

Understanding Economics and How It Affects Business

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John Maynard Keynes (1883-1946)



- Had a great influence on U.S. economic policy
- **Stabilizing the economy** by the use of **fiscal policy** (taxes, spending)
- If the **economy was in recession**, the government should *increase spending* (e.g., on infrastructure, bridges, schools, etc.) and *cut taxes* in order to stimulate the economy.
- **The goal** of cutting taxes would be to **increase consumer spending** to revive businesses.
- Conversely, when **the economy** seems to be **growing too fast and inflation results**, Keynesian theory suggests *cutting back on government spending* and *increase taxes*.
- **Most famous book (1936):** *The General theory of Employment, Interest and Money*

Economic conditions affect business

- The U.S. is a **relatively wealthy country** compare to Mexico - Why?
- Major part of the US **business success** in the past was due to an **economic and social climate** that allowed most businesses to operate freely.
- Any **change in the US economic or political system** has a major influence on the success of the business system.
- **Global economics and global politics** also have a major influence on businesses in the US.

Economics

Def: **Economics** is the study of **how society chooses to employ resources to produce goods and services** and distribute them for consumption among various competing groups and individuals.

Macroeconomics

Def: **Macroeconomics** looks at **the operation of a nation's economy as a whole** (e.g.: the whole US)

Microeconomics

Def: **Microeconomics** is the part of economic study that looks at the **behavior of people and organizations** in particular markets.

Resources - Five factors of production

1. Land

Def: Land and other natural resources are used to make homes, cars, and other products.

2. Labor

Def: People have always been an important resource in producing goods and services, but many people are now being replaced by technology.

3. Capital

Def: Capital includes machines, tools, buildings, and other means of manufacturing.

4. Entrepreneurship

Def: All the resources in the world have little value unless entrepreneurs are willing to take the risk of starting businesses to use those resources.

5. Knowledge

Def: **Information technology has revolutionized business, making it possible to quickly determine wants and needs and to respond with desired goods and services.**



Thomas Malthus (1766-1834)

- Malthus followers (who called **neo-Malthusians**)
- **too many people** in the world
- **solution to poverty**: radical birth control, including forced abortions and sterilization
- latest statistics: **population growing more slowly than expected**
- **In some industrial countries** - Japan, Germany, Italy, Russia, US - so slow: there will be **too many old people and too few young to care for them**
- **In the developing world** - **population climb relatively quickly** and it may lead to **greater poverty and unrest**
- Macroeconomists believe - large population, especially an **educated one, can be valuable resource**

What might motivate you to start your own business?



Adam Smith (1723-1790)

- Scottish economist
- **Father** of modern economics
- Envisioned: **creating more resources** so that **everyone could become wealthier**
- Most famous book: **The Wealth of Nations**, 1776

- He believed **freedom** was vital to the survival of any economy, especially the **freedom to own land or property**.
- He believed **people will work long and hard** if they have **incentives** for doing so. (**keep the profits** from working the land or running the business)
- The **economy will also prosper**, with the plenty of food and all kinds of products available to everyone.
- **invisible hand**: A phrase coined by Adam Smith to **describe the process** that turns **self-directed gain into social and economic benefits for all**.

Questions for the final exam?

- **What is the difference between macroeconomics and microeconomics?**
- **What is better for an economy than teaching a man to fish?**
- **What does Adam Smith's term "invisible hand" mean?
How does the invisible hand create wealth for a country?**

Free- market capitalism

- basing the ideas of Adam Smith on free-market principles businesspeople in the US, Europe, Japan, Canada and etc. **began to create more wealth than ever before**
- they **hired workers** to work on their farms and in their factories and their **nations began to prosper** as a result
- Businesspeople soon **became the wealthiest** people in society (large homes, fancy cars, etc. - workers lived in humbles)
- **Promise of better time!**
- **One way to become wealthy to start a successful business of your own!**

Capitalism

Def: An economic system in which **all or most of the factors of production and distribution are privately owned and operated for profit.**

The Foundations of Capitalism

● People have *four basic rights*:

1. The right to **own a private property.**
2. The right to **own a business and keep all that business's profits.**
3. The right to **freedom of competition.**
4. The right to **freedom of choice.**

Thank you for your attention!