

Exercise walk-through

1.4

Types of business organisation

IGCSE Business Studies

What we will cover

- 1 Purpose & factors of production
- 2 Scarcity & added value
- 3 The three sectors
- 4 Entrepreneurs & ownership
- 5 Business growth
- 6 Economies of scale & stakeholders

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.

Exercises 2.1-2.3

2.1 Define the term *limited liability*.

[2]

2.2 Identify two advantages of being a sole trader.

[2]

2.3 State one difference between a private limited company (Ltd) and a public limited company (plc).

[2]

Exercises 2.1-2.3

2.1 Define the term *limited liability*. [2]

2.1

- **limited liability**: owners can lose only the money they invested; **personal assets are protected** (K)

2.2 Identify two advantages of being a sole trader. [2]

2.2

- any **two** of: easy/cheap to set up / keeps all profit / makes all decisions / privacy (K, K)

2.3 State one difference between a private limited company (Ltd) and a public limited company (plc). [2]

2.3

- a **plc** can sell shares to the **public** on the stock exchange; an **Ltd cannot** (K)

Exercises 3.1-3.2

3.1 Identify two features of a partnership.

[2]

3.2 Explain two benefits to the owners of forming a private limited company.

[6]

Exercises 3.1-3.2

3.1 Identify two features of a partnership. [2]

3.1

- any **two** of: 2+ partners / share work, decisions and profit / usually unlimited liability / written agreement (K, K)

3.2 Explain two benefits to the owners of forming a private limited company. [6]

3.2

- for **each** of two benefits: K + An, max 3 each
- e.g. **limited liability**: personal assets safe if the company fails → can take bigger risks
- e.g. **easier finance**: sell shares to family/friends → more capital than a sole trader

Exercise 3.3

3.3 A growing sole trader is deciding whether to become a private limited company. Do you think this is a good idea? Justify your answer. [6]

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3.3

- **for:** limited liability and easier finance to grow
- **against:** more paperwork, accounts shared, some control lost
- **judgement (Ev):** worth it if the owner needs finance and protection; a small low-risk business may stay a sole trader