

**FOR IGCSE  
STUDENT**



**A LEADING TUTORIAL SCHOOL FOR  
ECONOMICS AND BUSINESS STUDIES**

**FULL VERSION**

# **BUSINESS STUDIES**



SCAN US



**KNOCKOUT.ECONOMICS  
BY KRU P'EVE AND KRU P'DA**

**BUSINESS STUDIES IGCSE NOTE**

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## Section 1: Understanding business activity

### Chapter 1: Business Activity

#### Key terms

1. Need: is a good or service essential for living.
2. Want: is a good or service which people would like to have, but which is not essential for living. People's wants are unlimited.
3. Economic problem: there exist unlimited resources to produce the goods and services to satisfy those wants. This creates scarcity.
4. Factors of production: are those resources needed to produce goods and services. There are 4 factors of production and they are in limited supply.
5. Scarcity: is the lack of sufficient products to fulfill the total wants of the population.
6. Opportunity cost: the next best alternative given up by choosing another item.
7. Specialization: occurs when people and businesses concentrate on what they are best at.
8. Division of labour: is when the production process is split up into different tasks and each worker performs one of these tasks. It is a form of specialisation.
9. Businesses: combine factors of production to make products (goods and services) which satisfy people's wants.
10. Added value: is the difference between the selling price of a product and the cost of bought materials and components.

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1. **Economic Problem**

**Economic problem:** resources are scarce and want is unlimited want. This makes people have to choose and therefore opportunity cost occurs.

**Need:** goods and services that are essential for living such as water, medicine.

**Want:** goods and services that people desire to have such as watch, cars.

**Resources:** are factors of production including land, labour , capital and enterprise

Factors of production	Definition	Example
1. Land	Natural resources	oil and coal
2. Labour	Workers who are used in production of goods and services	Builder, teacher
3. Capital	Human-made goods used in production	Machines, equipment, tools
4. Enterprise	Who take risks and make key decisions in business	The owner of a business

2. **Opportunity Cost**

: Cost of an alternative that must be forgone in order to pursue certain action.

3. **Specialization**

: People concentrate on what they are best at.

Eg. one man does only one stage they specialize in.

4. **Division of labour**

: Production process is split up into different tasks and each worker performs one of these tasks.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Increasing efficiency and the amount of output.</li> <li>• Reducing production time.</li> <li>• Reducing error and cost of production.</li> <li>• Training a worker to do only one task can reduce training cost.</li> </ul>	<ul style="list-style-type: none"> <li>• Creating boredom since workers do the same task all the time.</li> <li>• Efficiency might be dropped</li> <li>• Demotivating employees to create new things.</li> <li>• If a worker is absent, no one can replace. The production process will be stopped.</li> </ul>



5. **The purpose of business activities**

: to combine factors of production to make products or services to satisfy customers.

- Combining factors of production including land, labour, and capital.
- Producing products or services to satisfy needs and wants.
- Employing workers and workers can get wages as a return.

6. **Value added**

: Selling price - Material price

**Knockout tip:** It is not the profit, need to concern other expenses eg. labor cost, operation cost etc.

**How could a business increase value-added ?**

1. Increasing price of a product and keeping material costs unchanged.
2. Reducing material costs and keeping selling price unchanged.

## Chapter 2: Classify of Business

### Key terms

1. Primary sector: industry extracts and uses the natural resources of the earth to produce raw materials used by other businesses.
2. Secondary sector: industry manufactures goods using the raw materials provided by the primary sector.
3. Tertiary sector: industry provides services to consumers and the others sectors of industry.
4. De-industrialisation: occurs when there is a decline in the importance of the secondary, manufacturing sector of industry in a country.
5. Mixed economy: has both a private sector and a public(state) sector.
6. Capital: the money invested into a business by the owners.



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1. **Economic activity**

: action involves production/distribution/consumption of goods and services at all levels of society.

Eg. selling ice-cream: production + distribution, buying ice-cream: consumption

2. **Type of economic activity classified by activities:**

- **Primary sector:** involves extracts natural material; agriculture, fishing, forestry and farming.
- **Secondary sector:** involves taking raw materials from the primary sector to produce products. It includes manufacture, building, and construction.
- **Tertiary sector:** involves providing services and distribution. It includes retails, department stores, insurance services, hairdressing, banking.

3. **Type of economics activity classified by ownership:**

- **Private sector:** Organized by private companies. The objective is to maximize profit
- **Public sector:** Organized by government or state-owned enterprises. The objective is to improve social welfare. eg. Government provides education and healthcare to improve people's living standards.

4. **Reasons for the changing importance of business classification**

- **In developing countries**, there are a larger proportion of people working in the agricultural sector then in the manufacturing and service sector. Then, when the countries become more developed, there will be more workers in the manufacturing and service sector as wage and working conditions are better.
- **In developed countries**, there are a large proportion of people working in the service sector.

### Chapter 3: Enterprise/Business growth and Sizes

#### Key terms

1. Entrepreneur: is a person who organizes, operates and takes risk for a new business venture.
2. Business plan: is a document containing the business objectives and important details about the operations, finance, and owners of the new business.
3. Capital employed: is the total value of capital used in the business.
4. Internal growth: occurs when business expands its existing operations.
5. External growth: is when a business takes over or merges with another business. It is often called integration as one firm is integrated into another one.
6. Merger: is when the owners of two businesses agree to join their firms together to make one business.
7. Takeover or acquisition: is when one business buys out the owners of another business which then becomes part of the predator business (the firm which has taken it over).
8. Horizontal integration: is when one firm merges with or takes over another one in the same industry at the same stage of production.
9. Vertical integration: is when one firm merges with or takes over another one in the same industry but at a different stage of production. Vertical integration can be backward or forward.
10. Conglomerate integration: is when one firm merges with or takes over a firm in a completely different industry. This is also known as diversification.

**1. Enterprise and entrepreneurship:**

**: Entrepreneurs** : person who organize/operate/take risk of new business such as Steve Job/ Mark Zeckerberg

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Putting ideas in practice</li> <li>• Having independence and freedom</li> <li>• Taking huge profit</li> <li>• Gaining high reputation</li> <li>• Using personal interest and skills in the business.</li> </ul>	<ul style="list-style-type: none"> <li>• Having high risk from unsuccessful business.</li> <li>• Requiring capital for investment.</li> <li>• Lacking knowledge and experience in new business.</li> <li>• Opportunity cost from losing salary from being an employee.</li> </ul>

**Characteristics of successful entrepreneurs**

1. Hard working
2. Risk taker
3. Creative
4. Optimistic
5. Self-confidence
6. Innovative
7. Independent
8. Effective communicator

**Why and how governments support business start-ups**

Government supports business by grants and training schemes.

1. Reducing unemployment.
2. Increasing competition by helping new and small businesses to start up.
3. Increasing output.
4. Supporting social enterprise which generates benefits to the society.
5. Helping business to grow.

**How a business plans assist entrepreneurs**

**Business plan:** is a document containing the business objectives and important details about the products, cash flow, business costs, location, and resources required.

**The benefits of business plan**

1. To help gain finance; e.g. when a business would like to borrow money from a bank, the bank manager will require a detailed business plan.
2. To carefully plan and to reduce risk.

**2. The methods and problems of measuring business size****2.1 Number of employees****Limitation:**

- Some companies are capital-intensive. They might hire less employees but there will be a large scale of production.

**2.2 Value of output****Limitation:**

- The price of the product can be varied.
- Some companies might hire high employees but they sell cheap products.

**2.3 Value of sales****Limitation:**

- It cannot compare the size of businesses that sell different products. It is difficult to compare e.g. bakery shops and Luxury handbags.

**2.4 Value of capital employed (Total value of capital used in the business)**

**Limitation:** Some companies use labor-intensive which use little capital equipment.

**3\*. How business growth:**

- **Internal growth:** expanding business without merger and acquisition with other companies.

E.g. selling products in other countries, increasing branches.

- **External growth:** merger and acquisitions with other companies:

- **Horizon Integration** : combine companies with **same industries + same stages**

Advantages	Disadvantages
<ol style="list-style-type: none"> <li>1. It reduces competition in the market.</li> <li>2. A business can take advantage of economies of scale resulting in lower average cost.</li> <li>3. The combined business can get bigger market share.</li> </ol>	<ol style="list-style-type: none"> <li>1. The combined business may experience diseconomies of scale. A large business can be difficult to control.</li> <li>2. It is difficult to integrate the two businesses with different management structures and culture.</li> </ol>

- **Vertical Integration**: combine companies with **same industries + different stages**

- **Backward Vertical Integration**: Firm integrates with another firm at the earlier stage of production. Eg. Manufacturing + Primary sector

Advantages	Disadvantages
<ol style="list-style-type: none"> <li>1. To ensure an adequate supply of good quality raw materials at reasonable price.</li> <li>2. The business can get profit made by the supplier.</li> <li>3. It is more certain over the supply of raw materials and cost.</li> <li>4. To restrict suppliers to supply raw materials to rival firms.</li> </ol>	<ol style="list-style-type: none"> <li>1. There is no competition between suppliers anymore. It may lead to higher raw material costs.</li> <li>2. There is higher risk from adverse change in supplier as it will affect the whole business.</li> <li>3. It may cause diseconomies of scale from being a large firm.</li> </ol>

- **Forward Vertical Integration**: Firm integrates with other firms at the next stage of production. Eg. Manufacturing + Service sector

Advantages	Disadvantages
<ol style="list-style-type: none"> <li>1. To ensure that there are sufficient outlets.</li> <li>2. To ensure that products are stored and displayed well in high quality outlets.</li> <li>3. The business can control after sale service and marketing and get customers preference.</li> </ol>	<ol style="list-style-type: none"> <li>1. There is a higher risk from holding high fixed costs. The fortunes of business are tied to the distribution system.</li> <li>2. Processes are independent then a slight disruption will affect the whole.</li> </ol>

<p>4. The business can get profit made by retail shops.</p> <p>5. The business can prevent retailers from selling competitor's products.</p>	<p>3. It may cause diseconomies of scale from being a large firm.</p>
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- **Conglomerate integration:** combine companies with **completely different industries and different stages**

Advantages	Disadvantages
<p>1. A merger spreads a business's risks. If the sale revenue from a product falls, the business still has revenue from other products.</p> <p>2. It enables a merger to grow even if the market of one of its products is declining.</p> <p>3. A merger is being larger, it can borrow more money at lower interest.</p>	<p>1. It may cause diseconomies of scale from being a large firm.</p> <p>2. A merger may lack experience in new business. It has a chance to fail.</p>

#### 4. Why some businesses grow and others remain small:

##### Why the owners of a business may want to expand the business?

- To get higher profit
- To take advantages of economies of scales (increasing production leads to lower average cost)
- To get bigger market share
- To have higher status and prestige for owners and managers

##### 5. Problems linked to business growth and how these might be overcome?

Problems from expansion	Solution
<p>1. Difficulty in controlling and diseconomies of scale</p>	<p>1. Operating the business in small units or decentralization.</p>
<p>2. Poor communication</p>	<p>2. Operating the business in small units Using up-dated IT equipment and telecommunications.</p>
<p>3. It can cause financial problems from huge expansion costs.</p>	<p>3. Using profits to grow.</p>

4. Problems from different cultures and management styles.	4. Introducing a different style of management requires good communication with the workforce.
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6. **Why do some businesses remain small?**

**6.1 Owner's objective**

: Owners would like to avoid the stress or worry of running a large business.

**6.2 Small market size**

: Total number of customers may be small. Eg. luxuries car, rural areas

**6.3 Personal services or specialized products**

: Some industries offer personal services which require close relationships with customers.

7. **Why do some businesses fail?**

1. Poor management: it can be caused by the lack of experience.
2. Businesses are not responding effectively to new technology or change in customer demand.
3. Poor financial management: it can cause the lack of liquidity and default.
4. Over expansion: some businesses expand too fast and they might face financial problems.
5. Risk of new business start-up: it can be caused by poor planning or adequate research.

## Chapter 4: Type of business organization

### Key terms

1. Sole trader: is a business owned by one person.
2. Unlimited liability: means that the liability of shareholders in a company is only limited to the amount they invested.
3. Unlimited liability: means that the owners of a business can be held responsible for the debts of the business they own. Their liability is not limited to the investment they made in the business.
4. Partnership: is a form of business in which two or more people agree to jointly own a business.
5. Partner agreement: is the written and legal agreement between business partners. It is not essential for partners to have such an agreement but it is always recommended.
6. Unincorporated business: is one that does not have a separate legal identity. Sole traders and partnerships are unincorporated businesses.
7. Incorporated business: are companies that have separate legal status from their owners.
8. Shareholders: are the owners of a limited company. They buy shares which represent part ownership of a company.
9. Annual general meeting: is a legal requirement for all companies. Shareholders may attend and vote on who they want to be on the Board of Directors for the coming year.
10. Dividends: are payment made to shareholders from the profits (after tax) of a company. They are the return to shareholders for investing in the company.
11. Franchise: is a business based upon the use of the brand names promotional logos and trading methods of an existing successful business. The franchisee buys the license to operate this business from the franchisor.

**1. Business organisation in private sector:**

**1.1 Sole trader**

: Business owned by only one person.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• A Sole trader has few regulations.</li> <li>• Owner makes decisions easier without discussion with others.</li> <li>• There will be less conflict and faster in making decisions.</li> <li>• The owner gains all profits.</li> <li>• There will be close contacts to customers and employees.</li> <li>• There is a quick response to demand and increased morale of employees.</li> </ul>	<ul style="list-style-type: none"> <li>• No different ideas and discussion with others.</li> <li>• It is unlimited liabilities. If the business fails the owner may lose money more than initially invested in the business.</li> <li>• It is difficult to find a source of finance.</li> <li>• If the owner pass away or unable to work, the business cannot be transferred to others.</li> </ul>

**1.2 Partnerships**

: A group of 2-20 people agree to run a business ; they contribute money and share profit together.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>Partnerships have more capital than a sole trader.</li> <li>The responsibility can be shared between partners.</li> <li>Partners have different skills which can be applied to the business.</li> </ul>	<ul style="list-style-type: none"> <li>It is unlimited liabilities. If the business fails, owners need to spend personal money to repay debt.</li> <li>It is an unincorporated business.</li> <li>It may have disagreement among partners and slow decision making.</li> <li>It has limited finance and also limits growth of the company.</li> </ul>



### 1.3 Private limited company

: A group of 2-50 people agree to run a business, formed as a company. The company has a separate legal identity from owners.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>Private limited companies have more capital from shareholders up to 50 persons)</li> <li>There is limited liability.</li> </ul>	<ul style="list-style-type: none"> <li>Private limited companies cannot advertise and sell shares publicly in the stock market. (limit finance)</li> <li>It needs to prepare financial statements which is costly.</li> <li>Shares cannot be transferred and sold to anyone without any agreement of other shareholders. (Less liquidity)</li> </ul>

**1.4 Public limited company** (\*\*\*) not public sector or public corporation)

: A company can sell shares publicly in the stock market which has unlimited shareholders. The companies also have a separate legal identity from owners.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• It is limited liability and incorporated business.</li> <li>• The company can raise more funds, as it can sell shares to the public which has unlimited shareholders.</li> <li>• There is no restriction on buying/selling/transferring shares.</li> <li>• The company will be more reliable and has a higher status. It can be easier to deal with banks and suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>• More regulations require the company to prepare financial statements and objectives.</li> <li>• It is difficult to control and manage the large size of public companies.</li> <li>• The original owners may lose control over the business.</li> <li>• Selling shares to the public is expensive since they need to pay for commission and advertising.</li> </ul>

**1.5 Joint ventures**

: Two or more businesses agree to start a new project together.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Joint ventures can share cost.</li> <li>• Joining with local firms can make the business better understand the local customers and knowledge.</li> <li>• Risks are shared.</li> </ul>	<ul style="list-style-type: none"> <li>• Profit needs to be shared.</li> <li>• It can cause disagreement in decision making.</li> <li>• There might be some conflicts from differences in cultures.</li> </ul>

**1.6 Franchising**

: A franchise is a type of license.

: Franchisee buys license / trademark of the business from franchisor.

**Advantages and disadvantages of franchisor**

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• The franchisor can expand business by selling license to franchisee.</li> <li>• Selling franchising can increase in customer based and market share, resulting in higher revenue.</li> <li>• The franchisor can make profit from selling raw materials to franchisee.</li> </ul>	<ul style="list-style-type: none"> <li>• The poor management of the franchisee can create a bad reputation in the overall business.</li> <li>• It is difficult to control standards.</li> <li>• The franchisee may keep profit from the outlet.</li> </ul>

**Advantages and disadvantages of franchisee**

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• It has lower chance of business failure as the franchisee sells the well-known product.</li> <li>• It is easier for the franchisee to borrow money from banks due to relatively low risk.</li> <li>• The franchisor pays advertising.</li> <li>• Franchisor provides training staff.</li> <li>• There are existing customers so the franchisee does not need to spend lots of time to build the target customers.</li> </ul>	<ul style="list-style-type: none"> <li>• It has less independence since the franchisee needs to follow franchisor's instructions.</li> <li>• The franchisee cannot make decisions according to local market conditions.</li> <li>• License fee and profit need to be paid and shared.</li> </ul>

**2. Business organisation in public sector:**

**Public Corporation:** a business organisation owned by the government which is designed to act in the public interest such as water supply, railway, and electricity.

Advantages	Disadvantages
<ol style="list-style-type: none"> <li>1. Government directly provides essential goods such as water supply and electricity.</li> <li>2. It can prevent private monopoly to supply goods and services at high price and low quantity.</li> <li>3. Government may nationalize an important industry that is failing to protect jobs.</li> <li>4. Government aims to maximize social welfare then goods and services provided by government are likely to have low price and high quality.</li> </ol>	<ol style="list-style-type: none"> <li>1. Government might be slowing down decision making.</li> <li>2. Due to the lack of competition and profit motive, it might cause inefficiency and low-quality products.</li> <li>3. Government corruption.</li> </ol>

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## Chapter 5: Business objectives and Stakeholder objectives

### Key terms

1. Business objectives: are the aims or targets that a business works towards.
2. Profit: is total income of business(sales revenue) less total costs.
3. Market share: is the proportion of total market sales achieved by one business.
4. Social enterprise: has social objectives as well as an aim to make a profit to reinvest back into the business.
5. Stakeholder: is any person or group with a direct interest in the performance and activities of a business.



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## 1. Why need to set a business objective?

**Business objectives:** are the aims or targets that a business works towards.

- Providing motivation to people (workers/managers) to achieve the target
- Comparing performance whether the business is successful or not
- Using in making decision

## 2. Business objectives:

### 2.1 Profit maximization

**Benefits:**

1. Using for reinvestment
2. Paying dividend to shareholders

### 2.2 Market share

**Benefits:**

1. Higher market share brings higher revenue.
2. If the business has higher market share, it is easier to negotiate with banks and suppliers.
3. The businesses with high market share are likely to be well recognized and reliable, then they can charge high price.

### 2.3 Business Survival

: Normally it is a short term objective especially during an economic recession or introduction stage.

### 2.4 Growth of business (Measured by value of sales or output)

**Benefits:**

1. Growth of business can create more jobs for employees.
2. Large businesses can increase salary to managers.
3. It increases opportunities to expand businesses to diversify risk e.g. increasing branches of restaurants with bakeries.
4. Growth allows businesses to have larger market share.
5. Large size businesses can achieve economies of scale (lower average cost).

### 2.5 Return to shareholders

**Benefits:**

1. It is easier to raise funds in the future as shareholders want to invest in the company which generates high dividends.



## 2.6 Non-profit organization

**Benefits:** Non-profit organizations can provide jobs to society and help poverty in rural areas and protect the environment.

### 3. **The role of stakeholder groups involved in business activity:**

**Stakeholder group:** a person or a group with a direct interest in activities of a business.

#### **2 types of stakeholder group**

- **External stakeholder:** person/group are outside business eg. consumer/ government / suppliers.
- **Internal stakeholder:** person/group are inside business eg. owners/employees.



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External stakeholder	
Stakeholder group	Objectives
1. <b><u>Customer</u></b>	Cheap products / responding demand / safety
2. <b><u>Government</u></b>	High tax revenue / providing jobs
3. <b><u>Bank</u></b>	Expecting that business pays back principal money plus interest on time.
4. <b><u>Community</u></b>	Safe products / environmentally friendly products / job creation.

Internal stakeholder	
Stakeholder group	Objectives
1. <u>Owners</u>	Maximize profit which can be used to reinvest in business and pay dividends to shareholders.
2. <u>Workers and Managers</u>	Higher salary, bonus and also job security.

#### 4. Conflict of stakeholders' objectives.

E.g. The owners objectives is profit maximization which may conflict with the community. As the business may damage environment.

E.g. The owners want to introduce new machines to produce products faster and they may lay off some workers to reduce cost which may conflict with workers' objective.

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## Section 2: People in business

### Chapter 6: Motivating workers

#### Key terms

1. Motivation: is the reason why employees want to work hard and work efficiently for the business.
  2. Wage: is payment for work, usually paid weekly.
  3. Salary: is payment for work, usually paid monthly.
  4. Commission: is payment relating to the number of sales made.
  5. Profit sharing: is a system whereby a proportion of the company's profits is paid out to employees.
  6. Bonus: is an additional amount of payment above basic pay as a reward for good work.
  7. Performance related pay: is pay which is related to the effectiveness of the employee where their output can easily be measured.
  8. Share ownership: is where shares in the company are given to employees so that they become part owners in the company.
  9. Appraisal: is a method of assessing the effectiveness of an employee.
  10. Fringe benefits: are non-financial rewards given to employees.
  11. Job satisfaction: is the enjoyment derived from feeling that you have done a good job.
  12. Job rotation: involves workers swapping round and doing each specific task for only a limited time and then changing round again.
  13. Job enlargement: is where extra tasks of a similar level of work are added to worker's job description.
  14. Job enrichment: involves looking at jobs and adding tasks that require more skill and/or responsibility.
-

1. **Why do people work?**

- **Money:** to pay for living cost / necessities goods or some luxury goods and services.
- **Security:** not lose job
- **Connection:** to meet people / friends
- **Self-Importance:** to feel that they are important or being part of company.
- **Job-Satisfaction:** to enjoy working..

2. **Motivation and Motivation theories**

**2.1 F.W. Taylor**

: This theory is based on payment.

: Higher payment motivates labor to work harder and more effectively.

**For example**

Labor wage 100 Baht per day. Each employee can produce 20 units /day.

If an employer increases wages to 200 Baht per day, an employee increases productivity and can produce 50 units per day.

**Existing:** Average cost per unit: = 5 Baht / unit

**New:** Average cost per unit: = 4 Baht / unit

**To sum up:** an increase in wage can increase motivation of workers to work harder and as a result this can increase productivity and lower average cost.

**2.2 Maslow theory**

: The concept of a hierarchy of needs provides a five-tier model of human needs.



1. Maslow argued that needs at the bottom are basic needs, they are concerned with survival. These needs must be satisfied before a person can move to the next level.
2. Once each level is satisfied, the needs at this level become less important. The exception is the top level of self-actualization, the need to fulfill your potential.
3. Each level of needs is dependent on the levels below. An employee has been motivated by an opportunity to take responsibility but they might lose jobs. The whole system collapsed. => need to provide security on jobs first.

### 2.3 Herzberg

: There are two factors of motivation which are Hygiene or Maintenance factors and Motivator factors.

Factors of motivation	Motivators factors	Hygiene Factors
<p><b>Definition</b></p>	<p>Motivators are factors that give workers job satisfaction, such as recognition for their effort, more responsibilities.</p>	<p>→ Hygiene or maintenance factors are factors that can lead to workers being dissatisfied such as pay and conditions.</p> <p>→ An improvement in hygiene factors cannot motivate workers but if they are not met there could be a fall in productivity.</p>
<p><b>Example</b></p>	<ul style="list-style-type: none"> <li>● Achievement</li> <li>● Recognition</li> <li>● Personal Growth</li> <li>● Promotion</li> <li>● Responsibility</li> </ul>	<ul style="list-style-type: none"> <li>● Company policy</li> <li>● Supervision</li> <li>● Relationship</li> <li>● Work conditions</li> <li>● Salary</li> <li>● Security</li> <li>● Remuneration</li> </ul>

3. **Motivating Factors**

: There are 3 factors which are financial rewards, Non-financial rewards and introducing ways to give job satisfaction.

3.1 **Financial Reward Motivators**: involved with monetary basis

Financial Rewards	Advantages	Disadvantages
<p>1. <b>Wage</b> : payment for work, usually paid every week.</p>	<ul style="list-style-type: none"> <li>• Employees receive money every week and they do not have to wait for long.</li> <li>• If employees work overtime, they can receive extra payment.</li> </ul>	<ul style="list-style-type: none"> <li>• It is a waste of time to calculate every week.</li> </ul>
<p>2. <b>Time Rate</b> : payment by the hour</p>	<ul style="list-style-type: none"> <li>• It is easy to calculate.</li> </ul>	<ul style="list-style-type: none"> <li>• Good or bad workers receive the same amount.</li> <li>• It needs to make sure that workers keep producing good quality.</li> <li>• Supervisors are needed.</li> </ul>
<p>3. <b>Piece Rate</b> : payment by the amount of <b>product</b> is made.</p>	<ul style="list-style-type: none"> <li>• Piece rate can motivate workers to work faster and more outputs are produced to meet customers' demand.</li> </ul>	<ul style="list-style-type: none"> <li>• Employees concern only quantity but not quality.</li> <li>• If machinery breaks down, employees can produce less amount. Therefore, it is unfair to employees.</li> </ul>
<p>4. <b>Salaries</b> : are paid monthly. Salaries are usually a standard rate.</p>	<ul style="list-style-type: none"> <li>• Employees feel secure since employees can receive fixed amounts every month.</li> <li>• It is easy to calculate salary cost for the business.</li> </ul>	<ul style="list-style-type: none"> <li>• Extra work is not paid.</li> </ul>

However, people can gain extra money top-up from salary

- **Commission:** The more sales they make the more money they are paid which is similar to piece rate.  
**Advantages:** This can encourage sales staff to sell more products.  
**Disadvantages:** The sales staff are very persuasive. ⇒ annoy customers and create a bad reputation for the company.
- **Profit Sharing:** Employees receive a share of the profits in addition to their basic salary.  
**Advantages:** This can motivate employees to work harder.  
**Disadvantages:** The company might have a lower dividend paid to shareholders.
- **Bonus:** A lump sum paid to workers when they have worked well. It can be paid at the intervals during the year or end of the year.
- **Performance-related pay:** Employee pay is linked to the effectiveness of their work.
- **Share Ownership:** Employees are given some shares of the company.  
**Advantages:** This should encourage them to work hard and also improve employee loyalty as well as create sense of being part of the company.

**3.2 Non-financial reward:** or Fringe benefits e.g. car / discount on firm's products / holiday / health insurance/ tuition fee / free accommodation.

**3.3 Job satisfaction:** is the enjoyment derived from feeling that workers have done a good job.

- **Job enrichment:** Giving employees greater responsibility and recognition by vertically extending their work role.

<u>Advantages</u>	<u>Limitation</u>
<ul style="list-style-type: none"> <li>• Giving employees a challenge will develop their unused skills and encourage them to be more productive.</li> <li>• Making workers feel important to business as they contribute work to the business.</li> </ul>	<ul style="list-style-type: none"> <li>• Workers who are unable to make it may not respond to incentives.</li> <li>• Not all workers react in the same way to job enrichment as motivation.</li> </ul>

- **Job rotation:** the periodic changing of jobs or tasks. Eg. Moving from HR to marketing.

<u>Advantages</u>	<u>Limitation</u>
<ul style="list-style-type: none"> <li>• Reducing boredom</li> <li>• Employees benefit from wider training.</li> <li>• Motivating workers</li> </ul>	<ul style="list-style-type: none"> <li>• Lower productivity as workers learn new jobs and take time to settle in.</li> <li>• Worker motivation is not guaranteed. They may change from a boring job to another.</li> </ul>

- **Job enlargement:** Giving an employee more work to do of similar nature; horizontally extending their work role. E.g. An employee putting wheels on a bicycle could be allowed to put the entire product together.

<u>Advantages</u>	<u>Limitation</u>
<ul style="list-style-type: none"> <li>• Preventing boredom by completing the entire process.</li> </ul>	<ul style="list-style-type: none"> <li>• Giving a worker more of the same =&gt; boredom, dissatisfaction</li> <li>• It may reduce efficiency as it allows a worker to complete all tasks. =&gt; A fall in productivity.</li> </ul>

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## Chapter 7: Organization and management

### Key terms

1. Organisational structure: refers to the levels of management and division of responsibilities within an organisation.
  2. Chain of command: is the structure in an organisation which allows instructions to be passed down from senior management to lower levels of management.
  3. Span of control: is the number of subordinates working directly under a manager.
  4. Line managers: have direct responsibility over people below them in the hierarchy of an organisation.
  5. Staff managers: are specialists who provide support, information and assistance to line managers.
  6. Delegation: means giving a subordinate the authority to perform particular tasks.
  7. Leadership styles: are the different approaches to dealing with people when in a position of authority-autocratic, laissez-faire or democratic.
  8. Autocratic leadership: is where the manager expects to be in charge of the business and to have their orders followed.
  9. Democratic leadership: gets other employees involved in the decision-making process.
  10. Laissez-faire leadership: makes the broad objectives of the business known to employees, but then they are left to make their own decisions and organise their own work.
  11. Trade union: is a group of workers who have joined together to ensure their interests are protected.
  12. Closed shop: all employees must be a member of the same trade union.
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## 1.\* Organization chart

: refers to the level of management / division of responsibility within an organisation.

### Advantages of an organisation chart

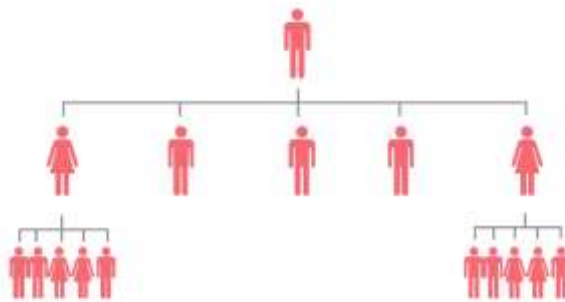
- Employees know the communication channel which is used to reach them with the messages and instruction.
- Every employee can see their own position in the company.
- It represents the links and relationships between different departments in the company.

## 2. Chain of command and span of control

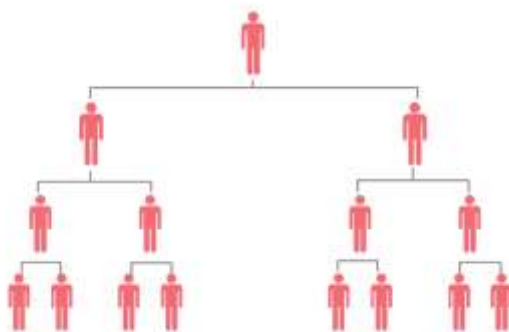
- **Span of control:** is the number of subordinates working directly under manager.
- **Chain of command (Line of authority)** : is the structure in an organisation which allows instructions to be passed down from senior management to lower levels of management.

### Business A : Short chains of command / Wide span of control

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### Business B : Long chains of command / Narrow span of control



**Advantages and Disadvantages of short chains of command**

Advantages	Disadvantages
<ol style="list-style-type: none"> <li>1. Communication is quicker and more accurate.</li> <li>2. Top managers are less remote from employees then it can increase morale to employees.</li> <li>3. Spans of control will be wider. Each manager is responsible for more subordinates.                             <ul style="list-style-type: none"> <li>• Less direct control of each worker and they will feel more trusted.</li> <li>• Increase job satisfaction since employees can make decisions by themselves.</li> <li>• This can encourage managers to delegate tasks and have more time to do other jobs.</li> </ul> </li> </ol>	<ol style="list-style-type: none"> <li>1. Managers may lose control because of lots of subordinates.</li> <li>2. If subordinates are poorly trained, they could make many mistakes.</li> </ol>

**3. The role of management**

**3.1 Planning** : Planning resources relating to future goals and targets.

**3.2 Organising** : Since managers cannot do everything. Tasks must be delegated to others in the organisation. Manager must organise people and resources effectively.

**3.3 Coordinating** : “ Bringing together” and Inter-relationship. Managers will try to make sure that all departments in the organisation work closely together in order to achieve the goal of business.

**3.4 Commanding** : The task of management is more concerned with guiding, leading and supervising people than just telling them what to do.

**3.5 Controlling** : Managers must try to measure and evaluate the work of all individuals and groups to make sure that they are on target.

**4. Delegation**

: means giving a subordinate the authority to perform particular tasks.

: A reduction in direct control once tasks are done by workers and increasing trust of workers by supervisors and managers.

<u>Advantages of delegation to managers</u>	<u>Advantages of delegation to subordinates</u>
<ul style="list-style-type: none"> <li>• Managers do not have to do everything by themselves.</li> <li>• Managers can assess performance of staff from the tasks delegated.</li> </ul>	<ul style="list-style-type: none"> <li>• Employees feel more important to company.</li> <li>• Delegation allows workers to be trained.</li> <li>• The works are more interesting.</li> </ul>

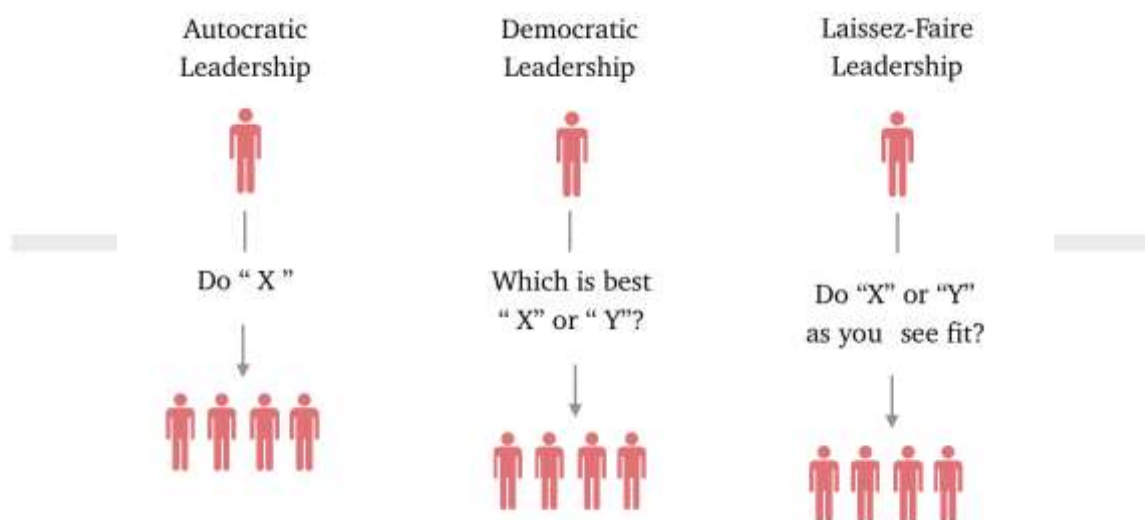
## 5.\* The main of leadership

**5.1 Autocratic leadership:** Communication is mainly one way, downward or top-down. Managers expect to be the leader and employees will follow the orders.

**5.2 Democratic leadership:** Communication is two ways, downward or top-down and upward or bottom-up. Employees involved in the decision-making process.

**5.3 Laissez-faire leadership:** this tends to make the broad objectives of the business known to employees, but then they are left to make their own decisions and organise their own work.

### Summary type of leadership



**To choose type of leadership:** It depends on the situation and business goal.

## 6. Trade Union

: A group / worker who have joined together to ensure that their interests are protected.

### Why do workers join a trade union?

Advantages	Disadvantages
<ol style="list-style-type: none"> <li>1. Improved conditions of employment (Rate of payment, holiday, Working hours)</li> <li>2. Improved environment / welfare (Health, safety, noise)</li> <li>3. Improved benefits for members who are not working because of sickness or retirement</li> <li>4. Improved job satisfaction by encouraging training</li> <li>5. Advice or / and financial support if a member thinks that they have been unfairly dismissed or received unfair treatment</li> </ol>	<ol style="list-style-type: none"> <li>1. Cost of money for members</li> <li>2. Trade unions may be required to take industrial action even if they don't agree.</li> </ol>

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## Chapter 8: Recruitment/ Selection and training of workers

### Key terms

1. Recruitment: is the process from identifying that the business needs to employ someone up to the point at which applications have arrived at the business.
2. Job analysis: identifies and records the responsibilities and tasks relating to a job.
3. Job description: outlines the responsibilities and duties to be carried out by someone employed to do a specific job.
4. Job specification: is a document which outlines the requirements, qualifications, expertise, physical characteristics, etc. for a specified job.
5. External recruitment: is when a vacancy is filled by someone who is not an existing employee and will be new to the business.
6. Part-time employment: is often considered to be between 1 and 30-35 hours a week.
7. Full-time: employees will usually work 35 hours or more a week.
8. Induction training: is an introduction given to a new employee, explaining the firm's activities, customs and procedures and introducing them to their fellow workers.
9. On-the-job training: occurs by watching a more experienced worker doing the job.
10. Off-the-job training: involves being trained away from the workplace, usually by specialist trainers.
11. Workforce planning: is establishing the workforce needed by the business for the foreseeable future in terms of the number and skills of employees required.
12. Redundancy: is when an employee is no longer needed and so lose their job. It is not due to any aspect of their work being unsatisfactory.
13. Ethical decision: a decision taken by a manager or a company because of the moral code observed by the firm.
14. Industrial tribunal: is a legal meeting which considers workers' complaints of unfair dismissal or discrimination at work.
15. Contract of employment: is a legal agreement listing the rights and responsibilities of workers.

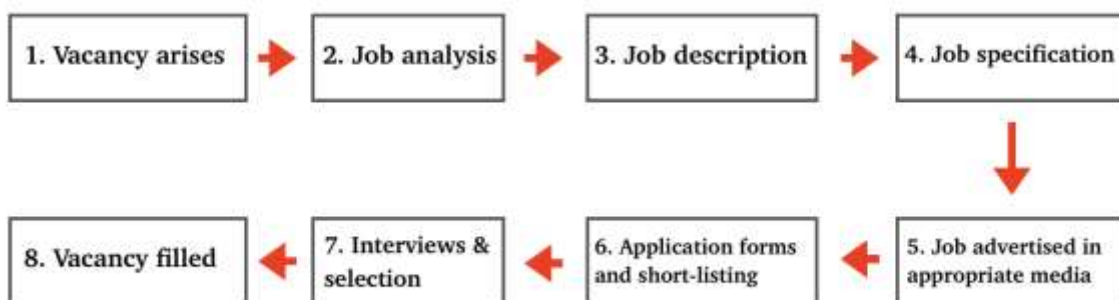
## 1. Human resource department

### The role of human resource department :

- **Recruitment and selection:** involves attracting and selecting the best candidates for position
- **Wage and salaries:** retain and motivate employees
- **Industrial action:** it must be effective in communication between representatives of the management and of the workforce.
- **Training Programme:** provides training programme linked with future plan of the business.
- **Health and Safety**
- **Redundancy and Dismissal**

## 2. Recruitment Process

Recruitment: is the process from identifying that the business needs to employ someone up to the point at which applications have arrived at the business.



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**2.1 Job analysis** : identifies and records the responsibilities and tasks relating to a job.

**2.2 Job description** : outlines the responsibilities and duties to be carried out by someone employed to do a specific job.

**2.3 Job specification** : is a document which outlines the requirements, qualifications, level of education, experience , personal characteristics etc. for a specified job.

**2.4 Advertising Vacancy:**

**2.4.1 Internal Recruitment:** vacancy may be advertised on a company board, filled by someone who is an existing employee of business.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• It saves time and money from advertising and interviewing costs.</li> <li>• The person is already known to the business.</li> <li>• It is easier to work with others.</li> <li>• It can be motivating for other employees to see other workers being promoted.</li> </ul>	<ul style="list-style-type: none"> <li>• No new ideas or experience come into the business.</li> <li>• There may be jealousy and rivalry among existing employees.</li> </ul>

**2.4.2 External Recruitment :** is when a vacancy is filled by someone who is not an existing employee and will be new to the business.

- Local newspaper: It is usually for clerical (office) or manual (factory) positions which do not require high skills.
- Specialist magazines and journals
- Recruitment agencies : They will advertise and interview people for particular types of jobs.
- Job Centres

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Receive new ideas or experience come into the business.</li> </ul>	<ul style="list-style-type: none"> <li>• It might be higher cost since companies need to advertise in public and spend longer recruiting.</li> <li>• New employees might not know the business overview so companies need to provide training courses which are expensive.</li> <li>• It is more difficult to work with new employees and it takes time getting to know each other.</li> </ul>

**2.5 Application form :** A job advertisement will require the applicant to apply in writing. Eg. a curriculum vitae (CV) or resume (a summary of a person's qualifications, experience and qualities which is written in a standard format), cover letters.

**2.6 Interviews :** this can arrange into one-to-one / two-to-one or panel of people interviews. This can also include other selection tasks; for example, written tasks, practice tests, presentation for skills evaluation. (Skills tests / aptitude test / personality tests / group situation tests)

**2.7 Select suitable applications** : select and offer them the job, and reply to unsuccessful applicants.

**3. Benefits and limitations of part-time employees and full-time employees**

**3.1 Full-time worker** : employees will usually work 35 hours or more a week.

**3.2 Part-time workers:** worker is someone who works fewer hours than a full-time worker. (Full-time workers usually work an average 35 hours/week; however, it varies from one country to another.)

**Advantages and disadvantages of part-time workers**

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• More flexible in the hours of work</li> <li>• Easier to ask workers just to work at busy times</li> <li>• Easier to extend business opening during peak-time or weekends</li> <li>• Fits in with looking after children</li> <li>• Less expensive than employing a full-time</li> </ul>	<ul style="list-style-type: none"> <li>• Less likely to be trained from employers</li> <li>• Takes longer to recruit two part-time workers than one full-time workers</li> <li>• Can be less committed to the business</li> <li>• Less likely to be promoted</li> <li>• More difficult to communicate with part-time workers when they are not in work</li> </ul>

**4. The importance of training and the methods of training**

**Why is training important?**

- Introduce a new process or new equipment
- Improve the efficiency of the workforce
- Provide training for the unskilled workers
- Decrease the supervision needed
- Improve opportunity for internal promotion
- Decrease the chances of accidents

**There are three main types of training**

**4.1 Inducing training:** is an introduction given to a new employee, explaining the firm's activities, customs and procedures and also introducing them to their fellow workers.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• It helps new employees to settle into their jobs quickly.</li> <li>• Workers are less likely to make mistakes.</li> <li>• It may be a legal requirement to give Health and Safety training at the start of a job.</li> </ul>	<ul style="list-style-type: none"> <li>• Time consuming</li> <li>• Wages are paid but no work is being done by the worker.</li> <li>• It delays the start of the employee to work.</li> </ul>

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

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Individual tuition.</li> <li>• Some products are created from the workers while they are training.</li> <li>• The cost is usually lesser than off-the-job training.</li> <li>• It is training to the specific needs of the business.</li> </ul>	<ul style="list-style-type: none"> <li>• The trainer will not be as productive as usual because they are showing the trainee what to do.</li> <li>• The trainer may have bad habits and pass on them to the trainee.</li> <li>• It may not necessarily be recognised training qualifications outside the business</li> </ul>

**4.3 Off-the job training:** involves being trained away from the workplace, usually by specialist trainers.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Trainees can get a broad range of skills.</li> <li>• If these courses are taught after work, the employees still carry out their work.</li> <li>• Employees may be taught a variety of skills, they become multi-skilled and they can be moved around the company.</li> <li>• It often uses expert trainers who have up-to-date knowledge of business practices.</li> </ul>	<ul style="list-style-type: none"> <li>• Costs are high.</li> <li>• It means wages are paid but no work is being done by workers</li> <li>• After training, it is easier for the employee to leave and find a new job.</li> </ul>

## **5. Why reducing the size of the workforce might be necessary**

**Workforce planning** : is establishing the workforce needed by the business for the foreseeable future in terms of the number and skills of employees required. This can be because of

- Introduction of automation
- Falling demand for their goods and services
- Factory / shop and office closure
- Relocating their factory abroad
- A business has merged or been taken over

### **2 ways to reduce the number of employees.**

#### **5.1 Dismissal**

: Worker is told to leave their job because of unsatisfied behaviour.

#### **5.2 Redundancy**

: is when an employee is no longer needed and so loses their job. It is not due to any aspect of their works being unsatisfactory.

## **6. Legal controls over employment issues and their impact on employers and employees**

Employees need protection in the following areas:

### **6.1 Protection against unfair discrimination**

: e.g. different race or color / belong to a different religion / opposite sex / disability

### **6.2 Health and safety at work**

: e.g. protect workers from dangerous machinery / provide safety equipment and clothing / maintain reasonable workplace temperatures / provide hygienic conditions

### **6.3 Protection against unfair dismissal**

: e.g. in the UK, if workers feel that they have been dismissed unfairly. Then they can take their case to an industrial tribunal. ( is a legal meeting which considers workers's complaints of unfair dismissal or discrimination at work)

### **6.4 Wage protection**

: Workers have a right to be paid for work. There should be a written agreement between worker and employer in terms of the wage rate and how frequently wages will be paid.

**Advantages and disadvantages of a legal minimum wage**

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• It encourages people to find jobs.</li> <li>• Low-paid workers will earn more and they will be able to afford more products.</li> <li>• Unskilled workers will be receiving higher payments, it might encourage employers to train and make employees more productive.</li> <li>• It prevents employers from exploiting unskilled workers by paying low wages.</li> </ul>	<ul style="list-style-type: none"> <li>• It increases cost to business.</li> <li>• Some employers might lay off some workers, resulting in higher unemployment.</li> <li>• Other workers receiving just above minimum level may ask for higher wage to keep the same differential between themselves.</li> </ul>

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## Chapter 9: Internal and External communication

### Key terms

1. Communication: is the transferring of a message from the sender to the receiver who understands the message.
2. Message : is the information or instructions being passed by the sender to the receiver.
3. Internal communication: is between members of the same organisation.
4. External communication: is between the organisation and other organisations or individuals.
5. Transmitter or sender of the message: is the person starting off the process by sending the message.
6. Medium of communication: is the method used to send a message, for example, a letter is a method of verbal communication.
7. Receiver: is the person who receives the message.
8. Feedback: is the reply from the receiver which shows whether the message has arrived, been understood and, if necessary, acted upon.
9. One-way communication: involves a message which does not call for or require a response.
10. Two-way communication: is when the receiver gives a response to the message and there is a discussion about it.
11. Formal communication: is when messages are sent through established channels using professional language.
12. Informal communication: is when information is sent and received casually with the use of everyday language.
13. Communication barriers: are factors that stop effective communication of messages.

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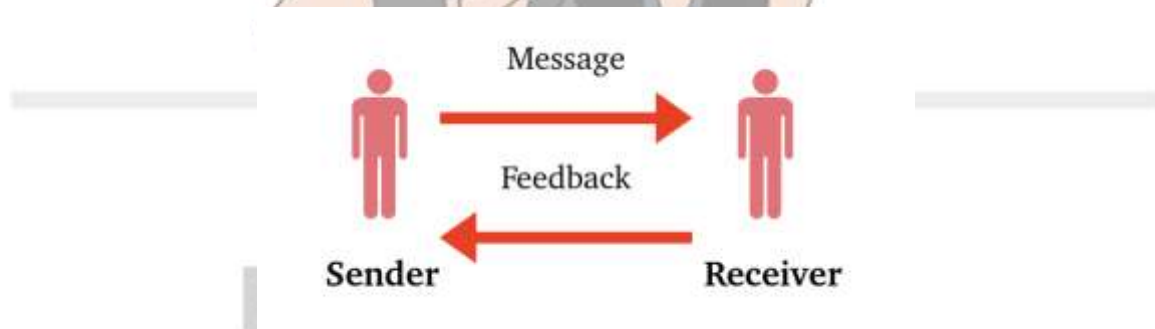
## 1. Why effective communication is important and the methods used to achieve it

**Communication:** occurs when a message is transferred from one person to another, who understands the content of the message. If communication is not effective, or communication failure, this can lead to serious consequences.

**1.1 Internal communications:** is sending messages between members of the same organisation.

**1.2 External communications:** is sending messages between members of the different organisation. Eg. Orders raw materials from supplier / Advertising goods and services to consumers.

### The process of effective communication



### Effective communication involves the following four features

1. **A transmitter or sender of the messages:** person who pass on information to others
2. **A medium of communication** or method of communication
3. **A receiver of the information**
4. **Feedback**

### One-way and two-way communication

- **One-way communication** : involves a message which does not call for or require a response.
- **Two-way communication** : is when the receiver gives a response to the message and there is a discussion about it.

## Communication methods

1. **Verbal communication methods** : involve the sender of the messages speaking to the receiver. Eg. one-to-one talk / telephone / video conference etc.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Information can be given out quickly</li> <li>• There is opportunity for immediate feedback and two-way communication.</li> <li>• Body language can be used, and can help to put messages across effectively.</li> </ul>	<ul style="list-style-type: none"> <li>• Not everyone understands when in the large meeting.</li> <li>• It can take longer to use a verbal method when feedback occurs.</li> <li>• When an accurate and permanent record of the message is needed, verbal is not appropriate.</li> </ul>

2. **Written communication method** : eg. business letters / memos / report / notice / text message / email etc.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• It is “hard” evidence which can be referred to in the future.</li> <li>• A written message can be copied and sent to many people.</li> <li>• Electronic communication is a quick and cheap way to reach a large number of people.</li> </ul>	<ul style="list-style-type: none"> <li>• It cannot get direct feedback.</li> <li>• It cannot use body language.</li> <li>• The language used can be difficult for some receivers to understand.</li> <li>• Sending large files by using electronics can take longer time.</li> </ul>

3. **Visual communication methods** : eg. Films / video / posters / charts etc.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• These methods can present information in an attractive way.</li> <li>• They can be used to make a written message clearer by adding a chart or diagram to illustrate the main point.</li> </ul>	<ul style="list-style-type: none"> <li>• There is no feedback and the sender may need to use other forms of communication to ensure that the message is understood.</li> <li>• Charts and graphs are difficult for some people to interpret.</li> </ul>

**Formal and informal communication**

- **Formal communication** : when messages are sent through established channels using professional language.
- **Informal communication** : is when information is sent and received casually with the use of everyday languages.

**2. Demonstrate an awareness of communication barriers:**

- **Communication barriers**: are the factors that stop effective communication of messages

Barrier	Description	How the barrier can be overcome
<b>Problems with the sender</b>	<ul style="list-style-type: none"> <li>• Languages are too difficult to understand.</li> <li>• Senders might speak too fast or unclear.</li> <li>• Senders communicate the wrong message.</li> <li>• The message is too long and has too many details, the receiver may not know the main point.</li> </ul>	<ul style="list-style-type: none"> <li>• Making the message easy to understand.</li> <li>• Making the message clear and rechecking feedback.</li> <li>• Making sure that the right person is receiving the right message.</li> <li>• Shorten the message to make it easy to understand the main point.</li> </ul>
<b>Problems with medium</b>	<ul style="list-style-type: none"> <li>• The loss of message</li> <li>• Using the wrong channel</li> <li>• Inaccurate message</li> <li>• No feedback</li> <li>• Breakdown of the medium eg. computer failure</li> </ul>	<ul style="list-style-type: none"> <li>• Rechecking from feedback.</li> <li>• Selecting the appropriate channel for each message sent</li> <li>• Using the shortest possible channel to avoid problems.</li> <li>• Also using other forms of communication</li> </ul>
<b>Problems with the receiver</b>	<ul style="list-style-type: none"> <li>• They might not pay attention.</li> <li>• The receiver may not like or trust the sender.</li> </ul>	<ul style="list-style-type: none"> <li>• Emphasising the importance of the message.</li> <li>• There should be trust between both the sender and the receiver.</li> </ul>
<b>Problems with feedback</b>	<ul style="list-style-type: none"> <li>• No feedback.</li> <li>• Feedback is received too slowly or distorted. Perhaps the feedback is passing through too many people.</li> </ul>	<ul style="list-style-type: none"> <li>• Asking for feedback</li> <li>• Using the method of communication which allows the sender to get feedback.</li> </ul>

		<ul style="list-style-type: none"><li>• Using direct communication between subordinates and managers which is more effective.</li></ul>
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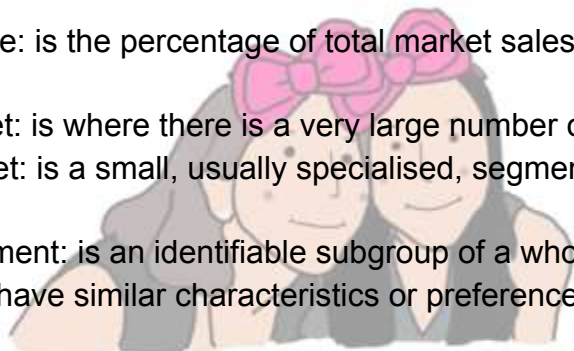
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## Section 3: Marketing

### Chapter 10: Marketing, Competition and customer

#### Key terms

1. Market share: is the percentage of total market sales held by one brand or business.
2. Mass market: is where there is a very large number of sales of a product.
3. Niche market: is a small, usually specialised, segment of a much larger market.
4. Market segment: is an identifiable subgroup of a whole market in which consumers have similar characteristics or preferences.



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## 1. The role of marketing

- **Identify customer needs** : find out what products or services customers want, the price they are willing to pay, where and how they want to buy, etc.
- **Satisfy customer needs** : in order to achieve sales of their goods and services
- **Maintain customer loyalty** : by building customer relationships
- **Gain information about customers** : to meet their changing needs and to establish a long-term relationship with them
- **Anticipate changes in customer needs** : by identifying new trends in customer demand or gaps in the market.

## 2. Market changes

### 2.1 Why customer / consumer spending patterns change

- Change in customer tastes and fashion
- Change in technology : old versions have low sales.
- Change in income: during economic growth the sales of luxury goods increase.
- Ageing population : increasing in demand for some products e.g. healthcare

### 2.2 Why have some markets become more competitive?

- Globalisation : products are sold around the world.
- Transportation improvements : It is easier to buy products from other places.
- Internet / E-commerce : Customers can search products easily.

### 2.3 How can businesses respond to changing spending patterns and increased competition?

- Maintain good customer relationships : continue to meet customer needs and do market research.
- Keep improving its existing product
- Create new products to keep customers interested : this will help maintain or increase market share for businesses.
- Keep costs low to maintain competitiveness

### 3. Concepts of niche marketing and mass marketing

**3.1 Mass marketing:** where there is a very large sales of the products e.g. water.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• The sales to these markers are very large.</li> <li>• Firms can benefit from economies of scales.</li> <li>• Firms can sell a wide variety of products to diversify risk.</li> <li>• Opportunities for growth of the business due to large potential sales.</li> </ul>	<ul style="list-style-type: none"> <li>• High levels of competition between firms</li> <li>• High cost of advertising</li> <li>• Producing standardised products or services may not meet specific needs.</li> </ul>

**3.2 Niche marketing:** is a small, usually specialized segment of a much larger market. Eg. Rolex watches are aimed at a small section of the larger market.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• This can avoid competition from the larger businesses.</li> <li>• The needs of customers can be focused on and therefore targeted by the firm in a niche market.</li> </ul>	<ul style="list-style-type: none"> <li>• There is a limited number of sales.</li> <li>• If a product is no longer demanded, the business may fail from producing only the specific product.</li> </ul>

### 3. How and why market segmentation is undertaken

**Market segment :** is an identifiable subgroup in the whole market which consumers have similar characteristics and preferences.

#### Segmenting a market can help a business to :

- Make marketing expenditure cost effective by producing a product which closely meets the needs of these customers.
- Get higher sales and profits, because of cost-effective marketing
- Identify a market segment which is not having its needs fully met, and therefore offer the opportunities to increase sales

**Ways of segmenting a market :**

By socio-economic group	E.g. Higher income ⇒ Ferrari Medium income ⇒ Toyota
By age	E.g. Baby, Children, Adult
By region/location	E.g. Europe ⇒ Sweater Tropical Countries ⇒ Linen clothes
By gender	E.g. Man ⇒ Shaving razor Woman ⇒ Sanitary Napkin
By lifestyle	E.g. Single person ⇒ Enjoy traveling or shopping Married with three children ⇒ Spend on education

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Company can serve the specific demand of customer to increase sale (Zara:Man, Woman, Kids)</li> <li>• Diversify risks</li> </ul>	<ul style="list-style-type: none"> <li>• High cost of investment</li> </ul>

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## Chapter 11: Market Research

### Key terms

1. Product orientated business: is one whose main focus of activity is on the product itself.
  2. Market orientated business: is one which carries out market research to find out consumer wants before a product is developed and produced.
  3. Marketing budget: is a financial plan for the marketing of a product or product range for some specified period of time. It specifies how much money is available to market the product or range, so that the marketing department knows how much they may spend.
  4. Market research: is the process of gathering, analysing and interpreting information about a market.
  5. Primary research: is the collection and collation of original data via direct contact with potential or existing customers. Also called field research.
  6. Secondary research: is information that has already been collected and available for use by others. Also called desk research.
  7. Questionnaire: is a set of questions to be answered as means of collecting data for market research.
  8. Sample: is the group of people who are selected to respond to a market research exercise, such as a questionnaire.
  9. Random sample: is when people are selected at random as a source of information for market research.
  10. Quota sample: is when people are selected on the basis of certain characteristics (such as age, gender, or income) as a source of information for market research.
  11. Focus group: is a group of people who are representative of the target market.
-

## 1. The role of market research and methods used

### 1.1 Product-oriented and Market-oriented

- **Product-oriented** : business is one whose main focus of activity is on the product itself. It is often basic necessities required for living, such as agricultural foods. These products generally do not have a brand.
- **Market-oriented** : Business is one which carries out market research to find out consumer wants before a product is developed and produced. This is better to survive since it adapts based on changes in customer tastes.

### Why is market research needed?

Market research : is the process of gathering, analysing and interpreting information about a market. There are 2 types which are

- **Quantitative information** : which answers questions about the quantity of something. Eg. How many people in the family drink coffee?
- **Qualitative information** : which answers questions where an opinion or judgement is necessary. Eg. What do you think about "Toffee Nut latte".

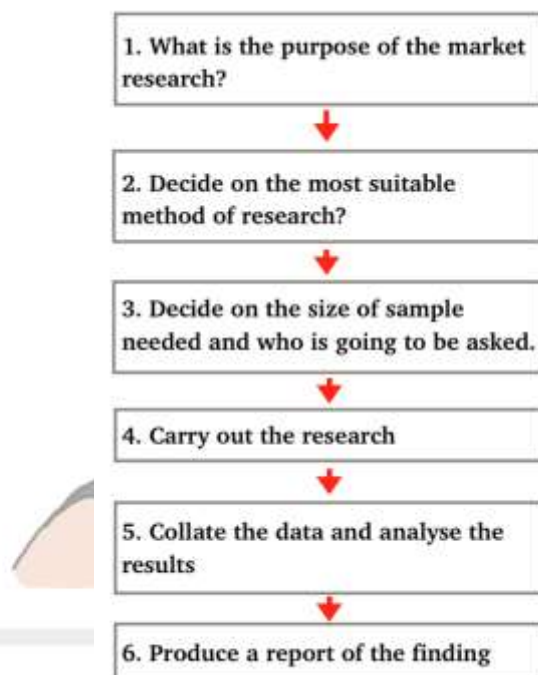
### 1.2 Primary research and secondary research

**1.2.1 Primary research** : is the collection and collation of original data via direct contact with potential or existing customers.

- There are many types of primary research ,which are Questionnaire, Interview, Observation and Focus group.

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**The process of primary research**



**Methods of primary research**

Methods	Advantages	Disadvantages
<p><b>1. Questionnaire</b>                      : It is mainly made up of lists of the questions.                      : Face-to face, online etc.</p> <ul style="list-style-type: none"> <li>• Set purpose</li> <li>• Writing Questions</li> <li>• Carry out questionnaire</li> </ul>	<ul style="list-style-type: none"> <li>• Detailed qualitative information can be gathered about the product and service.</li> <li>• Customers' opinions can be obtained.</li> <li>• It can be carried out online which is cheaper and easier to collate and present the results.</li> <li>• They can be linked to prize draws to encourage people to do questionnaires .</li> </ul>	<ul style="list-style-type: none"> <li>• It takes time and money for carrying out, collating and analysing.</li> <li>• If the questions are not well thought out, answers to then will be inaccurate.</li> </ul>
<p><b>2. Interview</b>                      : When interviews are used, the</p>	<ul style="list-style-type: none"> <li>• The interviewer is able to explain questions.</li> </ul>	<ul style="list-style-type: none"> <li>• It might be inaccurate due to interviewer bias.</li> </ul>

<p>interviewer (the person asking the questions) will have ready-prepared questions for the interviewee ( the person answering the questions)</p>	<ul style="list-style-type: none"> <li>Detailed information can be gathered.</li> </ul>	<ul style="list-style-type: none"> <li>It is time-consuming to carry-out.</li> <li>It is also expensive to gather information.</li> </ul>
<p><b>3. Focus group</b> : Where groups of people (focus groups) agree to provide information about a specific product or general spending patterns over the period of time.</p>	<ul style="list-style-type: none"> <li>They can provide detailed information about customers' opinions.</li> </ul>	<ul style="list-style-type: none"> <li>They can be time-consuming, expensive.</li> <li>They can be biased if some people are influenced by the opinion of others.</li> </ul>
<p><b>4. Observation</b> : This can take the form of recording, watching, auditing</p>	<ul style="list-style-type: none"> <li>It is quite an inexpensive way of gathering data.</li> </ul>	<ul style="list-style-type: none"> <li>The information only gives a basic figure.</li> </ul>

**Samples:** A group of people who are selected to respond to the market research.

- Random Sample** : Every member has an equal chance of being selected.
- Quota Sample** : People are selected on the basis of certain characteristics / age / gender and income.

**1.2.2 Secondary research** : is the use of information that has already been collected and is available for use by others.

- Internal sources of information** : it's from the firm's own records. It is cheap and ready to use. E.g. the record from sales department, opinion from distribution, finance department, and customer service department
- External sources of information** : information is obtained from outside the company. E.g. government statistics, newspapers, market research agencies, and the internet.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>It is less time consuming.</li> <li>It can get information that primary cannot provide. E.g. Economic forecast</li> </ul>	<ul style="list-style-type: none"> <li>It is expensive.</li> </ul>

### Factors influencing the accuracy of market research data

The accuracy of data that has been collected depends on

- How **carefully the sample was drawn up**
- The way in which the question in the questionnaire were phrased** to ensure honest responses
- The **sample selected**
- The **size of sample** : The larger the sample, the more accurate the results are likely to be
- Well-phrased questions**
- Bias** : articles in newspapers sometimes have a bias.
- Age of information** : Statistics can quickly become out of date and they are no longer related to current trends in consumers' buying habits.

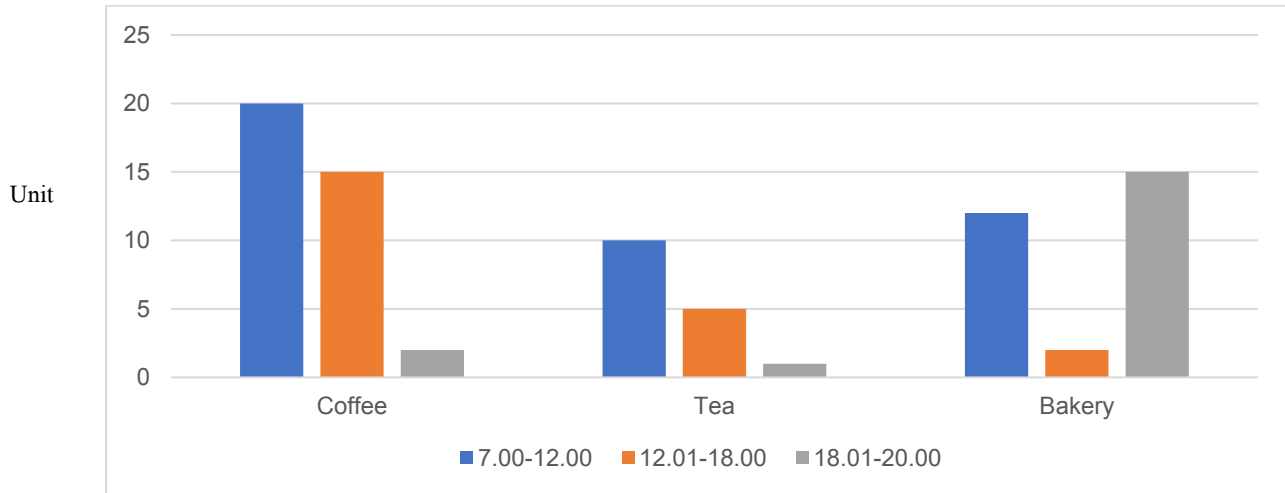
### 2. Presentation and use of market research results

: The raw data will need to be converted into a form which is easy to understand. Information can be displayed in the form of:

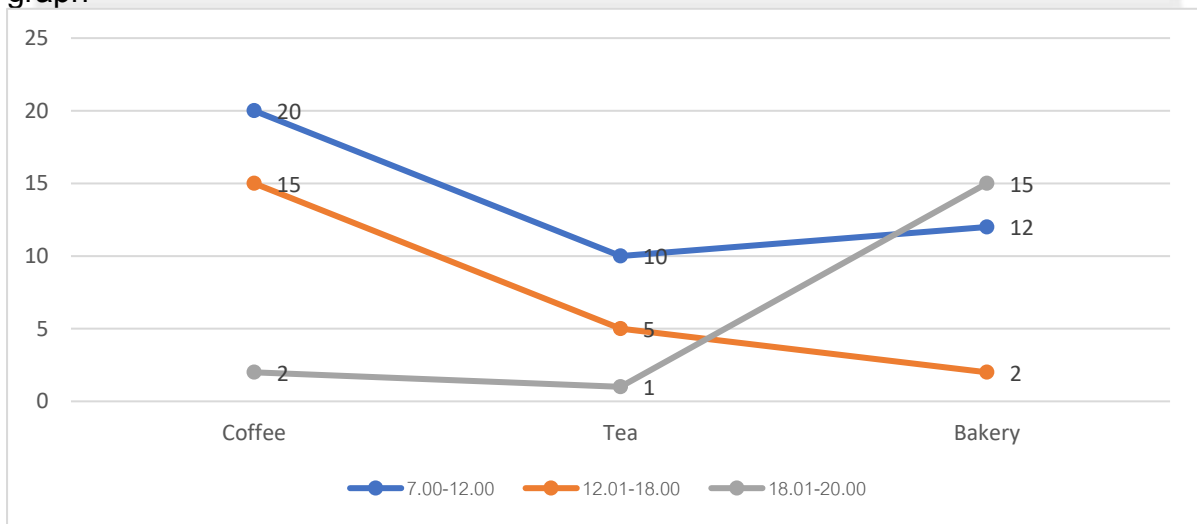
**2.1 A table or tally chart** - Usually used to record the data in its original form, however, it is often better to convert the data into a chart or graph.

Time	Coffee	Tea	Bakery
7.00-12.00			
12.01-18.00			
18.01-20.00			-

**2.2 A chart** - Shows the total figures for each piece of data or the proportion of each piece of data in terms of the total number



**2.3 A Graph** - used to show the relationship between two sets of data. Eg. Line graph



## Chapter 12 : The marketing mix - Product

### Key terms

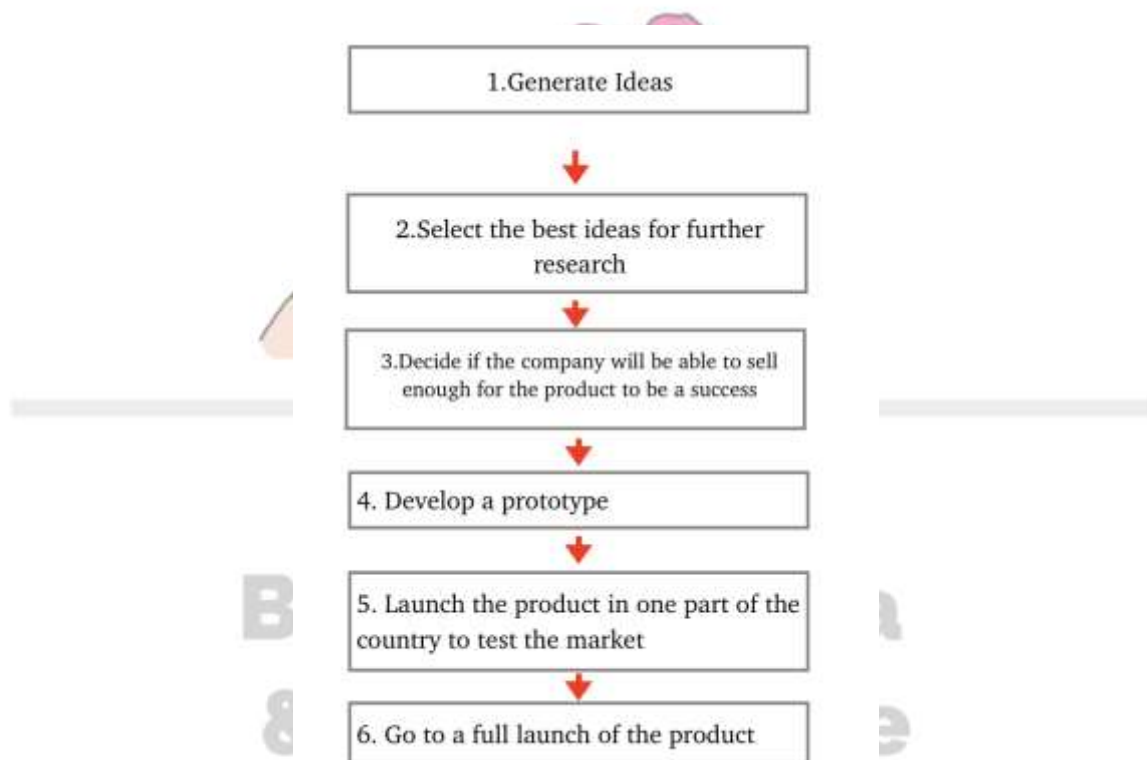
1. Marketing mix: is a term which is used to describe all the activities which go into marketing a product or service. These activities are often summarized as the four Ps- product, price, place, and promotion.
2. Unique Selling Point(UPS): the special feature of a product that differentiates it from the products of competitors.
3. Brand name: the unique name of a product that distinguishes it from other brands.
4. Brand loyalty: when consumers keep buying the same brand again and again instead of choosing a competitor's brand.
5. Brand image: an image or identity given to a product which gives it a personality of its own and distinguishes it from its competitors' brands.
6. Packaging: the physical container or wrapping for a product. It is also used for promotion and selling appeal.
7. The product life cycle: the stages a product will pass through from its introduction, through its growth until it is mature and then finally its decline.

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1. **Marketing strategy:** a plan to combine the right combination of the four elements of the marketing mix for a product or service to achieve a particular marketing objective.  
**Marketing mix:** describe all activities involving selling products and services. It involves products, price, place and promotion.
2. **The costs and benefits of developing new products**

**Process of developing new products**



Costs and benefits of developing new products	
Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• The business will be first into the market by developing Unique Selling Point (USP) [the special feature of a product that differentiates it from the products of competitors]</li> <li>• Business can sell a broader range of products to diversify risks.</li> <li>• Business can expand into new markets.</li> <li>• It may allow the business to expand into existing markets</li> </ul>	<ul style="list-style-type: none"> <li>• The costs of carrying out market research and analysing the finding</li> <li>• The costs of producing trial products including cost of wasted material</li> <li>• Lack of sales if the target market is wrong.</li> <li>• Loss of company image if a new product fails to meet customer needs and wants.</li> </ul>

### 3. Brand image; impact on sales and customer loyalty

**Product** : what to produce in order to respond demand

- **Brand name**: the unique name of the products that distinguishes it from others in order to be easy to remember. It creates perception to customers that the product has high quality and standard.
- **Brand image**: is an image or identify given to a product which gives it a personality of its own and distinguishes it from competitors.
- **Brand Identity**: company created to reflect value of the company e.g. color/slogan etc.
- **Brand loyalty**: keep buying products even if they have competitors.

#### The importance of brand image

- Branded products normally have higher quality and they can be sold at a higher price than unbranded products.
- Branded products are assurance of a standard quality that makes consumers confident in buying brand products.
- This can be used to keep customers buying by developing brand loyalty.
- This might have unique packaging which will attract more consumers.

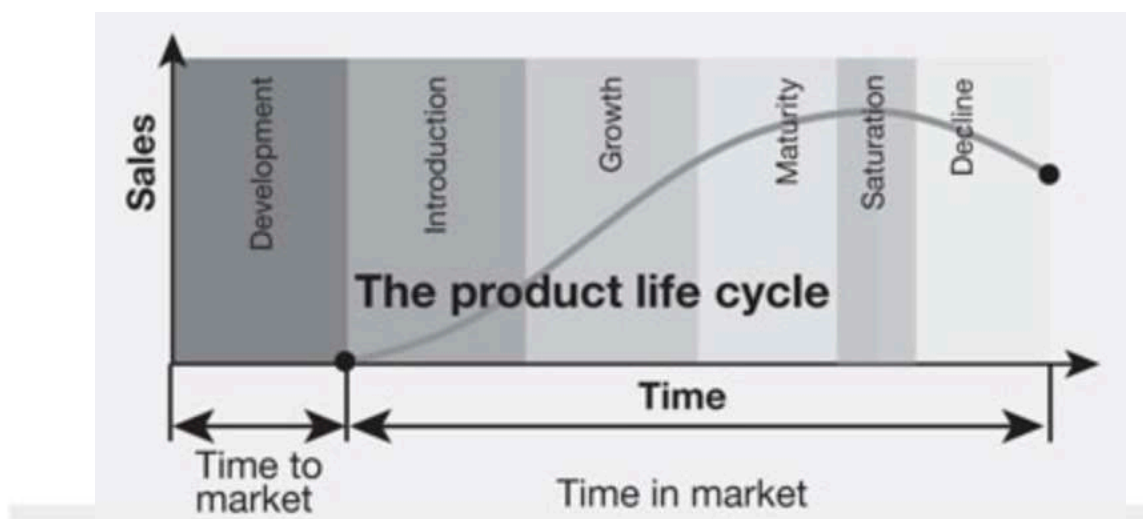
### 4. The role of packaging

**Packaging** : is the physical container or wrapping for a product. It is also used for promotion and selling appeal.

#### Role of packaging:

- Given protection to the product
- Easy to transport
- Easy to open and use
- Promote the products
- Eye-catching to attract customers
- Contain information about the products
- Suitable for the product to fit in

5. **The product life cycle :** products do not last forever. A typical cycle for a product is as follows :



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**5.1 Development Stage :** The prototype will be tested and market research carried out before the product is launched on the market.

**5.2 Introduction Stage:** just launch products in the market.

- Sales revenue will grow slowly at first.
- Informative advertising is used until the product becomes known.
- Price skimming might be used if a product is new to the market.
- No profit since development costs have not yet been covered.

**5.3 Growing Stage**

- Sales start to grow rapidly because of better reputation.
- Persuasive advertising is used to encourage customers to buy.
- Prices are reduced since there are higher competitors.
- Profits are made because development costs are covered.

**5.4 Maturity Stage**

- Sales growth increases at a declining rate.
- Intense competition.
- Using competitive or promotional pricing strategies.
- Profits are at the highest.
- A lot of advertising is used to maintain sales growth.
- Firm needs to develop new products.

**5.5 Saturation Stage**

- Sales is at the highest point.
- Competition is high but no new competitors.
- Using competitive pricing.
- Profit starts to fall because of a drop in sales and a fall in selling price.

### 5.6 Decline Stage

- Sales and price decrease.
- Advertising is reduced and then stopped.
- The product will usually be withdrawn from the market.

## 6. How stages of the product life cycle can influence marketing decisions,

Stages	Product	Price	Promotion	Place
<b>Introduction</b>	Newly launched product	Skimming or penetration pricing	Informative Advertising	Limited range of exclusive shops if skimming pricing is used
<b>Growth</b>		Raise price if penetration pricing was used initially	Establish strong brand image by promotional activities	Increase range of outlets / E-commerce
<b>Maturity/ Saturation</b>	Plan for product changes or start development of new product	Lower price to remain competitive and to extend this stage for longer	Sales promotion techniques to encourage repeat purchases	Full range of distribution channels used
<b>Decline</b>	Adapt product to extend its life	Lower price as customers will be attracted by competitors' newer products	Relaunch the product as a form of extension strategy	Sell mainly through lower cost distribution outlets

### **7.Extending the product life cycle**

- When a product reaches the maturity, the business may adopt extension strategies to boost sales again.
- Extension strategies includes
  1. Introducing new version of the original product
  2. Creating a new advertising campaign
  3. Selling in new market
  4. Changing products' design
  5. Selling in different retail shops



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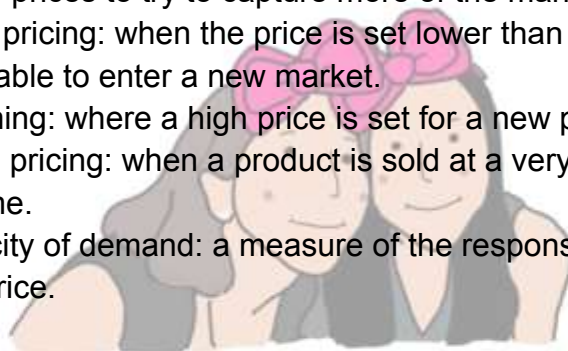
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## Chapter 13 : The marketing mix : Price

### Key terms

1. Cost-plus pricing: the cost of manufacturing the product plus a profit mark-up.
2. Competitive pricing: when the product is priced in line with or just below competitors' prices to try to capture more of the market.
3. Penetration pricing: when the price is set lower than the competitors' prices in order to be able to enter a new market.
4. Price skimming: where a high price is set for a new product on the market.
5. Promotional pricing: when a product is sold at a very low price for a short period of time.
6. Price elasticity of demand: a measure of the responsiveness of demand to change in price.



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**1. Pricing Method and an appropriate pricing method**

Pricing Method	Explanation	Example	Advantages	Justification
Cost-plus pricing	Is the cost of manufacturing products plus profit mark-up  eg. Cost 100 profit 10% therefore, setting price at 110.-	Single product business	Easy to calculate	If there are few competitors, it is possible for the business to set a markup price.
Competitive pricing	Is when the product is priced in line with or just below competitors' prices to try to capture more of the market.	E.g. gold which is difficult to make product differentiation and branding.	Demand is likely to be price elastic, if the business sells products at low price, they will gain higher revenue.	-Consumers may not buy at a higher price unless they think it is better quality. - Companies need to do research about competitor prices which is costly.
Penetration Pricing	Is when the price is set lower than the competitors in order to enter the new market.	Low price for a new product in a competitive market	It is likely to achieve high market share quickly.	Profit might be low.
Price skimming	Is where a high price is set for new innovation or new product in the market.	High price for newly developed products	- This can earn high profit and help to cover development costs. - This can help to establish the product as being of a good quality.	

Promotional Pricing	Is when a product is sold at a very low price for a short period.	Low price to sell unwanted inventories	- Reduce stock - It can help to renew interest in a business if sales are falling	-The sale revenue will be lower because the price of each item will be low
Psychological pricing	Is an approach when particular attention is paid to the effect that the price of a product will have upon consumers' perceptions of the product.	<ul style="list-style-type: none"> <li>• Setting a high price for a quality branded product</li> <li>• Charging 99\$</li> </ul>	-It ensures that sales are made by reinforcing consumers' perceptions of the product - It increases brand image when the price is set high	-The competitors may do the same and it reduces the effect.
Dynamic pricing	charging different consumer groups different prices for the same product.	E.g. airline passengers are charged different prices depending on date of purchase.	-Increase revenue and profit	-It increases in cost as prices are constantly changing.

**2. Understand the significance of price elasticity: difference between price elastic demand and price inelastic demand**

- **Price elastic of demand** : The responsiveness of demand to a change in price. Or % change in quantity demand / % change in price
- **Price-elastic demand** : the percentage change in quantity demanded is greater than the percentage change in price. (PED >1) eg. Fashion cloth, Unnecessary goods

**To raise total revenue** : Business should decrease price as demand will increase by the larger proportion.

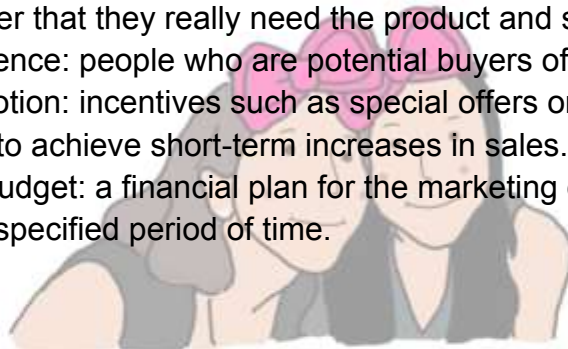
- **Price-inelastic demand** :the percentage change in quantity demanded is less than the percentage change in price. (0 < PED < 1) eg. necessary goods, addictive products.

**To raise total revenue** : Business should increase price as demand will decrease by the smaller proportion.

## Chapter 14 : The marketing mix - Promotion and technology marketing

### Key terms

1. Informative advertising: where the emphasis of advertising or sales promotion is to give full information about the product.
2. Persuasive advertising: advertising or promotion which is trying to persuade the consumer that they really need the product and should buy it.
3. Target audience: people who are potential buyers of a product or service.
4. Sales promotion: incentives such as special offers or special deals aimed at consumers to achieve short-term increases in sales.
5. Marketing budget: a financial plan for the marketing of a product or product range for a specified period of time.



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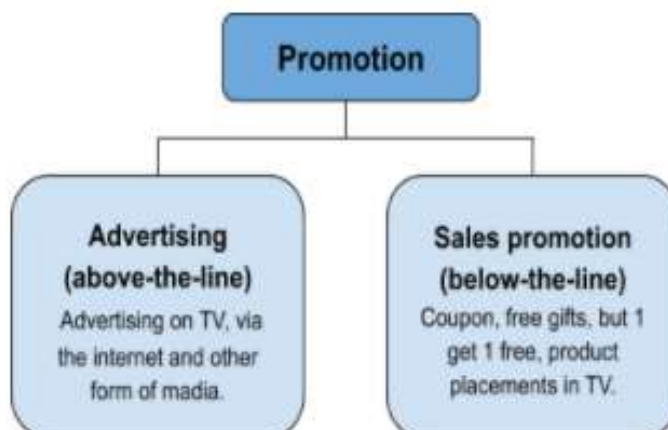
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1. **Promotion and the aims of promotion :**

**Promotion**



**The aims of promotion**

- To inform people about particular issues, often used by a government.
- To introduce new products on to the market
- To compete with competitors's products
- To create a brand image
- To increase sales
- To improve the company image

**The process of promotion**



## 2. Different forms of promotion and how they influence sales

There are two main different forms of promotion, which are advertising (Above-the line promotion) and sale promotion (below-the line promotion).

### 2.1 Advertising ( Above-the-line)

: to give product information and to persuade people to buy

- **Informative advertising:** is where the emphasis of advertising is to give full information of the product.
- **Persuasive advertising:** is advertising or promotion which is trying to persuade the consumer that they really need the product and should buy it.

### Advertising Media

Advertising Media	Advantages	Disadvantages
Television (eg. household products)	<ul style="list-style-type: none"> <li>• Get more audience</li> <li>• The product can be shown in an attractive way.</li> </ul>	<ul style="list-style-type: none"> <li>• Very expensive</li> </ul>
Radio (eg. Local services)	<ul style="list-style-type: none"> <li>• Cheaper than TV</li> <li>• Usually reach large audience</li> </ul>	<ul style="list-style-type: none"> <li>• Cannot put visual message.</li> <li>• Quite expensive relative to other methods.</li> <li>• It cannot look back at a hard copy.</li> </ul>
Newspapers (eg. local events)	<ul style="list-style-type: none"> <li>• Can be selected to target a particular group of people.</li> <li>• Relatively cheap</li> <li>• Adverts are permanent and can be cut and kept.</li> <li>• A lot of information can be put in the advert.</li> </ul>	<ul style="list-style-type: none"> <li>• It is often black and white, so not very eye-catching.</li> </ul>
Magazines (e.g. golf)	<ul style="list-style-type: none"> <li>• It is a very effective way to reach a specific target group.</li> <li>• Magazine adverts are in color and therefore more attractive.</li> </ul>	<ul style="list-style-type: none"> <li>• Magazines are often published once a month or a week.</li> <li>• It's more expensive than newspapers.</li> </ul>

Poster/Billboards (eg. Local event / Airlines)	<ul style="list-style-type: none"> <li>• Permanent</li> <li>• Relatively cheap</li> <li>• Potential seen by everyone</li> </ul>	<ul style="list-style-type: none"> <li>• Not detailed information can be included.</li> <li>• Can easily be missed as people go past them.</li> </ul>
Cinemas, DVD	<ul style="list-style-type: none"> <li>• Can give visual image of product</li> <li>• Relatively low cost</li> <li>• Can be very effective if your target audience goes to see a particular film.</li> </ul>	<ul style="list-style-type: none"> <li>• Seen by a limited number of people.</li> </ul>
Leaflets	<ul style="list-style-type: none"> <li>• Cheap</li> <li>• Given out on the street can reach out a wide range of people.</li> <li>• Advert can be permanent and can be kept for future reference.</li> </ul>	<ul style="list-style-type: none"> <li>• May not be read</li> <li>• Direct mail could be delivered door to door or mail to large people.</li> <li>• Annoying some of the consumers.</li> </ul>
Internet	<ul style="list-style-type: none"> <li>• Order can be made</li> <li>• It is cheaper TV</li> <li>• A large amount of information can be placed on websites which can be seen by large people.</li> <li>• Can select a group of customers.</li> </ul>	<ul style="list-style-type: none"> <li>• Internet access is limited in some areas.</li> <li>• There is a lot of competition from other websites.</li> <li>• Security issues may discourage customers from buying online.</li> </ul>
Other forms of publicity	<ul style="list-style-type: none"> <li>• Very cheap form of advertising eg T-shirt, Delivery vehicles</li> </ul>	<ul style="list-style-type: none"> <li>• May not be seen by customers in the target market</li> </ul>
Product placement (When brand goods and services are featured in television, music video)	<ul style="list-style-type: none"> <li>• Products are associated with the image in the programme or movie</li> <li>• Can target a specific audience who view or music video.</li> </ul>	<ul style="list-style-type: none"> <li>• Can be expensive to pay for the placement of the product.</li> <li>• May have negative effects on the customer if the</li> </ul>

		image is not attractive to them.
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**2.2 Sale promotion:** incentive aims at consumers to achieve short-term increases in sales. This can encourage new, existing consumers to buy the product.

- **Price reduction:** reduce price in shops at specific times of the year and money-off coupons to be used when a product is next purchased. E.g. discount 20 percent after spending 10,000.-
- **Gift :** is placed in the packaging of a product to encourage the consumer to buy it.
- **BOGOF** (Buy one get one free)
- **Point of sale:** is the place where the products are displayed and demonstrated.
- **After sale service** e.g. Warranty 1 years.
- **Free sample :** can be handed out in the shop to encourage the consumer to try the product and hopefully buy it.

### The advantages of sales promotion

- It can promote sales at times in the year when sales are traditionally low.
- It encourages new customers to try existing products.
- It encourages consumers to try new products.
- It encourages existing customers to buy a product more often or in greater quantities.
- It encourages customers to buy your product instead of a competing brand.

### 3. **The need for cost-effectiveness in spending the marketing budget on promotion**

**A marketing budget :** is a financial plan for the marketing of a product or product range for a specific period of time.

This needs to consider “ cost-effectiveness “ : the relationship between monetary units input and desired outcome e.g. sales revenue vs expenditure on advertising.

#### 4. **What type of promotion should be used?**

##### **4.1 State of product life**

- Introduction : Informative advertising
- Growth : Persuasive advertising

##### **4.2 The nature of product itself**

- Producer goods : e.g. discount
- Consumer goods : e.g. free sample, coupon

##### **4.3 The cultural issues involved in international marketing**

- In the UK, online advertising is more popular than Laos.

## Chapter 15 : The marketing mix : place

### Key terms

1. Distribution channel: the means by which a product is passed from the place of production to the customer or retailer.
2. Agent : an independent person or business that is appointed to deal with the sales and distribution of a product or products.
3. E-commerce: the buying and selling of goods and services using computer systems linked to the internet.



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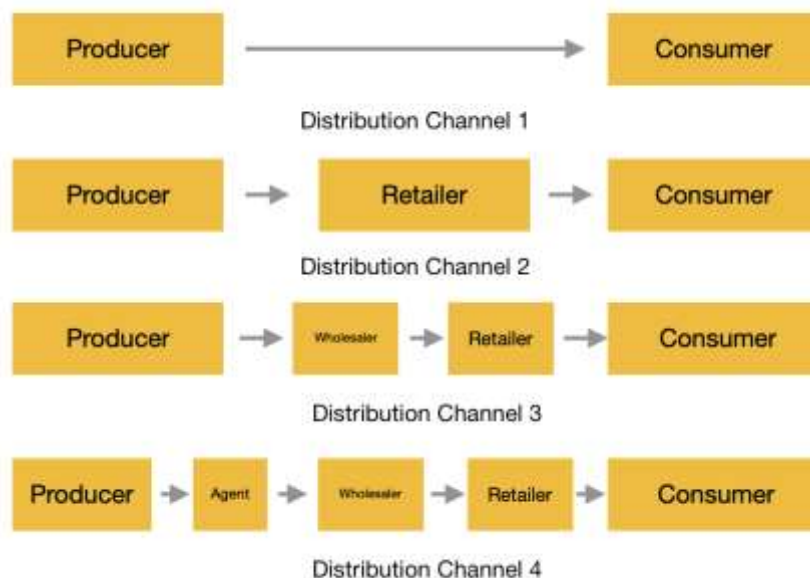
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## 1. Distribution Channels & Advantages and disadvantages of different channels

**Distribution channel:** the means by which a product is passed from the place of production to the customer or retailer.



Distribution Channel	Advantages	Disadvantages
<b>Distribution Channel 1</b>	<ul style="list-style-type: none"> <li>It is simple.</li> <li>It is suitable for products e.g. agriculture products</li> <li>There is a lower price if sold directly to customers. (cut out wholesaler / retailer)</li> <li>Products can be sold by mail order.</li> </ul>	<ul style="list-style-type: none"> <li>Impractical for most products as customers do not live near the factory.</li> <li>It may be very expensive to send products by post and therefore not cost effective.</li> </ul>
<b>Distribution Channel 2</b> Eg. supermarket	<ul style="list-style-type: none"> <li>Producers sells large quantities to retailers</li> <li>Reduce distribution cost comparing distribution channel 1</li> </ul>	<ul style="list-style-type: none"> <li>Cannot direct contact with customers</li> </ul>
<b>Distribution Channel 3</b> (Wholesaler : performs the function of breaking bulk⇒)	<ul style="list-style-type: none"> <li>Wholesaler saves space for small retailers and</li> </ul>	<ul style="list-style-type: none"> <li>May be more expensive for a small shop to buy</li> </ul>

<p>wholesalers buy products from manufacturing in large quantities and then divided up into smaller quantities for retailers to buy )</p>	<p>reduces storage cost.</p> <ul style="list-style-type: none"> <li>• Small retailers can purchase products in small quantities from wholesalers.</li> <li>• May give credit to customers and be able to pay later.</li> <li>• Wholesalers may deliver to the small retailer thus saving on transport costs.</li> <li>• Wholesalers can give advice to the small retailer.</li> </ul>	<p>from a wholesaler than bought straight from the manufacturer.</p> <ul style="list-style-type: none"> <li>• Wholesalers may not have the full range of products to sell.</li> <li>• Take longer for fresh produce to reach the shops and may not be as good quality.</li> <li>• Wholesaler may be a long way from the small shops.</li> </ul>
<p><b>Distribution Channel 4</b> (Agent : is an independent person or business that is appointed to deal with the sales and distribution of product or range of products)</p>	<ul style="list-style-type: none"> <li>• Manufacturers may not know the best way to sell the product in other markets.</li> <li>• Agents know local conditions well and able to select the most effective places in which to sell.</li> </ul>	<ul style="list-style-type: none"> <li>• Less control over the way the products sold to consumers</li> </ul>

### Methods of distribution

Method of distribution	Description
Department stores	A large store sells a variety of products from a wide range of suppliers.
Chain Stores	Two or more stores which have the same name and characteristics.
Discount Stores	Retail stores offering a wide range of products at discount price.
Superstores	New very large-out-of-the town which sell wide range of products
Supermarkets	Retail grocery stores with dairy products, fresh meat , packages food and non-food departments

Direct Sales	Products are sold directly from the manufacturing to consumers (Distribution Channel 1)
Mail order	Customers look through catalogs or magazines and order via post.
Internet / e-commerce	Businesses can sell products through websites or online channels.

**E-commerce**

: is buying and selling of goods and services using computer systems linked to the internet.

Opportunities of e-commerce to business	Opportunities of e-commerce to consumers
<ul style="list-style-type: none"> <li>• Website can be used to promote company and products worldwide ⇒ Cheaper method</li> <li>• Order can be taken from overseas ⇒ increase market share, revenue and profit</li> <li>• Business can also easily make online purchase of supplies and material from other business</li> <li>• Less fixed cost eg. rent fee / wage</li> </ul>	<ul style="list-style-type: none"> <li>• It is more convenient for consumers, they can purchase products from anywhere and anytime.</li> <li>• Can compare price and products between websites.</li> <li>• Payment can occur easily by using a credit card.</li> <li>• Consumers can access more variety of products</li> </ul>

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Threats of e-commerce to business	Threats of e-commerce to consumers
<ul style="list-style-type: none"> <li>• Competition is high since other businesses can easily do the same.</li> <li>• Website design must be attractive ⇒ increasing cost</li> <li>• Transportation costs per product sold are likely to be higher than selling through traditional shops.</li> <li>• There is no face-to-face contact with consumers which can provide useful market research feedback.</li> <li>• “Return” goods can increase cost to firms.</li> </ul>	<ul style="list-style-type: none"> <li>• Some customers cannot access the internet.</li> <li>• Computer systems failure or weak internet connection can interrupt process purchasing products.</li> <li>• Products cannot be seen, touched or tried on.</li> <li>• There is no face-to-face contact with sales staff so consumers may lack some data.</li> <li>• Many consumers are concerned about identity theft or fraudulent use of credit cards if they buy goods online.</li> </ul>

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• A large warehouse and efficient stock control system will be essential to meet consumers' orders accurately and efficiently</li> <li>• E-commerce is not suitable for some products eg. hairdressing</li> </ul> |  |
|--|--|

## 2. Recommend and justify an appropriate distribution channel in given circumstances

### Factors affecting distribution channels

#### 2.1 What type of product is it?

Eg. Agricultural products ⇒ distribution channel 1

#### 2.2 Is the product very technical?

: If products need technical knowledge eg. aeroplane engine, direct selling from the manufacturer will probably be selected.

#### 2.3 How often is the product purchased?

: If it is bought every day ⇒ retail outlets could be used.

#### 2.4 How expensive is the product?

: If the products are expensive ⇒ it will probably be sold through only a limited number of outlets.

#### 2.5 How perishable is the product?

: If the product goes rotten quickly eg. fruit /bread ⇒ it will need to be widely available in many shops so that it can be sold quickly.

#### 2.6 Where are the consumers located ?

#### 2.7 Where do competitors sell their products?

: Each manufacturer will probably sell their products in the same outlets as their competitors so that they can compete directly for customers.

## Chapter 16 : Marketing Strategy

### Key terms

1. Marketing strategy: a plan to combine the right combination of the four elements of the marketing mix for a product or service to achieve a particular marketing objective.



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## 1. Justify marketing strategies appropriate to a given situation

Eg. Chanel bag

Product	<ul style="list-style-type: none"> <li>• Bags with brand "Chanel"</li> <li>• Luxury handbags</li> </ul>
Price	<ul style="list-style-type: none"> <li>• Price skimming</li> </ul>
Promotion	<ul style="list-style-type: none"> <li>• Above - the - line advertising via magazine, billboard</li> </ul>
Place	<ul style="list-style-type: none"> <li>• Retails</li> <li>• Department stores</li> <li>• E-commerce</li> </ul>

## 2. The nature and impact of legal controls related to marketing:

: Consumers need protection against businesses which could, unfortunately, take advantage of the consumers lack of knowledge and lack of accurate product information.

There are some forms of consumer protection.

- **Weights and measures** : Retailers commit an offence if they sell underweight goods.
- **Trade descriptions**: It is illegal to give the consumer a deliberately misleading impression about a product. Advertisements must be truthful.
- **Sales of goods** : It is illegal to sell products which have flaws or problems.
- **Supply of goods and services Act** : A service has been provided with reasonable skills and care.
- **The distance selling regulation** : allow customers a cooling-off period of seven working days, this means they can change their mind about purchasing goods or services.

**3. The opportunities and problems of entering new foreign markets:**

Opportunities	Problems
<ol style="list-style-type: none"> <li>1. Potential growth of new markets in other countries to gain higher income.</li> <li>2. Home markets might be saturated.</li> <li>3. Businesses can sell and produce in other countries.</li> <li>4. Trade barriers have been lower.</li> </ol>	<ol style="list-style-type: none"> <li>1. Lack of knowledge in new foreign markets.</li> <li>2. Cultural differences - Some products will not sell in another market.</li> <li>3. Exchange rate changes can cause an uncertainty in purchase.</li> <li>4. Increasing risk of non-payment as the methods of payment may be different.</li> <li>5. Increasing transport cost.</li> </ol>

**Methods to overcome the problems of entering new markets abroad**

- **Joint venture** : This helps business to gain local knowledge so culture and customs can be adapted to enable a more successful entry into new markets.
- **Licensing** : this is where the business gives permission for another firm in the new market being entered to produce the branded or “patented” products.
- **International franchising** : foreigner franchises are used to operate a business’s franchise abroad.
- **Localising existing brands**. It means that there is still a common brand image for the business but it has adapted to local tastes and culture therefore increased in sales revenue.

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## Section4: Operation Management

### Chapter 17: Production of goods and services

#### Key terms

1. Productivity: the output measured against the input used to create it.
2. Buffer inventory level: the inventory held to deal with uncertainty in customer demand and deliveries of supplies.
3. Lean production: a term for those techniques used by businesses to cut down on waste and therefore increase efficiency, for example, by reducing the time it takes for a product to be developed and become available for sale.
4. Kaizen: a Japanese term meaning “continuous improvement” through the elimination of waste.
5. Just-in-time(JIT): a production method that involves reducing or virtually eliminating the need to hold inventories of raw materials or unsold inventories of the finished product. Supplies arrive just at the time they are needed.
6. Job production: is where a single product is made at a time.
7. Batch production: where a quantity of one product is made, then a quantity of another item will be produced.
8. Flow production: where large quantities of a product are produced in a continuous process. It is sometimes referred to as mass production.

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## 1.The meaning of production

1.1 **Production**: the process transforms input into goods and services (output)

1.2 **Productivity**: is the output per an input. It also measures efficiency.

$$\text{Productivity} = \frac{\text{Output}}{\text{Input}}$$

### Method to improve productivity

- Improving the layout of the machines in the factory ⇒ reduce wasted time and therefore increase efficiency.
- Improving labour skills by training workers ⇒ increase productivity
- Introducing automation

### Benefits of increasing efficiency / productivity

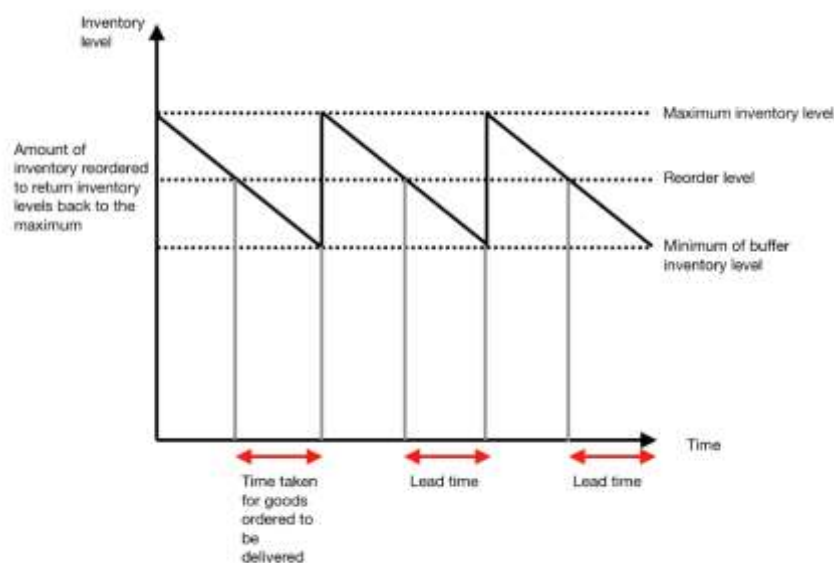
- Increased output relative to the input required.
- Lower costs per unit.
- Fewer workers may be needed and lower labour cost.
- Higher wages for workers increase motivation.

**Why does a business hold inventories (Stock)** ; Inventories need to be controlled to ensure that there is always enough inventory to satisfy demand.

**The buffer inventory level** : is the inventory held to deal with uncertainty in customer demand and deliveries of supplies.

**The forms of inventory** includes raw materials, components and finished goods.

**If inventory level is too high** ⇒ this costs a lot of money, the business has bought the goods but they are not being used and the money could be put to better use.



### 3. The concept of lean production

**Lean production** : is a term for those techniques used by businesses to cut down on waste and therefore increase efficiency.

There are 7 types of waste that can occur in production and they are :

- **Overproduction** - this results in high storage cost and damaged goods.
- **Waiting** - when goods are not moving in any way then waste is occurring.
- **Transportation** - moving goods around unnecessarily causes waste.
- **Unnecessary inventory** - Too much inventory takes up space and is costly.
- **Motion** - moving machines unnecessarily.
- **Over-processing** - Using a complex machine to perform simple tasks is wasteful.
- **Defects** - any faults take time to fix and inspect them.

#### Benefits of lean production

- Less storage of raw materials or components.
- Quicker production of goods and services.
- No need to repair defects or provide replacement services.
- Better use of equipment.
- Cutting out some processes to speed up production.
- Less money tied up in inventories.
- Improved health and safety leading to less time off work due to injury

#### The concept of lean production

1. **Kaizen**: meaning continuous movement and focusing to eliminate waste from ideas of workers who discuss together (not from technology) .

##### **Advantages:**

- Increasing productivity.
- Reducing the amount of space needed for the production process.
- Reducing work-in-progress.
- Improving the layout of the factory floor may allow some jobs to be combined, other areas can do other jobs.

2. **Just in time**: is a production method that involves in reducing or eliminating the need to hold inventory of raw materials or unsold material.

##### **Advantages:**

- Reducing cost e.g. Inventory cost and storage cost
- Requiring smaller warehouse space.
- Selling the finished product quickly and improving cash flow.

3. **Cell production:** is where the production line separates each identifiable part of finished goods instead of having a flow or mass production line.

**Advantages:**

- Employees feel more value to produce finished goods.

2.\***The main methods of production**

2.1 **Job production** is where a single product is made at a time.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• It is most suitable for personal services or one-off products.</li> <li>• The product meets the exact requirements of customers</li> <li>• The workers often have more varied jobs.</li> <li>• Often high quality products can charge higher prices.</li> </ul>	<ul style="list-style-type: none"> <li>• Skilled labour is often used</li> <li>• Costs are higher since often labour intensive.</li> <li>• Production often takes a long time.</li> <li>• Products are specially made to order and any errors can be expensive.</li> <li>• Material may have to be specially purchased leading to higher cost.</li> </ul>

2.2 **Batch production**: is where quantity one product is made then quantity another items are produced (however, produce in similar products)

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• It is a flexible way of working and production can easily be changed from one product to another.</li> <li>• It still gives some variety to workers' jobs.</li> <li>• It allows more variety to products which are identical.</li> <li>• Production may not be affected greatly if machinery breaks down.</li> </ul>	<ul style="list-style-type: none"> <li>• It can be expensive as semi-finished or finished products will need moving.</li> <li>• Machines have to be reset between production batches → waste time and output lost</li> <li>• Warehouse space will be needed for stock material.</li> </ul>

**2.3 Flow production:** is where large quantities of products are produced in continuous process. (For mass production)

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Higher output and standardize</li> <li>• Costs are kept low.</li> <li>• Capital-intensive ⇒ reduce labour cost and increase in efficiency.</li> <li>• Economies of scales ⇒ average cost will be lower.</li> <li>• Automated production lines can operate 24 hours a day.</li> <li>• Goods are produced quickly and cheaply.</li> <li>• No need to move from one part to another area. ⇒ save time</li> </ul>	<ul style="list-style-type: none"> <li>• It is boring system ⇒ little job satisfaction</li> <li>• There are significant storage requirements.</li> <li>• Higher cost of capital.</li> <li>• If one machine breaks down the whole production line will have to be halted.</li> </ul>

**Factors affecting which method of production to use**

- **The nature of product**  
 : Individual services ⇒ Job production will be used  
 : Mass production ⇒ Flow production
- **The size of the market**  
 : If demand is higher and more products can be sold but not very large quantities ⇒ batch production will be used.  
 : If demand is small or niche market ⇒ batch or job production will be used
- **The natural of demand**  
 : If there is a large, steady demand of the product eg. water ⇒ flow production will be used.  
 : If demand is less frequent, such as furniture ⇒ batch or job production will be used.
- **The size of the business**  
 : If size of business is small , less funding for capital ⇒ job or batch production will be used.

### 3. How technology has changed production methods

**3.1 Automation** : is where the equipment used in the factory is controlled by computer to carry out mechanical processes.

**3.2 Mechanisation** : is where the production is done by machines but operated by people eg. printing press

**3.3 CAD** (computer aided design) : is computer software that draws items from all designed quickly and allows them to be rotated to see the items from all sides instead of having to draw it several times.

**3.4 CAM** (computer aided manufacture) : is where computers monitor the production process and control machines or robots on the factory floor.

**3.5 CIM** (computer integrated manufacturing) is the total integration of computer aided design (CAD) and computer aided manufacturing (CAM) .

**3.6 EPOS** ( Electronic point of sales) : This is used at checkers where the operator scans the barcode of each item individually.

**3.7 EFTPOS** (electronic funds transfer at point of sales) : where an electronic cash register is connected to the retailer's main computer and also to banks over a wide area computer network.

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Advantages and disadvantages of new technology	
Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Greater productivity</li> <li>• Greater job satisfaction as routine and boring jobs are now done by machines.</li> <li>• Increasing skills for labour since labour need to work with capital.</li> <li>• Better quality of products.</li> <li>• More accurate from using computers to monitor demand and inventory.</li> <li>• Quicker communication and reduced paperwork</li> <li>• Better and quicker making decisions from more information available.</li> </ul>	<ul style="list-style-type: none"> <li>• Increasing unemployment.</li> <li>• Requiring a higher fund from keeping updated technology.</li> <li>• Low job satisfaction to employees.</li> </ul>

## Chapter 18: Cost /scale of production and break-even points

### Key terms

1. Fixed costs: costs which do not vary with the number of items sold or produced in the short run. They have to be paid whether the business is making any sales or not. They are also known as overhead costs.
2. Variable costs: costs which vary directly with the number of items sold or produced.
3. Total costs: fixed and variable costs combined.
4. Average cost per unit(unit cost): the total cost of production divided by total output
5. Economies of scale: the factors that lead to a reduction in average costs as a business increases in size.
6. Diseconomies of scale: the factors that lead to an increase in average costs as a business grows beyond a certain size.
7. Break-even level of output(Break-even point): the quantity that must be produced/sold for total revenue to equal total costs.
8. Break-even charts: graphs which show how costs and revenues of a business change with sales. They show the level of sales the business must make in order to break even.
9. Revenue: income during a period of time from the sale of goods and services.
10. Total revenue = quantity sold x price.
11. Break-even point: the level of sales at which total cost = total revenue.
12. Contribution: its selling price less its variable cost.

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## 1. Identify and classify costs

1.1 **Cost** : expense from producing goods.

- **Fixed costs**: are costs which do not vary with the number of items sold or produced in the short run.  
Eg. Rent / Water supplies / Electricity / Insurance / Interest
- **Variable cost**: are costs which vary directly with the number of items sold or produced.  
Eg. Raw material / Packaging
- **Total cost**: Fixed cost + Variable cost
- **Average cost**: Total cost / Total output, cost per unit

### Using cost data

- **Setting prices** : if business does not know the average cost, the business could charge a price which leads to a loss.
- **Deciding whether to stop production** : if making a loss, it may stop production.
- **Deciding on the best location** : Costs are not the only factor to consider- there might be pointless in choosing a low-cost location for a new shop if it is the worst part of town.

## 2. Economics and diseconomies of scale

**2.1 Economies of scale** : are the factors that lead to a reduction in average cost per unit as a business increases in size.

- **Purchasing economies**: When businesses buy large numbers of raw material, they are able to gain discounts from buying in bulk.
- **Financial economies**: Large firms means more reliable and therefore lower risk for delay repayment and hence receive lower cost of borrowing.
- **Marketing economies** : Advertising rates in papers and on television do not go up in the same proportion as the size of an advertisement ordered by the business.
- **Technical economies**: Big firm means high budget investment on high technology which brings to high standard quality of products and lower average cost.
- **Managerial economies**: Large firms can afford specialists and this increases their efficiency and helps to reduce their average cost.

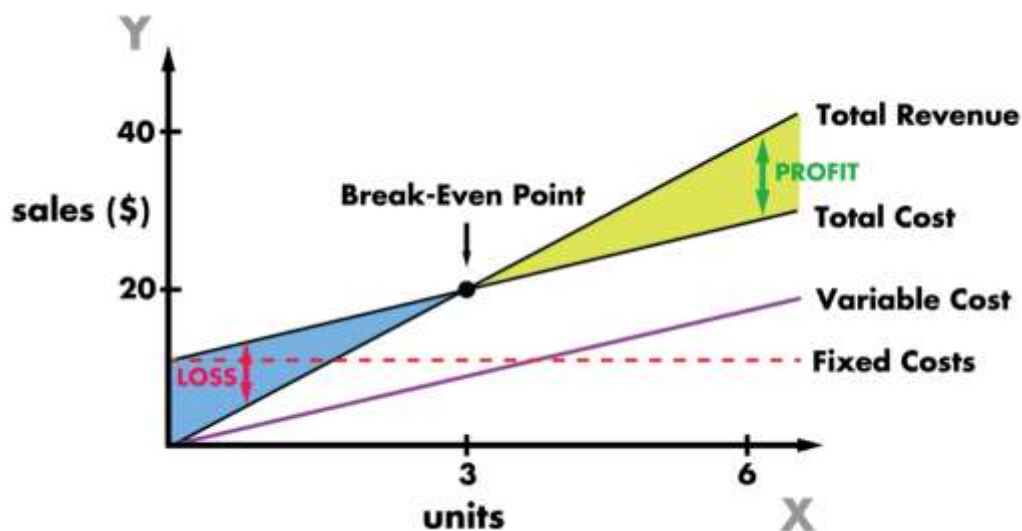
**2.2 Diseconomies of scale**: are the factors that lead to an increase in the average cost as a business grows beyond a certain size.

- **Poor communication**: Large organisation makes slow or inaccurate communication. As a result, this leads to higher average cost.
- **Low morale**: Lots worker means rarely to contact with head manager/ feel unimportant/lower efficiency ; all in all, bring to higher average cost
- **Slow making decisions**: because lots people / longer step when deciding something therefore bring to higher average cost.

**3. Break-even point** find quantity that must be produced in order to cover total cost but not generate profit (total revenue = total cost)

**Break-even charts** : are graphs which show how costs and revenues of a business change of sales. They show the level of sales the business must make in order to break even.

**Margin of safety** : the amount by which sales exceed the break-even point.



Eg. Mr.A produces motorcycle. The following information about the business has been obtained.

- Fixed costs are 30,000 Baht per year
- Variable costs 5 Baht per unit
- Total selling output 2,000 types

**Find out the selling price to meet the break-even point.**

**Step1** : Formula Total cost = Total revenue

**Step2** : Fixed cost + Variable cost = Total revenue

$$30,000 + 5 (2,000) = 2,000 \times \text{Selling price}$$

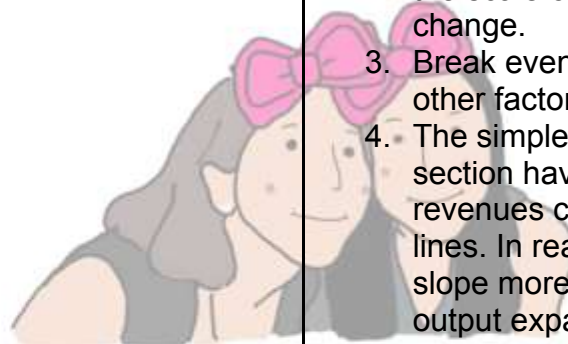
**Step3** : Find out selling price

$$30,000 + 10,000 = 2,000 \times \text{Selling price}$$

$$40,000 / 2,000 = \text{Selling price}$$

$$\text{Selling price} = \underline{20 \text{ Baht}}$$

Advantages	Limitation
<ol style="list-style-type: none"> <li>1. Able to find the expected profit or loss to be made at any level of output.</li> <li>2. Able to show the safety margin.</li> </ol>	<ol style="list-style-type: none"> <li>1. The graph does not show the possibility that inventories may build up if not all goods are sold.</li> <li>2. Fixed costs only remain constant if the scale of production does not change.</li> <li>3. Break even point does not include other factors eg. wastages.</li> <li>4. The simple charts used in this section have assumed costs and revenues can be drawn with straight lines. In reality, variable cost lines slope more steeply upwards as output expands.</li> </ol>



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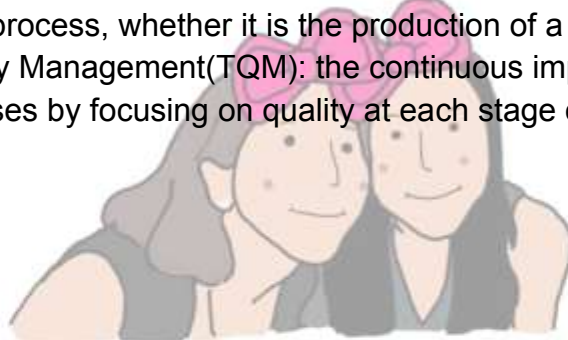
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## Chapter 19: Achieve quality production

### Key terms

1. Quality : to produce a good or a service which meets customer expectations.
2. Quality control: the checking for quality at the end of the production process, whether it is production of a product or service.
3. Quality assurance: the checking for the quality standards throughout the production process, whether it is the production of a product or service.
4. Total Quality Management(TQM): the continuous improvement of products and processes by focusing on quality at each stage of production.



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**1. Why quality is important and how quality production might be achieved**

**Quality** : to produce a good or a service which meets customer expectations.

This will ensure that the business :

- Establishing a brand image
- Building brand loyalty
- Maintaining a good reputation
- Helping increasing sales
- Attracting new customers

**BUT** If quality is not maintained the business wil :

- Losing customers to other brands
- Having to replace faulty products or repeat poor services which raise cost.
- Creating a bad reputation.



**2. The concept of quality control and how businesses implement quality control**

**Quality**: means produce goods and services to meet customer expectation (no fault+ high quality)

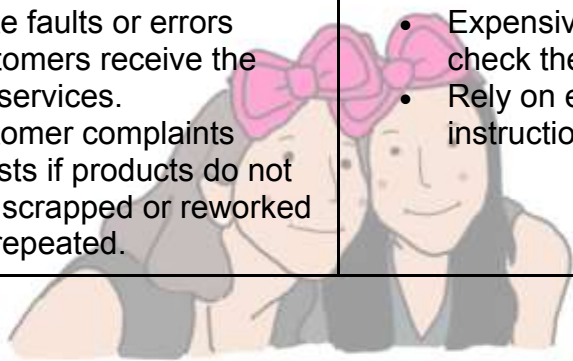
**Quality control**: is the checking for quality at the end of the production process, whether it is the production of a product or services.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Tries to eliminate faults or errors before the customer receives the products or services.</li> <li>• Less training required for the workers.</li> </ul>	<ul style="list-style-type: none"> <li>• Expensive as employees need to be paid to check product or services</li> <li>• It doesn't find why the fault has occurred and therefore is difficult to remove the problem.</li> <li>• Increased cost if products have to be scrapped or reworked or service repeated.</li> </ul>

**3. The concept of quality assurance and how this can be implemented**

**Quality assurance:** is the checking for the quality standards throughout the production process, whether it is the production of a product or services.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• To eliminate faults or errors before customers receive the product or services.</li> <li>• Fewer customer complaints</li> <li>• Reduce costs if products do not have to be scrapped or reworked or service repeated.</li> </ul>	<ul style="list-style-type: none"> <li>• Expensive to train employees to check the product.</li> <li>• Rely on employees following instruction of standards set.</li> </ul>



**3.1 Total Quality Management (TQM)**

: is the continuous improvement of products and processes by focusing on quality at each stage of production.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Building quality into every part of the production.</li> <li>• Eliminating all faults before the customer receives the product or services as it has a “right first time” approach.</li> <li>• No customer complaints, improving brand image and increasing sales.</li> <li>• Reducing cost as products do not have to be scrapped or reworked or service repeated</li> <li>• Removing waste and increasing efficiency.</li> </ul>	<ul style="list-style-type: none"> <li>• Expensive to train employees to check the product or services</li> <li>• Relies on employees following TQM ideology</li> </ul>

### How can a customer be assured of a quality product or services?

The business can apply to have this **quality mark** on their goods or services and they will have to follow certain rules to be able to keep this quality mark. E.g. ISO (International Organisation for Standardization)

However, they may not usually use a quality mark to show they provide a good service, but by having a good reputation and **recommendation by satisfied customers** they will keep repeat customers as well as gain new ones. E.g. Trip Advisor



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## Chapter 20: Location services

### Key terms

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## **1. Factors relevant to the location decision of manufacturing businesses and service businesses**

### **1.1 Factors affecting the location of a manufacturing business**

**1.1.1 Production methods and location decisions** : Job production is used, the business is likely to be small and so the influence of the nearness of components will be of less importance to the business than if the flow production is used.

**1.1.2 Market** : E.g. Locating a factory near to the market for its products which is heavier and more expensive to transport than the raw materials.

**1.1.3 Raw material / components** : The raw materials may be considerably heavier or more expensive to transport than the finished product. Manufacture should be located near suppliers of material.

**1.1.4 External economies of scales:** locating near support businesses which install and maintain equipment may be better as they can respond quickly to breakdown.

**1.1.5 Availability of labor**

**1.1.6 Government influence** : If an area has high unemployment, the government might give money to businesses which locate in that area.

**1.1.7 Transportation and communications** : Businesses usually need to be near transport such as rail and airport.

**1.1.8 Power and water supply** : Some industries having a reliable source of power.

**1.1.9 Climate**

### **1.2 Factors affecting the location of a service sector business**

**1.2.1 Customers** : locating close to the customer enables a quick response demand.

**1.2.2 Personal preference of the owners** : locating business near to where the owners live.

**1.2.3 Technology** : Some service businesses do not need to be near to customers e.g website designer, they can locate anywhere.

**1.2.4 Availability of labour** : If a service business requires a large number of employees then it need to be located in a large town or city.

**1.2.5 Climate** : are linked to tourism. E.g. Hotels often need to locate themselves where the climate is good and near to a beach.

**1.2.6 Near to other business** : Some services serve the needs of large businesses, e.g. service equipment. Therefore, they will need to be nearby to respond quickly to a call to repair equipment.

**1.2.7 Rent/Taxes** : If the services do not need to be on main streets in town e.g. doctor and lawyer then business will locate on the outskirts.

### **1.3 Factors affecting the location of a retailing business**

**1.3.1 Shoppers** : E.g. businesses selling expensive goods ⇒ need to locate businesses where people on high income might visit.

**1.3.2 Nearby shops** : Businesses should locate shops near competitors. Since this can encourage customers to visit as a wide range of choice.

**1.3.3 Customer parking available / nearby** : Where parking is convenient and near to the shops, this will encourage shoppers to that area and increase sales.

**1.3.4 Availability of suitable vacant premises** : If a suitable vacant shop or premises is not available for purchase or rent, the business cannot be located

**1.3.5 Rent/Taxes**

**1.3.6 Access for delivery vehicles** : Access for delivery vehicles might be a consideration if it is very difficult for them to gain access to the premises.

**1.3.7 Security**

**1.3.8 Legislation** : In some countries there may be laws restricting the trading or marketing of goods in particular areas.

## **2. Factors that a business could consider when deciding which country to locate operations in**

**2.1 New market overseas** : locating in the countries with high economic growth or opportunity to expand business to get higher market share and revenue.

**2.2 Cheaper or new sources of material** : it might be cheaper to use the raw materials at their sources rather than transport them to another country.

**2.3 Difficulties with the labour force and wage costs** : the labour-intensive business may be more profitable to relocate overseas with cheap wages.

**2.4 Rent / taxes consideration** : relocating to countries with lower rents or taxes.

**2.5 Availability of government grants and other incentives** : locating in countries with proving grants and tax incentives for MNCs investing in their country.

**2.6 Trade and tariff barriers** : locating in that country there will be no restriction.

### **3. The role of legal controls on location decisions**

**Why does the government try to influence these location decisions? Usually for two main reasons.**

- To encourage businesses to set up in areas of high unemployment - in some countries these are called development areas.
- To discourage firms from locating in overcrowded areas or natural beauty.

**Two types of measures are often used by government to influence where firms locate**

- Planning regulations : it legally restricts the business activities that can be undertaken in certain areas.
- Providing grants or subsidies to businesses: it encourages them to locate in undeveloped parts of the country.

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## Section5: Financial information and financial decisions

### Chapter 21: Business Finance: needs and resource

#### Key terms

1. Start up capital: the finance needed by a new business to pay for essential fixed and current assets before it can begin trading.
2. Working capital: the finance needed by a business to pay its day-to-day costs.
3. Capital expenditure: money spent on fixed assets which will last for more than one year.
4. Revenue expenditure: money spent on day-to-day expenses which do not involve the purchase of a long-term asset, for example wages or rent.
5. Internal finance: obtained from within the business itself.
6. External finance: obtained from sources outside of and separate from the business.
7. Micro-finance: providing financial services- including small loans- to poor people not served by traditional banks.

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**1. The main reasons why businesses need finance**

- To start up business
- To expanding an existing business: expanding shops in other areas
- To increase working capital: to pay for all their day-to-day activities such as wages, raw materials, and electricity bills.
- To pay **capital expenditure** ( is money spent on fixed assets such as building which will last for more than one year)
- To pay **Revenue expenditure** ( is money spent on day-to-day expenses eg. wages or rent.

**2. Source of finance:**

**2.1 Internal VS external sources of finance**

- **Internal source of finance:** is obtained from within the business itself.
- **External source of finance:** is obtained from sources outside of and separate from the business.

<u>Internal source of finance</u>	<u>External source of finance</u>
<p><b>1. Retained profit</b> : Profit kept in business after the owners have taken their share of the profits.</p> <p><b>Advantages :</b></p> <ul style="list-style-type: none"> <li>• Retained profit does not have to be repaid.</li> <li>• No interest rate payment</li> </ul> <p><b>Disadvantages :</b></p> <ul style="list-style-type: none"> <li>• A new business will not have any retained profit.</li> <li>• Small firm's profits might be too low to finance the expansion.</li> <li>• Keeping more profits in the business reduces payments to owners.</li> </ul>	<p><b>1. Issue of shares</b> : Only possible for limited companies</p> <p><b>Advantages :</b></p> <ul style="list-style-type: none"> <li>• Permanent source of capital which does not have to be repaid to shareholders.</li> <li>• No interest rate payment</li> </ul> <p><b>Disadvantages :</b></p> <ul style="list-style-type: none"> <li>• Dividends are paid after tax whereas interest on loan is paid before tax is deducted.</li> <li>• Dividends will be expected by shareholders.</li> <li>• The ownership of the company could change hands if many shares are sold.</li> </ul>
<p><b>2. Sales of existing assets</b> : e.g. redundant building or surplus equipment.</p> <p><b>Advantages :</b></p> <ul style="list-style-type: none"> <li>• This makes better use of capital tied up in the business.</li> <li>• It does not increase the debts of the business.</li> </ul>	<p><b>2. Bank loan</b> : is a sum of money obtained from a bank which must be repaid and on which interest is payable.</p> <p><b>Advantages :</b></p> <ul style="list-style-type: none"> <li>• It is usually quick to arrange.</li> <li>• It can be long term borrowing.</li> </ul>

<p><b>Disadvantages :</b></p> <ul style="list-style-type: none"> <li>• It may take time to sell these assets and the amount raised is never certain until the asset is sold.</li> <li>• It cannot be practical for new business since there is no surplus equipment.</li> </ul>	<ul style="list-style-type: none"> <li>• Large companies can get low rates of interest by banks.</li> </ul> <p><b>Disadvantages :</b></p> <ul style="list-style-type: none"> <li>• Bank loans need to be repaid and interest must be paid.</li> <li>• Security or collateral is usually required.</li> </ul>
<p><b>3. Sales of inventories to reduce inventory level</b></p> <p><b>Advantages :</b></p> <ul style="list-style-type: none"> <li>• This reduces the opportunity cost and storage cost of high inventory.</li> </ul> <p><b>Disadvantages :</b></p> <ul style="list-style-type: none"> <li>• It must be done carefully to avoid disappointing customers if there are not enough goods for them.</li> </ul>	<p><b>3. Selling debentures</b></p> <p>: There are long-term loan certificates issued by limited companies</p> <p><b>Advantages :</b></p> <ul style="list-style-type: none"> <li>• It can raise very long-term finance 25 years.</li> </ul> <p><b>Disadvantages :</b></p> <ul style="list-style-type: none"> <li>• Loan must be repaid and interest must be paid.</li> </ul>
<p><b>4. Owner's saving</b></p> <p><b>Advantages :</b></p> <ul style="list-style-type: none"> <li>• It is available to the firm quickly.</li> <li>• No interest is paid.</li> </ul> <p><b>Disadvantages :</b></p> <ul style="list-style-type: none"> <li>• Saving may be too low.</li> <li>• It increases the risk taken by the owners.</li> </ul>	<p><b>4. Factoring of debts</b></p> <p>: A debtor is a customer who owes a firm money for goods bought. Debt factors are specialist agencies that “ buy” the claims on debtors of firms for immediate cash.</p> <p><b>Advantages :</b></p> <ul style="list-style-type: none"> <li>• Immediate cash is made available to the business.</li> <li>• The risk of collecting the debt is owned by the factor.</li> </ul> <p><b>Disadvantages :</b></p> <ul style="list-style-type: none"> <li>• The firm does not receive 100 % of the total value of its debt.</li> </ul>
	<p><b>5. <u>Grants and subsidies form outside agencies</u></b></p> <p><b>Advantages :</b></p> <ul style="list-style-type: none"> <li>• Grants or subsidies usually do not have to be repaid.</li> </ul> <p><b>Disadvantages :</b></p> <ul style="list-style-type: none"> <li>• They are often given with “strings attached”. (Conditions)</li> </ul>
	<p><b>6. <u>Micro-finance</u></b></p> <p>: is providing financial services - including small loans to poor people who cannot served by traditional banks.</p>

**Short term and Long term finance**

<b><u>Short term source of finance</u></b>	<b><u>Long term source of finance</u></b>
<p><b>1. Overdraft</b> : Spend more money than is currently in the account.</p> <p><b>Advantages :</b></p> <ul style="list-style-type: none"> <li>• The firm could use this finance to pay wages or supplies immediately.</li> <li>• It is a flexible form of borrowing since overdraft can vary each month.</li> <li>• Interest will be paid only on the amount overdrawn.</li> <li>• Overdrafts can turn out to be cheaper than loans in the short term.</li> </ul> <p><b>Disadvantages :</b></p> <ul style="list-style-type: none"> <li>• Interest rates are variable, unlike most loans which have fixed interest rates.</li> <li>• The bank can ask for the overdraft to be repaid at very short notice.</li> </ul>	<p><b>1. Bank loans</b> : is a sum of money obtained from a bank which must be repaid and on which interest is payable.</p> <p><b>Advantages :</b></p> <ul style="list-style-type: none"> <li>• It is usually quick to arrange.</li> <li>• It can be long term borrowing.</li> <li>• Large companies can get low rates of interest by banks.</li> </ul> <p><b>Disadvantages :</b></p> <ul style="list-style-type: none"> <li>• Bank loans need to be repaid and interest must be paid.</li> <li>• Security or collateral is usually required.</li> </ul>
<p><b>2. Trade credit</b> : Business delays paying its suppliers, which leaves the business in a better cash position.</p> <p><b>Advantages :</b></p> <ul style="list-style-type: none"> <li>• It is almost an interest-free loan to the business for the length of time that payment is delayed for.</li> </ul> <p><b>Disadvantages :</b></p> <ul style="list-style-type: none"> <li>• The supplier may refuse to give discounts or refuse to supply if payment is not made quickly.</li> </ul>	<p><b>2. Hire purchase</b> : This allows a business to buy fixed assets over a long period of time with monthly payments which include an interest charge.</p> <p><b>Advantages :</b></p> <ul style="list-style-type: none"> <li>• The firm does not have to find a large cash sum to purchase the asset.</li> </ul> <p><b>Disadvantages :</b></p> <ul style="list-style-type: none"> <li>• A cash deposit is paid at the start of the period.</li> <li>• Interest payments can be quite high.</li> </ul>
<p><b>3. Factoring of debt</b> : A debtor is a customer who owes a firm money for goods bought. Debt factors are specialist agencies that “buy” the claims on debtors of firms for immediate cash.</p>	<p><b>3. Leasing</b> : Leasing an asset allows the firm to use an asset but it does not have to purchase it. Monthly leasing payments are made.</p>

<p><b>Advantages :</b></p> <ul style="list-style-type: none"> <li>• Immediate cash is made available to the business.</li> <li>• The risk of collecting the debt is owned by the factor.</li> </ul> <p><b>Disadvantages :</b></p> <ul style="list-style-type: none"> <li>• The firm does not receive 100 % of the total value of its debt.</li> </ul>	<p><b>Advantages :</b></p> <ul style="list-style-type: none"> <li>• The firm does not have to find a large cash sum to purchase the asset to start with.</li> <li>• The care and maintenance of the asset are carried out by the leasing company.</li> </ul> <p><b>Disadvantages :</b></p> <ul style="list-style-type: none"> <li>• The total cost of the leasing charges will be higher than purchasing the asset.</li> </ul>
	<p><b>4. Issue of share</b> ----- See under "External Finance"-----</p>
	<p><b>5. Debenture</b> ----- See under "External Finance"-----</p>

### 3. Sources of finance : How business makes the choice

#### 3.1 Purpose and time period

: If the use is long term e.g. fixed asset, the source should be long term.

: If the use is short term e.g. purchase inventory, the source should be short term.

#### 3.2 Amount needed

: If a public firm would like huge funding, business should raise funding by issuing shares.

#### 3.3 Legal form and size

: Companies, especially public limited companies, have a greater choice of sources of finance. Issuing shares or debentures is not an option for sole traders and partnerships.

#### 3.4 Control

: Owners of businesses may lose control of that business if they ask other people to invest in their firm.

#### 3.5 Risk and gearing - does the business already have loans?

: The gearing of a business measures the proportion of total capital raised from long-term loans. If this proportion is very high - more than 50 % - the business is said to be highly geared. This is said to be a risky way of financing a business.

#### 4. **Will banks lend and shareholders invest**

A business owners will increase the chances of obtaining loan finance if the following is available:

- A cash flow forecast which shows why the finance is needed and how it will be used.
- An income statement for the last time period and a forecast one. These should show the chances of the business making a profit in future.
- Details of existing loans and sources of finance being used.
- Evidence that “security” is available to reduce the bank’s risk if it lends.
- A business plan to explain clearly what the business hopes to achieve in the future and why finance is important to these plans.

#### **Shareholders are most likely to buy additional shares when :**

- The company’s share price has been increasing.
- Dividends are high or profits are rising so dividends might increase in the future.
- Other companies do not seem such a good investment.
- The company has a good reputation and has plans for future growth.

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## Chapter 22: Cash flow forecasting and working capital

### Key terms

1. Cash flow: the cash inflows and outflows over a period of time.
2. Cash inflows: are the sums of money received by a business during a period of time.
3. Cash outflows: are the sums of money paid out by a business during a period of time.
4. Cash flow cycle: shows the stages between paying out cash for labour, materials etc. and receiving cash from the sale of goods.
5. Profit: the surplus after total costs have been subtracted from sales revenue.
6. Cash flow forecast: an estimate of future cash flows and outflows of a business, usually on a month-by-month basis. This then shows the expected cash balance at the end of each month.
7. Opening cash balance: the amount of cash held by the business at the start of the month.
8. Net cash flow: the difference between cash inflows and cash outflows each month.
9. Closing cash balance: the amount of cash held by the business at the end of month, this becomes next month's opening cash balance.
10. Working capital: the capital available to a business in the short term to pay for day-to-day expenses.

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## 1. Why cash is important to a business

**Cash:** immediate available for spending on goods and services i.e. cash inflow and outflow

## 2. Why cash is important to a business:

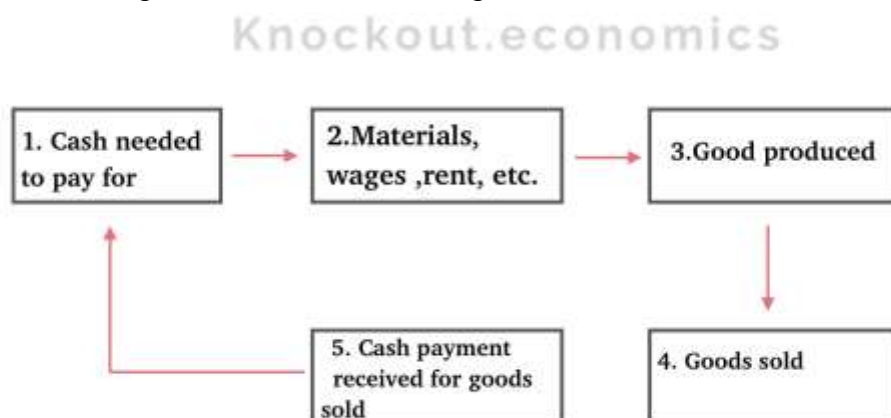
If a business has too little cash, it will face problems...

- Unable to pay for worker/ supplier/government
- Stop production : no money for buying materials
- Lack of liquidity

**Cash inflows:** are the sums of money received by a business during a period of time such as sale of product on cash and payment made by debtors.

**Cash outflows:** are the sums of money paid out by a business during a period of time such as purchasing materials on cash and paying wage.

**Cash flow cycle:** shows the stages between paying out cash for labour, materials etc. and receiving cash from the sale of goods.



## 3. Cash flow forecasts:

- **Cash flow forecast:** an estimate of future cash flows and outflows of a business, usually on a month-by-month basis. This then shows the expected cash balance at the end of each month.
- **Net cash flow** = Cash inflow - cash outflow
- **Closing bank balance** = Opening bank balance + Net cash flow

<b>January</b>	(Baht)
Cash inflow (Baht)	45,000
Cash outflow	20,000
<b>Net cash flow</b> (Cash inflow - cash outflow)	25,000
Opening bank balance	10,000
<b>Closing bank balance</b> (Opening bank balance + Net cash flow)	35,000

**Uses of cash flow forecast:**

- Planning to start up a business
- Informing the bank manager to get loans
- Managing existing a business
- Managing cash flow

**4. How short-term cash flow problem overcome:**

Methods	Limitations
1. Borrowing money from banks.	<ul style="list-style-type: none"> <li>• It needs to pay interest on loan.</li> <li>• It causes money outflow from repayment in the future.</li> </ul>
2. Delay paying off supplier	<ul style="list-style-type: none"> <li>• The business may get a lower discount.</li> <li>• Suppliers reject supply goods.</li> </ul>
3. Asking trade receivable of customers to repay earlier	<ul style="list-style-type: none"> <li>• Customers may buy products from rival firms.</li> </ul>
4. Delaying or cancelling the purchase of capital equipment	<ul style="list-style-type: none"> <li>• It may reduce efficiency in the production.</li> </ul>

4. **Working capital:** capital available for short term to pay day-to-day expenses. It refers to the amount of money available to run a business.

**Working capital = Current assets - Current liabilities**



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## Chapter 23: Income Statement

### Key terms

1. Accounts: the financial records of a firm's transactions.
2. Accountants: the professionally qualified people who have responsibility for keeping accurate accounts and for producing the final accounts.
3. Final accounts: produced at the end of the financial year and give details of the profit or loss made over the year and the worth of the business.
4. Income statement: a document that records the income of a business and all costs incurred to earn that income over a period of time. It is also known as a profit and loss account.
5. Gross profit: when sales revenue is greater than the cost of goods sold.
6. Sales revenue: the income to business during a period of time from the sales of goods or services.
7. Cost of goods sold: the cost of producing or buying in the goods actually sold by the business during a time period.
8. Trading account: shows how the gross profit of business is calculated.
9. Net profit: the profit made by a business after all costs have been deducted from sales revenue. It is calculated by subtracting overhead costs from gross profits.
10. Depreciation: the fall in the value of a fixed asset over time.
11. Retained profit: the net profit reinvested back into a company, after deducting tax and payments to owners such as dividends.

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## 1. What profit is and why it is important:

### How a profit is made:

$$\text{Profit} = \text{sales revenue} - \text{cost of making products}$$

### Why is profit important:

- Reward for owners or shareholders
- Reward for risk taking
- Source of fund for reinvestment
- Indicator of success

### Difference between profit and cash:

$$\text{Profit} \neq \text{Cash}$$

- Profit = sales revenue - cost of making products
- Sales revenue includes selling on cash and credit and cost includes cost of production already paid by cash or bought on credit.
- Higher profits do not mean higher cash gained if the business sells on credit.

## 2. Income statement:

**Income statement:** record income and expense over the period and it shows performance of the business.

### Main features of an income statement

<b>Sales revenue</b>	\$55,000
Opening inventories	\$10,000
Purchases	\$25,000
Total inventory available (Opening inventories + Purchases)	\$35,000
Less closing inventories	\$12,000
<b>Cost of goods sold</b> (Total inventory available - Closing inventories)	\$23,000
<b>Gross profit</b> (Sales revenue - Cost of goods sold)	\$32,000
Other income	<u>\$5,000</u>
	\$37,000

Less expense:	
Wages and salaries	\$12,000
Electricity	\$6,000
Rent	\$3,000
Depreciation	\$5,000
Selling and advertising expense	<u>\$5,000</u>
	\$31,000
<b>Net profit</b> (Gross profit + Other income - Expense/overhead)	\$6,000
Corporate tax	\$500
<b>Profit after tax</b> (Net profit - Corporate tax)	\$5,500
Dividend	\$2,000
<b>Retained profit for the year</b> (Net profit after tax - Dividend)	\$3,500

### Summary

- **Total inventory available** = Opening inventories + Purchases
- **Cost of goods sold** = Total inventory available - Closing inventories
- **Gross profit** = Sales revenue - Cost of goods sold
- **Net profit** = Gross profit + Other income - Expense/overhead
- **Profit after tax** = Net profit - Corporate tax
- **Retained profit for the year** = Net profit after tax - Dividend

### 3. How to use income statement:

- Comparing performance with last year/industry average/competitors
- Predicting short and long problems.

## Chapter 24: Statement of financial position

### Key terms

1. Balance sheet(Statement of financial position): shows the value of a business's assets and liabilities at a particular time.
2. Asset: items of value which are owned by the business. They may be fixed(non-current) or short-term current assets.
3. Liabilities: debts owed by the business.
4. Non-current assets: items owned by the business for more than one year.
5. Current assets: owned by a business and used within one year.
6. Non-current liabilities: long term debts owed by the business.
7. Current liabilities: short-term debts owed by the business.

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## 1. Statement of financial position (Balance sheet):

**Statement of financial position (Balance sheet):** shows the value of a business's assets and liabilities at a particular time.

## 2.The main elements of a statement of financial position:

2.1 **Asset:** items owned by business

- **Non-current asset:** owned by the business for more than 1 year; such as land, building and machines.
- **Current asset:** owned by the business less than 1 year or in the short-term period; such as cash, account receivable and debtor.

2.1 **Liability:** debts owed by the business

- **Non-current liability:** long-term borrowing which does not need to repay within one year; such as bank overdraft and account payable to suppliers.
- **Current liability:** Short term borrowing which must be repaid within one year; such as long term loans.

2.3 **Equity:** Shareholder fund and reserve money in business

$$\text{Total asset} = \text{Total liabilities} + \text{Shareholders' equity}$$

## 3. Interpreting a statement of financial position(Balance sheet)

- Shareholders can check the value of total equity.
- Shareholders can analyse how expansion by the business has been paid for.
- To calculate working capital from balance sheet data.

$$\text{Working capital} = \text{Current assets} - \text{Current liability}$$

- To calculate capital employed from balance sheet data.

$$\text{Capital employed} = \text{Shareholders' funds} + \text{Non current liability}$$

- To calculate financial ratio including liquidity ratio from balance sheet data.

## Chapter 25: Analysis account

### Key terms

1. Liquidity: the ability of a business to pay back its short-term debts
2. Capital employed: shareholders' equity plus non-current liabilities. It is the total long-term and permanent capital invested in a business.
3. Illiquid: that assets are not easily convertible into cash.



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**1. Ration analysis of accounts**

1. **Profitability ratio**: assess how well company generate profit

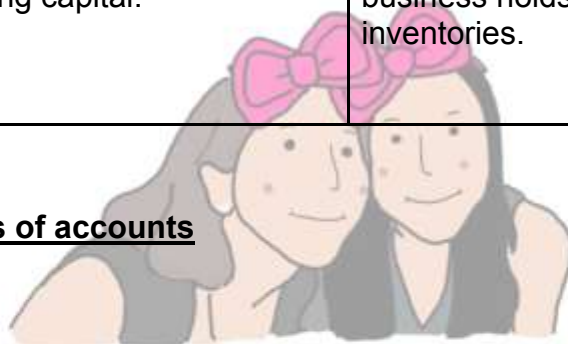
Profitability ratio	Gross Profit (%)	Net profit(%)	Return on capital employed (ROCE)(%)
Formular	$\frac{\text{Gross profit}}{\text{Sale revenue}} \times 100$ <p>Gross profit = sales revenue - cost of goods sold</p>	$\frac{\text{Net profit}}{\text{Sale revenue}} \times 100$ <p>Net profit = Gross profit - operating expense</p>	$\frac{\text{Net profit}}{\text{Capital employed}} \times 100$ <p>Capital employed = shareholders' equity + non-current liability</p>
Analysis	<ul style="list-style-type: none"> <li>• It shows how successful a business can convert sales into profit.</li> <li>• It shows the ability to control the cost of goods sold.</li> </ul>	<ul style="list-style-type: none"> <li>• It shows how successful a business can convert sales into net profit.</li> <li>• It shows the ability to control the overhead cost such as advertising and marketing.</li> </ul>	<ul style="list-style-type: none"> <li>• It shows how efficient a business can net profit from capital used in the business.</li> <li>• It shows the ability to generate net profit by the amount of investment.</li> </ul>

**2) Liquidity ratio**: assess ability to pay its short-term debt.

Liquidity ratio	Current Ratio	Acid test ratio or Quick Ratio
Formular	$\frac{\text{Current assets}}{\text{Current Liabilities}} \times 100$	$\frac{\text{Current assets} - \text{Inventory}}{\text{Current Liabilities}} \times 100$
Save ratio	1.5 - 2.0	

<p><b>Analysis</b></p> <p>If current ratio &lt; 1; it cannot pay off its short term debt from current assets.</p> <p>If current ratio &gt; 2 ; it has opportunity cost from holding too much liquid asset or working capital.</p>	<p>If acid test ratio &lt; 1; it cannot pay off its short term debt from its most liquid assets. It needs to reduce inventories and increase cash.</p> <p>The great difference between current ratio and acid test ratio means the business holds a relatively high level of inventories.</p>
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## 2. Uses and users of accounts



Users of accounts	What they use the account for
1.Managers	<ul style="list-style-type: none"> <li>To control and assess the performance in controlling cost and generating profit</li> </ul>
2.Shareholders	<ul style="list-style-type: none"> <li>To decide whether to invest in the business or not from profitability ratio</li> </ul>
3.Creditors; suppliers that sell goods on credit to the business.	<ul style="list-style-type: none"> <li>To assess the liquidity problems and ability of the business to repay its creditor from liquidity ratio</li> </ul>
4.Banks	<ul style="list-style-type: none"> <li>To decide whether to issue a loan to the business or not from liquidity ratio</li> </ul>
5.Government	<ul style="list-style-type: none"> <li>To check the profit tax paid by the company</li> </ul>
6.Workers and trade union	<ul style="list-style-type: none"> <li>To assess whether the future of the business is insecure or not.</li> </ul>
7.Other businesses	<ul style="list-style-type: none"> <li>To decide whether to take over the business or not</li> <li>To compare its business's performance with other rival businesses.</li> </ul>

### **3. Limitations of using accounts and ratio analysis:**

- External users can use only published accounts.
- Ratios are based on historical data therefore they cannot predict future performance.
- Accounting data over time can be misleading by the reason for inflation.
- Different companies have different accounting policies so it is difficult to compare performance.



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## Section 5: External influences on business activity

### Chapter 26: Government and Policy

#### Key terms

1. Inflation: the increase in the average price level of goods and services over time.
2. Unemployment: exist when people who are willing and able to work cannot find a job.
3. Economic growth: when a country's Gross Domestic Product increases- more goods and services are produced than in the previous year.
4. Balance of payments: records the difference between a country's exports and imports.
5. Real income: the value of income, and it falls when prices rise faster than money income.
6. Gross Domestic Product (GDP): the total value of output of goods and services in a country in one year.
7. Recession: a period of a fall in Gross Domestic Product.
8. Exports: goods and services sold from one country to other countries.
9. Imports: goods and services bought in by one country from other countries.
10. Exchange rate: the price of one currency in terms of another, for example 1\$=38₱
11. Exchange rate depreciation: the fall in the value of a currency compared with other currencies.
12. Fiscal policy: any changes by the government in tax rates or public sector spending.
13. Direct taxes: paid directly from incomes - for example, income tax or profit tax.
14. Indirect taxes: added to the prices of goods and taxpayers pay the tax as they purchase the goods - for example, VAT.
15. Disposable income: the level of income a taxpayer has after paying income tax.
16. Import tariff: a tax on imported product,
17. Import quota: a physical limit to the quantity of a product that can be imported.
18. Monetary policy: a change in interest rates by the government or central bank, for example the European Central Bank.
19. Exchange rate appreciation: the rise in the value of a currency compared to other currencies.

## **1. Government economic objective**

### **1. Low inflation**

**Inflation:** an increase in the average price level of goods and services over time.

Reason why government aims for low inflation

- Low inflation can encourage business to expand.
- Low inflation increases export competitiveness in the world market.

### **2. Low unemployment**

**Unemployment :** when people who are willing and able to work cannot find a job.

Reason why government aims for low unemployment

- Employed workers can generate goods and service to a country.
- Governments can gain high tax revenue and have lower expenses on unemployed benefits.

### **3. High economic growth**

**Economic growth :** a country's Gross Domestic Product increases or more goods and services are produced than in the previous year.

Reason why government aims for high economic growth

- High economic growth means more outputs are produced, resulting in better living standards.

### **4. Balance of payment stability**

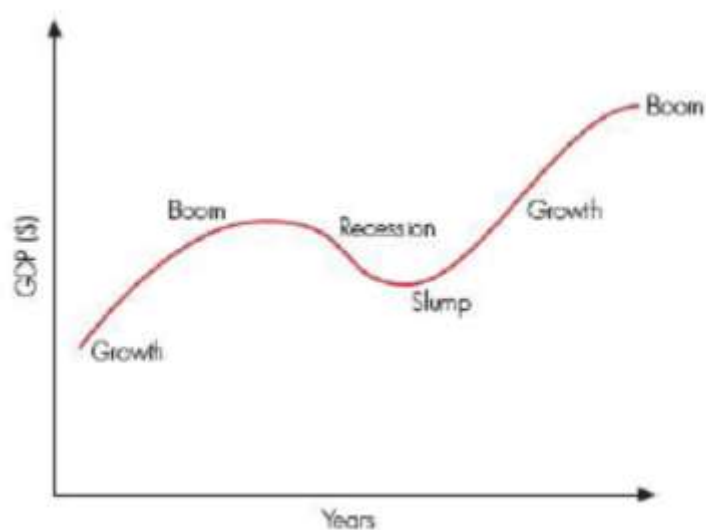
**Exports:** goods and services sold from one country to other countries.

**Imports:** goods and services bought in by one country from other countries.

Reason why government aims for balance between exports and imports

- Government avoids the balance of payment deficit as it means import expenses are greater than export revenue. It causes money outflow and the loss of foreign currency reserve.
- While if the country exports goods too much there will not be enough outputs for people in the country.

## 2. The business cycle



Stages in business cycle	Characteristics
1. Growth	<ul style="list-style-type: none"> <li>• GDP is rising.</li> <li>• Unemployment is falling.</li> <li>• Businesses get high profit.</li> </ul>
2. Boom	<ul style="list-style-type: none"> <li>• Too much spending.</li> <li>• Price is rising.</li> <li>• Low unemployment and shortage of labour.</li> <li>• Businesses face high cost.</li> </ul>
3. Recession	<ul style="list-style-type: none"> <li>• Too little spending.</li> <li>• GDP is falling.</li> <li>• High unemployment.</li> <li>• Business experience falls in demand and profit.</li> </ul>
4. Slump	<ul style="list-style-type: none"> <li>• A long recession.</li> <li>• Very high unemployment.</li> <li>• Price may fall.</li> <li>• Many businesses fail in this period</li> </ul>

### **3.\* Government policy**

#### **3.1\* Fiscal policy:** by changing tax and government spending

- Income tax: tax on people's income which the tax mainly falls on high income earners.
- Profit tax/corporate tax: tax profit of businesses
- Indirect tax: tax on spending e.g. VAT(Value added tax)
- Import tariff: tax on imported products
- Government spending

#### **Fiscal policies to deal with economic recession**

<b>Fiscal policy</b>	<b>Explanation</b>
<b>1) Increasing government spending</b>	⇒ An increase in government spending raises aggregate demand( $AD=C+I+G+NX$ ). ⇒ It increases production and employment. ⇒ It increases national output and employment.
<b>2) Cutting income tax</b>	⇒ A cut in income tax increases disposable income. ⇒ People have higher ability to spend and aggregate demand increases. ⇒ Firms increase production and employment. ⇒ It increases national output and employment.
<b>3) Cutting profit tax</b>	⇒ A cut in income tax increases a firm's profit. ⇒ Businesses have more ability to invest ⇒ Firms increase production and employment. ⇒ It increases national output and employment.
<b>4) Cutting indirect tax</b>	⇒ A cut in indirect tax reduces the price of products. ⇒ Consumers can afford more products. ⇒ Firms increase production and employment. ⇒ It increases national output and employment.
<b>5) increasing tariff</b>	⇒ Tariff increases price of imported goods. ⇒ Consumers switch to consume domestic goods rather than imports. ⇒ Domestic firms increase production and employment. ⇒ It increases national output and employment

**3.2\* Monetary Policy:** by changing interest rate**Monetary policies to deal with economic recession**

Monetary policy	Explanation
<b>1. Reducing interest rate</b>	<p>⇒ <b>People</b> increase spending rather than saving due to lower return on saving. Consumption rises. <b>(C↑)</b></p> <p>⇒ <b>Businesses</b> borrow more money to invest due to lower cost of borrowing. Investment rises. <b>(I↑)</b></p> <p>⇒ <b>Hot money</b> outflows to deposit money abroad, resulting in currency depreciation and trade balance improved. <b>(NX↑)</b></p> <p>⇒ Aggregate demand increases (<math>AD = C+I+G+NX</math>).</p> <p>⇒ It results in higher production and employment.</p>

**3.3 Supply side policy:** try to improve efficient of supply goods and services

Supply side policy	Explanation
1. Education and training	<p>⇒ It improves workers' productivity of labour</p> <p>⇒ National output increases.</p>
2. Privatisation	<p>⇒ Government sells public corporations to private firms.</p> <p>⇒ Private firms have a profit motive, they have incentive to improve efficiency.</p>
3. Increasing competition in all industries.	<p>⇒ by reducing business regulation which allows small firms to enter the market.</p> <p>⇒ by preventing monopoly (only one seller)</p>

## Chapter 27: Environmental and ethical issues

### Key terms

1. Social responsibility: when a business decision benefits stakeholder other than shareholders, for example, a decision to protect the environment by reducing pollution by using the latest and greenest production equipment.
2. Environment: our natural world including, for example, pure air, clean water and undeveloped countryside.
3. Private costs: costs of an activity paid by business.
4. Private benefits: benefits from an activity are the gains to a business.
5. External costs: costs paid for by the rest of society, other than the business, as a result of business activity.
6. External benefits: the gains to the rest of society, other than the business, resulting from business activity.
7. Social cost: = external cost + private cost.
8. Social Benefit: = external benefit + private benefit.
9. Sustainable development: development which does not put at risk the living standards of future generations.
10. Sustainable production methods: those that do minimum damage to the environment.
11. Pressure group: made up of people who want to change business (or government) decisions and they take action such as organizing consumer boycott.
12. Consumer boycott: when consumers decide not to buy products from businesses that do not act in a socially responsible way.
13. Ethical decisions: based on moral code. Sometimes referred to as doing the right thing.

**1. How business activity can impact on the environment, e.g. global warming**

- **Example of how business activities impacts on the environment**  
: air pollution, water pollution, noise, and waste disposal.
- **Social responsibility**  
: business decision benefit “stakeholder” than shareholder - decide to protect environment by reducing pollution

**Advantages and disadvantages of having a social responsibility towards environment**

Advantages of concerning environment	Disadvantages of concerning environment
1.It reduces impacts of global warming and pollution.	1.Protecting the environment may increase cost to businesses and reduce profit.
2.To reserve scarce natural resources for the next generation.	2.Firms may have to increase prices to compensate for the cost of protecting the environment, which may reduce competitiveness in the market.
3.Consumers are willing to pay a high price for environmentally friendly products.	3. Firms may face lower sales revenue if they increase price.
4.If business damages the environment, it creates a bad reputation and pressure groups may take action.	

**2. Externalities: external costs and external benefits of business decisions**

**Externalities**: consequence of economic activities that experience by unrelated third parties; divided to negative and positive externality

- **Private cost**: Cost to businesses e.g. raw material / rent /equipment
- **Private benefits**: profit to businesses
- **External cost**: negative effects to the third party or the rest of society. E.g. pollution
- **External benefit**: positive effects to the third party or the rest of society. E.g. job creation, paying tax.

Social cost	=	private cost	+	external cost
Social benefit	=	private benefits	+	external benefits

- Businesses usually concern only private cost and private benefit in decision making while the government takes into account social cost and social benefit to select the project.

### **3. Sustainable development; how business activity can contribute to this**

**Sustainable development**: economic growth which does not harm environment and future generations (by using renewable energy/ recycling waste / using fewer resources/ developing environmental friendly products)

### **4. Responding to environmental pressures and opportunities**

**4.1) Pressure group**: made up of people who want to change business(or government) decisions and they take action such as organising consumer boycotts.

- ⇒ If a business damages environment
- ⇒ Many consumers will stop buying its products to put pressure on the business.

**4.2) Laws pass by government**:

Some business activities can be restricted by laws e.g. preventing businesses to dump waste into the river.

**4.3) Financial penalties / pollution permits**:

**Pollution permit** : a licence to pollute up to a certain level.

- ⇒ If a business is highly polluter and polluted beyond the limit, they need to pay for extra permits.
- ⇒ For low polluters, they can sell the leftover permit to high polluters.

### **5. Ethical issues a business might face: conflicts between profits and ethics**

**Ethical decisions**: based on moral code. Sometimes referred to as doing the right thing.

**Example of unethical decisions of business**; employing child labour, providing poor working condition, damaging environment.

**Benefits and limitations of ethical decisions**

Benefits of ethical decisions	Limitations of ethical decisions
1. Consumers may not buy products made by child labour.	1. It has a higher cost of employing adult workers than child labour.
2. It creates a good reputation for ethical businesses.	2. In the short run a business may face high cost and gain lower profit.
3. It contributes long term profit to the ethical businesses.	3. The business may increase price and become less competitive in the market.
4. Ethical businesses can attract many workers and are easier to raise funds.	4. If consumers are sensitive to price, it can cause a dramatic fall in demand and sale revenue.
5. There is less risk of legal action against unethical businesses.	5. If children are not employed, their family's income will fall a lot.

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## Chapter 28: Business and international economy

### Key terms

1. Globalisation: the term now widely used to describe increases in worldwide trade and movement of people and capital between countries.
2. Free trade agreements: exist when countries agree to trade imports/exports with no barriers such as tariffs and quotas.
3. Import quota: a restriction on the quantity of a product that can be imported.
4. Protectionism: when a government protects domestic firms from foreign competition using tariffs and quotas.
5. Multinational businesses(transnational businesses): those with factories, production, or service operations in more than one country.
6. Exchange rate: the price of one currency in terms of another, for example 1\$=38₱

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7. Currency depreciation: the fall in the value of a currency - it buys less of another currency.
8. Currency appreciation: the rise in the value of a currency - it buys more of another currency.

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**1. Globalization:** increase worldwide trade between countries

**Globalization:** increase worldwide trade between countries

**Reasons for globalization:** increasing free trade agreement, improving communication, industrialising of emerging market countries.

### **Globalization- opportunities and threats for businesses**

Opportunities	Threats
<ul style="list-style-type: none"> <li>• Exporting good and services</li> <li>• Increasing market share</li> <li>• Gaining cheap labour cost</li> <li>• Importing cheaper material</li> </ul>	<ul style="list-style-type: none"> <li>• Losing jobs for local people</li> <li>• Domestic firms cannot compete with MNCs.</li> <li>• Labours leaving to countries with high wages.</li> <li>• Insufficient labours in some countries causing high cost of recruitment and training for businesses.</li> </ul>

### **Why governments might introduce import tariffs and import quotas**

**Tariff: is tax on imported goods.**

- ⇒ It increases the price of imported goods.
- ⇒ Consumers switch to consume domestic goods rather than imports.
- ⇒ It helps protect domestic firms and employment in the country.

**Import quota: a restriction on the quality of a product that can be imported.**

- ⇒ Reducing import quota decreases the consumption of imported goods.
- ⇒ Consumers are likely to consume domestic goods rather than imports.
- ⇒ It helps protect domestic firms and employment in the country.

### **2. Reasons for the importance and growth of multinational companies (MNCs):**

**Multinational business:** businesses which operate in more one countries e.g. Toyota/Exxon/Mc.

#### **Why do firms become multinational companies?**

- To produce products in the countries with low cost
- To access raw materials
- To reduce transport cost by producing products near the market

- To avoid tariff, quote and other trade barriers
- To expand into different market
- To remain competitive with rival firms which are selling products abroad

**Advantages and disadvantages of MNCs operating in a country**

Advantages of MNCs operating in a country	Disadvantages of MNCs operating in a country
1. More jobs created which reduces unemployment.	1. Resource depletion and environmental damage
2. MNCs bring new technology and create outputs in the country	2. Profits are transferred back to their home countries rather than reinvested in the host country.
3. More outputs available to consumers.	3. Employing only low skilled workers in the country
4. Tax revenue paid by MNCs	4. Domestic firms cannot compete and may go bankrupt.

**3. The impact of exchange rate changes:**

**Exchange rate:** price one currency in term of another e.g. 1£ = 1.5\$

**Depreciation and appreciation of an exchange rate**

- Appreciated currency: value a currency rises in term of another currency



- Depreciated currency: value a currency reduces in term of another currency



**How exchange rate changes can affect businesses**

<b>A fall in exchange rate or currency depreciation</b>	
<p><b>1. Benefiting exporting businesses</b>                      ⇒ Price of export ↓ in foreigners 'view                      ⇒ Demand for export ↑                      ⇒ Exporting businesses gain higher revenue and profit.</p>	<p><b>2. Harming importing businesses</b>                      ⇒ Price of import ↑ in domestic's view                      ⇒ Importing businesses face higher cost of imported raw materials.                      ⇒ They gain lower profit.</p>

<b>A rise in exchange rate or currency appreciation</b>	
<p><b>1. Benefiting importing businesses</b>                      ⇒ Price of imports ↓ in domestic's view                      ⇒ Importing businesses face lower cost of imported raw materials.                      ⇒ They gain higher profit.</p>	<p><b>2. Harming exporting businesses</b>                      ⇒ Price of export ↑ in foreigners' view                      ⇒ Demand for export ↓                      ⇒ Exporting businesses gain lower revenue and profit.</p>

4. **Privatisation:** Sell some/all public ownership to the private sector.

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"> <li>• Privatisation increases competition in the market which forces businesses to improve in quality of product.</li> <li>• Private firms have profit motives and Private sector can better control the cost of production. Then efficiency will be improved.</li> </ul>	<ul style="list-style-type: none"> <li>• Private firms might reduce cost of production by laying off some workers, resulting in higher unemployment.</li> <li>• Private firms aim for profit might lower quality and set a higher price of product.</li> </ul>