

# Marketing Essentials



## Chapter 3

### political and economic analysis

#### Section 3.1

#### What Is an Economy?

#### Section 3.2

#### Understanding the Economy

# What Is an Economy?



## Before You Read

**CONNECT** How do economic decisions and policies affect your daily life?

# What Is an Economy?

## OBJECTIVES

- **Explain** the concept of an economy.
- **Discuss** how scarcity and factors of production affect the economy.
- **Compare and contrast** how traditional, market, and command economies answer the three basic economic questions.
- **Explain** why most economies are mixed.
- **Identify** examples of different political and economic philosophies.

# What Is an Economy?

## **THE MAIN IDEA**

An economy is a nation's method for making economic choices that involve how it will use its resources to produce and distribute goods and services to meet the needs of its production.



# What Is an Economy?

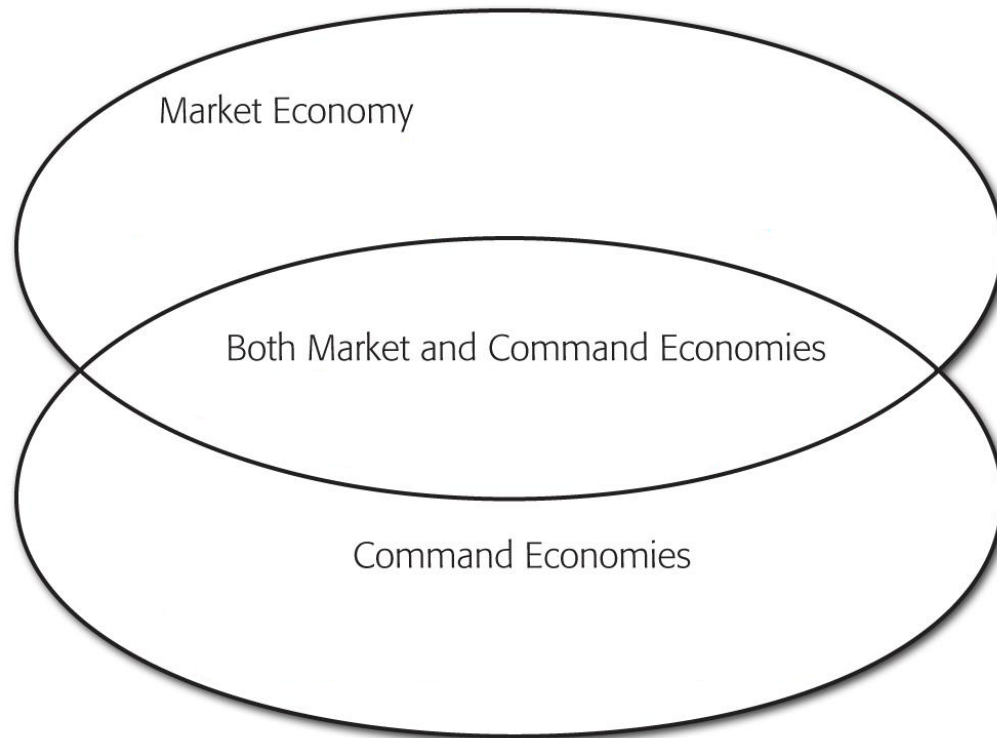
## VOCABULARY

- economy
- resources
- factors of production
- infrastructure
- entrepreneurship
- scarcity
- traditional economy
- market economy
- command economy

# What Is an Economy?

## Graphic Organizer

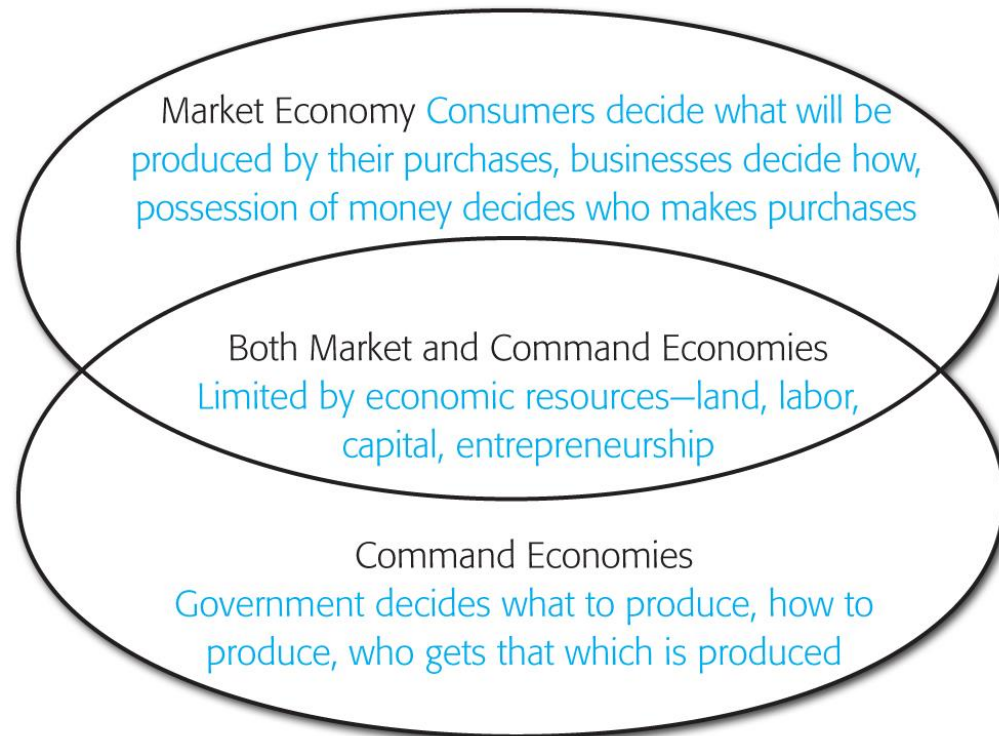
### Differences and Similarities Among Market and Command Economies



# What Is an Economy?

## Graphic Organizer

### Differences and Similarities Among Market and Command Economies



# What Is an Economy?

## What Creates an Economy?



### **economy**

The organized way a nation provides for the needs and wants of its population.



# What Is an Economy?

## What Creates an Economy?

**Economists use the term factors of production when they talk about economic resources.**



### **factors of production**

Resources that are comprised of land, labor, capital, and entrepreneurship.



### **resources**

All the things used in producing goods and services; a source of aid or support that may be drawn upon when needed.

# What Is an Economy?

## What Creates an Economy?

### Land

Provides raw materials

### Labor

Full- and part-time workers, managers, and professional people

### Capital

Money, buildings, infrastructure

### Entrepreneurship

Organizing factors of production to create goods and services



### infrastructure

The physical development of a country, such as roads, ports, and utilities.



### entrepreneurship

The skills of people who are willing to invest their time and money to run a business; the process of starting and operating your own business.

# What Is an Economy?

## Political and Economic Philosophies

Graphic  
Organizer

Comparing Two Economic Resources

Labor	Entrepreneurship

# What Is an Economy?

## Political and Economic Philosophies

### Graphic Organizer

#### Comparing Two Economic Resources

Labor	Entrepreneurship
requires people	requires people
refers to work	refers to skills
workforce is economic resource	ideas are economic resource

# What Is an Economy?

## What Creates an Economy?

**Scarcity forces nations to make economic choices.**



### **scarcity**

The difference between wants and needs and available resources.



# What Is an Economy?

## Types of Economic Systems

Graphic  
Organizer

The Three Economic Questions

**What?**

**How?**

**For whom?**

# What Is an Economy?

## Types of Economic Systems

### Graphic Organizer

#### The Three Economic Questions

**What?**

Consumers decide  
what will be  
produced

**How?**

Businesses decide  
how to produce

**For whom?**

People with the  
resources to buy

# What Is an Economy?

## Types of Economic Systems

Traditional  
Economy

Market  
Economy

Command  
Economy

Mixed  
Economy



### **traditional economy**

An economic system in which habits, traditions, and rituals answer the basic questions of what, how, and for whom.



### **market economy**

An economic system in which there is no government involvement in economic decisions.



### **command economy**

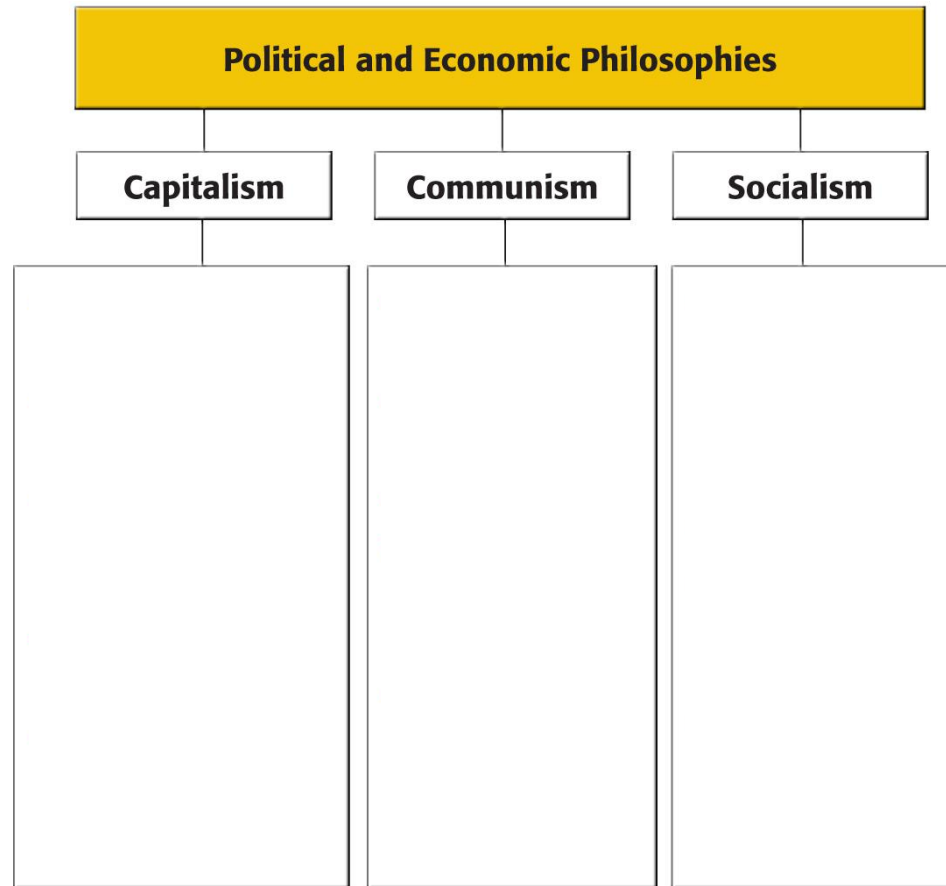
A system in which a country's government makes all economic decisions regarding what, how, and for whom.

# What Is an Economy?

## Political and Economic Philosophies

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The Different Political  
and Economic  
Philosophies

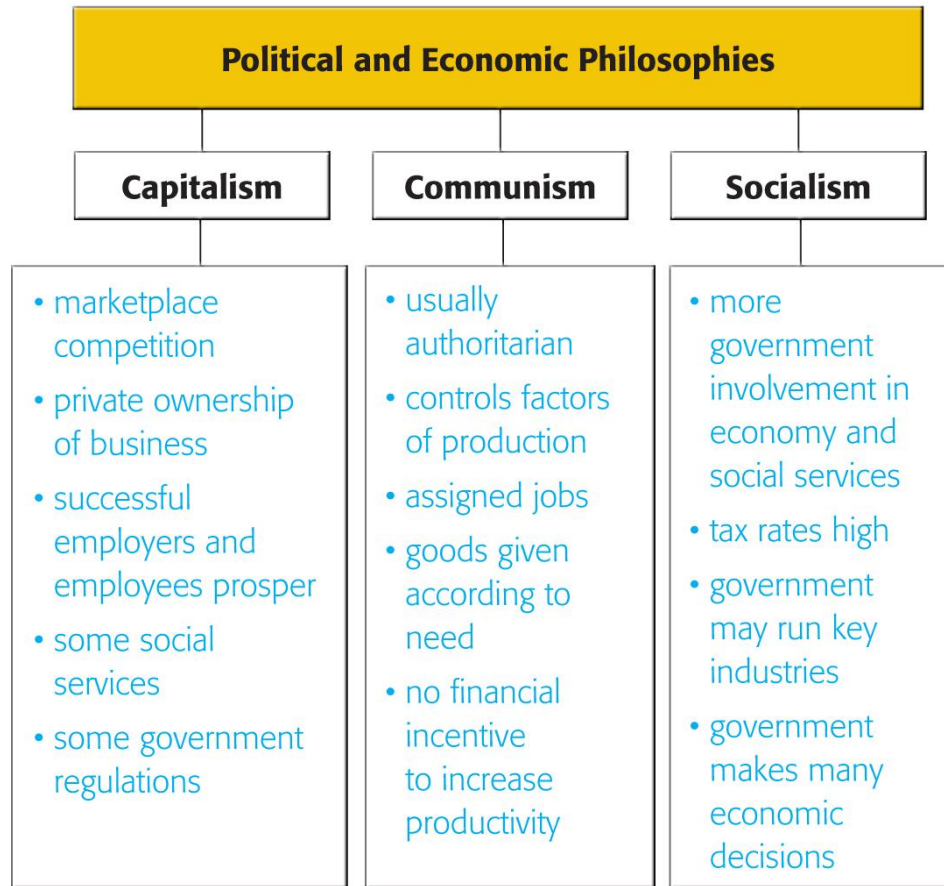


# What Is an Economy?

## Political and Economic Philosophies

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### The Different Political and Economic Philosophies





# What Is an Economy?

## Political and Economic Philosophies

**Privatization**

**versus**

**Nationalization**

**Less Government  
Involvement**

**More Government  
Involvement**

# What Is an Economy?



## After You Read

## Section 3.1

1. **Define** *economy* and explain the three questions it seeks to answer.

An economy is the organized way a nation provides for the needs and wants of its people. Three questions are:

1. What goods and services should be produced?
2. How should goods and services be produced?
3. For whom should goods and services be produced?

# What Is an Economy?



## After You Read

## Section 3.1

2. **Explain** the relationship between economic resources and the concept of scarcity.

The difference between wants and needs of a country's people and available economic resources is scarcity. Economic resources are all the things used in producing goods and services. They include land, labor, capital, and entrepreneurship. A nation must choose how to use those resources to produce and distribute the goods and services for its people. Countries have varying amounts of resources. Some have fertile land for farming, but limited capital. Others may have limited natural resources, but they compensate with a highly educated labor force.

# What Is an Economy?



## After You Read

## Section 3.1

- 3. Compare and contrast** privatization and nationalization. Which political and economic philosophy would most likely be prevalent when a country decides on privatization? On nationalization? Explain.

Privatization is when a country sells its state-run businesses. Nationalization occurs when a government takes over a privately held company. Privatization would be more prevalent in a country moving toward a capitalistic philosophy. Nationalization would be more prevalent in a country moving toward a communistic philosophy.

# Understanding the Economy



## Before You Read

**CONNECT** How do your actions affect the economy?



# Understanding the Economy

## OBJECTIVES

- **List** the goals of a healthy economy.
- **Explain** how an economy is measured.
- **Analyze** the key phases of the business cycle.

## **THE MAIN IDEA**

Aspects of an economy such as consumers, businesses, and governments affect the economy and marketing decisions.

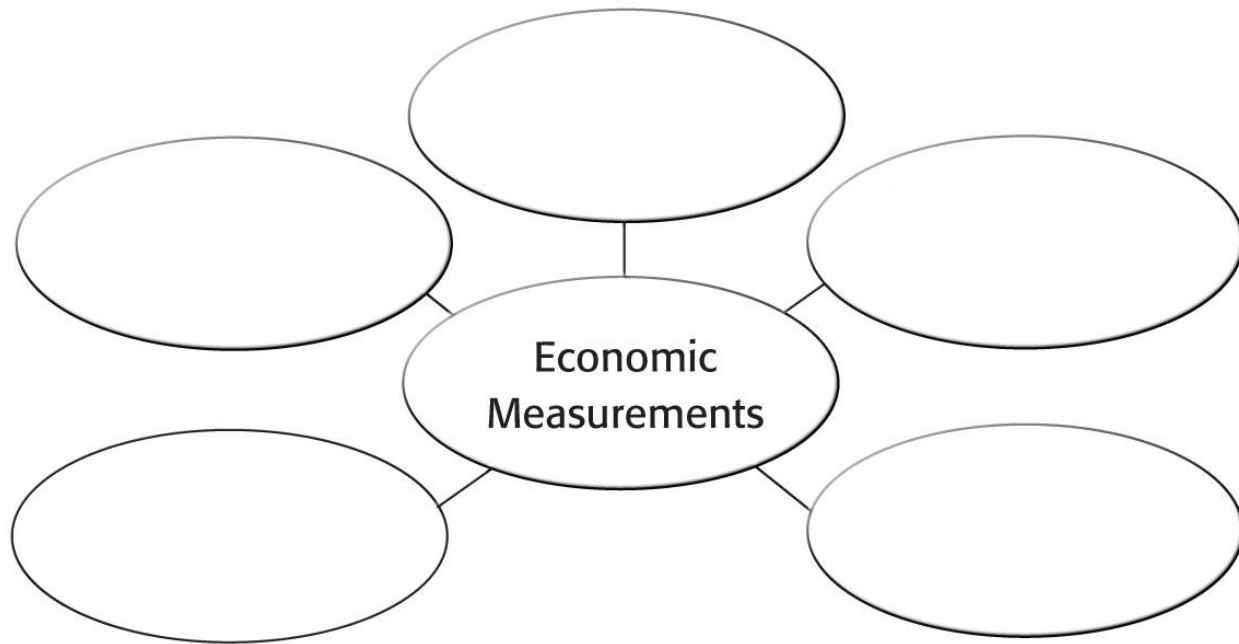
## VOCABULARY

- productivity
- gross domestic product (GDP)
- gross national product (GNP)
- inflation
- consumer price index (CPI)
- producer price index (PPI)
- business cycle
- expansion
- recession
- depression
- recovery

# Understanding the Economy

## Graphic Organizer

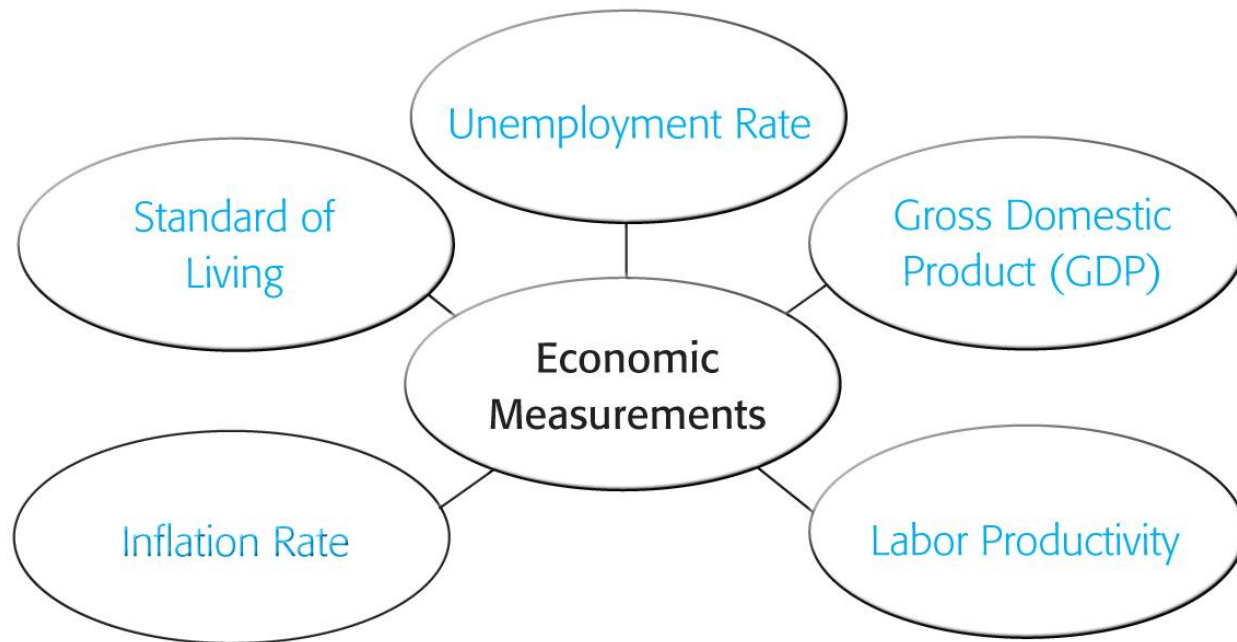
### Identifying Economic Measurements



# Understanding the Economy

## Graphic Organizer

### Identifying Economic Measurements



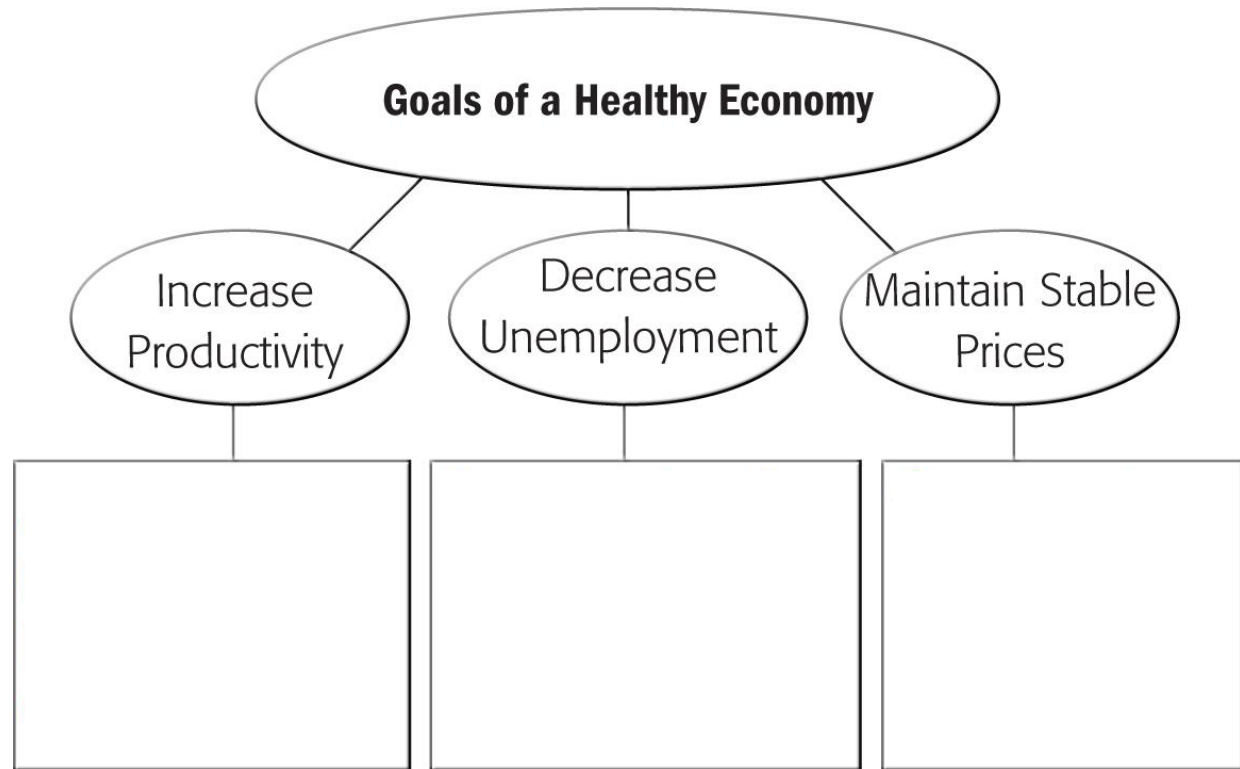


# Understanding the Economy

## The Economy and Marketing

Graphic  
Organizer

### Examples of the Three Goals of a Healthy Economy

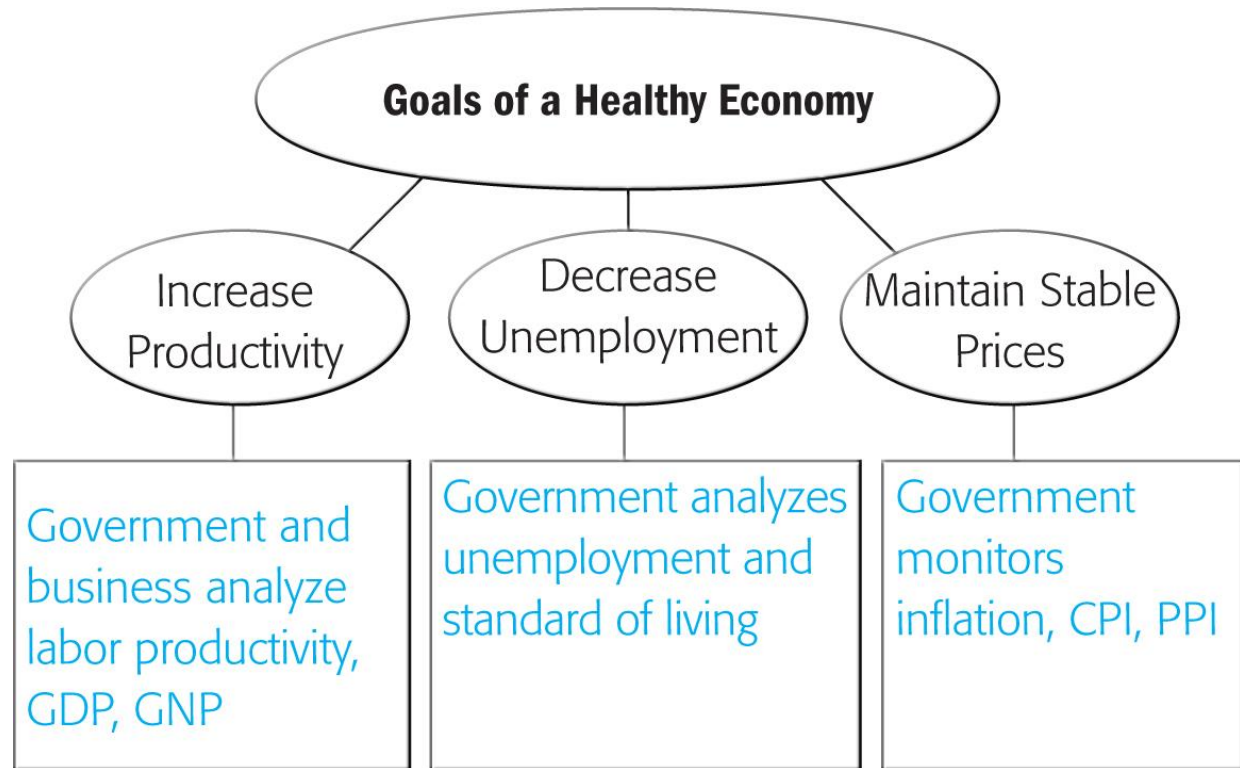


# Understanding the Economy

## The Economy and Marketing

### Graphic Organizer

#### Examples of the Three Goals of a Healthy Economy



## The Economy and Marketing

### Economic Measurements

Labor Productivity



#### **productivity**

Output per worker hour that is measured over a defined period of time.

## The Economy and Marketing

### Economic Measurements

Labor Productivity

Gross Domestic Product  
(GDP)



**gross domestic product (GDP)**

The output of goods and services produced by labor and property located within a country.

## The Economy and Marketing

### Economic Measurements

Labor Productivity

Gross Domestic Product  
(GDP)

Gross National Product  
(GNP)



### gross national product (GNP)

The total dollar value of goods and services produced by a nation, including goods and services produced abroad by U.S. citizens and companies.



## The Economy and Marketing

### Economic Measurements

Labor Productivity

Gross Domestic Product  
(GDP)

Gross National Product  
(GNP)

Inflation



**inflation**

Rising prices.

## The Economy and Marketing

### Economic Measurements

Labor Productivity

Consumer Price Index  
(CPI)

Gross Domestic Product  
(GDP)

Gross National Product  
(GNP)

Inflation



### consumer price index (CPI)

Measures the change in price over a period of time of 400 specific retail goods and services used by the average urban household.

## The Economy and Marketing

### Economic Measurements

Labor Productivity

Consumer Price Index  
(CPI)

Gross Domestic Product  
(GDP)

Producer Price Index  
(PPI)



**producer price index (PPI)**

Measures wholesale price levels in the economy.

Gross National Product  
(GNP)

Inflation

## The Economy and Marketing

### Economic Measurements

**Labor Productivity**

**Consumer Price Index  
(CPI)**

**Gross Domestic Product  
(GDP)**

**Producer Price Index  
(PPI)**

**Gross National Product  
(GNP)**

**Standard of  
Living**

**Inflation**

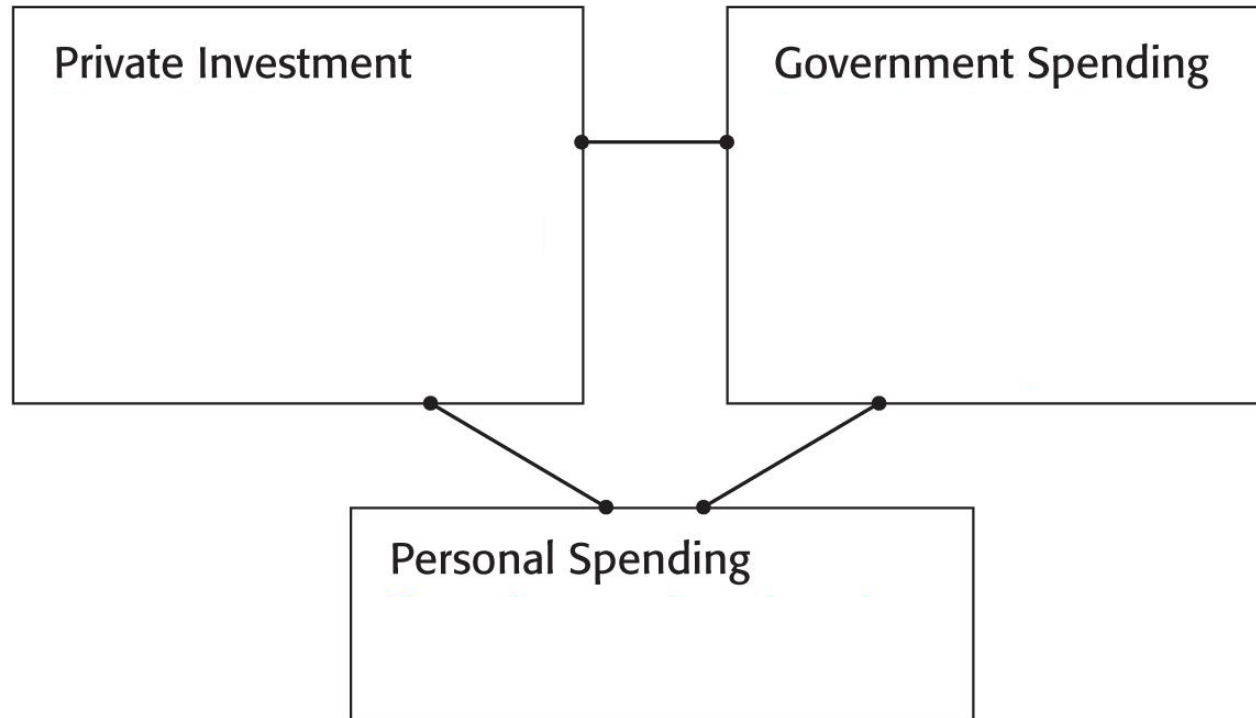
**Unemployment  
Rate**

# Understanding the Economy

## The Economy and Marketing

### Graphic Organizer

#### Examples of the Three Types of Goods and Services That Make Up the GDP



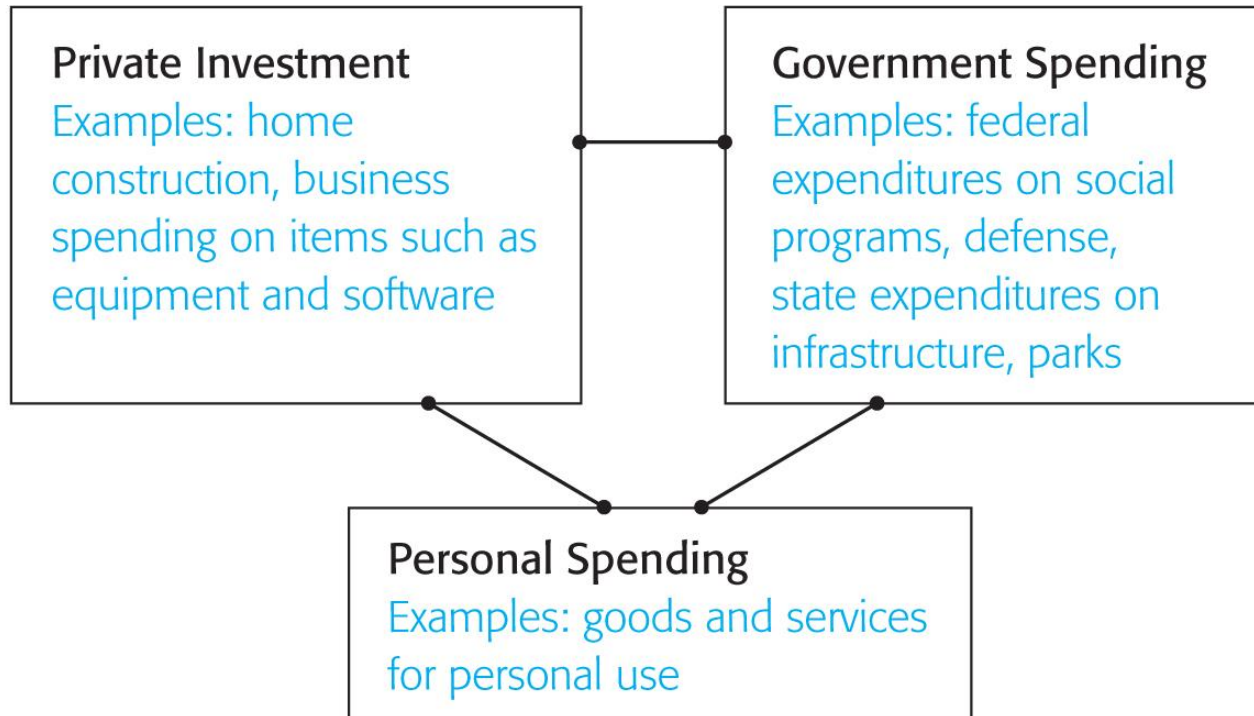


# Understanding the Economy

## The Economy and Marketing

### Graphic Organizer

### Examples of the Three Types of Goods and Services That Make Up the GDP

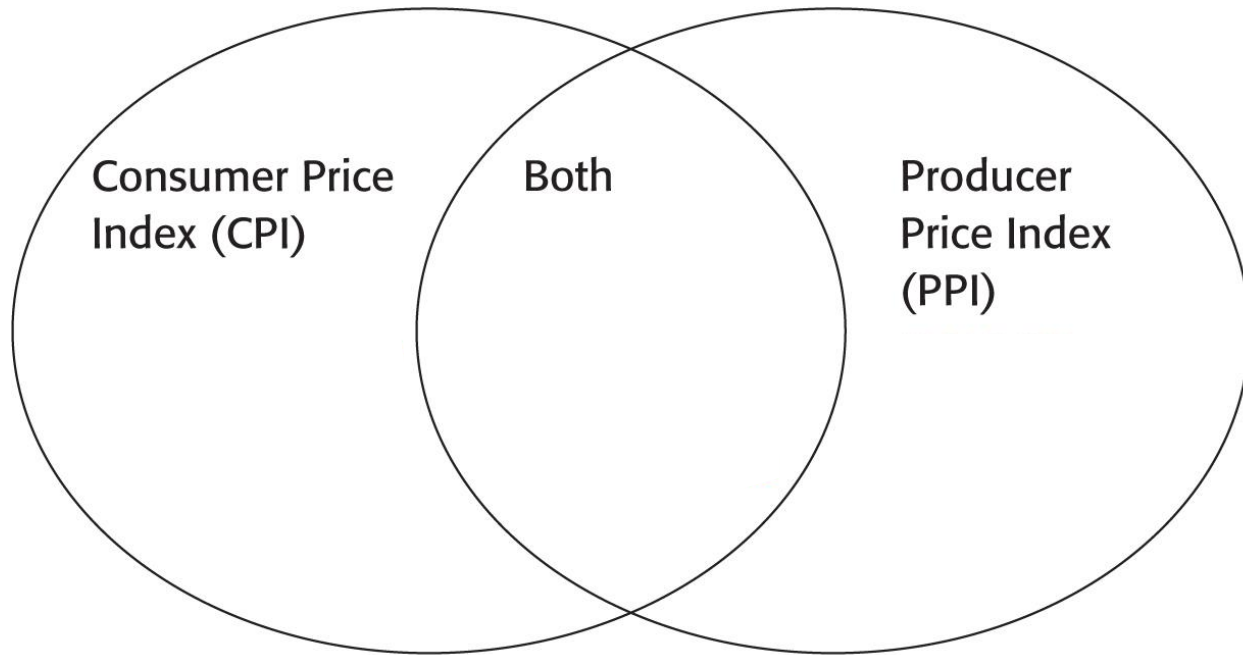


# Understanding the Economy

## The Economy and Marketing

Graphic  
Organizer

How Do These Two  
Economic Measurements Compare?

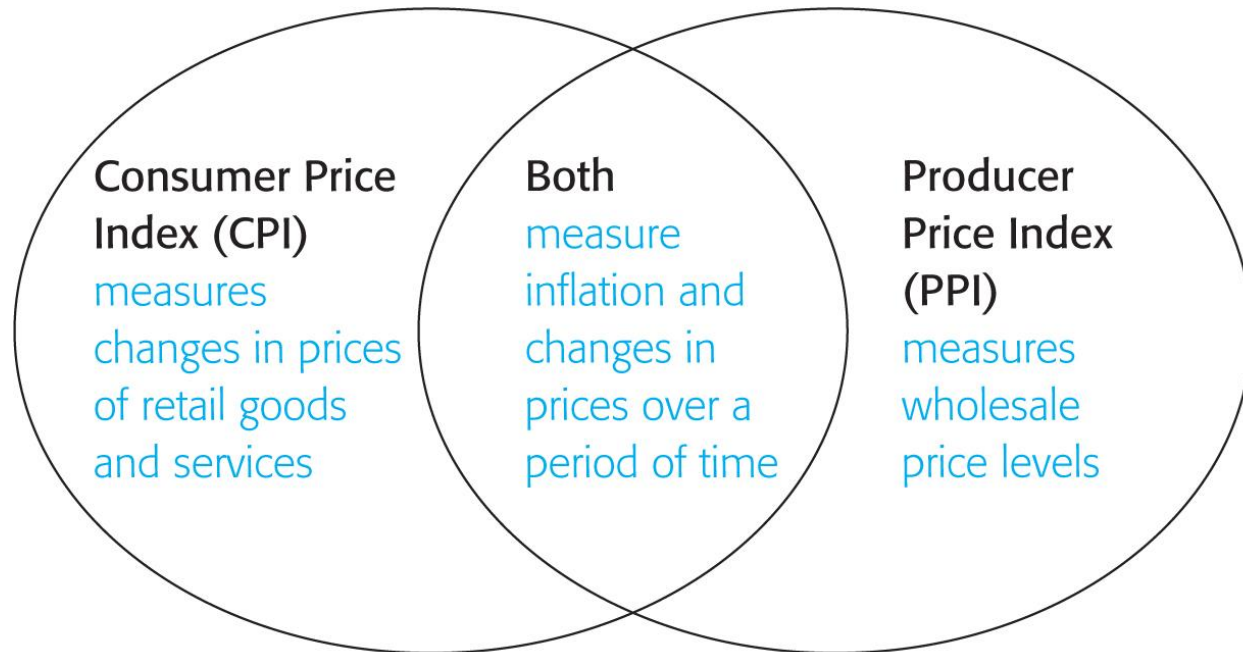


# Understanding the Economy

## The Economy and Marketing

### Graphic Organizer

How Do These Two Economic Measurements Compare?



# Understanding the Economy

## The Business Cycle



### **business cycle**

Recurring changes in economic activity.



### **expansion**

A time when the economy is expanding.



### **recession**

A period of economic slowdown that lasts for at least two quarters, or six months.



### **recovery**

The term that signifies a period of renewed economic growth following a recession or depression.

# Understanding the Economy

## The Business Cycle

During a depression, consumer spending is very low, unemployment is very high, and production of goods and services is down significantly.



### **depression**

A period of prolonged recession.



# Understanding the Economy

## The Economy and Marketing

### Graphic Organizer

#### Factors Affecting the Business Cycle

Factors Affecting the Business Cycle		
Factor	How Can this Factor Affect the Business Cycle?	How Can the Business Cycle Affect this Factor?
Businesses		
Consumers		
Government		

# Understanding the Economy

## The Economy and Marketing

### Graphic Organizer

#### Factors Affecting the Business Cycle

Factors Affecting the Business Cycle		
Factor	How Can this Factor Affect the Business Cycle?	How Can the Business Cycle Affect this Factor?
<b>Businesses</b>	Businesses tend to expand operations during a recovery phase, hastening economic improvement.	Being in a recession can lead to reduced consumer spending resulting in a reduction in sales.
<b>Consumers</b>	Decreases in consumer spending can lead to recession.	Consumers might find wages increasing during recovery or expansion.
<b>Government</b>	The government might issue rebates to spur spending and encourage economic expansion.	In a recession, tax income might be reduced, forcing government to examine expenditures.

# Understanding the Economy



## After You Read

## Section 3.2

1. **Explain** how monitoring economic measures helps economists achieve the three goals of a healthy economy.

Monitoring economic measures helps economists quickly notice changes in productivity, employment, and prices, and determine when the government should respond to changing conditions; for example, by lowering interest rates to spur the economy.

# Understanding the Economy



## After You Read

## Section 3.2

2. **Describe** the effect of high unemployment on a nation's economy.

High unemployment has a negative effect on a nation's economy. The unemployed cannot make purchases so companies produce less and cut back on capital projects. Tax revenue decreases. Unemployment benefits cause state governments to reduce spending.

# Understanding the Economy



## After You Read

## Section 3.2

3. **Describe** what happens to an employee in each phase of the business cycle.

During an expansion, jobs are readily available and wages typically increase; employees can move from one job to another fairly easily. In a recession, employees may be laid off and finding another job can be difficult. In a trough, jobs are typically scarce but may gradually become more plentiful. In a recovery, more jobs become available as the economy grows and workers may see their wages increase, enabling them to increase their standards of living.



# Marketing Essentials



End of  
**Chapter 3**  
political and  
economic analysis

**Section 3.1**  
What Is an Economy?

**Section 3.2**  
Understanding the  
Economy