

Exercise walk-through

1.1

Business activity

IGCSE Business Studies

What businesses actually aim at

profit

earning more than it spends – the **main** aim of most private firms

survival

the first aim of a new business, and of any business in a downturn

growth

more sales, more sites, more staff – often at the cost of short-term profit

market share

the share of total sales in a market that one business holds

customer service

keeping customers happy so they **come back**

social objectives

helping society or the **environment** – the defining aim of a social enterprise

Objectives **change over time**. A firm that aimed at survival in year one may aim at market share in year five, and the exam asks you to say why.

Three kinds of integration

horizontal

two firms at the **same stage** of the same business – two car makers join

vertical

two firms at **different stages** of the same business – a car maker buys a tyre maker

conglomerate

two firms in **completely different** businesses – a car maker buys a food company

why horizontal

more market share, and economies of scale in the same activity

why vertical

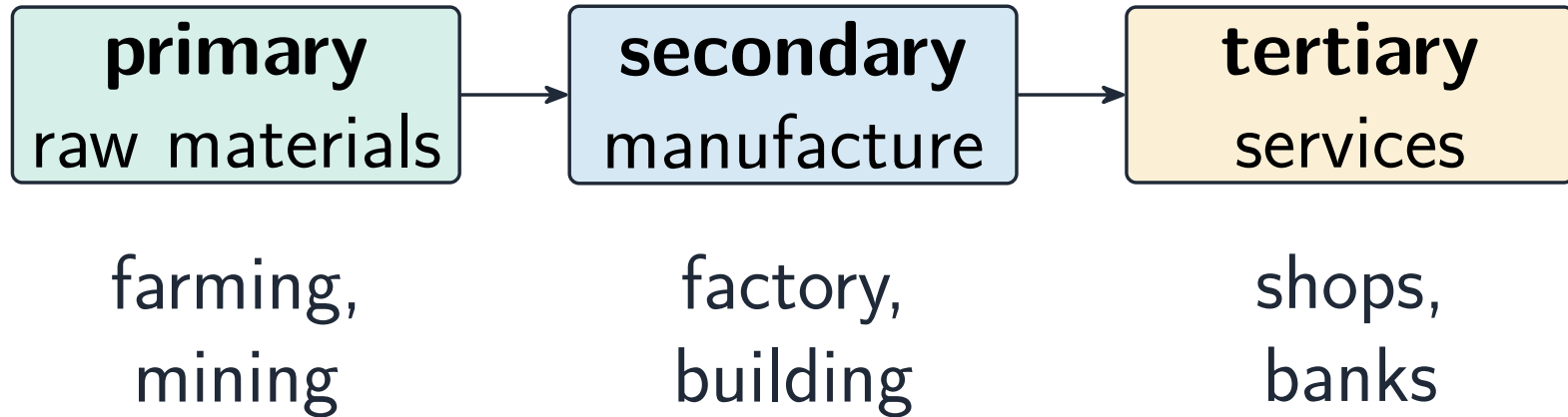
control of supply or of the route to the customer

why conglomerate

spreading risk – if one market falls, the other may not

Name the type first, then give its *reason*. “Vertical, so it controls its own supply of tyres” earns both marks in one line.

The three sectors, continued



Business activity runs from the primary sector through to the tertiary sector

Exercises 2.1·2.2

2.1 Define the term *opportunity cost*.

[2]

2.2 A firm buys materials for \$8 and sells the product for \$20. Calculate the added value.

[2]

Exercises 2.1·2.2

2.1 Define the term *opportunity cost*.

[2]

2.1

- a choice means something else is given up
- **opportunity cost** is the **next best alternative given up** (K)

2.2 A firm buys materials for \$8 and sells the product for \$20. Calculate the added value.

[2]

2.2

- added value = selling price – cost of materials

$$\$20 - \$8 = \$\mathbf{12}$$

(K)

Exercises 2.3-3.1

2.3 Identify the four factors of production. [4]

3.1 Identify two ways a business could increase the added value of its product. [2]

Exercises 2.3-3.1

2.3 Identify the four factors of production.

[4]

2.3

- the four factors of production
- **land, labour, capital, enterprise** (K each)

3.1 Identify two ways a business could increase the added value of its product.

[2]

3.1

- any **two** of: **raise the price** (strong brand) / **lower material cost** / **improve the product** (K, K)

Exercises 3.2-3.3

3.2 Explain two reasons why a new business might fail.

[6]

3.3 Do you think good management is the most important reason a business succeeds?
Justify your answer.

[6]

Exercises 3.2-3.3

3.2 Explain two reasons why a new business might fail.

[6]

3.2

- for **each** of two reasons: K + An, max 3 per reason
- e.g. **runs out of cash**: cannot pay wages and suppliers → forced to stop trading
- e.g. **poor management**: weak planning → costs rise and customers are lost → the business fails

3.3 Do you think good management is the most important reason a business succeeds? Justify your answer.

[6]

3.3

- **for**: good management plans, controls money and motivates staff
- **against**: success also needs finance, a product customers want, and an edge over competitors
- **judgement (Ev)**: management is a key factor, not always *the* most important – it depends on the business