

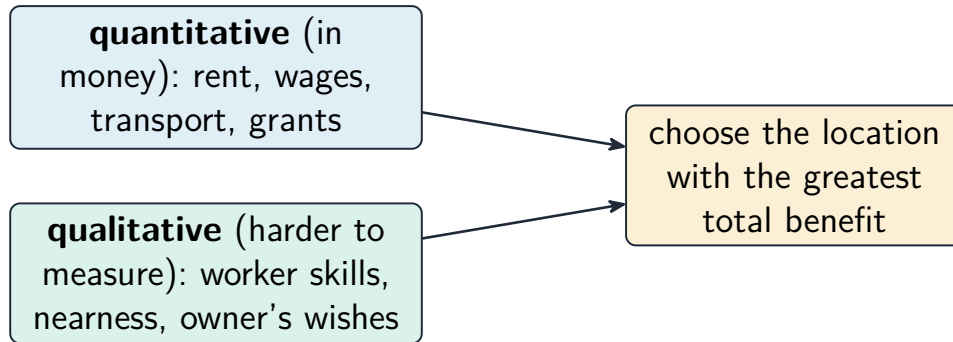
Exercise walk-through

9.1

Location and scale

A-Level Business

Location and relocation



Choosing a place
(**location**) or moving
(**relocation**) weighs:

- **quantitative factors** – rent, wages, transport, grants
- **qualitative factors** – skills, nearness, owner's wishes

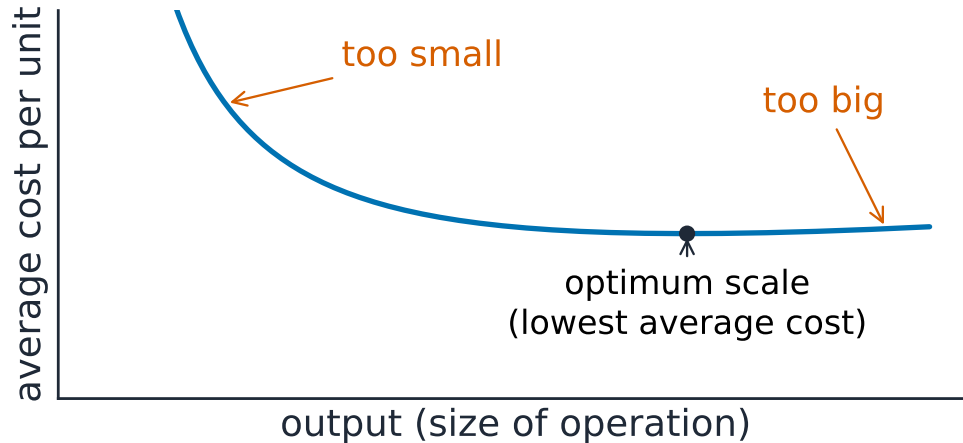
Offshoring moves production abroad.

What decides where a business locates

quantitative factors	costs that can be measured – land, wages, transport, taxes, grants
qualitative factors	judgements that cannot – infrastructure quality, the owner's preference, local reputation
nearness to market	cheap for a bulk-gaining product, essential for a service
nearness to supply	cheap for a bulk-reducing product, or a perishable input
offshoring	moving production to another country – usually for lower wages , nearer markets, or looser regulation
the risk	longer supply chains, quality control at a distance, and reputational cost

Location is chosen on the **whole** cost, not the wage rate. A cheap site with poor transport can cost more than a dear one beside a port.

The optimum scale of operation



optimum scale = min average cost

Average cost falls then rises as a firm grows:

- **economies of scale** – savings from size (bulk buying)
- **diseconomies of scale** – costs rise if too big

The **optimum scale** is the output where average cost is **lowest**.

Exercises 2.1-2.3

2.1 State the difference between a *quantitative* and a *qualitative* location factor. [2]

2.2 Define the term *offshoring*. [2]

2.3 Define the term *optimum scale of operation*. [2]

Exercises 2.1-2.3

2.1 State the difference between a *quantitative* and a *qualitative* location factor. [2]

2.1

- a quantitative factor can be measured in money (rent, wages, transport); a qualitative factor is harder to measure (worker skills, nearness, owner's wishes) (2 for a clear difference; 1 for a partial idea)
-

2.2 Define the term *offshoring*. [2]

2.2

- moving production to another country (2 for a clear definition; 1 for a partial idea)
-

2.3 Define the term *optimum scale of operation*. [2]

2.3

- the size of operation at which the average cost per unit is at its lowest (2 for a clear definition; 1 for a partial idea)

Exercises 3.1-3.2

3.1 Explain one factor a business should consider when choosing a location. [3]

3.2 Analyse two reasons why a business might **offshore** its production. [8]

Exercises 3.1·3.2

3.1 Explain one factor a business should consider when choosing a location. [3]

3.1

- [3] **AO1** 1 – name a factor (rent/wages; transport; nearness to customers or suppliers; grants; worker skills). **AO2** up to 2 – develop it, e.g. locating near customers cuts delivery time and cost
- faster service
- an advantage over distant rivals (2 developed / 1 limited)

3.2 Analyse two reasons why a business might **offshore** its production. [8]

3.2

- [8] For **each** of two reasons: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains – *lower wages*: labour costs less abroad
- lower cost per unit
- higher profit or lower prices. *Nearer a new market*: producing close to new customers
- lower transport cost and faster supply
- more sales there. Maximum 4 per reason, 8 total

Exercise 3.3

3.3 A manufacturer is deciding whether to relocate its factory to a lower-wage country. Evaluate this decision. [12]

Exercise 3.3

3.3 A manufacturer is deciding whether to relocate its factory to a lower-wage country. Evaluate this decision. [12]

3.3

- [12] **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **For:** lower wages and costs, nearer new markets, possible grants. **Against:** longer supply lines, language and culture problems, quality and control risks, possible damage to image and home job losses. Judgement: relocation can cut costs sharply, but only if the savings outweigh the added risks and the quality can be maintained – it depends on the size of the wage saving and how well the firm can manage a distant site