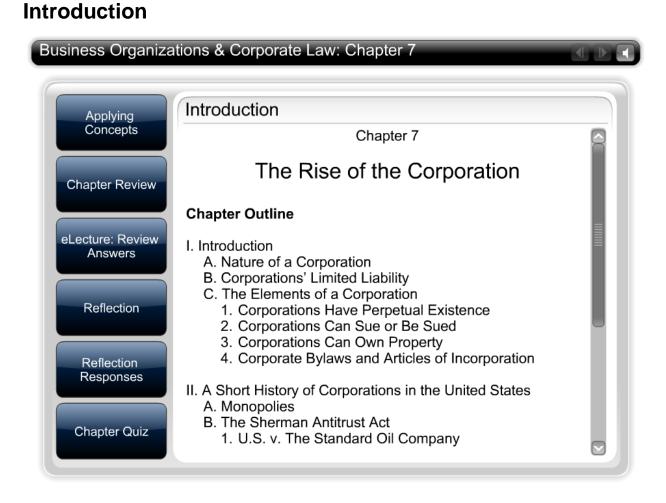
Business Organizations & Corporate Law: Chapter 7



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Chapter 7

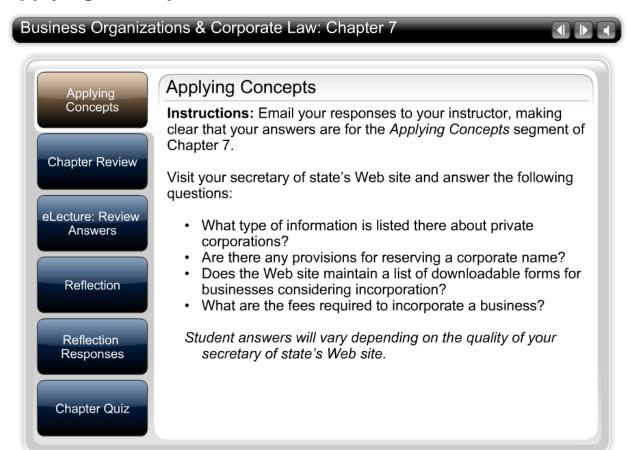
The Rise of the Corporation

Chapter Outline

- I. Introduction
 - A. Nature of a Corporation
 - B. Corporations' Limited Liability
 - C. The Elements of a Corporation
 - 1. Corporations Have Perpetual Existence
 - 2. Corporations Can Sue or Be Sued
 - 3. Corporations Can Own Property
 - 4. Corporate Bylaws and Articles of Incorporation

- II. A Short History of Corporations in the United States
 - A. Monopolies
 - B. The Sherman Antitrust Act
 - 1. U.S. v. The Standard Oil Company
- III. Public and Private Corporations
 - A. Public Corporations
 - B. Quasi-Public Corporations
 - C. Nonprofit Corporations
 - D. Determination of a Corporation's Status
 - E. Private Corporations
 - 1. Closely Held Corporation
 - a. Importance of the Distinction of "Closely Held" Corporation
 - 2. Sub-Chapter S Corporations
 - F. Professional Corporations

Applying Concepts



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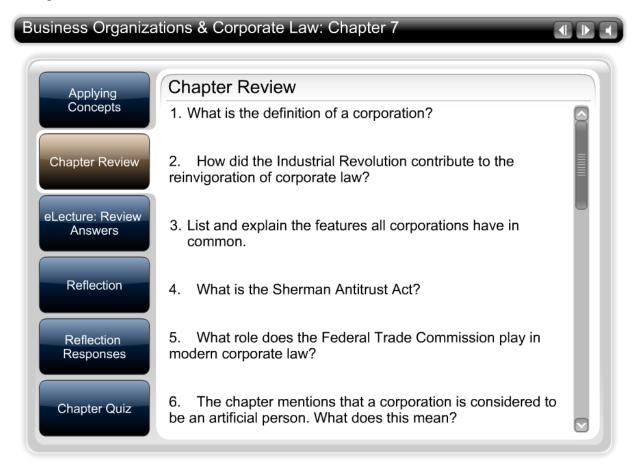
Instructions: Email your responses to your instructor, making clear that your answers are for the *Applying Concepts* segment of Chapter 7.

Visit your secretary of state's Web site and answer the following questions:

- What type of information is listed there about private corporations?
- Are there any provisions for reserving a corporate name?
- Does the Web site maintain a list of downloadable forms for businesses considering incorporation?
- What are the fees required to incorporate a business?

Student answers will vary depending on the quality of your secretary of state's Web site.

Chapter Review

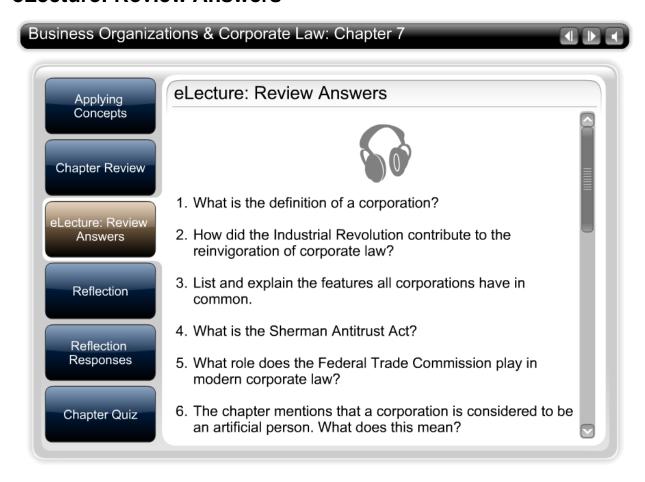


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- 1. What is the definition of a corporation?
- 2. How did the Industrial Revolution contribute to the reinvigoration of corporate law?
- 3. List and explain the features all corporations have in common.
- 4. What is the Sherman Antitrust Act?
- 5. What role does the Federal Trade Commission play in modern corporate law?

6. The chapter mentions that a corporation is considered to be an artificial person. What does this mean?
7. Why is it significant that corporations can own property in their own names?
8. What is a monopoly?
9. What is the significance of the Standard Oil Co. case?
10. What is a public corporation?
11. What is a quasi-public corporation?
12. What is the difference between a public corporation and a private corporation?
13. What is a closely held corporation?
14. What is a professional corporation?
15. What is the significance of this chapter's crucial Case Law?
16. Corporations are said to have "perpetual existence." What does this mean?
17. What functions are normally associated with quasi-public corporations?
18. What are the guidelines for nonprofit corporations to maintain their special status?
19. What are some examples of public corporations?
20. What is a professional corporation?

eLecture: Review Answers



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Narration Script

1. What is the definition of a corporation?

A corporation is an artificial person, created by statute, that must meet certain legal standards. When it does, it can own property, pay taxes, and carry out many of the activities we traditionally associate with human beings.

2. How did the Industrial Revolution contribute to the reinvigoration of corporate law?

Instructor's Manual to Accompany Business Organizations and Corporate Law 43 The Industrial Revolution created a need for the protections afforded by the

corporate structure, and as a result, the number of corporations in the United States blossomed.

3. List and explain the features all corporations have in common.

All corporations are protected by the legal concept of limited liability, meaning that investors can only lose the amount of their investment and do not face the possibility of unlimited or personal liability. In addition, corporations have shareholders, who actually own the business, corporate officers who run the daytoday activities of the business, and boards of directors who make policy and personnel decisions about the business.

4. What is the Sherman Antitrust Act?

The Sherman Antitrust Act prohibited cutthroat competition and any other practice that sought to restrain trade or commerce and outlawed many practices that were hurting the U.S. economy.

5. What role does the Federal Trade Commission play in modern corporate law?

The Federal Trade Commission, which carries out the modern job of investigating and challenging monopolies, was established in 1914 and continues to be one of the most important governmental agencies related to corporations. It maintains an Antitrust Division, which oversees mergers, acquisitions, and practices by leading corporations in this country. It has the power to break up companies that have engaged in unfair practices or have established monopolies in certain areas.

6. The chapter mentions that a corporation is considered to be an artificial person. What does this mean?

A corporation is an artificial person to the extent that it can own property, enter into binding contracts, and even pay taxes.

7. Why is it insignificant that corporations can own property in their own names?

Property ownership is one of the hallmarks of individual freedom. The fact that corporations can own property in their own name means that they can hold title on behalf of their shareholders, thus relieving them of the necessity of risking their personal fortunes to buy and hold property in their own names.

8. What is a monopoly?

When a person or company has a monopoly, it controls all aspects of a particular industry. It can force consumers to pay any price it wishes, especially when the monopoly is in an area such as oil production, where heating oil means the difference between a comfortable winter or freezing to death.

9. What is the significance of the Standard Oil Co. case?

44 Instructor's Manual to Accompany Business Organizations and Corporate Law The Standard Oil Co. case established the power of the federal government, in general, and the Federal Trade Commission, in specific, to break up monopolies and require businesses to comply with federal statutes.

10. What is a public corporation?

A public corporation is one that is formed to carry out some function or service traditionally associated with state or federal government

11. What is a quasi-public corporation?

Quasi-public corporations refer to companies that were originally created as a private corporation but after taking on a governmental function have been reclassified.

12. What is the difference between a public corporation and a private corporation?

A public corporation fulfills a service for the public at large, while a private corporation exists to earn profits for its shareholders.

13. What is a closely held corporation?

A closely held corporation has only a few members. Closely held corporations have a small number of stockholders. All or nearly all of the stockholders take an

active role in the business, and there is no ready market for the corporation's stock, even if someone were willing to sell it

14. What is a professional corporation?

Professional corporations are types of professions that are allowed to form private corporations, but only for specific types of professions. Individuals must be licensed by the state before they can practice or are allowed to join a corporate structure. This opens up this valuable business model to attorneys, accountants, doctors, and others.

- 15. What is the significance of this chapter's crucial Case Law? These cases show the extend of corporate liability and the basic advantages conferred by the corporate structure.
- 16. Corporations are said to have "perpetual existence." What does this mean?

Because corporations are created by statute and cannot die, they can theoretically exist forever. They do not cease to exist when their founding members die.

17. What functions are normally associated with quasi-public corporations? A quasi-public corporation is one that originated as a private corporation but provides services commonly reserved for governmental entities. Instructor's Manual to Accompany Business Organizations and Corporate Law 45 18. What are the guidelines for nonprofit corporations to maintain their special status?

They must reinvest these assets into the corporate structure.

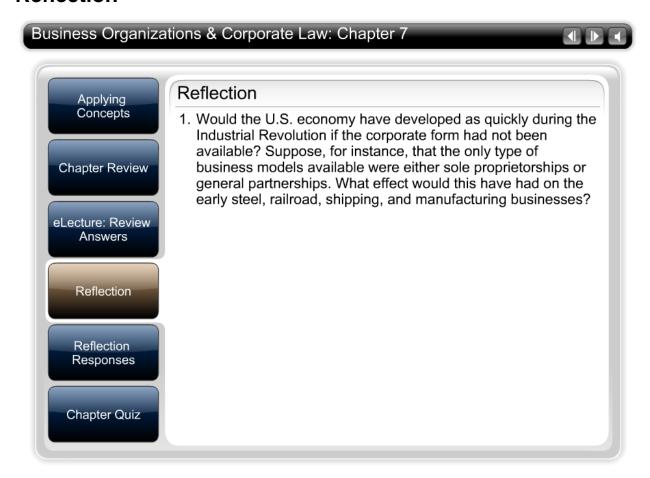
19. What are some examples of public corporations?

Public corporations consist of organizations formed to carry out specific government projects, such as building dams or bringing electric service to a particular region of the country.

20. What is a professional corporation?

A professional corporation is one that is organized and run by members of a specific profession, such as attorneys or physicians. This arrangement is reserved for members of these professions and offers the advantages of limited liability to these companies.

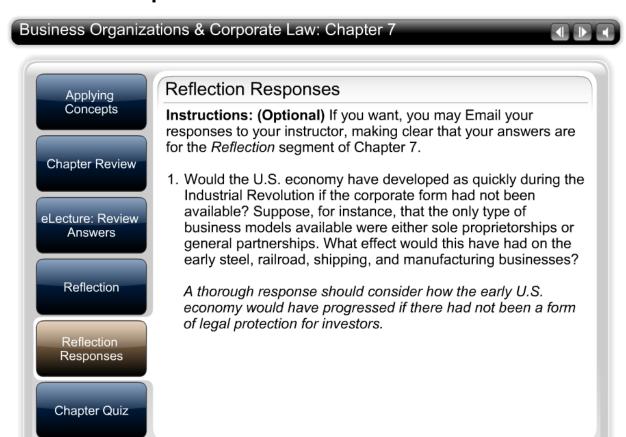
Reflection



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1. Would the U.S. economy have developed as quickly during the Industrial Revolution if the corporate form had not been available? Suppose, for instance, that the only type of business models available were either sole proprietorships or general partnerships. What effect would this have had on the early steel, railroad, shipping, and manufacturing businesses?

Reflection Responses



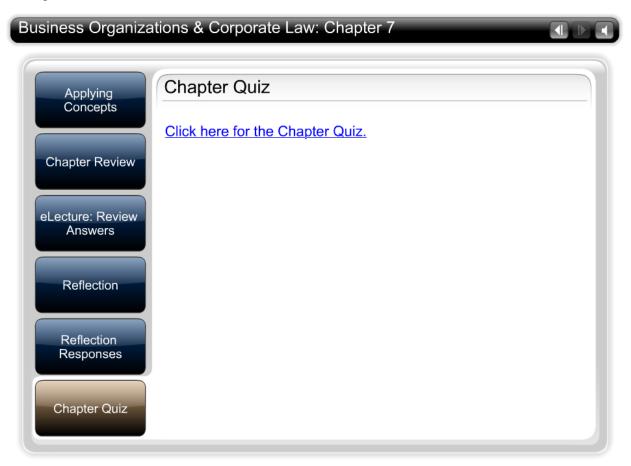
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A thorough response should consider how the early U.S. economy would have progressed if there had not been a form of legal protection for investors.

Chapter Quiz



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Click here for the Chapter Quiz.