**Unit 1: Microeconomics**

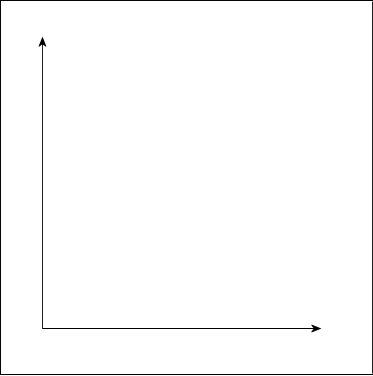
1. **Resolving Scarcity**

Economics studies the economic problem. Simplify the problem in four words only:

U\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ w\_\_\_\_\_\_\_\_\_\_\_\_\_\_and l\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ r\_\_\_\_\_\_\_\_\_\_\_\_\_

As a result we have to make choices as to how to use our limited resources and all choices involve an o\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ c\_\_\_\_\_\_\_\_\_\_\_\_.

This can be illustrated using a Production Possibility Curve. Use a PPC below to show the opportunity cost of a bakery choosing to make **more croissants rather than other pastries** assuming that it fully utilises its resources.



Define opportunity cost:

1. What can we tell about the bakery if it operates at a point within its PPC?
2. **Economic assumptions**

To make the study of economics that little bit easier, economists often make assumptions about the behaviour of consumers and firms.

Economists assume that consumers behave ra\_\_\_\_\_\_\_\_\_\_\_, that is, they make decisions that will maximise their benefits of consumption. However, often consumers don’t behave like this. Give two reasons below why consumers do not often might the most rational decisions.

1.

2.

Economists also assume try businesses will always try to maximise pr\_\_\_\_\_\_\_. However, often businesses have other priorities like maximising sales or maximising customer satisfaction.

1. **Demand and supply analysis**

**Role in the determination of price in the market.**

When drawing demand and supply diagrams **ALWAYS** label fully. Remember **D** for downward sloping **D**emand and **S** for **S**upply to the sky

Know the difference between a **movement along** a supply or demand curve which is **ONLY** caused by a change in p\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and a **shift of** demand and supply curves (i.e. increases and decreases which are caused by other factors):

|  |  |
| --- | --- |
| **Shifts in demand caused by changes in:** | **Shifts in supply caused by changes in:** |
| Ta\_\_\_\_\_\_\_\_\_\_\_ & pre\_\_\_\_\_\_\_\_\_\_\_\_ | P\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ costs |
| Dis\_\_\_\_\_\_\_\_\_\_\_\_ in\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (this is the money you have after paying tax) | Taxes & s\_\_\_\_\_\_\_\_\_\_\_\_\_ (this is an example of government intervention) |
| Ad\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | Technological improvements |
| Price of c\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | N\_\_\_\_\_\_\_\_\_\_\_ factors such as:   * Weather * Flooding & drought * Earthquakes |
| Price of s\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| Po\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ changes such as:   * Higher birth rate * More/less young people * More/less old people * More males/females |

Remember- the price of a good or service in a market cannot change by itself. There **MUST** be a change in demand and/or supply to shift the demand or supply curve and cause price (and equilibrium quantity) to change.

Show the effects of the changes below on **the market for oranges** (remember to fully label, lines, axes and equilibrium)

1.Price of apples falls 2.Flooding destroys orange trees 3.Fruit pickers wages fall 4.Population increases



Look at the following supply and demand schedules and answer the questions:

1. What is equilibrium price?
2. What situation exists at $10?
3. At what price is there excess supply?
4. What should producers do if there is excess supply?

|  |  |  |
| --- | --- | --- |
| **Price $** | **Quantity demanded** | **Quantity supplied** |
| 50 | 150 | 250 |
| 40 | 200 | 200 |
| 30 | 250 | 150 |
| 20 | 300 | 100 |
| 10 | 350 | 50 |

* **Price and Income elasticities**

**KNOW** the definitions and formulae for **Price Elasticity of Demand, Price Elasticity of Supply, Income Elasticity of Demand.** You will **need to calculate** these elasticities from given percentage changes and **you need to know** the significance of their values. Give the definitions below.

**PED** is…

**PES** is…

|  |  |
| --- | --- |
| **Price elasticity of demand** | PED = 0: demand is\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  PED <1: demand is\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  PED>1:demand is\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  PED = infinity: demand is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| **Price elasticity of supply** | PES = 0: supply is\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  PES <1: supply is\_\_\_\_\_\_\_\_\_\_\_\_  PES>1: supply is\_\_\_\_\_\_\_\_\_\_\_\_\_  PES = infinity: supply is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| **Income elasticity of demand** | YED < 0: good is\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  YED > 0: good is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  YED> 1: good is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |

**Income elasticity of demand** is….

Label the **demand curves** below according to their elasticity.



1.\_\_\_\_\_\_\_\_\_\_\_\_\_\_ 2.\_\_\_\_\_\_\_\_\_\_\_\_\_ 3.\_\_\_\_\_\_\_\_\_\_\_ 4.\_\_\_\_\_\_\_\_\_\_\_

Show the impact of increased demand for tickets to the World Cup Final on a supply/demand diagram to the right. Fully label the diagram.

**Remember**, perfectly elastic and inelastic demand is unrealistic.

However, perfectly \_\_\_\_\_\_\_\_\_\_\_ supply occurs often particularly for goods of which there is a fixed amount of at any one time. This includes tickets for sporting/cultural events and some agricultural produce.

|  |  |
| --- | --- |
| **Factors that affect PED:** | **Factors that affect PES:** |
| Closeness/availability of su\_\_\_\_\_\_\_\_\_\_\_\_ | Availability of res\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| P\_\_\_\_\_\_ of good relative to income | Spare cap\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| Degree of n\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (e.g. water and electricity) | **TIME**- like PED, given enough time, producers become more responsive to changes in price |
| Frequency of purchase |  |
| Time: overtime people become more responsive to a change in price |



**The importance of PED & Income elasticity of demand (YED)**

* **PED and Total Revenue**. Total revenue is calculated by P\_\_\_\_\_\_\_\_ x Q\_\_\_\_\_\_\_\_\_. If the price of a good rises from $10 to $12 and quantity demanded falls from 1,000 to 950, total revenue changes from \_\_\_\_\_\_\_\_ to\_\_\_\_\_\_. We can tell from this that the demand for the produce is \_\_\_\_\_\_\_\_\_\_\_\_\_\_ and it is a good idea for the producer to increase price in order to raise revenue. Calculate the PED of this product\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* If the demand for a product is elastic then the producer should \_\_\_\_\_\_\_\_\_\_\_\_ in order to **increase** **revenue.** If the price of a good decreases from $8 to $6 and quantity demanded rises from 800 to 1600, then total revenue increase from \_\_\_\_\_\_\_\_\_ to\_\_\_\_\_\_\_\_\_. Calculate the PED of this product\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* **Taxes and PED**. If the government adds indirect taxes to goods with **inelastic demand** this will cause the \_\_\_\_\_\_\_\_\_\_\_ curve to shift in, increase the price and decrease quantity demanded by a \_\_\_\_\_\_\_\_\_\_\_\_ proportion. The government will earn a lot of tax \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* **The business/trade cycle and YED**. Businesses that sell luxury goods (YED >\_\_\_), will do well during an e\_\_\_\_\_\_\_\_\_\_\_\_\_\_ boom and poorly during a r\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Six markers- ‘analyse’:**

1. Analyse why the supply of agricultural goods is often more inelastic than the supply of manufactured goods?
2. Analyse the importance of PED to business decision making?

**Nine or twelve marker- ‘assess’ or ‘evaluate’**

1. Evaluate the role of taxation in reducing petrol consumption.

**3.The Mixed Economy**

**In a mixed economy goods and services are produced by both the g\_\_\_\_\_\_\_\_\_\_\_\_\_ and private firms. That means that are they both responsible for the all\_\_\_\_\_\_\_\_\_\_\_(using) of resources.**

The **public sector** is the part of the mixed economy where production is controlled by the go\_\_\_\_\_\_\_\_\_\_\_\_. The **private sector** is the part of the mixed economy where goods/services are produced by private businesses

Both these sectors respond to the three fundamental economic system questions differently:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **What is produced?** | **How is it produced?** | **Who gets the good?** |
| **Public sector** | The government will provide goods that the private sector either doesn’t produce at all or in insufficient quantities that people need e.g.\_\_\_\_\_\_\_\_\_\_\_\_ | The government will try to produce goods as efficiently as possible to minimise government spe\_\_\_\_\_\_\_\_\_\_\_\_ | The government will try to distribute the goods to those that need them the m\_\_\_\_\_\_\_ for free or at a low price |
| **Private sector** | The private sector will produce goods and services that can be produced and sold at a pro\_\_\_\_\_\_ e.g. cars, phones | The private sector will also produce as efficiently as possible in order to increase pro\_\_\_\_\_\_\_\_\_\_ . Costs & prices should be kept low due to com\_\_\_\_\_\_\_\_\_\_\_\_\_ | Goods will be sold to those who want them and can aff\_\_\_\_\_\_\_\_\_\_\_ them. |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Ownership & Control** | **Aims/Objectives** | **Sources of finance** | **Examples in Singapore** |
| Public sector | Organisations in the public sector are owned by local or national g\_\_\_\_\_\_\_\_\_\_\_\_\_ and are controlled by a government appointed board | To provide a quality service/good  To minimise c\_\_\_\_\_\_\_  To take account of ex\_\_\_\_\_\_\_\_\_\_ co\_\_\_\_\_\_ and be\_\_\_\_\_\_\_\_\_\_\_\_ | Revenue from good or service sold (e.g. electricity charges).  Government sub\_\_\_\_\_\_\_\_\_\_ |  |
| Private sector | Private businesses are owned by individuals or by sh\_\_\_\_\_\_\_\_\_\_\_\_. Small firms are often managed by the owner, larger firms may have a b\_\_\_\_\_\_\_\_of d\_\_\_\_\_\_\_\_\_\_\_\_\_ | Profit ma\_\_\_\_\_\_\_\_\_\_\_\_\_  Rev\_\_\_\_\_\_\_\_\_\_\_ maximisation  Survival  Growth | Revenue from good or service sold  Bank l\_\_\_\_\_\_\_\_ |  |

1. **Externalities & market failure**

**TASK 1: Definition time**

|  |  |
| --- | --- |
| **Term** | **Definition/Formulae:** |
| Private cost: |  |
| Private benefit: |  |
| **External Cost:** |  |
| **External Benefit:** |  |
| Social Cost |  |
| Social Benefit: |  |
| **Public Goods:** | (focus on the two key characteristics) |

You are often asked to **evaluate/assess (9/12 mark questions)** government policies designed to correct market failure associated with external costs and benefits.

1. **Policies to encourage the production and consumption of goods with external benefits**

|  |  |  |
| --- | --- | --- |
| **Method** | **How it works** | **Evaluate: Any problems?** |
| Legislation | Enforce the consumption of certain goods (merit goods). For example, by law children must go to s\_\_\_\_\_\_\_\_\_\_\_ in many countries |  |
| Subsidies | These can be given to firms that engage in activities that result in external benefits. For example, recycling firms, solar and wind farms, even bike sharing firms. Subsidies lower c\_\_\_\_\_\_\_\_\_\_ of p\_\_\_\_\_\_\_\_\_\_\_\_, therefore shifting the \_\_\_\_\_\_\_\_\_\_\_ curve out and l\_\_\_\_\_\_\_\_\_\_\_\_ price |  |
| Government provision | If external benefits are massive the government will often provide merit goods and **public goods** at low or no cost- e.g. healthcare, ed\_\_\_\_\_\_\_\_\_\_\_\_\_, drainage canals. |  |
| Positive advertising | This is designed to increase the de\_\_\_\_\_\_\_\_\_\_\_ for the merit good |  |

1. **Policies to encourage the production and consumption of goods with external costs**

|  |  |  |
| --- | --- | --- |
| **Method** | **How it works** | **Evaluate- why might the policy not work?** |
| Legislation /Regulation | Certain goods can be completely banned or the government can use age restrictions to reduce co\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of the activity. Firms that over-pollute may have to pay f\_\_\_\_\_\_\_\_. |  |
| Taxation | Indirect taxes will increase the c\_\_\_\_\_\_\_ of p\_\_\_\_\_\_\_\_\_\_\_\_ for firms that produce goods that result in external costs. This causes the s\_\_\_\_\_\_\_\_\_\_ curve to shift in and the price to r\_\_\_\_\_\_\_\_. This discourages the c\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of the good. |  |
| Pollution permits | The government will sell permits to businesses that give them a ‘right to pollute’. The permits should be expensive enough to discourage firms from buying too many. |  |
| Negative advertising | Many cigarette firms are forced to display public h\_\_\_\_\_\_\_\_\_ warnings on their packets to discourage consumption. |  |

Review Time: Microeconomics

1. Why is the supply of wheat inelastic but the supply of bread made from the wheat more elastic?
2. What is the formula for social costs?
3. Why is traffic congestion an example of an external cost? Who is the 'third party' negatively affected by traffic congestion? (Hint: it is NOT the car drivers)
4. Give one benefit of the provision of goods/services by the **public sector** to consumers.
5. PUB supplies all households in a Singapore with water supply. If PUB wanted to raise revenue should it increase or decrease price? Explain your answer.
6. What sort of market structure would PUB operate in? What is the key feature of this market structure?
7. Why is the free rider problem associated with public goods?
8. Give one benefit to consumers when a state owned firm is privatised?
9. Give one benefit to the government benefit when a state owned firm is privatised?
10. Why is profit maximisation not a realistic objective for firms during a recession?
11. Why is the demand for Shell petrol more elastic than the demand for petrol in general?
12. What is the best method for the government to discourage young people from taking up smoking? Why?
13. Why are the external benefits of people getting vaccinated against Covid-19 greater than the private benefits?
14. Would the income elasticity of demand for public transport in Singapore be positive or negative? Why?
15. How would a severe recession affect the income elasticity of demand for public transport in Singapore?

**Paper 1: Business Economics**

1. **Production and productivity**
2. **Production:** This is the easy section. Know your definitions (check your notes or textbook if needed)

|  |  |
| --- | --- |
| **Term** | **Definition:** |
| Production |  |
| Land |  |
| Labour |  |
| Capital | Man made goods… |
| Enterprise |  |
| Labour intensive production |  |
| Capital intensive production |  |

1. **Increasing productivity**

**Productivity is the output produced per unit of input**. So labour productivity is calculated by- To\_\_\_\_\_\_\_\_\_\_\_\_\_ Ou\_\_\_\_\_\_\_\_\_\_/ # of wo\_\_\_\_\_\_\_\_\_\_\_\_\_

Both businesses and the Government are keen to increase the productivity of a nation’s resources. A nation’s wealth can be increased by improving productivity. Show how an increase in a nation’s productivity can be shown on the diagram below:



Capital goods

Consumer goods

Capital goods

**Improving productivity:**

|  |  |  |
| --- | --- | --- |
| **Labour productivity** | **Land productivity** | **Capital productivity**  **Using new and advanced technology** |
| Div\_\_\_\_\_\_\_\_\_\_\_\_ of lab\_\_\_\_\_\_\_\_\_ (see below) | Use of fer\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ | In the primary sector, greater use of farm machinery and computer tracking of livestock |
| Investment in ed\_\_\_\_\_\_\_\_\_\_\_\_ & tr\_\_\_\_\_\_\_\_\_\_\_\_\_ | Irrig\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of agricultural land | Use of rob\_\_\_\_\_\_ and automated ass\_\_\_\_\_\_\_\_\_\_ lines in the secondary sector |
| Financial in\_\_\_\_\_\_\_\_\_\_\_\_ for workers & non-financial incentives such as better working con\_\_\_\_\_\_\_\_ | Use of G\_\_\_\_\_\_\_\_\_\_\_\_ M\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to make crops disease and dr\_\_\_\_\_\_\_\_\_\_\_ resistant | Use of Art\_\_\_\_\_\_\_\_\_\_\_\_ Int\_\_\_\_\_\_\_\_\_\_\_\_\_ |

**Productivity and the division of labour**

**The division of labour occurs when the pro\_\_\_\_\_\_\_\_\_\_\_\_ process is broken up into smaller parts and each worker is given a specific t\_\_\_\_\_\_\_ or role.** The division of labour is used a lot in manufacturing/secondary industries as production processes are often easier to break down. However, it can occur in primary industries like min\_\_\_\_\_\_\_\_\_\_ and tertiary industries, like hair\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

This topic can be assessed/evaluated in a nine/twelve mark question. **BE CAREFUL**: is the question asking you to assess/evaluate the impact of the division of labour on **Workers? Firms?**

|  |  |  |
| --- | --- | --- |
| **Impact of division of labour on WORKERS** | 🙂 | 😟 |
| Workers can become highly sk\_\_\_\_\_\_\_\_\_\_\_\_ in one task which could mean they are p\_\_\_\_\_\_\_\_\_ more |  |  |
| Workers could become dem\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ through repeating the same task and may lose interest in work |  |  |
| Repetitive and low skilled tasks can often be done more cheaply using cap\_\_\_\_\_\_\_\_\_\_, therefore there is greater chance of workers losing their jobs and tech\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ unem\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in that industry |  |  |
| Highly skilled workers can become experts at their job and this makes them more attractive to other employers. |  |  |

|  |  |  |
| --- | --- | --- |
| **Impact of division of labour on FIRMS** | 🙂 | 😟 |
| Greater p\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ or e\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ as workers become good at their tasks speeding up the production process |  |  |
| Production time is reduced as workers are not moving around the factory from one t\_\_\_\_\_\_\_\_\_\_\_ to another |  |  |
| Productivity might fall is workers lose interest and are demotivated |  |  |
| If a specialist worker is absent this might interrupt the production process- losing output |  |  |

**Conclusion for 12 mark evaluation………**The impact of the division of labour depends upon…….

* If the firm offers financial incentives to keep motivation and prod\_\_\_\_\_\_\_\_\_\_\_\_\_\_ high
* If the firm encourages job rotation- allowing people to switch tasks every so often
* Any others?

1. **Sectors of the economy**
2. **Primary sector** involves the ex\_\_\_\_\_\_\_\_\_\_\_ of raw materials from the earth and sea. Industries include; fa\_\_\_\_\_\_\_\_\_\_\_, fo\_\_\_\_\_\_\_\_\_\_, fi\_\_\_\_\_\_\_\_\_\_\_\_ & mi\_\_\_\_\_\_\_\_\_\_
3. **Secondary sector** involves converting raw materials into finished and semi-finished goods. Industries include; ma\_\_\_\_\_\_\_\_\_\_\_\_, co\_\_\_\_\_\_\_\_\_\_\_ & food pr\_\_\_\_\_\_\_\_\_\_\_
4. **Tertiary sector** involves the provision of services. Industries include; insurance, he\_\_\_\_\_\_\_\_\_, ba\_\_\_\_\_\_\_\_\_\_\_\_\_ & tr\_\_\_\_\_\_\_\_\_\_\_\_

As economies develop there is an inevitable decline and rise of different sectors/industries. **Deindustrialization** in MDCs has occurred as manufacturers have moved production to lower cost countries and technology has replaced many jobs (leading to stru\_\_\_\_\_\_\_\_\_\_\_\_ unem\_\_\_\_\_\_\_\_\_\_\_\_). At the same time more jobs have been created in service industries in both MDCs and LDCs.

**TASK 1:** complete the three pie charts below showing the % employment in primary, secondary and tertiary industries for an LDC like Tanzania an MDC like USA and a rapidly developing economy like Mexico.

Tanzania USA Mexico

1. **Production costs**

**TASK 1: Definition time**

|  |  |
| --- | --- |
| **Term** | **Definition/Formulae:** |
| Fixed costs: |  |
| Variable costs: |  |
| Total costs: |  |
| Average costs: |  |
| Total Revenue: |  |
| Profit (loss): |  |

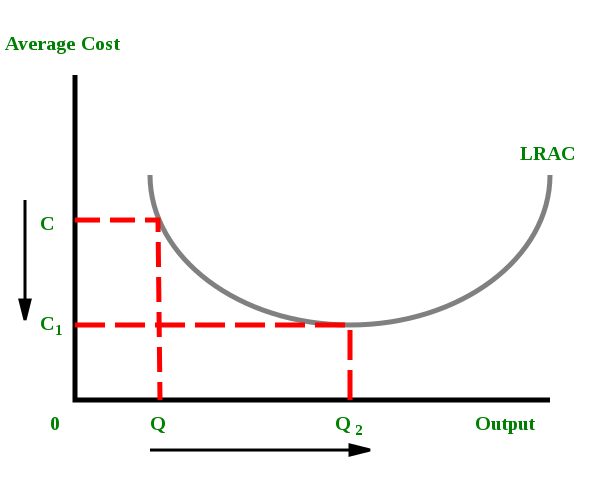
**TASK 2: Calculations**

A shampoo manufacturer has the following costs: $2 ingredients per bottle, $0.50 for each plastic bottle, $50,000 labour per year, $50,000 rent per year.

Each bottle of shampoo is sold for $5. If 100,000 bottles of shampoo are made and sold in one year, calculate:

|  |  |
| --- | --- |
| **Total Fixed costs:** |  |
| **Total Variable costs:** |  |
| **Total costs:** |  |
| **Average costs (at output of 100,000):** |  |
| **Total Revenue** |  |
| **Profit/Loss** |  |

1. **Long run costs- economies and diseconomies of scale**



**I\_\_\_\_\_\_\_\_\_\_\_\_\_ economies of scale are cost advantages that a firm gains as it expands.**

As output increases a\_\_\_\_\_\_\_\_\_\_\_ c\_\_\_\_\_\_\_\_\_\_ fall.

Diseconomies of scale will occur if the firm produces beyond Q2. Average costs will start to rise.

Internal economies of scale as a **pizza shop** grows and opens new outlets:

|  |  |
| --- | --- |
| **Purchasing:** | More raw m\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ such as flour & c\_\_\_\_\_\_\_\_\_\_\_ will be bought in bulk at a dis\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| **Mar\_\_\_\_\_\_\_\_\_\_** | Advertising costs will be spread out over more shops (and output) as more outlets open |
| **Managerial** | Specialist managerial staff will be employed such as a mar\_\_\_\_\_\_\_\_\_\_\_ Manager and acc\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| **Tec\_\_\_\_\_\_\_\_\_\_** | As one outlet increases production it is able to use its capital more efficiently- for example pizza ovens in use more frequently |
| **Risk- bearing** | New pizza outlets might open in new locations and/or the pizza shop starts selling other types of food. |
| **Financial** | Large firms are able to obtain lo\_\_\_\_\_\_\_\_ on more favourable terms with lower rates of in\_\_\_\_\_\_\_\_\_\_\_ |

**External economies of scale** are cost advantages that ***all*** firms in an industry experience as the in\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ grows. For example, **car manufacturers** in Detroit, USA benefit from being located close to each other:

|  |  |
| --- | --- |
| **Skilled l\_\_\_\_\_\_\_\_\_\_\_\_ available** | More motor vehicle workers and engineers are attracted to the area. Firms can also save on trai\_\_\_\_\_\_\_\_\_\_\_ costs if a worker has already been trained. |
| **Better in\_\_\_\_\_\_\_\_\_\_\_\_** | Governments will improve road/rail links to keep tra\_\_\_\_\_\_\_\_\_\_\_\_\_ costs low. In addition, vocational colleges could be set up in the area |
| **Access to sup\_\_\_\_\_\_\_\_\_\_\_** | Suppliers will be attracted to the area keeping the cost of raw m\_\_\_\_\_\_\_\_\_\_\_\_ transport low for the car companies. For example, glass, battery and steel manufacturers |
| **Co-op\_\_\_\_\_\_\_\_\_\_** | Firms may agree to establish a training college for mechanics or put money into expensive Res\_\_\_\_\_\_\_\_\_\_\_\_ & Dev\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |

Economies of scale can be used when describing one of the advantages of business growth. Diseconomies of scale can also be used when **evaluating** business growth.

**Diseconomies of scale** occur when a firm becomes too big to manage. There are **control and co-ordination** problems, **labour relations** may suffer as workers feel a sense of alienation (they don’t feel they belong or are valued by the firm) and **bureaucracy** (r\_\_\_\_\_\_ t\_\_\_\_\_\_\_\_\_) such as form filling might increase slowing down the decision making process.

**The Growth of firms**

Firms grow by either combining with another firm through a mer\_\_\_\_\_\_\_\_\_\_ or take\_\_\_\_\_\_\_\_\_\_\_\_\_, or simply grow by producing more stuff; internal growth.

This is another popular topic for 9 mark ‘Assess’ and 12 mark ‘Evaluate’ questions. Again, you need to be careful; ***what exactly is the*** question asking you to assess/evaluate?

Firstly, **reasons for growth:**

Other than to benefit from **economies of scale**, why else do firms want to grow?

1. **Sur\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**; bigger firms can cope with comp\_\_\_\_\_\_\_\_\_\_\_\_\_ better and have a better chance to survive a rec\_\_\_\_\_\_\_\_\_\_\_\_.
2. **Increased profit**; bigger firms sell more, have more rev\_\_\_\_\_\_\_\_\_\_\_ and therefore more profit
3. **Increased market share**; bigger firms can get more bra\_\_\_\_\_\_\_\_ awareness amongst customers and in overseas markets

What prevents firms from growing (**limitations to growth**)?

1. The aims of the business owner- some owners are quite content to remain sm\_\_\_\_\_\_\_\_
2. The s\_\_\_\_\_\_\_\_ of the market- some firms sell to only a few customers. They are limited by the number of customers they sell to.
3. Lack of f\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. Some firms find it difficult to obtain l\_\_\_\_\_\_\_\_\_ from banks as they are considered too ri\_\_\_\_\_\_\_\_\_ to lend to
4. D\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_- of scale- some very large firms are reluctant to grow further because they don’t want to experience higher a\_\_\_\_\_\_\_\_\_\_\_\_\_\_ costs due to poor lab\_\_\_\_\_\_\_\_\_\_\_\_\_\_ relations and bur\_\_\_\_\_\_\_\_\_\_\_\_\_\_
5. **Advantages and disadvantages of small and large firms**

|  |  |  |
| --- | --- | --- |
|  | **Advantages** | **Disadvantages** |
| **Large Firms:** | Lower costs therefore lower pr\_\_\_\_\_\_\_\_\_ for the consumer | Large firms can be inflexible to changing market conditions |
| Can dominate market therefore higher pro\_\_\_\_\_\_\_\_\_ for the firm | Diseconomies of scale:   * B\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ * Loss of control * Poor staff mo\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| Brand recognition & better chance of surviving during a rec\_\_\_\_\_\_\_\_\_\_\_\_\_ |
| **Small Firms:** | More fl\_\_\_\_\_\_\_\_\_\_ to changing consumer demands and market conditions | Higher costs as they can’t exploit EOS |
| Personal service for customers leading to consumer loy\_\_\_\_\_\_\_\_\_ | Lack of finance- low profits and an unwillingness of banks to lend make it difficult for small firms to inv\_\_\_\_\_\_\_\_\_\_\_ |
| Better lab\_\_\_\_\_\_\_\_\_\_\_\_ relations as often the owner is also the boss | Small firms are vul\_\_\_\_\_\_\_\_\_\_\_\_ to take overs and poor trading conditions |

There is a **LOT** of overlap between a question that asks you to discuss the benefits of growth and/or remaining small and the advantages and disadvantages of large & small firms. **THAT SAID**, you must ensure you read the question carefully and answer the question set appropriately.

For example, how would you answer the following two questions? (use **trigger** words):

1. ***Assess*** the importance of a lack of finance as the main reason that limits the growth of a firm. (9 marks)

Argument agreeing:

Argument disagreeing:

1. ‘The proposed merger of *Asda* and *Sainsbury’s* supermarket chains in the UK will benefit consumers.’ ***Assess*** this statement. (9 marks)

Argument agreeing:

Argument disagreeing: