

Types and Sizes of Businesses — Worksheet

Types of business · size · how firms grow · constraints · demergers · business objectives

Name: _____

Class: _____

Date: _____

DEFINE a demerger · **CLASSIFY** any act of growth as organic or as one of the four integrations · **CALCULATE** how the fixed cost per unit changes as a firm grows · **EXAMINE** how a firm's objective changes the output and price it chooses · **DISCUSS** whether a firm gains from growing bigger · **EVALUATE** the economic effects of a merger between two firms

Sitting 1 — Topic practice

32 marks

MULTIPLE CHOICE Task 1 — Six multiple-choice questions

6 marks

Choose one answer for each question.

1. A business owned by its members, in which each member has one vote regardless of how much capital they have contributed, is:

- A A joint venture
- B A not-for-profit organisation
- C A state-owned enterprise
- D A co-operative

Answer:

2. A refinery employs few people but uses a great deal of capital, while a cleaning contractor employs thousands and owns very little. This shows that:

- A Measures of business size can rank the same firms differently
- B The refinery is the smaller business
- C Capital employed is the only valid measure of size
- D Neither firm counts as a large business on any measure of size

Answer:

3. A state-owned enterprise is best defined as an organisation that is:

- A Used mainly by members of the public
- B Owned and controlled by the government
- C Free of charge for everyone who uses it
- D Set up without the aim of making a profit

Answer:

4. A cost saving from the growth of a firm is most likely to reach consumers as a lower price when:

- A The firm has removed all its competitors
- B The firm still faces rivals who would take its business
- C The firm is a state-owned enterprise
- D The saving comes from lower wages

Answer:

5. Which of the following is most likely to be a reason for a demerger?
- A Two very different businesses compete for one management's attention
 - B The firm wishes to remove a competitor
 - C The firm wants to secure the supply of an input
 - D The firm wants to enter a new country

Answer:

6. Satisficing behaviour by firms is best explained by:
- A Owners insisting that managers push the firm's profit as high as it can go
 - B The need to reach an outcome acceptable to groups with conflicting aims
 - C A legal requirement limiting the profit a large firm may keep
 - D The complete absence of competition in the firm's own market

Answer:

DEFINE Task 2 — The definition of a demerger

2 marks

Define the term demerger.

demerger

Conglomerate integration and a demerger can both involve businesses in unrelated markets. What is the difference? (practice, not marked)

EXPLAIN Task 3 — One impact of a demerger

4 marks

An engineering group plans to split its aircraft-parts division from its farm-machinery division. The two divisions share one head office, one finance team and one board.

Explain one likely impact of the demerger on the two new companies.

Two stages: the impact, then what follows for the companies.

CLASSIFY Task 4 — Ten moves by a tyre maker

10 marks

A tyre maker buys steel wire and rubber, makes tyres and sells them to car makers and to tyre-fitting garages. Classify each move as organic growth or as one of the four types of integration in the key.

Key: Organic growth · Horizontal integration · Backward vertical integration · Forward vertical integration · Conglomerate integration

#	What the tyre maker does	Type of growth
1	Merges with a rival tyre maker	
2	Buys a chain of tyre-fitting garages	
3	Takes over a travel agency	
4	Opens sales offices in three new countries	
5	Buys the mill that makes its steel wire	
6	Takes over a car maker that fits its tyres	
7	Takes over a rival tyre maker in Brazil	
8	Buys an insurance company	
9	Buys a rubber plantation	
10	Builds a second tyre factory	

Put the tyre maker on its supply chain first, then ask where the other firm sits.

CALCULATE Task 5 — Fixed cost per tile as output grows

4 marks

Imani Ceramics has fixed costs of \$72,000 a month, whatever the number of tiles it makes.

Calculate the percentage fall in fixed cost per tile, to one decimal place, when monthly output rises from 10,000 to 18,000 tiles.

Workings

Answer: %

Work out the fixed cost per tile at each output first, and keep the unit on your answer.

A removals firm with two vans and rented premises has been refused a bank loan to buy three more vans. Analyse how one constraint on growth may keep this removals firm small.

Knowledge — name one constraint on growth and how it works (2)

Application — use the facts about the removals firm (2)

Analysis — your chain of reasoning (2)

One constraint followed to its end goes further than four constraints named.

Sitting 2 — Mock section

54 marks

Source: Imani Ceramics

- 1 Imani Ceramics makes hand-painted floor and wall tiles. It began as Imani's own business, but its shares are now held by a group of investors, and managers chosen by the investors run it. The managers' bonuses are linked to sales revenue.
- 2 The firm's fixed costs come to \$72,000 a month whatever it produces, and each extra tile costs \$20 to make. At the last board meeting the managers set out three possible monthly outputs, shown in Figure 1, and proposed the middle one. The three prices in Figure 1 lie on one straight-line demand curve. Several investors asked the managers to explain their choice.
- 3 The finance director replied that the managers want Imani Ceramics to grow into the region's biggest maker of hand-painted tiles by opening a second factory. Lenders offer better terms to a larger firm, and suppliers of clay and glaze give better prices to a bigger buyer. One investor warned that a second factory would add a layer of managers, and that the owners would then see only the figures the managers chose to report.

Figure 1: Imani Ceramics, three possible monthly outputs

Output (tiles a month)	Price per tile (\$)	Total revenue (\$)	Profit (\$)
10,000	40	400,000	128,000
15,000	30	450,000	78,000
18,000	24	432,000	0

CALCULATE**Task 7 — Percentage change in profit****2 marks**

Using Figure 1, calculate the percentage change in profit, to one decimal place, if monthly output rises from 10,000 to 15,000 tiles.

Workings

Answer: %

EXPLAIN**Task 8 — Revenue at the largest output****4 marks**

With reference to Figure 1, explain why total revenue is lower at 18,000 tiles than at 15,000 tiles.

ANALYSE**Task 9 — Compare the effect of two objectives on consumers****6 marks**

Using Figure 1, analyse the likely effect on consumers if Imani Ceramics chose sales volume maximisation instead of profit maximisation.

Knowledge — where each objective is reached (2)

Application — use the prices and outputs in Figure 1 (2)

Analysis — your chain of reasoning (2)

With reference to the source, examine the effect of linking managers' bonuses to profit instead of sales revenue, illustrating your answer with an appropriate diagram.

Diagram

Knowledge — draw and label the diagram (2)

Application — apply a figure or fact from the source (2)

Analysis — one chain (2)

Evaluation — the other side (2)

With reference to the source, discuss whether Imani Ceramics would benefit from growing into the region's biggest maker of hand-painted tiles.

Knowledge — name two economic ideas, one for growth and one against (2)

Application — use one fact or number from the source for growth and one against (2)

Analysis — two chains, one for growth and one against (4)

Evaluation — weigh the two chains and say what the answer depends on (6)

EVALUATE Task 12 — The economic effects of an airline merger

20 marks

Two large airlines that fly many of the same routes have announced plans to merge.
Evaluate the likely economic effects of such a merger.

Knowledge — name the type of merger and two economic ideas (3)

Application — apply each idea to the airline case (3)

Analysis — two chains, one for each idea, to the people the merger affects (6)

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are approximately 20 lines visible. The paper has a slight shadow on the right side, suggesting it's resting on a surface.

Write the one sentence that answers Task 12's question.



Answers and mark scheme: [revvylearn.com/w/e3-types-sizes-businesses/answers](https://www.revvylearn.com/w/e3-types-sizes-businesses/answers)

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