# UNIT-III:
# MARKET STRUCTURES & TYPES OF BUSINESS ORGANISATIONS

**Market Structure: Meaning, Characteristics and Forms**

**Meaning of Market:**

Ordinarily, the term "market" refers to a particular place where goods are purchased and sold. But, in economics, market is used in a wide perspective does not mean a particular place but the whole area where the buyers and sellers of a product are spread.

This is because in the present age the sale and purchase of goods are with the help of agents and samples. Hence, the sellers and buyers of a particular commodity are spread over a large area. The transactions for com-modities may be also through letters, telegrams, telephones, internet, etc. Thus, market in economics does not refer to a particular market place but the entire region in which goods are bought and sold. In these transactions, the price of a commodity is the same in the whole market.

**According to Prof. R. Chapman,** "The term market refers not necessarily to a place but always to a commodity and the buyers and sellers who are in direct competition with one another."

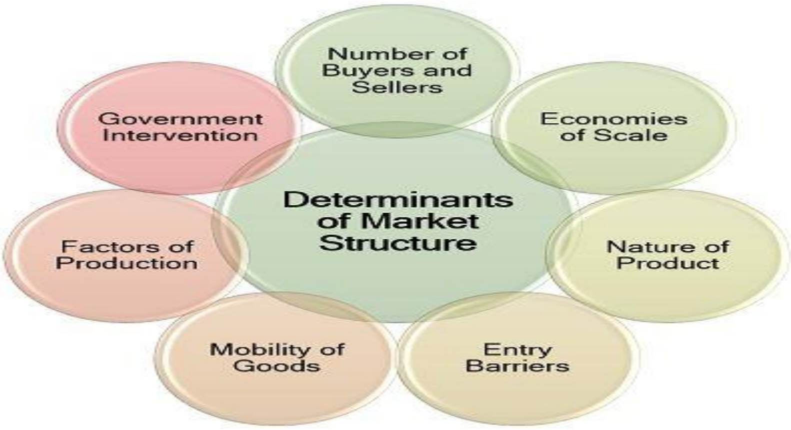
The market for a product refers to the whole region where buyers and sellers of that product are spread and there is such free competition that one price for the product prevails in the entire region.

**Market Structure-Meaning:**

Market structure refers to the nature and degree of competition in the market for goods and services. The structures of market both for goods market and service (factor) market are determined by the nature of competition prevailing in a particular market.

**Determinants:**

There are a number of determinants of market structure for a particular good. They are:



They are discussed as under:

**1. Number and Nature of Sellers:** The market structures are influenced by the number and nature of sellers in the market. They range from large number of sellers in perfect competition to a single seller in pure monopoly, to two sellers in duopoly, to a few sellers in oligopoly, and to many sellers of differentiated products.

**2. Number and Nature of Buyers:** The market structures are also influenced by the number and nature of buyers in the market. If there is a single buyer in the market, this is buyer's monopoly and is called monopoly market. Such markets exist for local labour employed by one large employer. There may be two buyers who act jointly in the market. This is called Duolopoly market. They may also be a few organized buyers of a product.

This is known as oligopsony. Duopsony and oligopsony markets are usually found for cash crops such as rice, sugarcane, etc. when local factories purchase the entire crops for processing.

**3. Nature of Product:** It is the nature of product that determines the market structure. If there is product differentiation, products are close substitutes and the market is characterized by monopolistic competition. On the other hand, in case of no product differentiation, the market is characterized by perfect competition. And if a product is completely different from other products, it has no close substitutes and there is pure monopoly in the market.

**4. Entry and Exit Conditions:** The conditions for entry and exit of firms in a market depend upon profitability or loss in a particular market. Profits in a market will attract the entry of new firms and losses lead to the exit of weak firms from the market. In a perfect competition market, there is freedom of entry or exit of firms.

But in monopoly and oligopoly markets, there are barriers to entry of new firms. Usually, governments have a monopoly in public utility services like postal, air and road transport, water and power supply services, etc. By granting exclusive franchises, entries of new supplies are barred. In oligopoly markets, there are barriers to entry of firms because of collusion, tacit agreements, cartels, etc. On the other hand, there are no restrictions in entry and exit of firms in monopolistic competition due to product differentiation.

**5. Economies of Scale:** Firms that achieve large economies of scale in production grow large in comparison to others in an industry. They tend to weed out the other firms with the result that a few firms are left to compete with each other. This leads to the emergency of oligopoly. If only one firm attains economies of scale to such a large extent that it is able to meet the entire market demand, there is monopoly.

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**TYPES (FORMS) OF MARKET STRUCTURES**

On the basis of competition, a market can be classified in the following ways:


**[1] PERFECT COMPETITION**

In a perfect competition market structure, there are a large number of buyers and sellers, all are engaged in a homogeneous product without any artificial restrictions and buyers and sellers possessing perfect knowledge about the market situations.

*Examples of Perfect Competition Market Structure:* Foreign Exchange Markets, Agricultural markets and Internet-related industries.

**Assumptions (or) Features (or) Characteristics of Perfect Competition:**

The following are the conditions (assumptions) for the existence of perfect competition:


**(1) Large Number of Buyers and Sellers:** The first condition is that the number of buyers and sellers must be so large that none of them individually is in a position to influence the price and output of the industry as a whole. Thus no buyer or seller can alter the price by his individual action. He has to accept the price for the product as fixed for the whole industry. He is a "price taker".

**(2) Homogeneous Product:** In this, each firm produces and sells a homogeneous products like salt, wheat, cotton and coal etc. This is only possible if units of the same product produced by different sellers are perfect substitutes. No seller has an independent price policy. He cannot raise the price of his product. If he does so, his customers would leave him and buy the product from other sellers at the ruling lower price.

**(3) Freedom of Entry and Exit of Firms:** The next condition is that the firms should be free to enter or leave the industry. It implies that whenever the industry is earning excess profits, attracted by these profits some new firms enter the industry. In case of loss being sustained by the industry, some firms leave it.

**(4) Perfect Knowledge about Market Conditions:** This condition implies a close contact between buyers and sellers. Buyers and sellers possess complete knowledge about the prices at which goods are being bought and sold, and of the prices at which others are prepared to buy and sell. They have also perfect knowledge of the place where the transactions are being carried on. Such perfect knowledge of market conditions forces the sellers to sell their product at the prevailing market price and the buyers to buy at that price.

**(5) No Transportation Costs:** Another condition is that there are no transport costs in carrying of product from one place to another. This condition is essential for the existence of perfect competition which requires that a commodity must have the same price everywhere at any time. If transport costs are added to the price of the product, even a homogeneous commodity will have different prices depending upon transport costs from the place of supply.

**(6) No Artificial Restrictions:** The next condition is that there is complete openness in buying and selling of goods. Sellers are free to sell their goods to any buyers and the buyers are free to buy from any sellers. In other words, there is no discrimination on the part of buyers or sellers. Moreover, prices are liable to change freely in response to demand-supply conditions. There are no efforts on the part of the producers, the government and other agencies to control the supply, demand or price of the products. The movement of prices is unfettered.

**(7) Perfect Mobility of Goods and Factors:** Another requirement of perfect competition is the perfect mobility of goods and factors between industries. Goods are free to move to those places where they can fetch the highest price. Factors can also move from a low-paid to a high-paid industry.

**(8) Absence of Selling Costs:** Under perfect competition, the costs of advertising, sales-promotion, etc. do not arise because all firms produce a homogeneous product.

## Price-Output Determination under Perfect Competition

Under perfect competition, the buyers and sellers cannot influence the market price by increasing or decreasing their purchases or output, respectively. In perfect competition, the price of a product is determined at a point at which the demand and supply curve intersect each other. In other words, the firms and industry should be in equilibrium at a price level in which quantity demand is equal to the quantity supplied. They make maximum profit (normal profit) if the firm and industry are in equilibrium.

Price determination has to be shown in the following diagram.

| Price of Curd (Rs.) | Quantity Demand (Liter) | Quantity Supplied (Liter) | Conditions |
|---|---|---|---|
| 2 | 90 | 30 | D>S |
| 3 | 80 | 40 | |
| 4 | 70 | 50 | |
| **5** | **60** | **60** | **D=S** |
| 6 | 50 | 70 | D<S |
| 7 | 40 | 80 | |
| 8 | 30 | 90 | |

In this table, we can say that when a price is low, demand is increased. Talking about the part of supply, as price increases, supply is also increased. When price is low, the competition between the consumers can raise the price and when the price is high, the competition among the sellers reduces the price. So, the price finally comes to be determined at such a place when the demand and supply of a commodity are equal to each other. At Rs.5, the demand of curd is 60 liter and supply is also 60 liters.

## Equilibrium under Perfect Competition:

As discussed earlier, in perfect competition, the price of a product is determined at a point at which the demand and supply curve intersect each other. This point is known as equilibrium point. At this point, the quantity demanded and supplied is called equilibrium quantity.

**Figure-3 shows the equilibrium under perfect competition:**

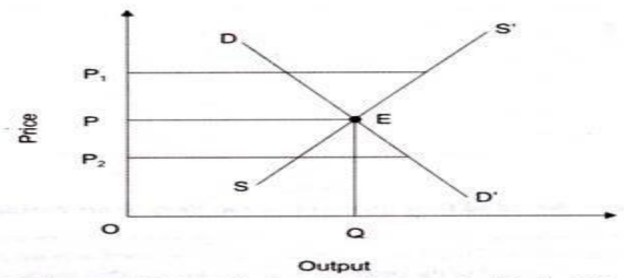



Figure-3: Price and Output Determination under Perfect Competition

In the given figure-3, both the demand curve DD and the supply curve SS are intersected at point E. Thus, E is the equilibrium at which equilibrium price is OP and equilibrium quantity is OQ. it can be seen that at price OP1, supply is more than the demand. Therefore, prices will fall down to OP. Similarly, at price OP2, demand is more than the supply. Similarly, in such a case, the prices will rise to OP.

**Short-Run Equilibrium of Firm and Industry**

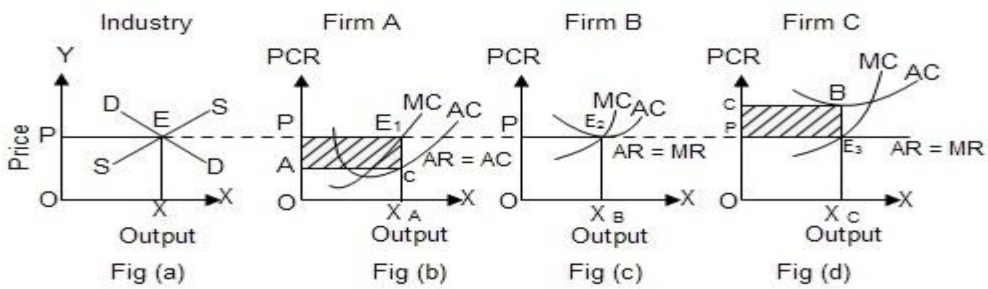
Weather a firm makes abnormal profit or loss depends on the level of average cost (AC) in the short run equilibrium. It generally consists of 3 cases i.e. abnormal profit, normal profit and loss.

According to the marginal revenue (MR) and marginal cost (MC) approach firm can get equilibrium when it mentioned two conditions which are:

(a) Marginal revenue (MR) must be equal to marginal cost (MC) i.e. MC=MR

(b) Slope of MC curve > slope of MR curve i.e. MC curve cuts MR curve from below.

**Figure: Short run equilibrium of firm and industry**




From the figure, the industry demand curve DD and supply curve SS intersect each other at point 'E' where the market price is P. Firm-A enjoys abnormal profits as AC lies below equilibrium of the AR curve. So, the shaded region PACE1 is the abnormal profit enjoyed by the firm. Likewise, firm-B faces normal profit, as AC is tangent to AR at equilibrium. Finally, firm-C bears loss and the shaded region PCBE3 is the loss faced by the firm.

**Long-Run Equilibrium of Firm and Industry**

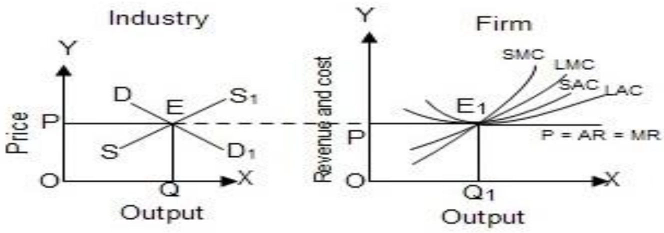
In the long-run, a firm can adjust their fixed inputs. In the long-run under perfect competition; entry and exit are easy and free. All the firms in the perfect competition can earn only normal profit in the long-run.

Under perfect competition, the firms could be in long-run equilibrium if they fulfill the following conditions:

(a) Long-run marginal revenue (LMR) = Long-run marginal cost (LMC)

(b) Long-run marginal cost (LMC) must cut Long-run marginal revenue (LMR) from below at equilibrium point.

(c) The slope of LMC must be greater than the slope of LMR.




The given figure shows the equilibrium of firm and industry respectively under perfect competition market. An industry demand curve DD1 and supply curve SS1 intersect each other at point E where the market price is P. At point E, industry determine OP price for OQ quantity of product.

Next figure of the firm explains long run equilibrium of competitive firm where LMC and LAC represent long-run marginal cost and long-run average cost curves where at point E, P=LAR=LMR = LAC respectively. OP price is determined for OQ1 level of output and firm making only normal profit.

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**[II] MONOPOLY COMPETITION**

In a monopoly type of market structure, there is only one seller, so a single seller will control the entire market. The product has no close substitutes. This means that no other firms produce a similar product. It can set any price it wishes since it has all the market power. Consumers do not have any alternative and must pay the price set by the seller.

*Examples of Monopoly Competition Market Structure:* Microsoft and Windows, DeBeers and diamonds and your local natural gas company.

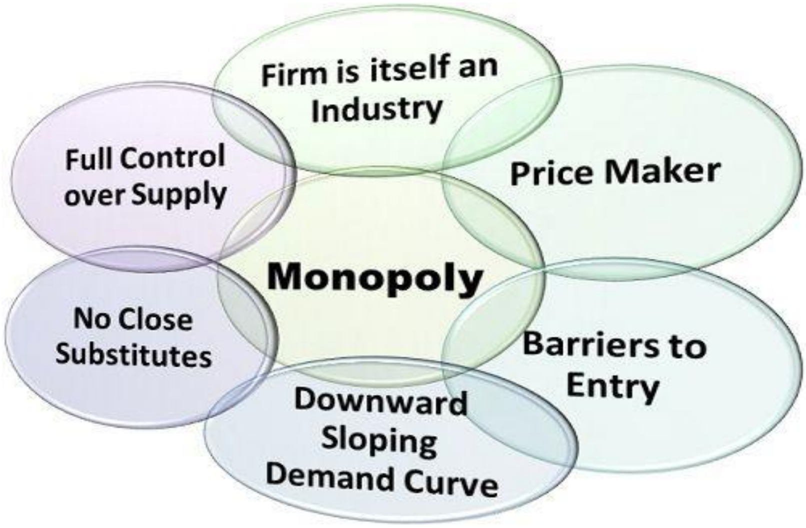
**Assumptions (or) Features (or) Characteristics of Monopoly Competition:**

The main features of monopoly are as follows:

1. Under monopoly, there is one producer or seller of a particular product and there is no difference between a firm and an industry. Under monopoly a firm itself is an industry.

2. A monopoly may be individual proprietorship or partnership or Joint Stock Company or a co-operative society or a government company.

3. A monopolist has full control on the supply of a product. Hence, the elasticity of demand for a monopolist's product is zero.




4. There is no close substitute of a monopolist's product in the market. Hence, under monopoly, the cross elasticity of demand for a monopoly product with some other good is very low.

5. There are restrictions on the entry of other firms in the area of monopoly product.

6. A monopolist can influence the price of a product. He is a price-maker, not a price-taker.

7. Pure monopoly is not found in the real world.

8. Monopolist cannot determine both the price and quantity of a product simultaneously.

9. Monopolist's demand curve slopes downwards to the right. That is why, a monopolist can increase his sales only by decreasing the price of his product and thereby maximize his profit. The marginal revenue curve of a monopolist is below the average revenue curve and it falls faster than the average revenue curve. This is because a monopolist has to cut down the price of his product to sell an additional unit.

**Price and Output Determination under Monopoly**

In monopoly, there is only single producer perform his activities, He can fix either price or output, cannot fix both. The monopolist wants to sell more, he can reduce the price of a product. On the other hand, if he is willing to sell less, he can increase the price. If the monopolist wants to sell more, he/she can reduce the price of a product. On the other hand, if he/she is willing to sell less, he/she can increase the price.

As we know, there is no difference between organization and industry under monopoly. Accordingly, the demand curve of the organization constitutes the demand curve of the entire industry. The demand curve of the monopolist is Average Revenue (AR), which slopes downward.

**Figure-9 shows the AR curve of the monopolist:**

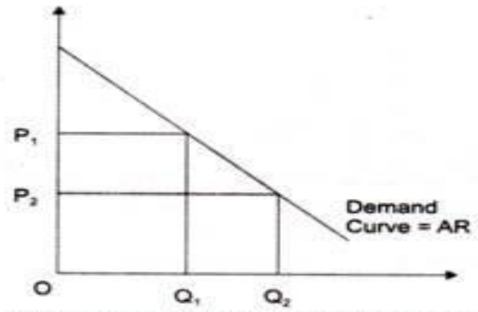


Figure-9: AR Curve under Monopoly

In Figure-9, it can be seen that more quantity ($OQ_2$) can only be sold at lower price ($OP_2$). Under monopoly, the slope of AR curve is downward, which implies that if the high prices are set by the monopolist, the demand will fall. In addition, in monopoly, AR curve and Marginal Revenue (MR) curve are different from each other. However, both of them slope downward.

Here, AR is the price of a product, As we know, AR falls under monopoly; thus, MR is less than AR.

**Table-1: AR and MR under monopoly**

| No. of units sold (Q) | Price (Rs.) | TR = P*Q | MR | AR = TR/Q |
|---|---|---|---|---|
| 1 | 10 | 10 | 10 | 10 |
| 2 | 9 | 18 | 8 | 9 |
| 3 | 8 | 24 | 6 | 8 |
| 4 | 7 | 28 | 4 | 7 |
| 5 | 6 | 30 | 2 | 6 |
| 6 | 5 | 30 | 0 | 5 |
| 7 | 4 | 28 | -2 | 4 |

As shown in Table-1, AR is equal to price. MR is less than AR and falls twice the rate than AR. For instance, when two units of Output are sold, MR falls by Rs. 2, whereas AR falls by Re. 1.

**Figure-10 shows AR and MR curves under monopoly:**

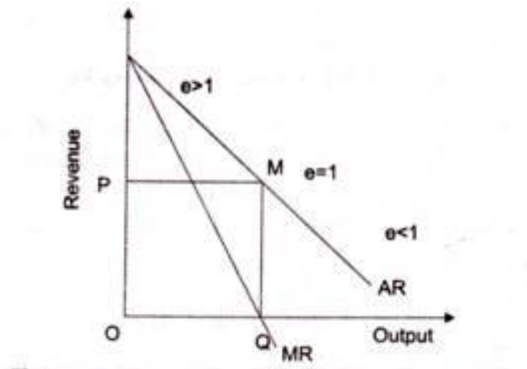



**Figure-10: MR and AR Curves under Monopoly**

In figure-10, MR curve is shown below the AR curve because AR falls.

**Monopoly Equilibrium:**

Single organization constitutes the whole industry in monopoly. Thus, there is no need for separate analysis of equilibrium of firm and industry in case of monopoly. The main aim of monopolist is to earn maximum profit as of a producer in perfect competition.

Unlike perfect competition, the equilibrium, under monopoly, is attained at the point where profit is maximum that is where MR=MC. Therefore, the monopolist will go on producing additional units of output as long as MR is greater than MC, to earn maximum profit.

**Let us learn monopoly equilibrium through Figure-11:**

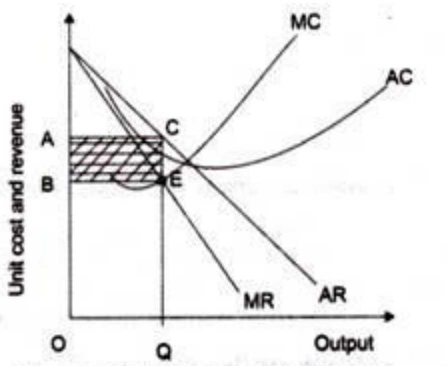



**Figure-11: Monopoly Equilibrium**

In Figure-11, if output is increased beyond OQ, MR will be less than MC. Thus, if additional units are produced, the organization will incur loss. At equilibrium point, total profits earned are equal to shaded area ABEC. E is the equilibrium point at which MR=MC with quantity as OQ.

**It should be noted that under monopoly, price forms the following relation with the MC:**

Price = AR

MR= AR [(e-1)/e]

e = Price elasticity of demand

As in equilibrium MR=MC

MC = AR [(e-1)/e]

**Monopoly Equilibrium in Case of Zero Marginal Cost:**

In certain situations, it may happen that MC is zero, which implies that the cost of production is zero. For example, cost of production of spring water is zero. However, the monopolist will set its price to earn profit.

**Figure-12 shows the monopoly equilibrium when MC is zero:**

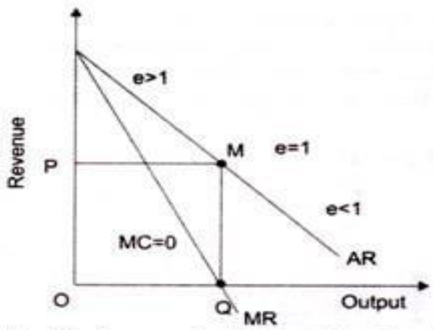



**Figure-12: Equilibrium under Monopoly when MC is Zero**

In Figure-12, AR is the average revenue curve and MR is the marginal revenue curve. In such a case, the total cost is zero; therefore, AR and MR are also zero. As shown in Figure-12, equilibrium position is achieved at the point where MR equals zero that is at output OQ and price P. We can see that point M is the mid-point of AR curve, where elasticity of demand is unity. Therefore, when MC = 0, the equilibrium of the monopolist is established at the output (OQ) where elasticity of demand is unity.

**Short-Run and Long-Run View under Monopoly:**

Till now, we have discussed monopoly equilibrium without taking into consideration the short-run and long- run period. This is because there is no so much difference under short run and long run analysis in monopoly.

In the short run, the monopolist should make sure that the price should not go below Average Variable Cost (AVC). The equilibrium under monopoly in long-run is same as in short-run.

However, in long-run, the monopolist can expand the size of its plants according to demand. The adjustment is done to make MR equal to the long run MC.

In the long-run, under perfect competition, the equilibrium position is attained by entry or exit of the organizations. In monopoly, the entry of new organizations is restricted.

The monopolist may hold some patents or copyright that limits the entry of other players in the market. When a monopolist incurs losses, he/she may exit the business. On the other hand, if profits are earned, then he/she may increase the plant size to gain more profit.

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## [III] MONOPOLISTIC COMPETITION

This is a more realistic scenario that actually occurs in the real world. Prof. Chamberlain developed 'the theory of monopolistic competition' in 1933. In monopolistic competition, the market has features of both perfect competition and monopoly. Monopolistic competition refers to a market situation where there are many sellers selling a differentiated product but there is no close perfect substitutes and each firm acts independently. No firm can have any perceptible influence on the price-output policies of the other sellers nor can it be influenced much by their actions.

***Examples of Monopolistic Competition Market Structure***: Restaurants, Hairdressers, Clothing and TV programme.

In order to understand monopolistic competition, let's look at the market for soaps and detergents in India. There are many well-known brands like Lux, Rexona, Dettol, Dove, Pears, etc. in this segment. Since all manufacturers produce soaps, it appears to be an example of perfect competition. However, on close scrutiny, we find that each seller varies the product slightly to make it different from its competitors.

Hence, Lux focuses on making beauty soaps, Liril on freshness, Dettol on antiseptic properties, Dove on smooth skin, etc. This allows each seller to attract buyers to itself based on some factor other than price.

**Assumptions (or) Features (or) Characteristics of Monopoly Competition:**

The following are the main features of monopolistic competition:

**(1) Large Number of Sellers:** In monopolistic competition the number of sellers is large. They are "many and small enough" but none controls a major portion of the total output. No seller by changing its price-output policy can have any perceptible effect on the sales of others and in turn be influenced by them. Thus there is no recognised interdependence of the price-output policies of the sellers and each seller pursues an independent course of action.

**(2) Freedom of Entry and Exit of Firms:** Another feature of monopolistic competition is the freedom of entry and exit of firms. As firms are of small size and are capable of producing close substitutes, they can leave or enter the industry or group in the long run.

**(3) Nature of Demand Curve (Some control over price):**

Under monopolistic competition no single firm controls more than a small portion of the total output of a product. No doubt there is an element of differentiation neverthe-less the products are close substitutes. As a result, a reduction in its price will increase the sales of the firm but it will have little effect on the price-output conditions of other firms, each will lose only a few of its customers.

Likewise, an increase in its price will reduce its demand substantially but each of its rivals will attract only a few of its customers. Therefore, the demand curve (average revenue curve) of a firm under monopolistic competition slopes downward to the right. It is elastic but not perfectly elastic within a relevant range of prices of which he can sell any amount.

**(4) Selling Costs:**

Under monopolistic competition where the product is differentiated, selling costs are essential to push up the sales. Besides, advertisement, it includes expenses on salesman, allowances to sellers for window displays, free service, free sampling, premium coupons and gifts, etc.

**(5) Product Groups:**

There is no any 'industry' under monopolistic competition but a 'group' of firms producing similar products. Each firm produces a distinct product and is itself an industry. Chamberlin lumps together firms producing very closely related products and calls them product groups, such as cars, cigarettes, etc.

**(6) Non-price Competition:**

Under monopolistic competition, a firm increases sales and profits of his product without a cut in the price. The monopolistic competitor can change his product either by varying its quality, packing, etc. or by changing promotional programmes.

***For example,*** the market for cereals is a monopolistic competition. The products are all similar but slightly differentiated in terms of taste and flavours. Another such example is toothpaste.

**(7) Product Differentiation:**

One of the most important features of the monopolistic competi-tion is differentiation. Product differentiation implies that products are different in some ways from each other. They are heterogeneous rather than homogeneous so that each firm has an absolute monopoly in the production and sale of a differentiated product. There is, however, slight difference between one product and other in the same category.

Products are close substitutes with a high cross-elasticity and not perfect substitutes. Product "differentiation may be based upon certain characteristics of the prod-ucts itself, such as exclusive patented features; trade-marks; trade names; peculiarities of package or container, if any; or singularity in quality, design, colour, or style. It may also exist with respect to the conditions surrounding its sales."

**(8) Independent Behaviour:**

In monopolistic competition, every firm has independent policy. Since the number of sellers is large, none controls a major portion of the total output. No seller by changing its price-output policy can have any perceptible effect on the sales of others and in turn be influenced by them.

**Price-output determination under Monopolistic Competition: Equilibrium of a firm**

In monopolistic competition, since the product is differentiated between firms, each firm does not have a perfectly elastic demand for its products. In such a market, all firms determine the price of their own products. Therefore, it faces a downward sloping demand curve. Overall, we can say that the elasticity of demand increases as the differentiation between products decreases.

**Conditions for the Equilibrium of an individual firm**

As we know every seller, irrespective of the market structure, is willing to maximize his profits. In monopolistic competition, profits are maximized at a point where marginal revenue is equal to marginal cost (MR=MC). The price determined at this point is known as equilibrium price and the output produced at this point is called equilibrium output.

If the marginal revenue of a seller is greater than marginal cost, he/she may plan to expand his/her output. On the other hand, if marginal revenue is lesser than marginal cost, it would be profitable for the seller to reduce his/her output to the level where marginal revenue is equal to marginal cost.

**Equilibrium in Short Run:**

The short-run equilibrium of a monopolistic competitive organization is the same as that of an organization under monopoly. In the short run, an organization under monopolistic competition attains its equilibrium where marginal revenue equals marginal cost and sets its price according to its demand curve. This implies that in the short run, profits are maximized when MR=MC.

**Figure-2 shows the equilibrium in the short run:**

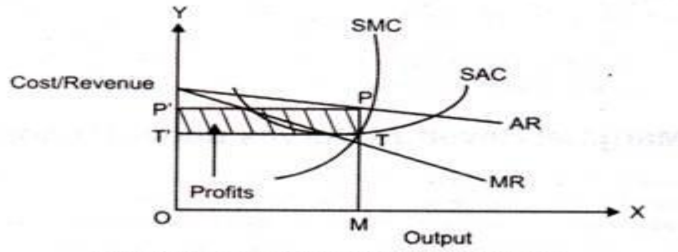


**Figure-2: Equilibrium in the Short Run**

In Figure-2, AR is the average revenue curve, MR represents the marginal revenue curve, SAC curve denotes the short run average cost curve, while SMC signifies the short run marginal cost. In Figure-2, it can be seen that MR intersects SMC at output OM where price is OP' (which is equal to MP). This is because P is the, point on AR curve, which is price.

From Figure-2, it can be interpreted from that the organization is earning supernormal profit. Supernormal profit per unit of output is the difference between the average revenue and average cost. In Figure-2, average revenue at equilibrium point is MP and average cost is MT.

Therefore, PT is the supernormal profit per unit of output. In the present case, supernormal profit would be measured by the area of rectangle P'PTT' (which is output multiplied by supernormal profit per unit of output).

**On the other hand, when marginal cost is greater than marginal revenue, organizations would incur losses, as shown in Figure-3:**

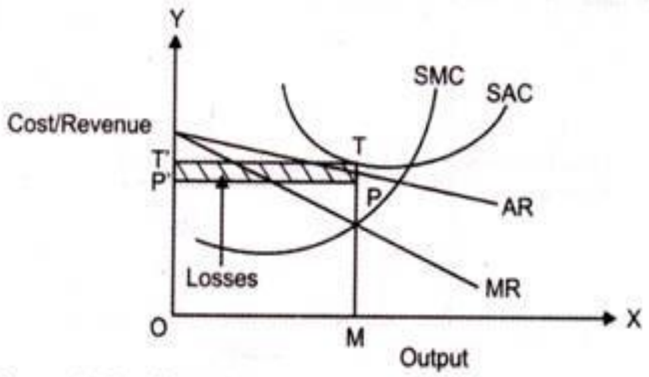


**Figure-3: Equilibrium in the Short Run in Case of Losses**

Figure-3 shows the condition of losses in the short run under monopolistic competition. Here, OP' is smaller than MT, which implies that average revenue is smaller than average cost. TP is representing the loss that has incurred per unit of output. Therefore total loss is depicted from rectangle T'TPP'.

**Equilibrium in Long Run:**

In the preceding sections, we have discussed that in the short run, organizations can earn supernormal profits. However, in the long run, there is a gradual decrease in the profits of organizations. This is because in the long run, several new organizations enter the market due to freedom of entry and exit under monopolistic competition.

When these new organizations start production the supply would increase and the prices would fall. This would automatically increase the level of competition in the market. Consequently, AR curve shifts from right to left and supernormal profits are replaced with normal profits.

In the long run, the AR curve is more elastic than that of in the short run. This is because of an increase in the number of substitute products in the long- run. The long-run equilibrium of monopolistically competitive organizations is achieved when average revenue is equal to average cost. In such a case, organizations receive normal profits.

Figure-4 shows the long-run equilibrium position under monopolistic competition:

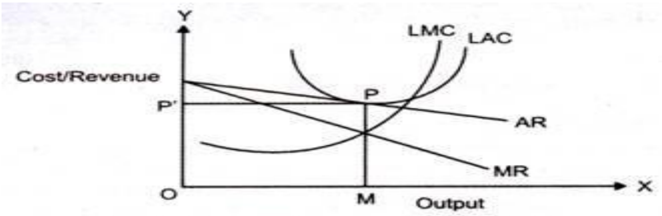

**Figure-4: Equilibrium in the Long Run**

In Figure-4, P is the point at which AR curve touches the average cost curve (LAC) as a tangent. P is regarded as the equilibrium point at which the price level is MP (which is also equal to OF) and output is OM.

In the present case average cost is equal to average revenue that is MP. Therefore, in long run, the profit is normal. In the short run, equilibrium is attained when marginal revenue is equal to marginal cost. However, in the long run, both the conditions (MR=MC and AR=AC) must hold to attain equilibrium.

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**[IV] Oligopoly Competition Market**

The word Oligopoly is derived from two Greek words – 'Oligi' meaning 'few' and 'Polein' meaning 'to sell'. Oligopoly is a market situation, where there are few sellers selling either homogeneous or differentiated products. In this market, competition among the few firms, the action of one firm is likely to affect the others.

Oligopoly is either perfect or imperfect/differentiated. In India, some examples of an oligopolistic market are automobiles, cement, steel, aluminium, etc.

The former is called pure or imperfect oligopoly. ***Pure oligopoly*** is found primarily among producers of such industrial products as aluminum, cement, copper, steel, zinc, etc. ***Imperfect oligopoly*** is found among producers of such consumer goods as automobiles, cigarettes, soaps and detergents, TVs, rubber tyres, refrigerators, typewriters, etc.

**Characteristics of Oligopoly:**


In addition to fewness of sellers, most oligopolistic industries have several common characteristics which are explained below:

**(1) Few firms:** Under Oligopoly, there are a few large firms although the exact number of firms is undefined. Also, there is severe competition since each firm produces a significant portion of the total output.

**(2) Nature of the Product:** Under oligopoly, the products of the firms are either homogeneous or differentiated.

**(3) Barriers to Entry and Exit:** Under Oligopoly, a firm can earn super-normal profits in the long run as there are barriers to entry like patents, licenses, control over crucial raw materials, etc. These barriers prevent the entry of new firms into the industry.

**(4) Non-Price Competition:** In Oligopoly, Firms try to avoid price competition due to the fear of price wars and hence depend on non-price methods like advertising, after sales services, warranties, etc. This ensures that firms can influence demand and build brand recognition.

**(5) No unique pattern of pricing behaviour (Imperfect Competition):** Under Oligopoly, firms want to act independently and earn maximum profits on one hand and cooperate with rivals to remove uncertainty on the other hand.

Depending on their motives, situations in real-life can vary making predicting the pattern of pricing behaviour among firms impossible. The firms can compete or collude with other firms which can lead to different pricing situations.

**(6) Interdependence:** Under Oligopoly, since a few firms hold a significant share in the total output of the industry, each firm is affected by the price and output decisions of rival firms. Therefore, there is a lot of interdependence among firms in an oligopoly. Hence, a firm takes into account the action and reaction of its competing firms while determining its price and output levels.

**(7) Indeterminateness of the Demand Curve (Rivals aware of what others are doing):** Under Oligopoly, it is not possible to determine the demand curve of a firm. This is because on one hand, there is a huge interdependence among rivals. And on the other hand there is uncertainty regarding the reaction of the rivals. The rivals can react in different ways when a firm changes its price and that makes the demand curve indeterminate.

**(8) Collusion (Price Leadership):** Collusion is either formal or informal. It can take the form of cartel or price leadership. ... Price leadership is based on informed collusion. Under price leadership, one firm is a large or dominant firm and acts as the price leader who fixes the price for the products while the other firms allow it.

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**(V) Duopoly:**

Duopoly is a special case of the theory of oligopoly in which there are only two sellers. Both the sellers are completely independent and no agreement exists between them. Even though they are inde-pendent, a change in the price and output of one will affect the other, and may set a chain of reactions. A seller may, however, assume that his rival is unaffected by what he does, in that case he takes only his own direct influence on the price.

If, on the other hand, each seller takes into account the effect of his policy on that of his rival and the reaction of the rival on himself again, then he considers both the direct and the indirect influences upon the price. Moreover, a rival seller's policy may remain unaltered either to the amount offered for sale or to the price at which he offers his product. Thus the duopoly problem can be considered as either ignoring mutual dependence or recognizing it.

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**Table 1 : Features of Market Structures**

| *Features* | *(Market Forms)* Perfect Competition | Monopoly | Monopolistic Competition | Oligopoly |
|---|---|---|---|---|
| 1. No. of Firms | Large | One | Varied but not too many | A few |
| 2. Nature of Product | Homoge-neous | One type | Product Differentiation | Homogeneous or Differentiated |
| 3. Entry of Firms | Free | No entry | Free | Restricted |
| 4. Degree of Mono-poly Power | Zero | Full | Limited | Limited due to product differentiation |
| 5. Price Policy of Firm | Price-taker | Price-maker | Price-maker | Price-maker |
| 6. Market Knowledge | Complete | Incomplete | Incomplete | Incomplete |
| 7. Elasticity of Demand | Perfectly elastic | Less elastic | Less elastic | Less elastic |
| 8. AR and MR | Equal | Different | Different | Different |
| 9. Selling Cost | No | Small | Large | Small |

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## TYPES OF BUSINESS ORGANISATIONS

Business organisations can be of different types, depending upon factors like their nature, the extent of operation, ownership, legalities, terms, financial structure, liabilities, etc. The form of a business is likely to have long-term impacts on the company. Thus, the members of an organisation must choose wisely as to which sort of business would be ideal for them.

Based on the ownership, there can be six different forms of business organisations. They are as follows:


### (I) SOLE PROPRIETORSHIP

**Meaning:** Sole proprietorship is a form of business organization in which a single individual introduces his own capital, skill and intelligence in the management of its affairs and is solely responsible for the results of its operations.

The individual may run the business on his own name or may obtain the assistance of employees. His powers are unlimited and his decisions are final. He is, in fact the sole organizer, Manager, Controller and master of his business. It is also known as Individual Entrepreneurship.

**Definitions:**

**Acc to Kimball and Kimball,** "Sole proprietorship is a form of business where the individual proprietor is the supreme judge of all matters pertaining to his business".

**Acc to L.H Haney,** "Sole proprietorship is a form of business organization which is in the hands of one person who is not only responsible for its management but also for its risks".

**Characteristics or Features of the sole proprietorship:**

Salient characteristics of the sole proprietorship form of organisation are as follows:


***(1) Ease of Formation:*** Less legal formalities are followed in the formation and operation of the sole proprietorship business. Thus, its formation is quite easy and simple.

***(2) Single ownership:*** In a sole proprietorship form of business, there is a single owner who is responsible for all the debts and decision-making process. The single owner starts his/her/their business operations using his/her/their own capital.

***(3) No Sharing of Profit and Loss:*** In sole proprietorship business, No others person shares the profits and losses of the business. He alone bears the all risks and enjoys the all profits.

***(4) One Man's Capital:*** Sole proprietorship is a form of business organization in which a single individual introduces his own capital, skill and intelligence in the management of its affairs and is solely responsible for the results of its operations.

***(5) One Man Control:*** In the business organization, the proprietor manages the whole business himself. He prepares various plans and executes them under his own supervision. There may be some persons help to him but ultimate control lies with owner.

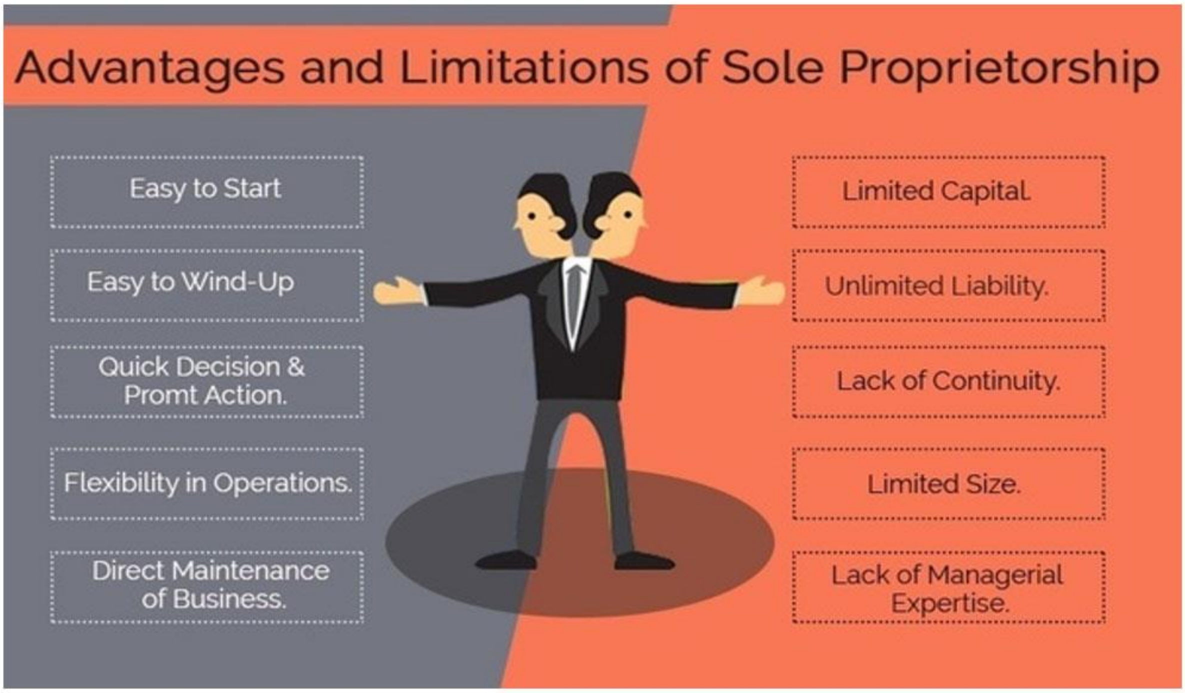
***(6) Unlimited Liability:*** In sole trade business liability is unlimited. The proprietor is responsible for all losses arising from the business. In case of loss, if his business assets are not enough to pay the business liabilities, the personal property is also liable for business obligations.

***(7) No Separation of Ownership and Management:*** In the business, the sole trader and management are the same. There is no difference between both of them.

***(8) Limited Area of Operations:*** a sole trade business has generally a limited area of operations because of the limited resources and managerial abilities of the sole trader. He can arrange limited funds only and also will be able to supervise a small business.

***(9) Motivation:*** In this business organization, one person is the sole owner of the business. He takes all profits and bears losses, if any. There is a direct relationship between effort and reward. If he works hard, he will earn more. He is motivated to expand his business activities.

***(10) Secrecy:*** All important decisions are taken by the owner himself. He keeps all the business secrets only to himself. He doesn't reveal business secrets to others.




***(1) Easy to Start and Wind Up:*** It is very easy to start and simple form of a sole proprietorship organization. Anybody wishing to start this business is absolutely free from legal formalities while the business can be wind-up at any time if the proprietor so decides.

***(2) Promptness in Decision-Making:*** All important decisions are taken by one person. So he can take prompt decisions. If more than one person is involved in decision-making, then delay is bound to occur.

***(3) Flexibility in Operation:*** A sole Proprietorship is generally run on a small scale basis. In case a change in operations, the owner cannot follow any legal formalities and it will not involve much expenditure. So it is most suitable for industries dealing in fashionable and seasonal goods.

***(4) Direct Motivation:*** In this business organization, one person is the sole owner of the business. He takes all profits and bears losses, if any. There is a direct relationship between effort and reward. If he works hard, he will earn more. He is motivated to expand his business activities.

***(5) Personal Contact with Customers:*** In sole proprietorship, the scale of operations is very small. The owner can have direct contact with customers and employees. He can much know about their fashions and preferences. It will help him to boost his sales or profits.

***(6) Retention of business Secrets:*** All important decisions are taken by the owner himself. He keeps all the business secrets only to himself. He doesn't reveal business secrets to others.

***(7) Better Control:*** In this form of organization, one man is responsible for all types of business activities. He controls all functions of the business. In this business, the owner is all in all and he cannot escape his work.

***(8) Less Legal Restrictions:*** Less legal formalities are followed in the formation and operation of the sole proprietorship business. There is no restriction in changing the nature of business. Even dissolution of the business can easily be undertaken. Thus, its formation is quite easy and simple.

***(9) Low Rate of Taxation:*** The Tax liability on a sole-trader is very low. He is taxed as an individual income and not as a business unit.

***(10) Self-Employment:*** This organization offers the means of self-employment to those who do not to serve others. As every one cannot get a suitable job to earn his livelihood in developing country, the individual can easily start a small sized business unit as a sole trader.

**Disadvantages of Sole Proprietorship:**

***(a) Limited Capital:*** The capital of a sole proprietorship are limited. He makes investments from his family sources only and he does not get much resource from financial intuitions.

***(b) Unlimited liability:*** The liability of the sole trader is unlimited. His private property can also be assigned for meeting business losses. From the legal point of view, he is not different from his business.

***(c) Lack of Continuity:*** This business continues as far as sole proprietor is there. In case of his mobility or Death, or insolvency of the business is discontinued. It will also result in social loss.

***(d) Limited Managerial Ability:*** The managing capacity of the proprietor is limited because of all functions performed by only one person. So he cannot be expert in each and every function of the business. He will not be able to devote sufficient time for all types of activities.

***(e) No Division of Work:*** In this organization, all the functions such as marketing, production, finance, labour are performed by the sole trader himself. There is nobody else to take his burden. Family members and relatives cannot show as much interest as the trader takes.

***(f) More Risk:*** a sole proprietor is to take all decisions by himself. So there is a possibility of wrong decisions then leads to bear the more risk.

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## (II) PARTNERSHIP

**Meaning:** Partnership is an association of two or more persons who pool their financial and managerial resources and agree to carry on a business and to share its profits and losses.

**Definitions:**

**L.H. Haney, "**The relationship between persons who agree to carry on a business in common with a view to private gain".

**Section 4 of the Partnership Act, 1932** defines Partnership as "the relationship between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all".

**Characteristics/Features of Partnership:**


***(1) Association of Persons:*** In Partnership, there must be at least two persons. The persons becoming partners must be competent to enter into a contract, is written or oral. According to Section 11 of Contract Act, there is no maximum limit on partners in partnership act, but according to Companies act, the maximum number of partners engaged in a banking business cannot exceed10 and 20 in any other business.

***(2) Contractual Relation:*** Acc to Partnership Act, the relation of partnership arises from contract and not from status. The contract may be oral or written but in practice written agreement is made because it helps to settle the disputes if they arise later on.

***(3) Earnings Profits:*** The purpose of the business should be to make profits and distribute them among partners. If a work is done for charity or to serve the society it will not be called partnership.

***(4) Implied Authority:*** There is an implied authority that any partner can act on behalf of the firm. The business will be bound by the acts of partners.

***(5) Unlimited Liability:*** The partners of a firm have unlimited liability. Personal assets may be used for repaying debts in case of business assets are insufficient. Further, the partners are individually and jointly liable for payments of debts.

***(6) Principal and Agent Relationship:*** There must an agency relationship between the partners. Every partner is the principal as well as the agent of the firm but their activities are bound by the firm.

***(7) Transfer of Shares:*** No Partner can sell or transfer his share to anybody else without the consent of the other partners.

***(8) Utmost Good Faith:*** In partnership business, every partner should act honestly and give proper accounts to the partners. The partnership business runs on the good faith and mutual trust among the partners.

**Advantages and Disadvantages of the Partnership**

**Advantages of Partnership**

***(1) Easy to Form:*** A partnership can be formed easily without many legal formalities. A simple agreement among partners is sufficient to start the firm. Even the partnership deed is not necessary and registration of the firm is optional.

***(2) Larger Resources:*** In this organization, two or more persons join hands to start partnership firm, it may pool more resources as compared to sole-trade business. It can also arrange funds from the outside sources.

***(3) Great Managerial Talent:*** The partners may be assigned duties according to their talent. The talent, expertise and knowledge of partners in different fields can be used for the welfare of the business.

***(4) Promptness in Decision-Making:*** The partners meet frequently and they can take prompt decisions. The firm will not lose any business opportunity because of delay in decision making.

***(5) Sharing of Risk:*** The losses of the firm are shared by all partners equally or as per the agreed ratio. Hence, the burden of every partner will be much less as compared to sole proprietorship.

***(6) Growth and Expansion:*** As compared to a sole trade business, partnership concern has more possibilities for expansion and growth of business activities because of the partners can contribute more and manage the activities more systematically.

***(7) Flexibility*:** The partnership firm is flexible organization. At any time the partners can decide to change the size or nature of the business or area of its operation after taking the necessary consent of all the partners.

***(8) Protection of Minority Interests:*** Every partner has a right to participate in the management of the business. All important decisions are taken by the consent of all partners**.**

**Dis-Advantages of Partnership**

***(1) Unlimited Liability:*** The liability of the partners is unlimited. They are not only liable for their business investments but private properties can also be taken for business liabilities.

***(2) Limitation on Transfer of Share:*** In partnership, no partner can transfer his share to the third party without the consent of the other partners. If a partner wants his share back it will not be possible without the approval of the other partners.

***(3) Instability:*** Every partnership firm has uncertain life. The death, insolvency, incapacity or the retirement of any partner brings the firm to an end. The lack of trust among the partners can also lead to dissolution.

***(4) Lack of Public Confidence:*** The accounts of the partnership business are not published and also no legal binding. Hence, this business lacks public confidence.

***(5) Delay in Decisions:*** All important decisions are taken by the consent of all partners so decision making process becomes time consuming hence losing the business opportunities.

***(6) Limited Resources:*** As compared to company business, the number of partners and the borrowing capacity is limited. In case of banking business cannot have more than 10 partners and in other business the number of partners cannot be exceed 20.

***(7) Mutual Distrust:*** The mutual distrust and lack of confidence among the partners leads to the dissolution of partnership because they may have different opinions and may not agree on certain matters.

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## (III) JOINT STOCK COMPANY

**Meaning:** A Joint Stock Company is an association of persons who contribute money in the form of shares and it has a separate legal entity and enjoys a permanent existence.

**Definitions:**

**Acc to Section 566 of the Companies Act, 1956, "**A company is an artificial person created by law, having a separate legal entity with a perpetual succession and a common seal".

**Acc to L.H. Haney, "**A Joint Company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the conditions of membership".

**Features/Characteristics of Joint Stock Company**

***(1) Association of Persons:*** A Company is an association of persons joining hands with a common objective. A private limited company must have ***at least two persons*** and a public limited company must have ***at least seven members*** to get it registered. The maximum limit is fifty in case of private ltd. company and there is no maximum limit in case of public ltd. company.

***(2) An Artificial Person:*** The Company is an artificial person created by law and existing only in contemplation of law. It has separate legal entity apart from its members. It is intangible and invisible legal person having no body and soul.

***(3) Formation:*** The formation of a joint stock company involves preparation of several documents and compliance of several legal requirements before it starts its operation. A company comes into existence only when it is registered under the Indian Companies Act, 1956.

***(4) Limited Liability:*** The liability of its shareholders is limited to the nominal value of shares they have purchased. In case the company incurs huge liabilities, the shareholders can only be called upon to pay the unpaid balance on their shares.

***(5) Perpetual Existence:*** A company is an artificial person created by law and having independent legal status. The members of a company may go on changing from time to time but does not affect the continuity of the company and also it is not affected by death or insolvency etc. of its members. Thus, it has a perpetual existence.

***(6) Transferability of Shares:*** The shares of the public limited company are freely transferrable because they do not need with consent of other shareholders. But in case of private company, some restrictions are imposed for transferring shares.

***(7) Common Seal:*** A company being an artificial person cannot put its signatures. Every company to have a common seal and get its name engraved on it is used in place of signature. Generally, the secretary of the company is authorized to keep the seal under the safe custody.

***(8) Separation of ownership and Management:*** The shareholders are real owners of the company, they are widely scattered. So it is not possible for them to look after the day to day management activities. But the company is managed by the Board of Directors. So the ownership and management are in two separate hands.

**Advantages/Merits of JSC:**

***(1) Large Financial Resources:*** A Company can collect large sum of money from large number of shareholders. There is no limit on the number of shareholders in public company. If need for more funds arise, the number of shareholders can be increased.

***(2) Limited Liability:*** The liability of its shareholders is limited to the nominal value of shares they have purchased. In case the company incurs huge liabilities, their private property cannot be attached to pay the debts of the company. This encourages people to invest their money in corporate securities.

***(3) Perpetual Existence:*** A company is an artificial person created by law and having independent legal status. The members of a company may go on changing from time to time but does not affect the continuity of the company and also it is not affected by death or insolvency etc. of its members. Thus, it has a perpetual existence.

***(4) Efficient Management:*** In company organization, ownership is separate from management. It enables the company offering higher salaries and better career opportunities to attract and appoint talented, expert and qualified persons for managing various business functions. The efficient management will help the company to expand and diversify its activities.

***(5) Transferability of Shares:*** The shares of the public company are freely transferrable because they do not need the consent of other shareholders and also stock exchange provide provides a ready market for the purchase and sale of shares. This provides liquidity to the investor and stability to the company.

***(6) Large Scale Production:*** The joint stock company is the only form of business organization which can provide capital for large scale operations. It can results in large scale production leads to increase in efficiency and reduction in the cost of operations. It can further open the scope for expansion.

***(7) Reduced Risk:*** In company form of organization, the number of contributors is large; so risk is shared by a large number of persons. So the burden to be shared by different individuals becomes insignificant. It enables companies to take up new venture.

***(8) Social Benefits:*** The company form of organization mobilizes scattered savings of the community and also utilization of natural resources for better productive uses. Hence, the society is supplied with enough quantity of goods.

**Disadvantages/Demerits of JSC:**

***(a) Difficulty of Formation:*** Formation of a company is a time consuming process and also expensive. A lot of legal formalities have to be observed and several legal documents have to be prepared and filed at time of registration.

***(b) Lack of Secrecy:*** In company organization, the trade secrets cannot be maintained because many persons are involved in management. Everything is discussed in the meeting of Board of Directors and also under the Companies Act, a public company is required to disclose and publish the accounting information for inspection to public.

***(c) Delay in Decision-Making:*** in company business, no single person can make a policy decision. All important decisions are taken by the Board of Directors. It is time taking process. If some business opportunities arises and a quick decision is needed, it will not possible to arrange meetings all of sudden. So many opportunities may be lost because of a delay in decision-making.

***(d) Unhealthy Speculation:*** The JSC facilitate speculation in the shares at stock exchanges. The prices of the shares depend upon both economic and non-economic factors. The management of JSC sometimes tries to fluctuate the prices of the shares for their personal gains.

***(e) Corrupt Management:*** In a company, there is often danger of fraud and misuse of property by dishonest management. Fake companies may be formed to deprive the investors of their hard earned money. Unscrupulous (dishonest or immoral) people may manipulate annual accounts to show artificial profits or losses for their personal gains.

***(f) Concentration on Economic Power:*** The JSC has helped concentration of economic power in a few hands. Some persons become directors in a number of companies and try to formulate policies which promote their own interest.

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**Meaning of Public Limited Company**

Companies Act, 2013 defines Public limited company as a company which has limited liability and offers shares to the general public. Public limited companies offer shares to the public at large. Anyone can invest in a public limited company. Public Limited Companies have better chances for growth and expansion as the spreads among the public at large. It is required to publish its true financial report to its shareholders.

**Features of Public Limited Company**

(a) A public limited company has limited liability and offers shares to the general public.

(b) It is compulsory for all public companies in India to add the word ''Limited'' after their name.

(c) It required a minimum 3 directors and there is no restriction on the maximum number of directors.

(d) Public limited companies have limited liability which means that the shareholders of a public limited company is not personally liable for any loss or debts of the company for any amount greater than the amount invested by them.

(e) Public Limited Companies are required to have a minimum paid -up capital of Rs. 5 lakh or higher as prescribed under Companies Act, 2013.

(f) There are some restrictions when it comes to payments and remunerations offered to the directors or managers. The remuneration should not exceed 11% of the net profits.

**Meaning of Private Limited Company**

Section 2(68) of the Companies Act, 2013 defines a private company as a company whose articles of association restrict the transferability of shares and prevents the public at large from subscribing to them.

**Features of a Private Limited Company**

(a) A Private limited company can have both limited and unlimited liability but does not offer shares to the general public.

(b) It is compulsory for all private companies in India to add the word ''Pvt. Ltd.'' after their name.

(c) It required a minimum of 2 directors.

(d) Private Limited Companies are required to have a minimum paid -up capital of Rs. 1 lakh.

(e) There are no restrictions when it comes to payments and remunerations offered to the directors or managers of a Private Company.

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## Differences between Public Limited Company and Private Limited Company

The following are the differences between a public limited company and private limited company.

| S.No | Basis | Public Limited Company | Private Limited Company |
|---|---|---|---|
| 1 | Minimum Members | 7 members | 2 members |
| 2 | Maximum Members | Unlimited | 50 members |
| 3 | Name of the Company (Suffix) | Ltd. | Pvt. Ltd. |
| 4 | Minimum paid-up capital | Rs. 5,00,000/- | Rs. 1,00,000/- |
| 5 | Minimum Subscription | Secure minimum capital before allotting its shares. | There is no such restriction |
| 6 | Issue of Prospectus | Yes | No |
| 7 | Certificate of Commencement | On Receipt of Certificate of Commencement of Business. | On receipt of Certificate of Incorporation. |
| 8 | Statutory Meeting | Yes, Mandatory to conduct meeting within six months from the date of commencement of business. | No, Voluntary |
| 9 | Transferability of Shares | Freely Transferable | Not Freely Transferable |
| 10 | Quorum | 5 members personally present. | 2 members personally present |
| 11 | Minimum Directors | 3 Directors | 2 Directors |
| 12 | Consent of Directors | Necessary | Not Necessary |
| 13 | Qualification Shares | minimum number of shares to qualify himself | condition does not apply |
| 14 | Retirement of Directors | Not less than two thirds | not compulsory |
| 15 | Issue of Share Warrants | Can issue in case of fully paid up shares | cannot issue |
| 16 | Managerial Remuneration | There are some restrictions. The remuneration should not exceed 11% of the net profits. | There are no restrictions |
| 17 | Articles of Association | may or may not have Articles | may have its own Articles |
| 18 | Special Privileges | There are no privileges | Enjoys special privileges and exemptions |
| 19 | Inspection of Annual Accounts | Anybody can inspect the accounts | not open for inspection by non-members |

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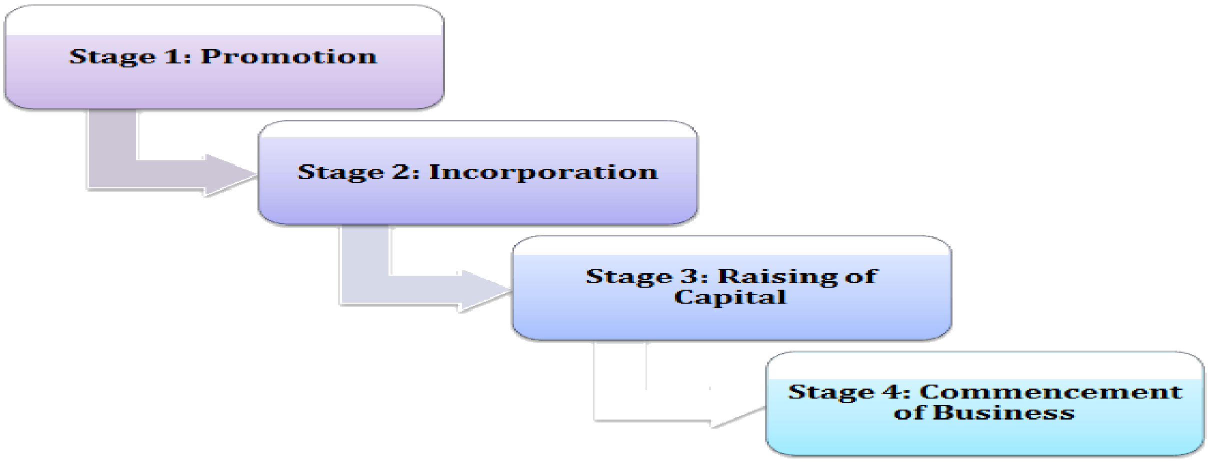
## FORMATION OF A COMPANY:

The formation of a company is a lengthy process. For convenience the whole process of company formation may be divided into the following four stages: 1. Promotion Stage 2. Incorporation or Registration Stage 3. Capital Subscription Stage 4. Commencement of Business Stage.




### Stage # 1. Promotion Stage:

A business enterprise does not come into existence on its own. It comes into existence as a result of the efforts of an individual or group of people or an institution. That is, it has to be promoted by some person or persons. The process of business promotion begins with the conceiving of an idea and ends when that idea is translated into action i.e., the establishment of the business enterprise and commencement of its business.

### Who is a Promoter in a Company?

A successful promoter is a creator of wealth and an economic prophet. The person who is concerned with the promotion of business enterprise is known as the Promoter. He conceives the idea of starting a business and takes all the measures required for bringing the enterprise into existence.

***For example,*** Dhirubhai Ambani is the promoter of Reliance Industries.

The promoters find out the ways to collect money, investigate business ideas arranges for finance, assembles resources and establishes a going concern.

The company law has not given any legal status to promoters. He stands in a fiduciary position.

### Types of Promoters

Promoters are different types such as professional promoters, occasional promoters, promoter companies, financial promoters, entrepreneurs, lawyers and engineers.

### Stage # 2. Incorporation or Registration Stage:

Incorporation or registration is the second stage in the formation of a company. It is the registration that brings a company into existence. A company is properly constituted only when it is duly registered under the Act and a Certificate of Incorporation has been obtained from the Registrar of Companies.

### Procedure to Get a Company Registered:

In order to get a company registered or incorporated, the following procedure is to be adopted:

**(A) Preliminary Activities:**

Before a company is incorporated, the promoter has to take decision regarding the following:

1. To decide the name of the company

2. Licence under Industries Development and Regulation Act, 1951

**(B) Filing of Document with the Registrar:**

In order to get the company registered, the important documents required to be filed with the Registrar of Companies are as follows.

**(a) Memorandum of Association**: It is to be signed by a minimum of 7 persons for a public company and by 2 in case of a pvt company. It must be properly stamped.

**(b) Articles of Association**: This document is signed by all those persons who have signed the Memorandum of Association.

**(c) List of Directors**: A list of directors with their names, address and occupation is to be prepared and filed with the Registrar of Companies.

**(d) Written consent of the Directors**: A written consent of the directors that they have agreed to act as directors has to be filed with the Registrar along with a written undertaking to the effect that they will take qualification shares and will pay for them.

**(e) Notice of the Address of the Registered Office**: It is also customary to file the notice of the address of the company's registered office at the time of incorporation. It is to be given within 30 days after the date of incorporation.

**(f) Statutory Declaration**: A statutory declaration by

(i) Any advocate of the Supreme Court or

(ii) Of a High Court, or

(iii) An attorney or pleader entitled to appear before a High Court or

(iv) A practicing chartered accountant in India, who engages in the Company formation or

(v) By a person indicated in the articles as director, managing director, Secretary or manager of the company, mentioning that the requisites of the Act and the rules there under have been complied with. It is to be filed with the Registrar of Companies.

When the required documents have been filed with the Registrar along with the prescribed fee, the Registrar scrutinizes the documents. If the Registrar is satisfied, the name of the company is entered in the register. Then the Registrar issues a certificate known as Certificate of Incorporation.

**Certificate of Incorporation**

On the registration of Memorandum of Association, Articles of Association and other documents, the Registrar will issue a certificate known as the '**Certificate of Incorporation**'. The issue of certificate is the evidence of the fact that the company is incorporated and the requirements of the Companies Act have been complied with.

**Stage # 3. Capital Subscription Stage:**

A private company or a public company not having share capital can commence business immediately on its incorporation. As such 'capital subscription stage' and 'commencement of business stage' are relevant only in the case of a public company having a share capital. Such a company has to pass through these additional two stages before it can commence business.

Under the capital subscription stage comes the task of obtaining the necessary capital for the company.

**For this purpose, soon after the incorporation, a meeting of the Board of Directors is convened to deal with the following business:**

1. Appointment of the Secretary. In most cases the appointment of pre-tem secretary (who is appointed at the promotion stage) is confirmed.

2. Appointment of bankers, auditors, solicitors and brokers etc.

3. Adoption of draft 'prospectus' or 'statement in lieu of prospectus'.

4. Adoption of underwriting contract, if any.

**Besides the above mentioned business, the Board also decides as to whether:**

(i) A public offer for capital subscription is to be made, and

(ii) Listing of shares at a stock exchange is to be secured.

The company will now proceed to obtain the permission of the Controller of Capital Issue, New Delhi, under the Capital Issue Control Act, 1947 if a public offer for sale of shares and debentures exceeding Rs. one crore is to be made during a period of 12 months, unless the issue fulfils the conditions of exemption as laid down in the Capital Issue (Exemption) Order, 1969.

The Capital Issue Control Act, 1947 however, does not apply to a private company, a banking company, an insurance company, and a government company provided it does not make an issue of securities to the general public.

After the above formalities have been completed, the directors of the company file a copy of the 'prospectus' with the Registrar and invite public to subscribe to the shares of the company by putting the 'prospectus' in circulation.

Application for shares are received from the public through the company's bankers and if the subscribed capital is at least equal to the minimum subscription amount as disclosed in the prospectus, and other conditions of a valid allotment are fulfilled, the directors of the company pass a formal resolution of allotment.

Allotment letters are then posted, return of allotment is filed with the Registrar and share certificates are issued to the allottees in exchange of the allotment letters. If the subscribed capital is less than the minimum subscription or the company could not obtain the minimum subscription within 120 days of the issue of prospectus, all money will be refunded and no allotment can be made.

It may be noted that a public company having a share capital, but not issuing a 'prospectus' has to file with the Registrar 'a Statement in lieu of Prospectus' at least three days before the directors proceed to pass the first allotment resolution.

**Stage # 4. Commencement of Business Stage:**

After getting the certificate of incorporation, a private company can start its business. A public company can start its business only after getting a' certificate of commencement of business'.

**After getting the certificate of incorporation:**

(i) A public company issues a prospectus of inviting the public to subscribe to its share capital,

(ii) A minimum subscription is fixed, and

(iii) The company is required to sell a minimum number of shares mentioned in the prospectus.

After making the sale of the required number of shares a certificate is sent to the Registrar stating this fact, along-with a letter from the banks, that it has received application money for such shares.

The Registrar scrutinizes the documents. If he is satisfied, then issues a certificate known as Certificate of Commencement of Business. This is the conclusive evidence of the commencement of the business.

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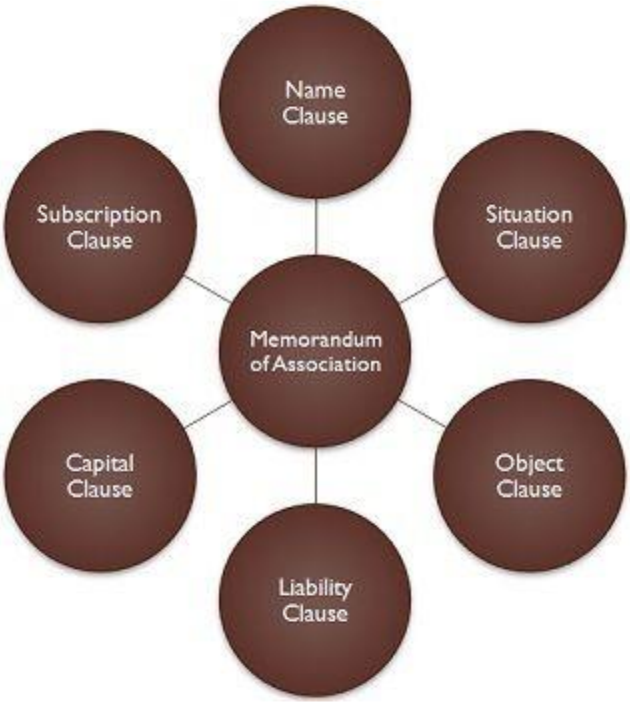
## MEMORANDUM OF ASSOCIATION (MOA) UNDER COMPANIES ACT, 2013

The memorandum of association is an important corporate document that regulates the company's external affairs. It contains the fundamental conditions under which the company is allowed to operate. It defines the relation of the company with the rights of the members of the company interest and also establishes the relationship of the company with the members.

**Definition- Memorandum:**

**As per Section 2(56) of the Companies Act,2013** "memorandum" means the memorandum of association of a company as originally framed or as altered from time to time in pursuance of any previous company law or of this Act.

**Section 4** of the Companies Act, 2013 deals with MOA. The Memorandum of a company shall contain the following;




**(i) Name Clause:** The name of the company should be stated in this clause. A company name should be which is not identical in any manner to any existing company also, there are some words which are strictly prohibited to be used in names of company in any manner. The Word "Private/PVT Limited" should be in end of any private company. And the word "Limited" should be in the end of every public limited Company.

**(ii) Situation Clause:** In this clause the state name of company's registered office is mentioned. The Company should intimate the location of registered office to the registrar within thirty days from the date of incorporation in case the permanent address of company is not given. Once a company has been registered, it should have a proper registered office until, the company is closed.

**(iii) Objects Clause:** Every company have specific business which they will run after a company is incorporated. This clause states all the business which this proposed company will commence after incorporation that to in detail. Now as per The Companies Act, 2013 only Main objects and other objects which are ancillary to main objects are covered.

**(iv) Liability Clause:** This clause states the liability of the members of the company. The Liability can be limited or unlimited which means at the time of winding up of company, a company with limited liability, members are required to pay amount up to the value of nominal value of shares taken by them but in case of unlimited members are required to pay without any limit for the debt or payment which a company is required to pay.

**(v) Capital Clause:** This clause states the Authorised Capital of the company and total number of shares along with value of per share. This is the limit a company can raise its capital maximum amount. ***For example,*** if company authorised capital is 10 Lakhs and paid up at the time of incorporation is 1 Lakh, company can raise its capital up to 9 lakhs. But nothing more than 9 lakhs. There is no limit for amount of authorised capital a company can have in India as per The Companies Act, 2013.

**(vi) Subscription Clause:** It contains the names and addresses of the first subscribers. The subscribers to the Memorandum must take at least one share. The minimum number of members is two (2) in case of a private company, seven (7) in case of a public company and one (1) in case of One Person Company as per The Companies Act, 2013.

The above clause are required to be inserted omission of any of above clause will lead to refusal of company incorporation by Registrar of Companies.

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## ARTICLES OF ASSOCIATION (AOA)

**Meaning:**

Articles of Association is an important document of a Joint Stock Company. It contains the rules and regulations or bye-laws of the company. It is also considered as the "constitution of the company". It plays a very important role in the internal affairs of a company. It deals with the rights of the members of the company between themselves.

Generally, AOA includes a company's legal name, address, purpose, and equity capital, organization of the company, financial provisions and provisions regarding the shareholder's meetings.

**Contents of Articles of Association**

The articles generally deal with the following

1. Classes of shares, their values and the rights attached to each of them.

2. Calls on shares, transfer of shares, forfeiture, conversion of shares and alteration of capital.

3. Directors, their appointment, powers, duties etc.

4. Meetings and minutes, notices etc.

5. Accounts and Audit

6. Appointment of and remuneration to Auditors.

7. Voting, poll, proxy etc.

8. Dividends and Reserves

9. Procedure for winding up.

10. Borrowing powers of Board of Directors and managers etc.

11. Minimum subscription.

12. Rules regarding use and custody of common seal.

13. Rules and regulations regarding conversion of fully paid shares into stock.

14. Lien on shares.

**Alteration of Articles of Association**

The alteration of the Articles should not sanction anything illegal. They should be for the benefit of the company. They should not lead to breach of contract with the third parties. The following are the regulations regarding alteration of articles:

A company may alter its Articles with a special resolution. Due importance and care should be given to ensure that the alteration of AoA does not conflict with the provisions of the Memorandum of Association or the Companies Act. A copy of every special resolution altering the Articles must be filed with the Registrar within 30 days of its passing.

1. The proposed alteration should not contravene the provisions of the Companies Act.

2. The proposed alteration should not contravene the provisions of the Memorandum of Association.

3. The alteration should not propose anything that is illegal.

4. The alteration should be bonafide for the benefit of the company.

5. The proposed alteration should in no way increase the liability of existing members.

6. Alteration can be made only by a special resolution.

7. Alteration can be done with retrospective effect.

8. The Court does not have any power to order alteration of the Articles of Association.

**Components of article of association**

According to section 5 of the companies act, 2013, the AOA must have the following components –

The AOA mainly contains some specific ways in which a company issues stock, distributes dividends, and perform financial records.

1. Provision on the company name
2. Purpose of the company
3. Share capital
4. Organisation of the  Company
5. Provisions on shareholding meetings

**Company Name** – a company must adopt an official name as a legal entity usually, the suffixes "Inc or "LTD" are used to show that an entity is a company. The words "government" cannot be used as a name because it might confuse the public. Also, offensive and vulgar words are prohibited.

**Purpose of the Company** – the reason or purpose of the organization must be clearly stated in the AOA some jurisdiction allows for very broad purpose statements such as "management" while others require a more detailed purpose of an enterprise.

**Share Capital** – AOA will state the number of types of shares comprising a company's capital.

**Shareholder Meetings** – first general shareholders meeting provisions are listed in the shareholder meeting section.

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