Exercise walk-through

Enterprise, business growth and size ▪ 1.3

eXercise

You must be able to

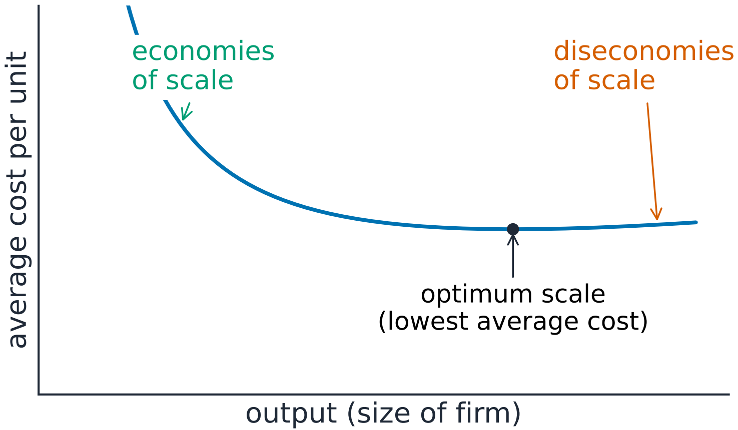
- describe an entrepreneur and the uses of a business plan
- state ways to measure the size of a business
- explain internal and external growth, and economies of scale

Method — Growth and economies of scale

- **Measuring size:** number of **employees 员工**, **revenue 收入**, **capital employed 所用资本** (each has a weakness).
- **Internal growth 内部增长** (organic): sell more, open branches — slower, lower risk. **External growth 外部增长**: a **merger 合并** / **takeover 收购**.
- **Integration:** *horizontal* (same stage), *vertical* (different stage), *conglomerate* (different industry).
- **Economies of scale 规模经济**: cost per unit falls as the firm grows; **diseconomies** raise it if too big.

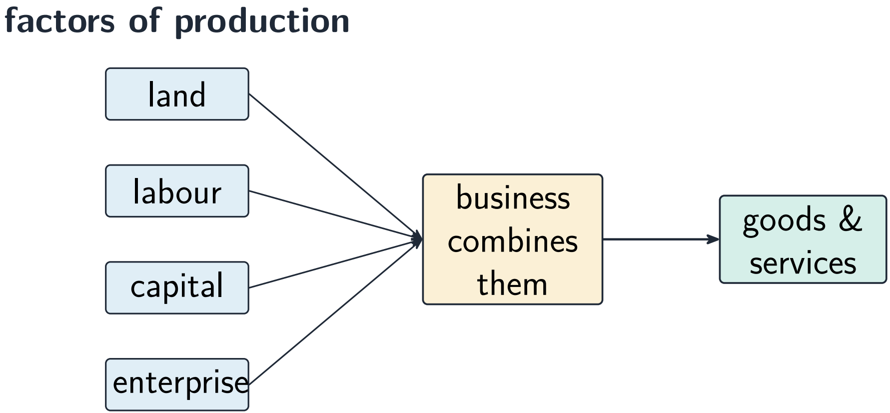
Answer shapes: K + App + An + Ev (a justified judgement, for "do you think" questions).

Method — Growth and economies of scale



Average cost per unit falls (economies of scale) then rises (diseconomies)

Method — Growth and economies of scale



Land, labour, capital and enterprise are combined to produce goods and services

Practice 2.1 ▪ 2 marks

Define the term *entrepreneur*.

Solution 2.1

Worked steps

a person who sets up a business and takes the risk of running it (2 for a clear definition; 1 for a partial idea).

Practice 2.2 ▪ 2 marks

Identify two ways to measure the size of a business.

Solution 2.2

Method: Growth and economies of scale

Worked steps

any two of: number of employees; revenue (sales); capital employed $(1 + 1)$.

Practice 2.3 ▪ 2 marks

State the difference between a *merger* and a *takeover*.

Solution 2.3

Method: Growth and economies of scale

Worked steps

a merger is when two businesses agree to join into one; a takeover is when one business buys control of another (2 for a clear difference; 1 for a partial idea).

Exam-style 3.1 ▪ 2 marks

Identify two uses of a business plan.

Solution 3.1

Worked steps

any two of: it makes the owner plan ahead; it helps raise finance from banks or investors $(1 + 1)$.

Exam-style 3.2 ▪ 6 marks

Explain two benefits to a business of growing larger.

Solution 3.2

Worked steps

[6] For **each** of two benefits: K 1 + An up to 2 — e.g. *economies of scale*: a bigger firm buys materials in bulk → lower cost per unit → higher profit or lower prices. *Market power*: more sales and a bigger market share → it can compete more strongly. Maximum 3 each.

Exam-style 3.3 ▪ 6 marks

A successful sole trader wants to grow. Do you think internal growth is better than external growth for this business? Justify your answer.

Solution 3.3

Method: Growth and economies of scale

Worked steps

[6] Both sides + judgement. **Internal:** lower risk, keeps control, financed from profits — but slow. **External:** fast growth and instant market share — but risky, costly and the owner may lose control. **Judgement (Ev):** for a small sole trader, internal growth is usually safer and keeps control, but external growth suits a firm that needs to grow fast — it depends on the owner's finance and attitude to risk.