

# Unit 1

## Business and its environment

# 1 Enterprise

## Learning outcomes

*The exercises in this chapter will help you to practise what you have learnt about:*

- What is meant by business activity
- Analysing opportunity cost and the economic problem
- How businesses can create value
- Applying the characteristics of successful entrepreneurs
- Analysing why new businesses can fail
- The importance of enterprise and entrepreneurs to a country's economy
- The objectives (triple bottom line) and roles of social enterprises.



### KEY TERMS

**Consumer goods**

**Consumer services**

**Capital goods**

**Factors of production**

**Creating value**

**Added value**

**Opportunity cost**

**Entrepreneur**

**Social enterprise**

**Triple bottom line**

## Key skills exercises

### Knowledge and understanding

**To answer the questions in this chapter, you need to know and understand:**

- **nature of business activity**
- **important factors of production**
- **skills and personal qualities needed by successful entrepreneurs**
- **objectives of social enterprises.**

- 1 List the **four** factors of production.
- 2 Draw a simple diagram that represents adding or creating value.
- 3 Define 'opportunity cost'.
- 4 What is meant by 'the business environment is dynamic'?
- 5 List **five** characteristics of a successful entrepreneur.
- 6 List **three** reasons why a recently established business might fail.
- 7 Give **three** ways in which a country benefits from the start-up of new businesses.
- 8 List the **three** objectives of most social enterprises.

## Knowledge, understanding and application

**Remember to use the context provided either by the question or the data response material in your answer.**

### Sami's new business

Sami lives in a low-income country with few job opportunities. He is bored with his job in a petrol service station where he has worked since leaving school. He feels that he is being watched over all the time by his manager. He plans to set up a business with a small sum of money given to him by a relative. He will make and decorate ceramic pots to sell to tourists. Sami started making pots in an Art class at school and enjoyed it. He will use a simple pottery wheel and an electric kiln to 'fire' the pots. He cannot work from home as pottery can be very dusty work. Clay and paint to decorate the pots will be bought from suppliers. He wants to use his skill to make pots for most of the working day. However, he knows that he will have to keep records of all of the transactions his business has with suppliers and customers. He thinks that he will have to employ someone to help him with the selling of the pots and the administration of the business.



#### TIP

Do not make up your reasons! Read the case study carefully and identify two reasons why Sami took this decision.

- 9 Explain **two** reasons why Sami decided to set up his own business.

#### WORKED EXAMPLE

One reason is that Sami wants to be independent by owning his own business. **[K]** This is shown by the fact that 'he feels he is being watched over all the time by his manager' which does not give him any independence at all. **[Ap]**

- 10 Explain **two** factors of production that Sami will need before he can start operating his business.
- 11 Explain **two** challenges that Sami will face in starting his business.
- 12 Explain how Sami will create value in his business.

## Knowledge, understanding, application and analysis

**The skill of analysis requires that you explain why or how something is a benefit or why or how something could happen.**

- 13 Analyse **two** benefits to Sami's country of his decision to start up his own business.

#### WORKED EXAMPLE

Sami will employ at least one other worker. **[K]** He will need someone to help him sell pots and carry out the administrative tasks such as looking after the paperwork. **[Ap]** This will help reduce unemployment in Sami's country. **[A]**

- 14 Analyse **two** reasons why Sami's business could fail.

## Knowledge, understanding, application, analysis and evaluation

**The skill of evaluation requires that you make supported decisions, draw conclusions and give recommendations.**

**15** Do you think Sami's business will be successful? Justify your answer.



### TIP

For Q15, think about at least one reason why Sami's new business might be successful (e.g. perhaps something to do with his own skills?). Then consider what problems might arise which would impact on the success of Sami's business. Analyse how and why these factors would affect the success of Sami's business and come to an overall and justified conclusion.

**16** Discuss the most important entrepreneurial characteristics that Sami will need to help make the business a success.

## Exam-style questions

### Paper 1

#### Section A

- 1 Explain **two** ways in which a country might benefit from entrepreneurs opening new businesses. **[3]**
- 2 Explain **two** reasons why a business might fail. **[3]**

#### Section B

- 3 **a** Analyse the differences between social enterprises and other businesses. **[8]**  
**b** 'Any hard-working person can become a successful entrepreneur.' Discuss whether you agree with this statement. **[12]**

## Paper 2

### SPL

Sadiq set up SPL three years ago. The business offers boat and boat engine repair services. Sadiq located his business in a small workshop next to a large harbour. There are many small boats moored in the harbour.

Sadiq is a skilled mechanic and a keen boat owner. He used to work for a large car manufacturer but found the work repetitive. He was able to obtain a bank loan at a low interest rate to provide the capital for his business. He works long hours as he does not employ any workers. He likes dealing with customers directly. He does all of the paperwork for the business.

He belongs to a sailing club and is friends with many of the members. Sadiq buys in boat and engine repair parts for his customers and his final price for each job includes the cost of these parts and the time he has spent on it. He thinks he might be able to further create value by selling new boat engines to customers whose engines cannot be repaired.

Sadiq is very pleased with the performance of his business and he plans to expand it in future.

- 1 a Define the term 'capital'. [2]  
 b Briefly explain the term 'create value'. [3]
- 2 Explain **two** factors, other than Sadiq's own personal qualities, that have led to the success of SPL. [6]
- 3 Analyse how Sadiq's personal qualities have helped the business be successful. [8]
- 4 Evaluate whether Sadiq is right to plan for the future expansion of his business. [11]

### Improve this answer

This is a student's answer to question 2. Skills are shown in brackets to help you.

*Location is important for any business. [K] If the site is too expensive it can mean that costs are too high and no profit is made. [An] Sadiq must have chosen a cheap location.*

*All new businesses need customers and the quicker customers are gained, the more successful the business is likely to become. [K] Sadiq's customers will pay money to the business and this can then be used to pay the costs of the business and pay back any loans that were needed to set it up. [An]*

### Your challenge

See whether you can improve this answer. It seems to lack the very important 'skill' of application. Just by referring to 'Sadiq' does not make the answer applied. A better answer is given online – but write yours out first!

## 2 Business structure

### Learning outcomes

*The exercises in this chapter will help you to practise what you have learnt about:*

- The three levels of economic activity
- Differentiating between private sector and public sector
- The different forms of legal organisation of businesses and their advantages and disadvantages
- Which form of legal organisation is most appropriate in different circumstances.



#### KEY TERMS

Primary sector	Private limited company
Secondary sector	Share
Tertiary sector	Shareholder
Private sector	Public limited company
Public sector	Memorandum of Association
Mixed economy	Articles of Association
Free-market economy	Franchise
Command economy	Joint venture
Sole trader	Holding company
Partnership	Public corporation
Limited liability	Cooperative

### Key skills exercises

#### Knowledge and understanding

To answer the questions in this chapter, you need to know and understand:

- **different levels of economic activity**
- **the different sectors of an economy**
- **the main forms of legal organisation.**

- 1 State **three** industries in the primary sector.
- 2 State **three** industries in the secondary sector.
- 3 State **three** industries in the tertiary sector.
- 4 State **three** types of economic activity that are usually undertaken by the public sector.
- 5 Are public limited companies in the private sector or the public sector?
- 6 What is meant by 'limited liability'?
- 7 If a small sole-trader business expands by employing one worker, is it now a partnership?
- 8 State **two** benefits that a partnership has over a sole-trader business.

- 9 State **two** benefits that a public limited company has over a private limited company.
- 10 Give **one** advantage and **one** disadvantage to an entrepreneur of setting up a franchise business.

## Knowledge, understanding and application

**Remember to use the context provided either by the question or the data response material in your answer.**

### Gill's dresses

Gill is a skilled dressmaker. She makes dresses to her own designs. She used to sell her dresses to clothes shops but she recently decided to sell them only at city centre markets. Selling at these markets takes up a lot of Gill's time. Currently, she works at home but needs additional space for the inventories of materials she has. She also plans to employ a worker who will help her cut material and sell finished dresses at the markets. Gill's old sewing machine keeps breaking down and she needs to replace it. She is worried that her savings might not be enough to pay for a new one.



#### TIP

For Q12, read your answer carefully – does it make clear references to Gill and/or her business?

- 11 What evidence above suggests that Gill is a sole trader?
- 12 State **two** benefits to Gill of taking on a business partner.

### WORKED EXAMPLE

Gill is planning to expand her business by buying/renting additional storage space for materials. **[Ap]** This will need finance and Gill may not have enough savings. **[K]**

- 13 Is Gill's business in the private sector or public sector?
- 14 In which level of economic activity would you classify Gill's dress-making business?

## Knowledge, understanding, application and analysis

**The skill of analysis requires that you explain why or how something is a benefit or a disadvantage.**

Gill decides to form a partnership with her friend, Maria, who is keen to make dresses but is not very skilled. She has told Gill that she will put a substantial amount of capital into the business and that 'she knows a lot about fashion'.

A specialist clothing retailer has suggested a joint venture proposal to the partners. The owner plans to open a small fashion shop in the city and has asked them to supply dresses. The retailer would manage the sale of the dresses.

- 15 Analyse **one** disadvantage to Gill of taking on a partner.
- 16 Analyse **one** benefit and **one** drawback to Gill and her partner of converting the business into a private limited company.

**TIP**

Your answer to Q16 should provide the basis of your answer to Q17. Include at least one paragraph explaining your decision regarding their potential formation of a private limited company.

**WORKED EXAMPLE**

The benefit would be that both Gill and her partner will have limited liability. **[K]** Her business partner plans to ‘put a substantial amount of capital into the business’. **[Ap]** To protect their other assets from being liquidated if the business fails, Gill and her partner would benefit from only risking the capital they invested in the business. **[A]**

## Knowledge, understanding, application, analysis and evaluation

**The skill of evaluation requires that you make supported decisions, draw conclusions and give recommendations.**

- 17** Do you think that Gill and her partner should form a private limited company? Justify your answer.
- 18** Recommend to Gill and her partner whether to form a joint venture with the retailer.

## Exam-style questions

### Paper 1

#### Section A

- 1** Explain the difference between primary sector business activity and tertiary sector business activity. **[3]**
- 2** Explain **two** benefits to an entrepreneur of starting a franchised business **[3]**

#### Section B

- 3 a** Analyse the benefits to a sole trader of forming a partnership. **[8]**
- b** ‘The owners of all private limited companies should consider converting their businesses into public limited companies’. Evaluate this view. **[12]**

**TIP**

For Q1, start with a definition of each and then contrast the difference between them.

**TIP**

Notice there are more marks available for the questions in section B than in section A, so expect to write more. Write in clear paragraphs. So, for example, in answering this question you might write five to six paragraphs. In each one, you should explain one key advantage or disadvantage of public limited companies compared to private limited companies. The final paragraphs should explain and justify why owners of a private limited company might or might not consider converting the business to a public limited company. For example, a small family business that wants to keep control has no need for additional capital as the aim of the business is not to grow – so why take the risk of losing control?

## Paper 2

### Cassy's jewellery

Cassy makes wedding rings for women and men and other items of jewellery. Sajiv is her business partner. Their business is in the private sector. They sell jewellery through the business website. The sold items are posted to customers. Sajiv is responsible for accounts, arranging finance from the bank and buying material supplies. The partners employ two skilled jewellery makers. Sajiv has invested more capital in the business than Cassy. He is thinking of the benefits of limited liability if their partnership is converted into a private limited company.

Both Cassy and Sajiv want new challenges. They could expand their business – called C and S Gems – by employing more workers and renting a large workshop. However, last week they were asked by a large company, MGC, which makes expensive jewellery if they wanted to buy a franchise from the business. The franchise licence would give Cassy and Sajiv the legal right to copy the company's many well-known jewellery designs and sell them through a shop under the company's own name. The cost of the franchise licence is high and C and S Gems would have to be sold to finance this. 'This franchise would give us less risk and a well-known brand name' said Sajiv.

- 1 a Define the term 'private sector'. [2]  
 b Briefly explain the term 'limited liability'. [3]
- 2 Explain **two** ways in which tertiary sector businesses could help Cassy's business. [6]
- 3 Analyse the problems that Cassy and Sajiv might experience from changing the business from a partnership to a private limited company. [8]
- 4 Evaluate whether Cassy and Sajiv should sell their business and buy the franchise. [11]

### Improve this answer

This is a student's answer to Q4. Skills are shown in brackets to help you.

A franchise means buying a licence to trade under the name of another business. [K] If this business is well known with a good brand name, it can reduce operating risks. [A]

MGC is a large company and appears to have a good brand name. [Ap] This means Cassy and Sajiv would not have to spend much on advertising as customers will already know about MGC jewellery designs. [A] Risks will be reduced as MGC will have much experience in operating retail stores and will be able to pass this on to Cassy and Sajiv. [A] They are both ambitious and want new challenges. [Ap] Setting up a new shop and making well-known jewellery designs will give them these challenges. [A] The franchise is likely to be very profitable and they will get a good return on their capital.

### Your challenge

See whether you can improve this answer. It seems to lack the important skill of 'evaluation', although the final sentence could be used in a conclusion. The student does not give an overall conclusion supported by the analysis shown. A better answer is given online – but write yours out first!

# 3 Size of business

## Learning outcomes

*The exercises in this chapter will help you to practise what you have learnt about:*

- The different ways of measuring business size
- The impact of small firms on an economy
- The advantages and disadvantages of small and large businesses
- The strengths and weaknesses of family businesses
- Differentiating between internal and external growth.



### KEY TERMS

**Revenue**

**Capital employed**

**Market capitalisation**

**Market share**

**Internal growth**

## Key skills exercises

### Knowledge and understanding

**To answer the questions in this chapter, you need to know and understand:**

- **different ways in which business size can be measured**
- **benefits of small businesses**
- **compare the advantages of small and large businesses**
- **the strengths and weaknesses of family businesses.**

- 1 Define the term 'revenue'.
- 2 What is meant by 'market capitalisation'?
- 3 How is market share measured?
- 4 Why might a business with high 'capital employed' have few employees?
- 5 State **three** benefits to an economy of small businesses.
- 6 State **three** advantages large businesses often have compared with small businesses.
- 7 State **three** common strengths of family businesses.
- 8 State **three** common weaknesses of family businesses.
- 9 What is meant by the term 'internal growth'?