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PREFACE

This is a comprehensive and carefully balanced compilation of all the relevant topics that need to be essentially covered and understood by any AS'/A' Level candidate who wishes to ace his Business paper. We have managed to adopt a purely focused and goal oriented approach in this context that would enable students not only to grasp the content but also assist them in analysing and evaluating individual components.

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A Level Business Teacher's Notes

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Syllabus 2016 –18

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UNIT 1 BUSINESS AND ITS ENVIRONMENT

1.1 ENTERPRISE

The nature of business activity

An activity that produces an output in the shape of goods (tangible products) and services (intangible) with the ultimate objective of making profit is termed as a business activity. Business activities are required as we live in a world of great scarcity. Human needs include the basic requirements to be fulfilled such as food, shelter and clothing. Besides these, what a human desires for are wants. Human wants are unlimited and the resources used to fulfil these wants are limited. This phenomenon is referred to as the "basic economic problem". A particular business activity involves identifying the right product to be produced, considering the resources available.

Opportunity Cost:

People are forced to make choices due to the presence of the basic economic problem mentioned above. Opportunity Cost is defined as the next best alternative forgone. In simpler terms, the sacrifice by an individual or organisation while giving preference to one product to the other is known as the opportunity cost of that particular decision.

Factors of production:

The elements required to carry out a business activity are collectively known as the factors of production. These include:

Land:
It represents all the natural resources which are consumed during a business activity, e.g. , plains, seas, mines etc.

Labour:
The term refers to any kind of physical or mental human effort, e.g., carpenters, doctors etc.

Capital:
All man- made resources fall in this category. It is further classified into fixed and working capital. The former includes machinery and equipment that can be used repeatedly during a production process over a period of time. The latter represents cash, raw material, semi finished and finished goods etc. that is in continuous circulation and utilised within a short span of time.

Entrepreneurship:
An entrepreneur is an individual responsible for managing all the other factors of production in an optimum or the best possible way.

Concept of Adding Value:

Adding value to a product means charging a higher price but keeping the cost of producing the good or providing the service the same. This can be achieved by establishing a better image for the product or by improving customers' perception of the quality of the product/service.

The role of the entrepreneur

An entrepreneur organises land, labour and capital resulting in all kinds of business activities. People who have this role typically perform the following functions:

Innovation:

Generation and implementation of new ideas is a function one expects an entrepreneur to perform. In fact, a business activity usually commences with the entrepreneur having a business idea. Launch of Body Shop by Anita Roddick in 1976 is an impressive display of innovation. She created a business idea of her own when she decided to offer toiletries and cosmetics for sale with a special emphasis on conservation, environment and animal rights.

Organisation:

Land, labour and capital are hired by the entrepreneur and organised to produce goods or services. Decisions about the location of the premises, production methods, product design, prices, wages etc., are often made by the entrepreneur. If the firm grows, it is likely that some of these tasks are passed down to others.

Assuming risk:
An entrepreneur assumes high risk as he decides to set up a business. Money has to be spent without any guarantee of return. There is every possibility of a loss in future since he might be unsuccessful in selling the goods or services he has produced.

Social enterprise

It is a business that feels accountable towards stake holders other than shareholders also. Accepting these responsibilities towards customers, local residents, employees and the environment and acting accordingly can give firms a major competitive advantage. However, it may increase business costs, e.g., purchasing expensive but non-polluting capital equipment.

(Also see PEST Analysis in Section 6 for further details)

Triple Bottom Line:

The triple bottom line is made up of the "social, environmental and economic" factors that must be considered seriously by all progressive business organisations. The social aspect pertains to fair and beneficial business practices towards the labour and community in which a corporation conducts its business. The term environment refers to sustainable environmental practices, indicating that a business needs to give due attention to issues such as pollution and recycling. Finally, the bottom line is economics, which basically highlights the significance of generating profit, an objective pursued by all business organisations, conscientious or not.
It is worth mentioning that almost a similar phrase was coined by "Shell" also, in which the terms' people, planet and profit' replaced 'social, environment and economics' respectively.

Ethical Issues:

Ethics can be defined as a system of morals or rules of behaviour. These are the values and beliefs which influence how individuals, groups and societies behave. To say that something is legal is not to say that it is ethical and vice versa. For example, advertising directed towards children might be legal but many see it as unethical. Similarly, in the past, the use of inside information in share dealing was considered unethical, but was nevertheless legal. The basic distinction to make is that the law concerns whether an action is allowed or not allowed whereas ethics concern whether an action is right or wrong, acceptable or unacceptable. It is advisable for a business to seriously look into various ethical issues and fulfil its CSR or **"corporate social responsibility".** The term "**ethical**" is used to refer to businesses which recognise the importance of social responsibility and the need to consider the effects of its actions upon stakeholders. For example, an electricity generating business may be operating within legal emissions limits. However, it may feel that it has to change its production methods to reduce emissions even further because it believes businesses should work towards a cleaner environment. A strong sense of corporate responsibility was displayed by Orange, the cell phone company, when it introduced tree shaped transmitters which blended in with the surrounding area. However, it is worth mentioning that despite the contribution of being ethical towards an improvement in the image and reputation of an organisation, the significance of profit making must not be undermined. The ultimate goal pursued by a firm has to be the reduction in costs that would eventually lead to an increase in profits. Therefore, the effort to act in an ethical way should be made without compromising the profit motive significantly.

1.2 BUSINESS STRUCTURE

Economic sectors

Primary Sector:

This sector includes the extractive industries that acquire raw material from naturally available resources, e.g., agriculture, mining, etc.

Secondary Sector:

It comprises of the manufacturing industries that convert raw material into semi finished or finished goods, e.g., textile industry.

Tertiary Sector:

This represents all kinds of services such as banking, retailing, etc.
The significance of these three sectors varies from country to country, depending on factors such as availability of resources, size of the population, etc.

Public & Private Sectors:

The public sector comprises of businesses owned and controlled by the government. It operates for the welfare of the community and pursues profit as only a secondary motive. It means that a public sector organisation, often known as a Public Corporation, is responsible for providing certain essential facilities to the masses and it will continue to do so even if it does not prove to be profitable. Pakistan Railways is a relevant example in this context.

Comparison of Privatisation and Nationalisation:

Privatisation is a process in which state-owned assets are sold to the private sector, e.g., Pakistan Telecommunication Limited. The **advantages** of privatisation are:

- The sale of state-owned assets generates income for the government that would be used to provide public and merit goods to the masses.
- The company's primary motive becomes profit as compared to society's welfare. This leads to greater competition increasing the efficiency level.
- These businesses will be more responsive to consumers' needs and wants.
- Management will be freed from unnecessary political interference and can easily take decisions on purely commercial grounds.
- However, this system is said to have the following **drawbacks**:
- The private sector pursues profit as the primary motive and tends to ignore social welfare by not taking social costs into account.
- It leads to creation of private monopolies against which consumers have inadequate protection.
- When operated by private individuals, any parts of the business which make a loss will be closed down. This appears to have happened in case of public transport in numerous countries. Some bus services have been stopped as they were not that profitable. This leads to unemployment.
- Privatisation has promoted capitalism worldwide and the gap between the rich and the poor has widened.

Legal Structures

Sole Proprietorship:

It is an unincorporated business owned by a single individual with unlimited liability. The term unlimited liability means that a sole trader is liable or fully responsible to pay off his debts, failing which, the creditors have the right to take over his personal assets or belongings in order to recover the amount. Sole Proprietorship is the oldest and the simplest form of business and is typical of small retail outlets.

Advantages:

The formation and dissolution of a sole proprietorship does not involve any major or complicated legal or technical formalities. The owner enjoys a high degree of flexibility in decision making and there is no profit sharing.

Drawbacks:

The sole proprietor may find it difficult to expand the business due to limited capital. There might be a lack of specialisation since he has to handle all aspects of business himself and is overworked. He has an unlimited liability and losses cannot be shared.

Partnership:

It is a form of business in which 2-20 individuals decide to run a business under unified control. Active partners participate in all business activities on a regular basis whereas a sleeping partner only makes a monetary investment in anticipation of a monetary return, and is not concerned with the day to day running of the business.
Advantages: There are additional funds available and workload as well as losses can be shared. This often leads to specialisation.
Drawbacks: A partnership may end up in conflicts and a disagreement due to the difference in opinion of partners on various issues. Under normal circumstances, partners have an unlimited liability. Profit sharing can also be regarded as a disadvantage.

Joint Stock Company:

This is an incorporated business in which a large number of individuals contribute towards a joint stock or a pool of money. The directors and shareholders have a limited liability. A JSC is further classified into public and private limited companies. A public limited company offers its shares on the stock exchange in order to raise funds whereas in case of a private limited company, the shares only change hands within a small group of close associates.

Significance of limited liability:

Limited liability signifies that the liability of the owner is limited to the extent of his investment. This prominent feature of limited companies attracts people to invest more in these companies. In case of liquidation (when the company is unable to pay off its debts), they are not liable to lose their personal possessions.

Conversion of a Private Limited Company into a PLC: (Analysis):

If the owners of a private limited company decide to go public, they wish to enjoy the following **benefits**:

- A substantial amount of money can be raised from the sale of shares to the general public.
- Production costs may be lower as firms will gain economies of scale due to expansion.
- PLCs are in a position to dominate the market because of their size.
- PLCs can raise finance easily also because banks are willing and keen to offer loans to such well established large scale business organisations (financial economies of scale).

However, it is important not to overlook the following possible drawbacks:

- The setting up costs can be very high; running into millions of pounds in certain cases.
- Since anyone can buy their shares, it is possible for an outside interest to take control of the company.
- All the company's accounts can be inspected by members of the public. Competitors may be able to use some of this information to their advantage. They have to publish more information than private limited companies.
- They are not able to deal with their customers at a personal level, owing to their size.
- There may be divorce of ownership and control which might lead to the interests of the owners being ignored to some extent.

– It is argued that many of these companies are inflexible due to their size. They might find change difficult to cope with.

MULTINATIONALS

Multinationals are large scale, well established businesses with their head quarter in one country and operating through a network of production plants and/or branches in different parts of the world, e.g., Unilever, Microsoft etc. These must not be confused with local or national businesses that operate on a limited scale catering to the needs of customers in a particular town or country respectively.

Advantages to multinationals:

MNCs are in a position to enjoy a variety of economies of scale, including purchasing, financial, risk-bearing and technical economies, due to their rapid growth. They are fully aware of their importance to the economy of the where they are investing and can sometimes pressurize the government to show flexibility in its policies regarding key areas such as taxation, environment laws etc. Multinationals often exploit the resources of developing countries and have an access to cheap factors of production.

Drawbacks to multinationals:

Management problems may arise for an MNC since they usually function on an exceptionally large scale. Nestle', for instance, has a workforce of almost half a million and deals in almost 1200 different products in over a hundred countries. Sometimes, the lack of sufficient amount of local knowledge can also create problems for such companies. It has also been observed that unfavourable political, national or global events may have a negative impact on the performance of certain MNCs, as seen in the case of the airline industry after the incident of 9/11.

Advantages to the country:

Developed as well as developing countries encourage foreign investment since it usually accelerates the rate of economic growth. Countless employment opportunities are created as they offer jobs to the locals. These multinationals are responsible for introducing new technology in these countries which is not only in the interest of the customers but acts as a source of ideas for domestic industries also. Standard of living can be raised since these companies add a touch of comfort and convenience to the lifestyle of the masses. Moreover, the government generates a substantial amount of revenue through taxes paid by these multinationals. The operations of such companies in a particular region increase the confidence level of other foreign investors and they are also encouraged to explore new markets.

Drawbacks to the country:

Multinational corporations, due to their financial and technological superiority, create serious problems for the local competing firms. Customers prefer products offered for sale by these reputable organisations, minimising the chances of success of the domestic industry. As discussed above, MNCs are also known for exploiting the natural and human resources of developing countries, in addition to exerting undue pressure on the government for relaxing rules and regulations especially for them. Moreover, some multinationals may show disregard towards the social, cultural or religious beliefs of the local residents and get involved in unsuitable or inappropriate production and marketing activities.

FRANCHISE

It is a business in which exclusive rights are purchased for selling goods or services under a specified trade name and within a specified geographical area. The franchisor, who sells these rights, is entitled to an initial fee coupled with a percentage royalty, to be paid by the franchisee, who has been authorised to use the company's registered name and logo. The continuing growth of franchising has encouraged firms representing different industries to enter into such agreements, e.g., telecommunication (Telenor), clothing (Nike) and foodstuff (McDonald's).

Advantages to franchisor:

The main advantage of franchising out a business is that it facilitates rapid expansion without incurring the high capital cost of direct ownership of businesses within the chain. A nationwide presence can be accomplished without heavy investment. The franchisor is also able to reduce the running costs, specially in the case of wages, raw material and administration. The franchisee will finance most of the expansion of the chain. The franchisor benefits from the efforts of committed, enthusiastic frachisees. They usually have local knowledge which proves to be beneficial in the expansion of the franchise.

Disadvantages to franchisor:

Franchisees are self-employed and there may be problems in ensuring they all adhere to the operational methods which are designed to achieve uniformity. Failure by an individual franchisee will reflect badly on the whole franchise operation. The franchisee might have different objectives from those of the franchisor. In the long run, they may begin to resent the control exercised by the franchisor. As a result, a franchisee may resort to some unethical or illegal practices such as under-declaration of sales.

Advantages to the franchisee:

The advantages to the franchisee are derived from the fact that the franchise involves the purchase of a tried and tested business format. He can benefit from the introduction and sale of ready-made product as well as a recognised name known to both customers and suppliers. Moreover, it is the responsibility of the franchisor to launch a promotional campaign for the product which will be in the interest of all the franchisees. The franchisee is entitled to advice, assistance and training services, to be rendered by the franchisor. Sometimes, loan facilities are also extended by the franchisor to the franchisee.
Disadvantages to the franchisee: The franchisor exerts considerable control over the franchisee. This limits the franchisee’s freedom of action in terms of product, price, terms of sales, place and the termination of the business. Furthermore, the franchisee, in addition to the payment of initial fee and the royalty, is also supposed to buy inputs from the franchisor, which mat place an extra burden on his financial resources.

1.3 SIZE OF BUSINESS

MEASUREMENTS OF BUSINESS SIZE

The size of businesses can be measured in the following ways:

Number of employees:

It is believed that higher the number of people employed, bigger would be the business in size as labour is not a cheap factor of production. However, this is applicable to labour intensive industries such as agriculture. It will not be a suitable gauge in case of firms that are highly capital intensive or mechanised in nature, e.g., car manufacturing.

Sales turnover:

This method is easy to implement for firms in the same industry. Higher the number of times the firm is able to sell its stock in a year, higher would be the sales volume, thus bigger the business would be in size. However, if the firms are not in the same industry, it might create problems as some firms are engaged in the production of luxury goods and services. For example, a firm selling consumer non durables such as foodstuff will be able to sell them much quickly than firms engaged in the production of air jets.

Capital employed:

This is used to measure the size of a business in terms of the investment in machinery. Needless to say, this method is particularly applicable in case of capital intensive industries.

Market share:

The term market share refers to the sales of a particular firm determined as a percentage of total market/industry sales.

Market Share= $\frac{totalsalesoft\ \ hefirm}{totalsalesoft\ \ heindustry} \times 100$

It is evident that there is no definite measure of comparing the size of different businesses. All the above mentioned factors as well as other indicators such as profit can provide useful guidance in this context.

SIGNIFICANCE OF SMALL BUSINESSES

It is a general observation that small businesses not only survive but achieve success despite the presence of a large number of well established competitors in the market. The following factors make a major contribution towards the significance of small firms in today's competitive business world.

Personal Services:

Small firms are in a better position to offer personalised services to their customers. Non standardised processes in which mass production does not serve the purpose can be handled in a more effective way if the firm is operating on a small scale due to the element of personal attention. The professions of hair dressing and tailoring fall in this category.

Geographical limitations:

Large firms tend to overlook small towns, villages or remote areas due to geographical limitations and are more focused on major, metropolitan cities, finding them more profitable. This situation provides the smaller businesses with an opportunity to explore the market and serve the customers in these neglected areas. This is another reason why small firms mange to survive and flourish.

Role of government:

Governments play a supportive role towards small firms and infant industries. Such firms can benefit from a variety of subsidies including tax exemption and availability of cheap raw material and are able to reduce their costs. Moreover, there are no major technical or legal formalities involved in the formation or dissolution of small firms. This allows them to find a foothold in the market and attain a steady growth rate with the passage of time even if the initial investment is small.

Demand for variety:

Small firms do not rely significantly on advanced technology and are functionally flexible enough to adjust to the changing purchasing pattern of customers. It is a general observation that the workforce involved is multi-skilled and can perform a variety of functions as per requirement. In Pakistan, for example, almost the same group of people is found making bangles during Eid festivities and manufacturing kites when the kite flying season is on.

Luxury items:

High income groups have the tendency of buying non standardised or customised products. Luxury items such as private jets or jewellery are usually made to order and the potential customers need individual attention. Small firms can fulfil this requirement more effectively and are quite successful in businesses involving production and sale of luxury items.

INTERNAL GROWTH

The term internal growth is used in a situation in which an existing business expands without joining hands with any other firm. Usually, a profitable firm is able to finance expansion by reinvesting profits. Internal growth is a relatively slower process but there are examples of certain well known companies such as Hoover that grew to a very large size while growing internally.

EXTERNAL GROWTH

This involves the acquisition of one firm by another. It could be done in the form of merger or takeover. The former implies a measure of voluntary agreement whereas the latter indicates that a predator firm swallows up another firm by buying its shares. Broadly speaking, external growth is classified into:

Vertical Integration:

When the merging firms are engaged in different stages of the same production process, it is called vertical integration. This could be further categorised into forward vertical integration, e.g., the owner of a cotton field taking over a textile mill or backward vertical integration, e.g., the owner of a petrol station taking over an oil refinery.

The significance of vertical integration is that it allows the concerned firms to enjoy economies of scale due to a reduction in average costs resulting from expansion. Moreover it is easier to keep a check on quality related issues since the manufacturer owns and controls the source of raw material also. The level of customer service can also be raised. Vertical integration proves to be profitable in the long run also because once the external links in the chain of production like the supplier of raw material are eliminated; the manufacturer is in a good position to keep the costs of production under control. However there is a possibility that the sudden increase in the scale of business leads to certain serious management problems, technically known as the diseconomies of scale.

Horizontal Integration:

This is a merger between firms that are dealing in similar products at the same stage of production. For example, if two car manufacturers join hands, it would be classified as horizontal integration. RBS & ABN AMRO, Walls & Polka, Mercedes & McLaren all represent horizontal integration.

Horizontal integration proves to be beneficial for the management of the concerned business since it results in a marked decrease in competition and therefore higher prices can be charged. There will be economies of scale also. The merged firms can share their respective expertise and come up with technologically superior and more useful products. However it has been observed that such a merger may lead to conflicts between the members of the workforce since they come from a different corporate culture and may find it difficult to get adjusted in the new environment and work closely as a unified force. Also, redundancy is caused due to duplication of jobs.

Conglomerate/Lateral integration:

A conglomerate is formed when two or more unrelated firms are involved in the merger or takeover. They deal in totally dissimilar products at different stages of production, e.g., a car manufacturer takes over a restaurant. Gillette, that took over Parker & Waterman pens, Braun Electronics and Duracell Batteries is one of the leading conglomerates of the world.

Firms involved in a lateral integration enjoy risk bearing economies of scale since they operate in totally different industries at the same time. However the lack of relevant experience may create hurdles for the management of a conglomerate.

Friendly Merger:

This takes place when a business is facing operational problems and might want to continue, but under the control of a stronger company.

Hostile takeover:

This comes into effect when a firm resists or does not want to merge with another business but is taken over by the other firm forcefully. In such a situation, almost all the company's shares quoted on the stock exchange are bought.

Synergy:

Synergy is a term used to describe a situation when two things are better operated being one. In business, this is applicable in case of two companies joining hands in order to operate together and proving to be more productive.

Joint ventures/Strategic alliances:

This is when two businesses decide to share costs and responsibilities pertaining to a business project. It is important as competition might decrease and each company can specialise in a particular aspect of the venture. A significant plus point of joint ventures is that such companies can enjoy certain advantages of mergers or takeovers without losing their identity. However, there might be cases when joint ventures are unsuccessful in achieving their objectives. This is primarily due to disagreement between different managements as their views might conflict at times.

Economies of scale:

The term refers to a situation in which an increase in the scale of business leads to a reduction in average or per unit costs. Internal economies are the ones that are enjoyed by a single growing firm irrespective of what is happening to other firms in the industry. If the entire industry (collection of similar firms) starts to grow in size, the resulting advantages are called external economies of scale.

Internal economies of scale:

Purchasing economies:
A large firm requires raw material in bulk which encourages suppliers to offer discounts. This factor is pivotal in reducing costs and improving profit margin for growing firms.

Risk bearing economies:
Large firms always make an effort to widen the range of their products. This minimizes the element of risk since if one of the products fails, the company still has a chance of recovering the amount by selling other items in the product mix.

Financial economies:
Financial institutions are keen on offering assistance to large and established businesses. That is why it is easy for the management of such firms to get a loan application approved.

Managerial economies:
Large firms benefit from the services of specialist functional managers. The expertise of these specialists proves to be in the greatest interest of the business as it expands.

Marketing economies:
The cost of advertising and distribution rises at a lower rate than increase in the output and sales. Thus, in proportion to sales, large firms can advertise more cheaply and effectively than their smaller rivals.

Technical economies:
Established firms can specialise in terms of workforce as well as machinery. Moreover, following the law of increased dimensions, a slight increase in investment may enable a growing firm to enjoy more than proportionately high returns.

External economies of scale:

Ancillary services:
An expanding industry is often assisted by other supporting industries that provide ancillary services such as maintaining an uninterrupted supply of raw material, e.g., leather for footwear industry. In this way, the manufacturers can focus on the production process without worrying about the availability of high quality low cost raw material.

Commercial facilities:
Industries in the tertiary sector offer commercial facilities to growing businesses and support them in achieving their short and long term goals. Such commercial facilities include insurance, transportation, advertising, etc.

Availability of labour:
Large industries are usually concentrated in particular areas, e.g., Sialkot in Pakistan is known for the sports goods industry. This leads to the creation of a huge skilled workforce that can prove to be equally useful for all the firms in the industry.

Cooperation:
Firms that constitute a particular industry compete against each other for the same target market. However, these rivals may decide to cooperate with each other in situations where certain common interests have to be safeguarded. For instance, the firms in an industry will act as a unified force against

unfavorable government policies. Similarly, they may contribute towards a pool of money that can be used for establishing Research & Development centres or publishing journals that will be highly useful to all the firms in the industry.

Disintegration:
Whenever a production process becomes too lengthy or time consuming, it is divided or disintegrated into numerous simpler processes. Each process or phase is controlled by a separate group of firms or industry, e.g., production of cotton cloth is divided into ginning, weaving, spinning, dyeing, etc, This specialisation of resources not only leads to sharing of workload but a definite improvement in quality as well.

DISECONOMIES OF SCALE:

The increase in average costs as a business grows beyond the optimum size is technically known as diseconomies of scale. This can be classified into:
a) Management problems: In case of large businesses, managers find it difficult to perform the functions of control, communication, coordination and morale maintenance. They are unable to pay undivided attention to various aspects of business such as human resource management and quality control. Powers have to be delegated to others and this lack of personal attention may lead to deterioration in performance.

b) Rising prices of inputs: As discussed earlier, an increase in the scale of business results in the advantages of bulk buying or purchasing economies of scale. However, there are situations that can be exploited by the supplier. Realising that he has a monopoly or that the manufacturer is largely or totally dependent on him for acquiring raw material, he may start charging higher prices. Similarly, the workforce can also adopt a similar strategy and demand higher wages for the extra effort that they are making since the business is expanding.

1.4 BUSINESS OBJECTIVES

BUSINESS OBJECTIVES IN THE PRIVATE & PUBLIC SECTORS

All businesses pursue a variety of short and long-term goals or objectives. Stakeholders in a business play a key role in shaping up the objectives of a business organisation. For instance, if the owners are the most dominant stakeholders, then profit making is likely to be an important goal. Similarly, if employees are influential enough, then issues like job security and good working conditions could be the primary objective. In this context, businesses often issue a mission statement which is a description of the overall aims of the business.

Survival:

Survival is considered to be an important initial business objective, specially in case of newly established small businesses. Firms may encounter a number of problems when they first begin trading including a lack of experience and resources as well as threats posed by the already established competitors. As a result of this uncertainty, the most important business objective might be to survive in the initial stages of trading.

Profit maximization:

There are many who are of the opinion that the main aim of private sector businesses is to maximise profits. This is achieved when the difference between the total revenue and the total costs is the greatest.

Growth:

Many businesses pursue growth as their primary objective. In fact there are businesspeople who believe that growth is a pre-requisite to survival. Failure to grow might result in a loss of competiveness, a decline in demand and eventual closure. If a firm is able to grow and dominate the market, it may be able to enjoy some monopoly power in future and raise its price. Moreover, growth allows a firm to diversify and reduce the risk factor.

Sales revenue maximisation:

Social scientists such as William Baumol argue that an objective of firms may be to gain the highest possible sales revenue. Needless to say, this objective will be strongly favoured by those employees whose salaries are linked to sales.

Image and social responsibility:

In the last couple of decades, firms all around the world have shown a major tendency towards establishing and enhancing their image as socially responsible organisations. Promoting environment friendly products, donating substantial amount of funds to charitable institutions etc. are steps taken by businesses with the objective of improving their image in the eyes of different stakeholders.

Providing services:

Primarily, the public sector has always been responsible for achieving the goal of providing essential services to the masses at subsidised rates even if it proves to be unprofitable. However there has been a change lately in the methods adopted by the government authorities pertaining to the management of these public sector organisations. Public service is obviously still the ultimate objective but now the public sector is being handled in a more business-like manner. These organisations directly compete against the private sector firms and carry out a host of business activities such as marketing and budgeting. They make a serious effort to earn profit without compromising quality, cost effectiveness and well being of the public. This trend can be observed easily in case of industries such as telecommunication, transportation and banking.

OBJECTIVES AND BUSINESS DECISIONS

Management by objectives:

“Management by objectives” or MBO is a theory which is regarded as the brainchild of Peter Drucker. He was of the opinion that a business can achieve long term success only if it has an objective-oriented approach. MBO revolves around the following four factors:

a) A business should define all its objectives in a quantitative manner. It means that the goals pursued by a firm have to be described in terms of figures or numbers, e.g., the manager sets a target of selling 25000 units for his sales team.

b) Short as well as long-term objectives have to be arranged in a certain hierarchy. Most important goals should be pursued first followed by the less important ones.

c) MBO requires that managers ought to set targets for their subordinates in such a way that proves to be challenging but is realistic also. This approach will keep the employees motivated and they will be encouraged to utilise all their potential and skills in order to accomplish a given task.

d) The management should make an effort to maintain consistency while setting objectives. One goal must support and strengthen the other. This would guarantee that the organisation moves forward satisfactorily and the available resources are utilised efficiently.

The **benefits** claimed for MBO are that it leads to better managers. It forces mangers to plan for results and to clarify organisational roles and structures. It also provides a means of appraising performance and rewarding managers, and acts as an effective control over different parts of the organisation. However, there are dangers and **problems** associated with MBO. It is time consuming and, if handled badly, can cause resentment from staff. It may contribute to inflexibility in the face of a changing environment.

However, it can be safely stated that MBO provides a means of coordinating and integrating human contributions towards organisational success by setting out individual objectives designed to complement the overall corporate objective.

1.5 STAKEHOLDERS IN A BUSINESS

Stakeholders are individuals or groups of individuals who have an interest in a business. They influence and are influenced by the performance of the business. These can be classified as internal stakeholders such as owners, directors, managers and employees and external stakeholders including customers, community, government, suppliers and competitors. It is strongly recommended that a firm honours its responsibility to its internal stakeholders but also accepts the need to act responsibly towards external stakeholders. This means acting in a fair way towards customers, financiers, suppliers and the community. It requires prompt payment of bills, manufacturing quality products, honest dealing and reliability. It is important for a business to act in socially responsible manner. Socially responsible behaviour clearly requires obeying the law and paying taxes, but it also means operating in an ethical way. Showing concern for the environment and the undertaking of philanthropic activity on behalf of the disadvantaged are examples of such behaviour.

Workers:

The labour is the backbone for any business. They directly get affected by business decisions. They are paid salaries or wages. They should always be motivated as it will always increase their efficiency raising productivity levels. Their jobs are protected through contract of employment so that they feel secured. In case of growth of business, workers might be affected positively or negatively. The employees enjoy being part of a business that is huge and successful. However, it is equally true that workers tend to show resistance to change as they have got used to a certain kind of environment and find it difficult to get adjusted in the new set up. This is what the employees experience when a firm merges with another business organisation.

Owners:

Owners combine all the factors of production in order to operate a business. They are the risk bearers and the profit seekers. Their ultimate goal is to maximise profit by accelerating the growth of business and enjoying economies of scale. They want the image of their company to be enhanced and brand loyalty established. There are a growing number of businessmen who attach a lot of importance to ethical issues and want their firm to be recognised as a socially responsible organisation.

Customers:

There is a well known saying in business, “Customer is the king.” Customers are extremely important to any business. In fact, they are the driving force. In today’s competitive business world, a firm has to be market oriented in order to be successful. Therefore, it is imperative that a business organisation has sufficient amount of knowledge regarding the target audience habits so that their requirements can be fulfilled. A typical customer wants the highest possible quality at the lowest possible price. Needless to say, this may prove to be an uphill task for any manufacturer or seller.

Government:

In a mixed economy, it is essential to strike a balance between the authority of the government and the independence enjoyed by the private sector. The government affects business activity by accelerating the growth of firms through a variety of subsidies or retarding it through taxation. The government authorities pursue numerous objectives such as safeguarding consumers through consumer protection laws, protecting the rights of employees through labour laws, keeping a check on inflation and unemployment rates, ensuring social welfare and equal distribution of wealth, etc. Their ability to achieve all these objectives effectively is determined to a great extent by the performance of business organisations. For example, the amount generated in form of taxes will definitely increase as the business grows. This is especially true in case the government enforces a system based on progressive taxation in which the tax rate rises with an increase in income. Similarly, if the government decides to raise the minimum wage level, the cost of production for manufacturers is going to rise.

Community:

Business activity has a significant impact on the community. The pollution caused by production plants could affect everyone negatively and damage the reputation of the business organisation as well. On the other hand, jobs created by businesses help raise the general standard of living. Technologically superior

and socially helpful products such as electronics and medicines make a positive contribution towards the well being of the community.
Other stakeholder groups such as financial institutions, suppliers and managers also actively interact with business organisations in their respective capacities.

CONFLICT OF OBJECTIVES:

The aims of different stakeholders might be in conflict with each other since they are all seeking what is beneficial for them. That is why business organisations often find it challenging to satisfy all the stakeholders simultaneously. The owners want to maximise profits by keeping their costs low and enjoying economies of scale. The workers, on the other hand, might demand an increase in their pay level, obviously meaning a rise in costs for the owners. Businessmen usually pass these high costs to the customers by charging higher prices. This leads to another unavoidable conflict since a customer seeks highest possible quality at the lowest possible price. This situation puts the owners in a difficult spot as they would not like to disappoint the customers or the workers. Similarly, if maximisation of profit is the ultimate objective, the business might not be able to give due importance to social costs arising in terms of pollution and other related issues. The government wishes to charge high taxes in order to generate revenue for arranging public and merit goods. However, high tax rates, particularly in case of progressive taxation, are known to have a disincentive effect on owners of businesses.

1.6 EXTERNAL INFLUENCES ON BUSINESS ACTIVITY

Role of government (Economic constraints & enablers)

The government plays a significant role in determining the performance of small and large business enterprises. It enforces a variety of policies in the country having a direct impact on the ability of a business to achieve its goals. Two of the most important such policies are the fiscal and monetary policies that are instrumental in regulating the economy of the country.
The **Fiscal Policy** primarily revolves around taxation and public expenditure. The government generates revenue through direct and indirect taxes. A direct tax is levied directly on the income of an individual commonly known as the income tax whereas an indirect tax is imposed on goods and services, usually charged as a part of the final price. It is commonly known as the VAT (value added tax) or GST (general sales tax). There are three different taxation policies in practice in different parts of the world. Progressive taxation is the one in which the tax rate increases with a rise in income. This method is supported and implemented by countries all over the world since the government can generate a substantial amount of revenue by taxing the higher income groups leading to a reduction in the gap between the rich and the poor. However it is an established fact that progressive taxes have a disincentive effect on investors since it discourages growth. Proportional taxation is based on a flat tax rate for all income groups. In case of Regressive taxation, the tax rate declines with an increase in income. This strategy proves to be effective in encouraging growth but obviously could be disastrous in case of the lower income groups. The amount raised through taxation has to be spent on development oriented projects for the welfare and betterment of the masses. This is technically known as Public Expenditure or government spending and performs the following major functions:
- Providing public and merit goods, e.g., street lights and subsidized health facilities respectively
- Social security benefits, e.g., unemployment benefits and pension
- Accelerating the rate of economic growth through subsidies
- Strengthening strategic industries such as Defence and Agriculture

The **Monetary Policy** is formulated with the purpose of regulating the supply of money in the economy primarily with the objective of keeping a check on inflation. Inflation, which is a persistent and general increase in prices, is categorised into Hyper, Suppressed and Creeping inflation. Hyper inflation, being experienced in Zimbabwe these days, is the worst form of inflation since it represents a situation in which the currency loses its value to such an extent that it becomes unacceptable as a medium of exchange. People in the country are forced to start using the barter system (goods exchanged for other goods) in order to meet their needs. There is no short term solution to this and, in order to resolve the crisis, all the currency notes in circulation have to be replaced by newly printed notes with a different value. Suppressed inflation, also known as demand-pull inflation is experienced when the demand exceeds supply and the resulting shortage often leads to a sharp increase in prices. This can be countered by raising the level of production through better utilisation of the available resources. The third form of inflation is creeping (cost-push) inflation in which the final prices are increased since the cost of production has risen. Usually the annual increase in price is 1%-6% and this is something commonly observed since wage rates, cost of raw material, transportation costs etc. always increase with the passage of time. It is an established fact that an excessive supply of money in the economy, without being backed up by a specific amount of gold, leads to a decline in its value. Therefore, the government authorities adopt a variety of methods to keep a check on the supply of money. Broadly speaking, the government either uses an approach in which the printing of new notes is controlled or a tighter credit policy is enforced in order to discourage banks from lending too much money. In this context, the following instruments of monetary policy are commonly applied by the government authorities.

Central Bank's Discount Rate:

This is the rate at which the central bank of the country lends money to the commercial banks. In order to control the supply of money, and subsequently inflation, the discount rate is often increased. It discourages the commercial banks from borrowing large amounts of money from the central bank and hence they will not be in a position to offer credit facilities to consumers at low interest rates.

Special Deposits:

The government may instruct the commercial banks to deposit a specific amount of money with the central bank in order to control the supply of money. This amount, often termed as frozen assets, is not released unless there is a definite improvement in the situation regarding inflation.

Open Market Operations:

Bonds are issued and publicised so that the masses are encouraged to invest in this sector. The amount collected by the government through the launch of bonds and other similar instruments helps control the circulation of money and hence inflation. People spend substantial sums of money, considering it to be a safe investment, once the bonds mature after a certain period of time.

Funding:

This instrument of monetary policy is similar to the above mentioned open market operations with the only difference that Funding is a long term measure since the bonds mature after a longer period of time. It is recommended when the inflation rates are critically high.

Qualitative & Quantitative Control:

Qualitative control is exercised when the government instructs commercial banks to be more selective while approving loan applications. Credit should be offered purely on merit, keeping in mind the contribution of the applicant towards the economic growth of the country. For instance, exporters should be favoured in this connection.

Similarly, the government sets a limit to the maximum amount of money that can be offered as loan within a given period of time. This measure, just like qualitative control, proves to be useful in controlling the supply of money in the economy.

Regulating Hire Purchase Contracts:

If the government has a relaxed policy in context of hire purchase contracts, consumers tend to spend beyond their means which may cause inflation. Therefore, governments are known for tightening up their hire purchase policies with the objective of keeping a check on rising inflation rates. By taking steps such as increasing the rate of interest, they discourage consumers from availing hire purchase facilities.

Consumer Protection

The government adopts numerous measures for safeguarding the interests of consumers. It makes sure that the producers and suppliers do not misrepresent the facts. They are required to convey information to customers that is based on realistic figures. The government implements a wide range of rules and regulations in order to guarantee that high quality standards must be maintained and sub-standard goods and services are not offered for sale to the masses. For example, the Price Control Act keeps a check on the prices of necessities such as staple foodstuff. The Food & Drug Ordinance is important in enforcing high quality standards in the production and distribution of food items and medicines. The Weights & Measures Act is responsible for removing any discrepancies regarding the information printed on the package and the actual contents inside. Departments such as the Advertising Standards Authority can play a significant role in improving the quality of advertising and making it more useful for the consumers. There are many other steps taken by the government authorities also in addition to the ones mentioned above with the objective of protecting the rights of consumers.

Labour Protection:

It is the responsibility of the government to look into the problems and issues relating to the workforce. In this context, various laws have been passed to ensure that the workers are not exploited by the business owners. The Minimum Wage Rate is considered to be the most important in this regard since it makes the employers legally bound to pay a certain minimum amount to the employees in return for their services. Moreover, there are labour laws pertaining to the working conditions, working hours, safety, discriminatory behaviour of the employers, fringe benefits etc. All the labour laws aim at ensuring the well being of the work force and increasing their productivity also.

Economic systems:

The term represents the rules, regulations and practices that govern and mould the economy of a country. It is categorised into:

Planned economy:

A planned or command economy is characterised by maximum possible authority and control exercised by the government. This system is typical of countries with a communist set up as in the case of former USSR. The government dictates its terms to the producers as well as the consumers regarding decisions pertaining to quantity, quality, consumption etc. The advocates of planned economy claim that the gap between the rich and the poor can be narrowed down if this system is implemented properly. Resources and wealth will be evenly distributed and producers not permitted to exploit the consumers in their pursuit for profit. However, the command economic system failed, as shown by the disintegration of USSR, since the rulers seemed to be its only beneficiaries. There are serious drawbacks such as a lack of variety, innovation and competition which are essential ingredients in the recipe for success.

Free market economy:

In this hypothetical system, the private sector enjoys the maximum possible freedom to take decisions regarding all aspects of business. The consumers are also in a position to make purchases at will without being subjected to any kind of rationing laws. There is high degree of competition leading to the production and distribution of a variety of goods and services. Prices are also adjusted in accordance with the principle of demand and supply. There is a definite improvement in quality and innovation but since the profit motive is the ultimate, producers sometimes tend to compromise the well being of the masses. Low quality and over priced products may be offered for sale in order to satisfy the profit motive. The role of the government is minimised and there are no significant consumer protection Laws. That is why it is said that a free market economy nurtures capitalism which, simply put, is the accumulation of wealth in the hands of a few.

Mixed economy:

A mixed economy is a blend of planned and free market economic systems. This is undoubtedly the most popular, and arguably the ideal, economic system adopted in countries all over the world. The private sector is free to take its own decisions but the government authorities play a supervisory role. There is no unnecessary interference with the production, pricing or distribution decisions and the privately owned companies can adjust their policies in accordance with the ongoing trends and the purchasing pattern of customers. However, the government is actively involved in measures that regulate the economy. It enforces a variety of policies in connection with taxation, subsidies, consumer and labour protection laws etc. This system leads to the creation of a competitive market in which a variety of goods and services are available for sale. There is a consensus that a mixed economy is slightly more inclined towards a free market but it is worth mentioning that any business engaged in illegal, immoral or inappropriate activities is severely dealt with.

International T:

Rade:

The exchange of goods and services across international boundaries is technically termed as international trade. In simple terms, it is the import and export of goods and services. Resources are unevenly distributed and it is inevitable for a country to avoid participation in international trade. There is a set of rules and regulations that govern international trade, often known as the restrictions on international trade. The major restrictions or barriers are discussed below.

Tariff:

It is an import duty or tax levied on imported items. A tariff acts as a useful source of revenue for the government and also protects the domestic industry against foreign competitors. Tariff is categorised into "Ad Valorem" and "Specific" tariff. The former is calculated as a percentage of the monetary value of an imported item whereas the latter is determined in accordance with the weight or quantity.

Quota:

It is a physical limitation on the maximum amount of goods that could be imported or exported within a given period of time. An import quota creates demand in the country that can be met if the domestic industry raises the level of production and uses the available resources in a more effective manner. Similarly an export quota ensures that the domestic requirements are fulfilled before a product is exported.

Foreign Exchange Control:

In case the government feels that the country is passing through a severe economic crisis, it may impose a foreign exchange control. This restriction requires everyone in the country to surrender foreign currency to the government authorities and, in return, receive payment in local currency at a rate decided by the government. By doing so, the level of foreign reserves in the central bank can be raised and some financial stability can be brought back to the economy. However, it is important to note that this particular restriction is undesirable since it has a disincentive effect on the exporters.

Embargo:

This is the most severe form of restriction since it involves a complete ban on trading with another country. An embargo is usually imposed due to political reasons and is an effective means of showing displeasure towards the policies of a particular country. The American government has done this on numerous occasions with the objective of isolating countries such as Cuba or North Korea.

Dumping:

Sometimes, with the intention of capturing a foreign market, the government of a particular country may pursue a policy of offering its products for sale at an exceptionally low price in another country. This price is sometimes even below the cost price but is an effective tool for destroying the domestic industry of that country. The Chinese are known for this and they have applied these tactics quite successfully in industries such as textile and telecommunication.

Subsidies:

These are incentives offered to the business community, specially the domestic industry in the shape of tax exemption, availability of cheap raw material etc. These subsidies prove to be an indirect restriction on the foreign competitors. The government, through a variety of incentives, provides the domestic industry with an opportunity to attract customers on the basis of lower prices.

RELEVANT QUESTIONS FROM THE PAST PAPERS (SECTION 1)

Oct/Nov 2012, P1,Q4,

4 **(a)** Define the term ‘public limited company’. [2]

(b) Briefly explain **two** advantages a public limited company has compared to a private limited company. [3]

Oct/Nov 2012, P2 (Biz Bank) a (i),

1 **(a)** Explain the following terms:

(i) social enterprise (lines 5–6) [3]

May/June 2010, Paper 1, Q3,

3 Briefly explain **two** economies of scale that a hotel chain might achieve if it purchases another hotel company. [5]

May/June 2010, Paper 1, Q6,

6 Discuss how the objectives of stakeholder groups in a profitable business might be in conflict. [20]

May/June 2010, Paper 2, Sheep Stew Q2 (a) (i),(ii), (c),

2 **(a)** Explain the terms:

(i) shareholders (line 1) [3]

(ii) primary sector (line 2). [3]

(c) Analyse the advantages and disadvantages to BFC of changing to a public limited company. [8]

May/June 2010, Paper 3, Teen Print, Q6.

6 Evaluate the extent to which external economic change will be the major factor determining future profits of the TeenPrint company. Refer to Appendix D and other information in your answer.[20]

Oct/Nov 2010, Paper 1, Q3,

3 Explain the importance of the profit maximisation objective to a business. [5]

Oct/Nov 2010, Paper 2 , Big Boxes, Q1 (a)(i), (c), Newtown hospital, Q2 (a)(i)

1 **(a)** Explain the following terms:

(i) interest rates (line 6) [3]

(c) Analyse the likely impact of external influences on the activities of BB. [8]

2 **(a)** Explain the following terms:

(i) public sector (line 1) [3]

Oct/Nov 2010, Paper 3, Radar cosmetics, Q6, Q7.

6 Discuss the extent to which the data in Appendix A and other external factors could influence the future success of Radar. [20]

7 Evaluate the extent to which Radar is fulfilling its responsibilities to stakeholders. [20]

May/June 2011, Paper 2 Turbo Tractors, Q1(a)(i), McQuarry, Q2(a),(i),(ii),(d).

1 **(a)** Explain the following terms:

(i) Economies of scale (line 2) [3]

2 **(a)** Explain the following terms:

(i) Secondary sector (line 9) [3]

(ii) Add value (line 28). [3]

(d) Evaluate the impact of the Crushblock project on **two** of MQ’s stakeholders. [10]

Oct/Nov 2011, Paper 12, Q4(a),(b), Q6,

4 **(a)** Define the term ‘objective’ as used by a business. [2]

(b) Explain **two** objectives a small business might have in the first year of trading. [3]

6 Discuss how the ethical decisions of a large clothing retailer might help or hinder its business performance. [20]

Oct/Nov 2011, Paper 22, Rex Cinema, Q2(d),

2 **(d)** Discuss the extent to which Rex's overall objective is being achieved. [10]

Oct/Nov 2011, Paper 32, Atlantic Steel company, Q2 (b), Q6.

2 **(b)** Discuss the impact of ASC's privatisation on the company's stakeholders, using data in Table 1 and other relevant information. [16]

6 Evaluate the usefulness of long-term planning and corporate objectives to ASC, which operates in a constantly changing business environment. [20]

May/June 2012, Paper 12, Q1, Q5,

1 **(a)** Define the term 'economies of scale'. [2]

(b) Briefly explain **two** economies of scale a retail business could achieve as it expands. [3]

5 **(a)** Explain the advantages of a 'co-operative' as a form of business. [8]

(b) Discuss the factors that could influence the success of a small business. [12]

May/June 2012, Paper 32 Global Conglomerate Company,Q1, Q2(b), Q7.

1 Analyse the benefits to GCC of being a widely diversified conglomerate. (Lines 4–5.) [10]

2 **(b)** Assess whether the directors of GCC should substantially increase dividends to shareholders.[14]

7 Discuss the importance of corporate objectives and corporate planning to GCC's future success.[20]

OCT/NOV 2009: PAPER 12, Q1 (b),

1 **(b)** Briefly explain **two** objectives a small business might have, other than profit maximisation. [3]

OCT/NOV 2009: PAPER 22, PEDRO'S FISH, (d),

2 **(d)** If PF decide to use the boat for tourists, evaluate the impact the government might have on PF (apart from interest rates). [10]

OCT/NOV 2009: PAPER 32, CHAN BEAUTY COMPANY (CBC), Q7.

7 To what extent should it be a priority for this business to meet the needs of stakeholders other than shareholders? [20]

MAY/JUNE 2009: PAPER 1, Q3,

3 Explain **one** advantage and **one** disadvantage a multi-national company might bring to a developing country. [5]

MAY/JUNE 2009: PAPER 3, CAR MANUFACTURER AT A CROSSROADS, Q1.

1 Assume Eastern Motors has a factory in your country. Analyse the impact of any **two** legal controls on this factory's operations. [8]

OCT/NOV 2008: PAPER 1, Q4.

4 **(a)** State **two** ways of measuring the size of a business. [2]

(b) Briefly explain why growth may not be the most important objective for a business. [3]

OCT/NOV 2008: PAPER 2, PAPER CLIPS, a(i),CC COSMETICS, (d).

1 **(a)** Explain the terms:

(i) Stakeholders (line 7), [3]

2 **(d)** Discuss the implications for CC of its ethical approach to business activities. [10]

OCT/NOV 2008: PAPER 3, TANROH'S DILEMMA, Q6, Q7.

6 Discuss whether the government should support and protect important industries in your country.[20]

7 To what extent will the future success of Tanroh's business depend on him setting clear objectives? [20]

MAY/JUNE 2008: PAPER 1, Q1, Q3, Q5.

1 **(a)** State **two** objectives a business might set in the short run. [2]
(b) Briefly explain the importance to a business of setting objectives. [3]

MAY/JUNE 2008: PAPER 2, GANMOR CARS, (a),(i),(ii),(b).

2 **(a)** Explain the terms:
(i) multinational (line 9) [3]
(ii) economies of scale (line 22). [3]
(b) Analyse how the Government might influence the activities of GC. [8]

MAY/JUNE 2008: PAPER 3, PYRAMID TELEVISIONS(PT) Q6.

6 Would you recommend PT to take over the TV4U chain of shops? Evaluate the advantages and disadvantages of this takeover and justify your recommendation. [20]

OCT/NOV 2007: PAPER 1,Q3, Q5, (a), (b),

3 Briefly explain the importance of economies of scale to a manufacturer of cars. [5]
5 **(a)** Analyse the benefits which a private limited company might gain by becoming a public limited company. [8]
(b) Discuss how different stakeholder groups might view the decision to change from private limited company to a public limited company. [12]

OCT/NOV 2007: PAPER 2, ZETA OIL, (i), (c), (d).

1 **(a)** Explain the following terms:
(i) Stock Exchange (line 11) [3]
(c) Analyse the main uses of ZO's accounts for stakeholders other than ZO's workers. [8]
(d) Discuss how the Government might affect the activities of ZO. [10]

MAY/JUNE 2007: PAPER 1, Q1.

1 **(a)** Explain one objective of a public sector organisation in your country. [2]
(b) Briefly outline the main features of a 'public limited company'. [3]

MAY/JUNE 2007: PAPER 2 , TECH NEW, a, BEE'S MEALS, a (ii).

1 **(a)** Explain the terms:
(i) private limited company (line 1) [3]
(ii) multinational (line 3). [3]
2 **(a)** Explain the following terms:
(ii) payback. (line 13) [3]

MAY/JUNE 2007: PAPER 3, CRAFT DESIGNS, Q3.

3 Evaluate the likely impact on the business of the forecast economic conditions in Appendix A.[14]

OCT/NOV 2006: PAPER 2, HILLTOP SERVICES, a (i),

1 **(a)** Explain the following terms:
(i) sole trader (line 2) [3]

OCT/NOV 2006: PAPER 3, LOCOST AIRWAYS, Q3, Q7.

3 The different stakeholder groups of LoCost Airways will be affected in very different ways if the firm is sold to UWA. Discuss whether it is in the best interests of LoCost Airways' stakeholders for UWA to take over the business. (You might find data in Appendix B helpful). [16]
7 Discuss the advantages and disadvantages to companies, such as UWA, of a strategy of continuous growth through integration with other businesses. [20]

MAY/JUNE 2006: PAPER 1, Q1, Q3, Q7(a),

1 **(a)** Outline **one** difference between the public sector and private sector of an economy. [2]

(b) Explain **one** difference between private and public limited companies. [3]

3 Explain the importance of profit maximisation for a public limited company. [5]

7 **(a)** Analyse the benefits to your country's economy from a multinational manufacturer of computers locating a new factory there. [8]

MAY/JUNE 2006: PAPER 2, STAR PHARMACEUTICALS, (c), HOME FARM, a(ii), (b),

1 **(c)** Discuss the extent to which ethical issues should concern SP. [8]

2 **(a)** Explain the following terms:

(ii) export market (line 3) [3]

(b) Explain how an increase in the country's exchange rates could affect the farm's profits. [4]

MAY/JUNE 2006: PAPER 3, RAVE CONFECTIONERY, Q7.

7 To what extent would you advise businesses such as Rave to consider the interests of all stakeholder groups when taking major decisions? [20]

OCT/NOV 2005: PAPER 1, Q1 (a), Q2, Q3, Q7.

1 **(a)** State **two** reasons why the market for a product might reduce in size. [2]

2 Explain how a manufacturing business might be affected by ethical issues. [5]

3 **(a)** State **two** ways in which a business may achieve added value. [2]

(b) Why is added value important for businesses? [3]

7 **(a)** Explain the advantages and disadvantages of being a small business in food retailing. [8]

(b) Discuss whether the government should support small businesses in your country. [12]

OCT/NOV 2005: PAPER 2, SUN HOTEL, (d),

2 **(d)** Outline briefly how a rise in the country's exchange rates might affect the Sun Hotel. [4]

OCT/NOV 2005: PAPER 3, MERCADO PLC, Q6.

6 Discuss whether Mercardo should continue to manufacture products from the factory that pollutes the local environment. [20]

MAY/JUNE 2005: PAPER 1, Q6,

6 Discuss how businesses in your country might be influenced by government intervention. [20]

MAY/JUNE 2005: PAPER 3, WOTTON COLLEGE, Q3, Q7.

3 Discuss the possible advantages and disadvantages to Wotton College of taking over Midvale School. [16]

7 To what extent should a business such as Wotton College take the interests of stakeholders into account when making decisions? [20]

OCT/NOV 2004: PAPER1, Q1, Q3 (a),

1 **(a)** Define the term 'free market economy'. [2]

(b) State **three** legal controls which affect the way in which businesses operate. [3]

3 **(a)** State **two** different ways in which the size of a business might be measured. [2]

OCT/NOV 2004: PAPER 2, BALJIR THE BIILDERS, (c), (d).

1 **(c)** Discuss the likely objectives of the stakeholders in Baljir's business. [8]

(d) Examine the problems that Baljir might experience from expanding the business. [10]

MAY/JUNE 2004: PAPER 1, Q1, Q6.

1 **(a)** Define the term 'sole trader'. [2]

(b) Explain **one** disadvantage of being a sole trader. [3]

6 Discuss how a government's macro-economic policies might affect the ability of businesses to achieve their objectives. [20]

MAY/JUNE 2004: PAPER 2, CANDY SHOWS LTD, a (i), (ii), (d), LASTING MEMORIES, (b), (d).

1 **(a)** Explain the following terms:
- **(i)** economies of scale (line 10) [3]
- **(ii)** multinational (line 12). [3]

(d) Examine whether Candy Shows Ltd. should become a public limited company if the management decides to arrange much larger events. [8]

2 **(b)** Suggest why the Government supported Lasting Memories. [6]

(d) Examine the marketing difficulties that Ahmed and Beatrice might have if they expand into export markets. [10]

MAY/JUNE 2004: PAPER 3, DECISION TIME AT TOPAZ, c (i), (e).

1 **(c)** Assume that the directors decide to export "Robot Warrior" and "Gita Doll" to your country.
- **(i)** Outline **two** problems that Topaz might experience. [4]

(e) Do you think that Topaz should introduce Management by Objectives? Justify your answer.[8]

OCT/NOV 2003: **PAPER 1, Q1, Q4, Q5(a), Q6(b).**

1 **(a)** Distinguish between the public sector and private sector of an economy. [2]

(b) Explain why some goods and services are provided by the public sector in your country. [3]

3 **(a)** Distinguish between the mean and the median of a set of data. [2]

(b) Explain one business situation where the mode would be a useful measure. [3]

5 **(a)** Analyse the benefits to your country's economy of a multinational manufacturer of consumer goods locating a factory there. [8]

6 **(b)** Discuss why the owners of a private limited company might wish to convert it into a public limited company. [12]

OCT/NOV 2003: **PAPER 2, ROUND PLC, a (i), (ii), (d).**

1 **(a)** Define the following terms:
- **(i)** plc (public limited company) (line 1) [3]
- **(ii)** market share (line 2) [3]

(d) Evaluate the impact of new technology on any **two** stakeholder groups of Round plc. [10]

MAY/JUNE 2003: PAPER 1, Q1.

1 **(a)** Distinguish between secondary and tertiary levels of activity. [2]

(b) Outline the benefits to a country of successful businesses. [3]

MAY/JUNE 2003: PAPER 2, THE FURNITURE MAKER, (a), (b), (c).

1 **(a)** Define the following terms:
- **(i)** economies of scale (line 2) [3]
- **(ii)** fiscal policy (line 7). [3]

(b) Explain **two** possible reasons why the government has encouraged foreign businesses to locate in its country. [4]

(c) Analyse the factors that the multi-national business might have considered when deciding to locate near to The Furniture Maker. [8]

MAY/JUNE 2003: PAPER 3, FAST FOOD FRANCHISE, a(i),(ii).

1 **(a)** **(i)** Analyse the advantages and disadvantages to Rashid and Shivani of their decision to take out a franchise. [8]

(ii) Discuss the likely impact of economic constraints on the future success of this business. [8]

OCT/NOV 2002: **PAPER 1, Q1, Q3, Q5 (a), Q7 (a).**

1 **(a)** State **two** different methods of measuring the size of a business. [2]
(b) Briefly explain why it might be difficult to compare the size of different businesses. [3]
3 Outline how, in your country, legal constraints might limit business activity. [5]
5 **(a)** Analyse the advantages and disadvantages for a private limited company of converting to a public limited company (plc). [10]

OCT/NOV 2002: **PAPER 2, TRAVELSTOP HOTEL, a (ii), (d).**

1 **(a)** Define the following terms:
(ii) Interest rates (line 23) [3]
(d) Evaluate the impact on the Travelstop Hotel of a rise in interest rates.[10]

MAY/JUNE 2002: PAPER 1, Q1, Q5,

1 **(a)** Distinguish between private and public limited companies. [2]
(b) Explain the significance for companies of limited liability. [3]
5 Discuss how government policies may affect business decision making in your country.[20]

MAY/JUNE 2002: PAPER 2, THE EATING SHOP, (d).

1 **(d)** Discuss the relative advantages and disadvantages of businesses such as The Eating Shop continuing to grow in size.[10]

MAY/JUNE 2002: PAPER 3, SPORTSWIZE LIMITED, (e).

1 **(e)** Evaluate the impact on Sportwize Ltd. of the predicted changes in Government economic policy (lines 10–13). [10]

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