Understanding Economics and How It Affects Business

Dr. Péter POPOVICS PhD.

Assistant professor, coach
Dept. Enterprise Development
Team Academy Debrecen



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

<u>Def:</u> 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

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

Microeconomics

<u>Def:</u> 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

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

3. Capital

<u>Def:</u> Capital includes machines, tools, buildings, and other means of manufacturing.

4. Enterpreneurship

<u>Def:</u> 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

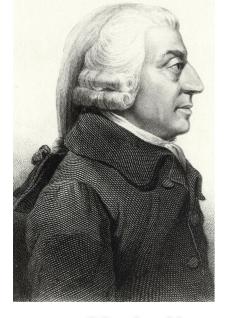
<u>Def:</u> Information technology has revolutionized business, making it possible to quickly determine wants and needs and to respond with desired goods and services.



Thomas Malthus (1766-1834)

- Malthus followers (who called neo-Malthusians)
- otoo 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	vou to	start	vour	own	business	?
vviiat iiiigiit	mouvace	you w	Start	your	OWII	Dusiness	, •



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" means? 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 he 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!