Chapter 3

Economic Challenges Facing Global and Domestic Business

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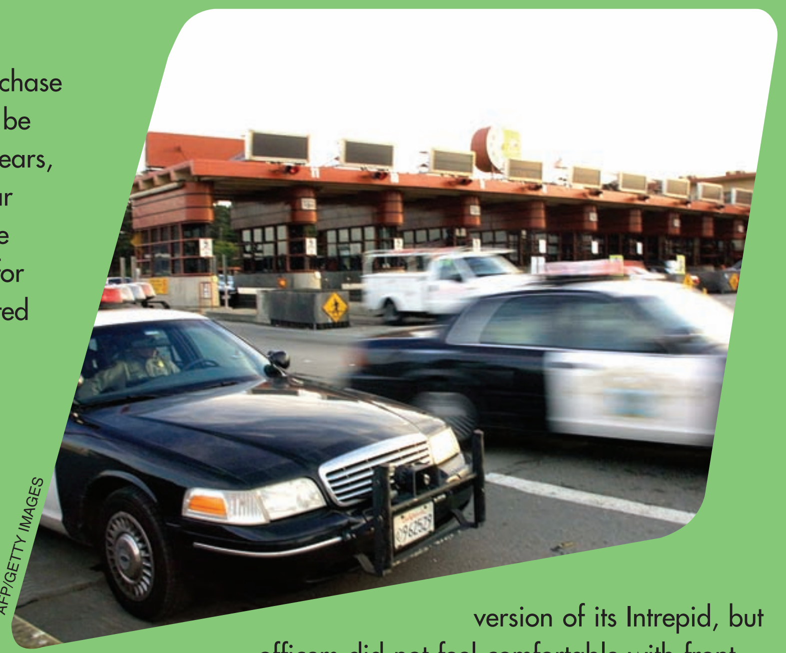
Learning Goals

1. Distinguish between microeconomics and macroeconomics.
2. Explain the factors that drive demand and supply.
3. Describe each of the four different types of market structures in a private enterprise system.
4. Compare the three major types of economic systems.
5. Identify and describe the four stages of the business cycle.
6. Explain how productivity, price level changes, and employment levels affect the stability of a nation's economy.
7. Discuss how monetary policy and fiscal policy are used to manage an economy's performance.
8. Describe the major global economic challenges of the 21st century.

Dodge Tries to Dethrone Ford's Crown Victoria

You probably won't be involved in a police car chase anytime soon. But as a businessperson, you might be interested in the story of the police car itself. For years, Ford Motor Company has dominated the police car market with its special model Crown Victoria Police Interceptor. That souped-up model has accounted for about 85 percent of all police cars sold in the United States. But all that is changing. Police departments now have a choice about what vehicles they purchase, and DaimlerChrysler is in hot pursuit of their dollars.


AFP/GETTY IMAGES

DaimlerChrysler announced that its Dodge division is unveiling a police model of its classic Dodge Charger. The firm also plans to produce a law enforcement edition of its Magnum, but the Charger is expected to compete directly with Ford's Crown Victoria. While many police departments claim loyalty to Ford, some are beginning to look at alternatives because of high-profile accidents with the Crown Victoria. According to reports, nearly 20 officers died in fiery explosions that resulted when their cruisers were hit from behind. Some departments have even sued the automaker. The bad publicity has created a window of opportunity for competitors.

While Ford is taking steps to increase the safety of its cars by installing fire suppression devices and gas tank protectors, Dodge is rolling out its new cars. The new Charger has enhanced brakes and a 340-horsepower Hemi engine, features that take direct aim at the Crown Victoria. The Magnum, which is a sport wagon, is expected to attract some interest. But 75 percent of police departments prefer sedans, so the Charger is the flagship model. Dodge developed both cars knowing they will face some tough testing by organizations such as the California Highway Patrol and the Michigan State Police. Both agencies put any prospective police cars through difficult maneuvers and publish the results, which influence the purchase decisions made by many police departments. Dodge has also listened to customers and learned from its previous mistakes. Several years ago, it introduced a police version of its Intrepid, but officers did not feel comfortable with front-wheel drive at high speeds or when making tight turns. So it's back to rear-wheel drive for the Charger. "With all of this, we know we'll hit the sweet spot," predicts Eric Ridenour, executive vice president of product development for Chrysler.

Dethroning the Crown Victoria won't be easy, though. Police departments have been comfortable with the auto for years. Officers report that they like the Crown Victoria's roomy interior, which can hold laptop computers, papers, and all the other equipment that they need to haul around on the job. Purchasing managers like to order a single type of vehicle so that officers can swap cars easily, if necessary, and maintenance is more efficient with one type of part to supply. So it is typical for departments to outfit an entire fleet with a single model. But with budgets always in mind, police departments are opening up to the possibility of a new vehicle. "We're excited that there's another competitor out there," says John Alley, fleet administrator for the San Diego Police Department. He manages a fleet of 550 Crown Victorias at about $21,000 to $23,000 each. "We're hoping the new Dodge will be cheaper." DaimlerChrysler marketers hope that when police dispatchers send out the alert, "calling all cars," they'll be talking about the Charger.[1]

ChapterOverview

When we examine the exchanges that companies and societies make as a whole, we are focusing on the *economic systems* operating in different nations. These systems reflect the combination of policies and choices a nation makes to allocate resources among its citizens. Countries vary in the ways they allocate scarce resources.

Economics, which analyzes the choices people and governments make in allocating scarce resources, affects each of us, because everyone is involved in producing, distributing, or simply consuming goods and services. In fact, your life is affected by economics every day. When you decide what goods to buy, what services to use, or what activities to fit into your schedule, you are making economic choices.

"They Said It"

"Please find me a one-armed economist so we will not always hear 'On the other hand . . .'"
—Herbert Hoover (1874–1964)
31st president
of the United States

economics social science that analyzes the choices people and governments make in allocating scarce resources.

The choices you make may often be international in scope. If you are in the market for a new car, you might visit several dealers in a row on the same street—Ford, Chrysler, Honda, Toyota, and Saturn. You might decide on Toyota—a Japanese firm—but your car might very well be manufactured in the United States, using parts from all over the world. Although firms sometimes emphasize the American origin of their goods and services in order to appeal to consumers' desire to support the U.S. economy, many products are made of components from a variety of nations.

Businesses and not-for-profit organizations also make economic decisions when they choose how to use human and natural resources; invest in equipment, machinery, and buildings; and form partnerships with other firms. When a police department decides whether to purchase a Ford or a Dodge for its officers to drive, it is making an economic choice.

microeconomics study of small economic units, such as individual consumers, families, and businesses.

macroeconomics study of a nation's overall economic issues, such as how an economy maintains and allocates resources and how a government's policies affect the standards of living of its citizens.

Economists refer to the study of small economic units, such as individual consumers, families, and businesses, as **microeconomics.** On a broader level, government decisions about the operation of the country's economy also affect you, your job, and your financial future. A major feature of the recent Sarbanes-Oxley Act was to limit the consulting services that accounting firms can provide for a company whose financial records they audit. The new law affected the entire accounting profession.

The study of a country's overall economic issues is called **macroeconomics** (*macro* means "large"). Macroeconomics addresses such issues as how an economy uses its resources and how government policies affect people's standards of living. Macroeconomics examines not just the economic policies of individual nations but the ways in which those individual policies affect the overall world economy. Because so much business is conducted around the world, a law enacted in one country can easily affect a transaction that takes place in another country. Although macroeconomic issues have a broad scope, they help shape the decisions that individuals, families, and businesses make every day.

This chapter introduces economic theory and the economic challenges facing individuals, businesses, and governments in the global marketplace. We begin with the microeconomic concepts of supply and demand and their effect on the prices people pay for goods and services. Next we explain the various types of economic systems, along with tools for comparing and evaluating their performance. Then we examine the ways in which governments seek to manage economies to create stable business environments in their countries. The final section in the chapter looks at some of the driving economic forces currently affecting people's lives.

assessment check

1. Define microeconomics.
2. Define macroeconomics.

MICROECONOMICS: THE FORCES OF DEMAND AND SUPPLY

Think about your own economic activities. You shop for groceries, you subscribe to a cell phone service, you pay college tuition, you fill your car's tank with gas. Now think about your family's economic activities. When you were growing up, your parents might have owned a home or rented an apartment. You might have taken a summer family vacation. Your parents may have shopped at discount clubs or at local stores. Each of these choices relates to the study of microeconomics. They also help determine both the prices of goods and services and the amounts sold. Information about these activities is vital to companies because their survival and ability to grow depends on selling enough products priced high enough to cover costs and earn profits. The same information is important to consumers who must make purchase decisions based on prices and the availability of the goods and services they need.

At the heart of every business endeavor is an exchange between a buyer and a seller. The buyer recognizes that he or she needs or wants a particular good or service—whether it's a hamburger or a haircut—and is willing to pay a seller for it. The seller requires the exchange in order to earn a profit and stay in business. So the exchange process involves both demand and supply. **Demand** refers to the willingness and ability of buyers to purchase goods and services at different prices. The other side of the exchange process is **supply,** the amount of goods and services for sale at different prices. Understanding the factors that determine demand and supply, as well as how the two interact, can help you understand many actions and decisions of individuals, businesses, and government. This section takes a closer look at these concepts.

demand willingness and ability of buyers to purchase goods and services.

supply willingness and ability of sellers to provide goods and services.

Factors Driving Demand

For most us, economics amounts to a balance between what we want and what we can afford. Because of this dilemma, each person must choose how much money to save and how much to spend. We must also decide among all the goods and services competing for our attention. Suppose you wanted to purchase a camera phone. You'd have to choose from a variety of brands and models. You'd also have to decide where you wanted to go to buy one. After shopping around, you might decide you didn't want a camera phone at all. Instead, you might purchase something else, or save your money.

Demand is driven by a number of factors that influence how people decide to spend their money, including price. It may also be driven by outside circumstances or larger economic events. And it can be driven by consumer preferences. Recently, McDonald's decided to introduce a new fruit-and-walnut salad in response to consumer demand for more healthful meal choices. Naturally, McDonald's hopes that people will buy the new salad. But so do the nation's apple growers. If the fruit-and-walnut salad proves popular, McDonald's will order more apples from growers. "Obviously, it's a big boon," says Dave Carlson, president of the Washington Apple Commission. "If we get several other fast-food chains involved as well, it could certainly turn into being a significant factor in the industry."[2]

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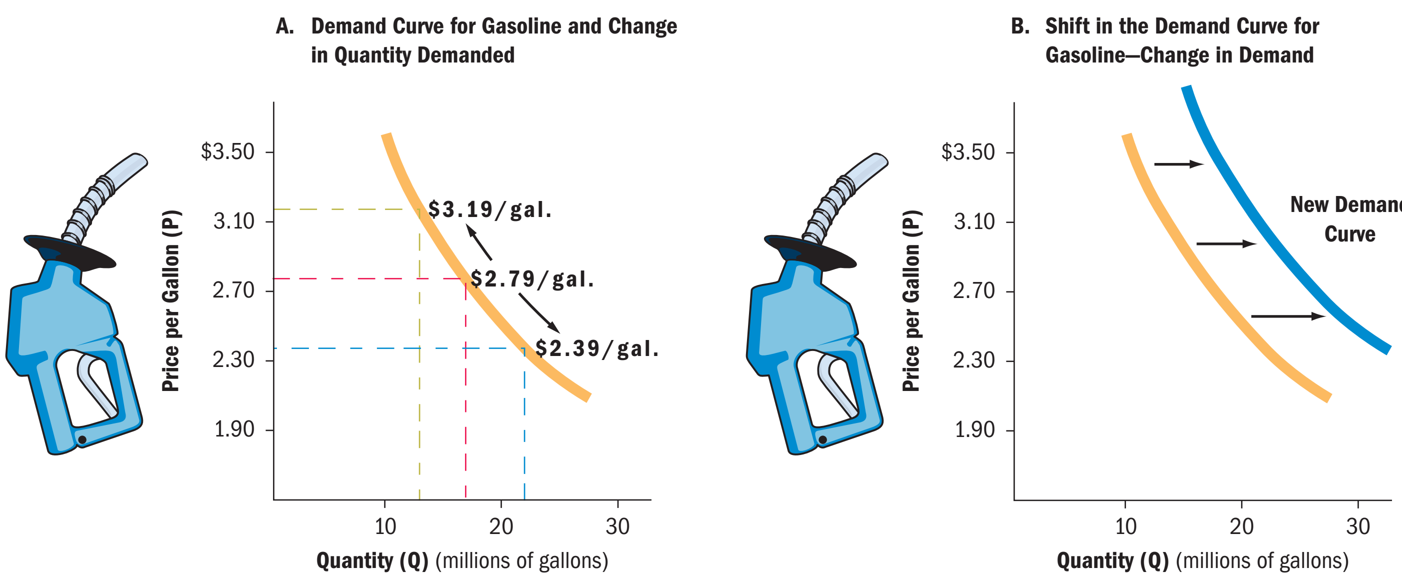
Consumers have many choices on how to spend their money. Their choices determine the demand for products, such as high-tech electronics sold at Best Buy.

Figure **3.1** Demand Curves for Gasoline



Demand can also increase the availability of certain types of software. As more and more information on consumers is stored in databases, identity theft has been on the rise. Criminals are willing to pay for confidential information about consumers, such as credit history, bank account and credit card numbers, and Social Security numbers. Recently, hackers stole millions of Discover, MasterCard, and American Express numbers from one card-processing company in Atlanta. These numbers were then sold to individuals who wanted to use the information for fraudulent purchases. This situation not only created an uproar among consumers but also increased demand for new information security products to protect against data theft.[3]

In general, as the price of a good or service goes up, people buy smaller amounts. In other words, as price rises, the quantity demanded declines. At lower prices, consumers are generally willing to buy more of a good. A **demand curve** is a graph of the amount of a product that buyers will purchase at different prices. Demand curves typically slope downward, meaning that lower and lower prices attract larger and larger purchases.

Gasoline provides a classic example of how demand curves work. The left side of Figure 3.1 shows a possible demand curve for the total amount of gasoline that people will purchase at different prices. When gasoline is priced at $2.79 a gallon, drivers may fill up their tanks once or twice a week. At $3.19 a gallon, many of them may start economizing. They may combine errands or carpool to work. So the quantity of gasoline demanded at $3.19 a gallon is lower than the amount demanded at $2.79 a gallon. The opposite happens at $2.39 a gallon. More gasoline is sold at $2.39 a gallon than at $2.79 a gallon, as people opt to drive to work or take a weekend trip. However, as mentioned earlier, other factors may cause consumers to accept higher prices anyway. They may have made vacation plans in advance and do not want to cancel them. Or they may be required to drive to work every day.

Economists make a clear distinction between changes in the quantity demanded at various prices and changes in overall demand. A change in quantity demanded, such as the change that occurs at different gasoline prices, is simply movement along the demand curve. A change in overall demand, on the other hand, results in an entirely new demand curve. Businesses are constantly trying to make predictions about both kinds of demand, and a miscalculation can cause problems. In one recent year, experts predicted a 7 percent increase in Chinese demand for oil, when in fact the growth in demand only reaches 5 percent. The overestimation resulted in a drop in investor confidence in the industry.[4]

As American household incomes have risen and lifestyles have changed, many American consumers have chosen to purchase SUVs, which consume large amounts of gasoline. At the same time, in developing countries like India and China, consumers have been able to afford cars for the first time. These changes have increased the demand for gasoline at all prices. The right side of Figure 3.1 shows how the increased demand for gasoline worldwide has created a new demand curve. The new demand curve shifts to the right of the old demand curve, indicating that overall demand has increased at every price. A demand curve can also shift to the left when the demand for a good or service drops. However, the demand curve still has the same shape.

Although price is the underlying cause of movement along a demand curve, many factors can combine to determine the overall demand for a product—that is, the shape and position of the demand curve. These influences include customer preferences and incomes, the prices of substitute and complementary items, the number of buyers in a market, and the strength of their optimism regarding the future. Changes in any of these factors produce a new demand curve. Despite high gasoline prices, soaring airfares, and rising hotel rates, U.S. consumers are traveling more than ever, according to the Travel Industry Association of America. "Usually when prices are high and the dollar is low people stay home," says one travel agent. "But the opposite is true [right now]." Demand for flights to popular locations has been so high that consumers have been forced to travel to other destinations or make plans for another time. Obviously, factors other than price—such as an improved U.S. economy or the urge for adventure—are driving the demand for travel.[5]

Changes in household income also change demand. As consumers have more money to spend, firms can sell more products at every price. This means the demand curve has shifted to the right. The price of related goods and services also can influence demand. As the price of gasoline rose recently, the demand for SUVs fell somewhat, and the demand for hybrid vehicles such as Toyota's Prius increased.[6] Table 3.1 describes how a demand curve is likely to respond to each of these changes.

For a business to succeed, management must carefully monitor the factors that may affect demand for the goods and services it hopes to sell. In setting prices, firms often try to predict how the chosen levels will influence the amounts they sell. The Coca-Cola Company experimented with smart vending machines, adjusting prices to such variables as the weather. If the temperature was hot outside, the machines could automatically raise the price. If the vending machine contained too many cans of root beer and restocking was five days away, the machine

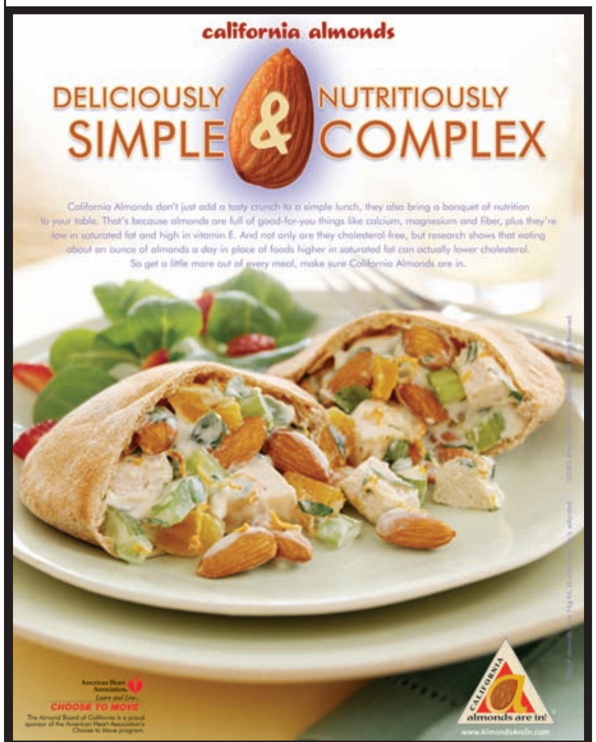
"They Said It"

"When you're regarded as a winner and you're successful, money chases you."
—Rick Pitino (b. 1952)
Head basketball coach, University of Louisville

Table 3.1

Expected Shifts in Demand Curves

Factor	Demand Curve Shifts to the Right *if*:	Demand Curve Shifts to the Left *if*:
Customer preferences	increase	decrease
Number of buyers	increases	decreases
Buyers' Incomes	increase	decrease
Prices of substitute goods	increase	decrease
Prices of complementary goods	decrease	increase
Future expectations become more	optimistic	pessimistic



The Almond Board of California hopes to increase demand for its product by promoting its healthful benefits. Not only do almonds taste great, but they also are packed with vitamins and fiber and may help reduce cholesterol.

could lower the price of root beer. Organizations also try to influence overall demand through advertising, free samples and presentations at retail stores, sales calls, product enhancements, and other marketing techniques.

Factors Driving Supply

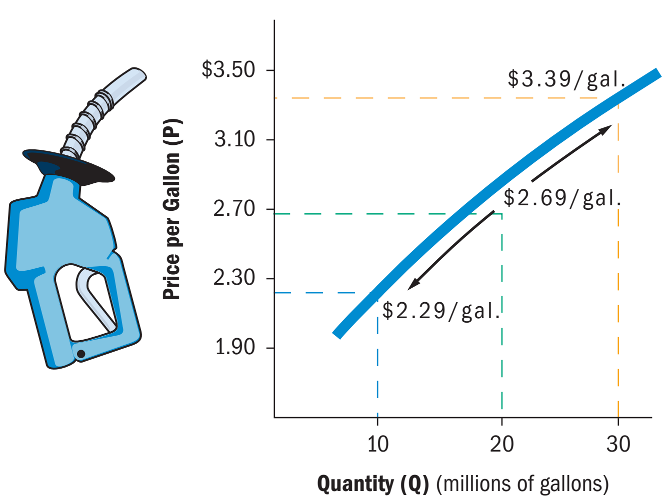
Important economic factors also affect supply, the willingness and ability of firms to provide goods and services at different prices. Just as consumers must decide about how to spend their money, businesses must decide what products to sell, and how.

Sellers would prefer to charge higher prices for their products. A **supply curve** shows the relationship between different prices and the quantities that sellers will offer for sale, regardless of demand. Movement along the supply curve is the opposite of movement along the demand curve. So as price rises, the quantity that sellers are willing to supply also rises. At progressively lower prices, the quantity supplied decreases. In Figure 3.2, a possible supply curve for gasoline shows that increasing prices for gasoline should bring increasing supplies to market.

Businesses need certain inputs to operate effectively in producing their output. As discussed in Chapter 1, these *factors of production* include natural resources, capital, human resources, and entrepreneurship. Natural resources include land, building sites, forests, and mineral deposits. Capital refers to resources such as technology, tools, information, physical facilities, and financial capabilities. Human resources include the physical labor and intellectual inputs contributed by employees. Entrepreneurship is the willingness to take risks to create and operate a business.

Factors of production play a central role in determining the overall supply of goods and services. A change in the cost or availability of any of these inputs can shift the entire supply curve, either increasing or decreasing the amount available at every price. If the cost of land increases, a firm might not be able to purchase the site for a more efficient manufacturing plant, which would lower production levels, shifting the supply curve to the left. But if the company finds a way to speed up the production process anyway, allowing it to turn out more products with less labor, the change reduces the overall cost of the finished products, which shifts the supply curve to the right. Table 3.2 summarizes how changes in various factors can affect the supply curve. Sometimes forces of nature can affect the supply curve. When a hurricane swept along the coast of Venezuela, oil exports from the country's ports were halted until the storm passed, reducing the supply of oil for several days.[7] The agriculture industry has often experienced shifts in the supply curve. U.S. apple growers suffered from several years of oversupply and flat prices, losing an estimated $1.7 billion over a period of five years. But the increasing interest in healthful foods and discovery of the health benefits of apples in particular has helped reduce the oversupply.[8] The "Solving an Ethical Controversy" feature describes the debate over the supply of oil and whether the United States should drill for this resource in Alaska.

Figure 3.2 Supply Curve for Gasoline



TO DRILL—OR NOT TO DRILL—FOR OIL IN ALASKA?

The debate has been raging for decades over whether the United States should begin drilling for oil in the Arctic National Wildlife Refuge in Alaska. It's a complex issue involving many factors, including the impact that drilling would have on the surrounding environment, the potential reduction of American dependence on foreign oil, a possible boost in productivity for the United States, and debate over who would pay for—and benefit from—the drilling activities. Politicians, businesspeople, and average taxpaying citizens all have strong views on the topic.

Should the United States expand oil drilling in Alaska's Arctic National Wildlife Refuge?

PRO

1. "This project will keep our economy growing by creating jobs and ensuring that businesses can expand," noted President George W. Bush in a statement. "And it will make America less dependent on foreign sources of energy, eventually by up to a million barrels of oil a day."
2. Experts argue that today's drilling technology, along with tight environmental restrictions, will dramatically limit the effect on Alaska's tundra, protecting the wildlife habitat.

CON

1. Opponents say that the amount of oil the United States can retrieve from Alaska—and the ten years it will take to reach the market—will have minimal impact on global markets, high gasoline prices, or U.S. dependence on foreign oil.
2. Others argue that the United States should be spending more on developing renewable energy sources such as solar and wind power, as well as producing more fuel-efficient cars, trucks, and other vehicles.

Summary

While legislators, businesspeople, and environmentalists continue the argument, a recent survey revealed that U.S. citizens are split in their views: 42 percent of respondents said that drilling should proceed, while 53 percent said that it should not. Most likely, many people echo the view of Senator Pete Domenici of New Mexico: "Some people say we ought to conserve more. They say we ought to conserve instead of producing this oil. But we need to do everything. We have to conserve and produce where we can."

Sources: "Most Americans Oppose Alaska Oil Drilling," Angus Reid Consultants, accessed June 8, 2006, http://www.angus-reid.com; H. Josef Hebert, "Senate OKs Plan to Allow Oil Wells in Alaska Refuge," *Deseret Morning News*, accessed June 8, 2006, http://www.deseretnews.com; James Kuhnhenn, "Alaska Oil Drilling Gets Boost from Senate," *Detroit Free Press*, accessed June 8, 2006, http://www.freep.com.

solving an ETHICAL controversy

Table 3.2

Expected Shifts in Supply Curves

Factor	Supply Curve Shifts to the Right *if:*	Supply Curve Shifts to the Left *if:*
Costs of inputs	decrease	increase
Costs of technologies	decrease	increase
Taxes	decrease	increase
Number of suppliers	increases	decreases

assessment check

1. What is a demand curve?
2. What is a supply curve?
3. How do factors of production influence the overall supply of goods and services?

How Demand and Supply Interact

Separate shifts in demand and supply have obvious effects on prices and the availability of products. In the real world, changes do not alternatively affect demand and supply. Several factors often change at the same time—and they keep changing. Sometimes such changes in multiple factors cause contradictory pressures on prices and quantities. In other cases, the final direction of prices and quantities reflects the factor that has changed the most.

Figure 3.3 shows the interaction of both supply and demand curves for gasoline on a single graph. Notice that the two curves intersect at *P*. The law of supply and demand states that prices (*P*) are set by the intersection of the supply and demand curves. The point where the two curves meet identifies the **equilibrium price,** the prevailing market price at which you can buy an item.

If the actual market price differs from the equilibrium price, buyers and sellers tend to make economic choices that restore the equilibrium level. So how do we explain the shortages of vaccines to protect against such diseases as tetanus, diphtheria, whooping cough, measles, mumps, and chicken pox? Why did many of the 75 million adults seeking flu shots in a recent flu season encounter delays in obtaining flu shots? Part of the answer lies with the federal government, which pays vaccine makers between 38 and 60 percent of the going price for these vaccines in the global marketplace. The result is a reduction in product supply. In recent years, the number of commercial makers of the flu vaccine dropped dramatically, so when one manufacturer's vaccines were discovered to be contaminated and unusable, the supply decreased and consumers could not obtain vaccinations.

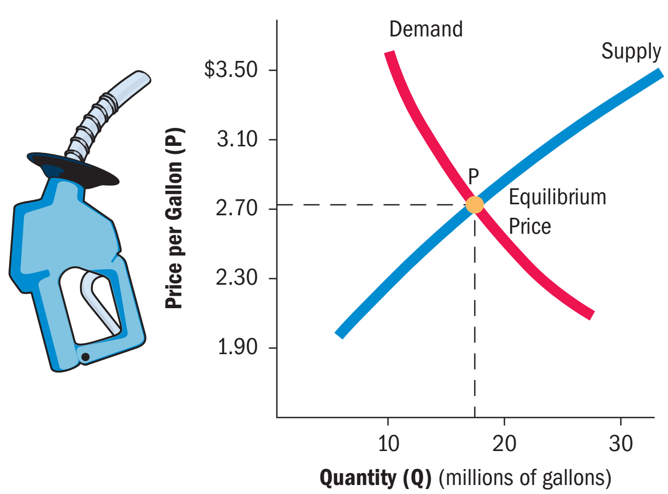
"They Said It"

"You don't make more oil."
—Sam Shelton (b. 1940) Director, Strategic Energy Initiative at Georgia Tech

In other situations, suppliers react to market forces by reducing prices. To fight off flagging sales and increase demand for its autos, General Motors offered its employee discount to the general public. Sales rebounded. Not surprisingly, Ford and DaimlerChrysler followed suit with similar pricing programs.[9]

As pointed out earlier, the forces of demand and supply can be affected by a variety of factors. One important variable is the larger economic environment. The next section explains how macroeconomics and economic systems influence market forces and, ultimately, demand, supply, and prices.

Figure 3.3 Law of Supply and Demand



MACROECONOMICS: ISSUES FOR THE ENTIRE ECONOMY

Every country faces decisions about how to best use the four basic factors of production. Each nation's policies and choices help determine its economic system. But the political, social, and legal environments differ in every country. So no two countries have exactly the same economic system. In general, however, these systems can be classified into three categories: private enterprise systems, planned economies, or combinations of the two, referred to as mixed economies. As business becomes an increasingly global undertaking, it is important to understand the primary features of the various economic systems operating around the world.

Capitalism: The Private Enterprise System and Competition

Most industrialized nations operate economies based on the *private enterprise system*, also known as *capitalism* or a *market economy*. A private enterprise system rewards businesses for meeting the needs and demands of consumers. Government tends to favor a hands-off attitude toward controlling business ownership, profits, and resource allocations. Instead, competition regulates economic life, creating opportunities and challenges that businesspeople must handle to succeed. In your career, one area of business that you will encounter in the private enterprise system that is completely unregulated is tipping. Read the "Business Etiquette" feature for hints on how to tip appropriately.

The relative competitiveness of a particular industry is an important consideration for every firm because it determines the ease and cost of doing business within that industry. Four basic degrees of competition take shape in a private enterprise system: pure competition, monopolistic competition, oligopoly, and monopoly. Table 3.3 highlights the main differences among these types of competition.

Pure competition is a market structure, like that of small-scale agriculture or fishing, in which large numbers of buyers and sellers exchange homogeneous products and no single participant has a significant influence on price. Instead, prices are set by the market itself as the forces of supply and demand interact. Firms can easily enter or leave a purely competitive market because no single company dominates. Also, in pure competition, buyers see little difference between the goods and services offered by competitors.

Fishing and agriculture are good examples of pure competition. The wheat grown and sold by one farmer in the Midwest is virtually identical to that sold by others. As rainfall and temperatures affect the crop growth, the price for this commodity rises or falls according to the law of supply and demand. The same concept applies to the fishing industry gathering clams and mussels off the coast of New England. The region's notorious "red tide" of algae sometimes contaminates part of the season's supply of shellfish just when summer tourists want them the most—and prices skyrocket.

(b)usiness (e)tiquette

Tips on Business Tipping

When you eat out, take a cab, or stay in a hotel, you're faced with a dilemma. Whom—and how much—should you tip? If you find tipping a mystery, here are a few guidelines to help you solve the puzzle.

- At a restaurant, it is customary to tip your waiter between 15 and 20 percent of the bill. You may calculate the tip before tax or alcohol, but many people simply base the tip on the total bill. Naturally, if the service is outstanding, you'll want to tip at the upper end of the scale.
- If you check coat(s) at a restaurant or event, tip the person $1 per coat.
- Tip the bellhop $1 to $2 per bag for carrying your luggage.
- Give a valet or parking attendant $1 to $2 for parking or retrieving your car.
- Add a 10 to 15 percent tip to the fare for a taxi ride, or $1 to $2 for a free shuttle.
- If the hotel concierge provides you with special service such as arranging a meeting space or making dinner or theater reservations, tip that person around $5. If he or she has provided an extraordinary service, a tip of $20 is not out of line.

Of course, before you tip, make sure that a service charge has not already been included. Some upscale restaurants and hotels have begun automatically including fees ranging up to 20 percent.

While these guidelines should be helpful, before you make any calculations, remember that service personnel usually try their best to make your experience a good one. "When in doubt, I always operate under the premise that you tip for a service performed with excellence, and you tip more generously for something that exceeds your expectations," advises Amy Ziff of Travelocity Business. "And remember the saying, 'what goes around comes around,' and that in business a little good tipping karma can never hurt."

Sources: "Tipping Etiquette," FindaLink.net, accessed June 8, 2006, http://www.findalink.net; "Proper Tipping Etiquette," Essortment, accessed June 8, 2006, http://msms.essortment.com; "Travelocity Business Makes Travel Easier with Hints on Tipping," *Business Wire*, accessed June 8, 2006, http://www.corporate-ir.net; Laura Bly, "The Tipping Point," *USA Today*, August 26, 2005, p. 1D; "Tipping Etiquette: Travel," AllSands.com, accessed May, 4, 2005, http://www.allsands.com.

Table 3.3 Types of Competition

	Types of Competition			
Characteristics	Pure Competition	Monopolistic Competition	Oligopoly	Monopoly
Number of competitors	Many	Few to many	Few	No direct competition
Ease of entry into industry by new firms	Easy	Somewhat difficult	Difficult	Regulated by government
Similarity of goods or services offered by competing firms	Similar	Different	Similar or different	No directly competing products
Control over price by individual firms	None	Some	Some	Considerable in a pure monopoly; little in a regulated monopoly
Examples	Small-scale farmer in Indiana	Local fitness center	Boeing aircraft	Rawlings Sporting Goods, exclusive supplier of major-league baseballs

"They Said It"

"When I walk into a grocery store and look at all the products you can choose, I say, 'My God!' No king ever had anything like I have in my grocery store today."

—Bill Gates (b. 1955) Founder, Microsoft

Monopolistic competition is a market structure, like that for retailing, in which large numbers of buyers and sellers exchange relatively well-differentiated (heterogeneous) products, so each participant has some control over price. Sellers can differentiate their products from competing offerings on the basis of price, quality, or other features. In an industry that features monopolistic competition, it is relatively easy for a firm to begin or stop selling a good or service. The success of one seller often attracts new competitors to such a market. Individual firms also have some control over how their goods and services are priced.

An example of monopolistic competition is the market for pet food. Consumers can choose from private-label (store brands) and brand-name products in bags, boxes, and cans. Producers of pet food and the stores that sell it have wide latitude in setting prices. Consumers can choose the store or brand with the lowest prices, or sellers can convince them that a more expensive offering is worth more because it offers better nutrition, more convenience, more information, or other benefits.

An **oligopoly** is a market situation in which relatively few sellers compete and high start-up costs form barriers to keep out new competitors. In some oligopolistic industries, such as paper and steel, competitors offer similar products. In others, such as aircraft and automobiles, they sell different models and features. The huge investment required to enter an oligopoly market tends to discourage new competitors. The limited number of sellers also enhances the control these firms exercise over price. Competing products in an oligopoly usually sell for very similar prices because substantial price competition would reduce profits for all firms in the industry. So a price cut by one firm in an oligopoly will typically be met by its competitors. However, prices can vary from one market to another, as from one country to another. OPEC, which controls much of the world's supply of crude oil, is considered by many to be a successful oligopoly, as described in the "Hit & Miss" feature.

PHOTODISC/GETTY IMAGES

Farmers produce their crops in a purely competitive market, so the prices of their crops are determined by the laws of supply and demand.

HIT & MISS

OPEC: A Successful Oligopoly

By the time you finish this chapter, you'll know what an oligopoly is; you'll even be able to pronounce it. But can you name successful oligopolies around the world? OPEC—the Organization of Petroleum Exporting Countries—is one. If you aren't sure how OPEC affects you, think of gas prices, which recently have soared. OPEC controls much of the supply of crude oil that is produced in the world, which ultimately affects the cost of heating homes and filling gas tanks in your hometown.

OPEC was founded in 1960 by five nations—Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela. The group was later joined by eight more countries—Qatar, Indonesia, Libya, United Arab Emirates, Algeria, Nigeria, Ecuador, and Gabon. According to the organization's Web site, "OPEC's objective is to coordinate and unify petroleum policies among member countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry."

OPEC nations have worked together to control the supply of their products to the world for nearly 50 years, despite criticism from watchdog agencies such as the International Energy Agency and internal blunders, including exceeding their own production quotas. In what has become a very complex oil market, the current discussion centers on a simple argument: whether the planet is running out of oil. OPEC insists that, although it is pumping at a high capacity to meet high demand, it still has the capacity to produce more. Some scientists and other experts warn that, in fact, the earth is rapidly being depleted of its total supply of oil. Falling somewhere in the middle of the debate, oil and gas analyst Adam Sieminski of Deutsche Bank AB in London says, "It's not a crisis. If a little more is needed, [OPEC] can bring it on. The market is aware of the fact that demand seems to be rising pretty much in line with OPEC [supply]."

Questions for Critical Thinking

1. Why is OPEC a successful oligopoly?
2. Describe several ways you think this oligopoly affects your daily life.

Sources: OPEC Web site, accessed June 8, 2006, http://www.opec.org; Kevin Morrison, "IEA Says Supply Tightness to Remain," *Financial Times*, accessed June 8, 2006, http://news.ft.com; David Lazarus, "OPEC Still Sings Same Tune," *San Francisco Chronicle*, accessed June 8, 2006, http://www.sfgate.com; Jim Efstathiou, "Attiyah Sees Tough Choices for OPEC," *(Doha, Qatar) Gulf Times*, accessed June 8, 2006, http://www.gulf-times.com.

Cement is another product for which an oligopoly exists. Mexican-based Cemex SA is the third-largest cement manufacturer in the world and the largest seller of cement in both the United States and Mexico. It holds 60 percent of the market share in Mexico. Cement is usually sold in bulk in the United States, like a commodity. However, it is sold as a branded product in Mexico. Cemex's prices are too high for many Mexican families to afford, which often means they must put plans for home building on hold. Because Cemex is also Mexico's largest seller of concrete, which is made with cement, those prices remain high as well. Although large construction companies in the United States can force cement manufacturers to drop their prices, Mexican construction companies are smaller and have little clout, so they end up paying higher prices.[10]

The final type of market structure is a **monopoly,** in which a single seller dominates trade in a good or service for which buyers can find no close substitutes. A pure monopoly occurs when a firm possesses unique characteristics so important to competition in its industry that they serve as barriers to prevent entry by would-be competitors. Microsoft has held a near monopoly in the Internet browser market with its Internet Explorer for quite a while. Recently, its share of the total U.S. market for all operating systems dipped below 90 percent after consumers became alarmed at Internet Explorer's reported security flaws. Another reason for the decrease in market share percentage is the increased competition from Firefox, an open-source

The U.S. Postal Service now offers services at its Web site to help it compete against such firms as UPS, FedEx, and DHL. With its new Click-N-Ship program, customers can calculate rates, print labels, pay postage, and get free delivery confirmation.

browser developed by the Mozilla Foundation. Other browsers based on the Mozilla code such as America Online's Netscape and GNOME's Epiphany have also increased market share in the last 2 years.[11]

Many firms create short-term monopolies when research breakthroughs permit them to receive exclusive patents on new products. In the pharmaceuticals industry, drug giants such as Merck and Pfizer invest billions in research and development programs. When the research leads to successful new drugs, the companies can enjoy the benefits of their patents: the ability to set prices without fear of competitors undercutting them. Once the patent expires, generic substitutes enter the market, driving down prices.

Because a monopoly market lacks the benefits of competition, the U.S. government regulates monopolies. Besides issuing patents and limiting their life, the government prohibits most pure monopolies through antitrust legislation such as the Sherman Act and the Clayton Act. The U.S. government has applied these laws against monopoly behavior by Microsoft and by disallowing proposed mergers of large companies in some industries. In other cases, the government permits certain monopolies in exchange for regulating their activities.

With *regulated monopolies*, a local, state, or federal government grants exclusive rights in a certain market to a single firm. Pricing decisions—particularly rate-increase requests—are subject to control by regulatory authorities such as state public service commissions. An example is the delivery of first-class mail, a monopoly held by the U.S. Postal Service (USPS). The USPS is a self-supporting corporation wholly owned by the federal government. Although it is no longer run by Congress, postal rates are set by a Postal Commission and approved by a Board of Governors.

assessment check

1. What is the difference between pure competition and monopolistic competition?
2. Distinguish between oligopoly and monopoly.

During the 1980s and 1990s, the U.S. government favored a trend away from regulated monopolies and toward **deregulation.** Regulated monopolies that have been deregulated include long-distance and local telephone service, cable television, cellular phones, and electric utilities. Long-distance companies such as MCI are now allowed to offer local service. The idea is to improve customer service and reduce prices for telephone customers through increased competition. Deregulation of electric utilities began when California opened its market in 1998. Several years later, about half the states were on board. In those states, private companies could compete with utilities to sell electricity and natural gas.

Planned Economies: Communism and Socialism

In a **planned economy,** government controls determine business ownership, profits, and resource allocation to accomplish government goals rather than those set by individual businesses. Two forms of planned economies are communism and socialism.

The writings of Karl Marx in the mid-1800s formed the basis of communist theory. Marx believed that private enterprise economies created unfair conditions and led to worker exploitation because business owners controlled most of society's resources and reaped most of the economy's rewards. Instead, he suggested an economic system called **communism,** in which all property would be shared equally by the people of a community under the direction of a strong central government. Marx believed that elimination of private ownership of property and businesses would ensure the emergence of a classless society that would benefit all. Each individual would contribute to the nation's overall economic success, and resources would be distributed according to each person's needs. Under communism, the central government owns the means of production, and the people work for state-owned enterprises. The government determines what people can buy because it dictates what is produced in the nation's factories and farms.

A number of nations adopted communist economic systems during the early 20th century in an effort to correct abuses they believed to be present in their previous systems. In practice, however, communist governments often give people little or no freedom of choice in selecting jobs, purchases, or investments. Communist governments often make mistakes in planning the best uses of resources to compete in the growing global marketplace. Government-owned monopolies often suffer from inefficiency.

Consider the former Soviet Union, where large government bureaucracies controlled nearly every aspect of daily life. Shortages became chronic because producers had little or no incentive to satisfy customers. The quality of goods and services also suffered for the same reason. When Mikhail Gorbachev became the last president of the dying Soviet Union, he tried to improve the quality of Soviet-made products. Effectively shut out of trading in the global marketplace and caught up in a treasury-depleting arms race with the United States, the Soviet Union faced severe financial problems. Eventually, these economic crises led to the collapse of Soviet communism and the breakup of the Soviet Union itself.

Today, communism exists in just a few countries, such as the People's Republic of China, Cuba, and North Korea. Even these nations show signs of growing openness toward some of the benefits of private enterprise as possible solutions to their economic challenges. Since 1978, China has been shifting toward a more market-oriented economy. The national government has given local government and individual plant managers more say in business decisions and has permitted some private businesses. Households now have more control over agriculture, in contrast to the collectivized farms introduced with communism. In addition, Western products such as McDonald's restaurants and Coca-Cola soft drinks are now part of Chinese consumers' lives.

A second type of planned economy, **socialism,** is characterized by government ownership and operation of major industries such as healthcare and communications. Socialists assert that major industries are too important to a society to be left in private hands and that government-owned businesses can serve the public's interest better than can private firms. However, socialism also allows private ownership in industries considered less crucial to social welfare, such as retail shops, restaurants, and certain types of manufacturing facilities. Scandinavian countries such as Sweden and Finland have socialist characteristics in their societies, as do many African nations and India.

Mixed Market Economies

Private enterprise systems and planned economies adopt basically opposite approaches to operating economies. In reality though, many countries operate **mixed market economies,** economic systems that draw from both types of economies, to different degrees. In nations generally considered to have a private enterprise economy, government-owned firms frequently operate alongside private enterprises.

France has blended socialist and free enterprise policies for hundreds of years. The nation's energy production, public transportation, and defense industries are run as nationalized industries, controlled by the government. Meanwhile, a market economy flourishes in other industries. Over the past two decades, the French government has loosened its reins on state-owned companies, inviting both competition and private investment into industries previously operated as government monopolies.

The proportions of private and public enterprise can vary widely in mixed economies, and the mix frequently changes. Dozens of countries have converted government-owned and -operated companies into privately held businesses in a trend known as **privatization.** Even the United States has seen proposals to privatize everything from the postal service to Social Security. Governments may privatize state-owned enterprises in an effort to raise funds and improve their economies. The objective is to cut costs and run the operation more efficiently. For most of its existence, Air Canada was a state-owned airline. But in 1989 the airline became fully privatized, and in 2000 the firm acquired Canadian Airlines International, becoming the world's tenth-largest international air carrier. Recently, Air Canada announced a major agreement with the People's Republic of China to expand passenger and cargo services between the two countries.[12] Table 3.4 compares the alternative economic systems on the basis of ownership and management of enterprises, rights to profits, employee rights, and worker incentives.

assessment check

1. On which economic system is the U.S. economy based?
2. What are the two types of planned economies?
3. What is privatization?

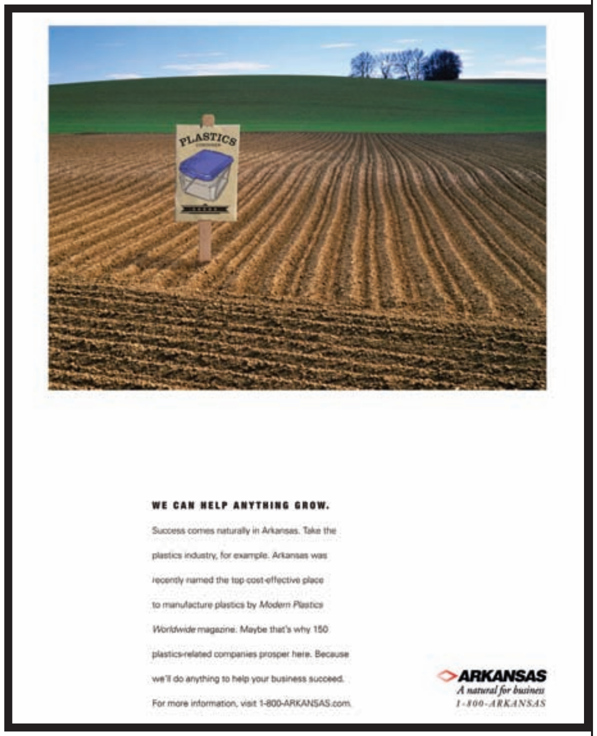
Table 3.4 Comparison of Alternative Economic Systems

		Planned Economies		
System Features	**Capitalism (Private Enterprise)**	**Communism**	**Socialism**	**Mixed Economy**
Ownership of enterprises	Businesses are owned privately, often by large numbers of people. Minimal government ownership leaves production in private hands.	Government owns the means of production with few exceptions, such as small plots of land.	Government owns basic industries, but private owners operate some small enterprises.	A strong private sector blends with public enterprises.
Management of enterprises	Enterprises are managed by owners or their representatives, with minimal government interference.	Centralized management controls all state enterprises in line with three- to five-year plans. Planning now is being decentralized.	Significant government planning pervades socialist nations. State enterprises are managed directly by government bureaucrats.	Management of the private sector resembles that under capitalism. Professionals may also manage state enterprises.
Rights to profits	Entrepreneurs and investors are entitled to all profits (minus taxes) that their firms earn.	Profits are not allowed under communism.	Only the private sector of a socialist economy generates profits.	Entrepreneurs and investors are entitled to private-sector profits, although they often must pay high taxes. State enterprises are also expected to produce returns.
Rights of employees	The rights to choose one's occupation and to join a labor union have long been recognized.	Employee rights are limited in exchange for promised protection against unemployment.	Workers may choose their occupations and join labor unions, but the government influences career decisions for many people.	Workers may choose jobs and labor union membership. Unions often become quite strong.
Worker incentives	Considerable incentives motivate people to perform at their highest levels.	Incentives are emerging in communist countries.	Incentives usually are limited in state enterprises but do motivate workers in the private sector.	Capitalist-style incentives operate in the private sector. More limited incentives influence public-sector activities.

EVALUATING ECONOMIC PERFORMANCE

Ideally, an economic system should provide two important benefits for its citizens: a stable business environment and sustained growth. In a stable business environment, the overall supply of needed goods and services is aligned with the overall demand for those goods and services. No wild fluctuations in price or availability complicate economic decisions. Consumers and businesses not only have access to ample supplies of desired products at affordable prices but also have money to buy the items they demand.

Growth is another important economic goal. An ideal economy incorporates steady change directed toward continually expanding the amount of goods and services produced from the nation's resources. Growth leads to expanded job opportunities, improved wages, and a rising standard of living.



ARKANSAS DEPARTMENT OF ECONOMIC DEVELOPMENT

Arkansas promotes its favorable business climate with this ad featuring the growth and prosperity of its plastics industry.

Flattening the Business Cycle

A nation's economy tends to flow through various stages of a business cycle: prosperity, recession, depression, and recovery. No true economic depressions have occurred in the United States since the 1930s, and most economists believe that society is capable of preventing future depressions through effective economic policies. Consequently, they expect a recession to give way to a period of economic recovery.

Both business decisions and consumer buying patterns differ at each stage of the business cycle. In periods of economic prosperity, unemployment remains low, consumer confidence about the future leads to more purchases, and businesses expand—by hiring more employees, investing in new technology, and making similar purchases—to take advantage of new opportunities.

During a **recession**—a cyclical economic contraction that lasts for six months or longer—consumers frequently postpone major purchases and shift buying patterns toward basic, functional products carrying low prices. Businesses mirror these changes in the marketplace by slowing production, postponing expansion plans, reducing inventories, and often cutting the size of their workforces. During past recessions, people facing layoffs and depletions of household savings have sold cars, jewelry, and stocks to make ends meet. During the most recent recession, they did this as well but with a twist: they turned to eBay. There, they sold everything from old books to kitchen knickknacks, contributing to their own success as well as that of eBay.

If an economic slowdown continues in a downward spiral over an extended period of time, the economy falls into depression. Many Americans have grown up hearing stories about their great-grandparents who lived through the Great Depression of the 1930s, when food and other basic necessities were scarce and jobs were rare and precious.

In the *recovery stage* of the business cycle, the economy emerges from recession and consumer spending picks up steam. Even though businesses often continue to rely on part-time and other temporary workers during the early stages of a recovery, unemployment begins to decline as business activity accelerates and firms seek additional workers to meet growing production demands. Gradually, the concerns of recession begin to disappear, and consumers start eating out at restaurants, booking vacations, and purchasing new cars.

recession cyclical economic contraction that lasts for six months or longer.

"They Said It"

"It's a recession when your neighbor loses his job; it's a depression when you lose your own."
—Harry S. Truman (1884–1972) 33rd president of the United States

assessment check

1. Which stages of the business cycle indicate a downturn in the economy?
2. Which stages point to an upswing?

Productivity and the Nation's Gross Domestic Product

productivity relationship between the number of units produced and the number of human and other production inputs necessary to produce them.

An important concern for every economy is **productivity,** the relationship between the goods and services produced in a nation each year and the inputs needed to produce them. In general, as productivity rises, so does an economy's growth and the wealth of its citizens. In a recession, productivity stalls or even declines.

Productivity describes the relationship between the number of units produced and the number of human and other production inputs necessary to produce them. So productivity is a ratio of output to input. When a constant amount of inputs generates increased outputs, an increase in productivity occurs.

gross domestic product (GDP) sum of all goods and services produced within a country's boundaries during a specific time period, such as a year.

Total productivity considers all inputs necessary to produce a specific amount of outputs. Stated in equation form, it can be written as follows:

$$\text{Total productivity} = \frac{\text{Output (goods or services produced)}}{\text{Input (human/natural resources, capital)}}$$

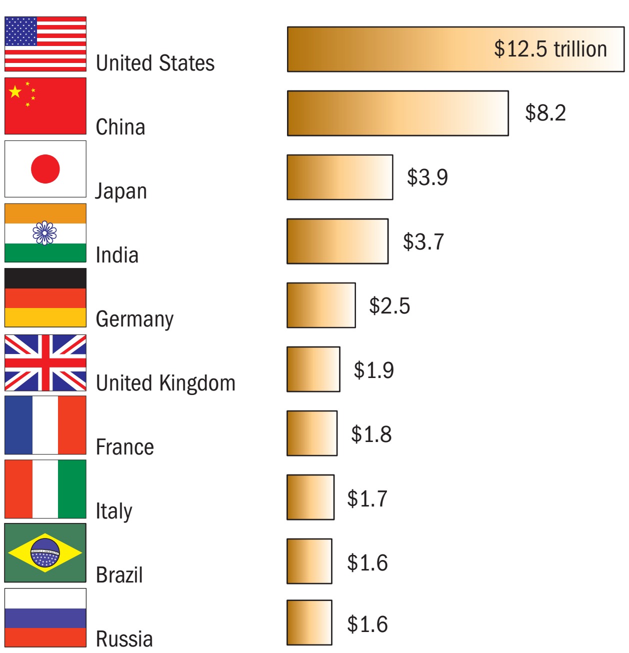
inflation rising prices caused by a combination of excess consumer demand and increases in the costs of raw materials, component parts, human resources, and other factors of production.

Many productivity ratios focus on only one of the inputs in the equation: labor productivity or output per labor-hour. An increase in labor productivity means that the same amount of work produces more goods and services than before. Many of the gains in U.S. productivity are attributed to technology, and in recent years the United States alone appears to be enjoying the fruits of technology and productivity. No other industrial nation has experienced the rapid growth of the United States.[13] During the last decade, output per worker has increased at the fastest rate in 40 years. Some analysts believe that the industry that has benefited the most from this increase is healthcare.[14]

Productivity is a widely recognized measure of a company's efficiency. In turn, the total productivity of a nation's businesses has become a measure of its economic strength and standard of living. Economists refer to this measure as a country's **gross domestic product (GDP)**—the sum of all goods and services produced within its boundaries. The GDP is based on the per-capita output of a country—in other words, total national output divided by the number of citizens. As Figure 3.4 shows, the U.S. GDP remains the highest in the world, almost double that of second-ranked China. However, productivity in the United States is suffering in certain areas of the Midwest, where young, educated workers are departing for jobs elsewhere. This situation is described in the "Hit & Miss" feature.

In the United States, GDP is tracked by the Bureau of Economic Analysis (BEA), a division of the U.S. Department of Commerce. Current updates and historical data on the GDP are available at the BEA's Web site (http://www.bea.gov).

Figure 3.4 Nations with Highest Gross Domestic Products



Source: Central Intelligence Agency, "Rank Order—GDP," *World Factbook*, accessed June 12, 2006, http://www.cia.gov.

Price-Level Changes

Another important indicator of an economy's stability is the general level of prices. For most of the 20th century, economic decision makers concerned themselves with **inflation,** rising prices caused by a combination of excess consumer demand and increases in the costs of raw materials, component parts, human resources, and other factors of production. The **core inflation rate** is the inflation rate of an economy after energy and food prices are removed. This measure is often an accurate prediction of the inflation rate that consumers, businesses, and other organizations can expect to experience during the near future.

HIT & MISS

Is the Midwest Losing Its Brainpower?

Excellent colleges and universities are located in the Midwest, along with beautiful countryside and friendly towns in which to live. Then why have so many Midwestern counties—particularly in rural areas—lost more residents than they have gained in the last half century? According to one survey, Iowa and North Dakota have lost many young, well-educated workers because they want an urban lifestyle and a warmer climate. They are also looking for better pay in professional jobs, which is typically 20 to 50 percent better elsewhere, although this can be offset by a higher cost of living. Colleges and universities in these states are producing highly educated, well-trained workers who leave to find better opportunities in other parts of the country. Experts who study demographics fear that states such as Indiana, Kansas, Iowa, and North Dakota will face a drastic labor shortage within the next 20 years.

Government and business leaders have not ignored the problem, but they haven't yet found a solution. Iowa has abolished its state income tax for workers under age 30. North Dakota has programs to create jobs, increase wages, and keep taxes low. Some towns in Kansas are giving away land to attract new residents. The U.S. Congress is even considering a New Homestead Act, which includes an extensive list of benefits to people who choose to live and work in rural Midwestern areas. Still, the so-called brain drain continues.

But the picture is not entirely bleak. North Dakota has the nation's lowest unemployment rate, which is a huge relief to workers from other regions looking for jobs. And its small cities, Bismarck and Fargo, are actually growing. Technology companies are beginning to invest in the area. Microsoft recently purchased Great Plains Software of Fargo for $1.1 billion, which should attract college graduates who want to stay in the area. Public officials remain optimistic. North Dakota agriculture commissioner Roger Johnson declares, "We're the last undiscovered great place to live."

Questions for Critical Thinking

1. Describe two incentives you think might help recent college graduates stay to work in rural Midwestern areas. Explain why you think these would be successful.
2. How does loss of young, educated workers affect the productivity of these states?

Sources: Tim Swanson, "A Midwestern Brain Drain," Ludwig von Mises Institute, accessed June 8, 2006, http://blog.mises.org; Les Christie, "Stopping the Great Plains Brain Drain," CNN Money, accessed June 8, 2006, http://money.cnn.com; Dennis Cauchon, "Big Cities Lure Away North Dakota Youth," *USA Today*, accessed June 8, 2006, http://www.usatoday.com.

Excess consumer demand generates what is known as *demand-pull inflation*; rises in costs of factors of production generates *cost-push inflation*. America's most severe inflationary period during the last half of the 20th century peaked in 1980, when general price levels jumped almost 14 percent in a single year. In extreme cases, an economy may experience *hyperinflation*—an economic situation characterized by soaring prices. This situation has occurred in South America, as well as in countries that once formed the Soviet Union.

Inflation devalues money as persistent price increases reduce the amount of goods and services people can purchase with a given amount of money. This is bad news for people whose incomes do not keep up with inflation or who have most of their wealth in investments paying a fixed rate of interest. Inflation can be good news to people whose income is rising or those with debts at a fixed rate of interest. A homeowner during inflationary times is paying off a fixed-rate mortgage with money that is worth less and less each year. Over the last decade, inflation helped a strong stock market drive up the number of millionaires to more than 8 million. But because of inflation, being a millionaire does not make a person as rich as it once did. To live like a 1960s millionaire, you would need almost $6 million today.

When increased productivity keeps prices steady, it can have a major positive impact on an economy. In a low-inflation environment, businesses can make long-range plans without the constant worry of sudden inflationary shocks. Low interest rates encourage firms to invest in

AP PHOTO/RIC FRANCIS

If oil and gas prices continue to climb, they may force consumers to look for alternative-fueled vehicles. Some natural-gas-powered cars can already be refueled right in owners' garages through a wall-mounted appliance that taps into a home's natural-gas line.

research and development and capital improvements, both of which are likely to produce productivity gains. Consumers can purchase growing stocks of goods and services with the same amount of money, and low interest rates encourage major acquisitions such as new homes and autos. Despite the recent good news in the U.S. economy, some economists have cautioned that inflation may be "flickering on the horizon." The mounting cost of oil—which is used to produce nearly every product—is a continuing concern. Businesses need to raise prices to cover their costs. Also, smaller firms have gone out of business or have been merged with larger companies, reducing the amount of competition and increasing the purchasing power of the larger corporations. However, other factors signal that inflation will not reach alarming proportions.[15]

The opposite situation—**deflation**—occurs when prices continue to fall. In Japan, where deflation has been a reality for several years, shoppers pay less for a variety of products ranging from Big Macs to apartments. While this situation may sound ideal to consumers, it can weaken the economy.

Measuring Price Level Changes In the United States, the government tracks changes in price levels with the **Consumer Price Index (CPI),** which measures the monthly average change in prices of goods and services. The federal Bureau of Labor Statistics (BLS) calculates the CPI monthly based on prices of a "market basket," a compilation of the goods and services most commonly purchased by urban consumers. Figure 3.5 shows the categories included in the CPI market basket. Each month, BLS representatives visit thousands of stores, service establishments, rental units, and doctors' offices all over the United States to price the multitude of items in the CPI market basket. They compile the data to create the CPI. So the CPI provides a running measurement of changes in consumer prices.

Employment Levels

People need money to buy the goods and services produced in an economy. Because most consumers earn that money by working, the number of people in a nation who currently have jobs is an important indicator of how well the economy is doing. In general, employment has been on the rise in the United States the past few years: the Bureau of Labor Statistics projects a total increase of 21.3 million jobs, or 15 percent.

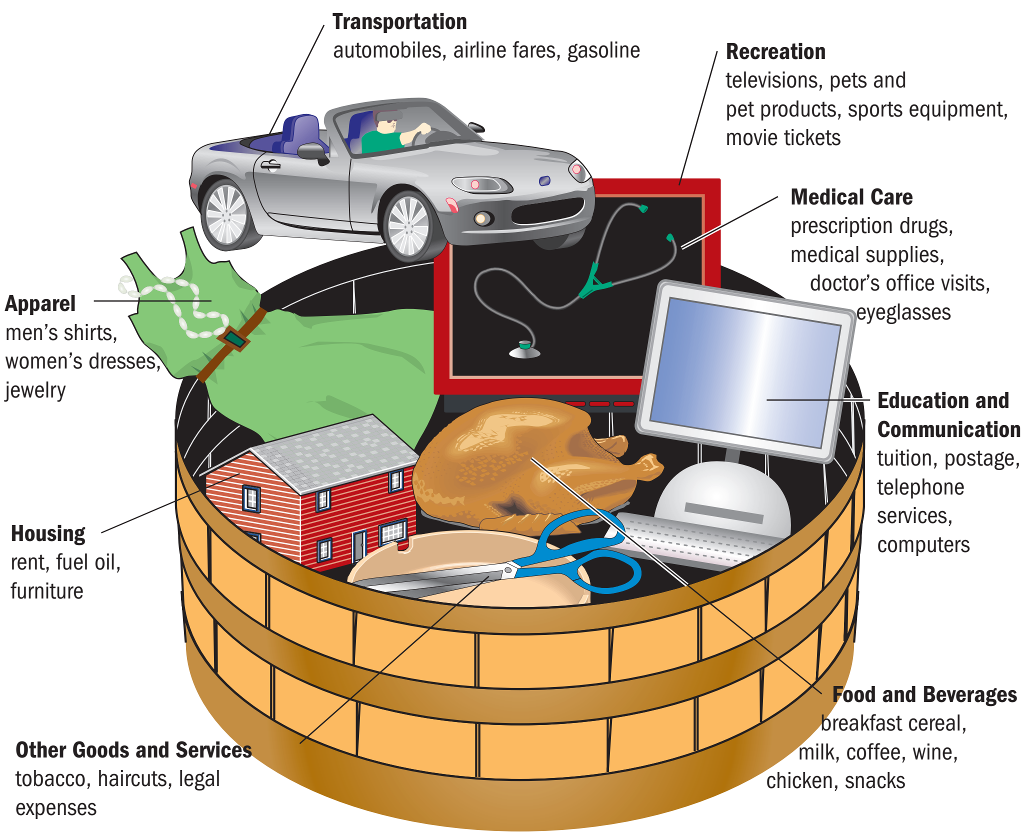
"They Said It"

"Inflation might almost be called legal counterfeiting."
—Irving Fisher (1867–1947) American economist

Economists refer to a nation's **unemployment rate** as an indicator of its economic health. The unemployment rate is usually expressed as a percentage of the total workforce who are actively seeking work but are currently unemployed. The total labor force includes all people who are willing and available to work at the going market wage, whether they currently have jobs or are seeking work. The U.S. Department of Labor, which tracks unemployment rates, also includes so-called discouraged workers in the total labor force. These individuals want to work but have given up looking for jobs, for various reasons. Unemployment can be grouped into the four categories shown in Figure 3.6: frictional, seasonal, cyclical, and structural.

Frictional unemployment applies to members of the workforce who are temporarily not working but are looking for jobs. This pool of potential workers includes new graduates, people who have left jobs for any reason and are looking for other employment, and former workers who have decided to return to the labor force. *Seasonal unemployment* is the joblessness of workers in a seasonal industry. Construction workers, farm laborers, fishery workers, and landscape employees may contend with bouts of seasonal unemployment when wintry conditions make work unavailable.

Figure 3.5 Contents of the CPI Market Basket



Source: Information from Bureau of Labor Statistics, "Consumer Price Indexes: Frequently Asked Questions," accessed June 8, 2006, http://www.bls.gov/cpi.

Cyclical unemployment includes people who are out of work because of a cyclical contraction in the economy. During periods of economic expansion, overall employment is likely to rise, but as growth slows and a recession begins, unemployment levels commonly rise. At such times, even workers with good job skills may face temporary unemployment. Workers in high-tech industries, air travel, and manufacturing have all faced unemployment during economic contraction.

Structural unemployment applies to people who remain unemployed for long periods of time, often with little hope of finding new jobs like their old ones. This situation may arise because these workers lack the necessary skills for available jobs or because the skills they have are no longer in demand. For instance, technological developments have increased the demand for people with computer-related skills but have created structural unemployment among many types of manual laborers.

"They Said It"

"One American out of work is too many Americans out of work."

—George W. Bush
(b. 1946)
43rd president of the United States

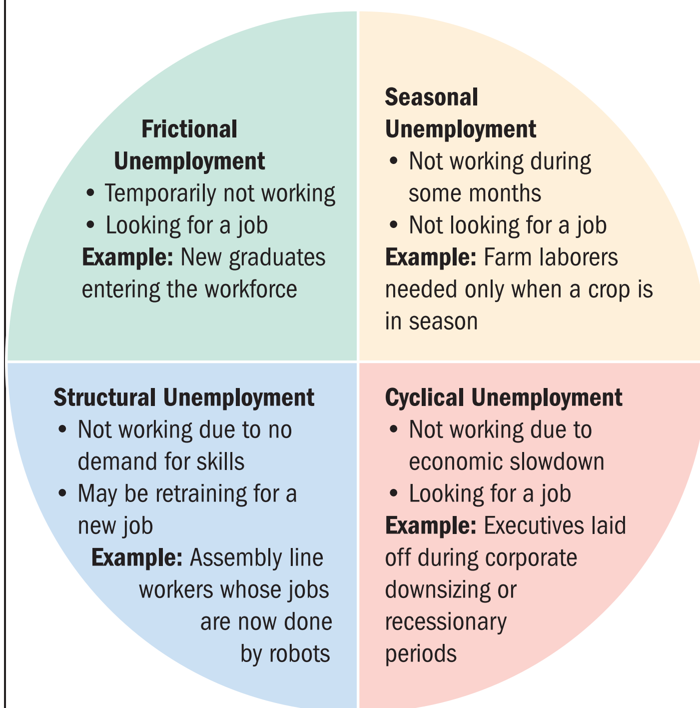
assessment check

1. What is productivity?
2. How does the U.S. government track changes in price levels?
3. Identify the four categories of unemployment.

MANAGING THE ECONOMY'S PERFORMANCE

As recent years have vividly demonstrated, a national government can use both monetary policy and fiscal policy in its efforts to fight unemployment, increase business and consumer spending, and reduce the length and severity of economic recessions. The Federal Reserve System can

Figure **3.6** Four Types of Unemployment



increase or reduce interest rates, and the federal government can enact tax cuts or propose other reforms.

Monetary Policy

A common method of influencing economic activity is **monetary policy,** government actions to increase or decrease the money supply and change banking requirements and interest rates to influence spending by altering bankers' willingness to make loans. An *expansionary monetary policy* increases the money supply in an effort to cut the cost of borrowing, which encourages business decision makers to make new investments, in turn stimulating employment and economic growth. By contrast, a *restrictive monetary policy* reduces the money supply to curb rising prices, overexpansion, and concerns about overly rapid economic growth.

In the United States, the Federal Reserve System ("the Fed") is responsible for formulating and implementing the nation's monetary policy. It is headed by a chairman and board of governors, all of whom are nominated by the president. The most well-known chairman, Alan Greenspan, recently retired after heading the Fed for nearly two decades. All national banks must be members of this system and keep some percentage of their checking and savings funds on deposit at the Fed.

The Fed's board of governors uses a number of tools to regulate the economy. By changing the required percentage of checking and savings accounts that banks must deposit with the Fed, the governors can expand or shrink funds available to lend. The Fed also lends money to member banks, which in turn make loans at higher interest rates to business and individual borrowers. By changing the interest rates charged to commercial banks, the Fed affects the interest rates charged to borrowers and, consequently, their willingness to borrow. That commercial lending rate reached a 46-year low of 1 percent in January 2004, but the Fed later raised rates in a series of quarter-point moves.[16]

"They Said It"

"The nine most terrifying words in the English language are 'I'm from the government, and I'm here to help.'"

—Ronald Reagan (1911–2004) 40th president of the United States

Fiscal Policy

Governments also influence economic activities by making decisions about taxes and spending. Through revenues and expenses, the government implements **fiscal policy.** This is the second technique that officials use to control inflation, reduce unemployment, improve the general standard of living, and encourage economic growth. Increased taxes may restrict economic activities, while lower taxes and increased government spending usually boost spending and profits, cut unemployment rates, and fuel economic expansion.

International Fiscal Policy Nations in the industrial world, including the United States, are currently struggling to find ways to help developing nations modernize their economies. One proposal is to "forgive" outright the debts of some of these countries, particularly those in Africa, to stimulate their economies to grow. But not all fiscal experts agree with this idea. They suggest that any debt forgiveness should come with certain conditions so that these countries can build their own fiscal policies. Countries should encourage and allow citizens to own property, lower their tax rates, avoid devaluing their currencies, lay a path for new businesses to start up, and reduce trade barriers.[17]

monetary policy government actions to increase or decrease the money supply and change banking requirements and interest rates to influence bankers' willingness to make loans.

The Federal Budget Each year, the president proposes a **budget** for the federal government, a plan for how it will raise and spend money during the coming year, and presents it to Congress for approval. A typical federal budget proposal undergoes months of deliberation and many modifications before receiving approval. The federal budget includes a number of different spending categories, ranging from defense and Social Security to interest payments on the national debt. The decisions about what to include in the budget have a direct effect on various sectors of the economy. During a recession, the federal government may approve increased spending on interstate highway repairs to improve transportation and increase employment in the construction industry. During prosperity, the government may allocate more money for scientific research or the arts.

The primary sources of government funds to cover the costs of the annual budget are taxes, fees, and borrowing. Both the overall amount of these funds and their specific combination have major effects on the economic well-being of the nation. One way governments raise money is to impose taxes on sales and income. But increasing taxes leaves people and businesses with less money to spend. This might reduce inflation, but overly high taxes can also slow economic growth. So governments try to balance taxes to give people necessary services without slowing economic growth.

Taxes don't always generate enough funds to cover every spending project the government hopes to undertake. When the government spends more than the amount of money it raises through taxes, it creates a **budget deficit.** To cover the deficit, the U.S. government borrows money by selling Treasury bills, Treasury notes, and Treasury bonds to investors. All of this borrowing makes up the **national debt.** Currently the Government Accountability Office (GAO) estimates that the national debt is $43 trillion.[18] One of the factors contributing to the budget deficit is the war in Iraq and related military operations. If the government takes in more money than it spends, it is said to have a **budget surplus.** A **balanced budget** means total revenues raised by taxes equal the total proposed spending for the year.

Achieving a balanced budget—or even a budget surplus—does not erase the national debt, which must be paid off. U.S. legislators continually debate how fast the nation should use revenues to reduce its debt. Most families want to wipe out debt—from credit cards, automobile purchases, and college. But for the federal government, the decision is more complex. When the government raises money by selling Treasury bills, it makes safe investments available to investors worldwide. If foreign investors cannot buy Treasury notes, they might turn to other countries, reducing the amount of money flowing into the United States. U.S. government debt has also been used as a basis for pricing riskier investments. If the government issues less debt, the interest rates it commands are higher, raising the overall cost of debt to private borrowers. In addition, the government uses the funds from borrowing, at least in part, to invest in such public services as education and scientific research. As a society, if we decide our economy needs these services, debt reduction may not always be the best use of government funds. However, it can also be argued that paying down the national debt will free up more money to be invested by individuals and businesses.

fiscal policy government spending and taxation decisions designed to control inflation, reduce unemployment, improve the general welfare of citizens, and encourage economic growth.

budget organization's plan for how it will raise and spend money during a given period of time.

"They Said It"

"Three groups spend other people's money: children, thieves, politicians. All three need parental supervision."
—Dick Armey (b. 1940)
Retired American politician

assessment check

1. What is the difference between an expansionary monetary policy and a restrictive monetary policy?
2. What are the three primary sources of government funds?
3. Does a balanced budget erase the federal debt?

GLOBAL ECONOMIC CHALLENGES OF THE 21ST CENTURY

Businesses face a number of important economic challenges in the 21st century. As the economies of countries around the globe become increasingly interconnected, governments and businesses must compete throughout the world. Although no one can predict the future, both governments and businesses will likely need to meet several challenges to maintain their

Table 3.5 Global Economic Challenges

Challenge	Facts and Examples
International terrorism	Assistance in locating and detaining known terrorists by dozens of nations. Cooperation in modifying banking laws in most nations in an effort to cut off funds to terrorist organizations. Concerns over the safety of mass-transit systems following bombings in London and elsewhere.
Shift to a global information economy	Half of all American workers hold jobs in information technology or in industries that intensively use information technology, products, and services. Software industry in India is growing more than 50 percent each year. Internet users in Asia and western Europe have more than doubled in five years.
Aging of the world's population	Median age of the U.S. population is 35 plus, and by 2025, more than 62 million Americans will be age 65 or older—nearly double today's number. This will increase demands for health-care, retirement benefits, and other support services, putting budgetary pressure on governments. As baby boomers, now beginning to reach their mid- to late 50s, begin to retire, businesses around the globe will need to find ways to replace their workplace skills.
Improving quality and customer service	In today's global marketplace, every company will have to achieve world-class performance in product quality and customer service.
Enhancing competitiveness of every country's workforce	Leaner organizations (with fewer supervisors) require employees with the skills to control, combine, and supervise work operations. Employers must provide training necessary to develop the increased skills they require of their workforce.

global competitiveness. Table 3.5 identifies five key challenges: (1) the economic impact of the continuing threat of international terrorism, (2) the shift to a global information economy, (3) the aging of the world's population, (4) the need to improve quality and customer service, and (5) efforts to enhance the competitiveness of every country's workforce.

No country is an economic island in today's global economy. Not only is an ever-increasing stream of goods and services crossing national borders, but a growing number of businesses have become true multinational firms, operating manufacturing plants and other facilities around the world. As global trade and investments grow, events in one nation can reverberate around the globe.

Despite the risks of world trade, global expansion can offer huge opportunities to U.S. firms. With U.S. residents accounting for less than 1 in every 20 of the world's nearly 7 billion people, growth-oriented American companies cannot afford to ignore the world market. U.S. businesses also benefit from the lower labor costs in other parts of the world, and some are finding successful niches importing goods and even services provided by foreign firms. Still, it is extremely important for U.S. firms to keep track of the foreign firms that supply their products. A recent trend toward the use of overseas service call centers by U.S. firms such as American Express, Sprint, General Electric, and IBM has had mixed results. Despite training in language and other skills, customer service representatives in India often struggle to serve frustrated customers. "Many callers refuse to speak to Indians and ask for an American right away," reports one call center employee.[19]

USED WITH PERMISSION. DHL EXPRESS (USA), INC.

DHL simplifies global business by offering firms a single source for importing services.

U.S. firms must also develop strategies for competing with each other overseas. In the huge but fragmented snack chip industry, Frito-Lay International currently claims 30 percent of the market outside North America, considerably more than its closest competitor, Procter & Gamble, has captured. Coca-Cola still edges out Pepsi as the top-selling cola worldwide.

assessment check

1. Why is virtually no country an economic island these days?
2. Describe two ways in which global expansion can benefit a U.S. firm.

WHAT'S AHEAD

Global competition is a key factor in today's economy. In Chapter 4, we focus on the global dimensions of business. We cover basic concepts of doing business internationally and examine how nations can position themselves to benefit from the global economy. Then we describe the specific methods used by individual businesses to expand beyond their national borders and compete successfully in the global marketplace.

SUMMARY OF LEARNING GOALS

1 Distinguish between microeconomics and macroeconomics.

Microeconomics is the study of economic behavior among individual consumers, families, and businesses whose collective behavior in the marketplace determines the quantity of goods and services demanded and supplied at different prices. Macroeconomics is the study of the broader economic picture and how an economic system maintains and allocates its resources; it focuses on how a government's monetary and fiscal policies affect the overall operation of an economic system.

Assessment Check Answers

1.1 Define *microeconomics*.
Microeconomics is the study of economic behavior among individual consumers, families, and businesses whose collective behavior in the marketplace determines the quantity of goods and services demanded and supplied at different prices.

1.2 Define *macroeconomics*.
Macroeconomics is the study of the broader economic picture and how an economic system maintains and allocates its resources.

2 Explain the factors that drive demand and supply.

Demand is the willingness and ability of buyers to purchase goods and services at different prices. Factors that drive demand for a good or service include customer preferences, the number of buyers and their incomes, the prices of substitute goods, the prices of complementary goods, and consumer expectations about the future. Supply is the willingness and ability of businesses to offer products for sale at different prices. Supply is determined by the cost of inputs and technology resources, taxes, and the number of suppliers operating in the market.

Assessment Check Answers

2.1 What is a demand curve?
A demand curve is a graph of the amount of a product that buyers will purchase at different prices.

2.2 What is a supply curve?
A supply curve shows the relationship between different prices and the quantities that sellers will offer for sale, regardless of demand.

2.3 How do factors of production influence the overall supply of goods and services?
A change in the cost or availability of any of the inputs considered to be factors of production can shift the entire supply curve, either increasing or decreasing the amount available at every price.

3 Describe each of the four different types of market structures in a private enterprise system.

Four basic models characterize competition in a private enterprise system: pure competition, monopolistic competition, oligopoly, and monopoly. Pure competition is a market structure, like that in small-scale agriculture, in which large numbers of buyers and sellers exchange homogeneous products and no single participant has a significant influence on price. Monopolistic competition is a market structure, like that of retailing, in which large numbers of buyers and sellers exchange differentiated products, so each participant has some control over price. Oligopolies are market situations, like those in the steel and airline industries, in which relatively few sellers compete and high start-up costs form barriers to keep out new competitors. In a monopoly, one seller dominates trade in a good or service, for which buyers can find no close substitutes. Privately held local water utilities and firms that hold exclusive patent rights on significant product inventions are examples.

Assessment Check Answers

3.1 What is the difference between pure competition and monopolistic competition?
Pure competition is a market structure in which large numbers of buyers and sellers exchange homogeneous products. Monopolistic competition is a market structure in which large numbers of buyers and sellers exchange differentiated products.

3.2 Distinguish between oligopoly and monopoly.
An oligopoly is a market structure in which relatively few sellers compete, and high start-up costs form barriers to new competitors. In a monopoly, one seller dominates trade in a good or service.

4 Compare the three major types of economic systems.

The major economic systems are private enterprise economy, planned economy (such as communism or socialism), and mixed market economy. In a private enterprise system, individuals and private businesses pursue their own interests—including investment decisions and profits—without undue governmental restriction. In a planned economy, the government exerts stronger control over business ownership, profits, and resources to accomplish governmental and societal—rather than individual—goals. Communism is an economic system without private property; goods are owned in common, and factors of production and production decisions are controlled by the state. Socialism, another type of planned economic system, is characterized by government ownership and operation of all major industries. A mixed market economy blends government ownership and private enterprise, combining characteristics of both planned and private enterprise economies.

Assessment Check Answers

4.1 On which economic system is the U.S. economy based?
The U.S. economy is based on the private enterprise system.

4.2 What are the two types of planned economies?
The two types of planned economies are socialism and communism.

4.3 What is privatization?
Privatization is the conversion of government-owned and -operated agencies into privately held businesses.

5 Identify and describe the four stages of the business cycle.

The four stages are prosperity, recession, depression, and recovery. Prosperity is characterized by low unemployment and strong consumer confidence. In a recession, consumers often postpone major purchases, layoffs may occur, and household savings may be depleted. A depression occurs when an economic slowdown continues in a downward spiral over a long period of time. During recovery, consumer spending begins to increase and business activity accelerates, leading to an increased number of jobs.

Assessment Check Answers

5.1 Which stages of the business cycle indicate a downturn in the economy?
Recession and depression indicate a downturn.

5.2 Which stages point to an upswing?
Prosperity and recovery point to an upswing.

6 Explain how productivity, price level changes, and employment levels affect the stability of a nation's economy.

As productivity rises, so do an economy's growth and the wealth of its citizens. In a recession, productivity stalls or possibly declines. Changes in general price levels—inflation or deflation—are important indicators of an economy's general stability. The U.S. government measures price-level changes by the Consumer Price Index. A nation's unemployment rate is an indicator of both overall stability and growth. The unemployment rate shows the number of people actively seeking employment who are unable to find jobs as a percentage of the total labor force.

Assessment Check Answers

6.1 What is productivity?
Productivity is the relationship between the goods and services produced in a nation each year and the inputs that produce them.

6.2 How does the U.S. government track changes in price levels?

The U.S. government tracks changes in price levels with the Consumer Price Index (CPI), which measures the monthly average change in prices of goods and services.

6.3 Identify the four categories of unemployment.
The four categories of unemployment are frictional, seasonal, cyclical, and structural.

7 Discuss how monetary policy and fiscal policy are used to manage an economy's performance.

Monetary policy encompasses a government's efforts to control the size of the nation's money supply. Various methods of increasing or decreasing the overall money supply affect interest rates and therefore affect borrowing and investment decisions. By changing the size of the money supply, government can encourage growth or control inflation. Fiscal policy involves decisions regarding government revenues and expenditures. Changes in government spending affect economic growth and employment levels in the private sector. However, government must also raise money, through taxes or borrowing, to finance its expenditures. Because tax payments represent funds that might otherwise have been spent by individuals and businesses, any taxation changes also affect the overall economy.

Assessment Check Answers

7.1 What is the difference between an expansionary monetary policy and a restrictive monetary policy?
An expansionary monetary policy increases the money supply in an effort to cut the cost of borrowing. A restrictive monetary policy reduces the money supply to curb rising prices, overexpansion, and concerns about overly rapid economic growth.

7.2 What are the three primary sources of government funds?
The U.S. government acquires funds through taxes, fees, and borrowing.

7.3 Does a balanced budget erase the federal debt?
No, a balanced budget does not erase the national debt; it just doesn't increase it. The government must pay off the debt just as consumers pay off their charge accounts.

8 Describe the major global economic challenges of the 21st century.

Businesses face five key challenges in the 21st century: (1) the threat of international terrorism, (2) the shift to a global information economy, (3) the aging of the world's population, (4) the need to improve quality and customer service, and (5) efforts to enhance the competitiveness of every country's workforce.

Assessment Check Answers

8.1 Why is virtually no country an economic island these days?
No business or country is an economic island because many goods and services travel across national borders. Companies now are becoming multinational firms.

8.2 Describe two ways in which global expansion can benefit a U.S. firm.
A firm can benefit from global expansion by attracting more customers and using less expensive labor and production to produce goods and services.

Business Terms You Need to Know

economics 64	supply 65	inflation 78
microeconomics 64	recession 77	monetary policy 82
macroeconomics 64	productivity 78	fiscal policy 82
demand 65	gross domestic product (GDP) 78	budget 83

Other Important Business Terms

demand curve 66	deregulation 74	deflation 80
supply curve 68	planned economy 74	Consumer Price Index (CPI) 80
equilibrium price 70	communism 74	unemployment rate 80
pure competition 71	socialism 75	budget deficit 83
monopolistic competition 72	mixed market economy 75	national debt 83
oligopoly 72	privatization 76	budget surplus 83
monopoly 73	core inflation rate 78	balanced budget 83

Review Questions

1. Distinguish between macroeconomics and microeconomics. Give at least one example of issues addressed by each.
2. Draw supply and demand graphs that estimate what will happen to demand, supply, and the equilibrium price of pizza if these events occur:
   a. A widely reported medical report suggests that eating cheese supplies a significant amount of the calcium needed in a person's daily diet.
   b. The price of flour increases.
   c. The state imposes a new tax on restaurant meals.
   d. The biggest competitor leaves the area.
3. Describe the four different types of competition in the private enterprise system. In which type of competition would each of the following businesses be likely to engage?
   a. a 100-acre Wisconsin dairy farm
   b. Stop & Shop supermarkets
   c. Southwest Airlines
   d. the U.S. Postal Service
   e. Microsoft
4. Describe the two types of planned economies and give an example of each. What is a mixed market economy?
5. What are the four stages of the business cycle? In which stage do you believe the U.S. economy is now? Why?
6. Define *productivity*. Why is it an important concern for every economy?
7. What are the effects of inflation on an economy? How does the Consumer Price Index (CPI) work?
8. Describe the four types of unemployment, and give an example of each. Which type might signify that an economy is in a downturn?
9. Explain the difference between monetary policy and fiscal policy. How does the government raise funds to cover the costs of its annual budget?
10. What are the benefits of paying down the national debt? What might be the negative effects?

Projects and Teamwork Applications

1. Describe a situation in which you have had to make an economic choice in an attempt to balance your wants with limited means. What factors influenced your decision?
2. On your own or with a classmate, visit a large general merchandise retailer—such as a Target or Wal-Mart store. (Alternatively, you can visit a retailer online.) List five different goods sold by the retailer. Note also one or two major competitors, if there are any, on the shelves nearby. (If you are online, note one or two brands you think might be competitors.) Classify each good in terms of the competitive environment. Be sure to note the characteristics you used to make each classification. Create a chart illustrating your findings. Include each of the goods, its competitors, its classification of competitive environment, and the characteristics you used to make the classification. Present your chart to the class.
3. Some businesses automatically experience seasonal unemployment—beach or ski resorts, construction companies, ice-cream stands. Choose a "business partner" from among your classmates and select a business that interests you that experiences seasonal unemployment. Then develop a plan for increasing demand for your business during the off-season. Present your plan to the class.
4. In the past, many proposals have been made for privatizing certain federal or state-run agencies such as Social Security, Medicare, and the U.S. Postal Service. On your own or with a classmate, select one of these agencies and go online to research more about how it is run. Do you favor privatization of this agency? Why or why not? Discuss your findings with the class.
5. Consider your economic lifetime to date. What stages of the business cycle have you experienced? In what ways have these stages affected your—and your family's—lifestyle? (You might want to talk with your parents, grandparents, siblings, and other relatives about their views.)

Case 3.1

General Motors Staggers under the Weight of Healthcare Costs

General Motors is the world's largest auto manufacturer, and it may claim the world's largest healthcare costs to match. GM insures 1.1 million current employees, retirees, and even their widows and widowers as part of the benefits plan it negotiated with the United Auto Workers (UAW) and began implementing over 50 years ago. The plan cost $5.2 billion in a recent year, contributing to losses. Healthcare costs were so significant that GM executives had to search frantically for a solution.

Richard Wagoner, GM's chairman and CEO, charged that U.S. companies and workers pay more for healthcare—and receive less—than their counterparts in other countries. "In the U.S., healthcare costs are rising at an annual rate of 14 percent to 18 percent and already account for 15 percent of our gross domestic product—50 percent higher than the next most expensive country," he argued. Even if he was correct, it didn't solve GM's problem. "Our foreign-based competitors have just a fraction of these costs because they have few retirees in this country and in their own country where the bulk of their people are, their governments pay a much greater proportion of their employee and retiree healthcare costs," Wagoner pointed out. GM was faced with a future cost of $77 billion to cover its current workers and retirees, but had only $20 billion in the bank to cover it. The firm had to come up with a creative answer—and fast.

One possibility was to increase revenues by cutting out discount sales to rental-car agencies and to employees themselves. But the firm recently launched a marketing campaign offering cars to retail consumers at the employee discount to boost lagging sales. To boost revenues, GM could also increase sales, but the firm makes so many models of cars and trucks that its design and engineering teams can't redesign or improve them as often as some of the smaller manufacturers do. This cycle makes GM look sluggish and unresponsive to consumer preferences—and buyers go elsewhere for their cars, reducing demand for GM vehicles. Wagoner began to order the closing of some assembly plants and the retirement of certain brands—such as Oldsmobile—in order to trim down, and convinced the UAW that it had to shoulder more of the healthcare costs to survive. GM succeeded in convincing the UAW that it had to shoulder more of the healthcare costs to survive. After the company reported a staggering $1.6 billion loss in one quarter, the union realized that bankruptcy was a real possibility. So with the cuts to its healthcare coverage, GM estimated it could save $3 billion a year—a significant contribution to its bottom line.

Questions for Critical Thinking

1. How might a positive change in demand for GM's products affect its overall financial picture? What steps might GM take to create that demand?
2. Do you think GM workers and retirees were right to agree to help pay more for their own healthcare costs? Why or why not?

Sources: "GM's $1.1 Billion Loss to Impact UAW," *Washington Times*, accessed June 8, 2006, http://www.washingtontimes.com; Rick Popely and Jim Mateja, "GM, UAW Come to Terms," *Chicago Tribune*, October 18, 2005, section 3, pp. 1, 7; Jonathan Fahey, "Black Hole," *Forbes,* April 11, 2005, p. 54; David Welch, "Running Out of Gas," *BusinessWeek,* March 28, 2005, pp. 28–30.

VIDEO Case 3.2

BP Meets Global Energy Challenges Head-On

This video case appears on page 610. A recently filmed video, designed to expand and highlight the written case, is available for class use by instructors.