Future of Business (Canadian) 5th edition Althouse Solutions Manual

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Chapter 2
Economic Environment: The Fundamental Connection

Opening Vignette: Nova Scotia: Video Development Hot Spot
Thinking Critically Questions

1. What are the factors of production for the main industry of your hometown?
   ANS:
   Student answers will vary but should include any natural resources, the labour force, and possibly market factors

2. When unemployment levels are very low, companies have difficulty finding workers and may outsource some jobs. Sometimes jobs are outsourced to developing countries. Could jobs be outsourced to Canada's "have not" provinces? Why or why not?
   ANS:
   Students should see the wage differences between our "have not" provinces and developing countries as a barrier to outsourcing within Canada but creative thinkers may find some ideas. Students may mention barriers such as transportation and distance; they should be reminded that these are also the reasons some goods and services cannot be outsourced to developing countries and challenged to find ways around those barriers.

3. Are interprovincial trade barriers a problem in moving goods across the country? Are these barriers changing?
   ANS:
   Yes and yes. Some notable barriers are those in the alcohol industry. The federal law prohibiting sale of alcohol across provincial boarders has been repealed but there are still barriers among the provinces (a current court challenge of the law prohibiting bringing alcohol from Quebec to New Brunswick is an important step). There are also barriers related to services such as the requirement for licences in each province.

4. Do some Internet research. Are software companies locating in other provinces? Has Nova Scotia attracted any recently?
   ANS:
   The answer should be yes and the specifics will change each semester.

5. If you or your friends have a favourite video game, check to see where the programming is done. Is it a global product (with contributions of programming or physical components from three or more continents)?
   ANS:
   Ask students to provide specific examples.

End-of-Chapter Review Questions

1. Explain economics as a circular flow.
   ANS:

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Economics circular flow is the movement of inputs and outputs among households, businesses, and governments; it is a way of showing how the sectors of the economy interact.

Another way to see how the sectors of the economy interact is to examine the circular flow of inputs (factors of production) and outputs among households, businesses, and governments, as shown in Exhibit 2.1, Economics as a Circular Flow (see page 32). Review the exchanges by following the purple circle around the inside of the diagram.

- *Households provide inputs (natural resources, labour, capital, entrepreneurship, knowledge) to businesses (to the resource markets).*
- *Businesses convert these inputs into outputs (goods and services) for consumers to purchase (the product markets)*
- *Now we'll follow the green circle:*
  - *Consumers receive income from rent, wages, interest, and ownership profits (from the resource markets).*
  - *Businesses receive income from consumer purchases of goods and services (from the product markets).*

The other important exchange in Exhibit 2.1 takes place between governments (federal, provincial or territorial, and municipal) and both individuals and businesses. Governments supply many types of publicly provided goods and services (highways, schools, police, courts, health services, employment insurance, Canada Pension Plan) that benefit individuals and businesses. Government purchases from businesses also contribute to business profits. The contractor who repairs a local stretch of highway, for example, is paid by government for the work. As the diagram shows, government receives taxes from individuals and businesses to complete the flow. Changes in one flow affect the others. If the government raises taxes, households have less to spend on goods and services. Lower consumer spending causes businesses to reduce production, and economic activity declines; unemployment might rise. In contrast, cutting taxes can stimulate economic activity. Keep the circular flow in mind as we continue our study of economics.

2. What are the factors of production? How do they work together to produce goods and services?

   ANS:

   Factors of production are the resources used to create goods and services. By using the factors of production efficiently, a company can produce more output with the same resources. Four traditional factors of production are common to all productive activity: natural resources, labour, capital, and entrepreneurship. A fifth factor has been recognized, knowledge, acknowledging its key role in business success.

   Commodities that are useful inputs in their natural state are known as natural resources. They include farmland, forests, mineral and oil deposits, and water. Sometimes natural resources are simply called land, although, as you can see, the term means more than just land. Today, urban sprawl, pollution, and limited resources have raised questions about resource use. Conservationists, ecologists, and government bodies are proposing laws to require land use planning and resource conservation.

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The economic contributions of people working with their minds and muscles are called labour. This input includes the talents of everyone—from a restaurant cook to a nuclear physicist—who performs the many tasks of manufacturing and selling goods and services. The tools, machinery, equipment, and buildings used to produce goods and services and get them to the consumer are known as capital.

Sometimes the term capital *is also used to mean the money that buys machinery, factories, and other production and distribution facilities. However, because money itself produces nothing, it is not one of the basic inputs. Rather, it is a means of acquiring the inputs. Therefore, in this context, capital does not include money.*

Entrepreneurs are people who combine the inputs of natural resources, labour, and capital to produce goods or services with the intention of making a profit. These people make all the decisions that set the course for their companies; they create products and production processes. Because they are not guaranteed a profit in return for their time and effort, they must be risk takers. Of course, if their companies succeed, the rewards can be great.

Knowledge is the combined talents, skills, and capabilities of individuals in the workforce. As the world becomes ever more uncertain, the very nature of work, organizations, and management is changing. The new competitive environment places a premium on knowledge and learning.

3. What are the four types of economies? How do they differ regarding the ownership and allocation of the factors of production?

   ANS:

   The four types are market economy, command economy, socialism, and mixed economy.

   a. *A **market economy**, also known as the private enterprise system or capitalism, is based on competition in the marketplace and private ownership of the factors of production (resources). In a competitive economic system, a large number of people and businesses buy and sell products freely in the marketplace. In a pure market economy, all the factors of production are owned privately and the government does not try to set prices or coordinate economic activity.*

      A market economy guarantees certain economic rights: the right to own property, the right to make a profit, the right to make free choices, and the right to compete. The right to own property is central to a market economy. The main incentive in this system is profit, which encourages entrepreneurship. Profit is also necessary for producing goods and services, building plants, paying dividends and taxes, and creating jobs. The freedom to choose whether to become an entrepreneur or to work for someone else means that people have the right to decide what they want to do on the basis of their own drive, interest, and training. The government does not create job quotas for each industry or give people tests to determine what they will do.

      In a market economy, competition is good for both businesses and consumers. It leads to better and more diverse products, keeps prices stable, and increases the efficiency of producers. Producers try to produce their goods and services at the lowest possible cost and sell them at the highest possible price. But when profits are high, more companies enter the market to seek those profits. The resulting competition among companies tends to lower

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prices. Producers must then find new ways of operating more efficiently if they are to keep making a profit—and stay in business.

b. *In a **command economy**, also called a planned economy or central planning, the government owns virtually all resources and controls all markets. Economic decision making is centralized (hence the term* central planning*): the government, rather than the market's competitive force, decides what and how much to produce, where to locate production facilities, where to acquire raw materials and supplies, who will get the output, and what the prices will be. This form of centralized economic system offers little if any choice to a country's citizens.*

c. ***Socialism** is a social and economic system in which the basic industries are owned by the government (social ownership) or by the private sector under strong government control. A socialist state controls critical large-scale industries, such as transportation, communications, and utilities. Smaller businesses may be privately owned. To varying degrees, the state also determines the goals of businesses, the prices and selection of goods, and the rights of workers. Socialist countries typically provide their citizens with a higher level of services, such as healthcare and unemployment benefits, than do most market-oriented countries. As a result, taxes and unemployment can also be quite high in socialist countries. Sweden is often cited as one of the primary socialist countries in the world.*

d. *Canada and Great Britain, among others, are called **mixed economies**; that is, they use more than one economic system. Sometimes, the government is essentially socialist and owns basic industries. In Canada, some industries are at least partly owned or controlled by the various levels of government (e.g., communications, education, healthcare, transportation, and utilities), but most activities are carried on by private enterprises, as in a market system. The few factors of production owned by the government include some public lands, Canada Post, and some water resources. But the government is extensively involved in the economic system through taxing, spending, and social (welfare) activities. The economy is also mixed in the sense that the country tries to achieve many social goals—income redistribution (transfer payments) and Canada Pension Plan, for example—that might not be attempted in purely market-oriented systems.*

Exhibit 2.2, the Basic Economic Systems of the World (page 36) summarizes key factors of the world's economic systems.

4. What are the four market structures?

   ANS:

   The number of suppliers in a market is called market structure. Economists identify four types of market structures: (a) perfect competition, (b) monopolistic competition, (c) oligopoly, and (d) pure monopoly. Exhibit 2.3 (page 36) illustrates the four types of market structures and Exhibit 2.4 (page 37) summarizes the primary types of market structures.

5. Distinguish between microeconomics and macroeconomics. What are the three main macro goals?

   ANS:

   Economics has two main sub-areas. Microeconomics focuses on individual parts of the economy, such as households or businesses. In contrast, macroeconomics is the study of the economy as a

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whole. It looks at aggregate data—data for large groups of people, companies, industries, countries, or products.

6. How do GDP and GNP differ?
   ANS:
   The most basic measure of economic growth is the gross domestic product (GDP). GDP is the total market value of all final goods and services produced within a nation's borders each year. It is reported quarterly and is used to compare trends in national output. When GDP rises, the economy is growing.

   Unlike the GDP, the GNP measures what is produced by the nation regardless of where the factors of production are located. Therefore, the Canadian GNP includes the value of the goods and services produced by Canadian companies in Canada and profits from capital held abroad.

7. What are the various types of unemployment?
   ANS:
   Economists classify unemployment into four types: frictional, structural, cyclical, and seasonal.
   a. *Frictional unemployment is short-term unemployment that is not related to the business cycle. It includes people who are unemployed while waiting to start a better job, those who are reentering the job market, and those entering for the first time, such as new university and college graduates. This type of unemployment is always present and has little impact on the economy.*
   b. *Structural unemployment is also unrelated to the business cycle but is involuntary. It is caused by a mismatch between available jobs and the skills of available workers in an industry or a region. For example, if the birth rate declines, fewer teachers will be needed. Or the available workers in an area might lack the skills that employers want. Retraining and skill-building programs are often required to reduce structural unemployment.*
   c. *Cyclical unemployment occurs when a downturn in the business cycle reduces the demand for labour throughout the economy. In a long recession, cyclical unemployment is widespread, and even people with good job skills can't find jobs. The government can partly counteract cyclical unemployment with programs that boost the economy.*
   d. *Seasonal unemployment occurs during specific seasons in certain industries. Employees subject to seasonal unemployment include retail workers hired for the December buying season, road construction, and employees in winter ski areas*

8. What are monetary policy and fiscal policy? Who is responsible for each?
   ANS:
   Monetary policy refers to the Bank of Canada's programs for controlling the amount of money circulating in the economy and controlling interest rates. Changes in the money supply affect both the level of economic activity and the rate of inflation. According to the Bank of Canada Act of 1934, the Bank of Canada is the central banking system that prints money and controls how much of it will be in circulation to "promote the economic and financial well-being of Canada." As the Bank of Canada increases or decreases the amount of money in circulation, these decisions affect interest

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rates (the cost of borrowing money and the reward for lending it). The Bank of Canada can change the interest rate (also called the bank rate and target for the overnight rate) on money it lends to banks, signalling to the banking system and financial markets that it has changed its monetary policy. Banks, in turn, may pass along this change to consumers and businesses that receive loans from the banks. If the cost of borrowing increases, the economy slows because interest rates affect consumer and business decisions to spend or invest. The housing industry, business, and investments react the most strongly to changes in interest rates. As you can see, the Bank of Canada can use monetary policy to contract or expand the economy.

Fiscal policy is the program of taxation and spending. By increasing government spending or by cutting taxes, the government can stimulate the economy. The more government buys from businesses, the greater business revenues and output are. Likewise, if consumers or businesses have to pay less in taxes, they will have more income to spend for goods and services. Tax policies in Canada therefore affect business decisions. High corporate taxes can make it harder for Canadian companies to compete with companies in countries with lower taxes. As a result, companies may choose to locate facilities in other countries to reduce their tax burden.

9. What are contractionary policy and expansionary policy?
   ANS:
   With contractionary policy, the Bank of Canada restricts, or tightens, the money supply by selling government securities or raising interest rates. The result is slower economic growth and higher unemployment. Thus, contractionary policy reduces spending and, ultimately, lowers inflation. With expansionary policy, the Bank of Canada increases, or loosens, growth in the money supply. An expansionary policy stimulates the economy. Interest rates decline, so business and consumer spending go up. Unemployment rates drop as businesses expand. But increasing the money supply also has a negative side: more spending pushes prices up, increasing the inflation rate.

10. What is relationship management? How can it be achieved?
    ANS:
    Companies are turning to many different strategies to remain competitive in the global marketplace. One of the most important is relationship management, which involves building, maintaining, and enhancing interactions with customers and other parties to develop long-term satisfaction through mutually beneficial partnerships. Relationship management includes both supply chain management, which builds strong bonds with suppliers, and relationship marketing, which focuses on customers. In general, the longer a customer stays with a company, the more that customer is worth. Long-term customers buy more, take less of a company's time, are less sensitive to price, and bring in new customers. Best of all, they require no acquisition or start-up costs. Good longstanding customers are worth so much that, in some industries, reducing customer defections by as little as five points—from, say, 15 percent to 10 percent per year— can double profits.

11. What is a strategic alliance? What are its benefits to the companies involved?
    ANS:

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Another important way companies stay competitive is through strategic alliances (also called strategic partnerships). The trend toward forming these cooperative agreements between companies is accelerating rapidly, particularly among high-tech companies. These companies have realized that strategic partnerships are more than just important—they are critical. Strategic alliances can take many forms. Some companies enter into strategic alliances with their suppliers, which take over much of their actual production and manufacturing.

Companies in the same industry often form alliances. Smaller companies with unique products or technologies may partner with larger companies that can provide wider distribution in exchange for access to the technology. Even rivals find strategic alliances advantageous.

12. Why is it important for companies to create a competitive workforce?
    ANS:
    There are a few reasons companies want to create a competitive workforce. First is the supply and demand case. If the supply or labour is high then companies can have more choice and theoretically choose the best candidates for positions, which may help their competitive positioning. Alternatively, if companies are competing for a small labour pool then employees have greater choice and companies may have to "take what they can get" or pay a premium for those employees who are in high demand. The second case is a competitive workforce and could mean a more competitive company. Companies are strengthened when the quality of their workforce is better and more competitive. Last, companies want a competitive workforce as workers will have mobility and companies can hire as needed or lay off if appropriate.

13. How can understanding economics help you as a consumer? As a business manager or an owner?
    ANS:
    It can help you be more knowledgeable and insightful in everyday life. You will understand why prices are going up or down, when interest rates will change, and when and why the unemployment rate will be affected. A knowledge of basic economic concepts can help you decide whether to change jobs (and how much compensation to ask for) and whether to buy a car now or wait until next year. When you hear that a car dealership has 115 days of inventory, your understanding of the forces of supply and demand will tell you that now may be the time to buy that new car because you are a better negotiation position. Similarly, economics will help you become a better-informed citizen. Almost every political issue is, in some way, grounded in economic concepts. Economics can also help you understand what is happening in other countries and raise your awareness of opportunities in those countries. Understanding economics and how changes in an economy affect business is important to success. Recently, we have experienced many changes, from nations changing economic systems to worldwide economic challenges. These have created opportunities for some and threats to others.

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CRITICAL THINKING CASE: Tough Times? Not at Winpak

Thinking Critically Questions

1. What type of unemployment is occurring when manufacturers close plants because they cannot compete with labour rates in other countries? Explain what this might do the circular flow of the Canadian economy.
   ANS:
   This should be considered structural unemployment. It reduces the ability of households to purchase goods and services thereby reducing the income businesses receive from consumer purchases

2. What factors of production is Winpak using to be able to compete with developing nations?
   ANS:
   The factors of production Winpak is using are technology and knowledge.

3. How have the actions of the Bank of Canada influenced the value of the Canadian dollar compared with the U.S. dollar in the past three years?
   ANS:
   This answer will change over time but relative interest rates should always be in the answer. Reference to contractionary or expansionary actions should be expected.

4. If wage rates in Canada are increasing more than those in other countries, how should this affect prices and inflation rates? Explain the type of inflation (or deflation) that is occurring.
   ANS:
   Prices should go up via cost-push inflation.

5. What sort of business arrangement have Winpak and Wipak entered into? If they end up controlling all the patents in the coffee creamer market, what sort of competitive system might be in place?
   ANS:
   Winpak and Wipak entered into a strategic alliance. The competitive system that might be in place is an oligopoly.

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2 Economic Environment: The Fundamental Connection

IF NOTHING ELSE, MY STUDENTS SHOULD LEARN …

1. What economics is and how the three sectors of the economy are linked.
2. The primary features of the world's economic systems.
3. The basic microeconomic concepts of supply and demand.
4. How macroeconomics indicates a nation's economic health.
5. How monetary and fiscal policies are used to achieve macroeconomic goals.

LEARNING OUTCOMES

Students should be able to

- Explain what economics is and how the three sectors of the economy are linked.
- Understand the primary features of the world's economic systems.
- Explain the four types of market structure.
- Discuss the basic microeconomic concepts of demand and supply, and how they establish prices.
- Show how economic growth, full employment, and price stability indicate a nation's economic health.
- Describe how the Bank of Canada uses monetary policy, and how governments use fiscal policy to achieve their macroeconomic goals.
- List some of the trends that are reshaping microeconomic and macroeconomic environments.

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WHY IS THIS CHAPTER IMPORTANT TO BUSINESSPEOPLE?

- Economics is vital to business.
- Economics influences business practices and government policy.
- The Bank of Canada and government economic policies affect business.

WHY SHOULD STUDENTS CARE?

- Economics impact business.
- Different economic systems affect the ownership and control of the factors of production.
- The monetary and fiscal policies affect business and consumer spending.
- The state of the economy provides or limits opportunities.

WHAT ARE COMMON STUDENT MISCONCEPTIONS/STUMBLING BLOCKS?

1. Students might believe that all countries operate the same way as Canada.
2. Students often believe that economic activity does not affect business.
3. Students may not see the impact of monetary and fiscal policies.
4. Many do not realize how monetary and fiscal policies affect everyday life.

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WHAT CAN I DO IN CLASS?

Highlight the key concepts of economics by presenting the basic concepts of micro- and macroeconomics. Present the various economic systems and how policies impact a nation's economic health.

Specifically,

1. Explain what economics is (including both micro- and macroeconomics) and how the three sectors of the economy are linked.

2. Describe how ownership and control of the factors of production indicates the type of economic system.

3. Illustrate the four types of market structure.

4. Highlight the basic concepts of microeconomics (i.e., supply and demand).

5. Explain the three primary objectives of macroeconomics.

6. List some of the current trends in economics.

Classroom Activity/Discussions

Have students, individually or in groups, describe what economics is and list the factors of production.

Ask them

- To describe economics.
- To illustrate economics as a circular flow.
- What are the four different types of economic systems?
- How does ownership and control of the factors of production indicate the type of economic system?
- What are the four types of market structures? What are the characteristics of each? Give and examples of each.
- How do the basic concepts of supply and demand work (microeconomics)?

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- To list the three primary objectives of macroeconomics. What is goal of each?
- How do monetary and fiscal policies work to achieve macroeconomic objectives?
- What changes are happening in economics that affect business?

Outcome

This exercise is intended for students to have a basic understanding of economics and to understand the basic concepts of microeconomics and the objectives of macroeconomics. Students will see that economics plays an important role in business and have a better understanding that the choices made by the Bank of Canada and by governments affect business.

Below are some suggestions for class discussions. Instructors may choose to use these as class or group discussions, exercises, or assignments. If appropriate, suggested answers are given.

1. **What type of economy does Canada have?**

   Mixed, although more socialist than the U.S.A.

2. **How do inputs and outputs move among households, businesses, and governments?**

   Refer to the circular flow model.

3. **What might be the bad side of economic growth?**

   Growth may strain public facilities, such as roads, electricity delivery, schools, and hospitals. Increased production could also mean more environmental damage. Thus, the government tries to apply economic policies that will keep growth to a level that does not reduce the quality of life.

4. **What causes changes in supply and demand of products?**

   Changes in consumer tastes, prices, economic forces, and so on.

5. **In perfect competition, explain how a slight increase in price could bring a loss of customers.**

   Because the products are very similar and because each firm contributes only a small amount to the total quantity supplied by the industry, price is determined by supply and

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demand. In the wheat market, for example, the product is essentially the same from one wheat producer to the next. Thus, none of the producers has control over the price of wheat.

6. **How does the market structure for breakfast cereal impact the decision made by the producer?**

   In an oligopoly (such as a breakfast cereal producer), a price cut by one company could be expected to attract customers from other companies. However, the other firms know this will reduce their prices too. If the lower prices fail to attract additional customers, all of the companies will make less money.

WHAT OTHER RESOURCES ARE AVAILABLE?

- Royal Bank of Canada Economics Research page http://www.rbc.com/economics/index.html
- Canadian Economics Association http://economics.ca/en
- Bank of Canada http://www.bankofcanada.ca

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Lesson Plan A, Chapter 2

Economic Environment: The Fundamental Connection
Instructional Method (70 min.): Small groups, debriefing

Instructor's Instructional Activity	Students' Learning Activity
Identify Learning Outcomes (1 min.): • Encourage students to prepare materials prior to class. • Provide students with immediate feedback as to their success in preparing the materials for class. • Clarify key concepts.	• Students hear the learning outcomes.
Introductory Connecting Activity (1 min.): • At the beginning of the class, distribute the questions for Chapter 2 (Economic Environment: The Fundamental Connection) attached below. Suggestion: No notes, text, or other materials allowed.	• Students either are assigned groups or self-select the groups. • Groups should have 3–6 members.
Delivery of Content/Student Learning Activities (30 min.): • Observe the dynamics of the groups.	• Students answer the questions, preferably in small groups (3–6 students).
Debriefing of Group Activity (30 min.): • Lead class discussion of results of the group activity. • Ask students to give the answers to the exercise.	• Students actively participate in the debriefing.
Concluding Activity (8 min.): • Review the learning outcomes and recap the discussion.	• Students understand the importance of class preparation. • Students receive immediate feedback regarding their study habits. • Students have a better understanding of economics.

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Economics Exercise—Chapter 2

Royal Bank of Canada (RBC) is one of Canada's premier financial institutions. Many Canadians and international customers use the services of RBC, including investing, borrowing, and advice. The economy of both Canada and foreign countries is important, especially since trade liberalization. Discuss the various forms of economic systems (including their characteristics) and how changes in an economy (e.g., unemployment rate changes, inflation) affect consumer buying and Canada's standard of living. Also, discuss how changes in prices affect supply and demand.

1. **What are the characteristics of the following economic systems?**

Economic System	Characteristics
Market economy	• • •
Command economy	• • •
Socialism	• • •
Mixed	• • •

2. **Differentiate between micro- and macroeconomics.**

Microeconomics	Macroeconomics

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3. **List the three primary objectives of macroeconomics. Explain the importance of each.**

Primary Objective of Macroeconomics	Explanation

4. **Describe each of the types of unemployment.**

Frictional unemployment	
Structural unemployment	
Cyclical unemployment	
Seasonal unemployment	

5. **Explain the terms *monetary policy* and *fiscal policy*.**

Monetary Policy	Fiscal Policy

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6. **List the impact(s) of the following changes in the economy:**

Event	Impact
Decrease in the unemployment rate	• •
Increase in the unemployment rate	• •
Inflation (domestically and internationally)	• •
The Canadian economy grows too fast	• •

7. **Explain how changes in prices affect supply and demand.**

_____

_____

_____

_____

8. **Define each of the following market structures.**

Perfect competition	
Monopolistic competition	
Oligopoly	
Pure monopoly	

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Lesson Plan B, Chapter 2

Economic Environment: The Fundamental Connection
Instructional Method (25 min.): Small groups, discussion

Instructor's Instructional Activity	Students' Learning Activity
Identify Learning Outcomes* (*1 min.): • Application of chapter materials. • Provide students with immediate feedback as to their success in preparing the materials for class. • Allow for "study group" practice. • Clarify key concepts.	• Students hear the learning outcomes.
Introductory Connecting Activity (1 min.): • After the discussion of the chapter materials, ask students to spend 10 minutes to complete the exercise (attached below). • Give some students "increases" and some "decreases." • Suggestion: No notes, text, or other materials allowed.	• Students either are assigned groups or self-select the groups. • Groups should have 3–6 members.
Student Learning Activities (10 min.): • Observe the dynamics of the groups.	• Students answer the questions, preferably in small groups (3–6 students).
Discussion of the Exercise Results (10 min.): • Lead class discussion of results of the group activity. • Ask students to give the answers to the exercise.	• Students actively participate in the debriefing.
Concluding Activity (3 min.): • Review the learning outcomes and recap the discussion.	• Students understand the importance of class preparation and attendance. • Students receive immediate feedback regarding their study habits. • Students have a better understanding of economics.

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Economics Exercise—Chapter 2

Economies are in constant change. At times the economy is growing, sometimes it is stagnating, and sometimes it is experiencing decline. These upward and downward changes are called business cycles. Changes in GDP trace the patterns as economic activity expands and contracts. Discuss the impact of change of business activity in terms of economic output, income, employment, and prices (i.e., what is the specific impact of each) and explain why this impact happens. Your instructor will assign you either "increasing" or "decreasing" of the economy. The first item has been started; your group must complete the reason and then move on to the other terms.

When the economy is increasing,

Economic output	increases; there is more demand for products because …
Income	
Employment	
Prices	

When the economy is decreasing,

Economic output	decreases; there is less demand for products because …
Income	
Employment	
Prices	

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Economic Environment Exercise—Chapter 2

The type of economy can have a huge impact on countries. This exercise explores the ways the different types of economies (capitalist, socialist, etc.) contribute to citizens' well-being in those countries. Compare and contrast the type of economy for two different countries. You need to choose one market economy country (e.g., the United States) and one command economy country (e.g., North Korea, China, or Cuba). For each you need to list pros and cons for citizens of the countries you choose.

	Type of Economy	**Pros**	**Cons**
Country A			
Country B			

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NETA PowerPoint Presentations to accompany

The Future of Business

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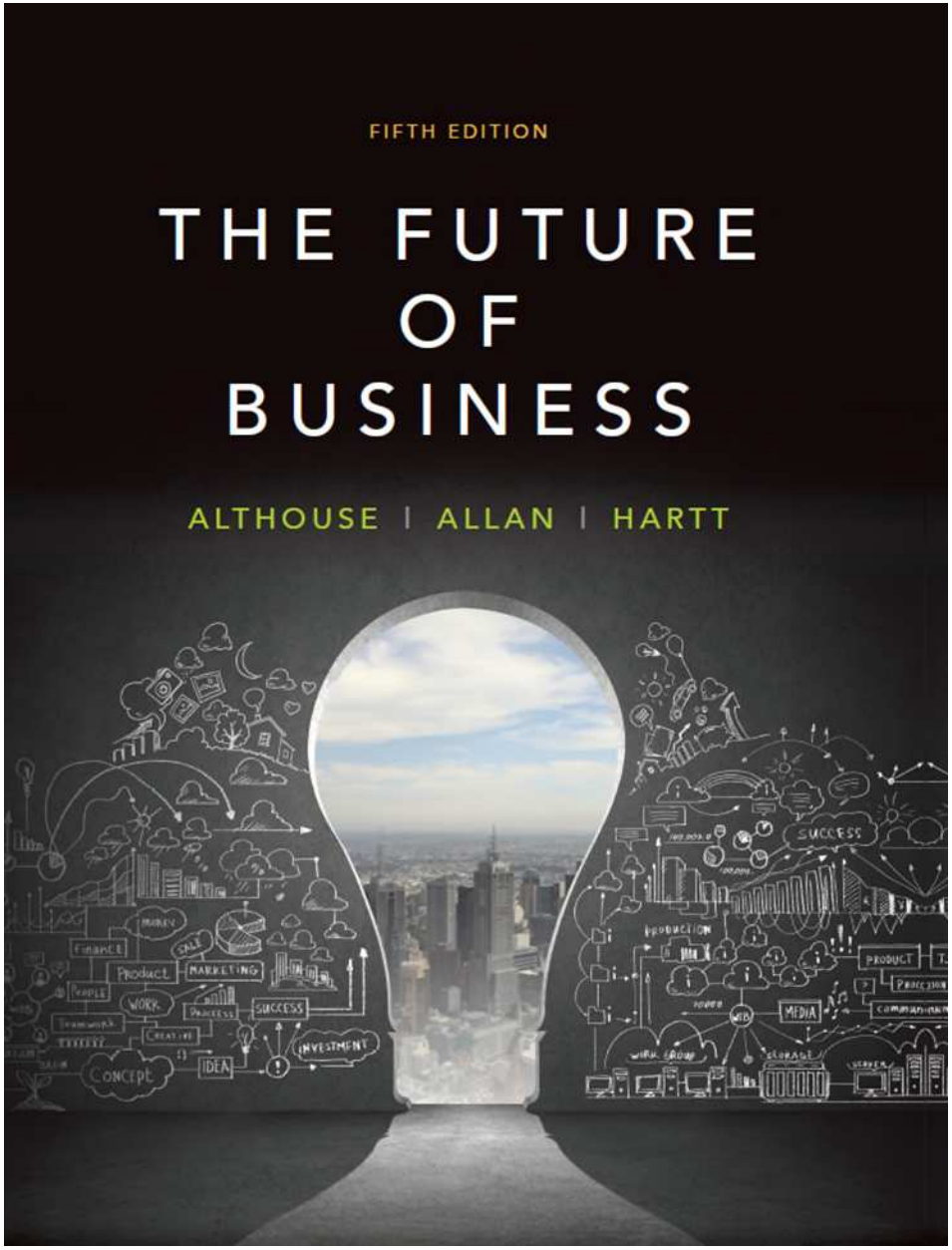

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Economic Environment: The Fundamental Connection

Chapter 2

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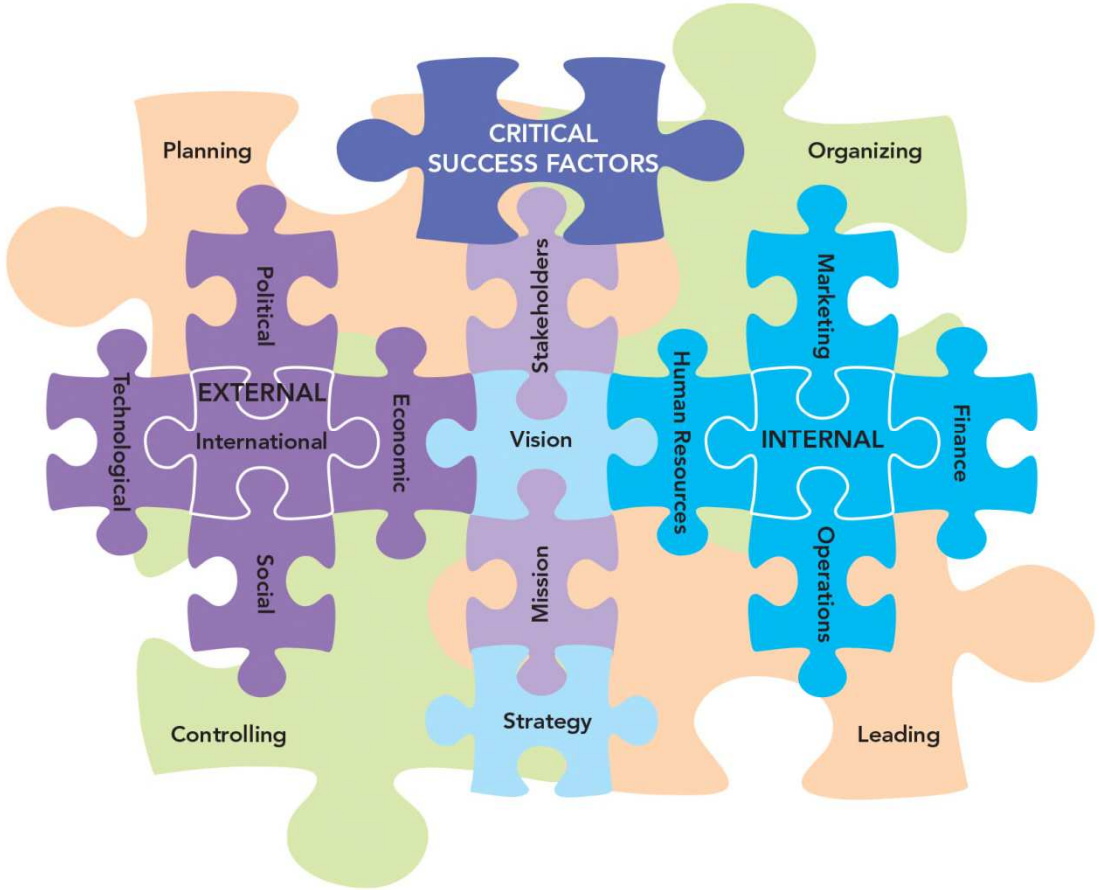
Making the Connection

Exhibit I.1 The Integrative Model of a Successful Business



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Learning Outcomes

1. Explain what economics is and how the three sectors of the economy are linked.
2. Understand the primary features of the world's economic systems.
3. Explain the four types of market structure.
4. Discuss the basic microeconomic concepts of demand and supply, and how they establish prices.

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Learning Outcomes

5. Show how economic growth, full employment, and price stability indicate a nation's economic health.
6. Describe how the Bank of Canada uses monetary policy, and how governments use fiscal policy to achieve their macroeconomic goals.
7. List some of the trends that are reshaping micro- and macroeconomic environments.

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Business and Economies Working Together

Economic Concerns

- What is produced?
- How much is produced?
- How is it produced?
- For whom is it produced?

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Basic Terms

Economics	How a society uses scarce resources to produce and distribute goods and services.
Microeconomics	Sub-area of economics that focuses on individual parts of the economy, such as households or firms.
Macroeconomics	Sub-area of economics that focuses on the economy as a whole by looking at aggregate data for large groups of people, companies, or products.

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Business and Economies Working Together

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Factors of Production: The Building Blocks of Business

Natural Resources

Labour

Capital

Entrepreneurship

Knowledge

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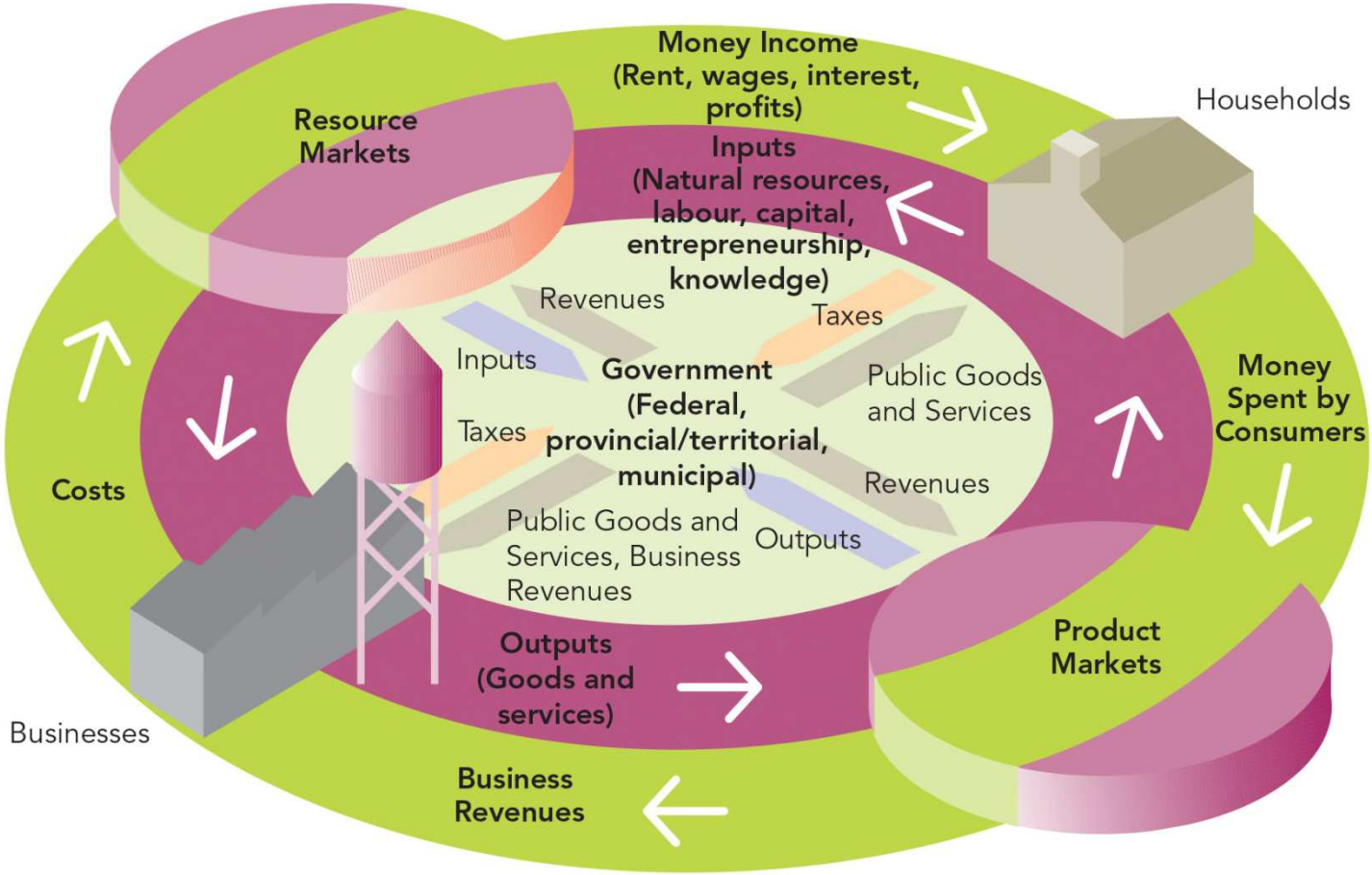
Economics as a Circular Flow

Exhibit 2.1 Economics as a Circular Flow



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Global Economic Systems

- An economic system is the combination of policies, laws, and choices made by a nation's governments to establish the systems that determine what goods and services are produced and how they are allocated.

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Economic Systems

Primary Economic Systems

- **Market Economies**
- **Command Economies**
- **Socialism**
- **Mixed Economies**

The primary difference is how they manage the factors of production.

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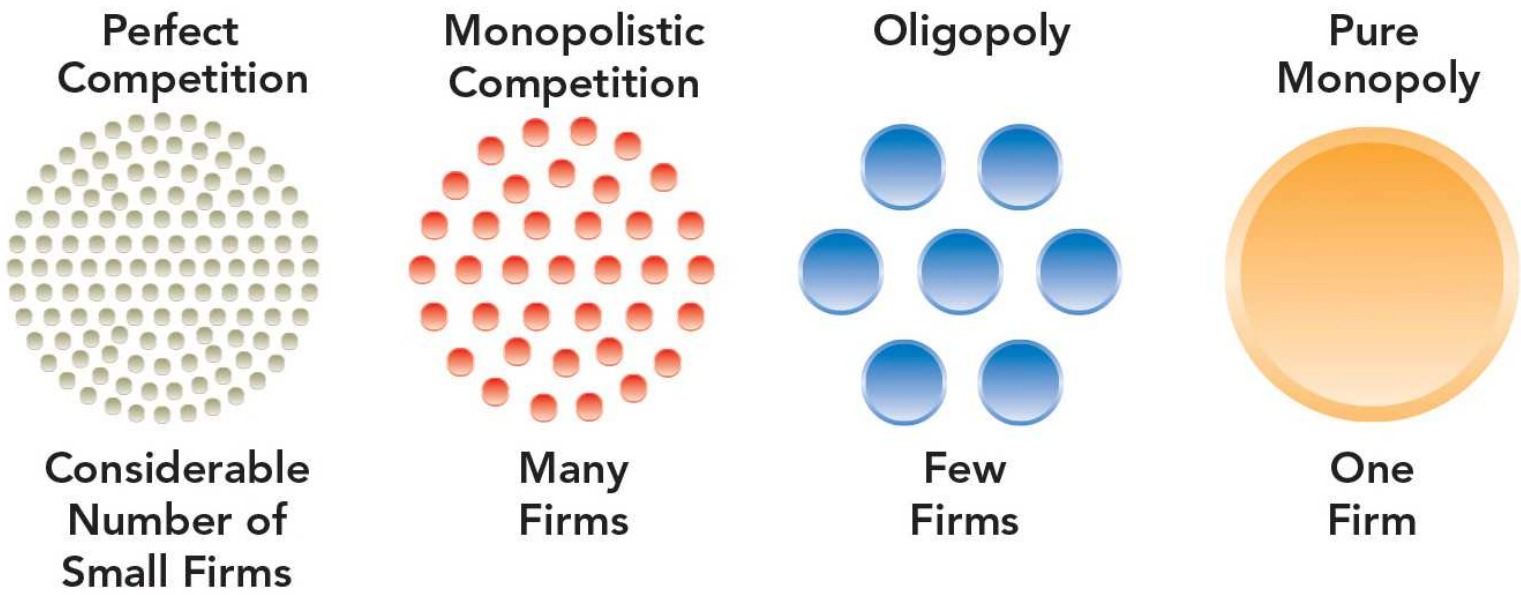
Market Structures

Exhibit 2.3 Types of Market Structures



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Microeconomics: Businesses, Industries, and Consumers

- This field of economics is concerned with how prices and quantities of goods and services behave in a free market.

Exhibit 2.5 Demand Curve for Snowboarders' Jackets

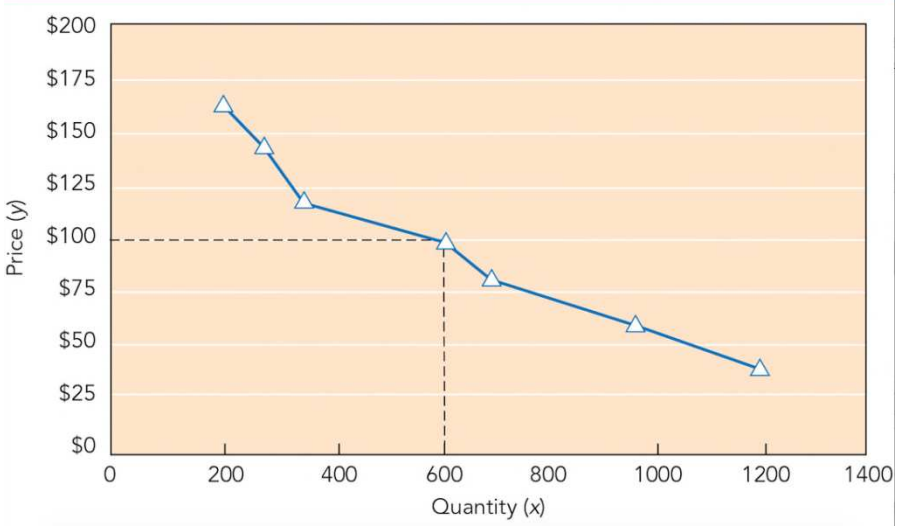
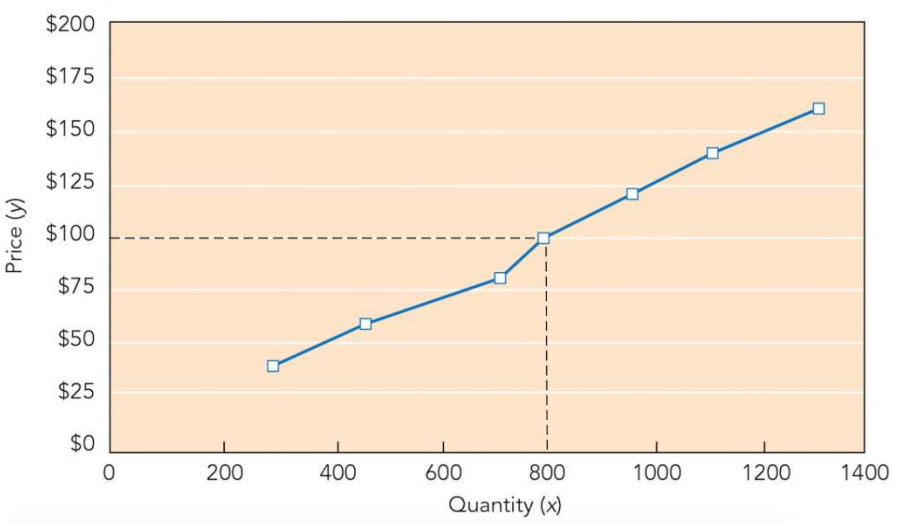


Exhibit 2.6 Supply Curve for Snowboarders' Jackets



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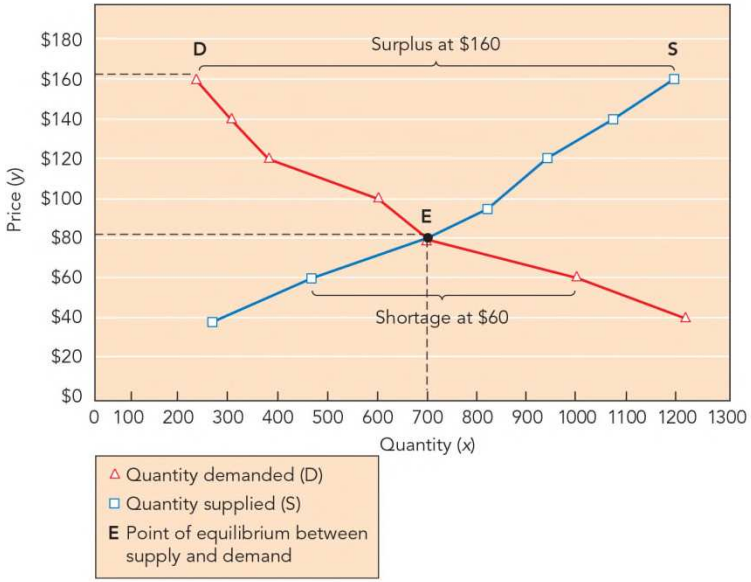
How Demand and Supply Interact to Determine Prices

Equilibrium → The quantity of a product demanded equals the quantity supplied.

The number of snowboarder jackets produced and bought at $80 will tend to rest at equilibrium unless there is a shift in either demand or supply.

Exhibit 2.7 Equilibrium Price and Quantity



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Macroeconomics: The Big Picture

Changes in Demand

- Change in customer income
- Change in fashion or taste
- Change in price of related products
- Expectations about future prices
- Change in number of buyers

Changes in Supply

- New technology
- Change in price of resources
- Change in price of related products
- Change in number of producers
- Change in taxes

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Macroeconomic Main Goals

- Striving for economic growth
- Keeping people on the job
- Keeping prices steady

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The consumer price index (CPI) provides a broad measure of the cost of living in Canada. The base year is 2002.

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Achieving Macroeconomic Goals

Macroeconomic goals are achieved through

- Monetary policy (Bank of Canada)
- Fiscal policy (federal government)

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The Future of Economics

- Waning confidence in the markets
- Meeting competitive challenges
- Entrepreneurship spreads worldwide

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