

MI OPEN BOOK PROJECT

# Economics and You

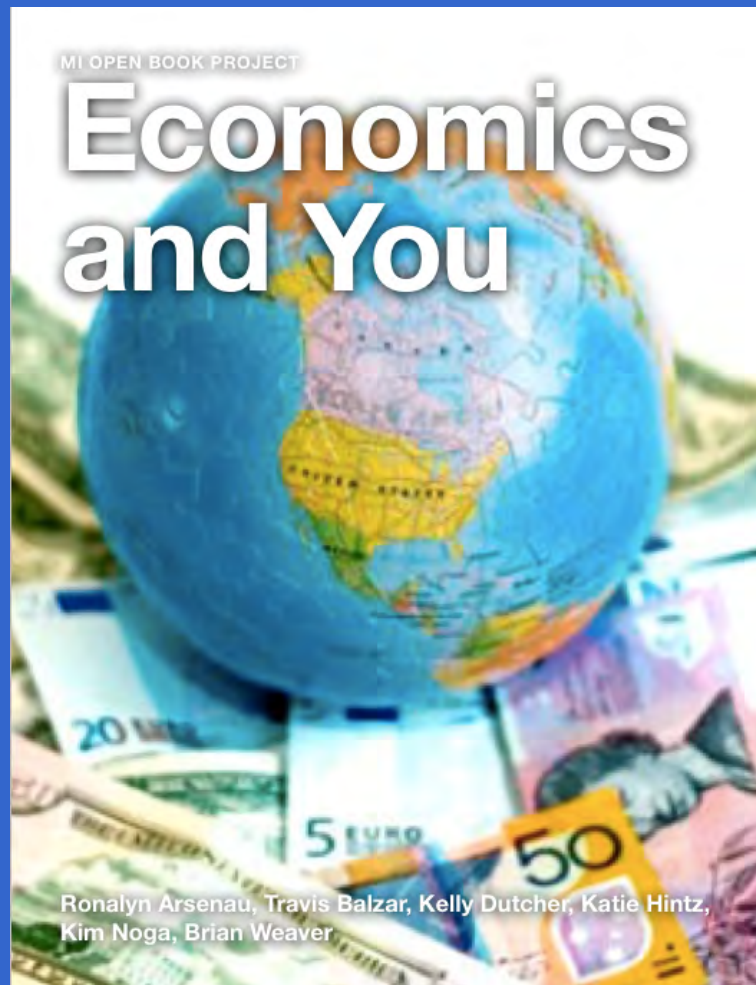
Ronalyn Arsenau, Travis Balzar, Kelly Dutcher, Katie Hintz,  
Kim Noga, Brian Weaver

# Economics and You



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This is version 1.5 of this resource, released August 2018

Information on the latest version and updates are available on the project homepage: <http://textbooks.wmisd.org/dashboard.html>



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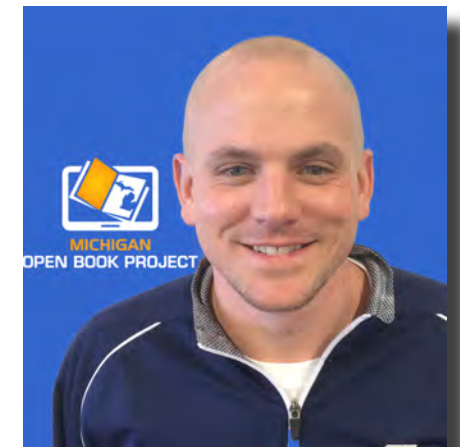
Ronalyn Arseneau teaches Economics and Business at Westwood High School in Ishpeming. She is a member of the State Executive Board of the Michigan Business Education Association, serving as Vice-President for Membership. She and her husband, Barry, enjoy traveling to spend time with their three children and their grandson.

### **Travis L. Balzer**

**Shepherd Public Schools**

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Travis L. Balzer is a Shepherd High School social studies teacher concentrating in Economics, Civics and History. Mr. Balzer (Mr. B) resides in Shepherd with his bride Haley, and daughters Makayla and Mia Jean. A Gladwin High School graduate. Parents Vicki and Teddy reside in Gladwin. Travis' sister, Kristal and two sons, Isaac and Adam reside in the Lansing area. Mr. Balzer earned an Economics and Management degree from Albion College and proceeded to obtain teaching certification from Saginaw Valley State University in Social Studies. In addition, obtaining a masters in Educational leadership from Grand Valley State University. Hunting, exercising including P90X, biking, running



### **Kelly Dutcher**

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Kelly Dutcher teaches Economics, Civics, U.S. History, and College Readiness at Harbor Springs High School. Aside from teaching, she is also a Michigan Youth in Government advisor, and class of 2017 sponsor. Mrs. Dutcher is a graduate of Lake Superior State University where she received her BS in Social Studies and Secondary Education. She is currently working towards receiving her MA in American History and Government at Ashland University, and will spend a month this summer as a James Madison Memorial Fellow studying in Washington D.C. Kelly loves teaching at the high school level, and helping bring social studies to life for her students. She shares her life with her husband Jordan and three joyful girls: Daphne, 5; Audrey, 3; Meredith 2.







## **Katie Hintz**

### **Gladwin Public Schools**

#### *Gladwin High School*

Katie is completing her seventh year as a teacher at Gladwin High School, where she has taught every Social Studies course available, including: American Government, Sociology, Current Events, World History, Economics, Social Problems in the United States, and Law. A graduate of Saginaw Valley State University's Secondary Education Program, she majored in History, minored in Sociology and earned a Social Studies Endorsement. As Social Studies Department Chair, she was inspired to participate to the Open Book Project because of the disjointed resources that most economics teachers are forced to scrape together to create a captivating curriculum.

Currently, she is working on completing her Masters in Global History at with American Public University. Her final thesis on the Food Industry is due to be published September,

## **Kim Noga**

### **Ionia Public Schools**

#### *Ionia High School*

Kim has a B.A. in History/ Social Studies and an M.A. in Curriculum and Teaching, both from Michigan State University. For the past 14 years she has been employed at Ionia High School where she teaches Economics, U.S. History, and Humanitarian Studies. Her hobbies include reading and traveling the world.



## **Brian Weaver**

### **Big Rapids Public Schools**

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Mr. Weaver has been teaching high school social studies for fourteen years. After one year at New Directions Alternative High School in the Big Rapids Public Schools he moved to Big Rapids High School where he has taught US History & Geography, American Government, World History & Geography, Economics, Geography, Psychology, and Modern Social Problems. Before becoming a high school teacher, Mr. Weaver worked in higher education as a development officer and administrator. As Director of Development for Ferris State University he oversaw fund raising activities for Kendall College of Art and Design and served as Director of the Kendall Foundation. In ten years of service at Northern Michigan University he served in a variety of development posts including Director of Development Research and Director of Annual Giving. Mr. Weaver caught the teaching bug during his service in the Peace Corps on the central Philippines island of Leyte where he taught in a two-room school house. His many interests include reading, woodworking, and home improvement



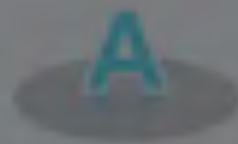
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## Chapter 3

# Choices in Business

### QUESTIONS TO GUIDE INQUIRY:

1. What are the advantages to each way businesses organize themselves?
2. How do labor unions support workers?
3. How does the supply and demand for labor affect wages for specific jobs?
4. Does labor work in opposition to business organizations?





# Business Organizations

## QUESTION TO GUIDE INQUIRY

### 1. What are the advantages to each way businesses organize themselves?

Berkeley is opening a new retail business selling local products to tourists in the summer. She is an entrepreneur, someone who identifies a need and takes a risk by starting a business to fill that need. Entrepreneurs often have similar traits. They are self-starters, independent minded, hard working, and willing to take risks. What form of business structure should Berkeley choose for her new business? She has a number of business structures to choose from.

New businesses are often organized as **sole proprietorships**. A sole proprietorship is a business that is organized by one person, the business is not a separate entity from the owner, and the owner is responsible for all debts and liability of the business, as well as being entitled to all profits generated by the business.

Advantages of Sole Proprietorship	Disadvantages of Sole Proprietorship
<ul style="list-style-type: none"> <li>• Easiest and least expensive form of business to establish</li> <li>• Owner maintains complete control of the business, without having to consult with others when making business decisions</li> <li>• Owner controls all income of business</li> </ul>	<ul style="list-style-type: none"> <li>• More difficult to raise money to establish or expand business</li> <li>• Personal liability by owner, which can result in owner losing personal assets in the event of bankruptcy or lawsuit</li> <li>• Entire responsibility and control of the business is on the shoulders of the owner</li> </ul>

Another form of business organization is a **general partnership**.

General partnerships involve two or more people working together in owning their business. This allows one or more owners to share in the responsibility of running the business, but it also involves sharing profits among those stakeholders.

A **limited liability partnership** provides the benefit of limiting the partner's liability to their investment in the company, so the owners of the business would not risk losing their personal assets (home, car, personal bank accounts, etc.) if the company were to fail.

Advantages of General Partnership	Disadvantages of General Partnership	Advantages of Limited Liability Partnership	Disadvantages of Limited Liability Partnership
<ul style="list-style-type: none"> <li>Partnerships are easy to establish, though more difficult than a sole proprietorship</li> <li>Share responsibility and risk with one or more partners</li> <li>Partners may have complementary skills to assist in management of the business</li> <li>Partners can make all business decisions</li> </ul>	<ul style="list-style-type: none"> <li>Share in profits with one or more partners</li> <li>Each partner is responsible for all of the business's debts</li> <li>Personal liability by all owners, which can result in owners losing personal assets in the event of bankruptcy or lawsuit</li> </ul>	<ul style="list-style-type: none"> <li>All partners have limited personal liability</li> <li>Subject to little government regulation</li> <li>Can raise more capital than sole proprietorship due to greater assets being contributed</li> <li>Each partner pays taxes on their share of the income; the business itself does not have to pay taxes</li> </ul>	<ul style="list-style-type: none"> <li>Potential for conflict; can be difficult to solve</li> <li>Partnership may not outlast the lives of those who started it</li> <li>Multiple decisions regarding responsibilities must be made</li> </ul>



A **corporation** is a business structure that provides protection from liability to individual owners, as the company is legally seen as its own entity.

Advantages of Corporation	Disadvantages of Corporation
<ul style="list-style-type: none"> <li>• Shareholder liability is limited to the amount they have invested in the corporation</li> <li>• Easier to raise/borrow money for expansion or other business purposes</li> <li>• Ability to choose to sell stock to finance company growth</li> </ul>	<ul style="list-style-type: none"> <li>• More complicated and expensive to set up</li> <li>• “Double taxation”: The business itself is taxed, and the dividends paid to shareholders are taxed as well</li> <li>• Any shareholders will own a portion of the business and have a voice in how it is operated</li> </ul>

A **franchise** is another way to begin a business by purchasing the rights to start a business based upon a model designed by the franchisor, who in many cases provides training, supply chain support and support in setting up operations. In return, the franchisee pays a franchise fee, as well as royalty fees to the franchisor.

Advantages of a Franchise	Disadvantages of a Franchise
<ul style="list-style-type: none"> <li>• Training and assistance in setting up business provided</li> <li>• Financing by the franchisor may be available</li> <li>• Company support and national advertising support for business</li> </ul>	<ul style="list-style-type: none"> <li>• Fees for purchasing franchise</li> <li>• Ongoing royalty fees paid to franchisor</li> <li>• Limitations as to personal choices made by business owner, as requirements of franchise</li> </ul>

**Employee-Owned Businesses** can be organized in many ways, but cooperative ownership of the business by employees, of course, is key.

Advantages of Employee-Owned Businesses	Disadvantages of Employee-Owned Businesses
<ul style="list-style-type: none"> <li>Profits and earnings distributed among employees</li> <li>Since employees directly benefit from success of business, often there is improved productivity</li> <li>Positive morale by employees</li> <li>Democratic organization</li> </ul>	<ul style="list-style-type: none"> <li>Raising capital is more difficult</li> <li>Differing ideas on management direction</li> </ul>

**A Non-Profit Organization** is a business entity whose primary mission is not making a profit. Instead, Non-Profit Organizations are generally set up for to provide charitable, religious, or educational purposes.

Advantages of Non-Profit Organization	Disadvantages of Non-Profit Organization
<ul style="list-style-type: none"> <li>Set up to benefit a cause that the founder has a strong passion for</li> <li>Ability to bring in others with an interest in supporting the same cause</li> <li>No tax liability</li> </ul>	<ul style="list-style-type: none"> <li>No profit potential for individual</li> <li>Difficult to comply with requirements for non-profits</li> <li>Must set up organization legally to avoid tax liability</li> </ul>

### Interactive 3.1 Types of Business Quiz

A

B

C

D

POP QUIZ!

What is your favorite kind of pie?

☒ A) Apple

☐ B) Raspberry

☐ C) Rhubarb

☐ D) Banana Cream

What is your favorite kind of cake?

☐ A) Chocolate

☐ B) Vanilla

☒ C) Strawberry

☐ D) Chocolate is the only true answer

If I had three bananas and Heather had six apples, how long will it be until they reach the color purple?

☐ A) What?

☐ B) Really, what?

☒ C) I don't understand

☐ D) This quiz has had nothing to do with pie!

Test your knowledge of the different types of business by reading these scenario based questions and answering each.



# Labor

## QUESTIONS TO GUIDE INQUIRY

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1. How do labor unions support workers?
2. How does the supply and demand for labor affect wages for specific jobs?
3. Does labor work in opposition to business organizations?

In the previous section, a closer look at the marketplace was examined through the structure and organization of markets. Though each structure has its own advantages and disadvantages, one thing is the same--sole proprietorships, partnerships, franchises, and corporations all represent the employer side of the market. This chapter focuses on the side of the employee: labor and its impact on the market.

As the U.S. economy has changed, the **labor force**--all nonmilitary people who are employed or unemployed, has also had to adjust. How are changes to the labor force tracked, you may ask. Each month, the Bureau of Labor Statistics, a division of the U.S. Department of Labor surveys households to assemble information on the labor force.

The Bureau of Labor Statistics provides statistics to answer two important questions:

1. How many are in the labor force?
2. How many are employed and unemployed at the same time?

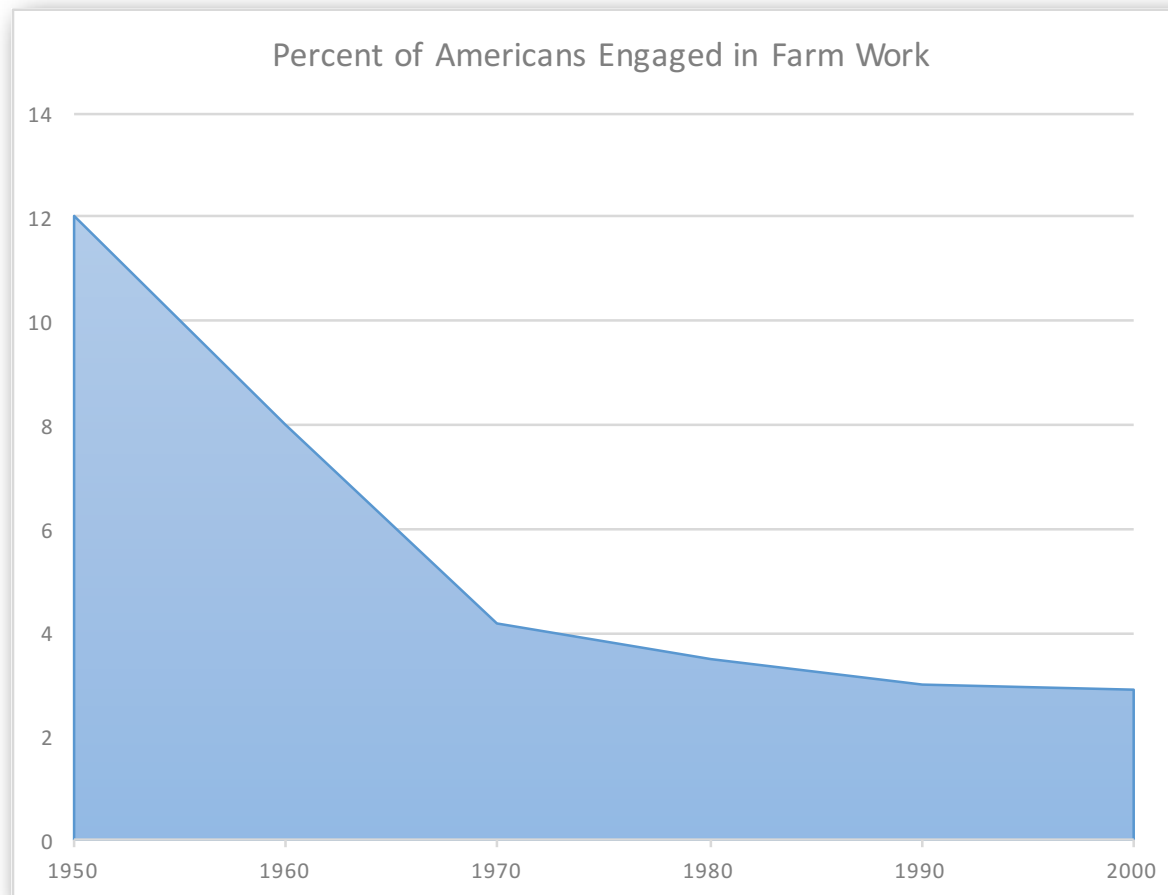
Perhaps the most widely known statistic that the BLS reports is the **unemployment rate**--the percentage of a nation's labor force that is unemployed, which is commonly reported on the news.

## Occupational Trends

As you can probably surmise, the job market does not stay the same. Population growth or decline, new technologies, and the emergence of new industries are some of the factors that cause shifts in the job market. This is a reflection of the major shifts in what is produced in the economy.

For example, the economy in the U.S. has changed drastically throughout its 240 year history.

As society has moved from an agrarian society to an industrial society and currently an information and service society, major shifts have occurred in what our economy produces.



For example, our production of services is increasing faster than our production of goods. And while the number of service jobs has increased, the U.S. has lost manufacturing jobs.

**Outsourcing**--the practice of contracting with another company to do a specific job that would otherwise be done by a company's own workers as well as offshoring--the movement of some of a company's operations to another country have greatly caused huge shifts in demand for workers.



# The Changing Labor Force

Jobs are not the only part of the labor force that have changed; workers have also changed. The demographic landscape of the

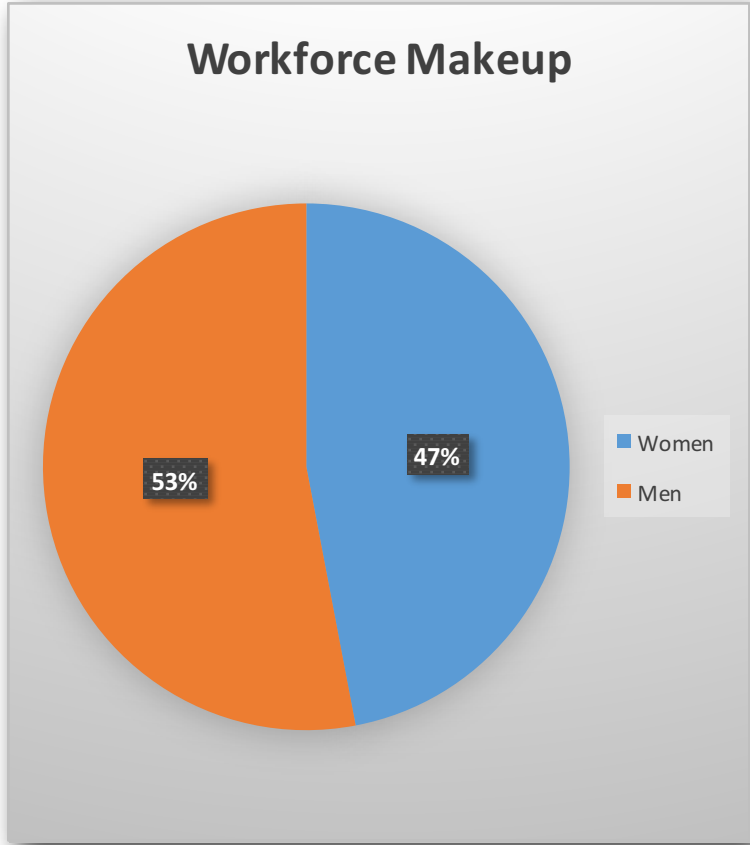


Chart created with data from the U.S. Bureau of Labor

American worker has undergone a significant transformation. In the current job market, more education and training is needed than ever before. And women and members of minority groups comprise a larger part of the workforce than they ever have. Additionally, the idea of working at the same job for an entire working lifetime is a thing of the past. Those entering the workforce today can expect to hold at least four or five different jobs throughout their working life.

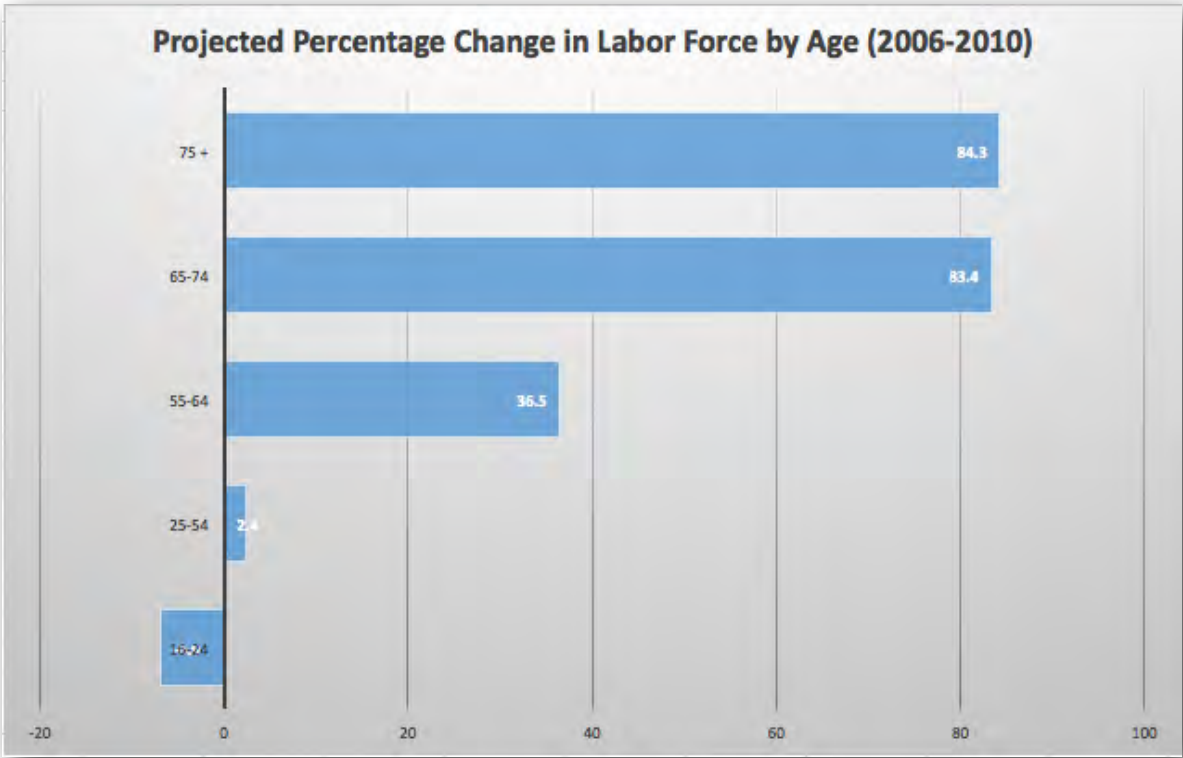


Chart created with data from the U.S. Bureau of Labor

## The Impact of Foreign-Born Workers

An additional factor that impacts labor force statistics is that of foreign-born workers. Some of these immigrant workers come to the U.S. as permanent residents.

Others come as guest workers who are allowed to live and work in the U.S. but only for a limited time. Companies that hire guest workers must prove that they cannot meet their labor needs from within the U.S. and that by utilizing guest workers wages of native-born workers will not be lowered. This has led to the hotly contested issue of immigrant labor.

### Interactive 3.2 Center for Immigration Studies



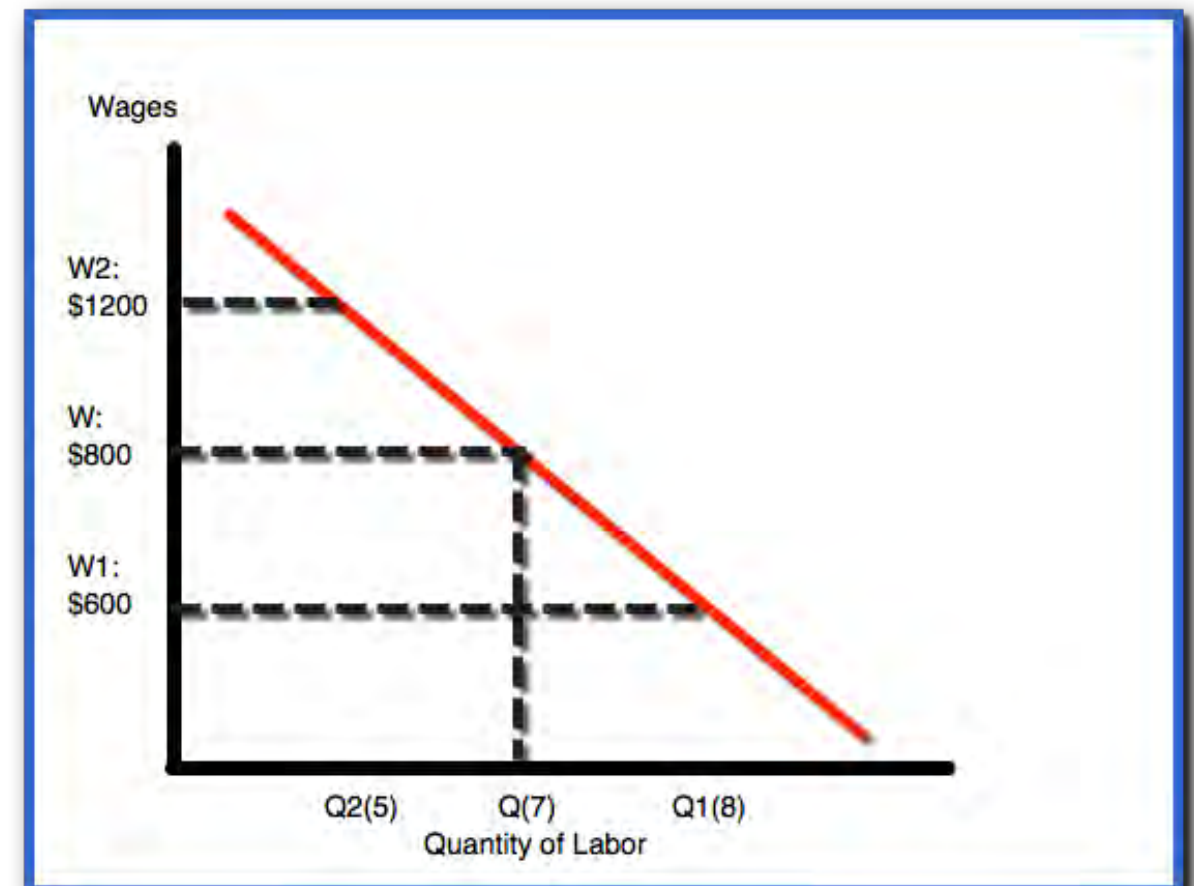
*For a comprehensive article that provides information on both sides of this controversial issue, see the attached website.*

## Supply and Demand for Labor

As with price, labor is contingent on supply and demand.

Employment in a labor market depends on how closely the demand for workers (the number of jobs) meets the supply of workers seeking jobs. **Derived demand**--a type of demand that is set by the demand for another good or service, can be used to accurately describe labor because the other good or service is the demand for what a worker produces. In a competitive market workers are usually paid by the value of what they produce.

**Productivity of labor**--the quantity of output produced by a unit of labor, is often used to determine wages.





On the supply side, the supply of labor comes from people who are willing to work for a wage. Usually, the higher the wage for a certain job, the larger the number of people who are willing to perform the job. See the example of a supply labor curve below:



Similar to the equilibrium price with products or services, the **equilibrium wage** is the wage rate, or price of labor services that is set when the supply of workers meets the demand for workers in the labor market.

See graph below:



Wages and Skill Levels

In a market economy, wages vary according to workers’ skills levels, education, and experience as well as supply and demand. Generally, jobs are categorized into four levels:

Level	Description	Examples
Unskilled Labor	Requires no specialized skills, education or training; workers normally earn an hourly wage	Janitors, dishwashers, housekeepers
Semi-Skilled Labor	Requires minimal specialized skills and education--usually the operation of specific types of equipment; workers usually earn an hourly wage.	Cooks, cashiers, factory workers, fast food workers
Skilled Labor	Requires specialized abilities and training to do tasks such as operating complicated equipment; workers often need little supervision but tend to earn an hourly wage.	Chefs, medical technicians, firefighters, EMTs
Professional Labor	Demands advanced skills and education; tend to be considered white-collar workers; receive a salary as opposed to an hourly wage	Lawyers, dentists, business executives, teachers

Other Factors Affecting Wages

One of the most widely known factors that can affect wages is the existence of minimum wage laws. These laws state a minimum price that an employer can pay a worker for an hour of performed labor. Because of these laws, employers sometimes have to pay more than the equilibrium wage for unskilled labor. Safety laws can also affect wages; wages decrease in some cases where workers are willing to work for lower wages in exchange for safer working environments. Additionally, companies sometimes try to cut wage costs by replacing human labor with machines. And perhaps the most significant factor affecting labor has to do with the activities of labor unions.

Labor unions are organizations of workers that try to improve working conditions, wages, and benefits for its members. The primary work of a union involves negotiating wages, work rules, complaint procedures, promotions, benefits, workplace safety and policies with company management. Unions can restrict the supply of labor in two ways: slowing the growth of the labor force and promoting policies that make it difficult for workers to enter a particular craft. Some of the tools that labor unions employ include collective bargaining--the process in which union and company management meet to negotiate a new labor contract, and strikes--organized work stoppages

intended to force an employer to address union demands.

## Organized Labor

The labor union movement in the U.S. took shape over the course of more than 100 years largely in response to changes in working conditions brought about by the Industrial Revolution. After a period of illegal strikes and violent activity on both the sides of employers and workers, the labor movement was legalized during the Great Depression. The labor laws that were established set up a structure through which workers legally have the right to form unions and engage in collective bargaining and striking. Collective bargaining is a process of negotiations in which the employer and union meet to work out a mutually agreeable set of terms and conditions for the workforce. Striking is a process by

### Interactive 3.3 Timeline of the Labor Movement



which workers refuse to go to work until their demands for better working conditions are met. In many states it is illegal for public sector workers to go on strike because it disrupts the functioning of society.

As you can see from the timeline, labor unions grew in number as

well as in strength. As they grew, some some feel that unions

began to abuse their power. Combined with the emergence of other institutions that were able to provide many of the services that had been encompassed under union activity, the need for labor unions lessened over time. Others feel the Union movement is just as necessary today as it has ever been. Watch this informative video on the decline of the labor movement in the U.S. and decide for yourself if the need for organized labor is still necessary today and if so, in what capacity.

### Interactive 3.4 Do Unions Still Matter?

