Chapter 3
Your Role as a Consumer

Chapter 4
Going Into Debt

Chapter 5
Buying the Necessities

Chapter 6
Saving and Investing

In this unit, read to FIND OUT . . .

- how basic economic principles can help you in your daily life.
- what pitfalls to avoid when going into debt.
- what you should be aware of before buying a vehicle or house.
- why saving and investing are sound economic habits to learn.
Americans save less than 5 percent of their income.

You will spend about 12 percent of your income on food.

The “average” existing house will cost you well over $144,000.

Americans own the most vehicles—about 195 million.
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, view the Economics & You Chapter 9 video lesson: Your Role as a Consumer

Chapter Overview Visit the Economics Today and Tomorrow Web site at tx.ett.glencoe.com and click on Chapter 3—Chapter Overviews to preview chapter information.
SECTION 1

Consumption, Income, and Decision Making

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.

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.

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?
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.

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

- Transportation 19%
- Housing and Household Operation 30%
- Food 12%
- Clothing 6%
- Health Care 6%
- Entertainment 6%
- Life Insurance, Social Security, and Retirement Plans 11%
- Other 10%

Source: Standard & Poor's

For an online update of this graph, visit tx.ett.glencoe.com and click on Textbook Updates—Chapter 3.
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 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?

**Earning Power**

The number of years you are educated 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?

<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>$14,155</td>
<td>$8,433</td>
</tr>
<tr>
<td>High School Graduate</td>
<td>$25,406</td>
<td>$13,950</td>
</tr>
<tr>
<td>Some College</td>
<td>$27,262</td>
<td>$16,317</td>
</tr>
<tr>
<td>Bachelor’s Degree</td>
<td>$51,422</td>
<td>$30,913</td>
</tr>
<tr>
<td>Advanced Degree</td>
<td>$81,658</td>
<td>$45,054</td>
</tr>
</tbody>
</table>

Source: Bureau of the Census

For an online update of this graph, visit [tx.ett.glencoe.com](http://tx.ett.glencoe.com) and click on *Textbook Updates—Chapter 3.*
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.

**Scarce Resources** After you have decided to make a purchase, at least two scarce 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.
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 so attractive or as long lasting. At times, such a purchase may suit your needs very well, however.
2. If I am buying an appliance or a car, do I want one that will be 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 so, 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 I know own this product so that I can get a firsthand 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 is 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.

**FIGURE 3.5**

**Buying Decisions** If you choose the higher-priced product, you must believe that the opportunity cost for the higher quality is worth the higher price—that nothing else at that instant will give you as much value. What two scarce resources are involved in every consumer purchase you make?

**SECTION 1 Assessment**

**Understanding Key Terms**
1. Define consumer, disposable income, discretionary income, rational choice.

**Reviewing Objectives**
2. What kinds of products are purchased with discretionary income?
3. **Graphic Organizer** Create a diagram like the one below to describe three things a consumer should consider before deciding to make a purchase.

**Applying Economic Concepts**

**Critical Thinking Activity**
5. **Categorizing Information** Draw a circle graph like Figure 3.1—Consumer Spending—on page 60. Develop categories that reflect how you spend your income. Then calculate and analyze the amount you spend in each category. Transpose this amount into a percentage to show your personal consumer spending as a circle graph. For help in using circle graphs, see page xvi in the Economic Handbook.
Distinguishing Fact From Opinion

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.

• Read or listen to the information carefully. Identify the facts. Ask: Can these statements be proved? Where would I find information to verify them?
• If a statement can be proved, it is factual. Check the sources for the facts. Often statistics sound impressive, but they may come from an unreliable source.
• Identify opinions by looking for statements of feelings or beliefs. The statements may contain words like should, would, could, best, greatest, all, every, or always.

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.

“Sony’s Digital Creatures Laboratory [has] introduced what is almost certainly the world’s most sophisticated entertainment robot. Priced at $2,000, it’s called AIBO, a Japanese word for ‘companion’ that’s also short for Artificial Intelligence Robot. And yes, AIBO is a robotic dog. This puppy is not ready to bring you your slippers, but in sheer brain power, he puts your basic Furby to shame.

Sony hopes AIBO is just the first in a whole menagerie of artificial dogs, cats, monkeys, and creatures yet to be imagined. . . . Indeed, AIBO is just smart enough not to fall off the edge of a table. But within a few years, such companions could be running errands, helping with household chores, and assisting the handicapped.”
—Business Week, May 24, 1999

1. What are three factual statements in the passage?
2. Which statements are opinions? Explain.

APPLICATION ACTIVITY
Record a television interview. List three facts and three opinions that were stated.
The goal of advertisements is to win your consumer dollars, and advertisers are willing to spend millions of dollars to attract your attention to their products. Because of the problems of scarce income and time, however, your goal should be to obtain the most satisfaction from your limited income and time. In this section, you’ll learn about three basic buying principles that can help you and all consumers achieve this goal. They are: (1) gathering information; (2) using advertising wisely; and (3) comparison shopping.

Gathering Information

Suppose that you want to buy a mountain bike. After you have made this decision, you must select a brand and a model. How
should you go about doing this? First, you have to obtain information about mountain bikes. You can spend time testing out friends’ mountain bikes. As Figure 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 mountain 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.

**Figure 3.6**

**Gathering Information** When shopping for a product, obtain only as much information as is worthwhile. You would not, for example, want to go to every bike store in your town or city and spend two hours with every salesperson discussing every model. In contrast, you would probably want to spend more than two minutes reading one advertisement about one model.
Using Advertising Wisely

Advertising is all around you. Whenever you turn on the radio or television or log on to the Internet, you will more than likely 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.

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**Figure 3.7** Checklist for Analyzing Ads

As you read advertisements, ask yourself:

1. Does the ad only appeal to my emotions or does it provide facts?
2. What are the special features of the product? Do I need any of these features?
3. Does the ad tell me anything about operating costs?
4. Does the ad tell me anything about a product’s durability, or ability to last?
5. Does the advertised price compare favorably with the price of similar products?
6. Is the advertised price the entire price, or are there extra costs in small print?

**competitive advertising**: advertising that attempts to persuade consumers that a product is different from and superior to any other

**informative advertising**: advertising that benefits consumers by giving information about a product

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**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.
**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.

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**Economic Connection to... Technology**

**Comparison Shopping on the Web**

The Internet makes price comparisons easy. Type **comparison shopping** into your search engine. You will come up with dozens of Web sites that allow you to easily comparison shop when you know a specific brand and model of an item you wish to buy. You can also use an intelligent shopping agent, a program that continually searches the Web to find the best price for the item you wish to buy.
**Warranties** When you comparison shop, the most obvious influence on your decision will be the price you have to pay for the product. However, don’t forget to find out which store offers the best warranty, or the promise made by a manufacturer or seller to repair or replace a product if it is found to be faulty within a certain period of time.

**Brand-Name or Generic Products** Another consumer choice is between buying brand-name and generic products. A **brand name** is a word, picture, or logo on a product that helps consumers distinguish it from similar products. Brand-name products are usually sold nationwide and are backed by major companies.

Some companies produce and sell **generic brands**, which means there is no brand name at all. The word *generic* means “pertaining to a general class.” It is difficult to know who produced the product. Brand-name products versus generic products will be further discussed in Chapter 5.

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**Understanding Key Terms**

1. Define competitive advertising, informative advertising, bait and switch, comparison shopping, warranty, brand name, generic brand.

**Reviewing Objectives**

2. What trade-offs occur when you are gathering information?

3. Graphic Organizer Create a chart like the one below to analyze and label at least 10 advertisements as to whether they are competitive or informative.

<table>
<thead>
<tr>
<th>Ad Description</th>
<th>Type</th>
<th>Explain</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Applying Economic Concepts**

5. Advertising Think of an advertisement you’ve seen in the past week. Analyze the ad by applying it to the six points in Figure 3.7 on page 68. Was the ad successful in influencing your consumer behavior? Why or why not?

**Critical Thinking Activity**

6. Making Comparisons Select a product that you use every day: a hair dryer or television, for example. Do some comparison shopping by finding at least five separate locations that sell this product. What were the differences in price for the product?
Is it advertising run amok? Movie trailers have come to your ATM. And more may be on the way. Full-motion video ads are now running on the screens of automated teller machines at some 7-Eleven stores in New York, Chicago, San Diego, and, naturally, Los Angeles. Customers have already seen coming attractions for some films at the convenience store, and who knows, you may yet see that Star Wars trailer at your local S&L.

Trailers are a natural choice for showing off the video capabilities of new, sophisticated ATMs, says Cassie Metzger, a marketing manager at Diebold, a big ATM maker. And since people often stop to pick up cash before seeing a flick, she says, a 15- or 30-second trailer, with sound, could influence what they see. The ads don’t lengthen transaction time. They play while the ATM is already processing.

Banks, such as Union Federal Savings in Indiana, are still conservative. So far, they’ve run only bank ads. But other advertisers are expected. After all, it’s a marketer’s dream: Customers can’t change channels and they can’t walk away—at least not without leaving their cash.

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Think About It

1. Where has advertising now appeared?
2. Do you think this type of advertising would have an effect on your consumer decisions? Why or why not?
Reader’s Guide

Terms to Know

• consumerism
• ethical behavior

Reading Objectives

1. What are your rights as a consumer?
2. What private and federal help can you receive as a consumer?
3. What are your responsibilities as a consumer?

Cover Story

The Columbus Dispatch, May 20, 1999

A consumer-protection bill for new-car buyers passed in the Ohio House of Representatives. Existing law requires the manufacturer to buy back a lemon [chronically-defective new car] after three attempts to fix the same defect, eight attempts to fix a variety of defects, or a total of 30 days in the repair shop. The bill extends the lemon law to leased vehicles and applies up to five years after delivery of the vehicle.

If a manufacturer tries to resell a car it has had to repurchase, the title must identify the car as a “buyback.” Consumer groups wanted the title to say “lemon.”

Most Americans are concerned with the reliability of the products and services they use. Many private groups and government actions, like the “lemon law” in the Cover Story above, work to ensure the well-being of consumers. Consumers themselves, however, must be proactive in their buying habits. In this section, you’ll learn how consumerism, a movement to educate buyers about the purchases they make and to demand better and safer products from manufacturers, affects you personally.

Consumer Rights

Since the early 1960s, consumerism has grown steadily. Businesses can no longer assume it is the buyer’s responsibility to know whether a product is safe, food is healthful, or advertising is accurate. See Figure 3.9.
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 markets where competition does not exist, such as electric service.
- 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 manufacturers 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 specific 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 citizens’ 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 consumers. 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.**
### Federal Agencies and Consumerism

<table>
<thead>
<tr>
<th>Agency</th>
<th>How It Helps the Consumer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Information Center Program</td>
<td>Provides free catalog of government publications on consumer topics.</td>
</tr>
<tr>
<td>Federal Trade Commission</td>
<td>Promotes competition by enforcing laws against monopolies, price fixing, false advertising, and other illegal business practices; regulates labeling of products and protects the public against violations of consumer credit laws.</td>
</tr>
<tr>
<td>Consumer Product Safety Commission</td>
<td>Protects the public against unreasonable risk of injury from consumer products; sets product safety requirements, forbids the production and sale of dangerous consumer products, and conducts research and education programs on safety concerns for industry and the public.</td>
</tr>
<tr>
<td>Government Printing Office</td>
<td>Sells more than 15,000 government publications on a wide variety of topics; lists those of interest to consumers in a free booklet, <em>Consumer Information Subject Bibliography</em>.</td>
</tr>
<tr>
<td>U.S. Postal Service</td>
<td>Through its Inspection Services, protects public from mail fraud and other violations of postal laws; through Consumer Advocate’s office, acts on complaints and provides information on schemes used to cheat the public.</td>
</tr>
<tr>
<td>U.S. Department of Agriculture</td>
<td>Inspects and grades meat, fish, poultry, dairy products, and fruits and vegetables through the department’s Food Safety and Quality Service; ensures that food production is sanitary and that products are labeled truthfully.</td>
</tr>
<tr>
<td>Bureau of Consumer Protection</td>
<td>Protects consumers against unfair, deceptive, or fraudulent practices; enforces a variety of consumer protection laws, as well as trade regulations; informs Congress and other government entities of the impact that proposed actions could have on consumers.</td>
</tr>
<tr>
<td>Food and Drug Administration (Department of Health and Human Services)</td>
<td>Protects the public against impure and unsafe foods, drugs, and cosmetics; researches and tests new products in these areas and ensures accurate labeling; publishes <em>FDA Consumer</em> magazine and maintains regional consumer affairs offices.</td>
</tr>
<tr>
<td>National Highway Traffic Safety Administration (Department of Transportation)</td>
<td>Sets requirements for automobile safety, maintenance, and fuel economy; tests products for compliance; researches ways to save fuel and make highways safer; investigates complaints from consumers about vehicle safety.</td>
</tr>
</tbody>
</table>
(3) Include important details and copies of receipts, guarantees, and contracts to support your case.

(4) Describe any action you have taken to try to correct the problem.

(5) Keep an accurate record of your efforts to get the problem solved. Include the names of people you speak or write to and the dates on which you communicated.

(6) Allow each person reasonable time, such as three weeks, to solve the problem before contacting another source.

(7) If you need to contact the manufacturer in writing, type your letter or send an E-mail directly. Keep a copy.

(8) Keep cool. The person who will help you solve your problem is probably not responsible for the problem.

Another responsibility of consumers is to exhibit ethical behavior by respecting the rights of producers and sellers. For example, a responsible consumer will not try to return a used item because it has been advertised elsewhere for a lower price.

ethical behavior: acting in accordance with moral and ethical convictions about right and wrong

**SECTION 3: Assessment**

**Understanding Key Terms**

1. Define consumerism, ethical behavior.

**Reviewing Objectives**

2. Graphic Organizer Create a diagram like the one below to list your rights as a consumer.

3. What private and federal help can you receive as a consumer?

4. What are your consumer responsibilities?

**Applying Economic Concepts**

5. Consumerism Describe two examples of how you educated yourself about a product before buying it.

**Critical Thinking Activity**

6. Summarizing Information Prepare a video or multimedia presentation for middle school students that demonstrates ethical and unethical consumer behavior. Conclude the presentation with an analysis of consumer rights and responsibilities. Share the presentation with the other members of your class.
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 14 years. It is seen by 26 million viewers weekly in the United States and is broadcast in 112 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. Identify ways that Oprah contributes to others.
Your Role As a Consumer

SECTION 1  Consumption, Income, and Decision Making

- A consumer is any person or group that buys or uses goods and services to satisfy personal wants.
- Income can be both disposable and discretionary.
- Education, occupation, experience, and health can all make differences in a person’s earning power and thus in his or her ability to consume.
- Making consumer decisions involves three parts: (1) deciding to spend your money; (2) deciding on the right purchase; and (3) deciding how to use your purchase.
- When you make consumer decisions based on opportunity cost, you are engaging in rational choice.

SECTION 2  Buying Principles or Strategies

- Three basic buying principles that can help you obtain the most satisfaction from your limited income and time are gathering information, using advertising wisely, and comparison shopping.
- 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.
- Most advertising falls under one of two types: competitive advertising or informative advertising. Be aware of deceptive advertising, which includes bait and switch.
- To efficiently comparison shop, read newspaper advertisements, make telephone calls, surf the Internet, and visit different stores. Also consider the product’s warranty, and brand-name versus generic manufacturers.

SECTION 3  Consumerism

- Consumerism is a movement to educate buyers about the purchases they make and to demand better and safer products from manufacturers.
- Consumer advocates promote the following consumer rights: the right to safety, to be informed, to choose, to be heard, and to redress.
- Private groups that aid consumers include local citizens’ action groups and the Better Business Bureau.
- Numerous federal agencies have programs to aid consumers, including the Consumer Product Safety Commission and the Food and Drug Administration.
- Consumers’ responsibilities include reading contracts and warranties, following directions for proper use of the product, initiating the problem-solving process, and exhibiting ethical behavior.
Identifying Key Terms

Write the letter of the definition in Column B that correctly defines each term in Column A.

Column A
1. disposable income
2. warranty
3. bait and switch
4. comparison shopping
5. competitive advertising
6. informative advertising
7. generic brand
8. consumer
9. discretionary income
10. brand name

Column B
a. deceptive advertising
b. getting information about similar types of products and prices
c. “pertaining to a general class”
d. money income left after paying taxes
e. attempts to persuade consumers that certain products are superior to others
f. written guarantee of a product
g. income left after buying necessities
h. provides information about the price, quality, and features of products
i. logo on a product
j. person or group that buys or uses goods and services to satisfy personal wants

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.

```
\[ \text{Education} \rightarrow \text{Occupation} \rightarrow \text{Earning Power} \]
```

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.

<table>
<thead>
<tr>
<th>Checklist Number</th>
<th>Step</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Reviewing Skills

Distinguishing Fact From Opinion  Analyze the advertisement below, then answer the questions that follow.
1. Which of the statements in the ad are based on facts? Explain.
2. Which of the statements are based on opinion? Explain.

Technology Activity

Using E-Mail  Many consumers will complain about a defective product or lousy service to friends and family members. Learn to address a problem purchase with someone who can solve it—the manufacturer. Think of a product or service you were dissatisfied with after purchasing it. Practice writing an E-mail to the manufacturer using the outline below.

Your Address
City, State, ZIP Code
Phone
Date

Customer Service Department
Company Name
Street Address
City, State, ZIP Code

Dear Customer Service Representative:

I bought a (product name, serial no., model no.) at (location and date of purchase). Unfortunately, (state problem, history of problem, and efforts to solve it).

I would appreciate your (state specific actions to be taken). Enclosed are copies of the following records: (list and enclose all documents connected with the problem).

I am looking forward to your reply and resolution of my problem and will wait (state reasonable time period) before seeking third party assistance. Please contact me at the above address or by phone.

Sincerely,

WE DELIVER!


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

We’re a $5 billion company, with 33,000 people, 25,000 pieces of equipment, up to 100 jet freighters, and the industry’s most advanced information systems.

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.
Michael Dell loved to tinker with computers. By the time he reached high school, he could break down and reassemble 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 premed student at the University of Texas in Austin in 1983.

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 upgraded 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: “[Y]ou could order anything [online]—including a computer. And the great thing was, you needed a computer to do this! I couldn’t imagine a more powerful creation 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 one of the leading companies in Internet commerce.

**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 everyone to own a Dell computer!

**Free Enterprise in Action**

1. What is the Dell direct business model?
2. Why did Michael Dell feel that the development of the Internet was important for his company?