1 Why businesses exist – Part 1

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	**Write it 3 times** (English)		
business			
goods			
services			
need			
want			
factors of production			
land			
labour			
capital			
enterprise			
entrepreneur			
risk			
scarce			
Adding value			
branding			

English	Write it 3 times (English)		
sector			
primary sector			
raw materials			
secondary sector			
tertiary sector			
quaternary sector			

Recall

You have bought things all your life. Bring this with you:

- A **business** makes things and sells them to people.
- You use **goods** (things you can touch) and **services** (useful actions) every day.
- Money is limited, so people choose carefully what to buy.

At AS we look more closely at what a business uses to produce, and how it makes a profit.

New ideas

1 Needs, wants, and what a business does

- A **need** is something you must have to live – food, water, shelter.
- A **want** is something you would like but can live without – a phone, a holiday.

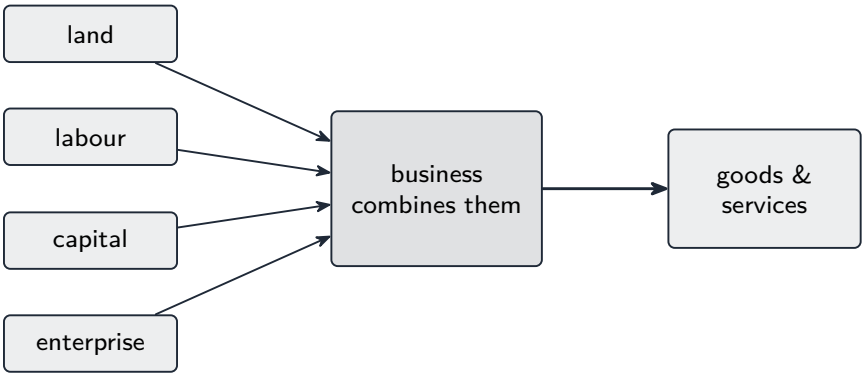
A business meets these needs and wants by making goods and services and selling them.

Micro-check. Is a warm coat a need or a want? [1]

2 The factors of production

To make anything, a business combines four **factors of production** :

- **land** – natural resources such as soil, water and minerals;
- **labour** – the work done by people;
- **capital** – the machines, tools and buildings used to produce;
- **enterprise** – the skill of the **entrepreneur** , who brings the other three together and takes the **risk** .



These resources are **scarce** – there are never enough for all our wants – so a business must use them carefully.

Micro-check. Which factor of production is a delivery van? [1]

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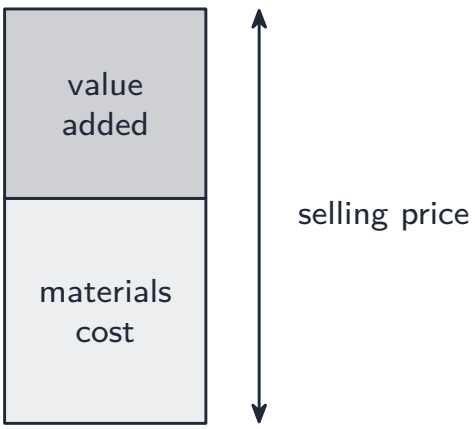
3 Adding value

Adding value means selling a product for **more** than the cost of the materials bought to make it:

$$\text{value added} = \text{selling price} - \text{cost of bought-in materials.}$$



A firm can add value by **branding**, better quality, good design, or fast service.

Worked example. A baker buys flour and other materials for \$0.40 and sells a loaf for \$1.50. The value added is $\$1.50 - \$0.40 = \$1.10$.

Micro-check. A maker buys parts for \$8 and sells the product for \$20. Find the value added. [1]

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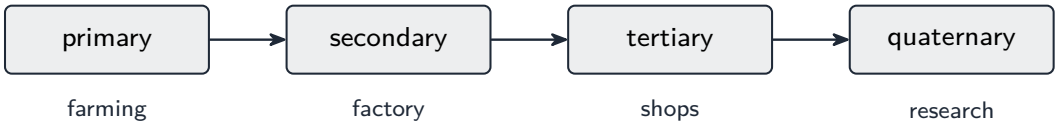
4 Sectors of business activity

Every business works in one **sector**:

- **primary sector** – takes **raw materials** from nature (farming, mining, fishing);
- **secondary sector** – makes (manufactures) goods (a car factory, a baker);
- **tertiary sector** – provides services (shops, banks, transport);
- **quaternary sector** – knowledge and information services (research, IT).



As a country develops, it usually moves from mostly primary work towards more tertiary and quaternary work.

Micro-check. Which sector is a hairdresser in? [1]

Watch out: the entrepreneur provides *enterprise* (and takes the risk) – that is a separate factor from *labour*. And "value added" subtracts only the *bought-in materials*, not all the other costs (so it is not the same as profit).

Practice

1.1 State whether each is a **need** or a **want**: (a) clean water, (b) a games console. [2]

1.2 Name the **four** factors of production. [4]

1.3 State which factor of production each is: (a) a factory worker, (b) a coal deposit, (c) an oven. [3]

1.4 A shop buys a jacket for \$30 and sells it for \$75. Find the value added. [2]

1.5 State the sector of business activity for each: (a) a wheat farm, (b) a furniture factory, (c) a bus company. [3]

1.6 Explain why a business must use its resources carefully. [2]

1.7 Challenge. Two cafés each buy the coffee for a cup for \$0.30. One sells it for \$2, the other for \$4 in a smart setting. Explain how the second café adds more value. [2]