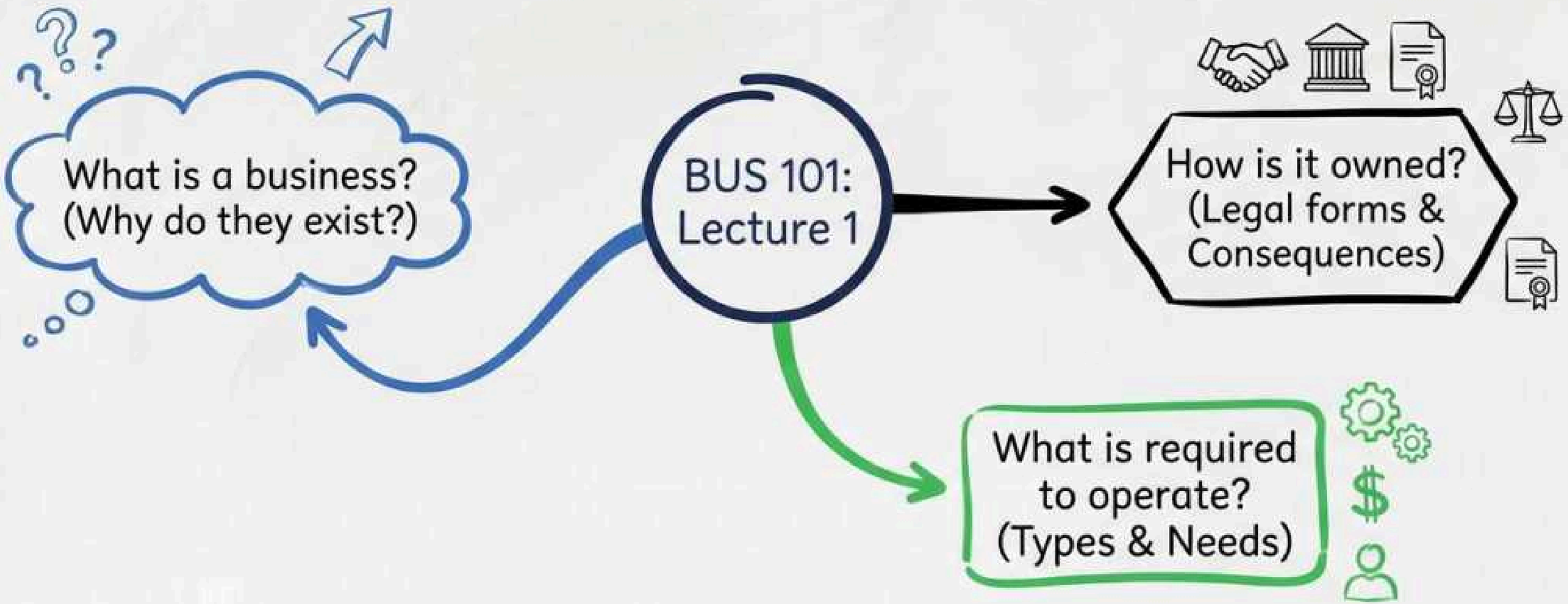
¶ 1.1



Gemini Notebook

¶ 1.2

A business provides goods/services for money to earn profit.

$$\pi = R - C$$

(Profit = Revenue − Costs)

$$R = P \times Q$$

(Revenue = Price × Quantity)



If $R < C$ consistently → Business fails.

Gemini Notebook

¶ 1.3

Inputs







Kitchen/Equipment

+ Idea / Work

Output



Gourmet Meal

Customer Value ≥ Price

Output Value > Sum of Inputs

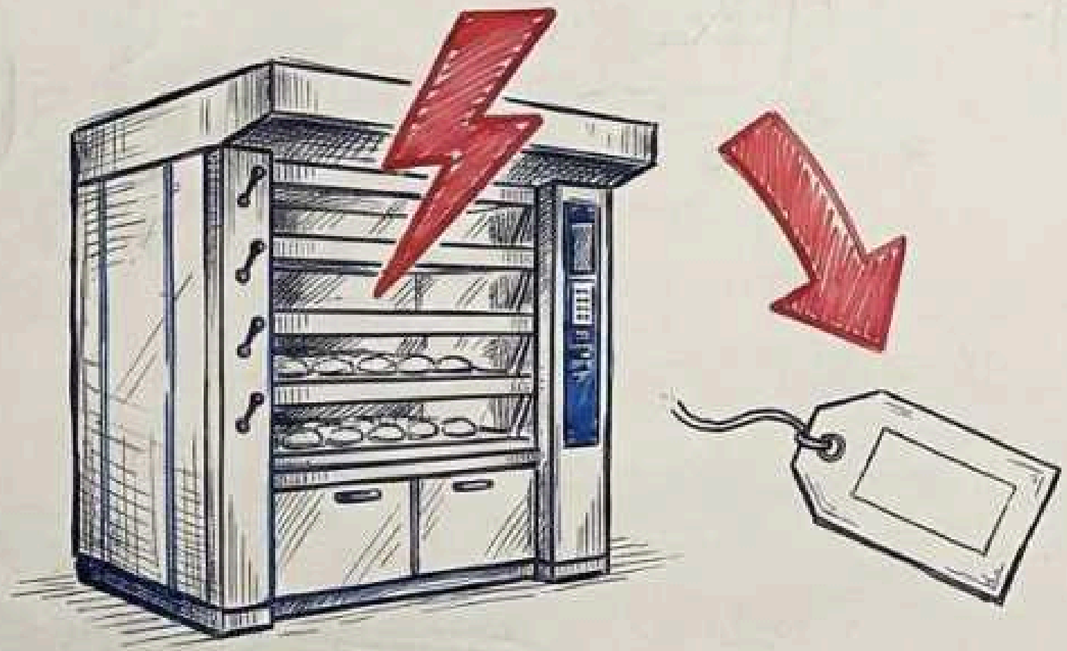
Gemini Notebook

¶1.4

Revenue: $200,000

Flour + Wages + Rent + Elec = $180,000

Profit Margin = $20,000 (10%)



One disruption
(rival price cut, broken oven)
wipes out the margin.

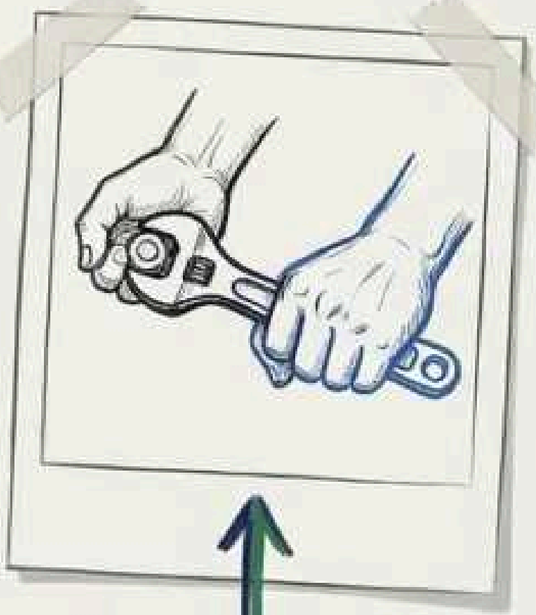
Gemini Notebook

¶ 1.5

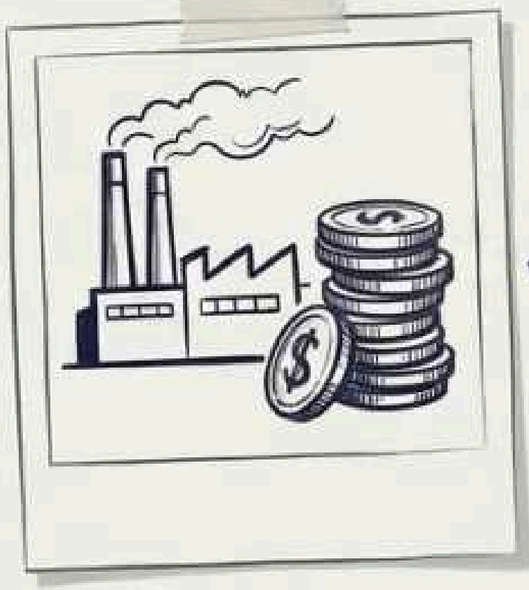
Land
Natural resources



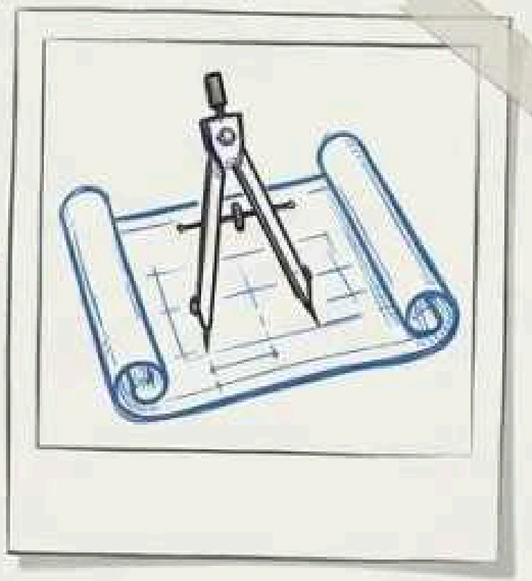
Labor
Human work



Capital
Tools, buildings, & money



Entrepreneurship
Organizing & risk-taking



Gemini Notebook

¶1.6

Manufacturers
(Make physical goods)



Wholesalers & Retailers
(Move goods to buyers)

Service Firms
(Sell work/expertise: banks, schools, airlines, consultancies)

Not all seek profit: Nonprofits & Governments also provide goods/services.

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¶ 1.7

As countries grow richer → jobs shift to Tertiary

Primary Sector (Nature)
- Farming, fishing, mining

Secondary Sector (Build)
- Manufacturing

Tertiary Sector (Service)
- Services

In the United States, services now employ the large majority of workers.

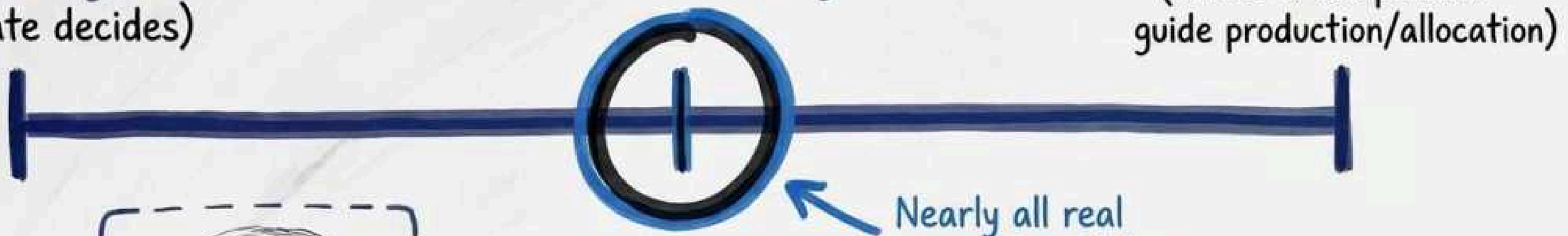
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¶ 1.8

Command System
(The state decides)

Mixed Economy

Market System
(Prices & competition guide production/allocation)



Nearly all real economies sit here



1776, The Wealth of Nations:
Pursuing self-interest in competitive markets serves the public (The Invisible Hand).

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¶ 1.9



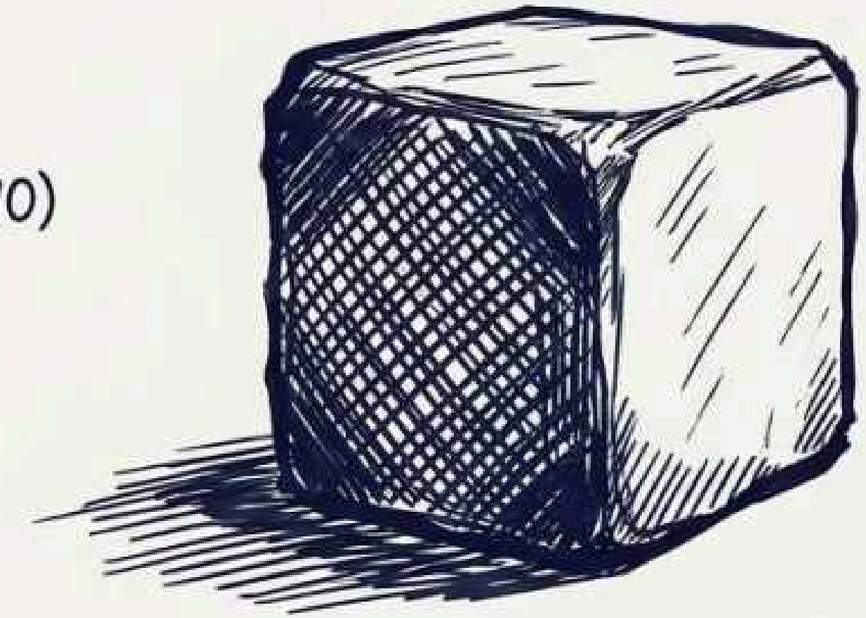
Price

Quality & Innovation

Customers can switch if a firm fails them.

Antitrust Laws (e.g., Sherman Act 1890) prevent monopolies.





Price

Innovation

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¶ 1.10

Stakeholders = All parties affected (owners, employees, customers, suppliers, lenders, community, government).

1970

Milton Friedman viewpoint:
A firm's duty is to increase its profits within the rules.

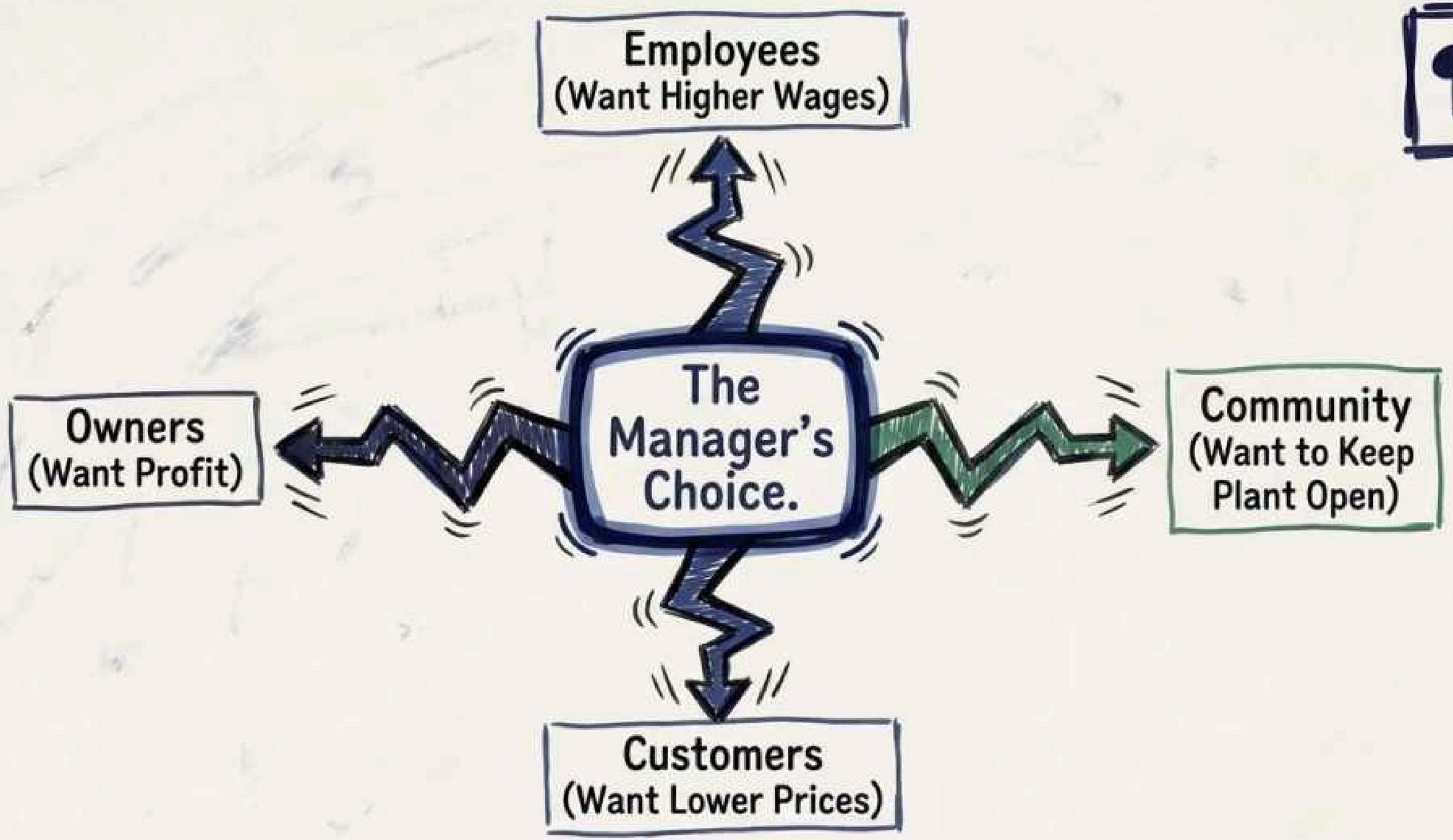


2019

Business Roundtable viewpoint:
Firms should serve ALL stakeholders.

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¶ 1.11



Managers cannot satisfy everyone fully. Management is about making choices among competing claims and **explaining them honestly.**

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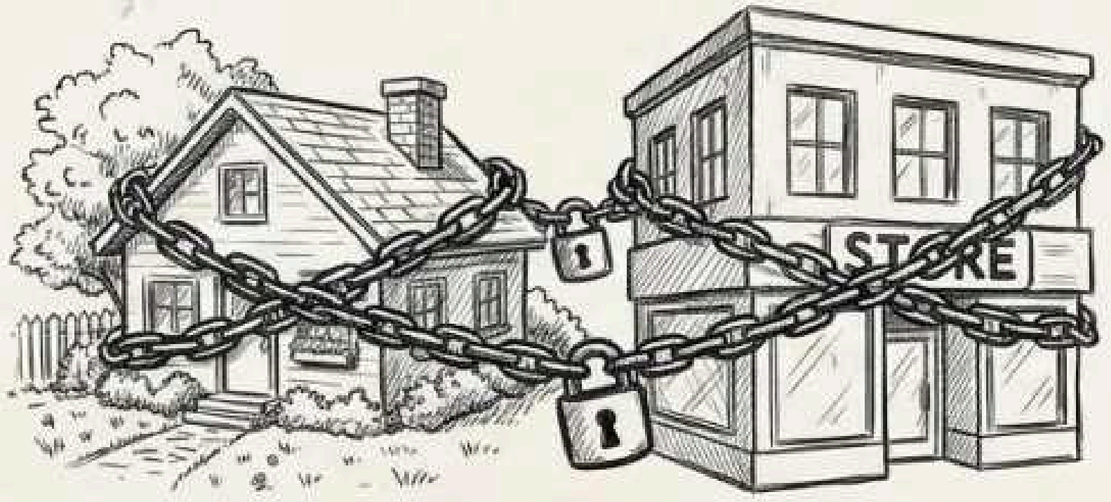
Sole Proprietorship

¶ 1.12

- ✓ One owner
- ✓ cheap/simple to start
- ✓ keeps all profit and control.

Cons: Unlimited Liability

Business Debt = Personal Debt



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¶ 1.13

Partnerships (2+ owners sharing profit, work, risk).



Written agreement (prevents disputes).

General Partnership

Each partner is personally liable for ALL debts, even those created by another partner.

Limited Partnership

Liability capped at what was invested.

Condition: Must stay out of management.

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Legal person separate from owners. Can raise large sums (shares) and outlive founders.

¶ 1.14



Company Profits

[Tax 1 applied]

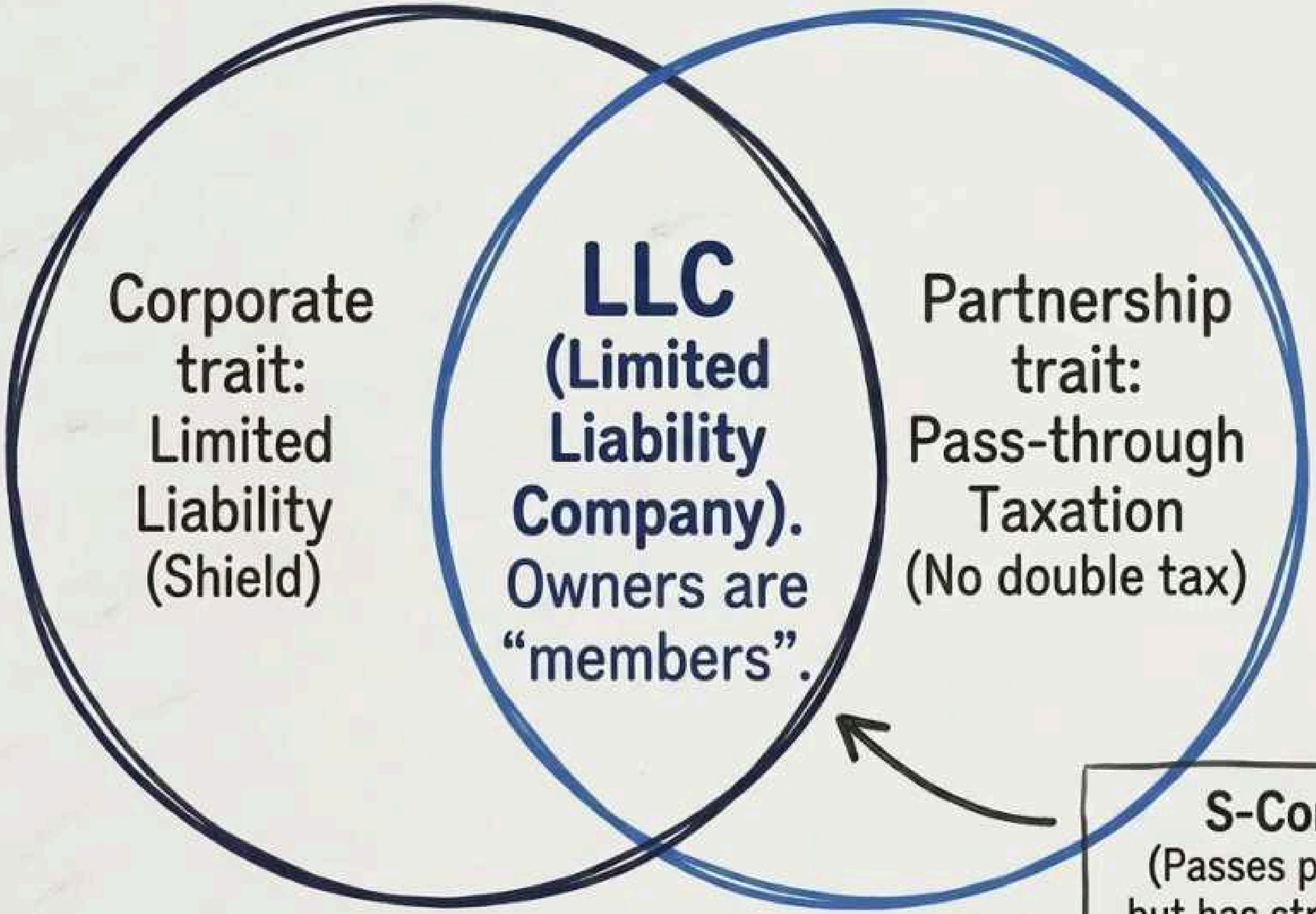
Paid out as Dividends to Shareholders

[Tax 2 applied]

Added complexity.

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¶ 1.15



S-Corporation
(Passes profits through, but has strict limits on the number and type of owners).

Rules differ by state and country.

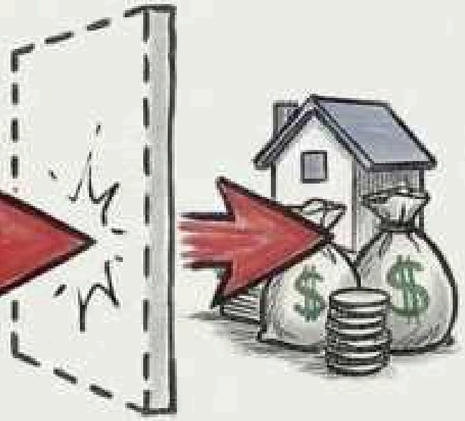
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Van causes accident. Judgment > Firm's Assets.

¶ 1.16

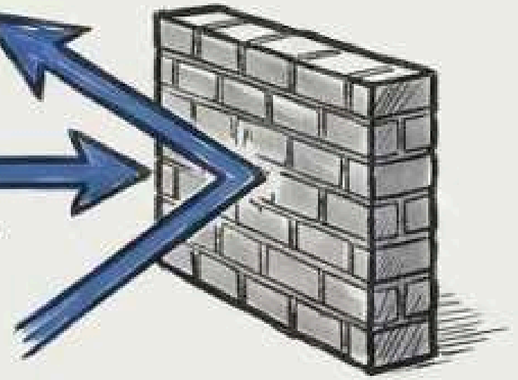


Sole Prop / General Partner



Result: Owner could lose house or savings.

Shareholder / LLC Member



Corporate Veil

Result: Owner generally loses only money invested.

*Unless the owner mixed personal and business affairs.

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¶ 1.17

	Sole Prop	Partnership	Corp	LLC
Liability: How much personal risk is acceptable?				
Taxes: Single or double?				
Control: Who decides?				
Capital: How will the firm raise money, and from whom?				
Paperwork: How much formality and cost can the owner bear?				

There is no single best form. Consult a lawyer and an accountant.

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¶ 1.18

Franchise



Franchise: Runs a local outlet und a larger firm's brand and methods in return for fees.

Cooperative



Cooperative: Owned by its members, such as farmers or customers.

Nonprofit

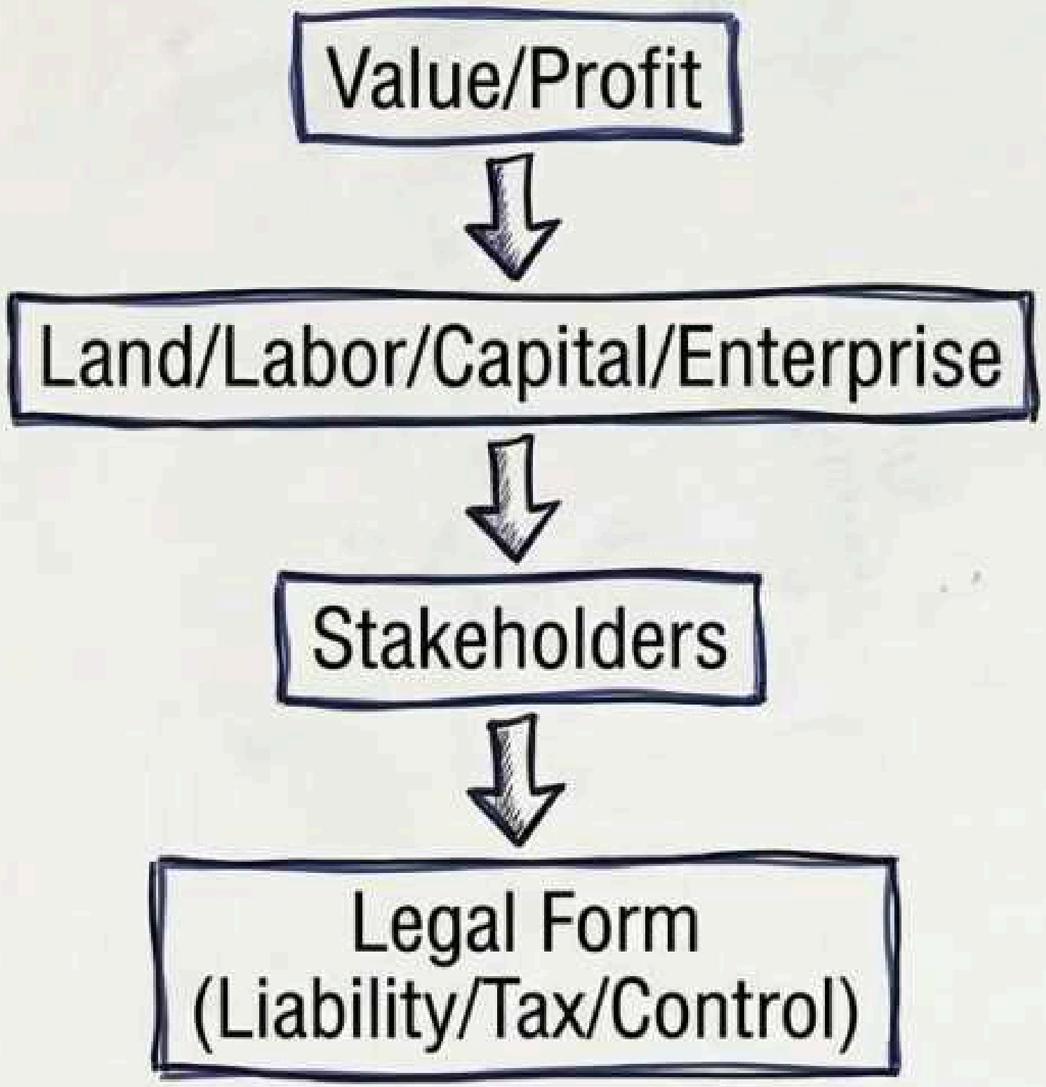


Nonprofit: Pursues a mission and reinvests any surplus; no owner profit.

Social Enterprise

Social Enterprise: Sells goods specifically to achieve a social aim.

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Pick a small business you know (e.g., cafe, plumber). Name its likely legal form. Give **one** reason that form suits it.

Next: Lecture 2 - Starting a Business & Competing

Gemini Notebook