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Focus

The information and research you conduct here will help you add to your vision across multiple areas of your workbook and business model canvas.



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Warm Up Activity

Please answer these questions:


What do you know about the laws of supply and demand?

How do you feel supply and demand will impact your ability to do business?

How can you find out ways to determine how much of your product or service is in supply?

What steps will you take to ensure that your product or service is in demand?

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Warm-up Activity Continued...

Stop and think about the business, product, or service you have in mind.

How will you price it?

What made you choose that price point?

What factors do you believe influence how products and services are priced?



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Vocabulary

Here is the **vocabulary** for this module.

capital	enterprise	NAICS
capitalism	equilibrium point	scarcity
command economy	equilibrium price	shortage
consumers	equilibrium quantity	suppliers
demand	free enterprise system	supply
demand curve	industry	supply and demand curve
economic system	local economy	supply curve
economics	market economy	surplus
economy	mixed economy	voluntary exchange



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Key Learning Objectives

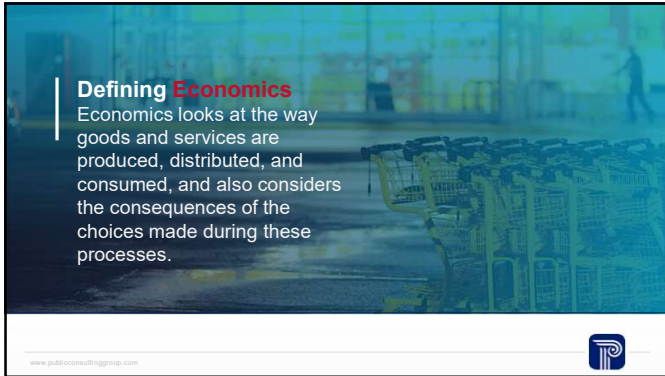
Let's introduce our key learning objectives:

- Look at different types of economies and the economic principle of supply and demand.
- Compare and contrast types of economic systems, with a focus on the US economy.
- Identify the role that entrepreneurs play in our economic system.
- Discuss the roles of suppliers and consumers and identify the relationships between them.
- Review how supply and demand impact product and service pricing and availability and given a scenario, assess the effect each has on the consumer.



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Defining Economics
Economics looks at the way goods and services are produced, distributed, and consumed, and also considers the consequences of the choices made during these processes.

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Scarcity is the result of people having unlimited wants and needs while having limited resources.

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An **economic system** also called **economy**, is a system of production, resource allocation, exchange and distribution of goods and services in a society or a geographic area.

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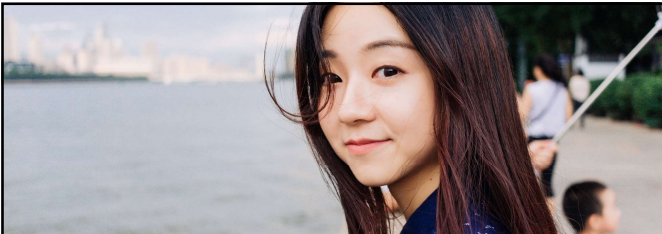
Types of Economic Systems

- Command Economy
- Market Economy
- Mixed Economy




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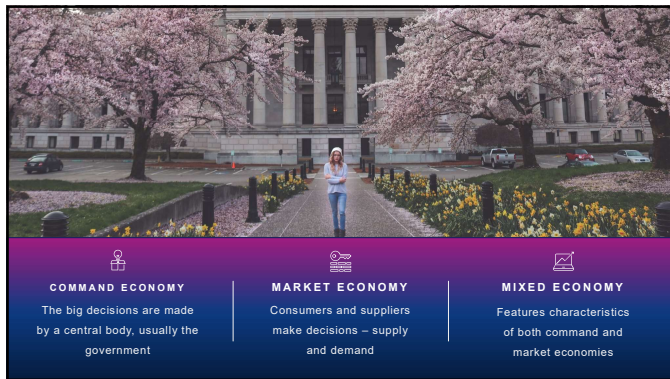
COMMAND ECONOMY
The big decisions are made by a central body, usually the government

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COMMAND ECONOMY The big decisions are made by a central body, usually the government	MARKET ECONOMY Consumers and suppliers make decisions – supply and demand
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A Closer Look at Our Economy



Most of our market is based largely on the concept of **voluntary exchange**.

Buyers and sellers are free to engage in market transactions freely and willingly – the **free enterprise system**.

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Free Enterprise and Entrepreneurship

Enterprise	Local Economy	Capitalism	Capital
We're able to own and operate businesses	Our businesses have the greatest impact here	This is what we call our economic system	The word we use to describe anything of value; including money

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Economics Discussion



1. How much of a role do you think the government should play in regulating the economy? What should be decided by policy and what should be left to the forces of the market?

2. What do you think causes economic inequality? How might inequality be considered a good thing? How might it be considered a bad thing? How do we reduce the gap between rich and poor?

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Industry and the NAICS

We get to choose what **industry** we would like to participate in, whether it's farming, technology restaurant, or health care.

Activity: Let's take a moment to go back to our friends at census.gov to take a look at the **North American Industry Classification System (NAICS)**.

NAICS

Use the search feature in the "NAICS Search" box on the left side of that page, enter a keyword that describes your kind of business. Can you find the code for your intended business?

NAICS Search:

Enter keyword or 2-6 digit code

2017 NAICS Search



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Why is NAICS Important?

By breaking industries into sectors, the government is able to look at historical trends and data. You can use this information to research specific industries both nationally and locally.

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Supply Basics



Supply is a fundamental economic concept that describes the total amount of a specific good or service that is available to consumers. Suppliers decide how much or many of each good or service will be available for purchase.

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Demand Basics



Demand is an economic principle referring to a consumer's desire to purchase goods and services and a willingness to pay a price for a specific good or service.

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Supply and Demand Interactive

Price Points					
\$1.00	500	\$1.50	400	\$2.00	300
\$1.10	480	\$1.60	380	\$2.10	280
\$1.20	460	\$1.70	360	\$2.20	260
\$1.30	440	\$1.80	340	\$2.30	240
\$1.40	420	\$1.90	320	\$2.40	220
				\$2.50	200
				\$2.60	180
				\$2.70	160
				\$2.80	140
				\$2.90	120

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Equilibrium Point

The correlation between supply and demand is a push/pull relationship.

How does the farmer decide how many avocados to supply? How do they price them?

The use the **equilibrium point** to guide them.



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Shortages

A **shortage** occurs when the quantity demanded is greater than the quantity supplied.

Shortage =
Quantity demanded (Q_d) >
Quantity supplied (Q_s)



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Surpluses

A **surplus** occurs when the quantity supplied is greater than the quantity demanded.

Surplus =
Quantity demanded (Q_s) >
Quantity supplied (Q_d)



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Special Considerations



A farmer can't really adjust supply as easily as someone who is in manufacturing because it takes years to grow mature trees that will produce fruit.

- Purchase from another farmer who has a surplus
- Find new markets or offer other avocado-based products

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Equilibrium Point Example

Price per avocado	Quantity demanded	Quantity supplied	Surplus	Shortage
\$3.00	100	500	400	
\$2.50	200	400	200	
\$2.00	300	300	Market equilibrium	
\$1.50	400	200		200
\$1.00	500	100		400

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Equilibrium Point Continued

Equilibrium quantity: the number of products available will equal demand

Equilibrium price: the price at which supply will equal demand

	DEMAND	SUPPLY	OUTCOME	PRICE
1 Increased Demand	↑	⇌	Shortage	↑
2 Decreased Demand	↓	⇌	Surplus	↓
3 Increased Supply	⇌	↑	Surplus	↓
4 Decreased Supply	⇌	↓	Shortage	↑

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Avoiding Surpluses and Shortages

It's important to ensure that you don't experience surpluses and shortages so you can maximize your profits.

As an entrepreneur, the law of supply and demand will tell you how much product you should supply at a given price to avoid shortages and surpluses.

Use the NAIC website mentioned earlier in the course.

Use resources like Google and the phone directory to identify competitors in your area, their location, and may help you determine if surpluses or shortages for specific goods may occur.



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Visualizing Supply and Demand

The information here is useful, but another way to look at the information is to chart it using a supply curve and a demand curve.

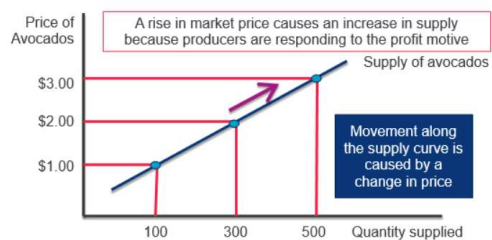
Price per avocado	Quantity demanded	Quantity supplied	Surplus	Shortage
\$3.00	100	500	400	
\$2.50	200	400	200	
\$2.00	300	300	Market equilibrium	
\$1.50	400	200		200
\$1.00	500	100		400



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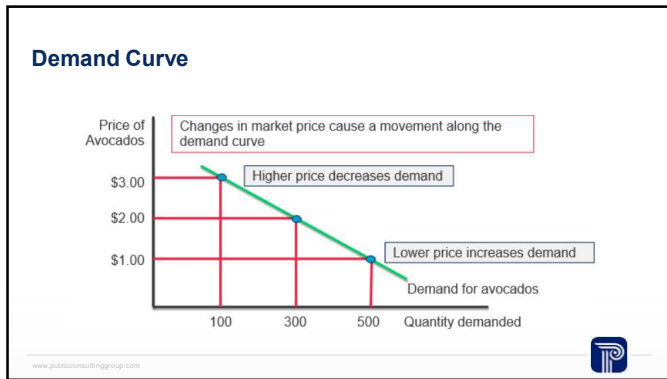
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Supply Curve

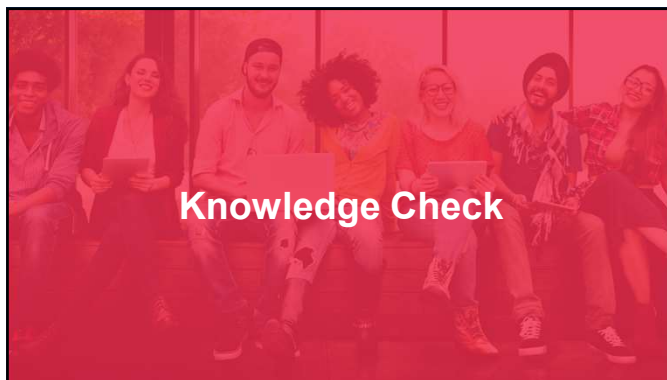


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Match the term with the correct definition:

Big economic decisions are made by a central body, usually the government

Prices of the products and services are chosen in a free price system that is decided by supply and demand

The economics are determined by a combination of governments and private individuals

Terms:

Mixed economy

Command economy

Market economy

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Multiple Choice Question



Choose the best answer: The United states has a _____

- ☐ Command economy
- ☐ Market economy
- ☐ Mixed economy

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Multiple Response Question



Which two of the following answers describe the role that entrepreneurs play in our economic system?

- ☐ Entrepreneurs impact local economies by hiring employees, buying and selling capital, and paying taxes
- ☐ We write laws and regulations to oversee the production and distribution of goods and services
- ☐ We plan to ensure that there aren't shortages or surpluses of products and services

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Multiple Choice Question



Which option best describes the relationship between suppliers and consumers?

- ☐ Suppliers produce what they want, and consumers are limited to buying what's available
- ☐ Suppliers set prices and consumers have to pay whatever price suppliers choose
- ☐ Suppliers want to make as much profit as they can, and consumers want to pay the lowest possible price

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Multiple Response Question



The Oculus Quest is an extremely popular virtual reality headset, a product of Facebook. When the Oculus Quest was released, the supplier greatly underestimated the number of units that should be available at launch; they had a limited supply of units and much higher demand. What disadvantages do you think consumers face?

- ☐ It was harder to find and purchase an Oculus Quest when it was released
- ☐ Consumers found they would have to wait for the manufacturing chain to build more units
- ☐ Some consumers purchased their Oculus Quest through a reseller, at a lower price
- ☐ Some consumers purchased their Oculus Quest through a reseller, at a higher price

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Reflection

Let's go back and ask the questions we presented at the beginning of the module. Please answer these questions:

What do you know about the laws of supply and demand?

How do you feel supply and demand will impact your ability to do business?

How can you find out ways to determine how much of your product or service is in supply?

What steps will you take to ensure that your product or service is in demand?

What steps will you take next to conduct research?

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Compare and Contrast

Take a moment to reflect on your learning and comparing and contrasting your answers.

What we learned about:

Economies
Suppliers vs. Consumers

Economic systems
Pricing

Supply and demand

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We focused on the economic principle of supply and demand.

We talked about command, market, and mixed economies. How command economies are overseen by an authority (usually a government), market economies are dictated purely by suppliers and consumers, and mixed markets are a combination of the two.

We learned that entrepreneurs play a key role in our economic system.

We talked about how suppliers and consumers have a push/pull relationship.

Because suppliers and consumers have separate interests, we are able to balance the cost of goods and services using supply and demand curves to find equilibrium points.

Next time we will take a look at the competition, and how it will impact your business plan.

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Capital

The cash and other assets that a business owns.



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Capitalism

A free enterprise system where individuals own and control property are motivated to make a profit. Prices are determined by supply and demand.



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Command Economy

A system where the government, rather than individuals, determine what goods should be produced, at what rate they will be produced, and at what price goods will be offered.



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Consumers

Individuals who are willing to pay for goods and services; customers.



45

Demand

Consumer's desire and willingness to purchase specific goods and services.



46

Demand Curve

A visual representation of the relationship between price and demand.



47

Economic System

A system of production, resource allocation and distribution of goods and services within a society or a given geographic area.



48

Economics

The branch of knowledge concerned with the production, consumption, and transfer of wealth.



49

Economy

The wealth and resources of a country or region, especially in terms of the production and consumption of goods and services as well as the management of available resources.



50

Enterprise

A business or company.



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Equilibrium Point

The point where a supply curve meets a demand curve.



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Equilibrium Price

The price at which the supply curve meets the demand curve.



53

Equilibrium Quantity

The number of products available at the point where the supply curve meets the demand curve.



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Free Enterprise System

A system that allows anyone to own and operate a business, capitalism or market economy.



55

Industry

A sector that produces goods or related services within an economy, such as health care, manufacturing, and technology industries.



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Local Economy

The economic system and economic activity in a local area of an economy (there are others, such as regional, state, national, and world economies).



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Market Economy

An economy in which the prices of the products and services are chosen in a free price system that is decided by supply and demand without substantial government intervention.



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Mixed Economy

An economy in which there are aspects of both a market economy and a command economy in play.



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North American Industry Classification System (NAICS)

A business-classification system that is used for all business activities across North America so data and statistics can be compared between the US, Mexico, and Canada.



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Scarcity

The gap between limited resources and limitless wants.



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Shortage

A condition where the quantity demanded is greater than the quantity supplied at the market price.



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Suppliers

A person or business entity that supplies goods and services.



63

Supply

The amount of something that businesses are willing to provide in a market.



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Supply and Demand Curve

A visual representation of the relationship between the quantity and price of goods and services coupled with how willing consumers are likely to want to buy them at a specific price.



65

Supply Curve

A graphic representation of the correlation between the cost of a good or service and the quantity supplied.



66

Surplus

The outcome that happens when there is more of something than is wanted or needed.



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Voluntary Exchange

When people and companies participate in market transactions freely and willingly.



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