

Business Firms

Read Topic 5 & 4 (in that order)

Business Firms

Characteristics

brings together factors of production for the purpose of
producing/distributing goods & services

specialization

division of labor

economies of scale

Forms of Business Organization

Sole proprietorship

single owner

advantages

keep all profit

easy to start

own boss

disadvantages

unlimited liability

lack of capital

difficult to continue business

estate taxes

Partnerships

more than one owner

advantages

more capital

spread risk

disadvantages

need to work together

share profits

liability not based on your decisions

Corporations

owned by potentially thousands of individuals

separate legal status

articles of incorporation

many legal issues

stock to shareholders

common stock

voting stock

proxy

preferred stock

preference on dividends

most businesses are corporations

Structure

Stockholders

Board of Directors

Chief Executive Officer (CEO)

Business employees
advantages
limited liability
much easier to raise capital
issues stock/bonds
unlimited lifespan
disadvantages
difficult to set up
double taxation
corporate and individual income

Horizontal vs. Vertical integration

Horizontal

buying companies in same business

Vertical

buying companies in related business

has led to multinational corporations

Monopoly

market consists of a single seller (90%)

product has no substitutes

barriers to entrance of competition

seller controls price of product

Types

natural monopolies

utilities

technological monopolies

patents

geographic monopolies

market limits

government monopolies

franchise & license

Oligopoly

few sellers

substantial barrier to entry of competition

standardized product

substantial nonprice competition

factors other than price

Monopolistic Competition

many sellers

differentiated products

non price competition

easy entry and exit

Government Regulation

trusts- group of businesses operated as one

Sherman Antitrust Act – 1890

prohibited any restriction of competition

vague, poorly written, not very effective

Clayton Antitrust Act – 1914

prohibited if “effect was to substantially lessen competition”

price discrimination

exclusive dealing arrangements

interlocking directories

the acquisition of stock by competing companies

Federal Trade Commission Act – 1914

created the FTC to oversee the Clayton Act

FTC can block mergers, break up monopolies

Robinson – Patman Act – 1936

restricted suppliers selling at “unreasonably” low prices if it reduced

competition

Celler – Kefauver Antimerger Act – 1950

restricted purchasing assets instead of business

Labor

wages are a function of demand & productivity

how much is work worth?

Minimum wage

Wage discrimination

Types of labor

unskilled

semi-skilled

skilled

professional

Unions

group of workers who band together for more power/leverage

collective bargaining

wages, working conditions, benefits, job security

strikes

rolling, sit down

mediation, arbitration, negotiation

lock outs

open shop vs. closed shop