

**AQA**

**GCSE (9–1)**

# **BUSINESS**

SECOND EDITION

- + Plan and organise your revision
- + Reinforce skills and understanding
- + Practise exam-style questions



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# 1 Business in the real world

## 1.1 The purpose and nature of business

### The purpose of business

REVISED

A business is an organisation that produces and supplies **goods** (such as computers or furniture) or **services** (for example, hairdressers and dentists). Goods and services are sometimes called **products**. Businesses use a range of resources, including people, raw materials, fuel, buildings, machinery and other types of technology, to supply goods and services.

The people who use products are called **consumers**, while those who pay for them are **customers**. These may be different people – for example, you (customer) might buy a present for a friend (consumer). Customers need some products, such as food or clothing, and **want** others, for example luxury items such as jewellery or entertainment.

Only those businesses that are successful in meeting the needs and wants of their customers will survive and grow.

**Good:** A physical product such as a car.

**Service:** An intangible product (i.e. one that cannot be touched) such as a haircut or financial advice.

**Product:** A general term for goods and services.

**Consumer:** Someone who uses a product.

**Customer:** Someone who buys a product.

**Want:** What a person would like to be able to buy.

### Reasons for starting a business

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People who set up their own business are called **entrepreneurs**. They spot business opportunities and take financial risks to start their own business. The business they start might aim to make a **profit**, or it might be set up with the primary aim of helping society – this type of business is known as a **social enterprise**.

Entrepreneurs are often determined, motivated and committed. People with the skills to be an entrepreneur are often said to show entrepreneurship. Entrepreneurs are looked at in more detail later in this unit.

### The objectives of entrepreneurs

People decide to become entrepreneurs for many reasons:

- ✚ They have an idea, interest or hobby which they want to turn into a business.
- ✚ They have spotted a business opportunity or **gap in the market** (for example, a need for a low-price café in a small town) and want to respond to it.
- ✚ They like the idea of being their own boss and not being answerable to other people at work.

**Entrepreneur:** Someone who is willing to take the risks involved in starting a business.

**Profit:** Measures the difference between the value of a business's revenue (from sales) and its total costs.

**Social enterprise:** A business that is set up to help society rather than to make a profit.

**Gap in the market:** When a group of consumers have a need for a new product that is not being supplied by existing businesses.

- ✚ They want to make more money than they are able to as an employee in another business. They will keep the profits of the business they establish.
- ✚ They may want to be able to fit their working lives around other commitments, such as caring for children or elderly relatives.
- ✚ They may be unhappy in their current job or may have been made redundant or have retired.

### Check your understanding

- 1 Using examples, explain the difference between a customer, a consumer and an entrepreneur.
- 2 Explain three reasons why people start a business, apart from the desire to make money.

### Answers online

### Typical mistake

Do not always assume that entrepreneurs start a business to make money. Many start for other reasons, such as those described.

## Factors of production

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The resources (or materials) that a business uses to manufacture or produce its goods or services are known as the **factors of production**. There are four main factors:

- ✚ **Land** refers to all natural resources used in production, including the physical land itself and the site on which the business is located, as well as plants and mineral products such as oil.
- ✚ **Labour** includes all inputs into production by humans, whether physical or mental.
- ✚ **Capital** refers to man-made resources used in production such as buildings, machinery and vehicles.
- ✚ **Enterprise** is the final factor and refers to the skills of the people establishing and managing the business's resources to meet the needs of customers.

### Typical mistake

Capital can also refer to money used to start up or expand a business. Make sure that you do not confuse this term with its alternative use which refers to man-made resources used in production.

### Check your understanding

Classify the following items according to whether they are land, labour or capital:

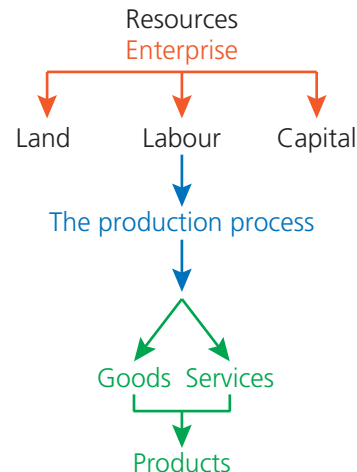
- |                         |                                  |
|-------------------------|----------------------------------|
| ✚ wheat used by a baker | ✚ software programmer            |
| ✚ head chef             | ✚ water from a well              |
| ✚ nurse                 | ✚ orchard owned by a cider maker |
| ✚ delivery van          | ✚ doctor's computer.             |
| ✚ company website       |                                  |

### Answers online

### Factors of production:

The inputs (land, labour, capital and enterprise) that are used to provide goods and services.

**Enterprise:** Another word for a business. It also refers to the skills of people in creating and managing businesses.



**Figure 1.1** Resources and production

## Opportunity cost

Most decisions that we make have a cost in terms of what we have to give up as a consequence of making that decision. Your decision to take GCSE Business meant that you could not take an alternative subject. Similarly, businesses incur an **opportunity cost** when making decisions. For example, if a business uses its savings to build a new factory, it will lose the interest that may have been earned on its savings with its bank.

**Opportunity cost:** What is given up as a consequence of a particular decision or choice.

## The characteristics of entrepreneurs

Entrepreneurs come in all shapes and sizes, but most possess the following characteristics:

- + **Willingness to take risks.** Some entrepreneurs risk their home and their savings and give up a good job to start their own business. The financial rewards can be great, but so are the risks. In the UK, only 40 per cent of start-up businesses survive for five years.
- + **Hardworking and committed.** Setting up a new business is hard work and there will inevitably be setbacks along the way. Entrepreneurs must work hard, have a desire to succeed and be resilient.
- + **Innovative.** An entrepreneur has to have good ideas and to be able to turn these into successful products that people want. Skilled entrepreneurs are able to identify consumers' needs that are not being met by existing businesses and design products to meet those needs at an acceptable price.
- + **Organised.** An entrepreneur should be able to manage their business efficiently by, for example, making effective use of their time and other resources that are available.

### Now test yourself

TESTED

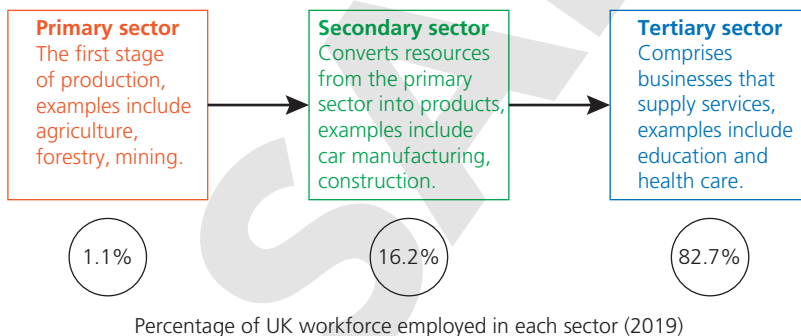
Think of the people you know and decide who might make a good entrepreneur. Describe the characteristics that they possess that make you think they would be successful in this role.

## Types of business and their basic functions

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### Business sectors

Businesses can be classified in many ways, but it is common to divide them into **primary**, **secondary** and **tertiary sectors**, as shown in Figure 1.2. The tertiary sector is easily the largest sector in the UK economy and the value of its output has grown quickly over the last 50 years.



**Primary sector** (or primary industry): Organisations that extract the Earth's natural resources.

**Secondary sector** (or secondary industry): Organisations that use raw materials to manufacture goods or to construct items.

**Tertiary sector** (or tertiary industry): Organisations that provide services to consumers or to other organisations.

**Figure 1.2** Primary, secondary and tertiary sectors

### Functions of a business

Businesses are often considered to have four internal functions which work together to supply goods and services.

- + **Operations.** This involves producing a good or service. An airline must fly passengers to their destinations while an oil company will extract crude oil and refine it for sale to its customers.
- + **Marketing.** A business will only succeed if it understands what its customers want and supplies them with these products. Marketing involves researching customers' needs, designing suitable products, informing customers about them, setting suitable prices and making the products available to customers.
- + **Human resources.** All businesses employ people. Managing these people so they are as effective as possible is an important part of a successful business.



- **Finance.** Businesses depend on money. They have to raise it to start trading or to expand the business and must have enough to pay debts as they become due. A successful business will also make a profit at the end of a trading period.

### Check your understanding

- 1 Explain, using examples, the difference between the operations function and the marketing function of a business.
- 2 Describe the four internal functions of Nissan, one of the largest car manufacturers in the UK.

Answers online

### Exam tip

Remember that, although a business's activities can be divided into four functions, they are all dependent upon one another. For example, a business cannot produce products unless it has raised finance to do so and has hired suitably skilled employees.

## The dynamic nature of business

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### The business environment

The business environment refers to the external factors which can affect a business. The following elements of the business environment can have significant effects on businesses:

- **Technological change.** Technology has led to many new products, such as drones and social media websites. It has also led to new methods of production, such as robots moving goods in warehouses.
- **Economic change.** Economic factors that affect businesses include:
  - **interest rates** – affect the cost of borrowing money
  - **exchange rates** – influence the price of goods sold or bought from overseas
  - **inflation** – the rate at which prices increase
  - **gross domestic product (GDP)** – the value of all incomes earned in an economy.
- **Legal change.** Businesses must comply with a wide range of laws and regulations which change frequently. These can affect the products that they sell (products must be safe, for example) and the ways in which they are produced (for example, providing a safe and healthy working environment for employees).
- **Environmental expectations.** These are an increasingly important influence on businesses' decisions. Businesses are under pressure to produce goods and services without damaging the environment. They might for instance use sustainable supplies and renewable sources of energy, or reduce waste products as far as possible.

The business environment is challenging because it is dynamic. Businesses have to constantly adapt to changes they face.

**Interest rate:** The cost of borrowing money or the reward for saving money, expressed as a percentage.

**Exchange rate:** The price of one currency expressed in terms of another, for example £1 = \$1.50.

### Exam tip

When answering analysis questions such as question 3, make sure that you:

- only offer one line of analysis (as required in the question)
- develop your argument as fully as possible.

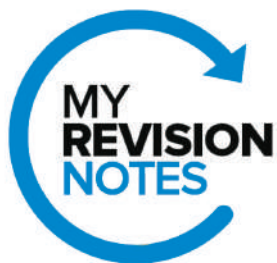
In this case, don't just explain the problems resulting from rising interest rates; analyse *how* this will affect Rafael's plans.

### Exam practice

Rafael Rajhoy is a keen cook and, having been made redundant from his job, has plans to open a restaurant rather than finding another job. He has developed a number of new meals which have been popular with his friends and often works late at night designing new recipes. His wife describes him as 'organised, creative and very dedicated', but also someone who worries a lot about money.

Rafael has £145,000 savings to invest in his business but will need a large loan of £215,000 from his bank to raise the rest of the money he needs to buy a suitable property and equip it as a restaurant. He is a little worried as interest rates are forecast to increase substantially in the near future and he is concerned that he may not attract enough diners – especially in the first few months of trading. Rafael is also concerned about losing his home if the business fails.

- 1 Explain the term 'opportunity cost'. [2]
- 2 State and explain **two** types of resources that Rafael will need to start his business. [4]
- 3 Analyse **one** way in which the forecast rise in interest rates might affect Rafael's plan to start his business. [6]
- 4 Analyse the arguments for and against Rafael being a good entrepreneur. Evaluate whether Rafael will make a good entrepreneur. [12]



# AQA

## GCSE (9-1)

# BUSINESS

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