

## 7.23: Putting It Together- Economic Environment

### Synthesis



In this module you learned about the fundamental economic principles that affect the environment in which businesses operate. Understanding the economy is like getting the weather forecast before you head out the door. Might you need to pack a sweater or an umbrella or grab some sunscreen? Perhaps, you need to be like Dorothy in the *Wizard of Oz*, head for the nearest cellar. If you ignore the forecast, you can find yourself unprepared and caught in a storm.

Of course economic forecasts aren't totally reliable—sometimes there's a freak weather event that no one saw coming. Nonetheless, having a basic understanding of how supply and demand work, how different economic systems function, and how the business cycle connects to the economy can help you make informed decisions—and make the best out of a rainy day.

### Summary

In this module you learned about the fundamental principles of economics and how they shape the business environment. Below is a summary of the key points covered.

#### What Is Economics?

Economics focuses on the ways in which people, businesses, and governments make decisions when faced with scarce resources. Economists study the economy at either the microeconomic level (focus on individuals) or the macroeconomic level (focus on systems).

#### Economic Systems

Economic systems can be organized as traditional, planned, or market economies. Traditional systems are hunter-gatherer economies in which people consume what they produce. In command economies such as communism and socialism, the government exercises a high degree of control over production and pricing. In market economies such as capitalism, free-market supply and demand drives what is produced and consumed. The increasing complexity of the world has led to mixed economic systems that have characteristics of both command and market economies.

#### Demand

Demand is the quantity of a good or service that consumers are willing and able to purchase at any given price. There is an inverse relationship between price and quantity demanded. In general, consumers demand more of a good or service when prices are lower and less of a good as prices increase. This relationship is referred to as the law of demand and is illustrated on a graph as a downward-sloping curve, with price on the vertical axis and quantity on the horizontal axis. There is a distinction made between the term demand, which refers to the demand curve, and quantity demanded, which refers to a specific quantity and price point on the demand curve.

#### Supply

Supply is the quantity of a good or service that a business is willing to produce at any given price. There is a positive relationship between price and quantity supplied. In general, an increase in price will result in an increase in quantity supplied and a decrease in price will result in a reduction in quantity supplied. This relationship is referred to as the law of supply and is illustrated on a graph as an upward-sloping curve, with price on the vertical axis and quantity on the horizontal axis. There is a distinction made between the term supply, which refers to the supply curve, and quantity supplied, which refers to a specific quantity and price point on the supply curve.

## Equilibrium

Equilibrium is said to exist at the point where quantity supplied equals the quantity demanded, and therefore there is no excess or shortage in the market. The market is “in balance.” The *equilibrium price* is the price where the amount that consumers want to purchase is equal to the quantity that the producers are willing to supply. The *equilibrium quantity* is the quantity supplied and demanded at the *equilibrium price*.

## Health of the Economy

Economists use several measures to evaluate the health of an economy. Among the most important are GDP (Gross Domestic Product), the unemployment rate, and the CPI (Consumer Price Index). These three key economic indicators are used to measure how well the economy is achieving the goals of growth, high employment, and price stability.

## Economic Stages

The business environment is cyclical, meaning it goes through a cycle of stages, each of which is characterized by a different set of economic conditions. The four stages of the business environment are expansion, peak, contraction, and trough.

## Contributors and Attributions

CC licensed content, Original

- Putting It Together: Economic Environment. **Authored by:** Linda Williams and Lumen Learning. **License:** [CC BY: Attribution](#)

CC licensed content, Shared previously

- People with umbrellas. **Authored by:** Unsplash. **Located at:** [pixabay.com/en/people-raining-umbrellas-wet-city-768566/](https://pixabay.com/en/people-raining-umbrellas-wet-city-768566/).  
**License:** [CC0: No Rights Reserved](#)

---

7.23: Putting It Together- Economic Environment is shared under a [not declared](#) license and was authored, remixed, and/or curated by LibreTexts.