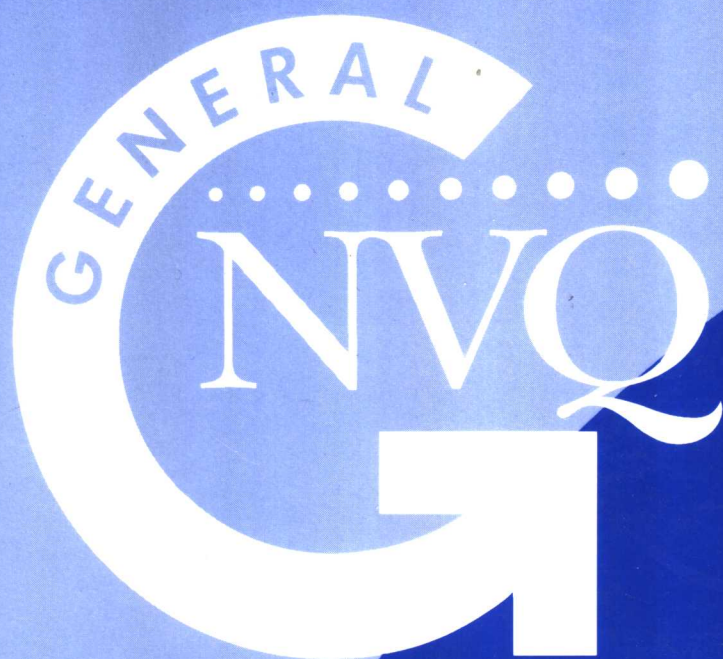


for A Level and Advanced GNVQ (Mandatory Units)

Advanced Business Studies



Stephen Danks



for A level and Advanced GNVQ (Mandatory Units)

Advanced Business Studies

Stephen Danks

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Stephen Danks has wide experience of industry, commerce and teaching. Formerly a Head of Business Studies in a large Further Education College, he has also taught in schools.

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Preface

Aim

The aim of this text is to provide a comprehensive text book for Business Studies courses in schools and colleges. It has been specifically written for students taking GNVQ Advanced Business (mandatory units) and GCE Advanced Level Business Studies, but it is also suitable for the current BTEC National Business and Finance and as an introduction to higher level courses in both business studies and management.

Need

This text answers the need for material that:

- provides a lively and clear approach to business studies
- comprehensively covers the final specification for GNVQ Advanced Business (Mandatory units)
- provides a variety of tasks and methods of assessment including
 - case studies
 - problem solving
 - data response
 - essay examination questions (A Level)
 - short answer questions (A Level)
 - multiple choice/completion (GNVQ)
 - assignments
- presents business studies in a way that develops other relevant core skills and techniques such as numeracy, communication, information technology and the selection and use of relevant information.

Approach

The text has been written in a structured form, with numbered paragraphs, summaries, self review questions and many different assessment means. Each chapter contains the following question types:

- *student-centred tasks* (answers in Lecturers' Supplement)
- *review questions* (with paragraph references to the answers in the text)
- *essay-style A Level examination questions* (half with answers in the book, half with answers in the Lecturers' Supplement)
- *short answer questions* similar to those in the A Level examinations (half with answers in the book, half with answers in the Lecturers' Supplement)
- *multiple choice/completion questions* similar to those in the GNVQ Advanced test papers (half with answers in the book, half with answers in the Lecturers' Supplement)
- *assignments* (answers in the Lecturers' Supplement)

There are also eight GNVQ-style question papers (and answers) covering the mandatory units in the Lecturers' Supplement, which can be photocopied and used for testing students.

How to use the book

The book is designed to be used as a course text to support either a course with a high proportion of lecturer contact time or one that allows for less contact time and more directed self-study. For the latter type of course, students will find the numerous questions with answers allow them to test their understanding. Those questions and assignments with answers in the Supplement, and the eight GNVQ-style question papers in the supplement can be used by lecturers for testing and assessing.

To help lecturers planning courses the charts on pages viii-ix map the coverage of the individual A Level board and GNVQ Advanced syllabuses chapter by chapter. The chapters can be tackled in any order, although Chapters 19 and 20 assume a knowledge of some principles covered earlier.

Preface

Although no previous knowledge of business studies is required to use this text, students may find it useful to refer to *A First Course in Business Studies* (S Danks, DP Publications, 1992) for additional background information.

Lecturers' Supplement

A free Lecturers' Supplement is available on application to the Publishers in writing (on your school/college headed paper) stating the course on which the book is to be recommended, the number of students on the course, and the probable numbers of books to be purchased by them.

The Supplement contains outline answers to:

- the 300 in-text tasks
- half of the 60 essay-style questions
- half of the 60 short-answer questions
- half of the 150 multiple choice questions
- and to the 20 end of chapter assignments.

There are also eight GNVQ style question papers with answers, which can be photocopied and used for student testing.

Suggestions and criticisms

The author would welcome, via the publishers, any comments on the book. This will enable subsequent editions to be amended, if necessary, and made even more useful to students and teachers alike.

Discrimination between the sexes

For reasons of textual fluency, you will find the words 'he/him/her' have been used throughout this book. However in most cases the person referred to could be of either sex.

S Danks
July 1993

Additional Notes for Students

You will find that this book contains several different types of tasks and assignments including case studies, projects and practical exercises. These are designed to encourage you to take an active part in the process of learning.

A number of the tasks require you to work outside the classroom and can be carried out either as an individual or as a member of a group. Some assignments will also require you to make oral presentations. Where possible, you are advised to make use of information technology in your studies.

Obtaining Information

You will be asked to obtain a variety of information which will require you to use library reference books or other sources such as newspapers and journals. You will also need to contact various organisations, including local companies, to obtain information.

Presentation and Assessment

Your work should always be well organised and neatly presented. This is particularly important if it is to form part of your coursework portfolio.

A suitable structure for research reports might be as follows:

- Title and purpose of report
- Summary of findings, including any key recommendations
- Introduction
- Body of report, that is, presentation and analysis of data collected
- Conclusions or results

As you will see in Chapter 18, graphs, pie charts, pictographs and bar charts are particularly good methods of presenting any numerical information.

Research projects are usually assessed on the quality and depth of the research, analysis of the data collected, evaluation of the findings and the final presentation.

Keeping Up-to-date

Business studies is an exciting subject but it also changes rapidly and therefore it is often difficult to keep up-to-date. If you are to be really successful in your advanced course, it is important that you devote some time to this aspect of your studies. There are many ways of doing this but I would recommend that the following are some which you might find particularly useful to pursue on a regular basis.

- Read a quality newspaper such as the Daily Telegraph or Financial Times
- Listen and take note of news bulletins on television and radio
- Statistical data can be found in the Monthly Digest of Statistics, Social Trends and other Government publications
- Other regularly published sources of information include Bank Reviews, Company Reports, The Economist, Labour Market and Skill Trends published by the Department of Employment, Treasury Briefings and a wide range of journals which should be available in your local library.
- Information about key trends in your area can be gathered from local press and other media reports.
- Other useful local sources include Business Enterprise Agencies, Chambers of Commerce and Trade, Careers Offices, Council Economic Development Units and Training and Enterprise Councils (TEC's).
- Many other local, regional and national organisations also publish journals and reports on economic and labour market trends including many banks, the Confederation of British Industry (CBI), Employers Associations, the Employment Department and Trade Unions. You will find 'Economic Briefing', published by HM Treasury particularly useful.

I hope that you will enjoy using this text and wish you every success in your coursework and in obtaining your qualification.

Coverage of Examination Topics – by chapter

Advanced GNVQ (Vocational A Level)

| Unit | Advanced Business Studies | | | | | | | | | | | | | | | | | | | |
|---------------------------------------|--|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|
| | Key Chapter(s) – Refer to Index for details relating to individual themes/topics | | | | | | | | | | | | | | | | | | | |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| Business in the economy | ■ | | ■ | ■ | ■ | ■ | | | | | | | | | ■ | | | | | |
| Business systems | | | | | | | | | | | | ■ | | | | ■ | | ■ | ■ | |
| Marketing | | | | | | | ■ | ■ | ■ | | | | | | | | | ■ | | ■ |
| Human resources | | ■ | | | | | | | | | | ■ | ■ | ■ | ■ | | | | | |
| Employment in the market economy | | | ■ | | | | | | | | | | | ■ | | | ■ | ■ | | |
| Financial transactions and monitoring | | | | | | | | | | | ■ | | | | | ■ | | | ■ | |
| Financial resources | | | | | | | | | | ■ | | | | | | | | | ■ | ■ |
| Business planning | ■ | | ■ | | | | | | | | | | | | ■ | | | | ■ | ■ |

GCE A Level (AEB)

| Subject content | Advanced Business Studies | | | | | | | | | | | | | | | | | | | |
|--|--|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|
| | Key Chapter(s) – Refer to Index for details relating to individual themes/topics | | | | | | | | | | | | | | | | | | | |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| Section 1 Basic business organisations and their objectives | ■ | ■ | ■ | | | | | | | | | | | | ■ | ■ | | ■ | | ■ |
| Internal factors affecting businesses in the pursuit of their objectives | | | ■ | | | | | | | | | | | | ■ | | ■ | | | |
| Section 2 Finance | | | | | | | | | | ■ | ■ | | | | | | | | ■ | |
| Section 3 Marketing | | | | | | | ■ | ■ | ■ | | | | | | | | | | | |
| Section 4 Human resources | | | | | | | | | | | | ■ | ■ | ■ | | | | | | |
| Section 5 Factors external to businesses which affect the attainment of objectives | | | | ■ | ■ | ■ | | | | | | ■ | | | | | ■ | | | |
| Section 6 The integrated nature of business decisions and objectives | ■ | | | | | | | | | | | | | | | | | | | ■ |

GCE A Level (JMB)

| Theme | Advanced Business Studies | | | | | | | | | | | | | | | | | | | |
|---|--|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|
| | Key Chapter(s) – Refer to Index for details relating to individual themes/topics | | | | | | | | | | | | | | | | | | | |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| The economic environment of the organisation | ■ | ■ | ■ | ■ | ■ | ■ | | | | | | | | | | | | | | |
| Operations management | | | | | | | | | | | | | | | ■ | | | | ■ | ■ |
| Accounting and finance | | | | | | | | | | ■ | ■ | | | | | | | | ■ | ■ |
| Operational research and information technology | | | | | | | | | | ■ | | | | | | ■ | | | ■ | |
| Statistics for decision making | | | | | | ■ | | | | | | | | | | | | ■ | | ■ |
| Marketing | | | | | | | ■ | ■ | ■ | | | | | | | | | | | |
| Organisational behaviour | | | | | | | | | | | | ■ | ■ | | | | | | | |
| Employer and employee relations | | | ■ | | | | | | | | | ■ | | ■ | | | ■ | | | |

GCE A Level (London)

| | Advanced Business Studies | | | | | | | | | | | | | | | | | | | |
|---|--|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|
| | Key Chapter(s) – Refer to Index for details relating to individual themes/topics | | | | | | | | | | | | | | | | | | | |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
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| <i>Area 1: the elements of business activity</i> | | | ■ | ■ | | | ■ | ■ | ■ | ■ | ■ | ■ | | ■ | | ■ | ■ | | ■ | |
| i) Nature of markets and market forces | | | | ■ | | | | | | | | | | | | | | | | |
| ii) The concept and role of marketing | | | | | | | ■ | ■ | ■ | | | | | | | | | | | |
| iii) Financial information | | | | | | | | | | | ■ | | | | | | | | | ■ |
| iv) Sources and uses of financial resources | | | | | | | | | | ■ | | | | | | | | | | |
| v) Human resources | | | ■ | | | | | | | | | ■ | | ■ | | | ■ | | | |
| vi) Non-human resources | | | ■ | | | | | | | | | | | | | ■ | ■ | | | |
| <i>Area 2: structure and internal organisation of businesses</i> | ■ | ■ | | | | | | | | | | | ■ | | ■ | ■ | | | | |
| i) Structure and types of business units | ■ | ■ | | | | | | | | | | | | | | | | | | |
| ii) Organisational theories | | | | | | | | | | | | | ■ | | ■ | | | | | |
| iii) Internal communications | | | | | | | | | | | | | | | | ■ | | | | |
| <i>Area 3: external influences on business activity</i> | ■ | | ■ | | ■ | ■ | | | | | | | | ■ | | | | | | |
| <i>Area 4: the management of business activity</i> | ■ | | | | | | | | | ■ | | | | | | | ■ | ■ | | ■ |

GCE A Level (Cambridge)

| Content | Advanced Business Studies | | | | | | | | | | | | | | | | | | | |
|--|--|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|
| | Key Chapter(s) – Refer to Index for details relating to individual themes/topics | | | | | | | | | | | | | | | | | | | |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| <i>A. The organisation and its environment</i> | ■ | ■ | | | ■ | ■ | | | | | | | ■ | | | | ■ | | | |
| 1. The extent and nature of business units | ■ | ■ | | | | | | | | | | | | | | | | | | |
| 2. Business structures and organisations | ■ | | | | | | | | | | | | ■ | | | | | | | |
| 3. The national and international environment | | | | | ■ | ■ | | | | | | | | | | | ■ | | | |
| <i>B. The dynamics of business</i> | | | | ■ | | | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | | | | |
| 1. People in business | | | | | | | | | | | | ■ | ■ | ■ | | ■ | | | | |
| 2. Marketing and production | | | | ■ | | | ■ | ■ | ■ | | | | | | ■ | | | | | ■ |
| 3. Finance | | | | | | | | | | ■ | | | | | | | | | | |
| 4. Accounting and business activity | | | | | | | | | | | ■ | | | | | | | | | |
| <i>C. Decision making in business</i> | ■ | | ■ | | | | ■ | | | ■ | ■ | | | | | | | ■ | | ■ |
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 - * A Summary
 - * Review Questions
 - * Examination Practice Questions
 - * Multiple Choice/Completion Questions
 - * Assignment Activities

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1. The Business Environment

This Chapter provides a general introduction to the subject of business studies and is intended to provide a framework for future studies since many of the topics outlined are discussed in later chapters. Because of the integrated nature of business, many terms and concepts will recur throughout this text.

- * What is Business
- * Development of Economic Activity
- * Needs and Wants
- * Scarcity and Choice
- * Key Definitions
- * Organisations
- * The Resources of Business
- * Profit
- * Production
- * Economic Systems
- * Business Objectives
- * Business Organisations
- * Business Functions
- * Management
- * Decision Making
- * Constraints on Business
- * Measurement of Performance

What is Business?

1. The term business is used to describe all the commercial activities undertaken by the various organisations which produce and supply goods and services. Business affects nearly every part of our daily lives. Not only by supplying the food we eat, the clothes we wear and the transport we use to school, college or work, but also most of the jobs and wages which enable us to buy these goods and services.

Development of Economic Activity

2.
 - In primitive societies, people were **self-sufficient**, hunting, growing and making what they needed for themselves.
 - Later people began to specialise in doing what they were good at which enabled them to produce more than they needed for themselves.
 - This **division of labour** led to the development of **trade** as surplus goods were exchanged for other goods.
 - This earliest form of trade was called **barter**.
 - As the population, specialisation and technical developments increased, **money** was introduced to make the process of exchange easier.
 - This led to an increase in the quantity of goods produced and the rapid growth of trade both at home and overseas.

Needs and Wants

3. Goods and services are produced because people need or want them. In order to survive in life, we all **need** food, clothing and shelter. These are the basic needs which must be satisfied. **Wants** on the other hand are goods and services which people seek to obtain in order to improve their standard of living, ie quality of life. When people talk about the **demand** for something, it means not just wanting it, but also being able to pay for it.

Scarcity and Choice

4. We would all like to have more or better possessions than we have now – clothes, houses, furniture, holidays etc. Our wants are unlimited, ie there is always something which we would like. However, our resources are **scarce** or limited. We only have a certain amount of money and therefore must make a **choice** of how best to spend it.

1. The business environment

5. The problems of scarcity and choice also apply to businesses and countries. A business must decide how to make the best use of its limited resources. Likewise a country cannot produce unlimited amounts of goods and services if its resources are limited.
6. One way of looking at this problem is to say that the cost of any choice is the next best alternative which we decide to do without. This is what economists call **opportunity cost**. For example, the cost to a teenager of going to the cinema is the compact disc which could have been bought instead; a farmer may keep cattle instead of sheep; governments may spend money on roads instead of schools or pensions.



Task 1.1

1. Think about the problem of scarcity and choice as it affects you. List 3 goods and 3 services which you have purchased in the last week and the opportunity cost of each of those items.
2. 3 College students are faced with the following situations:
 - a) Tony loses his Business Studies textbook which cost the College £9.95. He is asked to pay £5 towards the cost of replacing it.
 - b) Peter earns £24 for working Saturdays on a market stall. He is picked for the College cricket team which only plays on Saturdays. He believes that a new bat will improve his play and purchases one for £20.
 - c) Jasmin wants to go on a College trip to Italy which will cost £285. Her parents say she can go and they are prepared to pay.

What is the opportunity cost:

- i) to Tony of losing his textbook?
- ii) to the local community?
- iii) to Peter of playing cricket?
- iv) to Jasmin's parents of her trip to Italy?
- v) to Jasmin?

Some Key Definitions

7.
 - The provision of goods and services is called **production**. The people who buy them are **consumers**.
 - **Goods** are tangible items which we can see and touch. For example food, make-up, motor cycles and washing machines.
 - **Services** are not goods but things which we use like the telephone, buses, education and entertainment.
 - The term **aggregate demand** is used to describe the total expenditure of all buyers of goods and services within the economy as a whole.
 - The **environment** refers to the surroundings and circumstances which affect the way in which an organisation operates.
 - A **system** can be defined as a collection of inter-dependent parts organised to achieve a particular objective. The change or removal of any of these parts will affect the way in which the system operates.
 - **Objectives** are the aims or goals which a business seeks to achieve. In order to check whether or not they have been achieved, they must be measurable. For example, to increase sales by 10%.
 - **Management** refers to a group of people who are appointed by the owners of a company to run a business on their behalf. Their role includes determining the distribution of profits to shareholders.

ers. Managers are expected to direct the efforts of their staff towards achieving the desired objectives.

- **Competition** refers to the amount of rivalry between organisations and their products or services or market. This may affect individual businesses in many ways, but in particular in terms of the prices which they can charge and quality of goods or services which they must supply in order to be competitive.

Organisations

8. An **organisation** is a group of people who co-operate together for a common purpose. Organisations are of all types and sizes, exist everywhere and most of us belong to many of them during life as the following examples illustrate. Families, hospitals, churches, youth clubs, sports clubs, schools, colleges, libraries and businesses are all organisations. In this text we are considering the wide range of business organisations which exist today and the environment in which they operate to achieve their objectives.
9. Business organisations range in size and structure from small sole proprietors owned and run by one person, to huge national and multi-national organisations run by managers and owned by many thousands of shareholders, to industries owned and controlled by the State.



Task 1.2

1. Make a list of all the organisations to which you belong.
2. Identify what you feel is the 'common purpose' of each organisation

10. The specific components of a business organisation can be summarised as
 - **People** who consist of the management and workforce and provide a range of skills, knowledge, commitment and drive.
 - A **mission and set of objectives** which are needed to define the purpose of the organisation and what it is trying to achieve.
 - A **hierarchy** with an organisational structure through which power can be exercised.
 - A **culture** and set of values which give the organisation an ethos and spirit.
 - **Communication** and information flows to enable decisions to be taken and implemented.
 - **Procedures and systems** for undertaking defined tasks.
 - A **control system** to audit and influence management decisions.
 - **Specialist functions** through which tasks can be carried out.
 - **Rewards and punishments** to provide motivation and ensure compliance with objectives.
 - A **boundary** which defines the limits of the organisation.
 - **Linking mechanisms** needed to relate to other organisations.
11. All these components need to be assessed and matched together to try to achieve a harmonious whole. Complete harmonisation is, however, unlikely to be achieved because the components are always subject to change as, for example, when staff leave or new staff are appointed. In this text, we shall be considering each of these components in more detail, including the importance of each for an organisation.

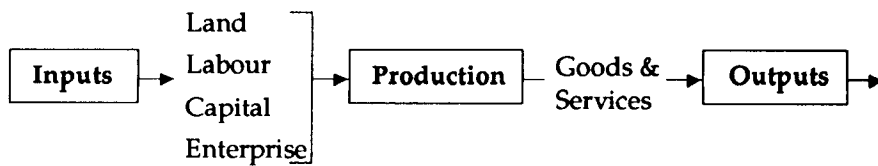


Task 1.3

Choose any business organisation which you know well or can find out about and try to identify with examples, its specific components.

The Resources of Business

12. In order to produce the goods and services needed to satisfy human wants, four essential resources are needed. These are also referred to as **factors of production** or **inputs**.



13. • **Land** consists of all natural resources and includes minerals, water, fish in the sea and land itself. Examples include Coal, Wood, North Sea Oil and Gas.
- **Labour** refers to the physical and mental skills of people who work. It is the human resource in production whether a labourer, teacher or office worker.
- **Capital** in its broadest sense means anything which is owned by a business and used to make production easier and more efficient. This includes buildings, machinery, equipment and vehicles.
- **Enterprise** or the entrepreneur is someone who organises the other inputs to initiate the process of production. They risk a loss if the business fails but if successful, are rewarded by making a profit. Very successful examples include Tesco, ICI and Boots.
14. Clearly not all inputs are of the same quality. For example, barren hillsides will not grow crops, a clumsy person will not have the skills to produce jewellery; capital equipment may be new or worn, whilst some entrepreneurs will have more ability than others. The type and quality of inputs used will depend on the goods and services (call OUTPUTS) being produced.

Profit

15. The difference between the total cost of running a business and the total income received by the business is the profit. The cost of the inputs include rent for land, wages for labour and interest on capital. Income comes from sales to consumers. Owners or managers will try to increase sales through good marketing (see Chapters 7, 8 and 9) and operate the business efficiently in order to reduce costs and therefore increase profits.



Task 1.4

A manufacturer of clothing has a large number of inputs.

1. Consider the following list and group them into Land, Labour, Capital and Enterprise.

| | | | |
|----------|---------|-------------|-----------|
| LABOURER | FACTORY | COMPUTER | SECRETARY |
| WOOL | MANAGER | PHOTOCOPIER | PENCILS |
| SCISSORS | COTTON | MACHINISTS | WATER |

2. Now draw up a similar list of resources for a service business such as an insurance company, transport firm or holiday tour operator or one of your own choice.

Production

16. We all consume a wide range of goods and services in life. Therefore, people work both to produce them and also to earn the money needed to buy them. Production can be considered under three main headings – primary, secondary and tertiary industries.

- **Primary**

This consists of all the **extractive** industries, for example coal mining, quarrying, fishing, forestry and farming. Many of these primary products form the raw materials for secondary production.

- **Secondary**

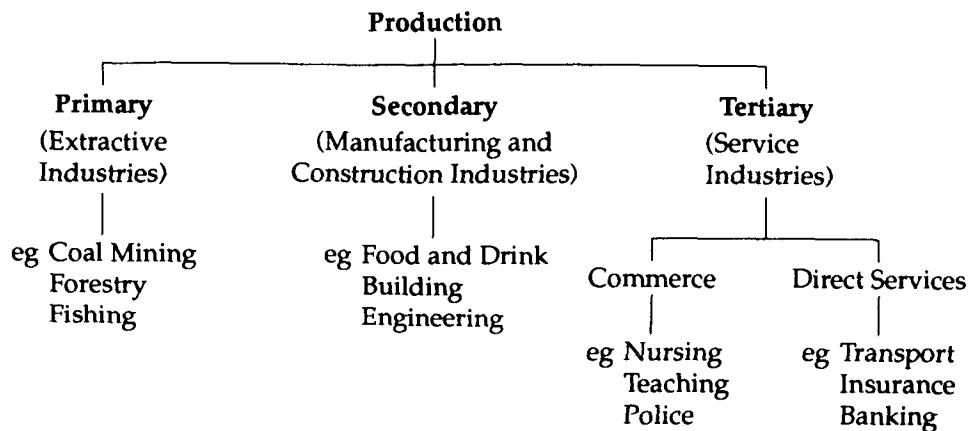
These are the **manufacturing** and **construction** industries which change the raw materials into finished products. Example include the manufacture of chemicals, textiles and shoes, and the building of roads, houses and bridges.

- **Tertiary**

These industries do not produce goods, but provide services. Tertiary production is often referred to as Commerce and Direct Services. The latter are personal services, not directly related to trade but needed to increase production by looking after people's health and welfare.

17.

Types of Production



Task 1.5

Consider the area in which you live or work. Identify by name the organisations concerned with the following types of production. List the products or services which they supply.

- 1) 2 examples of primary production.
- 2) At least 5 examples of secondary production.
- 3) Finally, at least 6 examples of tertiary production including 3 each of commercial and direct services.
- 4) Are any organisations involved in more than one type of production?

State which they are and in what way they are involved.

The Economic System

18. There are 3 groups which make up what can be called the economic system of a country – individuals, business organisations and the State.
19. **Individuals** – We are all consumers of goods and services whatever our age, race or sex, free to spend our income as we choose. In addition, individuals are also important providers of capital and many also form part of the labour force needed to produce goods and services.
20. **Business Organisations** – These are the various suppliers of goods and services for consumption whether they be importers, manufacturers, processors or involved in the chain of distribution as

1. The business environment

wholesalers or retailers. Business organisations are also consumers of raw materials and/or finished goods and services and importantly they are also employers of labour and users of capital.

21. **The State** – A variety of roles are performed by the State which includes both local and central government as well as State run industries such as the coal mines and railways. The State is also an important consumer of goods and services and a major employer.
22. But importantly, the State is also the regulating body in our society. It has the key role of devising laws which both protect individuals and organisations and also help to resolve any conflict which may take place between them. Examples include laws on Health and Safety, Consumer Protection, Employment Protection, Environmental Protection and Sunday Trading.

Types of Economic Systems

23. All societies in the world face the basic economic problem of scarcity and choice. Because there are limited resources, it is necessary for each to decide what goods and services it is going to produce. How this decision is made will depend on the type of economic system which operates in the country.

Free Economy

24. At one extreme, all resources could be owned by individuals who organise them to produce what people want. There is no Government intervention. This is known as a 'Free Economy', sometimes called Market Economies, Capitalist Systems or Free Enterprises. What is produced and the price charged is determined by what is called the market mechanism of supply and demand. For example, if there was no demand for wooden houses or bicycles, then an entrepreneur would not make any profit by supplying them. Therefore instead, he would use his resources to produce other goods. The USA, Canada and Japan are examples of free economies.
25. **Advantages of a Free Economy**
 - Consumers determine demand and therefore what is produced.
 - Increased competition which keeps prices down and improves efficiency and standards.
 - All members of the community are free to run businesses for profit.
26. **Disadvantages of a Free Economy**
 - Successful businesses may buy up smaller ones and control a larger share of the market. This can reduce competition and lead to higher prices.
 - Some goods and services required by the community as a whole may not be produced at all, for example, defence.
 - Pollution could increase because it may be difficult to control.

Controlled Economy

27. At the other extreme, all resources could be owned and organised by the State. In these economies, decisions on what to produce are taken collectively by the Government on behalf of its people. Bulgaria and Cuba are examples of controlled economies, often called centrally planned economies or Communist states.
28. **Advantages of a Controlled Economy**
 - Resources are used to produce what the community needs which eliminates wasteful competition.
 - More equal distribution of income and wealth
 - Prevents large firms controlling markets and putting up prices.
29. **Disadvantages of a Controlled Economy**
 - Lack of competition may reduce efficiency, enterprise and innovation.
 - Central control may make it difficult to respond quickly to changes in needs and conditions

- Individuals lose their freedom of choice.

Mixed Economy

30. Most countries in the world, including the UK, actually have what is called a mixed economy. This means that some resources and organisations are owned and controlled by the State (called the Public Sector) and others by private individuals or groups of individuals (Private Sector).

This is more fully explained in Chapter 2.



Task 1.6

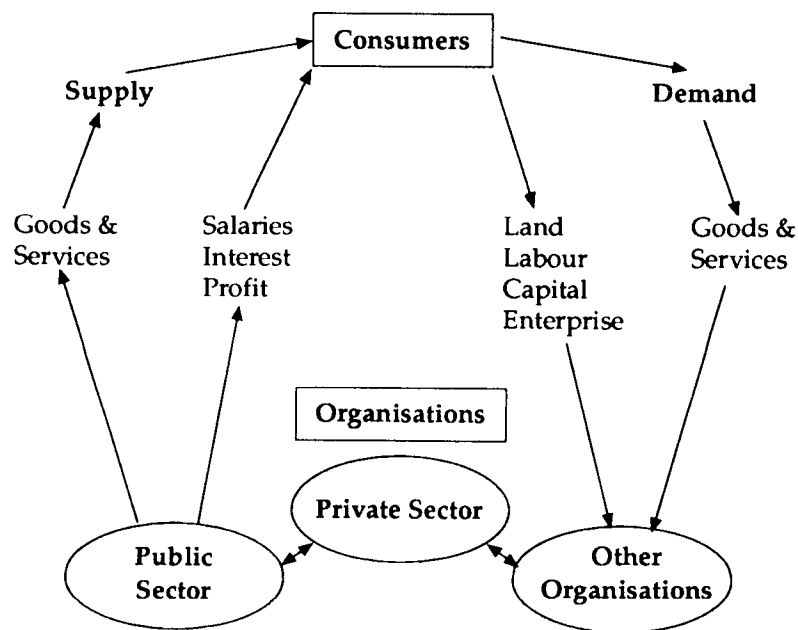
Consider the following countries in terms of the characteristics of free, centrally planned and mixed economic systems. From what you know or can find out, place them in order from completely controlled to completely free.

| | | | | |
|---------|------|-----------|----------|--------|
| UK | USA | FRANCE | ITALY | CANADA |
| GERMANY | CUBA | AUSTRALIA | BULGARIA | CHINA |

31. We have seen so far that people demand goods and services and that they are supplied by both the private and public sector organisations. In order to pay for these goods and services, individuals work for and invest money in these organisations. This is illustrated in the following diagram.

32.

The Economic System



Business Objectives

33. Business organisations are established for the purpose of achieving specific objectives and it is against these objectives that the success or failure of the organisation can be judged. The key points about objectives are that they should be quantifiable, measurable and time specific. for example, to increase profits by 5% per annum.
34. There are four questions at the root of setting objectives.
- **What is the organisation trying to achieve?** What is important, for example, increasing the return on investment (capital employed), increasing market share or reducing bad debts?