

Why do businesses exist, and where do they fit in the economy?

Syllabus sections 1.1 Business activity · 1.2 Economic sectors

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Running case: Westbridge Bags · 55 minutes

How this topic is examined

Paper 1 • Short answer and data response

Define [2] • Identify [2] • Calculate [2]

Outline [4] • Explain [6]

Do you think... Justify your answer [6]

Paper 2 • Case study

Explain... [8]

Consider... Which should the business choose? Justify your answer [12]

Typical questions on this topic

Define 'added value', 'opportunity cost', 'specialisation' or 'social enterprise'. [2]

Define 'primary', 'secondary', 'tertiary', 'public' or 'private' sector. [2]

Explain two ways a business could increase added value. [6] / [8]

Explain two benefits and two drawbacks of specialisation. [8]

Using the data, explain two reasons for the changing importance of the primary sector. [6]

Consider increasing prices or reducing raw material costs. Which should the business choose? [12]

By the end of this lecture you can...

- 1 Explain needs, wants, scarcity and opportunity cost, with an example.
- 2 Explain specialisation and the division of labour, and their benefits and drawbacks.
- 3 Calculate added value and explain how a business can increase it.
- 4 Define a social enterprise and explain its objectives.
- 5 Classify activity into primary, secondary and tertiary sectors and explain why their importance changes.
- 6 Distinguish the public and private sectors in a mixed economy.

Starter: what do you already know?

- Q1** Name one thing you need and one thing you want.
- Q2** A shop sells a shirt for \$20. The cloth cost \$6. What has the shop “added”?
- Q3** Give an example of a business that grows or extracts something from nature.
- Q4** Name one organisation in your country owned by the government.
- Q5** Why do workers in a factory often do only one task?

Meet Hannah and Westbridge Bags

The decision

Hannah has started Westbridge Bags, a small business making durable, affordable school bags.

She has limited savings, a small team and one workshop.

Every choice she makes, from what to make and how, to who to sell to, uses scarce resources.

Questions we will answer today

- 1 What need or want does a school bag satisfy?
- 2 What does Hannah give up if she spends her savings on a sewing machine?
- 3 How can she sell a bag for more than its materials cost?
- 4 Is Westbridge in the primary, secondary or tertiary sector?

Case study: Westbridge Bags

Background

Hannah was a school teacher. She noticed that cheap school bags often tore within a few months, so parents had to buy two or three a year.

She used her savings to start Westbridge Bags, a small business that designs and sews durable, affordable school bags in a rented workshop.

Westbridge sells bags online to parents and through two local school-supplies shops. Each bag sells for \$28. The fabric, zip, lining and label for one bag cost \$12.

Hannah now has \$2,000 to spend. She can buy a faster sewing machine OR pay for professional product photos for her website. She cannot afford both.

Resources Westbridge uses

Land

Fabric fibres; the workshop site

Labour

Hannah and her sewing staff

Capital

Sewing machines, cutting tables, a van

Enterprise

Hannah's idea, risk and decisions

Needs, wants and the problem of scarcity

NEEDS

Goods and services essential for survival: food, water, shelter, clothing.



WANTS

Goods and services people would like to have but can live without: a phone, a holiday.



SCARCITY

There are not enough resources (land, labour, capital, enterprise) to satisfy everyone's unlimited wants.

So every person, business and government must make CHOICES

Unlimited wants + limited resources → choice → something is given up. That “something” is the opportunity cost.

Opportunity cost: the next best alternative given up

Definition Opportunity cost is the next best alternative given up when a choice is made.

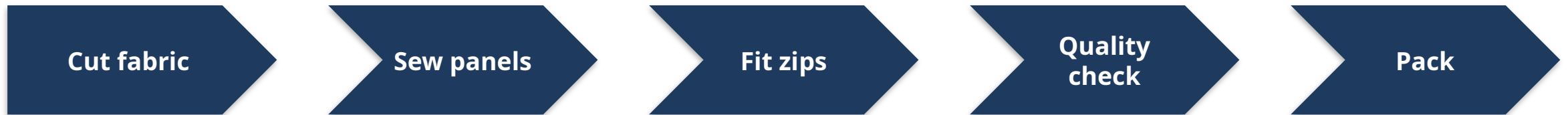


Opportunity cost = the product photos she cannot now buy, not the \$2,000.

Exam tip: name the alternative given up. “The money spent” scores 0.

Specialisation and the division of labour

Specialisation: people, businesses or regions concentrate on what they do best. **Division of labour:** production is split into separate tasks, each done by a different worker.



Westbridge's production line: one worker per task

Benefits

- Workers become skilled and faster → higher output
- Less training needed for one task
- Easier to use specialist machines
- Lower cost per bag

Drawbacks

- Repetitive work → boredom, lower motivation
- If one stage stops, the whole line stops
- Workers have few skills, so less flexible
- Quality may fall if workers lose interest

Check 1

1

Define opportunity cost.

Answer: The next best alternative given up when a choice is made.

2

Hannah could rent a stall or advertise online, and chooses the stall. What is the opportunity cost?

Answer: The online advertising she gave up.

3

Give one drawback of the division of labour for Westbridge.

Answer: Repetitive tasks can demotivate workers, so output or quality falls.

What does a business actually do?



Business activity: combining scarce resources to produce goods and services that satisfy needs and wants.

A business may aim to make a profit, survive, grow, increase market share or meet a social purpose.

The value it creates is measured by added value: what the customer pays minus what the business paid for bought-in materials.

Added value: the worked calculation

Added value = selling price – cost of bought-in materials and components

Selling price of one Westbridge bag	\$28.00
Fabric and lining	\$8.50
Zip and label	\$3.50
Total bought-in materials	\$12.00
Added value per bag	\$16.00

Added value ≠ profit

Wages, rent and electricity are NOT subtracted.

Added value must also pay for those costs. What is left after all costs is profit.

How can a business increase added value?

1 Raise the price customers will pay

- Build a brand image
- Improve quality or design
- Better packaging
- Add a service, e.g. personalisation or delivery
- Convenience, e.g. selling online

2 Reduce the cost of bought-in materials

- Buy in bulk for discounts
- Find a cheaper supplier
- Cut waste in production
- Use cheaper materials
(careful: quality may fall)

The trade-off examiners reward: a higher price only works if customers see extra value; cheaper materials only work if quality and reputation are protected. **“It depends on...”** is the start of evaluation.

Social enterprise

Definition A business with social objectives that reinvests most of its surplus to achieve them, rather than paying it all to owners.

Social objectives

e.g. employing people who struggle to find work

Environmental objectives

e.g. reducing waste, protecting nature

Financial objectives

e.g. making a surplus so it survives and grows

Compare: a social enterprise still sells goods and services and must cover its costs; it is not a charity relying on donations.

If Westbridge became a social enterprise: it could give one bag to a school in need for every ten sold, and reinvest its surplus in training young people who struggle to find work.

Check 2

1 A juice bottle sells for \$2.40. Mangoes cost \$0.70 and the bottle costs \$0.35. Calculate the added value.

Answer: $\$2.40 - (\$0.70 + \$0.35) = \$1.35$

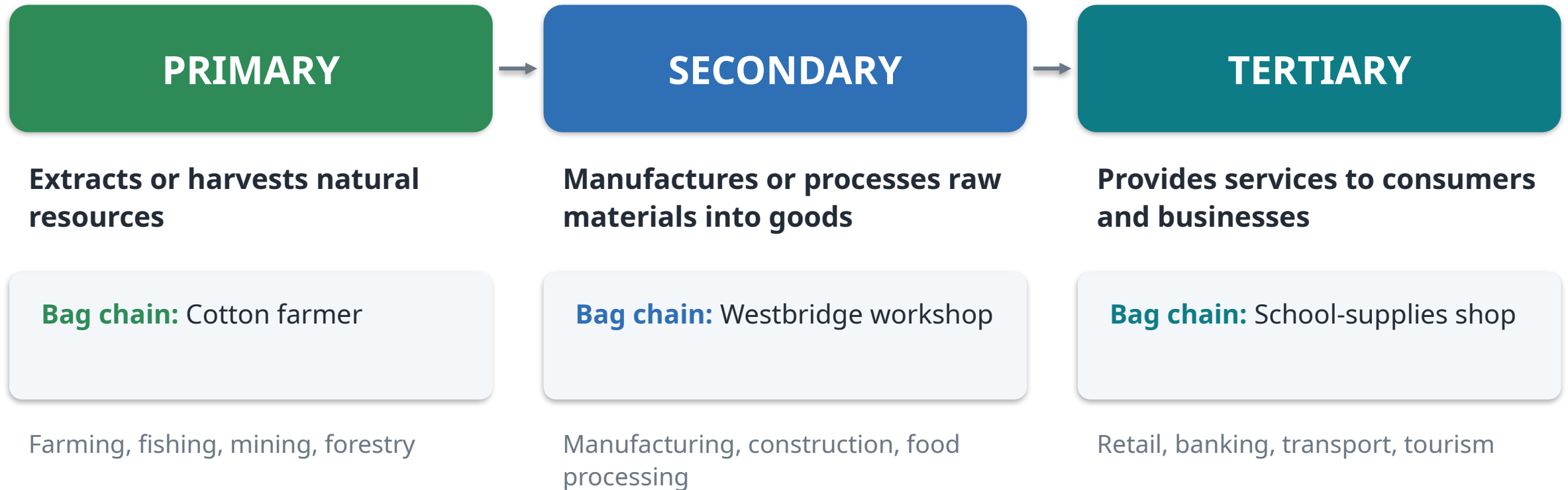
2 State two ways a bakery could increase added value.

Answer: Better packaging or branding; cheaper flour bought in bulk; add delivery.

3 What two ideas must a full definition of social enterprise include?

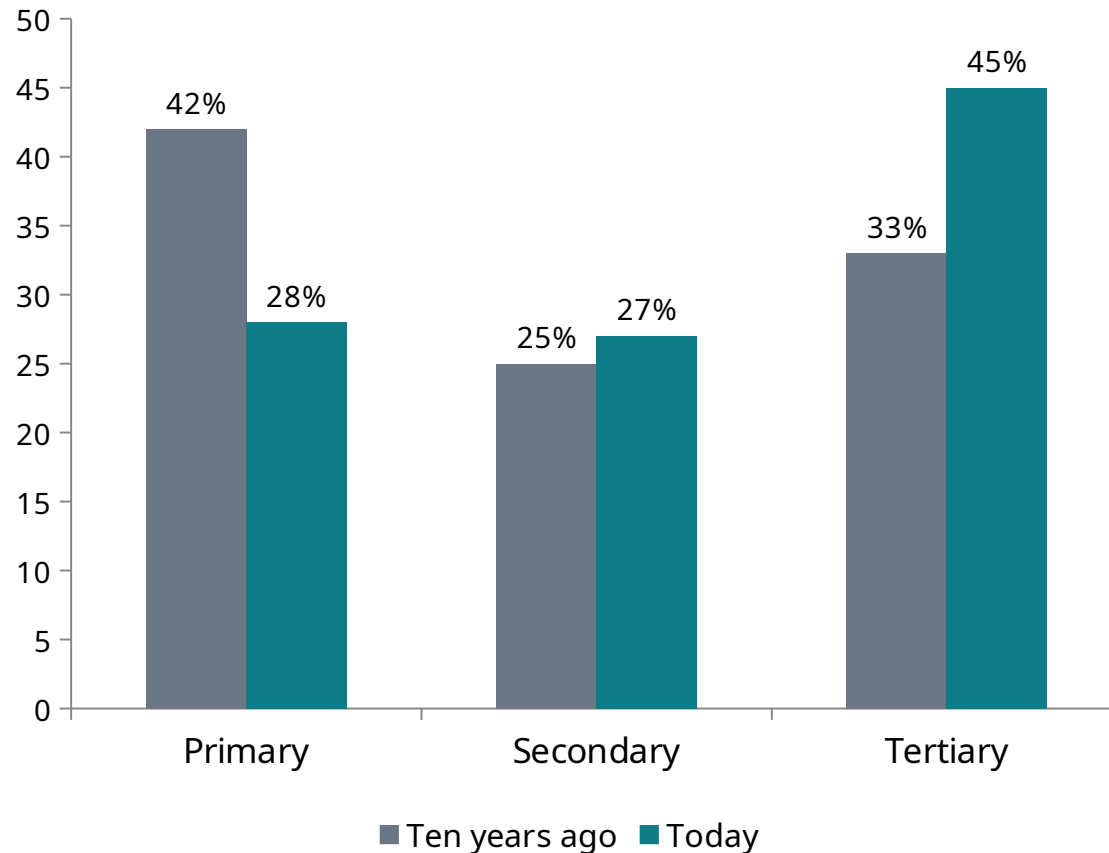
Answer: Social or environmental objectives, AND reinvesting the surplus.

Three economic sectors: one chain of production



Exam tip: construction is SECONDARY. Examples alone score 1 mark at most; give the definition first.

Why does the importance of each sector change?



% of workers by sector in country X (example data)

1

Rising incomes: People spend more on services such as tourism and restaurants.

2

Technology in farming: Machines replace farm workers, so fewer are needed.

3

Cheaper imports: Raw materials or goods from abroad replace local production.

4

Resources run out: Mines and fisheries become exhausted.

5

Better education: Workers move into higher-paid service jobs.

Public sector, private sector and the mixed economy

Private sector

Owned and controlled by individuals or groups of individuals

Main aim usually profit

Examples: sole traders, companies, Westbridge Bags

Decisions made by owners or managers

Public sector

Owned and controlled by the government (state)

Aims: provide essential services, jobs, fairness

Examples: state schools, hospitals, national railway

Financed mainly by taxes

Mixed economy: resources are owned and allocated by BOTH the private and public sectors, which is true of almost every country today.

Trap: a public limited company (plc) is in the PRIVATE sector.

Check 3

1

Classify each one: a fishing company, a car factory, a bank, a building firm.

Answer: Primary, secondary, tertiary, secondary

2

Give two reasons why the tertiary sector grows as a country develops.

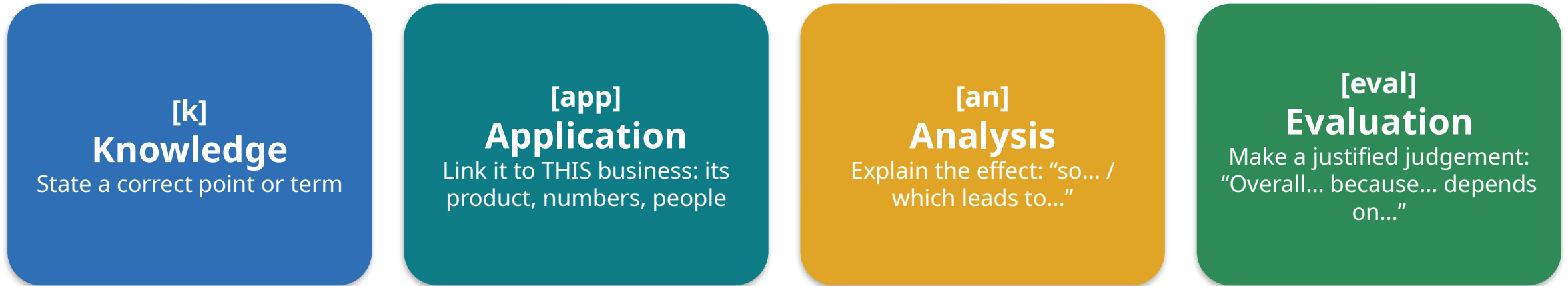
Answer: Rising incomes mean more spending on services; technology reduces the workers needed in the primary and secondary sectors.

3

A plc is in the public sector. True or false?

Answer: False. It is owned by private shareholders.

How you earn the marks



Define	[2]	k only. Full definition = 2 marks
Outline (two)	[4]	k + app for each point
Explain (two)	[6]	k + app + an for each point
Do you think... Justify	[6]	2 k + 2 an + 2 eval. No application marks
Paper 2: Explain	[8]	each point identified, then explained in context
Paper 2: Consider... Which?	[12]	Levels: discuss both options in context, then justify and say why the other is rejected

Worked answer: Explain [6]

Exam-style question Explain one benefit and one drawback to KFB of using the division of labour in its factory. [6]

The business: KFB is a family business in country Z that turns mangoes into bottled juice. Each of its 30 factory workers does one task only, such as washing fruit, filling bottles or labelling.

Benefit: **Workers become skilled and quicker at one task** (k), **such as filling bottles of mango juice** (app), **so more bottles are produced each hour, which lowers the cost per bottle** (an).

Drawback: **Doing the same task all day is repetitive and boring** (k), **so KFB's 30 factory workers may become demotivated** (app), **which could reduce productivity and the quality of the juice, increasing waste** (an).

6/6 because: each point has a term, a link to KFB and a consequence. Without the application (mango juice, 30 workers) the maximum would be 4/6.

Worked answer: Do you think... Justify [6]

Exam-style question Do you think increasing price is the best way for a business to increase added value? Justify your answer. [6]

Note: This is a general question, so there is no business to apply your answer to. Focus on analysis and a clear judgement.

Increasing price raises the revenue from each unit (k) **without increasing costs**, so added value per unit rises **immediately** (an). However, **customers may buy from cheaper competitors** (k), **so sales could fall and total added value may drop** (an).

Overall, raising price is best only if the business has a strong brand that customers value, because they will keep buying. If products are similar to rivals', cutting material costs without lowering quality is safer. (eval ×2)

Evaluation formula: decision + because + "it depends on...". Don't sit on the fence.

Where students lose marks

✗ Added value = profit

Added value only subtracts bought-in materials, not wages or rent.

✗ Examples instead of definitions

“Tertiary = banks” scores 1 at most. Define first, then give an example.

✗ Opportunity cost = the money

Name the next best ALTERNATIVE given up.

✗ No application in “Explain” answers

Use the business’s product, numbers and people in every point.

✗ Fence-sitting in “Do you think” answers

A judgement with no “because” earns no evaluation marks.

✗ plc = public sector

A plc is privately owned by shareholders.

Exam drill: try it under time

Exam-style question

Country X is a developing country. In the past most workers were farmers. Tourism is now growing quickly.

% of workers by sector: Primary 42% → 28% · Secondary 25% → 27% · Tertiary 33% → 45% (ten years ago → today)

- (a) Define 'tertiary sector'. [2]
- (b) Identify two examples, other than farming, of primary sector activity. [2]
- (c) Using the data, explain two possible reasons for the changing importance of the primary sector in country X. [6]

Timing rule

About 1 minute per mark.

(a) + (b): 4 minutes

(c): 6–7 minutes

Swap with a partner and mark each other's answers: tick every k, app and an. Then go through the answers together.

Exit ticket

- 1 Define 'added value'. [2]
- 2 State the opportunity cost of Hannah choosing a sewing machine over product photos.
- 3 Explain one reason why the tertiary sector grows as a country's income rises.

Next lecture: Enterprise, business growth and size. These questions open the next starter.

Summary: key terms from Part 1

Scarcity

Limited resources, unlimited wants

Opportunity cost

Next best alternative given up

Specialisation

Concentrating on what you do best

Division of labour

Splitting production into separate tasks

Added value

Selling price minus cost of bought-in materials

Social enterprise

Social objectives and reinvested surplus

Primary sector

Extracts natural resources

Secondary sector

Manufactures goods and constructs

Tertiary sector

Provides services

Public / private sector Government owned / privately owned

Mixed economy

Both public and private sectors