

# 3-1

## Scarcity and Private Enterprise

### GOALS

- Identify the basic economic problem.
- Describe how America’s private enterprise economy works.

### KEY TERMS

- scarcity, p. 61
- controlled economy, p. 62
- free economy, p. 62
- mixed economy, p. 62
- private enterprise, p. 63
- profit motive, p. 63
- value, p. 63
- demand, p. 64
- supply, p. 64

### marketing matters

Knowledge of economics and how people make economic decisions improves marketers’ ability to make marketing decisions. Unlimited needs and wants combined with limited resources produce scarcity. Scarcity is the basic economic problem. People always want more than they can buy, so they must make choices. The way those choices are made determines the type of economic system a society has.

The United States has a private enterprise economy, which has many of the characteristics of a free economy. America’s economy is driven by consumers’ independent decisions about what they want to purchase and by producers’ decisions about what they will produce. The government’s role in making economic choices is very limited.

Make a list of your ten most recent purchases. Identify how the availability of product choices and the amount of money you had to spend affected your purchasing decisions.

## The Importance of Economic Understanding

Many people believe that effective marketing relies almost solely on creativity. In their view, people who can create a memorable image for a product or attract a customer’s attention will increase sales. People who understand marketing, however, know that the marketing process is more scientific. Effective marketing relies on the principles and concepts of economics. Knowledge of economics and how economic decisions are made improves marketing decision making and

results in increased customer satisfaction and higher profits for the company.

An understanding of the types of competition that businesses face also contributes to better marketing decisions. Marketers need to manage based on the type of competition they face. They also must learn how to interpret economic information to improve marketing decisions. Marketers and other business people should recognize that the increased competition faced by most businesses places a

whole new importance on understanding and using economic information.

## The Basic Economic Problem

People's wants and needs are unlimited. They seldom feel that their wants and needs are completely satisfied. Conversely, resources are limited. There are never enough available to meet everyone's wants and needs. For example, producing a car requires a variety of resources, including glass, rubber, steel, and plastic. Yet each of those resources is in limited supply. They are also used to produce other items in addition to cars. So there may not be enough resources to make as many cars as people might want.

Unlimited wants and needs, combined with limited resources, result in **scarcity**.



*Think of all the resources used to make a car. What other products require the use of these same resources?*

Scarcity is the basic economic problem. Because of scarcity, choices must be made. How will limited resources be used to



## Digital Digest

### Database Marketing Made Easy

Many businesses create databases that contain huge amounts of data about their existing customers and potential customers. Their marketers use the data to generate computerized mailing lists and individualized promotions as well as research for product development efforts.

Database programs store, sort, and analyze large volumes of data. They are very useful for businesses with large customer bases or even those with relatively small customer bases but a large number of customer transactions.

To build a database, you first identify each relevant bit of information you want to keep track of, and then input that information into a database field. A business might want a separate field for the customer name,

phone number, e-mail address, each item ordered, price, the transaction date, and so forth. A collection of fields pertaining to a particular customer or order is called a record. All of the records combined make up the database.

The practice of using databases to make marketing decisions is called database marketing. Databases may also be purchased from outside vendors that specialize in compiling mailing lists or sales leads.

### Think Critically

1. What is a database field?
2. Give an example of how a marketer might use a database's sorting capabilities to obtain useful information.

satisfy people's unlimited wants and needs? Because wants and needs will always be greater than the available resources, choices and tradeoffs must be made. The available resources will have to be allocated to satisfy some wants and needs but not others.

Scarcity creates difficult problems for a society. Some needs and wants are satisfied while others are not. Resources are used to produce certain products and services. Other products and services are not produced. What is produced and for whom it is produced must be determined. The way those decisions are made indicates the type of economic system a society has.

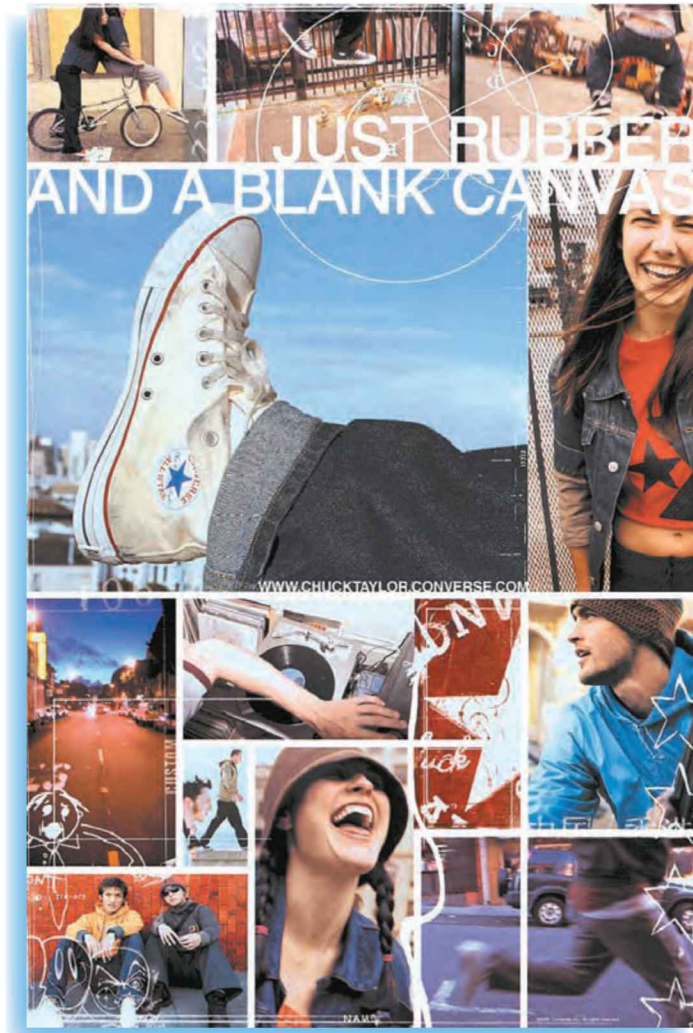
### Who Makes the Decisions?

An economy is designed to facilitate the use of limited resources to satisfy the individual and group needs of people in the economy. All economies must answer three questions.

1. What goods and services will be produced?
2. How will they be produced?
3. For whom will they be produced?

Economies are organized into different economic systems based on how these three economic questions are answered. The type of economic system determines who owns the resources. It determines how decisions are made regarding the use of resources. Which needs are satisfied and how resources are distributed also depend on the type of economic system. Even the cost of resources depends on the economic system.

In a **controlled economy**, the government answers the three economic questions. It attempts to own and control



*In a controlled economy, ads such as this one for Converse shoes may not be seen because the government limits the selection of products available to consumers.*

important resources and to make the decisions about what will be produced and consumed. In a **free economy**, also known as a *market economy*, resources are owned by individuals rather than the government. The market provides answers to the three economic questions. Decisions are made independently with no attempt at government regulation or control. In a **mixed economy**, some goods and services are provided by the government and some by private enterprise.

### Checkpoint

**What is the basic economic problem?**

# America's Private Enterprise Economy

The United States has many of the characteristics of a free economy. The U.S. economic system is often called a private enterprise or free enterprise economy. **Private enterprise** is based on independent decisions by businesses and consumers with only a limited government role regulating those relationships.

## Characteristics

Several important characteristics define a private enterprise economy.

- Resources of production are owned and controlled by individual producers.
- Producers use the profit motive to decide what to produce. The **profit motive** is the use of resources to obtain the greatest profit.
- Individual consumers make decisions about what will be purchased to satisfy needs.
- Consumers use value in deciding what to consume. **Value** is an individual

## Fast FACTS

Capitalism is another name for a private enterprise economy. The beginning of capitalism is often traced back to Adam Smith and his literary work titled *The Wealth of Nations* published in 1776.

view of the worth of a product or service. Consumers make decisions of worth by comparing the cost of something they are considering purchasing to other available alternatives.

- The government stays out of exchange activities between producers and consumers unless it is clear that individuals or society are harmed by the decisions.

Because businesses have a great deal of independence in a private enterprise economy, their decisions can determine whether they succeed or fail.



## Virtual Marketing

### The Emergence of Online Auctions

When auction web sites first appeared in the late 1990s, they appealed mostly to individual consumers. But as online auctions have grown and gained credibility, businesses, and even the government, have joined in on the action.

Retailers quickly realized that auction sites such as eBay would be a major source of competition. However, it was also an opportunity to reach a new market, and smart retailers got into the game early. Independent bike shops, bookstores, and clothing stores could easily add to their

customer base and compete with big online retailers.

Auctions also work well for commercial buyers. Companies looking to buy goods can attract a large number of suppliers and pick the best deal. Even the government has started using online auctions. Through the auction web site FedBid, government agencies purchase commercial items through pre-approved, competing suppliers.

### Think Critically

1. What advantages do online auctions offer smaller retailers?
2. How can online auctions cut costs?



**Why do retailers offer so many different choices of clothing?**

**Consumers** Individuals who purchase products and services to satisfy needs are consumers. They have limited resources, or money, to satisfy their needs. Consumers select products that they believe will provide the greatest satisfaction for the price. **Demand** is a relationship between the quantity of a product consumers are willing and able to purchase and the price.

Consumers gather information about available products and services so they can select those that appear to satisfy their needs. For example, clothing is a basic consumer need. Some consumers will sew their own clothes. Some will buy basic and inexpensive clothing. Others will spend a great deal of money on a large and expensive wardrobe.

**Producers** Businesses that use their resources to develop products and services are producers. They hope to sell products and services to consumers for profit. **Supply** is a relationship between the quantity of a product that producers are willing and able to provide and the price.

Producers gather information about the types of products and services consumers want so they can provide those

that are most likely to be purchased. An example of a producer's decision is the development of a day-care center. Many parents need someone to watch their children during the day while they are at work. There are opportunities to start businesses that respond to that need.

**Government** Under ideal circumstances, government allows consumers and producers to make decisions without any interference. However, there are times when some consumers or producers are at a disadvantage and will not receive fair treatment, or society will be harmed by the decisions made by producers or consumers. In those situations, the government enacts laws and regulations to help those who are treated unfairly.

### **Economic Forces**

An example of decision making in a private enterprise economy illustrates how the system operates. Suppose a city has a variety of entertainment options but has no social club for teenagers. Many teenagers indicate a need for some type of club and suggest they would visit it and spend

money there if one was developed. Even though it appears that the need for the new type of business exists, no one is required to open a teen social club. It will be developed only when someone recognizes the need, determines that a club could be opened and operated profitably, wants to operate that type of business, and has the resources to do so.

Members of city government might recognize the need for a teen club. They may see teenage crime rates increasing, have concerns expressed to them by teenagers and parents, or just want to meet important needs of city residents. Based on that concern, city leaders may encourage the development of a teen club through tax

incentives or other economic assistance. They may even decide to develop and operate a teen center as a city service.

In a private enterprise economy, government would not typically get involved with the economic problem described. It would rely on the profit motive to encourage the development of a new business and on consumers to express their needs for products and services to businesses.

## Checkpoint

**In a private enterprise economy, when does government get involved in exchange relationships?**

## 3-1 Assessment



### Key Concepts

Determine the best answer.

- The government exerts the greatest influence over economic decisions in a
  - mixed economy
  - controlled economy
  - free economy
  - private enterprise economy
- Which of the following is *not* an important characteristic of a private enterprise economy?
  - resources of production are owned and controlled by individual producers
  - individual consumers make decisions about what will be purchased to satisfy needs
  - government involvement in the economy is relatively limited
  - businesses decide what to produce based on what is best for society as a whole
- An individual view of the worth of a product or service is called
  - scarcity
  - the profit motive
  - value
  - demand
- True or False: Unlimited wants and needs, combined with limited resources, result in scarcity.

### Make Academic Connections

- Social Studies** Prepare a one-page paper describing the basic economic problem and include an example of it. Explain how this problem would be handled in different economic systems (controlled, free, mixed, and private enterprise).
- Consumer Economics** As your textbook explains, consumers gather information about available products and services so they can select those that appear to satisfy their needs. Compile a list of resources—either print or online—that consumers can use to do this, briefly describing each one.



- You work for a clothing manufacturer that would like to sell its products in China. You have been asked to explore the marketing opportunities in China. Conduct research to determine the key differences between the Chinese and American economic systems. Develop a two- to three-minute presentation on the key economic factors that would have an impact on marketing your clothing line in China and present it to your teacher (judge).