

Bus& 101
Introduction to Business
Readings and Workbook

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Introduction

Introduction

The goal of this course is to provide an overview of the world of business. It is a vast and complex world which encompasses much more than most people think it does. It would be impossible to do it justice in the short time that most courses run. It is also difficult to understand business without experiencing it at various levels. Yet, most people in their first year of a US college may have “retail” experience as a customer of business but may not have any experience forming or running a business or understand exactly what businesses can do. To make it more relevant, this course will focus more heavily on consumer businesses where students can pull in their own experience and it will use examples that students may be better able to relate to.

Some of the students in this course will go on to major in business. Many will not. It is fortunate that much of business is relevant to people whether or not they pursue a business career. This includes how to purchase products or services in a smarter way, avoid persuasion tactics that may be to your detriment, manage finances, get a job, and act in an ethical fashion.

This course starts with the most important document in most people’s careers---their resume. The key to advancing in a career is to engage in lifelong learning. In the world of supply and demand, individuals who stop learning are likely to be less attractive to potential employers. The resume is just a means of communicating an individual’s capabilities to the marketplace. It is incumbent upon the student to continually add to his or her resume so that he or she is in demand.

The resume and thirty-second commercial will be used to introduce individual students to the class and the instructor. In order to make this meaningful, the student should take this task seriously. Putting together a good resume can take a lot of time. However, it is well worth the effort because having a well-written resume is essential to getting a good job.

Resume

(Adapted from Bellevue College Career Center)

Some Basic Rules for Resumes

Your resume is your most important internship search tool. It is an announcement of why you are valuable and why you should be chosen for an interview. Keep in mind that **the purpose of the resume is to give a snapshot view of who you are**. It should not include lengthy descriptions and elaborate details. There is no “right” or “wrong” way to write a Resume; however, consider the following general rules:

CONTENT:

- Do NOT include your home address on your resume. Please include only your telephone number and email address for contact information. Use a work-appropriate email address – not something like dragonmaster@yahoo.com or funnygal@aol.com.
- If you choose to put an objective at the top of your resume, make sure it says “internship” and not “job”, and make sure it grabs the attention of the employer. If you just say “To obtain an Accounting internship” you are being redundant – they already know that. This is the first thing they will read, so sell yourself!
- Emphasize the skills, experience, and education most important to the particular internship for which you are applying. Tailor the resume to the specific position. Use the same keywords and concepts that appear in the internship announcement.
- Include as much information as possible about specific skills. For example technology is increasingly important in all fields, so list the computer software you know how to use.
- Use clear, concise language. Eliminate unnecessary words such as personal pronouns.
- Jobs and other activities that you are still doing should be discussed in the present tense. Anything that happened in the past should be in the past tense.
- Do NOT include references, and do NOT say “References Available upon Request.”
- Use *perfect* grammar, spelling, and punctuation. Proofread it before sending it to anyone, and have a friend, family member, or Specialist in the BCC Career for Career Connections proofread it before sending it to an employer! If you need help with grammar, visit the BCC Writing Lab: <http://bellevuecollege.edu/writinglab/>

FORMAT:

- Do NOT use a template. Write the content first and then apply your own formatting.
- Do NOT use frilly fonts, colored paper, photos, etc., and don’t include personal info. If you include information about hobbies, make sure it’s relevant and explain how it’s relevant (teamwork, leadership skills, etc.)
- Make your name bigger than the rest of the information on your resume. When an employer is going through a stack of resumes, your name should stand out.
- Put the most important information at the top of your resume. If you have little or no work experience in the field, make sure that your educational experience or whatever else that’s relevant is listed first. Also, dates should be in reverse chronological order – the most recent events should be listed first.
- Make your resume easy to read by using 1” margins, clear headings, and space between sections. Use only one or maybe two styles of font.
- Be consistent with formatting. The first person at the company to read your resume will likely spend only about 15 seconds reading it, so it should be easy to read and the most important information should stand out. Particularly, the names of degrees & job titles should stand out with bold formatting – usually, what you did is more important than where you did it!
- Unless you have 10+ years of experience, keep your resume on one page.
- When saving your resume, use your full name and the word “resume”. For example: “Jane_Doe_Resume.” Do not just name it “Resume.”

Anatomy of a Resume

Resumes have distinct sections that provide the potential employer easy access to the types of information that they need in order to select who to interview for the position. Here are some basic sections you *may* want to include:

| Subject: | Description: |
|---|---|
| Contact Information (Required) | Required: full name, (area code) phone number and email address. Optional: street address, city, state, zip code. When posting your resume on the BCC internship site (CONNECT!), do not include your address. |
| Objective (Optional) | Brief statement of what you are seeking. Should also provide readers with a broad picture of your background. Only include an Objective if it adds valuable information to your resume; otherwise, leave it off. (See page 9 for more tips) |
| Summary of Qualifications (Optional) | 3-6 bulleted sentences that sum up your key experience stated in a way that is related to what you've said in your Objective. If they read nothing else on the resume, this should give them a good idea of why you are qualified. This can be used with or in place of an Objective. |
| Work Experience (Recommended) | In reverse chronological order, list your work history. Include title of position, name of organization, location (city and state only), a date range (month/year or just year), and a brief description of the position. The titles of positions should stand out more than the names of the companies. Do not provide a list of duties if it is abundantly obvious from your job title. Do provide elaboration about what you did well, what you did that went above-and-beyond your job description, what you did that indicated responsibility, specific accomplishments, etc. May include volunteer work, internships, clinical experience, etc. |
| Education (Recommended) | List degrees, licenses, or relevant certificates in reverse chronological order. Include the specific degree name, school name, location of school (city and state only), and optionally the date you completed the degree (if you haven't finished yet, write "In Progress" or "Anticipated 2010" or "Expected Graduation 2010"). The names of degrees should stand out more than the names of the schools. You can provide additional information about coursework, special projects, accomplishments, etc. |
| Awards (Optional) | List merits, awards, honors, fellowships, scholarships, elected positions, etc. that pertain to the position for which you are applying. Can include a brief explanation, such as "for academic achievement" or "community service award." |
| Special Skills (Optional) | Provide information about specific skills that are relevant, such as languages (you can note fluency level and reading/writing ability), computer experience, use of special equipment, etc. |

| | |
|---------------------------------|--|
| Computer Skills (Optional) | You may want a separate section for computer skills, especially if you are in a technical industry. List computer applications, programming languages, networking capabilities, troubleshooting skills, hardware experience, or other special talents. |
| References (Not Recommended) | If the application instructions ask you to provide references, list them on a separate piece of paper. Do not say "Reference Available upon Request" in your resume – they already know that! |
| Portfolio (Optional) | If you have a portfolio (recommended for all disciplines), you can write "Portfolio Available upon Request," or you can provide a web link. |
| Other (Optional) | You can create any section that makes sense, such as Professional Training & Development, Related Activities, Extracurricular Activities, Community Activities, Certifications & Licenses, Professional Memberships, Publications, Additional Experiences, Additional Skills... Do whatever makes sense for your experience. |

Emphasize Your Classroom Transferable Skills

First, think about the transferable skills you've attained exclusively in the classroom. This is especially important if you have little or no work experience. Think about your class activities, such as:

- Class projects
- Research papers and projects
- Group projects
- Hands-on assignments and "real-world" experiences
- Laboratory experience
- Presentations
- Study-abroad programs
- Simulations

Next think about your extracurricular, volunteer, and community activities:

- What leadership positions have you held that demonstrate important skills?
- Have members of a group chosen or elected you to a certain position based on special skills you possess? Have you chosen to take on additional responsibilities?
- What are the kinds of things that your friends and classmates always ask you for help and advice about? What are your areas of expertise?
- What community service projects have you undertaken?
- Have you used organizational or managerial skills?
- What ideas have you come up with to improve your organization?
- Have you handled money or budgets? Have you raised, collected, or managed funds?
- In what ways have you exhibit interpersonal skills?
- Have you trained, taught, or oriented organization members? Have you spoken in public or written something for an audience?
- Have you employed problem-solving, conflict-resolution, or mediation skills?
- How have you demonstrated teamwork or individual drive and determination (for example, as an athlete)?
- Have you responded to complaints or smooth ruffled feathers? Have you worked with the general public?
- Have you been required to juggle many projects simultaneously under deadline pressure?

You may want to create a special heading within your education section that lists these skills. These skills include but are not limited to:

- Ability to meet deadlines, thrive under deadline pressure: College is a cornucopia of deadlines. If meeting deadlines is an important skill in the job you seek, by all means, exploit in your cover letter your ability to do so.
- Ability to handle multiple tasks: Remember how you frustrated you were with your instructors for requiring simultaneous major papers and projects? Multi-tasking is increasingly valued in the workplace, and your cover letter gives you the chance to boast of your ability to juggle many projects at once.
- Ability to achieve goals: Your good grades are proof of that skill, so do boast about them if they're exemplary. But be careful! If your GPA is perfect and you haven't participated in any extracurricular activities, this could count against you. You may have met other goals while in school, too, such as graduating in three years instead of four (which may be why you don't have any job experience). Any goal you've met while in school is potential cover-letter fodder.
- Ability to adapt: Your college years probably gave you your first opportunity to make adult decisions and act independently. How did you handle stumbling blocks and disappointments along the way? The way you rose above difficulties can provide solid examples in your cover letter.

- **Writing skills:** Jobs that require good writing skills are a lot more common than you probably realize. If you demonstrated your ability to write well in college, you can highlight that skill in your cover letter. And, of course, your writing talents should be self-evident from the quality of your resume and cover letter.
- **Research skills:** How many people who've been out in the "real world" have research skills that are as fresh and recent as yours? How many know as much as you do about, say, conducting research on the Internet? Probably not many, so for jobs where this ability may be helpful, be sure to emphasize your research skills.

Eight Tips to Keep Your Resume Concise

1. **Avoid Repeating Information.** Did you perform the same or similar job tasks for more than one employer? Instead of repeating job duties, focus on your accomplishments in each position.
2. **Eliminate Old Experience.** Employers are most interested in what you did recently. If you have a long career history, focus on the last 10 to 15 years. If your early career is important to your current goal, briefly mention the experience without including details. For example: Early Career: Assistant Store Manager and Clerk; ABC Company, City, State; 1980 -1985.
3. **Don't Include Irrelevant Information.** Don't list hobbies or personal information such as date of birth or marital status. Also, eliminate any outdated technical or business skills.
4. **Cut Down on Job Duties.** Many job seekers can trim the fat off their resumes simply by removing long descriptions of job duties or responsibilities. Instead, create a bulleted list or very brief paragraph that highlights the scope of your responsibility and your most impressive accomplishments.
5. **Remove "References Available upon Request."** Many job seekers waste the valuable last line of the resume on an obvious statement. Remove it.
6. **Use a Telegraphic Writing Style.** Eliminate personal pronouns ("I") and minimize the use of articles ("a", "an", "the").
7. **Edit Unnecessary Words.** Review your resume for unnecessary phrases such as "responsible for" or "duties included." The reader understands you were responsible for the tasks listed on your resume.
8. **Customize Your Resume for Your Job Target.** Only include information relevant to your goal. Use the internship position description and make sure your resume addresses all of the key requirements. This is particularly important for career changers who need to focus on transferable skills and deemphasize unrelated career accomplishments.

Power Words

Consider these words to describe your accomplishments, but don't keep repeating the same words over and over.

| | | | |
|-----------------|--------------|--------------|---------------|
| Ably | Competently | Displaced | Favorably |
| Accompanied | Composed | Directed | Financed |
| Achieved | Conceived | Doubled | Formalized |
| Acquired | Conclusively | | Formulated |
| Actively | Conducted | Earned | Founded |
| Adeptly | Consistently | Easily | Functionally |
| Administered | Constructed | Educated | |
| Advanced to... | Consulted | Effected | Gainfully |
| Advantageously | Contrived | Effectively | Generated |
| Advised | Conveniently | Effectually | Governed |
| Aggressively | Converted | Efficiently | Graduated |
| Ambitiously | Coordinated | Effortlessly | |
| Analyzed | Correlated | Employed | Halved |
| Appropriately | Corroborated | Enacted | Handily |
| Artfully | Created | Encouraged | Handled |
| Arranged | | Engineered | Headed |
| Assembled | Decidedly | Established | |
| Assisted | Decisively | Evaluated | Implemented |
| Authoritatively | Delegated | Executed | Improved |
| Avidly | Demonstrated | Exhibited | Improvised |
| | Designed | Expanded | Increased |
| Beneficially | Detailed | Experienced | Induced |
| Built | Determined | Expertly | Influenced |
| | Developed | | Influentially |
| Capably | Devised | Facilitated | Initiated |
| Clarified | Diligently | Formed | Innovated |
| Commanded | Discovered | Faultlessly | Inspired |

| | | | |
|--------------------|----------------------|------------------------|-------------------|
| Installed | O btained | | Succeeded |
| Instructed | Officiated | R eadily | |
| Instructively | Operated | Reconciled | T actfully |
| Insured | Ordered | Reduced | Trained |
| Integrated | Organized | Regulated | Transferred |
| Intensified | Originated | Related | Transformed |
| Interviewed | Overcame | Relentlessly | Trebled |
| Invented | | Reorganized | |
| | P articipated | Reported | U nified |
| J ustified | Perceived | Researched | Uniformly |
| | Perfected | Resourcefully | Usefully |
| K eynoted | Piloted | Responsibly | |
| | Pioneered | Routinely | V aluably |
| L ed | Placed | | Verified |
| Licensed | Planned | S atisfactorily | |
| Located | Proactively | Satisfied | W on |
| | Prepared | Secured | Wrote |
| M aintained | Presided | Securely | |
| Managed | Principally | Served | |
| Manufactured | Procured | Serviceably | |
| Marketed | Produced | Serviced | |
| Mastered | Professionally | Significantly | |
| Masterfully | Proficiently | Simplified | |
| Mediated | Profitably | Skillfully | |
| Motivated | Progressively | Solved | |
| | Promoted | Soundly | |
| N egotiated | Prompted | Sparked | |
| Nominated | Proposed | Strategically | |
| Notably | Proved | Structured | |
| | Provided | Substantially | |

Posting Your Resume Online

You can post your resume on a job or internship search engine (such as Monster.com) or on a particular company's web site. But there are a few things to keep in mind when posting your resume online.

Before posting to most sites, you will need to convert your resume to a Plain Text document. To do this, click **Save As** in Microsoft Word. Underneath where you type the **File name**, there is a drop down box called **Save file as**. It will be set to: Word Document (*.doc). Change it to: Plain Text (*.txt) and click **Save**. Re-open the document and edit it using the following guidelines:

- All lines are left-justified
- Add extra blank lines before key sections. Don't worry about length – the one-page rule does not apply here.
- Replace all bullets with standard keyboard symbols (*, -, --, >, or +)
- Use ALL CAPS for section headings
- Inspect your resume for keywords. Unlike power words (which are verbs), keywords are nouns that name things such as software, equipment, processes, procedures, etc. Your resume will be entered into a database, and if you don't have certain industry-specific keywords, your resume might not be selected.
- Proofread, proofread, and proofread.
- Copy, paste, and post!

Posting on a Company Web Site

When posting your resume on a particular company's website, follow all instructions carefully! Some companies have their own resume builders and some even have their own resume format. If you don't follow their instructions exactly, you will likely disqualify yourself from the get-go.

Posting on Local Job Banks

Before you start posting your resume on some of the nation's largest job banks, ask yourself this question: how will recruiters find me when there are literally millions in the same job bank as me? You may want to consider a smaller job bank, especially if your experience is limited. Try posting on local or niche job bank websites. A niche site would be for your particular field or industry, such as finance, healthcare, or information technology. Such sites can be found through professional associations or through your favorite internet search engine.

CAUTION: You may have to register to use some of these sites. Here are a few local job banks or national job banks with local subcategories to consider:

All Seattle Jobs (Powered by JobDango.com), <http://www.allseattlejobs.com>

Jobs.Net Seattle, <http://www.jobs.net/Washington-Seattle.htm>

Northwest Marketplace (the Seattle Times), <http://www.nwjobs.com>

SeattleCareers.com, <http://www.seattlecareers.com>

SeattleJobs.org, <http://www.seattlejobs.org>

SeattleJobs.com, <http://www.seattlejobs.com>

Seattle's Preferred Jobs, <http://seattle.preferredjobs.com/>

Seattle Recruiter, <http://www.seattlerecruiter.com>

Yahoo Hot Jobs Seattle, <http://hotjobs.yahoo.com/jobs--Seattle-WA>

Internet Search Engines

In addition to searching for internships on our web site (CONNECT – <https://bellevue-csm.symplicity.com/students>), we encourage you to conduct your own internship search as well – the more people looking, the more likely it is that you will find something! The following web sites are recommended for finding internships, but your best bet is talking to people you know, asking about possible opportunities, and directly contacting companies that you *know* you want to work for.

- <http://seattle.craigslist.org> Search for jobs by industry, and check the **Internship** box to limit your search results.
- <http://www.simplyhired.com> Use search terms such as “Accounting Internship” or “Web Development Internship.”
- <http://www.google.com> Search by the specific title and location, such as “Bookkeeping Intern Bellevue, WA” or “Interior Design Intern Seattle.”
- <http://www.monstertrak.com/> Self-described as the “largest, oldest, and most popular job listing site for college students and alumni.”
- <http://www.internjobs.com/> Provides national listings and allows students to post their resume.
- <http://www.internweb.com/> Includes internship announcements and internship-related articles.
- <http://www.princetonreview.com/cte/search/careersearch.asp> Includes internship announcements and articles on the career planning process, college preparation and selection, etc.
- <http://www.idealists.org/> Internships at non-profit and community organizations in 165 countries.

Writing an Objective

Some employers say they don’t even bother reading an Objective because more often than not, it’s generic and doesn’t include any interesting information. If you’re applying for an Accounting Internship, there’s no need to say “To obtain an Accounting internship.” However, some people believe that every resume should have an Objective. So if you’re going to put on Objective in your resume, make sure it’s actually useful. And make sure it’s relevant and true! If your Objective says you’re looking for a full-time job and you’re applying for a part-time internship, you will likely be immediately disqualified.

To really stand out in the crowd, you should tailor your Objective to each new position for which you apply. Use the internship position description as a guide. When you customize your Objective, the hiring manager (or decision maker) sees instantly that you are a potential fit for the position and that you care enough about first impressions to go that extra step. Here are some examples:

- To find a position as a Java Software Intern developing n-tier applications.
- Seeking an Advertising Internship at XYZ Corporation which allows me to expand my current abilities and contribute to XYZ’s mission of worldwide environmental sustainability.
- To apply my strong analytical and organizational skills as an Administrative Support Intern at XYZ Corporation.

If you’re writing a general resume for posting online or distributing at a career fair, you can use a more general Objective, such as:

- Seeking an internship that will utilize my outstanding communication skills and years of experience in sales and computers.

Choose the Right Format for You

CHRONOLOGICAL:

Definition: Chronological resumes are organized by dates. Work experience is listed in reverse chronological order (most recent experience first).

Advantages: Employers are used to reading chronological resumes and can scan them quickly for information, usually 5 to 25 seconds.

Disadvantages: The chronological resume doesn't emphasize the "themes" of your experience. If you have a long work history, your accomplishments & skills can get lost.

Recommendation: Use this type of resume most often, especially when submitting an electronic resume or if you have continuous related work experience demonstrating upward mobility in responsibility.

FUNCTIONAL:

Definition: Functional resumes identify key themes of experience. The content is grouped around skills.

Advantages: Strengths and areas of experience stand out.

Disadvantages: Employers are not as used to reading it. It can raise questions about whether the applicant is hiding something, since it does not usually include dates of employment or employer's names.

Recommendations: This works well for those making a career change, those with occasional or lengthy gaps in employment, those re-entering the job market, or those with minimal work experience such as recent college graduates.

COMBINATION:

Definition: The combination resume combines the best attributes of both the functional and chronological styles. It is basically a chronological resume with a Qualifications section included at the beginning. The Qualifications section is usually shorter than the "functional" part of the functional resume. The Experience section of the combination resume *emphasizes results* rather than job duties.

Advantages: The combination resume has the advantages of both the chronological and functional resume. Because it resembles the chronological resume that employers are used to, they can scan it quickly for information, and strengths and areas of experience stand out.

Disadvantages: None.

Recommendation: Use this type of resume except in the situations mentioned above.

Chronological Resume Template – To be used as an EXAMPLE ONLY!

Name (18 – 22 point font)

Email@email.com – Home: (425) 789-4561 or Cell: (206) 596-5984

Objective

BAD EXAMPLE: To find a Database Administration Internship.

GOOD EXAMPLE: To apply my superior technical and communication skills as a Database Administration Intern at External Technologies Incorporated.

Education

Accounting Transfer Degree

Projected Fall 2008

Bellevue Community College, Bellevue, WA

- Coursework includes: Business Payroll Tax Accounting, Small Business Computerized Accounting, and Federal Income Taxes (*Only include classes that are interesting AND relevant*)
- 3.8 GPA and member of Phi Beta Kappa honor society.

(Also include any special projects you completed, awards you received, etc – especially something that indicates a technical skill.)

High School Diploma

2007

Jefferson School, Vancouver, WA

- Junior and Senior year Honor Roll, Member of XYZ Club

(Include high school only if you don't have much on your resume or if you were very active in high school, if you received special awards, etc. Do not include if you graduated more than 5 years ago.)

Experience

Bookkeeping Assistant

February 2008 - Present

Taylor and Walsh Accounting, Bellevue, WA

- In the present tense, list a few duties if it's not obvious from the job title. List things that show you go above and beyond your job description.
- Provide any accomplishments and/or quantifiable results that you are proud of and that show you're good at this profession.
- Explain a problem you solved and the results. Use numbers or percentages to quantify the results where possible.
- Give an example of a time when you positively affected the organization, the bottom line, your boss, your co-workers, or your clients.
- Describe any relevant projects awards, commendations, publications, etc.

Customer Service Representative

2004 - 2008

T-Mobile, Bothell, WA

2007 - 2008

- (Same as above but in the past tense)

Volunteer Math Tutor

Summer 2004

Snohomish Public Library, Snohomish, WA

2005 - 2007

- (Same as above but in the past tense)

Additional Skills

- List of computer skills
- List of languages spoken
- Etc.

Chrono-Functional Resume Template – To be used as an EXAMPLE!

Name (18 – 22 point font)

Email@email.com – Home: (425) 789-4561 or Cell: (206) 596-5984

Objective

(If you include an Objective, see "Writing an Objective" on page 9.)

Summary of Qualifications

- Amount of experience you have in the field, in a related field, or in using the skills required for this particular position.
- An overall career accomplishment that shows you'd be a good fit for this position.
- A few of your strongest *work-related* traits.

(This is basically a short list of your strongest and most relevant experience, skills, abilities, traits, etc. If they don't read anything else on your resume, you want them to know this.)

Professional Skills

Database Administration Skills

- Languages: Java, PL/SQL, SQL*Loader, C / C++, Pro*C, Perl, T-SQL, HTML, XML, XSL, Oracle XMLDB, UNIX Shells, Troff
- Databases: Oracle RDBMS (6.x - 10g), MySQL (3.23 - 4.x), SQL Server 2000

Interpersonal & Teamwork Skills

- Provide any accomplishments and/or quantifiable results that you are proud of and that show you're good at this profession.
- Explain a problem you solved and the results. Use numbers or percentages to quantify the results where possible.

Customer Service & Sales Skills

- Give an example of a time when you positively affected the organization, the bottom line, your boss, your co-workers, or your clients.
- Describe any relevant projects awards, commendations, publications, etc.

Employment History

Database Administrator, Blue Ribbon Technologies, Inc., Pasadena, CA, 4/06 – Present

Technical Support Specialist, the Brew Station, Pasadena, CA, 11/05 – 4/06

Help Desk Associate, City of Entertainment, Pasadena, CA 1/05 – 12/05

Office Assistant, Bell Ringer Industries, Pasadena, CA, 8/04 – 12/04

Clubhouse Assistant, Golden Bear Country Club, Pasadena, CA, 2/02 – 8/04

Education

Associate in Arts Degree - Database Administration

In Progress

Bellevue Community College, Bellevue, WA

- Currently working on a project to develop and design several Java packages that provide automated database maintenance, backups, and tuning support.

Bachelor of Science - Computer Science

2002

University of Arizona, Tucson, AZ

- Member of Phi Beta Kappa Honors Society and Dean's List recipient four years in a row.

Individual Assignment – Writing your resume

Name: _____

Projects & Accomplishments Worksheet

List your job titles and any important projects you completed. Explain what you achieved or contributed to the project. Whenever possible, use numbers to show the size, volume, money, time, effort, extent or amount.

Job Title: _____

1. Project:

Results:

2. Project:

Results:

Job Title: _____

3. Project:

Results:

4. Project:

Results:

Job Title: _____

5. Project:

Results:

6. Project:

Results:

Name: _____

Substitute Qualifications Worksheet

List the skills needed to do the internship/job for which you are applying. Read internship/job announcements, talk to people who work in the field, and visit O*NET at <http://online.onetcenter.org>. Next, give examples of where you used a similar skill in your past. Start each sentence with a Power Word. Whenever possible, use numbers show the size, volume, money, time, effort, extent or amount.

Skill I want to demonstrate:

Example:

Example:

Skill I want to demonstrate:

Example:

Example:

Skill I want to demonstrate:

Example:

Individual Assignment Write and Present Your Thirty Second Commercial

Name: _____

The thirty-second commercial is also called the elevator speech. You have 30 seconds to tell a complete stranger about yourself: A 30-second commercial should:

- Give your name.
- Characterize your experience.
- In one or two sentences, describe the unique focus of your experience. How are you different from other people?
- Give your goal

Everyone should have a 30-second commercial. What if you met Bill Gates in an elevator (more than one of my students have)? You have 30 seconds to tell him about yourself. If your 30-second commercial has not been prepared, you will probably be at a loss for words.

30-second commercials are also very difficult to write. First, they have to communicate something unique about you. They have to let people know your goal. Studies have shown that individuals who communicate their goals are more likely to achieve them. They cannot be too long. It takes a few drafts to come up with a 30-second commercial that is effective. After that, you have to rehearse a number of times so that you can say it under any circumstances.

Prepare a 30-second commercial for the class. This will be the first of many presentations that you will make in class.

Name:

Experience:

What is unique about you?

What is your career goal?

Company Analysis

Goals of the Company Analysis

Being able to conduct in-depth research, synthesis analysis, write a research paper, and present the findings is a crucial skill in any discipline. The company analysis will teach how to do this within the discipline of business.

The company analysis is the best way to practice the concepts learned in this class. Students who have transferred to four-year institutions say that this was one of the best assignments they completed. They were able to hone writing skills. Students have raised their writing skills assessments by completing this assignment. It requires that demonstration that the student can:

- Write in a business voice
- Find and evaluate relevant research from business research sources
- Synthesize research from various sources and objectively evaluate and analyze the information using concepts learned in this course
- Communicate the analysis and conclusions in writing and in an oral presentation

Here are some general suggestions on how to learn the most out of the assignment and to ensure that a good grade:

- Read the entire assignment, review the grading rubrics, and ask the instructor to clarify any parts not understood.
- Research thoroughly. Do not rely on Wikipedia or financial websites. The goal of the analysis is to be comprehensive and objective.
- Take the time to digest the research. Map out ideas. Search for missing elements.
- Write an outline. What is the main idea? What is the next level of ideas? Is there supporting evidence? Organize the ideas. The rubrics generally provide much of the outline.
- Reread the assignment and the rubric. Make sure all the requirements are fulfilled.
- Write the paper without looking at the research. This will prevent unintended plagiarism.
- Evaluate the draft using the writing self-assessment.
- Revise the paper.
- Revise the paper again.
- Prepare a concise presentation using the highlights of all the papers. Do not leave out any elements.
- Rehearse the presentation.

Company Analysis Rubrics

Company Selection Rubric (20 points)

| | |
|--|---|
| Paper length not minimum 250 words | Deduction based on actual length |
| Company ticker symbol not found | Deduct 1 point |
| Paper not submitted on due date and time | Deduction of 10% for the first day and 20% thereafter |
| Business Voice | 3 |
| Four reasons or claims | 12 |
| Evidence to support claims | 3 |
| Provide writing assessment with evidence sequence and grammatically correct. | 2 |

Company Research Rubric (30 points)

| | |
|--|---|
| Paper not submitted on due date and time | Deduction of 10% for the first day and 20% thereafter |
| Length requirements not followed | Deduction based on actual length |
| Log of activities | 1 |
| Quality of Research | 9 |
| Summary Description of Company | 4 |
| Company website | 4 |
| Financial research | 4 |
| Citation with APA Format | 3 |
| Used CARS to evaluate research | 3 |

Company Marketing Analysis Rubric (45 points)

| | |
|---|---|
| Paper length not minimum 1200 words | Deduction based on actual length |
| Subheadings not used | Deduct 1 point |
| Paper not submitted to turnitin.com by due date and time | Deduction of 10% for the first day and 20% thereafter |
| Brand Analysis – Description of the company brand image including attributes, benefits and values. Analysis of how the company manages its brand. | 9 |
| Product Analysis – Description of new product development in the company. Assess where the company’s products are on the product life cycle. How does the company manage products? | 9 |
| Customer Analysis – Give 4 or 5 characteristics of the company’s target market. Articulate the company customer value proposition. How does the company manage the customer life cycle? What channels are used to reach the customer? | 9 |
| Competition – Compare and contrast two to three of the strongest competitors to your company. How does your company compete? | 9 |
| Growth Strategy – What marketing strategy is used by your company. Summarize key points from the previous sections to articulate how it plans to grow. | 4 |
| Visual Display | 2 |
| Writing Assessment | 3 |

Company Financial Analysis Rubric (45 points)

| | |
|--|---|
| Paper length not minimum 1200 words | Deduction based on actual length |
| Subheadings not used | Deduct 1 point |
| Paper not submitted to turnitin.com by due date and time | Deduction of 10% for the first day and 20% thereafter |
| Source financial statements and ratios not attached. Financial analysis worksheet not attached. | Deduct 2 points |
| Growth calculations for company revenues, net income and stock price | 9 |
| Growth calculations for competitor revenues, net income and stock price | 9 |
| Provided market value/capitalization, net profit margin, return on equity, total debt to equity ratio, and price to earnings ratio for the company and competitor. | 8 |
| Analysis of growth and financial ratios | 14 |
| Visual Display | 2 |
| Writing Assessment | 3 |

Company Management Analysis Rubric (35 points)

| | |
|--|---|
| Paper length not minimum 1200 words | Deduction based on actual length |
| Subheadings not used | Deduct 1 point |
| Paper not submitted to turnitin.com by due date and time | Deduction of 10% for the first day and 20% thereafter |
| Management | 5 |
| Corporate mission, values and culture | 10 |
| Corporate Social Responsibility | 7 |
| Benefits | 5 |
| Attributes in applicants | 5 |
| Writing Assessment | 3 |

Company Presentation (25 points)

| | |
|--|------------------|
| Presentation not completed on scheduled date | 10% deduction |
| Did not attend other presentations | 20% for each day |
| Organization | 4 |
| Visual Display | 4 |
| Delivery | 4 |
| Logistics | 3 |
| Coverage | 5 |
| Professionalism | 5 |

Company Selection

20 points

Companies you cannot choose because they are covered in class: Costco, Raytheon, Starbucks, Apple either as a main company or competitor

A publicly listed company will be selected for you for your company analysis. No two students may choose the same company. Write a 250-word paper on why you selected this company. Expound upon four reasons. These reasons should not be personal. They should related to attributes of the company that you are familiar with. Use the writing self-assessment to guide your writing. Make a claim and then provide evidence for your claim.

| | | | | |
|----------------|----------------------------|---|--------------------------------|---------------------------------|
| | Did not use Business Voice | Erratically used Business Voice and engaged in promotional language | Adequately Used Business Voice | Excellent use of business voice |
| Business Voice | 0 pts | 1 pt | 2 pts | 3 pts |

| | | | | |
|------------------------|-------------------------------------|--|---------------------------|-----------------------------------|
| | Did not present any reason or claim | Presented poor reasons (1 point each reason) | Provided adequate reasons | Provided good, convincing reasons |
| Four Reasons or claims | 0 pts | 4 pt | 8 pts | 12 pts |

| | | | | |
|------------------------------|------------------------------|-------------------------|----------------------------|------------------------------------|
| | Did not present any evidence | Presented poor evidence | Provided adequate evidence | Provided good, convincing evidence |
| Evidence organized and cited | 0 pts | 1 pt | 2 pts | 3 pts |

| | | | | |
|--------------------|---------------------------------------|-------------------------------------|---|---|
| | Did not present drafts or assessments | Did some evidence sequence analysis | Provided adequate evidence, focus and organization analysis | Provided good evidence, focus and organization analysis with improvements shown |
| Writing assessment | 0 pts | 0.5 pt | 1 pt | 2 pts |

Common mistakes to avoid on Company Selection paper

1. Do not use the first person. Business papers are more formal and should be written in third person. Use a business voice. Look at examples such as articles in the Wall St. Journal, or Business Week articles to see what a business voice is.
2. Do not use promotional language such as: Chevrolet makes some of the most dependable and longest lasting trucks on the road today and Cadillac makes some of the most luxurious sports sedans the world over. This is an objective paper. You are not speaking for the company but producing unbiased analysis.
3. Do not use slang or the colloquial in a business paper. Some examples of what not to use are: pretty big, legit company, a ton of, financial wise, etc.
4. Contractions such as don't and can't sound informal and should not be used.
5. Organize your paper using the writing self assessment. Use paragraphs to expound on a topic.

6. Do not use symbols such as #, & or @.
7. When sales or profit is noted, the convention is to use \$3 billion for three billion dollars.
8. For numbers over twenty, use the numbers not words as 35 instead of thirty-five.
9. The possessive is **their** not there. The possessive is **its** not it's.
10. For the other papers, use subheadings to organize your paper and show that you have covered the topics.
11. All work in this paper must be your own. Any visuals or graphs must be your own (students may include the company logo with citation). Do not copy from the company website.

Company Research

30 points

The purpose of this assignment is to get you to complete comprehensive research for your company analysis. For instructions on how to conduct your research, view the video prepared by librarian Nicole Longpre [Video on research for the company analysis](#). View this video for APA citation: <http://bellevuecollege.edu/lmc/apa/>

You will write a paper that provides basic research about your company. Use headings to help organize your paper. Be careful to avoid plagiarism.

1. Write a summary business description of your company. You may use 10k, Hoovers, Datamonitor, and/or other articles, but do not copy any of the information. The writing must be in your own words. Length: 3-4 paragraphs

2. Write a summary of the information (length: 4-6 paragraphs) found on the company website including:

Company products

Management

Culture (mission, values),

Employee benefits

Employee attributes-what the company is looking for in its employees and what kind of employee would be happiest working there.

3. Go to smartmoney.com and copy the yearly income statement, the yearly balance sheet and the financial ratios to include as part of this paper. Provide commentary about the value of each item. Commentary length: 3-5 paragraphs

4. Cite all of all sources using correct APA format.

| | | |
|----------------------------|--------|--------------|
| | No log | Complete log |
| Log of research activities | 0 pts | 1 pt |

| | | | | |
|----------------------------|-------------------------------|--------------------------------------|---|---|
| | Omitted other research | Superficial/Careless research | Adequate(1 or 2 additional articles) | Excellent (includes at least 3 significant articles) |
| Quality of Research | 0 pts | 3 pt | 6 pts | 9 pts |

| | | | | |
|----------------------------|----------------|-----------------------------|---|---|
| | Omitted | Superficial/Careless | Adequate(Basic information only) | Excellent (includes rich descriptions and/or examples) |
| Summary Description | 0 pts | 2 pts | 3 pts | 4 pts |

| | | | | |
|--|----------------|-----------------------------|---|---|
| | Omitted | Superficial/Careless | Adequate(Basic information only) | Excellent (includes rich descriptions and/or examples) |
|--|----------------|-----------------------------|---|---|

| | | | | |
|------------------------|-------|-------|------|-------|
| Company website | 0 pts | 2 pts | 3pts | 4 pts |
|------------------------|-------|-------|------|-------|

| | | | | |
|------------------------------|--|---|--|--|
| | Did not provide any of the required information | Provided some of the financial information | Provided all of the financial information | Provided all of the financial information with commentary |
| Financial Information | 0 pts | 2 pts | 3 pts | 4 pts |

| | | | | |
|--------------------------|----------------|-----------------------------------|--|--|
| | Omitted | Used APA style erratically | Used APA style with occasional errors | Used APA style correctly at all times |
| Use of APA format | 0 pts | 1 pt | 2 pts | 3 pts |

| | | | | |
|---|----------------|------------------------------|---|--|
| | Omitted | Used CARS erratically | Used CARS with occasional errors | Used CARS correctly for all sources |
| Evaluated each source using CARS | 0 pts | 1 pt | 2 pts | 3 pts |

Budgeting time: Start early and budget blocks of time (two-to-three hours) adequate to do serious searching. Finding the information itself is not difficult once the important sources are known. Filtering, sorting, organizing, and coming up with relevant conclusions can take considerably more time. Starting early also allows more time for more feedback from the instructor on the analysis.

Use the library effectively: Librarians are knowledgeable about a variety of information and data sources, methods of making searches and generally assisting individuals with varying skills in gaining access to library resources. At many schools, librarians are briefed on major research assignments. They may already have a list of resources that are relevant to the needs of the project.

Research is in some ways like detective work. While detectives follow leads to get to the solution of the crime, researchers follow leads to get to the right information. Articles might cite sources for their statistics. Investigate the sources for clues to additional information.

Reading summaries on companies helps the beginning researcher become more familiar with the company. Reading may suggest ideas and connections that can lead to better answers to your research questions. Such study is also likely to provide a framework for the hard analysis that comes after all the information has been gathered. Take notes from these summaries but do not copy and paste.

Research Sources of Company Summaries

Company 10K Filing (Available on finance.yahoo.com once you find the company) The 10K is very long and is the source of most summaries on companies. The essential part you should read is the Item 1. Company. This gives a description of the company.

Hoovers ([Available on Bellevue College databases](#))

finance.yahoo.com (Key in part of the company name in Get Quotes)

wikipedia

company websites

Also make use of interviews or email questions to find out about the company. Many companies will respond to email queries. Some managers or employees may be willing to grant a 20-minute interview. In the business world, this kind of intelligence is invaluable to getting information that may be relevant to the future.

Research Sources for Marketing Analysis

The 10K Item 1. Business provides a good summary of products and customers.

The company website provides the best source of information for products, services and brands. Be careful not to adopt the promotional language of the company. Some companies have many products and services. You will need to group or categorize them so that they are more easily grasped.

Business Source Complete is a good source for SWOT analysis on companies. Do a search using the [library database sources](#). If you click on More at the top of the page, you will find company profiles from Data Monitor.

The major general publications for business people in order of importance are: **Wall Street Journal**, **NY Times**, **Forbes**, **Fortune**, and **Business Week**. Most business people read the WSJ every day. All these publications are available on the ProQuest, however, sometimes it is faster to go to each of the following sites and do a search on the company under each of the individual periodicals or on the [library database](#) sources. You can also go to each of the individual periodicals to find recent articles:

www.forbes.com

www.businessweek.com

www.fortune.com

www.nytimes.com

www.wsj.com

You can use the financial website finance.yahoo.com to find a competitor. In www.smartmoney.com, you key in your company ticker symbol and then click on Compare.

Key in ticker symbol for stock. SBUX is the symbol for Starbucks.

The screenshot shows the SmartMoney.com website interface for the stock SBUX (Starbucks Corp.). The page displays the current share price at \$14.41, a price change of -0.01 (-0.06%), and a volume of 7,819,115. A red box highlights the 'Click on Compare' link in the navigation menu. Another red box highlights the 'Key in ticker symbol for stock. SBUX is the symbol for Starbucks.' text on the left side of the page. The page also features a 'SIGN UP' button for Scottrade, a '100 FREE TRADES' offer, and a 'GET STARTED' button for Scottrade. The 'Breaking News' section at the bottom lists several updates from Starbucks regarding new store names and alcohol sales.

| Volume: | 7,819,115 | Avg Volume: | 12,583,300 |
|-----------------|------------|----------------|------------|
| Day's Low: | \$14.23 | Day's High: | \$14.57 |
| 52-wk Low: | \$7.06 | 52-wk High: | \$17.18 |
| Previous Close: | \$14.42 | Open Price: | \$14.34 |
| Dividend: | \$0.00 | Yield: | 0.00% |
| Market Cap: | 10,611,700 | P/E (Forward): | 20.60 |

SBUX Competition for Starbucks Corp. at SmartMoney.com - Mozilla Firefox

http://www.smartmoney.com/stock-quote/?story=competition&symbol=SBUX

Last Trade 4:00:24 PM ET 7/16/2009

optionsXpress | Scottrade | 100 FREE TRADES | AMERITRADE

Overview | Chart | News | Profile | Key Stats | Financials | Earnings | Ratings | Compare | Holders | Insiders | Options

Competitive Analysis

Rank by: Current Share Price

Choose one of the competitors listed.

Competitive Analysis (cont.)

| | Starbucks Corp. | Panera Bread Co. CIA | CARIBOU COFFEE COMPANY | TIM HORTONS INC |
|--------------------------------|--------------------|----------------------|------------------------|--------------------|
| Industry | Specialty Eateries | Specialty Eateries | Specialty Eateries | Specialty Eateries |
| Current Share Price | 14.41 | 53.75 | 5.10 | 26.07 |
| Market Value | \$10.612 mil | \$1,591 mil | \$98 mil | \$4,715 mil |
| Revenues | \$10,038 mil | \$1,315 mil | \$253 mil | \$1,648 mil |
| Net Earnings | \$88 mil | \$73 mil | \$-10 mil | \$229 mil |
| 5-yr Sales Growth | 16.46% | 26.82% | NA | NA |
| 5-yr Earnings Growth | -8.32% | 14.20% | NA | NA |
| Net Profit Margin | 0.90% | 5.60% | -3.80% | 13.90% |
| Short Interest | 3.7 | 11.3 | 2.6 | 10.8 |
| Proj. Long-Term EPS Growth (%) | 16.5% | 16.7% | NA | 15.0% |
| Forward P/E | 20.6 | 20.3 | 39.1 | 16.6 |
| PEG | 1.25 | 1.21 | NA | 1.11 |
| Price/Sales | 1.10 | 1.30 | 0.40 | 2.90 |

Research Sources for Financial Analysis

Financial websites provide the best source of simplified financial statements (taken from the 10K).

You will need to know the ticker symbol for your company. Use any of the following financial websites to get annual income statements and balance sheets. You will need to calculate three growth rates (to percent) for revenues and net income. It's a good opportunity for you to learn how to use Excel to do this. However, you can do it on an ordinary calculator just as well. You can also find financial ratios at these websites and competitor information. Take the time to roam around the site for find each of these.

www.smartmoney.com

www.reuters.com

SBUX Snapshot for Starbucks Corp. at SmartMoney.com - Mozilla Firefox

http://www.smartmoney.com/stock-quote/?symbol=SBUX

Friday July 17, 2009 12:53 AM ET

SmartMoney | Scottrade | 100 FREE TRADES | AMERITRADE

HOME | INVESTING | SPENDING | PERSONAL FINANCE | TOOLS | PORTFOLIO | SMALL BIZ | Login | Register | Help | Select | 100 FREE TRADES

View All Tools | Worksheets | Mutual Fund Map | Map of the Market | My Portfolio | My Watchlist | Stock Screener | Stock Quote | Streaming Quotes

SBUX (Starbucks Corp.)

Exchange: NASD Industry: Specialty Eateries

Last Trade 4:00:24 PM ET 7/16/2009

optionsXpress | Scottrade | 100 FREE TRADES | AMERITRADE

Overview | Chart | News | Profile | Key Stats | Financials | Earnings | Ratings | Compare | Holders | Insiders | Options

Click on Financials

Volume: 7,819,115 Avg Volume: 12,583,300

Day's Low: \$14.23 Day's High: \$14.57

52-wk Low: \$7.06 52-wk High: \$17.18

Previous Close: \$14.42 Open Price: \$14.34

Dividend: \$0.00 Yield: 0.00%

Market Cap: 10,611,700 P/E (Forward): 20.60

After-Hours Trading: Last Trade 4:35 PM Price: 14.41 Volume: 816

Breaking News

4:42 PM 7/16/2009 UPDATE: Starbucks Tests New Store Names, Alcohol Sales

1:14 PM 7/16/2009 Starbucks Tests New Store Names, Alcohol Sales

3:57 PM 7/13/2009 Tim Hortons CEO: US Business To Turn Profit This Year

SBUX (Starbucks Corp.) Share Price (\$): 14.41
 Price Change: -0.01 (-0.06%)
 Last Trade: 4:00:24 PM ET 7/16/2009

Choose Option: Quarterly Income Statement
 Quarterly Balance Sheet
 Quarterly Income Statement
 Quarterly Cash Flow
Yearly Balance Sheet
 Yearly Income Statement
 Yearly Cash Flow

Click on Yearly Balance Sheet (download and print) and then Yearly Income Statement (download and print)

SBUX (Starbucks Corp.) Share Price (\$): 14.41
 Price Change: -0.01 (-0.06%)
 Last Trade: 4:00:24 PM ET 7/16/2009

Key Stats | Financials | Earnings | Ratings | Compare | Holders

Share Liquidity & Volatility

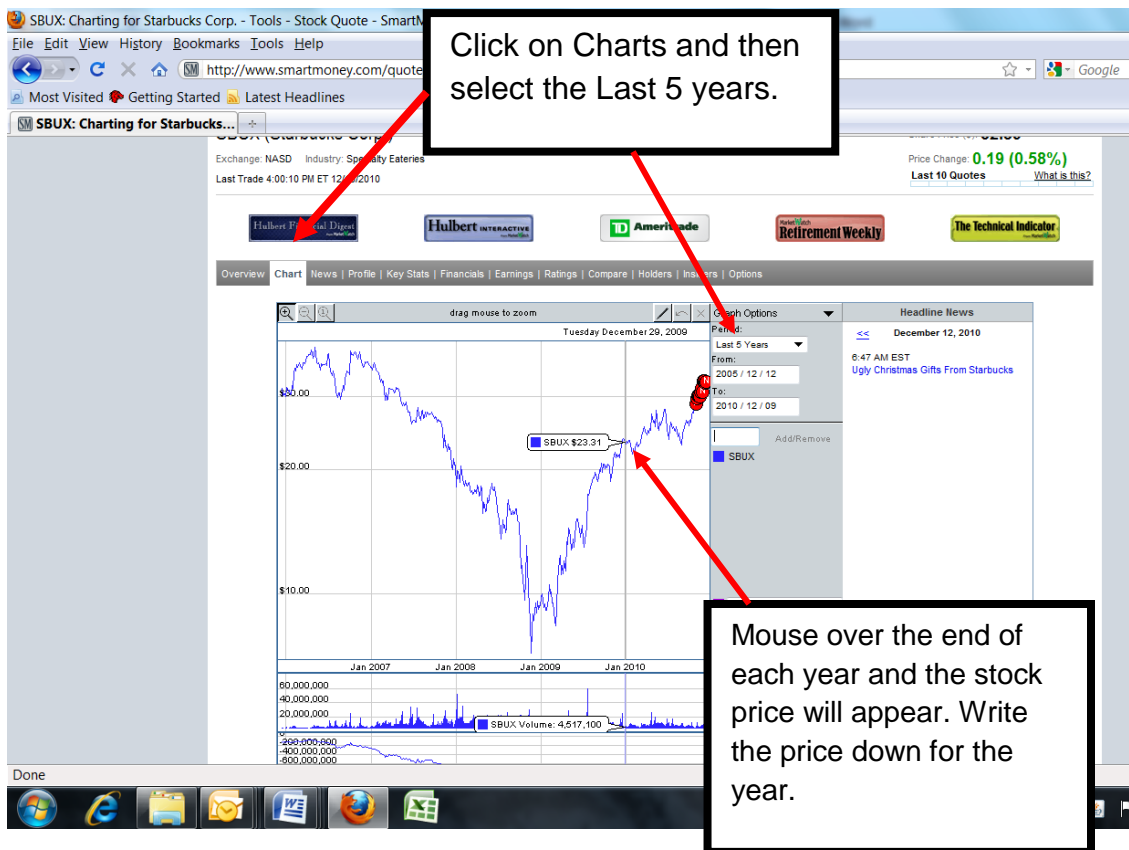
| | |
|-----------------------------|-------------|
| Beta | |
| Liquidity Ratio | |
| Float | |
| Shares Outstanding, Basic | 735,900,000 |
| Shares Outstanding, Diluted | 739,900,000 |
| Float as a % of Shares Out | 97.40% |

Key Statistics

| | Total* | Per Share** |
|-----------------------------------|--------------|-------------|
| TTM as of 3/31/2009 | | |
| Revenues | \$10,037,900 | \$13.57 |
| Income from Continuing Operations | \$88,000 | \$0.12 |
| EBIT | \$152,200 | \$0.21 |
| Ebitda | \$1,132,100 | \$1.53 |
| Net Income | \$88,000 | \$0.12 |
| Cash Flow from Cont. Ops | \$1,209,000 | \$1.63 |
| Free Cash Flow | \$492,700 | \$0.67 |
| Cash | \$253,200 | \$0.34 |
| Long-Term Debt | \$549,400 | \$0.74 |

Click on Key Stats to get financial ratios (download and print)

To get the stock price for the last four years:



Research Sources for Management Analysis

Company websites are the best source of information of company mission, values and culture. Under the Jobs section, company websites also provide excellent summary of benefits.

Check employee and customer blogs to get other sources of information but be sure to apply CARS to determine if you should include this in the research.

Profiles of management are often provided in the major business periodicals. Both Fortune and BusinessWeek do a ranking of the best managers.

Don't discount an email to the company asking about what attributes they look for in a candidate or consider asking people you know who work at the company.

Evaluating Research

The key to business research is to find recent information. For most business topics, information older than twelve months may not be very useful. Second, evaluate sources for credibility. If it is one of the major business publications, it will be fairly reliable (although they have been known to be wrong) but may be biased. If it is a company publication or industry association publication, assess how good the information is. The mission of an industry group is to promote the industry. Their information might paint a much brighter picture than is actually the case.

CARS (credibility, accuracy, reasonableness and support) is a simple acronym that helps evaluate research. You can create a rating scale to evaluate each of your sources of information.

A summary check list is provided in the following table. Students rate their articles on a scale of 1 (lowest) and 4 (highest) on each of the criteria. You must provide reasons for your ratings.

Check List for Evaluating Research

| Credibility | |
|---|-----------------------------|
| High | Low |
| Author's education or experience relevant to issue | Anonymous author |
| Contact information given | No contact information |
| Organization the author belongs to or the website belongs to is reputable and unbiased on issue | Periodical not well-known |
| Author has reputable position | Reviews are mostly negative |

| | |
|---|--|
| Author has good reputation | Author is not convincing |
| Periodical is of good quality in content and presentation | Writing contains bad grammar and numerous misspelled words |
| Accuracy | |
| Up-to-date information – dates are current | No date. Old date. |
| Look at the last year of any historical data – Does it include latest year? | Use of vague or sweeping generalizations |
| Comprehensive – many sources of data, cites all relevant sources of information | Limited information or sources. Limited coverage of topic |
| Considers the audience for the information | Hidden messages of persuasion; inappropriate for audience |
| Reasonableness | |
| Fair – presents other side | Angry or spiteful tones |
| Objectivity – control biases, any conflict of interest is disclosed | Conflict of interest |
| Moderateness – most truths are ordinary. (Some truths are not but check to see if they are real.) | Sweeping statements |
| Consistency – writer avoids contradictions | Writer exaggerates or over claims |
| World view –writer identifies his/her religious, political, etc. point of view | Writer obscures his/her biases and viewpoints |
| Support | |
| Source of information is cited | No identified source for numbers |
| Corroboration – May want to triangulate – find three sources of information that agree | Absence of documentation when it is needed |
| Does it agree with outside sources of information? | Cannot find other sources that agree with information |

APA Citations

Create all your citations when you do your company research. This makes it easy for you to write the three sections of the analysis. The citation machine can be used but students find this source more specific to business. Check out the video on APA citations prepared by the library: View this video for APA citation: <http://bellevuecollege.edu/lmc/apa/>
Here are the more common ones used in the company analysis.

Single Book

Form: Author. (Publication Date). Title of book. Place of Publication: Publisher.

Example: Cohen, W.A. (2006). *The marketing plan*. Hoboken, NJ: J. Wiley & Sons.

Edited Book

Form: Editor (Ed.) (Publication Date). *Title of work*. Place of Publication

Example: Woodside, A.G. (Ed.). (2005). *Managing product innovation*. Amsterdam, Holland: Elsevier JAI.

Magazine Article (also refers to articles taken from library databases)

Magazine articles differ from journal articles in that they are usually written by non professionals, intended for general audiences, and published in a weekly or monthly format.

Form: Author (Date of the magazine, including month and day if given). Title of article. *Title of Magazine, Volume Number* (if available), page numbers.

Example: Samuelson, R.J. (February 20, 2006). Anxiety amid prosperity. *Newsweek*, 37.

Journal Article (also refers to articles taken from library databases)

Articles from journals are usually written by experts in the field, include bibliographies, and intended for specialized audiences.

Most professional journals continue page numbers throughout the issues in a year. If this is the case, you do not need to include the issue number. If each issue of the journal begins with "page 1," you should include the issue number.

Form: Author. (Publication Date). Title of article. *Title of Journal or Magazine, Volume, page numbers*.

Example: Stevens, B. (2004). The ethics of the U.S. business executive: a study of perceptions. *Journal of Business Ethics, 54*, 163-171.

Newspaper Article (also refers to articles taken from library databases)

Form: Author. (Date). Title of article. *Newspaper Title*, page numbers.

Example: Kirby, C. (February 24, 2006). Tech jobs still plentiful in U.S. *San Francisco Chronicle*, p. D1, D6.

Annual or 10K report or other filing

Form: Name of Company. (Date of Report). *Form or filing title*. **Example #1:** Nike. (July 29, 2005). *Annual Report*.

Example #2: Nike. (October 10, 2003). *Form 10-Q*.

Website

When your citation ends in a url, do not include a period at the end of the citation.

Form: Author. (date). *Title of website*. Retrieved date of retrieval, from website url

Example: American Marketing Association. (2006). *Marketing Power*. Retrieved January 26, 2006 from <http://www.marketingpower.com>

Web page/ Article from a website

This is similar to an article/chapter in a book, except that you write the title of the Web page as the article title and include the word "In" with the full site name.

The url should be the url that will take someone directly to the article, not the home page of the website. When your citation ends in a url, do not include a period at the end of the citation.

Form: Author. (date). Title of Web page or article. In *Name of website*. Retrieved date of retrieval, from website url

Example: Copeland, M. (January 30, 2006). The Starbucks of cell phones. In *CNN Money*. Retrieved February 6, 2006, from <http://money.cnn.com/2006/01/30/technology/launchpad0130/index.htm>

Company Analysis- Marketing

45 points

1200 words minimum

- **Turn your paper in at www.turnitin.com**
- **Class ID:** Check syllabus for Class ID and password
- **For onsite classes: Turn in hard copy with drafts to instructor**

Turnitin.com: It is required that this paper be submitted to turnitin.com. Go to the website and register using the class ID given in the syllabus. Students will be able to get an originality score about one hour after submitting the paper. Students may continue to resubmit papers until the deadline. Any papers with more than 25% from other sources will not be graded because it is not your work.

Visual display: Include one graph or chart that you created yourself (copy and paste is not allowed). The graph can be hand drawn if you don't know how to use Excel or power point to create it. A good graph might be a pie chart of company sales by product categories. The visual display must relate to marketing. Financial information such as revenue and net income growth is not appropriate for this visual display. Cartoons and process drawings are not appropriate.

Writing assessment: The writing assessment must include a draft where the evidence sequence is underlined and numbered. The final version must show improvement from the first and second draft. Minor comments is not considered improvements.

| USE SUB-HEADINGS FOR ALL THE TOPICS COVERED | Omitted | Superficial/ Careless analysis | Adequate – covered all requirements | Excellent |
|---|----------------|---|--|------------------|
| Brand Analysis – Description of the company brand image including attributes, benefits and values. Analysis of how the company manages its brand. | 0 pts | 3 pt | 6 pts | 9 pts |
| Product Analysis – Description of new product development in the company. Assess where the company's products are on the product life cycle. How does the company manage products? | 0 pts | 3 pt | 6 pts | 9 pts |
| Customer Analysis – Give 4 or 5 characteristics of the company's target market. Articulate the company customer value proposition. How does the company manage the customer life cycle? What channels are used to reach the customer? | 0 pts | 3 pt | 6 pts | 9 pts |
| Competition – Compare and contrast two to three of the strongest competitors to your company. How does your company compete? | 0 pts | 3 pt | 6 pts | 9 pts |
| Growth Strategy – What marketing strategy is used by your company. Summarize key points from the previous sections to articulate how it plans to grow. | 0 pts | 2 pts | 3 pts | 4 pts |

| | | | | |
|--|----------------------|----------------|-------------------|---------------------|
| | No visual display or | Visual display | Provided adequate | Good visual display |
|--|----------------------|----------------|-------------------|---------------------|

| | | | | |
|--------------------|---|-------------------------------------|---|---|
| | copied from other sources | tangentially related to marketing | visual display | related to marketing |
| Visual display | 0 pts | 0.5 pt | 1 pts | 2 pts |
| | Did not present drafts or writing assessments | Did some evidence sequence analysis | Provided adequate evidence, focus and organization analysis | Provided good evidence, focus and organization analysis with improvements shown |
| Writing assessment | 0 pts | 1 pt | 2 pts | 3 pts |

Company Financial Analysis **45 points**

1200 words minimum

- **Turn your paper in at www.turnitin.com**
- **Class ID:** Check syllabus for Class ID and password.
- **If onsite: Turn in hard copy with drafts to instructor**

Turnitin.com: It is required that this paper be submitted to turnitin.com. Go to the website and register using the class ID given in the syllabus. Students will be able to get an originality score about one hour after submitting the paper. Students may continue to resubmit papers until the deadline. Any papers with more than 25% from other sources will not be graded because it is not your work.

Visual display: Include one graph or chart that you created yourself (copy and paste is not allowed). The graph can be hand drawn if you don't know how to use Excel or power point to create it. The visual display must relate to financial analysis. Cartoons and process drawings are not appropriate.

Writing assessment: The writing assessment must include a draft where the evidence sequence is underlined and numbered. The final version must show improvement from the first and second draft. Minor comments are not considered improvements.

Source financial statements and ratios must be attached. The financial analysis worksheet must be attached.

| USE SUB-HEADINGS FOR ALL THE TOPICS COVERED | Omitted | Superficial/ Careless analysis | Adequate – covered all requirements | Excellent |
|---|----------------|---|--|------------------|
| Calculate 3 growth rates for revenues, net income and stock price for the company. (Attach the financial analysis worksheet which follows) | 0 pts | 3 pt | 6 pts | 9 pts |
| Calculate 3 growth rates for revenues, net income and stock price for a competitor. (Attach the financial analysis worksheet which follows) | 0 pts | 3 pt | 6 pts | 9 pts |
| Provide market value/capitalization, net profit margin, return on equity, total debt to equity, and price to earnings ratio. | 0 pts | 2 pt | 6 pts | 8 pts |
| Provide an evaluation of the company versus the competitor on revenue and net income growth rates and financial ratios net profit margin, return on equity, total debt to equity. | 0 pts | 4 pts | 8 pts | 10 pts |
| Analyze which company is the better value as a stock purchase using the price earnings ratio | 0 pts | 2 pts | 3 pts | 4 pts |

| | | | | |
|-------------------------|--|--|--|--|
| and stock price growth. | | | | |
|-------------------------|--|--|--|--|

| | | | | |
|----------------|--|--|----------------------------------|--|
| | No visual display or copied from other sources | Visual display tangentially related to marketing | Provided adequate visual display | Good visual display related to marketing |
| Visual display | 0 pts | 0.5 pt | 1 pts | 2 pts |

| | | | | |
|--------------------|---|-------------------------------------|---|---|
| | Did not present drafts or writing assessments | Did some evidence sequence analysis | Provided adequate evidence, focus and organization analysis | Provided good evidence, focus and organization analysis with improvements shown |
| Writing assessment | 0 pts | 1 pt | 2 pts | 3 pts |

Financial Analysis Worksheet (Must be attached)

| | What does this tell you about the company? | Company Show actual calculation | Competitor Show actual calculation | Which company is better? Explain why. |
|--|--|------------------------------------|---------------------------------------|--|
| Year-to-year total revenue growth (3 growth rates calculated to percent) Four years of financial data are required | | a) b) c) | a) b) c) | |
| Year-to-year total net income growth (3 growth rates calculated to percent) | | a) b) c) | a) b) c) | |
| Year-to-year stock price growth (3 growth rates calculated to percent) | | a) b) c) | a) b) c) | |
| Market value | | | | |

| | | | | |
|---|--|--|--|--|
| | | | | |
| Price to earnings ratio (use TTM of GAAP) | | | | |
| Net profit margin | | | | |
| Return on equity | | | | |
| Total liabilities to equity | | | | |

Company Management Paper

35 points

1200 words minimum

- **Turn your paper in at www.turnitin.com**
- **Class ID:** Check syllabus for Class ID and password
- **If onsite: Turn in hard copy with drafts to instructor**

| USE SUB-HEADINGS FOR ALL THE TOPICS COVERED | Omitted | Superficial/ Careless analysis | Adequate – covered all requirements | Excellent |
|--|---------|--------------------------------------|---|-----------|
| Describe the impact of two or three <u>key</u> managers in the company. What style of management do they employ? Are they effective? What stories are typically told about the managers? | 0 pts | 1 pt | 3 pts | 5 pts |
| Corporate mission, values and culture. Describe what these are and how they contribute to the company brand. Does the company value diversity? What is the diversity of its management and workforce? What stories characterize the company culture? | 0 pts | 4 pt | 8 pts | 10 pts |
| Corporate social responsibility. Identify a negative incident involving the company and describe how the company handled the incident. Analyze where the company is on the stages of corporate responsibility. | 0 pts | 3 pt | 5 pts | 7 pts |
| Identify the benefits that an employee would get at the company. How does this compare to other companies? | 0 pts | 1 pt | 3 pts | 5 pts |
| Identify the attributes the company seeks in an employee. What type of person would be happiest working for this company? | 0 pts | 1 pt | 3 pts | 5 pts |

| | | | | |
|--------------------|---|-------------------------------------|---|---|
| | Did not present drafts or writing assessments | Did some evidence sequence analysis | Provided adequate evidence, focus and organization analysis | Provided good evidence, focus and organization analysis with improvements shown |
| Writing assessment | 0 pts | 1 pt | 2 pts | 3 pts |

Company Presentation (If onsite class)

25 points

Scheduled for the final week of class

Objective: Make a **five-minute presentation** to the class that either recommends or does not recommend the company as an investment. The final presentation showcases your work. It can be compiled easily by cutting and pasting your marketing, financial and management analysis.

Audience: Organize your material so that it is relevant to the audience. A brief history of the business may be necessary to orient members of the audience. There should be no more than three to five main points. Make sure that you cover marketing, financials and management. It is important that any visual display of information is appropriate. Large amounts of text or numbers is not appropriate for projection. The audience doesn't have the time to grasp details. Although dark backgrounds and white fonts seem dramatic, they fade out in a room with any light. Don't use any pictures or graphics that do not make a point. They will only distract. As a general rule, very little use of animation (other than transition) is made in professional presentations. Be prepared for technical glitches by having backup copies. Be aware that the most technically complex presentations are the most difficult to recover from if there are technical problems.

Preparation: The presentation deck of slides should be prepared well in advance of the presentation day and reviewed for completeness. It is important that the presentation be rehearsed many times. Reading off cards detracts from credibility. Watch body language such as fidgeting or stiffness. Know the material thoroughly and believe in what is said. Communication is most effective when passionate about the topic. Jokes are tricky as they can offend. It is best to leave them out.

Do not include any slides that don't give information. Give out slides or handouts because it will help people remember but it is best to give out material after the presentation.

Never, never go over the time limit. The presentation might be part of a series of presentations and going over the limit will impact the presentations for the rest of the day. Additionally, going over time limits gives the impression that you do not have control over the material.

There can be no errors, typos, or grammatical mistakes in the final presentation. The only way to prevent this is to review the presentation deck several times.

| | Omitted | Superficial/ Careless | Adequate – covered all requirements | Excellent |
|---|---------|--------------------------|---|-----------|
| Organization (Main points were evident and organized so that the audience could follow, conclusions were supported) | 0 pts | 1 pt | 3 pts | 4 pts |
| Visual Display (Clear, appropriate, efficient) | 0 pts | 1 pt | 3 pts | 4 pts |
| Delivery (Well-rehearsed, knew material, projected credibility, connected with audience) | 0 pts | 1 pt | 3 pts | 4 pts |
| Logistics (Finished on time) | 0 pts | 1 pt | 2 pts | 3 pts |
| Information value (Information was correct and addressed the areas of study) | 0 pts | 1 pt | 3 pts | 5 pts |
| Professionalism (No typos, errors or grammatical mistakes) | 0 pts | 1 pt | 3 pts | 5 pts |

Writing Self Assessment (Courtesy Robin Jeffers)

Good writing only comes with practice and the ability to improve your writing as you write more. Ask others to review your writing and work on improving it. Writing can always be improved. Unfortunately we don't always have editors, instructors, or peers to review our writing so it's important that you learn to assess your writing yourself. The following is a guideline to use when you review your first drafts. It will help you improve your writing. Good writing is essential to upper-level college courses and to getting a good job.

You must include a self assessment of your writing to get full points for your marketing, financial and management analysis. Make sure you answer the following questions:

Evidence Assessment

For each body paragraph in your draft:

- Underline the topic sentence
- Label each intro of evidence 3a.
- Label each piece of evidence 3b.
- Label each explanation of evidence 3c.

Evaluation Questions

- Is each piece of evidence explained?
- Is each evidence sequence clearly addressing the point made in the topic sentence?
- Does the topic sentence account for all the evidence in the paragraph?
- Does the concluding sentence explain the point of the paragraph better than the topic sentence does? (If it does, you'll want to use that as your topic sentence when you revise?)

Focus Assessment:

On a separate piece of paper, copy the thesis statement and the topic sentences of all the body paragraphs, plus the main sentence from the conclusion in order, assembling them into a single paragraph. This process is really quick and easy in the word-processor—just copy and paste.

Evaluation Questions

1. Does each topic sentence clearly address the thesis (if not, why not?)
2. Is any of the topic sentences out of logical order?
3. Does the whole thing cohere? If so, underline the words that make it cohere.

Organization Assessment

1. What logic underlies the order of your body paragraphs?
2. Have you said how the material in each topic sentence/paragraph relates to the material in the topic sentence that precedes it? If so, underline the part of the topic sentence that does that job.

Style and Mechanics Assessment

1. How many drafts did you write? There should be at least three drafts. Always allow time to revise and never turn in your first draft.
2. Have you used word processing software to spell check the paper?

More information on writing assessment

Here is some additional information for writing self assessment. You may rate your paper on using this rubric but I find that the majority of students rate their writing in the highest category. I think it is helpful to have this rubric to help you better self assess your writing.

| | Well done | Acceptable | Needs Improvement |
|---------------------------|--|---|---|
| Evidence Sequences | Intro to evidence contains specific claims, "why" or "how" explained | Intro to evidence contains specific claims, but no "why" | <ul style="list-style-type: none"> • Intro to evidence claims do not support thesis or claim • Intro to evidence contains general claims or uses promotional claims |
| | Evidence specific and appropriate to claim | Evidence lacks sufficient detail | <ul style="list-style-type: none"> • Evidence general or inappropriate to claim • Evidence not always provided for claims |
| | Relationship of evidence to claim fully explained | Relationship of evidence to claim ineffectively or generally explained | <ul style="list-style-type: none"> • Relationship of evidence to claim not explained • Explanation based on insufficient evidence • Contradictions |
| | Mastery of evidence sequence | <ul style="list-style-type: none"> • Occasional element of evidence sequence missing, but no pattern of missed element(s) • Mechanical mastery of evidence sequence: all elements in place, but content isn't appropriate | <ul style="list-style-type: none"> • One or more elements of evidence sequence consistently missing • Description or categorizing substituted for analysis |
| | Efficient reasoning | Some repetition | <ul style="list-style-type: none"> • One idea, repeated instead of developed • Different points, all descriptive instead of analytical |
| | Well done | Acceptable | Needs Improvement |
| Focus | Specific context | General context provided | <ul style="list-style-type: none"> • No context provided |

| | | | |
|----------------------|---|---|--|
| | provided | | <ul style="list-style-type: none"> Articles not introduced in intro paragraph. |
| | <ul style="list-style-type: none"> Thesis limits and focuses topic Thesis explains why and that explanation is validated in rest of paper | <ul style="list-style-type: none"> Thesis limits and focuses topic, but no "why" Thesis explains why but explanation is not fully validated in rest of paper | <ul style="list-style-type: none"> No addition to thesis beyond what was given in the assignment Thesis general or obvious Descriptive thesis--no "why" offered Thesis does not address assigned topic |
| | Focused topic sentences explain thesis, including a "why" or "how" for the topic addressed in paragraph | <ul style="list-style-type: none"> Topic sentences focused, with no "why" to address. Topic sentences focused but thesis is so general that topic sentences have nothing to address Topic sentence focused but don't explain "why" of thesis | <ul style="list-style-type: none"> No topic sentences Descriptive topic sentences Topic sentences don't support thesis |
| | Well done | Acceptable | Needs Improvement |
| Organization | Order of body paragraphs used to advance "why" argument | Logic visible in ordering of body paragraphs | <ul style="list-style-type: none"> Order of body paragraphs does not appear to have been considered List ordering of body paragraphs does not support reasoning task |
| | Transitions and coherence builders extend the analysis | Mechanical transitions between paragraphs, but not ones that extend/clarify the analysis | <ul style="list-style-type: none"> Few or no transitions w/in essay Missing coherence builders between paragraphs |
| | Well done | Acceptable | Needs Improvement |
| Diction/Style | Words precise, appropriate to task. | Some colloquial or over-inflated words. Some inaccurate or imprecise words. | <ul style="list-style-type: none"> Word choice imprecise, casual, simplistic, inappropriate to business report |
| Mechanics | No major errors, including in citation form | Few errors | <ul style="list-style-type: none"> Many errors Pattern of errors Errors in citation |

Sample Writing Assessment

This is an example of how to conduct the writing assessment for each paper submitted. The following is a sample Company Selection paper.





Ford is one of the car company in U.S. Ford is located at Dearbon in Michigan. Henry Ford founded to Ford on June, 16, 1903. Ford also includes other car brand such as Lincoln and Mercury. Ford is big company in the world. But, the car economic is bad now. Ford is also having trouble right now. Ford economic is down. So, The Ford symbol of the ticker is F. But, Ford economic is growing up slowly and they are making their position.

Ford have a lot of company in the all over the world. They sell car in Asia, Europe, South America and Africa. At the other country, Ford hae a good position. Their selling is

good and customer satisfaction measurements is good. And also, their price is enough to buy a car to regular people.

Ford develop to skill for a car. Ford have a lot of car skills. They have an electronic, hybrid, and PC power skills. These skills are good to survive with other car company in the recently world. Ford is considering to natural pollution and safety. And also, they try to find a new skills for customers.

The paper is obviously a first draft. The word count is 198 therefore the paper is too short as the requirement is a minimum of 250 words. If the writing rubric were used, it is apparent that the paper needs improvement on all levels.

| | Well done | Acceptable | Needs Improvement |
|--|-----------|------------|---|
| Evidence Sequences – Can you find the topic sentence of each paragraph and does the rest of the paragraph provide evidence for the topic? | | |  |
| Focus – Does each paragraph focus on what the thesis? | | |  |
| Organization – Does the writing follow a logical order | | |  |
| Style/Mechanics – Is slang used? Are there grammatical errors or typos? | | |  |

Evidence, Focus and Organization:

Going through the paper carefully, it is possible to pick out the main points of each paragraph. The student's main argument in the paper appears in the first paragraph. He is trying to argue that even though the world economy is down, Ford continues to be a company that is establishing a strong market position. Writers often put their main argument at the end of the first paragraph. However, the evidence sequence in the first paragraph is not well organized. Often students start out with extensive history of the company. This history may or may not support the main argument. In this paper, the history is not important. The writer does provide some reasons for the main argument but does not provide any sources for the reasons. This weakens the argument. Additionally, students sometimes are caught up with the promotional language that is often used to describe a company. Most companies will say that they have the best products, prices and customer service. It is the writer's job to objectively look at the company claims and determine if they are valid.

Ford is one of the car company in U.S. Ford is located at Dearborn in Michigan. Henry Ford founded Ford on June, 16, 1903. Ford also includes other car brand such as Lincoln and Mercury (2). Ford is big company in the world. (1) But, the car economic is bad now. Ford is also having trouble right now.(3) Ford economic is down. So, The Ford symbol of the ticker is F. But, Ford economic is growing up slowly and they are making their position.(Main argument of paper)

Ford have a lot of company in the all over the world. They sell car in Asia, Europe, South America and Africa. (1) At the other country, Ford hae a good position. (Main point) Their selling is good and customer satisfaction measurements is good.(2) And also, their price is enough to buy a car to regular people. (3)

Ford develop to skill for a car. Ford have a lot of car skills. They have an electronic, hybrid, and PC power skills. (1) These skills are good to survive with other car company in the recently world. (Main point) Ford is considering to natural pouultion and safety. (2) And also, they try to find a new skills for customers. (3)

All subsequent paragraphs should be used to provide evidence for the main argument. In the sample, the writer asserts that Ford has a good position in the second paragraph but does not provide support for that. In the third paragraph, the writer asserts that Ford has strong competencies. However, again sources are not cited.

Style and Mechanics

There are many errors in the paper that should be corrected. Here is how the first paragraph would be corrected.

Ford is one of the car ~~company~~ *companies* in the U.S. Ford is located at ~~Dearborn~~ in *Dearborn*, Michigan. Henry Ford founded ~~to~~ Ford on June, 16, 1903. Ford also includes other car ~~brand~~ *brands* such as Lincoln and Mercury. Ford is *a* big company ~~in the world~~. But, the car *market* ~~economie~~ is bad now. Ford is also having trouble ~~right now~~. Ford's *sales* ~~economie~~ is are down. ~~So, The Ford symbol of the ticker is F.~~ But, Ford ~~economie~~ is growing ~~up~~ *profits* slowly and ~~they are~~ making ~~their~~ position *stronger*.

If the student were to go through another two drafts, the following might emerge:

Ford, a company in the automotive industry, was founded by Henry Ford in 1903. In 2009, the company sold almost 5 million vehicles all over the world with only about 2 million sold in North America. Its main brands are Ford, Mercury, Lincoln and Volvo. The car market has been difficult in the past two years and, according to its annual report, Ford had a \$14.8 billion loss in 2008. However the company had a \$2.7 B profit in 2009 and expects more profit in 2010. Ford has been growing its profits and making its position in the global car market stronger.

Ford sells cars all over the world. This is important as much of the growth is expected in the Asian market which is 24 million vehicles as compared to 10 million in the US according to Ford's 10K. Ford's company website shows brands which include cars such as Fiesta, Focus and Mustang; SUVs such as the Explorer; trucks such as Ranger and F-150; and hybrids such as Escape and Fusion. Many of these cars have been designed to be affordable in European and Asian countries.

According to Ford's annual report, the company is developing technology which will allow it to build products on one platform. The company expects to achieve savings by adopting this strategy. The company is also focusing on quality in the driving experience, fuel economy, safety, technology and craftsmanship. Developing a high quality product is important in competing in the global car market.

Ford makes a good company selection because it has been able to turn a profit in a difficult economic environment. It is one of the oldest car companies in the world. It is positioned well to

sell in the global car market. The company is developing technology that will allow it to save money. These all make the company an interesting company to analyze.

Links to sample student paper

This set of papers received an A but beware the assignment requirements have changed.

[Company Selection](#)

[Company Research](#) (Note this only covers research evaluation. There are other requirements.)

[Market Analysis](#)

[Financial Analysis](#)

[Management Analysis](#)

[Presentation](#)

Team Name: _____

Team Writing Assignment

This assignment will give you an introduction to self assessment of your writing. The main reason writing assignments get lower grades is because the students did not take the time to go through the necessary outlines and drafts using the criteria that is outlined in the writing self assessment presented here. Read the section on writing self assessment carefully.

The following are two samples of student selection papers. Evaluate each using the self assessment. Then share your ratings and reasons with your team.

Writing 1

What's a company that treats all of its employee's fare and equally? What company has its managers collecting carts in the parking lot as well as the newly hired staff? Costco Wholesale. As well as being considerate towards its staff members', Costco Wholesale is also greatly known by almost everyone. It isn't one general area of the U.S, and it has tons of international businesses that it trades with. There are 125 listed Costco's within the United States alone; with California and Washington as the top two states containing the most Costco's. There is a grand total of 182 Costco's listed world wide.

Costco is a good company based off of many reasons. One of the main reasons why they're so popular is because of their low prices compared to other stores. If you were looking for a camera you could find the Olympus 500 5.0MP at Target for 299.99, but at Costco you can find the same camera including 3x Optical 4x Digital Battery and Charger for 269.99. So not only do you get the same camera for thirty dollars less you also get the attachments that should go with it when you buy it instead of buying it separately.

Another reason why I like Costco so much is the fact that you can go there once every three months instead of going to the grocery store every two weeks. They give you more of the product that you need instead of you continuously spending money on the same product several times at a different store. And Costco is so good to their customers that they don't need advertisements to more people to shop there. All you need is a few people to tell you that it's an amazing store and you'll be hooked. It's a like a club that anyone can be apart of and everyone gets treated equal.

| Writing 1 | Well done | Acceptable | Needs Improvement |
|--|------------------|-------------------|--------------------------|
| Evidence Sequences – Can you find the topic sentence of each paragraph and does the rest of the paragraph provide evidence for the topic? | | | |
| Focus – Does each paragraph focus on the thesis? | | | |
| Organization – Does the writing follow a logical order | | | |
| Style/Mechanics – Is slang used? Are there grammatical errors or typos? | | | |

Writing 2

I chose Fossil Inc., for my company profile for many reasons, first in my personal interest in watches, and you always have to like what you research. Second, is that Fossil Inc. is well known for their quality product, which generates lots of income, it is probably the second most recognizable watch brand behind only Rolex. Third is that watches will always be in style and there will always be a demand for them, so the company will probably never suffer heavy losses in sales. It also produces the Armani, Burberry, and Diesel brands of watches so they also tailor to the high end of clientele, so they cover the whole spectrum of the consumer based. The company also continues to generate profits with a profit margin of at least 8% for the last 5 years, including a nearly 10% growth last years. Fossil pulls in about 1 Billion dollars in total gross income a year which is highest of any watch related company. Stocks of the company seem to be doing fairly well to with the price hovering around 20 dollars a share. Overall the company outlook looks very well for the future, it will continue to grow, open new stores, and pulls in more revenue. If I had the chance I would be proud to join the 5,400 employees of Fossil Incorporated.

| Writing 2 | Well done | Acceptable | Needs Improvement |
|--|------------------|-------------------|--------------------------|
| Evidence Sequences – Can you find the topic sentence of each paragraph and does the rest of the paragraph provide evidence for the topic? | | | |
| Focus – Does each paragraph focus on the thesis? | | | |
| Organization – Does the writing follow a logical order | | | |
| Style/Mechanics – Is slang used? Are there grammatical errors or typos? | | | |

Writing 3

Master Craft launched it's first boat in 1968. The launch of that first craft would change the face of the boat building forever. It's now been over three decades since that legendary first launch, but Master Craft's goal hasn't changed a bit. They seek to build the world's best ski, wakeboard and luxury power boats the world has ever seen, year after year.

It's this creed and push for excellence that lead me to choose this company for my analysis. Master Craft's truly are great boats and have been sought after by all water lovers who can afford them. Master crafts are the boats of choice for many professional skiers and wakeboarders. For years they have also been the official tow boats of competitions all over the country.

Master craft boats are build to extremely high standards to meet the demand of world class athletes. This reputation has made them one of the most popular boats for young adults and families every where. These boats are high priced and bring in a good profit. They take power, performance and pleasure then combine them to one super sweet experience. Not to mention the ride of your life.

The high demand for these high performing boats, combined with their high cost lead me to believe that they'll be around for awhile and doing well while their at it. This company is well know, well thought of and fun to be around. These are just some of the reasons I believe they would be a great company to study.

| Writing 3 | Well done | Acceptable | Needs Improvement |
|--|------------------|-------------------|--------------------------|
| Evidence Sequences – Can you find the topic sentence of each paragraph and does the rest of the paragraph provide evidence for the topic? | | | |
| Focus – Does each paragraph focus on the thesis? | | | |
| Organization – Does the writing follow a logical order | | | |
| Style/Mechanics – Is slang used? Are there grammatical errors or typos? | | | |

Team Research Scavenger Assignment

This assignment will start you off on the research portion of your company analysis. Review the research video: <http://bellevuecollege.edu/lmc/bus101/>. View this video for APA citation: <http://bellevuecollege.edu/lmc/apa/>. Review the section on company analysis research. If you do your research properly, the company analysis is much easier to complete.

Using the instructions in your company analysis:

1. Find the **10K** for your company. Download **Item 1** only which describes the business. For an example, look at the Costco case. Print the first page to show that you downloaded it.
2. From smartmoney.com, print out the **annual** income statement and balance sheet. Be aware that you want the annual statements not the quarterly. Then go to the financial ratios tab and print out the **financial ratios**. Detailed instructions are in your company analysis.
3. Using **EbscoHost**, download the Hoover or Datamonitor summary for your company. Print the first page to show that you downloaded it. The instructions on how to find these reports is on the video <http://bellevuecollege.edu/lmc/bus101/>.
4. Find at least three substantial articles on your company using **Ebsco Host or ProQuest**. Substantial articles are longer articles that address major issues with the company. Earnings reports or minor news items do not count as substantial articles.
5. Check out your **company website** and list five important pieces of information you found on the website.
6. Give one example of an **APA citation** from the articles you researched.
7. Rate one of the articles you researched on the **CARS** criteria.

Submit all the elements to your team for completion check. Then submit the team packet with the following cover sheet:

| Team member name | Team member signature | List all items completed. If not complete note missing element. |
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Module 1: The Context of Business

Module 1 Goals

- Describe US GDP, nominal and real GDP growth rates, GDP per capita, inflation, federal budget/deficit/surplus, industries, economic indicators
- Identify the four phases of the business cycle, rate of inflation, difference between industries, economic bubbles. Use graphs to analyze where we are in the business cycle, economic indicators to predict where we are heading in the business cycle
- Describe GDP, nominal and real GDP growth rates, GDP per capita, inflation, currency for developed and emerging countries. Describe the global nature of financial flows.
- Identify criteria for healthy economic activity including stable government, market access, currency, viable infrastructure and rational regulation.
- Use economic, government, corruption, market access, currency trends, and infrastructure analysis to evaluate the feasibility of doing business in a specific country.

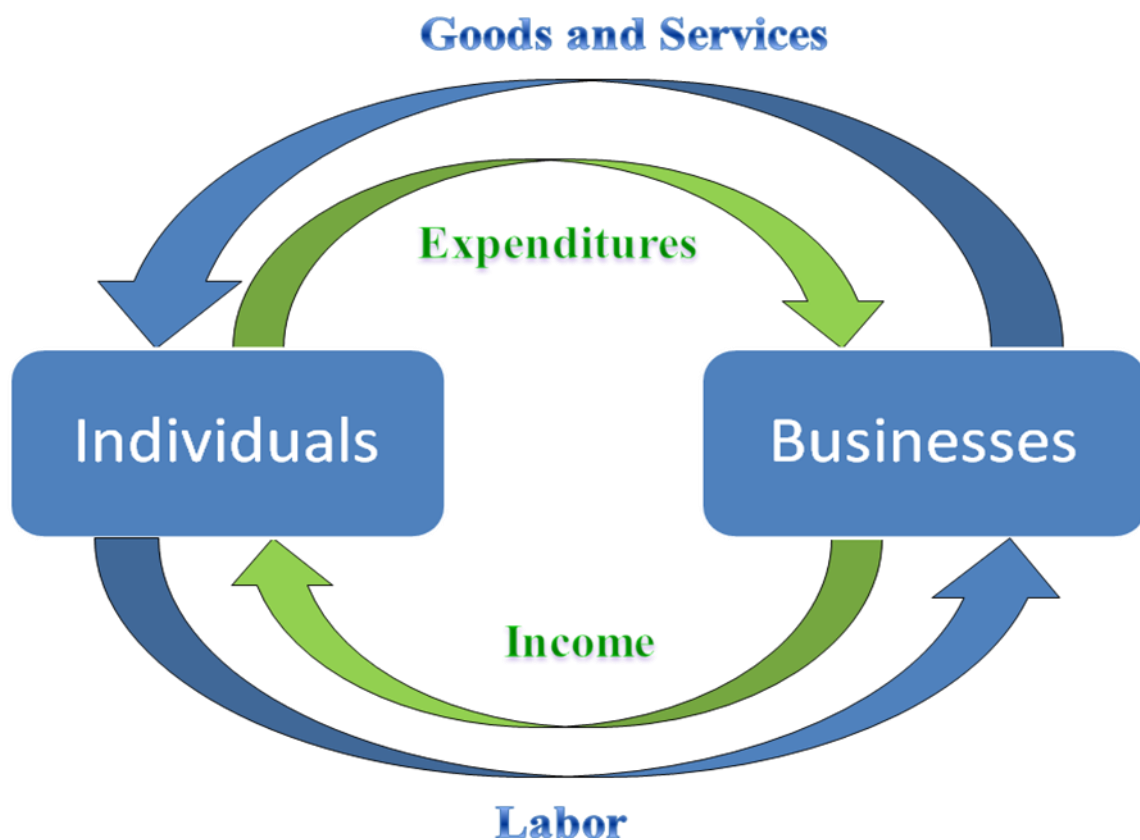
The Economy

The economy provides the context in which businesses operate. Therefore, it's important to understand how it works. It is especially important that everyone understand the economy in these tumultuous times. This reading provides some key concepts of the economy.

The circular flow is a classic diagram for explaining the simple economy. It consists of individuals and businesses. In this simple economy, individuals provide labor to the businesses which then produce goods and services. This is depicted as the blue arrows.

Businesses pay the individuals money for their labor (income) and individuals, in turn, use the income to buy goods and services (expenditures)—shown as the green arrows below.

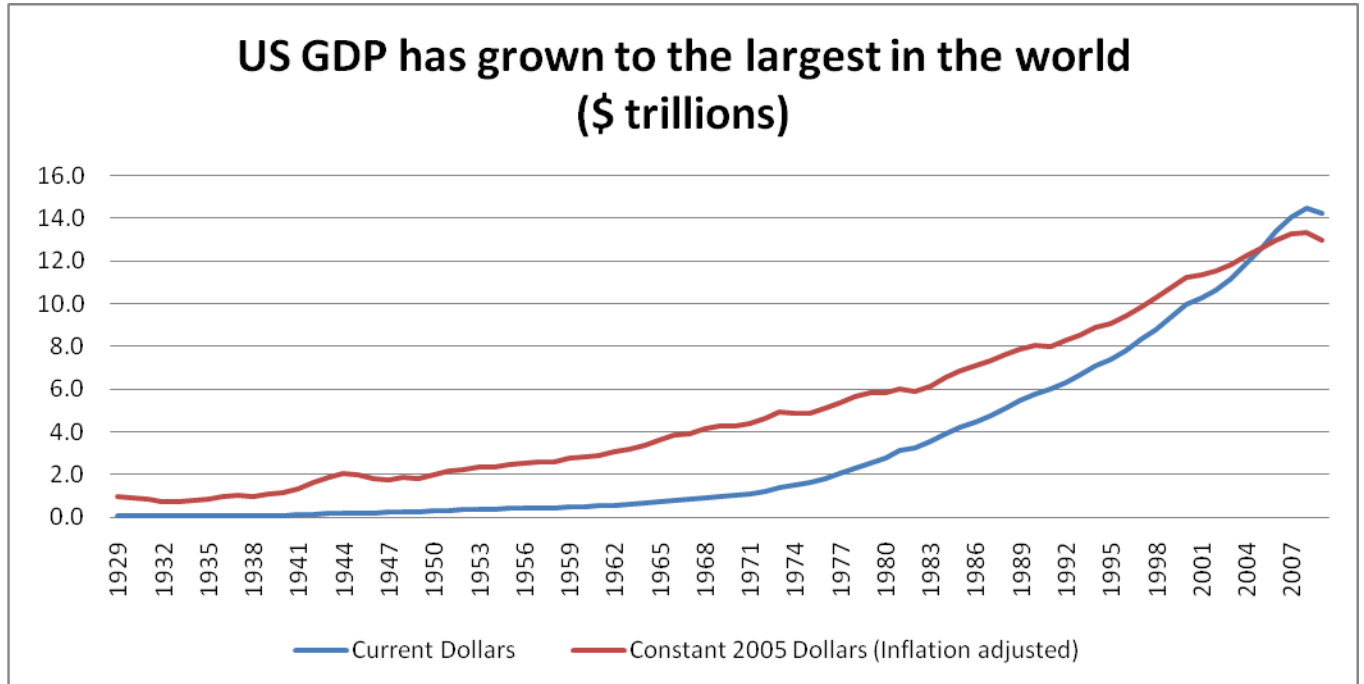
The circular flow shows how the output of the economy is dependent on the income generated from the production. It also shows the equality between the income earned and the goods and services produced.



GDP: One of the Great Inventions of the 20th Century

One of the greatest inventions of the 20th century was the creation of the national income and product accounts (NIPAs) which are a sets of accounts that measure the total value of goods and services (gross domestic product or GDP) produced by the US economy and the total incomes earned (gross domestic income or GDI) in producing that output. In 2009, the GDP of the US was \$14.26 trillion (\$14,260,000,000,000). The figure below shows the size of the GDP since 1929. The red line shows the GDP in current dollars which is the dollar value as most lay people know it. The blue line takes out the effect of inflation, which will be discussed later in this module. It does it by converting every year's value into 2005 dollars.

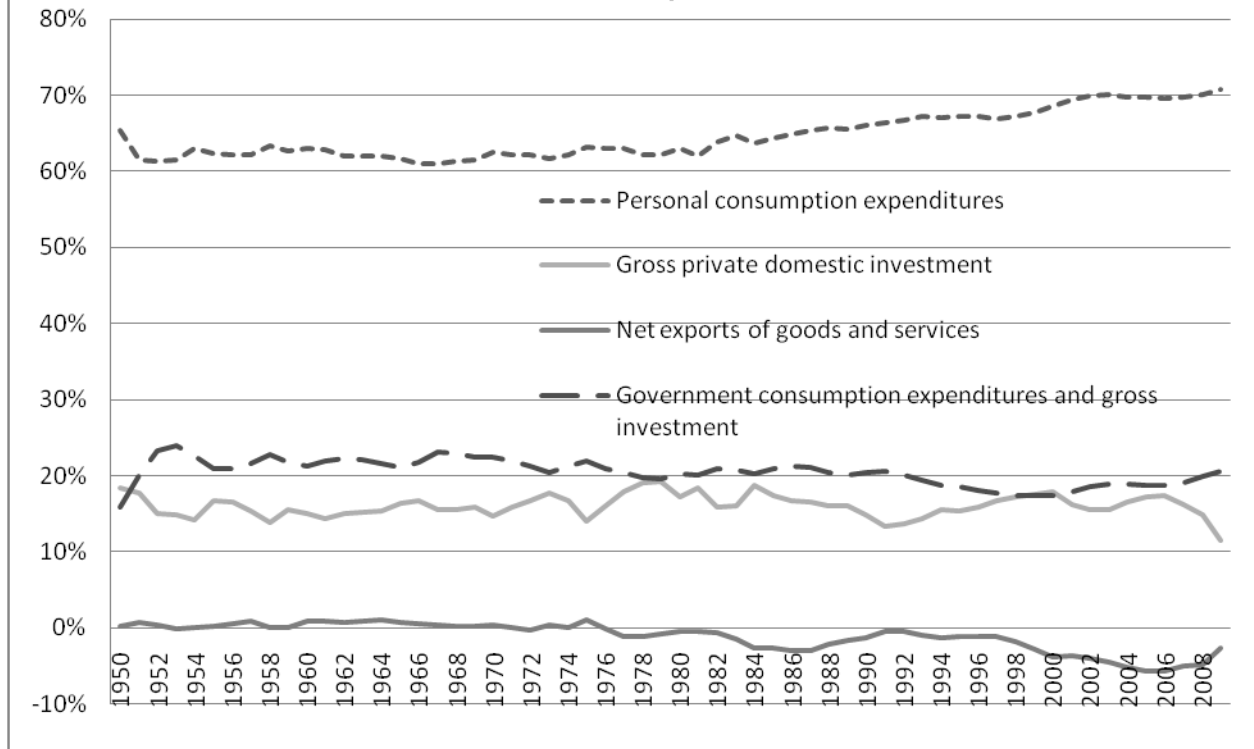
Although there are noted shortcomings in the use of GDP as a measure of how the economy is doing, the GDP and GDI are used extensively in determining policy and evaluating how effective the policy is.



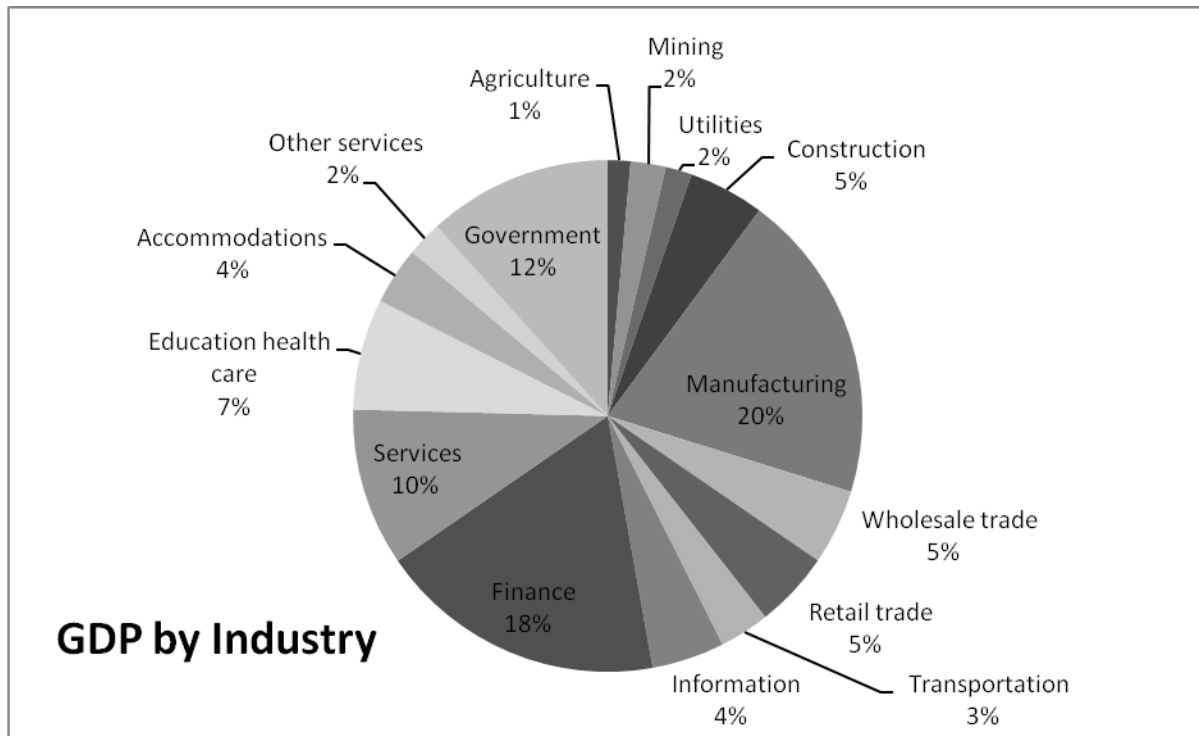
GDP measures the final purchases of households, business, and government by totaling consumption or purchases by consumers, investment, government spending and net exports. GDI measures total incomes earned by households by totaling wages, salaries, rents, profits, interest and other income.

The following chart shows GDP broken out by the four main categories of consumption, investment, government and net exports. Net exports of less than zero mean that the US imported more than it exported in that year. Since about 1980, the US has imported more than it has exported. As a percent of GDP, consumption has increased over the years while investment has declined. Some analyst lament that this is causing the US to lose its global competitiveness as we have moved from a producing nation to a consuming nation. The chart also shows that government spending as a percent of GDP has remained fairly constant.

Accounts as Percent of Total GDP 2009 GDP \$14.3 T



GDP can also be broken down by industry. The industry's share of the GDP pie can also change over time. In 1900, the largest industry was railroads. Railroads were the high technology industry of the time. Industries evolve. For example, manufacturing has declined from 50% of GDP in the 1950s to only 20% in 2008. Other industries may be growing. Over 50% of the industries today were not a large portion of the GDP in 1950. The key is to find the industries that will continue to grow in the future. This will be important for the country and for individuals who want a good career.



For more information on the GDP, check out:

GDP: http://www.bea.gov/scb/account_articles/general/0100od/maintext.htm

Measuring the Economy: http://www.bea.gov/national/pdf/nipa_primer.pdf

Economic Growth

The size of the economy is important but its growth rate is even more relevant. If we think about the economy as a pie and the size of the pie is growing, then more people can participate in sharing the pie. However, if the pie stays the same size or shrinks, more people will be fighting for a smaller share of the same pie. Growth of the economy usually signals better times for people. There are more jobs to be had. Our possessions or assets increase in value.

Year-to-year growth is calculated using the formula shown below. The growth formula is the most important formula in business.

The most important formula in business

GROWTH

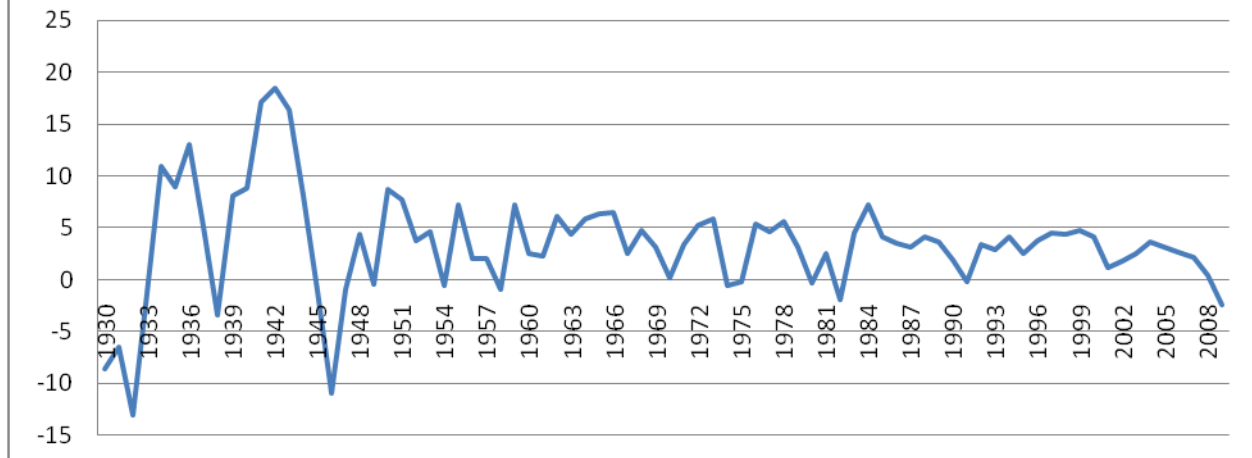
$$\text{Growth \%} = \frac{\text{Current} - \text{Previous}}{\text{Previous}} = \frac{2009 - 2008}{2008} = \frac{12987.4 - 13312.2}{13312.2} = -2\%$$

In calculating growth, take the most current year value, subtract the previous year value and divide by the previous year value. Growth is typically calculated to the percent. Be aware that it can be negative as it was between 2008 and 2009.

The chart below shows the growth of real (inflation-adjusted) GDP since 1930.

Growth in GDP has moderated over the years

<http://www.bea.gov/national/nipaweb/index.asp>



It can be seen that growth was very volatile in the 1930s and 1940s. It was a period of depression and war. Since the 1950s, growth has been relatively stable. 1981 showed a relatively severe dip in economic growth. 2007 and 2008 has been billed as the great recession.

| | Current Dollars | Growth | Constant 2005 Dollars | Inflation adjusted growth |
|-------------|-----------------|------------|-----------------------|---------------------------|
| 2000 | 9,951.5 | | 11,226.0 | |
| 2001 | 10,286.2 | 3% | 11,347.2 | 1% |
| 2002 | 10,642.3 | 3% | 11,553.0 | 2% |
| 2003 | 11,142.1 | 5% | 11,840.7 | 2% |
| 2004 | 11,867.8 | 7% | 12,263.8 | 4% |
| 2005 | 12,638.4 | 6% | 12,638.4 | 3% |
| 2006 | 13,398.9 | 6% | 12,976.2 | 3% |
| 2007 | 14,077.6 | 5% | 13,254.1 | 2% |
| 2008 | 14,441.4 | 3% | 13,312.2 | 0% |
| 2009 | 14,256.3 | -1% | 12,987.4 | -2% |

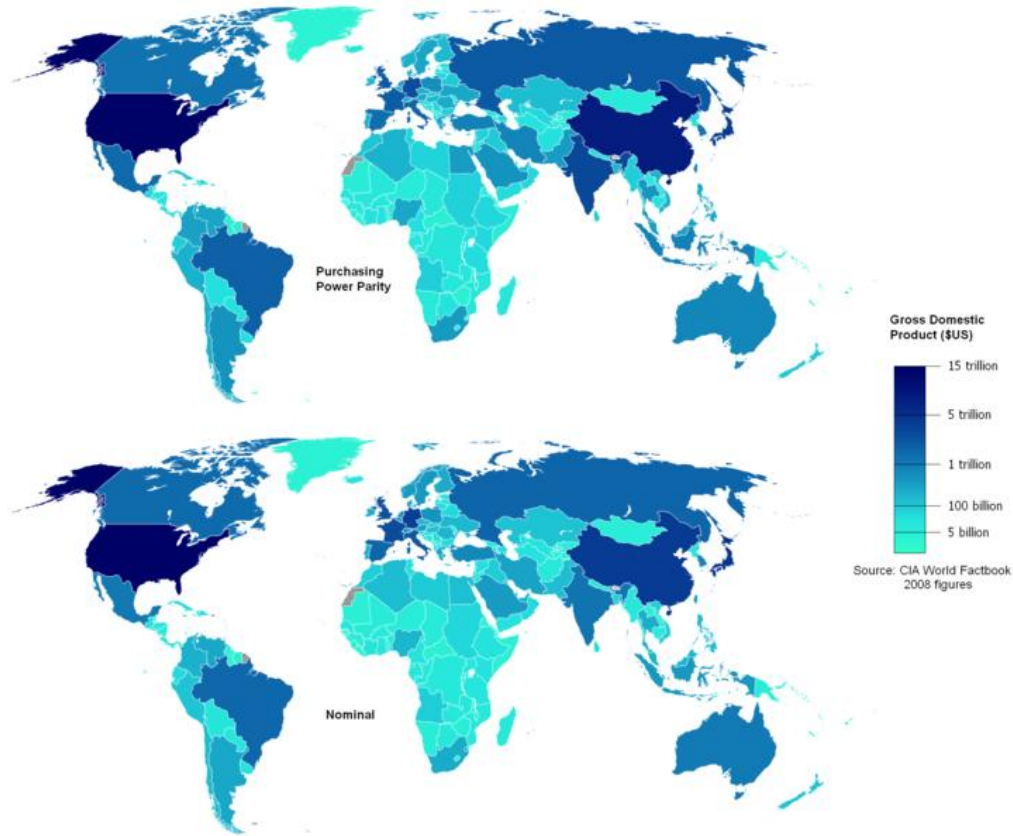
It is obvious that economic growth is preferred over economic contraction and actions should be taken to stimulate economic growth. Economic growth occurs whenever people take resources and create something that makes them more valuable. In the article cited above, Paul Romer uses cooking as a metaphor. We can take our supplies of flour, eggs, sugar and other cooking ingredients to make cookies using a recipe. The recipe is not perfect so we waste some ingredients when we cook and we use a lot of energy to make the cookies. If we continue to use the same recipe, the only way we can grow is by making more cookies. At some point in time, we will run out of flour or the other ingredients. The best way to grow is to create new recipes that may make better cookies and with less spoilage and less energy.

Paul M. Romer. "Economic Growth." *The Concise Encyclopedia of Economics*. 2008. Library of Economics and Liberty. Retrieved December 21, 2008 from the World Wide Web: <http://www.econlib.org/library/Enc/EconomicGrowth.html>

World's Economies

Lists in this section are downloaded from the cia.gov website.

Size of GDP



Source: wikipedia

As with the US, gross domestic product (GDP) is the value of all final goods and services produced within a nation in a given year. The Central Intelligence Agency calculates a nation's GDP at purchasing power parity (PPP) exchange rates is the sum value of all goods and services produced in the country valued at prices prevailing in the United States. This is the measure most economists prefer when looking at per-capita welfare and when comparing living conditions or use of resources across countries. Many countries do not formally participate in the World Bank's PPP project that calculates these measures, so the resulting GDP estimates for these countries may lack precision.

Generally most analysts look at the world as divided between the larger, more mature economies (developed countries) and those which are emerging. The figure below shows the developed markets. Note that although China, India and Russia have relatively large economies, they are still considered developing economies. These economies are characterized by more volatility in growth and inflation rates.



The European Union is the economic and political union of 27 countries in Europe. As an economic unit, it is larger than the US, although the individual countries are smaller. China has come from being a very small economy to the second to the US (by PPP measures). Its growth rate is higher than the US's and Goldman Sachs, an investment firm, estimates that China will surpass the US in the size of its GDP by 2050. The BRIC countries—Brazil, Russia, India and China—are currently lauded as the fastest growing economies. It is interesting to note that African countries have smaller GDPs.

| Rank | Country | GDP (purchasing power parity) |
|------|--------------------------------|-------------------------------|
| 1 | European Union | \$14,510,000,000,000 |
| 2 | United States | \$14,260,000,000,000 |
| 3 | China | \$8,789,000,000,000 |
| 4 | Japan | \$4,137,000,000,000 |
| 5 | India | \$3,560,000,000,000 |
| 6 | Germany | \$2,811,000,000,000 |
| 7 | United Kingdom | \$2,149,000,000,000 |
| 8 | Russia | \$2,116,000,000,000 |
| 9 | France | \$2,110,000,000,000 |
| 10 | Brazil | \$2,025,000,000,000 |
| 11 | Italy | \$1,760,000,000,000 |
| 12 | Mexico | \$1,482,000,000,000 |
| 13 | Spain | \$1,368,000,000,000 |
| 14 | Korea, South | \$1,356,000,000,000 |

| | | |
|----|--------------------------------------|---------------------|
| 15 | Canada | \$1,285,000,000,000 |
| 16 | Indonesia | \$969,200,000,000 |
| 17 | Iran | \$876,000,000,000 |
| 18 | Turkey | \$863,300,000,000 |
| 19 | Australia | \$824,300,000,000 |
| 20 | Taiwan | \$717,700,000,000 |
| 21 | Poland | \$690,100,000,000 |
| 22 | Netherlands | \$654,900,000,000 |
| 23 | Saudi Arabia | \$585,800,000,000 |
| 24 | Argentina | \$558,000,000,000 |
| 25 | Thailand | \$538,600,000,000 |
| 26 | South Africa | \$495,100,000,000 |
| 27 | Egypt | \$471,200,000,000 |
| 28 | Pakistan | \$449,300,000,000 |
| 29 | Colombia | \$401,000,000,000 |
| 30 | Malaysia | \$381,100,000,000 |
| 31 | Belgium | \$381,000,000,000 |
| 32 | Nigeria | \$357,200,000,000 |
| 33 | Venezuela | \$350,100,000,000 |
| 34 | Greece | \$341,000,000,000 |
| 35 | Sweden | \$333,500,000,000 |
| 36 | Philippines | \$324,800,000,000 |
| 37 | Austria | \$323,100,000,000 |
| 38 | Switzerland | \$317,000,000,000 |
| 39 | Hong Kong | \$301,600,000,000 |
| 40 | Ukraine | \$294,300,000,000 |
| 41 | Norway | \$273,100,000,000 |
| 42 | Vietnam | \$258,100,000,000 |
| 43 | Czech Republic | \$256,600,000,000 |
| 44 | Romania | \$255,400,000,000 |
| 45 | Peru | \$253,000,000,000 |
| 46 | Chile | \$243,700,000,000 |
| 47 | Bangladesh | \$242,400,000,000 |
| 48 | Algeria | \$239,600,000,000 |
| 49 | Singapore | \$235,700,000,000 |
| 50 | Portugal | \$233,400,000,000 |
| 51 | Israel | \$206,800,000,000 |
| 52 | United Arab Emirates | \$201,400,000,000 |
| 53 | Denmark | \$198,600,000,000 |
| 54 | Hungary | \$184,900,000,000 |
| 55 | Finland | \$182,600,000,000 |
| 56 | Kazakhstan | \$182,300,000,000 |
| 57 | Ireland | \$176,900,000,000 |
| 58 | Morocco | \$146,700,000,000 |
| 59 | Kuwait | \$145,700,000,000 |
| 60 | Belarus | \$116,000,000,000 |
| 61 | Slovakia | \$115,700,000,000 |
| 62 | New Zealand | \$114,900,000,000 |

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|-----|--|-------------------|
| 63 | Angola | \$114,400,000,000 |
| 64 | Iraq | \$112,000,000,000 |
| 65 | Cuba | \$111,100,000,000 |
| 66 | Ecuador | \$108,200,000,000 |
| 67 | Qatar | \$101,400,000,000 |
| 68 | Syria | \$100,700,000,000 |
| 69 | Sri Lanka | \$96,430,000,000 |
| 70 | Libya | \$95,880,000,000 |
| 71 | Sudan | \$92,810,000,000 |
| 72 | Bulgaria | \$90,510,000,000 |
| 73 | Azerbaijan | \$86,030,000,000 |
| 74 | Tunisia | \$84,040,000,000 |
| 75 | Dominican Republic | \$80,530,000,000 |
| 76 | Croatia | \$79,210,000,000 |
| 77 | Serbia | \$78,360,000,000 |
| 78 | Uzbekistan | \$77,550,000,000 |
| 79 | Ethiopia | \$76,740,000,000 |
| 80 | Oman | \$69,480,000,000 |
| 81 | Guatemala | \$69,210,000,000 |
| 82 | Puerto Rico | \$68,140,000,000 |
| 83 | Kenya | \$63,730,000,000 |
| 84 | Yemen | \$58,190,000,000 |
| 85 | Tanzania | \$57,890,000,000 |
| 86 | Burma | \$56,920,000,000 |
| 87 | Slovenia | \$55,840,000,000 |
| 88 | Lithuania | \$54,840,000,000 |
| 89 | Lebanon | \$53,680,000,000 |
| 90 | Costa Rica | \$48,630,000,000 |
| 91 | Bolivia | \$45,110,000,000 |
| 92 | Uruguay | \$44,520,000,000 |
| 93 | Uganda | \$43,220,000,000 |
| 94 | El Salvador | \$42,920,000,000 |
| 95 | Cameroon | \$42,760,000,000 |
| 96 | Panama | \$40,320,000,000 |
| 97 | Korea, North | \$40,000,000,000 |
| 98 | Luxembourg | \$38,370,000,000 |
| 99 | Ghana | \$36,570,000,000 |
| 100 | Cote d'Ivoire | \$35,820,000,000 |
| 101 | Turkmenistan | \$33,580,000,000 |
| 102 | Nepal | \$33,250,000,000 |
| 103 | Honduras | \$33,170,000,000 |
| 104 | Jordan | \$33,050,000,000 |
| 105 | Latvia | \$32,400,000,000 |
| 106 | Bosnia and Herzegovina | \$29,070,000,000 |
| 107 | Trinidad and Tobago | \$28,410,000,000 |
| 108 | Paraguay | \$28,270,000,000 |
| 109 | Cambodia | \$28,090,000,000 |
| 110 | Bahrain | \$27,990,000,000 |

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|-----|---|------------------|
| 111 | Botswana | \$26,000,000,000 |
| 112 | Estonia | \$24,360,000,000 |
| 113 | Afghanistan | \$23,350,000,000 |
| 114 | Jamaica | \$23,240,000,000 |
| 115 | Equatorial Guinea | \$23,200,000,000 |
| 116 | Cyprus | \$22,970,000,000 |
| 117 | Albania | \$22,900,000,000 |
| 118 | Senegal | \$22,380,000,000 |
| 119 | Congo, Democratic Republic of the | \$21,330,000,000 |
| 120 | Gabon | \$20,990,000,000 |
| 121 | Madagascar | \$20,500,000,000 |
| 122 | Georgia | \$20,290,000,000 |
| 123 | Mozambique | \$20,170,000,000 |
| 124 | Brunei | \$19,430,000,000 |
| 125 | Burkina Faso | \$18,790,000,000 |
| 126 | Macedonia | \$18,770,000,000 |
| 127 | Zambia | \$18,500,000,000 |
| 128 | Macau | \$18,470,000,000 |
| 129 | Nicaragua | \$16,530,000,000 |
| 130 | Congo, Republic of the | \$16,410,000,000 |
| 131 | Chad | \$16,260,000,000 |
| 132 | Armenia | \$16,180,000,000 |
| 133 | Mauritius | \$15,900,000,000 |
| 134 | Mali | \$15,520,000,000 |
| 135 | Laos | \$15,070,000,000 |
| 136 | Papua New Guinea | \$14,020,000,000 |
| 137 | Tajikistan | \$13,800,000,000 |
| 138 | Namibia | \$13,580,000,000 |
| 139 | Benin | \$13,250,000,000 |
| 140 | Malawi | \$12,810,000,000 |
| 141 | West Bank | \$12,790,000,000 |
| 142 | Iceland | \$12,150,000,000 |
| 143 | Haiti | \$11,900,000,000 |
| 144 | Kyrgyzstan | \$11,660,000,000 |
| 145 | Guinea | \$10,480,000,000 |
| 146 | Niger | \$10,450,000,000 |
| 147 | Rwanda | \$10,130,000,000 |
| 148 | Moldova | \$9,986,000,000 |
| 149 | Malta | \$9,831,000,000 |
| 150 | Mongolia | \$9,456,000,000 |
| 151 | Bahamas, The | \$9,084,000,000 |
| 152 | Montenegro | \$6,708,000,000 |
| 153 | Mauritania | \$6,568,000,000 |
| 154 | Swaziland | \$5,882,000,000 |
| 155 | Somalia | \$5,731,000,000 |
| 156 | Kosovo | \$5,300,000,000 |
| 157 | Barbados | \$5,278,000,000 |

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|-----|--|-----------------|
| 158 | Togo | \$5,202,000,000 |
| 159 | Jersey | \$5,100,000,000 |
| 160 | French Polynesia | \$4,718,000,000 |
| 161 | Sierra Leone | \$4,622,000,000 |
| 162 | Bermuda | \$4,500,000,000 |
| 163 | Suriname | \$4,274,000,000 |
| 164 | Andorra | \$4,220,000,000 |
| 165 | Eritrea | \$4,198,000,000 |
| 166 | Liechtenstein | \$4,160,000,000 |
| 167 | Bhutan | \$3,763,000,000 |
| 168 | Fiji | \$3,704,000,000 |
| 169 | Central African Republic | \$3,327,000,000 |
| 170 | Lesotho | \$3,273,000,000 |
| 171 | Burundi | \$3,247,000,000 |
| 172 | New Caledonia | \$3,158,000,000 |
| 173 | Guyana | \$2,844,000,000 |
| 174 | Netherlands Antilles | \$2,800,000,000 |
| 175 | Guernsey | \$2,742,000,000 |
| 176 | Timor-Leste | \$2,740,000,000 |
| 177 | Isle of Man | \$2,719,000,000 |
| 178 | Belize | \$2,485,000,000 |
| 179 | Gambia, The | \$2,471,000,000 |
| 180 | Aruba | \$2,258,000,000 |
| 181 | Cayman Islands | \$2,250,000,000 |
| 182 | Greenland | \$2,030,000,000 |
| 183 | Djibouti | \$2,011,000,000 |
| 184 | Saint Lucia | \$1,750,000,000 |
| 185 | Cape Verde | \$1,700,000,000 |
| 186 | Seychelles | \$1,682,000,000 |
| 187 | Maldives | \$1,673,000,000 |
| 188 | San Marino | \$1,662,000,000 |
| 189 | Liberia | \$1,627,000,000 |
| 190 | Virgin Islands | \$1,577,000,000 |
| 191 | Solomon Islands | \$1,570,000,000 |
| 192 | Faroe Islands | \$1,560,000,000 |
| 193 | Antigua and Barbuda | \$1,550,000,000 |
| 194 | Saint Vincent and the Grenadines | \$1,550,000,000 |
| 195 | Grenada | \$1,156,000,000 |
| 196 | Gibraltar | \$1,106,000,000 |
| 197 | Vanuatu | \$1,041,000,000 |
| 198 | Samoa | \$1,025,000,000 |
| 199 | Monaco | \$976,300,000 |
| 200 | Mayotte | \$953,600,000 |
| 201 | Guinea-Bissau | \$933,400,000 |
| 202 | Northern Mariana Islands | \$900,000,000 |
| 203 | Western Sahara | \$900,000,000 |
| 204 | British Virgin Islands | \$853,400,000 |

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|-----|---|---------------|
| 205 | Comoros | \$761,000,000 |
| 206 | Saint Kitts and Nevis | \$753,100,000 |
| 207 | Dominica | \$743,000,000 |
| 208 | Kiribati | \$596,500,000 |
| 209 | American Samoa | \$575,300,000 |
| 210 | Tonga | \$551,700,000 |
| 211 | Zimbabwe | \$332,000,000 |
| 212 | Sao Tome and Principe | \$292,400,000 |
| 213 | Micronesia, Federated States of | \$238,100,000 |
| 214 | Turks and Caicos Islands | \$216,000,000 |
| 215 | Cook Islands | \$183,200,000 |
| 216 | Anguilla | \$175,400,000 |
| 217 | Palau | \$164,000,000 |
| 218 | Marshall Islands | \$133,500,000 |
| 219 | Falkland Islands (Islas Malvinas) | \$105,100,000 |
| 220 | Nauru | \$60,000,000 |
| 221 | Wallis and Futuna | \$60,000,000 |
| 222 | Saint Pierre and Miquelon | \$48,300,000 |
| 223 | Montserrat | \$29,000,000 |
| 224 | Saint Helena, Ascension, and Tristan da Cunha | \$18,000,000 |
| 225 | Tuvalu | \$14,940,000 |
| 226 | Niue | \$10,010,000 |
| 227 | Tokelau | \$1,500,000 |

Source: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html>

As discussed before, growth rate is very important in assessing the economic progress of a country. Many of the smaller economies are growing at a faster rate. Also, note that with developing countries, growth rates can be very volatile. As economies develop, they become less volatile. Growth rates shown here are for the year 2009. One annual rate is not as meaningful for developing countries. They can be at the top of the list in one year and the bottom the next.

2009 Growth Rate in GDP

| Rank | Country | (%) |
|------|--|------|
| 1 | Macau | 13.2 |
| 2 | Qatar | 9.5 |
| 3 | Azerbaijan | 9.3 |
| 4 | China | 8.7 |
| 5 | Ethiopia | 8 |
| 6 | Timor-Leste | 7.2 |
| 7 | Lebanon | 7 |
| 8 | West Bank | 7 |
| 9 | Uzbekistan | 6.7 |
| 10 | Congo, Republic of the | 6.6 |

| | | |
|----|------------------------------|-----|
| 11 | Uganda | 6.6 |
| 12 | India | 6.5 |
| 13 | Djibouti | 6.4 |
| 14 | Laos | 6.4 |
| 15 | Niue | 6.2 |
| 16 | Turkmenistan | 6.1 |
| 17 | Malawi | 5.9 |
| 18 | Bangladesh | 5.6 |
| 19 | Rwanda | 5.5 |
| 20 | Vietnam | 5.3 |
| 21 | Isle of Man | 5.2 |
| 22 | Morocco | 5.1 |
| 23 | Bhutan | 5 |

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|----|---|-----|-----|--|------|
| 24 | Nigeria | 5 | 67 | French Polynesia | 2.7 |
| 25 | Liberia | 5 | 68 | Algeria | 2.6 |
| 26 | Tanzania | 4.9 | 69 | Andorra | 2.6 |
| 27 | Turks and Caicos Islands | 4.9 | 70 | Iran | 2.6 |
| 28 | Egypt | 4.7 | 71 | Somalia | 2.6 |
| 29 | Nepal | 4.7 | 72 | Benin | 2.5 |
| 30 | Ghana | 4.7 | 73 | Eritrea | 2.5 |
| 31 | Bermuda | 4.6 | 74 | Aruba | 2.4 |
| 32 | Gambia, The | 4.5 | 75 | Central African Republic | 2.4 |
| 33 | Indonesia | 4.5 | 76 | Panama | 2.4 |
| 34 | Zambia | 4.5 | 77 | Mauritius | 2.1 |
| 35 | Iraq | 4.3 | 78 | Haiti | 2 |
| 36 | Sao Tome and Principe | 4.3 | 79 | Niger | 2 |
| 37 | San Marino | 4.3 | 80 | Kenya | 2 |
| 38 | Mozambique | 4.3 | 81 | Virgin Islands | 2 |
| 39 | Mali | 4 | 82 | Burma | 1.8 |
| 40 | Sierra Leone | 4 | 83 | Cape Verde | 1.8 |
| 41 | Papua New Guinea | 4 | 84 | Togo | 1.8 |
| 42 | Cote d'Ivoire | 3.8 | 85 | Syria | 1.8 |
| 43 | Yemen | 3.8 | 86 | Dominican Republic | 1.8 |
| 44 | Vanuatu | 3.8 | 87 | Poland | 1.7 |
| 45 | Sudan | 3.8 | 88 | Senegal | 1.7 |
| 46 | Albania | 3.7 | 89 | Uruguay | 1.7 |
| 47 | Korea, North | 3.7 | 90 | Greenland | 1.5 |
| 48 | Libya | 3.7 | 91 | Mauritania | 1.5 |
| 49 | Zimbabwe | 3.7 | 92 | Kiribati | 1.5 |
| 50 | Gibraltar | 3.7 | 93 | Cuba | 1.4 |
| 51 | Sri Lanka | 3.5 | 94 | Tunisia | 1.3 |
| 52 | Afghanistan | 3.4 | 95 | Cayman Islands | 1.1 |
| 53 | Tajikistan | 3.4 | 96 | Dominica | 1.1 |
| 54 | Burkina Faso | 3.3 | 97 | Australia | 1 |
| 55 | Burundi | 3.2 | 98 | Comoros | 1 |
| 56 | Jordan | 3.1 | 99 | Kazakhstan | 1 |
| 57 | Liechtenstein | 3.1 | 100 | Netherlands Antilles | 1 |
| 58 | American Samoa | 3 | 101 | Peru | 0.9 |
| 59 | Guernsey | 3 | 102 | Philippines | 0.9 |
| 60 | Tuvalu | 3 | 103 | Namibia | 0.7 |
| 61 | Bahrain | 2.9 | 104 | Faroe Islands | 0.5 |
| 62 | Guinea-Bissau | 2.9 | 105 | Israel | 0.5 |
| 63 | Bolivia | 2.8 | 106 | Madagascar | 0.4 |
| 64 | Congo, Democratic Republic of the | 2.7 | 107 | Solomon Islands | 0.4 |
| 65 | Oman | 2.7 | 108 | Korea, South | 0.2 |
| 66 | Pakistan | 2.7 | 109 | Saudi Arabia | 0.2 |
| | | | 110 | Cook Islands | 0.1 |
| | | | 111 | Colombia | -0.1 |

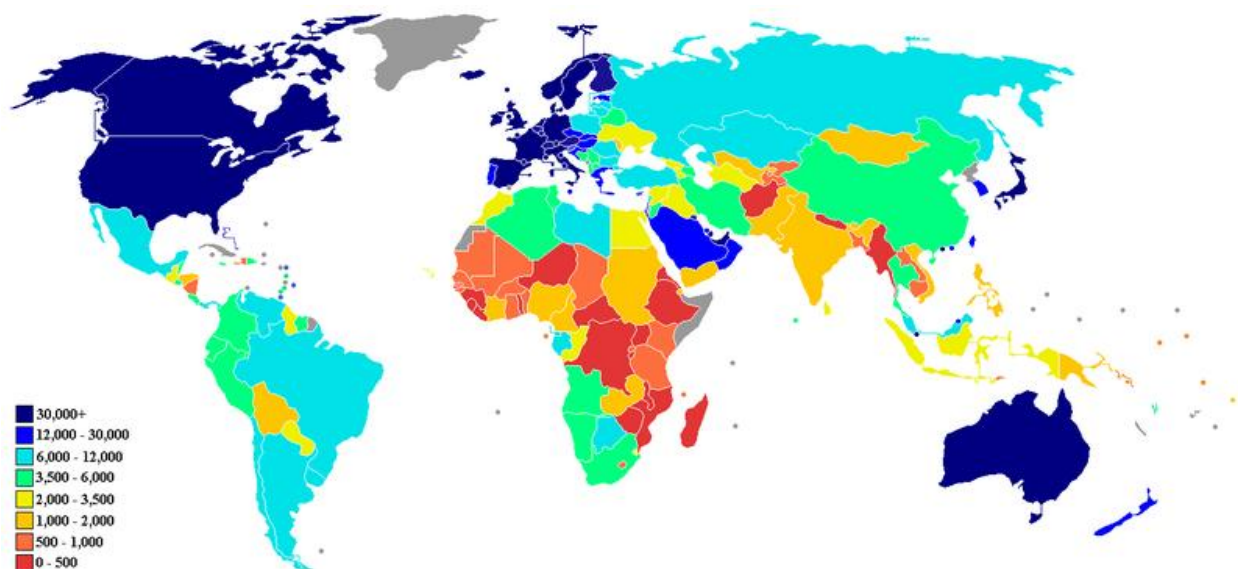
| | | | | | |
|-----|--|------|-----|--|------|
| 112 | Belarus | -0.2 | 157 | Canada | -2.5 |
| 113 | Brazil | -0.2 | 158 | Barbados | -2.8 |
| 114 | Marshall Islands | -0.3 | 159 | Portugal | -2.8 |
| 115 | Swaziland | -0.4 | 160 | Thailand | -2.8 |
| 116 | Guatemala | -0.5 | 161 | Nicaragua | -2.9 |
| 117 | Tonga | -0.5 | 162 | Venezuela | -2.9 |
| 118 | Angola | -0.6 | 163 | El Salvador | -3 |
| 119 | British Virgin Islands | -0.6 | 164 | Honduras | -3 |
| 120 | World | -0.8 | 165 | Serbia | -3 |
| 121 | Cyprus | -0.8 | 166 | Hong Kong | -3 |
| 122 | Samoa | -0.8 | 167 | Belgium | -3.1 |
| 123 | Cambodia | -0.9 | 168 | Bosnia and Herzegovina | -3.4 |
| 124 | Cameroon | -1 | 169 | Austria | -3.5 |
| 125 | Montserrat | -1 | 170 | Paraguay | -3.5 |
| 126 | Norway | -1 | 171 | United Arab Emirates | -3.5 |
| 127 | Ecuador | -1 | 172 | Trinidad and Tobago | -3.5 |
| 128 | Gabon | -1 | 173 | Spain | -3.6 |
| 129 | Kyrgyzstan | -1 | 174 | Luxembourg | -3.9 |
| 130 | Chad | -1 | 175 | Puerto Rico | -3.9 |
| 131 | New Zealand | -1.4 | 176 | Netherlands | -3.9 |
| 132 | Belize | -1.5 | 177 | Bahamas, The | -4 |
| 133 | Switzerland | -1.5 | 178 | Montenegro | -4 |
| 134 | Macedonia | -1.5 | 179 | Grenada | -4 |
| 135 | Costa Rica | -1.6 | 180 | European Union | -4 |
| 136 | Mongolia | -1.6 | 181 | Maldives | -4 |
| 137 | Chile | -1.7 | 182 | Czech Republic | -4.1 |
| 138 | Kuwait | -1.7 | 183 | Jamaica | -4.2 |
| 139 | Guyana | -1.7 | 184 | Denmark | -4.3 |
| 140 | Equatorial Guinea | -1.8 | 185 | Sweden | -4.4 |
| 141 | South Africa | -1.8 | 186 | Slovakia | -4.7 |
| 142 | Brunei | -1.9 | 187 | Italy | -4.8 |
| 143 | Greece | -2 | 188 | United Kingdom | -4.8 |
| 144 | Saint Kitts and Nevis | -2 | 189 | Bulgaria | -4.9 |
| 145 | Lesotho | -2 | 190 | Germany | -5 |
| 146 | Singapore | -2.1 | 191 | Botswana | -5.2 |
| 147 | France | -2.2 | 192 | Croatia | -5.2 |
| 148 | Malaysia | -2.2 | 193 | Japan | -5.3 |
| 149 | Suriname | -2.2 | 194 | Turkey | -5.6 |
| 150 | Malta | -2.2 | 195 | Antigua and Barbuda | -6.5 |
| 151 | United States | -2.4 | 196 | Mexico | -6.5 |
| 152 | Argentina | -2.5 | | Saint Vincent and the Grenadines | -6.5 |
| 153 | Taiwan | -2.5 | 197 | Iceland | -6.6 |
| 154 | Saint Lucia | -2.5 | 198 | Hungary | -6.7 |
| 155 | Fiji | -2.5 | 199 | Georgia | -7 |
| 156 | Guinea | -2.5 | 200 | | |

| | | | | | |
|-----|--------------------------|------|-----|----------------------------|-------|
| 201 | Romania | -7.2 | 208 | Seychelles | -8.7 |
| 202 | Slovenia | -7.3 | 209 | Estonia | -14.1 |
| 203 | Ireland | -7.5 | 210 | Ukraine | -14.1 |
| 204 | Finland | -7.6 | 211 | Armenia | -15 |
| 205 | Moldova | -7.7 | 212 | Lithuania | -15 |
| 206 | Russia | -7.9 | 213 | Latvia | -17.8 |
| 207 | Anguilla | -8.5 | | | |

GDP per capita

<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html>

GDP per capita is another measure used to compare countries. It is calculated by dividing the GDP by the population. GDP per capita gives an indication of the level of salaries in the country. For example, the US GDP per capita of \$46,400 is much higher than China's at \$6,600. Part of the reason that China has become the factory of the world is that its labor force is low cost in comparison to developed countries.



| Rank | COUNTRY 2009 DATA | GDP - per capita (PPP) |
|------|-------------------------------|------------------------|
| 1 | Liechtenstein | \$122,100 |
| 2 | Qatar | \$121,700 |
| 3 | Luxembourg | \$78,000 |
| 4 | Bermuda | \$69,900 |
| 5 | Norway | \$58,600 |
| 6 | Jersey | \$57,000 |
| 7 | Kuwait | \$54,100 |
| 8 | Singapore | \$50,300 |
| 9 | Brunei | \$50,100 |
| 10 | Faroe Islands | \$48,200 |

| | | |
|----|--------------------------------------|----------|
| 11 | United States | \$46,400 |
| 12 | Andorra | \$44,900 |
| 13 | Guernsey | \$44,600 |
| 14 | Cayman Islands | \$43,800 |
| 15 | Hong Kong | \$42,700 |
| 16 | Ireland | \$42,200 |
| 17 | United Arab Emirates | \$42,000 |
| 18 | San Marino | \$41,900 |
| 19 | Switzerland | \$41,700 |
| 20 | Iceland | \$39,600 |
| 21 | Austria | \$39,400 |
| 22 | Netherlands | \$39,200 |
| 23 | Australia | \$38,800 |

| | | | | | |
|----|---|----------|-----|--|----------|
| 24 | British Virgin Islands | \$38,500 | 67 | French Polynesia | \$18,000 |
| 25 | Bahrain | \$38,400 | 68 | Poland | \$17,900 |
| 26 | Gibraltar | \$38,400 | 69 | Croatia | \$17,600 |
| 27 | Canada | \$38,400 | 70 | Puerto Rico | \$17,200 |
| 28 | Sweden | \$36,800 | 71 | Netherlands Antilles | \$16,000 |
| 29 | Belgium | \$36,600 | 72 | Lithuania | \$15,400 |
| 30 | Equatorial Guinea | \$36,600 | 73 | Libya | \$15,200 |
| 31 | Denmark | \$36,000 | 74 | Saint Kitts and Nevis | \$15,200 |
| 32 | Greenland | \$35,900 | 75 | Russia | \$15,100 |
| 33 | Falkland Islands (Islas Malvinas) | \$35,400 | 76 | New Caledonia | \$15,000 |
| 34 | United Kingdom | \$35,200 | 77 | Malaysia | \$14,800 |
| 35 | Isle of Man | \$35,000 | 78 | Chile | \$14,700 |
| 36 | Finland | \$34,900 | 79 | Latvia | \$14,500 |
| 37 | Germany | \$34,100 | 80 | Virgin Islands | \$14,500 |
| 38 | Spain | \$33,700 | 81 | Gabon | \$13,900 |
| 39 | Macau | \$33,000 | 82 | Argentina | \$13,800 |
| 40 | France | \$32,800 | 83 | Mexico | \$13,500 |
| 41 | Japan | \$32,600 | 84 | Botswana | \$13,100 |
| 42 | European Union | \$32,600 | 85 | Lebanon | \$13,100 |
| 43 | Greece | \$32,100 | 86 | Venezuela | \$13,100 |
| 44 | Italy | \$30,300 | 87 | Iran | \$12,900 |
| 45 | Monaco | \$30,000 | 88 | Uruguay | \$12,700 |
| 46 | Bahamas, The | \$29,800 | 89 | Bulgaria | \$12,600 |
| 47 | Taiwan | \$29,800 | 90 | Northern Mariana Islands | \$12,500 |
| 48 | Israel | \$28,400 | 91 | Mauritius | \$12,400 |
| 49 | Korea, South | \$28,000 | 92 | Anguilla | \$12,200 |
| 50 | Slovenia | \$27,900 | 93 | Panama | \$11,900 |
| 51 | New Zealand | \$27,300 | 94 | Kazakhstan | \$11,800 |
| 52 | Czech Republic | \$25,100 | 95 | Belarus | \$11,600 |
| 53 | Oman | \$23,900 | 96 | Romania | \$11,500 |
| 54 | Malta | \$23,800 | 97 | Turks and Caicos Islands | \$11,500 |
| 55 | Trinidad and Tobago | \$23,100 | 98 | Turkey | \$11,200 |
| 56 | Aruba | \$21,800 | 99 | Costa Rica | \$10,900 |
| 57 | Portugal | \$21,800 | 100 | Saint Lucia | \$10,900 |
| 58 | Cyprus | \$21,200 | 101 | Grenada | \$10,800 |
| 59 | Slovakia | \$21,200 | 102 | World | \$10,500 |
| 60 | Saudi Arabia | \$20,400 | 103 | Azerbaijan | \$10,400 |
| 61 | Seychelles | \$19,400 | 104 | Serbia | \$10,400 |
| 62 | Estonia | \$18,700 | 105 | Brazil | \$10,200 |
| 63 | Hungary | \$18,600 | 106 | Dominica | \$10,200 |
| 64 | Barbados | \$18,500 | 107 | South Africa | \$10,100 |
| 65 | Antigua and Barbuda | \$18,100 | 108 | Montenegro | \$9,800 |
| 66 | Saint Vincent and the Grenadines | \$18,100 | 109 | Cuba | \$9,700 |
| | | | 110 | Colombia | \$9,200 |

| | | | | | |
|-----|---|---------|-----|---|---------|
| 111 | Cook Islands | \$9,100 | 154 | Paraguay | \$4,100 |
| 112 | Macedonia | \$9,000 | 155 | Indonesia | \$4,000 |
| 113 | Suriname | \$9,000 | 156 | Fiji | \$3,900 |
| 114 | Angola | \$8,900 | 157 | Guyana | \$3,800 |
| 115 | Peru | \$8,600 | 158 | Wallis and Futuna | \$3,800 |
| 116 | Dominican Republic | \$8,300 | 159 | Iraq | \$3,600 |
| 117 | Jamaica | \$8,200 | 160 | Cape Verde | \$3,400 |
| 118 | Belize | \$8,100 | 161 | Montserrat | \$3,400 |
| 119 | Palau | \$8,100 | 162 | Philippines | \$3,300 |
| 120 | Thailand | \$8,100 | 163 | Mongolia | \$3,200 |
| 121 | American Samoa | \$8,000 | 164 | India | \$3,100 |
| 122 | Tunisia | \$8,000 | 165 | Vietnam | \$2,900 |
| 123 | Ecuador | \$7,400 | 166 | West Bank | \$2,900 |
| 124 | El Salvador | \$7,100 | 167 | Djibouti | \$2,800 |
| 125 | Algeria | \$7,000 | 168 | Uzbekistan | \$2,800 |
| 126 | Saint Pierre and Miquelon | \$7,000 | 169 | Nicaragua | \$2,800 |
| 127 | Turkmenistan | \$6,900 | 170 | Pakistan | \$2,600 |
| 128 | China | \$6,600 | 171 | Solomon Islands | \$2,600 |
| 129 | Namibia | \$6,400 | 172 | Kosovo | \$2,500 |
| 130 | Ukraine | \$6,400 | 173 | Western Sahara | \$2,500 |
| 131 | Albania | \$6,300 | 174 | Yemen | \$2,500 |
| 132 | Bosnia and Herzegovina | \$6,300 | | Saint Helena, Ascension, and Tristan da Cunha | \$2,500 |
| 133 | Kiribati | \$6,100 | 175 | Tristan da Cunha | \$2,500 |
| 134 | Egypt | \$6,000 | 176 | Marshall Islands | \$2,500 |
| 135 | Armenia | \$5,900 | 177 | Nigeria | \$2,400 |
| 136 | Niue | \$5,800 | 178 | Timor-Leste | \$2,400 |
| 137 | Bhutan | \$5,400 | 179 | Papua New Guinea | \$2,400 |
| 138 | Samoa | \$5,400 | 180 | Cameroon | \$2,300 |
| 139 | Jordan | \$5,300 | 181 | Sudan | \$2,300 |
| 140 | Guatemala | \$5,200 | 182 | Moldova | \$2,300 |
| 141 | Nauru | \$5,000 | | Micronesia, Federated States of | \$2,200 |
| 142 | Mayotte | \$4,900 | 183 | of | \$2,200 |
| 143 | Vanuatu | \$4,800 | 184 | Kyrgyzstan | \$2,100 |
| 144 | Bolivia | \$4,600 | 185 | Laos | \$2,100 |
| 145 | Morocco | \$4,600 | 186 | Mauritania | \$2,100 |
| 146 | Syria | \$4,600 | 187 | Cambodia | \$1,900 |
| 147 | Tonga | \$4,600 | 188 | Korea, North | \$1,900 |
| 148 | Sri Lanka | \$4,500 | 189 | Tajikistan | \$1,800 |
| 149 | Georgia | \$4,400 | 190 | Cote d'Ivoire | \$1,700 |
| 150 | Swaziland | \$4,400 | | | |
| 151 | Honduras | \$4,200 | 191 | Sao Tome and Principe | \$1,700 |
| 152 | Maldives | \$4,200 | 192 | Lesotho | \$1,700 |
| 153 | Congo, Republic of the | \$4,100 | 193 | Bangladesh | \$1,600 |
| | | | 194 | Chad | \$1,600 |

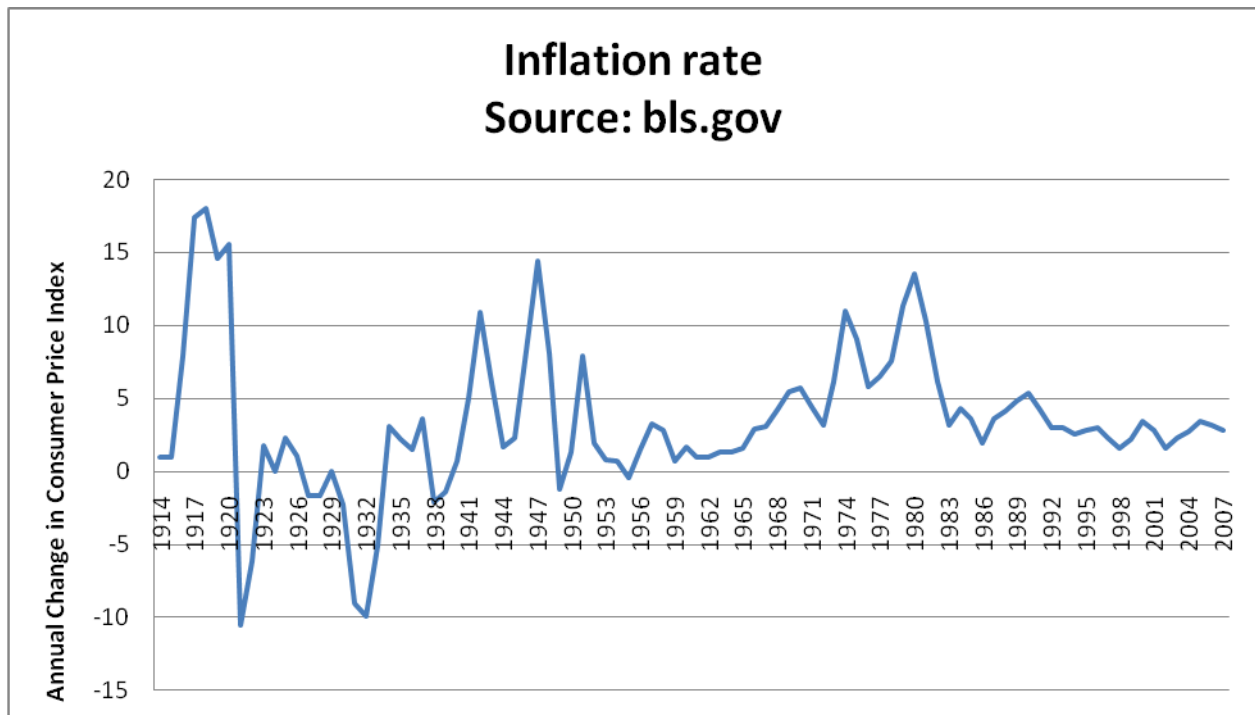
| | | | | | |
|-----|------------------------------|---------|-----|---|---------|
| 195 | Tuvalu | \$1,600 | 212 | Guinea | \$1,000 |
| 196 | Senegal | \$1,600 | 213 | Ethiopia | \$900 |
| 197 | Kenya | \$1,600 | 214 | Sierra Leone | \$900 |
| 198 | Benin | \$1,500 | 215 | Togo | \$900 |
| 199 | Ghana | \$1,500 | 216 | Rwanda | \$900 |
| 200 | Zambia | \$1,500 | 217 | Malawi | \$900 |
| 201 | Gambia, The | \$1,400 | 218 | Mozambique | \$900 |
| 202 | Tanzania | \$1,400 | 219 | Afghanistan | \$800 |
| 203 | Haiti | \$1,300 | 220 | Central African Republic | \$700 |
| 204 | Uganda | \$1,300 | 221 | Eritrea | \$700 |
| 205 | Burkina Faso | \$1,200 | 222 | Niger | \$700 |
| 206 | Mali | \$1,200 | 223 | Guinea-Bissau | \$600 |
| 207 | Nepal | \$1,200 | 224 | Somalia | \$600 |
| 208 | Burma | \$1,100 | 225 | Liberia | \$500 |
| 209 | Comoros | \$1,000 | 226 | Burundi | \$300 |
| 210 | Tokelau | \$1,000 | 227 | Congo, Democratic Republic of the | \$300 |
| 211 | Madagascar | \$1,000 | | | |

Inflation

Economists use the term “inflation” to describe a rise in prices. The inflation rate is usually reported as the annualized percentage growth of an index representing a basket of goods that people may buy. With U.S. dollar prices rising, a one-dollar bill buys less each year. Inflation means a fall in the overall purchasing power of money.

Inflation rates vary from year to year and from currency to currency. Since 1950, the U.S. inflation rate has ranged from a low of -0.7 percent (1954) to a high of 13.3 percent (1979). Since 1991, the rate has stayed between 1.6 percent and 3.3 percent per year. Since 1950 at least eighteen countries have experienced hyperinflation where their inflation rate has soared above 50 percent per *month*. At the opposite side, Japan has experienced negative inflation, or “deflation,” of around 1 percent per year.

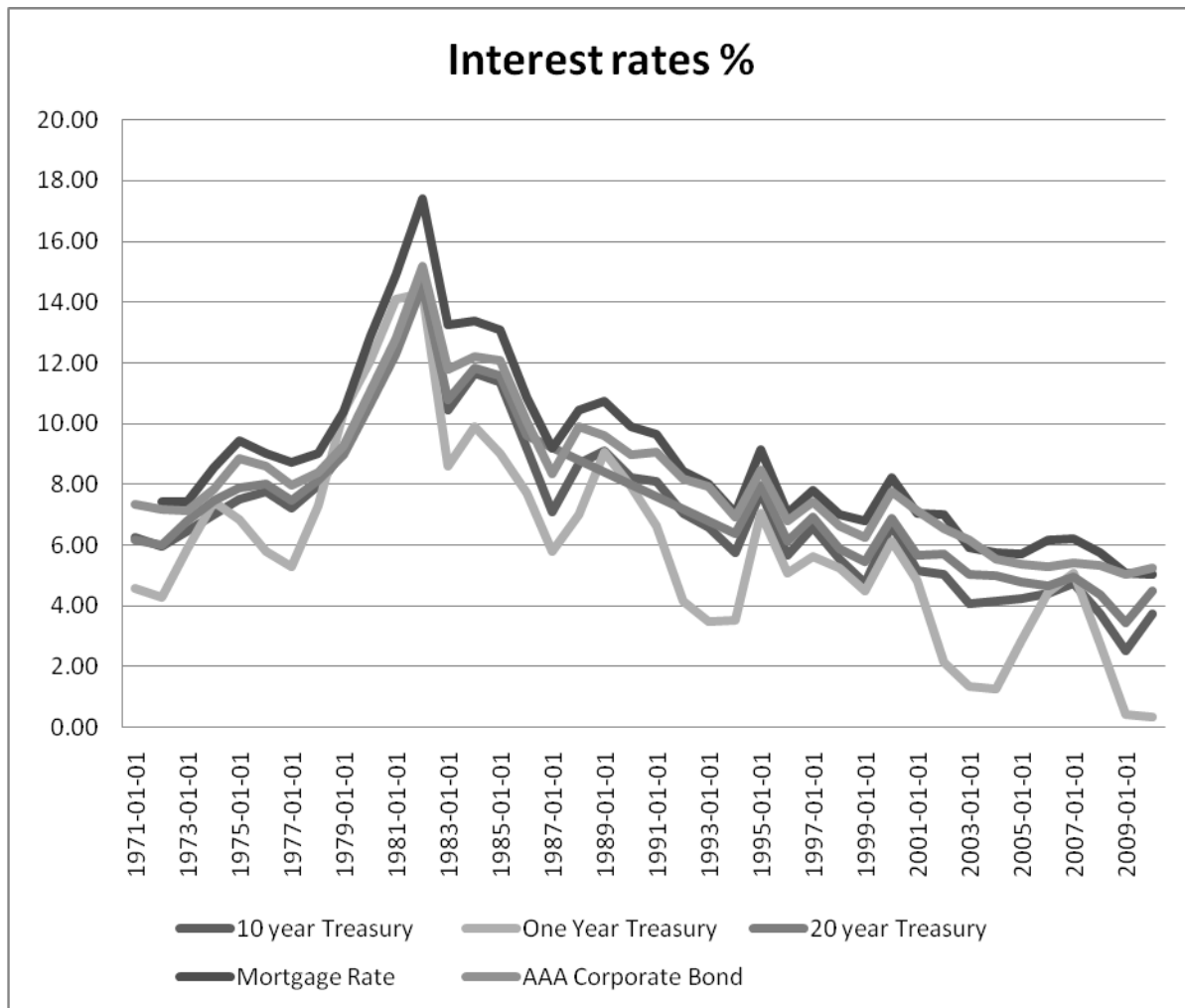
Prior to 1971 when more countries were on the gold standard (they redeem dollars for gold at a fixed rate for foreign central banks) inflation rates seldom exceeded 2 percent per year. Inflation rates have generally been higher after 1971. But inflation rates in most countries have been lower since 1985 than they were in 1971–1985.



In the United States, the inflation rate is most commonly measured by the percentage rise in the Consumer Price Index, which is reported monthly by the Bureau of Labor Statistics (BLS). It is an approximation of the rise in prices that a typical consumer will experience. There is another measure known as the gross domestic product deflator. The GDP deflator is less relevant to consumers because it includes the prices of nonconsumer goods (such as new business equipment) that consumers do not buy, and excludes the prices of the many foreign-produced goods that consumers do buy.

Inflation impacts the interest rates charged as can be seen by the chart below which shows a variety of interest rates including those from treasury bonds or bonds issued by the US government, mortgage rates and bonds issued by corporations. Interest rates tend to follow the inflation rate. Therefore when inflation was high in 1980, interest rates were high as well.

High interest rates can hurt businesses in that consumers are less likely to buy when interest rates are high. Additionally businesses find it expensive to purchase equipment and other things they may need to prosper.



Source: Federal Reserve

Inflation can do great harm. It erodes the purchasing power of our money. Central banks such as the Federal Reserve in the US want to keep inflation low but positive, some set a target range between 1 and 3 percent.

As with the US, high inflation can do damage in other countries as well. The following table shows 2009 inflation rates for various countries. Keep in mind that developing countries tend to have very volatile inflation rates as well.

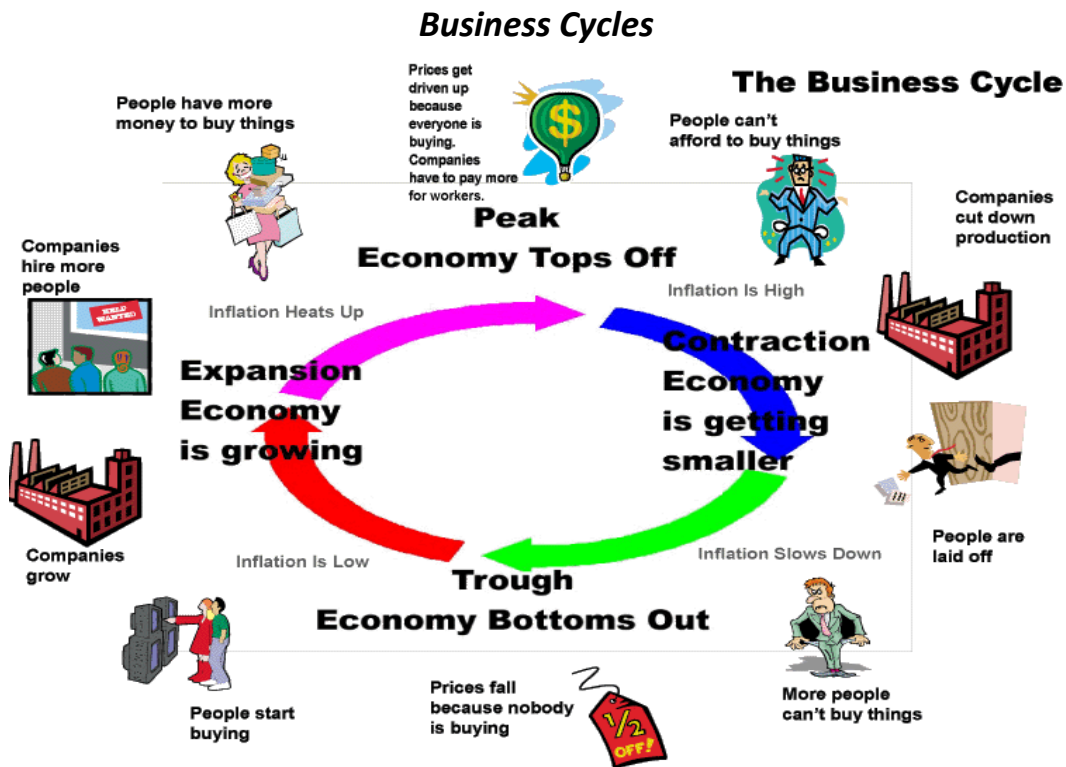
| Rank | Country | Inflation | Rank | Country | Inflation | Rank | Country | Inflation |
|------|---------------|-----------|------|--------------|-----------|------|--------------|-----------|
| 1 | Qatar | -4.9 | 101 | Comoros | 3 | 201 | Sierra Leone | 11.7 |
| 2 | Ireland | -4.5 | 102 | Isle of Man | 3.1 | 202 | Egypt | 11.8 |
| 3 | San Marino | -3.5 | 103 | Saint Helena | 3.2 | 203 | Iceland | 12 |
| 4 | Japan | -1.4 | 104 | Bolivia | 3.3 | 204 | Tanzania | 12.1 |
| 5 | Faroe islands | -1.1 | 105 | Philippines | 3.3 | 205 | Ukraine | 12.3 |
| 6 | Senegal | -1 | 106 | Mozambique | 3.3 | 206 | Nigeria | 12.4 |
| 7 | Thailand | -0.9 | 107 | Israel | 3.3 | 207 | Marshall Is | 12.9 |
| 8 | Taiwan | -0.9 | 108 | Armenia | 3.4 | 208 | Belarus | 13 |
| 9 | Macedonia | -0.8 | 109 | Sri Lanka | 3.4 | 209 | Uganda | 13.1 |
| 10 | Spain | -0.8 | 110 | Montenegro | 3.4 | 210 | Nepal | 13.2 |

| | | | | | | | | |
|----|--------------------------|------|-----|---------------|-----|-----|-------------|------|
| 11 | Northern Mariana | -0.8 | 111 | Lebanon | 3.4 | 211 | Zambia | 13.4 |
| 12 | Portugal | -0.8 | 112 | Guernsey | 3.4 | 212 | Iran | 13.5 |
| 13 | Cambodia | -0.7 | 113 | Aruba | 3.4 | 213 | Pakistan | 13.6 |
| 14 | China | -0.7 | 114 | Latvia | 3.5 | 214 | Angola | 13.8 |
| 15 | Jordan | -0.7 | 115 | Poland | 3.5 | 215 | Uzbekistan | 14.1 |
| 16 | Hong Kong | -0.5 | 116 | Oman | 3.5 | 216 | Congo, | 16.7 |
| 17 | Switzerland | -0.5 | 117 | Falkland | 3.6 | 217 | Sao Tome | 19 |
| 18 | Bosnia | -0.4 | 118 | Mexico | 3.6 | 218 | Ghana | 19.3 |
| 19 | Sweden | -0.3 | 119 | Grenada | 3.7 | 219 | Eritrea | 20 |
| 20 | United States | -0.3 | 120 | Jersey | 3.7 | 220 | Venezuela | 27.1 |
| 21 | Estonia | -0.1 | 121 | Tunisia | 3.7 | 221 | Afghanistan | 30.5 |
| 22 | Moldova | -0.1 | 122 | Yemen | 3.7 | 222 | Seychelles | 31.8 |
| 23 | Belgium | 0 | 123 | Nicaragua | 3.7 | | | |
| 24 | Laos | 0 | 124 | Guinea-Bissau | 3.8 | | | |
| 25 | Haiti | 0 | 125 | Tuvalu | 3.8 | | | |
| 26 | Finland | 0 | 126 | Guyana | 3.9 | | | |
| 27 | France | 0.1 | 127 | Vanuatu | 3.9 | | | |
| 28 | Niger | 0.1 | 128 | Congo, | 4 | | | |
| 29 | Kiribati | 0.2 | 129 | Turks | 4 | | | |
| 30 | Singapore | 0.2 | 130 | Niue | 4 | | | |
| 31 | Belize | 0.3 | 131 | Kuwait | 4 | | | |
| 32 | Canada | 0.3 | 132 | Cayman | 4.1 | | | |
| 33 | Germany | 0.3 | 133 | Brazil | 4.2 | | | |
| 34 | Austria | 0.4 | 134 | Colombia | 4.2 | | | |
| 35 | Luxembourg | 0.4 | 135 | Mongolia | 4.2 | | | |
| 36 | Cyprus | 0.4 | 136 | Hungary | 4.2 | | | |
| 37 | Liechtenstein | 0.5 | 137 | Ecuador | 4.3 | | | |
| 38 | El Salvador | 0.6 | 138 | Gambia, | 4.5 | | | |
| 39 | Malaysia | 0.6 | 139 | Lithuania | 4.5 | | | |
| 40 | European Union | 0.7 | 140 | Saint Kitts | 4.5 | | | |
| 41 | Italy | 0.8 | 141 | Fiji | 4.8 | | | |
| 42 | Central African Republic | 0.9 | 142 | Indonesia | 4.8 | | | |
| 43 | Slovenia | 0.9 | 143 | Chad | 5 | | | |
| 44 | Cape Verde | 1 | 144 | Saudi Arabia | 5.1 | | | |
| 45 | Czech | 1 | 145 | Zimbabwe | 5.1 | | | |
| 46 | Cote d'Ivoire | 1 | 146 | Anguilla | 5.3 | | | |
| 47 | French Polynesia | 1.1 | 147 | Kosovo | 5.3 | | | |
| 48 | Greece | 1.2 | 148 | Bangladesh | 5.4 | | | |
| 49 | Macau | 1.2 | 149 | Barbados | 5.5 | | | |
| 50 | Netherlands | 1.2 | 150 | Romania | 5.6 | | | |
| 51 | Morocco | 1.2 | 151 | Algeria | 5.7 | | | |
| 52 | Denmark | 1.3 | 152 | Honduras | 5.9 | | | |
| 53 | Dominican | 1.4 | 153 | Tonga | 5.9 | | | |

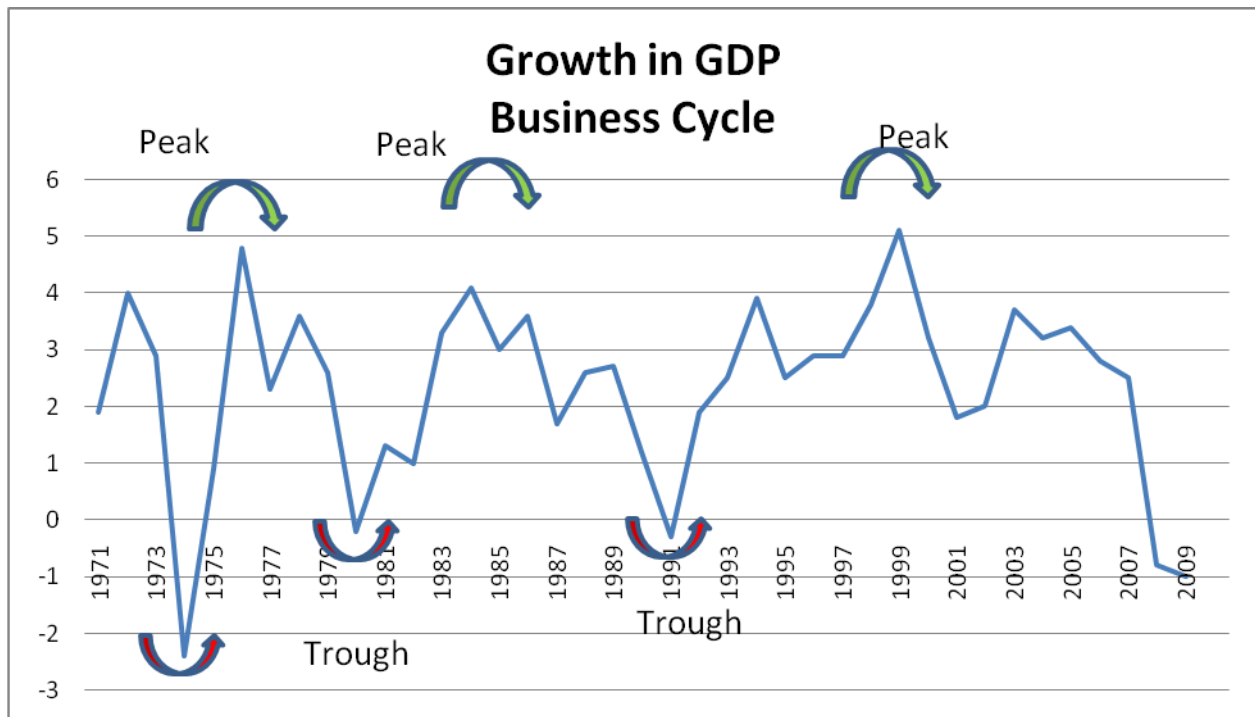
| | | | | | | | | |
|-----------|----------------------|-----|------------|------------------------|------|--|--|--|
| 54 | New Caledonia | 1.4 | 154 | Djibouti | 6 | | | |
| 55 | Antigua | 1.5 | 155 | Samoa | 6 | | | |
| 56 | Chile | 1.5 | 156 | Saint Vincent | 6.1 | | | |
| 57 | Azerbaijan | 1.5 | 157 | Solomon | 6.3 | | | |
| 58 | United Arab Emirates | 1.5 | 158 | Turkey | 6.3 | | | |
| 59 | Cuba | 1.5 | 159 | Suriname | 6.4 | | | |
| 60 | Bulgaria | 1.6 | 160 | Burma | 6.5 | | | |
| 61 | Slovakia | 1.6 | 161 | Puerto Rico | 6.5 | | | |
| 62 | Georgia | 1.7 | 162 | Tajikistan | 6.5 | | | |
| 63 | Mayotte | 1.7 | 163 | Serbia | 6.6 | | | |
| 64 | Australia | 1.8 | 164 | Iraq | 6.8 | | | |
| 65 | Malta | 1.8 | 165 | Kyrgyzstan | 6.9 | | | |
| 66 | Gabon | 1.9 | 166 | Papua New Guinea | 6.9 | | | |
| 67 | Paraguay | 1.9 | 167 | Trinidad | 7 | | | |
| 68 | Saint Luca | 1.9 | 168 | Vietnam | 7 | | | |
| 69 | Guatemala | 1.9 | 169 | British Virgin Islands | 7.1 | | | |
| 70 | Monaco | 1.9 | 170 | Uruguay | 7.1 | | | |
| 71 | Togo | 2 | 171 | South Africa | 7.1 | | | |
| 72 | Cameroon | 2.1 | 172 | Lesotho | 7.2 | | | |
| 73 | New Zealand | 2.1 | 173 | Kazakhstan | 7.3 | | | |
| 74 | Norway | 2.1 | 174 | Mauritania | 7.3 | | | |
| 75 | Cook islands | 2.1 | 175 | Maldives | 7.3 | | | |
| 76 | Netherlands Antilles | 2.1 | 176 | Equatorial Guinea | 7.5 | | | |
| 77 | Albania | 2.2 | 177 | Swaziland | 7.6 | | | |
| 78 | Virgin islands | 2.2 | 178 | Argentina | 7.7 | | | |
| 79 | United Kingdom | 2.2 | 179 | Costa Rica | 7.8 | | | |
| 80 | Micronesia, | 2.2 | 180 | Timor-Leste | 7.8 | | | |
| 81 | Benin | 2.2 | 181 | Bhutan | 8 | | | |
| 82 | Andorra | 2.3 | 182 | Botswana | 8.1 | | | |
| 83 | Bahamas, | 2.4 | 183 | Saint Pierre | 8.1 | | | |
| 84 | Croatia | 2.4 | 184 | Malawi | 8.4 | | | |
| 85 | Libya | 2.4 | 185 | Ethiopia | 8.5 | | | |
| 86 | Panama | 2.4 | 186 | Namibia | 8.8 | | | |
| 87 | Mali | 2.5 | 187 | Guinea | 9 | | | |
| 88 | Mauritius | 2.5 | 188 | Madagascar | 9 | | | |
| 89 | Burkina Faso | 2.6 | 189 | Kenya | 9.3 | | | |
| 90 | Montserrat | 2.6 | 190 | Greenland | 9.4 | | | |
| 91 | Syria | 2.6 | 191 | Jamaica | 9.6 | | | |
| 92 | Gibraltar | 2.6 | 192 | Gaza | 9.9 | | | |
| 93 | Brunei | 2.7 | 193 | West Bank | 9.9 | | | |
| 94 | Dominica | 2.7 | 194 | Turkmenistan | 10 | | | |
| 95 | Palau | 2.7 | 195 | Rwanda | 10.4 | | | |
| 96 | Bermuda | 2.8 | 196 | India | 10.9 | | | |
| 97 | Korea, South | 2.8 | 197 | Burundi | 11.1 | | | |

| | | | | | | | |
|-----|---------|-----|-----|---------|------|--|--|
| 98 | Wallis | 2.8 | 198 | Liberia | 11.2 | | |
| 99 | Peru | 2.9 | 199 | Sudan | 11.2 | | |
| 100 | Bahrain | 3 | 200 | Russia | 11.7 | | |

For a more complete discussion on inflation check out: Lawrence H. White. "Inflation." *The Concise Encyclopedia of Economics*. 2008. Library of Economics and Liberty. : <http://www.econlib.org/library/Enc/Inflation.html>



The United States and all other developed economies experience significant swings in economic activity as can be seen from the chart below. In some years, most industries are booming and everyone is employed. In other years, most industries are operating at 70% or lower and unemployment is high. Periods of economic prosperity are typically called expansions or boom times. Periods of economic decline are called contractions, recessions or depressions. The combination of expansions and contractions is called the business cycle.



During expansion, output rises and employment rises. New construction increases and inflation may rise if the expansion is particularly brisk. During a recession, the output and employment falls. New construction also declines. Since the 1950s prices have continued to rise during downturns, though more slowly than during expansions. A recession is when a broad range of economic indicators falls for at least half a year.

The peak of the cycle refers to the last month before several key economic indicators begin to fall. The trough of the cycle refers to the last month before the same economic indicators begin to rise. This determination can be subjective so the National Bureau of Economic Research (NBER) is an independent research institution that dates the peaks and troughs of U.S. business cycles. The following table shows all the business cycles for the last century. The last 10 cycles have averaged about 67 months or 5 ½ years.

| | | Duration in months | | | |
|-------------------|--------------------|--------------------|-----------|------------------|--------------|
| Peak | Trough | Contraction | Expansion | Trough to trough | Peak to peak |
| | December 1854 (IV) | -- | | -- | -- |
| June 1857(II) | December 1858 (IV) | 18 | 30 | 48 | -- |
| October 1860(III) | June 1861 (III) | 8 | 22 | 30 | 40 |
| April 1865(I) | December 1867 (I) | 32 | 46 | 78 | 54 |
| June 1869(II) | December 1870 (IV) | 18 | 18 | 36 | 50 |
| October 1873(III) | March 1879 (I) | 65 | 34 | 99 | 52 |
| March 1882(I) | May 1885 (II) | 38 | 36 | 74 | 101 |
| March 1887(II) | April 1888 (I) | 13 | 22 | 35 | 60 |
| July 1890(III) | May 1891 (II) | 10 | 27 | 37 | 40 |
| January 1893(I) | June 1894 (II) | 17 | 20 | 37 | 30 |
| December 1895(IV) | June 1897 (II) | 18 | 18 | 36 | 35 |

| | | | | | |
|-----------------------|--------------------|----|-----|-----|------|
| June 1899(III) | December 1900 (IV) | 18 | 24 | 42 | 42 |
| September 1902(IV) | August 1904 (III) | 23 | 21 | 44 | 39 |
| May 1907(II) | June 1908 (II) | 13 | 33 | 46 | 56 |
| January 1910(I) | January 1912 (IV) | 24 | 19 | 43 | 32 |
| January 1913(I) | December 1914 (IV) | 23 | 12 | 35 | 36 |
| August 1918(III) | March 1919 (I) | 7 | 44 | 51 | 67 |
| January 1920(I) | July 1921 (III) | 18 | 10 | 28 | 17 |
| May 1923(II) | July 1924 (III) | 14 | 22 | 36 | 40 |
| October 1926(III) | November 1927 (IV) | 13 | 27 | 40 | 41 |
| August 1929(III) | March 1933 (I) | 43 | 21 | 64 | 34 |
| May 1937(II) | June 1938 (II) | 13 | 50 | 63 | 93 |
| February 1945(I) | October 1945 (IV) | 8 | 80 | 88 | 93 |
| November 1948(IV) | October 1949 (IV) | 11 | 37 | 48 | 45 |
| July 1953(II) | May 1954 (II) | 10 | 45 | 55 | 56 |
| August 1957(III) | April 1958 (II) | 8 | 39 | 47 | 49 |
| April 1960(II) | February 1961 (I) | 10 | 24 | 34 | 32 |
| December 1969(IV) | November 1970 (IV) | 11 | 106 | 117 | 116 |
| November 1973(IV) | March 1975 (I) | 16 | 36 | 52 | 47 |
| January 1980(I) | July 1980 (III) | 6 | 58 | 64 | 74 |
| July 1981(III) | November 1982 (IV) | 16 | 12 | 28 | 18 |
| July 1990(III) | March 1991(I) | 8 | 92 | 100 | 108 |
| March 2001(I) | November 2001 (IV) | 8 | 120 | 128 | 128 |
| December 2007 (IV) | | | 73 | | 81 |
| Average, all cycles: | | | | | |
| 1854-2001 (32 cycles) | | 17 | 38 | 55 | 56* |
| 1854-1919 (16 cycles) | | 22 | 27 | 48 | 49** |
| 1919-1945 (6 cycles) | | 18 | 35 | 53 | 53 |
| 1945-2001 (10 cycles) | | 10 | 57 | 67 | 67 |
| * 31 cycles | | | | | |
| ** 15 cycles | | | | | |

<http://www.nber.org/cycles.html>

As can be seen from the table above, business cycles are not regular. They can be short or long. Business cycles occur because of disturbances to the economy. Monetary policy seems to have played a crucial role in causing business cycles in both the early 1970s and the early 1980s. These recessions were directly attributable to decisions by the Federal Reserve to raise interest rates. On the expansion side, the inflationary booms of the mid-1960s and the late 1970s were both at least partly due to low interest rates.

Business cycles are important to businesses and individuals because they need to be planned for. More businesses succeed in expansion and more fail during contractions. For individuals, there is more unemployment during contractions. Both businesses and individuals need to know that the economy will go up and down. Therefore, it is important to include both in thinking about the future.

For more information on business cycles check out: Christina D. Romer. "Business Cycles." *The Concise Encyclopedia of Economics*. 2008. Library of Economics and Liberty. Retrieved December 21, 2008 from the World Wide Web: <http://www.econlib.org/library/Enc/BusinessCycles.html>

Government and Policy



Governments and economies go hand in hand. Government is the number one factor in how well an economy does. Stability is important to economic growth. Rather than deal with political problems from frequent changes in leadership and the ensuing turmoil, the country can move forward with economic development. The government not only has to be stable; it has to have minimal corruption. Business does not prosper when corruption is widespread.

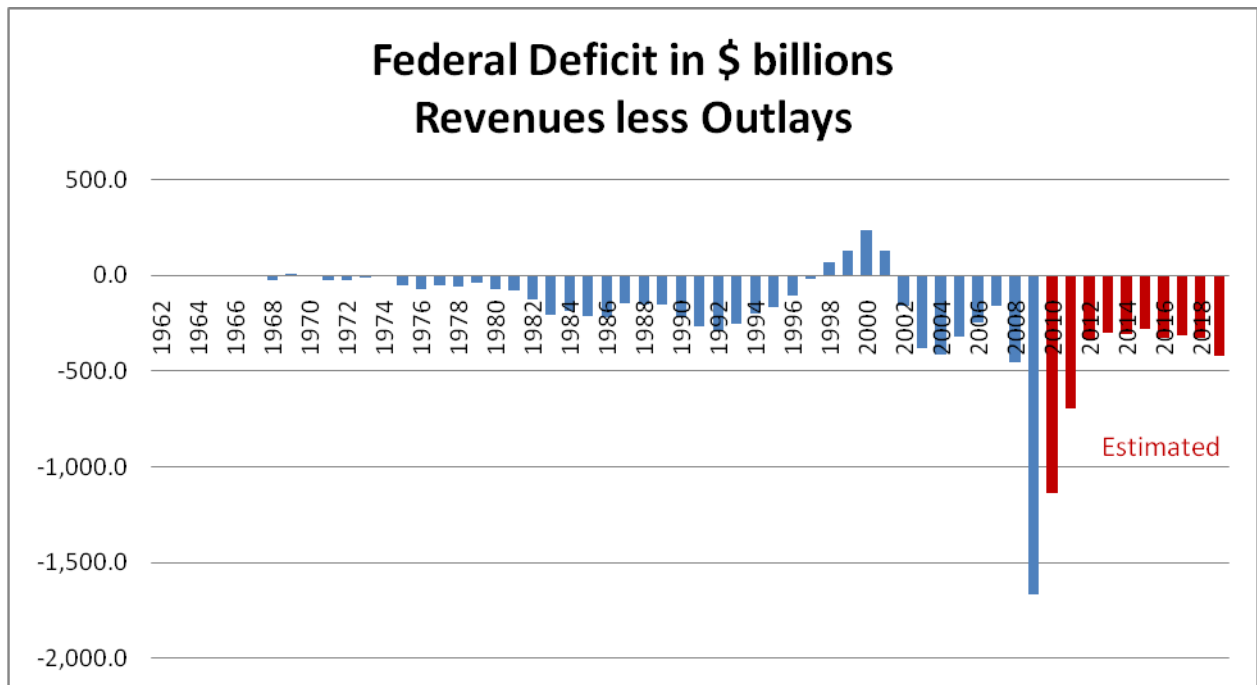
Investing in a country like Russia, which has had a lot of upheaval, is going to be risky. What types of economic policy will the government adopt? How will the government treat foreign investors? If the government is stable and well run, it is more likely to be conducive to business success. If the government is corrupt, it will be difficult to do business. Belonging to an international trade organization provides some assurances that the country will abide by international regulations.

Is the government in debt? Having too much debt pushes up interest rates and the cost of doing business in the country. Too much debt also indicates a poorly run government. This will spill over to the country's economic policies and affect the performance of business.

Fiscal Policy

Fiscal policy is the use of government spending and taxation to influence the economy. When the government decides to spend on infrastructure such as highways, pay transfer payments, such as social security, or levy taxes, it is engaging in fiscal policy. The economic impact of any change in the government budget is felt by particular groups. For example, a tax cut for families raises their disposable income.

As can be seen by the chart below, the federal government has been spending more than it was taking in taxes since 1960. There was a short period where it took in more than it spent in the late 1990s. However, two wars and a financial meltdown has put the government in a position of deficit going out for the next ten years. The cumulative deficit as of mid 2010 is \$13 trillion. Check <http://www.usdebtclock.org/> for the most current estimate.

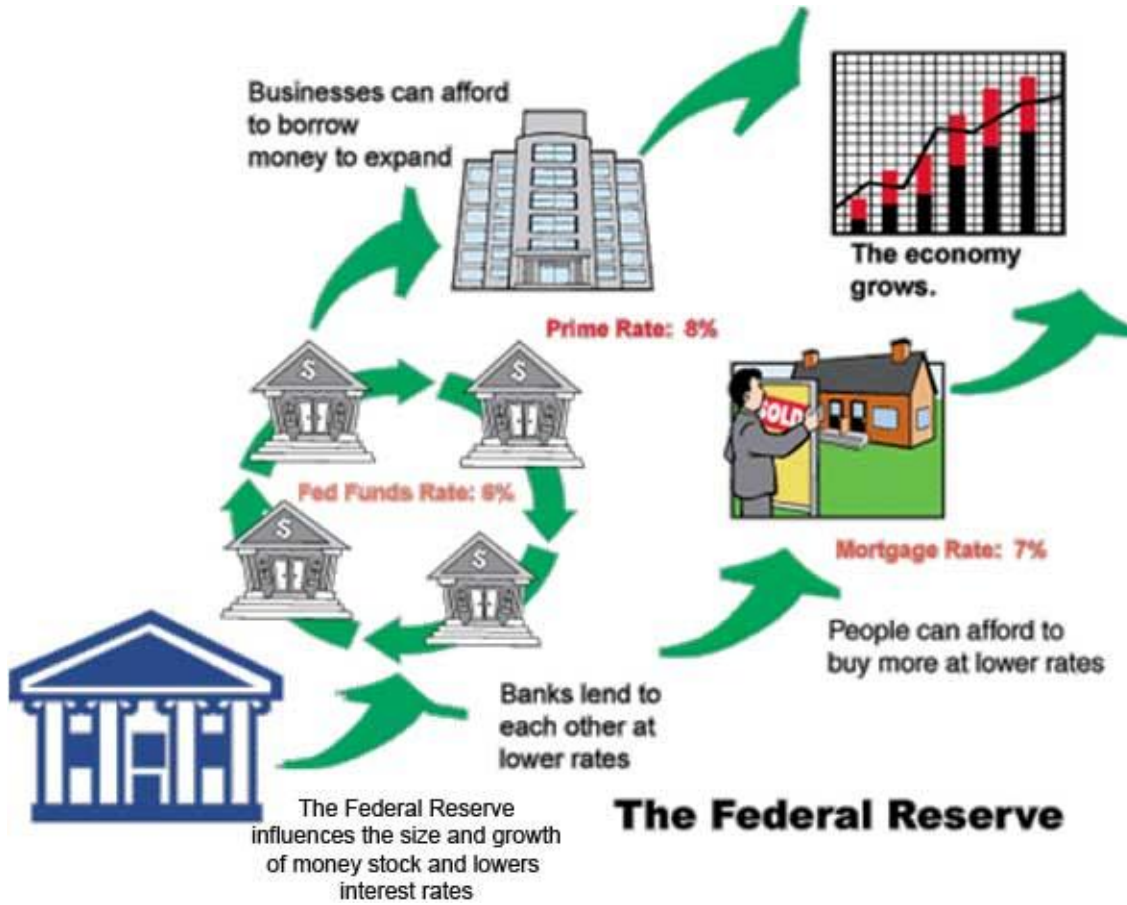


<http://www.cbo.gov/doc.cfm?index=10014>

For more information on fiscal policy, check out: <http://www.econlib.org/library/Enc/FiscalPolicy.html>

For more information on the federal deficit check out the Frontline video **Ten Trillion and Counting**:
<http://www.pbs.org/wgbh/pages/frontline/tentrillion/view/>

Monetary Policy



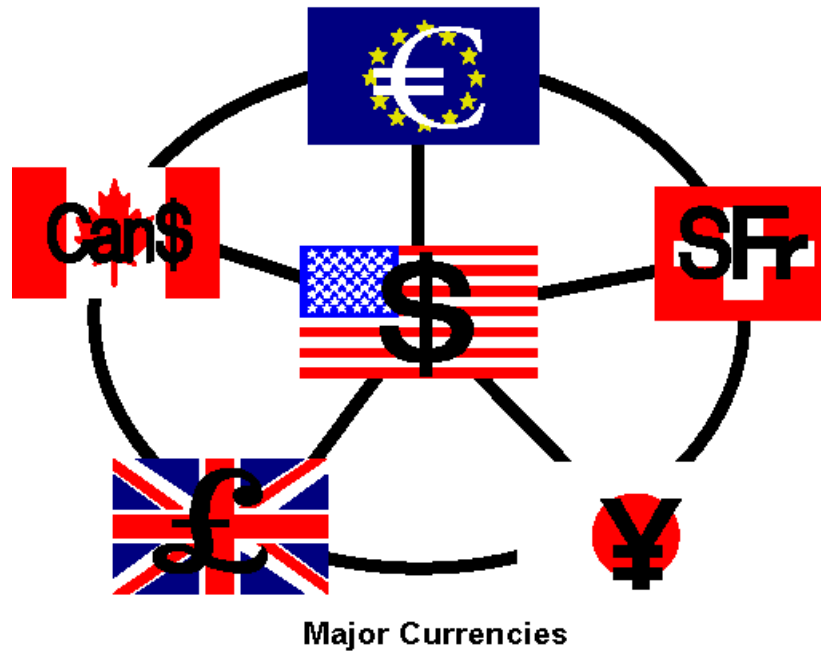
Monetary policy is controlling the money supply to influence changes in the economy. While fiscal policy is conducted by the administration and legislators, monetary policy is conducted by the Federal Reserve, or the central bank of the US. Through open-market operations and a number of other mechanisms, one of the committees of the Federal Reserve, purchases or sales are made to keep interest rates at a certain target.

The Fed's control of money markets is transmitted to other financial markets and to the economy. It influences spending on goods and services as can be seen in the figure above. When the bank's cost of getting money is raised, they, in turn, raise their lending rates and become more selective in giving loans or credit. Their customers borrow and spend less. The effects spread, affecting businesses wanting to borrow to finance inventories; developers needing loans to build shopping centers, people needing mortgages; consumers buying cars; credit card holders; and municipalities constructing schools.

For more on monetary policy, check out:

<http://www.econlib.org/library/Enc/MonetaryPolicy.html>

Currency Risk

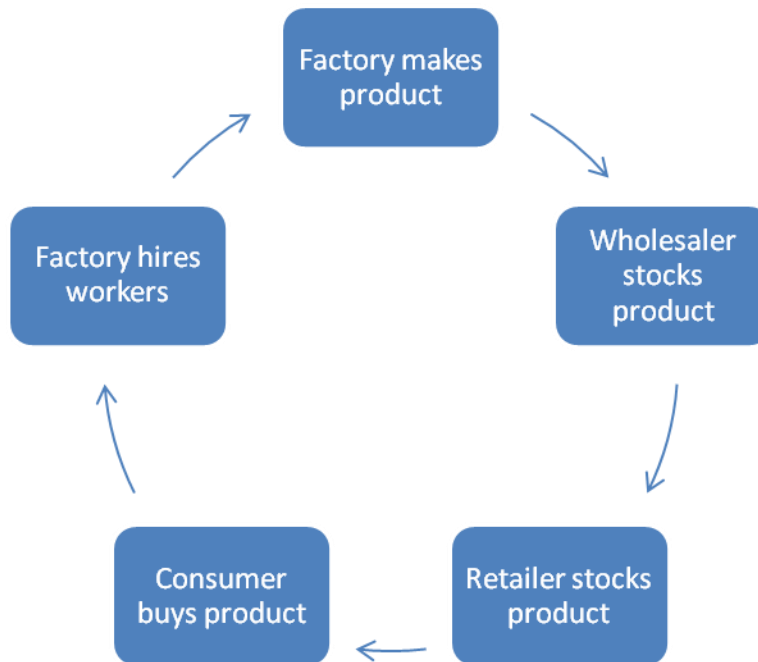


If you travel abroad frequently, you'll know that the exchange rates are not always the same. Sometimes you get more foreign currency for your U.S. dollar and sometimes you get less. That's because, for most currencies, the exchange rate "floats" or moves with the market. This movement (in relationship to the U.S. dollar) is a source of risk in doing business with other countries.

Even though a company may be doing well within its own borders, currency risk can make it a bad investment when converted to American dollars. Currency fluctuations can happen very quickly. And they can go up and down many times in the course of a day. The "fortunes" of a currency depend on many of the factors used to assess country risk but takes on the added complexity of how the country is doing relative to other countries. Reports of increased inflation drive currency down immediately. Other factors that influence currency could be the actions of the central bank of the country, such as when it raises or lowers interest rates. Therefore, one important factor in assessing a country's economy is the volatility of its currency as compared to the US dollar.

Economic Indicators

(Adapted from the Federal Reserve)



Economic indicators can be leading, coincidental or lagging depending on where they are in the business process.

Economic indicators provide a snapshot of the economy's health. Just as a doctor checks the vital signs of a patient, an economist might check the vital signs of the economy by looking at gross domestic product (GDP), consumer price index (CPI) Economists categorize some economic indicators as leading, lagging or coincident. These categories help them see where the economy is in terms of the business cycle, which shows the rising and falling of economic conditions over time. The Federal Open Market Committee (FOMC) examines many economic indicators prior to determining monetary policy. The indicators listed in this section are examples of some of the factors the FOMC considers before issuing its directive on monetary policy.

Leading indicators anticipate the direction in which the economy is headed.

EXAMPLES OF LEADING INDICATORS

- 1. Average weekly hours, manufacturing:** The average hours worked per week by production workers in manufacturing industries tend to lead the business cycle because employers usually adjust work hours before increasing or decreasing their workforce.
- 2. Average weekly initial claims for unemployment insurance:** The number of new claims filed for unemployment insurance are typically more sensitive than either total employment or unemployment to overall business conditions, and this series tends to lead the business cycle. Initial claims increase when conditions worsen (i.e., layoffs rise and new hirings fall).
- 3. Building permits, new private housing units:** The number of residential building permits issued is an indication of construction activity, which typically leads most other types of economic production.
- 4. Stock prices, 500 common stocks:** The Standard & Poor's 500 stock index reflects the price movements of a broad selection of common stocks traded on the New York Stock Exchange. Increases (decreases) of the stock index can reflect both the general sentiment of investors and the movement of interest rates, which is usually another good indicator for future economic activity.
- 5. Index of consumer expectations:** This index reflects changes in consumer attitudes concerning future economic conditions and, therefore, is the only indicator in the leading index that is completely expectations-based. Data are collected in a monthly survey and responses to the questions concerning

various economic conditions are classified as positive, negative or unchanged.

6. Manufacturers' new orders, consumer goods and materials: These goods are primarily used by consumers. The inflation-adjusted value of new orders leads actual production because new orders directly affect the level of both unfilled orders and inventories that firms monitor when making production decisions.

7. Manufacturers' new orders, nondefense capital goods: New orders received by manufacturers in nondefense capital goods industries (in inflation-adjusted dollars) are the producers' counterpart to manufacturers' new orders for consumer goods.

8. Vendor performance, slower deliveries diffusion index: This index measures the relative speed at which industrial companies receive deliveries from their suppliers. Slowdowns in deliveries increase this series and are most often associated with increases in demand for manufacturing supplies (as opposed to a negative with increases in demand for manufacturing supplies (as opposed to a negative shock to supplies) and, therefore, tend to lead the business cycle.

9. Money supply: In inflation-adjusted dollars, this is the M2 version of the money supply. When the money supply does not keep pace with inflation, bank lending may fall in real terms, making it more difficult for the economy to expand. M2 includes currency, demand deposits, other checkable deposits, traveler's checks, savings deposits, small-denomination time deposits and balances in money market mutual funds.

10. Interest rate spread, 10-year Treasury bonds less federal funds: The spread or difference between long and short rates is often called the yield curve. This series is constructed using the 10-year Treasury bond rate and the federal funds rate, an overnight interbank borrowing rate. It is felt to be an indicator of the stance of monetary policy and general financial conditions because it rises (falls) when short rates are relatively low (high). When it becomes negative (i.e., short rates are higher than long rates and the yield curve inverts), its record as an indicator of recessions is particularly strong. Coincident indicators provide information about the current status of the economy.

EXAMPLES OF COINCIDENT INDICATORS

1. Employees on nonagricultural payrolls: It includes full-time and part-time workers and does not distinguish between permanent and temporary employees. Because the changes in this series reflect the actual net hiring and firing of all but agricultural establishments and the smallest businesses in the nation, it is one of the most closely watched series for gauging the health of the economy.

2. Personal income less transfer payments (in 1996 \$): The value of the income received from all sources is stated in inflation-adjusted dollars to measure the real salaries and other earnings of all persons. Income levels are important because they help determine both aggregate spending and the general health of the economy.

3. Index of industrial production: This index covers the physical output of all stages of production in the manufacturing, mining, and gas and electric utility industries. It is constructed from numerous sources that measure physical product counts, values of shipments and employment levels.

4. Manufacturing and trade sales (in 1996 \$): This index includes sales at the manufacturing, wholesale, and retail levels. It is inflation adjusted to reflect real total spending.

Lagging indicators change months after a downturn or upturn in the economy has begun. They help economists predict the duration of economic downturns or upturns.

EXAMPLES OF LAGGING INDICATORS

1. Average duration of unemployment: This series measures the average duration (in weeks) that individuals counted as unemployed have been out of work. Decreases in the average duration of unemployment occur after an expansion gains strength and the sharpest increases tend to occur after a recession has begun.

2. Average prime rate charged by banks: Although the prime rate is considered the benchmark that banks use to establish their interest rates for different types of loans, changes tend to lag behind the movements of general economic activity.

3. Ratio of manufacturing and trade inventories to sales: This is a popular gauge of business conditions for individual firms, entire industries and the whole economy. Because inventories tend to increase when the economy slows and sales fail to meet projections, the ratio typically reaches its cyclical peaks in the middle of a recession. It also tends to decline at the beginning of an expansion as firms meet their sales demand from excess inventories.

4. Consumer installment credit outstanding to personal income: This measures the relationship between consumer debt and income. Because consumers tend to hold off personal borrowing until months after a recession ends, this ratio typically shows a trough after personal income has risen for a year or longer.

5. Change in labor cost per unit of output, manufacturing: Measures the rate of change in an index that rises when labor costs for manufacturing firms rise faster than their production (and vice versa). The index is constructed from various components, including seasonally adjusted data on employee compensation in manufacturing (wages and salaries plus supplements) and seasonally adjusted data on industrial production in manufacturing. Because monthly percent changes in this series are extremely erratic, percent changes in labor costs are calculated over a six-month span. Cyclical peaks in the six-month annualized rate of change typically occur during recessions, as output declines faster than labor costs despite layoffs of production workers. Troughs in the series are much more difficult to determine and characterize.

6. Commercial and industrial loans outstanding (in 1996 \$): This series measures the volume of business loans held by banks and commercial paper issued by nonfinancial companies. The underlying data are compiled by the Board of Governors of the Federal Reserve System. The Conference Board, a New York-based business research network, makes price level adjustments using the same deflator (based on Personal Consumption Expenditures data) used to deflate the money supply series in the leading index. The series tends to peak after an expansion peaks because declining profits usually increase the demand for loans. Troughs are typically seen more than a year after the recession ends.

7. Change in consumer price index for services: Compiled by the Bureau of Labor Statistics, it measures the rates of change in the services component of the consumer price index. It is probable that because of recognition lags and other market rigidities, service sector inflation tends to increase in the initial months of a recession and to decrease in the initial months of an expansion.

How Indicators Monitor the Four Phases of the Business Cycle

The four phases of the business cycle of rising and falling economic growth are: 1) expansion or recovery, 2) peak, 3) contraction or recession and 4) trough. The leading indicator system provides a basis for monitoring the tendency to move from one phase to the next. The system assesses the strengths and weaknesses in the economy as clues to a quickening or slowing of future rates of economic growth, as well as to cyclical turning points in moving from the upward expansion to the downward recession, and from the recession to the upward recovery.

The terms "leading," "coincident" and "lagging" refer to the timing of the turning points of the indexes relative to those of the business cycle. Leading indicators anticipate the direction in which the economy is headed. Coincident indicators provide information about the current status of the economy. These indicators change as the economy moves from one phase of the business cycle to the next and tell economists that an upturn or downturn in the economy has arrived. Lagging indicators change months after a downturn or upturn in the economy has begun and help economists predict the duration of economic downturns or upturns.

The system is based on the theory that expectation of future profits is the motivating force in the economy. When business executives believe that their sales and profits will rise, companies tend to expand production of goods and services and investment in new structures and equipment. When they believe profits will decline, they reduce production and investment. These actions generate the four phases of the business cycle.

Glossary of Selected Key Economic Indicators

Consumer Price Index - a measure of the average price level of a fixed basket of goods and services

purchased by consumers as determined by the Bureau of Labor Statistics. Monthly changes in the CPI represent the rate of inflation. Core CPI excludes volatile components, i.e., food and energy prices.

Durable goods orders - reflect the new orders placed with domestic manufacturers for immediate and future delivery of factory hard goods.

Employment cost index - a measure of total employee compensation costs, including wages, salaries and benefits. This is the broadest measure of labor costs.

Gross domestic product - the broadest measure of aggregate economic activity encompassing every measure of the economy, measuring the total value of goods and services produced during a specific period.

Index of industrial production - a measure of the physical output of the nations factories, mines and utilities.

Jobless claims - a weekly compilation of the number of individuals who filed for unemployment insurance for the first time. It predicts trends in the labor market.

Motor vehicle sales - unit sales of domestically-produced cars and light-duty trucks. Figures are good indicators of trends in consumer spending.

Personal income - the dollar value of income received from all sources by individuals.

Personal outlays - consumer purchases of durable goods, nondurable goods and services.

Producer price index - a measure of the average price level for a fixed basket of capital and consumer goods paid by producers.

Trade balance - measures the difference between exports and imports of both tangible goods and services. The level of the international trade balance, as well as changes in exports and imports, indicate trends in foreign trade.

Individual Assignment – Calculating growth rates

Name: _____

Review the section on growth rate and calculate the nominal and real growth rates for GDP each of the periods below. The calculation is year to year and in percent. You should have fifteen growth rates. Be prepared to explain the difference between nominal and real growth rates.

Do your calculations match the graph of GDP growth rates?

| | GDP in billions of current dollars | GDP in billions of chained 2005 dollars | Growth Rate Calculation |
|------|------------------------------------|---|-------------------------|
| 1950 | 293.7 | 2,006.0 | |
| 1951 | 339.3 | 2,161.1 | |
| 1952 | 358.3 | 2,243.9 | |
| 1953 | 379.3 | 2,347.2 | |
| 1954 | 380.4 | 2,332.4 | |
| 1955 | 414.7 | 2,500.3 | |
| 1970 | 1,038.3 | 4,269.9 | |
| 1971 | 1,126.8 | 4,413.3 | |
| 1972 | 1,237.9 | 4,647.7 | |
| 1973 | 1,382.3 | 4,917.0 | |
| 1974 | 1,499.5 | 4,889.9 | |
| 1975 | 1,637.7 | 4,879.5 | |
| 1990 | 5,800.5 | 8,033.9 | |
| 1991 | 5,992.1 | 8,015.1 | |
| 1992 | 6,342.3 | 8,287.1 | |
| 1993 | 6,667.4 | 8,523.4 | |
| 1994 | 7,085.2 | 8,870.7 | |
| 1995 | 7,414.7 | 9,093.7 | |

Team Assignment - Economic Indicators

1. Each team will be assigned economic indicators to research.
2. Assign each group member to download charts on one or two economic indicators assigned. Links are provided.
3. Decide as a group which **three** are the most important.
4. Give an analysis of what the indicators say about the economy. Classify each as coincidental, lagging or leading. Where are we headed? Expansion? Contraction? Trough? Peak?
5. Present your findings to the class. **Use a poster** to show the 3 most important indicators and your overall conclusion.

Option: Individual Economic Indicator Assignment

1. Each student is to choose one economic indicator from the list below. No two students can choose the same indicator.
2. Download charts. Links are provided.
3. Describe why your economic indicator is important. Classify it as coincidental, lagging or leading and explain why.
4. Give an analysis of what the indicators say about the economy. Where are we headed? Expansion? Contraction? Trough? Peak?
5. Present your findings on a discussion forum.

Economic Indicators (Other sources of information)

<http://www.census.gov/cgi-bin/briefroom/BriefRm>

http://www.ny.frb.org/research/directors_charts/econ_fin.pdf

<http://www.dallasfed.org/data/usdata.html> (Quick Slide Show weekly)

In formulating the nation's monetary policy, the Federal Reserve considers a number of factors, including the economic and financial indicators which follow, as well as the anecdotal reports compiled in the [Beige Book](#) .

Real Gross Domestic Product (GDP) [View chart](#)  PDF

Definition: The total value of goods and services produced within the borders of the United States, regardless of who owns the assets or the nationality of the labor used in producing that output. (In contrast, Gross National Product (GNP) measures the output of the citizens of the US and the income from assets owned by US entities, regardless of where located.) The growth of output is measured in real terms, meaning increases in output due to inflation have


been removed.

Source: US Department of Commerce; Bureau of Economic Analysis

Frequency: Quarterly

Availability: Data are typically released during the final week of the month. The first or advance estimate is released during the final week of the month immediately following the end of a calendar quarter.

Reason: The Federal Reserve's primary goal is sustained growth of the economy with full employment and stable prices. Real GDP is the most comprehensive measure of the performance of the U.S. economy. By monitoring trends in the overall growth rate as well as the unemployment rate and the rate of inflation, policy makers are able to assess whether the current stance of monetary policy is consistent with that primary goal.

Consumer Price Index (CPI) [View chart](#)  PDF


Definition: An index designed to measure the change in price of a fixed market basket of goods and services. The market basket of goods and services is representative of the purchases of a typical urban consumer. The index is intended to measure pure price change only; attempts are made to remove changes in price resulting from changes in quality.

Source: U.S. Department of Labor; Bureau of Labor Statistics

Frequency: Monthly

Availability: Generally available the second week of the month immediately following the month for which data is being released; always released after the Producer Price Index.

Reason: The rate of change of the CPI is one of the key measures of inflation for the U.S. economy. Acceleration or deceleration of inflation may signal that a change in monetary policy may be appropriate.

Nonfarm Payroll Employment [View chart](#)  PDF

Definition: An estimate of the number of payroll jobs at all nonfarm business establishments and government agencies. Information is also provided on the average number of hours worked per week and average hourly and weekly earnings.

Source: U.S. Department of Labor; Bureau of Labor Statistics

Frequency: Monthly

Availability: Usually the first Friday of the month for the immediately preceding month; occasionally released on the second Friday.

Reason: Growth of employment and hours worked provide important information about the current and likely future pace of overall economic growth. Trends in average hourly earnings provide information about supply and demand conditions in labor markets, which may provide signals about the overall level of resource utilization in the economy.

Housing Starts [View chart](#)  PDF

Definition: An estimate of the number of housing units on which construction was started. Starting construction is defined as excavation for the footings or foundation, or the first shovel of dirt to break ground. (In response to natural disasters such as Hurricane Andrew in August of 1992, that definition has been expanded to a housing unit built on an existing foundation after the previous structure had been completely destroyed.) Housing starts are divided into single-family and multifamily(2+) units. Beginning construction on a 100 unit apartment building, for example, is counted as 100 starts.

Source: U.S. Department of Commerce; Bureau of the Census

Frequency: Monthly

Availability: Around 15th of the month for the immediately preceding month

Reason: Housing is perhaps the most interest-rate sensitive sector of the economy. It often experiences large swings in activity in response to changes in the level of long-term interest rates such as those on mortgages. While residential

investment represents just four percent of the level of GDP, due to its volatility it frequently represents a much higher proportion of changes in GDP over relatively short periods of time. Policy makers monitor the housing sector very carefully for clues about the near-term performance of the economy and for the effects of changes in financial conditions.

Industrial Production/Capacity Utilization [View chart](#) PDF

Definition: An index designed to measure changes in the level of output in the industrial sector of the economy. The index is grouped by both products (consumer goods, business equipment, intermediate goods, and materials) and industry (manufacturing, mining, and utilities).

Source: Board of Governors of the Federal Reserve System

Frequency: Monthly

Availability: Preliminary estimate released around the middle of the month for the immediately preceding month.

Reason: While the industrial sector of the economy represents only about 20 percent of GDP, because changes in GDP are heavily concentrated in the industrial sector changes in this index provide useful information on the current growth of GDP. The level of capacity utilization in the industrial sector provides information on the overall level of resource utilization in the economy which may in turn provide information on the likely future course of inflation.

Retail Sales [View chart](#) PDF

Definition: An estimate of the total sales of goods by all retail establishments in the U.S. (Sales of services are not included.) Data are presented in nominal, or current, dollars, meaning they are not adjusted for inflation. However, the data are adjusted for seasonal, holiday, and trading-day differences between the months of the year. Sales are categorized by type of establishment, not by type of good.

Source: U.S. Department of Commerce, Bureau of the Census

Frequency: Monthly

Availability: Advance estimate released during the second week of the month for the immediately preceding month.

Reason: Personal consumption expenditures (PCE) represent roughly two-thirds of GDP. By monitoring retail sales, policy makers are able to make an assessment of the likely growth of PCE for the current and future quarters.

Business Sales and Inventories [View chart](#) PDF

Definition: Total current-dollar sales and inventories for the manufacturing, wholesale, and retail sectors of the economy.

Source: U.S. Department of Commerce; Bureau of the Census

Frequency: Monthly

Availability: About six weeks from the end of the month; for example, data for June are reported in mid August.

Reason: This release is the primary source of data on inventories. The rate of inventory accumulation plays a key role in determining the current pace of economic growth and often provides useful clues about the future pace of growth as well. For example, if inventories are accumulating at a rapid pace, such that inventory sales ratios are rising, it may portend a slowing of growth in the near future as firms cut production to bring inventories back into line with sales. Vice versa, if inventories are growing slowly or actually falling, it may signal a future pickup in production.

Advance Durable Goods Shipments, New Orders and Unfilled Orders [View Chart](#) PDF

Definition: Data on shipments, new orders, and unfilled orders, expressed in current dollars, for things such as primary metals, fabricated metals, electric generating equipment, nonelectrical machinery, information processing equipment, and transportation equipment, including civilian and military aircraft and ships, light-, medium-, and

heavy-duty trucks, and automobiles.

Source: U.S. Department of Commerce; Bureau of the Census

Frequency: Monthly

Availability: Fourth week of the month for the immediately preceding month.

Reason: The data in this report provide information on the strength of demand, from both domestic and foreign sources, for U.S. manufactured durable goods. Rising orders, shipments, and unfilled orders suggest demand is strengthening, which will likely result in increasing production and employment, while falling orders, shipments, and unfilled orders suggest the opposite. Data in this release also provides information on the current and likely future pace of business investment in new equipment.

Light-Weight Vehicle Sales [View chart](#)  PDF

Definition: Total unit sales and leases of domestic and imported new automobiles and light-weight trucks (up to 10,000 pounds gross vehicle weight). Includes sales and leases to both consumers and businesses.

Source: Not-seasonally-adjusted sales data: Ward's Automotive Reports and the American Automobile Manufacturers Association. Seasonal adjustment factors: U.S. Department of Commerce, Bureau of Economic Analysis

Frequency: First, second, and third 10 days of each month and monthly

Availability: Third business day after the relevant selling period.

Reason: While a relatively small component of the overall economy, changes in light-weight vehicle sector often account for a large part of quarter-to-quarter changes in the rate of growth of GDP.

Yield on 10-year Treasury Bond [View chart](#)  PDF

Definition: The current market interest rate or yield on U.S. Treasury bonds maturing 10 years in the future.

Source: Board of Governors of the Federal Reserve System

Frequency: Daily

Availability: Daily data available in most major newspapers; daily, weekly, and monthly data are reported in the H.15 report which is released each Monday by the FED.

Reason: Movements in long-term interest rates such as the 10-year Treasury rate provide information about likely future changes in the level of activity in the interest-sensitive sectors of the economy. For example, mortgage interest rates often move in tandem with the 10-year Treasury rate, and changes in mortgage rates often precede changes in the level of activity in housing markets.

S&P 500 Stock Index [View chart](#)  PDF

Definition: One of several indices designed to measure changes in price of a broad array of stocks.

Source: Compiled by Standard & Poors. Available in most major newspapers and several on-line market information sources.

Frequency: Daily through newspapers; instantaneous through on line information sources.

Reason: The stock market is one measure of the current value of the nation's stock of capital and is often viewed as a barometer of business and consumer confidence regarding the future. A high and/or rising stock market may signal robust growth of business investment and consumer spending in the near future while a low and/or falling stock market may signal sluggish spending. For this reason, the S&P 500 is one component of the Index of Leading Indicators.

M2 [View chart](#)  PDF

Definition: One measure of the nation's supply of money, defined as M1 (currency in circulation, demand deposits, travelers' checks, and other checkable deposits) plus noninstitutional money market funds and small time and savings

deposits.

Source: Board of Governors of the Federal Reserve System

Frequency: Weekly and monthly.

Availability: H.6 report. Weekly data released each Thursday afternoon after 4:30 p.m. Monthly data released in either the second or third week of the month.

Reason: While the strength of the relationship has weakened over time, many people believe there is a link between growth of the supply of money and growth of nominal GDP.

Team Assignment – Costco Case

The Costco class exercise gives you an introduction to the 10K. The 10K is a document that must be filed by all companies listed on the public stock exchanges with the Securities and Exchange Commission and provides an annual summary of what happened in a company. You will be using 10Ks to research your own companies. In particular, Item 1 Business tells a great deal about the business in objective language.

Read the 10K and be prepared to articulate what the business model for Costco is. The business model is another important concept in that if a business does not have a viable business model, it will not survive. A business model is an articulation of how the business makes money. It should outline how the business can survive in a competitive environment where there are many businesses that provide the same products or services. What is the Costco business model? A customer value proposition is a clear statement of what the business provides for the customer that is better than what similar businesses provide. What is the customer value proposition?

The Costco business model can be exported to other countries but not all other countries. What factors must be present for the model to be exported? The list that follows under “Sizing the Opportunity” goes into some of these factors. We have covered some of these concepts in class. Feel free to add other factors that you think are important.

Each team will be assigned a different country. Your team will perform an analysis as to whether Costco should open warehouses in that country. You will be using concepts we covered in this module. You will be practicing research and presentation skills. This is a real case analysis as the format for the analysis was developed by a former VP International at Costco. Feel free to provide additional factors for evaluation. The team presentation will teach the rest of the class about your country.

By listening to your classmates’ presentations, you will be learning about doing business in several different countries. Take good notes as details of these analyses will be on your first exam.

What is the Costco Business Model?

What is the Costco Customer Value Proposition?

Should Costco enter the country?

Teams will be formed in the class and you will be given information from the CIA World Factbook (<https://www.cia.gov/library/publications/the-world-factbook/>) about various countries in the world. Each team can also research other sources. These include: buyusainfo.net and fita.org

Economy:

1. GDP – How big is it?
2. Inflation – Want low inflation.
3. GDP Growth rate – Want a healthy growth rate.
4. Foreign Reserves – Good to have cash on hand
5. GDP per capita (GDP divided by population) – Families in the country have to earn enough money to afford consumer goods. Some speculate that about \$6000 per capita is needed.
6. Currency stability – When you want to take your money out, can you? One website to look at currency is: <http://fx.sauder.ubc.ca/>. Using the graph function to compare the currency against the US dollar allows you to analyze the stability of the currency

Government

1. Ruling party and leader (How long)
2. Stability of government (Democratic process, threats from foreign powers)
3. Getting money out of the country
4. Government subsidies – Do they make it difficult for a foreign company to compete.

Market Access

1. Tariffs and import barriers
2. Member of World Trade Organization
3. Level of corruption. Check out www.transparency.org
4. Acceptance of imported products
5. Local competition

Infrastructure

1. Seaport
2. Airport
3. Rail
4. Access to auto or public transit

Real Estate (Sources: burns.dcb.du.edu, globalpropertyguide.com)

1. Cost of real estate
2. Availability
3. Local Partners

Here are some suggestions to do research:

<http://globaledge.msu.edu/countries/> (free login required)

fita.org/countries

www.globalpropertyguide.com

Team Assignment:

Czech Republic _____

Turkey _____

Chile _____

Ukraine _____

South Africa _____

Thailand _____

(Source: Costco (Oct 16, 2009) 10K

Item 1—Business

Costco Wholesale Corporation and its subsidiaries (“Costco” or the “Company”) began operations in 1983 in Seattle, Washington. In October 1993, we merged with The Price Company, which had pioneered the membership warehouse concept, to form Price/Costco, Inc., a Delaware corporation. In January 1997, after the spin-off of most of our non-warehouse assets to Price Enterprises, Inc., we changed our name to Costco Companies, Inc. On August 30, 1999, we reincorporated from Delaware to Washington and changed our name to Costco Wholesale Corporation. Our common stock trades on The NASDAQ Global Select Market under the symbol “COST.”

General

We operate membership warehouses based on the concept that offering our members low prices on a limited selection of nationally branded and selected private-label products in a wide range of merchandise categories will produce high sales volumes and rapid inventory turnover. This rapid inventory turnover, when combined with the operating efficiencies achieved by volume purchasing, efficient distribution and reduced handling of merchandise in no-frills, self-service warehouse facilities, enables us to operate profitably at significantly lower gross margins than traditional wholesalers, mass merchandisers, supermarkets, and supercenters.

We buy the majority of our merchandise directly from manufacturers and route it to a cross-docking consolidation point (“depot”) or directly to our warehouses. Our depots receive container-based shipments from manufacturers and reallocate these goods for shipment to our individual warehouses, generally in less than twenty-four hours. This maximizes freight volume and handling efficiencies, lowering our receiving costs by eliminating many of the costs associated with multiple-step distribution channels. Such traditional steps include purchasing from distributors as opposed to manufacturers, use of central receiving, storing and distributing warehouses, and storage of merchandise in locations off the sales floor.

Because of our high sales volume and rapid inventory turnover, we generally have the opportunity to sell and be paid for inventory before we are required to pay many of our merchandise vendors, even though we take advantage of early payment discounts whenever available to us. To the extent that sales increase and inventory turnover becomes more rapid, a greater percentage of inventory is financed through payment terms provided by suppliers rather than by our working capital.

Our typical warehouse format averages approximately 143,000 square feet; newer units tend to be larger. Floor plans are designed for economy and efficiency in the use of selling space, the handling of merchandise, and the control of inventory. Because shoppers are attracted principally by the quality of merchandise and the availability of low prices, our warehouses need not have elaborate facilities. By strictly controlling the entrances and exits of our warehouses and using a membership format, we have limited inventory losses (shrinkage) to less than two-tenths of one percent of net sales in the last several fiscal years—well below those of typical discount retail operations.

We generally limit marketing and promotional activities to new warehouse openings, occasional direct mail to prospective new members and regular direct marketing programs (such as The Costco Connection, a magazine we publish for our members, coupon mailers, weekly email blasts from costco.com, and handouts) to existing members promoting selected merchandise. These practices result in lower marketing expenses as compared to typical retailers. In connection with new warehouse openings, our marketing teams personally contact businesses in the area that are potential wholesale members. These contacts are supported by direct mailings during the period immediately prior to opening. Potential Gold Star (individual) members are contacted by direct mail or by membership offerings distributed through employee associations and other entities. After a membership base is established in an area, most new memberships result from word-of-mouth advertising, follow-up messages distributed through employee groups and ongoing direct solicitations to prospective members.

Our warehouses generally operate on a seven-day, 69-hour week, open weekdays between 10:00 a.m. and 8:30 p.m., with earlier closing hours on the weekend. Gasoline operations generally have extended hours. Because the hours of operation are shorter than those of traditional retailers, discount retailers and supermarkets, and due to other efficiencies inherent in a warehouse-type operation, labor costs are lower relative to the volume of sales.

Merchandise is generally stored on racks above the sales floor and displayed on pallets containing large quantities of each item, thereby reducing labor required for handling and stocking.

Our merchandising strategy is to provide our members with a broad range of high quality merchandise at prices consistently lower than they can obtain elsewhere. We seek to limit specific items in each product line to fast-selling models, sizes and colors. Therefore, we carry an average of approximately 3,800 active stock keeping units (SKUs) per warehouse in our core warehouse business, as opposed to 45,000 to 140,000 SKUs or more at discount retailers, supermarkets, and supercenters. Many consumable products are offered for sale in case, carton, or multiple-pack quantities only.

In keeping with our policy of member satisfaction, we generally accept returns of merchandise. On certain electronic items, we have a 90-day return policy in the United States, Canada and the United Kingdom and provide, free of charge, technical support services, as well as an extended warranty.

The following table indicates the approximate percentage of net sales accounted for by major category of items:

| | 2009 | 2008 | 2007 |
|---|------|------|------|
| Sundries (including candy, snack foods, tobacco, alcoholic and nonalcoholic beverages and cleaning and institutional supplies) | 23% | 22% | 23% |
| Hardlines (including major appliances, electronics, health and beauty aids, hardware, office supplies, garden and patio, sporting goods, furniture, and automotive supplies) | 19% | 19% | 21% |
| Food (including dry and institutionally packaged foods) | 21% | 20% | 19% |
| Softlines (including apparel, domestics, jewelry, housewares, media, home furnishings, cameras and small appliances) | 10% | 10% | 11% |
| Fresh Food (including meat, bakery, deli and produce) | 12% | 12% | 12% |
| Ancillary and Other (including gas stations, pharmacy, food court, optical, one-hour photo, hearing aid and travel) | 15% | 17% | 14% |

Ancillary businesses within or next to our warehouses provide expanded products and services and encourage members to shop more frequently. The following table indicates the number of ancillary businesses in operation at fiscal year end:

| | 2009 | 2008 | 2007 |
|-------------------------------|------------|------------|------------|
| Food Court and Hot Dog Stands | 521 | 506 | 482 |
| One-Hour Photo Centers | 518 | 504 | 480 |
| Optical Dispensing Centers | 509 | 496 | 472 |
| Pharmacies | 464 | 451 | 429 |
| Gas Stations | 323 | 307 | 279 |
| Hearing-Aid Centers | 303 | 274 | 237 |
| Print Shops and Copy Centers | 10 | 7 | 8 |
| Car Washes | 2 | 2 | 1 |
| Number of warehouses | 527 | 512 | 488 |

Costco Mexico, our 50%-owned joint venture, operated 32 warehouses, under our oversight, at August 30, 2009. The Costco Mexico warehouses are not included in the table above as Costco Mexico is accounted for using the equity method of accounting for investments.

Our electronic commerce businesses, costco.com in the U.S. and costco.ca in Canada, provide our members additional products generally not found in our warehouses, in addition to services such as digital photo processing, pharmacy, travel, and membership services.

Our warehouses accept cash, checks, certain debit cards, American Express and a private label Costco credit card. Losses associated with dishonored checks have been minimal, as members who have issued dishonored checks are identified and prevented from making payments at the point of sale until restitution is made.

We have direct buying relationships with many producers of national brand-name merchandise. We do not obtain a significant portion of merchandise from any one supplier. We have not experienced any difficulty in obtaining sufficient quantities of merchandise, and believe that if one or more of our current sources of supply became unavailable, we would be able to obtain alternative sources without substantial disruption of our business. We also purchase selected private label merchandise, as long as quality and customer demand are comparable and the value to our members is greater as compared to name brand items.

Certain financial information for our segments and geographic areas is included in Note 12 to the accompanying consolidated financial statements included in Item 8 of this Report.

We report on a 52/53-week fiscal year, consisting of thirteen four-week periods and ending on the Sunday nearest the end of August. The first three quarters consist of three periods each, and the fourth quarter consists of four periods (five weeks in the thirteenth period in a 53-week year). There is no material seasonal impact on our operations, except an increased level of net sales and earnings during the winter holiday season. References to 2009, 2008, and 2007 relate to the 52-week fiscal years ended August 30, 2009, August 31, 2008, and September 2, 2007, respectively.

Membership Policy

Our membership format is designed to reinforce customer loyalty and provide a continuing source of membership fee revenue, which allows us to offer lower prices. Members can utilize their memberships at any Costco warehouse location in any country. We have two primary types of members: Business and Gold Star (individual). We continue to experience strong member renewal rates, currently at 87%. Businesses, including individuals with a business license, retail sales license or other evidence of business existence, may become Business members. Business members generally pay an annual membership fee of \$50 for the primary and spouse membership card, with add-on membership cards available for an annual fee of \$40 (including a free spouse card). Many of our business members also shop at Costco for their personal needs. Individual memberships (Gold Star memberships) are available to individuals who do not qualify for a Business membership, for an annual fee of \$50, which includes a spouse card.

Our membership base was made up of the following (in thousands):

| | 2009 | 2008 | 2007 |
|---------------------------|--------|--------|--------|
| Gold Star | 21,500 | 20,200 | 18,600 |
| Business | 5,700 | 5,600 | 5,400 |
| Business, Add-on Primary | 3,400 | 3,400 | 3,500 |
| Total primary cardholders | 30,600 | 29,200 | 27,500 |
| Additional cardholders | 25,400 | 24,300 | 22,900 |
| Total cardholders | 56,000 | 53,500 | 50,400 |

These numbers exclude approximately 2,800, 2,800, and 2,700 cardholders of Costco Mexico at the end of 2009, 2008, and 2007, respectively.

Executive membership is available to all members in the U.S., Canada, and United Kingdom for an annual fee of approximately \$100. The program offers additional savings and benefits on various business and consumer services offered by Costco, such as merchant credit-card processing, auto and home insurance, business telephone service, and check printing services. The services are generally provided by third-parties and vary by country and state. In addition, Executive members qualify for a 2% annual reward (which can be redeemed at Costco warehouses), up to a maximum of approximately \$500 per year, on all qualified purchases made at Costco. At the end of 2009, 2008, and 2007, Executive members represented 29%, 26%, and 23%, respectively of our primary membership base. Executive members spend more than other members, and the percentage of our net sales attributable to these members continues to increase. In 2008, Costco Mexico launched an Executive Membership program similar to the program in the U.S. and Canada.

Labor

Our employee count approximated:

| | 2009 | 2008 | 2007 |
|---------------------|--------|--------|--------|
| Full-time employees | 79,000 | 75,000 | 70,000 |
| Part-time employees | 63,000 | 62,000 | 57,000 |

These numbers exclude approximately 9,000 individuals who were employed by Costco Mexico at the end of 2009, 2008 and 2007. Approximately 13,500 hourly employees in certain of our locations (all former Price Company locations) in five states are represented by the International Brotherhood of Teamsters. All remaining employees are non-union. We consider our employee relations to be very good.

Competition

Our industry is highly competitive, based on factors such as price, merchandise quality and selection, warehouse location and member service. Over 1,200 warehouse club locations exist across the U.S. and Canada, including our 483 North American warehouses, and every major metropolitan area has several club operations. In addition to other membership warehouse operators such as Wal-Mart's Sam's Club and BJ's Wholesale Club, we compete with a wide range of national and regional retailers and wholesalers, including supermarkets, supercenters, general merchandise chains, specialty chains, gasoline stations, as well as electronic commerce businesses, such as Amazon. Wal-Mart, Target and Kohl's are significant general merchandise retail competitors. We also compete with low-cost operators selling a single category or narrow range of merchandise, such as Lowe's, Home Depot, Office Depot, PetSmart, Staples, Trader Joe's, Whole Foods, Best Buy and Barnes & Noble. Our international operations face similar competitors.

Regulation

Certain state laws require that we apply minimum markups to our selling prices for specific goods, such as tobacco products, alcoholic beverages, and gasoline. While compliance with such laws may cause us to charge higher prices, other retailers are also typically governed by the same restrictions, and we believe that compliance with such laws does not have a material adverse effect on our operations.

Certain states, counties, and municipalities have enacted or proposed laws and regulations that would prevent or restrict the operations or expansion plans of certain large retailers and warehouse clubs, including us, within their jurisdictions. We believe that, if enacted, such laws and regulations could have a material adverse effect on our operations.

Intellectual Property

We believe that our trademarks, trade names, copyrights, proprietary processes, trade secrets, patents, trade dress and similar intellectual property add significant value to our business and are important factors in our success. We have invested significantly in the development and protection of our well-recognized brands including Costco Wholesale and our premium private label brand, Kirkland Signature[®]. Kirkland Signature products are premium products offered to our members at prices that are generally lower than those for national brand products. Kirkland Signature products allow us to ensure our quality standards are met, while minimizing costs and differentiating our merchandise offerings from other retailers, and we generally earn higher margins on sales of Kirkland products. We expect that our private label items will increase their share of our sales in the future. We rely on trademark and copyright law, trade secret protection, and confidentiality and/or license agreements with our employees and others to protect our proprietary rights. Effective intellectual property protection may not be available in every country in which we operate.

Available Information

Our internet website is www.costco.com. We make available through the Investor Relations section of that site, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and Forms 3, 4 and 5, and any amendments to those reports, as soon as reasonably practicable after filing such materials with, or furnishing such documents to, the Securities and Exchange Commission (SEC). The information found on our website is not part of this or any other report filed with or furnished to the SEC.

Executive Officers of the Registrant

The following is a list of the names, ages and positions of the executive officers of the Company.

| Name | Position With Company | Executive Officer Since | Age |
|------|-----------------------|-------------------------|-----|
| | | | |

| | | | |
|----------------------|---|------|----|
| James D. Sinegal | President and Chief Executive Officer. Mr. Sinegal is a co-founder of the Company and has been a director since its inception. | 1983 | 73 |
| Jeffrey H. Brotman | Chairman of the Board. Mr. Brotman is a co-founder of the Company and has been a director since its inception. | 1983 | 67 |
| Richard D. DiCerchio | Sr. Executive Vice President, Chief Operating Officer, Global Operations, Distribution and Construction, Manufacturing and Ancillary Businesses. Mr. DiCerchio has been a Senior Executive Vice President of the Company since 1997 and has been a director since 1986. | 1986 | 66 |
| Richard A. Galanti | Executive Vice President and Chief Financial Officer. Mr. Galanti has been a director of the Company since January 1995. | 1993 | 53 |
| W. Craig Jelinek | Executive Vice President, Chief Operating Officer, Merchandising. Mr. Jelinek has been Executive Vice President, Chief Operating Officer, Merchandising since February 2004. | 1995 | 57 |
| Paul G. Moulton | Executive Vice President, Real Estate Development. | 2001 | 58 |
| Joseph P. Portera | Executive Vice President, Chief Operating Officer, Eastern and Canadian Divisions. | 1994 | 57 |
| Douglas W. Schutt | Executive Vice President, Chief Operating Officer—Northern and Midwest Division. Mr. Schutt has been Executive Vice President, Chief Operating Officer—Northern and Midwest Division, since February 2004. | 2004 | 50 |
| Thomas K. Walker | Executive Vice President, Construction, Distribution and Traffic. Mr. Walker has been Executive Vice President, Construction, Distribution and Traffic since February 2004. | 2004 | 69 |
| Dennis R. Zook | Executive Vice President, Chief Operating Officer—Southwest and Mexico Divisions. | 1993 | 60 |

All executive officers have 25 or more years of service with the Company, with the exception of Mr. Moulton and Mr. Schutt, each of whom has 24 years of service.

The Company has adopted a code of ethics for senior financial officers pursuant to Section 406 of the Sarbanes-Oxley Act. Copies of the code are available free of charge by writing to Secretary, Costco Wholesale Corporation, 999 Lake Drive, Issaquah, WA 98027.

Item 1A—Risk Factors

The risks described below could materially and adversely affect our business, financial condition, and/or results of operations. These risks could cause our actual results to differ materially from our historical experience and from results predicted by our forward-looking statements. Those statements may relate to such matters as sales growth, increases in comparable store sales, impact of cannibalization, price changes, earnings performance, earnings per share, stock-based compensation expense, warehouse openings and closures, the effect of adopting certain accounting standards, future financial reporting, financing, margins, return on invested capital, strategic

direction, expense control, membership renewal rates, shopping frequency, litigation impact and the demand for our products and services. You should read these risk factors in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Report and our consolidated financial statements and related notes in Item 8 of this Report. There may be other factors that we cannot anticipate or that are not described in this report, generally because we do not presently perceive them to be material, that could cause results to differ materially from our expectations. Forward-looking statements speak only as of the date they are made, and we do not undertake to update these forward-looking statements. You are advised to review any further disclosures we make on related subjects in our periodic filings with the SEC.

We face strong competition from other retailers and warehouse club operators, which could negatively affect our financial performance.

The retail business is highly competitive. We compete for members, employees, warehouse sites, products and services and in other important respects with many other local, regional and national retailers, both in the United States and in foreign countries. We compete with other warehouse club operators, discount retailers, supermarkets, supercenter stores, retail and wholesale grocers, department, drug, variety and specialty stores and general merchandise wholesalers and distributors, as well as internet-based retailers, wholesalers and catalog businesses. Such retailers and warehouse club operators compete in a variety of ways, including merchandise pricing, selection and availability, services, location, convenience, store hours, and price. Our inability to respond effectively to competitive pressures and changes in the retail markets could negatively affect our financial performance. Some competitors may have greater financial resources, better access to merchandise, and/or greater market penetration than we do.

General economic factors, domestically and internationally, may adversely affect our financial performance.

Higher interest rates, energy costs, inflation, levels of unemployment, healthcare costs, consumer debt levels, unsettled financial markets, weaknesses in housing and real estate markets, reduced consumer confidence, changes related to government fiscal and tax policies and other economic factors could adversely affect demand for our products and services or require a change in the mix of products we sell. Prices of certain commodity products, including gasoline and other food products, are historically volatile and are subject to fluctuations arising from changes in domestic and international supply and demand, labor costs, competition, market speculation, government regulations and periodic delays in delivery. Rapid and significant changes in commodity prices may affect our sales and profit margins. These factors can also increase our merchandise costs and/or selling, general and administrative expenses, and otherwise adversely affect our operations and results. General economic conditions can also be affected by the outbreak of war, acts of terrorism, or other significant national or international events.

Our growth strategy includes expanding our business, both in existing markets and in new markets.

Our future growth is dependent, in part, on our ability to acquire property, and build or lease new warehouses. We compete with other retailers and businesses for suitable locations. Local land use and other regulations restricting the construction and operation of our warehouses, as well as local community actions opposed to the location of our warehouses at specific sites and the adoption of local laws restricting our operations and environmental regulations may impact our ability to find suitable locations, and increase the cost of constructing, leasing and operating our warehouses. We also may have difficulty negotiating leases or real estate purchase agreements on acceptable terms. Failure to manage these and other similar factors effectively will affect our ability to timely build or lease new warehouses, which may have a material adverse effect on our future growth and profitability.

We seek to expand our business in existing markets in order to attain a greater overall market share. Because our warehouses typically draw members from their local areas, a new warehouse may draw members away from our nearby existing warehouses and may adversely affect comparable warehouse sales performance and member traffic at those existing warehouses.

We also intend to open warehouses in new markets. The risks associated with entering a new market include difficulties in attracting members due to a lack of familiarity with us, attracting members of other wholesale club operators currently operating in the new market, our lack of familiarity with local member preferences, and seasonal differences in the market. In addition, entry into new markets may bring us into competition with new competitors or with existing competitors with a large, established market presence. In new markets, we cannot ensure that our new warehouses will be profitably deployed; as a result, our future profitability may be delayed or otherwise materially adversely affected.

We are highly dependent on the financial performance of our United States and Canada operations.

Our financial and operational performance is highly dependent on our United States and Canada operations, which comprised 93% of consolidated net sales in 2009 and 2008, and 92% of operating income in 2009 and 2008. Within the United States, we are highly dependent on our California operations, which comprised 27% of consolidated net sales in 2009 and 2008. Our California market in general, has a larger percentage of higher volume warehouses as compared to our other markets. As a result, the operating income from our California operations is generally higher as a percentage of total operating income than other regions. Any substantial slowing or sustained decline in these operations could materially adversely affect our business and financial results. Declines in financial performance of our United States operations, particularly in California, and our Canada operations could arise from, among other things: failing to meet targets for warehouse openings; declines in actual or estimated comparable warehouse sales growth rates and expectations; negative trends in operating expenses, including increased labor, healthcare and energy costs; cannibalizing existing locations with new warehouses; shifts in sales mix toward lower gross margin products; changes or uncertainties in economic conditions in our markets; and failing consistently to provide high quality products and innovative new products to retain our existing member base and attract new members.

We depend on vendors to supply us with quality merchandise at the right prices in a timely manner.

We depend heavily on our ability to purchase merchandise in sufficient quantities at competitive prices. We have no assurances of continued supply, pricing or access to new products, and any vendor could at any time change the terms upon which it sells to us or discontinue selling to us. Member demands may lead to out-of-stock positions of our merchandise, leading to loss of sales and profits.

We purchase our merchandise from numerous domestic and foreign manufacturers and importers and have thousands of vendor relationships. Our inability to acquire suitable merchandise on acceptable terms or the loss of key vendors could negatively affect us. We may not be able to develop relationships with new vendors, and products from alternative sources, if any, may be of a lesser quality or more expensive than those from existing vendors.

Our suppliers are subject to risks, including labor disputes, union organizing activities, financial liquidity, inclement weather, natural disasters, supply constraints, and general economic and political conditions, that could limit their ability to timely provide us with acceptable merchandise. For these or other reasons, one or more of our suppliers might not adhere to our quality control, legal or regulatory standards. These deficiencies may delay or preclude delivery of merchandise to us and might not be identified before we sell such merchandise to our members. This failure could lead to litigation and recalls, which could damage our reputation and our brands, increase our costs, and otherwise hurt our business.

In addition, the United States' foreign trade policies, tariffs and other impositions on imported goods, security and safety regulations, trade sanctions imposed on certain countries, the limitation on the importation of certain types of goods or of goods containing certain materials from other countries and other factors relating to foreign trade are beyond our control.

We depend on our depot operations to effectively and efficiently supply product to our warehouses.

We depend on the orderly operation of the receiving and distribution process, primarily through our depots. Although we believe that our receiving and distribution process is efficient, unforeseen disruptions in operations due to fires, hurricanes or other catastrophic events, labor disagreements or shipping problems, may result in delays in the delivery of merchandise to our warehouses, which could adversely affect sales and the satisfaction of our members.

We may not timely identify or effectively respond to consumer trends, which could negatively affect our relationship with our members, the demand for our products and services, and our market share.

It is difficult to consistently and successfully predict the products and services our members will demand. The success of our business depends in part on our ability to identify and respond to trends in demographics and consumer preferences. Failure to timely identify or effectively respond to changing consumer tastes, preferences and spending patterns could negatively affect our relationship with our members, the demand for our products and services and our market share. If we are not successful at predicting our sales trends and adjusting our purchases accordingly, we may have excess inventory, which could result in additional markdowns and reduce our operating performance. This could have an adverse effect on margins and operating income.

Our failure to maintain positive membership loyalty and brand recognition could adversely affect our financial results.

Damage to our brands or reputation may negatively impact comparable warehouse sales, lower employee morale and productivity, diminish member trust, and reduce member renewal rates and, accordingly, membership fee revenues, resulting in a reduction in shareholder value.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial results.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, including, but not limited to, revenue recognition, sales returns reserves, impairment of long-lived assets and warehouse closing costs, inventories, self-insurance, income taxes, unclaimed property laws and litigation, are highly complex and involve many subjective assumptions, estimates and judgments by our management. Changes in these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported or expected financial performance. Provisions for losses related to self-insured risks are generally based upon independent actuarially determined estimates. The assumptions underlying the ultimate costs of existing claim losses can be highly unpredictable, which can affect the liability recorded for such claims. For example, variability in inflation rates of health care costs inherent in these claims can affect the amounts realized. Similarly, changes in legal trends and interpretations, as well as a change in the nature and method of how claims are settled can impact ultimate costs. Although our estimates of liabilities incurred do not anticipate significant changes in historical trends for these variables, any changes could have a considerable effect upon future claim costs and currently recorded liabilities and could materially impact our consolidated financial statements.

Changes in Tax Rates

We compute our income tax provision based on enacted tax rates in the countries in which we operate. As the tax rates vary among countries, a change in earnings attributable to the various jurisdictions in which we operate could result in an unfavorable change in our overall tax provision. Additionally, any change in the enacted tax rates, any adverse outcome in connection with any income tax audits in any jurisdiction, or any change in the pronouncements relating to accounting for income taxes may have a material adverse affect on our financial condition, results of operation, or cash flows.

Failure of our internal control over financial reporting could limit our ability to report our financial results accurately and timely.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes: maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of the financial statements; providing reasonable assurance that our receipts and expenditures of our assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to and cannot provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud.

Our international operations subject us to risks associated with the legislative, judicial, accounting, regulatory, political and economic factors specific to the countries or regions in which we operate, which could adversely affect our financial performance.

Our international operations could form a larger portion of our business in future years. Future operating results internationally could be negatively affected by a variety of factors, many beyond our control. These factors include political conditions, economic conditions, regulatory constraints, currency regulations and exchange rates, and other matters in any of the countries or regions in which we operate, now or in the future. Other factors that may impact international operations include foreign trade, monetary and fiscal policies both of the United States and of

other countries, laws and regulations of foreign governments and the United States (such as the Foreign Corrupt Practices Act), agencies and similar organizations, and risks associated with having major facilities located in countries which have been historically less stable than the United States. Risks inherent in international operations also include, among others, the costs and difficulties of managing international operations, adverse tax consequences and greater difficulty in enforcing intellectual property rights. Additionally, foreign currency exchange rates and fluctuations may have an impact on our future costs or on future cash flows from our international operations.

Market expectations for our financial performance is high.

We believe that the price of our stock generally reflects high market expectations for our future operating results. Any failure to meet or delay in meeting these expectations, including our comparable warehouse sales growth rates, earnings and earnings per share or new warehouse openings, could cause the market price of our stock to decline, as could changes in our dividend or share repurchase policies.

We rely extensively on computer systems to process transactions, summarize results and manage our business. Disruptions in both our primary and back-up systems could harm our business.

Although we have independent, redundant, and primary and secondary computer systems, given the number of individual transactions we have each year, it is important that we maintain uninterrupted operation of our business-critical computer systems. Our computer systems, including our back-up systems, are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, internal or external security breaches, catastrophic events such as fires, earthquakes, tornadoes and hurricanes, and errors by our employees. If our computer systems and our back-up systems are damaged or cease to function properly, we may have to make significant investment to fix or replace them, and we may suffer interruptions in our operations in the interim. Any material interruption in our computer systems may have a material adverse effect on our business or results of operations. The costs, potential problems, and interruptions associated with implementing technology initiatives could disrupt or reduce the efficiency of our operations in the short term. These initiatives might not provide the anticipated benefits or provide them in a delayed or more costly manner.

Natural disasters or other catastrophic events could unfavorably affect our financial performance.

Natural disasters, such as hurricanes or earthquakes, particularly in California or in Washington state, where our centralized operating systems and administrative personnel are located, could unfavorably affect our operations and financial performance. Such events could result in physical damage to one or more of our properties, the temporary closure of one or more warehouses or depots, the temporary lack of an adequate work force in a market, the temporary or long-term disruption in the supply of products from some local and overseas suppliers, the temporary disruption in the transport of goods

from overseas, delays in the delivery of goods to our depots or warehouses within a country in which we operate and the temporary reduction in the availability of products in our warehouses. Public health issues, such as a potential H1N1 flu pandemic (Swine flu), whether occurring in the United States or abroad, could disrupt our operations, disrupt the operations of suppliers or customers, or have an adverse impact on consumer spending and confidence levels. We may be required to suspend operations in some or all of our locations, which could have a material adverse effect on our business, financial condition, and results of operations. These events could also reduce demand for our products or make it difficult or impossible to receive products from suppliers.

We are subject to a wide variety of federal, state, regional, local and international laws, and regulations relating to the use, storage, discharge, and disposal of hazardous materials and hazardous and non-hazardous wastes, and other environmental matters.

Any failure to comply with these laws could result in costs to satisfy environmental compliance, remediation or compensatory requirements, or the imposition of severe penalties or restrictions on operations by governmental agencies or courts that could adversely affect our operations.

We are involved in a number of legal proceedings and audits, and while we cannot predict the outcomes of such proceedings and other contingencies with certainty, some of these outcomes may unfavorably affect our operations or increase our costs.

We are involved in a number of legal proceedings and audits, including grand jury investigations, other government investigations, consumer, employment, tort and other litigation (see discussion of Legal Proceedings in Note 11 to the consolidated financial statements included in Item 8 of this Report). We cannot predict with

certainly the outcomes of these legal proceedings and other contingencies, including environmental remediation and other proceedings commenced by governmental authorities. The outcome of some of these legal proceedings and other contingencies could require us to take or refrain from taking actions which could unfavorably affect our operations or could require us to pay substantial amounts of money. Additionally, defending against these lawsuits and proceedings may involve significant expense and diversion of management's attention and resources. Our business requires compliance with a great variety of laws and regulations. Failure to achieve compliance could subject us to lawsuits and other proceedings, and lead to damage awards, fines and penalties.

We are subject to the risk of product liability claims.

If our merchandise offerings, including food and prepared food products for human consumption, drugs and childrens' products, do not meet applicable safety standards or our members' expectations regarding safety, we could experience lost sales, increased costs and be exposed to legal and reputational risk. The sale of these items involves the risk of injury to our members. Such injuries may result from tampering by unauthorized third parties, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the growing, manufacturing, storage, handling and transportation phases. All of our vendors must comply with applicable product safety laws, and we are dependent on them to ensure that the products we buy comply with all safety standards. While we are subject to governmental inspection and regulations and work to comply in all material respects with applicable laws and regulations, we cannot be sure that consumption of our products will not cause a health-related illness in the future or that we will not be subject to claims, lawsuits, or government investigations relating to such matters, resulting in costly product recalls and other liabilities. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential members and our corporate and brand image and these effects could be long term.

Our success depends, in part on the continued contributions of management and on our ability to attract, train and retain highly qualified employees.

Our success depends to a significant degree on the continued contributions of members of our senior management and other key operations, merchandising and administrative personnel, and the loss of any such person(s) could have a material adverse effect. Other than an annual agreement with our President and CEO, Mr. Sinegal, we have no employment agreements with our officers. We must attract, train and retain a large and growing number of highly qualified employees, while controlling related labor costs. Our ability to control labor costs is subject to numerous external factors, including prevailing wage rates and healthcare and other insurance costs. We compete with other retail and non-retail businesses for these employees and invest significant resources in training and motivating them. There is no assurance that we will be able to attract or retain highly qualified employees in the future, which could have a material adverse effect on the Company's business, results of operations and financial condition. The Company does not maintain key man insurance.

If we do not maintain the privacy and security of member-related information, we could damage our reputation with members, incur substantial additional costs and become subject to litigation.

We receive, retain, and transmit certain personal information about our members. In addition, our online operations at www.costco.com and www.costco.ca depend upon the secure transmission of confidential information over public networks, including information permitting cashless payments. A compromise of our security systems or those of other business partners that results in our members' personal information being obtained by unauthorized persons could adversely affect our reputation with our members and others, as well as our operations, results of operations, financial condition and liquidity, and could result in litigation against us or the imposition of penalties. In addition, a security breach could require that we expend significant additional resources related to the security of information systems and could result in a disruption of our operations, particularly our online sales operations.

Additionally, the use of individually identifiable data by our business and our business associates is regulated at the international, federal and state levels. Privacy and information security laws and regulations change, and compliance with them may result in cost increases due to necessary systems changes and the development of new administrative processes. If we or those with whom we share information fail to comply with these laws and regulations or experience a data security breach, our reputation could be damaged, possibly resulting in lost future business, and we could be subjected to additional legal risk as a result of non-compliance.

Chile: Background:

Prior to the coming of the Spanish in the 16th century, northern Chile was under Inca rule while the indigenous Mapuche inhabited central and southern Chile. Although Chile declared its independence in 1810, decisive victory over the Spanish was not achieved until 1818. In the War of the Pacific (1879-83), Chile defeated Peru and Bolivia and won its present northern regions. It was not until the 1880s that the Mapuche Indians were completely subjugated. After a series of elected governments, a three-year-old Marxist government of Salvador ALLENDE was overthrown in 1973 by a military coup led by Augusto PINOCHET, who ruled until a freely elected president was installed in 1990. Sound economic policies, maintained consistently since the 1980s, have contributed to steady growth, reduced poverty rates by over half, and have helped secure the country's commitment to democratic and representative government. Chile has increasingly assumed regional and international leadership roles befitting its status as a stable, democratic nation.

Geography ::Chile

Location:

Southern South America, bordering the South Pacific Ocean, between Argentina and Peru

Geographic coordinates:

30 00 S, 71 00 W

Map references:

South America

Area:

total: 756,102 sq km

country comparison to the world: 38

land: 743,812 sq km

water: 12,290 sq km

note: includes Easter Island (Isla de Pascua) and Isla Sala y Gomez

Area - comparative:

slightly smaller than twice the size of Montana

Land boundaries:

total: 6,339 km

border countries: Argentina 5,308 km, Bolivia 860 km, Peru 171 km

Coastline:

6,435 km

Maritime claims:

territorial sea: 12 nm

contiguous zone: 24 nm

exclusive economic zone: 200 nm

continental shelf: 200/350 nm

Climate:

Current Weather

temperate; desert in north; Mediterranean in central region; cool and damp in south

Terrain:

low coastal mountains; fertile central valley; rugged Andes in east

Elevation extremes:

lowest point: Pacific Ocean 0 m

highest point: Nevado Ojos del Salado 6,880 m

Natural resources:

copper, timber, iron ore, nitrates, precious metals, molybdenum, hydropower

Land use:

arable land: 2.62%

permanent crops: 0.43%

other: 96.95% (2005)

Irrigated land:

19,000 sq km (2003)

Total renewable water resources:

922 cu km (2000)

Freshwater withdrawal

(domestic/industrial/agricultural):

total: 12.55 cu km/yr (11%/25%/64%)

per capita: 770 cu m/yr (2000)

Natural hazards:

severe earthquakes; active volcanism; tsunamis

Environment - current issues:

widespread deforestation and mining threaten natural resources; air pollution from industrial and vehicle emissions; water pollution from raw sewage

Environment - international agreements:

party to: Antarctic-Environmental Protocol, Antarctic-Marine Living Resources, Antarctic Seals, Antarctic Treaty, Biodiversity, Climate Change, Climate Change-Kyoto Protocol, Desertification, Endangered Species, Environmental Modification, Hazardous Wastes, Law of the Sea, Marine Dumping, Ozone Layer Protection, Ship Pollution, Wetlands, Whaling signed, but not ratified: none of the selected agreements

Geography - note:

strategic location relative to sea lanes between Atlantic and Pacific Oceans (Strait of Magellan, Beagle Channel, Drake Passage); Atacama Desert is one of world's driest regions

People ::Chile

Population:

16,746,491 (July 2010 est.)

country comparison to the world: 60

Age structure:

0-14 years: 22.7% (male 1,946,217/female 1,858,277)

15-64 years: 67.9% (male 5,690,402/female

5,688,174)

65 years and over: 9.3% (male 653,772/female

909,649) (2010 est.)

Median age:
 total: 31.7 years
 male: 30.7 years
 female: 32.8 years (2010 est.)
 Population growth rate:
 0.856% (2010 est.)
 country comparison to the world: 135
 Birth rate:
 14.46 births/1,000 population (2010 est.)
 country comparison to the world: 144
 Death rate:
 5.9 deaths/1,000 population (July 2010 est.)
 country comparison to the world: 167
 Net migration rate:
 NA
 Urbanization:
 urban population: 88% of total population (2008)
 rate of urbanization: 1.3% annual rate of change
 (2005-10 est.)
 Sex ratio:
 at birth: 1.05 male(s)/female
 under 15 years: 1.05 male(s)/female
 15-64 years: 1 male(s)/female
 65 years and over: 0.72 male(s)/female
 total population: 0.98 male(s)/female (2010 est.)
 Infant mortality rate:
 total: 7.52 deaths/1,000 live births
 country comparison to the world: 166
 male: 8.29 deaths/1,000 live births
 female: 6.71 deaths/1,000 live births (2010 est.)
 Life expectancy at birth:
 total population: 77.53 years
 country comparison to the world: 57
 male: 74.26 years
 female: 80.96 years (2010 est.)
 Total fertility rate:
 1.9 children born/woman (2010 est.)
 country comparison to the world: 141
 HIV/AIDS - adult prevalence rate:
 0.3% (2007 est.)
 country comparison to the world: 85
 HIV/AIDS - people living with HIV/AIDS:
 31,000 (2007 est.)
 country comparison to the world: 70
 HIV/AIDS - deaths:
 1,100 (2007 est.)
 country comparison to the world: 72
 Nationality:
 noun: Chilean(s)
 adjective: Chilean
 Ethnic groups:
 white and white-Amerindian 95.4%, Mapuche 4%,
 other indigenous groups 0.6% (2002 census)
 Religions:

Roman Catholic 70%, Evangelical 15.1%, Jehovah's
 Witness 1.1%, other Christian 1%, other 4.6%, none
 8.3% (2002 census)
 Languages:
 Spanish (official), Mapudungun, German, English
 Literacy:
 definition: age 15 and over can read and write
 total population: 95.7%
 male: 95.8%
 female: 95.6% (2002 census)
 School life expectancy (primary to tertiary education):
 total: 14 years
 male: 14 years
 female: 14 years (2006)
 Education expenditures:
 3.2% of GDP (2006)
 country comparison to the world: 141
Government ::Chile
 Country name:
 conventional long form: Republic of Chile
 conventional short form: Chile
 local long form: Republica de Chile
 local short form: Chile
 Government type:
 republic
 Capital:
 name: Santiago
 geographic coordinates: 33 27 S, 70 40 W
 time difference: UTC-4 (1 hour ahead of Washington,
 DC during Standard Time)
 daylight saving time: +1hr, begins second Sunday in
 October; ends second Sunday in March
 note: the Chilean Government announced on 4 March
 2010 that the end of DST would be delayed until 4
 April 2010 providing respite to those affected by the
 8.8 magnitude earthquake of February 2010
 Administrative divisions:
 15 regions (regiones, singular - region); Aisen del
 General Carlos Ibanez del Campo, Antofagasta,
 Araucania, Arica y Parinacota, Atacama, Biobio,
 Coquimbo, Libertador General Bernardo O'Higgins,
 Los Lagos, Los Rios, Magallanes y de la Antartica
 Chilena, Maule, Region Metropolitana (Santiago),
 Tarapaca, Valparaiso
 note: the US does not recognize claims to Antarctica
 Independence:
 18 September 1810 (from Spain)
 National holiday:
 Independence Day, 18 September (1810)
 Constitution:
 11 September 1980, effective 11 March 1981;
 amended 1989, 1991, 1997, 1999, 2000, 2003, and
 2005
 Legal system:

based on Code of 1857 derived from Spanish law and subsequent codes influenced by French and Austrian law; judicial review of legislative acts in the Supreme Court; has not accepted compulsory ICJ jurisdiction; note - in June 2005, Chile completed overhaul of its criminal justice system to a US-style adversarial system

Suffrage:

18 years of age; universal and compulsory

Executive branch:

chief of state: President Sebastian PINERA Echenique (since 11 March 2010); note - the president is both the chief of state and head of government

head of government: President Sebastian PINERA Echenique (since 11 March 2010)

cabinet: Cabinet appointed by the president (For more information visit the World Leaders website Opens in New Window)

elections: president elected by popular vote for a single four-year term; election last held on 13 December 2009 with runoff election held on 17 January 2010 (next to be held in December 2013)

election results: Sebastian PINERA Echenique elected president; percent of vote - Sebastian PINERA Echenique 51.6%; Eduardo FREI 48.4%

Legislative branch:

bicameral National Congress or Congreso Nacional consists of the Senate or Senado (38 seats; members elected by popular vote to serve eight-year terms; one-half elected every four years) and the Chamber of Deputies or Camara de Diputados (120 seats; members are elected by popular vote to serve four-year terms)

elections: Senate - last held on 13 December 2009 (next to be held in December 2013); Chamber of Deputies - last held on 13 December 2009 (next to be held in December 2013)

election results: Senate - percent of vote by party - NA; seats by party - CPD 9 (PDC 4, PPD 3, PS 2), APC 9 (RN 6, UDI 3); Chamber of Deputies - percent of vote by party - NA; seats by party - CPD 57 (PDC 19, PPD 18, PS 11, PRSD 5, other 4), APC 58 (UDI 37, RN 18, other 3), PC 3, independent 1, other 3

Judicial branch:

Supreme Court or Corte Suprema (judges are appointed by the president and ratified by the Senate from lists of candidates provided by the court itself; the president of the Supreme Court is elected every three years by the 20-member court); Constitutional Tribunal (eight-members - two each from the Senate, Chamber of Deputies, Supreme Court, and National Security Council - review the constitutionality of laws approved by Congress)

Political parties and leaders:

Alliance for Chile (Alianza) or APC (including National Renewal or RN [Carlos LARRAIN Pena] and Independent Democratic Union or UDI [Juan Antonio COLOMA Correa]); Coalition of Parties for Democracy (Concertacion) or CPD (including Christian Democratic Party or PDC [Juan Carlos LATORRE Carmona], Socialist Party or PS [Camilo ESCALONA Medina], Party for Democracy or PPD [Pepe AUTH Stewart], and Radical Social Democratic Party or PRSD [Jose Antonio GOMEZ Urrutia]); Communist Party or PC [Guillermo TEILLIER del Valle]; Humanist Party [Marilen CABRERA Olmos]

Political pressure groups and leaders:

Roman Catholic Church, particularly conservative groups such as Opus Dei; United Labor Central or CUT includes trade unionists from the country's five largest labor confederations

other: revitalized university student federations at all major universities

International organization participation:

APEC, BIS, CAN (associate), CD, FAO, G-15, G-77, IADB, IAEA, IBRD, ICAO, ICC, ICCt, ICCt (signatory), ICRM, IDA, IFAD, IFC, IFRCS, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC, LAES, LAIA, Mercosur (associate), MIGA, MINUSTAH, NAM, OAS, OECD (accession state), OPANAL, OPCW, PCA, RG, SICA (observer), UN, UNASUR, UNCTAD, UNESCO, UNHCR, UNIDO, Union Latina, UNMOGIP, UNTSO, UNWTO, UPU, WCO, WFTU, WHO, WIPO, WMO, WTO

Diplomatic representation in the US:

chief of mission: Ambassador Arturo FERNANDOIS Vohringer

chancery: 1732 Massachusetts Avenue NW, Washington, DC 20036

telephone: [1] (202) 785-1746

FAX: [1] (202) 887-5579

consulate(s) general: Chicago, Houston, Los Angeles, Miami, New York, Philadelphia, San Francisco, San Juan (Puerto Rico)

Diplomatic representation from the US:

chief of mission: Ambassador Paul E. SIMONS

embassy: Avenida Andres Bello 2800, Las Condes, Santiago

mailing address: APO AA 34033

telephone: [56] (2) 330-3000

FAX: [56] (2) 330-3710, 330-3160

Flag description:

two equal horizontal bands of white (top) and red; a blue square the same height as the white band at the hoist-side end of the white band; the square bears a white five-pointed star in the center representing a guide to progress and honor; blue symbolizes the sky,

white is for the snow-covered Andes, and red represents the blood spilled to achieve independence
note: design was influenced by the US flag

Economy ::Chile

Economy - overview:

Chile has a market-oriented economy characterized by a high level of foreign trade and a reputation for strong financial institutions and sound policy that have given it the strongest sovereign bond rating in South America. Exports account for more than one-fourth of GDP, with commodities making up some three-quarters of total exports. Copper alone provides one-third of government revenue. During the early 1990s, Chile's reputation as a role model for economic reform was strengthened when the democratic government of Patricio AYLWIN - which took over from the military in 1990 - deepened the economic reform initiated by the military government. Growth in real GDP averaged 8% during 1991-97, but fell to half that level in 1998 because of tight monetary policies implemented to keep the current account deficit in check and because of lower export earnings - the latter a product of the global financial crisis. A severe drought exacerbated the situation in 1999, reducing crop yields and causing hydroelectric shortfalls and electricity rationing, and Chile experienced negative economic growth for the first time in more than 15 years. In the years since then, growth has averaged 4% per year. Chile deepened its longstanding commitment to trade liberalization with the signing of a free trade agreement with the US, which took effect on 1 January 2004. Chile claims to have more bilateral or regional trade agreements than any other country. It has 57 such agreements (not all of them full free trade agreements), including with the European Union, Mercosur, China, India, South Korea, and Mexico. Over the past five years, foreign direct investment inflows have quadrupled to some \$17 billion in 2008, but FDI dropped to about \$7 billion in 2009 in the face of diminished investment throughout the world. The Chilean government conducts a rule-based countercyclical fiscal policy, accumulating surpluses in sovereign wealth funds during periods of high copper prices and economic growth, and allowing deficit spending only during periods of low copper prices and growth. As of September 2008, those sovereign wealth funds - kept mostly outside the country and separate from Central Bank reserves - amounted to more than \$20 billion. Chile used \$4 billion from this fund to finance a fiscal stimulus package to fend off recession. The economy was starting to show signs of a rebound in the fourth quarter, 2009, although GDP still fell more than 1% for the year. In December 2009, the OECD invited

Chile to become a full member, after a two year period of compliance with organization mandates. The magnitude 8.8 earthquake that struck Chile in February 2010 was one of the top ten strongest earthquakes on record. It caused considerable damage near the epicenter, located about 70 miles from Concepcion - and about 200 miles southwest of Santiago.

GDP (purchasing power parity):

\$243.7 billion (2009 est.)

country comparison to the world: 46

\$248 billion (2008 est.)

\$240.3 billion (2007 est.)

note: data are in 2009 US dollars

GDP (official exchange rate):

\$152.1 billion (2009 est.)

GDP - real growth rate:

-1.7% (2009 est.)

country comparison to the world: 137

3.2% (2008 est.)

4.7% (2007 est.)

GDP - per capita (PPP):

\$14,700 (2009 est.)

country comparison to the world: 78

\$15,100 (2008 est.)

\$14,700 (2007 est.)

note: data are in 2009 US dollars

GDP - composition by sector:

agriculture: 5.6%

industry: 34.5%

services: 51.9% (2008 est.)

Labor force:

7.42 million (2009 est.)

country comparison to the world: 60

Labor force - by occupation:

agriculture: 13.2%

industry: 23%

services: 63.9% (2005)

Unemployment rate:

9.6% (2009 est.)

country comparison to the world: 116

7.8% (2008 est.)

Population below poverty line:

18.2% (2005)

Household income or consumption by percentage share:

lowest 10%: 1.6%

highest 10%: 41.7% (2006)

Distribution of family income - Gini index:

54.9 (2003)

country comparison to the world: 14

57.1 (2000)

Investment (gross fixed):

21.4% of GDP (2009 est.)

country comparison to the world: 76

Budget:

revenues: \$32.62 billion

expenditures: \$39.82 billion (2009 est.)

Public debt:

6.1% of GDP (2009 est.)

country comparison to the world: 123

5.2% of GDP (2008 est.)

Inflation rate (consumer prices):

1.5% (2009 est.)

country comparison to the world: 56

8.7% (2008 est.)

Central bank discount rate:

8.25% (31 December 2008)

country comparison to the world: 72

6% (31 December 2007)

Commercial bank prime lending rate:

13.26% (31 December 2008)

country comparison to the world: 107

8.67% (31 December 2007)

Stock of money:

\$14.72 billion (31 December 2008)

country comparison to the world: 48

\$16.6 billion (31 December 2007)

Stock of quasi money:

\$73.66 billion (31 December 2008)

country comparison to the world: 31

\$80.42 billion (31 December 2007)

Stock of domestic credit:

\$116.4 billion (31 December 2008)

country comparison to the world: 38

\$127.1 billion (31 December 2007)

Market value of publicly traded shares:

\$230.7 billion (31 December 2009)

country comparison to the world: 30

\$132.4 billion (31 December 2008)

\$212.9 billion (31 December 2007)

Agriculture - products:

grapes, apples, pears, onions, wheat, corn, oats, peaches, garlic, asparagus, beans; beef, poultry, wool; fish; timber

Industries:

copper, other minerals, foodstuffs, fish processing, iron and steel, wood and wood products, transport equipment, cement, textiles

Industrial production growth rate:

-4.1% (2009 est.)

country comparison to the world: 106

Electricity - production:

60.6 billion kWh (2007 est.)

country comparison to the world: 41

Electricity - consumption:

57.29 billion kWh (2007 est.)

country comparison to the world: 43

Electricity - exports:

0 kWh (2008 est.)

Electricity - imports:

1.628 billion kWh (2007 est.)

Oil - production:

10,850 bbl/day (2009 est.)

country comparison to the world: 84

Oil - consumption:

277,000 bbl/day (2009 est.)

country comparison to the world: 47

Oil - exports:

49,250 bbl/day (2007 est.)

country comparison to the world: 79

Oil - imports:

311,200 bbl/day (2007 est.)

country comparison to the world: 36

Oil - proved reserves:

150 million bbl (1 January 2009 est.)

country comparison to the world: 60

Natural gas - production:

1.65 billion cu m (2008 est.)

country comparison to the world: 60

Natural gas - consumption:

2.34 billion cu m (2008 est.)

country comparison to the world: 79

Natural gas - exports:

0 cu m (2008 est.)

country comparison to the world: 190

Natural gas - imports:

690 million cu m (2008 est.)

country comparison to the world: 58

Natural gas - proved reserves:

97.97 billion cu m (1 January 2009 est.)

country comparison to the world: 53

Current account balance:

\$4.217 billion (2009 est.)

country comparison to the world: 31

-\$2.513 billion (2008 est.)

Exports:

\$53.74 billion (2009 est.)

country comparison to the world: 44

\$66.46 billion (2008 est.)

Exports - commodities:

copper, fruit, fish products, paper and pulp, chemicals, wine

Exports - partners:

China 16.46%, US 11.31%, Japan 9.06%, South Korea 6.49%, Brazil 4.64%, Mexico 4.09% (2009)

Imports:

\$39.75 billion (2009 est.)

country comparison to the world: 50

\$57.62 billion (2008 est.)

Imports - commodities:

petroleum and petroleum products, chemicals, electrical and telecommunications equipment, industrial machinery, vehicles, natural gas

Imports - partners:
 US 21.77%, China 12.76%, Argentina 9.55%, Brazil 6.46%, South Korea 5.35% (2009)

Reserves of foreign exchange and gold:
 \$25.29 billion (31 December 2009 est.)
 country comparison to the world: 48
 \$23.08 billion (31 December 2008 est.)

Debt - external:
 \$60.9 billion (31 December 2009 est.)
 country comparison to the world: 44
 \$64.77 billion (31 December 2008 est.)

Stock of direct foreign investment - at home:
 \$116.5 billion (31 December 2009 est.)
 country comparison to the world: 30
 \$103.8 billion (31 December 2008 est.)

Stock of direct foreign investment - abroad:
 \$33.68 billion (31 December 2009 est.)
 country comparison to the world: 34
 \$25.7 billion (31 December 2008 est.)

Exchange rates:
 Chilean pesos (CLP) per US dollar - 569.37 (2009), 509.02 (2008), 526.25 (2007), 530.29 (2006), 560.09 (2005)

Communications ::Chile

Telephones - main lines in use:
 3.526 million (2008)
 country comparison to the world: 43

Telephones - mobile cellular:
 14.797 million (2008)
 country comparison to the world: 45

Telephone system:
 general assessment: privatization begun in 1988; most advanced telecommunications infrastructure in South America; modern system based on extensive microwave radio relay facilities; domestic satellite system with 3 earth stations
 domestic: fixed-line connections have dropped in recent years as mobile-cellular usage continues to increase, reaching a level of 90 telephones per 100 persons
 international: country code - 56; landing points for the Pan American, South America-1, and South American Crossing/Latin America Nautilus submarine cables providing links to the US and to Central and South America; satellite earth stations - 2 Intelsat (Atlantic Ocean) (2008)

Radio broadcast stations:
 AM 180, FM 64, shortwave 17 (1998)

Television broadcast stations:
 63 (plus 121 repeaters) (1997)

Internet country code:

.cl

Internet hosts:
 877,817 (2009)
 country comparison to the world: 40

Internet users:
 5.456 million (2008)
 country comparison to the world: 43

Transportation ::Chile

Airports:
 357 (2009)
 country comparison to the world: 22

Airports - with paved runways:
 total: 81
 over 3,047 m: 5
 2,438 to 3,047 m: 8
 1,524 to 2,437 m: 22
 914 to 1,523 m: 24
 under 914 m: 22 (2009)

Airports - with unpaved runways:
 total: 276
 2,438 to 3,047 m: 2
 1,524 to 2,437 m: 12
 914 to 1,523 m: 50
 under 914 m: 212 (2009)

Pipelines:
 gas 2,673 km; liquid petroleum gas 519 km; oil 892 km; refined products 769 km (2009)

Railways:
 total: 5,483 km
 country comparison to the world: 34
 broad gauge: 1,706 km 1.676-m gauge (850 km electrified)
 narrow gauge: 3,777 km 1.000-m gauge (2008)

Roadways:
 total: 80,505 km
 country comparison to the world: 59
 paved: 16,745 km (includes 2,414 km of expressways)
 unpaved: 63,760 km (2004)

Merchant marine:
 total: 44
 country comparison to the world: 75
 by type: bulk carrier 9, cargo 7, chemical tanker 8, container 1, liquefied gas 2, passenger 4, passenger/cargo 2, petroleum tanker 7, roll on/roll off 1, vehicle carrier 3
 registered in other countries: 40 (Argentina 7, Brazil 1, Cyprus 1, Isle of Man 6, Marshall Islands 4, Norway 2, Panama 12, Singapore 6, Venezuela 1) (2008)

Ports and terminals:
 Coronel, Huasco, Lirquen, Puerto Ventanas, San Antonio, San Vicente, Valparaiso

Military ::Chile

Military branches:

Army of the Nation, Chilean Navy (Armada de Chile, includes Naval Aviation, Marine Corps, and Maritime Territory and Merchant Marine Directorate (Directemar)), Chilean Air Force (Fuerza Aerea de Chile, FACH), Carabineros Corps (Cuerpo de Carabineros) (2010)

Military service age and obligation:

18-45 years of age for voluntary male and female military service, although the right to compulsory recruitment is retained; service obligation - 12 months for Army, 22 months for Navy and Air Force (2008)

Manpower available for military service:

males age 16-49: 4,301,900

females age 16-49: 4,232,956 (2010 est.)

Manpower fit for military service:

males age 16-49: 3,599,328

females age 16-49: 3,544,156 (2010 est.)

Manpower reaching militarily significant age annually:

male: 143,778

female: 138,058 (2010 est.)

Military expenditures:

2.7% of GDP (2006)

country comparison to the world: 52

Transnational Issues ::Chile

Disputes - international:

Chile and Peru rebuff Bolivia's reinvigorated claim to restore the Atacama corridor, ceded to Chile in 1884, but Chile has offered instead unrestricted but not sovereign maritime access through Chile to Bolivian gas and other commodities; Chile rejects Peru's unilateral legislation to change its latitudinal maritime boundary with Chile to an equidistance line with a southwestern axis favoring Peru, in October 2007, Peru took its maritime complaint with Chile to the ICJ; territorial claim in Antarctica (Chilean Antarctic Territory) partially overlaps Argentine and British claims; the joint boundary commission, established by Chile and Argentina in 2001, has yet to map and demarcate the delimited boundary in the inhospitable Andean Southern Ice Field (Campo de Hielo Sur)

Illicit drugs:

transshipment country for cocaine destined for Europe and the region; some money laundering activity, especially through the Iquique Free Trade Zone; imported precursors passed on to Bolivia; domestic cocaine consumption is rising, making Chile a significant consumer of cocaine (2008)

Introduction ::Turkey

Background:

Modern Turkey was founded in 1923 from the Anatolian remnants of the defeated Ottoman Empire by national hero Mustafa KEMAL, who was later honored with the title Atatürk or "Father of the Turks." Under his authoritarian leadership, the country adopted wide-ranging social, legal, and political reforms. After a period of one-party rule, an experiment with multi-party politics led to the 1950 election victory of the opposition Democratic Party and the peaceful transfer of power. Since then, Turkish political parties have multiplied, but democracy has been fractured by periods of instability and intermittent military coups (1960, 1971, 1980), which in each case eventually resulted in a return of political power to civilians. In 1997, the military again helped engineer the ouster - popularly dubbed a "post-modern coup" - of the then Islamic-oriented government. Turkey intervened militarily on Cyprus in 1974 to prevent a Greek takeover of the island and has since acted as patron state to the "Turkish Republic of Northern Cyprus," which only Turkey recognizes. A separatist insurgency begun in 1984 by the Kurdistan Workers' Party (PKK) - now known as the People's Congress of Kurdistan or Kongra-Gel (KGK) - has dominated the Turkish military's attention and claimed more than 30,000 lives. After the capture of the group's leader in 1999, the insurgents largely withdrew from Turkey mainly to northern Iraq. In 2004, KGK announced an end to its ceasefire and attacks attributed to the KGK increased. Turkey joined the UN in 1945 and in 1952 it became a member of NATO; it holds a non-permanent seat on the UN Security Council during 2009-10. In 1964, Turkey became an associate member of the European Community. Over the past decade, it has undertaken many reforms to strengthen its democracy and economy; it began accession membership talks with the European Union in 2005.

Geography ::Turkey

Location:

Southeastern Europe and Southwestern Asia (that portion of Turkey west of the Bosphorus is geographically part of Europe), bordering the Black Sea, between Bulgaria and Georgia, and bordering the Aegean Sea and the Mediterranean Sea, between Greece and Syria

Geographic coordinates:

39 00 N, 35 00 E

Map references:

Middle East

Area:

total: 783,562 sq km

country comparison to the world: 37

land: 769,632 sq km

water: 13,930 sq km

Area - comparative:

slightly larger than Texas

Land boundaries:

total: 2,648 km

border countries: Armenia 268 km, Azerbaijan 9 km, Bulgaria 240 km, Georgia 252 km, Greece 206 km, Iran 499 km, Iraq 352 km, Syria 822 km

Coastline:

7,200 km

Maritime claims:

territorial sea: 6 nm in the Aegean Sea; 12 nm in Black Sea and in Mediterranean Sea

exclusive economic zone: in Black Sea only: to the maritime boundary agreed upon with the former USSR

Climate:

Current Weather

temperate; hot, dry summers with mild, wet winters; harsher in interior

Terrain:

high central plateau (Anatolia); narrow coastal plain; several mountain ranges

Elevation extremes:

lowest point: Mediterranean Sea 0 m

highest point: Mount Ararat 5,166 m

Natural resources:

coal, iron ore, copper, chromium, antimony, mercury, gold, barite, borate, celestite (strontium), emery, feldspar, limestone, magnesite, marble, perlite, pumice, pyrites (sulfur), clay, arable land, hydropower

Land use:

arable land: 29.81%

permanent crops: 3.39%

other: 66.8% (2005)

Irrigated land:

52,150 sq km (2003)

Total renewable water resources:

234 cu km (2003)

Freshwater withdrawal

(domestic/industrial/agricultural):

total: 39.78 cu km/yr (15%/11%/74%)

per capita: 544 cu m/yr (2001)

Natural hazards:

severe earthquakes, especially in northern Turkey, along an arc extending from the Sea of Marmara to Lake Van

Environment - current issues:

water pollution from dumping of chemicals and detergents; air pollution, particularly in urban areas;

deforestation; concern for oil spills from increasing Bosphorus ship traffic
Environment - international agreements:
party to: Air Pollution, Antarctic Treaty, Biodiversity, Climate Change, Desertification, Endangered Species, Hazardous Wastes, Ozone Layer Protection, Ship Pollution, Wetlands
signed, but not ratified: Environmental Modification
Geography - note:
strategic location controlling the Turkish Straits (Bosphorus, Sea of Marmara, Dardanelles) that link Black and Aegean Seas; Mount Ararat, the legendary landing place of Noah's ark, is in the far eastern portion of the country

People ::Turkey

Population:
77,804,122 (July 2010 est.)
country comparison to the world: 17
Age structure:
0-14 years: 26.9% (male 10,708,999/female 10,229,102)
15-64 years: 66.9% (male 26,323,403/female 25,747,740)
65 years and over: 6.2% (male 2,190,593/female 2,604,285) (2010 est.)
Median age:
total: 28.1 years
male: 27.7 years
female: 28.4 years (2010 est.)
Population growth rate:
1.272% (2010 est.)
country comparison to the world: 99
Birth rate:
18.28 births/1,000 population (2010 est.)
country comparison to the world: 106
Death rate:
6.1 deaths/1,000 population (July 2010 est.)
country comparison to the world: 163
Net migration rate:
0.53 migrant(s)/1,000 population (2010 est.)
country comparison to the world: 60
Urbanization:
urban population: 69% of total population (2008)
rate of urbanization: 1.9% annual rate of change (2005-10 est.)
Sex ratio:
at birth: 1.05 male(s)/female
under 15 years: 1.05 male(s)/female
15-64 years: 1.02 male(s)/female
65 years and over: 0.84 male(s)/female
total population: 1.02 male(s)/female (2010 est.)
Infant mortality rate:
total: 24.84 deaths/1,000 live births
country comparison to the world: 86

male: 25.89 deaths/1,000 live births
female: 23.73 deaths/1,000 live births (2010 est.)
Life expectancy at birth:
total population: 72.23 years
country comparison to the world: 126
male: 70.37 years
female: 74.19 years (2010 est.)
Total fertility rate:
2.18 children born/woman (2010 est.)
country comparison to the world: 115
HIV/AIDS - adult prevalence rate:
less than 0.1%; note - no country specific models provided (2001 est.)
country comparison to the world: 155
HIV/AIDS - people living with HIV/AIDS:
NA (2007 est.)
HIV/AIDS - deaths:
NA
Nationality:
noun: Turk(s)
adjective: Turkish
Ethnic groups:
Turkish 70-75%, Kurdish 18%, other minorities 7-12% (2008 est.)
Religions:
Muslim 99.8% (mostly Sunni), other 0.2% (mostly Christians and Jews)
Languages:
Turkish (official), Kurdish, other minority languages
Literacy:
definition: age 15 and over can read and write
total population: 87.4%
male: 95.3%
female: 79.6% (2004 est.)
School life expectancy (primary to tertiary education):
total: 11 years
male: 12 years
female: 11 years (2006)
Education expenditures:
4% of GDP (2004)
country comparison to the world: 105
Government ::Turkey
Country name:
conventional long form: Republic of Turkey
conventional short form: Turkey
local long form: Turkiye Cumhuriyeti
local short form: Turkiye
Government type:
republican parliamentary democracy
Capital:
name: Ankara
geographic coordinates: 39 56 N, 32 52 E
time difference: UTC+2 (7 hours ahead of Washington, DC during Standard Time)

daylight saving time: +1hr, begins last Sunday in March; ends last Sunday in October

Administrative divisions:
81 provinces (iller, singular - ili); Adana, Adiyaman, Afyonkarahisar, Agri, Aksaray, Amasya, Ankara, Antalya, Ardahan, Artvin, Aydin, Balikesir, Bartin, Batman, Bayburt, Bilecik, Bingol, Bitlis, Bolu, Burdur, Bursa, Canakkale, Cankiri, Corum, Denizli, Diyarbakir, Duzce, Edirne, Elazig, Erzincan, Erzurum, Eskisehir, Gaziantep, Giresun, Gumushane, Hakkari, Hatay, Igdirdir, Isparta, Istanbul, Izmir (Smyrna), Kahramanmaras, Karabuk, Karaman, Kars, Kastamonu, Kayseri, Kilis, Kirikkale, Kirklareli, Kirsehir, Kocaeli, Konya, Kutahya, Malatya, Manisa, Mardin, Mersin, Mugla, Mus, Nevsehir, Nigde, Ordu, Osmaniye, Rize, Sakarya, Samsun, Sanliurfa, Siirt, Sinop, Sirnak, Sivas, Tekirdag, Tokat, Trabzon (Trebizond), Tunceli, Usak, Van, Yalova, Yozgat, Zonguldak

Independence:
29 October 1923 (successor state to the Ottoman Empire)

National holiday:
Republic Day, 29 October (1923)

Constitution:
7 November 1982; amended 17 May 1987, 1995, 2001, and 2007; note - amendment passed by referendum concerning presidential elections on 21 October 2007

Legal system:
civil law system derived from various European continental legal systems; note - member of the European Court of Human Rights (ECHR), although Turkey claims limited derogations on the ratified European Convention on Human Rights; has not accepted compulsory ICJ jurisdiction

Suffrage:
18 years of age; universal

Executive branch:
chief of state: President Abdullah GUL (since 28 August 2007)
head of government: Prime Minister Recep Tayyip ERDOGAN (since 14 March 2003); Deputy Prime Minister Cemil CICEK (since 29 August 2007); Deputy Prime Minister Ali BABACAN (since 1 May 2009); Deputy Prime Minister Bulent ARINC (since 1 May 2009)
cabinet: Council of Ministers appointed by the president on the nomination of the prime minister (For more information visit the World Leaders website [Opens in New Window](#))
elections: president elected directly for a five-year term (eligible for a second term); prime minister

appointed by the president from among members of parliament

election results: on 28 August 2007 the National Assembly elected Abdullah GUL president on the third ballot; National Assembly vote - 339

note: in October 2007 Turkish voters approved a referendum package of constitutional amendments including a provision for direct presidential elections

Legislative branch:
unicameral Grand National Assembly of Turkey or Turkiye Buyuk Millet Meclisi (550 seats; members elected by popular vote to serve four-year terms)
elections: last held on 22 July 2007 (next to be held by July 2011)
election results: percent of vote by party - AKP 46.7%, CHP 20.8%, MHP 14.3%, independents 5.2%, other 13.0%; seats by party - AKP 341, CHP 112, MHP 71, independents 26; note - seats by party as of 12 January 2010 - AKP 337, CHP 97, MHP 69, BDP 20, DSP 6, DP 1, TP 1, independents 11, vacant 8 (BDP entered parliament as independents; DSP entered parliament on CHP's party list; DP and TP switched to their respective parties after having been elected to parliament as an independent or on the list of another party); only parties surpassing the 10% threshold are entitled to parliamentary seats

Judicial branch:
Constitutional Court; High Court of Appeals (Yargitay); Council of State (Danistay); Court of Accounts (Sayistay); Military High Court of Appeals; Military High Administrative Court

Political parties and leaders:
Democratic Left Party or DSP [Masum TURKER]; Democratic Party or DP [Husamettin CINDORUK]; Felicity Party or SP [Numan KURTULMUS] (sometimes translated as Contentment Party); Freedom and Solidarity Party or ODP [Alper TAS]; Grand Unity Party or BBP [Yalcin TOPCU]; Justice and Development Party or AKP [Recep Tayyip ERDOGAN]; Nationalist Action Party or MHP [Devlet BAHCELI] (sometimes translated as Nationalist Movement Party); Peace and Democracy Party or BDP [Selahattin DEMIRTAS]; Republican People's Party or CHP [Kemal KILICDAROGLU]; Social Democratic People's Party or SHP [Huseyin ERGUN]; Turkey Party [Abdullatif SENER]; Young Party or GP [Cem Cengiz UZAN]

note: the parties listed above are some of the more significant of the 61 parties that Turkey had according to the Ministry of Interior statistics current as of May 2009

Political pressure groups and leaders:
Confederation of Public Sector Unions or KESK [Sami EVREN]; Confederation of Revolutionary Workers

Unions or DISK [Suleyman CELEBI]; Independent Industrialists' and Businessmen's Association or MUSIAD [Omer Cihad VARDAN]; Moral Rights Workers Union or Hak-Is [Salim USLU]; Turkish Confederation of Employers' Unions or TISK [Tugrul KUDATGOBILIK]; Turkish Confederation of Labor or Turk-Is [Mustafa KUMLU]; Turkish Confederation of Tradesmen and Craftsmen or TESK [Bendevi PALANDOKEN]; Turkish Industrialists' and Businessmen's Association or TUSIAD [Umit BOYNER]; Turkish Union of Chambers of Commerce and Commodity Exchanges or TOBB [M. Rifat HISARCIKLIOGLU]

International organization participation:

ADB (nonregional member), Australia Group, BIS, BSEC, CE, CERN (observer), CICA, D-8, EAPC, EBRD, ECO, EU (applicant), FAO, FATF, G-20, IAEA, IBRD, ICAO, ICC, ICRM, IDA, IDB, IEA, IFAD, IFC, IFRCS, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC, MIGA, MINURCAT, NATO, NEA, NSG, OAS (observer), OECD, OIC, OPCW, OSCE, Paris Club (associate), PCA, SECI, UN, UN Security Council (temporary), UNCTAD, UNESCO, UNHCR, UNIDO, UNIFIL, UNMIS, UNOCI, UNRWA, UNWTO, UPU, WCO, WFTU, WHO, WIPO, WMO, WTO, ZC

Diplomatic representation in the US:

chief of mission: Ambassador Namik TAN
chancery: 2525 Massachusetts Avenue NW,
Washington, DC 20008

telephone: [1] (202) 612-6700

FAX: [1] (202) 612-6744

consulate(s) general: Chicago, Houston, Los Angeles,
New York

Diplomatic representation from the US:

chief of mission: Ambassador James F. JEFFREY
embassy: 110 Ataturk Boulevard, Kavaklidere, 06100
Ankara

mailing address: PSC 93, Box 5000, APO AE 09823

telephone: [90] (312) 455-5555

FAX: [90] (312) 467-0019

consulate(s) general: Istanbul

consulate(s): Adana; note - there is a Consular Agent
in Izmir

Flag description:

red with a vertical white crescent (the closed portion is toward the hoist side) and white five-pointed star centered just outside the crescent opening; the flag colors and designs closely resemble those on the banner of Ottoman Empire, which preceded modern-day Turkey; the crescent moon and star serve as insignia for the Turks, as well as being traditional symbols of Islam

Economy ::Turkey

Economy - overview:

Turkey's dynamic economy is a complex mix of modern industry and commerce along with a traditional agriculture sector that still accounts for about 30% of employment. It has a strong and rapidly growing private sector, and while the state remains a major participant in basic industry, banking, transport, and communication, this role has been diminishing as Turkey's privatization program continues. The largest industrial sector is textiles and clothing, which accounts for one-third of industrial employment; it faces stiff competition in international markets with the end of the global quota system. However, other sectors, notably the automotive and electronics industries, are rising in importance and have surpassed textiles within Turkey's export mix. Real GDP growth has exceeded 6% in many years, but this strong expansion has been interrupted by sharp declines in output in 1994, 1999, and 2001. Due to global economic conditions, GDP fell to a 0.9% annual rate in 2008, and contracted by about 6% in 2009. Inflation fell to 6.5% in 2009 - a 34-year low. Despite the strong economic gains from 2002-07, which were largely due to renewed investor interest in emerging markets, IMF backing, and tighter fiscal policy, the economy has been burdened by a high current account deficit and high external debt. Further economic and judicial reforms and prospective EU membership are expected to continue boosting foreign direct investment. The stock value of FDI stood at more than \$180 billion at year-end 2009. Privatization sales are currently approaching \$39 billion. Oil began to flow through the Baku-Tbilisi-Ceyhan pipeline in May 2006, marking a major milestone that will bring up to 1 million barrels per day from the Caspian to market. Several gas pipelines also are being planned to help move Central Asian gas to Europe via Turkey. In 2007 and 2008, Turkish financial markets weathered significant domestic political turmoil, including turbulence sparked by controversy over the selection of former Foreign Minister Abdullah GUL as Turkey's 11th president and the possible closure of the Justice and Development Party (AKP). Turkey's financial markets and banking system also weathered the 2009 global financial crisis and did not suffer significant declines due to banking and structural reforms implemented during the country's own financial crisis in 2001. Economic fundamentals are sound, but the Turkish economy may be faced with more negative economic indicators in 2010 as the global economic slowdown continues to curb demand for Turkish exports. In addition, Turkey's relatively high current account deficit, uncertainty related to policy-making, and fiscal

balances leave the economy vulnerable to destabilizing shifts in investor confidence.

GDP (purchasing power parity):
 \$863.3 billion (2009 est.)
 country comparison to the world: 18
 \$914.5 billion (2008 est.)
 \$906.3 billion (2007 est.)
 note: data are in 2009 US dollars

GDP (official exchange rate):
 \$608 billion (2009 est.)

GDP - real growth rate:
 -5.6% (2009 est.)
 country comparison to the world: 194
 0.9% (2008 est.)
 4.7% (2007 est.)

GDP - per capita (PPP):
 \$11,200 (2009 est.)
 country comparison to the world: 98
 \$12,100 (2008 est.)
 \$12,100 (2007 est.)
 note: data are in 2009 US dollars

GDP - composition by sector:
 agriculture: 9.3%
 industry: 25.6%
 services: 65.1% (2009 est.)

Labor force:
 24.74 million
 country comparison to the world: 24
 note: about 1.2 million Turks work abroad (2009 est.)

Labor force - by occupation:
 agriculture: 29.5%
 industry: 24.7%
 services: 45.8% (2005)

Unemployment rate:
 14.1% (2009 est.)
 country comparison to the world: 144
 11.2% (2008)
 note: underemployment amounted to 4% in 2008

Population below poverty line:
 17.11% (2008)

Household income or consumption by percentage share:
 lowest 10%: 1.9%
 highest 10%: 33.2% (2005)

Distribution of family income - Gini index:
 41 (2007)
 country comparison to the world: 56
 43.6 (2003)

Investment (gross fixed):
 16.8% of GDP (2009 est.)
 country comparison to the world: 124

Budget:
 revenues: \$145.3 billion
 expenditures: \$180.6 billion (2009)

Public debt:
 46.3% of GDP (2009 est.)
 country comparison to the world: 53
 40% of GDP (2008 est.)

Inflation rate (consumer prices):
 6.3% (2009)
 country comparison to the world: 158
 10.4% (2008 est.)

Central bank discount rate:
 15% (22 December 2009)
 country comparison to the world: 4
 25% (31 December 2008)

Commercial bank prime lending rate:
 NA%

Stock of money:
 \$37.1 billion (31 December 2009)
 country comparison to the world: 30
 \$53.25 billion (31 December 2008)

Stock of quasi money:
 \$313.5 billion (31 December 2009)
 country comparison to the world: 14
 \$311.1 billion (31 December 2008)

Stock of domestic credit:
 \$210.8 billion (31 December 2009)
 country comparison to the world: 32
 \$326.4 billion (31 December 2008)

Market value of publicly traded shares:
 \$234 billion (31 December 2009)
 country comparison to the world: 33
 \$117.9 billion (31 December 2008)
 \$286.6 billion (31 December 2007)

Agriculture - products:
 tobacco, cotton, grain, olives, sugar beets, hazelnuts, pulse, citrus; livestock

Industries:
 textiles, food processing, autos, electronics, mining (coal, chromate, copper, boron), steel, petroleum, construction, lumber, paper

Industrial production growth rate:
 -11.8% (2009 est.)
 country comparison to the world: 148

Electricity - production:
 198.4 billion kWh (2008 est.)
 country comparison to the world: 19

Electricity - consumption:
 198.1 billion kWh (2008 est.)
 country comparison to the world: 18

Electricity - exports:
 1.12 billion kWh (2008 est.)

Electricity - imports:
 790 million kWh (2008 est.)

Oil - production:
 52,980 bbl/day (2009 est.)
 country comparison to the world: 62

Oil - consumption:
 579,500 bbl/day (2009 est.)
 country comparison to the world: 29
 Oil - exports:
 149,100 bbl/day (2008 est.)
 country comparison to the world: 60
 Oil - imports:
 560,000 bbl/day (2008 est.)
 country comparison to the world: 22
 Oil - proved reserves:
 284.7 million bbl (1 January 2009 est.)
 country comparison to the world: 54
 Natural gas - production:
 1.014 billion cu m (2009 est.)
 country comparison to the world: 63
 Natural gas - consumption:
 35.07 billion cu m (2009 est.)
 country comparison to the world: 24
 Natural gas - exports:
 708 million cu m (2009 est.)
 country comparison to the world: 38
 Natural gas - imports:
 35.77 billion cu m (2009 est.)
 country comparison to the world: 7
 Natural gas - proved reserves:
 8.495 billion cu m (1 January 2009 est.)
 country comparison to the world: 82
 Current account balance:
 -\$13.96 billion (2009 est.)
 country comparison to the world: 178
 -\$41.29 billion (2008 est.)
 Exports:
 \$109.7 billion (2009 est.)
 country comparison to the world: 33
 \$141 billion (2008 est.)
 Exports - commodities:
 apparel, foodstuffs, textiles, metal manufactures,
 transport equipment
 Exports - partners:
 Germany 9.58%, France 6.08%, UK 5.79%, Italy
 5.77%, Iraq 5.02% (2009)
 Imports:
 \$134.6 billion (2009 est.)
 country comparison to the world: 25
 \$193.8 billion (2008 est.)
 Imports - commodities:
 machinery, chemicals, semi-finished goods, fuels,
 transport equipment
 Imports - partners:
 Russia 13.99%, Germany 10.01%, China 9%, US
 6.09%, Italy 5.45%, France 5.03% (2009)
 Reserves of foreign exchange and gold:
 \$75 billion (31 December 2009 est.)
 country comparison to the world: 24

\$73.66 billion (31 December 2008 est.)
 Debt - external:
 \$274 billion (31 December 2009 est.)
 country comparison to the world: 24
 \$278.1 billion (31 December 2008 est.)
 Stock of direct foreign investment - at home:
 \$181.7 billion (31 December 2009 est.)
 country comparison to the world: 23
 \$174 billion (31 December 2008 est.)
 Stock of direct foreign investment - abroad:
 \$16.31 billion (31 December 2009 est.)
 country comparison to the world: 41
 \$14.76 billion (31 December 2008 est.)
 Exchange rates:
 Turkish liras (TRY) per US dollar - 1.5548 (2009),
 1.3179 (2008), 1.319 (2007), 1.4286 (2006), 1.3436
 (2005)
 note: on 1 January 2005, the old Turkish lira (TRL)
 was converted to new Turkish lira (TRY) at a rate of
 1,000,000 old to 1 new Turkish lira; on 1 January
 2009, the Turkish government dropped the word
 "new" and the currency is now called simply the
 Turkish lira
Communications ::Turkey
 Telephones - main lines in use:
 17.502 million (2008)
 country comparison to the world: 18
 Telephones - mobile cellular:
 65.824 million (2008)
 country comparison to the world: 15
 Telephone system:
 general assessment: comprehensive
 telecommunications network undergoing rapid
 modernization and expansion especially in mobile-
 cellular services
 domestic: additional digital exchanges are permitting
 a rapid increase in subscribers; the construction of a
 network of technologically advanced intercity trunk
 lines, using both fiber-optic cable and digital
 microwave radio relay, is facilitating communication
 between urban centers; remote areas are reached by
 a domestic satellite system; the number of
 subscribers to mobile-cellular telephone service is
 growing rapidly
 international: country code - 90; international service
 is provided by the SEA-ME-WE-3 submarine cable
 and by submarine fiber-optic cables in the
 Mediterranean and Black Seas that link Turkey with
 Italy, Greece, Israel, Bulgaria, Romania, and Russia;
 satellite earth stations - 12 Intelsat; mobile satellite
 terminals - 328 in the Inmarsat and Eutelsat systems
 (2002)
 Radio broadcast stations:
 1,090 (station frequency types NA) (2009)

Television broadcast stations:
251 (2009)

Internet country code:
.tr

Internet hosts:
2.961 million (2009)

country comparison to the world: 27

Internet users:
24.483 million (2008)

country comparison to the world: 15

Transportation ::Turkey

Airports:
102 (2009)

country comparison to the world: 59

Airports - with paved runways:
total: 90

over 3,047 m: 16

2,438 to 3,047 m: 33

1,524 to 2,437 m: 20

914 to 1,523 m: 17

under 914 m: 4 (2009)

Airports - with unpaved runways:
total: 12

1,524 to 2,437 m: 1

914 to 1,523 m: 7

under 914 m: 4 (2009)

Heliports:
21 (2009)

Pipelines:
gas 10,630 km; oil 3,636 km (2009)

Railways:
total: 8,697 km

country comparison to the world: 23

standard gauge: 8,697 km 1.435-m gauge (1,920 km electrified) (2008)

Roadways:
total: 426,951 km (includes 1,987 km of expressways) (2006)

country comparison to the world: 14

Waterways:
1,200 km (2008)

country comparison to the world: 61

Merchant marine:
total: 612

country comparison to the world: 19

by type: bulk carrier 101, cargo 281, chemical tanker 70, combination ore/oil 1, container 35, liquefied gas 7, passenger 4, passenger/cargo 51, petroleum tanker 31, refrigerated cargo 1, roll on/roll off 28, specialized tanker 2

foreign-owned: 8 (Cyprus 2, Germany 1, Greece 1, Italy 3, UAE 1)

registered in other countries: 595 (Albania 1, Antigua and Barbuda 6, Bahamas 8, Belize 15, Cambodia 26,

Comoros 8, Dominica 5, Georgia 14, Greece 1, Isle of Man 2, Italy 1, Kiribati 1, Liberia 7, Malta 176, Marshall Islands 50, Moldova 3, Netherlands 1, Netherlands Antilles 10, Panama 94, Russia 80, Saint Kitts and Nevis 35, Saint Vincent and the Grenadines 20, Sierra Leone 15, Slovakia 10, Tuvalu 2, UK 2, unknown 2) (2008)

Ports and terminals:
Aliaga, Diliskelesi, Izmir, Kocaeli (Izmit), Mersin Limani, Nemrut Limani

Military ::Turkey

Military branches:
Turkish Armed Forces (TSK): Turkish Land Forces (Turk Kara Kuvvetleri), Turkish Naval Forces (Turk Deniz Kuvvetleri; includes naval air and naval infantry), Turkish Air Force (Turk Hava Kuvvetleri) (2010)

Military service age and obligation:
20 years of age (2004)

Manpower available for military service:
males age 16-49: 20,832,658
females age 16-49: 20,337,037 (2010 est.)

Manpower fit for military service:
males age 16-49: 17,447,579
females age 16-49: 17,173,063 (2010 est.)

Manpower reaching militarily significant age annually:
male: 695,326
female: 666,026 (2010 est.)

Military expenditures:
5.3% of GDP (2005 est.)

country comparison to the world: 16

Military - note:
a "National Security Policy Document" adopted in October 2005 increases the Turkish Armed Forces (TSK) role in internal security, augmenting the General Directorate of Security and Gendarmerie General Command (Jandarma); the TSK leadership continues to play a key role in politics and considers itself guardian of Turkey's secular state; in April 2007, it warned the ruling party about any pro-Islamic appointments; despite on-going negotiations on EU accession since October 2005, progress has been limited in establishing required civilian supremacy over the military; primary domestic threats are listed as fundamentalism (with the definition in some dispute with the civilian government), separatism (the Kurdish problem), and the extreme left wing; Ankara strongly opposed establishment of an autonomous Kurdish region; an overhaul of the Turkish Land Forces Command (TLFC) taking place under the "Force 2014" program is to produce 20-30% smaller, more highly trained forces characterized by greater mobility and firepower and capable of joint and combined operations; the TLFC has taken on

increasing international peacekeeping responsibilities, and took charge of a NATO International Security Assistance Force (ISAF) command in Afghanistan in April 2007; the Turkish Navy is a regional naval power that wants to develop the capability to project power beyond Turkey's coastal waters; the Navy is heavily involved in NATO, multinational, and UN operations; its roles include control of territorial waters and security for sea lines of communications; the Turkish Air Force adopted an "Aerospace and Missile Defense Concept" in 2002 and has initiated project work on an integrated missile defense system; Air Force priorities include attaining a modern deployable, survivable, and sustainable force structure, and establishing a sustainable command and control system (2008)

Transnational Issues ::Turkey

Disputes - international:

complex maritime, air, and territorial disputes with Greece in the Aegean Sea; status of north Cyprus question remains; Syria and Iraq protest Turkish hydrological projects to control upper Euphrates waters; Turkey has expressed concern over the status of Kurds in Iraq; border with Armenia remains closed over Nagorno-Karabakh

Refugees and internally displaced persons:

IDPs: 1-1.2 million (fighting 1984-99 between Kurdish PKK and Turkish military; most IDPs in southeastern provinces) (2007)

Illicit drugs:

key transit route for Southwest Asian heroin to Western Europe and, to a lesser extent, the US - via air, land, and sea routes; major Turkish and other international trafficking organizations operate out of Istanbul; laboratories to convert imported morphine base into heroin exist in remote regions of Turkey and near Istanbul; government maintains strict controls over areas of legal opium poppy cultivation and over output of poppy straw concentrate; lax enforcement of money-laundering controls

Introduction ::Ukraine

Background:

Ukraine was the center of the first eastern Slavic state, Kyivan Rus, which during the 10th and 11th centuries was the largest and most powerful state in Europe. Weakened by internecine quarrels and Mongol invasions, Kyivan Rus was incorporated into the Grand Duchy of Lithuania and eventually into the Polish-Lithuanian Commonwealth. The cultural and religious legacy of Kyivan Rus laid the foundation for Ukrainian nationalism through subsequent centuries. A new Ukrainian state, the Cossack Hetmanate, was established during the mid-17th century after an uprising against the Poles. Despite continuous Muscovite pressure, the Hetmanate managed to remain autonomous for well over 100 years. During the latter part of the 18th century, most Ukrainian ethnographic territory was absorbed by the Russian Empire. Following the collapse of czarist Russia in 1917, Ukraine was able to achieve a short-lived period of independence (1917-20), but was reconquered and forced to endure a brutal Soviet rule that engineered two forced famines (1921-22 and 1932-33) in which over 8 million died. In World War II, German and Soviet armies were responsible for some 7 to 8 million more deaths. Although final independence for Ukraine was achieved in 1991 with the dissolution of the USSR, democracy and prosperity remained elusive as the legacy of state control and endemic corruption stalled efforts at economic reform, privatization, and civil liberties. A peaceful mass protest "Orange Revolution" in the closing months of 2004 forced the authorities to overturn a rigged presidential election and to allow a new internationally monitored vote that swept into power a reformist slate under Viktor YUSHCHENKO. Subsequent internal squabbles in the YUSHCHENKO camp allowed his rival Viktor YANUKOVYCH to stage a comeback in parliamentary elections and become prime minister in August of 2006. An early legislative election, brought on by a political crisis in the spring of 2007, saw Yuliya TYMOSHENKO, as head of an "Orange" coalition, installed as a new prime minister in December 2007. Viktor YANUKOVYCH was elected president in a February 2010 run-off election that observers assessed as meeting most international standards. The following month, the Rada approved a vote of no-confidence prompting Yuliya TYMOSHENKO to resign from her post as prime minister.

Geography ::Ukraine

Location:

Eastern Europe, bordering the Black Sea, between Poland, Romania, and Moldova in the west and Russia in the east

Geographic coordinates:

49 00 N, 32 00 E

Map references:

Europe

Area:

total: 603,550 sq km

country comparison to the world: 45

land: 579,330 sq km

water: 24,220 sq km

Area - comparative:

slightly smaller than Texas

Land boundaries:

total: 4,566 km

border countries: Belarus 891 km, Hungary 103 km, Moldova 940 km, Poland 428 km, Romania (south) 176 km, Romania (southwest) 362 km, Russia 1,576 km, Slovakia 90 km

Coastline:

2,782 km

Maritime claims:

territorial sea: 12 nm

exclusive economic zone: 200 nm

continental shelf: 200 m or to the depth of exploitation

Climate:

Current Weather

temperate continental; Mediterranean only on the southern Crimean coast; precipitation disproportionately distributed, highest in west and north, lesser in east and southeast; winters vary from cool along the Black Sea to cold farther inland; summers are warm across the greater part of the country, hot in the south

Terrain:

most of Ukraine consists of fertile plains (steppes) and plateaus, mountains being found only in the west (the Carpathians), and in the Crimean Peninsula in the extreme south

Elevation extremes:

lowest point: Black Sea 0 m

highest point: Hora Hoverla 2,061 m

Natural resources:

iron ore, coal, manganese, natural gas, oil, salt, sulfur, graphite, titanium, magnesium, kaolin, nickel, mercury, timber, arable land

Land use:

arable land: 53.8%

permanent crops: 1.5%

other: 44.7% (2005)

Irrigated land:

22,080 sq km (2003)

Total renewable water resources:

139.5 cu km (1997)
 Freshwater withdrawal
 (domestic/industrial/agricultural):
 total: 37.53 cu km/yr (12%/35%/52%)
 per capita: 807 cu m/yr (2000)
 Natural hazards:
 NA
 Environment - current issues:
 inadequate supplies of potable water; air and water
 pollution; deforestation; radiation contamination in the
 northeast from 1986 accident at Chornobyl' Nuclear
 Power Plant
 Environment - international agreements:
 party to: Air Pollution, Air Pollution-Nitrogen Oxides,
 Air Pollution-Sulfur 85, Antarctic-Environmental
 Protocol, Antarctic-Marine Living Resources, Antarctic
 Treaty, Biodiversity, Climate Change, Climate
 Change-Kyoto Protocol, Desertification, Endangered
 Species, Environmental Modification, Hazardous
 Wastes, Law of the Sea, Marine Dumping, Ozone
 Layer Protection, Ship Pollution, Wetlands
 signed, but not ratified: Air Pollution-Persistent
 Organic Pollutants, Air Pollution-Sulfur 94, Air
 Pollution-Volatile Organic Compounds
 Geography - note:
 strategic position at the crossroads between Europe
 and Asia; second-largest country in Europe

People ::Ukraine
 Population:
 45,415,596 (July 2010 est.)
 country comparison to the world: 27
 Age structure:
 0-14 years: 13.7% (male 3,208,105/female 3,035,745)
 15-64 years: 70.7% (male 15,374,159/female
 16,752,535)
 65 years and over: 15.5% (male 2,329,003/female
 4,716,049) (2010 est.)
 Median age:
 total: 39.7 years
 male: 36.5 years
 female: 42.9 years (2010 est.)
 Population growth rate:
 -0.619% (2010 est.)
 country comparison to the world: 227
 Birth rate:
 9.62 births/1,000 population (2010 est.)
 country comparison to the world: 199
 Death rate:
 15.7 deaths/1,000 population (July 2010 est.)
 country comparison to the world: 10
 Net migration rate:
 -0.1 migrant(s)/1,000 population (2010 est.)
 country comparison to the world: 96
 Urbanization:

urban population: 68% of total population (2008)
 rate of urbanization: -0.7% annual rate of change
 (2005-10 est.)
 Sex ratio:
 at birth: 1.065 male(s)/female
 under 15 years: 1.06 male(s)/female
 15-64 years: 0.92 male(s)/female
 65 years and over: 0.49 male(s)/female
 total population: 0.85 male(s)/female (2010 est.)
 Infant mortality rate:
 total: 8.73 deaths/1,000 live births
 country comparison to the world: 161
 male: 10.95 deaths/1,000 live births
 female: 6.38 deaths/1,000 live births (2010 est.)
 Life expectancy at birth:
 total population: 68.46 years
 country comparison to the world: 149
 male: 62.56 years
 female: 74.74 years (2010 est.)
 Total fertility rate:
 1.27 children born/woman (2010 est.)
 country comparison to the world: 212
 HIV/AIDS - adult prevalence rate:
 1.6% (2007 est.)
 country comparison to the world: 39
 HIV/AIDS - people living with HIV/AIDS:
 440,000 (2007 est.)
 country comparison to the world: 21
 HIV/AIDS - deaths:
 19,000 (2007 est.)
 country comparison to the world: 23
 Nationality:
 noun: Ukrainian(s)
 adjective: Ukrainian
 Ethnic groups:
 Ukrainian 77.8%, Russian 17.3%, Belarusian 0.6%,
 Moldovan 0.5%, Crimean Tatar 0.5%, Bulgarian
 0.4%, Hungarian 0.3%, Romanian 0.3%, Polish 0.3%,
 Jewish 0.2%, other 1.8% (2001 census)
 Religions:
 Ukrainian Orthodox - Kyiv Patriarchate 50.4%,
 Ukrainian Orthodox - Moscow Patriarchate 26.1%,
 Ukrainian Greek Catholic 8%, Ukrainian
 Autocephalous Orthodox 7.2%, Roman Catholic
 2.2%, Protestant 2.2%, Jewish 0.6%, other 3.2%
 (2006 est.)
 Languages:
 Ukrainian (official) 67%, Russian 24%, other 9%
 (includes small Romanian-, Polish-, and Hungarian-
 speaking minorities)
 Literacy:
 definition: age 15 and over can read and write
 total population: 99.4%
 male: 99.7%

female: 99.2% (2001 census)
School life expectancy (primary to tertiary education):
total: 14 years
male: 14 years
female: 15 years (2006)
Education expenditures:
6.3% of GDP (2006)
country comparison to the world: 36

Government ::Ukraine

Country name:
conventional long form: none
conventional short form: Ukraine
local long form: none
local short form: Ukrayina
former: Ukrainian National Republic, Ukrainian State,
Ukrainian Soviet Socialist Republic
Government type:
republic
Capital:
name: Kyiv (Kiev)
note: pronounced KAY-yiv
geographic coordinates: 50 26 N, 30 31 E
time difference: UTC+2 (7 hours ahead of
Washington, DC during Standard Time)
daylight saving time: +1hr, begins last Sunday in
March; ends last Sunday in October
Administrative divisions:
24 provinces (oblasti, singular - oblast'), 1
autonomous republic* (avtonomna respublika), and 2
municipalities (mista, singular - misto) with oblast
status**; Cherkasy, Chernihiv, Chernivtsi, Crimea or
Avtonomna Respublika Krym* (Simferopol'),
Dnipropetrovs'k, Donetsk, Ivano-Frankivs'k, Kharkiv,
Kherson, Khmel'nyts'kyy, Kirovohrad, Kyiv**, Kyiv,
Luhans'k, L'viv, Mykolayiv, Odesa, Poltava, Rivne,
Sevastopol**, Sumy, Ternopil', Vinnytsya, Volyn'
(Luts'k), Zakarpattya (Uzhhorod), Zaporizhzhya,
Zhytomyr
note: administrative divisions have the same names
as their administrative centers (exceptions have the
administrative center name following in parentheses)
Independence:
24 August 1991 (from the Soviet Union)
National holiday:
Independence Day, 24 August (1991); note - 22
January 1918, the day Ukraine first declared its
independence (from Soviet Russia) and the day the
short-lived Western and Greater (Eastern) Ukrainian
republics united (1919), is now celebrated as Unity
Day
Constitution:
adopted 28 June 1996
Legal system:

based on civil law system; judicial review of legislative
acts; has not accepted compulsory ICJ jurisdiction
Suffrage:

18 years of age; universal

Executive branch:

chief of state: President Viktor YANUKOVYCH (since
25 February 2010)

head of government: Prime Minister Mykola AZAROV
(since 11 March 2010); First Deputy Prime Minister
Andriy KLYUYEV (since 11 March 2010); Deputy
Prime Ministers Borys KOLESNIKOV, Volodymyr
SIVKOYCH, Viktor SLAUTA, Serhiy TIHIPKO, Viktor
TYKHONOV (all since 11 March 2010)

cabinet: Cabinet of Ministers selected by the prime
minister; the only exceptions are the foreign and
defense ministers, who are chosen by the president
(For more information visit the World Leaders website
Opens in New Window)

note: there is also a National Security and Defense
Council or NSDC originally created in 1992 as the
National Security Council; the NSDC staff is tasked
with developing national security policy on domestic
and international matters and advising the president;
a Presidential Administration helps draft presidential
edicts and provides policy support to the president
elections: president elected by popular vote for a five-
year term (eligible for a second term); election last
held on 17 January 2010 with runoff on 7 February
2010 (next to be held in 2015); under constitutional
reforms that went into effect 1 January 2006, the
majority in parliament takes the lead in naming the
prime minister

election results: Viktor YANUKOVYCH elected
president; percent of vote - Viktor YANUKOVYCH
48.95%, Yuliya TYMOSHENKO 45.5%

Legislative branch:

unicameral Supreme Council or Verkhovna Rada
(450 seats; members allocated on a proportional
basis to those parties that gain 3% or more of the
national electoral vote; members to serve five-year
terms)

elections: last held on 30 September 2007 (next must
be held in 2012 or sooner if a ruling coalition cannot
be formed in the Rada)

election results: percent of vote by party/bloc - Party
of Regions 34.4%, Block of Yuliya Tymoshenko
30.7%, Our Ukraine-People's Self Defense 14.2%,
CPU 5.4%, Lytvyn Bloc 4%, other parties 11.3%;
seats by party/bloc - Party of Regions 175, Block of
Yuliya Tymoshenko 156, Our Ukraine-People's Self
Defense 72, CPU 27, Lytvyn Bloc 20

Judicial branch:

Supreme Court; Constitutional Court

Political parties and leaders:

Block of Yuliya Tymoshenko (BYuT) [Yuliya TYMOSHENKO]; Communist Party of Ukraine or CPU [Petro SYMONENKO]; European Party of Ukraine [Mykola KATERYNCHUK]; Fatherland Party (Batkivshchyna) [Yuliya TYMOSHENKO]; Forward Ukraine! [Viktor MUSIYAKA]; Front of Change [Arseniy YATSENYUK]; Labor Party of Ukraine [Serhiy TIHIPKO]; Lytvyn Bloc (composed of People's Party and Labor Party of Ukraine) [Volodymyr LYTVYN]; Our Ukraine [Viktor YUSHCHENKO]; Party of Industrialists and Entrepreneurs [Anatoliy KINAKH]; Party of the Defenders of the Fatherland [Yuriy KARMAZIN]; People's Movement of Ukraine (Rukh) [Borys TARASYUK]; People's Party [Volodymyr LYTVYN]; Peoples' Self-Defense [Yuriy LUTSENKO]; PORA! (It's Time!) party [Vladyslav KASKIV]; Progressive Socialist Party [Natalya VITRENKO]; Reforms and Order Party [Viktor PYNZENYK]; Party of Regions [Viktor YANUKOVYCH]; Sobor [Anatoliy MATVIYENKO]; Social Democratic Party [Yevhen KORNICHUK]; Social Democratic Party (United) or SDPU(o) [Yuriy ZAHORODNIY]; Socialist Party of Ukraine or SPU [Oleksandr MOROZ]; Ukrainian People's Party [Yuriy KOSTENKO]; United Center [Ihor KRILL]; Viche [Inna BOHOSLOVSKA]

Political pressure groups and leaders:

Committee of Voters of Ukraine [Aleksandr CHERNENKO]

International organization participation:

Australia Group, BSEC, CBSS (observer), CE, CEI, CICA (observer), CIS (participating member, has not signed the 1993 CIS charter although it participates in meetings), EAEC (observer), EAPC, EBRD, FAO, GCTU, GUAM, IAEA, IBRD, ICAO, ICC, ICCt (signatory), ICRM, IDA, IFC, IFRCs, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITU, ITUC, LAIA (observer), MIGA, MONUC, NAM (observer), NSG, OAS (observer), OIF (observer), OPCW, OSCE, PCA, PFP, SECI (observer), UN, UNCTAD, UNESCO, UNIDO, UNMIL, UNMIS, UNWTO, UPU, WCO, WFTU, WHO, WIPO, WMO, WTO, ZC

Diplomatic representation in the US:

chief of mission: Ambassador Oleksandr MOTSYK
chancery: 3350 M Street NW, Washington, DC 20007
telephone: [1] (202) 333-0606

FAX: [1] (202) 333-0817

consulate(s) general: Chicago, New York, San Francisco

Diplomatic representation from the US:

chief of mission: Ambassador John F. TEFFT
embassy: 10 Yurii Kotsiubynsky Street, 01901 Kyiv
mailing address: 5850 Kyiv Place, Washington, DC 20521-5850

telephone: [380] (44) 490-4000

FAX: [380] (44) 490-4085

Flag description:

two equal horizontal bands of azure (top) and golden yellow represent grain fields under a blue sky

Economy ::Ukraine

Economy - overview:

After Russia, the Ukrainian republic was far and away the most important economic component of the former Soviet Union, producing about four times the output of the next-ranking republic. Its fertile black soil generated more than one-fourth of Soviet agricultural output, and its farms provided substantial quantities of meat, milk, grain, and vegetables to other republics. Likewise, its diversified heavy industry supplied the unique equipment (for example, large diameter pipes) and raw materials to industrial and mining sites (vertical drilling apparatus) in other regions of the former USSR. Shortly after independence in August 1991, the Ukrainian Government liberalized most prices and erected a legal framework for privatization, but widespread resistance to reform within the government and the legislature soon stalled reform efforts and led to some backtracking. Output by 1999 had fallen to less than 40% of the 1991 level.

Ukraine's dependence on Russia for energy supplies and the lack of significant structural reform have made the Ukrainian economy vulnerable to external shocks. Ukraine depends on imports to meet about three-fourths of its annual oil and natural gas requirements and 100% of its nuclear fuel needs.

After a two-week dispute that saw gas supplies cutoff to Europe, Ukraine agreed to ten-year gas supply and transit contracts with Russia in January 2009 that brought gas prices to "world" levels. The strict terms of the contracts have further hobbled Ukraine's cash-strapped state gas company, Naftohaz. Outside institutions - particularly the IMF - have encouraged Ukraine to quicken the pace and scope of reforms. Ukrainian Government officials eliminated most tax and customs privileges in a March 2005 budget law, bringing more economic activity out of Ukraine's large shadow economy, but more improvements are needed, including fighting corruption, developing capital markets, and improving the legislative framework. Ukraine's economy was buoyant despite political turmoil between the prime minister and president until mid-2008. Real GDP growth exceeded 7% in 2006-07, fueled by high global prices for steel - Ukraine's top export - and by strong domestic consumption, spurred by rising pensions and wages. The drop in steel prices and Ukraine's exposure to the global financial crisis due to aggressive foreign borrowing lowered growth in 2008 and the economy contracted more than 14% in 2009, among the worst

economic performances in the world. Ukraine reached an agreement with the IMF for a \$16.4 billion Stand-By Arrangement in November 2008 to deal with the economic crisis, but the Ukrainian Government's lack of progress in implementing reforms has twice delayed the release of IMF assistance funds. Political turmoil in Ukraine as well as deteriorating external conditions are likely to hamper efforts for economic recovery.

GDP (purchasing power parity):

\$294.3 billion (2009 est.)

country comparison to the world: 40

\$342.6 billion (2008 est.)

\$335.5 billion (2007 est.)

note: data are in 2009 US dollars

GDP (official exchange rate):

\$117.1 billion (2009 est.)

GDP - real growth rate:

-14.1% (2009 est.)

country comparison to the world: 210

2.1% (2008 est.)

7.9% (2007 est.)

GDP - per capita (PPP):

\$6,400 (2009 est.)

country comparison to the world: 130

\$7,400 (2008 est.)

\$7,200 (2007 est.)

note: data are in 2009 US dollars

GDP - composition by sector:

agriculture: 9.8%

industry: 30.7%

services: 59.5% (2009 est.)

Labor force:

22.15 million (2009 est.)

country comparison to the world: 28

Labor force - by occupation:

agriculture: 15.8%

industry: 18.5%

services: 65.7% (2008)

Unemployment rate:

8.8% (2009 est.)

country comparison to the world: 103

6.4% (2007 est.)

note: officially registered; large number of unregistered or underemployed workers

Population below poverty line:

35% (2009)

Household income or consumption by percentage share:

lowest 10%: 3.4%

highest 10%: 25.7% (2006)

Distribution of family income - Gini index:

31 (2006)

country comparison to the world: 105

29 (1999)

Investment (gross fixed):

18% of GDP (2009 est.)

country comparison to the world: 114

Budget:

revenues: \$34.15 billion

expenditures: \$41.75 billion

note: this is the planned, consolidated budget (2009 est.)

Public debt:

30% of GDP (2009 est.)

country comparison to the world: 85

20.1% of GDP (2008 est.)

Inflation rate (consumer prices):

12.3% (2009)

country comparison to the world: 205

22.3% (2008)

Central bank discount rate:

10.25% (31 December 2009)

country comparison to the world: 28

12% (31 December 2008)

Commercial bank prime lending rate:

19.6% (31 December 2009)

country comparison to the world: 29

17.49% (31 December 2008)

Stock of money:

\$24.7 billion (31 December 2009)

country comparison to the world: 41

\$29.24 billion (31 December 2008)

Stock of quasi money:

\$41.5 billion (31 December 2009)

country comparison to the world: 41

\$45.3 billion (31 December 2008)

Stock of domestic credit:

\$90.6 billion (31 December 2009)

country comparison to the world: 40

\$101.1 billion (31 December 2008)

Market value of publicly traded shares:

\$16.86 billion (31 December 2009)

country comparison to the world: 57

\$24.36 billion (31 December 2008)

\$111.8 billion (31 December 2007)

Agriculture - products:

grain, sugar beets, sunflower seeds, vegetables; beef, milk

Industries:

coal, electric power, ferrous and nonferrous metals, machinery and transport equipment, chemicals, food processing

Industrial production growth rate:

-24.5% (2009 est.)

country comparison to the world: 165

Electricity - production:

172.9 billion kWh (2009 est.)

country comparison to the world: 22
 Electricity - consumption:
 134.6 billion kWh (2009 est.)
 country comparison to the world: 22
 Electricity - exports:
 4 billion kWh (2009 est.)
 Electricity - imports:
 0 kWh (2009 est.)
 Oil - production:
 99,930 bbl/day (2009 est.)
 country comparison to the world: 52
 Oil - consumption:
 348,000 bbl/day (2009 est.)
 country comparison to the world: 37
 Oil - exports:
 154,400 bbl/day (2009 est.)
 country comparison to the world: 57
 Oil - imports:
 147,600 bbl/day (2009 est.)
 country comparison to the world: 56
 Oil - proved reserves:
 395 million bbl (1 January 2009 est.)
 country comparison to the world: 52
 Natural gas - production:
 21.2 billion cu m (2009 est.)
 country comparison to the world: 31
 Natural gas - consumption:
 52 billion cu m (2009 est.)
 country comparison to the world: 15
 Natural gas - exports:
 5 billion cu m (2009 est.)
 country comparison to the world: 27
 Natural gas - imports:
 26.83 billion cu m (2009 est.)
 country comparison to the world: 11
 Natural gas - proved reserves:
 1.104 trillion cu m (1 January 2009 est.)
 country comparison to the world: 24
 Current account balance:
 -\$1.801 billion (2009 est.)
 country comparison to the world: 147
 -\$12.76 billion (2008)
 Exports:
 \$40.39 billion (2009 est.)
 country comparison to the world: 54
 \$67.72 billion (2008 est.)
 Exports - commodities:
 ferrous and nonferrous metals, fuel and petroleum
 products, chemicals, machinery and transport
 equipment, food products
 Exports - partners:
 Russia 21.4%, Turkey 5.36%, China 3.61% (2009)
 Imports:
 \$45.05 billion (2009 est.)

country comparison to the world: 49
 \$83.81 billion (2008 est.)
 Imports - commodities:
 energy, machinery and equipment, chemicals
 Imports - partners:
 Russia 29.13%, Germany 8.48%, China 6.02%,
 Poland 4.78%, Kazakhstan 4.48% (2009)
 Reserves of foreign exchange and gold:
 \$26.51 billion (31 December 2009 est.)
 country comparison to the world: 47
 \$31.54 billion (31 December 2008)
 Debt - external:
 \$104 billion (31 December 2009 est.)
 country comparison to the world: 33
 \$101.7 billion (31 December 2008)
 Stock of direct foreign investment - at home:
 \$46.81 billion (30 October 2009 est.)
 country comparison to the world: 53
 \$41.99 billion (31 December 2008 est.)
 Stock of direct foreign investment - abroad:
 \$2.192 billion (31 December 2009 est.)
 country comparison to the world: 64
 \$1.905 billion (31 December 2008 est.)
 Exchange rates:
 hryvnia (UAH) per US dollar - 7.7856 (2009), 4.9523
 (2008), 5.05 (2007), 5.05 (2006), 5.1247 (2005)
Communications ::Ukraine
 Telephones - main lines in use:
 13.177 million (2008)
 country comparison to the world: 20
 Telephones - mobile cellular:
 55.695 million (2008)
 country comparison to the world: 19
 Telephone system:
 general assessment: Ukraine's telecommunication
 development plan emphasizes improving domestic
 trunk lines, international connections, and the mobile-
 cellular system
 domestic: at independence in December 1991,
 Ukraine inherited a telephone system that was
 antiquated, inefficient, and in disrepair; more than 3.5
 million applications for telephones could not be
 satisfied; telephone density is rising and the domestic
 trunk system is being improved; about one-third of
 Ukraine's networks are digital and a majority of
 regional centers now have digital switching stations;
 improvements in local networks and local exchanges
 continue to lag; the mobile-cellular telephone system's
 expansion has slowed, largely due to saturation of the
 market which had reached 120 mobile phones per
 100 people by 2008
 international: country code - 380; 2 new domestic
 trunk lines are a part of the fiber-optic Trans-Asia-
 Europe (TAE) system and 3 Ukrainian links have

been installed in the fiber-optic Trans-European Lines (TEL) project that connects 18 countries; additional international service is provided by the Italy-Turkey-Ukraine-Russia (ITUR) fiber-optic submarine cable and by an unknown number of earth stations in the Intelsat, Inmarsat, and Intersputnik satellite systems

Radio broadcast stations:

524 (station frequency types NA) (2006)

Television broadcast stations:

647 (2006)

Internet country code:

.ua

Internet hosts:

706,485 (2009)

country comparison to the world: 46

Internet users:

10.354 million (2008)

country comparison to the world: 30

Transportation ::Ukraine

Airports:

425 (2009)

country comparison to the world: 18

Airports - with paved runways:

total: 189

over 3,047 m: 12

2,438 to 3,047 m: 51

1,524 to 2,437 m: 24

914 to 1,523 m: 6

under 914 m: 96 (2009)

Airports - with unpaved runways:

total: 236

2,438 to 3,047 m: 3

1,524 to 2,437 m: 7

914 to 1,523 m: 12

under 914 m: 214 (2009)

Heliports:

7 (2009)

Pipelines:

gas 33,327 km; oil 4,514 km; refined products 4,211 km (2009)

Railways:

total: 21,655 km

country comparison to the world: 13

broad gauge: 21,655 km 1.524-m gauge (9,729 km electrified) (2008)

Roadways:

total: 169,422 km

country comparison to the world: 30

paved: 165,611 km (includes 15 km of expressways)

unpaved: 3,811 km (2007)

Waterways:

2,176 km (most on Dnieper River) (2007)

country comparison to the world: 42

Merchant marine:

total: 189

country comparison to the world: 36

by type: bulk carrier 6, cargo 141, chemical tanker 1, container 3, passenger 6, passenger/cargo 3, petroleum tanker 9, refrigerated cargo 11, roll on/roll off 7, specialized tanker 2

foreign-owned: 2 (Luxembourg 1, Russia 1)

registered in other countries: 204 (Belize 7, Cambodia 34, Comoros 8, Cyprus 4, Dominica 4, Georgia 18, Liberia 25, Lithuania 1, Malta 30, Moldova 5, Mongolia 1, Panama 10, Russia 11, Saint Kitts and Nevis 9, Saint Vincent and the Grenadines 11, Sierra Leone 10, Slovakia 12, Tuvalu 1, unknown 3) (2008)

Ports and terminals:

Feodosiya, Kerch, Kherson, Mariupol', Mykolayiv, Odesa, Yuzhnyy

Military ::Ukraine

Military branches:

Ground Forces, Naval Forces, Air and Air Defense Forces (Viyskovo-Povitryani Syly, VPS) (2010)

Military service age and obligation:

18-25 years of age for compulsory and voluntary military service; conscript service obligation - 18 months for Army and Air Force, 24 months for Navy (2004)

Manpower available for military service:

males age 16-49: 11,149,646

females age 16-49: 11,437,891 (2010 est.)

Manpower fit for military service:

males age 16-49: 6,970,035

females age 16-49: 9,015,224 (2010 est.)

Manpower reaching militarily significant age annually:

male: 256,196

female: 244,473 (2010 est.)

Military expenditures:

1.4% of GDP (2005 est.)

country comparison to the world: 109

Transnational Issues ::Ukraine

Disputes - international:

1997 boundary delimitation treaty with Belarus remains un-ratified due to unresolved financial claims, stalling demarcation and reducing border security; delimitation of land boundary with Russia is complete with preparations for demarcation underway; the dispute over the boundary between Russia and Ukraine through the Kerch Strait and Sea of Azov remains unresolved despite a December 2003 framework agreement and ongoing expert-level discussions; Moldova and Ukraine operate joint customs posts to monitor transit of people and commodities through Moldova's break-away Transnistria Region, which remains under OSCE supervision; the ICJ gave Ukraine until December 2006 to reply, and Romania until June 2007 to rejoin,

in their dispute submitted in 2004 over Ukrainian-administered Zmiyinyy/Serpilor (Snake) Island and Black Sea maritime boundary; Romania opposes Ukraine's reopening of a navigation canal from the Danube border through Ukraine to the Black Sea
Illicit drugs:

limited cultivation of cannabis and opium poppy, mostly for CIS consumption; some synthetic drug production for export to the West; limited government eradication program; used as transshipment point for opiates and other illicit drugs from Africa, Latin America, and Turkey to Europe and Russia; Ukraine has improved anti-money-laundering controls, resulting in its removal from the Financial Action Task Force's (FATF's) Noncooperative Countries and Territories List in February 2004; Ukraine's anti-money-laundering regime continues to be monitored by FATF

Introduction ::Thailand

Background:

A unified Thai kingdom was established in the mid-14th century. Known as Siam until 1939, Thailand is the only Southeast Asian country never to have been taken over by a European power. A bloodless revolution in 1932 led to a constitutional monarchy. In alliance with Japan during World War II, Thailand became a US treaty ally following the conflict. A military coup in September 2006 ousted then Prime Minister THAKSIN Chinnawat. The interim government held elections in December 2007 that saw the former pro-THAKSIN People's Power Party (PPP) emerge at the head of a coalition government. The anti-THAKSIN People's Alliance for Democracy (PAD) in May 2008 began street demonstrations against the new government, eventually occupying the prime minister's office in August and Bangkok's two international airports in November. The PAD ended their protests in early December 2008 following a court ruling that dissolved the ruling PPP and two other coalition parties for election violations. The Democrat Party then formed a new coalition government and ABHISIT Wetchachiwa became prime minister. In October 2008 THAKSIN went into voluntary exile to avoid imprisonment for a corruption conviction, and has since agitated his followers from abroad. THAKSIN supporters re-organized into the United Front for Democracy Against Dictatorship (UDD) and rioted in April 2009, shutting down an ASEAN meeting in Phuket, and in early 2010 protested a court verdict confiscating most of THAKSIN's wealth. Since January 2004, thousands have been killed as separatists in Thailand's southern ethnic Malay-Muslim provinces increased the violence associated with their cause.

Geography ::Thailand

Location:

Southeastern Asia, bordering the Andaman Sea and the Gulf of Thailand, southeast of Burma

Geographic coordinates:

15 00 N, 100 00 E

Map references:

Southeast Asia

Area:

total: 513,120 sq km

country comparison to the world: 50

land: 510,890 sq km

water: 2,230 sq km

Area - comparative:

slightly more than twice the size of Wyoming

Land boundaries:

total: 4,863 km

border countries: Burma 1,800 km, Cambodia 803 km, Laos 1,754 km, Malaysia 506 km

Coastline:

3,219 km

Maritime claims:

territorial sea: 12 nm

exclusive economic zone: 200 nm

continental shelf: 200 m depth or to the depth of exploitation

Climate:

Current Weather

tropical; rainy, warm, cloudy southwest monsoon (mid-May to September); dry, cool northeast monsoon (November to mid-March); southern isthmus always hot and humid

Terrain:

central plain; Khorat Plateau in the east; mountains elsewhere

Elevation extremes:

lowest point: Gulf of Thailand 0 m

highest point: Doi Inthanon 2,576 m

Natural resources:

tin, rubber, natural gas, tungsten, tantalum, timber, lead, fish, gypsum, lignite, fluorite, arable land

Land use:

arable land: 27.54%

permanent crops: 6.93%

other: 65.53% (2005)

Irrigated land:

49,860 sq km (2003)

Total renewable water resources:

409.9 cu km (1999)

Freshwater withdrawal

(domestic/industrial/agricultural):

total: 82.75 cu km/yr (2%/2%/95%)

per capita: 1,288 cu m/yr (2000)

Natural hazards:

land subsidence in Bangkok area resulting from the depletion of the water table; droughts

Environment - current issues:

air pollution from vehicle emissions; water pollution from organic and factory wastes; deforestation; soil erosion; wildlife populations threatened by illegal hunting

Environment - international agreements:

party to: Biodiversity, Climate Change, Climate Change-Kyoto Protocol, Desertification, Endangered Species, Hazardous Wastes, Marine Life Conservation, Ozone Layer Protection, Tropical Timber 83, Tropical Timber 94, Wetlands signed, but not ratified: Law of the Sea

Geography - note:

controls only land route from Asia to Malaysia and Singapore

People ::Thailand

Population:

66,404,688

country comparison to the world: 20

note: estimates for this country explicitly take into account the effects of excess mortality due to AIDS; this can result in lower life expectancy, higher infant mortality, higher death rates, lower population growth rates, and changes in the distribution of population by age and sex than would otherwise be expected (July 2010 est.)

Age structure:

0-14 years: 20.3% (male 6,913,501/female 6,595,401)

15-64 years: 70.7% (male 23,213,800/female 23,724,246)

65 years and over: 9% (male 2,693,129/female 3,264,611) (2010 est.)

Median age:

total: 33.7 years

male: 32.9 years

female: 34.7 years (2010 est.)

Population growth rate:

0.601% (2010 est.)

country comparison to the world: 148

Birth rate:

13.21 births/1,000 population (2010 est.)

country comparison to the world: 155

Death rate:

7.2 deaths/1,000 population (July 2010 est.)

country comparison to the world: 128

Net migration rate:

NA

Urbanization:

urban population: 33% of total population (2008)

rate of urbanization: 1.7% annual rate of change (2005-10 est.)

Sex ratio:

at birth: 1.054 male(s)/female

under 15 years: 1.05 male(s)/female

15-64 years: 0.98 male(s)/female

65 years and over: 0.82 male(s)/female

total population: 0.98 male(s)/female (2010 est.)

Infant mortality rate:

total: 16.91 deaths/1,000 live births

country comparison to the world: 113

male: 17.9 deaths/1,000 live births

female: 15.86 deaths/1,000 live births (2010 est.)

Life expectancy at birth:

total population: 73.36 years

country comparison to the world: 113

male: 71.02 years

female: 75.82 years (2010 est.)

Total fertility rate:

1.65 children born/woman (2010 est.)

country comparison to the world: 176

HIV/AIDS - adult prevalence rate:

1.4% (2007 est.)

country comparison to the world: 46

HIV/AIDS - people living with HIV/AIDS:

610,000 (2007 est.)

country comparison to the world: 18

HIV/AIDS - deaths:

30,000 (2007 est.)

country comparison to the world: 17

Major infectious diseases:

degree of risk: high

food or waterborne diseases: bacterial diarrhea

vectorborne diseases: dengue fever, Japanese encephalitis, and malaria

animal contact disease: rabies

water contact disease: leptospirosis

note: highly pathogenic H5N1 avian influenza has been identified in this country; it poses a negligible risk with extremely rare cases possible among US citizens who have close contact with birds (2009)

Nationality:

noun: Thai (singular and plural)

adjective: Thai

Ethnic groups:

Thai 75%, Chinese 14%, other 11%

Religions:

Buddhist 94.6%, Muslim 4.6%, Christian 0.7%, other 0.1% (2000 census)

Languages:

Thai, English (secondary language of the elite), ethnic and regional dialects

Literacy:

definition: age 15 and over can read and write

total population: 92.6%

male: 94.9%

female: 90.5% (2000 census)

School life expectancy (primary to tertiary education):

total: 14 years

male: 13 years

female: 14 years (2006)

Education expenditures:

4.2% of GDP (2005)

country comparison to the world: 99

Government ::Thailand

Country name:

conventional long form: Kingdom of Thailand

conventional short form: Thailand

local long form: Ratcha Anachak Thai

local short form: Prathet Thai

former: Siam

Government type:

constitutional monarchy

Capital:

name: Bangkok
geographic coordinates: 13 45 N, 100 31 E
time difference: UTC+7 (12 hours ahead of Washington, DC during Standard Time)
Administrative divisions:
76 provinces (changwat, singular and plural); Amnat Charoen, Ang Thong, Buriram, Chachoengsao, Chai Nat, Chaiyaphum, Chanthaburi, Chiang Mai, Chiang Rai, Chon Buri, Chumphon, Kalasin, Kamphaeng Phet, Kanchanaburi, Khon Kaen, Krabi, Krung Thep Mahanakhon (Bangkok), Lampang, Lamphun, Loei, Lop Buri, Mae Hong Son, Maha Sarakham, Mukdahan, Nakhon Nayok, Nakhon Pathom, Nakhon Phanom, Nakhon Ratchasima, Nakhon Sawan, Nakhon Si Thammarat, Nan, Narathiwat, Nong Bua Lamphu, Nong Khai, Nonthaburi, Pathum Thani, Pattani, Phangnga, Phatthalung, Phayao, Phetchabun, Phetchaburi, Phichit, Phitsanulok, Phra Nakhon Si Ayutthaya, Phrae, Phuket, Prachin Buri, Prachuap Khiri Khan, Ranong, Ratchaburi, Rayong, Roi Et, Sa Kaeo, Sakon Nakhon, Samut Prakan, Samut Sakhon, Samut Songkhram, Sara Buri, Satun, Sing Buri, Sisaket, Songkhla, Sukhothai, Suphan Buri, Surat Thani, Surin, Tak, Trang, Trat, Ubon Ratchathani, Udon Thani, Uthai Thani, Uttaradit, Yala, Yasothon
Independence:
1238 (traditional founding date; never colonized)
National holiday:
Birthday of King PHUMIPHON (BHUMIBOL), 5 December (1927)
Constitution:
24 August 2007
Legal system:
based on civil law system with influences of common law; has not accepted compulsory ICJ jurisdiction
Suffrage:
18 years of age; universal and compulsory
Executive branch:
chief of state: King PHUMIPHON Adunyadet, also spelled BHUMIBOL Adulyadej (since 9 June 1946)
head of government: Prime Minister ABHISIT Wetchachiwa, also spelled ABHISIT Vejjajiva (since 17 December 2008); Deputy Prime Minister SANAN Kachornprasat, also spelled SANAN Kachornparsart (since 7 February 2008); Deputy Prime Minister SUTHEP Thueaksuban, also spelled SUTHEP Thaugsuban (since 22 December 2008); Deputy Prime Minister TRAIRONG Suwannakhiri (since 18 January 2010)
cabinet: Council of Ministers
(For more information visit the World Leaders website Opens in New Window)
note: there is also a Privy Council advising the king

elections: the monarchy is hereditary; according to 2007 constitution, the prime minister elected from among members of House of Representatives; following national elections for House of Representatives, the leader of the party positioned to organize a majority coalition usually becomes prime minister by appointment by the king; the prime minister limited to two four-year terms
Legislative branch:
bicameral National Assembly or Rathasapha consisted of the Senate or Wuthisapha (150 seats; 76 members elected by popular vote representing 76 provinces, 74 appointed by judges and independent government bodies; members serve six-year terms) and the House of Representatives or Sapha Phuthaen Ratsadon (480 seats; 400 members elected from 157 multi-seat constituencies and 80 elected on proportional party-list basis of 10 per eight zones or groupings of provinces; members serve four-year terms)
elections: Senate - last held on 2 March 2008 (next to be held in March 2014); House of Representatives - last election held on 23 December 2007 (next to be held by December 2011)
election results: Senate - percent of vote by party - NA; seats by party - NA; House of Representatives - percent of vote by party - NA; seats by party - PPP 233, DP 164, TNP 34, Motherland 24, Middle Way 11, Unity 9, Royalist People's 5; following the PPP's dissolution in December 2008, most of the party's seats were assumed by its successor, the Phuea Thai Party
note: 74 senators were appointed on 19 February 2008 by a seven-member committee headed by the chief of the Constitutional Court; 76 senators were elected on 2 March 2008; elections to the Senate are non-partisan; registered political party members are disqualified from being senators
Judicial branch:
Constitutional Court, Supreme Court of Justice, and Supreme Administrative Court; all judges are appointed by the king; the king's appointments to the Constitutional Court are made upon the advice of the Senate; the nine Constitutional Court judges are drawn from the Supreme Court of Justice and Supreme Administrative Court as well as from among substantive experts in law and social sciences outside the judiciary
Political parties and leaders:
Chat Thai Phattana Party or CP (Thai Nation Development Party) [CHUMPON Silpa-archa]; Democrat Party or DP (Prachathipat Party) [ABHISIT Wetchachiwa, also spelled ABHISIT Vejjajiva]; Motherland Party (Phuea Phaendin Party)

[CHANCHAI Chairungrueng]; Phuea Thai Party (For Thais Party) or PTP [CHAWALIT Yongchaiyut]; Phumchai (Bhumjai) Thai Party or PCT (Thai Pride) [CHAWARAT Chanvirakun]; Royalist People's Party (Pracharaj) [SANOH Thienthong]; Ruam Jai Thai Party (Thai Unity Party) [WANNARAT Channukun]

Political pressure groups and leaders:
 People's Alliance for Democracy or PAD; United Front for Democracy Against Dictatorship or UDD

International organization participation:
 ADB, APEC, APT, ARF, ASEAN, BIMSTEC, BIS, CICA, CP, EAS, FAO, G-77, IAEA, IBRD, ICAO, ICC, ICCt (signatory), ICRM, IDA, IFAD, IFC, IFRCS, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC, MIGA, NAM, OAS (observer), OIC (observer), OIF (observer), OPCW, OSCE (partner), PCA, PIF (partner), UN, UNAMID, UNCTAD, UNESCO, UNHCR, UNIDO, UNMIS, UNWTO, UPU, WCO, WFTU, WHO, WIPO, WMO, WTO

Diplomatic representation in the US:
 chief of mission: Ambassador DON Pramudwinai
 chancery: 1024 Wisconsin Avenue NW, Suite 401, Washington, DC 20007
 telephone: [1] (202) 944-3600
 FAX: [1] (202) 944-3611
 consulate(s) general: Chicago, Los Angeles, New York

Diplomatic representation from the US:
 chief of mission: Ambassador Eric G. JOHN
 embassy: 120-122 Wireless Road, Bangkok 10330
 mailing address: APO AP 96546
 telephone: [66] (2) 205-4000
 FAX: [66] (2) 254-2990, 205-4131
 consulate(s) general: Chiang Mai

Flag description:
 five horizontal bands of red (top), white, blue (double width), white, and red; the red color symbolizes the nation and the blood of life; white represents religion and the purity of Buddhism; blue stands for the monarchy
 note: similar to the flag of Costa Rica but with the blue and red colors reversed

Economy ::Thailand
 Economy - overview:
 With a well-developed infrastructure, a free-enterprise economy, generally pro-investment policies, and strong export industries, Thailand enjoyed solid growth from 2000 to 2008 - averaging more than 4% per year - as it recovered from the Asian financial crisis of 1997-98. Thai exports - mostly machinery and electronic components, agricultural commodities, and jewelry - continue to drive the economy, accounting for more than half of GDP. The global financial crisis of 2008-09 severely cut Thailand's

exports, with most sectors experiencing double-digit drops. In 2009, the economy contracted 2.8%. The Thai government is focusing on financing domestic infrastructure projects and stimulus programs to revive the economy, as external trade is still recovering and persistent internal political tension and investment disputes threaten to damage the investment climate.

GDP (purchasing power parity):
 \$538.6 billion (2009 est.)
 country comparison to the world: 25
 \$554.1 billion (2008 est.)
 \$540.6 billion (2007 est.)
 note: data are in 2009 US dollars

GDP (official exchange rate):
 \$269.6 billion (2009 est.)

GDP - real growth rate:
 -2.8% (2009 est.)
 country comparison to the world: 160
 2.5% (2008 est.)
 4.9% (2007 est.)

GDP - per capita (PPP):
 \$8,100 (2009 est.)
 country comparison to the world: 120
 \$8,400 (2008 est.)
 \$8,300 (2007 est.)
 note: data are in 2009 US dollars

GDP - composition by sector:
 agriculture: 11.6%
 industry: 43.3%
 services: 45.1% (2009 est.)

Labor force:
 38.43 million (2009 est.)
 country comparison to the world: 15

Labor force - by occupation:
 agriculture: 42.4%
 industry: 19.7%
 services: 37.9% (2008 est.)

Unemployment rate:
 1.5% (2009 est.)
 country comparison to the world: 7
 1.4% (2008 est.)

Population below poverty line:
 9.6% (2006 est.)

Household income or consumption by percentage share:
 lowest 10%: 1.6%
 highest 10%: 33.7% (2006)

Distribution of family income - Gini index:
 43 (2006)
 country comparison to the world: 50
 42 (2002)

Investment (gross fixed):
 24.4% of GDP (2009 est.)

country comparison to the world: 51
 Budget:
 revenues: \$40.9 billion
 expenditures: \$51.5 billion (FY10 est.)
 Public debt:
 45.9% of GDP (2009 est.)
 country comparison to the world: 55
 38% of GDP (2008 est.)
 Inflation rate (consumer prices):
 -0.9% (2009)
 country comparison to the world: 7
 5.4% (2008 est.)
 Central bank discount rate:
 1.75% (31 December 2009)
 country comparison to the world: 128
 3.25% (31 December 2008)
 Commercial bank prime lending rate:
 6.05% (31 December 2009)
 country comparison to the world: 127
 7.04% (31 December 2008)
 Stock of money:
 \$35.35 billion (31 December 2009)
 country comparison to the world: 31
 \$28.76 billion (31 December 2008)
 Stock of quasi money:
 \$283.6 billion (31 December 2009)
 country comparison to the world: 16
 \$237.5 billion (31 December 2008)
 Stock of domestic credit:
 \$301 billion (31 December 2009)
 country comparison to the world: 27
 \$274.1 billion (31 December 2008)
 Market value of publicly traded shares:
 \$142.2 billion (31 December 2009)
 country comparison to the world: 35
 \$102.6 billion (31 December 2008)
 \$196 billion (31 December 2007)
 Agriculture - products:
 rice, cassava (tapioca), rubber, corn, sugarcane,
 coconuts, soybeans
 Industries:
 tourism, textiles and garments, agricultural
 processing, beverages, tobacco, cement, light
 manufacturing such as jewelry and electric
 appliances, computers and parts, integrated circuits,
 furniture, plastics, automobiles and automotive parts;
 world's second-largest tungsten producer and third-
 largest tin producer
 Industrial production growth rate:
 -4.3% (2009 est.)
 country comparison to the world: 107
 Electricity - production:
 148.2 billion kWh (2008 est.)
 country comparison to the world: 24

Electricity - consumption:
 134.4 billion kWh (2008 est.)
 country comparison to the world: 24
 Electricity - exports:
 846 million kWh (2009 est.)
 Electricity - imports:
 2.313 billion kWh (2009 est.)
 Oil - production:
 340,900 bbl/day (2009 est.)
 country comparison to the world: 35
 Oil - consumption:
 923,000 bbl/day (2009 est.)
 country comparison to the world: 20
 Oil - exports:
 269,100 bbl/day (2009 est.)
 country comparison to the world: 43
 Oil - imports:
 1.695 million bbl/day (2009 est.)
 country comparison to the world: 13
 Oil - proved reserves:
 441 million bbl (1 January 2009 est.)
 country comparison to the world: 48
 Natural gas - production:
 28.76 billion cu m (2008 est.)
 country comparison to the world: 27
 Natural gas - consumption:
 37.31 billion cu m (2008 est.)
 country comparison to the world: 22
 Natural gas - exports:
 0 cu m (2008 est.)
 country comparison to the world: 111
 Natural gas - imports:
 8.55 billion cu m (2008 est.)
 country comparison to the world: 24
 Natural gas - proved reserves:
 317.1 billion cu m (1 January 2009 est.)
 country comparison to the world: 40
 Current account balance:
 \$18.01 billion (2009 est.)
 country comparison to the world: 16
 -\$113 million (2008 est.)
 Exports:
 \$154.2 billion (2009 est.)
 country comparison to the world: 25
 \$175.3 billion (2008 est.)
 Exports - commodities:
 textiles and footwear, fishery products, rice, rubber,
 jewelry, automobiles, computers and electrical
 appliances
 Exports - partners:
 US 10.94%, China 10.58%, Japan 10.32%, Hong
 Kong 6.22%, Australia 5.62%, Malaysia 5.03%,
 Singapore 4.97% (2009)
 Imports:

\$119 billion (2009 est.)
country comparison to the world: 29
\$157.3 billion (2008 est.)
Imports - commodities:
capital goods, intermediate goods and raw materials,
consumer goods, fuels
Imports - partners:
Japan 18.7%, China 12.73%, Malaysia 6.41%, US
6.31%, UAE 4.98%, Singapore 4.27%, South Korea
4.05% (2009)
Reserves of foreign exchange and gold:
\$138.4 billion (31 December 2009 est.)
country comparison to the world: 13
\$111 billion (31 December 2008 est.)
Debt - external:
\$66.3 billion (31 December 2009 est.)
country comparison to the world: 42
\$65.09 billion (31 December 2008)
Stock of direct foreign investment - at home:
\$93.84 billion (31 December 2009 est.)
country comparison to the world: 36
\$88.52 billion (31 December 2008)
Stock of direct foreign investment - abroad:
\$10.52 billion (31 December 2009 est.)
country comparison to the world: 49
\$7.013 billion (31 December 2007 est.)
Exchange rates:
baht per US dollar - 34.318 (2009), 33.37 (2008),
34.52 (2007), 37.882 (2006), 40.22 (2005)
Communications ::Thailand
Telephones - main lines in use:
7.024 million (2008)
country comparison to the world: 26
Telephones - mobile cellular:
62 million (2008)
country comparison to the world: 17
Telephone system:
general assessment: high quality system, especially
in urban areas like Bangkok
domestic: fixed line system provided by both a
government owned and commercial provider; wireless
service expanding rapidly and outpacing fixed lines
international: country code - 66; connected to major
submarine cable systems providing links throughout
Asia, Australia, Middle East, Europe, and US; satellite
earth stations - 2 Intelsat (1 Indian Ocean, 1 Pacific
Ocean)
Radio broadcast stations:
AM 238, FM 351, shortwave 6 (2007)
Television broadcast stations:
111 (2006)
Internet country code:
.th
Internet hosts:

1.231 million (2009)
country comparison to the world: 37
Internet users:
16.1 million (2008)
country comparison to the world: 23
Transportation ::Thailand
Airports:
105 (2009)
country comparison to the world: 56
Airports - with paved runways:
total: 64
over 3,047 m: 8
2,438 to 3,047 m: 11
1,524 to 2,437 m: 24
914 to 1,523 m: 15
under 914 m: 6 (2009)
Airports - with unpaved runways:
total: 41
1,524 to 2,437 m: 1
914 to 1,523 m: 13
under 914 m: 27 (2009)
Heliports:
4 (2009)
Pipelines:
gas 1,348 km; refined products 323 km (2009)
Railways:
total: 4,071 km
country comparison to the world: 41
standard gauge: 29 km 1.435-m gauge
narrow gauge: 4,042 km 1.000-m gauge (2008)
Roadways:
total: 180,053 km (includes 450 km of expressways)
(2006)
country comparison to the world: 28
Waterways:
4,000 km
country comparison to the world: 27
note: 3,701 km navigable by boats with drafts up to
0.9 m (2008)
Merchant marine:
total: 398
country comparison to the world: 25
by type: bulk carrier 53, cargo 135, chemical tanker
15, container 22, liquefied gas 28, passenger/cargo
10, petroleum tanker 100, refrigerated cargo 32,
specialized tanker 2, vehicle carrier 1
foreign-owned: 16 (China 1, Japan 4, Malaysia 3,
Singapore 2, Taiwan 1, UK 5)
registered in other countries: 40 (Bahamas 5,
Mongolia 1, Panama 10, Singapore 23, Tuvalu 1)
(2008)
Ports and terminals:
Bangkok, Laem Chabang, Prachuap Port, Si Racha
Military ::Thailand

Military branches:

Royal Thai Army (Kongthap Bok Thai, RTA), Royal Thai Navy (Kongthap Ruea Thai, RTN, includes Royal Thai Marine Corps), Royal Thai Air Force (Kongthap Agard Thai, RTAF) (2010)

Military service age and obligation:

21 years of age for compulsory military service; 18 years of age for voluntary military service; males are registered at 18 years of age; 2-year conscript service obligation (2007)

Manpower available for military service:

males age 16-49: 17,650,648

females age 16-49: 17,762,077 (2010 est.)

Manpower fit for military service:

males age 16-49: 13,247,646

females age 16-49: 14,166,227 (2010 est.)

Manpower reaching militarily significant age annually:

male: 535,884

female: 511,444 (2010 est.)

Military expenditures:

1.8% of GDP (2005 est.)

country comparison to the world: 84

Transnational Issues ::Thailand

Disputes - international:

separatist violence in Thailand's predominantly Muslim southern provinces prompt border closures and controls with Malaysia to stem terrorist activities; Southeast Asian states have enhanced border surveillance to check the spread of avian flu; talks continue on completion of demarcation with Laos but disputes remain over several islands in the Mekong River; despite continuing border committee talks, Thailand must deal with Karen and other ethnic rebels, refugees, and illegal cross-border activities, and as of 2006, over 116,000 Karen, Hmong, and other refugees and asylum seekers from Burma; Cambodia and Thailand dispute sections of historic boundary with missing boundary markers; Cambodia claims Thai encroachments into Cambodian territory and obstructing access to Preah Vihear temple ruins awarded to Cambodia by ICJ decision in 1962;

Thailand is studying the feasibility of jointly constructing the Hatgyi Dam on the Salween river near the border with Burma; in 2004, international environmentalist pressure prompted China to halt construction of 13 dams on the Salween River that flows through China, Burma, and Thailand

Refugees and internally displaced persons:

refugees (country of origin): 132,241 (Burma) (2007)

Illicit drugs:

a minor producer of opium, heroin, and marijuana; transit point for illicit heroin en route to the international drug market from Burma and Laos; eradication efforts have reduced the area of cannabis

cultivation and shifted some production to neighboring countries; opium poppy cultivation has been reduced by eradication efforts; also a drug money-laundering center; minor role in methamphetamine production for regional consumption; major consumer of methamphetamine since the 1990s despite a series of government crackdowns

Introduction ::South Africa

Background:

Dutch traders landed at the southern tip of modern day South Africa in 1652 and established a stopover point on the spice route between the Netherlands and the Far East, founding the city of Cape Town. After the British seized the Cape of Good Hope area in 1806, many of the Dutch settlers (the Boers) trekked north to found their own republics. The discovery of diamonds (1867) and gold (1886) spurred wealth and immigration and intensified the subjugation of the native inhabitants. The Boers resisted British encroachments but were defeated in the Boer War (1899-1902); however, the British and the Afrikaners, as the Boers became known, ruled together beginning in 1910 under the Union of South Africa, which became a republic in 1961 after a whites-only referendum. In 1948, the National Party was voted into power and instituted a policy of apartheid - the separate development of the races - which favored the white minority at the expense of the black majority. The African National Congress (ANC) led the opposition to apartheid and many top ANC leaders, such as Nelson MANDELA, spent decades in South Africa's prisons. Internal protests and insurgency, as well as boycotts by some Western nations and institutions, led to the regime's eventual willingness to negotiate a peaceful transition to majority rule. The first multi-racial elections in 1994 brought an end to apartheid and ushered in majority rule under an ANC-led government. South Africa since then has struggled to address apartheid-era imbalances in decent housing, education, and health care. ANC infighting, which has grown in recent years, came to a head in September 2008 when President Thabo MBEKI resigned, and Kgalema MOTLANTHE, the party's General-Secretary, succeeded him as interim president. Jacob ZUMA became president after the ANC won general elections in April 2009.

Geography ::South Africa

Location:

Southern Africa, at the southern tip of the continent of Africa

Geographic coordinates:

29 00 S, 24 00 E

Map references:

Africa

Area:

total: 1,219,090 sq km

country comparison to the world: 25

land: 1,214,470 sq km

water: 4,620 sq km

note: includes Prince Edward Islands (Marion Island and Prince Edward Island)

Area - comparative:

slightly less than twice the size of Texas

Land boundaries:

total: 4,862 km

border countries: Botswana 1,840 km, Lesotho 909 km, Mozambique 491 km, Namibia 967 km, Swaziland 430 km, Zimbabwe 225 km

Coastline:

2,798 km

Maritime claims:

territorial sea: 12 nm

contiguous zone: 24 nm

exclusive economic zone: 200 nm

continental shelf: 200 nm or to edge of the continental margin

Climate:

Current Weather

mostly semiarid; subtropical along east coast; sunny days, cool nights

Terrain:

vast interior plateau rimmed by rugged hills and narrow coastal plain

Elevation extremes:

lowest point: Atlantic Ocean 0 m

highest point: Njesuthi 3,408 m

Natural resources:

gold, chromium, antimony, coal, iron ore, manganese, nickel, phosphates, tin, uranium, gem diamonds, platinum, copper, vanadium, salt, natural gas

Land use:

arable land: 12.1%

permanent crops: 0.79%

other: 87.11% (2005)

Irrigated land:

14,980 sq km (2003)

Total renewable water resources:

50 cu km (1990)

Freshwater withdrawal

(domestic/industrial/agricultural):

total: 12.5 cu km/yr (31%/6%/63%)

per capita: 264 cu m/yr (2000)

Natural hazards:

prolonged droughts

Environment - current issues:

lack of important arterial rivers or lakes requires extensive water conservation and control measures; growth in water usage outpacing supply; pollution of rivers from agricultural runoff and urban discharge; air pollution resulting in acid rain; soil erosion; desertification

Environment - international agreements:

party to: Antarctic-Environmental Protocol, Antarctic-Marine Living Resources, Antarctic Seals, Antarctic Treaty, Biodiversity, Climate Change, Climate Change-Kyoto Protocol, Desertification, Endangered Species, Hazardous Wastes, Law of the Sea, Marine Dumping, Marine Life Conservation, Ozone Layer Protection, Ship Pollution, Wetlands, Whaling signed, but not ratified: none of the selected agreements

Geography - note:

South Africa completely surrounds Lesotho and almost completely surrounds Swaziland

People ::South Africa

Population:

49,109,107

country comparison to the world: 25

note: estimates for this country explicitly take into account the effects of excess mortality due to AIDS; this can result in lower life expectancy, higher infant mortality, higher death rates, lower population growth rates, and changes in the distribution of population by age and sex than would otherwise be expected (July 2010 est.)

Age structure:

0-14 years: 28.6% (male 7,043,566/female 7,007,484)

15-64 years: 65.9% (male 16,340,284/female 16,007,248)

65 years and over: 5.5% (male 1,100,202/female 1,610,323) (2010 est.)

Median age:

total: 24.7 years

male: 24.4 years

female: 25 years (2010 est.)

Population growth rate:

-0.051% (2010 est.)

country comparison to the world: 203

Birth rate:

19.61 births/1,000 population (2010 est.)

country comparison to the world: 98

Death rate:

16.99 deaths/1,000 population (July 2010 est.)

country comparison to the world: 5

Net migration rate:

-3.13 migrant(s)/1,000 population

country comparison to the world: 147

note: there is an increasing flow of Zimbabweans into South Africa and Botswana in search of better economic opportunities (2010 est.)

Urbanization:

urban population: 61% of total population (2008)

rate of urbanization: 1.4% annual rate of change (2005-10 est.)

Sex ratio:

at birth: 1.02 male(s)/female

under 15 years: 1 male(s)/female

15-64 years: 1.02 male(s)/female

65 years and over: 0.68 male(s)/female

total population: 0.99 male(s)/female (2010 est.)

Infant mortality rate:

total: 43.78 deaths/1,000 live births

country comparison to the world: 61

male: 47.88 deaths/1,000 live births

female: 39.59 deaths/1,000 live births (2010 est.)

Life expectancy at birth:

total population: 49.2 years

country comparison to the world: 215

male: 50.08 years

female: 48.29 years (2010 est.)

Total fertility rate:

2.33 children born/woman (2010 est.)

country comparison to the world: 102

HIV/AIDS - adult prevalence rate:

18.1% (2007 est.)

country comparison to the world: 4

HIV/AIDS - people living with HIV/AIDS:

5.7 million (2007 est.)

country comparison to the world: 2

HIV/AIDS - deaths:

350,000 (2007 est.)

country comparison to the world: 1

Major infectious diseases:

degree of risk: intermediate

food or waterborne diseases: bacterial diarrhea,

hepatitis A, and typhoid fever

water contact disease: schistosomiasis (2009)

Nationality:

noun: South African(s)

adjective: South African

Ethnic groups:

black African 79%, white 9.6%, colored 8.9%,

Indian/Asian 2.5% (2001 census)

Religions:

Zion Christian 11.1%, Pentecostal/Charismatic 8.2%,

Catholic 7.1%, Methodist 6.8%, Dutch Reformed

6.7%, Anglican 3.8%, Muslim 1.5%, other Christian

36%, other 2.3%, unspecified 1.4%, none 15.1%

(2001 census)

Languages:

IsiZulu 23.8%, IsiXhosa 17.6%, Afrikaans 13.3%,

Sepedi 9.4%, English 8.2%, Setswana 8.2%, Sesotho

7.9%, Xitsonga 4.4%, other 7.2% (2001 census)

Literacy:

definition: age 15 and over can read and write

total population: 86.4%

male: 87%

female: 85.7% (2003 est.)

School life expectancy (primary to tertiary education):

total: 13 years

male: 13 years
female: 13 years (2004)
Education expenditures:
5.4% of GDP (2006)
country comparison to the world: 52
Government ::South Africa
Country name:
conventional long form: Republic of South Africa
conventional short form: South Africa
former: Union of South Africa
abbreviation: RSA
Government type:
republic
Capital:
name: Pretoria (administrative capital)
geographic coordinates: 25 42 S, 28 13 E
time difference: UTC+2 (7 hours ahead of Washington, DC during Standard Time)
note: Cape Town (legislative capital); Bloemfontein (judicial capital)
Administrative divisions:
9 provinces; Eastern Cape, Free State, Gauteng, KwaZulu-Natal, Limpopo, Mpumalanga, Northern Cape, North-West, Western Cape
Independence:
31 May 1910 (Union of South Africa formed from four British colonies: Cape Colony, Natal, Transvaal, and Orange Free State); 31 May 1961 (republic declared)
27 April 1994 (majority rule)
National holiday:
Freedom Day, 27 April (1994)
Constitution:
10 December 1996; note - certified by the Constitutional Court on 4 December 1996; was signed by then President MANDELA on 10 December 1996; and entered into effect on 4 February 1997
Legal system:
based on Roman-Dutch law and English common law; has not accepted compulsory ICJ jurisdiction
Suffrage:
18 years of age; universal
Executive branch:
chief of state: President Jacob ZUMA (since 9 May 2009); Executive Deputy President Kgalema MOTLANTHE (since 11 May 2009); note - the president is both the chief of state and head of government
head of government: President Jacob ZUMA (since 9 May 2009); Executive Deputy President Kgalema MOTLANTHE (since 11 May 2009)
cabinet: Cabinet appointed by the president
(For more information visit the World Leaders website Opens in New Window)

elections: president elected by the National Assembly for a five-year term (eligible for a second term); election last held on 6 May 2009 (next to be held in 2014)
election results: Jacob ZUMA elected president; National Assembly vote - Jacob ZUMA 277, Mvume DANDALA 47, other 76
Legislative branch:
bicameral Parliament consisting of the National Council of Provinces (90 seats; 10 members elected by each of the nine provincial legislatures for five-year terms; has special powers to protect regional interests, including the safeguarding of cultural and linguistic traditions among ethnic minorities) and the National Assembly (400 seats; members elected by popular vote under a system of proportional representation to serve five-year terms)
elections: National Assembly and National Council of Provinces - last held on 22 April 2009 (next to be held in April 2014)
election results: National Council of Provinces - percent of vote by party - NA; seats by party - NA; National Assembly - percent of vote by party - ANC 65.9%, DA 16.7%, COPE 7.4%, IFP 4.6%, other 5.4%; seats by party - ANC 264, DA 67, COPE 30, IFP 18, other 21
Judicial branch:
Constitutional Court; Supreme Court of Appeals; High Courts; Magistrate Courts
Political parties and leaders:
African Christian Democratic Party or ACDP [Kenneth MESHOE]; African National Congress or ANC [Jacob ZUMA]; Congress of the People or COPE [Mosiuoa LEKOTA]; Democratic Alliance or DA [Helen ZILLE]; Freedom Front Plus or FF+ [Pieter MULDER]; Independent Democrats or ID [Patricia DE LILLE]; Inkatha Freedom Party or IFP [Mangosuthu BUTHELEZI]; Pan-Africanist Congress or PAC [Motsoko PHEKO]; United Christian Democratic Party or UCDP [Lucas MANGOPE]; United Democratic Movement or UDM [Bantu HOLOMISA]
Political pressure groups and leaders:
Congress of South African Trade Unions or COSATU [Zwelinzima VAVI, general secretary]; South African Communist Party or SACP [Blade NZIMANDE, general secretary]; South African National Civics Organization or SANCO [Mlungisi HLONGWANE, national president]
note: note - COSATU and SACP are in a formal alliance with the ANC
International organization participation:
ACP, AfDB, AU, BIS, C, CD, FAO, FATF, G-20, G-24, G-77, IAEA, IBRD, ICAO, ICC, ICCT, ICRM, IDA, IFAD, IFC, IFRC, IHO, ILO, IMF, IMO, IMSO,

Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC, MIGA, MONUC, NAM, NSG, OPCW, Paris Club (associate), PCA, SACU, SADC, UN, UNAMID, UNCTAD, UNESCO, UNHCR, UNIDO, UNITAR, UNWTO, UPU, WCO, WFTU, WHO, WIPO, WMO, WTO, ZC

Diplomatic representation in the US:

chief of mission: Ambassador Ebrahim RASOOL

chancery: 3051 Massachusetts Avenue NW, Washington, DC 20008

telephone: [1] (202) 232-4400

FAX: [1] (202) 265-1607

consulate(s) general: Chicago, Los Angeles, New York

Diplomatic representation from the US:

chief of mission: Ambassador Donald GIPS

embassy: 877 Pretorius Street, Pretoria

mailing address: P. O. Box 9536, Pretoria 0001

telephone: [27] (12) 431-4000

FAX: [27] (12) 342-2299

consulate(s) general: Cape Town, Durban, Johannesburg

Flag description:

two equal width horizontal bands of red (top) and blue separated by a central green band that splits into a horizontal Y, the arms of which end at the corners of the hoist side; the Y embraces a black isosceles triangle from which the arms are separated by narrow yellow bands; the red and blue bands are separated from the green band and its arms by narrow white stripes; the flag colors do not have any official symbolism, but the Y stands for the "convergence of diverse elements within South African society, taking the road ahead in unity"; black, yellow, and green are found on the flag of the African National Congress, while red, white, and blue are the colors in the flags of the Netherlands and the UK, whose settlers ruled South Africa during the colonial era

note: the South African flag is the only national flag to display six colors as part of its primary design

Economy ::South Africa

Economy - overview:

South Africa is a middle-income, emerging market with an abundant supply of natural resources; well-developed financial, legal, communications, energy, and transport sectors; a stock exchange that is 18th largest in the world; and modern infrastructure supporting an efficient distribution of goods to major urban centers throughout the region. At the end of 2007, South Africa began to experience an electricity crisis. State power supplier Eskom encountered problems with aged plants, necessitating "load-shedding" cuts to residents and businesses in the major cities. Growth was robust from 2004 to 2008 as South Africa reaped the benefits of macroeconomic

stability and a global commodities boom, but began to slow in the second half of 2008 due to the global financial crisis' impact on commodity prices and demand. GDP fell nearly 2% in 2009. Unemployment remains high and outdated infrastructure has constrained growth. Daunting economic problems remain from the apartheid era - especially poverty, lack of economic empowerment among the disadvantaged groups, and a shortage of public transportation. South Africa's former economic policy was fiscally conservative, focusing on controlling inflation, and attaining a budget surplus. The current government largely follows the same prudent policies, but must contend with the impact of the global crisis and is facing growing pressure from special interest groups to use state-owned enterprises to deliver basic services to low-income areas and to increase job growth. More than one-quarter of South Africa's population currently receives social grants.

GDP (purchasing power parity):

\$495.1 billion (2009 est.)

country comparison to the world: 26

\$504.2 billion (2008 est.)

\$486.2 billion (2007 est.)

note: data are in 2009 US dollars

GDP (official exchange rate):

\$280.6 billion (2009 est.)

GDP - real growth rate:

-1.8% (2009 est.)

country comparison to the world: 141

3.7% (2008 est.)

5.5% (2007 est.)

GDP - per capita (PPP):

\$10,100 (2009 est.)

country comparison to the world: 107

\$10,300 (2008 est.)

\$10,100 (2007 est.)

note: data are in 2009 US dollars

GDP - composition by sector:

agriculture: 3%

industry: 31.1%

services: 65.8% (2009 est.)

Labor force:

17.38 million economically active (2009 est.)

country comparison to the world: 35

Labor force - by occupation:

agriculture: 9%

industry: 26%

services: 65% (2007 est.)

Unemployment rate:

24% (2009 est.)

country comparison to the world: 173

22.9% (2008 est.)

Population below poverty line:

50% (2000 est.)
 Household income or consumption by percentage share:
 lowest 10%: 1.3%
 highest 10%: 44.7% (2000)
 Distribution of family income - Gini index:
 65 (2005)
 country comparison to the world: 2
 59.3 (1994)
 Investment (gross fixed):
 22.4% of GDP (2009 est.)
 country comparison to the world: 67
 Budget:
 revenues: \$77.68 billion
 expenditures: \$94.57 billion (2009 est.)
 Public debt:
 29.5% of GDP (2009 est.)
 country comparison to the world: 87
 24.9% of GDP (2008 est.)
 Inflation rate (consumer prices):
 7.1% (2009 est.)
 country comparison to the world: 171
 11.3% (2008 est.)
 Central bank discount rate:
 11.5% (31 December 2008)
 country comparison to the world: 32
 11% (31 December 2007)
 Commercial bank prime lending rate:
 15.13% (31 December 2008)
 country comparison to the world: 63
 13.17% (31 December 2007)
 Stock of money:
 \$44.66 billion (31 December 2008)
 country comparison to the world: 28
 \$58.49 billion (31 December 2007)
 Stock of quasi money:
 \$124.1 billion (31 December 2008)
 country comparison to the world: 24
 \$141.9 billion (31 December 2007)
 Stock of domestic credit:
 \$214.8 billion (31 December 2008)
 country comparison to the world: 31
 \$254.9 billion (31 December 2007)
 Market value of publicly traded shares:
 \$805.2 billion (31 December 2009)
 country comparison to the world: 18
 \$491.3 billion (31 December 2008)
 \$833.5 billion (31 December 2007)
 Agriculture - products:
 corn, wheat, sugarcane, fruits, vegetables; beef, poultry, mutton, wool, dairy products
 Industries:
 mining (world's largest producer of platinum, gold, chromium), automobile assembly, metalworking,

machinery, textiles, iron and steel, chemicals, fertilizer, foodstuffs, commercial ship repair
 Industrial production growth rate:
 -7.2% (2009 est.)
 country comparison to the world: 126
 Electricity - production:
 240.3 billion kWh (2007 est.)
 country comparison to the world: 16
 Electricity - consumption:
 215.1 billion kWh (2007 est.)
 country comparison to the world: 17
 Electricity - exports:
 14.16 billion kWh (2008 est.)
 Electricity - imports:
 10.57 billion kWh (2008 est.)
 Oil - production:
 191,000 bbl/day (2009 est.)
 country comparison to the world: 43
 Oil - consumption:
 579,000 bbl/day (2009 est.)
 country comparison to the world: 30
 Oil - exports:
 128,500 bbl/day (2007 est.)
 country comparison to the world: 63
 Oil - imports:
 490,500 bbl/day (2007 est.)
 country comparison to the world: 25
 Oil - proved reserves:
 15 million bbl (1 January 2009 est.)
 country comparison to the world: 84
 Natural gas - production:
 3.25 billion cu m (2008 est.)
 country comparison to the world: 53
 Natural gas - consumption:
 6.45 billion cu m (2008 est.)
 country comparison to the world: 55
 Natural gas - exports:
 0 cu m (2008 est.)
 country comparison to the world: 121
 Natural gas - imports:
 3.2 billion cu m (2008 est.)
 country comparison to the world: 40
 Natural gas - proved reserves:
 27.16 million cu m (1 January 2006 est.)
 country comparison to the world: 102
 Current account balance:
 -\$11.53 billion (2009 est.)
 country comparison to the world: 177
 -\$20.08 billion (2008 est.)
 Exports:
 \$66.64 billion (2009 est.)
 country comparison to the world: 38
 \$86.12 billion (2008 est.)
 Exports - commodities:

gold, diamonds, platinum, other metals and minerals, machinery and equipment

Exports - partners:

China 10.34%, US 9.19%, Japan 7.59%, Germany 7.01%, UK 5.54%, Switzerland 4.72% (2009)

Imports:

\$66.02 billion (2009 est.)

country comparison to the world: 36

\$90.57 billion (2008 est.)

Imports - commodities:

machinery and equipment, chemicals, petroleum products, scientific instruments, foodstuffs

Imports - partners:

China 17.21%, Germany 11.24%, US 7.38%, Saudi Arabia 4.87%, Japan 4.67%, Iran 3.95% (2009)

Reserves of foreign exchange and gold:

\$39.68 billion (31 December 2009 est.)

country comparison to the world: 41

\$34.07 billion (31 December 2008 est.)

Debt - external:

\$73.84 billion (30 June 2009)

country comparison to the world: 39

\$71.81 billion (31 December 2008)

Stock of direct foreign investment - at home:

\$73.67 billion (31 December 2009 est.)

country comparison to the world: 42

\$67.99 billion (31 December 2008 est.)

Stock of direct foreign investment - abroad:

\$51.36 billion (31 December 2009 est.)

country comparison to the world: 30

\$49.77 billion (31 December 2008 est.)

Exchange rates:

rand (ZAR) per US dollar - 8.54 (2009), 7.9576 (2008), 7.05 (2007), 6.7649 (2006), 6.3593 (2005)

Communications ::South Africa

Telephones - main lines in use:

4.425 million (2008)

country comparison to the world: 35

Telephones - mobile cellular:

45 million (2008)

country comparison to the world: 25

Telephone system:

general assessment: the system is the best developed and most modern in Africa

domestic: combined fixed-line and mobile-cellular teledensity exceeds 110 telephones per 100 persons; consists of carrier-equipped open-wire lines, coaxial cables, microwave radio relay links, fiber-optic cable, radiotelephone communication stations, and wireless local loops; key centers are Bloemfontein, Cape Town, Durban, Johannesburg, Port Elizabeth, and Pretoria

international: country code - 27; the SAT-3/WASC and SAFE fiber optic cable systems connect South

Africa to Europe and Asia; satellite earth stations - 3 Intelsat (1 Indian Ocean and 2 Atlantic Ocean)

Radio broadcast stations:

AM 14, FM 347 (plus 243 repeaters), shortwave 1 (1998)

Television broadcast stations:

556 (plus 144 network repeaters) (1997)

Internet country code:

.za

Internet hosts:

1.73 million (2009)

country comparison to the world: 34

Internet users:

4.187 million (2008)

country comparison to the world: 49

Transportation ::South Africa

Airports:

607 (2009)

country comparison to the world: 11

Airports - with paved runways:

total: 148

over 3,047 m: 10

2,438 to 3,047 m: 6

1,524 to 2,437 m: 52

914 to 1,523 m: 68

under 914 m: 12 (2009)

Airports - with unpaved runways:

total: 459

over 3,047 m: 1

2,438 to 3,047 m: 1

1,524 to 2,437 m: 34

914 to 1,523 m: 298

under 914 m: 125 (2009)

Heliports:

1 (2009)

Pipelines:

condensate 11 km; gas 908 km; oil 980 km; refined products 1,379 km (2009)

Railways:

total: 20,872 km

country comparison to the world: 14

narrow gauge: 20,436 km 1.065-m gauge (8,271 km electrified); 436 km 0.610-m gauge (2008)

Roadways:

total: 362,099 km

country comparison to the world: 19

paved: 73,506 km (includes 239 km of expressways)

unpaved: 288,593 km (2002)

Merchant marine:

total: 3

country comparison to the world: 139

by type: container 1, petroleum tanker 2

foreign-owned: 1 (Denmark 1)

registered in other countries: 8 (Bahamas 1, Nigeria 1, NZ 1, Saint Vincent and the Grenadines 1, Seychelles 1, UK 3) (2008)

Ports and terminals:

Cape Town, Durban, Port Elizabeth, Richards Bay, Saldanha Bay

Military ::South Africa

Military branches:

South African National Defense Force (SANDF):

South African Army, South African Navy (SAN), South African Air Force (SAAF), Joint Operations

Command, Military Intelligence, South African Military Health Services (2009)

Military service age and obligation:

18 years of age for voluntary military service; women are eligible to serve in noncombat roles; 2-year service obligation (2007)

Manpower available for military service:

males age 16-49: 13,508,255

females age 16-49: 12,541,371 (2010 est.)

Manpower fit for military service:

males age 16-49: 7,676,331

females age 16-49: 6,521,338 (2010 est.)

Manpower reaching militarily significant age annually:

male: 492,743

female: 496,374 (2010 est.)

Military expenditures:

1.7% of GDP (2006)

country comparison to the world: 92

Military - note:

with the end of apartheid and the establishment of majority rule, former military, black homelands forces, and ex-opposition forces were integrated into the South African National Defense Force (SANDF); as of 2003 the integration process was considered complete

Transnational Issues ::South Africa

Disputes - international:

South Africa has placed military along the border to apprehend the thousands of Zimbabweans fleeing economic dysfunction and political persecution; as of January 2007, South Africa also supports large numbers of refugees and asylum seekers from the Democratic Republic of the Congo (33,000), Somalia (20,000), Burundi (6,500), and other states in Africa (26,000); managed dispute with Namibia over the location of the boundary in the Orange River; in 2006, Swazi king advocates resort to ICJ to claim parts of Mpumalanga and KwaZulu-Natal from South Africa

Refugees and internally displaced persons:

refugees (country of origin): 10,772 (Democratic Republic of Congo); 7,818 (Somalia); 5,759 (Angola) (2007)

Illicit drugs:

transshipment center for heroin, hashish, and cocaine, as well as a major cultivator of marijuana in its own right; cocaine and heroin consumption on the rise; world's largest market for illicit methaqualone, usually imported illegally from India through various east African countries, but increasingly producing its own synthetic drugs for domestic consumption; attractive venue for money launderers given the increasing level of organized criminal and narcotics activity in the region and the size of the South African economy

Introduction ::Czech Republic

Background:

Following the First World War, the closely related Czechs and Slovaks of the former Austro-Hungarian Empire merged to form Czechoslovakia. During the interwar years, the new country's leaders were frequently preoccupied with meeting the demands of other ethnic minorities within the republic, most notably the Sudeten Germans and the Ruthenians (Ukrainians). After World War II, a truncated Czechoslovakia fell within the Soviet sphere of influence. In 1968, an invasion by Warsaw Pact troops ended the efforts of the country's leaders to liberalize Communist party rule and create "socialism with a human face." Anti-Soviet demonstrations the following year ushered in a period of harsh repression. With the collapse of Soviet authority in 1989, Czechoslovakia regained its freedom through a peaceful "Velvet Revolution." On 1 January 1993, the country underwent a "velvet divorce" into its two national components, the Czech Republic and Slovakia. The Czech Republic joined NATO in 1999 and the European Union in 2004.

Geography ::Czech Republic

Location:

Central Europe, between Germany, Poland, Slovakia, and Austria

Geographic coordinates:

49 45 N, 15 30 E

Map references:

Europe

Area:

total: 78,867 sq km

country comparison to the world: 115

land: 77,247 sq km

water: 1,620 sq km

Area - comparative:

slightly smaller than South Carolina

Land boundaries:

total: 1,989 km

border countries: Austria 362 km, Germany 815 km, Poland 615 km, Slovakia 197 km

Coastline:

0 km (landlocked)

Maritime claims:

none (landlocked)

Climate:

Current Weather

temperate; cool summers; cold, cloudy, humid winters

Terrain:

Bohemia in the west consists of rolling plains, hills, and plateaus surrounded by low mountains; Moravia in the east consists of very hilly country

Elevation extremes:

lowest point: Elbe River 115 m

highest point: Snezka 1,602 m

Natural resources:

hard coal, soft coal, kaolin, clay, graphite, timber

Land use:

arable land: 38.82%

permanent crops: 3%

other: 58.18% (2005)

Irrigated land:

240 sq km (2003)

Total renewable water resources:

16 cu km (2005)

Freshwater withdrawal

(domestic/industrial/agricultural):

total: 1.91 cu km/yr (41%/57%/2%)

per capita: 187 cu m/yr (2002)

Natural hazards:

flooding

Environment - current issues:

air and water pollution in areas of northwest Bohemia and in northern Moravia around Ostrava present health risks; acid rain damaging forests; efforts to bring industry up to EU code should improve domestic pollution

Environment - international agreements:

party to: Air Pollution, Air Pollution-Nitrogen Oxides, Air Pollution-Persistent Organic Pollutants, Air Pollution-Sulfur 85, Air Pollution-Sulfur 94, Air Pollution-Volatile Organic Compounds, Antarctic-Environmental Protocol, Antarctic Treaty, Biodiversity, Climate Change, Climate Change-Kyoto Protocol, Desertification, Endangered Species, Environmental Modification, Hazardous Wastes, Law of the Sea, Ozone Layer Protection, Ship Pollution, Wetlands, Whaling

signed, but not ratified: none of the selected agreements

Geography - note:

landlocked; strategically located astride some of oldest and most significant land routes in Europe; Moravian Gate is a traditional military corridor between the North European Plain and the Danube in central Europe

People ::Czech Republic

Population:

10,201,707 (July 2010 est.)

country comparison to the world: 81

Age structure:

0-14 years: 13.5% (male 706,453/female 668,166)

15-64 years: 70.7% (male 3,624,662/female 3,583,106)

65 years and over: 15.9% (male 642,258/female 977,062) (2010 est.)

Median age:

total: 40.4 years
 male: 38.9 years
 female: 42.2 years (2010 est.)
 Population growth rate:
 -0.106% (2010 est.)
 country comparison to the world: 211
 Birth rate:
 8.76 births/1,000 population (2010 est.)
 country comparison to the world: 213
 Death rate:
 10.79 deaths/1,000 population (July 2010 est.)
 country comparison to the world: 43
 Net migration rate:
 0.97 migrant(s)/1,000 population (2010 est.)
 country comparison to the world: 52
 Urbanization:
 urban population: 73% of total population (2008)
 rate of urbanization: 0% annual rate of change (2005-10 est.)
 Sex ratio:
 at birth: 1.059 male(s)/female
 under 15 years: 1.06 male(s)/female
 15-64 years: 1.01 male(s)/female
 65 years and over: 0.66 male(s)/female
 total population: 0.95 male(s)/female (2010 est.)
 Infant mortality rate:
 total: 3.76 deaths/1,000 live births
 country comparison to the world: 211
 male: 4.1 deaths/1,000 live births
 female: 3.4 deaths/1,000 live births (2010 est.)
 Life expectancy at birth:
 total population: 77.01 years
 country comparison to the world: 61
 male: 73.74 years
 female: 80.48 years (2010 est.)
 Total fertility rate:
 1.25 children born/woman (2010 est.)
 country comparison to the world: 215
 HIV/AIDS - adult prevalence rate:
 less than 0.1% (2001 est.)
 country comparison to the world: 162
 HIV/AIDS - people living with HIV/AIDS:
 1,500 (2007 est.)
 country comparison to the world: 139
 HIV/AIDS - deaths:
 fewer than 10 (2001 est.)
 country comparison to the world: 155
 Nationality:
 noun: Czech(s)
 adjective: Czech
 Ethnic groups:
 Czech 90.4%, Moravian 3.7%, Slovak 1.9%, other 4% (2001 census)
 Religions:

Roman Catholic 26.8%, Protestant 2.1%, other 3.3%, unspecified 8.8%, unaffiliated 59% (2001 census)
 Languages:
 Czech 94.9%, Slovak 2%, other 2.3%, unidentified 0.8% (2001 census)
 Literacy:
 definition: NA
 total population: 99%
 male: 99%
 female: 99% (2003 est.)
 School life expectancy (primary to tertiary education):
 total: 15 years
 male: 15 years
 female: 15 years (2006)
 Education expenditures:
 4.4% of GDP (2004)
 country comparison to the world: 93
Government ::Czech Republic
 Country name:
 conventional long form: Czech Republic
 conventional short form: Czech Republic
 local long form: Ceska Republika
 local short form: Cesko
 Government type:
 parliamentary democracy
 Capital:
 name: Prague
 geographic coordinates: 50 05 N, 14 28 E
 time difference: UTC+1 (6 hours ahead of Washington, DC during Standard Time)
 daylight saving time: +1hr, begins last Sunday in March; ends last Sunday in October
 Administrative divisions:
 13 regions (kraje, singular - kraj) and 1 capital city* (hlavni mesto); Jihocesky (South Bohemia), Jihomoravsky (South Moravia), Karlovarsky, Kralovehradecky, Liberecky, Moravskoslezsky (Moravia-Silesia), Olomoucky, Pardubicky, Plzensky (Pilsen), Praha (Prague)*, Stredocesky (Central Bohemia), Ustecky, Vysocina, Zlinsky
 Independence:
 1 January 1993 (Czechoslovakia split into the Czech Republic and Slovakia); note - although 1 January is the day the Czech Republic came into being, the Czechs generally consider 28 October 1918, the day the former Czechoslovakia declared its independence from the Austro-Hungarian Empire, as their independence day
 National holiday:
 Czechoslovak Founding Day, 28 October (1918)
 Constitution:
 ratified on 16 December 1992, effective on 1 January 1993; amended in 1997, 2000, 2001 (twice), 2002
 Legal system:

civil law system based on Austro-Hungarian codes; legal code modified to bring it in line with European Union obligations and to expunge Marxist-Leninist legal theory; has not accepted compulsory ICJ jurisdiction

Suffrage:

18 years of age; universal

Executive branch:

chief of state: President Vaclav KLAUS (since 7 March 2003)

head of government: Prime Minister Petr NECAS (since 28 June 2010); First Deputy Prime Minister Karel SCHWARZENBERG (since 13 July 2010), Deputy Prime Minister Radek JOHN (since 13 July 2010)

cabinet: Cabinet appointed by the president on the recommendation of the prime minister (For more information visit the World Leaders website [Opens in New Window](#))

elections: president elected by Parliament for a five-year term (eligible for a second term); last successful election held on 15 February 2008 (after earlier elections held 8 and 9 February 2008 were inconclusive; next election to be held in 2013); prime minister appointed by the president

election results: Vaclav KLAUS reelected president on 15 February 2008; Vaclav KLAUS 141 votes, Jan SVEJNAR 111 votes (third round; combined votes of both chambers of parliament)

Legislative branch:

bicameral Parliament or Parlament consists of the Senate or Senat (81 seats; members elected by popular vote to serve six-year terms; one-third elected every two years) and the Chamber of Deputies or Poslanecka Snemovna (200 seats; members are elected by popular vote to serve four-year terms) elections: Senate - last held in two rounds on 17-18 and 24-25 October 2008 (next to be held by October 2010); Chamber of Deputies - last held on 28-29 May 2010 (next to be held by 2014)

election results: Senate - percent of vote by party - NA; seats by party - ODS 36, CSSD 29, KDU-CSL 7, Open Democracy Club 6, others 3; Chamber of Deputies - percent of vote by party - CSSD 22.1%, ODS 20.2%, TOP-09 16.7%, KSCM 11.3%, VV 10.9%; seats by party - CSSD 56, ODS 53, TOP-09 41, KSCM 26, VV 24

Judicial branch:

Supreme Court; Constitutional Court; Supreme Administrative Court; chairman and deputy chairmen are appointed by the president for a 10-year term Political parties and leaders:

Association of Independent Candidates-European Democrats or SNK-ED [Helmut DOHNALEK];

Christian Democratic Union-Czechoslovak People's Party or KDU-CSL [Cyril SVOBODA]; Civic Democratic Party or ODS [Mirek TOPOLANEK]; Communist Party of Bohemia and Moravia or KSCM [Vojtech FILIP]; Czech Social Democratic Party or CSSD [Jiri PAROUBEK]; Green Party [Ondrej LISKA]; Open Democracy Club (a liberal parliamentary group within the Czech senate); Public Affairs (VV) [Radek JOHN]; Tradice Odpovednost Prosperita 09 or TOP 09 [Karel SCHWARZENBERG]; Union of Freedom-Democratic Union or US-DEU [Jan CERNY]

Political pressure groups and leaders:

Czech-Moravian Confederation of Trade Unions or CMKOS [Milan STECH]

International organization participation:

ACCT (observer), Australia Group, BIS, BSEC (observer), CD, CE, CEI, CERN, EAPC, EBRD, EIB, ESA, EU, FAO, IAEA, IBRD, ICAO, ICC, ICCT, ICCT (signatory), ICRM, IDA, IEA, IFC, IFRCs, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC, MIGA, MONUC, NATO, NEA, NSG, OAS (observer), OECD, OIF (observer), OPCW, OSCE, PCA, Schengen Convention, SECI (observer), UN, UNCTAD, UNESCO, UNIDO, UNWTO, UPU, WCO, WFTU, WHO, WIPO, WMO, WTO, ZC

Diplomatic representation in the US:

chief of mission: Ambassador Petr KOLAR
chancery: 3900 Spring of Freedom Street NW, Washington, DC 20008

telephone: [1] (202) 274-9100

FAX: [1] (202) 966-8540

consulate(s) general: Chicago, Los Angeles, New York

Diplomatic representation from the US:

chief of mission: Ambassador (vacant); Charge d'Affaires Mary THOMPSON-JONES
embassy: Trziste 15, 118 01 Prague 1

mailing address: use embassy street address

telephone: [420] 257 022 000

FAX: [420] 257 022 809

Flag description:

two equal horizontal bands of white (top) and red with a blue isosceles triangle based on the hoist side
note: uses the pan-Slavic colors and is identical to the flag of the former Czechoslovakia

Economy ::Czech Republic

Economy - overview:

The Czech Republic is one of the most stable and prosperous of the post-Communist states of Central and Eastern Europe. Maintaining an open investment climate has been a key element of the Czech Republic's transition from a communist, centrally planned economy to a functioning market economy. As a member of the European Union, with an

advantageous location in the center of Europe, a relatively low cost structure, and a well-qualified labor force, the Czech Republic is an attractive destination for foreign investment. Prior to its EU accession in 2004, the Czech government harmonized its laws and regulations with those of the European Union. The small, open, export-driven Czech economy grew by over 6% annually from 2005-2007 and by 2.5% in 2008. The conservative Czech financial system has remained relatively healthy throughout 2009. Nevertheless, the real economy contracted by 4.1% in 2009, mainly due to a significant drop in external demand as the Czech Republic's main export markets fell into recession.

GDP (purchasing power parity):

\$256.6 billion (2009 est.)

country comparison to the world: 43

\$267.6 billion (2008 est.)

\$261.1 billion (2007 est.)

note: data are in 2009 US dollars

GDP (official exchange rate):

\$191.9 billion (2009 est.)

GDP - real growth rate:

-4.1% (2009 est.)

country comparison to the world: 182

2.5% (2008 est.)

6.1% (2007 est.)

GDP - per capita (PPP):

\$25,100 (2009 est.)

country comparison to the world: 52

\$26,200 (2008 est.)

\$25,500 (2007 est.)

note: data are in 2009 US dollars

GDP - composition by sector:

agriculture: 2.3%

industry: 37.2%

services: 60.5% (2009 est.)

Labor force:

5.401 million (2009 est.)

country comparison to the world: 68

Labor force - by occupation:

agriculture: 3.6%

industry: 40.2%

services: 56.2% (2007)

Unemployment rate:

8.1% (2009 est.)

country comparison to the world: 91

5.4% (2008 est.)

Population below poverty line:

NA%

Household income or consumption by percentage share:

lowest 10%: 4.3%

highest 10%: 22.4% (1996)

Distribution of family income - Gini index:

26 (2005)

country comparison to the world: 131

25.4 (1996)

Investment (gross fixed):

22.7% of GDP (2009 est.)

country comparison to the world: 63

Budget:

revenues: \$78.9 billion

expenditures: \$90.22 billion (2009 est.)

Public debt:

34.1% of GDP (2009 est.)

country comparison to the world: 76

27.3% of GDP (2008 est.)

Inflation rate (consumer prices):

1% (2009 est.)

country comparison to the world: 45

6.3% (2008 est.)

Central bank discount rate:

0.25% (31 December 2009)

country comparison to the world: 130

2.25% (31 December 2008)

Commercial bank prime lending rate:

6.25% (31 December 2008)

country comparison to the world: 140

5.79% (31 December 2007)

Stock of money:

\$86.56 billion (31 December 2008)

country comparison to the world: 18

\$84.43 billion (31 December 2007)

Stock of quasi money:

\$58.69 billion (31 December 2008)

country comparison to the world: 35

\$58.77 billion (31 December 2007)

Stock of domestic credit:

\$110.5 billion (31 December 2008)

country comparison to the world: 39

\$103.9 billion (31 December 2007)

Market value of publicly traded shares:

\$54.48 billion (31 December 2009)

country comparison to the world: 53

\$48.85 billion (31 December 2008)

\$73.42 billion (31 December 2007)

Agriculture - products:

wheat, potatoes, sugar beets, hops, fruit; pigs, poultry

Industries:

motor vehicles, metallurgy, machinery and equipment,

glass, armaments

Industrial production growth rate:

-13.1% (2009 est.)

country comparison to the world: 153

Electricity - production:

82.72 billion kWh (2007 est.)

country comparison to the world: 35

Electricity - consumption:
61.65 billion kWh (2007 est.)
country comparison to the world: 41
Electricity - exports:
19.99 billion kWh (2008 est.)
Electricity - imports:
8.52 billion kWh (2008 est.)
Oil - production:
10,970 bbl/day (2009 est.)
country comparison to the world: 83
Oil - consumption:
207,600 bbl/day (2009 est.)
country comparison to the world: 54
Oil - exports:
22,560 bbl/day (2008 est.)
country comparison to the world: 90
Oil - imports:
213,900 bbl/day (2008 est.)
country comparison to the world: 44
Oil - proved reserves:
15 million bbl (1 January 2009 est.)
country comparison to the world: 85
Natural gas - production:
176 million cu m (2009 est.)
country comparison to the world: 76
Natural gas - consumption:
8.182 billion cu m (2009 est.)
country comparison to the world: 51
Natural gas - exports:
1.111 billion cu m (2009 est.)
country comparison to the world: 34
Natural gas - imports:
9.683 billion cu m (2009 est.)
country comparison to the world: 23
Natural gas - proved reserves:
3.964 billion cu m (1 January 2009 est.)
country comparison to the world: 92
Current account balance:
-\$2.146 billion (2009 est.)
country comparison to the world: 151
-\$6.642 billion (2008 est.)
Exports:
\$112.6 billion (2009 est.)
country comparison to the world: 32
\$145.7 billion (2008 est.)
Exports - commodities:
machinery and transport equipment, raw materials
and fuel, chemicals
Exports - partners:
Germany 32.25%, Slovakia 9.02%, Poland 5.8%,
France 5.62%, UK 4.93%, Austria 4.71%, Italy 4.38%
(2009)
Imports:
\$103.1 billion (2009 est.)

country comparison to the world: 30
\$139.4 billion (2008 est.)
Imports - commodities:
machinery and transport equipment, raw materials
and fuels, chemicals
Imports - partners:
Germany 30.67%, Poland 6.97%, Slovakia 6.6%,
Netherlands 5.99%, China 5.7%, Austria 5.26%,
Russia 4.93%, Italy 3.98% (2009)
Reserves of foreign exchange and gold:
\$41.2 billion (31 December 2009 est.)
country comparison to the world: 38
\$36.7 billion (31 December 2008 est.)
Debt - external:
\$76.83 billion (31 December 2009 est.)
country comparison to the world: 38
\$80.43 billion (31 December 2008)
Stock of direct foreign investment - at home:
\$117 billion (31 December 2009 est.)
country comparison to the world: 29
\$114.4 billion (31 December 2008 est.)
Stock of direct foreign investment - abroad:
\$11.2 billion (31 December 2009 est.)
country comparison to the world: 48
\$9.913 billion (31 December 2008 est.)
Exchange rates:
koruny (CZK) per US dollar - 19.373 (2009), 17.064
(2008), 20.53 (2007), 22.596 (2006), 23.957 (2005)
Communications ::Czech Republic
Telephones - main lines in use:
2.278 million (2008)
country comparison to the world: 53
Telephones - mobile cellular:
13.78 million (2008)
country comparison to the world: 48
Telephone system:
general assessment: privatization and modernization
of the Czech telecommunication system got a late
start but is advancing steadily; virtually all exchanges
now digital; existing copper subscriber systems
enhanced with Asymmetric Digital Subscriber Line
(ADSL) equipment to accommodate Internet and
other digital signals; trunk systems include fiber-optic
cable and microwave radio relay
domestic: access to the fixed-line telephone network
expanded throughout the 1990s but the number of
fixed line connections has been dropping since then;
mobile telephone usage increased sharply beginning
in the mid-1990s and the number of cellular telephone
subscriptions now greatly exceeds the population
international: country code - 420; satellite earth
stations - 6 (2 Intersputnik - Atlantic and Indian Ocean
regions, 1 Intelsat, 1 Eutelsat, 1 Inmarsat, 1
Globalstar) (2008)

Radio broadcast stations:
AM 31, FM 304, shortwave 17 (2000)
Television broadcast stations:
71 (2008)
Internet country code:
.cz
Internet hosts:
3.233 million (2009)
country comparison to the world: 24
Internet users:
6.028 million (2008)
country comparison to the world: 38
Transportation ::Czech Republic
Airports:
122 (2009)
country comparison to the world: 48
Airports - with paved runways:
total: 44
over 3,047 m: 2
2,438 to 3,047 m: 9
1,524 to 2,437 m: 12
914 to 1,523 m: 3
under 914 m: 18 (2009)
Airports - with unpaved runways:
total: 78
1,524 to 2,437 m: 1
914 to 1,523 m: 27
under 914 m: 50 (2009)
Heliports:
1 (2009)
Pipelines:
gas 7,010 km; oil 547 km; refined products 94 km
(2009)
Railways:
total: 9,620 km
country comparison to the world: 22
standard gauge: 9,521 km 1.435-m gauge (3,013 km
electrified)
narrow gauge: 99 km 0.750-m gauge (2008)
Roadways:
total: 128,582 km
country comparison to the world: 37
paved: 128,582 km (includes 691 km of expressways)
(2008)
Waterways:
664 km (principally on Elbe, Vltava, Oder, and other
navigable rivers, lakes, and canals) (2008)
country comparison to the world: 77
Merchant marine:
registered in other countries: 1 (Saint Vincent and the
Grenadines 1) (2008)
country comparison to the world: 161
Ports and terminals:
Decin, Prague, Usti nad Labem

Military ::Czech Republic

Military branches:
Army of the Czech Republic (ACR): Joint Forces
Command (includes Land Forces and Air Forces),
Support and Training Forces Command (2010)
Military service age and obligation:
18-28 years of age for voluntary and 19-28 for
compulsory military service (2008)
Manpower available for military service:
males age 16-49: 2,517,268
females age 16-49: 2,418,163 (2010 est.)
Manpower fit for military service:
males age 16-49: 2,086,662
females age 16-49: 2,003,055 (2010 est.)
Manpower reaching militarily significant age annually:
male: 55,139
female: 52,440 (2010 est.)
Military expenditures:
1.46% of GDP (2007 est.)
country comparison to the world: 103

Transnational Issues ::Czech Republic

Disputes - international:
while threats of international legal action never
materialized in 2007, 915,220 Austrians, with the
support of the popular Freedom Party, signed a
petition in January 2008, demanding that Austria
block the Czech Republic's accession to the EU
unless Prague closes its controversial Soviet-style
nuclear plant in Temelin, bordering Austria
Illicit drugs:
transshipment point for Southwest Asian heroin and
minor transit point for Latin American cocaine to
Western Europe; producer of synthetic drugs for local
and regional markets; susceptible to money
laundering related to drug trafficking, organized crime;
significant consumer of ecstasy (2008)

Individual Worksheet: Name: _____

The Costco business model is:

Country

GDP

GDP growth

Inflation

GDP per capita

Other notes

Decision

Country

GDP

GDP growth

Inflation

GDP per capita

Other notes

Decision

Commanding Heights A Case Study of Bubbles

Commanding Heights is an excellent video which describes the history of economics in a very clear and expansive way. It is available online at <http://www.pbs.org/wgbh/commandingheights/lo/index.html>. Click on storyline to get to the individual chapters.

If you have the time, take the opportunity to watch the entire series. It may take a couple of viewings to understand the concepts but it provides strong reason for everyone to understand economics and business.

Of particular interest to our class is the Asian financial crisis. We will be viewing Episode Three: The New Rules of the Game which describes globalization. Chapter 5 through Chapter 16 focuses on a financial contagion that engulfed the world in the late 1990s. This section describes the effect of a bubble or a period of speculative activity where prices rise (without basis) to an exorbitant level. We have had several bubbles in the past two decades including the dot com bubble and, more recently, the real estate bubble. Bubbles are dangerous in that eventually they burst and cause havoc. Unfortunately, despite the experience with the devastating effects of bubbles over the centuries, we have not learned to avoid them. They are seductive when they happen. People tend to forget that the bubble will burst.

Read articles in the [New York Times on the recent financial crisis](#) and decide whether we have learned our lesson regarding bubbles.

Another good summary of the financial crisis of 2008 is <http://www.thisamericanlife.org/radio-archives/episode/355/the-giant-pool-of-money>

Frontline did an excellent documentary on the 2008 financial crisis available at: <http://www.pbs.org/wgbh/pages/frontline/meltdown/>

Be prepared to answer the following questions:

What caused the financial crisis in Thailand?

How did currency risk play a role in this?

How was the Asian financial crisis resolved? What was the role of regulatory bodies?

How did they apply the lessons learned to the Russian/Long Term Capital crisis?

What happened in the recent financial crisis? Did we learn our lesson?

For more on bubbles, see: <http://www.econlib.org/library/Enc/Bubbles.html>

Module 1 Questions for Timed Writes

(Fifteen minutes is allowed for timed writes in class.)

Give two examples of countries with large GDP? What does a large GDP indicate about the countries? How do they differ from countries with smaller GDPs?

Give an example of a country with a large GDP growth rate. Why is the growth rate of GDP important to the country? Compare it to a country with a low GDP growth rate. Explain what advantages it has.

Give an example of a country with a low GDP per capita and explain how GDP per capita is calculated. How does this country compare to a country with high GDP per capita?

Give an example of a country with low inflation. Is low inflation advantageous? Explain why.

What are the four phases of the business cycle and what happens to inflation at each phase? How does the business cycle relate to GDP? Describe where we are now in the business cycle. Give some evidence of why you think we are at the phase you designated.

What is a recession? When was the last recession in the US? What is the impact of a recession? What actions would a government take with a recession.

Give an example of two economic indicators. Explain how they give you knowledge about where we are in the business cycle. For example, what would a high value mean and what would a low value mean?

Select one country of Thailand, South Korea, Mexico or Russia in the video Commanding Heights and discuss what happened in that country that caused a financial crisis.

Choose two countries from the ones covered in the Costco presentations. Compare and contrast their economies, market access and infrastructure as a possible site for a Costco warehouse.

Choose two countries from the ones covered in the Costco presentations. Compare and contrast their economies, governments, and real estate as a possible site for a Costco warehouse.

Give an example of fiscal policy? Why is fiscal policy constrained at this time?

Give an example of monetary policy. What is monetary policy supposed to do?

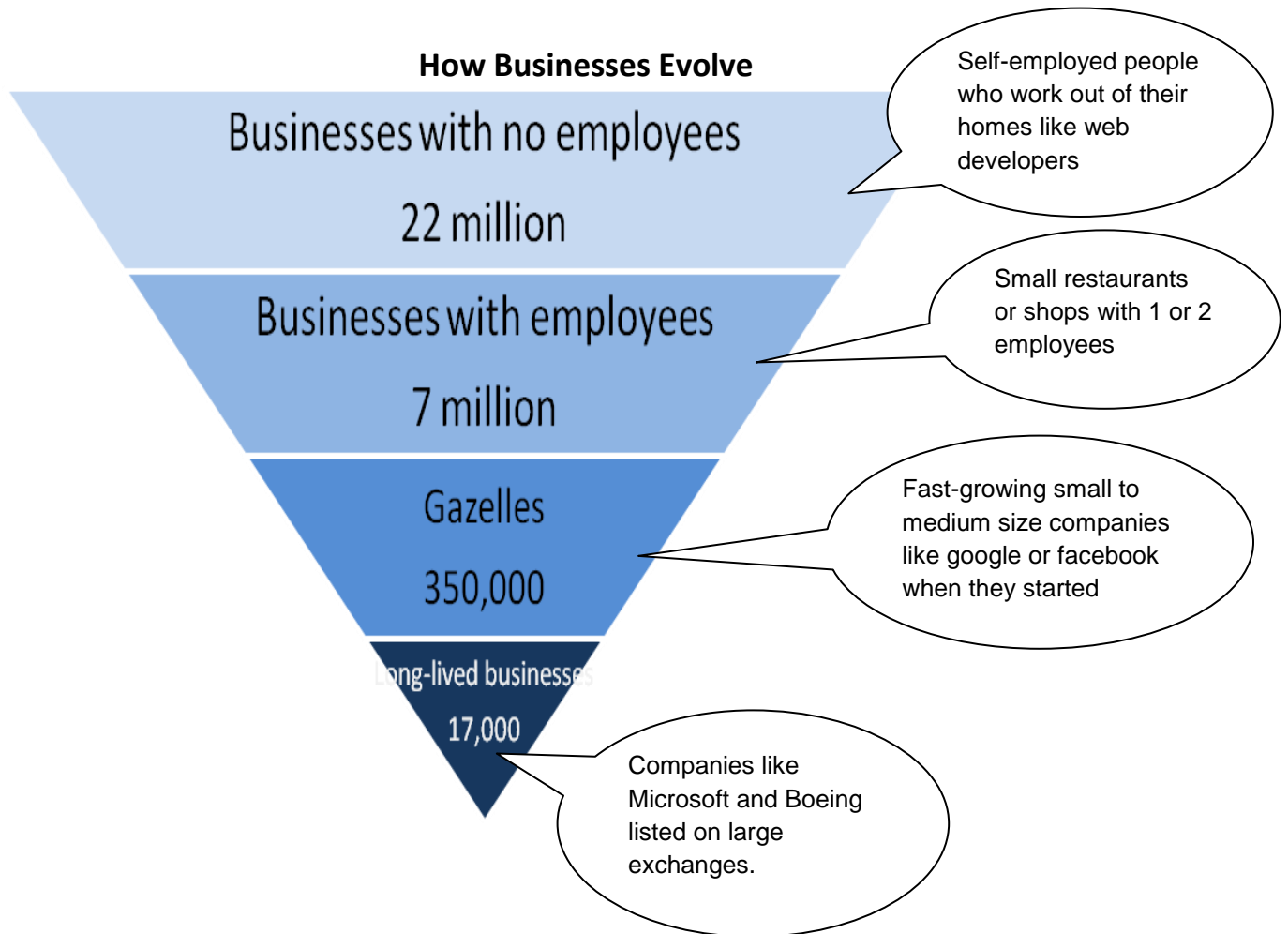
Module 2 - Entrepreneurship and Legal Forms of Business

Module 2 Goals:

- **Describe the legal forms of businesses (Sole proprietorships, partnerships, corporations, LLCs, Sub S), entrepreneurship, business models, components of business plans, breakeven analysis.**
- **Identify the pros and cons of the legal forms of business.**
- **Use tax rates to calculate the after-tax profit of various forms of business.**
- **Use breakeven analysis to determine when a business will be profitable.**
- **Analyze the appropriateness of various legal forms for various business situations.**
- **Create a business plan for a small business including breakeven analysis**

Businesses and Entrepreneurship

Of all businesses, most involve self-employment with no employees account for \$992 million in revenues in 2007. Firms with employees which have people on their payrolls numbered about 7 million in 2007 and had \$29 billion in receipts. Of the employer firms, according to David Birch, who coined the term, there are about 350,000 “gazelles.” Gazelles represent the holy grail of business in that they grow very quickly (over 20% per year) and generate employment as a result of their growth. They typify the best in entrepreneurship in America. Only recently have efforts been made to isolate factors that cause businesses to break away from the pack to become gazelles. The businesses that command the most attention are the largest 17,000 firms. Of these about 7,000 are listed on the public stock exchanges.



Characteristics of Types of Businesses

| | Self-Employed | Employer Firms | Gazelles | Long-lived Firms |
|--------------------------|--|--|--|---|
| Definition | Firms with one owner/employee | Firms that have employees | Coined by David Birch, fast-growing businesses that typify the best in US entrepreneurship. | Established large enterprises characterized by publicly-listed companies. |
| Number | 21 million | 7 million | 350,000 | 17,000 |
| Characteristics | Most self-employed start businesses to accommodate lifestyle choice | Most are small marginal businesses and continue to be small. | Growth rates of over 20% per year. | S&P 500 growth rates. |
| Capital | Low capital requirements: 75% start with less than \$5000. Over 90% start with less than \$25,000. | Low capital requirements: About 75% start with less than \$25,000. Over 50% required less than \$5000. | Don't differ much from employer firms. Two thirds use less than \$50,000 to start their businesses. More capital seems to accelerate process, though it does not increase profitability. Key is that the entrepreneur knows how to bootstrap. Only 4% use venture capital. | Large banks and financial markets. |
| Industries | Professional and other services, retail, and construction. | Most are low capital and low barrier industries. | "Fuzzy" market opportunities not completely defined. No major competitors. | See S&P 500 classifications. |
| Owner characteristics | Wants to be own boss, control over number of hours worked, and family reasons. | Risk-averse. | Strong tolerance for ambiguity. Strong self confidence. Sales skills. Problem solving in a fuzzy environment. Open to learning from mistakes. Previous experience in industry. 80% have college degrees. | Leadership. Audacious goals. Strategic outlook. Coherence of goals. |
| Business characteristics | Marginal businesses with low-risk incremental opportunities. | Most popular are restaurants, beauty salons, and construction. | Few substitutes for products/services. Not an original idea. | Portfolio of businesses. |
| Revenue generation | Most generate less than \$50,000 and one third operate at loss. | Most do not grow. Bulk have less than \$100,000 in sales. | High revenue growth of over 20% a year. | Averages to GDP growth rate. |

| | Self-Employed | Employer Firms | Gazelles | Long-lived Firms |
|---|---|---|--|--------------------------------------|
| Job generation | None. | Only 24% of employer firms tracked over 10 years show any growth in employment | Estimated that these generate 60% of the new jobs. | Generate one-third of net jobs. |
| Cycle | Self-employment increases during economic downturns. | Growing at 1% to 2% a year. Follows business cycle with more starts during expansions and more deaths during downturns. | | Business cycle specific to industry. |
| Survival | One study showed 51% survive five years as compared to 82% of businesses with employees. | About 500,000 started every year and about 500,000 terminated. Only 30,000 are bankruptcies. One SBA study shows lack of capital is a major source of business dissolution. | Survival may be subject to industry life cycle. | Survival rate is very high. |
| What causes it to move to the next phase. | If self-employment becomes primary source of income then move to become employer firm. 41% contribute less than 10% of family income. | <p>Choosing a market without major competitors.</p> <p>Information about the market is imperfect and evolving.</p> <p>Previous experience in that industry.</p> <p>Strong sales skills.</p> <p>Bootstrapping and making do with little at the fledgling stages.</p> | <p>Ability of management to transition from entrepreneur to manager.</p> <p>Vision to set audacious goals. Moving from single business to portfolio of businesses. Ability to motivate teamwork.</p> <p>Coherence of vision.</p> | |

Source: Bhide, Amar, The Origin and Evolution of New Businesses, Oxford University Press, 2000
SBA Study of Employer Businesses, 1987-1992
SBA Self Employment Study

Firms with No Employees

Studies of the self-employed show that these individuals often start businesses to accommodate a lifestyle choice. Their reasons include control over the number of hours they work, family reasons, health

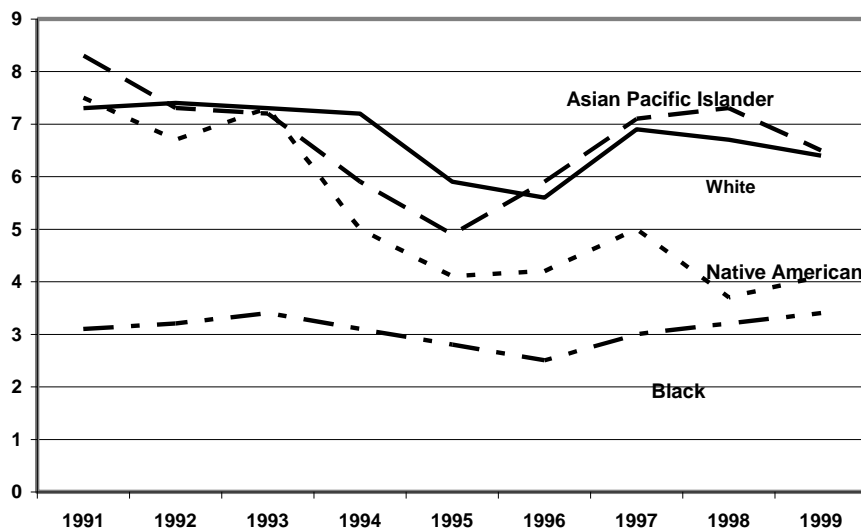
reasons, or being their own boss. The self-employed tend to be concentrated in industries that have low capital requirements. Most of these businesses start with less than \$25,000 in initial capital and about 75% start with less than \$5000 in initial capital. Construction, retail, real estate, and other services dominate. The ranks of the self-employed include a broad spectrum of occupations from construction workers to doctors and lawyers. Most of these individuals have no desire to grow their businesses past self-employment.

Although, a small percent of these businesses can generate significant revenues and profit, most of these businesses generate less than \$50,000 in revenues and about one-third operate at a loss. Some evidence suggests that the low revenue generation may be a result of the number of hours put into the business. The survival rate for the self-employed is worse than for businesses with employees. About 51% of self-employed survive five years compared to 82% of those with employees. Businesses state that lack of cash as the main reason for closing the business. Most business owners consider the business still viable at closing. These same factors handicap minority self-employed in moving from marginal business to promising business.

A key factor in reaching escape velocity out of self-employment is lifestyle choice. 41% of these businesses provide less than 10% of family income for their owners. Only 18% of these businesses rely on business income for the owners' primary income. When self-employed rely on the business for primary income, the business owner is more likely put in more time to move the business to become larger.

Comparative Self-employment as Major Source of Earnings

Self-Employment Major Source of Earnings



Source: Minorities in Business, 2001, SBA

Employer Firms

Employer firms currently number about 7 million and have been growing at a rate of 1% to 2% a year. About half a million businesses are started every year and about the same number are terminated. Business termination is not always because the business failed. Only about 30,000 business bankruptcies are filed every year. Both business births and deaths seem to pay some heed to the economic cycle in that there appears to be fewer births and more deaths during down or slow cycles such as 1991 and 2001.

The bulk of these enterprises do not grow. Only 24% of employer firms tracked over ten years report any increase in employment. Amar Bhide has theorized that these firms stay small because typically the

business owners select marginal businesses that have dim prospects of high growth. Contrary to the popular entrepreneurial myth, most business owners are risk averse when selecting their businesses. They choose businesses with low capital requirements and, as such, low barriers to entry.

Most Popular Small Businesses

| Most Popular Small Businesses | Total Number of Firms |
|--------------------------------------|-----------------------|
| Trade contractors | 1.8 million |
| Administrative and support services | 1.4 million |
| Personal and laundry services | 1.1 million |
| Nonstore retailers | 1 million |
| Professional and Consulting services | 1 million |
| Artists and entertainers | 0.9 million |
| Real estate | 0.7 million |
| Child care | 0.6 million |
| Store retailers | 0.4 million |
| Repair services | 0.4 million |

Source: 1997 Survey of Business Owners

From the table above, it can be seen that the most popular businesses include restaurants, beauty salons, and construction. These require relatively little in terms of human capital. The business owner need not have a college education nor long-term training to start one of these businesses. With such low barriers, there are many entrants and returns are correspondingly low. Additionally these business owners don't engage in radical adaptation or innovation. They run the businesses at status quo. As such the probability of high profits are minimal. Even the best practitioners will find it difficult to reach escape velocity to become a gazelle.

Gazelles

Although gazelles number only about 350,000, according to David Birch, they account for 60% of job growth in the US. These enterprises typify what most people believe entrepreneurship to be. They log growth rates in excess of 20% per year. They generate the bulk of job growth. Even among gazelles, there are the elite who generate growth rates well in excess of 20% annually. These are often referred to as the super gazelles.

Amar Bhide studied businesses on the *Inc* 500 (a list of the fastest growing private businesses) as a means of determining what set these businesses apart from general population of firms. According to his research, gazelles don't differ significantly from other employer firms or even sole proprietorships in the amount of capital used to start the business. Most gazelles started with a median of \$10,000. Even the most recent *Inc* survey (2002) of owners showed that only one third used more than \$50,000 to start their businesses. The amount of capital used had no bearing on how soon the business reached profitability but it may have an effect on the growth rate of the firm. It is believed that the low amount of capital to start a firm may contribute to business success. First, the entrepreneur must bootstrap to survive. He or she learns to adapt and allocate scarce resources. Second, the small amount of capital makes innovation less risky. If the venture does not succeed, then the cost of failure is small. The entrepreneur can start another venture and try again.

Long-lived Businesses

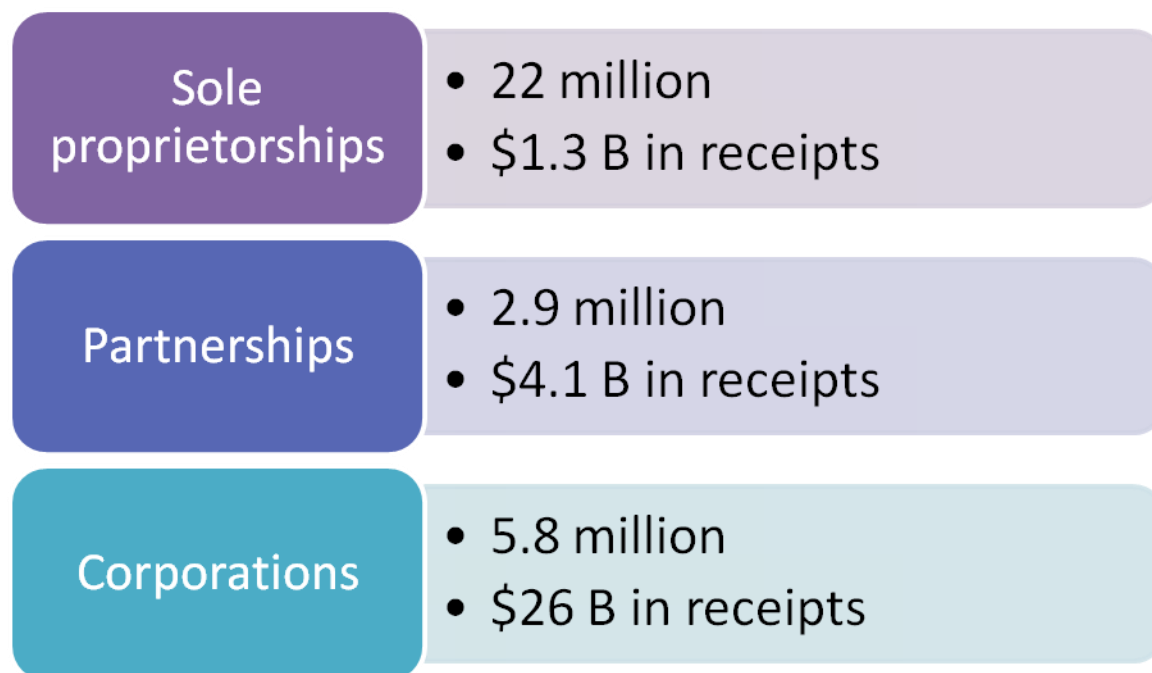
Long-lived enterprises are those who survive over a long period of time and become major firms. They are epitomized by the companies listed on the public exchanges and ultimately part of the Standard and Poors 500 index. Only a handful of company founders are able to stay at the helm during the transition from fledgling enterprise to long-lived company. Individuals such as Bill Gates, Michael Dell, and Sam Walton become the stuff of legends. Some business thinkers speculate that few entrepreneurs make it to

the ranks of Fortune 500 CEOs because the skill sets necessary to transition to a long-lived company are significantly different from those needed to get a fledgling business into growth mode.

For the fledgling entrepreneur, long-term planning serves little use in uncertain or undefined markets where information is imperfect. Their business models are being refined by a series of adaptations. The entrepreneur plays a key role in being the firm's chief salesperson. Planning plays a relatively small role in these businesses. Most founders of gazelles say they didn't have a strategic plan and a study done by the National Federation of Independent Businesses shows that detailed study and planning makes no difference in the early success of a business. Once a business moves past its fledgling stage, a strategic outlook becomes more important. The bulk of businesses don't expand past certain limits because the founders fail to see the possibilities.

The Small Business Administration (SBA) provides some excellent resources for starting a business and legal forms. SBA material on business legal forms and business plans follows.

Forms of Ownership



Retrieved 7/11/10 from <http://www.sba.gov/smallbusinessplanner/start/choosestructure/index.html>

Sole Proprietorships

The vast majority of small businesses start out as sole proprietorships. These firms are owned by one person, usually the individual who has day-to-day responsibilities for running the business. Sole proprietors own all the assets of the business and the profits generated by it. They also assume complete responsibility for any of its liabilities or debts. In the eyes of the law and the public, you are one in the same with the business.

Advantages of a Sole Proprietorship

- Easiest and least expensive form of ownership to organize.

- Sole proprietors are in complete control, and within the parameters of the law, may make decisions as they see fit.
- Sole proprietors receive all income generated by the business to keep or reinvest.
- Profits from the business flow directly to the owner's personal tax return.
- The business is easy to dissolve, if desired.

Disadvantages of a Sole Proprietorship

- Sole proprietors have unlimited liability and are legally responsible for all debts against the business. Their business and personal assets are at risk.
- May be at a disadvantage in raising funds and are often limited to using funds from personal savings or consumer loans.
- May have a hard time attracting high-caliber employees or those that are motivated by the opportunity to own a part of the business.
- Some employee benefits such as owner's medical insurance premiums are not directly deductible from business income (only partially deductible as an adjustment to income).

Partnerships

In a Partnership, two or more people share ownership of a single business. Like proprietorships, the law does not distinguish between the business and its owners. The partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, how future partners will be admitted to the partnership, how partners can be bought out, and what steps will be taken to dissolve the partnership when needed. Yes, it's hard to think about a breakup when the business is just getting started, but many partnerships split up at crisis times, and unless there is a defined process, there will be even greater problems. They also must decide up-front how much time and capital each will contribute, etc.

Advantages of a Partnership

- Partnerships are relatively easy to establish; however time should be invested in developing the partnership agreement.
- With more than one owner, the ability to raise funds may be increased.
- The profits from the business flow directly through to the partners' personal tax returns.
- Prospective employees may be attracted to the business if given the incentive to become a partner.
- The business usually will benefit from partners who have complementary skills.

Disadvantages of a Partnership

- Partners are jointly and individually liable for the actions of the other partners.
- Profits must be shared with others.
- Since decisions are shared, disagreements can occur.
- Some employee benefits are not deductible from business income on tax returns.
- The partnership may have a limited life; it may end upon the withdrawal or death of a partner.

Types of Partnerships that should be considered:

1. **General Partnership**
Partners divide responsibility for management and liability as well as the shares of profit or loss according to their internal agreement. Equal shares are assumed unless there is a written agreement that states differently.
2. **Limited Partnership and Partnership with limited liability**
Limited means that most of the partners have limited liability (to the extent of their investment) as well as limited input regarding management decisions, which generally encourages investors for short-term projects or for investing in capital assets. This form of ownership is not often used for operating retail or service businesses. Forming a limited partnership is more complex and formal than that of a general partnership.

3. Joint Venture

Acts like a general partnership, but is clearly for a limited period of time or a single project. If the partners in a joint venture repeat the activity, they will be recognized as an ongoing partnership and will have to file as such as well as distribute accumulated partnership assets upon dissolution of the entity.

Corporations

A corporation chartered by the state in which it is headquartered is considered by law to be a unique entity, separate and apart from those who own it. A corporation can be taxed, it can be sued, and it can enter into contractual agreements. The owners of a corporation are its shareholders. The shareholders elect a board of directors to oversee the major policies and decisions. The corporation has a life of its own and does not dissolve when ownership changes.

Advantages of a Corporation

- Shareholders have limited liability for the corporation's debts or judgments against the corporations.
- Generally, shareholders can only be held accountable for their investment in stock of the company. (Note however, that officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes.)
- Corporations can raise additional funds through the sale of stock.
- A corporation may deduct the cost of benefits it provides to officers and employees.
- Can elect S corporation status if certain requirements are met. This election enables company to be taxed similar to a partnership.

Disadvantages of a Corporation

- The process of incorporation requires more time and money than other forms of organization.
- Corporations are monitored by federal, state and some local agencies, and as a result may have more paperwork to comply with regulations.
- Incorporating may result in higher overall taxes. Dividends paid to shareholders are not deductible from business income; thus it can be taxed twice. Although some argue that double taxation may not be an issue (only 25% of corporations pay any taxes), it may be a factor in smaller businesses which cannot afford the tax advice that would eliminate taxes. The following is an example of after-tax calculations of profits for the three main legal forms.

Corporations and Double Taxation

| Profits before taxes \$500,000 | | |
|--|---|---|
| Sole Proprietor Gets all of profits Taxed at individual rate | Partners Divides profits Taxed at individual rate | Corporation is taxed Divides profits Taxed at individual rate |
| \$500,000 <u>-100,000 20% tax</u> \$400,000 total | \$500,000 divided by 5 partners = \$100,000 each <u>- 20,000 20% tax</u> \$ 80,000 each or \$400,000 total | \$500,000 <u>-175,000 35% Corporate Tax</u> \$325,000 Divided by 100 shareholders \$3,250 <u>- 487.50 15% Personal Dividend Tax</u> \$2,762.50 each or \$276,200 total |

Subchapter S Corporations

A tax election only; this election enables the shareholder to treat the earnings and profits as distributions and have them pass through directly to their personal tax return. The catch here is that the shareholder, if working for the company, and if there is a profit, must pay him/herself wages, and must meet standards of "reasonable compensation". This can vary by geographical region as well as occupation, but the basic rule is to pay yourself what you would have to pay someone to do your job, as long as there is enough profit. If you do not do this, the IRS can reclassify all of the earnings and profit as wages, and you will be liable for all of the payroll taxes on the total amount.

Limited Liability Company (LLC)

The LLC is a relatively new type of hybrid business structure that is now permissible in most states. It is designed to provide the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership. Formation is more complex and formal than that of a general partnership.

The owners are members, and the duration of the LLC is usually determined when the organization papers are filed. The time limit can be continued, if desired, by a vote of the members at the time of expiration. LLCs must not have more than two of the four characteristics that define corporations: Limited liability to the extent of assets, continuity of life, centralization of management, and free transferability of ownership interests.

Choosing the Business Structure

Downloaded 7/11/10 from http://www.toolkit.com/small_business_guide/sbg.aspx?nid=P10_2160

Although we discuss the main advantages and disadvantages of different organizational forms, no formula exists for making the determination of which entity is best for your business, and this module's focus on how to obtain financing for your business does not fully address important considerations relating to taxes, personnel, marketing and business strategies, and a variety of other factors that influence your choice of entity.

However, certain general principles can be identified to help guide your selection of an organizational form for your small business. For example, many startup businesses follow a progression of organizational forms, evolving from a sole proprietorship into some form of corporate entity as the business's financing needs and options become more complicated. The sole proprietorship is popular for startups because it requires virtually no formalities and no cost to create and maintain, and tax treatment is favorable and simple.

On the other hand, if your business will have employees (creating potential personal tort liability for owners), poses relatively high risks, and/or needs to attract equity financing, the business may benefit from beginning as a corporation. The LLC entity may also be worth considering for a startup business if you want the pass-through tax benefits of a partnership but also want to limit your personal liability. Among the more specific principles to consider are:

Use of equity financing. The degree to which you need to sell ownership interests to raise money for your business will influence your choice of organizational forms. The number and type of equity investors in several of the entity forms are limited. The C corporation allows the greatest flexibility in terms of manipulating ownership interests through the type and number of ownership shares that you sell. However, S corporations and close corporations limit the number and type of shareholders. A sole proprietorship obviously precludes equity financing from anyone other than yourself. Likewise, a general partnership may have problems raising equity capital because adding a new partner requires the unanimous consent of all existing partners. In addition, having numerous partners in a general partnership can create cumbersome management decision-making. LLCs and LLPs are similar to partnerships in this constraint.

Of course, most small businesses do not begin with a large number of owners (e.g., more than ten); consequently, you can usually convert a more simple organizational form, such as a partnership, into a corporation if and when the need for greater equity financing arises.

Risk. If the business has employees, or if several owners will participate actively in the business, the potential personal liability from the conduct of these persons can influence your choice of organizational form. A high-risk business, such as construction contracting, may favor an entity that limits the personal liability of the owners, such as a corporation, limited liability company, limited liability partnership, or limited partnership. In contrast, a sole proprietor and a partner in a general partnership have unlimited personal liability for the conduct of associates and employees.

Taxes. Startup businesses typically experience an initial period of tax losses. A sole proprietorship, a general or limited partnership, an S corporation, and an LLC or LLP will usually allow you to "pass-through" a greater amount of these losses to your individual tax return (unless your interest in the partnership or S corporation is considered a passive activity and your loss deductions are consequently limited). A C corporation would limit the amount of loss you could deduct in any one year to the amount of corporate income for that year (plus any carry-over losses from prior years). In addition, the owners of a C corporation pay a second tax on earnings when corporate revenues are distributed to shareholders.

Image. To some investors, a more formal organizational entity may add to the intangible appeal of your business. A corporate name may create an image of credibility and business sophistication for some investors.

Control. Any entity that has more than one owner involves compromising your exclusive control over the business. Your willingness to dilute your ownership control, and the need to obtain outside equity financing, will govern this factor.

Transferability and marketability. All organizational forms, other than sole proprietorships and C corporations, usually have restrictions on the transfer of ownership interests. Although these restrictions allow the owners a greater degree of ownership control, the constraints are also likely to limit the marketability and [liquidity](#) of the equity interests.

Starting a Business – The Business Plan

Retrieved from http://www.sba.gov/smallbusinessplanner/plan/writeabusinessplan/SERV_ESSENTIAL.html

A business plan should be a work-in-progress. Even successful, growing businesses should maintain a current business plan. As any good salesperson knows, you have to know everything you can about your products or services in order to persuade someone to buy them. In this discussion, you are the salesperson and your products represent your business. Your customers are potential investors and employees. Since you want your customers to believe in you, you must be able to convince them that you know what you are talking about when it comes to your business.

To become an expert (or to fine-tune your knowledge if you already believe you are one), you must be willing to roll up your sleeves and begin digging through information. Since not all information that you gather will be relevant to the development of your business plan, it will help you to know what you are looking for before you get started. In order to help you with this process, we have developed an outline of the essential elements a good business plan.

Every successful business plan should include something about each of the following areas, since these are what make up the essentials of a good business plan:

Part 1: The Executive Summary

The executive summary is the most important section of your business plan. It provides a concise overview of the entire plan along with a history of your company. This section tells your reader where your company is and where you want to take it. It's the first thing your readers see; therefore it is the thing that will either grab their interest and make them want to keep reading or make them want to put it down and

forget about it. More than anything else, this section is important because it tells the reader why you think your business idea will be successful.

The executive summary should be the last section you write. After you've worked out all the details of your plan, you'll be in a better position to summarize it - and it should be a summary (i.e., no more than 4 pages).

Contents of the Executive Summary

- The Mission Statement - The mission statement briefly explains the thrust of your business. It could be two words, two sentences, a paragraph, or even a single image. It should be as direct and focused as possible, and it should leave the reader with a clear picture of what your business is all about.
- Date business began
- Names of founders and the functions they perform
- Number of employees
- Location of business and any branches or subsidiaries
- Description of plant or facilities
- Products manufactured/services rendered
- Banking relationships and information regarding current investors
- Summary of company growth including financial or market highlights (e.g. your company doubled its worth in 12-month period; you became the first company in your industry to provide a certain service)
- Summary of management's future plans - With the exception of the mission statement, all of the information in the Executive Summary should be highlighted in a brief, even bulleted, fashion. Remember, these facts are laid out in-depth further along in the plan.

If you're just starting a business, you won't have a lot of information to plug into the areas mentioned above. Instead, focus on your experience and background as well as the decisions that led you to start this particular enterprise. Include information about the problems your target market has and what solutions you provide. Show how the expertise you have will allow you to make significant inroads into the market. Tell your reader what you're going to do differently or better. Convince the reader that there is a need for your service or product, then go ahead and address your (the company's) future plans.

To assist the reader in locating specific sections in your business plan, include a table of contents directly following the executive summary. Make sure that the content titles are very broad; in other words, avoid detailed descriptions in your table of contents.

Part 2: Market Analysis

The market analysis section should illustrate your knowledge about the particular industry your business is in. It should also present general highlights and conclusions of any marketing research data you have collected; however, the specific details of your marketing research studies should be moved to the appendix section of your business plan.

This section should include: an industry description and outlook, target market information, market test results, lead times, and an evaluation of your competition.

Industry Description and Outlook

This overview section should include: a description of your primary industry, the current size of the industry as well as its historic growth rate, trends and characteristics related to the industry as a whole (i.e., What life cycle stage is the industry in? What is its projected growth rate?), and the major customer

groups within the industry (i.e., businesses, governments, consumers, etc).

Identifying Your Target Market

Your target market is simply the market (or group of customers) that you want to target (or focus on and sell to). When you are defining your target market, it is important to narrow it to a manageable size; many businesses make the mistake of trying to be everything to everybody. Often times, this philosophy leads to failure.

In this section, you should gather information which identifies the:

- Distinguishing characteristics of the major/primary market you are targeting. This section might include information about the critical needs of your potential customers, the degree to which those needs are (or are not) currently being met, and the demographics of the group. It would also include the geographic location of your target market, the identification of the major decision-makers, and any seasonal or cyclical trends which may impact the industry or your business.
- Size of the primary target market. Here, you would need to know the number of potential customers in your primary market, the number of annual purchases they make in products or services similar to your own, the geographic area they reside in, and the forecasted market growth for this group.
- The extent to which you feel you will be able to gain market share and the reasons why. In this research, you would determine the market share percentage and number of customers you expect to obtain in a defined geographic area. You would also outline the logic you used to develop these estimates.
- Your pricing and gross margin targets. Here, you would define the levels of your pricing, your gross margin levels, and any discount structures that you plan to set up for your business, such as volume/bulk discounts or prompt payment discounts.
- Resources for finding information related to your target market. These resources might include directories, trade association publications, and government documents.
- Media you will use to reach your target audience. These might include publications, radio or television broadcasts, or any other type of credible source that may have influence with your target market.
- Purchasing cycle of your potential customers. Here, you will need to identify the needs of your target market, do research to find the solutions to their needs, evaluate the solutions you come up with, and finally, identify who actually has the authority to choose the final solution.
- Trends and potential changes which may impact your primary target market. Key characteristics of your secondary markets. Just like with your primary target market, here you would again want to identify the needs, demographics, and the significant trends which will influence your secondary markets in the future.

Market Tests

When you are including information about any of the market tests you have completed for your business plan, be sure to focus only on the results of these tests. Any specific details should be included in the appendix. Market test results might include: the potential customers who were contacted, any information or demonstrations that were given to prospective customers, how important it is to satisfy the target market's needs, and the target market's desire to purchase your business' products or services at varying prices.

Lead Times

Lead time is the amount of time between when a customer places an order and when the product or service is actually delivered. When you are researching this information, determine what your lead time will be for the initial order, reorders, and volume purchases.

Competitive Analysis

When you are doing a competitive analysis, you need to identify your competition by product line or service as well as by market segment; assess their strengths and weaknesses, determine how important your target market is to your competitors, and identify any barriers which may hinder you as you are entering the market.

Be sure to identify all of your key competitors for each of your products or services. For each key competitor, determine what their market share is, then try to estimate how long it will take before new competitors will enter into the marketplace. In other words, what is your window of opportunity? Finally, identify any indirect or secondary competitors which may have an impact on your business' success.

The strengths of your competitors are also competitive advantages which you, too, can provide. The strengths of your competitors may take many forms, but the most common include:

- An ability to satisfy customer needs
- A large share of the market and the consumer awareness that comes with it
- A good track record and reputation
- Solid financial resources and the subsequent staying power which that provides
- Key personnel

Weaknesses are simply the flip side of strengths. In other words, analyze the same areas as you did before to determine what your competitors' weaknesses are. Are they unable to satisfy their customers' needs? Do they have poor market penetration? Is their track record or reputation not up to par? Do they have limited financial resources? Can they not retain good people? All of these can be red flags for any business. If you find weak areas in your competition, be sure to find out why they are having problems. This way, you can avoid the same mistakes they have made.

If your target market is not important to your competition, then you will most likely have an open field to run in if your idea is a good one - at least for a while. However, if the competition is keen for your target market, be prepared to overcome some barriers. Barriers to any market might include:

- A high investment cost
- The time it takes to set up your business
- Changing technology
- The lack of quality personnel
- Customer resistance (i.e., long-standing relationships, brand loyalty)
- Existing patents and trademarks that you can not infringe upon

Regulatory Restrictions

The final area that you should look at as you're researching this section is regulatory restrictions. This includes information related to current customer or governmental regulatory requirements as well as any changes that may be upcoming. Specific details that you need to find out include: the methods for meeting any of the requirements which will effect your business, the timing involved (i.e., How long do you have to comply? When do the requirements go into effect?), and the costs involved.

Part 3: Company Description

Without going into detail, this section should include a high level look at how all of the different elements of your business fit together. The company description section should include information about the nature of your business as well as list the primary factors that you believe will make your business a success.

When defining the nature of your business (or why you're in business), be sure to list the marketplace needs that

you are trying to satisfy; include the ways in which you plan to satisfy these needs using your products or services. Finally, list the specific individuals and/or organizations that you have identified as having these needs.

Primary success factors might include a superior ability to satisfy your customers' needs, highly efficient methods of delivering your product or service, outstanding personnel, or a key location. Each of these would give your business a competitive advantage.

Every business needs a viable business model. A business model is an articulation of how the business makes a profit—both over and above investment and on an ongoing basis. It should outline how the business can survive in a competitive environment where there are many businesses that provide the same products or services. Or, it may describe how it serves a new market and how it will sustain its position if other competitors decide to enter the market.

Part 4: Organization & Management

This section should include: your company's organizational structure, details about the ownership of your company, profiles of your management team, and the qualifications of your board of directors.

Who does what in your business? What is their background and why are you bringing them into the business as board members or employees? What are they responsible for? These may seem like unnecessary questions to answer in a one- or two-person organization, but the people reading your business plan want to know who's in charge, so tell them. Give a detailed description of each division or department and its function.

This section should include who's on the board (if you have an advisory board) and how you intend to keep them there. What kind of salary and benefits package do you have for your people? What incentives are you offering? How about promotions? Reassure your reader that the people you have on staff are more than just names on a letterhead.

Organizational Structure

A simple but effective way to lay out the structure of your company is to create an organizational chart with a narrative description. This will prove that you're leaving nothing to chance, you've thought out exactly who is doing what, and there is someone in charge of every function of your company. Nothing will fall through the cracks, and nothing will be done three or four times over. To a potential investor or employee, that is very important.

Ownership Information

This section should also include the legal structure of your business along with the subsequent ownership information it relates to. Have you incorporated your business? If so, is it a C or S corporation? Or perhaps you have formed a partnership with someone. If so, is it a general or limited partnership? Or maybe you are a sole proprietor.

Important ownership information that should be incorporated into your business plan includes:

- Names of owners
- Percentage ownership
- Extent of involvement with the company
- Forms of ownership (i.e., common stock, preferred stock, general partner, limited partner)
- Outstanding equity equivalents (i.e., options, warrants, convertible debt)
- Common stock (i.e., authorized or issued)

Management Profiles

Experts agree that one of the strongest factors for success in any growth company is the ability and track record of its owner/management, so let your reader know about the key people in your company and their backgrounds. Provide resumes that include the following information:

- Name
- Position (include brief position description along with primary duties)
- Primary responsibilities and authority
- Education
- Unique experience and skills
- Prior employment
- Special skills
- Past track record
- Industry recognition
- Community involvement
- Number of years with company
- Compensation basis and levels (make sure these are reasonable - not too high or too low)

Be sure you quantify achievements (e.g. "Managed a sales force of ten people," "Managed a department of fifteen people," "Increased revenue by 15% in the first six months," "Expanded the retail outlets at the rate of two each year," "Improved the customer service as rated by our customers from a 60% to a 90% rating").

Also highlight how the people surrounding you complement your own skills. If you're just starting out, show how each person's unique experience will contribute to the success of your venture.

Board of Directors' Qualifications

The major benefit of an unpaid advisory board is that it can provide expertise that your company cannot otherwise afford. A list of well-known, successful business owners/managers can go a long way toward enhancing your company's credibility and perception of management expertise.

If you have a board of directors, be sure to gather the following information when developing the outline for your business plan:

- Names
- Positions on the board
- Extent of involvement with company
- Background
- Historical and future contribution to the company's success

Part 5: Marketing and Sales Strategies

Marketing is the process of creating customers, and customers are the lifeblood of your business. In this section, the first thing you want to do is define your marketing strategy. There is no single way to approach a marketing strategy; your strategy should be part of an ongoing self-evaluation process and unique to your company. However, there are steps you can follow which will help you think through the strategy you would like to use.

An Overall Marketing Strategy would include a:

- Market penetration strategy
- Strategy for growing your business. This growth strategy might include: an internal strategy such as how to increase your human resources, an acquisition strategy such as buying another business, a franchise strategy for branching out, a horizontal strategy where you would provide the same type of products to different users, or a vertical strategy where you would continue providing the same products but would offer them at different levels of the distribution chain.
- Channels of distribution strategy. Choices for distribution channels could include: original equipment manufacturers (OEMs), an internal sales force, distributors, or retailers.
- Communication strategy. How are you going to reach your customers? Usually some combination of the following works the best: promotions, advertising, public relations, personal selling, and printed materials such as brochures, catalogs, flyers, etc.
Once you have defined your marketing strategy, you can then define your sales strategy. How do you plan to actually sell your product?

Your Overall Sales Strategy should include:

- A sales force strategy. If you are going to have a sales force, do you plan to use internal or independent representatives? How many salespeople will you recruit for your sales force? What type of recruitment strategies will you use? How will you train your sales force? What about compensation for your sales force?
- Your sales activities. When you are defining your sales strategy, it is important that you break it down into activities. For instance, you need to identify your prospects. Once you have made a list of your prospects, you need to prioritize it. Next, identify the number of sales calls you will make over a certain period of time. From there, you need to determine the average number of sales calls you will need to make per sale, the average dollar size per sale, and the average dollar size per vendor.

Part 6: Service or Product Line

What are you selling? In this section, describe your service or product, emphasizing the benefits to potential and current customers. For example, don't tell your readers which 89 foods you carry in your "Gourmet to Go" shop. Tell them why busy, two-career couples will prefer shopping in a service-oriented store that records clients' food preferences and caters even the smallest parties on short notice.

Focus on the areas where you have a distinct advantage. Identify the problem in your target market for which your service or product provides a solution.

Give the reader hard evidence that people are, or will be, willing to pay for your solution. List your company's services and products and attach any marketing/promotional materials. Provide details regarding suppliers, availability of products/services, and service or product costs. Also include information addressing new services or products which will soon be added to the company's line.

Overall, this section should include:

- A detailed description of your product or service (from your customers' perspective). Here, you would need to include information about the specific benefits of your product or service. You would also want to talk about your product/service's ability to meet consumer needs, any advantages your product has over that of the competition, and the present development stage your product is in (i.e., idea, prototype, etc.).
- Information related to your product's life cycle. Be sure to include information about where your product or service is in its life cycle, as well as any factors that may influence its cycle in the future.
- Any copyright, patent, and trade secret information that may be relevant. Here, you need to include information related to existing, pending, or anticipated copyright and patent filings along with any key characteristics of your products/services that you cannot obtain a copyright or patent for. This is where you should also incorporate key aspects of your products/services that may be

classified as trade secrets. Last, but not least, be sure to add any information pertaining to existing legal agreements, such as nondisclosure or noncompete agreements.

- Research and development activities you are involved in or are planning to be involved in. R&D activities would include any in-process or future activities related to the development of new products/services. This section would also include information about what you expect the results of future R&D activities to be. Be sure to analyze the R&D efforts of not only your own business, but also that of others in your industry.

Part 7: Funding Request

In this section, you will request the amount of funding you will need to start or expand your business. If necessary, you can include different funding scenarios, such as a best and worst case scenarios, but remember that later, in the financial section, you must be able to back up these requests and scenarios with corresponding financial statements.

You will want to include the following in this section: your current funding requirement, your future funding requirements over the next five years, how you will use the funds you receive, and any long-range financial strategies that you are planning that would have any type of impact on your funding request.

When you are outlining your current and future funding requirements, be sure to include the amount you want now and the amount you want in the future, the time period that each request will cover, the type of funding you would like to have (i.e., equity, debt), and the terms that you would like to have applied.

How you will use your funds is very important to a creditor. Is the funding request for capital expenditures? Working capital? Debt retirement? Acquisitions? Whatever it is, be sure to list it in this section.

Last of all, make sure that you include any strategic information related to your business that may have an impact on your financial situation in the future, such as: going public with your company, having a leveraged buyout, being acquired by another company, the method with which you will service your debt, or whether or not you plan to sell your business in the future. Each of these are extremely important to a future creditor, since they will directly impact your ability to repay your loan(s).

Part 8: Financials

The financials should be developed after you've analyzed the market and set clear objectives. That's when you can allocate resources efficiently. The following is a list of the critical financial statements to include in your business plan packet.

Historical Financial Data

If you own an established business, you will be requested to supply historical data related to your company's performance. Most creditors request data for the last three to five years, depending on the length of time you have been in business.

The historical financial data you would want to include would be your company's income statements, balance sheets, and cash flow statements for each year you have been in business (usually for up to 3 to 5 years). Often creditors are also interested in any collateral that you may have that could be used to ensure your loan, regardless of the stage of your business.

Prospective Financial Data

All businesses, whether startup or growing, will be required to supply prospective financial data. Most of the time, creditors will want to see what you expect your company to be able to do within the next five years. Each year's documents should include forecasted income statements, balance sheets, cash flow statements, and capital expenditure budgets. For the first year, you should supply monthly or quarterly projections. After that, you can stretch it to quarterly and/or yearly projections for years 2 through 5.

Make sure that your projections match your funding requests; creditors will be on the lookout for inconsistencies. It's much better if you catch mistakes before they do. If you have made assumptions in your projections, be sure to summarize what you have assumed. This way, the reader will not be left guessing.

Finally, include a short analysis of your financial information. Include a ratio and trend analysis for all of your financial statements (both historical and prospective). Since pictures speak louder than words, you may want to add graphs of your trend analysis (especially if they are positive).

Part 9: The Appendix

The appendix section should be provided to readers on an as-needed basis. In other words, it should not be included with the main body of your business plan. Your plan is your communication tool; as such, it will be seen by a lot of people. Some of the information in the business section you will not want everyone to see, but, specific individuals (such as creditors) may want access to this information in order to make lending decisions. Therefore, it is important to have the appendix within easy reach.

The appendix would include:

- Credit history (personal & business)
- Resumes of key managers
- Product pictures
- Letters of reference
- Details of market studies
- Relevant magazine articles or book references
- Licenses, permits, or patents
- Legal documents
- Copies of leases
- Building permits
- Contracts
- List of business consultants, including attorney and accountant

Any copies of your business plan should be controlled; keep a distribution record. This will allow you to update and maintain your business plan on an as-needed basis. Remember, too, that you should include a private placement disclaimer with your business plan if you plan to use it to raise capital.

Breakeven Analysis

In evaluating the investment, the concept of breakeven is important. Breakeven is defined as the time and amount of money it takes to recoup the investment. The concept is the same for starting a restaurant or developing a new technology. In achieving breakeven, it is important to control the initial investment as well as get to the point of generating profits as soon as possible.

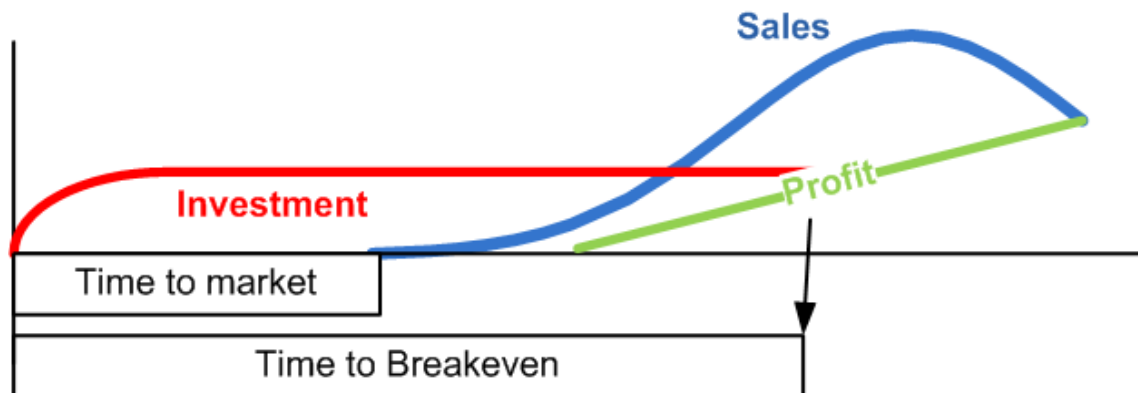
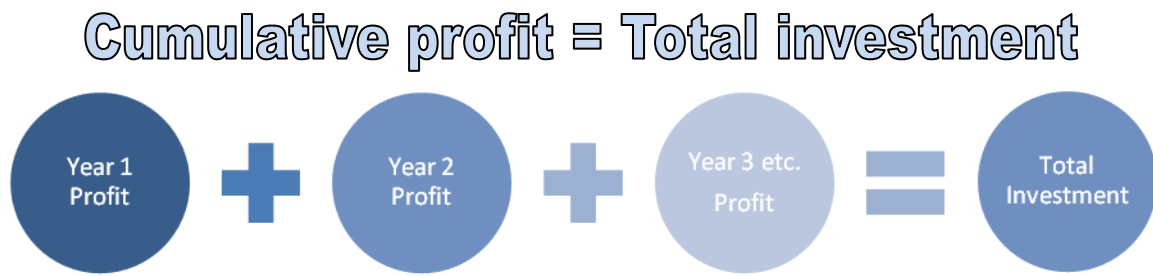
Investment: Most businesses require a lump sum of money to started. This money could be used for renovating a store, legal costs, or buying products to be sold. This is different from the regular expenses that are incurred day to day.

Revenues: Revenue is the money the business takes in from selling its products or services.

Expenses: Expenses are the costs of running the business. This could include paying employees, rent, utilities, etc. Expenses are often broken up into fixed (those that must be paid every month such as rent) and variable (those that can be reduced or increased based on the amount of sales you have such as employees, supplies, etc.)

Profit: Revenues less expenses is the profit.

Every business should look to breakeven as soon as it can. The breakeven is noted as the time when:



Source: House and Price, "The Return Map: Tracking Product Teams," Harvard Business Review 1991

Take the case of a small business considering a website in the table below. When focusing on costs, first divide the costs between the up-front investment (often the fixed costs) and ongoing costs. The more experience the business owner has in e-commerce, the more accurate and, usually, the lower these costs will be. In this instance, \$10,000 is budgeted to develop the site and mount the catalog and an additional \$5,000 is budgeted in one-time marketing costs.

Next the cost of goods sold is examined. Although the business may have a storefront, the cost of goods sold may be different on the commerce site. There may be additional costs in packaging and handling. Shipping will be an added expense. It's important to get an accurate accounting of what these might be. Experienced e-commerce businesses know that fulfillment costs are often higher than originally projected.

Selling on the internet involves a new way of getting to the customer. There are affiliate programs, new promotional programs, and advertisements that have to be developed. Additionally, there are site maintenance and hosting costs. A small business will find the lowest price services and try to be innovative about squeezing the most out of the dollars spent.

Once the costs have been figured out for the first year, projections have to be made into the future. For some costs, like hosting costs, the business might just add 10% every year. For others like personnel, costs behave in step function—they take a jump (additional person needed) when they hit a certain level of sales. The time needs to be taken to get into the detail of each cost.

Payback Period

This is the simplest measure of return on investment and calculates the time to breakeven. With the investment of \$15,000 in the example above, take the profit for each year and determine what year the investment is recouped. In this case, the payback period happens in the second year. The 2004 profit of \$8500 + 2005 profit of \$17100 = \$25,600 which covers the original \$15,000 invested.

The faster the payback period, the better the investment. Some enterprises require 18-month payback period for certain levels of investment. While large enterprises don't put much credence on payback, small businesses with scarce money resources and tight cash flow find the payback period, simple as it is, is the main criterion for go-or-no-go decision on an investment.

| Year | 0 | 1 | 2 | 3 |
|---------------------|-------|-------|----------------|--------|
| Marketing | 5000 | | | |
| Site Development | 10000 | | | |
| Revenues | | 50000 | 75000 | 100000 |
| Cost of Goods (50%) | | 25000 | 37500 | 50000 |
| Gross Margin | | 25000 | 37500 | 50000 |
| Expenses | | | | |
| Hosting | | 3000 | 3300 | 3630 |
| Advertising | | 2500 | 5000 | 7500 |
| Ongoing maintenance | | 1000 | 1100 | 1210 |
| Personnel | | 10000 | 11000 | 20000 |
| Profit | | 8500 | 17100 | 17660 |
| Cumulative Profit | | 8500 | 25600 | 43260 |
| | | | PAYBACK | |

Team Assignment – Forms of Business

Choosing the legal form of a business is a very important decision and requires that you determine which of the criteria discussed in the reading is most important to you:

1. Need for equity financing
2. Risk
3. Taxes
4. Image
5. Control
6. Transferability and marketability

Each of the following six scenarios relates to at least one of the criteria above. Specify which criteria applies (make sure that you get all of them) in each case. Determine what would happen with each of the three major forms of business below. Although all teams must consider all scenarios, only one team will report on each.



The business is a spa and salon called **Beautiful Dreamer**.

What would happen if the business was each of the following:

- Sole proprietorship
- Partnership with one other person
- Corporation

Scenario 1: The company profits are \$100,000

Individual tax rate is 20%. Corporate tax rate is 35%. Dividend tax is 15%

As a sole proprietor how much do you take home after paying the taxman?

As a partnership of two, how much do you take home?

As a corporation with 10 shareholders, how much do you take home?

1. Need for equity financing
2. Risk
3. Taxes
4. Image
5. Control
6. Transferability and marketability

Scenario 2: You want to start a pet spa so that pet owners can bring their pets to the spa but nobody else in the company thinks it will work.

1. Need for equity financing
2. Risk
3. Taxes
4. Image
5. Control
6. Transferability and marketability

Scenario 3: Someone sues you for \$1 million because your product turned their skin green. The company is worth \$500,000.

1. Need for equity financing
2. Risk
3. Taxes
4. Image
5. Control
6. Transferability and marketability

Scenario 4: You want to expand your company by acquiring another spa. The other spa will cost \$2 million.

1. Need for equity financing
2. Risk
3. Taxes
4. Image
5. Control
6. Transferability and marketability

Scenario 5: A large corporate entity is looking for an innovative spa concept. What happens if you want to be taken over? What happens if you don't want to be taken over.

1. Need for equity financing
2. Risk
3. Taxes
4. Image
5. Control
6. Transferability and marketability

Scenario 6: You want to retire to California.

1. Need for equity financing
2. Risk
3. Taxes
4. Image
5. Control
6. Transferability and marketability

Team Assignment – Entrepreneurship and Business Plan

The business plan reading is a good overview of just about everything we cover in this course. In this team assignment, you will play the entrepreneur and come up with a business plan that you will pitch to hypothetical angel investors.

Students have been very creative in coming up with some excellent ideas that meet real needs in the marketplace. Have fun with this assignment. The team will have one session to come up with the idea and do research. The second session will be used for team presentations. The better the presentation, usually the more likely the business will be funded. We will debrief at the end of the assignment as to why certain businesses are selected and why others are not.

At the end of the two sessions, the class will vote whether to fund or not to fund the business. You cannot vote for your own business. You cannot trade votes. You are a very rich angel investor have an unlimited amount of money so you can allocate money (full or partial) to any and all teams you choose.

Although you will not be able to cover each section of the business plan in detail, each team is required to come up with elements of the following:

- [Market Analysis](#) – What is your target market? Who are your competitors?
- [Company Description](#) – Come up with your company name, mission and logo. What is your business model? How will you make money?
- [Organization & Management](#) – Describe which legal form you will take and why. Give key positions to each of your team members.
- [Marketing & Sales Management](#) – How will you break into the market and grow?
- [Service or Product Line](#) – Describe your product. How much do you expect to sell when your business is up and running?
- [Funding Request](#) – How much money are you asking for?
- [Financials](#) – What will your sales and expenses be for the next five years? Optional: When will you break even? (Use the breakeven analysis form to develop your breakeven analysis.)

Tally your results.

| <i>Team</i> | <i>Business</i> | <i>Amount Given</i> | <i>Reason</i> |
|--------------------|------------------------|----------------------------|----------------------|
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Team Assignment Optional - Breakeven analysis of your business plan

For extra credit on the business plan assignment, use the following template to create a breakeven analysis for a business. Be sure to note fixed costs and variable costs. Plot your breakeven on a graph.

| Breakeven Analysis | | | | | |
|----------------------------|-------------|-------------|-------------|-------------|-------------|
| Year | 20XX | 20XX | 20XX | 20XX | 20XX |
| Investment | | | | | |
| | | | | | |
| Revenues | | | | | |
| Cost of Goods (XX%) | | | | | |
| Gross Margin | | | | | |
| Expenses (list) | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| Profit | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Module 2 Questions for Timed Write

(Note only 15 minutes allowed for each question.)

A business generates \$300,000 in total profits. Calculate the profits after paying all taxes if you were part of the following business structures. (Answer with numbers no sentences necessary)

Individual Tax Rates: 30%

Dividend Tax Rate: 15%

Corporate Tax Rates: 25%

What is the after-tax profit for a sole proprietor?

What is the after-tax profit for a partnership of 4 people? Give the after-tax profit for each partner.

What is the after-tax profit for a corporation (not S or LLC) with 20 shareholders? Give the after-tax profit for each shareholder.

Evaluate a sole proprietorship as compared to a partnership on

1. Need for equity financing
2. Risk
3. Taxes
4. Image
5. Control
6. Transferability and marketability

Evaluate a corporation as compared to a partnership on

1. Need for equity financing
2. Risk
3. Taxes
4. Image
5. Control
6. Transferability and marketability

Evaluate a corporation as compared to a sole proprietorship on

1. Need for equity financing
2. Risk
3. Taxes
4. Image
5. Control
6. Transferability and marketability

What is the difference between a long-lived firm and a gazelle? Give an example of each

How are the self-employed different from employer firms? Give an example of each.

What is a market analysis in a business plan? What elements should be covered?

Create an example of a breakeven analysis.

Give an example of a business model. What elements are necessary? Why is it important to a business plan?

When would a business owner choose a LLC over a corporation?

Module 3 – Marketing

Module 3 Goals:

- Describe markets, market size, market share, demographics, customers, segmentation by demographics, behavior, psychographics, geography. Analyze the cultural aspects of marketing.
- Describe and analyze customer life cycle, customer value proposition and be able to articulate the customer value proposition and place customers on the customer life cycle and determine appropriate marketing.
- Demonstrate understanding of the market mix (product, price, place and promotion), brand, and product (development, technology adoption cycle, product life cycle. Be able to place a product on the product life cycle and determine appropriate marketing.

Marketing Process

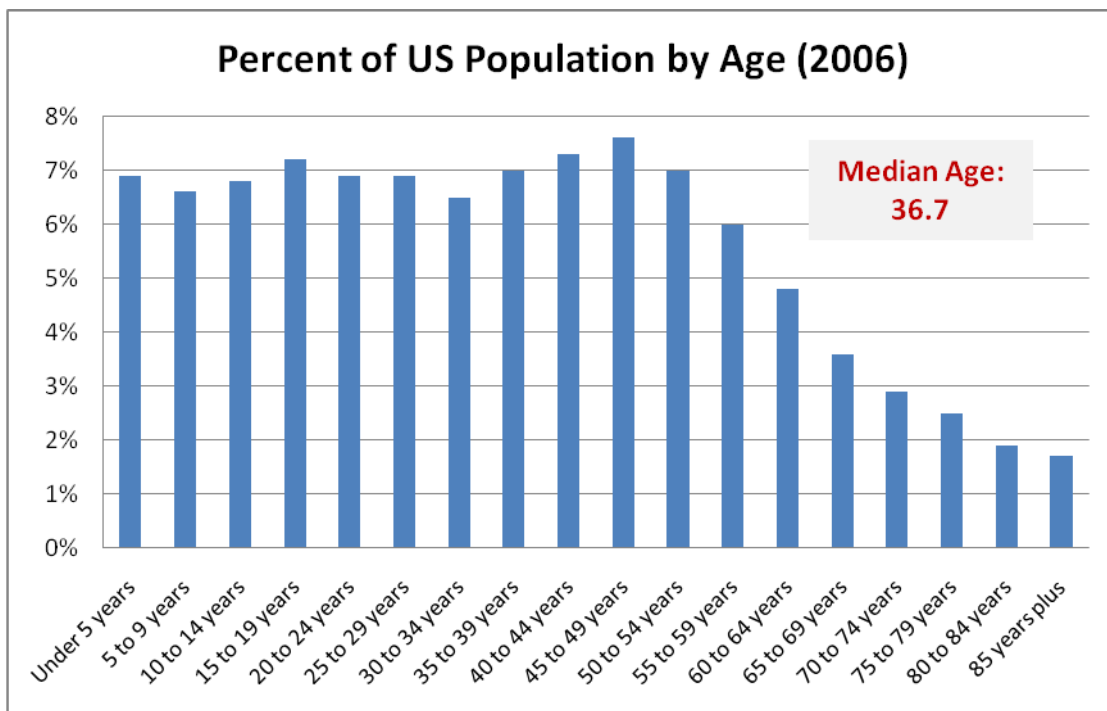
The marketing process encompasses how to get the company's product and services out to the marketplace. It involves looking for market opportunities that are partially or not met, choosing the target market, coming up with a strategy to reach that market, planning in marketing program and mix, and managing the execution and measurement of all this. This course will focus mainly on consumer marketing.



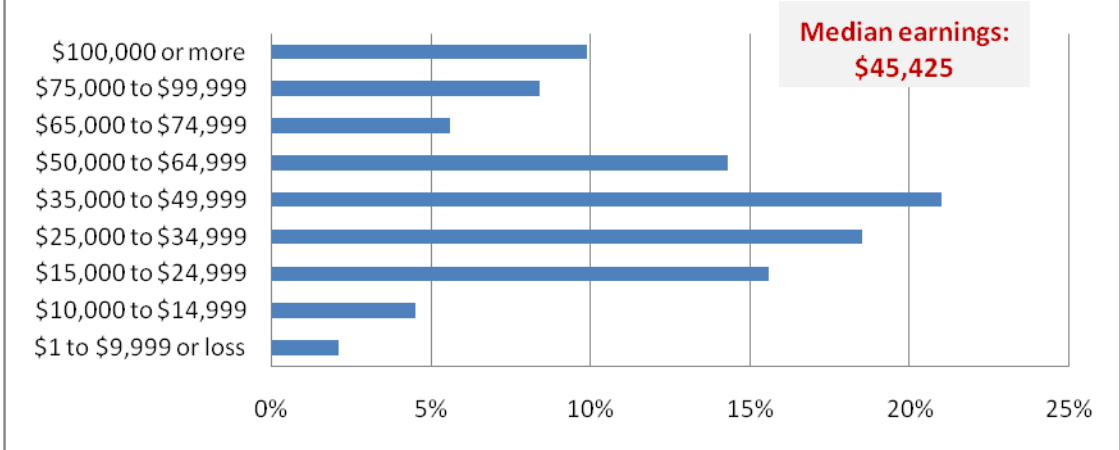
Market Opportunity

The US market with its population of over 300 million represents one of the most vibrant consumer markets in the world. Typically the marketplace is broken out into the products or services that are sold. For example, the US market for apparel or clothing is a \$25 billion market.

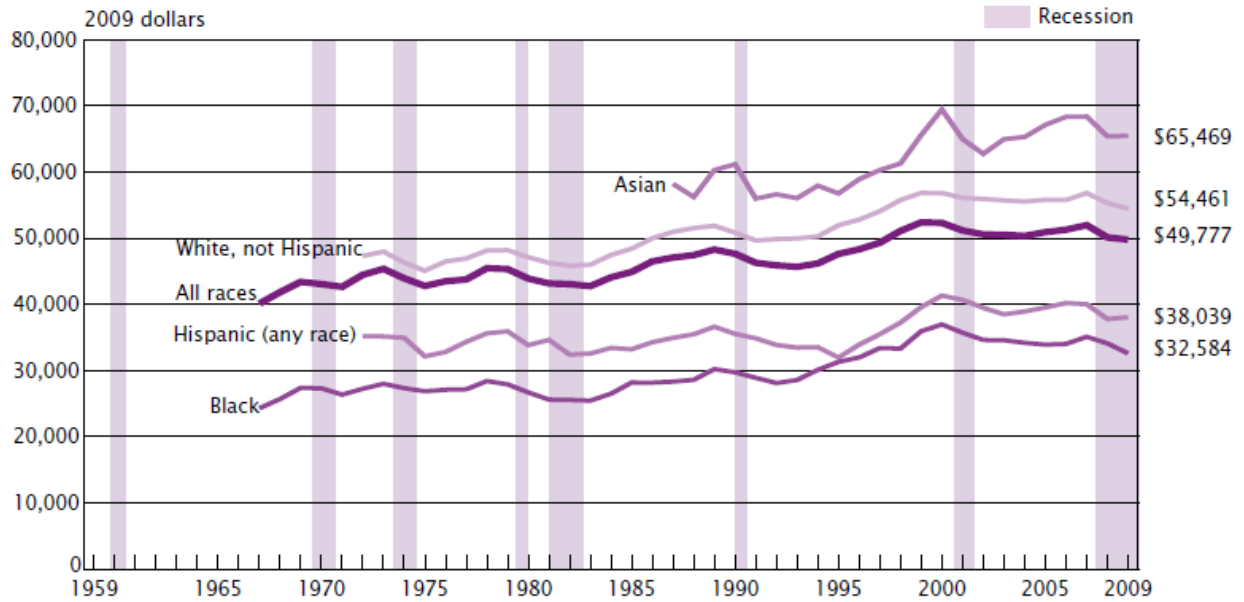
In order to understand the market opportunities, it is important to point out major shifts in the marketplace. These shifts will present opportunities to businesses to provide goods and services where gaps occur. Prior to identifying these shifts, the following graphs from the 2006-8 American Community Survey show what is typical for the country:



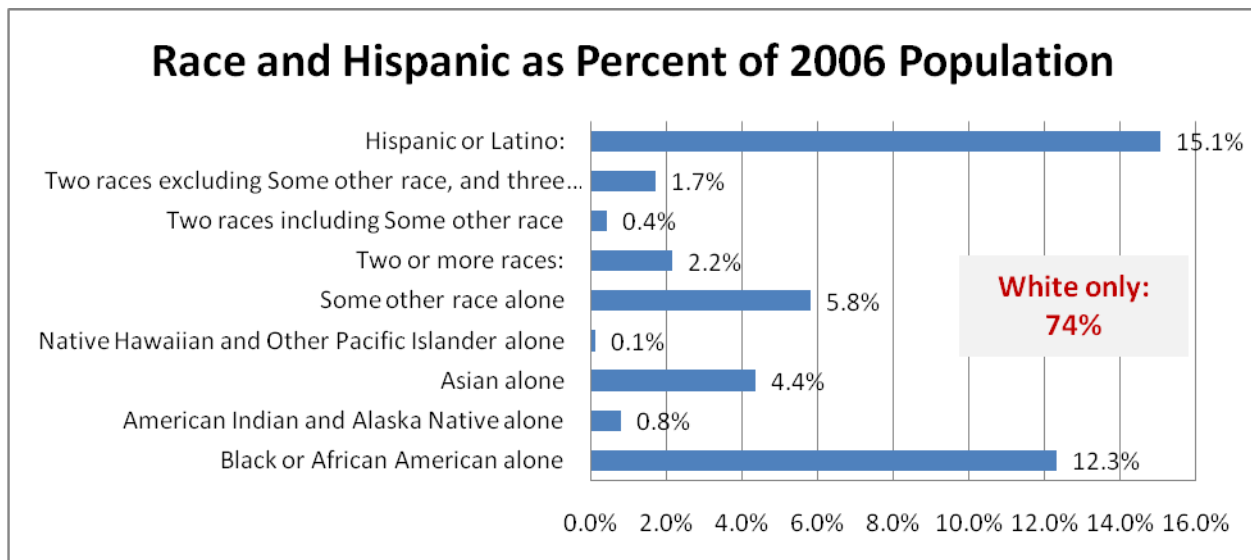
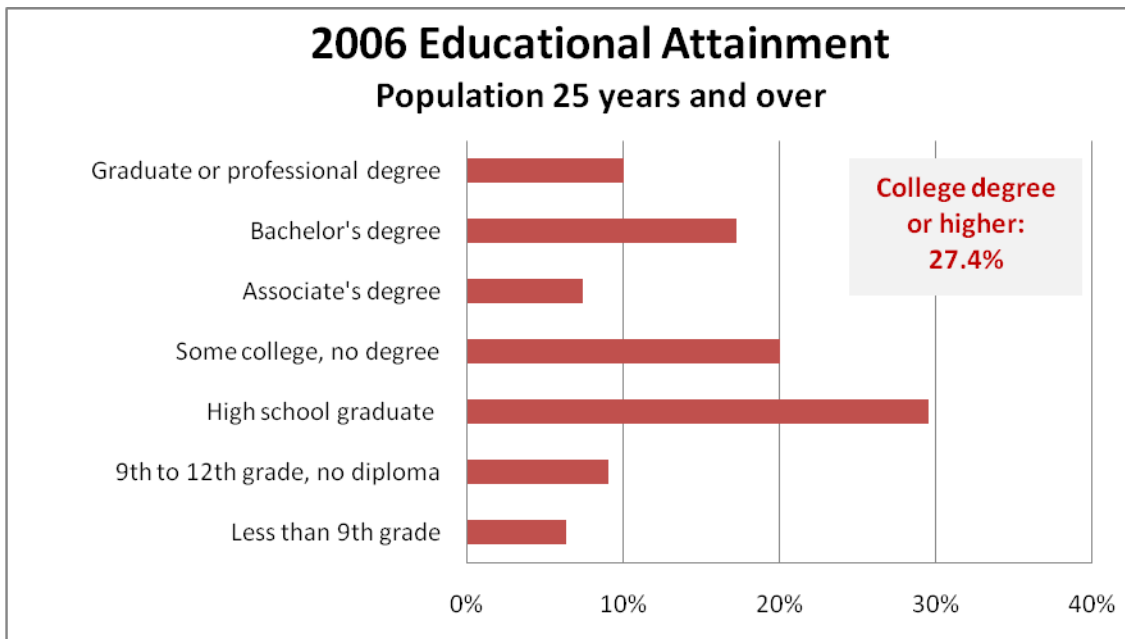
Percent of Population by Household Income Level (2006)



Real Median Household Income by Race and Hispanic Origin: 1967 to 2009



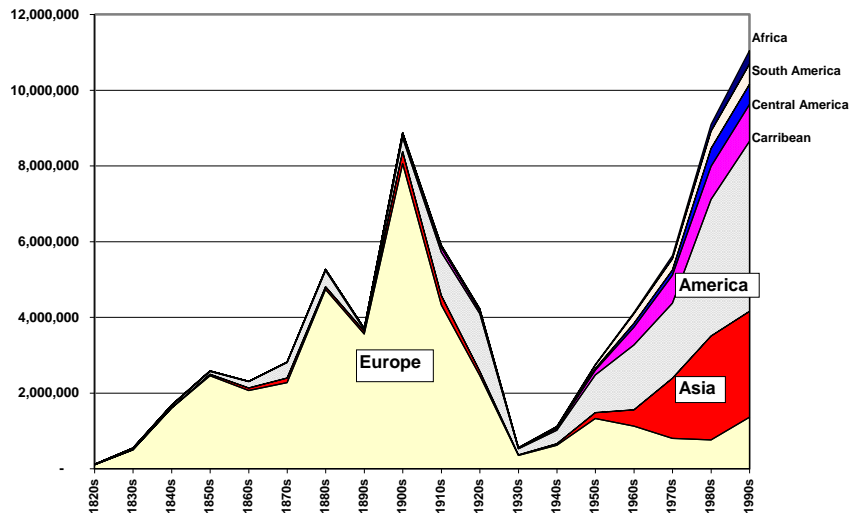
Note: Median household income data are not available prior to 1967. For information on recessions, see Appendix A.
 Source: U.S. Census Bureau, Current Population Survey, 1968 to 2010 Annual Social and Economic Supplements.



Prior to the 1990s, marketers viewed the population as a mass market characterized by immigrants of European descent. Indigenous people numbered in the millions when Columbus arrived at the shores of the Americas. However, their populations were supplanted by the waves of immigrants since then. Historically European populations were established in the US through migration in the 1800s as seen by the chart below. The first wave of immigrants from the mid to late 1800s consisted of the Irish and German. This was followed by the Italians in the early 1900s. European immigrants came to the US to escape harsh economic conditions, wars, or persecution. Race-based exclusion laws prevented the same scale of immigration from other parts of the world until after the Second World War. Being the first immigrants in US, Europeans were able to establish their economic and cultural base first and this group, although by no means homogeneous, holds some economic advantage as a result.

Immigrants to the US

Where US immigrants came from



Source: Immigration Yearbook

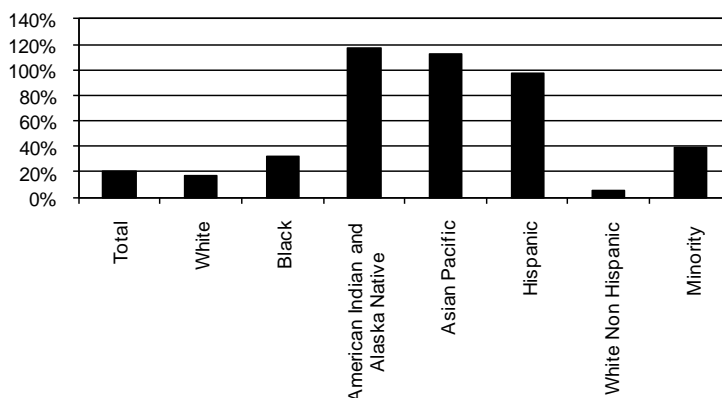
Twentieth century immigration showed a dramatic shift which manifested itself in the 2000 Census. Both the Hispanic and Asian Pacific Islander populations (abbreviated as APIA in figures) have grown at rates much higher than the non-Hispanic white and African-American populations. The Hispanic population grew 142% versus 8% for the non-Hispanic whites, while the Asian Pacific population grew 204% as seen by the chart below. Although these populations were not of interest to mainstream marketers prior to the 1990s, their large growth rate between 1980 and 2000 make these attractive markets. Mainstream firms are recognizing and responding to the opportunities to serve them.

Evidence to support and explain the shift to multicultural marketing is clear and convincing. In terms of overall size, the four largest racial/ethnic groups comprise about 104.9 million consumers as of the 2006 Census¹ —about one third of the US population when the officially acknowledged US Census undercount is not taken into consideration. African Americans number about 40.2 million and Hispanic Americans number about 44.3 million. Asian Americans account for another 14.9 million while Native Americans (American Indians and Alaska natives) total almost 4.5 million. Native Hawaiians and other Pacific Islander account for 1 million. Mixed-race Americans, first allowed as a category in 2000, now number close to 6 million. About 18.8 million identified themselves as some other race. In total, groups that identify themselves as other than non-Hispanic white account for almost 35% of the population.

Multicultural Population Growth

¹ <http://www.census.gov/Press-Release/www/releases/archives/population/010048.html>

Multicultural groups grew the fastest from 1990 to 2006



Source: US Census

The U.S. Census projects that Hispanic and Asian Pacific Islander populations will account for 90% of the growth in population in the next 50 years. In fact, it is projected that after 2030, the non-Hispanic white population will actually be in decline.

Perhaps most telling is the shift in population of younger consumers or those most coveted by marketers. According to projections for 2050 as seen in the chart below, minorities will dominate the younger age categories while non-Hispanic whites will constitute most of the older or retired population. In fact, if it were not for minorities the median age in the US at mid-century would be 44 years. If that were the case, the US would face the same problems that Japan and European countries face with a rapidly aging population. The 2000 median age of 37.4 years in developed countries is expected to reach 46.4 years by 2050. According to the CIA World Factbook, Japan, Italy, Switzerland, Germany, and Sweden had median ages of 43 in 2008 as compared to the US at 36 years old. Some western European countries and Japan look to a median age in the 50s by the mid century. Without its younger immigrant populations, the US would be in the same predicament.

Already major urban areas (see figure below), which are often the leading edge of demographic and cultural change, have shifted to become multicultural areas where no single cultural group dominates. Of the three largest US cities, New York has 43.9%², Los Angeles has 47.1%³, and Chicago has 36.5% white population in 2007. Since most Latinos are counted as white, these proportions don't account for the full diversity of the city's population.

Workforce 2020 put out by the Hudson Institute states that in 2005, 51% of the net new entrants into the workforce were minorities. As these individuals enter the workforce, their earnings will translate to new buying power in the marketplace.

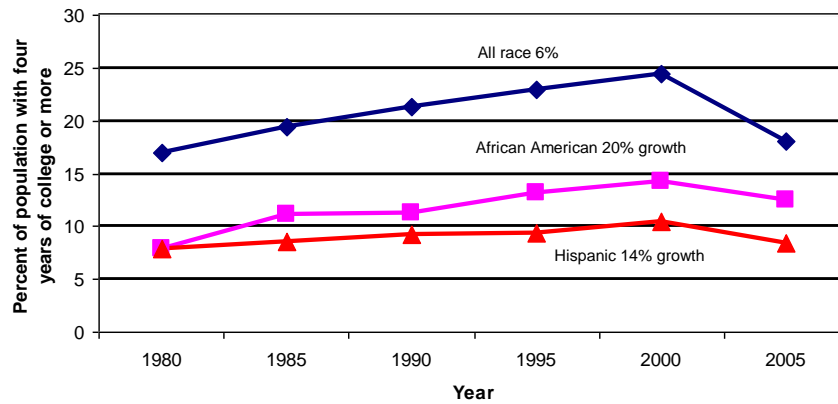
Education levels have risen over the past twenty years and will continue to increase for populations that currently lag the white non-Hispanic population. Major developments such as the rise of educational institutions that are run by black or American Indian educators for black or American Indian students have shown success rates exceeding those of mainstream educational institutions. Additionally, first-generation Hispanics are finding community colleges to an effective gateway to education. It is anticipated that with more time in the US, their education levels will continue to accelerate as seen by the figure below.

² <http://factfinder.census.gov/>

³ <http://factfinder.census.gov/>

Proportion of College-educated Minorities

The portion of college-educated minorities is growing

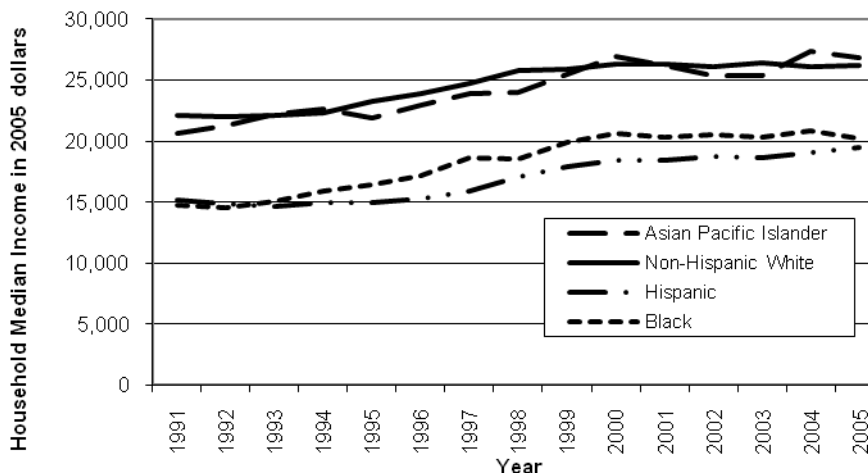


Source: US Census

With increases in education levels come increases in income. Median household income as shown in the figure below grew more for minorities than it did for non-Hispanic whites. As rates of college education accelerate and as more role models emerge within their own communities, income levels can rise to close to parity with non-Hispanic whites.

Median Income Growth

Median income of minorities grew between 1991 and 2005



Source: US Census

When the demographic trends are combined with the data on spending power, it is clear that multicultural markets represent a tremendous opportunity for businesses. It is also generally the case that these markets are underserved. In some instances brand loyalty has not been established for many of these segments. In addition, minority populations are already a major factor in the youth market and promise to

increase their prominence in the years to come.

Multicultural populations still lag the white population in income levels but the purchasing power (as measured by personal disposable income) of minority populations is significant even now, accounting for over \$2.5 trillion in 2009. This is projected to quadruple by 2045. At current levels of minority income, this purchasing power translates to 44% of the growth in overall purchasing power in the next 40 years.

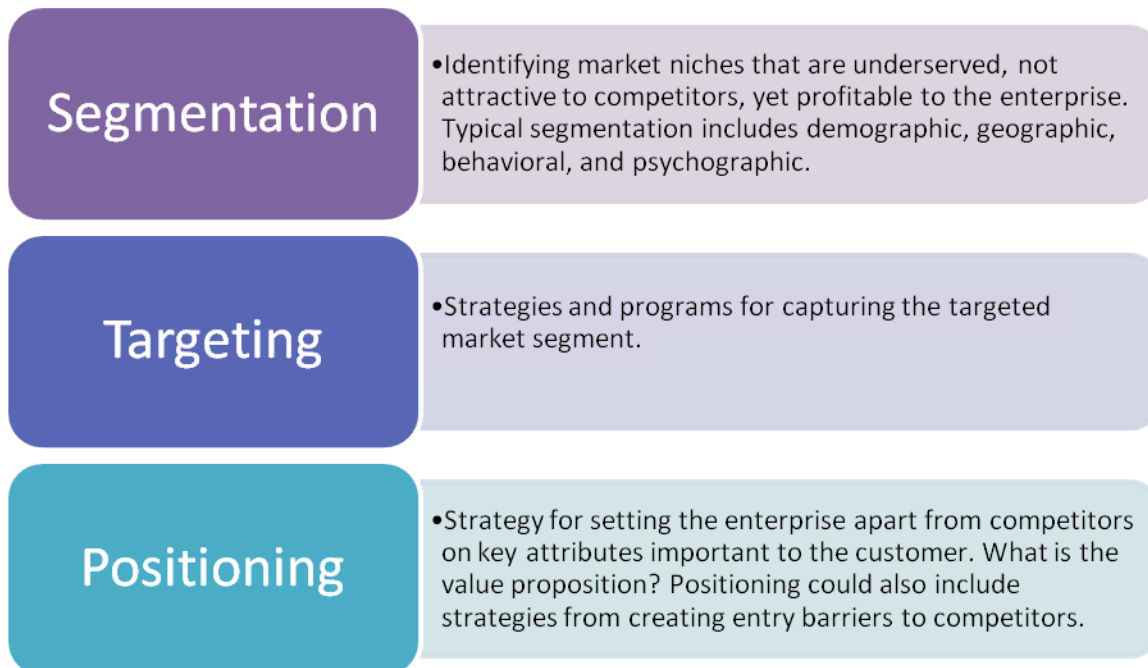
| Purchasing Power | | | |
|--------------------------------------|-------------|-------------|---------------|
| 2009 Purchasing Power in \$ Billions | | | |
| | 2009 | 2014 | Change |
| African American | \$910 | \$1,137 | 25% |
| Asian American | \$509 | \$697 | 37% |
| Hispanic | \$978 | \$1,300 | 33% |
| Multiracial | \$109 | \$148 | 36% |
| White | \$9,125 | \$11,033 | 21% |

Source: Selig Center, Multicultural Markets Study 2009

Read Appendix 1 for more information on multicultural markets.

Target Market

The goal of segmentation is to identify groups of customers that might not be served by other competitors. Market segments can be attractive because they have characteristics that lend themselves to profitability or more frequent buying. Sometimes they are attractive simply because no other competitor has sufficiently served that market..



The usual dimensions of segmentation are:

- Demographics: Age, gender, marital status, education, race, and income are the more frequently cited demographics.
- Geographic: The regions of the US such as northwest, west, southwest, south, Midwest, south Atlantic and northeast. Marketers may also segment by major metropolitan areas such as Los Angeles, New York, Chicago, and others.
- Behavioral: This is segmentation by what the consumer does. For example, engaging in sports or reading books.
- Psychographic: A good example of psychographic segmentation is types used to describe high school students: Jocks, preps, emo, goth, cheerleader, stoner, skater, scene, band geek, barbie, hoodlum, nerd, etc. When the term is evoked, the group understands how the individual dresses and behaves.

With regards to small businesses, segmentation may be even more refined. Their markets are local, often targeting a city or even a neighborhood. Defining the segment in terms of key characteristics and size can do much to help the business owner reach the market. Analyzing the potential revenues from the target market is also important.

For new businesses, the most potential exists for market segments which are new and growing. New markets don't have clearly defined requirements and information is evolving. The emerging business may have advantages over larger enterprises in that it may be more flexible in responding to quickly changing market conditions. Additionally, it is important that an emerging business does not compete head-on with large, well-endowed enterprises.

Once the target segments are identified, the business must set itself apart from its competitors. It must give the target market a reason to choose the business.

Millennials

Generations are often used to describe psychographic profiles. America's newest generation, or those born after 1980, have been coined the Millennials. Its oldest members are approaching age 30; its youngest are teenagers.

They are the most ethnically and racially diverse cohort of youth in the nation's history. Among those ages 13 to 29: 18.5% are Hispanic; 14.2% are black; 4.3% are Asian; 3.2% are mixed race or other; and 59.8%, a record low, are white. They are starting out as the most politically progressive age group in modern history. They regard technology as an everyday part of their social lives. They are the least religiously observant. They are more inclined toward trust in institutions.

Marketing Strategy

Market strategy is the overall plan to get the business to its objectives in capturing its share of the marketplace. Metaphorically, military terms may be used to depict how the business must compete against other businesses. It involves looking at the economic landscape, industry dynamics, and what the competition is doing.

A commonly used tool to determine the mission-critical issues facing a company is a determination of the company's Strengths, Weaknesses, Opportunities, and Threats (SWOT). A SWOT analysis is a technique to structure group discussion to identify the internal and external forces that drive the company's position in the market. Used effectively a SWOT analysis can organize data and information and determine the areas that a company needs to focus on in order to move forward.

SWOT



The first step in developing a SWOT analysis is to identify:

Strengths: Existing resources and capabilities within the company that provides a competitive advantage within the market where the company operates. Often the business may identify core competencies that set it apart from other businesses.

Weaknesses: Existing internal forces that hinder current or future assets that would build competitive advantage within the market that the company operates.

Opportunities: Existing or emerging forces external to the company that, if captured, can provide the company with a competitive advantage.

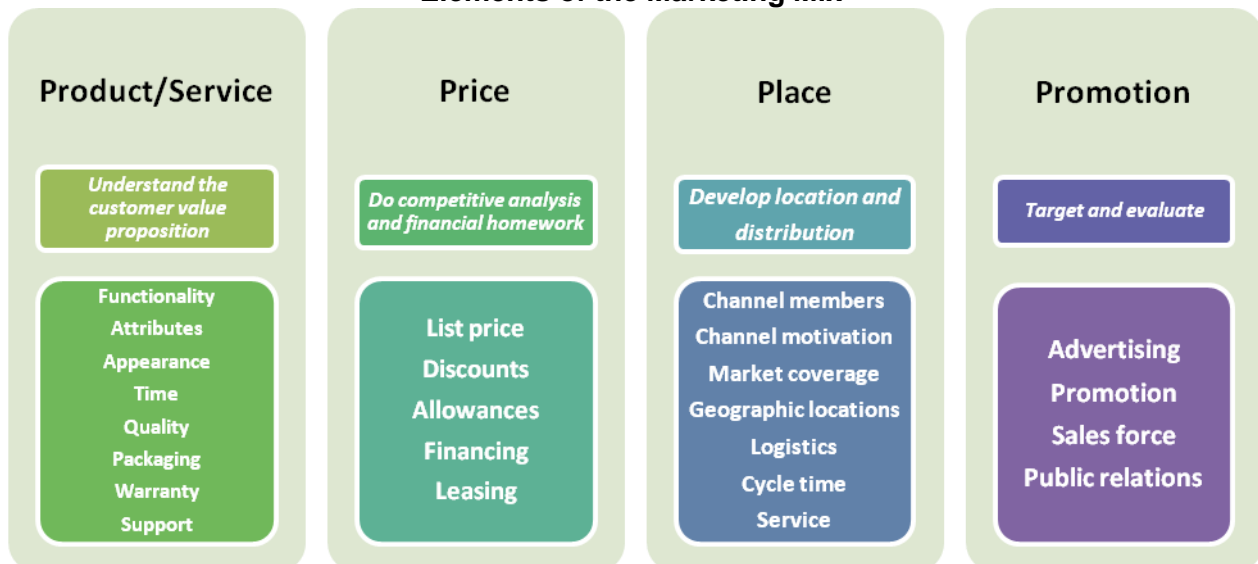
Threats: Existing or emerging forces external to the company that could inhibit the company's ability to gain a competitive advantage or maintain its current advantage.

Once these factors are identified, the business can develop a strategy that will capitalize on its core competencies and on its competitors' weaknesses. Michael Porter has identified a number of these strategies. His seminal work is the book **Competitive Advantage**. Other work is listed at: <http://drfd.hbs.edu/fit/public/facultyInfo.do?facInfo=pub&facId=6532>.

The Marketing Mix

Once segmentation, targeting, and positioning overall goals have been determined, specific measurable objectives should be determined. For larger businesses, this might be articulated in terms of increase in market share or the percent of the market it wants to capture. For smaller businesses, this translates to number of customers. An action plan which makes full use of the marketing mix must be put in place. Marketing mix is a term coined by Neil Borden in 1965 to cover the elements of marketing tactics.

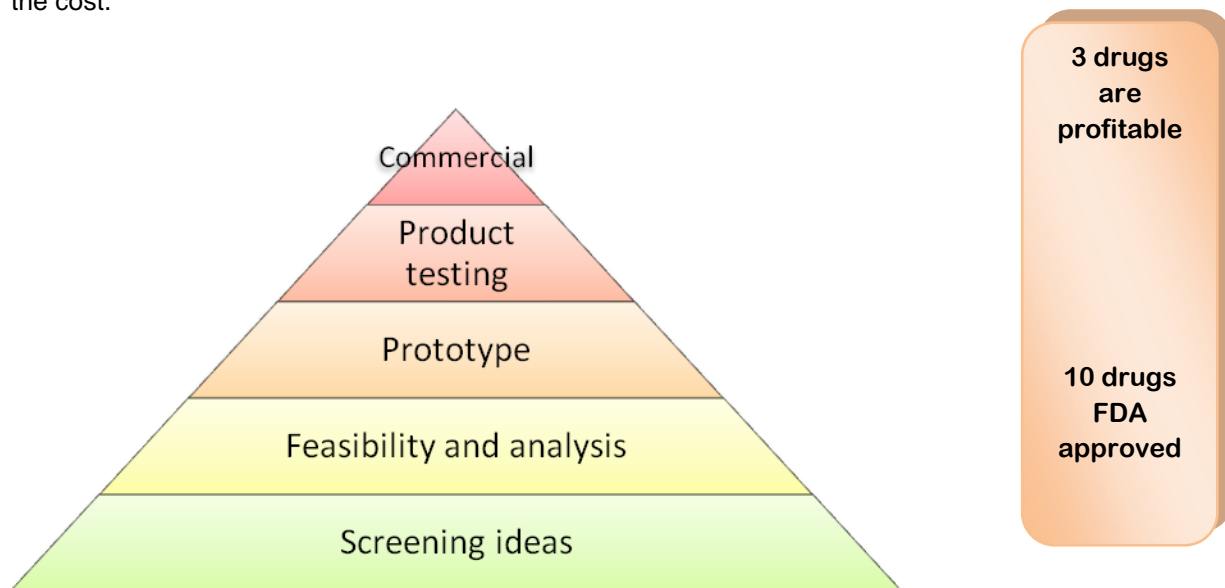
Elements of the Marketing Mix



Product

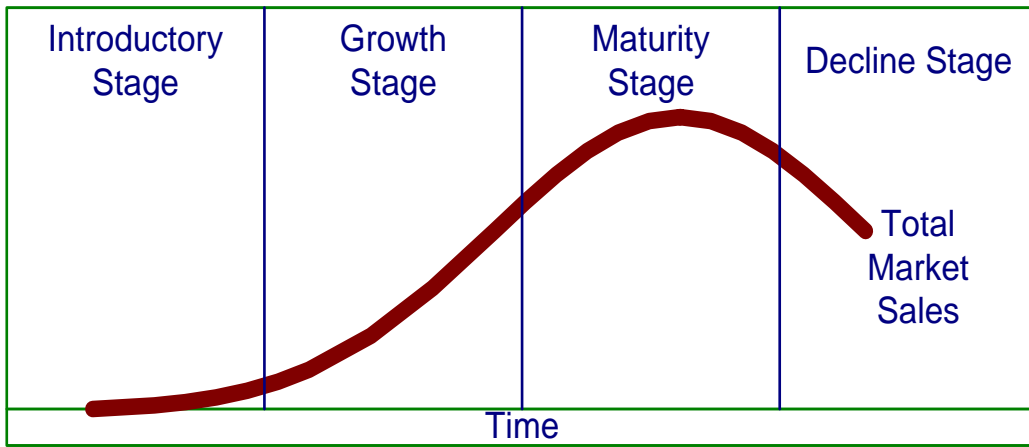
Once the customer value proposition is articulated, product or service features must address it directly. To be effective, the business must have an objective analysis as to what is important to the customer. Why does the customer buy the product or service? What functionality does it serve? Time may be an important factor. It may be assumed that shortening the time cycle is what the customer wants when, in fact, the customer might want to luxuriate in the salon similar to the way that people want to enjoy a coffee experience at Starbucks. The quality of the service must be suited to the customer expectations. Service must be consistent. Clients will not return if the client perceives the hair cut to be excellent one time and a disaster the next. If a product is sold, the packaging, warranty, and support may be a factor. These factors must be considered along with a cost benefit analysis.

It is important for the business to continually come up with products as products do not last forever. Given the millions of products that are available to consumers every day, it is difficult to conceptualize that many more products do not make it to market. As often it is expensive to bring a product to market, products go through a product development process where they are evaluated at every stage before they are brought to commercialization. For example, of 5,000 drug ideas go through the screening process, 10 make it through the Federal Drug Administration process of being approved, and of these only 3 are profitable. With an average cost of \$1 billion to bring a drug to market, it would take several billion in sales to recoup the cost.



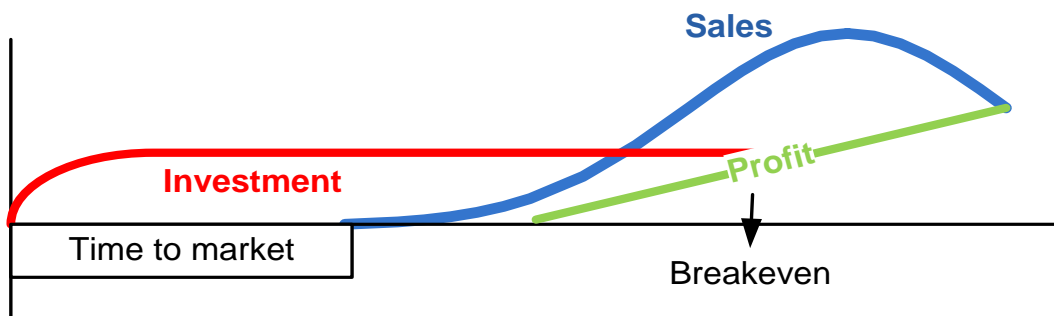
Once the product gets to market, there is no guarantee that it will be profitable. Some products are unable to grapple the “chasm” coined by Geoffrey Moore for technology products. For example, technology aficionados may buy the latest gadget, but it is only when the rest of the population purchases that the product becomes profitable.

The product life cycle is used to depict the stages a product goes through. The introductory stage requires that the business establish a beachhead in the market. During the growth stage, there is turbulence as more businesses enter the market and fight for position. During the maturity stage, sales start to plateau as every customer who wants the product has bought. In the decline stage, the business may be managing the product to squeeze as much profit as possible because sales are reduced to nothing.



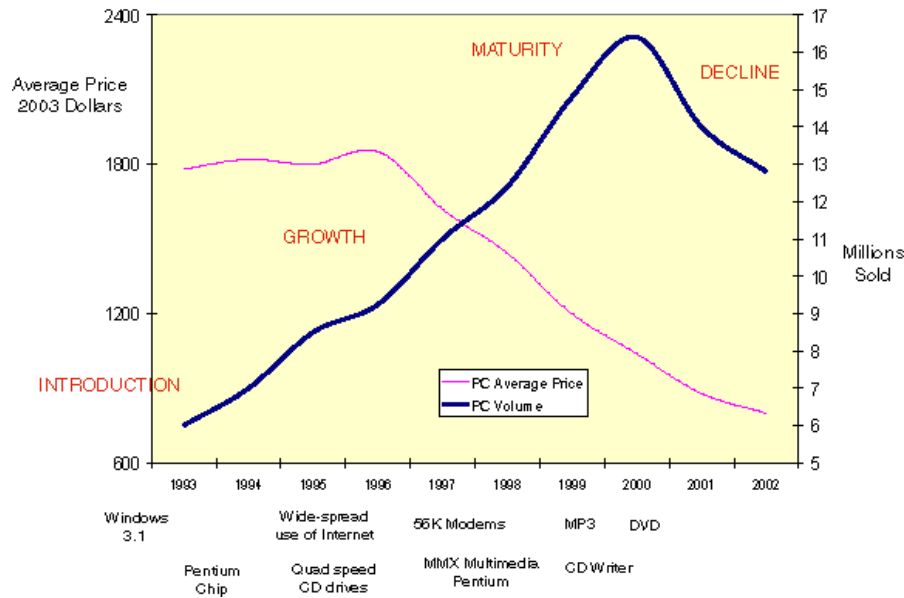
Product development and product life cycle go hand in hand. It is important that businesses continually come up with new products to replace those that are maturing. For example, consider the product development and life cycle of a video game. Often the games take 2 to 4 years to develop. Companies such as Electronic Arts are always on the lookout for new game ideas. Once they are developed, tested and put to the market, their product life cycle is usually about 6 months.

| PRODUCT DEVELOPMENT | | | | | PRODUCT LIFE CYCLE | | | |
|---------------------|---------------------------------|------------------------------|-----------------|---------------------|---------------------|-----------------------------------|----------|---------|
| Idea evaluation | Technical and market assessment | Product design and prototype | Product testing | Commercial start-up | Market introduction | Growth and competitive turbulence | Maturity | Decline |



The following figure shows the actual sales and price of the personal computer from 1992 to 2002. The personal computer was state-of-the-art technology in 1992. Only technologically advanced individuals would buy one at the price of \$1800. A large number of companies were competing in the field. As the market grew, businesses learned to be more efficient in producing the PC and prices came down. The drop in prices and improvements in technology made PCs more attractive to other consumers. However, the market became saturated after 2000 and went into decline.

Personal Computer Product Life Cycle



The same product life cycle holds true for technology products such as cell phones, HD TVs, and webcams. For a comprehensive study of all types of technology, check out the Pew Study on Technology Users. http://www.pewinternet.org/pdfs/PIP_ICT_Typology.pdf

Pricing

The main pricing influences generally include customer demand, competitor actions, costs and other factors such as laws and regulations, technological conditions and capacity or other resource constraints. Of course, the responses that are made to all of the influences are shaped by company strategic and operational decisions. These include pricing objectives, strategies to accomplish those objectives, the structure of prices offered by the firm and general pricing conditions in the markets in which the firm competes.

Important questions to ask about pricing include: What is the value of the firm's offering compared to competitors? How are the firm's products or services perceived by different segments? Are there sustainable competitive advantages that can be identified for the firm? Answers to such questions will provide clues regarding how much discretion, if any, the management will have in its pricing policies and decisions.

Some common pricing tactics are illustrated in table below. In most businesses, these will be used in combination. All pricing strategies should be evaluated against competitors. Financial analysis is mandatory on any pricing changes and the effect of the changes should be monitored and adjustments made as necessary.

Pricing Tactics

| | Description |
|--------------------|---|
| Value Pricing | Adjusting prices to offer the right combination of quality and service at a fair price. This requires competitive analysis to determine what constitutes the right price for the value that the business gives. |
| Cost-Based Pricing | Cost-plus and mark-up pricing; return on investment; or other cost methods may be used to determine price. This requires the careful accumulation of product costs to include both variable and fixed components. Costing based on variable |

| | |
|---------------------|--|
| | cost only can pave the way to bad pricing. |
| Competitive Pricing | Matching prices with the firm's main competitors is a common method of pricing. |
| Promotional Pricing | A business may cut prices to gain customers in the short term. This is done by the industry as a whole at certain times of the year. For example, furniture is typically discounted in the summer when sales are low. For any promotions, it is important to assess the benefit achieved. If prices are lowered but no new customers or sales gained, then the promotion should not be repeated. |
| Discount Pricing | Reducing prices to reward customer loyalty, purchase behavior or other incentives and reward for patronage is also common. As in other cases when prices are reduced, it is important to evaluate the benefit. |

Place (Distribution)

From a cost-standpoint, distribution processes are extremely important activities. For example it is widely quoted that as much as 20% of what consumers pay goes to pay for the physical distribution of goods. Thus, a significant objective of program management in this area of marketing is to minimize the costs of performing these order-filling tasks while delivering goods to customers. Overall, the goal should be to perform these activities in order to ensure the swift, safe and low-cost delivery of goods and services to customers.

A channel strategy is the term used to describe reaching the customer in the most profitable way. This could involve using intermediaries such as wholesalers and retailers or creating multichannel marketing systems within the company such as retail, discount, and internet stores. Channel design should ensure that there are no conflicts. For example, a high-end fashion designer might start an internet store which conflicts with the department-store customers.

Promotion

Promotion programs include a wide range of communications and relationship-building activities including personal selling, advertising, sales promotion, direct mail, public relations, trade shows, and sponsorship.

Promotion programs require that messages are clear, concise, consistent and compatible with the business' position in the marketplace. Promotional programs must be cost effective. The business should not spend more on the promotion than it can acquire in profits. The impact of promotions on profits should be assessed.

With regards to advertising, there has been a shift away from newspapers to the internet. Most businesses incorporate an internet strategy in their promotion including the use of search engine optimization to drive more traffic to the business and the use of social media to create customer loyalty.

| MEDIA TYPE | 2007 | 2006 | 2005 | 2004 |
|-------------|-------|-------|-------|-------|
| NATIONAL TV | 32.0% | 31.5% | 31.6% | 31.0% |
| MAGAZINES | 20.4% | 19.3% | 19.8% | 19.0% |
| NEWSPAPERS | 17.7% | 18.8% | 20.2% | 20.4% |
| LOCAL TV | 11.3% | 12.5% | 11.5% | 13.1% |
| INTERNET | 7.6% | 6.6% | 5.8% | 5.3% |
| RADIO | 7.2% | 7.5% | 7.7% | 7.8% |
| ALL OTHER | 3.9% | 3.8% | 3.5% | 3.3% |

| | | | | |
|--------------|--------|--------|--------|--------|
| TOTAL | 100.0% | 100.0% | 100.0% | 100.0% |
|--------------|--------|--------|--------|--------|

Public Relations

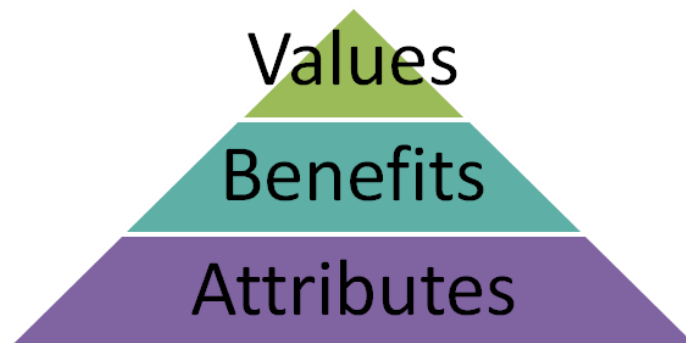
Public relations can be an effective way of implementing an emotional branding strategy. The business owner who has overcome the odds can be an excellent story for the local press. In the case of an architectural firm, having the local magazine do a photo spread of a design in its **Home** section is much more effective than running an ad the same magazine. Having a comprehensive website with extensive information about the firm can be a good way of generating press interest. Reporters do internet searches on topics. If the website is professional and lists all the excellent credentials of the business owner, the reporter will often call to get more information.

Simple and low-cost steps can be taken to create an effective public relations plan. The business can issue regular newsletters to its community or the local and ethnic press about its activities. It can participate in or sponsor community events. It can apply for any awards that may be given by the local chamber or other community associations. It can have open houses where it invites the community to see its premises and meet its staff. Business anniversaries and other landmarks can be celebrated with the community. Developing partnerships with nonprofit organizations may give it mention in press releases issued by the nonprofit. Heart-felt participation in the community will create trust within the community for the business.

Brand

A brand creates value for business over and what its products and services are worth. It communicates what the business is about and may encompass much more than its products, often including the business' values. Creating a brand identity is important for both large and small businesses in that it creates a unique identity that communicates to the marketplace.

A brand is the image the customer has of the product or company. It conveys the nature of the user, a personality, core values, a culture, product benefits and product attributes. Attributes include price, safety, quality, and performance. Benefits are what the customer gets from the product which may include functional benefits along with image benefits. A strong brand will have a strong emotional appeal and captures the top of the pyramid.



Customers have varying levels of perception of brand. Brand awareness is when customers know what the brand is. When this awareness is present, the company has captured customer mind share. Brand preference is when the customer will choose the brand if it is available but may choose another brand if it is not. Brand loyalty is when the customer will only choose that brand. Brand loyalty connotes capture of heart share. This all culminates in increasing market share.

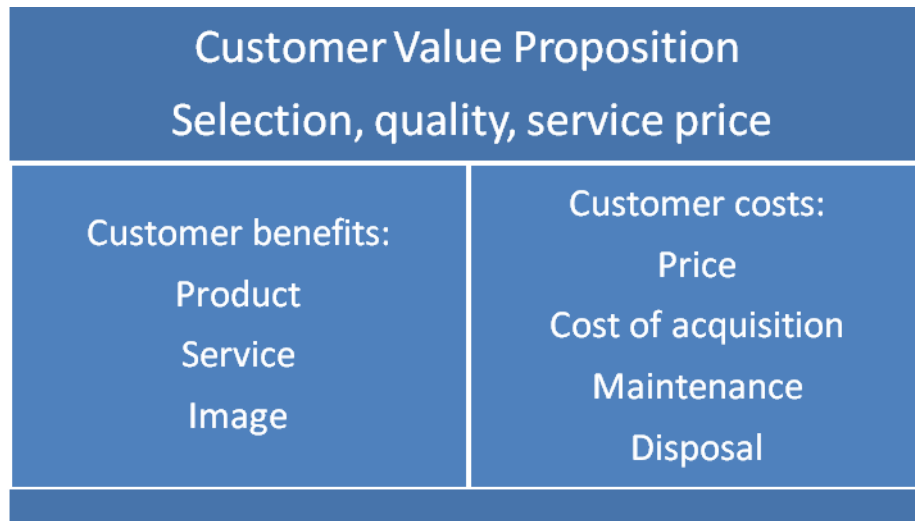
Brand loyalty translates into brand equity or a value assigned to the brand. Businessweek estimates that the top 2009 brand Coca Cola is worth \$68 B. For the top 100 global brands, check out: http://www.businessweek.com/interactive_reports/best_global_brands_2009.html

Customers

Customer Relationship Management

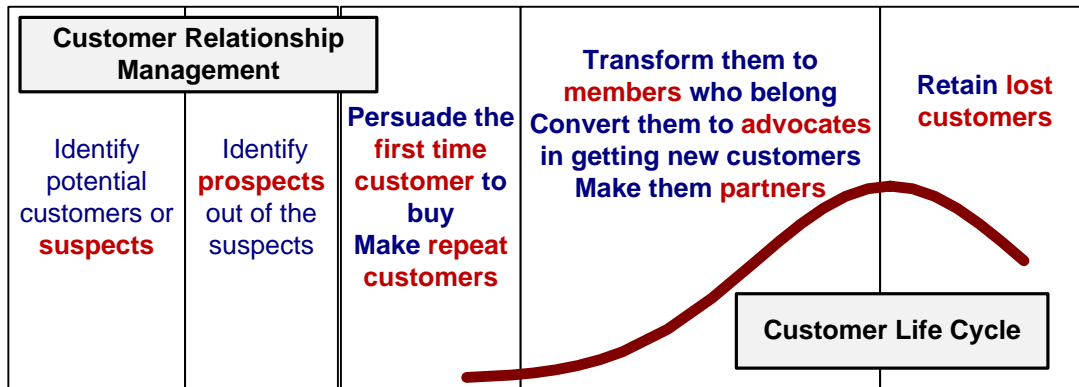
| CRM Concept | Description |
|---|---|
| Create a customer value proposition | Know the customer well and create a value proposition for the customer that is uniquely identified with the business. |
| Target customer share versus market share | Customers are much cheaper to retain than acquire. Use customer lifetime value to evaluate which customers to target. |
| Cultivate the customer | Use the customer life cycle to increase customer share and acquire new customers. |
| Manage information about your customer | Maintain a customer database and use every opportunity to add to the database. |

Customer relationship management is another aspect of strategy emphasized in multicultural marketing. The concept of customer relationship management came to fore when technology allowed businesses to track all customer activity.



Providing customers something of value should be one of the cornerstones of a firm's marketing effort. The basic idea is straightforward. A business should want to be known for how it is better than its competitors. If the business offers the best customer service in the local market, then that could form the basis of the customer value proposition. Although most businesses have a customer value proposition, they fail to articulate it. The more common customer value propositions are: selection, price, convenience, and quality. Those are common and most businesses will try to compete on those. Sometimes, it's the hot buttons that work: Safety, health, esteem, etc.

Once the customer value proposition has been clearly articulated and communicated, the business develops a way to management the customer relationship. Customer relationship management is based on the premise that acquiring a new customer is much more expensive than getting repeat sales from current customers. Jill Gilden gives the following stages for customer relationship management.



To conceptualize CRM, take the example of the family Mexican restaurant in the neighborhood. When entering the restaurant, the customer is greeted by name and welcomed to her favorite table. Instead of being handed the standard menu, the owner recommends a dish that is based on the current availability of the freshest ingredients, careful to avoid the customer's dislikes, and with a good sense of what the customer might prefer on that day, given the time of year, and given the weather. The owner automatically brings a glass of the customer's favorite wine and ensures that the water has a fresh slice of lemon just as the customer likes.

The owner knows that the customer has a family celebration coming up and suggests that he can mount the dinner party at the restaurant or cater the event at her home if she so desires. He spends time talking to the patron and knows all the other restaurants that she patronizes. He knows how often she dines out. He knows all the major events in her life that might require a dinner party. On her birthday, he will prepare a special cake as a present.

This kind of personalized service can do much to engage the customer and it is quite conceivable that this business owner has a large share of this customer's restaurant spending. For higher-end customers, recent surveys show that the accumulation of experiences is more important than the convenience factor of dining out. The customer most likely recommends the restaurant to all her friends. This owner can easily charge a premium to the customer for this level of service and the customer will gladly pay for it. From her, he finds out the "hot" preferences of people like her who are likely to frequent his restaurant. He is able to adjust his menus to meet their requirements and draw more customers.

It is important to divide all customers in groupings that define their profitability. Good customers buy ten plus times more than marginal customers. The business should identify good customers and give them the attention they are due. Some businesses will assign staff to high-value customers. They take the opportunity to develop a deeper relationship with these customers. They will call them to get feedback on their experience. They will thank them for being good customers. They will collaborate with them to customize the product or service so that it better fits their needs.

Team Assignment – Multicultural Markets

Multicultural markets represents the greatest transformation of the consumer marketplace.

Each team is to choose a multicultural market (blacks, whites, Asians, Native, Latinos, gay lesbian, mixed race, etc.) and do research on:

1. Demographics – how are they different from other groups
2. Geographic concentration
3. Analyze the dynamics of the market. Is it growing, shrinking, or shifting in other ways.
4. Determine how to best way reach these markets. They may have their own media such as Ebony magazine and BET for the African American market and Univision and El Mundo for the Latino market.
5. What cultural issues should be considered in marketing to your group?

Check out **Appendix 1** for information on multicultural markets.

[Census Information](http://www.census.gov/population/www/socdemo/race/reports-wkpapers.html) <http://www.census.gov/population/www/socdemo/race/reports-wkpapers.html>

Find other sources

Present your findings to the class in a power point presentation.

Take notes on your teammates presentations:

| | | | | | | |
|-----------------------------|--|--|--|--|--|--|
| Multicultural Market | | | | | | |
| Percent of population | | | | | | |
| Median age | | | | | | |
| Percent with college degree | | | | | | |
| Percent married | | | | | | |
| Percent male | | | | | | |
| Median income | | | | | | |
| Geographic location | | | | | | |
| Purchasing power | | | | | | |
| Other | | | | | | |

Team Assignment – Product Life Cycle

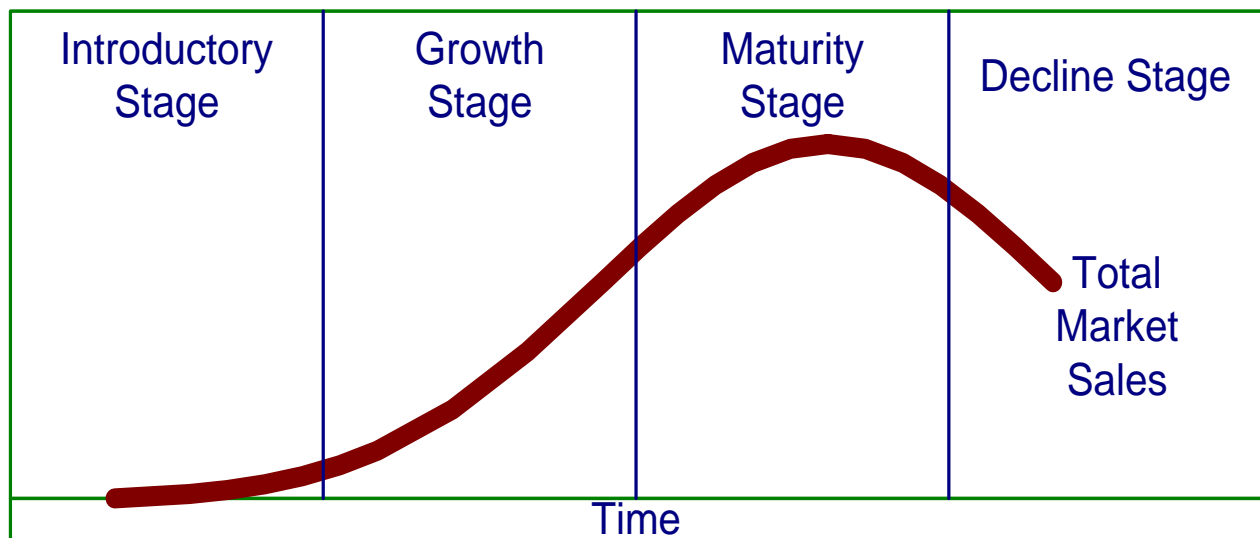
Team Name: _____

According to the Pew Center Typology of Communication and Technology users, the percent of the population which have the following technology in 2008 are as follows:

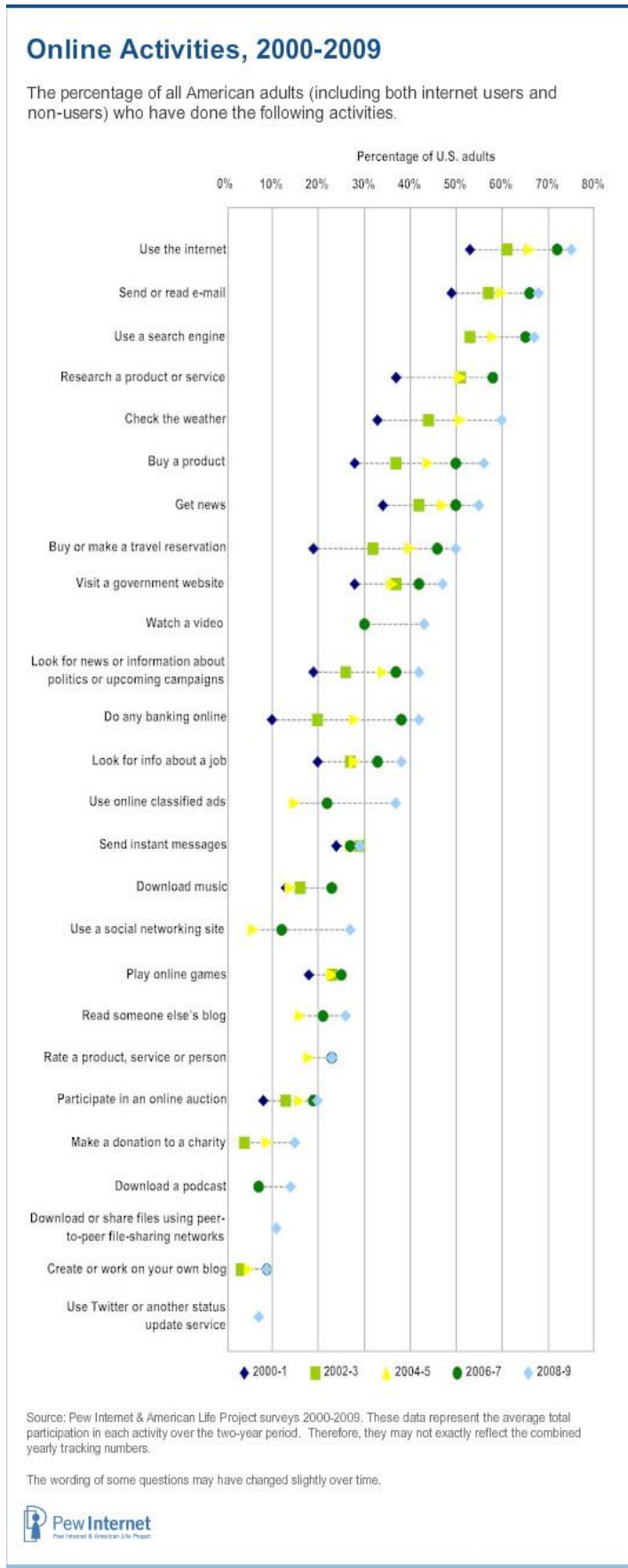
- Cell phone 73%
- Desktop computer 68%
- Digital camera 55%
- Video camera 43%
- Laptop computer 30%
- iPod or other MP3 player 20%
- Webcam 13%
- Blackberry, Palm, or other personal digital assistant 11%

Map where the product is in the product life cycle. Give your reasons why. How would you market the product based on where it is on the life cycle?

Find other products that you can map to the product life cycle. Video games are a good products to analyze.



Rate these online activities as to where they are in the product life cycle.



Individual Assignment Branding

The Frontline video *The Persuaders* provides one of the best case studies of branding with a failed new airline brand. <http://www.pbs.org/wgbh/pages/frontline/shows/persuaders/>

What are your personal reflections on the persuasion industry?

Team Assignment – Starbucks Branding and Channels

Starbucks is one of the best brand managers in that it carefully managed its brand in the beginning to keep its luxury image. As the brand became more established, Starbucks was able to use multiple channels to spread its brand. Note that it is not just products and services that Starbucks sells. It is a value system and lifestyle that has emotional resonance. That is the highest order of brand management.

In your teams come up with a consensus as to the following:

1. What is Starbucks' brand image? Enumerate attributes, benefits and value. Don't forget, a brand encompasses qualities and emotional characteristics as well as professional image. What does Starbucks' brand communicate?
2. What is Starbucks' customer value proposition? How does Starbucks position itself in relationship to the competition in terms of the usual consumer values (selection, quality, price, convenience, other)?
3. List all the different ways that Starbucks uses the full range of marketing tools and channels to get its brand out to the market. (There are over 30 ways.)

List your answers on the board when your team is finished.

Team Assignment – Marketing Mix and Wii- or Kinect-like game

Video games have a typical life cycle of about 10 weeks. Video game companies are constantly developing new games to grow their market share. Unfortunately, the market for male gamers between the ages of 12 and 35 is heavily saturated so video game companies are looking to reach other market segments.

Select a new target market and develop a Wii-or Kinect-like game for the market. This type of game can be for any age group and it can involve movement. Develop a strategy for promoting your game in the marketplace. Students have been extremely creative in coming up with some great game concepts.

Please include the following in your power point presentation to the class:

1. Identify a target market which is NOT 12 to 35 males. (Use demographic, psychographic or behavioral segmentation)
2. Description of the game and how to play it. The game must be E-rated.
3. Who are your competitors? How will you compete against your competitors?
4. How will you promote your game in the marketplace. Use all elements of the marketing mix. What would the price be? Compare your price to your competitors. What type of advertising would be used? (Television shows, magazines, websites, social networking, etc.) What type of promotion would be used? (In store, coupons, discounts, contests, two-for-one, etc.) What channels would you use to get the product out there? (E-retailers? Stores? Give names.)

The class will vote on the attractiveness of your marketing mix plan.

| Team | Game | Rank (1, 2, 3, etc.) |
|------|------|----------------------|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

Team Name: _____

Team Assignment – Market Segmentation

Metro Seattle Radio Stations and Psychographic profiles

Radio stations are a good way to see how to segment by demographic and psychographic profiles. Each team is to choose two radio stations from the list below. No two teams may choose the same.

Create a brief description of demographic or psychographic profiles that might fit each of the following stations based on what is broadcast at the station. Many of the radio stations have website as well so you can determine their branding as well.

Radio Station 1:

Radio Station 2:

Go here for the links to the radio stations: http://www.therainiervalley.com/radio_web_sites.html

Seattle AM Radio Stations (SA) = Streaming Audio

[KBLE](#) 1050 AM - "Sacred Heart Radio" - Roman Catholic talk radio.

[KCIS](#) 630 AM (SA) - "Your Christian Inspiration Station". [Focus On The Family](#) with Dr. James Dobson.

[KENU](#) 1330 AM (SA) - "The Pulse". "The Northwest's Underground Music Source". Electronic dance music.

[KGNW](#) 820 AM - "Seattle's Christian Talk". Dan Seaborn. John MacArthur. Live, archived, and Español ministries.

[KIRO](#) 710 AM - Talk radio, news. [Dave Ross](#), [Dori Monson](#), [Mike Webb](#), [Lou Pate](#), [Tony Ventrella](#). Money Talk with [Bob Brinker](#). Gardening with [Ciscoe](#).

KIXI 880 AM - "Great Songs, Great Memories". **Golden Oldies** music.

KJR 950 AM ([SA](#)) - **Sports talk** radio. **UW Huskies & Sonics** games.

KKDZ 1250 AM - Radio Disney: Children's radio.

KKMO 1360 AM - **Radio Sol**. Seattle's only radio station with Spanish programming 24 hours a day, provides a combination of music from Central and South America, Mexico, Spain, and the Caribbean, as well as news, sports, entertainment, concerts, community events and information for the Hispanic community.

KKNW 1150 AM ([SA](#)) - **Alternative talk radio**. CNN Headline News. Community programming. **Seattle Thunderbirds** Hockey and **UW Women's Basketball**. [Martha Norwalk's Animal World](#). [Sound of Hope](#) - Chinese news & entertainment (Sun. 9-10pm) - [English site](#). [Radio Wisla](#) - Polish programming. [Sounds of the Pacific Islands](#). [Cop Talk Radio](#). Scandinavian Hour. [Donna Seebo](#) - psychic counselor. [Contact](#) with Marge Cuddeback - medium/psychic. [Star Talkers](#) - Astrology. [The Space Show](#) - Outer space commerce & tourism.

KLFE 1590 AM - "Life at 1590". Christian and foreign language programming: Russian, Arabic, Ethiopian, Samoan, Ukrainian & Samali.

KOL 1300 AM - "The Source". Inspirational talk radio. [Mike Gallagher](#), [Dennis Prager](#), [Dave Ramsey](#), [Hugh Hewitt](#) & [Paddy Narayan](#): Seattle's first Minority Conservative radio talk show host.

KOMO 1000 AM - Talk radio. Consumer advocate [Herb Weisbaum](#): [Consumer Tip Of The Day](#), [Paul Harvey](#), [Ken Schram](#). **Mariners** games.

KRIZ 1420 AM ([SA](#)) - Oldies music.

KTFH 1680 AM - "The Bridge". International programming.

KTTT 770 AM - "You Deserve The Truth". Talk radio. [Mike Siegel](#), [Rush Limbaugh](#), [Michael Medved](#), [Michael Savage](#), [Bill O'Reilly](#), [Laura Ingraham](#), [Lars Larson](#), [Bill Bennett](#), [Jim Cramer](#) (Investing), [Kim Komando](#) (Computers), [Bob Pittman](#) (Legal advice).

KVI 570 AM ([SA](#)) - "More Stimulating Talk". Talk radio. Fox News. Kirby Wilbur, [John Carlson](#), [Sean Hannity](#), [Larry Elder](#), Tony Snow, [Paul Harvey](#). [Drudge Report](#). [Coast To Coast AM](#) with Art Bell & George Noory.

KPTK 1090 AM – Liberal talk radio. Website coming soon.

KYIZ 1620 AM ([SA](#)) - Hip Hop, R&B, and Urban music.

KZIZ 1560 AM ([SA](#)) - Gospel music.

Seattle FM Radio Stations (SA) = Streaming Audio

KBSG 97.3 FM - "Good Times. Great Oldies". Oldies music.

KCMS 105.3 FM ([SA](#)) - "Seattle's Family Friendly Radio Station". Christian music.

KEXP (formerly **KCMU**) 90.3 FM ([SA](#)) - "Where The **Music** Matters". UW student run radio. Live and archived streaming music. An innovative, eclectic mix of alternative rock, hip hop, electronic, roots & blues, world & reggae, jazz, and more.

KGRG 89.9 FM ([SA](#)) - Today's Rock. Local music, Punk, Progressive, Alternative Rock, Underground Hip-Hip.

KING 98.1 FM ([SA](#)) - Classical music. Live streaming audio.

KISS 106.1 FM - "#1 For All The Hits". Rock music.

KISW 99.9 FM - Popular rock. Howard Stern. The KISW Rock Girls.

KJR 95.7 FM ([SA](#)) - "SuperHits of the 60s & 70s".

KLSY 92.5 FM - "The Best MIX Of The 80s, 90s & Now!" Contemporary popular music.

KMPS 94.1 FM - Seattle's #1 country music station. [Ichabod Caine](#).

KMTT 103.7 FM - "The Mountain". Adult alternative music.

KNDD 107.7 FM - "The End". Alternative rock. [Loveline](#) with Adam Carolla and Dr. Drew.

KPLU 88.5 FM ([SA](#)) - "NPR News And All That Jazz". "World Class Jazz". Live streaming audio.

KPLZ 101.5 FM - "STAR 101.5". Today's hits. [Kent & Alan](#).

KQBZ 100.7 FM - "The BUZZ". Talk radio. [Robin & Maynard](#), [BJ Shea](#), [Phil Hendrie](#), [Tom Leykis](#) ([Live Streaming](#)), [Kim Komando](#), [Rhona At Night](#), [Shaken Not Stirred](#).

KRWM 106.9 FM - "Warm 106.9". Soft favorites.

KSER 90.7 FM ([SA](#)) - Not heard in Seattle, as the station is in Everett, but their terrific Eclectic World Music can be heard on Streaming Audio. Worth a listen.

KUBE 93.3 FM - "Seattle's #1 Hit Music Station". Hit music. [T-Man](#). [Nighttime Playaz](#).

KUOW 94.9 FM ([SA](#)) - "Puget Sound Public Radio". NPR programming. Morning Edition. All Things Considered. A Prairie Home Companion. Live streaming audio. [Streaming Archives](#).

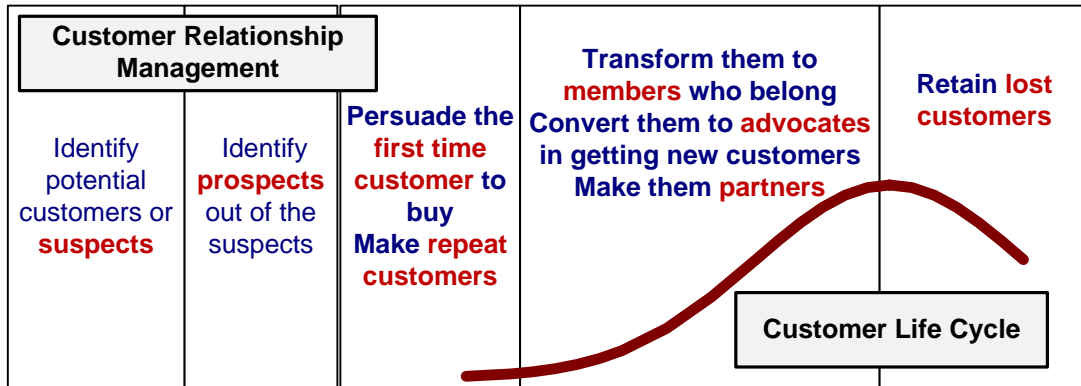
KWJZ 98.9 FM - "Smooth Jazz".

KYPT 96.5 FM - "The Point". The 80s & more.

KZOK 102.5 FM - "Seattle's Only Classic Rock Station".

Team Assignment – Education Business

Your team is in the education business. Your market is students! You are going to try to develop a series of marketing campaigns to get new customer and retain old ones. Refer to the customer life cycle and come up with a poster session to manage your customer life cycle.



Individual Assignment Psychographic Profile

What kind of technology user are you? Take the quiz from the Pew Internet Center and find out.

<http://pewinternet.org/Participate/What-Kind-of-Tech-User-Are-You.aspx>

Elite Tech Users (31 % of American adults)

Omnivores 8%

They have the most information gadgets and services, which they use voraciously to participate in cyberspace and express themselves online and do a range of Web 2.0 activities such as blogging or managing their own Web pages.

Connectors 7%

Between featured-packed cell phones and frequent online use, they connect to people and manage digital content using ICTs—all with high levels of satisfaction about how ICTs let them work with community groups and pursue hobbies.

Lackluster Veterans 8%

They are frequent users of the internet and less avid about cell phones. They are not thrilled with ICT-enabled connectivity.

ProductivityEnhancers 8%

They have strongly positive views about how technology lets them keep up with others, do their jobs, and learn new things.

Middle-of-the-road Tech Users (20% of population)

Mobile Centrics 10%

They fully embrace the functionality of their cell phones. They use the internet, but not often, and like how ICTs connect them to others.

Connected But Hassled 10%

They have invested in a lot of technology, but they find the connectivity intrusive and information something of a burden.

Few Tech Assets (49% of population)

Inexperienced Experimenters 8%

They occasionally take advantage of interactivity, but if they had more experience, they might do more with ICTs.

Light But Satisfied 15%

They have some technology, but it does not play a central role in their daily lives. They are satisfied with what ICTs do for them.

Indifferents 11% Despite having either cell phones or online access, these users use ICTs only intermittently and find connectivity annoying.

Off the Network 15%

Those with neither cell phones nor internet connectivity tend to be older adults who are content with old media.

Individual Assignment Psychographic Profile

This is an excerpt from a discussion of millennials in college. Do you agree that this is an accurate portrait of this generation? Why or why not?

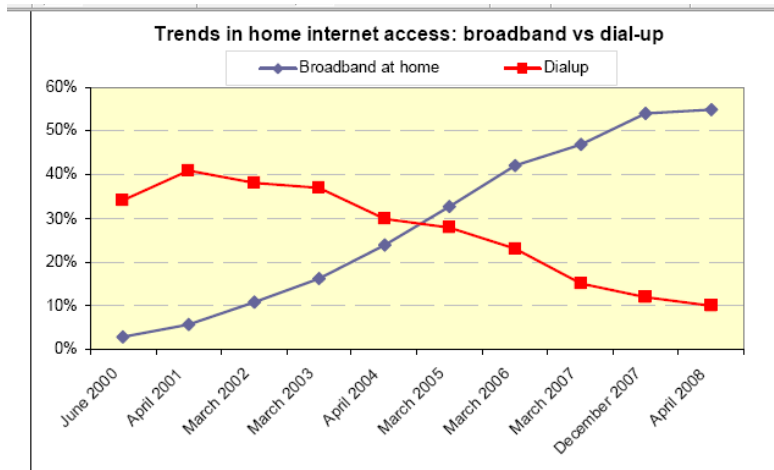
This generation comprises children born between 1982 (some say 1980) and 1995 to the late baby boomers. These parents kept their children's lives busily structured with sports, music lessons, club meetings, youth group activities, and part-time jobs. In their spare time, young millennials spent many hours on the computer, often the Internet, interacting with peers, doing school work, playing games, shopping, and otherwise entertaining themselves. Unless they attended private or college-town schools, they received a weaker K-12 education than previous generations. Still, they flooded into colleges and universities starting around 2000. Their combined family and school experience, along with their heavy mass media exposure, made them self-confident, extremely social, technologically sophisticated, action bent, goal oriented, service or civic minded, and accustomed to functioning as part of a team. On the flip side, they are also impatient, demanding, stressed out, sheltered, brand oriented materialistic, and self-centered. They use---and abuse---alcohol and prescription drugs more than street drugs. Although skeptical about authority, they tend not to be particularly rebellious, violent, or promiscuous. With so much activity in their lives as well as frequent interaction with friends and family (much on computers and cell phones), they have little time or inclination for reflection, self-examination, or free-spirited living. Another feature of this generation, one that distinguishes it from so many preceding ones, is that millennials do not hunger for independence from their parents. Quite the contrary, they stay close to the parents through college (and often beyond) and turn to their parents for help when organizations don't meet their needs. These parents have earned the descriptor of "helicopter parents" for hovering over their grown children to ensure their well-being and competitive advantage in life.

Millennials view higher education as an expensive but economically necessary consumer good, not a privilege earned by hard work and outstanding performance. They (or their parents) "purchase" it for the instrumental purpose of opening well-paying occupational doors on graduation, so they feel entitled to their degree for the cost of the credits. As many of them did little homework for their good grades through high school, they anticipate the same minimal demands in college and are often resentful about the amount of reading, research, problem solving, and writing that we assign them and about the standards that we hold for their work. Those whose grades slip in college feel their self-esteem threatened and may react with depression, anxiety, defensiveness, and even anger against us. In addition, they hear a lot a "bad news" from us in their classes: that they didn't learn enough in high school to handle college, that knowledge bases are full of holes and unsolved mysteries, that their beliefs and values are subject to question and debate, and that both college and the real world demand that they work and prove their worth.

We must remember that this generation values money and what it can buy. Aside from the materialism that their parents and the mass media promoted, these young people face the prospect of being the first generation at least in the United States, that cannot afford a standard of living comparable to that of their parents, let alone higher. So while some observers call millennials hopeful, others point to their economic anxiety (Levine & Cureton, 1998).

Module 3 – Questions for Timed Write

84% of all US households have broadband (fast internet) connection. Where is broadband on the product life cycle. What would your marketing strategy be for this service?



The growth rate from March 2007 to April 2008 was 17%; this compares to the 12% growth rate from March 2006 to March 2007. It is also worth noting that the April 2008 number for broadband adoption at home is little changed from the 54% figure in the Pew Internet Project's December 2007 survey. With growth in broadband at home, now just 10% of Americans have dial-up internet connections at home.

Give an example of the product life cycle using a video game.

Describe the technology adoption cycle.

In the figure above, where is broadband access on the product life cycle? What type of marketing is appropriate for the stage?

In the figure above, where is dial-up internet on the product life cycle? What type of marketing is appropriate for the stage?

Draw the customer life cycle. Explain what you would do at each phase if you were a broadband company such as Comcast.

Compare and contrast Asian Americans and African Americans on four demographic factors.

Compare and contrast Latino Americans and white Americans on four demographic factors.

Give an example of each of four ways to segment a market and explain why it is important to segment a market.

What is a SWOT analysis and why is it used for when coming up with a plan for a clothing store?

You are the marketing manager for the Apple iPod. Describe the phases of the customer life cycle and describe what you would do at each phase for your product.

Describe how the US looks in income, education, age and racial demographics and gives trends with each of these demographics. Which markets should be pursued?

Describe the new product development process for a drug company.

What type of media is the most used in advertising? What are the trends in media?

What are the key customer values for Costco customers?

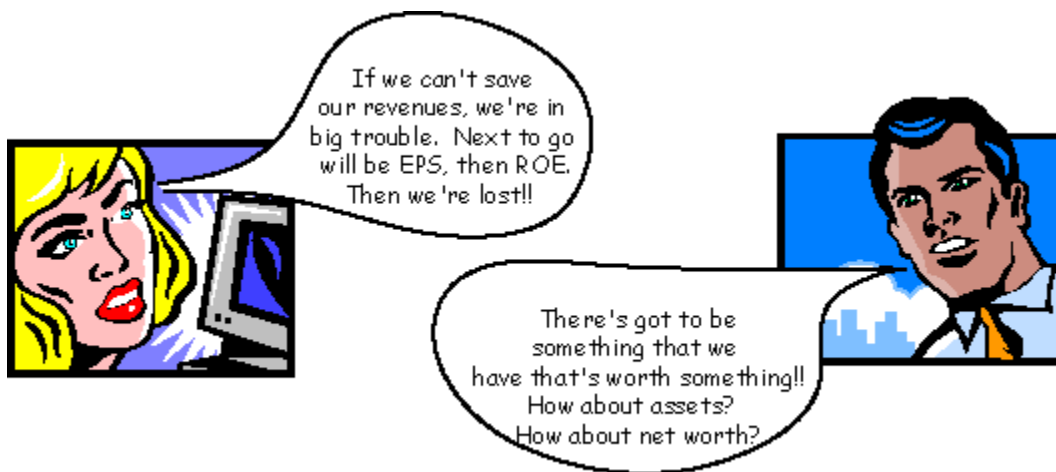
What is a customer value proposition?

Explain how the brand attributes, benefits and values using an example from brands that we studied.

Module 4 – Accounting, Financial Analysis, and Banking

Module 4 Goals:

- Describe income statement, balance sheet, profit margin, return on equity, debt to equity ratio, banks, Federal Reserve, deposits, loans, reserve requirements, credit rating, sales and profit growth rates, stock prices, equity markets.
- Identify components of the income statement and balance sheet.
- Calculate and analyze financial ratios and growth rates for a company and compare it to a competitor.
- Describe how banks make a profit.
- Describe the dynamics of the banking industry.
- Demonstrate understanding of the what goes into the credit assessment process
- Describe the role of the Federal Reserve in banking and monetary policy
- Understand and demonstrate the time value of money.



Accounting

Business is a world unto itself and within this world, the language is accounting. Therefore, to understand what is happening in the world of business, it is essential to understand the language of accounting. As with any language, there are rules that govern how to communicate. Corporations report financial statements following Generally Accepted Accounting Principles (GAAP). These rules are set by the Financial Accounting Standards Board (fasb.org) about how financial statements should be put together. Standardized rules assure to some extent, that stakeholders can be assured that the financial statements accurately represent what happened in the company and what its financial status is.

The reporting of these financial statements is regulated by a federal agency called the Securities and Exchange Commission (SEC). According to Securities and Exchange Commission regulations, companies have to file an extensive report (called the 10K) on what happened during the year. In addition to the 10K, companies have to file 10Q's every three months, which give their quarterly financial performance. These reports can be accessed through the SEC's Web site sec.gov, the company's website, or various financial websites such as finance.yahoo.com.

Companies submit three financial statements:

- The **income statement** (also called profit and loss statement) gives an account of what the company sold and spent in the year. Sales (also called revenues), or what the company sold in products and services less any expenses (expenses are divided into a number of categories) less taxes gives the company's income. The income statement summarizes all this type of activity for the year.
- The **balance sheet** is a financial snapshot of what the company owns (**assets**), what it owes (**liabilities**) and its worth free and clear of debt (**equity**). Analyzing a balance sheet informs shareholders about the company's financial health.
- The **cash flow** statement tells what went into and came out of the company in cash. This is necessary because accounting sometimes deals with revenues and expenses that are not real cash. Looking at the actual cash flow gives a better idea of how well the company can meet its cash obligations. The cash flow statement will not be covered in this module.

A company may do its financial reporting on a **fiscal year** that is different from the calendar year (which starts in January and ends in December). Many companies do follow the calendar year. Others, like retail companies, don't like reporting by the calendar year because December is their biggest month, and they don't have much time to sort things out before filing.

Income Statement Basics

Joe's Income Statement



| | |
|---------------------------------------|-----------------|
| Revenues | \$32,994 |
| Food (Away from home \$1645) | 3,620 |
| Alcoholic beverages | 374 |
| Housing | 11,507 |
| Apparel and services | 922 |
| Transportation | 4,439 |
| Healthcare | 1,821 |
| Entertainment | 1,655 |
| Personal care products and services | 388 |
| Reading | 88 |
| Education | 602 |
| Tobacco products and smoking supplies | 214 |
| Miscellaneous | 558 |
| Contributions to charity | 1,314 |
| Personal insurance and pensions | 2,620 |
| Total Expenses | \$30,122 |
| Taxes | 1,205 |
| Net Income | \$1,667 |

It is helpful to start by looking at this from a person's point of view. In this example, Joe has an income of about \$33,000. What Joe takes in is his revenue. Financial analysts also refer to revenue as the top line since it is the top of the income statement. Analysts often look at the growth in revenue as an indication of how a company is doing. This would also apply to an individual. Has Joe grown his revenue from the previous year? Will he continue to grow his revenue in the future?

Having a healthy top line and potential for growth portends a good future for Joe. But, if Joe spends recklessly despite good revenues, he will not make a profit. Joe's expenses are 91% of his income. His income before taxes or operating income is 9% of his revenues. His income after taxes is 5% of his revenues. Both of these calculations, taking his operating income and net income as a percent of revenues give measures of profitability.

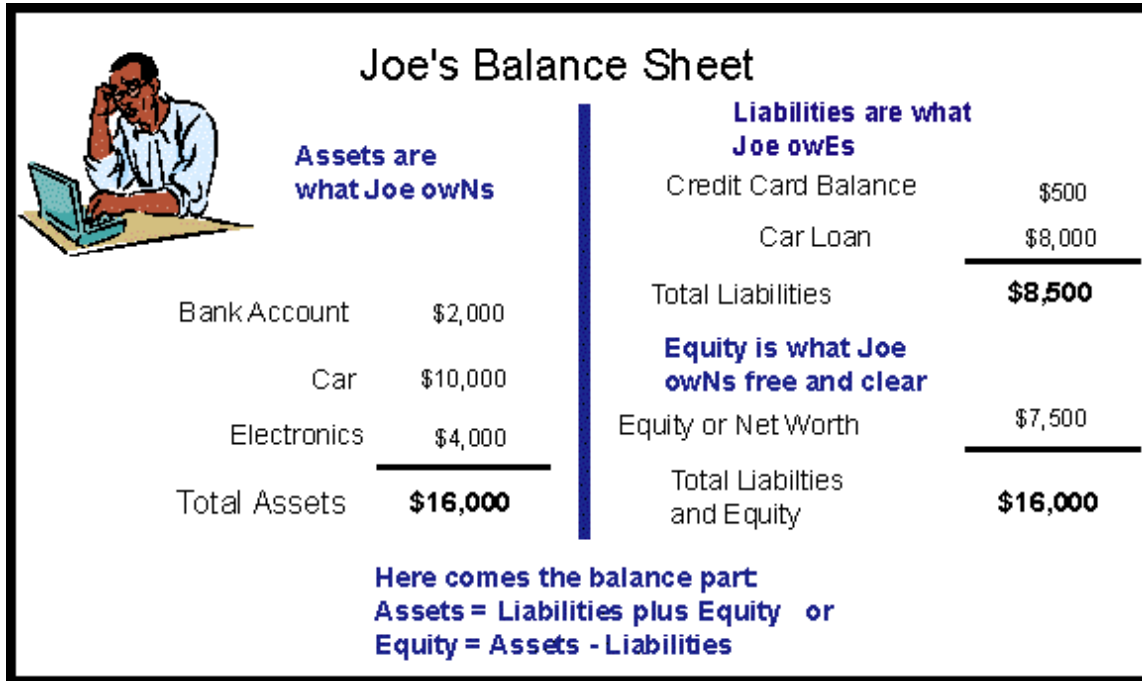
The **bottom line** comes after Joe pays his taxes. Financial analysts call this income after taxes, **net income, or net profit**.

Managing revenues and expenses is a skill that everyone should practice. For individuals, the size of the household determines what income and expenses will be. Here is information from the Consumer Expenditure Survey done by the federal government. It gives some averages with which individuals can measure their income and expenses. It is helpful to compare expenses to the average in the country to determine if spending is done wisely.

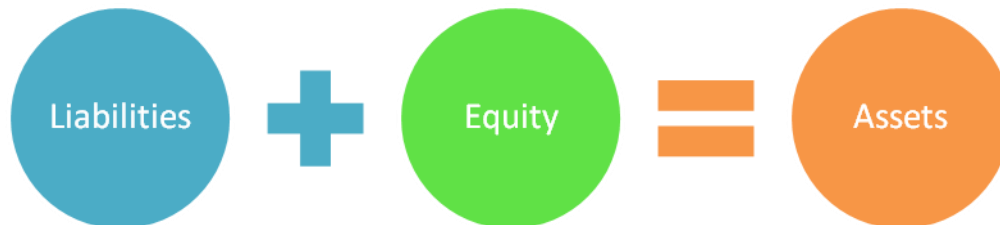
| | | |
|----------------------------------|-----|--|
| Consumer Expenditure Survey 2008 | One | |
|----------------------------------|-----|--|

| | person | Two persons | Three persons | Four persons | Five or more persons |
|-------------------------------------|---------------|--------------------|----------------------|---------------------|-----------------------------|
| Income before taxes | \$32,994 | \$68,168 | \$77,032 | \$87,390 | \$85,464 |
| Income after taxes | \$31,789 | \$65,755 | \$74,618 | \$85,501 | \$85,156 |
| Average annual expenditures | \$30,120 | \$53,320 | \$59,488 | \$65,955 | \$66,262 |
| Food | \$3,620 | \$6,276 | \$7,598 | \$9,172 | \$9,805 |
| Food at home (part of Food) | \$1,975 | \$3,626 | \$4,508 | \$5,279 | \$6,061 |
| Food away from home (part of Food) | \$1,645 | \$2,650 | \$3,090 | \$3,892 | \$3,743 |
| Alcoholic beverages | \$374 | \$527 | \$439 | \$429 | \$402 |
| Housing | \$11,507 | \$17,330 | \$19,660 | \$22,266 | \$21,961 |
| Apparel and services | \$922 | \$1,710 | \$2,376 | \$2,494 | \$2,847 |
| Transportation | \$4,439 | \$9,225 | \$10,758 | \$11,515 | \$11,602 |
| Healthcare | \$1,821 | \$3,972 | \$2,944 | \$3,039 | \$3,022 |
| Entertainment | \$1,655 | \$3,178 | \$3,070 | \$3,714 | \$3,612 |
| Personal care products and services | \$388 | \$638 | \$733 | \$805 | \$777 |
| Reading | \$88 | \$144 | \$123 | \$115 | \$98 |
| Education | \$602 | \$866 | \$1,404 | \$1,626 | \$1,617 |
| Tobacco products | \$214 | \$326 | \$421 | \$350 | \$385 |
| Miscellaneous | \$558 | \$955 | \$1,005 | \$946 | \$888 |
| Cash contributions | \$1,314 | \$2,079 | \$1,873 | \$1,603 | \$1,821 |
| Personal insurance and pensions | \$2,620 | \$6,095 | \$7,084 | \$7,881 | \$7,426 |

Balance Sheet Statement Basics



For the individual, the balance sheet is a snapshot of the financial situation. It tells how much Joe owns (**assets**) and how much he has borrowed (**debt**). Subtracting what he owns from what he owes gives his **equity** or **net worth**. Net worth is a measure of financial health.



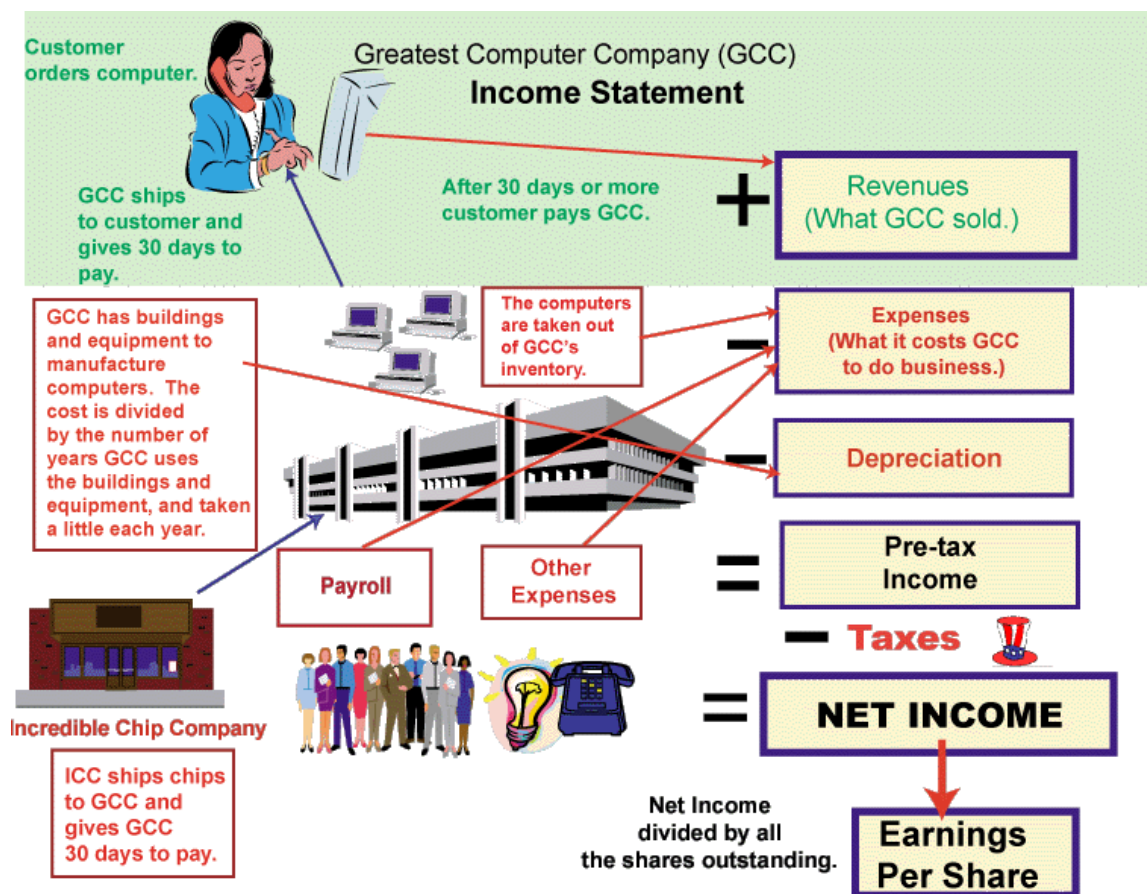
From the balance sheet above, it can be seen that Joe does not have much cash. Having a large reserve of cash is usually a sign of good financial health. However, Joe is young and will save more as he works more. He does not have much in other assets either, but his assets are useful ones. His car gets him to work and his compute is also useful for work.

Looking at the liability side, Joe has a car loan and little other debt. That's good news. This makes payment of the interest on his debt manageable. Joe's net worth is what he owns (his assets) minus what he owes (his liabilities). Doing the calculation tells us that Joe has \$7500 in net worth. Net worth should be built over a lifetime usually to support retirement. Joe's net worth is less than the \$11,800 that most people under 35 years of age have as can be seen from the table below. This table breaks out net worth as financial assets such as stocks, bonds, and cash; non-financial assets such as a house and debt. Taking the assets and subtracting the debt will give net work. Comparing individual net worth to averages also helps a person keep on track with building net worth.

| Age of family head: | Financial Assets | Non-Financial Assets | Debt | Equity or Net Worth |
|-----------------------|------------------|----------------------|-------|---------------------|
| Under 35 years old | 6.8 | 38.8 | 36.2 | 11.8 |
| 35 to 44 years old | 25.8 | 222.3 | 106.2 | 86.6 |
| 45 to 54 years old | 54 | 306 | 95.9 | 182.5 |
| 55 to 64 years old | 72.4 | 347 | 60.3 | 253.7 |
| 65 to 74 years old | 68.1 | 303.3 | 40.1 | 239.4 |
| 75 years old and over | 41.5 | 219.3 | 13 | 213.5 |

Income Statement Analysis of Companies

The next step is to apply the concepts used for the individual to a company. There are some differences between the income statement of an individual and that of a company.



Greatest Computer Company is in the business of making computers. Its income statement is very similar to Joe's. Greatest takes in **sales** or **revenues** when a customer orders computers, ships them to the customer, and the customer pays Greatest. Companies usually allow their customer 30 days to pay up on any money owed.

Like Joe, Greatest has **expenses**. It has to pay employees, utilities, and more. There is a difference in the timing of these expenses. Accounting rules require that expenses are matched with revenues. For example, anything that goes into making a computer is expensed (counted) in the income statement when the computer is shipped to the customer. So if Greatest made a computer a month ago and just sold it today, this computer wouldn't be expensed until today. Another example is, any buildings or equipment bought by the company are used over a number of years. A building might last the company

10-20 years or more. Accounting rules allow the company to take a portion of the expense every year. This is known as **depreciation**. The cost of the building or equipment is matched to when it is used to create sales.

As Greatest produces more and more of the same product, it "learns." It develops cheaper ways to produce computers. Costs to build a new factory or purchase new machinery are spread over a larger number of computers, so the cost per computer goes down. In mature companies where revenues may not be growing any more, investors expect companies to pare expenses with more efficient ways to make the product and get it to the customers. Even if sales aren't growing, investors still expect profits to grow.

Adding these revenues and expenses give net income or net profit, just as with Joe. A company's bottom line is slightly more complicated than Joe's. A company has many owners (shareholders) so the net income is "shared" by all the shareholders. The number of shareholders figures into the equation. Profit shared by 1 million shareholders is a lot less than profit shared by 1000 shareholders. For investors to have a clearer idea of what profit they are personally getting, net income is converted to **earnings per share (EPS)**. EPS basically gives the profit that the company generates on every share. There are two different kinds of earnings per share—diluted For the purposes of this class, **basic earnings per share** will be used.

As with Joe, income statements can be used to determine the future prospects of a company. Historical growth rate is a key analysis. This historical growth rate provides an indication of what growth rates may be in the future. If Greatest's revenue grew at 15% last year, it might be expected to grow about 15% in the next year. If growth was 10% two years ago and 15% last year, you might expect Greatest to grow at 20% next year. On the other hand, if growth was 20% two years ago and 15% last year, growth may be 10% next year. If sales growth slows or stagnates, the company might not be a good investment. Looking at one year of growth doesn't tell the whole story. Growth has to be calculated on a year-by-year basis, on a three-year basis, and on a five-year basis.

In addition to calculating revenue growth, it is also important to calculate growth in earnings per share. Growth is calculated using the same formula covered in Module 1:

The most important formula in business

GROWTH

$$\text{Growth \%} = \frac{\text{Current} - \text{Previous}}{\text{Previous}} = \frac{2010 - 2009}{2009} = \frac{12987.4 - 13312.2}{13312.2} = -2\%$$

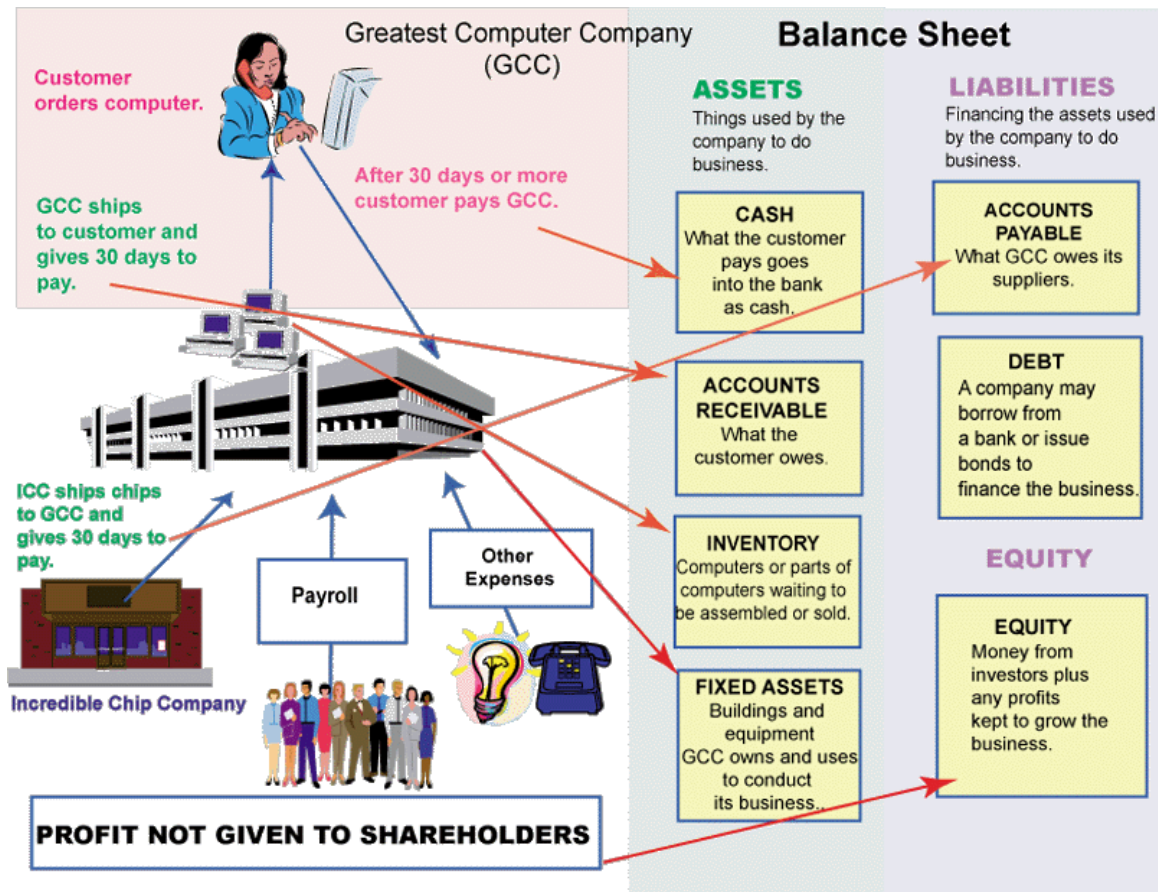
Here is an example of a growth rate calculation for revenues and earnings per share. Please note that latest year is noted first.

| \$ Millions | 2010 | 2009 | 2008 | 2007 |
|------------------------------------|---|-----------|-----------|-----------|
| Revenues or Sales | 40,363.10 | 32,714.00 | 26,898.10 | 23,636.90 |
| Year-to-Year Revenue Growth | $\frac{40363.10 - 32714}{32714} = 23.4\%$ | 21.6% | 13.8% | |
| Basic EPS | 2.96 | 2.51 | 2.21 | 1.92 |
| Year-to-Year EPS Growth | $\frac{2.96 - 2.51}{2.51} = 17.9\%$ | 13.6% | 15.1% | |

The same calculation can be done for the dividends per share.

| | 2010 | 2009 | 2008 | 2007 |
|---------------------------------|-------------------------------------|--------|--------|--------|
| Dividends Paid Per Share | \$1.21 | \$1.10 | \$0.95 | \$0.85 |
| Year-to-Year Growth | $\frac{1.21 - 1.10}{1.10} = 10.0\%$ | 15.8% | 11.8% | |

Balance Sheet Analysis



Assets are what the company uses to operate the business. It can include inventory to sell and buildings to house the operations. Liabilities along with equity are how it used to finance its operations. As with Joe, the balance sheet measures financial health.

A full balance sheet is complicated therefore this will focus on a few elements.

Assets

Cash: The company uses cash to pay bills. A healthy cash position also means that the company can pay its short-term obligations and dividends.

Accounts Receivable. In business, customers typically have 30 days to pay a bill or invoice. While the company is waiting for the customer to pay, the outstanding balance sits in accounts receivable. The smaller the accounts receivables as a percent of sales, the better the company is collecting from its customers. Accounts receivable is also classified as a current asset because it can be converted into cash quickly.

Inventory. For Greatest Computer Company, computers or parts of computers waiting to be assembled or sold are kept in an account called inventory. In order to make sales, Greatest needs to have computers on hand to ship to its customers. When the computer is sold, it is taken out of inventory. Companies try to keep very little inventory because inventory ties up money. Inventory is sometimes measured by days of sales it will support. The shorter the number of days, the more efficient the company is. Inventory is classified as a current asset because it can sometimes be converted into cash pretty quickly.

Fixed Assets. These are buildings and equipment that the company owns and uses to make money. Fixed assets need to be productive. For a company, having assets that don't generate income tie up money and take money to maintain, yet do not produce profits. Good companies will get rid of these and replace them with assets that do produce profits.

Items on the liability/equity side of the balance sheet help finance the operations of the company:

Liabilities and Equity

Accounts Payable. Just as Greatest's customers get 30 days to pay their bills, Greatest also has 30 days to pay its vendors. For instance, Incredible Chip Company supplies Greatest with the chips to build its computers. After Incredible ships the chips, Greatest has 30 days to pay. This appears as accounts payable on the balance sheet and is actually short-term financing for Greatest. Accounts payable is called a current liability because it is something due within a year.

Debt. When a company needs money to finance its operations, it can borrow money (either from a bank or by issuing bonds) or it can issue equity. When a company borrows money, it doesn't give away any part of the company. This is not the case with equity and therefore equity is more expensive than debt. But with debt, the company needs to be able to pay the interest and principal as required by its lenders.

The amount of debt is important. If a company has a lot of debt, it might do fine during an economic expansion, but may falter in an economic downturn. Debt is classified as short term (due in the next year) or long term.

Equity. Equity, net worth, or book value-- is what the company is worth according to its books or balance sheet. Equity is what investors put into the company and any earnings the company keeps or retains to grow the business. It is what the shareholder owns. Book value is what the company is worth in the financial statements, but the company is usually worth something completely different in the market. For the most part, though, companies tend to be worth much more than their book value.

Financial Ratio Analysis

In order to compare across companies, analysts have devised a selection of financial ratios. These ratios are calculated using the company's financial statements and stock price. Financial ratios fall into a number of categories and their importance differs depending on the industry. Valuation ratios tell whether the company stock is a good value. Profitability ratios compare the company on its bottom line. Management effectiveness and efficiency ratios compare how the management of the company is doing against its competitors. There are also ratios to determine financial health.

There is no one good number for any of these financial ratios. All ratios are compared to the market in general and to companies in the stock's own industry because financial ratios between industries can differ dramatically.

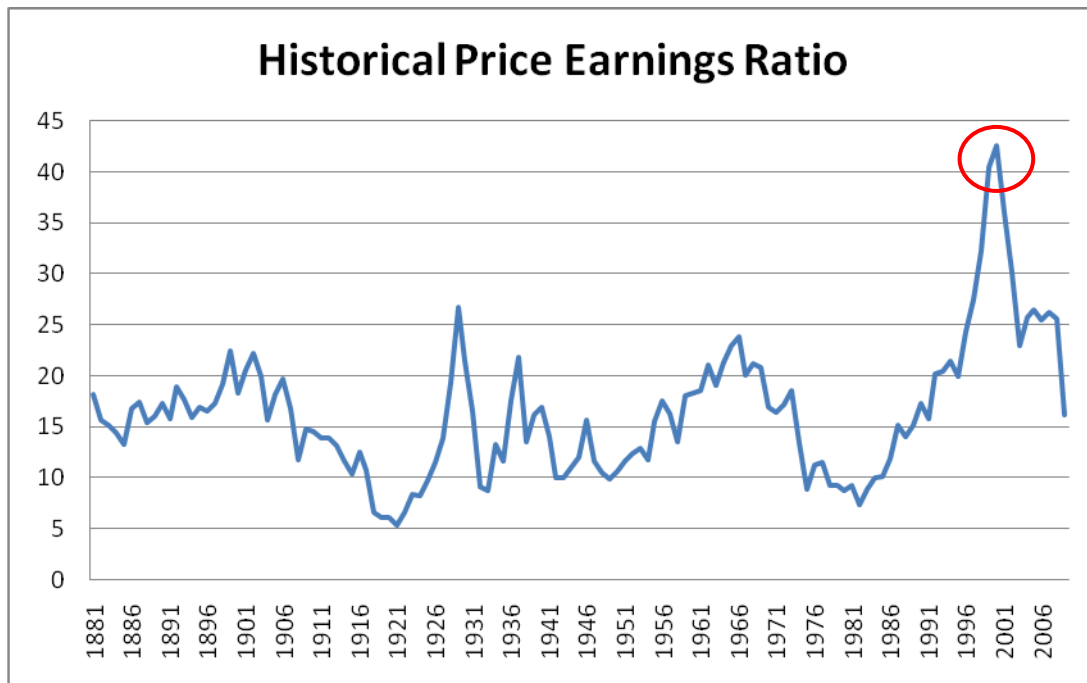
Valuation Ratios



As an everyday shopper, if WalMart has soap on sale for \$1 but Target has the same soap on sale for 75 cents, the purchase would be made at Target because the cost is less. The same applies for investment in a company. When stock is purchased in a company, the investor is buying its sales, its earnings, its cash flow, and its net worth. Valuation ratios help evaluate the price in the same way as the signs at the supermarket that breakdown prices per ounce of a product. Valuation ratios calculate how much is paid for every dollar of sale, earnings, cash flow and book value. In this module, the focus will be on the most commonly cited valuation ratio: the price earnings ratio.

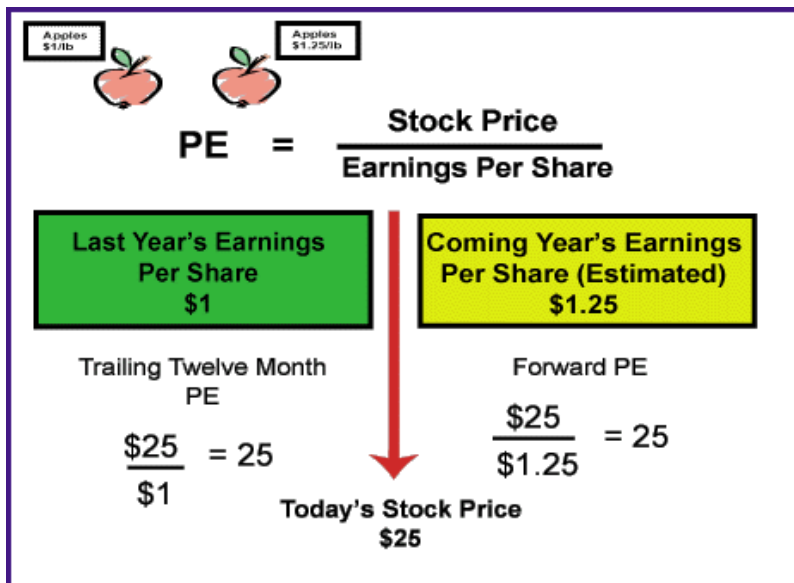
Price to Earnings Ratio

Price to earnings (PE) is one of the most frequently quoted valuation ratios. It is calculated by dividing the current stock price by the earnings per share. If WalMart is selling for \$50 a share and the company's earnings are \$1.40 per share for the past year, the PE is \$50 divided by \$1.40, or 35.7. Market PE, or the average PE for all stocks, is often used to determine whether or not there is a bubble in the stock market, that is whether stocks are overpriced. Historically, PEs are below 20. However, during the time of the dot-com bubble in 2000, the PE rose to over 40. When stocks or any other types of assets rise too high in price, there is usually a corresponding fall.



Source: Robert Shiller PE database

PEs differ between sectors and industries. It is not appropriate to compare companies from different industries using PE. PE can also be calculated several ways. The two most common are shown in the figure below:

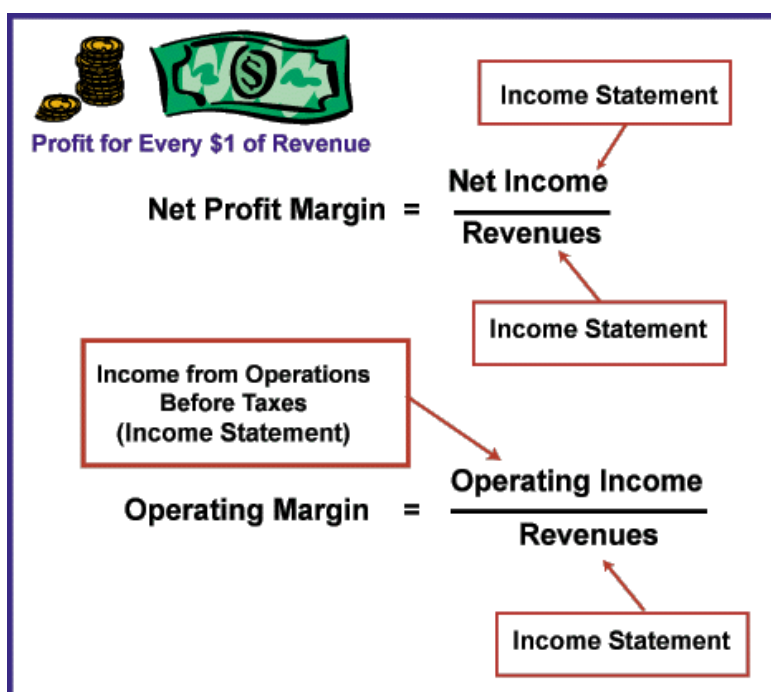


The most reported historical PE is the price earnings ratio for the last four quarters of earnings or trailing twelve-month PE. The forward PE is current price divided by this coming year's earnings. Analysts use both trailing twelve month PE and forward PE to value companies. If forward PE is exceptionally low, then the analysts might recommend the company for its future prospects. The lower the price earnings ratio, the better the value as the investor is paying less for every dollar of earnings per share.

Profitability Ratios

Profitability ratios show how much profit the company takes in for every dollar of sales or revenues. Profit margins are going to vary from industry to industry so comparison should be to other companies in the own industry. It's not useful to compare Costco to Microsoft because each company is in a different industry. Costco nets about 2 cents for every dollar of sales, which is typical of retail companies, while Microsoft makes about 25 cents for every dollar of sales, a more typical margin for software companies. The difference between Costco and Microsoft reflects the difference between the industries. Retail is a low-margin business while software is a high-margin business.

Many analysts focus on **net profit margin** or return on sales, which is calculated by taking the net income after taxes and dividing by the revenues or sales. This uses the bottom line on the income statement to calculate profit for every dollar of sales or revenues. **Operating margin** (which takes profit before taxes—further up the income statement—and divides by revenues) is also important since it focuses on operating income and takes out taxes. Companies may have different tax rates, so taking taxes out will give a better picture of profit. Analysts may also look at gross margins (which is profit after the cost of product only). **Gross margins** are relevant because signal how well the company makes, selects or buys its product.



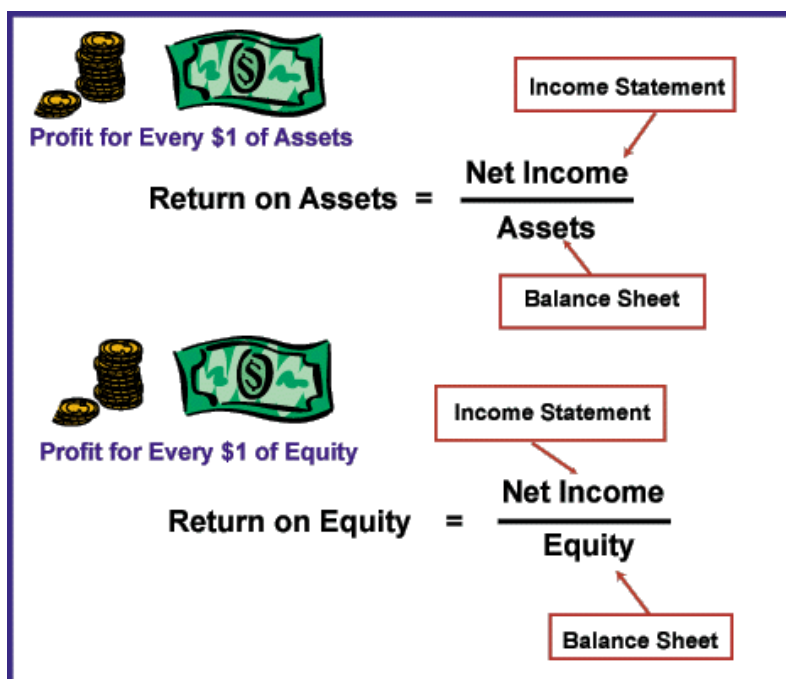
When comparing companies in the same industry, the company with the higher profit margin is able to sell at a better price or control expenses better. They tend to be the better companies. As an example, here are the profit margins for four computer hardware companies in 2010. Apple's high profit margin sets it apart from others while Dell has the lowest profit margins.

| Company | 2010 Profit Margin (%) |
|-----------------|------------------------|
| Apple | 29 |
| Dell | 5 |
| IBM | 19 |
| Hewlett Packard | 10 |

Management Effectiveness Ratios

Another set of ratios evaluate the effectiveness of the managers. Managers select assets for the company. Investing in good assets can generate good income while investing in bad assets can result in no profit or a loss. Managers also have to decide on financing for the company. It takes skill to manage the money so that the company always gets the lowest cost on its funding.

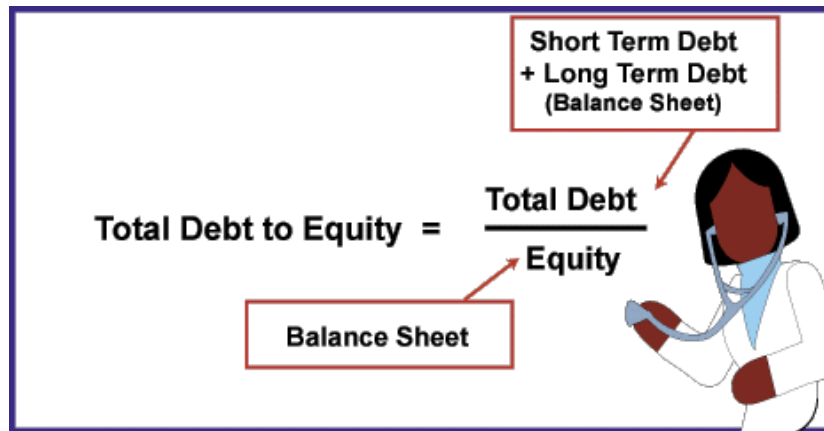
Two key measures of management effectiveness are return on assets and return on equity. Return on assets (ROA) is calculated by taking net income from the income statement and dividing by the assets of the company. It indicates how much profit management makes for every dollar of assets. Return on equity (ROE) is calculated by taking net income from the income statement and dividing by the equity of the company. It measures how much profit made for every dollar of equity. Along with everything else, this takes into consideration how well the financing of the company is managed.



Here are some return on assets and return on equity ratios for major retailers. It is apparent that Aeropostale has the best ratios and possibly the best management.

| | Nordstrom Inc. | Abercrombie & Fitch Co. | American Eagle Outfitters Inc. | Gap Inc. | Aeropostale Inc. |
|-----|----------------|-------------------------|--------------------------------|----------|------------------|
| ROE | 31.50% | 7.10% | 10.40% | 24.40% | 55.10% |
| ROA | 7.20% | 4.60% | 7.70% | 14.80% | 31.00% |

Financial Health Ratios



Investors like companies that can afford to pay their bills. These companies have less debt and ample equity; that is they are companies that are financially healthy. There are a couple of measures that determine if the company can handle its near term obligations. One is the current ratio and the other is the quick ratio. The current ratio is calculated by taking current assets and dividing by current liabilities. Current assets are things like cash, accounts receivable, and inventory (technically assets that are easily converted to cash). Current liabilities are accounts payable and notes payable. Sometimes a quick ratio, which takes out inventory from the asset side, is used as a more conservative measure because inventory may not be easily converted to cash. For both these measures, the higher the better.

Total debt gives a more comprehensive picture of the company's solvency or long-term financial health. The more debt the company has, the weaker it is financially.

| Company | 2010 Total Debt to Equity |
|------------------------|---------------------------|
| Apple | 0 |
| Dell | .61 |
| IBM | 1.19 |
| Hewlett Packard | .32 |

A summary of how to use the ratios is as follows:

| | |
|---|---|
|  | <p>Valuation Ratios - PE</p> <ul style="list-style-type: none"> • These tell investors how much they are paying for every dollar of earnings, sales or book value. • All things being equal, the lower the better. |
|  | <p>Profitability Ratios - Net Margin</p> <ul style="list-style-type: none"> • These tell how much profit is made for every dollar of sales or revenues • The higher the better. |
|  | <p>Management Effectiveness Ratios - Return on Equity</p> <ul style="list-style-type: none"> • These tells how much profit is made for the assets and debt that the management has selected. • The higher the better. |
|  | <p>Financial Health Ratios - Debt to Equity</p> <p>These tell how much debt is being carried.</p> <p>The lower the debt, the less burden the company has.</p> |

Federal Reserve

At this point in the module, read the Federal Reserve Today.

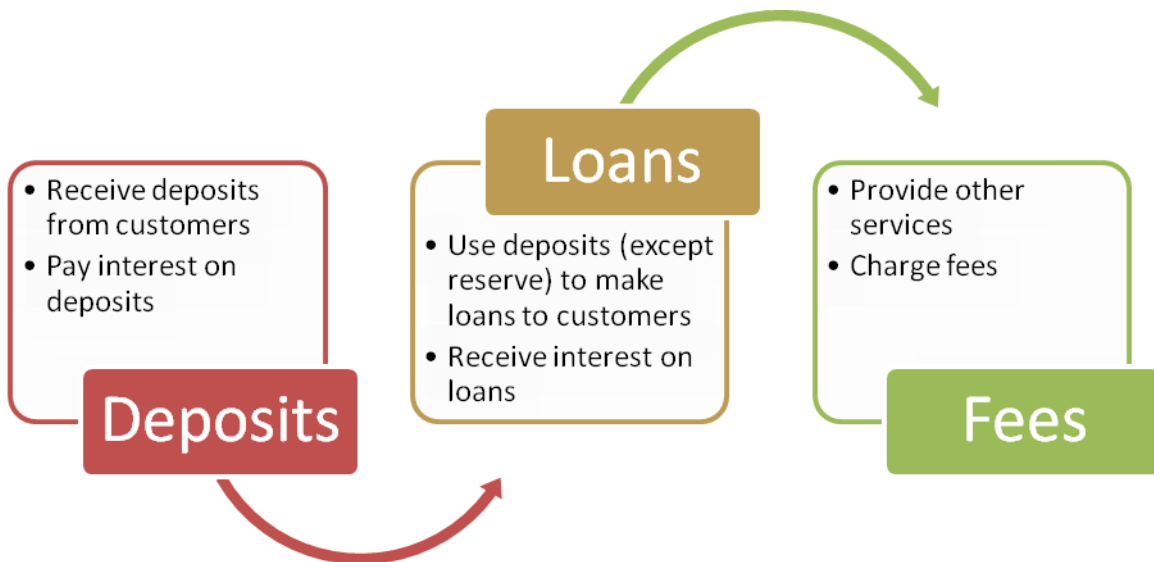
Banking

Banks are businesses that sell financial services such as savings accounts, checking accounts, certificates of deposit, individual retirement accounts (IRA), auto loans, home/condominium mortgage loans, credit card accounts and business (commercial) loans. Banks make profits by collecting money (deposits) from people who want to save and lending (loan) to people or businesses who need to borrow. Banks also make money by charging fees and providing other services.

Banks provide many of the following services:

- Checking accounts are used to take care of daily needs, such as depositing pay checks and paying bills. They offer safety, convenience and financial transaction recordkeeping. Banks or credit unions have several options for these types of accounts. They can include monthly fees, minimum balance requirements or interest paid on the account.
- Money market deposit accounts are similar to checking accounts that earn interest, however they usually pay a higher rate of interest and require a higher minimum balance (usually \$2,500 or more). These accounts also limit the number of checks you can write per month.
- Savings accounts provide a safe place to keep money and earn interest at the same time.
- Certificates of deposit are savings deposits that require keeping a set amount of money in the bank or credit union for a fixed period of time (such as \$1,000 for one year). Generally certificates of deposit earn a higher rate of interest than savings accounts.
- Individual retirement accounts (IRAs) are savings accounts that allow individuals to save for retirement in a tax-advantaged way.

- Roth individual retirement accounts are also retirement savings. Contributions are not tax deductible but the interest earned is free from federal taxes when withdrawn during retirement.
- Wire transfers and cashier's checks are used to move money within the United States or overseas
- Debit cards or ATM cards can be used to take money out of your account from the bank or credit union, out of an ATM machine or to make a store purchase.
- Safety deposit boxes to store important legal documents.
- Notary services to verify your signature for financial transactions
- Loans (student, mortgage, car, boat, RV, computer, home equity loans or lines of credit)
- Business loans for business owners.
- Financial advisory services such as a personal banker to advise you on where to put your money.
- Brokerage services to buy and sell stocks, bonds, funds and other investments.
- Insurance services to purchase coverage for your home or car.



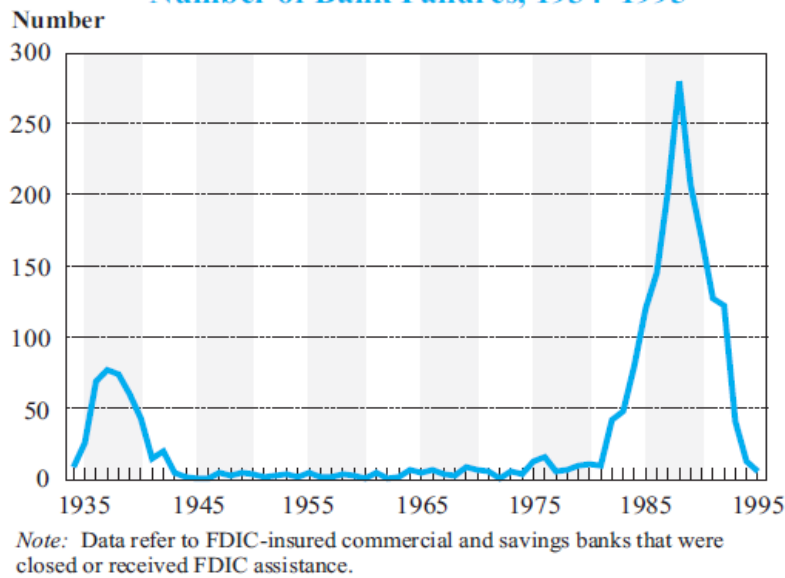
United States banks and credit unions are closely regulated and supervised to ensure that consumer money is safe. Banks and credit unions are required to comply with regulations. For banks the Federal Deposit Insurance Corporation (FDIC) and for credit unions the National Credit Union Administration insure deposit accounts(non IRA or Keogh) up to \$100,000 per account type per person and up to \$250,000 for Individual Retirement Accounts (IRA) and Keogh (Employee retirement) accounts. This FDIC insurance is the major difference between bank and nonbank institutions.

A commercial bank offers a broad range of deposit accounts, including checking, savings, and certificate of deposits, and makes loans to individuals and businesses. Originally commercial banks focused on meeting the needs of businesses (commercial) customers. Now the difference between commercial and savings banks have been blurred.

In the past, savings banks primarily accepted consumer savings deposits, and residential mortgage loans. Now they offer checking type deposits, savings accounts and certificates of deposit plus they make a wider range of loans—car loans, boat loans, home equity loans, and commercial loans.

Prior to the 1980s, banking was a staid industry. Interest rates were regulated and banks dealt mostly with local lending. The high interest rates of the 1980s caused deregulation and banks participated in higher risk activities. This led to a banking crisis in the 1980s which resulted in a large number of bank failures.

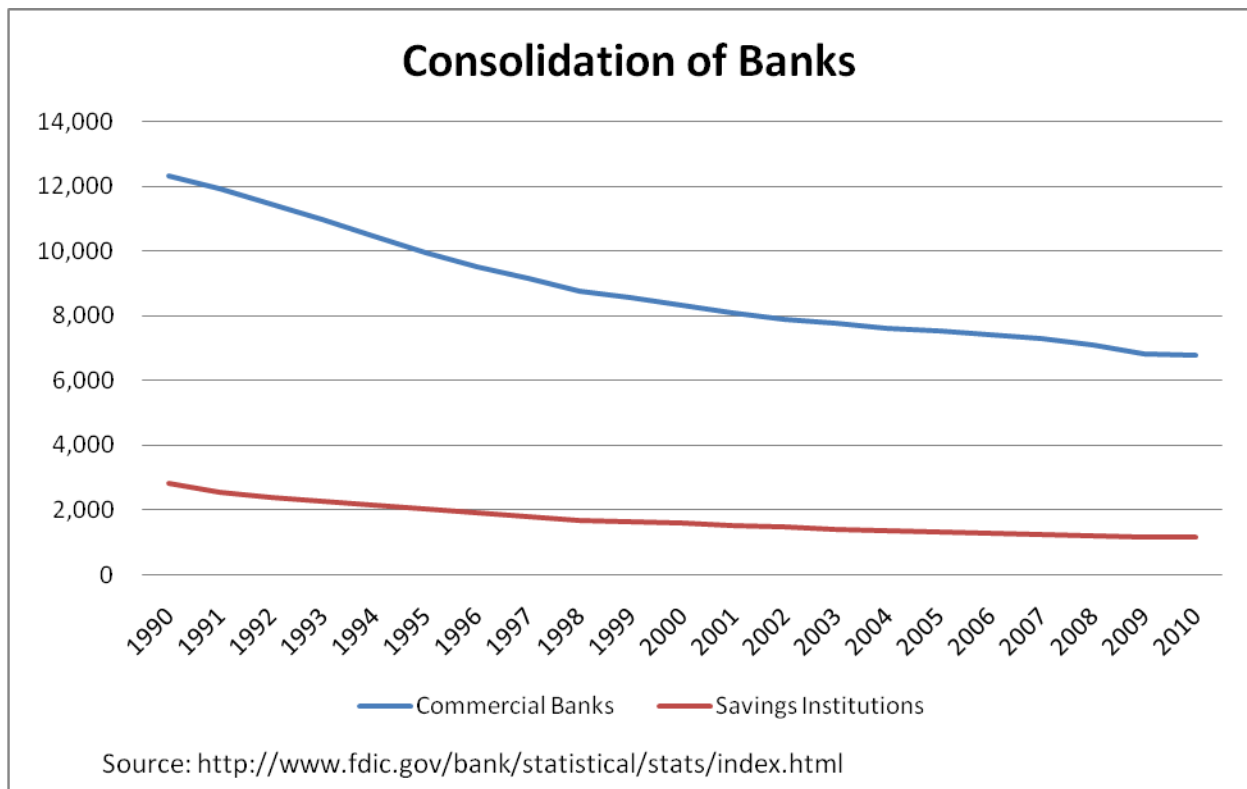
Number of Bank Failures, 1934–1995

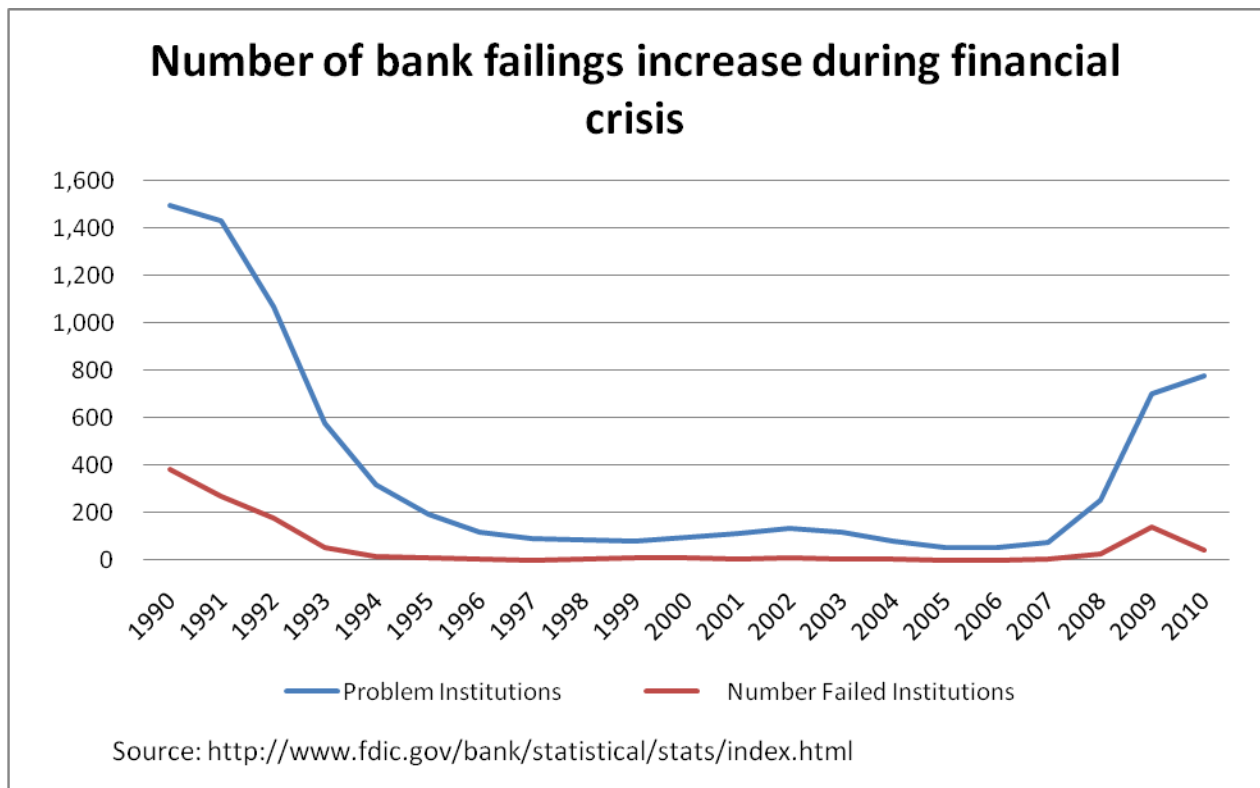


Source: FDIC

More recently, loose lending standards led to the financial crisis of 2008/9 which required a \$750 billion bailout from the government. A video that explains what happened is available on Frontline: [Inside the Meltdown](#). There is also a series of articles available at the [New York Times on the recent financial crisis](#). Financial reform regulation has just been put in place to prevent future financial crises.

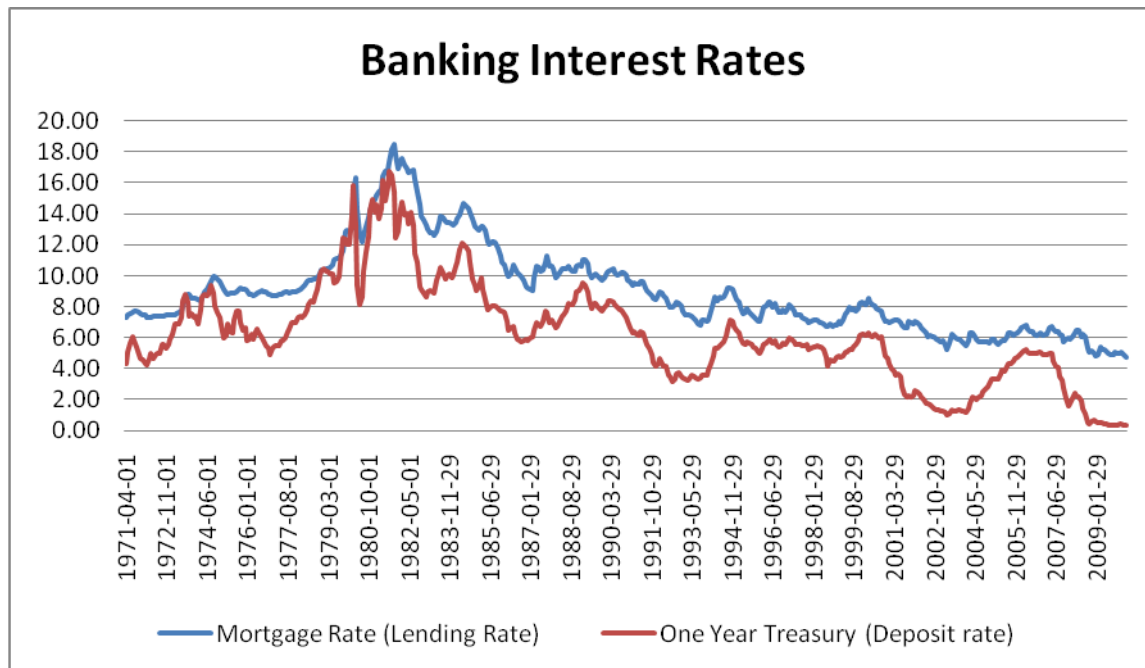
As can be seen from the figure below, the number of banks has been consolidating over the years. During financial crisis, there are more bank failings and consolidations. The assets of the failed bank will be purchased by another bank.





Interest rates are a large factor in the banking industry. Interest rates determine the cost of the funds that banks lend out and they determine the rates at which banks will lend. Interest rates fluctuate often therefore banks have to plan for changes in interest rates. The Federal Reserve determines strategies to moderate interest rates. However, high inflation and crisis can cause interest rates to jump. As can be seen by the 40-year chart below, interest rates have risen as much as 18% and as low as almost 0%. The chart shows that interest rates in 2010 are at a historical low.

Deposit rates are the cost of funds to banks. They are the rates that banks must pay its customers who deposit funds. Mortgage rates are the rate at which banks lend to borrowers. The difference between the two represent the profit to the bank. Most banks retain a reserve requirement of a set percent of deposits to allow customers to withdraw. Bank crisis are caused when customers lose confidence in the bank and withdraw their money. As deposits are short term while mortgages are long term, if there is a run on the bank where many depositors withdraw their money, the bank can go under as it is unable to get the money back from the borrowers.



Credit Analysis and Lending

The following section is adapted from: <http://www.newyorkfed.org/education/addpub/credit.html>

Banks provide a crucial service in that they lend money to businesses. This section covers the credit analysis that is done when a business borrows money from a bank. In the early stages of a business, the entrepreneur usually seeks financing from informal investors. Such sources of funding may include friends or relatives, partners, local development corporations, state and local governments offering low-interest micro loans, private foundations offering program-related investments, credit unions featuring small business lending, and universities with targeted research and development funds.

Once a business has sufficient profits, the entrepreneur can approach a commercial bank or another traditional lender for a loan. Even at this stage, the entrepreneur will deal with a bank with which he or she has an established relationship.

There are three major reasons why businesses borrow; the first and most common reason is to purchase assets. A loan to acquire assets could be for buying short-term, or current, assets—such as inventory—and would be repaid once the new inventory is converted into cash as it is sold to customers. Or, the funds could be for the addition of long-term, or fixed, assets, such as equipment. The second would be to repay the informal sources of funds used before and the third would be to buy back equity in the company.

Loan Types

There are a number of loan types available to commercial borrowers, including lines of credit, seasonal commercial loans, installment loans, collateralized loans (which are secured with assets), credit card advances, and term loans. Regardless of the type, most loans have the following features.

- Common Loan Features
- Loans are long term or short term.
- Interest rates vary depending on the term, type, size, risk of the loan.
- Repayment may be a lump sum or on a monthly or quarterly schedule.
- Payments may be delayed until the funds help the business generate cash flow.

- The loan may be committed, meaning the bank agrees to lend under certain terms as funds are needed without requiring you to re-apply each time.
- Some loans require that a compensating balance levels in a deposit account.

Loan Agreements

The lender will require certain performance standards and restrictions in order to ensure that the loan is repaid. These restrictions, known as covenants, representations, and warranties, commonly include the following.

Common Loan Restrictions

- Maintenance of accurate records and financial statements
- Limits on total debt
- Limits on total debt
- Restrictions on dividends or other payments to owners and/or investors
- Restrictions on additional capital expenditures
- Restrictions on sale of fixed assets
- Performance standards on financial ratios
- Current tax and insurance payments

Credit Analysis

A prospective lender will review creditworthiness prior to giving the loan. A complete and thoroughly documented loan request (including a business plan) is required. The basic components of credit analysis are the "Five C's" described:

The "Five C's" of Credit Analysis

Capacity to repay is the most critical of the five factors. The prospective lender will want to know exactly how the business intends to repay the loan. The lender will consider the cash flow from the business, the timing of the repayment, and the probability of successful repayment of the loan. Payment history on existing credit relationships—personal or commercial—is considered an indicator of future payment performance. Prospective lenders also will want to know about contingent sources of repayment.

Capital is the money the entrepreneur has personally invested in the business and is an indication of how much the entrepreneur has at risk should the business fail. Prospective lenders and investors will expect the entrepreneur to have contributed from his or her own assets and to have undertaken personal financial risk to establish the business before asking them to commit any funding.

Collateral or guarantees are additional forms of security provided to the lender. Giving a lender collateral means that an asset is pledged, such as the entrepreneur's home, to the lender with the agreement that it will be the repayment source in case the business can't repay the loan. A guarantee, on the other hand, is just that—someone else signs a guarantee document promising to repay the loan if the entrepreneur can't. Some lenders may require such a guarantee in addition to collateral as security for a loan.

Conditions focus on the intended purpose of the loan. Will the money be used for working capital, additional equipment, or inventory? The lender also will consider the local economic climate and conditions both within the industry and in other industries that could affect the business.

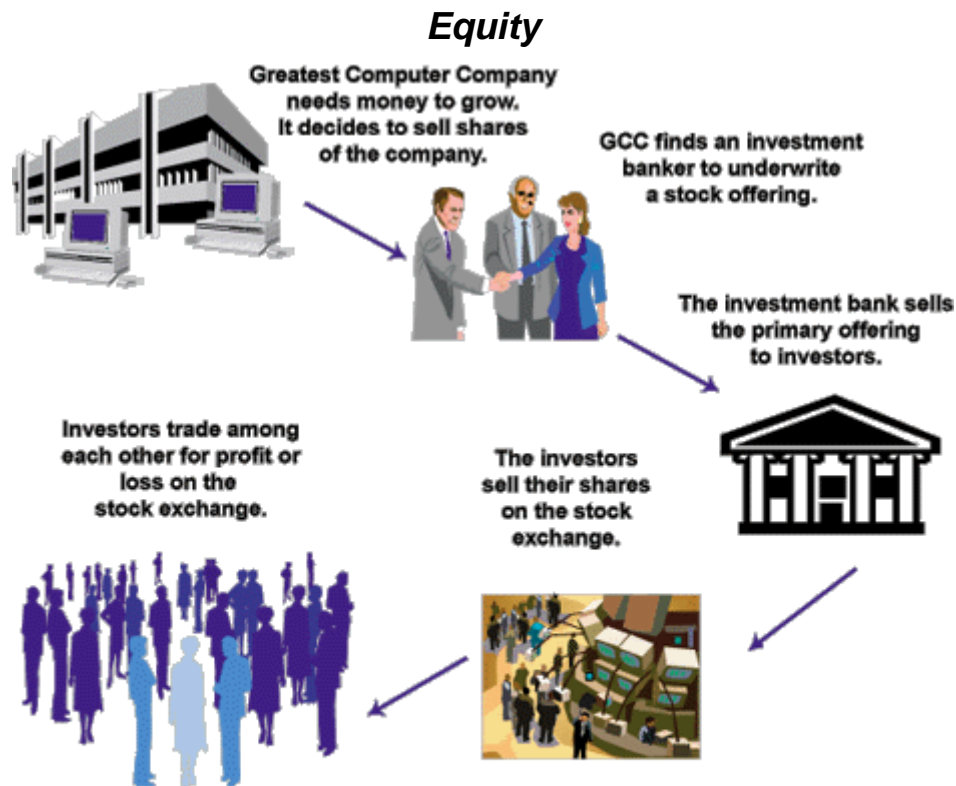
Character is the general impression the entrepreneur makes on the potential lender or investor. The lender will form a subjective opinion as to whether or not he or she is sufficiently trustworthy to repay the loan or generate a return on funds invested in the company. Educational background and experience in

business and in the industry will be reviewed. The quality of references and the background and experience levels of employees also will be taken into consideration.

In addition to the 5C's, the lender will require financial statements and conduct a financial ratio analysis. Similar to the financial ratios that were presented before, the lender looks at profitability from year-to-year and as compared to similar businesses. The lender will look at liquidity ratios such as current ratio and quick ratio along with operational ratios such as turnover on inventory and accounts receivable to ensure that costly inventory is moving and customers are paying.

Pro Forma Financial Statements and Financial Projections

Pro forma financial statements are the entrepreneur's best guess about what next year will look like for the business. These tools anticipate whether next year's cash flow will be sufficient to cover all costs, and project how much money will be needed in the future. For a longer horizon, financial projections permit estimates about future sales levels, expansion costs, or general business conditions and see how such conditions would affect the company's financial results in the years to come.








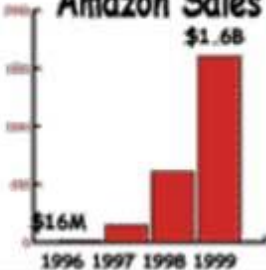

When very large companies such as the ones that list on the public stock exchanges want to build a new plant or acquire another company that will help them generate more sales and income, but they don't have the money to do it, they go to the financial markets to raise the money. They borrow money by issuing bonds (more likely in the case of buildings and equipment) or they sell stock--that is, they sell shares of the company to investors. When companies first issue stock, it's called an initial public offering (IPO).

Investors who buy the initial public offering of these shares don't hold onto them forever. These shares are resold to other investors on the secondary market. Most stocks are bought and sold on a stock exchange. After the company sells the shares the first time, all future gains and losses are between investors.

The details of how equity is issued are beyond the scope of this course. However, here is a short description of a local company and how it became a major stock. Jeff Bezos was the founder of Amazon. He started out working on Wall Street in the early 1990s where he learned about the internet. He moved to Seattle, Washington and literally started Amazon in the garage of his house similar to other tech entrepreneurs such as Hewlett and Packard. As with entrepreneurs who start out and who have no income, he called on friends and family for the first million dollars to start his company. Being familiar with other forms of financing, Bezos pitched his company to venture capitalists and they contributed \$8 million. Through amazing luck and timing, the group was able to have an initial public offering at the beginning of the dot-com rise. The company logs spectacular growth as does its stock. However when the dot-com bust came, Amazon stock was also pushed down from a high of over \$100 a share to a low of \$15 a share. The concept was durable and Amazon continued to improve its operations and take on other categories. Its stock price has exceeded the previous high.

The New York Stock Exchange website nyse.com provides a history of the stock exchange which now includes Euronext and the former American Stock Exchange. It is possible to review all the different financial instruments which are traded there including bonds, equities, futures, and options.

The Legend of Amazon

| | |
|---|---|
|  <p>Jeff Bezos leaves New York and moves to Seattle.</p> |  <p>Amazon headquarters</p> <p>He starts a company to sell books over the Internet (what?) in his garage with \$54,000 of his own money. Used \$10,000 buy 10.2 M shares of Amazon.com.</p> <p>1994</p> |
|  <p>His parents buy 1.4 M shares for \$240,000 and his siblings buy 60,000 shares for \$20,000. Other investors and friends bring the total to \$941,000.</p> <p>1995</p> <p><i>You invested in WHAT???</i></p> |  <p>Jeff Bezos pitches venture capitalists and convinces Kleiner Perkins Caufield and Byers and KPCB Information Sciences Zaibatsu to ante up \$8 M.</p> <p>1996</p> |
|  <p>Bezos hires investment bankers Deutsche Morgan Grenfell, Alex Brown and Hambrecht & Quist, and files to go public at a price of \$15 a share. At the IPO, Bezos is worth \$148 M, his parents \$21 M, and the venture capitalist \$51 M for a 538% return in 1 year.</p> <p>1997</p> | <p>Amazon Sales 1998-9</p>  <p>Amazon logs spectacular growth in sales over the next two years. Its stock rises over 800% and Bezos is named Man of the Year by Time magazine.</p> |
| <p>Amazon stock plummeted in 2001 and since then has been on a roller coaster of a ride, mostly upward. It remains the largest online retailer with almost 50% of share in 2010.</p>  | |

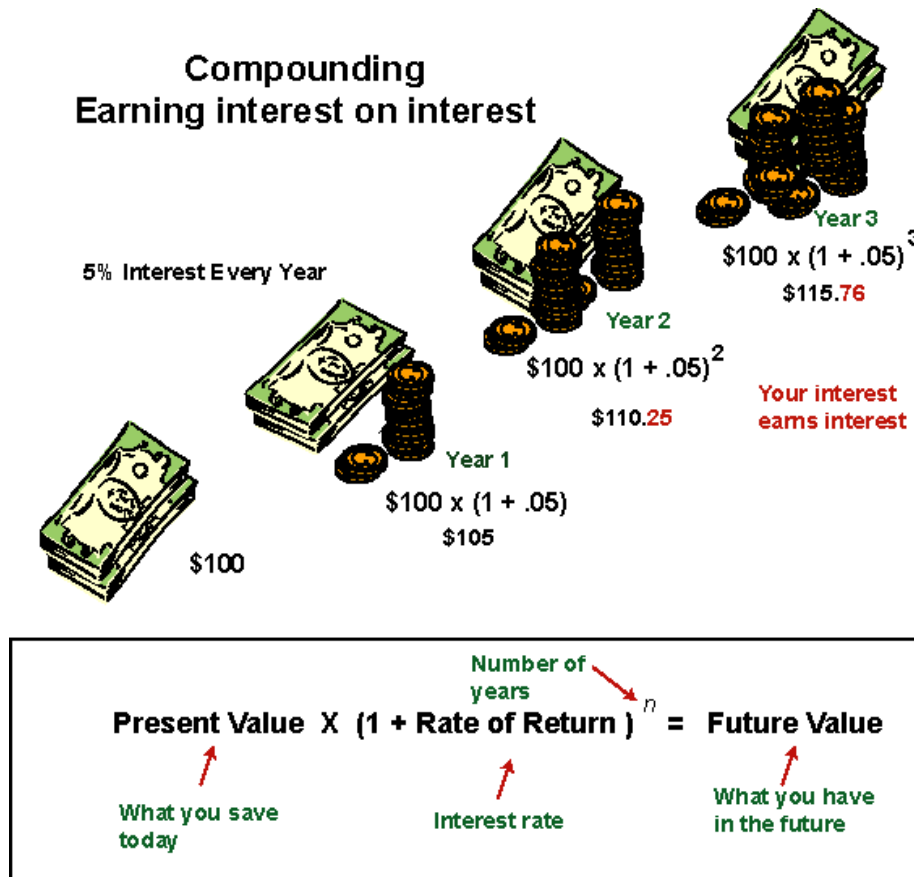
The Time Value of Money

One of the key concepts in finance is the time value of money which is used to value both stocks and bonds. It is also a key factor in your personal finance. Therefore this section has been included to give you a briefing on the time value of money. If you put \$100 in the bank for 2 years and get 5% per year, you would have \$5 in interest the first year and \$5 in interest the second year, right? Not exactly. In the first year you would get \$5 in interest. However, in the second year you would actually get 5% times \$105, or \$5.25 in interest. Why the fuss about a quarter? Because over a long period of time, it becomes a big deal.

Let's say you have \$1000 in the bank over 10 years and you spend whatever interest you earn each year, which would only be \$50 a year times 10 years, or \$500. But, if you leave the interest in the bank, you earn \$628.90 in interest, or \$128.90 more. That's the beauty of compounding.

$$\boxed{\$1000 \times (1 + 0.05)^{10} = \$1628.90}$$

Everyone knows that the better rate you invest at, the more money you will make. Investing at 10% is always going to be better than investing at 8%. The trouble is most investors can't predict with any certainty what their future returns will be. Everyone knows the longer you keep your money invested, the more you will have. Keeping money invested for 10 years is always better than 5 years. It's just more time for the compounding to take effect. Is this something you can control? Absolutely!



So, the important point is to start saving now. Saving now gives compounding more time to work for you. Say you put \$10,000 away for 5 years at 10%. At the end of 5 years, you'll have about \$16,110. If you put \$5,000 (half the amount) away for 40 years at 5% (half the return), you'll end up with over \$35,000. Saving over a long period of time can overcome a low return.

Here is a table which shows what will happen to \$1000 at various levels of return and various years. To find the value of \$1000 at 10% for 5 years, look down the first column until you get to 10% and across until you get to 5 years (the first column). You can see that the value is \$1611 for \$1000.

For any other sum, take the sum divide by \$1000 and multiply by the value you find in the table for the appropriate return and number of years. For example, if you want to find the future value of \$5000 in 30 years at a 6% return. First look up the value at 6% and 30 years on the table. This value is \$5743 and then do the following:

$$\frac{\$5000}{\$1000} \times \$5743 = \$28,715$$

$$\text{FutureSum} = \frac{\text{Value Now}}{\$1,000} \times (\text{Look up Table at } _\% \text{ and } _\text{ years})$$

Future Value per \$1000 Investment Now

| Return | Number of Years | | | | | | | | |
|--------|-----------------|---------|---------|----------|----------|----------|-----------|-----------|-----------|
| | 5 | 10 | 15 | 20 | 25 | 30 | 35 | 40 | 45 |
| 2% | \$1,104 | \$1,219 | \$1,346 | \$1,486 | \$1,641 | \$1,811 | \$2,000 | \$2,208 | \$2,438 |
| 3% | \$1,159 | \$1,344 | \$1,558 | \$1,806 | \$2,094 | \$2,427 | \$2,814 | \$3,262 | \$3,782 |
| 4% | \$1,217 | \$1,480 | \$1,801 | \$2,191 | \$2,666 | \$3,243 | \$3,946 | \$4,801 | \$5,841 |
| 5% | \$1,276 | \$1,629 | \$2,079 | \$2,653 | \$3,386 | \$4,322 | \$5,516 | \$7,040 | \$8,985 |
| 6% | \$1,338 | \$1,791 | \$2,397 | \$3,207 | \$4,292 | \$5,743 | \$7,686 | \$10,286 | \$13,765 |
| 7% | \$1,403 | \$1,967 | \$2,759 | \$3,870 | \$5,427 | \$7,612 | \$10,677 | \$14,974 | \$21,002 |
| 8% | \$1,469 | \$2,159 | \$3,172 | \$4,661 | \$6,848 | \$10,063 | \$14,785 | \$21,725 | \$31,920 |
| 9% | \$1,539 | \$2,367 | \$3,642 | \$5,604 | \$8,623 | \$13,268 | \$20,414 | \$31,409 | \$48,327 |
| 10% | \$1,611 | \$2,594 | \$4,177 | \$6,727 | \$10,835 | \$17,449 | \$28,102 | \$45,259 | \$72,890 |
| 11% | \$1,685 | \$2,839 | \$4,785 | \$8,062 | \$13,585 | \$22,892 | \$38,575 | \$65,001 | \$109,530 |
| 12% | \$1,762 | \$3,106 | \$5,474 | \$9,646 | \$17,000 | \$29,960 | \$52,800 | \$93,051 | \$163,988 |
| 13% | \$1,842 | \$3,395 | \$6,254 | \$11,523 | \$21,231 | \$39,116 | \$72,069 | \$132,782 | \$244,641 |
| 14% | \$1,925 | \$3,707 | \$7,138 | \$13,743 | \$26,462 | \$50,950 | \$98,100 | \$188,884 | \$363,679 |
| 15% | \$2,011 | \$4,046 | \$8,137 | \$16,367 | \$32,919 | \$66,212 | \$133,176 | \$267,864 | \$538,769 |

Future Value of Saving \$1000 Every Year

| Return | Number of Years | | | | | | | | |
|--------|-----------------|----------|----------|-----------|-----------|-----------|-----------|-------------|-------------|
| | 5 | 10 | 15 | 20 | 25 | 30 | 35 | 40 | 45 |
| 3% | \$5,309 | \$11,464 | \$18,599 | \$26,870 | \$36,459 | \$47,575 | \$60,462 | \$75,401 | \$92,720 |
| 4% | \$5,416 | \$12,006 | \$20,024 | \$29,778 | \$41,646 | \$56,085 | \$73,652 | \$95,026 | \$121,029 |
| 5% | \$5,526 | \$12,578 | \$21,579 | \$33,066 | \$47,727 | \$66,439 | \$90,320 | \$120,800 | \$159,700 |
| 6% | \$5,637 | \$13,181 | \$23,276 | \$36,786 | \$54,865 | \$79,058 | \$111,435 | \$154,762 | \$212,744 |
| 7% | \$5,751 | \$13,816 | \$25,129 | \$40,995 | \$63,249 | \$94,461 | \$138,237 | \$199,635 | \$285,749 |
| 8% | \$5,867 | \$14,487 | \$27,152 | \$45,762 | \$73,106 | \$113,283 | \$172,317 | \$259,057 | \$386,506 |
| 9% | \$5,985 | \$15,193 | \$29,361 | \$51,160 | \$84,701 | \$136,308 | \$215,711 | \$337,882 | \$525,859 |
| 10% | \$6,105 | \$15,937 | \$31,772 | \$57,275 | \$98,347 | \$164,494 | \$271,024 | \$442,593 | \$718,905 |
| 11% | \$6,228 | \$16,722 | \$34,405 | \$64,203 | \$114,413 | \$199,021 | \$341,590 | \$581,826 | \$986,639 |
| 12% | \$6,353 | \$17,549 | \$37,280 | \$72,052 | \$133,334 | \$241,333 | \$431,663 | \$767,091 | \$1,358,230 |
| 13% | \$6,480 | \$18,420 | \$40,417 | \$80,947 | \$155,620 | \$293,199 | \$546,681 | \$1,013,704 | \$1,874,165 |
| 14% | \$6,610 | \$19,337 | \$43,842 | \$91,025 | \$181,871 | \$356,787 | \$693,573 | \$1,342,025 | \$2,590,565 |
| 15% | \$6,742 | \$20,304 | \$47,580 | \$102,444 | \$212,793 | \$434,745 | \$881,170 | \$1,779,090 | \$3,585,128 |

Glossary Page

Accounts payable: Amount owing to creditors for goods and services on an open account.

Accounts receivable: Amount due from customers for merchandise or services purchased on an open account.

Asset: Anything owned by a business or individual that has commercial or exchange value.

Balance sheet: Financial statement that presents a "snapshot" of what the business owns, what it owes, and what equity it has on a given date.

Capital: See Equity.

Capital expenditures: Purchases of long-term assets, such as equipment, used in manufacturing a product.

Cash flow: Incoming cash to the business less the outgoing cash during a given period. Also used to refer to the figure derived from net income plus noncash items charged off in the accrual accounting process.

Collateral: Assets pledged to secure a loan.

Collection period ratio: Indicates how quickly your customers pay you. Average accounts receivable divided by net sales, multiplied by 365.

Community Reinvestment Act (CRA): Under provisions of the Community Reinvestment Act of 1977, banks and thrift institutions seek opportunities to help meet the credit needs of their local communities, including low—and moderate—income neighborhoods, consistent with safe and sound operation of the institutions.

Compensating balance: Money a bank requires a company to leave in a deposit account as part of a loan agreement.

Corporation: Form of business ownership that is a legal entity on its own and puts stockholders and the board of directors in control. Owners have limited liability for the corporation's actions. A corporation has unlimited life and in most cases is taxed as an entity on its own.

Cost of goods sold: Figure representing the cost of buying raw materials and producing finished goods.

Current assets: Cash or other assets you expect to use in the operation of the firm within one year.

Current liabilities: Debts you expect to pay within one year.

Current ratio: Shows the firm's ability to pay its current obligations from current assets. Current assets divided by current liabilities.

Days purchases in accounts payable ratio: Indicates how quickly you pay your suppliers for inventory purchases. Average accounts payable divided by the cost of goods sold plus change in inventory, multiplied by 365.

Days to sell inventory ratio: Indicates the firm's efficiency at matching purchases to expected sales. Average inventory divided by the cost of goods sold, multiplied by 365.

Debt ratio: Indicates the firm's debt level, or leverage. Total liabilities divided by total liabilities plus capital.

Depreciation: Amortization of the cost of a fixed asset, such as plant and equipment, over several years, or the "depreciable life."

Dividend: Distribution of earnings to shareholders. Equal Credit Opportunity Act (Federal Reserve Regulation B): Prohibits lenders from denying your application on the basis of race, color, religion, national origin, sex, marital status, or age, or from discouraging you from applying, or giving you less favorable terms than any other applicant, on such a basis. Regulation B also contains specific rules governing credit transactions.

Equity: The ownership interest in a business remaining after its liabilities are deducted. Also known as common stock plus retained earnings, or capital.

Extraordinary items: Unusual or nonrecurring event that must be explained to shareholders or investors, such as a manufacturer's sale of a building.

Finance company: Competitors of commercial banks in providing credit to households and firms. Unlike banks, they do not accept deposits.

Financial projections: Estimates of the future financial performance of a firm.

Financial statements: Written record of the financial status of an individual or organization. Commonly include profit and loss, or income, statement; the balance sheet, which includes a statement of the company's retained earnings; and the cash flow statement.

Fixed assets: Long-term assets such as buildings, equipment, or property that are not expected to be converted to cash in the near term.

Gross profit: Indicates the revenues of the firm before consideration of its operating expenses. Net sales less cost of goods sold.

Gross profit margin: Measures a firm's profitability. Gross profits divided by net sales.

Gross income: Net sales less cost of goods sold. Installment loan: Loan type that is paid in periodic payments, such as an automobile loan.

Inventory: Value of a firm's raw materials, work in process, supplies used in operations, and finished goods.

Investor: An individual who takes an ownership position in a company, thus assuming risk of loss in exchange for anticipated returns.

Leverage: Measures the firm's use of borrowed funds versus those funds provided by the shareholders or owners (equity).

Line of credit: Although not a contract, a bank's promise to lend to a specific borrower up to a pre-agreed amount during a specific time frame. Usually reviewed annually and subject to cancellation without notice.

Liquid assets: Those assets that can be readily turned into cash.

Liquidity: Gauges firm's ability to quickly turn assets into cash.

Marketable securities: Securities that are easily sold.

Net income: The sum remaining after all expenses have been met or deducted. Also called profit.

Net sales: Gross sales minus returns and allowances.

Net worth: Excess of assets over debt.

Niche: Particular speciality in which a firm has gained a large market share.

Operating expenses: Those costs associated with the day-to-day activities of the business.

Operating profit (loss): Income or loss before taxes and extraordinary items resulting from transactions other than those in the normal course of business.

Operating profit margin: Measures a firm's profitability by examining the pre-tax profit generated from primary operations (versus extraordinary items) in relation to net sales. Operating profit divided by net sales.

Partnership: Can be general or limited, but in either case the general partners are in control. The tax burden is shared by all the partners at their personal rate, and the general partners have unlimited liability. Limited partners have limited liability.

Principal: The currently unpaid balance of a loan, not including interest owed. Also can refer to a primary owner or investor.

Profit: Compensation an entrepreneur receives for the assumption of risk in a business venture. Also called net income.

Profit and loss statement: Summary of the revenues, costs, and expenses for a business over a period of time. Also called the income statement.

Pro forma financial statements: Financial statements for a business where certain amounts shown are hypothetical, or estimated, for the period depicted.

Quick ratio: Liquidity ratio that focuses on the firm's most liquid assets by excluding inventory. Also known as the acid test ratio. Cash, marketable securities, and accounts receivable divided by current liabilities.

Retained earnings: Net profits kept to accumulate in a business after dividends are paid.

Seasonal loan: A loan made for the purpose of meeting predictable and periodic funding needs, such as funding of camping gear inventory before summer purchases.

Team Assignment – Financial Analysis Retail Apparel Companies

Company: _____

Team: _____

This assignment provides practice for the company financial analysis. It involves 2 sessions) In groups and choose one of the following companies: The Gap, Abercrombie and Fitch, Limited, American Eagle Outfitters, Urban Outfitters, Aeropostale. See the attached financial statements and other information.

Ensure that everyone understands the financial statements. Everyone should be able to calculate the accounting equation or $\text{Assets} = \text{Liabilities plus equity}$. Find the numbers on the balance and sheet and show that they balance.

Ensure that everyone in the team knows how to do the following calculations and can analyze and compare the company based on the calculations. The results will be posted on the board and each team will be asked to determine the best company.

Calculate year-to-year growth in total revenues for the past three years (2 growth rates in percent).

Calculate year-to-year growth in total net income for the past three years (2 growth rates in percent).

Provide the market value of the company (stock price multiplied by shares outstanding)

Provide the price to earnings ratio (stock price divided by earnings per share)

Provide the return on sales or net profit margin (Net income divided by revenue or sales).

Provide the return on equity (Net income divided by Total equity)

Provide the total liabilities to equity (Total liabilities divided by total equity)

Limited Stock price \$26.13

| All numbers in thousand dollars | 31-Jan-10 | 31-Jan-09 | 2-Feb-08 | | 31-Jan-10 | 31-Jan-09 | 2-Feb-08 |
|---|------------------|------------------|------------------|--------------------------------------|------------------|------------------|------------------|
| Total Revenue | 8,632,000 | 9,043,000 | 10,134,000 | Assets | | | |
| Cost of Revenue | 5,604,000 | 6,037,000 | 6,592,000 | Current Assets | | | |
| Gross Profit | 3,028,000 | 3,006,000 | 3,542,000 | Cash And Cash Equivalents | 1,804,000 | 1,173,000 | 1,018,000 |
| Operating Expenses | | | | Net Receivables | 249,000 | 313,000 | 355,000 |
| Research Development | - | - | - | Inventory | 1,037,000 | 1,182,000 | 1,251,000 |
| Selling General and Administrative | 2,166,000 | 2,311,000 | 2,662,000 | Other Current Assets | 160,000 | 199,000 | 295,000 |
| Non Recurring | 3,000 | 215,000 | -230,000 | Total Current Assets | 3,250,000 | 2,867,000 | 2,919,000 |
| Others | - | - | - | Long Term Investments | - | - | - |
| | | | | Property Plant and Equipment | 1,723,000 | 1,929,000 | 1,862,000 |
| Total Operating Expenses | - | - | - | Goodwill | 1,442,000 | 1,426,000 | 1,733,000 |
| Operating Income or Loss | 868,000 | 589,000 | 1,110,000 | Intangible Assets | 594,000 | 580,000 | 677,000 |
| Income from Continuing Operations | | | | Accumulated Amortization | - | - | - |
| Total Other Income/Expenses Net | 19,000 | 41,000 | 146,000 | Other Assets | 164,000 | 170,000 | 246,000 |
| Earnings Before Interest And Taxes | 887,000 | 630,000 | 1,278,000 | Deferred Long Term Asset Charges | - | - | - |
| Interest Expense | 237,000 | 181,000 | 149,000 | Total Assets | 7,173,000 | 6,972,000 | 7,437,000 |
| Income Before Tax | 650,000 | 449,000 | 1,129,000 | Liabilities | | | |
| Income Tax Expense | 202,000 | 233,000 | 411,000 | Current Liabilities | | | |
| Minority Interest | - | 4,000 | 22,000 | Accounts Payable | 1,322,000 | 1,255,000 | 1,374,000 |
| | | | | Total Current Liabilities | 1,322,000 | 1,255,000 | 1,374,000 |
| Net Income From Continuing Ops | 457,000 | 329,000 | 718,000 | Long Term Debt | 2,723,000 | 2,897,000 | 2,905,000 |
| Non-recurring Events | | | | Other Liabilities | 731,000 | 732,000 | 709,000 |
| Discontinued Operations | - | - | - | Deferred Long Term Liability Charges | 213,000 | 213,000 | 175,000 |
| Extraordinary Items | - | - | - | Minority Interest | 1,000 | 1,000 | 55,000 |
| Effect Of Accounting Changes | - | - | - | Total Liabilities | 4,990,000 | 5,098,000 | 5,218,000 |
| Other Items | - | - | - | Stockholders' Equity | | | |
| Net Income | 448,000 | 220,000 | 718,000 | Common Stock | 161,000 | 262,000 | 262,000 |
| Preferred Stock And Other Adjustments | - | - | - | Retained Earnings | 2,037,000 | 4,777,000 | 4,758,000 |
| Net Income Applicable To Common Shares | \$448,000 | \$220,000 | \$718,000 | Treasury Stock | - | -4,681,000 | -4,382,000 |
| | | | | Capital Surplus | - | 1,544,000 | 1,550,000 |
| 325 million shares outstanding | | | | Other Stockholder Equity | -15,000 | -28,000 | 31,000 |
| EPS \$ 1.69 | | | | Total Stockholder Equity | 2,183,000 | 1,874,000 | 2,219,000 |

Abercrombie and Fitch – Stock price \$39

| All numbers in thousand dollars | 30-Jan-10 | 31-Jan-09 | 2-Feb-08 | Period Ending | 1-May-10 | 30-Jan-10 | 31-Oct-09 | 1-Aug-09 |
|---|-----------|-----------|-----------|--------------------------------------|-----------|-----------|-----------|-----------|
| Total Revenue | 2,928,626 | 3,484,058 | 3,749,847 | Assets | | | | |
| Cost of Revenue | 1,045,028 | 1,152,963 | 1,238,480 | Current Assets | | | | |
| Gross Profit | 1,883,598 | 2,331,095 | 2,511,367 | Cash And Cash Equivalents | 600,452 | 680,113 | 466,887 | 366,484 |
| Operating Expenses | | | | Short Term Investments | 32,356 | 32,356 | 55,985 | 59,698 |
| Research Development | - | - | - | Net Receivables | 148,956 | 135,435 | 156,028 | 117,815 |
| Selling General and Administrative | 1,765,686 | 1,832,833 | 1,770,870 | Inventory | 316,447 | 310,645 | 347,180 | 325,596 |
| Non Recurring | - | -8,864 | - | Other Current Assets | 86,825 | 77,297 | 108,624 | 111,631 |
| Others | - | - | - | Total Current Assets | 1,185,036 | 1,235,846 | 1,134,704 | 981,224 |
| Total Operating Expenses | - | - | - | Long Term Investments | 140,260 | 141,794 | 130,250 | 143,731 |
| Operating Income or Loss | 117,912 | 498,262 | 740,497 | Property Plant and Equipment | 1,209,345 | 1,244,019 | 1,318,864 | 1,344,175 |
| Income from Continuing Operations | | | | Other Assets | 203,955 | 200,207 | 180,526 | 170,028 |
| Total Other Income/Expenses Net | 1,598 | 11,382 | 18,828 | Total Assets | 2,738,596 | 2,821,866 | 2,764,344 | 2,639,158 |
| Earnings Before Interest And Taxes | 119,510 | 509,644 | 759,325 | Liabilities | | | | |
| Interest Expense | - | - | - | Current Liabilities | | | | |
| Income Before Tax | 119,510 | 509,644 | 759,325 | Accounts Payable | 334,491 | 365,853 | 384,404 | 349,058 |
| Income Tax Expense | 40,557 | 201,475 | 283,628 | Other Current Liabilities | 81,302 | 83,519 | 87,609 | 92,050 |
| Minority Interest | - | - | - | Total Current Liabilities | 415,793 | 449,372 | 472,013 | 441,108 |
| Net Income From Continuing Ops | 78,953 | 308,169 | 475,697 | Long Term Debt | 70,603 | 71,213 | 50,582 | 36,730 |
| Non-recurring Events | | | | Other Liabilities | 203,712 | 214,170 | 226,262 | 207,040 |
| Discontinued Operations | -78,699 | -35,914 | - | Deferred Long Term Liability Charges | 247,935 | 259,194 | 237,111 | 213,022 |
| Extraordinary Items | - | - | - | Minority Interest | - | - | - | - |
| Effect Of Accounting Changes | - | - | - | Negative Goodwill | - | - | - | - |
| Other Items | - | - | - | Total Liabilities | 938,043 | 993,949 | 985,968 | 897,900 |
| Net Income | 254 | 272,255 | 475,697 | Stockholders' Equity | | | | |
| Preferred Stock And Other Adjustments | - | - | - | Common Stock | 1,033 | 1,033 | 1,033 | 1,033 |
| Net Income Applicable To Common Shares | \$254 | \$272,255 | \$475,697 | Retained Earnings | 2,156,462 | 2,183,690 | 2,151,626 | 2,128,236 |
| 88.2 million shares outstanding | | | | Treasury Stock | -677,526 | -687,286 | -688,307 | -690,878 |
| EPS \$0.54 | | | | Capital Surplus | 333,288 | 339,453 | 330,092 | 324,801 |
| | | | | Other Stockholder Equity | -12,704 | -8,973 | -16,068 | -21,934 |
| | | | | Total Stockholder Equity | 1,800,553 | 1,827,917 | 1,778,376 | 1,741,258 |

Urban Outfitters Stock Price \$33.11

| All numbers in thousand dollars | 31-Jan-10 | 31-Jan-09 | 31-Jan-08 | Period Ending | 31-Jan-10 | 31-Jan-09 | 31-Jan-08 |
|---|-----------|-----------|-----------|--------------------------------------|-----------|-----------|-----------|
| Total Revenue | 1,937,815 | 1,834,618 | 1,507,724 | Assets | | | |
| Cost of Revenue | 1,151,670 | 1,121,140 | 930,952 | Current Assets | | | |
| Gross Profit | 786,145 | 713,478 | 576,772 | Cash And Cash Equivalents | 159,024 | 316,035 | 105,271 |
| Operating Expenses | | | | Short Term Investments | 342,512 | 49,948 | 80,127 |
| Research Development | - | - | - | Net Receivables | 50,682 | 42,309 | 30,049 |
| Selling General and Administrative | 447,161 | 414,043 | 351,827 | Inventory | 186,130 | 169,698 | 171,925 |
| Non Recurring | - | - | - | Other Current Assets | 67,865 | 46,412 | 46,238 |
| Others | - | - | - | Total Current Assets | 806,213 | 624,402 | 433,610 |
| Total Operating Expenses | - | - | - | Long Term Investments | 243,445 | 155,226 | 188,252 |
| Operating Income or Loss | 338,984 | 299,435 | 224,945 | Property Plant and Equipment | 539,961 | 505,407 | 488,889 |
| Income from Continuing Operations | | | | Deferred Long Term Asset Charges | 46,474 | 43,974 | 32,040 |
| Total Other Income/Expenses Net | 5,422 | 10,055 | 9,450 | Total Assets | 1,636,093 | 1,329,009 | 1,142,791 |
| Earnings Before Interest And Taxes | 344,406 | 309,490 | 234,395 | Liabilities | | | |
| Interest Expense | - | - | - | Current Liabilities | | | |
| Income Before Tax | 344,406 | 309,490 | 234,395 | Accounts Payable | 188,549 | 141,150 | 120,053 |
| Income Tax Expense | 124,513 | 110,126 | 74,164 | Short/Current Long Term Debt | - | - | - |
| Minority Interest | - | - | - | Other Current Liabilities | - | 44,410 | 47,325 |
| Net Income From Continuing Ops | 219,893 | 199,364 | 160,231 | Total Current Liabilities | 188,549 | 141,150 | 167,378 |
| Non-recurring Events | | | | Long Term Debt | - | - | - |
| Discontinued Operations | - | - | - | Other Liabilities | - | - | - |
| Extraordinary Items | - | - | - | Deferred Long Term Liability Charges | 150,769 | 134,084 | 121,982 |
| Effect Of Accounting Changes | - | - | - | Minority Interest | - | - | - |
| Other Items | - | - | - | Negative Goodwill | - | - | - |
| Net Income | 219,893 | 199,364 | 160,231 | Total Liabilities | 339,318 | 275,234 | 289,360 |
| Preferred Stock And Other Adjustments | - | - | - | Stockholders' Equity | | | |
| Net Income Applicable To Common Shares | \$219,893 | \$199,364 | \$160,231 | Misc Stocks Options Warrants | - | - | - |
| Shares outstanding: 169 million | | | | Redeemable Preferred Stock | - | - | - |
| EPS: \$1.41 | | | | Preferred Stock | - | - | - |
| | | | | Common Stock | 17 | 17 | 17 |
| | | | | Retained Earnings | 1,121,232 | 901,339 | 701,975 |
| | | | | Treasury Stock | - | - | - |
| | | | | Capital Surplus | 184,620 | 170,166 | 144,204 |
| | | | | Other Stockholder Equity | -9,094 | -17,747 | 7,235 |
| | | | | Total Stockholder Equity | 1,296,775 | 1,053,775 | 853,431 |

Aeropostale Stock Price \$24.86

| All numbers in thousand dollars | 30-Jan-10 | 31-Jan-09 | 2-Feb-08 | Period Ending | 30-Jan-10 | 31-Jan-09 | 2-Feb-08 |
|---|-----------|-----------|-----------|--------------------------------------|-----------|-----------|----------|
| Total Revenue | 2,230,105 | 1,885,531 | 1,590,883 | Assets | | | |
| Cost of Revenue | 1,382,958 | 1,231,349 | 1,037,680 | Current Assets | | | |
| Gross Profit | 847,147 | 654,182 | 553,203 | Cash And Cash Equivalents | 346,976 | 228,530 | 111,927 |
| Operating Expenses | | | | Short Term Investments | - | - | - |
| Research Development | - | - | - | Net Receivables | 21,683 | 10,745 | - |
| Selling General and Administrative | 464,462 | 405,883 | 345,805 | Inventory | 132,915 | 126,360 | 136,488 |
| Non Recurring | - | - | 9,023 | Other Current Assets | 28,443 | 28,246 | 36,272 |
| Others | - | - | - | Total Current Assets | 530,017 | 393,881 | 284,687 |
| | | | | Long Term Investments | - | - | - |
| Total Operating Expenses | - | - | - | Property Plant and Equipment | 251,558 | 248,999 | 213,831 |
| Operating Income or Loss | 382,685 | 248,299 | 198,375 | Other Assets | 4,351 | 2,530 | 2,578 |
| Income from Continuing Operations | | | | Deferred Long Term Asset Charges | 6,383 | 12,509 | 13,073 |
| Total Other Income/Expenses Net | 121 | 510 | 10,628 | Total Assets | 792,309 | 657,919 | 514,169 |
| Earnings Before Interest And Taxes | 382,806 | 248,809 | 209,003 | Liabilities | | | |
| Interest Expense | - | - | - | Current Liabilities | | | |
| Income Before Tax | 382,806 | 248,809 | 209,003 | Accounts Payable | 241,840 | 175,437 | 194,086 |
| Income Tax Expense | 153,349 | 99,387 | 79,806 | Short/Current Long Term Debt | - | - | - |
| Minority Interest | - | - | - | Other Current Liabilities | - | - | 3,301 |
| | | | | Total Current Liabilities | 241,840 | 175,437 | 197,387 |
| Net Income From Continuing Ops | 229,457 | 149,422 | 129,197 | Long Term Debt | - | - | - |
| Non-recurring Events | | | | Other Liabilities | 88,421 | 101,403 | 22,618 |
| Discontinued Operations | - | - | - | Deferred Long Term Liability Charges | 27,559 | 26,019 | 96,888 |
| Other Items | - | - | - | Total Liabilities | 357,820 | 302,859 | 316,893 |
| Net Income | 229,457 | 149,422 | 129,197 | Stockholders' Equity | | | |
| Preferred Stock And Other Adjustments | - | - | - | Common Stock | 1,371 | 1,358 | 899 |
| Net Income Applicable To Common Shares | \$229,457 | \$149,422 | \$129,197 | Retained Earnings | 922,790 | 693,333 | 543,911 |
| | | | | Treasury Stock | -654,494 | -476,131 | -466,936 |
| Shares outstanding 93.52 million | | | | Capital Surplus | 171,815 | 145,498 | 124,052 |
| EPS \$2.45 | | | | Other Stockholder Equity | -6,993 | -8,998 | -4,650 |
| | | | | Total Stockholder Equity | 434,489 | 355,060 | 197,276 |

The Gap Stock Price \$18.28

| Period Ending | 30-Jan-10 | 31-Jan-09 | 2-Feb-08 | Period Ending | 30-Jan-10 | 31-Jan-09 | 2-Feb-08 |
|---|--------------------|------------------|------------------|---|------------------|------------------|------------------|
| Total Revenue | 14,197,000 | 14,526,000 | 15,763,000 | Assets | | | |
| Cost of Revenue | 8,473,000 | 9,079,000 | 10,071,000 | Current Assets | | | |
| Gross Profit | 5,724,000 | 5,447,000 | 5,692,000 | Cash And Cash Equivalents | 2,366,000 | 1,756,000 | 961,000 |
| Operating Expenses | | | | Short Term Investments | 225,000 | - | 978,000 |
| Research Development | - | - | - | Net Receivables | - | - | - |
| Selling General and Administrative | 3,909,000 | 3,899,000 | 4,377,000 | Inventory | 1,477,000 | 1,506,000 | 1,575,000 |
| Non Recurring | - | - | - | Other Current Assets | 596,000 | 743,000 | 572,000 |
| Others | - | - | - | Total Current Assets | 4,664,000 | 4,005,000 | 4,086,000 |
| Total Operating Expenses | - | - | - | Long Term Investments | - | - | - |
| Operating Income or Loss | 1,815,000 | 1,548,000 | 1,315,000 | Property Plant and Equipment | 2,628,000 | 2,933,000 | 3,267,000 |
| Income from Continuing Operations | | | | Goodwill | - | 99,000 | - |
| Total Other Income/Expenses Net | 7,000 | 37,000 | 117,000 | Intangible Assets | - | 98,000 | 37,000 |
| Earnings Before Interest And Taxes | 1,822,000 | 1,585,000 | 1,432,000 | Accumulated Amortization | - | - | - |
| Interest Expense | 6,000 | 1,000 | 26,000 | Other Assets | 693,000 | 626,000 | 448,000 |
| Income Before Tax | 1,816,000 | 1,584,000 | 1,406,000 | Deferred Long Term Asset Charges | - | 18,000 | - |
| Income Tax Expense | 714,000 | 617,000 | 539,000 | Total Assets | 7,985,000 | 7,564,000 | 7,838,000 |
| Minority Interest | - | - | - | Liabilities | | | |
| Net Income From Continuing Ops | 1,102,000 | 967,000 | 867,000 | Current Liabilities | | | |
| Non-recurring Events | | | | Accounts Payable | 2,131,000 | 2,108,000 | 1,484,000 |
| Discontinued Operations | - | - | -34,000 | Short/Current Long Term Debt | - | 50,000 | 138,000 |
| Extraordinary Items | - | - | - | Other Current Liabilities | - | 654,000 | 811,000 |
| Effect Of Accounting Changes | - | - | - | Total Current Liabilities | 2,131,000 | 2,158,000 | 2,433,000 |
| Other Items | - | - | - | Long Term Debt | - | 11,000 | 50,000 |
| Net Income | 1,102,000 | 967,000 | 833,000 | Other Liabilities | 963,000 | 1,019,000 | 249,000 |
| Preferred Stock And Other Adjustments | - | - | - | Deferred Long Term Liability Charges | - | 790,000 | 832,000 |
| Net Income Applicable To Common Shares | \$1,102,000 | \$967,000 | \$833,000 | Minority Interest | - | - | - |
| Shares outstanding 650.59 million | | | | Negative Goodwill | - | - | - |
| EPS: \$1.71 | | | | Total Liabilities | 3,094,000 | 3,177,000 | 3,564,000 |
| | | | | Stockholders' Equity | | | |
| | | | | Common Stock | 55,000 | 55,000 | 55,000 |
| | | | | Retained Earnings | 10,815,000 | 9,947,000 | 9,223,000 |
| | | | | Treasury Stock | -9,069,000 | -8,633,000 | -7,912,000 |
| | | | | Capital Surplus | 2,935,000 | 2,895,000 | 2,783,000 |
| | | | | Other Stockholder Equity | 155,000 | 123,000 | 125,000 |
| | | | | Total Stockholder Equity | 4,891,000 | 4,387,000 | 4,274,000 |

American Eagle Outfitters Stock Price \$12.46

| Period Ending | 30-Jan-10 | 31-Jan-09 | 2-Feb-08 | Period Ending | 30-Jan-10 | 31-Jan-09 | 2-Feb-08 |
|---|------------------|------------------|------------------|--------------------------------------|------------------|------------------|------------------|
| Total Revenue | 2,990,520 | 2,988,866 | 3,055,419 | Assets | | | |
| Cost of Revenue | 1,832,471 | 1,814,765 | 1,632,281 | Current Assets | | | |
| Gross Profit | 1,158,049 | 1,174,101 | 1,423,138 | Cash And Cash Equivalents | 693,960 | 473,342 | 116,061 |
| Operating Expenses | | | | Short Term Investments | 4,675 | 10,511 | 503,878 |
| Research Development | - | - | - | Net Receivables | 94,902 | 86,918 | 78,924 |
| Selling General and Administrative | 756,256 | 734,029 | 715,180 | Inventory | 326,454 | 294,928 | 286,485 |
| Non Recurring | 17,992 | 6,713 | - | Other Current Assets | 47,039 | 59,660 | 35,486 |
| Others | 145,408 | 131,219 | 109,203 | Total Current Assets | 1,167,030 | 925,359 | 1,020,834 |
| Total Operating Expenses | - | - | - | Long Term Investments | 197,773 | 251,007 | 165,810 |
| Operating Income or Loss | 238,393 | 302,140 | 598,755 | Property Plant and Equipment | 713,142 | 740,240 | 625,568 |
| Income from Continuing Operations | | | | Goodwill | 11,210 | 10,706 | 11,479 |
| Total Other Income/Expenses Net | -5,062 | 17,790 | 37,626 | Intangible Assets | - | - | - |
| Earnings Before Interest & Taxes | 232,391 | 297,041 | 636,381 | Accumulated Amortization | - | - | - |
| Interest Expense | - | - | - | Other Assets | 21,688 | 21,363 | 19,751 |
| Income Before Tax | 232,391 | 297,041 | 636,381 | Deferred Long Term Asset Charges | 27,305 | 15,001 | 24,238 |
| Income Tax Expense | 63,369 | 117,980 | 236,362 | Total Assets | 2,138,148 | 1,963,676 | 1,867,680 |
| Minority Interest | - | - | - | Liabilities | | | |
| Net Income From Continuing Ops | 169,022 | 179,061 | 400,019 | Current Liabilities | | | |
| Non-recurring Events | | | | Accounts Payable | 303,121 | 252,439 | 292,386 |
| Discontinued Operations | - | - | - | Short/Current Long Term Debt | 30,000 | 75,000 | - |
| Extraordinary Items | - | - | - | Other Current Liabilities | 75,834 | 74,324 | 83,792 |
| Effect Of Accounting Changes | - | - | - | Total Current Liabilities | 408,955 | 401,763 | 376,178 |
| Other Items | - | - | - | Long Term Debt | - | - | - |
| Net Income | 169,022 | 179,061 | 400,019 | Other Liabilities | 61,085 | 64,568 | 80,683 |
| Preferred Stock And Other Adjustments | - | - | - | Deferred Long Term Liability Charges | 89,591 | 88,314 | 70,355 |
| Net Income Applicable To Common Shares | \$169,022 | \$179,061 | \$400,019 | Total Liabilities | 559,631 | 554,645 | 527,216 |
| Shares outstanding 205.4 million | | | | Stockholders' Equity | | | |
| EPS \$0.75 | | | | Common Stock | 2,486 | 2,485 | 2,481 |
| | | | | Retained Earnings | 1,764,049 | 1,694,161 | 1,601,784 |
| | | | | Treasury Stock | -759,255 | -786,800 | -792,681 |

| | | | | |
|--|--------------------------|-----------|-----------|-----------|
| | Capital Surplus | 554,399 | 513,574 | 493,395 |
| | Other Stockholder Equity | 16,838 | -14,389 | 35,485 |
| | Total Stockholder Equity | 1,578,517 | 1,409,031 | 1,340,464 |

Individual Assignment – Credit Analysis

Individual Name: _____

A sample individual credit report appears below. Analyze the credit report using the 5 C's. How does each element relate to the 5 C's? What kind of credit rating would the individual get?

Credit Report – Jane Doe
 Also known as Jane Smith
 Jane Doe
 1234 Main St.
 Belletown, WA

Current employer:
 ABC Hotels
 9876 Broadway
 Kirktown, WA
 Position: Concierge Verified 01/11 Hired 3/05

Special Messages
 ID mismatch alert – multiple SSNs on file
 High risk fraud alert

Credit Summary

| | High | Credit Limit | Balance | Past Due | Monthly Payment | Available |
|-------------|----------|--------------|----------|----------|-----------------|-----------|
| Revolving | \$10.1K | \$17.2K | \$5.3K | | \$225 | 70% |
| Installment | \$16.9K | | \$12.9K | \$1128 | \$282 | |
| Mortgage | \$232.5K | | \$173.5K | | \$1470 | |
| Totals | \$259.5K | \$17.2K | \$191.4K | \$1128 | \$1977 | |

Public Records
 Chapter 7 Bankruptcy, Los Angeles, CA 10/06
 Paid civil judgment \$3128 6/07

Collections
 Advanced collection 5/05 \$2500 ABC Bank
 1234 10/09 \$1000

Trades

| Account Type | Opened Verified | High Credit Limit Balance | Terms PastDue | MaxDeliq Amount |
|--------------------------|-----------------|-----------------------------|------------------|-----------------|
| ABC Bank Automobile | 8/02 5/10 | \$16.9K \$12.9K | 60M282 \$1128 | 2/06 \$1410 |
| ABC Retailer Credit Card | 12/01 5/10 | \$9.6K \$15.7K \$5.2K | Min200 | |
| ABC Mortgage | 11/02 5/10 | \$232.5K \$173.2K | 360M1470 | |
| ABC Bankcard Credit Card | 12/03 5/10 | \$500 \$1500 \$150 | Min 25 | |

Inquiries
 ABC Department Store
 Main St Auto

Consumer Statement
 This consumer has been a victim of fraud. Call Consumer directly before issuing credit.

Individual Assignment – Time value of money

Name: _____

The best way to understand the time value of money is to apply it to your own personal financial situation. Complete the following exercise to determine what you need for retirement.

| | |
|--|--|
| What age do you want to retire? | |
| What lifestyle do you want at retirement? What will this lifestyle cost? | |
| What will your health care costs be when you retire? | |
| Total the two | |
| What will you need in your retirement account? (Choose a lifestyle (e.g. \$50,000) and divide the number above by 4%) | |
| Determine how much you will have to save each year to reach your retirement goal using the calculator: http://www.bankrate.com/brm/calculators/retirement/401k_retirement_calculator.asp Copy the results into your paper. (Click on report) | |

Reflect on what you have to do to achieve your retirement goal. Will you have to reduce your expectations of the lifestyle? Will you have to increase your contributions to retirement?

What action will you take to make it happen?

Future Value per \$1000 Investment Now

| Return | Number of Years | | | | | | | | |
|------------|-----------------|---------|---------|----------|----------|----------|-----------|-----------|-----------|
| | 5 | 10 | 15 | 20 | 25 | 30 | 35 | 40 | 45 |
| 2% | \$1,104 | \$1,219 | \$1,346 | \$1,486 | \$1,641 | \$1,811 | \$2,000 | \$2,208 | \$2,438 |
| 3% | \$1,159 | \$1,344 | \$1,558 | \$1,806 | \$2,094 | \$2,427 | \$2,814 | \$3,262 | \$3,782 |
| 4% | \$1,217 | \$1,480 | \$1,801 | \$2,191 | \$2,666 | \$3,243 | \$3,946 | \$4,801 | \$5,841 |
| 5% | \$1,276 | \$1,629 | \$2,079 | \$2,653 | \$3,386 | \$4,322 | \$5,516 | \$7,040 | \$8,985 |
| 6% | \$1,338 | \$1,791 | \$2,397 | \$3,207 | \$4,292 | \$5,743 | \$7,686 | \$10,286 | \$13,765 |
| 7% | \$1,403 | \$1,967 | \$2,759 | \$3,870 | \$5,427 | \$7,612 | \$10,677 | \$14,974 | \$21,002 |
| 8% | \$1,469 | \$2,159 | \$3,172 | \$4,661 | \$6,848 | \$10,063 | \$14,785 | \$21,725 | \$31,920 |
| 9% | \$1,539 | \$2,367 | \$3,642 | \$5,604 | \$8,623 | \$13,268 | \$20,414 | \$31,409 | \$48,327 |
| 10% | \$1,611 | \$2,594 | \$4,177 | \$6,727 | \$10,835 | \$17,449 | \$28,102 | \$45,259 | \$72,890 |
| 11% | \$1,685 | \$2,839 | \$4,785 | \$8,062 | \$13,585 | \$22,892 | \$38,575 | \$65,001 | \$109,530 |
| 12% | \$1,762 | \$3,106 | \$5,474 | \$9,646 | \$17,000 | \$29,960 | \$52,800 | \$93,051 | \$163,988 |
| 13% | \$1,842 | \$3,395 | \$6,254 | \$11,523 | \$21,231 | \$39,116 | \$72,069 | \$132,782 | \$244,641 |
| 14% | \$1,925 | \$3,707 | \$7,138 | \$13,743 | \$26,462 | \$50,950 | \$98,100 | \$188,884 | \$363,679 |
| 15% | \$2,011 | \$4,046 | \$8,137 | \$16,367 | \$32,919 | \$66,212 | \$133,176 | \$267,864 | \$538,769 |

Savings per year to get \$100,000 in the future

| Return | Number of Years | | | | | | | | |
|--------|-----------------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 5 | 10 | 15 | 20 | 25 | 30 | 35 | 40 | 45 |
| 3% | \$18,835 | \$8,723 | \$5,377 | \$3,722 | \$2,743 | \$2,102 | \$1,654 | \$1,326 | \$1,079 |
| 4% | \$18,463 | \$8,329 | \$4,994 | \$3,358 | \$2,401 | \$1,783 | \$1,358 | \$1,052 | \$826 |
| 5% | \$18,097 | \$7,950 | \$4,634 | \$3,024 | \$2,095 | \$1,505 | \$1,107 | \$828 | \$626 |
| 6% | \$17,740 | \$7,587 | \$4,296 | \$2,718 | \$1,823 | \$1,265 | \$897 | \$646 | \$470 |
| 7% | \$17,389 | \$7,238 | \$3,979 | \$2,439 | \$1,581 | \$1,059 | \$723 | \$501 | \$350 |
| 8% | \$17,046 | \$6,903 | \$3,683 | \$2,185 | \$1,368 | \$883 | \$580 | \$386 | \$259 |
| 9% | \$16,709 | \$6,582 | \$3,406 | \$1,955 | \$1,181 | \$734 | \$464 | \$296 | \$190 |
| 10% | \$16,380 | \$6,275 | \$3,147 | \$1,746 | \$1,017 | \$608 | \$369 | \$226 | \$139 |
| 11% | \$16,057 | \$5,980 | \$2,907 | \$1,558 | \$874 | \$502 | \$293 | \$172 | \$101 |
| 12% | \$15,741 | \$5,698 | \$2,682 | \$1,388 | \$750 | \$414 | \$232 | \$130 | \$74 |
| 13% | \$15,431 | \$5,429 | \$2,474 | \$1,235 | \$643 | \$341 | \$183 | \$99 | \$53 |
| 14% | \$15,128 | \$5,171 | \$2,281 | \$1,099 | \$550 | \$280 | \$144 | \$75 | \$39 |
| 15% | \$14,832 | \$4,925 | \$2,102 | \$976 | \$470 | \$230 | \$113 | \$56 | \$28 |

Team Assignment – Bank Financial Crisis – The Role of the Federal Reserve

View the timeline and video Inside the Meltdown: <http://www.pbs.org/wgbh/pages/frontline/meltdown/>.
Transcript: <http://www.pbs.org/wgbh/pages/frontline/meltdown/etc/script.html>

It provides a chronology of the events around the financial meltdown at the end of 2008.
Individual team members should summarize the following:

What caused the financial meltdown? What was the role of the Federal Reserve in this event? What was the Federal Reserve trying to accomplish?

Teams may conduct further research to determine whether the Federal Reserve was successful.

Poster session to the class.

Module 4 - Questions for Timed Writes

(Note only 15 minutes allowed for each question.)

Be prepared to calculate the growth rates in companies. Two examples are given below. Calculate the year-to-year growth rate in revenues, profits and dividend **in percent** and analyze what is happening with the company. Don't forget that ratios calculated from negative numbers are meaningless.

| \$ Millions | 2010 | 2009 | 2008 | 2007 |
|-------------------|-----------|-----------|-----------|-----------|
| Revenues or Sales | 29,139.00 | 27,471.00 | 23,657.00 | 22,629.00 |
| Net Income | 345 | 273 | 227 | 147 |

Company B

| \$ Millions | 2010 | 2009 | 2008 | 2007 |
|-------------------|-----------|-----------|----------|----------|
| Revenues or Sales | 10,862.20 | 10,002.90 | 9,236.70 | 8,517.50 |
| Net Income | 283 | 250 | 191 | 35 |

Here are financial ratios for Kimberly Clark and Colgate. Compare the two companies on each financial ratio and explain why one is better than the other and why.

| | Kimberly Clark | Colgate |
|----------------------|----------------|---------|
| Price Earnings Ratio | 13.6 | 19.09 |
| Return on Equity | 38.64 | 81.32 |
| Debt to Equity | 1 | 1.27 |
| Net Margin | 10.17 | 13.67 |

Calculate the market value of a company.

Calculate what you will have if you put \$1000 in the bank at 3% for 5 years.

What is the time value of money? Give an example of the time value of money with a savings account.

What does an income statement tell you about a company?

What does a balance sheet tell you about a company?

Name and describe the 3 elements with the balance sheet.

What is the Federal Reserve System?

What is the FOMC?

How is the Federal Reserve organized?

Describe the four functions of the Federal Reserve.

What are the three goals of monetary policy?

Describe the tools of monetary policy. Give a recent example of how the Federal Reserve used monetary policy.

Give an example of how the Federal Reserve moderates inflation.

How do banks make a profit? Give an example.

Banking crises occurred in the 1980s and recent two years. Describe one of those two crises and what caused it.

What is equity and why would a company issue equity?

What is an IPO? Give an example of a company that would issue an IPO.

What are the 5 C's? Explain what and how they are used in a credit report.

Module 5 – Management, Leadership and Employees

Module 5 Goals

- Describe the key components of management and what they entail.
- Describe corporate mission, culture, and social responsibility. Identify and analyze these in a company.
- Describe the steps in the selection process and conduct a selection process.
- Create a benefits plan.
- Negotiate a union contract.

Management

This last module deals the management of a company. Management is usually broken up into the four areas noted in the figure below:



Planning: Setting strategic direction (long-range) and determining actions or programs to achieve the objectives. Planning will include defining the mission of the company, its goals and coming up with specific programs to achieve its goals. US companies are often criticized for having a short-term outlook because the financial markets reward quarterly financial results. It is up to the management of the company to determine a long-term perspective that will sustain the company.

Organizing: Creating a structure with which to achieve company goals forms the core of organizing. It includes corralling human capital (people) to achieve its goals by defining jobs, recruiting and assigning people to do them. It also involves providing ongoing training and development so that employees can achieve future goals of the company.

Leading: Leading refers to the management of the company. With large corporations where there are thousands of managers, the focus is on the top layer. These managers must communicate and motivate the organization to achieve its objectives.

Controlling: An axiom in business is that the business is only as good as what it measures. The process of measuring performance, comparing results to objectives and taking action to correct or improve is the last function of management.

Mission Statement

A corporate mission statement espouses the basic **beliefs, priorities, values and aspirations** of the company. It communicates to all the stakeholders **how the company sees itself and its competitive strengths**. It also communicates the **desired public image of the company**. Often the mission statement will articulate target customers and markets; products and services; geographical domains, core technologies and the company's commitment to profitability and growth. In general, when the company can clearly communicate and activate its mission to customers, employees, vendors and other stakeholders, it is more successful.

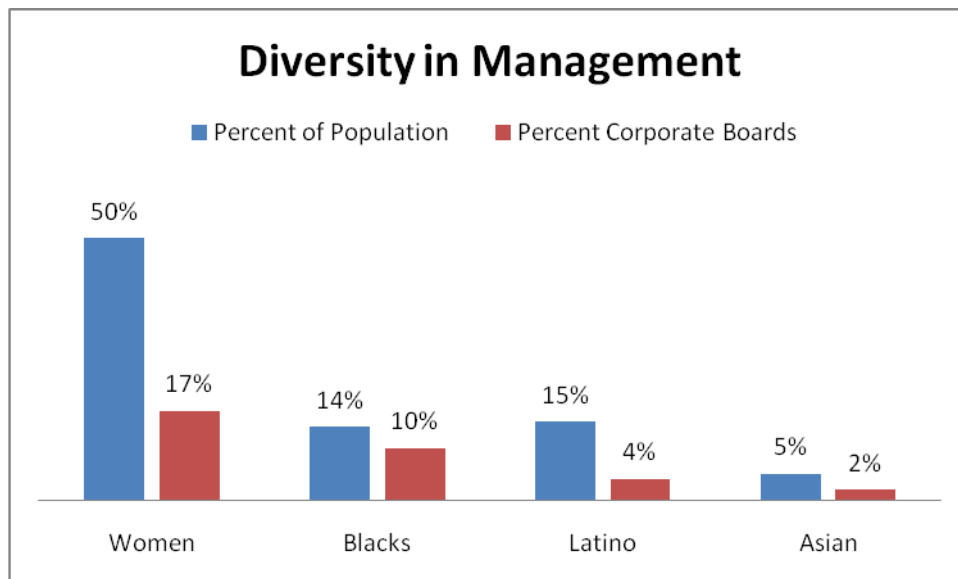
Corporate Culture

Corporate culture is described as the **character of the corporation**. Some business thinkers claim that corporate culture is best described as an iceberg. The visible tip is the what the corporation describes as its culture through its physical facilities, the way people dress, and its declared values. It is articulated in the stories that circulate the company, the rituals and symbols that are important, and the heroes that the company. For example, some high technology present their corporate headquarters as a campus similar to a university campus. They want employees to be innovative. Because good ideas can come from anywhere, they create communication systems where ideas can bubble up.

But it is at the deeper level that the true character exists. At some of these same companies, employees may be berated for bad presentations. Employees may be expected to work long hours and ostracized if they do not. Although innovation is touted, new ideas are swiftly discounted or the company is unable to capitalize on its innovations. The culture may be male dominated so women are not given the opportunity to excel.

The culture of a business is very important to individuals who work in the environment. If individuals fit with the culture, they will find it pleasant to go to work. They will feel that they fit in. If the individuals don't fit the culture, their working life can be unpleasant.

The inclusion of diversity in a company is part of its culture. In the past, white males dominated management of large companies. They continue to hold the majority of high-level positions, although studies have shown that diversity in the workforce and management leads to better performance.



Even within the workforce, there continues to be gender disparity in executive level positions while women are the larger proportion in lower-level jobs such as clerical jobs. Pay disparities also continue with women in the same position earning about 30% less than men. The disparity is higher for minorities in executive-level positions than for women. This barrier to management positions is referred to as the glass ceiling. An interesting article on the impact of this on women is available on the **New York Times**: http://www.nytimes.com/2010/08/04/business/economy/04leonhardt.html?_r=1&scp=2&sq=dave%20leonhardt&st=cse . The article cites that only 15 of the Fortune 500 CEOs are women and speculates the main reason for this is that women bear most of the burden for raising families.

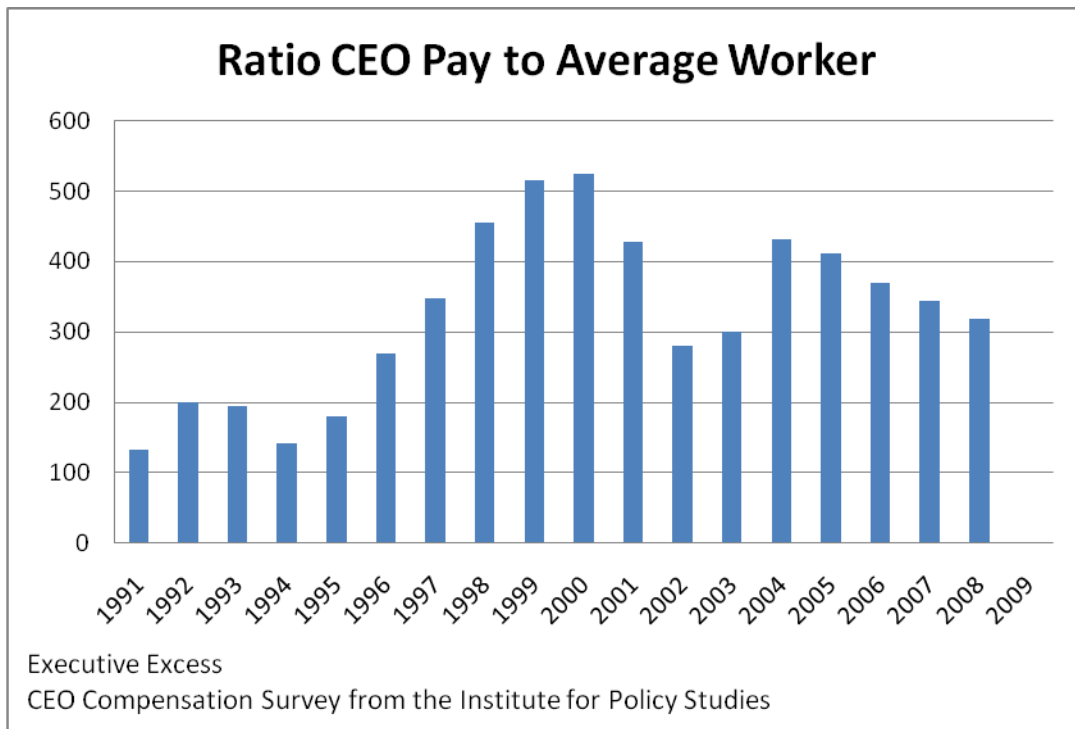
Top Management

Most large public companies have thousands of managers. The ones that are most relevant to company analysis are the most senior ones or those in the C suite with Chief as part of their title. Typically, the Chief Executive Officer (CEO) directs the fortunes of the company. It helps that the CEO has a good team that includes the Chief Operating Officer (COO) who leads the operations of a company, and Chief Financial Officer (CFO) who manages the finances. Also important in different companies are the Chief Marketing Officer and the Chief Information Officer, who manages the information systems. When looking at the long-term prospects of the company, a good CEO will assemble and maintain a top-notch management team and nurture leaders to take over.

Leaders in large corporations will manage organizations of hundreds of thousands of employees. They can employ different styles of leadership. Some CEOs attain power through their position, ability to reward, ability to coerce, expert power and charismatic power. Much has been written about the transformational leader, the leader who transforms the organization with his or her charisma and ability to communicate and motivate. However, recent research points to other factors as being key to business success. This includes attention to detail, persistence, efficiency, analytic thoroughness and the ability to work long hours. (<http://www.nytimes.com/2009/05/19/opinion/19brooks.html>). Charisma, good communication skills and motivational skills were found not to be correlated with success.

Of controversy recently is the compensation of CEOs. Many policy makers are concerned about the huge growth in executive compensation and the lack of relationship between performance and compensation. Examples were cited from the recent financial crisis where CEOs who led their companies into insolvency were given huge pay packages nonetheless. In general, the compensation of US CEOs has risen to over 300 times the typical salary of a worker. This is different from other countries where the disparity is not so great. Executive compensation is one of the measures of corporate social responsibility. It should be consistent with compensation in the industry and it should be tied to performance.

| Ratio of CEO pay to average worker pay | |
|---|-----|
| Japan | 11 |
| Germany | 12 |
| France | 15 |
| Italy | 20 |
| Canada | 20 |
| South Africa | 21 |
| Britain | 22 |
| Hong Kong | 41 |
| Mexico | 47 |
| Venezuela | 50 |
| United States | 475 |

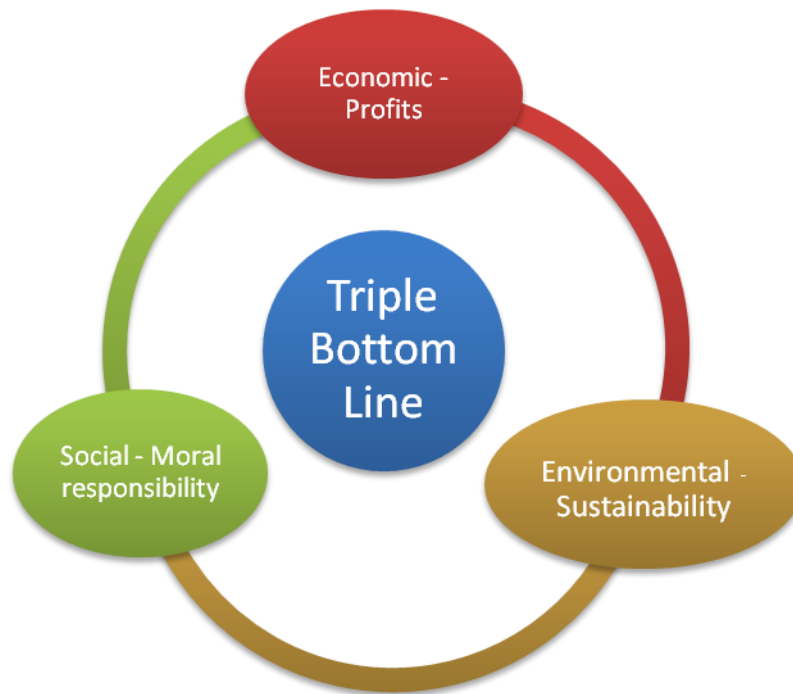


Corporate Social Responsibility

Corporate responsibility started out as the participation of corporations in charitable events. In some cases, the participation may have been self-serving to the corporation as it provided a venue for the company to advertise its products and services. A company's compliance to the spirit of laws and regulations was also an early mark of corporate social responsibility. This expanded to ethical considerations and the implementation of codes of ethics in companies. Archie Carroll identified the four criteria of social responsibility as:



Social responsibility has since evolved with more stakeholders demanding that corporations demonstrate their commitment to making the world a better place. In particular, there is reference to the triple bottom line where companies have a moral responsibility to not just do no harm but to better social conditions and protect the environment along with achieving its profit bottom line. Michael Porter in an article published in the Harvard Business Review (http://www.fsg-impact.org/ideas/item/strategy_and_society.html) argues that holding the triple bottom line as the goal of the corporation not only burnishes the reputation of the company but can be a source of competitive advantage.



Corporate responsibility actions include transparency in financial reporting, executive compensation, employee and management diversity, adhering to the spirit and not just the letter of laws and regulations, sustainability and diversity in purchasing, contribution to the arts, and more.

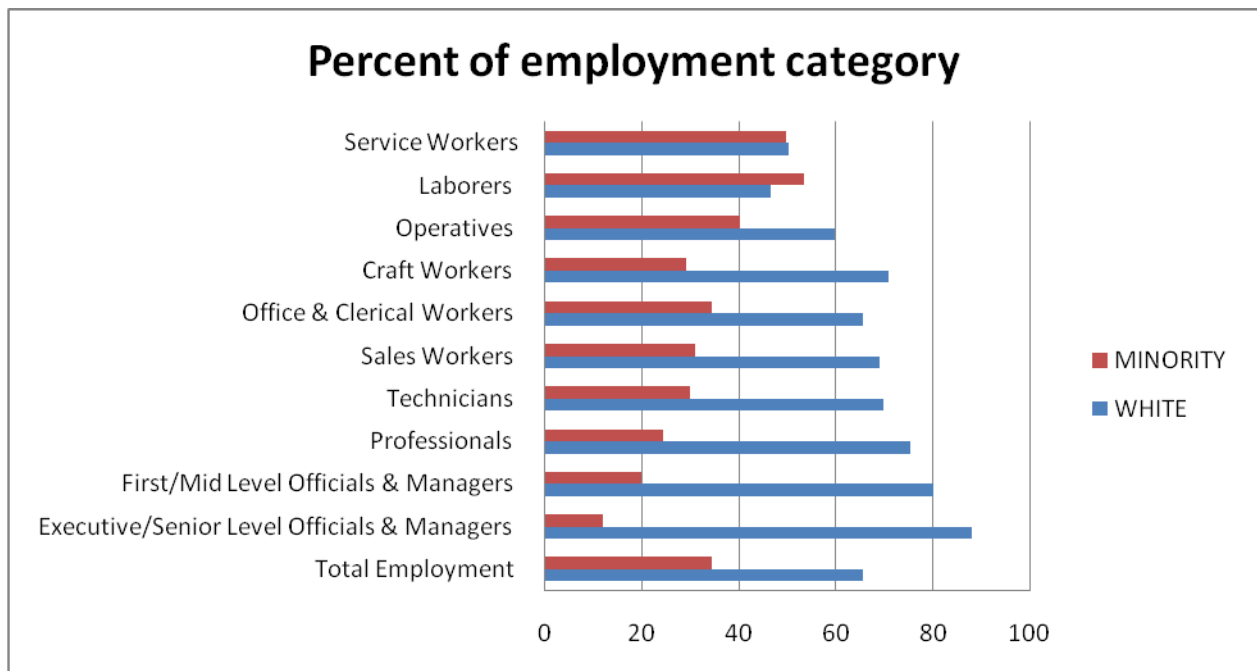
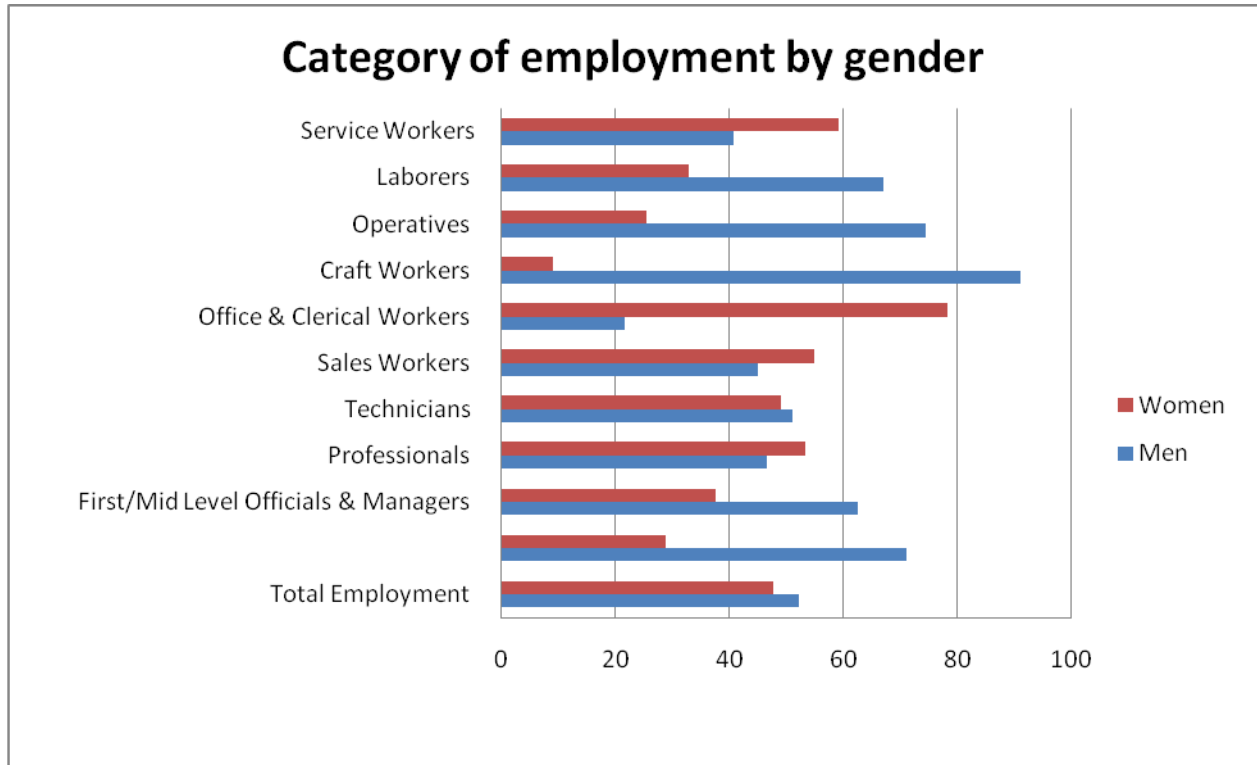
Human Resource Management

According to 2009 statistics of the Society of Human Resource Managers, 40% of the Millennial generation, or Gen Y—the generation currently entering the workforce—is non-white. As with multicultural markets, this shift is a sweeping demographic transformation which outranks any other issue facing business leaders. According to William Frey of the Brookings Institute, from 1980 to 2020, the white working-age population is projected to decline from 82 percent to 63 percent. During the same period, the minority portion of the workforce is projected to double from 18 percent to 37 percent, and the Hispanic portion is projected to almost triple from 6 percent to 17 percent. By 2042, the U.S. population will be more non-white than white, making it a majority minority population. The states of California, Texas, New Mexico, and Hawaii have already made the transformation.

Two factors drive this change. Younger Americans tend to be multicultural while older white workers are reaching retirement age. The aging of the Baby Boomers, who are beginning to enter retirement, and the influx of immigrants, mostly from Latin America and Asia, will generate a major shift in the labor force particularly with Hispanics.

Confounding this shift is the fact that just 39 percent of Hispanics in America in 2010 have a high school education and only 13 percent are college graduates, with dropout rates in the Hispanic population particularly high. If this continues, a less educated work force will be replacing the most highly educated generation in US history. This is happening at a time when the country is facing the growth of the knowledge-based economy which requires workers to have high levels of education. With developing countries such as China ramping up their university systems (there are 20 million Chinese college students as compared to 13 million in the US, almost 100,000 are studying in the US).

Larger corporations are embracing the demographic changes and see the need to have a more diverse workforce and the value that a diverse workforce will bring to them in terms of customers and suppliers. Corporate America has begun to adjust to labor force changes with an increased use of contingent workers, telecommuting, and workplace flexibility and diversity initiatives.



Recruiting and Retaining Talent

The selection process is crucial to recruiting and selecting good employees who will advance the goals of the company. It is all the more important as companies move to become more diverse. Studies have shown that people have a natural proclivity to hire people who are similar to them. In a company that values diversity and the benefits it brings to the company, it is important to cast as wide a net as possible to get a diverse candidate pool.

A company will conduct a job analysis to determine what tasks they want the employee to perform. A job description will be created which lists the duties and responsibilities of the employee. Job specifications or qualifications will be determined. These include minimum qualifications for education and experience and preferred qualifications of the candidates.

Many employers provide training for the job and they are looking for attributes that will be beneficial to the company. In the current environment, these include teamwork, ethical judgment, intercultural skills, responsibility, reasoning, oral communication, self-knowledge, adaptability, critical thinking, writing, self-direction, and global knowledge.

A salary range may or may not be given with the position description. Typical salaries for various types of positions can be found on http://www.bls.gov/oes/current/oes_nat.htm#b25-0000. Salaries for more specific job titles can be found on salary.org. All job candidate should be aware of the salary range as often employers will negotiate the salary.

Jobs may be posted internally such that only people within the company can apply or it may be advertised externally. It is important to note that some recruiters say that as much as 60% of jobs are found through networking. Therefore candidates should work hard to get to know as many people as possible. Recruiters or head hunters often use networking sites such as Linked-In to find suitable candidates. Be aware that recruiters also conduct searches on the internet to find any negative references to job candidates as well. This has become an integral part of the background check.

A good job will draw over 500 resumes. Given the heavy response to job openings, recruiters will spend very little time reading each resume. Often companies will do initial screen using computer software. One recruiter suggested that about 10 to 30 seconds is spent on a resume. If there are any mistakes or grammatical errors on the resume, that will result in elimination of the candidate. The candidates should take time and care in composing the resume such that it addresses the job description.

About 5 to 20 candidates may be called for an interview. Often the recruiters will screen with a telephone interview first. Other interviews may be a series of individual interviews or a panel interview where several people are present. It is advisable for candidates to rehearse before the interview. More sophisticated interviewers use situational questions. They will devise a question in which the candidate is asked to respond to a specific situation faced on the job. These questions are designed to draw out problem-solving skills, as well as how the candidate handles difficult situations. There are no correct answers. In some cases, there may not be an answer at all. The interviewer is just interested in how the candidate would think through the problem.

In responding to interview questions, candidates are advised to follow the Situation Action Result (SAR). Interviewers are interested in how candidates achieved. By bringing up specific examples from the past, the candidate shows that they have the experience to successfully deal with the situation. A situation may be a case where an irate customer comes into the store because the product was defective. The action would be specific actions that the candidate took to replace the product and calm the customer. The result would be that the customer purchased more products from the store and continued to ask for the candidate as a server. It is best that the candidate think of several SARs. These should be rehearsed and committed to memory such that they can be communicated clearly in an interview.

Other background and reference checks may be done. Candidates may have to undergo physical exams or other tests. Once the employer is satisfied, an offer will be made to the selected candidate. The candidate may go through an onboarding process where they are briefed on company policies in an orientation.

Employee Benefits Overview

Employee benefits are usually provided by a partnership between the individual, the employer and the government. Individuals need the security provided by benefits to be productive while employers want to attract and retain employees with their benefits. The US has a national policy of providing a safety net for its citizens with benefits such as social security and Medicare. At the same time, it supports employer-provided benefits by providing tax benefits to companies that offer employee benefits. This is a safety net and will only provide about 35% of income in retirement. According to the 2006 OASDI Trustees Report, in 2017, the social security administration will pay more benefits than contributions it receives. There is speculation that there will have to be large tax increases in the future to support the social security system if it is to continue in its present form. There is movement toward increasing the retirement age.

Larger companies tend to offer employees more benefits. White collar jobs have more benefits. Unionized workers tend to have more benefits. Here is a comprehensive listing of employee benefits. The more common ones will be described in detail later in the text.

| | Common Employee Benefits | Percentage of Workers Covered |
|------------|--|--------------------------------------|
| Retirement | Defined Benefit – Traditional pension plan based on number of years of service and salary. | 21% |
| | Defined Contribution – Benefit will be based on what worker and employer contribute and investment returns. | 54% |
| Health | Medical care – Coverage of medical expenses. According to the Kaiser Foundation (http://ehbs.kff.org/pdf/2010/8086.pdf) a single premium was about \$5000 while a family premium was about \$14,000. Employers usually require single employees cover 20% of the premium while employees cover 30% of family premiums. | 71% |
| | Dental care – Coverage of dental cleanings and fillings. | 46% |
| | Vision care – Coverage of eye exams and eye glasses. | 29% |
| | Prescription Drugs – Outpatient prescription drugs. | 67% |
| Life | Life Insurance – Employer may provide group life insurance for a multiple times salary. The typical one is two times salary. Often employees can pay for additional coverage. | 52% |
| Disability | Short-term disability such as sick leave for a few weeks. | 39% |

| | | |
|-----------------------|---|-----|
| | Long-term disability replacement of a percent of income in the event of long-term incapacitation. | 30% |
| Leave | Paid holidays – Days off for holidays such as Thanksgiving or Christmas. Most commonly there are 9 paid holidays per year. | 76% |
| | Paid sick leave – paid leave in case of illness. Most full-time employees are allowed sick days or paid days when sick. | 57% |
| | Paid vacation – paid vacation leave earned based on years of service. On average, employees are given 8.9 days after the first year. | 77% |
| | Paid personal leave– usually two days which may be used at the discretion of the employee. | 37% |
| | Paid funeral leave – time (usually a few hours) off to attend funeral. (Paid bereavement leave for a family members is normally a few days) | 68% |
| | Paid jury duty – time off for jury duty. | 70% |
| | Paid military leave – up to 15 days for military duty. | 48% |
| | Paid family leave – time off for the birth and care of a child and other family matters. | 8% |
| | Unpaid family leave – the law allows for unpaid time off for birth of a child. | 82% |
| Other Benefits | | |
| | Childcare – Some large companies have day care centers on site which may or may not require employee contributions. More commonly, employers will have dependent care spending accounts that allow employees to pay for this with pretax dollars. | 15% |
| | Adoption – Some large companies assist in the adoption of a child. | 10% |
| | Long-term care insurance – Some employers will make long-term care insurance available to its workers at group rates. | 12% |
| | Flexible workplace – This includes telecommuting (working from home) and flexible days. For example working 80 hours over 9 days versus 10. | 4% |
| | Employer provided computer – Some employers provide a computer so the employee can work at home. | 2% |
| | Subsidized commuting – Van pools or public transit subsidies may be given by employers. | 5% |
| | Health savings account – An account where you can make contributions to pay for health care costs if you have a health plan with a high deductible. | 6% |
| | Flexible benefits – Cafeteria-style benefits allow employees to choose from a menu of benefits with benefit dollars or credits. | 17% |
| | Dependent care accounts – Using pretax dollars to pay for child or other dependent care. | 30% |
| | Healthcare reimbursement accounts – Using pretax dollars to pay for unreimbursed medical expenses | 32% |

| | |
|---|-----|
| Cash or deferred (compensation) without employer contributions – Some employers allow employees to defer compensation to a future date when the employee's tax rate may be lower. | 16% |
| Job-related travel insurance – Insurance for accidents while traveling on company business. | 22% |
| Education assistance – Tuition reimbursement for employees to improve skills. Some companies allow education of any kind. | 49% |
| Wellness programs – Some companies may pay for programs that promote wellness such as weight loss, etc.. | 23% |
| Fitness centers – Companies may have an onsite fitness center. | 13% |
| Employee assistance programs – These programs provide counseling for alcohol or drug dependencies. Counseling on a variety of topics such as stress or depression, relationships, financial or legal problems, elder care, grief, and job-related problems and co-worker conflicts may also be covered. | 40% |
| Nonproduction bonuses – Bonuses that are not based on performance. | 46% |
| Stock options – The ability to buy stock at a set price. (This can be an E.S.O.P, Employee Stock Option Program) | 8% |

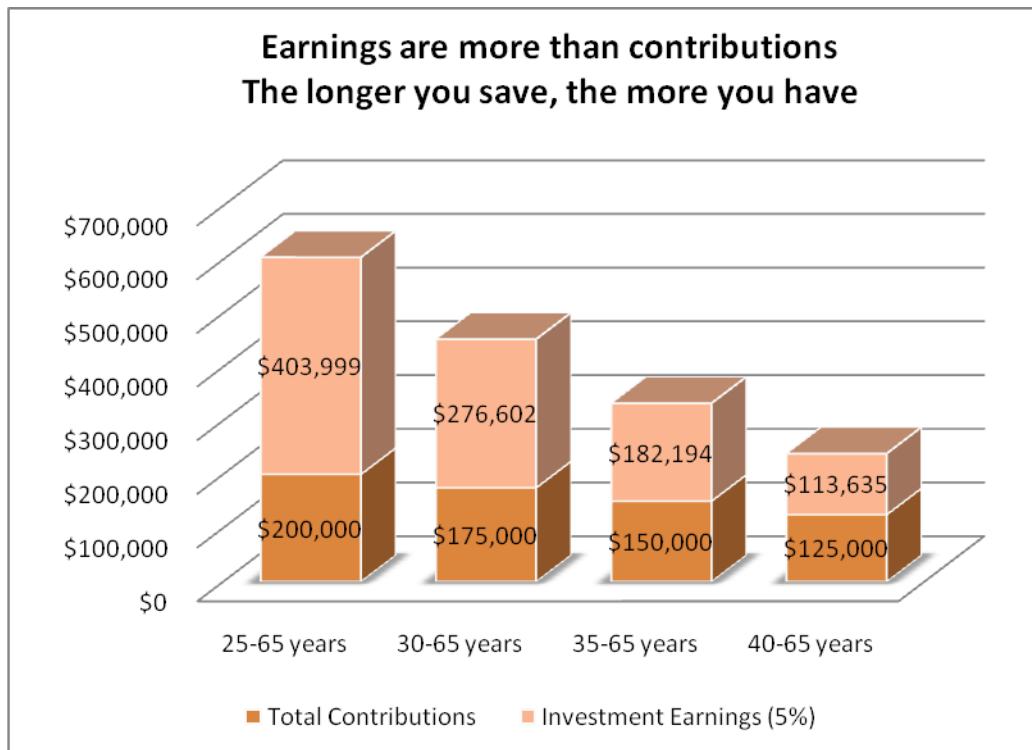
Source: National Compensation Survey, Department of Labor, 2006 (Parenthetical notes added by the author.)

Major benefits generally fall under three categories: retirement, health and lifestyle. Benefits are a form of risk mitigation for the employee. They cover for illness, time off and income when the employee can no longer work. Retirement benefits are the most difficult to comprehend as they involve benefits in the future. A detailed discussion follows as retirement savings also illustrate the time value of money.

Retirement Savings

The traditional Individual Retirement Account (IRA) was set up by the US government in 1973 for workers who did not have employment-based pensions and in 1981 the government extended it to all workers to encourage saving for retirement. Since 1981, responsibility for retirement savings has shifted from the employer to the employee. Most large employers have set up 401k accounts where employees can contribute to their retirement accounts. Any smart investor will use these tax-advantaged accounts in building his or her nest egg.

Contributions to an IRA or a 401k, retirement savings accounts work the best when you save over a long period of time. The following table and graph shows that saving \$5000 per year, a goal of \$600,000 can be reach if savings start at age 25 and go for 40 years at a 5% return. If the employee waits until age 40 to start saving there will be two thirds less saved. Another fact is that it is the earnings and not the contributions that makes up the majority of the nest egg. This figure demonstrates the time value of money which is an extremely important concept in finance.



Traditional IRA

The traditional Individual Retirement Account (IRA) was set up by the US government in 1973 for workers who did not have employment-based pensions and in 1981 extended it to all workers to encourage saving for retirement. Since that time it has gone through many changes and the the latest rules can be found in the IRS publication 590, Individual Retirement Arrangements (IRAS).
[Http://www.irs.gov/publications/p590/ar01.html](http://www.irs.gov/publications/p590/ar01.html).

The IRA can be moved between trustees or financial companies. Employees can rollover other retirement plan assets to an IRA. If you withdraw from your IRA before age 59½, you pay a 10% penalty. This is in addition to the ordinary income tax you would pay on the withdrawal. There are hardship withdrawals that are exempt from the 10% penalty but you must pay ordinary income tax on them. Check the IRS for the latest exceptions.

For these workers who put their money in pretax, a traditional IRA is very similar to the 401K (described later) except that the contribution limit for the 401K is much higher and the company may match the employee's contributions. Traditional IRAs may also be partially or fully pretax up to certain income limits. Check <http://www.irs.gov/publications/p590/ch02.html#d0e8996> for the latest guidelines.

Roth IRA

Different from a traditional IRA, contributions to Roth IRAs are made after tax, however, the distributions are tax-free while distributions from traditional IRAs are taxable at ordinary income. This benefits those who are young and will accumulate large returns on their accounts. The

Savings and Thrift Plan - 401K Plans

Many employees save for retirement through company-sponsored plans. Most of these are structured as 401K (named after the IRS code that established them in 1981) company plans where employees can make pretax contributions to their own accounts. According to the Investment Company Institute, in 2006 there were 43 million participants in 457,830 plans with \$2.1 trillion in assets. Depending on the plan, employees may also make after-tax contributions where tax on the investment income is deferred until retirement. Here are some key actions to take on your 401K.

- Try to put away 10% to 15% of income for retirement.
- Max out on the employer contribution. This is money that you shouldn't leave behind.
- Invest in index funds and save on fees.
- Avoid taking out a loan on your 401K.
- Determine an asset allocation that makes sense for your time horizon (your age will impact how long you have to invest and that will influence your asset selection.)
- By setting aside your money every paycheck you will automatically be using dollar cost averaging to buy your funds.
- Rebalance your portfolio to keep your designated asset allocation.
- Ask about fees. You can lobby for a lower cost provider if you think that fees are too high.
- Don't cash out your 401K when you leave a company. It can hurt you in the future.

Contributions to a 401K are before taxes--that means employee salary is reduced for tax purposes. To encourage saving, some plans will automatically enroll new employees, contributing 3% of their salary unless they opt out.

Employers may match all or part of this contribution. This means that they will put in some money for each dollar that the employee contributes. About 91% of employers match up to on average 3.3% of salary in 2006. This means that for every dollar the employee contributed, on average most employers will put in 50 cents. This provides a nice return immediately on contributions. Many employers require that an employee work for a certain period of time to earn the right to keep the employer match. This is called a "vesting" schedule.

Most 401Ks allow employees to make their own decisions among investment selections. Companies offer 10 or more selections. Most allow changes at any time and the rest allow at least 4 changes a year.

About 82% of plans allow loans to the employee. Depending on the company plan, employees may borrow up to a maximum of 50% of the account balance or \$50,000. Where permitted, about 25% of participants have loans for an average balance of about \$6000. The loan must be repaid with after-tax payroll deductions. Most plans have restrictions on what the money can be used for. The top items on the list are: Home purchase, education, and medical expenses. Loans are not a good idea as you have less money working for your retirement. Loans from 401K plans can become immediately due if the employee is terminated or quit.

Here is an example of how a 401K works. Jill is single and makes \$30,000 a year gross salary. She usually pays about 15% tax on her salary. Her employer will match her 401K contributions by 50 cents for every dollar that she puts in up to a maximum of 6%. Jill puts in \$1800 or 6% of her salary. Her employer matches 50 cents on her dollar so it puts in \$900. Her salary for tax purposes has been reduced to \$28,200 so if she stays at the same tax rate, she would save an additional \$270 in taxes (15% of \$1800). (Her taxes are deferred until she draws the income from the IRA.) If her employers continue to contribute in the same way and she receives a 8% return, that is over \$100,000 that she would not have otherwise. In actual case, Jill's salary will increase and so will her employer's contributions so the amount could be substantially more.

One key point to make about 401Ks: The taxes do not disappear. They are deferred, meaning when the money is taken out at retirement, the employee will have to pay taxes on the distributions. Also, another disadvantage is that taxes are paid at ordinary income tax rates which would be higher than the capital gains tax rate that may be applicable to some investments. This reason may make a Roth IRA attractive since the contributions to Roth IRAs are made after tax, the distributions are tax-free.

401K Asset Allocation

About 52% of 401K plans offer 10 or more selections of investments. Here are the most commonly offered:

Money market funds. These funds generally return at the short-term interest rates. Money market funds are low return and low risk. Some employees increase their allocation in money market funds when they are preparing to take cash out.

Equity funds. Funds that invest in stocks. Larger plans may have selections in indexed funds, growth funds, and international funds. As compared to bonds, stocks have higher return and higher risk.

Bond funds. These funds invest in bonds. The safest bonds are US Treasury bonds. Other bonds include corporate bonds or bonds issued by foreign countries. There may be capital gains or losses if interest rates move. Bonds tend to be lower risk and lower return than stocks.

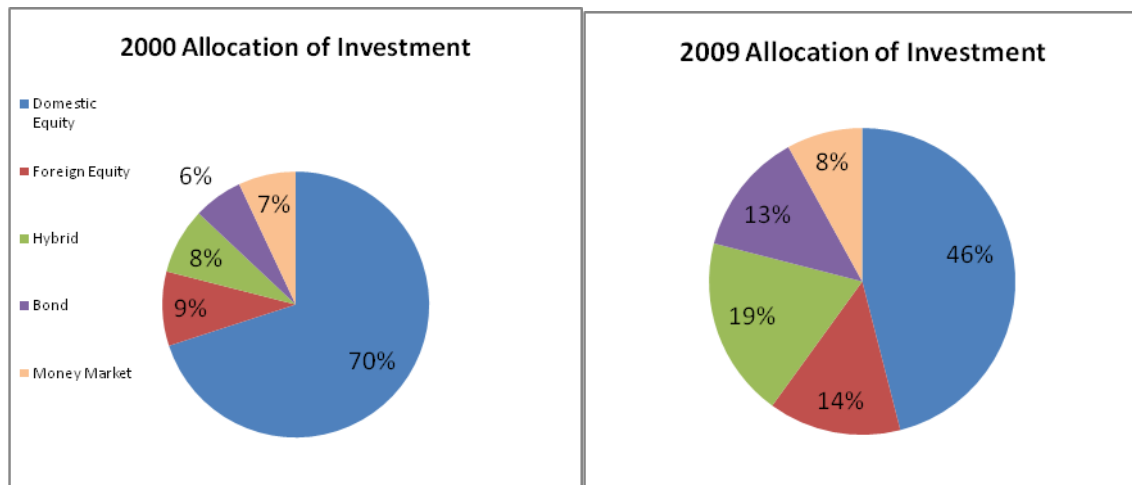
Target allocation funds. These allocate assets based on the age or risk tolerance of the investor. They may allocate more to stocks if the employee is young and more to bonds when the employee is older. For employees who don't know how to allocate, these funds are an easy alternative however they should be evaluated to determine if they meet requirements.

Guaranteed Investment Contracts (GICs). GICs are fixed-rate investments insurance companies sell to retirement plans. A GIC behaves like a bond held until maturity.

Company stock. Some companies make their contributions (the employer match) in company stock. They also allow employees to choose company stock as an investment option. The danger with having too much of an account in one stock is that you could take a large drop in your portfolio if this stock does poorly.

Experts recommend that;

1. Employees put regular contributions into your accounts.
2. Don't put too much of assets in any one category (30% to 40% maximum) and not more than 4% in one stock including the employer's stock.
3. Invest in index funds for lower fees.
4. Change asset allocation goals as the employee nears retirement.
5. When asset allocation is set, use rebalancing to buy and sell investments.



As can be seen from the figures above, there has been a shift in allocations to less reliance on US stocks. This redistribution is good for employees as it reduces risk.

Employees who do not participate in a 401K with a company match available are losing out. About 18% to 25% of employees don't participate or contribute to them. About half of those under 25 don't contribute. Lack of diversification can cause loss as well. A heavy allocation to company stock has hurt workers at Enron, Washington Mutual, MCI Worldcom and other companies where the stock took a dramatic loss in value.

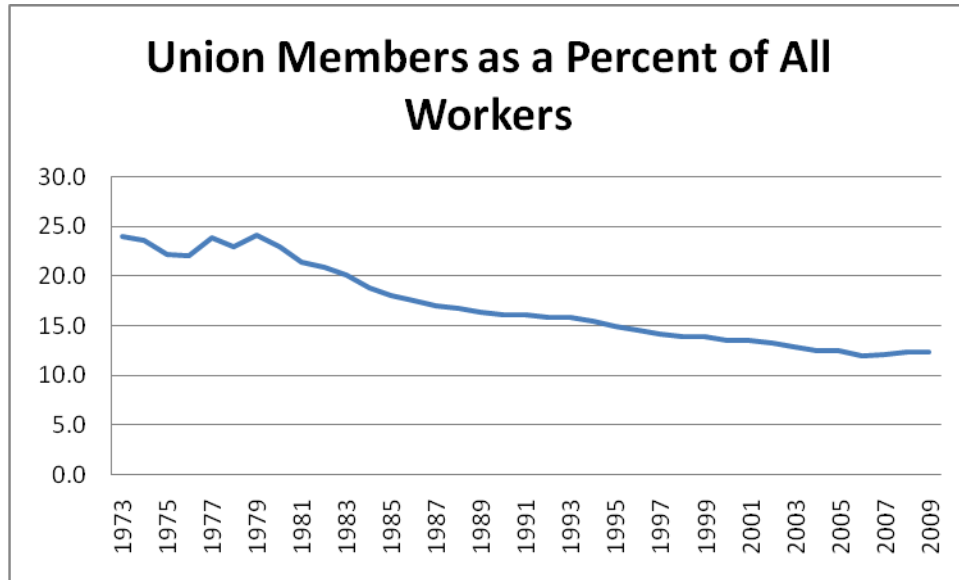
When people leave a company, 60% of younger folks will cash out their 401Ks instead of moving them over into a rollover IRA. This can be costly. For example, for \$6000 that is cashed out, there is a 10%

penalty of \$600 plus taxes on the \$6000 (at 15%) or \$900 leaving only \$4500. That is not the entire cost. In 40 years that \$6000 at 8% return would have grown to \$130,000.

Comparing 401Ks to Traditional and Roth IRAs

| | 401K | Roth IRA | Traditional IRA |
|--------------------------------------|---|---|--|
| Who is eligible | Determined by employer. | Anyone who had income from working and his or her nonworking spouse. There are income limits. | Anyone up with age 70 ½ with income from working and his or her nonworking spouse. There are no income limits. |
| Maximum you can contribute | \$16,500 (2010 with cost of living after that) or maximum set by employer. \$5500 catch-up contribution for those 50 and over. | \$5000 (2010) each with \$1000 catch-up contributions for those over 50. | \$5000 (2010) each with \$1000 catch-up contributions for those over 50. |
| Employer contribution | Your employer may contribute a match which makes this attractive. | None. | None. |
| Tax status of contributions | Contributions are pretax. | Contributions must be after-tax. | Contributions may be pretax up to certain income limits. |
| Tax status of earnings | Earnings are tax deferred. You pay ordinary income tax when you take the money out therefore missing out on lower capital gains tax. | Earnings are tax free. | Earnings are tax deferred. You pay ordinary income tax when you take the money out therefore missing out on lower capital gains tax. |
| Withdrawals | Withdrawals made before age 59 ½ will be subject to a penalty of 10% in addition to tax. | Contributions may be withdrawn without penalty. Earnings can be withdrawn without penalty for some expenses. | Withdrawals made before age 59 ½ will be subject to a penalty of 10% in addition to tax. |
| Mandatory age for withdrawals | 70 1/2 | None | 70 1/2 |

Unions



Source: US Department of Labor

Unions are organized groups of employees who vote to have the union represent the employee group in negotiating salary, benefits, and working conditions. Once the government ratifies a union's position as representing a group of workers, it represents them exclusively, whether or not particular employees want collective representation. Union officials can force compulsory union dues from employees—members and nonmembers alike—as a condition for keeping their jobs.

Unions have generally won higher wages and better working conditions for their members. However, the increase in salaries has reduced the number of jobs available for union members. Since the 1970s, the proportion of employees who are part of unions has been on a steady decline. Some business thinkers believe that improvement in minimum wage and safety regulations has reduced the need for unions to negotiate.

| | Percent Union |
|--|----------------------|
| Public Sector | 37.4 |
| Private Sector | 7.2 |
| Life, Physical & Social Science | 10 |
| Community & Social Service | 16.1 |
| Education, Training & Library | 38.1 |
| Health Care Practitioner & Technical | 13.6 |
| Health Care Support | 35.6 |
| Protective Service | 35.6 |
| Building, Grounds Cleanings & Maintenance | 11.3 |
| Office & Administrative Support | 10.3 |
| Construction & Extraction | 21 |
| Installation, Maintenance & Repair | 16.4 |
| Production | 16.6 |
| Transportation & Material Moving | 18.2 |

About 37 percent in the government sector is unionized, more than four times the 7.2 percent rate in the private sector. Unions seem to do better in regulated, monopolistic environments. Economic surveys show that union negotiate salaries that are 15% to 20% higher than nonunion salaries.

Unions have historically engaged in discriminatory practices, although this has been changing as of late. Some economists believe that unions will be replaced by voluntary worker associations to negotiate labor contracts, serve as clearinghouses for workers to learn what their best alternatives are, monitor administration of fringe benefit plans, and administer training and benefit plans. The Major League Baseball Players' Association is such an association. Such services could be especially valuable to the immigrant, minority, and female workers now entering the workforce.

For more on labor unions check out: <http://www.econlib.org/library/Enc/LaborUnions.html>

Key Terms

Arbitration: A technique where a dispute is settled outside of the courts, where the parties refer it to one or more impartial persons by whose decision they agree to be abide by.

Collective Bargaining Agreement: A written agreement between an employer (or a group of employers) and an employee organization, usually for a fixed period of time, defining conditions of employment (wages, hours, vacations, holidays, overtime payments, working conditions, etc.), rights of employees and the employee organization, and procedures to be followed in setting disputes or handling issues that arise during the life of the agreement.

Bargaining Team: The association/union or employer negotiators who will actually be at the bargaining table and actively involved in the negotiations towards a contract.

Caucus: An informal meeting of the bargaining team and others, away from the bargaining table, to discuss positions on issues.

Collective Bargaining: A process where employees as a group and their employers, in good faith make offers and counter-offers to negotiate an agreement usually for a fixed period of time, defining conditions of employment (wages, hours, vacations, holidays, overtime payments, working conditions, etc.), rights of employees and the employee organization, and procedures to be followed in setting disputes or handling issues that arise during the life of the agreement.

Impasse: A point reached in the process of negotiations where both parties agree that they can go no further in the process of proposal and counter-proposal. In many negotiations, this point may be reached several times prior to the final settlement of the agreement.

Injunction: A court order restraining or prohibiting one or more persons, corporations, or unions from performing some act which the court believes would result in irreparable injury to property or other rights.

Ratification: A process where all the members of the bargaining unit or employer unit are called to a meeting to review and discuss any and all negotiated changes for a new contract. After the discussion, a vote will be taken for (ratification) or against the new contract. A new contract can only be signed and become effective following the ratification by both parties.

Work Stoppage: A temporary halt to work in the form of a strike if initiated by the union or lockout if initiated by the management.

Team assignment - Comparing mission statements

Team Name: _____

In each team, all individual team members are to bring their company mission statement from your company analysis.

Fill in the following table and submit at the end of class with your selection

| Team Member | Company | Mission Statement |
|-------------|---------|-------------------|
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Discuss among your team members whether the company lives by its mission statement. Summarize your discussion below:

Team assignment – Corporate Social Responsibility Hall of Fame and Shame

Team Name: _____

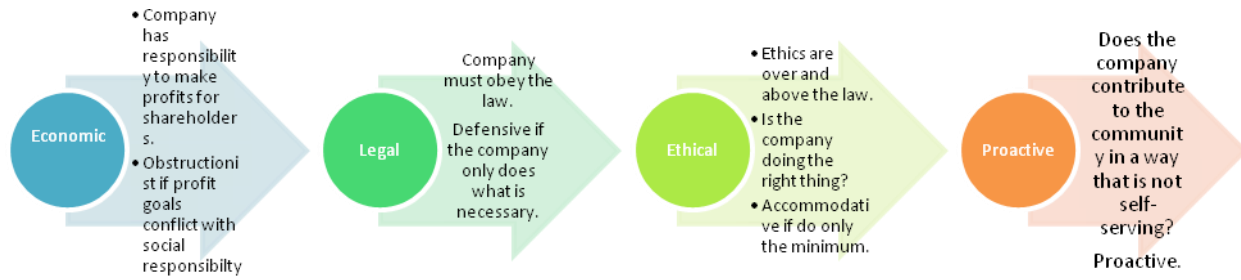
In each team, each team member is to research the worst and best case of corporate social responsibility. Explain to your team what each company did. As a team, agree on the best and the worst.

| Team Member | Best | Worst |
|-------------|------|-------|
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Choose the Hall of Fame (best)

Choose the Hall of Shame (worst)

Team Assignment – Boeing Case Study



This case analysis uses the framework for evaluating corporate social responsibility to determine how Boeing and the government dealt with the following case.

Using the library database, find the following article:

Career Crash: How an Air Force Official's Help For a Daughter Led to Disgrace; Ms. Druyun Awarded Boeing Big Contracts, Then Called When Family Ties Tugged; Seeking the 'Perfect Offer' *Andy Pasztor and Jonathan Karp. Wall Street Journal* (Eastern Edition). New York, N.Y.:Dec 9, 2004. p. A.1

List all the players and the actions that they took that might be a violation of legal or ethical principles.

Classify each action on the continuum of corporate social responsibility.

Discuss the actions that the company and the government took to remedy the situation.

Were the actions obstructionist, defensive, accommodative or proactive?

Team Name: _____

Team Assignment : Creating an Employee Benefit Plan

In your team, assume that you are a company who is looking to attract young employees. Design a benefit plan using the full menu available and determine the cost of the plan. Present your benefit plan to the class and give your rationale for each benefit selection.

Assume the average salary for a new employee is \$30,000. There are 250 days in a year so the per day cost for time off is \$120. Single employees cost \$5000 per year in health premiums and families cost \$15,000. On average companies require that single employees pay 20% of coverage and employees with families pay 30% of coverage. Vision plans cost about \$300 per year. Dental plans cost \$300 per individual or \$600 per family per year. Life insurance costs 2 cents per \$1000 for employees in their 20s, 3 cents in their 30s, 6 cents in their 40s, 14 cents in their 50s and 24 cents in their 60s. You will have to decide what portion of this cost will be covered by your employees. You can add other benefits such as a fitness center, a chef, etc. but cost them out.

See p. 256 for typical benefits.

| Benefit | Quantity | Cost | Employee share of cost |
|--------------------|-----------------|-------------|-------------------------------|
| Holidays | | | |
| Vacation | | | |
| Personal days | | | |
| Medical | | | |
| Sick days | | | |
| 401K Company match | | | |
| Life insurance | | | |
| | | | |
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Team Name: _____

Team assignment - Comparing benefit plans

In each team, bring a summary of the benefits from your company analysis. List them as retirement, health and lifestyle. What are the differences? Which employer would your team prefer?

Fill in the following table and submit at the end of class with your selection

| Team Member | Company | Notes on benefits |
|-------------|---------|-------------------|
| | | |
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Best benefit plan:

Reason:

Here are some sample websites:

http://www.boeing.com/employment/benefits/us_benefits.html

http://www.starbucks.com/customer/faq_qanda.asp?name=jobs

<http://members.microsoft.com/careers/mslife/benefits/plan.mspix>

<http://www.seattle.gov/personnel/employment/benefits.asp>

<http://www.costco.com/Service/FeaturePageLeftNav.aspx?ProductNo=10045087>

Team Assignment : Selection Process

In your teams, simulate the selection process. The job description above was selected because everyone in the class qualifies for it. All the members of your team will be candidates for.

Lead Warehouse Associate, Bellevue

Description

Are you looking for a fun and fast-paced work environment? Are you excited by the opportunity to build something new? At FoodFresh, we're working to be the world's best online grocery service. To get there, we need exceptionally talented, customer-focused, and driven people. If you're interested in helping us build a new business from the ground up, this is your chance to make history.

Key Job Duties:

- Perform production duties as needed: pick/pack orders, receive/stow product, ensure inventory accuracy, and unload/load trucks at or above the rate expectation for each task.
- Assist Area Manager in daily management of department/FC duties, including allocating labor, leading meetings, assigning job duties, and communicating with internal and external suppliers
- Fully understand workflow and daily production goals
- Troubleshoot problems through to resolution, escalating to Area Manager as necessary
- Provide vacation coverage for Area Managers
- Train Associates, assist the floor as an Associate resource, and verify SOP and on-task compliance
- Review and update Standard Operating Procedures as required
- Participate in Lean/Kaizen, Black Belt, and other Operational Excellence initiatives in some capacity
- Assist in keeping work area clean and organized
- Coach Associates to work safely at all times and enthusiastically participate in safety initiatives
- Identify and address all safety hazards within the work area; report all injuries to Area Manager

Individual Preparation:

Prepare your resume using the resume guide. You may remove personal contact information.

Determine three key attributes the employer is looking for.

Compose six situational questions for interview that will test the candidates for attributes or qualifications. Situational analysis questions present a scenario to the candidate which is typical for the job. For example, past questions have included: "What would you do if a shipment of food came in and it was rotten?" It tests the candidate's ability to problem solve or to stay calm under stress. For example, how would you handle an irate customer who got the wrong order for an important event?

Check salary.com for salary range for the position so that you can negotiate as an employer or candidate.

Your individual preparation must be submitted just before the interviewing process begins.

Individual Preparation Section - Name: _____

Determine three attributes the position requires. Qualities employers prize most are communication skills, a strong work ethic, ability to work in a team, initiative, and demonstrated leadership.

A.

B.

C.

Six Questions:

1.

2.

3.

4.

5.

6.

Group Consensus Section – Team Name: _____

Attributes:

A.

B.

C.

Six Questions:

1.

2.

3.

4.

5.

6.

Individual Name: _____

CANDIDATE RATING SHEET Interview all candidates in class. Rank each candidate as 1, 2, 3, etc. on each attribute and then give the candidate an overall ranking.

| Candidate | Key attribute A | Key attribute B | Key attribute C | Overall Ranking |
|-----------|-----------------|-----------------|-----------------|-----------------|
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Class Assignment: UPS Labor Negotiations (Based on 1998 Case)

The class will be grouped into two teams for this exercise. It teaches negotiation skills along with knowledge about unions. Reading the section on unions and especially review the key terms.

Pre-meeting

As a group come up with your bargaining zone.

Decide what weapons you want to use.

Outline the basis of your negotiations.

Round 1

Choose three people to represent your group as the bargaining team.

Meet with the opposing side and present your first round proposals. (Use negotiating tactics.)

Caucus with your whole team and discuss how first round negotiations went.

Devise counter proposals based on the negotiating session.

Round 2

Your three representatives will return to the bargaining table.

Negotiate until agreement is reached.

The union must ratify the agreement with their membership.

Turn in your notes regarding the negotiations outlining:

Initial bargaining zone

Rationale for negotiations

Final agreement

Critique on how negotiations could be better.

Background

UPS

Revenues: \$22 billion

Profit: \$1 billion

38,000 of 46,000 new jobs created since 1993 are part-time

Raises rates to customers 3.5 to 4% per year

Drivers (Full-time) \$19.95 per hour. Average annual wage \$40,000

Others (Part-time): One shift 12:00 a.m. to 3:30 a.m., One shift 4 to 8 a.m. Starting wage Loaders \$8 per hour, average \$11 per hour. Average annual wage \$10,000

Management Position:

Part-timers turn over 50% per year

Part-timers are given priority on any full-time jobs

Part-timers have health benefits

\$2000 tuition benefit

Part-time wages compare favorably to others \$8 versus \$6.50 for unskilled labor

UPS doesn't want to charge its customers more

Giving in to too many demands may start the inflation spiral

If recession hits, may be saddled with too many full-time workers.

Five-year contract.

Union Position:

Represented by Teamsters

Need more full-time positions

Part-timers can't live on salary, they need more money.

Drivers need increase.

Three-year contract

185,000 workers belong to the union

Strike pay \$55 per week

Team Name: _____
The Bargaining Zone

| | New Full-time Positions | Driver Salary Increase | Part-time Salary Increase |
|-----------------------|-------------------------|------------------------|---------------------------|
| Initial Offer | | | |
| Middle Offer | | | |
| Won't Budge from this | | | |

Are there any other items you want to throw in the package?

What weapons are you prepared to use? (Work stoppage, public relations, injunction, etc.)

Individual Assignment – The Trouble with Steve

http://money.cnn.com/2008/03/02/news/companies/elkind_jobs.fortune/index.htm

Steve Jobs is widely touted as the most admired CEO because he was able to turn Apple around from the point of almost extinction to a company with innovative new products and a market value which in 2010 was larger than that of arch rival Microsoft. Read the article above and discuss Steve Jobs as a leader. What are his strengths? What are his weaknesses? Would you agree that he is one of the great CEOs?

Some business thinkers argue the attribution theory which says that when a company performs well, people tend to attribute the success to the leadership whether or not it is warranted. Is this the case with Steven Jobs?

How does he compare with the CEO of the company you are analyzing.

After reading the article, write down key points to be turned in class and come to the conclusion as to who is the better CEO. Be prepared to present your work in class.

Individual Assignment – Company Presentations

You should be taking notes of the companies so that you can write about the companies presented in the final exam: Would you invest in the company? Why or why not?

| Company | Financial | Marketing | Management | Conclusion |
|---------|-----------|-----------|------------|------------|
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Module 5 - Timed write questions

(15 minutes each allowed in onsite class)

From the interviewing exercise, describe the steps that you would take to hire an employee for a position. Give an example of a position description and what it might contain.

What are the three major forms of benefits? Explain how each supports employees.

Describe three benefits that are most commonly offered. Give an example of each and how an employee would use them.

Explain the following union terms: collective bargaining, caucus, ratification, work stoppage. Give an example of one of these from discussion in class or articles you have read.

Explain what corporate culture is and how it affects employees in a company.

Using your own company or one presented in class, explain where it is on the four phases of corporate social responsibility? What actions can it take to move further along the continuum?

Compare and contrast Steve Jobs to the CEO of your company. Which one is the better CEO and why?

What are the four functions of management? Give an example of how a company might implement each.

Describe the difference between an IRA, Roth IRA and 401K in taxing of contributions, company match, and taxing of distributions.

What is a situational question? Give an example of a situational question that might be asked in an interviewing process?

From the candidate's point of view, what is SAR? Give an example of a SAR that you might use in an interview.

What is the glass ceiling? Give an example of a person who may have hit the glass ceiling.

What is the greatest challenge facing human resource management in the next 20 years?

Describe the top management of a corporation. Give examples of the titles that managers would have and the responsibilities they would execute from your own company analysis.

If a company values diversity, what does that mean? How would the company implement a strategy that values diversity?

From the company presentations, which company was the most attractive as an investment? Give three reasons for selecting this company. (You may not choose your own company.)

From the company presentations, which CEO would you consider the best leader? Give three reasons for selecting this CEO. (You may not choose your own company.)