Business Organizations

SSEMI3: I can explain the organization & role of business and analyze the four types of market structures in the US economy.

     a. I can compare & contrast 3 forms of business organization: sole proprietorship, partnership & corporation (# of owners, liability, lifespan, decision-making & taxation)

     b. I can identify the basic characteristics of monopoly, oligopoly, monopolistic competition & pure (perfect) competition (# of seller, barriers to entry, price control & product differentiation).

Sole Proprietorship

- Business owned/run by single person

- **Advantages:** easy to start, ease of management, don't have to share profits, no separate business income taxes, psychological satisfaction, easy to get out, make all decisions

- **Disadvantages:** unlimited liability (personal responsibility for debts), hard to raise capital, size/efficiency, may have limited managerial experience, hard to get qualified employees, limited life (dies with owner)

Partnership

- *General* (two owners) or *limited* (one partner not active); draw up articles of partnership

- **Advantages:** easy to start, easy to manage, no special taxes, easier to attract capital, more efficient→larger size, easier to attract talent

- **Disadvantages**: liable for partners unless limited partnership, limited life, conflict possible, must make decisions together

Corporation
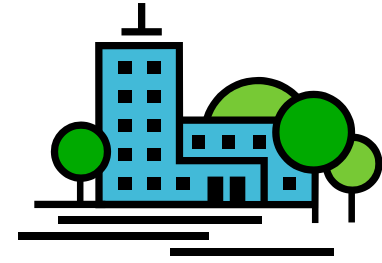
- Many owners, run by a board of directors, who make the decisions
- Very formal: must incorporate (file for permission from government)→get a **charter**
- Issue **stock** (ownership certificates) to stockholders/**shareholders**. Can earn **dividends** (portion of earnings)
- *Common stock:* basic ownership—1 vote per share
- *Preferred stock:* nonvoting ownership—get dividends first—paid first if business fails

Corporations, etc.

- Most vote for *board of directors* & *COO* through a *proxy* (representative)
- **Advantages:** easy to raise capital to finance operations, professional managers, limited liability for stockholders, unlimited life, ease of transferring ownership
- **Disadvantages:** difficult/expensive to get charter, shareholders have little say in how it's run, double taxation (profit & income taxes), government regulations
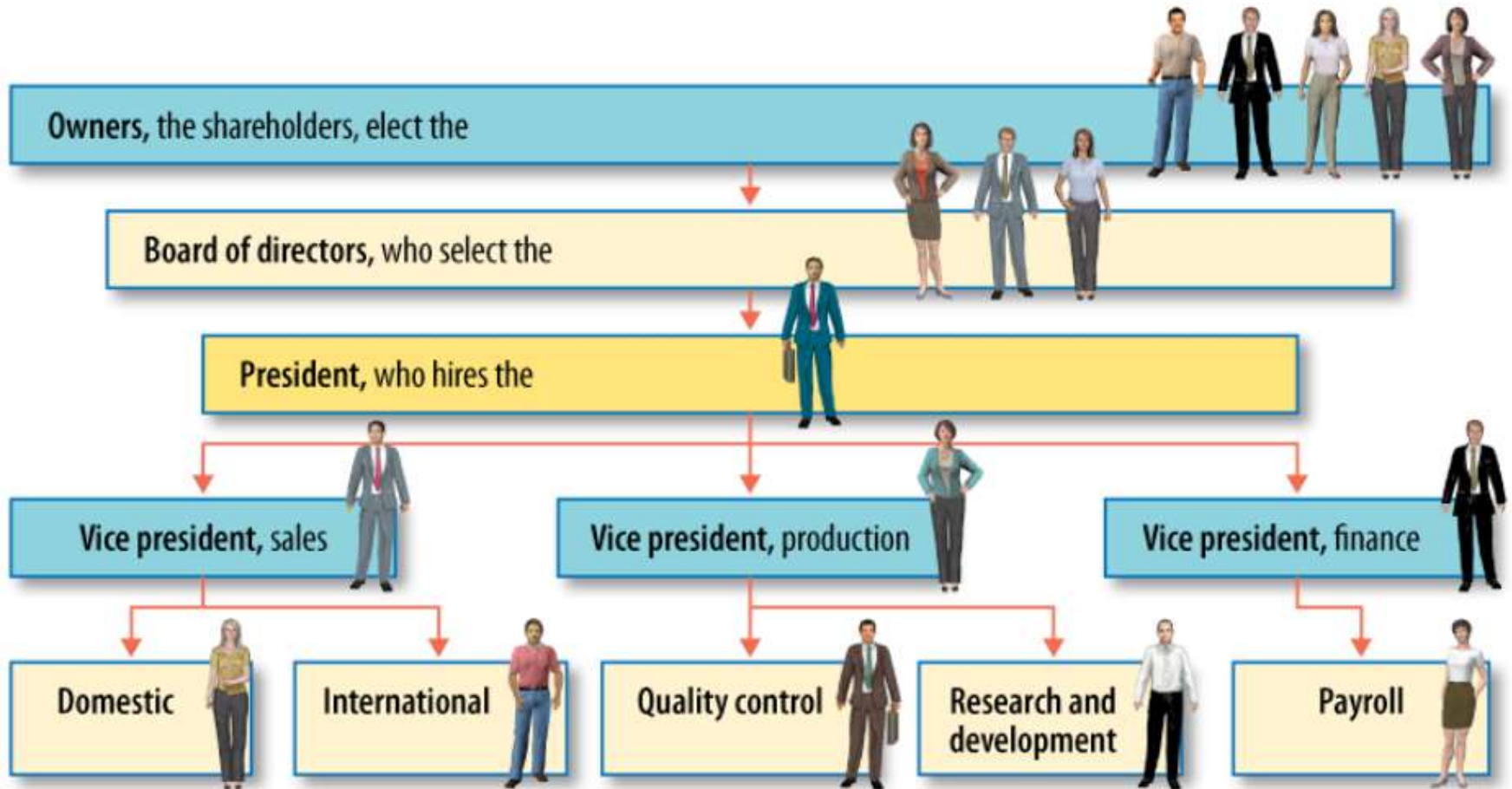
Corporation funding

- Can issue *bonds* instead of stock

- **Bond:** written promise to repay amount borrowed at a later date—guaranteed, but low interest rate (low return)

- **Principal:** amount borrowed

- **Interest:** price paid for the use of another's money

- Examples of corporations: Wal-Mart, Coca-Cola, Dell, Apple, Microsoft, etc, etc, etc.

Figure 3.3 ▶ Corporate Structure

Owners, the shareholders, elect the

Board of directors, who select the

President, who hires the

Vice president, sales

Vice president, production

Vice president, finance

Domestic

International

Quality control

Research and development

Payroll

Pure (perfect) competition

- Large # of well informed independent buyers & sellers who exchange identical products—theoretical (pure market system--doesn't exist)

- **5 characteristics**: large # of buyers & sellers, deal in identical products, each acts independently, are reasonably well-informed, & are free to enter into, conduct or get out of business (no barriers to entry).

- **Market equilibrium**: costs=revenue
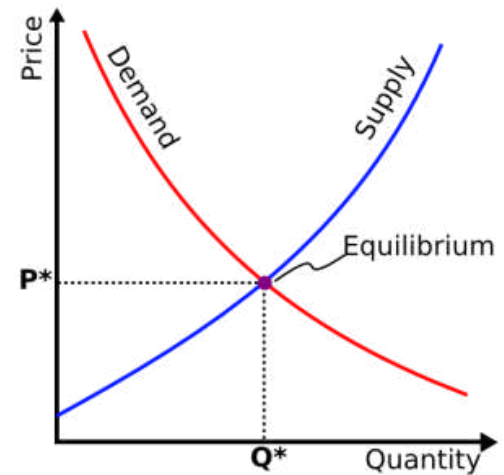
Monopolies

- One firm controls all production & prices
- Single producer (imperfect competition)—barrier to entry for all other firms
- Very rare in the US—we don't like them—lead to lower quality & higher prices
- *Economies of scale:* cost goes down as company gets larger
- **4 types:**
1. **Natural:** utilities (water, gas, electricity)
2. **Geographic:** absence of other sellers in the area
3. **Technological:** ownership of a method, process (patent/copyright)
4. **Government:** military

Monopolistic competition

- Has all the conditions of perfect competition except identical products
- Product differentiation
- **Nonprice competition:** ads, giveaways, promotional campaigns— to try to get you to buy their product —must convince you it's better in some way
- *Profit maximization:* to make you switch
- Low barriers to entry

Oligopoly

- Few large sellers dominate an industry
- Steel, Coke vs. Pepsi, fast-food industry, airlines, cable, natural gas
- **Collusion:** formal agreement to fix prices
- **Price-fixing:** agreeing to charge similar prices for products
- Can lead to price wars
- Easy entry & exit to market