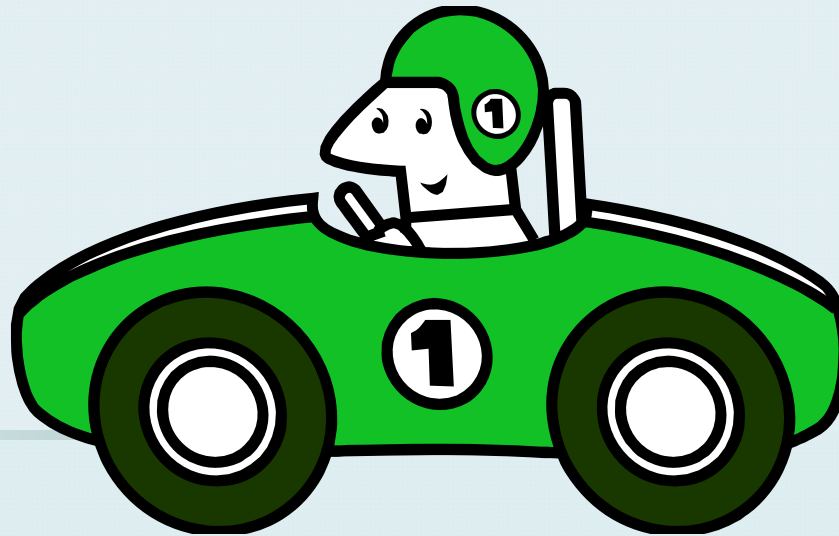




U.S. Business System



What Factors in the “External” Environment are Affecting the Automobile Industry Today?



The 6 External Environments of Business

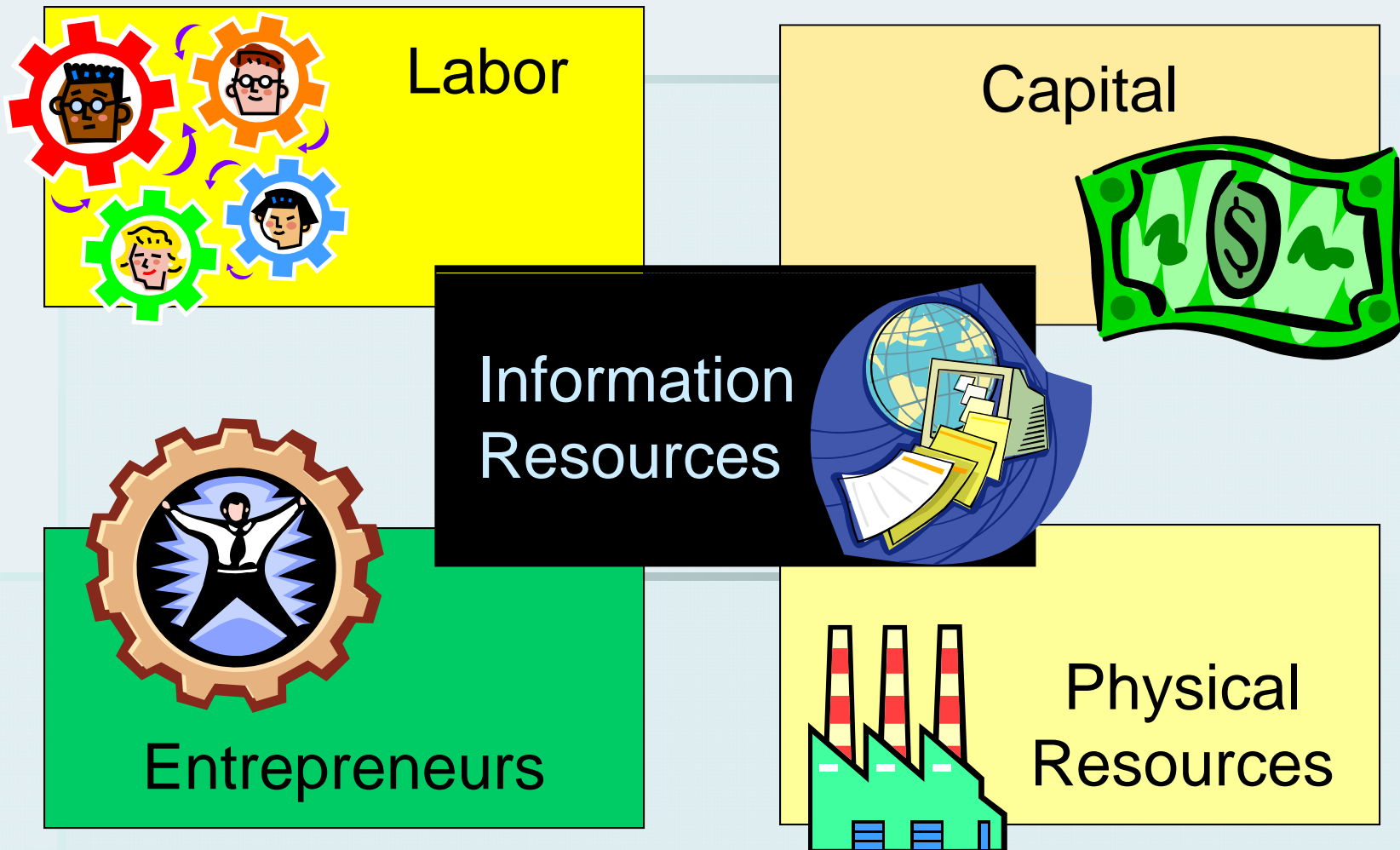


What Key Things Do You Need to Begin and Operate a Business?



BU 113 Company

Factors of Production



Who Controls the Factors of Production?

- In the U.S.?
 - In Cuba?
 - In other Countries?
-

Types of Economic Systems

- **Market Economy (capitalism)**
- **Planned Economies**
 - Centralized government controls all or most factors of production and makes all or most production and allocation decisions for the economy.
- **Reality: Mixed Market Economy**
 - Examples: most industrialized countries—U.S., Canada, European countries, Japan

➡ Point of difference: **How the Factors of Production are allocated**

What drives the U.S. Economy/the free market?

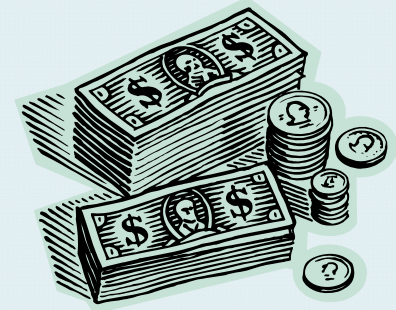
**SUPPLY
and
DEMAND!**



The U.S. Business System

- Driven by Supply of Goods and Demand for Goods through the Market Mechanism.

Adam Smith: “*the invisible hand*”, “*laissez faire*” (1776: *The Wealth of Nations*)



- Buyers and Sellers interact, setting price and determining quantity of goods produced/sold
 - Freedom of choice for buyers & sellers
 - Competition
 - Private enterprise
 - Desire for Profits (= incentive/reward)
- Government support (subsidies) & regulation of business (laws)

Government supports private ownership and encourages entrepreneurship.

CONSUMERS

The case of pizzas!

Demand:

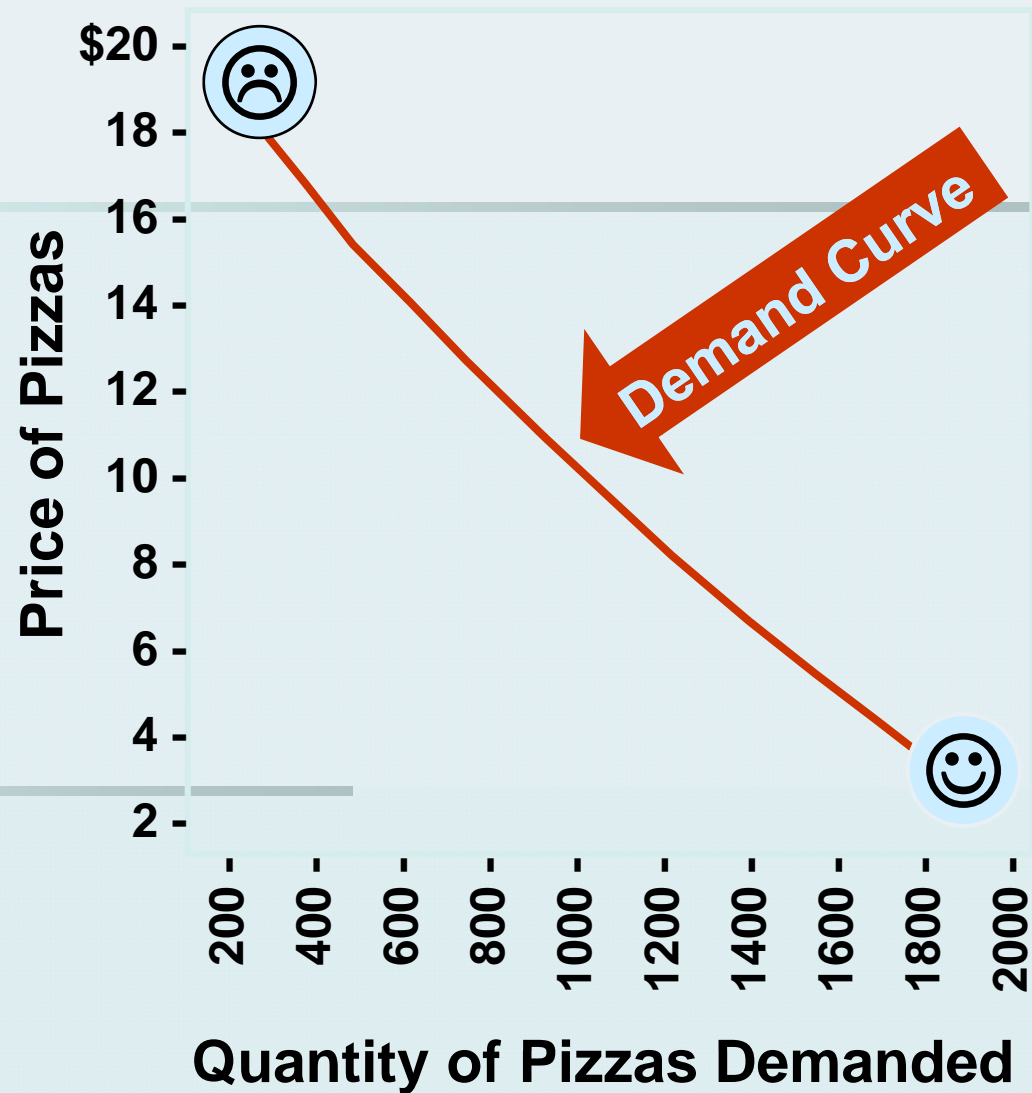
The willingness and ability of buyers to purchase a good or service

Law of Demand:

As the price of a product drops, buyers will demand (purchase) more of a product and less as its price rises.

If $P \downarrow \rightarrow Q_D \uparrow$

If $P \uparrow \rightarrow Q_D \downarrow$



SUPPLIERS / PRODUCERS / COMPANIES

Supply:

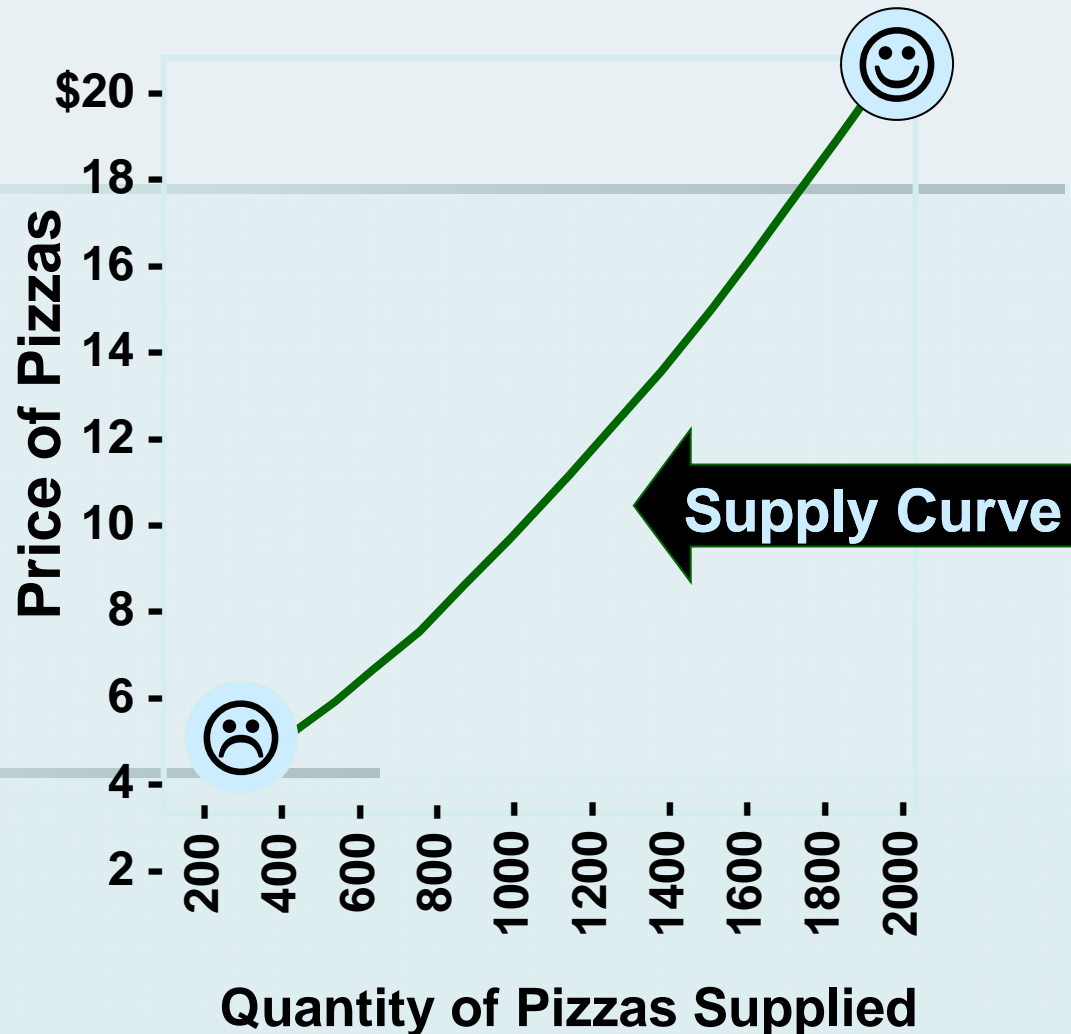
- The willingness and ability of producers to offer a good or service for sale

Law of Supply:

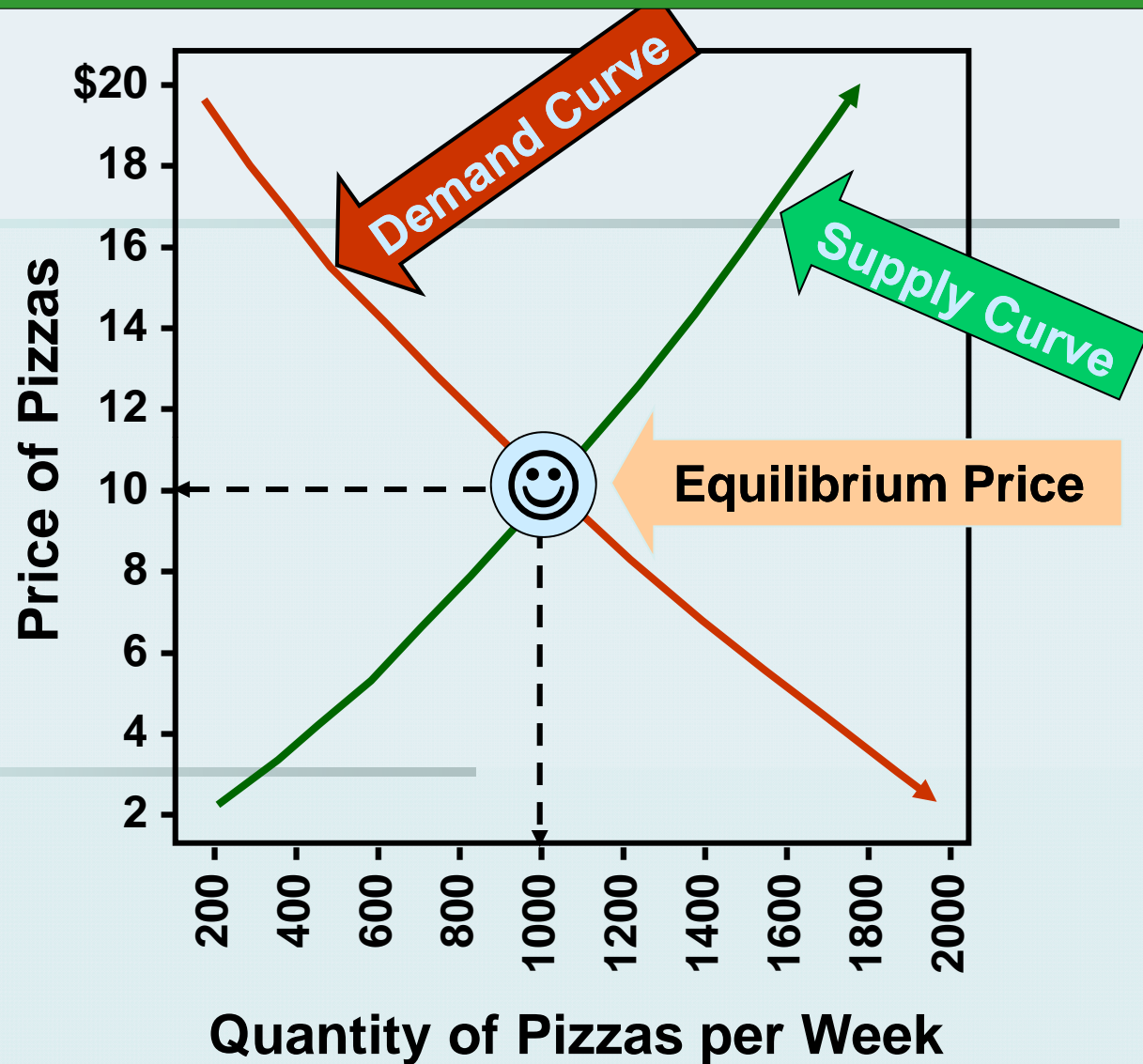
- As the price of a product rises, producers will supply (offer) more and less as its price drops.

If $P \uparrow \rightarrow Q_s \uparrow$

If $P \downarrow \rightarrow Q_s \downarrow$



Demand and Supply drive the U.S. Economy.



Use Laws of Supply and Demand to Explain:

1. Why are gasoline prices rising?
2. How are the stakeholders affected by this rise in gasoline prices?



Source: Google Images

<http://www.yorkblog.com/biz/high-gas-prices-photo.jpeg>

Degrees of Competition

**Your BU113
businesses!**

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 the Industry	Relatively easy	Fairly easy	Difficult	Regulated by government
Similarity of Goods/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

Laws Regulating Trade

- **Anti-Trust Laws**

- Purpose:

- Sustain the economic freedom of choice
 - Prevent restraint (restriction) of trade

- Major laws

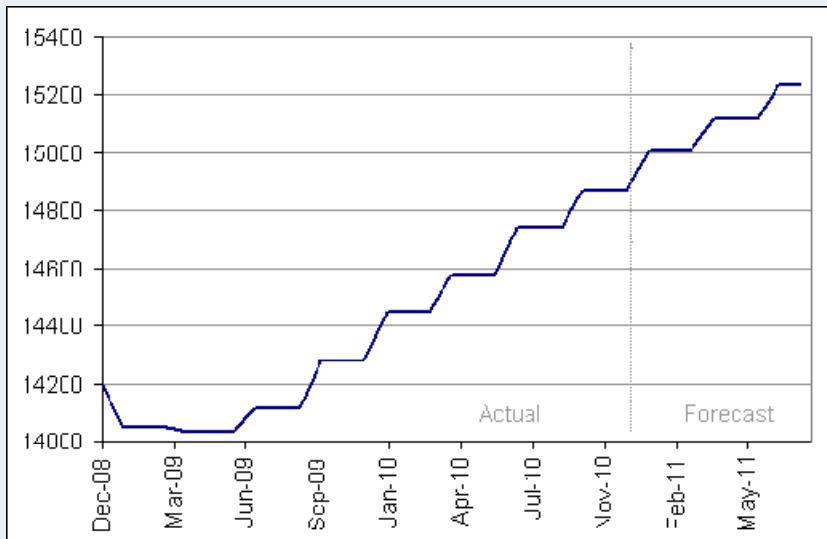
- 1898 Sherman Act
 - 1914 Clayton Act

- **Special case: Natural Monopolies**

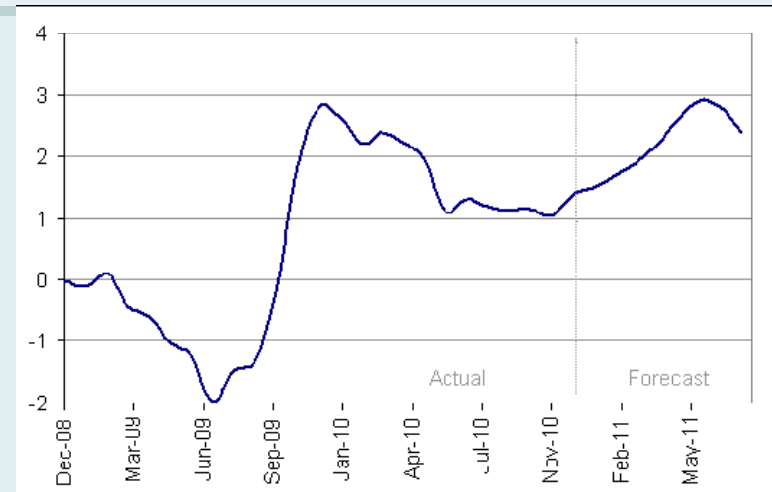
- Regulated by the government

U.S. Economic Goals (Past, Present, Future)

GDP

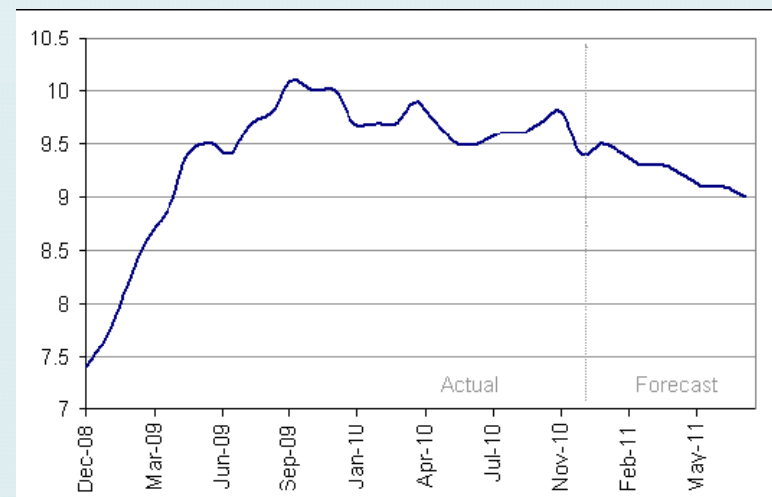


Inflation



- GDP Growth
- Minimal Inflation
- Full Employment

Unemployment Rate



Source: <http://www.forecasts.org/>

Economic Stabilization Policy

Government policy designed to smooth out fluctuations in the economy:

1. Fiscal policy

- Taxes
- Government spending

2. Monetary policy

- the Federal Reserve (the Fed)
- Interest rates

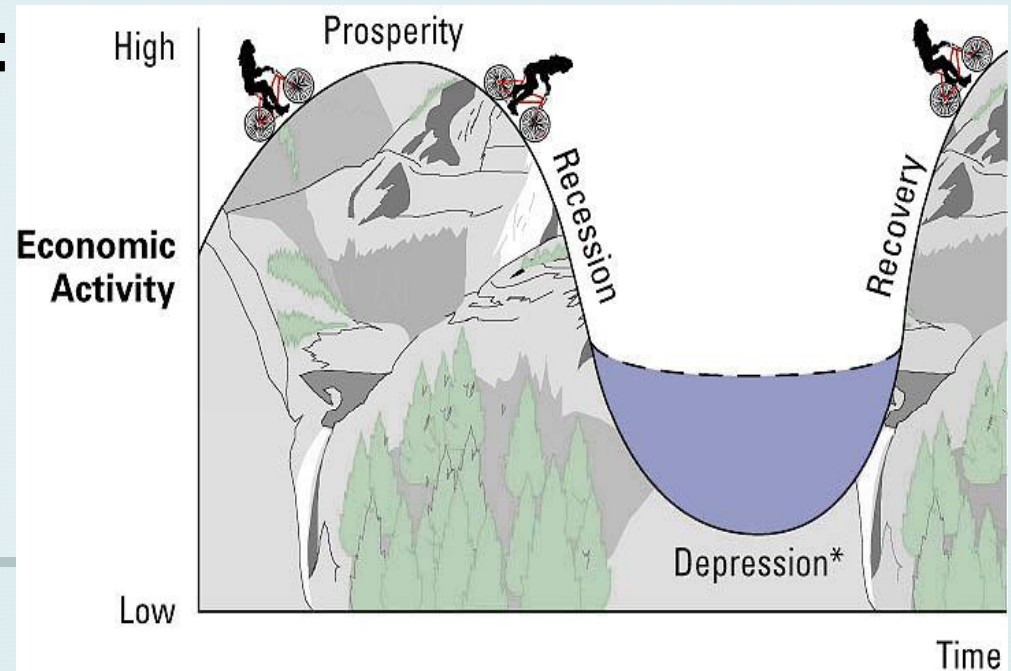
Economic/Business Cycles

Economic Downturns:

- **Recession:**
GDP declines for 2 Q's, unemployment increases
- **Depression:**
Severe and long-lasting recession

Economic upswings:

- **Recovery**
- **Economic boom**



Measuring Economic Performance

■ GDP

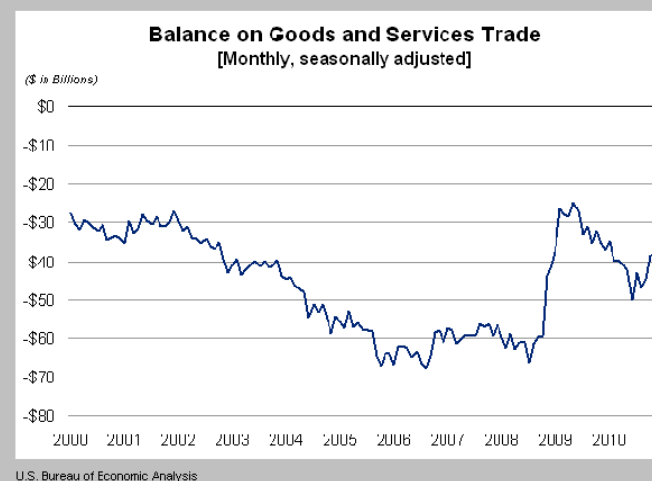
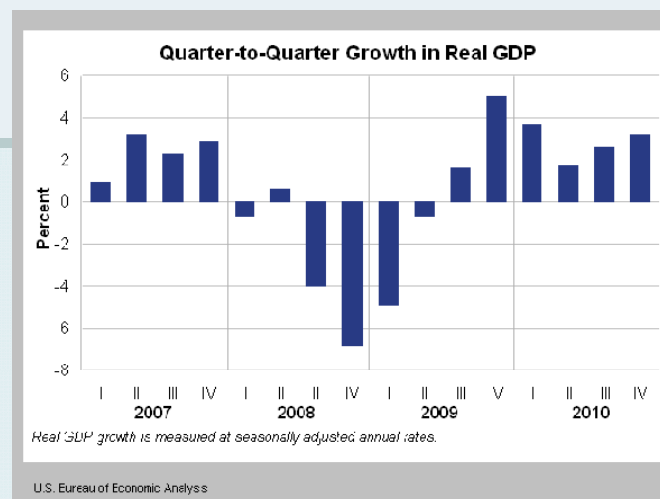
- The market value of goods and services produced by labor and property located in the U.S.

■ Productivity

- Total goods and services produced compared to the resources needed to produce them

■ Balance of Trade

- Imports > Exports => TRADE **DEFICIT**
- Exports > Imports => TRADE **SURPLUS**



Measuring Economic Performance (cont'd)

- National debt

U.S. NATIONAL DEBT CLOCK

The Outstanding Public Debt as of 06 Feb 2011 at 04:14:44 AM GMT is:

\$14,109,831,307,914.16

The estimated population of the United States is **309,980,241**
so each citizen's share of this debt is **\$45,518.49**.

Source: www.brillig.com/debt_clock

- Capital flows

Review

1. The External Environment of Business
2. Factors of Production
3. Types of Business Systems
4. Characteristics of the U.S. Business System
5. The laws of supply and demand
6. Competition and anti-trust laws
7. The Business Cycle and Stabilization policies
8. Measures of economic performance—GDP, Productivity, Balance of Trade