

SSEMI4 NOTES

SSEMI4 THE STUDENT WILL EXPLAIN THE ORGANIZATION AND ROLE OF BUSINESS AND ANALYZE THE FOUR TYPES OF MARKET STRUCTURES IN THE U.S. ECONOMY.

A. COMPARE AND CONTRAST THREE FORMS OF BUSINESS ORGANIZATION – SOLE PROPRIETORSHIP, PARTNERSHIP, AND CORPORATION.

- There are three ways a business may be organized
- Businesses could be developed as one organization and evolve into others
- These business organizations are:
 - Sole proprietorship
 - Partnership
 - Corporation

SOLE PROPRIETORSHIP

- A business that is owned by one person or a family
- Characteristics:
 - They have **unlimited liability** meaning that the owners are responsible for all financial losses of the company
 - They have complete control over the company
 - They have a **limited lifetime** meaning the company will probably die when the owner dies

PARTNERSHIP

- A business owned by two or more people
- Characteristics:
 - The people who run it can work together to solve problems.
 - The company will have problems if the partners disagree.
 - They also have **unlimited liability**.
 - They have **limited lifetimes**.

CORPORATION

- A business owned by many people.
- Characteristics:
 - The corporation is run by a President or CEO.
 - Average people can buy stocks in a corporation which gives them a share, or part ownership.
 - The stock holders elect the board of directors who choose the president or CEO.
 - These have **unlimited lifetimes** because when the founders of the company die, the company can go on.
 - These have **limited liability** because the stock holders are only out the money they have invested when the corporation runs into financial trouble.
 - Individuals have little control and the corporation usually takes a long time to change.

B. EXPLAIN THE ROLE OF PROFIT AS AN INCENTIVE FOR ENTREPRENEURS.

- Profit: money made after all resource costs are paid
- Incentive: a thing that motivates or encourages one to do something (a prize)
- Why would profits be incentives for entrepreneurs?

C. IDENTIFY THE BASIC CHARACTERISTICS OF MONOPOLY, OLIGOPOLY, MONOPOLISTIC COMPETITION, AND PURE COMPETITION.

- Businesses function in different types of markets
- These markets are structured based on the types of goods sold, the types of business organizations, and the number of businesses that participate
- The 4 market structures are:
 - Pure competition
 - Monopolistic competition
 - Oligopoly
 - Monopoly

MARKET STRUCTURES

- Pure Competition
 - Many sellers
 - Identical products
 - Easy entry into market
 - Example: agricultural products
- Monopolistic Competition
 - Many sellers
 - Slightly differentiated products
 - Brand and quality are important to buyers
- Oligopoly
 - Few sellers dominate an entire market
 - Limited competition
 - Example: airlines, soda companies

MARKET STRUCTURES

- Monopoly
 - One business controls the entire market
 - Very difficult to enter
 - No competition
 - 4 types:
 - Technological: only company with specific technology (example: Apple, Inc.)
 - Natural: only one company dominating would make sense (example: utility companies)
 - Governmental: the government owns/operates company (example: school system)
 - Geographic: caused by distance (example: last chance gas station)