IMPORTANT CONCEPTS

Command process. The use of central planning and the directives of government authorities to answer the questions of *what, how,* and *for whom.* (p. 11)

Economic decisions for the firm. "What goods and services should be produced?"—the product decision. "How should these goods and services be produced?"—the hiring, staffing, and capital-budgeting decision. "For whom should these goods and services be produced?"—the market segmentation decision. (p. 12)

Economics. The study of how choices are made under conditions of scarcity. The basic economic problem can be defined as: "What goods and services should be produced and in what quantities?" "How should these goods and services be produced?" "For whom should these goods and services be produced?" (p. 2)

Economics of a business. The key factors that affect the ability of a firm to earn an acceptable rate of return on its owners' investment. The most important of these factors are competition, technology, and customers. (p. 5)

Managerial economics. The use of economic analysis to make business decisions involving the best use of a firm's scarce resources. (p. 2)

Market process. The use of supply, demand, and material incentives to answer the questions of *what, how,* and *for whom.* (p. 11)

Opportunity cost. The amount or subjective value forgone in choosing one activity over the next best alternative. This cost must be considered whenever decisions are made under conditions of scarcity. (p. 10)

Resources. Also referred to as *factors of production* or *inputs,* economic analysis usually includes four basic types: land, labor, capital, and entrepreneurship. This chapter also includes managerial skills and entrepreneurship. (p. 9)

Scarcity. A condition that exists when resources are limited relative to the demand for their use. In the market process, the extent of this condition is reflected in the price of resources or the goods and services they produce. (p. 9)

Traditional process. The use of customs and traditions to answer the questions of *what, how,* and *for whom.* (p. 11)

QUESTIONS

1. Define *scarcity* and *opportunity cost.* What role do these two concepts play in the making of management decisions?
2. Elaborate on the basic economic questions of *what, how,* and *for whom.* Provide specific examples of these questions with respect to the use of a *country's* scarce resources.
3. Following are examples of typical economic decisions made by the managers of a firm. Determine whether each is an example of *what, how,* or *for whom.*
   a. Should the company make its own spare parts or buy them from an outside vendor?
   b. Should the company continue to service the equipment that it sells or ask customers to use independent repair companies?
   c. Should a company expand its business to international markets or concentrate on the domestic market?
   d. Should the company replace its own communications network with a "virtual private network" that is owned and operated by another company?
   e. Should the company buy or lease the fleet of trucks that it uses to transport its products to market?
4. Define the market process, the command process, and the traditional process. How does each process deal with the basic questions of *what, how,* and *for whom*?
5. Discuss the importance of the command process and the traditional process in the making of management decisions. Illustrate specific ways in which managers must take these two processes into account.
6. Explain the differences between management skills and entrepreneurship. Discuss how each factor contributes to the economic success of a business.
7. Compare and contrast microeconomics with macroeconomics. Although managerial economics is based primarily on microeconomics, explain why it is also important for managers to understand macroeconomics.