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MGTA01 Midterm Notes

Chapter 1 – What is a Business?

Business – An organized effort to provide the things that people need and want, and are willing to pay for. Exists in order to satisfy customer needs and to make a profit.
Customers – People who need or want and are willing to pay for the things a business provides
Revenue – The money flow that goes into a business every time it sells a product or service to a customer
Expenses – The money that a business spends to provide customers with items
Profit – The positive benefit of running a business (revenues – expenses)
The profit motive – The idea that people will give up time, energy, and money only if there is incentive for them to do so. Otherwise rational people will save time and money.
Loss – When the revenue of a business generates is even less than the costs and expenses incurred.
Not for Profit Organization – An organization that may provide services or products and collect revenue but is not intended to make a profit
Products – The things that result from human or mechanical effort or as the result of a natural process
Public Sector Organization – An organization that is owned by the government
Goods –Tangible and touchable/hold-able products
Services – Products which are intangible but we benefit from the experience of it
Marxism – The economic and political theories of Karl Marx. Owners of the means of production are a class of people who grow wealthy by exploiting the labor of others
Adam Smith – Liberalism
Liberalism - An economic and political theory that espouses that people should be left to pursue their own self-interest free from government interference. Assumes people will collaborate with others because it is in their own interest to do so.
Business Failures – Businesses fail because it is a human endeavor.

Chapter 2 – The Factors of Production

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

Natural Resources
- Things that are found in nature, resources that grow out of the earth or can be extracted from t
- **Resource Intensive:** Things that are very heavily reliant on natural resources (apple growing)

Labor
- The people who contribute their efforts to a business
- **Labor Intensive:** Businesses or processes that require a large amount of labor to produce

Capital
- Money or the machines and technology that money can buy
- **Capital Intensive:** A business or process that requires a large amount of money or machines to operate

Entrepreneurship
- New factor of production
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Replacing People with Machines
Industrial Revolution – A series of technological developments and inventions that transformed agriculture, mining, transportation industries in the 18th century
Factor Substitution – Substituting one factor of production for another so that products can be made more quickly or cheaply
Entrepreneurs – The people who are motivated to take the time, incur the costs and risks, and make the effort to make something happen
Enterprise – The project or undertaking that requires energy and effort to maintain whose outcome is uncertain
Entrepreneurship – The willingness or motivation to take initiative and accept the risk of failure in return for suitable reward or gratification

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Chapter 3 – Who Owns & Controls 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 & services people need

Determines:

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

Planned Economy – Countries where most of the factors of production are controlled by the state

- Only state with law can necessarily feed, employ, etc. nation
- Businesses are concerned with profit – bad!

Communism – A planned economy where **all** of the factors are owned by the state, and there is no private property

Socialism – A planned economy where the government owns the majority of the factors of production and directs majority of productive activity. Allows some room for private property and enterprise

Market Economy – Countries where most of the factors of production are controlled by individuals and entrepreneurship and business ownership are encouraged.

- People need infinite things, can't rely on state
- State is too far removed from people to know needs

Pure Capitalism – Economic system where all of the factor are owned by private individuals. All economic activity is privately run, citizens pay no taxes, and government imposes no regulations

Mixed Market – Ownership and control of most factors fall to private individuals, but government stabilizes and conducts laws and regulations and oversight. (Taxes, laws, regulations, products & services)

Canadian Human Rights Act – Discrimination and equal rights
Canada Labor Code – Minimum wage, working conditions, etc.
Employment Insurance Act – EI program
Competition Act – Misleading advertising etc.
Consumer Packaging and Labelling Act – Helps consumers make informed decisions

Crown Corporations – Enterprises operated and owned by a government in Canada (CBC, Canada Post, LCBO)
Nationalization – The process by which a government assumes ownership and control of resources, businesses, or industries running them with the intent of benefitting the entire nation
The Decree on Land – Lenin's attempt at nationalization and improvement of the Soviet Union
The New Deal – Roosevelt's attempt at getting out of the Great Depression
European Mobilization for War – Europe's attempt at recruiting and managing war
Mao's Great Leap Forward – Mao's attempt at reuniting the country and taking next steps to improve China
State Owned Enterprise – A government owned organization that provides goods and services but seeks no profit
Command Economy – A synonym for planned economy, but implies a greater deal of authoritarianism
Perestroika – A series of laws instituted in the SU in 1980s to reverse nationalism and economic policies by Lenin.
Privatization – The process of transferring ownership from government control to private owners

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Chapter 4 – How Markets Work

Market – The interaction of buyers and sellers, exchanging information about goods and services for sale
Target Market – A particular group of people who share a number of similarities like age, income, gender, location, who have similar needs and wants and are identified by the seller as being most likely to buy a business's products
Degrees of Competition – The various combinations of number of buyers and sellers in a market

Perfect Competition – Large number of sellers, all sellers selling same product, same price, lots of choice
Oligopoly – Few sellers and limited choice due to Barriers to Entry
Monopoly – A market where there is only one available supplier

Natural Monopoly – For reasons of size, efficiency, or exclusive access to tech/resources
Legislated Monopoly – Business that has exclusive right due to government regulations

Monopolistic Competition – Most of the suppliers are small, but small number of huge sellers due to branding and differentiation tactics

Market Share – The percent of an individual firm's sales relative to the total sales within a given market
Barriers to Entry – The characteristic that makes a business or industry difficult to enter a market given time constraints, expense, or difficulty
Economies of Scale – The capability to reduce costs when producing a good or service in very large quantities.
Differentiation – Business activities designed to convince customers that product is better/different than others
Branding – The efforts by a supplier to get potential customers to recognize its name, colors, and differentiate them

Chapter 5 – Measuring Performance

Gross Domestic Product – The total value of all goods and services produced within a country during any time
Only tells us size of economy, doesn't tell us declining or increasing, doesn't tell wealth of citizens
GDP Growth – The percent change from one period to the next in total value of all G&S in country
Recession – Two consecutive quarters (2 x 3MONTHS) where GDP shrinks
Depression – An unusually long or deep recession.
Business Cycle – The expansion and contraction of a nation's economic activity that happens over a period of years with great regularity and periodically
BRICs – The four countries with rapid growth of economies, Britain, Russia, India, China
GDP Per Capita – A measure of a country's relative wealth by dividing GDP by population
Employment – Having paid work
Labor Force – People aged 15+ who have a job or are actively seeking work
Participation Rate – The percent of 15+ people who are in the labor force
Unemployment – Actively seeking but unable to find work
Unemployment Rate – The percentage of those in work force who are actively seeking but can't find work
Underemployment – An employment situation where person is not working at their full potential
Discouraged Workers – People who have withdrawn from work force because they find their chances too slim
The Working Poor – People who have employment but incomes are too low for necessities of life
Lorenz Curve – A diagram used to graphically represent the distribution of income or wealth in a population

Chapter 6 – Enterprise & Entrepreneurs

Free Enterprise – Individuals have freedom to start and run businesses without bureaucracy and undue regulations
Self-Employment – Over 55.3% of Canadian businesses
Over 90% of Canadian businesses employ fewer than 10 people
Private Sector – The part of the economy that is run by private individuals usually with the aim of making a profit
Small business – No official definition. Industry Canada says <100 people, Canada Small Business Act says <5M in revenue.
SME – A commonly used acronym for small and medium sized enterprises meaning businesses with <500 employees
The longer a business survives, the better its changes it continues to survive
Entrepreneurs have:

- A desire to achieve challenging goals
- A belief in one's own ability to influence others
- A willingness to tolerate some uncertainty
- Self-confidence
- nAch personality
- Internal Locus of Control

NPow – Need for Power, in theory, one of the human motivators. People with a need for power are motivated to have authority and they need to be influential. They will choose careers that offer status and prestige.
NAff – Need for affirmation, people need to have friendly relations with people and are motivated by interactions
NAch – The need for Achievement. Need to have personal achievement and attain challenging goals and tasks
Locus of Control – Belief about what causes good and bad results in our life
Internal – Belief that outcomes are influenced by person's own behavior
External – Belief that luck, fate, and powerful outside forces which one cannot control influence outcomes
Risk Aversion – A tendency to regard new or previously unknown things as threatening

Risk Tolerance – A tendency to regard new or previously unknown things as thrilling or desirable
Calculated Risk – An enterprise undertaken after the advantages and disadvantages have been weighed and the probability of various outcomes calculated.
Economic Migrant – Someone who moves from one country to another in order to improve their economic well-being and that of their families

Chapter 7 – Planning and Organizing a Business I

Business Plan – A document that lays out in black and white all the things that you need to do and have to happen if the business you are planning is to succeed.

Targets:

Themselves (helps to keep track)
All of the parties that could help him to make the business a success

Key Elements:

- People
  - People that want to work for you
  - People that are skilled
- Market
  - Large potential buyers
  - Growing number of potential buyers
  - No existing or unsatisfactory existing suppliers
- Resources
  - Capital

Sole Proprietorship – A business which is directly owned by one person

- Does all the decision making
- Doesn't need to register
- Earns all the profits and declares it as personal income tax
- Liability is the owner's

Liability – The legal and financial responsibility for something
Personal Liability – The sole proprietor's liability to pay for all of the business' costs and settle obligations
Unlimited Liability – There is no limit to the amount that a party may be paid in damages. A sole proprietor's liability is not limited to his investment in the business.

General Partnership – A business that is directly owned by two or more individuals who agree to act together.
Partner – An individual who shares in the ownership and management of a business enterprise and who shares liability for the business' debts and obligations.

- Simple and inexpensive to create
- More sources of capital
- More management talent
- Partnership is a means to reward valuable employees

Partnership Agreement – A document drawn up by founders to spell out obligations and agreements
Joint and Several Liability – An undertaking or obligation made by one partner is everyone's binding

Chapter 8 – Planning and Organizing a Business II

Limited Partnership – A form of partnership that allows for General partners and Limited partners. Must have at least one general partner

Principal – An individual who has the authority to hire and instruct others on behalf of the business and bears the liability and responsibility.
Limited Partner – An individual who puts capital and shares profit but partakes not in decision making. They have **limited liability –** obligations are only limited to the amount of capital they provided.
General partners must comply with the Limited Partnership Act.

Corporations – A legal entity created to own and operate a business which has the same rights as a human being
Incorporators – The individuals who create corporation

- Choose a name for the corporation

- Do a name search
- Complete the articles of incorporation
- Submit paperwork
- Receive issue of incorporation

Certificate of Incorporation – In effect, birth certificate of corporation.
Share – An ownership stake in a corporation. Owner is entitled to a share of corporation's profits
Shareholder – Any individual or organization who owns a share in a corporation
Corporations persist through death of incorporators, etc.
Directors – Individuals elected by shareholders of a corporation to represent their interests and affairs
Board of Directors – Collective group elected by shareholders of a corporation to represent their interests, and to administer the affairs of the corporation
Officers – Those who work at senior management positions within the corporation
Dilution – A decline in proportion of shares owned by existing shareholders as a result of new shareholders injecting new capital into corporation

Private Corporation – A corporation that is owned by a small group of closely connected shareholders (e.g. family) and does not intend to share to wider public.
Public Corporation – A corporation that makes its shares available to sale to the general public

Co-operative– A business owned by the people who use its services and benefits are derived and distributed equitably on basis of use

- Must use cooperative to be a co-owner
- Each member get one vote regardless of capital contributed or patronized the organization
- E.g. Rochdale Society

Member – An individual who has purchased part ownership in a co-operative and has the right to use its services
User Benefits principle – The members of a co-operative share any profits on the basis of each member's participation with or contribution to the business
Two types – Consumer's Co-operative and Producer's Co-operative
Patronage Refund System – The profits earned by a co-operative business which are returned to a co-operative's members in proport

Chapter 9 – Understanding Finance

Finance – The activities that involve locating, collecting, packaging, and redistributing capital.
Consumption – Use your capital by making a final purchase
Investment – A decision not to spend capital but to put it to work to produce more capital in future
Investor – The individual or organization that provides capital to finance enterprise in expectation it will return more capital in the future
Financial Intermediary – A business which acts as a go-between finding, collecting, and redistributing money from those with spare capital and those who want to put it to use.
Loan Capital / Debt Capital – Money that is lent to a business or individual, must be repaid usually with interest
Equity Capital – Money that is given to a business in exchange for share of ownership and share of profits
Deposit Taking Institutions – Any business like a bank that accepts deposits of money from its customers
Deposit – To hand over for safe-keeping
Interest – The fee paid to the lender of money for right to use money until it is repaid
ROI – The benefit or gain which comes to savers or investors from putting capital into an investment
Net Interest – The difference between interest that a bank collects from borrowers and the interest it pays to depositors
Investment Dealers – Financial intermediaries that help businesses raise capital by acting as advisor and agent in process of becoming a public corporation and selling shares to the public.
Agent – An individual or organization that is hired to represent someone else
Stockbroker – An individual that manages financial investments for clients by researching financial markets and providing advice on when to buy/sell and what to buy/sell.
Investment Bank – The name given to division of bank that is involved in investment dealing
Pension – Money that a person receives after they retire from work or reach retirement age

Public Pension – Pension fund operated by government where contributions are mandated by law and available to all citizens who have contributed
Private Pension – A pension scheme offered by employer as part of employee's pay and benefits

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Chapter 11 – Trade, Foreign Investment, Globalization

International Trade –Business transactions that involve products or services crossing international borders, such as supplier/maker in one country, purchaser in another
Open Economy – A country that is willing to buy from, sell to, buyers in other countries. Economy that is open to idea of international trade
Closed Economy – A country that refuses to trade with the rest of the world and attempts to be self-sufficient
Exports – The products that Canadian businesses make and sell to other countries
Imports- The products that Canadian consumers buy from businesses in other countries
Absolute Advantage – The ability of a country to produce good or service more cheaply or more abundantly than other countries can. (E.g. Canada can make wheat)
Comparative Advantage –The choice to concentrate on resources and production on industries where a country is most internationally competitive and not compete with products that they only make moderately well
Opportunity cost – The value of what will have to be given up in order to get something else
Primary Industry – An industry that harvests or extracts natural resources
Secondary Industry – An industry that takes raw materials and then refines, manufactures them into finished goods
Free Trade – International trade that involves minimum government interference into flow of goods & services across borders
NAFTA – Treaty between USA/Mexico/Canada designed to increase ease and speed and lower cost of trade in NA
Trade Protection – A deliberate policy that makes it more difficult or expensive to import products or aids Canadian businesses with competing against international imports
Infant Industry – An industry in its early stages of development which is incapable of competing with established industries.

- **Tariffs** fees or taxes that is put on every imported good to enter a country
- **Quotas** a limited or fixed number of products that can be imported into a country
- **Subsidies** Financial or other material assistance to support business, industry, or enterprise
- **Embargo** A complete ban on the import of a particular product or on any country's products

Balance of Trade – Positive or negative difference between exports and imports
    = Exports (X) – Imports (M)
    Trade Surplus – Exports > Imports
    Trade Deficit – Imports > Exports
Foreign Direct Investment (FDI) – A business in one country invests in a business in another country (>10% shareholding)
Multinational Corporation – A business that has its facilities and offices in at least one international location
Country Risk – The element of uncertainty introduced if a business invests in a country that is economically unstable
Globalization – The process by which the experience of everyday world is becoming more similar for people all around the world
Offshoring – The process of moving some part of a business' operations to another country