

Chapter 5

The Free Enterprise System

- Section 5.1 Market-Oriented Economic Systems
- Section 5.2 Business Opportunities



Market-Oriented Economic Systems

Key Terms

free enterprise
system

patent

trademark

copyright

competition

price
competition

nonprice
competition

monopoly

nonprofit

profit

supply

demand

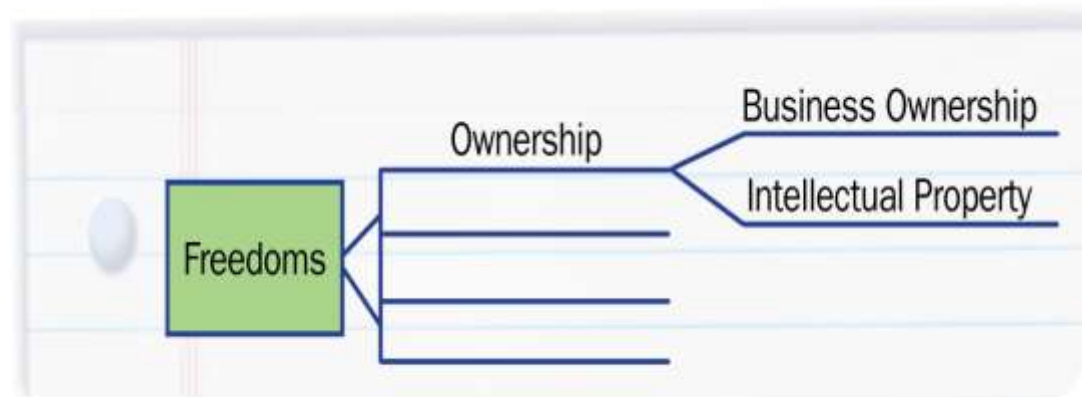
Objectives

- Explain the characteristics of a free enterprise system
- Distinguish between price and nonprice competition
- Explain the theory of supply and demand

Market-Oriented Economic Systems

Graphic Organizer

Use a chart like this one to take notes about the characteristics of a free enterprise system.



Basic Principles

Workers have the freedom to organize into a labor union while consumers have the freedom to purchase goods and services and to invest their money in banks or businesses.

Basic Principles

free enterprise system



A system that encourages individuals to start and operate their own businesses in a competitive market, without government involvement.

A **free enterprise system** ◀ encourages individuals to start and operate their own businesses without government involvement.

The United States still has government involvement, but it is mainly a free enterprise system.

Freedom of Ownership

Individuals in our free enterprise system are free to own personal property such as:

- Cars
- Computers
- Homes
- Natural resources (oil and land)

Freedom of Ownership

Intellectual property rights include:

- Patents
- Trademarks
- Copyrights
- Trade secrets



Freedom of Ownership

patent



A government-issued exclusive right to make, use, or sell an invention for up to twenty years.

A **patent** ◀ on an invention gives the patent holder exclusive rights to that idea or invention. Anyone who wanted to manufacture the product within twenty years would have to pay the patent holder for its use through a licensing agreement.

Freedom of Ownership

trademark



A brand name, brand mark, trade name, trade character, or a combination of these elements that is given legal protection by the federal government.

A **trademark** is a word, name, symbol, sound, or color that identifies a good or service and that cannot be used by anyone but the owner. A trademark can be renewed indefinitely as long as it is being used by a business.

Freedom of Ownership

copyright



The exclusive right to reproduce or sell a work authored by an individual such as writings, music, and artwork.


A **copyright** involves anything that is authored by an individual and it gives the author the exclusive right to reproduce or sell the work. Such works can be:

- Writings (books, articles, etc.)
- Music and artwork

Competition

competition

The struggle between companies to attract new customers, keep existing ones, and take away customers from other companies.

The struggle for customers is called **competition** . It forces businesses to produce better quality goods and services at reasonable prices.

There are two basic ways businesses compete:

- Price competition
- Nonprice competition

Competition

price competition

The sale price of a product. The assumption is that consumers will buy the product with the lowest price.

nonprice competition

Competition based on factors that are not related to price, such as product quality, service and financing, business location, and reputation.

Price competition ◀ focuses on the sale of a product.

Nonprice competition ◀ has businesses competing in areas other than prices, such as:

- Quality of the products and reputation
- Service and financing

Competition

monopoly

Exclusive control over a product or the means of producing it.

A **monopoly** is exclusive control over a product or the means of producing it. Monopolies are not permitted in a free enterprise system because they prevent competition.

Risk

Business risk is the potential for loss or failure. Some risks include:

- Starting up
- Being sued
- Natural disasters and competition

profit



The money earned from conducting business after all costs and expenses have been paid.

Profit

Profit ◀ is the money earned from conducting business after all costs and expenses have been paid.

Profits help the economy because they encourage:

- Competition and product development
- Production efficiency

Profit

An unprofitable business faces many problems like:

- Employee layoffs
- Loss of investors' money

The government is also hurt by unprofitable businesses because of the resulting rise in unemployment and the decrease in tax revenue.

Profit

Profitable businesses supply:

- Jobs
- Better benefits
- Higher morale
- More tax dollars

Supply and Demand

supply



The amount of goods producers are willing to make and sell.

Supply ◀ is the amount of goods producers are willing to make and sell. The law of supply is that price and quantity supplied move in the same direction.

Supply and Demand

demand



Consumer willingness and ability to buy products.

Demand ◀ refers to consumer willingness and ability to buy products. The law of demand is that price and demand move in opposite directions.

Supply and Demand

When supply and demand interact, these conditions are created:

- Surplus: Supply exceeds demand
- Shortage: Demand exceeds supply
- Equilibrium: Supply equals demand

Business Opportunities

Key Terms

domestic
business

global business

for-profit
business

nonprofit
organization

public sector

private sector

industry

derived
demand

wholesalers

retailers

production

management

finance

accounting

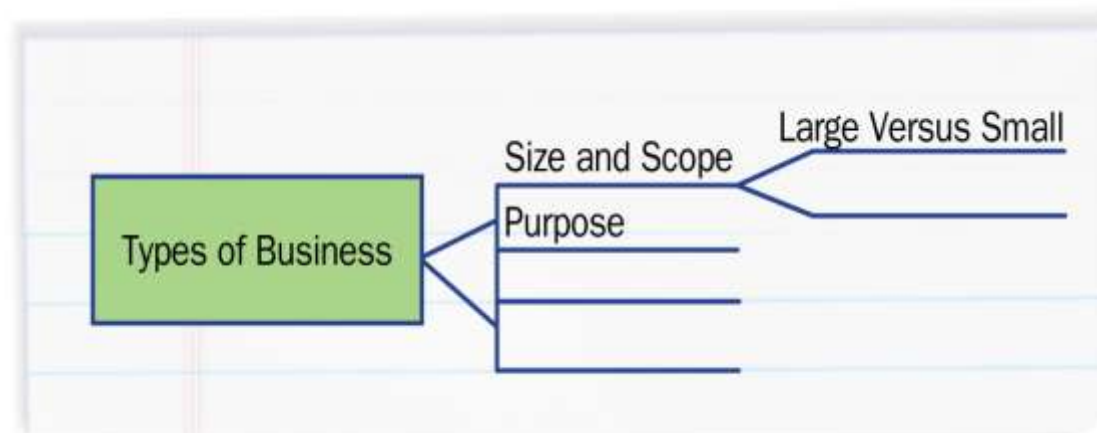
Objectives

- Recognize the difference between for-profit and nonprofit organizations
- Distinguish between the public and private sectors
- List the major types of businesses in the industrial market

Business Opportunities

Graphic Organizer

In charts like this one, record the various ways to classify businesses and the major functions of business.



Types of Business

To classify businesses in a free enterprise system, you will need to know the different ways of classifying businesses:

- By size and scope
- By purpose
- By place within the industry

Types of Business

A business may be classified in more than one category.



Only Qantas can entertain you all the way to Australia.

Sit back, relax and enjoy your own personal entertainment system. With 12 video channels, 16 audio channels, the very latest movies and quality kids programming, the journey will be over before you know it. That's the spirit. The Spirit of Australia. QantasUSA.com

QANTAS

Available on all premium services.

The advertisement features a photograph of a flight attendant and a child in a Qantas cabin. The flight attendant is wearing a headset and looking towards the child, who is holding a remote control. Several seats in the cabin are visible, each with a personal entertainment screen. The Qantas logo is prominently displayed in the bottom right corner of the image area.

Size and Scope

domestic business



A business that sells its products only in its own country.

A small business is operated by one or a few individuals, generally fewer than 100.

A business that sells its products only in its own country is considered a **domestic business** ◀. Its opportunities for growth are limited to customers within that country.

Size and Scope

global business



A business that sells its products to more than one country.

A **global business** ◀ sells its products in more than one country. The Internet, along with faster transportation and financial transfers, makes it easier to do business globally.

for-profit business



A business that seeks to make a profit from its operations.

Purpose

A **for-profit business** ◀ seeks to make a profit from its operations.

Purpose

nonprofit organization

An organization that can function like a business but uses the money it makes to fund the cause identified in its charter.

A **nonprofit organization** ◀ uses the money it makes to fund the cause identified in its charter. These business raise money through:

- Gifts and donations
- Selling goods or services

public sector

Local, state, and federal government agencies and services, such as public libraries and state universities.

Purpose

Government-financed agencies are part of the **public sector** ◀. These agencies include:

- Public schools and libraries
- Military agencies
- Social agencies
- Regulatory agencies

Purpose

private sector

Businesses not associated with government agencies.

Business not associated with government agencies are part of the **private sector** .

Industry and Markets

Business are often classified by the:

- Industry they represent
- Products they sell
- Market they target

Industry and Markets

industry

A group of establishments primarily engaged in producing or handling the same product or group of products or in rendering the same services.

An **industry** ◀ consists of a group of establishments primarily engaged in producing or handling the same product or group of products or in rendering the same services.

Industry and Markets

The U.S., Canada, and Mexico developed the North American Industry Classification System (NAICS). It classifies economic activity into 20 sectors including:

- Communications and publishing
- Motion pictures and internet companies

Industry and Markets

derived demand



The demand for industrial goods based on the demand for consumer goods and services.

Derived demand ◀ is based on, or derived from, the demand for consumer goods and services. Industrial companies try to increase their business by studying consumer trends.

Industry and Markets

Industrial businesses include:

- Extractors: Businesses that take something from the earth or sea
- Construction: Builders of houses, office buildings, or factories
- Manufacturing: Producers of goods

Industry and Markets

wholesalers



Channel of distribution that obtains goods from manufacturers and resells them to industrial users, other wholesalers, and retailers.

- **Wholesalers** ◀: Businesses that obtain goods from manufacturers and resell them to industrial users, other wholesalers, and retailers.

Industry and Markets

retailers



Channel of distribution that buys goods from wholesalers or directly from manufacturers and resells them to the consumer.

- **Retailers** ◀: Businesses that buy goods from wholesalers or manufacturers and resell them to the consumer.

Industry and Markets



Hi. Lo. Pick a color.

Free Shipping
Free Return Shipping
365-Day Return Policy
110% Price Protection

★ CONVERSE
at
Zappos
.com
the web's most popular shoe store!

See www.zappos.com for details on all policies. CONVERSE is a registered trademark of Converse Inc.

www.zappos.com

The advertisement features three pairs of Converse sneakers: a dark blue high-top, a maroon low-top, and a pair of white high-tops with maroon and black accents. The background is a yellow-green gradient with a faint pattern of gold coins and a Zappos shoe icon. The text is arranged in a clean, sans-serif font.



The Functions of Business

There are four main functions involved in an organization's operation:

- Production or procurement
- Marketing
- Management
- Finance

The Functions of Business

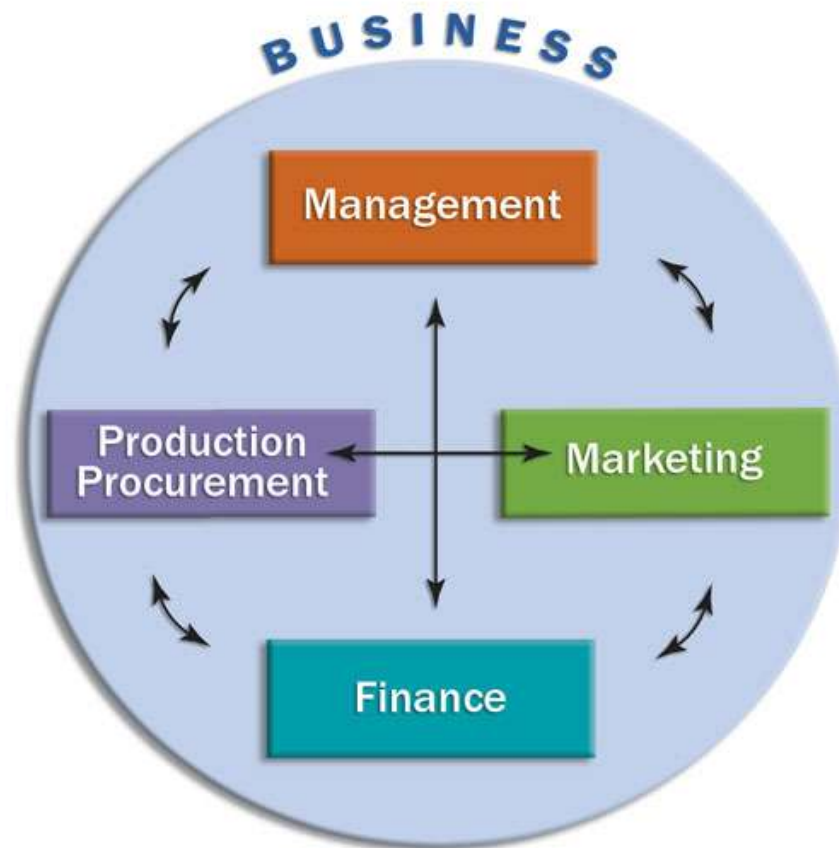
production



The process of creating, expanding, manufacturing, or improving on goods and services.

Production ◀ is the process of creating, expanding, manufacturing, or improving on goods or services. Procurement involves buying and reselling goods that have already been produced.

The Functions of Business



The Functions of Business

The five “rights” of merchandising are having:

1. the right goods
2. at the right time
3. in the right place
4. at the right price
5. in the right amount

Marketing

All activities, from the time a product leaves the producer until it reaches the final consumer, are considered marketing activities. These activities support the buying and selling functions.

Management

management



The business function of planning, organizing, and controlling all available resources to achieve company goals.

Management ◀ is the process of achieving company goals by the effective use of resources through:

- Planning
- Organizing: Scheduling, delegating, and other specific operations.
- Controlling: Overseeing and analyzing operating budgets and suggesting more efficient measures for a company.

Finance and Accounting

finance



A business function that involves money management.

Finance ◀ is the function of business that involves money management.

Finance and Accounting

accounting

The discipline that keeps track of a company's financial situation.

Accounting ◀ is the discipline that keeps track of a company's financial situation.

A balance sheet reports a company's:

- Assets
- Liabilities
- Owner's equity

FOCUS on KEY POINTS

Section 5.1

- The characteristics of a free enterprise system are freedom of ownership, freedom to compete, freedom to make a profit, and freedom to take risks. Price competition involves competing with a lower price.

FOCUS on KEY POINTS

Section 5.1

- The economic cost of unprofitable businesses includes loss of jobs, and loss of revenue. The benefits of successful firms include increased employment, better returns for investors, and more sales revenue for supporting companies.

continued

FOCUS on KEY POINTS

Section 5.1

- Supply and demand interact to create price. Theory suggests that as prices rise, demand drops. As prices increase, supply increases.

continued

FOCUS on KEY POINTS

Section 5.2

- Businesses can be classified on the basis of size and scope, purpose, and place within industry.
- Unlike profit-oriented businesses, which keep their profits, nonprofit organizations use the money they make (profit) to fund the causes identified in their charters.



This chapter has helped prepare you to meet the following DECA performance indicators:

- Orient new employees.
- Describe legal issue affecting business.
- Explain the nature of staff communication.
- Explain business ethics in selling.
- Make oral presentations.