Chapter 1

What is a business?

A business is an organized effort the provide people with that want and need. With profit as its main motive

Why does it exist?

A business exists in order to satisfy those customer need and to make a profit

Five characteristics common to all businesses

1. **Businesses are organized efforts:** one or more people has an idea and puts in time, thought and effort into carrying out their idea. Businesses just don't happen, they are created as a result of the time, effort, and energy of the people who start and run them

2. **Business provides people what they want and need:** Businesses like McDonalds or Burger king make hamburgers and fried because do this because they believe that people need or want good tasting inexpensive food served quickly

3. **A business must try to satisfy customer needs:** Businesses can't exist unless there are people need or want (and are willing to pay for) the things that those businesses produce. (These people are called customers. A business cant exists unless customers' needs to wants the things that the business produces (and are willing to pay for).

   Note: Some businesses call their customers clients (it used mainly when the business provides a service instead of a product)

4. **A business generates revenue from sales:** Revenue is the (payment) money that comes into a business when the businesses provide the customer with goods or services. Expenses is the money that the business spends to provide customers with the product or services.

   Eg. Business sells pizza and gets $5 revenue, although it costs the business $0.50 for dough $0.25 for toppings. The dough and toppings are expenses.

5. **Business try to make a profit:** Profit is the positive benefit of running a business. A business makes a profit when the revenue that it brings in is greater than the costs of running the business and making the product. Profit is an essential motivation for starting a business.

   -The profit motive: is an idea that people will give up their time, energy and money only if there is some incentive for them to do so. If there is no pay-back for their self-sacrifice and risk, rational people will save their time and money.

-Loss: Not all business are successful, many fail in their attempt to make a profit. A loss occurs when the revenue of a business is not great enough to cover all the costs and expenses involved in running the business.

Business vs Non-profit organization

It is the profit motive that distinguishes businesses from other organization that are not businesses. For example a church and mosque are organized efforts but there main motive is not to make a profit.

A university is not considered business either even though they do take in revenue. Their motive is not to make a profit.

Not for profit organization: an organization that may provide a product or services but profit isn't their main motive

Even though a not for profit can have years in which revenues exceed expenses, the funds are going to be a surplus which will be used in the future.

Satisfying customer needs: What do people want and need?

All of the organization, whether factories, shops, schools or hospital provide the things we need or want are creating products.

Products: are things that result occur from human, mechanical or natural processes

Public Sector Organization: An organization that is owned by the government. Eg. Canada Post, CBC (Canadian Broad Casting Corporation)

Goods and Services

Goods: Products which are tangible, they can be held or touched

Services: Products which are intangible, we cannot see or touch a service but we benefit fro the experience of receiving such service

Businesses provides both goods and services

Many businesses provide a combination of goods and services. A restaurant for examples provides customers with goods (meal) and provides customer service. This includes the atmosphere, the décor and the hospitality.

The profit motive- a virtue or a vice?

Is the profit motive a good thing or is it a polite way of saying greed?
A writer by the name of Karl Marx thought profit motive was a bad thing.

Marx referred to those people who start and own a business as capitalists. The people who work for businesses as laborers.

Marxism: The economic and political theories developed by Karl Marx. Marx argued that the owners of the business are a class of people who grow wealthy by exploiting the labor of others.

Marx argued that profit was a result of owners being able to exploit the value of the laborers who worked for the business.

Followers of Marx' ideas included the soviet union for much of the 20^{th} century, China, and Cub.

Adam smiths belief was that if humans are rational then they will divert their time, energy, and money into some enterprise only if there is some payback for their self-sacrifice and risk. He proposed liberalism.

Liberalism: An economic and political theory that espouses that people should be left to pursue their own self-interest, without government interference. Liberalism assumes that people will make the choice to cooperate with others, because it is in their own interest to do so

Risk & Return: Why running a business is so difficult

The fact that so many businesses close their doors is surely an indication that business owners take risks, and that they are merely being rational in their pursuit of profit as a reward!

Why do businesses make losses and fail?

Because running a business is a human endeavor. The owners and manager of a business must to discover what people what people want and need three of or four years from now. Willing to undertake risks.

Chapter 2

Introduction: How Do You Make A Business

Businesses are made up of a small number of fundamental parts. Every business uses some combination of these. By understanding these parts, the role of each, and how they relate to each other business owners can better control maintain or improve the business performance.

The theory of factors of production

Factors of Production: The basic building blocks that in combination are required to make a business, and produce things.

There are currently four factors of Production

1. **Natural Resources:** Natural resources are the things that we find in nature, resources that grow out of the earth or can be extracted from it. Businesses whose activity is heavily dependent on the production or use of natural resources are known as **resource intensive.**

2. **Labor:** No business can exist without people. Every business needs at least one person to organize and plan things. Labor is known as the people who contribute their efforts to a business. A business that employs many people in order to produce its goods and services is called 'Labor intensive' eg. Walmart.

3. **Capital:** It is defined as the Money, or the machines and technologies that money can buy in order to start the business. A business that relies on large amounts of money, machines, or technologies in order to produce their goods and services are known as capital intensive businesses.

4. **Entrepreneurship:** Regarded as the fourth factor, the theory has evolved in order to incorporate this. A business needs entrepreneurs. The people who are motivated to take the time, incur costs and risk to make something happen. Entrepreneurship is the motivation to take initiative and to accept the risk of failure in return for suitable gratification or reward.

Combining the Factors of Production

No business can exists without some combination of labor, natural resources, capital, and entrepreneurship. Some businesses rely more heavily on one factor than the other eg. A business is more capital intensive, labor intensive, or resource intensive.

Replacing People with Machines

Five of the most labor intensive businesses are located in the world's two most populous counties. China and India huge population means the supply of labor is huge therefore it is relatively cheap.

Industrial Revolution: A series of technological developments and invention (many of them labor saving) that transformed the manufacturing, agriculture, mining, and transportation in the 18th century.

The rapid flow of technology innovations that occurred during the industrial revolution meant that jobs previously done by hand are no more. The phenomenon of replacing human workers with faster more efficient machines is called factor substitution

Factor Substitution: Substituting one factor of production (for example capital) for another (for example labor) so that products can be made more quickly and cheaply.

Theories

A theory is an idea which is an attempt to explain something complicated or hard to understand and prove.

Some theorist are now suggesting there is a fifth factor of production: information

Chapter 3

Economic Systems: Who Owns and Controls the factors of Production?

Economics: The study of how people produce the things they need and want

Economic system: The means by which a society produces and distributes the goods and services that its people need.

Through its choice of economic system, a country must determine the following:

- Who **owns** the factors of production
- Who **controls** the factors of production
- Who decide what needs to be **produced**
- Who decides how goods and services are **distributed**

Canada's economic system allows businesses to exist alongside not-for-profits and governments.

Economic Systems: Planned Economics Vs Market Economics

We can divide all the countries of the earth into one of two categories:

Planned Economics: Countries in which most of the factors of production are controlled by the state

Market Economics: Countries in which most of the factors of production are controlled by individuals and where entrepreneurship and business ownership are encouraged.

Planned Economic System Arguments

- only the state, with its ability to create and enforce the law, has the power and the authority necessary to feed, clothe, shelter, educate and employ the nation's entire population
- Business are primarily concerned with making a profit. Therefore, businesses have no concern for those who aren't customers, or do not have the money to buy products. Only the state has a benevolent interest in the welfare of all members of society

Market Economic System Arguments

- While government control in theory sounds good, it tends to work poorly in practice. People need an almost infinite variety of things. The full range of people's needs, people of different needs, gender is too vast for any one entity to plan, produce and distribute effectively.
- Government employees working in offices are not aware of the average person's changing need, and changing tastes. A benefit of a private enterprise is competition.

Planned Economies

Planned Economy: An economic system where the government is in charge of controlling the factors of production. The government decides what gets produce and how it gets produced.

It is based on the assumption that the nations smartest and best educated and elite crew work for the state.

Although not everyone is the average person (one size doesn't fit all)

Two Types of Planned Economies

Planned Economics Communism: An economic system where all of the factors of production are controlled by the government. Eg. In the past Soviet Union and China

Planned Economics Socialism: An economic system where the government owns or controls the most of the factors of production and directs most of productive activities. Eg. China, Cuba, Vietnam (current)

Market Economies

Countries where the individual makes the decision

Market Economy: A country with an economic system in which individuals make the decision about what gets produced and how it gets produced

Theoretical Advantage: Business owners and store and factory are closer to their customer. As well be able to distinguish the needs of individuals better.

Two Types of Market Economics

Market Economics Mixed Market: A type of economy where the control of most of the factors of production is in the hands of private individuals but there is also a positive government role (regulation and oversight) The vast majority of countries are Mixed Market economies.

It is a country where ownership and control of most of the factors of production is in the hands of private individual. However, the government provides a stable and conducive environment by proving public services, enforces las, and provides regulation and oversight

Market Economics Pure Capitalism: An economic system in which all of the factors of production are owned by private individuals. All economic activity is privately run, citizen pay no taxes, and the government imposes no regulation on a business.

Note Pure Capitalism or Communism does not exist in any country in reality

Communism Socialism Mixed Market Pure Capitalism

<-->

More Government Less government

Mixed Market Economies and the Role of the State

In mixed market economies government interacts with businesses in three ways

1. **Government as Collectors of Taxes:**

   Eg personal income tax, Corporate Income Tax, Sales (or Consumption tax), and Employment Insurance
   Follows a progressive taxation -A tax that takes a larger percentage from the income of high-income earners than it does from low-income individuals

2. **Government as Regulator**

   There are certain rules that every business must follow.

   Eg. Canadian Human Rights Act, Canada Labor Code, Employment Insurance Act, The Competition Act, The consumer Packaging and liability act

3. **The Government as Provider of Services**

   Canadian governments do own and operate some enterprises. The term for an enterprise owned by a government in Canada is called Crown Corporation

   Crown Corporation: an enterprise owned and operated by a government in Canad (federal or provincial)

   Federal example: CBC, Canada Post **Provincial Example**: LCBO, Hydro One, OLGC

Nationalization: The process by which a government assumes ownership and control of resources, businesses, or industries, running them with the intention of benefiting the entire nation (eg.Russia in the past)

State-owned enterprise: a government owned organization that provides goods and services but does not seek to make a profit.

Command economy: A synonym for planned economy, although one which implies a greater degree of authoritarianism

Privatisation: The process of transferring ownership of a business or an industry out of government control to the hands of private owners.

Chapter 4

MARKET: A BUNCH OF ACTIVITIES , NOT A PLACE

The word market refers to the activities that occur in certain areas.

Market: The interaction of buyers and sellers, exchanging information about goods and services for sale.

Markets can exist on the internet, the internet itself can be considered a market

How are prices set in a market?

In a market prices are set by buyers and sellers negotiating. Sellers, hoping to maximize the revenue that they get, will charge as much as they reasonably can. Shoppers, hoping to get a “deal” will attempt to pay as a little as they can.

Market System Advantages

- Consumers are able to have some choice
- Entrepreneurs are permitted-indeed encouraged- to start a business
- Sellers are entitled to seek profit
- When buyers and sellers agree, both parties get what they want

Identifying Your Customers – Who is in your market?

An entrepreneur must have a very clear as to who its potential customers are, what products or service those potential customers want, and why the want them. In other words a business must be able to identify it is target market.

Target Market: A particular group of people who share a number of similarities- for example age, gender, income, location – and who have similar needs and wants and are identified by the seller as being most likely to buy a business products.

Degrees of Competition

Not all markets are the same, some have few buyers and many sellers vice versa.

The reason that this is important is that a buyer's ability to negotiate a good price depends on his or her ability to shop around, and to walk away from one seller in search of a better deal from another seller.

Degrees of Competition: The various combinations of numbers of buyers and sellers in a market.

Four types of Markets

Perfect competition: A market with many sellers. Due to the large amount of sellers, buyers have maximum choice to shop around and find a better deal. (Milk, fruit, vegetables)

Oligopoly: This is a market with only a small number of large sellers. In this type of market buyers have only limited choice and limited ability to shop around. Eg. Airlines, Cable, Phone companies.

Monopoly: A market with only one seller. Buyers have no choice but to buy from the sole supplier or do without. Thus, all transactions are done on the seller's terms Eg. LCBO, Gas, Water

Monopolistic competition: Large number of buyers, large number of sellers. Although no "barriers to entry". Most of the sellers are "small". A few sellers are "large" and better-known large sellers can differentiate. Differences highlighted through "branding". Most sellers charge (more or less) the same larger, "branded" sellers can charge more. Eg. Coffee (Starbucks), Hamburgers (McDonalds), sports clothes (Nike), laptop (Apple).

Perfect Competition

Perfect competition: A market with a large amount of small sellers. All sellers offer more-or-less the same product, for more-or-less the same price, and buyers have lots of choice.

One characteristic of perfect competition is that all the sellers are said to be "small". In this case "small" means no producer enjoys a large market share.

Market Share: The percentage of an individual firms sales relative to the total sale within a given market.

In a perfect competition sellers know that buyers can shop around, it is unlikely that any vendor will attempt to convince you that they sell an item such as milk in a special or better way than the milk sold by other stores.

Oligopoly- Few Sellers & Limited choice

Markets become oligopolies primarily because of the existence of barriers to entry

Barrier to entry: The characteristic which makes a business or industry difficult, time-consuming or expensive to enter, or a product difficult, time consuming, or expensive to make.

Oligopoly: This is a market with only a small number of large sellers. In this type of market buyers have only limited choice and limited ability to shop around. Eg. Airlines, Cable, Phone companies.

Reasons for Barrier to entry:

1. Few competitors have developed processes or technologies that have dramatically lower their costs
2. Without knowledge or expertise to develop comparable technologies, new entrants will find it impossible to compete
3. Another barrier to entry is scale. It is expensive and difficult to build a trans-continental pipeline. Would-be competitors need to start with billions of dollars, or be prepared to hire thousands of employees just to participate

Economies of Scale: The capacity to reduce costs when producing a good or service in very large quantities.

If an industry is characterized by barrier s to entry, new entrants will be rare. Example Airlines

Monopoly

A market where there is only one available supplier

Natural Monopoly

A monopoly may exists for a number of reasons:

1. A business has discovered a new or highly-specialized technology that no rival can duplicate
2. A business has bought up the exclusive control of all the raw materials, parts or supplies needed to produce the product
3. A business is so much more efficient and cost effective at producing a product that no rival can effectively compare

Natural Monopolies: A business that for reasons of size, greater efficiency, or exclusive access to resources and technologies, will always be cheaper than any of its rivals. Natural monopolies are discouraged. (Eg. NFL, Sports leagues)

Legislated Monopoly

Most often monopolies exists because of government legislation which permits, or even dictates, that only one supplier should have the exclusive right to produce and sell a product or service in a given territory.

Legislated Monopoly: business that enjoys the exclusive right to sell a product or service in a given market because the government has given it that right.

Legislated monopolies exists because, despite society's general preference for competition and consumer choice, governments recognize that there are some industries which, because of high barriers to entry could not efficiently deliver products or services at low costs.

The world's most famous board game

The purpose of the game called monopoly is to acquire more and more real estate until, at the end of the game there is only one landowner in the city.

Monopolistic competition

Characterisitcs:

Lots of sellers (suggests few barriers to entry)
Most suppliers are small (most do not have a big share of the market)
Although a small number of sellers are larger (perhaps 4 or 5) than the rest.

Differentiation: Business activities designed to convince potential customers that your product is different or better than your competitor's product.

Branding: The efforts by a supplier to get potential customers to recognize its name, colors, logo, or slogan, and therefore differentiate its products from those of all of its competitors.

Example: Coffee (Starbucks), Hamburger (McDonald), Sports Clothing (Nike)

Chapter 5

How well does “economic system’ work?

How well is Canada’s system working?

How to measure performance?

Economic system: Who decides and controls the factors of production

Canada = Mixed market system. Canada exists in a market system, a system which encourages entrepreneurs

What is the purpose of an economic system?

To assemble and organize the factors, make things people want and need

What is a mixed market system?

Entrepreneurs assemble factors, businesses make most goods and services. Governments help (laws, regulation, taxes), Government provides some goods and services.

Gross Domestic Product

Gross – large
Domestic – within the borders
Product – what is produced

GDP - the total value of all the goods and services that is produced within a country.

If a country has large GDP: Many workers, using many factors, producing many things of value it has a large GDP.

Gross National Product (GNP)

Gross means “large”
National means “belonging to a nation”
Product means “What is produced”

GNP - Total value of all goods and services produced by factors belonging to a country

What is the difference between GDP vs GNP?

GDP measures value of goods and services produced IN Canada, GNP measure value of goods and services produced BY Canadian organizations, anywhere in the world.

An economic system should grow

Growing GDP indicates: more people in more businesses producing more goods, providing services, more jobs and more stuff.

Failing GDP indicates: fewer people, in fewer jobs, more failed businesses, producing fewer goods, and providing fewer services

Economies should grow, when it doesn't grow a **recession** occurs.

Recession- falling GDP for two consecutive quarter time-periods

Poorest countries have the greatest capacity for growth. They start from the lowest base but they have to catch up a lot.

GDP Growth

A well preforming economy should: Make more goods (food, clothing, housing) provide more services (health, education), and create more jobs (meaningful occupation)

GDP Per Capita

GDP measures size only. It doesn't measure **wealth**
GDP per capita = GDP per person
"per capita" = "per person"

GDP Per Capita – Measures the wealth of 'average' citizen. Some "big" economies are "poor" e.g India

GDP Per Capita = GDP / Population of the country

Reasons for unemployment In Canada:

-Weather (eg. Construction)
- location: job boom in toronto Is far from Vancouver

Under Employment

Not being recognized for credentials, working in jobs where you're overqualified and not finding a job where your credentials are recognized.

Depressed Worker

Wealth Distribution

High "GDP per capita" suggests "average" person is "rich" but few people can be rich and the rest are very poor.

Chapter 6