FORMS OF BUSINESS OWNERSHIP:

SOLE PROPRIETORSHIP:	PARTNERSHIP:	CORPORATION:
ADV: - Full control over decisions - Kept all the money DIS: - Unlimited liability - Limited funds and starting capital - Not an expert at everything - Work! - Business ends with the death of power - High risk	ADV: - More resources (financial, expertise) - Shared liability - Shared responsibility - More connections and networking DIS: - Conflict possibilities - Shares profits - Share decision making - Unlimited liability	ADV: - Separate legal entity - Accessibility of many resources - More capital available for expansion, innovation, etc. - Limited liability DIS: - Decision-making is by board - Set up is time consuming, expensive … red tape! - Profits go to shareholders

Production: transforming resources (INPUTS) into goods/services (OUTPUT)
Primary Sector: natural resources
Secondary Sector: refining resources
Service Sector: a service being done and no product given
Efficiency:
- Labour-intensive process: more employees, less machinery
- Capital-intensive process: more machinery, less people

Productive Efficiency: making a given quantity of output with the least costly mix of inputs.
Explicit Costs: payments to people or companies outside the company. “Accounting costs” because they appear on the books (including labour)
Implicit Costs: opportunity cost to owners of running the business
Normal Profit: the minimum return that owners must receive to keep their funds tied up in their business.
Wages of owners: what you could earn elsewhere

Economic Cost = Explicit costs - Implicit costs

Economic Profit = Total Revenue - Economic costs

Accounting Profit = Total Revenue - Explicit costs

Fixed Inputs: can not be adjusted in the short run (plant equipment)
Variable Inputs: can be adjusted (labour)
Total Product: overall quantity of output produced with a given workforce
Average Product: quantity of output produced per worker
Marginal Product: additional output produced when an extra worker is hired
Law of Diminishing Returns: At some point as more units of a variable input are added to a fixed input, the marginal revenue will start to decrease.

Total Revenue:
Price × Quantity

Marginal Revenue:
▲TC ÷ ▲Q

Average Total Cost:
TC ÷ Q

Average Variable Cost:
VC ÷ Q

Average Fixed Cost:
FC ÷ Q

<u>PRODUCTION IN THE LONG RUN:</u>

1) Economics of Scale:
    - A percentage increase in all inputs causes a greater increase in output
2) Constant Returns to Scale:
    - Percentage increase in all inputs = percentage increase in outputs (this usually happens if you must repeat exactly the same tasks used to produce the first unit of output)
3) Diseconomies of Scale:
    - Decreasing return to scale
    - Percentage increase input = smallest percentage increase output

        Reasons:
        - Management difficult (hard to control all aspects)
        - Limited natural resource (at a certain point you can't do any better no matter how many resources you add to the task

<u>Market Structures:</u>

1) **Perfect Competition:**
    - Many buyers & sellers
        - No single company is large to affect the outcome in the industry
    - Standard product
        - No noticeable difference among product from Company A to Company B
    - Easy/Entry/Exit

2) **Monopolistic Competition:**
   - Large number of business, differences among the products of competition (by location, quality, image)
3) **Oligopoly:**
   - Only a few businesses
   - Entry is restricted
   - Products may or may not vary

4) **Monopoly:**
   - Single business supplies a product with no close substitutes
   - Natural Monopoly: because of expense, it makes sense to only have one
   - Entry Barriers: obstacles to stop businesses from entering an industry

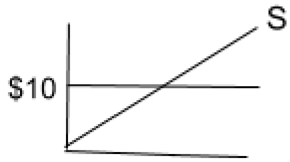
1) **Economies of Scale:**
   - You can't compete with big companies
2) **Market Experience**
3) **Restricted Ownership of Resources**
4) **Legal Obstacles:**
   - Legislation
   - Patents
   - Licenses (government decides)
   - Lobbyists
5) **Market Abuses:**
   - Predatory pricing (set price below cost to drive competitors out)
   - Dumping (selling a product below cost in a foreign market)
6) **Advertising**

MARKET POWER:

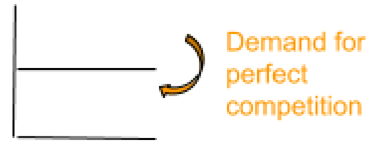
- Depends on:
  - Number of competitors
  - Size of company
  - Elasticity of demand on price

DEMAND DIFFERENCES:

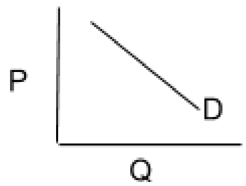
1) **Perfect Competition:**
   - Price taker



If equilibrium point is $10 for a product, you will sell at $10, regardless of if you sell 1 or 100

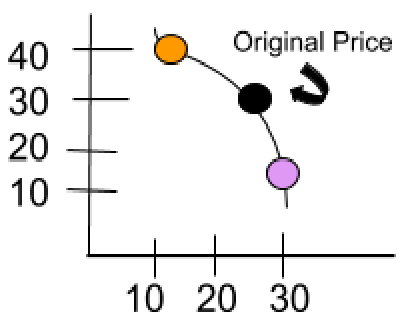


2) **Monopolistic Competition:**
   - Some ability to affect price, some distinction between your product & your competitors



3) **Oligopoly:**
   - A few large companies, you cannot ignore your competitors
   - There is a MUTUAL INTERDEPENDENCE between companies. The action of one company affect the other companies.

Example: Rivalry, Concerned with Market Shape



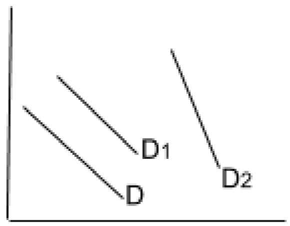
Sale price $30,000, increase price to $35,000 competitors DO NOT change their price as quantity decrease from 20,000 to 10,000 units

Sale price $30,000, decrease price to $20,000 competitors DO change their price. Therefore sales increase from 20000 to 25000 (not in equal proportion to price drop)

- Cooperation:
   - Price leadership: competitors follow the leader
   - Collusion: secretly or openly cooperate as if they were a monopoly, act jointly to maximize total profits
   - Cartel: a formal agreement among producers (OPEC)

4) **Monopoly:**
   - Demand curve same as market demand curve
      - Non-price competition
   - Monopolistic competition & oligopoly “imperfect competitors”
      - Product differentiation
   - Cosmetic or substantial goals
      - Increase demand
      - Decrease demand elasticity
   - Advertising goals

- Increased demand
- Make demand more inelastic



- When demand increases, and becomes more inelastic, TR increases
- If the increase in TR is greater than the costs of product differentiation and advertising then profits increase

NON-PRICE COMPETITION FOR THE CONSUMER:

Advantages:	**Disadvantages:**
- More choices & better products - Smaller companies can be seen	- Increase price - Large companies have more $ to advertise

INDUSTRIAL CONCENTRATION:
- Market domination by one or a few companies concentration ratio = % total sales revenue in a market earned by the largest business firms

OLIGOPOLY:
- If the top four firms make 50% or more of the revenue for the industry

MONOPOLISTIC COMPETITION:
- If the top four firms make less than 50% of the industry's revenue
- Concentration ratios may be misleading where there is a significant international trade

INDUSTRIAL CONCENTRATION:

Advantages:	**Disadvantages:**
- Economies of scale - Innovation (R+D)	- Less competition usually = increase price - May not innovate as quickly as competition market

TERMS:
- **Conspiracy:** Agreement between two or more parties to commission and carry out an offense, such as to commit murder or inflict injury, or to defraud, rob, or

steal. In many jurisdictions the conspiracy agreement itself is considered a crime, whether or not the intended offense was carried out.

- **Bid Rigging:** Illegal conspiracy in which competitors join to artificially increase the prices of goods and/or services offered in bids to potential customers. It may also include carving up the potential business between the conspirators.
- **Predatory Pricing:** Practice of temporarily selling below survival prices or giving goods away (as in the software industry) to undermine or eliminate the existing competition. Predatory pricing is an abuse of dominant position, and is illegal in several countries. Compare with peremptory pricing.
- **Abuse of Dominant Position:** occurs when a dominant firm in a market, or a dominant group of firms, engages in conduct that is intended to eliminate or discipline a competitor or to deter future entry by new competitors, with the result that competition is prevented or lessened substantially.
- **Mergers:**
  - Horizontal: is a merger or business consolidation that occurs between firms that operate in the same industry.
  - Vertical: is a merger between two companies that produce separate services or components along the value chain for some final product.
  - Conglomerate: any merger that is not horizontal or vertical; in general, it is the combination of firms in different industries or firms operating in different geographic areas

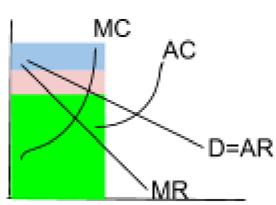
MONOPOLISTIC COMPETITION:

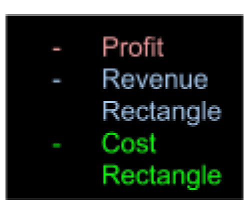
- At initial values P = AR = MR
- As more products are produced, MR falls more quickly than price

THE SHORT RUN:

- To maximize profit, find where MR = MC, this is the profit maximizing quantity

- Draw a vertical line to the DEMAND curve and set the price at that point

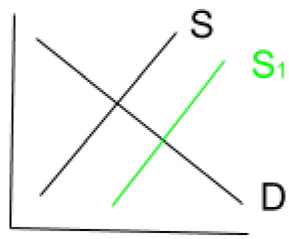




- If profit is greater than AC at that quantity, there is economic profit
- If P=AC, breakeven
- If P is less than AC, economic loss

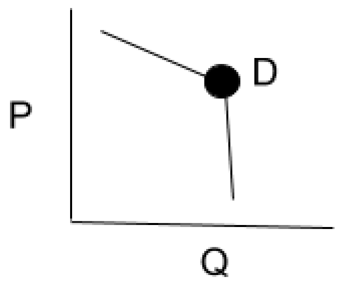
IN THE LONG RUN:

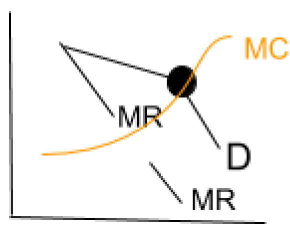
- When companies are making economic profit in the short run, new companies enter the market in the long run, profits decrease, and the long-term equilibrium point is reached.



OLIGOPOLY:

- If there is rivalry between competitors, the demand curve is “kinked” because of different responses of competitors to increases or decreases in price
- The MR curve also has two segments, but they do not met!





- Repeat the same process as other market structures to determine the quantity

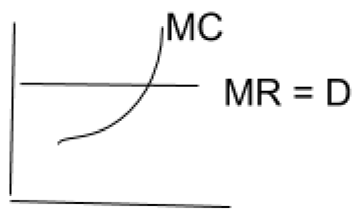
- Oligopolists tend to keep prices constant even as costs change. The only way they would change price is if MC no longer intersects with MR.

MONOPOLY:

- Revenue conditions are similar to monopolistic competition & oligopoly
- MR = MC, is where q is set, and the price is demanded at that quantity

MONOPOLY VS PERFECT COMPETITION:

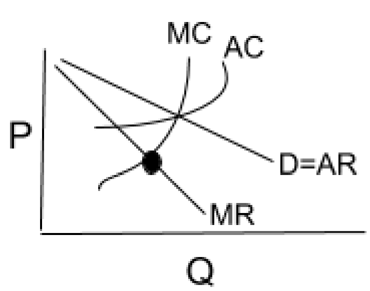
- PC, MR = D



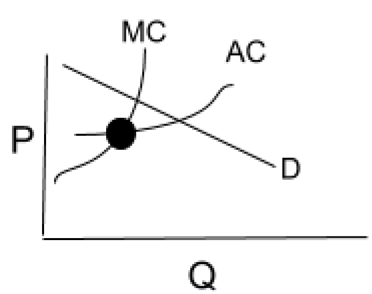
- Monopoly MR drops below price when output increases

REGULATION OF NATURAL MONOPOLIES:

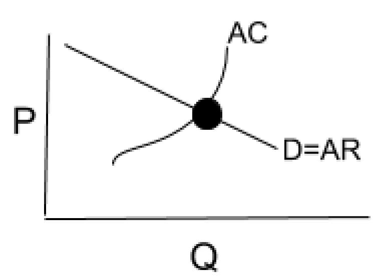
- A single business can produce a product at a significantly lower cost than several companies could (economies of scale) because they can produce cheaper, the government usually interves by:
    1) Providing the service through a crown corporation (ex. Canada Post)
    2) Regulating the single private company (difficult to set the price for them)
        A) Make them use the marginal cost price. The disadvantage of this would cause economic loss & the government would have to subsidize (ex. Regional transit)
        B) Set a certain rate of profit that the business will earn. The disadvantage of this is that there is little incentive for business to control costs, the more they inflate the costs, the more they can charge a high price.



Unregulated & regulated with min cost, marginal cost pricing



Regulated monopoly with marginal cost pricing



Regulated monopoly with an average cost pricing