

A vibrant street scene in a coastal town, likely Maine, featuring colorful buildings and various signs. A prominent sign reads "MY MAINE BAG". Other signs include "GALYDE", "RESTAURANT", and "GIFTS". People are walking on the sidewalk, and cars are parked along the street. The background shows a body of water and a forested hillside.

Chapter 8: Business Organizations

Section 3

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ECONOMICS

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Objectives

1. **Explain** the characteristics of corporations.
2. **Analyze** the advantages of incorporation.
3. **Analyze** the disadvantages of incorporation.
4. **Compare and contrast** corporate combinations.
5. **Describe** the role of multinational corporations.



Key Terms

- **corporation:** a legal entity, or being, owned by individual stockholders, each of whom has limited liability for the firm's debts
- **stock:** a certificate of ownership in a corporation
- **closely held corporation:** a type of corporation that issues stock to only a few people, who are often family members
- **publicly held corporation:** a type of corporation that sells stock on the open market
- **bond:** a formal contract issued by a corporation or other entity that includes a promise to repay borrowed money with interest at fixed intervals



Key Terms, cont.

- **certificate of incorporation:** a license to form a corporation issued by a state government
- **dividend:** the portion of corporate profits paid out to stockholders
- **limited liability corporation (LLC):** a type of business with limited liability for the owners, with the advantage of not paying corporate income tax
- **horizontal merger:** the combination of two or more firms competing in the same market with the same good or service



Key Terms, cont.

- **vertical merger:** two or more firms involved in different stages of producing the same good or service
- **conglomerate:** a business combination merging more than three businesses that produce unrelated products or services
- **multinational corporation (MNC):** a large corporation that produces and sells its goods and services in more than one country



Introduction

- What are the risks and benefits of corporations?
 - Corporations provide the opportunity for stockholders to own part of a company and reap the benefits of that company's success. Corporations provide flexibility for their stockholders.



- What are the risks and benefits of corporations?
 - Corporations provide the opportunity for stockholders to own part of a company and reap the benefits of that company's success. Corporations provide flexibility for their stockholders.
 - On the other hand, corporations are difficult and expensive to start and must pay double taxes. Also, the original owners can lose control over their company, since decisions are made by corporate officers and board of directors.



Corporations

- The most complex form of business organization is the corporation.
 - Individual stockholders own stock in a corporation and are, therefore, part-owner of the company that issues the stock.
 - In the United States, corporations account for about 20 percent of all businesses but more than 80 percent of all sales.



"Whoever said 'The only thing we have to fear is fear itself' never had to face a room full of angry shareholders."

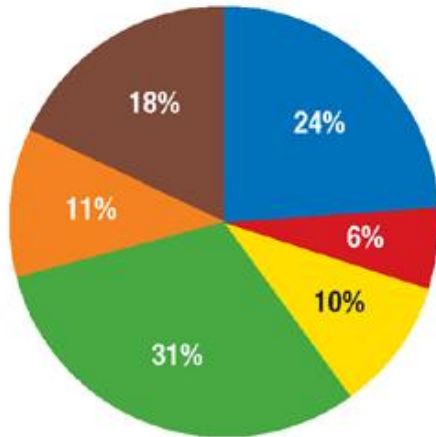


Types of Corporations

- Closely held corporations
 - Corporations that issue stock to only a few people, often family members.
- Publicly held corporations
 - Corporations that sell stock on the open market.
- Owners of a corporation elect a board of directors that makes all the major decisions.

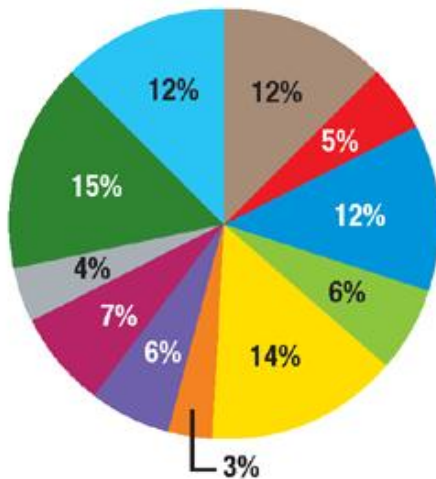


Characteristics of Corporations



By Tax Return

- Under \$25,000
- \$25,000–\$49,999
- \$50,000–\$99,999
- \$100,000–\$499,999
- \$500,000–\$999,999
- \$1,000,000 or more



By Type

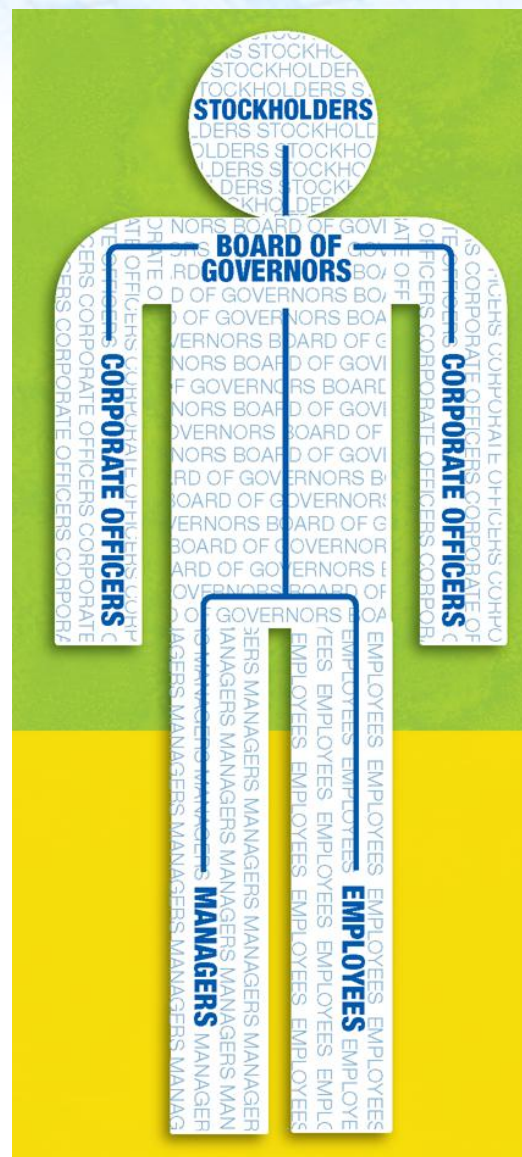
- Real Estate
- Finance and Insurance
- Retail
- Manufacturing
- Construction
- Agriculture
- Accommodation and food services
- Healthcare and Social Assistance
- Management, scientific, and technical consulting
- Professional, scientific, and technical services
- Other services, including legal

Note: Because of rounding, totals may be greater than or less than 100 percent. Data is for 2004.
SOURCE: *The 2008 Statistical Abstract of the United States*



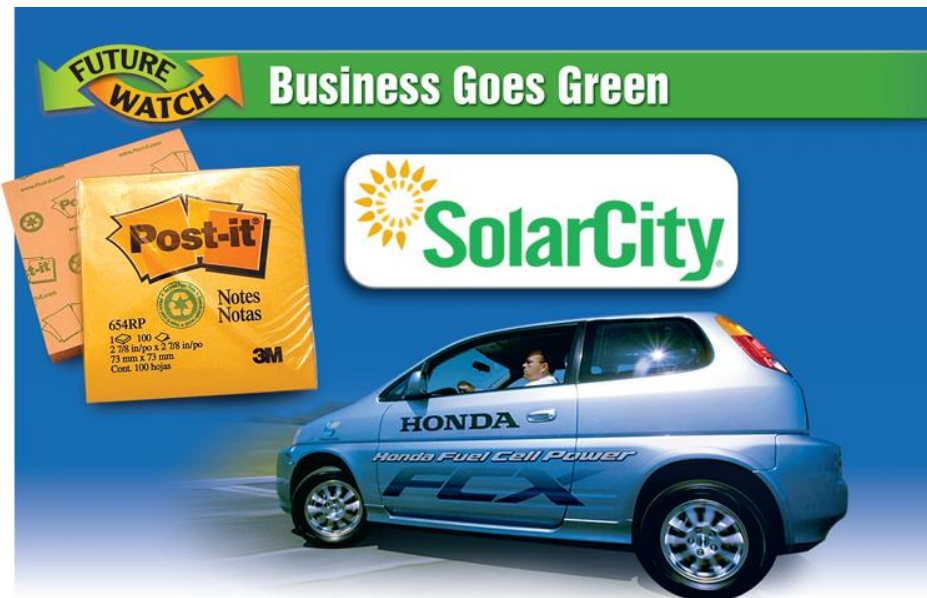
Advantages

- Incorporation, or forming a corporation, offers advantages to stockholders and the company itself.
 - Advantages for stockholders:
 - Unlimited liability
 - Flexibility with easily transferable stock



Advantages, cont.

- Advantages for the company:
 - More potential for growth and longevity
 - Ability to raise money by borrowing
 - No need for special managerial skills



Corporations have a self-interest in developing profitable products and services. For example, consumer concern about global warming has led many corporations to develop eco-friendly technology.



Disadvantages

- Checkpoint: What are the disadvantages of incorporation?
 - Difficulty and expense of start-up
 - Corporate charters can be difficult, expensive, and time consuming to create.
 - Double taxation
 - Corporations must pay corporate income taxes as well as taxes on the dividends paid to stockholders
 - Loss of control
 - Owners do not manage the activities of a corporation
 - More regulation



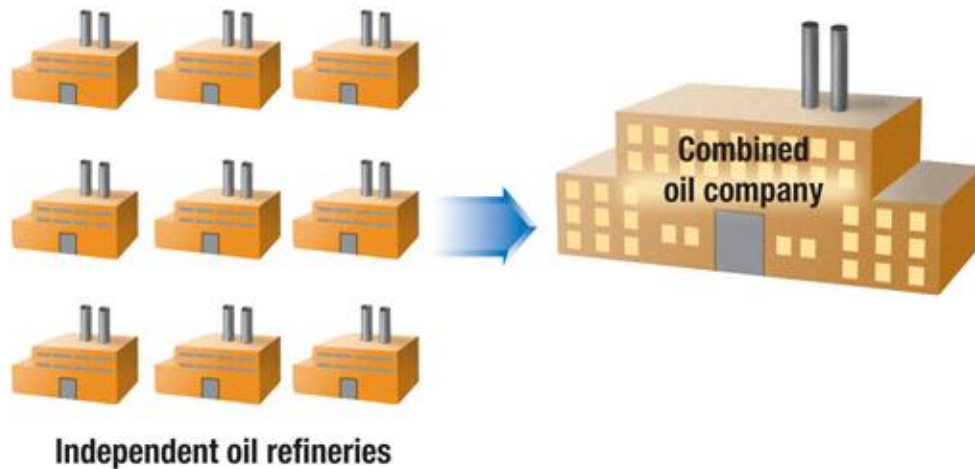
Corporate Combinations

- Corporations can grow larger by merging with another corporation.
- There are three types of mergers:
 - Horizontal mergers are the combination of two or more firms competing in the same market with the same good or service, such as the merger between Cingular and AT&T in 2004.
 - Vertical mergers join two or more firms involved in different stages of producing the same good or service.
 - Conglomerates occur when three or more businesses that produce unrelated products or services merge.

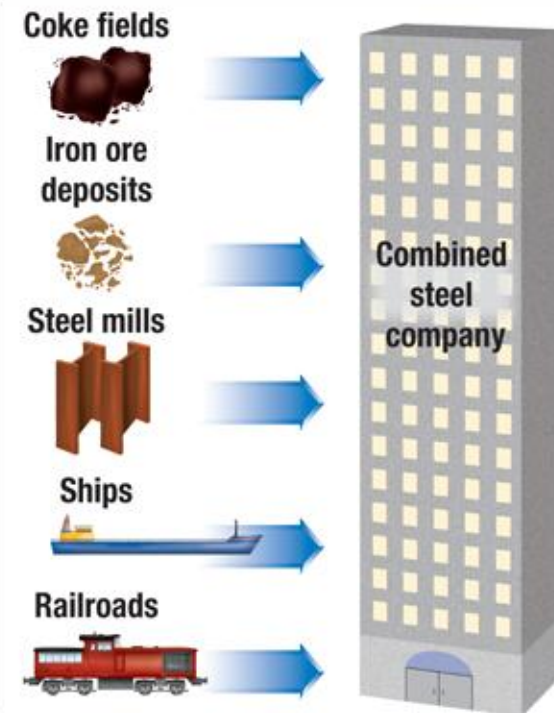


Horizontal and Vertical Mergers

Horizontal Merger



Vertical Merger



Multinational Corporations

- Multinational corporations are the world's largest corporations and they sell their goods and services in more than one country.
 - Advantages
 - Benefit consumers by producing jobs and products around the world.
 - Help poorer countries enjoy better living standards
 - Spread new technology across the globe



Disadvantages of MNCs

- Disadvantages
 - Unduly influence culture and politics in countries in which they operate.
 - Jobs in poorer countries are often marked by low wages and poor working conditions.



Review

- Now that you have learned about the risks and benefits of corporations, go back and answer the Chapter Essential Question.
 - Why do some businesses succeed and others fail?

