**Chapter Preview : Chapter 1**

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1. Explain the four types of firms.

**Sole proprietorships**

Sole proprietorships is owned and operated by a single individual. The owner has complete control over the business and also bears full responsibility for its debts and obligations.(Which is different from LLC which limit owner’s responsibility)

**Partnerships**

Partnerships are collaborative business relationships between two or more organizations which shares its ownership and responsibility for the business.

**Limited Liability Companies (LLC)**

A type of company which combines elements of partnerships and corporations. They don’t have as much responsibility as corporations while allowing them to have flexible management and taxation options.

**Corporations**

Legal entities that are separate and distinct from their owners. They are owned by shareholders, managed by a board of directors, and operated by officers appointed by the board.

1. Define or explain the following terms.

**Double taxation**

The imposition of the taxes on the same income, assets or financial transactions at two different points of time.

**Agency problems**

Agency problems occur when there is a conflict of interest between principals and agents because of the information asymmetry. In this problem, agents act for their benefit instead of principals.

**Hostile takeover**

A hostile takeover is a type of acquisition where a company takes control of another company without the approval of the target company.

**Public company**

A public company is a company whose shares are traded on a public stock exchange, allowing members of the public to buy and sell shares freely. Public companies are subject to regulatory requirements such as financial reporting and disclosure obligations.

**IPO (Initial Public Offering)**

An IPO is the first sale of shares of a private company to the public, allowing the company to raise capital from public investors.

**Primary market**

The primary market is where new securities are issued and sold by companies or governments directly to investors, typically through mechanisms like IPOs or bond offerings. It is the initial stage of securities trading before they are subsequently traded on the secondary market.