r/IGCSE Resources

Topical Notes for Cambridge IGCSE

Business Studies (0450)

Authored by
abu foofoo

1st edition, for examination until 2026

SECTION 1: UNDERSTANDING BUSINESS ACTIVITY

THE ECONOMIC PROBLEM:

Need: A good or service essential for living e.g. water, food and shelter.

Want: A good or service that people would like to have, but not required for living e.g. cars and movies.

Scarcity: Is the basic economic problem. It states that there are unlimited wants but limited resources to produce goods and services to satisfy those wants.

OPPORTUNITY COST:

Is the next best alternative forgone by choosing another item. Due to scarcity, people are often forced to make choices. When a government is left with the choice of building an airport or hospital, they have to decide on one. If they choose the hospital, then the benefits of the airport become the opportunity cost.

FACTORS OF PRODUCTION:

Are resources required to produce goods or services? There are 4 categories:

Land: The natural resources that can be obtained from nature such as minerals, forests, oil and gas. The reward is rent.

Labour: The physical and mental efforts put in by workers in the production process. The reward is a wage/salary.

Capital: The finance, machinery and equipment needed for production of goods. The reward is interest received on the capital.

Enterprise: The risk taking ability of the person who combines the factors of production to produce a good or service. The reward is profit.

SPECIALIZATION:

It is when a person or organisation concentrates on a task at which they are best at. The tasks are divided among people who are skilled and efficient at them. Division of labour is a form of specialisation.

ADVANTAGES	DISADVANTAGES
Increase in efficiency	Can get monotonous for workers since they are doing the same job.
Production is faster. Time and energy are saved.	Higher labour turnover due to workers demanding higher salaries due to their importance in production.
Quicker to train labourers, as they focus on one task only.	Over-dependency. If a worker is absent, the production process may halt since nobody else may be able to do the task
Skill development.	

PURPOSE OF BUSINESS ACTIVITY:

A business is an organisation that uses all the factors of production to produce a good or service that satisfies human wants and needs. Businesses aim to solve scarcity by using scarce resources to produce and sell goods and services that consumers need and want.

ADDED VALUE:

Is the difference between cost of materials and selling price of the product. Every business wants to add value to their products to ensure higher profits. Added value is increased by:

- **Reducing Cost of Materials.**
- **Increasing Selling Price.**

However, reducing cost of materials may create poor quality products and only lowers the value of the product, since people may not buy it. If prices are raised, customers may be lost since they will turn to cheaper products.

However, there are new ways to add value:

- **Branding.**
- **Adding Special Features.**
- **Provide premium services.**

PRIMARY SECTOR:

This is the extraction and usage of natural resources. Businesses in the primary sector may include mining, fishing or oil drilling.

SECONDARY SECTOR:

This is the manufacturing of goods using the resources from the primary sector. Businesses in the secondary sector may include cloth production, automobile manufacturing or steel industries.

TERTIARY SECTOR:

This sector provides service in the economy. Businesses in the tertiary sector may include hotels, travel agencies or hair salons.

Industrialization: This is when an increase in the manufacturing sector occurs

Deindustrialization: This is when an increase in the tertiary sector occurs while a decline in the manufacturing sector happens. This is due to growing incomes of consumers which increases demand for more services.

PUBLIC & PRIVATE SECTOR:

The private sector is where private individuals own and run business ventures. They aim to make a profit and all costs and risk are handled by the individual.

The public sector is where the government owns and runs business ventures. They aim to provide back to the society. They don’t work to earn a profit and funds come from tax paying citizens.

A mixed economy is one where both the public and private sector exists.

ENTREPRENEURSHIP:

An entrepreneur is a person who organises, operates and takes risks for a new business venture. The entrepreneur brings together the factors of production to produce goods or services. Characteristics include:

- **Risk taker.**
- **Creative.**
- **Hard working.**
- **Effective communicator.**

BUSINESS PLAN:

A document that contains the business objectives and important details such as the owners of the business. It provides detail on the target market, financial forecast and requirements needed to operate the business. There are many benefits of a business plan such as:

- **Reduces risks.** The owners will find it much easier to run the business due to all the details being available.
- **Helps get a loan easier.** A business plan can help persuade banks for a loan.
- **Helps motivate employees.** The business objectives being clearly available for the employees can motivate them to achieve these objectives.

GOVERNMENT SUPPORT FOR BUSINESS STARTUPS:

Governments help start-ups for:

- **Provide employment.** This reduces unemployment and increases living standards.
- **Contribute to growth.** This can help increase GDP.
- **Contribute to the exports.** If they become successful, they can contribute to the country's total exports.
- **Introduce fresh ideas and technologies.** They can help businesses and the industry with new innovative ideas.

Governments support business start-ups by:

- **Giving tax breaks.** Governments can withdraw or lower taxation for new firms for a certain period of time.
- **Give grants for capital.** Provide financial aid to new firms for investment.
- **Organise advice.** Governments can help provide business advice to potential entrepreneurs such as legal ones.
- **Give grants for training.** Provide financial aid for workforce training.

MEASURING BUSINESS SIZE:

Business size can be measured by:

- **Number of employees.** Larger firms have a larger workforce employed.
- **Value of output.** Larger firms are likely to produce more than smaller ones.
- **Value of capital employed.** Larger businesses are likely to employ much more capital than smaller ones.

BUSINESS GROWTH:

There are two types of growth a business can implement:

- **Internal growth.** Where the business expands its existing operations. This is slow but easier to manage.
- **External growth.** Where the business takes over or merges with another business

Merger: When the two owners of the businesses agree to join firms to make one business.
Takeover: When one business buys out the other business.

Types of external growth:

- **Horizontal integration.** This is when one firm merges with another one in the same industry at the same stage of production. Advantages include:
  - Greater market share.
  - Economies of scale are used.
  - Reduces competitors.

- **Vertical integration.** This is when one firm merges with another firm in the same industry but at a different stage of production. There are two types of vertical integration:

  - **Backward vertical integration:** When one firm merges with another firm in the same industry but at an earlier stage. Advantages include:
    - Assured supply of materials
    - Profit margin of supplying firm is absorbed.
    - Supplying firm can now be prevented from supplying to competitors.

  - **Forward vertical integration:** When one firm merges with another firm in the same industry but at a later stage. Advantages include:
    - Assured outlet for products.
    - Profit margin of retailer is absorbed.
    - Retailer can be prevented from selling competitor goods.

- **Conglomerate integration/Diversification:** When one firm merges with another firm in a completely different industry. Advantages include:
  - Businesses have activities in more than one country, which spreads its risks.
  - Transfer of ideas could occur, which can improve quality and demand for the two products.

DISADVANTAGES OF GROWTH:

- **Lack of funds.** Growth requires a lot of capital.
- **Lack of expertise.** Growth is a long and difficult process.

- **Difficult to control staff.** The staff grows as a business grows, making it harder to control, coordinate and communicate with everyone.

WHY BUSINESSES STAY SMALL:

- **Type of industry.** Hairdressers give personal service therefore can't grow.
- **Market size.** If the total customers are small, there is no need to grow.
- **Owners' objectives.** Not all owners want to increase the size of their firms. Some prefer keeping their business small for:
  - Personal contact with customers
  - Flexibility in controlling and running the business.
  - More control over decision-making
  - Less stressful.

WHY BUSINESSES FAIL:

- **Poor management:** Lack of experience and planning leads to bad decision making. Mistakes such as location and suppliers can cause failure.
- **Over-expansion:** This increases costs if the business expands too quickly. Managing employees gets out of control.
- **Poor financial management:** If the owner does not know how to manage finance properly, cash shortages can occur. A poor cash flow will cause the business to fail.
- **Failure to plan for change:** The demands of customers keep changing. This means firms must be ready to change to meet the demand of their customers. Failure to do so results in customer loss.

WHY NEW BUSINESSES ARE LIKELY TO FAIL:

- **Lack of experience:** Firms can get kicked out of the market easily.
- **New to the market:** New firms may not understand the trends of the market that existing competitors have mastered.
- **Not many sales:** New firms can grow by increasing sales. If they're not selling much, there is a greater risk of failing.
- **Lack of capital:** Financial issues can quickly become the main issue of new firms if they are not careful with their cash flows. It is only after making a profit they can reinvest in the business.

SOLE TRADER:

A business organization owned and controlled by one person.

ADVANTAGES	DISADVANTAGES
Easy to set up. Few legal formalities involved. Low amount of capital needed.	Unlimited liability. All investments are at risk if debts are not paid off.
Full control. Decision-making is quick and easy.	Unincorporated. The business stops if the owner dies. There is no separate legal status.
Profit. All profit generated goes to the owner.	Lack of capital. There is little capital for growth and expansion so profit will be low.
Personal. There is direct contact with customers which can increase loyalty.	Full responsibility. The sole owner has to undertake all running activities, which puts on a large workload.

PARTNERSHIP:

An agreement between two or more people to own, finance and run a business jointly. A partnership agreement is a legal document that all partners have to sign.

ADVANTAGES	DISADVANTAGES
Easy to set up. There are few legal formalities involved	Unlimited liability. All investments are at risk if debts are not paid off.
More capital. Partners can invest more capital compared with sole traders.	Conflict. Arguments may occur between partners when making decisions, which wastes time.
New skills and ideas. The partners may have creative ideas that the business can benefit from and profit.	If one partner is bad and lazy, profits can be affected which can annoy the other partner.
	Unincorporated. There is no separate legal status. Business ends if the owner dies.

JOINT-STOCK COMPANIES:

Private Limited Companies: One or more owners can sell shares to people known (Family & Friends).

Public Limited Companies: Two or more owners who can sell shares to any individual/organization through stock exchanges.

ADVANTAGES OF PUBLIC LTC	DISADVANTAGES OF PUBLIC LTC
Limited liability. Owners are responsible for their investments if debts are not paid off.	Accounts have to be public. This can make competitors learn secrets to increase profits.
Incorporated. Business has a separate legal status which ensures continuity.	AGM meetings have to occur. This is when shareholders chose a new board of directors. This is very expensive to hold.
Easy to obtain capital. Selling shares can raise huge sums of capital.	Too many shares sold can make owners lose control of the company.
	Managerial problems may occur due to the large size. Communication problems will slow down decision-making.

ADVANTAGES OF PRIVATE LTC	DISADVANTAGES OF PRIVATE LTC
Limited liability. Owners are responsible for their investments if debts are not paid off.	Accounts have to be public. This can make competitors learn secrets to increase profits.
Incorporated. Business has a separate legal status which ensures continuity.	AGM meetings have to occur. This is when shareholders chose a new board of directors. This is very expensive to hold.
Easy to obtain capital. Selling shares can raise huge sums of capital.	Selling shares to the public is difficult. Legal documents are required to be able to do so.

FRANCHISE:

This is when the owner of a business (**FRANCHISOR**) grants a licence to another person **(FRANCHISEE)** to use their business idea with the same brand logo, image etc….

	ADVANTAGES	DISADVANTAGES
TO THE FRANCHISOR	Management is responsible to the franchisee. Low cost of business expansion. Franchisees have a better understanding of the local tastes meaning they are able to sell appropriately.	Profits need to be shared with the Franchisee. If one franchise fails, the reputation of the entire brand is affected. Need to supply raw material and training to the Franchisee.
TO THE FRANCHISEE	Raw materials are paid for by the franchisor. Training is paid for by the franchisor. If the Franchisor is a famous business, chances of failing are low.	Need to pay licence to the franchisor to continue running the franchise. No full control as they have to follow franchisor standards and rules. Cost of setting up is not covered.

JOINT VENTURES:

Is an agreement between two or more businesses to work together on a project.

ADVANTAGES	DISADVANTAGES
Risks and costs are shared.	Different cultures and styles of leadership may affect decision-making.
Market and product knowledge of the area is known by one of the businesses.	Any mistakes will damage the businesses reputations.
The market potential is increased.	

PUBLIC SECTOR CORPORATIONS:

Are businesses owned by the government and run by directors appointed by the government. They provide essential services such as water and electricity. They aim to:

- **Keep prices low to be affordable for everyone.**
- **Provide job opportunities.**
- **Offer a service to the public.**

ADVANTAGES	DISADVANTAGES
Reduces waste in an industry.	Motivation may not be high since profit is not an objective.
Provides essential services to the people.	No competition so no incentive to improve.
Some businesses are too important to be owned by an individual.	Businesses could be run for a political reason, to gain government popularity and support.

BUSINESS OBJECTIVES:

Are aims and targets that a business works towards to help it run successfully. Benefits of setting objectives:

- **Increases motivation:** Employees and managers now have clear targets to work towards.
- **Easier decision making:** Less time wasted as decisions will be taken in order to achieve business objectives.
- **Unites the business.**

Objectives vary with different businesses. Businesses in the private sector hope to achieve these objectives:

- **Survival:** New or small firms usually have survival as a primary objective. To achieve this, firms could decide lower prices which would mean sacrificing profits.
- **Profit:** This is the income of a business from its activities after deducing total costs. Profit is required for further investment as well as payment of return to shareholders.
- **Growth:** After survival, a business will aim to grow. A larger business can ensure greater job security and salaries for employees. The business can also benefit from higher market share.
- **Market share:** Increased market share can bring many benefits such as increased customer loyalty and brand image.
- **Service to society:** Social enterprises do not aim for profit but rather set economical objectives. They provide social, financial and environmental aid. They help the underprivileged and unemployed.

Business objectives do not remain the same forever. If a firm is facing economic recession, it may change its objective from profit to survival.

STAKEHOLDERS:

Are any person or group that is interested in or directly affected by the performance or activities of a business.

STAKEHOLDER GROUP	DESCRIPTION	OBJECTIVES
Owners **(INTERNAL)**	Risk takers of the business. They invest capital into the business.	• Share of the profits to reinvest. • Growth so the value of their investment increases.
Workers **(INTERNAL)**	These are the people employed by the business and are directly involved in its activities.	• Regular payment for the work done. • Job security, they do not want to look for new jobs. • Job satisfaction and motivation.
Managers **(INTERNAL)**	Also employees but they control the work of others. In charge of making decisions.	• High salaries due to the important work they do. • Job security. • Growth of the business so that they can control a bigger and well known business
Customers **(EXTERNAL)**	They purchase and consume goods making them important. Without enough, businesses will make losses and fail.	• Safe and reliable products. • Value for money. • Well-designed products of good quality.
Government **(EXTERNAL)**	Protect workers and customers by passing laws. Responsible for the country's economy.	• Expect all firms to follow the law. • Want businesses to succeed to improve employment and government revenue.
Community **(EXTERNAL)**	Greatly affected by business activity. Products are beneficial to them.	• Products are socially responsible. • Jobs for the working population.
Banks **(EXTERNAL)**	Provide finance for businesses.	• Expect businesses to be able to pay interest and capital lent.

PUBLIC SECTOR BUSINESSES:

Government owned and controlled businesses do not have the same objectives as those in the private sector. Objectives include:

- **Financial:** Although they do not aim for profit, they still have to meet profit targets set. This is so reinvestments can be made.
- **Service:** Provide a service to the community that is of high quality.
- **Social:** Aid the community by providing employment, providing good quality goods and services at an affordable rate.

CONFLICT BETWEEN STAKEHOLDERS:

- Workers will want higher salaries. However, shareholders will not like this as dividends will be less.
- Owners may want to expand by building factories. However, the community will not like this due to pollution.
- Managers may come to a conclusion on a decision. However, employees may not like it due to it being unethical or difficult to adapt to.

SECTION 2: PEOPLE IN BUSINESS

MOTIVATION:

Reasons for people working:

- **Standard of living:** Earning incomes satisfies their needs and wants.
- **Security:** A job means that they can always maintain or grow their standard of living.
- **Experience and status:** Working improves skills and gives a reputable title in society.
- **Satisfaction:** People work for the satisfaction of having a job.

Motivation is the reason why employees want to work hard and effectively for the business. Money is the main motivator. There are other factors of motivation such as social needs and esteem needs.

Motivating workers is crucial, as their productivity and effectiveness increases. They become less absent and are less likely to leave the job. This increases the firm's output leading to higher profits.

MOTIVATION THEORIES:

F.W. TAYLOR:

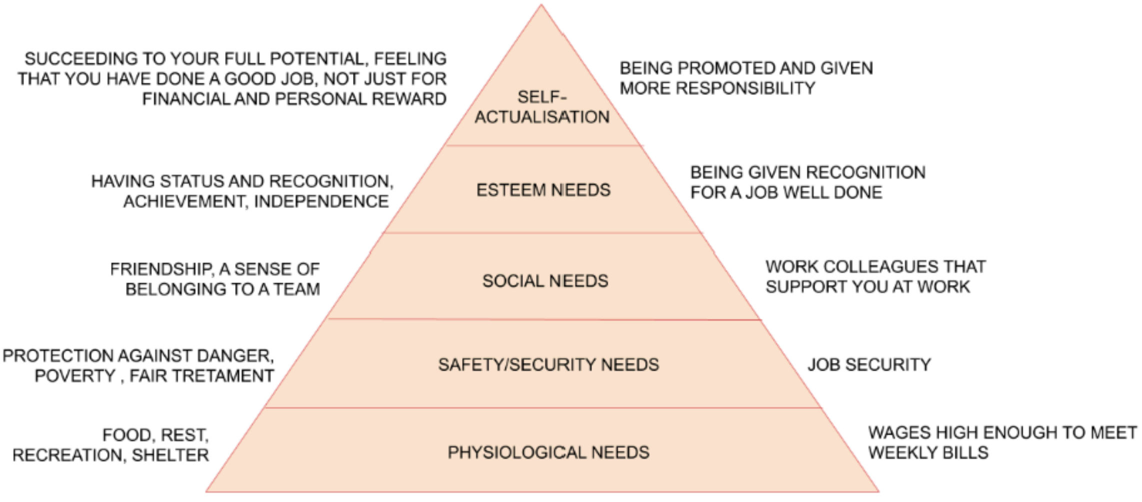
Taylor based his ideas on the assumption that workers were motivated by personal gains, mainly money. He believed increasing pay would increase productivity and output produced. Therefore, he introduced the piece-rate system, whereby workers get paid for the number of outputs produced. This means in order to gain more money, workers would have to produce more. He also suggested introducing division of labour to maximise output.

However, this theory is not accurate. There are various other motivators, some even more important than money. Piece-rate is not practical in situations where output cannot be measured (service industries) and also high output may not lead to high quality.

MASLOW'S HIERARCHY:

Maslow's hierarchy of needs show that employees are motivated by each level of the hierarchy. Managers can identify the level of their workers and take action to advance them to the next level.

However, this theory does not apply to every worker. Some employees may not need social needs to be motivated but would prefer recognition and appreciation from their seniors.



HERZBERG THEORY:
Herzberg's two factor theory suggests that people have to sets of needs:

BASIC ANIMAL NEEDS (HYGIENE FACTORS):
- Status
- Security
- Work conditions
- Salary
- Relationship with staff

PSYCHOLOGICAL GROWTH NEEDS (MOTIVATORS):
- Achievement
- Recognition
- Promotion
- Person growth

According to Herzberg, the hygiene factors need to be satisfied first, or else they'll act as demotivators. However, hygiene factors don't act as motivators as their effect quickly wears off. Motivators will truly motivate workers to work more effectively.

MOTIVATING FACTORS:
FINANCIAL MOTIVATORS:
- **WAGES:** Paid weekly. Calculated in two ways:
  Time-Rate: Based on the number of hours worked. Although output may increase, it doesn't mean that workers will use their time to produce more. They may simply waste time and not produce much since their pay is based on how long they work. Productive and unproductive workers will get paid the same, irrespective of their output.
  Piece-Rate: Based on the number of outputs produced. However, this doesn't ensure quality. This may demotivate productive workers as they get paid the same as inefficient workers.

- **SALARY:** Paid monthly or annually.
- **COMMISSION:** Payment based on a percentage of sales made. The higher the sales, the more the pay. This will encourage the salesperson to sell more products, however if no sales are made no pay is made which can be stressful.
- **BONUS:** Additional amount paid to workers for good work.
- **PERFORMANCE-RELATED PAY:** Payment based on performance. An appraisal is used to measure this performance and pay is given based on this.
- **PROFIT-SHARING:** A proportion of the company's profit is distributed to workers. This motivated workers to work better so a higher profit is made.
- **SHARE OWNERSHIP:** Shares in the firm are given to employees so that they become

part owners of the company. This increases loyalty as a sense of belonging is achieved.

NON-FINANCIAL MOTIVATORS:

These are known as Fringe benefits which are non-financial rewards given to employees. They can include:

- Company car
- Free healthcare
- Free accommodation
- Free holidays

JOB SATISFACTION: Is the enjoyment derived from the feeling that you've done a good job.
JOB ROTATION: Involves workers swapping around jobs and doing a specific task for a limited time then changing again. This increases the variety of work and it makes it suitable to use if a worker is absent/ill. The work itself is not made interesting, but switching of tasks avoids the boredom.
JOB ENLARGEMENT: Extra tasks of similar level of work are added. These tasks do not add greater responsibility, but rather make the work more interesting.
JOB ENRICHMENT: Involves adding tasks that require more skill and responsibility to a job. This gives a sense of trust and motivates them to carry out extra tasks effectively. Some additional training may be given.
TEAM WORKING: A group of workers given responsibility for a particular process. They decide as a team how to organise and carry out the tasks. They take part in decision making and take responsibility for the process.
OPPORTUNITIES FOR TRAINING: Providing training will make workers feel that their work is being valued. Training also provides them opportunities for personal growth and development.
OPPORTUNITIES FOR PROMOTION: Providing opportunities for promotion will get workers to work more efficiently.

ORGANISATIONAL STRUCTURE:

Refers to the levels of management and division of responsibilities within a business.

ADVANTAGES
Employees are aware of which communication channel is used.
Everyone knows their position.
Shows the links and relationship.
Sense of belonging.

Span of Control: is the number of subordinates working directly under a manager in the organizational structure.
Chain of Command: Allows instructions to be passed on from senior managers to lower levels of management and vice versa.

ADVANTAGES OF SHORT CHAIN OF COMMAND AND WIDE SPAN OF CONTROL	DISADVANTAGES OF SHORT CHAIN OF COMMAND AND WIDE SPAN OF CONTROL
Communication is quicker.	Managers could lose control due to many people working under him.
Top managers are less remote from lower employees.	Less opportunities for promotion which can lead to labour turnover.
Delegation is encouraged due to a wider span of control.	

ADVANTAGES OF LONG CHAIN OF COMMAND AND NARROW SPAN OF CONTROL	DISADVANTAGES OF LONG CHAIN OF COMMAND AND NARROW SPAN OF CONTROL
Managers can manage easier leading to the risk of losing control out of topic.	Communication is slow.
More opportunities for promotion which reduced labour turnover.	Top managers are remote from lower employees.
	Delegation is not due to a wider span of control.

MANAGEMENT:

The five roles of management are:

- **Planning:** Setting aims and targets for the organisations to achieve. They should plan the resources required to achieve those targets which give a clear sense of purpose and direction.
- **Organizing:** Managers should organize the resources. This includes allocating responsibilities with delegation being possible.
- **Coordinating:** Managers should ensure that each department is coordinating with one another to achieve aims. This improves effective communication.
- **Commanding:** Managers need to guide, lead and supervise their employees to make sure they are keeping to deadlines and achieving targets.
- **Controlling:** Managers must try to assess and evaluate the performance of each of their employees.

DELEGATION:

Is giving subordinates the authority to perform some tasks on a higher level.

ADVANTAGES TO MANAGERS	ADVANTAGES TO SUBORDINATES
Managers cannot do all the work by themselves, so lowers workload.	Work is more interesting and rewarding, which increases job satisfaction.
Managers can measure the efficiency and effectiveness of their subordinates' work.	Increase in importance and trust.
	Can be a method of training

However, managers may be reluctant to delegate as the subordinates may do a better job, which increases enviousness and jealousy.

LEADERSHIP STYLES:

Refers to the different approaches used when dealing with people when in a position of authority. There are three types:

- **AUTOCRATIC STYLE:** Where managers expect to be in charge of the business. They do all the decision making. There is no involvement of employees. Communication is one-way, from top to bottom. This is found in police and armed forces.
- **DEMOCRATIC STYLE:** Where managers involve employees in decision making. Communication is two-way, from top to bottom and vice versa. Information about future plans is openly discussed with employees.
- **LAISSEZ-FAIRE:** Makes the broad objective of the business known to the employees and leaves them to do their own decision-making and organize tasks. Communication is difficult due to no clear sense of direction. Managers have a very limited role.

TRADE UNIONS:

Is a group of workers who have joined together to ensure their interests are protected. They negotiate with the firm for better conditions and can threaten to take industrial action if their requests are denied, such as overtime ban or work slow.

ADVANTAGES OF WORKERS JOINING TRADE UNIONS	DISADVANTAGES OF WORKERS JOINING TRADE UNIONS.
Strength in number.	Costs money to be a member.
Improved conditions of employment.	May be asked to take action when they don't agree.
Improved working conditions.	
Financial support.	

ROLE OF H.R. DEPARTMENT:

- **Recruitment and selection.** Attracting and selecting the best candidates for job posts.
- **Wages and salaries.** Set wages and salaries to motivate employees.
- **Industrial relations.** Ensure effective communication between management and workforce.
- **Training programmes.** Give employees training to increase productivity.
- **Health and safety.** All laws on health and safety in the workplace should be adhered to.
- **Redundancy and dismissal.** Managers should dismiss any unsatisfactory/misbehaving employees and make them redundant.

RECRUITMENT:

Is the process of identifying that the business needs to employ someone up to the point application has arrived.

1) **Vacancy Arises** when an employee resigns or is dismissed. A job analysis has to be prepared.
2) **Job Analysis** identifies and records the tasks and responsibilities relating to the job
3) **Job Description** is prepared which outlines the responsibilities and duties to be carried out by the employed. It contains information such as salary and working hours,
4) **Job Specification** is a document that outlines the requirements, qualifications and skills needed to take up the job.
5) **Advertising the vacancy**
6) **CV** is filled and sent. It contains the details of the person's qualifications, experience. Qualities and skills.
7) **Shortlist** is made of best suited candidates.
8) **Interviews** are held which assess qualities and character of the applicant.
9) **Rejection** is sent to unsuccessful candidates.

There are two ways the business can recruit:

- **Internal recruitment** is when a vacancy is filled by an existing employee. Does not require advertisement.

ADVANTAGES	DISADVANTAGES
Time and money are saved.	No new skills are introduced.
Person is already known to the business.	Jealousy may arise among workers
Can motivate employees to work harder.	

- **External recruitment** is when a vacancy is filled by someone who is not an existing employee and is new to the business. This requires methods of advertisement such as:
  - Newspapers.
  - Job centres.
  - Recruitment agencies.

ADVANTAGES	DISADVANTAGES
If a person is skilled, it can motivate workers.	Costs time and money.
New ideas are introduced.	People have to adapt to the business.

Contract of Employment is a legal agreement between the employer and the employee, which lists the rights and responsibilities of workers. It includes:

- Name of the employer and employee.
- Job title.
- When payment is made.
- Working hours.

EMPLOYMENT:

There are two types of employment contracts:

- **Part-time** is between 1 and 30-35 hours a week.
- **Full-time** is 35 hours or more a week.

ADVANTAGES OF PART-TIME	DISADVANTAGES OF PART-TIME
More flexible hours of work.	Difficult communication when unavailable
Less expensive	Less likely to be promoted
Can ask to work during busy times.	Unlikely to be trained due to temporary job
ADVANTAGES OF FULL-TIME	**DISADVANTAGES OF FULL-TIME**
More promotion opportunities.	Expensive to recruit.
Easy to communicate with.	Unwilling to work during busy times.
Is trained for effective productivity.	Less flexible hours of work.

TRAINING:

Is important as it improves the workers skills and knowledge and helps the business to be more efficient and productive. It increases chances of promotion. There are three types:

- **Induction Training:** an introduction given to a new employee explaining the firms' activities, customs and procedures.

ADVANTAGES	DISADVANTAGES
Helps settle into their job quickly.	Time-consuming.
Less likely to make mistakes.	Wages are paid even though no work is done.
	Delays start time of employees.

- **On-the-job training:** Is by watching a more experienced worker doing the job.

ADVANTAGES	DISADVANTAGES
Ensures some productivity is done.	Bad habits may be picked up.
Costs less than off-the-job.	Trainer won't be as productive as some time is spent teaching.
Training to specific needs of the business.	May not be a recognisable way of training.

- **Off-the-job training:** Is training away from the workplace.

ADVANTAGES	DISADVANTAGES
Broad range of skills can be taught.	Costs are high.
Employees may be multi-tasked and suitable to do various jobs in the company when the need arises.	Wages are paid even though no work is done.
	Workers may leave the job after the qualification is acquired.

WORKFORCE PLANNING:
The establishment of the workforce needed by the business for the foreseeable future.
Workforce may be downsized because of:
- **Automation.**
- **Relocation.**
- **Falling demand.**
- **Jobs are no longer needed.**

There are two ways of downsizing:
- **Dismissal** is when a worker is told to leave due to unsatisfactory behaviour or work.
- **Redundancy** is when an employee is no longer needed and loses their work. It is not their fault and may be given money as compensation.

Workers could also leave by resigning or retiring.

LEGAL CONTROLS OVER EMPLOYMENT ISSUES:
Governments have introduced many laws to protect and ensure equal treatment between employees. These include:
- **Protection against unfair discrimination.**
- **Health and safety.** Protection from dangerous machinery and ensuring hygiene conditions.
- **Against unfair dismissal.**
- **Wage protection.** A legal minimum wage must be paid. However, costs may rise and workers will be made redundant which causes a rise in unemployment.

An **industrial tribunal** is a legal meeting which considers workers complaints of unfair dismissal or discrimination. This hears both sides of the case and may give the worker compensation if the dismissal was unfair.

EFFECTIVE COMMUNICATION:
Communication is the transfer of a message from the sender to the receiver.
Internal communication is between two members of the same organisation.
External communication is between the organisation and other organisations or individuals.

Effective communication involves:
- **A transmitter/sender** of the message.
- **A medium** e.g. letter, telephone or text message.
- **A receiver** of the message.
- **A feedback/response** to confirm the message has been received and acknowledged.

One-way communication: Involves a message which does not require feedback.
Two-way communication: When the receiver gives a response to the message received. It ensures the receiver has understood the message and acted upon it. It involves a sense of

belonging, which could motivate employees.

Downward communication: Messages from managers to subordinates. Top to bottom.
Upward communication: Messages/feedback from subordinates to managers. Bottom to top.
Horizontal communication: Occurs between people on the same level of an organization structure.

COMMUNICATION METHODS:

- **Verbal** includes telephone conversation, face-to-face conversation or a video meeting.

ADVANTAGES	DISADVANTAGES
Quick and efficient.	Discussions may occur which can waste time.
Immediate feedback.	Not guaranteed that everyone is listening or the message is understood.
Speaker can reinforce the message to influence the listeners (Body language etc..)	No written record to be kept later.

- **Written** includes letters, memos or text-messages.

ADVANTAGES	DISADVANTAGES
Evidence for later reference.	Direct feedback may not be possible.
Is detailed.	Language could be difficult to understand.
Can be copied and sent to many people.	Cannot ensure message has been received and acknowledged.

- **Visual** includes diagrams, charts or videos.

ADVANTAGES	DISADVANTAGES
Can be appealing and attractive.	No feedback.
Can be used along written materials.	May not be understood properly

FACTORS THAT AFFECT COMMUNICATION METHODS:

- **Speed:** If the receiver has to get the information quickly, then a telephone call would be used. Otherwise, an email would be more appropriate.
- **Cost:** If the company wants to keep costs low, then letters may be used. Otherwise, posters could be used.
- **Importance of written record:** If the message contains details that need to have a written record like receipts, a written method is used.
- **Importance of feedback:** If feedback is important, then a verbal or written method would be used.
- **Message detail:** If the message is very detailed, then written and visual methods will be used.

- **Formal communication:** Messages are sent using professional language.

Informal communication: Messages are sent with the use of everyday language.

<u>COMMUNICATION BARRIERS:</u>

Are factors that stop effective communication.

Barrier	Description	How the barrier can be overcome
Problems with the sender	Language which is too difficult is used. 'Jargon' or technical terms may not be understood by the receiver	The sender should ensure that the message uses language which is understandable. Use of jargon or terms which are too technical should be avoided
	The sender uses verbal means of communication but speaks too quickly or not clearly enough	The sender should make the message as clear as possible. Feedback should be asked for to ensure the message is being understood
	The sender communicates the wrong message or passes it to the wrong receiver	The sender must make sure that the right person is receiving the right message
	The message is too long and too much detail prevents the main points being understood. This is again the fault of the sender	The message should be as brief as possible to allow the main points to be understood
Problems with the medium	The message may be lost so the receiver does not see it	It is important to insist on feedback. If no feedback is received then the sender assumes the message was lost
	The wrong channel has been used, e.g. an important message was put on the noticeboard which most people did not read	The sender must select the appropriate channel for each message sent
	If the message is sent down a long chain of command, the original meaning of the message may be lost. It could become distorted	The shortest possible channel should be used to avoid this problem
	No feedback is received	This could be because, e.g., a letter was sent to workers asking for their opinions. A meeting would have been more useful
	Breakdown of the medium, e.g. computer failure or postal strike	Other forms of communication should, where possible, be made available
Problems with the receiver	They might not be listening or paying attention	The importance of the message should be emphasised. The receivers should be asked for feedback to ensure understanding
	The receiver may not like or trust the sender. They may be unwilling to act upon his or her message	There should be trust between both the sender and the receiver or effective communication is unlikely. Perhaps another sender should be used who is respected by the receiver
Problems with feedback	There is no feedback	Perhaps no feedback was asked for. Perhaps the method of communication used did not allow for feedback
	It is received too slowly or is distorted. As with the original message, perhaps the feedback is passing through too many people before being received by the original sender of the message	Direct lines of communication between subordinates and managers must be available. Direct communication is always more effective

SECTION 3: MARKETING

MARKETING: Is the management process responsible for identifying, satisfying and anticipating consumers' requirements.

Marketing ensures to help:

- Identify Customer Needs
- Satisfy Customer Needs
- Maintain Customer Loyalty
- Gain information on Customers
- Anticipate changes in Customer Needs

Marketing objectives ensure:

- Raise awareness of their product
- Increase sales and revenue
- Increase market share
- Enter new markets
- Improve existing products

Customer spending patterns may change due to change in:

- Tastes and preferences
- Technology (Outdated products become no longer wanted)
- Income
- Ageing population

Markets have become more competitive due to:

- Globalization
- Improvement in transportation
- E-Commerce/Internet

Businesses can respond to change in spending patterns by:

- Maintaining good customer relationships
- Keep improving existing products
- Introduce new products
- Keep costs low

NICHE MARKET: A smaller segment of a large market which is tailored/specialised to a specific target audience.

ADVANTAGES	DISADVANTAGES
Can focus on customers easier.	Lack of economies of scale.
If competition is low, products can be sold at a high price.	Over-dependence can occur. If product is falling, business can fail
Firms can thrive in niche markets.	Little profit due to small customers

MASS MARKET: Product is sold to the whole market, with no specific target audience.

ADVANTAGES	DISADVANTAGES
Large number of Sales.	More competition.
More opportunities for Growth.	Prices might be low due to elasticity of the product available.
Can benefit from economies of scale (Purchasing).	Difficult to survive if new.

MARKET SEGMENTATION: The process of dividing the market into groups/segments based on characteristics. Age, Location, Gender, Income etc….

ADVANTAGES:

- Increased opportunities of sales
- Cost-effective as you are focusing on a specific group

PRODUCT-ORIENTED BUSINESS: Firms produce the product first then try to find a market for it. They focus on the quality and price of the product.
MARKET-ORIENTATED BUSINESS: Firm will conduct market research to see what consumers want and then produce the food. They set a marketing budget.
MARKET RESEARCH: The process of collecting, analysing and interpreting information about a market or product.

Market Research is needed because:

- To know if the product will sell successfully
- To know how to price the product
- To know if the product will profit

Market Research can be **Quantitative**, Numerical-Deals with Percentage, or **Qualitative**, Opinion/Judgement.

PRIMARY MARKET RESEARCH: The collection of original data which deals with directly collecting it from existing or potential customers. It is first-hand.

METHOD	DEFINITION	ADVANTAGES	DISADVANTAGES
Random Sample	People are selected randomly for research.	• Everyone has an even chance of being chosen.	• Unclear answers may be given.
Quota Sample	People are selected on a basis of certain characteristics.	• More accurate information may be given.	• Questions may be unclear if not detailed enough.
Questionnaires	Are means of collecting data face-to-face or by Online Surveys.	• Detailed information can be collected. • Online Surveys are cheap • Customers opinion can be collected	• Unclear questions can lead to unreliable answers. • Time-Consuming • Expensive
Interviews	Ready-made questions which are prepared for an interviewee.	• Explanation can be provided. • Body language and detailed responses can allow an accurate conclusion to be formed.	• Interviewer could force the interviewee to answer in a specific way. • Time-Consuming. • Expensive.
Focus Groups	A group of people who are representative of the target market who agree to provide information about the product.	• Detailed information provided.	• Time-Consuming. • Expensive. • Opinions can be influenced by others in the group.
Observations	Can take the form of recording, watching or auditing.	• Inexpensive.	• Basic figures, meaning information not detailed enough.

SECONDARY MARKET RESEARCH: Data that has already been made available by others. Second-hand.

INTERNAL SOURCES:

- Sales Department
- Finance Department
- Customer Service Department

EXTERNAL SOURCES:

- Government Statistics
- Newspapers
- Market research agencies
- Internet

Data can be presented by:

- Tally Tables
- Charts
- Graphs

MARKETING MIX: Refers to the different elements involved in the marketing of a good or service. It involves the 4 P's

PRODUCT:-

Product is the good or service being produced and sold in the market. These include:

- Consumer Goods
- Consumer Services
- Producer Goods
- Produces Services

A successful product:

- Satisfies the needs and wants of the customers.
- Stands out.
- Reasonably priced.

BRAND IMAGE: An identity given to a product that differentiates it from competitors products.
BRAND LOYALTY: Is when customers keep buying the same brand continuously instead of switching over to competitors' products.

IMPORTANCE OF BRAND IMAGE:

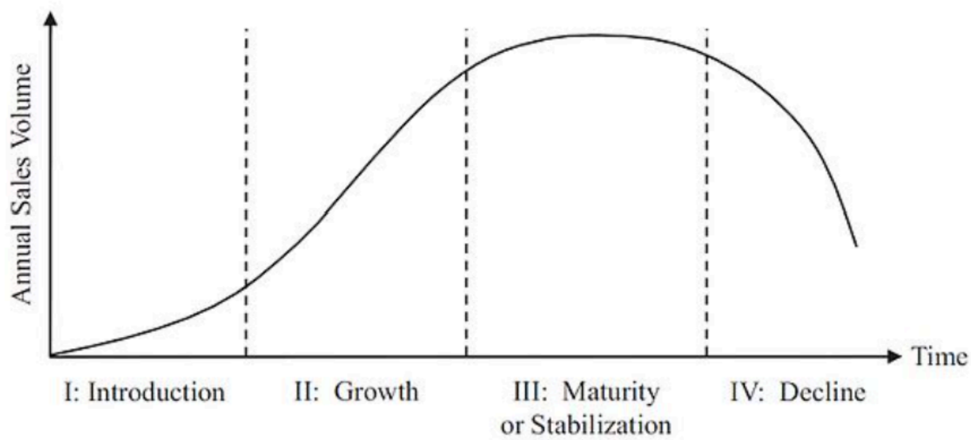
- Helps Customers recognize firm's products easier
- Easier to launch if Brand Image is well-known
- Can charge higher if Brand Image is well-known

- **The development of a Product:**
- Generate Ideas
- Select best Ideas
- Decide if firm will sell enough products for it to be a success
- Develop a Prototype
- Test Launch
- Launch Product if successful

ADVANTAGES	DISADVANTAGES
Increases potential for sales	Market Research is Expensive and Time-Consuming
Creates USP as an innovative product has been introduced.	Investments can be expensive.
Reduces risks due to market research	

Importance of Packaging:
- Protects the product
- Provide information about the product
- Helps customers recognize the product from the Brand Logo and Name.

Product Life Cycle:



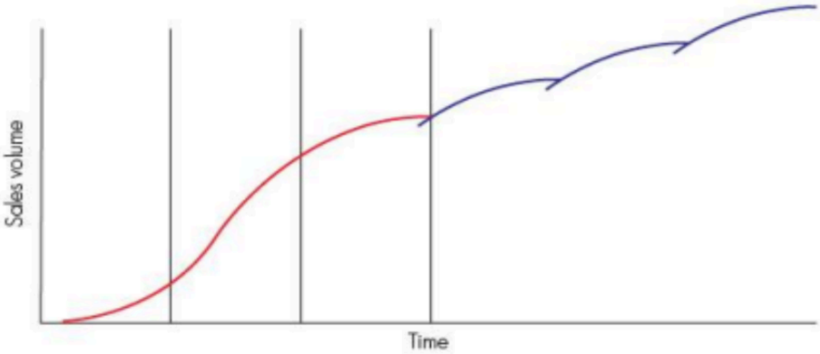
DEVELOPMENT → INTRODUCTION → GROWTH → MATURITY → SATURATION → DECLINE

	Introduction	Growth	Maturity	Decline
Product	Only a basic model of the product is available	Changes might be made to the product as a result of feedback from consumers	Extension strategies might be used to maintain sales	The product and packaging is not altered
Price	Price skimming is unique new product; market penetration pricing otherwise	Pricing may be adjusted- lower prices to attract more sales or keep a high price to maintain brand image	Competitive pricing to maintain sales	The price might be reduced – promotional selling to maintain sales
Promotion	High advertising activity to boost customer awareness	Promotional activity still high to continue persuading customers	Promotional activities are aimed at reminding the customers that the products are still available	Advertise the products at a lower price
Place	The product may be offered for sale in specially selected outlets	The product is more widely available, which helps to increase sales	The product is available for purchase through a wide distribution network	The product is only available in profitable outlets

EXTENSION STRATEGIES:

Techniques used to keep products in the market.

- Enter New Markets
- Increase Advertising
- Redesign Product
- Introduce Improved Version



PRICE:-

Price is the amount of money producers are willing to sell and the amount of money the consumers are willing to spend to buy.

METHOD	DEFINITION	ADVANTAGES	DISADVANTAGES
Cost-Plus	Is the manufacturing cost plus a profit mark-up.	• Quick to find the price of the product. • Price covers all costs.	• Price may still be higher than competitors.
Penetration	Price is set lower than competitors' price to enter new markets.	• Attracts customers quicker. • Increases market share quicker.	• Low revenue • Long time to recover development costs.
Price Skimming	Price is set high for a new product on the market.	• Profit earned is high. • Helps compensate for costs to develop and produce the product.	May backfire if competitors use competitive pricing.
Competitive	When the product is priced in line or just below competitors prices.	• Business can compete with other businesses. • Sales can increase.	• Other methods of sales need to be found.
Dynamic	Price depends on demands and external factors.		
Promotional	Product is sold at a low price for a short period of time.	• Helps remove unwanted inventory. • Can increase sales and market share for a short period of time.	• Revenue is lower. • Low profit.
Psychological	The price is set to attract the customers' attention and manipulate them. Below the whole number usually.	• Can provide an image of high-quality. • May make consumers think product cheaper	• The competitors may do the same, so the effect is reduced.

PRICE ELASTIC: The product has many alternatives.

- Chocolate
- Cars
- Groceries

PRICE INELASTIC: The product has no alternatives.

- Electricity
- Petrol
- Oil

Distribution Channel	Explanation	Advantages	Disadvantages
Manufacturer to Consumer	The product is sold to the consumer straight from the manufacturer.	• All profit is earned by the producer. • Quickest method.	• High Delivery Costs. • All storage must be paid by the producer.
Manufacturer to Retailer to Consumer	The manufacturer will sell its products to a retailer who will hold large stocks to sell to the consumer.	• The cost of holding the inventories is paid by the retailer. • Retailers are conveniently located for consumers.	• The retailer takes some of the profit. • The producer must pay for the delivery costs of the products to the retailer.
Manufacturer to Wholesaler to Retailer to Consumer	The manufacturer will sell its products in bulk to the wholesaler and the retailer will buy in small quantities from the wholesaler which would then be sold to the consumer.	• Wholesalers will advertise and promote the product to retailers. • Wholesalers will pay for transport and storage costs.	• An extra middleman is added so more profit is taken away. • The producer loses more control of the marketing mix for the product.
Manufacturer to Agent to Wholesaler to Retailer to Consumer	The manufacturer will sell their products to an agent who specialises in foreign markets. The Agent will know the best wholesalers to sell to.	• The agent has specialised knowledge of the market.	• Another middleman is added so more profit is taken away.

The factors that affect place decisions:
- The Type of product it is.
- The Location of the customer.
- Where competitors are located.
- How often is the product purchased?

PROMOTION:-

Promotions are activities used to communicate with customers and potential customers to inform and persuade them to buy a product. Advertising can be Informative or Persuasive.
INFORMATIVE: Where emphasis on advertising is to give full information of the product.
PERSUASIVE: Where emphasis on advertising is to persuade the consumer how much they really need the product.

Types of Promotion:
ADVERTISING: Paid-for communication with consumer.
- Television
- Radio
- Newspapers
- Magazines
- Billboards
- Flyers

SALES-PROMOTION: Using techniques to help gain sales.
- BOGOF
- After-Sales Service
- Competition
- Point-Of-Sale Displays
- Free Samples

The factors that affect promotional decisions:
- Stage of product on the PLC
- Nature of product
- Nature of Target Market
- Cost-effectiveness

Technology is mainly used nowadays in the marketing mix. E-Commerce is the use of the internet to sell and market goods online. This includes online shopping, online banking etc…

ADVANTAGES	DISADVANTAGES
Cheaper in the long-run.	Increased Competition
Sell products to a large customer base.	No personal Communication.
Globalisation brings more profit.	Online Security Issues.

MARKETING STRATEGY: A plan that combines the four elements of the marketing mix to achieve marketing objectives and profits.

Legal Controls on Marketing:

- Protect consumers from being sold faulty and dangerous goods.
- Protect consumers from being exploited/monopolised.
- Prevent firms from using misleading information in advertising.

Businesses globalize to:

- Increase Sales, Revenue and Profits.
- Increase Potential Customers.
- Cheaper raw materials may be available.
- Cheaper export.

Problems when entering foreign markets:

- Difference in language and culture.
- Lack of market knowledge.
- Economic Differences.
- High Transport Costs.

These problems can be overcome by joint ventures.

SECTION 4: OPERATIONS MANAGEMENT

PRODUCTION: Effective management of resources in producing goods and services. This is by combining the factors of production.

The Operation Department overlooks the production process. They must:

- Use resources in a cost-effective manner.
- Manage inventory effectively.
- Produce required output to meet customer demands.
- Meet quality standards expected by customers.

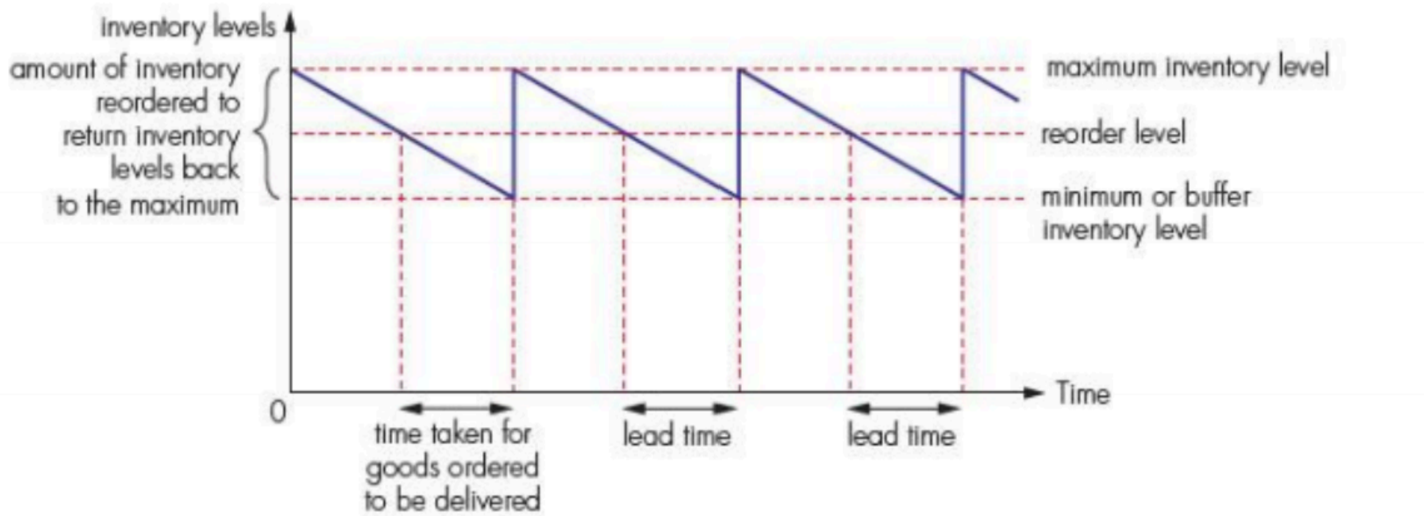
PRODUCTIVITY: The measure of efficiency of a business. It is the output measured against the inputs. Businesses often measure labour productivity to see how efficient their employees are.

$$\text{Productivity} = \frac{\text{Quantity of output}}{\text{Quantity of inputs}}$$

$$\text{Labour productivity} = \frac{\text{Output (over a given period of time)}}{\text{Number of employees}}$$

Productivity can be increased by:

- Improve skills by training
- Introduce automation
- Improve motivation



BUFFER INVENTORY LEVEL: The level of inventory the business should hold in case of high demand.

LEAN PRODUCTION: Techniques businesses adopt to reduce wastage and increase efficiency/productivity.

- Overproduction: Producing too many goods so high inventory costs.
- Waiting: When goods are not being moved or processed.
- Transportation: Moving goods around unnecessarily, which can cause damage.
- Unnecessary Inventory: Too much inventory takes up valuable space.
- Motion: Unnecessary moving of employees.
- Over-processing: Using complex machinery to perform simple tasks.
- Defects: Any fault in equipment is a waste of time, effort and time.

By avoiding these wastes, Businesses can:

- Lower costs
- Quicker production
- Less inventory storage

The 3 types of Lean Production:

KAIZEN: Japanese term meaning ‘continuous improvement’. It aims to increase efficiency by getting workers to get together and discuss problems and solutions. It is done by rearranging machinery and equipment so that production can flow smoothly.

- Increased Productivity
- Reduces amount of space needed
- Improved factory layout may lead to other jobs available.

JIT(JUST IN TIME): Technique used to eliminate the need to hold any inventory by ensuring supplies arrive just in time they are needed for production.

- Warehouse space not needed.
- Cash flows quickly as goods are immediately sold off.

CELL PRODUCTION: Production line is divided into separate units each making a part of a finished good.

- Increases worker morale.
- Increases collaborative skills.

Methods of Production:
Job Production: Products that are tailored for each customer. Wedding Cakes, Suits etc..

ADVANTAGES	DISADVANTAGES
Product meets exact requirements.	High costs as they are labour intensive.
Varied jobs increased morale.	Production takes time.
Flexible method of production.	Materials may have to be specially purchased, which is expensive.

Batch Production: A small quantity of a product is made, then a small quantity of another. Cookies etc…

ADVANTAGES	DISADVANTAGES
Variety to workers.	Expensive since goods need to be moved around.
More consumer choice.	Machines have to reset which delays production.
Other products can be made if machinery breaks down.	Lots of raw material required.

Flow Production: Large quantities of products are produced in a continuous process. Soft drinks etc…

ADVANTAGES	DISADVANTAGES
Costs are low.	Lots of raw materials required.
24 x 7 production.	If machinery breaks down, production is affected.
Goods are produced quickly.	Capital cost is high.

Technology:

ADVANTAGES	DISADVANTAGES
Greater productivity.	Unemployment rises.
Greater job satisfaction.	Expensive to set up.
Better quality products.	Employees need time to adjust to new technology.

FIXED COSTS: Do not vary with output and are incurred. They do not change. Rent, Wages, Bills.

VARIABLE COST: Directly vary with output. They can change. Groceries, Raw materials.
TOTAL COST: Is the fixed cost plus the variable cost. It is the amount of money spent for a specific amount of production.
AVERAGE COST: The cost of production per unit. Total Cost/Total Output.
ECONOMIES OF SCALE: Factors that reduce the Average Cost as a business increase in size.
Purchasing: A large number of items can be bought in bulk, which could lead to cheaper prices.
Marketing: Affording vehicles that can advertise the product.
Financial: Banks are more willing to lend loans to large businesses as they can pay it back.
Managerial: Appointing specialist managers who are efficient and make cost-effective decisions.
Technical: Large machinery can be used to increase output.

DISECONOMIES OF SCALE: Factors that increase the Average Cost as a business increase in size.
Low Morale: Little communication with seniors can lead to workers feeling unimportant.
Poor Communication: A large business may have their messages distorted as it is passed down.
Slow-Decision Making: A large business needs all employees available in order to decide.

BREAK-EVEN LEVEL OF OUTPUT: When the total revenue equals the total cost and no profit or loss is made.
MARGIN OF SAFETY: Is the amount that sales can fall before the break-even point is reached and the business makes no profit. It is the Actual Sales – Break Even.

$$BE = \frac{FC}{SP - VC}$$

<u>**Break Even Charts:**</u>

ADVANTAGES	DISADVANTAGES
Profit can be found out.	It is based on assumptions that all units are sold.
Change in costs can be made and the graph can be redrawn to see how it affects the profit or loss.	Fixed costs may not always be fixed if scale of production changes.
The safety margin can be calculated.	It is assumed that the graph is linear and directly proportional.

QUALITY: Is a good or service which meets the customers' expectations. It should be free of faults or defects. Quality is important as it:
- Establishes Brand Image

- Build Brand Loyalty
- Good Reputation
- Increase in Sales

QUALITY CONTROL: Quality is checked at the end of the production process.

ADVANTAGES	DISADVANTAGES
Customer Satisfaction as faults are detected.	Expensive to hire employees to check for quality.
Not much training.	It doesn't find out the reason.
	Product has to be replaced and reworked, which costs time and money

QUALITY ASSURANCE: Checking for quality throughout the production process.

ADVANTAGES	DISADVANTAGES
Customer Satisfaction as faults are detected.	Expensive to hire employees to check for quality.
Products don't have to be scrapped, so they are less expensive.	The employees may not follow the quality standards if there is no motivation.
Faults and errors are easily identified.	

TOTAL QUALITY MANAGEMENT: Continuous improvement by checking the quality through each stage of production.

ADVANTAGES	DISADVANTAGES
Customer Satisfaction as faults are detected.	Expensive to hire employees to check for quality.
No customer complaints	The employees may not follow the quality standards if there is no motivation.
Products don't have to be scrapped.	

Customers can check for quality by looking for a quality mark such as ISO. For services, it is by good reputation or reviews.

FACTORS THAT AFFECT LOCATION DECISIONS FOR MANUFACTURING:

- Raw Material: They have to be situated close to raw materials, especially if they are processed while fresh to prevent defects.
- Transport: Factories need to be located near areas with good roads/rails so export is easier.
- Availability of Labour: Business needs to be situated in areas where skilled workers

are available.

FACTORS THAT AFFECT LOCATION DECISIONS FOR SERVICE:
- Customers: They need to have direct contact with them and be accessible.
- Availability of Labour: Business needs to be situated in areas where certain types of workers can be found
- Climate: Tourism services need to be located in a place with a good climate.

FACTORS THAT AFFECT LOCATION DECISIONS FOR RETAIL:
- Shoppers: Need to be located near areas where shoppers are frequent.
- Parking Availability: If more parking is available, more customers will visit.
- Security: High rates of crimes and thefts may occur if poor security is available.

Business relocates to different countries because:
- Rent/Taxes are lower
- Cheaper raw materials might be available.
- Avoid trade barriers and tariffs when exporting goods.

Role of Legal Controls:
Government influence location decisions:
- To encourage businesses to set up and expand in high areas of under-development and unemployment. This is done by grants and subsidies.
- To discourage firms from setting up in areas that are crowded or have natural beauty. This is by planning restrictions.

SECTION 5: FINANCIAL INFORMATION AND DECISIONS

FINANCE: The money required in the business. It is needed to set up the business, expand it and increase working capital.
START-UP CAPITAL: The initial capital used to buy assets before trading commences.
WORKING CAPITAL: The finance needed by the business to pay its day-to-day running expenses.
CAPITAL EXPENDITURE: The money spent on fixed assets that will last more than a year. These are long-term capital needs.
REVENUE EXPENDITURE: The money spent day-to-day on short-term assets.

INTERNAL SOURCES OF FINANCE	MEANING	ADVANTAGES	DISADVANTAGES
Retained Profit.	The profit kept in the business that can be re-invested after owners have been given their share of profit	• Does not have to be repaid. • No interest to be paid	• Profit may be too low. • More profit used as capital will reduce owners' share so they may be hesitant. • A new business will not have retained profit.
Sales of Assets.	The selling of assets that are no longer needed to gain finance.	• Is not debt for the business. • Makes better use of capital tied up.	• Time costing and expected amount may not be gained • New businesses may not be able to sell assets

Sales of inventories.	Sell finished or unwanted goods in inventory.	• Reduces cost of inventory holding	• If too much is sold, when unexpected demand comes they cannot be all fulfilled.
Owner's Savings.	For a sole trader and partnership, any finance the owner invests from his savings.	• Available to the firm quickly. • No interest to be paid.	• Increased risk by the owner.

EXTERNAL SOURCES OF FINANCE	MEANING	ADVANTAGES	DISADVANTAGES
Issue of Share	Selling of shares in limited companies only.	• No interest • Permanent source of capital	• Dividends have to be paid. • Too many shares sold can make the business lose control.
Bank Loans	Money borrowed from banks.	• Quick to borrow. • Can be for a very long time. • Low interest for large companies.	• Need to pay interest regularly. • It has to be repaid. • Need to give bank collateral security.
Debenture Issues	Long-term loan certificates issued by companies that people buy and repay soon with interest.	• Can be used to raise money for very long-term finance.	• Interest has to be paid and repaid
Debt Factoring	Special agents that collect debt from debtors	• Immediate cash available. • Business	• Debt factor will get a percent of the debts collected.

		doesn't have to manage it.	
Grants and Subsidies	Government or other agencies that can give a business a grant or subsidy.	• Doesn't have to be repaid.	• There are certain conditions to be fulfilled such as locating in a particular area.
Microfinance	Financially lacking people get small sums of money.	• Guaranteed way of new business to earn money	• Money may not be enough to start a business.
Crowdfunding	Asking for small funds from a large pool of people.	• Voluntary; don't have to be repaid or paid a dividend.	• People may be hesitant/unsure if their business plan isn't convincing.

SHORT-TERM FINANCE	MEANING	ADVANTAGES	DISADVANTAGES
Overdrafts	Similar to loans, but banks can spend more than what is in their bank.	• Flexible form of borrowing money. • Interest has to be paid only on the amount overdrawn. • Cheaper than loans in the long-term.	• Interest rates vary and are not fixed. • Banks can ask for overdraft to be paid sooner than expected.
Trade Credits	Delaying paying suppliers for some time to improve cash position.	• No interest or repayments involved.	• If payments are delayed for a long period of time, suppliers

			may refuse to give discounts or refuse to supply at all.
Debt Factoring	**SEE ABOVE**		

LONG-TERM FINANCE	MEANING	ADVANTAGES	DISADVANTAGES
Loans	**SEE ABOVE**		
Debentures			
Issue of Shares			
Hire Purchase	Allowing the business to buy a fixed asset and pay for it monthly that includes interest.	• Firm doesn't need a large sum of cash to acquire the asset.	• A cash deposit has to be paid. • Large interest charges may be present.
Leasing	Allows the business to use an asset without purchasing it. Monthly payments are made and at the end of the leasing period, the business can decide if they will buy the asset or not.	• Firm doesn't need a large sum of money to use the asset. • Care and maintenance taken care by the leasing company.	• Total cost for leasing the asset may end up more than the cost of purchasing the asset.

SHORT-TERM FINANCE: Provides the working capital needed for the business.
LONG-TERM FINANCE: Finance available for more than a year.

INTERNAL SOURCES OF FINANCE: Obtained from within the business.
EXTERNAL SOURCES OF FINANCE: Obtained from external sources outside of the business.

Factors that affect choice of source of finance:
PURPOSE: If fixed assets are to be bought, then leasing or hire purchase is suitable. If finance is needed to pay off expenses, then overdrafts or debt factoring will be used.
TIME-PERIOD: Long-term or short-term?
AMOUNT NEEDED: How much money is required?
LEGAL FORM AND SIZE: Issue of shares are for limited companies only.
RISK-GEARING: If the business already has loans, then borrowing more capital can increase

risks as more interest rates are to be paid.

Why may shareholders invest?

- Share price is increasing which indicates good performance.
- If dividends are profits are high.
- If the company has a good reputation and future growth plans.

Why banks may lend finance:

- If cash flow shows how the finance will be used clearly.
- An income statement and the forecast income statement to show business profits.
- A business plan clearly explained and presented.
- Evidence of collateral security available.

Cash is important as workers, suppliers, landlords and governments need to be paid. The business could go into liquidation which is selling everything it owns to pay debts.

CASH FLOW: Cash flow of a business is its cash inflows and cash outflows over a period of time, usually monthly.
CASH INFLOWS: The sums of money received by the business over a period of time:

- Sales revenue.
- Payment from debtors.
- Money borrowed from external sources.
- Investments.

CASH OUTFLOWS: The sum of money paid out by the business over a period of time:

- Purchasing goods and materials
- Paying wages and other expenses.
- Purchasing fixed assets.
- Repaying loans.

<u>The cash flow cycle:</u>

1) The business needs cash to pay for expenses such as raw materials, wages and rent.
2) To gain the cash, goods/services are produced and sold.
3) Cash is received for the goods/services sold and the expenses are paid for.

CASH FLOW AND PROFIT ARE NOT THE SAME!!!

- Profit is defined as the revenue after expenses have been paid, while cash flow is cash that flows in and out of the business.
- Profit indicates the major indicator of the business success, where cash is needed to keep and operate the business successfully.
- Profit is the payments received or paid or not yet received while cash flow considers elements paid by cash only.

Cash flow forecast is an estimate of future cash inflows and outflows. This helps the manager:

- Tell how much cash is available for paying expenses.

- Tell How much cash the bank will need to lend to the business.
- Tell whether the business has too much cash that can be put to a profitable use.

	AUG($)	SEPT($)	OCT($)	NOV($)	DEC($)
CASH INFLOWS					
Cash Sales	70000	80000	10000	1400	200
Credit Sales	10000	10000	1000	1000	1000
TOTAL CASH INFLOWS	80000	90000	11000	2400	1200
CASH OUTFLOWS					
Wages	20000	20000	20000	20000	20000
Plants and trees purchases	20000	0	0	0	0
Seeds and compost	0	6000	6000	0	0
Heating and water	1000	1000	1000	1000	1000
Bank interest	100	100	100	100	100
Business tax on land	100	100	100	100	100
TOTAL CASH OUTLFOW	41200	27200	27200	21200	21200
OPENING BANK BALANCE	**100**	**38900**	**101700**	**85500**	**66700**
NET CASH FLOW	**38800**	**62800**	**(16200)**	**(18800)**	**(20000)**
CLOSING BANK BALANCE	**38900**	**101700**	**85500**	**66700**	**46700**

- The opening cash/bank balance is the amount of cash held by the business at the start of the month. **Net Cash Flow = Total Cash Inflow – Total Cash Outflow.**
- The closing bank balance of a month is the opening balance of the next month.
- **The closing balance is the Opening Balance + Net Cash Flow.**
- **Net Cash Flow is the Cash Inflow – Cash Outflow.**

Figures that are negative are placed in between brackets.

Forecasted cash flow may change because of external events such as:
- Increased interest rates, which causes more cash outflow.
- Weather, which will change the number of goods sold to the customer.
- Inflation, which increases costs of goods which reduces customers.
- Competition, which attracts customers away.

Cash Flow are used:
- When setting up a business so managers can know how much cash is required to set up such as rent, wages and advertising etc…
- Required by bank managers when applying for a loan, so the bank will decide on a suitable amount to lend and when it needs to be paid back.
- Managing cash flow, such as if a negative value is given. The business can then plan ahead and apply for an overdraft to avoid a negative balance. If too much cash is

available, loans may be paid off as well as suppliers to maintain a healthy relationship.

How to overcome cash flow problems:
- Increase bank loans, even though interest payments have to be paid.
- Delay payment to suppliers which decreases cash outflow. However, this can affect the relationship.
- Ask debtors to pay more quickly, which increases cash inflow. The debts include credit customers who will be asked to pay by cash on the spot rather than credit sales.
- Delay purchases of capital equipment, which reduces cash outflow significantly. However, efficiency is lost as old technology is used rather than new.

In the long-term, to improve cash flow, the business needs to:
- Attract more investors.
- Cut costs by increasing efficiency.
- Develop more products.

Working capital is all the liquid assets of the business that can be quickly converted to cash to pay off short-term day-to-day expenses such as debts. It can be in the form of:
- Cash needed to pay expenses.
- Cash due from debtors, which is when they are asked to pay quickly.
- Cash in the form of inventory, which is when finished goods are quickly sold to reduce high inventory costs/storage.

Accounts are the financial records of a firm's transactions. Final Accounts are prepared at the end of the financial year and give details of the profit or loss made.

Profit = Sales Revenue – Total Cost
When the total costs exceed the sales revenue, a loss is made. To increase profit:
- Increase sales revenue.
- Cut costs.

Profit is important to a business because:
- It is a reward for the enterprise. Entrepreneurs start a business to make a profit.
- It is a reward for risk-taking. Entrepreneurs take considerable risks when investing capital and profits are compensation/reward to them for taking these risks.
- It is a source of finance. After payments to owners, the money left is retained profit which can be reinvested back into the business.
- It is an indicator of success. More profits indicate to investors that the business is worth their time and money, making them more likely to invest.

In social enterprises, profit Is not the main objective. However, they will still try to make some profit to reinvest into the business to help it grow.

Income statements is a financial document of the business that records all income generated by the business as well as the costs over the financial year. It is also known as a profit and loss account.

	($000)
Sales Revenue	1250
Cost of Sales	(900)
GROSS PROFIT	**350**
Expenses including interest paid	(155)
NET PROFIT	**195**
Corporation Tax	(35)
PROFIT AFTER TAX	**160**
Dividends	(120)
RETAINED PROFITS FOR THE YEAR	**40**

Gross Profit = Sales – Cost of Sales
➢Cost of Sales = Total Variable cost of Production + (Opening inventory of finished goods – Closing inventory of finished goods).

Net Profit = Gross Profit – Overhead Expenses.
➢Overhead expenses are all the fixed costs.

Profit after Tax = Net Profit – Tax

Retained Profit = Profit after Tax – Dividends.
➢Dividends are a share of profit given to shareholders

<u>Income Statements are used to:</u>

- Know profit/loss made by the business.
- Compare performance with previous years and with competitors. If profit is lower, they can find why it fell and how to correct the issue. If it's lower than competitors, they can find out how to be more profitable and competitive.
- Know profitability of products by preparing separate income statements for each product. They can then stop manufacturing products that are making little to no profit.
- Help decide which products to launch by preparing forecast income statements. Whichever product has a higher forecast will be chosen.

Balance sheets along with income statements (Also known as the Statement of Financial Position) are prepared at the end of the financial year. They show the:

- Value of the Business.
- Assets and Liabilities of the business.

Assets are items that are owned by the business.
Fixed/Non-Current Assets: Assets that remain in the business for more than a year. Their value falls over time in a process called depreciation. E.g. Buildings, Vehicles, Equipment etc.
Short-Term/Current Assets: Assets that are owned only for a very short time. E.g. Inventory and debts from customers.
Intangible non-current assets are assets that cannot be touched or felt. They include copyrights and patents.

Liabilities are debts owed by the business to its creditors.
Non-Current Liabilities: Liabilities that do not have to be repaid within a year. E.g. loans, debentures etc.
Current Liabilities: Liabilities that need to be repaid within a year. E.g. overdrafts, trade payables etc…

CURRENT ASSETS – CURRENT LIABILITIES = WORKING CAPITAL

Shareholders' Equity: The total amount of money invested in the company by shareholders. This includes the share capital and reserves. Shareholders can see if their stake in the business has risen or fallen by looking at the total equity.

ABC Ltd. Statement of financial position as at 31/3/2019	($000)
ASSETS	
Non-Current (fixed) Assets:	
Land and buildings	450
Machinery	700
	1150
Current Assets:	
Inventories (stocks)	80
Accounts receivable (debtors)	50
Cash	10
	140
TOTAL ASSETS	1290
LIABILITIES	
Current Liabilities:	
Accounts payable (creditor)	65
Bank overdraft	65
	130
Non-Current (long-term) liabilities:	
Long-term bank loan	300
TOTAL LIABILITIES	430
TOTAL ASSETS - TOTAL LIABILITIES	860
Shareholders' Equity	
Share Capital	520
Profit and Loss Account Reserve (Retained Earnings)	340
TOTAL SHAREHOLDERS' EQUITY	860

SHAREHOLDERS EQUITY = TOTAL ASSETS – TOTAL LIABILITIES
TOTAL ASSETS = TOTAL LIABILITIES + SHAREHOLDERS EQUITY
CAPITAL EMPLOYED = SHAREHOLDERS EQUITY + NON-CURRENT LIABILITIES.

Uses of Statements of Financial Positions:

- To check if the business is liquid. This is done by comparing current assets with current liabilities.
- Debt-equity ratio. This is comparing the total liabilities to the total assets.
- To see if the firm will be able to pay back its debt. This is done using the Debt-Equity Ratio.
- Investors can check if the dividends paid to them are suitable.
- Any assets that can be potentially sold off can be checked.

Profitability Ratios: Profitability is the ability of a company to use its resources to generate revenues in excess of its expenses. These ratios are used to see how profitable the business has been in the year.

1) **ROCE:** Return on Capital employed calculates the net profit earned on each unit of capital employed. The higher the ROCE, the better. Formula is:

$$\frac{\text{Net profit}}{\text{Capital employed}} \times 100$$

2) **GROSS PROFIT MARGIN:** This calculates the percentage of gross profit made on each unit of sales revenue. The higher the GPM, the better. If this increases this means that Prices have increased and cost of goods have decreased. Formula is:

$$\text{Gross profit margin (\%)} = \frac{\text{Gross profit}}{\text{Sales revenue}} \times 100$$

3) **NET PROFIT MARGIN:** This calculates the net profit generated on each unit of sales revenue. The higher the NPM, the better. If this increases, this means the gross profit increased and overhead expenses decreased. Formula is:

$$\text{Net profit margin (\%)} = \frac{\text{Net profit}}{\text{Sales revenue}} \times 100$$

Liquidity ratios: Liquidity is the ability of the company to pay back its short-term debts. If the working capital is low, it will go illiquid meaning it will be forced to sell assets.

1) **CURRENT RATIO:** The ratio that calculates the proportion of current assets to every current liability. A value above 1 is good, with 1.5-2 being ideal. The higher the better but too high indicates that too much money is invested in assets which is risk. A number lower than 1 means the business has cash flow problems Formula is:

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

2) **ACID TEST RATIO/LIQUID RATIO:** This ratio doesn’t consider inventories to be a liquid asset as it takes time to convert it to cash. A high inventory can cause a big difference between current and liquid ratio. A value of 1 means the company is just able to pay off their short-term debts. A value below 1 means the managers have to take action as this is worrying, such as reducing the level of inventories. Formula is:

$$\text{Acid test ratio} = \frac{\text{Current assets} - \text{inventories}}{\text{Current liabilities}}$$

Uses and users of accounts:
MANAGERS:
- Use them to help them keep control over the performance of each product since they can see which product is profitably performing.

- Better decisions can be made, such as cutting expenses.
- Ratios can be compared with other firms, to ensure they are still in the market and are doing better than rivals.

SHAREHOLDERS:
- It is a legal requirement that they be presented with the financial account of the company.

- Helps them decide whether they should invest by buying shares. Higher profitability means higher dividends.
- Ratios can be compared with other companies and the highest ratio is the company they will invest in.

CREDITORS:
- The position and debts of the business can be determined. They will be ready to supply the business if they will be able to pay them.

If there are liquidity problems, they will be hesitant to supply them.

WORKERS AND TRADE UNIONS:
Helps them see if the business is secure, by checking if workers will lose their jobs or not.
BANKS:
They will look at how risk it is to lend to a business. They'll only lend to profitable and liquid firms.

GOVERNMENTS:
Helps determine a fixed tax rate and to see if the business is profitable and liquid to continue operating which will ensure job security.

OTHER BUSINESS IDEAS:
Helps them compare performance and decide on takeovers.

Limitations of using accounts and ratio analysis:

- Ratios are based on old data, meaning the forecasts may not be accurate.
- External users may not get the full-picture about the business as managers only publish required documents. Some documents are kept within the business.
- Data comparison over the years leads to misleading assumptions as inflation affects the prices.
- Different companies use different accounting methods, making comparisons unreliable.

SECTION 6: EXTERNAL INFLUENCES ON BUSINESS ACTIVITY

THE BUSINESS/TRADE CYCLE:

- **Growth.** When GDP is rising, unemployment is declining and living standards are increasing. Businesses will look to expand to produce more and increase profits.
- **Boom.** When the GDP is at its highest, there is too much spending. This causes inflation to rapidly rise. Business costs will rise and firms will be worried on how to stay profitable in the near future.
- **Recession.** When the GDP starts to fall due to high prices, since demand and spending falls. Firms will cut back production to stay profitable. Unemployment may rise.
- **Slump.** When GDP is low, prices start to fall and unemployment reaches very high levels. Many businesses will close down as they cannot survive.
- **Recovery.** When the government takes measures to increase demand and spending in the economy to go from slump to growth.

ECONOMIC OBJECTIVES:

- **Maintain Economic Growth:** Economic growth occurs when a country's GDP increases. This means more goods and services are produced than the previous year. This increases living standards and incomes. However, effect of reducing GDP are:

  - Low output means workers will be redundant. This causes a rise in unemployment.
  - Goods and services consumed will fall, which decreases standard of living.

- **Achieve Price Stability:** Deflation is the fall of price level. Inflation is the increase in average prices of goods and services overtime. Maintaining low inflation will help the economy to develop and grow better. However, effect of high inflation is:

  - Real incomes (The value of income) will fall. This means people's incomes will only be able to buy lesser goods and services. The purchasing power falls.
  - Domestic goods will rise in price as opposed to foreign goods. The country's exports will become less competitive in the international market.
  - Living standards will fall.

- **Reduce Unemployment:** Unemployment exists when people who are able to work are unable to find a job. A low unemployment means high output, incomes, living standards etc… Effects of high employment are:

  - Unemployed people do not produce anything. This means the GDP falls leading to a

decline in the economy.
Unemployed people receive no income. This means income inequality will be popular leading to a decline in living standards. Businesses will then face low demand.
The government will pay unemployment benefits to the unemployed. However, this means not much money can be spent on services such as education and health.

- **Maintain Balance of Payments Stability:** This records the difference between a country's exports and imports. They have to be equal to be balanced. However, effects of disequilibrium in the balance of payments are:

  If the imports exceed the exports, a depreciation in the exchange rate will occur. The value of the country's currency will fall against foreign currencies.
  If the exports exceed the imports, the country is selling more goods than it is consuming.

- **Reduce Income equality:** To achieve effective income redistribution. The income between the rich and poor should narrow down for income equality to improve. Improved income equality ensures better living standards and speeds up economic growth. However, poor income equality causes:
  Unequal distribution of goods and services. This means the poor cannot buy as many goods as the price, which makes poor living standards increase.

GOVERNMENT ECONOMIC POLICIES:
Governments can influence economic conditions in a country by taking a variety of policies.

- **Fiscal policy:** This adjusts government spending and taxation to influence the economy. It is the budgetary policy, since it manages the government expenditure and revenue. Balancing budgets are achieved by fiscal policies.
  Increasing government spending and reducing taxes will encourage more production and increase employment, which drives the GDP growth up. This is because government spending creates employment and increases economic activity. Lower taxes mean people have more money to spend to consume and firms pay less tax on profits. However, reducing government spending and increasing taxes will discourage production and consumption. GDP will fall and unemployment rises.

- **Monetary policy:** This adjusts interest and foreign exchange rates to influence demand and supply of money in the economy. It is conducted by the country's central bank and usually used to maintain price stability, low unemployment and growth. Increasing interest rates will discourage investments and consumption, causing employment and GDP to fall. Reducing interest rates boosts investment, consumption, employment and GDP.

- **Supply-side policies:** These are policies that influence supply.

- **Privatisation:** Selling government organisations to private individuals. This increases efficiency and productivity which increases supply.
- **Improve training and education:** Governments can spend more on schools, colleges and training centres to increase skill and knowledge which increases productivity.
- **Increased competition:** By acting against monopolies, who are firms that restrict competitors to enter an industry. They also can reduce government rules and regulations which is called deregulation. This increases the competitive environment which increases productivity.

BUSINESS IMPACT ON THE ENVIRONMENT:

Social responsibility Is when a business decision benefits stakeholders other than shareholders, this is very important when coming to environmental issues. Businesses can pollute the air, water or natural beauty by releasing chemicals, smoke and poisonous gas.

WHY BUSINESSES WANT TO BE ENVIRONMENT - FRIENDLY	WHY BUSINESSES DO NOT WANT TO BE ENVIRONMENT - FRIENDLY
Using scarce non-renewable resources will raise prices in the future that people may not afford.	It is expensive to reduce and recycle waste for the business. Skilled labour and expensive machinery would be required which reduces profits.
Consumers' preferences are changing and they are becoming socially-aware and are willing to only buy environmentally friendly products.	High prices can make firms less competitive and could potentially lose sales.
Governments and organisations can take action if serious damage is done to the environment.	Businesses claim that it is the government's duty to clean up pollution.

EXTERNALITIES:

A business decision and action can have significant effects on stakeholders, which is termed under externalities. There are six types of externalities:

- **Private Cost:** Are the costs paid by the business for an activity. Cost of building a factory, hiring extra employees, purchasing new machinery etc….
- **Private Benefit:** Are the gains for the business resulting from an activity. Profit is an example.
- **External Cost:** Costs paid by the rest of society as a result of the business activity. Pollution, noise, loss of land etc….
- **External Benefit:** Gains enjoyed by the rest of society as a result of business activity. New jobs, the government benefiting from taxes, helping developing regions etc…
- **Social Costs:** Are the private costs + external costs.
- **Social Benefits:** Are the private benefits + external benefits.

Governments use cost-benefit analysis, CBA, to decide whether to proceed with a scheme or not and businesses have also adopted it. In CBA, the total social costs and benefits that will arise are compared with each other. The scheme is allowed if the social benefits exceed the social costs.

SOCIAL DEVELOPMENT:

Is the development that does not put at risk the living standards of future generations. This means that economic growth is achieved that does not harm future generations. Done by:

- **Using renewable energy.**
- **Recycle waste.**
- **Use fewer resources.**

ENVIRONMENTAL PRESSURES:

Pressure groups are organisations who change business and government decisions. If a business is seen to behave in an irresponsible way, they can conduct customer boycotts and take other actions. They are powerful due to public support, media coverage, well-financed and equipped by the public. A powerful pressure group can result in a bad reputation for the business which affects its future endeavours.

Governments can also pass laws to restrict business decisions such as location decisions to prevent ruining natural beauty.

Penalties are also set to penalise firms that excessively pollute. Pollution permits are licences to pollute up to a certain limit. They are very expensive to acquire, so firms will try to avoid buying the permit, meaning they have to reduce pollution levels to continue production.

ETHICAL DECISIONS:

Based on moral code. It means doing the right thing. Businesses could be faced with decisions that are legal, but would have to opt for ones that feel right.

Taking ethical decisions can make the business products popular among customers, encouraging the government to favour them in any future threats. However, these can end up being expensive as the business loses out on cheaper unethical opportunities.

GLOBALISATION:

Term to describe the increases in worldwide trade and movement of people and capital between countries. Workers may find it easier to work abroad. Money is sent from and to countries everywhere. Why did globalisation occur:

- **Free trade agreements increase.** These are agreements between countries that allows them to import and export goods and services with no tariffs and quotas..
- **Improved and cheaper transport.**
- **Developing and emerging countries.** China and India are becoming rapidly industrialised and can export large volumes of goods and services. This caused an increase in output and opportunities in international trade.
- **More choices and lower prices for consumers.**

ADVANTAGES OF GLOBALISATION	DISADVANTAGES OF GLOBALISATION
Increasing sales and profits due to new sales in foreign markets.	Domestic firms cannot compete with the cheap prices and high quality of foreign goods, causing them to shut down.
Cheaper materials and labour can be available in other countries.	Employees may leave domestic firms if they don't pay as well as the foreign multinationals.
Import materials and components from foreign countries at a cheaper rate.	

PROTECTIONISM:

Is when governments protect domestic firms from foreign competition by:

- **Import quota.** Restriction on the quantity of goods that can be imported into the country.
- **Tariffs.** Taxes on imports.

Imposing these two measures will reduce the number of foreign goods in the domestic market and make them expensive to buy. This will reduce competitiveness of the foreign goods and make it easy for domestic firms to sell. However:

- **It reduces free trade and globalisation.** Free trade supporters say that it is better to allow consumers to buy imported goods and that domestic firms should export their goods for competitive advantage. This will increase living standards across the globe.

MULTINATIONAL COMPANIES (MNCs):

Are firms with operations in more than one country. They are known as transnational businesses. Firms become multinational because:

- **Lower costs.** Cheaper material and labour may be available in other countries.
- **Extract raw materials for production.** Crude oil in the Middle East is cheaper than other places around the world.
- **Produce goods nearer to the markets.** This avoids transport costs.
- **Avoid trade barriers on imports.** The firms will not pay import tariffs or face quota restriction if they produce in foreign countries.
- **Spread their risks.**
- **Remain competitive.** Rival firms may also be expanding abroad.

ADVANTAGES TO A COUNTRY OF A MULTINATIONAL SETTING UP THERE	DISADVANTAGES TO A COUNTRY OF A MULTINATIONAL SETTING UP THERE
More jobs are created.	Local firms may be forced out of business, due to being unable to survive the competition.
GDP increases.	Jobs created are for unskilled tasks. This means low wages and unhygienic working conditions will occur.
New ideas and methods are brought because of the technology introduced.	Can influence the government and economy. The government will be threatened by shutting down and making workers redundant if their terms are not fulfilled such as financial grants.
More product choice for consumers.	

<u>EXCHANGE RATES:</u>
Is the price of one currency in terms of another currency. The demand and supply of currencies determine their exchange rate.

A currency appreciates when its value rises. 1 Euro = 1.2 Dollars now is 1 Euro = 1.5 Dollars. A European exporting firm will find an appreciation disadvantageous as their American consumers will have to pay more (Exports become expensive). Their competitiveness has reduced. A European importing firm will find appreciation a benefit. They can buy American products for less Euros (Imports become cheaper).

A currency depreciates when its value falls. In the example above, the Dollar depreciated. American exporting firms will find depreciation advantageous as European consumers pay less to buy goods (Exports become cheaper). An American importing firm will find depreciation advantageous due to paying more to buy European products (Imports become expensive).

In summary;
An appreciation is good for importers and bad for exporters,
A depreciation is good for exporters and bad for importers.

r/IGCSE Resources

r/IGCSE Resources repository | r/IGCSE subreddit | Our Discord server

igcse.reddit.com

discord.gg/igcse