JOURNAL OF ECONOMICS TEACHING

Three Business World Lessons for Introductory Economics

To demonstrate applications of economics to real life, and especially to the business world, we present the stories of three popular businesses that have faced challenges, made mistakes, and experienced success during their business journey. For each company – Dr. Martens, Toys "R" Us, and Lululemon, we have developed a lesson plan to elaborate on how the company operates and how economics can explain the effect of certain events the company has experienced. The teaching guides can be easily used in introductory economics courses to offer real-world business examples of fundamental concepts such as the supply and demand model, product differentiation, monopolistic competition, barrier to entry, costs, innovation, shut-down decisions, patents, and brands. Our goal is to offer an engaging activity that exposes students to applications of introductory economics concepts to existing businesses.

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1. Introduction

Students often consider economics an unattractive field of study. The reason could be the growing emphasis on STEM, the mathematical prerequisites, the fact that out-of-date teaching practices such as the "chalk and talk" are still chosen by many economic educators (Asarta, Chambers, & Harter, 2021) and the misconception that economics is inapplicable to the real world.

The misconception about the lack of economics applications is particularly problematic because economics provides insights about how firms and consumers make choices and how the economy operates. Its underlying principles have implications in everyday decision-making and explain the effects of events and policies that appear in the news daily. The subject offers an intellectual tool for understanding decision-making processes and helps students build a useful skillset in many areas of study and the workplace. Therefore, our goal is to offer an engaging activity that exposes students to applications of introductory economics concepts to existing businesses. While it is true that the economic way of thinking has applications beyond the study of commercial enterprise, we see opportunities in offering business examples because students have been expressing strong interest in business and entrepreneurship. For example, according to Forbes, 75% of Gen Z want to launch their own business (Kratz, 2024). A global survey spanning across 58 countries revealed that in 2021, at least 18% of undergraduate and graduate students wanted to become entrepreneurs right after graduation and another 32% were interested in doing so within five years of graduation. The survey also provided evidence that 17% of the students in the U.S. already had a business and another 16% were planning to launch a business after graduation[1]. Utilizing this business inclination of students to illustrate introductory economics is useful in several ways. First, it enhances students' practical understanding of the theory enabling them to recognize the applicability of economics to the real world and bridge the gap between theory and practice. Second, incorporating students' interests in the curriculum could increase interest in economics and classroom engagement. Business examples could also prepare students to apply economic theory to other business scenarios or other non-business decision-making processes that they might encounter in their future careers.

With this motivation in mind, we primarily build upon the work of Milovanska-Farrington, Bess, and Luce (2024a) who offer cases from the business world that illustrate how existing businesses apply economics principles daily.

The current paper differs from the latter work in that while Milovanska-Farrington, Bess, and Luce (2024a) focus on stories of small to medium-sized firms, we feature relatively more popular businesses that students are more likely to relate to. Specifically, we discuss the stories of Dr. Martens, Toys "R" Us, and Lululemon. We chose these businesses for two main reasons. First, the backstories are very popular among students: Dr. Martens' boots, also called "Docs," have become the Gen Z "it" shoe worn by several influencers[2]; Toys "R" Us because the rise and fall show what happens to iconic brands that do not evolve; and Lululemon because of its commitment to health and wellness that resonates with Gen Z for whom wellness is a top

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[1] https://hbr.org/2022/12/what-you-need-to-know-about-launching-a-startup-right-out-of-college#:~:text=At%20least%2018%25%20of%20students,to%20%24208%20billion%20in%202021 and https://www.guess-survey.org/resources/PDF_InterReports/GUESSS_2021_Global_Report.pdf

[2] https://fortune.com/2024/04/17/gen-z-favorite-dr-martens-struggling-shoes-last-long/

priority[3].

2. Literature Review

Students often find the content covered in introductory economics courses challenging and unengaging. Providing specific examples could alleviate this issue and facilitate understanding (Weinstein, Sumeracki, & Caviglioli, 2018), especially when these concrete examples are relevant to the audience (Willingham, 2021; Wooten et al., 2021). Offering content that resonates with changing generations of learners requires that economic educators remain current and update their examples regularly to adapt to evolving students' interests.

This need for relevant content has given rise to a stream of literature in economic education that has suggested various ways to engage students in the economics classroom. Authors have proposed using music (e.g., Geerling, et al. 2020; Rousu, Melichar, & Hackenberry, 2021), movies (e.g., Mateer, O'Roark, & Holder, 2016), television series (e.g., Tierney et al. 2015; Ben Abdesslem & Picault, 2023), and sitcoms (e.g., Milovanska-Farrington & Lynch, 2024b) to engage students. More recent approaches involve incorporating viral videos (Geerling, Mateer, & Picault. 2024a) and the backstories and business acumen of Taylor Swift and MrBeast (DeWind et al. 2023; Geerling, Mateer, & Wooten, 2024b), and female influencers (Milovanska-Farrington, Geerling, & Mateer, 2024e) to illustrate economic concepts in a way that resonates with a social media-savvy generation. The business spirit of today's students has also inspired literature that has suggested engagement through linking economics with business and entrepreneurship (e.g., Milovanska-Farrington, Bess, & Luce, 2024a; Milovanska-Farrington & Mateer, 2024c).

3. Teaching Guides

In this section, we provide three teaching guides, one for each business featured in this article. Each guide refers to a video and a news article and presents the economic concepts, learning objectives, instructions for educators, and assessment questions that could be used easily in a classroom setting. Instructors need to only be able to show a video in class and have a whiteboard to write on. They could choose whether to use the assessment questions we provide for a discussion, a think-pair-share activity, or an assessment. All assessment questions are based on the videos and the in-class discussions suggested in the Instructions for educators for each of the three businesses. To facilitate instruction, we have uploaded the relevant clips in Critical Commons, an open-access resource available to all instructors[4].

A. Dr. Martens

Clip: https://criticalcommons.org/view?m=Hli3E17Z4

Clip length: 3 minutes and 30 seconds

Related article: Gen Z favorite Dr. Martens is struggling as its CEO steps down - and it might be because the shoes last too long (Fortune, April 2024)

Concepts: patent, supply and demand model

[3] https://www.hivelr.com/2023/03/the-economics-of-lululemon/ and https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/the-trends-defining-the-1-point-8-trillion-dollar-global-wellness-market-in-2024?cid=other-eml-mtg-mip-mck&hlkid=54f51c678f164e64b81b88f2b4f5146a&hctky=1926&hdpid=a91cc4a1-cb5d-48e8-9020-050490cd48c6
[4] https://criticalcommons.org/

Learning objectives:

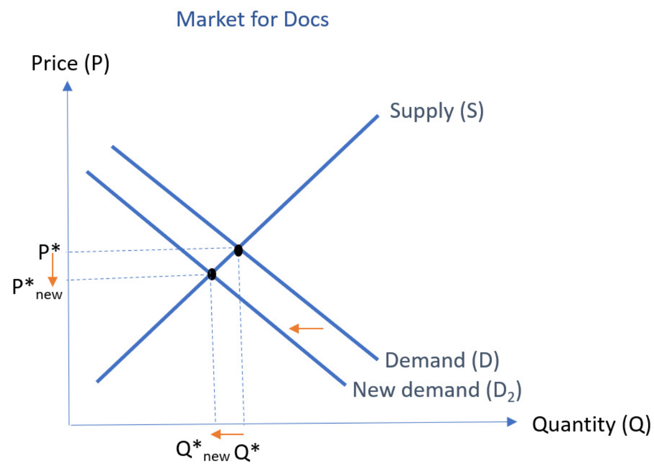
- Analyze the effect of various events on the supply and demand for Docs.
- Apply the supply and demand model to identify the effect of various events Dr. Martens has experienced on the equilibrium price and quantity of the Docs.
- Recognize a real-world example of a patent.

Instructions:

- Ask students whether they have ever worn Dr. Martens' shoes ("Docs"). Do they know any celebrities who have used them? They might mention the influencer Emma Chamberlain, the singer Olivia Rodrigo, and the model Bella Hadid[5]. Later, minutes 0:31 to 0:44 from the video mentions Kanye West, Cardi B, Dalai Lama, and Pope John Paul II. Do students know the story of the Docs?
- Show students the clip from the Business Insider. The clip summarizes the story of Dr. Martens, the reasons for the increase in their price (even after accounting for inflation) from 1960 to 2020, and the reasons for its successes and challenges over the years.
- Ask students the following discussion questions:
    - What were the reasons for Dr. Martens' success? Students might mention the new, patented technology (air-cushioned sole), comfort, recognizable brand (e.g., iconic stitching, heel loop, and yellow stitch), and popularity the boots gained among movements. Refer to minutes 1:52 to 2:38 from the video. This is a good opportunity to recall what a patent is and why it creates a barrier to entry.
    - Why did the business struggle in the 2000s? The answer is that the boots went out of fashion and the demand for the Docs decreased. See minutes 2:38 to 2:49 from the video. Ask students to show the effect graphically and to determine the effect of the change on the equilibrium price and quantity of the Docs. The graph should look as follows:

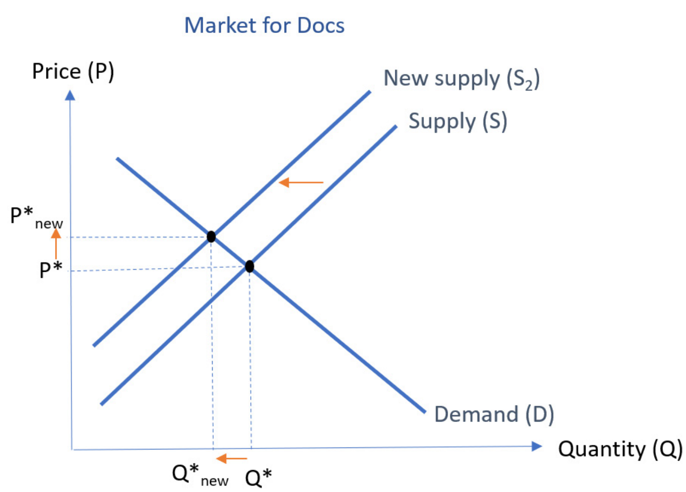
[5] https://fortune.com/2024/04/17/gen-z-favorite-dr-martens-struggling-shoes-last-long/?utm_source=e-mail&utm_medium=newsletter&utm_campaign=ceo-daily&utm_content=2024041810am&tpcc=NL_Marketing. Note that although we reference this article, students do not necessarily need to read it to engage in the activity.

Figure 1: Market for Docs



- Why did the price of the Docs increase so much in the 2000s? The answer is that manufacturing costs (costs of production) increased. This is mentioned in minutes 2:49 to 2:59 from the video. You can ask students what happens to supply when the costs of production increase. The effect could also be shown on a supply and demand graph as shown below.

Figure 2: Market for Docs



- Although the price of Docs was rising in 2018 – 2019, sales and profits were increasing as well. Why? Students might mention the popularity of the boots among Gen Z consumers, the durability of these shoes, and the "signature 'worn for a lifetime' ethos" of the company[6].

[6] https://fortune.com/2024/04/17/gen-z-favorite-dr-martens-struggling-shoes-last-long/?utm_source=e-mail&utm_medium=newsletter&utm_campaign=ceo-daily&utm_content=2024041810am&tpcc=NL_Marketing

- Explain that an article from Fortune refers to Dr. Martens as "Gen Z 'it' shoe" because of its popularity. Yet, the company has had moments of struggles in 2024. Is it possible that the durability of the Docs that partly "helped it [the business] endure the years could be the very reason for its plummeting sales"? Why? Students could explain that if the shoes are very durable, consumers do not need to replace them frequently. The durability of the boots might contribute to lower demand for the Docs over time.
- Dr. Martens experienced "additional inventory storage costs due to the struggling U.S. wholesale business"[7]. What is the expected effect of these unexpected costs on Dr. Martens' boots? You can ask students to provide a supply and demand graph that shows the effect of this increase in storage costs on the market for the Docs. Students need to shift the supply curve to the left. The graph that shows the effect is the same as the one that illustrates a shift of the supply curve to the left drawn above.

Assessment:

1. Dr. Martens had a ________ on the air-cushioned sole that he created.

   a. Copyright.

   b. Franchise.

   c. Brand name.

   d. Patent.

Instructional notes: A patent on the air-cushioned sole that Dr. Martens created gave him the right to be the only producer and seller of his creation for a limited time.

2. In the 2000s, boots went out of fashion. What was the effect of this event on the market for Docs boots?

   a. The equilibrium price decreased and the equilibrium quantity decreased.

   b. The equilibrium price increased and the equilibrium quantity increased.

   c. The equilibrium price decreased and the equilibrium quantity increased.

   d. The equilibrium price increased and the equilibrium quantity decreased.

Instructional notes: As boots went out of fashion, the demand for Docs decreased. Graphically, the demand curve shifted to the left. As a result, both the equilibrium price and the equilibrium quantity decreased.

[7] https://fortune.com/2024/04/17/gen-z-favorite-dr-martens-struggling-shoes-last-long/?utm_source=e-mail&utm_medium=newsletter&utm_campaign=ceo-daily&utm_content=2024041810am&tpcc=NL_Marketing_

3. Dr. Martens has experienced unexpected inventory storage costs. How is this change expected to affect the price of Brooks Sports shoes, a substitute for Docs?

a. Decrease.

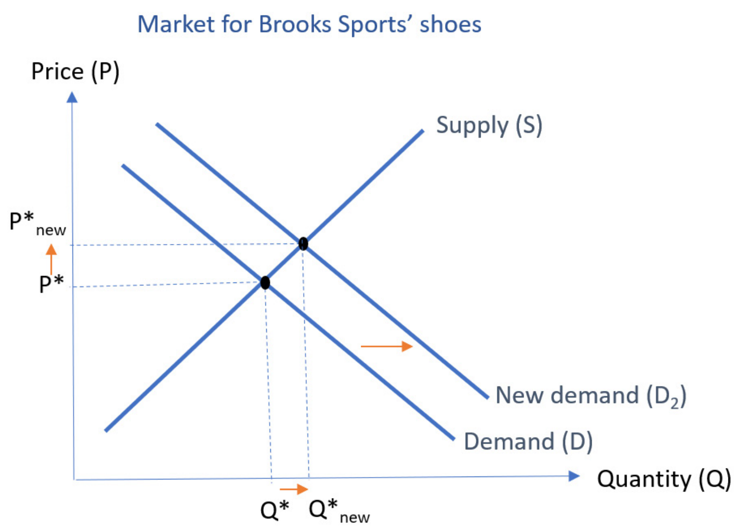
b. Increase.

c. Remain the same.

d. Cannot be determined.

Instructional notes: Unexpected inventory buildups cause storage costs to increase. Higher production costs decreased the supply of Docs. Graphically, the supply curve shifted to the left. As a result, the equilibrium price of Docs increased. As Docs become more expensive, the demand for their substitutes, including Brooks Sports shoes, is expected to increase, leading to an increase in the price of the Brooks Sports shoes. You can encourage students to graphically show the aforementioned effect on the market for Brooks Sports shoes. The graph looks as follows:

Figure 3: Market for Brooks Sports' Shoes



4. Dr. Martens has tried to diversify its products by offering trendy or more creative styles, but consumers have mostly preferred the classic designs and the more creative styles have "pile[d] up in warehouses"[8]. The iconic 1460 boot with eight eyelets that was first made in 1960 remained the main product of the company, known as the Doc. However, if consumers temporarily prefer a trendy boot style when it first appears and stay away from the classic design, what is expected to temporarily happen to the price of the classic Docs?

[8] https://fortune.com/2024/04/17/gen-z-favorite-dr-martens-struggling-shoes-last-long/?utm_source=e-mail&utm_medium=newsletter&utm_campaign=ceo-daily&utm_content=2024041810am&tpcc=NL_Marketing

a. Price is expected to remain the same.

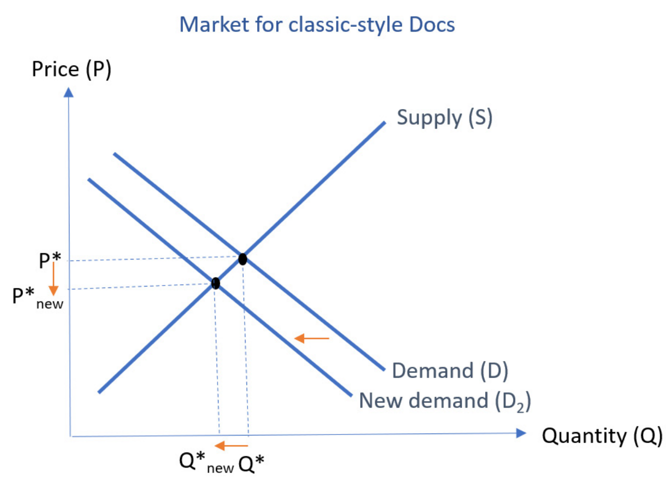
b. Price is expected to temporarily increase.

c. Price is expected to temporarily decrease.

d. Price is unrelated to consumers' preferences and trends.

Instructional notes: If consumers temporarily decrease the demand for the classic Docs, graphically the demand curve for these classic shoes would shift to the left. As a result, both the equilibrium price and quantity would decrease. The following graph shows the effect.

Figure 4: Market for Classic-Style Docs



B. Toys "R" Us

Clip: https://criticalcommons.org/view?m=vvWnC61I5 (clip 1) and https://criticalcommons.org/view?m=SAA5zxWZk (clip 2)

Clip length: 6 minutes and 31 seconds (clip 1) and 7 minutes and 33 seconds (clip 2)

Related podcast/article: What Went Wrong: The Demise of Toy R Us (https://knowledge.wharton.upenn.edu/podcast/knowledge-at-wharton-podcast/the-demise-of-toys-r-us/)

Concepts: innovation, bankruptcy, the shutdown decision, product differentiation, market share.

Learning objectives:

- Understand how businesses that gain a cost advantage can increase market share.

- Realize that successful firms that do not continue to innovate often experience rapid declines and are forced to go out of business.
- Understand the relation of price elasticity of demand to changes in total revenue.
- Understand when a firm should continue to operate or shut down.

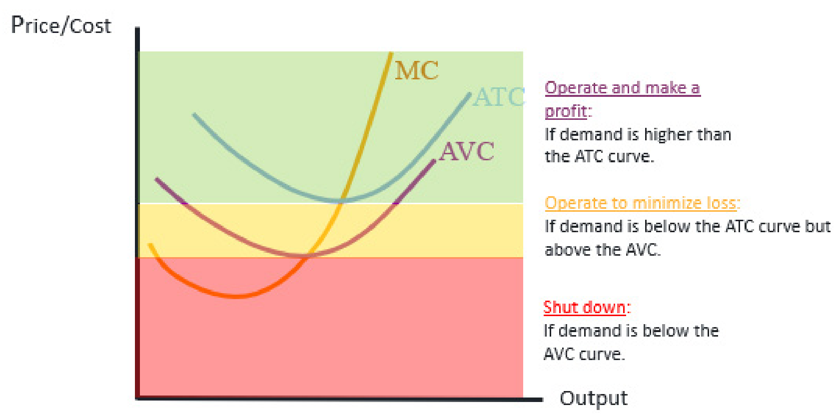
Instructions:

- Ask students where they shopped for toys while they were growing up. Have they ever shopped at Toys "R" Us?
- While intense price competition from mass retailers Walmart, Amazon, and Target contributed to the company's demise, experts place the blame squarely on the shoulders of management. Toys "R" Us failed to innovate its business model, incorporate technology or adapt to changing consumer behavior.
- Show students the first video clip. Ask them what Toys "R" Us did well and how they became so successful.
- The following is a summary of facts they or you could mention:
    - Toys "R" Us was one of the largest toy retailers in the world, with more than 800 big box stores in the United States and a presence in more than 30 countries during the peak of its influence in the 1990s. See minutes 6:18 to 6:31 from the video.
    - In 2000, Toys "R" Us launched a 10-year partnership with Amazon. The joint toy store was a success for both companies initially, but it had serious consequences for Toys "R" Us. First, the agreement meant that Toys "R" Us had no autonomous online presence — customers who tried to visit ToysRUs.com were redirected to Amazon. Second, once Amazon saw how well it worked, it began expanding its toy and baby categories, and other merchants, including Toys "R" Us' competitors, began selling those products on Amazon.
- Show students the second video clip. Ask them what mistakes Toys "R" Us made and why they went bankrupt.
    - The stores were too big, jammed full of inventory, poorly merchandised, and customer service was virtually nonexistent. Large inventories were especially problematic because this year's "it" toy is next year's afterthought. Poor inventory management led to aisles of products that were not fresh in the eyes of the consumers. Finally, management made little effort to make the in-store experience truly memorable.
    - Toys "R" Us and other big box stores had business models built around offering the lowest prices and best assortments — but now Amazon had better prices and a better assortment. To survive, companies must find some other differentiator. For example, Best Buy matched Amazon's prices but also adopted a showroom model that took advantage of the fact that customers like to see, touch, and try electronics, and to get advice from knowledgeable store associates. Toys "R" Us should have followed Best Buy's lead. Refer to minutes 4:30 to 4:40 from the video for

Best Buy's strategy.

- Selling toys was not enough. Toys "R" Us needed to differentiate its product line. Near the end, consumers could find aisles of toys at Walmart and Target and endless options online. There was little need to go to Toys "R" Us when comparable (or better) value was available elsewhere, and shopping for toys could be bundled with purchasing other products in stores such as Walmart and Target. Refer to minutes 1:24 to 1:54 from the video. Some examples of the ways Toys "R" Us might have differentiated its product by being forward-thinking are:
    - Investing in indoor playgrounds to attract customers to the store.
    - Creating a café so that customers would stay longer.
    - Partnering with toy manufacturers by selling booth space where customers get to try out the latest toys.
- Toys "R" Us took on too much debt.
- Toys "R" Us was too slow to adapt to changes in the retail sector. The partnership with Amazon allowed Amazon to leapfrog Toys "R" Us and become the go-to business for toy purchases. Minutes 2:40 to 3:47 from the video refer to the partnership.
- Toys "R" Us went bankrupt in 2017. See minutes 6:25 to 6:44 from the video. The decision to shut down is difficult because many firms struggle to let go when the business is failing. A firm should shut down in the short run when it is no longer able to cover its average variable costs (AVC). In the long run firms must decide to stay or exit the market. When this is the case, a firm will choose to go out of business if it cannot cover its average total costs (ATC).

Figure 5: Short-Run Shut-Down Decision and Long-Run Decision to Exit the Market



Assessment:

1. Which factors led Toys "R" Us to dominate the toy industry? Select all that apply.

   a. Small stores in every town across America.

   b. Advertising.

   c. Low costs.

   d. They acquired all the other toy stores, thereby eliminating the competition.

Instructional notes: An iconic advertising jingle coupled with lower costs than any other toy company were the two primary drivers of Toys "R" Us' success. This information is found in the video.

2. Which factors contributed to Toys "R" Us filing for bankruptcy? Select all that apply.

   a. Their stores were smaller than their competitors.

   b. They did not differentiate their in-store experience sufficiently.

   c. Their prices were too high.

   d. They did not innovate quickly enough.

Instructional notes: It takes many wrong steps to go from the dominant firm in a market to bankruptcy. Notably, Toys "R" Us stores were outdated and more expensive to operate than e-retailers who relied on shipping. The in-store experience at Toys "R" Us was minimal. Build-a-Bear is a good example of a firm that created a toy store experience and is still doing well in many retail settings. The answers b, c, and d are found in the video.

3. When a firm cannot cover all the variable costs of production (electricity, wages, etc.), what should it do?

Instructional notes: Shut down! Although Toys "R" Us had a tremendous amount of equity invested in its stores, many of those locations were not profitable. To keep its losses smaller, Toys "R" Us (or any business for that matter) should shut down when a store cannot cover its variable costs, as operating only causes the loss to become larger.

4. If Toys "R" Us made $200 million in accounting profit in 2014 on $10 billion in assets that otherwise might have earned $500 million in the stock market, what is the economic profit?

Instructional notes: Accounting profit only considers the explicit costs. Therefore, accounting profit is always greater than or equal to economic profit, which considers the explicit and the implicit costs of doing business. The implicit costs in the case are the $500 million. Therefore, the economic profit is $200 million – $500 million, or a $300 million loss.

C. Lululemon Athletica Inc.

Clip: https://criticalcommons.org/view?m=bIN5wgjcC

Clip length: 2 minutes and 14 seconds

Related article: The Economics of Lululemon (https://www.hivelr.com/2023/03/the-economics-of-lululemon/)

Concepts: product differentiation, monopolistic competition, branding, barrier to entry, costs, economies of scale.

Learning objectives:

- Understand the importance of product differentiation for Lululemon.
- Determine the market structure Lululemon operates.
- Explain how Lululemon's strong brand reputation, customer trust, and focus on specialized athletic apparel could create barriers to entry.
- Distinguish between Lululemon's fixed and variable costs.
- Analyze whether the market for athletic apparel is characterized by significant economies of scale.

Instructions:

- Ask students whether they know what Lululemon specializes in. Who are its customers?
    - Lululemon is a Canadian company started in 1998. It sells athletic apparel such as yoga and fitness pants, shirts, and shorts, and accessories such as bags and yoga mats worldwide. Its customers in stores and online are the revenue streams of the company. They are active men and women who care about health and wellness, athletes, yoga and fitness instructors, wholesale customers such as fitness centers, yoga studios, and health clubs.
- Who are Lululemon's main competitors? What market structure does Lululemon

operate in?

- Lululemon's major competitors are Nike, Adidas, Outdoor Voices, Under Armour, and Fabletics. However, there are many sellers of apparel although the clothes they sell are similar but not identical, that is, competitors offer differentiated products. Therefore, the athletic apparel market provides an example of monopolistic competition.

- How does Lululemon differentiate itself from its competitors? What has made it successful?
  - Lululemon uses high-quality materials, so the goods are durable and comfortable.
  - The company puts a lot of emphasis on people and lifestyle, in addition to offering quality products. The company differentiates itself from its competitors by successfully marketing an active and enjoyable lifestyle. In this way, potential customers who find this lifestyle attractive often choose Lululemon rather than its competitors. They become actual and loyal Lulu's customers.
  - It focuses on health, wellness, and creating a strong sense of community to build a loyal customer base. It is also committed to social responsibility. For example, it participates in charities and partners with like-minded organizations.
  - Lululemon also attempts to create a positive customer experience. For instance, it provides customized styling recommendations in the stores and organizes workshops. Then, it encourages customers to share their experience on social media[9].
  - Lululemon is active on social media and relies on influencer marketing, which means that it partners with influencers to promote the brand.

- In what way do Lululemon's strong brand reputation, customer trust, and focus on specialized athletic apparel create barriers to entry? Recall other barriers to entry.
  - The strong brand reputation and customer trust create a barrier to entry because competitors would have to invest a lot of resources into establishing similar reputation and customer loyalty.
  - You can discuss with students that other examples of barriers to entry include patents, copyrights, access to resources that competitors do not have access to, and high economies of scale. From these examples, only high economies of scale apply to Lululemon.
  - This is also a good opportunity to mention to students that the market for athletic apparel is characterized by significant economies of scale. Larger companies can lower costs and increase profits. As of July 31st, 2024, Lululemon's net profit margin was 16.34%. If time permits, you can also recall the concept of diseconomies of scale and ask students why a company might experience economies of scale or diseconomies of scale.

[9] https://www.hivelr.com/2023/03/the-economics-of-lululemon/

- Show students the clip about some product and management issues the company has faced (e.g., the resignation of Lululemon's chief product officer in May 2024). **What are some of these issues?**
    - Some issues mentioned in the video include a declining product category, changes in consumer preferences, a slowing athletic apparel market, and rising competition.
    - Based on the clip, why can't Lululemon simply use the inputs it possesses and start making different apparel that is trendy? Recall the concept of a substitute in production and refer to minutes 1:28 to 2:14 from the video. The reason Lululemon may not be able to sell different apparel is that the company is known for its leggings, so when people need them, they think of Lululemon. If somebody needs another product, they may not think of Lululemon but rather, of a company that specializes in the production of this alternative good.
- What are some other possible challenges Lululemon has experienced or might experience in the future? Refer to minutes 0:33 to 1:24 from the video.
    - Consumer tastes and preferences change.
    - Lululemon operates in a monopolistically competitive market. To maintain brand loyalty, it must continue to differentiate its product line.
    - As the company expands, supply chain management becomes more challenging.
    - The target market is willing to pay extra for products that they know are of high quality. However, customers may simply not associate certain products with Lululemon's business. See minutes 1:33 to 2:14 from the video.
- Finally, ask students if they think Lululemon has any opportunities for expansion. If yes, what are they? This question relates to Lululemon's future, so it could be a good ending to the discussion after students familiarize themselves with the business' past and present.
    - Students might mention that the company could expand into new markets, such as footwear, and partner with other businesses to expand product lines and reach new customers.

<u>Assessment:</u>

1. Which of the following businesses is most likely to compete with Lululemon?
    a. Starbucks.
    b. Target.
    c. Puma.
    d. Dunkin Donuts.

Instructional notes: Lululemon and Puma compete in the athletic apparel market.

2. Which of the following statements about Lululemon's strategy to differentiate itself from competitors in the athletic apparel market is correct?

    a. Lululemon focuses on lifestyle rather than a product.

    b. It purchases fabric of different quality from many suppliers to have products for any taste.

    c. It offers the lowest prices of fitness and yoga apparel in the athletic apparel market.

    d. It remains dedicated to its product selection and does not adjust based on changing consumer tastes and preferences.

Instructional notes: As described above, Lululemon focuses on people and lifestyle to attract customers and to differentiate itself from its competitors. It tries to create a sense of community, to create positive customer experience, and to promote health and wellness. The company adjusts its products based on the changes in consumer tastes and preferences although it does not always offer the lowest apparel prices.

3. Which of the following costs that Lululemon faces is most likely to be a variable cost?

    a. Maintenance of a brick-and-mortar retail store.

    b. R&D costs.

    c. Cost of manufacturing the apparel.

    d. Marketing costs.

Instructional notes: The cost of manufacturing apparel depends on the quantity of clothes produced, so it provides an example of a variable cost. Unlike manufacturing costs, maintenance, R&D, and marketing costs do not depend on the quantity, so they are fixed costs.

4. Lululemon's strong brand reputation and customer trust:

    a. Provide an incentive for Lululemon to not target a specific segment of the market.

    b. Make it necessary for Lululemon to focus on health and wellness.

    c. Have helped the business experience economies of scale.

    d. Make the demand for Lululemon's products more price-inelastic relative to the demand for less popular, competing brands.

Instructional notes: Lululemon's strong brand reputation and customer trust make it more likely that consumers will choose Lululemon even if its products are more expensive than those of competing brands. Customers who are loyal to Lululemon are less price sensitive.

4. Conclusion

The learning preferences of students are always changing, so educators must explore creative ways to remain relevant and engage students in the classroom. The material must relate to the students and the real world (National Education Association 2023). Given students' interest in business, we propose utilizing stories of success and challenges of three well-known businesses – Dr. Martens, Toys "R" Us, and Lululemon – to teach foundational economics concepts in an engaging way that resonates with a business-minded generation of students.

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