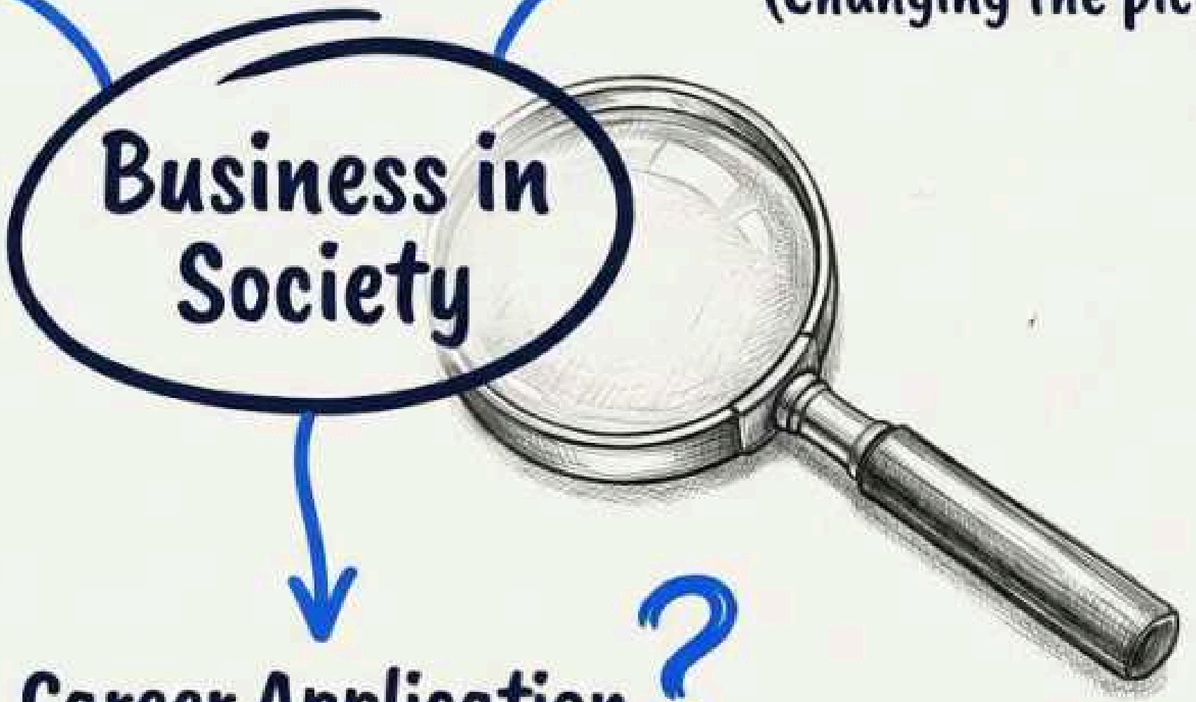
¶ 6.1

Rules & Ethical Duties ?
(Binding the business)

Global & Tech Shifts ?
(Changing the picture)



Career Application ?
(Your role as worker, manager, owner, or citizen)

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¶ 6.2

Trade & Innovation (Risk Reduced)

Contract Law

Enforceable promises → → Trade with strangers

Property Law

Defines who owns what

Tort Law

Holds firms liable for harm

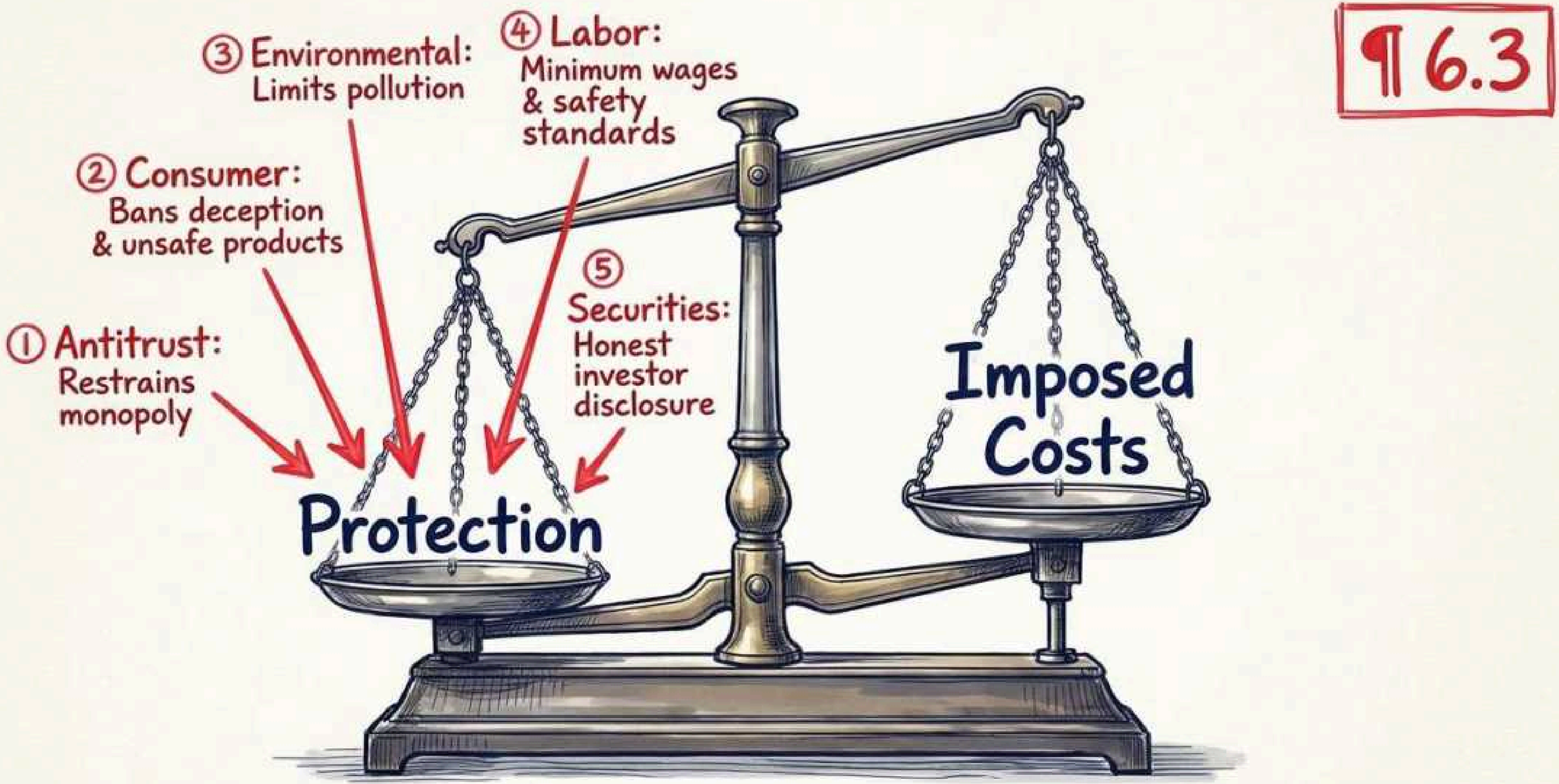
IP Law

Protects ideas: Patents, Copyrights, Trademarks



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¶6.3



Economic Consensus: Markets require rules. The debate is the ratio.

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¶6.4



Lens 1: Consequentialism
Judges choices by their results.

Lens 2: Duty-based
Asks which rules or rights must be respected.

Lens 3: Virtue
Asks what a person of good character would do.

Permitted ≠ Right

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¶ 6.5

Johnson & Johnson (1982)

Event: Cyanide poisonings linked to capsules.

↓

Action: Pulled nationwide at great cost (Safety First).

↓

Outcome: Trust Built.



Volkswagen (2015)

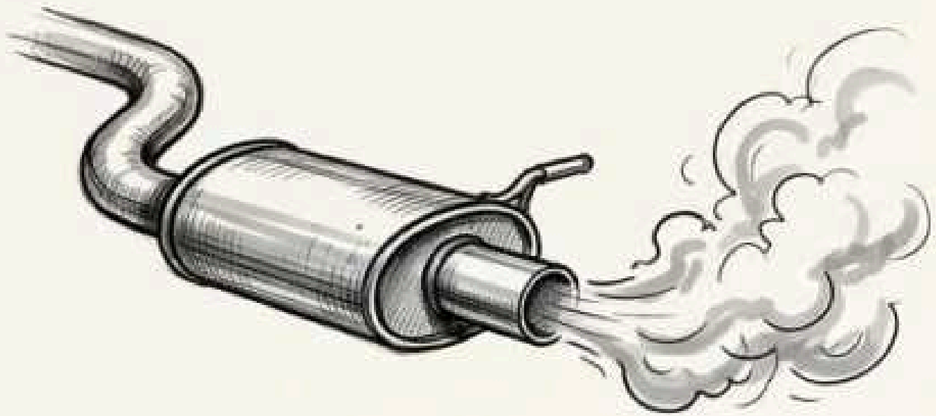
Event: Software installed to cheat emissions tests.

↓

Action: Deception over compliance.

↓

Outcome: Billions in penalties → Trust Destroyed.



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¶ 6.6

Friedman / Shareholder View

Duties limited to profit. Social goals spend other people's money.

Stakeholder View

Firms owe duties beyond profit to society and environment.



Modern Measurement: ESG Ratings

(Environmental, Social, Governance)

?

How reliable and meaningful are they?

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¶ 6.7

Shareholders
(Owners)

↓ elect

Board of Directors

The Agency Problem
(Jensen & Meckling, 1976)
Managers may pursue their own interests over owners.

↓ hires/oversees

Executives
(Managers)



Remedies (None are perfect):

1. Pay tied to performance
2. Independent directors
3. External audits

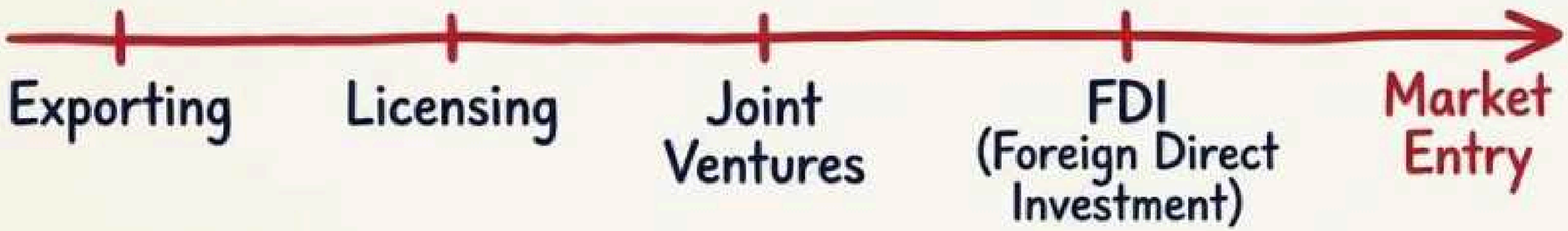
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¶ 6.8

David Ricardo (1817): Comparative Advantage

Countries gain by specializing where they produce at the lowest relative cost.

Opportunity Cost A < Opportunity Cost B → Trade



Constraints: Tariffs and Quotas restrict; WTO (1995) sets the rules.



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¶ 6.9



The Shift:
Total income rises, overall prices lower (The Winners).

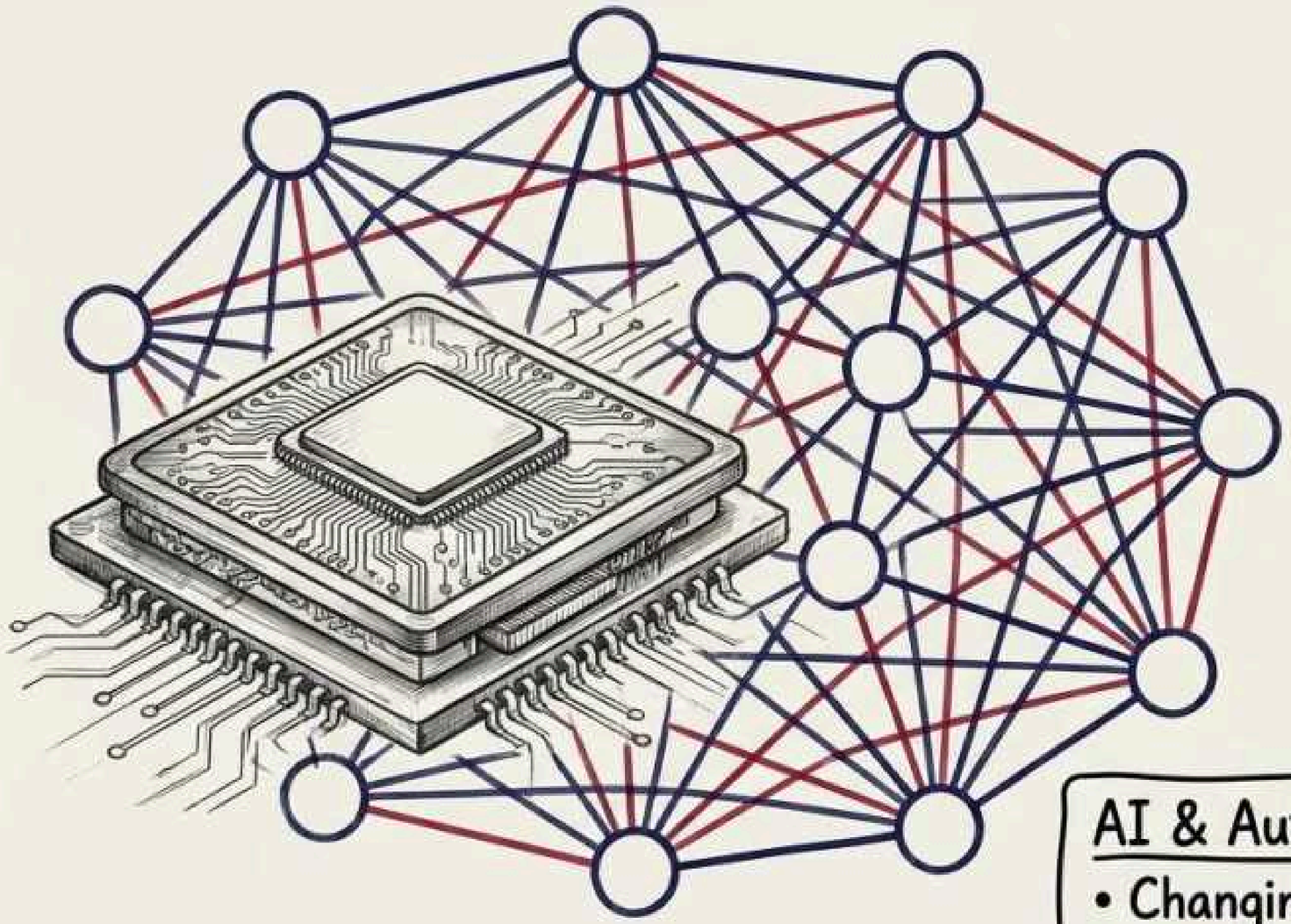
Displaced Workers
(Real losses in specific industries/regions)

Core Policy Debate: How far to open trade vs. How to help displaced workers.

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Network Effects

¶ 6.10



$$\text{Value} \propto n^2$$

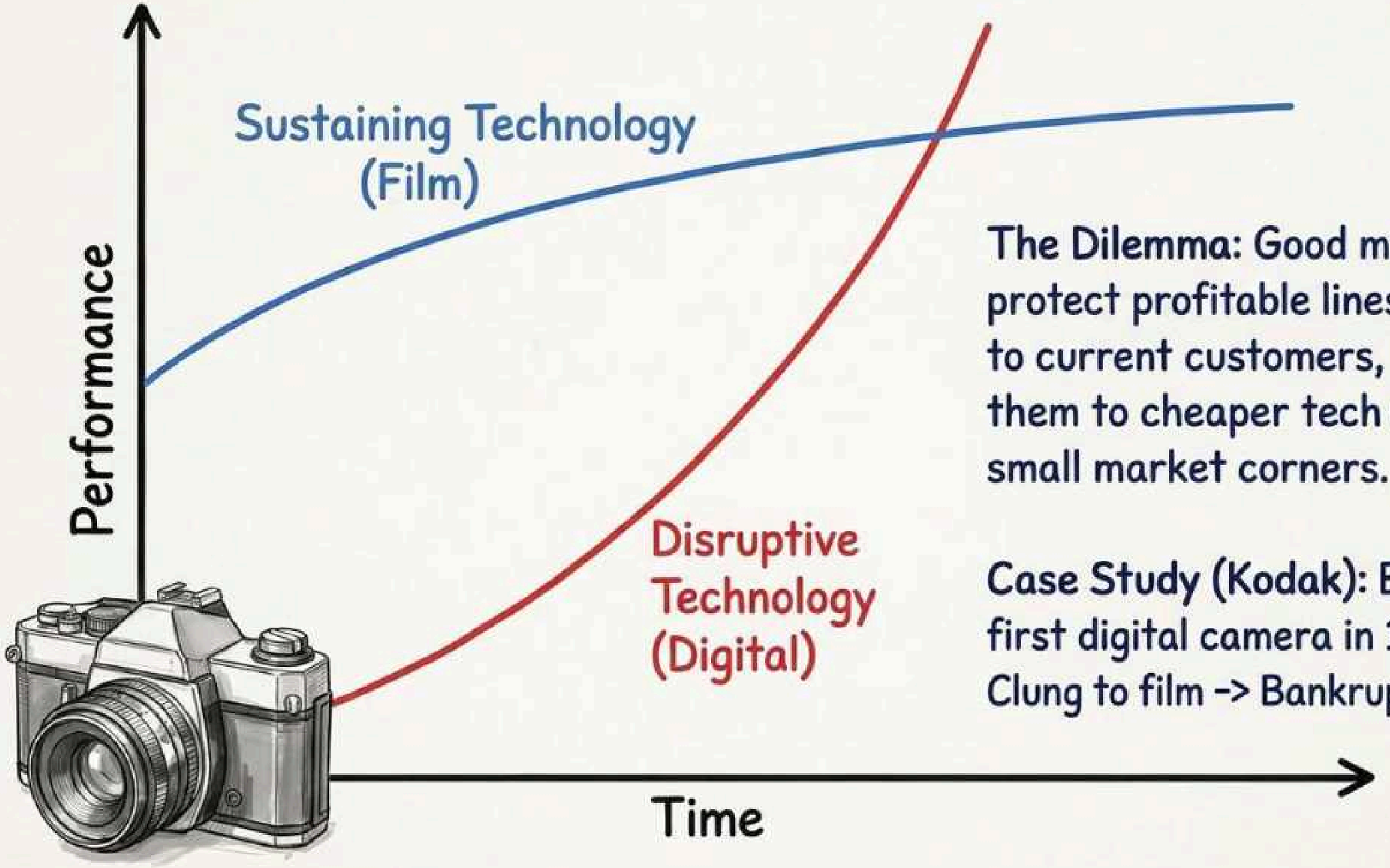
(Value grows exponentially as more users join, concentrating markets).

AI & Automation Note:

- Changing tasks more than whole jobs (initially).
- Raising productivity for some, displacing others.
- Consequences remain uncertain.

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¶ 6.11



The Dilemma: Good managers protect profitable lines and listen to current customers, blinding them to cheaper tech starting in small market corners.

Case Study (Kodak): Engineered first digital camera in 1975 -> Clung to film -> Bankruptcy in 2012.

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¶ 6.12

DATA

The Asset

Information collection
↓
Personalization
↓
Targeted advertising.

The Liability

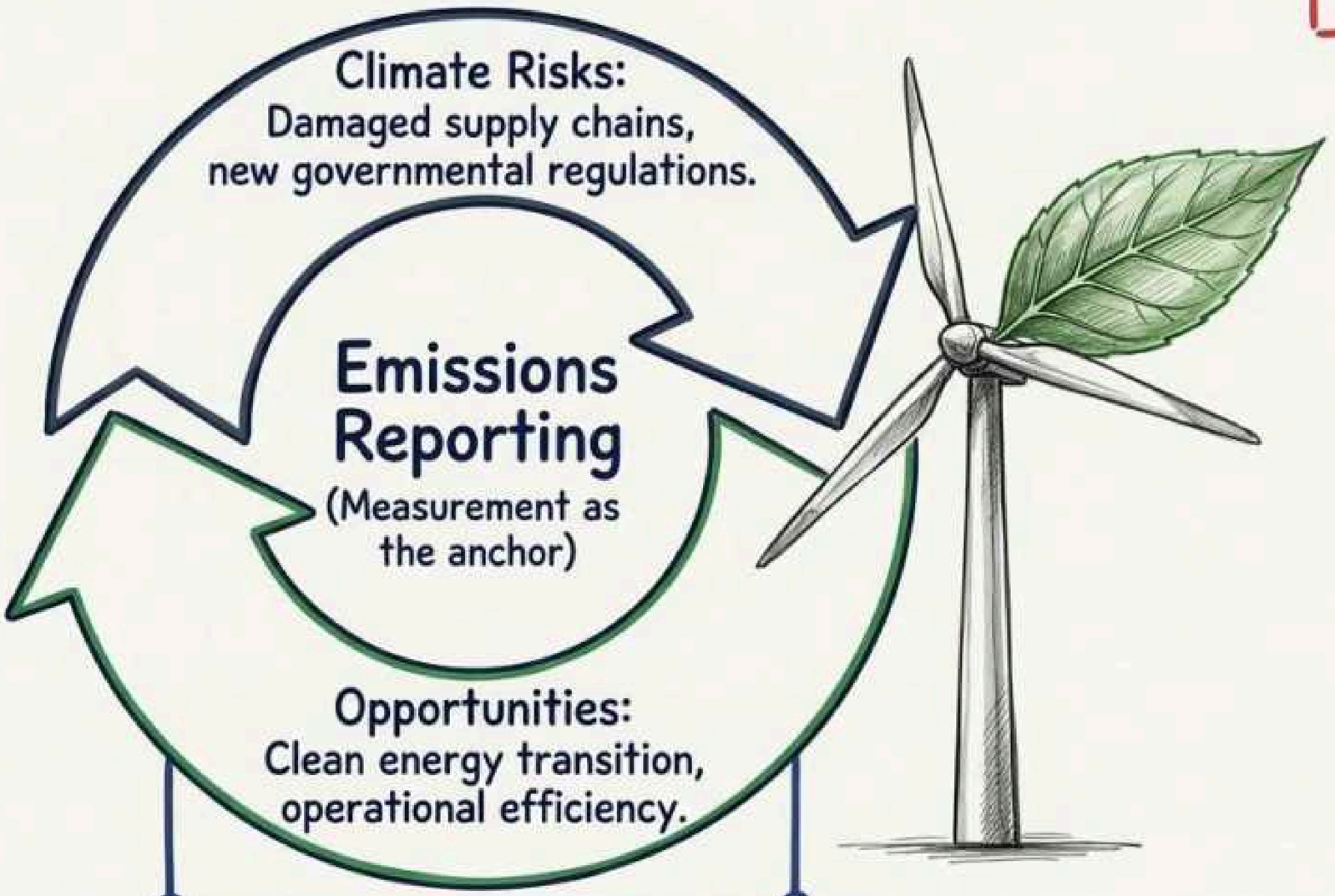
- Privacy duties
- Legal rules (e.g., EU GDPR, 2018)
- Cybersecurity risks



Breaches expose customers and ruin trust.
Protection is now basic management.

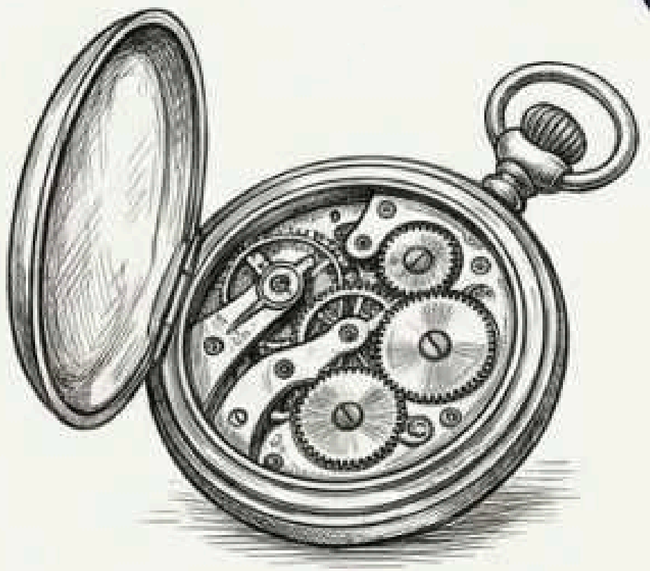
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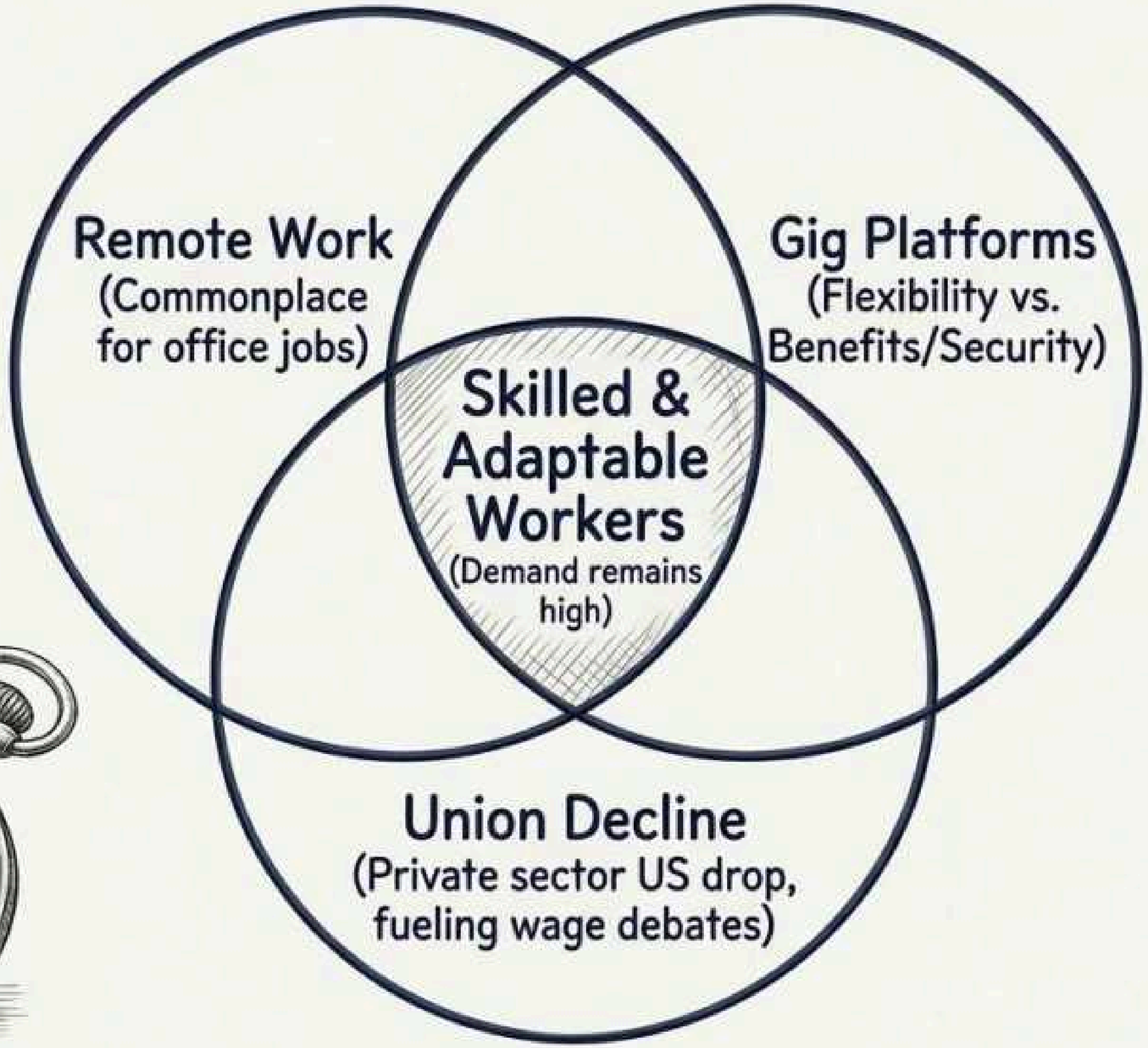
¶ 6.13



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¶ 6.14





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¶ 6.15

Step 1: Observe fraud or danger

Step 2: Pressure to stay silent

Step 3: Speaking up (Legal protection via Sarbanes-Oxley Act)

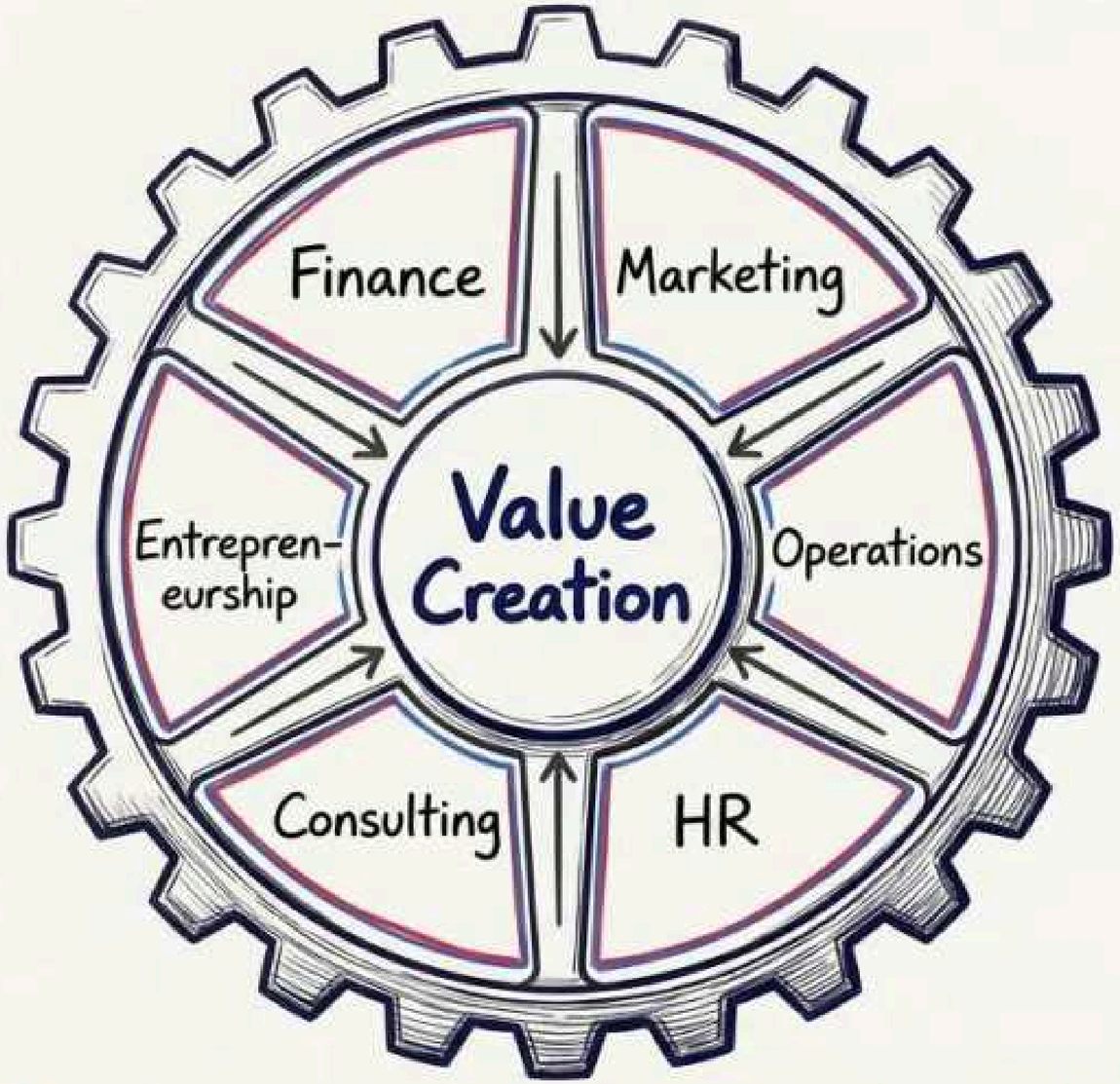
Step 4: Navigating personal risk



Firms with open channels fix problems before they become scandals.

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¶ 6.16



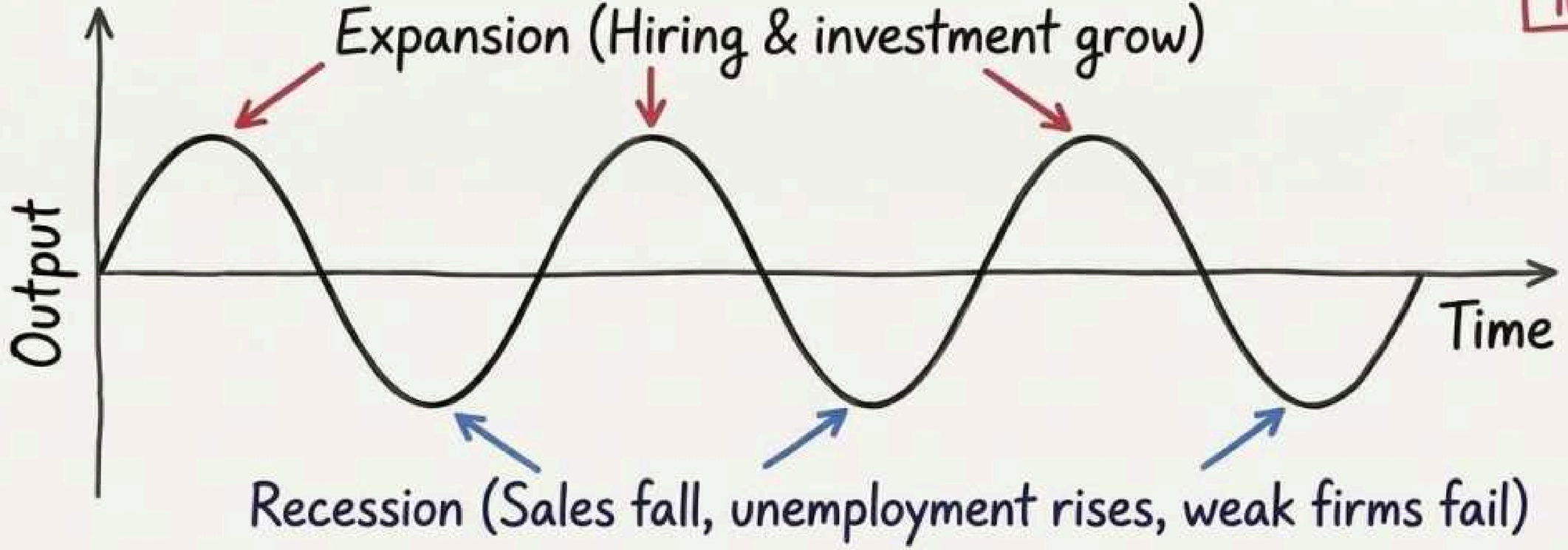
Prized Employer Skills

- [x] Communication
- [x] Analysis
- [x] Teamwork
- [x] Ethics

Best preparation: Learn value creation by working, volunteering, or starting a venture.

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¶6.17







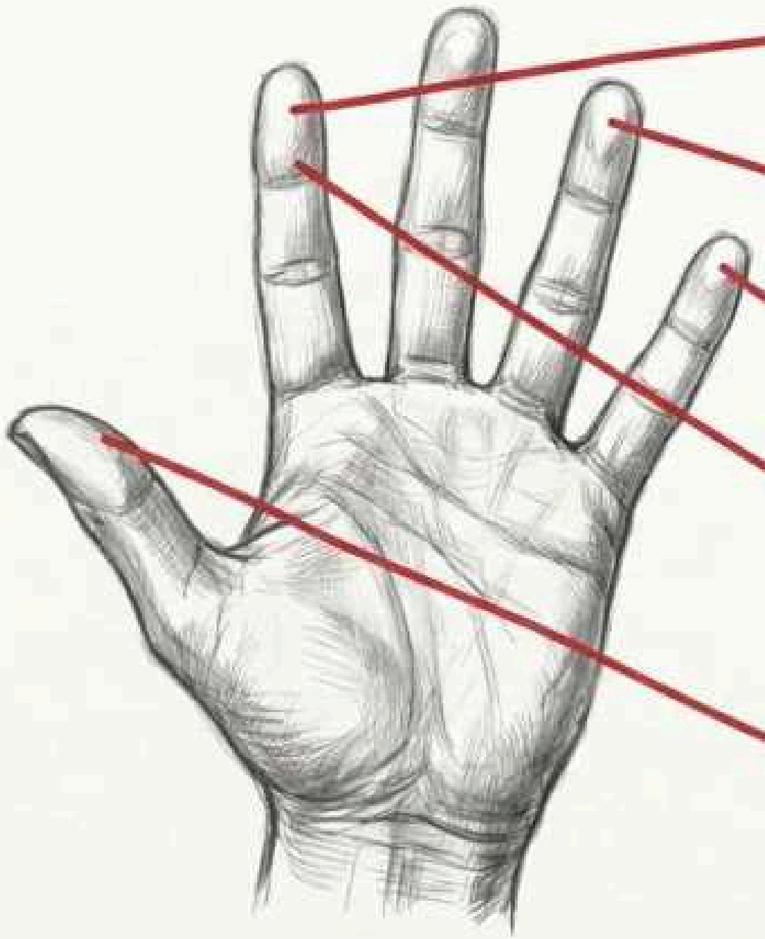


Cash Reserves = Survival

(Avoid over-borrowing in good times)

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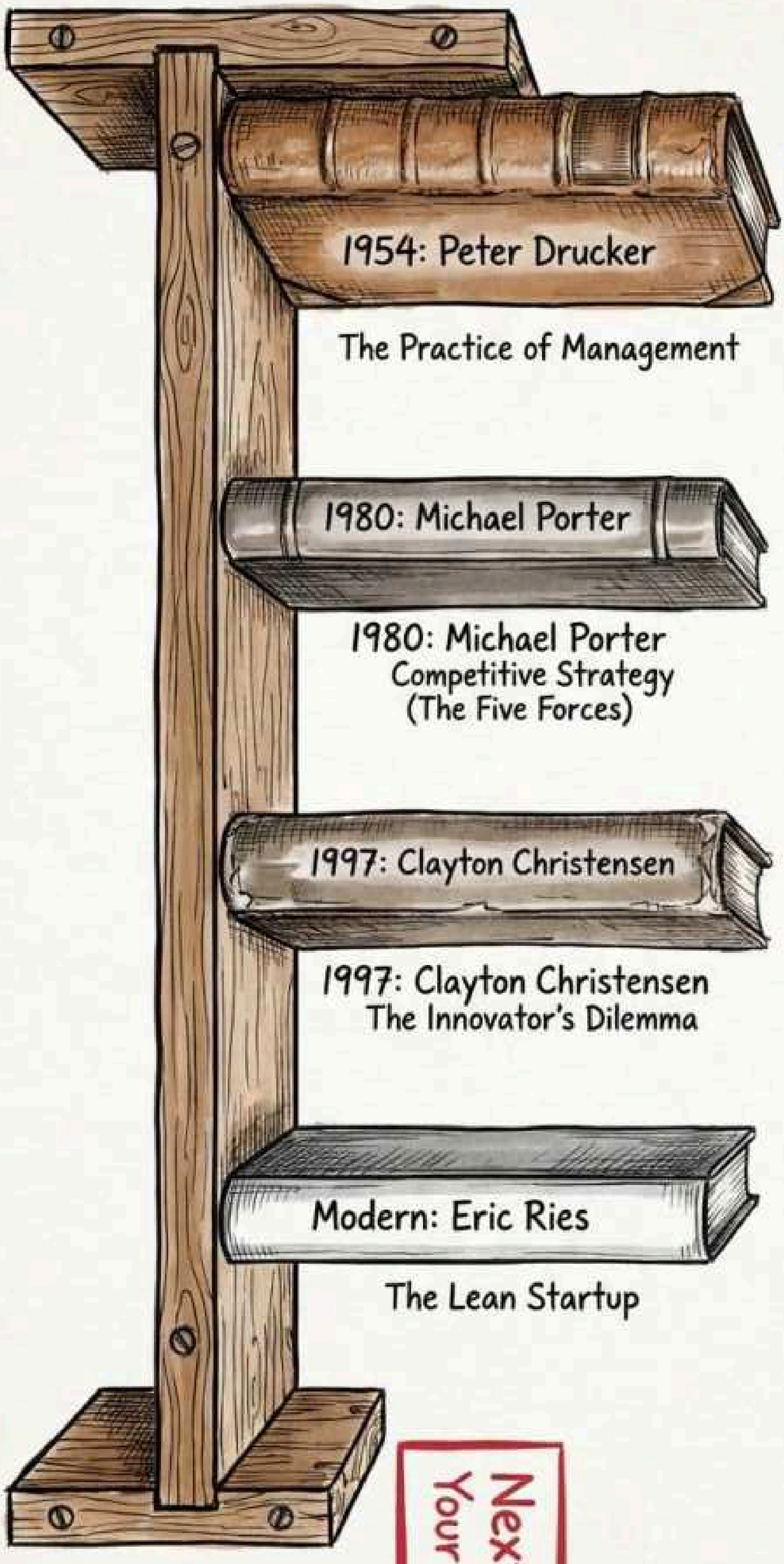
¶ 6.18



1. Follow the money:
   Where do revenue and cash come from?
2. Think in trade-offs:
   Every choice gives something up.
3. Keep customer value in view.
4. Weigh all stakeholders:
   Not only the owners.
5. Test ideas against evidence:
   Before betting heavily.

Vocabulary + Habits = Judgment

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¶ 6.19

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¶6.20

Closing Exercise

Choose a company you admire. Define the following in one paragraph:

Company: [_____]

1. How it creates value: _____

2. Who its stakeholders are: _____

3. One primary risk it faces: _____



Thank you for studying Business 101 B.

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