



V3 PARTNERS

ENTREPRENEURIAL TECHNIQUES

CHAPTER 2 - ECONOMICS BASICS

“ECONOMICS IS A SUBJECT NOT DOES NOT
GREATLY RESPECT ONE’S WISHES”

– NIKITA HRUSCHEV



CONTENT

- the entrepreneur
- historical perspective
- motivation
- economic basics
- business
- strategic thinking



THE ENTREPRENEUR

J. B. Say used the term in chapter V, treatise on political economy.....below is the 1880 translation

“The term entrepreneur is difficult to render in English; the corresponding word, undertaker, being already appropriated to a limited sense. It signifies the master-manufacturer in manufacture, the farmer in agriculture, and the merchant in commerce; and generally in all three branches, the person who takes upon himself the immediate responsibility, risk, and conduct of a concern of industry, whether upon his own or a borrowed capital. For want of a better word, it will be rendered into English by the term *adventurer*. Tr.” *it was not to be, entrepreneur stuck!*

Note: <http://socserv2.socsci.mcmaster.ca/~econ/ugcm/3ll3/>

three types

- market entrepreneur – in its purest form
- political entrepreneur – one who relies on political connections to gain unfair advantage over competitors
- Intrapreneur – a contraption invented in big business to create entrepreneurial spirit where it cannot really exist



THE ENTREPRENEUR

as a factor of production

“he recognizes the need hence the opportunities to be gained from production. Accordingly he generates new ideas and puts them into effect: he assembles the factors of production, raises the necessary money, organizes management, makes basic business policy decisions, and reaps the gains of success or the losses of failure. In some businesses he may double as a manager; in others he may not. But in any case the *entrepreneurial function* must be performed in the economy.”

“Contemporary Economy” by Milton H. Spencer, et al.



RETURNS TO FACTORS

- land - rent
- capital - interest
- labor - wages
- entrepreneur - profit



CONDITION OF EXISTENCE

capitalist economy

“capitalism is characterized by private ownership of the means of production, distribution (land, factories, railroads) and their operation for profit under predominantly competitive conditions”

“capitalism has created more massive and more colossal forces than have all preceding generations together.... It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and gothic cathedrals; it has conducted expeditions that put in the shade all former migrations of nations and crusades.”

Carl Marx



CONDITION OF EXISTENCE

democracy

“Form of government in which supreme power is vested in the people and exercised by them directly or indirectly through a system of representation usually involving periodic free elections.”

source: Encyclopedia Britannica

guarantees of basic rights

- **life**
- **liberty**
- **right to property**



MOTIVATION

- sampling of 34 countries found
 - 73 m adult entrepreneurs
 - employing: 566 m people
 - total entrepreneurial activity (TEA): 1.5% - 40%
 - average: one in eleven
- causes for TEA market dependent
- TEA follows U shaped curve: GDP vs TEA
 - minimum at GDP of \$28,000 p.c.
 - Hungary 4.3%
 - Poland 8.8%

Source: Global Entrepreneurship Monitor



REVIEW THE BASICS

- church's view in middle ages
 - just price
- old testament
 - prohibited lending at interest
- decomposing interest:
 - risk, opportunity cost, inflation, inconvenience
 - creating loopholes
- mercantilism
 - simple economic form for study
 - alive until this day



REVIEW THE BASICS

mercantilism

- [original capital formation](#) -eg. von Hornick of Austria
- [early form of central control of economy](#)
- precious metal as gauge of wealth
- [monopoly a means of control](#)
- development of nation state, rise of tribalism
- colonialism and wars of colonial origin
- beggar thy neighbor



ATTACK ON MERCANTILISM

- Hume - hoarding money leads to price increases
- Smith - inductive reasoning
 - on regulating gold
 - on durability as feature of gold
 - attacking with humor
 - natural rights of man
 - treatment of colonies
 - monopolies and their cost
 - demanding free trade
 - sacks of gold do not equal sacks of food
 - standard of living as gauge of wealth



SMITH

- radical, prosecuted for spreading
 - moral good is promotion of happiness to others
 - possible to know good and evil without knowing God
- division of labor
 - pin factory
 - ingenuity of the worker
- self interest
- invisible hand
- absolute advantage
- equitable society



NEXT GENERATION

- Malthus - [overpopulation](#), [Smith's answer](#), [Jay Forester's model](#) - *please see supplements*
- Ricardo - deductive, [universal free trader](#), diminishing return, rent, [labor theory of value](#), money is neutral, “dismal science”
- Say - production only for sale, say's law
- Mills - role of government



PAYING ATTENTION

basic facts of economics matter

- ignore them at your own risk
e.g. nations keeping farm prices high hurt their own consumers
- unreasonable to expect continual progress
- witness New Orleans after Katrina or as in the 11th century:



WHAT CAN HAPPEN

the world in 1000.

“A wild world, ringed around by hunger. Its meager population is in fact too large. The people struggle almost bare-handed, slaved to intractable nature and to a soil that is unproductive because it is poorly worked. No peasant, when he sows one grain of wheat, expects to harvest more than three-if it is not too bad a year; that means bread to eat until Easter time. Then he will have to manage on herbs, roots, the makeshift food that can be gleaned from forest and riverbank and on an empty belly, he will do the summer tasks and wither with fatigue while he awaits the harvest... Sometimes, when too heavy rains have soaked into the ground and hampered the autumn plowing, when storms have pummeled and soiled the crops, the customary food shortages become famine, a great death-dealing wave of starvation. The chroniclers of the times all described such famines, not with a certain satisfaction. People pursued one another in order to eat each other up, and many cut the throats of their fellow men so as to feed on human flesh, just like wolves.”



BUCHANAN

- politicians as political entrepreneurs
- driven by
 - **lust for power**
 - **maximal voter support**
 - lobbyists suck resources
 - voters tolerate it, not worth resisting
 - eg. wine producers: \$10m for the producers, but only \$1/citizen
 - always from the consumers pocket
 - **rational ignorance: consumers do not want to know about cost**



BUCHANAN

- stable societies slow down - leaches
- revolutions and wars rekindle resources of society
- regulation
 - companies hate it
 - banking supervision, consumer protection
- bureaucracy
 - Niskanen : maximize salary, power, pension



BUCHANAN

- **politicians**
 - parliament is a strange place. some one starts talking, says nothing important, no one pays attention to it, then they all jump up and start arguing. Buchanan: however, at the end they agree:
 - they collude against the voters
- **democracy encourages budget deficit**
 - deficit does not hurt, surplus does (Bokros csomag)
 - man does not think of the future, it soon will be the present



BUCHANAN

- prefers a version by Tennessee Williams:

the future becomes the present, the present becomes the forever paining past,
if you do not plan!

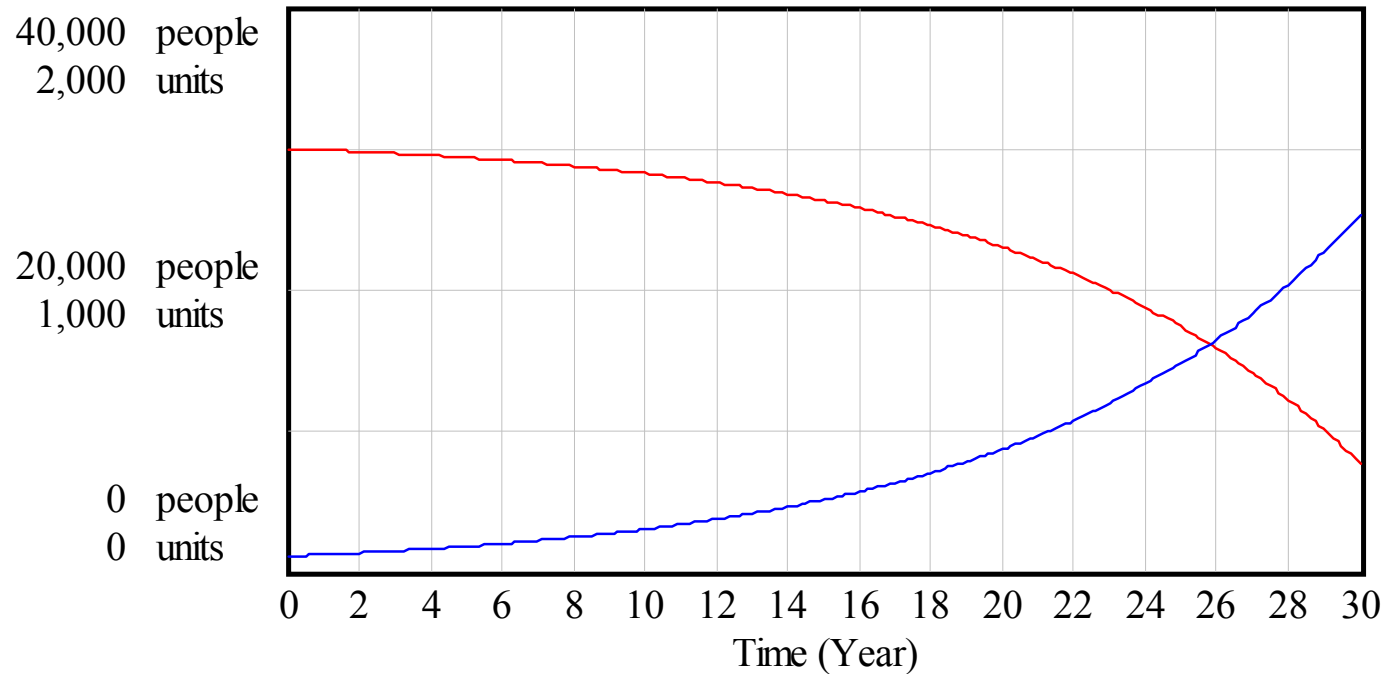
- budget deficit: taxation without representation



MALTHUS'S WORLD

SUPPLEMENT

Population growth and scarcity - Malthus



Population : equilib ————— people
accumulation : equilib ————— units

assumptions:

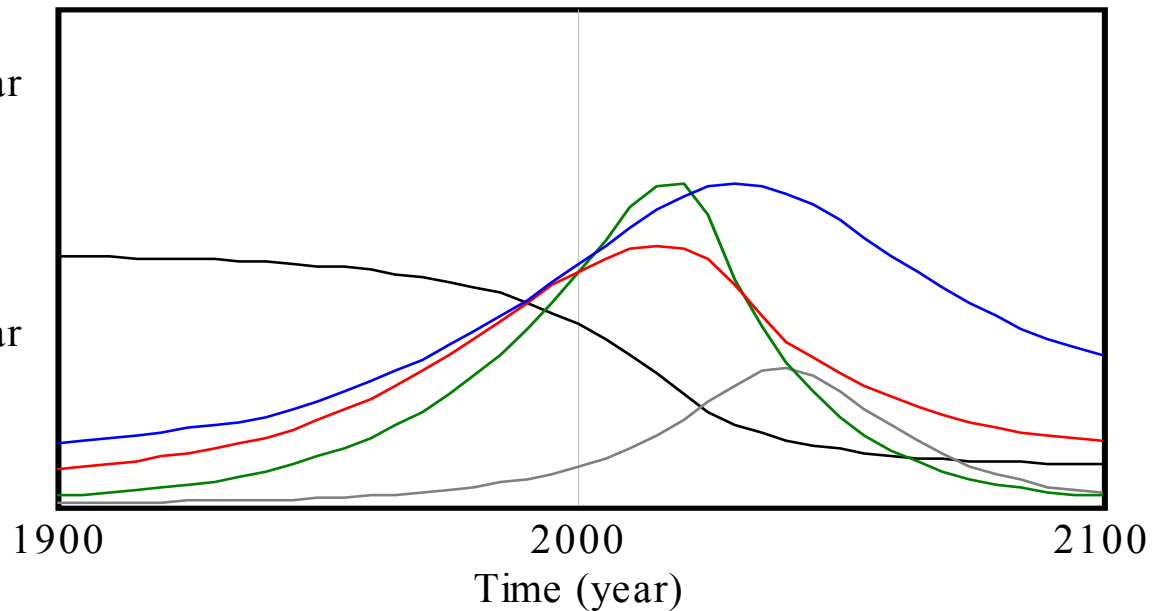
- simple malthusian model, life span 60 y, consumption 0.5% > production,
- initially 1000 people, 1500 units of products



J. FORRESTER'S WORLD SUPPLEMENT

State of the World

13 B Person
 6e+012 Veg equiv kg/year
 4e+012 \$/year
 40 Dmnl
 2e+012 Resource units
 0 Person
 0 Veg equiv kg/year
 0 \$/year
 0 Dmnl
 0 Resource units



population : Current ————— Person
 food : Current ————— Veg equiv kg/year
 industrial output : Current ————— \$/year
 persistent pollution index : Current ————— Dmnl
 Nonrenewable Resources : Current ————— Resource units



SELECTED READINGS

D. Hume

<http://cepa.newschool.edu/het/profiles/hume.htm>

A. Smith

<http://www.adamsmith.org/smith/won/won-index.html>

John Stuart Mill

<http://www.utilitarianism.com/ol/one.html>

James Buchanan

<http://www.econlib.org/library/Buchanan/buchCv3Contents.html>

<http://www.econlib.org/library/Buchanan/buchCv7Contents.html>

L. von Mises, F. Hayek

<http://socserv2.socsci.mcmaster.ca/~econ/ugcm/3ll3/mises/index.html>

<http://www.econlib.org/>



THE END

CHAPTER 2