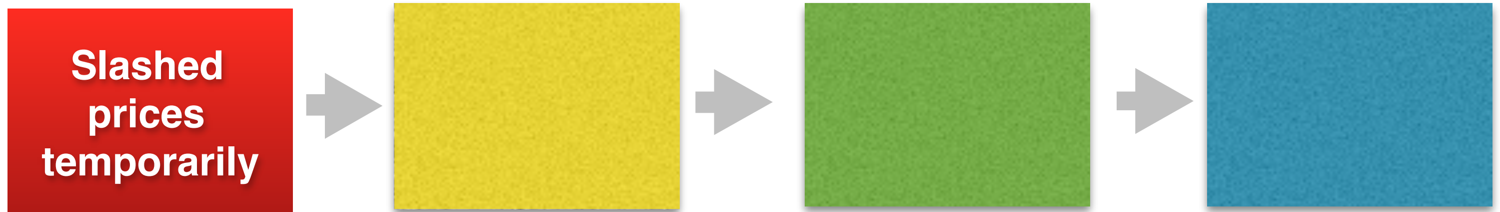
Big Business

Big Idea:

Complete the following graphic organizer to describe some steps larger business owners took to weaken or eliminate competition. You may need to complete the graphic organizer after answer the other questions.



The Rise of Big Business

Predicting

Skim the passage. Predict what you will learn and type it below.

By 1900 big businesses dominated the economy. Big businesses became possible because of the corporation, an organization owned by many people but treated as one person by the law. Corporations sell shares of ownership called stock. By issuing stock, a corporation can raise money while spreading out the financial risk. Corporations use the money they receive from selling stock to invest in new technologies, hire workers, and buy machines. Corporations achieve economies of scale, in which they make goods cheaply by quickly making large quantities of them.

Businesses have two kinds of costs. A company pays fixed costs, such as taxes, whether or not it is operating. A company pays operating costs, such as wages and supplies, only when it is running. Before the Civil War, small companies usually had low fixed costs but high operating costs. If sales decreased, they usually shut down. Corporations had high fixed costs and low operating costs, so they could keep operating even during recession. Corporations could cut prices to increase sales, rather than shutting down. Small businesses could not compete with big businesses, so many failed.

Consolidating Industry

Identifying the Main Idea & Comparing and Contrasting

Identifying the Main Idea:

Write the main idea of the passage below:

Comparing and Contrasting

Compare and Contrast vertical integration with horizontal integration.

Highlight characteristics in the reading, and then summarize in bullet points below.

Vertical Integration

Horizontal Integration

Both:

Many corporate leaders disliked competition. Lower prices helped consumers but hurt corporations' profits. Many corporations organized **pools,** or deals to keep prices at a certain level. The courts disapproved of pools and would not enforce them. Pools usually fell apart when one company lowered prices to take business away from another.

Andrew Carnegie was a poor immigrant who became a business leader. While working for a railroad, he realized he could make money by investing in companies that served the railroad industry. Carnegie met Henry Bessemer, inventor of the Bessemer process, a way of making steel cheaply and efficiently. In 1875 Carnegie decided to open a steel company in Pittsburgh that used the Bessemer process.

Carnegie began the **vertical integration** of the steel indus- try. A vertically integrated company owns all the businesses that it depends on to run. Carnegie's company bought mines, quarries, and ore fields. Business leaders also pushed for **horizontal integration,** or combining similar companies into a large corporation. When one company controls a market, it is a **monopoly.** People who opposed monopolies believed they could charge whatever price they wanted for their products. Other people thought monopolies had to keep prices low to keep competition down.

Many states made it illegal for one company to own stock in another. In 1882 the Standard Oil Company formed the first **trust** to get around these laws. A trust lets one person, the trustee, manage another's property. Instead of buying a company, Standard Oil had the stockholders give their stock to Standard Oil trustees. In exchange, the stockholders received shares in the trust. In this way, the trustees ran many companies as if they were one.

In 1889 New Jersey passed a law allowing corporations to own stock in other businesses. Many companies soon formed new businesses called holding companies. A **holding company** does not produce goods itself, but owns the stock of companies that do and runs them like one large corporation.

American industries were producing many different products, and retailers needed to attract consumers to buy them. Advertising changed as large illustrated ads replaced small print ads in newspapers. Department stores changed how people shopped. Each sold a variety of products in one large, elegant building. Chain stores, or groups of similar stores owned by one company, offered low prices rather than variety. To reach people who lived in rural areas, retailers issued mail-order catalogs.

Section Wrap-Up

Answer these questions to check your understanding of the entire section.

1. How did large corporations come to dominate American Business?

2. How did the way retailers advertise goods to consumers change in the late 1800s?