Business in Action

Courtland L. Bovée
Professor of Business
C. Allen Paul Distinguished Chair
Grossmont College

John V. Thill
Chairman and Chief Executive Officer
Global Communication Strategies

PEARSON
Boston Columbus Indianapolis New York San Francisco Amsterdam
Cape Town Dubai London Madrid Milan Munich Paris Montréal Toronto
Delhi Mexico City São Paulo Sydney Hong Kong Seoul Singapore Taipei Tokyo
## Contents

Preface 13  
Prologue: Using This Course to Help Launch Your Career 22

### PART 1
Setting the Stage: The Business of Business 45

<table>
<thead>
<tr>
<th>CHAPTER 1</th>
<th>Developing a Business Mindset 46</th>
</tr>
</thead>
<tbody>
<tr>
<td>BEHIND THE SCENES YOLANDA DIAZ: BUILDING HER DREAM WITH HARD WORK AND STRONG BUSINESS SENSE 46</td>
<td></td>
</tr>
<tr>
<td>Introduction 47</td>
<td></td>
</tr>
<tr>
<td>Understanding What Businesses Do 47</td>
<td></td>
</tr>
<tr>
<td>Adding Value: The Business of Business 47</td>
<td></td>
</tr>
<tr>
<td>Competing to Attract and Satisfy Customers 48</td>
<td></td>
</tr>
<tr>
<td>Accepting Risks in the Pursuit of Rewards 48</td>
<td></td>
</tr>
<tr>
<td>Identifying Major Types of Businesses 48</td>
<td></td>
</tr>
<tr>
<td>Making the Leap from Buyer to Seller 50</td>
<td></td>
</tr>
<tr>
<td>Seeing Business from the Inside Out 50</td>
<td></td>
</tr>
<tr>
<td>Appreciating the Role of Business in Society 50</td>
<td></td>
</tr>
<tr>
<td>Using This Course to Jump-Start Your Career 52</td>
<td></td>
</tr>
<tr>
<td>Recognizing the Multiple Environments of Business 53</td>
<td></td>
</tr>
<tr>
<td>The Social Environment 53</td>
<td></td>
</tr>
<tr>
<td>The Technological Environment 54</td>
<td></td>
</tr>
<tr>
<td>The Economic Environment 55</td>
<td></td>
</tr>
<tr>
<td>The Legal and Regulatory Environment 55</td>
<td></td>
</tr>
<tr>
<td>The Market Environment 55</td>
<td></td>
</tr>
<tr>
<td>Identifying the Major Functional Areas in a Business Enterprise 56</td>
<td></td>
</tr>
<tr>
<td>Research and Development 57</td>
<td></td>
</tr>
<tr>
<td>Manufacturing, Production, and Operations 57</td>
<td></td>
</tr>
<tr>
<td>Marketing, Sales, Distribution, and Customer Support 57</td>
<td></td>
</tr>
<tr>
<td>Finance and Accounting 57</td>
<td></td>
</tr>
<tr>
<td>Human Resources 58</td>
<td></td>
</tr>
<tr>
<td>Business Services 58</td>
<td></td>
</tr>
<tr>
<td>Exploring Careers in Business 58</td>
<td></td>
</tr>
<tr>
<td>Operations Manager 59</td>
<td></td>
</tr>
<tr>
<td>Human Resources Specialist 59</td>
<td></td>
</tr>
<tr>
<td>Information Technology Manager 59</td>
<td></td>
</tr>
<tr>
<td>Marketing Specialist 59</td>
<td></td>
</tr>
<tr>
<td>Sales Professional 60</td>
<td></td>
</tr>
<tr>
<td>Accountant 60</td>
<td></td>
</tr>
<tr>
<td>Financial Manager 60</td>
<td></td>
</tr>
</tbody>
</table>

### Achieving Professionalism 61 |
| Striving to Excel 61 |
| Being Dependable and Accountable 61 |
| Being a Team Player 62 |
| Communicating Effectively 63 |
| Demonstrating Etiquette 63 |
| Making Ethical Decisions 63 |
| Maintaining a Confident, Positive Outlook 63 |

BEHIND THE SCENES YOLANDA DIAZ GROWS MIRADOR ENTERPRISES INTO A MULTIMILLION-DOLLAR SUCCESS STORY 64

| KEY TERMS 65 |
| TEST YOUR KNOWLEDGE 65 |
| EXPAND YOUR KNOWLEDGE 66 |
| PRACTICE YOUR SKILLS 66 |

### CHAPTER 2
Understanding Basic Economics 68

BEHIND THE SCENES WILL THE SUN KEEP SHINING ON SUNTECH POWER? 68

| Introduction 69 |
| What Is This Thing Called the Economy? 69 |
| Factors of Production 69 |
| The Economic Impact of Scarcity 70 |
| Economic Systems 71 |
| Free-Market Systems 71 |
| Planned Systems 72 |
| Nationalization and Privatization 73 |
| The Forces of Demand and Supply 73 |
| Understanding Demand 74 |
| Understanding Supply 75 |
| Understanding How Demand and Supply Interact 76 |
| The Macro View: Understanding How an Economy Operates 77 |
| Competition in a Free-Market System 77 |
| Business Cycles 78 |
| Unemployment 79 |
| Inflation 79 |
| Government's Role in a Free-Market System 81 |
| Protecting Stakeholders 81 |
| Fostering Competition 82 |
| Antitrust Legislation 82 |
| Merger and Acquisition Approvals 82 |
| Encouraging Innovation and Economic Development 82 |
| Stabilizing and Stimulating the Economy 83 |
| Economic Measures and Monitors 84 |
| Price Indexes 84 |
| National Economic Output 85 |
CHAPTER 3
The Global Marketplace 90

BEHIND THE SCENES H&M: FIRST SWEDEN, THEN THE WORLD 90

Introduction 91
Fundamentals of International Trade 91
Why Nations Trade 92
How International Trade Is Measured 92
Foreign Exchange Rates and Currency Valuations 94
Conflicts in International Trade 95
Free Trade 95
Government Intervention in International Trade 96
International Trade Organizations 97
Organizations Facilitating International Trade 97
The World Trade Organization (WTO) 97
The International Monetary Fund (IMF) 98
The World Bank 98
Trading Blocs 98
North American Free Trade Agreement (NAFTA) 98
The European Union (EU) 100
The Asia-Pacific Economic Cooperation (APEC) 100
The Global Business Environment 101
Cultural Differences in the Global Business Environment 101
Legal Differences in the Global Business Environment 102
Forms of International Business Activity 104
Importing and Exporting 105
International Licensing 105
International Franchising 105
International Strategic Alliances and Joint Ventures 105
Foreign Direct Investment 105
Strategic Approaches to International Markets 106
Organizational Strategies for International Expansion 106
Functional Strategies for International Expansion 107

BEHIND THE SCENES H&M EXPANDS ITS GLOBAL FOOTPRINT, BUT NOT WITHOUT COMPETITION AND CHALLENGES 108

CHAPTER 4
Business Ethics and Corporate Social Responsibility 113

BEHIND THE SCENES NIKE’S GLOBAL PRESENCE PUTS IT ON THE FRONT LINES OF CORPORATE SOCIAL RESPONSIBILITY 113

Introduction 114
Ethics in Contemporary Business 114
What Is Ethical Behavior? 115
Factors Influencing Ethical Behavior 116

PART 2
Building the Framework: Business Ownership and Entrepreneurship 137

CHAPTER 5
Forms of Ownership 138

BEHIND THE SCENES SCANNING THE SKIES FOR HELP AT SIRIUS SATELLITE RADIO 138

Introduction 139
Sole Proprietorships 140
Advantages of Sole Proprietorships 140
Disadvantages of Sole Proprietorships 140
Partnerships 142
Advantages of Partnerships 142
Disadvantages of Partnerships 143
Keeping It Together: The Partnership Agreement 143
Corporations 144
Advantages of Corporations 144
Disadvantages of Corporations 145
Special Types of Corporations 146
Corporate Governance 147
Shareholders 147
CHAPTER 6
Entrepreneurship and Small-Business Ownership 160

BEHIND THE SCENES BRINGING TRADITIONAL HEALING WISDOM TO MODERN CONSUMERS AT SISTER SKY 160

Introduction 161
The Big World of Small Business 161
Economic Roles of Small Businesses 161
Characteristics of Small Businesses 162
Factors Contributing to the Increase in the Number of Small Businesses 163
E-Commerce, Social Media, and Other Technologies 163
Growing Diversity in Entrepreneurship 163
Downsizing and Outsourcing 163

The Entrepreneurial Spirit 164
Why People Start their Own Companies 164
Qualities of Successful Entrepreneurs 165
Innovating Without Leaving: Intrapreneurship 165

The Start-Up Phase: Planning and Launching a New Business 166
Small-Business Ownership Options 166
Blueprint for an Effective Business Plan 167

The Growth Phase: Nurturing and Sustaining a Young Business 169
The New Business Failure Rate 169
Advice and Support for Business Owners 171
Government Agencies and Not-for-Profit Organizations 171
Business Partners 171
Mentors and Advisory Boards 171
Print and Online Media 171
Networks and Support Groups 172
Business Incubators 172

Financing Options for Small Businesses 173
Private Financing 173
Banks and Microlenders 174
Venture Capitalists 174
Angel Investors 175
Credit Cards and Personal Lines of Credit 175
Small Business Administration Assistance 175
Public Financing 175
Crowdfunding 175

The Franchise Alternative 176
Types of Franchises 176
Advantages of Franchising 177
Disadvantages of Franchising 177
How to Evaluate a Franchising Opportunity 177

BEHIND THE SCENES BUILDING AN AUTHENTIC AND PURPOSEFUL BUSINESS AT SISTER SKY 178

KEY TERMS 179
TEST YOUR KNOWLEDGE 180
EXPAND YOUR KNOWLEDGE 180
PRACTICE YOUR SKILLS 181

PART 3
Guiding the Enterprise: Leadership, Organization, and Operations 183

CHAPTER 7
Management Roles, Functions, and Skills 184

BEHIND THE SCENES WEGMANS SATISFIES CUSTOMERS BY PUTTING EMPLOYEES FIRST 184

Introduction 185
The Roles of Management 185
Interpersonal Roles 185
Informational Roles 186
Decisional Roles 187

The Planning Function 187
Defining the Mission, Vision, and Values 188
Assessing Strengths, Weaknesses, Opportunities, and Threats 189
Developing Forecasts 190
Analyzing the Competition 191
Establishing Goals and Objectives 191
Developing Action Plans 191

The Organizing Function 192
Top Managers 193
Middle Managers 193
First-Line Managers 193

The Leading Function 194
Developing an Effective Leadership Style 195
Coaching and Mentoring 196
Managing Change 196
Building a Positive Organizational Culture 197

The Controlling Function 198
The Control Cycle 198
Establishing Performance Standards 198
Measuring Performance and Responding as Needed 199
Crisis Management: Maintaining Control in Extraordinary Circumstances 200

Essential Management Skills 201
Interpersonal Skills 201
Technical Skills 201
Conceptual Skills 202
Decision-Making Skills 202
BEHIND THE SCENES CUSTOMERS BELIEVE IN WEGMANS BECAUSE WEGMANS BELIEVES IN ITS EMPLOYEES 204

KEY TERMS 205
TEST YOUR KNOWLEDGE 205
EXPAND YOUR KNOWLEDGE 206
PRACTICE YOUR SKILLS 206

CHAPTER 8
Organization and Teamwork 208

BEHIND THE SCENES REINVENTING THE RETAIL EXPERIENCE AT THE CONTAINER STORE 208

Introduction 209
Designing an Effective Organization Structure 209
Identifying Core Competencies 209
Identifying Job Responsibilities 210
Defining the Chain of Command 211
Span of Management 211 • Centralization Versus Decentralization 211
Organizing the Workforce 214
Functional Structures 214
Divisional Structures 214
Matrix Structures 215
Network Structures 216
Organizing in Teams 216
What Is a Team? 217
Types of Teams 217
Problem-Solving Teams 217 • Self-Managed Teams 217 • Functional Teams 217 • Cross-Functional Teams 218 • Virtual Teams 218 • Social Networks and Virtual Communities 218
Ensuring Team Productivity 220
Advantages and Disadvantages of Working in Teams 220
Characteristics of Effective Teams 221
Fostering Teamwork 224
Team Development 224
Team Conflict 224
Causes of Team Conflict 225 • Solutions to Team Conflict 225
Managing an Unstructured Organization 226
Potential Benefits of Unstructured Organizations 228
Potential Challenges of Unstructured Organizations 228

BEHIND THE SCENES TEAMING UP FOR SUCCESS AT THE CONTAINER STORE 230

KEY TERMS 231
TEST YOUR KNOWLEDGE 231
EXPAND YOUR KNOWLEDGE 232
PRACTICE YOUR SKILLS 232

CHAPTER 9
Production Systems 235

BEHIND THE SCENES CUSTOMIZING DREAMS AT CARVIN GUITARS 235

Introduction 236
The Systems View of Business 236
Thinking in Systems 236
Managing Systems for Peak Performance 237
Value Chains and Value Webs 239
Redefining Organizations with Value Webs 240
The Offshoring Controversy 241
Supply Chain Management 243
Supply Chains Versus Value Chains 244
Supply Chain Systems and Techniques 244
Production and Operations Management 245
Lean Systems 245
Mass Production, Customized Production, and Mass Customization 246
Facilities Location and Design 246
Forecasting and Capacity Planning 248
Scheduling 248
The Unique Challenges of Service Delivery 249
Perishability 250
Location Constraints 250
Scalability Challenges and Opportunities 250
Performance Variability and Perceptions of Quality 250
Customer Involvement and Provider Interaction 251
Product and Process Quality 251
Quality and Complexity 252
Strategies for Ensuring Process Quality 252
Continuous Improvement 252 • Statistical Process Control 253 • Six Sigma 253 • ISO 9000 253

BEHIND THE SCENES CARVIN’S PRODUCTION SYSTEM SATISFIES DEMANDING GUITARISTS 254

KEY TERMS 255
TEST YOUR KNOWLEDGE 255
EXPAND YOUR KNOWLEDGE 256
PRACTICE YOUR SKILLS 256

PART 4
Supporting the Workforce: Motivation and Human Resources 259

CHAPTER 10
Employee Motivation 260

BEHIND THE SCENES TAKING A SECOND LOOK AT THE CAREER LADDER 260

Introduction 261
What Motivates Employees to Peak Performance? 261
What Is Motivation? 261
Classical Theories of Motivation 263
Taylor’s Scientific Management 263 • The Hawthorne Studies and the “Hawthorne Effect” 263 • Maslow’s Hierarchy of Needs 264 • Theory X and Theory Y 264 • Herzberg’s Two Factors 265 • McClelland’s Three Needs 265
Explaining Employee Choices 266
Expectancy Theory 266
Equity Theory 267
Motivating with Challenging Goals 268
Management by Objectives 269
Risks and Limitations of Goal-Setting Theory 270
Redesigning Jobs to Stimulate Performance 271
The Job Characteristics Model 271
Approaches to Modifying Core Job Dimensions 272
Reinforcing High-Performance Behavior 273
  Types of Reinforcement 273
  Unintended Consequences of Reinforcement 274
Motivational Strategies 275
  Providing Timely and Frequent Feedback 275
  Making It Personal 275
  Adapting to Circumstances and Special Needs 276
  Addressing Workplace Negativity 276
  Being an Inspiring Leader 276
  Motivating Yourself 277
BEHIND THE SCENES MOTIVATING INDIVIDUALS BY PERSONALIZING CAREERS AT DELOITTE 277
KEY TERMS 278
TEST YOUR KNOWLEDGE 279
EXPAND YOUR KNOWLEDGE 279
PRACTICE YOUR SKILLS 279

CHAPTER 12
Labor Relations 307
BEHIND THE SCENES BOEING AND THE IAM: A HIGH-STAKES BATTLE WITH THOUSANDS OF JOBS ON THE LINE 307
Introduction 308
The Role of Labor Unions 308
  Unionization: The Employee's Perspective 309
  Unionization: Management's Perspective 310
Unionization in Historical Perspective 311
  Power to the Unions: The Wagner Act of 1935 312
  Power to the Owners: The Taft-Hartley Act of 1947 313
  Power to Union Members: The Landrum-Griffin Act of 1959 313
The Organizing Process 314
  Union Security and Right-to-Work Laws 314
  Types of Unions 314
  How Unions Are Structured 315
  Union Organizing Drives 316
  Management Efforts to Avoid Unionization 317
The Collective Bargaining Process 318
  Negotiating an Agreement 319
  Exercising Options When Negotiations Break Down 319
    Labor's Options 319 • Management's Options 320
Grievance, Discipline, and Arbitration Procedures 321
  Unfair Labor Practices 321
  Resolving Employee Grievances 322
  Disciplining Employees 322
  Arbitrating Disputes 322
The Future of Labor 323
BEHIND THE SCENES BOEING AND THE IAM: A LOSE-LOSE SCENARIO? 324
KEY TERMS 325
TEST YOUR KNOWLEDGE 326
EXPAND YOUR KNOWLEDGE 326
PRACTICE YOUR SKILLS 327

PART 5
Satisfying the Customer: Marketing, Sales, and Customer Support 329

CHAPTER 13
The Art and Science of Marketing 330
BEHIND THE SCENES RED ANTS PANTS GIVE WORKING WOMEN A CHOICE THAT FITS 330
Introduction 331
Marketing in a Changing World 331
  The Role of Marketing in Society 331
    Needs and Wants 331 • Exchanges and Transactions 332
      The Four Utilities 332
    The Marketing Concept 332
Challenges in Contemporary Marketing 334
Involving the Customer in the Marketing Process 334
Making Data-Driven Marketing Decisions 335
Marketing with Greater Concern for Ethics and Etiquette 337
Understanding Today’s Customers 338
The Consumer Decision Process 338
The Organizational Customer Decision Process 340
Identifying Market Opportunities 341
Examining the Current Marketing Situation 342
Reviewing Performance 342 • Evaluating Competition 342
Examining Internal Strengths and Weaknesses 342 • Analyzing the External Environment 342
Assessing Opportunities and Setting Objectives 342
Crafting a Marketing Strategy 344
Dividing Markets into Segments 344
Choosing Your Target Markets 344
Staking Out a Position in Your Target Markets 346
The Marketing Mix 347
Products 347
Pricing 347
Distribution 348
Customer Communication 348

BEHIND THE SCENES AGGRAVATION LEADS TO INSPIRATION FOR SARAH CALHOUN OF RED ANTS PANTS 350
KEY TERMS 351
TEST YOUR KNOWLEDGE 351
EXPAND YOUR KNOWLEDGE 352
PRACTICE YOUR SKILLS 352

CHAPTER 14
Product and Pricing Strategies 354

BEHIND THE SCENES TRANSFORMING A WORLD-CLASS ATHLETE INTO A WORLD-CLASS BRAND 354
Introduction 355
Characteristics of Products 355
Types of Products 355
Consumer Products 356
Industrial and Commercial Products 356
The Product Life Cycle 357
Introduction 358
Growth 358
Maturity 358
Decline 358
The New-Product Development Process 359
Idea Generation 359
Idea Screening 359
Business Analysis 360
Prototype Development 360
Test Marketing 360
Commercialization 361
Product Identities 361
Brand Name Selection 362
Brand Ownership 363
Packaging 363
Labeling 364
Product-Line and Product-Mix Strategies 364
Product Lines 365
Product Mix 365

Product Expansion Strategies 366
Product Strategies for International Markets 367

Pricing Strategies 368
Strategic Considerations in Pricing 368
Cost Structure and Break-Even Analysis 369
Pricing Methods 371
Cost-Based Pricing 371
Value-Based Pricing 371
Optimal Pricing 372
Skim Pricing 372
Penetration Pricing 372
Loss-Leader Pricing 372
Auction Pricing 372
Participative Pricing 373
Free and Freemium Pricing 373
Price Adjustment Tactics 374

BEHIND THE SCENES BUILDING THE ANNIKA BRAND 375
KEY TERMS 376
TEST YOUR KNOWLEDGE 376
EXPAND YOUR KNOWLEDGE 377
PRACTICE YOUR SKILLS 377

CHAPTER 15
Distribution and Marketing Logistics 380

BEHIND THE SCENES COSTCO MAKES THE GOOD LIFE MORE AFFORDABLE 380
Introduction 381
The Role of Marketing Intermediaries 381
Wholesaling Versus Retailing 381
Contributions of Marketing Intermediaries 381
Wholesaling and Industrial Distribution 384
Major Types of Wholesalers 384
The Outlook for Wholesaling 384
Retailing 386
Retailing Formats 386
The Outlook for Retailing 387
Distribution Strategies 389
Customer Needs and Expectations 389
Product Support Requirements 390
Segmentation, Targeting, and Positioning 390
Competitors’ Distribution Channels 390
Established Industry Patterns and Requirements 390
Considerations in Channel Design and Management 391
Channel Length 391
Market Coverage 392
Distribution Costs 393
Channel Conflict 393
Channel Organization and Control 393
Physical Distribution and Logistics 395
Forecasting 396
Order Processing 396
Inventory Control 396
Warehousing 396
Transportation 396

BEHIND THE SCENES COSTCO PUSHES ITS SUPPLY CHAIN TO SATISFY CUSTOMERS 398
KEY TERMS 399
TEST YOUR KNOWLEDGE 399
Contents

11

EXPAND YOUR KNOWLEDGE 400
PRACTICE YOUR SKILLS 400

CHAPTER 16

Customer Communication 403

BEHIND THE SCENES CREATING A BUSINESS
BY CONNECTING MOTHERS EVERYWHERE 403

Introduction 404
Customer Communication: Challenges, Strategies,
and Issues 404
  Establishing Communication Goals 404
  Defining Customer Messages 405
  Assembling the Communication Mix 406
  Communication Laws and Ethics 406
Advertising 408
  Types of Advertising 408
  Advertising Appeals 409
  Advertising Media 410
Direct Marketing 412
  Direct Marketing Techniques 413
  Direct Marketing Media 413
Personal Selling 415
  Contemporary Personal Selling 415
  The Personal-Selling Process 415
Sales Promotion 417
  Consumer Promotions 417
  Trade Promotions 418
Social Media and Public Relations 419
  Social Media in the Marketing Process 420
  Communication Strategies for Social Media 420
  Brand Communities 420
  Public Relations 421

BEHIND THE SCENES A NETWORK THAT STANDS OUT
IN THE CROWDED ONLINE SPACE 423

KEY TERMS 424
TEST YOUR KNOWLEDGE 424
EXPAND YOUR KNOWLEDGE 425
PRACTICE YOUR SKILLS 425

PART 6

Managing the Money: Accounting
and Financial Resources 429

CHAPTER 17

Financial Information and Accounting Concepts 430

BEHIND THE SCENES REALITY COMES KNOCKING
AT THE GOOGLEPLEX 430

Introduction 431
Understanding Accounting 431
  What Accountants Do 431
  Private Accountants 432
  Public Accountants 432
Major Accounting Rules 433
  Generally Accepted Accounting Principles (GAAP) 434

Non-GAAP Metrics 434 • Global Reporting Standards 435
Sarbanes-Oxley 435
Fundamental Accounting Concepts 436
  The Accounting Equation 436
  Double-Entry Bookkeeping and the Matching Principle 437
Using Financial Statements: The Balance Sheet 438
  Understanding Financial Statements 438
  Balance Sheet 438
  Assets 440 • Liabilities 441 • Owners' Equity 441
Using Financial Statements: Income and Cash Flow Statements 442
  Income Statement 442
  Statement of Cash Flows 444
Analyzing Financial Statements 445
  Trend Analysis 446
  Ratio Analysis 446
  Types of Financial Ratios 446
    Profitability Ratios 446 • Liquidity Ratios 446 • Activity Ratios 446 • Leverage, or Debt, Ratios 446

BEHIND THE SCENES GOOGLE THIS: “COST
CONTROL” 449

KEY TERMS 450
TEST YOUR KNOWLEDGE 451
EXPAND YOUR KNOWLEDGE 451
PRACTICE YOUR SKILLS 452

CHAPTER 18

Financial Management 454

BEHIND THE SCENES CHARGING AHEAD: VISA
SEARCHES FOR FUNDS 454

Introduction 455
The Role of Financial Management 455
  Developing a Financial Plan 456
  Monitoring Cash Flow 456
  Managing Accounts Receivable and Accounts Payable 457 • Managing Inventory 457
  Managing Cash Reserves 458
The Budgeting Process 459
  Budgeting Challenges 459
  Types of Budgets 460
Financing Alternatives: Factors to Consider 462
  Debt Financing Versus Equity Financing 462
  Length of Term 463
  Cost of Capital 463
    Risk 463 • Interest Rates 463 • Opportunity Cost 464
Financing Alternatives: Short-Term Debt 465
  Credit Cards 465
  Trade Credit 465
  Secured Loans 466
  Unsecured Loans 466
  Commercial Paper 467
  Factoring and Receivables Auctions 467
Financing Alternatives: Long-Term Debt 468
  Long-Term Loans 468
  Leases 469
  Corporate Bonds 469
Financing Alternatives: Equity 470
  Venture Capital and Other Private Equity 471
  Public Stock Offerings 471
Contents

BEHIND THE SCENES VISA FUNDS ITS FUTURE
WITH RECORD-SETTING IPO 473

KEY TERMS 474
TEST YOUR KNOWLEDGE 475
EXPAND YOUR KNOWLEDGE 476
PRACTICE YOUR SKILLS 476

CHAPTER 19

Financial Markets and Investment Strategies 478

BEHIND THE SCENES CHESAPEAKE ENERGY SEARCHES FOR STABILITY IN A VOLATILE WORLD 478

Introduction 479

Stocks 479
Types of Stock 479
Stock Valuation 480

Bonds 482
Advantages and Disadvantages of Bonds 483
Bond Issuers 484

Mutual Funds 485
Advantages and Disadvantages of Mutual Funds 485
Choosing Mutual Funds 486

Derivatives 489
Options and Financial Futures 489
Commodities Futures 490
Currency Futures 490
Credit Derivatives 490

Financial Markets 491
The Stock Market 491
The Bond Market 492
The Money Market 492
The Derivatives Market 492

Investment Strategies and Techniques 493
Establishing Investment Objectives 493
Learning to Analyze Financial News 494
Creating an Investment Portfolio 494
Buying and Selling Securities 495

BEHIND THE SCENES CHESAPEAKE ENERGY HEDGES, THEN DOESN'T, THEN DOES 496

KEY TERMS 496
TEST YOUR KNOWLEDGE 498
EXPAND YOUR KNOWLEDGE 499
PRACTICE YOUR SKILLS 499

CHAPTER 20

The Money Supply and Banking Systems 501

BEHIND THE SCENES CAN A NOT-FOR-PROFIT CREDIT UNION COMPETE IN A PROFIT-DRIVEN WORLD? 501

Introduction 502

The Money Supply 502
The Meaning of Money 502
Monitoring and Managing the Money Supply 503

The Federal Reserve and Other Federal Financial Institutions 504
The Fed's Major Responsibilities 504
The Fed's Tools for Implementing Monetary Policy 505
The Federal Funds Rate 505 • The Discount Rate 506
Other Government Banking Agencies and Institutions 506

Investment Banking 507
Services Offered by Investment Banks 507
Types of Investment Banks 508
Commercial Banking and Other Financial Services 509
Commercial Banking Services 509
Other Financial Services 510

Banking's Role in the Great Recession 511
Building the Perfect Bubble 511
Recovering from the Dot-Com Bubble 511 • Creating a New Bubble in Housing 512 • Securitizing Debt 514
The Bubble Bursts: The Meltdown of 2008 514
The Great Recession 515

Efforts to Regulate and Reform the Banking Industry 517
Lessons to Be Learned 517
Efforts to Prevent Another Banking Crisis 517

BEHIND THE SCENES ALLIANT CREDIT UNION: A MEMBER-DRIVEN APPROACH TO MEETING CUSTOMER NEEDS 520

KEY TERMS 520
TEST YOUR KNOWLEDGE 521
EXPAND YOUR KNOWLEDGE 521
PRACTICE YOUR SKILLS 522

Appendixes

APPENDIX A
Business Law 524

APPENDIX B
Risk Management 532

APPENDIX C
Information Technology 539

APPENDIX D
Personal Finance: Getting Set for Life 546

Glossary 560

Brand, Organization, Name, and Website Index 578

Subject Index 580