**Understanding the Market Notes**

**Understanding the Market**

* An entrepreneur needs to have an understanding of the market because of the following reasons:
  + A deep understanding of the market is a crucial requirement for someone who is wanting to be an entrepreneur.
  + A reasonable plan, which includes an understanding of the market is required for all entrepreneurs.
  + It is important to study the various factors that have shaped the market and contributors to the market.

**Needs vs. Wants**

* Economics is all about makings choices and satisfying the wants and needs of consumers.
* Needs- are things that you must have in order to survive
  + Food, clothing, Shelter, etc.
* Wants- are things that you think you must have in order to be satisfied
  + Jewelry, technology, luxury items

**Maslow’s Hierarchy of Needs**

1. Self-Actualization
2. Esteem
3. Love/Belonging
4. Safety
5. Physiological

**Wants**

* There are two types of wants in economics. Material goods, and services.
* Material Goods-
  + Clothing, Housing, Cars, etc.
* Services-
  + Hair styling, medical care, etc.
* Needs and Wants are unlimited, you are only limited by your mind, if you can imagine it then your business can provide it.

**Economics Resources**

* Economic Resources- are the means through which goods and services are produced.
* Goods- are products you can see and touch
* Services- are activities that are consumed as they are produced.
* Economic Resources is a factor in Entrepreneurship because economic resources can exist in an economy and not be transformed into consumer goods. Entrepreneurs usually have an idea for creating a valuable good or service and assume the risk involved with transforming economic resources into consumer products.

**Types of Resources**

* In order to create useful good and services, an entrepreneur may use three types of economic resources.
  + Natural – Raw materials supplied by nature
    - Oil, minerals, rivers, etc.
  + Human- People who create goods and services
    - Agriculture, manufacturing, distribution, retail, etc.
  + Capital- The assets used in the production of goods and services
    - Buildings, equipment, supplies, etc.

**Role of Entrepreneurs**

* Entrepreneurs occupy a key position in a market economy. For it's the entrepreneurs who ignite the economy's engine, activating and stimulating all economic activity.
* Supply and Demand
  + Entrepreneurs play an important part in supplying goods and services to meet the demands of the consumers.
* Capital Investment and Job Creation
  + Entrepreneurs need money to help run their businesses, sometimes this is with their money or investors money. This may be used to buy a building, equipment, hire employees, etc. This then gives job opportunities to the community too!
* Change Agents
  + Many entrepreneurs create products that change the way people live and conduct business.
    - Example: Steve Jobs, Bill Gates

**How Economic Decisions Are Made**

* Different Economic systems exist throughout the world. However all economics must answer three.
  + 1. What goods and services will be produced?
  + 2. How will the goods and services be produced?
  + 3. For whom will the goods and services be produced?
* The Economics Systems will determine how these three questions are answered.

**Types of Economic Systems**

* Command-
  + The government determines what, how, and for whom goods and services are produced
* Market-
  + Individuals and business decide what, how and whom goods and services are produced
* Traditional-
  + Goods and services are produced the way they have always been produced.
* Mixed-
  + When elements of the command and market economies are combined.

**Functions of Business**

* In a market economy, an entrepreneur is free to produce and offer consumers any legal product or service. Knowledge of business activities will help entrepreneurs satisfy customers and make a profit. These activities, or functions of business include the following:
  + Production- creates or obtains products or services for sale.
  + Marketing- To attract as many customers as possible.
  + Management- Operates your business smoothly with developing, implementing your business.
  + Finance- planning and managing the financial records and functions of the business.

**What Affects Price?**

* In a market economy, individual consumers make decisions about what to buy, and businesses make decisions about what to produce.
* Consumers are motivated to buy goods and services that they need or want.
* Business owners are driven by the desire to earn profits.
* These two groups, consumers, and producers, together determine the quantities and prices of goods and services produced.

**Supply and Demand**

* Supply- is the quantity of a good or service a producer is willing to produce at different prices.
* Demand- is the quantity of a good or service that consumers are willing to buy at a given price.

**When Supply and Demand Meet**

* As the price of the service or product decreases, consumers are willing to purchase more of the product or service. Demand rises as the price falls, as shown in the graph.
* This point which the supply and demand curves meet is known as equilibrium price and quantity.

**Costs of Doing Business**

* Entrepreneurs need to know how much it costs to produce their goods and services. To do this they must consider all factors:
  + Goods and services they are offering to determine price
  + Resources such as an office, materials, labor, and equipment.

**Fixed and Variable Costs**

* Every business has fixed and variable costs.
* Fixed Costs: are cost that must be paid regardless of how much a good or service is produced.
* Variable Cost: are costs that go up and down depending on the quantity of the good or service produced.

**Marginal Benefit and Marginal Cost**

* Entrepreneurs make business decisions based on the concepts of marginal benefit and marginal cost.
* Marginal Benefit: is the additional satisfaction or utility that a person receives from consuming an additional unit of a good or service.
* Marginal Cost: the cost added by producing one additional unit of a product or service.

**Market Structure and Prices**

* Market structure is the interconnected characteristics of a market, such as the number and relative strength of buyers and sellers and degree of collusion among them, level and forms of competition, extent of product differentiation, and ease of entry into and exit from the market.  
  The Four Major Market Structures:
  + Perfect Competition- consists of a very large number of business producing nearly identical products and has many buyers.
  + Monopolistic Competition- has a large number of independent businesses that produce goods and services that are somewhat different.
  + Oligopoly- when a market is dominated by a small number of businesses that gain the majority of total sales revenue.
  + Monopoly- where there is only one provider of a product or service.