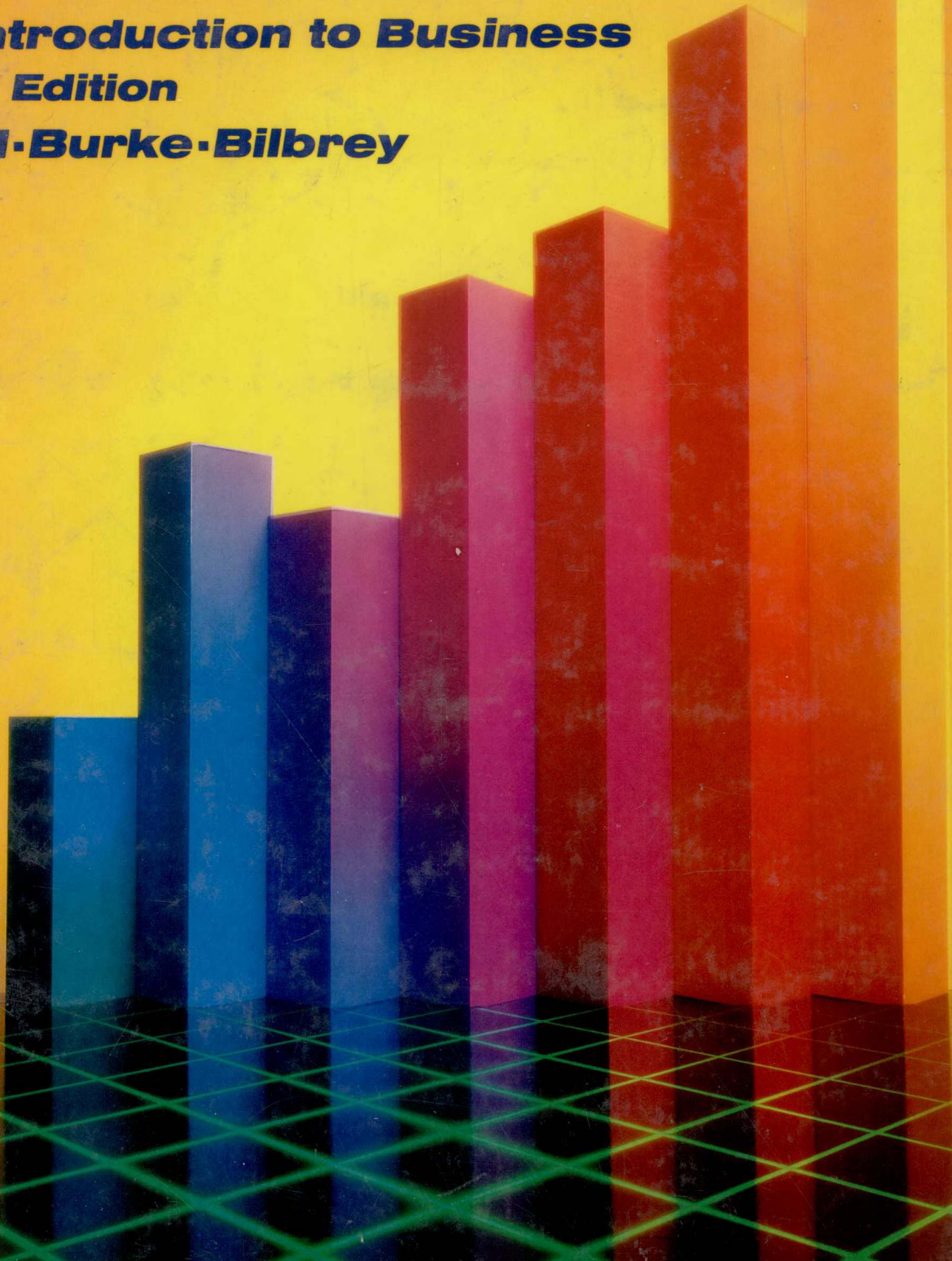


# **Business in Action**

**An Introduction to Business  
Third Edition**

**Bittel·Burke·Bilbrey**





# ***Business in Action***

***An Introduction to Business***

***THIRD EDITION***

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### *An Introduction to Business, Third Edition*

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# Preface

This third edition of *Business in Action* further refines its uniquely flexible, adaptive approach to the study of business. The textbook has been expanded and enhanced for its use as a fully comprehensive, independent study resource. It now can be supplemented by adopting either a traditional student *Activity and Study Guide* or an experiential business model and student activity guide entitled *SSweetco: Business Model and Activity File*. This has as its core element a simulated model of a realistic company (SSweetco, the Shenandoah Sweets Company). A comprehensive package of instructional resources is also available to help the instructor achieve his or her course objectives.

## THE TEXTBOOK

The uniquely designed textbook is especially easy to read and comprehend. Each chapter systematically enumerates and links its learning objectives and chapter overviews with its major descriptive sections and summary highlights. These are arranged in an easy-to-follow outlining structure to help students in their study. Extensive business examples, case studies, news reports, role models, and end-of-chapter review questions make this textbook, by itself, a complete and well-rounded teaching and learning resource.

## Organization and Contents

The textbook has been carefully reorganized into 7 major units and 24 chapters. Each unit is an independent entity. Therefore an instructor can tailor the sequence of units and contents to match his or her own course of study.

The textbook has been substantially revised and updated. Chapter 4, on small business, has been expanded, providing more in-depth coverage of entrepreneurship and franchising. Unit 3, "Marketing of Products and Services," now includes a separate chapter (Chapter 10) on "Pricing Strategies for

Profit." The importance of computers and technology in our rapidly changing information economy is recognized in Chapter 12 titled "Information and Computer Systems." Chapter 15 dealing with human relations now includes an expanded discussion of productivity.

## Textbook Features

Each chapter of the textbook integrates a set of learning devices that promote an understanding of how business operates.

**PICTOGRAPHS.** Pictographs are previews, or advance summaries, of the chapter presented in pictures and words. They are used to simplify and speed up the absorption of complex ideas. Similar illustrations are widely used in news magazines, such as *U.S. News and World Report*, to convey ideas readily and save readers precious time.

**LEAD ARTICLES AND PHOTOGRAPHS.** Each chapter is introduced by an article and related color photograph dealing with an issue, trend, company practice, or development in business. Each article, rewritten from popular business sources, serves as a springboard and dramatic lead-in to the subject matter and issues raised in a chapter.

**KEY TERMS.** Significant terms are highlighted in bold type at their point of definition in the textbook. They are also listed in the Review Questions at the end of each chapter with convenient cross-referencing to the pages on which they are defined.

**TABLES AND FIGURES.** Tables presenting arrays of data, and figures that illustrate concepts and ideas, are widely used throughout the text.

**ACTION BRIEFS.** Short anecdotes are interspersed in the margins of the text, providing a representative sampling of business practices, commendable or otherwise. There are over a hundred Action Briefs throughout the text; most are new to this edition.

**BILLBOARDS.** These features are found in specially chosen chapters of the text. Billboards are divided into two parts: readings that focus on business



issues, and Profiles. The readings are based mainly on current events. They focus primarily on thought-provoking, business-related social issues and aim to stimulate students to form their own opinions about those issues. Profiles are vignettes that highlight the role, characteristics, and contributions of men and women who are succeeding in the business world.

**KEY CONCEPTS.** At the end of each chapter, the ideas presented in the pictographs and main headings are summarized. The concepts are keyed by number to the pictographs, objectives, and the major text headings—a system that helps link all major learning elements together.

**REVIEW QUESTIONS.** Each chapter concludes with a list of questions testing students' understanding of text material.

**CASE CRITIQUES.** Each chapter is supplemented with two documented and/or hypothetical case studies illustrating practical applications of key concepts and key terms. These case studies are designed to encourage students to develop critical judgments in assessing business actions.

**TECHNOLOGY IN THE WORKPLACE.** Also, at the end of each unit is another special feature: Technology in the Workplace provides a sampling of how careers and work are changing because of the development of new technologies, such as robotics, electronic mail, compact disks, and, of course, computers.

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## SUPPLEMENTS AND INSTRUCTIONAL RESOURCES

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The following ancillaries are available with *Business in Action*, Third Edition.

### SSweetco: Business Model and Activity File

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Using this simulation and practicum, students can become involved in the creation, operation, and growth of Shenandoah Sweets Company (SSweetco), a candy manufacturer and retailer. Assignments in the practicum—which are completely correlated with the textbook—enable students to experience firsthand how the concepts presented in the text are put to work in the real world. Students assume 32 career roles for the simulated business. Assigned activities require students to answer questions, solve problems, make calculations, complete typical business forms, and analyze and make deci-

sions in case studies involving SSweetco and Valleyville, its associated business community.

### Activity and Study Guide

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For instructors who favor traditional teaching approaches, this self-study guide offers chapter-by-chapter learning objectives, summaries of key concepts, and vocabulary and concept review questions. It also includes cases for analysis and interpretation, and supplementary readings. Self-check answer keys are provided for the student.

### Computer Applications for Introduction to Business, IBM PC

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These are easy-to-use, easy-to-operate, computer-based applications. Students assume the roles of employees and managers for SSweetco and help it solve typical business problems. At a basic, easy-to-follow level they learn to use modern productivity tools—spreadsheet, database, and graphics—to make decisions in such areas as marketing, production, finance, and human resources management. No previous background in computers is needed. A booklet containing the narrative and background information for the computer activities is available for the student. A preformatted IBM data disk with the programs for the computer applications is also available with the specific computer decision-making applications. To run the software, adopters must separately order the McGraw-Hill Integrated Software, IBM Version, the program disks that interact with the data disk to make the applications fully operational. Instructors who use either experiential or traditional approaches can make effective classroom use of these applications.

### Computerized Test Bank, IBM PC

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This microcomputer test bank with over 1,400 objective questions provides a quick and easy means of generating tests. Instructors have the option of adding or deleting questions to the test bank. Thus the test bank can be tailored to the instructor's particular classroom needs.

### Course Management Kit

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This boxed set of instructional resources provides course management materials in a "unitized" format that makes them easy to use. An introductory booklet includes suggestions for teaching the course,

course schedules, a bibliography, and a list of suggested audiovisual materials. Seven additional booklets—one for each unit of the text—offer text-management and enrichment suggestions, printed tests, readings, and strategies for integrating text chapters with the student study supplements. A set

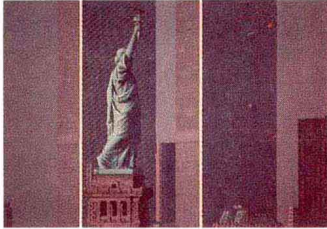
of overhead transparencies is also provided as a further aid to instruction.

**Lester R. Bittel**  
**Ronald S. Burke**  
**Charles P. Bilbrey**



# Contents

## Unit 1



### PREFACE

v

### THE BUSINESS SYSTEM IN THE UNITED STATES

2

<b>Chapter 1</b>	The Roles of Business Enterprise in Society	4
<b>2</b>	The American Free Enterprise Economic System	28
<b>3</b>	The Legal Forms of Business Ownership	54
<b>4</b>	Entrepreneurs, Small Business, and Franchising	72

## Unit 2



### MANAGEMENT AND ORGANIZATION OF BUSINESS

96

<b>Chapter 5</b>	The Functions That Management Performs in a Business	98
<b>6</b>	How Businesses Organize Internally	116

## Unit 3

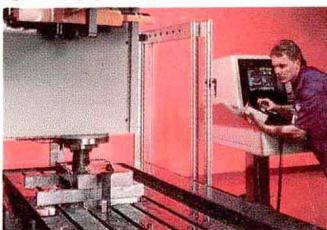


### MARKETING OF PRODUCTS AND SERVICES

138

<b>Chapter 7</b>	Products, Services, and Markets	140
<b>8</b>	Marketing Distribution Systems	164
<b>9</b>	Marketing Promotion: Selling, Advertising, and Sales Promotion	188
<b>10</b>	Pricing Strategies for Profit	214

## Unit 4

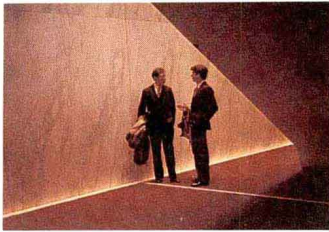


### PRODUCTION AND OPERATIONS MANAGEMENT AND CONTROLS

234

<b>Chapter 11</b>	Production and Operations Management	236
<b>12</b>	Information and Computer Systems	262
<b>13</b>	Accounting for Managerial and Financial Control	288
<b>14</b>	Business Forecasts and Budgets	312

## Unit 5



### THE CONTRIBUTION OF HUMAN RESOURCES 332

<b>Chapter 15</b>	Human Relations and Productivity	334
<b>16</b>	Human Resources Management	354
<b>17</b>	Labor and Management Relations	380

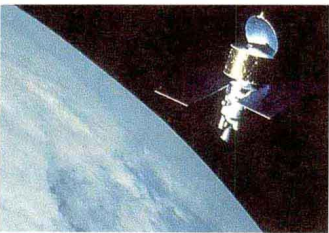
## Unit 6



### FINANCIAL ASPECTS OF BUSINESS 404

<b>Chapter 18</b>	Financial Management and Sources of Funds	406
<b>19</b>	Money Supply, Financial Institutions, and Securities Markets	430
<b>20</b>	Risk, Insurance, and Credit Management	458

## Unit 7



### THE WIDER HORIZONS OF AMERICAN BUSINESS 482

<b>Chapter 21</b>	Big Business and Corporations	484
<b>22</b>	International Business Operations	506
<b>23</b>	Legal and Tax Environment of Business	528
<b>24</b>	Ethical Behavior and Social Responsibility	554

<b>APPENDIX:</b>	Exploring Careers in Business	574
<b>GLOSSARY</b>		582
<b>INDEX</b>		589



# To The Student

## Guidelines for Study With Business in Action

The following steps constitute an effective way to study the materials in each chapter. The key to effective study is making maximum use of the numbers that identify each pictograph, objective, major text heading, and key concept. If you are not already familiar with these features, you should read the discussion of "Textbook Features" starting on page v of the Preface.

**STEP 1.** Study the pictograph. Spend two or three minutes to be sure you get the whole picture. Then read the learning objectives that precede each chapter.

**STEP 2.** Now skim through the entire chapter reading only the main headings and subheadings. These headings provide an outlining structure for each chapter. They reinforce and extend the ideas presented in the pictograph. (These headings also may be used as your outline structure for notetaking from the text.)

**STEP 3.** Read the Key Concept summaries and glance at the list of key terms at the end of the chapter. Be alert for definitions of these terms as you read the chapter.

These first three steps, which make up a "three-part linked learning system," will help you quickly summarize the basic concepts in a chapter by skimming it in about 10 to 15 minutes. You are now prepared to read the chapter for details that will help you flesh out the Key Concepts.

**STEP 4.** Read the chapter carefully for detail. Devote an hour or more to this. Keep notes of important facts. Write down the definition of any terms that are necessary for understanding the topics under discussion. Key terms are in bold type for ease of identification.

As you read each chapter for detail, be certain to study each table and figure to be sure of its meaning. Also read the Action Briefs in the margins of the text

to get a feel for what *actually occurs* in business as opposed to what *ought* to happen.

**STEP 5.** Answer the Review Questions. It is a good idea to make a note of the pages on which the answer appears.

**STEP 6.** Read each of the Case Critiques. Try to make a connection between what has occurred in the cases and what you have just read in the text. Answer the questions associated with each case.

If your instructor has assigned the *Activity and Study Guide*, move to the corresponding chapter in that supplement and complete the assignments provided there. Be sure to self-check your answers to identify content areas that require further study.

*Only if your instructor has assigned material from the student supplement, SSweetco: Business Model and Activity File for Business in Action, Third Edition, should you continue with Steps 7 and 8 in the study plan as described below.*

**STEP 7.** If your instructor has included the SSweetco supplement in your course materials, move to the corresponding chapter in the activities section of *SSweetco: Business Model and Activity File*. Read the performance objectives that precede the two levels of achievement. Then complete the exercises and activities for the first level of achievement, the "Application Level."

**STEP 8.** Proceed to the next, higher level of achievement, "Analysis and Interpretation," by completing the decision-making and case problem assignments.

Rigorous follow-through on these study procedures will lead to good study habits that can have a positive effect on what you learn in this introductory business course and may, as a result, help to improve your grades.



# UNIT 1

## *The Business System in the United States*

Unit 1 establishes what American business is all about. It lays the groundwork for understanding how an idea or concept can be transformed into a viable product or service for sale in the marketplace.

### **CHAPTER 1**

Business is a creative, competitive activity that has always played an important part in shaping American society. By satisfying the needs and wants that people are not able to satisfy for themselves, business helps to improve the quality of their lives.

### **CHAPTER 2**

The purpose of business is to combine resources such as land, labor, and capital in such a way that it will make them more valuable. Operating in a political and economic climate that supports individual rights, American business has as its guiding principle the right to private ownership and capital along with a responsibility to respect the environments upon which it depends.

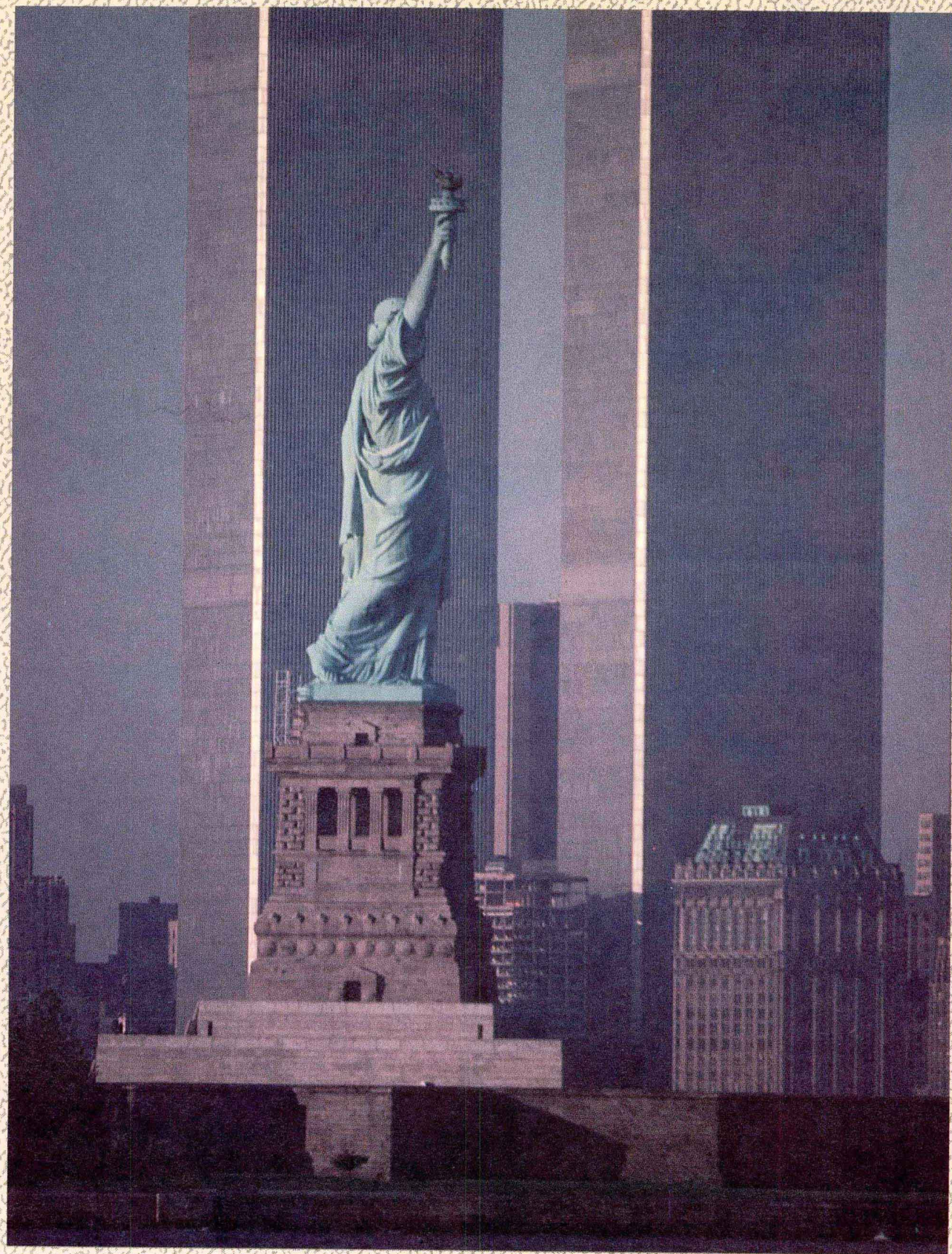
### **CHAPTER 3**

Businesses can take many different forms. Each offers its own set of advantages and drawbacks. The choice of ownership form is dependent upon how the owners of a business perceive these conditions.

### **CHAPTER 4**

There has been a revival of the entrepreneurial spirit in America. With it has come a surge of newer, smaller, more innovative companies. Operation of these small companies, especially franchising, while similar in many ways to that of larger ones, takes on a unique character of its own.







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# *The Roles of Business Enterprise in Society*

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## *Learning Objectives*

---

*The purpose of this chapter is to define business in the United States, describe its characteristics and the conditions under which it operates, and summarize its development.*

*As evidence of general comprehension, after studying this chapter you should be able to:*

- 1. Define a business enterprise and distinguish among private, nonprofit, and public enterprises.*
- 2. Discuss the three major functions of business in society.*
- 3. Explain the process of converting resources and adding utility.*
- 4. Recognize the threefold classification of business enterprises by type and activity, and identify the groupings under the Standard Industrial Classification system (SIC).*
- 5. Explain the meaning of risk and uncertainty in business.*
- 6. Recall the major stages in the development of modern American business.*
- 7. Identify the five environments in which the business system operates.*

*If your class is using SSweetco: Business Model and Activity File, see Chapter 1 in that book after you complete this chapter. There you will find exercises and activities to help you apply your learning to typical business situations.*

---



## 1 DEFINITION

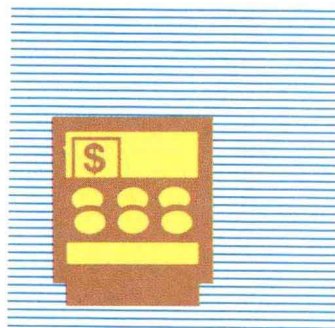
Business is an activity that satisfies human needs and wants by providing goods and services for private profit.

**busi-ness**  
**en-ter-prise**

## 2 VALUES

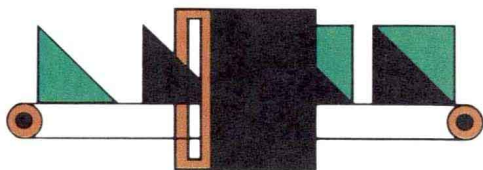
Business provides individuals and society with . . .

Means of exchange  
Wealth  
Employment



## 3 PROCESS

Business processes convert input resources—by creating or adding utility of form, place, time, or possession—into more valuable outputs or end products.



## 4 VARIETY

Businesses occur in a variety of sizes and classifications.

Production:

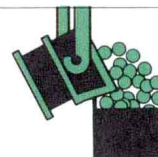
Manufacturing of consumer and industrial goods

Distribution:

Transportation, storage, and retailing

Services:

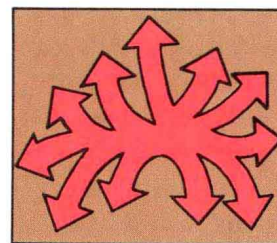
Personal, professional, financial, and communications



## 5 DYNAMICS

The business environment is characterized by:

Risk/Uncertainty  
Gain/Loss  
Success/Failure  
Stagnation/Growth  
Change/Opportunity



## 6 HISTORY

American business has gradually shifted its emphasis:

Agriculture	Industry
Transportation	Production
Communication	Services
Banking	Marketing



1770s

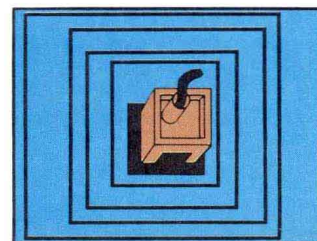


TODAY

## 7 ENVIRONMENT

Businesses exist within and react with five interdependent environments.

economic  
legal-political  
social-cultural  
physical  
technological

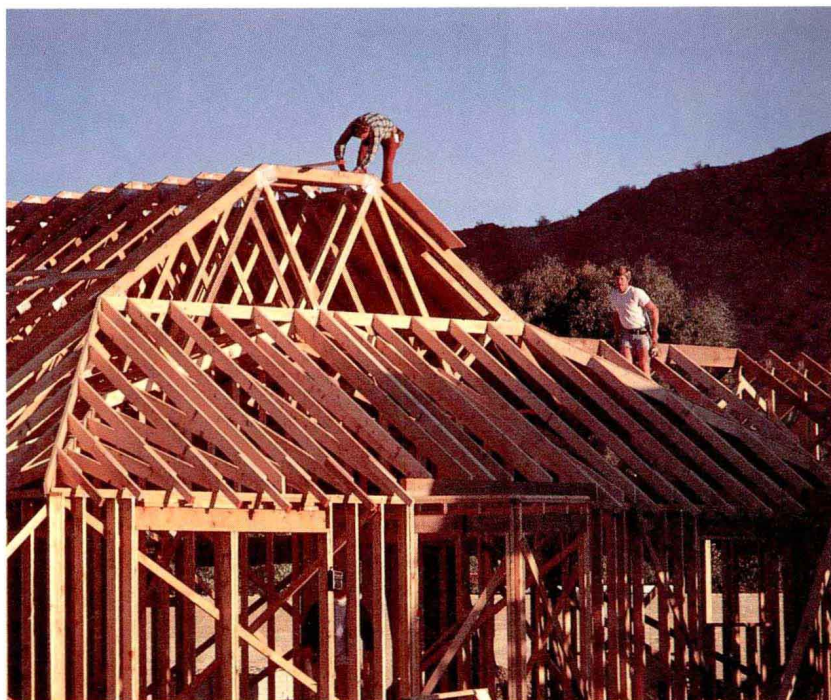




## NEW HOUSE FOR SALE!

*You see it happen every day. A bulldozer clears an empty lot. A masonry crew arrives to build a foundation. Carpenters erect a framework of posts and beams. A roof goes into place, and the house is closed in. The electricians, plumbers, and painters go to work. The lot is graded and the lawn is seeded. A real estate agent puts up a "For Sale" sign. A family falls in love with this house. They make a trip to the bank to arrange a mortgage. Finally, the deal is closed and the house is theirs.*

*This process takes place over 500,000 times each year in the United States. It causes more than \$100 billion to change hands. It creates more than 875,000 jobs, for which nearly \$25 billion is paid in wages. Each home will require up to 12,000 board feet of lumber; it may come from as far away as Idaho or Georgia. Some 99 square feet of glass may make up the windows, and these may come from Tennessee or New Jersey. There will be one or two bathtubs, three sinks, and two toilets, and these may come from Texas or Wisconsin. The 33 gallons of paint for each home can come from just about any state in the Union. And that's not all. For each home there will be over 7,000 square feet of drywall, more than 3,000 cubic feet of insulation, 15 doors, 230 running feet of gutters and downspouts, and dozens of electrical switches and lighting outlets.*



*The process of building and buying and selling goes far beyond the products you see, like bricks and mortar. It involves surveyors and architects, truckers and warehouse handlers, drapery salespeople and interior decorators, real estate agents and credit managers, bankers and lawyers, file clerks at the county courthouse and classified advertising clerks at the local newspaper, small businesses, and giant corporations. They are all part of a vast and interrelated network of purposeful activity that makes up the business system of America. It is a network of individuals in literally thousands of industries, from computers to carpet sweepers, from high tech to dirty hands. These are the millions of individuals who labor or who buy and sell, the countless businesses and labor unions, the millions of citizens and consumers, and the long line of government agencies. Together, they represent the powerful force that transforms the nation's resources into trillions of dollars of goods and services that satisfy the material needs and wants of our society.*



# 1 THE BUSINESS ENTERPRISE

*A private, profit-motivated means of satisfying human needs*

An activity that satisfies human needs and wants by providing goods or services for private profit is called a **business enterprise**. From a cookie-vending cart in Los Angeles to General Motors in Detroit, every business (1) satisfies needs, (2) provides goods and services, and (3) does so with the intention of making a profit. A fundamental characteristic of American business is that it uses private money and resources, or capital, to pay for the costs of setting up and running commercial enterprises. The willingness of private investors to risk their capital in the hope of gaining profit distinguishes the American system from those in which the government supplies the resources.

## SATISFYING NEEDS AND WANTS

*The guiding principle*

All human beings have certain basic needs—things that they must have in order to survive. In addition to these basic needs, there are many things that people want to make their lives more comfortable or satisfying. A business must provide its customers—whether they are individuals, other companies, or the government—with something that they need or want. Otherwise, the business will have no sales, no income, and no profit and will be forced to close its doors. The idea that success in business depends on fulfilling consumer needs and wants is fundamental to the American business system.

Human needs and wants shift with the advance of civilization. Yesterday's demand for horse collars and horse carriages has been replaced today by an even greater demand for automobiles and motorcycles. In like manner, the manual typewriter has given way to the electronic word processor, and the tape deck is replacing the phonograph record. Specific consumer demands change constantly, but there will always be a wide range of human wants and needs to encourage business to operate, whatever the circumstances.

## GOODS AND SERVICES

*The means to satisfy human needs and wants*

In meeting human needs and desires, businesses provide goods and services to consumers. **Goods** are physical products and include both necessities like food and shelter and luxuries like television sets and motor boats. **Services** are activities that help people or organizations without directly creating a physical product. Services can be classified as personal, professional, or financial. In the modern world, services range from home and office maintenance and repair to financial operations and highly complex communications and research activities. Lawn mowing, auto repair, television programs, and banking are other examples. Thousands of different kinds of services make up this rapidly growing business segment.

There are additional subcategories of goods and services. Goods made and sold to meet the needs and wants of manufacturers are called industrial goods. They normally undergo a process of conversion as they are utilized in the fabrication of the final product. Goods made and sold to meet the needs and wants of consumers are known as consumer goods and do not require processing by their ultimate users. Services may also be subdivided into those that are business-oriented, such as office maintenance, and those that are consumer-oriented, such as hairstyling. Non-profit organizations also provide services, usually related to education, health care, and social welfare.

## PRIVATE PROFIT

### *The payoff for satisfying consumer needs*

The primary goal of business is to make money. In a sense, it is the businessperson's payoff for satisfying human needs and wants. In simplest terms, **profit** is the amount of money left from income made by selling goods and services after all costs of producing, marketing, and distributing the goods and services have been paid. Said another way, persons enter business with the hopes that they will take in more money than they spend. (See Table 1-1.) Obviously, sometimes there is no money left over, or costs turn out to be higher than income. If that unhappy outcome occurs, the business either breaks even or takes a loss. The intention in business, however, is to operate in such a way that profits will be as high as possible, consistent with social responsibility. The incentive to make money is called the **profit motive**.

The profit motive is that which most clearly distinguishes business from other kinds of enterprises in the United States. There are other organizations that also meet some of the wants and needs of people. They provide goods and, particularly, services. These enterprises differ from business in several ways, but the principal difference is that they do

**TABLE 1-1**  
**PROFIT OR LOSS?**

#### *How One Company Makes a Profit*

Company A adds up the revenues each year from sales of its products or services (like this).	\$100,000
It deducts the costs each year for its materials, labor, rent, utilities, etc.	– 90,000
What's left is its <i>profit</i> .	<u>\$ 10,000</u>

#### *How Another Company Doesn't Make a Profit*

Company B adds up its revenues for the year (like this).	\$100,000
It deducts its expenses for the year (like this).	– 105,000
And it ends up with a <i>loss</i> (like this).	<u>– \$5,000</u>

#### **Moral**

To make a profit, a business must generate revenues that are greater than its expenses.



not seek a profit. The most important kinds of enterprises of this kind are private nonprofit enterprises and public enterprises.

## NONPROFIT ENTERPRISES

*Voluntary contributions or taxes provide capital*

**PRIVATE NONPROFIT ENTERPRISES** *Private nonprofit organizations* are financed, established, and operated in much the same way as business. Their goal, however, is not to make a profit, but to meet needs that are not or cannot be effectively or fully satisfied by business. Among private nonprofit enterprises are hospitals, museums, research and charitable organizations, colleges and universities, and professional associations. Financing for these organizations is provided by voluntary contributions from individuals, businesses, and, in part, the government.

**PUBLIC ENTERPRISES** *Public enterprises*, organizations operated by units of government and financed with taxes or service charges to the public, are increasingly important in American society. Many of these organizations—like highway departments, public health services, local sewage disposal plants, and water systems—are operated just as if they were businesses. They have the same management problems, the same kinds of budgets, similar physical plants and personnel, and often the same concerns with income and costs. The difference is that a public enterprise is not financed with private capital and does not expect to make a profit. Funds to establish public enterprises usually come from taxes. The enterprises generally are operated so that income and expenses will be equal. If a profit does occasionally result, this surplus belongs to the sponsoring government body rather than to private investors.

## 2 VALUES

*Business contributes certain values to society*

Although the main motivation for establishing and operating a business is to make a profit for investors, business serves important social functions beyond this. Our society supports and encourages business because it makes these contributions. American business provides individuals and society as a whole with a means of exchange, with wealth, and with employment. It is not the only institution in the United States that makes such contributions to society, but it is probably the most important.

## MEANS OF EXCHANGE

*Buying and selling*

Few societies have ever endured where each individual or family produced all of the essentials of life for private use. Even in pioneer America, specialization existed in the production of tools and weapons, household implements, and certain other goods, including agricultural products. The fact that certain people and groups had goods that others needed and did not or could not produce for themselves created a need

## Action Brief

### WHO EARNS WHAT FROM YOUR JEANS?

*If you pay \$18.96 for a pair of blue denim jeans, who really gets your money? Lots of people besides the retail shop where you bought them. The cotton farmer, for instance, gets \$1.63 off the top. The mill that cleans, or "gins," the raw cotton gets 41 cents. Another 4 cents goes for miscellaneous handling. The textile mill that weaves and dyes the fabric takes \$3.30 for its contribution. The actual garment manufacturer, such as Levi's, gets another \$5.13. That means that the cost of your jeans as they leave the factory is about \$10.51. Between the wholesaler and the retailer, another \$8.45 is shared. Remember: These two businesses provide the jeans with utility of place and time. That is, you could get those jeans right now, without waiting, and at a store right in your own neighborhood.*