

# ENTREPRENEUR, || COST OF PRODUCTION, REVENUE, PROFIT



**ENTREPRENEURS AND BUSINESSES INCUR COSTS WHEN THEY BUY RESOURCES AND EARN REVENUES WHEN THEY SELL THE GOODS AND SERVICES PRODUCED WITH THOSE RESOURCES.**



**Economics  
Arkansas**

EDUCATION FOR REAL LIFE

# CONCEPT STATEMENTS FOR ELEMENTARY ECONOMICS

1. People consume goods and services to help satisfy their wants.
2. Resources are used to produce goods and services.
3. Because many things are scarce, people need ways to allocate them.
4. Scarcity requires people to make choices that involve trade-offs and have opportunity costs.
5. Specialization and division of labor increase people's productivity and dependency on one another.
6. People are willing to make exchanges when what they receive is worth more to them than what they give up.
7. Money makes trading easier.
8. The price of a good, service, or resource is determined by buyers and sellers in that market.
9. People earn income when they sell their resources.
10. People incur expenditures when they buy goods and services.
11. **Entrepreneurs and businesses incur costs when they buy resources and earn revenues when they sell the goods and services produced with those resources.**
12. Governments provide goods and services and collect taxes.

## ENTREPRENEURS AND BUSINESSES INCUR COSTS WHEN THEY BUY RESOURCES AND EARN REVENUES WHEN THEY SELL THE GOODS AND SERVICES PRODUCED WITH THOSE RESOURCES.

**BUSINESS:** an organization that produces or provides goods or services

**Examples:**

- ❖ bakery (donuts), hair salon (hair coloring)
- ❖ Pepsi™ (soft drinks), Netflix™ (video services)

**ENTREPRENEUR:** an individual who takes the risk of starting or expanding a business

**Examples:**

- ❖ owners of small businesses
- ❖ Sam Walton (Walmart™)
- ❖ Bill Gates (Microsoft™)
- ❖ Oprah Winfrey (Harpo Productions™)

**COST OF PRODUCTION:** money spent by a business to buy the resources they use to produce

**Examples:**

- ❖ payments to workers (human resources)
- ❖ payments for materials (natural resources)
- ❖ payments for equipment (capital resources)
- ❖ payments for buildings (capital resources)

**REVENUE:** money received by a business for the goods and services they sell

**Examples:**

- ❖ Billy sells 40 glasses of lemonade for 25 cents each so his revenue is \$10 ( $40 \times \$0.25$ ).
- ❖ By selling 1000 units of its latest television for \$750 each, Sony™ earns \$750,000 in revenue.

**PROFIT:** a business' revenue minus its cost of production; income earned by entrepreneurs

### Concept Statement Examples

- ❖ Katie and Adrienne (entrepreneurs) set up a lemonade stand (business) to sell lemonade (good) they made. They paid \$10 (cost) for lemons, sugar, and cups and used their mom's pitcher, spoon, and table for free. They sold 32 cups of lemonade for 50 cents each making \$16 (revenue). This left them with \$6 ( $\$16 - \$10$ , profit) to pay themselves.
- ❖ In 2016 Apple™ (a business which produces computers, phones, and other goods) reported that it earned \$215 billion in revenues from selling its goods and incurred costs of \$155 billion to produce and promote its goods. Its profit was \$60 billion ( $\$215$  billion in revenues minus  $\$155$  billion in costs).

## GETTING STARTED

- ❖ Cover the word “Entrepreneur” before showing the illustration on front of the guide.
- ❖ Show the illustration and ask the students what they see. Allow time for several to respond. Students can be divided into pairs or small groups to discuss their answers before sharing with the class.
- ❖ Ask: What is the man doing? (*He is selling hot dogs.*) State that this is his business. Ask: What is in the thought bubble? (*Money*) This is the money he is hoping to make by selling the hot dogs.
- ❖ Share this quote with the class: “Entrepreneurs are individuals who see a want for a good or service and start a business to fill that want.” Continue the discussion with the following questions about the illustration: What is the man’s product? (*Hot dogs*); What want would this satisfy? (*Not to be hungry*)
- ❖ Uncover the word “Entrepreneur” on the front cover. Provide examples of local entrepreneurs.

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## USING QUESTIONING SUCCESS

- ❖ Define a business as an organization that produces or provides a good or service. Have students provide local examples. Explain that while some businesses are very large organizations, they were often started by one or two people. These people are called entrepreneurs.
- ❖ Distribute a copy of the activity page to each student. Explain that they are to answer five questions about a business they will be assigned (use examples below or other national or local businesses).
  - Who Founded?
  - What Good or Service?
  - When Founded (Year)?
  - Where Founded (State)?
  - Why Successful?
- ❖ Assign each student a business (multiple students can be assigned the same business) and have them write the name of the business in the box at the top. Have students complete the activity page as a research project, and then report to the class for discussion. (*Focus on what made these businesses so successful, that is, how well did their good or service satisfy a consumer want?*)

*“Business” examples (including responses to all questions except “Why Successful?”)*

McDonald’s: Ray Kroc; fast food; 1955; Illinois

Walmart: Sam Walton; discount retail; 1962; Arkansas

Spanx: Sara Blakely; hosiery; 2000; Georgia

Coca-Cola: Sam Pemberton; beverages; 1886; Georgia

Ford: Henry Ford; vehicles; 1903; Michigan

Target: George Dayton; discount retail; 1902; Minnesota

Amazon: Jeff Bezos; online retail; 1994; Washington

J.C. Penney: James Cash Penney; retail; 1902; Wyoming

Microsoft: Bill Gates and Paul Allen; computer operating systems; 1975; New Mexico

Facebook: Mark Zuckerberg and four others; social network; 2004; Massachusetts

Disney: Walt and Roy Disney; animation and theme parks; 1923; California

Nike: Bill Bowerman and Phil Knight; athletic shoes and clothing; 1964; Oregon

Hershey’s: Milton Hershey; chocolate bars; 1894; Pennsylvania

Harpo Productions: Oprah Winfrey; multi-media; 1986; Illinois

Apple: Steve Jobs, Steve Wozniak, and Ronald Wayne; personal computers; 1976; California

Johnson Publishing: John and Eunice Johnson; magazines; 1942; Illinois

Hasbro: Henry, Hillel, and Herman Hassenfield; toys and games; 1923; Rhode Island

Netflix: Reed Hastings and Marc Randolph; streaming media; 1997; California

Crayola: Edwin Binney and C. Harold Smith; crayons; 1885; New York

Clover Letter: Liza Darwin and Casey Lewis; email newsletter for teen girls; 2015; New York

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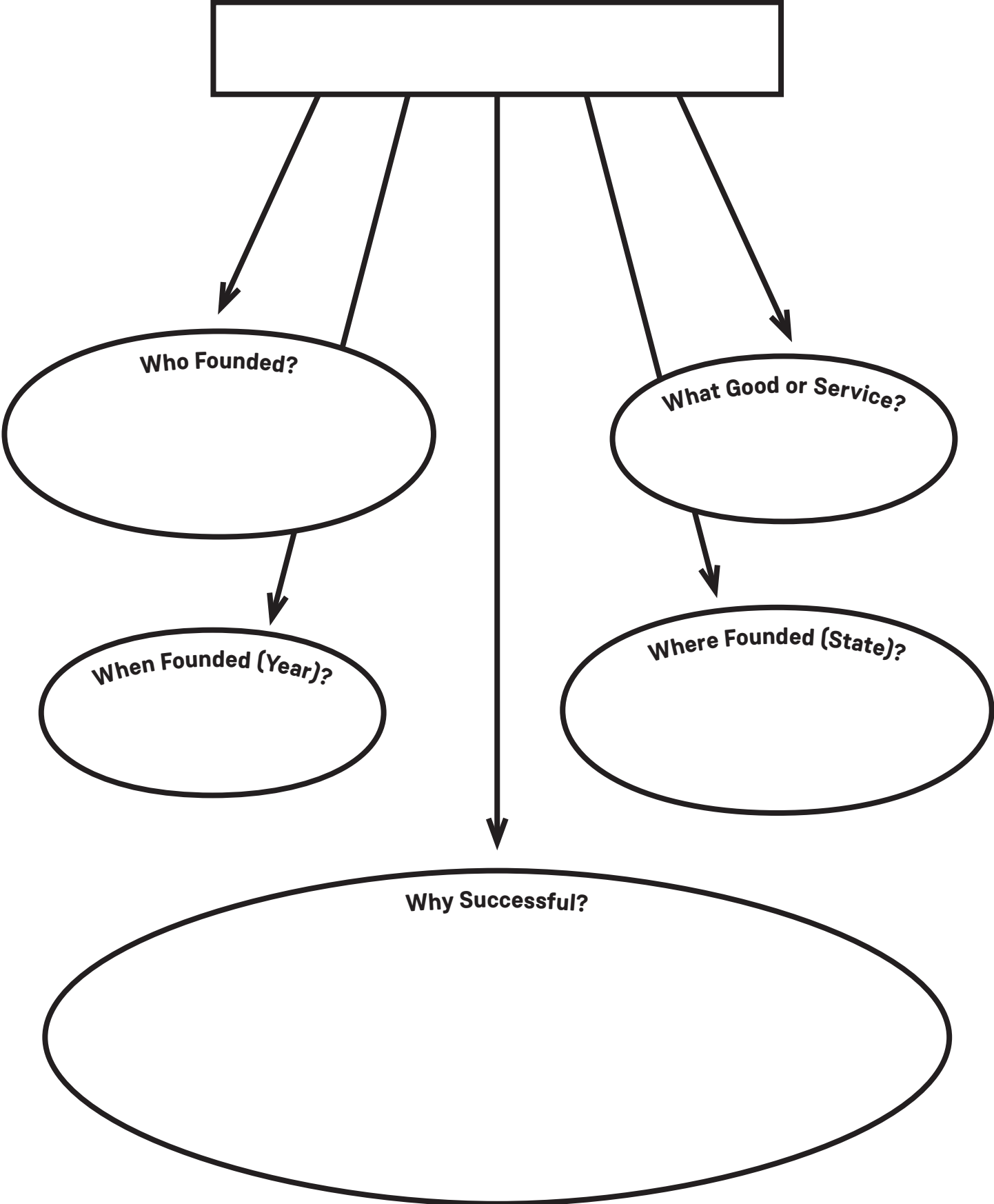
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# QUESTIONING SUCCESS



# YOU WANT THIS!

## OUR BUSINESS

Name:

Logo:



## OUR GOOD

Name:

What does it do?

What want does it satisfy?

What materials are used to make it?

## OUR PRESENTATION

Slogan:

“You Want This!” because:

# HOW MUCH PROFIT?

| Inputs Used | Amount  | Price of Input | Cost of Each Input              |
|-------------|---------|----------------|---------------------------------|
| Workers     | 8 units |                |                                 |
| Materials   | 2 units |                |                                 |
| Equipment   | 5 units |                |                                 |
|             |         |                |                                 |
|             |         |                | <b>Cost<br/>(of Production)</b> |

| Output Produced | Amount   | Price of Output | Revenue |
|-----------------|----------|-----------------|---------|
| Widgets         | 25 units |                 |         |

|                |          |  |             |          |               |
|----------------|----------|--|-------------|----------|---------------|
| <b>Revenue</b> |          |  | <b>Cost</b> |          | <b>Profit</b> |
|                | <b>-</b> |  |             | <b>=</b> |               |

## USING YOU WANT THIS!

[Note: The various steps of this activity can be done over several class periods. This activity requires one token per student.]

- ❖ Divide the class into groups of 3-5 students and provide each group with an identical set of materials and tools (paper cups and plates, yarn, pipe cleaners, index cards, colored paper, straws, paper clips, tape, crayons, scissors, stapler, etc.).
- ❖ Relate the following: Each group is to decide on a business name and logo, or symbol for their business (like McDonald's™ golden "M" or Nike's™ "swoosh"). Next, each group will develop and produce a good from the materials provided that they hope others in the class would like to have. Finally, each group will have two minutes to present their good and a slogan (like a commercial) to the rest of the class to entice them to want it. After all groups have made their presentations, each student will get one token to place next to the good they want the most. However, they cannot select their own good...it must be one produced by one of the other groups.
- ❖ Distribute a copy of the activity page to each group and go through the following steps:
  - Step 1: Allow groups 5-10 minutes to complete the "OUR BUSINESS" section.
  - Step 2: Allow groups 15-20 minutes to produce a good and complete the "OUR GOOD" section.
  - Step 3: Allow groups 10-15 minutes to complete the "OUR PRESENTATION" section.
  - Step 4: Have each group make their presentation and leave the good they created on a table in the classroom.
  - Step 5: Have groups come up one at a time and let each student select their favorite good by placing a token next to it (when a group is selecting, pull their good off the table so they can't choose it).
  - Step 6: Count up the tokens next to each good and report how many each group "earned."
- ❖ Discuss reasons why groups with the most tokens were successful ("profitable") and those with the least tokens were not ("unprofitable").
- ❖ **Writing extension:** Was your business successful? Why or why not?

## USING HOW MUCH PROFIT?

[Note: This activity requires one die per student (although students in small groups could share the use of a die).]

- ❖ Remind students that it takes resources to produce goods and services. Explain: Producers or businesses who want to produce a good or service (the output of production) must first buy the resources (or inputs of production) needed to produce it. This payment of money is called their cost of production. Once they produce their good or service they can sell it to consumers. The money they earn from doing this is called their revenue. The business is hoping its revenue is greater than its cost of production. If so, it makes a profit, if not it suffers a loss.
- ❖ Distribute a copy of the activity page to each student.
- ❖ Describe the following situation: Each student will play the role of an entrepreneur or business owner hoping to make a profit. Each business will be producing 25 widgets using 8 workers, 2 units of some material, and 5 pieces of equipment. This will be the same for everyone. However, the prices of widgets and resources will depend on market conditions that will be determined by the roll of a die.
- ❖ Take students through the following steps pausing for any questions:
  - Step 1: The price of each input will be determined by rolling a die. A roll of "1" means a price of \$1, a roll of "2" means a price of \$2, and so on. Distribute a die to each student and have them roll it one time to determine the price of the Workers they will use Record under "Price of Input." Repeat this for the next two inputs (Materials and Equipment).
  - Step 2: Multiply the amount of units of each input used by its price and record under "Cost of Each Input." For example, if the price of workers is \$4, then the cost of workers would be 8 (units) x \$4 or \$32.
  - Step 3: Add the amounts in the "Cost of Each Input" column to get the "Cost (of Production)" which is the total cost of all the inputs used.
  - Step 4: The price of widgets will be determined the same way as the price of inputs: A roll of "1" means a price of \$1, a roll of "2" means a price of \$2, and so on. Have each student roll a die one time to determine the price of their widgets. Record under "Price of Output."
  - Step 5: Multiply the amount of widgets (25) by the price of widgets and record under "Revenue."
  - Step 6: Transfer "Revenue" and "Cost" amounts to the boxes at the bottom of the page. Subtract cost from revenue to determine profit and record under "Profit." Explain that this can be positive, zero, or even negative. Negative profit is called a loss.
- ❖ Have students report their profit. Ask the following: Why did some students make large profits, but other students had losses. (*Lower input prices and/or higher widget prices should lead to profits, while the opposite would lead to losses.*) Why was this business risky? (*Uncertainty about prices of inputs and the output*) How does the order in which a business incurs costs and earns revenues make any business risky? (*It must incur the cost of production first before there is any output to sell to earn revenue.*)
- ❖ Repeat the activity with these questions: Before Step 1: What do you hope you roll? ("1" or low number) Why? (*Lowers the cost of production; better chance for profit*) Before Step 4: What do you hope you roll? ("6" or high number) Why? (*Raises revenue; better chance for profit*)