

Civics and Economics

CE.12 Study Guide

STANDARD CE.12A -- BUSINESS ORGANIZATION

Types of business organizations and the role of entrepreneurship

There are **three basic ways** that businesses organize to **earn profits**.

Entrepreneurs play an important role in all three types of business organizations.

What are the basic types of profit-seeking business structures?

Basic types of business ownership

- **Proprietorship:** A form of business organization with one **owner** who takes **all the risks** and **all the profits**.
- **Partnership:** A form of business organization with **two or more owners** who share the risks and the profits.
- **Corporation:** A form of business organization that is authorized by law to act as a legal entity regardless of the number of owners. Owners share the profits. **Owner liability is limited** to the amount of their investment.

What is an entrepreneur?

Entrepreneur

- A person who **takes a risk** to produce and sell goods and services in search of **profit**
- May establish a business according to any of the three types of organizational structures

STANDARD CE.12B -- CIRCULAR FLOW

Circular flow shows how consumers (households), businesses (producers), and markets interact

Resources, goods and services, and money flow continuously among households, businesses, and markets in the United States economy.



Circular Flow

How do resources, goods and services, and money flow among individuals, businesses, and governments in a market economy?

Economic flow (circular flow)

- **Individual and business saving and investment** provide financial capital that can be borrowed for business expansion and increased consumption.
- **Individuals (households)** own the resources used in production, sell the resources, and use the income to purchase products.
- **Businesses (producers)** buy resources; make products that are sold to individuals, other businesses, and the government; and use the profits to buy more resources.
- **Governments** use **tax revenue** from individuals and businesses to provide **public goods and services**.

STANDARD CE.12C -- FINANCIAL INSTITUTIONS

Financial institutions channel funds from savers to borrowers

Private financial institutions act as **intermediaries between savers and borrowers** that include households and business investors.



How do financial institutions make the deposits of savers available to borrowers?

Private financial institutions

- Include **banks, savings and loans, and credit unions**
- Receive **deposits** and make **loans**
- **Encourage saving and investing** by paying **interest on deposits**

STANDARD CE.12D -- GLOBAL ECONOMY

The relationship of Virginia and the United States to the global economy, with emphasis on the impact of technological innovations

Virginia and the United States pursue **international trade** in order to **increase wealth**.

Why do Virginia and the United States trade with other nations?

Terms to know



- **global economy:** Worldwide markets in which the buying and selling of goods and services by all nations takes place

Reasons that states and nations trade

- To obtain goods and services they cannot produce or **cannot produce efficiently** themselves
- To buy goods and services at a **lower cost** or a **lower opportunity cost**
- To **sell goods** and services to other countries
- To **create jobs**

Virginia and the United States **specialize** in the production of certain goods and services, which **promotes efficiency** and growth.

What is the impact of technological innovation on world trade?

Impact of **technological innovations**

Innovations in technology (e.g., the Internet) contribute to the **global flow of information, capital, goods, and services**.

The use of such **technology** also **lowers the cost** of production.