

INCOME AND PURCHASING POWER



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Chapter 3 is about prices and how inflation affects what consumers can buy. Inflation is an increase in general price levels. Inflation erodes the value of money and takes away purchasing power.

There are different types of inflation. Each type works in a different way to cause prices to rise. Inflation also affects the value of money, whether it is money you will receive in the future or money you have now. Selling strategies are used to convince consumers to buy goods and services. Buying strategies of consumers help them prepare for and make wise buying choices.

ONLINE RESOURCES

Personal Financial Literacy
Web site:

Vocabulary Flashcards
Sort It Out: Income and
Purchasing Power
Chapter 3 Supplemental
Activity

Search terms:

inflation
deflation
time value of money
economizing

Inflation and Prices

OUTCOMES

- Define inflation and explain how it is measured.
- Describe types of inflation.
- Describe the causes of inflation.
- Explain how inflation and employment levels are related.
- Explain how inflation affects spending, saving, and investing decisions.

WHAT IS INFLATION?

Price is the amount a buyer pays for a product or service. **Inflation** is an increase in the general level of prices for goods and services. Inflation reflects how much prices are rising. When prices are rising faster than income, buyers lose purchasing power. In other words, the money workers earn will buy less as prices rise.

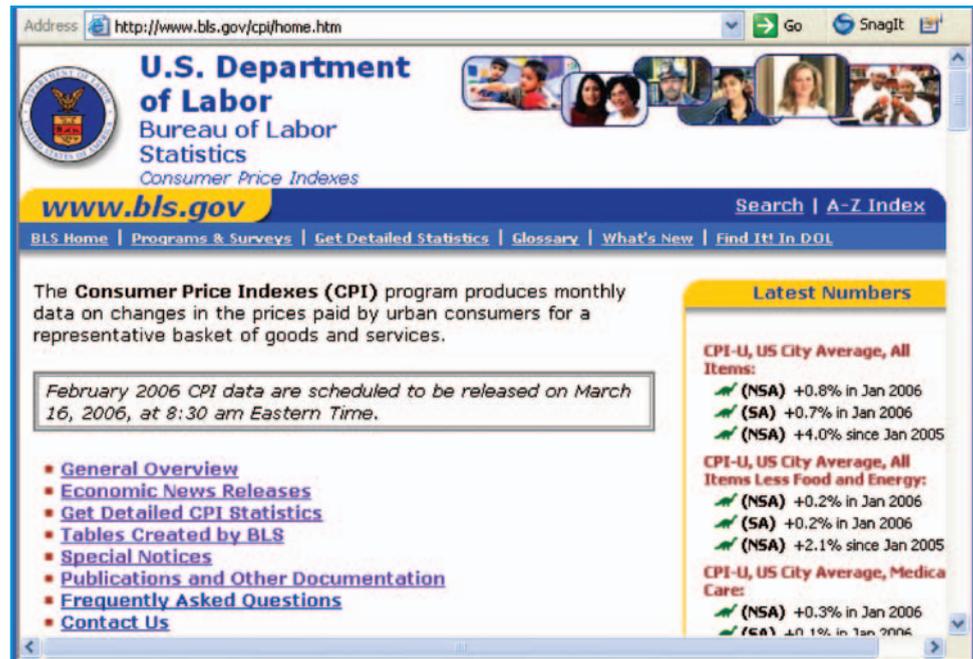
Changing prices affect the spending power of both producers and consumers. The economy changes over time based on events and on habits and attitudes of producers and consumers. For example, an event such as a flood or hurricane that wipes out crops may affect prices. Habits explain how people react to changes in the supply of goods, world events, and their individual situations. For example, when consumers think they may soon lose their jobs, they tend to buy less and to buy different goods. Attitudes reflect how people think about their future and about the product being sold. Will the product help me stay healthy? Is it worth the price? These are questions a consumer might ask that reflect attitudes. All these factors affect prices and inflation.

Measuring Inflation

Inflation is measured by the U.S. government. The measurement tool used is called the Consumer Price Index (CPI). The CPI uses a list of goods and services that are commonly bought by consumers. The index measures changes in price from a base or starting point in time to the current time. For example, if the price of an item was \$1.00 in the base year and it is now \$1.12, that is a 12 percent increase in the price. If the increase happened in just one year and it happened to all the goods on the list, the inflation rate for that year would also be 12 percent. You can learn more about the CPI at the Bureau of Labor Statistics Web site as shown in Figure 3-1.1 on page 64.

FIGURE 3-1.1

CPI for urban consumers (CPI-U) and other types of inflation data are gathered by the government.



Source: U.S. Department of Labor, Bureau of Labor Statistics, <http://www.bls.gov/cpi/home.htm> (accessed March 14, 2006).

The government also gathers information about consumer spending. Its surveys measure spending habits of consumers and track data such as income.

Types of Inflation

Businesses base price decisions in part on what consumers are buying and not buying. Several price change patterns may happen over time. These patterns result in varying types of inflation.



Consumer buying habits change over time.

DISINFLATION

Disinflation occurs when prices are rising, but at a slow rate. In other words, prices are rising, but at a decreasing rate. Some products and services do not increase in price as fast as others. Often, this happens when demand for a product is not the same throughout the year. For example, in spring and summer, the price of swimsuits may be high and rising. In fall and winter, however, if the price is rising, it is doing so at a much slower rate.

REFLATION

Reflation occurs when prices are high but then drop due to lower demand; then they are restored to the previous high level. Perhaps you have heard a news reporter use this term to describe crude oil prices. Reflation can happen when the available supply of a product, such as oil, goes up and down. Reflation can also happen when consumers temporarily stop buying a product or service. Then, for some reason, they start buying it again. For example, when gas prices surge, people may not buy as many big cars and trucks that use a lot of gas. They wait to see what will happen with gas prices. When gas prices fall, they begin buying large vehicles again.

HYPERINFLATION

When prices are rising so rapidly they are out of control, this is called **hyperinflation**. In the United States, there have been periods of double-digit inflation (10 percent or higher in a year). However, hyperinflation rates are much higher. Although there is no set rule, many economists consider inflation rates of 50 percent or higher to be hyperinflation. Some countries have had rates of several hundred percent per month. For example, in Germany after World War I in 1923, the monthly inflation rate reached over 300 percent.¹



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When gas prices surge, car buyers pay more attention to gas mileage.

¹ Michael K. Salemi, "Hyperinflation," *The Concise Encyclopedia of Economics*, <http://www.econlib.org/library/enc/Hyperinflation.html> (accessed March 14, 2006).

The effects of very high inflation rates can be devastating. With hyperinflation, prices are rising so rapidly that consumers spend their money as fast as they can. They do this because they fear that prices will be even higher if they wait. This spending leads to even more inflation. Then people are unable to buy the goods they need to live comfortably.

DEFLATION

Deflation is the lowering of overall price levels. It is the opposite of inflation. In other words, prices are going down. This happens in periods when events cause consumers to buy less and when producers are able and willing to provide goods at lower prices.

Some products go down in price over time even when the country is not in a time of deflation. For example, a computer that uses a new, faster processor may sell at a high price when it first comes on the market. A year later, the same computer may sell for hundreds of dollars less. The price is lower because it is no longer the newest, fastest computer available. Other, newer models have been released.

CAUSES OF INFLATION

Inflation can be caused by different factors in the economy. Consumers may want to buy more goods or services than are available, driving up prices. Producers may have to pay more to produce products and may need to raise prices. Both situations can lead to inflation.

Demand-Pull Inflation

The most common type of inflation is called demand pull. **Demand-pull inflation** occurs when consumers want to buy more goods and services than producers supply. Consumers may spend their income as soon as it is received, and they are willing to spend future income (credit) as well. This spending causes businesses to scramble to meet the demand for goods. Because products are selling so quickly, businesses are able to raise prices to balance supply with demand and to make bigger profits. This type of inflation is often described as “too many dollars chasing too few goods.”

Cost-Push Inflation

Cost-push inflation occurs when producers raise prices because their costs to create products are rising. For example, when wages go up, the cost of producing a product goes up. Producers may then raise prices. If producers did not raise prices, profits would shrink. Cost-push inflation occurs when cost increases are not offset with greater output that lowers the cost of each unit made.

Productivity is a measure of the efficiency with which goods and services are made. When productivity rises, the cost of a wage or other increase is offset by producing more and better products. In this case, inflation (price increases) does not occur. Instead, more and better products and services are made at the same price level.

Ethics

A FULL DAY'S WORK FOR A FULL DAY'S PAY

There are good reasons workers should provide a full day's work for a full day's pay. One important reason is that doing so may help a worker keep his or her job. It may also show that a worker has the right attitude and behavior to be considered for a raise or promotion. The most important reason may be simply that it is the ethical way to behave. Workers are paid for a full day's work. To waste time at work and intentionally do a poor job does not show ethical behavior. The employee is not giving a full day's work in exchange for the pay received.

Some workers show up late to work, leave work early, take long breaks, and fail

to provide quality service in their jobs. They grumble, complain, and find ways to get out of doing what they were hired to do. They are rude or careless with customers. These poor work habits often lead to poor performance ratings. They can also lead to disciplinary action or to being fired. On the other hand, good work habits help workers to get good performance ratings. Acting in an ethical manner and giving a full day's work may lead to job opportunities and career moves that will provide more pay and benefits. Behaving ethically on the job can help ensure your financial security.

Real-Cost Inflation

As resources diminish or become harder to get, prices rise in the form of **real-cost inflation**. For example, when there is less natural gas, or companies have to dig deeper to get it, this causes the cost of providing natural gas to rise. Over time, resources that are in high demand may shrink in supply. With a growing population's ever-increasing demands, this may happen with many products. To avoid this type of inflation, people must find other resources to use instead of the one that is scarce.



Finding alternate sources of energy, such as wind power, will help control energy prices.

INFLATION AND EMPLOYMENT

Economists think there is a relationship between inflation and employment. In times when prices are high, producers often make more money. They are able to hire more people. Thus, higher inflation also means higher employment. When inflation is reduced, people may be laid off. This is because prices are not increasing, and therefore profits are not increasing. With lower profits, producers may start laying off workers.

In times of zero inflation, price levels are flat (not increasing or decreasing). Businesses may not be able to afford to hire workers. Thus, mild inflation of 2 or 3 percent can be good for the economy.

INFLATION AFFECTS SPENDING, SAVING, AND INVESTING

Inflation has a negative effect on the value of money. As general price levels rise, the value of money falls. Thus, employees who work for a set rate of pay are able to buy less in times of inflation when prices rise. This is because some jobs provide pay raises only annually or less often. While prices are rising on the goods and services employees buy, their pay is not rising at the same rate. Thus, consumers have two choices: they can buy less, or they can borrow money to continue the same level of spending. Either way, it takes more money to keep getting the same amount of goods and services.

Inflation also affects the amount of money consumers may be able to save. In times of rising prices, consumers may have to use more of their disposable income to buy needed goods and services. Less money may be available for saving.

The **time value of money** is a concept that says a dollar you will receive in the future is worth less than a dollar you receive today. This assumes that prices are rising. For example, suppose you loan a friend \$20 today. Your friend promises to pay back the \$20 one year from today. The money you receive one year from today will not have the same value as the money you loaned your friend today. This is because prices will be higher one year from today, and the money will not buy as many goods one year from now as it will today.

Consumers consider the expected rate of inflation when choosing investments. They want to invest their money in a way that will provide a return that is greater than the rate of inflation. For example, suppose the inflation rate over 5 years is 5 percent. Investments such as savings accounts, stocks, or bonds must have a growth rate of at least 5 percent for the money invested to keep its purchasing power.

Focus on . . .

When inflation is rising too fast, it hurts consumers. Two tools are used in the United States to manage the effects of rising prices. These tools are called monetary policy and fiscal policy.

Monetary policy refers to actions by the Federal Reserve System. The Federal Reserve System is commonly called the Fed. The Fed is the central bank in the United States. The Fed was created by Congress in 1913. It has many roles, including controlling the money supply. One thing the Fed does is watch the economy. When the Fed sees that prices are rising too fast, it tries to slow them down. One way to slow rising prices is by raising interest rates. When interest rates increase, both individuals and businesses find it more expensive to borrow money to buy goods and services. This slows down spending. As you learned earlier, demand-pull inflation is caused by spending in the economy.

There are several types of interest rates that are controlled by the Fed. The discount rate is the rate that banks have to pay to borrow money from the Fed. Banks borrow money when they have the opportunity to make loans but do not have enough cash on hand. Banks are required to have a certain amount of cash on hand,

called reserves. If these reserves go below the required amount, banks must borrow money.

The federal funds rate is the rate at which banks can borrow from the excess reserves of other banks. For example, if one bank has more money than it needs, it can loan that extra money to other banks.

The prime rate is the rate that banks charge to their most creditworthy business customers. When the discount rate increases, the prime rate also goes up. The prime rate is usually 3 percent (or more) higher than the discount rate or the federal funds rate.

Fiscal policy refers to actions taken by the federal government to manage the economy. To help curb inflation, one thing the government can do is raise taxes. When taxes go up, people have less money to spend. This slows down inflation (demand-pull). On the other hand, the economy may be sluggish because people are not buying. The government can increase spending by lowering tax rates. This gives consumers more money to spend. These actions, taken together, either speed up or slow down spending. Spending can affect inflation because it can cause prices to rise.

THE FED

3-1 REVIEW

3-1 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. What is inflation? How is it measured?
2. Explain how disinflation, reflation, and hyperinflation differ.
3. What is deflation?
4. How does demand-pull inflation differ from cost-push inflation?
5. Explain how inflation and employment levels are related.
6. How does inflation affect spending, saving, and investing decisions?
7. Explain what is meant by the time value of money.

3-1 Activity 2 Inflation and Prices

When prices go up, your purchasing power goes down. Identify two items you or your family buys regularly, such as gasoline for a car. Then, for each item, answer the questions that follow:

1. Has the price gone up or down in the last year?
2. How much is the price change (in dollars and cents)? What percentage increase or decrease is this amount?
3. What effect has the price change had on your spending habits? Have you purchased less of that product? Have you purchased less of something else in order to keep buying that product?
4. In the long run, what will you do if the price keeps rising? For example, will you find substitutes, stop using the product, or give up something else in order to be able to buy this product?

Price and Demand

OUTCOMES

- Describe three methods of setting prices in a market economy.
- Explain how consumers' buying strategies affect demand and prices in a market economy.

SETTING PRICES IN A MARKET ECONOMY

In a market economy, prices are affected by a number of factors. Some factors are controlled by producers. Consumers' actions also affect prices in the marketplace. In Chapter 1, you learned that demand is the willingness and ability of consumers to buy products and services. If consumers' demand for a product is low, prices may fall or the product may no longer be produced.

Sellers offer products to consumers at certain prices. Sellers must be careful, however, in setting a price. If the price is too high, consumers may not buy the product. They may not be able to afford the price, or they may simply think the price is too high for the value received. If the price is too low, the demand for the product may be low. Consumers may think the product has a low value and, again, may not buy the



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Demand for products affects prices.

FIGURE 3-2.1

In this example, the price of a chair is figured using the cost-plus method.

Item	Cost
Wood, 6 board feet at \$3.96 per foot	\$23.76
Labor, 2 hours at \$10.00 per hour	20.00
Paint, varnish, nails, and glue	1.24
Indirect costs (benefits of workers, rent, insurance, and general overhead)	12.00
Total cost	\$57.00
Markup (40%)	22.80
Price	\$79.80

product. Also, if the price is too low, the company may not make any profit on the sale of the product. Setting the right price for a product can be tricky. Having products available at the right price is critical to business success.

Companies use different methods to set prices. Sometimes more than one method is considered when setting a price. Sellers want to set a price that will support the greatest demand and will be profitable. Some methods of setting prices are discussed in the following sections.

Cost-Plus Pricing

One way that sellers set prices is called cost-plus pricing. **Cost-plus pricing** computes the total cost of making and delivering a product. Then a percentage of that amount, called markup, is added to the cost. The markup is also called the profit margin or gross profit. Using this method ensures that the company will make a certain profit if the product is successful. An example of cost-plus pricing is shown in Figure 3-2.1.



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A mall provides many places to buy goods and services.

Value-Based Pricing

Using **value-based pricing**, the seller tries to determine how much consumers will be willing to pay for the product. In other words, it will be sold for the highest price that the market (consumers) will bear. If consumers value the product or service, they will pay whatever price is set, within reasonable limits. This is especially true of new, high-tech, and fad items. Consumers are willing to pay high prices because there are no less expensive choices.

Companies may do market research to determine what the demand for a product will be. They also want to learn how much consumers will be willing to pay for the product. Perhaps you have been asked to complete a market survey while shopping at a mall. Telephone and Internet surveys are other popular ways that companies learn about consumers' wants and needs.

Market-Based Pricing

With **market-based pricing**, the price is set to be competitive with prices of similar products currently being sold. If one business charges a lot more than others do for a similar

Technology Corner

BUYING ONLINE

Many successful businesses have a Web site. Retail Web sites provide an alternate location for consumers to buy goods and services. The total amount paid for goods may be slightly higher because of shipping costs. Some companies may not keep all types or models of their products in their stores. They may offer additional products or more sizes or colors online. Some companies sell only online. They do not have a store that consumers can visit. With online buying, consumers have the convenience of buying products without leaving home.

Retail Web sites typically provide full descriptions of products, including pictures. Shoppers need a computer with enough speed and memory to open Web pages for viewing products. Shoppers can save items to a virtual shopping cart. The items can usually be purchased at the time of selection or saved for later access. This allows buyers to shop online at their convenience.

When shoppers visit retail Web sites, they can often set up an account. The account usually has a user name and a password. When the site is visited again, the shopper enters the user name and password. This prevents having to enter

a name and shipping address each time an item is bought from the site. Cookies may also be placed on the shopper's computer. Cookies are small text files that contain information about the user. Cookies often track the Web pages or sites that a user visits. Retailers can use this information to suggest products or to target advertising. For example, suppose the shopper looked at several mystery novels on the Web site for a bookseller. The next time the shopper logs in at that site, a suggested list of mystery novels may appear.

Shoppers who buy products online need a debit card, a credit card, or a bank account. The purchase is billed to the card or deducted from the bank account. Merchandise is shipped to the buyer's address. The goods take a few days to arrive and are delivered by the U.S. Postal Service or a private delivery company.

Many people use the Internet for comparison shopping. They learn about product prices and features without feeling pressured to buy. A major advantage of the Internet is that it is open 24 hours a day. Consumers can shop at their convenience.

product, consumers are likely to buy from the other companies that offer a lower price. The manufacturer or retailer simply decides whether or not it can provide the product or service at that existing price and still make a profit. This is the easiest form of setting a price. It helps producers or sellers decide what products to include in their marketing mix. The marketing mix is the group of products or services offered for sale by a business at any point in time.

A seller may introduce a new product at a higher price than similar products on the market. In this case, the seller tries to show how the new product is different from or better than other products. For example, many models of digital phones are available. A seller offering a new phone might cite the phone's small size or new features. The phone might take digital pictures or send text messages. These features are advertised to

make the new phone seem more desirable. The seller may use these new or added features to justify a somewhat higher price. This strategy is not always successful. Consumers may not think the new features are useful or worth the higher price.

BUYING STRATEGIES AFFECT DEMAND

Consumers play a vital role in setting prices in a market economy. Consumers use two basic strategies when buying goods and services. They try to spend as little as possible, or they try to get as much value as they can for the money they spend. These two approaches are not mutually exclusive; that is, buyers do not use just one plan or the other for all purchases. Consumers can use the plan that best fits their needs for different goods and services.

Economizing

Consumers are **economizing** when they are saving as much as possible and spending money only when necessary. Using this approach, consumers wait until it is necessary to buy a product. Then they buy as little as possible and at the lowest price. They do not buy large quantities or more than is needed at the present time. They simply try to spend as little money as they can for the needed product.

Most people go through periods of time when they economize. Others follow this spending pattern all the time. Economizing has its advantages. For example, holding back on spending often results in not buying some items at all. Economizing can lead to savings and better buying habits.

For some people, economizing is the only plan that allows them to meet their basic needs. For other people, economizing is a strategy used during certain times as a way to save money for later spending or investment. When economizing, people may spend little or no money on luxuries. This can lower the demand for luxury items. People may also spend less on items for basic needs, such as food or clothing. Lower demand for products may lead to lower prices.

Optimizing

Another spending strategy is called optimizing. **Optimizing** means getting the highest value for the money spent. High value may come in the form of a large number of products or services or in the form of high-quality products or services. For example, if a product is on sale, is used a lot, and stores well, a large quantity can be purchased. The cost per item will be lower when the item is



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Economizing means spending as little as possible.

bought in quantity. When customers are optimizing, demand is higher when prices are lower. Consumers will buy more products to take advantage of lower prices.

Consumers should be careful not to let optimizing lead to overspending. Spending too freely can lead to poor buying habits. Shoppers may buy items they do not need simply because the items are a bargain. Items that have been stockpiled may be used more freely than usual because the consumer has a large quantity of the item. Overspending can also lead to credit problems. Using both economizing and optimizing strategies at the proper times may be the best solution for many people.



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Optimizing means getting the highest value for the money spent.

Success Skills

Consumers often buy things when they are in a hurry. Those purchase decisions are sometimes not the best decisions. Through time management, a person can make better decisions because she or he has planned the purchase and has had sufficient time to make a good choice. Using time management strategies can help a person be more productive in school, work, and personal activities.

Time management involves several key points:

- Be aware of how you are using your time. This is the first step toward managing your activities to use time wisely.
- Identify *peak* performance times, when you are most productive, and *weak*

performance times. Schedule important activities at peak times.

- Use a daily or weekly planner to keep track of important dates and times.
- Keep a to-do list; mark off items as they are completed.
- Prioritize your activities so you get the important ones done first.
- Break large projects or tasks into smaller parts, and plan time for completing each part.
- Save some time for doing things you enjoy.
- Schedule times for shopping and making purchases.
- Do not rush or be pressured for time while shopping.

TIME MANAGEMENT

3-2 REVIEW

3-1 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. How are prices set when using the cost-plus pricing strategy?
2. How is a market-based pricing strategy different from a value-based pricing strategy?
3. Why might shoppers want to set up an account on a retail Web site they use often?
4. What is economizing? How does using this buying strategy affect demand and prices in a market economy?
5. What is optimizing? How does using this buying strategy affect demand and prices in a market economy?
6. How can using effective time management strategies lead to better buying decisions?

3-1 Activity 1 Prices and Spending

List three items your family has purchased in the last year—something with a high price (\$100 or more), something that cost between \$5 and \$50, and something with a low price (under \$5). Answer the questions that follow for each item.

1. How do you think the price was set for this product—using cost-plus, value-based, or market-based pricing? Why?
2. Was this item purchased as a result of economizing or optimizing?
3. If you had to make this purchase decision again, would you choose the same item? Why or why not?

Selling and Buying Strategies

OUTCOMES

- Describe strategies used by businesses to sell goods and services.
- Explain how businesses are able to create demand for a product.
- Discuss strategies buyers can use before, during, and after a purchase.

SELLING GOODS AND SERVICES

Business owners take the risk of bringing products and services to the market. To stay in business, they must sell those products or services to customers and make a profit. Sellers use other strategies, in addition to price, to promote the sale of goods and services to customers.

Convenience

One strategy companies use to promote sales is to make shopping convenient and pleasant for customers. A store location that is easy for customers to visit makes shopping more convenient. A clean, comfortable, and safe place to buy goods and services makes the shopping experience more pleasant for customers. Friendly and helpful salesclerks also help promote sales.

An important part of convenience is the payment method. Most businesses allow for cash and credit purchases. This includes the use of debit and national credit cards, as well as writing checks or having store credit.

Customer Service

Businesses depend on good customer service to promote sales. Good customer service includes a lot of things. A warm, friendly greeting and prompt and courteous help when it is needed are examples of good customer service.

Good customer service increases the chances that shoppers will return to the store to buy again. Satisfied customers also tell others about their experience. This word-of-mouth promotion is good for sales.

Poor customer service may keep shoppers from returning to buy again. Even if prices are low or the store is convenient for the shoppers, they may not return if they had a bad experience. Dissatisfied customers also tell people about their bad experience. This message can be very harmful to future sales.



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Advertising stimulates interest in buying products that meet needs or wants.

Meeting Needs and Wants

Businesses try to make available to customers the types of products they need or want. Making the right products available increases the chances of business success.

Some products meet basic food, clothing, and shelter needs. Everyone needs to be able to eat and stay warm and safe. Examples of products that fill basic needs include groceries, clothing, shoes, and housing.

Products that save time are valuable to consumers. Often, these same products also save energy. Examples of products that save time and energy include washing machines, power tools, and food processors.

Products that make users feel or look younger or more attractive are appealing to consumers. These products have emotional appeal. Although the products may fill wants rather than needs, they represent great profits to sellers. Examples of these products include makeup and hair dye. Products that support good health and help users feel better also appeal to consumers. These products tend to be more expensive and specialized. Examples are vitamins and organic foods.

Creating Demand

To sell goods, businesses may need to create or stimulate demand.

Advertising is a method of informing consumers and promoting and selling products. Advertising, also called ads, comes in many different forms. They all have the same purpose—to get people to buy.

NEWSPAPERS AND MAGAZINES

Placing ads in newspapers and magazines is a popular way to reach large numbers of people. The ad may promote a product or a company. It may be a short one-item ad or a full-page color ad showing many products. Typically, ads include special prices, coupons, or other incentives to bring customers into the store.

TELEVISION AND RADIO

Television ads are very expensive. However, they reach large numbers of people. Television ads are written to appeal to a target audience.

A **target audience** is a specific group of people who are likely to be watching and are likely to buy the product. For example, different people watch various TV programs or tend to watch TV at certain times. Some people watch news shows. Others watch on Saturday mornings or on Super Bowl Sunday. Companies design ads that will appeal to these target audiences. They run the ads on certain shows and at specific times.

Radio advertising attracts audiences with special interests. Radio programs range widely in content. News programs, talk shows, religious messages, and many types of music can be found on radio. Radio ads often involve appeals to emotions. They may use slogans or have catchy tunes. As with TV ads, radio ads target people who are thought likely to listen to a particular program.

THE INTERNET

The Internet is a popular place to shop. Many types of advertising can be found on the Internet. The ads help sell products by informing shoppers and encouraging them to buy. Banner ads span the top, bottom, or sides of a Web page or site users visit. They have bold statements or pictures that grab the user's attention. Pop-up ads appear while the user is visiting Web sites or browsing. They pop onto the screen. The user must click *No* or a similar command to close them. Some people buy special software to block pop-up ads.

Many online retailers customize ads to shoppers who have visited their site. The user logs in and does some shopping. The site tracks the products clicked and Web pages visited. The retailer may send the shopper an e-mail offering a product or service that he or she showed interest in previously. Such e-mails often offer specials, such as free shipping or a price reduction for online purchases.

Building Communications Skills

CREATIVE LISTENING

Creative listening is a skill used to solve problems. With creative listening, a person searches through information and forms questions to ask. The listener evaluates what has been heard and makes a decision or choice. Creative listening is a highly active process that involves logic as well as listening.

For example, suppose you are listening to a debate about a new law that has been proposed. One side is listing its positive features and all the reasons why you should

vote in favor of it. The other side is explaining all the bad things that will happen if the law is enacted. In order for you to decide, you must listen carefully, make sure you have accurate information, and come to a decision that will be your vote. Creative listening requires that you understand who is proposing the law and what they have to gain. You also need to know who is opposing the law and what they have to lose. By practicing creative listening, you can reach an informed decision.



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Good buying strategies help consumers spend money more wisely.

Other Web sellers place cookies on the shopper's computer. Cookies enable the seller to recognize the shopper in the future. They may also contain information about products the user viewed or bought in the past. Some online sellers share this data with other retailers. Shoppers may get e-mails, pop-ups, or other forms of targeted ads from online sellers they have never visited.

Some sellers use electronic newsletters sent monthly or at other set times to encourage customers to buy. These ads feature pictures and prices of products. Users sign up to receive them and are usually able to cancel them if desired.

DIRECT ADVERTISING OR SALES

Direct advertising takes the product directly to consumers. It involves actions such as sending free samples in the mail and giving out samples in a store. This form of advertising allows the customer to try the product.

One form of direct advertising is direct sales. A salesperson goes door-to-door to give customers a catalog or to show them a product. Another method is holding a party to sell products to a

group of friends. This approach takes the product directly to the consumer, using a person-to-person approach.

OTHER TYPES OF ADVERTISING

There are many other forms of advertising. Some are subtle and indirect, such as placing coupons in entertainment books. Others are up-front and bold, such as billboards. A brochure listing used cars or houses for sale is another method. Whatever the medium, ads catch the consumer's attention and stimulate interest in buying a product or service.

BUYING STRATEGIES

Sellers have strategies to encourage you to buy. You should have a plan to maximize your buying power. Some ideas to help you in your role as consumer are given in the following sections.

Before You Shop

Before going to the store, prepare a shopping list of the things you need. Base your list on well-thought-out ideas, such as a menu plan, so you can resist impulse buying. Decide ahead of time what you will buy and about how much you will spend. Also plan how you will pay for the items. Planning ahead will help you avoid overspending or buying items you do not need.

For major purchases, you may deal with a salesclerk who is paid on commission. The clerk may encourage you to spend more than you

intended. Plan your strategy ahead of time. Before you leave home, decide what you want or need and how much you are willing to pay. Prepare questions to ask. Do not allow a salesclerk to convince you to spend more than you planned.

While You Shop

While at the store, stick to your list. Compute unit prices, and make sure you are getting the best deal for the products you are buying. Do not go grocery shopping when you are hungry—being hungry will affect your choices. If you have made decisions about how much you will spend for an item, stick with them. Do not make on-the-spot decisions that you may regret later or allow yourself to be pressured into buying. If necessary, take someone with you to give you support. Do not select last-minute purchases at the checkout line. These items are often high-priced, low-value purchases.

After You Buy

Keep the receipts and warranties for all items purchased. Remove a product carefully from its packaging. If there is a box or bag, keep it until you are sure that you have all the pieces for the product and that it works properly. If you need to return an item, be sure all the pieces are back in the package.

Evaluate your purchase. Are you satisfied with the product? Is it what you had intended to buy? Are you satisfied with the service you were given? Answering these questions will help you make better decisions in the future.



3-3 Activity 1 Can You Recall?

Answer these questions to help you recall what you have read. If you cannot answer a question, read the related section again.

1. List strategies, other than having the right price, for selling goods to consumers.
2. List three types of media that sellers can use to help create demand for a product.
3. List three things you can do before you shop to improve your buying power.
4. List three things you can do while shopping to make better purchase decisions.
5. List three things you can do after your purchase to make better decisions in the future.

3-3 Activity 2 Ad Appeal

Shopping is something everyone has to do. Goods and services provide us with basic needs as well as luxury items. How many times have you thought that you were misled by an advertisement? Have you been convinced to buy something that you later thought was not worth the money? Choose one of the media in the following list. Then describe the target audience and the appeal for the ads it shows.

1. Watch television for one-half hour. During that period, write down every ad (commercial) you watch. For each ad, describe the people you think are in its target audience. Then tell whether the appeal is logical (to meet real needs) or emotional (to convince people they need a product). Tell whether or not you think the ad is effective, and explain why.
2. Listen to a local radio station for one-half hour. Write down every commercial you hear. For each ad, describe the people you think are in its target audience. Then tell whether the appeal is logical (to meet real needs) or emotional (to convince people they need a product). Tell whether or not you think the ad is effective, and explain why.
3. Look through a daily newspaper or magazine. Make a list of the types of advertisements you find. For each type of ad, describe the target audience. Then tell whether the appeal is logical (to meet real needs) or emotional (to convince people they need a product). Tell whether or not you think the ad is effective, and explain why.

EXPLORING CAREERS IN EDUCATION AND TRAINING



Do you like to work with people? Are you good at explaining concepts and tasks? If the answer is yes, a career in education and training might be right for you. Jobs in education involve teaching children and adults. Some workers in this field, such as a school principal, handle administrative tasks. Others, such as counselors, provide support services related to education. Child care workers provide care for children who have not yet entered school and also work with older children before and after school hours.

Jobs in education are found in public and private schools. Training jobs are also found in government and businesses. Some trainers are entrepreneurs and have their own small businesses. The need for jobs in the education and training area is expected to grow over the next few years. The outlook varies somewhat by job.

Skills Needed

Some of the skills and traits needed for a career in education and training include the following:

- Ability to work well with others
- Content area knowledge
- Communications skills
- Computer/technology skills
- Decision-making skills
- Problem-solving skills
- Leadership skills

Job Titles

Many jobs are available in the education and training field. Some job titles for this career area include the following:

- Child care worker
- Coach
- College professor
- Counselor
- Language pathologist
- Librarian
- Principal
- Social worker
- Teacher

Explore a Job

1. Choose a job in education to explore further. Select a job from the list above, or choose another job in this career area.
2. Access the *Occupational Outlook Handbook* online. A link to the site is provided on the Web site for this textbook.
3. Search for more information about the job you selected to answer these questions:
 - What is the nature of the work this job involves?
 - What is the job outlook for this job?
 - What training or qualifications are needed for this job?
 - What are the median annual earnings for this job?

REVIEW

Summary

- Inflation is an increase in general price levels for goods and services. Inflation is measured by the U.S. government using the Consumer Price Index (CPI).
- Deflation is a decrease in general price levels. It is the opposite of inflation.
- Demand-pull inflation occurs when consumers want to buy more goods and services than producers supply. Cost-push inflation occurs when producers raise prices because their costs to create products are rising. Real-cost inflation is rising prices due to scarce resources that are diminishing or are harder to acquire.
- There is a connection between inflation and employment. Higher inflation usually means that more people are employed.
- Inflation reduces the value of money. As prices rise, money buys less.
- Inflation affects the amount of money consumers may be able to spend, save, or invest.
- In a market economy, prices are affected by producers, consumers, and other factors.
- Cost-plus pricing adds the total cost of making a product to a profit margin. Value-based pricing sets a price that is as high as consumers will pay. Market-based pricing sets a price based on prices of similar products in the marketplace.
- Consumers can economize (spend as little as possible) or optimize (spread dollars as far as they will go).
- To sell products, businesses make shopping convenient, provide customer service, meet needs and wants, and create demand.
- Advertising is an effective method for sellers to create and stimulate demand for products.
- Consumers can use good buying strategies to spend money wisely.

Key Terms

advertising
cost-plus pricing
cost-push inflation
deflation
demand-pull
inflation
disinflation

economizing
hyperinflation
inflation
market-based
pricing
optimizing
productivity

real-cost inflation
reflation
target audience
time value of money
value-based pricing

ACTIVITY 1

Review Key Terms

Use the key terms from Chapter 3 to complete the following sentences:

1. The spending habit called _____ is spending money only when you have to and then spending as little as possible.
2. _____ occurs when businesses raise prices due to rising costs for producing products.
3. _____ occurs when prices are high, drop, and then rise to their previous high level.
4. _____ is a method of informing consumers and promoting and selling products.
5. The _____ concept says that money received today is worth more than money received in the future.
6. Setting a price based on how much the consumer is willing to pay is called _____.
7. The lowering of overall price levels is called _____.
8. _____ is caused by scarce resources or an increase in the cost of getting those resources.
9. A consumer spending pattern called _____ occurs when people spread money to cover as many needs as possible or to get as much value as possible.
10. _____ is an overall increase in general price levels.
11. A specific group of people called a(n) _____ is the focus of a specific advertising strategy.
12. A type of inflation called _____ occurs when prices are rising, but at a slow rate.
13. A pricing strategy called _____ sets the price for a product based on existing prices in the marketplace.
14. Rapidly rising, out-of-control prices are called _____.
15. _____ is setting a price based on the cost to produce and deliver a product plus a profit margin.
16. A type of inflation that occurs when consumers want to buy more goods and services than producers supply is called _____.
17. _____ is a measure of the efficiency with which goods and services are made.



ACTIVITY 2

Math Minute

Complete these problems to build your math skills. You may use spreadsheet software or complete the problems manually.

Comparing unit prices can help a consumer determine which size or package of a product is the best value. To find the unit price of a product, divide the total price by the number of units. Example: A product contains four items and is priced at \$1.00. The unit price is 25 cents.

1. Find the unit prices for the following items. Round to three decimal places.

Product A	\$3.96 for 24 ounces
Product B	\$2.99 for a 16-ounce box
Product C	\$3.69 for 12 cookies
Product D	\$4.99 for 6 muffins
Product E	\$12.99 for a pack of 6
Product F	\$25.00 for a case of 36
2. Determine which of these items has the lowest per-unit cost and, thus, is the best buy.

Product A	\$1.99 for a 6-ounce bag	or	\$2.49 for an 8-ounce bag
Product B	\$24.00 for a box of 10	or	\$36.00 for a box of 15
Product C	\$10.00 for a pack of 3	or	\$15.00 for a pack of 5
3. The price of gasoline rose from \$2.50 on March 1 to \$2.89 on March 31. By what percent did the price increase?
4. The price of an air conditioner fell from \$250.00 on August 1 to \$200.00 on October 1. By what percent did the price decrease?
5. You plan to loan \$1,000 to a neighbor for 6 months. You realize that the value of a dollar may be less 6 months from now than it is today. You want to charge enough interest so that the money you receive back from your neighbor will have the same purchasing power as the money you loan. The inflation rate for the next 6 months is predicted to be 5 percent. How much interest (in dollars) should you charge on the loan to maintain the purchasing power of your money?

ACTIVITY 3

Ethics in Sales



When a salesclerk works for commissions, the clerk may earn nothing unless a sale is made. Sometimes this results in pressuring a customer to make a purchase. Some consumers are not able to resist this sales strategy and buy things they do not need or really want. The salesclerk's goal is to make a sale, regardless of whether the item is right for the customer.

1. Have you ever bought something that you later felt you had been pressured into buying? How satisfied were you with that purchase?

2. What will you do differently the next time you are faced with this situation?
3. Ethically speaking, what is wrong with pressuring someone into buying when she or he is not ready or does not really need or want the item?

ACTIVITY 4

Compare a Pay Increase to the Inflation Rate

According to government statistics, the inflation rate for the past year was 4 percent. You are worried that your pay is not keeping pace with your cost of living. Your average net pay this year is \$1,625.00 per month. It was \$1,576.00 last year.

1. By what dollar amount did your average net pay per month increase?
2. By what percent did your average net pay per month increase? Round your answer to one decimal place.

You have learned that the government calculates the rate of inflation based on the change in the Consumer Price Index (CPI). The CPI includes many types of goods and services. The CPI is designed to represent the economy as a whole. Most people buy only a portion of the goods and services used in the CPI in any one year. Because of this, the increase in the cost of living for each person may be more or less than the overall inflation rate.

Assume the following numbers are the average of what you pay each month for the goods and services you use.

Type of Expense	This Year	Last Year
Rent	\$400.00	\$400.00
Car payment	\$299.00	\$299.00
Telephone	\$26.00	\$26.00
Cell phone	\$40.00	\$40.00
Electricity	\$65.00	\$65.00
Water	\$17.00	\$15.00
Groceries	\$157.00	\$150.00
Internet access	\$20.00	\$20.00
Gasoline	\$46.00	\$38.00
Clothing	\$30.00	\$25.00
Lunches at work	\$125.00	\$120.00
Satellite TV	\$35.00	\$35.00
Movies in theaters	\$32.00	\$28.00
Other entertainment	\$67.00	\$60.00
Car maintenance	\$25.00	\$25.00
Health insurance	\$20.00	\$15.00
Auto and renter's insurance	\$125.00	\$125.00
Total	\$1,529.00	\$1,486.00

(For this exercise, the costs of medical care and prescriptions not covered by health insurance are not included. These costs can vary widely from year to year.)



3. What is the dollar amount of the change for each item and for the total?
4. By what percent did the price of each item and the total change? Round answers to one decimal place.
5. For which goods or services did the price change by more than 4 percent, the national inflation rate? For which goods or services did the price change by less than the national inflation rate?
6. How does the overall (total) rate of change compare to the national inflation rate? Is your pay increasing enough to cover the increase in your cost-of-living expenses?

ACTIVITY 5 *Online Buying*



www.thomsonedu.com/school/pfl

Many companies that have traditional stores also have a retail Web site. The Web site typically has complete product descriptions, pictures, details, and prices. Ordering merchandise from the site is usually convenient and easy. As a result, consumer purchases on the Internet are rapidly growing.

Work with another student to complete this activity. Identify a large and well-known department store. Visit the store's Web site. To find the Web site, enter the store's name in an Internet search engine. Answer the following questions about the Web site:

1. Is the Web site easy to use? Can you move from screen to screen easily?
2. Are you able to find information about a particular product easily?
3. Is complete information about the product provided?
4. Are you able to proceed to checkout (if you wish) with ease?
5. Is the Web site colorful and well designed?
6. Overall, how would you rate your shopping experience at this site?

ACTIVITY 6 *Shopping Strategies*

1. Think of an item you would like to buy. Choose an item that costs more than \$10 and that will require some planning, saving, and shopping. Perhaps it is a gift for someone's birthday or a special item that you have wanted for some time.
2. List the things you will consider before buying, such as places you will shop, features you are seeking, and price you are willing to pay.
3. Describe where you will go and what you will do as you are making the purchase. This includes the stores you will visit, questions to ask, and techniques to get the best deal.
4. Explain what you will do after the purchase, such as keep the receipt, mail a warranty card, or follow up on delivery.

JOB INTERVIEW EVENT



Future Business Leaders of America (FBLA) and Business Professionals of America (BPA) are organizations that conduct competitive events for students. The FBLA Job Interview Event and BPA Interview Skills Event allow students to demonstrate their ability to apply for jobs. Both events require preparing a resume and a letter of application. Students must also fill out a job application form and take part in a mock job interview. Applicants should bring several ink pens and their resume to use when filling out the job application form.

Evaluation

Students who take part in these events are judged on their ability to:

- Create an effective resume.
- Fill out a job application accurately, neatly, and completely.
- Write a letter of application appropriate for a particular job.
- Answer interview questions.
- Discuss their skills, education, and experience for a job.
- Dress professionally for an interview.
- Demonstrate a professional attitude.

Sample Scenario

You are applying for a desk clerk position at a hotel in Austin, Texas. The desk clerk must check guests in and out of the hotel. The clerk must also answer guests' questions about things to do in Austin. This position requires someone who has a friendly attitude and enjoys working with people.

Think Critically

1. How should you dress for an interview at a hotel? Why?
2. Why is the letter of application an important part of the job application process?
3. Why should you take names, addresses, and telephone numbers of personal references when you go to an interview?
4. Give two tips for successful interviews.