A-LEVEL BUSINESS • EXERCISE SHEET

1.3 Size of business

Name: ____________ Class: ________ Date: __________ **Total: 29 marks**

Objective

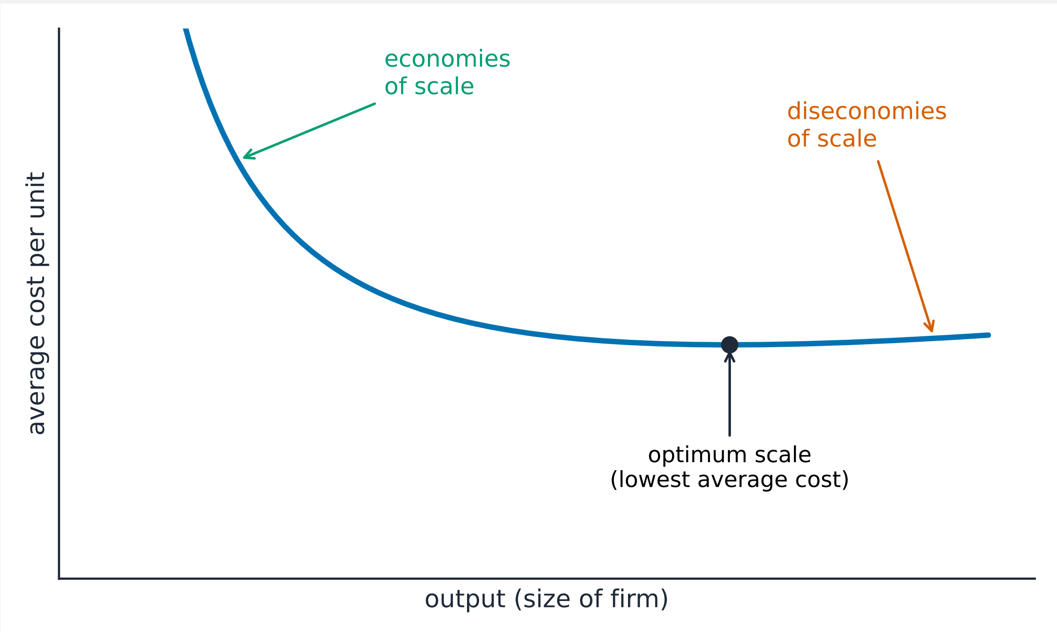
Build the skills to answer exam questions on the **size of a business** 企业规模—how size is measured, **internal and external growth** 内部增长和外部增长 (**integration** 整合), and **economies and diseconomies of scale** 规模经济和规模不经济.

You must be able to:

- state ways to measure the size of a business
- describe internal growth and the three types of integration (horizontal, vertical, conglomerate)
- analyse benefits of growth and evaluate whether a firm should grow

1 Worked examples

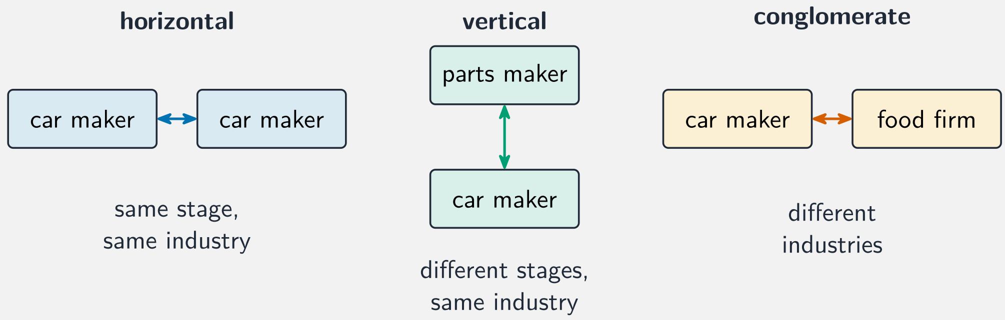
■ Growth and economies of scale



As output rises, average cost falls (economies of scale) then eventually rises (diseconomies)

- **Economies of scale:** cost savings as a firm grows —purchasing, technical, financial, managerial, marketing.

- **Internal growth** (organic, lower-risk) vs **external growth** (a **merger/takeover**) —classified by **integration**:



Horizontal (same stage) · vertical (different stages, same industry) · conglomerate (different industries)

Answer shapes: an **Analyse two benefits of growth** [**8**] answer needs, per benefit, AO1 (name) + AO2 (apply) + AO3 (a reasoning chain). An **Evaluate** [**12**] answer weighs the gains of size against the diseconomies, then judges *in context*.

2 Practice

2.1 State two ways to measure the size of a business. [2]

2.2 Define the term *economies of scale*. [2]

2.3 State the difference between horizontal and vertical integration. [2]

3 Exam-style questions

3.1 Explain one reason why a business might want to grow larger. [3]

3.2 Analyse two benefits to a business of using a vertical merger for growth. [8]

3.3 'A business should always try to grow as large as possible.' Evaluate this view. [12]

4 Go further

You are now ready for the real exam questions on this subtopic. Open the **1.3 Size of business** past-paper sheet in the Library, or try these in **Practice mode**:

- 9609/11 N25 —Q5 (benefits of a vertical merger)
- 9609/13 N25 —Q3 (business growth)
- 9609/21 N25 —Q2 (size and growth, applied)

Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 any two of: number of employees; revenue (sales turnover); capital employed; market share; market capitalisation (1 + 1).

2.2 the cost savings (a fall in average cost per unit) a business gains as it grows larger (2 for a clear definition; 1 for a partial idea).

2.3 horizontal integration joins a firm at the **same** stage of the same industry; vertical integration joins a firm at a **different** stage of the same industry (2 for a clear difference; 1 for a partial idea).

3.1 *[3]* **AO1** 1 —name a reason (lower average costs; bigger market share; more market power; higher profit; spread risk). **AO2** up to 2 —develop it, e.g. a larger firm buys materials in bulk → lower cost per unit → it can cut prices or earn more profit (2 developed / 1 limited).

3.2 *[8]* Some understanding of *vertical* merger must be shown. For **each** of two benefits: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains —*backward (supplier)*: control of supply → guaranteed quality and delivery time → smoother production. *Forward (customer)*: own retail outlets → control over how the product is sold and priced → higher sales and margin. Maximum 4 per benefit, 8 total. (General growth benefits such as ”larger workforce” do not answer a *vertical* merger question.)

3.3 *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **For** growth: economies of scale, market power, higher profit, survival. **Against**: diseconomies of scale (poor communication, weak motivation), high finance needed, harder management, culture clash in a takeover. Judgement: growth helps up to the optimum size, but beyond it average costs rise —so the best size depends on the market and the firm’s ability to manage scale; ”as large as possible” is rarely right.