Chapter One: Economic Basics

Formula for Profit:

Profit (or loss) = Revenue - (Costs + Expenses)

Supply and Demand:

The Law of Demand states that the relationship between prices and consumers' quantity demanded is inversely (or oppositely) correlated:

- When prices decrease, consumers buy more and quantity demanded goes up
- When prices increase, consumers buy less and quantity demanded goes down

The Law of Supply states that the relationship between prices and consumers' quantity demanded is positively correlated:

- When prices decrease, businesses' ability to make profit decreases and so quantity supplied goes down
- When prices increase, businesses' ability to make profit increases and so quantity supplied goes up

Goods vs. Services:

- Goods are tangible items. They can be something that can be used and consumed once, or are items that can be used again and again
- Services are contracts that exist where the consumer buys the time, expertise, equipment or know-how from a service provider

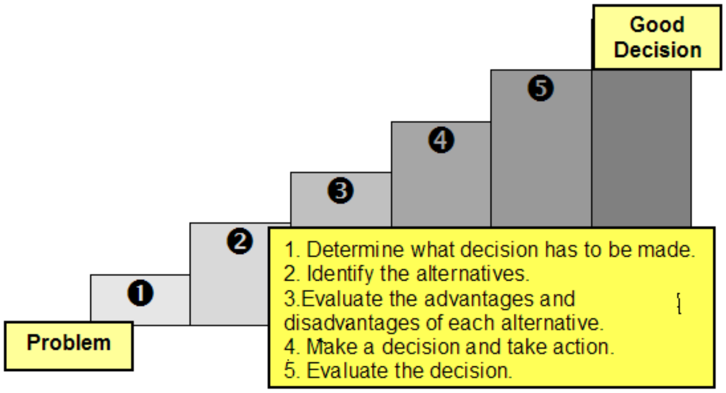
Needs vs. Wants:

- A want is something that you desire or wish for, it's not needed to survive.
- A need is something that you require in order to live a healthy life.

Competition:

In the past, businesses controlled what, when, and the amount of products and services available to customers. With increased competition, consumers want to buy something that meets their personal needs and wants. This is competition.

Decision Making Model:



Chapter Two: Types of Businesses

Forms of Ownership:

1. **Sole Proprietorship:**
   - A business owned by one person who is known as the *proprietor*
   - Funds come from owner's savings, friends, family, or a bank loan
   - Business income is declared on the owner's personal income tax rather than filling a separate business tax form
   - Owner receives all profits and is responsible for any losses (*unlimited liability*)
   - Cheapest and easiest
2. **Partnership:**
   - A partnership is a business in which two or more individuals share the costs and responsibilities of owning and operating it
   - Terms are recorded in the partnership agreement
   - Two types of partnerships:
     - General Partnership: All partners have *unlimited liability* for the firm's debts
     - Limited Partnership: The partners are only responsible for the funds they both invested in the initial business. This is called *limited liability*
   - The working relationship between partners can be an advantage is they have complimentary talents and share in decision making
3. **Corporation:**
   - A corporation is a business granted legal status with rights, privileges, and liabilities that are distinct from those of the people who work for the business.
   - Corporations can be small (one-person) or large (*multinational*) which conducts business in several different countries.

- In order to get funds, usually divide the corporation's ownership into small arts called stocks or shares. Shareholders have *limited liability*.
- If the corporation loses money, investors only lose the amount invested. If the corporation makes a profit, it can be reinvested and/or paid out to shareholders in the form of dividends. **Shareholder dividend = Total profit paid out ÷ Total number of shares x Number of shares owned by the shareholder**
- A *board of directors* runs a corporation that is owned by shareholders.

4. **Co-operative:**
    - Owned by the workers or members who buy the products or use the services that the business offers (members are the board of directors).
    - Motivated by the service, not the profit.
    - Regardless of the number of shares owned, each member has only one vote.
    - Profits are distributed according to how much each member spends.
5. **Franchise:**
    - A *franchise* is a combination, or hybrid, of the four forms of ownership. The main difference between that anyone can open a new location.
    - The *franchiser* licences the rights to its name, operating procedure, designs, and business expertise to another business called the *franchisee*.
    - A franchise agreement provides the business with:
        - A ready made, full operational business.
        - Brand recognition that is appealing to consumers.
    - Requirements may include:
        - Paying the *franchise fee.*
        - Agreeing to pay a monthly percentage fee of total sales and advertising costs.
        - Purchasing all supplies centrally from the franchiser.
        - Participating in franchiser standards training.

Debt Financing vs. Equity Financing:

Debt Financing:
- Borrowing money to run the business
- You pay back what you borrow
- May be difficult to pay back on time if it's a large sum of money
- Banks, credit unions, etc. will look at your credit history to make sure you're able to pay back

Equity Financing:
- Using your savings or investors' savings
- Risk your own savings and/or others and give up part ownership in the business

Board of Directors:

A board of directors is a body of elected or appointed members who jointly oversee the activities of a company or organization.

Chapter Three: Business Ethics and Social Responsibility

Corporate Social Responsibility:

Conducting business in a way that is in line with society's values. Principles include:
1. Providing a safe and healthy work environment
2. Adopting fair labour policies
3. Protecting the environment
4. Being truthful in advertising
5. Avoiding price discrimination

Whistle Blowers:

An employee who informs officials of the public about an illegal or ethical violation about a business.

Duty to Report:

An obligation to disclose all important information.

Fair Trade:

The practice of helping producers in developing countries bypass middlemen so they can sell their goods in other countries for a fair profit.

Chapter Four: International Business

Domestic Transaction vs. International Transaction:

- A domestic transaction is a sale of an item that is produced in the same country where it's sold
- An international transaction is a sale of an item that is produced in a different country then where it's being sold

Imports and Exports:

- Imports is the process of bringing in goods or services into a country
- Exports is the process of sending goods or services to another country

Balance of Trade:

The relationship between a country's total imports and total exports. If the country pays more for imports than it earns from exports, there is a *trade deficit*. If the country earns more than it pays for imports, there is a *trade surplus*.

Offshore Outsourcing:

The practice of hiring service providers from countries where labour costs are lower to complete some or all of the steps in the production process.

Tariff Barriers and Non-tariff Barriers:

- Tariff barriers are the subject of an international negotiation. These trade barriers are gradually being reduced as countries create trade agreements.
- Non-tariff barriers are standards for the quality of imported goods that are set so high that foreign competitors cannot enter the market.

Some tariff barriers are:
- Costs of Importing and Exporting — Price is based on the cost of manufacturing, plus the cost of storage, marketing, shipping, advertising, overhead, and the profit margins of each business involved
- Excise Taxes — A tax on the manufacture, sale, or consumption of a particular product within a country. Primarily used to raise money. However, they are sometimes used to discourage people from engaging in certain activities. Or they can be used to encourage people to buy local products
- Currency fluctuations

Chapter Five: Production

Natural Resources:

Any material that comes from the Earth, there are six different natural resource industries:
1. Agriculture
2. Fishing
3. Mining
4. Water
5. Fuel and Energy
6. Logging and Forestry

Production Process:

There are four stages of the production process.
1. **Purchasing:** Buying raw materials that are needed to produce the product or service. Some considerations when purchasing, include: quality, price, and additional costs.
2. **Processing:** All non-service businesses convert one item into another through processing, also known as conversion processing. Examples: bauxite —> aluminium, sugar cane —> sugar
3. **Quality Control:** Standards that ensure all produced products conform to the prescribed levels of excellence—these are set by the company, the government, or an other organization
4. **Grading:** The act of checking products for size and quality against fixed standards for the product or product category, for example: Grade A eggs

Improving Productivity:

There are multiple ways to improve productivity in a workplace, four are:
1. **Training:** Employees are productive when they know what they're doing. Training will allow the employee to do their job better.
2. **Capital Investment:** Something that costs money that can increase productivity. Investment will allow you to improve productivity by allowing you to do a task faster or produce more. However, if it doesn't pay for itself within a fixed period of time, its not worth it.

3. **Investment in Technology:** Technology that produces instant and up to date information. It allows you to keep track of things easier and communicate easier.
4. **New Inventory:** Manufacturing equipment that improves quality, lessens time, and increases quantity.

Purchasing Costs:

The cost per unit of a product, the hidden costs included, and the quality of the product. (This is basic math).

Chapter Six: Human Resources

Human Resources Department:

A critical component of employee well-being in any business, no matter how small. Human Resources' responsibilities include payroll, benefits, hiring, firing, and keeping up to date with state and federal tax laws.

Types of Compensation:

1. **Hourly Wages:** Paid per hour.
2. **Salary:** A fixed amount of money that employees receive on a regular schedule.
3. **Salary + Commission:** A fixed amount of money that employees receive on a regular schedule and an incentive to encourage employees to work harder. (ie. 1% of sales)
4. **Straight Commission:** Solely based on sales by the employee.
5. **Performance Based Pay:** Calculated on the amount of a particular product that an employee can make.
6. **Fee for Service:** Estimate how much it will cost to do a job and add a little for profit.
7. **Royalty of Licensing Fee:** When people use something part of a brand, they give a percentage per sale.
8. **Stock Options:** Give employees stocks at a lower than market price.

Chapter Eight: Marketing

Four P's of Marketing/The Marketing Mix:

1. **Product**
   - Quality
   - Design
   - Features
   - Benefits
   - The Product/Service Mix
2. **Price**
   - Prices for products must balance sales with profits
   - Businesses must know how price sensitive their product is (how much sales go up or down in response to a change in price)
3. **Place**
   - Channels of distribution
     - Direct channels — Connects consumer to the producer directly
     - Indirect channels — Involves intermediaries (i.e. importers, wholesalers, retailers, etc.)
     - Speciality channels — Any indirect channel that does not involve a retail store (i.e. vending machines, telemarketing, catalogues, e-commerce)
4. **Promotion**
   - An attempt to sell a product
   - Sales promotion — coupons, contests, premiums, samples, special events

Brand Name, Logo/Trademark, and Slogan:

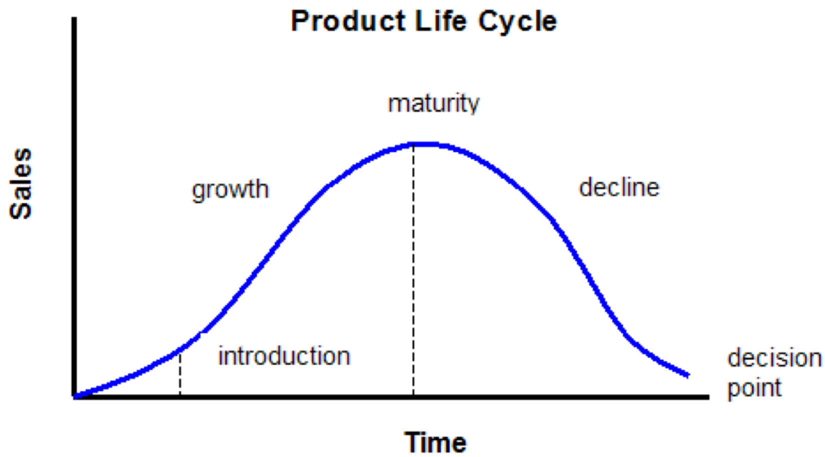
A brand name is a word or group of words a business uses to distinguish its products from that of the competition—it should be distinctive, stand out, and memorable.

A logo is a symbol that is associated with the company or product. There are three types: monogram (the company's initials stylized), visual (line drags of people, animals, or things), and abstract (shapes that carry a visual message but aren't representative of actual things).

A trademark is a word, symbol, or design that business users to distinguish its goods or services from others.

A slogan is a short and catchy advertising phrase, usually less than seven words.

The Product Life Cycle:



Introduction
- The product is launched in the marketplace
- Businesses must inform customers about product features, availability, design, etc.
- Marketers focus their efforts on trendsetter and early adopters

Growth
- Sales increase, so competitors begin to enter the market
- Competitors may add features, improve quality, or sell at a lower price
- Advertising is very important since this is when the product will take off or bust

Maturity
- Brand equity is at its highest, but sales growth is flat because the market is saturated
- Businesses focus on advertising their reputation to keep it in the consumers' eye

Decline
- Sales decrease because customers leave to buy other brands
- A change in price or advertising may slow down the decline

Decision Point
- A business decide whether to regain sales or discontinue the product altogether
- Strategies to revitalize the product: reposition the product, repackage and reintroduce, change the price, or create a new promotion
- If the technology has become obsolete, no amount of market will restore the product's former position

Non-traditional Product Life Cycles:

Fads are products that are extremely popular with a select market for less than a year. Trends are not fads because they last longer and influence other areas.

Niches are sections of the market in which a product dominates and into which few competitors enter. They often have significant barriers to entry—factors that prevent competition from being profitable in a given market. They also tend to have a short growth stage and leads to a solid maturity stage.

Seasonal cycles are products that are popular during a specific time or season.

Surveys and Questions:

Surveys
- A set of careful planned questions used to gather data

Closed-Ended Questions
- Give respondents a selection of answers to choose from

Open-Ended Questions
- Respondents are to write their own answers

Methods of Promotion:

Promotion is an attempt to sell a product. Promotions encourage consumers to buy products by using:
- Coupons
- Contests
- Premiums
- Samples
- Special events

Target Market:

A particular group of consumers at which a product or service is aimed.

Demographics is the study of obvious characteristics that categorize human beings.
- Age
- Gender
- Family Life Cycle
- Income level
- Ethnicity and culture

Psychographics is the study of lifestyles.
- Values
- Beliefs
- Motivations

Chapter Nine: Accounting

Accounting:

The process of recording, analyzing, and interpreting the financial or economic activities of a business. The purpose of accounting is to provide the necessary financial information so that accurate and timely decisions can be made.

Financial activities in the business are recorded as transactions.

Double-entry bookkeeping is the price that each transaction involves two charges, one being a decrease and an increase. For example: If a business pays $20 for labour, it decreases

Balance Sheet:

A balance sheet shows the financial position on any given day of the business, and provides information about its assets, liabilities, and equity.

How to create one:
1. Fill in the statement heading
2. List the assets
3. List the liabilities
4. Calculate owner's equity
5. Add final touches

Startup X
Balance Sheet
December 31, 2012

Assets		**Liabilities**		
Cash	$ 2 500	Accounts payable	$ 5 000	
Accounts receivable	5 000	Loans payable	12 500	
Inventories	3 500	Total liabilities		$ 17 500
Land	12 500	**Owner's equity**		
Buildings	40 000	S. Jobs, Equity	$ 72 000	
Equipment	25 000			
Other assets	1 000	Total liabilities and owner's equity		$ 89 500
Total assets	$ 89 500			

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