

Dollar Bay Instructors Guide

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Dollar Bay
Lesson Plan 1: Creating an Account, Navigation and Employment
Designed for a 50 minute class period

Goals:

- Students will have an understanding of what Dollar Bay is and how it works.
- In hiring an employee, students will utilize National Economics Content Standard 2: Effective decision making requires comparing the additional costs of alternatives with the additional benefits.

Objectives:

- Students will establish a retail store in which they will manage throughout the project.
- Students will be able to use the navigation system in Dollar Bay.
- Students will make a decision on hiring an employee based on experience vs. cost.
- Students will ask their employee business questions and state why these questions should be asked.

Activities: (All times are approximate)

- Create an Account (8 minutes)
 - The instructor hands out Worksheet #1.1, and guides students through it
- Using the Navigation System (5 minutes)
 - The instructor hands out the Navigation Reference Sheet and students actively navigate Dollar Bay.
- Class discussion on hiring an employee (12 minutes)
 - A list of guiding questions is included in the Instructor's Guide.

Assessments:

- Students will hand in Worksheet #1.1, showing their username and password
- Students are able to get to find their way around Dollar Bay. (5 minutes)
 - Instructor asks students to arrive at certain locations in Dollar Bay (A list of places to find is included in the Instructor's Guide).
 - Students fill out the back of Worksheet #1.1 as they visit the specified locations.
- Students will hire an employee in Dollar Bay (7 minutes)
 - After hiring, they will answer the first question on Worksheet #1.2
- Students will ask their employee at least two questions, using the dialog box with pre-written questions. (8 minutes)
 - Students will answer the remaining questions on Worksheet #1.2 after asking each question.

Dollar Bay

Lesson 1 Instructor's Guide: Creating an Account, Navigation and Employment

1. Creating an Account – Hand out Worksheet #1.1

- All players of Dollar Bay will need their own login. We recommend using the FirstNameLastName (JohnDoe), or FirstInitialLastName (JDoe) naming convention.
- Under the “Options” tab, students will be able to change the appearance of their player as well as their store.
- Make sure students fill out this information on their Worksheet and hand it in, so that it can be referenced if a student forgets his/her password.

2. Using the Navigation System – Hand out the Navigation Reference Sheet

- Allow students to actively explore Dollar Bay, finding all of the places on the reference sheet.

3. Assessing the Navigation

- Students are to answer the questions on the back of Worksheet #1.1 while they are asked to visit certain places.
- Ask all students to visit the following places:
 - A warehouse
 - The bank
 - The Hall of Fame
 - The student’s store
 - The backroom of his/her store
 - The street outside his/her store

4. Class Discussion on Hiring an Employee

- Questions for students:
 - What are some of the reasons why a business owner would spend more money to hire one employee versus another?
 - When starting a business, do you feel it is more important to save money and spend less on an employee, or to spend more on an employee? Why?
 - When a business grows, there are often more employment opportunities. However, there are times when a business grows that it actually requires less employees. What do you think some of the reasons for this could be? (Technology, Consolidation of factories)
 - What are some factors to consider when determining whether it is necessary to hire more employees to run a store?
 - What are some factors to consider when determining when it is necessary to let an employee go?

5. Hire an employee in Dollar Bay – Hand out Worksheet #1.2

- Under the “Hiring” tab, students will hire an employee, noting the difference between the less expensive, and the more expensive employees.
- Students are to answer the first question on Worksheet #1.2.

6. Questioning your Employee

- Students will ask their employee at least two questions by clicking on the employee and choosing a question from the list.
- Students are to answer the remaining questions on Worksheet #1.2.

Navigation Reference Sheet
Save this to reference while playing Dollar Bay



Clicking on the “Map” tab will get you to this screen.

- The **square with an X** represents a warehouse. By clicking on a warehouse, you will go to the warehouse and be able to order products. Each warehouse sells something different.
- The **blue star** represents your store.
- The **red squares** represent other stores.
- The **green dollar sign** is the bank. By clicking on the bank, you will go to the bank where you can get information on loans.
- The **yellow star** is the Hall of Fame, where you go once you complete the game.
- The name of each town is printed on the map.

Clicking on the “Home” tab will take you back to your store.

- By clicking on the door on the left side of your store, you will go to the backroom, where you can store products. To get back to your store, click on the door in the backroom.
- By clicking on the door on the right side of your store, you will go to the street outside of your store. To get back into your store, click on the door.

Communication with other players:

- You can communicate with other people in Dollar Bay by clicking on the person, and choosing a question from the text box.
- Remember that you want to **click on the person you want to talk to**, not yourself.

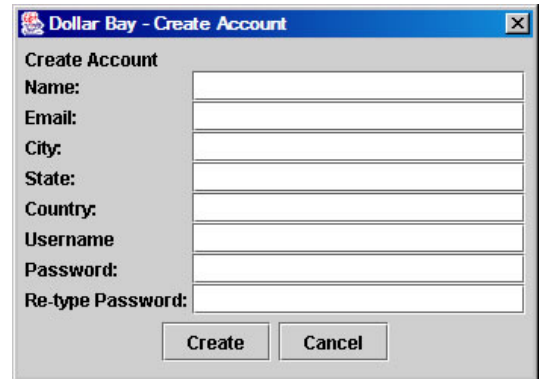
Name: _____
Date: _____

Worksheet #1.1: Creating your Account

1. Creating a New Account

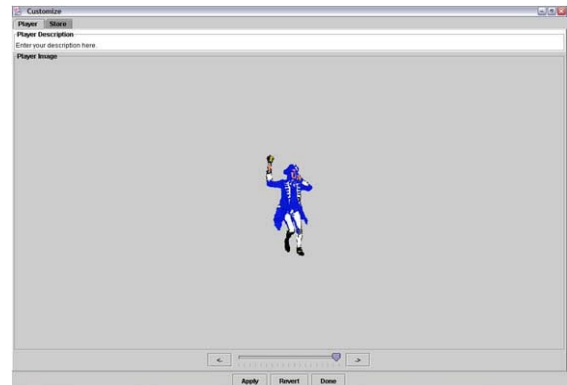
- Choose a login name and password.
- Write this down because each time you return, you will be using this information.

Username: _____
Password: _____



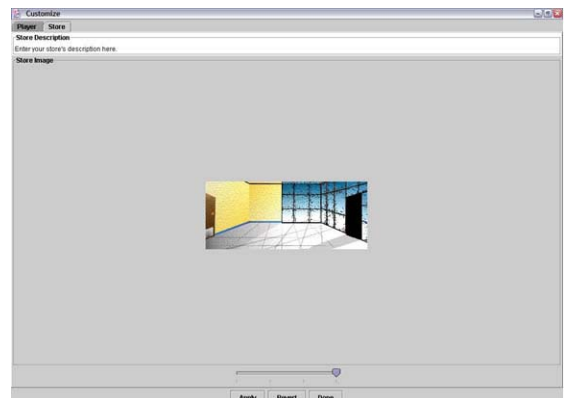
2. Choosing a Player

- Click on the "Options" tab, then the "Player" tab.
- The first time you play Dollar Bay, you must choose your player. Scroll through the options, using the slider at the bottom of the screen. Choose one, click "Apply", and then "Done".
- This will be your player each time you enter into Dollar Bay.



3. Choosing a Store

- Click on the "Store" tab.
- Move the slider left or right until you find a suitable choice. Select "Apply" when you are finished.



Navigation

While navigating Dollar Bay, fill in the blanks as you visit the locations that you are asked to find.

1. Visit a warehouse

- What is the name of the warehouse you visited?

2. Find the bank

- What is the symbol for the bank?

3. Go to your store

- How did you get to your store?

4. Visit the backroom of your store

- Do you have any items in the backroom of your store?

5. Go to the street outside of your store

- What does the sign outside of your store say?

Name: _____

Worksheet #1.2: Searching for an Employee

Hiring an Employee

After hiring your employee, write a rationale explaining why you chose to pay as much as you did for the level of service you will be receiving from your employee.

Questions for an Employee

Ask your employee at least two questions by clicking on your employee and choosing a question to ask. Write down the question you asked, why you asked it, and how the employee's feedback helped you.

Question 1:

Question 2:

Dollar Bay
Lesson Plan 2: Market Research
Designed for a 50 minute class period

Goals:

- Students will understand the importance of market research when beginning a business.
- Students will utilize National Economics Content Standard 7: Markets exist when buyers and sellers interact. This interaction determines market prices and thereby allocates scarce goods and services.
- Students will utilize National Economics Content Standard 9: Competition among sellers lowers costs and prices, and encourages producers to produce more of what consumers are willing and able to buy.

Objectives:

- Students will be able to use information on neighborhood demographics and competition to make a decision on what their Dollar Bay store will sell.
- Students will be able to state the importance of finding a product for a buyer, as well as a buyer for a product.

Activities: (All times are approximate)

- In groups of four, students will discuss what they think are important factors to research before starting a business. (5 minutes)
- Lecture on the areas of market research in Dollar Bay. (Lecture in Instructor's Guide) (5 minutes)

Assessments:

- Students will go on Dollar Bay and research the four areas of Market Research on Dollar Bay: Demographics, Buyer for Product, Competition, and Product for Buyer. They will complete worksheet #2.1 along with their exploration. (30 minutes)
- Students go back into their groups and are each given a card with a question pertaining to market research (referenced in the instructor's guide). They are to discuss each question in their group, and the student with the card will be the recorder for that question. After the group discussion, the instructor will call on groups to share their discussion on a certain question. (10 minutes)

Dollar Bay
Lesson 2 Instructor's Guide: Market Research

1. Student Discussion

- a. In groups of four, students will discuss what they think are important factors to research before starting a business. They are to write their ideas down and hand the paper in. This will show what they have learned at the end of the lesson.

2. Lecture

- a. Instructor presents lecture on Market Research (Use Lecture #2.1)

3. Students explore Market Research on Dollar Bay with Worksheet #2.1

- a. Students are to log in to their Dollar Bay accounts and click on the “Marketing” tab, and then on “Market Research”. They are to explore this on their own, using worksheet #2.1 as a guide and filling it in as they go.

4. Students answering questions in groups

- a. Students are to go back into their groups of four and they are each given a card with one of the following questions on it.
 - i. The four questions are:
 1. What is the importance of finding a buyer for your product?
 2. Why is it important to find a product for your buyer?
 3. What is the significance of looking into your neighborhood demographics?
 4. How will competitors influence your decision on what to sell?
- b. In their groups, students will discuss all four questions, one at a time. Each student is responsible to record the main points of the discussion on their question.
- c. The instructor will then call on random groups to share with the class their discussion on a certain question.

Dollar Bay
Lecture #2.1: Market Research

Market Research

I. Demographics

- a. When starting a business, you want to make sure that the people in the area will see a need for the product you plan on selling.
- b. Consider the following factors: age, income level, whether or not they are a homeowner, if they have children....
 - i. Any other factor that would influence what they would buy.

II. Finding a Buyer for the Product

- a. Make sure that the potential buyers have a need for the product.
- b. You do not want to be selling something that there is not a need for.
- c. (Ask students to give examples of appropriate products for:)
 - i. High income, homeowner, middle-aged, with children
 - ii. Middle income, renter, in their 30's, with no children
 - iii. Low income, renter, elderly, with no children

III. Finding a Product for the Buyer

- a. Find out what they buyers are demanding
- b. You want to be selling something that they want to buy

IV. Competition

- a. Research which products existing stores in your area are selling
- b. Competition among sellers lowers costs and prices
 - i. Example: There are many grocery stores in Fargo; they advertise that their store has the lowest prices.
- c. Competition among buyers increases prices and allocates goods and services to those willing to pay the price.
 - i. Example: The ipod is a popular item right now, the price of it is high, yet people want it so bad that they are willing to pay that price.

Name: _____

Worksheet #2.1: Market Research

In Dollar Bay, click on the “Market Research” tab and then the “Market Targeting” button. You will be charged for this service, but it will be worth it when you are selling a product that people in your area want to buy. While doing your research, answer the following questions.

Demographics:

1. Who are the top three buyers in your neighborhood?

2. What would be appropriate products to sell to these buyers?

Buyer for Product:

3. What products are your top three buyers most likely to purchase?

Product for Buyer:

4. For the top three buyers, what products are they demanding?

Competition:

5. Are there any competitors in your area for the products your buyers are demanding? If yes, list them.

6. How many competitors do you think is too many to try to open a business? Why?

Based on the market research you have done, what are you going to sell in your store?

Dollar Bay
Lesson Plan 3: Ordering Products and Setting Prices
Designed for a 50 minute class period

Goals:

- Students will understand the advantages and disadvantages of ordering from a local warehouse versus a catalog.
- In setting a price for their items to sell, students will utilize National Economics Content Standard 8: Prices send signals and provide incentives to buyers and sellers. When supply or demand changes, market prices adjust, affecting business.
- Students will utilize National Economics Content Standard 13: Income for most people is determined by the market value of the productive resources they sell. What workers earn depends, primarily, on the market value of what they produce and how productive they are.

Objectives:

- Students will be able to state reasons for ordering from a warehouse versus a catalog.
- Students will be able to order products for their store using a warehouse, catalog, or both, on Dollar Bay.
- Students will be able to set prices for products in their store.

Activities: (All times are approximate)

- Short lecture on ordering from a warehouse versus a catalog and setting prices. (5 minutes)
- Instructor reads four scenarios and students vote on them. (7 minutes)

Assessments:

- Discussion on why students voted on the scenarios the way they did. (8 minutes)
- Students go on Dollar Bay and order products for their store and set prices, filling out Worksheet #3.1 as they go. (30 minutes)

Dollar Bay
Lesson 3 Instructor's Guide: Ordering Products and Setting Prices

- 1. Short lecture on ordering from a local warehouse versus a catalog and setting prices.**
 - Use Lecture #3.1

- 2. Instructor reads four scenarios and students vote on them**
 - Use Scenarios #3.1
 - Have students get into groups of four
 - Instructor reads the scenarios one at a time, giving students time to write down what they would do in response to the scenario.

- 3. Discussion on why they voted the way that they did**
 - Discuss each scenario, asking each group how they voted and what their reasoning is for voting the way that they did.

- 4. Ordering products and setting prices on Dollar Bay**
 - Students go on Dollar Bay and order products using the warehouse, catalog, or both.
 - Answer questions on Worksheet #3.1 while ordering

Dollar Bay
Lecture #3.1: Ordering Products and Setting Prices

Ordering from a local warehouse versus a catalog

- I. Local Warehouse
 - a. Advantages:
 - i. You don't have to pay shipping fees
 - ii. As long as the product you want is in stock, you can have it right away
 - b. Disadvantage:
 - i. There may be a limited selection
- II. Catalog
 - a. Advantage:
 - i. You can order almost anything
 - b. Disadvantage:
 - i. There will be a shipping fee
 - ii. You will have to wait for weeks until you get your products in.
- III. It is important to compare the advantages and disadvantages of each option available to you to make sure that you are making the best decision for your business.

Setting Prices

- I. When setting a price for a product, keep the following points in mind:
 - a. Raise the price high enough from the cost so that you will make a profit.
 - b. Do not raise the price too high, or people will not buy your product.
 - c. When the price is right, workers will make a profit, and they will need to keep producing the item.
- II. When demand is high, people will pay more
 - a. Example: People generally purchase lawnmowers in the spring. They will pay more because they need a lawnmower.
- III. When demand is low, prices may need to be adjusted.
 - a. Example: Lawnmowers go on sale in August, after the demand for that item has gone down.

Name: _____

Worksheet #3.1: Ordering your Products

To order from a warehouse:

- Go to the map and click on a warehouse.
- Click on the salesperson to find out information on the products they sell.
- Click on the salesperson, then on “I would like to place an order” Select the items you would like to buy and submit the order.

To order from the catalog:

- Click on the “Ordering” tab, then click on the pull-down menu at the top to select the catalog you would like to order from.
- When you decide on an item, click on the name of the item, then decide the quantity of the item you would like. Verify that you can afford the purchase and then select “add to order” to select more products, or “submit order” to finish the purchase.
- Notice that there is a purchase price and MSRP. The purchase price is what you will pay for the item now, and the MSRP is what the recommended selling price is. HINT: *The larger the difference between the purchase price and MSRP means a higher profit for you.*

To change prices:

- Click on the “Stock” tab, and then select the product you would like to change the price on, and then type in what you would like to sell it for.

Answer the following questions while ordering your products:

1. Where did you order from?
2. Why did you choose to order from this manufacturer?
3. List the items that you ordered.
4. Did the reduced price you receive when buying a larger quantity of an item cause you to purchase more of an item?
5. What items did you change the prices of? What is your reasoning for changing the prices?

Dollar Bay
Lesson Plan 4: Advertising
Designed for a 50 minute class period

Goal:

- Students will understand the components of advertising.
- Students will understand how to make an effective advertisement for a store.

Objectives:

- Students will be able to state the factors that go into advertising for a store.
- Students will apply these factors by creating an advertisement for their store.

Activities: (All times are approximate)

- Lecture on advertising (5 minutes)
 - Use lecture #3.1
- Students (in groups) make a catchy advertisement jingle that would be used on the radio or television. They are to create it and say what the product is, who their target buyer is, and why they chose the words that they did. They will present this jingle to the class. (20 minutes)

Assessments:

- Quiz #4.1 on the components of advertising (10 minutes)
- Students will create an advertisement for their store on Dollar Bay, while filling out Worksheet #4.1. (15 minutes)

Dollar Bay
Lesson 4 Instructor's Guide: Advertising

- 1. Lecture on the components of advertising**
 - Instructor presents lecture #3.1

- 2. Students make an advertisement and present it to the class**
 - Divide students into groups
 - Instruct them to create a catchy advertisement jingle to be used on the radio or television. They are to say what the product is that they are advertising for, who their target buyer would be, and why they chose the words that they did. They will present their jingle to the class.

- 3. Quiz on the components of advertising**
 - Use Quiz #4.1

- 4. Students will create an advertisement for their store – Hand out Worksheet #4.1**
 - Students will use Worksheet #4.1 as a guide to creating an advertisement for their store.
 - They are to hand in the completed Worksheet when they are finished.

Dollar Bay

Lecture #4.1: Advertising

There are five main components that go into advertising:

1. Media type
2. Specifics
3. Size
4. Style
5. Feature

Media type:

- This should be the first thing that you decide on
- What would best reach your target buyer?
 - Newspaper
 - Radio
 - Television

Specifics:

- Where would your target buyer look?
 - Newspaper – which section?
 - Radio – which station?
 - Television – which station?

Size:

- In Dollar Bay, the longer the advertisement, the more money it costs. Is it worth it?
 - Newspaper – 1 page, ½ page, ¼ page, 1/8 page
 - Radio – 15 seconds, 30 seconds, 1 minute
 - Television – 30 seconds, 1 minute

Style:

- How the advertisement looks will determine if the customer pays attention to it, or dismisses it.

Feature:

- Do you want to feature a product?
- It costs more to feature a product, but it may get customers into your store.

Worksheet #4.1: Advertising

Advertising Research

Click on “Marketing” “Market Research” and then “Find Advertising Media for Buyer” Recall who your top three buyers were, and see which advertising means would best suit them. List the top three buyers and what would best reach them:

- 1.
- 2.
- 3.

Creating an Advertisement for your Store

Select the “Advertising” tab, then “New Ad” A menu will come up where the five components of advertising are listed. Try out different options for your advertisement. Two important things to keep in mind are to (1) Remember that you want your ad to appeal to your top buyers, and (2) There is a running total of your cost for the add on the bottom of the window.

1. What is the best advertising media to reach your target buyers? What could be a reason for that?
2. Which section of the newspaper or station on the radio would best reach your buyers? Why do you think this is?
3. What is the most efficient length of your ad that will be catchy for customers, yet not be too expensive for you? Why do you think so?
4. What would be the best style to use to appeal to your buyers? Why do you think that this style will work?
5. Are you going to feature a product? Why or why not?

Dollar Bay
Quiz #4.1: Advertising

1. What is the first thing you need to decide when making an advertisement?

2. What is meant by “Specifics” in advertising?

3. The length of a newspaper or radio advertisement refers to this component in advertising.

4. Why is it important to consider the style of your advertisement?

5. Which advertising factor refers to displaying a certain product to get customers into your store?

6. What are the five factors to consider in advertising?

Dollar Bay
Lesson Plan 5: Market Reporting
Designed for a 50 minute class period

Goals:

- Students will understand the importance of checking on sales information when managing a business.
- Students will utilize National Economics Content Standard 14: Entrepreneurs are people who take the risks of organizing productive resources to make good services. Profit is an important incentive that leads entrepreneurs to accept the risk of business failure.

Objectives:

- Students will be able to use market reports to make decisions that would help a business.
- Students will be able to explain the usefulness of market reporting of sales by cluster group, sales by neighborhood, sales by product, sales percentage distribution among stores for a selected product, overall sales percentage distribution among stores, sales percentage distribution among sold products, and a ledger of your profit/loss.

Activities: (All times are approximate)

- Lecture (5 minutes)
 - Encourage students to take notes; this material will be helpful when exploring Market Reporting
- Students actively explore Market Reporting on Dollar Bay and fill out Worksheet #5.1. (25 minutes)

Assessments:

- Class discussion on making decisions that would help a business. (10 minutes)
 - Guiding questions listed in the Instructor's Guide
- Quiz #5.1 (10 minutes)
 - On the usefulness of market reports

Dollar Bay
Lesson 5 Instructor's Guide: Market Reporting

1. Lecture

- Instructor presents lecture on Market Reporting
- Use Lecture #5.1

2. Class Discussion

- Instructor asks the class questions on making decisions based on market reports
- Guiding Questions
 - a. What would you do if you saw that your store was among the lowest sales percentage among stores for the product you are selling?
 - b. What would you do to increase low sales in your neighborhood? Would it be helpful just to you, or to other businesses as well?
 - c. Would you change anything if your report of sales percentage distribution among sold products ranked the product you are selling as the highest percentage?
 - d. Why is it important to frequently check on your ledger?

3. Students actively explore Market Reporting on Dollar Bay

- Students will explore Market Reporting on their own, using Worksheet #5.1 as a guide and filling it out as they go.

4. Quiz on Market Reporting – Hand out Quiz #5.1

- Students will complete Quiz #5.1 and hand it in.

Lecture #5.1: Market Reporting

Market Reporting: you can use market reporting to see how your store is doing, how well the products you are selling are selling in other stores, and to see the sales by different groups.

- In Dollar Bay, the reports available to you are:
 - A Ledger
 - Sales by Cluster Group
 - Sales by Neighborhood
 - Sales by Product
 - Sales by Percentage Distribution Among Stores for a Selected Product
 - Overall Sales Percentage Distribution Among Stores
 - Sales Percentage Distribution Among Sold Products
- I. Ledger
 - a. Report showing the profit/loss in your store, week by week
 - b. Use to see if you are making improvements each week
 - II. Sales by Cluster Group
 - a. Reports of each buyer group
 - b. Recall your top three buyers; pay close attention to them
 - c. Use to see what each group is buying
 - i. You want to sell something that they will buy
 - III. Sales by Neighborhood
 - a. Reports of how sales have been week by week in each neighborhood
 - b. Recall which neighborhood you are in – you may need to use the map to check
 - c. This will show you what the people in the area of your store (the most likely buyers) are buying.
 - IV. Sales by Product
 - a. Reports of the demand of each product
 - b. This may influence the prices you set for your products
 - V. Sales by Percentage Distribution Among Stores for a Selected Product
 - a. Report of how much each store is selling of a certain product
 - b. It is helpful to see how your competition is doing compared to you
 - VI. Overall Sales Percentage Distribution Among Stores
 - a. Report of how much each store is selling in general
 - b. Use to see where you are at among other businesses
 - VII. Sales Percentage Distribution Among Sold Products
 - a. Report of how each product is selling in relation to all other products
 - b. Useful to see the demand of different products

It is a good idea to use this tool regularly throughout this game, to see how your store is doing and to make changes that will be beneficial to your buyers.

Worksheet #5.1: Market Reporting

Click on the “Marketing” tab, and then select “Market Reporting”. Use the pull down menu to select different reports.

Answer the following questions while searching the reports.

Sales by Cluster Group

1. How much purchasing have your top three buyers been doing over the last 3 weeks?

Sales by Neighborhood

2. How have sales been in your neighborhood compared to the other neighborhoods?

Sales by Product

3. What have the sales been for the last month on the product you are selling?

Sales Percentage Distribution among Stores for a Selected Product

4. How many stores are selling the same product as you are?

Overall Sales Percentage Distribution among Stores

5. Among the other stores, what is your sales percentage distribution?

Sales Percentage Distribution among Sold Products

6. How is the product that you are selling doing compared to other products?

Quiz #5.1: Market Reporting

Explain how the following market reports would be useful when managing a business.

1. Sales by Cluster Group
2. Sales by Neighborhood
3. Sales by Product
4. Sales Percentage Distribution among Stores for Selected Products
5. Overall Sales Percentage Distribution among Stores
6. Sales Percentage Distribution among Sold Products
7. A ledger of your profit/loss

Dollar Bay
Lesson Plan 6: Banking
Designed for a 50 minute class period

Goals:

- Students will understand when it is necessary to apply for a loan when managing a business.
- Students will utilize National Economics Content Standard 11: Money makes it easier to trade, borrow, save, invest, and compare the value of goods and services.

Objective:

- Students will be able to weigh the advantages and disadvantages of taking out loans to buy products and to hire more experienced employees.
- Students will be able to identify the conditions associated with loans in Dollar Bay.

Activity:

- Lecture on the factors to consider before taking out a loan (5 minutes)
- On Dollar Bay, students will explore the banking component on Dollar Bay while answering questions on Worksheet #6.1 (10 minutes)

Assessment:

- In groups of two, students will write down the advantages and disadvantages of taking out a loan for each of the given situations on the worksheet, Scenarios #6.1. (10 minutes)
- Discussion on the answers they gave to the scenarios (10 minutes)
- Quiz #6.1 – Loans (10 minutes)

From this point on, students are able to manage their business on their own.

Dollar Bay
Lesson 6 Instructor's Guide: Banking

- 1. Lecture on the factors to consider before taking out a loan**
 - Use Lecture #6.1

- 2. In groups of two, students weigh advantages/disadvantages of business scenarios**
 - Hand out the worksheet Scenarios #6.1
 - Students read each scenario together and write down the advantages and disadvantages of each given scenario

- 3. Discussion on Scenarios #6.1**
 - The whole class comes together and the instructor asks for the students' advantages for the first scenario, writing them on the board as the students state them.
 - The instructor asks for the students' disadvantages for the first scenario, writing them on the board as students state them.
 - The students give their input on whether or not they would go through with the loan for the given scenario.
 - Repeat the above for each of the four scenarios.

- 4. Students explore banking on Dollar Bay**
 - Students use Worksheet #6.1 as a guide to banking in Dollar Bay

- 5. Quiz #6.1**
 - On making decisions on loans

From this point on, students are able to manage their stores on their own.

Dollar Bay
Lecture #6.1: Banking

Factors to Consider before Taking out a Loan

Taking out a loan to buy more products:

- Have the products that you already have in stock been selling well?
 - If they have, taking out a loan to buy more products might help you to get more business.
 - If they have not, taking out a loan to buy more products may help you to expand your product line, bringing in more customers.
- How might the loan money to buy more products help your business?
- How might the loan money harm your business?
- Will the revenue you generate from the products that you would buy with the loan money make it worth the monthly interest payments?

Taking out a loan to hire a more expensive, experienced employee:

- Is it the employee that is helping or hindering my store, or is it some other factor?
- Would the monthly payments and interest be returned to me through an increase in sales because of the salesperson?
- Do I have a plan for what to do when the loan money runs out and I still have to pay my expensive employee?

Remember: When taking out a loan, you are paying back not only the loan amount (principle), but you are also paying interest.

Paying back a loan early will help you in that your interest will not accumulate, and you will not have to make any additional payments.

Dollar Bay
Scenarios #6.1: Taking out a Loan

There are four scenarios described below. For each scenario, write down the possible advantages and disadvantages of taking out a loan in the given situation. If there are any other factors that you feel may need to be considered, please note those as well.

1. I have a furniture store and business in it has been fairly steady. The main customers that come into my store are over the age of 50, and I have now decided that I want to accommodate all ages. To do this, I need to have a more broad supply of furniture. I would need to take out a large loan to do this.

Advantages:

Disadvantages:

Other factors to consider:

2. I have a tool store where business has been steady. However, I always seem to run out of items because I cannot afford to buy more at one time. If I take out a loan, I would be able to purchase more at one time which would mean more customers would leave happy and then they would be more likely to return.

Advantages:

Disadvantages:

Other factors to consider:

3. I have an employee that costs me \$200 per week and is not very experienced. I hired this employee because the price was right, but I feel that it would be beneficial to my store if I had a more experienced employee. The more experienced one would cost more, however, it would help my business.

Advantages:

Disadvantages:

Other factors to consider:

4. I have a \$500 per week employee right now and business in my store has been quite steady. However, I cannot afford to keep this employee unless I take out a loan. Should I do this and keep the excellent employee I have now, or should I let this employee go and hire a new, less experienced one?

Advantages:

Disadvantages:

Other factors to consider:

Dollar Bay
Quiz #6.1: Loans

1. Net worth is:
 - a. The total cash you have on hand.
 - b. The total amount of your store's stock.
 - c. The amount of your cash on hand plus the value of your store's stock.
 - d. None of the above.

2. What are the advantages of paying back a loan early?
 - a. _____

 - b. _____

3. What might be a bank's reason for not allowing you a higher loan?

4. In Dollar Bay, the larger the loan amount, the lower the interest rate. How would this influence your loan decision?

5. If a loan is offered with no requirement of net worth, yet it has a very high interest rate, what sort of a situation might you be in to take out this loan?

