Categorizing helps you deal with many facts in an organized way. For example, the advantages of cooperative group work include:

1. Potential for conflict resolution
2. Stronger personal and full responsibility for all business losses
3. Good selection, high quality merchandise
4. Always in stock, have what I want, unique merchandise
5. Decorating
6. Categories that appear to have no inherent inferences
7. They are driving the growth and decline of many retail categories
8. Movie tickets
9. They really need this product
10. What was the reason all three products were recalled by the CPSC?

When consumers define themselves as sale shoppers today, they make an average of 3.5 shopping trips per week—up from 30% in 1995. As you read, consider how these changes may affect a retailer. Then answer the questions that follow:

When you purchase a good or service, you should consider several factors. Among them are the potential for conflict resolution, strong personal and full responsibility for all business losses, good selection, high quality merchandise, always in stock, have what I want, unique merchandise, decorating, categories that appear to have no inherent inferences, they are driving the growth and decline of many retail categories, movie tickets, they really need this product. What was the reason all three products were recalled by the CPSC?
Section 1
Consumption, Income, and Decision Making
• What is the difference between disposable and discretionary income?
• What three considerations should govern your decision making as a consumer?

Section 2
Buying Principles or Strategies
• What three considerations should govern your decision making as a consumer?

Section 3
Consumerism
• What are your responsibilities as a consumer?

• What private and federal help can you receive as a consumer?
• What are your responsibilities as a consumer?

• What are your rights as a consumer?
• What forms of advertising exist?
• How can you learn to practice comparison shopping?

• What trade-offs occur when you are deciding on something that you want?

Content Standard 1
Students will understand that productive resources are limited. Therefore, people cannot have all the goods and services they want, as a result, they must choose some things and give up others.

Content Standard 2
Students will understand that effective decision making requires comparing the additional costs of alternatives with the additional benefits. Most choices involve doing a little more or a little less of something; few choices are all-or-nothing decisions.
CHAPTER 3

Your Role as a Consumer

Why It’s Important
If you are thinking about buying a computer, should you visit every computer store in the area? What should you do if your purchase is defective? This chapter will help you learn to make rational consumer choices.

To learn more about consumer choices, see the Economics & You Chapter 9 video lesson: Your Role as a Consumer

CHAPTER LAUNCH ACTIVITY

Ask students to identify a product they have recently purchased. Then ask them to write answers to the following questions: Before making your purchase, what questions did you ask yourself and others, and what information did you look for? Why did you buy this particular item and not another? Do you think you acted wisely in making your purchase? Why or why not? Call on volunteers to share their responses with the class.

SECTION 1

Consumption, Income, and Decision Making

Cover Story

Explorers' Personal Finance Magazine, October 1998

Worried about being kidnapped by aliens? We didn’t really think so. But fears of alien abduction plague enough people that at least one insurance company offers a policy that will pay if little green men come to take you away. You can also buy coverage against being injured by a ghost, eaten (as opposed to abducted) by an alien, or hit by an asteroid (hey, it could happen).

Who buys this stuff? “Normally, they’re feeble-minded,” explains Simon Burgess, who is managing director of the London insurance brokerage that has tapped the Twilight Zone market.

Your Role as a Consumer

You and everyone around you are consumers and, as such, play an important role in the economic system. A consumer is any person or group that buys or uses goods and services to satisfy personal needs and wants. Consumers buy a wide variety of things—food, clothing, automobiles, movie tickets, and, as noted in the Cover Story above, even insurance against alien abductions. In this section you’ll learn how to spend—or not spend—your income wisely.

1 Focus

Overview

Section 1 explains the difference between disposable and discretionary income and describes five considerations in consumer decision making.

Reader’s Guide

Terms to Know
• consumer
• disposable income
• discretionary income
• rational choice

Reading Objectives
1. What is the difference between disposable and discretionary income?
2. What three considerations should govern your decision making as a consumer?

BELLRINGER
Motivational Activity

Project Daily Focus Transparency 27 and have students answer the questions.

This activity is also available as a blackline master.

Daily Focus Transparency 27

Top Three Considerations

1. What percentage of income did American consumers spend on taxes? How can you tell?
2. Does the graph represent the spending of a “typical” consumer? Why or why not?

Answers to the Reading Objectives questions are on page 64.

Preteaching Vocabulary

Instruct students to locate definitions of the Terms to Know in the Glossary. Then ask students to use each term correctly in a sentence.

Vocabulary PuzzleMaker

Reproducible Masters

Reproducible Lesson Plan 3–1
Reading Essentials and Study Guide 3–1
Guided Reading Activity 3–1
Section Quiz 3–1
Daily Focus Activity 27
Daily Lecture Notes 3–1

Multimedia

Interactive Tutor Self-Assessment Software
ExamView® Pro Testmaker
MindJogger Videoquiz

Reader’s Guide

Any person or group that buys or uses goods and services to satisfy personal needs and wants.

SECTION 1

RESOURCE MANAGER

CHAPTER 3

SECTION 1, Pages 59–64

Your Role as a Consumer 59

Answers

1. What percentage of income did American consumers spend on taxes? How can you tell?
2. Does the graph represent the spending of a “typical” consumer? Why or why not?

Preteaching Vocabulary

Instruct students to locate definitions of the Terms to Know in the Glossary. Then ask students to use each term correctly in a sentence.

Vocabulary PuzzleMaker
Disposable and Discretionary Income

A person’s role as a consumer depends on his or her ability to consume. This ability to consume, in turn, depends on available income and how much of it a person chooses to spend now or save for future spending. Figure 3.1 shows how typical American consumers spend their money income. Income can be both disposable and discretionary. **Disposable income** is the money income a person has left after all taxes have been paid. People spend their disposable income on many kinds of goods and services. First, they buy the necessities: food, clothing, and housing. Any leftover income, which can be saved or spent on extras such as luxury items or entertainment, is called **discretionary income**. See Figure 3.2.

Education, occupation, experience, and health can all make differences in a person’s earning power and thus in his or her ability to consume. Figure 3.3 shows how much more you could earn with a four-year college degree. Where a person lives can also influence how much he or she earns. City dwellers tend to earn more than those who live in rural areas. Wages in some regions of the country tend to be higher than in other regions.

How much a person has to spend can also be influenced by inheriting money or property. Regardless of the size of a person’s income, spending that income requires constant decision making. As a consumer, each person has a series of choices to make.

**Decision Making as a Consumer**

The first decision a consumer must make is whether to buy an item or not. This may sound so basic as to be unnecessary to mention, but how many times do you actually think about whether the reasons for the purchase you are about to make? Do you think about whether you really need the item? Do you consider the trade-offs involved?

Disposable income: income received for goods or services minus income taxes

Discretionary income: income a person has left to spend on extras after necessities have been paid

**FIGURE 3.1**

**Consumer Spending**
The circle graph shows how Americans spend their income. What are the top three categories of consumer spending?

- Food 14%
- Housing and household operation 30%
- Transportation 19%

**FIGURE 3.2**

**Discretionary Income**
The consumer’s wants serve as a guide in spending income. Some people have more disposable and discretionary income and can therefore spend more than others on entertainment. What is discretionary income?

**FIGURE 3.3**

**Earning Power**
The number of years you earn has a direct effect on your income. **How much can you expect to make per year if you do not graduate from high school?** If you graduate from college with a bachelor’s degree?

**How Education Affects Income**

<table>
<thead>
<tr>
<th>Amount of Education</th>
<th>Median Income for Males</th>
<th>Median Income for Females</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not a High School Graduate</td>
<td>$19,575</td>
<td>$10,725</td>
</tr>
<tr>
<td>High School Graduate</td>
<td>$28,907</td>
<td>$16,906</td>
</tr>
<tr>
<td>Some College</td>
<td>$33,041</td>
<td>$19,850</td>
</tr>
<tr>
<td>Bachelor’s Degree</td>
<td>$50,056</td>
<td>$30,117</td>
</tr>
<tr>
<td>Advanced Degree</td>
<td>$78,032</td>
<td>$42,744</td>
</tr>
</tbody>
</table>

Source: Bureau of the Census

**Visual Instruction FIGURE 3.2**

Ask students to identify discretionary purchases they have made recently.

**Answer:** any leftover income after necessities have been purchased, which can be saved or spent on extras such as luxury items or entertainment

**Visual Instruction FIGURE 3.3**

One generalization that can be drawn from the chart is that income increases as level of education rises. **Ask:** What is another generalization you can draw from this chart? Men receive higher incomes than women at all levels of education.

**Answer:** Males—$19,575, Females—$10,723, Males—$30,056, Females—$30,219

**Cooperative Learning**

Organize students into several groups, and ask groups to carefully study **FIGURE 3.4** on page 63. Then tell groups their task is to prepare a script for a 5- to 10-minute television documentary titled Consumer Decision Making. Inform groups that their documentary materials should include a brief synopsis of the program, a detailed script, and several storyboards illustrating scenes from the program. Call on groups to present their documentary materials to the rest of the class. If audiovisual equipment is available, some groups may wish to “shoot” their documentaries.

**Reading Disability**

Allow students who have difficulty with reading comprehension to read aloud with a partner. Have readers stop at the end of each page and discuss what they have read. Encourage them to note definitions and important facts. The auditory cues of reading aloud and discussing the material should increase comprehension.

**Cooperative Learning**

Refer to Inclusion for the Social Studies Classroom Strategies and Activities for students with different learning styles.
Making consumer decisions involves three parts, each including several steps. Figure 3.4 can help guide you through the entire process. The steps in Part A of Figure 3.4 will help you analyze the first consumer decision—whether to buy an item in the first place.

Scarcity Resources

After you have decided to make a purchase, at least two scarcity resources are involved—income and time. Before you spend your money income, you need to invest time in obtaining information about the product you wish to buy. Suppose you decide to buy a mountain bike. The time spent visiting stores checking models and prices is a cost to you. This time cannot be used for anything else.

Opportunity Cost

Virtually all of the steps in consumer decision making involve an opportunity cost. Remember that opportunity cost is the value of your highest alternative choice that you did not make. In step 1 of Part B of Figure 3.4, for example, your choice between a low-medium, or high-quality product involves an opportunity cost.

In general, a high-quality product costs more than a low-quality product. For example, suppose that you are trying to decide between new cross-training shoes. One model has a pump system that allows you to get a closer fit on your ankle. The other model does not. The pump system model costs $80 more than the other model. If you choose the higher-priced pump system shoe, you will sacrifice $80. The opportunity cost of the pump model over the lesser-quality model shoe is therefore $80, or what you could have bought with that $80. See Figure 3.5 on page 64.

Rational Choice

When you make consumer decisions based on opportunity cost, you are engaging in rational choice. Economists define rational choice as the alternative that has the greatest perceived value.

Rational choice involves choosing the best-quality item that is the least expensive from among comparable-quality products. As a consumer, you will make rational choices when you purchase the goods and services you believe can best satisfy your wants.

FIGURE 3.4 Checklist for Consumer Decision Making

Part A: Deciding to Spend Your Money

Before you buy anything, you should ask yourself:

1. Do I really require this item? Why? Real needs are few, but wants are unlimited.
2. Is this good or service worth the time I spent earning the income to pay for it?
3. Is there any better use for my income now? Should I save instead for future needs?

Part B: Deciding on the Right Purchase

After you have made up your mind to buy a good or service, you are faced with more questions:

1. Do I want high, medium, or low-quality? Quality refers to appearance, materials used, and the length of time a product will last. For a higher price, you can usually get higher quality. For a lower price, you can usually expect a product that may not be as attractive or as long lasting.
2. If I am buying an appliance or a car, do I want one that the most efficient to operate each year? The answer will probably involve a trade-off. A small automobile, for example, may use less gasoline than a larger one, but it provides less protection in an accident.
3. Does this particular item—a Brand Y laptop, for example—require more service than Brands A, B, and C? If it does, do I want this additional problem and expense?
4. Should I wait until there is a sale on the item I want? Sales of certain items are seasonal. For example, winter clothes are on sale after Christmas and summer clothes in August.
5. If I am looking for an expensive item, should I buy it new or used? What things are better to buy new than used? How can I protect myself if I buy a used item?
6. Should I choose a product with a well-known brand name even though it costs more than a similar product without a brand name? Are there any benefits to buying a brand-name product? What are they?
7. Does anyone own this product so that I can get a first-hand opinion?
8. Is the warranty on this particular product comparable to warranties on similar items?
9. Is the return or exchange policy of the store where I am thinking of buying a product comparable to the policies of other stores selling similar items?
10. What do consumer magazines say about the product?

Part C: Deciding How to Use Your Purchase

Once you own something—whether it’s clothing, a DVD player, or an automobile—you must decide:

1. How much time and effort should I spend personally repairing and maintaining the product?
2. How much should I spend on repairs and maintenance?
3. At what point should I replace this item? Why? (This brings you back to Part A.)
Do not get the impression that wise consumers will all make the same choices. Remember the definition: A rational choice is one that generates the greatest perceived value for any given expenditure. Rational choices that are based on careful consumer decision making will still lead to billions of different consumer choices yearly.

SECTION 1: Assessment

1. Define consumer, disposable income, discretionary income, rational choice.
2. What kinds of products are purchased with discretionary incomes?
3. Graphic Organizer Create a diagram like the one below to describe three things a consumer should consider before deciding to make a purchase.

Critical Thinking Activity

5. Categorizing Information: Draw a circle graph like Figure 3.5—Consumer Spending—on page 60. Develop your own categories that reflect how you spend your income. Then calculate the amount you spend in each category. Transpose this amount into a percentage to show your percent of income. Then calculate the amount you spend in each category.

Answers to Practicing the Skill

1. The robot is priced at $2,000; it is called AIBO; AIBO is a robotic dog. This puppy is not ready to bring you your slippers, however, cannot be proven.
2. In 1998 the population of the United States was about 270 million.
3. In the third quarter of 1999, consumer spending increased at an annual rate of 4.3 percent.
4. Consumers waste most of their money. Point out that 1. and 2. are factual statements—they can be proven by statistics. Statements 3 and 4, however, cannot be proven. Have students demonstrate that they understand this difference by writing several facts and opinions.

Distinguishing Fact From Opinion

Practicing the Skill

Read the excerpt below, then answer the questions.

In the third quarter of 1999, consumer spending increased at an annual rate of 4.3 percent. There are too many people living in the United States. Consumers waste most of their money.

LEARNING THE SKILL

To learn how to identify facts and opinions, follow the steps listed on the left.

PRACTICING THE SKILL

Read the excerpt below, then answer the questions.

Identify opinions by looking for statements of feeling or value. The statements may contain words like, should, might, could, best, greatest, all, every, or always.

Critical Thinking Skills

Distinguishing fact from opinion can help you make reasonable judgments about what others say and write. Facts can be proved by evidence such as records, documents, or historical sources. Opinions are based on people’s differing values and beliefs.

Identify facts by looking for statements of fact. Statements 2 and 3 cannot be proven. Statements 1, 4, and 5 can be proven by statistics. Statements 2 and 3 are factual statements—they can be proven by statistics.
CHAPTER 3
SECTION 2, Pages 66–70

1 Focus
Overview
Section 2 explains or describes the trade-offs required in gathering buying information, various forms of advertising, and how consumers practice comparison shopping.

READER’S GUIDE
Terms to Know
• competitive advertising
• informative advertising
• bait and switch
• comparison shopping
• warranty
• brand name
• generic brand

Reading Objectives
1. What trade-offs occur when you are gathering information?
2. What forms of advertising exist?
3. How can you learn to practice comparison shopping?

SECTION 2
Buying Principles or Strategies

Cover Story
You know it’s Super Bowl season in Hollywood. Top talent is switching focus from movies to 30- and 60-second ads that dazzle, that wow, and that keep millions of sports fans glued to their sets during the commercial breaks.

Companies that advertise on the championship telecast pay dearly for it—$3 million for one half-minute—but are rewarded with a domestic audience that is expected to exceed 140 million.

You need to know how to analyze what you view and hear on the screen. Does the ad provide information that is honest about the product? Is it within your budget? This section will help you and all consumers achieve this goal. They “switch” by trying to sell a higher priced item instead, promoting its good features to the consumer as they get to the store.

They “bait” by advertising the item at a low price, but say it is out of stock when the consumer gets to the store.

Informative advertisements provide information about the product, such as price or features.

Advertisements are persuasive. They try to create brand-name recognition or loyalty. Advertisements can be helpful or misleading.

Figures 3.6 shows, you could also go to different stores and discuss the good and bad points of various brands and models with salespeople. Actually, as a wise consumer, you would do both.

How Much Information Do You Need? Information is costly because obtaining it involves your time. You are faced with the problem of deciding how much information to obtain. In the case of the mountain bike, the buying principle to follow is: Obtain only as much information as is worthwhile. What, however, does worthwhile mean? The value of your time and effort spent gathering information should not be greater than the value you receive from making the best choice of product for yourself.

Developing a Consumer Knowledge Base
As you shop for different products, you will begin to develop a consumer knowledge base. Information you obtain looking for a moun-
tain bike might help you someday to make decisions about choosing a car or a computer. Simply getting salespeople to give you accurate information is a skill that you can acquire and sharpen over time while you shop for other products.

One relatively easy way to obtain much information in a short amount of time is to go to the Internet. Use a standard search engine to look up information on a product you wish to buy. Also, visit the numerous sites that offer such products for sale.

SECTION 2 RESOURCE MANAGER

Meeting Special Needs
Auditory Learning Disability
Some students are unable to recall words they have heard. To develop a facility with important terms, create sentence completion exercises on a tape recorder. Read the definition for each term in a partial sentence. Leave a pause where the student is to complete the sentence. The student might record the answers on his or her notebook.

Refer to Inclusion for the Social Studies Classroom Strategies and Activities for students with different learning styles.
CHAPTER 3
SECTION 2, Pages 66-70

Guided Reading Activity

3–2

Using Advertising Wisely

Advertising is all around you. Whenever you turn on the radio or television or log on to the Internet, you will probably hear or see a commercial. You also read advertising on billboards, on posters, on buses, and so on. Figure 3.7 gives you some tips for reading these ads, which can generally be classified as competitive or informative.

Competitive Advertising

Advertising that attempts to persuade consumers that a product is different from and superior to any other is competitive advertising. Its purpose may be to take customers away from competitors or to keep competitors from taking away customers. Ads for well-established brand names and products, such as Dell computers and Nike shoes, are often of this type. As shown in Part A of Figure 3.8, competitive ads also appeal to people’s emotions.

Informative Advertising

Informative advertising benefits consumers by giving information about a product. From such ads, you can learn about the existence, price, quality, and special features of products without spending much time or effort. See Part B of Figure 3.8. Informative advertising may also be competitive in nature.

Bait and Switch

Some advertisers use deceptive, or false, advertising. Sellers may misrepresent the quality, features, or the true price of goods.

One of the most widely used methods of deceptive advertising is bait and switch. The bait is an advertised item at an unrealistically low price. When the consumer gets to the store, the item is no longer available, or the salesperson points out all the bad features of the advertised item. The salesperson then shows the customer higher-priced models and points out all their good features—the switch.

This practice is both deceptive and illegal.

Comparison Shopping

After you have gathered the information about the make and model of the product you want, you must decide where to buy it. It is generally worthwhile to get information on the types and prices of products available from different stores or companies. This process is known as comparison shopping.

To efficiently comparison shop, read newspaper advertisements, make telephone calls, browse the Web, and visit different stores. Armed with prices that you obtain from the Web, negotiate with local merchants to get them to match (or come close to) the lowest price.

Independent Practice

L2 Analyzing Information

Direct students to clip several advertisements from used magazines and newspapers. Ask them to write a brief analysis of each advertisement, noting whether its main appeal is to the reader’s intelligence or emotions. Pair students and have partners compare and discuss their advertisements and analyses.

Visual Instruction

FIGURE 3.8

Advertising

Competitive ads often strive to evoke an emotional attachment to a product, whereas the purpose of informative ads is to provide data on a product.

Competitive Advertisement

Informative Advertisement

Free Enterprise Activity

Organize students into groups, and have groups develop lists of 10 common household items. Then have groups visit at least three stores where these items are available and compare prices by store and brand. Have groups include brand and generic product prices where applicable. Have groups organize their data into tables. Then have them compare their tables to see which is the “best buy” for each item.

Cooperative Learning

Organize students into several small groups and tell groups that they work for an advertising agency. Direct them to create either a competitive advertisement or an informative advertisement for one of the following products: mountain bike, glow-in-the-dark socks, a portable CD player, the latest model of cross-training shoe, or a new snack food. Advertisements may be for the print media, television, or radio. Groups that select print media should create a mock-up of the advertisement itself. Groups that select television should write a script and create storyboards, while groups that select radio should write a script. Have students display or present their advertisements for the class.

Reteach

Organize students into small groups and have groups think up phrases, sayings, proverbs, jingles, or symbols that summarize the main ideas in each of the three subheads: Gathering Information, Using Advertising Wisely, and Comparison Shopping.

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Most Americans are concerned with the reliability of the products and services they use. Many private groups and government agencies, like consumerism, are proactive in their buy- ing habits. In this section, you’ll learn how consumers, a movement to educate buyers about the purchase they have made and to demand better and safer products from manufacturers.

Consumer Rights
Since the early 1960s, consumerism has grown steadily. Businesses can no longer assume that it is the buyer’s responsibility to know whether a product is safe, food is healthful, or advertis- ing is accurate. See Figure 3.8.

In 1962 President John F. Kennedy sent the first consumer protection message to Congress. He stated four consumer rights: the right to safety—protection against goods that are dangerous to life or health; the right to be informed—information for use not only as protection against fraud but also as the basis for reasoned choices; the right to choose—the need for markets to be competitive (have many firms) and for government to protect consumers in mar- kets where competition does not exist, such as electric service; and the right to be heard—the guarantee that consumer interests will be listened to when laws are being written. President Richard Nixon later added a fifth right: the right to redress—the ability to obtain from the manufac- turers adequate payment in money or goods for financial or physical damages caused by their products.

Help for Consumers
Using President Kennedy’s list, Congress passed consumer-protection legislation. Today, consumers dissatisfied with a spe- cific product can complain to the store manager or write to the manufacturer. They also may take the case to small claims court or hire a lawyer. In addition, many private and government agencies are available to help consumers. Among the private groups that aid consumers are local citi- zens action groups and local chapters of the Better Business Bureau. Many major cities and some smaller ones have Better Business Bureaus. The bureaus give consumers information on products and selling practices and help settle disagreements between buyers and sellers. Numerous federal agencies also have programs to aid con- sumers. Figure 3.10 on page 74 lists these agencies and what they do. States also have consumer affairs councils or agencies.

Consumer Responsibilities
You have consumer responsibilities as well as rights. If a product or service is faulty, it is the consumer’s responsibility to initiate the problem-solving process. The Office of Consumer Affairs suggests that you do the following.

(1) Report the problem immediately. Do not try to fix a product yourself, because doing so may cancel the warranty.
(2) State the problem and suggest a fair and just solution— replacement, refund, etc.
Independent Practice
L2 Consumer Information File
Mention to students that most state and local governments have offices that offer advice on or protection of consumer rights. Have students work in groups to research the location of these offices in their state and community. Then have group representatives write letters to these offices requesting information on the services they offer. Suggest that groups combine the materials they receive in a class Consumer Information File.

3 Assess
3.3 Meeting Lesson Objectives
Assign Section 3 as homework or in an in-class activity. Use Interactive Tutor Self-Assessment Software to review Section 3.

Section Quiz 3–3

Cooperative Learning
Organize students into five groups, and tell groups they are developing a pamphlet titled “The Cartoon Guide to Consumer Rights.” Assign one of the following consumer rights to each group: the right to safety; the right to be informed; the right to choose, the right to be heard; the right to redress. Ask groups to create several cartoons that illustrate some aspect of their assigned topic. Call on groups to display their finished cartoons around the classroom.

Critical Thinking Activity
4. Summarizing Information: Prepare a video or multimedia presentation for middle school students that demonstrates ethical and unethical consumer behavior. Conclude the presentation with a creative explanation of consumer rights and responsibilities. Share the presentation with the other members of your class.

Section 3–3 Assessment Answers
1. All definitions can be found in the Glossary.
2. In the outer oval, students should write “safety,” “to be informed,” “choice,” “to be heard,” and “redress.”
3. Private organizations give consumers information on products and selling practices; some help settle disagreements between buyers and sellers. Federal agencies set health and safety requirements, inspect products, promote free and fair competition, and provide a great deal of consumer information.
4. To learn as much as possible about the product the consumer wishes to buy; to initiate the problem-solving process if a product is faulty; to behave ethically in dealing with producers and sellers
5. Examples will vary.
6. Videos will vary. Encourage students to show their finished videos to younger school members.
Oprah Winfrey
ENTREPRENEUR (1954–)

Oprah Winfrey emerged from an underprivileged and abusive childhood in rural Mississippi to become one of the wealthiest and most powerful women in the United States. Today, she heads the HARPO Entertainment Group—a movie, television, and video production company headquartered in Chicago. Winfrey also hosts the widely acclaimed The Oprah Winfrey Show, the number-one television talk show in the world for more than 12 years. It is seen by more than 35 million viewers weekly in the United States and is broadcast in 135 countries.

Oprah believes that her success can be attributed, in part, to her philosophy of helping others:

“As a rule, we are a society that has based our lives and importance in our lives on how much we can accomplish through material goods. In the end what matters is how were you able to serve and who were you able to love.”

She fulfills this ideal through generous donations to charities. For example, she has given millions of dollars to universities, such as Morehouse College, Spelman College, and Tennessee State University. She uses her show to encourage her viewers to “practice random acts of kindness” to make the world a better place:

“This show’s still the thing for me. It gives me the platform to try to figure out how do you get people to lead better lives? How do you get fathers to spend more time with their children?”

Checking for Understanding

1. What corporation does Oprah head?
2. In what ways does Oprah try to help others?

Answers to Checking for Understanding

1. HARPO Entertainment Group
2. She makes generous donations to charities and encourages her viewers to “practice random acts of kindness.”
CHAPTER 3
Assessment and Activities

Self-Check Quiz Visit the Economics Today and Tomorrow Web site at etglencoe.com and click on Chapter 3—Self-Check Quizzes to prepare for the Chapter Test.

Identifying Key Terms
Write the letters of the definition in Column B that correctly defines each term in Column A.

<table>
<thead>
<tr>
<th>Column A</th>
<th>Column B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. disposable income</td>
<td>a. deceptive advertising</td>
</tr>
<tr>
<td>2. warranty</td>
<td>b. getting information about similar types of products and prices</td>
</tr>
<tr>
<td>3. bait and switch</td>
<td>c. “pertaining to a general class”</td>
</tr>
<tr>
<td>4. competitive advertising</td>
<td>d. money income left after paying taxes</td>
</tr>
<tr>
<td>5. informative advertising</td>
<td>e. written guarantee of a product</td>
</tr>
<tr>
<td>6. generic brand</td>
<td>f. income left after buying necessities</td>
</tr>
<tr>
<td>7. consumer</td>
<td>g. “pertaining to a general class”</td>
</tr>
<tr>
<td>8. discretionary income</td>
<td>h. provides information about the price, quality, and features of products</td>
</tr>
<tr>
<td>9. brand name</td>
<td>i. logo on a product</td>
</tr>
<tr>
<td>10. disposable income</td>
<td>j. person or group that buys or uses goods and services to satisfy personal wants</td>
</tr>
</tbody>
</table>

Recalling Facts and Ideas
Section 1
1. Before you buy anything, what three questions should you ask yourself?
2. Do all rational consumers think alike? Why or why not?

Section 2
3. What are three important buying principles?
4. What are two types of advertising?
5. How much information should you obtain before you make a purchase?

Section 3
6. What are the four consumer rights that President John F. Kennedy stated?
7. What are two consumer responsibilities?

Thinking Critically
1. Understanding Cause and Effect Create a diagram like the one below to explain how education, occupation, and location make a difference in a person’s earning power.

Thinking Critically
2. Making Generalizations Why do some people buy brand-name products and other people buy generic products? What are the trade-offs involved in this decision?

Applying Economic Concepts
- Competition and Market Structure Design a print advertisement for a product of your choosing. After you complete the ad, use the checklist on page 68 to analyze it. Write a sentence to answer each of the questions on the checklist. Do you think it is a competitive ad, an informative ad, or both? Explain.

Cooperative Learning Project
Working in groups of four, take a copy of the checklist on page 63 and shop for one of the following: DVD player, portable CD player, or personal computer. Each of you should keep a record of the steps you take and the information you gather using a table like the one below. Compare your information with what others in the class found.


We’re a group of market-leading businesses that deliver a “need-it-now” world.

We are a $5 billion company, with 33,000 people, 25,000 pieces of equipment, up to 100 jet freighters.” They can be checked by looking at statistics available in company and industry records.

Analyzing the Global Economy
- Research how consumers in other countries resolve unsatisfactory purchases. Use the Internet to find government agencies in foreign nations that have duties similar to the United States Department of Commerce.

Cooperative Learning Project
Tables may vary. Tables should represent a detailed account of the shopping process for the selected item.

Reviewing Skills
1. The following phrases are based on facts: “Air freight. Ocean services. Less-than-truckload. Full truckload. Nationally. Globally.” “We’re a $5 billion company, with 33,000 people, 25,000 pieces of equipment, up to 100 jet freighters.” They can be checked by looking at statistics available in company and industry records.

Technology Activity
E-mail letters will vary. Encourage students to share and compare their letters.

Analyzing the Global Economy
Research findings may vary. Ask students to present their findings in a brief written report.

Chapter Bonus Test Question
ASK: What manufacturer’s agreement allows you to return a watch for free repair during a stated period? Warranty.
Focus on Free Enterprise

Dell Computer Corporation

Michael Dell loved to tinker with computers. By the time he reached high school, he could break down andreassemble an Apple computer with ease. Also, he knew exactly what he wanted to do when he finished school—run his own business. His parents, however, had other ambitions for him. They wanted him to be a doctor. Bowing to their wishes, Dell enrolled as a pre-med student at the University of Texas in Austin in 1983.

Student Entrepreneur

Many students take on part-time jobs to help pay their college expenses. Dell was no exception, although the job he took was rather exceptional. He ran his own computer company! Dell bought outdated PCs from local computer stores and upgrated them with the latest technology. At first, he sold the refurbished PCs to university students. Then he started selling them by mail order.

As the business became more successful, Dell’s dorm room started to look like a warehouse. PCs and computer parts occupied every free inch of space. He even used the bathtub as a storage area! Of course, running the business left him little time for his studies. When his parents discovered this, they were furious. They told him to focus on his schoolwork. Dell reluctantly agreed, promising to limit his business activities to the summer vacation.

Dell’s business boomed that summer. In the last month of the vacation, he recorded $180,000 in sales. He never returned for his sophomore year at the University of Texas. Instead, he went into the computer business full-time, setting up Dell Computer Corporation in Austin. Rather than upgrade old computers, Dell Computer built new ones from scratch. The results were the same. The company consistently racked up impressive sales figures.

Dell Direct

Dell Computer Corporation’s success is a result of its business approach—the direct business model. Rather than sell computers through dealers, Dell sells directly to consumers. Instead of having huge warehouses stacked with ready-made computers, Dell makes computers to customer specifications. Fast delivery—within two weeks of ordering—and excellent technical service are also part of Dell’s direct business model. This approach results in cheaper, more up-to-date computers for consumers.

At first, customers ordered computers from Dell by mail or telephone. After the introduction of the Internet, Dell also offered an online ordering service. Michael Dell immediately saw the potential of the Internet: “If you could order anything [online]—including a computer. And the great thing was, you needed a computer to do that. I couldn’t imagine a more powerful occasion for extending our business.”

Dell’s view proved correct. Today, the Dell Computer Corporation Web site logs about 2 million visitors a week. It generates $14 million in sales per day, making Dell Computer Corporation’s original Web site sells only Dell computers and various accessories needed to run them. Gigabuys, however, sells an array of products—everything from computers to printer paper. Introducing consumers to his services, Dell hopes, will help achieve his long-term goal—for every one to own a Dell computer!

An Industry Leader

From its beginnings as a one-person, dorm-room operation in 1983, Dell Computer has grown into a multinational corporation. It maintains manufacturing centers and sales offices in several countries, and employs more than 24,000 people. With yearly revenues in the billions of dollars, Dell is the world’s second-largest—only Compaq is bigger—and fastest-growing major computer manufacturer.

Future Plans

Michael Dell’s immediate plans for his company involve continuing growth through increased Internet sales. To this end, Dell launched a new Web site—Gigabuys.com—in 1999. The Dell Computer Corporation’s original Web site sells only Dell computers and various accessories needed to run them. Gigabuys, however, sells an array of products—everything from computers to printer paper. Introducing consumers to his services, Dell hopes, will help achieve his long-term goal—for every one to own a Dell computer!

Answers to Free Enterprise In Action

1. Rather than sell computers through dealers, Dell sells directly to consumers. Instead of having huge warehouses stacked with ready-made computers, Dell makes computers to customer specifications.
2. because you could buy anything on the Internet—including computers, and you needed a computer for access to the Internet