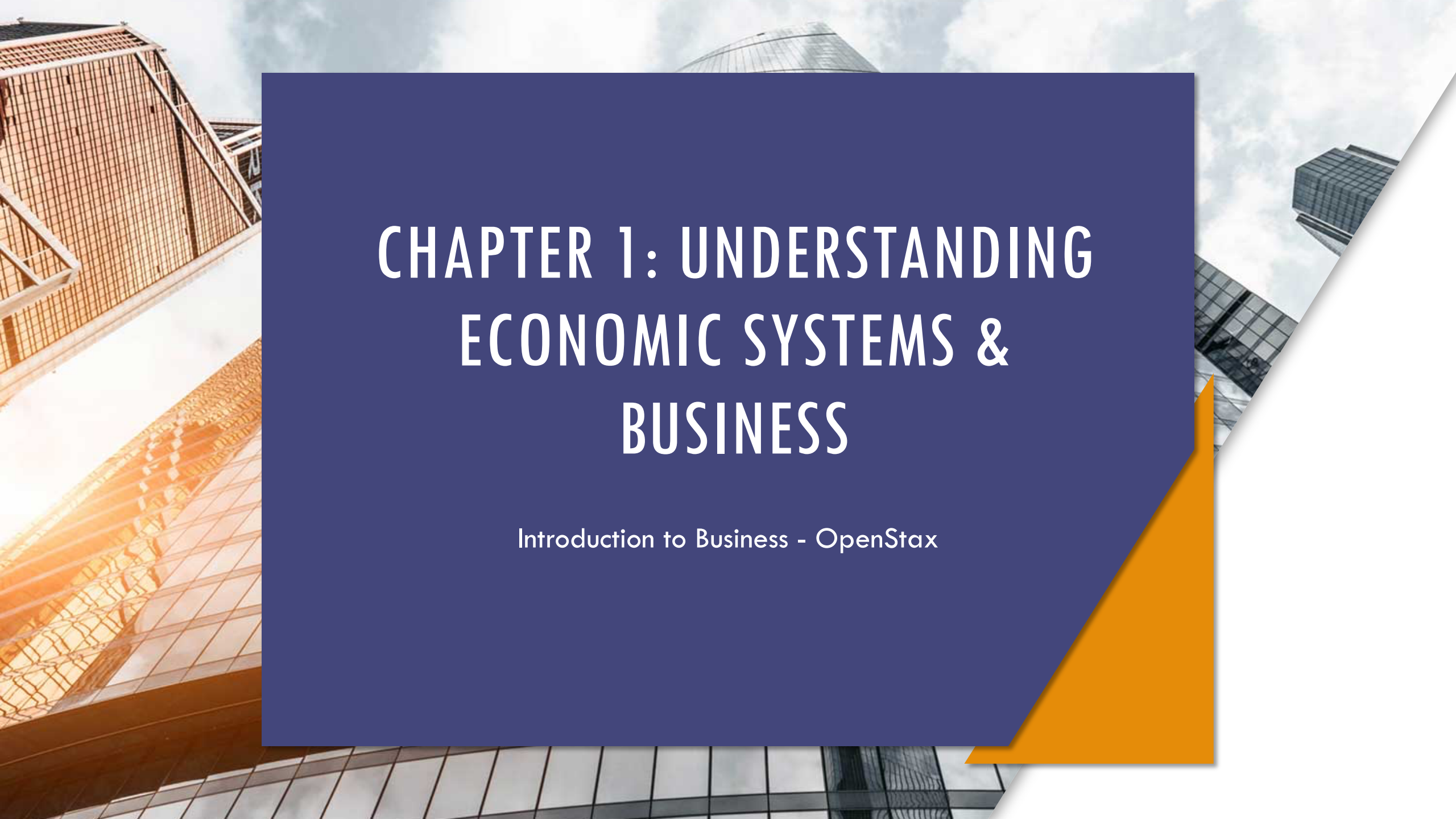




CHAPTER 1: UNDERSTANDING ECONOMIC SYSTEMS & BUSINESS

Introduction to Business - OpenStax

WHAT IS BUSINESS?

- Definition: A **business** is an organization that strives for a profit by providing goods and services desired by its customers.
- Businesses play a key role in determining our **quality of life** by providing jobs and goods and services to society.
 - **Quality of life** refers to the general level of human happiness based on such things as life expectancy, educational standards, health, sanitation, and leisure time



WHAT IS BUSINESS?, CONT.

TWO GENERAL TYPES

- For Profit – businesses who have a responsibility to stakeholders to earn profit
- Not For Profit – exist to achieve some goal other than the usual business goal of profit.



FACTORS OF PRODUCTION

Regardless of whether they operate in the for-profit or not-for-profit sector, organizations require inputs called “factors of production.”

Natural Resources
(land, water, etc.)

Labor Resources
(people & technology)

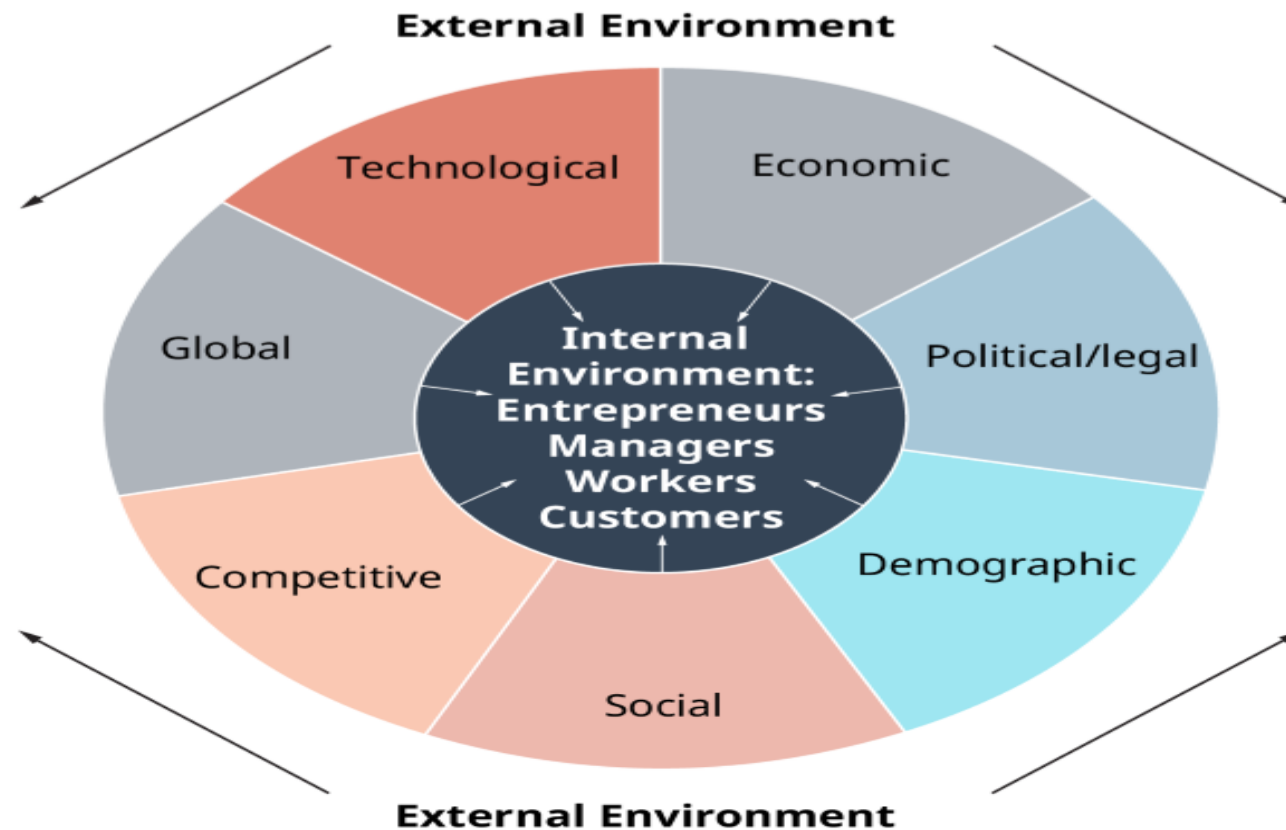
Capital
(machinery, buildings, etc.)

Entrepreneurship
(people who combine inputs)

Knowledge
(combined talents
and skills of the
workforce)

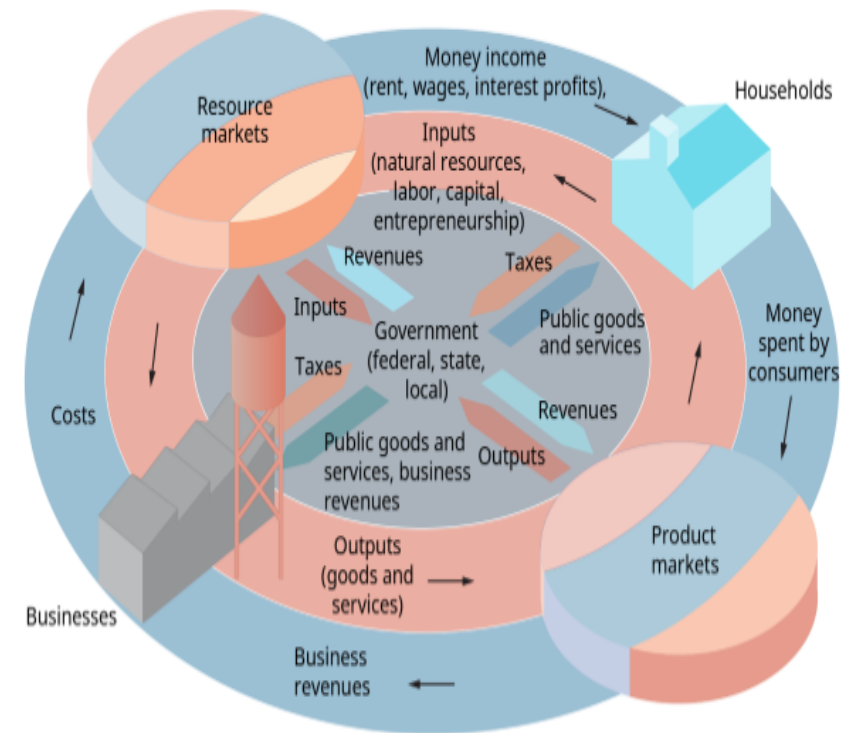
HOW BUSINESS OPERATES

Truth: Businesses operates in a DYNAMIC environment!



ECONOMICS: HOW IT WORKS

- **Economic system** is the combination of policies, laws, and choices made by its government to establish the systems that determine what goods and services are produced and how they are allocated.
- Divided into **MACRO**-economics (the study of economy as a whole) & **MICRO**-economics (focuses on individual components such as households and firms)



ECONOMICS: 3 MAIN SYSTEMS

- **Capitalism** – based on competition & private ownership
- **Socialism** – government controls large scale industries (transportation, utilities, etc.)
- **Communism** – government exerts control over all businesses



ECONOMICS: A QUICK QUESTION

What type of economy does the US (and other countries) have?

A MIXED ECONOMY – private ownership of land and businesses; government controls essential services



MACROECONOMICS

Measures of economic growth include:

- Gross Domestic Product (GDP)
- Full Employment
- Consumer Price Index (CPI)



MICROECONOMICS

The Bottom Line?

- Consumers want the best quality at the lowest cost

The Conflict?

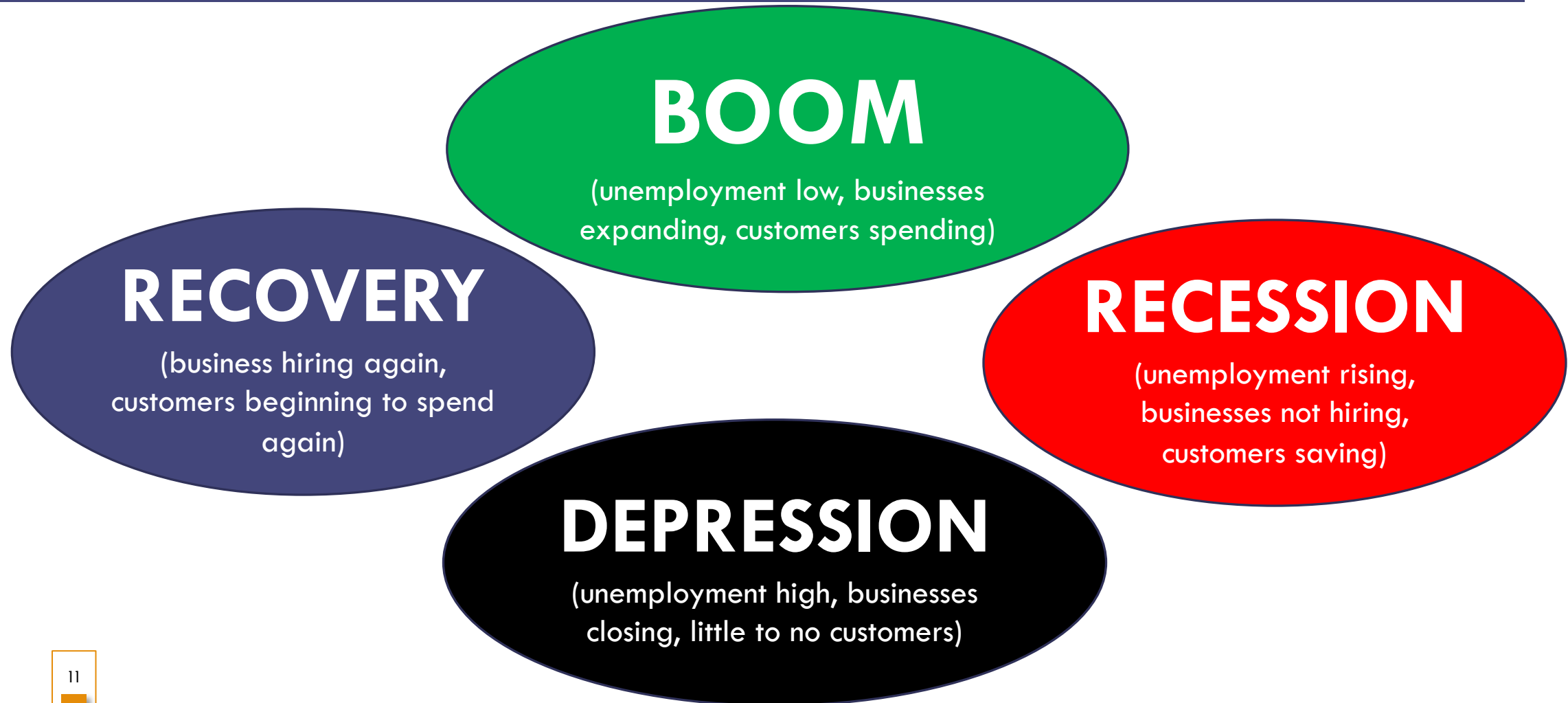
- Businesses want to keep costs down and revenues high

The Solution''

- Finding equilibrium



THE BUSINESS CYCLE



4 TYPES OF COMPETITION

PERFECT

- Many firms in the market
- No price control
- Farm products



MONOPOLISTIC

- Many firms, but not as many as perfect
- Some price control
- Clothing stores, TVs



OLIGOPOLY

- Few firms in the market
- Some price control
- Steel, automobiles, airlines



MONOPOLY

- Only one firm in market
- High price control
- Utilities, School districts