
LESSON 13

What type of business should I start?

TIME REQUIRED:

Two Class Periods

CONCEPTS:

Economic Institutions

Sole Proprietorship

Partnership

Corporation

INSTRUCTIONAL OBJECTIVES:**Students will:**

- Describe the three types of business organizations in a market economy and cite examples from the local community or region
- Compare the advantages and disadvantages of each type of business organization in a market economy

RATIONALE::

As each entrepreneur makes the decision to start a business, he or she must also decide what type of business organization will be most advantageous for the new business. There are three types of business organizations: sole proprietorship, partnership, and corporation. Many businesses start as sole proprietorships or partnerships and grow to become corporations. The type of business organization can change as the business expands or declines.

Entrepreneurs need to understand the advantages and disadvantages of each type of business organization. Legal liability, tax obligations, and financial responsibilities are all factors that entrepreneurs must review when deciding how to organize the new business.

MATERIALS:

- Activity 50 "Types of business organizations"
- Activity 51 "Advantages and disadvantages of types of ownership"
- Activity 52 "Entrepreneurship interview guide"

VOCABULARY:

Economic Institutions ways of doing things that address the economic decisions of what to produce, how to produce it and who will consume it. Many economic institutions are long-lived and were originally

formed in response to economic conditions that may have changed over time

Sole Proprietorship a form of business organization that is owned and managed by one individual who assumes all risk of loss and receives all profits

Partnership a form of business organization that is owned by two or more individuals who assume all risk of loss and receive all profit

Corporation a form of business organization that is created by law, functions as a separate legal entity, and is owned by two or more individuals called stockholders. Stockholders are at risk only for the amount of their financial investment

Franchising a system by which a firm expands into new neighborhoods and towns (or foreign countries) by selling the rights to use the company's name and products to individuals. The franchising company provides training services and an advertising campaign for the purchaser of the franchise. In turn, the purchaser agrees to meet certain quality standards, provide certain products, and pay a franchise fee to the franchising organization.

PROCEDURES:

1. Distribute Activity 50 (or use as a transparency). Review with students the three types of business organizations. Using the local community, give students examples of each type. Stress that although the corporation is usually used by large businesses, there are many more sole proprietorships than any other type of business organization.

2. Distribute Activity 51. Review the information on the activity sheet with the students. Emphasize the legal liability, the tax obligations, and financial responsibilities for the business owner of each type of business organization.
3. Divide the class into groups. Ask each group to compile a list of questions it would like to ask an entrepreneur about his or her business.
4. Ask the groups to share their lists. Write the questions on the blackboard.
5. Distribute Activity 52 or project as a transparency and have students write the guidelines in their notebooks.

6. Invite several entrepreneurs to the next class. Using Activity 52 and the students' compilation of questions, have students interview the entrepreneurs. Students can tape these interviews with both audio and video recorders. Try to include entrepreneurs representing different types of business organizations in the group.

EVALUATION:

Organize the class in small groups. Using Activity 52 as a guide, have the groups identify and develop profiles of businesses in the local community that are representative of each of the three types of business organizations presented in Activity 50.

ACTIVITY 50

Types of business organizations

Sole proprietorship

A form of business organization that is owned and managed by one individual who assumes all risk of loss and receives all profits.

Partnership

A form of business organization that is owned by two or more individuals who assume all risk of loss and receive all profit.

Corporation

A form of business organization that is created by law, functions as a separate legal entity, and is owned by two or more individuals called stockholders. Stockholders are at risk only for the amount of their financial investment.

ACTIVITY 51

Advantages and disadvantages of types of ownership

Forms of ownership	Advantages	Disadvantages
Sole proprietorship	<ol style="list-style-type: none">1. Low start-up costs2. Greatest freedom3. All profits to owner4. Owner in direct control	<ol style="list-style-type: none">1. Unlimited liability2. Lack of continuity3. Difficulty in raising capital
Partnership	<ol style="list-style-type: none">1. Easy to form2. Low start-up costs3. Divided authority	<ol style="list-style-type: none">1. Unlimited liability2. Lack of continuity3. Divided authority4. Difficulty in finding suitable partner
Corporation	<ol style="list-style-type: none">1. Limited liability2. Specialized management3. Ease of raising capital	<ol style="list-style-type: none">1. Close regulation2. Most expensive to organize3. Extensive record-keeping
Franchise	<ol style="list-style-type: none">1. Smaller than usual capital investment2. Prior public acceptance of product3. Better than average profit margins4. Management assistance	<ol style="list-style-type: none">1. Possible high franchiser fee2. Some loss of independence3. Possible difficulties in canceling contract

ACTIVITY 52

Entrepreneurship interview guide

1. Name of entrepreneur
2. Name of entrepreneur's business
3. Type of business organization
4. List products of business (goods and/or services)
5. Number of employees
6. List benefits of business to society
7. Chart growth of business since its inception
8. Challenges in operating the business