

Basic Economic Concepts

Chapter Objectives

After completing this chapter, you will be able to:

▶ Section 1.1 A Look at Wants and Needs

- **State** the differences between wants and needs.
- **Describe** how resources limit the number of wants people and businesses can satisfy.
- **Explain** how to use the decision-making process to make the most of your resources.

▶ Section 1.2 Business Activities

- **Explain** how profit and competition motivate businesses.
- **List** the activities businesses undertake when developing products and services.
- **Explain** how business impacts you and how you impact business.

Ask

STANDARD & POOR'S

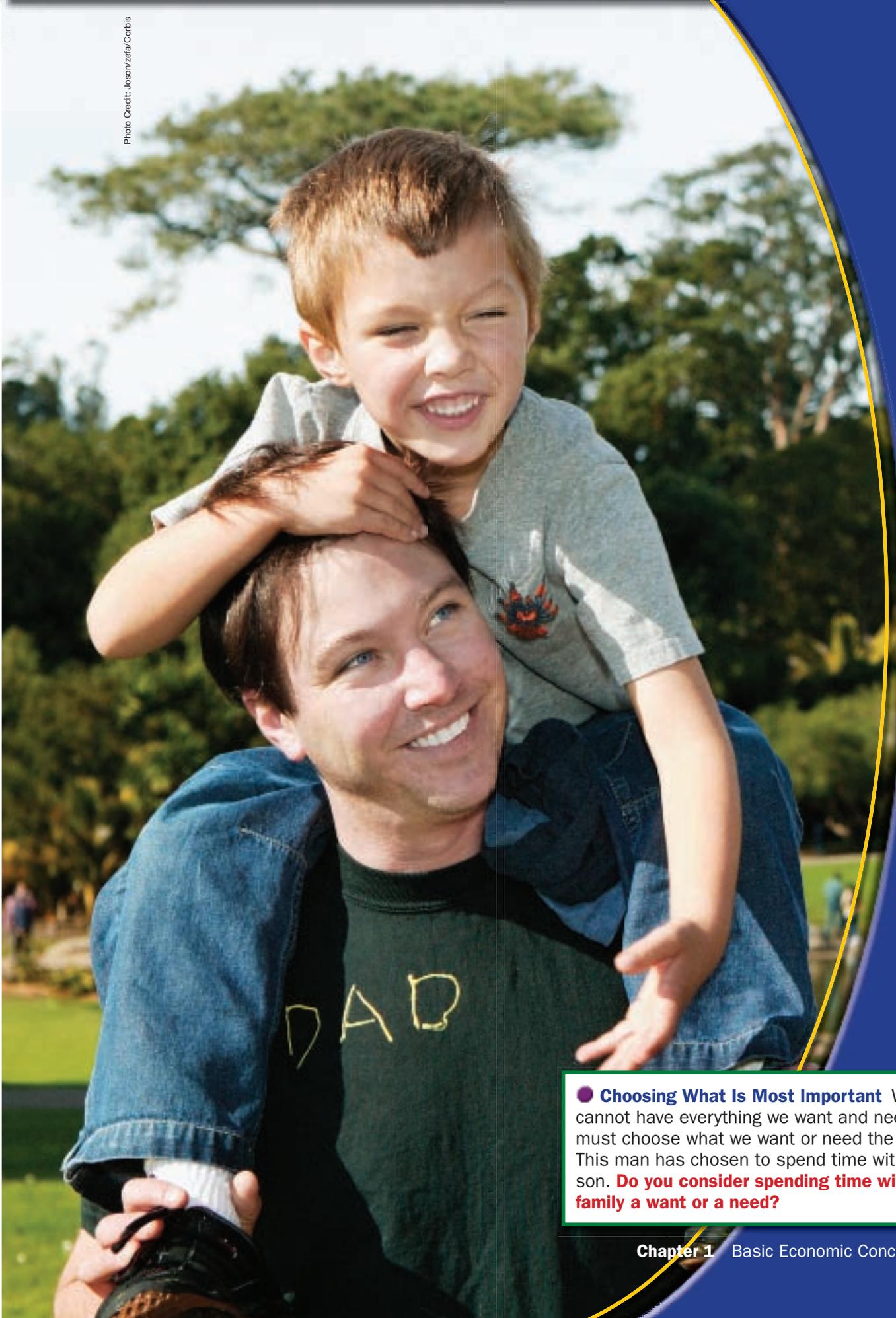
Investing in Stocks: Initial Investment, Capital Gains, and Dividends

Q: How do you build wealth by investing in stocks?

A: Stocks represent a partial ownership of a given company. To raise money for their current and future operations, “public” or “publicly traded” companies let anyone purchase a stake in their business. That’s why one unit of stock is called a share. There are different types of stock, including common stock and preferred stock. Common stock is what most investors purchase—it gives the holder basic ownership of the company and a vote equivalent to the number of shares held. The key here is “ownership”—that’s why stocks are considered equity investments—because as an owner of the company, you benefit or lose when the company benefits or loses.

Mathematics A friend of yours bought 100 shares of stock in the Greg Corporation for \$48 each. She calls you up to tell you that the stock is now at $\frac{3}{4}$ of the price at which she bought it. If you buy 100 shares too, how much will you spend?

CONCEPT **Writing a Fraction as a Decimal** Any fraction $\frac{a}{b}$, where $b \neq 0$ can be written as a decimal by dividing the numerator by the denominator. So $\frac{a}{b} = a \div b$. If the division ends, or terminates, when the remainder is zero, the decimal is a terminating decimal. Not all fractions can be written as terminating decimals. Some have a repeating decimal element. A bar indicates that the decimal repeats forever. For example, the fraction $\frac{4}{9}$ can be converted to a repeating decimal, $0.\bar{4}$.



● **Choosing What Is Most Important** We cannot have everything we want and need. We must choose what we want or need the most. This man has chosen to spend time with his son. **Do you consider spending time with family a want or a need?**

A Look at Wants and Needs

Reading Guide

Before You Read

Think about the difference between the things you want and the things you need.

Read to Learn

- State the differences between wants and needs.
- Describe how resources limit the number of wants people and businesses can satisfy.
- Explain how to use the decision-making process to make the most of your resources.

The Main Idea

Businesses make money by offering goods and services to satisfy the wants and needs of consumers and other businesses. In this way, wants and needs drive the U.S. economy.

Key Concepts

- Wants and Needs Drive the Economy
- How Resources Limit the Ability to Satisfy Wants and Needs
- Making the Most of Your Resources

Vocabulary

Key Terms

wants	services
needs	resources
goods	

Academic Vocabulary

You will find these words in your reading and on your tests. Make sure you know their meanings.

determine	consider
identify	evaluate

Graphic Organizer

On a chart like this, list things you want in the WANTS column and things you need in the NEEDS column.

WANTS	NEEDS



Go to the *Introduction to Business* Online Learning Center through glencoe.com for a printable graphic organizer.

Academic Standards

English Language Arts

NCTE 1 Read texts to acquire new information

NCTE 4 Use written language to communicate effectively

NCTE 9 Develop an understanding of diversity in language use across cultures

Math

Number and Operations Understand meanings of operations and how they relate to one another

Science

Content Standard A Students should develop understandings about scientific inquiry

Wants and Needs Drive the Economy

Every day you make decisions about how to spend your money. Suppose you have \$10. You could use it to buy lunch or to go to a movie. Which of these things do you want, and which do you need? What is the difference between what you want and what you need?

An Abundance of Wants and Needs

Wants and needs determine what products and services businesses provide. **Wants** are things that you do not have to have to survive, but would like to have. You might want a mountain bike, while your best friend may want a new computer. **Needs** are things that you must have in order to survive. The basic needs of people include food, water, shelter, and clothing.

A group of people may share the same wants. A family may want a new kitchen table. A business may want an advanced computer system. Although these wants are shared, they are considered *private wants*. Individual people also have private wants.

Public wants are wants that are widely shared by many people. Examples include highways, public libraries, and parks. Local, state, and federal governments satisfy public wants.



Contrast How are public wants different from private wants?

As You Read

Think about the last thing you bought. Was it a want or a need?



Goods and Services Service businesses dominate the American economy. **Does this business offer goods, services, or both?**



Service Businesses

H & R Block and Jackson Hewitt are businesses that offer tax preparation services. Even the Internal Revenue Service will help you with your taxes. Look in your local business directory and list three businesses in your community that offer tax preparation services.

As You Read

Think of a decision you have made about how to use your resources.

Satisfying Wants and Needs

Businesses provide goods and services to satisfy wants and needs. **Goods** are physical products. Skates, groceries, and telephones are examples of goods.

Services are tasks that businesses perform for consumers. These include tasks that people or machines do. Like goods, services are provided for a fee. For example, when you pay H & R Block to prepare your taxes, you are buying a service. Insurance, sports and entertainment, tourism, banking, and education involve offering services. Most companies that sell goods also provide services to their customers.

How Resources Limit the Ability to Satisfy Wants and Needs

Most people have unlimited wants for goods and services. In the United States, most consumers are able to satisfy their basic needs. Marketers promote goods and services that will appeal to people's wants.

The more money you make, the more goods or services you can buy. However, few people have enough resources to satisfy all of their wants. **Resources** are items that people can use to make or obtain what they need or want. Examples of resources include money, fuel, and labor.

Resources limit the number of needs and wants people can satisfy. For example, you may want a new pair of jeans and a new camera. You may have only enough money to buy one of these things. Businesses and governments are influenced by the same problem. They lack the resources to do all the things that they want to do. To make the best use of limited resources, **determine** what your needs are and satisfy them first.

ETHICS in Business

A Conflict of Interest

- **Critical Reading** Life is full of important decisions. Think about the kinds of decisions that you make as you read the question below.

You work as an event planner for a local company. You are in charge of hiring a caterer for the company's 10th anniversary celebration. You have bids from four caterers in town. One of the bids is from a caterer who is an old friend. His bid is higher than the three others.

- **Decision Making** Would your relationship with the caterer affect which company you would hire? Explain your answer.

Making the Most of Your Resources

Every day you make choices about how you will spend your resources to satisfy your needs and wants. You should make these important decisions carefully. You can make the most of your resources by making the best choices about what to buy.

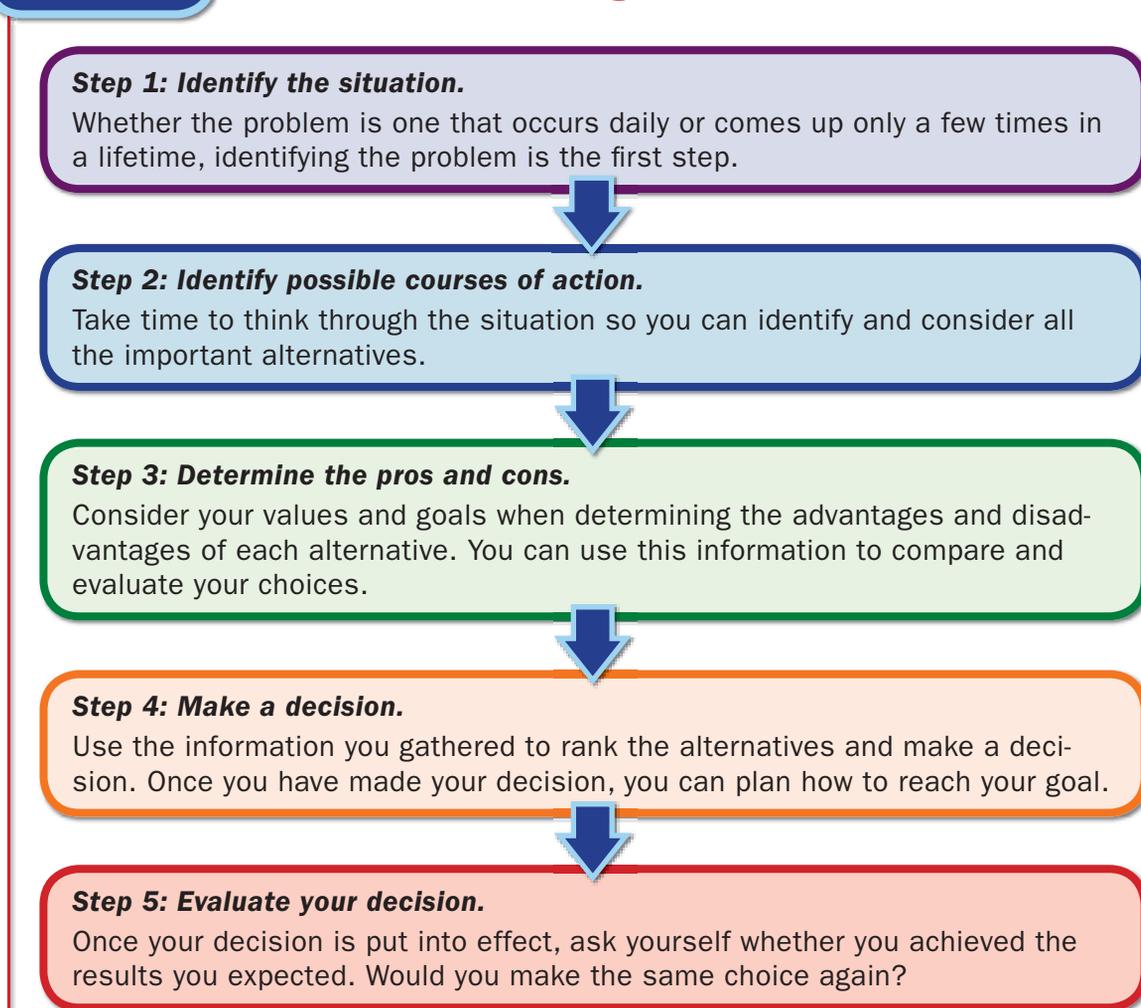


Reading Check **Explain** How can you make the most of your resources?

The Decision-Making Process

The decision-making process can help you make good choices. It helps you to **identify** and **consider** your various alternatives and their consequences before you make a final decision. The essential steps of the process are outlined in **Figure 1.1**.

Figure 1.1 – **The Decision-Making Process**



Making Better Choices The decision-making process can be used to make all kinds of decisions. **What major decisions have you made recently?**

Real World

Local Brands

Besides national orange juice brands such as Tropicana and Minute Maid, there are local brands, too. Go to your local grocery store. List the brands it sells.

Personal Decision Making You may not use all of the steps of the decision-making process every time you buy something. When you decide to buy orange juice, you may always buy the same brand, such as Tropicana. However, many decisions need more careful thought. A bike can be an important purchase because you are likely to keep it for some time. When you consider what kind of bike to buy at what price, you will probably use all five steps of the decision-making process. The longer a decision will affect your life, the more you need to **evaluate** your options and consider the possible consequences.

Business Decision Making Competition among businesses is intense. For this reason, businesses must decide how to best use and conserve their resources. Businesses must make thoughtful decisions that are consistent with their goals. Business managers constantly make decisions. Most companies allow managers to make routine decisions independently. Higher-level business managers usually make more important decisions that affect the future of their companies.

Section 1.1

After You Read



Review Key Concepts

1. Describe the difference between public wants and private wants.
2. Define resources.
3. List the steps in the decision-making process.

Academic Skills

4. **Mathematics** In making a household budget, you determine that your basic needs require 75 percent of your monthly income. The items you listed as “wants” cost another 15 percent. If your monthly income is \$2,500, how much are you spending on wants? How much do you have left to save?

CONCEPT

Number and Operations:

Percents A percent is a ratio comparing a number to 100. It can also be represented as a fraction with 100 as the denominator. To find a decimal equivalent, divide the percent by 100. Multiply that decimal by the total amount to determine the dollar amount that it represents.



For math help, go to the Math Appendix.



Go to the *Introduction to Business* Online Learning Center through glencoe.com to check your answers.

Business Activities

Reading Guide

Before You Read

Think about all the things a business must do in order to sell products and services.

Read to Learn

- Explain how profit and competition motivate businesses.
- List the activities businesses undertake when developing products and services.
- Explain how business impacts you and how you impact business.

The Main Idea

Businesses seek profit by providing goods and services in exchange for money. Companies thrive on competition, the contest between businesses to win customers. Competition and profit motivate businesses to continually strive to find new ways to satisfy customers.

Key Concepts

- How to Define Business
- Business Activities
- Business and You

Vocabulary

Key Terms

business
profit
competition
market research
consumer

Academic Vocabulary

You will find these words in your reading and on your tests. Make sure you know their meanings.

analyze
respond
affect
modify

Graphic Organizer

On a chart like the one below, list the six activities businesses undertake when developing products or services.

Business Activities	
1	_____
2	_____
3	_____
4	_____
5	_____
6	_____



Go to the *Introduction to Business* Online Learning Center through glencoe.com for a printable graphic organizer.

Academic Standards

English Language Arts

NCTE 5 Use different writing process elements to communicate effectively

NCTE 8 Use information resources to gather information and create and communicate knowledge

As You Read

Think about the types of businesses in your community and the activities they do to sell their products and services.

How to Define Business

Whether you need to buy food for dinner or want a new bike, your wants and needs are usually satisfied by business. **Business** is any commercial activity that seeks profit by providing goods and services to others in exchange for money. **Profit** is the money left over after a business has paid the cost of providing its goods and services.

Businesses provide consumers and other businesses with necessities, such as food, clothing, housing, medical care, and transportation. Businesses also provide goods and services that make life easier and better. For entrepreneurs, owning a business also offers an opportunity to earn a good living.

Reading Check

Apply Think of your favorite retail store. What companies are its competition?

The Motive of Business: To Make a Profit

Businesses supply goods and services with the motivation of making profits. Without profit, a company cannot survive. Profit is the reward for satisfying the needs and wants of consumers and businesses. The wealth created by businesses benefits the entire community because businesses pay taxes and provide jobs.

Science/TechTRENDS

The Green Revolution

In 1798, Thomas Malthus, the great social scientist, showed that even as population increases geometrically (2, 4, 8, 16,...), the food supply increases arithmetically (1, 2, 3, 4,...). He predicted that hunger and conflict would be the result. In the 1960s, the Green Revolution promised to eliminate hunger by increasing crop yields. This was accomplished by using genetics to develop new varieties of grains and educating farmers in the technology of agriculture. Between 1960 and 1990, food production increased 1,000 percent, famine decreased 20 percent, caloric consumption increased 25 percent, and people around the world saw a rise in their incomes and standard of living.

Web Quest

Go to the *Introduction to Business* Online Learning Center through glencoe.com for links to Web sites where you can research how the technology of agriculture fueled the revolution in farming practices around the world. Look for information on irrigation strategies, the use of fertilizers and pesticides, and crop rotation. Write a few paragraphs about how farmers in countries, such as Mexico, increased their crop yields.

The Significance of Competition

Companies thrive on **competition**, the contest between businesses to win customers. For example, Skechers competes with other shoe retailers, such as Foot Locker, for business. Competition is a direct response to wants and needs.

Competition is possible because companies have the freedom to produce the products they think will be the most profitable. Because the American economy is based on freedom and voluntary exchange, buyers can compete to find the best products at the lowest prices. The result is that goods and services are produced and sold at the lowest possible cost.

Competition among businesses has never been greater than it is today. Some companies find a competitive edge by focusing on making high-quality products. Others compete by focusing on making products with no defects. However, simply making a high-quality, defect-free product is not enough to allow a company to stay competitive in the global marketplace. For companies to successfully compete in the global economy, they must offer quality products with outstanding service at competitive prices.



Target Market A target market is a group of people identified as those most likely to become customers. The target market of Foot Locker is 12- to 20-year-olds, and the target market of Skechers is 12 to 25-year-olds. Develop a list of shoe stores in your area and the likely target market for each.



● **The Functions of Business** The success of a business depends on how well key activities are coordinated, managed, and performed. **Why should businesses use market research when making important decisions?**

Business Activities

You might be surprised to know all the activities a business undertakes when developing products or services. They must:

- identify opportunities for products or services;
- evaluate the demand for products or services;
- obtain start-up money and operating capital;
- manage the production of goods and/or services;
- market the goods and/or services;
- keep records to satisfy government requirements and improve processes.

Some business activities should be supported by market research. **Market research** is the act of gathering and analyzing information about the wants, needs, and preferences of consumers in a certain market. Market research provides information that can help a business identify opportunities, **analyze** demand, and **respond** to consumer demand for goods and services.

BusinessWeek Reader and Case Study

From Adversity, Software Success

An idea for a new business can strike anywhere: In the shower, in the car, even in a dream. Mike Jetter got his in a cancer ward.

In 1994, the German programmer was stuck in a hospital room in Munich, following his second leukemia relapse and his second bone-marrow transplant. Given a 50% chance to live another year, Jetter needed a distraction badly.

At the time, so-called mind-mapping was all the rage in Europe. Hailed as a more creative way to think, it involves organizing ideas in a visual way, with big concepts written in a circle in the middle of a page, surrounded by smaller ideas that branch off from them. But with pencil and paper, you couldn't drag and drop, edit, or collaborate. So Jetter set out to write a computer program.

After his release from the hospital, he and his wife Bettina handed marketing for the product over to a German CD-ROM distributor,

assuming not much would come of it. Today the software has spawned a \$20 million-a-year business called Mindjet, headquartered in San Francisco.

Now the Jettets are turning this desktop product into something companies can use broadly to help brainstorm, plan, collaborate, and organize a host of business activities.



CASE STUDY Go to the *Introduction to Business* Online Learning Center through glencoe.com for the *BusinessWeek* Reader Case Study.

Active Learning

Team up with a classmate and work together to identify and research a successful company with a unique business concept. Write a brief presentation about the business. Give the presentation to your class.

Business and You

Businesses make many decisions that impact you, the consumer. A **consumer** is a person who uses goods or services. Businesses decide what goods and services to produce to meet the needs and wants of consumers. Businesses also **affect** consumers when they **modify** or discontinue products. The decision to stop manufacturing products is often because there is a decreasing demand for them. Businesses affect you as a wage earner. In order to make goods and provide services, businesses hire people to work.

Consumers also affect businesses. Consumers decide what kinds of goods and services they want and where they will buy them. You reward companies by making the decision to purchase their products. When consumers choose not to purchase a business's products or services, the business usually fails. To avoid failure, a business can modify its products, services, and business practices to satisfy consumers.

Section 1.2

After You Read

Review Key Concepts

1. Define business.
2. List the activities that every business undertakes when developing new products and services.
3. Describe why it is important to understand how business impacts you.

Academic Skills

4. **English Language Arts** Competition between similar businesses is one of the basic characteristics of the American economy. Competition is good for consumers because it provides choices. It also forces companies to improve quality and lower prices. Think of your favorite retail store. Write two or more paragraphs that describe the store and its competition, and explain how the competition among these businesses has affected you as a consumer.
5. **English Language Arts** In order to better understand the challenges and opportunities small businesses face, you decide to interview three business owners in your area. To prepare, identify three businesses that each provide a different type of product or service. Then write a series of questions that will help you understand how the products or services were chosen, whether they have changed in response to consumer demands, and how the business owner keeps in touch with consumers.



Go to the *Introduction to Business* Online Learning Center through glencoe.com to check your answers.

Chapter 1 Review and Activities

Section 1.1 Summary

A Look at Wants and Needs Everyone has wants and needs. Wants are things that you do not have to have to survive, but would like to have. Needs are things that you must have in order to survive. People use resources to make or obtain what they need or want. Resources limit the number of needs and wants people can satisfy. The decision-making process can help you make good choices and make the most of your resources by considering alternatives and their consequences. The longer a decision will affect your life, the more you need to consider all of the possible consequences.

Section 1.2 Summary

Business Activities Businesses supply goods and services with the motivation of making profits. Companies thrive on competition, the contest between businesses to win customers. All businesses undertake these activities: identifying opportunities, evaluating demand, obtaining money, managing production, marketing to consumers and businesses, and keeping records. Consumers affect businesses by deciding what kind of goods and services to buy. Businesses affect consumers by making decisions about what products and services to offer and by providing jobs.

Vocabulary Review

1. On a sheet of paper, use each of these key terms and academic vocabulary terms in a sentence.

Key Terms

wants	business
needs	profit
goods	competition
services	market research
resources	consumer

Academic Vocabulary

determine	analyze
identify	respond
consider	affect
evaluate	modify

Review Key Concepts

2. Explain the differences between wants and needs.
3. Describe how resources limit the number of wants people and businesses can satisfy.
4. Explain how to use the decision-making process to make the most of your resources.
5. Explain how profit and competition motivate businesses.
6. List the activities businesses undertake when developing products and services.
7. Explain how business impacts you and how you impact business.

Critical Thinking

8. Explain how your wants and needs have changed over the years. How do you think they will change as you get older?
9. Consider the resources that you have that are limited and those that are plentiful. How do you decide to use your resources to get the things you want and need?
10. What do you think is the most important service available where you live? What would your life be like without this service?
11. Think of a small business in your community. What do you think that business could do to increase its profits?
12. A niche is a small, specialized segment of the market, usually based on customer needs discovered in market research. Think of a company that has succeeded by focusing on a niche market. What kinds of advantages and disadvantages does it have over a store that sells a variety of products?
13. As a consumer, what are some of the things about products and services that matter most to you? Explain your answer.

Write About It

14. Draw a Venn diagram of two overlapping circles. Label the left circle WANTS and the right circle NEEDS. Label the area where the two circles intersect BOTH. Then list your wants in the left circle and your needs in the right circle. List things that are both wants and needs in the area where the two circles overlap.
15. List three reasons why the decision-making process is important to use when making choices. Then describe a decision you recently made and explain how you made it.
16. Market research is the act of gathering and analyzing information about the wants, needs, and preferences of consumers in a certain market. Write two or more paragraphs to explain how market research can be used as a basis for business activities.
17. In a letter to your teacher, explain how the decisions businesses make affect you as a consumer.
18. Write a journal entry about how the decisions you make affect businesses.
19. Describe a situation in which you made a decision that greatly influenced your life.

Technology Applications

Spreadsheet

20. When there are limited resources, you need to make decisions about the best use of those resources. Imagine you are managing a concession stand at a school basketball game. Use a spreadsheet program to list and categorize all of the resources you will need to operate the concession stand for one day. Resources include equipment, money, supplies, and labor.

Business Ethics

Confidentiality Agreements

21. A confidentiality agreement is a contract that requires the employee or contractor not to reveal information that they acquire while working for an employer or client. Use library or Internet resources to research confidentiality agreements. Find several examples, and write a report detailing their similarities and explaining their importance.

Chapter 1 Review and Activities

Applying Academics to Business

English Language Arts

22. Select two words from this chapter that were unfamiliar to you or that you would like to know more about. Using your own words and ideas about how to represent sounds, write a pronunciation guide and a definition of each of the words. Then write two sentences using the words. Keep a personal glossary of words you have chosen and researched in this way.

Mathematics

23. When shopping for a new winter coat, you find one that suits your needs and costs \$50. A more stylish coat that you want costs \$65. Describe the difference between the two prices using a percentage.

CONCEPT Number and Operations:

Percents To describe how much more the stylish coat costs, create a fraction using the difference in price as the numerator and the cost of the basic coat as the denominator. To convert the fraction to a percent, divide the numerator by the denominator and multiply the product by 100.

English Language Arts

24. Research and write a list of synonyms or closely related words and phrases for each of the following terms from the chapter: services, resources, business, and limit. For example, for the word goods, you might list merchandise, commodities, supplies, wares, and cargo. Choose two of the words in your list and write a sentence telling how their meanings are alike and different.

Mathematics

25. Imagine you have \$100 for next month's expenses. Make a budget showing how you would spend the money on needs and wants. Express the relationship between needs and wants as a ratio. Compare your ratio with your classmates by writing equations or inequalities.

CONCEPT Algebra: Equations and

Inequalities Equations and inequalities are used to describe the relationship between two algebraic expressions. Equations consist of two equivalent numbers or expressions with an equal sign between them. An inequality consists of two nonequivalent numbers or expressions with a "greater than" ($>$) or a "less than" ($<$) sign between them.

Active Learning

Write an Ethics Policy

26. Many problems and ethical conflicts can be avoided if business owners communicate their ethical expectations to their employees. Pair up with a classmate and imagine that you are the co-owners of a small accounting business. Work together to write an ethics policy that offers general ethical guidelines and specific ways to deal with different situations.

Business in the Real World

Making Business Decisions

27. Interview the manager or owner of a local small business. Find out about the sources of information he or she uses in making business decisions. Ask how he or she evaluates the information before acting upon it. Does he or she use the decision-making model described in this chapter? Write two or more paragraphs to describe the ways that person evaluates information.

Real LIFE skills

INTERPERSONAL SKILLS

28. The strength of your interpersonal skills can make or break how successful you are in the workplace. Interpersonal skills are essentially people skills—the nontechnical, intangible, personality-specific skills that determine your strengths as a leader, listener, negotiator, and conflict mediator. Write a one-page report that explains why it is important for businesses to have employees with good interpersonal skills.

COOL Business CAREERS

FIND YOUR DREAM JOB

29. Go to glencoe.com for a link to the Occupational Outlook Handbook Web site. Click on the “OOH Search/A-Z Index” link and enter the search term “Tomorrow’s Jobs” to read about the future job market. Then write a one-page report about this topic. Conclude your report with a list of things you could do now to prepare yourself to pursue the occupation.

Role Play

THE IMPORTANCE OF BUSINESS

30. **Situation** You are an assistant manager for a company that makes household appliances. Your manager has asked you to put together a presentation about the activities of business for its new sales associates.

Activity Prepare a presentation that describes all of the activities that businesses undertake in order to sell products and services. Use magazines to find photos that represent all of the activities, and include the photos in your presentation. Then give the presentation to your classmates (sales associates).

Evaluation You will be evaluated on how well you meet the following performance indicators:

- Explain the motivations of business.
- Describe business activities.
- Discuss how competition impacts the company’s decisions.
- Prepare a written report.

Standardized Test Practice

Directions Find the value of each algebraic expression. Write the letter of the answer on a separate piece of paper.

1. If $3x = 6x - 15$ then $x + 8 =$

- A 10
- B 11
- C 12
- D 13

2. Evaluate $5t + 4$ if $t = 3$.

- F 7
- G 13
- H 19
- J 21



TEST-TAKING TIP When answering multiple-choice questions, read the question first, then read all the answer choices before choosing your answer. Eliminate answers you know are not right.



READING Go to the *Introduction to Business* Online Learning Center through glencoe.com for a list of outside reading suggestions.