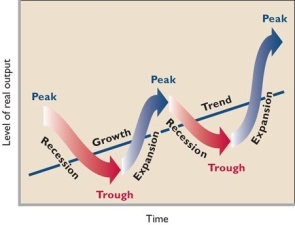
**The Structure of Business**

**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

|  |  |
| --- | --- |
| Advantages | Disadvantages |
|  |  |
|  |  |
|  |  |
|  |  |

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

|  |  |
| --- | --- |
| Advantages | Disadvantages |
|  |  |
|  |  |
|  |  |
|  |  |

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
  + 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

|  |  |
| --- | --- |
| Advantages | Disadvantages |
|  |  |
|  |  |
|  |  |
|  |  |

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 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

|  |  |
| --- | --- |
| Advantages | Disadvantages |
|  |  |
|  |  |
|  |  |
|  |  |

**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