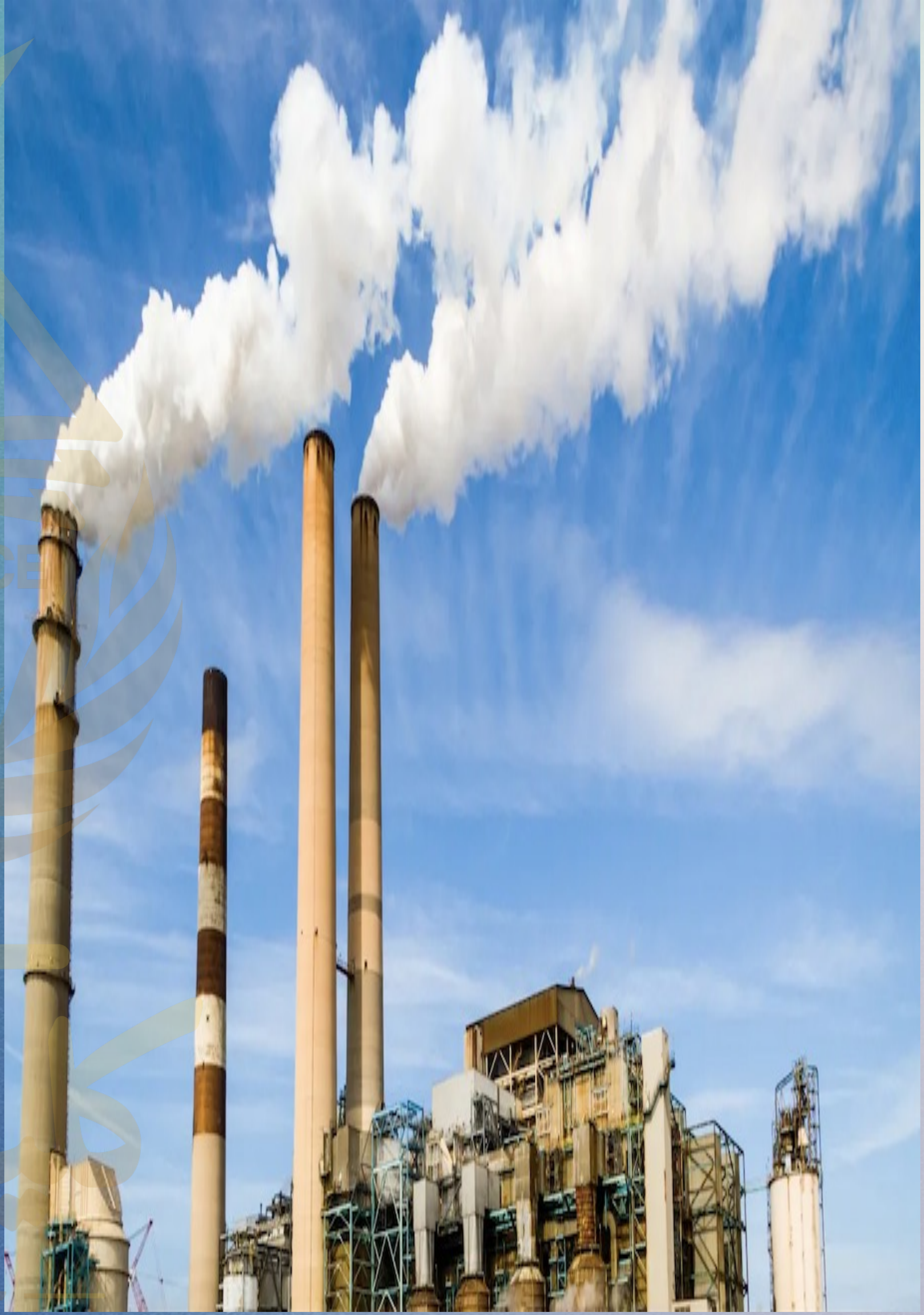
Industrial Economics

Chapter 2

Organisation of a Firm

Section by, Hend Abdelsalam



Q1: What is the meaning of firms?

- ✓ Firm can be defined as an organization that employs productive resources to obtain products and services which are offered in the market with the aim of making a profit.

Q2: Compare between Firms and Organization?

All firms are organization, but not all organizations are firms, so we will differentiate between firms and organizations:

	An Organization	A Firm
Meaning	An organization is a complex social system created by people to cooperate in the achievement of some goal.	An organization that employs productive resources to obtain products and services.
Objectives	An association that has a collective goal and is linked to an external environment.	The aim of obtaining a profit through selling products and services in the market.

1. What is the primary goal that distinguishes a firm from other organizations?

a. To achieve a collective societal goal

b. To employ productive resources

c. To make a profit

d. To provide charity

2. Which of the following best describes an organization?

a. A group of people focused solely on profit

b. An entity comprising multiple people with a collective goal

c. A business enterprise only

d. An individual working independently

3- Which of the following is not typically considered a productive resource for firms?

a. Capital

b. Labor

c. Information technology

d. Charitable donations

Q3: List the different types of firms.

1. Individual or Sole proprietorship or sole traders
2. Partnership
3. Co-operative Society
4. Joint Stock company
5. Public or State undertakings

Q4: Discuss the individual or sole proprietorship according to: Definition, characteristics, advantages and disadvantages .

Definition:

- Is the oldest and simplest form of business organization.
- A sole proprietorship : is a form of private enterprise that is owned, managed and controlled by one person, and consequently, that person is liable for all costs and obligations.

Features\ characteristics of the Sole Proprietorship

I. Single ownership: Owned by one person.

II. Individual Management and control:

- ✓ Such organization is managed and controlled by Sole Proprietor.

III. Individual Financing:

- ✓ Such organization is finance mainly by the Sole Proprietor.

IV. Individual Accountability: Sole Proprietor is sole beneficiary of the profits.

He has to bear the losses, if any. In this sense, the Sole Proprietor and employed person are accountable to the Sole Proprietor.

V. Unlimited Liability: if the business assets are not sufficient to meet the business liabilities, his private assets are to be used to discharge the business liabilities.

VI. Minimum Government Regulation: There are minimum government regulations to set up such form of organization.

Advantages of Individual or Sole Proprietorship or Sole Traders

1) Simple Formation:

- ✓ It is very easy and simple to form sole proprietorship.
- ✓ Anybody can start this type of business according to his capacity and ability.

2) Independence

- ✓ The owner is altogether independent.
- ✓ He can make any type of transaction as he like without any interference from any other person.

3) Quick Decisions

- ✓ As the sole proprietor does not require much consultation or approval, he takes quick decisions on various matters relating to business operations.

4) Complete Control

- ✓ The proprietor in this type of business exercises full control over the functioning and working of the business.

5) Need of Small Capital

- ✓ Sole Proprietor has the advantage of starting the business with a comparatively small amount of capital.

Disadvantages of Individual or Sole Proprietorship or Sole Traders

1) Lack of Division of labour

- ✓ Being a small business, there is less scope for division of labour so production cannot be done efficiently and rapidly.

2) Limited Financial Resources

- ✓ The sole proprietor has limited capital and has limited capacity to raise funds because of limited personal assets.
- ✓ This limitation reduces the scope for expansion and growth of business.

3) Limited Managerial Skill

- ✓ Limited managerial skill reduces the scope for efficient management, expansion and the growth of business.

4) High cost of production

- ✓ Being a small scale production the proprietor cannot reap the benefits of the economies of large scale production.
- ✓ It results in the high cost of production and higher prices.
- ✓ All this makes an adverse effect on the demand for his products.

4. Which of the following is NOT a type of firm based on ownership structure?

a. Sole proprietorship

b. Partnership

c. Joint Stock Company

d. Multinational Corporation

5. Which is one disadvantage of a sole proprietorship?

a. Limited control

b. individual accountability

c. Complex management

d. Shared profits

6. In a sole proprietorship, who is liable for the business's obligations?

a. The shareholders

b. The board of directors

c. The sole proprietor

d. The government

7. What is a characteristic of a sole proprietorship?

a. Limited liability

b. Shared ownership

c. Unlimited liability

d. State ownership

9. Which objective is concerned with the long-term success of a firm?

a. Maximize stock price

b. Maximize future profits

c. Maximize growth

d. Maximize sales

10. Which is one disadvantage of a sole proprietorship?

a. Limited control

b. individual accountability

c. Complex management

d. Shared profits

11. Which factor contributes to the high cost of production in a sole proprietorship?

a. Economies of scale

b. Use of advanced technology

c. Small scale production

d. High level of automation

12. Which of the following is a characteristic of sole proprietorship?

a. Limited liability

b. Multiple ownership

c. Unlimited liability

d. Government regulation

13. Which of the following is one of the main advantages of a sole proprietorship?

a. Complex formation process

b. Independence in decision-making

c. High requirement of capital

d. increasing government control

14. What is a key disadvantage of a sole proprietorship?

a. Unlimited liability

b. Multiple managerial skills

c. Easy access to credit

d. Division of labor

15. How is a sole proprietorship typically financed?

a. By issuing shares

b. Through government grants

c. By the sole proprietor

d. By a board of directors

16. Why is decision-making quick in a sole proprietorship?

a. Because of complex managerial structures

b. Due to the need for shareholder approval

c. As the sole proprietor does not need consultation

d. Because decisions are made by a group

17. Which of the following is a disadvantage of sole proprietorship?

a. Easy to supervise

b. Lack of Division of labour

c. Complete control

d. Direct relations with consumers

18. Which of the following is true about the formation of a sole proprietorship?

a. Requires extensive legal documentation

b. Needs approval from a board

c. Simple and easy to establish

d. Demands a large initial investment

19. What is a typical feature of sole proprietorship regarding profit?

a. Profits are shared among partners

b. Sole receiver of profit

c. Dividends are issued to shareholders

d. Profits are distributed by a board

20. What is a main reason for limited financial resources in a sole proprietorship?

a. Unlimited access to capital

b. Abundant external funding

c. Limited capacity to raise funds

d. Government financial aid

21. How does a sole proprietor benefit from being the sole receiver of profits?

a. By sharing profits with partners

b. Through government subsidies

c. By being directly motivated to work harder

d. By distributing profits among employees

22. What type of business operation is most suitable for a sole proprietorship?

a. Large-scale manufacturing

b. International trading

c. Small-scale operations

d. Public corporations

Q5: Discuss the partnership as a type of firms according to: Definition, characteristics, types of partners, advantages and disadvantages.

Definition:

- Partnership is when two or more than two persons join to start and run a business on the basis of their common and shared responsibility in the matter of profit or loss

Features/ Characteristics of Partnership of Firms

1. Two or More Persons: There must be at least two persons to form a partnership.

2. Agreement: It is imperative that there be present an expressed agreement to form a partnership.

3. Profit Sharing: there must be a sharing of profits and losses.

4. Joint Ownership and Control: Firm is owned and controlled jointly by the partners since every partner has a right to take part in the management of the business.

Types of partners

✓ A person who deals or intends to deal with a firm must know who the partners are, and to what extent each partner is liable.

- Actual or Ostensible
- Sleeping or Dormant partner
- Nominal Partner
- Partner in Profit Partner
- Sub-Partner only

Types of partners	Nature	He is liable with other partners to the third parties for the entire firm.	Give public notice of his retirement
1. Actual or Ostensible	He takes an active part in the conduct of the business.	Yes	Yes
2. Sleeping or Dormant partner	He does not take an active part in the conduct of the business.	Yes	No
3. Nominal Partner	He lends his name to the firm without having any real interest in the firm.	No	No

Types of partners	Nature	He is liable with other partners to the third parties for the entire firm.	give public notice of his retirement
4. Partner in Profit Partner	He share the profits only and not losses.	Yes	Yes
5. Sub-Partner only	He is a third person with whom partner agrees to share of Firms profits derived from the firm.	No	No

Advantages of Partnership

1) Easy formation:

- ✓ It is very easy and simple to form partnership.
- ✓ It requires at least two persons .

2) Careful Decisions:

- ✓ Under the partnership, decision is not taken by an individual but by all the partners after a great deal of discussion.
- ✓ It reduces the chances for wrong decisions.

3) Division of Work:

- ✓ This management of business is not done by a single person, but it is divided among different partners.
- ✓ It creates division of work, and they can make better supervision of the business.

4) More Capital: More capital can be invested than in case of individual proprietorship.

5) Division of Labour:

- ✓ The division of labour become easy under the partnership because of the large-scale production.

Disadvantages of Partnership

1) Lack of Mutual Confidence:

- ✓ In the absence of mutual confidence, the business gets a set-back and may be closed.

2) Difficult to Separate:

- ✓ No partner can sell his shares to others according to his wishes.
- ✓ Therefore, one cannot separate from the business without permission of other partners.

3) Delay in Decision:

- ✓ Sometimes partners do not agree with each other on a particular issue and the decision may not be reached for lack of agreement.

4) Lack of Responsibility:

- ✓ Under partnership, every partner is equally responsible in the business.

23. What is a partnership in the context of business organizations?

a. A business owned by a single individual

b. A business organization where two or more individuals share profits and losses

c. A business that is owned by the government

d. A company that sells shares to the public

24. Which of the following is a feature of a partnership?

a. Limited liability

b. Unlimited capital resources

c. Joint ownership and control

d. Non-profit orientation

25. How many persons are required at a minimum to form a partnership?

a. One

b. Two

c. Three

d. Four

26. Which of the following is NOT a type of partner in a partnership?

a. Sleeping partner

b. Nominal partner

c. Investment partner

d. Partner in profit only

28. Which of the following is an advantage of a partnership?

a. Easy formation

b. Unlimited liability

c. Lack of mutual confidence

d. Difficult to separate

29. How is profit shared in a partnership?

a. Equally among all partners

b. Only the managing partner receives profits

c. According to an agreed ratio among partners

d. Profits are retained in the firm

30. Which statement is true about a sleeping partner?

a. They actively manage the business

b. They are not liable for the firm's debts

c. They do not participate in daily business operations

d. They must give public notice upon retirement

31. Why might partnerships experience delays in decision-making?

a. Due to mutual confidence

b. Due to disagreements among partners

c. Because decisions are made by external consultants

d. Due to the speed of individual decision-making

32. In what way does a partnership lead to division of labor?

a. Partners work in isolation

b. sole propriator share all responsibilities equally

c. Each partner focuses on specific aspects of the business

d. Tasks are assigned randomly

33. What is the role of a nominal partner in a partnership?

a. They invest capital and share profits

b. They lend their name without actual involvement

c. They manage the day-to-day operations

d. They have the highest liability in the firm

34. What is a key difference between a sole proprietorship and a partnership?

a. Sole proprietorship has more capital resources

b. Partnership involves shared liability among partners

c. Sole proprietorship involves shared liability among partners

d. Partnership has a single owner

Thank you!