

# Industrial Economics

## ✧ Chapter 2 ✧

### Organisation of a Firm

#### Par 2

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## Q6: Discuss the joint stock company as a type of firms according to: definition, characteristics, advantages and disadvantages.

### Definition

- ❑ The term '**company**' implies an association of number of persons formed for some common object.
- ❑ When a number of persons, who are unknown to each other, join together to invest their money in some common business, it is **called the joint stock company**.

## Features of Joint Stock Company

### 1. An Artificial Person Created by Law:

- ✓ A Company is called an artificial person because it does not take birth like a natural person but forms in into distance through law.

### 2. Legal Existence:

- ✓ A Joint Stock Company has legal existence.
- ✓ The company is a legal person, and it can be sued upon as an individual in the court of law for any wrong deed or action or it can sue any person.

### 3. Limited Liability:

- ✓ The liability of every shareholder is limited to the extent of his shares.
- ✓ If the company fails, the share-holders or owners are liable to lose only what they have paid for their share.



## Features of Joint Stock Company

### 4. Democratic Management:

- ✓ A Joint Stock Company is managed by the Board of Directors which is elected by its shareholders through the democratic system of casting vote.

### 5. Collective Ownership:

- ✓ The Company is not owned by a single person but collectively by all the shareholders to the extent of their shares.



## Advantages of Joint stock Company

### 1) Limited Liability:

- ✓ Having limited liability of the owners, the person who fears risk may also invest capital in the business.
- ✓ The shareholders are not liable to pay anything more than the face value of their shares.

### 2) Large Capital:

- ✓ A joint stock company can arrange capital in large quantity.

### 3) Large Scale of Production:

- ✓ The large-scale of production can be established on the basis of the joint stock company.



## Advantages of Joint stock Company

### 4) Long Life:

- ✓ The Company has long life.
- ✓ It does not make any difference to the company if the death of a share-holder occurs, or he sells his share to another person.

### 5- Easy to Increase Capital:

- ✓ It is quite easy for a joint stock company to raise more capital whenever required, by floating new shares and selling debentures in the market.



## Disadvantages of Joint stock Company

### 1) Lengthy and Expensive Procedure for Formation:

- ✓ It is expensive in the sense that heavy fees for the preparation of required documents and for registration is required to be paid.

### 2) More Government Regulations:

- ✓ A company is required to comply with various legal formalities at every stage of its working and to penalty for non-compliance of the legal requirement.

### 3) Separation of Organization and Enterprise:

- ✓ In the joint stock company, **shareholders are the entrepreneurs**, and **the paid managers are the organisers**



## Disadvantages of Joint stock Company

### 4) Danger of Monopoly:

- ✓ The joint stock company can create monopoly in the market.

### 5) Delay in Decision-Making and Action:

- ✓ For a company, decision making process is time consuming since all important decisions are taken by either **the Board of Directors or shareholders** in their meeting and it is difficult to arrange meeting all of sudden



**35. Which of the following best describes a joint stock company?**

- a. A single owner business
- b. An association of unknown persons investing in a common business
- c. A partnership of known individuals
- d. A government-owned entity

**36. Which of the following is an advantage of a joint stock company?**

- a. Difficulty in raising capital
- b. Limited liability for shareholders
- c. Short lifespan
- d. Limited production capability



**37. What is meant by 'limited liability' in the context of a joint stock company?**

- a. Shareholders can only lose the amount they invested
- b. Shareholders have unlimited personal liability
- c. Shareholders are responsible for company debts
- d. Shareholders have no financial responsibility

**38. How is a joint stock company managed?**

- a. By a single owner
- b. By a government official
- c. By a Board of Directors elected by shareholders
- d. By external consultants



### **39. What is a common disadvantage of a joint stock company?**

- a. Unlimited liability
- b. Easy decision-making process
- c. Delay in decision-making and action
- d. Lack of capital

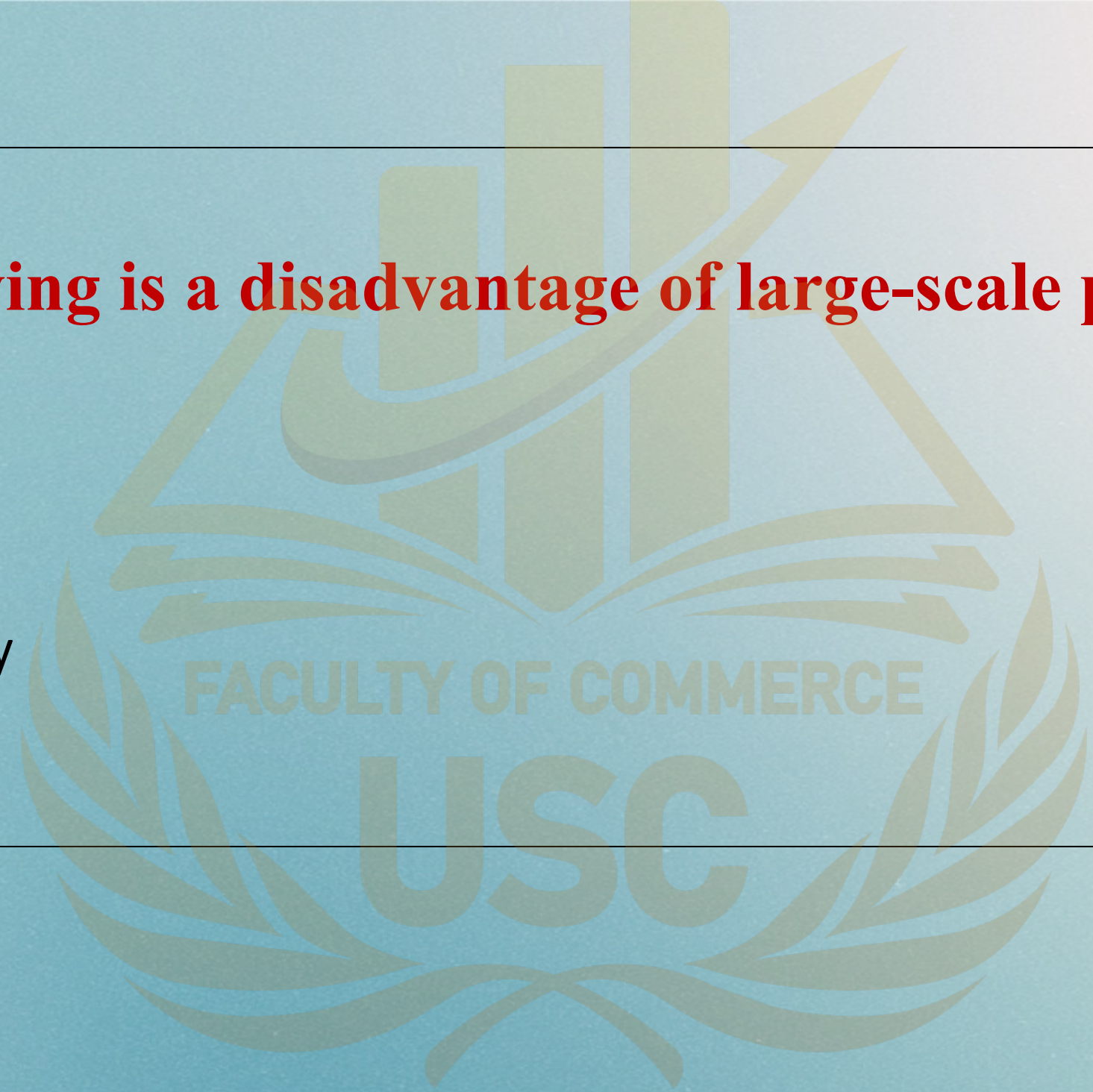
### **40. How can a shareholder separate from a joint stock company?**

- a. By withdrawing their capital
- b. By selling their shares to another person
- c. By transferring shares to the company
- d. By dissolving the company



**42. Which of the following is a disadvantage of large-scale production in a joint stock company?**

- a. Increased personal liability
- b. danger of monopoly
- c. Limited market reach
- d. Reduced production capacity



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**Q7: Discuss the public or state undertakings as a type of firms according to definition, advantages and disadvantages.**

**Definition:**

- ☐ Industrial and commercial undertakings owned and run by the government are known as public sector undertakings.



## Advantages of the public or state undertakings

### 1) Development of Backward areas:

- ✓ Private enterprises cannot satisfy the development needs of the backward areas.

### 2) Public welfare:

- ✓ The aim of public enterprises is not to earn profits, but the social or public welfare which promotes national interest.
- ✓ The enterprises which do not give direct profit but are essential for the public welfare are run as the state enterprises, e.g. power projects or construction of dam and roads.

### 3) Development of Heavy and Basic Industries:

- ✓ Public enterprise come to help in the development of heavy and basic industries.

### 4) Reasonable Prices:

- ✓ In the private sector, capitalists from monopolies charge higher prices but the public enterprises produce generally of better quality goods and sell them in reasonable prices.



**Disadvantages  
of the public  
or state  
undertakings**

- 1) Corruption
- 2) Political Favouritism
- 3) Frequent and Sudden Transfer
- 4) Wasteful Expenditure
- 5) Lack of Incentives
- 6) Excessive bureaucracy



**43. What is a primary aim of public sector undertakings?**

- a. Maximizing shareholder profits
- b. Maximizing Public welfare
- c. Reducing government control
- d. Increasing competition

**44. Which of the following is an advantage of public enterprises?**

- a. Corruption
- b. Political favoritism
- c. Development of backward areas
- d. Lack of incentives



**45. Public enterprises are essential for the development of which type of industries?**

- a. Technology and software
- b. Heavy and basic industries
- c. Fashion and textiles
- d. Food and beverages

**46. What is one disadvantage of state enterprises?**

- a. Efficient workforce
- b. High incentives
- c. Bureaucracy
- d. Low research potential



**47. What is a common issue in state enterprises leading to increased costs?**

- a. High levels of innovation
- b. Wasteful expenditure
- c. Efficient management
- d. Low labor costs







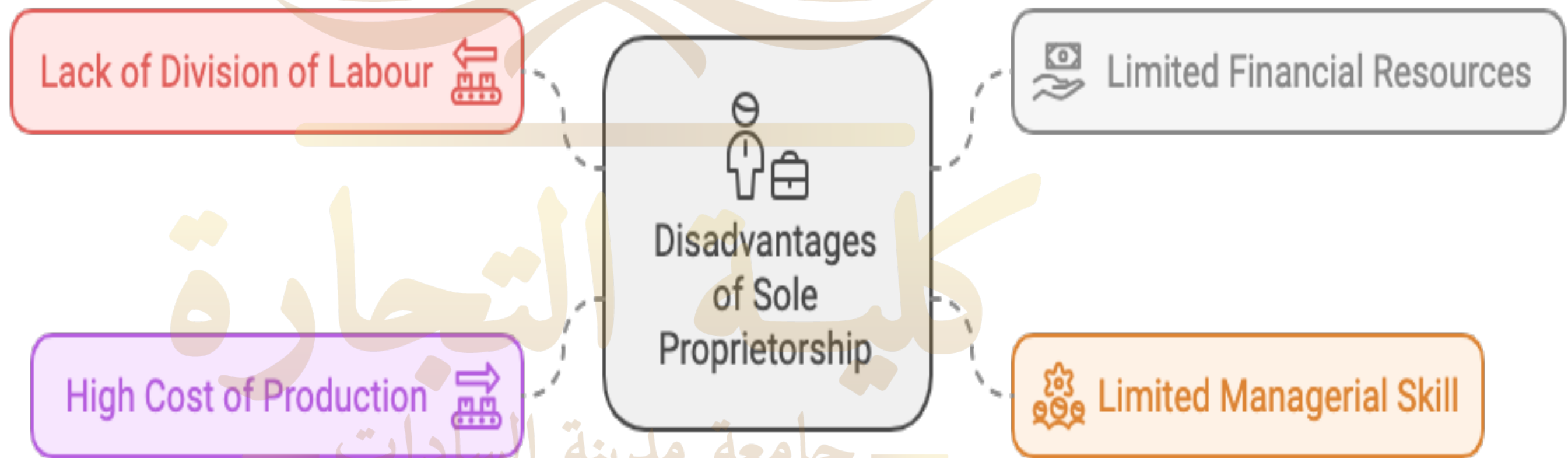
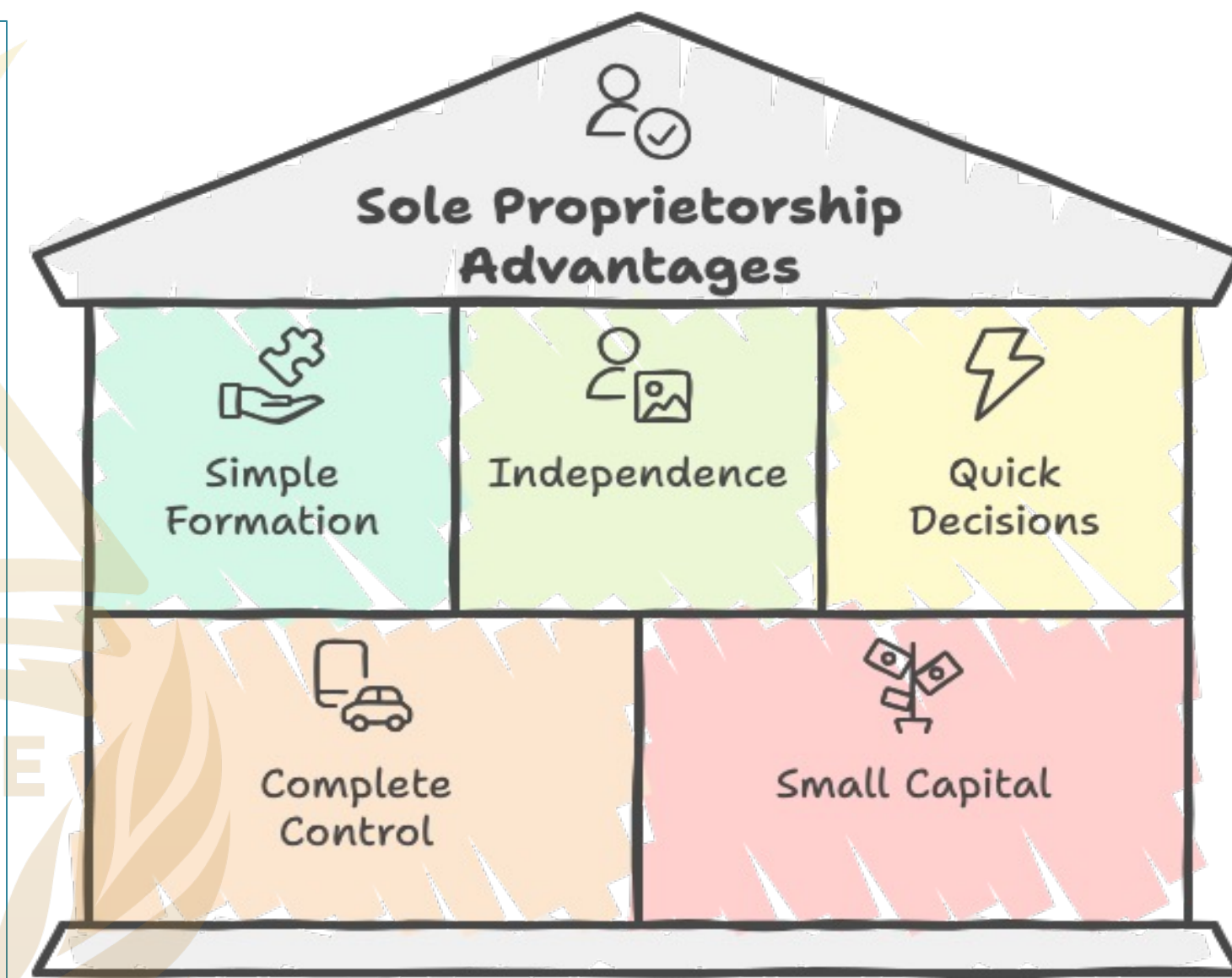
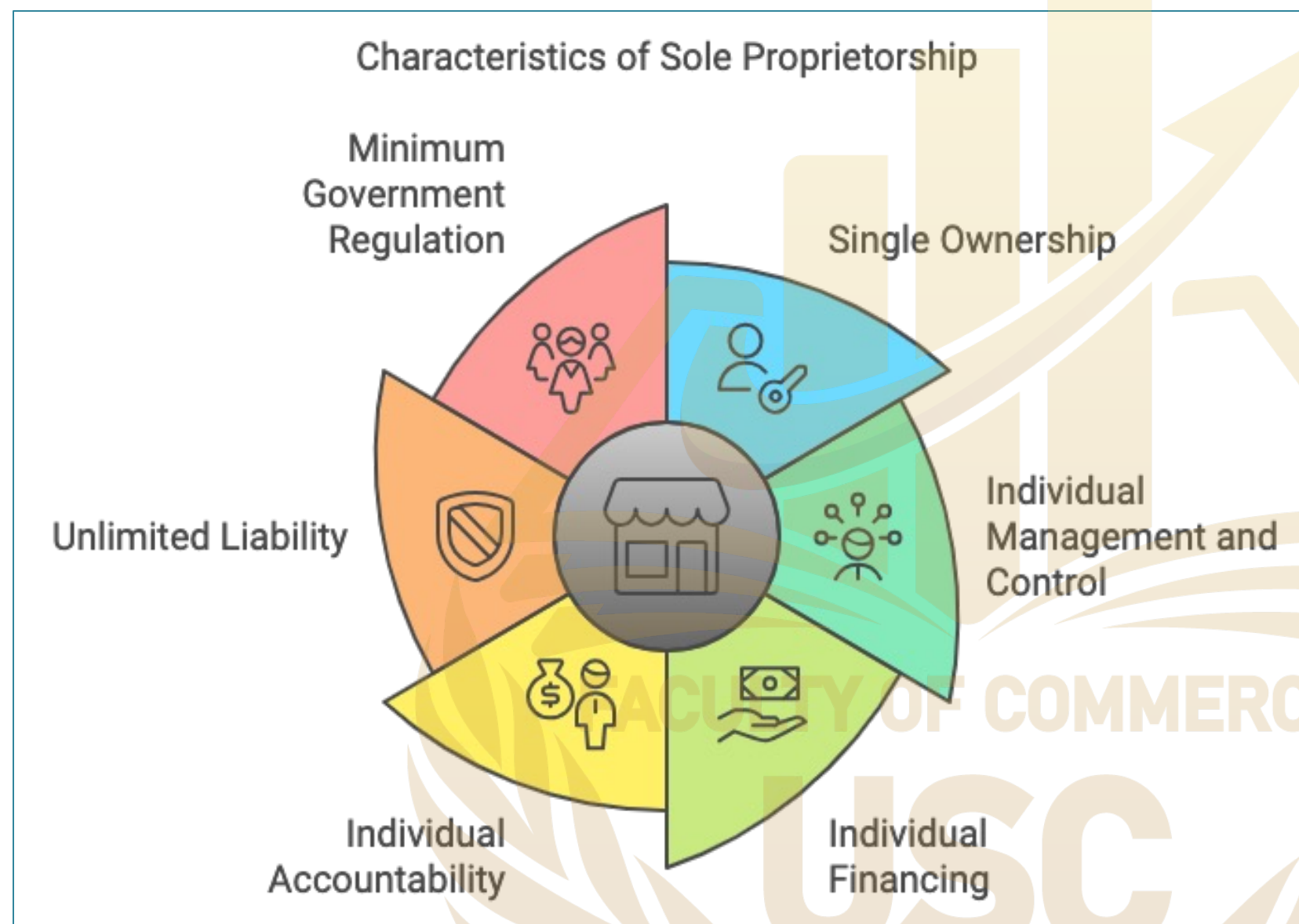
## Summary for Chapter 2

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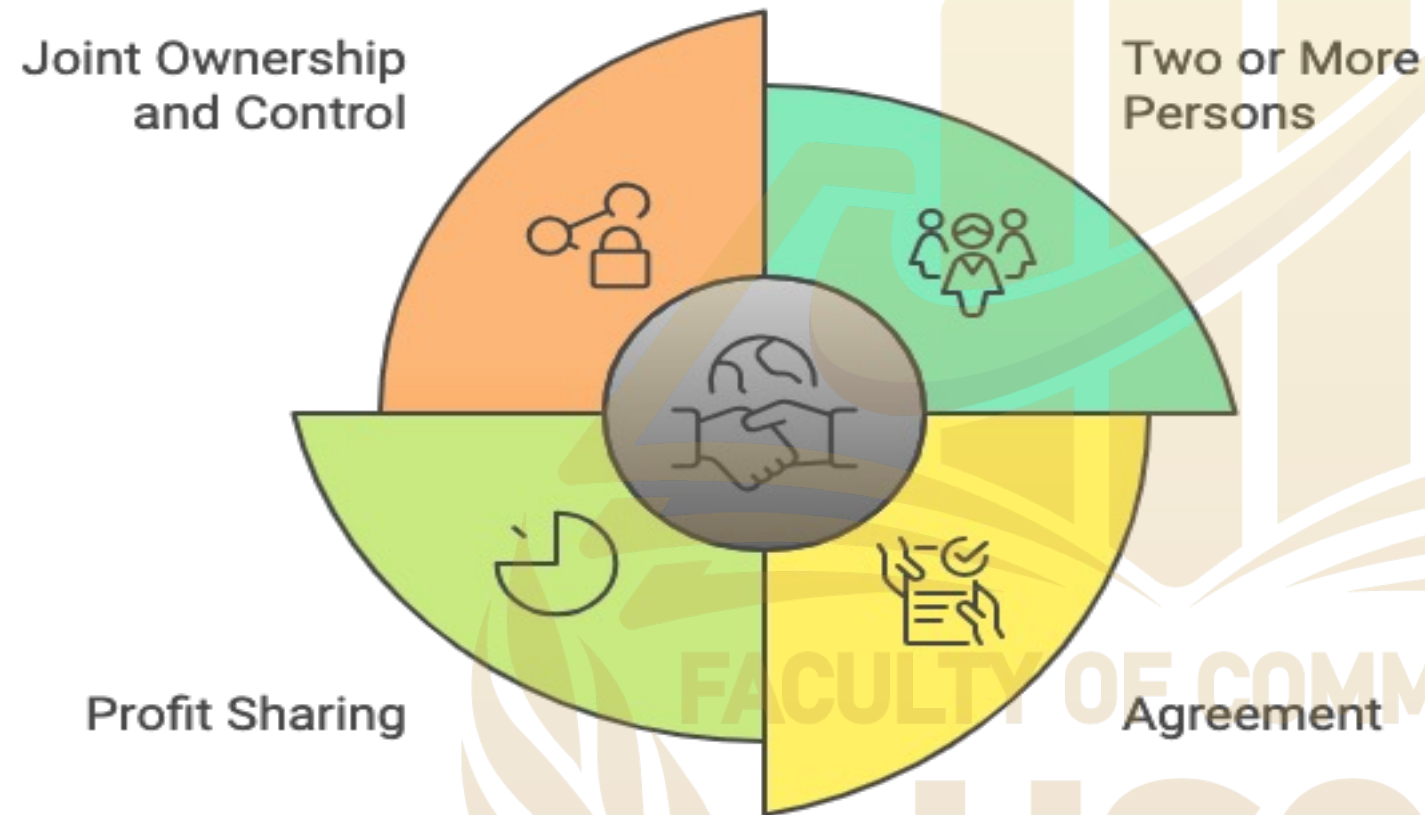
# Sole Proprietorship



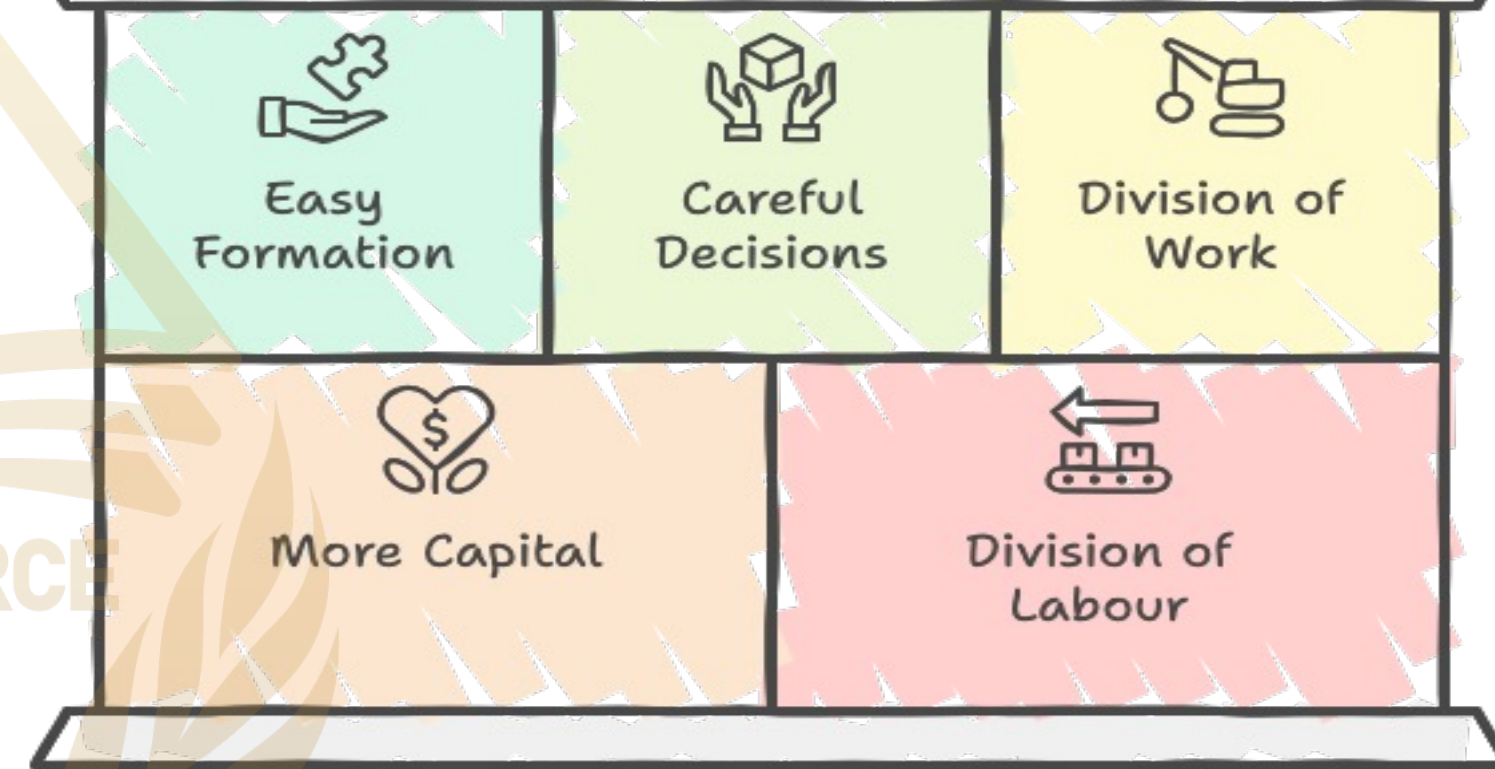


# Partnership

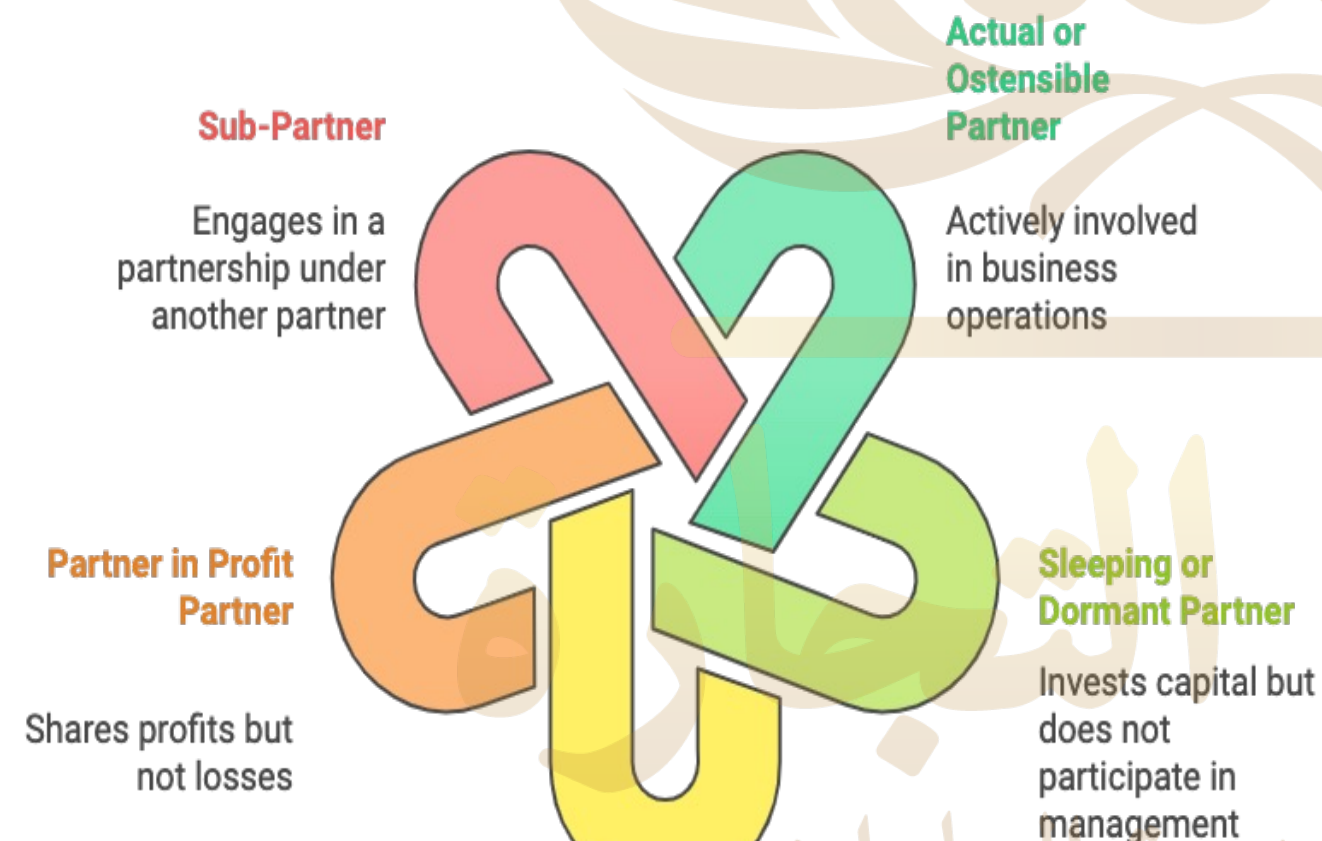
## Characteristics of a Business Partnership



## Partnership Advantages



## Types of partners:



Lack of Mutual Confidence

Lack of Responsibility

Disadvantages of Partnership

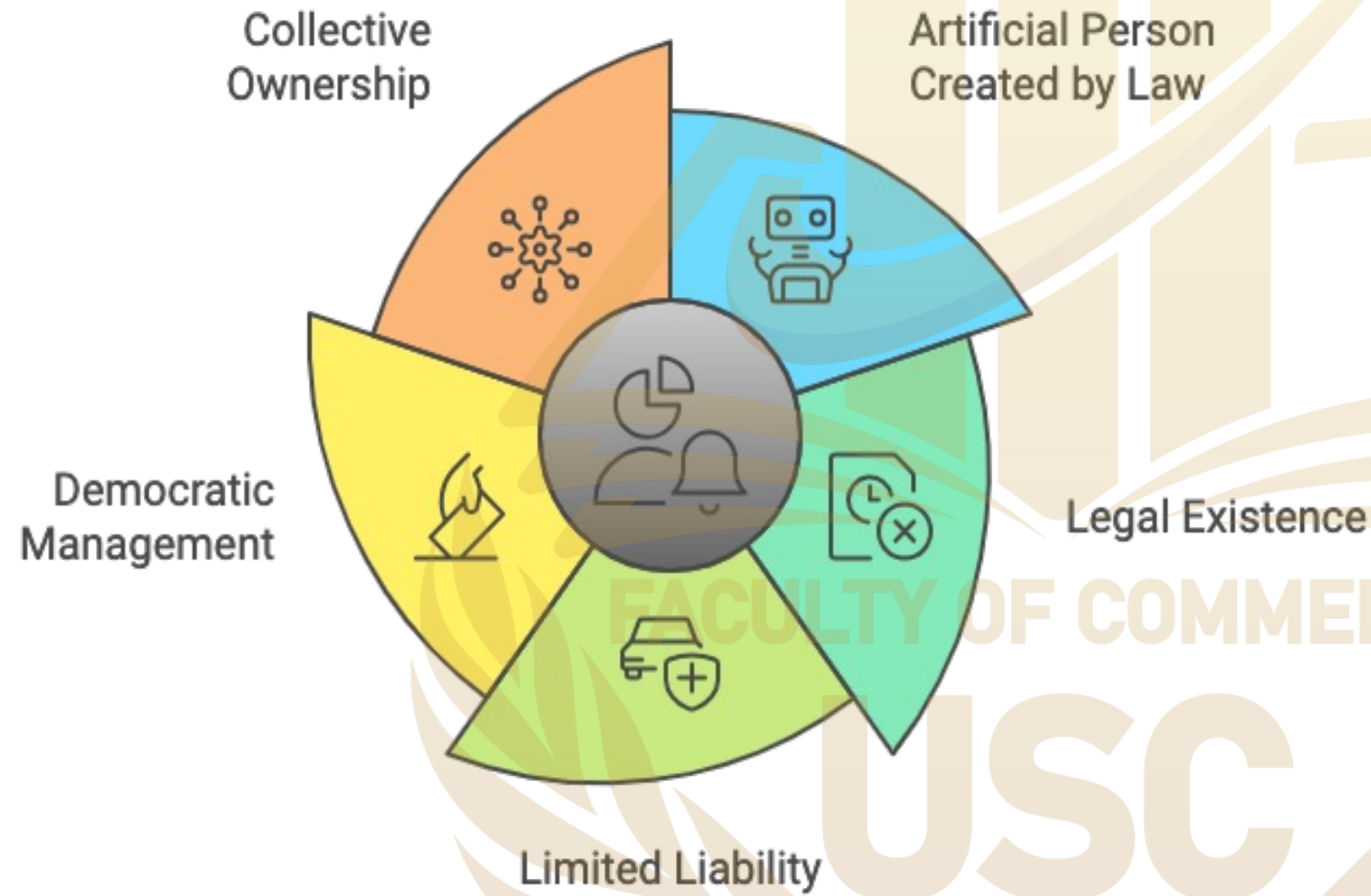
Difficult to Separate

Delay in Decision

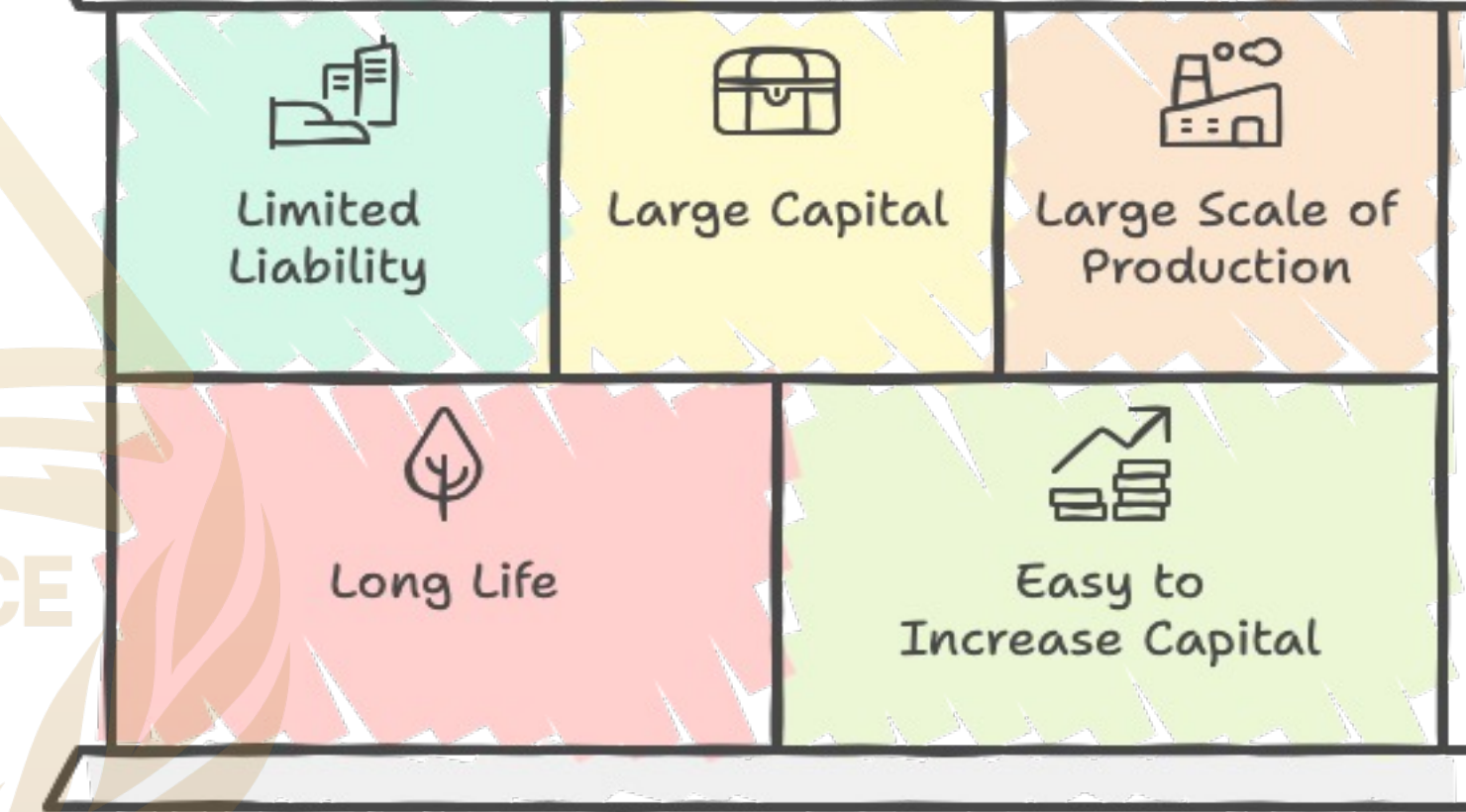


# Joint stock company

## Characteristics of a Joint Stock Company



## Joint Stock Company Advantages



Lengthy and Expensive Procedure for Formation



Danger of Monopoly



Disadvantages of Joint Stock Company



More Government Regulations



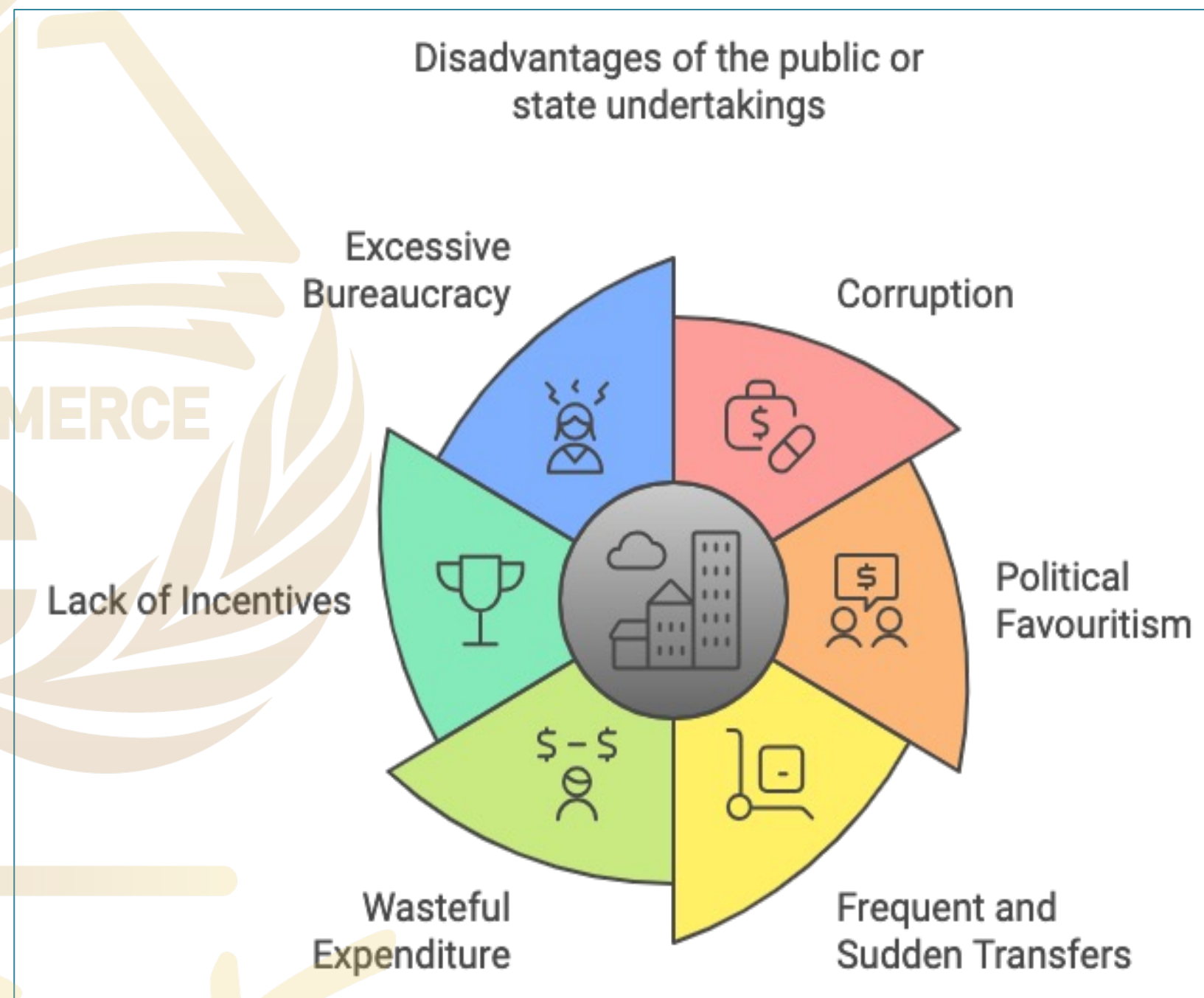
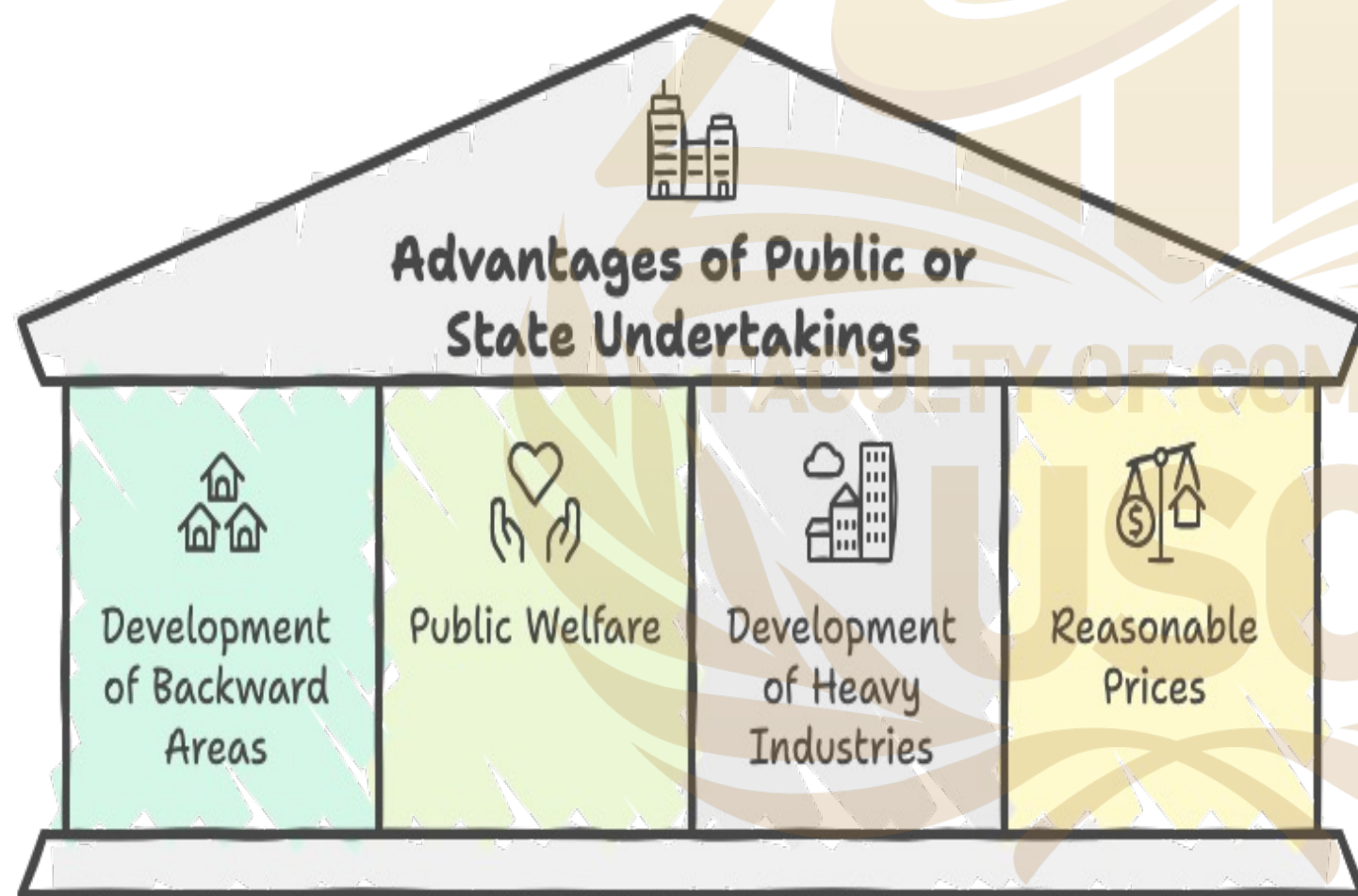
Separation of Organization and Enterprise



Delay in Decision-Making and Action



# public or state undertakings



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## **Now, Can you test your self ??**

**Write in the following:**

**Q1: What is the meaning of firms?**

**Q2: Compare between Firms and Organization?**

**Q3: List the different types of firms.**

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

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

**Q6: Discuss the joint stock company as a type of firms according to: definition, characteristics, advantages and disadvantages.**

**Q7: Discuss the public or state undertakings as a type of firms according to definition, advantages and disadvantages.**



Thank you!

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