Exercise walk-through

Business activity ▪ 1.1

eXercise

You must be able to

- explain the purpose of business activity and the four factors of production
- define opportunity cost and added value, and calculate added value
- explain why businesses succeed or fail

Method — Adding value

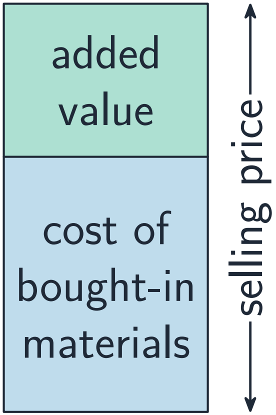
$$\text{added value} = \text{selling price} - \text{cost of bought-in materials}$$

- **Worked:** a baker buys materials for \$5 and sells a cake for \$12 → added value $= \$7$.
- **Factors of production: land 土地**, **labour 劳动力**, **capital 资本**, **enterprise 企业家才能**.
- **Opportunity cost 机会成本**: the next best choice given up.

Answer shapes (marked by **level of response** — award **K** knowledge, **App** application, **An** analysis, **Ev** evaluation/judgement):

- **Explain two... [6]:** for each — identify a point (K) + develop why it matters (An).
- **Do you think...? Justify [6]:** give both sides, then a supported judgement (Ev).

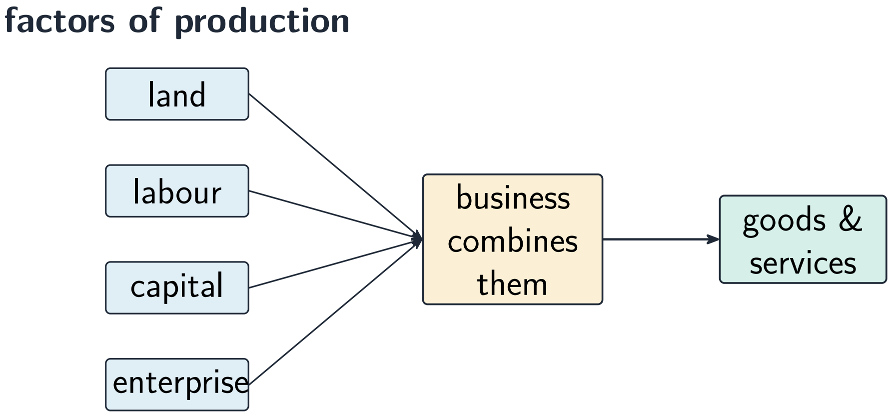
Method — Adding value



added value
= selling price
 − materials cost

Added value is the selling price minus the cost of bought-in materials

Method — Adding value



Land, labour, capital and enterprise are combined to produce goods and services

Practice 2.1 ▪ 2 marks

Define the term *opportunity cost*.

Solution 2.1

Method: Adding value

Worked steps

the next best alternative given up when a choice is made (2 for a clear definition; 1 for a partial idea).

Practice 2.2 ▪ 2 marks

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

Solution 2.2

Method: Adding value

Worked steps

$\$20 - \$8 = \$12$ (2; award 1 for a correct method with the wrong figure).

Practice 2.3 ▪ 4 marks

Identify the four factors of production.

Solution 2.3

Method: Adding value

Worked steps

land; labour; capital; enterprise $(1 + 1 + 1 + 1)$.

Exam-style 3.1 ▪ 2 marks

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

Solution 3.1

Method: Adding value

Worked steps

any two of: raise the price (e.g. a strong brand); lower the cost of materials; improve the product $(1 + 1)$.

Exam-style 3.2 ▪ 6 marks

Explain two reasons why a new business might fail.

Solution 3.2

Worked steps

[6] For **each** of two reasons: K 1 + An up to 2 — e.g. *runs out of cash*: it cannot pay wages and suppliers $\rightarrow$ it is forced to stop trading. *Poor management*: weak planning and decisions $\rightarrow$ costs rise and customers are lost $\rightarrow$ the business fails. Maximum 3 per reason.

Exam-style 3.3 ▪ 6 marks

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

Solution 3.3

Method: Adding value

Worked steps

[6] Both sides + judgement. **For:** good management plans well, controls money and motivates staff, avoiding the most common causes of failure. **Against:** success also needs enough finance, a product customers want, and an edge over competitors. **Judgement (Ev):** management matters greatly, but it must be combined with finance and a good product — so it is *a* key factor, not always *the* most important; it depends on the business.