

Chapter 1: The purpose of Business Activity

The economics problem: needs and wants.

Basically, all humans have **needs** and **wants**. Needs are things we **can't** live without, while wants are simply our desires that we **can** live without. We all have **unlimited wants**, which is true, since all of us want a new PC, a car, new graphics card, etc. that we actually do not need to live. Businesses produce **goods** and **services** to satisfy needs and wants.

Although we have unlimited wants, there are not enough **resources** for everyone. Resources can be split into 4 **factors of production**, which are:

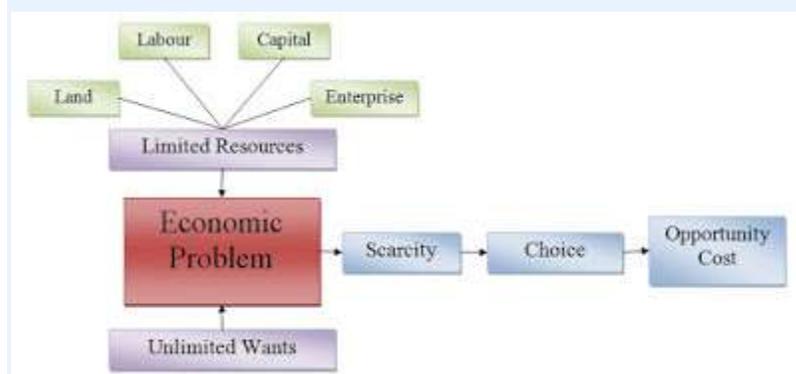
- **Land**: All natural resources used to make a product or service.
- **Labour**: The effort of workers required to make a product or service.
- **Capital**: Finance, machinery and equipment required to make a product or service.
- **Enterprise**: Skill and risk-taking ability of the **entrepreneur**.

Entrepreneurs are people who **combine** these factors of production to make a product.

With these discussed, let's move on to the **economic problem**. The economic problem results from **limited resources** and **unlimited wants**. This situation causes **scarcity**, when there are not enough goods to satisfy the wants for everybody. Because of this, we will have to **choose** which wants we will satisfy (that will be of more benefit to us) and which we will not when buying things. For any choice, you will have to would have obtained if you didn't spend that money. For example, you would have got a book if you didn't buy the pen, or you would have a burger if you didn't buy the chips. Basically, item that you didn't buy is the **opportunity cost**. Make sure that the opportunity cost isn't higher than what you bought!

"Opportunity cost: the next best alternative given up by choosing another item."

Here is a diagram showing the whole economic problem:



Division of labour/Specialisation

Because there are limited resources, we need to use them the most efficient way possible. Therefore, we now use production methods that are as fast as possible and as **efficient** (costs less, earns more) as possible. The main production method that we are using nowadays is known as **specialization**, or division of labour.

"Division of Labour/Specialisation is when the production process is split up into different tasks and each specialized worker/ machine performs one of these tasks."

Pros:

- Specialized workers are good at one task and increases efficiency and output.
- Less time is wasted switching jobs by the individual.
- Machinery also helps all jobs and can be operated 24/7.

Cons

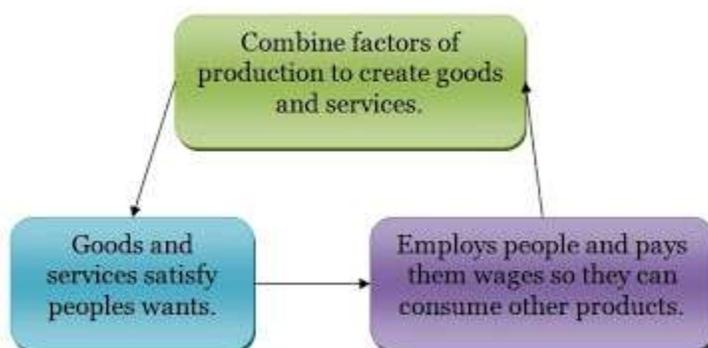
- Boredom from doing the same job lowers efficiency.
- No flexibility because workers can only do one job and cannot do others well if needed.
- If one worker is absent and no-one can replace him, the production process stops.

Why is business activity needed? (summary)

- Provides goods and services from limited resources to satisfy unlimited wants.
- Scarcity results from limited resources and unlimited wants.
- Choice is necessary for scarce resources. This leads to opportunity costs.
- Specialisation is required to make the most out of resources.

Business activity:

1. Combine factors of production to create goods and services.
2. Goods and services satisfy peoples wants.
3. Employs people and pays them wages so they can consume other products.



Business Objectives:

All businesses have aims or objectives to achieve. Their aims can vary depending on their type of business or these can change depending on situations. The most common objectives are:

1. **Profit:** Profit is what keeps a company going and is the main aim of most businesses. Normally a business will try to obtain a satisfactory level of profits so they do not have to work long hours or pay too much tax.
2. **Increase added value:** Value added is the difference between the price and material costs of a product. E.g. If the price when selling a pen is \$3 and it costs \$1 in material, the value added would be \$2. However, this does not take into account overheads and taxes. Added value could be increased by working on products so that they become more expensive finished products. One easy example of this is a mobile phone with a camera would sell for much more than one without it. Of course, you will need to pay for the extra camera but as long as prices rise more than costs, you get more profit.
3. **Growth:** Growth can only be achieved when customers are satisfied with a business. When businesses grow they create more jobs and make them more secure when a business is larger. The status and salary of managers are increased. Growth also means that a business is able to spread risks by moving to other markets, or it is gaining a larger market share. Bigger businesses also gain cost advantages, called economies of scale.
4. **Survival:** If a business do not survive, its owners lose everything. Therefore, businesses need to focus on this objective the most when they are: starting up, competing with other businesses, or in an economic recession.
5. **Service to the community:** This is the primary goal for most government owned businesses. They plan to produce essential products to everybody who need them.

These business objectives can conflict because different people in a business want different things at different times.

Stakeholders:

Stakeholders are a person or a group which has interest in a business for various reasons and will be directly affected by its decisions. Stakeholders also have different objectives and these also conflict over time.

There are two 6 types of stakeholders, and these types can be classified into two groups with similar interests.

Group 1: Profit/Money

- Owners:

1. Profit, return on capital.
2. Growth, increase in value of business.

- Workers

1. High salaries.
2. Job security.
3. Job satisfaction.

- Managers

1. High salaries.
2. Job security.
3. Growth of business so they get more power, status, and salary.

Group 2: Value

- Customers

1. Safe products.
2. High quality.
3. Value for money.
4. Reliability of service and maintenance.

- Government

1. Employment.
2. Taxes.
3. National output/GDP increase.

- Community

1. Employment.
2. Security.
3. Business does not pollute the environment.
4. Safe products that are socially responsible.