IGCSE Business Studies

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Chapter 1

The Purpose of Business Activity

Identifying Goods and Services

- Think of this situation
  - You are at a supermarket. What do you see?
  - Make a list of what you see.

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Identifying Goods and Services

- Meat
- Poultry
- Dairy Products
- Confectionary
- Bread
- Pasta, Rice

Goods are tangible products

- Cashier
- Helper putting items in bags
- Valet
- Customer Service
- Security

Services are intangible products

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What is a need?

A good or service essential for living.

Can you think of an example?

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Food **Clean Water** **Clothing** **Shelter**

What is a want?

A good of service which people would like to have, but is not essential for living.

Can you think of an example?

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Salmon Fillet

Burberry bag

iPhone

Luxury home

- One of life's questions… do you have <u>EVERYTHING</u> that you want?

☑ Yes → Then you must be very lucky **and** very rich!

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☑ No → Then you're a normal part of the world we're living in!

The Real Cause of the Economic Problem

- The real cause of the shortage of goods and services in a country is the too few **Factors of Production**.

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- **Factors of Production** are those resources needed to produce the goods and services.
    1. **Land**
    2. **Labour**
    3. **Capital**
    4. **Enterprise**

Our wants are unlimited…

… which brings us to answer these two very important questions:

1. Why are there so many wants and needs that we cannot satisfy?

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2. Why are there millions of people living in poverty in many places?

Most common answer: 'There is not enough money'

1 Land

- All natural resources provided by nature.

Metals

Minerals

2 Labour

- This is the efforts of people needed to make products.

3 Capital

- This is the finance, machinery and equipment needed for the manufacture of goods.

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4 Enterprise

- This is the **skill** and **risk-taking ability** of the **person** who brings the other resources or factors of production *together* to produce a good or service.

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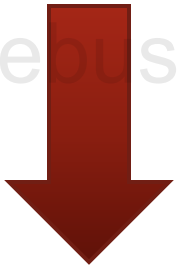

- These people are called ***entrepreneurs.***

Entrepreneurs

Steve Jobs

Co-founder of Apple Inc.

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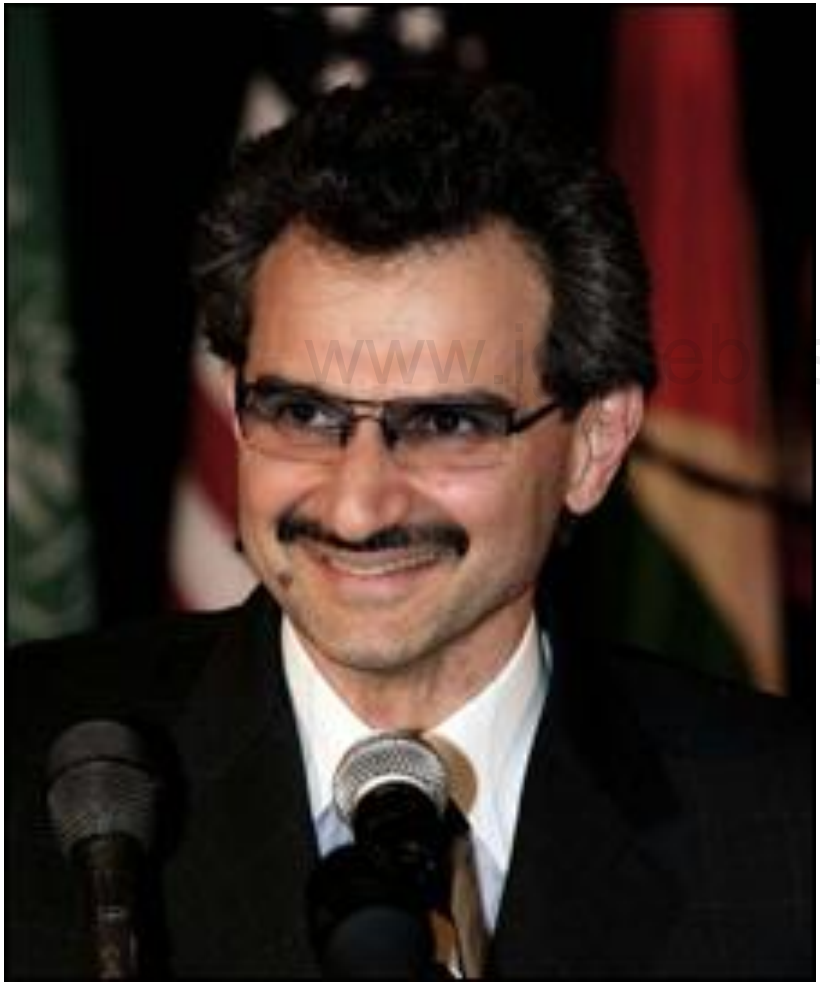
Entrepreneurs



Prince Al Walid Bin Talal

Owner of Kingdom Holdings Company

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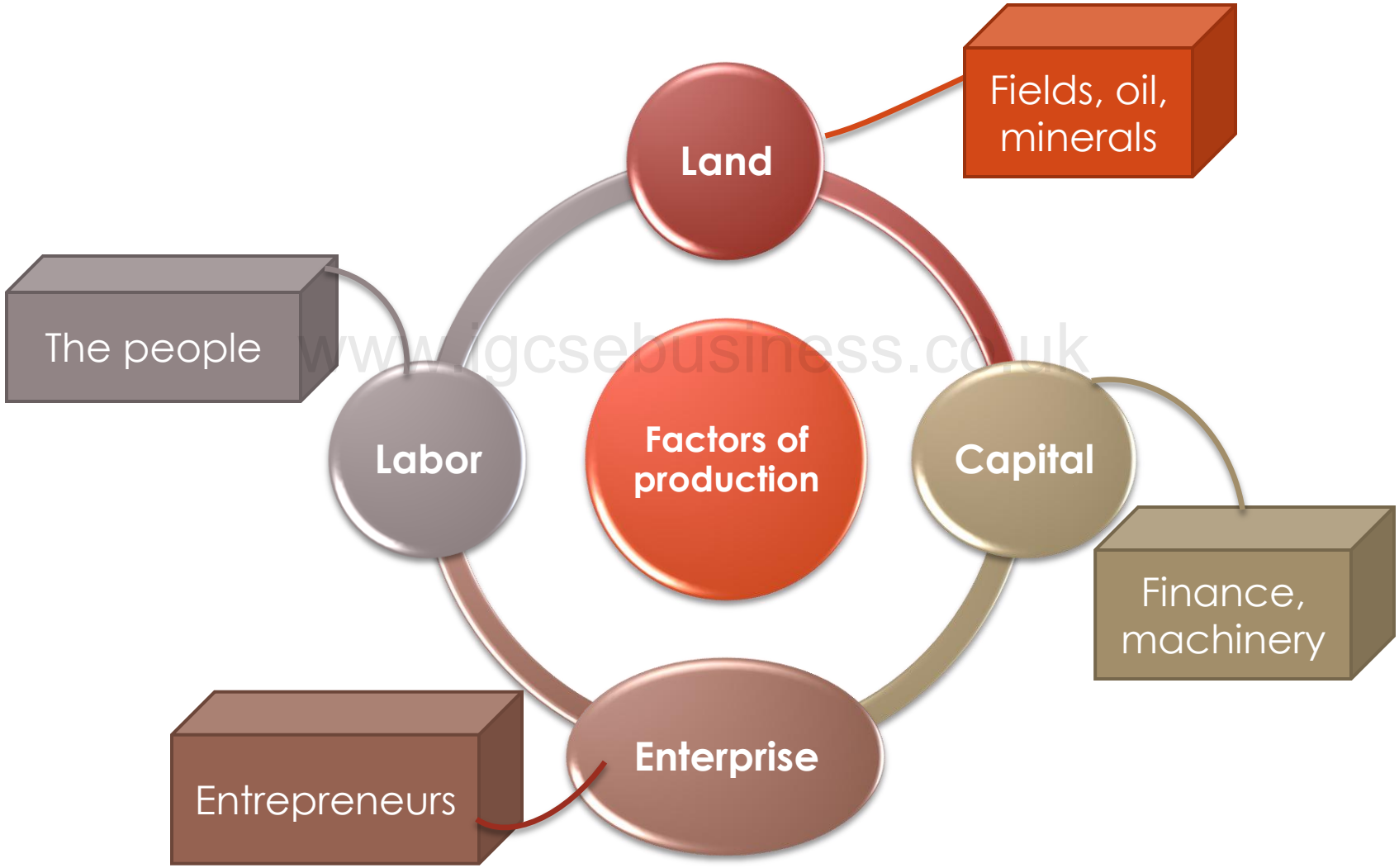
The Factors of Production



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Back to our two important questions

1. Why are there so many wants and needs that we cannot satisfy?

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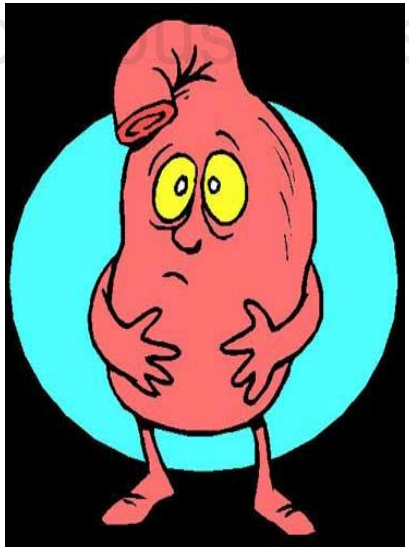
2. Why are there millions of people living in poverty in many places?

The Factors of Production *(cont'd)*

- These resources are *limited in supply…* *creating* ***scarcity***.

+



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Unlimited wants **Limited resources** **Scarcity**

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Limited resources: the need to choose

- We make choices every day.

- We have to *decide* which wants will be satisfied and which won't. .. This is called an **opportunity cost**.

Limited resources: the need to choose

- An **opportunity cost** is the next best alternative given up by choosing another item.

- Trip or Car. If we choose the car then the trip is the opportunity cost.

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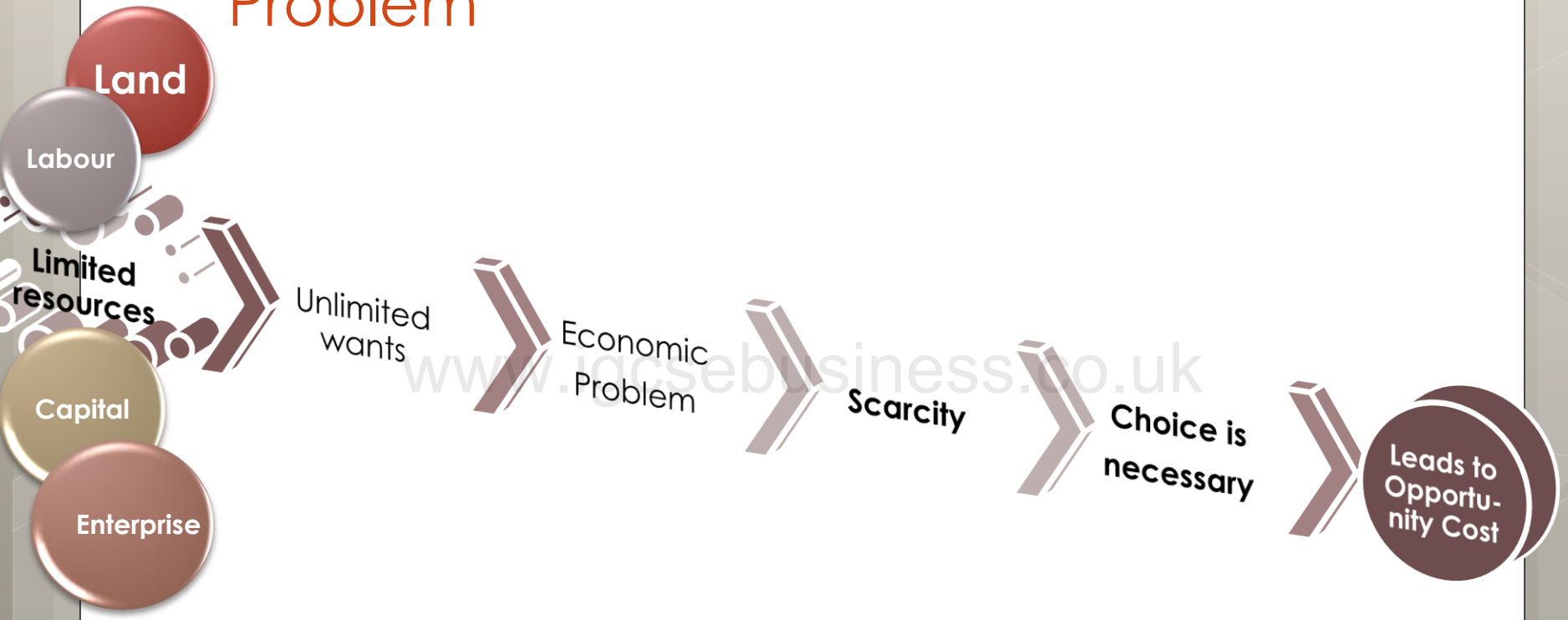
Revision Summary: The Economic Problem



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Activity: Paper Decoration

How many yellow papers can you cut, glue and number on the purple sheet?

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1. Cut the yellow pieces into 4 even pieces
2. Fold them in half
3. Glue them on the purple paper
4. Number them

Time Allocated: 5 minutes

Making the best use of limited resources: Specialisation

- Since our resources are limited, we need to utilize them in the most efficient ways possible.
- Machinery is now more widely used and specialised to perform only one task.
- Larger firms are now more common than they used to be and these often employ workers skilled in a particular task.

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Case Study, page 2: The Chain of Production

1. Wood arrives to the factory
2. The wood for 20 tables is cut by a specialist machine
3. Carpenters assemble the tables
4. The tables are finished in the polishing department
5. A transport business collects the tables to deliver them to furniture retailers

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Specialisation: Advantages and Disadvantages

Advantages

- ✓ Workers are trained in one task and specialise in this- this increases efficiency and output
- ✓ Less time is wasted to moving from one work area to another
- ✓ Increasing job opportunities for other specialised firms in the chain of production

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Specialisation: Advantages and Disadvantages

Disadvantages

- Workers can become bored doing just one job – efficiency might fall
- If one worker is absent and no one else can do the job, production might be stopped
- Firms in the chain of production might prove to be unreliable.

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Homework Activity 1.2: Specialisation

- Using another product of your choice, explain, with simple illustrations, how division of labour or specialisation could be used to make the product.
- What are the advantages and disadvantages of your chosen business?
- Group or single-handed.
- Posters or loose-leaf A4 Paper.

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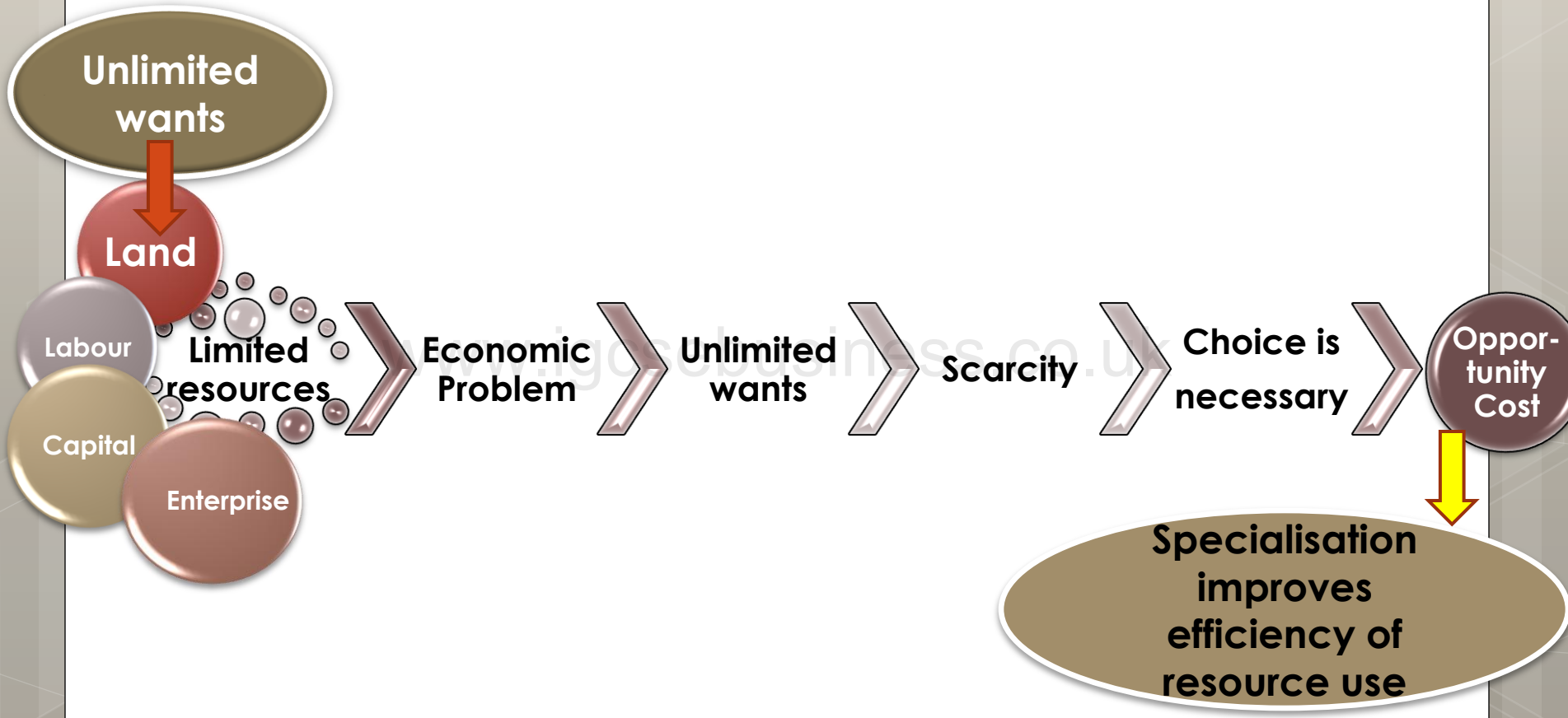
Why is business activity needed?



Businesses combine factors of production to make products (goods and services) which satisfy people's wants.

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Business Activity does the following:

- **Combines** scarce factors of production in order to **produce** goods and services.

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- **Produces** those goods and services which are needed to **satisfy** the needs and wants of the population.

- **Employs** people as workers and **pays** them wages to allow them to **consume** products made by other people.

Business Objectives

- An aim or a target to work towards.

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- Businesses are started by
  - either People…
  - or Governments

  for different reasons and purposes.

What do you think are possible reasons for starting a business?

Business Objectives

- The most common objectives are:
  1. To make a profit
  2. To increase added value
  3. To expand the business
  4. To achieve business survival
  5. To provide a service to the community

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#1

Business Objectives: Profit

- Businesses owned by *private individuals* rather than the *government* are run to make profits.

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- The owners will each take a share of the profits.
- Owners of a business will aim for a satisfactory level of profits.
- Profits are needed to return to the owners… without profits, they are likely to close the business.

#2

Business Objectives: Value added

Can we think of what potatoes can be used for to make them more valuable?

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#2

Business Objectives: Value added

Materials = $10

Selling price= $35

Value added = $25

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#2

Business Objectives: Value added

- **Value Added is not the same as profit**.
- It is the difference between the **selling price** of a completed item and the **value of the inputs or bought in materials and components.**
- It is the value that is added to the raw materials to turn them into something more valuable to the consumer.
- **Profit includes ALL costs**.

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#2

Business Objectives: Value added

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Materials = $10

Selling price= $35

Value added = $25

Materials = $10

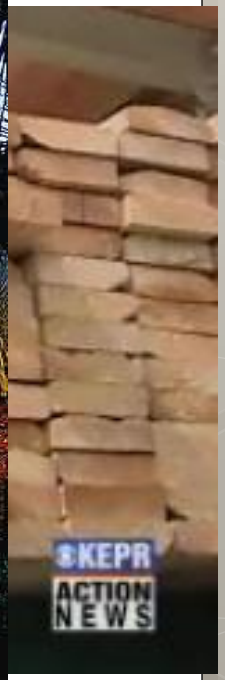
Other Costs = $10

Selling price= $35

Profit= $15

#2

Business Objectives: Value added



#2

Business Objectives: Value added

Q What is the point of increasing 'added value'?

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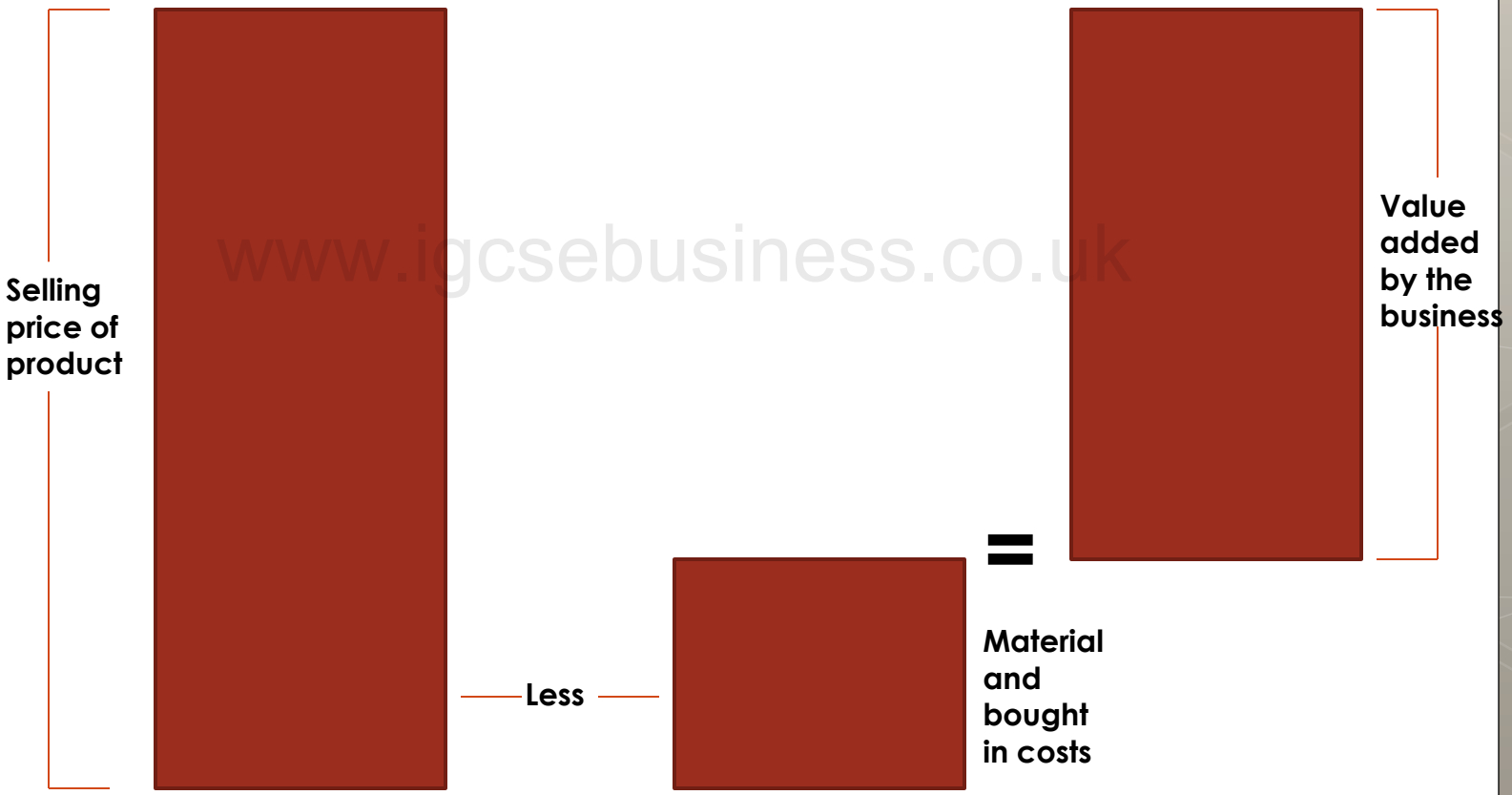
↑Value added means … → Output rises → Sells good at a higher price → Earn higher profits

#2

Business Objectives: Value added



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#3

Business Objectives: Growth

- Owners and managers of a business may aim for growth in the size for a number of reasons:

Employees
Higher job security

Managers
Higher salaries and status

Owners
Opens up *new possibilities* and *spread the risk* by *moving into new products and markets*

Enterprise
Higher market share from growth in sales

Cost advantages from the economies of scale

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#3

Business Objectives: Growth

- Growth will only be achieved if the business's consumers are satisfied with the products or services being provided.

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#4

Business Objectives: Survival

- A firm is always trying to survive

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- Possible threats to the business:
  - A firm recently launching in the business
  - Economy is in financial trouble (recession)
  - New competition in the market

#5

Business Objectives: Providing a Service

- In some countries, important businesses are owned by the government.

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- The main aim of these businesses is focused towards providing a service rather than making profit.
  - For example, water or electricity supply, transportation, educational institutions, public hospitals.

Business Objectives: When a conflict rises

- Businesses are not as clear-cut as this and are usually aiming to satisfy more than one party as shown below

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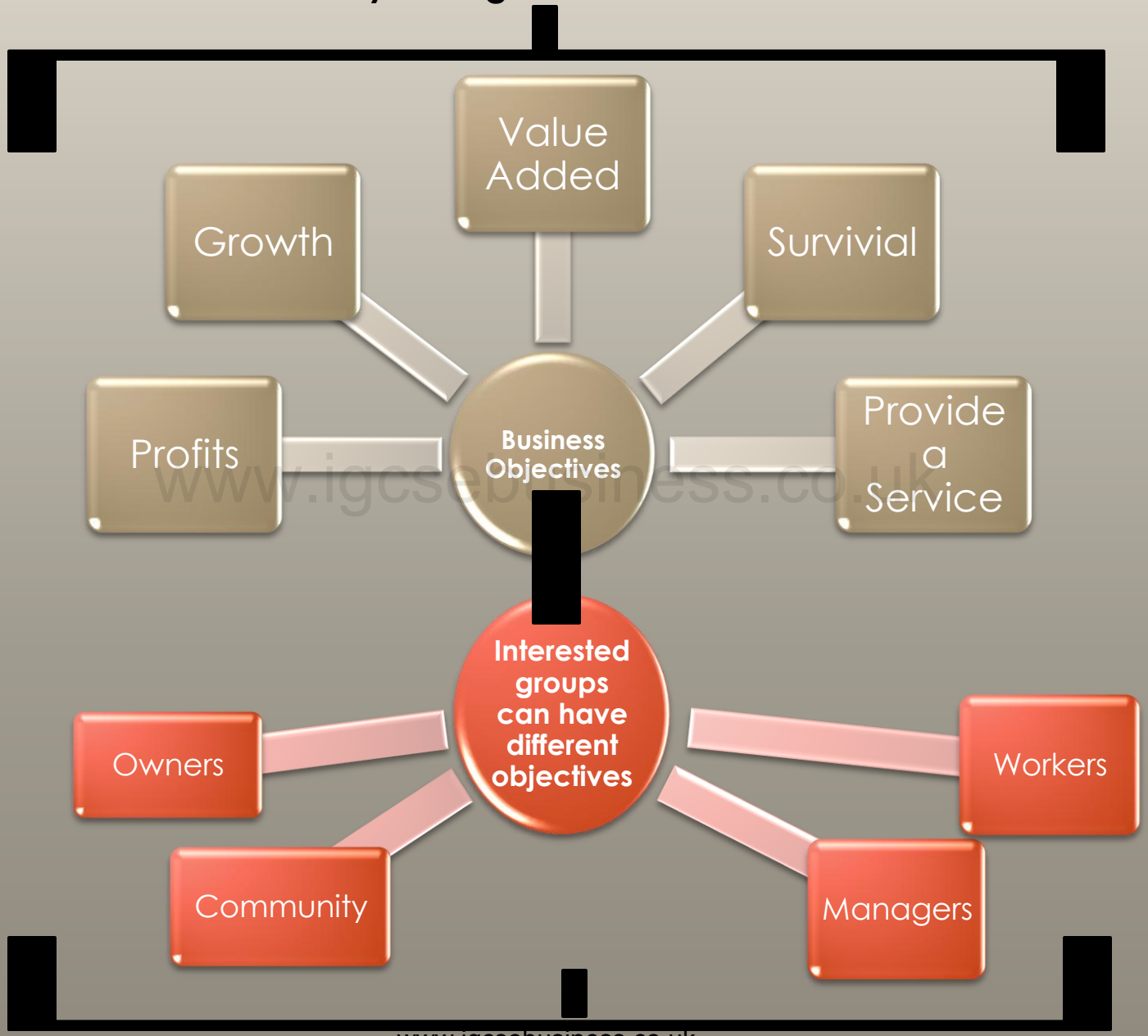
Revision Summary: Business Objectives

May change over time



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Conflict can occur

Who is interested in TIS?

Owner

Management

The Community

Government

Customers

Employees

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Who is interested in the business?

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1. **Owners**
2. **Workers**
3. **Managers**
4. **Consumers**
5. **Government**
6. **The community as a whole**

These groups are called the stakeholders of the business. They have a direct interest in the performance and the activities of a business.

Stakeholders: Owners

- They…
  - Are the risk-takers!
    - Put capital up (during setup and expansion)
    - Take a share of profits if there is success
    - If the business fails, they will lose the money they invested.

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- And so their objectives are…
  1. **They want a share of the profits so that they may gain a rate of the return on their investment**
  2. **Growth of the business so that the value of their investment increases**

Stakeholders: Workers

- They…
  - Are the employees!
    - Follow management regulations.
    - Need training for the work.
    - Employed full or part-time or temporarily or permanent.

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- And so their objectives are…
  1. **Regular *payment* for their jobs.**
  2. ***Job security***
  3. **A job that gives *satisfaction* and provides *motivation***

Stakeholders: Managers

- They…
  - Are also employees!
    - Control the work of others.
    - Make important ***decisions***.
      - If a decision is successful, it could lead to great results.
      - If a bad decision is made, it could lead to failure.

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- And so their objectives are…
  1. **High *salaries* for their jobs.**
  2. ***Job security***
  3. **Growth of the business so that managers can control a bigger and better business. They seek *power* and *status*.**

Stakeholders: Customers

- They…
  - Buy the goods and services that the business produces/provides.
  - Most successful businesses often find out ***what the customers want <u>before</u>*** they start making the goods and the services. (Market research).

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- And so their objectives are…
  1. ***Safe*** **and** ***reliable*** **products.**
  2. ***Value*** **for money**
  3. **Well-designed products of good** ***quality***
  4. ***Reliability*** **of service and maintenance**

Stakeholders: Government

- They…
  - Are responsible for the economy of the country.
  - They pass laws to protect workers and consumers.

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- And so their objectives are…
  1. ***Successful businesses which will employ workers, pay taxes and increase the country's output.***
  2. **Expect firms to stay within the laws.**

Stakeholders: The Whole Community

- They…
  - Are greatly affected by business activity.
  - Businesses provide jobs, allowing higher standards of living.

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- And so their objectives are…
  1. ***Jobs*** **for the working population.**
  2. **Production that does not damage the environment.**
  3. **Safe products that are *socially responsible*.**

So…. How can we make everyone satisfied?

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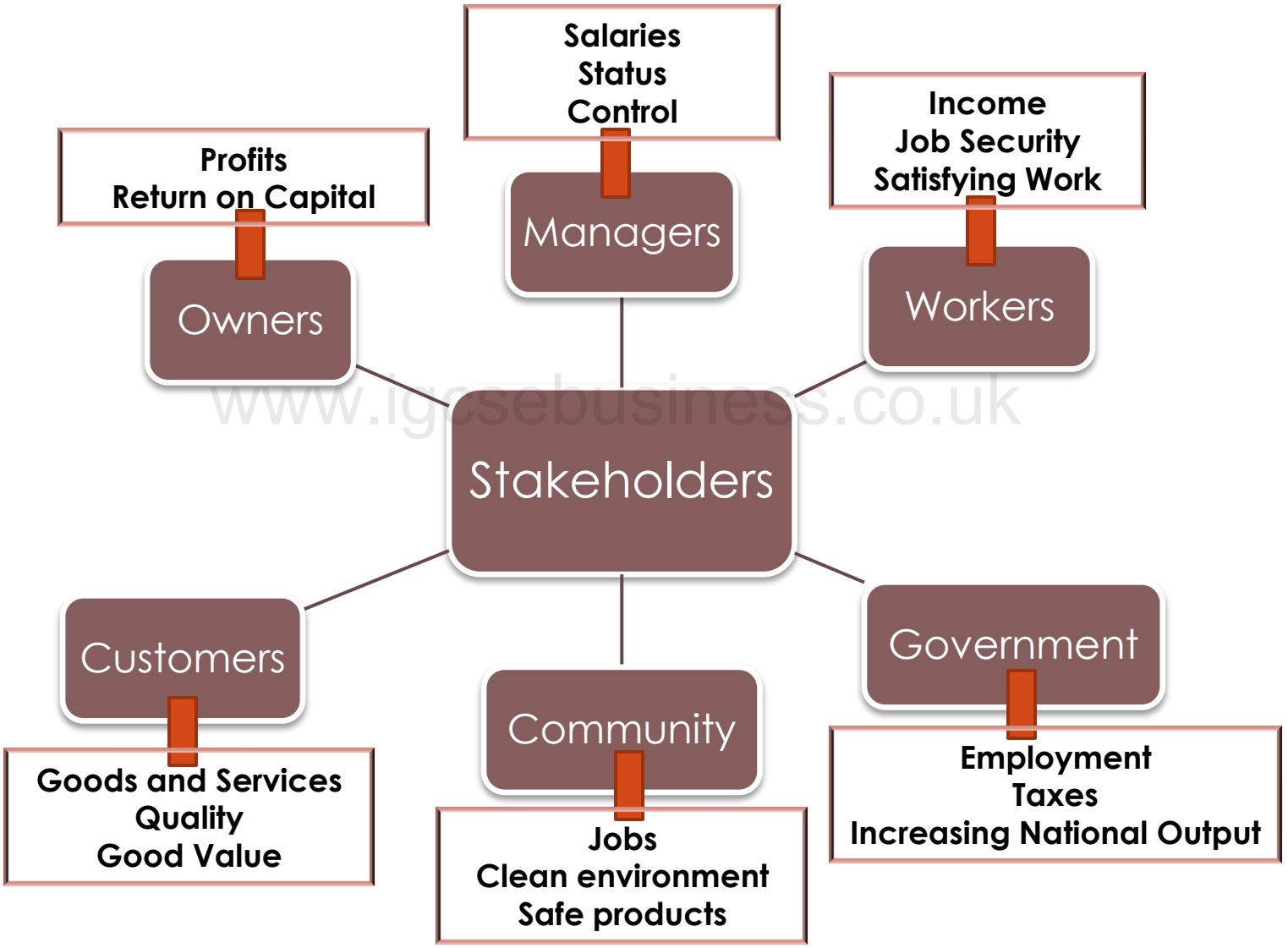
WE CAN'T… Managers therefore MUST compromise when they decide on the best objectives for the business.

Revision Summary:

Business Stakeholders and their aims



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Booklet Past Papers: Model Answers

1. Mirex is a large company that sells a range of insurance policies to businesses and the general public. The market for insurance is very competitive and Mirex are always looking for ways to cut their costs. Recently they have invested heavily in new technology.

The management of Mirex could consider the needs of all stakeholders when making decisions.

a. Explain what is meant by a stakeholder.

2 marks

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Booklet Past Papers: Model Answers

- A stakeholder is any person or group with a direct interest in the performance and activities of a business. For example, owners, managers, workers, government, customers and the local community.

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1 mark for the definition, 1 mark for the example.

Booklet Past Papers: Model Answers

1. The management of Wang Electricals are thinking of expanding their business into another country. Two alternative methods are being considered, namely either to set up a franchise or to operate a joint venture.

The stakeholders of Wang Electricals are watching the expansion plans with interest.

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a. List two stakeholder groups.

Stakeholder group 1:_____

Stakeholder group 2:_____ **2 marks**

b. Do you think that these two stakeholder groups would benefit from the company's expansion? Justify your answer. **4 marks**

Booklet Past Papers: Model Answers

a. Two stakeholder groups:

Owners – management – employees-government – customers – community

2 marks; 1 mark for each example.

b. Growth is the expansion of a business. This may be beneficial to the various stakeholders.

- Owners are stakeholders who invest their money in the business and take risk. Growth is important for them as it is an indication that the business is successful and is seeking for more market share, new possibilities and new markets. This will benefit them in the long run as they will gain a share of the profits and a rate of return on the money put into the business. Their value of investments will also increase. Also more status, prestige and control of a larger business will occur. Whereas, in the short run they will not be satisfied as expansion may require that a high portion of profits will be ploughed back in the business which means less profits will be given to them in the short run.

2 marks for each example and justification.

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Booklet Past Papers: Model Answers

2)b)

Managers are employees who control the work of others. They are the ones that take important decisions which if successful will lead to the growth of the business. Growth would benefit them since they will gain higher salaries. Their jobs will be more secure. They will be also able to control a bigger and more known business which will give them more status and power.

Workers are employed in the business to perform certain tasks. If the business is not successful they will be made redundant. Accordingly growth of business will benefit them as it will allow them to take regular payment for their work, more secure jobs and be able to do tasks that give them more satisfaction and motivation.

The Government is responsible for the whole economy. It wants businesses to succeed and grow as they will employ more workers, pay taxes and increase the country's output / GDP.

The customers are important to every business because without them businesses will not be able to sell their products and succeed. Success and growth of the business may lead to providing them with safe , reliable good quality products with reasonable prices.

However, if the new venture failed then all stakeholders would lose out. So some risks are attached to the growth of a business.

Booklet Past Papers: Model Answers

3. J.T. Enterprises is a large private sector business that owns a number of farms in country A. The business breeds a variety of animals such as cows and sheep as well as growing crops. They employ many workers and the business is successful and profitable.

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Using an example from J.T. Enterprises explain what is meant by added value.

3 marks

Booklet Past Papers: Model Answers

3) Value added is the difference between the selling price of a product or service and the cost of bought in materials and components. An example is the difference between the selling price of cows and sheep and the cost of rearing them.

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2 marks for the definition, 1 mark for the example.

Booklet Past Papers: Model Answers

4. Isaiah had been to college to study business. His tutors told him that added value was very important if a business was to be successful and profitable. Table 2 shows a task given to Isaiah by his tutors.

Type of Business	Raw Material	Process of Added Value	End Product or Service
Petrol Supplier	Oil	Oil Refining	Petrol
Restaurant			Meal

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a. Complete Table 2 above by filling in the two gaps for the restaurant business.

2 marks

Booklet Past Papers: Model Answers

Type of Business	Raw Material	Process of Added Value	End Product or Service
Petrol Supplier	Oil	Oil Refining	Petrol
Restaurant	**Food**	**Cooking**	Meal

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b. What is meant by 'added value?'

It is the difference between selling price of a product or service and the cost of bought in materials and components.

Booklet Past Papers: Model Answers

c. Do you think that if Isaiah adds value then his business will be successful and profitable? Justify your answer.

Value is added to materials and components by working on them and turning them into much more expensive finished articles.

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The firm will have extra costs to pay, but they should be able to increase price by more than costs.

This means that the firm's value of output rises as it sells goods in a more expensive market and it has a chance to earn higher profits as long as it increases prices by more than costs.

Added value is a step towards being profitable. However, being profitable is more than just making profit. It implies getting a return on capital that is acceptable. If the volume of work that he carries out is very small then ,although value is added the total outcome may be unsatisfactory.

What is the point of increasing 'added value'?

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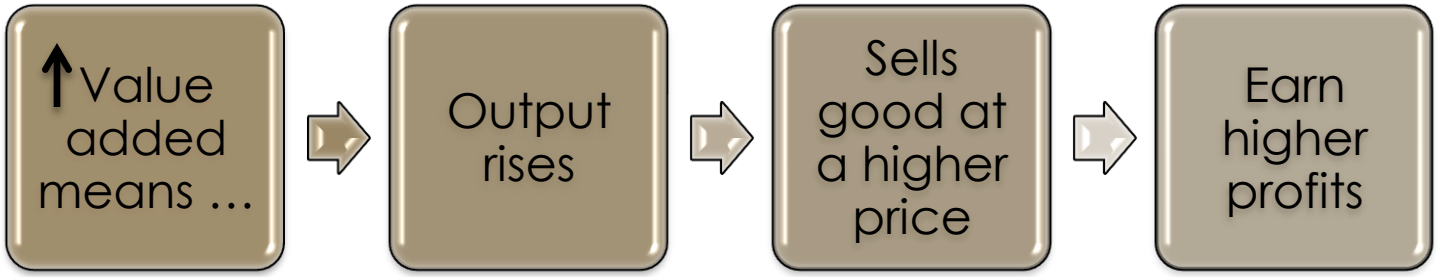

Thank You