

Knockout.Economics by Kru P'Eve & Kru P'Da

IGCSE -Business studies

Business Activity

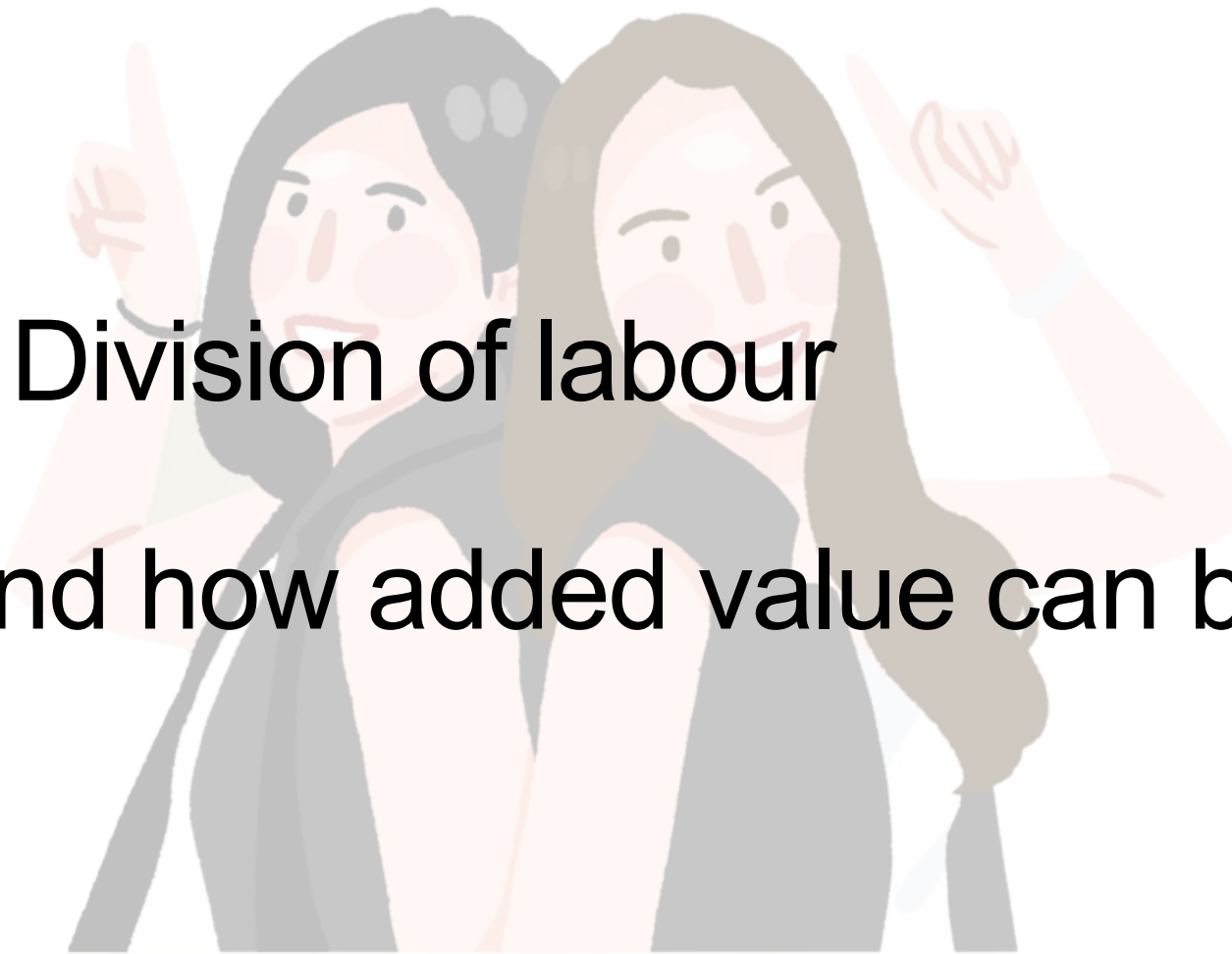


- Executive summary IGCSE Business studies
- Series of exam questions each chapter
- Exam Strategies and exclusive tips to achieve A* from Knockout.Economics
- Exclusive Key Terms for IGCSE Business studies exam



Overview

1. Economic Problem
2. Opportunity Cost
3. The factors of production
4. Importance of specialisation & Division of labour
5. The concept of adding value and how added value can be increased



1. Economic Problem

Basic economic problem : Resources are limited but wants are limitless. The scarcity of resource arises from wants exceed resources.

Unlimited wants

+

Limited resources

=

Scarcity

Consumer

E.g. Ms.Yaya has limited free time but Ms.Yaya would like to *play games, and revise lessons.*

Limited resources : *Time*

Unlimited wants : *Playing games and revising lessons.*

Producer

E.g. Farmer has limited land. Farmer has to decide what to make between rice or wheat.

Limited resources : *Land*

Unlimited wants : *Rice and Wheat*

Government

E.g. Government has limited tax revenue. Government has many projects which are healthcare improvement, education improvement and infrastructure.

Limited resources : *Tax revenue*

Unlimited wants : *healthcare improvement, education improvement and infrastructure.*

2. Opportunity Cost

Opportunity Cost : the next best alternative foregone when making a choice.

Consumer

Limited resources : *Time*

Unlimited wants :

- *Playing games*
- *Revising lessons.*

Producer

Limited resources : *Land*

Unlimited wants :

- *Rice*
- *Wheat*

Government

Limited resources : *Tax revenue*

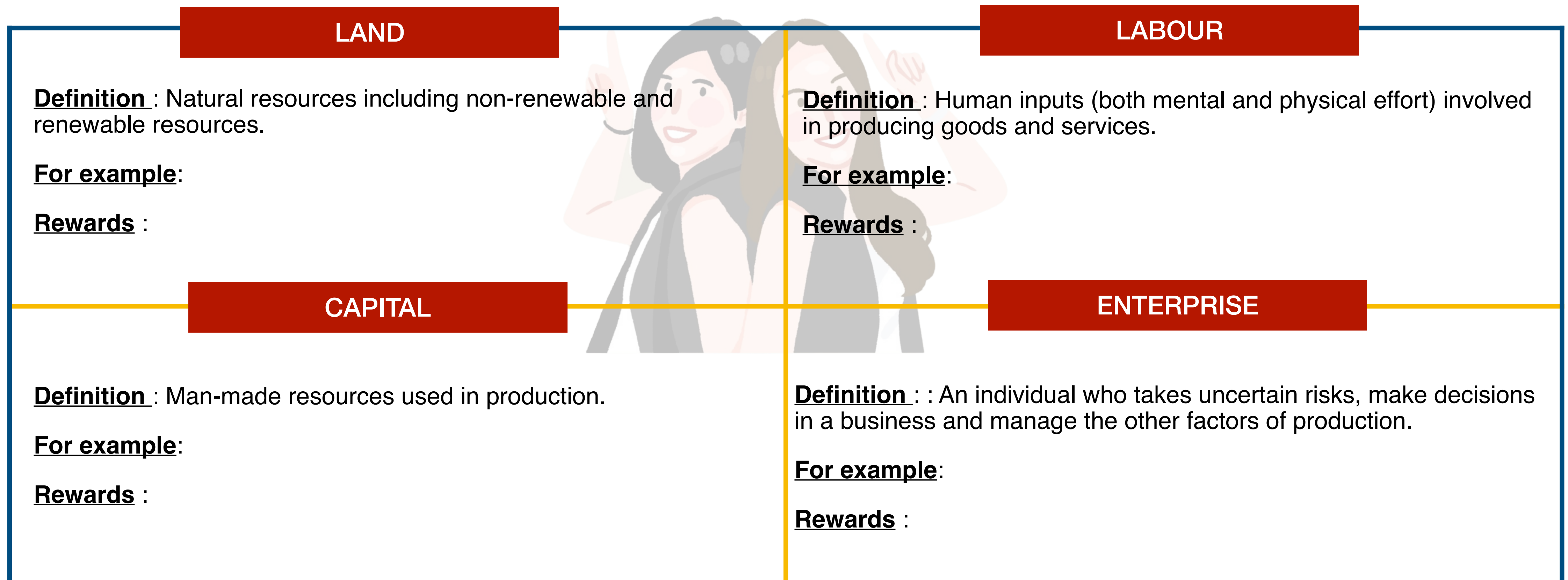
Unlimited wants :

- *Healthcare improvement*
- *Education improvement*
- *Infrastructure.*

To sum up : Everyone faces limited resources (in this case : time, land, money) and unlimited wants. So, we need to trade off as we cannot get everything under the condition of limited resources.

3. The factors of production

Factors of production : Economic resources (limited supply) are used to produce goods and services.



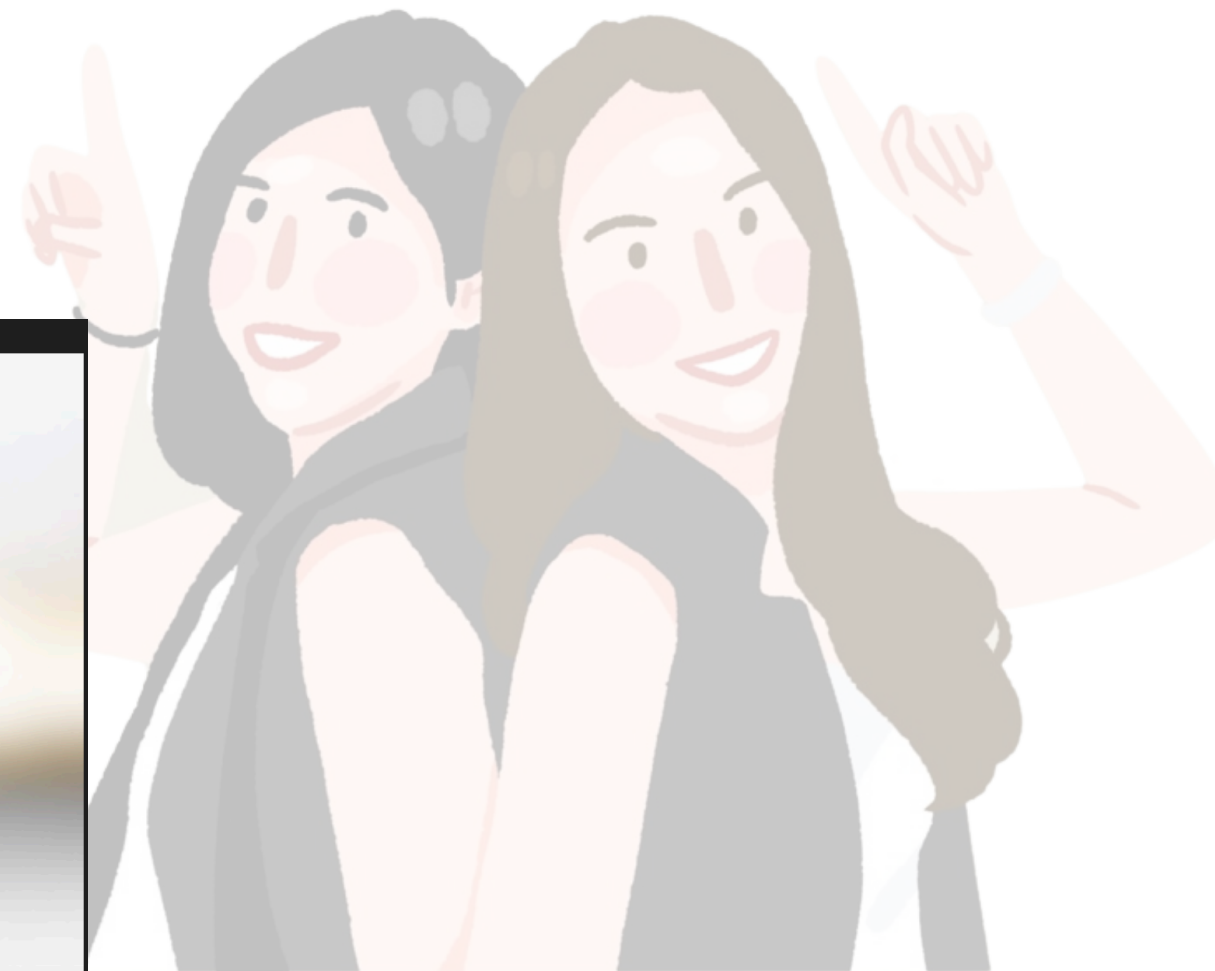
4. Importance of specialisation & Division of labour

Specialisation : occurs when people and firms concentrate on what they are best at.

For example - Rolex



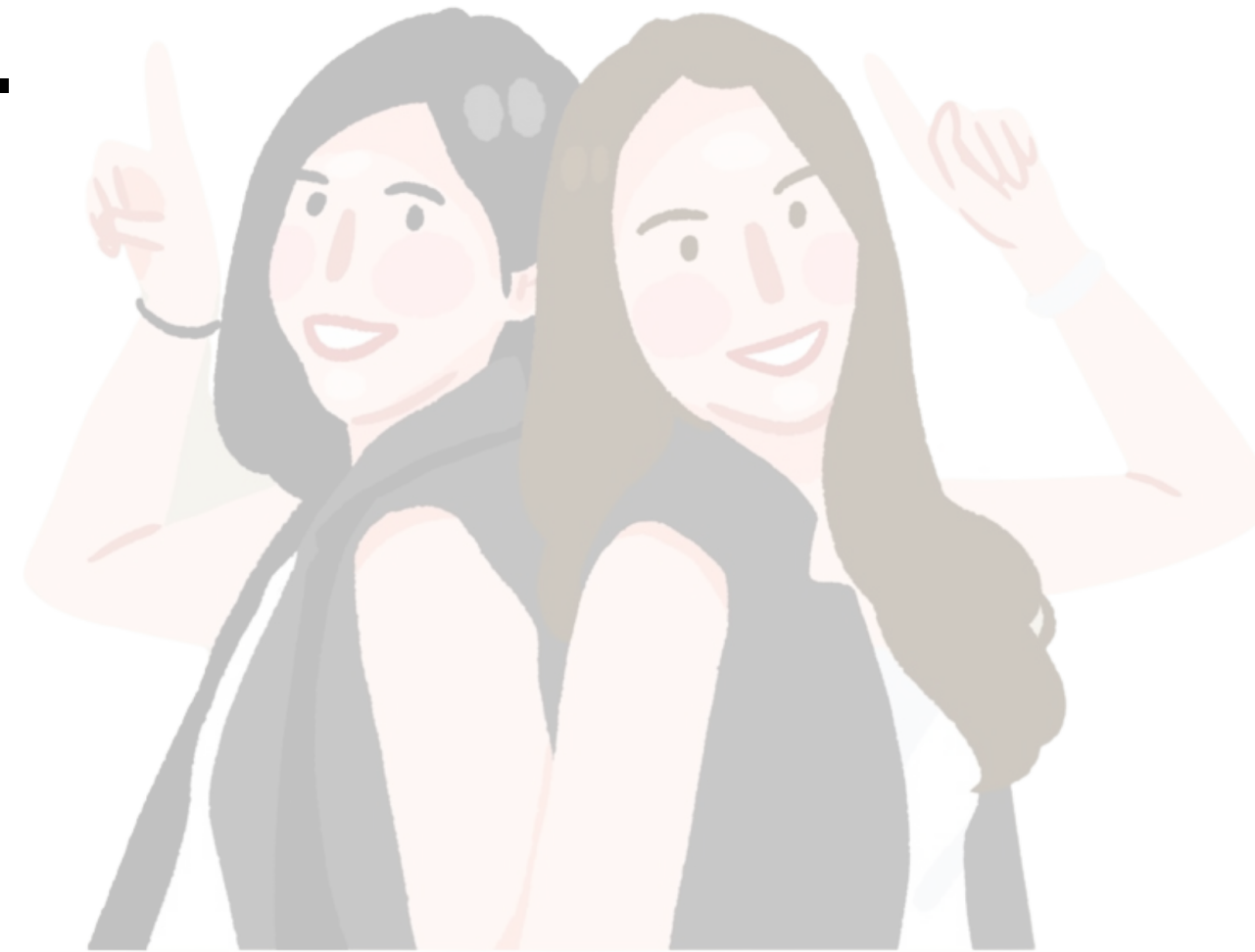
Credit : Rolex.com



4. Importance of specialisation & Division of labour

Division of labour : is when the production process is split up into different tasks. Each worker focuses on only one task, which is best able to do. It is a form of specialisation.

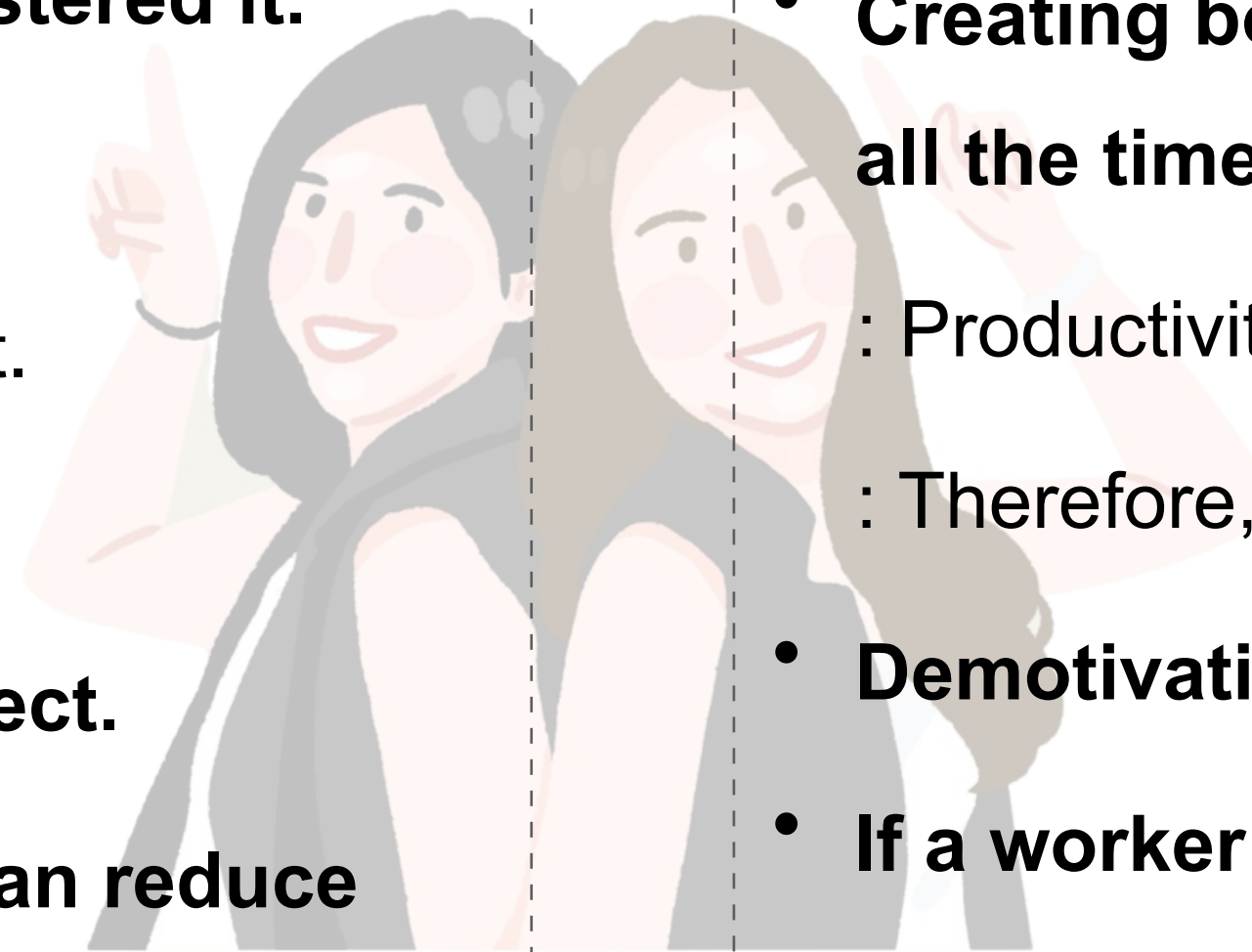
For example



4. Importance of specialisation & Division of labour

Advantages

- **Each worker focused on a task and mastered it.**
 - : Workers have higher productivity
 - : Therefore, they can produce more output.
- **Production time can be reduced.**
- **Quality of product is high and less defect.**
- **Training workers to do only one task can reduce training cost.**



Disadvantages

- **Creating boredom since workers do the same task all the time.**
 - : Productivity might be dropped
 - : Therefore, they can produce low output.
- **Demotivating employees to create new things.**
- **If a worker is absent, no one can replace.**
 - : The production process will be stopped.
 - : Company will lose revenue and profit.

5. The concept of adding value and how added value can be increased

Added value : is the difference between selling price of products and the cost of raw material

For example - Starbucks coffee selling price at 150 baht per cup.



5. The concept of adding value and how added value can be increased

How could a business increase added value ?

1. Increase selling price while keeping cost of raw materials the same.

How to increase selling price

- Improving brand image
- Improving quality of products
- Eye-catching packaging
- Decorate the shop



Note : Other costs might rise when company try to create quality image.

5. The concept of adding value and how added value can be increased

2. Reduce raw material cost while keeping selling price the same

How to reduce raw material cost

- Seeking for cheaper suppliers
- Buying raw material in bulks
- Changing type of raw material or sources of raw material



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Exercise : Business Activity

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Exercise

1. Driver Company makes high quality shoes using job production. The production method makes use of specialisation. Driver Company in a niche market. Managers know that all business activity 2 creates external costs, so they always try to act in ways that protect the environment. The Operations Director wants to increase profit. Driver Company could either buy cheaper raw materials or introduce new technology into the production process. The new technology would cost \$50 000 and could reduce the number of employees from 40 to 36.

(a) **Identify** two advantages of specialisation. [2marks]

Command word :
Identify - Name, select and recognise

Advantages 1:

.....


Advantages 2:

.....

Exercise

2.AAA is a multinational company. It makes chemicals that are sold to farmers which help increase the amount of food produced. It plans to open a factory in country Y, a developing country with low interest rates. The Finance Director said: 'This factory will create many external benefits. AAA is a public limited company which tries to act in an ethical way with all its stakeholder groups.' The new factory will cost \$100m and there will be an opportunity cost for AAA. The Finance Director cannot decide which source of finance to use for the new factory.

(a) What is meant by 'opportunity cost'? [2marks]



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