Unit 5
Types of Business Organization & Business Cycles

TYPES OF BUSINESS ORGANIZATION

SOLE PROPRIETORSHIP

Definition
A sole proprietorship is a business that is owned, managed, and controlled by a single individual. It is the simplest and oldest form of business organization.
Features
- *Single Ownership:* Only one person owns the business.
- *Control:* The owner makes all decisions.
- *Unlimited Liability:* The owner is personally liable for business debts.
- *Limited Capital:* Funds are usually raised from personal savings or loans.
- *No Legal Formalities:* Easy to start and close.

Advantages
- Quick and flexible decision-making.
- Full retention of profits.
- Direct personal motivation and supervision.
- Minimal regulatory burden.

Disadvantages
- Limited resources and scope for expansion.
- Lack of continuity after the owner's death.
- Unlimited personal liability for business debts.
- Less professional management.

PARTNERSHIP

Definition
A partnership is a business owned by two or more individuals who enter into an agreement to share the profits, losses, and responsibilities of the business.
Features
- *Number of Partners:* Minimum 2, Maximum 50 (as per the Companies Act for general businesses).
- *Agreement:* Formed by a partnership deed (written or oral).
- *Law:* Governed by the Indian Partnership Act, 1932.
- *Profit Sharing:* Profits and losses shared as per agreement.
- *Joint Ownership* and mutual trust.

Types of Partnerships:
1. *General Partnership:* All partners share responsibility and liability equally.
2. *Limited Partnership:* Some partners have limited liability.

Advantages

- Pooling of skills, expertise, and capital.
- Risk sharing among partners.
- Flexibility in operations.
- Easy to form and expand.

Disadvantages

- Unlimited liability (except for limited partners).
- Possibility of disputes and mistrust.
- Instability due to death or withdrawal of a partner.
- Limited capital compared to companies.

JOINT STOCK COMPANY

Definition

A joint stock company is a business entity in which ownership is divided into shares held by shareholders. It is managed by a Board of Directors elected by the shareholders.

Features

- Separate Legal Entity: Different from its members.
- Limited Liability: Liability is limited to the value of shares held.
- Perpetual Succession: Continues even after shareholders die or leave.
- Transferability of Shares: Shares can be bought/sold freely (in public companies).
- Common Seal: Legal signature of the company.

Types

1. *Private Limited Company* – Restrictions on share transfer, 2–200 members.
2. *Public Limited Company* – Shares traded publicly, minimum 7 members, no upper limit.

Advantages

- Large-scale capital mobilization.
- Limited liability attracts investors.
- Professional management.
- Economies of scale in operation.

Disadvantages

- Legal formalities and strict regulations.
- Lack of personal contact with customers.
- Possibility of fraud or misuse by management.
- Decision-making delays due to hierarchy.

STATE / PUBLIC ENTERPRISES

Definition

State enterprises are owned, funded, and operated by the government for public welfare rather than profit.

Types

1. *Departmental Undertakings* – Run as a government department (e.g., Indian Railways).
2. *Public Corporations* – Statutory bodies with autonomy (e.g., LIC).
3. *Government Companies* – At least 51% share owned by government (e.g., BHEL).

Features

- Operated for social and economic objectives.
- Funded by public money.
- Managed by civil servants or appointees.
- Subject to public accountability.

Merits

- Serve national interests and public welfare.
- Ensure infrastructure and essential services.
- Large employment generation.

Demerits

- Red tape and bureaucratic inefficiencies.
- Political interference.
- Low profitability and productivity.
- Lack of innovation.

BUSINESS CYCLES

A Business Cycle refers to the recurring pattern of expansion and contraction in an economy's level of economic activity (GDP, income, employment).
It consists of alternating periods of growth and declines and affects business planning, investment, employment, and government policy.

PHASES OF A BUSINESS CYCLE

1. Expansion (Prosperity or Boom)

- Rising GDP and income.
- Low unemployment.
- High consumer spending and business investment.
- Business confidence and profits rise.
- Credit is easily available.

2. Peak

- Maximum level of economic activity.
- Full employment.
- High demand and investment.
- Inflation may become a concern.
- Over-utilization of resources.

3. Contraction (Recession)

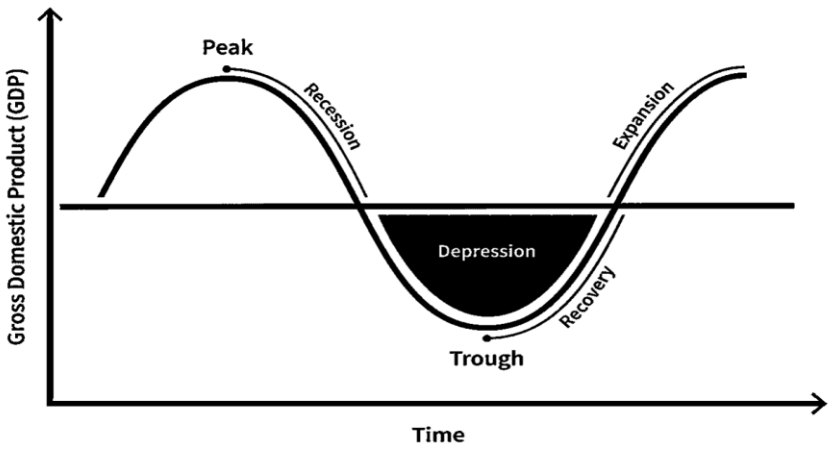
- Decline in production and income.
- Investments fall and unemployment rises.
- Consumer confidence declines.
- Business revenues and profits shrink.
- Credit availability tightens.

4. Trough (Depression)

- Economic activity at its lowest.
- High unemployment and bankruptcies.
- Low consumption, investment, and production.
- Deflation may occur.
- Businesses face major losses or closure.

5. Recovery

- Slow and steady return to growth.
- Demand, employment, and investment pick up.
- Confidence returns gradually.
- Government and monetary support often aid recovery.



CAUSES OF BUSINESS CYCLES

Category	Explanation
Demand & Supply Shocks	Sudden rise or fall in consumer or resource demand.
Monetary Policy	Excessive credit or tight monetary policy.
Fiscal Policy	Government overspending or underspending.
External Factors	Natural disasters, pandemics, wars, global crises.
Technological Change	Automation or innovation disrupting industries.
Investor Confidence	Over-optimism or fear in financial markets.

CONTROL MEASURES

Type	Examples
Fiscal Policy	Government spending and taxation to stabilize economy.
Monetary Policy	RBI uses interest rates and money supply to control inflation or stimulate demand.
Industrial Policy	Promoting balanced growth through industry support.
Income Policy	Wage and employment control to avoid inflationary pressure.