

## LESSON 1

### UNIT 1: PRINCIPLES OF BUSINESS

#### *Lesson Objectives:*

#### *Student should be able to:*

- be able to be on familiar terms with the concept of economics
- know the different between import and export
- identify the factors that determine the choice of location

#### *Definition:*

A business system is defined as a group of related parts working together towards a common objective.

*Material:* refers to the raw materials and land used in production

*Manpower:* refers to the skills and availability of the labour force

*Machines:* include the tools and equipment needed to produce

*Energy:* refers to electricity and other sources of fuel to drive the machines for production

*Capital:* is the money required to pay for all the factors of production

*Management:* organizes all these resources to produce the outputs that the economy wants

#### *The Economic Environment*

Scarcity: Limited of resources, time, equipment and others.

Opportunity cost: means the value of the next best use (or opportunity) for an economic good or the value of the sacrificed alternative.

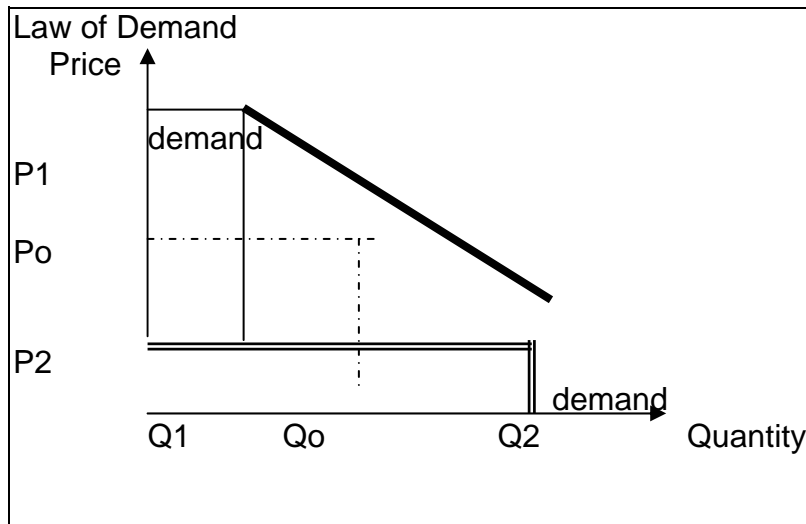
Choice: making a final decision between their alternative uses.

#### *Types of Economy*

1. The Market Economy
  - the price mechanism is used to allocate scarce resources in a market economy
  - production decisions are made by firms and/or private individuals, not central planning authority
2. The Mixed Economy
  - a distinction is made between the two sectors, public and private, using ownership as the basis: we also differentiate on how goods and services are located by using the terms market sector and non-market sector
3. The Command Economy
  - a centrally planned, or command economy is the opposite theoretical extreme to the pure market economy
  - concentrate on the central control of what is produced, how it is distributed and at what price

### *Theory of Demand*

- Demand is defined as the quantity of a good or service consumers are willing and able to buy at a given price in a given time period.
- The law of demand is that there is an inverse relationship between the price of a good and the demand for a good.

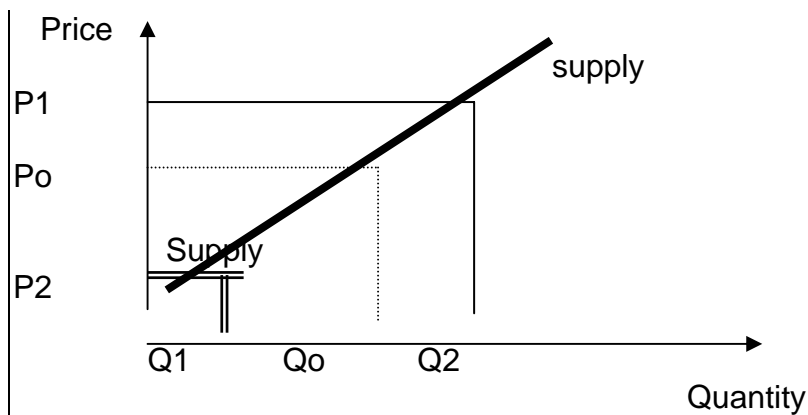


### *Causes a shift in the Demand Curve*

- change in price of a substitute
- change in price of a complement
- change in the income of consumers
- change in tastes and preferences
- changes in interest rates

### ***Theory of Supply***

- Supply is the quantity of a good or service that a producer is willing and able to supply onto the market at a given price in a given time period.
- It shows a relationship between the price of a good or service and the quantity a producer is willing and able to sell in the market.

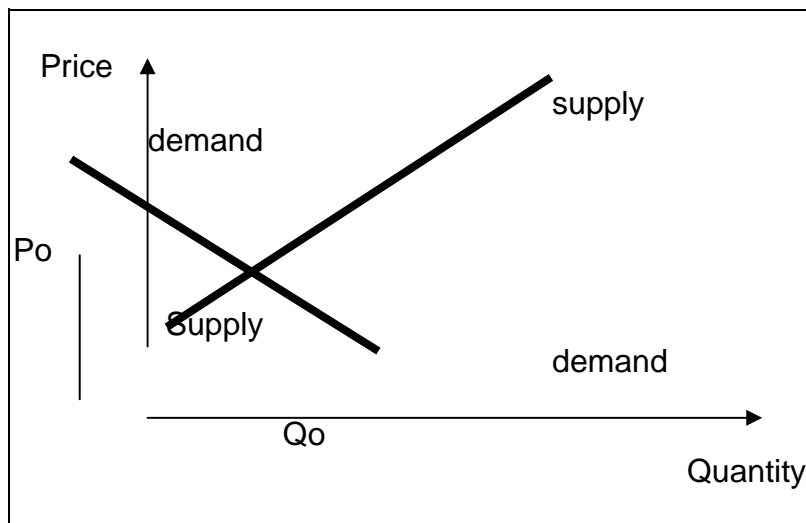


### ***Causes a shift in the Supply Curve***

- cost of production
- changes in production technology
- government taxes and subsidies
- climatic condition
- change in the price of a substitute
- competition

### ***Market Equilibrium***

- means a state of equality between demand and supply (without a shift in demand and supply there will be no change in the market price).



### ***Money and Barter System***

Money: acts as a medium of exchange. Money as a universally recognized medium of exchange performs several valuable functions like measure of value, store of exchange and is quite durable.

Barter: old system of exchange is called barter (using goods to exchange)

1. Socialisation of new employee
2. Getting the job done/ create esprit de corps
3. Decision making
4. Create synergy

### **Import**

- Import is a withdrawal of demand from circular flow of income and spending.
- Goods and services come into the economy for us to consume and enjoy - but there is a flow of money out of the economic system to pay for them.

### **Export**

- Exports sold overseas are an inflow of demand into the circular flow of income and therefore add to the demand for the country that produced output.

### ***Main references***

G.A. Cole (1996), Management Theory and Practice, 5<sup>th</sup> edition, Letts (chapter 8)