Business igcse summary essay sample

Economics

Production- is any activity designed or to manufacture goods & services to satisfy people's wants. The firm uses the resources of land, labour, capital (input) to make goods and services (output)

The people who make and sell goods and services are known as producer and the people who use these goods and services to satisfy their wants and needs are known as consumer.

Stages of production

1. Primary sector- also known as extractive industries

It is the first sector in which we extract raw materials from the earth and use it.

E. g. mining, fishing, oil drilling, farming, wood cutting… etc.

2. Secondary sector

In this sector we convert the raw materials into finished products or to manufacture goods.

E. g. construction and manufacturing

- Glass is made up of sand
- Paper is made up of wood.

3. Tertiary sector –also known as service sector

This section provides service to the consumers and other sectors of the economy. E. g. banking, insurance, tourism, hotels, transports, education, shops, showrooms… etc

What is the aim of production?

Maximizing profit by satisfying consumer needs & wants

Profit is reward to successful business owners or entrepreneur, for taking the risk of setting up a firm.

Other objectives

• Providing public services

• Providing a charity

• Non-profit making organization

✓ Labour intensive method

✓ Capital intensive method

Factor substitution-when a firm tends to replace labour with more capital . it is known as factor substitution.

? WHAT IS PRODUCTIVITY

The amount of output that can be produced from a given input of resources is called productivity. To increase in productivity means more output or revenues can be produced from the same input of labour and other resources. The main aim of any business is to combine its resources in the efficient way.

For example –a construction company employs 10 carpenters but provide only one hammer and drill . It is obvious that a construction company combined the labour and capital not in the efficient way. To increase the productivity construction company needs to provide more capital (hammer & drills).

In general, productivity in a firm will increase if more output (goods & services) are produced with the same input of resources or fewer resources.

The decision on how best to combine factors of production will depend on the number of things.

The nature of the product- If the product demand is high in national or international markets will tend to increase the use of automatic machinery.

The size of the firm-As a firm grows in size, it tends to employ more capital relative to labour.

The relative prices of labour and capital- If wages are high, a firm may decide to use more capital instead of labour.

Labour productivity can be measured –

Average product of labour = total product

Number of employers

Average revenue per worker per period= TR

Number of employers

The average product of labour is a useful measure of how efficient workers are.

Q: Why do firms want to raise productivity?

Increasing productivity can lower business cost and increase profit. If the amount of labour, capital and land can able to produce more output for the same total cost, the cost of each unit of output will have fallen.

A firm that fails to increase productivity at the same or the faster pace than its competitor's quality and prices wise so in the long run that firm will face closer.

For example –business in UK or develop countries are facing tough competition from the developing countries like china , Malaysia, Taiwan and India due to the lower labour wages than in the develop countries for similar work. So it's important for UK firms to improve their productivity, lower their AC and improve their product quality in order to compete with overseas firms.

Q: How firms can raise their productivity of labour?

- Existing workers should learn new skills
- Firms should give rewards like bonus –motivation
- Encourage their worker to buy their shares to improve productivity
- Improving job satisfaction-working hours –team working-
- Provide new tools and machinery to improve productivity

Why are there small firms? Page 216 &217

1) The size of the market may be small- a small number of customers willing to buy a product. Then there is no pint in a firm to grow in large size.

The market is local

2) Capital is limited

3) Government assistance

4) Personal choice

How firms can grow in size?

Business grows in two ways:

“ Internal growth”:- Growth paid for by owners capital or retained profits. it is achieved when a firm increases its sale s, its number of branches and its range of products but not taking over or merger with other company.

“ External growth”/AMALGAMATION :- it occurs when a business takes over or merges with another business.

Franchising: where a business leases its idea to franchisees. This allows new branches to open across the country and internationally.

Distinguish between MERGER and TAKE OVER?

Merger means when the owners of two businesses agree to join their firms together to make one business.

Take over or acquisition is when one business buys out another business and put under the control of the main business.

Both MERGER and TAKE OVER are commonly known as INTEGRATION

Types of Integrations

1. Horizontal integration:- It is when one firm mergers with or takes over another one in the same industry at the same stage of production. E. g.

➢ Two supermarkets join together

➢ Two banks

➢ Two oil companies

➢ Two car manufacturing companies

Advantages –it reduces the number of competition

There are opportunities of economies of scale

Bigger market share

Disadvantages

Creating monopolies

High prices

2. Vertical integration:- it is when one firm mergers or takes over another one in the same industry but at the different stages of production. Vertical integration can be forward or backward.

Primary Secondary Tertiary

Backward vertical Integration forward vertical Integration

Forward vertical, a car manufacturing takes over a car retailing business.

1. The merger fives an assured outlet for their product to sell 2. Profit will use in the reinvestment or to in expansion 3. Information about consumer needs and preferences can be obtained directly by the manufactures

Backward vertical integration

1. Cost of production will be controlled
2. Availability of raw material

Conglomerate integration-is when two firm merges with or takes over a firm in a completely different industry. This is also known as diversification or lateral integration.