**The Structure of Business**

**Business Cycle**



The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a period of macroeconomic expansion followed by a period of contraction. During the expansion phase, a period of economic growth as measured by a rise in real GDP occurs. Once a peak is reached, this is the height of the economic expansion, when the real GDP stops rising. Then a contraction occurs where there is a decline marked by falling real GDP. This ends in an economic trough, which is the lowest point in an economic contraction, when the real GDP stops falling.

* An \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a period of economic growth measured by a rise in real GDP. In the expansion phase, the economy enjoys plentiful jobs, a falling employment rate, and business prosperity
* The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the height of an economic expansion. This is the point when the real GDP stops rising.
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is a period of economic decline marked by the falling real GDP. Unemployment rises in this period.
* In the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ period the economy bottoms out. This is the lowest point in an economic contraction, when the real GDP stops falling.
	+ If real GDP falls for two consecutive quarters, the economy is said to be in a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. A recession is a prolonged economic contraction.
	+ When a recession is especially long and severe, it can be called a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. During a depression there is high unemployment and low factory output.
	+ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ occurs when there is a decline in real GDP combined with a rise in the price level.

**Types of Businesses**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
	+ A business owned and managed by a single individual. According to the IRS 75% of all businesses in the US are sole proprietorships but these generate only about 6% of US sales

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* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
	+ A business organization owned by two or more persons who agree on a specific division of responsibilities and profits

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* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
	+ A legal entity owned by individual stockholders
	+ Stockholders own shares of stock
		- \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_– a certificate of ownership in a corporation
	+ Stockholders are part owners of the corporation

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* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Merger
	+ Joining of two or more firms competing in the same market with the same good or service
		- Examples:
			* Verizon and Alltel
			* Wells Fargo and Wachovia
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Merger
	+ Joining of two or more firms involved in different stages of producing the same good or service
		- Examples:
			* KFC buys a Chicken Farm
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
	+ Merging of more than three businesses that make unrelated products
		- Example:
			* General Electric
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Corporation
	+ A large corporation that produces and sells its goods and services throughout the world

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**Market Structures
(Monopolies)**

**Perfect Competition**

* Perfect competition is also called pure competition; few examples of perfect competition exist today. Examples include the markets for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and stocks traded on the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

 **Four Conditions to Perfect Competition**

* 1. Many buyers and sellers \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_in the market.
* 2. Sellers offer \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ products.
* 3. Buyers and sellers are well \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ about products.
* 4. Sellers are able to enter and exit the market \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**Why are there so few perfectly competitive markets?**

* There are many barriers to entry, or factors that make it difficult for a new firm to enter the market.
	+ 1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_: the expenses a firm must pay before it can begin to produce and sell goods
	+ 2\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and know-how can keep a market from being perfectly competitive

**Why are commodities usually perfectly competitive?**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are termed as ‘\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_’ products, and in a perfectly competitive market, all products are identical

**What is a monopoly?**

* + a market dominated by a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ seller

**What are some characteristics of monopolies?**

* All monopolies have a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_seller in the market.
* It is VERY difficult to enter a market, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
* All monopolies have \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ [factors that cause a producers average cost per unit to fall as output rises]

**What are some characteristics of monopolies?**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are examples of monopolies.
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – a market that runs most efficiently when one large firm provides all of the output – public water is an example of natural monopoly
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ can change natural monopolies – telephones were once a natural monopoly, because thin copper wire was needed to provide service, when this was no longer the case, many companies were able to enter the market
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ – a monopoly created by the government