

expansion and strategy. Studies might include how and why corporations expand, the interactions between corporations and the role of governments in regulation

- Business economics studies how and why corporations make their decisions and how other economic factors can influence their choices.

#### Needs/Wants

- A motivating force that compels action for its satisfaction. Needs range from basic survival needs satisfied by necessities, to cultural, intellectual, and social needs (varying from place and age) satisfied by necessities. Needs are finite but, in contrast, wants (which spring from desires or wishes) are boundless.

#### Goods

- A commodity, or a physical, tangible item that satisfies some human want or need. Goods that are scarce (are in limited supply in relation to demand) are called economic goods, whereas those whose supply is unlimited and that require neither payment nor effort to acquire (such as air) are called free goods.

#### Services

- Intangible products such as accounting, banking, cleaning, consultancy, education, insurance, expertise, medical treatment, or transportation.
- Sometimes services are difficult to identify because they are closely associated with a good; they cannot be stored or transported, are instantly perishable, and come into existence at the time they are bought and consumed.

#### Economic system

- An organized way in which a state or nation allocates its resources and goods and services in the national community.

The study of economic systems includes how these various agencies and institutions are linked to one another, how information flows between them, and the social relations within the system.

- What to produce?
- How to produce?
- For whom to produce?

#### Types of economic systems

- Market economy – decisions regarding production and distribution are based on supply and demand, prices of goods and services are determined in a free price system
- Planned economy – decisions regarding production and distribution are based on central planning formulated by a central authority

- Capitalism – production is carried out to maximize private profit, decisions are determined by competing business owners in the marketplace
  - The means of production are owned primarily by private enterprises
- Socialism – production is carried out to directly satisfy economic demand by producing goods and services for use
  - The means of production are publicly owned, or owned by the workers cooperatively
- Reality is mixed economic system.
- Land represents all natural resources, such as timber and gold, used in the production of a good.

#### Factors of Production

- Land, labor, capital
- All of the inputs needed to produce a good or service
- Labor is all of the work that laborers and workers perform at all levels of an organization.
- The capital is all of the tools and machinery used to produce a good or service.

#### Businesses

- Legal entity that has common characteristics
  - main purpose is to achieve profit
  - to satisfy needs of customers
  - needs of customers are satisfied by products and services on the market – there is lots of risks

#### Characteristics of the firms

- Owners
- Managers
- Objectives
- Resources
- Administrative or organizational structures
- Performance assessment by owners, managers and other stakeholders
- Shareholders/stockholders x stakeholders

## Business life cycle

- is used to model organizational growth and development over the course of time
- describes evolution of businesses through multiple stages

### a) Start-up / Birth

- companies are being created
- the future development is planned
- planning is the most important activity
- companies accumulate capital, hire staff and buy equipment
- start developing products or services

### b) Growth

- characterized by rapid sales and size growth
- accompanied with investment in marketing, property, and equipment
- customer base is expanding

### c) Maturity

- the sales growth is slowing, pricing may become more competitive
- companies are usually stable enough to survive most unfavorable circumstances
- to avoid decline stage – take a variety of actions to restart growth

### d) decline

- inevitable for companies which don't try to improve growth
- companies are unable to define new markets or products, are dependent upon existing ones
- sales, profits are declining
- could proceed to radical changes
- may end in liquidation and dissolution

## Basic Stock and Flow Variables

- *stock variables* – do not have any time dimension, just describe the state of nature at a given instance of time
- *flow variables* – attached with a certain time period, describe evolution of the state of nature during this period

2. economic sectors
3. the size of the business

#### 1) Legal form

Sole trader/individual proprietorship

Partnership

Company/corporation

Cooperative societies

Government ownership

- Sole trader: owned and run by one individual, there is no legal distinction between the owner and the business
- owner receives all profits and has unlimited responsibility for all losses and debts

#### Advantages/disadvantages

##### Advantages

- easy to organize, small amount of capital to start and run
- more flexible

##### Disadvantages

- owner can't leave
- ceases to exist upon the proprietor's death
- it is difficult to raise capital – limited resources, unlimited liability...

##### Partnership

- General Partnership – an agreement between two or more individuals or entities to jointly own and operate a business; profit, loss, and duties are shared, each partner is personally liable for the debts
- Limited Partnership (LP) – general partner organizes and manages operations, and limited partners contribute capital but have limited liability, play no active role in business affairs
- Limited Liability Partnership (LLP) – one partner is not responsible or liable for another partner's misconduct (usually doctors, lawyers...)

##### Company

- has legal rights and liabilities, may be profit or non-profit businesses

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- financial factors
- executive summary – outline of the business plan, name of a business, its history, primary goals, outline of products or services, financial situation
- business description – short description of the industry, present outlook and future possibilities
- market strategies – result of a market analysis – PEST analysis, SWOT analysis
- competitive analysis – determine the strengths and weaknesses of the competitors within the market, barriers that can be developed in order to prevent competition
- development plan – production plan, stock management, economic order quantity
- operations and management plan – how the business functions on a continuing basis, logistics of the organization, responsibilities within the team, tasks, capital and expense requirements
- financial factors – always at the back of the business plan, capital optimization, the balance sheet – assets, capital and liabilities, cash flow plan

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