

## GCSE Revision Questions- Unit 2

### The Business Organisation

**1. Explain four reasons why businesses may want to expand/grow. (4 marks)**

To increase market share- the larger the market share the business has the more it can control the price of its products and it will face fewer threats from competitors.

Take advantage of economies of scale and increase sales- larger firms can produce at a lower average cost than smaller firms and this saving can be passed on to consumers as lower prices. This will help the firm increase their sales and therefore their market share and profits.

Financial Support/ Security- Larger firms are more secure than smaller ones and therefore they can borrow money more easily from banks and are more likely to receive support from the Government.

Diversification- Larger firms can afford to produce more products than smaller firms and selling into different markets can reduce the risks if a decline in sales in one product happens.

**2. Give one benefit and one problem with internal (organic) expansion. ( 4 marks)**

Possible answers:

Benefit- often paid for from profits so less risk of losing control or having extra costs/ the firm expands by doing what it is already good at so less likely to go wrong

Problems- It can take a long time to achieve growth so is too slow for some owners/ market share could fall if other businesses are expanding more quickly.

**3. Define Franchisee and Franchisor (2 marks)**

**Franchisee-** the firm that buys the franchise rights from the existing business.

**Franchisor-** the existing firm that sells the franchise rights to another business.

**4. Explain one advantage and one disadvantage of a firm growing by franchising. ( 4 marks)**

Advantage:

Business growth is paid for by the franchisee paying fees to use the name and logo of the existing firm. This fee can be an important source of finance for the business.

It is a good way of increasing brand awareness and market share without the usual costs and risks of opening a new outlet/shop.

Disadvantage:

A franchisee may not keep to their legal agreement and this could affect the brand image of the franchise.

Most of the profits go to the franchisee.

If one franchise performs badly it could affect the whole business.

**5. State the four methods of external expansion. (4 marks)**

Vertical backward- e.g. building firm takes over brickworks

Vertical forward- towards customer- e.g. farmer buys food shop

Horizontal- joining two businesses in the same industry e.g. two hairdressing businesses

Diversification-joining two businesses in different industries- e.g. steel company and food retailer

**6. Explain why takeovers and mergers are not always successful. (3 marks)**

There may be problems managing and controlling a much larger business.

There can be bad feeling if the takeover is hostile or unpopular.

It can lead to cost cutting and may mean there are redundancies and this can cause uncertainty among workers.

**7. For each of the following stakeholders explain a possible benefit and a possible drawback to them of a firm's growth. (5 marks)**

**Shareholders (Owners)-** They should benefit from higher profit, however, as the business grows and creates more shares the power of smaller shareholders will be reduced.

**Employees-**There may be greater job security and more opportunities for promotion, however, employees may feel less involved in a larger firm or there may actually be job losses if there is a merger or takeover and some positions are duplicated.

**Customers**-They will benefit from lower prices if the firm passes on the economies of scale. However, a large firm with few competitors may be able to charge higher prices.

**Suppliers**-More orders may be received from the bigger business, however, the expanding business may insist on lower prices from its supplier.

**Government**-The government will collect more taxes as the business becomes more profitable as it gets larger. However, if a monopoly is created then the public interest could be at risk.

**8. Explain how the following stakeholder groups try to protect their interests as the firm grows. (4 marks)**

**Employees**-They will try and stop job losses after a merger or takeover. They may use trade unions to negotiate the best settlement for workers who do lose their jobs. They may try and get higher pay as the business is expanding and becoming more profitable.

**Customers**-They may check prices to see if savings are being made since the expansion.

**Suppliers**-They will insist on being paid a reasonable amount for the products being purchased and being paid promptly.

**Government**-They will be concerned if a merger or takeover creates a monopoly and may investigate.

**9. How do private and public limited companies differ in the way that their shares can be sold? (3 marks)**

Public limited companies can sell shares to anybody but private limited companies can only sell shares if all the current shareholders agree and usually to friends and family.

**10. Explain two advantages and two disadvantages of a private limited company (Ltd). (4 marks)**

**Advantages:**

Has more status than a sole trader or partnership so some customers and suppliers will have more confidence in the business as it is a separate legal identity.

It will attract private investors known to the owners to buy shares in it as they have limited liability.

Original owners usually run the business.

Limited liability for all shareholders.

**Disadvantages:**

Cannot be listed on the Stock Exchange so cannot sell shares to anybody.  
Share prices are not quoted daily so is difficult for shareholders to know how much their shares are worth.

Scope for expansion into a really large business is limited.

General public can see accounts of the business so can see how it is performing.

**11. Explain two advantages and two disadvantages of a Public Limited Company (Plc). (4 marks)****Advantages:**

Able to raise substantial capital for expansion by selling additional shares.  
Higher status than a private limited company and it will attract more publicity as it has thousands of shareholders who want to read about the company's performance.

Share prices are listed by the Stock Exchange so shareholders can work out the value of their shares.

Limited liability for shareholders.

**Disadvantages:**

The original owners often lose control as a high proportion of shares are sold.  
Directors and managers appointed to run the business may have different aims to those of the shareholders.

Must disclose all main accounts to the public.

Risk of company being taken over.

**12. Would the objectives of a small business be different from those of a large business? Explain why. (4 marks)**

They would because small businesses are usually concerned with survival and then as it grows it will be about being profitable. Larger, established businesses aim to make a profit but they can often pursue other objectives like dominating the market or expanding overseas.

**13. Describe two social costs and two social benefits of business activity. (4 marks)**

Social Costs:

Environmental costs- pollution can lead to being a nuisance locally or maybe climate change.

Use of non-renewable resources.

Making harmful products- can affect people's health.

Ethical costs- cheap labour/animal testing.

Social Benefits:

Taxes on profits- pay for schools/hospitals.

Providing jobs.

Products can improve people's health/make you happy/ keep you safe.

**14. Why would a business consider social benefits and costs in their decision making? (2 marks)**

Consumers are more aware and it can change their buying decisions. It can give a firm a competitive advantage and therefore attract new customers and increase sales. In the short term it can increase costs, from buying from fair-trade sources etc.

**15. How can environmental pressure groups affect businesses? (2 marks)**

They can damage the brand image and reputation of a business which may lead to lower profits for the business.

**16. Give three advantages of becoming a MNE (multinational enterprise). (3 marks)**

Possible answers:

Keeps transport costs low if operating in different countries.

Can increase knowledge of local market.

Avoid trade barriers.

Have access to cheap labour or raw

Lower site or land prices.

Take advantage of fast growing economies.

**17. Explain two problems of locating abroad. (2 marks)**

Possible answers:

Language differences can make communication with workers difficult.

Transport costs can increase if goods are being shipped back to UK.

Bad publicity if local jobs are lost due to relocation.

Could be seen as being unethical if moves to a low wage country.

Can cause environmental problems.