Unit 3 SG 1 Notes - Types of Business Org. Name ________________________________ Date ________

I. What is an entrepreneur?

A. People who ______________________________ are called entrepreneurs.

1. They strike out on their own
2. They are ______________________
3. They give up a steady job working for someone else

B. Characteristics of an entrepreneur

1. They usually need to ______________________________ to make capital investments in…
   a. __________________ (capital investment) ex: ______________________________
   b. rent production space
   c. hire ________________ (labor costs)
2. If business fails, risk losing their investment.

C. Why do entrepreneurs take these risks?

1. To earn a profit
   a. ________________ – Driving force behind new products and services in a market economy

II. Business and Market Structures

A. Sole Proprietorships

1. A single owner, who takes ___________________ and receives ___________________
2. Easy to start
3. About _______________ of American businesses are this type
4. They earn only approximately 6% of all revenue

B. Partnership

1. Divides the risks and profits of a business among ______________________________.
2. ______________________________ such as doctors and lawyers often form partnerships
3. Types of Partnerships - General & Limited
   a. General Partnership - __________________________________ for management and financial obligations of business
   b. Limited Partnership - At least ______________________________________ in daily running of business
4. Types of Partners
   a. Silent partner – someone who invests in a business and shares its profits, but has ___________ in its day-to-day decisions and operation of business
   b. Majority partner – who owns ___________________ (50.1%) of the company
   c. Minority partner – who owns ___________________ (49.9%) of the company

C. Corporations – A legal entity, or being, ______________________________________, each of whom faces limited liability for the firm's debts.

1. For investors to ______________________________, a firm needs to be organized as a corporation
2. A corporation issues ______________________________ to investors.
3. Some shareholders are paid ______________________________
4. Shareholders elect a ______________________________ to run the business
5. The board of directors hires a chief executive officer (__________) to make day-to-day decisions.
6. A corporation may also borrow money by ______________________________ (corporate bonds)
   a. Bond – a written promise to repay the amount borrowed at a later date.
   b. Principal – The amount ____________________
   c. ____________ – The price paid for the use of another's money OR the price a financial institution pays one to save money
7. Income statement – a financial statement showing a business's sales, expenses, and profits for a certain period to illustrate the financial "____________________" of a company (usually released every quarter)
   a. Net Income – Income ______________________________ from revenue earnings
   b. Depreciation – A non-cash charge the firm takes for the general ____________________ on its ____________________
   c. Cash flows – The sum of net income and non-cash charges such as depreciation , Or, ______________________________
      (1) The cash flows represent the total amount of ____________________ (profit) the business generates from operations
8. Merger – When ____________________ companies come together to make one company
   a. One company gives up its separate ______________________________ to become one large company
   b. Reasons for mergers
      (1) To become a larger company
      (2) A company may not be able to grow as fast as owners would like
      (3) May want to ______________________________ – ValuJet merged with AirWays to form AirTran Holding Corporation (after plane crash in Everglades)
   c. Types of Mergers
      (1) Horizontal merger – When two or more firms that produce the ______________________________ join forces (ex: the merger of two banks)
      (2) Vertical merger – When firms involved in ____________________ of manufacturing or marketing join together (ex: auto company merging with a tire company)
9. Conglomerate – A firm that has at least ______________________________, each making unrelated products. (ex: General Electric)
      (1) None of the different divisions are responsible for a majority of its sales
      (2) ______________________________ – one of the main reasons for conglomerate mergers

10. Multinationals – A corporation that has manufacturing or service operations in a number of ______________________________

    a. A citizen of ______________________ (subject to laws in each country and pay taxes in each country)

Types of Business	**Advantages**	**Disadvantages**
Sole Proprietorship		
Partnership		
Corporation		

Franchises are not technically a type of business organization. In the space below, summarize how a franchise works:

____

____

____