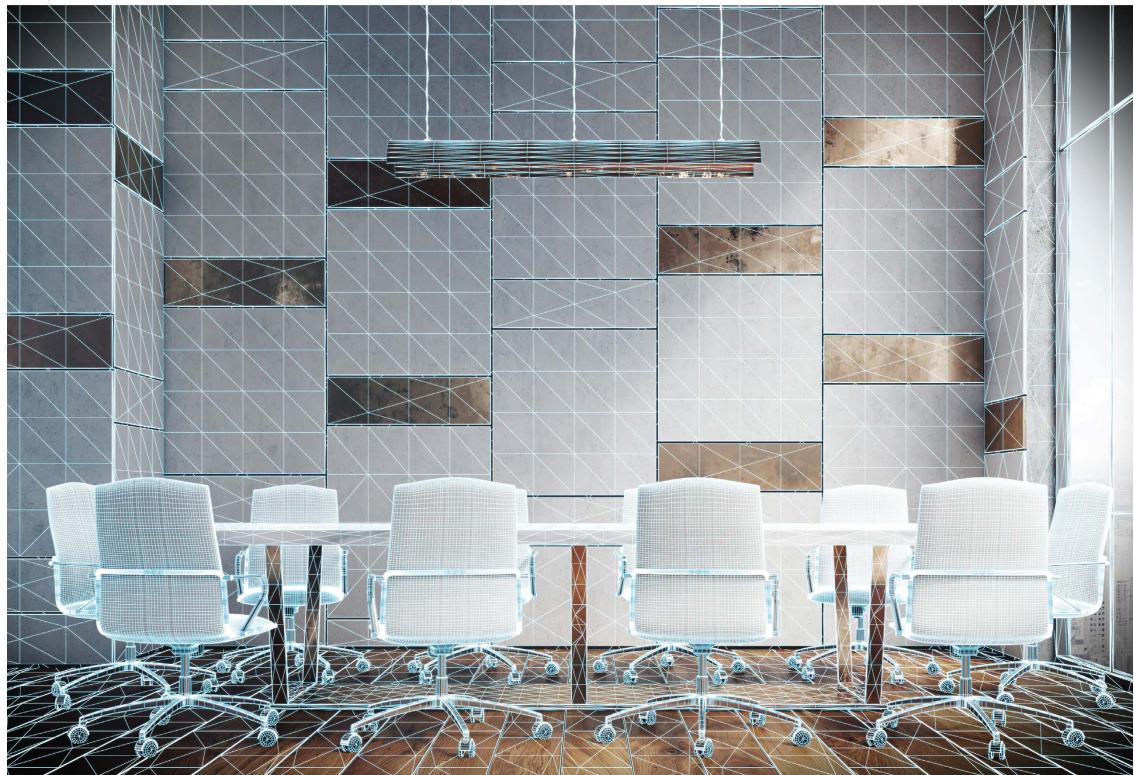


GLOBAL
EDITION



Business in Action

NINTH EDITION



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Business in Action: Thriving in the Digital Enterprise

Ninth Edition' Global Edition

Chapter 2

Economics' Money' and Banking

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Introduction

- This chapter offers:
 - A brief introduction to economics from a business professional's perspective
 - A overview of the interaction of supply and demand and a macro view of the economy
 - An exploration of money' banking' and the digital revolution known as fintech

Excercise

- Make a personal experiment and track your time and spending
 - How much do spend on each of your tasks?
 - For which tasks are you getting something in return?
 - What are you spending money on?
 - How much time does decision-making and actually spending money take?
 - Can you save money? Where are you putting/investing that money?

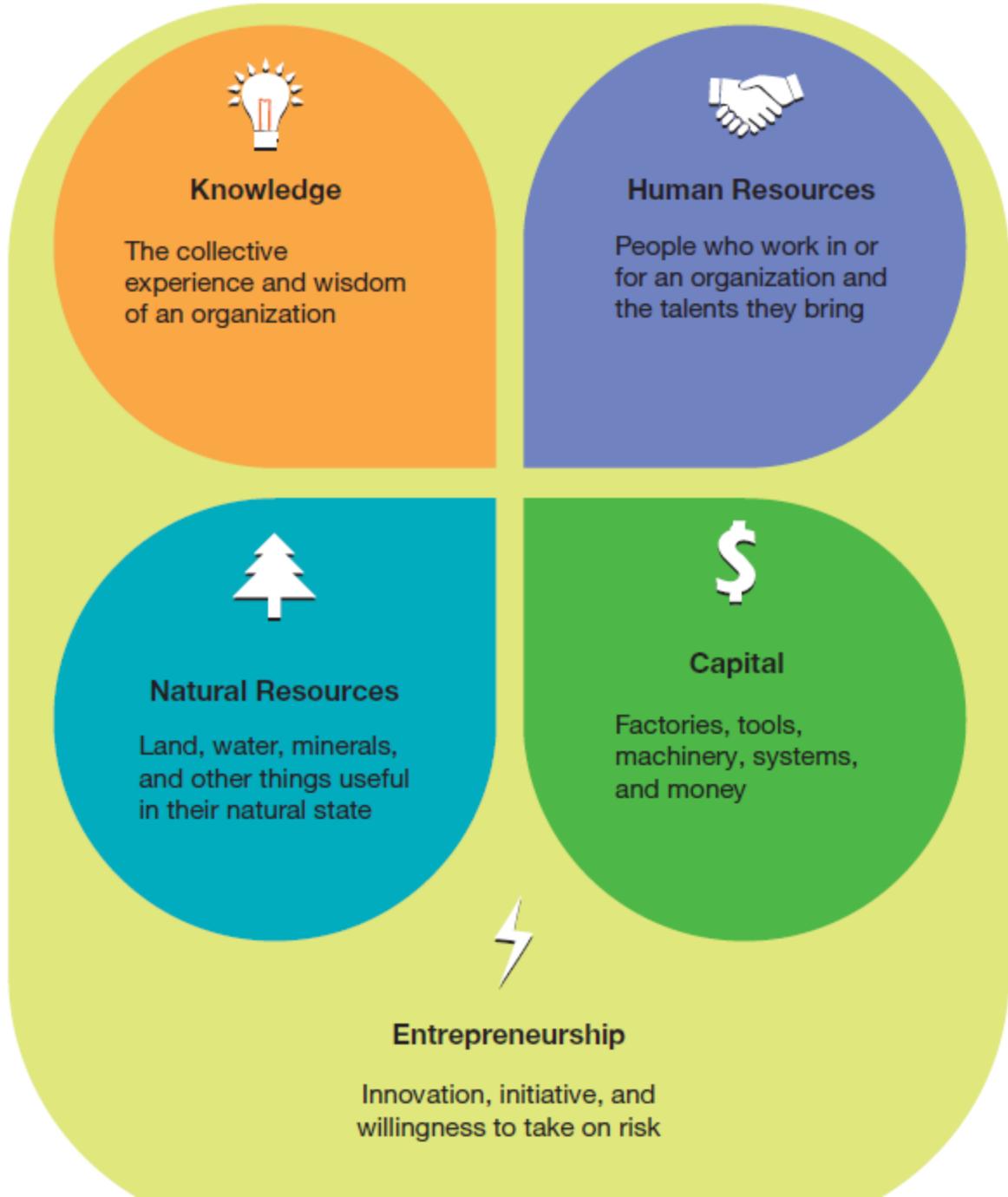
Learning Objectives (1 of 2)

- 2.1 Define **economics** ' explain why scarcity is central to economic decision making' and identify the major ways of measuring economic activity.
- 2.2 Define **economic system**' and explain the government's role in a free.market economy.
- 2.3 Explain the interaction between demand and supply.
- 2.4 Identify four macroeconomic issues that are essential to understanding the behavior of the economy.
- 2.5 List the four financial functions of money' and define two key measures of the money supply.
- 2.6 Explain the role of the Federal Reserve System' list the major types of banking institutions' and summarize banking's role in the economy.
- 2.7 Define **fintech** ' and discuss five ways that financial institutions are innovating with digital technology.

What Is This Thing Called the Economy? (1 of 2)

- **Economy**
 - The sum total of all the economic activity within a given region
- **Economics**
 - The study of how a society uses its scarce resources to produce and distribute goods and services
- **Microeconomics**
 - The study of how consumers' businesses' and industries collectively determine the quantity of goods and services demanded and supplied at different prices
- **Macroeconomics**
 - The study of "big picture" issues in an economy' including competitive behavior among firms' the effect of government policies' and overall resource allocation issues

- **Natural resources**
 - Land' forests' minerals' water' and other tangible assets usable in their natural state
- **Human resources**
 - All the people who work in an organization or on its behalf
- **Capital**
 - The funds that finance the operations of a business as well as the physical' human.made elements used to produce goods and services' such as factories and computers
- **Entrepreneurship**
 - The combination of innovation' initiative' and willingness to take the risks required to create and operate new businesses
- **Knowledge**



The Economic Impact of Scarcity

- **Scarcity**
 - A condition of any productive resource that has finite supply
- **Opportunity cost**
 - The value of the most appealing alternative not chosen

Economic Measures and Monitors

- Economic indicators
 - Statistics that measure the performance of the economy
 - Leading and lagging

Exhibit 2.2 Key Economic Indicators (1 of 2)

Here are some of the key indicators that help policymakers and business leaders assess the state of the economy.

Price Indexes

- **Consumer Price Index CPI**
 - A monthly statistic that measures changes in the prices of a representative collection of consumer goods and services
- **Producer Price Index PPI**
 - A statistical measure of price trends at the producer and wholesaler levels

National Economic Output

- **Gross domestic product GDP**
 - The value of all the final goods and services produced by businesses located within a nation's borders; excludes outputs from overseas operations of domestic companies

Economic Systems

- **Economic system**
 - The policies that define a society's particular economic structure; the rules by which a society allocates economic resources

Planned Systems

- **Planned system**
 - Economic system in which the government controls most of the factors of production and regulates their allocation
 - Also called a command system or command.and.control system

Exhibit 2.3 World's Healthiest Economies

Source: "The Legatum Prosperity Index 2017" Legatum Institute' www.prosperity.com.

Free-Market Systems

- **Free-market system**
 - An economic system in which decisions about what to produce and in what quantities are decided by the market's buyers and sellers
- **Capitalism**
 - Economic system based on economic freedom and competition

Nationalization and Privatization

- **Nationalization**
 - A government's takeover of selected companies or industries
- **Privatization**
 - Turning over services once performed by the government and allowing private businesses to perform them instead

Government's Role in a Free-Market System (1 of 2)

- **Regulation**
 - Relying more on laws and policies than on market forces to govern economic activity
- **Deregulation**
 - Removing regulations to allow the market to prevent excesses and correct itself over time

Protecting stakeholders

Fostering competition

Encouraging innovation and economic development

Stabilizing and stimulating the economy

Exhibit 2.4 Major Government Agencies and What They Do (1 of 2)

Stabilizing and Stimulating the Economy

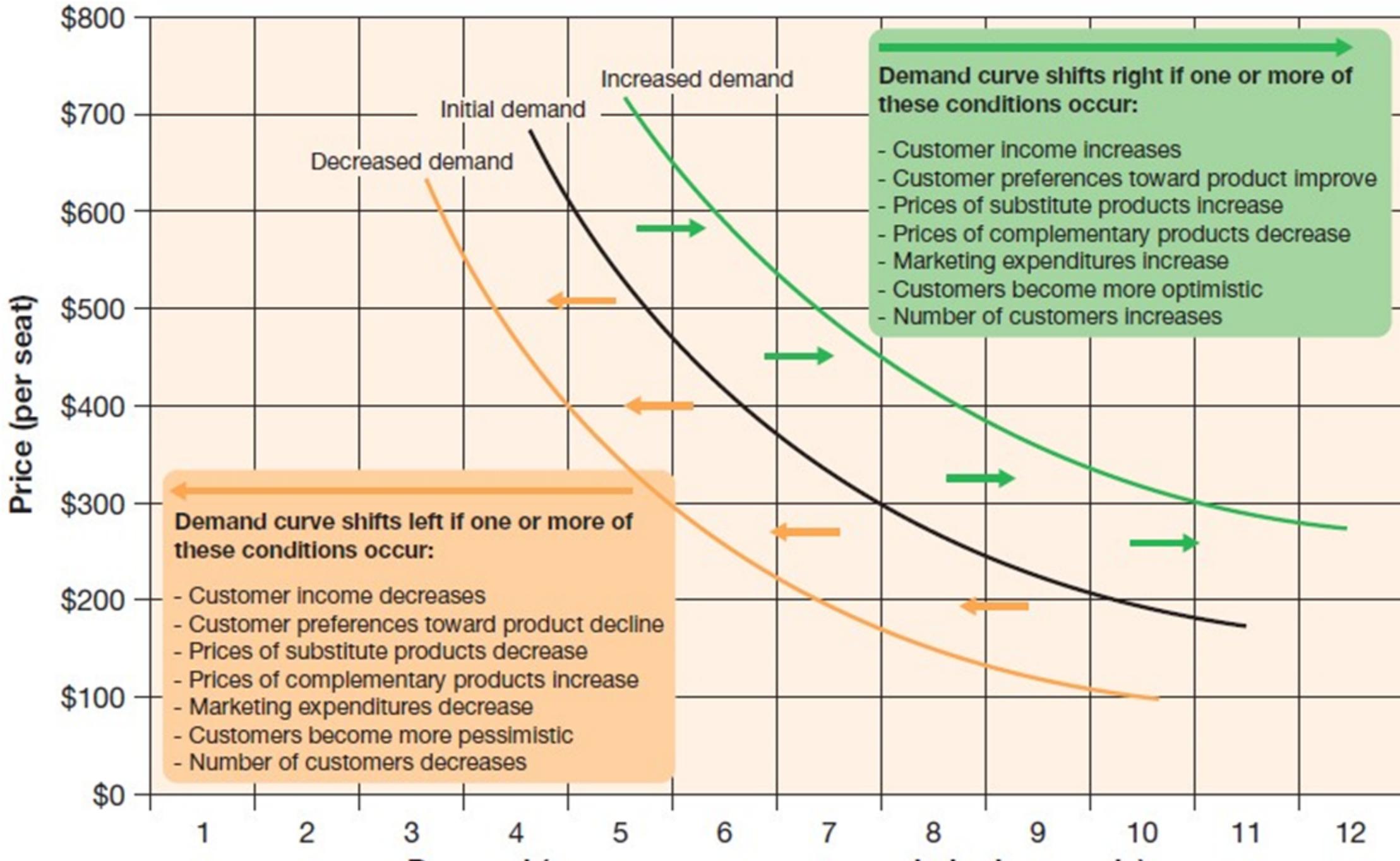
- **Monetary policy**
 - Government policy and actions taken by the Federal Reserve Board to regulate the nation's money supply
- **Fiscal policy**
 - Strategy for the use of government revenue collection and spending to influence the business cycle

Exhibit 2.5 Major Types of Taxes

The Forces of Demand and Supply

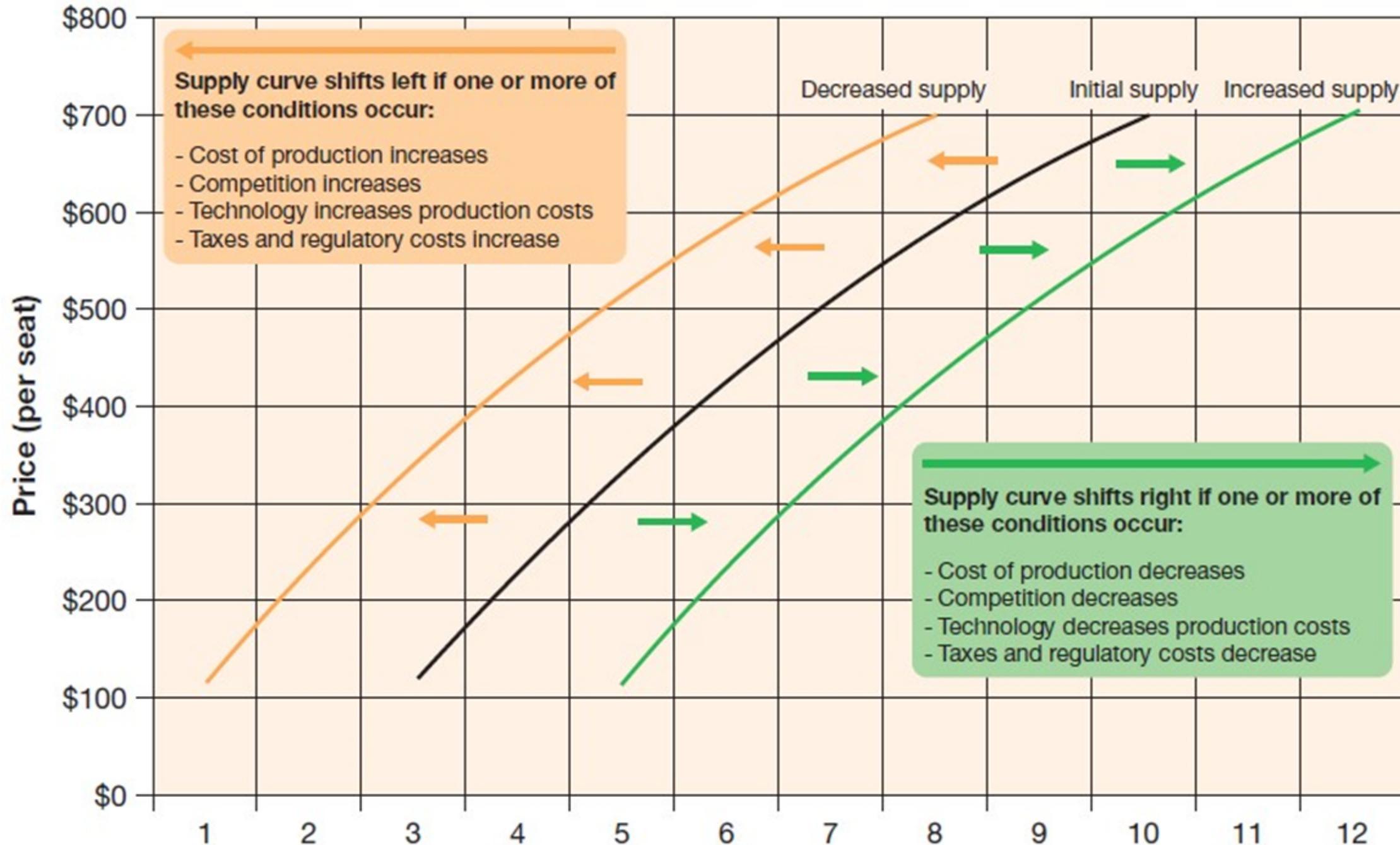
- **Demand**
 - Buyers' willingness and ability to purchase products at various price points
- **Supply**
 - A specific quantity of a product that the seller is able and willing to provide at various prices
- **Demand curve**
 - A graph of the quantities of a product that buyers will purchase at various prices

Demand Curves



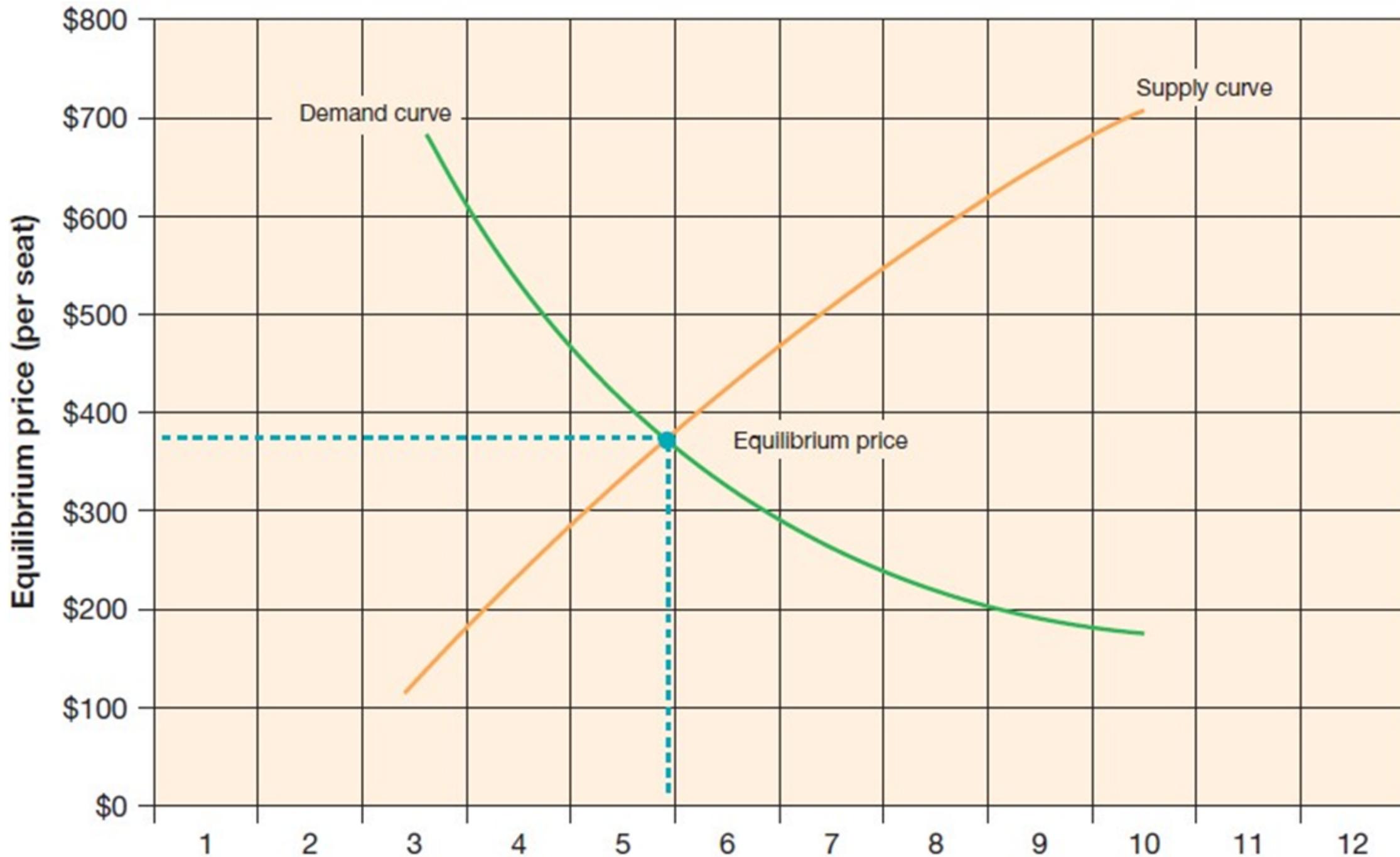
Understanding Supply

- **Supply curve**
 - A graph of the quantities of a product that sellers will offer for sale' regardless of demand' at various prices



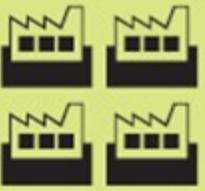
Understanding How Demand and Supply Interact

- **Equilibrium price**
 - The point at which quantity supplied equals quantity demanded
- Because the supply and demand curves are dynamic' so is the equilibrium point
- As variables affecting supply and demand change' so will the equilibrium price



Competition in a Free-Market System (1 of 3)

- **Competition**
 - Rivalry among businesses for the same customers
- **Pure competition**
 - A situation in which so many buyers and sellers exist that no single buyer or seller can individually influence market prices



Pure Competition

Characteristics:

- Many small suppliers
- Virtually identical products
- Low barriers to entry

Price competition:

- No single firm can grow large enough to influence prices across the market

Buyers' choices:

- Extensive

Monopolistic Competition

Characteristics:

- Can have few or many suppliers, of varying size
- Products can be distinguished but are similar enough to be replacements
- Variable barriers to entry but market open to all

Price competition:

- Firms that excel in one or more aspects can gain some control over pricing

Buyers' choices:

- Extensive

Oligopoly

Characteristics:

- Small number of suppliers, even as few as just two (a *duopoly*)
- Products can be distinguished in important ways, but replacements are still available
- Barriers to entry tend to be high, making entering the market difficult

Price competition:

- Individual firms can have considerable control over pricing

Buyers' choices:

- Limited

Pure Monopoly

Characteristics:

- Only one supplier in a given market
- Monopoly achieved without government intervention, by innovation, specialization, exclusive contracts, or a simple lack of competitors
- Products are unique, with no direct replacements available
- Barriers to entry are extremely high, making entering the market difficult or impossible

Price competition:

- Suppliers can charge as much as they want, at least until people stop buying

Buyers' choices:

Regulated Monopoly

Characteristics:

- Only one supplier in a given market
- Monopoly granted by government mandate, such as a license to provide cable TV and internet service
- No product competition is allowed
- Barriers to entry are infinitely high; new competitors are not allowed

Price competition:

- Prices are set by government mandate

Buyers' choices:

- None

Competition in a Free-Market System (2 of 3)

- **Monopoly**
 - A situation in which one company dominates a market to the degree that it can control prices
- **Monopolistic competition**
 - A situation in which many sellers differentiate their products from those of competitors in at least some small way
- **Oligopoly**
 - A market situation in which a very small number of suppliers' sometimes only two' provide a particular good or service

Business Cycles

- **Recession**
 - A period during which national income' employment' and production all fall; defined as at least six months of decline in the GDP
- **Business cycles**
 - Fluctuations in the rate of growth that an economy experiences over a period of several years

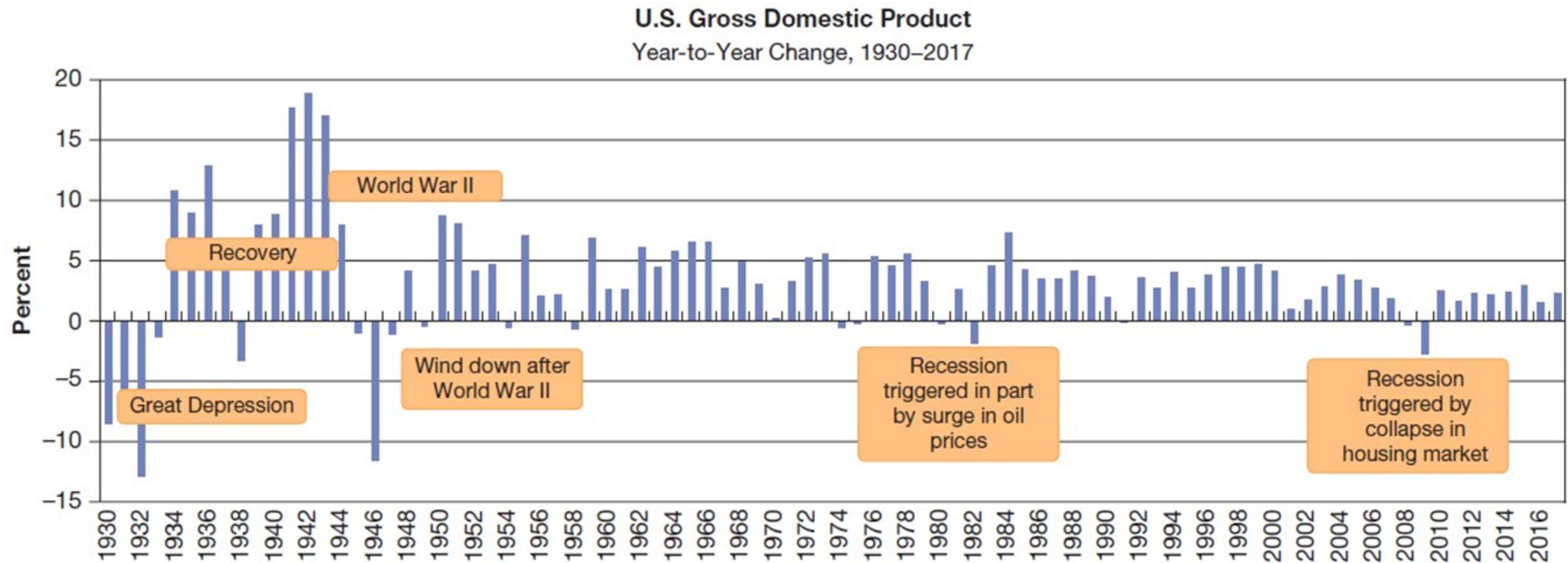
Unemployment

- **Unemployment rate**
 - The portion of the labor force .everyone over 16 who has or is looking for a job. currently without a job

Inflation and Deflation

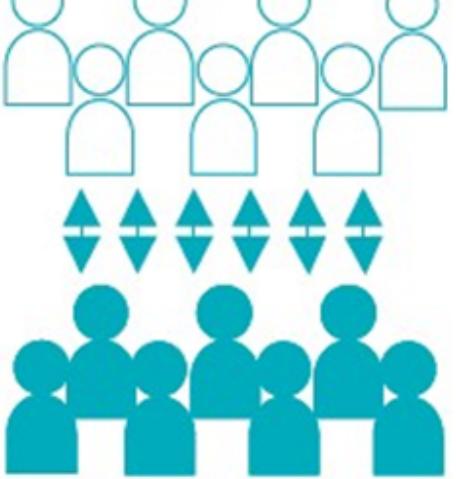
- **Inflation**
 - An economic condition in which prices rise steadily throughout the economy
- **Deflation**
 - An economic condition in which prices fall steadily throughout the economy

Exhibit 2.10 Fluctuations in the U.S. Economy



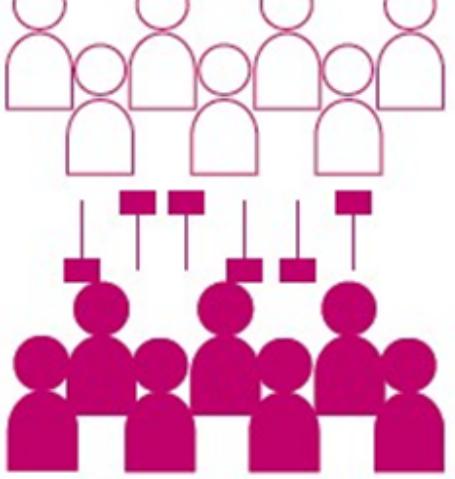
Source: Data from U.S. Bureau of Economic Analysis, National Income and Product Accounts Tables, 13 March 2018, www.bea.gov.

Source: Data from U.S. Bureau of Economic Analysis' National Income and Product Accounts Tables' 13 March 2018 'www.bea.gov'.



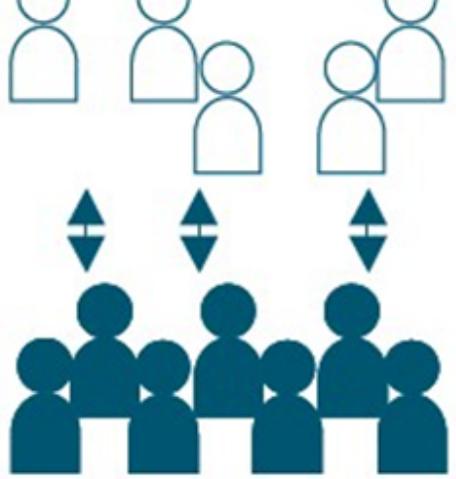
Frictional Unemployment

- The “natural” flow of workers into and out of jobs, such as when a person leaves one job without first lining up a new job
- Always some level of frictional unemployment in the economy



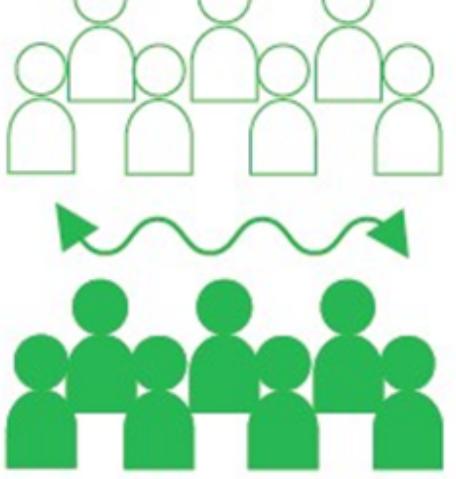
Structural Unemployment

- A mismatch between workers’ skills and current employer needs
- Workers can’t find jobs that match their qualifications, and employers can’t find employees with the skills their job openings require
- A never-ending concern as changes in the external environments of business make some skills obsolete and create demand for new skills



Cyclical Unemployment

- Caused by economic fluctuations
- Occurs when demand for goods and services drops, businesses reduce production, thereby requiring fewer workers
- An increasing number of people who want to work can’t find jobs
- During catastrophic depressions, can run as high as 20 or 25 percent



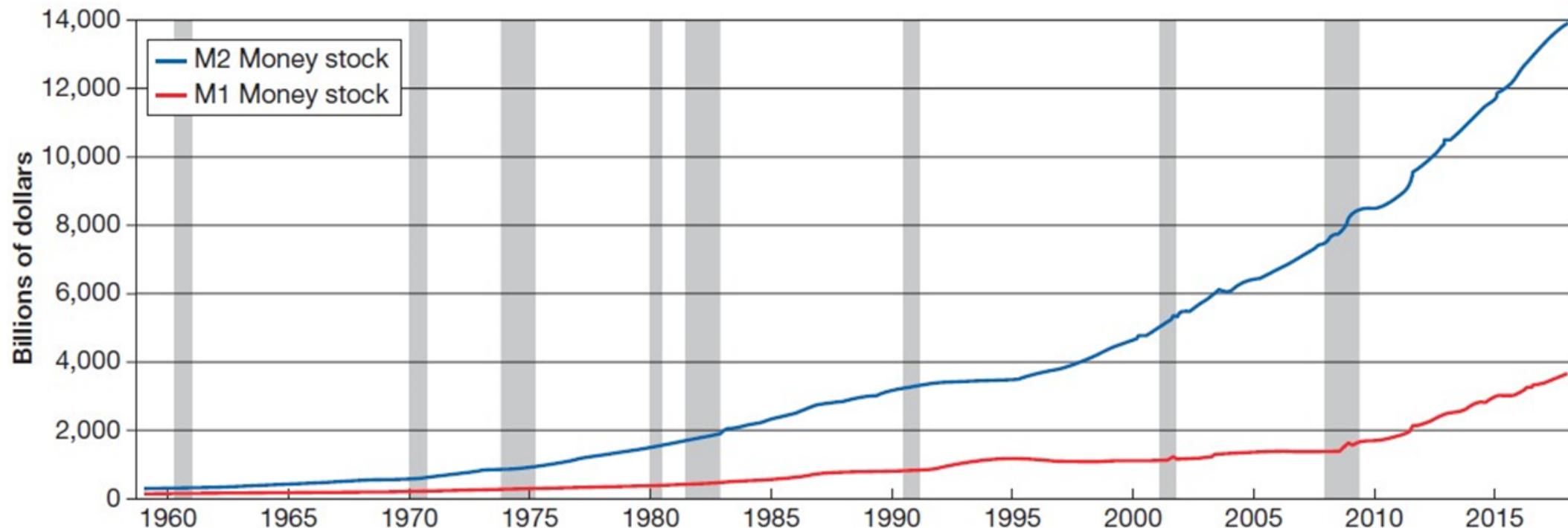
Seasonal Unemployment

- Predictable increases and decreases in the need for workers in industries with seasonal fluctuations in customer demand
- Common in agriculture, leisure and entertainment, retailing, and accounting services

The Meaning of Money

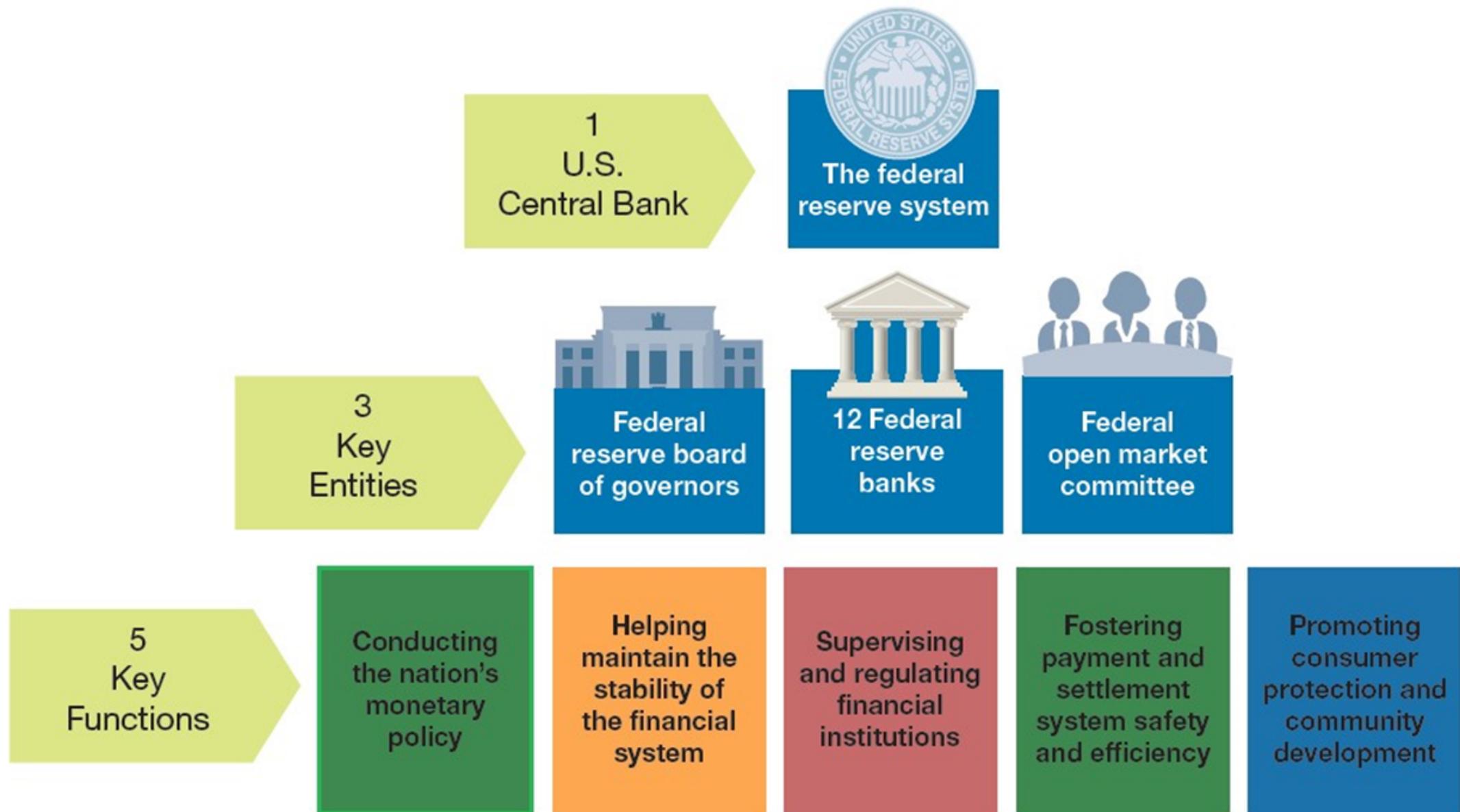
- **Money**
 - Anything generally accepted as a means of paying for goods and services
 - Serves as a medium of exchange' a unit of accounting' a store of value' and a standard of deferred value

Exhibit 2.12 The Money Supply



Source: "M1 and Components," Federal Reserve Bank of St. Louis, accessed 13 March 2018, fred.stlouisfed.org. Used courtesy of the Federal Reserve Bank of St. Louis.

Source: "M1 and Components" Federal Reserve Bank of St. Louis' accessed 13 March 2018'fred.stlouisfed.org. Used courtesy of the Federal Reserve Bank of St. Louis.



Sources: *The Federal Reserve System: Purposes & Functions*, 10th ed. (Washington, D.C.: Board of Governors of the Federal Reserve System, 2016), 1.

Sources: *The Federal Reserve System: Purposes & Functions*' 10th ed. Washington' DC :

The Federal Reserve System (1 of 2)

- **Federal funds rate**
 - The interest rate that member banks charge each other to borrow money overnight from the funds they keep in the Federal Reserve accounts

Exhibit 2.14 Federal Funds Rate



Source: "Effective Federal Funds Rate," Federal Reserve Bank of St. Louis, accessed 13 June 2018, fred.stlouisfed.org. Used courtesy of the Federal Reserve Bank of St. Louis.

Source: "Effective Federal Funds Rate" Federal Reserve Bank of St. Louis' accessed 13 June 2018'fred.stlouisfed.org. Used courtesy of the Federal Bank of St. Louis.

The Federal Reserve System (2 of 2)

- **Discount rate**
 - The interest rate that member banks pay when they borrow funds from the Fed
- **Prime rate**
 - The interest rate a bank charges its best loan customers

Investment Banking

- **Investment banks**
 - Firms that offer a variety of services related to initial public stock offerings' mergers and acquisitions' and other investment matters

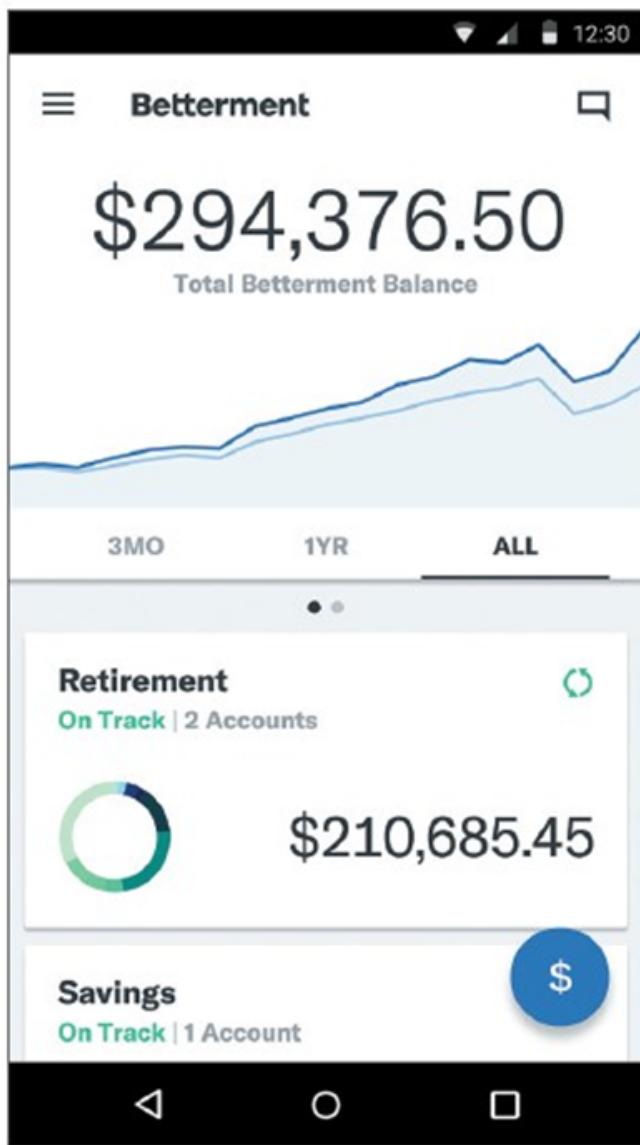
Commercial Banking and Other Financial Services

- **Commercial banks**
 - Financial institutions that accept deposits' offer various types of checking and savings accounts' and provide loans
- **Retail banks**
 - Banks that provide financial services to consumers

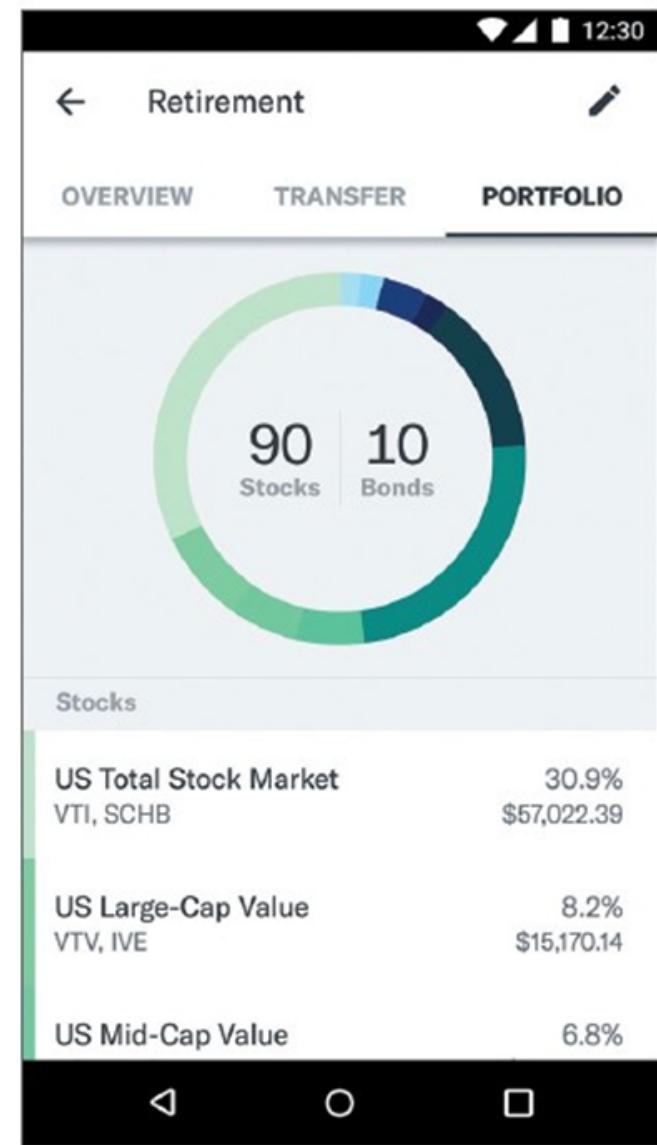
Thriving in the Digital Enterprise: Fintech

- **Fintech**
 - Technologies with the potential to improve or disrupt financial services

Exhibit 2.15 Fintech Apps



The screenshot shows the "Deposit" configuration screen. It displays a projected balance of \$25,589.21, which is "On Track". The target amount is set at \$25,000.00, and the time horizon is 2 years (2019). The frequency is set to "Every Other Monday". Below this, there is a numeric keypad for entering the deposit amount, with numbers 1 through 9, 0, and a backspace key, followed by a "REVIEW DEPOSIT" button.



Improving the Customer Experience in Financial Services

- **Neobanks**
 - Banks that provide services entirely through mobile and digital channels

Applying What You've Learned (1 of 2)

Define economics' explain why scarcity is central to economic decision making' and identify the major ways of measuring economic activity.

Define **economic system**' and explain the government's role in a free.market economy.

Explain the interaction between demand and supply.

Identify four macroeconomic issues that are essential to understanding the behavior of the economy.

List the four financial functions of money' and define two key measures of the money supply.

Explain the role of the Federal Reserve System' list the major types of banking institutions' and summarize banking's role in the economy.

Define **fintech** ' and discuss five ways that financial institutions are innovating with digital technology.