3.1 Firms

1. A firm is a planning unit of production. It makes decisions regarding the employment of factors of production and the production of goods and services.
2. The physical location where production takes place is called a *(firm / plant)*.

3.2 Public Enterprises

3. A public enterprise is a firm that is wholly owned, operated and managed by the government or its agencies.
4. List **TWO** examples of government departments.
Census and Statistics Department / Inland Revenue Department / Hongkong Post (or any reasonable answers) (any TWO)
5. List **TWO** examples of public corporations.
Airport Authority Hong Kong, Hong Kong, Science & Technology Parks Corporation, Kowloon-Canton Railway Corporation (or any reasonable answers) (any TWO)
6. List **FOUR** features of public enterprises.
- Adequate and stable sources of capital
- Better access to information and statistical data
- Reliable supply of goods and services at lower prices
- Higher average production costs

3.3 Private Enterprises

7. Determine if each of the following statements is true or false.

Statement	True	False
(a) A partnership has more capital than a sole proprietorship.		✓
(b) Compared with a private limited company, the size of a partnership is smaller.		✓
(c) When a partnership turns into a private limited company, its number of owners will increase.		✓
(d) In Hong Kong, a public limited company is subject to a higher profits tax rate than a partnership.	✓	
(e) A public limited company is a listed company.		✓
(f) A listed company is a public limited company.	✓	
(g) Owners of a public limited company have greater flexibility in transferring ownership than those of a private limited company.	✓	

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8. The following table shows some features of two firms.

	Firm A	**Firm B**
Liability	limited	unlimited
Legal status	has independent legal status	does not have independent legal status
Transfer of ownership	needs the consent of other owners	needs the consent of other owners

The type of ownership of firm A is private limited company while that of firm B is partnership.

9. Owners of firm A enjoy limited liability and firm A can issue shares and bonds to raise capital. Which of the following types of business ownership may firm A belong to?

☐ partnership
☑ private limited company
☑ public limited company

3.4 Sources of Capital

10. Complete the table below which shows the differences between bonds and shares.

	Bonds	**Shares**
Status of holders	*(Owners / Creditors)* of the company	*(Owners / Creditors)* of the company
Rate of return	Holders receive *(fixed / variable)* rate of interest.	Holders may receive *(fixed / variable)* rates of dividends.
Voting rights	Holders *(have / do not have)* voting rights during the annual general meeting.	Holders *(have / do not have)* voting rights during the annual general meeting.
Maturity	*(Have / Do not have)* a maturity date	*(Have / Do not have)* a maturity date
Priorities for repayment if the company winds up	Holders are repaid *(before / after)* shareholders.	Holders are repaid *(before / after)* bondholders.

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11. In each of the following situations, for the existing shareholders, which is a better option for raising capital, issuing shares or issuing bonds?

(a) Existing shareholders hope to have greater flexibility in retaining profits for future development.	*(issuing shares / issuing bonds)*
(b) Existing shareholders hope to minimise the risk of being taken over.	*(issuing shares / issuing bonds)*
(c) Existing shareholders hope to minimise the interest burden.	*(issuing shares / issuing bonds)*

12. To a small investor who expects to have a certain rate of return and bear a lower investment risk, buying *(shares / bonds)* would be a better investment choice for him.

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