Chapter 3 Lesson 3: The Rise of Big Business

As the 1800's progressed the number of corporations increased. This occurred because states began allowing corporations to charter and sell stock without permission from the state legislature. Corporations could now sell stock to raise large sums of money which could be invested into new technology, larger workforces and machinery. These changes increased productivity and decreased the cost of manufacturing.

All businesses have two types of costs, fixed and operating. Small businesses generally have smaller fixed costs and higher operating costs, while large corporations have larger fixed costs and smaller operating costs. These differences gave an advantage to larger businesses, especially during difficult economic times.

Consolidating Industry

When prices decreased it benefitted consumers but reduced corporate profits. This led corporate leaders to seek alternative methods of organization.

Pools: (cartels) companies worked together to control production and prices. Pools reduced competition, but were often short lived because one company usually violated the pool and lowered prices to increase their market share.

Vertical integration: when companies purchase all the companies, resources, etc to manufacture and ship their product. It saves money and enables the company to more easily expand. (Andrew Carnegie)

Horizontal integration: purchase your competitors and create a monopoly or near monopoly. Allows for total domination of an industry and can create massive accumulation of profits. (John D. Rockefeller)

Types of Business Organizations:

Trusts: A trust is a legal arrangement that allows one person to control another's property. Using a trust, one company could trade stocks in the trust for stocks in the other company. This allowed the first company to control many other companies as though they owned them, without actually buying them. The trust was a method by which companies could monopolize an industry but break no laws.

Holding Companies: corporations owned stock in other corporations. Does not make any product of its own, manages other companies, essentially controlling them.

Investment Banking: investment bankers would put holding companies together. They made their fortunes by selling stocks of the various companies and by merging companies together.