Business and Economics Notes

Economics System

- Economic Systems - The method used by a society to produce and distribute goods and services.
- Types of Economic System – Free Market Economy

  Command or Planned Economy

  Mixed Economy

Free Market Economy –

1. All the resources are owned privately.
2. There is no government control on factors of production.
3. Business man produce goods to make profit.
4. They make more of profitable goods and fewer of the less profitable goods.
5. Prices of goods are influenced by demand for and supply of those goods.

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Command or Planned Economy –

1. Government plans and controls the resources.
2. Government decide what is to be produced and in what quantities.
3. Consumers have very little choice.
4. Workers could be told where to work and what work to be performed.
5. Private property is not allowed.

EXAMPLE : CUBA , NORTH KOREA

Mixed Economy –

1. Mixed economy has both private and public sector.
2. Private sector is made of business not owned by the government. These business will make their own decisions.
3. Public sector is made up of government or state-owned and controlled business or organization. Here the business decision are taken by the government.

Public Limited Company

Features –

- Given the title ‘plc’ after business name.
- Suitable for very large businesses
- They are not owned by government but by private individuals
- Selling of Shares to the general public
- Incorporated business

Advantages of Public Limited Company -

1. Limited Liability
2. Separate Legal entity
3. Continuity of existence.
4. Raise Large Amounts of Capital
5. No Limit on the Number of Shareholders
6. Easy to Buy, Sell & Transfer Shares

Disadvantages of Public Limited Company –

1. Legal Formalities are complicated and time consuming
2. More regulations & control (to protect the interest of the shareholders)
3. Difficult to Control & Manage
4. Selling Shares to the Public is expensive (commission to bank, printing of prospectus)
5. Original Owners may Loss of Control

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Private Limited Company

Features –

- Separate Legal Identity
- ✓ Denoted by
    - ✓ “Limited”, “Ltd”, or “Pvt Ltd”
- Shares usually owned by
    - Original promoter
    - Family, Relatives, Friends, Employees
- Most Important
    - Directors, Majority Shareholders
- Legal Agreements

Advantages of Private Limited Company –

- Shareholders have limited liability
- Extra capital is available to fund expansion of the business
- Continuity of existence