A-LEVEL ECONOMICS • EXERCISE SHEET

7.7 Growth and survival of firms

Name: ______________ Class: __________ Date: ____________ **Total: 24 marks**

KEY WORDS integration 一体化 • vertical 纵向 • horizontal 横向 • horizontal integration 横向一体化 • vertical integration 纵向一体化

Objective

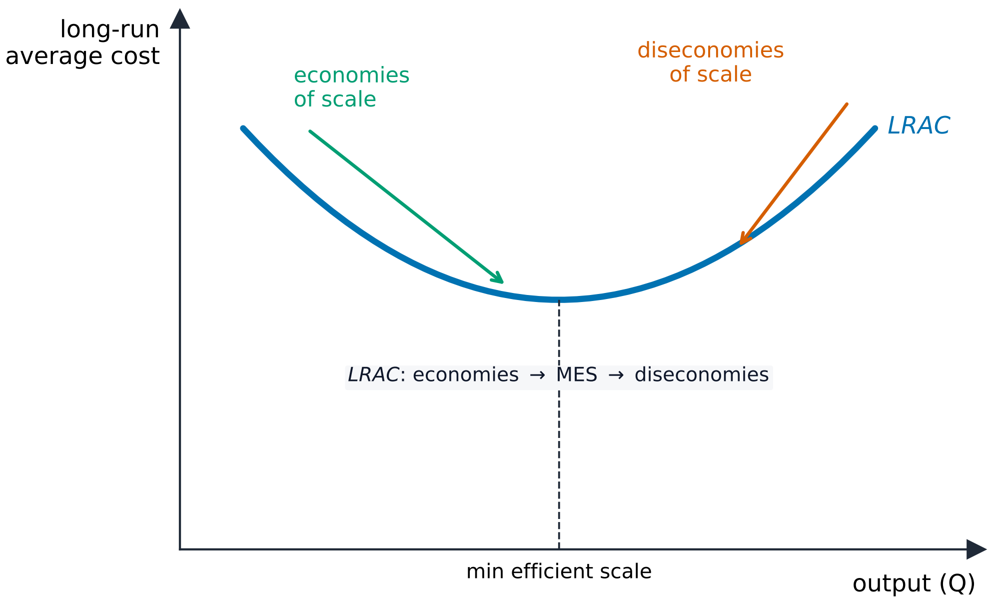
Build the skills to answer exam questions on **the growth and survival of firms** 企业的成长与存续 — **internal and external growth** 内部与外部增长 (**integration** 一体化), why some firms stay small, and **barriers to entry and exit** 进入与退出壁垒.

You must be able to:

- distinguish internal from external growth and the types of integration
- explain why some firms stay small
- analyse barriers to entry and exit

1 Worked examples

■ How firms grow



Firms grow to gain economies of scale — but small firms survive too

- **Internal growth** 内部增长 (organic): sell more. **External growth** 外部增长: a **merger** 合并 / takeover.

- **Horizontal** 横向 (same stage), **vertical** 纵向 (different stage), **conglomerate** 混合 (different industry → spread risk).

Growth moves a firm along the spectrum, toward fewer rivals and more market power

- **Stay small:** small/local market, owner wants control, few economies of scale, **niche** 利基.
- **Barriers to exit** 退出壁垒 (e.g. costly machines) can trap a firm in a loss-making market.

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

2 Practice

2.1 State the difference between internal and external growth. [2]

2.2 Define the term *vertical integration*. [2]

2.3 State one reason why a firm might stay small. [1]

3 Exam-style questions

3.1 A car manufacturer buying a tyre producer is an example of: [1]

A | B
C | D

A horizontal integration
B vertical integration
C conglomerate integration
D internal growth

3.2 Explain two reasons why many small firms are able to survive in a market dominated by large firms. [6]

3.3 Discuss whether all firms should aim to grow as large as possible. [12]