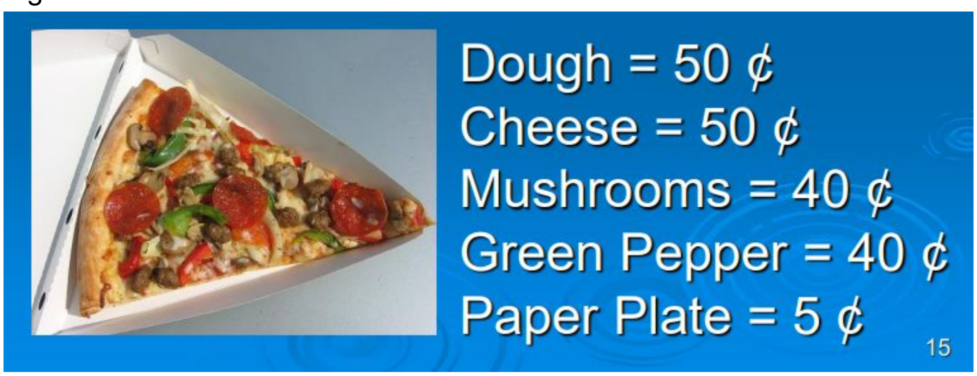
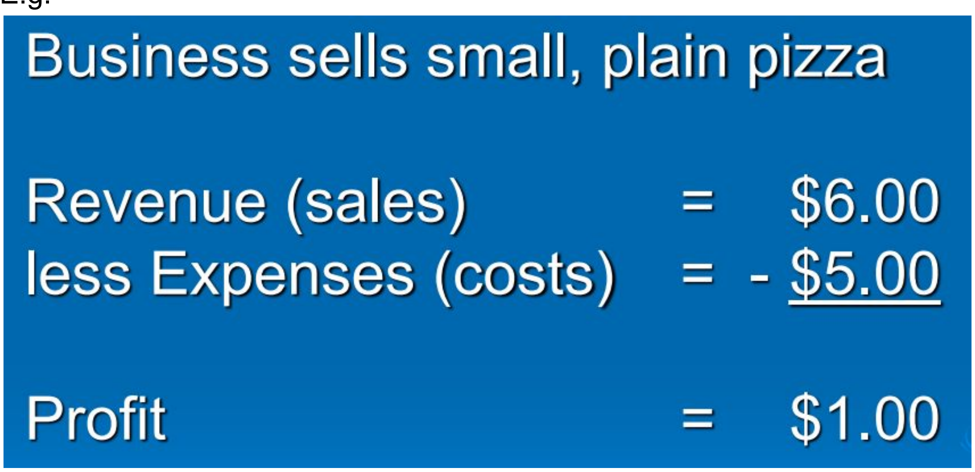
<u>Lecture Notes:</u>

- **Characteristics of a business:**
- A **business** is a kind of organised effort, which creates or provides things that people want, and will pay for, in order to make a profit.
- A business is an organization, meaning that one or more people put time, thought and effort into trying to accomplish a goal. However, not all organizations are businesses.
  E.g. A family is an organization of one or more adults that works together and provides material and emotional support to one another and to children in its care. A family is not a business.
  E.g. A church is an organization. Furthermore, churches satisfy peoples' needs and provide a service. Churches are not businesses.
- Businesses are formed because customers need and want things and they will pay for them.
- **Revenues and expenses:**
- The money that comes in is called **revenue**.
- A business tries to generate revenue by selling things that people want, called **sales**.
- The cost to the business of providing the product is called **expense**.
  E.g.



- Walmart is the world's largest business in terms of revenue.
- **Profit and loss:**
- **Profit** = Revenue - Expense (Specifically when revenue is more than expenses)
  E.g.



When a business makes a profit, business owners become wealthier.
People start businesses to become wealthier.

- A **loss** occurs when revenue is less than expenses.
  Loss is the opposite of profit.
  When a business makes a loss, business owners become poorer.
- **The Profit Motive:**
- Profit is the key reason for a business to exist.
- Not all organisations are businesses.
- Hospitals, universities and churches provide services which are not intended for profit.
- These are **not for profit organizations**.
- A business tries to make a profit, while churches and universities do not. **The difference is intent**.
  Note: A not for profit organization can still have a profit center or profit seeking center.
  I.e. Within a not for profit organization, there will be units/departments/sections which are trying to make as much profit as possible to subsidize the rest.
  E.g.
  UTSC has a bookstore.
  International education is for profit. I.e. International education is a business.
  UTSC renting out space for Starbucks, Tim Hortons, etc is meant for profit.
- **The Profit Motive:** People give up their time, energy and money if there is incentive to do so.
- The chance for owners to create wealth is the incentive for creating/running a business.
- **Smith vs. Marx:**
- Adam Smith liked the idea of the profit motive.
- Smith articulated the philosophy of **liberalism**. He believed that people will be most motivated to work hard and to succeed without undue government interference.
- Smith was a professor of Moral Philosophy Edinburgh University, Scotland and is the author of The Wealth of Nations (1776).
- Karl Marx did not like the idea of the profit motive.
- Marx articulated the philosophy of **Marxism**. He believed that profit is the result of one class of people (capitalists) exploiting the hard work of others (labour).
- Marx was a German writer and philosopher. Furthermore, he is the author of Das Kapital (1867).
- **Communism** is a way of organising society. **Marxism** is its most famous and influential strand.
- The competing arguments for and against liberalism (Smith's ideas) and Marxism (Marx's ideas) is the most important debate of the last 100+ years.
- Why liberalism supports the profit motive:
    - Profit is fair compensation for the risk.
    - Liberal thinkers believe:
        - Let people take a chance.
        - Let people keep the profit.
        - Without the chance of reward people won't take the risk of failure.
- **Risk:**
- In Canada during 2010-2014, ~135,000 businesses started each year (~370 businesses started each day) and ~120,000 businesses closed each year (~330 businesses closed each day).
- Running a business is difficult and complicated, because businesses must anticipate what people need and want and customers are unpredictable.
- A characteristic of business is **risk**.

Textbook Notes (Chapter 1):

- **What is a business:**
- A **business** is an organised effort to provide the things that people need and want and are willing to pay for. A business exists in order to satisfy those customer needs and also to make a profit with a definition.
- **5 characteristics common to all businesses:**
    1. **Businesses are organized efforts:** First, we describe a business as an organized effort. This means that one or more people has to have an idea and then has to put in time, thought, and effort into carrying out their idea. Businesses don't just happen. They are created as the result of time, effort, and energy of the people who start and run them.
    2. **A business provides things that people want and need:** Second, the definition states that a business exists to provide the things that people want and need. In order for a business to survive, they need to know exactly what their customers need to have or want to buy.
    3. **A business must try to satisfy customer needs:** Third, businesses would not and could not exist unless there are people who need or want, and are willing to pay for, the things that those businesses produce. We call these people **customers**. **Customers** are the people who need or want, and are willing to pay for, the things that a business provides. Some businesses refer to their customers as **clients**. A client is most commonly used to refer to people who use the services of a professional, such as a lawyer, an accountant, or an architect.
    4. **A business generates revenue from sales:** In order for a business to make a **profit**, they first need to receive **revenue** from its customers with whom they sell their product or service to. All businesses also have to account for **expenses** because without the cost to either make a product or provide a service, a business could not provide customers with what they want. A business can obtain its revenue in a variety of ways. Likewise, a business can incur expenses in a variety of ways.
       Revenue is the money that flows into a business every time it sells a product or a service to a customer.
       Expense is the money that a business spends to provide customers with products.
    5. **Businesses try to make a profit:** The main purpose and motivation for a business to exist is to make a **profit**. Profit is the positive benefit of running a business. Specifically, a business makes profit when the revenue 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. When a business owner creates and runs a business, the desire to realize some benefit is known as **the profit motive**. As explained above, profit is the positive difference between a business's revenue and its expenses. Hence, in crude terms, the profit motive is the desire to make money. However, not all businesses are successful. Many fail in their attempt to make a profit. That is, the revenues a business generates are not sufficient to cover all of the expenses involved in running the business. This is known as a **loss**.

- **Business vs Not-For-Profit Organizations:**
- The profit motive is what distinguishes businesses from other organizations that are not businesses.
- Places of worship, sports teams, clubs, and voluntary organizations all require time, effort, and energy to establish and keep running, however the main distinguishing characteristic of a business is that part of its core motivation is to try and make a profit. For this reason, Canadian universities are not considered businesses because they are not established with the intention to make a profit.
- Places like schools, hospitals, universities, charities, and cultural or religious institutions are all considered **not-for-profit organizations** or **not for profits** because they do not intend to make a profit. Instead they rely on the government or donors to make up for the shortfall between revenue and expenses.
- Not-for-profit organizations can have years where revenues exceed expenses. This does not mean that these organizations are businesses nor have they realized a profit. The surplus funds attracted from one year may be used in the next or it may be donated. However, the profits of a business belong to its owner.
- **Satisfying customer needs: What do people need and want:**
- Understanding and being able to answer the question “What do people want and need?” is fundamental to the reason why businesses exist.
- All of the organizations, factories, shops, schools, hospitals, etc, that provide the things that we need or want are creating **products**. Products are the things that result from human or mechanical effort or as the result of natural processes.
- Many of the things that we want or need are hugely expensive and complex to organize. The provision of national security, the policing of our streets, the building and staffing of hospitals, schools and universities are undertakings that may be too costly for any single business to organize. In Canada, these things are often or mostly provided by the government.
- While governments are not businesses, they do not exist to make a profit, Canada’s federal, provincial, and municipal governments all exist to provide healthcare, education, safety, security, and welfare to its citizens.
- The government uses tax dollars in order to obtain the revenue necessary to fund these activities. For this reason, organizations owned or funded by the government-raised taxes are often referred to as **public sector organizations**. Public sector organizations are organizations that are owned by the government. Examples include Canada post, Canadian Broadcasting Corporation (CBC), and Canadian Heritage (Museums).
- **Goods and Services:**
- **Goods** are products which are tangible, that is they can be held and touched. Examples of goods include laptops, gum, tables, radioes, clocks, etc.
- **Services** are products which are intangible, we cannot see or touch a service, but we benefit from the experience of receiving the service. Examples of services include safe streets, a secure country, provision of medical care, etc.
- While the government offers services almost exclusively, some businesses provide both products and services, while others only provide one and not the other.
- Some businesses can only provide goods such as retail stores, while others can only provide services such as banks. However, many businesses can also provide a combination of goods and services. A good example of a business like that would be most restaurants.

- **The Profit Motive - A Vice or Virtue:**
- Is the profit motive a good thing? Or is the phrase “profit motive” merely a polite way of saying “greed”? Why does the profit motive exist? These are large and, in many respects, philosophical questions that many famous writers and philosophers have tried to answer.
- **Karl Marx (1813 - 1883):**
  - A famous writer who thought that the profit motive was a bad thing.
  - Marx’s interest was the relationship between the people who owned a business, capitalists, and the people who worked for the business, labourers.
  - In Marx’s view, profit was simply the capitalists exploiting the labourers.
    Example: A labourer works for a capitalist where they are paid $10 per hour to make $40 worth of products in the same time interval. Each hour, the capitalist makes $40 yet the labourer only makes $10. To Marx this was a simple example of how capitalists were exploiting labourers.
  - Marx argued that because the worker has no claim to the means of production, only the capitalist could enjoy the surplus value (profit). Marx concluded that profit was the result of owners being able to exploit the value of the labourers who worked for the business.
  - Marx’s ideas are called **Marxism**. **Marxism** is the economic and political theories developed by Karl Marx. Marx argued that the owners of the means of production are a class of people who grew wealthy by exploiting the labour of others.
  - Followers of Marx’s ideas (Soviet Union, China and Cuba) have argued that governments should own or control all business activity so that no citizen could become rich by exploiting the labour of another.
- **Adam Smith (1723 - 1790):**
  - While Marx saw profit as a manifestation of exploitation and greed, others, including Smith, argued that the profit motive is merely a natural extension of human beings’ innate desire to fend for their families, feed their children, and seek material comfort.
  - Smith was a professor of philosophy at Edinburgh University and in 1776, at Edinburgh, he wrote the book “The Wealth of Nations”.
  - Smith’s 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. If there was no profit available, then a rational person would conserve their resources for personal use and no investment would occur.
  - Smith believed that people should be left to pursue their own self-interest, without government interference. He believed that, left to their own devices, people will make the choice to cooperate with others, because it is in their own interest to do so. This belief is called **liberalism**. **Liberalism** is 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 and Reward: Why Running a Business is so Difficult:**
- Running a business can be very risky and difficult.
- Between 2000 - 2009, about 95, 000 Canadian businesses were created each year (about 260 businesses each day), yet an average of 88, 000 businesses closed down each year.

- Between 2008 - 2009, the world-wide recession led Canadian businesses to decline by 40, 000 enterprises.
- In the US, roughly 600, 000 - 800, 000 businesses are created each year and roughly the same amount close down each year.
- Consider General Motors (GM). It was founded in 1908, and in 1931, it surpassed the Ford Motor Company as the largest automobile maker in the world. It was able to maintain this position for the next 77 years, until Toyota surpassed it in 2008. In the 1980s, GM employed roughly 350, 000 workers and operated 150 assembly plants. Despite this, GM failed in 2009. Rick Wagoner, the CEO of GM from 2000 to 2009, went to Duke University, where he received a B.A. in economics, and then Harvard University, where he received an MBA. Wagoner worked in several divisions in GM prior to becoming CEO. However, under Wagoner's leadership, GM suffered more than $85 billion in losses. GM didn't fail because it's leader was stupid or inadequately educated or trained or lacked industry experience. It failed because running a business is a human endeavour. The owners and managers of a business must try and discover what people want and need.
- Willing to undertake risks is a key characteristic of a business.

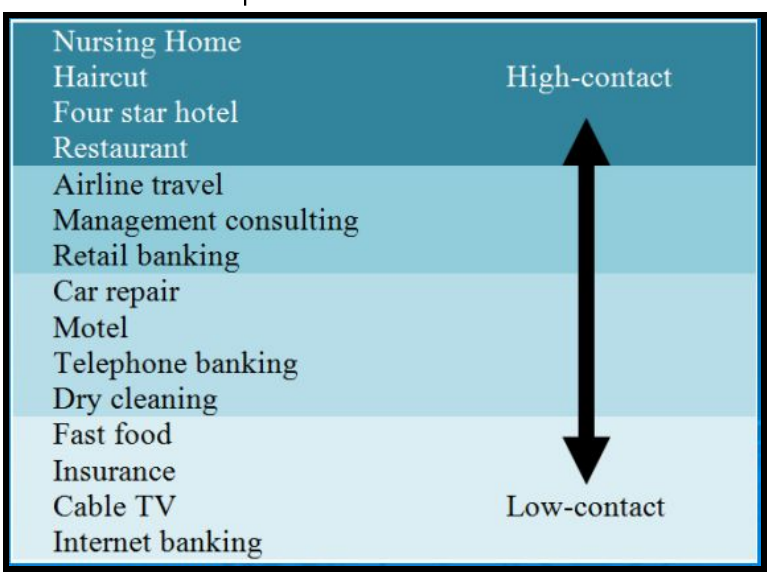
Textbook Definitions:

- **Business:** An organized effort to provide the things that people need and want, and are willing to pay for. A business exists in order to satisfy those customer needs, and also to make a profit.
- **Customers:** The people who need or want, and are willing to pay for, the things that a business provides. Some businesses refer to their customers as **clients**. A client is most commonly used to refer to people who use the services of a professional such as a lawyer, an accountant, or an architect.
- **Expenses/Costs:** The money that a business spends to provide customers with products.
- **Goods:** Products which are tangible, that is they can be held and touched. Examples of goods include laptops, gum, tables, radioes, clocks, etc.
- **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
- **Loss:** When the revenues that a business generates are not sufficient to cover all of the costs and expenses involved in running the business.
- **Marxism:** The economic and political theories developed by Karl Marx. Marx argued that the owners of the means of production are a class of people who grow wealthy by exploiting the labour of others.
- **Not-For-Profit Organization:** An organization that may provide products or services, and may collect revenue, but it's not intended to make a profit.
- **Products:** Things that result from human or mechanical effort or as the result of natural processes.
- **Profit:** The positive benefit from running a business. Profit = revenue – expenses.
- **Public Sector Organization:** An organization that is owned by the government. Examples include Canada post, Canadian Broadcasting Corporation (CBC), and Canadian Heritage (Museums).
- **Revenue:** The money that flows into a business every time it sells a product or a service to a customer.

- **Services:** Products which are intangible, we cannot see or touch a service, but we benefit from the experience of receiving the service. Examples of services include safe streets, a secure country, provision of medical care, etc.
- **The Profit Motive:** The 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 payback for their self-sacrifice and risk, rational people will save their time and money.

Lecture Notes:

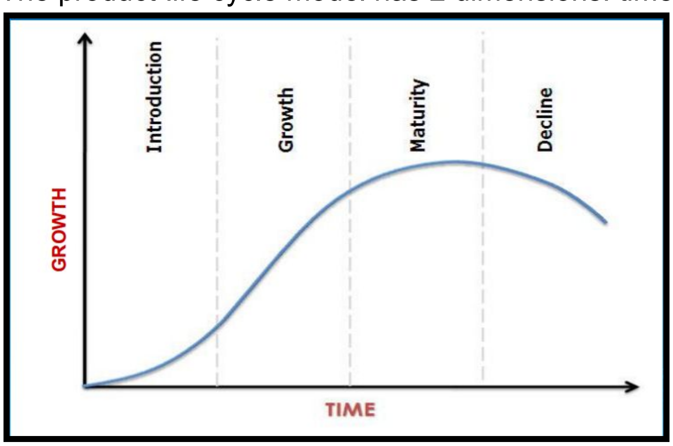
- **Products** are what the purchaser hopes to get, or believes to be getting, when they purchase a good or service. It is a good or service that fills the buyer's need or satisfies a want. When a consumer needs or wants something, they place a value on it.
  There are two kinds of products: **goods** and **services**.
- **Good:** A product you can see and touch (It is tangible).
  E.g. Jeans, Computer, Table, Pens
- **Service:** A product that you "experience" (It is intangible).
  E.g. Education, taxi rides
- In Canada, services are much more important.
- ~80% of Canadians work in services.
- Services are more difficult to provide because of 3 reasons:
  1. **Immediacy:**
  - Most services can't be stored.
    E.g.
    A good, such as a bar of soap, pencils, etc, can be stored.
    A service, such as haircuts, education, etc, can't be stored.
  - To provide a service, the business must work harder at planning and scheduling.
  2. **Customer involvement:**
  - Services often need the customer to be there.
  - E.g.
    Most goods, such as a bar of soap, can be made without the customer.
    Most services, such as tutoring, cannot be made without the customer.
    Service providers need people skills.
    Not all services require customer involvement but most do.



  3. **Customisation:**
  - Each service customer wants something different.
  - E.g.
    Most goods, such as bars of soap, pairs of jeans, etc should be identical.
    Most services, such as tutoring, hair cuts, etc should be different.
  - Service providers must be more versatile.

- The combination of the three attributes listed below determine a product's value, which is how much customers will pay for a product:
    1. **Function:**
    - What the product is intended to do.
    2. **Features:**
    - Specific, additional attributes which contribute to improved usefulness or enhanced experience.
    - E.g.
      A car has a convertible roof.
      A car has air conditioning.
    3. **Benefits:**
    - The advantages derived from a purchase.
    - Frequently these are intangible (status, image, reputation).
    - E.g.
      A car gives you independence.
      A car gives you status with friends.

  function + features + benefits = "value package"
  The bundle of tangible and intangible functions, features and benefits that a business offers its customers determines the "value" to the customer.
  Business managers must understand what customers need and want and what customers are willing to pay for.
- Products, technologies, and industries have finite lives. They begin small and weak, they grow quickly, they mature, and they decline.
- The product-life cycle model has 2 dimensions: time and growth.



- Time can be measured several ways, such as weeks, months, years, decades.
  Some products have very short lives, such as movies, fashions, technologies.
  Some products have very long lives, such as coffee, bread, pencils.
- Possible measures of business growth are volume of sales, number of customers, volume of production, number of units sold, number of stores/outlets, profits, etc.
- There are 4 stages in the product-life cycle model:
    1. **Introduction:**
    - The product or technology is brand new, little known, expensive, and hard to find.
    - Sales is low.
    - Price is high.
    - No profits yet.

- There are few customers.
- There are few or no competitors.
- An example of a product in the introduction stage is VR headsets.

2. Growth:

- The product or technology is better known, more popular, more available.
- Sales begin increasing quickly.
- Prices begin to fall.
- Profits begin to increase.
- There are more customers.
- New competitors enter.
- An example of a product in the growth stage is electric cars.

3. Maturity:

- The product or technology is standard. Everyone has it. The market is saturated. There is little product development.
- Sales peak and are flat.
- The price is stable.
- Profits are as high as possible. There's no more growth.
- Unlikely to have more customers.
- There are no new competitors.
- An example of a product in the maturity stage is laptops.

4. Decline:

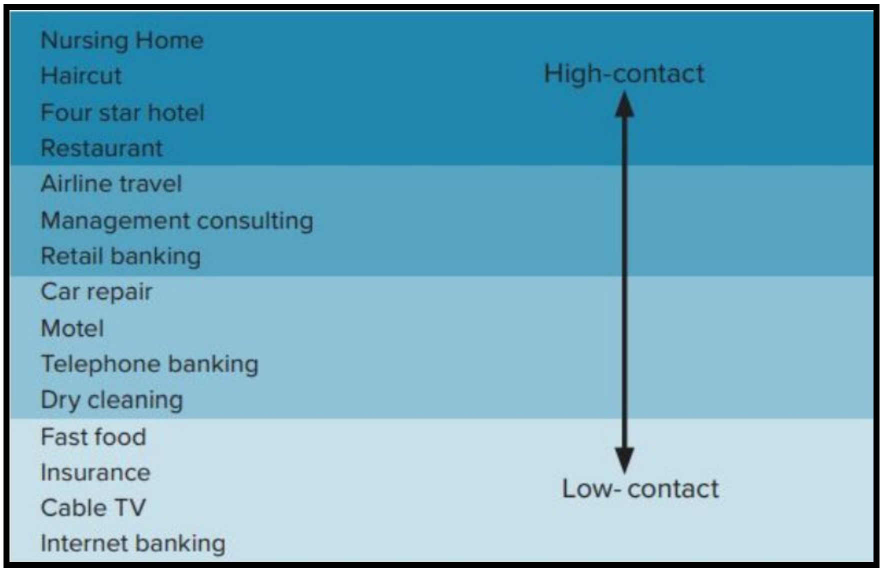
- The product or technology is old fashioned.
- Sales: declining
- Profits: declining
- Customers: laggards
- Competitors: declining
- An example of a product in the decline stage is Blackberry products.

- When everyone knows about your product and already buys your product, launch a new variation or an update. This is called **extending a product's life or life cycle extension**. Extending a product's life is any effort to re-package, re-launch or update a mature but well known product.
  E.g.

<u>Textbook Notes (Chapter 2):</u>

- **Satisfying Customers and Making a Profit:**
- A business must satisfy customers in order to make a profit. At the same time, unless it makes a profit, a business cannot continue to satisfy customer needs.
- Satisfying customer needs is essential to a business's success. If a business loses sight of what its customers want, it is doomed to failure.
- **The Things People Want and Need:**
- Understanding what people want and need is fundamental to a business's success.
- A **product** is whatever a purchaser hopes to get or believes they are getting whenever they make a purchase from another individual or organization.
- Many of the things that we want or need are hugely expensive and complex to organize. The provision of national security, the policing of our streets, the building and staffing of hospitals, schools and universities are undertakings that may be too costly for any single business to organize. In Canada, these things are often or mostly provided by the government.
- While governments are not businesses, they do not exist to make a profit, Canada's federal, provincial, and municipal governments all exist to provide healthcare, education, safety, security, and welfare to its citizens.
- The government uses tax dollars in order to obtain the revenue necessary to fund these activities. For this reason, organizations owned or funded by the government-raised taxes are often referred to as **public sector organizations**. Public sector organizations are organizations that are owned by the government. Examples include Canada post, Canadian Broadcasting Corporation (CBC), and Canadian Heritage (Museums).
- However, not everything is run by the government. The **private sector** is the part of the economy that is run by private individuals, often with the aim of making a profit.
- **Products - Goods and Services:**
- **Goods** are products which are tangible. Examples include laptops, jeans, pencils.
- **Services** are products which are intangible but can be experienced. Examples include healthcare and education.
- **Differences Between Goods and Services:**
  1. **Goods can be made in advance while services are performed immediately:**
  - Consider goods such as laptops, jeans or pencils. They are made in advance.
  - Now, consider services such as healthcare or education. They cannot be made in advance. It must be made there and then.
  - The term used to describe this characteristic of services is **immediacy**. **Immediacy** is the quality that makes something important or relevant because it is happening there and then.
  - Because of immediacy, for businesses that provide services, scheduling is likely to be more complex than for businesses that provide goods.
  2. **Many services require the involvement of the customer:**
  - As a consequence of immediacy, many services necessarily involve the presence and involvement of the customer.
  - E.g. Think of a haircut.
  - Services that require personal interaction with the customer are called **high-contact services**.
  - **Low-contact services** are services that don't necessarily involve interaction with the customer.
    E.g. Mowing someone else's lawn.

- Customer involvement adds complexity to the product.

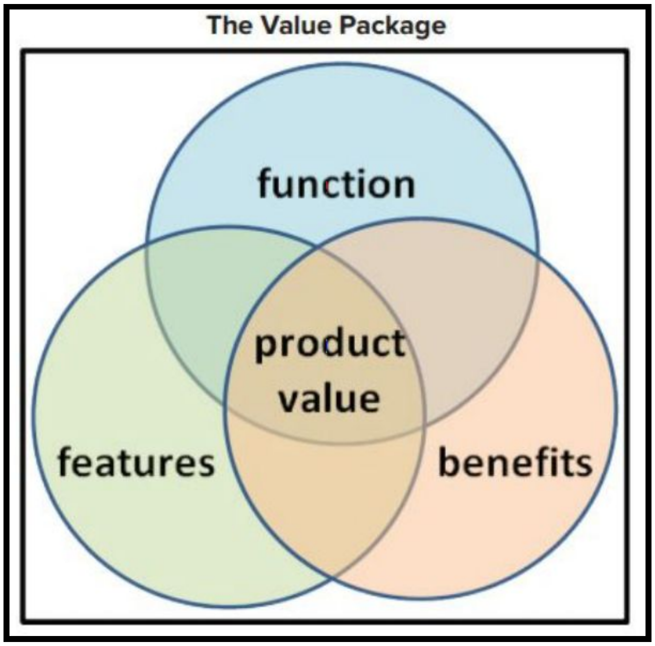


3. Services are customized:
- Many goods come in one form or have little variety.
- Services are tailored made for customers and it's unusual for 2 customers to want the same service delivered in the same way.
- The characteristic that no 2 customers want the same service delivered in the same way is called **customization**.

4. Most goods can be stored while services cannot:
- Consider services such as education or healthcare. It can't be stored while goods such as jeans or laptops can.
- Furthermore, services can't be purchased in bulk while goods can.

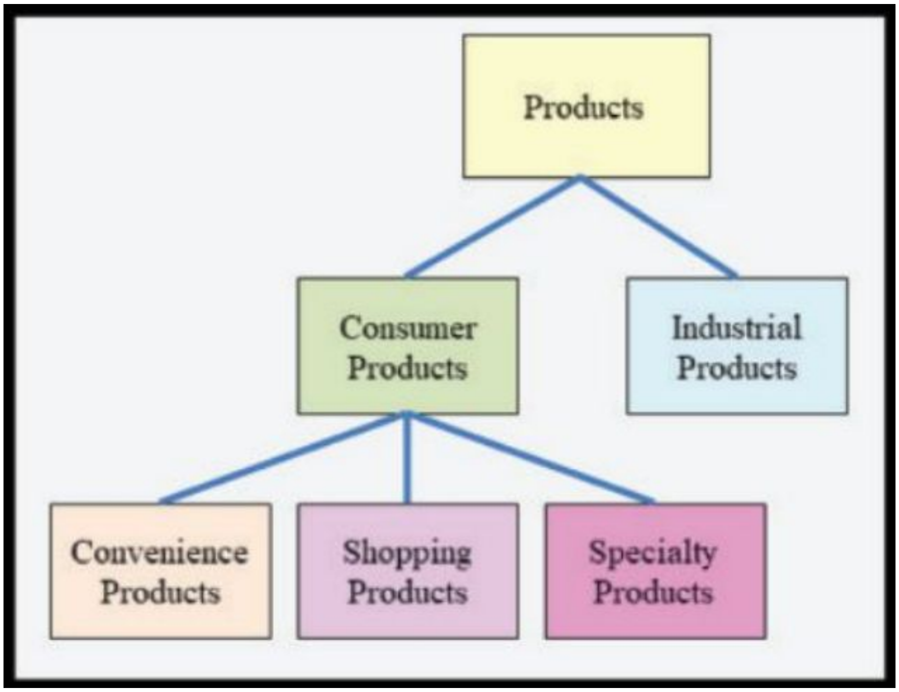
- As a result of the 4 factors above, services are harder to provide than goods.
- About 80% of Canadians work in services.
- **Products - Filling Needs and Satisfying Wants:**
- Whether it's a good or service, people are looking for these 3 elements in a product:
  1. Functions
  2. Features
  3. Benefits
- A product's **function** is what it's intended to do. It describes a good or service at its most minimal.
- A product's **feature** is an additional attribute or offering which contributes improved usefulness or better experience of the product.
- A product's **benefit** is an advantage that is derived from purchasing that product.
- The combination of a product's functions, features and benefits gives the product its **value**. **Value** is the regard with which a product is held by potential buyers, expressed as its financial worth.

- The **value package** is the bundle of functions, features and benefits that a business offers to buyers of a product.



- **Understanding Difference Products and Their Consumers:**
- **Consumer products** are products purchased by the end user, for personal use. They are the end result of production and manufacturing and are what the average consumers see in stores. Examples include magazines, cereal and clothing.
- In contrast, **industrial products** are the parts, ingredients, materials and supplies that are bought by one business from another in the process of making consumer goods. E.g. Cereal companies need to buy cardboard for their boxes.
- Industrial products aren't purchased by the end consumer; they contribute as inputs to the making of the consumer product. Because industrial products are purchased for different reasons than consumer products, the way they are marketed also differs.
- Industrial goods are sold to a much smaller number of buyers.
- When designing the functions, features and benefits of a product, the business must bear in mind whether the purchaser is likely to be another business.
- **Convenience products** are inexpensive products purchased relatively frequently and with little expenditure of time and effort. They are also consumed quickly. Examples include newspapers, disposable razors, deodorants.
- The key to marketing convenience products is that they must be inexpensive, easy to find and perform their function well.
- **Shopping products** are more expensive and purchased less frequently than convenience products. They also tend to have more features than convenience goods. As a result, users are willing to spend more time and effort evaluating and comparing alternatives in terms of style, performance, colour, price, etc.
  Examples include insurance, laptops, cars.
- The key to marketing shopping products is that they offer good value in terms of the features they offer.
- **Speciality products** are goods and services for which a customer will spend a good deal of both time and effort to find exactly what they want.

- Speciality products will justify the time and effort because they are goods and services to which customers will attach a great deal of importance.
- Examples include wedding gowns or catering for a wedding reception.
- The key to marketing speciality products is to maximize consumers' perceptions of the benefits that will come from using a particular supplier.
- Diagram of the different types of products:



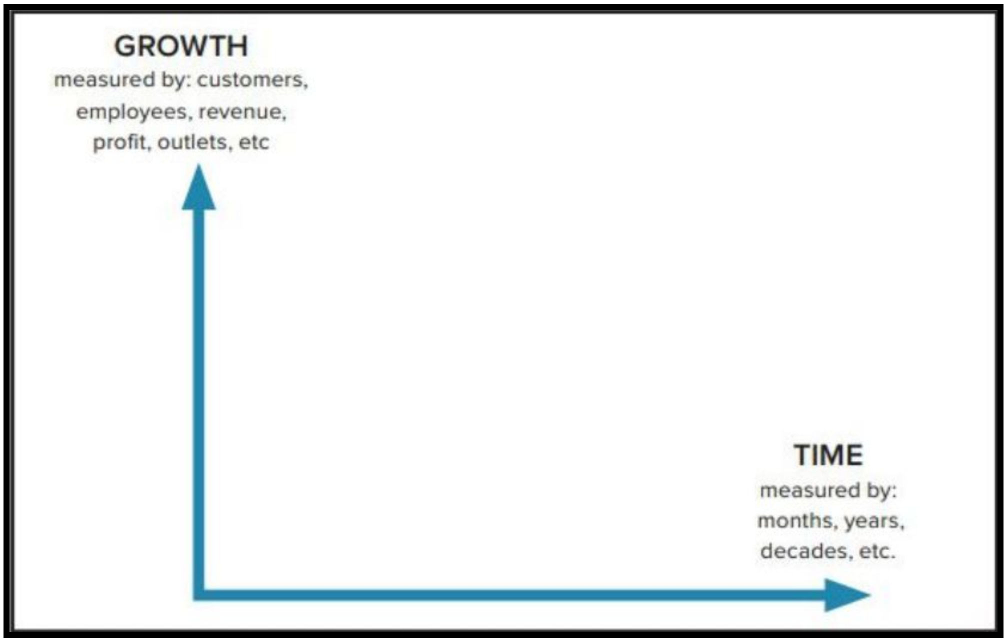
- **Research & Development (R&D):**
- It is looking for innovations and ideas which will lead to the next generation of products.
- In the US, a typical business spends about 3.5% of their revenues on R&D.
  However, rapidly changing or technology intensive businesses often spend 4 or 5 times that much.

Businesses with the Largest R&D Expenditur				
2016 Rank	Business	2015 Rank	Industry	R&D Spend ($ Billions)
1	Volkswagen	1	Automotive	$13.2
2	Samsung	2	Computing and electronics	$12.7
3	Amazon	7	Software and internet	$12.5
4	Alphabet	6	Software and internet	$12.3
5	Intel	3	Computing and electronics	$12.1

- In Canada, the leading R&D spenders are:

Business	Industry	2015 R&D Spend ($ millions)	R&D as % of revenue
Bombardier Inc.	Airplane manufacturer	$2,294	9.9
Magna International	Car parts and assembly	$639	1.6
BlackBerry Limited	Smart phones	$600	21.7

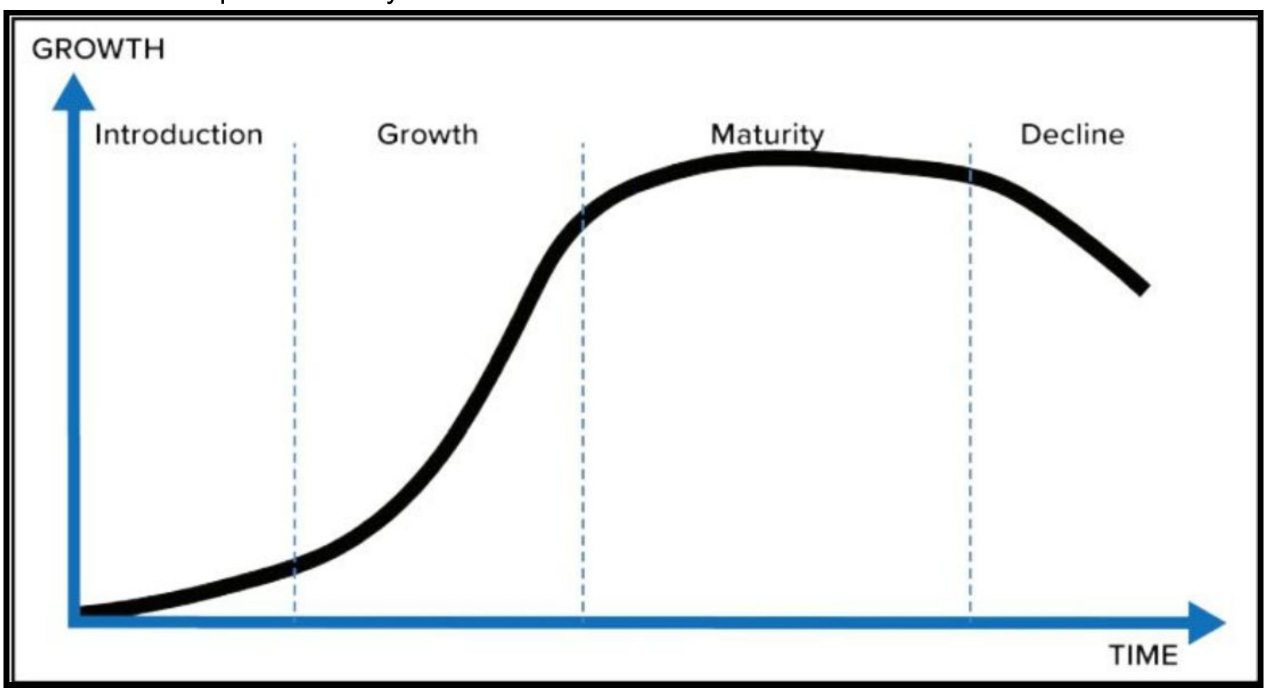
- **The Product Life Cycle:**
- The **product life cycle** is the introduction, growth, maturity, decline and ultimate demise of products and industries as technologies and tastes change.
- The product life cycle can be visualized on a 2 dimensional diagram/model, shown below:



- Here is the lifespan of successive Apple iphones:

Launched	Model	Discontinued	Lifespan
June 2007	iPhone (8GB)	July 2008	12 months
July 2008	iPhone 3G (16 GB)	June 2009	12 months
July 2008	iPhone 3G (8GB)	June 2010	24 months
June 2009	iPhone 3GS	June 2010	12 months
June 2010	iPhone 4	October 2011	16 months
October 2011	iPhone 4S	September 2013	23 months
September 2012	iPhone 5	September 2013	12 months
September 2013	iPhone 5C	September 2014	12 months
September 2013	iPhone 5S	March 2016	18 months
September 2014	iPhone 6	September 2016	24 months
September 2016	iPhone 7	current	

- Here is what the product life cycle looks like on the 2-d model:



- **Introduction Stage:**
    - The first stage of the product life cycle.
    - During the introduction stage, the product or technology is new and not well known.
    - There are few customers, and as a result, there are few suppliers. Furthermore, the price is high and profits are low.
    - The few businesses that do sell the product/technology will spend much of their time and effort educating potential customers, building channels of distribution and perfecting the product's design.

    - According to a Harvard Business School professor, each year, more than 30, 000 new consumer products are launched and about 80% of them fail.
    - Examples of recent high profile products that failed are New Coke (1985) and Samsung's Galaxy Note 7 (2016).
- **Growth Stage:**
    - The second stage of the product life cycle.
    - During this stage, demand for a product, particularly from first-time users, expands rapidly.
    - During this stage, production costs should begin to fall as producers begin to enjoy **economies of scale**. **Economies of scale** is the term used to describe a decrease in the cost to produce something as the volume of production increases.
    - Lowering their production costs means producers can lower their selling price. This increases demand and sales even more.
    - In most cases, it is during this stage that the product begins to make a profit.
- **Maturity Stage:**
    - The third stage of the product life cycle. This is when sales peak.
    - It is at this stage when products are most profitable. The product is now well understood and well accepted.
    - Expenditures on sales, marketing and further product development, I.e. new features, can begin to drop.
    - When a market has reached this stage, it is said to have experienced **saturation**. **Saturation** is when a market can absorb no more products.
- **Decline Stage:**
    - The fourth and final stage of the product life cycle.
    - The number of purchases fall after a market has reached saturation or the product/technology becomes old fashioned.
    - Businesses selling products in this stage may be forced to cut the product's price, merely to maintain demand.
    - With prices falling and demand either falling or staying flat, profits will fall. Falling profits will drive the smaller, less efficient, less committed competitors from the market.
    - The cause of industry decline is often the introduction of newer and better technologies that can perform the same tasks faster, better and cheaper. Other reasons may be changing social attitudes or changing demographics.
- **Life Cycle Extension:**
- A tactic for delaying product decline by launching a new variation or an update of the product.

Textbook Definitions:

- **Benefit:** An advantage that is derived from purchasing that product.
- **Consumer products:** Products purchased by the end user, for personal use.
- **Convenience products:** Inexpensive products relatively frequently and with little expenditure of time and effort.
- **Customization:** The characteristic that no 2 customers want the same service delivered in the same way.
- **Decline stage:** The final stage of the product life cycle. Here, demand falls, prices fall, profits fall and the number of competitors decline.

- **Economies of scale:** A decrease in the cost to produce something as the volume of production increases.
- **Feature:** An additional attribute or offering which contributes improved usefulness or better experience of the product.
- **Function:** What a product is intended to do.
- **Goods:** Products which are tangible.
- **Growth stage:** The second stage of the product life cycle. During this stage, demand for a product, particularly from first-time users, expands rapidly.
- **High-contact services:** Services that require personal interaction with the customer.
- **Immediacy:** The quality that makes something important or relevant because it is happening there and then.
- **Industrial products:** The parts, ingredients, materials and supplies that are bought by one business from another in the process of making consumer goods.
- **Introduction stage:** The stage of the product life cycle when the product/technology is new and little known.
- **Life cycle extension:** Any effort by a business to re-package, re-launch or update a mature but well-known product.
- **Low-contact services:** Services that don't necessarily involve interaction with the customer.
- **Maturity stage:** The third stage of the product life cycle. This is when sales peak.
- **Private sector:** The part of the economy that is run by private individuals, often with the aim of making a profit.
- **Product:** Whatever a purchaser hopes to get or believes they are getting whenever they make a purchase from another individual or organization.
- **Product life cycle:** The introduction, growth, maturity, decline and ultimate demise of products and industries as technologies and tastes change.
- **Public sector organizations:** An organization that is owned by the government. Examples include Canada post, Canadian Broadcasting Corporation (CBC), and Canadian Heritage (Museums).
- **Research & Development (R&D):** Looking for innovations and ideas which will lead to the next generation of products.
- **Saturation:** When a market can absorb no more products.
- **Services:** Products which are intangible but can be experienced.
- **Shopping products:** Products that are moderately expensive and purchased infrequently causing consumers to spend time comparing features, benefits and price.
- **Speciality products:** Products to which consumers will attach a great deal of importance and for which they will spend a good deal of both time and effort to find exactly what they want.
- **Value:** The regard with which a product is held by potential buyers, expressed as its financial worth.
- **Value package:** The bundle of functions, features and benefits that a business offers to buyers of a product.

Lecture Notes:

- There are basic building blocks used to produce anything.
  In business, these building blocks are called **factors of production**.
- The factors of production are:
  1. **Natural resources:**
  - They are raw materials found in the ground, grown from earth, or harvested from nature.
  - Examples include coal, wheat, water, wood, etc.
  - A **resource intensive business** is a business that relies heavily or primarily on natural resources.
  - Examples include the farming, fishing, forestry, and mining industries.
  2. **Labour:**
  - They are the workers.
  - A **labour intensive business** is a business that relies heavily or primarily on labour. Success will depend upon the quantity and quality of workers the business can hire.
  3. **Capital:**
  - They are the money or the machines and technologies that money can buy.
  - Examples include tractors, hammers, printers, phones, etc.
  - A **capital intensive business** is a business that relies on lots of money, equipment and technology.
  - Examples include banking and auto manufacturing.
- The **factor intensity theory** suggests that all businesses need some combination of all three. However, depending on the business or industry one factor may be more important than the others.
- A **theory** is an attempt to explain something complicated, hard to understand, or hard to prove.
- The factor intensity theory evolved to include a fourth factor of production. This fourth factor of production is **entrepreneurship**. Businesses are formed by people. People motivated to take time, incur costs and take risks, to make something happen.
- The **industrial revolution** (1760 - 1820) was a concentrated period of invention and discovery, most of it were labour saving, which transformed the industries of the age and had far reaching consequences. One of which is factor substitution. The industrial revolution started in Britain and spread to other European countries and then to America.
- **Factor substitution** is substituting one factor for another so products can be made faster or better, more effectively, and more cheaply.
- 10, 000 years before the industrial revolution, there was the **agricultural revolution**.
- Many theorists suggest that we have been in an **information revolution** since the 1970s. As such, they suggest that there is a fifth factor of production, information.
- The information revolution is a concentrated period of invention and discovery which transformed the most important industries of the age.
- A business is made from 3 basic elements: natural resources, labour and capital, which are organised and assembled by entrepreneurs and understanding what each does, allows you to better manage the whole.

Textbook Notes (Chapter 3):

- **The Theory of Factors of Production:**
- The term **factors of production** refers to the factors that are required to produce goods and services. They are the basic building blocks that, in combination, are required to make a business, and produce things.
- There are 4 factors of production:
    1. **Natural resources (raw materials):**
    - **Natural resources** are things found in nature and the resources that grow out of the earth or can be extracted from it. Examples of natural resources are land, water, wood, coal, cotton, oil, and wheat.
    - Canada has abundant land and natural resources.
    - In the 15th and 16th centuries, the Portguese came to our Atlantic coast in pursuit of fish.
    - In the 16th century, France came to what is now Quebec in search of fur.
    - In the 18th and 19th centuries, the British established businesses to exploit the supply of timber.
    - Currently, Canada is the world's 6th largest supplier of wheat and has the 2nd highest supply of oil.
    - Furthermore, some of Canada's largest businesses rely on natural resources for their main activities. Examples include:
        a. Suncor Energy, Canada's 3rd biggest business ranked by revenue, extracts oil from northern Alberta tar sands.
        b. Domtar, headquartered in Montreal, is the world's largest paper company.
        c. Barrick Gold is the world's largest gold mining company.
    - Businesses whose activities are predominantly dependent on the production or use of natural resources are called **resource intensive**. An example of a business that is resource intensive is farming.
    2. **Labour (people):**
    - **Labour** is the people who contribute their efforts to a business.
    - No businesses can exist without people. Every business needs at least one person to organise and plan things.
    - Many organizations, both not-for-profit organizations and businesses, use many workers. A business that employs many people is called **labour intensive**.

The World's 10 Largest Employers[1]

Employer	Employees	Headquarters
United States Department of Defense	3.2 million	United States
People's Liberation Army	2.3 million	China
Walmart	2.1 million	United States
McDonald's	1.9 million[2]	United States
National Health Service	1.7 million	United Kingdom
China National Petroleum Corporation	1.6 million	China
State Grid Corporation of China	1.5 million	China
Indian Railways	1.4 million	India
Indian Armed Forces	1.3 million	India
Hon Hai Precision Industry (Foxconn)	1.2 million	Taiwan

1. List and employment totals are current as of 2012

Canada's Largest Business Employers[1]	
Business	**Number of Employees Year**
George Weston Ltd.	192,000 (2019)
Magna International	174,000 (2018)
Onex Corp.	172,000 (2019)
Empire Company	125,000 (2014)
Bank of Nova Scotia	88,600 (2017)
Toronto-Dominion Bank	84,400 (2018)
Royal Bank of Canada	79,300 (2018)

3. **Capital (money and technology):**
- **Capital** is money or the machines and technologies that money can buy.
- A business that requires a great deal of money is called **capital intensive**.
- The most capital intensive businesses are banks.
- **Capitalists** are the people who own the capital used as a factor of production.
4. **Entrepreneurship (motivation of individuals to start a business):**
- Businesses are formed by people who are motivated to take the time to incur the costs and risks and make the effort to make something happen. We call these people **entrepreneurs**.
- An **enterprise** is a project or undertaking that requires energy and effort and whose outcome is uncertain.
- **Entrepreneurship** is the willingness or the motivation to take the initiative, and to accept the risk of failure in return for suitable gratification or reward.
- For most of the 20th century, in most of the world's largest countries, the assumption, either implicit or explicit, was that governments were best placed to assemble and organize the resources necessary to get things done. However, increasingly, business theorists subscribe to Adam Smith's view that it is only because of the entrepreneur's desire for profit that productive activity occurs. Without entrepreneurs, the other factors of production may exist, but would lack the organizing and coordinating influence.

- **Combining the factors of production:**
- No business can exist without some combination of labour, natural resources, and capital.
- **Replacing people with machines:**
- The history of the world changed dramatically during the **industrial revolution**, which was from 1760 to 1820. The industrial revolution is the name given to a rapid series of technological developments that first transformed the United Kingdom and then the rest of Europe and the U.S.
- The **Industrial revolution** was a series of technological developments and inventions (many of them labour saving) that transformed the manufacturing, agriculture, mining, and transportation industries in the 18th century.

- The industrial revolution was notable because of the speed with which a large number of innovations, many to do with the most important industries of the age, came within a short period of time.
- The rapid flow of technological innovations that occurred during the industrial revolution meant that many jobs that had previously been done by hand became obsolete. While thousands of people lost their traditional livelihoods, the time and cost to make the products fell. Furthermore, workers made unemployed from traditional jobs found work elsewhere, in one of the rising industries created by the outpouring of new technologies. As a result, the standard of living rose throughout Europe.
- The phenomenon of replacing human workers with faster, more efficient machines is called **factor substitution**.
- As the machinery became larger, more expensive and more sophisticated, the work moved out of people's homes and into larger, dedicated workspaces known as factories.
- This **factory system** meant that work that had previously been done independently and on the worker's schedule was now concentrated in factors and performed at standardized and regulated hours.
- In this way, the industrial revolution led to the growth of industrial cities and towns.
- **The factors of production – A theory:**
- The existence of the factors of production is a **theory**. A **theory** is an idea, which is an attempt to explain something complicated, hard to understand, or hard to prove. Examples of theories include the big bang theory and the theory of evolution.
- Some theorists suggest that there is a fifth factor of production, information. These theorists suggest that businesses need to collect vast amounts of information to understand and successfully meet the needs of their customers, and effectively use their natural resources, labour, and capital.
- Consider the industrial revolution. 10, 000 years earlier, mankind went through the **agricultural revolution**, where humans learned how to domesticate crops, farm animals and discovered irrigation. The agricultural revolution changed human society from a nomadic one to a settled one.
- Many theorists are now suggesting that we're living in a revolution comparable to the previous two. They suggest that since 1970, we have been living through an **information revolution**.

Textbook Definitions:

- **Capital:** Money or the machines and technologies that money can buy.
- **Capitalist:** The people who own the capital used as a factor of production.
- **Capital intensive:** A business or a process that requires a large amount of money, machines or technology to produce its goods and services.
- **Enterprise:** A project or undertaking that requires energy and effort and whose outcome is uncertain.
- **Entrepreneurs:** The people who are motivated to take the time, to incur the costs and risks, and make the effort to make something happen.
- **Entrepreneurship:** The willingness or the motivation to take the initiative, and to accept the risk of failure in return for suitable gratification or reward.
- **Factors of production:** The basic building blocks that, in combination, are required to make a business, and produce things. The 4 factors of production are natural resources, labour, capital and entrepreneurship.
- **Factory system:** The concentration of work in large buildings erected for the purpose and performed at standardized and regulated hours.

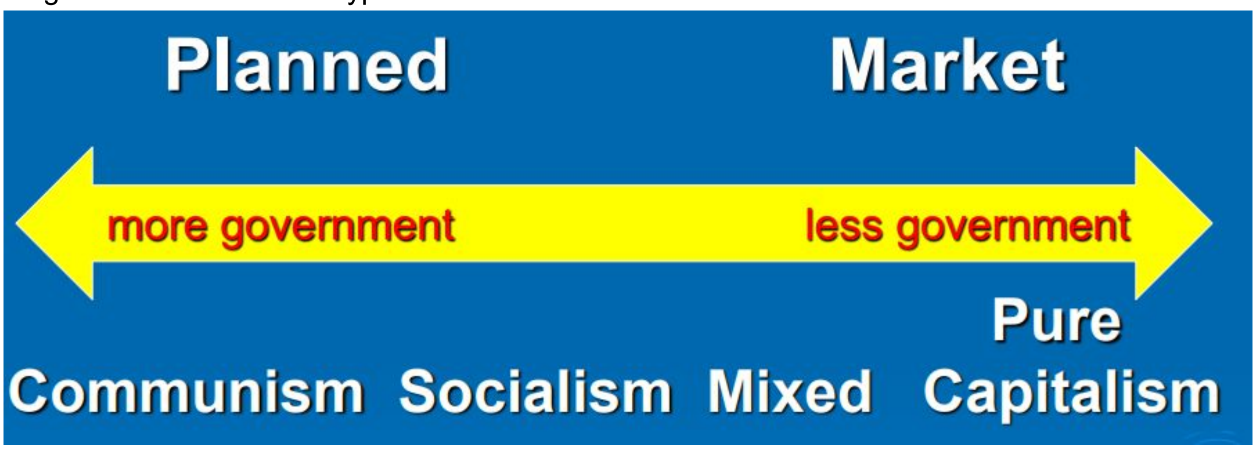
- **Factor substitution:** Substituting one factor of production (for example capital) for another (for example labour) so that products can be made more quickly or cheaply.
- **Industrial revolution:** A series of technological developments and inventions (many of them labour saving) that transformed the manufacturing, agriculture, mining, and transportation industries in the 18th century.
- **Information revolution:** The period of history when a large number of inventions and discoveries in computing and information technology are changing the nature of businesses and are having far-reaching consequences on society.
- **Labour:** The people who contribute their efforts to a business.
- **Labour intensive:** A business or a process that requires a large amount of labour to produce its goods and services.
- **Natural resources:** Things found in nature. Resources that grow out of the earth or can be extracted from it. Examples of natural resources are land, water, wood, coal, cotton, oil, and wheat.
- **Resource intensive:** An activity that is predominantly dependent on the production or use of natural resources. An example of a business that is resource intensive is farming.
- **Theory:** An idea, which is an attempt to explain something complicated, hard to understand, or hard to prove. Examples of theories include the big bang theory and the theory of evolution.

Lecture Notes:

- **Economics** is the study of how people produce the things they need and want.
- An **economic system** is the system that a country uses to answer the following questions:
    - What to produce?
    - What to consume?
    - How to produce it?
    - How to share it?
- Different countries answer these questions differently. Some have governments in control while others have individuals in control. However, in most countries government and individuals share responsibility.
- **Planned systems** is an economic system where the government is mostly or entirely in control.
- **Market systems** is an economic system where individuals are mostly or entirely in control.
- A **state** is a country, its people and its territory. A state is lasting.
  E.g.
  Canada is a state. Canada is 153 years old.
- A **government** is the people who run the state. Governments are temporary. Governments change.
- Advantages of planned economies:
    1. Only the state has the power and resources to direct food, clothing, shelter, jobs to benefit all society.
    2. Only the state has concern for all citizens.
    3. Only the state will ensure fair distribution of goods and services to all citizens.
    4. Planners working for the government will make rational decisions in the best interests of all the nation.
- 2 Types of Planned Economies:
    1. **Communism:** Here, the government owns/controls all the factors of production and makes 100% of all the economic decisions.
       Examples: North Korea (Maybe)
       There are very few, if at all, communist countries left.
    2. **Socialism:** Here, the government owns/controls the majority of the factors of production, including principal industries, and makes most of the economic decisions.
       Example: Cuba (but that's changing)

  The difference between communism and socialism is that governments in communist countries own/control 100% of the factors of production and make 100% of all the economic decisions while governments in socialist countries own/control most of factors of production and make most of the economic decisions.
- Advantages of Market Economies:
    1. Individual business owners are closer to their customers than government planners.
    2. Individual business owners have more current and better information about what people in their towns actually need.
    3. Individual business owners can respond quickly to better satisfy people's needs.
    4. Government control concentrates power and power corrupts.

- 2 Types of Market Economies:
    1. **Pure Capitalism:** Individuals own/control all factors of production and make 100% of all the economic decisions.
       Examples: none
    2. **Mixed Market:** Individuals own/control majority of factors and make most of economic decisions. However, governments still regulate and tax and run some businesses.
       Example: Canada, USA, UK, France
- The difference between pure capitalism and mixed market is that in pure capitalism, individuals own/control 100% of factors of production and make 100% of all the economic decisions while in mixed market, individuals own/control most of factors of production and make most of the economic decisions, but the government can still regulate and tax and run some businesses.
- Diagram of the 4 different types of economies:



<u>**Textbook Notes (Chapter 4):**</u>

- **Introduction:**
- **Economics** is the study of how people produce the things they need and want.
- An **economic system** is 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 determines the following:
    1. Who owns the factors of productions
    2. Who controls the factors of production
    3. Who decides what needs to be produced
    4. Who decides how goods and services are distributed
- **Economic Systems - Planned Economies vs Market Economies:**
- We can divide all the countries of the earth into 2 categories:
    1. **Planned economies:**
    - Are countries in which most of the factors of production are primarily owned, controlled or directed by the state through political leaders or government officials.
    - Those who advocate for a planned economic system base their arguments on 2 points:
        a. Only the state, with its ability to create and enforce the law, has the power and authority necessary to feed, clothe, shelter, educate and employ the nation's entire population.

b. Businesses 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.

- Countries where the state controls most of the factors of production are called **planned economies**. They are called planned economies because what gets produced and how it gets produced are determined by the state, according to a government plan.
- The planned economy model is based on the assumption that that nation's smartest and best educated can be retained to work for the state.
- The planned economy's weakness is that it depends too much on models, which means that it cannot ensure that its plan will produce the precisely correct quantities of every product.
  I.e. Central planners base their decisions on models. However, not every family has 24 kids. Nar everyone needs a midsized car. Not everyone wears 36" x 32" jeans. Failure to understand this, or to fine tune the models, means government plans may result in the production of houses which are too big, or too small, cars that can't carry an entire family, and jeans that won't fit.
- In addition, government bureaucracies have shown themselves to be slow moving.
- There are 2 types of planned economies:
  a. **Communist Economies:**
  - What Karl Marx and Frederich Engels envisioned.
  - **Communism** is an economic system where all the factors of production are controlled by the state, and where there is no private property. In the 20th century, the Soviet Union and China were communist countries. Nowadays, the country that's closest to being communist is North Korea. There are no real/pure communist countries.

  b. **Socialist Economies:**
  - **Socialism** is an economic system where the government owns or controls the majority of the factors of production and directs the majority of productive activity. Examples of socialist countries today are Cuba, China, and Vietnam. However, for much of the 20th century, many countries in Asia, Eastern Europe and Africa were socialist.
  - The distinguishing characteristic of a socialist economy is the lead role played by the government, which intervenes heavily through taxation, regulation, and through its day-to-day management of large and important industries. In many socialist countries the government will own the banks, and principle transportation companies such as railways and airlines. In socialist economies the government may take responsibility for the provision of all utilities (gas, water, electricity), the building of housing and for the distribution of food.
  - The philosophy that guides socialist economies is that only the government has the power, the resources, and the motivation to provide a nation's citizens with the important essentials. However, this does not rule out individual family enterprises providing such goods and services as, for example, neighbourhood restaurants, taxi cabs, and small retail stores.

- Virtually every constitutionally socialist country on earth that runs a planned economy allows for some private property and some private enterprise. This is what distinguishes it from communism. In communist economies, the government has control of everything and there is no private enterprise. In socialist economies, there are some private enterprises.

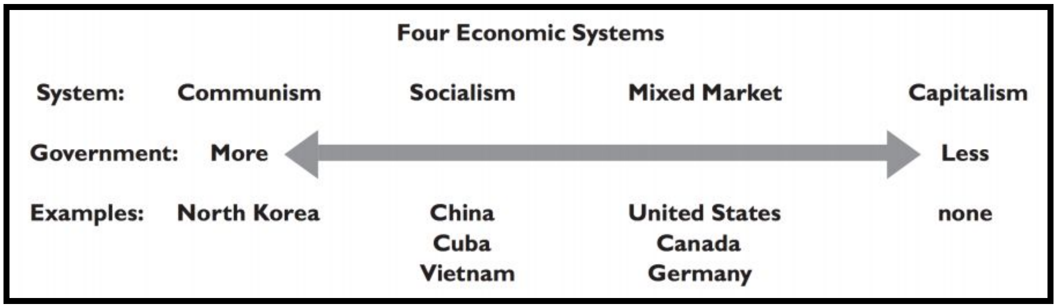
2. Market economies:

- Are countries in which most of the factors of production are primarily owned, controlled or directed by individuals and where entrepreneurship and business ownership are encouraged.
- Those who advocate for market economics argue the following:
  a. While state control sounds good in theory, it tends to work poorly in practice. This is because people need an almost infinite variety of things and this is too much for one entity, even the government, to plan, produce and distribute effectively.
  b. Government bureaucrats, working in offices far removed from the reality of the busy streets, lack the information and the feel for the average person's changing needs and changing tastes. While it might be true that only the state can mobilise the capital, the people and the other resources needed to fight a war, government officials won't have the skills, the information, or the motivation to effectively run your local barbershop, your neighbourhood pub or an antique store.
  c. A benefit of private enterprise is competition. If you don't like the price, quality or selection of goods on offer from one business, you can generally walk down the street to find another. State run enterprises lack the motivating discipline of having to compete for your patronage. Without that competition, state-run enterprises can become unresponsive, wasteful and inefficient.
  d. Planned economic systems concentrate a great deal of power into the hands of a small number of political elite. History and experience show that power corrupts. History also shows that political leaders can be just as vain, selfish and greedy as anyone else.
- Countries where individuals make the decisions about what gets produced are called **market economies**.
- In a market economy, the government takes a back seat, allowing entrepreneurs and managers to determine what needs to be made and what a nation's citizens most need and want.
- A theoretical advantage of market economies is that individual business owners, and store and factory managers, are closer to their customers than the government is. These individuals will have more current information, and better information, about what people in the streets of their towns and cities actually need and want. Compared to government officials, private entrepreneurs can respond more quickly to demand on the street, and therefore better satisfy people's needs. However, even private businesses can get large, bureaucratic and unresponsive.

- There are 2 types of market economies:
  a. **Pure Capitalism:**
  - **Pure capitalism** is an economic system in which all of the factors of production are owned by private individuals. All economic activity is privately run, citizens pay no taxes, and the government imposes no regulations on business.
  - In a purely capitalist economy, in the absence of taxes, wealth will accumulate in the hands of entrepreneurs, business owners, and those who finance enterprises. Those who advocate for a purely capitalist system argue that wealth will flow to the shrewdest, smartest, hard-working people. According to this argument, pure capitalism rewards success. However, others argue that pure capitalism encourages **Social Darwinism**.
  - Today, there are no purely capitalist economies. Countries like the United States and Canada operate nominally capitalist oriented economies. Furthermore, private property and business activity cannot exist without rules and regulations. Without rules and laws, societies are at risk of falling inte anarchy. Societies also need clean and safe streets, health, welfare, and education. To provide all of these socially beneficial things, the state needs finance. Therefore, every country on earth operates some system of taxation.
  - Virtually all capitalist countries operate economic systems where private enterprise is given primary responsibility for producing goods and services, but the government is given the role of imposing and collecting taxes. and creating and enforcing regulations. We call these countries **mixed market economies**.

  b. **Mixed Market:**
  - A **mixed market economy** is a country where ownership and control of most of the factors of production is in the hands of private individuals. However, the government provides a stable and conducive environment by providing public services, enforces laws, and provides regulation and oversight. Examples of mixed market economies include Canada, US, UK, and France.
  - Mixed market economies are countries where control of most of the factors of production is in the hands of private individuals, but it is also acknowledged that there is a positive role for the government. The government collects taxes for the financing of public services such as law enforcement, fire protection, schools, hospitals. The government also creates and enforces the laws that protect the owners of private property and as well as provide regulation and oversight.
    I.e. A mixed market economy is a system in which the production of goods and services is left mainly to private individuals, but the government plays an important role in providing a stable and conducive environment for businesses to thrive.

  - In mixed market economies, governments interact with businesses in three main ways:
    a. Governments impose and collect taxes.
    b. Governments pass laws which regulate the conduct of businesses.
    c. Governments provide some products and services, occasionally in competition with private enterprise.
  - Picture showing the 4 types of economies:



- **Government as a collector of taxes:**
- The Canadian federal government collects taxes for two main purposes:
  1. To pay for the various services that it provides to Canadians and
  2. To redistribute money from those who can afford it to those in need.
- **Personal income tax:** Canadians pay taxes based on their annual income. The Canadian tax system is a progressive system, meaning that the more income you earn, the larger the percentage of your income you must pay. While most Canadians pay between 20% and 30% of their personal income as taxes, the tax system is designed so that high income earners should pay more. In this way, the state is indirectly redistributing wealth from its richer citizens to services which largely benefit those who are less fortunate. Personal income tax generates about one-half of all the government's revenue. A **progressive taxation** is a tax that takes a larger percentage from the income of high-income earners that it does from low-income individuals. Personal income tax generates about half of all the government's revenue.
- **Corporate Income tax:** Many Canadian businesses also pay taxes on their profit. Most Canadian businesses pay about 25% of their profit as tax. The revenue raised through corporate income tax is shared between the federal and the various provincial governments. In 2017-2018 corporate income tax raised $48 billion or 15% of the federal government's revenue. .
- **Sales or consumption tax:** When you buy a product anywhere in Ontario, the Harmonised sales tax (HST) is applied at 13%. The revenues are split between the federal (which takes 5%) and the provincial government (which takes 8%). In 2017-2018, HST generated about 12% of the Canadian government's revenues.
- **Employment insurance:** Working Canadians are taxed roughly 2% of their annual income to pay for the federal employment insurance program. Employment insurance provides temporary financial assistance to unemployed Canadians who have lost their job. EI payments represent about 7% of the government's tax revenue.

- **Government as regulator:**
- Here are some regulations that every business in Canada must follow:
    1. The **Canadian human rights act** requires employers to ensure that all who are affected by their organization are treated equally regardless of their race, gender, sexual orientation, or any of the other eleven grounds of discrimation. It also specifies that employers cannot discriminate against women by paying them less than men for work of equal value.
    2. The **Canada labour code** sets minimum wages, and limits the number of hours most employees can be required to work in a day (8 hours) and in a week (48 hours). It also dictates that employers must provide employees with a minimum of 2 weeks paid vacation every 12 months.
    3. The **employment insurance act** obliges employers to contribute to the employment insurance (EI) program. In addition, it obliges employers to allow workers up to 52 weeks of maternity or paternity leave. The EI fund provides benefits to new parents taking leave.
    4. The **competition act** prohibits businesses from misleading advertising, or from making misleading claims.
    5. The **consumer packaging and labeling act** requires businesses to provide specified labelling information aimed at assisting consumers to make informed purchasing decisions.
- Some businesses argue that too many complicated and hard to understand regulations interfere with their ability to operate.
- **The government as a provider of services:**
- A **crown corporation** is an enterprise owned and operated by a government (either federal or provincial) in Canada. Crown corporations are given this name because, as publicly-owned enterprises, they are theoretically operated for the benefit of the people on behalf of Canada’s monarch (“the Crown").
- Some examples of federal crown corporations are:
    - CBC
    - Canada post
- Some examples of Ontario Provincial Crown Corporations are:
    - LCBO
    - Hydro one
    - OLGC
- There is no substantial difference between federal and provincial crown corporations. In either case, they are owned by a government.
- **The Bolshevik Revolution in Russia:**
- In Russia, in October 1917, a violent revolution overthrew the Tsar of Russia (Tsar Nicholas II).
- The Tsarist regime had been weak and corrupt. Almost all of the land and capital were concentrated in the hands of a privileged few while many millions lived in dire poverty.
- The Bolsheviks, under Vladimir Lenin, formed a government and immediately issued “The Decree on Land”, which was written by Lenin.
- A year later, the Soviet Union assumed ownership of all banks, and therefore, the distribution of capital.
- Soon after, the Soviet government took control of shipping companies, factories and production and distribution of food.

- Once all the levers of productive activity were controlled by the Soviet government, it created a series of 5-year plans setting targets for the production of food, housing and electricity, among others.
- The process of the state assuming control and ownership of resources, businesses and industries is called **nationalization**. The motivation behind nationalization is that only the state has the motivation to run the economy for the benefit of the entire nation.
- **The USA - Franklin Roosevelt and the New Deal:**
- The Great Depression began in 1929.
- From 1929 to 1933, the total production of manufactured goods fell by one third. Furthermore, the unemployment rate rose from 4% to 25%.
- In the presidential election of 1932, Franklin Roosevelt was elected president. Roosevelt came into office promising to end the depression and cut unemployment by offering “a new deal for the American people.”
- Roosevelt’s promise gave rise to a series of laws and executive orders that became known as the **New Deal**.
- The New Deal involved government-managed and government-funded programs to provide employment, housing, electricity, improved education, and opportunity for the unemployed and the poor.
- The United States Housing Authority financed and built houses.
- The Works Progress Administration (WPA) employed millions of people to build office buildings, airports, hospitals, schools, roads, bridges and dams. Between 1935 and 1943, the WPA employed almost 8 million people. Currently, the WPA is the largest employer in the US.
- The Agricultural Adjustment Administration (AAA) set targets and limits on the production of corn, cotton, dairy products, hogs, rice, wheat and tobacco.
- Between 1933 and 1937, the unemployment rate fell from 25% to 14% and farm prices nearly doubled.
- **Europe - Mobilization for War:**
- During World War 2, European countries were mobilizing people and resources for the war.
- A key element of most countries’ war efforts was conscription. Conscription means compulsory enlistment into state service, usually into the armed forces.
- Another element of most countries’ war efforts was rationing. Rationing means limiting the quantity of a good or commodity that each person is allowed.
- **China - Mao’s Communists Win the Civil War:**
- In China, the communists under Mao Tse-Tung came to power in 1949.
- The chief goal of the Mao’s government was to restore the economy to normal working order. It moved quickly to make all mines, factories, transportation companies and banks into **state-owned enterprises**. A **state-owned enterprise** is a government owned organization that provides goods and services but does not seek to make a profit. The government also took control of about half of all agricultural land.
- By 1956, approximately 67.5% of all Chinese industrial enterprises were state owned and 32.5% were under joint public-private ownership. No privately owned firms remained.
- In 1958, Mao introduced **The Great Leap Forward**. Private ownership of land was entirely abolished and households all over China were forced into state-operated communes that were ordered to meet centrally dictated production targets.

- The **Great Leap Forward** was a policy introduced by Mao Zedong, which abolished private ownership of land and forced the creation of state-owned communes.
- **Planned Economies - Evaluating the Historical Evidence:**
- After Lenin died in 1923, Joseph Stalin took leadership of the Soviet Union. Stalin spent the next 30 years murdering and imprisoning his political rivals. With absolute authority over the production of all goods in the Soviet Union, Stalin engineered artificial famines to starve millions of people, in Ukraine, who he imagined were his political enemies.
- Mao's Great Leap Forward was a catastrophe. As a result of it, tens of millions of people died from starvation.
- The concentration of power into the hands of autocrats has meant that planned economies are often referred to as **command economies**, instead. **Command economy** is a synonym for planned economy, although one which implies a greater degree of authoritarianism. Although planned economy and command economy are often used interchangeably, command economy implies a greater deal of authoritarianism to the economic system.
- However, even in Western democracies, state intervention and public enterprise are criticized. They are often criticized for being inefficient and wasteful.
- In Canada, McLean's Magazine published a series called "99 Stupid Things the Government did with your Money". The magazine reported the following:
    - The Department of National Defence (DND) took eight years to develop a $174 million satellite communications system. When the system was completed, the DND determined that the commercial system it had been using was sufficient to meet existing needs and required fewer staff to operate.
    - Ottawa's National Capital Commission installed seven new ice shacks along the Rideau Canal for skaters. Each shack cost $750,000. By comparison, the average house price in Ottawa was $360,000.
    - The federal government paid consultants $19.8 million, or $90,000 a day, to suggest ways to trim budgets.
- The United States General Accounting Office (GAO) audits US government spending. In a recent audit the GAO reported the following examples of duplication:
    - Ten different federal agencies were operating 92 programs devoted to teacher quality.
    - At least 23 agencies were spending $15 billion on 679 separate renewable energy programs.
    - The Defense Department had 10 sub-agencies spending between $50 million and $200 million with 159 contractors to provide foreign language support to the Pentagon.
- Ronald Reagan, President of the United States from 1981 to 1989, once observed "We don't have a trillion-dollar debt because we have not taxed enough. We have a trillion dollar debt because we spend too much."
- **The 1970s and 1980s - The Pendulum Swings Back:**
- Beginning in the 1970s, leaders all over the world were starting to assess the effectiveness of planned economics.
- In 1978, Mao died and a new leader, Deng Xiaopeng, emerged in China. Deng disbanded the previously nationalized collective farms and returned ownership of the land to individual families.
- In 1985, Soviet leader Mikhail Gorbachev admitted that under its existing, state-dominated economic system, the Soviet Union's people were suffering from

inadequate living standards. Gorbachev and his advisors then introduced a series of reforms, known as **Perestroika**. **Perestroika** is the name given to a series of laws instituted in the Soviet Union in the 1980s. These policies reversed the economic policies of collectivisation and nationalisation put in place after the Russian revolution.

- Margaret Thatcher, the Prime Minister of the United Kingdom from 1979 to 1990, argued against nationalization and for **privatization**. **Privatization** is the process of transferring ownership of a business or an industry out from government control and into the hands of private owners. Her political philosophy is known as Thatcherism.
- Margaret Thatcher was certainly not the only politician who argued for less intensive, and less. intrusive government. Her contemporary, US President Ronald Reagan was another. However, Thatcher was among the most forcefully outspoken of her peers.
- During the decade of the I980s alone the British government sold the following businesses:
    - British Petroleum - an oil company
    - British Aerospace — an aircraft manufacturer
    - British Airways — an airline company
    - British Gas —a gas transmission company
    - Jaguar —an automobile manufacturer
    - British Steel — a steel manufacturer
    - British Sugar - a sugar manufacturer
    - British Telecom — a phone company
    - British Transport Hotels —a chain of hotels
    - Rolls Royce — a manufacturer of engines
    - Rover Group - a manufacturer of cars and trucks
- Britain was not alone in carrying out large scale privatisation. In 1985 the Japanese Government privatised the Nippon Telephone and Telegraph (NTT). At the time, with more than 300,000 employees, NTT was Japan's largest employer, and the largest telephone company in the world. However, the Japanese government felt it was inappropriate that it should be running a telephone company.

Textbook Definitions:

- **Command economy:** A synonym for planned economy, although one which implies a greater degree of authoritarianism.
- **Communism:** An economic system where all the factors of production are controlled by the state, and where there is no private property.
- **Crown corporation:** An enterprise owned and operated by a government (either federal or provincial) in Canada.
- **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.
- **Great Leap Forward:** A policy introduced by Mao Zedong, which abolished private ownership of land and forced the creation of state-owned communes.
- **Market economies:** A country with an economic system in which individuals make the decisions about what gets produced.
- **Mixed market economy:** A country where ownership and control of most of the factors of production is in the hands of private individuals. However, the government provides a stable and conducive environment by providing public services, enforces laws, and provides regulation and oversight.

- **Nationalization:** The process by which a government assumes ownership and control of resources, businesses, or industries, running them with the intention of benefitting the entire nation.
- **New Deal:** A series of laws and executive orders in the 1930s, designed to give the United States governments the power to manage the economy and provide employment.
- **Perestroika:** The name given to a series of laws instituted in the Soviet Union in the 1980s. These policies reversed the economic policies of collectivisation and nationalisation put in place after the Russian revolution.
- **Planned economies:** An economic system where the government takes the lead role in owning and controlling the factors of production. In a planned economy, the decisions about what gets produced and how it gets produced are determined by a government plan.
- **Privatization:** The process of transferring ownership of a business or an industry out from government control and into the hands of private owners.
- **Progressive taxation:** A tax that takes a larger percentage from the income of high-income earners that it does from low-income individuals.
- **Pure capitalism:** An economic system in which all of the factors of production are owned by private individuals. All economic activity is privately run, citizens pay no taxes, and the government imposes no regulations on business.
- **Social Darwinism:** A belief that Darwin's theory of natural selection should apply to society, and that the strong should see their wealth and power increase while the weak should see their wealth and power decrease.
- **Socialism:** An economic system where the government owns or controls the majority of the factors of production and directs the majority of productive activity.
- **State-owned enterprise:** A government owned organization that provides goods and services but does not seek to make a profit.

Lecture Notes:

- The questions “what gets produced”, “how much gets produced”, “how it gets produced” are determined by **markets**.
- Markets are a bunch of activities, not a place.
- **Market:** The interaction of buyers and sellers exchanging information about products.
- In **market economies**:
  - Private individuals have the right to start a business and try to sell their goods/services and have a chance to make a profit.
  - Consumers have the choice to buy and have a chance to shop around.
- Market vs Planned:
  - If the government owns or controls all the factors of production and if the government provides all the goods & services, then consumers lack choice.
  - In market economies, we think choice is good.
- Not all markets are the same. Some markets have lots of sellers, which is good for buyers as they have more choice, while others have few sellers, meaning there are fewer choices and some markets have only one seller, meaning that there is no choice. **Note:** If the government is in charge, it is the only seller.
- **Market Structure/Degree of Competition** is the combination of the numbers of buyers and sellers in a market.
- The number of sellers in a market determines the:
  1. Variety of choice buyers have.
  2. Negotiating power sellers have.
- We commonly recognise 4 market structures:
  1. **Perfect Competition:**
  - Lots and lots of competitors.
  - No **barriers to entry**. Barriers to entry is anything that makes an industry difficult, time consuming or expensive to enter. In perfect competition, there are no barriers to entry.
  - All have a small **market share**. Market share is the revenue made by a single business as a percentage of total revenue of all competitors.

$$\frac{\text{Business x revenue}}{\text{Industry revenue}} = y\%$$

In a perfectly competitive market, there are dozens or even hundreds of competitors and each one has a small market share. No single competitor is dominant. Therefore, each must charge more or less the same.

$$\frac{\text{business x revenue}}{\text{industry revenue}} = \text{not significant}$$

- All are more or less the same.
  I.e. All, more or less, are **undifferentiated**.
  E.g. No street vendor can claim their hot dogs are different or special.
- All must sell at more or less the same price.
- An example of perfect competition is a barbershop.

2. **Oligopoly:**

- Small number of suppliers. (3, 4 or 5)
- Small number of suppliers.
- All are large. Oligopoly businesses are large, meaning that there are a large number of employees, a large amount of capital is needed and each business has large market share.
- They watch each other closely.
- They follow each other closely.
- They **differentiate**. Competitors try to appear different to attract and retain customers.
- E.g.:
  - Canadian banking industry
  - Mobile phone service providers
  - Airline industry
  - Breweries
- Oligopolies exist because of barriers to entry.
  E.g.
  Airlines → High start up costs
  Banks → Government regulation
  Breweries → **Economies of scale** (Capacity to reduce costs when producing large quantities)
- E.g. (Banks)
  A small number, 5, of very large, 100s of branches, 1000s of employees, compete for each other's customers. They differentiate through distinctive, different coloured logos.

3. **Monopoly:**

- Only one supplier.
- By definition, it has 100% market share and sets whatever price it likes.
- E.g. LCBO
- **Legislated Monopoly:**
  - Is a market with only one seller, because a government has passed a law giving it exclusive right to sell a good or service.
  - While we prefer to give consumers choice, it is not always possible because it may be difficult or expensive.
  - E.g. local cable

4. **Monopolistic Competition:**

- Lots of sellers.
- No barriers to entry.
- Most are small, but a few are big.
- Most, more or less, are the same.
- Most sell at the same price, but a few big sellers can charge more.
- Few big sellers differentiate.
- Few big sellers create brands.

  - **Branding** is using name recognition, colours, logo, or slogan, to differentiate from competitors.
  - E.g. Coffee shops. There are many small ones, but there are some big ones, like Tim Hortons and Starbucks.
- As the owner/manager of a business you must understand:
  - Who are my competitors?
  - How big are they?
  - How many are they?
  - How can they/will they react if I raise or lower my price or if I launch a new product?
  - How can/should I react if they raise or lower their price or if they launch a new product?
- A product's market structure can change.
- Every exchange between a seller and a buyer will be affected by:
  - The buyer's budget.
  - Time that a buyer has to shop around.
  - The buyer's emotional investment in the product.
  - Location
  - Season

Textbook Notes (Chapter 5):

- **Market - A Bunch of Activities, Not a Place:**
- The word market does not refer to the physical place or part of a town. Rather it refers to the activities that occur in those places.
- A **market** is the interaction of buyers and sellers, exchanging information about goods and services for sale.
- There are 4 different markets:
  1. **Perfectly competitive market:** Many sellers and lots of choice
  2. **Oligopoly:** Few sellers and limited choice
  3. **Monopoly:** Only one seller
  4. **Monopolistically competitive market:** Combination of the 3 above
- **How Prices Are Set in a Market:**
- Market prices are set by hundreds of buyers and sellers making thousands of transactions every minute of every day.
- Sellers want to maximize the revenue they get while buyers want to pay as little as they can.
- Since Canada is a market based economy, the Government of Canada takes a back seat when it comes to deciding what Canadians buy and allows us to choose from whom we buy and the price we choose to pay. Sellers can charge what they want, if they can get away with it and buyers will decide whether a price seems appropriate and fair.
- The market system is intended to have several advantages:
  1. Entrepreneurs are permitted and encouraged to start a business.
  2. Consumers are able to have some choice between alternate suppliers.
  3. Sellers are entitled to seek a profit.
  4. When buyers and sellers agree, both parties get what they want.
- **Identifying Your Customers - Who is in Your Market:**
- A **target market** is 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.

- **Note:** When entering into a market, businesses must recognize that the vast majority of people will have some reason not to buy a product.
  E.g. Vegetarians don't buy meat.
- **Market Structure - Not All Markets are the Same:**
- Not all markets are the same. Some markets have very many buyers and sellers. Others have few buyers and sellers. Some markets only have 1 seller. Furthermore, there may be markets where there are a lot of sellers but very few sellers.
- **Degree of competition/Market structure** is the various combinations of numbers or buyers and sellers, in a market.
- **Perfect Competition - Many Sellers and lots of Choices:**
- A perfect competitive market is characterized by a large number of small sellers.
- In a perfect competitive market, the buyer has a good deal of choice regarding from whom they make their purchases. Furthermore, all of the sellers are selling more-or-less the same products for more-or-less the same price.
- A **perfect competition** is a market characterized by a large number 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.
- The key element of a perfectly competitive market is that the customers feel that they have a great deal of choice as to from whom they purchase what they need.
- One characteristic of perfect competition is that all the sellers are said to be small so no producer enjoys a large **market share**. **Market share** is the percentage of an individual firm's sales relative to the total sales within a given market.
- Sellers in a perfectly competitive market know that buyers can shop around. It is unlikely that any vendor will attempt to convince you that the milk they sell is somehow "special" or "better" than the milk sold by the store across the road. They know you won't believe them, because it isn't likely to be true, Therefore, individual businesses in a perfectly competitive market should charge what all of their competitors charge. This is called the **market price**. At any particular time, the market price is the prevailing price to which buyers and sellers agree.
- Note that in a perfectly competitive market all vendors charge "more or less" the same price. In theory, of course, they should all charge exactly the same price.
- **Oligopoly - Few Sellers and Limited Choices:**
- An **oligopoly** is a market with only a small number, 3 or 4, of large sellers. In this type of market buyers have a limited number of choices and limited ability to shop around.
- Markets become oligopolies primarily because of the existence of **barriers to entry**. **Barrier to entry** means that, for one or more reasons, a business or industry has become difficult, time consuming, and expensive to enter, or the product is difficult, time consuming, and expensive to make, so few are tempted to do so.
- There are a number of reasons why barriers to entry may exist in an industry:
  1. A few competitors might have developed processes or technologies that drastically reduce their costs. Without the knowledge or expertise to develop comparable technologies, new entrants will find it hard/impossible to compete.
  2. Entries to scale. Some industries require a lot of capital and energy, which would-be competitors don't have. Hence, they can't compete with existing businesses.
  3. Even if the technology required to make a product isn't complex, there are products which are cheaper to produce in very large quantities. This is called **economies of scale**. Would-be competitors don't have the resources to produce

the products at these large quantities, meaning that their costs will be higher than existing businesses.

- If an industry is characterized by barriers to entry, new entrants will be rare.
- Oligopoly firms are usually described as large. By definition, if there are few or limited competitors, then each enjoys a large market share.
- These characteristics (size, capital intensity, labour intensity) mean that once a business in an oligopoly is up and running. it is hard for it to shut down. For example, an airline may have entered into contracts stretching months, or even years into the future. The airline will have to give lay-off notices to hundreds or thousands of employees, and negotiate severance and retirement packages. The airline will need to honour existing passenger tickets, some booked up co a year in advance. It will then need to sell its fleet of aircraft, All of this means that, in addition to barriers to entry, oligopoly businesses tend to face **barriers to exit**. Barriers to exit are any reason why a business or industry is difficult, time consuming or expensive to leave.
- Because the number of sellers is small, each will be keenly aware of the others' products and services. Each will closely monitor the tactics that rivals use to attract customers. Finally, firms in an oligopoly will tend to set similar prices.
- An example of an oligopoly is the airline industry.
- **Monopoly:**
- A **monopoly** is a market where there is only one available supplier.
- In a monopoly, buyers have no choice but to buy from the sole supplier or do without. Thus, all transactions are done on the seller's terms.
- **Natural Monopoly:**
- A monopoly may exist for the following reasons:
    1. A business has discovered a new or highly-specialised technology that no rival can duplicate.
    2. A business has bought up exclusive control of all of the raw materials, parts or supplies needed to produce a product.
    3. A business is so much more efficient and cost effective at producing a product that no rival can effectively compete.

  The above characteristics describe what is a **natural monopoly**.
- A **natural monopoly** is a business that for reasons of size, greater efficiency or exclusive access to resources or technologies, will always be cheaper than any of its rivals.
- A natural monopoly can produce its products more cheaply and sell it more cheaply than its rivals, while yielding the same or greater profits.
- In an industry that has a natural monopoly, rivals will eventually fail, leaving the monopolist alone.
- Natural monopolies are discouraged, or sometimes broken up, by legislation because the government policy tends to favour competition and choice over the potential efficiency offered by a single monopoly seller.
- **Legislated Monopoly:**
- Most often, monopolies exist 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.
- A **legislated monopoly** is a business that enjoys the exclusive right to sell a product or service in a given market because the government has given it that right, through the passing of a relevant legislation.

- Legislated monopolies exist because governments recognize that there are some industries which, because of high barriers to entry, could not efficiently deliver products or services at low cost, unless one big supplier was given exclusivity. The most common examples of such industries are suppliers of electricity, gas, water, telephone and cable TV services.
- Examples of legislated monopolies are LCBO, and Rogers (in the GTA).
- **Monopolistic Competition:**
- Similar to a perfectly competitive market, a monopolistically competitive market is characterized, first, by lots and lots of sellers. The large number of sellers suggests that there are few barriers to entry.
- Like perfect competition, in a monopolistically competitive market, most of the many suppliers are small. That is, they do not have a big share of the market.
- However, in a monopolistically competitive industry, a small number of sellers (4 or 5) are much larger than the rest.
- These few sellers are distinct from all of their rivals because through time, they have managed to open more outlets, spend more on marketing, develop a well-known name and convince buyers that their products are better than those offered by their competitors. This activity, convincing potential customers that your product is different or better in some way is known as **differentiation**. **Differentiation** is business activities designed to convince potential customers that your product is different or better than your competitors' products.
- The larger suppliers in a monopolistically competitive market will devote a large amount of effort to get potential customers to recognize their particular name, colors, logo and slogan. This recognition is known as **branding** and is one of the principal methods of differentiating ones product. **Branding** is the efforts by a supplier to get potential customers to recognise its name, colours, logo, or slogan, and therefore differentiate its products from those of all its competitors.
- If a supplier can successfully brand its product, then potential customers will be more aware of it than the offerings of the many smaller suppliers.
- Examples of monopolistically competitive markets are:
    1. **Coffee shop:** Tim Hortons, Starbucks, and Second Cup are larger and better known.
    2. **Hamburger restaurants:** McDonalds, Harvey's, Wendy's, and Burger King are larger and better known.
    3. **Sports clothing:** Nike, Adidas, and Ralph Lauren have recognizable logos.

- **Degrees of Competition - Summary Tables:**

Perfect Competition	Monopolistic Competition
Features: Large number of buyers Large number of sellers No "barriers to entry" All sellers have small market share All sellers more or less the same Products are not differentiated All sellers charge (more or less) the same	**Features:** Large number of buyers Large number of sellers No "barriers to entry" Most of the sellers are "small" A few sellers are "large" and better-known Larger sellers can differentiate Differences highlighted through "branding" Most sellers charge (more or less) the same Larger, "branded" sellers can charge more.
Examples: Cartons of milk Newspaper vendors Fruit and vegetables	**Examples:** Coffee shops (Starbucks vs. the rest) Hamburgers (McDonalds vs. the rest Sports clothes (Nike vs. the rest) Laptops (Apple vs. the rest)

Oligopoly	Monopoly
Features: Large number of buyers Small number of sellers Barriers to entry The few sellers are "large" Sellers very aware of each other, match prices Competitors differentiate through branding	**Features:** Only one seller Barriers to entry (natural or legislated) Consumers have NO choice
Examples: Airlines Banking (RBC, BMO, TD, Scotia, CIBC) Cell phone services (Bell, TELUS, Rogers)	**Examples:** Many utilities (electricity, gas, water supply) LCBO

<u>Textbook Definitions:</u>

- **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.
- **Barrier to exit:** Anything that makes an industry difficult, time-consuming or expensive to exit due to contractual obligations, large investment, specialised equipment.
  I.e. Barriers to exit are any reason why a business or industry is difficult, time consuming or expensive to leave.

- **Branding:** The efforts by a supplier to get potential customers to recognise its name, colours, logo, or slogan, and therefore differentiate its products from those of all its competitors.
- **Degree of competition/Market structure:** The various combinations of numbers or buyers and sellers, in a market.
- **Differentiation:** Business activities designed to convince potential customers that your product is different or better than your competitors' products.
- **Economies of scale:** The capacity to reduce costs when producing a good or service in very large quantities.
- **Legislated monopoly:** A business that enjoys the exclusive right to sell a product or service in a given market because the government has given it that right, through the passing of a relevant legislation.
- **Market:** The interaction of buyers and sellers, exchanging information about goods and services for sale.
- **Market price:** At any particular time, the prevailing price to which buyers and sellers agree.
- **Market share:** The percentage of an individual firm's sales relative to the total sales within a given market.
- **Monopoly:** A market where there is only one available supplier.
- **Natural monopoly:** A business that for reasons of size, greater efficiency or exclusive access to resources or technologies, will always be cheaper than any of its rivals.
- **Oligopoly:** A market with only a small number, 3 or 4, of large sellers.
- **Perfect competition:** A market characterized by a large number 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.
- **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.

Lecture Notes:

- An economic system should produce:
  - lots of things that people need and want
  - more with each passing year
  - lots for each citizen
- **GDP** is the total value of all goods and services produced by an economic system typically in a year.
  I.e. GDP = Total Economic Activity
  Note: GDP can be calculated/estimated for any province, state, region or city.
- A country with a large GDP suggests that many workers, using many factors, produces many things of high value.
- A country with a small GDP suggests that few workers, using less capital, produces fewer things of less value.
- The total global economic activity in 2019 was $88 trillion.
- Countries with largest GDP:
  1. USA = $21.4 trillion 24.4%
  2. China = $14.3 trillion 16.3%
- Countries with Largest GDP in 2019:

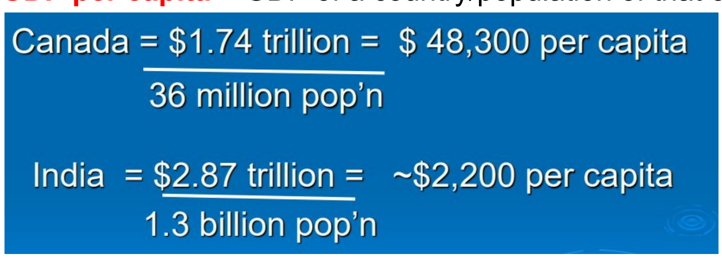
Rank	Country	GDP
1	United States	21.4 trillion
2	China	14.3 trillion
3	Japan	5.0 trillion
4	Germany	3.8 trillion
5	India	2.87 trillion
6	United Kingdom	2.82 trillion
7	France	2.71 trillion
8	Italy	2.00 trillion
9	Brazil	1.84 trillion
10	Canada	1.74 trillion

- GDP of Canadian Provinces in 2018:

Province	GDP	Country of Similar Size
Ontario	$710 billion	Switzerland
Quebec	$364 billion	Malaysia
Alberta	$286 billion	Chile

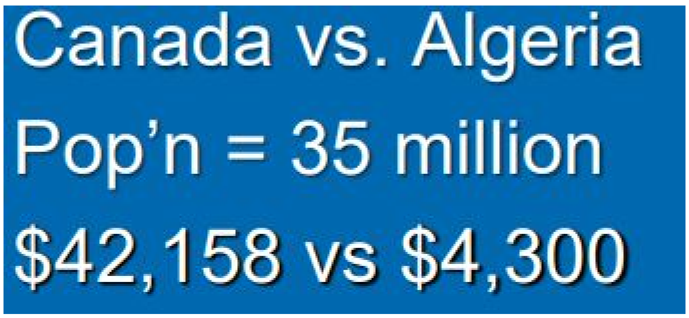
BC	$244 billion	Czech Republic

- While GDP measures an economy's size, it does not measure:
  - Growth
  - Wealth
  - Opportunity
  - Distribution
- An economic system should grow.
- A growing GDP should indicate more workers in more businesses producing more goods and providing more services, but sometimes it doesn't.
- Likewise, a shrinking/falling GDP, also called a **recession**, should indicate fewer workers in fewer businesses producing fewer goods and providing fewer services, but sometimes it doesn't.
- **Business cycle:** The regular expansion and contraction of economic activity that takes place every few years.
- Less developed countries (LDCs) have the greatest capacity for growth because they start from a lower base and have more catching up to do.
- **BRICS** - Brazil, Russia, India, China and South Africa
- A well performing economy should:
  - Make more goods (food, clothing, housing)
  - Provide more services (health, education)
  - Create more jobs (meaningful occupation)
  - Create prosperity for all
- **GDP per capita** = GDP of a country/population of that country

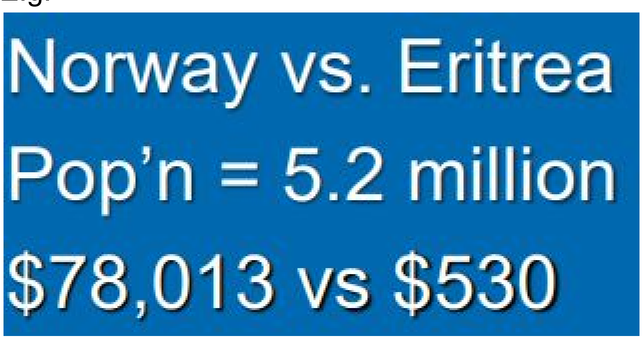


- It is intended to show the wealth of the average citizen of a country.
- A weakness of GDP per capita is that it's just an arithmetic mean. Not everyone in Canada is rich and not everyone in India is poor.
- Another weakness of GDP per capita is that average is misleading, when the GDP is created by people who don't live in a country.
  For example, in Macau and Monaco, much of the activity is gambling, done by tourists.
  For example, in Luxembourg and Liechtenstein, many of the workers don't live there.
- GDP per capita is a measure of **productivity**. A country should be wealthy if it has high quality factors and uses them wisely and well.
- **Productivity** is a ratio. Productivity measures how much gets achieved relative to the inputs used to achieve it. By definition, the more we are able to produce (GDP) while using fewer inputs (population), the more productive we are.

- Wealth (high GDP per capita) is produced by:
    - Good labour: Well educated workers
    - Good labour: Well trained workers
    - Good labour: Healthy workers
    - Good natural resources: Clean water
    - Good natural resources: Fertile soil
    - Lots of capital: Modern technology
    - Lots of capital: Good transportation
    - Lots of capital: Good communications
- Two countries can have the same population but very different GDP per capita.
- E.g.



- E.g.



- Workers in rich countries are more productive because of more education, more training, better health, better transportation, better capital, etc.
- To make a country richer, we need to increase its productivity. We need to give everyone the tools to produce more. Some of these tools are:
    - More and better education
    - More and better training
    - More and better capital
    - More and better resources
- **Employment** is a measure of opportunity. It is the ability to get and keep a job.
- **Unemployment** occurs when a person is actively seeking work, but is unable to find it.
- The **unemployment rate** is the percentage of those in the workforce who are actively seeking work, but can't find work.
- Unemployment lowers productivity because it lowers GDP.
- Historically, Canada's unemployment rate is higher than the rate in the USA. This is one cause of our lower wealth.
- The weakness of the unemployment rate is that it doesn't count **underemployment** or **discouraged workers**.

- **Underemployment** occurs when well educated and ambitious people are working at part-time or minimum wage jobs that don't fully utilize their education and experience. In Canada, this is common among recent immigrants.
- E.g. If a biochemist is driving a cab, or working at McDonalds, his/her skills are under-used and they are underemployed.
- **Discouraged workers** are people who would have liked to have found a job who eventually give up looking. They are people who see no reasonable chance of getting a job and so they drop out of the workforce.

Textbook Notes (Chapter 6):

- **Measuring Total Production - Gross Domestic Product:**
- **Gross Domestic Product (GDP)** is the total value of all of the goods and services that are produced within a country, during any given period.
- GDP is the first key measure of economic performance.
- Although most definitions of GDP emphasize the goods and services produced within a country, GDP is also regularly calculated for provinces, states, territories, as well as for cities.
- The country with the largest GDP is the US.
- Countries with the largest GDP in 2018:

Rank	Country	Value (in $US billions)	% of world total	Rank by population
	World	79,865		
1	United States	20,413	25.5	3
2	China	14,093	17.6	1
3	Japan	5,167	6.5	10
4	Germany	4,212	5.3	18
5	UK	2,936	3.7	22
6	France	2,925	3.7	21
7	India	2,848	3.5	2
8	Italy	2,182	2.7	23
9	Brazil	2,139	2.7	5
10	Canada	1,799	2.3	38
11	Russia	1,719	2.2	9
12	South Korea	1,693	2.2	27
13	Spain	1,506	1.9	28
14	Australia	1,500	1.9	51
15	Mexico	1,213	1.5	11
16	Indonesia	1,075	1.3	4

- From the table above, 16 countries have a GDP larger than $1 trillion. Canada's GDP is $1.8 trillion and it ranks 10th in the world.
- Countries that have a large economy tend to have a large population.
- While most definitions of GDP emphasize the goods and services produced within a country, GDP can also be calculated for provinces/states/cities.

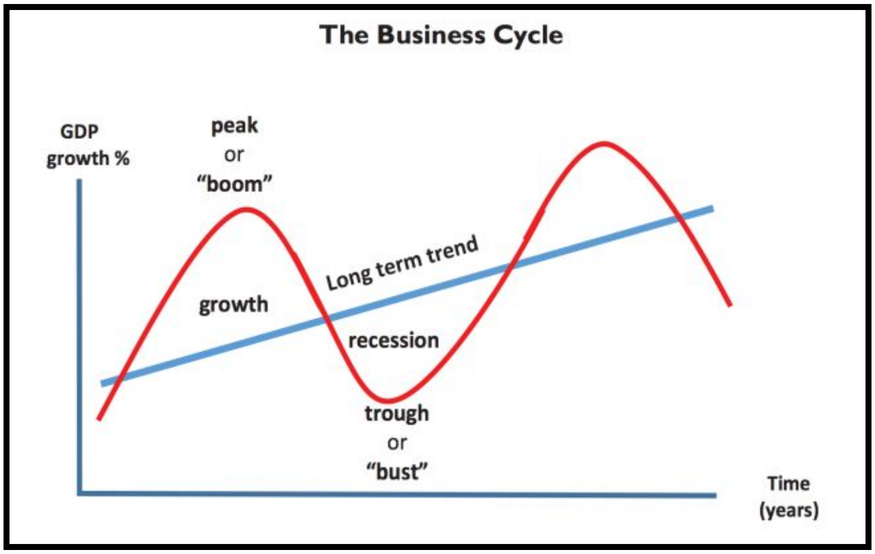
- In Canada, Ontario has the largest GDP provincially.

Canada's Largest Provinces by GDP 2016	
Province	GDP (billions of $Cdn)
Ontario	795
Quebec	395
Alberta	315
British Columbia	264

- If Ontario was a country, it would rank among the 25 largest economies. Ontario's GDP is roughly the same size as that of Sweden.
- If Quebec was a country, it would rank among the 41st largest economies. Quebec's GDP is roughly the same size as that of Pakistan.
- **Limitations of GDP - What it does not tell us:**
- GDP only tells us about the size of a nation's economy.
- GDP, by itself, doesn't not tell us anything about:
    1. Whether a country's output is growing or declining.
    2. If the citizens of a country are rich or poor.
    3. Whether all of the resources in a country are equally busy and productive.
- **GDP Growth:**
- **GDP growth** is the percentage change, from one period to the next, in the total value of all the goods and services produced within a country.
- A growing GDP suggests that more businesses are hiring more people to produce more of the goods and services that people need and want.
- **Recession - When the GDP Does Not Grow:**
- During the past decade, Canada's GDP grew in nine out of ten years. The exception was 2009, when Canada's GDP was 2.7% smaller than it was in 2008.
- When GDP falls, a number of things may happen:
    1. Fewer workers may be employed.
    2. Canadians will work shorter hours.
    3. Factories may work fewer shifts.
    4. Offices may close earlier.
- When GDP falls, it suggests that Canada's businesses aren't as busy making the goods and services that people want.
- A **recession** is two consecutive quarters (two periods of three months each) when GDP shrinks.
- During the **Great Recession** (2008 - 2009), the US's GDP dropped in five quarters. During those five quarters, fewer workers, working fewer hours, produced fewer goods and services for people to buy.
- While the causes of the Great Recession are complex, put simply, the Great Recession occurred because millions of Americans borrowed too much money to buy houses that they couldn't afford. When the value of those houses fell, they couldn't or wouldn't pay back their loans, and the banks that lent them the money collapsed. When one or two

big banks collapsed and the thousands of workers who worked in them lost their jobs, it started a vicious cycle of fear that eventually came to affect everybody.
I.e. One of the causes of the Great Recession was that too many people borrowed too much money to buy houses that they couldn't afford. In other words, the recession was caused in part by overconfidence.

- Overconfidence and loss of confidence are two important contributors to the phenomenon known as the **business cycle**. A **business cycle** is the expansion and contraction of a nation's economic activity that happens over a period of years, periodically and with great regularity.
- While researchers, economists and politicians cannot agree as to its causes, they all concede that the businesses cycle exists.
- Periods of economic growth, confidence and prosperity, called **booms**, are followed by periods of economic contraction, rising unemployment, and loss of confidence, called **busts**.



- Recessions occur because people lose confidence that the economic system, and the authorities who can help to guide and regulate that system, can deliver the goods and services, the jobs, and the material prosperity that they need and want.
- A **depression** is an usually long or deep recession.
- During the **Great Depression (1929 - 1932)**, the US's total production of manufactured goods fell by nearly one-third and the unemployment rate rose to nearly 25%.
- **High Growth Countries:**
- Poor countries have the greatest capacity for growth. They start from a lower base and thus, have more catching up to do compared to wealthy countries like Canada.

Countries with the Largest Increase in GDP from 2012 to 2013

Country	GDP - % change from 2011 to 2012	GDP - %change from 2012 to 2013
South Sudan	-49.0	24.4
Sierra Leone	15.2	20.1
Paraguay	-1.2	13.6

-

- For the past two decades, intense interest has been focused on the rapid economic growth of four countries with huge populations, and large GDPs: Brazil, Russia, India, China and South Africa. These countries, known by the acronym **BRICS**, are thought to represent the globe's greatest future source of economic growth and increased prosperity.
- **GDP Per Capita:**
- Since GDP only measures the total value of a country's output, it is a poor indicator of whether the people in that country are rich or poor.
- **GDP per capita** is a measure of a country's relative wealth, calculated by dividing a country's GDP by its population.
- GDP per capita gives us a rough idea of how much the average person in a country produces.

Countries with the Highest GDP per Capita 2017 ($US)

Rank	Country	GDP / Capita ($US)
	World	10,728
1	Luxembourg	105,803
2	Switzerland	80,591
3	Norway	74,941
4	Ireland	70,638
5	Iceland	70,332
6	Qatar	60,804
7	United States	59,501
8	Singapore	57,713
9	Denmark	56,544
10	Australia	55,707
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16	Canada	45,077

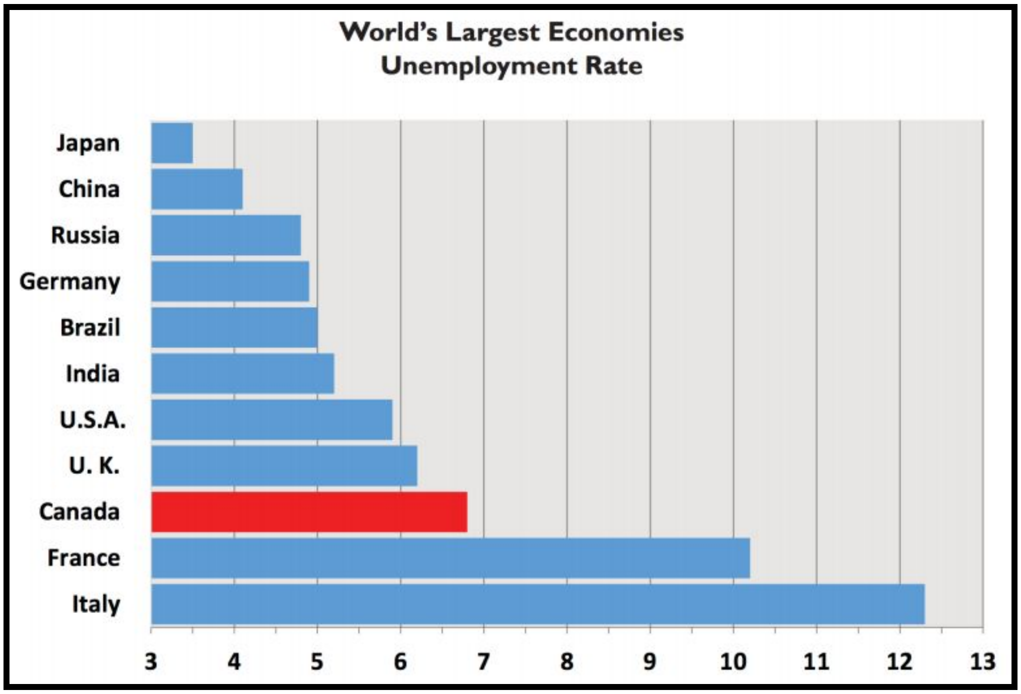
- Luxembourg is a relatively small landlocked country in Western Europe, yet it has the highest GDP per capita on earth. This is because a lot of people working in Luxembourg do not live there and so they are not counted in its population. A similar thing occurs in Ireland. Because Ireland has low taxes, many corporations which legally operate elsewhere are legally domiciled in Ireland to pay lower taxes.

Countries with Lowest GDP per Capita 2017[6]	
Country	**GDP per Capita $**
Central African Republic.	418
Mozambique	416
Niger	378
Malawi	339
Burundi	320

- The weakness of GDP per capita as a measure of a population's wealth is that it is simply a mathematical calculation, which provides us with a statistical mean. It takes no account of whether a nation's output is produced by citizens, temporary workers, or migrants. Nevertheless, GDP per capita does provide us with a reasonable idea as to which countries are relatively wealthy and which are not.
- **Productivity - Doing More With Less:**
- GDP per capita is a measure of productivity. **Productivity** is a ratio. Productivity measures how much gets achieved relative to the inputs used to achieve it. By definition, the more we are able to produce (GDP) while using fewer inputs (population), the more productive we are.
- **Participating in the Labour Force:**
- **Employment** means having paid work.
- We call people who have paid work, or are looking for paid work, the **labour force**. Statistics Canada defines the **labour force** as people aged 15 and over, who have a job or a business, and those who are without work, but actively seeking work.
- The **participation rate** is the percentage of the population aged 15 and over who are in the labour force.

Male, Female and Total Labour Force Participation Rates Selected Countries 2013			
	Male Participation %	Female Participation %	Total Participation %
"Rich" Countries			
Canada	71	62	66
USA	69	57	63
Germany	66	54	60
"Poor" Countries			
Tanzania	90	88	89
Madagascar	91	87	89
Middle Eastern Countries			
Iran	73	13	45
Iraq	70	15	42

- It is important to note that there is no ideal or correct participation rate.
- **Employment and Unemployment:**
- The labour force includes both those who are working and those actively seeking work. If a person is actively looking for a job and can't find one, they are **unemployed**.
- **Unemployment** occurs when a person is actively seeking work, but is unable to find it.
- The **unemployment rate** is the percentage of those in the workforce who are actively seeking work, but can't find work.
- The unemployment rate is a very important measure of how well a country's economic system is working. If the economic system can't produce opportunities for work, it is failing the country in 2 ways:
    1. It is a waste of the unemployed person's talents and energy.
    2. By not utilizing a potentially creative and productive factor of production, the country will produce fewer goods and services and there will be less to go around for everyone.
- Historically, Canada's unemployment rate is higher than the rate in the USA.



- **What the Unemployment Rate Does not Reveal:**
- When measuring an economy's economic performance, the official reported rate of unemployment is usually thought to under-report an economy's ability to fully and effectively utilize its labour force. This is attributed to both **underemployment** and the **discouraged worker** effect.
- **Underemployment** is an employment situation where a person is not working at their full potential. Examples of underemployment are people who work part time jobs or people who have jobs that they are overqualified for, such as educated professionals driving taxis.
- **Discouraged workers** are people who have withdrawn themselves from the workforce because they have judged their chances of finding employment too remote to bother trying. An example of a discouraged worker is someone going to graduate school because they are not hopeful of finding a job.
- **Income Inequality and Wealth Distribution:**
- The **working poor** is people who have employment, but whose incomes are too low for them to save money or afford all of the necessities of life.
- The distribution of income within an economy can be plotted using a diagram called a **Lorenz Curve**. The **Lorenz Curve** is a diagram used to graphically represent the distribution of income or wealth within a population.
- Lorenz, the creator of the Lorenz Curve, proposed that the population be divided up into 5 groups or quintiles, each representing 20% of the population. On a bar chart, Lorenz plotted the income earned by the poorest 20% of the population. Then, beside it, he plotted a column representing the cumulative income earned by the poorest 2 quintiles or 40% of the population. Then, the cumulative income earned by the bottom 3 quintiles or 60% of the population and so on.
- In societies where the distribution of income is unequal, the bar chart will take a different shape. The low income earners, the least paid 20% of the population, will earn less than

the others and less than the average. The high income earners, the highest paid 20% of the population, will earn more than the others and more than the average.

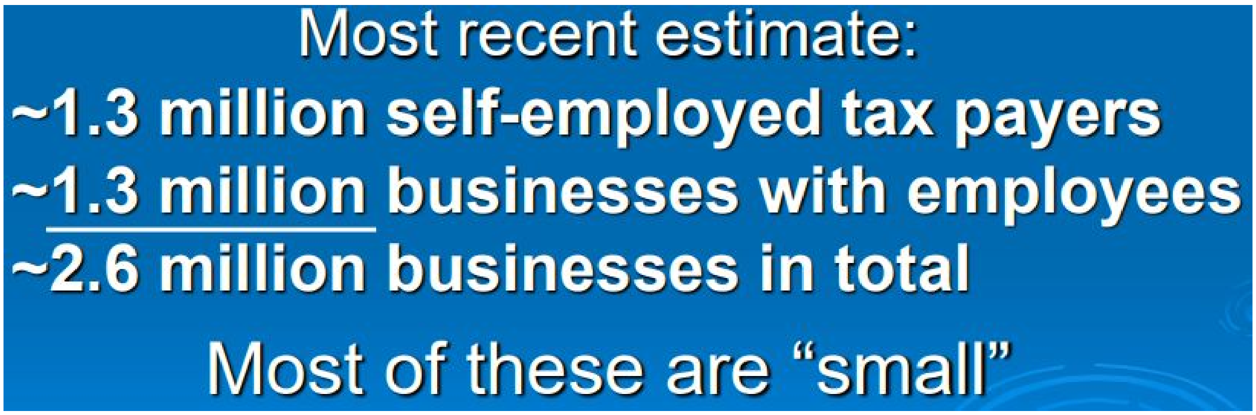
- **GINI COEFFICIENT - A MEASURE OF INCOME DISTRIBUTION:**
- Early in the twentieth century, Italian statistician Corrado Gini developed a formula to measure distribution.
- The **Gini coefficient** measures the inequality of income or wealth distribution among a country's population. It is expressed as a decimal value between 0 and 1, and represents the size of the area between the equal distribution line and the arc formed by the Lorenz curve. The larger the value of the Gini coefficient (say 0.999), the more extreme is the gap between rich and poor. The smaller the value of the Gini coefficient is (say 0.001) the more evenly a country's wealth is shared.

Textbook Definitions:

- **Business cycle:** The expansion and contraction of a nation's economic activity that happens over a period of years, periodically and with great regularity.
- **Depression:** An unusually long or deep recession.
- **Discouraged workers:** People who have withdrawn themselves from the workforce because they have judged their chances of finding employment too remote to bother trying.
- **Employment:** Having paid work.
- **GDP growth:** The percentage change, from one period to the next, in the total value of all the goods and services produced within a country.
- **GDP per capita:** A measure of a country's relative wealth, calculated by dividing a country's GDP by its population.
- **Gini coefficient:** A measure of the inequality of income or wealth distribution among a country's population. It is expressed as a decimal value between 0 and 1, where 0 represents perfect equality and 1 represents extreme inequality.
- **Gross Domestic Product (GDP):** The total value of all of the goods and services that are produced within a country, during any given period.
- **Labour force:** People aged 15 and over, who have a job or a business, and those who are without work, but actively seeking work.
- **Lorenz curve:** A diagram used to graphically represent the distribution of income or wealth within a population.
- **Participation rate:** The percentage of the population aged 15 and over who are in the labour force.
- **Productivity:** A ratio that measures how much gets achieved relative to the inputs that are used to achieve it.
- **Recession:** Two consecutive quarters (two periods of three months each) when GDP shrinks.
- **The working poor:** People who have employment, but whose incomes are too low for them to save money or afford all of the necessities of life.
- **Underemployment:** An employment situation where a person is not working at their full potential.
- **Unemployment:** Actively seeking work, but unable to find work.
- **Unemployment rate:** The percentage of those in the workforce who are actively seeking work, but can't find work.

<u>Lecture Notes:</u>

- Canada is a liberal, market economy. Anyone may start almost any business. There are no fees, very few regulations and you don't need government permission.
- Canada is the 3rd easiest place to start a business out of 190 countries.
- Free enterprise refers to freedom from bureaucracy, ease and speed of starting, low cost and minimum regulation when starting and running a business.
- We don't know exactly how many businesses are in Canada, but we can guess based on tax data.



- **Note:** There is no formal definition for "small".
- Various Canadian organisations define "small" in various ways:
  - Canadian Bankers Assoc: Less than $500,000 in loans.
  - Export Development Corp: Less than $1,000,000 in exports.
  - Industry Canada: A small manufacturer is one with less than 100 employees.
  - Industry Canada: A small service business is one with less than 50 employees.
- Approximately 1.3 million Canadians, ~7% of the working population, work alone.
- Another 1.6 million (~9%) work for businesses with 1 to 4 employees.
- Another 1.8 million (~10%) work for businesses with 5 to 9 employees.
- 26% of Canadians work with less than 10 others.
- 50% of Canadians work with less than 50 others.
- ~75% of Canadian businesses employ less than 5 people.
- ~85% of Canadian businesses employ less than 10.
- Small businesses, businesses with less than 100 employees, created 86% of net new jobs from 2007 - 2015.
- **SMEs**, small and medium-sized enterprises, create more than 80% of jobs.
- It's easy to start a new business but hard to keep it afloat for long.
  ~30% of small businesses don't last 2 years.
  ~50% of small businesses don't last 5 years.
- **Personality traits of entrepreneurs:**
  1. **High Need for Achievement:**
  - **Need for power (N-Pow):** People who are authority motivated. They need to be influential. N-Pow produces a need to lead. These people need personal status and prestige.
  - **Need for affiliation (N-Aff):** People who need friendly relationships, motivated by interaction with others. N-Aff produces need to be liked, held in high regard. Team players.

- **Need for achievement (N-Ach):** People who seek achievement, want to attain challenging goals. N-Ach produces people who need accomplishment.
- Entrepreneurs seek challenges.
- Entrepreneurs set goals.
- Entrepreneurs take risks.
- Entrepreneurs have a very high need for achievement.

2. **Locus of control:**

- A person's belief about what causes good or bad results in his or her life.
- The extent to which people believe that they can control events that affect them.
- **Internal Locus of Control:**
- People with internal locus of control believe that events result from their own behavior and actions.
  I.e. I control my destiny.
- They try to influence others.
- They assume their efforts will succeed.
- Entrepreneurs have internal locus of control because they
    - recognise opportunities
    - assemble and mobilise resources
    - assume risks to realise rewards
- **External Locus of Control:**
- People with external locus of control believe that powerful others, fate, or chance determine events.
  I.e. Other people/factors/etc control my destiny.
- Less likely to be leaders.
- Less likely to take risks.
- Less likely to start their own business.

3. **Risk tolerance:**

- **Risk** is uncertainty of outcome.
  I.e. Not knowing what will happen.
- **Risk Intolerance:** New or previously unknown situations are threatening.
- **Risk Tolerance:** New or previously unknown situations are desirable.
- Entrepreneurs are risk tolerant.
- Entrepreneurs start new businesses.
- Entrepreneurs accept new opportunities.
- Entrepreneurs know they might fail but they also know they might succeed.

- **Entrepreneurs - Family Background:**
- Most entrepreneurs are the kids of entrepreneurial parent(s).
- Entrepreneurial parent(s) are the single most telling indicator of entrepreneurial ambitions.
- 80% of Canadian entrepreneurs have a heritage of family business.
- There’s 2 reasons to this:
    1. **Nature:**
    - nAch and internal locus are inherited traits, so if your parent(s) have it, there’s a good chance you will too.
    2. **Nurture:**
    - You spend 20+ years watching, helping, learning and listening.
- Immigrant families are more likely to start their own businesses.
- Immigrants to Canada are **economic migrants**.

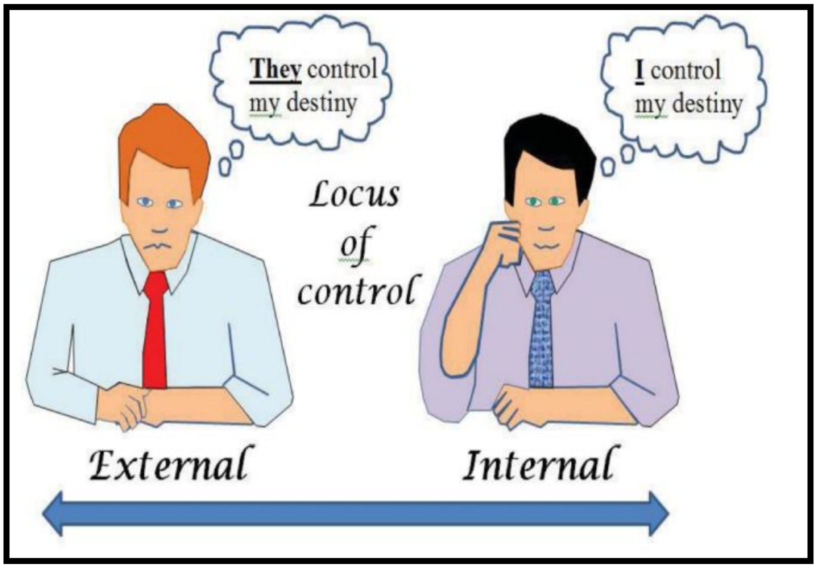
- Immigrants to Canada packed up lives, belongings, families, to improve economic well-being.
- Immigrants have:
    - High need for achievement.
    - Internal locus of control.
    - Willingness to take risks.
    - Confidence.

Textbook Notes (Chapter 7):

- **The Number of Businesses in Canada:**
- **Free enterprise** is an expression used to indicate that individuals have the freedom to start and run businesses without bureaucracy and undue regulation.
- There are roughly 2.7 million businesses in Canada.
- **Most Canadian Businesses are Small:**
- In 2013, Statistics Canada identified 1.49 million Canadians who earned income from self employment.
- 90% of all Canadians businesses employ fewer than 10 people.
- There are 17.9 million Canadians with jobs. Of those 17.9 million people:
    - 3.6 million, about 20% of the working population, work in the public sector.
    - 14.3 million, about 80% of the working population, work in the **private sector**. Of these 14.3 million people, 2.8 million, about 15% of the working population, are self-employed.
- The **private sector** is the part of the economy that is run by private individuals usually with the aim of making a profit.
- **The Importance of Small Business in Canada:**
- There is no official definition of what is meant by a small business. Different organizations use different criteria such as number of employees, profit or revenue to constitute the definition of a small business.
- Industry Canada calls a goods-producing business small, if it has fewer than 100 employees while a service-producing firm is small if it has fewer than 50 employees.
- The Canada Small Business Financing Act defines a small business as a business with less than $5 million in revenue.
- The Export Development Corporation defines small exporters as having sales of less than $1 million.
- The Canadian Bankers Association defines small businesses as those that can borrow up to a maximum of $500, 000.
- **SME** is a commonly used acronym for small and medium-sized enterprises, meaning any business with fewer than 500 employees.
- **Birth, Death and Survival:**
- Businesses have a better chance of surviving if the GDP is growing.
- The longer a business survives the better chance of it continuing to survive.
- Businesses may cease operations for a number of reasons:
    1. The owner may wish to retire and no one wants to continue the business.
    2. The owner wants to go back to school.
    3. Two businesses may merge into one.
    4. A large business may buy out some of its competitors.
    5. A business may close down even though it’s making a profit. The owner may feel that the profit is not large enough to justify the time and effort.

- Business failure means that the business has failed to provide its owner with sufficient profit, stimulation or enjoyment to want to continue.
- Despite failure rates, Canadians start new businesses in remarkable numbers.
- **Entrepreneurs:**
- There are four psychological attributes of the entrepreneurial personality:
    1. A desire to achieve challenging goals.
    2. A belief in one's own ability to influence affairs.
    3. A willingness to tolerate some uncertainty.
    4. Self-confidence
- **The Need for Achievement:**
- American psychologist David McLelland suggested that people are driven by three motivational needs:
    1. **Need for Power (nPow):** In need theory, one of three 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.
    2. **Need for Affiliation (nAff):** In need theory, one of three human motivators. People with a need for affiliation need to have friendly relationships and are motivated by interaction with others.
    3. **Need for Achievement (nAch):** In need theory, one of three human motivators. People with a need for achievement are motivated by a sense of personal achievement. They like to set and attain challenging goals for themselves, and accomplish tasks.
- In subsequent research, McClelland found other characteristics of achievement motivated people:
    - The sense of achievement is more important than material or financial reward.
    - The accomplishment of the task gives greater personal satisfaction than receiving praise or recognition.
    - Financial reward is regarded as a measurement of success, not an end it itself.
    - Security is not a prime motivator, nor is status.
- **Locus of Control:**
- A second behavior frequently observed in entrepreneurs is internal locus of control. This concept was developed by Julian Rotter.
- **Locus of control** refers to the extent to which someone believes that they can control the events that affect them. Everyone falls somewhere on a continuum between having

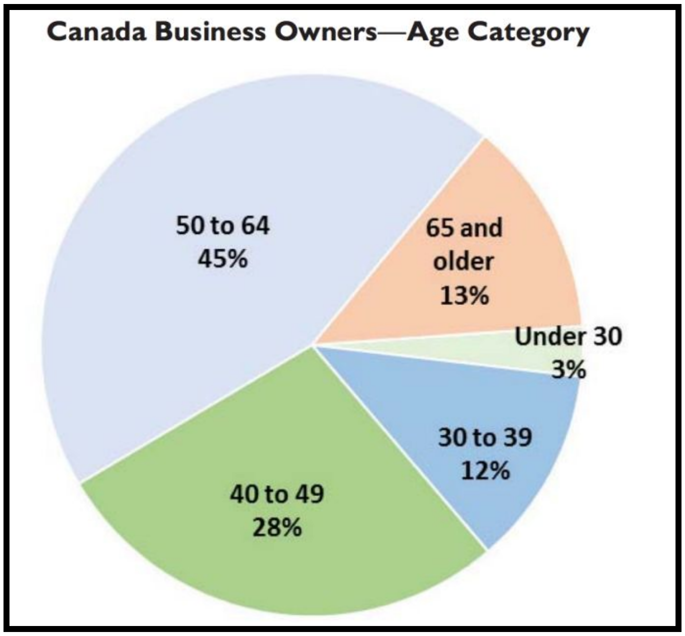
an internal versus external locus of control.



- **Internal locus of control** is the belief that outcomes in life are influenced by a person's own behavior, and that an individual's actions and efforts help shape their fate.
- **External locus of control** is the belief that outcomes are the result of fate, luck, or powerful outside forces, which the individual cannot control.
- Research has shown that people with a high need for achievement also tend to have an internal locus of control.
- An individual with an internal locus of control takes responsibility for their successes and failures, attributing outcomes to his or her own ability and effort. In contrast, an individual with an external locus of control will equate the outcome to the ease or difficulty of the task, luck or being in the right place at the right time.
- Entrepreneurial people have an internal locus of control.
- **Risk Tolerance:**
- Risk occurs when you don't know how things will work out.
- Individuals who are **risk averse** see new or unknown situations as threatening.
- **Risk aversion** is a tendency to regard new or previously unknown situations as threatening.
- On the other hand, **risk tolerant** people see new or previously unknown situations as exciting and possibly desirable.
- **Risk tolerance** is a tendency to regard new or previously unknown situations as exciting and possibly desirable.
- Entrepreneurs exhibit moderate risk-taking propensities.
- Note: Being risk tolerant is not the same as risk seeking or being careless of the consequences. Entrepreneurial personalities are not gamblers. Entrepreneurs take **calculated risks**. A **calculated risk** is an enterprise undertaken after the advantages and disadvantages have been considered and the probability of various outcomes have been calculated.
- **Self Confidence:**
- People who set ambitious goals for themselves, believe that they can influence the people and the environment around them, and who are willing to undertake new uncertain ventures must be imbued with self-confidence.

- **Children of Entrepreneurs:**
- Research consistently shows that an individual with a parent who runs their own business or is self-employed is much more likely to run their own business than the general population.
- 80% of Canadian small business owners come from a background of family business.
- Individuals that grow up with an entrepreneurial family will receive three types of inheritance:
    1. **Entrepreneurial inheritance:** The characteristics and values that are acquired from exposure to an entrepreneurial parent.
       Children will learn to value hard-work through witnessing their parent's efforts.
       As a result, the children of those with entrepreneurial personalities will be drawn to entrepreneurial activity themselves.
    2. **Vocational inheritance:** An individual's tendency to observe and learn work or job related skills and aptitudes from their parents.
       For example, children of farmers will become familiar with using farm equipment.
       Furthermore, they learn about crop rotation, fertilization.
       If young people observe and learn from practitioners from an early age, it will ease their entry into the field.
    3. **Economic inheritance:** The tendency for the children of entrepreneurs to receive financial capital to support their desire to start a business.
       Entrepreneur families may be more willing to provide financial capital.
- **Immigrant Entrepreneurs and the Children of Immigrants:**
- Immigrants and the children of immigrants are thought to make great entrepreneurs.
- The majority of immigrants to Canada are **economic migrants**. **Economic migrants** are people who move from one country to another in order to improve their economic well-being and that of their family.
- Immigrants are both pulled and pushed into entrepreneurial careers.
  Immigrants may be pulled into an entrepreneurial career by their self confidence and willingness to take risks to achieve their goals.
  Immigrants may be pushed into starting their own enterprise because despite how clever or well educated they might be, they lack the social networks, contacts, experience and track record to secure paid employment working for another.

- **Entrepreneurs are Older Than the Average Canadian:**
- More than half of Canadian businesses are owned by people over the age of 50.



- The reasons why entrepreneurs are often older are:
    1. Businesses need money. Research shows that two-thirds of new enterprises were financed primarily by the entrepreneur's personal savings. These savings are gotten from decades of paid employment.
    2. Entrepreneurs need contacts. They need to find suppliers, accountants, legal advisors, etc. Contacts are developed from decades of being in the industry and trusting people to work with.
    3. Entrepreneurs need credibility. A proven track record in an industry is the best means of securing the help and cooperation of both contacts, as well as securing the confidence and trust of potential customers.
    4. For an achievement oriented, confident young person with an entrepreneurial personality, a few years of paid employment may be a necessary investment in shaping the odds of later success in their favour.

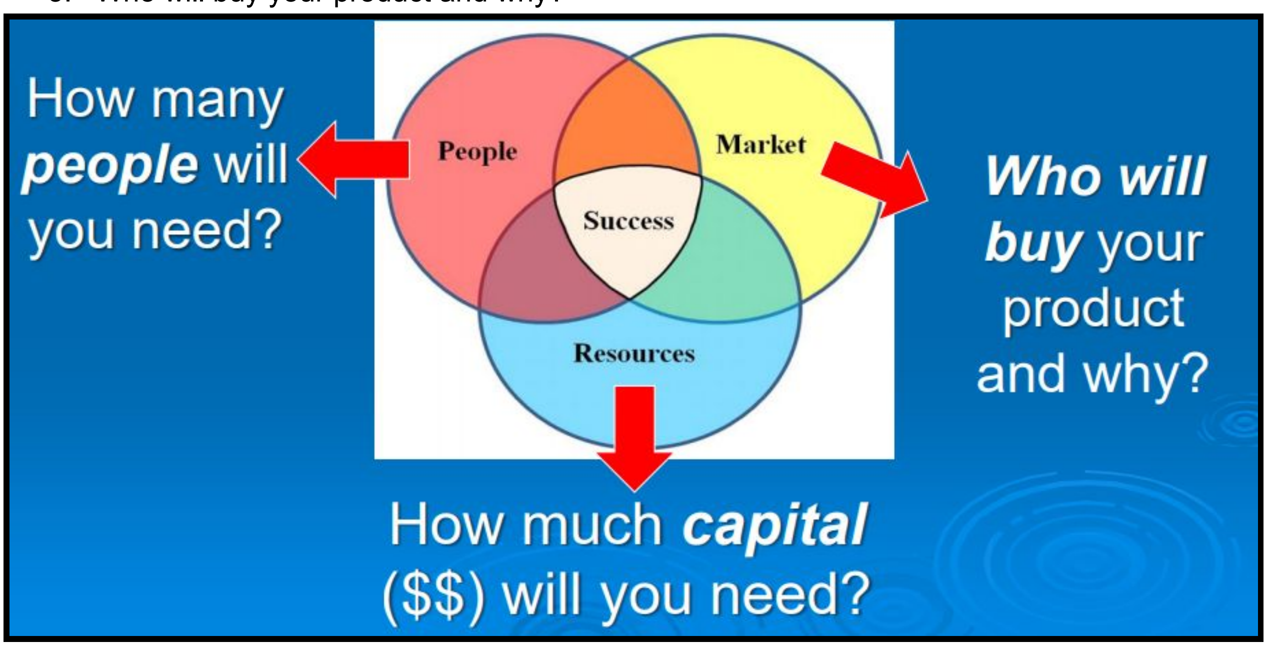
Textbook Definitions:

- **Calculated risk:** An enterprise undertaken after the advantages and disadvantages have been considered and the probability of various outcomes have been calculated.
- **Economic inheritance:** The tendency for the children of entrepreneurs to receive financial capital to support their desire to start a business.
- **Economic migrants:** Someone who moves from one country to another in order to improve their economic well-being and that of their family.
- **Entrepreneurial inheritance:** The characteristics and values that are acquired from exposure to an entrepreneurial parent.
- **External locus of control:** The belief that outcomes are the result of fate, luck, or powerful outside forces, which the individual cannot control.
- **Free enterprise:** An expression used to indicate that individuals have the freedom to start and run businesses without bureaucracy and undue regulation.
- **Internal locus of control:** The belief that outcomes in life are influenced by a person's own behavior, and that an individual's actions and efforts help shape their fate.

- **Need for achievement (nAch):** In need theory, one of three human motivators. People with a need for achievement are motivated by a sense of personal achievement. They like to set and attain challenging goals for themselves, and accomplish tasks.
- **Need for affiliation (nAff):** In need theory, one of three human motivators. People with a need for affiliation need to have friendly relationships and are motivated by interaction with others.
- **Need for power (nPow):** In need theory, one of three 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.
- **Private sector:** The part of the economy that is run by private individuals usually with the aim of making a profit.
- **Risk aversion:** A tendency to regard new or previously unknown situations as threatening.
- **Risk tolerance:** A tendency to regard new or previously unknown situations as exciting and possibly desirable.
- **SME:** A commonly used acronym for small and medium-sized enterprises, meaning any business with fewer than 500 employees.
- **Vocational inheritance:** An individual's tendency to observe and learn work or job related skills and aptitudes from their parents.ss

<u>Lecture Notes:</u>

- Recall that in Canada, anyone can start a business anytime. However, if you don't plan before starting your business, you're being foolish. Entrepreneurs are risk tolerant, not foolish or careless.
- Entrepreneurs who write a plan are 6 times more likely to start a business than those who don't.
- Would-be entrepreneurs are encouraged to write a **business plan**.
- A business plan is a document that lays out the following:
    - Everything that you need to do.
    - Everything that has to happen.
    - How much money you will need.
- Entrepreneurs write a plan before starting because:
    - They have internal locus.
      They believe that if they plan and work hard, they'll succeed.
    - They need to achieve. Entrepreneurs don't like to fail.
    - They are risk tolerant, not risk seeking.
- An entrepreneur should write a plan for him/herself (audience 1) to prove that their idea could work. Furthermore, the entrepreneur should write the business plan for investors, lenders or anyone who can help them succeed (audience 2). The business will need capital, which can be received from investors and lenders. A written plan is evidence that the entrepreneur is serious, has done the research, and is willing to work.
- There are many business plan templates online. Even the federal government has sample business plan templates. Remember that governments want full employment and growing GDP and that small enterprises create the most new jobs.
- All templates suggest a business plan address these 3 key issues:
    1. How many people will you need?
    2. How much capital will you need?
    3. Who will buy your product and why?



Note: The answers to the first two questions determine the most appropriate way to organise the business.

As you write your plan, you will discover the most appropriate way to organise the business.

- In Canada, three most common forms to organize a business:
    1. **Sole Proprietorship:**
    - A business owned by 1 person, the **sole proprietor**. However, a sole proprietor can have many employees. The key is that there's only 1 boss/owner.
    - The sole proprietor supplies the capital, makes all the decisions, keeps all profits and is responsible for paying the bills.
      I.e. The sole proprietor does everything.
    - Sole proprietorship is the easiest way to form a business and hence is the most common form of ownership.
    - **Note:** A sole proprietor doesn't consciously set up a sole proprietorship. Sole proprietorship is just the name we academics give to a business with one owner.
    - Advantages:
        - Easy to start up. No paperwork required.
        - Free to start up.
        - Ownership is clear.
    - Disadvantages:
        - Limited to 1 person's skills.
        - Limited to 1 person's resources.
        - Limited to 1 person's contacts.
        - Hard to get finance.
        - Owner has **personal liability** and **unlimited liability**.
          Liability is the legal and financial responsibility to make things right, if things go wrong.
          A sole proprietor is personally responsible to pay all bills, settle any lawsuits, and pick up all the pieces if things go wrong.
          Furthermore, if you harm anyone, while conducting your business, they can take you to court and sue you.
          E.g. You set up a business, doing odd jobs. A woman hires you to replace the shingles on her roof. She will pay you $2,000. One afternoon, while performing the job, you cause an accident. If a customer sues you, the damages they seek is not limited to your investment or the value of the job or to the potential profit.
    2. **General Partnership:**
    - A business that is directly owned by 2 or more people acting together.
    - **Partner:** An individual who shares ownership and management of a business.
    - It's easy and simple to start a partnership. Just like sole proprietorship, there's no required paperwork.
    - In law, a general partnership exists when two or more people agree to operate a business acting together.
    - Advantages:
        - More human and financial resources.
        - More credibility.
        - More contacts.

- Disadvantages:
    - Conflict between the partners.
      To avoid later conflict, at the outset, partners in a business should record:
        - How much money each partner invested.
        - What each partner must do.
        - How each gets paid.
        - How profits are to be split.

      Note: It's not compulsory to record the information, but it is a good idea.
    - Like sole proprietors, general partners are personally liable and unlimitedly liable.
    - Also, general partners face **joint and several liability**. This means that each partner is responsible for debts and liabilities of the partnership, even when caused by another partner. A mistake by one of your partners means you can be sued.

      E.g. Sam and Bob start a home renovation company together. They are both partners. One day, Alice hires them to renovate her house. While working, Bob causes a fire that burns down Alice's house. Even though Bob caused the fire, Sam can still be sued.

      E.g. You set up a business, with a friend. A woman hires the 2 of you to replace the shingles on her roof. She will pay you $2,000. One day, while doing the job, your partner causes an accident. The woman will sue both of you.

      Be sure you know and trust your partners.
      Most partnerships tend to be small.
- A **partnership agreement** is an agreement between the partners. It is intended to anticipate future conflict.
- Sole proprietorships and general partnerships are appropriate for businesses that don't need a lot of capital, don't need a lot of owners and are low risk, meaning that they are unlikely to be sued.
  Examples include: Math tutors, Web developers, photographers

3. Corporation:

- The means by which backers who support the idea of a business can provide the capital without day-to-day involvement and without personal liability.
- Creating a corporation does require some paperwork, some interaction with the government and some fees.
- Formally, a corporation is an artificial being, created by an act of law, to own and operate a business.
  I.e. It is something which exists, and is recognized in the courts, because the law says so.
- Creating a corporation does require some paperwork. The founders, also known as **incorporators**, must complete some legal documents. A corporation is created by a legal authority, such as the province of Ontario.

- To create a corporation:
    - You must first complete a 4-page government form called the **Articles of Incorporation**. This includes:
        - Inventing a name.
        - Providing an address for tax purposes.
        - Identifying the **directors/founders**.
        - Indicating the number of **shares** you might sell.
        - Submit the the Articles of Incorporation + $360 to the province
    - Then, the province issues a **Certificate of Incorporation**.
      The Certificate creates the legal entity which is the corporation.
      Each province has the legal authority to create a corporation in its jurisdiction.
- A corporation can sell shares to anyone who wants to invest.
- People who buy shares are called **shareholders**. They own the corporation.
- A **share** is a piece of paper. Shares evidence ownership. 1 share = 1 vote.
  Investors will pay money for ownership.
- **Share:** An ownership stake in a corporation. The owner gets a “share” of the corporation’s profits.
- **Shareholder:** An individual who owns one or more shares in a corporation.
- **Limited Liability:** A shareholder can not be personally sued. The corporation can be sued, and the shareholder will lose the value of their investment.
- **Private Corporation/Private Company:** A corporation owned by a small group of closely connected shareholders which is not intending to sell shares to the public.
- Most corporations have just a few shareholders.
  I.e. They are family businesses.
- Family businesses incorporate for two main reasons:
    1. Limit liability: If the business is involved in activities that are dangerous or risky, the founders don’t want to be personally liable.
    2. Distribute wealth: Shares can be given to children and grandchildren.
- **Public corporations** sell their shares on stock exchanges.
- The name of a corporation must include one of:

in English	in French
Limited, Ltd.	Limitée, Ltée.
Incorporated, Inc.	Incorporée, Inc.
Corporation, Corp.	Corporation, Corp.
Company, Co.	Compagnie, Cie.

  This signifies that the business is a corporation and hence, the owners’ liability is limited.

- Advantages of incorporating:
    - Business can sell shares to interested and willing buyers.
    - Buyers can provide capital without exposing themselves to personal liability/unlimited liability.
    - Shareholders can sell/give away shares as long as the corporation continues to exist.

Note: There are several other ways to organize such as limited partnerships and co-operatives but they are much less common.

<u>Textbook Notes (Chapter 8):</u>

- **Writing a Business Plan:**
- A **business plan** is a written document that lays out, in black and white and in a structured fashion, all of the things that you need to do, and have to happen, if the business you are planning is to succeed.
- Entrepreneurs write business plans to test various assumptions, build models, and identify areas where more expertise and research needs to be done.
- Business plans are typically written with two audiences in mind:
    1. An entrepreneur should write the plan for themself. Its purpose is to articulate all of the known facts, assumptions, the list of tasks and resources needed, the timelines and all of the necessary forecasts so that, in proposing to open the business, the entrepreneur is not taking a leap into the dark.
    2. Next, when writing a business plan, an entrepreneur should bear in mind all of the other groups and individuals who can help them make a business a success. These include suppliers, customers, lenders, etc.
- Business plans are proof that you did research, thought about it and are serious and organized.
- Business plans should help all other interested parties, in your business, to understand what you are trying to do, why you're doing it, what you have done and not done yet, and how they can assist you.
- You can find business plan templates online, even on the Canadian government website.
- In order for a business to succeed, it need to demonstrate three key elements:
    1. The right combination of people (People)
    2. An attractive market opportunity (Market)
    3. Sufficient financial capital (Resource)
- A business plan must demonstrate that the proposed enterprise has, or can obtain, the necessary quantities of each of these.
- **The People:**
- Most investors and lenders will tell you that, when reading a business plan, they place the greatest emphasis on the people.
- When writing a business plan, one must demonstrate that they are willing to work hard, and are highly motivated. Furthermore, it is equally important that you have support and the resource of family, friends and contacts.
- A decision to land, invest or supply a new business depends entirely on the competence, credibility, and character of the people who own and control the business.
- The image of the lone entrepreneur working in isolation may be romantic, but it is a false image. Research shows that a business idea that springs from a solitary entrepreneur planning on working alone is less likely to obtain the capital that it will need than a business that is being planned by a team of people who are working together.

- **The Market:**
- All businesses begin with an idea. An entrepreneur perceives a gap in a market and believes that there is an opportunity to exploit.
- The idea can only be turned into a reality if the business can find a market. In other words, a business must identify people who need and want what it proposes to offer, and who are willing and able to buy. The business function concerned with interacting with customers and potential customers is called **marketing**.
- Businesses exist to try to satisfy customer needs and wants.
- A business plan must show that there is a market for the proposed business product.
- Desirable qualities in a market include:
    - A large number of potential buyers
    - Growing number of potential buyers
    - Potential buyers have the money to spend
    - There are no existing suppliers or existing suppliers are unsatisfactory in some way
- **Target Market - Identifying the Customers:**
- There are about 8 billion people on the earth. No business can reasonably hope to sell to every one of them.
- When entering into a market businesses must recognise that the vast majority of people will have some reason not to buy a product.
- The entrepreneur's job is to identify the people who have similar needs and wants, and are likely to buy a product. These people are known as the **target market**.
- **The Resources:**
- A business needs capital. It needs money to rent office, retail or industrial space. It needs money to pay the wages of its employees. It needs money to purchase equipment.
- Business plans should address the amount of money that it will need to start and the revenues as well as the profit it is likely to make, in order to ensure its survival.
- **Sole Proprietorship:**
- If a single individual has enough expertise, energy and capital to start and run a business without the assistance of anyone else then they may run the business on their own. In legal and business jargon, we refer to that individual as the **sole proprietor**. Sole proprietor is just another way of saying only owner.
- A business that is directly owned by one person is called a **sole proprietorship**. I.e. The name given to a business owned by a sole proprietor is sole proprietorship.
- Sole proprietorship is the simplest form of business organization in Canada and hence, is the most common form of ownership.
- A sole proprietor:
    - Supplies all of the capital to get the business started.
    - Gets to keep all profits.
    - Is responsible for all business costs and any taxes.
    - Is responsible for settling all of the business' debts and obligations.
- Sole proprietorship is the appropriate way to create a business if it doesn't need a lot of capital and the business itself is relatively simple.
- In Ontario, a sole proprietor does not need to register the business name.
- If a sole proprietor believes he has found a uniquely clever name for a business, he can choose to register the name with the Government of Ontario. For a small fee of

approximately $70 the Ontario Ministry of Consumer and Commercial Relations will search its database for matches against the proposed name. If there are no matches, the owner will be assigned his chosen name and a business identification number for a period of 5 years. Name registration is not compulsory,

- A business that is a sole proprietorship is an extension of the sole proprietor's identity. The sole proprietor pays all of the business' costs out of pocket. If, at the end of the year, the business has been a success, the sole proprietor counts the profits as personal income and pays personal income tax.
- Simplicity is sole proprietorship's principal advantage.
- The disadvantage is the fact that all costs, expenses and liabilities are the owner's, and the owner's alone. In law, **liability** is the legal and financial responsibility for something.
- A sole proprietor is **personally liable** to pay all of the business' costs and settle all of its obligations. The sole proprietor must pay all employee wages, suppliers' invoices and any taxes owing, even if the business is no longer operating. If the business' activities lead to a dispute with a supplier or a customer, the sole proprietor may even find themself in court. **Personal liability** is the sole proprietor's personal responsibility to pay all of the business' costs and settle its obligations.
- Furthermore, if the business' activities lead to a dispute with a supplier or a customer, the sole proprietor may even find himself in court. Because of personal liability, an entrepreneur who is considering a business that involves any chance of risk or danger should consider carefully before organising the business as a sole proprietorship.
- **Unlimited liability** means that there is no limit to the amount that a sole proprietor might have to pay in compensation or damages. A sole proprietor's liability is not limited by the size of his investment in the business.
  Not only is the liability not limited by the size of the investment, it is also not limited to the profit or the value of the job.
- Other disadvantages of a sole proprietorship are:
  1. The owner might get sued or that the business fails, leaving a large number of legal and financial obligations which will need to be settled.
  2. A single individual has a limited supply of capital.
  3. If all the skill and expertise in the business resides in one individual, if that individual passes away, there will be nobody to continue the business.
- **General Partnership:**
- A **general partnership** is a business that is directly owned by two or more individuals who agree to act together.
- Just like a sole proprietorship, no particular legal or accounting procedure is required to create a partnership.
- A **partner** is an individual who shares in the ownership and management of a business enterprise, and who shares liability for the business' debts and obligations.
- If an entrepreneur lacks the talent, energy or capital to operate a business as a sole proprietor, this where a general partnership comes in handy.
- While it is not necessary, most business experts advise individuals who are forming a general partnership to draw up a **partnership agreement**. A **partnership agreement** is a document that spells out their obligation to the business and to each other.
- The purpose of a partnership agreement is to record key facts and agreements between the partners and to forestall any misunderstandings or disputes at a later date.
- Here are some things to address in a partnership agreement:
  1. How much capital each partner invested in the business.

2. How the partners will divide decision making and voting power.
3. Each partner's responsibilities.
4. How much each partner will be paid.
5. How the profit, if any is made, will be divided.
6. The procedures for breaking partnership.
7. The mechanism for how disputes should be resolved.

- Some advantages of general partnerships are:
    1. **They are simple and inexpensive to create.** Many partnerships are created through the simple act of a verbal agreement or a handshake. As a consequence, a partnership can be formed at little or no cost. In theory, the cost of creating the partnership itself could be nil.
    2. **There are more sources of capital.** The bringing together of two or more partners can bring more money into the business in absolute terms. In addition, the business will benefit from the fact that the physical capital is being pooled and shared.
    3. **There is more management talent.**
    4. **It is a way to reward valuable employees.**
- While these advantages are apparent, a partnership's main disadvantage and the main reason that partnerships go out of business is equally apparent. The partners fall out as a result of disagreements as to how to run the business.
- Another disadvantage of general partnerships is **joint and several liability**. This means that an undertaking or an obligation made by one partner in a business is binding upon all of the other partners.
- Just like sole proprietors, partners are personally liable for the obligations of the business. Just like sole proprietors, this personal liability is unlimited.
- There is no legal limit to the number of partners that can share ownership in a business. However, the issue of joint and several liability, to some extent, puts a practical limit on the number of partners who choose to collaborate. Partners who share the financial and legal responsibility for a business will want to know each other, trust each other, and work together well.
- This does not prevent a few partnerships from becoming very large. While each of the partners might not be personally acquainted, the effect of having many hundreds of people sharing and dividing liability would mean that the chance of any one partner being financially wiped out would be limited.

Textbook Definitions:

- **Business plan:** The written document that lays out, in black and white and in a structured fashion, all of the things that you need to do, and have to happen, if the business you are planning is to succeed.
- **General partnership:** A business that is directly owned by two or more individuals who agree to act together.
- **Joint and several liability:** An undertaking or an obligation made by one partner in a business is binding upon all of the other partners.
- **Liability:** The legal and financial responsibility for something.
- **Marketing:** The business function concerned with interacting with customers and potential customers.
- **Partner:** An individual who shares in the ownership and management of a business enterprise, and who shares liability for the business' debts and obligations.

- **Partnership agreement:** A document that spells out their obligation to the business and to each other.
- **Personal liability:** The sole proprietor's personal responsibility to pay all of the business' costs and settle its obligations.
- **Sole proprietor:** Someone who starts and runs a business on their own.
- **Sole proprietorship:** A business which is directly owned by one person.
- **Target market:** The people who have similar needs and wants, and are most likely to buy a product.
- **Unlimited liability:** There is no limit to the amount that an injured party may seek in damages. A sole proprietor's liability is not limited by the size of his investment in the business.

Textbook Notes (Chapter 9):

- **Business Structures That Allow for Many Owners:**
- Societies need ways of organizing enterprises that require more capital than a single individual, or even 2, 3 or 4 partners acting together, could reasonably raise.
- In addition to the many small businesses people need, they also need the goods and services of large and capital intensive businesses.
- **Limited Partnerships:**
- A **limited partnership** is a form of partnership that allows for two classes of partners: general and limited.
- A limited partnership must have at least one **general partner**, but there can be more. A general partner in a limited partnership is in the same legal position as in a general partnership. The general partner participates in running the business on a day-to-day basis, directs the partnership's employees and resources and makes decisions on behalf of the business.
- The cost of having decision making authority is that general partners have joint and several liability for the debts and obligation of the partnership. That means they can be personally sued.
- In limited partnerships, a general partner is sometimes referred to as the **principal**. The **principal** is an individual who has the authority to hire and instruct others to act on behalf of a business, and who bears the liability and responsibility.
- In contrast to a general partner, a **limited partner** is an individual who puts capital into a business and shares in the profit, but who takes no role in the day-to-day management or decision making. They usually receive a stated return from their investment, normally a share of the profits, as spelled out in a partnership agreement.
- The limited partners, who are explicitly barred from having any decision making authority have **limited liability**. **Limited liability** is an individual's responsibility or obligation relating to a business is limited to the amount of the capital that they provided. If the business is sued, someone with limited liability can lose only the value of his or her capital.
- A limited partnership is an appropriate way to organize a business if one or more of the general partners has the skills and contacts to successfully run a business, but lacks sufficient capital to do so.
- To create a limited partnership in Ontario, the general partner(s) must comply with the Limited Partnership Act.
- Limited partnerships are often used when the business is focused on a single or limited duration project.

- The general partner remains in operational control of the project and bears unlimited personal liability.
- **Corporations Explained:**
- Corporations are often referred to as “artificial beings”.
- This means that a corporation is an entity that is created on paper, by an act of law, which has many of the same rights and responsibilities as a human being.
- The US Supreme Court ruled that corporations are “people”.
- In London, UK, corporations can vote.
- A **corporation** is a legal entity created to own and operate a business, which has the most of the same rights and responsibilities as a human being.
- **How Corporations are created:**
- Corporations come into existence when one or more individuals conceives of a business enterprise, and then looks for the most appropriate way to create it.
- Some enterprises may be too costly or too risky for any one individual to create, manage, and supply all the capital themselves. This is why the law makes provision for people to come together and make an application to the government for the creation of a corporation. This corporation will raise all of the capital, hire all of the labour, purchase all necessary resources, etc.
- Individuals who want to create a corporation are known as **incorporators**.
- Incorporators can apply to create a corporation in any of the Canadian provinces or territories, or it can be created as a federal corporation. Typically, corporations are usually created in the province in which the incorporators live and intend to operate the business.
- Provincial corporations can carry on business only in the province or territory of incorporation while federal corporations have the ability to carry on business anywhere in Canada.
  I.e. An Ontario corporation can only operate in Ontario. If the business wants to expand into Quebec, additional paperwork is needed.
- The essential steps to creating a corporation are:
  1. **Choose a name for the corporation.** There are a few restrictions on the name that may be given to a corporation. One cannot use words that imply the business is connected with the Crown, the Government of Canada or any provincial or territorial government.
  2. **Conduct a name search.** This search confirms that no one else is already using the same or a similar name that you want to use. The government must be provided with evidence that a name search was conducted. In Ontario, this is done using a database, the NUANS(New Upgraded Automated Name Search).
  3. **Complete the articles of incorporation.** In most Canadian jurisdictions, corporations are created by completing a document called the **Articles of Incorporation**. The articles of incorporation cover a few basic issues such as:
     a. The location of the corporation’s registered office.
     b. Any restrictions on the types of activities that the corporation can conduct.
     c. The number of shares to be sold to investors once the corporation is created.
  4. **Submit the paperwork and pay the fee.** In Ontario, the fee is currently $360.
  5. **The province issues the Certificate of Incorporation.** The **Certificate of Incorporation** is, in effect, the birth certificate of the Corporation. The

government's authorization that a legal organization has been created, which conducts a business under its own name.

- **Ownership of a Corporation - Shares and Shareholders:**
- Once created, the corporation can begin to sell **shares**. In form, a **share** is just a piece of paper. What it represents is evidence that someone has an ownership stake in a corporation and is therefore entitled to a share of the corporation's profits.
- Typically, one acquires shares by contributing capital to a corporation. However, the founders and employees of a corporation may receive shares as reward or compensation for services.
- The person who owns this share certificate owns a part of the corporation.
- The name given to any individual or organization who owns shares in a corporation is **shareholder**.
- Shareholders have **limited liability**. Limited liability is the term that signifies that an individual's financial responsibility for the business is limited to the amount of capital that they have provided. If the business is sued, a shareholder in a corporation can lose only the value of his or her capital. The corporation itself, which is a separate legal entity, remains unlimitedly liable.
- **Corporations - Permanent Existence:**
- An important feature of the corporation is that, if the original entrepreneurs or investors depart, whether to pursue other opportunities or through death, the corporation, as a distinct legal entity, can continue.
- Canada's oldest corporation remains one of its best known businesses. The Hudson's Bay Corporation was created in 1670 to run a fur trading empire. Today, it continues to provide Canadians with the things that they need and want as the country's largest chain of department stores: Hudson's Bay.
- **Organizing the Corporation - Directors and Officers:**
- While a corporation is a legal entity unto itself, both the tax authorities and the shareholders themselves need to have human beings to turn to, for information. Therefore, the shareholders, as the owners of the corporation, elect **directors**.
- **Directors** are individuals elected by the shareholders of a corporation to represent their interests, and to administer the affairs of the corporation.
- The **board of directors** is the collective group elected by the shareholders of a corporation to represent their interests, and to administer the affairs of the corporation. It is commonly known as "The Board".
- Any corporation in Canada, in no matter whichever province, must have a majority of directors who are residents in Canada.
- Finally the directors need to appoint the corporation's **officers**. **Officers** are the people who hold the senior management positions within the corporations.
- In Canada, in all jurisdictions, a corporation must have two officers, a president and a secretary.
- Here is a summary of the last few pages:
    - The corporation is a legal entity, created by the province.
    - The corporation is owned by one or more people who have purchased, or been given, shares.
    - Not all shareholders have the interest or expertise to run the corporation on a daily basis.
    - Hence, the shareholders elect directors to represent them.
    - Finally, the corporation has officers to perform high-level managerial work.

- **Buying and Selling Shares:**
- Anyone can buy shares in a corporation, as long as they are for sale.
- A corporation does need not sell shares if it still has all the capital that it needs to undertake its operations.
- Corporate form of an organization is intended to allow the entrepreneurial team to raise capital by selling shares, but they are not compelled to do so.
- **Dilution** is a decline in the proportion of shares owned by existing shareholders, as a result of new shareholders injecting new capital into a corporation. Dilution should not be viewed as something negative.
  E.g. In 1986, Bill Gates owned 49% of Microsoft. Today, he owns just under 4%.
- **Private VS Public Corporations:**
- Most corporations are created with little intention of selling shares to outside investors. They are created with the other advantages of corporations in mind. Principal among these is the limitation of liability. A corporation provides investors, even if there are only one or two of them, with limited liability.
- When a business incorporates, the law stipulates that it must contain one of the following words or abbreviations in its name: “corporation”, “incorporated”, “limited”, “company”, “Inc.”, “ltd” and “co.” These words communicate the fact that the owners and managers have limited liability and may not be personally sued for accidents, obligations or offences caused or incurred by the corporation.
- Some reasons that small business incorporate are:
  1. The owners cannot be personally sued.
  2. A corporation's permanence. This is often the case with family businesses. When the head of the family business dies or retires, some or all of their shares can be left to survivors or successors.
  3. In small businesses, shares can be given to particularly valuable employees, or loyal lieutenants.
- A **company** is a synonym for corporation, which denotes an organization that has been incorporated.
- A **private corporation/private company** is a corporation that is owned by a small group of closely connected shareholders (e.g. family members) and which does to intend to offer shares to the wider public.
  An example of a private corporation is a family business.
- Corporations that do make their shares available to the general public are called **public corporations/public companies**.
- In order to become a public company a business must go to additional effort and expense.
- **Corporations - Costs and Disadvantages:**
- While the procedures for creating a corporation are not intended to be either complex or expensive, it does require most paperwork and more paperwork and more costs than creating other forms of business organization.
- Since the corporation is a legal entity distinct from its shareholders, the law stipulates that corporations must have a minimum level of specified supervision and oversight. A corporation must have elected directors. Furthermore, the law stipulates that the majority of the directors be Canadian citizens. Lastly, the corporation must appoint certain officers whose responsibilities are mandated by law.
- Corporations must file their own taxes, separate from any taxes that must be paid by the shareholders.

- If the corporation makes a profit, it must pay income tax.
- If after paying tax, the corporation returns any profit to the shareholders, the shareholders must pay tax on their personal income.
- This is the cost of owning a business indirectly, as opposed to sole proprietors or partners, who own a business directly.
- **Co-operative Societies:**
- The criticism most commonly made about corporations is the same criticism made about capitalism in general: corporations are business structures designed by the rich, to protect the interests of the rich and intended to make the rich even richer.
- The corporate form of organization allows the owners with the most shares to act in their own interests, even if those interests are counter to the interests of their employees or customers.
- A **co-operative** is a business owned by the people who use its services and whose benefits are derived and distributed equitably on the basis of use.
- A co-operative is frequently put forward as the solution to this perceived weakness of the shareholder-owned corporation.
- In many ways, co-operatives resemble many other businesses. They have many similar physical facilities, perform similar functions and must follow sound business practices. They are also usually incorporated under provincial law. In Ontario, co-operatives are created by following the procedures laid down under the Ontario Co-operative Corporations Act.
- Co-operatives are different from other businesses in purpose, in the distribution of ownership and in the way that profits are allocated.
- All co-operatives have 3 guiding principles. The first of which is that a business should be owned by the people it serves.
- **You Must Use the Co-operative in Order to Become an Owner:**
- You must use the co-operative before you can become one of its co-owners, and you must be a co-owner in order to be a customer. Therefore, a co-operative is designed to balance the interests of customers with the interests of the business' owners.
- The user-owners of a co-operative are called **members**. A **member** is an individual who has purchased part ownership in a cooperative, and has the right to use its services.
- As owners, a co-operative's members control its activities. This control is exercised through voting at an annual and other membership meetings, and by electing the co-operative's Board of Directors.
- **Democratic Control of the Business:**
- The second principle of co-operative organization is democratic control. Each member gets one vote regardless of the amount of money they may have contributed or how much they patronize the organization.
- Unlike corporations, no one owner can become the majority owner of a co-operative.
- This principle is intended to ensure that the business benefits the entire community of member-users in equal measure.
- **The User Benefits Principle:**
- The third principle of a co-operative business is that the people who use the co-operative the most, benefit the most.
- The members of a co-operative share any profits on the basis of each member's participation with or contribution to the business. This is in contrast with corporations where profit is generally divided according to the shareholder's capacity to provide the business with capital.

- The **user benefits principle** states that the members of a co-operative share any profits on the basis of each member's participation with or contribution to the business.
- **The Earliest Modern Co-operative:**
- The first successful co-operative was the Rochdale Society of Equitable Pioneers, founded in 1844 in Rochdale, England.
- **Consumer Co-operatives and Producer Co-operatives:**
- There are two principal forms of co-operative society:
    1. **Consumers' Co-operative:** Consumers' co-operative run retail stores. By purchasing merchandise directly from wholesalers or distributors, consumers' co-operatives can charge their members less than a profit-driven store.
    2. Producer Co-operative: These produce and sell goods using machinery and equipment purchased by the co-operative. Producer co-operatives are common in the agriculture sector.
- The purpose of both consumer and producer co-operatives is to give members access to products or services that would otherwise not be available or affordable. Acting together gives members the advantage of economies of size and bargaining power.
- **The Patronage Refund System:**
- Although a key aim of co-operatives is to provide goods and services more cheaply than profit driven businesses, this is not done on a transaction-by-transaction basis. Co-operatives usually charge the market price for the goods and services furnished to members. This is intended to allow the co-operative to put capital back into the business for its growth and continued improvement.
- **Patronage refunds** are the profits earned by a co-operative business which are returned to the co-operatives members, in proportion to the business that each member represents of the co-operatives total revenues.
- **Limitations of Co-operative Societies:**
- The success of a co-operative depends on the loyalty and commitment of its members, something that is neither assured nor can be enforced.
- Co-operatives tend to have limited capital because membership is generally confined to a particular locality or section of the society. This puts limits on the co-operatives ability to grow, to develop new products and services, or improve existing products or services.
- **Modern Day Examples of Co-operatives:**
- Mountain Equipment Co-op (MEC)
- Home Hardware
- Real Madrid
- FC Barcelona

Textbook Definitions:

- **Articles of incorporation:** The document that provides basic information that must be submitted to the relevant jurisdiction, in order to create a corporation.
- **Board of directors:** The collective group elected by the shareholders of a corporation to represent their interests, and to administer the affairs of the corporation.
- **Certificate of incorporation:** In effect, the birth certificate of the Corporation. The government's authorization that a legal organization has been created, which conducts a business under its own name.
- **Company:** A synonym for corporation, which denotes an organization that has been incorporated.
- **Co-operative:** A business owned by the people who use its services and whose benefits are derived and distributed equitably on the basis of use.

- **Corporation:** A legal entity created to own and operate a business, which has the most of the same rights and responsibilities as a human being.
- **Dilution:** A decline in the proportion of shares owned by existing shareholders, as a result of new shareholders injecting new capital into a corporation.
- **Directors:** Individuals elected by the shareholders of a corporation to represent their interests, and to administer the affairs of the corporation.
- **Incorporators:** The individuals who create a corporation.
- **Limited liability:** An individual's responsibility or obligation relating to a business is limited to the amount of the capital that they provided. If the business is sued, someone with limited liability can lose only the value of his or her capital.
- **Limited partner:** An individual who puts capital into a business, and shares in the profit, but takes no role in management or decision-making.
- **Limited partnership:** A form of partnership that allows for two classes of partners: general and limited.
- **Member:** An individual who has purchased part ownership in a cooperative, and has the right to use its services.
- **Officer:** The people who hold the senior management positions within the corporations.
- **Patronage refunds:** The profits earned by a co-operative business which are returned to the co-operatives members, in proportion to the business that each member represents of the co-operatives total revenues.
- **Principal:** An individual who has the authority to hire and instruct others to act on behalf of a business, and who bears the liability and responsibility.
- **Private corporation/private company:** A corporation that is owned by a small group of closely connected shareholders (e.g. family members) and which does to intend to offer shares to the wider public.
- **Public corporation/public company:** Corporations that do make their shares available to the general public.
- **Share:** An ownership stake in a corporation. The owner is entitled to a share of the corporation's profits.
- **Shareholder:** Any individual or organization who owns shares in a corporation.
- **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.