CHAPTER

8

Types of Business Organizations

SECTION 1 Sole Proprietorships

SECTION 2 Forms of Partnerships

SECTION 3 Corporations, Mergers, and Multinationals

SECTION 4 Franchises, Co-ops, and Nonprofits

CASE STUDY Apple: The Evolution of One Company

CONCEPT REVIEW

A **producer** is a maker of goods or provider of services.

CHAPTER 8 KEY CONCEPT

Most of the producers in a market economy are **business organizations**, commercial or industrial enterprises and the people who work in them. The purpose of most business organizations is to earn a profit.

WHY THE CONCEPT MATTERS

Do you have a part-time job after school or on weekends? Perhaps you work behind the counter at the local flower shop or as a server at the juice bar downtown. Or perhaps you work as a stocker at one of the large clothing stores at the shopping mall. These businesses are of varying sizes and are organized differently. The American free enterprise system allows producers to choose the kind of business organization that best suits their purpose.

Online Highlights

More at ClassZone.com

Economics Update

Go to **ECONOMICS UPDATE** for chapter updates and current news on Apple Inc. (See Case Study, pp. 252–253.)

Animated Economics

Go to **ANIMATED ECONOMICS** for interactive lessons on the graphs and tables in this chapter.

Interactive Review

Go to **INTERACTIVE REVIEW** for concept review and activities.

How did Apple Inc., which began in a garage, grow into a major multinational corporation? See the Case Study on pages 252–253.

SECTION 1

Sole Proprietorships

OBJECTIVES

In Section 1, you will

- identify the characteristics of sole proprietorships
- describe how sole proprietorships are established
- compare the economic advantages and economic disadvantages of sole proprietorships

KEY TERMS

business organization, *p. 226*
sole proprietorship, *p. 226*
limited life, *p. 228*
unlimited liability, *p. 228*

TAKING NOTES

As you read Section 1, complete a chart showing the advantages and disadvantages of sole proprietorships. Use the Graphic Organizer at **Interactive Review @ ClassZone.com**

Sole Proprietorships	
Advantages	Disadvantages

The Characteristics of Sole Proprietorships

KEY CONCEPTS

Every business begins with a person who has an idea about how to earn money and the drive to follow through on the idea and to create a business organization. A **business organization** is an enterprise that produces goods or provides services. Most of the goods and services available in a market economy come from business organizations.

The purpose of most business organizations is to earn a profit. They achieve this purpose by producing the goods and services that best meet consumers' wants and needs. In the course of meeting consumer demand, business organizations provide jobs and income that can be used for spending and saving. Business organizations also pay taxes that help finance government services.

The most common type of business organization in the United States is the **sole proprietorship**, a business owned and managed by a single person. Sole proprietorships include everything from mom-and-pop grocery stores to barbershops to computer repair businesses. They account for more than 70 percent of all businesses in the United States. However, they generate less than 5 percent of all sales by American businesses.

QUICK REFERENCE

A **business organization** is an enterprise that produces goods or provides services, usually in order to make a profit.

A **sole proprietorship** is a business organization owned and controlled by one person.

Sole Proprietorships Beauty salons are frequently operated by one owner.

EXAMPLE Bart's Cosmic Comics

To understand how sole proprietorships are set up and run, let's look at the example of Bart's Cosmic Comics. Bart started collecting comic books in grade school. Over the years, he amassed a huge collection of comics as well as other related items—lunch boxes, action figures, and so on. At the same time, he learned a lot about the comic book business. So, few of his friends expressed surprise when Bart announced that he wanted to open a business selling comic books and related merchandise.

Raising Funds Bart needed money to rent and renovate the space he found downtown and to buy new and used comics to stock the store. A hefty withdrawal from his savings account got him started, but he needed to borrow to get the job finished. He tried to get a loan from a local bank. However, because he was not yet an established business owner, bank officers were reluctant to approve the loan. Finally, he turned to his family and friends, who together lent him $15,000.

Preparing to Open After raising the necessary funds, Bart completed the few legal steps required to open his business. These included obtaining a business license and a site permit, a document stating that the local government allowed him to use the space he was renting for business. He also registered the name he had chosen for his business—Bart's Cosmic Comics.

Initial Difficulties At first, business was slow. Bart worried that the store would fail and he would be stuck with no income and no way to repay the loans. He thought the safest course of action might be to hang on to what cash he had so he could keep the store open for as long as possible. After much consideration, however, he decided to take another risk, spending $1,000 on advertisements in local newspapers. He also ran several in-store promotions. His business began to take off.

Success Within 18 months, Bart had paid back his loans and was earning a profit. Shortly after, he decided to expand his inventory to include T-shirts and posters and to hire an assistant to help run the store. This time when he asked the bank for a loan to pay for the expansion, bank officers were ready to approve the financing. Bart's success indicated that giving him a loan would be a good business decision.

Economics Update

Find an update on sole proprietorships at **ClassZone.com**

APPLICATION Applying Economic Concepts

A. Identify two or three examples of businesses you might want to establish as sole proprietorships.

Sole Proprietorships: Advantages and Disadvantages

QUICK REFERENCE

Limited life is a situation where a business closes if the owner dies, retires, or leaves for some other reason.

Unlimited liability means that a business owner is responsible for all the business's losses and debts.

KEY CONCEPTS

The sole proprietorship has certain advantages and disadvantages that set it apart from other kinds of business structures. For example, sole proprietorships are not governed by as many regulations as other types of businesses. Also, sole proprietorships have **limited life**, a situation in which a business ceases to exist if the owner dies, retires, or leaves the business for some other reason. Finally, sole proprietors have **unlimited liability**, a situation in which a business owner is responsible for all the losses, debts, and other claims against the business.

ADVANTAGES Sole Proprietorships

There is a reason that sole proprietorships are by far the most common type of business structure: they have several significant advantages.

Easy to Open or Close Bart's start-up requirements were typical: funding, a license, a site permit, and a legally registered name. If Bart wanted to get out of the business, he would find that process easy as well. As long as he has settled all his bills, Bart may close the business when he sees fit.

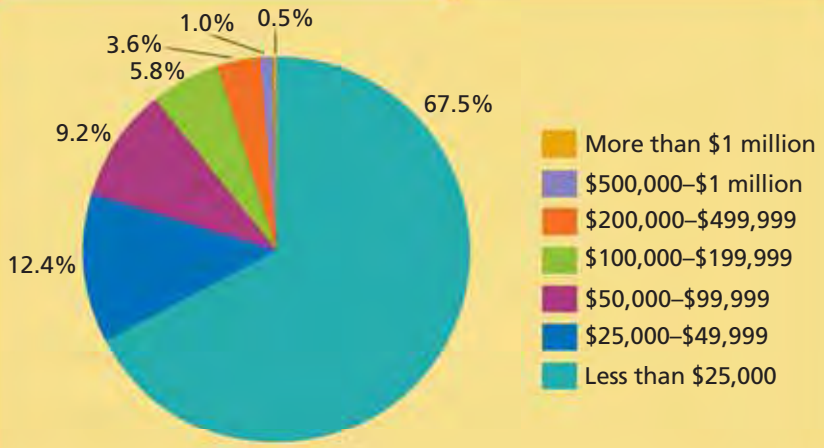
Few Regulations Compared with other business organizations, sole proprietorships are lightly regulated. Bart, for example, must locate his store in an area zoned, or officially set aside, for businesses. He also must treat his employees according to various labor laws.

Freedom and Control Bart makes all the decisions and does so quickly without having to check with partners or boards of directors. Having complete control and seeing his ideas come to life gives Bart, like many other sole proprietors, a strong sense of personal satisfaction. In other words, he enjoys being his own boss.

Owner Keeps Profits Bart also enjoys the chief economic advantage of the sole proprietorship. Since he is the sole owner of the business, he gets to keep all the profits the business earns.

Sole Proprietors Are Fully Responsible The owner bears full responsibility for running the business but also keeps all of the profits.

FIGURE 8.1 SOLE PROPRIETORSHIPS BY REVENUES



Source: Internal Revenue Service, 2003 data

The majority of **sole proprietorships** do not make a lot of money. In fact, almost 70 percent of sole proprietorships make less than $25,000 in sales during the year. Such small businesses are usually run part time out of the owners' homes.

ANALYZE GRAPHS

1. About what percentage of sole proprietorships make less than $50,000 in annual sales?
2. Make a generalization about sole proprietorships based on information in the graph.

DISADVANTAGES Sole Proprietorships

Bart's story hints at some of the disadvantages of sole proprietorships as well.

Limited Funds Especially at start-up, Bart had very limited funds. This disadvantage is one of the key reasons that sole proprietorships are far more likely to fail than other types of business organizations. Until he had established his business, Bart had trouble securing a bank loan. Without monetary reserves to fall back on, he found it a struggle to stay in business. Even when the business became successful, Bart felt that the lack of funds hurt him. He worried that he would not be able to attract and keep good workers because his limited funds meant he could not pay competitive wages or offer benefits such as health insurance.

Limited Life Bart found that some of the advantages of the sole proprietorship may also prove to be disadvantages. He appreciated the ease with which you can set up or close a sole proprietorship. However, this means that sole proprietorships have limited life. If he leaves the business, Bart's Cosmic Comics ceases to exist.

Unlimited Liability Bart enjoys having total responsibility for running the business, even though that means that he works long hours. Having total responsibility for the business produces perhaps the greatest disadvantage of a sole proprietorship—unlimited liability. Bart is legally responsible for all the financial aspects of the business. If Bart's Cosmic Comics fails, he must still pay all its debts, even without income from the business. If necessary, he may have to sell property and use his personal savings to pay off debts. Sole proprietors, then, may lose their homes, cars, or personal savings if their businesses fail.

APPLICATION Analyzing Cause and Effect

B. Why do you think that sole proprietorships are the most common form of business organization in the United States?

ECONOMICS PACESETTER

Mary Kay Ash: Going It Alone

Do you have what it takes to "go it alone" as an entrepreneur? See how many of these questions you can answer with a "yes."

- Are you willing to take risks?
- Can you live with uncertainty?
- Are you self-confident?
- Are you self-directed, able to set and reach goals for yourself?
- Are you optimistic, energetic, and action-oriented?

Like other entrepreneurs, Mary Kay Ash had all of these qualities. She used them to turn $5,000 in personal savings into Mary Kay Inc., a business that now sells billions of dollars of cosmetics and other merchandise every year.

FAST FACTS

Mary Kay Ash

Title: Founder of Mary Kay Inc.

Born: May 12, 1918

Died: November 22, 2001

Major Accomplishment: Creating Mary Kay Inc., a company that offers women unique rewards for business success

Sales Milestones:
1965—$800 thousand
1991—$500 million
2005—$2 billion

Mary Kay Career Cars: Sales people who have qualified for a pink Cadillac or other Mary Kay career car: more than 100,000

Famous Quotation: *"If you think you can, you can. And if you think you can't, you're right."*

Building a Business

While raising three children on her own, Ash built a very successful career in direct sales. In 1963, however, Ash suffered a blow when she lost out on a promotion that was given instead to a man she had trained. Feeling she had been treated unfairly, Ash resolved to create an enterprise that would reward women for their hard work. Later that year, she started a cosmetics company with her son Richard and nine sales people—whom Ash referred to as "beauty consultants." In 1964, sales exceeded $198,000. By the end of 1965, sales had skyrocketed to more than $800,000.

Since its founding, Mary Kay® products have been sold at in-home parties rather than in stores. Mary Kay has always had distinctive programs for recognizing women who reached certain goals. Pink Cadillacs, diamond-studded jewelry, luxury vacations, and other incentives spur the sales representatives to greater and greater efforts.

Mary Kay Ash
Mary Kay Ash grew her business into a major corporation.

In 1987, Ash assumed the title of chairman emeritus, though she remained active in the company until her death in 2001. Her company and its culture continued to flourish. In 2005, over 1.6 million Mary Kay beauty consultants operated in more than 30 countries worldwide. As the company expanded globally, China became Mary Kay's largest market outside the United States.

Economics Update

Find an update on Mary Kay Inc. at **ClassZone.com**

APPLICATION Making Inferences

C. Why do you think Mary Kay Ash proved so successful in her cosmetics venture?

SECTION 1 Assessment

Online Quiz
ClassZone.com

REVIEWING KEY CONCEPTS

1. Explain the relationship between the terms in each of these pairs:
   a. *business organization*
   sole proprietorship
   b. *limited life*
   unlimited liability

2. What are the main advantages of a sole proprietorship?

3. What are the main disadvantages of a sole proprietorship?

4. Who gets the profits from a sole proprietorship? Who has to pay all the debts?

5. What steps do new sole proprietorships usually need to take before they can open?

6. **Using Your Notes** Select one of the businesses you identified in Application A on page 227. If you were starting that business, do you think the advantages of a sole proprietorship would outweigh the disadvantages or vice versa? Why? Refer to your completed chart as you formulate your answer. Use the Graphic Organizer at **Interactive Review @ ClassZone.com**

Sole Proprietorships	
Advantages	Disadvantages

CRITICAL THINKING

7. **Evaluating Economic Decisions** Suppose Cosmic Comics becomes very successful, and Bart decides to try opening a second store. What issues should Bart consider? What challenges will he face?

8. **Making Inferences and Drawing Conclusions** In what ways might limited life be considered an advantage for sole proprietors?

9. **Applying Economic Concepts** Explain how a sole proprietorship rests on the principles of free enterprise.

10. **Writing About Economics** Write a brief paragraph explaining what Bart might learn from Mary Kay Ash.

11. **Challenge** How many "yes" answers did you provide to the questions at the top of page 230? If you had one or more "no" answers, explain how you would change a sole proprietorship in order to suit your skills and abilities. If you answered "yes" to all of the questions, explain what you would like about running your own business.

ECONOMICS IN PRACTICE

Business fairs promote new opportunities.

Starting Your Own Business

Each year, thousands of Americans start businesses as sole proprietorships.

Write a Business Plan Choose a business that you might like to start as a sole proprietorship. Use the following questions to develop a plan that shows how the business will make a profit.

- How much money will it take to start the business? Detail each expense.
- How much money will it take to run the business each month? Detail each expense.
- Who will the customers be and how will you attract them?
- Once the business is established, how much will it earn each month? Detail each source of income.
- How much profit will you earn?

Challenge What challenges do you think you would face in making this business a success? Write a paragraph explaining how you would address these challenges.

SECTION 2

Forms of Partnerships

OBJECTIVES

In Section 2, you will

- identify the characteristics and types of partnerships
- compare the economic advantages and disadvantages of partnerships

KEY TERMS

partnership, *p. 232*
general partnership, *p. 233*
limited partnership, *p. 233*
limited liability partnership, *p. 233*

TAKING NOTES

As you read Section 2, complete a comparison and contrast chart to show similarities and differences between partnerships and sole proprietorships. Use the Graphic Organizer at **Interactive Review @ ClassZone.com**

Sole Proprietorships	Partnerships
One owner	Two or more owners

The Characteristics of Partnerships

KEY CONCEPTS

In Section 1, you read how Bart set up his business as a sole proprietorship. His sister, Mary, who is a whiz at bookkeeping, began helping him with the accounting tasks. As her role in the business expanded, Bart proposed that they join forces in a partnership. A **partnership** is a business co-owned by two or more people, or "partners," who agree on how responsibilities, profits, and losses will be divided. Bart lacks the bookkeeping skills his sister has, and the extra funds she brings could help Cosmic Comics to grow. Forming a partnership might be a good business decision.

Partnerships are found in all kinds of businesses, from construction companies to real estate groups. However, they are especially widespread in the areas of professional and financial services—law firms, accounting firms, doctors' offices, and investment companies. There are several different types of partnerships—general partnerships, limited partnerships, and limited liability partnerships—but they are all run in the same general way.

QUICK REFERENCE

A **partnership** is a business co-owned by two or more partners who agree on how responsibilities, profits, and losses of that business are divided.

TYPE 1 General Partnerships

The most common type of partnership is the **general partnership**, a partnership in which partners share responsibility for managing the business and each one is liable for all business debts and losses. As in a sole proprietorship, that liability could put personal savings at risk. The trade-off for sharing the risky side of the business enterprise is sharing the rewards as well. Partners share responsibility, liability, and profits equally, unless there is a partnership agreement that specifies otherwise. This type of partnership is found in almost all areas of business.

TYPE 2 Limited Partnerships

In a general partnership, each partner is personally liable for the debts of the business, even if another partner caused the debt. There is a way, however, to limit one's liability in this kind of business organization. This is through a **limited partnership**, a partnership in which at least one partner is not involved in the day-to-day running of business and is liable only for the funds he or she has invested.

All limited partnerships must have at least one general partner who runs the business and is liable for all debts, but there can be any number of limited partners. Limited partners act as part owners of the business, and they share in the profits. This form of partnership allows the general partner or partners to raise funds to run the business through the limited partners.

QUICK REFERENCE

In a **general partnership** partners share management of the business and each one is liable for all business debts and losses.

A **limited partnership** is one in which at least one partner is not involved in the day-to-day running of business and is liable only for the funds he or she has invested.

In a **limited liability partnership** (LLP), all partners are limited partners and not responsible for the debts and other liabilities of other partners.

TYPE 3 Limited Liability Partnerships

Another kind of partnership is the **limited liability partnership** (LLP), a partnership in which all partners are limited partners and not responsible for the debts and other liabilities of other partners. If one partner makes a mistake that ends up costing the business a lot of money, the other partners cannot be held liable. In LLPs, partners' personal savings are not at risk unless the debts arise from their own mistakes.

Not all businesses can register as LLPs. Those that can include medical partnerships, law firms, and accounting firms. These are businesses in which malpractice—improper, negligent, or unprincipled behavior—can be an issue. LLPs are a fairly new form of business organization, and the laws governing them vary from state to state.

Partnerships Doctors' offices are often run as limited liability partnerships.

APPLICATION Comparing and Contrasting Economic Information

A. What are the differences in liability that distinguish general partnerships, limited partnerships, and limited liability partnerships?

Partnerships: Advantages and Disadvantages

KEY CONCEPTS

Some of the economic advantages of partnerships are similar to those of sole proprietorships. Like sole proprietorships, partnerships are easy to set up and dissolve and have few government regulations. Compared with sole proprietorships, however, partners have greater access to funds. Also, possibilities exist for specialization among partners, which can promote efficiency.

The disadvantages of partnerships are similar to the disadvantages of sole proprietorships. Like the sole proprietor, at least one of the partners, except in LLPs, faces unlimited liability. Partnerships, too, have limited life. However, partnerships have at least one disadvantage that sole proprietorships avoid. Disagreements among partners can lead to serious problems in running the business.

ADVANTAGES Partnerships

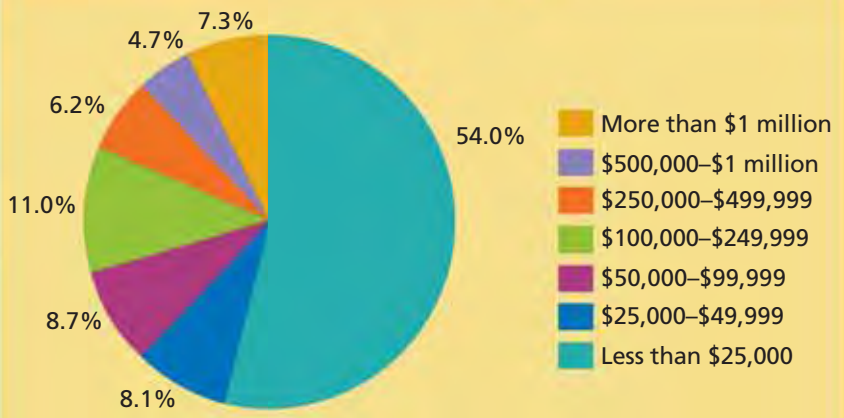
Bart and Mary realized that if they formed a partnership they would benefit from some of the same advantages that sole proprietorships have, plus some important additional advantages.

Easy to Open and Close Partnerships, like sole proprietorships, are easy to start up and dissolve. Ending the partnership would be equally straightforward for Bart and

Economics Update

Find an update on partnerships at **ClassZone.com**

FIGURE 8.2 PARTNERSHIPS BY REVENUES



Source: Internal Revenue Service, 2003 data

The majority of **partnerships** are quite small, making less than $25,000 in sales during a year. However, close to 20 percent of partnerships take in yearly revenues in excess of $250,000.

ANALYZE GRAPHS

1. What percentage of partnerships made more than $100,000 in sales?
2. Some 7 percent of partnerships took in more than $1 million in revenues, compared to just 0.5 percent of sole proprietorships. Why do you think partnerships generate more revenues than sole proprietorships?

his sister. As long as they have settled all their bills, Bart and Mary may dissolve the partnership when they see fit.

Few Regulations Bart and Mary would not be burdened with a host of government regulations. They would enter into a legal agreement spelling out their rights and responsibilities as partners. Partners are covered under the Uniform Partnership Act (UPA), a law, adopted by most states, that lays out basic partnership rules.

Access to Resources Mary would bring additional funds to Cosmic Comics. In addition, partnerships generally make it easier to get bank loans for business purposes. A greater pool of funds also makes it easier for partnerships to attract and keep workers.

Joint Decision Making In most partnerships, partners share in the making of business decisions. This may result in better decisions, for each partner brings his or her own particular perspective to the process. The exception is limited partnerships, in which the limited partner does not participate in running the business.

Specialization Also, each partner may bring specific skills to the business. For example, Bart brings knowledge of comic books, while Mary, who studied business accounting in college, brings skills in bookkeeping and finance. Having partners focus on their special skills promotes efficiency.

Joint Decision Making Partners benefit by making decisions together. But sometimes disagreements can interfere with running the business.

DISADVANTAGES Partnerships

Bart and Mary also considered the disadvantages of partnerships.

Unlimited Liability The biggest disadvantage of most partnerships is the same as that of sole proprietorships: unlimited liability. Both Bart and Mary are personally responsible for the full extent of the partnership's debts and other liabilities. So they risk having to use their personal savings, and even having to sell their property, to cover their business debts.

Potential for Conflict As partners, they may encounter a new disadvantage as well. Having more than one decision maker can often lead to better decisions. However, it can also detract from efficiency if there are many partners and each decision requires the approval of all. Further, disagreements among partners can become so severe that they lead to the closing of the business.

Limited Life Like sole proprietorships, partnerships have limited life. When a partner dies, retires, or leaves for some other reason, or if new partners are added, the business as it was originally formed ceases to exist legally. A new partnership arrangement must be established if the enterprise is to continue.

APPLICATION Applying Economic Concepts

B. Consider the businesses you identified in Application A on page 227 of Section 1. Would these businesses work as partnerships? Why or why not?

For more information on distinguishing fact from opinion, see the Skillbuilder Handbook, page R27.

Distinguishing Fact from Opinion

Facts are events, dates, statistics, and statements that can be proved to be true. Facts can be checked for accuracy. Economists use facts to develop **opinions**, which may be expressed as judgments, beliefs, or theories. By learning to distinguish between facts and opinions, you will be able to think critically about the economic theories, interpretations, and conclusions of others.

TIPS FOR ANALYZING TEXT Use the following guidelines to analyze economic information in written works:

FIGURE 8.3 STARTS AND CLOSURES OF SMALL EMPLOYER FIRMS

	2000	2001	2002	2003	2004
New Firms	574,300	585,140	569,750	553,500	580,990
Firm Closures	542,831	553,291	586,890	572,300	576,200
Bankruptcies	35,472	40,099	38,540	35,037	34,317

Sources: U.S. Bureau of the Census; Administrative Office of the U.S. Courts; U.S. Department of Labor, Employment and Training Administration.

Facts used by economists are often in the form of statistics, like the ones in this table.

Many Americans have faith that their ideas will bring them wealth or at least a comfortable living. According to the U.S. government, Americans created more than half a million small firms, or businesses, in the United States each year from 2000 to 2005. While prospective entrepreneurs may interpret these figures as a small business bonanza, overall closures of small businesses also exceeded the half-million mark each year during the same period. And in 2002 and 2003, more small firms closed their doors than opened them, suggesting that market conditions for those two years were particularly unfavorable for the prolonged success of small businesses. Yet bankruptcies among small firms declined in 2002 and 2003. Although such data are likely to be of interest to prospective entrepreneurs, it is limited in nature. Anyone planning to start a business venture would be wise to conduct more extensive research.

Facts include economic data that can be proved. The writer bases this statement on verifiable facts from the table.

Opinions. Look for words, such as *suggest, suggesting, belief,* and *believe,* which often express assertions, claims, and hypotheses.

Judgments, another form of opinion, often use descriptive words such as *wise, foolish, sensible,* and *fortunate,* which have an emotional quality.

THINKING ECONOMICALLY Distinguishing Fact from Opinion

1. What facts, if any, does the author use to support the first sentence in the paragraph?
2. Using information from the table and article, write one statement of fact and one statement of opinion. As a class, share your statements and discuss.

SECTION 2 Assessment

Online Quiz
ClassZone.com

REVIEWING KEY CONCEPTS

1. Explain the relationship between the terms in each of these pairs:
   a. *partnership*
      general partnership
   b. *limited partnership*
      limited liability partnership
2. What are the main advantages of a partnership?
3. What are the main disadvantages of a partnership?
4. In what ways do the increased resources of a partnership help a business?
5. What determines how partners will divide responsibilities, profits, and debts?
6. **Using Your Notes** Which type of partnership is most like a sole proprietorship? Explain your answer with specific characteristics. Refer to your completed chart.

Sole Proprietorships	Partnerships
One owner	Two or more owners

Use the Graphic Organizer at **Interactive Review @ ClassZone.com**

CRITICAL THINKING

7. **Applying Economic Concepts** If you were looking to start a business as a partnership, what traits would you look for in potential partners? Draw up a list of five traits and give a brief explanation for each. Be sure to take the advantages and disadvantages of partnerships into consideration.
8. **Comparing and Contrasting Economic Information** Briefly explore the differences in potential for job satisfaction between sole proprietorships and partnerships. One size does not fit all—try to determine which of these two business organizations would suit you best.
9. **Writing About Economics** American business leader John D. Rockefeller said, "A friendship founded on business is a good deal better than a business founded on friendship." What do you think he had in mind? Write a brief paragraph agreeing or disagreeing, with reference to partnerships.
10. **Challenge** Do you think that major retail or manufacturing businesses would work as partnerships? Why or why not?

ECONOMICS IN PRACTICE

Types of Partnerships

The different types of partnerships suit different types of businesses.

Identify Partnerships Identify the type of partnership represented in each description.

1. Doctors choose this type of partnership because it protects them from malpractice suits brought against other partners.
2. The only role that George plays in the partnership is to collect profits or bear losses based on the amount of funds he contributed.
3. Stephen and Mike start a consulting service to help businesses manage their trademarks and patents. They are the only partners, sharing equally in the work, profits, and losses.
4. Rosa and Serena carefully review expansion plans after new partners provide extra funds. However, they know that they remain fully liable if their decisions are not sound.

Challenge Write a description of three different business partnerships without naming them. Exchange your descriptions with a classmate and identify each other's partnerships.

SECTION 3

Corporations, Mergers, and Multinationals

OBJECTIVES

In Section 3, you will

- identify the characteristics of corporations
- compare the advantages and disadvantages of corporations
- describe how corporations consolidate to form larger business combinations
- explain the role of multinational corporations in the world economy

KEY TERMS

corporation, *p. 238*
stock, *p. 238*
dividend, *p. 238*
public company, *p. 238*
private company, *p. 238*
bond, *p. 240*
limited liability, *p. 240*
unlimited life, *p. 240*
horizontal merger, *p. 243*
vertical merger, *p. 243*
conglomerate, *p. 243*
multinational corporation, *p. 243*

TAKING NOTES

As you read Section 3, complete a cluster diagram that categorizes information about corporations. Use the Graphic Organizer at **Interactive Review @ ClassZone.com**

Characteristics of Corporations

KEY CONCEPTS

Corporations are the third main kind of business organization. A **corporation** is a business owned by individuals, called shareholders or stockholders. The shareholders own the rights to the company's profits, but they face limited liability for the company's debts and losses. These individuals acquire ownership rights through the purchase of **stock**, or shares of ownership in the corporation.

For example, suppose a large company sells a million shares in the form of stock. If you bought 10,000 shares, you would own 1 percent of the company. If the company runs into trouble, you would not be responsible for any of its debt. Your only risk is that the value of your stock might decline. If the company does well and earns a profit, you might receive a payment called a **dividend**, part of the profit that the company pays out to stockholders.

A corporation that issues stock that can be freely bought and sold is called a **public company**. One that retains control over who can buy or sell the stock is called a **private company**. Corporations make up about 20 percent of the number of businesses in the United States, but they produce most of the country's goods and services and employ the majority of American workers.

QUICK REFERENCE

A **corporation** is a business owned by stockholders, who own the rights to the company's profits but face limited liability for the company's debts and losses.

Stock is a share of ownership in a corporation.

A **dividend** is part of a corporation's profit that is paid out to stockholders.

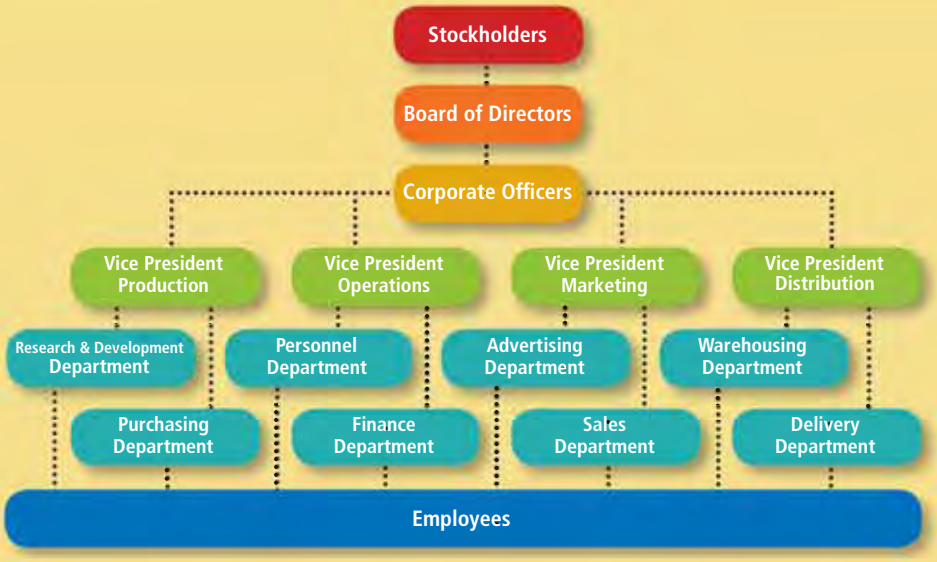
A **public company** issues stock that can be publicly traded.

A **private company** controls who can buy or sell its stock.

EXAMPLE F & S Publishing, Inc.

To better understand how corporations operate, let's look at F & S Publishing, Inc., a successful publishing business. Frank and Shirley, the founders, decided to turn their business into a corporation because they wished to avoid unlimited liability. A corporation, unlike a partnership or sole proprietorship, is a formal, legal entity separate from the individuals who own and run it. The financial liabilities of F & S

FIGURE 8.4 CORPORATE STRUCTURE



ANALYZE CHARTS

This chart shows the organization of a typical corporation. Smaller corporations may only have stockholders, corporate officers, and employees. Larger corporations may be much more complex. Imagine you own a company that makes a product you like. Draw an organization chart for your corporation.

Publishing, Inc., are separate from the personal financial liabilities of Frank, Shirley, and other F & S stockholders. If the business fails, only the assets of F & S itself—the office building, equipment, and company bank accounts—are at risk.

Setting up a corporation involves more work and expense than establishing a sole proprietorship or partnership. Frank and Shirley hired a law firm to draw up and file papers requesting permission from the state government to incorporate. The state government agreed to the request and issued a corporate charter. This document named F & S Publishing, Inc., as the business, stated its address and purpose, and specified how much stock Frank and Shirley could sell.

F & S Publishing, Inc., is organized like the majority of corporations. Stockholders—the owners of the corporation—elect a board of directors. The board hires corporate officers, such as the president and the vice-presidents in charge of sales, production, finance, and so on. These officers are responsible for the smooth running of the corporation. In most corporations, the stockholders and the board of directors are not involved in the day-to-day running of the business. F & S Publishing, Inc., however, is a small company, and Frank and Shirley became members of the board of directors as well as managers.

Frank and Shirley decided to make their business a public company. They bought enough of the stock themselves so that they would each have a seat on the board of directors. They sold the rest of the stock to raise money to expand the business.

APPLICATION Applying Economic Concepts

A. Frank and Shirley were worried about unlimited liability. How did incorporating protect them from this problem?

Corporations: Advantages and Disadvantages

KEY CONCEPTS

The advantages of corporations often address the major disadvantages of sole proprietorships and partnerships. For example, corporations are more effective than either of the other business structures at raising large amounts of money. The key methods of raising money are the sale of stock and the issuing of bonds. A **bond** is a contract the corporation issues that promises to repay borrowed money, plus interest, on a fixed schedule. Also, unlike sole proprietorships and most partnerships, corporations provide their owners with **limited liability**, which means that the business owner's liability for business debts and losses is limited. Further, corporations have **unlimited life**—they continue to exist even after a change in ownership. Sole proprietorships and partnerships do not.

Most of the disadvantages of corporations are related to their size and organizational complexity. Corporations are costly and time-consuming to start up; they are governed by many more rules and regulations; and, because of the organizational structure, the owners may have little control over business decisions. Despite these drawbacks, corporations can be efficient and productive business organizations.

QUICK REFERENCE

A **bond** is a contract issued by a corporation that promises to repay borrowed money, plus interest, on a fixed schedule.

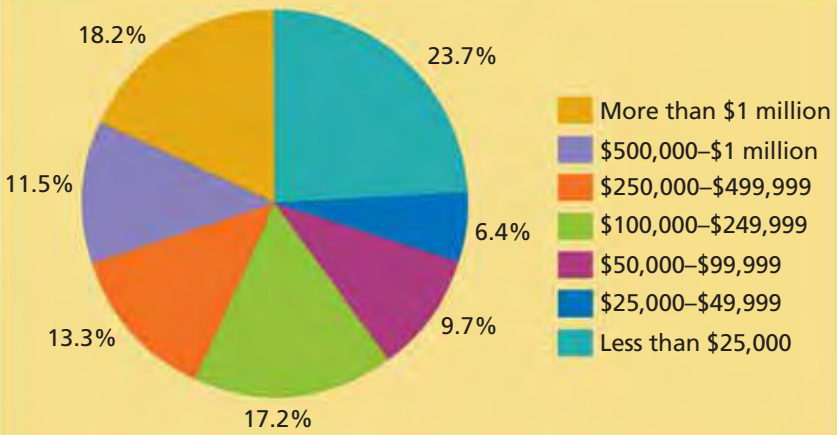
Limited liability means that a business owner's liability for debts and losses of the business is limited.

Unlimited life means that a corporation continues to exist even after an owner dies, leaves the business, or transfers his or her ownership.

Economics Update

Find an update on corporations at **ClassZone.com**

FIGURE 8.5 CORPORATIONS BY REVENUES



Source: Internal Revenue Service, 2003 data

Most people think of **corporations** as very large companies with factories and offices that occupy great expanses of land. Actually, more than a third of all corporations in the United States take in less than $100,000 in revenues each year.

ANALYZE GRAPHS

1. What percentage of corporations made more than $250,000 in sales?
2. Compare Figure 8.5 with Figure 8.1 on p. 229 and Figure 8.2 on p. 234. According to the graphs, which type of business has the highest percentage of firms that earn over $1 million in revenues each year?

ADVANTAGES Corporations

Frank and Shirley had operated F & S as a partnership for several years. They decided to incorporate to gain the advantages of the corporate business structure.

Access to Resources Frank and Shirley have ideas to expand their business, but implementing the ideas may require more money than profits from the business will provide. As a corporation, they have better opportunities for obtaining additional money. Besides borrowing from banks, F & S can raise money by selling more stock or by issuing bonds. This greater access to funds leads to greater potential for growth.

"Our investors' enthusiasm was gratifying... first time I've ever seen a mosh pit at a stockholders' meeting!"

Source: www.CartoonStock.com

Professional Managers Frank and Shirley are involved in the running of F & S Publishing, Inc. Frank serves as chief executive officer (CEO), while Shirley is chief operations officer (COO). However, they decided to hire managers with strong backgrounds in finance and sales as company treasurer and vice-president for sales. Having professionals in charge of financial and sales matters will probably lead to higher profits.

Limited Liability Because of limited liability, F & S Publishing, Inc., alone is liable for any debts or losses it incurs. Frank, Shirley, and F & S stockholders are liable only for the money they paid for their stock. The board of directors and officers of the corporation, too, are protected from liability.

Unlimited Life If any of the owners—the stockholders—of F & S dies or decides to end his or her relationship with the company, the business would continue to operate as before. This even applies to Frank and Shirley. If either or both of them move on to another business, F & S Publishing, Inc., can continue without them for as long as it is a viable business.

DISADVANTAGES Corporations

Frank and Shirley discovered some of the disadvantages to incorporating when they first began the process. They learned about other disadvantages of corporations as they ran their business.

Start-Up Cost and Effort When they first started, Frank and Shirley set up their business as a partnership. Compared to setting up the partnership, Frank and Shirley found the process of setting up a corporation more time-consuming, difficult, and expensive. The paperwork they had to prepare and file with the state government was extensive, and they had to hire a law firm to help with this task.

Heavy Regulation As a public company, F & S Publishing, Inc., must prepare annual reports for the Securities and Exchange Commission (SEC), the government agency

FIGURE 8.6 Business Organizations: Advantages and Disadvantages

Type of Organization	Advantages	Disadvantages
Sole Proprietorship	• Easy to start up, close down • Sole proprietor has satisfaction of running business his or her own way • Few regulations • Sole proprietor keeps all the profits	• Limited funds • Limited life • Unlimited liability
Partnership	• Easy to start up, close down • Few regulations • Greater access to funds • Partners share in decision making • Partners may bring complementary skills to the business	• Unlimited liability • Shared decision making may create conflict among partners • Limited life
Corporation	• Greatest access to funds • Business run by professionals • Limited liability • Unlimited life	• Difficult to start up • More regulations • Double taxation • Owners may have less control of running the business

ANALYZE TABLES
All three forms of business organizations have distinct advantages and disadvantages. If you were starting a business, which form of business organization would you choose? Why?

that oversees the sale of stocks. It also has to prepare and issue quarterly financial reports for stockholders. Further, the company must hold yearly meetings for its stockholders. All of these regulations help ensure that corporations are run for the benefit of the shareholders. Private companies are subject to fewer regulations related to their ownership.

Double Taxation Frank and Shirley experience an effect known as double taxation. As officers of the company, they are well aware of the taxes on profits that the corporation must pay. As stockholders, they know that their dividend income, paid out of the company profits, is also taxed. Some small corporations qualify for S corporation status, a tax status which avoids double taxation.

Loss of Control Frank and Shirley, as founders, owners, and directors, expect to have a major voice in deciding the direction that F & S Publishing, Inc., will take. However, they experienced some loss of control when the rest of the board of directors voted against them and brought in a new sales manager.

APPLICATION Evaluating Economic Decisions

B. F & S was successful as a partnership. What will Frank and Shirley gain by making their company a corporation?

Business Consolidation

KEY CONCEPTS

You've probably seen news stories about them—business consolidations that merge, or combine, several large companies into one mega-company. These consolidations take place for several possible reasons. These include increasing efficiency, gaining a new identity as a business or losing an old one, keeping rivals out of the marketplace, and diversifying the product line.

There are two main kinds of mergers (see Figure 8.7). A **horizontal merger** describes the joining of companies that offer the same or similar products or services. A **vertical merger** describes the combining of companies involved in different steps of production or marketing of a product or service. An alternative to the two main types is a **conglomerate**, which results from a merger of companies that produce unrelated goods or services. Through growth, consolidations, and other means, an enterprise can grow so big that it becomes a **multinational corporation**, a large corporation with branches in several countries.

QUICK REFERENCE

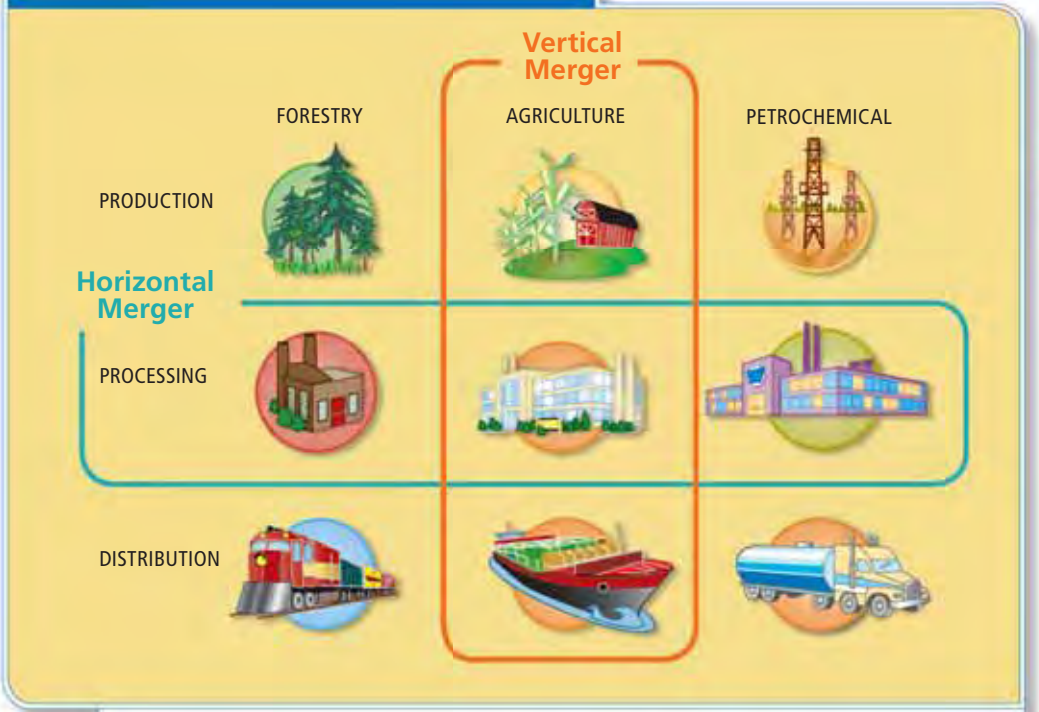
A **horizontal merger** is the combining of two or more companies that produce the same product or similar products.

A **vertical merger** is the combining of companies involved in different steps of producing or marketing a product.

A **conglomerate** is a business composed of several companies, each one producing unrelated goods or services.

A **multinational corporation** is a large corporation with branches in several countries.

FIGURE 8.7 TYPES OF MERGERS



ANALYZE CHARTS

What kind of mergers took place in each of the following situations?

1. In 1999, Ford Motor Co. purchased Swedish-based car manufacturer Volvo.
2. In 1989, Japanese electronics giant Sony purchased Columbia Pictures Entertainment.

Animated Economics

Use an interactive merger chart at **ClassZone.com**

Mergers

An example of a horizontal merger is the one between Reebok and Adidas in 2005. At the time, they were the second- and third-biggest makers of sports shoes. The subtitle of an article about the merger summed up the potential benefits of all mergers: "Adidas-Reebok merger could trim costs for companies and maybe even some dollars for consumers." The two companies planned to cut production and distribution costs by combining their operations. This, they hoped, would improve their ability to compete against the largest sport-shoe maker, Nike. More efficient production usually leads to lower prices, which would draw consumers away from Nike.

An example of a vertical merger took place in the late 1990s during a period when the oil and gas industry was undergoing major consolidations. Shell Oil, which owned more refineries, joined with Texaco, which owned more gas stations. This type of merger is vertical, since companies involved in different steps of production (refining) or distribution (getting gasoline to customers) combined.

Conglomerates

Another kind of business consolidation, the conglomerate, is formed when two or more companies in different industries come together. In theory, the advantage of this form of consolidation is that, with diversified businesses, the parent company is protected from isolated economic pressures, such as changing demand for a specific product. In practice, it can be difficult to manage companies in unrelated industries.

"I've come up with our new logo, JB."

Source: www.CartoonStock.com

Conglomerates were popular during the 1960s. One conglomerate of the 1960s was Gulf and Western, which included companies in such diverse fields as communications, clothing, mining, and agricultural products. As with many other conglomerates formed in the 1960s, however, Gulf and Western did not produce the desired financial gains. Gulf and Western sold all its companies but the entertainment and publishing endeavors and became known as Viacom.

Multinational Corporations

When you use Google to do an Internet search, you are using the services of a multinational corporation, a large corporation with branches in several countries. Google's headquarters are in Mountain View, California, but it has branch offices in many other countries. Coca-Cola, McDonald's, Nike, and Sony are all examples of multinational, or transnational, corporations.

Multinational corporations like Google are a major force in globalization, commerce conducted without regard to national boundaries. Multinational corporations have many beneficial effects. They provide new jobs, goods, and services around the world and spread technological advances. When such companies open businesses in poorer countries, the jobs and the tax revenues help raise the standard of living.

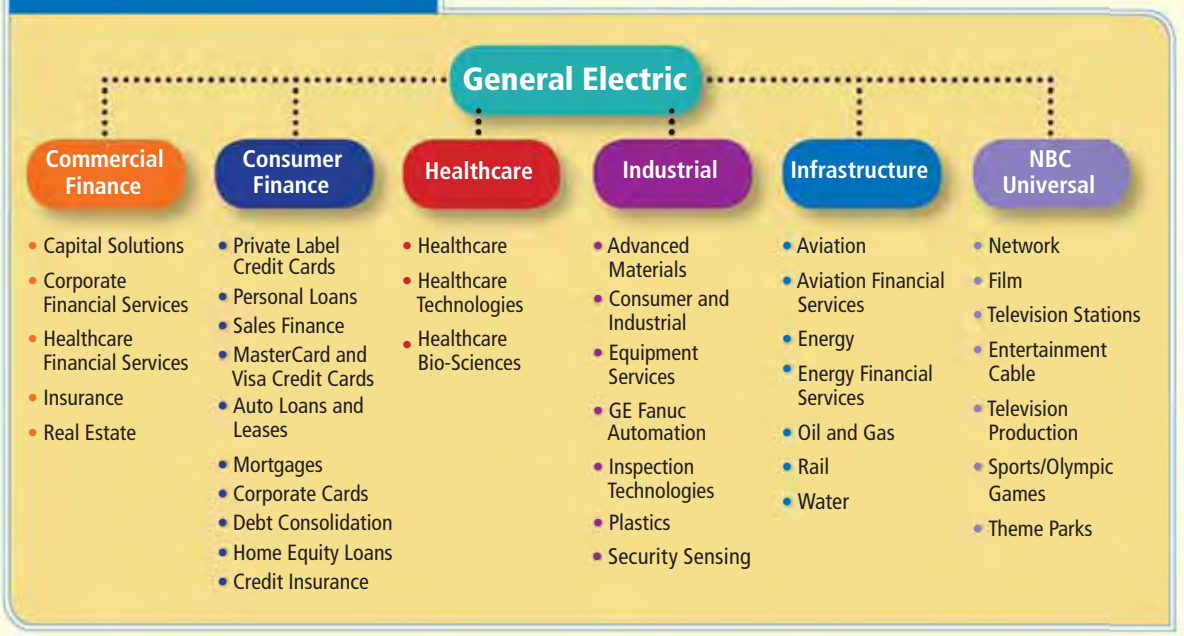
A GLOBAL PERSPECTIVE

General Electric: Multinational Corporation

The operations of General Electric (GE), one of the world's largest multinational corporations, span the globe. While its headquarters is located in the United States, GE has manufacturing and production centers located in countries far and near. To supply these centers, GE purchases raw materials from all over the world. Further, the corporation has sales centers on six of the seven continents.

GE is both a multinational and a conglomerate, offering a wide range of services and products. The diagram below offers a view of GE's six major businesses and the units that make up these businesses. GE owns many companies that you know. For example, GE owns 80 percent of NBC Universal, which is made up of the NBC television network, Universal Pictures, and many related businesses. GE's Consumer and Industrial unit manufactures such common products as refrigerators, ovens, and light bulbs. But many of GE's businesses are less well-known because they provide services and products for businesses and governments.

FIGURE 8.8 GENERAL ELECTRIC



CONNECTING ACROSS THE GLOBE

1. **Applying Economic Information** What characteristics of General Electric define it as "multinational"?
2. **Analyzing Charts** General Electric operates in a wide range of industries. Name some industries in which it does not participate. Make sure to check your answer against the chart.

However, multinational corporations can also create problems. Some build factories that emit harmful waste products in countries with lax government regulation. Others operate factories where workers toil for long hours in unsafe working conditions. You will learn more about the impact of multinationals on the world economy in Chapter 17.

APPLICATION Applying Economic Concepts

C. Make up an imaginary conglomerate based on three real companies.

ECONOMICS PACESETTER

Bill Gates: Entrepreneur and Corporate Leader

A reporter once asked multibillionaire Bill Gates, founder of Microsoft Corporation, if he thought there was a larger meaning in the universe. Gates joked, "It's possible … that the universe exists only for me. If so, it's sure going well for me, I must admit." From a small beginning, Bill Gates created the world's largest software company. Microsoft employs more than 60,000 people in more than 100 countries.

FAST FACTS

Bill Gates

Title: Chairman, Microsoft Corporation

Born: October 28, 1955, Seattle, Washington

Major Accomplishments: Cofounder, Microsoft, 1975; *Time Magazine's* Person of the Year, 2005 (for his charitable work)

Books: *The Road Ahead* (1995); *Business @ the Speed of Thought* (1999)

Estimated Personal Fortune: $46.5 billion in 2005 (ranked #1 in the world)

Famous Quotation: *"I have always loved the competitive forces in this business. That's what keeps my job one of the most interesting in the world."*

Microsoft Corporation

Gates was always fascinated with computers and software. He developed software for his high school to schedule classes and for his hometown of Seattle to monitor traffic. At Harvard, he and his friend Paul Allen developed the BASIC language for personal computers. In 1975, during his third year, Gates left college to form a business with Allen to supply BASIC programming for an early brand of personal computers. Gates and Allen called their company Micro-soft (later changed to Microsoft). "I think my most important work was the early work," Gates said in 2005, "conceiving of the idea of the PC and how important that would be, and the role software would play. . . . "

Microsoft incorporated in 1981. When it struck a deal to provide the operating system for IBM personal computers, it secured its dominance. Microsoft became an international corporation in 1985, when it opened a production facility in Dublin, Ireland. That same year, it released what would become the world's most popular operating system, Microsoft Windows. Initially, Microsoft focused on corporate computing. With the release of Windows 95, however, it turned to the consumer market.

Bill Gates Bill Gates cofounded Microsoft in 1975. It became one of the world's most successful corporations.

Gates led Microsoft as it continued to dominate the computer industry. In 1994, Gates established a foundation for charitable giving that quickly became the largest charitable foundation in the world. The foundation focuses on global health and education. In 2006, Gates began shifting away from the day-to-day responsibilities of running Microsoft and toward running the foundation.

Economics Update

Find an update on Bill Gates and Microsoft at **ClassZone.com**

APPLICATION Categorizing Economic Information

D. Create a timeline showing the development of Microsoft from its founding to its status as a major multinational corporation.

SECTION 3 Assessment

Online Quiz
ClassZone.com

REVIEWING KEY CONCEPTS

1. Explain the relationship between the terms in each of these groups.

   a. *stock*
   bond

   b. *public company*
   private company

   c. *merger*
   conglomerate

2. What are the main advantages of a corporation?

3. What are the main disadvantages of a corporation?

4. How do corporations raise money?

5. What is a multinational corporation?

6. **Using Your Notes** What is the difference between a vertical merger and a horizontal merger? Refer to your completed cluster diagram.

Use the Graphic Organizer at **Interactive Review @ ClassZone.com**

CRITICAL THINKING

7. **Analyzing Cause and Effect** Review the table below. If the two largest bottled water manufacturers consolidated in a horizontal merger, what might the effect be on competition?

Company	Annual Sales (in millions of dollars)	Percent of Market
Nature's Springs	1,000	25
Well Water, Inc.	600	15
Best Taste	400	10
Empyrean Isles	400	10
No-Tap Water	200	5

8. **Writing About Economics** In what ways might a vertical merger in the oil industry influence gas prices?

9. **Explaining an Economic Concept** What are the benefits of combining several companies to form a conglomerate? Name an example of a conglomerate.

10. **Challenge** So far in this chapter, you have learned about business enterprises that seek profits. In Section 4, you will learn about nonprofit organizations. How do you think the structure of such organizations might differ from the structure of profit-seeking organizations?

ECONOMICS IN PRACTICE

Analyzing Data

When companies decide to merge, they must carefully evaluate how to combine their operations.

Will This Merger Work? Leviathan Motion Pictures wants to purchase Pipsqueak Computer Games.

	Leviathan	Pipsqueak
Head of Company	Ivana Getrich, age 60	Bob L. Head, age 30
Board of Directors	15 business executives	Bob and a couple of his buddies
Publicly Owned Shares	200,000,000	250,000
Market Capitalization	$5,000,000,000	$250,000,000
2008 Sales	$1,000,000,000	$10,000,000
Production Studios	4 in California, 1 in New York	1 in Austin
Employees	15,000 worldwide	150 in Austin

Review the table and imagine what would happen if the companies merge. Write a paragraph describing the challenges and the benefits.

Challenge If you were Bob, would you retire after selling Pipsqueak, or would you want to continue running the company? Explain your answer.

SECTION 4

Franchises, Co-ops, and Nonprofits

OBJECTIVES

In Section 4, you will

- explain how franchises function
- identify the characteristics and purpose of cooperatives
- describe the types and purposes of nonprofit organizations

KEY TERMS

franchise, *p. 248*
franchisee, *p. 248*
cooperative, *p. 250*
nonprofit organization, *p. 250*

TAKING NOTES

As you read Section 4, complete a summary chart with information on specialized organizations. Use the Graphic Organizer at **Interactive Review @ ClassZone.com**

Franchises	Co-ops	Nonprofits

Franchises

KEY CONCEPTS

A **franchise** is a business made up of semi-independent businesses that all offer the same products or services. Each **franchisee**, as the individual businesses are known, pays a fee to the parent company in return for the right to sell the company's products or services in a particular area. Fast-food restaurants are the most common franchised business. However, this kind of business organization is also found in many other industries, including hotels, rental cars, and car service.

QUICK REFERENCE

A **franchise** is a business that licenses the right to sell its products in a particular area.

A **franchisee** is a semi-independent business that buys the right to run a franchise.

EXAMPLE An Almost Independent Business

The Mango Grove Juice and Nut Bar in the city center provides an illustration of how a franchise works. Tim, who runs the Mango Grove, had worked as assistant manager at a local restaurant for several years. He really wanted to run his own business, but he didn't think he had the experience or the funds to go it alone. On trips to other cities, he had been impressed by the popularity of the Mango Grove Juice and Nut Bar, an organic juice and sandwich restaurant. So he looked into becoming a franchisee of that business in his home city.

FIGURE 8.9 World's Leading Franchises

Corporation	Franchisees
1. McDonald's	30,300
2. Yum! Brands (KFC, Taco Bell, etc.)	29,300
3. 7-Eleven	28,200
4. Cendent (Howard Johnson, Avis, etc.)	24,600
5. Subway	21,000

Source: International Franchise Association, 2004 data

YOUR ECONOMIC CHOICES

FRANCHISES

Which franchise would you like to run?

Hundreds of different businesses operate as franchises. Fast-food restaurants and coffee bars are among the most common. Which type of franchise would you like to run? Why?

ADVANTAGES Franchises

Becoming a franchisee of Mango Grove Juice and Nut Bar appealed to Tim for several reasons. First, he would have a level of independence he did not have in his job at the restaurant. Second, the franchiser, Mango Grove Fruit and Nut Bar, would provide good training in running the business, since his success affected their own. They would also provide proven products—their famous mango smoothie mixes and nut bread for sandwiches—as well as other materials, such as the décor common to all the Mango Grove juice bars, at a relatively low cost. Further, the franchiser would pay for national or regional advertising that would bring in customers.

DISADVANTAGES Franchises

Tim also thought through the disadvantages. He would have to invest most of the money he had saved, with no assurance of success in the business. He would also have to share some of the profits with the franchiser. Further, he would not have control over some aspects of the business. For example, he would have to meet the franchiser's operating rules, such as buying materials only from the franchiser and limiting the products he offered to those from the franchiser.

After considerable thought, Tim decided to apply to become a franchisee. He was accepted, and before long his business became a success. In time, a number of other Mango Grove bars opened in other parts of the city. Since both the franchiser and franchisees had the same incentive—financial reward if the business was successful—they worked well together to make the juice bars succeed.

APPLICATION Evaluating Economic Decisions

A. What advantage does the franchiser have over a business that owns and operates all of its own shops?

Cooperatives and Nonprofits

QUICK REFERENCE

A **cooperative** is a business operated for the shared benefit of the owners, who also are its customers.

A **nonprofit organization** is a business that aims to benefit society, not to make a profit.

KEY CONCEPTS

The primary purpose of most businesses is to earn money for the owners—in other words, to make a profit. But not all businesses exist solely to make a profit. A **cooperative** is a type of business operated for the shared benefit of the owners, who are also its customers. A **nonprofit organization** is an institution that acts like a business organization, but its purpose is usually to benefit society, not to make a profit.

A Business Organization for Its Members

When people who need the same goods or services band together and act as a business, they can offer low prices by reducing or eliminating profit. Such organizations are called cooperatives, or co-ops. There are three basic types of cooperatives: consumer, service, and producer.

Consumer Consumer, or purchasing, co-ops can be small organizations, like an organic food cooperative, or they can be giant warehouse clubs. Consumer co-ops require some kind of membership payment, either in the form of labor (keeping the books or packaging orders) or monetary fees. They keep prices low by purchasing goods in large volumes at a discount price.

Service Service co-ops are business organizations, such as credit unions, that offer their members a service. Employers often form service cooperatives to reduce the cost of buying health insurance for their employees.

Producer Producer cooperatives are mainly owned and operated by the producers of agricultural products. They join together to ensure cheaper, more efficient processing or better marketing of their products.

A Purpose Other Than Profit

AMERICAN LUNG ASSOCIATION®

THE SALVATION ARMY

There are several different types of nonprofits. Some, like the American Red Cross, have the purpose of benefiting society. They provide their goods or services for free or for a minimal fee. Other nonprofits, like the American Bar Association, are professional organizations. Such organizations exist to promote the common interests of their members. Business associations, trade associations, labor unions, and museums are all examples of organizations pursuing goals other than profits.

The structure of a nonprofit resembles that of a corporation. A nonprofit must receive a government charter, for example, and has unlimited life. Unlike a corporation, however, many nonprofit organizations are not required to pay taxes because they do not generate profits and they serve society. Nonprofits raise most of their money from donations, grants, or membership fees. Some nonprofits sell products or services, but only as a way of raising funds to support their mission.

APPLICATION Making Inferences

B. The National Association of Home Builders promotes the interests of construction companies. Habitat for Humanity builds homes for the disadvantaged. Which of these nonprofits is the government more likely to excuse from paying taxes? Why?

SECTION 4 Assessment

Online Quiz
ClassZone.com

REVIEWING KEY CONCEPTS

1. Give an example of each of the following terms.
   a. *franchise* **b.** *cooperative* **c.** *nonprofit organization*
2. What are the main advantages of a franchise?
3. What are the main disadvantages of a franchise?
4. How do consumer and service cooperatives save their members money?
5. What are some purposes of nonprofit organizations?
6. **Using Your Notes** What are the chief distinctions among franchises, cooperatives, and nonprofits? Refer to your completed summary chart.

Franchises	Co-ops	Nonprofits

Use the Graphic Organizer at **Interactive Review @ ClassZone.com**

CRITICAL THINKING

7. **Explaining an Economic Concept** Explain how franchisees share the risk of the business venture with the franchiser.
8. **Making Inferences and Drawing Conclusions** How do nonprofits get the money needed to pay the people who work for them and to provide services?
9. **Evaluating Economic Decisions** You're shopping for a new camera. You could buy it from a specialty camera store that offers expert advice or from a discount retail store that carries hundreds of other products. Or you could join a camera club that offers a buying cooperative. What are the advantages and disadvantages of each option?
10. **Challenge** Helping society can be big business. The largest nonprofits generate annual revenues in the billions of dollars. Even small nonprofit organizations can make as much money as many for-profit businesses. Nonprofits employ professional managers, accountants, and marketers, just as any other business would. Should the chief executive officer (CEO) of a nonprofit with $500 million in annual revenue be paid the same salary as the CEO of a for-profit company with the same amount of revenue? Explain your answer.

ECONOMICS IN PRACTICE

Identifying Business Organizations
Franchises, co-ops, and nonprofits have distinctive features.

What Kind of Organization?
Review the following descriptions of business organizations. Decide what kind of business organization fits each description. Remember that there are three different types of cooperatives.

- Several companies in your city join together to get a better deal on the health insurance they offer to their workers.
- Dan pays a fee for the right to sell Soft Freeze ice cream. Soft Freeze provides all the equipment Dan needs.
- Rachel and Serafina join an association that offers relatively cheap organic products. In return, they pay a small monthly membership fee.
- The Portswood Road Church Club provides a free food service for the poor of the neighborhood.

Challenge Imagine a cooperative you and your friends might form. Describe how it would operate and how it would save you money.

Case Study

Economics Update
Find an update on this Case Study at **ClassZone.com**

Apple: The Evolution of One Company

Background Steve Jobs and Steve Wozniak joined forces when they were students. Together, they created a personal computer, named it Apple, and in 1976 started a company with the same name. In the years that followed, their company attained worldwide prominence. While the success story of Jobs and Wozniak often sounds like a fairy tale, the evolution of the company was not without its ups and downs. But by 2005, Apple had annual revenues of nearly $14 billion.

What's the issue? How does a company evolve from an idea into a billion-dollar enterprise? Study these sources to discover the factors behind the success of Apple Inc.

A. Online Biography

This article describes how two young men with an interest in computers created the basis for Apple Inc.

Two American Entrepreneurs Start Out in a Garage

Young inventors build their first of many computers.

When the two first met, Wozniak (born 1950) was 18, Jobs (born 1955) only 13. The pair put their electronics and inventing talents to work making unusual devices, and a few years later purchased a $25 microprocessor with the intention of building a computer. Although this first computer was crude and came without memory, a power supply or even a keyboard, it was very reliable. Jobs and Wozniak decided on a name that would convey the simplicity of the product's design and use: the Apple.

Jobs had a passionate belief in bringing computer technology to everyone. So in 1976, Jobs and Wozniak started a company to build and distribute their invention. In true American-dream fashion, their company began in a garage.

To finance their venture, Jobs sold his Volkswagen van and Wozniak sold his programmable calculator to raise $1,300. Weeks later, Jobs secured the company's first sale: 50 Apple I computers at [the retail price of] $666 each.

Source: **Inventor of the Week Archive, MIT**

Steve Wozniak (left) and Steve Jobs (right) founded Apple Computer in 1976.

Thinking Economically According to the document, why were Jobs and Wozniak able to succeed in starting their own company?

B. Interview

In this interview, Evelyn Richards, who covered computers for *Mercury News* in the 1980s, describes Apple's innovative approach to introducing Macintosh, the company's new personal computer.

1984–Apple Launches Macintosh

Marketing plays key role in product's success.

They [Apple] were really more attuned to magazines much more than other tech companies, because magazines can reach a mass market. . . . Steve Jobs got on the cover of *Time* right around then.

The press kit was all really well-packaged. There was the press release for the non-techie people that just talked about how wonderful Macintosh was and how it was going to change the world. Then there were techier press releases, where they talked about the RAM, or the keyboard, or other things. . . .

It was really easily digestible, and easy to use by the press. Lots of great photos, professionally done. Now all that is standard.

Source: **Stanford Library; Interview with Evelyn Richards, 22 June 2000**

Thinking Economically How did Apple's marketing of Macintosh contribute to its success?

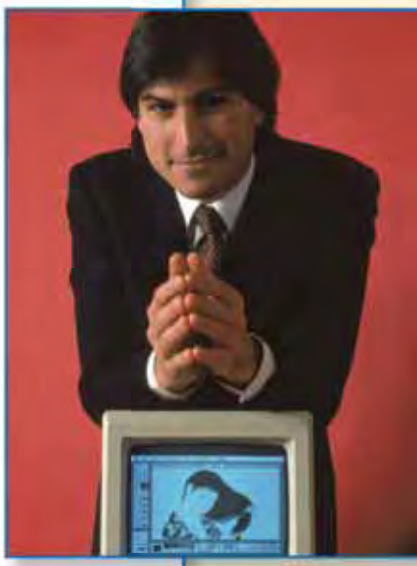
C. Timeline

This timeline shows some of the highlights and challenges that Apple Inc. has experienced.

Highlights in Apple Company History

1976–Jobs and Wozniak incorporate Apple Computer
1977–Apple II computer, the first PC with color graphics, introduced
1980–Apple becomes public company, offering 4.6 million shares for sale
1984–Commercial during Super Bowl XVIII introduces the first Macintosh
1985–Both Jobs and Wozniak leave Apple
1988–Apple sues Microsoft when Windows begins using features similar to those developed by Apple
1989–First portable Macintosh introduced
1993–Debut of Newton, an early personal digital assistant
1995–Apple loses its case against Microsoft
1997–Jobs returns to Apple as chief executive officer
1998–Newton discontinued
2001–Portable digital music player iPod introduced
2003–Safari browser introduced; iTunes Music Store debuts
2006–Apple computers begin using Intel Core Duo processors

Sources: **Macworld March 30, 2006; Apple Inc.**



Thinking Economically How might Apple's history have been different if it had become a partnership instead of a corporation? Explain your answer.

THINKING ECONOMICALLY Synthesizing

1. Based on information in the documents, how would you describe the evolution of Apple Inc.?
2. How did Apple's advertising and marketing affect its success or failure? Use examples from the documents in your answer.
3. What single overriding concern has defined the evolution of Apple and determined its success? Use information from the documents to support your answer.

Interactive Review

Review this chapter using interactive activities at **ClassZone.com**

- Online Summary
- Quizzes
- Vocabulary Flip Cards
- Graphic Organizers
- Review and Study Notes

Online Summary

Complete the following activity either on your own paper or online at **ClassZone.com**

Choose the key concept that best completes the sentence. Not all key concepts will be used.

bond
conglomerate
cooperative
corporation
dividend
franchise
general partnership
horizontal merger
limited liability
limited liability partnership
limited life
limited partnership
merger
multinational corporation
nonprofit organization
partnership
regulation
sole proprietorship
stock
unlimited liability
unlimited life
vertical merger

In a __1__, the business is owned and managed by a single person. One key drawback of this is that the owner has __2__, putting even personal savings at risk. A __3__ is a business structure in which two or more owners share the management of the business, profits, and full liability. The __4__ and __5__ provide ways for some partners to risk only the amount of their investment.

A __6__ is a business that can raise money by selling __7__ and allows for limited liability of its owners and __8__ of the enterprise. Two or more businesses can consolidate through a __9__. If they provide the same kinds of goods or services, their consolidation is known as a __10__. When a business has branches in other countries, it is known as a __11__.

If someone pays for the right to sell a company's goods or services in a certain area, that person is operating a __12__. A business whose owners are also its customers is known as a __13__. A __14__ is structured like a business but pursues goals other than profits.

CHAPTER 8 Assessment

REVIEWING KEY CONCEPTS

Sole Proprietorships (pp. 226–231)

1. What are the advantages of a sole proprietorship?

2. What are the disadvantages?

Forms of Partnerships (pp. 232–237)

3. What are three different kinds of partnerships, and how do they differ?

4. What are the advantages and disadvantages of a partnership?

Corporations, Mergers, and Multinationals (pp. 238–247)

5. What are the advantages and disadvantages of a corporation?

6. In what three ways can companies consolidate?

Franchises, Co-ops, and Nonprofits (pp. 248–253)

7. How is a franchise "an almost independent" business?

8. What is the difference between a cooperative and a nonprofit organization?

APPLYING ECONOMIC CONCEPTS

9. What might be the outcome of raising the fees and requiring more paperwork in order to start a corporation? What would happen if fees were lowered and the application process was simplified?

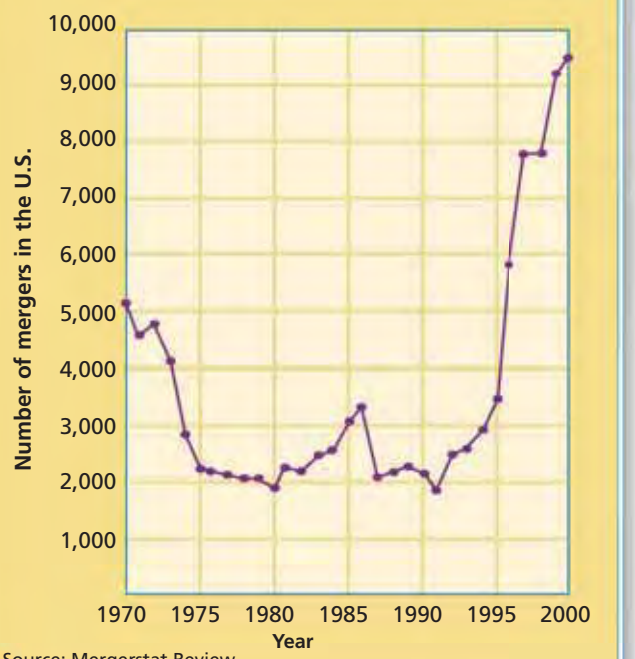
10. Do you think the number of multinationals will continue to increase? Give reasons for your answer.

11. As you have read, sometimes merged companies are not more efficient than they were separately. In some cases, the chief executive officers (CEOs) who arranged the deal make an enormous amount of money from the merger even though the deal itself does not improve profits. What incentives might a board of directors offer to CEOs to make sure they make deals that pay off in profits?

CRITICAL THINKING

Use the following graph showing the number of mergers in the years from 1970 to 2000 to answer questions 12–14.

FIGURE 8.10 MERGERS IN THE UNITED STATES



Source: Mergerstat Review

12. Analyzing Graphs Which of the following can you determine from the information about mergers in the graph?

a. how many companies merged in any given year from 1970 to 2000

b. how many more mergers took place in 2000 than in 1990

c. how long each of the new companies lasted after the merger

13. Predicting Economic Trends Which decade saw the greatest increase in the number of mergers? What probably happened after that decade?

14. Challenge The number of mergers can reflect the economic times, which in turn are often affected by national and world events. What events may have contributed to tighter economic times—and therefore a decrease in mergers—in the 1970s?

SIMULATION

Design a New Business Structure

Each business structure you have read about in this chapter has both advantages and disadvantages. Follow the steps below to design a new business structure that attempts to avoid the worst disadvantages and to capitalize on the most important advantages of the other structures. You can imagine changing laws to accommodate your new structure, but try to make sure your creation makes economic sense.

Step 1. Break into small groups. In your group, draw up a list of advantages and disadvantages of all the business structures. The table on page 242 will help you begin the list.

Step 2. Discuss how the advantages and disadvantages would affect the ability of a business to earn a profit. Choose the three advantages and three disadvantages that your group feels have the most impact.

Step 3. Brainstorm possible ways to avoid the disadvantages and make the most of the advantages. Remember that in brainstorming any idea is allowed, no matter how crazy or simple it might sound.

Step 4. Sort through your brainstorming ideas. Use them to develop a new "ideal" business structure.

Step 5. Share your business structure with the rest of the class, and compare your efforts to those of your classmates.