MICROECONOMICS

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(E) FIRM & ENTERPRISE

1. FIRM OR ENTERPRISE

A business firm is an organization that uses resources to produce goods and services that are sold to consumers, other firms and the government. Most businesses exist because a group of people working together can be more effective than working individually.

2. TYPES OF FIRMS

Businesses can be grouped into following categories :

1. **Sole proprietorships,**
2. **Partnerships, and**
3. **Corporations/ Joint Stock Companies**
4. **Franchise Business**
5. **State Enterprises**

2.1 SOLE PROPRIETORSHIP

1. A sole proprietorship is a business that is owned by one individual. This owner:

(i) Makes all the business decisions;

(ii)Receives all the profits or losses of the fir;, and

(iii) Is legally responsible for the debts of the firm.

2. **There are several advantages to organizing a business as a sole**

proprietorship.

(i) Sole proprietorships are easy to form and to dissolve;

(ii) All decision-making power resides with the sole proprietor; and

(iii) The profits are taxed only once.

2.2 PARTNERSHIP BUSINESS

1. A partnership is a business that is owned by two or more co-owners, called partners. The partners share profits and are legally responsible for debts.
2. A partnership has the ability to take ADVANTAGE of specialization. If one partner has a talent that goes well with the other partner's talent, the partners can separate the responsibilities of the business. And, as with a sole proprietorship, taxes are assessed only at the personal level. By pooling together the resources the partners can embark on big business venture compared to individual sole proprietorship
3. Partnerships have the DISADVANTAGES of unlimited liability. If one partner incurs a substantial business-related debt, all partners are responsible for the debt.
4. Decision making can be complicated in a partnership. Each partner may want to take different risks or operate the business in a different way.

2.3 CORPORATIONS OR JOINT STOCK COMPANIES

- A corporation is a legal entity that can conduct business in its own name in the same way that an individual does. A corporation is owned by its stockholders. Stockholders are people who buy shares of stock in a corporation. A share of stock represents a claim on the assets of a corporation. Assets are anything of value to which the firm has a legal claim.
- All corporations have a board of directors. The board of directors decides corporate policies and goals, and much more. Corporations can raise money by borrowing from financial institutions like any other private business or by sale of bonds,, and of stocks. If you buy a **BOND** of a corporation, you are a lender. If you buy **STOCK**, you are an owner.

(i) A major ADVANTAGE of forming a corporation is that the stockholders have limited liability. Limited liability means that an owner can lose only the amount that She/He has invested in the firm. Suppose a person spends Rs10000/ purchasing stock in a business firm. She/He is at risk of losing only her Rs. 10000/ investment, even if the firm performs poorly and accumulates millions in debt. Any debts accumulated by a corporation are the sole responsibility of the corporation.

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2.3 CORPORATIONS OR JOINT STOCK COMPANIES

(ii) Another ADVANTAGE of the corporation is that it will continue to exist even if one or more owners sell their shares or die. A corporation is a legal entity, and its existence does not depend on the existence of its owners.

(iii) The third ADVANTAGE is that corporations are able to raise large amounts of money by selling more stock, providing funding for expansion.

(iv) One DISADVANTAGE of a corporation is double taxation. First, the corporation is taxed on its earnings. Later, when the corporation distributes profits to stockholders in the form of dividends, the stockholders are taxed on their dividends.

(v) Another DISADVANTAGE is that corporations are more complicated to set up than proprietorships or partnerships.

2.4 FRANCHISE BUSINESS

- A **FRANCHISE IS A CONTRACT that lets a person or a group use a firm's/corporation's name and sell the firm's goods in exchange for certain payments. A famous example is the franchises of the McDonald's Corporation. The entity that offers the franchise is the franchiser. In this case, McDonald's Corporation is the franchiser**.

- **The person or group that buys the franchise is the franchisee. A franchise begins when a franchisee pays an initial fee to use the name and sell the goods. The franchisee will pay a percentage of profits to the franchiser, and follow guidelines established by the franchiser. In return, the**

3. Ethical and Social Responsibility of Firm

1. The key objective of a firm is always to earn and maximize profit on his/her investment .However, now it is generally accepted that private firms have also Ethical and Social Responsibility.
2. Ralph Nader strongly advocates that businesses have ethical and social responsibilities. He also believes that businesses should treat their employees well. And he believes that businesses should donate funds to meet social needs in the community.
3. Milton Friedman believes that a business has only one social responsibility i.e. to use its resources and increase its profits without deception or fraud. He believes that a business should earn as much as possible by selling to the public something it wants to buy. Any other use of resources is outside the business's social responsibility.

4. STATE-OWNED ENTERPRISE (SOE)

A state-owned enterprise (SOE) is a legal entity that is created by a government in order to undertake commercial activities on behalf the government. **It can be either wholly or partially owned by a government and is typically earmarked to participate in specific commercial activities. SOEs are common across the globe with different share and emphasis depending upon their poetical system. Following are some key points related to SOEs.**

1. **A state-owned enterprise (SOE) is an entity formed by the government for the purpose of engaging in commercial activities.**
2. **The government usually takes either full or partial ownership of any SOEs, which are typically approved to engage in specific activities.**
3. **SOEs represent the government in commercial endeavors and also sell physical resources to trading entities and corporations.**
4. **SOEs operate in all most all the countries with different emphasis on its role in the econmomy**

5. SOEs ADVANTAGES & DISADVANTAGES

State-owned enterprises (SOEs) in Asia have both advantages and disadvantages.

(A) Advantages:

1. **On the positive side, SOEs have played a significant role in driving economic growth in the region, benefiting from state support and monopolies.**
2. **At initial stage of development SOEs make big investment in basic infrastructure e.g. Railways, Ports Telecommunication, Power and basic industries like Heavy Engineering, Steel Mills , Mining, Defense related Industries etc. etc.**
3. **They provide basic services to citizens e.g Water Supply, Electricity Distribution, Sewerage.**

...5. SOEs ADVANTAGES & DISADVANTAGES

<u>(B) Disadvantages:</u>

1. SOEs most often face challenges such as political interference, financial issues, and lack of transparency, which negatively affect their efficiency and sustainability.
2. Most often SOEs make big financial losses which are ultimately transferred to public exchequer SOEs.
3. SOEs are not as whole, despite their crucial role in the growth of basic and large scale industries, are subject corruption and financial misstatement when compared to private own enterprises