Module 3 Review Guide

Entrepreneurs – people who take the risks associated with starting a new business and formulate new ideas. Example... Howard Schultz and Starbucks. (Module 3.01 page 1) Most Entrepreneurs share the characteristics of HUNT (3.01 page 2):

H	**Harness** your vision	Take your idea and really think it out. What do you want to accomplish? What resources will be required?
U	**Underestimate** the roadblocks	Prevent barriers from stalling action. Find ways around the barrier whether it is money, discouragement from others, or time.
N	**Network**	Find and acquaint yourself with people who can help turn your vision into reality. Networking with other people can make roadblocks disappear.
T	**Take** the first step	Acting on your vision starts with a single step, and the first is the most difficult. However, once you do, you are more confident to take the second.

Entrepreneurs and their contributions (3.01 Page 2):

Entrepreneur	Contributions
An Wang	Chinese-American computer scientist who held more than 35 patents. Hisdevelopments were critical to **advancing digital information technology** that we depend on today Wang Laboratories created one of the first desktop computers
Madame C.J. Walker	One of the first self-made African-American millionaires was an early entrepreneur in the **beauty industry** that today garners billions of dollars in annual sales
Howard Schultz	It is because of him that **Starbucks®** has over 6,000 stores worldwide today His drive and marketing skills have made the café latte a daily habit for many Americans
James Cash Penney	Launched the first chain of department stores in the United States, commonly known as ―**Penney's**‖ Today Americans visit over 1,000 "Penney's" or use the mail order and online catalogs to purchase various household goods and clothing.
Samuel F.B. Morse	Patented the **telegraph** in 1849. paved the way for long-distance communication, reshaping America literally in terms of westward expansion, railroad safety, and business efficiency
George Washington Carver	Reshaped the American South from a society heavily focused on cotton agriculture to one that **grew diverse crops and utilized crop rotation** taught these techniques for 47 years at the Tuskegee Institute discovered a number of uses for **peanuts** that are in many products we use to this day
Joseph A. Unanue	Father founded **Goya Foods®**, distributor of Hispanic foods under Joseph's direction Goya Foods® became the largest U.S. Hispanic-owned food distribution company in the United States
Margaret Hutchison Rousseau	First woman in the US to earn a doctorate in chemical engineering designed the **first commercial penicillin production plant** her work made it possible to produce and distribute penicillin widely, expanding Americans' access to the antibiotic drug that can cure many formerly life-threatening bacterial illnesses
Jessica Jackley	Cofounder of **kiva.org** site allows people to give **microloans to people in developing nations** to help them start or expand a business
Larry Page and Sergey Brin	Cofounders of Google.com and started in 1989 out of the dorm rooms in college. Most used search engine in the world. Enables people to search text, images, and videos.

Factors of Production All the resources necessary to produce goods and services (3.02 page 1)

- **Entrepreneurship** - Intelligence, imagination, and ability to take the risks that are needed to start up and maintain a business, a component of labor - puts his/her money and ideas into starting a new business- this is a risk - business owners, managers, people who come up with advertising ideas (3.02 page 2)
- **Capital goods** - The tools humans create to make the business more efficient—financial and physical - truck, computer, cash register (manmade objects) Investments in capital goods aim to increase productivity - buying new machinery or training workers are examples
- (3.02 page 2)
- **Land** - All the natural physical resources necessary to your product or service -oil, wood, water (natural resources) (3.02 page 2)
- **Labor** - The human work that goes into the business—physical and mental skills - the workers, employees (3.02 page 2)

Here are the resources needed to open a flower delivery business. Match each factor of production with the correct category listed in the chart. Factors: delivery truck, floral designer, wedding planner, ensuring safety regulations, cello wrap, webmaster, dirt, sunshine, packaging materials, choosing store location, flower farmer, hiring floral designer, computer, credit card swiper, filing for business permit, flowers, water, advertising wedding service, delivery truck, driver

Land	Labor	Entrepreneurship	Capital

How to Organize a Business

- **Sole proprietorship**- one owner, most popular form of business. One owner makes all business decisions, but this does not protect against losing personal assets (3.03 page 2)
- **Partnership**-two or more owners share the in making decisions and share the risks and benefits of owning and running a business. Partnership does not protect against losing personal assets but divides the risks between 2 or more owners. (3.03 page 2)
- **Limited Liability Company**- a type of corporation; Protects personal assets. Personal assets cannot be used to pay-off debts; no problem of double taxation. Protects personal assets but you maintain control of all decision making. (3.03 page 2)
- **Corporation**- stockholders and bondholders; easy to get more money and to expand; hard to start and stop (imagine the time it would take to stop Walmart if it went bankrupt). Protects personal assets but you lose control in decision making process. (3.03 page 2)

Market Structures/Levels of Competition

Least Competitive------------------------------------Most Competitive

	Monopoly	Oligopoly	Monopolistic Competition	Pure Competition
Example	AT&T in the 1980's	OPEC (Organization of Petroleum Exporting Countries)	Restaurants and Clothing Stores	Agricultural Products such as Oranges
Producers	Single producer	Few producers that dominate the market for a good or service	Many producers selling different products	Many producers selling similar products
Barriers	Significant barriers to enter the market	Some barriers to enter and exit the market	Easy entry and exit from the market	Easy entry and exit from the market
Price	"Price Giver" The sole producer can set prices but runs the risk of encouraging competition if price is too high.	"Price Leadership" firms tend to follow the lead of the major producers in setting price.	"Price Competition" firms will use price to try to drive out competition.	"Price Taker" firms must abide by demand price—variation results in no sales or money loss.
Relationship	Limited by competition and antitrust law in the U.S.	Highest chance for collusion	Dominated by nonprice competition	Consumers and producers have equal information

Price vs. Non-Price Competition

Price Competition – the lowest price gets the sale. In a monopoly, the company has the advantage, since they have no competition and can set the price at whatever they want. In a pure competition, the customer has the advantage and will always go with the lowest price.

Non-Price Competition – factors other than price can effect consumer decisions.

Advertising is a non-price way to compete (rather than lowering prices, a company will advertise to raise sales)

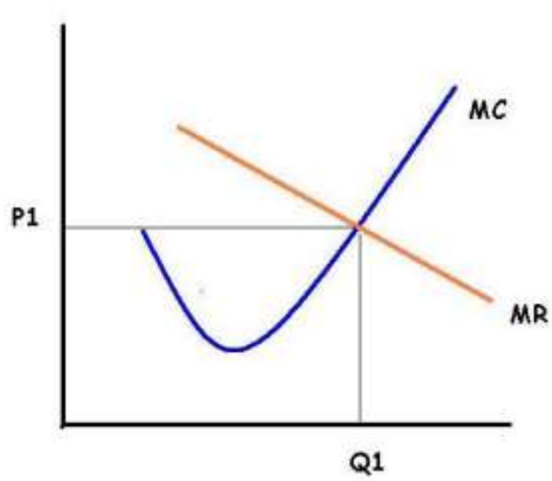
Strategy	Description	Example/Explanation
Fears	Highlights a negative outcome with or without the product	**Advertisement:** Do you know what's lurking in your closet? Protect your sensitive skin with all organic, hand crafted, Sensitive Brand T-shirts! Why risk the only skin you have? All those other shirts contain fabrics that could make you break out or worse! Not with Sensitive! **Consumer:** ―Wow, I'd better buy the organic cotton clothing instead; I **might get** a rash from the other fabrics.
Emotions	implies the product will help the user to avoid negative feelings or increase positive feelings	**Advertisement:** Wow, you really blew it big time! You forgot your girlfriend's birthday again. Don't feel bad; Just in Time Flowers is here to save the day when you can't! We're here for you when you need to say sorry the most. **Consumer:** ―I **feel bad** I forgot my girlfriend's birthday; I should send her flowers to make it up to her.‖
Rituals	encourages people to make the product a part of their daily routine with words like "always"	**Advertisement:** Who says you can't always look and feel your absolute best! Come to Diva Salon where our motto is ―TGISD – Thank Goodness it's Spa Day‖! **Consumer:** ―I love Diva! Whenever I get my haircut I **always** have them blow dry and style it; it's totally worth the extra five dollars.‖
Senses	appeals to one of the five senses	**Advertisement:** Remember sneaking one of grandma's famous ooey gooey cookies before dinner? Even getting caught was worth it! Grammie's Fabulous Cookies bring back your childhood memories of those soft, sweet cookies, and we promise we won't tell even if you have one for breakfast. They look so delicious, you'd swear you could smell grandma's oven. **Consumer:** ―Ooh, those **look** so good! I have to have some!‖
Social Values	encourages use of products that are popular or will improve social status	**Advertisement:** You've got the car, you've got the girl, you've even got the look. So what's missing? A Powerchord Guitar is the ONLY accessory you'll ever need. Forget all that other stuff. As long as you're rocking on a Powerchord, you've got ―cool‖ made. **Consumer:** ―Powerchord is so awesome. I've got to have one. **People would think** I was cooler if I played the guitar."

Marginal Cost Analysis

When producing goods and services, producers must answer the 3 basic economic questions. Marginal cost analysis refers to how much they should produce. To determine this, they need to find the marginal cost and marginal revenue for a product market.

Marginal Cost – cost of producing one additional unit of a good or service (blue line)
Marginal Revenue – revenue gained with the production of one additional unit of a good or service (yellow line)

Due to fixed costs, the first unit is more expensive to produce than additional units, causing marginal costs to fall. At some point, the curve shifts upward because of the Law of Diminishing Returns – at some point adding resources will result in less output per additional unit of a product. (blue line)

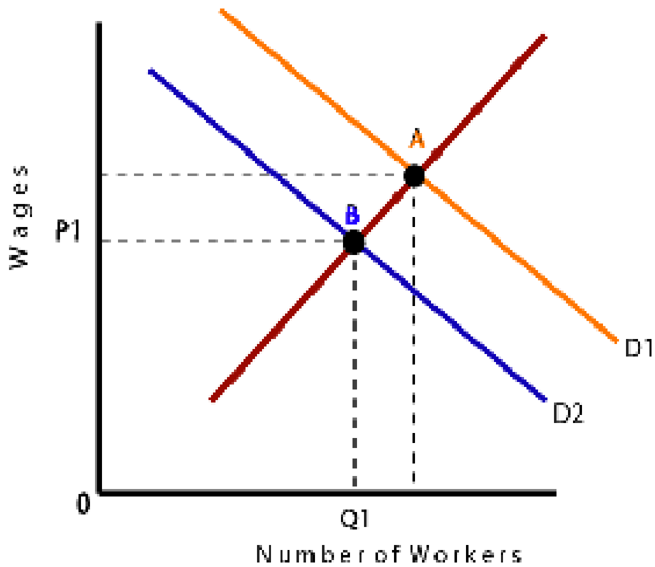


Business owners aim to minimize costs and maximize profits (do not hire workers or add capital unless it creates a profit). **Producing where marginal cost is closest to marginal revenue without exceeding it will maximize the firm's profits**. Firms can calculate this using the chart…

Quantity of Video Game Systems	**Price (in whole dollars)**	**Total Revenue** Quantity x Price	**Marginal Revenue** the change of revenue for the addition of one unit	**Total Cost** Fixed + Variable Costs	**Marginal Cost** The change of cost for the addition of one unit	**Profit (or loss)** Total Revenue – Total Cost
0	252	0	0	210	n/a	0 – 210 = -210
1	246	1 x 246 = 246	246 – 0 = 246	408	408 – 210 = 198	246 – 408 = -162
2	240	2 x 240 = 480	480 – 246 = 234	564	564 – 408 = 156	480 – 564 = -84
3	234			642		
4	228			684		
5	222			774		
6	216			1080		
7	210			1410		
8	204			1776		
9	198			2178		

Labor Market

In the market for labor, **workers are the supply** and **employers represent demand**



Sometimes there is a change in the demand for labor. Imagine a downturn in the economy. Businesses are not selling as much and don't need as many workers. Demand for labor has decreased. **(Shift from D1 to D2).** The equilibrium also moves from point A to point B (change in quantity of labor supplied) which lowers the equilibrium price (wages) of labor.

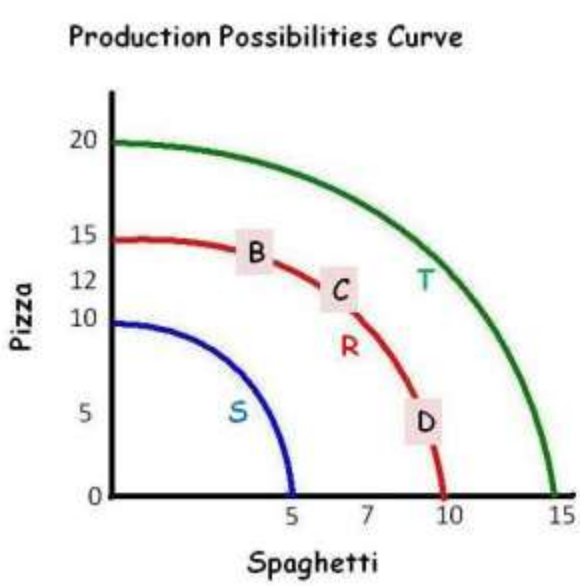
An employer will choose how many workers to hire and how much to pay them at a level that minimizes costs and maximizes benefits, or profits.

In this case, the demand for labor has decreased, along with a decrease in the quantity supplied and a lower equilibrium price (lower wages offered).

There are many other factors that can influence a business owners decisions about wages and benefits...

education and skills required
training provided by employer
expected business revenues

supply and demand for the job
worker productivity
size of the company



Assume a fast-food place has enough resources to produce pizza and spaghetti along Curve R. The relative number of each produced every day is determined by supply and demand. The restaurant, of course, is **most efficient when it produces about 12 pizzas and 7 plates of spaghetti (Point C).**

However, if two of their workers fall ill and take the day off, their **resources are down**. The restaurant may **only be able to produce pizzas and spaghetti at quantities along Curve S.**

If the restaurant hires another worker, makes a good deal for cheaper noodles, or purchases an automatic cheese slicer the production possibilities may increase to Curve T or beyond.