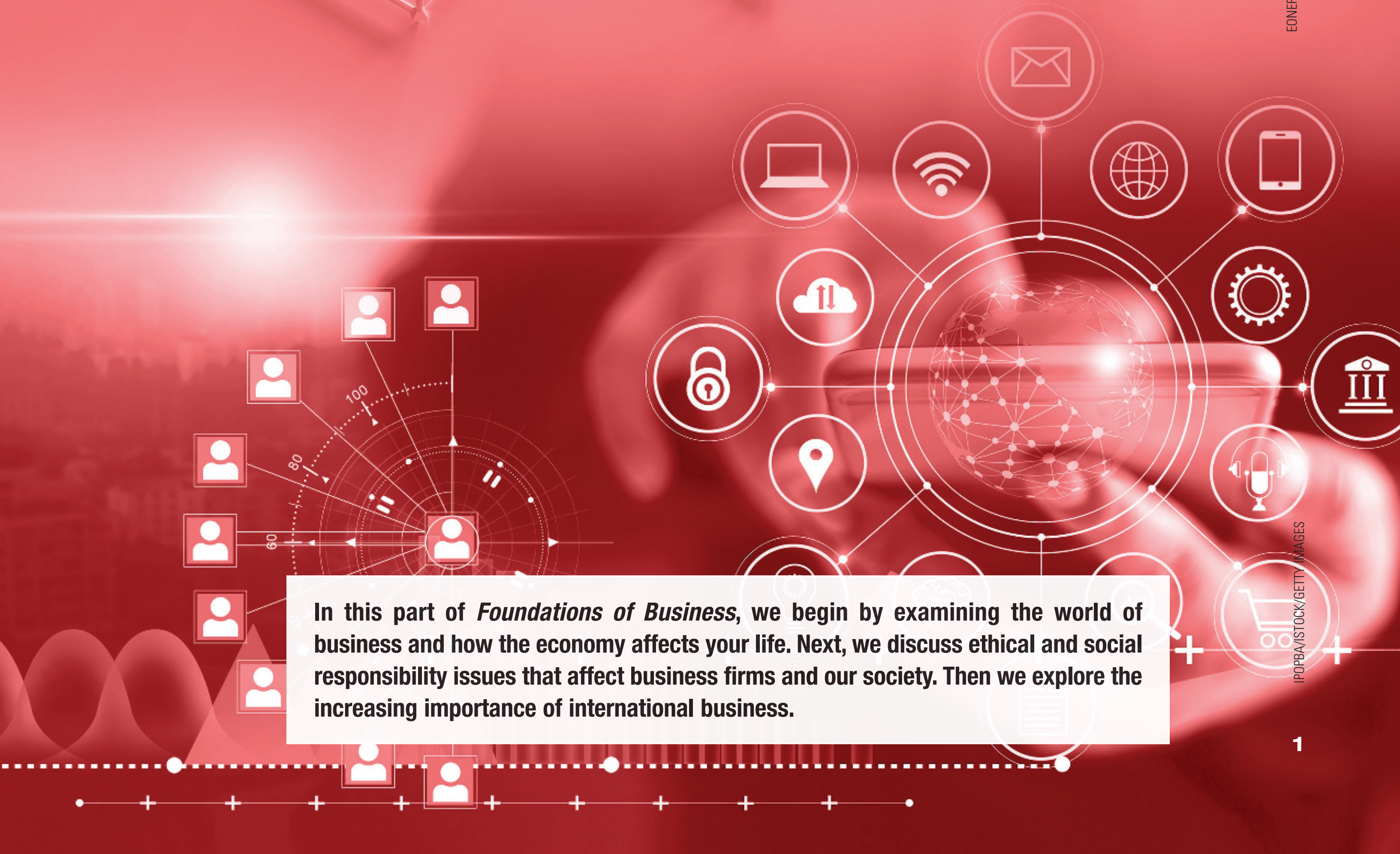

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In this part of *Foundations of Business*, we begin by examining the world of business and how the economy affects your life. Next, we discuss ethical and social responsibility issues that affect business firms and our society. Then we explore the increasing importance of international business.

Chapter

1


MONKEY BUSINESS IMAGES/SHUTTERSTOCK.COM

Exploring the World of Business and Economics

Why Should You Care?

Studying business will help you choose a career, become a successful employee or manager, start your own business, and become a more informed consumer and better investor.

Learning Objectives

Once you complete this chapter, you will be able to:

1-1 Discuss what you must do to be successful in today's business world.

1-2 Identify the potential risks and rewards of business.

1-3 Describe the two types of economic systems: capitalism and command economy.

1-4 Identify the ways to measure economic performance.

1-5 Examine the different phases in the typical business cycle.

1-6 Outline the four types of competition.

1-7 Summarize the development of American business and the challenges that businesses and society will encounter in the future.

Inside Business

Tesla Races Ahead of the Competition

Today Tesla is a household name around the world. Because the company is now the leader in electric vehicles (EVs), it has also become one of the most valuable companies in the world. Although Tesla is relatively young compared to General Motors, Ford, Toyota, and other competitors, the car manufacturer's commitment to innovation and sustainability has propelled it to the front of the pack. Even though Toyota is much larger than Tesla in terms of sales, Tesla's market capitalization has surpassed the Japanese carmaker, demonstrating that investors see a bright future ahead for the electric car company. For any company traded on the stock exchange, market capitalization is calculated by multiplying the current market value for a share of the company's stock by the total number of shares that have been issued. At the time of publication, Tesla was valued at almost $800 billion—not bad for a relative newcomer to the automobile industry.

While Tesla didn't invent the electric car, it set the standard for what an EV should be. The Tesla Roadster was the first highway-legal production vehicle that used lithium-ion batteries, giving it a longer driving range than other EVs on the market. With superior distance and speed and longer battery life, Tesla managed to make its products appealing to a wide range of customers. As Tesla makes record sales and expands globally, it's clear the company's early bet on EVs has paid off.

Tesla's robust supply chain has driven down battery costs, making it even more challenging for other manufacturers to catch up. Even though other automakers including BMW, Ford, General Motors, Mercedes Benz, Nissan, Volkswagen, and some companies you probably don't recognize are investing heavily in EVs, a Tesla automobile is the one that customers want. It's so popular that customers often have to wait for delivery for popular models. While Tesla does face competition from traditional automakers as well as electric car startups, the difference could be that other companies still think of EVs as an afterthought.[1]

Did you know?

Tesla's market capitalization is worth more than Ford and General Motors combined.

Wow! What a challenging world we live in. Just for a moment, think about how the world has changed in the last few years. The United States has experienced a pandemic, non-essential businesses were closed in many states, the unemployment rate increased, and the stock market took a nosedive and then recovered all in a short period of time. Even though the economy has shown signs of improvement, there are still problems and many people worry about the future of the nation and the economy. Simply put, many individuals, business leaders, and politicians worry that the future of the nation's economy could be a bumpy road that leads to another recession.

Regardless of the current state of the economy, keep in mind that our economy continues to adapt and change to meet the challenges of an ever-changing world and to provide opportunities for those who want to achieve success. Our economic system also provides an amazing amount of freedom that allows businesses like Tesla—the company profiled in the Inside Business opening case for this chapter—to adapt to satisfy the needs of customers. To meet increased consumer demands for an electric automobile, the company's managers, engineers, and employees were able to design and build an automobile that consumers really wanted. After initial success, Tesla—a newcomer in the automobile industry—continues to innovate and create new models with self-driving capability. As a result, the company is now profitable and is one of the most valuable companies in the world.

Within certain limits, imposed mainly to ensure public safety, the owners of a business can produce any legal good or service they choose and attempt to sell it at the price they set. This system of business, in which individuals decide what to produce, how to produce it, and at what price to sell it, is called **free enterprise**. Our free-enterprise system ensures, for example, that Amazon.com can sell everything from books, televisions, and toys to computers, cameras, and clothing. Our system gives Amazon's owners and stockholders the right to make a profit from the company's success. It gives Amazon's management the right to compete with bookstore rival Barnes & Noble and retailers Walmart, Best Buy, and Macy's. It also gives you—the consumer—the right to choose.

In this chapter, we look briefly at what business is and how it became that way. First, we discuss what you must do to be successful in the world of business and explore some important reasons for studying business. Second, we define *business*, noting how business organizations satisfy their customers' needs and earn profits. Third, we examine how capitalism and command economies answer four basic economic questions. Next, our focus shifts to how the nations of the world measure economic performance, the phases in a typical business cycle, and the four types of competitive situations. Finally, we look at the events that helped shape today's business system, the current business environment, and the challenges that businesses face.

1-1 Your Future in the Changing World of Business

Learning Objective

1-1 Discuss what you must do to be successful in today's business world.

The key word in this heading is *changing*. When faced with the COVID-19 pandemic that raced through the world, small business owners, employees, managers, and investors began to ask the question: What effect will non-essential business closures and record high unemployment rates have on the economy? More specifically, many people wanted to know, how does this affect me both now and in the future? Although this is a fair question, it is difficult to answer. For an employee just starting a career or for a college student preparing for a career, the question is even more difficult to answer. Now, as the United States and the world adjust to life after the COVID-19 pandemic and the economy shows signs of recovery, there are opportunities out there for people who are willing to work hard, continue to learn, and possess the ability to adapt to change. Let's begin this course with three basic concepts.

- What do you want?
- Why do you want it?
- Write it down!

Joe Dudley, one of the world's most respected Black business owners, offers the preceding advice to anyone who wants to succeed in business. His advice can help you achieve success. What is so amazing about Dudley's success is that he started a manufacturing business in his own kitchen, with his wife and children serving as the new firm's only employees. He went on to develop his own line of haircare and cosmetic products sold directly to cosmetologists, barbers, beauty schools, and consumers in the United States and in foreign countries. Today, after a lot of hard work and a strong work ethic, Mr. Dudley has built a well-recognized and respected company in the competitive cosmetics industry. He is not only a successful business owner but also a winner of the Horatio Alger Award—an award given to outstanding individuals who have succeeded in the face of adversity.[2]

Although many people would say that Joe Dudley was just lucky or happened to be in the right place at the right time, the truth is that he became a success because he had a dream and worked to turn the dream into a reality. He would be the first to tell you that you have the same opportunities he had. According to Mr. Dudley, "Success is a journey, not just a destination."[3]

Whether you want to obtain part-time employment to pay college and living expenses, begin your career as a full-time employee, or start a business, you must

free enterprise the system of business in which individuals are free to decide what to produce, how to produce it, and at what price to sell it bring something to the table that makes you different from the next person. Employers and our economic system are more demanding than ever before. Ask yourself: What can I do that will make employers want to pay me a salary? What skills do I have that employers need? With these two questions in mind, we begin the next section with another basic question: Why study business?

1-1a **Why Study Business?**

The potential benefits of higher education are enormous. To begin with, there are economic benefits. Over their lifetimes, college graduates on average earn much more than high school graduates. Although lifetime earnings are substantially higher for college graduates, so are annual income amounts (refer to Figure 1-1). In addition to higher income, you will find at least four compelling reasons for studying business.

For Help in Choosing a Career What do you want to do with the rest of your life? Like many people, you may find it a difficult question to answer. This business course will introduce you to a wide array of employment opportunities. In private enterprise, these range from small, local businesses owned by one individual to large companies such as American Express and Microsoft owned by thousands of stockholders. There are also employment opportunities with federal, state, county, and local governments and with charitable organizations such as Habitat for Humanity, the Red Cross, and Save the Children. For help in deciding which career might be right for you, read Appendix A "Careers in Business," which appears on the text website.

In addition to career information in Appendix A, a number of websites provide information about career development. To click your career into high gear, you can also use online networking. Websites like Facebook, Twitter, LinkedIn, and other social media sites can help you locate job openings and help prospective employers to find you. To make the most of online networking, begin by identifying and joining sites where you can connect with potential employers, former classmates, and others who may have or may hear of job openings. Next, be sure your online profile, photographs, and posts communicate your abilities and interests. Finally, be ready to respond quickly when you spot a job opening.

One thing to remember as you think about what your ideal career might be is that people often choose a career that is a reflection of what they value and consider most important. What will give one individual personal satisfaction may not satisfy another. For example, one person may dream of a career as a successful corporate executive with a large salary and job security in marketing or technology or financial services. Another person may choose a career that has more modest monetary rewards but that provides the opportunity to help others. What you choose to do with your life will be based on what you feel is most important. And *you* are a very important part of that decision.

Figure 1-1 Who Makes the Most Money?

Education makes a difference. Dollar amounts represent the average annual salary for full-time workers in each household.

Source: "Educational Attainment of Householder—Households with Householder 25 Years Old and Over by Median and Mean Income," The U.S. Census Bureau at www.census.gov (accessed January 7, 2021).

Exploring Careers

Gen Z Seeks Workplace Diversity

When it comes to finding the perfect employer, Generation Z (people born between 1997 and 2012) prioritizes workplace diversity. According to a survey by Tallo, an online platform for students and job seekers, nearly 70 percent say they would be more likely to accept a job offer if the recruiters and materials representing the company were ethnically and racially diverse. In fact, some would even decline a job offer if the firm fell short on these factors. Workplace diversity—the differences among people in a workforce owing to factors such as age, race, ethnicity, gender, sexual orientation, and ability—is a top priority for Gen Z.

Gen Z—the most diverse generation ever—has surpassed Millennials (people born between 1981 and 1996) to become the largest generation. The effects of their entry into the workplace are already felt by companies around the world. Diversity for Gen Z goes beyond race and gender to encompass gender identity and orientation. Nearly 90 percent of those surveyed said they believe employers should ask potential employees about their identified pronouns, a practice that is not yet widespread.

Companies that reflect diversity, equity, and inclusion in their branding and marketing materials will be more likely to attract fresh talent. Firms should be prepared to embed these values at the heart of the organization rather than making surface-level claims. With Gen Z on the hunt for organizations that reflect their values and beliefs, the burden is on employers to prioritize diversity issues.

Sources: Based on information in Tamara E. Holmes, "Diverse Workforce a Top Draw for Nearly 7 in 10 Members of Generation Z," *Yahoo Finance*, November 4, 2020, finance.yahoo.com/news/diverse-workforce-top-draw-nearly-175929234.html; Deloitte, "Understanding Generation Z in the Workplace," www2.deloitte.com/us/en/pages/consumer-business/articles/understanding-generation-z-in-the-workplace.html; Sheryl Estrada, "Workplace D&I in 2021 Will Keep External Community in Mind," *HR Dive*, January 13, 2021, www.hrdive.com/news/workplace-di-in-2021-will-keep-external-community-in-mind/593297/.

To Be a Successful Employee Deciding on the type of career you want is only the first step. To get a job in your chosen field and to be successful at it, you will have to develop a plan, or a road map, that ensures you have the skills and knowledge the job requires. Think about what you'd look for if you were hiring an employee and strive to be that kind of person. You will also be expected to have the ability to work well with many types of people in a culturally diverse workforce. **Cultural (**or **workplace) diversity** refers to a system that recognizes and respects the differences among people because of their age, race, ethnicity, gender, sexual orientation, and ability.

This course and the other college courses you take, your instructors, and all of the resources available at your college or university can help you acquire the skills and knowledge you will need for a successful career. But don't underestimate your part in making your dream a reality. In addition to job-related skills and knowledge, employers will also look for the following characteristics when hiring a new employee or promoting an existing employee:

- Honesty and integrity
- Willingness to work hard
- Dependability
- Time management skills
- Self-confidence
- Motivation
- Willingness to learn
- Communication skills
- Professionalism

cultural (or **workplace) diversity** a system that recognizes and respects the differences among people because of their age, race, ethnicity, gender, sexual orientation, and ability

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The road to success can take many different paths! While many people want immediate success, it's important to chart a path that leads to life-long success. It helps to remember what Joe Dudley, the founder of Dudley Beauty Products said: "Success is a journey, not just a destination."

Employers will also be interested in any work experience you may have had in cooperative work/school programs, during summer vacations, or in part-time jobs during the school year. Experience—even part-time work experience—can make a difference when it is time to apply for the job you really want.

Many employees want to become managers because managers often receive higher salaries and can earn promotions within an organization. To be effective, managers must be able to perform four basic management functions: planning, organizing, leading and motivating, and controlling. All four topics are discussed in Chapter 6, Understanding the Management Process. To successfully perform these management functions, managers must also be able to work effectively with individual employees, other managers within the firm, and people outside the firm. In addition to the four management functions just mentioned, a successful manager will need many of the same characteristics that an employee needs to be successful.

To Start Your Own Business Some people prefer to work for themselves, and they open their own businesses. To be successful, business owners must possess many of the same characteristics that successful employees and managers have, and they must be willing to work hard and put in long hours.

It also helps if a small-business owner has an idea that will provide a product or service that customers want. At the age of 16, Palmer Luckey began building virtual reality headsets in his garage after school and work. While the first prototypes based on his ideas were crude by today's standards, the product showed a great deal of promise. After further development, refinements, and more ideas, the product—now called Oculus—was a success in the marketplace. How successful? Answer: so successful that Facebook paid $2 billion to acquire the company.[4]

Unfortunately, many business firms fail. In fact, only about 50 percent survive the first five years. Typical reasons for business failures include undercapitalization (not enough money), poor business location, poor customer service, unqualified or untrained employees, fraud, lack of a proper business plan, and failure to seek outside professional help. The material in this course will help you to overcome many of these problems. The material in Chapter 5, Small Business, Entrepreneurship, and Franchises, and selected topics and examples throughout this text will also help you to decide whether you want to open your own business.

To Become a Better Informed Consumer and Investor The world of business surrounds us. You cannot buy a home, a new Ford Escape Hybrid from the local Ford dealer, a pair of jeans at Gap Inc., or a hot dog from a street vendor without entering into a business transaction. Because you no doubt will engage in business transactions almost every day of your life, one very good reason for studying business is to become a more fully informed consumer.

Many people also rely on a basic understanding of business to help them invest for the future. According to Julie Stav, Hispanic stockbroker turned radio and YouTube personality and the author of *Get Your Share: A Guide to Striking It Rich in the Stock Market* and other personal finance help books, it is important to learn the basics about the economy and business, stocks, mutual funds, and other alternatives before investing your money. She also believes that it is never too early to start investing.[5] Although this is an obvious conclusion, just dreaming of being rich does not make it happen. In fact, like many facets of life, it takes planning and determination to establish the type of investment program that will help you accomplish your financial goals.

1-1b **Special Note to Business Students**

It is important to begin reading this text with one thing in mind: *This business course does not have to be difficult.* We have done everything possible to eliminate the problems that you encounter in a typical class. All of the features in each chapter have been evaluated and recommended by instructors with years of teaching experience. In addition, business students—just like you—were asked to critique each chapter component. Based on this feedback, the text includes the following features:

- *Learning objectives* appear at the beginning of each chapter.
- *Inside Business* is a chapter-opening case that highlights how successful, real-world companies do business on a day-to-day basis.
- *Margin notes* are used throughout a chapter to reinforce both learning objectives and key terms.
- *Boxed features* in each chapter highlight how managers, employees, and entrepreneurs can be both ethical and successful. Topics discussed in the boxed features include ethics and social responsibility, suggestions for entrepreneurs, technology and innovation, environmental issues, and exploring different career options.
- *Concept Checks* at the end of each major section within a chapter help you test your understanding of the main issues just discussed.
- *End-of-chapter materials* provide a chapter summary, a list of key terms, discussion questions, and a case about a successful, real-world company.
- The last section of every chapter is entitled *Building Skills for Career Success* and includes exercises devoted to enhancing your social media skills, building team skills, and researching different careers.
- *End-of-part materials* provide a continuing case about Graeter's Ice Cream, a company that operates a chain of retail outlets in the Cincinnati, Ohio, area and sells to Kroger Stores and other retailers and consumers throughout the country. Also, at the end of each major part is an exercise designed to help you develop the components included in a typical business plan.

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We've worked hard to make sure this edition reflects what is happening in the world and our nation. We wanted you to know how changes in the economy and world events, and yes, even a pandemic can impact not only business, but also you as a student and a consumer. Just as important, we wanted to create a text and student learning materials that help you be successful.

Because a text should always be evaluated by the students and professors who use it, we would welcome and sincerely appreciate your comments and suggestions. Please feel free to contact us by using one of the following e-mail addresses:

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✓ Concept Check

- What reasons would you give if you were advising someone to study business?
- What factors affect a person's choice of careers?
- Once you have a job, what steps can you take to be successful?

1-2 Business: A Definition

Learning Objective

1-2 Identify the potential risks and rewards of business.

Business is the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs. The general term *business* refers to all such efforts within a society (as in "American business"). However, *a business* is a particular organization, such as a Kroger grocery store or a Cracker Barrel Old Country Store. To be successful, a business must perform three activities. It must be organized, it must satisfy needs, and it must earn a profit.

1-2a The Organized Effort of Individuals

For a business to be organized, it must combine four kinds of resources: material, human, financial, and informational. *Material* resources include the raw materials used in manufacturing processes. For example, Mrs. Fields Cookies needs flour, sugar, butter, eggs, and other raw materials to produce the food products it sells worldwide. Material resources can also include buildings and machinery—sometimes referred to as the capital resources needed to produce goods and services. In addition, a company needs human, financial, and informational resources. *Human* resources are the people who furnish their labor to the business in return for wages. The *financial* resource is the money required to pay employees, purchase materials, and generally keep the business operating. *Information* is the resource that tells the managers of the business how effectively the other three resources are being combined and used (refer to Figure 1-2).

Today, businesses are usually organized as one of three specific types. *Service businesses* produce services, such as haircuts, legal advice, or tax preparation. H&R Block provides tax preparation and software and digital products to both businesses and consumers in the United States and around the world. *Manufacturing businesses* process various material resources into tangible goods, such as automobiles and trucks, clothing, or computers. Intel, for example, produces computer chips and other technology components that, in turn, are sold to companies that manufacture computers. Finally, some firms called *marketing intermediaries* buy products from manufacturers and then resell them. Sony Corporation is a manufacturer that produces stereo equipment, televisions, cameras, and other electronic products. These products may be sold to a marketing intermediary—often referred to as a retailer—such as Best Buy or Walmart, which then resells the manufactured goods to consumers in their retail stores.

Figure 1-2 Combining Resources

A business must combine all four resources effectively to be successful.

business the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs

While most people think of retailers as the "store around the corner," today many consumers prefer to shop online. For example, there was a dramatic increase in the number of customers shopping online during the COVID-19 pandemic. While people still needed food, cleaning supplies, toilet paper, and other essential items, they were afraid to venture out to shop at local retailers because of the fear of contracting the virus. As an alternative, they used the internet to order merchandise online and then had their purchases delivered to their home or used "curbside" delivery. As a result, major retailers including Walmart, Amazon, Target, Home Depot, Lowe's, and smaller retailers saw increases in the number of online sales.

To take advantage of the opportunities to sell goods and services online, there are retailers that exist only on the internet and more traditional business firms that sell goods and services in both their brick-and-mortar stores *and* online. For example, Etsy is a highly successful internet retailer. The secret of Etsy's success is that the company provides an online site for buyers looking for unique or custom-made items not found in typical retail stores. Macy's, on the other hand, sells merchandise in both its stores and online. For our purposes, **e-business** can be defined as the organized effort of individuals to produce and sell for a profit, the goods and services that satisfy society's needs *through the facilities available on the internet*. While very similar to the definition of business, an e-business is different because of the last seven words—*through the facilities available on the internet*. e-Business—a topic we will continue to explore throughout this text—has become an accepted method of conducting business and a way for businesses to increase sales and profits and reduce expenses.

1-2b Satisfying Needs

The ultimate objective of every firm must be to satisfy the needs of its customers. People generally do not buy goods and services simply to own them; they buy goods and services to use them in order to satisfy their particular needs. In fact, a large number of start-up businesses fail because customers don't need or want what the business is selling. Many experts suggest that talking to customers to determine what needs they have is an essential step that many would-be business owners ignore. In other situations, would-be business owners don't consider if competitors are already meeting the needs of customers in a specific geographic area. Even an

e-business the organized effort of individuals to produce and sell for a profit, the goods and services that satisfy society's needs *through the facilities available on the internet*

Oh, thank heaven for 7-Eleven!® **This 7-Eleven store in Osaka, Japan, is just one convenience store, but it is part of a company that has over 70,000 stores in 17 different countries. Started in 1927, today 7-Eleven is the largest chain of convenience stores in the world and is built on a basic principle: "Give the customers what they want, when and where they want it."**

NP27/SHUTTERSTOCK.COM

existing business can fail if it doesn't adapt to changing customer needs and its products or services no longer meet customer needs.

Different people have different needs. Some of us may feel the need for transportation is best satisfied by an air-conditioned BMW with navigation system, turbo V8 engine, stereo system, heated and cooled seats, automatic transmission, power windows, and remote-control side mirrors. Others may believe that a Chevrolet Spark with a four-cylinder engine and manual transmission will do just fine. Both products are available to those who want them, along with a wide variety of other products that satisfy the need for transportation.

When businesses understand their customers' needs and work to satisfy those needs, they are usually successful. Back in 1962, Sam Walton opened his first discount store in Rogers, Arkansas. Although the original store was quite different from the Walmart superstores you see today, the basic ideas of providing customer service and offering goods that satisfied needs at low prices are part of the reason why this firm has grown to become the largest retailer in the world.

1-2c Business Profit

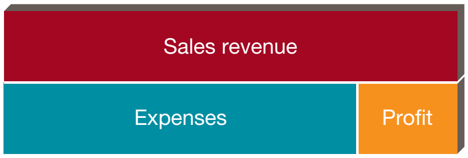
A business receives money (sales revenue) from its customers in exchange for goods or services. It must also pay out money to cover the expenses involved in doing business. If the firm's sales revenues are greater than its expenses, it has earned a profit. More specifically, as shown in Figure 1-3, **profit** is what remains after all business expenses have been deducted from sales revenue.

A negative profit, which results when a firm's expenses are greater than its sales revenue, is called a *loss*. A business cannot continue to operate at a loss for an indefinite period of time. Management and employees must find some way to increase sales revenues and reduce expenses to return to profitability. If some specific actions are not taken to eliminate losses, a firm may be forced to close its doors or file for bankruptcy protection. For example, many businesses including JCPenney, Neiman Marcus, J. Crew, and Hertz were forced to file bankruptcy in 2020 because each firm had lower sales revenues and experienced a loss caused by the COVID-19 pandemic. Fortunately, many of the firms that filed for bankruptcy protection were able to reorganize and continue to operate.

Although many people—especially stockholders and business owners—believe that profit is literally the bottom line or most important goal for a business, many stakeholders may be just as concerned about a firm's social responsibility and environmental record. The term **stakeholders** is used to describe all the different people or groups of people who are affected by an organization's policies, decisions, and activities. Many corporations, for example, are careful to point out their efforts to sustain the planet, participate in the green ecological movement, and help people to live better lives in an annual social responsibility report. In its latest report, General Mills describes how it contributed over $93 million in 2019 (the last year that complete statistics are available) to a wide variety of charitable causes, including support for programs that feed the hungry and for nonprofit organizations, schools, and communities in the United States and around the globe.[6]

Figure 1-3 The Relationship Between Sales Revenue and Profit

Profit is what remains after all business expenses have been deducted from sales revenue.



profit what remains after all business expenses have been deducted from sales revenue

stakeholders all the different people or groups of people who are affected by an organization's policies, decisions, and activities

✓ Concept Check

- Describe the four resources that must be combined to organize and operate a business.
- What is the difference between a manufacturing business, a service business, and a marketing intermediary?
- Explain the relationship among profit, business risk, and the satisfaction of customers' needs.

The profit earned by a business becomes the property of its owners. Thus, in one sense, profit is the reward business owners receive for producing goods and services that customers need and want. Profit is also the payment that business owners receive for assuming the considerable risks of business ownership. One of these is the risk of not being paid. Everyone else—employees, suppliers, and lenders—must be paid before the owners.

A second risk that owners must consider is the risk of losing whatever they have invested into the business. A business that cannot earn a profit is very likely to fail, in which case the owners lose whatever money, effort, and time they have invested.

To satisfy society's needs and make a profit, a business must operate within the parameters of a nation's economic system. In the next section, we define economics and describe two different types of economic systems.

1-3 Types of Economic Systems

Learning Objective

1-3 Describe the two types of economic systems: capitalism and command economy.

Economics is the study of how wealth is created and distributed. By *wealth*, we mean "anything of value," including the goods and services produced and sold by business. *How wealth is distributed* simply means "who gets what." Experts often use economics to explain the choices we make and how these choices change as we cope with the demands of everyday life. In simple terms, individuals, businesses, governments, and society must make decisions that reflect what is important to each group at a particular time. For example, suppose you want to take a weekend trip to some exotic vacation spot, and you also want to begin an investment program. Because of your financial resources, though, you cannot do both, so you must decide what is most important. Business firms, governments, and to some extent society face the same types of decisions. Each group must deal with scarcity when making important decisions. In this case, *scarcity* means "lack of resources"—money, time, natural resources, and so on—that are needed to satisfy a want or need.

economics the study of how wealth is created and distributed

microeconomics the study of the decisions made by individuals and businesses

Today, experts often study economic problems from two different perspectives: microeconomics and macroeconomics. **Microeconomics** is the study of the decisions made by individuals and businesses. Microeconomics, for example, examines how the prices of homes affect the number of homes individuals will buy. On the other hand,

Who owns Dairy Queen? There's a chance you've purchased shakes or burgers at DQ, but do you know who owns the restaurant chain? The restaurant chain is part of a multinational corporation—Berkshire Hathaway—a company that owns dozens and dozens of successful companies and was started by Warren Buffett. Today Berkshire Hathaway *and* Dairy Queen meet customer needs, earn profits, and employ thousands of employees because they thrive in a nation with a capitalistic economy.

JONATHAN WEISS/SHUTTERSTOCK.COM

macroeconomics is the study of the national economy and the global economy. Macroeconomics examines the economic effect of national income, unemployment, inflation, taxes, government spending, interest rates, and similar factors on a nation and society.

The decisions that individuals, business firms, government, and society make, and the way in which people deal with the creation and distribution of wealth determine the kind of economic system, or **economy**, that a nation has.

Over the years, the economic systems of the world have differed in essentially two ways: (1) the ownership of the factors of production and (2) how they answer four basic economic questions that direct a nation's economic activity.

Factors of production are the inputs and resources used to produce goods and services. There are four such factors:

- *Land and natural resources*—elements that can be used in the production process to make appliances, automobiles, and other products. Typical examples include crude oil, forests, minerals, land, water, and even air.
- *Labor*—the time and effort that we use to produce goods and services. It includes human resources—people with skills, knowledge, training, and experiences. Examples include managers and employees.
- *Capital*—facilities, equipment, machines, tools, and man-made items used in the production of goods and services and the operation of businesses. For example, the manufacturing equipment in a Pepperidge Farm production facility or a computer used in the corporate offices of McDonald's are both types of capital. Although most people think of money as capital, it is not one of the basic four factors of production because it is a financial resource used to obtain the factors of production necessary to conceptualize, create, and produce goods and services.
- *Entrepreneurship*—the activity that conceptualizes, creates, and organizes land and natural resources, labor, and capital. It is the willingness to take risks and the knowledge and ability to use the other factors of production efficiently. An **entrepreneur** is a person who risks time, effort, and money to start and operate a business.

A nation's economic system determines how the factors of production are used to meet the needs of society. Today, two different economic systems exist: capitalism

macroeconomics the study of the national economy and the global economy

economy the way in which people deal with the creation and distribution of wealth

factors of production inputs and resources used to produce goods and services

entrepreneur a person who risks time, effort, and money to start and operate a business

ZHENGZAISHURU/SHUTTERSTOCK.COM

Is this so-much hot air?
No, not really. Fueled by environmental concerns, more and more businesses in industrialized nations are using wind and solar power for their energy needs. Today both wind and solar power are sources of clean and cost-effective energy leading some experts to suggest there's a new natural resource in town.

Entrepreneurial Success

The Next Wave of Entrepreneurs Is Here

During the COVID-19 pandemic, the United States experienced the highest unemployment rate since 1929, and that indirectly led to a boom in entrepreneurship. Based on data from the U.S. Census Bureau, new business formations during the pandemic jumped dramatically, reaching a record high.

Since business creation has historically declined during periods of recession, professionals are optimistic about this new wave of entrepreneurship. The sharp increase in applications to form businesses also suggests that the labor market will recover more quickly from the COVID-19 recession than the Great Recession of 2008. After all, new, successful businesses will need to hire employees.

Recessions often give rise to new types of businesses as innovative entrepreneurs capitalize on new opportunities. The Great Recession of 2008, for example, gave birth to the gig economy as unemployed individuals looked for temporary, flexible, or freelance jobs for alternative ways to make money. Apps like Airbnb and Uber became immensely popular. Now, consumer demand suggests several products and services such as home improvement, pet products, home beauty products, gaming, and fitness and health that may offer new business opportunities to meet the needs of customers.

The COVID-19 pandemic disrupted business operations, shifted consumer behavior, and created new opportunities. As a result, entrepreneurs will have to look outside the box to match customer needs with their internal core strengths. As new start-ups emerge, only time will tell which ones will enjoy long-term success.

Sources: Based on information in Michael Sasso and Alexandre Tanzi, “Covid Recession Spawning Entrepreneurs in U.S. Amid Joblessness,” *Bloomberg*, October 14, 2020, www.bloomberg.com/news/articles/2020-10-14/covid-recession-spawning-entrepreneurs-in-u-s-amid-joblessness; Adam Singolda, “Op-Ed: Analysis of 8 Billion Page Views Shows Where the Next Hot Start-up Can Thrive,” *CNBC*, May 12, 2020, www.cnbc.com/2020/05/12/here-are-the-new-businesses-to-start-during-the-coronavirus-recession.html; Dr. Anthony M. Criniti, IV, “How to Become a Successful Entrepreneur During the Pandemic,” *The Entrepreneur*, July 28, 2020, https://www.entrepreneur.com/article/353674.

and command economies. The way each system answers the four basic economic questions listed below determines which type of economy a nation has.

1. *What* goods and services—and how much of each—will be produced?
2. *How* will these goods and services be produced?
3. *For whom* will these goods and services be produced?
4. *Who* owns and who controls the major factors of production?

1-3a Capitalism

Capitalism is an economic system in which individuals own and operate the majority of businesses that provide goods and services. Capitalism stems from the theories of the Scottish economist Adam Smith. In his book *Wealth of Nations*, published in 1776, Smith argued that a society’s interests are best served when the individuals within that society are allowed to pursue their own self-interest. According to Smith, when individuals act to improve their own fortunes, they indirectly promote the good of their community and the people in that community. Smith went on to call this concept the “invisible hand.” The **invisible hand** is a term created by Adam Smith to describe how an individual’s own personal gain benefits others and a nation’s economy. For example, the only way a small-business owner who produces shoes can increase personal wealth is to sell shoes to customers. To become even more prosperous, the small-business owner must hire workers to produce even more shoes. According to the invisible hand, people in the small-business owner’s community not only would have shoes but also would have jobs working for the shoemaker. Thus, the success of people in the community and, to some extent, the nation’s economy are tied indirectly to the success of the small-business owner.

capitalism an economic system in which individuals own and operate the majority of businesses that provide goods and services

invisible hand a term created by Adam Smith to describe how an individual’s personal gain benefits others and a nation’s economy

Adam Smith's capitalism is based on the following fundamental issues—also refer to Figure 1-4.

1. The creation of wealth is the concern of private individuals, not the government.
2. Individuals must own private property and the resources used to create wealth.
3. Economic freedom ensures the existence of competitive markets that allow both sellers and buyers to enter and leave the market as they choose.
4. The role of government should be limited to providing defense against foreign enemies, ensuring internal order, and furnishing public works and education.

One factor that Smith felt was extremely important was the role of government. He believed that government should act only as rule maker and umpire. The French term *laissez-faire* describes Smith's capitalistic system and implies that there should be no government interference in the economy. Loosely translated, this term means "let them do" (as they choose).

Adam Smith's laissez-faire capitalism is also based on the concept of a market economy. A **market economy** (sometimes referred to as a *free-market economy*) is an economic system in which businesses and individuals decide what to produce and buy, and the market determines prices and quantities sold. In today's competitive world, a business like Ford Motor Company must decide *what* type of automobiles it will sell, *how* the automobiles will be produced, and *for whom* the automobiles will be produced. *You,* the consumer, must decide if you will buy a Ford product or an automobile manufactured by another company. Prices are determined by the interaction of consumers and businesses in the marketplace.

1-3b Capitalism in the United States

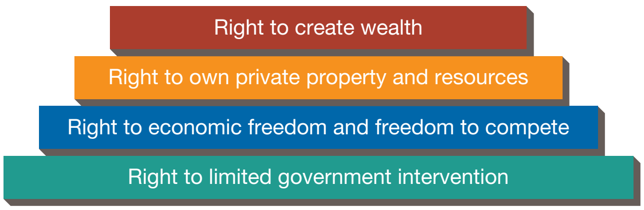
Our economic system is rooted in the laissez-faire capitalism of Adam Smith. However, our real-world economy is not as laissez-faire as Smith would have liked because government participates as more than umpire and rule maker. Our economy is, in fact, a **mixed economy**, one that exhibits elements of both capitalism and socialism.

In a mixed economy, the four basic economic questions discussed at the beginning of this section (*what, how, for whom,* and *who*) are answered through the interaction of households, businesses, and governments. The interactions among these three groups are shown in Figure 1-5.

Households Households, made up of individuals, are the consumers of goods and services as well as owners of some of the factors of production. As *resource owners,* people should be free to determine how their resources are used and also to enjoy the income and wages, rents, interest, and other benefits derived from ownership of their resources. For example, members of households provide businesses with labor. In return, businesses pay wages, which households receive as income.

As *consumers,* household members spend their income to purchase the goods and services produced by business. Today, almost 70 percent of our nation's total production consists of **consumer products**—goods and services purchased by

Figure 1-4 Basic Assumptions of Adam Smith's Laissez-Faire Capitalism



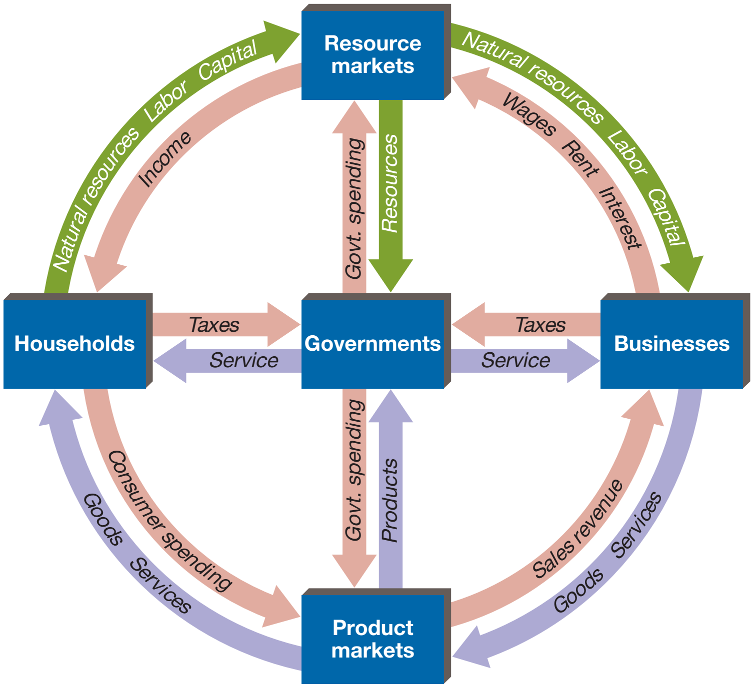
market economy an economic system in which businesses and individuals decide what to produce and buy, and the market determines prices and quantities sold.

mixed economy an economy that exhibits elements of both capitalism and socialism

consumer products goods and services purchased by individuals for personal consumption

Figure 1-5 **The Circular Flow in Our Mixed Economy**

Our economic system is guided by the interaction of buyers and sellers, with the role of government being taken into account.



individuals for personal consumption.[7] This means that consumers, as a group, are the biggest customers of American business. Consumer spending is a very important component for the financial health of any nation. Consider what happened in the first six months of 2020 in the United States. When the nation experienced the first cases of the COVID-19 virus, consumer spending began to slow down. Then the situation got even worse when non-essential businesses including restaurants, theaters, and some retailers closed down in March and April in many states. When this happened, many consumers were advised (or told) to stay home, and they began to save money and buy only essential items. The combination of fear of losing their job or reduced hours on the job and not knowing how long the pandemic would last caused a huge drop in consumer spending and an economic downturn. Fortunately, consumer spending and the economy began to turn around in the summer of 2020 as businesses began to reopen, and early research indicated that a vaccine that could protect people from the virus and decrease the number of deaths would be available by the end of the year.

Businesses Like households, businesses are engaged in two different exchanges. They exchange money for resources, labor, and capital and use these resources to produce goods and services. Then they exchange their goods and services for sales revenue. This sales revenue, in turn, is exchanged for additional resources, which are used to produce and sell more goods and services.

When business profits are distributed to business owners, these profits become household income. (Business owners are, after all, members of households.) When the economy is running smoothly, households are willing to invest their money in businesses. They can do so directly by buying stocks issued by businesses, by purchasing shares in mutual funds that purchase stocks in businesses, or by lending money to businesses. They can also invest indirectly by placing their money in bank accounts. Banks and other financial institutions then invest money as part of their normal business operations. Thus, business profits, too, are retained in the business system, and the circular flow in Figure 1-5 is complete. How, then, does government fit in?

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Governments The numerous government services are important but they (1) would either not be produced by private business firms or (2) would be produced only for those who could afford them. Typical services include national defense, police, fire protection, education, and construction of roads and highways. To pay for all these services, governments collect a variety of taxes from households (such as personal income taxes and sales taxes) and from businesses (corporate income taxes).

Figure 1-5 shows this exchange of taxes for government services. It also shows government spending of tax dollars for resources and products required to provide these services.

Actually, with government included, our circular flow looks more like a combination of several flows. In reality, it is. The important point is that together the various flows make up a single unit—a complete economic system that provides answers to the basic economic questions. Simply put, the system works.

1-3c Command Economies

A **command economy** is an economic system in which the government decides *what* goods and services will be produced, *how* they will be produced, *for whom* available goods and services will be produced, and *who* owns and controls the major factors of production. Today, two types of economic systems—*socialism* and *communism*—serve as examples of command economies.

Socialism In a socialist economy, the key industries are owned and controlled by the government. Land, buildings, and raw materials may also be the property of the state in a socialist economy. Depending on the country, private ownership of smaller businesses is permitted to varying degrees. Usually, people may choose their own occupations, although many work in state-owned industries. Today, China, New Zealand, Canada, Sweden, and Norway are often referred to as socialist nations because they have adopted *some* socialist policies and welfare programs..

What to produce and how to produce it often are determined in accordance with national goals, which are based on projected needs and the availability of resources. The distribution of goods and services—who gets what—is also controlled by the state to the extent that it controls taxes, rents, and wages. Among the professed aims of socialist countries are the equitable distribution of income, the elimination of poverty, and the distribution of social services (such as medical care) to all who need them. The disadvantages of socialism include increased taxation and loss of incentive and motivation for both individuals and business owners.

Communism If Adam Smith was the father of capitalism, Karl Marx was the father of communism. In his writings during the mid-1800s, Marx advocated a classless society whose citizens together owned all economic resources. All workers would then contribute to this *communist* society according to their ability and would receive benefits according to their need.

Since the breakup of the Soviet Union and economic reforms in China and most of the Eastern European countries, the best remaining example of communism is North Korea. Today, the basic four economic questions (what, how, for whom, and who) are answered through centralized government plans. Emphasis is placed on the production of goods and services the government needs rather than on the needs of consumers, so there are frequent shortages of consumer goods.

✓ Concept Check

- What are the four basic economic questions? How are they answered in a capitalist economy?
- Describe the four basic assumptions required for a laissez-faire capitalist economy.
- Why is the American economy called a mixed economy?
- How does capitalism differ from socialism and communism?

command economy an economic system in which the government decides *what* goods and services will be produced, *how* they will be produced, *for whom* available goods and services will be produced, and *who* owns and controls the major factors of production

1-4 Measuring Economic Performance

Learning Objective

1-4 Identify the ways to measure economic performance.

Consider for just a moment the following questions:

- Are U.S. workers as productive as workers in other countries?
- Is the gross domestic product for the United States increasing or decreasing?
- How does inflation affect the prices that consumers pay for products and services?

Information needed to answer these questions is easily obtainable from many sources. More important, the answers to these and other questions can be used to gauge the economic health of the nation.

1-4a The Importance of Productivity in the Global Marketplace

One way to measure a nation's economic performance is to assess its productivity. While there are other definitions of productivity, for our purposes, **productivity** is the average level of output per worker per hour. An increase in productivity results in economic growth because a larger number of goods and services are produced by a given labor force. To see how productivity affects you and the economy, consider the following three questions:

Question: *How does an increase in productivity affect the economy?*

Answer: Because of increased productivity, it takes fewer workers to produce more goods and services. As a result, employers can reduce costs, earn more profits, and may sell their products or services for less. Finally, productivity growth helps American business to compete more effectively with other nations in a global, competitive world.

Question: *Is an increase in productivity always good?*

Answer: Fewer workers producing more goods and services can lead to lower salary expenses for employers and higher unemployment rates for workers. In this case, increased productivity is good for employers but not good for unemployed workers.

productivity the average level of output per worker per hour

How do you improve productivity? **Most experts agree the most important factors needed to improve worker productivity are workers who feel appreciated and valued for the contributions they make to the organization, and being part of an inclusive team. In fact, sharing ideas and different opinions and being part of "the team" are often the foundation for improving a company's productivity.**

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Question: *How does a nation improve productivity?*

Answer: Reducing costs and enabling employees to work more efficiently are at the core of all attempts to improve productivity. Increased productivity is one of the key factors that account for an increase in a nation's gross domestic product.

1-4b The Nation's Gross Domestic Product

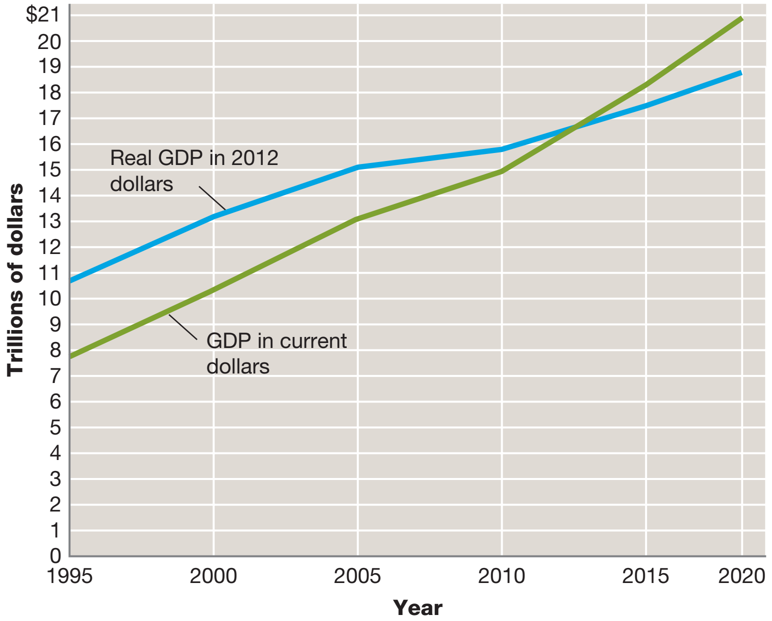
In addition to productivity, a measure called *gross domestic product* can be used to measure the economic well-being of a nation. **Gross domestic product (GDP)** is the total dollar value of all goods and services produced by all people within the boundaries of a country during a specified time period—usually a one-year period. For example, the values of automobiles produced by employees in an American-owned General Motors plant and a Japanese-owned Toyota plant *in the United States* are both included in the GDP for the United States. The U.S. GDP was $20.9 trillion in 2020.[8] (*Note:* At the time of publication, 2020 was the last year for which statistics were available.)

The GDP figure facilitates comparisons between the United States and other countries because it is the standard used in international guidelines for economic accounting. It is also possible to compare the GDP for one nation over several different time periods. This comparison—often called the GDP growth rate—allows observers to determine the extent to which a nation is experiencing economic growth on an annual or quarterly basis. For example, government economic experts project the U.S. GDP will grow approximately 2 percent each year from 2019 to 2029.[9]

To make accurate comparisons of the GDP for different years, we must adjust the dollar amounts for inflation. **Inflation** is a general rise in the level of prices. (The opposite of inflation is deflation.) **Deflation** is a general decrease in the level of prices. By using inflation-adjusted figures, we are able to measure the *real* GDP for a nation. In effect, it is now possible to compare the goods and services produced by a nation in constant dollars—dollars that will purchase the same amount of goods and services. Figure 1-6 depicts the GDP of the United States in current dollars

Figure 1-6 GDP in Current Dollars and in Inflation-Adjusted Dollars

The change in GDP and real GDP for the United States from one year to another year can be used to measure economic growth.



Source: U.S. Bureau of Economic Analysis website at www.bea.gov (accessed January 28, 2021).

gross domestic product (GDP) the total dollar value of all goods and services produced by all people within the boundaries of a country during a specified time period—usually a one-year period

inflation a general rise in the level of prices

deflation a general decrease in the level of prices

Table 1-1 Common Measures Used to Evaluate a Nation's Economic Health

Economic Measure	Description
1. Balance of trade	The difference between the value of a nation's exports and a nation's imports over a specific period of time.
2. Consumer confidence index	A measure of how optimistic or pessimistic consumers are about the nation's economy. This measure is usually reported on a monthly basis.
3. Corporate profits	The total amount of profits made by corporations over selected time periods.
4. Inflation rate	An economic statistic that tracks the increase in prices of goods and services over a period of time. This measure is usually reported monthly and calculated on an annual basis.
5. National income	The total income earned by various components of the economy, including employees, interest and rental income, profits from businesses, and other types of income.
6. New housing starts	The total number of new homes started during a specific time period.
7. Prime interest rate	The lowest interest rate that banks charge their most credit-worthy customers.

✓ Concept Check

- How does an increase in productivity affect business?
- What is the difference between the gross domestic product and the real gross domestic product? Why are these economic measures significant?
- How does inflation affect the prices you pay for goods and services?
- How is the producer price index related to the consumer price index?

and the real GDP in inflation-adjusted dollars. Note that between 1995 and 2020, America's real GDP grew from almost $10.7 trillion to $18.8 trillion.[10]

1-4c Other Important Economic Indicators That Measure a Nation's Economy

In addition to productivity, GDP, and real GDP, other economic measures exist that can be used to evaluate a nation's economy. One very important statistic is the unemployment rate. The **unemployment rate** is the percentage of a nation's labor force unemployed at any time. Although the unemployment rate for the United States is typically about 4 to 6 percent, it peaked during the COVID-19 pandemic when the unemployment rate reached almost 15 percent when non-essential businesses were closed in many states. By the end of 2020, the unemployment rate had dropped to just over 6 percent. This is an important statistic—especially if you are unemployed.

The **consumer price index (CPI)** is a monthly index that measures the changes in prices of a fixed basket of goods purchased by a typical consumer in an urban area. Goods listed in the CPI include food and beverages, transportation, housing, clothing, medical care, recreation, education, communication, and other goods and services. Economists often use the CPI to determine the effect of inflation on not only the nation's economy but also individual consumers. Another index is the producer price index. The **producer price index (PPI)** is a monthly index that measures prices that producers receive for their finished goods. Because changes in the PPI reflect price increases or decreases at the wholesale level, the PPI is an accurate predictor of both changes in the CPI and prices that consumers will pay for many everyday necessities in the future.

Some additional economic measures are described in Table 1-1. Like the measures for GDP, real GDP, unemployment rate, and price indexes, these measures can be used to compare one economic statistic over different periods of time.

unemployment rate the percentage of a nation's labor force unemployed at any time

consumer price index (CPI) a monthly index that measures the changes in prices of a fixed basket of goods purchased by a typical consumer in an urban area

producer price index (PPI) a monthly index that measures prices that producers receive for their finished goods

1-5 The Business Cycle

Learning Objective

1-5 Examine the different phases in the typical business cycle.

All industrialized nations of the world seek economic growth, full employment, and price stability. However, a nation's economy fluctuates rather than grows at a steady pace every year. In fact, if you were to graph the economic growth rate for a country like the United States over a long period of time, it would resemble a roller-coaster ride with peaks (high points) and troughs (low points). These fluctuations

Sustaining the Planet

The North Face Believes Sustainability and Social Responsibility Sell

The North Face, an outdoor apparel and gear company founded in 1966, is beginning to see sustainability and social responsibility as factors that can drive profit. Patagonia, its primary competitor, has a long history of sustainability and social responsibility activism while The North Face's efforts have been smaller scale. As sustainability and social responsibility issues have become a greater priority for consumers and investors, The North Face is ramping up its initiatives across all operations, from its supply chain to its finished goods.

The North Face is investing in sustainability and social responsibility to gain more market share in the outdoor apparel market and prepare for a future where customers expect sustainability activism and socially responsible decisions from all companies. For example, a recent decision to create a fund to benefit outdoor workers impacted by the pandemic illustrates The North Face's commitment to sustainability and social responsibility. So far, its sustainability and social responsibility efforts are paying off, as evidenced by an uptick in sales since the company changed its tune.

Considering many consumers, particularly younger consumers, are willing to pay a premium for sustainable products from a socially responsible company, it seems The North Face has made a wise investment. Investors are looking for sustainable-focused firms as well. BlackRock, the world's largest investment asset management company, plans to increase its investments in these types of assets to more than $1 trillion over the next ten years.

Sources: Based on information in Maggie Overfelt, "As The North Face Battles Patagonia in Outdoors Market, It Bets Tackling Climate Change Will Pay Off," *CNBC*, August 14, 2020, www.cnbc.com/2020/08/14/as-north-face-battles-patagonia-it-bets-climate-change-will-pay-off.html; Ed Sealover, "VF Corp's Growth Plan Includes Doubling Down on China, Sustainability in 2021," *Denver Business Journal*, December 30, 2020, www.bizjournals.com/denver/news/2020/12/30/vf-corporation-2021-china-sustainability-denver.html; U.S. Chamber of Commerce, "The North Face Expands Sustainability Efforts to Keep Pace with Market Demands," September 23, 2020, www.uschamber.com/co/good-company/the-leap/the-north-face-renewed-sustainability.

are generally referred to as the **business cycle**, that is, the recurrence of periods of growth and recession in a nation's economic activity.

At the time of publication, the U.S. economy is showing signs of improvement after the effects of a global pandemic. Key economic indicators including the gross domestic product, the stock market, and consumer spending have improved, and the unemployment rate has decreased. And yet, there are concerns about the size of the national debt—a topic described later in this section. There are also concerns about the effect of possible changes by the Biden administration and how those changes could affect individuals, businesses, and the nation's economy. In addition, many experts worry about the economies of foreign nations around the globe and social unrest throughout the world.

The changes that result from either economic growth or an economic downturn affect the demand for products and services that consumers are willing to buy and, as a result, the amount of products and services produced by business firms. Generally, the business cycle consists of four phases: the peak (sometimes called prosperity), recession, the trough, and recovery (sometimes called expansion).

During the *peak period* (prosperity), the economy is at its highest point and unemployment is low. Total income is relatively high. As long as the economic outlook remains prosperous, consumers are willing to buy products and services. In fact, businesses often expand and offer new products and services during the peak period to take advantage of consumers' increased buying power.

Generally, economists define a **recession** as two or more consecutive three-month periods of decline in a country's GDP. Although the recession of 2020 lasted only a few months before the economy began to recover, most recessions are longer. For example, the Great Recession of 2008 lasted 18 months. During a recession, it is typical for the unemployment rate to increase and consumer buying power to

business cycle the recurrence of periods of growth and recession in a nation's economic activity

recession two or more consecutive three-month periods of decline in a country's GDP

✓ Concept Check

- What are the four phases in the typical business cycle?
- At the time you are studying the material in this chapter, which phase of the business cycle do you think the U.S. economy is in? Justify your answer.
- How can the Federal Reserve and government use monetary policy and fiscal policy to reduce the effects of an economic crisis?

depression a severe recession that lasts longer than a typical recession and has a larger decline in business activity when compared to a recession

monetary policies Federal Reserve's actions to promote maximum employment, stabilize prices, and increase or decrease interest rates.

fiscal policy government influence on the amount of savings and expenditures; accomplished by altering the tax structure and by changing the levels of government spending

federal deficit a shortfall created when the federal government spends more in a fiscal year than it receives

national debt the total of all federal deficits

competition rivalry among businesses for sales to potential customers

decline. As buying power declines, consumers tend to purchase essential items and are reluctant to purchase frivolous or non-essential items. In response to a recession, many businesses focus on producing the products and services that provide the most value to their customers. Companies and government at all levels often postpone or go slow on major projects during a recession.

Economists define a **depression** as a severe recession that lasts longer than a typical recession and has a larger decline in business activity when compared to a recession. A depression is characterized by extremely high unemployment rates, low wages, reduced purchasing power, lack of confidence in the economy, a decline in stock values, and a general decrease in business activity. While the United States has experienced many recessions, there have only been a few economic depressions. The worst depression, often called "the Great Depression," began in 1929 lasted over ten years.

The third phase of the business cycle is the *trough*. The trough of a recession or depression is the turning point when a nation's production and employment bottom out and reach their lowest levels. Some experts believe that effective use of monetary and fiscal policies can speed up recovery and reduce the amount of time the economy is in recession. **Monetary policies** are the Federal Reserve's actions to promote maximum employment, stabilize prices, and increase or decrease interest rates. Through **fiscal policy**, the government can influence the amount of savings and expenditures by altering the tax structure and changing the levels of government spending. For example, during the 2020 pandemic crisis both the Federal Reserve's monetary policies (lower interest rates) and the government's fiscal policies (stimulus packages) were used to stabilize the economy.

One of the concerns about the government's recent stimulus programs is the national debt. Although the federal government collects almost $4 trillion in annual revenues, the government usually spends more than it receives, resulting in a **federal deficit**. For example, the government had a federal deficit for each year between 2002 and 2020. The total of all federal deficits is called the **national debt**. Today, the U.S. national debt is over $27 trillion or approximately $83,000 for every man, woman, and child in the United States.[11]

Recovery (or *expansion*) is the movement of the economy from the trough, when a nation's production and employment bottom out and reach their lowest levels, to the next peak in a business cycle. For example, the recession that began in December 2008 lasted 18 months while the recovery that followed the 2008 recession lasted 128 months until February 2020.[12] During the recovery stage of a business cycle, high unemployment rates decline, income increases, and both the ability and the willingness to buy rise for consumers, businesses, and governments.

1-6 Types of Competition

Learning Objective

1-6 Outline the four types of competition.

Our capitalist system ensures that individuals and businesses make the decisions about what to produce, how to produce it, and what price to charge for the product. Mattel, Inc., for example, can introduce new versions of its famous Barbie doll, license the Barbie name, change the doll's price and method of distribution, and attempt to produce and market Barbie in other countries or over the internet at www.mattel.com. Our system also allows customers the right to choose between Mattel's products and those produced by competitors.

As a consumer, you get to choose which products or services you want to buy. Competition like that between Mattel and other toy manufacturers is a necessary and extremely important by-product of capitalism. Business **competition** is essentially a rivalry among businesses for sales to potential customers. In a capitalistic economy, competition also ensures that a firm will survive only if it serves its customers well by providing products and services that meet needs. Economists recognize four different degrees of competition ranging from ideal, complete competition to no competition at all. These are perfect competition, monopolistic competition, oligopoly, and monopoly. For a quick overview of the different types of competition, including numbers of firms and examples for each type, look at Table 1-2.

1-6a Perfect Competition

Perfect (or **pure) competition** is the market situation in which there are many buyers and sellers of a product, and no single buyer or seller is powerful enough to affect the price of that product. As pointed out in Table 1-2, real-world examples of perfect competition are corn, wheat, peanuts, and many agricultural products. For perfect competition to exist, there are five very important concepts.

- We are discussing the market for a single product, such as bushels of wheat.
- There are no restrictions on firms entering the industry.
- All sellers offer essentially the same product for sale.
- All buyers and sellers know everything there is to know about the market (including, in our example, the prices that all sellers are asking for their wheat).
- The overall market is not affected by the actions of any one buyer or seller.

When perfect competition exists, every seller should ask the same price that every other seller is asking. Why? Because if one seller wanted 50 cents more for their products than all the others, that seller would not be able to sell a single product. Buyers could—and would—do better by purchasing the same products from the competition. On the other hand, a firm willing to sell below the going price would sell all its products quickly. However, that seller would lose sales revenue (and profit) because buyers are willing to pay more.

In perfect competition, the price of each product is determined by the actions of all buyers and all sellers together through the forces of supply and demand.

The Basics of Supply and Demand The **supply** of a particular product is the quantity of the product that producers are willing to sell at each of various prices. Producers are rational people, so we would expect them to offer more of a product for sale at higher prices and to offer less of the product at lower prices, as illustrated by the supply curve in Figure 1-7.

The **demand** for a particular product is the quantity that buyers are willing to purchase at each of various prices. Buyers, too, are usually rational, so we would expect them—as a group—to buy more of a product when its price is low and to buy less of the product when its price is high, as depicted by the demand curve in Figure 1-7.

The Equilibrium, or Market, Price There is always one certain price at which the demand for a product is equal to the quantity of that product produced. Suppose

Table 1-2 Four Different Types of Competition

The number of firms determines the degree of competition within an industry.

Type of Competition	Number of Business Firms or Suppliers	Real-World Examples
1. Perfect	Many	Corn, wheat, peanuts, many agricultural products
2. Monopolistic	Many	Clothing, shoes
3. Oligopoly	Few	Automobiles, airlines
4. Monopoly	One	Many local public utilities, software protected by copyright

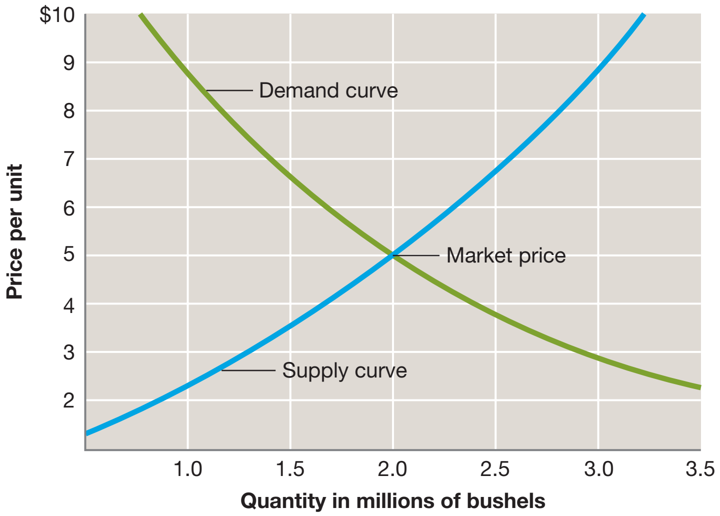
perfect (or **pure) competition** the market situation in which there are many buyers and sellers of a product, and no single buyer or seller is powerful enough to affect the price of that product

supply the quantity of a product that producers are willing to sell at each of various prices

demand the quantity of a product that buyers are willing to purchase at each of various prices

Figure 1-7 Supply Curve and Demand Curve

The interaction of a supply curve and a demand curve is called the equilibrium or market price. This interaction indicates a single price and quantity at which suppliers will sell products and buyers will purchase them.



that producers are willing to *supply* two million bushels of wheat at a price of $5 per bushel and that buyers are willing to *purchase* two million bushels at a price of $5 per bushel. As shown in Figure 1-7, supply and demand are in balance, or in equilibrium, at the price of $5. Economists call this price the *market price*. The **market price** of any product is the price at which the quantity demanded is exactly equal to the quantity supplied.

In theory and in the real world, market prices are affected by anything that affects supply and demand. The *demand* for wheat, for example, might change if researchers suddenly discovered that it offered a previously unknown health benefit. Then buyers would demand more wheat at every price. Or the *supply* of wheat might change if new technology permitted the production of greater quantities of wheat from the same amount of acreage. Other changes that can affect the market price of wheat are shifts in buyer tastes, the development of new products, fluctuations in income owing to inflation or recession, or even changes in the weather that affect the production of wheat.

Perfect competition is quite rare in today's world. Many real markets, however, are examples of monopolistic competition.

1-6b Monopolistic Competition

Monopolistic competition is a market situation in which there are many buyers along with a relatively large number of sellers. Real-world examples of products sold in a monopolistically competitive market include clothing, shoes, soaps, furniture, and many consumer items. The various products available in this type of competitive market are similar in nature, and they are all intended to satisfy the same basic need. However, each seller attempts to make its product different from the others by providing unique product features, an attention-getting brand name, unique packaging, or services such as free delivery or a lifetime warranty.

Product differentiation is the process of developing and promoting differences between a company's products and all competitive products. It is a fact of life for the producers of many consumer goods, from soaps to clothing to furniture to shoes. A furniture manufacturer such as Bush Industries sees what looks like a mob of competitors, all trying to chip away at its share of the ready-to-assemble furniture

market price the price at which the quantity demanded is exactly equal to the quantity supplied

monopolistic competition a market situation in which there are many buyers along with a relatively large number of sellers who differentiate their products from the products of competitors

product differentiation the process of developing and promoting differences between a company's products and all competitive products

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How does competition affect a retailer like Macy's? For Macy's, competition is a way of life. Executives know they must compete with Dillard's, Target, Walmart, Amazon, and other retailers—all businesses that sell clothing and many other products. Each retailer uses product differentiation to differentiate its merchandise from competitors on the basis of price, quality, brand names, customer service, and other factors that can entice a customer to shop at one store instead of a competitor.

market. By differentiating each of its products from all similar products produced by competitors, Bush Industries obtains some limited control over the market price of its product.

1-6c Oligopoly

An **oligopoly** is a market (or industry) situation in which there are few sellers. Generally, these sellers are quite large, and sizable investments are required to enter into their market. Examples of oligopolies are the automobile, airline, car rental, cereal, and farm implement industries.

Because there are few sellers in an oligopoly, the market actions of each seller can have a strong effect on competitors' sales and prices. For instance, when General Motors began offering cash incentives to encourage consumers to purchase new Chevrolet and GMC trucks at the beginning of 2021, Ford, Nissan, and Toyota began offering similar incentives and for the same reasons—to attract new-car buyers and to retain their market share. In the absence of much price competition, product differentiation becomes the major competitive weapon; this is very evident in the advertising of the major automobile manufacturers.

1-6d Monopoly

A **monopoly** is a market (or industry) with only one seller, and customers can only buy the product or service from that seller. In a monopoly, there is no close substitute for the product or service. Because only one business is the seller of a product or service, it would seem that it has complete control over price. However, no business can set its price at some astronomical amount just because there is no competition; the business would soon find that it has no customers or sales revenue either. Instead, the business in a monopoly position must consider the demand for its product and set the price at the most profitable level.

oligopoly a market (or industry) in which there are few sellers

monopoly a market (or industry) with only one seller, and customers can only buy the product or service from that seller

Classic examples of monopolies in the United States are public utilities, including companies that provide local gas, water, sewer services, or electricity. Each utility firm operates in a *natural monopoly*, an industry that requires huge start-up costs that act as a deterrent for potential competitors. Natural monopolies are permitted to exist, but they operate under the scrutiny and control of various state and federal agencies. Although many public utilities are still classified as natural monopolies, there is increased competition in many areas of the country. For example, consumers now have a choice when selecting a company that provides electrical service to both homes and businesses in many areas of the country.

A legal monopoly—sometimes referred to as a *limited monopoly* or *statutory monopoly*—is created when a government entity issues a license, franchise, copyright, patent, or trademark. Because Microsoft owns the trademarks on its popular logos, it can control how both trademarks and logos are used by other businesses or individuals. Except for natural monopolies and legal monopolies, federal antitrust laws discourage or prohibit both monopolies and attempts to form monopolies in order to ensure that competitive markets exist and customers have a choice for products or services they need or want to purchase.

✓ Concept Check

- Is competition good for business? Is it good for consumers?
- Explain how the equilibrium or market price of a product is determined.
- Compare the four forms of competition.

1-7 American Business Today

Learning Objective

1-7 Summarize the development of American business and the challenges that businesses and society will encounter in the future.

Although our economic system is far from perfect, it provides Americans with a high standard of living compared with people in other countries throughout the world. **Standard of living** is a loose, subjective measure of how well off an individual or a society is, mainly in terms of want satisfaction through goods and services. Also, our economic system offers solutions to many of the problems that plague society and provides opportunities for people who are willing to work and to continue learning.

To understand the current business environment and the challenges ahead, it helps understand how business developed.

1-7a Early Business Development

Our American business system has its roots in the knowledge, skills, and values that the earliest settlers brought to this country. The first settlers in the United States were concerned mainly with providing themselves with basic necessities—food, clothing, and shelter. Almost all families lived on farms, and the entire family worked at the business of surviving. They used their surplus of agricultural products for trading, mainly by barter, among themselves and with the English trading ships that called at the colonies. As this trade increased, small businesses began to appear. Some settlers were able to use their skills and their excess time to work under the domestic system of production. The **domestic system** was a method of manufacturing in which an entrepreneur distributed raw materials to various homes, where families would process them into finished goods. The entrepreneur then offered the goods for sale.

Then, in 1793, a young English apprentice mechanic named Samuel Slater opened a textile mill in Pawtucket, Rhode Island, to spin raw cotton into thread. Slater's textile mill was America's first use of the **factory system** of manufacturing, in which all the materials, machinery, and workers required to manufacture a product are assembled in one place. The Industrial Revolution in America was born.

A manufacturing technique called *specialization* was used to improve productivity. **Specialization** is the separation of a manufacturing process into distinct tasks and the assignment of different tasks to different individuals.

Entrepreneurs continued to invent new machinery during the 1800s. Often, historians call this time period the golden age of invention and innovation. At the same time, new means of transportation greatly expanded the domestic markets for American products. Certainly, many basic characteristics of our modern business system took form during this time period.

standard of living a loose, subjective measure of how well off an individual or a society is, mainly in terms of want satisfaction through goods and services

domestic system a method of manufacturing in which an entrepreneur distributed raw materials to various homes, where families would process them into finished goods to be offered for sale by the entrepreneur

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

specialization the separation of a manufacturing process into distinct tasks and the assignment of different tasks to different individuals

1-7b Business Development in the 1900s

Industrial growth and prosperity continued well into the 20th century. Henry Ford's moving automotive assembly line, which brought the work to the worker, refined the concept of specialization and helped spur on the mass production of consumer goods. Fundamental changes occurred in business ownership and management as well. No longer were the largest businesses owned by one individual; instead, more companies were owned by stockholders who were willing to invest in—but not to operate—a business.

To understand the major events that shaped the United States during the 20th century, it helps to remember that the economy was compared to a roller-coaster ride earlier in this chapter—periods of economic growth followed by periods of economic slowdown. The following are major events that shaped the nation's economy during the period from 1910 to 2000:

- The 1929 stock market crash and the Great Depression
- Federal government involvement in business in order to stimulate the economy, reduce unemployment, and ease the problems during the Great Depression
- World War I, World War II, the Korean War, and the Vietnam War
- Rapid economic growth and higher standard of living during the 1950s and 1960s
- The social responsibility movement during the 1960s
- A shortage of crude oil and higher prices for most goods in the mid-1970s
- High inflation, high interest rates, and reduced business profits during the last part of the 1970s and early 1980s
- Sustained economic growth in the 1990s

Unfortunately, by the last part of the 1990s, an increasing number of business failures, higher interest rates, and concerns about the financial markets and the economy were signs that larger economic problems were on the way.

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Think for a moment what Henry Ford would think about today's automated factories. It's fair to assume he would be amazed at how manufacturing has developed in just over 100 years. While today's factories are definitely more advanced, don't underestimate the significance of Ford's assembly line back in 1913. Simply put, it not only changed the way automobiles like the one in this photo were manufactured, but it also led to changes in the way just about everything else was manufactured.

1-7c A New Century: 2000 and Beyond

According to many economic experts, the first part of the 21st century might be characterized as the best of times and the worst of times rolled into one package. On the plus side, technology became available at an affordable price. Both individuals and businesses could now access information with the click of a button. They also could buy and sell merchandise online as e-commerce became a new type of retailing.

In addition to information technology, the growth of service businesses also changed the way American firms do business in the 21st century. Because service businesses employ over 80 percent of the nation's workforce, we now have a service economy.[13] A **service economy** is an economy in which more effort is devoted to the production of services than to the production of goods. Typical service businesses include restaurants, dry cleaners, real estate, movie theaters, repair companies, and other services. More information on services is provided in Chapter 8, Producing Quality Goods and Services.

On the negative side, it is hard to watch television, surf the Web, listen to the radio, or read the newspaper without hearing news about the economy, social and political unrest in the world, and lingering health and economic problems caused by the COVID-19 pandemic. Because many economic indicators suggest that either current or future problems could affect the nation's economy, there is still a certain amount of pessimism surrounding the nation's economy and the global economy. In addition, there are other concerns including social unrest; political uncertainty on the national, state, and local levels; global terrorism; and the threat of wars around the globe.

1-7d The Current Business Environment

Before reading on, answer the following question:

In today's competitive business world, which of the following environments affects business?

a. The competitive environment
b. The global environment
c. The technological environment
d. The economic environment
e. All of the above

Correct Answer: e. All the environments listed in the above question affect business today.

The Competitive Environment As noted earlier in this chapter, competition is a basic component of capitalism. Every day, business owners must figure out what makes their businesses successful and how the goods and services they provide are different from the competition. Often, the answer is contained in the basic definition of business provided on page 9. Just for a moment, review the definition:

> *Business is the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs.*

In the definition of business, note the phrase *satisfy society's needs*. These three words say a lot about how well a successful firm competes with competitors. If you meet customer needs, then you have a better chance at success.

The Global Environment Related to the competitive environment is the global environment. Not only do American businesses have to compete with other American businesses, but they also must compete with businesses from all over the globe.

service economy an economy in which more effort is devoted to the production of services than to the production of goods

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Technology, technology, and more technology! What would happen if you didn't have your cell phone or if you couldn't use a computer for the next 24 hours? For many people, it would be catastrophic. For businesses, it would be just as bad. Many businesses rely on technology to operate. Without technology to process customer payments, track inventory, maintain accounting records, and other critical business activities, it would be impossible to function. For many businesses, it could mean they might have to "close the doors" until their technology was restored.

Firms in other countries including China, Japan, India, Germany, Vietnam, and most of the remaining European and Asian countries around the world also compete with U.S. firms. There was once a time when the label "Made in the United States" gave U.S. businesses an inside edge both at home and in the global marketplace. Today, because business firms in other countries manufacture and sell goods, the global marketplace has never been more competitive.

While many foreign firms are attempting to sell goods and services to U.S. customers, U.S. firms are also increasing both sales and profits by selling goods and services to customers in other countries. In fact, there are many "potential" customers in developing nations that will buy goods and services manufactured by U.S. firms. For example, Procter & Gamble sells laundry detergent, soap, health and grooming products, and baby products in Asia, Europe, India, the Middle East, Africa, Latin America, and North America. And Procter & Gamble is not alone. Unilever, DuPont, Johnson & Johnson, General Motors, and many more U.S. companies are also selling goods and services to customers in countries all over the globe.

The Technological Environment The technological environment for U.S. businesses has never been more challenging. Changes in communication with customers, manufacturing equipment, and distribution of products are all examples of how technology has changed everyday business practices. For example, many businesses are now using social media to provide customers with information about products and services. For our purposes **social media** is defined as online interaction that allows people and businesses to communicate and share ideas, personal information, and information about products or services. Because of rapid developments in social media and the increased importance of technology and information, businesses will need to spend additional money to keep abreast of an ever-changing technological environment and even more money to train employees to use the new technology.

New and creative ways to use technology are also changing the way that products are now manufactured and distributed to customers. Today, many manufacturers are using sophisticated automated equipment to improve employee productivity,

social media the online interaction that allows people and businesses to communicate and share ideas, personal information, and information about products or services

Technology and Innovation

Today's Biggest Tech Trends

The technological environment is ever-changing, and it's critical for businesses to keep pace or risk being left behind. The biggest trends in today's tech world include artificial intelligence, blockchain technology, and extended reality.

Artificial intelligence (AI) involves computers performing tasks that traditionally require human intelligence. Since programming an AI-based system is cost-prohibitive for most organizations, many professionals will interact with the technology through available platforms, such as e-mail marketing software. Additionally, automation in manufacturing and supply chains is greatly improving with the use of AI and robotics. With the number of AI providers growing, adoption of the technology will continue to increase for years to come.

Blockchain, a secure digital ledger, has many applications, from supply chain management to cryptocurrency. The hype around blockchain has been around for years, but now there is an emerging shared belief that blockchain technology will become a top strategic priority for many businesses and organizations. Popular uses for the technology include recording transactions, data validation, data access, data sharing, and identity protection.

Extended reality (XR) encompasses technologies that create an immersive or all-in experience, namely virtual reality (VR) and augmented reality (AR). Many consumers have interacted with VR and AR in the form of video games and smartphone features such as VR headsets or social media apps, but XR has even more unlocked potential. Businesses that get a better handle on XR will discover new methods of customer engagement.

AI, blockchain, and XR are just a few of the technologies shaking up the world of business. Keeping up with key trends and investing in new technologies that add value to the business will help organizations stay ahead of the curve. Knowledge and experience about emerging technologies will also help workers and job seekers advance their careers.

Sources: Based on information in Deloitte, "C-Suite Briefing: 5 Blockchain Trends for 2020," March 2020, www2.deloitte.com/content/dam/Deloitte/ie/Documents/Consulting/Blockchain-Trends-2020-report.pdf; Bernard Marr, "The 7 Biggest Technology Trends in 2020 Everyone Must Get Ready for Now," *Forbes*, September 30, 2019, www.forbes.com/sites/bernardmarr/2019/09/30/the-7-biggest-technology-trends-in-2020-everyone-must-get-ready-for-now/; Anis Uzzaman, "Top Business and Technology Trends in 2021," *Inc.*, December 15, 2020, www.inc.com/anis-uzzaman/top-business-technology-trends-in-2021.html.

increase product quality, and lower expenses. Technology has also changed the way customers purchase products and the way those products are delivered. For example, if you purchase merchandise on Amazon's e-commerce website, you don't necessarily wait days to receive your merchandise. Depending on your location and if the merchandise is available, your purchase could be delivered the same day. While this type of technology-driven delivery system is expensive, it is one reason why Amazon has grown to be one of the largest retailers in the world.

The Economic Environment The economic environment must always be considered when making business decisions. This fact is especially important when the nation's economy takes a nosedive or an individual firm's sales revenues and profits are declining. Consider what happened when non-essential businesses were ordered to close in many states because of the COVID-19 pandemic. Both small and large non-essential businesses had no sales revenues and had to use cash reserves to pay expenses. In many cases employees were placed on leave or lost their jobs. As businesses began to reopen, customers began to buy products and services, and businesses brought back furloughed employees or hired new employees.

sustainability the ability to create and maintain conditions under which present and future generations can exist in productive harmony, and permit fulfilling the social, economic, and other requirements of future and present generations

In addition to economic pressures, today's socially responsible managers and business owners must be concerned about the concept of sustainability. According to the U.S. Environmental Protection Agency, **sustainability** is the ability to create and maintain conditions under which present and future generations can exist in productive harmony, and permit fulfilling the social, economic, and other requirements of future and present generations.[14] Although the word *green* used to mean a color in a box of crayons, today green means a new way of doing business. As a result, a combination of forces, including economic factors, growth in population, increased energy use, and concerns for the environment, is changing the way individuals live and businesses operate.

When you look back at the original question we asked at the beginning of this section, clearly, each different type of environment—competitive, global, technological, and economic—affects the way a business does *business*. As a result, there are always opportunities for improvement and challenges that must be considered.

1-7e The Challenges Ahead

There it is—the American business system in brief.

When it works well, it provides a standard of living that few countries can match and many opportunities for personal advancement for those willing to work hard and continue to learn. However, like every other system devised by humans, it is not perfect. Our capitalist economic system may give us prosperity, but it also gave us the Great Depression of the 1930s, the economic problems of the 1970s and the early 1980s, and a volatile stock market, high unemployment, and business failures caused by the COVID-19 pandemic.

Obviously, the system can be improved. Certainly, there are plenty of people who are willing to tell us exactly what they think the American economy needs. However, these people often provide us only with conflicting opinions. Who is right and who is wrong? Even the experts cannot agree.

The experts do agree, however, that several key issues will challenge our economic system (and our nation) over the next decade. Some of the questions to be resolved include:

- How can we deal with social unrest, discrimination, and inequality in society?
- How can we create a more stable economy and create new, quality jobs for the unemployed?
- How can we reduce the number of low-income workers and increase the number of middle- and higher-income workers?
- How can we use research and technology to make American workers more productive and American firms more competitive in the global marketplace?
- How can we preserve the benefits of competition and small business in our American economic system?
- How do we reduce the national debt and stimulate business growth?
- How can we conserve natural resources and sustain our environment?
- How can we meet the needs of low-income families, single parents, older Americans, and the less fortunate who need healthcare and social programs to exist?

The answers to these questions are anything but simple. While there have been (and always will be) challenges for a nation like the United States, Americans have always been able to solve many of their problems through ingenuity and creativity. Now, as we continue the journey through the 21st century, we need that same ingenuity and creativity not only to solve our current problems but also to compete in the global marketplace and build a nation and economy for future generations.

The American business system is not perfect by any means, but it does work reasonably well. We discuss some of its problems in Chapter 2 as we examine the topics of social responsibility and business ethics.

✓ Concept Check

- How does your standard of living affect the products or services you buy?
- What is the difference between the domestic system and the factory system?
- Choose one of the environments that affect business or society and explain how it affects a small electronics manufacturer located in Portland, Oregon.
- What do you consider the most important challenge that will face people in the United States in the years ahead?

Summary

1-1 Discuss what you must do to be successful in today's business world.

When faced with the COVID-19 pandemic that raced through the world, small business owners, employees, managers, investors, and a large number of people began to ask the question: What effect will non-essential business closures and record high unemployment rates have on the economy? More specifically, many people asked, how does this affect me both now and in the future? Although this is a fair question, it is difficult to answer. Certainly, for a college student taking business courses or an employee just starting a career, the question is even more difficult to answer. And yet there are still opportunities out there for people who are willing to work hard, continue to learn, and possess the ability to adapt to change. By studying business, you can become a better employee or manager or you may decide to start your own business. You can also become a better consumer and investor.

1-2 Identify the potential risks and rewards of business.

Business is the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs. Four kinds of resources— material, human, financial, and informational—must be combined to start and operate a business. The three general types of businesses are service businesses, manufacturers, and marketing intermediaries. Today, marketing intermediaries sell goods and services in brick-and-mortar stores, online, or both. Profit is what remains after all business expenses are deducted from sales revenue. It is the payment that owners receive for assuming the risks of business—primarily the risks of not receiving payment and of losing whatever has been invested in the firm. Although many people believe that profit is literally the bottom line or most important goal for a business, the ultimate objective of a successful business is to satisfy the needs of its customers. In addition to profit, many corporations are careful to point out their efforts to sustain the planet, participate in the green ecological movement, and help people to live better lives.

1-3 Describe the two types of economic systems: capitalism and command economy.

Economics is the study of how wealth is created and distributed. An economic system must answer four questions: *What* goods and services will be produced? *How* will they be produced? *For whom* will they be produced? And *Who* owns and who controls the major factors of production? The factors of production are land and natural resources, labor, capital, and entrepreneurship. Capitalism (on which our economic system is based) is an economic system in which individuals own and operate the majority of businesses that provide goods and services. Capitalism stems from the theories of Adam Smith. Smith's pure laissez-faire capitalism is an economic system based on the assumptions described in Figure 1-4.

Our economic system today is a mixed economy and exhibits elements of both capitalism and socialism. In the circular flow that characterizes our business system (refer to Figure 1-5), households and businesses exchange resources, labor, and capital for goods and services, using money as the medium of exchange. In a similar manner, the government collects taxes from businesses and households and purchases products and resources with which to provide services.

In a command economy, government, rather than individuals, owns many of the factors of production and provides the answers to the three other economic questions. Socialist and communist economies are—at least in theory—command economies.

1-4 Identify the ways to measure economic performance.

One way to evaluate the performance of an economic system is to assess changes in productivity, which is the average level of output per worker per hour. Gross domestic product (GDP) can also be used to measure a nation's economic health and is the total dollar value of all goods and services produced by all people within the boundaries of a country during a one-year period. It is also possible to adjust GDP for inflation and thus to measure real GDP. Other economic indicators include a nation's balance of trade, consumer confidence index, consumer price index (CPI), corporate profits, inflation rate, national income, new housing starts, prime interest rate, producer price index (PPI), and unemployment rate.

1-5 Examine the different phases in the typical business cycle.

A nation's economy fluctuates rather than grows at a steady pace every year. These fluctuations are generally referred to as the business cycle. Generally, the business cycle consists of four states: the peak (sometimes called prosperity), recession, the trough, and recovery (sometimes called expansion). Some experts believe that effective use of monetary policy (the Federal Reserve's decisions to promote maximum employment, stabilize prices, and increase or decrease interest rates) and fiscal policy (the government's influence on the amount of savings and expenditures) can speed up recovery.

A federal deficit occurs when the government spends more than it receives in taxes and other revenues. At the time of publication, the national debt is over $27 trillion or approximately $83,000 for every man, woman, and child in the United States.

1-6 Outline the four types of competition.

Competition is essentially a rivalry among businesses for sales to potential customers. In a capitalist economy, competition works to ensure the efficient and effective operation of business. Competition also ensures that a firm will survive only if it serves its customers well by providing goods and services that meet their needs. Economists recognize four degrees of competition. Ranging from most to least competitive, the four degrees are perfect competition, monopolistic competition, oligopoly, and monopoly. The factors of supply and demand generally influence the price that customers pay producers for goods and services.

1-7 Summarize the development of American business and the challenges that businesses and society will encounter in the future.

To understand the major events that shaped the United States, it helps to remember that the economy was compared to a roller-coaster ride earlier in this chapter—periods of economic growth followed by periods of economic slowdown. Events and a changing business environment including the Great Depression, government involvement in business, wars, rapid economic growth, the social responsibility movement, a shortage of crude oil, high inflation, high interest rates, reduced business profits, increased use of technology, and social media all have shaped business and the economy.

Now more than ever before, the way a business operates is affected by the competitive environment, global environment, technological environment, and economic environment. As a result, business has a number of opportunities for improvement and challenges for the future.

Key Terms

You should now be able to define and give an example relevant to each of the following terms:

free enterprise (4)
cultural (or workplace) diversity (6)
business (9)
e-business (10)
profit (11)
stakeholders (11)
economics (12)
microeconomics (12)
macroeconomics (13)
economy (13)
factors of production (13)
entrepreneur (13)
capitalism (14)
invisible hand (14)
market economy (15)
mixed economy (15)
consumer products (15)
command economy (17)
productivity (18)
gross domestic product (GDP) (19)
inflation (19)
deflation (19)
unemployment rate (20)
consumer price index (CPI) (20)
producer price index (PPI) (20)
business cycle (21)
recession (21)
depression (22)
monetary policies (22)
fiscal policy (22)
federal deficit (22)
national debt (22)
competition (22)
perfect (or pure) competition (23)
supply (23)
demand (23)
market price (24)
monopolistic competition (24)
product differentiation (24)
oligopoly (25)
monopoly (25)
standard of living (26)
domestic system (26)
factory system (26)
specialization (26)
service economy (28)
social media (29)
sustainability (30)

Discussion Questions

1. What factors caused American business to develop into a mixed economic system rather than some other type of economic system?
2. Does an individual consumer really have a voice in answering the four basic economic questions described on page 14?
3. Is gross domestic product a reliable indicator of a nation's economic health? What might be a better indicator?
4. Discuss this statement: "Business competition encourages improved product quality and increased customer satisfaction."
5. Is government participation in our business system good or bad? What factors can be used to explain your position.
6. Choose one of the challenges listed on page 31 and describe possible ways in which business and society could help to solve or eliminate the problem in the future.