A-LEVEL ECONOMICS • EXERCISE SHEET

7.7 Growth and survival of firms

Name: ____________ Class: ________ Date: __________ **Total: 24 marks**

KEY WORDS integration 一体化 • vertical 纵向 • horizontal 横向 • horizontal integration 横向一体化 • vertical integration 纵向一体化

Objective

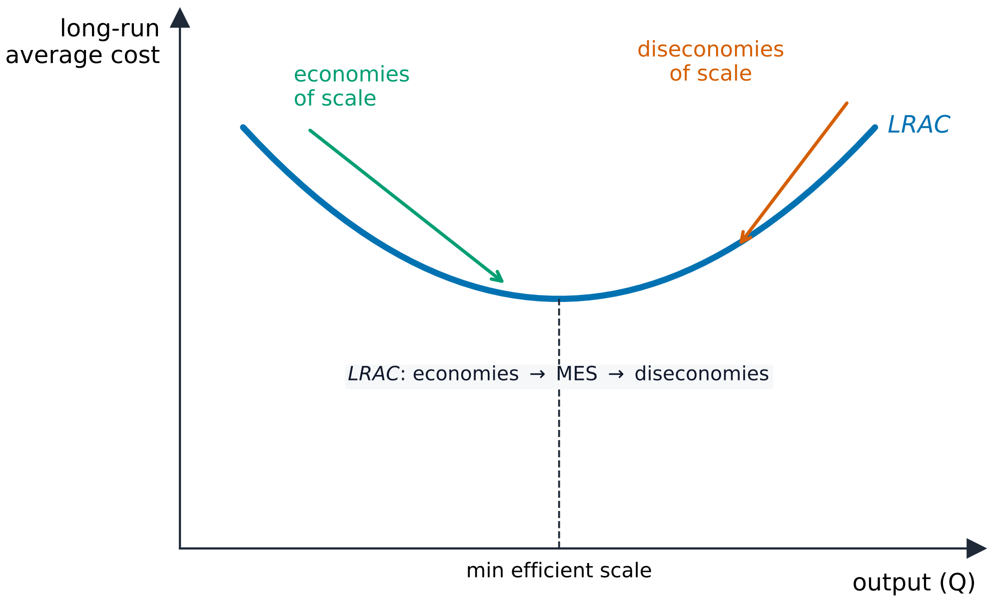
Build the skills to answer exam questions on **the growth and survival of firms 企业的成长与存续** — **internal and external growth 内部与外部增长** (**integration 一体化**), why some firms stay small, and **barriers to entry and exit 进入与退出壁垒**.

You must be able to:

- distinguish internal from external growth and the types of integration
- explain why some firms stay small
- analyse barriers to entry and exit

1 Worked examples

■ How firms grow



Firms grow to gain economies of scale — but small firms survive too

- **Internal growth 内部增长** (organic): sell more. **External growth 外部增长**: a

merger 合并 / takeover.

- **Horizontal** 横向 (same stage), **vertical** 纵向 (different stage), **conglomerate** 混合 (different industry → spread risk).

Growth moves a firm along the spectrum, toward fewer rivals and more market power

- **Stay small:** small/local market, owner wants control, few economies of scale, **niche** 利基.
- **Barriers to exit** 退出壁垒 (e.g. costly machines) can trap a firm in a loss-making market.

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

2 Practice

2.1 State the difference between internal and external growth. [2]

2.2 Define the term *vertical integration*. [2]

2.3 State one reason why a firm might stay small. [1]

3 Exam-style questions

3.1 A car manufacturer buying a tyre producer is an example of: [1]

- **A** horizontal integration
- **B** vertical integration
- **C** conglomerate integration
- **D** internal growth

3.2 Explain two reasons why many small firms are able to survive in a market dominated by large firms. [6]

3.3 Discuss whether all firms should aim to grow as large as possible. [12]

Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

2.1 internal growth is a firm growing bigger by selling more itself; external growth is joining with another firm through a merger or takeover (2 for a clear difference; 1 for a partial idea).

2.2 joining with a firm at a different stage of the same production process (e.g. a maker buying a supplier) (2 for a clear definition; 1 for a partial idea).

2.3 any one of: the market is small/local; the owner wants to keep control; there are few economies of scale; it serves a niche (1).

3.1 B. Joining a firm at a different stage is vertical integration.

3.2 *[6]* For **each** of two reasons: AO1 1 + AO3 up to 2 — e.g. *niche/personal service*: small firms serve a specialised market the giants ignore → loyal customers → they survive. *Few economies of scale*: in some industries large size brings little cost advantage → small firms compete on equal terms. Maximum 3 each.

3.3 *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For growth:** economies of scale lower costs, more market power and profit, and survival. **Against:** diseconomies of scale raise costs beyond the optimum, growth needs finance and is risky, and many owners value control or serve a niche better when small. Judgement: growth suits firms that gain real economies of scale, but staying small is rational for niche or owner-controlled firms — it depends on the industry and the owner's aims.