PART 1

Introducing the Contemporary Business World

In the opening cases in Chapters 1 to 5, you will read about five interesting situations: (1) opportunities and challenges in the mobile phone market, (2) inflation and deflation, (3) the unethical behaviour of business managers at Livent, (4) family business stories, and (5) Tim Hortons' international strategy. All of these situations, and many more that are described in this text, have a common thread: they all demonstrate the key elements of business, as well as the excitement and complexity of business activity. Each case tells a part of the story of our contemporary business world.

Part Summary

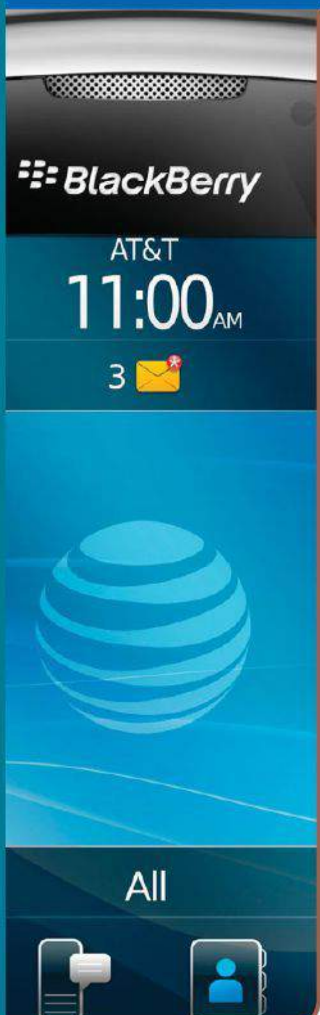
Part 1, Introducing the Contemporary Business World, provides a general overview of business today, including its economic roots, the environment in which it operates, the ethical problems and opportunities facing business firms, the importance of entrepreneurship and the various forms of ownership available to business firms, and the globalization of business.

- We begin in **Chapter 1, The Canadian Business System**, by examining the role of business in the economy of Canada and other market economies. We also present a brief history of business in Canada.
- Then, in **Chapter 2, The Environment of Business**, we examine the external environments that influence business activity. These include the economic, technological, socio-cultural, legal-political, and general business environments.
- Next, in **Chapter 3, Conducting Business Ethically and Responsibly**, we look at individual ethics and corporate social responsibility, and how these affect the firm's customers, employees, and investors.
- In **Chapter 4, Entrepreneurship, Small Business, and New Venture Creation**, we examine the important concepts of entrepreneurship, small business, and the various forms of business ownership that have evolved to facilitate business activity.
- Finally, in **Chapter 5, The Global Context of Business**, we look at why countries engage in international trade, how companies organize to operate internationally, the development of free trade agreements, and factors that help or hinder international trade.

chapter

1

Understanding the Canadian Business System



After reading this chapter, you should be able to:

LO-1 Define the nature of Canadian *business* and identify its main goals.

LO-2 Describe different types of global *economic systems* according to the means by which they control the *factors of production* through *input and output markets*.

LO-3 Show how *demand* and *supply* affect resource distribution in Canada.

LO-4 Identify the elements of *private enterprise* and explain the various *degrees of competition* in the Canadian economic system.

LO-5 Trace the *history of business* in Canada.

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Opportunities and Challenges in the Mobile Phone Market

During the last decade, a Canadian company called Research In Motion (RIM) has emerged as a high-tech star in the mobile phone industry. The company was started in 1984 by two engineering students—Mike Lazaridis at the University of Waterloo and Douglas Fregin at the University of Windsor. Its first wireless handheld device—called the Inter@ctive Pager—was introduced in 1996. The now-famous BlackBerry hit the market in 1998. The BlackBerry 850, which combined email, a wireless data network, and a tiny QWERTY keyboard, was introduced in 1999. Other products have been developed since then, including the BlackBerry Pearl (2006), the BlackBerry 8300 (2008), the BlackBerry Storm 2 (2009), a 3G version of its Pearl flip phone (2010), and OS 6.0 (2010). The latter product is a touch-screen smart phone that is designed to browse the web faster than previous models. In the first quarter of 2010, RIM was one of the top five mobile phone companies in the world, and at the 2010 Wireless Enterprise Symposium trade show, Lazaridis announced RIM's plans to dominate the global smart phone market.

RIM raised $30 million from venture capital firms in the years before its initial public offering (IPO) in 1998 that raised $115 million. RIM was

How Will This Help Me?

All businesses are subject to the influences of economic forces. But these same economic forces also provide astute managers and entrepreneurs with opportunities for profits and growth. The ideas presented in this chapter will help you to better understand (1) how managers deal with the challenges and opportunities resulting from economic forces, and (2) how consumers deal with the challenges and opportunities of price fluctuations.

listed on NASDAQ in 1999 and raised another $250 million. In 2000, it raised another $950 million. As of mid-2009, RIM had 12,000 employees worldwide. In 2009, *Fortune* magazine named RIM as the fastest-growing company in the world. There are over 40 million corporate and consumer BlackBerry users, and RIM's goal is to have 100 million customers.

RIM is a remarkable Canadian success story, but industry analysts see potential challenges on the horizon for companies in the smart phone market. The market potential is huge, but competition is intense and new product introductions are occurring at a dizzying pace. For example, Nokia has introduced a smart phone—the Booklet 3G—that is designed to bridge the gap between a PC and a cellphone. The device (described as a mini-laptop) gives consumers the computing power of a PC with the mobility of a cellphone. Another new product is Motorola's Droid phone, which was launched by Verizon, the largest U.S. wireless carrier (and RIM's biggest customer). A third entry comes from Google, which has developed a touch-screen mobile phone that uses Google's own Android operating system (this product may also cause problems for Apple's iPhone). A fourth new product is Apple's iPhone, which will be a strong competitor to the BlackBerry as RIM shifts its emphasis from corporate clients to consumers.

There are also two industry trends that make it difficult to predict the future for any of the competitors in the smart phone industry. The first is the so-called "bring your own device" trend, which means that companies are shifting the responsibility for having a phone onto employees. The second trend is "sandboxing," which means separating work functions from the rest of the smart phone for security reasons, and allowing employees to use the phone at work without losing access to other applications like games or social networking. Both these trends may hurt RIM in the corporate market because employees may decide to buy something other than a BlackBerry. Some analysts are now fairly pessimistic about RIM's future; they think the company may continue to grow, but that shareholder returns will decline.

Another major area of concern is patent infringement lawsuits. During the past decade, RIM and other firms have sued and been sued for patent infringement. In 2006, RIM agreed to pay Virginia-based NTP $612.5 million for infringing on NTP's patent. RIM also sued Samsung after Samsung introduced a smart phone called the BlackJack. In 2009, Klausner Technologies filed suit against RIM for infringing one of its visual voicemail patents. These lawsuits have created great uncertainty in the smart phone industry.

Yet another problem is the negative publicity RIM received regarding stock options. In 2007, the company announced a $250 million restatement of earnings after it was learned that hundreds of stock options had been backdated (timed to a low share price to make them more lucrative for managers who received them). In 2009, Canadian regulators were seeking $80 million in penalties from co-CEOs Mike Lazaridis and Jim Balsillie, and several other executives agreed to pay penalties for backdating stock options.

All of these things have had a negative effect on RIM's stock price. In 2007, stock market analysts began saying that RIM's stock was overvalued (it was then selling for $84 per share). By August 2008, the stock had defied predictions and had increased to $123 per share, but by early 2010 it had dropped to $61 per share. RIM spent $1.2 billion to buy back some of its shares, which should have increased the share price because fewer shares were on the market, but RIM still has to demonstrate that it can compete with other companies that are bringing out new models of smart phones. In April 2010, RIM announced a series of initiatives to increase investor confidence in the company, but analysts were skeptical, and by the end of June 2010, the price of RIM's stock had declined to $54 per share.

RIM has taken several strategic actions in an attempt to improve its future prospects. Historically, RIM's international footprint has not been large (about 80 percent of RIM's revenue comes from the U.S., Canada, and the U.K.). But in 2009, RIM signed a deal with Digital China to distribute BlackBerrys in China. The potential market in China is obviously large, but consumers in China may not be willing to pay the high price of a BlackBerry. As well, the production of unauthorized copycat phones (knock-offs) is a problem in China. For example, the "BlockBerry" is one of the competing phones sold in China.

RIM is also responding to competitive threats by positioning the BlackBerry as a general purpose smart phone for the average consumer, not just business users. More stylish models are being produced and are aimed at students, "soccer moms," and consumers in general. RIM also developed a new advertising campaign, sponsored a high-profile tour of Irish rock group U2, and provided better web browsers and applications for internet shopping. RIM's security standards mean it is safe for customers to do things like shop online from their smart phone.

According to the research firm IDC, there were 450 million mobile internet users in 2009, but that number should increase to 1 billion by 2013. Over 80 percent of RIM's new subscribers are individuals, not businesses. One positive trend for RIM is increasing consumer interest in smart phones. About 40 percent of the mobile phones purchased in 2010 were smart phones, and that proportion will increase over the next few years.

BUSINESS An organization that seeks to earn profits by providing goods and services.

PROFIT What remains (if anything) after a business's expenses are subtracted from its sales revenues.

NOT-FOR-PROFIT ORGANIZATION An organization that provides goods and services to customers, but does not seek to make a profit while doing so.

ECONOMIC SYSTEM The way in which a nation allocates its resources among its citizens.

FACTORS OF PRODUCTION The resources used to produce goods and services: labour, capital, entrepreneurs, and natural resources.

LABOUR The mental and physical training and talents of people; sometimes called human resources.

CAPITAL The funds needed to operate an enterprise.

LO-1 The Idea of Business and Profit

The opening case illustrates the dynamic and rapidly changing nature of modern business activity, and the opportunities and challenges that are evident. It also shows how business managers must pay attention to many different things, including the actions of competitors, rapid technological change, new product development, corporate strategy, risk management, stock prices, and a host of other variables that you will read about in this book.

Let's begin by asking what you think of when you hear the word *business*. Do you think of large corporations like Shoppers Drug Mart and Walmart, or smaller companies like your local supermarket or favourite restaurant? Do you think about successful companies like CN and Research In Motion, or less successful companies like GM Canada? Actually, each of these firms is a **business**—an organization that produces or sells goods or services in an effort to make a profit. **Profit** is what remains after a business's expenses have been subtracted from its revenues. Profits reward the owners of businesses for taking the risks involved in investing their time and money. In 2008, the most profitable Canadian companies were Encana Corp. ($6.3 billion), the Canadian Wheat Board ($5.7 billion), and Canadian Natural Resources Ltd. ($4.9 billion).[1]

The prospect of earning profits is what encourages people to start and expand businesses. Today, businesses produce most of the goods and services that we consume, and they employ many of the working people in Canada. Profits from these businesses are paid to thousands upon thousands of owners and shareholders, and business taxes help support governments at all levels. In addition, businesses help support charitable causes and provide community leadership. A 2010 study by KPMG of the G7 industrialized countries revealed that Canada ranked as the most cost-effective place to do business.[2]

In addition to for-profit business firms, there are also many not-for-profit organizations in Canada. **Not-for-profit organizations** do not try to make a profit; rather, they use the funds they generate (from government grants or the sale of goods or services) to provide services to the public. Charities, educational institutions, hospitals, labour unions, and government agencies are examples of not-for-profit organizations. Business principles are helpful to these not-for-profit organizations as they try to achieve their service goals.

LO-2 Economic Systems Around the World

A Canadian business is different in many ways from one in China, and both are different from businesses in Japan, France, or Peru. A major determinant of how organizations operate is the kind of economic system that characterizes the country in which they do business. An **economic system** allocates a nation's resources among its citizens. Economic systems differ in terms of who owns and controls these resources, known as the "factors of production" (see Figure 1.1).

Factors of Production

The key difference between economic systems is the way in which they manage the **factors of production**—the basic resources that a country's businesses use to produce goods and services. Traditionally, economists have focused on four factors of production: *labour, capital, entrepreneurs*, and *natural resources*. Newer perspectives tend to broaden the idea of "natural resources" to include all *physical resources*. In addition, *information resources* are often included now.[3]

Labour The people who work for a company represent the first factor of production—**labour**. Sometimes called *human resources*, labour is the mental and physical capabilities of people. Carrying out the business of a huge company such as Imperial Oil requires a labour force with a wide variety of skills ranging from managers to geologists to truck drivers.

Capital **Capital** refers to the funds that are needed to start a business and to keep it operating and growing.

ENTREPRENEUR
An individual who organizes and manages labour, capital, and natural resources to produce goods and services to earn a profit, but who also runs the risk of failure.

NATURAL RESOURCES
Items used in the production of goods and services in their natural state, including land, water, mineral deposits, and trees.

INFORMATION RESOURCES
Information such as market forecasts, economic data, and specialized knowledge of employees that is useful to a business and that helps it achieve its goals.

For example, Imperial Oil needs capital to pay for its annual drilling costs, which run into the millions of dollars each year. Major sources of capital for businesses are personal investment by owners, the sale of stock to investors, profits from the sale of products and services, and funds borrowed from banks and other lending institutions.

Entrepreneurs **Entrepreneurs** are people who accept the opportunities and risks involved in creating and operating businesses. Mike Lazaridis (Research In Motion), Sergie Brin and Larry Page (Google), Michael Dell (Dell Computer), and Mark Zuckerberg (Facebook) are well-known entrepreneurs.

Natural Resources **Natural resources** include all physical resources such as land, water, mineral deposits, and trees. Imperial Oil makes use of a wide variety of natural resources. It obviously has vast quantities of crude oil to process each year. But Imperial Oil also needs the land where the oil is located, as well as land for its refineries and pipelines.

Information Resources **Information resources** include the specialized knowledge and expertise of people who work in businesses, as well as information that is found in market forecasts and various other forms of economic data. Much of what businesses do results in either the creation of new information or the repackaging of existing information for new users and different audiences. The boxed insert entitled "A Shrine to Wine" gives you an opportunity to think about the importance of the factors of production in a specific business.

Types of Economic Systems

Different types of economic systems manage the factors of production in different ways. In some systems,

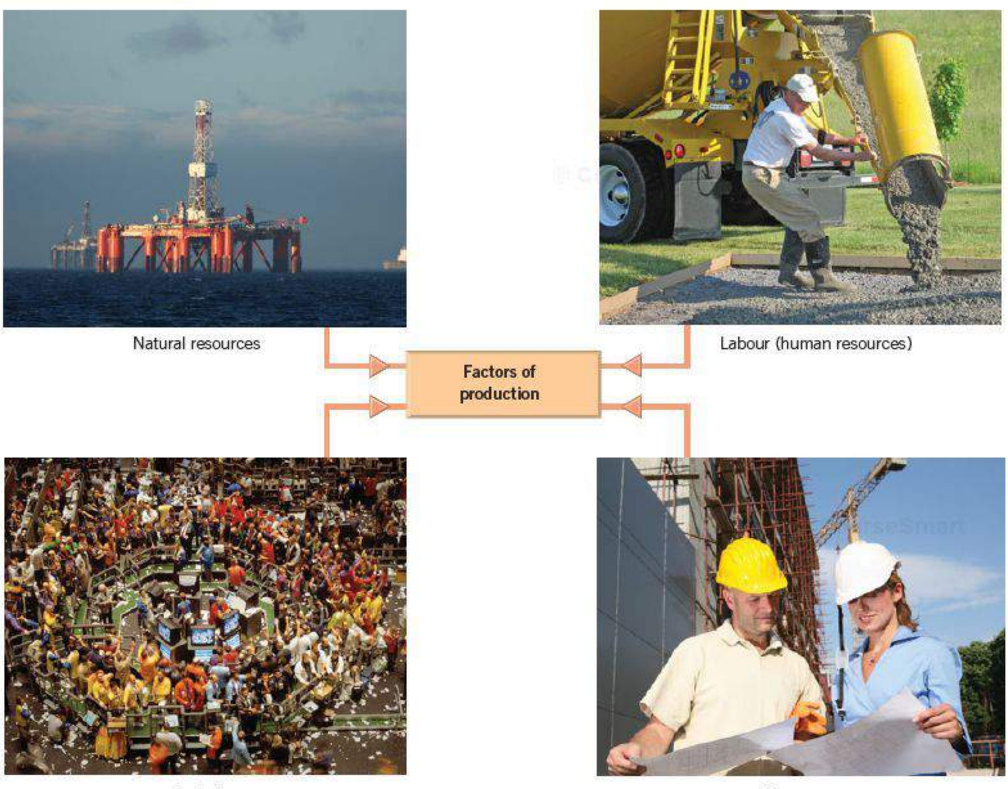


Figure 1.1
Factors of production are the basic resources a business uses to create goods and services. The four factors are natural resources, labour, capital, and entrepreneurs.

ownership is private; in others, the factors of production are owned by the government. Economic systems also differ in the ways decisions are made about production and allocation. A **command economy**, for example, relies on a centralized government to control all or most factors of production and to make all or most production and allocation decisions. In **market economies**, individuals—producers and consumers—control production and allocation decisions through supply and demand.

Command Economies The two most basic forms of command economies are communism and socialism. As originally proposed by nineteenth-century German economist Karl Marx, **communism** is a system in which the government owns and operates all sources of production. Marx envisioned a society in which individuals would ultimately contribute according to their abilities and receive economic benefits according to their needs. He also expected government ownership of production factors to be only temporary. Once society had matured, government would "wither away" and the workers would gain direct ownership.

COMMAND ECONOMY An economic system in which government controls all or most factors of production and makes all or most production decisions.

MARKET ECONOMY An economic system in which individuals control all or most factors of production and make all or most production decisions.

COMMUNISM A type of command economy in which the government owns and operates all industries.

ENTREPRENEURSHIP AND NEW VENTURES

A Shrine to Wine

Wine connoisseurs, also known as oenophiles, have a love of and devotion to wine, and they take just as much care in the procurement and storage of their vino as they do in the tasting. Robb Denomme and Lance Kingma own Winnipeg-based Genuwine Cellars, which sells custom-designed wine cellars, some of which have six-figure price tags. The company was started somewhat by accident in 1995 when someone asked Kingma if he thought he could build a wine cellar. He took on the challenge, and the first order led to another, and he eventually partnered with Denomme, who was just 17 at the time. As the saying goes, the rest is history. Today, the business is a multimillion-dollar operation selling to clients around the world, with the majority of sales being to the U.S.

Genuwine's international success probably wouldn't have happened, or at least not as easily, without the help of the Department of Foreign Affairs and International Trade (DFAIT). According to Robb, "Working with the TCS [Trade Commissioner Service] you get results, you get where you want to go. Trade commissioners are there to help and always get back to you with the answers you need." The TCS is a division of Foreign Affairs and its goal is to help companies succeed globally. Not only did TCS help Genuwine Cellars get connected with a business consultant, it also helped with financing. Other governmental agencies, including the Prairie Centre for Business Intelligence and the National Research Council, have also provided business support.

In addition to market development strategies, Genuwine Cellars is credited with some other good moves. "Genuwine is doing all the right things a growing company should do—lean manufacturing, continual investments in technology, importing contract manufactured goods from Asia, setting up a design office in Latin America to take advantage of a lower cost structure and access to skilled professionals, the list goes on," says Joanne MacKean, senior manager, Business Development Canada. Further, Genuwine Cellars is one of the largest wine cellar manufacturers in North America and the only company with a manufacturing facility in Canada. Very little competition, niche market, upscale consumer—so just what's "in store" for this business?

According to Denomme, the recent recession had some effect, but the company is still experiencing growth. Denomme's enthusiasm and drive are not quashed, however. He says, "You've got to keep a positive attitude." Sounds like this entrepreneur looks upon his wine glass as being half full rather than half empty.

Critical Thinking Questions

1. Discuss the factors of production as they apply to Genuwine Cellars.
2. What do you think about the company's decision to move some of its operations to Latin America because of a lower cost structure?

SOCIALISM A kind of command economy in which the government owns and operates the main industries, while individuals own and operate less crucial industries.

MARKET An exchange process between buyers and sellers of a particular good or service.

INPUT MARKET Firms buy resources that they need in the production of goods and services.

OUTPUT MARKET Firms supply goods and services in response to demand on the part of consumers.

CAPITALISM An economic system in which markets decide what, when, and for whom to produce.

But Marx's predictions were faulty. During the last 20 years, most countries have abandoned communism in favour of a more market-based economy. Even countries that still claim to be communist (for example, China, Vietnam, and Cuba) now contain elements of a market-based economy. Whether communism can be maintained alongside a market-based economy remains to be seen.

In a less extensive command economic system called **socialism**, the government owns and operates only selected major industries. Smaller businesses such as clothing stores and restaurants may be privately owned. Although workers in socialist countries are usually allowed to choose their occupations or professions, a large proportion generally work for the government. Many government-operated enterprises are inefficient, since management positions are frequently filled based on political considerations rather than ability. Extensive public welfare systems have also resulted in very high taxes. Because of these factors, socialism is generally declining in popularity.[4]

Market Economies A **market** is a mechanism for exchange between the buyers and sellers of a particular good or service. For example, the internet is a technologically sophisticated market that brings buyers and sellers together through e-commerce. People usually think of e-commerce as being business-to-consumer (B2C) transactions, such as buying books over the internet for personal use. But business-to-business (B2B) transactions are also a very important market. B2B involves businesses joining together to create e-commerce companies that make them more efficient when they purchase the goods and services they need. B2B transactions actually far exceed B2C transactions in dollar value.

In a market economy, B2C and B2B exchanges take place without much government involvement. To understand how a *market economy* works, consider what happens when a customer goes to a fruit stand to buy apples. Assume that one vendor is selling apples for $1 per kilogram, and another is charging $1.50. Both vendors are free to charge what they want, and customers are free to buy what they choose. If both vendors' apples are of the same quality, the customer will likely buy the cheaper ones. But if the $1.50 apples are fresher, the customer may buy them instead. Both buyers and sellers enjoy freedom of choice (but they also are subject to risks, as the financial meltdown of 2008 demonstrated).

A GlobeScan poll of over 20 000 people in 20 countries asked people whether they agreed with the following statement: "The free market economy is the best system." Where do you think the highest support for the free market economy was found? Not in Canada, the United States, Germany, or Japan, but in *China*, where 74 percent of people polled agreed with the statement.[5] This is a surprising finding, given the Chinese government's strong support of the communist economic ideology. It seems hard to believe now, but before 1979, people who sold watches on street corners in China were sentenced to years of hard labour. After China's constitution was amended to legitimate private enterprise, the private sector has become incredibly productive. It is estimated that China produces 60 percent of all the toys in the world.[6] China's reputation for being a low-cost producer of goods is legendary. It is also a vast and rapidly growing market for many of the products that Canadian firms produce—chemicals, ores, cereals, and wood products.

Input and Output Markets A useful model for understanding how the factors of production work in a pure market economy is shown in Figure 1.2.[7] In the **input market**, firms buy resources from households, which then supply those resources. In the **output market**, firms supply goods and services in response to demand on the part of the households. The activities of these two markets create a circular flow. Ford Motor Co., for example, buys labour directly from households, which may also supply capital from accumulated savings in the form of stock purchases. Consumer buying patterns provide information that helps Ford decide which models to produce and which to discontinue. In turn, Ford uses these inputs in various ways and becomes a supplier to households when it designs and produces various kinds of automobiles, trucks, and sport-utility vehicles and offers them for sale to consumers.

Individuals are free to work for Ford or an alternative employer and to invest in Ford stock or alternative forms of saving or consumption. Similarly, Ford can create whatever vehicles it chooses and price them at whatever value it chooses. Consumers are free to buy their next car from Ford, Toyota, BMW, or any other manufacturer. The political basis for the free market economy is called **capitalism**, which allows private ownership of the factors of production and encourages entrepreneurship by offering profits as an incentive. This process contrasts markedly with that of a command economy, in which individuals may be told where they can and cannot work, companies may be told what they can and cannot manufacture, and consumers may have little or no choice as to what they purchase or how much they pay for items.

Mixed Market Economies Command and market economies are two extremes, or opposites. In reality, most countries rely on some form of **mixed market economy** that features characteristics of both command and market economies. One trend in mixed market economies that began in the 1990s is **privatization**—converting government enterprises into privately owned companies. In Canada, for example, the air traffic control system was privatized, and the federal government sold several other corporations, including Canadian National Railway and Air Canada. The Netherlands privatized its TNT Post Group N.V., and India privatized 18 industries, including iron, steel, machinery, and telecommunications.[8] In 2010, the Organisation for Economic Co-operation and Development (OECD) said that Canada Post's monopoly should be ended and it should be privatized.[9] However, when a worldwide recession began in 2008, the trend slowed. Government bailouts of Chrysler and GM in both Canada and the U.S. meant that government was once again a part-owner of some business firms. A few countries are even pursuing a policy of **nationalization**—converting private firms into government-owned firms. Venezuela, for example, nationalized its telecommunications industry.

Deregulation means a reduction in the number of laws affecting business activity and in the powers of government enforcement agencies. This trend also developed during the 1990s, and deregulation occurred in many industries, including airlines, pipelines, banking, trucking, and communications. But this trend has also slowed (and even reversed in some cases) due to the 2008 recession. For example, there have been calls for a dramatic tightening up of the laws regulating business activity, particularly in the financial sector. The British Petroleum (BP) oil spill in the Gulf of Mexico in 2010 caused the U.S. government to put pressure on BP to reimburse

MIXED MARKET ECONOMY
An economic system with elements of both a command economy and a market economy; in practice, typical of most nations' economies.

PRIVATIZATION
The transfer of activities from the government to the private sector.

NATIONALIZATION
The transfer of activities from private firms to the government.

DEREGULATION
A reduction in the number of laws affecting business activity.

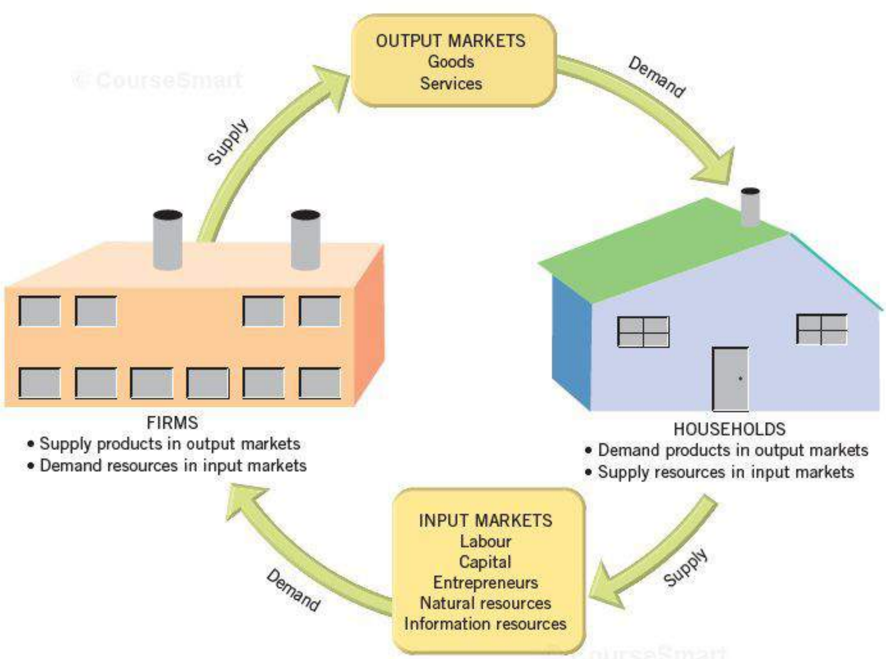


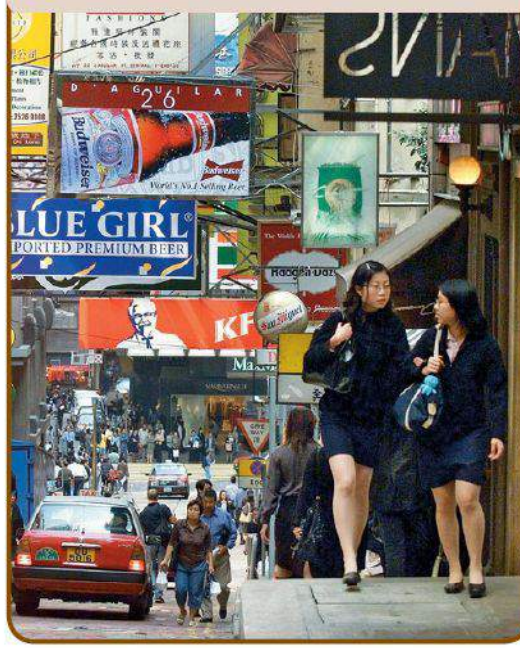
Figure 1.2 Circular flow in a market economy.

CANADIAN RADIO-TELEVISION AND TELECOMMUNICATIONS COMMISSION (CRTC) Regulates and supervises all aspects of the Canadian broadcasting system.

CANADIAN WHEAT BOARD Regulates the price farmers receive for their wheat.

individuals and businesses that were harmed by the spill. Incidents like these have created a dilemma for government policy makers; a 2009 study by the Conference Board of Canada showed that deregulation (in tandem with privatization and increased competition) caused a sharp increase in productivity in sectors like freight and airlines.[10]

As a result of the recession of 2008, mixed market economies are now characterized by more government involvement than was evident just a few years ago. Governments in mixed market economies have intervened in the economic system in an attempt to stabilize it, but this has led to higher deficits (see Chapter 2) and more control of business activity.



Despite becoming a territory of the communist People's Republic of China in 1997, Hong Kong remains one of the world's freest economies. In Hong Kong's Lan Kwai Fong district, for example, traditional Chinese businesses operate next door to well-known international chains.

Interactions between Business and Government

In Canada's mixed market economy, there are many important interactions between business and government. The ways in which government influences business and the ways business influences government are described below.

How Government Influences Business

Government plays several key roles in the Canadian economy, and each of these roles influences business activity in some way. The roles government plays are as follows.

Government as a Customer Government buys thousands of different products and services from business firms, including office supplies, office buildings, computers, battleships, helicopters, highways, water treatment plants, and management and engineering consulting services. Many businesses depend on government purchasing, if not for their survival then at least for a certain level of prosperity. Total government expenditures in 2009 were $234 billion.[11]

Government as a Competitor Government also competes with business through Crown corporations, which are accountable to a minister of parliament for their conduct. Crown corporations like Hydro Quebec (revenues of $12.7 billion), Canada Post ($7.4 billion), and the Canadian Wheat Board ($8.4 billion) account for a significant amount of economic activity in Canada.[12] Crown corporations exist at both the provincial and federal levels.

Government as Regulator Federal, and provincial governments in Canada regulate many aspects of business activity through administrative boards, tribunals, and commissions. Illustrative examples include the **Canadian Radio-television and Telecommunications Commission (CRTC)** (which issues and renews broadcast licences) and the **Canadian Wheat Board** (which regulates the price of wheat). Provincial boards and commissions also regulate business activity, but different situations exist in different provinces. For example, the provinces of Quebec and B.C. allowed mixed martial arts events such as the UFC, but Ontario didn't (Ontario began allowing these events in 2011).[13] Reasons for regulating business activity include protecting competition, protecting consumers, achieving social goals, and protecting the environment.

Promoting Competition Competition is crucial to a market economy, so government regulates business activity to ensure that healthy competition exists among business firms. Without these restrictions, a large company with vast resources could cut its prices and drive smaller firms out of the market. The guidelines for Canada's competition policy are contained in the Competition Act, which prohibits a variety of practices (see Table 1.1). Section 61, for example, prohibits something called *resale price maintenance*. Labatt Brewing Co. recently pled guilty to resale price maintenance and was fined $250 000 after its sales representatives gave money to store operators who agreed to not lower prices on some brands of beer. This activity meant that customers had to pay higher prices for beer.[14]

The Act prohibits agreements among companies that are designed to reduce competition. Formerly, the government had to prove that such agreements actually reduced competition, but recent changes to the legislation mean that the mere existence of a conspiracy is assumed to be proof that competition has been reduced.[15] Another big change is the dramatically increased fines for misleading marketing practices by corporations (formerly $100 000 for the first offence, but now $10 million).[16]

Businesses often complain that the Competition Bureau is too slow in approving or denying merger plans. For example, when Labatt Brewing wanted to take over Lakeport Brewing, it was told that the Competition Bureau would need up to six months to determine whether the takeover would lessen competition. Labatt therefore appealed to the Competition Tribunal to speed up the process. The Tribunal agreed with Labatt, and the merger went ahead sooner than it otherwise would have.[17] There was, however, some interesting fallout later. The federal industry minister began an investigation after a Federal Court judge accused the Competition Bureau of providing misleading information in order to get a court order for Labatt's records during its review of the proposed merger.[18]

Protecting Consumers The federal government has initiated many programs that protect consumers. Consumer and Corporate Affairs Canada administers many of these. Important legislation includes the **Hazardous Products Act** (which requires poisonous, flammable, explosive, or corrosive products to be appropriately labelled), the **Tobacco Act** (which prohibits cigarette advertising on billboards and in stores), the **Weights and Measures Act** (which sets standards of accuracy for weighing and measuring devices), the **Textile Labelling Act** (which regulates the labelling, sale, importation, and advertising of consumer textile articles),

HAZARDOUS PRODUCTS ACT Regulates banned products and products that can be sold but must be labelled hazardous.

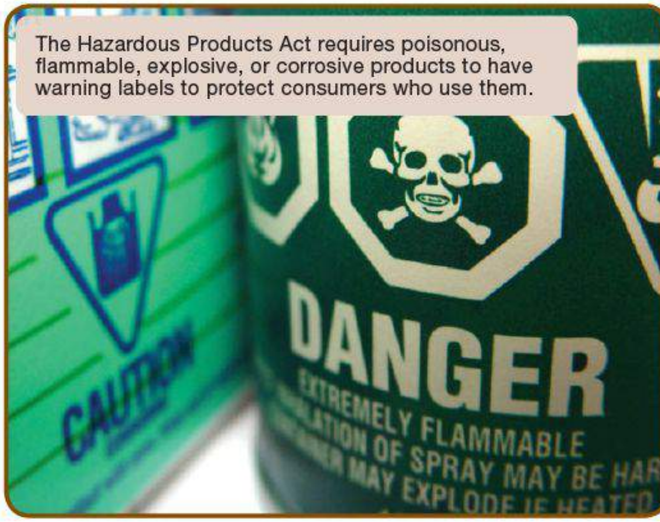
TOBACCO ACT Prohibits cigarette advertising on billboards and in retail stores, and assigns financial penalties to violators.

WEIGHTS AND MEASURES ACT Sets standards of accuracy for weighing and measuring devices.

TEXTILE LABELLING ACT Regulates the labelling, sale, importation, and advertising of consumer textile articles.

Table 1.1 The Competition Act

Section 45	Prohibits conspiracies and combinations formed for the purpose of unduly lessening competition in the production, transportation, or storage of goods. Persons convicted may be imprisoned for up to five years or fined up to $1 million or both.
Section 50	Prohibits illegal trade practices. A company may not, for example, cut prices in one region of Canada while selling at a higher price everywhere else if this substantially lessens competition. A company may not sell at "unreasonably low prices" if this substantially lessens competition. (This section does not prohibit credit unions from returning surpluses to their members.)
Section 51	Prohibits giving allowances and rebates to buyers to cover their advertising expenses, unless these allowances are made available proportionally to other purchasers who are in competition with the buyer given the rebate.
Section 52	Prohibits marketing (promotion) activities that are false or misleading. Includes telemarketing activities.
Section 53	Prohibits the deceptive notice that a person has won a prize if the recipient is asked to pay money as a condition of winning the prize.
Section 54	Prohibits charging the higher price when two prices are shown on a product.
Section 55.1	Prohibits pyramid selling (a participant in the plan receives compensation for recruiting other individuals into the plan).
Section 61	Prohibits resale price maintenance. No person who produces or supplies a product can attempt to influence upward, or discourage reduction of, the price of the good in question. It is also illegal for the producer to refuse to supply a product to a reseller simply because the producer believes the reseller will cut the price.
Section 74	Prohibits bait-and-switch selling. No person can advertise a product at a bargain price if there is no supply of the product available to the consumer. (This tactic baits prospects into the store, where salespeople switch them to higher-priced goods.) This section also controls the use of contests to sell goods, and prohibits the sale of goods at a price higher than the advertised one.



The Hazardous Products Act requires poisonous, flammable, explosive, or corrosive products to have warning labels to protect consumers who use them.

FOOD AND DRUG ACT Prohibits the sale of food unfit for human consumption and regulates food advertising.

CANADA WATER ACT Controls water quality in fresh and marine waters of Canada.

FISHERIES ACT Regulates the discharge of harmful substances into water.

ENVIRONMENTAL CONTAMINANTS ACT Establishes regulations for airborne substances that are a danger to human health or to the environment.

REVENUE TAXES Taxes whose main purpose is to fund government services and programs.

PROGRESSIVE REVENUE TAXES Taxes levied at a higher rate on higherincome taxpayers and at a lower rate on lower-income taxpayers.

REGRESSIVE REVENUE TAXES Taxes that cause poorer people to pay a higher percentage of income than richer people pay.

RESTRICTIVE TAXES Taxes levied to control certain activities that legislators believe should be controlled.

and the **Food and Drug Act** (which prohibits the sale of food that contains any poisonous or harmful substances). Consumers are also protected by municipal bylaws such as "no smoking" bylaws.

Achieving Social Goals Social goals, which promote the well-being of Canadian society, include things like universal access to health care, safe workplaces, employment insurance, and decent pensions. All of these goals require the interaction of business firms and the Canadian government. But the decisions of foreign governments—as they pursue their own social goals—can also affect Canadian businesses. For example, when the U.S. government introduced legislation making it difficult for online gambling companies to operate in the U.S., the stock prices of Canadian firms like Cryptologic Inc. and Chartwell Technology dropped.[19]

Protecting the Environment Government legislation designed to protect the environment includes the **Canada Water Act** (which controls water quality in fresh and marine waters), the **Fisheries Act** (which controls the discharge of any harmful substance into water), and the **Environmental Contaminants Act** (which establishes regulations for airborne substances that are a danger to human health or the environment).

Government as a Taxation Agent Taxes are imposed and collected by the federal, provincial, and local governments. **Revenue taxes** (e.g., income taxes) are levied by governments primarily to provide revenue to fund various services and programs. **Progressive revenue taxes** are levied at a higher rate on higher-income taxpayers and at a lower rate on lower-income taxpayers. **Regressive revenue taxes** (e.g., sales tax) are levied at the same rate regardless of a person's income. They cause poorer people to pay a higher percentage of their income for these taxes than rich people pay. **Restrictive taxes** (e.g., taxes on alcohol, tobacco, and gasoline) are levied partially for the revenue they provide, but also because legislative bodies believe that the products in question should be controlled.

Government as a Provider of Incentives and Financial Assistance Federal, provincial, and municipal governments offer incentive programs that attempt to stimulate economic development. The Province of Quebec, for example, has attracted video game companies like Ubisoft by giving them multimillion-dollar subsidies if they locate in the province.[20] The Provinces of Ontario and B.C. have given hundreds of millions of dollars in subsidies to film companies to motivate them to make major films in those provinces. But the government of Alberta (which spends about $20 million each year on subsidies to filmmakers) has decided not to increase the amount of its subsidies.[21]

Governments also offer incentives through the many services they provide to business firms through government organizations. Examples include the Export Development Corporation (which assists Canadian exporters by offering export insurance against non-payment by foreign buyers and long-term loans to foreign buyers of Canadian products), Natural Resources Canada (which provides geological maps of Canada's potential mineral-producing areas), and Statistics Canada (which provides data and analysis on almost every aspect of Canadian society). Industry Canada offers many different programs designed to help small businesses. The Canada Business program, for example, provides information on government programs, services, and regulations in order to improve the start-up and survival rates of small and medium-sized businesses. It also encourages businesses to focus on sound business planning and the effective use of market research. DFAIT helps Canadian companies doing business internationally by promoting Canada as a good place to invest and to carry on business activities. It also assists in negotiating and administering trade agreements.

There are many other government incentive programs, including municipal tax rebates for companies that locate in certain areas, design assistance programs, and remission of tariffs on certain advanced technology production equipment. Government incentive programs may or may not have the desired effect of stimulating the economy. They may also cause difficulties with our trading partners, as we shall see in Chapter 5. Some critics also argue that business firms are too willing to accept government assistance—either in the form of incentives or bailouts—and that managers should put more emphasis on innovation and creativity so business firms can better cope with economic difficulties when they arise, as they did during the 2008–2009 recession.

Government as a Provider of Essential Services The various levels of government facilitate business activity through the services they supply. The federal government provides highways, the postal service, the minting of money, the armed forces, and statistical data on which to base business decisions. It also tries to maintain stability through fiscal and monetary policy (discussed in Chapter 2). Provincial and municipal governments provide streets, sewage and sanitation systems, police and fire departments, utilities, hospitals, and education. All of these activities create the kind of stability that encourages business activity.

How Business Influences Government

Businesses also try to influence the government through the use of lobbyists, trade associations, and advertising. A **lobbyist** is a person hired by a company or industry to represent that company's interests with government officials. The Canadian Association of Consulting Engineers, for example, regularly lobbies the federal and provincial governments to make use of the skills possessed by private-sector consulting engineers on projects like city water systems. Some business lobbyists have training in the particular industry, public relations experience, or a legal background. A few have served as legislators or government regulators.

LOBBYIST A person hired by a company or an industry to represent its interests with government officials.

TRADE ASSOCIATION An organization dedicated to promoting the interests and assisting the members of a particular industry.

MARKET An exchange process between buyers and sellers of a particular good or service.

The federal Lobbying Act requires lobbyists to register with the Commissioner of Lobbying so it is clear which individuals are being paid for their lobbying activity. It also sets rules for accountability and transparency, and requires lobbyists to report detailed information about their communications with what are known as Designated Public Office Holders (DPOHs).[22] For many lobbying efforts, there are opposing points of view. For example, the Canadian Cancer Society and the Tobacco Institute present very different points of view on cigarette smoking and cigarette advertising.

Employees and owners of small businesses that cannot afford lobbyists often join **trade associations**, which may act as an industry lobby to influence legislation. They also conduct training programs relevant to the particular industry, and they arrange trade shows at which members display their products or services to potential customers. Most publish newsletters featuring articles on new products, new companies, changes in ownership, and changes in laws affecting the industry.

Corporations can influence legislation indirectly by influencing voters. A company can, for example, launch an advertising campaign designed to get people to write their MPs, MPPs, or MLAs demanding passage—or rejection—of a particular bill that is before parliament or the provincial legislature.

LO-3 The Canadian Market Economy

Understanding the complex nature of the Canadian economic system is essential to understanding Canadian business. In this section, we will examine the workings of our market economy, including markets, demand, supply, private enterprise, and degrees of competition.

Demand and Supply in a Market Economy

In economic terms, a **market** is not a specific place, like a supermarket, but an exchange process between buyers and sellers. Decisions about production in a market

DEMAND The willingness and ability of buyers to purchase a product or service.

SUPPLY The willingness and ability of producers to offer a good or service for sale.

LAW OF DEMAND The principle that buyers will purchase (demand) more of a product as price drops.

LAW OF SUPPLY The principle that producers will offer (supply) more of a product as price rises.

DEMAND AND SUPPLY SCHEDULE Assessment of the relationships between different levels of demand and supply at different price levels.

economy are the result of millions of exchanges. How much of what product a company offers for sale and who buys it depends on the laws of demand and supply.

The Laws of Supply and Demand In a market economy, decisions about what to buy and what to sell are determined primarily by the forces of demand and supply. **Demand** is the willingness and ability of buyers to purchase a product or service. **Supply** is the willingness and ability of producers to offer a good or service for sale. The **law of demand** states that buyers will purchase (demand) more of a product as its price drops. Conversely, the **law of supply** states that producers will offer (supply) more for sale as the price rises.

Demand and Supply Schedule To appreciate these laws in action, consider the market for pizza in your town. If everyone is willing to pay $25 for a pizza (a relatively high price), the local pizzeria will produce a large supply. If, however, everyone is willing to pay only $5 (a relatively low price), the restaurant will make fewer pizzas. Through careful analysis, we can determine how many pizzas will be sold at different prices. These results, called a **demand and supply schedule**, are obtained from marketing research and other systematic studies of the market. Properly applied, they help managers understand the relationships among different levels of demand and supply at different price levels.

Demand and Supply Curves The demand and supply schedule can be used to construct demand and

E-BUSINESS AND SOCIAL MEDIA SOLUTIONS

Virtual Goods: An Emerging E-Market

Not too long ago, people doubted the commercial sales potential of bottled water because a perfectly good substitute was available for virtually no cost. At the time, many skeptics made comments like "What's next, are we going to sell air?" Today, consumers purchase approximately 200 billion litres of bottled water worldwide each year. The skeptics did not foresee an era dominated by the internet, smart phones, and social media.

At least bottled water is a physical product. But how much is an avatar worth? How much would you spend on a virtual good? If your answer is $0, you don't know what's going on in the virtual gaming world. Have you heard of Zynga? World of Warcraft? Mafia Wars? FarmVille? If you answered "no" to all these questions, you may be shocked to learn that, in 2010, virtual goods sales were expected to reach $1.6 billion in the U.S. alone, and are projected to grow to $3.6 billion by 2012.

As we've noted, a market is an exchange process between buyers and sellers of a particular good or service. This definition fits the evolving virtual goods world as well. Whether you are buying a potato to make French fries (to eat), or a virtual potato to plant in your own FarmVille virtual garden (for entertainment), you are involved in a market of buyers and sellers. Hard-core virtual gamers are willing to spend good money to ensure that they have the best gear available in games like World of Warcraft.

Facebook links people to the virtual world and has over 500 million users. The company is now trying to capitalize on its popularity by adding a new revenue stream. It plans to charge 30 percent on virtual game props (similar to Apple's approach to apps). It is also testing the extended use of its Facebook credits. If all goes as planned, Zynga (which has 120 million game users) may be forced to adopt this model. Facebook could collect as much as $500 million over the next three years from Zynga and other gaming companies, including Electronic Arts, CrowdStar, Slide, RockYou, and Digital Chocolate. One thing is certain, there is nothing virtual about the revenue potential.

Critical Thinking Questions

1. Have you ever purchased a virtual good? If so, describe it. Were you satisfied? If not, what do you think of the prospects for this growing market?
2. What do you think of Facebook's new revenue stream model? Will it work?

supply curves for pizza. A **demand curve** shows how many products—in this case, pizzas—will be *demanded* (bought) at different prices. A **supply curve** shows how many pizzas will be *supplied* (cooked) at different prices.

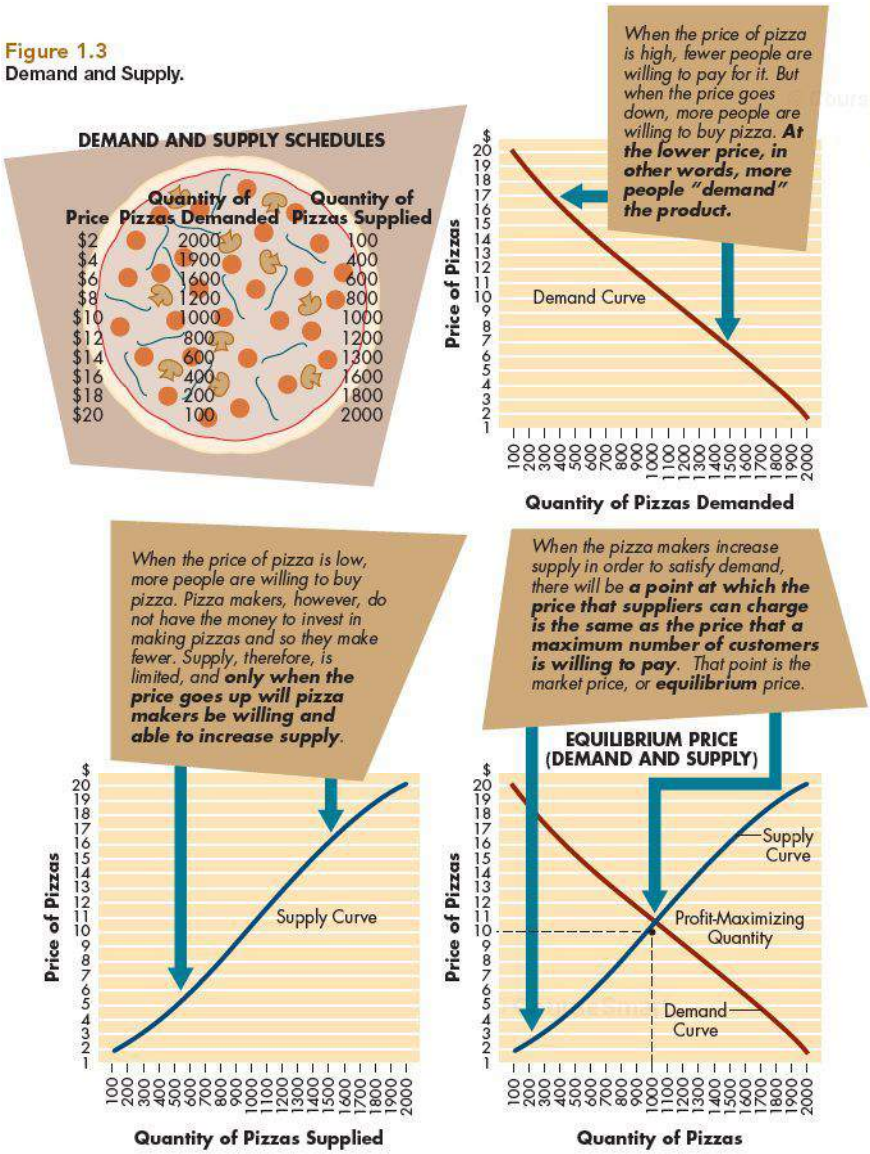
Figure 1.3 shows the hypothetical demand and supply curves for pizzas in our illustration. As you can see, demand increases as price decreases, and supply increases as price increases. When the demand and supply curves are plotted on the same graph, the point at which they intersect is the **market price**, or **equilibrium price**—the price at which the quantity of goods demanded and the quantity of goods supplied are equal. In Figure 1.3, the equilibrium price for pizzas is $10. At this point, the quantity of pizzas demanded and the quantity of pizzas supplied are the same—1000 pizzas per week.

DEMAND CURVE
Graph showing how many units of a product will be demanded (bought) at different prices.

SUPPLY CURVE
Graph showing how many units of a product will be supplied (offered for sale) at different prices.

MARKET PRICE (EQUILIBRIUM PRICE)
Profit-maximizing price at which the quantity of goods demanded and the quantity of goods supplied are equal.

Figure 1.3
Demand and Supply.



Canada is the dominant supplier of maple syrup for the world market. But variable weather conditions can create conditions of either surplus or shortage.

Surpluses and Shortages What would happen if the owner tried to increase profits by making more pizzas to sell? Or, what if the owner wanted to reduce overhead, cut back on store hours, and reduced the number of pizzas offered for sale? In either case, the result would be an inefficient use of resources. For example, if the restaurant supplies 1200 pizzas and tries to sell them for $10 each, 200 pizzas will not be purchased. The demand schedule clearly shows that only 1000 pizzas will be demanded at this price. The pizza maker will therefore have a **surplus**—a situation in which the quantity supplied exceeds the quantity demanded. The restaurant will thus lose the money that it spent making those extra 200 pizzas.

Conversely, if the pizzeria supplies only 800 pizzas, a **shortage** will result because the quantity demanded will be greater than the quantity supplied. The pizzeria will "lose" the extra money that it could have made by producing 200 more pizzas. Even though consumers may pay more for pizzas because of the shortage,

MANAGING IN TURBULENT TIMES

The High Price of High Prices

Economic theory tells us that when demand for a commodity increases, its price goes up, and people try to find substitutes that are cheaper. For example, when the price of oil is high, companies use corn to make ethanol to add to gasoline, and palm oil is used to make diesel fuel (called biodiesel). But, as more producers start using corn or palm oil, the demand for those commodities goes up and so does their price. During 2006, for example, the price of palm oil rose from less than US$400 per metric tonne to more than US$500 per metric tonne.

When prices of commodities rise rapidly, there are usually some unanticipated outcomes. One of these is increased criminal activity. As the price of stainless steel and aluminum rose during the last few years, thieves began stealing items such as beer kegs, railway baggage carts, railroad tracks, light poles, and highway guardrails. These items were then sold to scrap yards for cash.

The impact of stealing is limited to lost revenue (it's only money), but sky-high prices for food can actually threaten people's lives. Global food prices increased 83 percent between 2005 and 2008, and that put a lot of stress on the world's poorest countries. In some countries, families are spending one-half their income just on food. One culprit, ironically, is the push to convert corn into biofuel. In countries like Haiti, Cameroon, Senegal, and Ethiopia, citizens have rioted over higher prices for important staple items such as beans and rice. In Pakistan and Thailand, army troops were deployed to prevent the theft of food from warehouses. The World Bank has identified 33 countries that are at risk for serious social upheaval because of high food prices. To cope with the problem, some countries are slashing import duties and imposing export duties. This is just the reverse of what countries normally do.

Critical Thinking Questions

1. It is obvious that negative outcomes can occur with high prices. Can high prices ever lead to positive outcomes? Explain.
2. Consider the following statement: "*The high price of commodities like copper is not a concern because we do not need copper to survive, but the high price of food is a concern because it threatens people's lives. The central governments of the world should therefore coordinate their efforts and put in place rules to ensure that food prices are kept low*." Do you agree or disagree with the statement? Explain your reasoning.

the restaurant will still earn lower profits than it would have if it had made 1000 pizzas. In addition, it may risk angering customers who cannot buy pizzas. To optimize profits, therefore, all businesses must constantly seek the right combination of price charged and quantity supplied. This "right combination" is found at the equilibrium point.

Maple syrup is a quintessential Canadian commodity (we produce 80 percent of the total world's supply), but its price fluctuates because weather influences the supply. Unfavourable weather reduced the supply in 2008, but good weather in 2009 caused yields to increase by 85 percent over 2008.[23] Price fluctuations in several other commodities are described in the boxed insert entitled "The High Price of High Prices."[24]

LO-4 Private Enterprise and Competition

Market economies rely on a **private enterprise** system—one that allows individuals to pursue their own interests with minimal government restriction. Private enterprise requires the presence of four elements: private property rights, freedom of choice, profits, and competition.

- *Private property*. Ownership of the resources used to create wealth is in the hands of individuals.[25]
- *Freedom of choice*. You can sell your labour to any employer you choose. You can also choose which products to buy, and producers can usually choose whom to hire and what to produce.
- *Profits*. The lure of profits (and freedom) leads some people to abandon the security of working for someone else and to assume the risks of entrepreneurship. Anticipated profits also influence individuals' choices of which goods or services to produce.
- *Competition*. Profits motivate individuals to start businesses, and competition motivates them to operate those businesses efficiently. **Competition** occurs when two or more businesses vie for the same resources or customers. To gain an advantage over competitors, a business must produce its goods or services efficiently and be able to sell at a reasonable profit. Competition forces all businesses to make products better or cheaper.

Degrees of Competition

Economists have identified four basic degrees of competition within a private enterprise system: perfect competition, monopolistic competition, oligopoly, and monopoly.

Perfect Competition For **perfect competition** to exist, firms must be small in size (but large in number), the products of each firm are almost identical, both buyers and sellers know the price that others are paying and receiving in the marketplace, firms find it easy to enter or leave the market, prices are set by the forces of supply and demand, and no firm is powerful enough individually to influence the price of its product in the marketplace. Agriculture is usually considered to be a good example of pure competition in the Canadian economy. There are thousands of wheat farmers, the wheat produced on one farm is essentially the same as wheat produced on another farm, producers and buyers are well aware of prevailing market prices, and it is relatively easy to get started or to quit producing wheat.

Monopolistic Competition In **monopolistic competition**, there are fewer sellers than in pure competition, but there are still many buyers. Sellers try to make their products appear to be at least slightly different from those of their competitors by tactics such as using brand names (Tide and Cheer), design or styling (Ralph Lauren and Izod clothes), and advertising (like that done by Coca-Cola and Pepsi). Monopolistically competitive businesses may be large or small, because it is relatively easy for a firm to enter or leave the market. For example, many small clothing manufacturers compete successfully with large apparel makers. Product differentiation also gives sellers some control over the price they charge. Thus, Ralph Lauren polo shirts can be priced with little regard for the price of shirts sold at the Bay, even though the Bay's shirts may have very similar styling.

Oligopoly When an industry has only a handful of very large sellers, an **oligopoly** exists. Competition is fierce

SURPLUS
Situation in which quantity supplied exceeds quantity demanded.

SHORTAGE
Situation in which quantity demanded exceeds quantity supplied.

PRIVATE ENTERPRISE
An economic system characterized by private property rights, freedom of choice, profits, and competition.

COMPETITION
The vying among businesses in a particular market or industry to best satisfy consumer demands and earn profits.

PERFECT COMPETITION
A market or industry characterized by a very large number of small firms producing an identical product so that none of the firms has any ability to influence price.

MONOPOLISTIC COMPETITION
A market or industry characterized by a large number of firms supplying products that are similar but distinctive enough from one another to give firms some ability to influence price.

OLIGOPOLY
A market or industry characterized by a small number of very large firms that have the power to influence the price of their product and/or resources.

MONOPOLY
A market or industry with only one producer, who can set the price of its product and/or resources.

NATURAL MONOPOLY
A market or industry in which having only one producer is most efficient because it can meet all of consumers' demand for the product.

because the actions of any one firm in an oligopolistic market can significantly affect the sales of all other firms.[26] Most oligopolistic firms avoid price competition because it reduces profits. For example, the four major cereal makers (Kellogg, General Mills, General Foods, and Quaker Oats) charge roughly the same price for their cereals. Rather than compete on price, they emphasize advertising, which claims that their cereals are better tasting or more nutritious than the competition's. Entry into an oligopolistic market is difficult because large capital investment is usually necessary. Thus, oligopolistic industries (such as the automobile, rubber, and steel industries) tend to stay oligopolistic. As the trend toward globalization continues, it is likely that more global oligopolies will come into being.[27]

Monopoly When an industry or market has only one producer, a **monopoly** exists. Being the only supplier gives a firm complete control over the price of its product. Its only constraint is how much consumer demand will fall as its price rises. For centuries, wine bottles were sealed using natural cork made from tree bark. But a new technology allows wine bottles to be sealed with plastic corks that are cheaper and work just as well. The natural wine cork industry has lost its monopoly.[28] In Canada, laws such as the Competition Act forbid most monopolies. **Natural monopolies**—such as provincial electric utilities—are closely watched by provincial utilities boards, and the assumption that there is such a thing as a natural monopoly is increasingly being challenged. For example, the Royal Mail Group's 350-year monopoly of the British postal service ended in 2006, and rival companies are now allowed to compete with Royal Mail.[29] In India, private couriers like FedEx and United Parcel Service now provide more than half the delivery business in that country after they were allowed to compete with India Post, which had a monopoly on mail delivery for several hundred years.[30]

LO-5 A Brief History of Business in Canada

In this section, we will trace the broad outlines of the development of business activity in Canada. Table 1.2 highlights some important dates in Canadian business history.[31]

The Early Years

Business activity and profit from commercial fishing were the motivation for the first European involvement

Consumers often buy products under conditions of monopolistic competition. For example, there are few differences between various brands of toothpaste, cold tablets, detergents, canned goods, and soft drinks.

in Canada. In the late 1400s, ships financed by English entrepreneurs came to the coast of Newfoundland to fish. By the late 1500s, the Newfoundland coast was being visited by hundreds of fishing vessels each year.

Beginning in the 1500s, French and British adventurers began trading with the native peoples. Items such as cooking utensils and knives were exchanged for beaver and other furs. One trading syndicate made over 1000 percent profit on beaver skins sold to a Paris furrier. Trading was aggressive and, over time, the price of furs rose as more and more Europeans bid for them. Originally the fur trade was restricted to eastern Canada, but by the late 1600s, coureurs de bois were travelling far to the west in search of new sources of furs.

European settlers who arrived in Canada in the sixteenth and seventeenth centuries initially had to farm or starve. Gradually, however, they began to produce more than they needed for their own survival. The governments of the countries from which the settlers came (notably England and France) were strong supporters of the mercantilist philosophy. Under *mercantilism*, colonists were expected to export raw materials like beaver pelts and lumber at low prices to the mother country. These raw materials were then used to produce finished goods such as fur coats, which were sold at high prices to settlers in Canada. Attempts to develop industry in Canada were thwarted by England and France, which enjoyed large profits from mercantilism. As a result, Canadian manufacturing was slow to develop.

INDUSTRIAL REVOLUTION
A major change in goods production that began in England in the mid-eighteenth century and was characterized by a shift to the factory system, mass production, and specialization of labour.

FACTORY SYSTEM
A process in which all the machinery, materials, and workers required to produce a good in large quantities are brought together in one place.

The Factory System and the Industrial Revolution

British manufacturing took a great leap forward around 1750 with the coming of the **Industrial Revolution**. This revolution was made possible by advances in technology and by the development of the **factory system**. Instead of hundreds of workers turning out items one at a time in their cottages, the factory system brought

Table 1.2 Some Important Dates in Canadian Business History

1490	English fishermen active off the coast of Newfoundland	1926	U.S. replaces Great Britain as Canada's largest trading partner
1534	Account of first trading with Aboriginal peoples written by Jacques Cartier	1927	Armand Bombardier sells first "auto-neige" (forerunner of the snowmobile)
1670	Hudson's Bay Company founded	1929	Great stock market crash
1779	North West Company forms	1929–33	Great Depression
1785	Molson brewery opens	1930	Canadian Airways Limited formed
1805	First Canadian paper mill built at St. Andrew's, Quebec	1932	Canadian Radio Broadcasting Corporation formed (it became the CBC in 1936)
1809	First steamboat (the *Accommodation*) put into service on the St. Lawrence River by John Molson	1935	Bank of Canada begins operations
1817	Bank of Montreal chartered	1947–51	Early computer built at the University of Toronto
1821	Hudson's Bay Company and North West Company merge	1947	Leduc Number 1 oil well drilled in Alberta
1830–50	Era of canal building	1949	A.V. Roe (Avro) makes Canada's first commercial jetliner
1850–60	First era of railroad building	1965	Auto Pact signed with the U.S.
1855	John Redpath opens first Canadian sugar refinery in Montreal	1969	Canada becomes world's largest potash producer
1857–58	First oil well in Canada drilled near Sarnia, Ontario	1989	Free trade agreement with U.S. comes into effect
1861	Toronto Stock Exchange opens	1993	North American Free Trade Agreement comes into effect
1869	Eaton's opens for business in Toronto	2000	Tech bubble bursts; stock prices drop sharply
1880–90	First western land boom	2003	Canadian internet pharmacies begin selling prescription drugs to U.S. citizens
1885	Last spike driven to complete the Canadian Pacific Railroad	2006	Softwood lumber dispute with U.S. settled
1897–99	Klondike gold rush	2007	Canadian dollar reaches par with U.S. dollar
1917–22	Creation of Canadian National Railways	2008	Oil prices reach record high of $147 per barrel
		2008–09	Worldwide recession occurs; stock markets drop sharply

MASS PRODUCTION The manufacture of products of uniform quality in large quantities.

SPECIALIZATION The breaking down of complex operations into simple tasks that are easily learned and performed.

ENTREPRENEURIAL ERA The period during the last half of the nineteenth century when businesses operated with very little government regulation and businesses made large profits, often at the expense of consumers.

PRODUCTION ERA The period during the early twentieth century when businesses focused almost exclusively on improving productivity and manufacturing methods.

together in one place all of the materials and workers required to produce items in large quantities, along with newly created machines capable of **mass production**.

Mass production offered savings in several areas. It avoided unnecessary duplication of equipment. It allowed firms to purchase raw materials at better prices by buying large lots. And most important, it encouraged **specialization** of labour. No longer did production require highly skilled craftspeople who could do all the different tasks required to make an item. A series of semiskilled workers, each trained to perform only one task and supported by specialized machines and tools, greatly increased output.

In spite of British laws against the export of technology and manufacturing to North America, Canadian manufacturing existed almost from the beginning of European settlement. Modest manufacturing operations were evident in sawmills, breweries, grist mills for grinding grain, tanneries, woollen mills, shoemakers' shops, and tailors' shops. These operations were so successful that by 1800 exports of manufactured goods were more important than exports of fur.

With the advent of steam power in the early 1800s, manufacturing activity began to increase rapidly. By 1850, more than 30 factories—employing more than 2000 people—lined the Lachine Canal alone. Exports of timber to England in 1850 were 70 times greater than what they had been in 1800. The demand for reliable transportation was the impetus for canal building in the mid-1800s and then the railroad-building boom in the mid- and late 1800s.

The Entrepreneurial Era

One of the most significant features of the last half of the nineteenth century was the emergence of entrepreneurs willing to take risks in the hope of earning huge profits. Adam Smith in his book *The Wealth of Nations* argued that the government should not interfere in the economy but should let businesses function without regulation or restriction. This *laissez-faire* attitude was often adopted by the Canadian government. As a result, during the **entrepreneurial era**, some individuals became immensely wealthy through their aggressive business dealings. Some railway, bank, and insurance executives made over $25 000 per year in the late 1800s, and their purchasing power was immense. Entrepreneurs such as Joseph Flavelle, Henry Pellatt, and John MacDonald lived in ostentatious mansions or castles.

The size and economic power of some firms meant that other businesses had difficulty competing against them. At the same time, some business executives decided that it was more profitable to collude than to compete. They decided among themselves to fix prices and divide up markets. Hurt by these actions, Canadian consumers called for more regulation of business. In 1889, the first anti-combines legislation was passed in Canada, and legislation regulating business has increased ever since.

The Production Era

The concepts of specialization and mass production that originated in the Industrial Revolution were more fully refined as Canada entered the twentieth century. The Scientific Management Movement focused management's attention on production. Increased efficiency via the "one best way" to accomplish tasks became the major management goal. Henry Ford's introduction of the moving assembly line in the United States in 1913 ushered in the **production era**. During the production era, less attention was paid to selling and marketing than to technical efficiency when producing goods. By using fixed workstations, increasing task specialization, and moving the work to the worker, the assembly line increased productivity and lowered prices, making all kinds of products affordable for the average person. It also increased the available labour pool because many people could be trained to carry out assembly line tasks. Formerly, the labour pool was limited because relatively few people had the high skill levels of craftspeople.

During the production era, large businesses began selling stock—making shareholders the owners—and relying on professional managers. The growth of corporations and improved production output resulting from assembly lines came at the expense of worker freedom. The dominance of big firms made it harder for individuals to go into business for themselves. Company towns run by the railroads, mining corporations, and forest products firms gave individuals little freedom of choice over whom to work for and what to buy. To restore some balance within the overall system, both government and labour had to develop and grow. Thus, this period saw the rise of labour unions and collective bargaining. We will look at this development in more detail in Chapter 8. The Great Depression of the 1930s and the Second World War caused the federal government to intervene in the economic system on a previously unimaginable scale. Today, business, government, and labour are frequently referred to by economists and politicians as the three *countervailing powers* in our society. All are big. All are strong. Yet, none totally dominates the others.

The Sales and Marketing Eras

By the 1930s, business's focus on production had resulted in spectacular increases in the amount of goods and services available for sale. As a result, buyers had more choices and producers faced greater competition in selling their wares. Thus began the so-called **sales era**. According to the ideas of that time, a business's profits and success depended on hiring the right salespeople, advertising heavily, and making sure products were readily available. Business firms were essentially production- and sales-oriented, and they produced what they thought customers wanted, or simply what the company was good at producing. This approach is still used by firms that find themselves with surplus goods that they want to sell (e.g., used-car dealerships).

Following the Second World War, pent-up demand for consumer goods kept the economy rolling. While brief recessions did occur periodically, the 1950s and 1960s were prosperous times. Production increased, technology advanced, and the standard of living rose. During the **marketing era**, business adopted a new philosophy of how to do business—use market research to determine what customers want, and then make it for them. Firms like Procter & Gamble and Molson were very effective during the marketing era, and continue to be profitable today. Each offers an array of products within a particular field (toothpaste or beer, for example), and gives customers a chance to pick what best suits their needs.

SALES ERA
The period during the 1930s and 1940s when businesses focused on sales forces, advertising, and keeping products readily available.

MARKETING ERA
The period during the 1950s and 1960s when businesses began to identify and meet consumer wants in order to make a profit.

FINANCE ERA
The period during the 1980s when there were many mergers and much buying and selling of business enterprises.

The Finance Era

In the 1980s, emphasis shifted to finance. In the **finance era** there was a sharp increase in mergers and in the buying and selling of business enterprises. Some people now call it the "decade of greed." During the finance era there was a great deal of financial manipulation of corporate assets by so-called corporate raiders. Critics charged that these raiders were simply enriching themselves and weren't creating anything of tangible value by their activity. They also charged that raiders were distracting business managers from their main goals of running the business. The raiders responded that they were making organizations more efficient by streamlining, merging, and reorganizing them.

The Global Era

During the last two decades, we have witnessed the emergence of the global economy and further dramatic technological advances in production, computer

China opened its economy to foreign investors in the 1980s and joined the World Trade Organization in 2001. Now the Chinese buy as many cars as the Germans. They also buy more cellphones than anyone anywhere, and the opening of the Chinese market has created a windfall for makers of wireless handsets, including Motorola (U.S.), Siemens (Germany), Samsung (South Korea), and Nokia (Finland).

GLOBAL ERA
The period during the late twentieth and early twenty-first century when a truly global economy emerged.

technology, information systems, and communication capabilities. Canadians drive cars made in Japan, wear sweaters made in Italy, drink beer brewed in Mexico, and listen to stereos made in Taiwan. But we're not alone in this. In this **global era**, people around the world buy products and services from foreign companies.

While some Canadian businesses have been hurt by foreign imports, numerous others have profited by exploring new foreign markets themselves. Global and domestic competition has also forced all businesses to work harder than ever to cut costs, increase efficiency, and improve product and service quality. We will explore a variety of important trends, opportunities, and challenges of the global era throughout this book.

The Internet Era

The rapid increase in internet usage has facilitated global business activity. Both large and small businesses are not restricted to thinking only in terms of local markets. Web-based services that are offered through a web browser are helping businesses "go global."[32] The internet affects both domestic and global business activity in three major ways:

- *The internet gives a dramatic boost to trade in all sectors of the economy, especially services.* The internet makes it easier for all trade to grow, and this is particularly true for trade in services on an international scale. The growth of call centres in places like India is an example of this international trade in services.
- *The internet levels the playing field, at least to some extent, between larger and smaller enterprises, regardless of what products or services they sell.* In the past, a substantial investment was typically needed to enter some industries and to enter foreign markets. Now, however, a small business based in central Alberta, southern Italy, eastern Malaysia, or northern Brazil can set up a website and compete quite effectively with much larger businesses located around the world.
- *The internet holds considerable potential as an effective and efficient networking mechanism among businesses.* Business-to-business (B2B) networks can link firms with all of their suppliers, business customers, and strategic partners in ways that make it faster and easier for them to do business together.

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Summary of Learning Objectives

1. **Define the nature of Canadian *business* and identify its main goals.** Businesses are organizations that produce or sell goods or services to make a profit. *Profits* are the difference between a business's revenues and expenses. The prospect of earning profits encourages individuals and organizations to open and expand businesses. The benefits of business activities also extend to wages paid to workers and to taxes that support government functions.
2. **Describe different types of global *economic systems* according to the means by which they control the *factors of production* through *input***

and ***output markets.*** An *economic system* is a nation's system for allocating its resources among its citizens. Economic systems differ in terms of who owns or controls the five basic factors of production: labour, capital, entrepreneurs, physical resources, and information resources. In *command economies*, the government controls all or most of these factors. In *market economies*, which are based on the principles of *capitalism*, individuals and businesses control the factors of production and exchange them through *input* and *output markets*. Most countries today have *mixed market economies* that are dominated by one of these systems but include elements of the other. The processes of *deregulation* and *privatization* are important means by which many of the world's planned economies are moving toward mixed market systems.

3. **Show how *demand* and *supply* affect resource distribution in Canada.** The Canadian economy is strongly influenced by markets, demand, and supply. *Demand* is the willingness and ability of buyers to purchase a good or service. *Supply* is the willingness and ability of producers to offer goods or services for sale. Demand and supply work together to set a *market* or *equilibrium price*—the price at which the quantity of goods demanded and the quantity of goods supplied are equal.
4. **Identify the elements of *private enterprise* and explain the various *degrees of competition* in the Canadian economic system.** The Canadian economy is founded on the principles of *private enterprise, private property rights, freedom of choice, profits*, and *competition*. Degrees of competition vary because not all industries are equally competitive. Under conditions of *pure competition*, numerous small firms compete in a market governed entirely by demand and supply. In *monopolistic competition*, there are a smaller number of sellers, and each one tries to make its product seem different from the products of competitors. An *oligopoly* involves only a handful of sellers who fiercely compete with each other. A *monopoly* involves only one seller.
5. **Trace the history of *business* in Canada.** Modern business structures reflect a pattern of development over centuries. Throughout much of the colonial period, sole proprietors supplied raw materials to English manufacturers. The rise of the factory system during the Industrial Revolution brought with it mass production and specialization of labour. During the entrepreneurial era in the nineteenth century, large corporations—and monopolies—emerged. During the production era of the early twentieth century, companies grew by emphasizing output and production. During the sales and marketing eras of the 1950s and 1960s, business began focusing on sales staff, advertising, and the need to produce what consumers wanted. The 1980s saw the emergence of a global economy. Many Canadian companies have profited from exporting their goods to foreign markets. The most recent development is the use of the internet to boost business activity.

Questions and Exercises

Questions for Analysis

1. On various occasions, government provides financial incentives to business firms. For example, the Canadian government provided export assistance to Bombardier Inc. with its Technology Transfer Program. Is this consistent with a basically free market system? Explain how this might distort the system.
2. In recent years, many countries have moved from planned economies to market economies. Why do you think this has occurred? Can you envision a situation that would cause a resurgence of planned economies?
3. In your opinion, what industries in Canada should be regulated by the government? Defend your arguments.
4. Familiarize yourself with a product or service that is sold under conditions of pure competition. Explain why it is an example of pure competition and identify the factors that make it so. Then do the same for a product in each of the other three competitive situations described in the chapter (monopolistic competition, oligopoly, and monopoly).
5. Analyze how the factors of production (labour, capital, entrepreneurs, natural resources, and information) work together for a product or service of your choice.
6. Government plays a variety of roles in the Canadian mixed economy (customer, regulator, taxation agent, provider of services, etc.). Consider each of the roles discussed in the text and state your view as to whether government involvement in each role is excessive, insufficient, or about right. What criteria did you use to make your assessments?

Application Exercises

7. For a product that is not discussed in Chapter 1, find an example where a surplus led to decreased prices. Then find an example where a shortage led to increased prices. What eventually happened in each case? Why? Is what happened consistent with what economic theory predicts?
8. Choose a locally owned business. Interview the owner to find out (1) how demand and supply affect the business, and (2) how each factor of production is used in the business.
9. Visit a local shopping mall or shopping area. List each store that you see and determine what degree of competition it faces in its immediate environment. For example, if there is only one store in the mall that sells shoes, that store represents a monopoly. Note those businesses with direct competitors (e.g., two jewellery stores) and show how they compete with one another.
10. Go to the library or log on to the internet and research 10 industries. Classify each according to degree of competition.

TEAM EXERCISES

Building Your Business Skills

Analyzing the Price of Doing E-Business

Goal

To encourage students to understand how the competitive environment affects a product's price.

Situation

Assume that you own a local business that provides internet access to individuals and businesses in your community. Yours is one of four such businesses in the local market. Each of the four companies charges the same price: $20 per month for unlimited DSL service. Your business also provides users with email service; two of your competitors also offer email service. One of these same two competitors, plus the third, also provides the individual user with a free, basic personal webpage. One competitor just dropped its price to $15 per month, and the other two have announced their intentions to follow suit. Your break-even price is $10 per customer. You are concerned about getting into a price war that may destroy your business.

Method

Divide into groups of four or five people. Each group is to develop a general strategy for handling competitors' price changes. In your discussion, take the following factors into account:

- how the demand for your product is affected by price changes
- the number of competitors selling the same or a similar product
- the methods—other than price—you can use to attract new customers and/or retain current customers

Analysis

Develop specific pricing strategies based on each of the following situations:

- Within a month after dropping the price to $15, one of your competitors raises its price back to $20.
- Two of your competitors drop their prices further—to $12 per month. As a result, your business falls off by 25 percent.
- One of your competitors that has provided customers with a free webpage has indicated that it will start charging an extra $2 per month for this optional service.
- Two of your competitors have announced that they will charge individual users $12 per month, but will charge businesses a higher price (not yet announced).
- All four providers (including you) are charging $12 per month. One goes out of business, and you know that another is in poor financial health.

Follow-Up Questions

1. Discuss the role that various inducements other than price might play in affecting demand and supply in the market for internet service.
2. Is it always in a company's best interest to feature the lowest prices?
3. Eventually, what form of competition is likely to characterize the market for internet service?

Exercising Your Ethics

Making the Right Decision

The Situation

Hotel S is a large hotel in a Maritime city. The hotel is a franchise operation run by an international hotel chain. The primary source of revenue for the hotel is convention business. A major tropical storm is working its way up the east coast and is about to hit the city. When that happens, heavy flooding is likely.

The Dilemma

Because Hotel S is a licensed operation, it must maintain numerous quality standards in order to keep its licence. This licence is important because the international management company handles advertising, reservations, and so on. If it were to lose its licence, it is almost certain that the hotel would have to reduce its staff.

For the past few years, members of the Hotel S team have been lobbying the investors who own the hotel to undertake a major renovation. They fear that without such a renovation, the hotel will lose its licence when it comes up for renewal in a few months. The owners, however, have balked at investing more of their funds in the hotel itself but have indicated that hotel management can use revenues earned above a specified level for upgrades.

The approaching storm has cut off most major transportation avenues and telephone service is also down. The Hotel S staff are unable to reach the general manager, who has been travelling on business. Because the city is full of conventioneers, hotel rooms are in high demand. Unfortunately, because of the disrepair at the hotel, it only has about 50 percent occupancy. Hotel S staff have been discussing what to do and have identified three options:

1. The hotel can reduce room rates in order to help both local citizens and out-of-town visitors. The hotel can also provide meals at reduced rates. A few other hotels are also doing this.
2. The hotel can maintain its present pricing policies. Most of the city's hotels are adopting this course of action.
3. The hotel can raise its rates by approximately 15 percent without attracting too much attention. It can also start charging for certain things it has been providing for free, such as local telephone calls, parking, and morning coffee. The staff members see this option as one way to generate extra profits for the renovation and to protect jobs.

Team Activity

Assemble a group of four students and assign each group member to one of the following roles:

- A member of the hotel staff
- The Hotel S manager
- A customer at the hotel
- A Hotel S investor

Action Steps

1. Before discussing the situation with your group, and from the perspective of your assigned role, which of the three options do you think is the best choice? Write down the reasons for your position.
2. Before discussing the situation with your group, and from the perspective of your assigned role, what are the underlying ethical issues, if any, in this situation? Write down the issues.
3. Gather your group together and reveal, in turn, each member's comments on the best choice of the three options. Next, reveal the ethical issues listed by each member.
4. Appoint someone to record the main points of agreement and disagreement within the group. How do you explain the results? What accounts for any disagreement?
5. From an ethical standpoint, what does your group conclude is the most appropriate action that should have been taken by the hotel in this situation?
6. Develop a group response to the following question: Can your team identify other solutions that might help satisfy both extreme views?

BUSINESS CASE 1

Are We Running Out of Oil?

Oil is a product that is much in the news these days (remember the huge oil spill in the Gulf of Mexico in 2010). Beyond the environmental issues of oil, several important questions have been raised about this important commodity: Are we running out of oil? If so, when will it happen? Is oil production going to peak and then rapidly decline? Answers to these questions are hotly debated. Much of the debate is focused on an idea called "peak oil theory," which says that oil production will soon peak and will then decline rapidly, causing a major oil crisis in the world. Opponents of the peak oil theory reject the argument and point to several predictions of peak oil theorists that have been wrong in the past. Illustrative claims of each group are summarized below.

The Arguments of Peak Oil Supporters

Those who support the idea of peak oil make the following arguments:

- Output from oil fields around the world is declining (in some fields the decline is about 18 percent a year). Declines are particularly evident in the Middle East, Europe, and the U.S. That means that 3–4 million barrels a day of new oil will have to be found for global oil production just to remain steady.
- Many big oil-producing countries are very secretive about their year-to-year production rates, so it is difficult to know just how fast their output is really declining. Their oil fields may be in worse shape than they will admit.
- Several top-level executives in the oil industry say that there is a limit to how much oil can be produced each year (about 100 million barrels per day), and that ceiling may be reached as early as 2012. The International Energy Agency (IEA) also predicts that oil production of more than 100 million barrels of oil per day will be difficult to achieve.
- Oil production will peak because of factors such as restricted access to oil fields, shortages of oil field workers, rapidly increasing costs, political crises, and complex oil field geology.
- The IEA has questioned the 174 billion barrel reserves figure commonly cited for the Alberta oil sands, saying that uncertain project economics make it unlikely that that much oil could be extracted. It says that a number closer to 15 billion barrels is more accurate.
- New oil discoveries have declined sharply. For example, new discoveries in the Middle East during 1963–1972 totalled 187 billion barrels, but new discoveries during 1993–2002 totalled only 16 billion barrels.
- In 1956, M.K. Hubbert predicted that U.S. oil production would peak in the early 1970s, and he was right. The same thing will happen with world oil production.

The Arguments of Peak Oil Opponents

Those who reject the peak oil theory make the following arguments:

- World oil production has been steadily increasing, and in 2006 was the highest in history, averaging over 85 million barrels per day (over 31 billion barrels per year). Oil output will eventually *plateau*, but it will not peak and then fall rapidly.
- A widely used measure of oil reserves is "ultimate recoverable reserves" (URR). TrendLines, a Canadian research company, notes that the world's URR is *increasing* at an increasing rate. For example, during the period 1957–2006, URR grew at an annual rate of 2.4 percent, but during 2000–2007, it grew at an annual rate of 6 percent.
- The U.S. Geological Survey (USGS) predicts that URR will grow by about 2.4 percent annually for the next few years. The URR was 1.6 trillion barrels in 1995 and was predicted to rise to 3.3 trillion barrels in 2025, but it had already reached 3.2 trillion barrels in 2006, years ahead of schedule.

- In 1979, the "life index" of oil was estimated to be about 35 years (at 1979 consumption rates). That meant that we would experience an oil crisis early in the twenty-first century. But by 2003, the life index had actually risen to 40 years, and by 2007 it had risen to 45 years. These increases have occurred even though oil consumption rates now far exceed those of 1979.
- There have been several major new discoveries in the last couple of years (for example, off the coast of Brazil and in the Gulf of Mexico). The new Gulf of Mexico oil field may contain up to 15 billion barrels of oil. If it does, that single new field would increase U.S. oil reserves by 50 percent. The new oil field off the coast of Brazil may contain 33 billion barrels of oil.
- M.K. Hubbert's prediction for *U.S.* oil production was correct, but his prediction for *world* production was far off the mark. He predicted that global oil production would peak at 12 billion barrels per year by early in the twenty-first century, but actual production in 2006 was 31 billion barrels.

Critics of peak oil also use several general arguments from economics to support their claims that the peak oil idea is not correct. First, they note that the higher the price of oil, the greater the amount that can be extracted in an economically viable way. Second, higher oil prices will also discourage consumption, and that will make the existing supply of oil last longer. Third, higher oil prices will motivate the development of alternate sources of fuel, and that will also make the existing oil supply last longer. Fourth, new technologies for extracting oil are constantly being developed and old technologies are being refined. This means that more oil can be extracted than was originally thought. For example, Canadian and Japanese researchers have succeeded in extracting natural gas from structures called gas hydrates. The energy locked in gas hydrates may exceed the total world supply of energy available from coal, oil, and natural gas combined. If this new technology becomes commercially viable, it will have a dramatic effect on the total supply of fossil fuels.

Irrespective of what the supporters and opponents of peak oil say, there is another factor that bears on this argument: the business cycle. Most of the arguments presented above were generated before the worldwide recession began in 2008. The recession substantially reduced demand for oil and caused its price to drop from $147 a barrel to less than $40 in 2008 (in 2010 the price rose again to $75). In an attempt to prop up the price, the Organization of the Petroleum Exporting Countries (OPEC) countries cut output by 4 million barrels per day. This reduced output will extend the supply of oil even further into the future. Some experts are now predicting that weak economic growth around the world will mean that the demand for oil will be low for many years to come. So, these developments support the opponents of peak oil. But peak oil supporters point out that that low demand for oil will cause less exploration for oil, and that means we will be facing an oil shortage in the future.

It is difficult to know what is going to happen, isn't it?

Questions for Discussion

1. Which group—peak oil supporters or their opponents—do you think makes more persuasive arguments about the future of oil production and the demand for oil? Explain your reasoning.
2. After considering the arguments in support of peak oil theory and the arguments against it, draw a graph that shows your predictions of world oil production from now until the year 2100. Show your prediction of annual world oil production—in billions of barrels—on the vertical axis and time on the horizontal axis. Defend your predictions.
3. Consider the following statement: "*There are so many uncertainties that must be taken into account when trying to predict world oil production that it is impossible to have any confidence in anyone's predictions.*" Do you agree or disagree with the statement? Explain your reasoning.

SCANLIFE

Appendix A
Business Law

The Role of Law in Canadian Society

Law is the set of rules and standards that a society agrees upon to govern the behaviour of its citizens. Both the British and the French influenced the development of law in Canada. In 1867, the British North America (BNA) Act created the nation of Canada. The BNA Act was "patriated" to Canada in 1982 and is now known as the Constitution Act. This act divides legislative powers in Canada between the federal and provincial governments.

Sources of Law

The law in Canada has evolved and changed in response to our norms and values. Our laws have arisen from three sources: (1) customs and judicial precedents (the source of common law), (2) the actions of provincial and federal legislatures (the source of statutory law), and (3) rulings by administrative bodies (the source of administrative law).

Common law is the unwritten law of England, derived from ancient precedents and judges' previous legal opinions. Common law is based on the principle of equity, the provision to every person of a just and fair remedy. Canadian legal customs and traditions derive from British common law. All provinces except Quebec, which uses the French Civil Code, have laws based on British common law, and court decisions are often based on precedents from common law. That is, decisions made in earlier cases that involved the same legal point will guide the court.

Statutory law is written law developed by city councils, provincial legislatures, and parliament. Most law in Canada today is statutory law.

Administrative law is the rules and regulations that government agencies and commissions develop based on their interpretations of statutory laws. For example, Consumer and Corporate Affairs Canada develops regulations on false advertising using federal legislation.

The Court System

In Canada, the judiciary branch of government has the responsibility of settling disputes among organizations or individuals by applying existing laws. Both provincial and federal courts exist to hear both criminal and civil cases. The Supreme Court of Canada is the highest court in Canada. It decides whether to hear appeals from lower courts.

Business Law

Business firms, like all other organizations, are affected by the laws of the country. **Business law** refers to laws that specifically affect how business firms are managed. Some laws affect all businesses, regardless of size, industry, or location. For example, the Income Tax Act requires businesses to pay income tax. Other laws may have a greater impact on one industry than on others. For example, pollution regulations are of much greater concern to Vale than they are to Carlson Wagonlit Travel.

Business managers must have at least a basic understanding of eight important concepts in business law:

1. contracts
2. agency
3. bailment
4. property
5. warranty
6. torts
7. negotiable instruments
8. bankruptcy

LAW The set of rules and standards that a society agrees upon to govern the behaviour of its citizens.

COMMON LAW The unwritten law of England, derived from precedent and legal judgments.

STATUTORY LAW Written law developed by city councils, provincial legislatures, and parliament.

ADMINISTRATIVE LAW The rules and regulations that government agencies and commissions develop based on their interpretations of statutory laws.

BUSINESS LAW Laws that specifically affect how business firms are managed.

CONTRACT An agreement between two parties to act in a specified way or to perform certain acts.

EXPRESS CONTRACT Clearly specifies the terms of an agreement.

IMPLIED CONTRACT Specifies the necessary behaviours of the parties to the contract.

BREACH OF CONTRACT When one party to an agreement fails, without legal reason, to live up to the agreement's provisions.

AGENCY–PRINCIPAL RELATIONSHIP Established when one party (the agent) is authorized to act on behalf of another party (the principal).

BAILOR–BAILEE RELATIONSHIP In a bailor–bailee relationship, the bailor (the property owner) gives possession of his or her property to the bailee (a custodian) but retains ownership of the item.

Contracts

Agreements about transactions are common in a business's day-to-day activity. A **contract** is an agreement between two parties to act in a specified way or to perform certain acts. A contract might, for example, apply to a customer buying a product from a retail establishment or to two manufacturers agreeing to buy products or services from each other. A contract may be either express or implied. An **express contract** clearly specifies (either orally or in writing) the terms of an agreement. By contrast, an **implied contract** depends on the two parties' behaviours. For example, if you hire a fishing guide to help you catch fish, you have an implied contract that obligates you to pay the fishing guide for the service you receive.

A valid contract includes several elements:

- *an agreement*—All parties must consciously agree about the contract.
- *consideration*—The parties must exchange something of value (e.g., time, products, services, money, and so on).
- *competence*—All parties to the contract must be legally able to enter into an agreement. Individuals who are below a certain age or who are legally insane, for example, cannot enter into legal agreements.
- *legal purpose*—What the parties agree to do for or with each other must be legal. An agreement between two manufacturers to fix prices is not legal.

The courts will enforce a contract if it meets the criteria described above. Most parties honour their contracts, but occasionally one party does not do what it was supposed to do. **Breach of contract** occurs when one party to an agreement fails, without legal reason, to live up to the agreement's provisions. The party that has not breached the contract has three alternatives under the law in Canada: (1) discharge, (2) sue for damages, or (3) require specific performance.

An example will demonstrate these three alternatives. Suppose that Barrington Farms Inc. agrees to deliver 100 dozen long-stemmed roses to the Blue Violet Flower Shop the week before Mother's Day. One week before the agreed-upon date, Barrington informs Blue Violet that it cannot make the delivery until after Mother's Day. Under the law, the owner of Blue Violet can choose among any of the following actions.

Discharge Blue Violet can also ignore its obligations in the contract. That is, it can contract with another supplier.

Sue for Damages Blue Violet can legally demand payment for losses caused by Barrington's failure to deliver the promised goods on time. Losses might include any increased price Blue Violet would have to pay for the roses or court costs incurred in the damage suit.

Require Specific Performance If monetary damages are not sufficient to reimburse Blue Violet, the court can force Barrington to live up to its original contract.

Agency

In many business situations, one person acts as an agent for another person. Well-known examples include actors and athletes represented by agents who negotiate contracts for them. An **agency–principal relationship** is established when one party (the agent) is authorized to act on behalf of another party (the principal).

The agent is under the control of the principal and must act on behalf of the principal and in the principal's best interests. The principal remains liable for the acts of the agent as long as the agent is acting within the scope of authority granted by the principal. A salesperson for IBM, for example, is an agent for IBM, the principal.

Bailment

Many business transactions are not covered by the agency–principal relationship. For example, suppose that you take your car to a mechanic to have it repaired. Because the repair shop has temporary possession of something you own, it is responsible for your car. This is a **bailor–bailee relationship**. In a bailor–bailee relationship, the bailor (e.g., the car owner) gives possession of his or her property to the bailee (e.g., the repair shop) but retains ownership of the item. A business firm that stores inventory in a public warehouse is in a bailor–bailee relationship. The business firm is the bailor and the warehouse is the bailee. The warehouse is responsible for storing the goods safely and making them available to the manufacturer upon request.

The Law of Property

Property includes anything of tangible or intangible value that the owner has the right to possess and use. **Real property** is land and any permanent buildings attached to that land. **Personal property** is tangible or intangible assets other than real property. Personal property includes cars, clothing, furniture, money in bank accounts, stock certificates, and copyrights.

Transferring Property From time to time, businesses and individuals need to transfer property to another person or business. A **deed** is a document that shows ownership of real property. It allows the transfer of title of real property.

A **lease** grants the use of an asset for a specified period of time in return for payment. The business or individual granting the lease is the lessor and the tenant is the lessee. For example, a business (the lessee) may rent space in a mall for one year from a real estate development firm (the lessor).

A **title** shows legal possession of personal property. It allows the transfer of title of personal property. When you buy a snowmobile, for example, the former owner signs the title over to you.

Warranty

When you buy a product or service, you want some assurance that it will perform satisfactorily and meet your needs. A **warranty** is a promise that the product or service will perform as the seller has promised it will.

There are two kinds of warranties—express and implied. An **express warranty** is a specific claim that the manufacturer makes about a product. For example, a warranty that a screwdriver blade is made of case-hardened steel is an express warranty. An **implied warranty** suggests that a product will perform as the manufacturer claims it will. Suppose that you buy an outboard motor for your boat and the engine burns out in one week. Because the manufacturer implies by selling the motor that it will work for a reasonable period of time, you can return it and get your money back.

Because opinions vary on what is a "reasonable" time, most manufacturers now give limited-time warranties on their products. For example, they will guarantee their products against defects in materials or manufacture for six months or one year.

Torts

A **tort** is a wrongful civil act that one party inflicts on another and that results in injury to the person, to the person's property, or to the person's good name. An **intentional tort** is a wrongful act intentionally committed. If a security guard in a department store suspects someone of shoplifting and uses excessive force to prevent him or her from leaving the store, the guard might be guilty of an intentional tort. Other examples are libel, embezzlement, and patent infringement.

Negligence is a wrongful act that inadvertently causes injury to another person. For example, if a maintenance crew in a store mops the floors without placing warning signs in the area, a customer who slips and falls might bring a negligence suit against the store.

In recent years, the most publicized area of negligence has been product liability. **Product liability** means that businesses are liable for injuries caused to product users because of negligence in design or manufacturing. **Strict product liability** means that a business is liable for injuries caused by their products even if there is no evidence of negligence in the design or manufacture of the product.

Negotiable Instruments

Negotiable instruments are types of commercial paper that can be transferred among individuals and business firms. Cheques, bank drafts, and certificates of deposit are examples of negotiable instruments.

The Bills of Exchange Act specifies that a negotiable instrument must

- be written;
- be signed by the person who puts it into circulation (the maker or drawer);

PROPERTY Anything of tangible or intangible value that the owner has the right to possess and use.

REAL PROPERTY Land and any permanent buildings attached to that land.

PERSONAL PROPERTY Tangible or intangible assets other than real property.

DEED A document that shows ownership of real property.

LEASE Grants the use of an asset for a specified period of time in return for payment.

TITLE Shows legal possession of personal property.

WARRANTY A promise that the product or service will perform as the seller has promised it will.

EXPRESS WARRANTY A specific claim that the manufacturer makes about a product.

IMPLIED WARRANTY A suggestion that a product will perform as the manufacturer claims it will.

TORT A wrongful civil act that one party inflicts on another and that results in injury to the person, to the person's property, or to the person's good name.

INTENTIONAL TORT A wrongful act intentionally committed.

NEGLIGENCE A wrongful act that inadvertently causes injury to another person.

PRODUCT LIABILITY The liability of businesses for injuries caused to product users because of negligence in design or manufacturing.

BANKRUPTCY The court-granted permission for organizations or individuals to not pay some or all of their debts.

STRICT PRODUCT LIABILITY The liability of businesses for injuries caused by their products even if there is no evidence of negligence in the design or manufacture of the product.

NEGOTIABLE INSTRUMENTS Types of commercial paper that can be transferred among individuals and business firms.

ENDORSEMENT Signing your name to a negotiable instrument, making it transferable to another person or organization.

INSOLVENT PERSON (OR COMPANY) One who cannot pay current obligations to creditors as they come due, or whose debts exceed their assets.

BANKRUPT PERSON (OR COMPANY) One who has either made a voluntary application to start bankruptcy proceedings (voluntary bankruptcy) or has been forced by creditors into bankruptcy (involuntary bankruptcy) by a process referred to as a receiving order.

- contain an unconditional promise to pay a certain amount of money;
- be payable on demand; and
- be payable to a specific person (or to the bearer of the instrument).

Negotiable instruments are transferred from one party to another through an endorsement. An **endorsement** means signing your name to a negotiable instrument; this makes it transferable to another person or organization. If you sign only your name on the back of a cheque, you are making a *blank* endorsement. If you state that the instrument is being transferred to a specific person, you are making a *special* endorsement. A *qualified* endorsement limits your liability if the instrument is not backed up by sufficient funds. For example, if you get a cheque from a friend and want to use it to buy a new stereo, you can write "without recourse" above your name. If your friend's cheque bounces, you have no liability. A *restrictive* endorsement limits the negotiability of the instrument. For example, if you write "for deposit only" on the back of a cheque and it is later stolen, no one else can cash it.

Bankruptcy

At one time, individuals who could not pay their debts were jailed. Today, however, both organizations and individuals can seek relief by filing for **bankruptcy**, which is the court-granted permission to not pay some or all of their debts.

Thousands of individuals and businesses file for bankruptcy each year. They do so for various reasons, including cash flow problems, reduced demand for their products, or some other problem that makes it difficult or impossible for them to resolve their financial problems. In recent years, large businesses like Eaton's, Olympia & York, and Enron have sought the protection of bankruptcy laws. Three main factors account for the increase in bankruptcy filings:

1. The increased availability of credit
2. The "fresh-start" provisions in current bankruptcy laws
3. The growing acceptance of bankruptcy as a financial tactic

In Canada, jurisdiction over bankruptcy is provided by the Bankruptcy and Insolvency Act. An **insolvent person (or company)** is defined as one who cannot pay current obligations to creditors as they come due, or whose debts exceed their assets. A **bankrupt person (or company)** is one who has either made a voluntary application to start bankruptcy proceedings (voluntary bankruptcy) or has been forced by creditors into bankruptcy (involuntary bankruptcy) by a process referred to as a *receiving order*. A person who is insolvent may or may not be bankrupt, and a person who is bankrupt may or may not be insolvent, as there are other bases for bankruptcy under the Act. Another procedure under the Act is referred to as a *proposal*, which can delay or avoid liquidation by providing the debtor with time to reorganize affairs and/or propose a payment schedule to creditors.

On a practical basis, business bankruptcy under the act may be resolved or avoided by one of three methods:

1. Under a *liquidation plan*, the business ceases to exist. Its assets are sold and the proceeds are used to pay creditors.
2. Under a *repayment plan,* the bankrupt company works out a new payment schedule to meet its obligations. The time frame is usually extended, and payments are collected and distributed by a court-appointed trustee.
3. *Reorganization* is the most complex form of business bankruptcy. The company must explain the sources of its financial difficulties and propose a new plan for remaining in business. Reorganization may include a new slate of managers and a new financial strategy. A judge may also reduce the firm's debts to ensure its survival. Although creditors naturally dislike debt reduction, they may agree to the proposal, since getting, say, 50 percent of what you are owed is better than getting nothing at all.

The International Framework of Business Law

Laws vary from country to country, and many businesses today have international markets, suppliers, and competitors. Managers in such businesses need a basic understanding of the international framework of business law that affects the ways in which they can do business. Issues such as pollution across borders are matters of **international law**—the very general set of cooperative agreements and guidelines established by countries to govern the actions of individuals, businesses, and nations themselves.

International law has several sources. One source is custom and tradition. Among countries that have been trading with one another for centuries, many customs and traditions governing exchanges have gradually evolved into practice. Although some trading practices still follow ancient unwritten agreements, there has been a clear trend in recent years to approach international trade within a formal legal framework. Key features of that framework include a variety of formal trade agreements (see Chapter 5).

INTERNATIONAL LAW The very general set of cooperative agreements and guidelines established by countries to govern the actions of individuals, businesses, and nations themselves.

Organizations such as the WTO and EU also provide legal frameworks within which participating nations agree to abide.