Solutions

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

Each answer shows the steps, then the **result**.

2.1

- internal growth is a firm growing bigger by selling more itself; external growth is joining with another firm through a merger or takeover (2 for a clear difference; 1 for a partial idea)

2.2

- joining with a firm at a different stage of the same production process (e.g. a maker buying a supplier) (2 for a clear definition; 1 for a partial idea)

2.3

- any one of: the market is small/local; the owner wants to keep control; there are few economies of scale; it serves a niche (1)

3.1 B

- Joining a firm at a different stage is vertical integration

3.2

- *[6]* For **each** of two reasons: AO1 1 + AO3 up to 2 — e.g. *niche/personal service*: small firms serve a specialised market the giants ignore
- loyal customers
- they survive. *Few economies of scale*: in some industries large size brings little cost advantage
- small firms compete on equal terms. Maximum 3 each

3.3

- *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For growth:** economies of scale lower costs, more market power and profit, and survival. **Against:** diseconomies of scale raise costs beyond the optimum, growth needs finance and is risky, and many owners value control or serve a niche better when small. Judgement: growth suits firms that gain real economies of scale, but staying small is rational for niche or owner-controlled firms — it depends on the industry and the owner's aims