



Consumers – The Engine That Runs the Economy

Personal Finance
Chapter 1

Section 1.1

“Decisions, Decisions”

- If businesses want to profit, they have to give customers what they want
- You have the power to choose what you buy and where you buy it!
 - Local, state, national, international
 - The decisions you make affect businesses in the US and around the world

Section 1.1

“Decisions, Decisions”

- Values – the principles and standards by which you live
 - Life Values – principles most important in your life
 - Example: Who you spend time with and what you do in your free time
 - Work Values – principles that are most important in your work life
 - Example: The kind of job you have – what you do for a living
 - Social Values – principles held by a great number of people in society
 - What is the “norm?”

Section 1.1

“Decisions, Decisions”

- Goals – things you want to accomplish in life
 - They come from your values, needs, hopes, wants and dreams.
 - Goals can be influenced by things you see, read, and experiences you have
- Needs – things you can't live without
- Wants – things you would *like to have* but can live without

Section 1.1

“Decisions, Decisions”

- Know your goals – plan your goals!
- A budget is a big part of planning your goals
 - Make a budget and stick to it!
 - Planning will help you reach your goals!
- Opportunity Cost – the value of your next best alternative
 - Different people value different things – your next best alternative might not be the same in different situations

Section 1.1

“Decisions, Decisions”

- Opportunity cost comes with things you have to give up!
 - Consider the things you have to give up
 - Consider if the reward is worth the cost
 - Consider other options
- Goals can change and values can change
- Consider your values, needs, wants, hopes, dreams and opportunity costs before making decisions!

Section 1.2

“Make Decisions”

- Rational Buying Decision – a choice made in an organized logical manner
- Impulse Purchase – a purchase made on a whim, without using a decision making process.

Section 1.2

“Make Decisions”

- Specify – Identify NEED or WANT
- Search – Gather information!
- Sift – Look at your options and opportunity costs
- Select – Make a choice and act on it!
- Study – Use the product and evaluate your purchase

Section 1.3

“Understand Economic Systems”

- Economic System – the way a nation uses resources to produce goods and services.
 - Every nation has it's own economic system.
- Production – creation of goods and services.
- Resources – raw materials, labor, knowledge
 - Producing goods and services requires resources.

Section 1.3

“Understand Economic Systems”

- Economics – the study of how economic systems work.
- Traditional Economy – production methods passed from one generation to the next.
 - Some tribes in remote areas still operate in traditional economy.
- Command Economy – the government owns most resources and makes most economic decisions.

Section 1.3

“Understand Economic Systems”

- Capitalist or Market Economy – people, rather than the government, own the resources and run the businesses.
 - Goal of businesses = make a profit!
 - Profit – the difference between the cost required to create the product and the money received from selling it
 - Profit = Price - Cost
- Mixed Economy – mixture of a market and command economy.

Section 1.3

“Understand Economic Systems”

- Supply and Demand
- Demand – the quantity of goods or services that consumers are *willing and able* to buy at various prices during a given time period.
 - Law of Demand – consumers will demand more of a product at a lower price than a higher price.

Section 1.3

“Understand Economic Systems”

- Supply – the quantity of product that producers are willing and able to make available for sale over a given period of time.
- Law of Supply – producers are willing to offer more of a product for sale at a higher price than a lower price.
- Producers (companies) have to look at DEMAND when deciding how much product to SUPPLY!

Section 1.4

“Consumer’s Role in the Economy”

- In a market economy, consumers are free to buy and producers are free to sell!
- BOTH BUYERS AND SELLERS BENEFIT!
 - Buyers – get the good or service they want
 - Sellers – make a profit

Section 1.4

“Consumer’s Role in the Economy”

- Consumer decisions affect supply and demand. BOTH influence consumer decisions!
- Stores must respond to demand:
 - Lower their prices
 - Convince the consumer to pay the higher prices
 - Stop offering the product

Section 1.4

“Consumer’s Role in the Economy”

- Consumers are people who buy or use a product.
- Consumers ALWAYS determine what goods and services are produced.
 - Consumer sovereignty – “The consumer is always right!”
- As consumers buy goods and services, we create sales that provides businesses with a profit!

To carry out our role in the economy,
we need to make good decisions.

Section 1.5

“Advertising and Consumer Decisions”

- Competition – the contest among sellers to win consumers!
 - Competition forces businesses to serve customers
- Businesses advertise to *influence* consumers to buy their products!
- Goal = PROFIT!
- Different types of ads influence in different ways

Section 1.5

“Advertising and Consumer Decisions”

- Brand Advertising
 - Purpose is to remember BRAND NAME – make you *brand loyal*
 - Jingles – Catchy tunes
 - Catchy slogans, phrases, “mascots”
 - May have to increase prices to pay for advertising

Section 1.5

“Advertising and Consumer Decisions”

- Informative Advertising
 - Educates you about the product's benefits – products most would not understand!
 - Provide information to help you make a buying decision
 - Be aware – no ad will tell you about the downside of the product!

Section 1.5

“Advertising and Consumer Decisions”

- Comparative Advertising
 - Comparing to competition – convince you to buy theirs!
 - Will ALWAYS be slanted in favor of advertised product!
 - Will highlight best qualities of a product
 - Will tell you competitor’s weaknesses (may be exaggerated!)

Section 1.5

“Advertising and Consumer Decisions”

- Defensive Advertising
 - Respond to comparative ads from other companies
 - Does not give you a complete picture of the product

Section 1.5

“Advertising and Consumer Decisions”

- Persuasive Advertising
 - Designed to appeal to your emotions
 - Doesn't provide much useful information
 - Buying it will make you happier, more successful or more satisfied!
 - MISLEADING!

