

The U.S. Business Environment

chapter # 1

Introduction

- Why have gasoline prices gone up and down so dramatically and why do prices change from one day to the next?
 - In general, gas prices fluctuate as a result of four forces: supply, demand, global trends, and uncertainty.
 - After studying this chapter, you should be able to answer the learning objectives listed on the next slides.

learning objectives

- 1. Define the nature of U.S. business and identify its main goals and functions.*
- 2. Describe the external environments of business and discuss how these environments affect the success or failure of any organization.*
- 3. Describe the different types of global economic systems according to the means by which they control the factors of production.*

learning objectives

- 4. Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.*
- 5. Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.*

The Concept of Business and Profit

- **Business**
 - organization that provides goods or services to earn profits
- **Profits**
 - difference between a business's revenues and its expenses

The Concept of Revenue and Expense

- **Revenues**

- Funds that flow into a business from the sale of goods and services to earn profits

- **Expense**

- Costs directly related to generating revenues. Such as salaries, sales and marketing expenses etc.

- * Then Profit can be calculated as:

$$\text{Profit} = \text{Revenues} - \text{Expenses}$$

The External Environment of Business

- **External Environment**
 - everything outside an organization's boundaries that might affect it

Dimensions of the External Environment

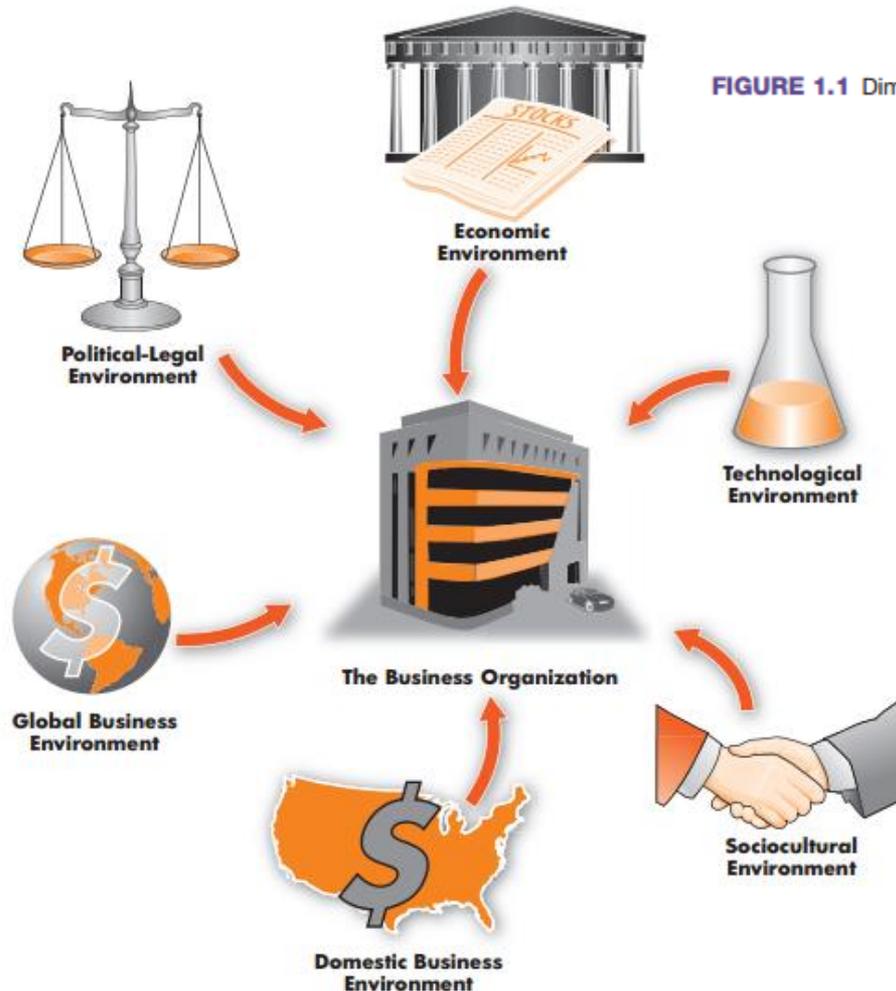


FIGURE 1.1 Dimensions of the External Environment

Economic Systems

- **Economic system**
 - a nation's system for allocating its resources among its citizens, both individuals, and organizations

Factors of Production

- **Factors of production**

- the resources that a country's businesses use to produce goods and services



Types of Economic Systems

- **Planned Economy**
 - economy that relies on a centralized government to control all or most factors of production and to make all or most production and allocation decisions
 - Communism, socialism

Types of Economic Systems (cont.)

- **Market economy**

- individual producers and consumers control production and allocation by creating combinations of supply and demand

Types of Economic Systems (cont.)

- **Mixed market economy**
 - features characteristics of both planned and market economies
- **Privatization**
 - process of converting government enterprises into privately owned companies

Demand and Supply in a Market Economy

- **Demand**

- the willingness and ability of buyers to purchase a product (a good or a service)

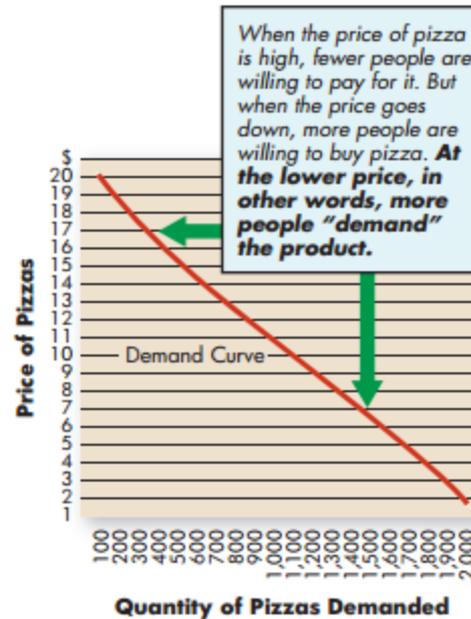
- **Supply**

- the willingness and ability of producers to offer a good or service for sale

Demand and Supply

FIGURE 1.2 Demand and Supply

DEMAND AND SUPPLY SCHEDULES		
Price	Quantity of Pizzas Demanded	Quantity of Pizzas Supplied
\$2	2,000	100
\$4	1,900	400
\$6	1,600	600
\$8	1,200	800
\$10	1,000	1,000
\$12	800	1,200
\$14	600	1,300
\$16	400	1,600
\$18	200	1,800
\$20	100	2,000



Demand and Supply (cont.)

FIGURE 1.2 Demand and Supply

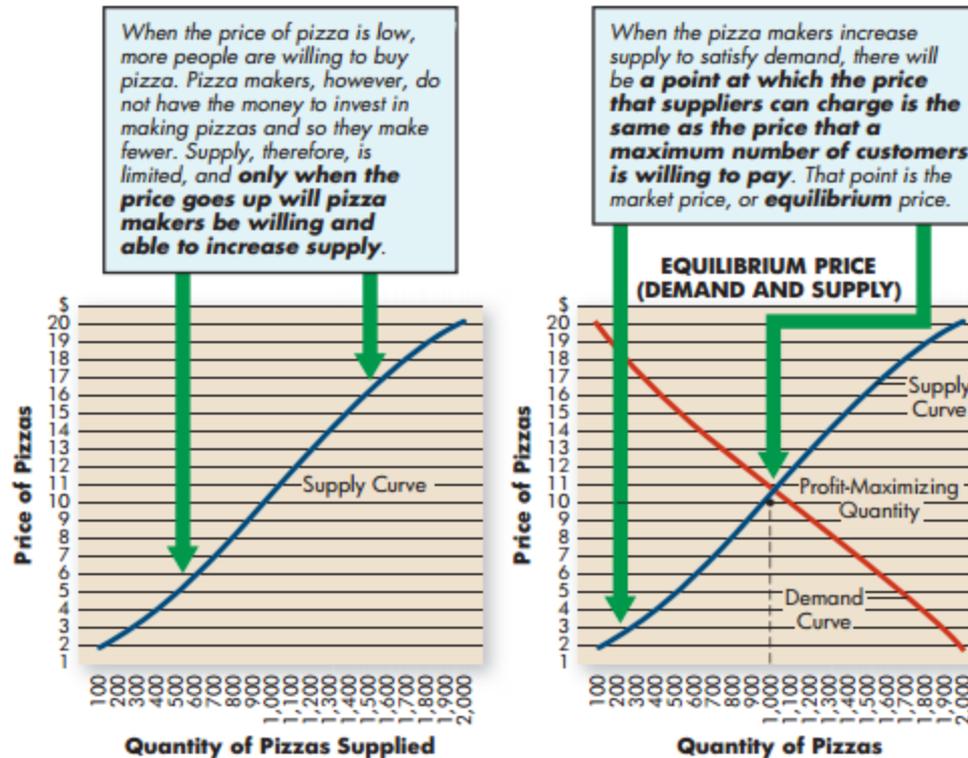


FIGURE 1.2 Demand and Supply

Private Enterprise and Competition in a Market Economy

- **Private enterprise system**
 - one that allows individuals to pursue their own interests with minimal government restriction
 - private property rights, freedom of choice, profits, and competition

Private Enterprise and Competition in a Market Economy (cont.)

1. Private property rights

- ownership of the resources used to create wealth is in the hands of individuals

2. Freedom of choice

- you can sell your labor to any employer you choose

Private Enterprise and Competition in a Market Economy (cont.)

3. Profits

- the attraction of profits leads some people to abandon the security of working for someone else and assume the risks of entrepreneurship

4. Competition

- occurs when two or more businesses compete for the same resources or customers

Degrees of Competition

table 1.1 Degrees of Competition

Characteristic	Perfect Competition	Monopolistic Competition	Oligopoly	Monopoly
Example	Local farmer	Stationery store	Steel industry	Public utility
Number of competitors	Many	Many, but fewer than in perfect competition	Few	None
Ease of entry into industry	Relatively easy	Fairly easy	Difficult	Regulated by government
Similarity of goods or services offered by competing firms	Identical	Similar	Can be similar or different	No directly competing goods or services
Level of control over price by individual firms	None	Some	Some	Considerable

Degrees of Competition (cont.)

- For **perfect competition** to exist, two conditions must prevail:
 1. all firms in an industry must be small, and
 2. the number of firms in the industry must be large

Perfect Competition

1. The products of each firm are so similar that buyers view them as identical to those of other firms.
2. Both buyers and sellers know the prices that others are paying and receiving in the marketplace.
3. Because each firm is small, it is easy for firms to enter or leave the market.
4. Going prices are set exclusively by supply and demand and accepted by both sellers and buyers.

Degrees of Competition (cont.)

- **Monopolistic Competition**
 - market or industry characterized by numerous buyers and relatively numerous sellers trying to differentiate their products from those of competitors

Degrees of Competition (cont.)

- **Oligopoly**
 - market or industry characterized by a handful of (generally large) sellers with the power to influence the prices of their products

Degrees of Competition (cont.)

- **Monopoly**
 - market or industry in which there is only one producer that can therefore set the prices of its products
- **Natural Monopoly**
 - industry in which one company can most efficiently supply all needed goods or services

Economic Indicators

- **Economic indicators**
 - statistics that show whether an economic system is strengthening, weakening, or remaining stable
 - help assess the performance of an economy

Economic Growth, Aggregate Output, and Standard of Living

- **Business cycle**
 - the pattern of short-term ups and downs (or expansions and contractions) in an economy
- **Aggregate output**
 - the total quantity of goods and services produced by an economic system during a given period
 - primary measure of growth in the business cycle

Economic Growth, Aggregate Output, and Standard of Living (cont.)

- **Standard of living**
 - the total quantity and quality of goods and services that they can purchase with the currency used in their economic system

Gross Domestic Product

Gross domestic product (GDP)

- refers to the total value of all goods and services produced within a given period by a national economy through domestic factors of production
- measure of aggregate output

Gross Domestic Product (cont.)

table 1.2 U.S. GDP and GDP per Capita

2011 GDP (\$ Trillion)	2011 GDP: Real Growth Rate (%)	2011 GDP per Capita: Purchasing Power Parity
\$15.08	1.8%	\$48,300

GDP, gross domestic product

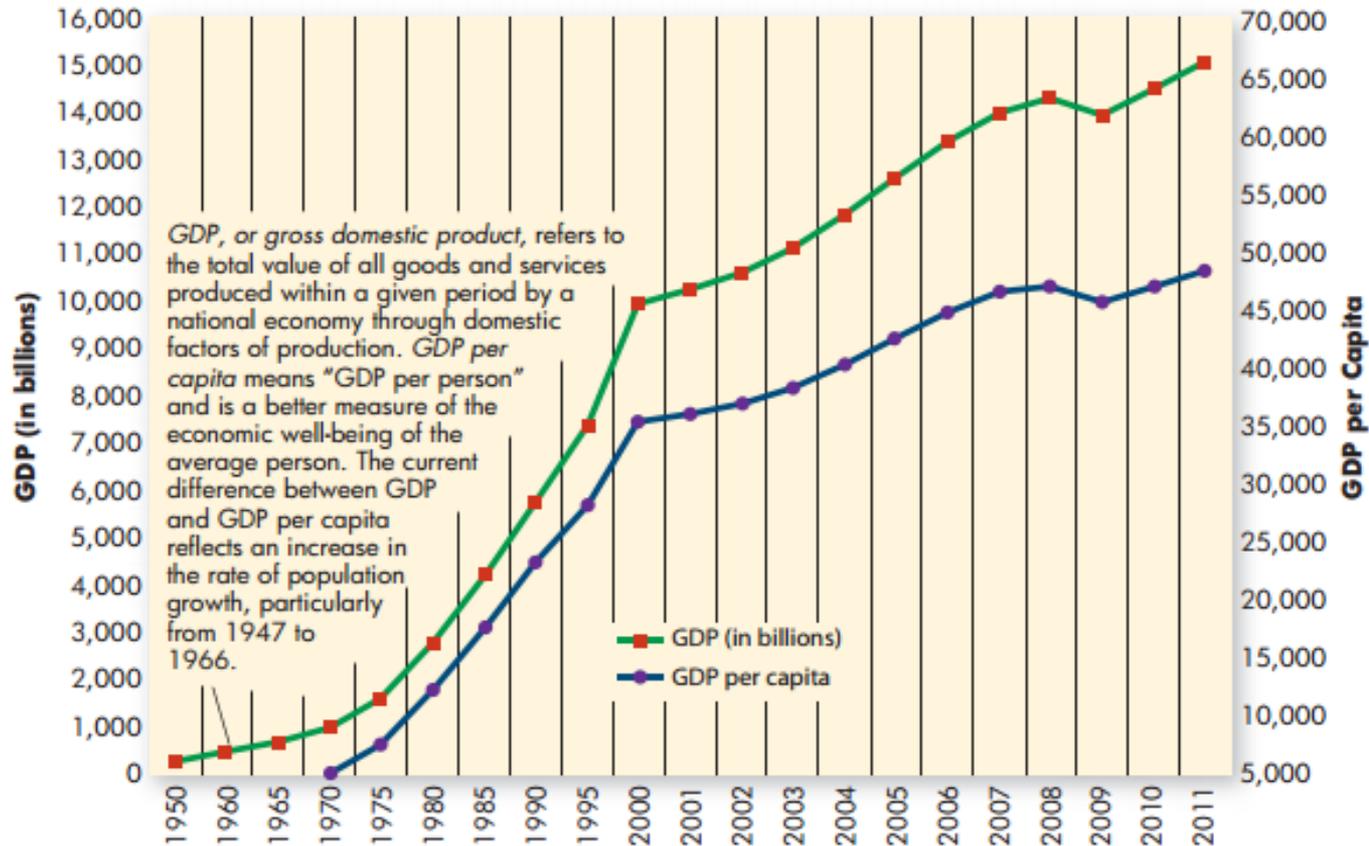
Gross National Product

- **Gross national product (GNP)**
 - refers to the total value of all goods and services produced by a national economy within a given period regardless of where the factors of production are located

GDP and GDP per Capita

GDP and GDP per Capita

FIGURE 1.3 GDP and GDP per Capita



Note: This graph is shown in five-year increments until the year 2000, after which it is shown in one-year increments so as to provide more detail for recent periods. Hence, the curve artificially "flattens" after 2000.

Gross Domestic Product

- **Nominal GDP**

- gross domestic product (GDP) measured in current dollars or with all components valued at current prices

- **Purchasing Power Parity**

- the principle that exchange rates are set so that the prices of similar products in different countries are about the same

World Prices of a Big Mac

FIGURE 1.4 Price of a Big Mac in U.S. Currency in July 2013



Productivity

- **Productivity**

- measure of economic growth that compares how much a system produces with the resources needed to produce it

Productivity (cont.)

- **Balance of trade**

- the economic value of all the products that a country exports minus the economic value of its imported products
- Positive or negative balance

- **National Debt**

- the amount of money the government owes its creditors

Economic Stability

- **Stability**

- condition in which the amount of money available in an economic system and the quantity of goods and services produced in it are growing at about the same rate

- **Inflation**

- occurs when widespread price increases occur throughout an economic system

Economic Stability (cont.)

- **Unemployment**
 - the level of joblessness among people actively seeking work in an economic system
- **Recession**
 - a period during which aggregate output, as measured by GDP, declines
- **Depression**
 - a prolonged and deep recession

Managing the U.S. Economy

- **Fiscal Policies**

- policies used by a government regarding how it collects and spends revenue

- **Monetary Policies**

- policies used by a government to control the size of its money supply

Managing the U.S. Economy (cont.)

- **Stabilization Policy**
 - government economic policy intended to smooth out fluctuations in output and unemployment and to stabilize prices

Applying What You've Learned

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2. Describe the external environments of business and discuss how these environments affect the success or failure of any organization.
3. Describe the different types of global economic systems according to the means by which they control the factors of production.

Applying What You've Learned (cont.)

4. Show how markets, demand, and supply affect resource distribution in the United States, identify the elements of private enterprise, and explain the various degrees of competition in the U.S. economic system.
5. Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.