ECONOMICS
UNIT 4 NOTES

Business Organizations
Market Structure
Labor

Sole Proprietorships

- A business owned by one person, known as the proprietor.
- <u>Advantages:</u>
  - Be your own boss.
  - Make your own hours and schedule.
  - owner receives all the profits and has full control of the business.
- <u>Disadvantages:</u>
  - May work longer hours than an employee, no "overtime"
  - Must make all contribution for healthcare, retirement, taxes, etc.
  - Must have significant start-up money.
  - Must have wide variety of skills.
  - owner has **<u>unlimited liability</u>** (personally responsible for all debts and damages from doing business).
  - Personal assets may be seized to pay off business debts.

Partnerships

- A business owned and operated by two or more people.
- Partners sign a legally binding agreement describing the duties of each partner, division of profits and distribution of assets at end of partnership.
- <u>Advantages:</u>
  - Shared responsibility, decision making, etc.
  - Team up with other people that have different skills.
- <u>Disadvantages:</u>
  - Must have good working relationship, trust.
  - both partners have unlimited liability.

Partnerships (cont.)

- **Limited partnerships** are businesses in which the partners are not equal.
- The general partner is fully responsible for debts of company.
- Other partners contribute money or property, but have no voice in the company's management.
- The limited partners have no liability beyond their initial investment.

What Is a Corporation?

- An organization owned by many people but treated by law as if it were a person.
- Corporations can own property, pay taxes, make contracts, sue and be sued.
- Corporations have a distinct existence from stockholders.

What Is a Corporation? (cont.)

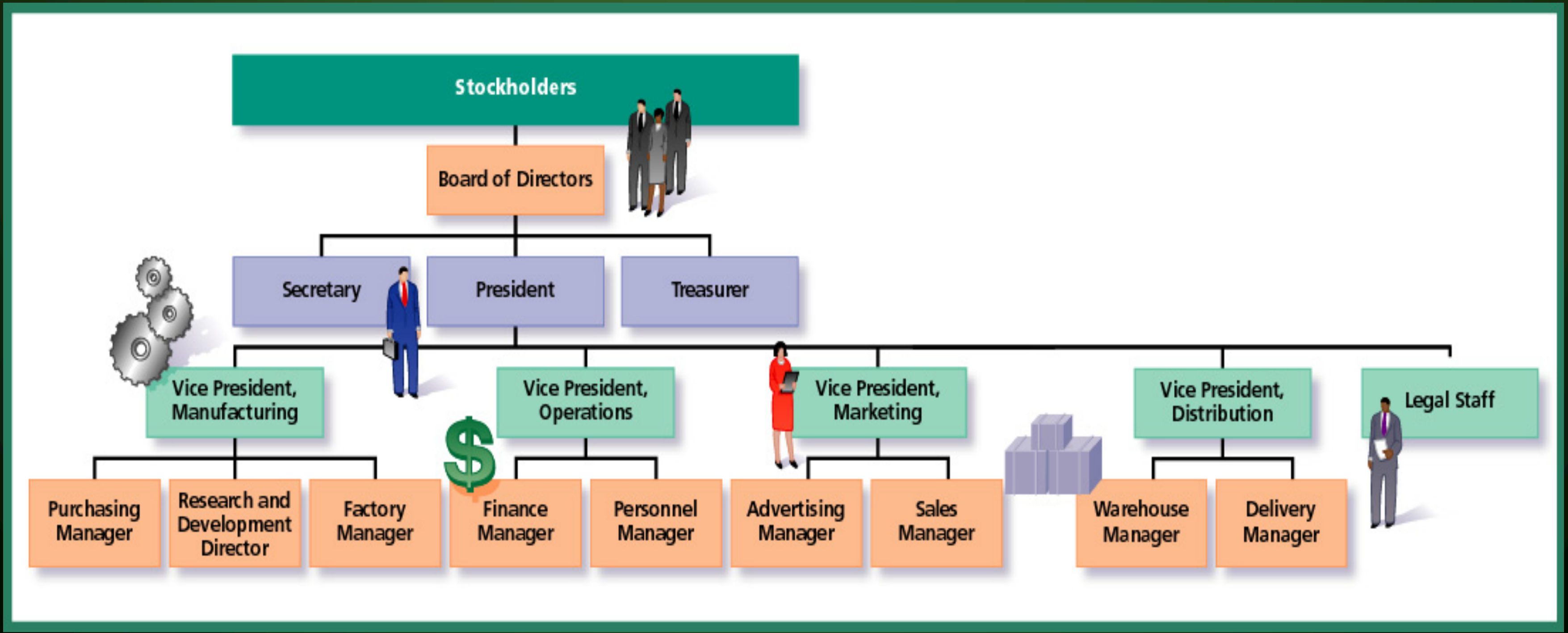
- Advantage: stockholders have **limited liability**, they are not personally responsible, only the business loses money and assets.
- Disadvantage: corporations pay more taxes than other forms of business organizations.
- To form a corporation, its founders must register with the state government, sell stock, and elect a board of directors.

Corporate Structure

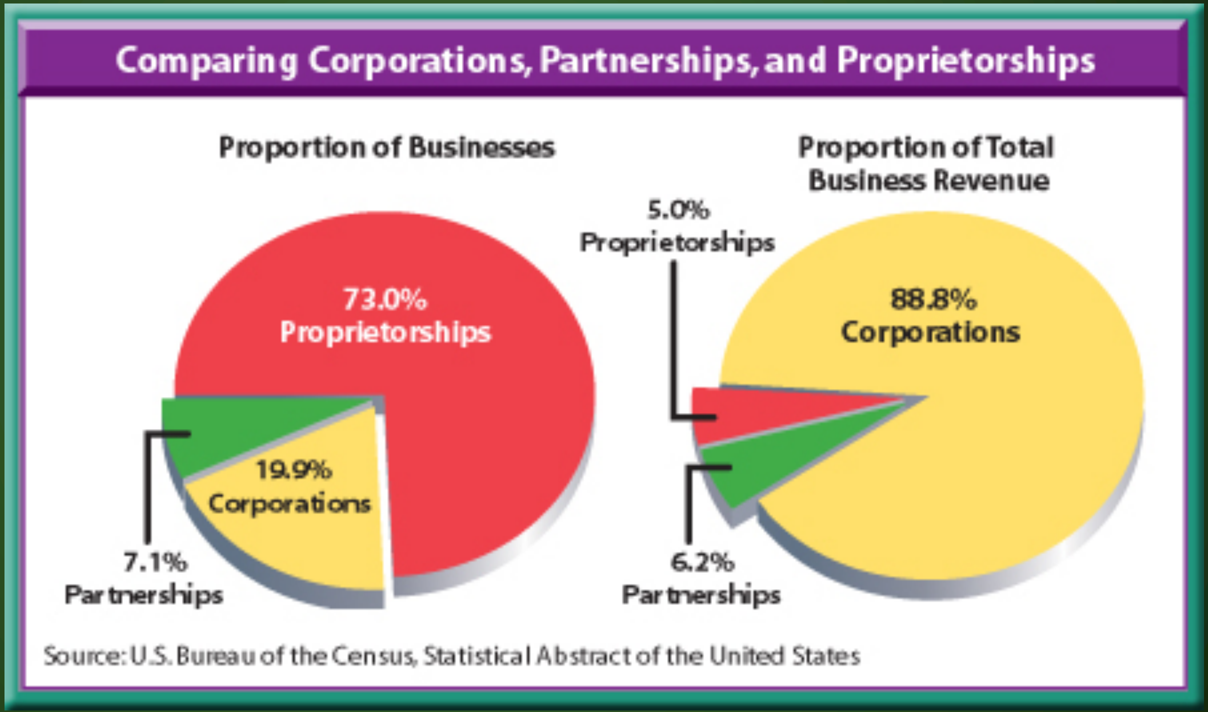
- State grants a corporate charter that allows the corporation to operate in that state.
- Raise capital by selling stocks or bonds.
- **Common stock** gives stockholders right to vote and a percentage of future profits.
- **Preferred stock** doesn't give voting rights, but pays a dividend.

Corporate Structure (cont.)

- Stockholders elect a board of directors who will supervise and control the corporation by hiring people to run the day-to-day operations of the business.



Although proprietorships make up about 73 percent of American businesses, they generate only about 5 percent of total business revenues.

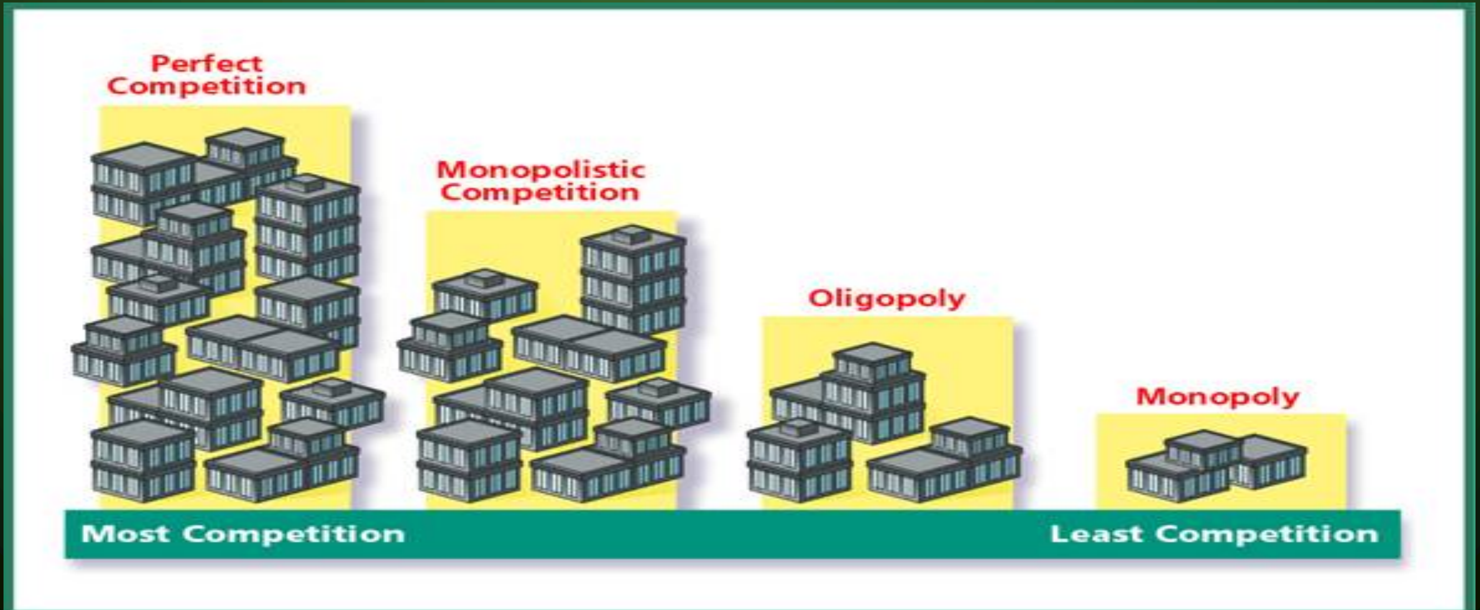


Franchises

- A contract in which a franchisor sells the right to use its name and sell its product.
- The business buying it, the franchisee, pays a fee that could include a percentage of all money taken in.
- Franchises often have training programs to teach the franchisee and to set the standards of business operations.
- Advantages:
  - Name recognition, reputation, loyal customers.
  - Marketing – national advertising, prepared materials.
  - Reduced risk
  - You can still be the boss!
- Disadvantages:
  - Fees, start-up costs, royalty payments, marketing fees.
  - Limitations - must follow specific rules, no creativity.
  - Risk…you can still fail!

Market Structure

- Market structures are a way to categorize businesses by the amount of competition they face.
- Four basic market structures in the American economy are: perfect competition, monopolistic competition, oligopoly, and monopoly.



Conditions of Perfect Competition

- Many buyers and sellers.
- Products are almost identical (no product differentiation).
- Easy Entry: initial investment costs are low, and the good/service is easy to learn to produce.
- Sellers or buyers cannot group together to control price.
- Supply and demand control the price.
- "Price Takers"

Benefits to Society

- Price will drop to a level that benefits both consumer and entrepreneur.
- Economic efficiency.
- Resources are used in most productive manner.
- Requires no government intervention.
- Adam Smith's "invisible hand" guides producers into their most productive capacity.

Imperfect Competition

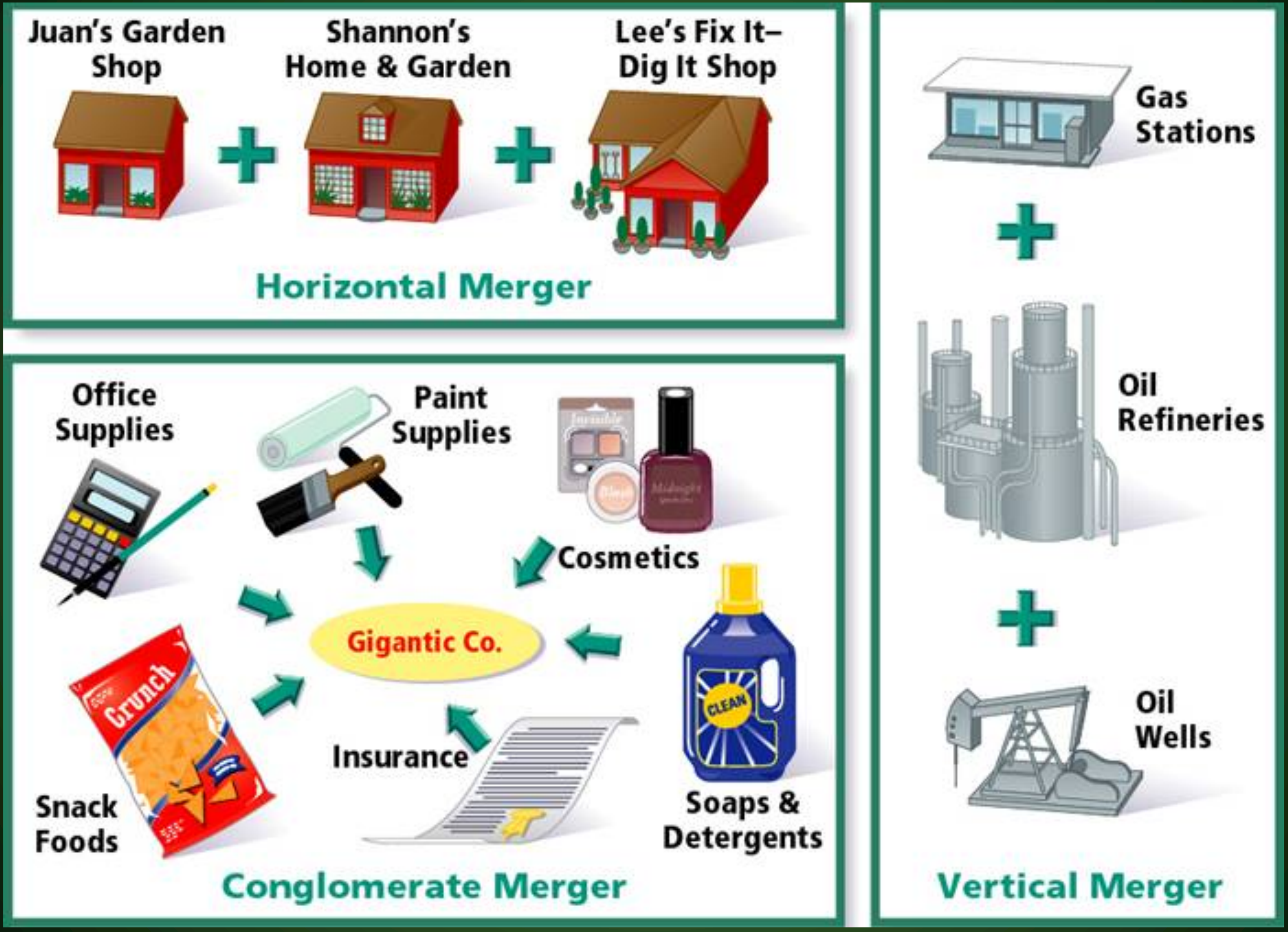
- There are three types of imperfect competition that differ in how much competition and control over price the seller has.
- All firms operating in imperfect competition reduce output (Q↓) and charge higher prices (P↑) = INEFFICIENT!
- Monopolistic Competition
- Oligopoly
- Monopoly

Monopoly

- Most extreme form of imperfect competition
- A single seller controls the supply and price of product.
- **No substitutes**: no competitor offers good or service that closely replaces what monopoly sells.
- **No entry:** a competitor cannot enter the market due to government regulations, large initial investment, or ownership of raw materials.
- **Natural monopolies** are the result of an economy of scale–which means because of its size, the company can produce the largest amount for the lowest cost.

Mergers

- **Horizontal merger** is the merging of two corporations in the same business.
- **Vertical merger** is merging of two corporations in same chain of supply.
- **Conglomerates** are the merging of two corporations involved in at least four or more unrelated businesses.


Juan's Garden Shop
Shannon's Home & Garden
Lee's Fix It–Dig It Shop
Horizontal Merger
Office Supplies
Paint Supplies
Cosmetics
Gigantic Co.
Snack Foods
Insurance
Soaps & Detergents
Crunch
CLEAN
Conglomerate Merger
Gas Stations
Oil Refineries
Oil Wells
Vertical Merger

Antitrust Legislation

- **Sherman Antitrust Act** (1890) prevented new monopolies or trusts from forming and broke up existing ones.
- **Clayton Act** (1914) sought to clarify the laws in Sherman Antitrust Act by prohibiting or limiting a specific number of business practices.
- Federal government must determine whether merging of two companies will significantly lessen competition.

Oligopoly

- Market is dominated by a few sellers.
- Capital costs are high and it is difficult for new companies to enter market.
- Goods/services provided by the few sellers are nearly identical.
- All the companies are **interdependent**; change in one will affect the others.
- Interdependence can lead to price wars or the illegal act of **collusion** or teaming up to raise prices.
- **Cartels** are international groups that use collusion to seek monopoly power.

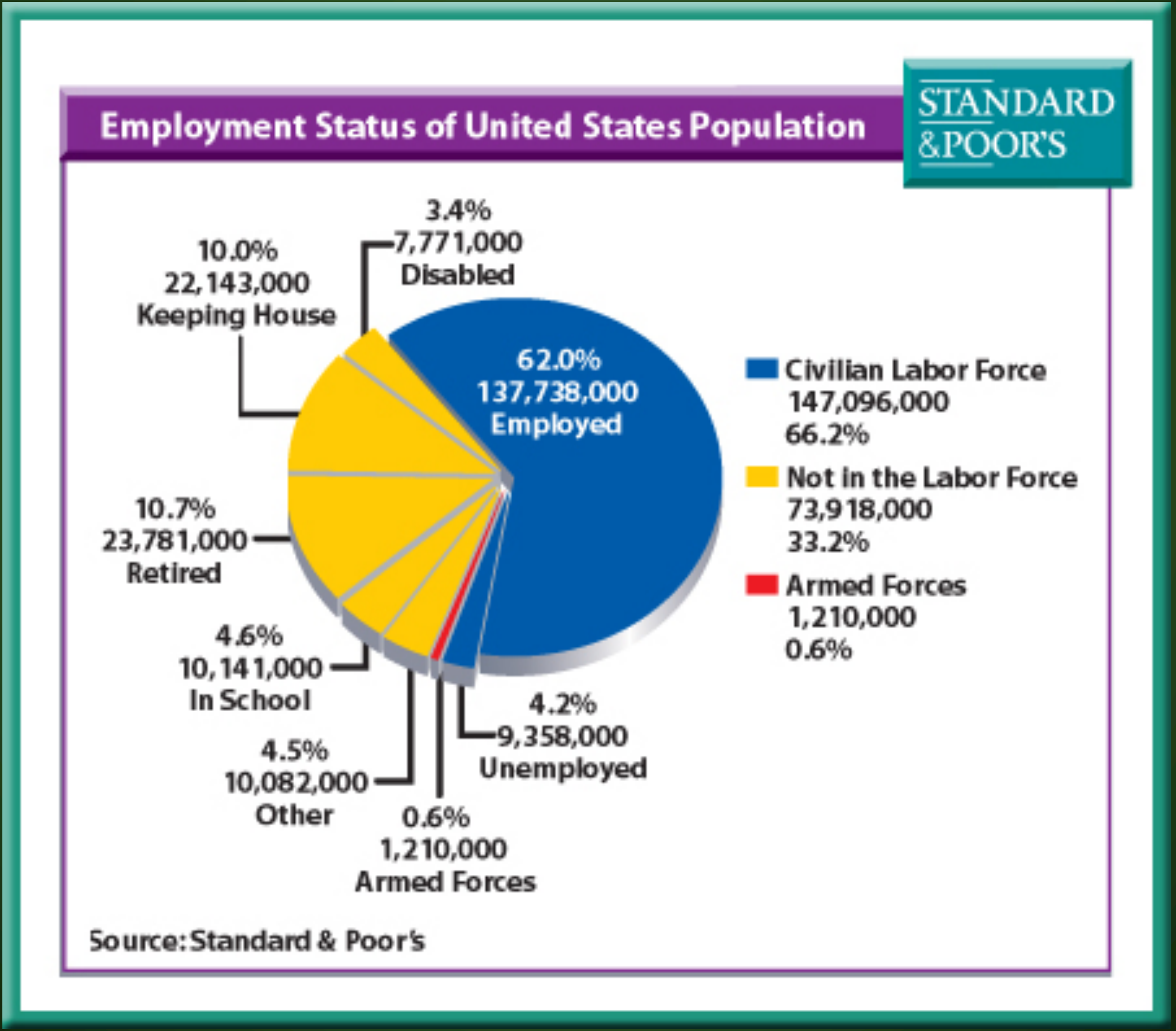
Monopolistic Competition

- Numerous sellers
- Easy entry into market
- Differentiated product
- Nonprice competition
- Some price control by the seller
- Advertising tries to convince consumers of the superiority of given product, enabling companies to charge more than the market price for a product

The Civilian Labor Force

- **Definition**: the total number of people 16 years or older who are employed or seeking work.
- **NOT included in the civilian labor force:** mentally or physically disabled people, prisoners, people in the armed forces, and those not looking for a paying job.

The Civilian Labor Force (cont.)



Categories of Workers

- **Blue collar:** craft workers, manufacturers, and nonfarm laborers
- **White collar**: office workers, salespeople, highly trained workers
- **Unskilled**: no specialized training
- **Semiskilled**: some training
- **Skilled**: learned trade or craft
- **Professionals:** college degrees and training
- **Factors that affect wages:** skill, type of job, and location.

Development of Labor Unions

- In the 1800s working conditions were terrible and unions were often illegal.
- Strikes often resulted in violence between workers and the police.
- The first permanent union, The American Federation of Labor (AFL) was made up of craft unions and led by Samuel Gompers.
- In 1938, the Congress of Industrial Organizations (CIO) was created, and the automobile and steel industries were the first to be organized.
- AFL and CIO joined forces in 1955 because they felt greater gains could be made if the craft and industrial unions worked together.

Labor Policies

- **<u>Closed shops</u>** allow the company to hire only union workers; these were outlawed in 1947.
- **<u>Right-to-Work Laws</u>**: prevent employers from excluding non-union workers, workers can't be forced to join or pay union dues.

Collective Bargaining

- **Definition**: the process by which unions and employers negotiate the conditions of employment.
- The company wants to keep wages and benefits low to hold its labor costs down and remain competitive in the market.
- The union wants to increase wages and benefits for its members as much as possible.

Negotiations

- Labor and management meet to discuss contract issues.
- **<u>Mediation</u>** takes place when labor and management cannot agree or become hostile; instead they find a neutral person to try to help them reach an agreement.
- **<u>Arbitration</u>** takes place when mediation fails; labor and management then ask a third party to make a decision, agreeing to unconditionally accept that decision.

Strikes and Management

- **Picketing** is when workers carry signs in front of the place of business until their needs are satisfactorily met in the contract.
- Strikebreakers or **scabs** are people who fill in for striking workers.
- **Lockouts** are when management prevents workers from returning to work until a new contract is signed.
- **Injunctions** are court orders that limit picketing or prevent a strike from continuing or occurring at all.

Why Have Unions Declined?

- Over time, working conditions have improved so workers see little benefit to belonging to a union.
- More jobs are available in white collar and service sectors; blue-collar jobs are decreasing.
- Critics of unions claim increased wages given to union workers are passed on to consumers in price increases.