BUSINESS CONCEPTS AND PROCESSES

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Objectives

- Define Business Concepts.
- Define the nature of business, describe the external environments of business, and discuss how these environments affect the success or failure of organizations.
- Describe the different types of global economic systems according to the means by which they control the factors of production.
- Explain the importance of the economic environment to business and identify the factors used to evaluate the performance of an economic system.

The Concept of Business and Profit

All businesses are subject to the influences of economic forces. But these same economic forces also provide astute managers and entrepreneurs with opportunities for profits and growth.

- **Business**
  - organization that provides goods or services to earn profits
- **Profits**
  - difference between a business's revenues and its expenses

External vs Internal Environments of Business

- All businesses regardless of their size, location, or mission operate within a larger external environment.

- Businesses also have an internal environment, more commonly called corporate culture.

The External Environments of Business (1 of 3)

- **External Environment**
  - everything outside an organization’s boundaries that might affect it.
  - plays a major role in determining the success or failure of any organization.
  - Managers must, therefore, have a complete and accurate understanding of their environment and then strive to operate and compete within it

Dimensions of the External Environment

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The External Environments of Business (2 of 3)

- **Domestic Business Environment**—the environment in which a firm conducts operations and derives revenues
- **Global Business Environment**—international forces that affect a business and includes international trade agreements, international economic conditions, and political unrest
- **Technological Environment**—ways by which firms create value for their constituents

The External Environments of Business (3 of 3)

- **Political-Legal Environment**—the relationship between business and government
- **Sociocultural Environment**—includes the customs, mores, values, and demographic characteristics of the society and determines the business standards that a society is likely to value and accept
- **The Economic Environment**—includes relevant conditions that exist in the economic system in which a company operates

Factors of Production (1 of 2)

- **Labor (Human Resources)** includes the physical and intellectual contributions people make while engaged in economic production and is also called human resources or human capital.
- **Capital** is the term used to describe the financial resources needed to operate a business.
- An **Entrepreneur** is a person who accepts the risks and opportunities entailed in creating and operating a new business venture.

Factors of Production (2 of 2)

- **Physical resources** are tangible things that organizations use to conduct their business and include natural resources and raw materials.
- **Information resources** are data and other information used by businesses and include market forecasts, the specialized knowledge of people, and economic data.

Economic Systems

- **Economic system**
  - a nation's system for allocating its resources among its citizens

Types of Economic Systems (1 of 3)

- **Planned Economy**
  - an economy that relies on a centralized government to control all or most factors of production and to make all or most production and allocation decisions
- **Communism**
  - a political system in which the government owns and operates all factors of production
- **Socialism**
  - A planned economic system in which the government owns and operates only selected major sources of production

Types of Economic Systems (2 of 3)

- **Market economy**
  - individual producers and consumers control production and allocation by creating combinations of supply and demand
- **Capitalism**
  - private individuals or businesses own the means of production, driven by the profit motive, with prices, production, and distribution largely determined by market forces (supply and demand) rather than central government control, emphasizing private property, competition and innovation which encourages entrepreneurship

Market Economy vs Capitalism

- A **market economy** is about **how decisions are made** in the economy.
  - Prices are set by **supply and demand**
  - Businesses decide **what to produce**
  - Consumers decide **what to buy**
  - Government involvement is **low**

  Focus: **the market controls the economy**

- **Capitalism** is about **who owns the resources and businesses**.
  - Businesses and property are **privately owned**
  - People invest to make **profit**
  - Individuals can own land, factories, companies, etc.

  Focus: **private ownership + profit**

Types of Economic Systems (3 of 3)

- **Mixed market economy**
  - features characteristics of both planned and market economies
- **Privatization**
  - process of converting government enterprises into privately owned companies

Demand and Supply in a Market Economy

- **Demand**
  - the willingness and ability of buyers to purchase a product (a good or a service)
- **Supply**
  - the willingness and ability of producers to offer a good or service for sale

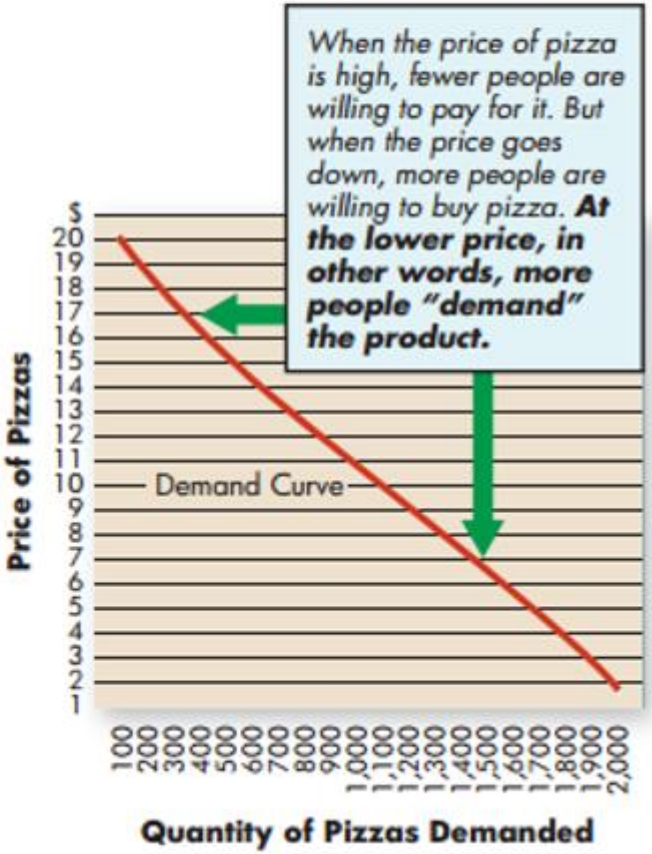
Surpluses and Shortages

- **Surplus**
  - a situation in which quantity supplied exceeds quantity demanded
- **Shortage**
  - A situation in which quantity demanded exceeds quantity supplied

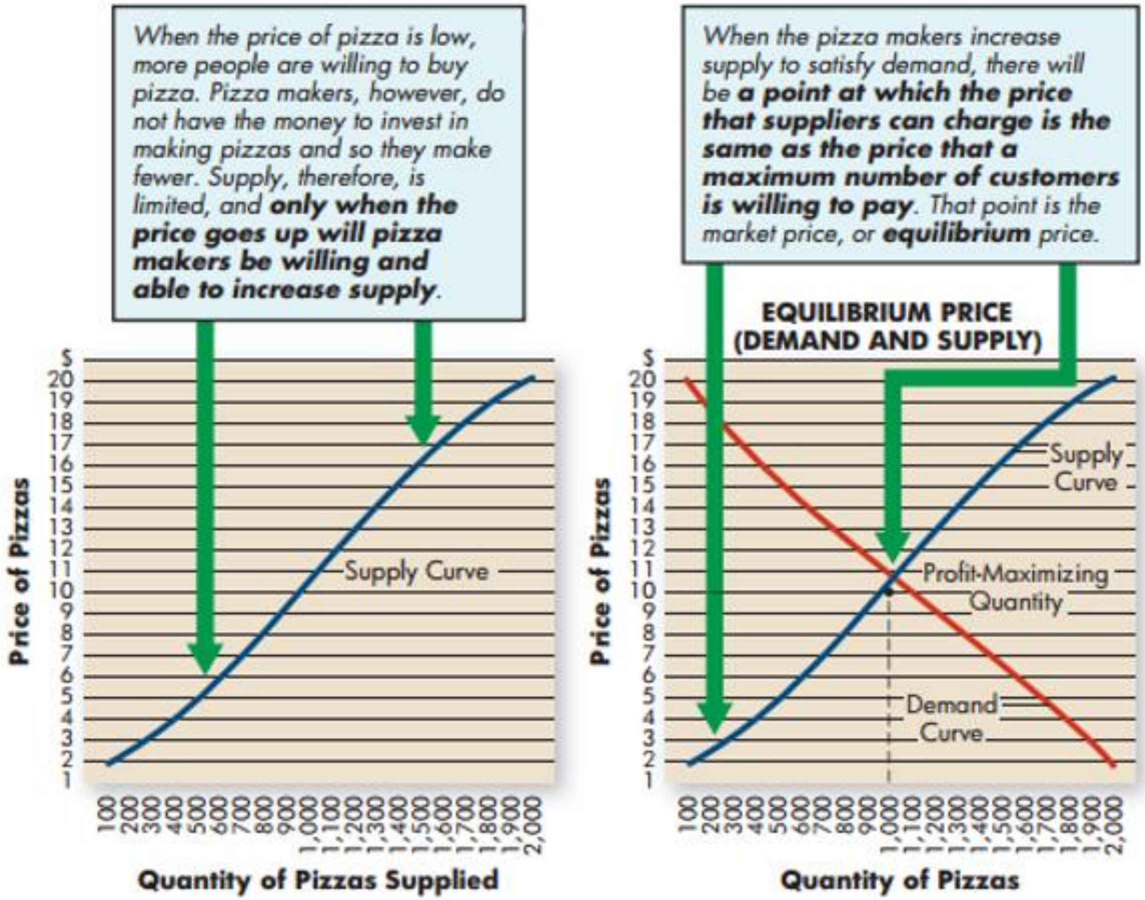
Demand and Supply (1 of 2)

DEMAND AND SUPPLY SCHEDULES

Price	Quantity of Pizzas Demanded	Quantity of Pizzas Supplied
$2	2,000	100
$4	1,900	400
$6	1,600	600
$8	1,200	800
$10	1,000	1,000
$12	800	1,200
$14	600	1,300
$16	400	1,600
$18	200	1,800
$20	100	2,000



Demand and Supply (2 of 2)



Private Enterprise and Competition in a Market Economy (1 of 3)

- **Private property rights**
  - one that allows individuals to pursue their own interests with minimal government restriction
  - private property rights, freedom of choice, profits, and competition

Private Enterprise and Competition in a Market Economy (2 of 3)

1. **Private enterprise system**
   - ownership of the resources used to create wealth is in the hands of individuals
2. **Freedom of choice**
   - you can sell your labor to any employer you choose

Private Enterprise and Competition in a Market Economy (3 of 3)

3. **Profits**
   - the lure of profits leads some people to abandon the security of working for someone else and assume the risks of entrepreneurship
4. **Competition**
   - occurs when two or more businesses vie for the same resources or customers

Degrees of Competition

Characteristic	Perfect Competition	Monopolistic Competition	Oligopoly	Monopoly
Example	Local farmer	Stationery store	Steel industry	Public utility (e.g. Hydro Ottawa)
Number of competitors	Many	Many, but fewer than in perfect competition	Few	None
Ease of entry into industry	Relatively easy	Fairly easy	Difficult	Regulated by government
Similarity of goods or services offered by competing firms	Identical	Similar	Can be similar or different	No directly competing goods or services
Level of control over price by individual firms	None	Some	Some	Considerable

Degrees of Competition (1 of 4)

For **perfect competition** to exist, two conditions must prevail:

1. all firms in an industry must be small, and
2. the number of firms in the industry must be large

Perfect Competition

1. The products of each firm are so similar that buyers view them as identical to those of other firms.
2. Both buyers and sellers know the prices that others are paying and receiving in the marketplace.
3. Because each firm is small, it is easy for firms to enter or leave the market.
4. Going prices are set exclusively by supply and demand and accepted by both sellers and buyers.

Degrees of Competition (2 of 4)

- **Monopolistic Competition**
  - market or industry characterized by numerous buyers and relatively numerous sellers trying to differentiate their products from those of competitors

Degrees of Competition (3 of 4)

- **Oligopoly**
  - market or industry characterized by a handful of (generally large) sellers with the power to influence the prices of their products

Degrees of Competition (4 of 4)

- **Monopoly**
  - market or industry in which there is only one producer that can therefore set the prices of its products
- **Natural Monopoly**
  - industry in which one company can most efficiently supply all needed goods or services

Economic Indicators

- **Economic indicators**
  - statistics that show whether an economic system is strengthening, weakening, or remaining stable
  - help assess the performance of an economy

Economic Growth, Aggregate Output, and Standard of Living (1 of 2)

- **Business cycle**
  - the pattern of short-term ups and downs (or expansions and contractions) in an economy
- **Aggregate output**
  - the total quantity of goods and services produced by an economic system during a given period
  - primary measure of growth in the business cycle

Economic Growth, Aggregate Output, and Standard of Living (2 of 2)

- **Standard of living**
  - the total quantity and quality of goods and services that they can purchase with the currency used in their economic system

- When output grows more quickly than the population, two things usually follow:
  - Output per capita—the quantity of goods and services per person—goes up.
  - The system provides more of the goods and services that people want which results in a higher standard of living.

Gross Domestic Product (1 of 3)

- **Gross domestic product (GDP)**
  - refers to the total value of all goods and services produced within a given period by a national economy through domestic factors of production
  - measure of aggregate output

Gross National Product (2 of 3)

- **Gross national product (GNP)**
  - refers to the total value of all goods and services produced by a national economy within a given period regardless of where the factors of production are located

Difference between GDP and GNP?

- Consider a General Motors automobile plant in Brazil. The profits earned by the factory are included in U.S. GNP—but not in GDP—because its output is not produced domestically (that is, in the United States).
- Conversely, those profits are included in Brazil's GDP—but not GNP—because they are produced domestically (that is, in Brazil).

Gross Domestic Product (3 of 3)

- **Nominal GDP**
  - gross domestic product (GDP) measured in current dollars or with all components valued at current prices
- **Purchasing Power Parity**
  - the principle that exchange rates are set so that the prices of similar products in different countries are about the same

Productivity (1 of 2)

- **Productivity**
  - measure of economic growth that compares how much a system produces with the resources needed to produce it

Productivity (2 of 2)

- **Balance of trade**
  - the economic value of all the products that a country exports minus the economic value of its imported products
  - Positive or negative balance
- **National Debt**
  - the amount of money the government owes its creditors

Economic Stability (1 of 2)

- **Stability**
  - condition in which the amount of money available in an economic system and the quantity of goods and services produced in it are growing at about the same rate
- **Inflation**
  - occurs when widespread price increases occur throughout an economic system
- **Consumer Price Index (C P I)**
  - a measure of the prices of typical products purchased by consumers living in urban areas

Economic Stability (2 of 2)

- **Unemployment**
  - the level of joblessness among people actively seeking work in an economic system
- **Recession**
  - a period during which aggregate output, as measured by G D P, declines
- **Depression**
  - a prolonged and deep recession

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