U.S. Business System
What Factors in the “External” Environment are Affecting the Automobile Industry Today?
The 6 External Environments of Business

- Political-Legal Environment
- Economic Environment
- Technological Environment
- Global Business Environment
- Domestic Business Environment
- Socio-Cultural Environment
What Key Things Do You Need to Begin and Operate a Business?

BU 113 Company
Factors of Production

- Labor
- Capital
- Information Resources
- Entrepreneurs
- Physical Resources
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.
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 $P \downarrow$ then $Q_D \uparrow$

If $P \uparrow$ then $Q_D \downarrow$
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.

\[
\text{If } P \uparrow \rightarrow Q_s \uparrow \\
\text{If } P \downarrow \rightarrow Q_s \downarrow
\]
Demand and Supply drive the U.S. Economy.

![Graph showing demand and supply curves and equilibrium price](image)
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

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Perfect Competition</th>
<th>Monopolistic Competition</th>
<th>Oligopoly</th>
<th>Monopoly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example</td>
<td>Local Farmer</td>
<td>Stationery Store</td>
<td>Steel Industry</td>
<td>Public Utility</td>
</tr>
<tr>
<td>Number of Competitors</td>
<td>Many</td>
<td>Many, but fewer than in perfect competition</td>
<td>Few</td>
<td>None</td>
</tr>
<tr>
<td>Ease of Entry into the Industry</td>
<td>Relatively easy</td>
<td>Fairly easy</td>
<td>Difficult</td>
<td>Regulated by government</td>
</tr>
<tr>
<td>Similarity of Goods/Services Offered by Competing Firms</td>
<td>Identical</td>
<td>Similar</td>
<td>Can be similar or different</td>
<td>No directly competing goods or services</td>
</tr>
<tr>
<td>Level of Control over Price by Individual Firms</td>
<td>None</td>
<td>Some</td>
<td>Some</td>
<td>Considerable</td>
</tr>
</tbody>
</table>

Your BU113 businesses!
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 Growth
- Minimal Inflation
- Full Employment

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