Chapter 17 – Operating a Corporation

I-Study

In this chapter you learned about managing and dissolving a corporation. Corporate directors are the people elected by shareholders to make broad policy decisions. Corporate officers are the people chosen by the directors to run the day-to-day affairs of a corporation. Corporate shareholders are the owners of a corporation. Shareholders' rights include the right to receive a stock certificate; receive dividends; examine corporate books and records; transfer shares; maintain a proportionate share of stock; vote; and sue. The courts hold the decisions made by corporate directors and officers to two standards: the business judgment rule, and the fairness rule.

A corporation can raise money through the sale of stock or borrow money through the sale of bonds. The two types of stock corporations sell are common stock and preferred stock. A corporation can expand through a merger, a consolidation, an asset acquisition, a stock acquisition, or by opening new franchises. A corporation can be dissolved either voluntarily by the directors or shareholders, or involuntarily by the government.

I-Quiz

1. The people who run the day-to-day affairs of a corporation are the
A. corporate directors.
B. corporate officers.
C. corporate shareholders.

2. What is it called when one corporation buys the property of another corporation?
A. A merger
B. A stock acquisition
C. An asset acquisition

3. The rule that presumes that the director is acting in the best interest of the corporation is called
A. the insider trading rule.
B. the fairness rule.
C. the business judgment rule.

4. Notes issued for money that a corporation borrows are called
A. stocks.
B. bonds.
C. notes.

Answer Key

1. B
2. C
3. C
4. B