1-1. A corporation is a legal entity separate from its owners. This means ownership shares in the corporation can be freely traded. None of the other organizational forms share this characteristic.

1-2. Owners’ liability is limited to the amount they invested in the firm. Stockholders are not responsible for any encumbrances of the firm; in particular, they cannot be required to pay back any debts incurred by the firm.

1-3. Corporations and limited liability companies. Limited partnerships provide limited liability for the limited partners, but not for the general partners.

1-4. Advantages: Limited liability, liquidity, infinite life
Disadvantages: Double taxation, separation of ownership and control

1-5. C corporations must pay corporate income taxes; S corporations do not pay corporate taxes but must pass through the income to shareholders to whom it is taxable. S corporations are also limited to 75 shareholders and cannot have corporate or foreign stockholders.

1-6. First the corporation pays the taxes. After taxes, $2 \times (1 - 0.4) = $1.20 is left to pay dividends. Once the dividend is paid, personal tax on this must be paid leaving $1.20 \times (1 - 0.3) = $0.84. So after all the taxes are paid, you are left with 84¢.

1-7. An S corporation does not pay corporate income tax. So it distributes $2 to its stockholders. These stockholders must then pay personal income tax on the distribution. So they are left with $2 \times (1 - 0.3) = $1.40.

1-8. Shareholders can:
   i. Ensure that employees are paid with company stock and/or stock options.
   ii. Ensure that underperforming managers are fired.
   iii. Write contracts that ensure that the interests of the managers and shareholders are closely aligned.
   iv. Mount hostile takeovers.

1-9. The shares of a public corporation are traded on an exchange (or "over the counter" in an electronic trading system) while the shares of a private corporation are not traded on a public exchange.
1-10. Investors always buy at the ask and sell at the bid. Since ask prices always exceed bid prices, investors “lose” this difference. It is one of the costs of transacting. Since the market makers take the other side of the trade, they make this difference.

1-11. You would buy at $28.70 and sell for $28.69.