UNIT VI - Fundamentals of Economics

Types of Businesses and Competition
Sole Proprietorship

- One person owns and runs the business
- Most common type of business in the U.S.

ADVANTAGES

DISADVANTAGES
Partnership

- Business owned by 2 or more people
- Least common type of business

ADVANTAGES

DISADVANTAGES
Corporation

**ADVANTAGES**
- Larger business owned by stockholders
- Tend to be large with multiple locations/franchises

**DISADVANTAGES**
Cooperative

- Usually a non-profit organization
- Owned and run for the sole purpose of benefitting those using its services
Business Competition
The more buyers and sellers there are for a product, the more competitive the market will be.

Types of Markets:
- Competitive
- Oligopoly
- Monopoly
Competitive Market

- When there are multiple sellers of a type of product

Examples
- Women’s Clothing Stores
- Fast Food Chains
Oligopoly

- A market in which a small number of competitors compete with each other

Example

- Video Game Industry
  - Sony
  - Microsoft
  - Nintendo
Monopoly

- A market in which there are many buyers and only one seller
- Is illegal in the U.S.
- Example
  - Andrew Carnegie – Steel (late 1800s)
  - John D. Rockefeller – Oil (late 1800s)
  - Bill Gates – Microsoft (1990s)
**Merging of Businesses**

- **Merger** – a combination of two or more businesses
  - Example – Wachovia and Wells Fargo

- **Types of Mergers**
  - Horizontal
  - Vertical
Horizontal Merger

- When one firm merges with another that produces similar products
  - Rockefeller purchased multiple oil refineries
  - Disney partnered with multiple TV channels
Vertical Merger

- When one firm merges with others to control all factors of production

- Example
  - Andrew Carnegie owned all factors of production for his steel company (mines, transportation, factories, etc.)
WHAT ARE ANTITRUST LAWS?
Laws designed to prevent monopolies and promote competition.

• After the Civil War, advances in technology and transportation lead to national markets.
• Eventually only a few firms began to dominate industries: Railroads, Steel, meatpacking, coal, etc.

Why are monopolies a Market Failure?

• Monopolies destroy the key ingredient of the free market system- Competition.
• To fix this MARKET FAILURE the government must get involved.
Antitrust Laws

- Antitrust laws make it illegal to restrain trade or attempt to monopolize a market.
  - Sherman Antitrust Act of 1890
  - Clayton Act of 1914
Antitrust Laws

- **Sherman Act** 1890
- **Clayton Act** 1914
  - Outlaws price discrimination
  - Prohibits *tying contracts*
  - Prohibits stock acquisition
  - No *interlocking directorates*
- **Federal Trade Commission Act** 1914