

Mark Fisher, Medi Houghton  
and Veenu Jain

Cambridge IGCSE®  
and O Level

# Business Studies

Coursebook

Revised third edition

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**Mark Fisher, Medi Houghton and Veenu Jain**

**Cambridge IGCSE<sup>®</sup> and O Level**

# **Business Studies**

**Coursebook**

Sample

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Sample

# Introduction

This book has been specifically written to support the latest Cambridge IGCSE® (0450 and 0986) and O Level (7115) Business Studies syllabuses for examination from 2020. It may also prove useful for students following other courses covering similar topics.

Written in clear and accessible language, it will enable you to gain the knowledge, understanding and skills required to study successfully at this level.

## Syllabuses and assessment

The Cambridge IGCSE and O Level syllabuses have the same assessment model, consisting of two separately examined papers. You must take both papers in order to be awarded the qualification. Paper 1 consists of short answer and data response questions, while Paper 2 is a case study.

The book provides thorough support to help you study the course. Exam-style short answer and data response questions are included at the end of each chapter, with an exam-style case study at the end of each section.

In addition, Chapter 27 will help you to consider the skills that you have developed during your course and explore ways in which you could demonstrate these skills when answering assessment questions. It also includes advice on revision techniques. Therefore, you may wish to read this chapter before attempting the practice questions at the end of each chapter/section.

## How to use this book

The book is designed to be a practical guide using questions and case studies to help develop understanding, and assumes no prior knowledge of the topics. The structure of the book is aligned to the syllabus order with sections and chapters within the book following syllabus headings to aid learning. However, chapters do not need to be studied in this order.

Each chapter has a similar structure. The content is introduced in a way that is relevant to real life, and learning objectives set out the aims of the chapter. The main features are as follows:



### KEY TERM

Key terms help you identify and understand important concepts. A glossary of all the key terms and their definitions is included at the end of the book.

### ACTIVITY 1.3

Activities build key skills required by the learning objectives – application, analysis and evaluation – and will help to consolidate learning. Many of the activities include a case study-style scenario, followed by questions.

### CASE STUDY

Case studies from around the world put the topic into a real-life context.





Fast forward / rewind show where concepts appear elsewhere in the book, providing students with a handy link to support their learning.



Top tips offer guidance and advice on key points.



Explore! provides ideas for extra activities to broaden understanding of the topic.



Test yourself questions aid self-assessment and reinforce knowledge.



Example boxes put theory into context by providing worked examples.

### Revision checklist

Summary points at the end of the chapter consolidate learning.

### Exam practice questions

Exam practice questions will help you to familiarise yourself with the style of questions seen in examination, and assess your own understanding and skills to answer them.

### Exam-style case study

Case study questions at the end of each unit offer extensive help to practise answering case study-style questions.

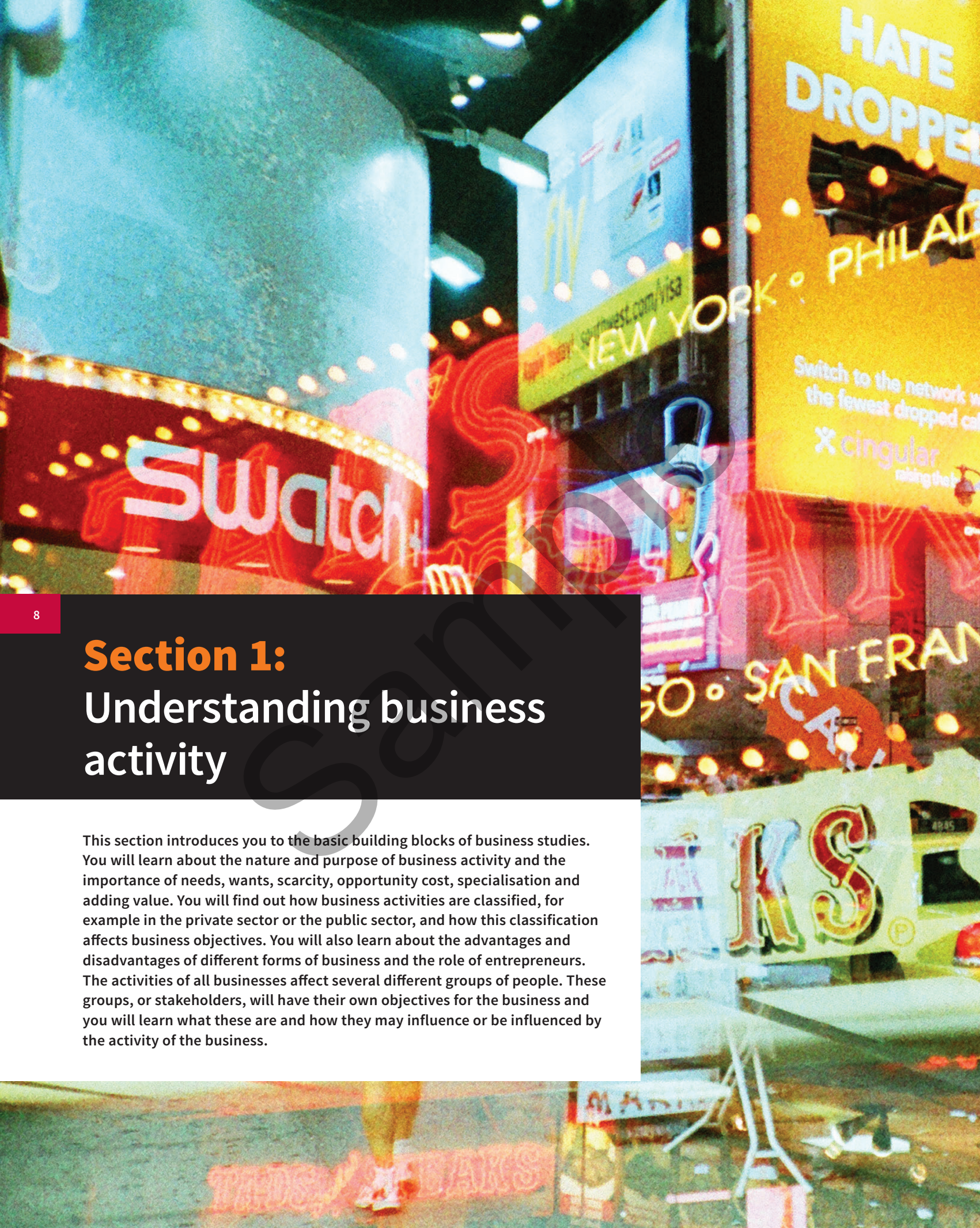
## Additional resources

Additional resources to help consolidate key concepts and check understanding are available at [www.cambridge.org/9781108563987](http://www.cambridge.org/9781108563987). These include:

- mind maps
- revision questions
- multiple choice questions
- crosswords, word searches and other fun activities.

If your coursebook includes access to the Cambridge Elevate enhanced edition, these materials are available for download within the resource.





## Section 1: Understanding business activity

This section introduces you to the basic building blocks of business studies. You will learn about the nature and purpose of business activity and the importance of needs, wants, scarcity, opportunity cost, specialisation and adding value. You will find out how business activities are classified, for example in the private sector or the public sector, and how this classification affects business objectives. You will also learn about the advantages and disadvantages of different forms of business and the role of entrepreneurs. The activities of all businesses affect several different groups of people. These groups, or stakeholders, will have their own objectives for the business and you will learn what these are and how they may influence or be influenced by the activity of the business.



# 1

## Objectives

*In this chapter you will learn about:*

- needs, wants, scarcity and opportunity cost
- the importance of specialisation to businesses and consumers
- the purpose of business activity
- what is meant by 'added value'
- how a business adds value.



### KEY TERMS

**Business activity:** the process of producing goods and services to satisfy consumer demand.

**Need:** a good or service which is essential to living.

**Want:** a good or service which people would like, but is not essential for living.



### TOP TIP

It is important to learn key terms. Not only are they important when answering questions, but many in this chapter will also help you to understand topics in later chapters.

# Business activity

## Introduction

The business world is all around us. From the minute we get up in the morning to when we go to bed at night, we are using things made by businesses around the world. Think about the food you eat, the clothes you wear, the bus or train you came to school on this morning, the music CDs you listen to, even this book – all these were made by businesses.

Businesses provide us – consumers – with all the goods and services that we need and would like to have. In this chapter you will learn about the purpose of business. You will look at how businesses turn resources into goods and services to meet all our needs and wants.

## The purpose and nature of business activity

### Needs and wants

The purpose of **business activity** is to provide consumers – that's you and me – with goods and services that meet our needs and wants. But what are **needs**? How are they different from **wants**?

A need is any good or service which people must have to be able to live. Water, food, shelter and clothing are essential needs for living.

Wants are different. They are any goods or services which people would like to have. They are not essential for living. Mobile phones, cars and holidays are good examples.



Customers in a shop



**ACTIVITY 1.1**

- 1 Make a list of your ten most important 'wants'.
- 2 Do you own any of these items? If not, why not?
- 3 If you are lucky enough to own all of these items, does this mean that you no longer have any wants?

You have probably identified things that you still want. The main reason you may have given for not having all of your wants is you may not have enough money to buy them. Even if you are able to buy these wants in the future, you may have other wants. This is because our wants are unlimited.

Throughout the world there are many people who are so poor that they cannot afford to buy the things they need for living, let alone afford their wants. So, some people cannot afford to buy their basic needs. Others, who can afford their basic needs, cannot afford to buy what they want. Surely, then, the cause of these problems is that consumers do not have enough money! Let's see if this is the case.

**ACTIVITY 1.2**

A very small island country has the following supplies of the four groups of goods and services identified as basic needs.

Basic need	Quantity available
Water	50 000 litres
Food	10 000 kilos
Clothing	8 000 units
Housing	400

The country has a population of 500 families. Each family unit must have the following quantities of each basic need for essential living.

Basic need	Quantity needed per family unit
Water	100 litres
Food	25 kilos
Clothing	20 units
Housing	1

In small groups:

- 1 Using the information in the tables, calculate whether there is enough supply of basic needs in this country to support the essential living of all the families.
- 2 If 100 people in the country had a much higher income than the rest of the population, what might happen?



## KEY TERMS

**Economic problem:** unlimited wants cannot be met because there are limited factors of production. This creates scarcity.

**Factors of production:** the resources needed to produce goods and services – land, labour, capital and enterprise.



## TOP TIP

The term 'capital' has several meanings in business. Make sure you understand its meaning as a factor of production.

## Scarcity and opportunity cost

In Activity 1.2, you may have worked out that money alone cannot solve the problem. There are just not enough goods and services to meet the needs and unlimited wants of all consumers – this is known as the **economic problem**. If this is the case, then the answer is simple – produce more goods and services! Unfortunately, the answer is not so simple. To understand why not, first we need to look at **factors of production**.

The production of goods and services requires four factors of production:

- **Land** is all natural resources such as minerals, ores, fields, oil and forests.
- **Labour** is the number of people available to work.
- **Capital** is machinery, equipment and finance needed for production of goods and services.
- **Enterprise** is people prepared to take the risk of setting up businesses – they are known as entrepreneurs.

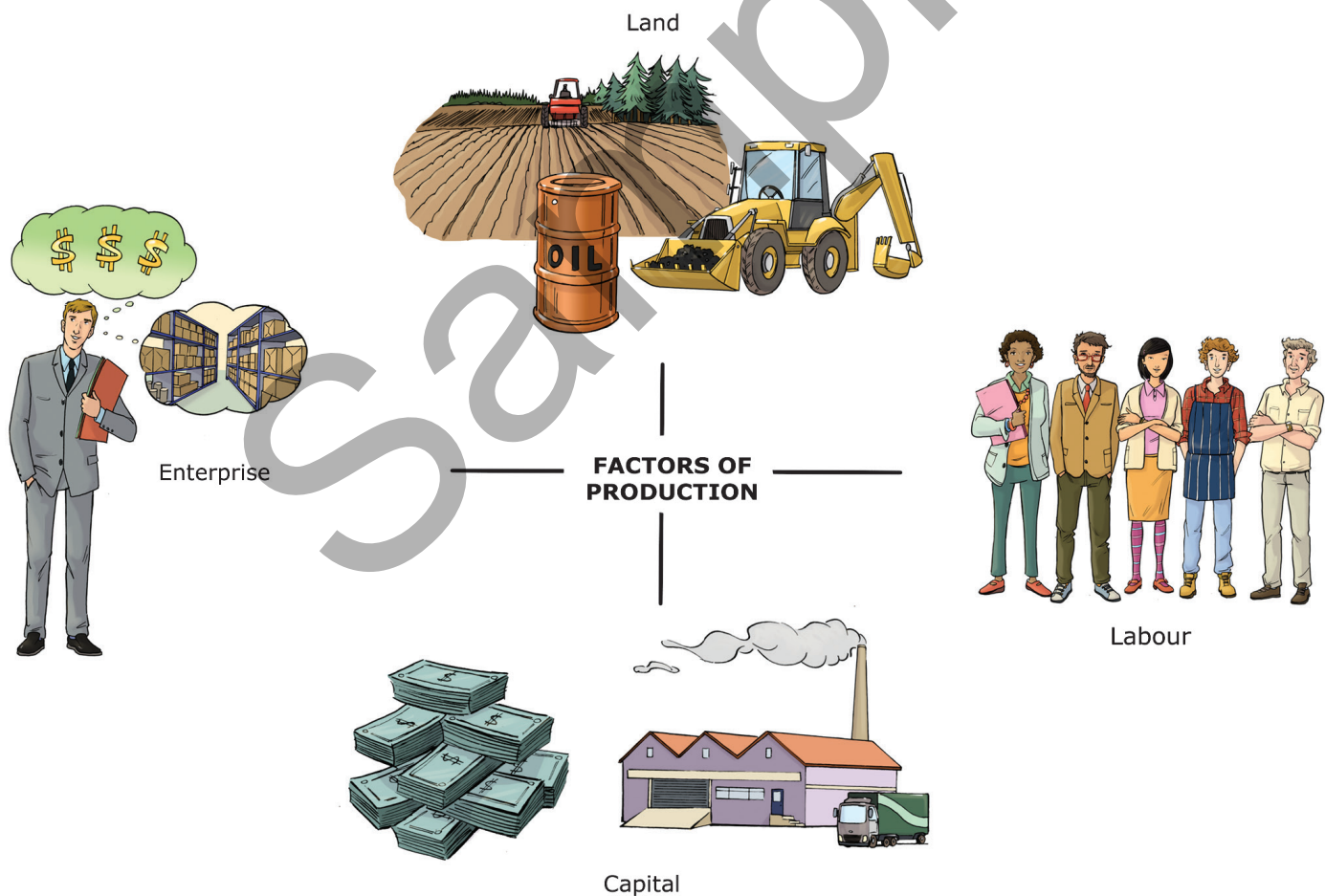
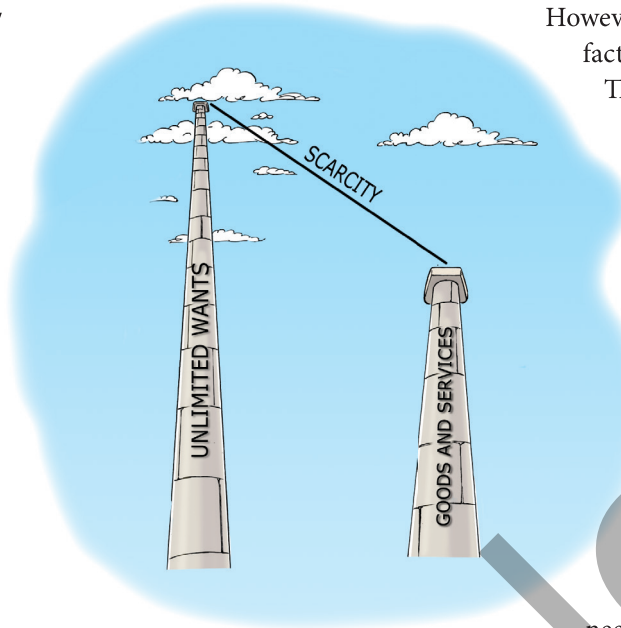


Figure 1.1 Factors of production

Figure 1.2 Scarcity



However, there are not enough of these factors of production in the world. This means that it is not possible to make all the goods and services needed or wanted by the world's population. In other words, the unlimited wants of consumers cannot be satisfied because the factors of production required to produce the goods and services to meet those wants are limited. This is the problem of **scarcity**.

We have seen that there are not enough resources to produce all the goods and services needed to meet consumers' wants. So, choices have to be made.

We all make choices in our everyday lives. Do you choose to go to the cinema with friends or spend the money on a new computer game? Perhaps you have enough money to buy the latest CD release from your favourite pop star, or you can use the money to buy a Business Studies revision textbook. Whichever decision you make will mean that you will have to give up the chance of having the other. When making the choice you need to make sure that the product or service you choose is worth more to you than the one you give up. The next best alternative you give up is known as the **opportunity cost** of your decision.

#### KEY TERMS

**Scarcity:** there are not enough goods and services to meet the wants of the population.

**Opportunity cost:** the benefit that could have been gained from an alternative use of the same resource.

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#### ACTIVITY 1.3

Fatima works in a bakery and earns \$120 per week. Fatima's grandfather has given her \$5000. Fatima is going to use this money to start her own business. She is going to make cakes for special occasions such as birthdays, weddings and religious festivals.

- 1 Give an example for each of the four factors of production Fatima will use in her new business.
- 2 What is the 'opportunity cost' to Fatima of her decision to start her own business?
- 3 Is Fatima's business meeting consumer 'needs' or consumer 'wants'? Justify your answer.

#### EXPLORE!

Use newspapers, library resources or the internet to research the things that your government spends money on.

Have a class discussion about the opportunity cost of these spending decisions. If you were a member of the government would you spend the money differently?

It is not only consumers like you who have to make choices about how to use scarce resources. Businesses and governments also have limited resources and must choose between alternative uses of those resources. For example, a business might have to choose between using resources on an advertising campaign, or on a training programme for its employees. A government might have to choose between building a new school or a new hospital.

#### Importance of specialisation

We have seen how consumers, businesses and governments must make choices. They must do this because of the scarcity of goods and services which results from limited factors of production. For this reason, it is very important that the





Figure 1.3 A single employee and the production process

factors of production are not wasted on the production of goods and services that consumers do not need or want.

Most goods and services are produced by more than one person. The production process often uses machinery and equipment which has been specially designed to produce a specific good. This is very different from the production that would have taken place hundreds of years ago. Then a product would have been produced by just one person using machinery and equipment which was far less specialised.

The increasing **specialisation** of factors of production has meant that businesses are far more efficient than they once were. Specialisation reduces the costs of production. This benefits consumers by providing more goods and services at lower prices than before specialisation took place. A good example of specialisation in business is Microsoft, which develops and produces computer software.

#### KEY TERM

**Specialisation:** people and businesses concentrate on what they are best at.

#### CASE STUDY

### Making footballs

Global Sports manufactures sports equipment. Its most popular product is footballs.

To make one football requires five employees. Each employee completes a separate task, usually with the aid of specialised machinery.

The five stages in making a football are:

- 1 Panels are cut out of sheets of leather.
- 2 A design and logo are stamped on the panels.
- 3 The panels are stitched together into the shape of a football.
- 4 The bladder is inserted into the ball.
- 5 The ball is moulded into the correct shape and inflated to the correct pressure.



Making a football

#### TASK

- a Identify an example of the factor of production 'capital'.
- b Use the information here to explain 'division of labour'.
- c Identify **two** reasons why Global Sports benefits from specialisation.
- d Explain **one** benefit to Global Sports and **one** benefit to its customers of specialisation.



**Labour productivity:** see Chapter 15, page 204.



#### KEY TERM

**Division of labour:** production is divided into separate tasks and each employee does just one of those tasks.



#### EXPLORE!

Use the internet, newspapers and other resources to research businesses in your country which produce or supply only one type of product. For example, look at farmers to see if they grow only one type of cereal, or rear only one type of animal. Are there any retailers or professionals who supply only one type of good or service?

What do you think are the benefits and limitations to these businesses of specialising in the production or supply of just one type of good?

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Specialisation of labour is now commonplace in the workplace. Instead of employees producing one product from start to finish, they focus on just one skill. The production of a product now requires several employees, each using their skill. This is an example of the **division of labour**. Since each employee is now specialising in just one skill, they become far more efficient and this increases the productivity of labour.

In the past, most products were made by employees with only basic tools and equipment. The development of machinery and advances in technology have changed the production process. Machinery and equipment have become far more specialised and this has greatly increased the efficiency of capital.

Even entrepreneurs have realised the benefits of specialisation. There are many examples of businesses that specialise in the production or supply of just one type of product.

### Purpose of business activity

We have already learnt that businesses take scarce resources – factors of production – and use these to produce the goods and services demanded by consumers. Without the activity of business there would be no products and services.



Figure 1.4 The purpose of business activity

Businesses produce different types of goods and services. These are known as:

- consumer goods
- consumer services
- capital goods.

#### Consumer goods

**Consumer goods** are those goods which are sold to the public that they can see (physical goods) and touch (tangible goods). These can be divided into durable and non-durable consumer goods:

- Durable consumer goods can be used over and over again, for example televisions, computers, cars, tables and chairs.
- Non-durable consumer goods can only be used once, for example food and drink.



#### KEY TERM

**Consumer goods:** products which are sold to the final consumer. They can be seen and touched, for example computers and food.

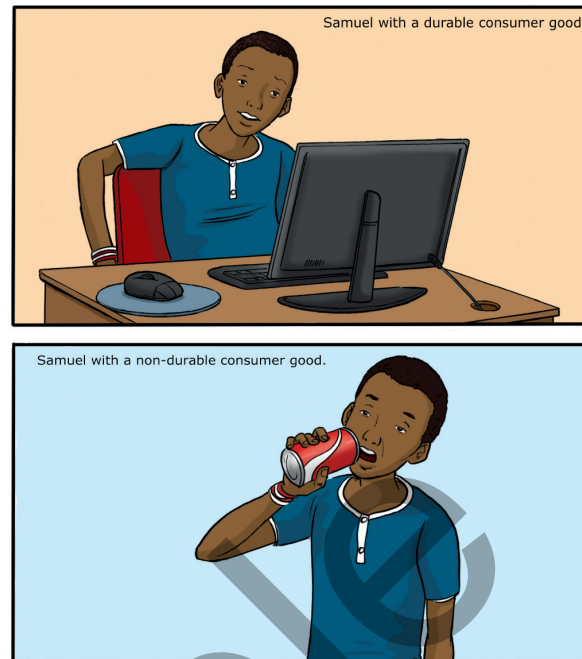


Figure 1.5 Consumer goods



## KEY TERMS

**Consumer services:** non-tangible products such as insurance services, transport.

**Capital goods:** physical goods, such as machinery and delivery vehicles, used by other businesses to help produce other goods and services.

### Consumer services

**Consumer services** are products which are also sold to the public, but they cannot be seen or touched (intangible), for example insurance, banking and bus journeys. You can see and touch the buildings where insurance and banking services take place and you can obviously see and touch a bus, but you are not buying these items, you are using a service which they provide and this service cannot be seen or touched.

### Capital goods

**Capital goods** are products which are sold to other businesses to help them in their production process. These are physical goods such as machines, computers and delivery vehicles.



Figure 1.6 Consumer service

## CASE STUDY

RT Products (RTP) is a manufacturer of printers. It also manufactures replacement ink cartridges for its printers. Each employee assembles all of the different components into making one computer. The Operations Director is considering introducing division of labour into the production of computers.

RTP has recently invested in new computer-controlled equipment to help manufacture printer cartridges. Last year it produced 600 000 printer cartridges. RTP will be able to produce 30% more cartridges this year.

RTP sells its printers to businesses and private individuals for use with their computers at home.

### TASK

- Calculate the number of printer cartridges RTP will be able to produce this year.
- Use the information here to explain the difference between 'consumer goods' and 'capital goods'.
- Do you think the Operations Director should introduce division of labour into the production of printers? Justify your answer.



## Adding value

Whatever good or service a business produces, it will try to add value at every stage of the production process. It does this by taking raw materials and turning them into a good or service which it sells to customers at a price greater than the cost of the raw materials used in their production. Added value is one of the most important objectives of business. Figure 1.7 shows how value is added in the production of a cake.



Figure 1.7 Adding value

## How businesses increase added value

Added value is not the same as profit. You will learn later how a business calculates profit. All you need to know now is that other costs such as employees' wages and energy costs must be deducted from the added value to calculate profit.

Profit will increase if a business is able to increase its added value without increasing its costs. In practice, it is difficult to increase value without increasing costs. If the increase in added value is greater than the costs of achieving it, profits will rise.

There are a number of different ways a business can increase its added value.

### Branding

Have you ever wondered why Coca-Cola, Sony and other well-known companies spend huge sums of money on advertising and other promotional activities? They do this to build and then maintain their brand. The products produced by each of these companies all have close substitutes – that means you can buy other brands of drink and electronic goods. However, these companies are able to charge a higher price than their competitors, even though the costs of production are likely to be quite similar. Branding increases added value because people want to or feel they should buy the item from this particular company.



**How a business calculates profit:** see Chapter 21, page 269.

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### TOP TIP

Try to read local and national newspapers as often as you can. There are lots of business articles. You may not understand everything, but it will help you to have a better understanding of business, especially in your country. You could cut out any articles or advertisements you think may be useful later in the course. You could bring them into school for your teacher to keep as a resource for future lessons.



A Subway outlet in Asia

**ACTIVITY 1.4**

Name your top ten brands. Then cut out advertisements from newspapers and magazines and make a poster.

**Excellent service quality**

In some industries, providing a high-quality, personalised service can be the difference between being able to charge a high price or one which is much lower. The price of a made-to-measure suit will be higher than the price of a ready-made suit. The cost of the materials used will be very similar, but the personalised service increases the added value.



Personalised service increases the cost of the product

**Product features**

Products that have more features and functions than similar products on the market will allow the producer to charge a higher price. Although these additional features will increase costs, consumers are prepared to pay a much higher price than they would pay for a product with fewer features or functions. The mobile phone market is a very good example of how features and functions are used to increase the product's added value.

**Convenience**

Many consumers lead busy lives and they are often prepared to pay a higher price for goods and services which they can have immediately or which save them time, for example ready meals.

**ACTIVITY 1.5**

Explain how these businesses add value:

- restaurant
- shoe manufacturer
- house builder
- florist.



## Making leather bags and belts in Ethiopia



Leather bags and belts in Ethiopia

The Ethiopian government is encouraging young entrepreneurs to start small businesses in order to reduce the rate of youth unemployment.

In Hawassa City in southern Ethiopia, Mitike Paulos, her younger sister and three friends are producing leather bags and belts in a small workshop.

Mitike and her sister learnt the craft from their brother. They started business in 2011 with a \$2000 loan from a small-loan lender. They used the money to buy equipment and raw materials and to rent their workshop. Today their business employs ten workers and, as they expand production, they also hope to hire more. 'The more we work, the more we grow,' says Mitike.

Adapted from an article by Andualem Sisay, [www.theafricareport.com/East-Horn-Africa/how-a-group-of-young-ethiopians-beat-unemployment.html](http://www.theafricareport.com/East-Horn-Africa/how-a-group-of-young-ethiopians-beat-unemployment.html)

### TASK

- a Identify examples from the case study for each of the four factors of production.
- b Using examples from the case study, define 'business activity'.
- c How is the business helping to satisfy the needs of Mitike's employees?
- d How does this business add value?
- e Explain **two** ways Mitike and her sister could increase their business's added value.

### TEST YOURSELF

- 1 Explain the difference between 'needs' and 'wants'.
- 2 Define 'scarcity'.
- 3 Define 'the economic problem'.
- 4 Identify **two** ways a business might benefit from using specialised machinery.

## Revision checklist

- Business activity combines the factors of production to produce goods and services that meet consumer needs and wants.
- The economic problem and the problem of scarcity are due to unlimited needs and wants of consumers which cannot be met by businesses because they have limited factors of production. Choices must be made and this creates an opportunity cost.
- Specialisation of both labour and capital helps businesses to produce more goods and services at a lower cost.
- Businesses add value by taking raw materials and turning these into goods and services that they can sell to consumers.

## Exam practice questions

- 1 Jonah is employed as a joiner by a firm whose main business activity is building houses. The firm also employs bricklayers, plumbers, painters and other skilled tradesmen. Other factors of production are used when building houses. The owner of the firm, Jack, believes that specialisation of labour brings many benefits to the business and its employees.

In his spare time, Jonah makes wooden toys which his sister sells on her stall at the local market. He buys the wood and other resources from a local supplier. The wooden toys have been so successful that Jonah has decided to leave his job as a joiner to set up his own toy-making business.

- Identify **two** stages of business activity. [2]
- Define 'opportunity cost'. [2]
- Identify **four** factors of production. [4]
- Explain **two** ways Jonah could add value to his toys. [6]
- Do you agree with Jack that 'specialisation of labour brings many benefits to the business and its employees'? Justify your answer. [6]

- 2 Company X is a manufacturer of pottery products, such as plates and bowls, which are mainly sold to hotels and restaurants. The company employs 50 workers. Each employee receives a good wage and this helps them to meet their needs. Production is broken down into nine processes. Employees specialise in just one process. The marketing manager of Company X has been asked by the directors to look at ways of adding value to the company's products.

- Identify **two** factors of production. [2]
- Define 'needs'. [2]
- Outline how Company X benefits from specialisation. [4]
- Explain **two** stages of Company X's production process. [6]
- Suggest **two** ways the marketing manager might increase Company X's added value. Justify your answer. [6]

**Total available marks 40**

# 2

## Objectives

*In this chapter you will learn about:*

- primary, secondary and tertiary sector business activity
- the changing importance of the classification of business activity by sector for developing and developed economies
- how business enterprises are classified in the private sector and the public sector.

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**Needs and wants:** see Chapter 1, page 9.



### KEY TERM

**Primary sector:** firms whose business activity involves the extraction of natural resources.

# Classification of businesses

## Introduction

In the last chapter you looked at the purpose of business activity. In this chapter you are going to learn how business activity can be used to classify all the businesses in an economy and why it is important to classify businesses in this way.

What is an economy? The country where you live has an economy. It is a measure of all the wealth and resources in your country. It includes the things that your country produces and the goods and services that consumers buy.

## Primary, secondary and tertiary sectors

### How businesses are classified

Businesses produce a wide range of goods and services to meet the needs and wants of consumers. The goods and services they produce can be used to classify all of a country's businesses into one of three different sectors. We call these:

- the primary sector
- the secondary sector
- the tertiary sector.

### Primary sector

**Primary sector** business activity involves extracting or harvesting natural resources from the land or sea. These include agricultural products such as rice, fish, wood, coal and oil. Examples of primary sector business activity are:

- farming
- fishing
- forestry
- mining.

Primary sector business activity often provides raw materials for secondary sector business activity. An example is the extraction of oil which is used to produce petrol or plastics. However, some primary sector business activity produces final products. For example, consumers can buy raw vegetables, fruit and fish.



Harvesting in a rice field

### ACTIVITY 2.1

Make a list of the primary sector business activities found in your country, including the natural resources they produce.



**KEY TERM**

**Secondary sector:** firms that process and manufacture goods from natural resources.

**Secondary sector**

**Secondary sector** business activity takes the natural resources produced by primary sector activity and turns these raw materials into finished goods. The activities of the secondary sector include:

- refining
- manufacturing
- construction.

Examples of secondary sector business activity include food canning, furniture making, car manufacturing and house building.



A car manufacturing plant

**ACTIVITY 2.2**

Make a list of the secondary sector business activities found in your country, including the products they make.

**KEY TERM**

**Tertiary sector:** firms that supply a service to consumers and other businesses.

**Tertiary sector**

**Tertiary sector** business activity involves providing services to the final consumers or businesses. Examples of tertiary sector businesses include:

- shops
- restaurants
- banks
- cinemas
- airlines.

**TOP TIP**

You must be able to define and give examples of businesses found in each sector. Calculations are also quite common on this topic in examinations, for example calculating the number of employees in a sector.

These businesses provide services such as retailing, finance, entertainment and transport.



Fast food at a cinema

**ACTIVITY 2.3**

Make a list of the tertiary sector business activities found in your country, including the services they provide.

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**KEY TERM**

**Chain of production:** the production and supply of goods to the final consumer involves activities from primary, secondary and tertiary sector businesses.

**How the sectors depend on each other**

Although an economy can be divided into primary, secondary and tertiary sectors, the different sectors of business activity are often dependent upon each other. This is known as a **chain of production**. Let's look at oil, for example. Oil is extracted from underground and is a business activity of the primary sector. Once it has been extracted, oil needs to be refined to produce other products such as petrol or gas. This is a process carried out by businesses in the secondary sector. Finally, tertiary sector activity is needed to bring the petrol to your nearest petrol or gas station, for sale to the final consumer.

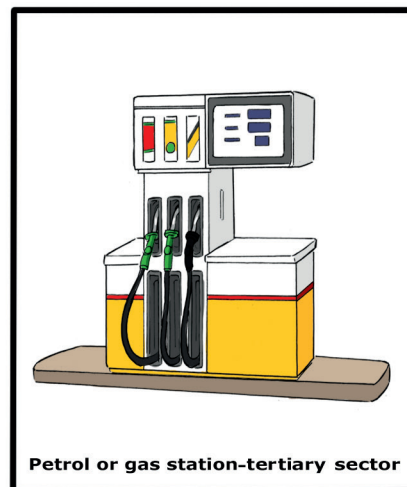
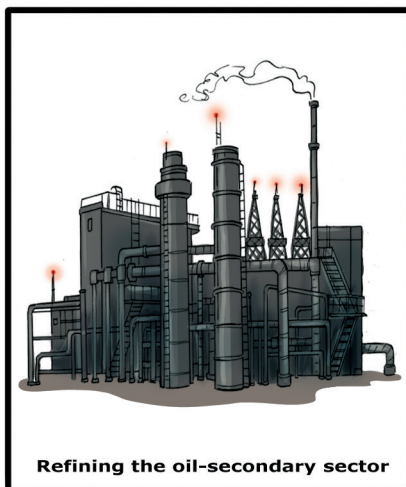
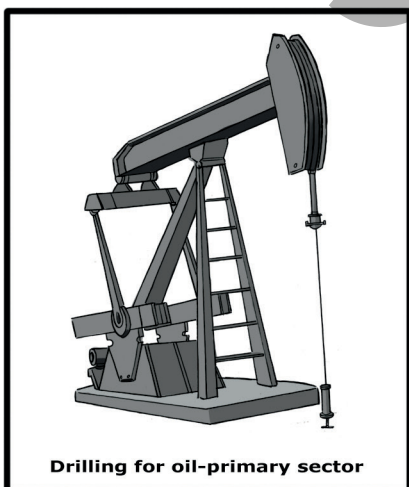


Figure 2.1 Primary, secondary and tertiary sectors



## Diamonds in South Africa

Petra Diamonds is a leading independent mining group in South Africa. It has eight producing mines in Africa and is exploring for diamonds in Botswana.

Source: [www.petradiamonds.com](http://www.petradiamonds.com)

For over 28 years, Mark Solomon has been manufacturing beautiful pieces of diamond jewellery. Breathtakingly beautiful South African diamonds are set in designs ranging from stunning individually crafted diamond engagement rings through to highly prized tanzanite jewellery.

Source: [www.marksolomonjewellers.co.za](http://www.marksolomonjewellers.co.za)

Browns are a leading South African jewellery store. They sell a wide range of diamond rings, bracelets, necklaces and earrings.

Source: [www.brownsjewellers.com](http://www.brownsjewellers.com)

### TASK

- a Using the information contained in the three articles above, define:
  - i primary sector business activity
  - ii secondary sector business activity
  - iii tertiary sector business activity.
- b Explain how the three businesses form a 'chain of production'.
- c Mark Solomon is also a retailer of diamond jewellery and Browns is also a manufacturer of diamond jewellery. What do you think are the benefits to both businesses of being both manufacturers and retailers?

### Changing importance of business classification

Countries are often described as developing or developed. A developing country, or less developed country (LDC), often has a small industrial sector and a lower standard of living compared to other countries. A developed country, or more developed country (MDC), has high levels of industrialisation and its people have higher average incomes and enjoy a higher standard of living compared to less developed countries.

The classification of business activity by sector is not used to class a country as developing or developed. However, the size of a country's different sectors of business activity often indicates if it has a developing or developed economy.

## ACTIVITY 2.4

The data below shows countries which are currently classified as having developing or developed economies.

## Country data for business activity by sector

	Primary sector as a % of the total economy	Secondary sector as a % of the total economy	Tertiary sector as a % of the total economy
<b>Developing economies</b>			
Rwanda	33.3	13.9	52.9
Vietnam	21.5	40.7	37.7
Zimbabwe	20.3	25.1	54.6
<b>Developed economies</b>			
Bermuda	0.7	7.0	92.3
Japan	1.2	27.5	71.4
Norway	2.7	41.5	55.7

- 1 Which country has the lowest percentage of activity in the primary sector, but the highest percentage of business activity in the tertiary sector?
- 2 Which country has the smallest percentage difference between primary business activity and secondary business activity?
- 3 Using data from the table to support your answer, is it true to say that countries whose tertiary sector is larger than their other two sectors of business activity are always developed economies?
- 4 What does the data in the table tell you about the relationship between primary business activity and developing and developed economies?

The importance of business classification has changed for many countries. There are two main reasons for this:

- **Industrialisation** – the growing importance of secondary sector business activity and the reduced importance of primary sector business activity. The emerging economies of both China and India are good examples.
- **De-industrialisation** – the growing importance of the tertiary sector and the reduced importance of the secondary sector. The UK and the USA are good examples of this type of economic activity.

However, the changing importance of business classification may also be due to the following:

- A change in consumer behaviour as a result of both industrialisation and de-industrialisation:
  - Higher incomes – consumers demand better quality and a wider choice of products.
  - Better education – consumers expect better products and know that they can buy goods from suppliers in a different region or country through e-commerce.
  - More leisure time – consumers work fewer hours than they used to. The demand for leisure activities, such as cinemas, restaurants and holidays, has increased.

- A change in business behaviour resulting from:
  - the need for finance to fund expansion so that businesses can compete in global markets
  - the need to be able to communicate internally and externally quickly and as cheaply as possible to take advantage of the opportunities of wider markets
  - the need to provide better services for employees, for example canteens; this in turn increases business demand for the goods and services of other businesses.

**TEST YOURSELF**

- 1 Give **one example** of primary, secondary and tertiary sector business activity.
- 2 Explain the difference between primary sector and tertiary sector business activity.
- 3 Define 'secondary sector business activity'.
- 4 Using an example, explain the relationship between business activities in the primary, secondary and tertiary sectors.
- 5 How might the classification of business activity by sector be used to tell the difference between a developing and a developed economy?

## Business enterprises in the private and public sectors

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**KEY TERMS**

**Mixed economy:** an economy where the resources are owned and controlled by both the private and the public sectors.

**Private sector:** the part of the economy that is owned and controlled by individuals and companies for profit.

**Public sector:** the part of the economy that is controlled by the state or government.

Most countries in the world have **mixed economies**. These are economies that have both **private sector** and **public sector** organisations.

In the private sector, businesses are owned and controlled by individuals or groups of individuals, for example Sony, Tata Corporation and Apple.

In the public sector, organisations are owned by the country as a whole and controlled by the state or government; for example, most countries have publicly owned television and radio broadcasting services such as SABC in South Africa. Figure 2.2 shows the main types of organisations found in a mixed economy.

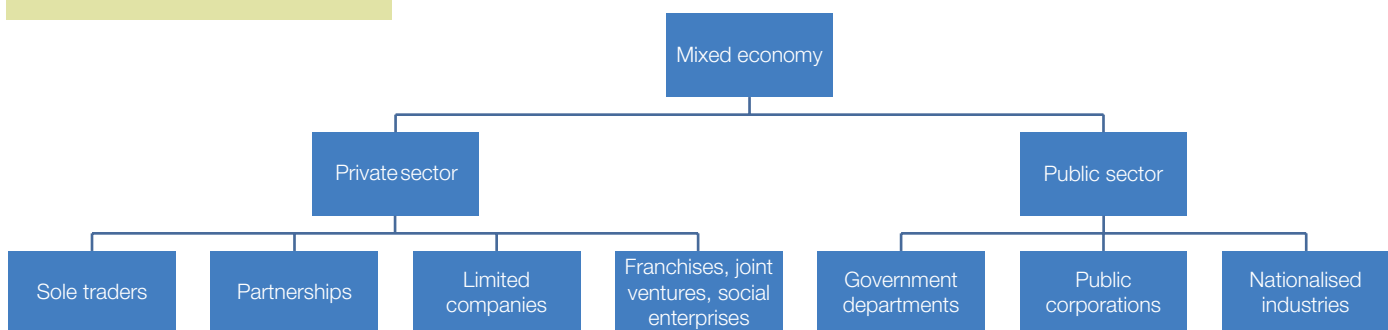


Figure 2.2 Organisations in a mixed economy



**Sole traders, partnerships, private and public limited companies, franchises and joint ventures:** see Chapter 4, page 45.



### EXPLORE!

Use newspapers, library resources or the internet to research the private and public sectors in your country. Draw bar charts or pie charts showing how important each sector is to your country's economy, for example how many people are employed in each sector.

Identify the different organisations in the public sector of your country and the products they provide. Which of these products are provided 'free' to the population and which ones do consumers have to pay for? Are there any products which are provided by both the private sector and the public sector? Why do you think both sectors provide these products?

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### TOP TIP

Knowing your own country's economy, and the businesses within it, will help you to better understand many of the key terms and concepts you will study in this and later chapters.

In a mixed economy, decisions about **what** to produce, **how to** produce and **for whom** to produce are made by both the private sector and the public sector – see Table 2.1.

	Private sector	Public sector
What to produce	Consumer choices	The government decides
How to produce	Firms want to make profit	The government decides
For whom to produce	Customers' buying power	The government decides

Table 2.1 Choices in the private and public sectors

### Private sector decisions

In the private sector, consumers want to buy certain goods and services. Consumer choices help businesses to decide what they produce.

Businesses only produce the goods and services that consumers want if they can make a profit from doing so. Businesses decide the best way of producing their products. This is at the lowest cost so that they can make a profit when the products are sold.

The goods and services produced by private sector businesses will only be bought by people who have enough money to pay the price charged. Some consumers will not be able to buy products they want because they do not have enough money.

### Public sector decisions

The decisions about what, how and for whom to produce in the public sector are all made by government.

The public sector in many countries produces goods and services that all people in the population need, for example electricity, roads, education and health care.

Government departments make decisions about how to produce these goods and services. The decisions are based on providing good-quality services to the public rather than making profit.

Some of the goods and services provided by the public sector are provided free at the point of use, for example primary and secondary education and hospital treatment. Other goods and services are sold to consumers. If some consumers do not have enough money to buy these goods and services, the government might sell them at a lower price, or provide them free of charge.



A secondary school classroom

### TEST YOURSELF

- 1 State **four** forms of private sector business organisation.
- 2 Explain the role of **four** public sector organisations in your country.
- 3 Explain **two** differences between the private sector and the public sector.
- 4 Define 'mixed economy'.
- 5 In a mixed economy how is the decision made about 'what' to produce?

## Revision checklist

- Businesses in every country can be classified, according to their activities, into primary, secondary and tertiary.
- The primary, secondary and tertiary sector businesses are linked because one provides the resources required by another.
- The classification of businesses by activity is often used to classify the economies of countries into developing or developed.
- Most economies have a private sector and a public sector.

## Exam practice questions

- 1 Paul owns a fishing boat with his father John. They have been in business together for over 15 years. Paul is thinking of investing money in his friend's fish canning company – Pisces Products (PP).

PP sells most of its canned products to local supermarkets, but about 10% of the output is sold to public sector organisations such as schools and hospitals.

- Identify **two** forms of business organisation (other than supermarkets and fish canning) found in the private sector. [2]
  - Define 'public sector'. [2]
  - Outline how the decisions about 'what to produce' and 'how to produce' are made in the private sector of a mixed economy. [4]
  - Explain **two** differences between primary sector and secondary sector business activity. Use the information in the question to help with your explanation. [6]
  - Do you think Paul should invest in his friend's fish canning company? Justify your answer. [6]
- 2 Consider the following data for two countries, X and Y.

Sectors	Country X – size of business activity by sector	Country Y – size of business activity by sector
Primary	61%	3%
Secondary	24%	32%
Tertiary	15%	56%

	Country X	Country Y
Size of private sector	28	49
Size of public sector	72	51

- Country X has a working population of 40 million. How many people work in the tertiary sector? [2]
- Define 'primary sector'. [2]
- Outline **two** differences between the public sector and the private sector. [4]
- Using data from the tables, explain **two** differences between Country X and Country Y. [6]
- The people who live in Country Y are likely to have a higher income and a better standard of living than people who live in Country X. Do you agree? Justify your answer. [6]

**Total available marks 40**