

Section 1

Understanding business activity

1 Business activity

Learning summary

Before completing the activities in this unit, you should review your work on the following business topics:

- **needs, wants, scarcity** and **opportunity cost**
- the importance of specialisation to businesses and consumers
- the purpose of **business activity**
- what is meant by 'added value'
- how a business adds value.

KEY TERMS

Business activity: the process of producing goods and services to satisfy consumer demand.

Need: a good or service which is essential to living.

Want: a good or service which people would like, but is not essential for living.

Scarcity: there are not enough goods and services to meet the wants of the population.

Opportunity cost: the benefit that could have been gained from an alternative use of the same resource.

Consumer goods: products which are sold to the final consumer. They can be seen and touched, for example computers and food.

Consumer services: non-tangible products such as insurance services, transport.

Capital goods: physical goods, such as machinery and delivery vehicles, used by other businesses to help produce other goods and services.

Activity 1.1

This activity is designed to test your understanding of business activity.

Tyche Plc is a sports goods manufacturer that makes footwear for different types of sporting activity, such as running, football and hockey. Many of the business's customers buy their goods to play sports, but also for everyday use in their lives. Tyche has experienced a good year and has seen its sales increase by 15%.

- a** Identify **four needs** involved in business activity. [4]
 Reflect on the things that people must have as they lead their everyday lives.
- b** Outline **two** of the **wants** involved in Tyche's business activity. [4]
 Think about the goods that you buy but do not actually need.
- c** Explain **two** reasons why Tyche's sales might have increased in the last year. [6]
 Here you need to make a link between changes in wants/needs and Tyche's sales.



TIP

To outline, you will need to set out the main points in your answer by describing the need and want that the sports footwear is satisfying.

Activity 1.2

This activity tests your knowledge of the different factors of production.

A car manufacturer uses the following resources to produce and sell its cars:

- land
- labour
- capital
- enterprise.

Identify the type of resource in each case by completing Table 1.1.

| Resource | Type |
|--|------|
| The family that initially started the business | |
| Plastic to use in car interiors | |
| Workers who work on the production line | |
| Metal to use in the production car bodies | |
| Employees who work in the finance department | |
| Robot technology used on the production line | |
| The business's IT system | |
| The shareholder in the car manufacturer | |

Table 1.1

Activity 1.3

This activity develops your understanding of scarcity and opportunity cost.

D7 Ltd is a small jewellery business that buys diamonds and makes high-quality rings, necklaces and brooches. D7 is a small family business that is struggling to raise the finance to buy increasingly expensive diamonds. As a result of spending so much money buying diamonds, the business has had to postpone buying a new diamond-cutting machine.

- State the opportunity cost of D7 Ltd spending increasing amounts of money on diamonds. **[2]**
 To 'state', you need to demonstrate knowledge and understanding by setting out the opportunity cost of spending on diamonds in clear terms.
- Explain, using the concept of scarcity, why diamonds are expensive. **[6]**
 Think about the limited supply of diamonds and the high demand that there is for them.

Activity 1.4

Consider the following goods and services in Table 1.2 and identify whether they are:

- consumer goods
- consumer services
- capital goods.

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| Product | Type of good or service |
|---|-------------------------|
| A dress bought by a mother for her daughter's birthday party | |
| A new building bought by a school | |
| A personal computer sold in an electrical retailer for home use | |
| Financial advice offered by a bank to a person thinking of retiring | |
| The ticket bought for a professional football match | |
| The vehicles bought by a distribution company | |

Table 1.2

Activity 1.5

P&M Ltd is a national magazine company that has over 50 magazine titles that it sells throughout East Asia. It specialises in producing magazines for the sports and recreation market for consumers who are serious enthusiasts. Titles include monthly golf, cycling, fitness and walking magazines. P&M Ltd is seen as a high-value-added business. Its retail price is high but consumers are willing to pay a high price for the quality of the product.

The business is soon to open a new office in the United States to develop its magazine titles there. This will require a \$15 million investment in a new building and equipment. To do this, P&M will have to give up a plan to upgrade its IT.

- Define the term 'value added'. [2]
Clearly set out why people read the type of magazines that P&M Ltd produces.
- Outline the buyers' want being satisfied by P&M magazines. [4]
Try to clearly show the alternative choices that the business will have to give up due to opening the office in the US.
- State the opportunity cost of P&M Ltd opening an office in the United States. [2]
It is important to give examples of the labour and capital resources when it opens the new office.
- Outline the capital and labour resources that P&M Ltd will need when it opens its new office in the United States. [4]
Start by explaining and analysing the advantages for P&M Ltd of specialising and then explain and analyse that disadvantages of P&M Ltd specialising. Finish by evaluating the overall impact to P&M Ltd of specialising.
- Consider whether you think that P&M Ltd is right to specialise in magazines for 'serious enthusiasts'. Justify your answer. [6]

Reflection: Consider the way that you have used the case study examples from P&M Ltd to support your answers to the question. Could you improve on the amount of context that you include in your answers?

TIP

Use precise terminology when you are defining key terms.

TIP

'Justify' means supporting your case with evidence or argument. This requires evaluative skills, which means making a judgement about how P&M benefits from adding value.

2 Classification of businesses

Learning summary

Before completing the activities in this unit, you should review your work on the following business topics:

- **primary, secondary and tertiary sector** business activity
- the changing importance of the classification of business activity by sector for developing and developed economies
- how business enterprises are classified in the **private sector** and the **public sector**.

KEY TERMS

Primary sector: firms whose business activity involves the extraction of natural resources.

Secondary sector: firms that process and manufacture goods from natural resources.

Tertiary sector: firms that supply a service to consumers and other businesses.

Private sector: the part of the economy that is owned and controlled by individuals and companies for profit.

Public sector: the part of the economy that is controlled by the state or government.

Mixed economy: an economy where the resources are owned and controlled by both the private and the public sectors.

Activity 2.1

This activity is designed to check your understanding of the primary, secondary and tertiary sectors of the economy.

In Table 2.1, there is a list of goods and services which need to be matched with the business activity they are associated with.

| Good or service | Business activity (primary, secondary, tertiary) |
|--------------------|--|
| Dentist | |
| Fishing | |
| Musical instrument | |
| Fridge | |
| Social media app | |
| Soya beans | |
| Personal computer | |
| Airline ticket | |
| Diamond mining | |

Table 2.1



TIP

When you are choosing whether a good is primary, secondary or tertiary, think about how the good or service is produced.

Activity 2.2

This activity will help you to check your understanding of how business operates in the private and public sectors.

A local hospital in a town near Mumbai is owned and controlled by the government and is the biggest employer in the town. People work as doctors, nurses, chemists, laboratory staff and administrators. They also use the services of two limited companies. One provides cleaning services and the other does the hospital's catering.

- a** Outline why the hospital is in the public sector and the limited companies that provide its services are in the private sector. **[4]**

Try to focus clearly on the factors that make an organisation private or public sector.

- b** Explain why the hospital and the businesses that service it are an example of organisations in a **mixed economy**. **[6]**

This 'explain' question wants you to show your analytical skills by making connections between the ownership of an organisation and the nature of the economy.

Activity 2.3

This activity checks your knowledge and understanding of a public sector tertiary business.

Ganji Academy is a local state-funded and managed school based in Bangladesh. It is a secondary school that has 1500 students from a local town and surrounding area. The school has a good reputation for discipline and academic standards. The school's mission statement is 'Giving our students the best all-round education possible' and all management decisions taken have this mission in mind.

- a** State whether the Ganji Academy is in the primary, secondary or tertiary sector. **[1]**
- b** Explain how Ganji's decision making is affected by being a public sector rather than a private sector business. **[6]**

It is important here to think about the role of profit in influencing private and public sector businesses.

Activity 2.4

These questions get you to look at the aims and decision making of a private sector tertiary business.

The market for coffee shops has grown dramatically over the last ten years. Large chains of coffee shops are now present in many high streets along with many independent coffee outlets. Australian consumers enjoy lattes, cappuccinos and espressos as well as the high-quality pastries, cakes and sandwiches that go with them.

- a** State **two** possible aims of the decisions made by businesses in the coffee shop market. **[2]**

Think of all the aims that businesses might have in the private sector.

- b** Outline how the coffee shop market in Australia makes private sector decisions in terms of what, how and for whom to produce goods and provide services. **[4]**

A strong answer would use an example of how resources are allocated through the coffee shop market.

Activity 2.5

The aim of this activity is to test your understanding of a market where there is some debate as to whether businesses should operate in the private sector or the public sector.

NPV rail is a train company that operates trains in the southern region in Argentina and it is in the tertiary sector of the economy. It is a private sector business that aims to make a profit of \$200 million each year. The company also has the aim of increasing its profit by 4% in each of the next four years. One of the ways that the company aims to increase its profit is by introducing new technology and cutting costs. Many of the workers at NPV are worried by the threat of redundancies in an attempt to reduce costs.

- a** Define the term ‘tertiary sector’. [2]
Write your definition precisely using exact terminology.
- b** Outline **two** possible objectives of NPV rail as a private sector business. [4]
Think about the aims that private sector businesses have to be successful.
- c** Do you think that NPV as a private sector business is good for its customers and workers? Justify your answer. [6]
Start your answer by explaining why NPV being a private sector business is good for customers. For example, it has the freedom to provide services that satisfy consumer demand. Then evaluate this by, for example, explaining how private sector businesses may increase prices to consumers to increase their profits.



TIP

When you are answering this ‘justify’ question, you need to make judgements about whether shareholders and workers benefit from NPV being in the private sector.

Reflection: Think about the things that you have learnt about the different types of sectors that businesses exist in. What do you need to know in order to give clear justifications for answers in this unit?

3 Enterprise, business growth and size

Learning summary

Before completing the activities in this unit, you should review your work on the following business topics:

- **entrepreneurs** and enterprise
- **business plans**
- how to measure business size
- why some businesses grow
- why some businesses fail.

KEY TERMS

Entrepreneur: an individual who has an idea for a new business and takes the financial risk of starting up and managing it.

Business plan: a detailed written document that outlines the purpose and aims of a business and that is often used to persuade lenders or investors to finance a business proposal.

Revenue: the amount that a business earns from the sale of its products.

Start-up business: a newly formed business. Such a business usually starts small, but some might grow to become much bigger.

Activity 3.1

The aim of this activity is to improve your knowledge of the characteristics of an entrepreneur.

Costanza is going to start her own social media business. Complete Table 3.1 by matching these examples of how Costanza might show the characteristics of a social entrepreneur:

- has ideas about a new app
- knows a large number of people in the industry
- has used her house to secure a loan to start the business
- sorted out a funding problem by arranging a new type of loan
- sells her business enthusiastically
- works very long hours
- wants to achieve a **revenue** of \$5m in three years
- is never afraid to stand up in front of her workforce and talk about her vision for the business
- has a degree in business and an accountancy qualification.

Think about some of the well-known entrepreneurs you know when considering the characteristics of entrepreneurs.

3: Enterprise, business growth and size

| Characteristic | Example |
|---------------------------------|---------|
| Innovative | |
| Self-motivated and determined | |
| Self-confident | |
| Multi-skilled | |
| Has strong leadership qualities | |
| Takes initiative | |
| Results-driven | |
| Risk-taker | |
| Good networker | |

Table 3.1

Activity 3.2

These questions help to develop your understanding of what is in a business plan and how it might be useful to different stakeholders.

Himari is close to starting a new business in Japan. After resigning from her job with a management consultancy firm, she wants to open a shop selling greetings cards. The local market for greetings cards is growing strongly and there is a clear opportunity for her to start a successful business. She has approached an important investor to raise finance and they have asked for a detailed business plan. Himari is interested in government support that might be available to new small businesses.

- Identify **four** ways that the government could support Himari's new business. [4]
- Outline **two** elements that might be in Himari's business plan. [4]
 Here you need to take an element of a business plan, such as financial forecasts, and set out what might be in the forecast.
- Explain **two** reasons why Himari's business plan might be useful to the investor. [6]
 Take something from the business plan, such as financial forecasts, and link this to information that will be useful to the investor.

Activity 3.3

This activity helps you to look at how the sizes of businesses are measured.

Home-shop PLC is a large retail organisation based in Mexico that employs 70 000 workers and has revenue of \$1.2 billion. Out-there PLC is another Mexican business. It is a social media company that employs 25 000 people and has revenue of \$3.8 billion. The Mexican government gave significant support to Out-there PLC when it was a small **start-up business** just 10 years ago.

- State **two** other ways that you would measure the size of a business other than revenue and number of employees. [2]
- Explain why it is difficult to compare the size of the retail business with the social media business. [6]
 This 'explain' question is making you analyse by making links between the way that business size is measured in different industries. Think about, for example, the number of people needed to provide the service in a retailer compared to a media company.



TIP

For this 'state' question, you just need a list of two points here.

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- c** Do you think that it is right for governments to support start-up businesses such as Out-there PLC? Justify your answer. [6]

Start your answer by explaining the benefits to the Mexican economy of government support for new start-ups such as bringing innovation into new markets. Then evaluate this by, for example, discussing the financial cost to the government of state intervention.

Activity 3.4

The aim of this question is to consider the reasons why organisations grow and to investigate the problems of growth.

TEMPO manufactures musical instruments for the Swedish market. The business was started in 1999 as a small family firm but has grown in size and is now looking to expand by selling in overseas markets. Martin, the CEO of TEMPO, has driven growth very hard since he took charge three years ago. One option for expanding into overseas markets is for TEMPO to buy a local manufacturer in Germany.

- a** State **two** ways that TEMPO could expand its business. [2]
b Outline **two** reasons why TEMPO might want to expand its business. [4]
c Explain **two** problems that TEMPO might face as it tries to expand its business by buying the German manufacturer. [6]

Think about the benefits that the business might gain from growth.
 Try to set out the problems of growth for TEMPO, such as diseconomies of scale, and analyse the impact of these problems on TEMPO.



TIP

'Explain' questions are testing your analytical skills. In this question, try to reason links between the problems that you identify and their effect on TEMPO.

Activity 3.5

These questions make you think about issues facing small businesses.

Salma is planning to open her first business, which will be a small fast-food restaurant that specialises in the growing organic takeaway food market in Jordan. The food she intends to serve is all sourced from local farms, which is very popular with local people. Her emphasis will be on high quality and good value for money. Salma is an expert in cooking organic food and she wants to employ skilled, like-minded people in her business. The local fast-food market is, however, very competitive. When Salma approached the bank for a loan, they said she was in a strong position to be successful but warned her about the high risk of business failure amongst new small businesses. The bank is also concerned about her lack of business experience.

- a** Identify **four** reasons why businesses might fail. [4]
 Remember that you just need to make a list of reasons here.
b Outline **two** benefits to Salma's fast-food restaurant of being a small business. [4]
 Think about the fast-food restaurants that you know and why they might benefit from being small.
c Do you think that Salma is in a good position to start a successful business? Justify your answer. [6]
 Begin your answer by explaining the strengths that Salma's business might have to make it successful, such as her expertise as a cook. Then evaluate this by considering some challenges that Salma might face, such as her lack of business experience.

Reflection: Consider the things that you have learnt about how and why businesses grow. How can you use examples more effectively in your answers to illustrate the issues associated with business growth?