1 Business Types

Liability

Liability is a legal obligation to pay debt. If a business has **unlimited liability**, then its owners are personally responsible to pay any debt the business owes. With unlimited liability, business owners can lose everything—their homes, cars, etc.—if they are in debt. **Limited liability** means that the business owners are only responsible to pay as much as they own stock in the business—they could lose their business, but not their personal possessions.

Lifespan

If a business owner dies or quits, then what happens to the business? This is called **lifespan**. If a business has **limited life**, it will close or change drastically when the owner leaves. If it has **unlimited life**, then new owners will gain shares in the business and operations will continue uninterrupted when an owner leaves.

Decision Making

Who is responsible for operating a business on a daily basis? This is called **decision making**. Does one person or do two people make the decisions? Does a board vote on what the business should do?

Taxation

Different business organizations are taxed differently. Non-corporations, such as sole-proprietorships and partnerships, pay a **single tax**. That is, they are taxed based on what they earn. Corporations face **double taxation**. That is, they pay taxes on profits and shareholders also pay taxes on their dividends (money paid to shareholders).

2 Business Types

Sole Proprietorship

Sole proprietorship is a business owned by one person. Sole proprietorships are easy to start—all a person needs is to register and acquire a local business license. There is no distinction between owners personally and their business.

Liability

Since there is no distinction between the owners of sole proprietorships and their businesses, they have **unlimited liability**. This means that if an owner signs a contract, she does so in her own name. If she is in breech of contract or in debt, business creditors can go after her personally.

Lifespan

A sole proprietorship has **limited life**. If something happens to the owner, the business usually does not continue to run.

Decision Making

There is little chance for conflict in a sole proprietorship. Only the owner is responsible for business decisions.

Taxation

Sole proprietors do not have to keep their business funds separate from their personal funds. At tax time, they file their business and personal taxes together.

Example

Candice started mowing people's lawns while she was in college to earn extra money. As she got more business, she used her earnings to invest in better equipment and to hire one employee. When she did that, she registered for a business license. She paid her employee with a personal check but she had him fill out tax forms and withheld the appropriate amount for taxes. She also purchased liability insurance just in case there was an accident.

3 Business Types

Liability

Since there is no distinction between the owners in a partnership and their businesses, they have **unlimited liability**. This means that if they sign a contract, they do so in their own names. If they are in breech of contract or in debt, business creditors can go after them personally. If one partner signs a contract, all partners are responsible for it.

Partnership

A business is a partnership if it has two or more owners. A general partnership is similar to a sole proprietorship except it has greater access to start-up funds.

Lifespan

A general partnership has **limited life**. If something happens to the owners, the business usually does not continue to run.

Decision Making

There is more chance for conflict in a general partnership. All owners are responsible for business decisions, so it is important to have contracts and agreements upfront in the event of conflict.

Taxation

Partnerships, like sole proprietorships, are **pass through entities**. This means that business partners report their business profits on their personal income taxes.

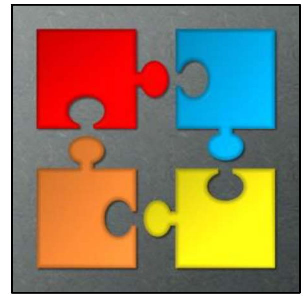
Example

Candice's landscaping business was growing, and she was having trouble keeping up with all that she had to do. She had to hire five more employees. She decided she needed help, so her original employee, Michael, became her partner. He took on liability for part of the business and put money into new equipment. She had to share profits and decision-making with him, but it was worth it to her to share the burden of business operations.

4

Business Types

Corporation



A **corporation** is treated legally as an individual. People buy shares of a corporation known as **stocks**. This can potentially give a corporation access to more start-up funds than other forms of businesses.

Liability

Corporations have **limited liability**. This means that if the corporation is sued or in debt, shareholders' personal assets are not at risk. They are only at risk of losing what they put into the company in the form of stocks.

Lifespan

A corporation has **unlimited life**. If a founder is gone, shares are sold and the corporation continues to exist, often with restructuring.

Decision Making

A board is elected by shareholders for a corporation. The board must meet once a year and is responsible for business decisions.

Taxation

Corporations file taxes separately. Salaries are tax deductible for the corporation. A disadvantage is that corporations are open to **double taxation**. This means that the corporation pays income taxes and then shareholders pay taxes on dividends.

Example

Candice and Michael's Landscaping business was growing rapidly. They had contracts with the city, several businesses, and more private homes than they thought possible. To protect themselves from potential damages in case any accidents occurred, they decided to file with the state as a corporation. They sold shares to their employees who elected a board to make business decisions. After doing this, business picked up even more.

5 Market Structure

Determinants of Market Structure:

Number of Sellers

How does the number of buyers and sellers in a market impact the way the market behaves? More sellers makes a market more competitive.

Barriers to Entry

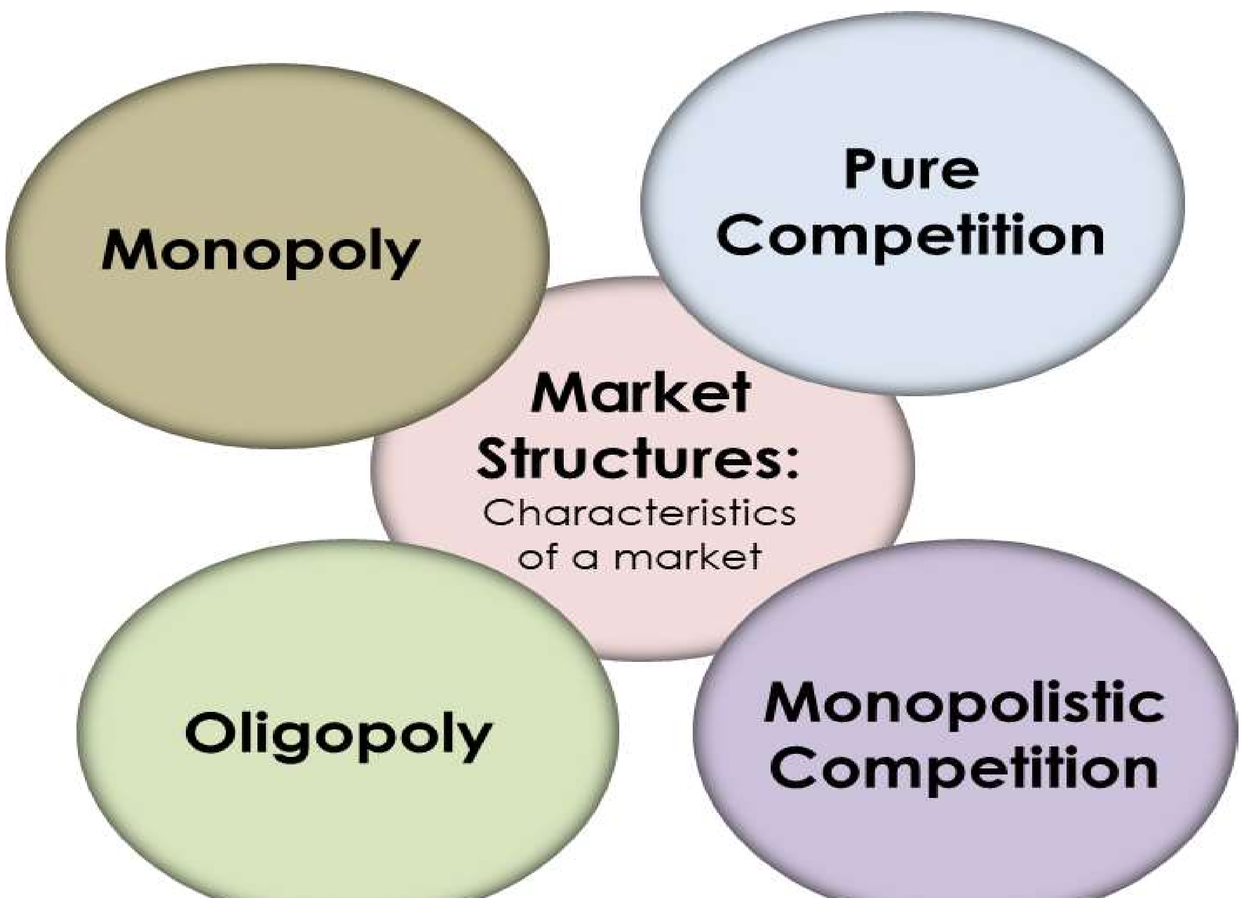
How easy or difficult is it to enter a market? Fewer barriers make a market more competitive.

Price Control

How is price determined in a particular market? A market with fewer price controls is more competitive.

Product Differentiation

How is one good or service different from others?



Market Structure

Pure Competition

In a pure competition, or perfect competition, market structure, there are many buyers and sellers for an identical product. It is theoretical and the opposite of a monopoly.

Number of Sellers

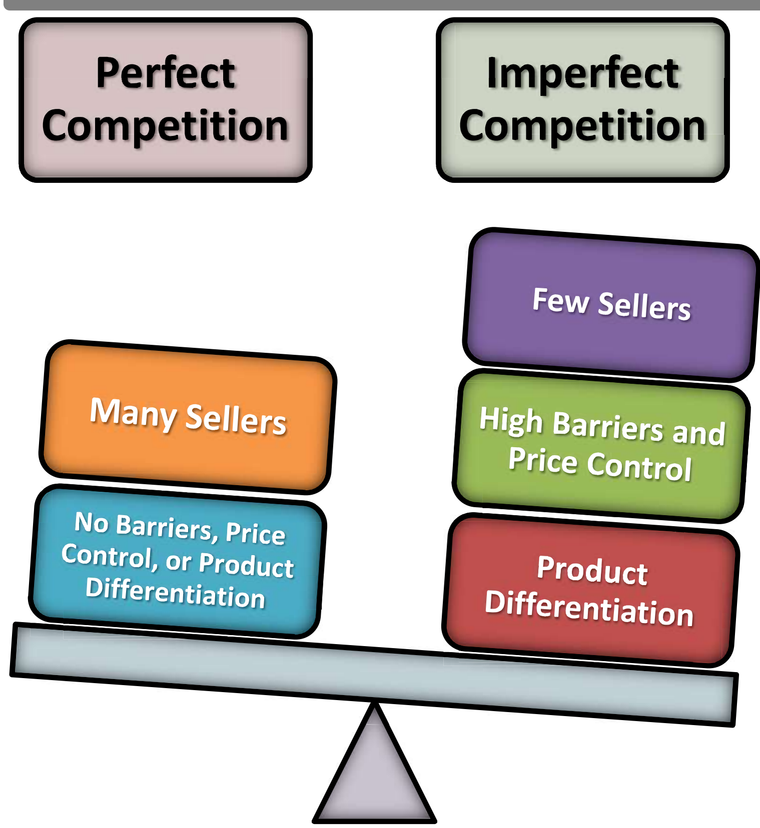
There is no limit to the number of sellers in pure (perfect) competition.

Barriers to Entry

There are no barriers to entry.

Price Control

There are no price controls. The market price is what sellers charge and buyers pay. That is, supply and demand determine price.



Product Differentiation

Products are all the same. For example, if two farmers are selling corn they will both charge whatever the market value of the corn happens to be.

⑦ Market Structure

Monopolistic Competition

Monopolistic competition is the closest real-world competition to pure competition.

Number of Sellers

There are many buyers and sellers.

Barriers to Entry

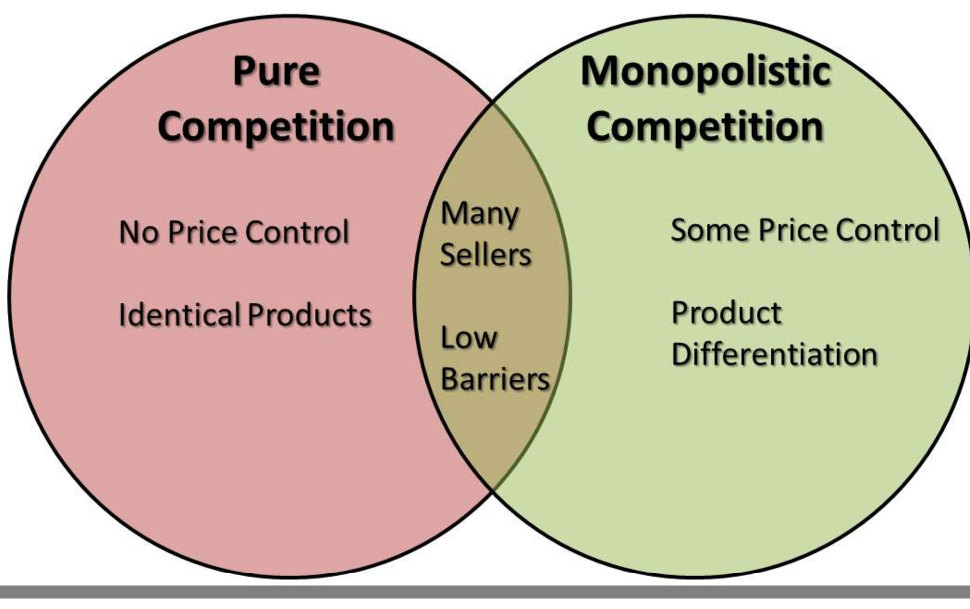
There are few or no barriers to entry.

Price Control

There is some price control in this market, but competition is allowed through pricing and product differentiation.

Product Differentiation

Monopolistic competition uses product differentiation in order to distinguish products from those of competitors. For example, if two farmers are selling corn, one may differentiate by advertising that theirs is organically grown.



Market Structure

Oligopoly

In an oligopoly, a few competitors control a market.

Number of Sellers

There are few sellers in an oligopoly.

Barriers to Entry

There are high barriers to entry in an oligopoly. High manufacturing costs, for example, can limit the number or suppliers entering the market.

Price Control

If one business raises or lowers its prices, the others will follow. This is price leadership. This means that prices are closely controlled in an oligopoly so that each business can maintain its share of the market.

Product Differentiation

Product differentiation may occur (though not always) on a non-price basis. For example, like in monopolistic competition, if the producers of corn are limited, one may distinguish itself by claiming that its corn is organic.

Few Sellers

Price Leadership = Price Control

High Entry Barriers

Products Either Identical or Differentiated

Oligopoly

Pure Competition → Monopolistic Competition → Oligopoly → Monopoly

Market Structure

Monopoly

In a monopoly, only one seller controls a market.

Number of Sellers

There is only one seller in a monopoly.

Barriers to Entry

The barriers to entry are high in a monopoly because of high manufacturing costs, like an oligopoly, or because one company has gained significant influence.

Price Control

Since one seller dominates the market, price control is high. That seller determines what to charge for their product and the buyer is "locked in."

Product Differentiation

Since there is only one seller, there is no product differentiation. For example, no other social media outlet currently offers the reach of Facebook, so advertisers on Facebook pay whatever price Facebook sets.