

THE ROLE OF GOVERNMENT & THE BUSINESS CYCLE



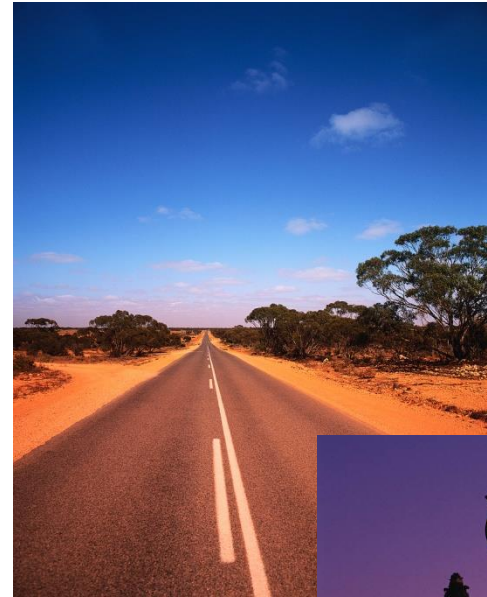
PRIVATE GOODS

- Private goods – can only be consumed by one person
- Private goods are subject to the exclusion principle – a person is excluded from using the good unless they pay for it



PUBLIC GOODS

- Public goods – goods that can be consumed by one person without preventing another from consuming
- Subject to the nonexclusion principle – no one can be excluded from consumption whether they pay or not



DEALING WITH EXTERNALITIES

- Gov't plays a role in handling externalities – the unintended side effect of an action that affects someone not involved in the action (these can be positive or negative)



MAINTAINING COMPETITION

- Gov't uses antitrust laws to prevent monopolies (only **one** provider of a good or service) and preserve and promote competition
- Why? Competition ensures better *quality*
- Gov't oversees mergers – a combination of two or more companies to form a single business

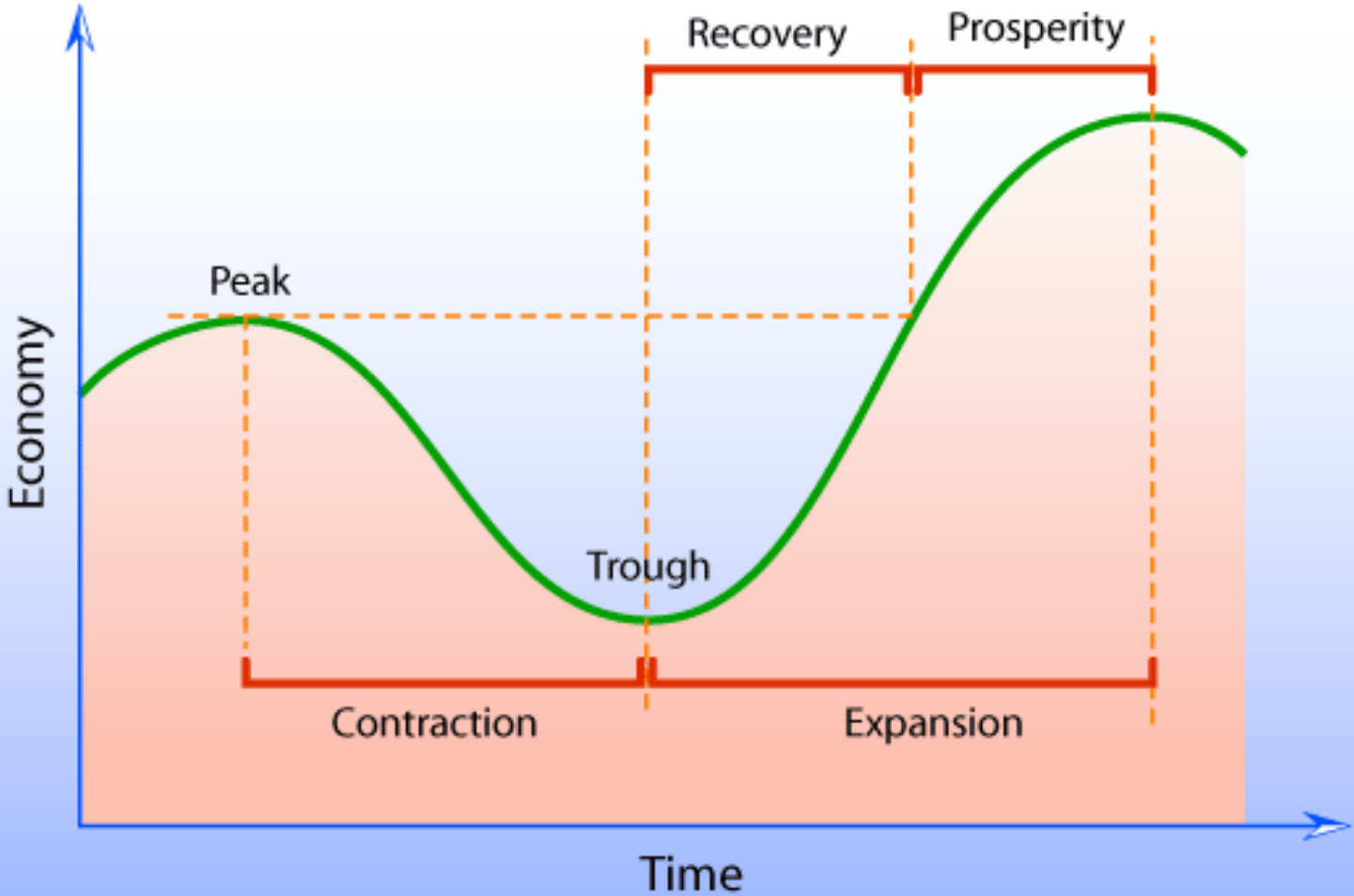


REGULATING MARKET ACTIVITIES

- Sometimes it makes sense to have a monopoly → natural monopolies – a market situation in which the costs of production are minimized by having a single firm produce a product



THE BUSINESS CYCLE

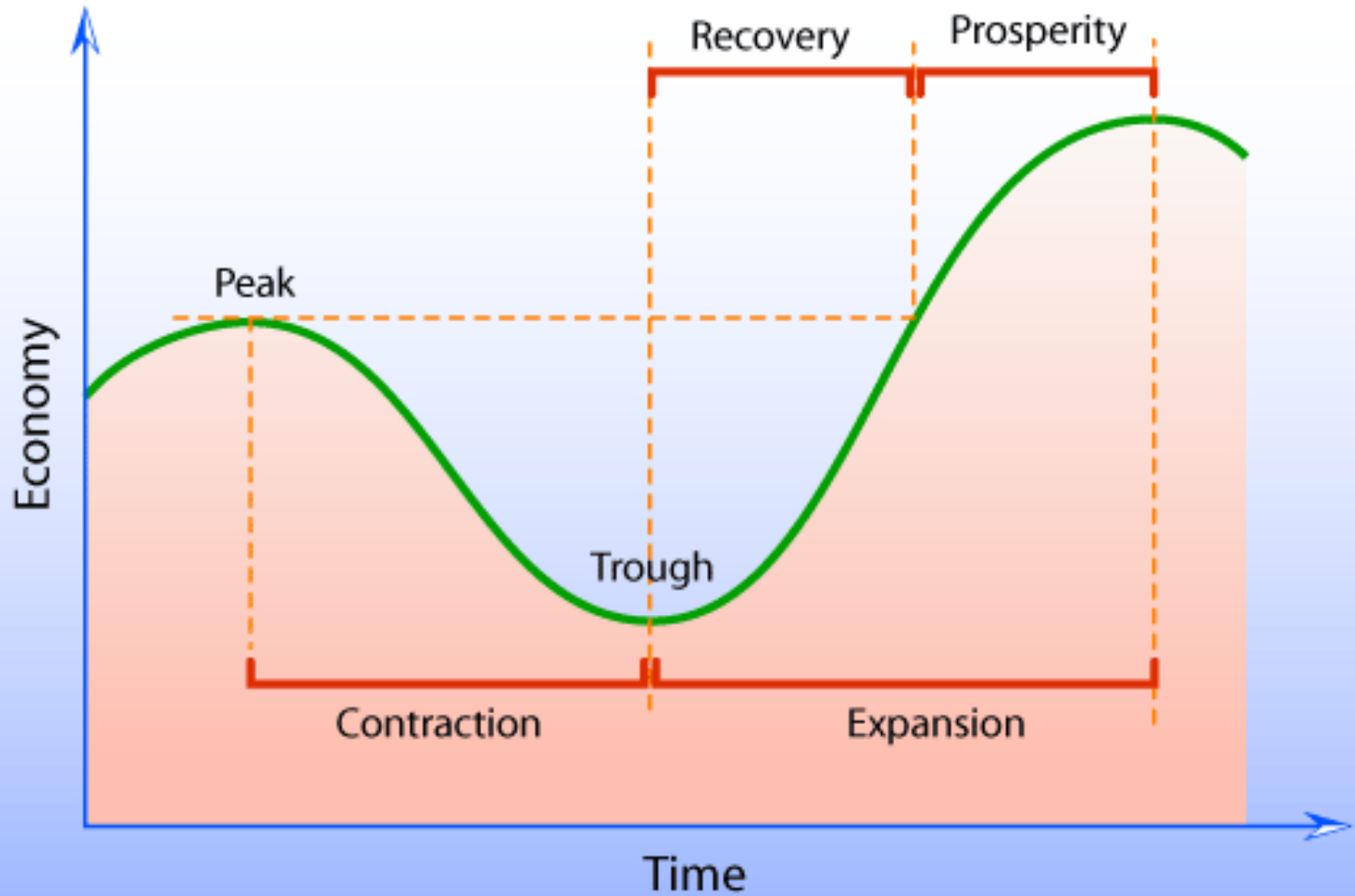


THE BUSINESS CYCLE - TERMS

- Real GDP – an economy's production after the distortions of price have been removed
- Expansion – a period when RGDP goes up
- Peak – the highest point in an expansion
- Recession – a period when RGDP goes down for six straight months
- Trough – the lowest point during recession
- Depression – when recession lasts for more than six straight months



THE BUSINESS CYCLE



OTHER MEASURES OF THE ECONOMY

- Unemployment rate – the %-age of the civilian labor force (all civilians 16 years old or older who are working or looking for work) who are not working but looking for work
- Fiscal Policy – changes in gov't spending and tax policy



OTHER MEASURES OF THE ECONOMY

- Inflation – a sustained increase in the general level of prices
- To track inflation the gov't uses the consumer price index (CPI) – a measure of the price level of 400 various products
- Dividends – a share of the corporation's profits distributed to shareholders
- Capital gain – occurs when stock can be sold for more than it originally cost to buy



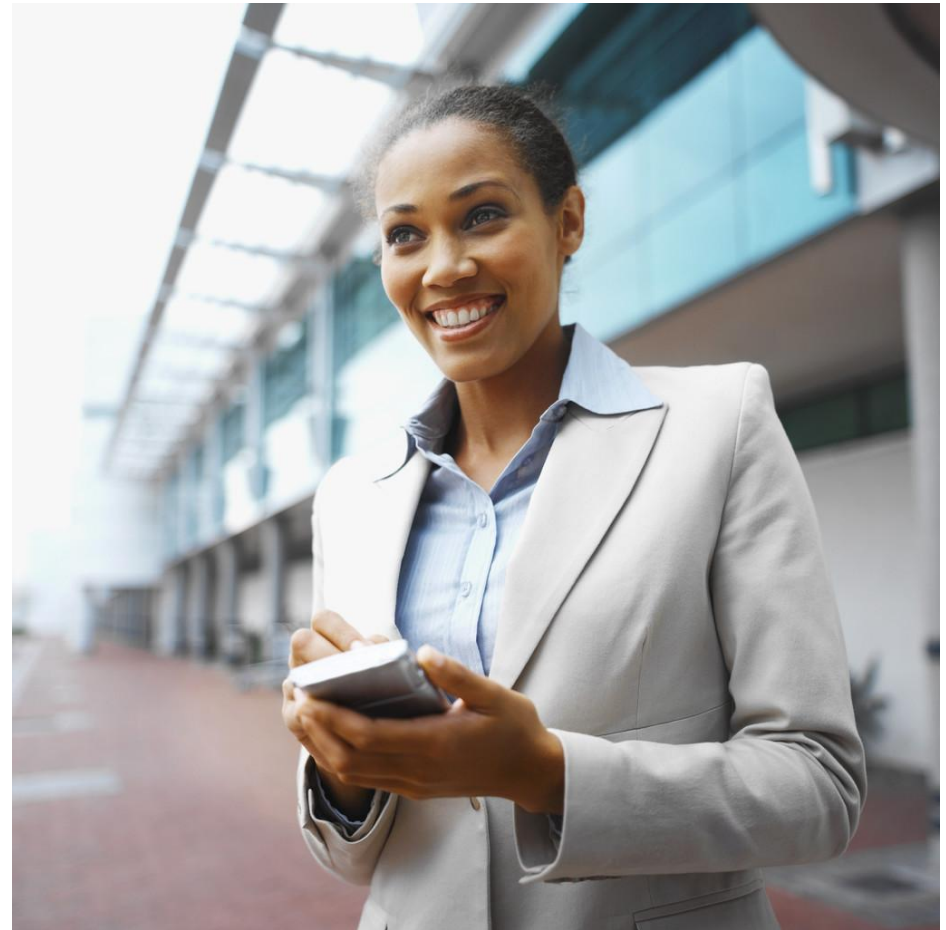
THE “THREE” TYPES OF BUSINESS

CHAPTER 22, SECTION 1



PROPRIETORSHIPS

- The most common form of business organization in the U.S. is sole proprietorship – a business owned by a single person



PROPRIETORSHIPS

▪ ADVANTAGES

- Full pride in ownership
- Make decisions quickly
- Keep most of profits

▪ DISADVANTAGES

- Unlimited liability – financially responsible for all problems
- Difficult to raise financial capital - \$ needed to run a business or make it grow
- Hard attracting qualified employees



PARTNERSHIPS



- Partnership – a business owned by two or more people
- Articles of partnership – legal agreement to start a partnership



PARTNERSHIPS

▪ ADVANTAGES

- Partners can usually raise \$ easier or take on new partners to raise more \$
- Each partner brings special talents

▪ DISADVANTAGES

- The legal structure is complex → the articles of partnership have to be renewed when they take a new partner
- Unlimited liability



CORPORATIONS

- Corporation – business recognized by law that has many of the rights and responsibilities of an individual (own property, pay taxes, sue or be sued)



CORPORATIONS

- To start a corporation you must get a charter – gov't document granting permission to organize
- The owners of a corporation are its **STOCKHOLDERS!**
- Stock – ownership shares of a corporation



CORPORATIONS

▪ ADVANTAGES

- Easy to raise financial capital
- Corporations are huge
- Board of directors (run the company on the stockholder's behalf) can hire professional managers
- Ownership of corporations can be easily transferred
- Limited liability – only the corporation, not its owners, are responsible for the debts of the corporation

▪ DISADVANTAGES

- Expensive and complex to set up
- Owners have little say in the management of the corporation
- Subject to more gov't regulation
- Stockholders are subject to double taxation – paying taxes twice on corporate profits



NON-PROFIT ORGANIZATIONS

- Non-profits are just what their title suggests → businesses who are not driven by the profit motive
- Examples include churches, museums, schools, etc.

