

CHAPTER

1

Introduction to Business and Economics

Section 1.1

Introduction to Business



What does it mean to be in business?

Objectives

After completing this section, you will be able to:

- **Define** business and its benefits.
- **Describe** the four functions of business.

Section 1.1 Review

Check Your Understanding

1. What is the difference between the consumer market and the business market?

Answer: The consumer market includes customers who buy products for their own use. The business market consists of customers who buy products for use in a business.

2. List the five types of utility provided by business.

Answer: The five types of utility are form, place, time, information, and possession.

3. What is the main reason a business operates?

Answer: The main reason a business operates is to earn a profit.

4. What are three economic benefits generated by businesses in an economy?

Answer: Three economic benefits generated by businesses in an economy are employment, standard of living, and taxes.

5. List the four functions of business.

Answer: The functions of business are production, finance, marketing, and management.

Build Your Vocabulary

As you progress through this course, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add it to your personal glossary.

business

Answer: Term for all the activities involved in developing and exchanging products.

product

Answer: Anything that can be bought or sold.

good

Answer: Physical item that can be touched.

service

Answer: Action or task that is performed, usually for a fee.

customer

Answer: Individual or group who buys products.

consumer

Answer: Customers who purchase goods and services for their own use.

need

Answer: Something a person must have in order to survive.

want

Answer: Something that a person desires, but can survive without.

utility

Answer: Characteristics of a product that satisfy wants and needs.

market

Answer: Anywhere buyers and sellers meet to buy and sell goods and services.

profit

Answer: Difference between the income earned and expenses incurred by a business during a specific period of time.

wages

Answer: Money earned in exchange for work.

standard of living

Answer: Level of material comfort measured by the goods, services, and luxuries available.

Section 1.2

Introduction to Economics



How do the principles of economics apply to business?

Objectives

After completing this section, you will be able to:

- **Explain** the importance of economics.
- **Describe** the four economic systems.
- **Discuss** the impact of market forces on businesses.

Section 1.2 Review

Check Your Understanding

1. What is the basic economic problem?

Answer: Consumers, businesses, and governments constantly make choices about using limited resources to satisfy unlimited wants.

2. List the four factors of production a nation uses to make goods and supply services for its population.

Answer: The four factors are land, labor, capital, and entrepreneurship.

3. What are the four economic systems?

Answer: The four economic systems are traditional economy, command economy, market economy, and mixed economy.

4. What are market forces?

Answer: Market forces are economic factors that affect the price, demand, and availability of a product or service.

5. Identify three market forces that impact business.

Answer: The market forces include supply and demand, the profit motive, and competition.

Build Your Vocabulary

As you progress through this course, develop a personal glossary of key terms. This will help you build your vocabulary and prepare you for a career. Write a definition for each of the following terms and add it to your personal glossary.

economics

Answer: Science that examines how goods and services are produced, sold, and used.

factors of production

Answer: Economic resources a nation uses to make goods and supply services for its population.

labor

Answer: Work performed by people in organization, also called *human resource*.

capital

Answer: All the tools, equipment, and machinery used to produce goods or provide services.

capital goods

Answer: Products businesses use to produce other goods.

entrepreneurship

Answer: Willingness and ability to start a new business.

entrepreneur

Answer: Person who starts a new business or purchases an existing business.

scarcity

Answer: When demand is higher than the available resources.

trade-off

Answer: When something is given up in order to gain something else.

opportunity cost

Answer: Value of the next best option that was not selected.

systematic decision-making

Answer: Process of choosing an option after evaluating the available information and weighing the costs and benefits of your alternatives.

economic system

Answer: Organized way in which a nation chooses to use its resources to create goods and services.

traditional economy

Answer: Economy in which economic decisions are based on a society's values, culture, and customs.

command economy

Answer: Economy in which the government makes all the economic decisions for its citizens.

market economy

Answer: Economy in which individuals are free to make their own economic decisions, also known as *free enterprise* or *private enterprise*.

capitalism

Answer: Economic system where the economic resources are privately owned by individuals rather than the government.

mixed economy

Answer: Economy in which both the government and individuals make decisions about economic resources.

law of supply and demand

Answer: Economic principle that states the price of a product is determined by the relationship of the supply of a product and the demand for the product.

competition

Answer: Actions taken by two or more businesses attempting to attract the same customers.

Chapter Summary

Section 1.1 Introduction to Business

- Business is all the activities involved in developing and exchanging products. Products are goods and services that can be bought or sold to meet needs or satisfy wants. Business provides economic benefits such as providing products, creating markets, and generating economic benefits.

- The functions of business are production, finance, marketing, and management. In order for business to be successful, all the functions must work together.

Section 1.2 Introduction to Economics

- Economics is a science that examines how goods and services are produced, sold, and used. It involves how individuals, governments, and businesses make choices about using limited economic resources to satisfy unlimited wants. Factors of production are the economic resources a nation uses to make goods and to supply services for its population.
- An economic system is an organized way in which a state or nation chooses to use its resources to create goods and services. Economic systems are classified as being a traditional, command, market, or mixed economies.
- Market forces are economic factors that affect the price, demand, and availability of a good or service. Market forces include supply and demand, the profit motive, and competition.

Review Your Knowledge

1. Differentiate between goods and services.

Answer: A good is a physical item that can be touched. A service is an action or task that is performed, usually for a fee.

2. What are the benefits created by business?

Answer: Businesses provide products, create markets, and generate economic benefits.

3. Explain the five types of utility provided by business.

Answer: Form utility is when the business makes a product or service more useful; place utility is having products available at convenient locations; time utility is making products available at the times that customers need or want them; information utility is providing information about a product; and possession utility is making it easier for customers to acquire a product.

4. How does business create economic benefits?

Answer: Businesses contribute to the economy by employing workers and paying them wages. Also, the profits of a business are taxed by local, state, and federal governments. The taxes help pay for services that benefit the community.

5. Describe the four functions of business.

Answer: Production is any activity related to making a product. There are many activities included in the production function, such as farming, mining, construction, and manufacturing. Finance includes all business activities that involve money. These activities include receiving money from customers, paying money to suppliers, and paying wages to employees. Marketing consists of all activities that identify, anticipate, and satisfy customer demand while making a profit. Marketing activities focus on customers. Management is the process of controlling and making decisions about a business. It includes all the activities required to plan, coordinate, and monitor a business, as well as hiring and training employees.

6. Explain how economic resources determine what goods and services will be produced.

Answer: All economic resources are limited. Individuals, businesses, and governments must decide how to use resources in order to meet their needs. Unlimited needs and wants cannot be met with limited resources. Decisions must be made about which goods or services will be created.

7. Describe the factors of production.

Answer: Factors of production are the economic resources a nation uses to make goods and supply services for its population. They include land, labor, capital, and entrepreneurship. Land is all of a nation's natural resources. Labor is the work performed by people in businesses. Capital is all of the tools, equipment, and machinery used to produce goods or provide services. Entrepreneurship is the willingness and ability to start a new business. Individuals, businesses, and governments must constantly make choices about using these economic resources to satisfy unlimited wants.

8. Summarize the characteristics of the private enterprise system.

Answer: The characteristics of a private enterprise system include private property, profit, economic freedom, voluntary exchange, and competition. Individuals have the right to own property. Individuals and businesses have the right to make a profit. Individuals are free to make their own economic decisions. Individuals have the right to buy and sell in a marketplace where prices are freely set by the forces of supply and demand. Businesses can compete to sell goods and services and decide what to produce, how to produce, and for whom to produce.

9. How does the law of supply and demand affect the market price of a product?

Answer: The law of supply and demand says that the relationship of the supply of a product and the demand for the product determine the price of the product. Generally, higher demand results in higher prices and decreased demand results in lower prices.

10. Explain *profit motive* as a market force.

Answer: Profit is a powerful market force. The profit motive is the driving force behind the decision to start and expand businesses.

Apply Your Knowledge

1. A major task of business is to provide utility. Explain how the five types of utility can be added to a common product, such as milk or gasoline. List each form of utility and write your explanation next to each.

Answer: Student answers will vary. Evaluate each response individually.

2. Create a flow chart of the decision-making process to use as a reference as you study this text. For each step, write a brief explanation of what is included. Write any additional notes in the chart that will provide clarification for your future use.

Answer: Student answers will vary. Evaluate each response individually.

3. Compare and contrast the types of economic systems: traditional, command, market economy, and mixed economy. How are these systems the same? How are they different? Summarize your findings. Create a Venn diagram or other graphic organizer to visually display the information.

Answer: Student answers will vary. Evaluate each response individually.

4. A private enterprise system has specific characteristics. List each of these characteristics and summarize what each characteristic means to the American public.

Answer: Student answers will vary. Evaluate each response individually.

5. Explain the basic principles of supply and demand. What effect do you think this principle has on human behavior? Give an example in which the principles of supply and demand result in positive behavior. Give an example in which behavior becomes negative.

Answer: Student answers will vary. Evaluate each response individually.



You Do the Math

Numeric Reasoning

Real numbers are all whole and fractional or decimal numbers on a continuous number line that are not imaginary. *Whole numbers* are numbers with no fractional or decimal portion. *Decimals* are numbers with digits to the right of the decimal point. An *imaginary number* is any number that results in a negative number when squared. An imaginary number always includes the notation i , such as $2i$. To add a positive number, move to the right on the number line. To subtract a positive number, move to the left on the number line.

Find the solution to these equations.

1. $5.87 + 4.956 + 2.011 + 4 =$

Answer: $5.87 + 4.956 + 2.011 + 4 = 16.837$

2. $34 + 9 - 127 + 783 =$

Answer: $34 + 9 - 127 + 783 = 699$

3. $73 + 8 - 12 =$

Answer: $73 + 8 - 12 = 69$