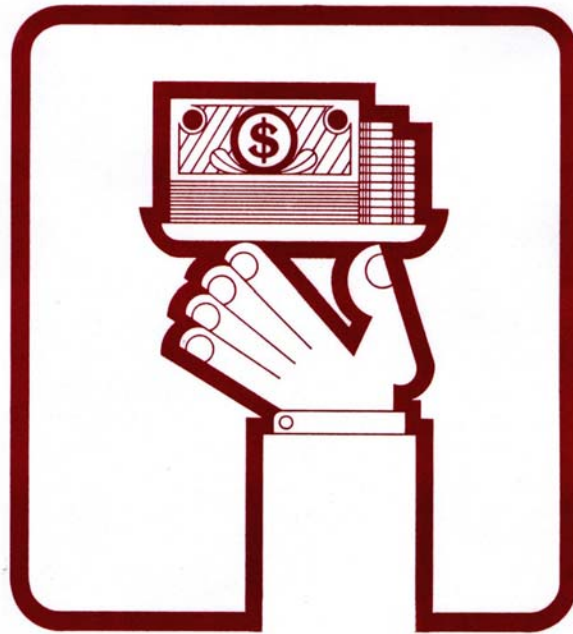


ECONOMICS OF BUSINESS OWNERSHIP



Draft 2002

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FOREWORD

Business ownership and management continues to be at the very forefront of economic growth and development in the United States. If California is to maintain a competitive economy, then individuals must be educated in the basic fundamentals of economics while at the same time learning how to own and operate their own businesses. The adoption of the concepts set forth in this document will ensure that the state's business education students are equipped with basic entrepreneurial skills and an understanding of the economic environment in which the entrepreneur will operate.

The course described in this guide, Economics of Business Ownership, is intended to:

- develop an awareness of the key concepts involved in owning one's own business;
- provide instruction in economics fundamentals sufficient to meet the requirements of the Model Curriculum Standards for Economics required for high school graduation;
- lay the foundation for additional coursework in business education (should students so desire) in which specific competency skills are developed;
- be taught in one-semester course;
- be taught primarily in the comprehensive high schools in the state of California;
- be available for any student desiring to take the course in the comprehensive high school.

ACKNOWLEDGEMENTS

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PREFACE

Business educators have a long history of involvement in economics education. The need for having teachers certified to teach in the area of economics was recognized in the early stages of business education so that today the California Commission on Teacher Credentialing specifically requires business educators to take economics courses as part of their preparation for teaching.

Education Code Chapter 2, Article 3, Section 51225.3(D), which mandates a one semester course in economics prior to graduation, is an important ingredient of a student's high school education. Frequently high school students do not have an adequate understanding or appreciation of the free enterprise system. With a prescribed curriculum and a conscious effort on the part of business educators to teach economics as a part of their program curriculum, many students will become functionally literate in economics. Since the business education curriculum is an applied curriculum, functional literacy is considered even more important and essential than having a student merely literate on the subject of economics. For this reason, this guide stresses economics as a part of the larger picture of business ownership and management in America. It is used by business educators in teaching the Model Curriculum Standards for Economics in a one-semester course in Economics of Business Ownership.

The University of California has accepted the Economics of Business Ownership in meeting the A-G entrance requirements.

ECONOMICS OF BUSINESS OWNERSHIP

RATIONALE

The American economic system is one of the most vibrant in the world. It is a system which has withstood the test of time in its ability to meet the economic needs of most of the people most of the time. Surprisingly to its critics, this market-dominated economic system continues to rely primarily on voluntary cooperation among individuals and institutions to organize economic activity, even as it preserves and expands human freedom.

With little coverage in many high schools in our nation, the free enterprise economic systems and its relationship to our democratic ideals and our human freedoms is frequently neither understood nor appreciated. To realize the full value of this unique linkage, more must be taught than the mechanical functions of the free enterprise system. The strength of the system relies as much on the personal freedom it affords as on the efficiencies it achieves. With the passage of Senate Bill 1213, all of California's high school students receive economics instruction that examines the mechanical workings of the American economic system, other economic systems, and the relationship of competition of the personal freedoms all Americans enjoy.

The California State Department of Education, Business Education Unit, has chosen to meet the requirement of Senate Bill 1213 by linking economics instruction together with business ownership in a unique course entitled Economics of Business Ownership. This course is intended to heighten students' awareness of business ownership principles and concepts while simultaneously meeting the economics requirement for graduation (Senate Bill 1213). Business ownership is used as a vehicle for teaching economics. The integration of economics and business ownership is well-rooted in a sound teaching methodology that combines theory with application and an understanding of the difficulties that students encounter in learning economics without the proper form of teacher methodology. A brief examination of several key economics education studies may be in order.

Historical Perspective of Economics Courses

Over forty years ago, George Stigler in an article entitled "Elementary Economic Education" (American Economic Review) presented the hypothesis that introductory, review-type courses do not teach "the economic way of thinking." He stated, in fact, that the conventional one-year course "fails to impart any permanently useful economic training" because the approach is the "watered-down encyclopedia approach."

Since Stigler's accusation was leveled, various studies have been conducted to prove or disprove his central hypothesis—that introductory economics courses are ineffective. Two different studies by Saunders & Bach (1965, 1966) uphold Stigler's claim, but in 1980 Saunders completed a major study that determines that with "effective instructional intervention" part of Stigler's criticism could be met. In other words, the right teaching

approach could produce some amount of lasting change in students' way of "economic thinking." Even Stigler came to agree that the correct teaching of economics could make a valuable contribution. He stated in 1970: "I would argue that economics belongs in everyone's education once we have learned how to teach it." But what is the teaching approach that will work in teaching economics? What is the "effective instructional intervention: that will provide the "specific concentration & focus, " as Stigler described it, to increase student's understanding or economics?

Dr. Marilyn Kourilsky, economist in the Graduate School of Education at the University of California–Los Angeles, set out to answer this question in a research project in 1985. Kourilsky's study in El Segundo, California was conducted "to ascertain whether experience-based economics education at the high school level, as opposed to the traditional approach, results in the transfer of economic reasoning/thinking to everyday decision making." Her results: participation in an experience-based program "was the strongest explanatory variable for each of the three dependent variables—economic cognition, economic reasoning with respect to time allocation and financial decision-making. All of the variables were positively correlated (to participation in experience-based economics teaching). Also the students' perceived magnitude of the financial decision was positively correlated to the use of economic reasoning in monetary decisions."

In essence, what these several studies suggest is that specific teaching strategy involving concentration, focus, and an experience-based approach will significantly increase students' understanding and application of economics fundamentals. In fact, several of the findings seem to stress that the only way students will retain and apply economics is with an experience-based instructional strategy.

Business Education—An Experience-Based Strategy

The hallmark of business education has always been its hands-on, experience-based instructional strategy. Business educators have, in fact, heavily stressed focus and concentration in teaching business and marketing courses through the identification and development of competencies. This is true in the course "Economics of Business Ownership." Consider, for example, the competencies covered in the section entitled "Money and Financing the Business." The "Introduction" section of the Instructional Strategies Unit states:

"This unit faces the 'Financing of the Business' from a unique perspective. First of all, our future business owner is introduced to the supply of money in the U.S. and its chief dispensers, the Federal Reserve System through financial institutions. Second, the student is then given a brief introduction to monetary policy including the way monetary policy affects all segments of the economy, but particularly the business owner. Third, the student is informed of savings institutions in the economy and the way that borrowing and interest rates affect the business owner. Finally, the student's specific prospective business is studied from the viewpoint of one interested in securing financing. What kind of financing is available?

How is it done? What do financing institutions look for when evaluating loan applications?"

The teaching strategies for each of these competencies focus on involvement in a variety of experiences to achieve competence. The teaching strategy stresses this throughout this section as well as others.

By examining student competencies and teaching strategies, it is easy to see how focus and concentration result in an involvement with learning in which students experience the real world of business ownership and apply the economic concepts they are learning. This teaching methodology accomplishes two purposes. First, it meets Stigler's criticism of economics courses that "do not teach the economic way of thinking." Students are looking at economics through the eyes of a future business owner, actively engaging themselves in the decisions regarding the success or failure of the business. Herein lies the successful teaching strategy that makes business education unique. Second, by using business ownership principles to teach economics fundamentals, the instructional strategy meets the two outcomes that Dr. Kourilsky notes must accompany all economics teaching (If it is to be successful):

"Economic education must be shown to benefit the individual by enabling him or her to transfer such concepts as cost-benefit analysis (or marginalism) to personal decision making and/or benefit the society by enhancing the ability to vote rationally or otherwise to contribute usefully to social decision making."

These are the twin goals of the course offering "Economics of Business Ownership"; benefiting the individual in personal decision-making affecting his/her own business and benefiting society through enabling the student to contribute to sound social and economic decision-making. The accomplishment of these objectives is not an easy task, but certainly one worthy of pursuit.

In conclusion, much has been written recently about the emergence of an entrepreneurial (business ownership) spirit sweeping the country. Peter Drucker refers to it as a "profound shift from a 'managerial' to an 'entrepreneurial' economy." John Naisbitt says the development represents "the most significant and hopeful event to have occurred in recent economic and social history." These theorists and others have proffered the notion that the "spirit" that is driving this great movement is endemic to a reawakening of the pioneering spirit that founded our Nation. However it is described, it is clear that the time is ripe for teaching our young people about economic, personal and professional opportunities and benefits of self-employment. Business educators, academically prepared and officially credentialed to teach the subject, stand ready to accept the teaching challenge this unique window of opportunity presents.

INTRODUCTION

According to labor market projections, employment growth is occurring dynamically in the various fields of business. Consider the area of marketing alone. Recent census data from the U. S. Department of Labor Occupational Outlook Handbook indicates that there are more new jobs created at entry level for retail sales workers and cashiers (two categories of marketing employees) than any other single occupational area. In fact for the first time in history, more people are now employed in marketing goods and services than are employed in producing them.

The future of marketing echoes the same theme: continued growth in the years ahead from businesses and industries primarily involved with the marketing of goods and services. The major occupational categories of sales and service workers and clerical workers comprise the greatest need for workers. These jobs will come primarily from the small business sector, which has provided most of the new jobs created between 1990 and 2000.

The Role of Small Business in the U.S. Economy

In a White House Commission Report on Small Business, America's Small Business Economy: Agenda for Action, small business was recognized for its significant impact on employment, contribution to the Gross National Product and stability during hard economic times (5). According to this report, approximately forty-three percent of the GNP is contributed by small business, while over two-thirds of new jobs are created by small business entrepreneurs through approximately 14 million business establishments (90% of which have gross incomes of \$2000,000 or less and are organized as sole proprietorships or partnerships).

With this kind of growth, the question arises: Where will all of the specialized workers come from who will be needed to fill the demand for competent workers in the business field? According to the National Federation of Independent Businesses, a large percentage of small businesses are started by people with only a high school degree or less. There is a common misconception, in fact, that highly educated, formally trained (in colleges and universities) individuals form the bulk of those who begin new business ventures. This is simply not the case. Consider these facts:

1. Nationally, less than half of the graduates of secondary schools enter any form of organized postsecondary instruction and a considerably smaller number complete a source of study.
2. Traditionally, "main street" business owners-operators have not completed a postsecondary training program in business ownership and management.

3. Many of the opportunities for business ownership are dependent upon the acquisition of technical skills such as those provided in vocational training programs.
4. For many, acquisition of technical skills through secondary or postsecondary education is the culmination or termination of formal, in-school instruction. It is the last step in the education itinerary in preparation for employment (9).

Clearly, while there is major growth occurring in the business field nationwide—signifying good things for those in business education programs—the level of expertise that those new business owners and/or workers entering the business field bring with them leaves much to be desired. Perhaps, as Edgar Parsons points out, an important question to ask is: "Where should those who aspire to be in business go in order to study the special competencies associated with starting and maintaining a business enterprise?"

The Emergence of Business: A Worldwide Phenomenon

Paralleling this major surge in the employment sector of the business field (and the marketing area detailed above) are several unprecedented national movements that indirectly impact and integrate with this growth. The first movement is the incredible interest worldwide in the field of business ownership. In the United States over 10,000 new small businesses are being started weekly (over 80% of which are begun as sole proprietorships or partnerships). The emergence of a truly entrepreneurial economy is documented widely in the literature while various business schools (within colleges, universities, post-secondary institutions and secondary schools) are adding business ownership courses, departments, endowed chairs and substantial resources to meet student demand. Even countries such as Great Britain and France, strongholds of socialist governments, are experiencing a revolution in the entrepreneurship field. China and Russia have become hotbeds of entrepreneurial activity in response to new government policies.

What is at the heart of this entrepreneurial emergence? According to Peter Drucker, renowned management theorist and author, the entrepreneurial push of the 1990's came from new applications of management to several areas:

- to new enterprises, whether business or not, whereas most people until now have considered management applicable to existing enterprises only;
- to small enterprises, whereas most people were absolutely sure only a few years ago that management was for the "big boys" only;
- to non-businesses (health care, education, and so on), whereas most people still hear "business" when they encounter the word "management";
- to activities that were simply not considered to be "enterprises" at all, such as local restaurants;
- and above all, to systematic innovation; to the search for and the exploration of new opportunities for satisfying human wants and human needs.

Other management theorists point to the tremendous surge for independence that owning one's own business brings to the aspiring entrepreneur. Whatever the origin of the entrepreneurship, it is clear that is a major movement not only in the United States but in other parts of the world as well.

The Movement Toward Economic Literacy

The second major national movement in full swing now is the move toward "economic literacy". There is an increasing awareness that the free enterprise system is a fundamental part of our lives in America, reflecting our national ideals and our lifestyles. And, as such, our young people (all people) must have a basic understanding of how our economic system functions if they are to be good producers, wise consumers and effective citizens.

The American economic system (call it free enterprise, market economy of American capitalism) is steeped in a system of free and open markets, private capital formation, and individual freedom to make choices in satisfying wants and needs. Much of our nation is clamoring to have our citizenry educated in even the most rudimentary of these economic principles. State legislatures have even gotten involved, as California's has, mandating economic education for every student. As the very epitome of the market system at work, economics materials are rolling off the presses and out of the film studios to meet the demand for instructional materials to educate our citizenry. Business education programs are being revamped in order to accommodate this national movement.

It is virtually impossible to separate the emergence of business, and marketing specifically, from either of these two major national movements. These three areas are integrally related to one another. Business (and marketing) have to be concerned with the economy (economics), and the very essence of marketing is business ownership/entrepreneurship. Consider, for example, the economic concept of utility. Warmke, Palmer and Nolan in their excellent textbook, *Marketing in Action*, explain the integration of these three concepts this way.

Marketing is a process of buying and selling that brings about a change in ownership of goods and services. If a resident in Minnesota wants fresh strawberries in mid-December, it is of little satisfaction to him to know that they are available in Florida. However, if the strawberries are shipped to him, they certainly have more value. In fact, our friend in Minnesota might enjoy the strawberries even more if they are used to make strawberry ice cream, which is then placed in a refrigerator car and shipped to Minnesota where he can buy the product. The change that took place in the ability of strawberries to satisfy is called utility. Marketing is concerned with making changes, or creating utility, in goods to satisfy the needs and wants of future buyers. The strawberries, for example, gained utility in four ways: (1) form—they were available in the form that was desired (ice cream), (2) time—they became available when wanted, (3) place—they were needed to satisfy the future buyer, and (4) possession—they were sold to the person who wanted them. Thus, in order to have utility, goods must be

in the proper form, they must be available when wanted, they must be located where wanted, and they must be possessed by the persons who want them.

This unique blend of marketing and economics could be noted in numerous similar examples and the principles of sound entrepreneurship could be likewise inferred. Marketing has long been viewed as part of the broader field of economics. The reason for this is simple: Economics is a study of how people make and spend their income. How people spend their income is of great concern to business and marketing people because it relates to some key marketing concepts: pricing theory, competition, consumer behavior and consumer decision-making, to name just a few.

PROGRAM MODEL

Economics of Business Ownership With the Business Education Career Path and Model Curriculum Standards

Providing business education that encourages quality, excellence, and accountability while blending together the concepts of business ownership and economics is the task assigned to California's business education professionals. In accomplishing this task, the California Department of Education has developed a program component with business education which can be utilized to meet the requirements of Senate Bill 813 (Hart-Hughes Education Reform Act of 1983) and Senate Bill 1213 (Economics Graduation Requirement).

Since this course is concerned with an awareness level understanding of business ownership, it could be logically articulated with any of the Career Paths, or integrated into courses such as E-commerce or virtual enterprise.

Integrating Economics and Business Ownership: A Closer Look

In constructing the guidelines that may be used in teaching Economics of Business Ownership, "skills have been integrated into an awareness of how to organize and operate a small business". For example, consider this topic taught in this guide: Money and Financing the Business. While traditional topics such as:

- sources of financing for a new business
- cost consideration in starting a business, and
- projected profit, loss and cash flow statements are covered,

this is a very natural time to discuss "Money & Banking in a Free Market Economy." What could be more natural and interesting to students than to teach about the following economic principles at this time?

- Money as a medium of exchange, unit of account, store of value
- How investment capital is created
- The role of the Federal Reserve System in regulating the money supply
- How banking "created money"
- How the value of money changes
- Interest rates; the cost of money

Another excellent example of the natural tie-in between Entrepreneurship and Economics is in the area of Pricing. From a marketing standpoint the factors that affect pricing of goods and services are:

- Direct costs, indirect costs, fixed costs, variable costs
- Cost of goods sold, gross margin, net margin
- Competition
- Pricing formulas
- Profit

From this point, students are naturally receptive to key economic principles regarding how price serves as a market-clearing device responsive to:

- Demand and supply
- Comparative and absolute advantage
- Costs-fixed and variable, diminishing returns, economies of scale

A complete one-semester curriculum is outlined in the second half of this publication. For additional ideas about how this integration occurs in each of the areas of the Model Curriculum Standards for Economics, read the sections that follow.

HOW TO USE THIS GUIDE

This publication is basically a guide for business education teachers, not a mandated program outline. It is a resource to be used flexibly to meet the differing needs of California's business education courses and programs. The guide contains information that meets the Model Curriculum Standards for Economics adopted by the California Board of Education and also contains information that covers an introductory course in Business Ownership and Management. The matrix on page 8 identifies the "Economics of Business Ownership" links to the economics content standards found in the "History-Social Science Content Standards for California Public Schools, Kindergarten Through Grade Twelve" published by the California Department of Education in 2000.

Design and Organization

These guidelines have been produced with punched pages so they can be placed in a three ring binder. In this way, additional materials, notes, lectures, etc. can then be added that reinforce each unit of instruction.

Fourteen major sections comprise the guide. For each of the fourteen chapters, a skeleton outline is first provided which could be handed out to students should the teacher so desire. Then an instructional strategies section follows, giving the classroom teacher ideas of detailed outlines and possible resources that may be used to teach the section.

The Program Concept and Course Sequence

It should be noted that this course carries no prerequisites and is open to the entire student body of the school. In fact, an excellent response is expected to this course once its content and application are recognized by students. As with any one-time course, it is important to understand that business skill development does not occur in one semester of any introductory course. In many of our high school curriculums—English, math, science—we understand that intense, planned instruction over a period of several years is required to make students competent in the respective subject areas. So it is with business ownership and economics. Business education competencies are best developed in a planned sequence of courses with identified and defined occupational entry-level proficiencies. In planning a sequence of courses in business education, it should be understood that the needs, strengths and constraints of business programs differ from school to school and district to district. It is more important that, with an awareness of the place that "Economics of Business Ownership" occupies within the sequence and the need for planned sequencing to attain business competence, teacher coordinators build their own instructional system.

“Economics of Business Ownership” links to the Economics Content standards

“Economics of Business Ownership” Content Area	Economics Benchmarks
Introduction to Economics	12.1.1, 12.1.2
Introduction to Business Ownership	12.1.2, 12.2.7, 12.2.8
Markets: Supply & Demand	12.2.1, 12.2.2, 12.2.4, 12.2.5, 12.2.7
Creating and Using the Business Plan In Making Economic Decisions	12.1.2
Managing Human Resources	12.4.1, 12.4.2, 12.4.3, 12.4.4
Essentials of Marketing	12.1.5
Ingredients and Actions of Economic Systems	12.3.1
The International Economy	12.6.1, 12.6.2, 12.6.3, 12.6.4
Agriculture in the U.S. and World Economy	12.2.10
Tools for Measuring Economic Performance	12.5.1, 12.5.2, 12.5.3
Money & Financing the Business	12.2.9, 12.5.3
Economic Stabilization	12.2.6, 12.3.2, 12.3.3, 12.3.4
Role of Government	12.3.1, 12.3.2, 12.3.3, 12.3.4
Education & the Growth of the American Economy	12.1.3, 12.4.2

Introduction to Economics-01

STANDARD AND BENCHMARKS

Standards

01-00 Students will understand key economic concepts. They will demonstrate understanding by applying key economic concepts to personal and business issues.

Benchmarks

01-01 Introduction to Economics

- List reasons why economics should be studied.
- Recognize key terms in a glossary as a part of the study of economics.

01-02 Individual, Business and Societal Economic Choices

- Define terms related to the economic way of thinking.
- State the basic economic problem in general terms.
- Explain the relationship of economic theory to economic decision-making.

01-03 Scarcity and Allocation

- Describe scarcity.
- List ways that scarcity is handled by the economic system.
- Explain the way scarcity and allocation impact business.

01-04 Productive Resources

- Distinguish general resources from economic resources.
- List categories of economic resources.
- Explain how each of the resources satisfies wants and needs.
- Demonstrate that the amount of economic resources available determines the amount of goods and services that can be produced.
- Discuss why human, natural and capital resources are limited and the implications of these limitations for an economic system.

01-05 Trade-offs and Opportunity Cost

- Define opportunity cost.
- Explain the relationship of trade-offs to opportunity cost.

- Give examples of opportunity costs as they relate to personal, business and societal environments.

01-06 Tools of Economic Analysis: Charts, Graphs, Statistics, and Marginal Analysis

- Read data from a chart and draw conclusions from it.
- Point out the x and y axis on graphs and draw conclusions from: An intersection of two lines, an upward or downward slope of lines, comparison of the slope of two lines.
- Differentiate between objective and subjective analysis.
- Discuss how statistics can be evaluated to determine if they are being used properly.
- Explain marginal analysis and give an example of its use in economics.

01-07 Marginal Analysis

- Describe the way marginal analysis is used in economics.
- Relate opportunity costs and trade-offs in advertising.

01-08 Decision Making

- Identify the six steps included in decision making.
- Use the six step decision-making process in a small business problem.
- Explain the nature of decision-making in managing an economy and managing a business.

INSTRUCTIONAL IDEAS

General Information

Economics

Economics plays a vital role in our society and in the society of other nations as well. Trade and exchange are at the heart of all economic systems as individuals purchase and consume goods and services. The choices that the consumer, the entrepreneur and the society make are essentially economic in nature. For this reason the study of economics is linked to the study of entrepreneurship.

As your students begin to encounter economics in this section, be alerted to the reticence they may have about the "new language" to which you are introducing them. It helps to relate the "new language" to one aspect of the world in which they are now living. Consider the world of cars where words such as dual disc brakes, fuel injected-engines, and high performance engines have specific meaning. Relate the study of economics to this sphere by introducing key concepts in example form. Note that some of these examples have been provided to you throughout the following pages of instructional strategies and ideas.

It should be noted that this unit begins the study of economics, utilizing business ownership as a vehicle for teaching economics concepts to students. Students are expected to come away from this course fully versed in the essentials of four broad categorical areas in economics: microeconomics, macroeconomics, economic systems, and international trade. From time to time certain economic issues will emerge as predominant in the guide, but students need to be reminded that it is mastery of the various elements of these four major areas which we will come back to time and again. In fact, as you will see later, we will suggest that you teach students to move easily back and forth between these four major areas.

Please note also that this curriculum guide, while offering the view of the business owner on economics issues (in order to teach economics effectively), is not in essence an apologist's viewpoint for small business in U.S. economy. The author clearly recognizes the important role and function that small business plays in the economy, but just as clearly wants students to have a balanced look at all the economics systems and this includes the failings as well as the successes of various economics systems.

Virtual Business/Enterprise

The Additional Resources section in Selected "Instructional Ideas" chapters of the Economics of Business Ownership Guide refer to the selected institutional

resources/materials in the Virtual Business/Enterprise program and Career Technical Student Organizations operating throughout California, (www.virtualenterprise.org).

A Virtual Business is: A Student-run model business

A class of students and their teacher/coordinator set up a virtual/practice firm, often with the help of outside business partners. The students/employees create product or service concepts and develop a business plan, which they must present to a panel of business representatives and school administrators to receive funding. They establish departments with appropriate personnel and manage the day-to-day business throughout the fiscal/academic year. The goal is to create a profitable company so that each school year a new group of students can enter and manage the business.

Virtual Enterprises International™ is: A network of student-run businesses

Enterprises are linked together in regional, national and global networks so that the firms serve as trading/business partners for one another. Such a network permits standardization and coordination of activities among all firms within a city, state, country or region. A most important feature is that as these firms interact with other virtual businesses worldwide, the students/employees gain first-hand knowledge of doing business in the global economy.

The Virtual Business teacher strategy lends itself to infusing economic concepts/content into the curriculum in a way that students understand: economics is taught through the eyes and activities of the aspiring entrepreneur.

A user ID and password are required to access the curriculum materials section on the Virtual Enterprise web site. Contact the system administrator from the home page (www.virtualenterprise.org) for information on acquiring access

Career-Technical Student Organizations (CTSO)

Career-technical student organizations (CTSO's) provide student directed programs/activities designed to compliment, support and extend learning in business/marketing education programs.

The Future Business Leaders of America (FBLA) serves students/teachers in business career paths such as computer science and information systems, accounting and finance, and business management. DECA, An Association of Marketing Students, serves students/teachers in marketing/management career paths.

Both DECA and FBLA provide programs/projects/activities, which support the entrepreneurship and economics, standards and benchmarks in "Economics of Business Ownership." Selected "Instructional Ideas" sections in each content area identify web based DECA and FBLA activities/projects appropriate for that content area.

More information about business related CTSOs can be obtained from:

Glenn Morris, Executive Director
California FBLA
139 Tulare Ave., Suite 321
Tulare, CA 93274
(559) 909-1012
execdir@cafbla.org
www.cafbla.org

Pam McKinney, State Advisor
California DECA
112 Shoppers Lane, #101
Covina, CA 91723
(626) 653-2202
Advisor@cadeca.org
www.cadeca.org

Benchmark Specific Instructional Ideas

01-01 Overview of Economics

A. Three reasons to study economics

1. Economics affects our lives every day.
2. Economics helps us to be better informed citizens.
3. Economics assist us in making wise business/consumer decisions.

B. Glossary terms

1. Introduce students to the Glossary of Terms in the text in the textbook or materials being used.

01-02 Choices: Individual, Business and Society

A. Define terms in economic thinking

1. Define the following terms:
 - Economics
 - Scarcity
 - Unlimited wants and needs
 - Allocation
 - Opportunity costs
 - Values and goals
2. Give students a very practical, brief situation to demonstrate these terms: *There are only three pizzas available to feed 35 students.* Ask the following questions:

- Is the amount of pizza scarce?
- What methods are available to distributing (allocating) the pizza?
- What are the opportunity costs associated with buying a piece of pizza?

B. The basic economic problem defined

1. The basic economic problem is scarcity, which is the condition that occurs because people's wants and needs are unlimited, and the resources needed to produce goods and services to meet these wants and needs are limited.
2. Three questions are related to the basic economic problem:
 - What to produce with limited resources?
 - How will the goods and services be produced?
 - For whom will the goods and services be produced?
3. Put these three questions together into a statement on the blackboard:
The basic problem in economics is to determine what to produce given our limited resources, how to produce it, and for whom it will be produced.
4. Give students an example once again of how business make these decisions.

C. Relationship of economic theory to economic decision-making

1. Lay out the process an individual, business and society go through in making personal and societal decisions.
2. Summarize the key differences among these three areas of economics decision making.
3. Help students to make the distinction by making a chart:

01-03 Presentation of Scarcity

A. Demonstrate an understanding of scarcity

1. Point out that scarcity is a problem faced by all economic systems.
2. Demonstrate scarcity with a real life example.

B. Economics study and scarcity

1. Explain to students that economics is a science that deals with scarcity.
2. Indicate that economists differ on how to deal with scarcity.

C. Four ways to handle scarcity

D. Scarcity and allocation impact business

1. Consumers have scarce resources, and therefore, must choose among alternatives, this decision affects businesses.
2. Businesses have scarce resources. Therefore, they must choose carefully the products to which they allocate their scarce dollars.
3. Conclusions: both the business and the individual are affected by scarcity and allocation.

01-04 Productive Resources

A. Distinguish general resources from economic resources

1. A general resource is something that is available to use while economic resources are used to produce goods and services that people consume.

B. Three categories of economic resources

1. Human resources
2. Natural resources
3. Capital resources

C. Economic resources satisfy wants and needs

D. Amount of economic resources determine amount of goods and services produced.

E. Limited human, natural and capital resources

01-05 Trade Offs and Opportunity Costs

A. Relationship between trade-offs and opportunity costs

B. Opportunity cost defined

1. The value of resources in their best alternative form

C. Demonstrate opportunity costs in the:

1. Space program
2. Buying a new shirt
3. Hour spent washing the car

01-06 Economists' Tools

A. Read data from a chart

1. Explain the X and Y's axis of any chart. Use a simple illustration such as a number of students in the class and sex of each of the members.

		<u>Names</u>	<u>Male</u>	<u>Female</u>
Y Axis	Class Members	Bob	x	
		Susan		x
		Jim	x	
		Bill	x	

2. Switch now to a slightly more complex chart, one that presents unemployment rates.

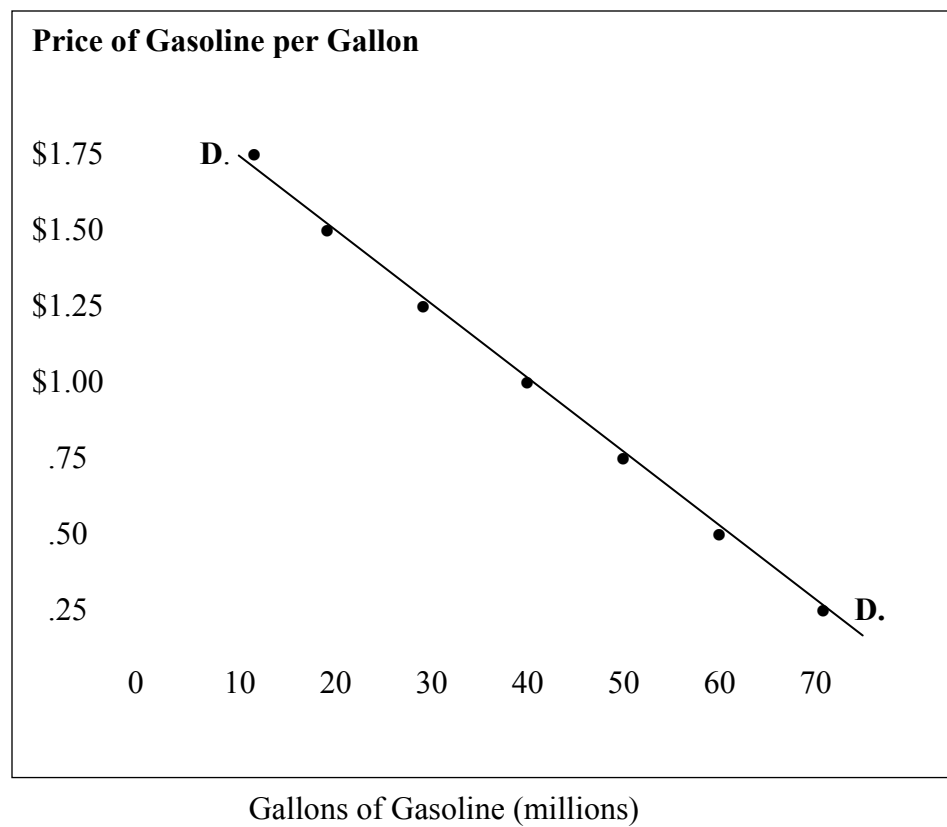
UNEMPLOYMENT RATES: SELECTED YEARS
(1983-2001)

Year	Total	Male	Female
3/83	10.3%	10.7%	9.8%
3/86	7.2	7.0	7.4
3/90	5.2	5.2	5.3
3/94	6.5	6.5	6.5
3/98	4.7	4.6	4.8
3/2000	4.0	3.8	4.3
3/2001	4.3	4.4	4.2

Source: U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings (Washington: U.S. Government Printing Office).

B. Demonstrate X and Y Axis and Slope of Lines

This graph shows the demand curve for gasoline.



C. Objective and subjective analysis

1. Objective-citing only data from the chart or graph, ruling out aspects of a problem which seem important only because of strong emotions or feelings.
2. Subjective-translating, evaluating the data based on personal opinion; drawing inferences from the data based on strong feelings.

D. Proper use of statistics

1. Go back to charts and graphs and demonstrate the wrong use of statistics:
 - Drawing improper conclusions from the available data
 - Stressing the minor points of the data and not the major directions/result

01-07 Overview of Marginal Analysis

A. Use of marginal analysis in economics

1. Marginal analysis is simply an analysis of what happens when small changes take place relative to the status quo.
2. Related to advertising, what happens when a certain amount is spent on newspaper advertising.
 - Example: "If a business person spends \$1,000 in newspaper advertising and it generates \$49,000 in revenues, does this mean that if he/she spends ten times that amount, \$10,000, that it will generate \$490,000 in revenues?"
 - Is it possible to spend \$10,000, additional in advertising and increase the total revenue to \$50,000 (compared to \$49,000 total revenue for \$1,000 in advertising expenditure)?
3. Key areas to initially stress (remember this is only introducing a concept, not thoroughly expanding on it):
 - Margin of difference
 - Marginal (synonymous with additional or last)
 - Incremental steps

B. Using the example above, relate opportunity costs and trade-offs in advertising

1. What are the trade-offs for a large advertising budget/expenditures?
2. What are the opportunity costs associated with advertising locally versus statewide?

01-08 Decision Making in Economics (with Implications for Business)

A. Five steps in problem solving

1. State the problem.
2. List choices.
3. Compare the advantages and disadvantages of each choice.
4. Act on the choice.
5. Evaluate the decision.

B. The similarity of managing an economy to managing a business

1. Note that each has basic objective and goes through a decision-making grid.
2. Note that in different economic systems management objectives might differ—guns and butter versus ships and guns.
3. Help students understand that if a country decides it wants no unemployment then its management decisions will have consequences (implications).
4. Economics helps us make the right decisions.

Additional Resources:

FBLA

Economics Introduction to Business

www.cafbla.org/competitive_guidelines.shtml

Introduction to Business Ownership-02

STANDARD AND BENCHMARKS

Standard

02-00 Students will understand the basic characteristics of entrepreneurial enterprises and the role they play in the American economy. They will demonstrate competence by assessing their own entrepreneurial aptitudes and explaining the role that small business ownership plays in the economy.

Benchmarks

02-01 Overview of Circular Flow

- Recognize the components of a circular flow diagram.
- Explain the role of small business in the circular flow.
- Relate decision-making and marginalism to the circular flow.

02-02 Business Ownership and Management

- Define entrepreneurship.
- List the personality traits required to be a successful business owner.
- Conduct a personal self assessment to determine whether entrepreneurial traits are present.

02-03 Risks of Business Ownership

- List five entrepreneurial risks
- List one risk reducing technique for each of the risks listed above.

02-04 Forms of Business Ownership

- Distinguish between: Sole proprietorship, coop, partnership, corporation, franchise.
- Discuss advantages and disadvantages of each.
- Explain the level in each form of ownership.
- Identify the factors to consider when deciding whether or not to purchase a franchise.
- Describe the services (assistance) provided by different franchisers in supplies and taxation.
- Explain the ways in which the franchise is "tied" to the franchiser.

02-05 Kinds of Stores Found in Most neighborhoods

- Identify probable form of ownership.
- Describe how each form of ownership might impact the business and owner.

02-06 Starting a Business Versus Buying a Business

- Compare the advantages and disadvantages of each option.
- Explain how a final decision is made.
- Identify factors to consider when buying a new business.

02-07 Microeconomics

- Recognize a microeconomics view of the economy.
- Explain the relationship between individual prices and quantities and how the individual businessperson is impacted by those behaviors.

02-08 Production Possibilities

- Explain how tables and graphs can be used to show production possibilities.
- Explain how the production possibilities curve can be used to determine trade-offs.
- Demonstrate the ability to make rational decisions based on an understanding of production possibilities.

02-09 Market Organization

- Define terms related to market organization.
- Distinguish between perfect competition, monopolistic competition, oligopolistic competition, and pure monopoly.
- Identify products which could be sold in each market structure.

INSTRUCTIONAL IDEAS

General Information

Since most students are intrigued with what other people are doing, it is helpful to introduce students to entrepreneurship by presenting several vignettes of successful entrepreneurs. Consider presenting the case of Debbie Fields, president and founder of Mrs. Fields Cookies, who opened her first cookie shop in 1977 and now has 450 stores.

After presenting a case history, such as the one described above, ask students:

- What made these entrepreneurs successful?
- How does an entrepreneur expand from one store to 450 stores?
- What can be learned from each of these business owners?

This introduction then leads quite naturally into the specific instructional strategies for this section.

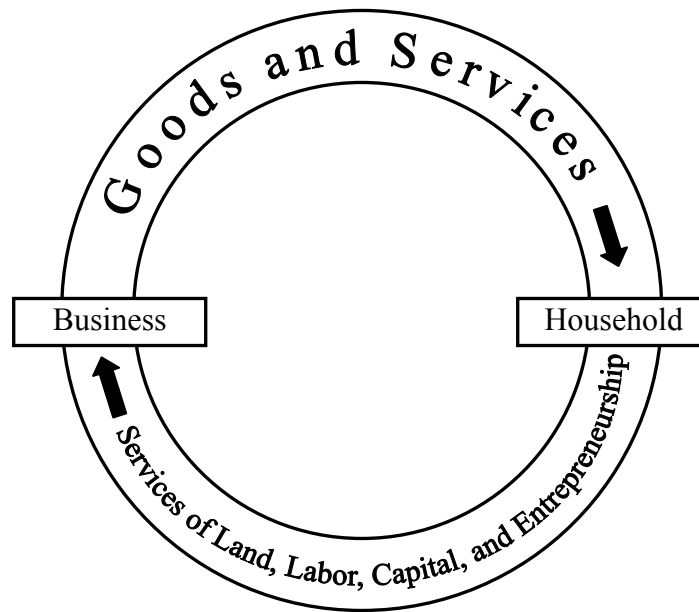
Benchmark Specific Instructional Ideas

02-01 Overview of small Business Ownership in the Circular Flow

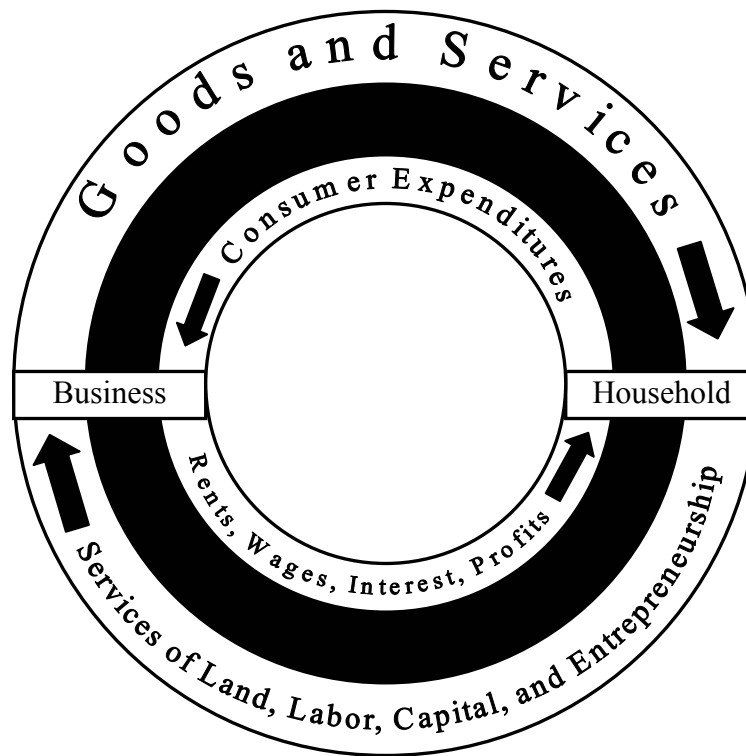
Note: it is important that the relationship of the first unit on introductory economic concepts be clearly related to this unit. This unit should be presented as a natural flow, and not as a separate unit on business ownership. To facilitate this transition, this unit begins by placing business ownership within the circular flow diagram. Note that circular flow is only being introduced here, it will be extensively covered in Unit X.

A. The role of small business ownership in the circular flow

1. Introduce students to the distinction between the circular flow in the barter economy versus circular flow in the monetary economy.
2. Explain that in the barter economy what cannot be known is the bartering that must go on among households to obtain a desired mix of goods and services. Note that this mix probably does not coincide with the mix of goods and services paid to them by businesses.



3. Explain that in the money economy, businesses both pay household rent, wages, interest, and profits as well as sell goods and services to households (for which businesses receive payment in the form of consumer expenditure).



B. Marginalism and the circular flow

1. Introduce marginalism again from Unit 1—as analysis on what happens when small changes take place in relation to the status quo.

C. Reinforce incremental steps and margin of difference

1. Ask: "How might the concept of marginalism be related to the circular flow of goods and services?"

D. Ingredients of circular flow diagram

1. Identify key parts above.
2. Explain that this is a microeconomic look at circular flow now, later other ingredients (saving and investing, government) will be added.

02-02 Introduction to Business Ownership

A. Define entrepreneurship

1. Invite student participation in defining the term. As suggestions are made, write their ideas on the board.

B. List personality traits

1. Discuss personal background and life style of entrepreneurs.
2. Have students interview two entrepreneurs and assess their personality traits.

02-03 Presentation of Risks Involved in Entrepreneurship

A. List five risks

1. Have students interview at least one person who is self-employed.

B. List five risk-reducing techniques

1. Handle each risk individually.
2. Have students make suggestions for risk-reductions and write their ideas on the board.

3. Discuss the merit of each suggestion. Correct where necessary.

02-04 Present Five Forms of Business Ownership

- A. Distinguish between individual proprietorship, partnership and corporation
 1. Have students interview business owners and ask why the owners chose the form of ownership they did.
- B. Discuss advantages and disadvantages of proprietorship, partnership and corporation
- C. Explain level of personal control in each ownership form
- D. Factors to consider about franchising

02-05 Various Kinds of Stores in Most Neighborhoods

- A. Identify Probable Forms of Ownership
 1. List 15 different businesses on the board from the students' own neighborhood.
 2. Have students note which of the five forms of ownership they feel their business fits.

02-06 Starting a New Business Versus Buying an Existing Business

- A. Compare advantages and disadvantages of each option
 1. How a final decision is made.
 2. Factors to consider when buying a new business.

02-07 Brief Introduction to Microeconomics

- A. A microeconomic view of the economy
 1. Microeconomics is the individual view of the economy—one person, one product, one firm, or one industry.
 2. The way a small business owner typically looks at the economy is from a microeconomic view.

3. Typical questions asked:
 - "Is \$10,000 invested in inventory going to affect businesses' total profitability?"
 - "Which items should I export in this next year?"
 - "Will more cars than trucks be sold this year?"
4. By contrast, macroeconomics considers these questions.
 - "Is industry profitability likely to be impacted by present tax policy unfavorable to inventory carry over?"
 - "Will international trade likely be altered by the new protectionist stance of government officials?"
 - "Will the import quotas affect the supply of cars and trucks on the market this year?"
5. Help students to see that decisions made at the macroeconomic level impact the decisions they make at the microeconomic level.
 - Note to students the danger of ignoring the macroeconomic level.
6. Help students to see that macroeconomics studies aggregates—aggregate behavior—while microeconomics studies individual behavior.
7. Stress once again the interdependence of the economy.
8. Relate the circular flow to this area, and supply and demand underpinning of circular flow.
 - Ask: "If the Federal Reserve tightens the interest rate (macro level), how is the real estate office marketing housing affected (micro level)?"
 - Ask: "If an airplane is only 20% full, should the airplane still fly?" Should the remaining tickets be sold for whatever the market will bear? Why? Why not?"
 - Ask: "What does it mean if a car dealer has 500 cars sitting on the lot unsold (no need/demand)? How will the lot be affected if the Federal Reserve eases the money supply?"

B. Relationship between prices and quantity

1. Even though demand has not been introduced yet, have students see that way supply affects price and the interaction of demand and supply.

2. Explain to students that various factors affect the behavior of individual prices and quantities:
 - Weather
 - Labor costs
 - Import/export quotas
 - Availability
3. Encourage students to consider the way each of these might affect the price/quantity relationship of a product.
4. Point out that these are microeconomic considerations.

02-08 Production Possibilities Presentation

A. Tables and graphs can graphically display production possibilities curve

1. A production possibility curve is a way of showing the relationship between the possible results that can be produced in each of two activities.
2. Explain that production possibilities represent choices available to individuals, businesses and governments.
3. Have students note that production possibility models assist in identifying trade-offs.
4. Production possibilities are normally used in macroeconomics, but can also be used in microeconomics.
5. Note for students that the definition of a production possibilities curve is: all possible combinations of the maximum amount of any two goods or services that can be produced from a fixed amount of resources.

B. Using the production possibility curve to determine trade-offs

1. Use the earlier reference to "Mrs. Fields Cookies" to reinforce trade-offs and opportunity costs.
2. Stress that it is unlikely that any company would produce only one type of good (cookies, in this), therefore the focus is on combinations.

3. Move back and forth between micro and macro (use defense spending and education on prison spending and health care spending), allowing students to "feel" each perspective.

C. Rational decisions using the production possibilities curve

1. Stress that all production in the economy can be put into one of the major categories of consumer goods (durable, non-durable, and services), investment goods (new plants and equipment, private housing, and inventories), and the government sector – federal, state, and local).
2. Encourage students to make decisions using trade-offs of goods within these major categories.
3. Help students understand that individual, corporate, and societal decisions can be made using this tool.
4. Have students demonstrate facility with their tool of constructing their own production possibilities curve.
5. Key concept students must know from this section: the production possibilities curve is a graphic representation of trade-offs.

02-09 Introduction to Market Organization

A. Define terms related to market organization (also called structure)

1. The free enterprise system includes four types of market structures:
 - Perfect competition
 - Pure monopoly
 - Monopolistic competition
 - Oligopoly
2. Assist students in seeing both ends of the continuum—perfect competition with large numbers of buyers and sellers and monopoly with only one seller and no competition.

B. Distinguish among the four market structures

1. Use the chart below to assist students in distinguishing among the various market structures.
2. Drill students on the comparison here since it will affect later understandings.

COMPARING MARKET STRUCTURES

Market Structure	Number of Sellers	Unrestricted Entry and Exit	Ability to Set Price	Long-run Economic Profits Possible	Product Differentiation	Examples
Perfect Competition	Numerous	Yes	None	No	None	Agriculture
Monopolistic competition	Many	Yes	Some	No	Considerable	Toothpaste, toilet paper, soap, retail trade
Oligopoly	Few	Partial	Some	Yes	Frequently	Automobiles, steel
Pure Monopoly	One	No	Considerable	Yes	The product is unique	Electric co., telephone co.

Source. Roger Leroy Miller, Economics Today. 5/E, Harper and Row Publisher: New York, NY, p. 564.

C. Determine which products are typically sold in which market structure

1. See the chart above or examples.
2. Have students list products and then place them in the proper market structure.
3. Suggest the students' products for their small business should fit into one of these market structures.
4. Have students scour newspaper for want ads of specific companies and products and ask the question: "Why are there no ads for wheat? What is Philip Morris really advertising if they buy ad space and not mention cigarettes?"

Additional Resources: <http://www.virtualenterprise.org>

Ethics–Discussion/exercise for surfacing the importance of ethical business practices.

DECA

Entrepreneurship Written Project

www.deca.org/publications/HS_Guide/ENW2004.pdf

International Business Plan

www.deca.org/publications/HS_Guide/IBP2004.pdf

E-Commerce Business Plan

www.deca.org/publications/HS_Guide/EBP2004.pdf

Entrepreneurship Participating

www.deca.org/publications/HS_Guide/ENPI-F2004.pdf

FBLA

Business Plan Economics

www.cafbla.org/competitive_guidelines.shtml

Entrepreneurship

www.cafbla.org/competitive_guidelines.shtml

Introduction to Business

www.cafbla.org/competitive_guidelines.shtml

Business Degree Personal Development Requirements

www.cafbla.org/programs_index.shtml

Leader Degree Personal Development Requirements

www.cafbla.org/programs_index.shtml

America Degree Personal Development Requirements

www.cafbla.org/programs_index.shtml

Markets: Supply and Demand-03

STANDARD AND BENCHMARKS

Standard

03-00 Students will understand the concept of supply and demand and their role in determining market price. They will demonstrate competence by demonstrating the interaction of demand and supply in setting price equilibrium using appropriate charts and graphs.

Benchmarks

03-01 Economics of Demand

- Explain how personal buying decisions send a signal to producers.
- Define demand.
- Explain the law of demand.
- Explain a table or chart which depicts a demand curve for products.
- Relate demand to a specific product.

03-02 Economics of Supply

- Define supply.
- Describe how a firm determines how much of a product to produce.
- Relate diminishing marginal productivity to a product produced by a newly established business or to a business operation.
- Explain a table or chart which depicts a supply curve for products.
- Distinguish between supply and demand curves when graphically depicted.
- Explain the concepts of supply and demand when related to a specific product produced by an aspiring entrepreneur.

03-03 Market Clearing Price

- Describe the role of price in economic systems.
- Explain shortages.
- Explain surplus.
- List how shortages and surpluses affect the performance of an entrepreneur's business.
- Describe what happens to price in an entrepreneurial form when: demand is greater than supply; supply is greater than demand; price equilibrium is attained.

INSTRUCTIONAL IDEAS

General Information

Understanding the basic makeup of the economic system in the United States and other areas of the world has always been of immense interest to students once their interest is piqued. This unit is one of particular interest to students because it discusses such widely divergent concepts as: supply and demand, market clearing price, shortages and surpluses, as well as poverty. Note that these key economic concepts are introduced as a prelude to a true understanding of how small business functions are performed in this country. Subsequent units in this "Microeconomic" section deal with the interaction of economics and business ownership.

Once again, however, the emphasis must be on involvement - for without involvement students fail to grasp how these concepts really affect them either as consumers or as future business owners. Hopefully, the teaching strategies suggested in this section will stimulate your own idea-bank so that students will come to class each day loaded with questions about the American economy.

Benchmark Specific Instructional Ideas

03-01 The Economics of Demand

- A. Personal decisions to purchase a product create a demand which sends a signal to producers
 - 1. Produce more
 - 2. Produce less
- B. Demand is a factor that needs to be watched very carefully by business owners
 - 1. Why is this so?
 - 2. How does demand affect movement of merchandise, pricing and inventory control?
 - 3. Assist students in relating demand to these questions
- C. Demand is defined as:
 - 1. The quantities of a product that consumers are willing and able to buy at various prices.

D. The law of demand is:

1. Customers will purchase greater quantities at a lower price than at a higher price.

E. Demand curve for products

F. Demand related to a specific product

1. Encourage students to come up with a product and plot several different prices based on what they perceive as the demand for the product based on various prices.
2. Explain that as the price decreases, the quantity demanded increases and this is the essence of a demand curve.
 - It is very important to let students experiment with this concept - it forms one of several important pegs on which later understandings will hang.

03-02 The Economic Concept of Supply

A. Definition of supply

1. Supply is the amount of a product/service that a firm is willing and able to make available to the consumer at different prices.

B. How a Business determines how much to produce

1. The cost of production is a key ingredient in determining how much to produce.
2. Stress what goes into cost of production: wages, materials, overhead costs, etc.

C. Relate diminishing marginal productivity to a specific product or business operation

1. Consider this explanation in story-business form:
 - A new store named Hank's Hardware opens in town. If no employees were hired, no sales could be made. If one salesperson was hired, perhaps a few customers could be sold hardware goods but the vast majority could not be served. But

as more and more employees are hired, additional customers could be helped and more sales could be made.

- Now here's a key question: Does each extra person hired increase Hank's Hardware sales equally? The answer is no. As more and more workers are hired, the rate at which they add to better and more production eventually becomes less. This is called Diminished Marginal Productivity of Labor. The same law can apply to products as well.

2. Diminished Marginal Productivity is:

- The idea that as more of any variable input is added to those fixed inputs already in place, the rate at which the output goes up becomes less and less.

3. The concept is best understood when graphically illustrated.

D. Supply curve for products

1. Demonstrate with a chart and corresponding graph.
2. Note that the supply curve rises as it moves from left to right.
3. Explain that producers will supply more product at higher prices.
4. Help students understand that this works exactly the opposite of demand - review demand to make this point.

E. Distinguish between demand and supply curves

1. After completing D above, overlay supply and demand curves.
2. Explain these key facts:
 - As the demand decreases, the demand curve will shift to the left -- both price and quantity sold will decline.
 - As the supply is increased, the curve moves to the right -- the price is reduced and the quantity sold increases.

F. Relate supply and demand to a specific product

1. Have students choose a product and graph what happens to it at various price intervals from both the demand and supply sides.

2. Make assignments to go out to nearby stores and ask business owners about the demand for certain products and the way supply affects these products.

03-03 Market-Clearing Price: Interaction of Demand and Supply

A. Price: A distinct role in the economy

1. Price does three things in the economy:
 - Price expresses values.
 - Price acts as signal/mechanism for producers to produce more or less, thereby eliminating shortages and surpluses.
 - Prices guide the what, how, and for whom decisions for business owners.

B. Shortage defined

1. Shortage is a condition in which people (consumers) are willing to buy more than producers have for sale at a particular price.

C. Surplus defined

1. Surplus is defined as a situation where supply is greater than demand at a certain price.
2. Shortages and surpluses experienced everyday
3. Ask students to identify items that the grocery store is often out of stock on.
4. Assist students in seeing that it is often price which affects shortages (as well as surpluses).

D. Relate price to demand and supply

1. Ask students to describe what happens to an entrepreneurial firm when:
 - demand is greater than supply
 - supply is greater than demand
2. Graphically portray this situation on the blackboard.
3. Specifically relate demand and supply to price equilibrium.

4. Discuss price equilibrium and assist students in determining market clearing price-demonstrate the interaction of demand and supply.
5. Assist students, once again, to move back and forth between micro and macro applications of price as a signal device for market-clearing.

Additional Resources:

DECA

Entrepreneurship Written Project

www.deca.org/publications/HS_Guide/ENW2004.pdf

International Business Plan

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E-Commerce Business Plan

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Entrepreneurship Participating

www.deca.org/publications/HS_Guide/ENPI-F2004.pdf

Creating and Using the Business Plan in Making Economic Decisions-04

STANDARD AND BENCHMARKS

Standard

04-00 Students will understand the concepts and processes needed to create and use the business plan to make economic decisions. They will demonstrate competency by applying location, management, promotion, and risk management concepts to economic decisions.

Benchmarks

04-01 Introduction to the Business Plan

- Describe a Business Plan.
- List five reasons for having a Business Plan.

04-02 Basic Components of the Business Plan

- Describe the four major sections of a Business Plan.
- Explain the purpose of each of the four sections of the Business Plan.

04-03 A Sample Business Plan

- Identify each of the parts of the Sample Business Plan.
- Develop a simple (rough) Business Plan.
- Relate the Business Plan to economic changes.

04-04 Introduction to Business Location

- Explain the importance of business location.

04-05 Factors to Consider in Locating a Business

- List the factors to consider in locating a business.
- Evaluate each of the factors as to their relative importance to each type of business.
- List the steps involved in selecting a business site.

04-06 Assistance in Selecting a Location

- Identify sources where assistance is available.
- Conduct a mini-feasibility study for locating a business.

04-07 Functions of Management

- List four functions of management.
- Explain the importance of those functions to a profitable business.

04-08 Small Business Promotion

- Define promotion.
- Explain why all businesses must promote their goods and services.

04-09 Methods of Promotion

- List and define four methods of promotion by the entrepreneur.
- Give two examples of each method of promotion.

04-10 Promotional Planning

- Explain why promotional planning is needed.
- List five questions to be asked in promotional planning.

04-11 Advertising Media

- Describe various types of media.
- List the criteria used in selecting media type.

04-12 Common Business Risks

- List the five most common business crimes.

04-13 Other Types of Risks Faced by Business Owners

- List five most common risks faced by entrepreneurs.

04-14 Minimizing Crimes and Risk

- Identify policies and procedures to combat each type of risk.

04-15 Cost of Crime

- Explain the cost of crime to society.
- Relate opportunity cost to crime.

INSTRUCTIONAL IDEAS

General Information

After acquiring an understanding of the basics of economics, a microeconomic view of the economy and an introduction to circular flow and business organizations, students are ready for a closer look at the business plan and how its care in formation can assist the business owner to make wise economic decisions.

This unit is critical to that understanding because it embodies all that will be developed in future units. So -- in one sense this unit is an overview for students for the rest of the course, but it is also important in its own right. The reason for this is simple enough: The Business Plan is a road map to owning and operating a business . . . and operating a profitable business calls for sound economic reasoning. The Business Plan must be considered in the light of present economic realities and used as a tool for economic decision-making. The following basic tenets of the Business Plan will be considered in this unit: Basic Make-up of the Business Plan (Sections 01-03), Locating the Business (Sections 04-06), Management Functions (Section 07), Promotion (Sections 08-11), and Risk (Sections 04, 12-15).

Benchmark Specific Instructional Ideas

06-01 Overview of the Business Plan

A. Defining a Business Plan

1. A Business Plan is a written report that details how every aspect of operating the business will be handled.

B. Reasons for a Business Plan

1. To determine whether the proposed business looks profitable, considering all economic factors.
 - Relate back to the circular flow diagram and stress the importance of efficiency in meeting consumer needs and the role business plays in this.

- Discuss again demand and supply as key economic factors to consider.
2. To provide records for federal income tax return.
 3. To help prospective business owners understand how to go about purchasing a business.
 - A Business Plan leads to a sound business structure.
 - A Business Plan produces a marketing plan.
 - A Business Plan helps to identify financial needs.
 - A Business Plan helps to make wise economic decisions.
 - A Business Plan shows how various parts of the business will be managed.
 - A Business Plan serves as a good tool for telling others about the business.

C. Identify who Reviews Business Plans

1. Banks/lending institutions are the primary sources interested in reviewing the Business Plan for:
 - Opening a new account for the proposed business.
 - Providing a credit rating for the new business - good place to introduce credit via financial institutions.
 - Determining whether to lend money for a new business - good place to introduce loans to students and the role of financial institutions.
 - Why do banks consider the economic environment in deciding whether to make loans?

06-02 Basic Ingredients of the Business Plan

A. Four Major Sections to the Business Plan Are:

1. Description of the business
2. Marketing plan
3. Organizational plan
4. Financial plan

B. Purpose of the Four Major Sections

1. Suggested teaching strategy: Divide the class into teams with a sheet that lists each of the questions and ask them to categorize each of the random questions under one of the four categories. Declare a winner for the most correct identifications.

04-03 Coverage of a Sample Business Plan

A. Identify each of the four major sections of the Business Plan

1. The four sections are listed in 04-02, A.
2. Suggested teaching strategies: Have students complete the workbook published by the Small Business Administration entitled "Business Plan for Retailers."

B. Draw up a sample Business Plan

1. Ask students to identify a type of business they might be interested in and begin preparing a mini-business plan.
 - Remember that this course is structured around awareness and therefore, a detailed plan is not necessary at this point.
2. Suggested Teaching Strategy:
 - Request several local business owners whom you know to have a Business Plan sit on class panel and discuss how they utilize the Business Plan.

C. Relate the Business Plan to economic change

1. Discuss with students how a recession will affect particular businesses.
2. Ask students how the following factors would affect hiring of new employees:
 - high unemployment rate
 - low seasonal employment
 - discrimination practices
 - highly inflationary economy
3. Relate these factors to specifics on the Business Plan.
4. Remember to keep issues of economics clearly before students as they prepare the ingredients of the Business Plan.
5. Reiterate demand and supply issues and the circular flow since these are critical economic foundation stones for the entire course.

04-04 Locating the Business

Note: Professionals in the real estate business are often quoted as saying - "There are only three important things to keep in mind when purchasing real estate . . . location, location and location." What may be a truism for the real estate business is of absolutely critical importance for owning a business. The location of a business can make or break a business.

A. The focus of this unit is on

1. Awareness of the importance of the locational decision;
2. Factors to consider when locating a business;
3. Conducting a feasibility study to determine which of central locations may be the best one, given the nature of the business. Instructional ideas include having students visit business locations and physically count the number of customers who frequent the business over a one hour period; inviting real estate business specialists to address the class on the subject of business location; and having students locate a business location that seems to go through a lot of businesses and evaluate why this is so. Each of these teaching strategies will help drive home the importance of "location . . . location . . . location."

B. The importance of properly locating the business

1. Discuss "demand" for a business in a certain part of town - a dry cleaners located in an inaccessible site, or a gas station off a main drag.
2. What economics principles should be observed in locating a business?

04-05 Factors to Consider in Locating the Business

A. Factors to consider are:

1. Economics
 - What is/are major industries in the region? Are they healthy? Are there a variety of industries in the area?
 - Is the industry seasonal in nature? If so, how is employment and unemployment affected?
 - Is transportation good?

- Is there a well-trained labor force and what are the economic implications of an educated/well-trained work force? Why is a work force poorly trained?

2. Population

- What is the average income?
- What has been the population trend?
- What is the standard of living in the area? Explain to students that standard of living is a key economic concept.

3. Competition

- Discuss how competition works in the economy and then relate to this area.

4. Introduce externalities at this point

- Discuss how external benefits or costs can accrue to parties other than the seller or buyer in a business transaction.
- Use pollution of air and water as an example.
- Remember the concept is only being mentioned here, not elaborated upon.

B. Evaluate each factor as to its importance to each type of business retail establishments

1. Service firms

2. Manufacturing firms

3. Wholesale firms:

- Have students visit a real estate agency and compile a list of factors to consider when selecting locations for the type of business they are planning.

C. Steps involved in selection of a business site are:

1. Establish what criteria are important to your type of business in selecting a site.
2. Select the general area you are interested in.
3. Study several promising locations within this general area.

4. Rate each site based on your criteria.
5. Make a decision.

04-06 Assistance Available in Locating a Business

A. Sources where help is available

B. Procedure to follow in obtaining assistance

1. Personal visit.
2. Write letters to agencies identified in "A".
3. Visit with other business people in the area.
4. Research in library as per "A" above.
5. Note that the government plays a key role in assisting a business to find good sites (through the Small Business Administration, Economic Development Agencies, and the Department of Commerce).
 - Discuss whether this governmental role in the economy is good or bad.
 - How can the national economy's health be affected by such governmental intervention?
 - At what point would such governmental assistance be unwarranted?
 - Relate government's role again to circular flow.

04-07 Major Functions of Management

Note: Principles of effective management have been around almost since the beginning of business organizations. As soon as people begin to organize around some common goal, management becomes very important. Of course, a manager must wear many hats, from staffing to decision-making. Hopefully students will grasp the importance of management and accept the challenge presented in this unit to be an effective manager.

Of primary importance in teaching about management is to have students project themselves into a manager's role. Case studies and group exercises revolving around a business management problem are effective ways to introduce the subject. Often the subject can be introduced by having students deal with a sticky problem: Two employees need to get off work for a football game on Friday night and yet the manager is reluctant to let them off

because of a new promotion just launched that will surely draw big crowds on Friday night. What should the manager do? This discussion then becomes an excellent lead-in for the major functions of management.

A. The four major functions of management are:

1. Planning work.
2. Organizing people to accomplish work.
3. Staffing the business and assigning jobs to employees.
4. Controlling and evaluating work.

B. How the four functions help profitability

1. Discuss how the minimum wage affects profitability.
2. Relate profitability to larger economic principles discussed to this point.

04-08 Promotion in the Business

Note: "Promoting the Business" is an easy section for students to relate to and understand. They have experienced personally the impact of promotion in their buying decisions, yet probably do not recognize it. When the plan for promotion is laid out in a progressive, step-by-step plan they are often intrigued about knowing whether or not promotional plans really work.

From the very beginning, promotion should be approached as simply "all of the activities a business uses to inform customers about their products and services." It is promotion which provides this important and vital information. Students should be encouraged to bring newspaper ads to school; to collect brochures and direct mail pieces; and to write down impressions of the way they feel about a particular product or business promotional campaign. This active involvement will give students a sense of the field of promotion and serve to help them develop their own skills in this area as a future business owner.

Most importantly, students should be especially encouraged to relate economics to advertising decisions. Ways to do this will be suggested through these next few units.

04-09 Promotional Methods

A. Promotion is "All of the activities of a business that inform customers about products and services."

B. Why business must promote their goods and services.

1. Competition does it.
2. Attract new customer.
3. Develop an image.
 - Have students discuss whether public goods or services should be promoted (if there is no competition for the service).
 - Ask students whether consumers have a right to accurate and fair promotional facts, and what responsibility promotional planners have to recognize that right.
 - Discuss marginalism related to saturation advertising.

C. Four major methods of promotion

1. The four major methods of promotion are:
 - Advertising
 - Personal selling
 - Sales promotion
 - Public relations
2. Have students collect examples of advertising from different products and compare the differences among the ads.
3. Discuss the impact on supply and demand of the promotional effort.

D. Two examples of each method of promotion

1. See C.1 above for the four methods of promotion.

04-10 Promotional Planning

A. Why is promotional planning needed?

1. Promotional planning is needed in order to be sure that all of a potential customer's questions about the product are answered and that the right decisions are made in the promotional package.

04-11 Media Used in Advertising

A. What are the various types of media used?

1. Print media
 - Newspapers
 - Yellow pages
 - Magazine ads
2. Broadcast media
 - Radio
 - Television
3. Outdoor advertising
 - Billboards
 - Signs
 - Transit advertising
4. Electronic
 - Internet
 - E-Commerce
5. Direct mail
 - Brochures
 - Coupons
 - Letters
 - Catalogs
 - Handbills

B. What are the opportunity costs and trade-offs inherent in advertising?

1. What is the opportunity cost of spending \$1,000 on radio advertising?
2. What are the trade-offs that come with heavy advertising in the print media?
3. How can marginal analysis assist a businessperson in determining how much more money to spend on advertising in a particular medium?

C. What criteria to use in choosing media type

1. Have students contact newspapers, radio stations and television stations to compare the costs of advertising in each medium.

04-12 Protecting the Business and Most Common Risks

Note: Protecting the business against loss is an important part of a business owner's job. In order to protect it efficiently, business owners must first be alerted to what the dangers and risks are. Providing this information forms the bulk of this unit.

Most students have had something stolen from them - or at least believed it was stolen - at one time or another. By some careful prodding, they might be able to remember how they felt at the time they discovered the loss. If they had known the risk involved and then done something to minimize the risk, they possibly might not have lost that valued article. That is exactly what the business owner must do -- recognize where the risks are and then do something to minimize or avoid them.

A. Crime is one of the most common risks

1. There are five common crimes that stifle business growth:
 - Shoplifting
 - Passing bad checks
 - Employee theft
 - Burglary and robbery
 - Vendor theft
2. Discuss loss to the U.S. economy, and the cost to individuals of these crimes.

04-13 Other Types of Risks Faced by Business Owners

A. Other common risks faced by business owners

1. There are four other, non-crime risks:
 - Fire
 - Bad debt losses
 - Personal injury claims
 - Product liability claims
2. What is the opportunity cost of a lax approach to crime by a business?

3. Why would any business locate in a known high-crime area?

04-14 Ways of Dealing with Crime and Other Risks

A. Identify policies and procedures

1. Have students list all the risks they feel their particular business will face and how each will be handled.

04-15 Cost to Society and Business of Crime

A. Cost of crime to society

1. Draw the distinction between a macro and micro view of crime.
2. Stress the cost to the taxpayer of crime in actual dollars.
3. Explain that there are additional costs to a society of crime that are not measurable in dollars alone.

B. Opportunity cost related to crime

1. Explain that there are opportunity costs in terms of time, dollars, and physical resources.
 - What else could a local sheriff be doing if he/she wasn't tied up in the court system with crime cases?

Additional Resources: <http://www.virtualenterprise.org>

The Business Plan—A step by step guide to the development of a business plan.

Strategic Plan—A step by step guide to the development of a strategic plan which addresses where the enterprise is at present and where it wants to be in one, three or five years.

Annual Report—A step by step guide to the preparation of an Annual Report which describes company goals achieved and those that were not.

Time Management—students will learn how to effectively plan and manage goals for the use of time, both personally and professionally.

Management—students learn how to manage and participate on teams correctly and effectively by demonstrating management skills, creating a positive office environment, problem solving, team building, employee evaluation and work plan accomplishment.

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Entrepreneurship Written Project

www.deca.org/publications/HS_Guide/ENW2004.pdf

International Business Plan

www.deca.org/publications/HS_Guide/IBP2004.pdf

Entrepreneurship Participating

www.deca.org/publications/HS_Guide/ENPI-F2004.pdf

FBLA

Entrepreneurship Introduction to Business Job Interview

www.cafbla.org/competitive_guidelines.shtml

Managing Human Resources-05

STANDARD AND BENCHMARKS

Standard

05-00 Students will be able to identify techniques used in human resource management. They will demonstrate competency by applying the six major responsibilities in managing human resources to the development of human resources/management policies

Benchmarks

05-01 Macroeconomics vs. Microeconomics

- Draw the distinction between micro and macro-economics.
- State the similarity and difference between managing a business and managing an economy.

05-02 Economic Impact of Human Resources

- Explain the importance of managing employees efficiently.
- Describe the consequences of poor management and good techniques in management.
- State how an understanding of profit maximization and demand for labor affect management of resources.
- Explain marginal productivity/diminishing returns and the theory of wages.

05-03 Business Owner's Responsibilities in Managing Human Resources

- List the six major responsibilities in managing human resources.
- List the four steps involved in hiring employers.
- Describe the basics of an employee training plan.

05-04 Compensation

- List the different types of compensation

05-05 Improving Employee Performance

- Explain why helping is so important to employees.
- Suggest ways that helping might be accomplished.

05-06 Human Resource/Management Policies

- Identify five components to a human resource/management policy.

05-07 Unions in American Business

- Give a brief history of labor unions.
- Discuss laws affecting unions.
- Identify the implications of unionization of business ownership.
- Explain union organization.

INSTRUCTIONAL IDEAS

General Information

Finding, hiring, training and managing productive employees is a very important part of the business owners' responsibilities. Employees form a sizable portion of the operating expense of the business, have the most frequent contact with the public and ultimately determine whether customers return again (repeat) to purchase goods and services at the business. For these reasons, a business owner should have a good plan for properly managing the human side of the business.

Interestingly, this is also a key unit for introducing the key economic concepts of derived demand and marginal productivity/diminishing returns. Once again the emphasis in this unit is on using management understandings to reinforce and teach important economic concepts. Accordingly, note that this unit begins with a transition section tying microeconomics and macroeconomics together for the student.

Traditionally, this is a difficult unit in which to maintain student interest. The primary reason is that students who have scarcely worked themselves find it difficult to picture themselves managing other people. To maintain student interest, the teacher may want to consider several creative ways to "bring the subject alive" to students. Bring successful business owners to class to discuss managing human resources or consider an assignment in-the-field for students to get them actively involved. Managing is a dynamic, alive field and hopefully students will see it this way as a result of your teaching this unit.

Benchmark Specific Instructional Ideas

05-01 Understanding the Link Between Microeconomics and Macroeconomics

A. Distinction between micro-and macroeconomics

1. Microeconomics—the study of the economic activities of an individual consumer or business.
2. Macroeconomics—the view of how the economy functions as a whole.

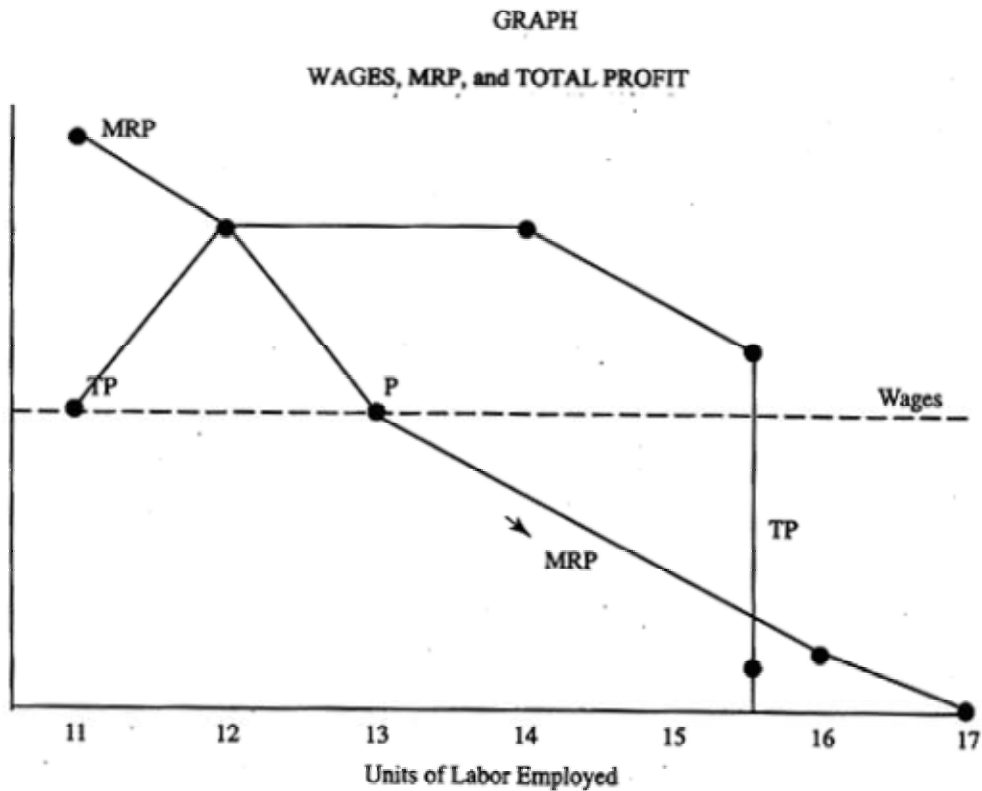
B. Relationship of managing human resources at micro level and macro level

1. Managing the resources of economy and what is involved.

2. Managing a business and what is involved.
 - Ask: "What are the questions being asked at both levels by those charged with the responsibility for managing?"
3. Business failure
 - Reinforce scarcity and opportunity cost related to hiring and retaining good employees.
 - Ask: "What happens if the economy is poorly managed? What are the consequences to the business owner if interest rates double in a brief period of time?"

05-02 Profit maximization and the demand for labor (derived demand principle)

- A. Demand for labor means the amount of labor that will be used in producing a product at different wage rates.
- B. To maximize profit the business owner must determine where the most profit can be attained using the best wage rate. Note: Total profits will always change relative to labor inputs.
- C. At the point where marginal revenue product equals the wage rate, profit will be maximized.
- D. Note the following graph:
 1. Where will the total profit be greatest? (At \$80 using between 12 and 14 employees.)
- E. Marginal Productivity Theory of Wages
 1. This theory holds that under pure competition, an employer will hire additional workers up to a point where the marginal productivity of the last worker equals the wages paid.
 2. Marginal productivity simply refers to additional amount added to the total products by the use of one extra unit of a factor of production (while the number of the other factors remains as before).



3. Help students to understand that the graph drawn above can be used to illustrate the marginal productivity theory of wages.
4. What happens if 17 employees are hired instead of 12—on the basis that if 12 can help the business be profitable, 17 will help it be even more profitable?
 - This is where the law of diminishing returns can be introduced.
 - The marginal product diminishes as each additional worker is employed, as noted in the graph.

05-03 Business Owners' Responsibilities in Managing Human Resources

A. Six major responsibilities in managing human resources:

1. Hiring and placing new employees.
2. Training employees.
3. Compensating employees.
4. Helping employees improve performance.

5. Evaluating employee performance.
6. Encouraging harmonious relations among workers.

B. Four steps involved in hiring are:

1. Job analysis
2. Job description
3. Job recruitment
4. Job decision

C. Training new and current employees

1. Basics of a training plan
 - Train on equipment that will be used.
 - Organize training by goals and objectives.
 - Training should be given by one who has done the job before, understands it and can communicate it to others.

05-04 Different Types of Compensation

A. Identify Various Ways Compensation Can Occur:

1. Wages, health insurance, vacations, profit sharing, retirement programs, discounts, sick leave.

05-05 Helping Employees Improve Performance and Evaluating the Performance

A. Helping is so important to employees because employees naturally look to the business owner for help and inspiration.

B. Helping employees perform productively involves:

1. Giving orders
2. Delegating authority
3. Solving problems

C. Helping employees involves evaluating performance

05-06 Human Resources/Management Policies

A. Five components of a plan:

1. Job description
2. Employee training program
3. Personnel policies
4. Employee evaluation system
5. Employee corrective processes

05-07 Unions in American Business

A. Brief history of labor unions in U.S.

B. Laws affecting unions

1. National Labor relations Act
2. Taft-Hartley Act
3. Landrum Giffin Act
4. Wagner Act

C. Implications of unionization on the small business owners

1. Awareness
2. Negligible at present
3. California is a "union shop" at present

D. Union organization in the U.S.

Additional Resources: <http://www.virtualenterprise.org>

Job Description—Students learn to develop/complete a job description for a variety of business positions based on a job analysis.

Employee Code of Conduct—Student agrees to abide by a code of conduct which outlines the standards, expectations and consequences for conduct and behavior at all school sponsored programs and events.

Landing Your Job—Activities and online resources related to job acquisition and retention.

Personnel Finance—Planning and budgeting activities which prepare students to live within their "real life" incomes and expense.

Recruitment Strategy—A step by step planning process for developing a strategy for recruiting and retaining qualified human resources.

New Hire Procedures—A step by step process for orienting new employees to the policies, procedures and requirements of a new position. New hire procedures include assignment of an e-mail account, developing student profile and personnel folder, forms and establishing a bank account.

Employee Evaluation—Provides a detailed explanation for the assessment procedures recommended for the Virtual Enterprise employee, links are provided to all of the necessary documents including the evaluation rubric, evaluation criteria, recommendation worksheet, evaluation summary, assessment recommendations and grievance procedures.

Entrepreneurship Written Project

www.deca.org/publications/HS_Guide/ENW2004.pdf

International Business Plan

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Entrepreneurship Participating

www.deca.org/publications/HS_Guide/ENPI-F2004.pdf

Essentials of Marketing-06

STANDARD AND BENCHMARKS

Standard

06-00 Student will understand the importance of, the components, and processes for developing a marketing plan. They will demonstrate competence by recommending a marketing plan for a sample product or service.

Benchmarks

06-01 Marketing Functions

- Identify the eight marketing functions.
- Match local business activities to each of the functions.
- Discuss the importance of each of the functions to the total marketing concept.

06-02 Four Questions of Marketing

- List the four questions of marketing.
- Relate the four questions to established businesses.
- Relate the four questions to the three questions economists ask.

06-03 Market Planning

- Define "target market" and "marketing mix."
- Relate marketing mix to selected existing business.
- Describe a marketing mix for a probable product.

06-04 The Marketing Plan

- Describe the purpose of a marketing plan.
- Identify the components of a marketing plan.

06-05 Historical Economic Theory and Marketing

- Explain the thinking of Karl Marx and Adam Smith and their relationship to marketing.
- Explain the difference between Keynes and Friedman's viewpoints on the way money affects the economy.
- Explain the thinking of Ricardo on the economic concept of rent.
- Explain the economic theories of John Kenneth Galbraith.

- Explain the role played by Henry Ford, J.C. Penney, Ray Kroc, Colonel Sanders and Sam Walton, as well as Federal Express, Avon, and Fuller Brush in using economic principles to market products.

INSTRUCTIONAL IDEAS

General Information

Whenever any product is sold or any service is provided, marketing is involved. Most students will readily identify certain parts of marketing. In fact many will say that "advertising is marketing," but of course as business educators know, as important as these parts of marketing are, they do not represent the total marketing picture. Our future business owners must learn that many marketing decisions are made along the way in bringing producers and consumers together.

This unit represents a rare opportunity to teach students the marketing concept. The stress once again is on application therefore, consider bringing products into class, discussing clothing students are wearing, etc., as live models of the marketing concept in action. Students are so naturally intrigued with marketing that it is not difficult to sustain their interest in this aspect of business ownership. In addition, keep in mind that marketing needs to be discussed as it relates to the total economic picture.

Benchmark Specific Instructional Ideas

06-01 Major Functions of Marketing

C. Identify the eight functions of marketing

1. The eight functions are:
 - Product development
 - Exchanging
 - Transporting
 - Storing
 - Financing
 - Pricing
 - Communicating
 - Information Evaluation
2. Each of these functions must be performed if the business owner is to successfully market products and services.

D. Match business activities to each function

3. Product development-design and creating of the product packaging

4. Exchanging-selling and buying
5. Transporting-product movement activities
6. Storing-space availability and system for handling merchandise
7. Financing-payment on products purchase buildings, equipment and salaries
8. Pricing-determining markups in order to make a profit
9. Communications-advertising, brochures, direct mail, displays, and selling
10. Information Evaluation-surveys and word of mouth comments

E. Importance of eight functions to the marketing concept

1. Suggested teaching strategy:
 - Bring a product to class and have students identify what and how each of the eight functions were managed in this particular product.

07-02 The Four Questions of Marketing:

A. The four questions that must be answered are:

1. What product or service am I interested in providing?
2. To whom will our products be sold?
3. Where will the products be sold?
4. How will marketing activities be completed?

B. Relate the four questions to established businesses

1. Suggested teaching strategy:
 - Divide the class into groups of 4-6 students.
 - Identify a product and/or type of business and have students answer each of the questions.
2. Stress that these are questions that must be answered prior to either formation of a new business or marketing a product.

C. Relate the four questions of marketing to the three question economists ask

1. Review the three questions that economists ask from Unit 1.
 - What to produce?
 - For whom to produce it?
 - How will it be produced?
2. Discuss with students the obvious connection between marketing and the market economy.
 - Why is this so?
3. Ask them why the marketing system works so well in the U.S.? Answer: it is tailored to and sensitive to the economy.
4. Ask: "Would marketers be out of a job in a perfectly competitive economy?"

07-02 The Marketing Planning

A. Define target marketing and the marketing mix (note: these are grouped together because students need to grasp the two-step process involved in marketing planning.)

1. Target marketing comments group of potential customers with similar needs.
2. Marketing Mix—a combination of the "Four P's of Marketing"—product, price, place and promotion—that the business will provide for the "target audience" defined above.

B. Relate marketing mix to established businesses

1. Suggested teaching strategy:
 - Have students identify three businesses from the community and conduct interviews with the owners.

C. Describe a marketing mix for a probable product

1. Suggested teaching strategy:
 - Bring a product to class and have students, in small groups, create a marketing mix for the product.

07-02 The Marketing Plan

A. The purpose of the Marketing Plan

1. The marketing plan helps the business owner to plan and coordinate marketing activities that should be done over a period of 3-12 months.
2. The marketing plan involves standards of performance along with how each marketing activity will be handled and who will be responsible.

B. The marketing plan identifies the strategies to be used in targeting product, price, place and promotion to the target market.

07-02 Economic Theory and Marketers

A. Karl Marx and Adam Smith

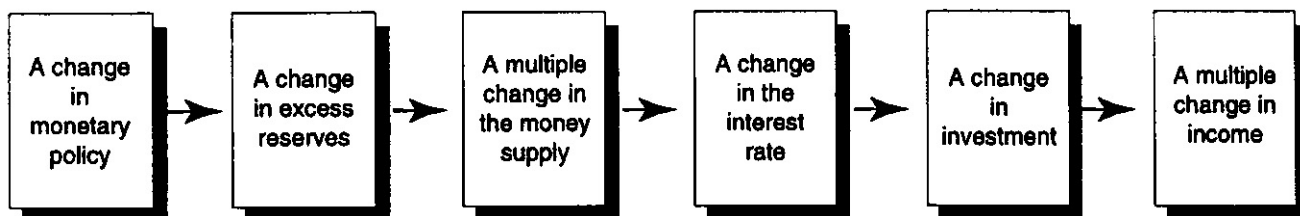
1. Smith believed in a highly competitive economic environment, unfettered by undue government interference and monopolistic constraints on free trade.
 - Note that Smith's "self-interest" means something different to the business owner, the worker, and the consumer.
2. Marx believed that production is according to people's ability and income is distributed according to their need.
 - Note that "altruism" is meant to be the driving force for economic behaviors.
3. Encourage students to see the derivation of economic systems from these brief descriptions. (See Keynes and Friedman below.)
 - Help students see there is no pure capitalist and no pure command system(s)—all are hybrids.

B. John Maynard Keynes and Milton Friedman and the effect of money

1. Assist students in drawing distinctions among key economic theorists.
 - The attached schematic will assist students in tracing the strands of economic thinking throughout economic history.
2. Help students understand that the role of money is what is being considered by J. M. Keynes and Milton Friedman.

- See graphic below that illustrated the Keynesian model of money transmission.

THE KEYNESIAN MONEY TRANSMISSION MECHANISM



Source: R.L. Miller, *Economics Today*, 5/E, Haroer and Row Publishers, New York, NY 1985, p. 343

3. Keynes believed the Federal Reserve (monetary authority) should target interest rates so as to alter planned investment and thereby affect total planned expenditure.
4. Friedman believed that monetary policy (not interest rates) concentrated on the fiscal side of the economic equation—changes in government spending and/or taxation—would impact economic growth.
 - The emphasis is on monetary aggregate targets, not interest rate targets.

C. David Ricardo and Economic Rent

1. Help students to see where Ricardo fits on the schematic above.
2. Cover the allocation function of rent and its relationship to factors of production.

D. John Kenneth Galbraith

1. America's most popular advocate of democratic socialism and state economic planning.
2. Stress with students that Galbraith's perception of the growth of monopoly and the power of advertising have irrevocably transformed the nature of modern economics.
 - Galbraith sees the breakup of the free-market economy into a relatively monopolistic economy.

E. Significant Marketers Who Used Key Economics Principles

1. Henry Ford and J. C. Penney
 - Henry Ford revolutionized the automotive manufacturing world through standardization of production and economies of scale.
 - J. C. Penney revolutionized the world of retailing by techniques of mass merchandising, concentrated buying (thereby affecting economies of scale).
2. Ray Kroc, Colonel Sanders and Sam Walton
 - Ray Kroc revolutionized the delivery of food service by standardizing product line, assuring consistent product quality, and delivering the product in fast time ("fast" food).
 - Colonel Sanders revolutionized the food service industry by standardizing the take-out business, ordering on mass scale, and controlling quality.
3. Sam Walton revolutionized the delivery of variety goods through mass discounting practices and super stores (most recently hyper-stores).
4. Businesses which used key economic concepts to revolutionized their industries:
 - Federal Express—utilized hub and spoke marketing to affect major savings in time, dollars, and efficiency.
 - Avon and Fuller Brush—utilized a heretofore dormant workforce and in-home, personal sales approach to market personal and home products.

Additional Resources: <http://www.virtualenterprise.org>

How to Sell—Students learn to "sell" in a virtual world when many of the same sales techniques exist for the real world.

Trade Fairs—Students in each Virtual Enterprise company learn how to prepare for the Virtual Enterprise trade show(s), once decided upon, in the possible following ways: budget, staffing the booth, booth design, special promotions, direct mail, company literature, company catalogs, giveaways, product demonstrations, marketing and sales strategies, and follow-up strategies.

Internet Searches—Students conduct internet searches using Boolean operators and other advanced tools.

E-Commerce—A complete E-Commerce curriculum to use as a stand-alone course or for infusion into existing business education courses. Includes media and learning activity Packages. Development of this E-Commerce curriculum is a joint project of the California Department of Education and the Mark-ed Career Paths Resource Center. Information and ordering procedures at: <http://www.marked.org>

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Entrepreneurship Written Project

www.deca.org/publications/HS_Guide/ENW2004.pdf

International Business Plan

www.deca.org/publications/HS_Guide/IBP2004.pdf

E-Commerce Business Plan

www.deca.org/publications/HS_Guide/EBP2004.pdf

Entrepreneurship Participating

www.deca.org/publications/HS_Guide/ENPI-F2004.pdf

FBLA

Economics Introduction to Business Marketing

www.cafbla.org/competitive_guidelines.shtml

Ingredients and Actions of Economic Systems-07

STANDARD AND BENCHMARKS

Standard

07-00 Students will be able to describe the historical origins and the impact of government on the development of the three most common economic systems, they will demonstrate competence by relating the three economic questions to each of the economic systems.

Benchmarks

07-01 Economic Systems

- Three questions that all systems must answer: what to produce; how to produce; and for whom to produce.
- Market economy
- Command economy
- Mixed economy

07-02 The Role of Government in the Economic System

- Describe the extent of government intervention in each of the three kinds of economic systems.
- Discuss government ownership of resources as a way to determine the extent of government intervention in the economy.
- Draw a continuum representing the three kinds of economic systems.

INSTRUCTIONAL IDEAS

General Information

In the last unit, the beliefs of key economic theorists were discussed. In this unit, we move from the theorists to a discussion of the economic systems that their theory spawned. In particular the basics of the market economy, and mixed economy will be discussed. It is important that students grasp that these economies did not suddenly thrust themselves onto the international scene, but were under girded from the beginning with theoretical underpinnings. Students should be able to grasp from this unit that there are distinct origins to the makeup of varying economic systems.

With the recent changes in Eastern Europe, there should be significant interest in this unit. Understanding the basic makeup of the economic system in the United States and other areas of the world has always been of immense interest to students once their interest is piqued. This unit is one of particular interest to students because it discusses such widely divergent concepts as supply and demand, other economic systems, prices, shortages and surpluses, as well as poverty. Once again, however, the emphasis must be on involvement—for without involvement students fail to grasp how these concepts really affect them either as consumers or as future business owners. Hopefully, the teaching strategies suggested in this section will stimulate your own idea-bank so that students will come to class each day loaded with questions about the American economy.

Benchmark Specific Instructional Ideas

07-01 Presentation of Economic Systems

- A. Three questions that all systems must answer
 - 1. What to produce
 - 2. How to produce
 - 3. For whom to produce it
- B. Market economy defined as one in which economic choices made by what individuals choose and the way this choice affects particular industries
- C. Command economy is one in which the three economic questions of what, how, and for whom to produce are decided by government

D. Mixed economy is one in which the three economic questions of what, how, and for whom to produce are decided by a combination of market decision-making and government decree

1. See the Tree of Economics at the conclusion of this unit.

E. Historical implications of each of these systems on business ownership

1. Discuss the theorists in the last chapter and how each relates to a distinct economic system.
2. Emphasize again the extent to which each of these theorists is arguing for a means of allocating scarce resources.
 - Ask: "What means for allocation does the market economy suggest? Command economy?"
 - Ask: "What are the strengths and weaknesses of each allocation system?"
 - Ask: "Why does 'Democracy' always get confused with the economic system, especially in the West?"

F. The reliance of the U.S. economic system on choices to answer the questions:

1. What to produce
2. How to produce it
3. For whom to produce

G. Relate choices to business ownership

1. Entrepreneurs make many individual choices each day.
 - What product to sell?
 - How is the product to be brought to the market, inventoried, priced, and sold?
 - For which group (target market) is the product intended?

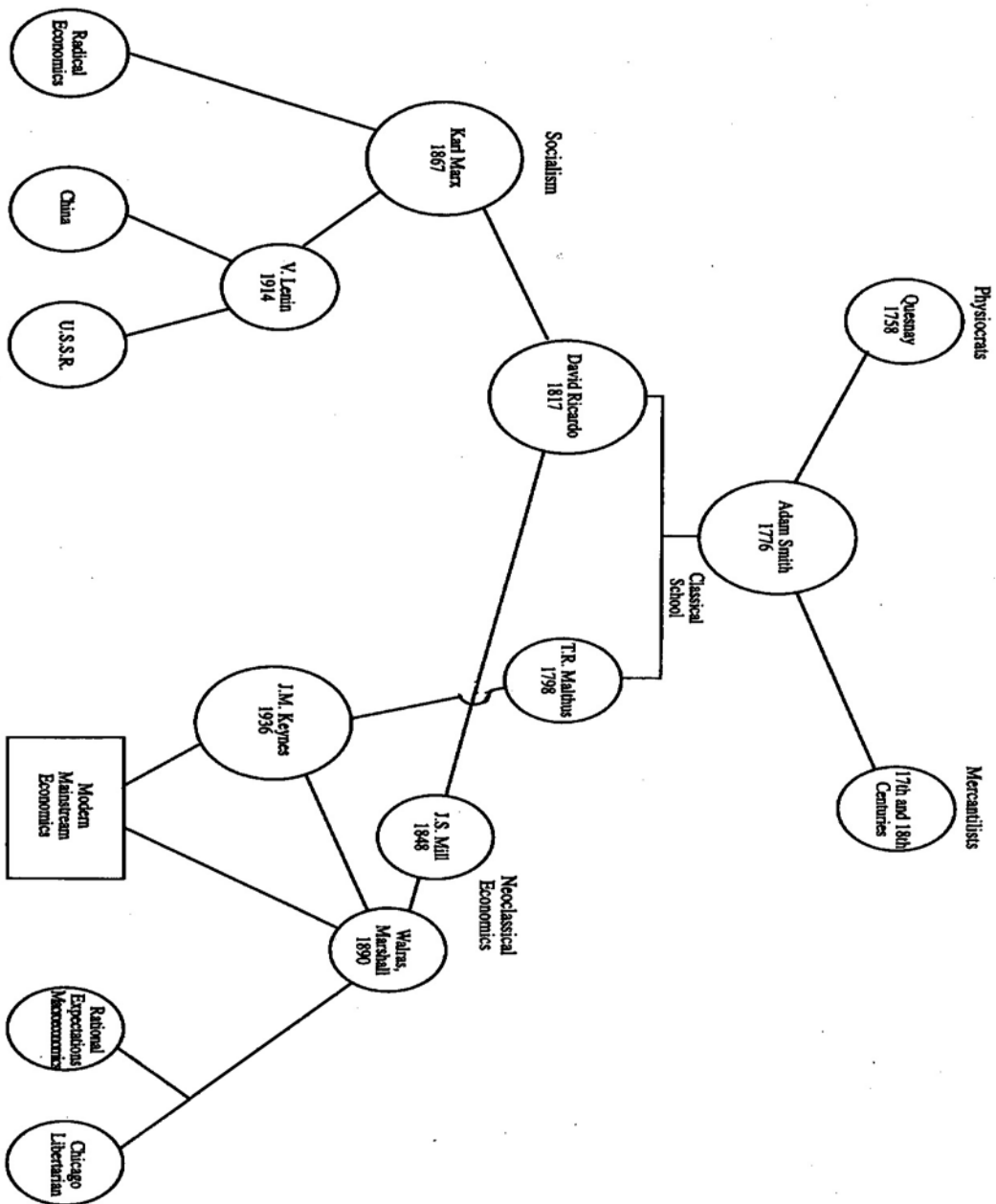
07-02 Role of Government in Economic Systems

A. Extent of government intervention in three systems described above

1. Ownership of resources—a way to gauge government intervention

2. This is a key question that students should be constantly encouraged to ask: "Who owns the resources?"
3. This line of questioning assists us in determining how much a particular government is intervening in the economy.

TREE OF ECONOMICS



Source: Samuelson, P., *Economics 12/E*, McGraw Hill Book Company, New York, NY, 1989, (inside cover-back).

The International Economy-08

STANDARD AND BENCHMARKS

Standard

08-00 Students will be able to describe the role, importance and terminology related to the International Economy. They will demonstrate competence by discussing the economic principles that explain the need for international trade.

Benchmarks

08-01 International Trade

- Define terms related to international trade.
- Explain the role of imports and exports in the U.S. economic system.
- Distinguish between absolute advantage and comparative advantage.

08-02 Balance of Trade and Exchange Rates

- Define balance of trade.
- Give an example of an exchange rate.
- Explain flexible exchange rates.
- List the three top import items and the three top export items in the U.S. economy.

08-03 Comparative and Absolute Advantage

- Define comparative and absolute advantage.
- Explain the importance of each concept to the international economy.

INSTRUCTIONAL IDEAS

General Information

There are few who would doubt that all facets of American economic life are becoming internationalized. The steel industry, textiles industry and shoe industry are three important areas of the U.S. economy that have felt the pressure of international competition. However it is viewed, few doubt that the opening up of the international market is transforming the way businesses operate. Whether it is fruit raised in California and fed to cattle in the Soviet Union or shoes manufactures in Brazil being worn in California, an exchange transaction has taken place in this trading of goods and services that links the world together.

In this unit, students will explore the field of international marketing from a unique perspective: the advantages and disadvantages of international marketing are discussed, but so are the economic concept of trade surplus and exchange rates. It is suggested that the unit be framed in global terms for students by beginning with a discussion of what items of clothing, personal belongings, etc., students presently own that come from a foreign country (important). Once students are involved, shift to a question as to what items are exported from the United States. What happens if countries ship more things into the U.S. than we ship out of the U.S.? You can see easily where this line of questioning leads quite naturally into issues of balance of trade, how trade exports are measured and the advantages and disadvantages of international marketing. The class can then conclude with questions aimed at understanding the role of comparative and absolute advantage in international trade.

Benchmark Specific Instructional Ideas

08-01 International Marketing

A. Terms related to international trade (international trade is used interchangeably with international marketing)

1. Terms used in talking about international marketing area:

- Imports
- Exports
- Balance of trade
- Exchange rate

- International trade
- Absolute advantage
- Comparative advantage

B. Role of imports and exports in U.S. economy

1. Advantages to consumers are:

- Wider selection of goods
- Lower prices

2. Advantages to producers (workers also):

- Increased employment (5 million U.S. workers are employed in export-related industries).
- Economics of scale—larger market leads to more manufactures at a lower price.

C. Percentage of GNP of world trade

1. Imports and exports account for 10 to 25% of our GNP-experts differ on the exact percentage.
2. August 2000, 85 billion dollars worth of goods were exported and 114 billion were imported. What was the trade gap in August?

08-02 Balance of Trade and Exchange Rates

A. Balance of trade

1. Balance of trade is defined as the difference between the value of imports and exports.
2. Balance of trade is favorable when a national exports more than it imports.
3. The U.S. balance of trade has been unfavorable (negative) the last few years.
4. What is the primary result of negative balance of trade?
 - Millions of jobs are lost, many of which are high paying.
5. Balance of payments represents the total of all monies received from other countries minus the amount spent in other countries.

- Includes other things in addition to imports and exports (profits coming to U.S. from multinational corporations, etc.).

B. Exchange rates

1. The exchange rate is the price of one currency in terms of another.
2. Example: In 2002, the number of English Pounds that could be bought for \$1 was .69. A \$20,000 car would cost 13,800 Pounds.
3. The exchange rate changes frequently and is affected by demand for a country's goods and services.
 - This is a good place to review supply and demand—as demand for goods increases what is likely to happen to the price of a yen? So—the dollar will buy fewer yen. What is happening today in world markets?

C. Flexible exchange rates

1. Flexible exchange rates (also called Floating Exchange Rate) means that the price of a nation's currency changes from day to day or hour to hour.
2. See 8-02, B. 3 above.

D. To import and export items

1. Three top imports
 - Petroleum
 - Machinery
 - Automobiles and parts
2. Three top exports
 - Chemicals
 - Grains
 - Electronics

08-03 Comparative and Absolute Advantage in International Trade

A. Absolute advantage is achieved when a nation is the only one producing and trading a product.

1. Can result from a nation's natural resources, labor, technology, or climate.

2. Diamonds from South Africa and coffee from Brazil are two examples of absolute advantage.

B. Comparative advantage is achieved when a nation specializes in trading those products which they can produce more efficiently at a lower cost.

1. The U.S. has a comparative advantage in production of airplanes, electrical machinery, space technology items, and computers.

C. Importance to international economies: production costs in each nation are kept as low as possible; by specializing and trading, each nation will have more goods to use at a lower costs than if each nation produced all it used.

Additional Resources:

DECA

International Business Plan

www.deca.org/publications/HS_Guide/IBP2004.pdf

E-Commerce Business Plan

www.deca.org/publications/HS_Guide/EBP2004.pdf

FBLA

Economics Future Business Leader International Business

www.cafbla.org/competitive_guidelines.shtml

Agriculture in the U.S. and World Economy-09

STANDARD AND BENCHMARKS

Standard

09-00 Students will understand the role and importance of agriculture in the U. S. economy and world economy. They will demonstrate competence by describing how a country's infrastructure influences its interaction with the international agriculture economy.

Benchmarks

09-01 Agriculture in the U.S. Economy and World Economy

- Describe the size and importance of agriculture in the U.S. economy.
- Describe the role of agriculture middle-men.
- Identify the three marketing services that one needed for farm products.
- Explain how excellent production sometimes harms farmers.
- Define government policies toward agriculture.
- Identify the impact and role of farm cooperatives in the U.S. economy.

09-02 Third World Nations' Economic Development

- List the measures used to determine economic development of third world countries.
- Cite three reasons for the lack of development of third world nations.
- Describe what is needed to achieve economic growth in under developed nations.
- Explain how free enterprise principles might assist under developed nations.
- Discuss the World Bank and the International Monetary Fund's activities with under developed countries.

INSTRUCTIONAL IDEAS

General Information

In earlier units we have learned about scarcity and allocation, and in the last unit the issues of comparative and absolute advantage. This unit turns to an area in which the U.S. has enjoyed considerable advantage in a world of scarcity—agriculture. Just as importantly, however, is the way the U.S. agricultural markets interact with the international economy. This unit encourages students to examine the specifics of U.S. agriculture, but to also place those understandings within the larger world economic context. Finally, a consideration of Third World countries (lesser developed nations) is covered in order for students to see the larger economic picture.

Benchmark Specific Instructional Ideas

09-01 Agriculture in U.S. and World Economy

A. Size and importance of agriculture

1. Gross cash income on farms was \$220 billion in 2000, compared with \$228 billion in 1997. (Only 20% of farm products reach the consumer without undergoing a major change in form—an example is eggs).
2. The number of farms continues to decline, from three million in 1984 to two million in 2000.
3. Discuss why the number of farmers and farms has declined constantly from 1933 to 2000.
4. Farm exports are projected to increase from 57 billion in 1997 to 85 billion by the year 2007. What impact will these exports have on the economy as a whole?

B. The role of middlemen

1. Farmers must operate through middlemen.

- Middlemen are business organizations like wholesalers and retailers that perform buying and services that assist the flow of goods from the producer to the consumer.
2. Two million American farms produce strictly for the industrial export and consumer markets.

C. Marketing services used in marketing farm products

1. The three marketing services needed are:
 - Transportation
 - Storage
 - Grading and standardization
2. Farm products often end up being more expensive to market than other industrial products because of the uniqueness of these three functions.
3. These three services not only add to final cost but also add to the final value of the product.

D. How excellent farming sometimes harms farmers

1. Review supply and demand principles related to farm products.
2. Cover the decline in the number of farms and how supply affects this decline.

E. Government policies toward agriculture

1. The policy of parity was established in 1933 with the Agriculture Adjustment Act.
2. Parity means supporting farm prices at levels high enough to enable farmers to achieve real incomes during both the "good years" and the bad years.
3. Types of parity programs:
 - Price supports
 - Restricting supply
 - Increasing demand

F. Farm cooperatives in the U.S. economy

1. Farm cooperatives are formed by farmers banding together to process and market their products.
2. Farm cooperatives make it possible to compete with larger central markets such as the Chicago livestock market.
3. Farm cooperatives use the following market techniques:
 - Withhold some of the season's harvest in order to market it at a better time.
 - Process farm products for its members. Milk is a good example.
 - Advertise products of its members to stimulate demand.
 - Offer greater quantities, therefore increasing its bargaining powers with buyers.
 - Assure uniform quality products through standardization and grading.

09-02 Third World Countries (also Called Lesser Developed Countries (LDCs))

B. Measures of economic development

1. The level of income per person (per capita) is used to measure economic development in LDCs.
 - Countries having less than \$2,000 per year per capita are designated LDCs.
 - Middle income in LDCs is \$1,200–\$2,000 while low income is defined as less than \$1,200.
2. Other measures of economic development include:
 - Average educational levels
 - Numbers of doctors per 1,000 people
 - Percentage of people who own radios, TVs, and telephones

C. Three reasons for the lack of development of LDCs

1. Inadequate saving and capital goods
2. Rapid population growth
3. Property rights and problems with political structure

D. Economic growth in LDCs requires:

1. Modernizing agriculture.
2. Educating and training the work force.
3. Building capital.
4. Controlling population growth.
5. Encouraging international trade.

E. World Bank and the International Monetary Fund

1. International Monetary Fund was formed in 1944 and today provides monetary relief for transient monetary problems that disturb a country's international payments equilibrium.
 - For relatively short-run balance of payments deficit financing
2. World Bank—provides long-term financial assistance to LDCs dealing primarily with economic development.
 - It acts like a United Nations agency.

Tools for Measuring Economic Performance-10

STANDARD AND BENCHMARKS

Standard

10-00 Students will understand the importance of measuring economic performance and the tools used to measure economic performance. Students will demonstrate competence by using macroeconomic concepts in making business decisions.

Benchmarks

10-01 Methods to Measure Economic Performance

- Define macroeconomics and microeconomics
- Distinguish between macro and microeconomics.
- List the four topics with which macroeconomics is concerned.

10-02 Gross National Product and National Income

- Define GNP.
- Define the GNP equation.
- Explain National Income Accounting.
- Give examples of goods and services and the way they are measured to form GNP.
- Distinguish between "final" goods and "intermediate" goods when measuring GNP.
- Explain why the GNP is an important measure of a nation's well-being.

10-03 Circular Flow

- Explain the circular flow of income and products.
- Describe what happens when savings equals planned investment.
- Identify the purpose of saving to the circular flow.

10-04 Inflation and Deflation

- Define inflation.
- Explain how the Consumer Price Index (CPI) relates to inflation.
- Give examples of how the CPA is compiled to arrive at an inflation rate.
- Distinguish between: demand-pull inflation, and cost-push inflation.
- Define deflation.

10-05 Unemployment

- Define unemployment.
- Describe four kinds of employment.
- Measure the unemployment rate.
- Describe the differences by age, race, and gender of unemployment.

10-06 Aggregate Demand and Aggregate Supply

- Define aggregate demand and supply.
- Determine the slope of aggregate supply and demand curves.
- Describe the relationship of aggregate demand and supply to macroeconomic equilibrium.

10-07 Business Cycles

- Define business cycles.
- Discuss business cycle occurrences in the 20th century in American
- Identify five factors that affect business cycle occurrences.

INSTRUCTIONAL IDEAS

General Information

Economists utilize a number of different tools in order to measure the health of the U.S. economy. As social scientists, they are concerned with measuring and evaluating the total level of economic activity in the economy in four distinct areas:

- 1) The total level of employment
- 2) The general level of prices
- 3) The level of national income
- 4) The total amount of consumption and production

Each of these areas will be covered in this unit. There are many ways to depict the flow of the national economy but perhaps the circular flow diagram on page 93 of this section is the best way to depict it for the students.

Coverage of this diagram leads nicely into a presentation of measuring and evaluating the total level of economic activity in the economy in the four areas listed above.

Benchmark Specific Instructional Ideas

10-01 Measuring Economic Performance

A. Define macroeconomics and microeconomics

1. Microeconomics is the study of the activity of individual units in the economy. Examples:
 - A micro-oriented person is interested in the effect of a company's price increase on consumer demand for the product.
 - In this case the focus is on the company's interrelationship with its market.
2. Macroeconomics is the study of the overall economic activity and the interaction between major sectors (parts) of the economy. Examples:
 - A macro-oriented person is interested in the impact of a tax cut on consumer spending.
 - The focus of this person is broader (more national or international) than a micro-oriented person.

B. Distinguish between macroeconomics and microeconomics

1. Assist students to see the difference between the macro and micro picture.
 - Bring newspaper business sections and have students figure out which is which.
 - Students should notice that most of newspaper coverage is macroeconomics in coverage.
 - Bring a magazine to class, such as INC. and have students identify the kinds of articles contained in the magazine.
2. Discuss with students the interrelatedness of macro and microeconomics.
 - Business owners cannot afford to ignore the big picture. Why not?

C. Four topics of macroeconomics

1. Total level of employment
2. General level of prices
3. Level of national income
4. Total amount of consumption and production
 - Explaining ups and downs (often called business cycles) in these four areas is a major concern for economists.

10-02 Gross national Product and National Income Accounting

- A. Define the GNP
- B. The GNP equation is $C+I+G=GNP$, where C=Consumption, I=Investment, and G=Government
- C. Examples of goods and services
- D. Distinguish final goods and intermediate goods
 1. Final goods—those finally produced items such as cars, stoves, refrigerators, etc. —included in GNP.

2. Intermediate goods—goods that are used to produce other goods such as rubber and steel—not included in GNP.
3. Distinction is important; otherwise rubber and steel would be counted twice in measuring the GNP making it inaccurate.

E. Why GNP is an important measurement of well-being

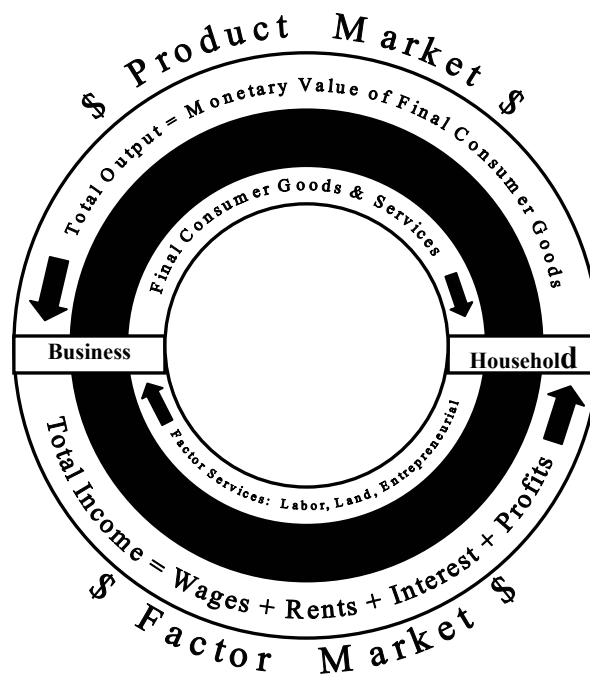
F. National income accounting

1. Defined: The measurement of the income of the nation from the production (land, labor, capital) of goods and services.
2. Computed as follows: Wages + supplements + corporate profits + proprietor's income + net interest + rental income = National Income.
3. Another method of computing national income: Subtracting depreciation from the GNP and then subtracting indirect business taxes from the net national product (NNP).

10-03 Circular Flow

A. Circular flow of income and products

1. The circular flow goes from households to factor markets to businesses; from businesses to product markets to households.
2. See circular flow to income below for a simple representation of the flow of income between households and businesses.

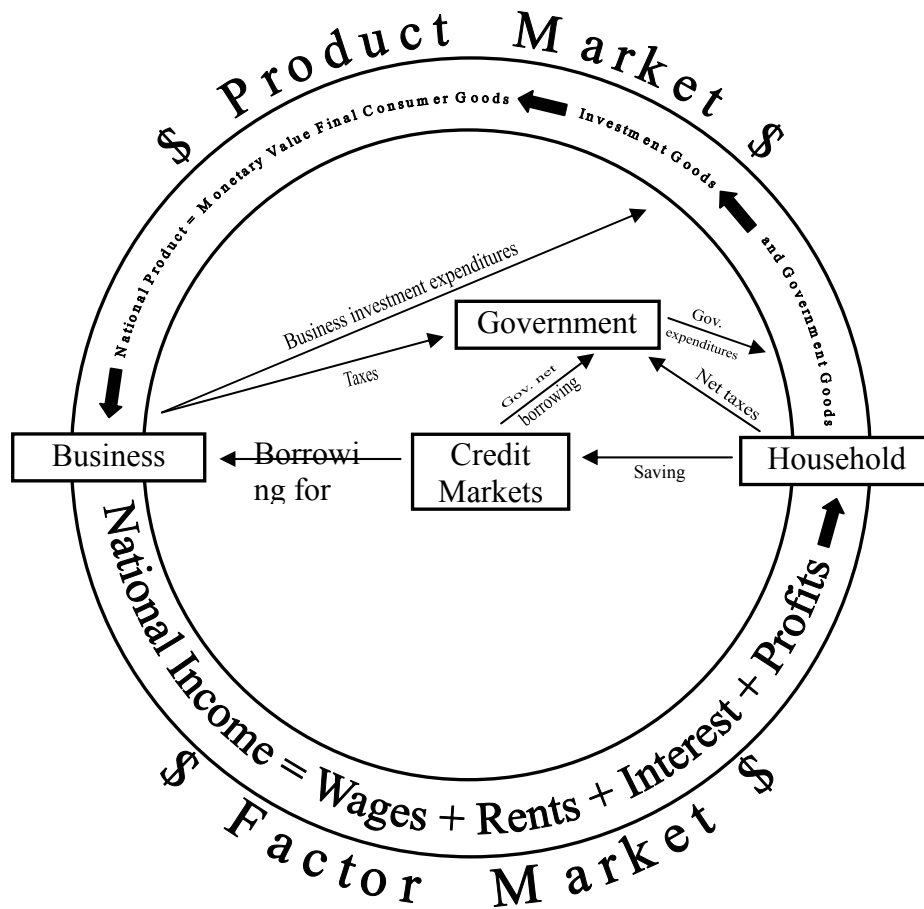


Source: R.L. Miller,
Economics Today, 5/E,
Harper and Row
Publishers, New York,
NY, 1985, p. 173

3. Two key principles in the concept of circular flow (ignoring taxes):

- In every economic exchange, the seller receives exactly the same amount that the buyer spends.
- Goods and services flow in one direction and money flows in the other.

4. The circular flow of income with government added is shown below:



Source: R.L. Miller, Economics Today, 5/E, Harper and Row Publishers, New York, NY, 1985, p. 184

Note that government expenditures on goods and services make total output expand; and hence equals the monetary value of total consumer, investment, and government goods purchased.

- B. The role of saving
 - 1. When saving equals planned investment there is equilibrium in the circular flow; when planned saving does not equal planned investment there is disequilibria.
- C. The purpose of saving to the circular flow
 - 1. Planned saving affects equilibrium in the circular flow.
 - 2. Actual saving is brought into equilibrium with actual investment of unplanned changes in business inventories.

10-04 Inflation and Deflation

- A. Inflation—the economic condition in which the average level of prices goes up.
- B. How do we know what the rate of inflation is the consumer price indices (CPI) is one of the prices indices used to measure inflation.
- C. Demand–pull inflation is too many dollars chasing too few goods.
 - 1. Too many dollars means that the total demand in the economy is too high.
 - 2. Too few goods means that the total supply in the economy is too low compared to the demand.
- D. Cost–pull inflation is a rise in the general level of prices caused by increased costs of making and selling goods.
- E. Deflation is a period of time in which prices are falling contrasted with inflation when prices are generally increasing.

10-05 Measures of Unemployment

- A. Unemployment is the condition in which those who are willing and able to work and are actually seeking work are not working.
 - 1. Explain the two conditions of this definition to students.
- B. Four kinds of unemployment
 - 1. Frictional unemployment—no work that fits a seeking worker's qualification.
 - 2. Seasonal unemployment—out of work because of seasonal factors.
 - 3. Structural unemployment—no work because skills do not match what employers need or because of geographic separation from employment opportunities.

4. Cyclical unemployment—no work because the level of demand for goods and services in the economy is too low.

C. Measuring the Unemployment Rate

1. Unemployment rate is figured this way: (Number of employed/number in labor force x 100=unemployment rate)

D. Differences in unemployment by sex, age and race

10-06 Aggregate Demand and Aggregate Supply

A. Aggregate demand and aggregate supply defined.

1. Aggregate demand—the total demand of all people for all goods and services produces in a whole economy
 - To eliminate the effect of inflation, this is measured in real terms, or in constant dollars.
2. Aggregate supply—the total supply of all goods and services in the entire economy.

B. Slope of curve for aggregate demand and aggregate supply

1. Aggregate demand curve slopes similar to the individual demand curve covered above—down and to the right.
 - Reflects the fact that the lower the price the more real output will be demanded.
2. Aggregate supply curve slopes up to the right—similar to individual company and market supply.
 - Reflects the fact that more will be supplied at higher prices than at lower prices.

C. Relationship to macroeconomics equilibrium

1. When aggregate demand equals aggregate supply there is equilibrium.
 - The point where the two sloping lines meet is the equilibrium point.

10-07 Business Cycles

A. Business cycles defined

1. Fluctuations (economy moves ahead and then slows down) in economic activity are called business cycles.

2. The four phases of the business cycle are:
 - Prosperity—time of economic growth (demand is up, GNP growing, unemployment low).
 - Recession—slowing of the economy (demand decreases—business activity slows, unemployment begins to rise).
 - Depression—results after long recession (wide-spread unemployment, sharp downturn in business activity, GNP down dramatically, general poverty conditions).
 - Recovery—economy begins to rebound (demand rises, new jobs are created, less unemployment, both GNP and business activity rise due to people having spending money again).

B. America's business cycles in the 20th century

1. During the 20th century, the U.S. economic system has passed through many business cycles.

C. Five factors which affect business cycles

1. The money supply
2. Changes in demand
3. Business investments
4. Population changes
5. Psychological factors

Additional Resources:

FBLA

Accounting I
Accounting II
Business Plan
Economics

www.cafbla.org/competitive_guidelines.shtml

Money and Financing the Business-11

STANDARD AND BENCHMARKS

Standard

11-00 Students will understand how monetary policy affects the economy and the availability of money and credit. They will demonstrate competence by applying these concepts to acquiring financing for a business.

Benchmarks

11-01 Money Supply

- Explain the importance of money to the economy.
- Describe where money comes from (is created).
- State why money supply and the demand for money must be balanced.

11-02 Financial Institution and the Federal Reserve

- List the various types of financial institutions.
- Explain the fractional requirements of the reserve banking system.
- State the role of the Federal Reserve System in affecting the supply of money.

11-03 Monetary Policy

- Describe the role of the Federal Reserve System in monetary policy setting.
- List three ways the Federal Reserve System causes the supply of money to rise and fall.
- Explain how monetary policy affects the economy and the future business owner.

11-04 Borrowing and Interest Rates

- List the ways money is borrowed.
- State three reasons for the entrepreneur to borrow.
- Explain how interest rates are determined.
- Compare two annual percentage rates (APRs) involved in purchasing a new car.

11-05 Saving and Investing

- List the reasons for saving.
- Identify three ways to save.

- Identify two possible investment vehicles.
 - Design a personal investment portfolio.
- 11-06 Financing the Business
- Explain the importance of financing in order to ensure business success.
- 11-07 Business Financing
- List three areas that are most often in need of financing.
 - Explain why each of these three areas need to be financed.
 - Identify two basic methods of financing: debt and equity.
- 11-08 Factors in Granting Credit
- List the three "Cs" of credit evaluation.
 - Evaluate each of the "Cs" in the light of their own personal situation.
- 11-09 Extending Credit
- List six reasons credit may be offered by a business.
 - State the basic policy considerations for offering credit.
- 11-10 Evaluating Credit Applicants
- Describe guidelines for evaluating applicants.
 - List basic information needed to evaluate an applicant for credit.
- 11-11 Credit Plans
- State the advantages and disadvantages of three different types of credit plans.
 - Describe which credit plans could be most easily adapted to his/her prospective small business.
 - Explain how credit cards differ from basic credit plans.
- 11-12 Consumer Rights and Responsibilities
- Describe importance of a healthy business-consumer relationship.
 - Explain how government regulation protects the consumer, but that such protection costs the consumer in three ways.
 - Describe the origin of consumer protection through:
 - Food and Drug Administration Acts (beginning in 1906)
 - Fair Packaging and Labeling Act of 1966
 - Consumer Product Safety Commission (begun in 1973).
 - List the acts that constitute fraud and deception and the available remedies for each.
 - Explain the difference between an implied warranty and an expressed warranty and the protection that each offers.
 - List the steps to go through to obtain a legal remedy.
- 11-13 Property Rights and Contracts
- Define property rights.

- Describe ownership of labor.
- Explain the role of government in establishing and enforcing laws and defining the rights of consumers.
- Define a contract.
- Explain the relationship of contracts to effective small business ownership and management.

11-14 Principles of Collection

- Discuss why collection procedures are needed and the importance of collection to maintaining a profitable business.
- List four effective collection procedures.
- Explain the services offered by collection companies and the way in which they operate.
- Describe three common attitude problems managers have with credit collections.

11-15 Credit and Collection Law

- Identify what each of the following statutes govern:
 - Truth-in-Lending Act
 - Equal Credit
 - Opportunity Act
 - Fair Credit
 - Reporting Act
 - Equal Opportunity Act

INSTRUCTIONAL IDEAS

General Information

What could be more critical to beginning a business than an understanding of how to finance it? In fact, the Small Business Administration states that, of the businesses that fail in the first year, a majority fail due to inadequate capital resources. For this reason alone our future business leaders must master the financial side of the business.

This unit faces the "financing of the business" from a very unique perspective. First of all, our future business owner is introduced to the supply of money in the U.S. and its chief dispensers, the Federal Reserve System through financial institutions. Second, the student is given a brief overview of monetary policy including the way monetary policy affects the economy. Third, the student is informed of savings institutions economy. Third, the student is informed of savings institutions in the economy and the way that borrowing and interest rates affect the business owner. Finally, the student's specific prospective business is studied from the viewpoint of one interested in securing financing. What kind of financing is available? How is it done? What do financing institutions look for when evaluating loan applications?

The second focus of this chapter is on credit and collections. Credit has become an accepted way of doing business in the American business world. Most consumers have several different credit cards, are presently purchasing their home through a bank mortgage. In essence, our present society would come to a grinding halt without credit. It is important to note that the principles of credit and collection have been interwoven with a strong dosage of consumer rights and responsibilities, warranties and contracts. Certainly, business owners must understand not only what procedures are needed for effective credit and collection but also know how consumers are protected in the process.

Benchmark Specific Instructional Ideas

11-01 Supply of Money in the U.S.

A. Importance of money to the economy

1. Explain the barter system and why it is inefficient as a medium of exchange in our economy:
 - Exact matching of goods and services is difficult.
 - Inexactness calls for a series of trades to be made.

2. Money solves the inefficiency problem.
3. Money is defined as: that which people are willing to accept as payment of the goods and services they sell.
4. Money is important because it accomplished three things:
 - Money is a medium of exchange.
 - Money is a store of value.
 - Money is a unit of account.

B. Where money comes from

1. The Constitution gives the federal government a monopoly over money; "No state shall . . . coin money . . . The congress shall have power . . . to coin money and regulate the value thereof . . .
2. Coins are made of the Department of the Treasury in Denver ("D") and San Francisco ("S"),
3. Currency (such as dollar bills) is printed by the Treasury under the direction of the Federal Reserve System.

C. The money supply and demand for money must be balanced

1. Two general rules are:
 - The lower the interest rate, the greater the demand for money.
 - The higher the interest rate, the lesser the demand for money.
 - The Federal Reserve System controls how much money exists in the economy, primarily through setting the reserve ratio.

11-02 Financial Institutions and the Federal Reserve System (Frequently called "The Fed")

A. Various types of financial institutions

1. Commercial banks—originally designed to make loans to commercial customers but today offer many services such as:
 - Savings
 - Checking
 - Rent safe deposit boxes
 - Issue credit cards
 - Travelers checks
 - Demand deposits
 - Now accounts

2. Non-bank Financial Intermediaries: Savings and Loan Associations (S&Ls), Mutual Savings Banks, Credit Unions, Banks or Cooperatives and Federal Land Banks.

B. Fractional requirements of the Federal Reserve System

1. Banks must keep some fraction (or part) of their deposits in the form of reserves.
2. Resources are monies that must be kept at the bank in its vaults and on deposit at the Federal Reserve Banks.
3. Any monies held in the bank in excess of the required fractional reserve can theoretically be loaned by the bank.

C. Example of Federal Reserve requirement of banks

1. Let's assume you have \$10,000 to open a new checking account. You open the account and deposit the money at ABC Bank. If the reserve requirement is 10%, the bank puts \$1,000 into its vault and then theoretically can both meet your needs on withdrawing from the account as well as lend some of it out.
2. Your entire \$10,000 is insured by the Fed (FDIC), so there is no worry if the bank used the excess reserves (\$10,000-\$1,000+\$9,000 excess reserves) to loan out. Your confidence in the banking system is what makes it work.
3. What happens if you and millions of others panic and want all their money out at the same time? TROUBLE.
4. The financial collapse of 1929 (The Depression follows) and its effect on banking institutions can be covered in this context.
 - This is an excellent opportunity to discuss The Great Depression:
 - What caused The Great Depression?
 - How has the economy stabilized since the 1930s?
 - How do we prevent reoccurrences of the Great Depression today?

D. The role of the Federal Reserve System in affecting the supply of money

1. The Federal Reserve System functions are a banker's bank, issues currency, clears checks and acts as a bank for the government.
2. Encourage students to think of their relationship to the bank when applying for a car loan—if the bank doesn't give the money to them for the car, they have a mini-picture of the way the Federal Reserve System withholds money from banks via various monetary policies.

11-03 A Brief Look at Monetary Policy

A. Role of the Federal Reserve System in setting monetary policy

1. The Federal Reserve System sets monetary policy by controlling how much money exists in the economy (partly by setting the reserve ratio referred to above).

B. Three ways the federal reserve system causes the supply of money to rise and fall

1. Changing reserve requirement.
2. Changing discount rate.
3. Open market operations.

C. Monetary policy and its effect on the economy

1. Interest and the housing market—as interest rates rise housing costs rise.
2. Interest and investment in inventories and equipment—as interest rates rise businesses keep less inventory.
3. Interest and personal spending—as interest rates rise, consumers spend less on higher priced goods that need to be financed.

11-04 Borrowing and Interest Rates

A. Way of borrowing

1. Mortgage loans
2. Installment loans
3. Credit cards
4. Line of credit

B. Reasons a Businessperson would consider borrowing

1. Investment in inventory
2. Beginning a new business
3. Expand a business

C. How interest rates are determined

1. Credit cards—usually 1.5% per month at 18%-21% per year.
2. Mortgage loans—largely determined by the discount rate offered to banks by the Federal Reserve System and what the market will bear.
 - Explain variable rate mortgages
 - Conventional mortgage
 - FHA and points
3. Installment loans—largely determined by what the market will bear and Federal Reserve System monetary policy.
4. Annual percentage rate (APR) is the best measure of an interest rate.
APR=(total interest–average amt. Owed x 100)
 - Presume \$100 is owed in interest on a balance of \$978:
–\$100 - \$978 x 100 = 10.2%

D. Compare two annual percentage rates (APRs)

1. Ask students to bring o class two ads from Sunday's paper in which new cars are advertised with APR in fine print at the bottom.
2. Conduct a discussion of how these APRs are arrived at by the car dealer.

11-05 Saving and Investment in the U.S. Economy

A. Reasons for saving

1. Security
2. Future purchases
3. Retirement

B. Three ways to save

1. Passbook savings account
2. Certificate of deposit (CD)
3. Money market deposit account

C. Two additional possible investment vehicles

1. Stocks and bonds

2. Real estate

D. Personal investment portfolio

1. Urge students to figure out how much/what percentages of their assets should be held in each of these savings and investment vehicles.
2. Have a local financial advisor come into class and explain what an investment portfolio should look like.

11-06 Financing the Business

A. Importance of financing to ensure business success

1. Financing is one of the keys to successfully starting a business.
2. Choices for success are limited without adequate financing.

11-07 Various Aspects of the Business That Need to be Financed.

A. Three areas most often in need of financing are:

1. Start-up costs
 - Equipment and fixtures
 - Beginning inventory
 - Deposits for rent
 - Physical changes to building
 - Business licenses
 - Advertising kick-off campaign
2. Operating expenses
 - Supplies
 - Inventory
 - Payroll
 - Taxes
 - Rent
 - Utilities
 - Insurance
 - Advertising
 - Maintenance

3. Personal expenses
 - Rent or mortgage payment
 - Food
 - Transportation
 - Clothing
 - Utilities
 - Medical bills
 - Entertainment

B. Why do start-up costs, operating expenses and personal expenses need financing

1. Heavy front-end costs are difficult to save for.
2. Expanding a going business may call for retooling.
3. Seasonal businesses may have a difficult year and not be able to survive the rest of the year.

C. Two basic methods of financing

1. Equity financing
 - Savings
 - Family and friends
 - Partners
 - Incorporating and selling stocks
 - Venture capital

2. Debt financing

- Borrowing from financial institutions listed above in 11-02, A.

D. Combining equity and debt financing to finance a beginning business

1. Most beginning businesses use a combination of debt and equity financing.
2. Invite a banker to class to discuss how these two methods of financing are typically combined for a beginning business.

11-08 How Financial Institutions Grant Credit

A. Three "Cs" of credit evaluation

1. Character

2. Capacity
3. Capital

B. Personally evaluate three "Cs"

1. After explaining each of the three Cs, have students evaluate themselves in these three areas.
2. Personally familiarize students with a credit application by having them fill one out.

11-09 Credit in the Business

A. Six reasons for offering credit

1. Create customer loyalty.
2. Credit customers buy more freely.
3. Attracts customers who may pay more for quality.
4. Builds goodwill.
5. Smooths out business peaks.
6. Customer may be less price conscious.

B. The basic policy considerations for offering credit

1. Easy credit and collection policy.
2. Strict guidelines and enforcing collection dates.

11-10 Evaluating credit applicants

A. Describe the guidelines used in evaluating credit applicants

1. Three "Cs"—character, capacity and capital.

B. Basic information needed on credit application

1. Obtain an application blank from a credit agency and go through the specifics of the application.

11-11 Credit Plan

A. Advantages and disadvantages of four types of direct credit plans

1. Regular account (open)
2. Deferred (revolving) credit account
3. Installment plan
4. Layaway plan

B. Adaptation of credit plans to the student's proposed business

1. Have students visit several similar businesses and seek information on the types of credit plans employed. Then in class have students with similar businesses break up in small groups and agree on which credit plans would be best for their prospective businesses.

C. How credit cards differ from credit plans

11-12 Consumer Rights and Responsibilities in the Credit Transaction

A. The importance of a healthy business-consumer relationship

B. Government regulation protects the consumer but costs the consumer in three ways:

1. Delay in getting certain products to market.
2. Higher prices of goods
3. Increased taxes (from higher government expenditures)

C. Consumer protection laws include:

1. Food and Drug Administration Acts (1906)
2. Fair Packaging and labeling Act of 1966
3. Consumer Product Safety Commission (1973)

D. Fraudulent acts and deceptive practices

E. Implied warranties and expressed warranties

1. Warranty is defined as a promise given to the buyer at the time of purchases by the seller.

2. Expressed warranty—the promise regarding the product that it will perform satisfactorily over a given time period or will be repaired or replaced under set conditions.
 - Go over this form of warranty with a TV set or microwave oven. Bring an actual expressed warranty to class.
3. Implied warranty—an unwritten warranty that applies to common law to all goods sold guaranteeing that the product is in useable condition and able to meet expected criteria.

F. How the consumer obtains legal remedy

1. Three areas of remedy are:
 - Lawsuit
 - Small claims court
 - Class action suits

11-13 Property Rights and Contracts

A. Definition of property rights

1. Property rights are defined as the rights which define who owns what property rights and how individuals may use their property.

B. Ownership of labor

1. Ownership of labor is that labor which individuals may sell.

C. Government's role is:

1. To establish and enforce laws that protect the use and benefit of private property.
2. To define what rights individuals and producers have.

D. Definition of a contract

1. A contract is defined as a legally binding agreement between two competent people to a particular legal act.

E. Contracts and business ownership

1. Contracts—written or spoken—are at the very heart of the business-customer relationship.

2. Every time a product/service is sold, a warranty has been made—either expressed or implied.
3. The words owners use to describe the benefits of, or performance of, a particular product should be chosen carefully.
4. Written contracts should not be entered into without legal and/or technical advice.

11-14 Principles of Collection

A. Need for collection procedures and the importance of collection

1. Collection is important because without it valuable resources are lost—resources which are often sorely needed to purchase additional goods and pay expenses.
2. Collection is needed to avoid too much money tied up to accounts receivable.

B. Four collection procedures

1. Follow-up plans
2. Classifying delinquent customers
3. Communicating with delinquent customers
4. Legal action

C. Services offered by collection agencies and their operational procedures

11-15 Laws governing credit and collection

A. The following statutes govern credit and collections:

1. Truth-In-Lending Act
2. Equal Credit Opportunity Act
3. Fair Credit Reporting Act

Additional Resources: <http://www.virtualenterprise.org>

Accounting—Students will establish a working set of books for an enterprise. They will develop an understanding of the accounting process.

FBLA

Banking & Financial System Economics Entrepreneurship

<http://www.virtualenterprise.org>

Business Degree Personal Development Requirements

http://www.cafbla.org/programs_index.shtml

Economic Stabilization-12

STANDARD AND BENCHMARKS

Standard

12-00 Students will describe the role of the Federal Government in changing aggregate demand and supply through monetary and fiscal policies, and wage and price controls. Students will demonstrate competence by describing the impact on business and commerce of these government policies.

Benchmarks

12-01 Monetary Policy

- Define the role of the Federal Reserve System in monetary policy.
- Describe three ways the Federal Reserve System causes the supply of money to change.
- Distinguish between tight monetary policy and loose monetary policy.
- List the ways monetary policy affects the economy.
- Relate how monetary policy affects potential small business owners.

12-02 Fiscal Policy

- Define fiscal policy.
- Distinguish between expansionary and restrictive fiscal policy.
- Demonstrate an understanding of the multiplier effect.
- Explain the interaction/trade-off between fiscal policy and unemployment/inflation.
- Explain the national debt and its relationship to the economy as a whole.

12-03 Wage and Price Controls

- Explain why wage and price controls have been used in the U.S.
- Explain the relationship of wage and price controls to subsidies, minimum wage, and floors/ceilings.
- Demonstrate an understanding of the pitfalls of wage and price controls.

INSTRUCTIONAL IDEAS

General Information

In this unit students are introduced to monetary policy, fiscal policy, and wage and price controls. From the beginning of this unit, students should understand that the purpose of fiscal and monetary policy is to change aggregate demand and supply. Students should learn early that there are competing factions on both sides of the fiscal and monetary debate who hold dearly to their perception of how best to affect aggregate demand and supply.

Benchmark Specific Instructional Ideas

12-01 Monetary Policy in the U.S.

- A. The role of the Federal Reserve System in monetary policy
 1. The Federal Reserve System sets monetary policy by controlling how much money exists in the economy.
- B. Three ways the Federal Reserve System causes the supply of money to rise and fall.
 1. Changing reserve requirement:
 - Rise reserve requirement and the money supply is reduced.
 - Lower reserve requirement and the money supply is increased.
 2. Changing discount rate:
 - Lower the discount rate (the rate charged to banks for the money they borrow) and this money supply is increased.
 - Raise the discount rate and the supply of money is decreased.
 3. Open Market Operations
 - Federal Reserve System buys U.S. government securities and the money supply goes up.
 - Federal Reserve System sells U.S. government securities and the supply goes down.
- C. Distinguish tight monetary policy from loose monetary policy

1. Loose monetary policy is when the Federal Reserve System causes the supply of money to rise (see 1, 2, and 3 in "B").
2. Tight monetary policy is when the Federal Reserve System causes the supply of money to fall (see 1, 2, and 3 in "B").

D. Monetary policy and its effect on the economy

1. Interest and the housing market—as interest rates rise housing costs rise.
2. Interest and investment in inventories and equipment—as interest rates rise businesses keep less inventory.
3. Interest and personal spending—as interest rates rise, consumers spend less on higher priced goods that need to be financed.

E. How monetary policy affects the future business owner

1. Encourage students to think through the answer to questions such as:
 - How much inventory should I carry in times of high interest rates compared to lower interest rates?
 - How is my ability to borrow to start a new business affected by interest rates?
 - What is the "real" cost involved in financing at higher and lower interest rates? What is the opportunity cost?
2. Have students calculate in exact dollar terms the way interest rates affect their profitability.

12-02 Fiscal Policy

A. Define fiscal policy

1. Fiscal policy is the changing of government spending and taxes in order to control the level of economic activity.
2. Raising and lowering taxes change the levels of aggregate demand and supply; same is true of government spending.

B. Distinguish between expansionary and restrictive fiscal policies

1. Expansionary policies increase the level of activity in the economy by increasing aggregate demand—the price level and the amount of goods produced increase.
2. When the government spends more or cuts taxes these are two ways of increasing aggregate demand.

3. Give students examples that will drive home this concept.
 - Note that the aim of President Bush's tax cut of 2001 was to lower taxes thereby increasing the amount of spendable income people have.
 - Demonstrate these points with the circular flow.
4. Restrictive fiscal policy aims at economic efficiency by reducing aggregate demand (some may also slow the growth of aggregate supply).
 - Reducing aggregate demand is achieved by taking opposite actions to expansionary policies—reduce government spending and increase individual and corporate taxation.

C. Understanding the multiplier effect

1. The multiplier effect is the idea that any change in policy affects total demand and total income by an amount larger than the amount of the change in policy.
2. The multiplier effect works with both expansionary and restrictive policies.
 - Allow students to explore this concept by picking out a product which the government spends heavily on and show its multiplier effect throughout the various businesses and suppliers.

D. The interaction/trade-off between fiscal policy and unemployment/inflation

1. Fiscal policy can be used for one of three purposes: to affect unemployment, to deal with inflation, and/or to institute wage and price controls.
2. To lower unemployment, an expansionary policy is needed (increase government spending or lower taxes).
 - Technical terms: an increase in aggregate demand will lower demand deficiency unemployment.
 - Questions to consider: how can government affect unemployment in the auto industry by spending more? How will the impact get to the auto workers?
3. Fighting inflation demands restrictive fiscal policies (cutting government spending and raising the level of taxes).
 - Technical terms: price level is reduced by reducing aggregate demand.

4. Help students distinguish between demand-pull forces and cost-push forces in the inflation arena.
 - Policies described above (restrictive policies) will only affect the demand side of the market.
 - If cost-push is driving inflation, other policies are needed—better anti-trust laws, or as some economists suggest, wage and price controls (to be discussed in the last section of this unit).
5. Discuss trade-offs within fiscal policy decisions.
 - An expansionary policy may reduce unemployment but increase inflation.
 - A restrictive policy may reduce inflation but increase the unemployment rate.

E. The national debt and the economy.

1. The national debt is the amount of money that the government owes—to Americans who hold savings bonds, to investors who purchase government paper, and to individual governments outside the U.S. who purchase government bonds at monthly auctions.
2. Explain "why" the government borrows and the positive and negative side to borrowing.
3. Note with students that national debt is not an economic problem, but a political problem. It is politicians (spurred on by their ever-demanding constituents) who have not considered carefully the need to balance the costs and benefits of spending programs they pass into legislation.
4. The trend for U.S. debt is constantly up--2001 put at 5.7 trillion, or \$20,000 per person in the U.S.
5. The national debt has increased by 182 million dollars a day since 1998.

12-03 Wage and Price Controls

A. The use of wage and price controls

1. Wage and price controls are sometimes called "incomes policy" because they seek to control individual's income and buying power.
2. Wage and price controls are sometimes used to handle cost-push inflation where fiscal and monetary policies are not particularly successful.
3. These controls were used extensively during World War II.

- Explain to students how prices send a signal to business and the interruption in this signal caused by wage and price controls.
- Relate the shortages that occurred during World War II and ask: "Why did this happen?" "How did rationing affect the pricing signal?"

B. The relationship between wage and price controls to subsidies, minimum wage, and floors/ceilings

1. Help students to see that these three categories are a form of wage and price control, but are not of the type instituted by former President Nixon.
2. Briefly review these categories as they have been covered in more depth in previous chapters.

C. The pitfalls of wage and price controls.

1. Summary: wage and price controls generally do not work well because they cause price signals to fail, leading to an imbalance between supply and demand.
2. In fairness, however, wage and price controls have not been tried successfully over a long period of time (in peacetime) or with specialized targets (large labor unions or certain concentrated businesses).
3. Most economists do not favor wage and price controls. Ask: "Why is this the case?" "What is there about wage and price controls that bothers economists?"

Role of Government-13

STANDARD AND BENCHMARKS

Standard

13-00 Students will understand the role of Government as a producer of public goods and services, a regulator of the economy, in maintaining law and order and the requirements of business to comply with government regulations. Students will demonstrate competence by identifying the advantages and disadvantages of government economic intervention and tax policy from a business perspective.

Benchmarks

13-01 Market Failure

- Define how the market system fails from time to time.
- List the three terms used to define market failure, spillovers, third party effects and negative externalities.
- State what happens when market failure occurs.
- Explain the role of government in correcting market failure.
- List three examples of market failure.

13-02 Public Goods and Services

- Define the public sector.
- List public goods and services corporately owned and shared by all members of the economy.
- Explain the dependence of the private sector on the public sector to operate efficiently.
- Describe externalities and their relationship to the market system.

13-03 Income Distribution

- Describe how income is derived from production.
- Explain the traditional manufacturing orientation of the U.S. economy and list the future possible base(s) for U.S. economy.
- Describe the personal income distribution system within U.S. society.
- Explain the causes of poverty and the relationship of income distribution.

13-04 Tax Policy

- List the five purposes of taxation.
- Explain the uses of revenues collected through taxation.
- State the two sides of taxation principles.

13-05 Government Rules and Regulations

- Explain the importance of government rules and regulations for the aspiring entrepreneur.
- Relate specific government regulations to individual businesses.

13-06 Regulating the Economy

- Describe the six ways the government regulates the economy.
- Explain the referee role government plays in encouraging competition.
- Describe the government's role in establishing law and order in the economy.

13-07 Business Record Keeping

- List five reasons for keeping records in a business.
- Distinguish between single or double entry bookkeeping and determine which one is best for varying kinds of businesses.
- Identify all of the accounting records required in bookkeeping.
- Reconcile a bank statement that includes six different types of transactions.
- Compute employee wages and deduction problems.
- Explain the procedures involved in documenting each transaction.
- Describe how to determine a wage rate for employees.
- Define minimum wage laws.
- Explain the origin of minimum wage laws.

INSTRUCTIONAL IDEAS

General Information

While the pricing system handles the problem of resources allocation and the forces of supply and demand (acting through the pricing system) substantially impact the three questions all economies must answer, the reality is that the world of economics is not restricted to the private market world alone. In this unit we will examine the role that one of the non-market forces plays in the market. That force is the U.S. government. We will begin by looking at the role the government plays in cases of market failure, followed by a wider sweep of the role of the government as a producer of public goods and services. Then governmental tax policy will be examined along with the role of government in establishing rules and regulations regulating the economy. And establishing law and order. Finally, this unit will conclude with a practical look at how record keeping in a business organization assists in meeting government rules and regulations.

Benchmark Specific Instructional Ideas

13-01 Market Failure in the Economy

A. How the market system sometimes fails.

1. Marketing involves a mutually satisfying exchange relationship-the purchaser is happy with the value of the product purchased, and the seller is pleased with monies received.
 - In the correct marketing transaction all the benefits go only to those involved in a market transaction.
 - Remember, we are speaking of a national economic scene: translate thinking to the national arena.

B. How market failure occurs

1. Spillovers, third party effects, and/or negative externalities are used to describe market failure.
 - Spillovers—consider this familiar California story.
 - A major chemical manufacturer dumps waste water containing chemical impurities into the Los Angeles Bay area. As a result commercial fishermen must go further and further into the ocean to catch their daily supply. In addition, harbor recreational activities are stifled. Subsequently, the California Legislature determines that a

clean-up of the bay area is needed and 100 million dollars is allocated for the clean-up.

- Now the question is: "Who were the third party externalities to whom the cost of producing chemicals was shifted?"
- This is an example of a "spillover" and a negative third party externality. Third parties, external to the company, were negatively affected by the spillover.
- Why did this happen? Because the market system failed.
- Third party—outlined above.
- Negative externalities—outlined above.

C. What happens when market failure occurs

1. The true costs of producing a product or services are not contained solely with the marketing transaction.
2. The supply and demand curve is affected.

D. Role of government in correcting market failure.

1. Laws
2. Taxes

E. List three examples of market failures

1. Air pollution
2. Water pollution
3. Natural monopolies

13-02 Role of the U.S. Government in the Market Economy as a Provider of Public Goods

A. Define public sector

1. Public sector is that part of the economy owned by all the citizens and operated for the benefit of the society by public servants (the government).

B. Public goods and services corporately owned and shared by all

1. Railways
2. Highways
3. Parks

4. Schools/universities
5. Rivers and harbors
6. Dams
7. Others

C. Dependence of private sector on public sector operates efficiently by:

1. Promoting competition
2. Defining and enforcing property rights
3. Providing public goods (discussed in "B")

D. Externalities and the market system

1. Externalities are those costs or benefits passed on outside of the market system.
2. Government deals with externalities through regulation, etc.
3. Ask students to relate marginalism to the cost associated with cleaning up a chemical spill problem.

13-03 Income Distribution in the U.S. Economy

Note: There are several ways to explain this concept to students. This section does it in a fourfold way. First, the foundation is laid that production is central to all our economic efforts, and in the income distribution area this is certainly true. Our productive capability affects our income and certainly our distribution efforts. Second, the economy itself is distributed a certain way in its productive capability and is changing to reflect new economic realities. Third, personal income in the U.S. is distributed in such a way that there are pockets or problems requiring some amount of redistribution. Finally, after looking at the way the U.S. government distributes income to alleviate inequality, a closer examination is made of poverty.

A. Income is derived from production

1. This key concept deserves reinforcing at this point.
 - Stress that as productivity increases, personal, corporate, and national income rises.

B. The distribution of income by industry

1. The U. S. economy has traditionally been a manufacturing-oriented economy with a high percentage of income being earned there.
2. This manufacturing orientation has been changing:
 - 1960–33% of the national income came from manufacturing
 - 1980–25% of the national income came from manufacturing
 - 2000–21% of the national income came from manufacturing
3. What are the possible future bases for the U.S. economy?
 - Utilities
 - Services
 - Communications
 - Electronics

C. Personal distribution of income

1. Graphically depict family income distribution in the U.S. in 2001.
2. Inequality in income is best described by using the Lorenz Curve of income distribution.
 - Show the Lorenz Curve over time for students.

D. Income distribution and poverty

1. The definition of poverty is related to "poverty lines" calculated by the U.S. government (USDA).
 - To figure "poverty line". The USDA
 - Figures the cost of a nutritious low-cost diet
 - Multiplies this figure times three (three is used because the poor spend about 1/3 of their income on food)
 - The poverty line allows for different circumstances–i.e., the figure is different for a farm family of four.
 - The poverty line changes each year at the following figures indicates for a family of four:
 - 1970 poverty line level was \$3,368
 - 1975 poverty line level was \$5,500
 - 1978 poverty line level was \$6,662
 - 1979 poverty line level was \$7,412
 - 1985 poverty line level was \$12,600
 - 1999 poverty line level was \$16,700
 - 2002 poverty line level was \$18,100

2. The causes of poverty include:
 - Unemployment
 - Low productivity
 - Problems in the economy
 - Unskilled workers
3. Governmental programs attempt to combat poverty
 - Negative income tax., earned income tax credits.
 - Specific poverty programs (SPA, EOA of 1964, Job Corps, CETA/JPTA, MEDICAID, MEDICARE, AFDC, and Food Stamps, rent subsidies, hiring preferences).

13-04 Tax Policy in the U.S. Economy

A. Why do taxes exist?

1. The five purposes of taxation are:
 - To stabilize the economy.
 - To change consumption decisions.
 - To redistribute income.
 - To support government activities.
 - To correct market failure problems.

B. Where does revenue from taxes go?

1. Seven areas are typically identified for the uses of taxation revenue:
 - Income security
 - National defense
 - Interest
 - Health
 - Veterans benefits
 - Education and employment
 - Other

C. The two sides of taxation principles

1. Benefit principle
 - Those who benefit pay taxes.
2. Ability to pay principle.
 - Those who can best afford to pay, pay most (of the taxes).

3. Additional discussion should center on the three forms of taxation:
 - Progressive taxes—larger % of higher incomes and lower % of lower incomes.
 - Regressive taxes—opposite of progressive taxation.
 - Proportional taxes—same % of taxation from all taxpayers.

13-05 Government Rules and Regulations

A. Importance of government rules and regulations

1. Many important questions need to be answered before beginning a business:
 - What kind of taxes will I pay?
 - How do laws governing fair competition affect me?
 - What kind of license do I need?
 - How do I report quarterly earnings?
2. Each of these questions involves regulations.

B. Specific government regulations related to business owners

1. Protection of competition
 - The Sherman Antitrust Act
 - The Clayton Act
 - The Robinson-Patman Act
2. Protection of employees
 - The Equal Employment Opportunity Act
 - Fair Labor Standards Act
 - Occupational health and Safety Act
 - National Labor Relations Act
3. Protection of consumers
 - Food, drug and cosmetic act
 - The Wheeler Act
 - Fair Packaging and labeling Act
 - Truth-in-Lending Act
4. Protection of the environment
 - Environmental Protection Agency
 - State and local regulations

5. Licenses and permits
 - State mandated by type of businesses
6. Taxation
 - Social Security
 - Federal withholding
 - Corporate income tax
 - State income tax
 - Property tax
 - Sales and unemployment tax
 - Medicare

13-06 Role of the Government in Regulating the Economy and Establishing Law and order

A. Government regulation of the economy occurs through:

1. Fiscal and monetary policies
2. Price controls
3. Production of certain goods and services
4. Expenditures
5. Regulating the national debt

- Note: 1,2, and 5 were covered as stabilization policies in Unit XII, connect this section to previous units for students.

B. Referee role of government in promoting competition

C. Government's role in establishing law and order

D. Redistributive role of government

1. See previous section (13-03, A, 1) on five purposes of taxation and the fairness issue.
2. Note: other points of government role were covered in other units, including wage and price controls.

13-07 Record Keeping in the Business Enterprise

A. Why are records kept in business?

1. Records are required for tax purposes (relate to discussion above).

B. Distinguish between single entry and double entry bookkeeping

C. Records included in the record keeping function

1. There are five common accounting records that must be maintained:

- The business checkbook
- Daily sales cash summary
- Accounts receivable
- Bank reconciliation statement
- Basic payroll records

2. Suggested teaching strategy:

- Bring samples of each of the forms used for each area of bookkeeping to class. Assign students activities to perform in each area.
- Teach students to reconcile a personal checkbook and then translate to a business.
- Have students visit a local business and see which forms are used for bookkeeping.

D. Reconcile bank statement

1. See discussion in 13-06, C, 1 and 2.

E. Compute employee wages and deductions

1. Bring a payroll form to class and have students fill it out with the appropriate percentages deducted.

F. Procedures involved in documenting wage statements

1. Quarterly tax reports go to federal government.
2. IRS booklet is available explaining each area.

G. How much should employees be paid?

1. Three guiding principles are:

A person's time and skill are sold in the labor market.

- When demand for labor (amount of labor the business owner would hire at each wage rate) equals the supply of labor (amount of labor available at each wage rate) this labor market is in balance.
- The successful business owner must constantly watch these two factors when determining wage rates.

H. Minimum wage rates and laws

1. An employer is required to pay at least minimum wage for any working employee due to the Minimum Wage Law passed in 1951.
2. What happens to the demand curve when Minimum Wage Laws are followed?

I. Origin of Minimum Wage laws

1. Reason given in 1951 and maintained since then: to provide low income families with a higher income.

Additional Resources:

FBLA

Economics Introduction to Business

http://www.cafbla.org/competitive_guidelines.shtml

Government Awareness Project

http://www.cafbla.org/programs_index.shtml

Education and the Growth of the American Economy-14

STANDARD AND BENCHMARKS

Standard

14-00 Students will understand the unique role they can play in the growth of the economy as business owners. They will demonstrate competence by identifying four factors that have, historically, contributed to American's economic growth.

Benchmarks

14-01 Territorial Expansion

- Discuss the role of territorial expansion in American economic growth.
- Relate the significant impact of territorial expansion on land, capital, and labor.

14-02 Invention and Technology

- Discuss major innovations that have propelled the growth of the American economy.
- List major inventions that have fueled economic growth in the U.S.
- List technologies that are presently fueling economic growth in the U.S.

14-03 Capital Stock

- Define capital stock.
- State the role of capital stock in economic growth.
- Relate the importance of capital stock to economic growth.

14-04 Workforce Development

- Explain why education is an important part of the individual, corporate, and societal economic growth.
- State the way in which education will effect future training needs.

14-05 Incentives and Productivity

- Identity issues of incentives and productivity.
- State the way incentives increase productivity.

INSTRUCTIONAL IDEAS

General Information

No one can objectively analyze the American economy without acknowledging the tremendous growth of the American economy. The growth has been uneven at times, operated in cycles frequently, and had massive failures as in the Great Depression. However, the economy has demonstrated unusual resiliency and vitality while springing back from what appeared at times insurmountable setbacks.

In this final unit, we will invite students to observe the growth of the economy and the way individual and corporate society have been affected as a result of the resiliency of the economy. The method chosen to demonstrate the growth of the economy is first, to look at the role of territorial expansion as a propelling force in the discovery of new lands and natural resources. Second, a brief overview of the way that innovations, inventions, and technological improvements have impacted economic growth will be covered. Third, the nation's increase in capital stock will be discussed as contributory force in economic growth. Finally, the role that education has played in training and mobilizing our nation will be highlighted as a key factor affecting economic growth.

This unit is an excellent opportunity once again to challenge students about the unique role they can play in the economy as business owners—their privilege and responsibilities to contribute to our nation's economic growth and in the process improve their own lives.

Benchmark Specific Instructional Ideas

14-01 Role of Territorial Expansion

A. Discuss the role of territorial expansion in American Economic Growth

1. Review what territorial expansion involved—job students' memories from courses in history.
2. Remind students of the way that early American settlers were intent on improving their economic lot.

B. Significance of territorial expansion on land, labor, and capital

1. Review each area for significance to economic growth.

14-02 Innovations, inventions, and technologies

A. Two major innovations of the American economy

1. Assign students the task of researching two innovations and bringing the results back to class.

B. Two major inventions impacting the American economy

1. See A, 1 above.

C. Two major technologies affecting the American economy

1. See A, 1 above.

14-03 Capital Stock

A. Define capital stock

B. Role of capital stock in economic growth

C. Importance of capital stock to economic growth

14-04 Education in the growth of the economy

A. Importance to individual, corporate, and societal growth

B. Education and future training needs

1. Cover the typical education required in the emerging technologies: communications, electronics, and telecommunications.
2. Hudson Institute indicates that \$150 billion is spend on private training of employees.
3. The issue of education's role and impact in meeting society's training needs is an important one.
 - Ask: "Does productivity apply to education?"
 - Ask: "Why do better educated people produce more?"
4. Use the Lorenz curve to raise the issue of income equality and discuss within the context of training functions of education.

14-05 Incentives and Productivity

A. Economic growth is achieved in one or more the following ways:

An increase (discovery) in the quality and quantity of a nation's resources

1. An increase in the quantity and quality of labor and capital
2. An increase in the nation's rate of technological progress
3. The industriousness and willingness of people to be productive

B. Note that 2, 3, and particularly 4 are directly related to incentives—a willingness of people to work hard for distinct reward.

1. Clearly incentives increase productivity.
2. Ask: "Why do people work harder when an incentive is involved?"
3. Relate their answers to the macro level.

Additional Resources:

FBLA

American Enterprise Project

www.cafbla.org/dox/cap/american_enterprise_project.pdf

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