IGCSE ECONOMICS • EXERCISE SHEET

3.4 Firms

Name: ____________ Class: ________ Date: __________ **Total: 16 marks**

KEY WORDS merger 合并 • market 市场 • firms 企业 • vertical 纵向 • grow 增长

Objective

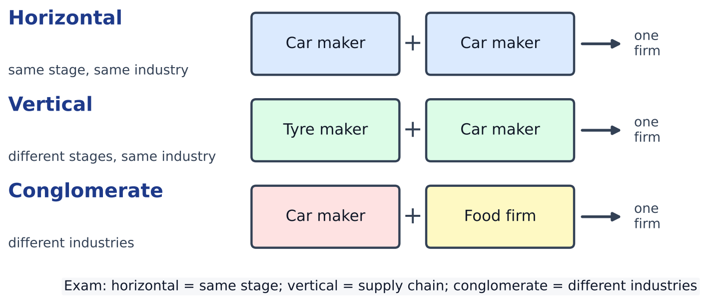
Build the skills to answer exam questions on **firms 企业** — the **size of firms 企业规模**, why some stay small, how firms **grow 增长** (the three **mergers 合并**), and **business failure 企业倒闭**.

You must be able to:

- state ways to measure the size of a firm and why some stay small
- describe horizontal, vertical and conglomerate mergers
- explain the causes of business failure

1 Worked examples

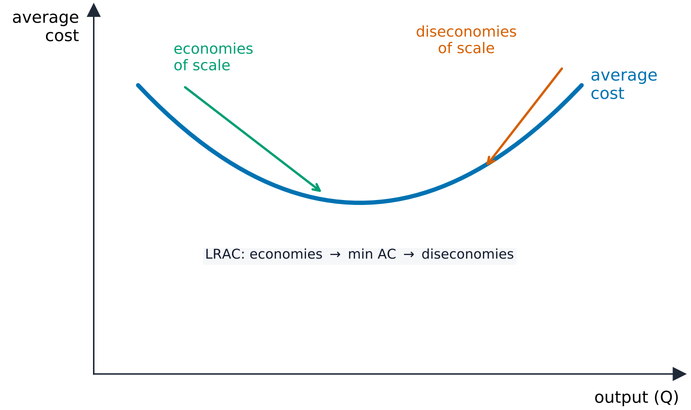
■ **How firms grow**



Firms grow by selling more, or by joining other firms

- **Measure size by:** number of workers, capital used, or output.
- **Stay small** because: a small market, a personal product, the owner wants control, little finance.
- **Mergers: horizontal 横向** (same stage), **vertical 纵向** (different stages of one industry), **conglomerate 混合** (different industries).

- **Business failure 企业倒闭:** high costs, too few sales, poor management, too little cash.



Firms grow to win economies of scale — lower average cost as output rises

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

2.1 State two ways to measure the size of a firm. [2]

2.2 Define the term *horizontal merger.* [2]

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

3 Exam-style questions

3.1 A car maker joining with a tyre maker is an example of a: [1]

- **A** horizontal merger
- **B** vertical merger
- **C** conglomerate merger
- **D** social enterprise

3.2 Explain two reasons why a firm might fail and close down. [4]

3.3 Analyse why some firms stay small while others grow large. [6]

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

2.1 any two of: number of workers; amount of capital used; output (1 + 1).

2.2 when two firms at the same stage of the same industry join (e.g. two car makers) (2 for a clear definition; 1 for a partial idea).

2.3 any one of: a small market; a personal product; the owner wants control; little finance to grow (1).

3.1 B. A car maker and a tyre maker are at different stages of one industry — a vertical merger.

3.2 *[4]* For **each** of two reasons: K 1 + An 1 — *too few sales / falling demand*: revenue does not cover costs → the firm makes losses and closes; *not enough cash*: even a profitable firm can run out of cash to pay bills → it is forced to stop trading.

3.3 *[6]* K/App/An — firms stay small when the market is small or local, the product is personal (a hairdresser), the owner wants control, or finance is scarce → firms grow large when there is high demand and they want economies of scale, more market power and higher profit → so size depends on the market, the owner's aims, and the gains from being bigger.