

Everyday Economics

What Is an Entrepreneur?

Lesson Description

In this lesson, students will be introduced to entrepreneurs as a resource and explore their function in the economy. Through a series of interactives, students will review the four productive resources—land, labor, capital and entrepreneurship—and identify how each is important in creating a product or service. Students will identify the incentives that motivate entrepreneurs by looking at profit and the other forms of fulfillment. Using a Venn diagram, students will compare the traits of innovative and replicative entrepreneurs. Last, students will look at how government fosters an entrepreneurial society through tax policies, regulations and infrastructure.

Voluntary National Content Standards in Economics

Standard 14: Entrepreneurship

Entrepreneurs take on the calculated risk of starting new businesses, either by embarking on new ventures similar to existing ones or by introducing new innovations. Entrepreneurial innovation is an important source of economic growth

Instructional Objectives

Students will:

- Analyze the function of an entrepreneur in a market economy.
- Identify the incentives that motivate entrepreneurs.
- Compare innovative and replicative entrepreneurs.
- Evaluate the role of government in supporting entrepreneurship.

Time Required

One 50-minute class period

Materials Required

SmartBoard

Notebook File

Class set of *Entrepreneurs* (Everyday Economics series) (available at www.dallasfed.org/educate/cfm)

Copies of Handout 1 for each student

Warning

The first time you teach the lesson, save a master copy to your computer or a flash drive. If you do not, you will not be able to save notes from each class. Before each class, reload the master copy of the notebook file to be certain that all of the elements on each page are ready for use.

Procedure

Before you begin the SMART Lesson, have your students read the *Entrepreneurs* publication from the *Everyday Economics* Series.

- 1. Display Slide 1.** Tell students that the topic of the lesson is entrepreneurs.
- 2. Display Slide 2.** Review the instructional objectives for the lesson.
- 3. Display Slide 3.** Use the space provided to brainstorm with the class the definition of entrepreneurs. What type of person is an entrepreneur? What, if any, characteristics are common among all entrepreneurs? Answers will vary, but might include:
 - Entrepreneurs are inventors.
 - Entrepreneurs are business owners.
 - Entrepreneurs take risks.

Guide the discussion to arrive at the idea that entrepreneurs organize productive resources to produce a product or service, take a risk and bring their product or service to the marketplace in the hopes of receiving a profit or other fulfillment.

- 4. Display Slide 4.** Use the flow chart on the slide to reinforce the description of an entrepreneur.
 - Entrepreneurs acquire productive resources.
 - Entrepreneurs produce a product or service with those resources.
 - Entrepreneurs take their product or service to the marketplace.
 - If they are successful, entrepreneurs are rewarded in the marketplace with profits.
 - For more information, see pages 2 and 4 in the *Entrepreneurs* publication.
- 5. Display Slide 5.** Use the interactive on the slide and the information below to define the productive resources that entrepreneurs acquire and use to produce their product or service.
 - Touch the land graphic. Explain to students that land, to an economist, is all natural resources, including water, fossil fuels and the physical location (not the building) where business is conducted.
 - Touch the labor graphic. Explain that labor is all human resources. This is the function people perform in production of goods and services. The entrepreneur is a human resource as part of the production of the goods and services, but not in the role as the organizer of the resources.
 - Touch the capital graphic. Explain that capital is all manufactured resources. The buildings where business is done, as well as the machinery used in production are capital resources.
 - Touch the Entrepreneurship graphic. Explain that entrepreneurship is the resource that brings together productive resources to create products and services. Entrepreneurship provides the risk taking necessary to allocate resources to unproven ventures that can change an economy.

6. Display Slide 6. Use the kitchen graphic on the slide to discuss the resources that go into making students' favorite meals. Bring three students up to the board. Give the first student the SMART pen and have them circle all the land resources they see in the graphic in green. Examples of land include:

- The vegetables and raw ingredients.
- The natural gas used to power the stove.
- The physical location of the restaurant.

Give the second student the pen and have them circle all the labor resources in blue.

- The chef is a labor resource.

Give the third student the pen and have them circle all the capital resources in red.

Examples of capital include:

- The pots and pans.
- The mixer.
- The utensils on the wall.
- The stove.

After the students have circled the various productive resources on the slide, ask students how the chef might also act as the entrepreneurial resource.

7. Display Slide 7. Use the marketplace graphic on the slide and the information below to discuss the risks entrepreneurs take when they take a product or service to the market. Have students list costs the entrepreneur incurred in opening the café. Answers will vary, but might include:

- Renting the space.
- Hiring waiters and cooks.
- Buying the furniture.

Next, ask students what would happen to the entrepreneur if no one comes to the café. Ask how the marketplace expresses to entrepreneurs that a product or service is desirable. Answers will vary, but might include:

- If no one comes, the café will fail and the entrepreneur will lose the money spent in acquiring resources.
- If the marketplace finds a product or service desirable, the business will make money and the entrepreneur will be rewarded for the risk.

8. Display Slide 8. Use the interactive on the slide and the information below to explain two of the reasons entrepreneurs are willing to take the risk of taking a product or service to the marketplace.

- Touch the bag of money on the slide. Explain that one thing many entrepreneurs find motivational is profit. When an entrepreneur's product or service is successful in the marketplace, the entrepreneur stands to reap the reward for taking the risk of organizing resources. Ask the students to name a famous entrepreneur who has reaped substantial profit from taking a product or service to the marketplace.

- Touch the excited entrepreneur on the right. Explain that for many entrepreneurs, there is fulfillment other than profits that come from a successful venture. Ask students what other motivation entrepreneurs might have for taking a product or service to the marketplace. Answers will vary, but might include:
 - The freedom to be their own boss.
 - The feeling that they have impacted the world or bettered their community through their initiative.

9. Display Slide 9. Use the interactive on the slide to explain the difference between entrepreneurs and inventors.

- Touch the light bulb. Use the text to explain that inventors and entrepreneurs are different because of what they do after they create a product or service. For entrepreneurs, it is the risk taken in organizing productive resources and going to the market that separates them from inventors.

10. Display Slide 10. Use the Venn diagram on the slide and the information below to distinguish between replicative and innovative entrepreneurs. Explain that there are traits that all entrepreneurs have in common—they organize productive resources, produce a product or service and take it to the marketplace in hopes of receiving a profit or other fulfillment. There are two different types of entrepreneurs: innovative and replicative.

Define an innovative entrepreneur as one who creates entirely new ventures to sell products or services that are new to consumers or one who revolutionizes a process or system that transforms the way a business operates.

Define a replicative entrepreneur as one who provides a good or service familiar to the market and starts a business similar to others already in existence. These entrepreneurs give consumers access to a product or service they might not have had before.

Have students come to the board or give examples from their seats of goods and services, or name entrepreneurs that fit into each category of the Venn diagram. Answers will vary, but may include:

- Innovative
 - Steve Jobs
 - Thomas Edison
 - Telephone
 - FedEx
- Replicative
 - A local dry cleaner
 - A bakery
 - A tow truck company

For more information about innovative and replicative entrepreneurs, see pages 1–2 in *Entrepreneurs*.

Have students review “An Entrepreneurial Society,” pages 5, 8, 11 in *Entrepreneurs*.

11. Display Slide 11. Use the table on the slide to discuss how governments can affect entrepreneurs. Write the first answer for each category below on the board and discuss with students how each will impact entrepreneurial activity in a community.

- Low corporate tax rates could encourage entrepreneurs to take the risk of starting a business, because the low tax rate will leave more of the potential profits for the entrepreneur to receive. Mention to students that while low corporate tax rates are beneficial to businesses and entrepreneurs, they do have a cost to society. Without tax revenue from businesses, the cost of providing government services would have to be passed on to other taxable entities. It is important in setting tax policy that a government consider the quantity and quality of the services they provide against the impact taxation will have on businesses and individuals.
- Labor laws are one type of regulation that affects entrepreneurs. Both minimum wage and child labor laws fall under this category. Minimum wage laws set the minimum legal wage a business owner can pay employees. This wage, if it is too high for the market, can discourage businesses from hiring new workers. Child labor laws restrict who is legally employable in a country. The restriction in the size of the labor force can impact the cost of labor to an entrepreneur, by restricting the supply. While both of these laws can impede entrepreneurship, both are valuable in protecting workers in an economy. When creating laws related to labor, it is important for government to weigh the impact of those laws on the entrepreneurs against the benefits to society related to those labor force protections.
- Roads, and other transportation infrastructure, are a necessary part of attracting entrepreneurs. When transportation costs are low, entrepreneurs can more easily start a new business with the knowledge that they can get access to consumers. To build and maintain roads costs money. Most often, this construction and maintenance is funded through taxation, which as mentioned above, also impacts entrepreneurs. Weighing the benefits of roads against the cost of taxes is just one decision that entrepreneurs must make in selecting a location to start a business.

Using the above as a model, have students come to the board or collect answers for each category. As students provide answers, allow them to explain how each answer could encourage or discourage entrepreneurship.

Tax Policy	Laws & Regulations	Government Services
Low corporate tax rates Tax exemptions for new businesses	Labor laws Business structure regulations Product safety laws Contract enforcement Intellectual property protection	Roads Police Fire protection

Tell students that the next slide will focus on one of these, intellectual property protection.

12. Display Slide 12. Use the interactive graphic on the slide and the information below to discuss with students three types of intellectual property protections American entrepreneurs are provided.

- Touch the area inside the white oval around “Who Wants to Be an Entrepreneur?”
- Tell students that one type of intellectual property protection is a trademark. Trademarks protect words or symbols that are used to differentiate products in the market. In the case of a video game, the name “Who Wants to Be an Entrepreneur?” would be protected by a trademark. Similarly, the name of your favorite soda would be protected, so that no other company can use the same name and confuse consumers.
- Touch the circle around the person with the telescope.
Tell students that copyrights protect the original works of art. The person who holds a copyright controls the distribution and reproduction of their artistic endeavor. In the case of a video game, the characters, landscapes and other artistic endeavors, like music, are protected by copyrights. On a can of soda, the look of the logo is copyrighted. Other companies cannot create product art that either is the same or is approximately the same and designed to confuse consumers.
- Touch the circle around the red controller.
Tell students that patents protect inventions. Patents afford inventors the sole right to manufacture, use or sell their invention. With a video game, the technology, like the controllers and game system itself are protected by patents. If a company were to invent a new type of soda can, they could patent it, forcing any other company that wanted to use it to pay a license fee or not have access to the invention.
- For more information about intellectual property protection, see page 9 in *Entrepreneurs*.

Ask students how each of these intellectual property protections could help encourage entrepreneurship.

13. Display Slide 13. Use the graphic on the screen and the information below to discuss three types of firms and how they differ.

- Explain to students that the large majority of businesses started in the U.S. are sole proprietorships. A sole proprietorship is established by a single owner, who is often the entrepreneur. Because the business is unincorporated, the owner is responsible for the debts incurred and the risk of failure associated with the business. In return for taking the risk, the owner is entitled to the profits of the business.
- Explain to students that a partnership is also an unincorporated business structure. The difference between a sole proprietorship and a partnership is how many people are sharing the profits and bearing the risk.
- A corporation is a business that has been legally separated from the owners. The corporation can enter contracts, buy and sell goods and services and incur debt, exclusive of the owners. The company’s owners, called shareholders, have a limited exposure to the risk of the corporation, but sometimes, less control over the direction of the company.

- For more information, see page 10 in *Entrepreneurs*.

14. Display Slide 14. Use the graph on the screen and the questions below to discuss how entrepreneurs have influenced the changing makeup of the U.S. workforce.

- What has happened to the percentage of the workforce employed in agriculture over the past 200 years?
 - Gone down
- What innovations have entrepreneurs brought to the agricultural industry to allow fewer people (by percentage) to work in agriculture?
 - Steel plows
 - Tractors
 - Cotton gins
 - Barbwire
- What innovations have entrepreneurs brought to the manufacturing and services industries that have affected the current makeup of the workforce?
 - Robotics allow for one person to produce more.
 - Computers allow for services to be done remotely.
 - Satellite networks allow service providers to communicate more efficiently.

For more information about the role of entrepreneurs in economic growth and workforce reallocation, see pages 6–7 in *Entrepreneurs*.

Closure

1. What are the four actions that all entrepreneurs engage in?

All entrepreneurs, whether innovative or replicative, (1) organize productive resources, (2) produce a product or service, (3) take the product or service to the market and (4) hope to receive a profit or other form of fulfillment.

2. What is the risk that entrepreneurs take in creating a product or service?

When entrepreneurs organize and pay for resources, they do so without knowing whether the market demands the product or service they are producing. If the product or service the entrepreneurs make is not desirable, they will not make money.

3. What is the difference between innovative and replicative entrepreneurs?

Innovative entrepreneurs create entirely new ventures to sell products or services that are new to consumers, or they revolutionize a process or system that transforms the way a business operates. Replicative entrepreneurs provide a good or service familiar to the market and start businesses similar to others already in existence. These entrepreneurs give consumers access to a product or service they might not have had before.

4. What role can government play in fostering entrepreneurship in the United States?

The government can create tax policies, laws and regulations and provide infrastructure that all support entrepreneurship. Through tax policies such as low corporate tax rates, government can foster business activity and entrepreneurship. Through laws and regulations such as business structure regulations and intellectual property protection, entrepreneurs can separate their businesses and personal assets and protect their intellectual property

from piracy. In the U.S., governments provide roads, police and fire protection that all help entrepreneurs operate safely and efficiently.

Assessment

Give students copies of Handout 1, *Interview with an Entrepreneur*, to complete outside of class.

Handout 1

Name: _____ Date: _____

Interview with an Entrepreneur

Identify an entrepreneur who started a business in your community. Make an appointment with the entrepreneur and conduct a brief interview in person or on the phone.

Name of the entrepreneur: _____

Name of the business: _____

Describe the business: _____

When did you have the initial idea for your business?

Where did you get the money required to start your business?

What was the greatest challenge you faced as you started your business?

Is this the first business that you have started? If not, what were the others?

What is a typical workday like for you? What types of responsibilities do you have?
