

## 1-2. Principle forms of business organization:

Proprietorship: Advantages – (1) can be formed easily and inexpensively (2) subject to few government regulations (3) income is not subject to corporate tax but is taxed as part of the proprietor's personal income [may or may not be an advantage]. Disadvantages – (1) may be difficult to raise capital (2) there is unlimited liability to the individual proprietor (3) the life of the proprietorship is limited to the life of its founder [may be difficult to transfer ownership]

Partnership: Advantages – (1) can be formed easily and inexpensively (2) subject to fewer government regulations than with a corporation (3) income is not subject to corporate tax but the partner's personal income tax. Disadvantages – (1) may be difficult to raise capital although a bit easier than with a proprietorship (2) there is additional liability including individual and joint and several liability (3) the life of the partnership depends on the life of the individual partners [difficulties in transfer of partnership interests which may make it difficult to continue the organization]

Corporations: Advantages- (1) unlimited life of the corporation [can continue after death of the founder/founders] (2) easy transfer of ownership interests through shares in the corporation (3) limited liability – loss are limited to the actual funds invested [those running the corporation have limited liability for their decisions] Disadvantages – (1) Corporate earnings may be subject to double taxation – e.g. earnings are taxed at corporate level and then those earnings paid out in dividends are taxed again to the shareholders (2) setting up a corporation involves creating a charter, set of by-laws and filing state and federal reports --- in addition, the information is public which is why some public corporations have been taken private

1-4. In the short run the additional expenses associated with upgrading technology will reduce earnings per share. However, in the long run if those technology changes reduce the overall cost of providing Edmund's product or service, it should result in an increase in earnings per share for many years to come which should result in an increase in the share price.

1-8. With a broker/dealer market such as NASDAQ there is no physical location and consequently very little overhead other than the technology to locate buyers and sellers. On the other hand, there is also not as much regulation of the market which implies that investors need to do their own due diligence in terms of what they are buying. In the case of a stock market where there is a physical location, overhead costs such as buildings and equipment, trading rules that provide some investor protection and the role of the specialist in making a market for each security makes for a different market clearing operation.