Unit 1.1

What is a business?

Task 1 – Complete the missing words

A **business** is a decision-making organization that uses inputs, known as the **factors** of production, to produce goods and services. **Goods** are physical products, such as pens, televisions and clothing. **Services** are intangible products, such as education, health care and foreign holidays.

Production is the process of using factors of production to generate the **output** of goods and services. These are then purchased by **customers** (the people or businesses that *buy* the product) and then used by **consumers** (the end users, whether they are businesses or individuals).

Task 2 – Vocab Quiz

a.

Stage of production	Description
Primary	
Quaternary	
Secondary	
Tertiary	

b.

Factor of production	Definition
Capital	
Entrepreneur	
Labour	
Land	

c.

Functional department	Functional roles of the department
Finance & accounts	
Human resources	
Marketing	
Production	

Task 3 – Explain…

a. The practice of producing goods or providing services that are worth more in value (price charged to customers) than the cost of the resources used in the production process to make these products.

b. Growth (financial and professional), earnings, transference (or inheritance), challenges, autonomy in decision making, financial security, to pursue a personal hobby or interest.

c. Lack of finance; cash flow (liquidity) problems; marketing problems (e.g. brand awareness and brand recognition); Small customer base; legal barriers and problems (further complicated by a lack of knowledge); managerial inexperience; external influences that make new businesses vulnerable.

Task 4 – Multiple Choice

1. B. Factors of production
2. D. Use a good or service
3. B. Coaching

4. C. Paper
5. A. Adding value
6. A. Agriculture, fishing and extractive industries
7. C. Organizes factors of production and takes the risks of decision-making
8. C. The process of making products from the available resources
9. A. Both goods and services
10. B. Private, Public
11. B. Machinist
12. A. Consists of businesses involved in the manufacturing of physical goods
13. B. Capital intensity
14. D. Textiles
15. A. Adding value
16. A. Capital
17. A. Automation has caused a decline in the secondary sector in many countries
18. D. Provide services to the general public
19. B. Engineering
20. D. It requires having a well-known brand name

Unit 1.2

Types of business entities

Task 1 – Complete the missing words…

A **sole trader** is a business owned and run by a single person. Such firms are very common, partly because there are few legal procedures involved in setting up the business. The owner bears all the **risks** of running the business but has full **control** and gets to reap all **profits** that the business earns. However, the owner also has unlimited **liability**, meaning that they may need to sell personal possessions in order to pay off any debts that the business may have.

An ordinary **partnership** is an alliance of between 2 and 20 individual owners who are jointly responsible for the affairs of the business (although the maximum number can vary in different countries). The joint owners will usually sign a mutually agreed contract known as the **Deed of Partnership**. Most, if not all, of the partners face **unlimited** liability for any debts the business they might incur. Partners that simply place their money into the business as an investment and without any direct involvement in the business are known as **silent** partners. These partners enjoy **limited** liability.

Cooperatives are for-profit **social** enterprises owned and run by their members (usually employees or customers). Their primary aim is to create value for their members by being socially responsible. They share any profits earned between their **members**.

Non-profit social enterprises are businesses run in a commercial-like manner but without **profit** being the main goal. For example, **non-profit organizations** (NPOs) use their surplus revenues to achieve their social goals, rather than distributing the surplus as profits or **dividends** to shareholders. A **non-governmental organization** (NGO) is a non-profit social enterprise that operates in the **private** sector of the economy, i.e. it is not owned or controlled by the government. However, NGOs do not aim primarily to earn a profit. Nevertheless, as with all business entities, an NGO must earn a financial **surplus** in order to be sustainable.

Companies are owned by **shareholders** who have limited liability. This is because all limited liability companies are **incorporated** businesses, i.e. the organizations are treated as separate legal entities from their owners. Shareholders get one **vote** for each share that they own in the company. **Privately** held companies tend to be relatively small businesses that are owned by family members. In order to become a **publicly** held company, the business has to sell shares to the public for the first time, known as an **initial public offering** (IPO). In return for their investment, shareholders are given a proportion of the company's profits (if any is earned) in the form of **dividend** payments. The declared payment is paid on each share that a shareholder owns, so the more shares held the higher the total pay-out will be. Shareholders also buy shares in the hope that there is a **capital** gain, i.e. the share price rises over time.

Task 2 – Vocab Quiz

Key Term	Definition
Cooperatives	For-profit social enterprises owned and run by their members, such as employees or customers, striving to create value for their members.
Flotation (or **initial public offering**)	Term used to describe a private limited company offering its shares on the stock exchange for the first time, thereby changing its legal status to a public limited company.
Non-governmental organizations (NGOs)	Private sector businesses that do not primarily aim to make a profit for their owners.
Public sector	Businesses in this sector are run and owned by the government in order to provide communal services for society, e.g., state education and health care.
Sole trader	A business entity owned and run e.g. by a single person.
Silent (sleeping) partner	An investor in a partnership that does not get involved in the day to day management of the business.
Social enterprises	Organizations that are revenue-generating businesses with community (general public) objectives at the core of their operations.
Stock exchange	This is the marketplace for buying and selling second-hand company stocks and shares.
Unlimited liability	Refers to the limitless amount of debt that the owner(s) of a sole trader or partnership business can incur if things do not go well.

Task 3 - True or False?

a.	T	**b.**	T	**c.**	T	**d.**	T	**e.**	F
f.	T	**g.**	T	**h.**	F	**i.**	F	**j.**	T

Task 4 - Explain one…

a. Specialisation; Own control; Flexibility; Clear focus; Not having to be accountable to shareholders.

b. Provides an opportunity for shareholders to have their say in the running of the company; Allows shareholders to vote for the Board of Directors to run the company on their behalf; Legal obligation to hold Directors accountable for the management and running of the company.

c. Businesses owned and controlled by private investors (individuals and businesses); Profit is the key motive for most of these businesses.

d. Business enterprises owned and operated by the government but operated in a commercial way; The main aim is to provide essential services to the general public in an affordable way;

e. State-owned enterprises are owned by the government, i.e. they operate in the public sector; By contrast, a public company is one that operates in the private sector and is owned by shareholders who have limited liability.

f. Greater sources of finance than partnerships or sole proprietorships; Easier management and control than being a public limited company; Cheaper to set up than a PLC; Shareholders have limited liability; Privacy (no need to publish detailed annual reports to the public).

Task 5 - Multiple Choice

1. C. There can be more than one employer

2. B. Has exclusive responsibility for the running of the business

3. B. Continuity

4. B. Autonomy in decision making

5. D. The various sources of finance available

6. B. There are higher risks than working for someone else

7. D. Signing the contents of a partnership deed This is a recommendation only, rather than a formal requirement

8. D. Spreading workload with other partners

9. D. Memorandum of Association

10. B. Certificate of Incorporation

11. C. States the main purpose of a limited liability company

12. D. The Board of Directors of a privately held company own the business

13. A. An advantage for shareholders is having limited liability

14. C. Publicly held companies operate in the public sector

15. A. Are legally entitled to a share of any profits earned

16. B. Has unlimited liability for its debts

17. B. Have to publish certain financial information to all stakeholders

18. A. Joint stock company

19. A. Earn profits as a social enterprise

20. C. An organization owned and controlled by the state or government

21. B. Non-governmental organization

22. B. **Cooperatives**

23. B. **Consultancy service providers**

24. C. **They are registered as incorporated businesses**

25. D. **Public transportation firms**

26. D. **Spending on state education and healthcare**

27. C. **International Baccalaureate Organization** (this is a NPO, but not a social enterprise)

28. A. **Corporate tax refunds**

29. B. **The products being sold**

30. D. **Publicly held companies**

Unit 1.3

Business objectives

Task 1 - Complete the missing words…

The **objectives** of a business are its goals, which tend to stem from the organization's **mission** statement. Hence, they are a clear statement of a firm's intentions, such as growth or to become the market **leader**. They can be expressed as **qualitative** and/or quantitative targets.

A business tends to find it difficult to satisfy all its stakeholders simultaneously due to their **conflicting** objectives. For example, shareholders are likely to demand that the business aims for **profit** maximization, whilst employees will strive to maximize their own **pay** and benefits (thereby potentially reducing the profits of the business).

Organizations are increasingly concerned with the possible impact of their actions on the environment and society. This is largely because of the increased public awareness and concern for the planet's natural environment. Adverse business activity could lead to unwanted publicity from pressure groups. Such negative exposure can damage the **reputation** of the business and reduce customer **loyalty**. Unethical business practices might also adversely affect the firm's suppliers, employees, creditors and investors. Ultimately, ignoring ethics and corporate social **responsibilities** can seriously harm a firm's profitability. Hence, there are ever more driving forces pushing businesses to behave in a **socially** responsible way.

Task 2 – Match the terms…

a.	Shareholder value	iii.	The objective of ensuring the owners of a company receive dividends and see an increase in the value of their investment.
b.	Mission statement	i.	This declaration of a business that provides a shared purpose and sense of direction for all stakeholders of the organization.
c.	Objectives	vi.	These are the medium to long-term goals and targets of an organization, e.g. survival, diversification and growth.
d.	Social responsibility	ii.	This refers to the obligations that a business has towards its stakeholders and society as a whole.
e.	Strategy	iv.	The long-term actions a business takes in order to achieve its aims and objectives (what needs to be done, the resources needed to do it, and the timeframe in which to accomplish it).
f.	Vision	v.	The ultimate long term desire or aspiration of an organization.

Task 3 – Odd One Out

	Operational objectives	Secondary objectives	**Strategic objectives**	Tactical objectives
	Acquisition	Growth	Sales maximization	Survival
	To control	To direct	To motivate	**To select**
	To become the world's market leader	To improve productive efficiency	To improve the quality of customer service	To reduce absenteeism and labour turnover

3a. Strategic objectives (the others are short-term objectives; they mean the same thing!)

3b. Acquisition (which is a growth strategy; the others are business objectives)

3c. To select (the others are functions of organizational objectives)

3d. To become the world's market leader (the only long-term business objective; the others are relatively short-term objectives)

Task 4 – True or False?

a.	F	b.	F	c.	F	d.	F	e.	T
f.	F	g.	F	h.	T	i.	F	j.	T

Task 5 – Explain…

a) Easier / cheaper option; It does not have an ethical code of practice; Quick opportunities for profit; Some unethical practices (e.g. offensive marketing or pester power) can be quite effective in boosting sales.

b) Intended to improve the behaviour and corporate image of a business by taking into account the needs of the organization's stakeholders, e.g. by promoting products with integrity and honesty or by avoiding anti-competitive practices.

c) Altruism / Feel good factor; Sets a good example to others; Improves corporate image; Tax benefits.

d) This can boost employee morale by giving them a sense of belonging and responsibility; motivation, job satisfaction and staff retention are therefore likely to improve.

Task 6 – Mission, Vision or Objective?

Vision	Mission	Objective
6. Source of inspiration	2. Core values and beliefs	1. Can be changed easily
8. Strategic planning tool	4. Provides strategic direction for decision making	3. Motivational tool for employees
11. The ideal image of the organization in the future	5. Purpose of the organization	7. Specific rather than idealistic
12. What the company aspires to be	9. Rarely reviewed	10. Reviewed periodically

Task 7 – Multiple Choice

1. D. **What a business wants to achieve**
2. C. **Mission statement**
3. B. **To maximize profitability**
4. D. **Vision statement**
5. A. **Having a high labour turnover rate**
6. D. **Suggest how goals should be achieved**
7. B. **An obligation to provide shareholder dividends**
8. B. **Fringe benefits offered to all members of staff**
9. A. **Compliance costs are low**
10. D. **Statutory employment rights**
11. C. **Setting higher prices to raise profit margins**
12. B. **Realistic**
13. C. **Tactical objectives**
14. B. **Shareholder value**
15. B. **Ethical code of practice**

Unit 1.4

Stakeholders

Task 1 – Complete the missing words…

Stakeholders are **individuals**, groups, or organizations that have a direct **interest** (or stake) in the operations and performance of an organization or are directly affected by its operations. Examples include: **shareholders** (owners), directors, managers, employees, competitors, customers, and suppliers.

External stakeholders are those who are not directly involved in the business but have an interest in its operations and performance. Examples include customers, the **government**, suppliers, the local community, and **pressure** groups. By contrast, **internal** stakeholder groups come from within the organization, such as **employees** (labourers), managers, and directors.

Different stakeholder groups have different interests in an organization, so this is likely to cause some **conflict** in the organization. Conflict arises because a business cannot simultaneously meet all the needs of all its stakeholders. For example, if customers want higher-quality products, then this may come about by firms having to charge higher **prices**. However, this clearly can upset many customers.

Task 2 – Stakeholder groups

Stakeholder group	Examples of stakeholder group's interest
Suppliers	To receive regular orders and for their customers to meet payment deadlines.
Shareholders	To receive regular dividend payments, higher share prices and discounts for purchases made.
Local community	Employment opportunities, financial support for events (such as sponsorship deals or charitable donations), and to minimise disruptions to the environment.
Employees	Good remuneration package, job security, safe working environment, and opportunities for career development.
Customers	Competitive prices, safe and good quality products, after-sales care and overall value for money.
Creditors	Minimal risk and the ability of their customers to repay the money owed on time.

Task 3 – Explain …

a. **Shareholders own shares in company (i.e. they own part of the organization), so are financial investors in the company (therefore they share any profits or losses of the business). Stakeholders have a direct interest in the activities of a business but do not necessarily own the business.**

b. **The Board of Directors *controls* the running of the business whereas shareholders *own* the company.**

c. **Internal stakeholders are members of an organization, e.g. employees and managers. By contrast, external stakeholders do not form part of the organization, e.g. suppliers and the government.**

d. **Customers are a (or perhaps 'the') key stakeholder group in a business; unhappy customers can provide a source for improvement to ensure that the business survives and thrives.**

e. **Diseconomies of scale; Poor communications / communication breakdowns; Poor organizational structure; Stakeholder conflict.**

f. **Strategic decisions, e.g. M&A, relocation decisions, expansion plans, how much to pay staff, the hiring of executive directors etc.**

Task 4 – Multiple Choice

1. B. **Individuals, groups or organizations that are affected by the behaviour of businesses**
2. D. **Shareholders**
3. A. **Creditors**
4. A. **Customers**
5. D. **Trade unions**
6. A. **For staff professional development**
7. B. **The Chinese government**
8. D. **They receive dividends each year based on the number of shares they hold**
9. C. **Pressure group**
10. B. **Deforestation**
11. A. **To change government macroeconomic objectives**
12. D. **By raising as much publicity and awareness of their cause as possible**
13. C. **Stakeholder conflict**

14. B. **Employees**

15. A. **To create adverse publicity for a business by encouraging customers to shun (avoid or reject) the business**

16. A. **Conflict**

17. A. **Industry trade groups**

18. B. **They offer preferential credit terms to all their customers**

19. C. **The owners of limited liability companies**

20. D. **Stakeholder mapping**

Unit 1.5

Growth and evolution

Task 1 - Complete the missing words…

Internal growth refers to the increased size of a business by using its own resources, such as **retained** profit. It is also known as **organic** growth. In contrast, **external** growth occurs when a firm expands by merging with or **acquiring** another firm. This method is also known as **inorganic** growth.

Firms looking for quick growth and expansion will tend to use **external** growth strategies such as purchasing a majority stake in another company. This strategy is known as a **takeover**. By contrast, a **joint venture** is where two or more companies share the financial risks and rewards of a business project. The firms jointly establish and own a new business entity.

One benefit of organizational growth is **economies** of scale. These are **cost**-saving benefits due to large scale business operations, i.e. **average** costs of production fall as the level of **output** increases. The main types of economies include financial, managerial, **purchasing** (or commercial) and marketing. The **optimum** (or best) size for a business depends on its goals, the structure of its costs, and the size of the market.

Task 2 – Vocab Quiz

Identify the key terms from the clues given. *Hint*: the answers are in alphabetical order.

Key term	Definition
Acquisition	A method of growth that involves buying a majority stake in another business in order to take control of the target business.
Average cost	Refers to the cost per unit of output. It is calculated by dividing total costs (TC) by the quantity of output (Q), i.e. TC/Q.
Conglomerates	Businesses that provide a diversified range of products and operate in an array of different industries.
Franchises	Growth strategy that involves payment of an initial fee and royalty payments in return for the use of another firm's trademarks, logos and products.
Inorganic growth	External growth of firms through mergers and takeovers of other businesses.
Joint venture	External growth method that occurs when two or more businesses split the costs, risks, control and rewards of a business project. In doing so, they agree to set up a new legal entity.
Merger	This is an agreement between two companies to form a single legal entity with its new or revised Board of Directors.
Strategic alliance	This growth strategy involves two or more firms working together on a specific business venture. They form a legally binding contract without losing their individual corporate identities.

Task 3 – Economies and diseconomies of scale

a. There are higher barriers to entry in the pharmaceutical manufacturing industry, e.g. licensing, set-up costs, R&D, patents and government restrictions.

b. Traffic congestion; Skyrocketing rents and commercial property prices; Higher market wage rates; Higher minimum wage rates, etc.

c. At 400 units, AC = 50,000 ÷ 400 = $125

At 500 units, AC = 60,000 ÷ 500 = $120

Therefore, the firm has experienced economies of scale, i.e. lower unit costs (from $125 to $120 per unit) following an increase in the level of output.

d. The fixed costs (TFC) are spread over an increasingly larger level of output and hence the average fixed costs (TFC ÷ Q) must fall.

Task 4 – True or false?

a.	T	b.	T	c.	F	d.	T	e.	F
f.	F	g.	T	h.	T	i.	F		

Task 5 – Explain the difference between ...

a. **The franchisee is the buyer of a franchise, whereas the franchisor is the seller.**

b. **Acquisitions (or takeovers) tend to be hostile and occur when the buyer has purchased a controlling interest (majority stake) in the target firm. Mergers occur when two (or more) firms agree to amalgamate as a new company.**

c. **External economies of scale are cost-saving benefits of large-scale operations arising from outside the business, due to its favourable location or general growth in the whole industry. Internal economies are within the control of the individual business.**

Task 6 – Growth and evolution Multiple Choice

1. C. **Management control being weakened with a larger workforce**
2. A. **Late deliveries due to congestion in busy locations**
3. C. **Internal diseconomies of scale**
4. A. **They generate lower unit costs of production**
5. C. **Specialised back-up services available in a particular region**
6. C. **industry, location**
7. C. **Internal diseconomies of scale**
8. C. **Internal diseconomies of scale**
9. D. **There is sufficient market demand for the product**
10. B. **A more focused marketing approach**
11. C. **Horizontal integration**
12. A. **An acquisition**
13. D. **To minimise communication problems**
14. B. **Profits from the strategic alliance can be shared equally**
15. D. **Strategic alliance**

16. D. **Risk-bearing economies of scale can be achieved**
17. A. **The degree of management control**
18. A. **When a firm acquires or merges with another firm at the same stage of production**
19. D. **Organic growth**
20. C. **The agreement that gives a business the rights to trade using another firm's products, and brand name**
21. B. **Horizontal integration**
22. B. **Labour turnover**
23. D. **Suitable for firms looking to grow rapidly**
24. B. **Choice of finance options**
25. A. **A joint venture**
26. D. **The franchisors have little, if any, control over the way the business operates**
27. D. **The corporate culture**
28. D. **Potential market dominance**
29. B. **To enjoy economies of scale**
30. D. **They can grow through diversification**

Unit 1.6

Multinational companies

Task 1 - Complete the missing words…

A multinational company, sometimes referred to as a **transnational** company, is an organization that operates in **two** or more countries, with its Head Office usually based in the **home** country.

Globalization refers to the growing degree of **integration** and interdependence of the world's economy. This means that decisions and actions taken in one part of the world will have a direct impact on those in other parts of the world. A key contributing factor of globalization is the growth and expansion of **multinational companies** (MNCs). There is increasing pressure for these global businesses to market their brands worldwide.

The growth in multinational companies has both positive and detrimental effects on the host country. For example, it stimulates **competition** as there are more foreign businesses and products competing in the domestic market. At the same time, the **deregulation** of trade restrictions (such as the removal of barriers to international trade) has allowed domestic businesses to enter overseas markets, thereby enabling these firms to benefit from a larger **customer** base as well as **economies** of scale (lower average **costs** as a firm expands its operations).

Task 2 – True or false?

a.	Multinational companies are public limited companies that operate overseas.	**F**
b.	Multinational companies can minimise their tax bills by operating in overseas countries.	**T**
c.	Businesses of all sizes can compete with large multinational companies, particularly on the Internet.	**T**
d.	Large foreign MNCs can force domestic businesses to become more efficient in order to remain competitive in the market.	**T**
e.	Multinational companies can benefit from having greater brand awareness.	**T**
f.	Multinational companies can improve the domestic economy by providing employment opportunities in multiple industries.	**T**

g.	Multinational companies can introduce new ways of doing business in the host country, thereby spreading knowledge and skills transfer.	T
h.	An advantage of MNCs for the host country is that any profits are kept within the country for the improvement of the economy.	F
i.	A drawback of MNCs operating in foreign countries is the potential loss of cultural diversity.	F
j.	The presence and dominance of MNCs can significantly reduce the market share of domestic businesses.	T

Task 3 – Multiple Choice Quiz

1. B. **Market development**
2. A. **Communication across geographical locations**
3. A. **Different business etiquette and customs**
4. C. **Profits are repatriated**
5. C. **Skills transfer**
6. D. **They generate more benefits than drawbacks for host countries**
7. C. **They can help individuals in the host country to escape poverty**
8. D. **They may try to influence government decision making**
9. B. **When it makes foreign direct investment (FDI)**
10. D. **The World Trade Organization**

Unit 2.1

Introduction to human resource management

Task 1 – Complete the missing words (Human resource management)

Human resource management (HRM) is the function of a business that is concerned with all aspects of using personnel to achieve its organizational **objectives**. The human resources department aims to achieve success through improved management of its employees.

HR departments perform various roles. This includes **planning** the needs of the business in terms of the current and future workforce. This includes identifying the current and future number of employees required and the skills they should possess to execute their roles efficiently. It also includes **recruiting** and selecting the right candidates for various job roles. A range of **internal** and external recruitment methods can be used for this purpose.

Task 2 – Complete the missing words (change and resistance to change) …

Businesses operate in a **dynamic** (changing) environment and are required to continually review and revise their operations. Changes in competitive strategies, consumer expectations, **technological** advancements, laws, regulations, political conditions, and stakeholder expectations will all require adjustments to a firm's objectives and **strategies** (plan of action).

Employees are often reluctant to change in the workplace. This is due to various reasons, such as their fear of the unknown. Workers tend to be very comfortable with the current methods of operations and may view change as a **threat**. In addition, some people have a low tolerance for **change**. Implementation of change often requires extra effort which they are unwilling to take. Some workers may not have the necessary **skills** to meet the changing expectations of customers and the employer. A final reason is poor **communications** about the need or rationale for change. In any case, an uncertain business environment increases anxiety amongst the workers.

Resistance to change is a very normal reaction and can be minimized by implementing effective **change management** strategies. Leaders and managers play a key role in this process. They attempt to identify the impact of change, the extent of the impact, possible employee reactions, and the strategies to reduce any negative reaction or resistance to change. **Communication** is an important aspect of this since it improves understanding and reduces concerns amongst the employees. Employee **participation** and involvement in the change process can create a sense of ownership amongst the workers and increase the likelihood of success in implementing change. The use of **threats** should only be used as a last resort to make employees accept change.

Task 3 – Explain ...

a. The increased demand for a firm's goods or services creates a need for additional employees, hence the human resource department would have to add more to their workforce or increase the productivity of the existing workforce.

b. If a business expects productivity to improve due to reasons such as better trained workers or due to investments in physical capital, the requirement for staff would fall. This is because fewer employees would be required to produce the same amount of goods and services.

c. Changes in employment laws can directly impact HR planning. For example, if the government reduces the maximum number of hours (working time directive), then additional workers may be required. Another example is an increase in the minimum wage, which would increase labour costs so may encourage some businesses to substitute labour for capital if it is possible.

d. Automation would reduce the need for the workforce if human resources can be replaced in the production process. Further emphasis on training may be needed to enable employees to embrace the change.

e. The country's supply of labour (or its labour force) will eventually increase due to the increasing birth rate. This means businesses will have more job applicants to choose from in the future and be in the better position to negotiate terms and conditions of employment.

f. A positive net migration rate will increase the labour supply, so more candidates become available for businesses to choose from. This gives increased bargaining power for businesses, leading to reduced labour costs. The opposite is true for a negative net migration rate.

g. The retirement age impacts the working period of employees. Increasing the retirement age increases the number of people in the working population. Hence, this creates greater choice and flexibility for employers. However, there may need to be adjustments to the number of working hours or flexible working practices in order to suit the requirement of an ageing working population.

h. Labour immobility tends to reduce the supply of labour.

Task 4 – Internal or External factors?

Internal factors	External factors
Absenteeism	Ageing population
Corporate culture	Changes in consumption patterns
Human resource budgets	Change in employment patterns
Mission and vision of the business	Demand for the firm's product
Organizational structure	Government regulations
Productivity levels of existing staff	Migration rates
Staff retention rates	Technological advancements
	Workforce demographics

Task 5 – Vocab Quiz

Key Term	Definition
Flexitime	Method of working in which the employee is free to choose the number of hours they work, so long as a certain core period is fulfilled, and the work gets completed on time.
Geographical mobility	The extent to which labour can move to different locations for employment purposes.
Gig economy	Labour markets that have employees working with short-term contracts or freelancers on flexible working hours in contrast to employees having permanent jobs.
Human resource management	The practice of recruiting, employing, training, and developing the employees of a business in order to meet its organizational objectives.
Human resource planning	The process of identifying the short-term and the long-term staffing needs of an organization and meeting these requirements effectively.
Immigration	The international movement of people to a country in which they do not have citizenship in an attempt to settle as permanent residents for employment opportunities and prospects.
Occupational mobility	The extent to which labourers are flexible in changing to different jobs or occupations.
Recruitment	The overall process of identifying, sourcing, screening, shortlisting, and interviewing candidates for jobs within an organization.

Task 6 – Multiple Choice

1. A. **Payment of wages and salaries**
2. C. **Retention**
3. A. **Ability to balance personal life and work life**
4. C. **The reduction in certain company policies, such as dress code**
5. A. **A decline in the dependent population**
6. A. **An ageing population**
7. C. **More people are working at the office rather than from home**
8. B. **Product design and development**
9. A. **Government legislation**
10. C. **Occupational immobility**
11. C. **Team working**
12. D. **They must work a minimum number of hours as required by their employer**
13. B. **Manipulation and co-option**
14. B. **Interpretations of circumstances**
15. B. **The gig economy**

Unit 2.2

Organizational structure

Task 1 – Complete the missing words…

The **span** of control refers to the **number** of workers that a line manager is responsible for. For example, the manager of a large department will have a **wide** span of control. A manager with a **narrow** span of control means that he or she is responsible for relatively fewer people. There has been much debate about the **optimal** (or best) size for a manager's direct span of control. There is no consensus on this as there are advantages and disadvantages to both wide and narrow spans of control.

A **flat** hierarchical structure tends to give more responsibility to workers, so can therefore lead to a higher level of motivation. **Delegation** occurs when a line manager passes on **authority** to others to perform a role or task. The line manager retains overall **responsibility,** but the work is carried out by empowered subordinates. By contrast, a **tall** organizational structure offers greater opportunities for promotion, closer management and supervision, **longer** chains of command and a **narrower** span of control.

Charles Handy's **shamrock** organization theory suggests that organizations face continual change and hence need to be able to adapt accordingly. The changing organization comprises of three 'leaves' (or categories) of workers: **core** workers, peripheral workers, and outsourced workers.

Task 2 - Explain two reasons why…

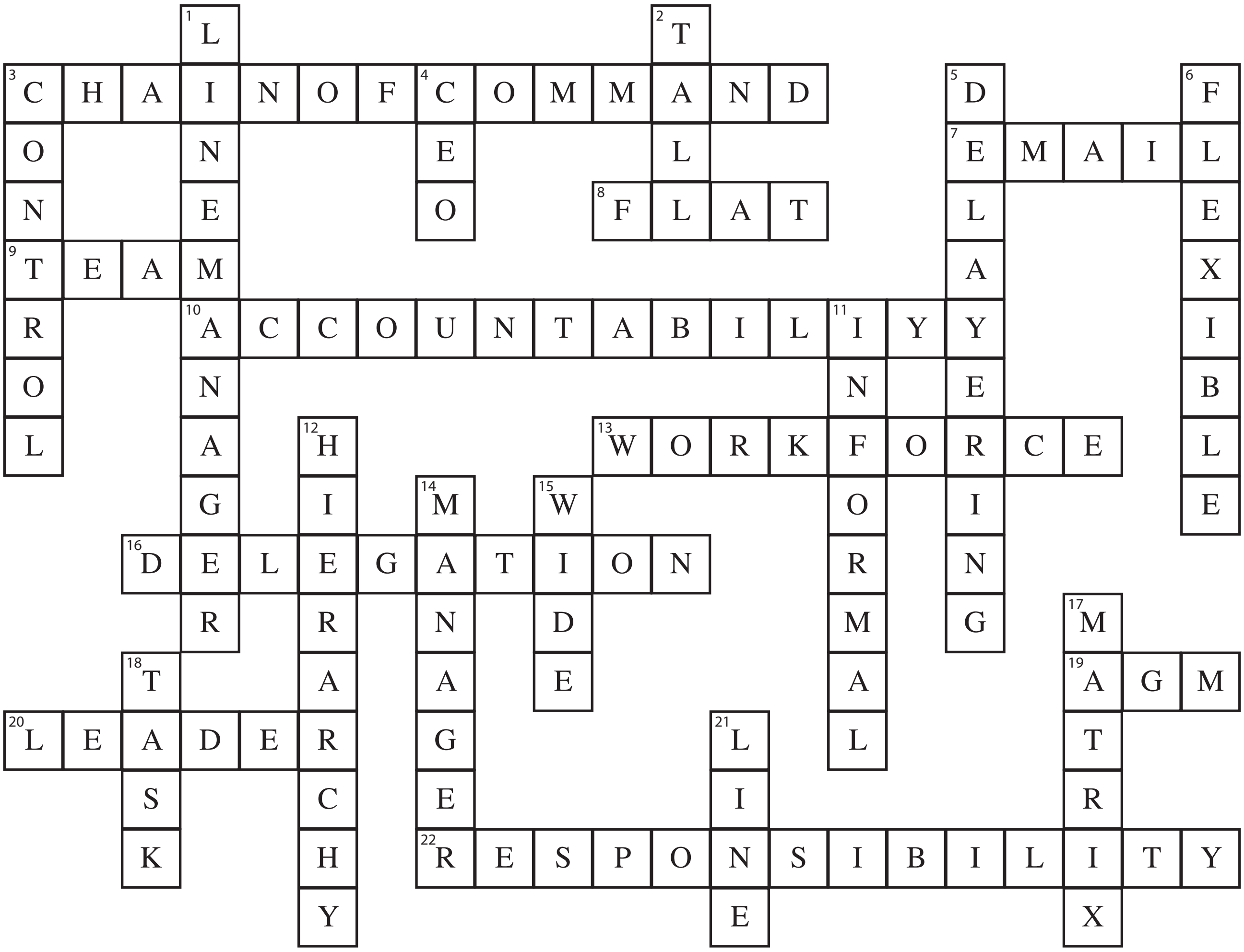
a. Improves/speeds up communication; Cheaper due to less layers (of management); Cheaper because core staff receive full benefits whereas peripheral outsourced workers do not; Downsizing means a general reduction in staffing numbers (cost-saving benefits); The move towards flexible working practices means less of a need for traditional hierarchical structures.

b. Empowerment of staff; Some people are motivated by taking on more responsibility; Sense of achievement/pride/worth; Staff may feel they are trusted and valued by management.

c. Informal organizations can help to promote a sense of belonging in the workplace; Informal groups are a good source of spreading and receiving messages; Knowledge and skills are unevenly spread out in an organization and the use of informal networks can help to identify and exploit different sources of knowledge and skills.

d. Staff may have some uncertainties about prioritising tasks when they have more than one line manager; Team members from different departments might not get on with one another; Difficulties in controlling team members who have conflicting interests and priorities.

Task 3 – Organizational structure crossword



Task 4 – True or False?

a.	T	b.	Y	c.	T	d.	T	e.	F
f.	T	g	F	h.	F	i.	T	j.	T

Task 5 – Distinguish between…

a. Accountability works upwards in an organizational chart, i.e., an employee is accountable (answerable) to his /her line manager. By contrast, responsibility works downwards, i.e. managers are responsible for their subordinates.

b. Directors are executive members of the Board (of Directors) who are concerned with long term strategic plans of an organization, whereas managers are more concerned with the daily operations of the business.

c. Hierarchical structures are tall with many levels/ranks of responsibility; Flat structures have fewer levels thereby giving managers a greater span of control.

Task 6 – Multiple Choice

1.	A.	**Directors**
2.	A.	**Chief Executive Officer**
3.	C.	**Hierarchy**
4.	B.	**It is more cost effective due to less hierarchical levels**
5.	C.	**Shorter chains of command**
6.	D.	**Suitable when employees are multi-skilled**
7.	C.	**Passing responsibility and authority away from the Board of Directors to individual departments**
8.	C.	**Delegation**
9.	C.	**Informal**
10.	A.	**Informal groups**
11.	C.	**Reduced bureaucracy**
12.	C.	**Project-based structure**
13.	B.	**Bureaucracy**
14.	C.	**Centralization**
15.	C.	**Improved control**
16.	A.	**Conflicting interest from having more than one line manager**
17.	B.	**Core staff**
18.	D.	**Peripheral staff**
19.	C.	**Downsizing**
20.	C.	**The chain of command in the organization**

Unit 2.3

Leadership and Management

Task 1 – Complete the missing words…

Management refers to the process of getting things done through other people in order to achieve the **objectives** of a business. This is likely to involve planning, organizing, co-ordinating, commanding, and controlling the various operations and **resources** within a business.

Managers and leaders adopt different **styles** to tackle organizational objectives and execute different strategies. For example, **autocratic** leaders make decisions independently of others and delegate very little, if any, responsibility to their subordinates. By contrast, **democratic** leaders encourage others to be involved in decision-making (by a process of consultation and consideration of the views of the workforce) before they implement any changes. **Laissez-faire** leaders are those who have minimal direct input in the work of their staff. Instead, they allow subordinates to make their own decisions and to complete tasks in their own way. **Situational** leadership also suggests that managers and leaders must be able to change and adapt their style to different situations. Managers may adopt a **paternalistic** approach when inducting new staff or when dealing with staff with personal difficulties.
There are various factors that influence a person's style of management and leadership. These influences include: the nature of the **task** (e.g. whether it is routine or a major undertaking that requires strategic leadership), the nature of the **individual** (e.g. his/her experience, qualifications, training and personality) and the organizational **culture** (i.e. the 'way' things are done in the organization).

Task 2 – Explanations…

a. The character, experience and ability of the leader

Cultural norms - the person and/or the staff may be used to an authoritarian culture

A high degree of importance and urgency of the decision / task

Inability of (unskilled) subordinates to do their work without such a leadership style.

b. 'Over-managed' suggests that the roles of managers and leaders are not clearly distinguished and that staff are unable to take on any initiative to do their jobs, i.e. employees might not be given opportunities to excel. 'Under-led' suggests that leadership is needed and the staff lack direction and/or sense of purpose.

c. Establishing a clear vision that provides all employees with direction of where the organization is heading towards

Clarifying the meaning of the vision through effective communication

Building trust with the workforce in order to motivate people towards achieving the organization's objectives

Being flexible in their management and leadership in order to adapt to the changing business environment.

d. Not necessarily – especially if the leader is seeking advice/feedback from trusted and highly competent senior staff. Consultation with employees or key personnel might also be a form of motivation for the staff who feel that they have some input in the strategic direction of the organization. Shared leadership in large organizations can be important due to the scale of their operations and the level of risks involved in decision-making.

Task 3 – Management and Leadership Crossword

1 A	U	T	O	2 C	R	A	T	I	C										
				O						3 C	O	N	T	R	O	4 L			
		5 E		O												A			
6 P	A	T	E	R	N	A	L	I	7 S	T	I	8 C				I		9 M	
L		H		D					E			U				S		O	
A		I		I			10 F		N			L				S		T	
N		C		N			O		11 I		S	T	R	A	T	E	G	I	C
N		A		A			R		O			U				Z		V	
I		L		T		12 S	M	A	R	T		R				F		A	
N				E			A					E				A		T	
G							L									I		I	
										13 M	A	N	A	G	E	R		O	
																E		N	

Task 4 – True or False?

a.	T	b.	T	c.	F	d.	T	e.	T
f.	T	g.	F	h.	T	i.	F	j.	F
k.	T								

Task 5 – Multiple Choice

1.	C.	**Managers conform to the organizational culture**
2.	D.	**Training and developing people**
3.	C.	**Laissez-faire**
4.	A.	**Autocratic**
5.	D.	**Useful when working with highly skilled workers**
6.	B.	**An unexpected crisis**
7.	D.	**Trust their employees**
8.	A.	**Delegate much, if any, responsibility to subordinates**
9.	A.	**Democratic**
10.	C.	**Specialisation and division of labour**
11.	A.	**Autocratic**
12.	A.	**Democratic**
13.	A.	**Centralized decision-making**
14.	A.	**Controlling people**
15.	C.	**Paternalistic**
16.	D.	**Situational**
17.	B.	**Laissez-faire**
18.	A.	**Financial budgets**
19.	B.	**Democratic**
20.	D	**The remuneration package of leaders and managers**

Unit 2.4

Motivation and demotivation

Task 1 – Complete the missing words…

Motivation refers to the **willingness** (or desire) to work or to complete a particular task. This drive can come from the satisfaction of work itself (such as teaching or photography) and/or from the desire to achieve one's **goals** (such as to earn money, to gain recognition, or to accomplish greatness). Methods of motivation can be classified as **financial** methods (e.g., salaries, commission, and profit-related pay) and **non-financial** methods (e.g., empowerment, teamwork, and job enrichment).

Demotivation can be costly to a business because absenteeism, labour **turnover**, lower **productivity** (output per worker), wastage, and disciplinary problems are likely to increase. By contrast, high levels of motivation lead to job **satisfaction** and improved industrial **relations**.

Abraham Maslow's theory of motivation differs markedly from that of F.W. Taylor's in that **Maslow** considered the human side of work. He put forward the theory of a hierarchy of human needs which have to be fulfilled in order to motivate a person. At the base of the hierarchy are **physiological** (basic) needs and at the top of the hierarchy are **self-actualization** needs.

Herzberg argued that **hygiene** factors must be met to prevent dissatisfaction in the workplace, but they alone do not motivate workers. Having a well-paid job but without a sense of recognition or opportunities for advancement. In contrast, **motivators** are the factors that lead to the psychological growth of workers, and hence increase job **satisfaction** and performance in the workplace.

Task 2 – The theorists' theories

a)

Hygiene factors	Motivators
Administration and company policies	Achievement
Job security	Advancement
Paperwork	Opportunity for promotion
Rules and regulations	Recognition
Supervision	Responsibility
Wages	Self-realization

b)

Self-actualisation	Esteem needs	Love and belonging needs	Safety needs	Physiological needs
Accomplishment	Achievement	Acceptance	Job security	Basic necessities
Develop fully	Reputation	Affection	Predictability	Biological needs
Fulfil potential	Respect	Fitting in	Stability	Pay
Personal growth	Responsibilities	Friendship	Steady job	Survival
	Status	Group identity		

c) Place the following considerations under the heading of correct theorist:

Deci and Ryan's self-determination theory	J.S. Adams
Autonomy	**Effort versus Reward**
Need to grow	**Equity theory**
Competence	**Perceived fairness**
Psychological relatedness	**Social comparison**

d)

Theorist	Content of theory
Adams (HL only)	**Workers naturally compare their efforts or rewards to those of others in the workplace.**
Herzberg	**Two factor theory based on hygiene factors and motivators.**
Maslow	**Hierarchy of needs ranging from physiological needs to self-actualization.**
McClelland (HL only)	**Individuals have three main emotional needs, namely the need for achievement, power, and affiliation.**
Taylor	**Standardized output for piece-rate payment based on scientific management techniques.**

Task 3 – Vocab Quiz

a) Training and Appraisal

Key Term	Definition
Appraisal	Process of collecting information and evidence to assess the performance of an employee. (HL only)
Induction training	Training provided for new employees to introduce them to the premises, to meet new colleagues and to be more familiar with their new job roles. (HL only)
On the job training	A form of training that happens when trainees are actually doing the job.
Summative appraisal	A type of written description of an employee's performance at work, summarizing what s/he has done and achieved during the year. (HL only)
Training	The process of providing opportunities for workers to acquire employment-related skills and knowledge.

b) Recruitment and Labour turnover (HL only)

Key Term	Definition
Absenteeism	The number of people away from work as a percentage of the size of the workforce in a business, per period of time.
Curriculum vitae	A document outlining an applicant's education, employment history, skills, and professional qualifications
Job analysis	The study of what is included in a job, such as the tasks, responsibilities, and skills involved.
Labour turnover	Measures the rate of change of human resources within an organisation, per period of time.
Person specification	A document detailing the required skills, qualifications, and experience of the ideal candidate for a job.
Productivity	Measures the output of workers; often expressed as the output per worker.
Recruitment	The process of hiring suitable workers, to ensure the best candidate is hired for a particular job or role.
Training	The process of providing opportunities to the employees to acquire skills required for a particular job or increase their existing knowledge.

Task 4 – True or False?

a.	F	b.	T	c.	T	d.	T	e.	T
f.	T	g.	F	h.	T	i.	F	j.	F
k.	T	l.	F	m.	F	n.	F	o.	T

Task 5 – Vocab Quiz

Key Term	Definition
Commission	Salespeople are often paid by this payment system which rewards employees according to the number of products they sell.
Empowerment	A non-financial motivator that grants workers the authority to make various decisions and to execute their own ideas.
Fringe benefits	These perks are received by employees in addition to their standard wage or salary, e.g., free meals and work uniforms.
Job enlargement	This form of motivation (and multi-skilling) involves increasing the number of tasks involved in a particular job.
Job enrichment	This method of motivation gives employees more responsibilities and decision-making power.
Job rotation	This form of motivation involves employees working on different tasks in turn (sequence), in order to add variety to their job.
Performance related pay	Payment system based on rewarding individual employees who meet certain performance targets.
Piece rate	This payment system pays people according to how much they actually produce or sell, thus giving workers an incentive to be more productive.

Task 6 – Distinguish between…

a. **Salary is a fixed amount of money paid to employees, usually every month, whereas wages are paid to employees based on the time spent doing work or the number of units produced.**

b. **Performance-related pay (PRP) is the amount paid to the employees in addition to their compensation based on various factors including targets achieved, ability to complete a particular project, introduce new commercial opportunities for the business, etc. In contrast, profit-related pay rewards employees based on the amount of profits earned in a particular time period, usually per year.**

c. **Time-based payment systems refer to payments made to staff based on receiving a basic rate of pay per time period, e.g., $10 per hour, $100 per day or $2,500 per week). The pay is not directly related to the level of output or productivity.**

d. Job enrichment is used to make a job more interesting and challenging, perhaps by taking on more responsibility at work. Job enlargement means the worker has a greater number of tasks and jobs to complete (e.g., job rotation), thereby theoretically reducing monotony and boredom.

e. **Movement occurs when a person does something because s/he is obliged to, perhaps because it is part of their job, i.e., movement is based on extrinsic incentives. Motivation, however, occurs when a worker does something because she or he actually wants to (even if the person doesn't have to do it), i.e., it is based on intrinsic motivation.**

Task 7 – Explain…

a. Praise and recognition; Improved working conditions; Team working opportunities; Empowerment; Job enrichment; Job enlargement; Job rotation; Training & development opportunities.

b. Absenteeism is likely to fall; Workers are more likely to feel valued by their employers, thereby boosting morale and employee loyalty.

c. It increases the complexity or challenge involved in the job (helping workers to feel a sense of achievement and to meet ego needs), rather than simply providing more (variety of) work to do. Of course, not all workers strive for job enrichment though as this can bring about added workload, pressures, and stress.

d. In many countries, pension contributions are a statutory requirement, so all employers have to provide these (hence it does not motivate in itself); Pensions as a motivator also depends on the age of person (those new to the workforce versus those about to retire).

e. Not all employees are eligible for share options; The allocation may be insignificant (shop floor workers versus senior executives, for example); The share price offered might not be attractive; The value of the share options may go up or down, thus can create a sense of insecurity; It will also depend on the risk profile of the employee (risk takers versus those who are risk averse).

f. Grievances at work (complaints, injustices and accusations) suggest that employee-employer relations at work are far from perfect and hence this reduces the level of motivation in the business; Poor punctuality suggests workers are not very keen/dedicated (again, causing motivation to be low).

g. i. Autocratic

Suitable during a crisis or situation when strategic direction is needed, because it provides a sense of security; Also tends to work with unskilled workers who need direction/supervision.

ii. Democratic

Suitable when workers are skilled and when managers trust their staff, because workers feel their opinions are heard and have some input into the decision making process.

iii. Paternalistic

Suitable when staff are new to an organization or within entrusting teams, because workers feel that the organization cares/looks out for them.

h. Division of labour and the associated gains in productivity; Spreading workloads (less burden for individual staff members); Increased productivity; Synergy (problems can be solved easier and ideas can be more creative); Group dynamics – greater range of skills, expertise and knowledge; A form of non-financial motivation that promotes a sense of belonging (Maslow's social needs) and boosts employee morale.

i. T&D help to boost morale as employees feel values, and hence motivated; T&D improves productivity and staff retention; T&D reduces wastage and inefficiencies in the workplace.

j. Training allows employees to learn new skills and to be in a better position to adapt to the changing nature of businesses; Development allows an employee to personally progress/advance in her/his career.

k. Can be cheap as the firm uses in-house specialists to give the training; Relevant as the training is targeted at issues directly relevant to the firm's needs; There are less disruptions to daily operations as the trainee is still 'at work' rather than being overseas attending a training course, for example; Can help to establish relationships at work as team working is involved.

l. Trainees may pick up bad working habits of the trainer; Internal trainers may lack training experience and skills; Trainers may not be able to conduct their own work whilst giving the training.

m. Can boost staff morale (workers have opportunities to progress within the organization and to develop their careers); Lower down-time (adjustment time) due to shorter induction and training period; Less risk in selecting the wrong candidate as the employer knows the employee (personality, abilities and skills); Relatively cheaper method of recruitment.

n. A formal meeting between an employee and his/her line manager to assess performance in line with the employee's job description and performance targets.

o. This will depend on a range of factors such as: the nature of the job (e.g. teaching or telesales), the culture of the organization, management styles and so forth.

p. Introduces 'new blood' (new ideas / creativity) to the organization; Internal staff may not be available/suitable; Larger pool of applicants (hence improving chances of hiring the ideal candidate with the right experience and a better skills set).

q. Maintaining continuity and stability in the workplace; Management time and resources saved by not having to recruit, select and induct new (replacement) staff; Trade secrets not being leaked to rival firms who headhunt the firm's workers.

r.
  i. Absenteeism   ii. Labour turnover
  iii. **Staff retention**

  This refers to the ability of a business to hold onto its staff. In general, the higher the rate of retention, the lower the costs of recruitment.

s. More employees would be required to replace the workers leaving the organization. The HR department will therefore need to invest time and money in recruitment, selection, and (induction) training due to the increasing labour turnover rate.

Task 8 – Odd One Out (Herzberg)

	Responsibility	Sense of achievement	Nature of the job	**Work conditions**
	Wages	Supervision	**Responsibility**	Company policies
	Responsibility	**Company policies**	Autonomy	Authority

a. Work conditions (others are Motivators in Herzberg's model)

b. Responsibility (others are Hygiene factors according to Herzberg)

c. Company policies (others are Motivators in Herzberg's theory)

Task 9 – High or Low? (HL only)

a. Absenteeism

  Low – because high absenteeism is a sign of low morale; low absenteeism also improves productivity and reduces costs.

b. Labour turnover

  Low – because high labour turnover leads to higher costs of recruitment (and retention); There is also greater down-time when inducting new staff; There may also be concerns/issues about continuity/stability/productivity if a large number of people leave the workforce.

c. Productivity

  High – because this represents improved efficiency, lower average costs of production (economies of scale), and hence greater competitiveness.

d. Wastage

Low – because wastage is inefficient and leads to re-working, which raises costs; High wastage levels may also be associated with poor quality which can be damaging for a firm's corporate image.

e. Staff retention

High – because this represents high staff morale, motivation, and employee loyalty; Recruitment costs are reduced; It also suggests that there is a strong corporate culture; It can improve the organization's corporate image for being a 'good' employer.

Task 10 – Multiple Choice - Motivation Theory

1. D. **To reduce absenteeism**
2. C. **Labour turnover**
3. A. **Phil delegates his work to an assistant as he attends all-day meetings with his team of managers**
4. B. **F.W. Taylor**
5. C. **Job satisfaction**
6. C. **Workers are motivated by the working environment**
7. B. **Piece rate payment systems**
8. D. **Workers should specialise so that they can master their craft**
9. B. **Managers should closely monitor, control and supervise their employees**
10. D. **Salaries**
11. C. **Recognition**
12. B. **Hygiene factor**
13. C. **Recognition**
14. A. **Lower level needs do not have to be satisfied in order for people to be motivated**
15. D. **Television celebrities**
16. A. **Employment contracts**
17. C. **Social**
18. B. **Job enrichment**
19. B. **Delegates decision-making authority to subordinates**
20. B. **Increased rivalry among the workforce**
21. D. **Training and development opportunities**
22. D. **It may encourage employees to be less productive**
23. C. **Fairness exists when employers recognise efforts with rewards**
24. A. **Autonomy**
25. B. **The costs of recruitment and training**

Task 11 – Multiple Choice - Motivation in Practice

1. C. Overtime is paid at a rate higher than the wage rate for any extra hours worked
2. C. Piece rate
3. A. Commission
4. D. Workers may ignore quality due to the emphasis on the speed of work
5. A. Different genders
6. D. Time based
7. C. Profit-related pay
8. C. Job enrichment
9. B. Giving workers more complex tasks to do
10. D. Remuneration package
11. D. Shorter decision-making time
12. B. Empowerment
13. D. Job empowerment is granted to these employees
14. A. It acts as an incentive to work
15. B. Job enlargement
16. A. There is difficulty in differentiating between the productivity of workers
17. D. Housing allowances
18. C. Salaries
19. D. Remuneration
20. A. Deci and Ryan's (self-determination theory)

Task 12 – Recruitment & Selection Multiple Choice (HL only)

1. C. Looks at the essential skills and knowledge required to carry out a specific job role
2. C. Responsibilities
3. C. Skilled in customer relations
4. D. The required level of teaching experience
5. D. Skills and qualifications
6. C. The internal promotion of a worker
7. C. Vacancies, description, specification
8. C. To avoid diseconomies of scale
9. B. Ability to perform certain tasks

10. A. Detailed questions can be asked

11. C. Low score in aptitude assessment

12. D. The wages needed to pay newly recruited staff

13. D. Reference

14. A. Attracting as many applicants as possible to apply for the job

15. A. They can be published internally and externally

16. B. Curriculum vitae

17. B. Assess the suitability of a candidate to fit into the culture of the organization

18. B. It reduces 'dead wood' (outdated practices) in the organization

19. C. An internal email notification

20. D. Recruitment agency

Task 13 – Training, Appraisal, and Turnover Multiple Choice (HL only)

1. A. Conducting an appraisal meeting

2. D. Upgrading of ICT skills needed for the job

3. D. I, II, and III

4. A. Attending specialist conferences

5. D. Work shadowing

6. C. Conducted by specialist trainers not necessarily available at the workplace

7. A. Gain a higher budget allocation for the HRM Department

8. A. 360-degree feedback

9. A. Some traits that are scaled may not be directly relevant to job performance

10. D. Promoting employees

11. B. Panel interviews

12. C. Retention

13. A. 21.05%

14. B. High occupational mobility of the workforce

15. B. Recruitment and induction costs are reduced

Unit 2.5

Organization and corporate culture (HL only)

Task 1 – Complete the missing words

Corporate culture refers to the shared **beliefs**, values and attitudes of the people within an organization. These norms subsequently determine the way in which the business operates on a daily basis. It also underpins corporate **strategy** and influences the organization's corporate image. Senior management will seek to create a positive organizational culture in order to **motivate** workers to deliver a first-rate product or service to their customers. If people are united and committed to the organization's **mission** statement, then a **strong** corporate culture will be developed.

Culture **clashes** exist when there is **conflict** or incompatibility between two or more cultures within an organization. This can exist when firms merge, when a business **expands** overseas (if workers are ignorant of international cultural differences) or when there is a change in **leadership**.

In Charles Handy's model of corporate culture, an organization may have more than just one culture. This is likely because the organization has different departments and sections, so sub-cultures may exist. Each department may be **structured** differently so has its unique culture. According to Handy's theory, organizations can have **four** different corporate cultures within an organization. The model uses ancient Greek gods representing a particular trait or philosophy within the various sections of an organization. The names of these gods are Zeus, **Apollo**, Athena, and Dionysus.

Task 2 – True or false?

a.	F	b.	T	c.	F	d.	T	e.	T
f.	T	g.	T	h.	T	i.	T	j.	F
k.	T	l.	F	m.	T	n.	T	o.	T

Task 3 – Match the following

Greek god		Nature of culture	
1	Apollo	C	Bureaucracy culture
2	Athena	D	Task culture
3	Dionysus	A	Person culture
4	Zeus	B	Club culture

Task 4 – Explain the following cultures

a. A power culture, represented by Zeus in Charles Handy's model, is one that has the power (authority and control) vested in a central source. The leader or board of directors holds all power and has autonomy over decision making.

b. A role culture, represented by Apollo, is the one that has formal structures, rules, regulations, and responsibilities assigned to individuals. There is a formal chain of authority, command, and responsibility. The setup is bureaucratic. Every person has a clear job description and is expected to fulfil their role within the organization.

c. Task culture, represented by Athena, involves a matrix structure and places people in form of teams. Individuals are organized in groups and a task is assigned to them. Teams are provided with clear targets and their performance is measured by the results accomplished.

d. A person culture, represented by Dionysus, is the one that exists for individuals to achieve their personal goals. The interest of individuals is placed above the organization and management is given relatively low status. The decision-making is in the hands of individuals and the success of the organization is dependent on individual talents.

Task 5 – Suitability of organizational cultures

a. A power culture is usually found in organizations with charismatic leaders such as small businesses, start-ups, ones with informal setups, and political parties. The success of these organizations is usually dependent on the judgment and effectiveness of the dynamic leader.

b. A role culture is highly suitable in bureaucratic businesses. These organizations have a clear set of rules, responsibilities, and established work structures. Examples include colleges and universities, health institutions, accounting firms, and government organizations.

c. A task culture is suitable in a business that focuses on teamwork and collaboration. The teams are provided with specific responsibilities, budgets, and deadlines to accomplish the tasks. This culture is appropriate for businesses that require creative and problems solving skills. It is evident in consultancy businesses, events management firms, and the information technology sector.

d. A person culture (sometimes referred to as an existential culture) is one in which the staff are highly skilled and experienced. It exists in an organization that serves the interests of individuals within it. The individuals are valued more than the organization itself. It is often observed in professions such as doctors, surgeons, accountants, lawyers, and so forth.

Task 6 – Multiple Choice

1. C. **The set of beliefs and values held by the people within an organization**

2. A. **Ability to fit into a particular culture**

3. B. **executives, employees**

4. B. **Since team norms are well established so do not change over time**

5. A. **a culture gap**

6. B. **Profits are in decline**

7. A. **A significant event, such as a financial crisis, has occurred**

8. B. **Misunderstandings and conflict**

9. B. **Power culture**

10. C. **Inert cultures**

12. B. **A common language of communication within the organization**

13. D. **Zeus**

14. C. **Hostile takeover**

15. D. **Past rivalries between workers**

Unit 2.6

Communication

Task 1 – Complete the missing words

Communication is the transfer of information from one party to another. Managers spend a significant part of their time communicating with both internal and external **stakeholders**. The communication can take place within the same organization (known as **internal** communication) or outside the organization (known as **external** communication). Different methods of communication are used in the organization to ensure that correct information is passed to different stakeholders.

Effective communication enables managers and workers to have a better understanding and control of what they do. However, cultural differences can have an impact on communication in an organization. For example, language proficiency, both **written** and oral, is a highly valued communication skill in today's ever-more competitive labour market. Cultural ignorance can cause offense to others and can cause messages to be misinterpreted or misunderstood. **Innovations** in communication technologies also have an impact on communications in organizations, e.g., **Internet** technologies have reduced the cost of domestic and international communications.

Verbal communication (such as interviews, meetings, presentations, and feedback) allows the opportunity to seek clarification and understand the message appropriately. However, this type of communication can cause messages to be distorted or misunderstood if the messages are lost in translation. By contrast, **non-verbal** communication methods include written methods such as notices, memorandums, and executive summaries. These allow the creation of evidence that can be referred to at a future date. Detailed information can be collected as well. However, it can be extremely time consuming. **Visual** methods of communication (such as the use of pie charts, bar graphs, and infographics) can add much value to the communication process and make it easier to convey the message.

Essentially, different factors influence the **choice** of communication method, and the most optimal methods selected are the ones that meet the **objectives** of the communication, in line with the goals of the organization.

Task 2 – Formal and informal communication

Formal communication	Informal communication
Emails	Birthday cards
Legal documents	Gossip
Meetings	Open door discussions
Notices	Peer interactions
Publications	Social gathering discussions
Sales presentations	WhatsApp text messages

Task 3 – Explain

a. Grapevine communication (or informal communication) is any unofficial channel of communication that exists amongst the informal groups in an organization, usually because these members share similar interests.

b. Oral communication provides opportunities for instant feedback and is an easy, simple, quick, and cheaper method to transfer information. It also allows for transferring private and confidential messages faster than other methods such as written communications.

c. Oral communication provides no record of the information that was communicated; hence it cannot be referred to at a later date. The success depends on the effectiveness of the speaker and the ability of the recipient to understand the message. It is also time-consuming and more challenging when many people are involved.

d. Visual communication is more engaging, provides clarity to the receiver, enhances the communication message, and makes it easier for people to understand the message.

e. Informal communication travels faster, is less expensive, can create a sense of belongingness in a workplace, allows the generation of ideas, and facilitates mutual support.

f. Meetings – because this is a form of verbal communication.

g. Visual aids can attract and retain attention. It can also help to present data or information in a more engaging and user-friendly format.

h. Bulletins – this is the only definite form of internal communication. Accept alternative answers that are accurately explained.

i. Email – it is the quickest and most cost-effective method, with the sales data being easily attached in the message.

Task 4 – True or False?

a.	T	b.	T	c.	F	d.	F	e.	T
f.	T	g.	F	h.	F	i.	T	j.	T
k.	T								

Task 5 – Identify two ….

a. Language, accents, jargon, cultural differences, costs, ignorance, and attitudes (such as prejudices or biases).

b. Memos, bulletins, circulars, notices, leaflets, flyers, and emails.

c. Sign language, video-conferencing, body language, electronic (e.g., television commercials).

d. Quicker handling of data, aids decision-making (easier access to information), increased productivity, less wastage, easier to make/keep/retrieve records.

Task 6 – Types of communication

Communication method	Internal	External
Written:		
Memorandum	✓	
Posters	✓	✓
Reports	✓	✓
Verbal:		
Appraisals	✓	
Department meetings	✓	
Feedback	✓	✓
Presentations	✓	✓
Informal:		
Grapevine	✓	
Electronic:		
Emails	✓	✓
Faxes	✓	✓
Internet	✓	✓
Smartphones	✓	✓

Task 7 – Vocab Quiz

Key term	Definition
Delayering	A method of improving communication by reducing the number of levels in an organizational hierarchy.

Face to face communication	A form of communication that occurs when people talk to each other in person, rather than virtually using an online platform.
Formal communication	Using communication channels that are officially established by an organization, rather than through the grapevine.
Minutes	A written record of the discussions during a formal business meeting.
Noise	The generic term for anything that causes communication breakdowns, such as jargon, ignorance, or computer failure.
Verbal communication	Type of communication that relies on the use of spoken words, such as interviews, meetings, and telephone conversations.

Task 8 – Match the terms

	Communication method			Purpose (task)
A	Email	**A, Z**	V	To remind staff of opportunities for training courses
B	Agenda	**B, X**	W	To formally respond to a customer complaint
C	Notice	**C, V**	X	To notify staff of the matters to be discussed in a meeting
D	Letter	**D, W**	Y	To gain feedback from the receiver and sender
E	Two-way	**E, Y**	Z	To inform a manager of a change in an appointment time

Task 9 – Methods of communication

Example of communication	Method of communication
Safety procedures to be used by workers while operating a machine	Written communication (notice) Oral communication (training)
Facts about sales revenue growth	Visual communication (bar graphs or pie charts)
Concerns about quality in production to be addressed to the employee	Written communication (letter or email)
Payment received from a customer for a sales purchase	Written communication (receipt)
Conflict resolution in a particular team	Oral communication (meeting)
All employees to update their contact details	Written communication (email or notice)
Clarification about the order with a particular customer	Oral communication (telephone) Written (email)

Accept alternatively suitable answers.

Task 10 – Multiple Choice

1. A. To encourage more trade with customers
2. B. To inform staff of a changed venue for a meeting
3. B. Records being backed up
4. A. Bulletin
5. B. Grapevine communication
6. A. Emails to a supplier
7. C. Language and cultural awareness
8. D. Requires feedback from recipients

9. D. Minutes of a meeting

10. D. It requires time and planning from senior management

11. A. Bulletin announcements

12. A. The direct relationship between a superior and subordinates

13. A. External communication

14. A. Agenda

15. A. Communication

16. D. Sharing access to non-confidential information

17. B. When information is confined to those who need to know

18. A. Communication through advertisements in newspapers and magazines

19. D. F.W. Taylor

20. B. Lower absenteeism

Unit 2.7

Industrial and employee relations (HL Only)

Task 1 – Explain one reason why…

a. The organizational culture helps to shape the behavioural norms in a workplace and this can either improve or hinder working relations, e.g., a trusting and open culture versus one based on exerting power to get things done.

b. Miscommunications; Misunderstandings; Low morale / poor working conditions; Management and employees have conflicting wants and needs.

c. To protect self interest in the workplace; To enjoy benefits of collective (rather than isolated) bargaining; To aid conflict resolution; To improve the conditions of work (via representation for its members).

d. Answers should be based on the argument that human resources are the most valuable assets in an organization; Conflict is a barrier to effective communications and hinders productivity; Conflict not only damages working relationships but also the reputation of the organization.

e. Legislation has weakened the power of trade unions; Structural changes (from heavy industrial manufacturing towards the services sector) have reduced union numbers; The power and image of many trade unions have deteriorated, making membership less attractive/appealing.

f. Those who have low or no concern for the other party's needs/wants may use avoidance as a method of conflict resolution, choosing to 'agree to disagree' rather than provoking matters even further.

Task 2 – Explain the difference between…

a. Conciliation involves two parties in a dispute agreeing to use the services of an independent mediator to help in the negotiation process. Arbitration goes one step further and involves an independent arbitrator deciding on an appropriate outcome to the dispute.

b. Consultation refers to the process of asking employees for their views on key issues or problems and takes place before negotiations commence. Negotiation refers to the bargaining process whereby separate parties attempt to achieve a mutually acceptable (win-win) outcome.

c. Closure is an extreme method used by managers to deal with industrial action by closing the business. This means there is no work for the staff, forcing them to renegotiate. Lock-outs occur when the employer temporarily stops employees from working during an industrial dispute, perhaps by hiring security guards to prevent employees from entering the premises. Again the purpose is to force workers to renegotiate.

d. Industrial action is the general term used to refer to the activities taken by employees who are disgruntled by working conditions and practices. Work to rule is a type of industrial action occurs when employees follow all the policies and procedures of the employer with the intention of slowing down production.

Task 3 – Multiple Choice

1. **A. Compromises between different stakeholders**
2. **B. Higher capacity utilization**
3. **B. Renegotiations**
4. **C. Mediation**
5. **A. Government legislation**
6. **D. Work-to-rule**
7. **D. Industrial relations**
8. **B. Collective bargaining**
9. **C. Strike action**
10. **B. Litigation**
11. **C. Settling disputes by using an agreed third party whose decision is legally binding**
12. **C. Represent the views and interests of businesses within a specific industry**
13. **A. Industrial democracy**
14. **A. Employer representatives**
15. **A. Conflict resolution**

Unit 3.1

Introduction to finance

Task 1 – Classification of the role of finance

Category	Capital expenditure	Revenue expenditure
Advertising and marketing		✓
Building and contents insurance		✓
Data storage and back-up	✓	
Employers' liability insurance		✓
Internet technologies	✓	
Office equipment and furniture	✓	
Repairs and maintenance	✓	
Salaries		✓
Software licenses	✓	
Stocks (inventories)		✓
Wages		✓
Website hosting	✓	

Task 2 – Vocab Quiz

Identify the key terms from the clues given.

Key Term	Definition
Revenue expenditure	The day-to-day spending required for the running of a business, e.g., rent, raw materials, and utility bills.
Finance	The money that is available to an organization to fund its operations and business activities.
Capital expenditure	The spending on items considered as non-current assets, e.g., land, buildings (premises), machinery, and motor vehicles.

Task 3 – True or False?

a.	T	b.	T	c.	T	d.	F	e.	T
f.	T	g.	F	h.	T	i.	T	j.	F

Unit 3.2

Sources of Finance

Task 1 – Classification of assets and liabilities

Category	Asset	Liability	Expense	Income
Bank interest receivable	✓			✓
Bank loan interest		✓	✓	
Bank overdrafts		✓		✓
Crowdfunding	✓			✓
Insurance premiums		✓	✓	
Loan capital		✓		✓
Microfinance	✓			✓
Motor vehicles	✓		✓	
Overdrafts		✓		✓
Rent accruals		✓	✓	
Retained profit	✓			✓
Share capital	✓			✓

Task 2 – Vocab Quiz

Key Term	Definition
Ordinary shares	The most common type of shares issued by a limited liability company, which gives owners voting rights and dividends based on the company's profits.
Mortgage	A long-term source of finance which requires the borrower to provide property and land as collateral (security guarantee) to the lender in case the borrower defaults on the loan.
Microfinance providers	Organizations that grant finance to entrepreneurs of small businesses, especially females and those on low incomes.
Loan capital	A category of sources of finance that incurs debt (borrowed funds), such as mortgages and long-term bank loans.
Internal sources of finance	Refers to the generation of finance from within an organization's own resources and funds, e.g., retained profit and the sale of assets.
Crowdfunding	A source of finance, usually raised online, used for a specific business project or venture by raising funds from a large number of people who each contribute a relatively small amount.
Business angels	These are wealthy entrepreneurs who risk their own money by investing in small to medium sized businesses that have high growth potential.

Task 3 – Outline the differences between…

a. Owners' capital comes from internal stakeholders, including shareholders' funds or personal funds. By contrast, loan capital comes from external sources, thereby increasing a firm's level of gearing and also bears interest.

b. Short-term finance (e.g. an overdraft) is needed to pay for the daily running of a business, i.e. to fund revenue expenditure. It is paid back within 12 months, so short term finance represents less risk for lenders. Long-term finance (e.g. a mortgage) is generally used for spending on fixed assets and investments that pay back over a longer period of time, e.g. 10 years. Hence, this represents more risk.

c. An overdraft is a short-term source of finance whereas bank loans are longer term; Overdrafts are technically repayable 'on demand'; Customers have to bank with the particular organization to qualify for an overdraft but customers do not have to be a bank customer to qualify for its loans; The interest rate charged on bank loans tends to be lower, although financial collateral (security) is often required.

d. A mortgage is backed by security (collateral) to the lender in case the borrower defaults on the loan. As this reduces the risk to the lender, mortgage interest rates are generally lower that those charged for loans, which are usually repaid over a shorter period of time than mortgages.

e. Owners of ordinary shares have voting rights, whereas debenture holders do not; Shareholders are the owners of a company, whereas debenture holders are not (debentures are a form of long-term loan); Debenture holders are guaranteed their return (interest payments) whereas shareholders are not; Share capital is an internal source of finance for companies whereas debentures are an external source of finance.

f. Debt finance (also known as loan capital) refers to interest-bearing external sources of finance that increase the borrower's level of gearing, e.g., bank loans, mortgages, or debentures. Equity finance (also known as share capital) is an internal source of permanent capital that does not bear any interest.

Task 4 – True or False?

a.	F	b.	T	c.	F	d.	F	e.	T
f.	T	g.	T	h.	T	i.	F	j.	T

Task 5 – Multiple Choice

1. **C.** **No interest obligations**
2. **B.** **Initial public offering**
3. **B.** **Greater choice of sources of finance**
4. **C.** **Lower level of gearing**
5. **C.** **There is insufficient retained profit**
6. **C.** **Retained profits**
7. **B.** **Control of the company becomes diluted**
8. **C.** **The value of liabilities increases**
9. **C.** **Empower entrepreneurs of small businesses**
10. **A.** **long term loan with a fixed interest rate**
11. **A.** **Impact on the company's working capital**
12. **A.** **Brand recognition**
13. **A.** **A contractual agreement between the borrower and owner of an asset**
14. **D.** **Working capital**
15. **B.** **It is cheaper in the long run to buy capital equipment**

Unit 3.3

Costs and revenues

Task 1 – Vocab Quiz

Key Term	Definition
Cost	Any charge or expense incurred by a business in the production process.
Direct costs	These are the costs that are clearly attributed to the production of a particular good or service.
Fixed costs	These production costs, such as loan repayments and salaries, do not change with the level of output.
Indirect costs	Also known as overhead costs, these costs cannot be clearly or easily attributed to the output of a particular product or department.
Price	Also known as the average revenue, this is the amount of money a product is sold for, i.e. the amount paid by the customer.
Revenue	The funds (money) received from the sale of a firm's output.
Revenue streams	The various sources of income generated from different business activities, e.g. sponsorship deals, merchandise income, membership fees and royalties.
Semi-variable costs	Type of costs that has an element of both fixed costs and variable costs, e.g. power and electricity or salaried staff who also earn commission.
Total costs	This refers to the aggregate amount of money spent on production for any given level of output.
Total revenue	The sum of all revenue streams for a business. It is calculated by multiplying the selling price of a product with the quantity sold.
Unit costs	Also known as average costs, this concept is calculated by dividing the total costs of production by the level of output.
Variable costs	Costs incurred directly from the production and sale of a particular product, e.g. raw materials and packaging costs.

Task 2 – Calculations

a. i. (15 × 250) + 500 = **$4250**

ii. ($35 × 250) – $4,250 = **$4,500**

iii. (150 × $15) + $500 = $2,750 / 150 = $18.33

(250 × $15) + $500 = $4,250 / 250 = $17.00

Sales are higher at 200 units, so the fixed costs are spread over more units (hence AC falls from $18.33 to just **$17**). This means that the firm has experienced economies of scale, i.e., falling AC as output increases.

b. i. [($2 * 3,000) + $3,000] / 3,000 = **$3**

ii. Break-even = $3,000 / ($6 – $2) = 750 units.

Margin of safety = 3,000 – 750 = **2,250 units**.

c. i. TVC = $5 × 2,000 = $10,000

TFC = $5,500 (Overheads + Rent + Salaries)

Hence, TC = **$15,500**

ii. TR = $15 × 2,000 = $30,000

Hence, profit = $30,000 – $15,500 = **$14,500**

d. i. TVC = $3,000 per 100 (extra) units

Hence, at 100 units of output, TFC = $5,000 – $3,000

So TFC = **$2,000**

ii. It falls from $50 per unit ($5,000 ÷ 100) to just $36.67 ($11,000 ÷ 300), i.e. the firm experiences economies of scale.

iii. Unit cost = $40 ($8,000 ÷ 200) so the price must be 150% higher, i.e. **$100**

Task 3 – True or False?

a.	F	b.	F	c.	T	d.	T	e.	F
f.	F	g.	T	h.	T	i.	T		

Task 4 – Explain …

a. Fixed costs (such as rent and advertising) do not change with the level of output. By contrast, variable costs (such as wages and commission) continually rise with increasing levels of output.

b. The fixed costs are spread over an increasingly larger level of output and hence the average fixed costs must fall.

c. Answer could include an explanation of the various revenue streams such as: advertising revenue, transactions fees charged to customers, royalties, sponsorship revenues, subscription charges imposed on customers, dividends from shareholdings, donations/gifts, interest earnings from cash savings in a bank or government funding (grants and subsidies).

Task 5 – What type of cost?

Type of cost	Fixed	Variable
Advertising/promotional materials	✓	
Equipment and tools	✓	
Food supplies		✓
Fuel for meal deliveries		✓
Furniture (e.g., tables and chairs)	✓	
Management salaries	✓	
Market research	✓	
Telephone bills		
Packaging materials		✓
Rent on premises and buildings	✓	
Staff wages		✓
Utility bills (e.g., gas and electricity)		
Vehicles (e.g., its own delivery bikes)	✓	

Task 6 – Cost and Revenue Formulae

Type of Cost / Revenue	Formula
Average cost	Total costs ÷ Quantity produced
Average fixed costs (AFC)	Total fixed costs ÷ Quantity produced
Average revenue (or Price)	Total revenue ÷ Quantity sold
Total cost	Total fixed costs + Total variable costs
Total revenue	Unit price x Quantity sold

Task 7 – Multiple Choice

1. B. Fixed costs
2. C. Raw material costs
3. D. Staff wages
4. A. Communications equipment
5. C. Interest on bank loans
6. D. Variable costs
7. A. Buildings insurance costs
8. A. Average fixed costs
9. B. Costs that are fixed in the short run
10. C. Quantity
11. D. $12,000
12. B. $1.50 TVC = $900, so AVC = 900 ÷ 600 = $1.5
13. D. $2,345
14. A. $5 At 200 units, AC = 5,000/200 = $25; At 300 units, AC = 6,000/300 = $20, so AC falls by $5
15. B. Average fixed costs

Unit 3.4

Final accounts

Task 1 – Complete the missing words…

All businesses need to be accountable to their owners and the authorities. One way to do this is to produce final accounts on an **annual** basis. The **balance sheet** (statement of financial position) shows a snapshot of a firm's assets and liabilities at a particular point in time (usually at the end of the trading year). **Assets** are the property of a business, i.e., the resources that it owns. **Liabilities** refer to the money or debts owed by the firm to other people or organizations.

The **profit** and **loss** account (income statement) is a record of the firm's trading activities over a period of time (usually **12** months). It is split into three parts. The **trading** account shows the value of a firm's gross profit, i.e. the difference between its sales revenues and the cost of **sales**. **Expenses** are the overheads of a business that account for the difference between a firm's **gross** profit and its profit before interest and tax. The remaining part of the P&L account shows the amount of **dividends** distributed to shareholders and the **tax** payable to the government.

When reporting **fixed** assets (non-current assets), some businesses include **intangible** assets. These are non-physical assets that have a monetary value, such as goodwill, registered **trademarks**, brand value and investments in other companies.

Higher Level only:

Depreciation refers to the decline in the **value** of fixed assets (non-current assets) over time. It is most commonly calculated by spreading the **historic** cost (the original cost) of a fixed asset over its expected useful lifespan, taking into account the scrap value (also known as the salvage or **residual** value) of the asset. This method of calculating depreciation is known as the **straight** line method. For example, if a printing machine costs $10,000, has an expected residual value of $1000, and is depreciated over its expected 5-year lifespan, the annual depreciation amounts to $**1,800**.

The alternative method of calculating depreciation is the units of **use** method (or the units of production method). Using this method, the per unit depreciation expense is calculated by dividing the historic cost of the asset, less its scrap value, by the number of units the asset is expected to produce during its useful life. For example, suppose a large industrial photocopier costs $5,000 and is expected to last 5 years and produce 2 million copies, with a residual value of $1,000. The per unit depreciation rate is therefore $**0.002**. So, if the firm makes 400,000 copies this year, the annual depreciation charge would be $**800**.

Task 2 – True or False?

a.	T	b.	T	c.	T	d.	T	e.	T
f.	F	g.	T	h.	T	i.	F	j.	T

Task 3 – Place in the correct category

Profit and loss account	Balance sheet
Cost of sales	Cash
Gross profit	Creditors
Interest	Debtors
Overheads	Equipment
Sales revenue	Loan capital
Tax	Overdraft
	Plant
	Share capital

Task 4 – Formulae

Formula	Key Term
Opening stock + Purchases – Closing stock	**Costs of sales (COS)**
(Historic cost – Residual value) ÷ Lifespan of asset	**Depreciation (per year)**
Profit for period – Retained profit	**Dividends**
Sales revenue – Cost of sales	**Gross profit**
Fixed assets + Working capital – Long term liabilities	**Net assets**
Gross profit – Expenses	**Profits before interest and tax**
Profit before interest and tax – Gross profit	**Overheads (or expenses)**
Total assets – Total liabilities	**Owners' equity (or net assets)**
Sales revenues – Total costs	**Profit**
Profit for period – Dividends	**Retained profit**

Task 5 - Explanations

Stakeholder	Purpose
Employees	To determine job security associated with working in an organization and prospects for pay increases.
Financial institutions	To determine the viability of providing funds (loan capital) and the interest rates to charge.
Government	To calculate the right amount of taxes to be paid according to the profits made.
Managers	To determine the operational efficiency of the business and to devise strategies for further growth.
Potential investors	To determine the worthiness of investing in the business, and the possibility of earning financial returns in the near future.
Rivals (competitors)	To compare financial performance and to set benchmarks for key performance indicators.
Shareholders	To calculate dividends distributed and the return on investment, as well as whether shareholders should buy/hold or sell the shares.
Suppliers	To determine the ability of the business to pay (trade credit) and the possibility of extending further credit terms.

Task 6 – Vocab Quiz

Key Term	Definition
Creditor	A person or a business to whom money is owed in the short run.
Current assets	Assets that are likely to be converted into cash in the short run such as inventories (stocks) and debtors.
Debtors	A person or a business that owes money to the business in the short run.
Depreciation	The fall in the value of a non-current asset over time, due to wear and tear. (HL only)
Dividends	The sum of money paid regularly, usually twice a year, by a company to its shareholders based on the amount of profits.
Fixed assets	Non-current assets that are for long-term use and are unlikely to be converted into cash, e.g., land, buildings, and capital equipment.
Intangible assets	An asset that is not physical, e.g., such as a patent, brand, trademark or copyright.

Loan capital	The interest-bearing debts that are to be paid after twelve months from the date of the balance sheet.
Overheads	The ongoing expenses of a business, which excludes the direct costs related to the production of a good or service.
Owners' equity	The amount of money that belongs to the owners once all liabilities are accounted for. It is the sum of share capital and retained profit.
Retained profit	The amount of money left over after a company pays dividends to its shareholders. This can then be used as an internal source of finance.
Sales revenue	The money that comes into the business from the sale of goods and services.
Share capital	Part of a company's capital that comes from the issue or sale of shares.

Task 7 – Explain ...

a. Retained profit, as a source of internal finance, can be used for reinvestments and/or to further expand the operations of the business, possibly leading to greater dividend pay-outs in subsequent years.

b. Gross profit does not take account of expenses (overheads), as it only accounts for direct costs (cost of sales). Profit before interest and tax can be further broken down into profit before and after interest charges and tax (which are beyond the control of businesses). This enables benchmarking to take place, in terms of historical comparisons as well as comparing performance with rivals based in international markets.

c. Firms may be of different sizes, have different objectives or operate in completely separate industries, i.e. comparisons need to be 'like for like' to be of any use/purpose.

d. Companies and their owners (shareholders) are separate legal entities, so publishing final accounts helps to ensure accountability to shareholders (the owners of the companies) as there is a divorce of ownership and control (directors run the companies on behalf of the shareholders).

e. The capital employed (sources of finance) must equal the net assets employed (the use of funds). It ensures accountability as the owners of the business and may not necessarily be the ones who run the organization.

f. Fixed assets are illiquid and come about through capital expenditure (e.g. machinery and buildings); current assets are liquid assets and come about through revenue expenditure (e.g. cash and debtors).

g. The fixed asset (e.g. computers or motor vehicles) may become obsolete, i.e. dated; Fixed assets tend to also lose value due to usage (wear and tear).

h. Depreciation reduces the value of fixed assets (shown on the balance sheet) and can be represented as an expense in the P&L account; Expenses also increase due to the costs of replacing/maintaining the fixed assets.

i. It is the simpler and more predictable of the two methods used to calculate depreciation of fixed assets over time.

j. It may not be a realistic method of depreciation for many businesses as not all assets depreciate by a fixed charge every year.

k. It is a more realistic/meaningful method of depreciation since the depreciation charge is based on the usage of the asset (given that assets fall in value due to wear and tear).

l. This method depreciates the value of assets on the basis of usage but ignores other factors that impact the value of an asset, such as newer models/products being launched on the market.

Task 8 – Complete the missing entries

a. XYZ Ltd. (non-profit entity)

	$m
Sales revenue	350
Cost of sales	(175)
Gross surplus	175
Expenses	(100)
Surplus before interest	75
Interest	(10)
Surplus before tax	65

Tax	0
Surplus for the period	65
Retained surplus	65

b. ABC Ltd. (profit-making entity)

	$m
Sales revenue	900
Cost of sales	(450)
Gross profit	450
Expenses	(300)
Profit before interest and tax	150
Interest	(10)
Profit before tax	140
Tax	(30)
Profit for the period	110
Dividends	(70)
Retained profit	40

c. XYZ Co. (profit-making entity)

Statement of financial position as at 31st December 20**

	$m	**$m**
Non-current assets		
Property, plant, and equipment	1000	
Accumulated depreciation	(100)	
Non-current assets		900
Current assets		
Cash	300	
Debtors	100	
Stock	100	
Current assets		500
Total assets		1400
Current liabilities		
Bank overdraft	100	
Trade creditors	200	
Other short term loans	200	
Current liabilities		500
Non-current liabilities		
Borrowings- Long term	200	
Non-current liabilities		200
Total liabilities		700
Net assets		700
Equity		
Share capital	500	
Retained earnings	200	
Total equity		700

ABC Co. (non-profit entity)

Statement of financial position as at 31st December 20**

	$m	$m
Non-current assets		
Property, plant and equipment	600	
Accumulated depreciation	(20)	
Non-current assets		580
Current assets		
Cash	30	
Debtors	10	
Stock	10	
Current assets		50
Total assets		630
Current liabilities		
Bank overdraft	10	
Trade creditors	20	
Other short term loans	20	
Current liabilities		50
Non-current liabilities		
Borrowings- Long term	100	
Non-current liabilities		100
Total liabilities		150
Net assets		480
Equity		
Retained earnings	480	
Total equity		480

Task 9 – Calculate

a. $110,000 because COGS = Opening stock + Purchases – Closing stock

b. $888,000 because Gross profit = Profit before interest and tax + Expenses

c. $30,000; $68,000; and $38,000

d. (250 – 100 – 55 – 15) = $80,000

Task 10 – Calculate (HL only)

a. Annual depreciation= ($40,000 – $6,000) / 4 = $8,500

b.

Year	Depreciation charge	Net book value
1	$8,500	31,500
2	$8,500	23,000

c. Depreciation per unit = ($50,000 – $5,000) / 100,000 = $0.45 per unit

Total depreciation charge for 20,000 units = $0.45 × 20,000 units = $9,000

d. Depreciation per unit = ($70,000 – $10,000) / 6,000 = $10 per unit

Total depreciation charge for 1,000 units = $10 × 1,000 = $10,000

Year	Units	Depreciation per annum ($)	Accumulated depreciation ($)	Net book value at end of year ($)
1	1,000	10,000	10,000	60,000
2	1,000	10,000	20,000	50,000

e. ($35,000 – $7,000) ÷ 4 years = $7,000 per year

Task 11 – Profit & Loss Multiple Choice

1. A. Cash flow forecast
2. B. The cost of sales
3. C. Has made an overall loss
4. C. Profit and loss account
5. B. Lists all revenue and expenditure of a business over a trading period
6. C. Machinery and equipment
7. C. The portion of profit for the period that is distributed to shareholders
8. C. Interest charges
9. D. Expressed as a percentage to allow for historical and inter-firm comparisons
10. D. Indirect costs of trading activities
11. A. Cost of sales
12. B. $15,000
13. D. $75,000
14. A. $50,000
15. C. $15,000
16. B. $110,000
17. A. Direct costs
18. A. $19,000
19. C. Interest paid to financial lenders
20. D. Using cheaper suppliers

Task 12 – Balance Sheet Multiple Choice

1. A. Cash flow forecast
2. D. Show the value of a business at a particular point in time
3. A. Assess business profitability and performance
4. A. Balance sheet
5. C. Profits before interest and tax

6. C. Owner's equity

7. C. Liabilities

8. A. Debtors

9. A. Finished goods for sale

10. A. Creditors

11. A. Debentures

12. B. Debtors

13. C. Assets that generate cash sales for a firm

14. C. An increase in the value of fixed assets with a corresponding fall in the value of cash

15. D. They represent the use of funds of a business

16. D. Provides legal protection for an inventor to prevent others from copying it

17. A. Cash deposits at the bank

18. B. It includes the value of labour such as their market value if they were headhunted

19. B. Non-physical fixed assets that add value to a business

20. C. Services

21. C. Total Assets – Total liabilities

22. A. Fixed assets

23. A. $3,000

24. C. Land

25. B. Appreciation

Unit 3.5

Profitability and liquidity ratio analysis

Task 1 – Complete the missing words…

Ratio analysis is a financial management tool used to analyze and evaluate the financial performance and position of an organization. A business will compare the same financial ratio over different time periods (historical comparisons) to determine any patterns and trends.

Furthermore, the firm will want to compare its financial performance with its closest competitors in the market. These inter-firm comparisons allow the business to determine benchmarks and identify how well the business is performing in the industry.

Profitability ratios compare the profits made by a business with other indicators such as the firm's sales revenue, assets, and capital employed. These include the gross profit margin (GPM), profit margin and return on capital employed (ROCE). Liquidity ratios determine the ability of the business to pay its short-term debts. These include the current ratio and acid test ratio (or quick ratio).

Task 2 – Stakeholders and financial ratios

Owners / shareholders - These people or organizations are interested in the return on their investment, so will be interested in financial ratios related to the firm's profitability.

Employees - The personnel of a business are interested in the profitability of the organization because this will influence their pay and job security.

Managers - The leadership team is interested in the firm's financial ratios to measure financial performance and to support strategic decision-making.

Creditors/suppliers - These stakeholders are interested in the liquidity position of the business because this affects the firm's ability to pay for its goods and services.

Financial lenders – Commercial banks, for example, are interested in the long-term liquidity position of a business to judge its ability to repay loans.

Competitors - Rival firms in the market are interested in gauging the performance of the business. This is often used as part of their benchmarking practice.

Government - The state (authorities) look at the financial performance of a business to ensure that proper accounting procedures are followed (to prevent fraudulent reporting of finances) and to calculate the correct amount of tax owed by the firm.

Task 3 – Suggest

a. GPM can be improved by increasing sales revenue. This can be done by adapting the marketing mix based on the external environment and consumer needs. Marketers can increase the price of the offering for price inelastic products, for example, or use improved promotional strategies, better distribution networks, enhanced customer services, and so forth. Alternatively, the firm can focus on reducing direct costs or variable costs in order increase gross profit and hence the GPM.

b. The profit margin accounts for all costs, not just direct or variable costs. Hence, the profit margin can be improved by increasing the firm's sales revenue and/or cutting the firm's overheads, such as rental payments, utility bills, management salaries, insurance premiums and so forth.

c. The ROCE ratio can be improved by measures used to increase the firm's overall profit (such as increasing sales and reducing costs), selling off inefficient or obsolete assets, increasing the scale of operations to reduce the average cost of production and so forth.

d. The current ratio can be improved by reducing the credit period offered to customers, encouraging the firm's customers to pay by cash, paying off current liabilities, selling off unproductive/obsolete assets, methods to raise the value of current assets and methods to reduce current liabilities.

e. The acid test ratio can be improved by keeping the firm's current liabilities under control (such as trade creditors and overdrafts). For example, it can negotiate with its creditors/suppliers to pay at a later date.

Task 4 – Explain…

a. ROCE is, more specifically, the profit (before interest and tax) expressed as a percentage of the firm's total capital employed.

b. Profit is made when revenues exceed costs of production, rather than any capital expenditure (which is used to finance the purchase of fixed assets).

c. ROCE does not show profit in relation to set-up costs, including capital expenditure; Profit is only made when all costs are paid, not only set-up costs but also running costs.

d. There is no need to calculate a ratio to see the amount of profit earned by a firm. This can simply be seen in the firm's profit and loss account.

Task 5 – Vocab Quiz

Key Term	Definition
Return on capital employed (ROCE)	This important ratio measures a firm's profitability in relation to its size (as measured by the capital employed).
Quick ratio	Also known as the acid-test ratio, this liquidity ratio measures a firm's ability to meet its short-term debts. It ignores stock because some inventories are hard to turn into cash in a short time frame.
Profitability ratios	Ratios that examine the level and value of a firm's profits.
Profit margin	This measures the overall profit (after all costs have been deducted) as a percentage of sales revenue.
Liquidity ratios	A category of financial ratios that look at a firm's ability to pay its debts.
Gross profit margin (GPM)	This profitability ratio shows gross profits expressed as a percentage of sales revenue.
Current ratio	This short-term liquidity ratio calculates the ability of a firm to meet its debts within the next twelve months.
Capital employed	The total value of non-current liabilities and equity.
Acid test ratio	This ratio measures a firm's ability to meet its short-term debts. It ignores stocks as not all inventories can be easily turned into cash.

Task 6 – Calculate

Financial ratio	Answer
Gross profit margin	= (500 / 1,000) × 100 = 50%
Profit margin	= (400 / 1,000) × 100 = 40%
Return on capital employed	= [400 / (200 +1,200)] × 100 = 28.57%
Current ratio	= 1,100 / 500 =2.2:1
Acid test ratio	= (1,100 – 100) / 500 = 2:1

Task 7 – True or False?

		True / False
a.	Ratio analysis is a quantitative management tool for analysing and judging the financial performance of a business.	T
b.	A firm that has a long working capital cycle will tend to use the acid test ratio to measure its liquidity.	T
c.	A liquidity crisis exists when a business is unable to pay its short-term debts.	T
d.	Capital employed is the sum of equity capital and long-term liabilities.	T
e.	Profitability ratios are used to see the amount of profit earned by a business.	F
f.	Profitable firms that lack sufficient liquidity are unlikely to survive in the long run.	T
g.	Shareholders are more concerned about dividend earnings than capital growth.	F
h.	The higher the profit margin, the greater the financial return as a percentage of the firm's sales revenue.	T
i.	The ROCE ratio can be improved by strategies that increase the level of a firm's sales revenues.	T
j.	When the value of a firm's stock (inventory) increases, the acid test ratio will fall.	T
k.	The ideal current ratio is 1:1	F
l.	The higher the acid test ratio, the better it is for the business.	F
m.	The ROCE of a business can be increased by increasing profits and using the assets purchased by the business more efficiently.	T

Task 8 – Complete the table

Formula	Ratio	Type of ratio
(Current assets – Stock) ÷ Current liabilities	Acid test (quick ratio)	Liquidity
(Gross profit ÷ Sales revenue) × 100	Gross profit margin	Profitability
(Profit before interest and tax ÷ Capital Employed) × 100	Return on capital employed	Profitability
(Profit before interest and tax ÷ Sales revenue) × 100	Profit margin	Profitability
Current assets ÷ Current liabilities	Current ratio	Liquidity

Task 9 – Multiple Choice

1. **B. Labour turnover rate**
2. **D. Profitability position**
3. A. **Current ratio**
4. B. **Ability to pay its short-term debts**
5. D. **Profitability position**
6. A. **40%**
7. D. **Return on capital employed**
8. A. **45%**
9. B. **Firm A, as its ROCE is 45% compared to Firm B's ROCE ratio of less than 42%**
10. C. **2.5 : 1**
11. D. **Shareholders' funds plus long-term liabilities**
12. A. **Current ratio**
13. D. **Quick ratio**
14. B. **Has the firm's market share improved?**
15. **C. To calculate the value of a firm's profit over time**

Unit 3.6

Efficiency ratio analysis (HL only)

Task 1 – Complete the missing words…

Efficiency ratios measure how well the resources of a business have been used, including **stock** turnover, **debtor** days, creditor **days** and the **gearing** ratio. The stock turnover ratio measures the number of times a firm sells its **stock** (or inventory) during a given time period. The **debtor** days ratio measures the number of days the business takes to collect money owed from its debtors. The number of days a business takes to pay its suppliers is measured by the **creditor** days ratio. The long-term liquidity position of a business can be measured by the **gearing** ratio.

Task 2 – Complete the table

Formula	Ratio
(Non-current liabilities ÷ Capital employed) × 100	Gearing ratio
(Creditors ÷ Cost of sales) × 365	Creditor days
(Debtors ÷ Total sales revenue) × 365	Debtor days
Cost of sales ÷ Average stock	Stock turnover

Task 3 – Explain…

a. The stock turnover ratio can be improved by providing limited varieties to the customers, reducing the stock through better inventory management techniques and disposing of unpopular items.

b. Debtor days can be improved by having a clear payment system, tracking the invoices due, offering incentives to the debtors to pay early and charging late penalties.

c. Creditor days can be better by negotiating with the suppliers and paying them early for a discount, having good relationships with the suppliers and having an excellent stock control system.

d. Debtor days can be improved by imposing a surcharge on late payments, providing incentives to pay early, not providing the goods to the customers who delay the payment and finally using legal action in case of extreme defaults.

e. A higher creditor days ratio means that the business has preferential credit terms, i.e. it has a longer period in order to pay its suppliers or creditors. Hence, a high ratio should improve the cash flow position (liquidity) of the business.

f. Generally, the greater the stock turnover rate the better it is for the business as it is more efficient in replacing its stocks (due to higher sales).

g. Generally, lower gearing is preferred as this reduces the risks of loan capital financing, especially during times when interest rates are on an upwards trend. However, the optimal level of gearing for a firm will depend on its level of affordability; most firms will need to rely on external finance for growth and expansion.

h. A low debtor days ratio means that customers pay earlier, thereby speeding up the firm's working capital cycle. However, too low a debtor days ratio means that some customers might look elsewhere for a better deal from other suppliers.

i. Gearing requires the use of loans and other external sources of finance to fund business expansion, thereby possibly leading to long-term profits; high gearing can be affordable to profitable firms, especially in a climate of low-interest rates and high market growth.

j. JJ's gearing ratio = (\$0.1m + \$0.35m) ÷ \$1m = 45%, whilst LL's gearing ratio is (\$0.15m + \$0.28m) ÷ \$1.1m = 39.1%. Therefore, JJ Clothing Ltd faces higher debt financing costs and is more vulnerable to changes in interest rates.

k. During a recession, when real disposable incomes fall, trading becomes difficult. Thus, cash inflows tend to fall. However, highly geared firms still have to pay back their loans (a cash outflow), and hence the net effect is less favourable (there is less of an impact if the loan is on a variable rate contract, but cash inflows will still be lower during an economic downturn).

Task 4 – Differences

Parameter	Insolvency	Bankruptcy
Meaning	A business is said to be insolvent when its net assets are less than the current net liabilities.	It is a legal declaration of one's inability to pay off debts.
Indicators (symptoms)	Falling sales, rising debts and poor liquidity ratios.	Indicators of bankruptcy are insolvency and indebtedness.
Impact on the legal status of a business	It does not affect the legal status of an individual or a business in the short-term.	It affects the legal status of an individual or a firm, as bankruptcy leads to business closure.
Impact on credit rating	It does not impact the credit rating of an individual or an organization.	It negatively impacts the credit rating of an individual or an organization.
Strategies to resolve insolvency or bankruptcy	Can be resolved through bankruptcy.	Can be resolved by winding up the business or through government support to clear off the dues.
State (permanent or temporary?)	It is not permanent.	It is permanent.

Task 5 – Calculations

a. $(250 \div 450) \times 365 = 202.77$ days. Accept 203 days

b. $(200 \div 950) \times 365 = 76.84$ days. Accept 77 days

c. $(150 \div 450) \times 365 = 121.66$ days. Accept 122 days

d. $300 \div (300 + 500) \times 100 = 37.5\%$

Task 6 – True or False?

a.	T	b.	T	c.	T	d.	T	e.	F
f.	T	g.	F	h.	T	i.	F	j.	T
k.	T	l.	T	m.	F	n.	T	o.	F

Task 7 – Multiple Choice

1. C. Gearing
2. B. The proportion of the firm's capital employed formed by interest-bearing debt
3. C. Loan capital plus other borrowings expressed as a proportion of the capital employed
4. A. Creditors prefer firms to have high gearing as it means they make more profit
5. B. Debentures
6. B. (Long-term liabilities ÷ Capital employed) × 100
7. A. Debtor days
8. B. How long it takes, on average, for a firm to collect its debts from customers
9. C. How long it takes, on average, for a firm to pay its debts to suppliers and creditors
10. B. 73 days
11. C. McDonald's (fast food restaurants)

12. C. Short, large

13. D. The number of times a business sells its stocks in a given time period

14. C. 110 days

15. C. They look at the level of gearing within firms

Unit 3.7

Cash flow

Task 1 – Complete the missing words…

Cash is a current asset of an organization and is required to pay for the daily activities of running the business. Cash is often confused with profit. Profit is the positive difference between total revenue and total cost. It is important that a business is profitable as well as having sufficient cash to survive.

A firm's cash flow position must be managed properly. A cash flow forecast is a financial document that shows the predicted movement of cash into and out of a business for a given period of time. Constructing this document allows better planning and identification of potential liquidity problems so that funds can be arranged to manage any anticipated periods of financial difficulties.

Cash flow problems arise due to several reasons such as overtrading, poor stock control, increased borrowing or any negative change in the external environment. These issues can be solved by methods that increase the firm's cash inflow, reduce its cash outflow or by seeking alternative sources of finance (be they internal or external methods).

Task 2 – Vocab Quiz

Key Term	Definition
Cash	The most liquid of current assets, this is the actual money a business has, either in hand or held at the bank.
Cash flow forecast	A quantitative technique used to predict how cash is likely to flow into and out of a business in the foreseeable future.
Current assets	Short-term assets of an organization that can be converted into cash within a year, e.g. stocks, debtors and cash.
Current liabilities	Refers to the money owed to creditors and financiers that are repayable within the next twelve months.
Debtors	Customers (people or other organizations) who owe money to the business as they have purchased items on credit. This is a category of current assets.
Liquidity problem	This dilemma is caused by a lack of cash because the firm's net cash flow is negative.
Net cash flow	This is calculated by using the formula Cash inflow minus Cash outflow per time period.
Overdrafts	A financial service that allows pre-approved customers to temporarily take out more money than the amount available in their bank account.
Profit	The yield (return) that is calculated by subtracting total costs from total revenues.
Working capital	Also known as 'net current assets', this is the cash or liquid assets available for the daily running of a business.

Task 3 – Cash inflow and cash outflow

Cash inflow	Cash outflow
Cash sales	Advertising costs
Credit sales	Delivery
Donation received	Heating and lighting
Interest from savings	Packaging
Loan sanctioned	Rent paid
Payment by debtors	Salaries
Tax refund	Wages

Task 4 – True or False?

a.	F	b.	T	c.	T	d.	F	e.	T
f.	F	g.	T	h.	F	i.	T	j.	T
k.	T								

Task 5 – Cash Flow Crossword

1 C	A	S	H					2 B	A	L	A	3 N	C	E			4 F	
A												I					E	
5 S	A	L	E	S				6 C	U	M	U	L	A	T	I	V	E	
H								L										7 A
F				8 D	E	B	T	O	R	S			9 S	T	10 O	C	K	S
L		11 L						S							V			S
12 O	V	E	R	T	R	A	D	I	N	G		13 W	A	G	E	S		E
W		A						N							R			T
		S		14 L				15 G	E	A	R	E	D		D			S
		E		E		16 P									R			
		17 B	A	N	K	R	U	P	T	C	Y		18 L	O	A	N	19 S	
		A		D		O									F		A	
		C				20 F	O	R	E	C	A	S	21 T		T		L	
		K				I							A			22 N	E	T
				23 O	U	T	F	L	O	W			X				S	

Task 6 – Complete the cash flow forecast below

All figures in $m	January	February	March
Opening balance	10	(40)	(90)
Cash inflow			
Cash sales revenue	300	300	300
Tax refund			10
Total cash inflows	300	300	310
Cash outflows			
Rent	10	10	10
Packaging	20	20	20
Salaries and wages	60	60	60
Cost of sales	240	240	240
Heating and lighting	10	10	10
Delivery	10	10	10
Total cash outflows	350	350	350
Net cash flow	(50)	(50)	(40)
Closing balance	(40)	(90)	(130)

Task 7 – Advantages and disadvantages

Strategy	Advantage	Disadvantage
Seeking overdraft	More money can be raised Immediate access to cash	Can be difficult to secure, especially in the event of financial difficulties High interest charges Negative impact on profits
Improved product offerings	More choice for customers, which means the possibility of increased sales	High cost of product development and product launches Difficult to manage a larger product portfolio
Extended credit facilities	Reduces cash outflows in the short-term	Increased administrative costs Difficult to secure as this negatively impacts the supplier
Cash payments only	Better cash flow position	Loss of potential customers as they choose other rivals who provide credit facilities
Leasing of assets	No outright payment is required Reduces cash outflow, at least in the short-term	Increased overheads and interest charges The asset is never owned by the business
Short-term loans	Immediate release of cash that can be repaid at a later date	Regular cash outflows for the repayments along with interest charges

Task 8 – Outline

a. Set-up costs and running costs will start to accrue before customers dine at the restaurant; Ongoing expenses; Lacks marketing exposure to generate sales.

b. There is a range of factors, e.g., reducing prices (for products with fierce competition), raising prices (for products that have few substitutes or a high degree of brand loyalty), reducing the value of debtors, reducing credit periods to customers, or changing to other suppliers that offer more competitive prices.

c. Sales revenue is the value of goods or services sold by a business (i.e. Sales revenue = Price × Output), whereas profit is the value of revenue that remains after all costs of production have been deducted (i.e. Profit = Sales revenue – Total costs).

d. They are the people or organizations that owe money to the business, i.e. the money legally belongs to the firm so is regarded as an asset.

e. Explanation of any two of the following: Overtrading; Poor credit control; Long credit periods given to customers; Poor cost control; Poor sales (perhaps due to ineffective marketing, substandard products or an economic recession); Overstocking; High gearing.

f. Obtain credit from suppliers (e.g. ingredients for restaurants or toiletries for the hotel rooms); demand customers pay a larger deposit for their rooms prior to check-in; dynamic pricing (e.g., lower prices during off-peak periods due to lower levels of demand); seek external sources of finance (e.g. bank overdraft).

Task 9 – Explain the difference between…

a. A CFF is a *prediction* of the cash flows in and out of a business over the next several months. The CFS shows the *actual* cash inflows and outflows for a specified period of time.

b. Debtors are a *current asset* (as customers/businesses owe money to the organization) whereas creditors are a *current liability* (as this needs to be repaid to creditors/suppliers within the next twelve months).

c. Current assets are items that a business owns for less than 12 months (e.g. cash, debtors, and stock) whereas non-current assets are not intended for resale but used over and over for longer than 12 months in order for the business to function (e.g. machinery, buildings and vehicles).

d. Profit is the difference between sales revenue and total costs. However, cash is not necessarily received immediately when a transaction takes place due to sales revenue being earned on credit. In addition, cash accumulation does not include the costs of production that have to be paid before a profit can be declared.

Task 10 – Multiple Choice

1. A. **Cash used to buy current assets**
2. C. **Overdrafts**
3. B. **Customers who have bought products but have not yet paid for them**
4. A. **Copyright, trademarks, and patents**
5. C. **Non-current liabilities**
6. D. **Work-in-progress**
7. D. **Trade creditors**
8. B. **Fixtures and fittings**
9. B. **Finished goods**
10. C. **The money that is available for the daily operations of a business**
11. B. **Current assets less Current liabilities**
12. C. **$55,000**
13. A. **$45,000**
14. C. **To improve liquidity during unforeseen events**
15. A. **A fall in the value of trade debtors**
16. B. **Cash flow statement**

17. B. **Non-current assets**

18. C. **Provide a planning and decision-making tool for managing a firm's cash flows**

19. D. **Tight credit control**

20. C. **Longer credit periods**

Unit 3.8

Investment appraisal (some HL only)

Task 1 – Complete the missing words…

Investment refers to the **expenditure** that increases the productive capacity and operations of a business. It includes the purchase of **non-current** (or fixed) assets, such as buildings, plant, equipment, machinery, computers and motor vehicles.

The **payback period** (PBP) method of investment appraisal measures the length of time it takes for an investment project to generate enough **profit** to recoup the initial investment cost. It is quick to calculate but does not tend to favour **long-term** projects, i.e. those that have a long payback period.

The **average** rate of return (ARR) measures the annual profit generated from an investment project, expressed as a **percentage** of the initial investment cost. The **higher** the ARR, the better the return from the investment.

(HL only)

Net present value (NPV) considers the opportunity cost of money from an investment project, because money received in the future is worth **less** than if it were received today. This is particularly the case when there is **inflation** in the economy, meaning an increase in average prices over time. **Discounted cash flows** (DCF) are used to express the **future** value of money in today's monetary terms. In general, an investment project is financially feasible if its NPV is **positive**.

Task 2 – Outline the relationship between…

a. The larger the contribution per month, the faster the payback period.

b. The higher the interest rate, the less attractive the ARR tends to be (it is safer to simply leave cash in the bank rather than taking huge financial risks if interest rates for savings are relatively high).

c. The higher the level of gearing, the riskier it is for a business if interest rates were to be raised. This will reduce both the ARR and NPV of an investment.

d. The longer the time period under consideration, the higher the discount factor that is applied to future cash flows. This means that the longer it takes for cash flows to materialise, the lower its future value (worth) will be.

e. The higher the discount rate, the lower the NPV will be due to the higher opportunity cost of receiving money in the distant future. This is because interest rates (from savings) and inflation (higher prices) will devalue the future cash flows from an investment project.

Task 3 – True or False?

a.	T	b.	T	c.	F	d.	T	e.	T
f.	T	g.	T	h.	F	i.	T	j.	F

Task 4 – Vocab Quiz

Key Term	Definition
Average rate of return (ARR)	An investment appraisal technique that calculates the typical annual profit of an investment project, expressed as a percentage of the initial sum of the money invested.
Discounted cash flow (DCF) **(HL only)**	A technique that reduces the value of the money a business receives in future years. Money loses its value over time, so this method expresses money at the current (present-day) value for the money expected to be received in the future.
Investment	The money spent by a business on non-current assets with the potential to generate future financial benefits, e.g. upgrading computer equipment or the purchase of an office building.
Net present value (NPV) **(HL only)**	An investment appraisal technique that calculates the total discounted cash flows, minus the initial cost of an investment project. If this figure is positive, then the investment is viable on financial grounds.
Payback period (PBP)	This is an investment appraisal technique that calculates the estimated length of time that it will take to recoup the initial costs of an investment project.
Principal	Also known as the **historic cost**, this is the original amount of money invested in a particular project.
Qualitative investment appraisal	Non-quantitative techniques used to judge whether an investment project is worthwhile, such as whether an investment decision is compatible with the firm's business objectives and organizational culture.

Task 5 – Multiple Choice

1. C. Purchasing new machinery
2. A. Leadership and management styles
3. D. Payback period
4. D. Payback period
5. A. Calculates the average annual profit of a project as a percentage of the principal
6. C. The firm's cash flow position
7. B. Firms that focus on profitability rather than short term cash flows
8. A. It favours projects that have high profitability over time
9. C. Manufacturing processes where technology changes frequently
10. C. Projects are expected to return a profit in the medium to long term
11. A. Alternative investment projects and their potential yields (returns)
12. D. It ignores the timing and pattern of cash flow
13. A. Expected changes in interest rates, thereby affecting the real value of money
14. B. future, lower

15. D. **Payback period**

16. B. **$95.24**

17. A. **Discount factor**

18. D. **Variance analysis**

19. B. **It accounts for medium to long term projects**

20. C. **The NPV is expressed in percentage terms to allow for easier benchmarking**

Unit 3.9

Budgets (HL only)

Task 1 – Complete the missing words…

Budgeting refers to the art of financial control in an organization. A **budget** is a financial plan that an organization strives to achieve as it allows it to check its progress against the budgeted (planned) targets. A budget should reflect the **goals** of an organization, e.g. if it plans to replace expensive capital equipment, then the amount should be incorporated into the budget. Budgets can be used for any quantitative variable, such as **sales** revenue, costs, profit, staffing, advertising expenditure and capital expenditure on **non-current** assets.

Budgeting also provides a sense of **direction** for the workforce and holds managers **accountable** for the performance of their teams. However, regular monitoring is required to ensure that the plans are executed effectively, which can include the need to use **controlling** measures if required.

In reality, it is likely that there will be deviations from the budget plan. **Variance** analysis is a management tool used to calculate differences in the actual and **budgeted** figures. A **favourable** variance occurs when the **actual** outcome is better than the budgeted (planned) outcome. By contrast, an **adverse** variance occurs when the actual outcome is **worse** than the budgeted plan. The analysis also looks at the reasons for the differences that occur and can therefore be a useful analytical tool in assessing the success of a strategy.

Managing the finances of a business becomes more difficult as a business grows in size. Costs and **revenues** from different areas of the business become harder to account for. Hence, cost centres and/or profit centres are established, with a manager being held responsible for the costs and/or revenues incurred for each department (or centre). All **profit** centres are also **cost** centres, but **cost** centres are not necessarily **profit** centres.

Task 2 – True or False?

a.	T	b.	T	c.	T	d.	F	e.	T
f.	T	g.	F	h.	T	i.	F	j.	T
k.	F	l.	T	m.	T				

Task 3 – Vocab Quiz

Key Term	Definition
Adverse variance	This occurs when costs are greater than what has been budgeted or revenues are lower than expected.
Budget	This is a financial plan of expected revenues, sales or expenditure for a department or an organization, for a given period of time.
Cost centre	Refers to an area or department of a business that costs can be clearly attributed to (for reasons of accountability).
Favourable variance	Differences in the budgeted and actual figures for the period that are beneficial for the organization.
Profit centre	Refers to a department or strategic business unit within an organization that functions autonomously and is held accountable for its own costs and revenues.
Variance	Refers to discrepancies between actual outcomes and budgeted outcomes.

Task 4 – Explain…

a. Budgets are financial plans of what a business expects to spend and earn (e.g. sales or staffing costs) whereas forecasts are predictions of what might happen (e.g. fluctuations in demand for a product based on sales forecasts).

b. Mathematically, a positive variance could be unfavourable for a business, e.g. actual payment of wages exceeds the budgeted amount (a positive number, but not 'positive' or beneficial for the business). Hence, 'favourable' variances are used (instead of 'positive' variances).

c. Prevents abuse by budget holders since every dollar of spending needs to be justified; Gives senior managers a better overview and control of the firm's finances; Ensures funds are allocated to current spending needs rather than being based on historical provision or needs.

d. Cost centres are accountable for their contribution towards the firm's overhead costs, whereas profit centres are also held accountable for their contribution of revenues.

e. Cost and profit centres support decision making and financial control within an organization; They increase the accountability of budget holders and different departments within the business; They help to identify issues, enabling managers to tackle these; They set the benchmarks and goals to increase the level of motivation of the workforce.

f. Changes in the external environment can alter variances without managers and budget holders having much, if any, control; It is challenging to predict the long-term future through the use of budgeting; Not all members of the business are involved in the process of budgeting, which impacts the motivation level of others in the organization; Variance analysis can be a lengthy process; It can only identify problems once they occur rather than preventing problems from happening; Budgets can be deliberately manipulated in an attempt to show particular results.

Task 5 – Complete the missing values

a. Budget for XYZ Co. for the period ended 20XX

All figures in $m	Budgeted figures	Actual figures	Variance (Favorable/ Adverse)
Income			
Sales revenue	600	620	20 (F)
Interest earned	10	5	5 (A)
Total income	610	625	15 (F)
Expenses			
Salaries and wages	80	85	5 (A)
Materials	150	160	10 (A)
Rent	13	15	2 (A)
Advertising	10	11	1 (A)
Electricity	22	9	13 (F)
Total expenses	275	280	5 (A)
Net income	335	345	10 (F)

b. Budget for XYZ Inc. for the period ended 20XX

All figures in $m	Budgeted figures	Actual figures	Variance (Favorable/ Adverse)
Income			
Sales revenue	350	300	50 (A)
Interest earned	10	20	10 (F)
Total income	360	320	40 (A)
Expenses			
Salaries and wages	20	30	10 (A)
Materials	130	150	20 (A)
Rent	40	40	-
Advertising	10	10	-
Electricity	20	30	10 (A)
Total expenses	220	260	40 (A)
Net income	140	60	80 (A)

Task 6 – Calculations and analysis

a. Complete the missing figures for Vivien Jack Hair Salon.

Variable	Budgeted ($)	Actual Outcome ($)	Variance ($)	Variance (F/A)
Wages	4,000	4,200	200	Adverse
Salaries	4,500	4,500	0	-
Stock	1,800	1,850	50	Adverse
Revenue	15,750	16,040	290	Favourable
Direct costs	3,200	2,950	250	Favourable

b. Shampoo, Conditioner, Hair dyes, Hair sprays, Hair gels, etc.

c. Wages, stocks (e.g. shampoo, conditioner and hair gel), electricity, water, etc.

Task 7 – Multiple Choice

1. B. The financial plan for the next twelve months
2. C. They are historical (backward-looking) financial plans
3. D. Zero budgeting
4. D. 12 months
5. D. Variance
6. B. To assess performance related pay of managers
7. B. Flexible budgets
8. D. Unfavourable variance
9. D. The budget holder's length of experience
10. A. Favourable variances
11. A. All below
12. C. Price and usage variance
13. A. All below
14. A. All below
15. B. Improved training and quality assurance

Unit 4.1

Introduction to marketing

Task 1 – True or false?

a.	F	b.	T	c.	F	d.	T	e.	F
f.	T	g.	F	h.	T	i.	T	j.	F

Task 2 – Vocab Quiz

Key Term	Definition
Market growth	Increases in the size of a particular market or industry, usually expressed as the percentage increase in the market size over a given period of time.
Market orientation	A marketing approach that places the needs and wants of customers as the key to success.
Market share	A measure of a firm's market power, this is measured by calculating the firm's sales revenue as a percentage of all sales in the market.
Marketing	The business function of determining the products required to meet the needs and wants of customers, in a profitable or sustainable way.
Marketing plan	A document outlining the marketing mix of an organization in order to achieve its marketing objectives.

Task 3 – Explain…

a. Marketing is about the identification, anticipation and satisfaction of the needs of customers, whilst making a profit (or financial surplus). This can be done through application of the marketing mix (product, price, promotion, place, people, physical evidence, process, and packaging).

b. o As market share refers to an organization's share of the total value of sales of all products within a specific market, it can be measured by expressing the firm's sales as a percentage of the total market's sales.

o Alternatively, market concentration measures the degree of competition within a market by calculating the market share of the largest firms in a market. The sum of these market shares is known as the concentration ratio.

c. o Gain market share in the rapidly growing markets or gain higher sales/profits by entering the new market

o Cost of entry into new markets (e.g., finance, R&D, and personnel) or the high risks involved in launching new products, even if the business is growing.

d. o Firms without much competition or those that are highly innovative tend to be more product focused (product orientation), e.g. 3M, Apple and Google.

o A market orientated business has its focus on the needs and requirements of the customer, producing goods and supplying services that it knows it can sell.

Task 4 – Calculating market share

a.

Company	Sales ($m)	Market share (%)
A	60	**40**
B	30	**20**
C	**33**	22
D	**27**	18

b. Companies A and C (the largest two firms) account for 62% of the market (a combined $93m in a market worth $150m), i.e. the two firms have significant market power (market leaders) so dominate the market.

Task 5 – Multiple Choice

1. C. Recruiting the best salespeople
2. C. It is all about selling products to meet the needs of customers
3. A. Marketing budgets
4. B. People
5. A. Packaging
6. D. Production
7. B. Perishable
8. D. Researching consumers' needs in order to develop new products
9. D. There is a lot of spending on research and development
10. C. Products are designed according to what the producer feels will sell
11. B. Producing and marketing products that the firm believes will sell
12. C. Physical evidence
13. B. The percentage of total sales in a market that can be attributed to a firm
14. B. It requires economies of scale to be earned
15. A. To gain higher market share

Unit 4.2

Marketing planning

Task 1 – Vocab Quiz

Key Term	Definition
Market segment	A particular customer group within a market for a product which has shared characteristics and needs that are targeted by marketers.
Marketing planning	The systematic process of devising marketing objectives and appropriate marketing strategies to achieve these objectives.
Marketing strategy	The approach taken by an organization in order to achieve its marketing objectives.
Mass markets	Industries that buy and sell products catered for a large and broad range of target markets, e.g. fruits and vegetables, canned drinks, and printing paper.
Niche markets	Industries that buy and sell highly specialised goods and/or services that cater for a small and select target market, e.g. wakeboarders and fencers.
Positioning (perception map)	A technique that shows how a product is perceived in relation to other products or brands that are available in the same market.

Target market	A clearly identifiable group of customers that an organization focuses its marketing efforts on.
Unique Selling Point	An exclusive customer benefit that no other organization can claim for its product.

Task 2 – True or False?

a.	T	b.	T	c.	F	d.	T	e.	T
f.	F	g.	F	h.	T	i.	T	j.	F

Task 3 – Explain the difference between…

a. Marketing objectives are the goals of the marketing department, which align with the organization's overall aims, such as striving to increase market share. Marketing strategies are the ways the business intends to achieve its marketing objectives, e.g., product development, repositioning, or product extension strategies in order to increase the firm's market share.

b. Niche markets are small and focused; there are high profit margins as premium prices can be charged. In mass markets, producers sell standardised products to large consumer markets, so profit margins are lower.

c. Market segments are distinct groups of customers with similar characteristics, e.g., age, gender or religion. Market segmentation is the process of splitting a market into such distinct groups.

d. Market segmentation is a prerequisite to targeting. By splitting a market into distinct groups of buyers (e.g. children and adult or males and females), appropriate marketing strategies can be used to target these market segments.

Task 4 – Multiple Choice Questions

1. C. Product extension strategies
2. A. Differentiation
3. C. Market segmentation
4. A. Packaging
5. A. Demographic
6. B. Market
7. A. Demography
8. C. Positioning
9. B. It is used for primary research only
10. D. Unique selling point
11. C. The time involved to determine target markets
12. A. Academics
13. C. Lifestyle
14. D. Repositioning
15. B. Consumers

Unit 4.3

Sales forecasting (HL only)

Task 1 – Vocab Quiz

Key term	Definition
Seasonal variations	These are predictable and periodic fluctuations in sales revenues over a specified time period, such as certain months or times of the year.
Random variations	These are unpredictable fluctuations in sales revenues, caused by erratic and irregular factors that cannot be practically anticipated.
Time series analysis	A statistical technique that identifies trends in historical data, often adjusted for seasonal and cyclical fluctuations.
Sales forecasting	A quantitative management technique used to forecast a firm's level of sales over a given time period.
Cyclical variations	The recurring fluctuations in sales revenues due to the trade cycle (or business cycle).

Task 2 – True or False?

a. F b. T c. T d. T e. F

f. T

Task 3 – Multiple Choice

1. D. A statistical tool used to predict a firm's sales level based on historical data
2. D. Increase market share
3. C. Launch
4. A. Banking services
5. C. The data make it difficult to extrapolate sales trends
6. A. Budgetary variations
7. D. Historical benchmarking data
8. B. The duration of the repeating pattern of variations in sales revenues
9. D. Seasonal
10. C. Random

Unit 4.4

Market research

Task 1 – Vocab Quiz

Key Term	Definition
Academic journals	Type of secondary market research, namely publications that contain the latest educational research and scholarly theory.
Cluster sampling	Type of sampling method that involves identifying the population by geographical areas.
Market research	Marketing activities designed to discover the beliefs, perception, feelings, and opinions of potential and existing customers.
Non-sampling error	Occurs when an inappropriate sampling methodology is used, namely mistakes that are not attributed to human errors in market research design.
Population	The term used to refer to the total number of people in a given market.
Primary research	Also known as **field research** or **bespoke research**, this is market research that involves gathering new data, first-hand for a specific purpose.
Questionnaire	The most common form of primary research that uses a series of questions in order to collect data from a representative sample.
Sampling	The practice of selecting a small group or segment of the population for a particular market for research purposes.
Secondary research	Also known as desk research, this involves the collection of second-hand data and information that already exists, gathered by others.

Task 2 – True or False?

a.	T	b.	F	c.	F	d.	T	e.	F
f.	T	g.	F	h.	T				

Task 3 – Sampling

Description	Sampling method
Uses subjects that are easy (simple) to reach, e.g., students often use their classmates and friends in a research study.	**Convenience**
Sampling a given number of people who share similar characteristics, e.g., teenagers, parents, smokers, or students.	**Quota**
Method that allows everyone an equal chance of being selected for sampling.	**Random**

Task 4 – Explain the difference between…

a. Qualitative market research is based on the opinions and views of people/customers whereas quantitative methods focus on research that aids statistical analyses.

b. Quota sampling selects a certain number of people (the quota) from different market segments (that share the same characteristics such as age, gender, or occupation). Random sampling involves giving everyone in the population an equal chance of being selected for the sample. They are randomly chosen, often by using information from a computer database.

c. Academic journals (such as the *Harvard Business Review*) are publications that contain the latest educational research and academic theory. Market analyses are reports from the industry (such as *The Grocer* in the supermarket industry) containing data and information about a particular product, market, or industry.

Task 5 – Multiple Choice Questions

1. B. Market research
2. B. Focus
3. D. field, new
4. A. Collecting new data for a specific purpose
5. C. To gather data required that does not already exist
6. A. Customer suggestions and feedback
7. B. It is unique to the purpose of the research
8. C. Group interviews
9. B. Observations and surveillance
10. C. Primary research may lack specific focus
11. A. Academic publications
12. C. Social trends
13. A. Accessing company annual accounts
14. C. It includes the use of survey and interview findings conducted by the firm
15. A. Desk research
16. C. Observations
17. D. The latter method relies on a much larger number of respondents to get a statistically valid set of answers
18. C. Qualitative research
19. B. Qualitative research
20. D. Quantitative research
21. D. Understand the behaviour, attitudes, and perceptions of selected sample
22. C. Is based on only using primary research techniques
23. C. Sample

24. D. It is cheaper and quicker to use a sample than to survey the whole market

25. B. Quota

26. C. Random

27. A. Convenience

28. C. Likely to be very representative of the population

29. C. Errors made in recording data

30. D. There are sampling discrepancies

Unit 4.5a

The seven Ps of the marketing mix – Product

Task 1 – Vocab Quiz

Key Term	Definition
Brand development	The strategy of growing and expanding a trademark to build market share for a particular brand or product.
Brand loyalty	This occurs when customers buy their preferred brand of a particular product, and they are reluctant to switch to another brand or product.
Consumer durables	Long-lasting products purchased by individuals for personal use, e.g., cars, furniture, games consoles, smartphones, and washing machines.
Extension strategies	These methods are used to lengthen the product life cycle of a particular good or service.
Logo	A unique graphical representation (such as a symbol, font, or graphic) of a business or its brand.
Maturity	The stage in the product life cycle when sales revenues are at, or near, their maximum and there is little scope for any further growth.
Product differentiation	A marketing strategy that tries to give a product a unique or distinctive element so that it stands out from other goods or services in the market.
Product life cycle	Marketing theory that depicts the phases a typical product goes through during its commercial existence, from launch to withdrawal.

Task 2 – True or False?

a.	T	b.	F	c.	T	d.	F	e.	F
f.	T	g.	T	h.	F				

Task 3 – Multiple Choice Questions

1.	A.	Capital goods
2.	C.	Perishable products
3.	A.	Products that are not durable
4.	C.	Fast moving consumer goods
5.	B.	Convenience goods
6.	D.	Mathematics textbooks
7.	A.	Fresh foods
8.	B.	Games consoles
9.	D.	Product differentiation
10.	C.	Perception mapping
11.	D.	Publicity
12.	B.	Launch
13.	C.	Market research
14.	D.	Redesigned packaging to increase the emotional value of the product
15.	C.	Increasing prices to improve the image (perception) of the product
16.	A.	Brand extension
17.	C.	Producing new products to sell abroad
18.	D.	The last stage of a product's life cycle when sales fall
19.	B.	Products
20.	B.	Product extension strategies
21.	D.	To raise brand awareness
22.	B.	It allows firms to charge lower prices to attract more sales
23.	A.	Brand leader
24.	B.	Brand loyalty
25.	C.	Premium brands

Unit 4.5b

The seven Ps of the marketing mix – Price

Task 1 – Complete the missing words…

Price is the amount that the customers pay to purchase a good or service. Setting the right price is crucial to encouraging sales. Setting a price that is too **high** will reduce the ability and willingness of customers to buy the product, so negatively affect the sales. Setting a price that is too **low** may negatively impact the perception of customers and the profits of the business.

It is important to understand the determinants affecting the price of a product, such as the **cost** of producing or providing the product. The existence of **competitors** in the market is also another example, as this is likely to force businesses to be more competitive to attract customers. In contrast, a dominant market leader is likely to have the freedom to set prices due to limited rivalry from competitors. Related to this, businesses with a positive corporate **image/reputation** can charge higher prices. Deteriorating economic conditions, such as **recession**, will make it more challenging for businesses to increase their prices.

Task 2 – Vocab Quiz

Term	Explanation
Cost-plus pricing (mark-up pricing)	Adding a fixed amount or percentage to the costs of production in order to determine the selling price.
Loss Leader	A pricing method in which a product is sold below its cost in an attempt to encourage sales of other profitable goods or services.
Penetration pricing	Setting a very low price in order to gain access to a market.
Predatory pricing	Charging a very low price, perhaps below costs, to harm the sales of competitors in the market.
Premium pricing	Pricing one of the product or services is high to encourage favourable perception amongst the buyers based on the price itself.
Competitive pricing (HL only)	Setting prices based on the prices set by rival businesses.
Contribution pricing (HL only)	Pricing method in which the price of the product is charged on the basis of its contribution to cover the fixed costs it incurs even if to a minimal level.
Dynamic pricing (HL only)	Pricing method in which businesses set flexible prices for products or services based on current market demands.
Price elasticity of demand (HL only)	The extent to which the quantity demanded changes with the change in its price.

Task 3 – True or False?

a.	T	b.	T	c.	T	d.	T	e.	T
f.	T	g.	T	h.	T	i.	F	j.	F
k.	T	l.	F	m.	T	n.	T	o.	T

Task 4 – Pricing Methods Multiple Choice Questions

1.	D.	**Profit margin per unit**
2.	C.	**Prices are set according to the average price level**
3.	D.	**Predatory pricing**
4.	B.	**Maximize profit margins**
5.	A.	**To encourage customers to purchase additional products**
6.	C.	**50% Average variable costs = ($47,600 / 11,900) = $4**
7.	C.	**Predatory pricing**
8.	B.	**Loss leader pricing**
9.	C.	**Predatory pricing**
10.	C.	**Predatory pricing**
11.	**D.**	**There is a small number of close substitutes**
12.	A.	**Bananas**
13.	A.	**Dynamic pricing**
14.	A.	**Competitive pricing**
15.	**D.**	**The responsiveness of quantity demanded to a change in price**

Unit 4.5c

The seven Ps of the marketing mix – Promotion

Task 1 – Complete the missing words…

Promotion is about communicating marketing messages, such as adverts, with the intention of selling the **products** of a business. There are various media that can be used for this purpose, e.g., television, radio, newspapers, magazines, and the **Internet** (for social media marketing). Promotion is important to ensure that a product has a high chance of succeeding in the marketplace. However, the spending must be **cost**-effective as promotion can be highly expensive. The objectives of promotion are to **inform** (notify) and to **remind** (retell) customers about a firm's products and to **persuade** them to purchase the products.

Promotion is often categorized as **above the line** (ATL), **below the line** (BTL), or **through the line** (TTL). **ATL** promotion refers to paid-for promotion, e.g., commission being paid to an advertising agency for creating a television advertising campaign. All other forms of promotion are known as **BTL** promotion. Unlike ATL promotion, the firm has direct control over BTL promotional activities such as: direct mail, exhibitions, **point of sales** (POS) displays, and sales promotions. TTL promotion refers to a combination of both ATL and BTL methods. For example, digital promotional strategies combine online banner adverts (**ATL** promotion) with social media posts and blogs (**BTL** promotion) as an integrated marketing approach to target a range of market segments.

Task 2 – Above or Below the line promotion?

Place a tick (✓) in the relevant column to identify whether each of the listed promotional techniques are above the line (ATL) or below the line (BTL).

Promotional technique	ATL	BTL
Billboard posters	✓	
Branding		✓
Cinema	✓	
Direct mail		✓
Free samples		✓
Internet adverts, e.g., Google and Facebook	✓	
Magazines	✓	
Merchandising		✓
Newspapers	✓	
Packaging		✓
Personal selling		✓
Point of sale displays		✓
Public relations		✓
Radio	✓	
Sales promotion		✓
Social media, e.g., Twitter and Instagram	✓	
Sponsorship deals		✓
Television	✓	
Trade journals	✓	
Website (company-owned)		✓

Task 3 – Short answer questions…

a. Promotion is vital to a firm's marketing mix as its function is to communicate messages to existing and potential customers, with the intention of selling the firm's products. Irrespective of the quality of the product, its price or where it is available for sale, the product must be promoted effectively in order to make customers aware and to have a desire to buy it. Hence, promotion is essential for the commercial success of a product.

b. Persuasive advertising aims to sell a product to the customer, perhaps by the use of branding or product differentiation, e.g., mobile phone network providers that claim to offer the 'best' deals. Informative advertising, as used by governments and other non-profit organizations, aims to educate people so that they change their behaviour, e.g., anti-littering campaigns. Profit seeking firms also use this method to inform customers about their products, e.g., facts and figures.

c. Global market leaders continue to advertise in order to retain and strengthen brand loyalty, maintain or increase market share, adjust and/or improve their brand image, attract new customers, enter new markets overseas, and consolidate/strengthen their market position.

d. Television advertising is a highly expensive form of ATL promotion and is used by large businesses that target customers in mass markets (rather than sole traders who lack the finance to use TV advertising and do not tend to cater for a mass consumer market).

e. BOGOF deals do not raise any extra revenue for the firm so there is no contribution towards costs from the sale of the 'free' product; neither do they directly help to raise market share. BOGOF deals are only used temporarily, often to get rid of excess stock, i.e., it is not a sustainable promotional strategy.

Task 4 – True or False?

a.	T	b.	F	c.	F	d.	T	e.	T
f.	T	g.	F	h.	T				

Task 5 – Multiple Choice Quiz

1.	C.	Price reductions
2.	B.	Cinema advertising
3.	B.	Direct marketing
4.	A.	Above the line
5.	D.	The use of promotion via the mass media
6.	C.	The marketing process of selling straight to potential and known customers
7.	D.	The process of persuading people to buy a firm's products
8.	A.	Corporate slogans
9.	B.	A sign or symbol that represents a business and its products
10.	C.	Below the line promotion
11.	A.	Customer relations management
12.	B.	Social media marketing
13.	D.	Personal selling techniques
14.	A.	Hero endorsement
15.	D.	Sponsorship
16.	A.	Activities aimed at establishing and protecting the corporate image of a business
17.	D.	Sales promotion
18.	C.	It focuses on promoting the brand or the company itself rather than a product
19.	C.	Persuasive
20.	B.	Sales promotion

Unit 4.5d

The seven Ps of the marketing mix – Place

Task 1 – Complete the blanks…

Place, or **distribution**, is the component of the marketing mix that deals with getting the right product to the right customer in the most convenient and most cost-effective way. Firms do this through the use of distribution **channels**, such as wholesalers, sales agents, and retailers.

Intermediaries are people or organizations that act on behalf of sellers and buyers. **Wholesalers**, for example, are the buyers of products from a manufacturer and resell these products in smaller units to **retailers** (commercial businesses that sell products to the general public).

Telesales refers to the distribution channel that relies on telephone calls to sell products directly to potential customers. This method is highly popular with insurance companies and commercial banks. An advantage of using this approach is that it reduces the need for sales people to make personal visits, thereby saving travel **time** and money.

Task 2 – Explain…

a. **Advantages**

- Less effort – there is no need to physically go to the local supermarket.
- Similarly, there is no need to carry bulky shopping items (fresh fruits and vegetables can be heavy).
- Convenience – an online store is open 24/7, which can also be useful if the customer is unable to leave the house for whatever reason, e.g., due to bad weather or because they have young children.

Disadvantages

- There is a time lag between customers ordering supermarket products and having these products delivered to the customers.
- There is the possibility of inconvenient delivery times, or the customer not being at home when the goods arrive.
- The local supermarket may not be able to guarantee the quality or freshness of the fruits and vegetables during the delivery process.
- Customers cannot hand pick or inspect the products before they place their orders.
- A delivery charge may be charged if the minimum order amount is not spent by the customer.

b. Explanation of cost-based pricing strategies, namely cost-plus (mark-up) pricing.

c. Perishable goods need a short chain of distribution in order to get the products to consumers in the quickest time possible; otherwise, the fresh/perishable products (such as fresh flowers, meat, poultry, fish, and bakery products) would cease to be fit for their purpose.

Task 3 – Vocab Quiz

Key Term	Definition
Channels of distribution	The means by which a product gets from the manufacturer to the consumer, such as through retail outlets or distributors.
Direct marketing	Part of a firm's promotional mix that relies on making direct contact with existing and potential customers.
Distribution	Also known as **place** in the marketing mix, this is the process of getting the right products to right customers at the right time and location.
Intermediaries	Agents or firms that act as middle persons in the chain of distribution between the producer and consumers of a product.
Vending machines	Specialist storage machines that stock a small range of products. These can be easily placed in almost any location.

Task 4 – True or False?

a.	T	b.	T	c.	T	d.	F	e.	T
f.	F	g.	T						

Task 5 – Multiple Choice Questions

1. **C. Warehouses**
2. **D. Specialist retail outlets**
3. **B. Location of business**
4. **C. Retailer**
5. **C. They charge commission for their services**
6. **C. Cashier at a supermarket**
7. **D. Retailers**
8. **A. Breaking bulk**
9. **A. Direct**
10. **C. Newspaper and magazines**
11. **B. Retailers**
12. **D. They rely on the expertise of distributors and agents**
13. **A. Sales people are not required to sell the product, which saves on labour costs**
14. **D. Wholesaler**
15. **B. It reduces the need for an intermediary**

Unit 4.5e, f & g

The seven Ps of the marketing mix – People, Processes, Physical evidence

Task 1 – Explain…

a. Goods are physical products (such as cars and computers) whereas services are intangible products (such as a car wash service and computer maintenance services).

b. The marketing of goods involves the traditional marketing mix comprised of the 4 Ps (product, price, promotion and place). The marketing of services includes three additional elements to the marketing mix: people, processes, and physical evidence.

c. People are required to assist in the selling of a service; they are essential in determining the customer experience, be it a haircut, bus ride, or vacation at a resort. The quality of the employee-customer relationship also determines whether customers have a positive perception of the business.

d. Businesses that do not manage the waiting time for their services will upset their customers. The consequences include: disgruntled customers, customer complaints, a poorer corporate image, and negative word of mouth marketing. Customers might seek compensation and/may switch to alternative suppliers.

Task 2 – True or False?

a.	T	b.	F	c.	F	d.	T	e.	T
f.	T	g.	T	h.	T	i.	T	j.	T

Task 3 – Multiple Choice

1. B. Purchasing popcorn and drinks at the local cinema
2. A. Durability
3. A. Customer feedback
4. D. The way in which a service is provided or delivered by a business
5. B. Customer relations management
6. C. Physical evidence
7. A. Amazon
8. A. Flexible working practices
9. D. Social media platforms have empowered customers globally
10. A. Correcting mistakes is highly expensive

Unit 4.6

International marketing

Task 1 – Explain…

a. Exporting involves selling a firm's products to overseas buyers, i.e., it doesn't require a business to physically expand in an overseas market. By contrast, direct investment involves setting up overseas production and/or distribution facilities.

b. International marketing refers to marketing across national boundaries whereas global marketing occurs when a business markets a standardized product on a global scale.

c. These products originate from the UK and are associated with British culture, but are known/consumed throughout the world.

d. Such an approach can give the firm a competitive edge and a greater chance of survival in overseas markets; What works well in one country does not necessarily work well in other countries where cultures, expectations, and etiquette can be drastically different.

Task 2 – True or False?

a.	T	b.	T	c.	T	d.	F	e.	T
f.	T	g.	F	h.	T	i.	T	j.	F

Task 3 – Odd one out

a.	Copyrights	Patents	**Exchange rates**	Health and Safety
b.	Tariffs	Quotas	Embargoes	**Language**
c.	**Exporting**	Joint ventures	Mergers	Takeovers
d.	Exchange rates	**Legislation**	Unemployment	Inflation

3a. Exchange rates - this is the only economic barrier; the others are legal constraints on international marketing and can affect a single product only (whereas exchange rates affect all products).

3b. Language - the other options are artificial (government-imposed) barriers to international trade.

3c. Exporting - the other options require some form of foreign direct investment (FDI) to enter overseas markets.

3d. Legislation - the other options are economic issues (rather than a political factor) related to international marketing.

Task 4 – Multiple Choice

1.	D.	**The potential quantity of suitable customers**
2.	C.	**Local laws**
3.	B.	**Attitude towards working hours**
4.	B.	**Cultural exports**
5.	A.	**Business etiquette**
6.	B.	**Global marketing**
7.	A.	**Business etiquette**
8.	C.	**Language and local culture**
9.	A.	**Extending a product's life cycle**
10.	C.	**Mobile phones from South Korea**
11.	A.	**External sources of finance**
12.	C.	**Quotas**
13.	D.	**imported, reduce**
14.	C.	**Lower prices being charged**
15.	C.	**Globalization of markets and cultures**

Unit 5.1

Introduction to operations management

Task 1 – Vocab Quiz

Key Term	Definition
Adding value	The process that takes place during production when the value of output to consumers is greater than the costs of production to the firm.
Capital-intensive	Approach to operations management that involves a firm relying mainly on the use of machinery and equipment, rather than labour, to produce its output.
Ecological sustainability	Capacity of the natural environment to cope with meeting the needs of the current generation without jeopardising those of subsequent generations.
Economic sustainability	The ability of the economy to develop in such a way that it meets the economic well-being needs of the current and subsequent generations.
Labour-intensive	Approach to operations management that involves a firm relying mainly on the use of labour, rather than machinery and equipment, to produce its output.
Operations management	The function of business concerned with providing the right goods and services in the right quantities and at the right quality in a cost-effective way.
Social sustainability	The ability of the society to develop in such a way that it meets the social well-being needs of the current and future populations.
Sustainability	The concept that production and consumption today should not jeopardize production and consumption for future generations in terms of social, ecological, and economic terms.

Task 2 – True or False?

a.	T	b.	T	c.	T	d.	F	e.	T
f.	T	g.	T	h.	T	i.	T	j.	F

Task 3 – Multiple Choice Questions

1. A. **All of the below**
2. D. **Technological sustainability**
3. B. **Labour intensive production**
4. C. **Innovations**
5. A. **Entrepreneurship**
6. D. **Sustainability**
7. C. **Cradle to grave manufacturing**
8. B. **Population growth**
9. B. **Efficiency**
10. C. **To hire the best (most suitable) production workers**

Unit 5.2

Operations methods

Task 1 – Complete the missing words…

There are several operations methods (or methods of production). **Job** production involves the customization of an individual product, from start to finish, to meet the specific requirements of a **customer**. Clients are likely to pay relatively **high** prices for the purchase of such **unique** products.

Batch production and mass production methods both benefit from **economies** of scale through larger levels of **output**. However, the marketing mix will differ, as there is less uniqueness or exclusiveness with **batch** production. However, **mass** production, in particular, suffers from the **standardization** of output and hence relatively lower prices are charged (so relatively lower **profit** margins are earned).

Mass customization combines mass production and job production. This benefits the business from the **efficiencies** of mass production whilst enabling customers to **personalize** individual products to their own preferences from a limited range of options and specifications.

Task 2 – True or False?

a.	F	b.	F	c.	T	d.	T	e.	T
f.	T	g.	F	h.	T				

Task 3 – Explanations….

a. Batch production.

b. Can gain some economies of scale; Standardized output with some variety (of clothing items) for a mass market; Flexibility in producing clothes of different sized and colours (variety/choice); Better stock control.

c. Customers will only pay for clothes that are completed, not those that are 'work in progress'; hence no cash is generated from having stocks of semi-finished goods. Stockpiling will also add to storage and insurance costs, worsening the firm's liquidity position.

Task 4 – Multiple Choice

1. B. **Economies of scale can be enjoyed due to the size of the project**
2. **B.** **Bakers**
3. D. **Relatively quick to produce**
4. A. **Distinctive quality and output**
5. C. **Labour intensity**
6. C. **Production is capital-intensive**
7. A. **Batch**
8. B. **Goff's Hair Salon**
9. A. **Average costs**
10. B. **Exclusivity**
11. C. **Stockpiling of manufactured products**

12. C. **Use of a highly skilled labour force**

13. C. **Providing customers with multiple options for various components, features, or configurations**

14. D. **School reports**

15. D. **Resources that are not used in a cost-effective way**

16. A. **Whether the financial returns from the investment justifies the expenditure**

17. C. **Steel manufacturing**

18. C. **Printers and publishers**

19. D. **Specialization**

20. C. **Job production**

Unit 5.3

Lean production and quality management (HL only)

Task 1 – Complete the missing words…

Quality **assurance** (QA) requires the implementation of processes and systems to make certain that quality standards are met, thereby ensuring customer **satisfaction**. QA is used by a business to give customers greater **confidence** in the quality of the products that they buy from the organization. A firm that is able to meet QA standards will publicize this, usually with the use of international quality assurance trademarks, such as ISO **9000** (the world's most best-known quality management standard).

At the heart of quality management are concepts such as **lean** production (the elimination of **waste**) and **just-in-time** (a production system that removes the need to use buffer stocks by having stocks and components delivered as and when they are needed in the **production** process). Quality management also involves all members of an organization striving to make small, continuous adjustments and improvements. This philosophy is known as **kaizen**, the Japanese term for 'change for the better' or '**continuous** improvements'.

One other way used by businesses to manage quality is by comparing their practises or performance indicators with those of the best in the industry. This method is known as **best practice benchmarking** (BPB), or simply 'benchmarking' for short. BPB is as a continuous process in organizations that make every effort to achieve **quality** assurance.

Task 2 – True or False?

a.	F	b.	T	c.	T	d.	T	e.	T
f.	T	g.	T	h.	F	i.	T	j.	F
k.	F	l.	F						

Task 3 – Explanations…

a. Explain how each of the following cases outlines poor quality

   i. Customer dissatisfaction is a sign of poor quality (service)

   ii. The laptop is clearly not fit for its purpose and therefore represents substandard quality

   iii. This represents second-rate (poor quality) food preparation in a restaurant.

b. **Staff turnover** is a measure of personnel effective in motivating and retaining staff. Although the rate of staff turnover could have an impact on quality, it is not a (direct) measure of quality.

c. Staff training and retraining costs; Planning and executing QA take time and can be costly; Resistance to change from the workforce; Systems developed to achieve zero defects can be highly expensive.

d. It signifies that the manufacturer has passed stringent and regular testing by independent agents; Such prestigious awards can give a manufacturer a competitive edge or a distinctive selling point; quality certification gives customers greater reassurance / confidence in parting with their money.

Task 4 – Multiple Choice

1. C. **Quality means less stress to employees due to the reduced workload**
2. C. **Fit for purpose**
3. D. **Value for money**
4. B. **Higher wastage levels**
5. B. **Flexibility in meeting sudden changes in consumer demand**
6. C. **Mass production**
7. B. **International quality standards**
8. D. **Zero defects**
9. C. **Quality control**
10. C. **Research and development**

Unit 5.4

Location

Task 1 – Complete the missing words…

The location decision is vitally important for a business because it has a direct and long-lasting impact on its costs, revenues and therefore its **profits**. Good location decisions require in-depth research and analysis of the costs and **benefits** of different places, taking both quantitative and **qualitative** factors into consideration.

In an ever globalized business world, re-organizing production takes place both nationally and internationally. There are three main ways to do this:

- **Insourcing** is the use of an organization’s own people and resources to accomplish a certain function or task which would otherwise have been **outsourced**.
- **Offshoring** involves relocating business functions and processes overseas. These functions can remain within the business (operating in overseas markets) or outsourced to an overseas organization.

- **Outsourcing** (or subcontracting) is the practice of transferring internal business activities to an external organization, in order to reduce **costs** and increase **productivity**.

Task 2 – True or False?

a.	F	b.	T	c.	T	d.	F	e.	T
f.	T	g.	F	h.	T	i.	T	j.	F
k.	T								

Task 3 – Explain two reasons why…

a. Higher level of demand (for the land), pushing up rental values; Lower supply of quality locations, again pushing up the cost of land in the city.

b. Government wishes to encourage employment and economic activity in these assisted areas; Provides a financial incentive for firms to locate in areas that they may not have otherwise considered being located in.

c. Enabling customers to make online purchases means that businesses can be more footloose; Location is no longer such a significant factor for overseas customers who can place orders online.

Task 4 – Multiple Choice Questions

1. D. **The need to be physically located near customers**
2. **B.** **Internal economies of scale**
3. D. **Nixon Oil Company**
4. D. **Reduce transportation costs**
5. D. **Highly expensive products**
6. B. **Heavy, bulky, and durable items**
7. B. **Cost of purchasing or renting land**
8. C. **Taxes imposed on harmful by-products to protect the local community**
9. C. **Nature of local infrastructure**
10. B. **Management preferences**
11. B. **Industrial inertia**
12. A. **Clustering**
13. D. **Subcontractors**
14. **B.** **Cannot gain any cost advantage from a particular location**
15. C. **Proximity to the market**

Unit 5.5

Break-even analysis

Task 1 – Complete the missing words…

Break-even occurs when a firm's **sales** revenue equals its **total** costs. The firm will make a **loss** if it operates below its break-even level of output. By contrast, if it is able to generate more **revenue** than costs incurred in production, then it will make a **profit**. Profit is the positive difference between sales revenues and the **costs** of production, i.e., total revenues **minus** total costs.

To calculate break-even, it is common to use the **contribution** method by dividing the total **fixed** costs by the difference between the product's selling price and its **variable** costs of production. For example, if a manufacturer has fixed costs of $5,000 per month, with an average variable cost of $15 and a selling price of $35, then its break-even level of output would be **250** units per month. Contribution analysis can help a business to identify products or projects that are relatively profitable and ones that might need more attention.

Task 2 – True or False?

a.	T	b.	T	c.	F	d.	F	e.	T
f.	T	g.	T	h.	T	i.	T	j.	F

Task 3 – Calculating break-even

a. $60,000 / 1,000 = $60 per unit

b. TC = $40,000 (i.e. $60,000 – $20,000)

TVC = $30,000 (i.e. $40,000 – $10,000)

Hence, AVC = $30,000 ÷ 1,000 = $30 per unit

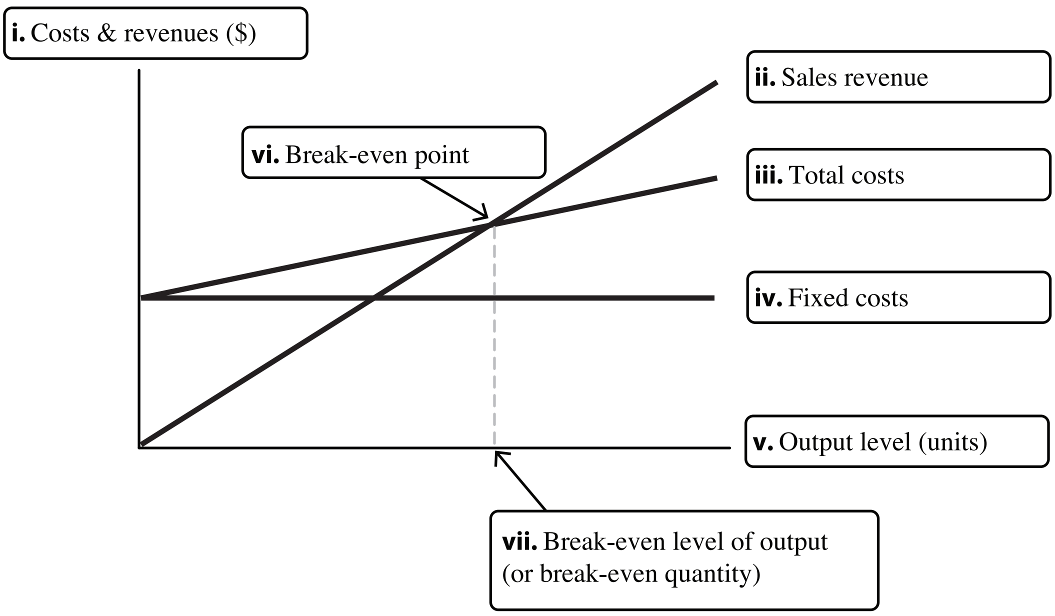
c. $10,000 ÷ ($60 – $30) = 334 units

d. 500 – 334 = 166 units (or close to 50% above break-even)

e. $40 – $15 = $25

f. 100,000 ÷ $25 = 4,000 units

g.



i. Costs & revenues ($); ii. Sales revenue; iii. Total costs; iv. Fixed costs; v. Output level (units); vi. Break-even point; vii. Break-even level of output (or Break-even quantity)

h. Break-even analysis tends to be used for a single operation. If there is more than one product involved, fixed costs might not be easily divided between the various products, thereby making it difficult to determine an accurate break-even level of output.

i. Increase the break-even point, e.g. due to higher fixed costs. Decline in sales, e.g., due to an economic recession.

Task 4 - Multiple Choice Questions

1. **B.** Factory rental costs
2. **B.** After-sales care
3. B. selling, average
4. B. Price minus average variable costs
5. A. Total revenue and total variable costs
6. B. It accounts for variances in actual sales and planned output
7. B. Reducing its prices
8. D. Unit contribution
9. D. $3.6 million
10. **A.** Average fixed costs
11. B. above, profit
12. A. Break-even output will fall
13. C. The firm operates at a level higher than its break-even
14. C. $35,000
15. **A.** $275
16. C. 50
17. **D.** $850
18. C. 30 22,500/(1,000 – 250) = 30 units
19. **D.** $30,000 $1,000 × 30 = $30,000
20. C. $700
21. **B.** $1,250 $250 + $1,000 = $1,250
22. B. Economies of scale can only occur as the firm expands output
23. D. It is a static model that does not cater well for the dynamic nature of business
24. B. Multi-product firms cannot make use of break-even analysis
25. C. Qualitative decision-making

Unit 5.6

Production planning (HL only)

Task 1 – Complete the missing words…

Production planning involves managers overseeing and controlling the level of stock in a business. Stocks can come in three forms: raw materials, work-in-**progress**, and finished goods. The **economic order quantity** (EOQ) is the level of stock that minimises the firm's average costs. Firms need to balance the costs of holding large volumes of stock (known as **stockpiling**) with the drawbacks of holding insufficient quantities of stock (known as a **stock-out**).

Delays in the **lead time** (the period of time taken for a supplier to process and deliver a stock order) will mean that stocks fall below the desired minimum level and the firm has to rely on its **buffer** stock.

Just-in-case stock control systems rely on the use of buffer stocks in order to meet changing levels of demand. By contrast, **just-in-time** systems have stocks delivered immediately the moment that they are required for production. This helps to improve the firm's **working** capital since money is not tied up in stocks (which might not be highly liquid).

The **supply** chain (or logistics) refers to the sequence of activities from the production of a good or service to it being **delivered** to the consumer. A long supply chain increases the chances of things going wrong, so effective supply chain management helps to **minimise** costly mistakes to the business.

Task 2 – Vocab Quiz

Key term	Meaning
Buffer stock	A reserve of an inventory that is maintained to offset price fluctuations.
Capacity utilization rate	A measure of the extent to which a business uses its available productive capacity.
Capital productivity	Measures the output per unit of value of non-current assets used in the production process.
Defect rate	The percentage of output that does not meets a quality standard or specification.
Just-in-case	A traditional stock control system in which a large number of stocks are kept to account for fluctuations in supply or demand.
Just-in-time	A stock management system in which goods are delivered for production as and when required in the process rather than relying on buffer stocks.
Labour productivity	A measure of worker's efficiency, calculated by the value of output produced by a worker per labour hour.
Lead time	The period between placing an order for stocks and receiving them for production.
Operating leverage	The measure that determines the impact of an increase in sales revenue on the profit of the business, depending on its level of fixed costs.
Productivity rate	The generic measure of how well the resources of a business are used in the production process, such as output per worker or revenue per salesperson.
Reorder level	The inventory level at which the business needs to place orders for additional stocks.
Reorder quantity	The number of units ordered to replenish the supplies of a particular inventory.
Supply chain process	Describes the series of activities from the production of a good or service to finally getting it delivered to the consumer.

Task 3 – Production planning formulae

Formula	Terminology
(Defects ÷ Output tested) × 100	**Defect rate**
(Actual output ÷ Productive capacity) × 100	**Capacity utilization rate**
(Total output ÷ Total input) × 100	**Productivity rate**
(Total output ÷ Total workers employed)	**Labour productivity**
(Output ÷ Capital employed) × 100	**Capital productivity**
$\dfrac{\text{Quantity} \times (\text{Price} - \text{Variable cost per unit})}{\text{Quantity} \times (\text{Price} - \text{Variable cost per unit}) - \text{Fixed cost}}$	**Operating leverage**

Task 4 – True or False?

a.	F	b.	T	c.	F	d.	T	e.	T
f.	F	g.	F	h.	T	i.	T	j.	T
k.	T								

Task 5 – Explain

a. JIC systems rely on the use of traditional stock control systems and buffer stocks; JIT is a core feature of lean production that eliminates the need to hold stock (instead it is delivered and used 'just in time' during the production process).

b. Outsourcing can occur within a country or outside a country when a business sub-contracts work to an external agency; Offshoring occurs when the sub-contractor operates outside of the country.

c. This depends on what operations are being outsourced, e.g., production could take place overseas (such as Apple using Foxconn to produce its iPhones and iPads in China) with growing consumer demand in the domestic economy.

d. The organizational structure will become flatter as there are fewer employees (as subcontractors are used instead). The structure might even be replaced by a matrix organization or by project teams.

e. Productive capacity is the maximum possible output of a firm, whereas capacity utilization measures the extent to which the firm operates at its maximum capacity.

f. AFC at full capacity = $100,000 ÷ 50,000 = $2

However, AFC at 85% of full capacity is now $100,000 ÷ 42,500 = $2.35

i.e., unit fixed costs are $0.35 or 17.5% higher if operating at only 85% capacity.

g. Reduces the costs of holding stocks; improved liquidity position; greater flexibility to respond to changes in the demand or delays in the supply chain; and lower volume of wastage.

h. Planning, managing, and controlling the inventories at different stages; assuring quality control to resolve the issue of poor quality at each stage of the supply chain process; strengthening the relationship with the suppliers to have timely deliveries; having cost-effective methods of distribution.

i. Reduces average unit cost (economies of scale); more profits (if the output can be sold); increased job security for employees; potentially higher motivation levels.

j. Drain on the firm's resources including capital and labour; Increased pressure on machinery, leading to higher maintenance costs and breakdowns; Increased pressure on workers, which can negatively affect their motivation levels.

k. Embedding improved methods of production; Having procedures for quality management and quality assurance; Setting quality standards, such as ISO 9000, and reviewing them regularly; Identifying the root cause of the problem and devising corporate strategies to resolve them.

l. Employing the right people with the right skills for each job; Setting clear performance targets/goals and communicating these effectively; Increasing the accountability of employees, using rewards, recognition, and appraisals to improve the level of staff motivation and labour productivity.

Task 6 - Calculate

a. (4 ÷ 5) × 100 = 80%

b. (10 ÷ 4,000) × 100 = 0.25%

c. (30 × 30) ÷ 5 = $180 units per hour

d. John = (28 ÷ 4) = 7 haircuts per day

Gavin (25 ÷ 5) = 5 haircuts per day

John was the most productive worker last week.

e. Total labour input = 20 × 3 × 20 × 8 = 9,600

(160,000 ÷ 9,600) = 16.66 units per hour (or 17 units per hour)

f. Operating leverage = (Quantity × Unit Contribution) ÷ [(Quantity × Unit Contribution) – Fixed cost)]

Unit contribution = $5 – $1 = $4

= (500,000 × 4) ÷ [(500,000 × 4) – 700,000)

= 2,000,000 ÷ (2,000,000 – 700,000) = 1,300,000

= 1.53

g. Capacity = 10 × 6 = 60 hours per working week

(48 60) × 100 = 80%

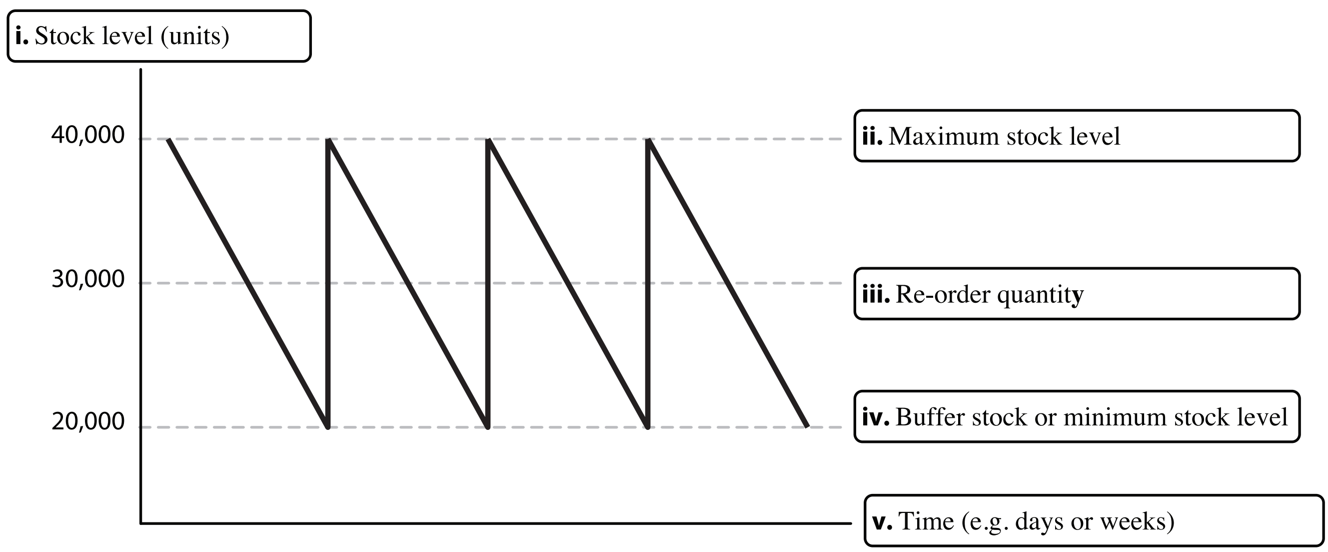
h. Labour productivity = Total output per period ÷ Number of employees at work

50,000 ÷ 40 = 800 units

i. Average number of workers employed = 1,800 ÷ 12 = 150 workers

Task 7 – Interpreting JIC stock control diagrams

a.



i. Stock level (units); ii. Maximum stock level; iii. Re-order quantity; iv. Buffer stock or minimum stock level; v. Time (e.g., days or week).

b. i. 20,000; ii. 20,000; iii. 30,000

Task 8 – Multiple Choice Questions

1. C. Shares capital
2. D. Storage costs
3. A. Builds up excessive levels of inventory
4. D. Working capital is tied up
5. D. There is flexibility to meet sudden changes in demand
6. B. Just-in-time
7. B. Increasing levels of stock
8. B. Higher levels of wastage and reworking
9. A. A sudden increase in demand
10. D. 1 week
11. B. 3,000 kilogrammes
12. A. Higher average fixed costs of production
13. B. 80%
14. C. low, high
15. C. Subcontracting work
16. B. Queuing times will rise
17. D. Ratio analysis
18. D. There is excess capacity
19. A. Downsizing the workforce
20. A. Better corporate image
21. A. The use that a business makes from its existing resources
22. C. Loss of quality control
23. A. Stock becoming obsolete
24. B. Hiring more workers
25. A. Investing in production technologies

Unit 5.7

Crisis management and contingency planning

Task 1 – True or False?

a.	T	b.	T	c.	F	d.	T	e.	T
f.	T	g.	T	h.	F	i.	T	j.	T
k.	T								

Task 2 – Multiple Choice Questions

1. C. Crisis management
2. B. Crisis management
3. A. Anticipated
4. C. Public relations savvy managers
5. D. Rumours and gossiping
6. A. Crisis prevention through foresight
7. A. Absenteeism issues
8. C. The incident planned for is less likely to occur over time
9. C. Financially measurable threats
10. A. A natural disaster that destroys the cinema

Unit 5.8

Research and Development (HL only)

Task 1 – Complete the missing words…

Research is about investigating the unknown, such as new products or processes. **Development** is about using research findings to create new products that might be commercialised. The purpose of **Research** and **Development** (R&D) is to provide continual advancements in production and to launch new products to satisfy customer needs in a **profitable** way. **Innovation** is the commercialization of these new processes, products, or projects.

In order to provide inventors with an incentive to innovate, the legal system controls and enforces the use of **intellectual property** rights (IPRs), such as c**opyrights**, **patents**, and t**rademarks**. People or firms wishing to use the IPR of others must first seek the legal permission of the IPR holder. For instance, **patents** give an entrepreneur or a business the exclusive and legal right to produce a new product or to use a particular production process. Intellectual property rights are recorded on a firm's **balance sheet**, under the section of intangible non-current assets.

Task 2 – True or False?

a.	T	b.	T	c.	F	d.	T	e.	F
f.	T	g.	T	h.	F				

Task 3 – Explain…

a. TV advertising is not cost effective in this case due to the huge expenses for targeting only a small proportion of the customers; TV advertising is used for mass market promotion whereas direct marketing is more focused on (and therefore appealing to) the early adopters.

b. Market research is used to gain insight to what customers want (enabling the business to have a higher chance of success in the market); this could also include an investigation of any legal restrictions and parameters. Product development helps to ensure the right product is launched to meet the needs of consumers.

c. Limited internal finance to fund R&D expenditure; Unlikely to be able to secure external sources of finance to fund R&D; Less able to attract/employ highly skilled/innovative workers.

d. Growth opportunities, productivity gains (and hence lower unit costs), improved competitiveness (domestic and international), brand switching / brand loyalty, job creation, social benefits / social betterment.

Task 4 – Multiple Choice Questions

1. B. **Position mapping**
2. C. **Increase the earning potential of the business in the future**
3. A. **Market leaders**
4. C. **The commercial development and use of an idea or process that appeals to consumers**
5. D. **Reduced product failure rate**
6. A. **Establishing a unique selling point**
7. D. **Impact on competitiveness**
8. C. **Process innovation**
9. B. **Medicines and vitamins**
10. B. **Patent**
11. C. **A trademark**
12. A. **Balance sheet**
13. C. **Incremental innovation**
14. B. **Disruptive innovation**
15. B. **Operating leverage**

Unit 5.9

Management information systems (HL only)

Task 1 – Vocab Quiz

Key Term	Definition
Artificial intelligence (AI)	The use of smart machinery and computer systems to perform tasks rather than natural or human intellect.
Big data	This refers to the extensive amounts of raw and structured data available from a wide range of different sources.
Cybercrime	Unlawful and malicious activities carried out intentionally to steal, damage, or destroy computer hardware and/or software systems.
Data analytics	The process of looking out raw and unstructured data to establish meaningful relationships and patterns.
Digital Taylorism	Using management information systems to improve labour productivity by monitoring and managing workers in an orderly and precise way.
Management information systems (MIS)	Sophisticated and interlinked computer systems and technologies that problem solving and decision-making in business organizations.
Virtual reality (VR)	The use of computer-generated simulations and environments that enable people to have practical experiences in a superficially real world.

Task 2 – True or False?

a.	F	b.	T	c.	T	d.	T	e.	T
f.	T	g.	F	h.	T	i.	T		

Task 3 - Multiple Choice Questions

1. A. They are prone to cybercrime
2. A. Hacking the cloud will expose business, making them vulnerability
3. A. Cybercrime
4. D. Virtual reality
5. A. Customer loyalty programmes
6. D. Digital Taylorism
7. B. Artificial neural networks
8. A. Big data
9. B. Data centres
10. A. Artificial intelligence

Unit 6.1

Toolkit 1 - SWOT analysis

Task 1 - Complete the missing words…

SWOT analysis is a strategic **planning** tool that can help managers to reduce the **risks** involved in decision-making. SWOT analysis involves exploring the current position of a product, department, or the whole organization in terms of its internal **strengths** and **weaknesses**, and to identify potential **opportunities** and **threats** in the external environment.

It is common to find a SWOT analysis within a **business** plan. The tool can be a powerful one for helping manager to identify competitive opportunities for improvement in ever-changing markets. Ultimately, the main purpose of a SWOT analysis is to help managers to develop a comprehensive awareness of all the most relevant factors involved in making a business **decision**.

In terms of strategy, a business will strive to build on its **strengths**, counteract or minimize the **threats**, take advantage of the **opportunities**, and minimise its **weaknesses**.

Task 2 – True or False?

a.	T	b.	T	c.	T	d.	T	e.	T
f.	F	g.	T	h.	F				

Task 3 – Explain…

Suggested answers: W, S, T, O (answers should include justified explanations)

Task 4 – Multiple Choice Questions

1.	C.	**A high staff turnover rate**
2.	C.	**High levels of staff retention**
3.	D.	**Lower interest rates in the economy**
4.	D.	**Supply-chain problems**
5.	B.	**Strengths**
6.	B.	**Strategy**
7.	A.	**Determine the main reasons that drive change and the forces that restrain change**
8.	B.	**It does not enable a business to make meaningful improvements**
9.	D.	**When can a particular business project get completed by?**
10.	C.	**Low market share**

Unit 6.2

Toolkit 2 - Ansoff's matrix

Task 1 – Fill the missing words

Ansoff's matrix is a framework for devising **growth** strategies for a business. In the model, market **penetration** is the least risky strategy for business growth. An example is persuading existing customers to buy more, through improved methods of **marketing**, such as advertising or special promotional offers. The highest risk strategy for growth is called **diversification**.

Selling existing products in new geographical markets, such as regional, national, or international expansion, is an example of **market** development. A business that has a well-established brand and brand loyalty can extend the goodwill to new products through a **product** development growth strategy.

Task 2 – True or False?

a.	T	b.	F	c.	T	d.	T	e.	F
f.	F	g.	F	h.	T	i.	T	j.	T

Task 3 – Short questions

a.

		Markets	
		New	Existing
Products	New	Diversification	Product Development
	Existing	Market Development	Market Penetration

b. A saturated market suggests that sales may experience a decline as a product reaches the end of its life cycle; There will be established market leaders in a saturated market and hence entry might be futile.

c. Diversification involves entering new markets with new products – both of which are unfamiliar to the organization as they lack experience and/or know-how.

Task 4 – Multiple Choice

1. D. Product development
2. E. Mergers and acquisitions
3. B. Market penetration
4. D. Product development
5. C. Market penetration
6. D. Product development
7. D. Product development

8. D. **Product development**

9. A. **Diversification**

10. D. **Product development**

Unit 6.3

Toolkit 3 - STEEPLE analysis

Task 1 – Complete the missing words…

STEEPLE analysis stands for the S**ocial**, T**echnological**, E**conomic**, E**nvironmental**, P**olitical**, L**egal**, and E**thical** factors that affect businesses, all of which are beyond an individual firm's control. STEEPLE analysis is a tool that gives managers an overview of the **external** business environment.

STEEPLE analysis provides a simple brainstorming framework of the external opportunities and **threats** faced by a business. It promotes proactive and forward thinking, rather than static opinions based on **intuition** (gut feelings). Hence, STEEPLE analysis enables managers to be more informed and prepared to deal with external influences that affect business operations and to make more informed **decisions**.

Task 2 – Explain why...

a. An increase in the exchange rate makes it more difficult to sell exports, as the price will rise. However, a stronger currency also presents an opportunity for firms that import raw materials and components for production, thereby lowering their production costs.

b. Inflation that is sustainable and under control suggests that the economy is doing well as people are spending more money. Hence, higher salaries could have caused the inflation, i.e., sustainable inflation is not necessarily a bad thing.

c. Threat: higher production costs for many businesses; there could be some redundancies.

Opportunity: labourers have higher spending power, so this could lead to higher sales revenues in the medium to long term.

d. The forces of change are still in force even if a business does not initiate change, e.g., oil crises, economic recessions, wars, outbreak of infectious diseases, torrential weather, technological progress, financial crises etc.

Task 3 – Understanding STEEPLE analysis

a. The table below shows examples of different external factors that affect businesses. Identify the correct category of STEEPLE for each of the examples below. An example has been done for you.

Example	External Factor	Example	External Factor
Ageing population	Social	Tariffs and quotas	**Political**
Average family size changes	**Social**	Consumer protection rights	**Legal**
Consumer confidence levels	**Economic**	Oil price changes	**Economic**
E-commerce developments	**Technological**	Scientific development	**Technological**
Employment laws	**Legal**	Interest rates changes	**Economic**
Exchange rate fluctuations	**Economic**	Moral business behaviour	**Ethics**
Fiscal and monetary policies	**Political**	Natural disasters	**Environmental**

b.

Type of external influence	Examples
Environmental	Consumers go 'green' and recycle in order to conserve the planet.
Political	Decision to spend more money on education and public health care services.
Social	Increasing number of older and retired people in the country.
Economic	Interest rate hikes dampen purchase of private and commercial property.
Technological	More businesses devote money to developing their e-commerce strategies.
Legal	Smoking bans in restaurants, shopping malls and public parks.
Ethical	Businesses choose to adopt environmental practices and to meet their corporate social responsibilities.

Task 4 – True or False?

a.	T	b.	T	c.	F	d.	F	e.	F
f.	F	g.	T	h.	T	i.	T	j.	T

Task 5 – Vocab Quiz

Key Term	Definition
Tariff	As a form of protectionism, this tax is imposed on imported products (foreign goods and services). It is levied by a government to reduce the competitiveness of imports.
Recession	Occurs when there has been a decline in the level of economic activity for at least two consecutive quarters (6 months), caused by lower levels of consumption and investment expenditure in the economy.
Protectionism	Any form of government measure used to defend domestic businesses (and hence jobs) from international competition, e.g., imposing a tariff on imports.
Monetary policy	A government policy designed to control the economy by managing the money supply, mainly via changes in interest rates and exchange rates.
Interest rate	The cost of money to consumers and firms. The higher this is, the lower the amount of borrowing tends to be, as firms delay investment projects due to the higher costs.
Inflation	A macroeconomic objective which measures the percentage change in the general price level of a country over the preceding 12 months.
Indirect Tax	A category of tax that is charged on the sale of goods and services, e.g., VAT, GST, and excise duties.
Economic growth	An increase in the value of a country's total output of goods and services (GDP), per year.

Direct tax	A type of tax that is paid straight from the income, wealth, or profit of an individual or a business, e.g., income tax and corporate tax respectively.
Business cycle	The series of fluctuations in the GDP of an economy over time. The phases ('recession', 'slump', 'recovery', and 'boom') are dependent on the level of employment, income, and wealth in a country.

Task 6 – The economic environment

a. Higher interest rates increase the costs of loan repayments and loan interest. This therefore leads to lower levels of income available for expenditure, and hence less chance of any inflationary pressures.

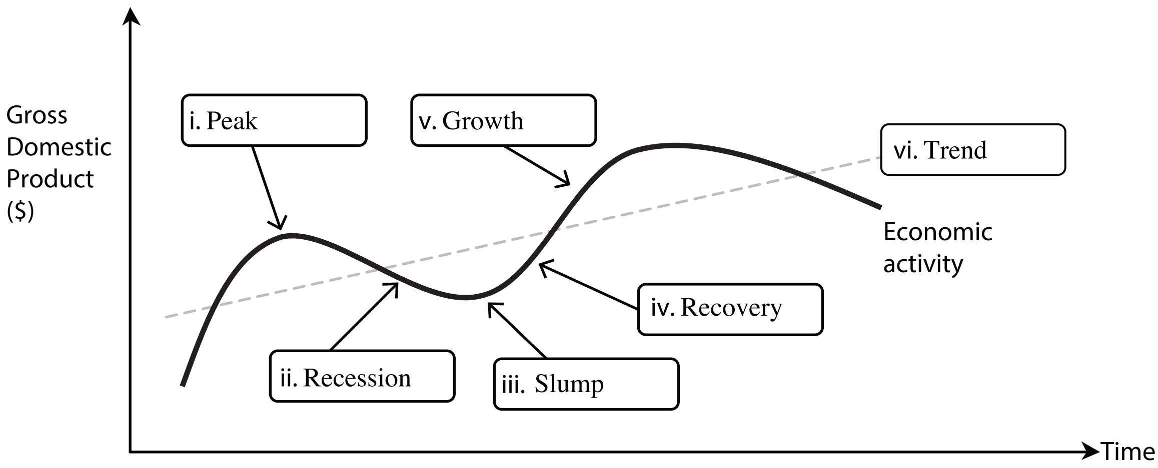
b. A higher exchange rate can mean that exports become less price competitive (leading to a decline in export revenues) whilst imports become relatively cheaper (leading to greater import expenditure).

c. Higher interest rates tend to attract greater demand (from savers and other investment funds) for the currency, thereby leading to a higher price for the currency, i.e., an increase in the exchange rate. By contrast, savers tend not to be so interested in saving in currencies that offer relatively lower interest rates (thereby having less impact on the exchange rate).

d. Higher prices in general mean that the country charges escalating prices for both domestic and overseas customers, thereby leading to lower price competitiveness on the international arena.

e. Higher income tax rates tend to deflate the economy by withdrawing money that is available for people to spend, thereby having less of an impact on demand-pull inflation.

f.



Task 7 – Multiple Choice Questions

1. A. Exchange rates
2. B. Customs, habits, and tastes
3. A. Education and training
4. C. Demography
5. C. Pay enormous bonuses to its directors
6. A. Lowering prices to maintain sales revenue
7. D. The removal of controls in a particular industry
8. D. Taxes on income from interest and dividends
9. A. Direct tax

10. B. Excise duties

11. C. Strengthened

12. D. To supply services such as healthcare to compete with private sector providers

13. C. Taxation and government expenditure policies

14. D. The total value of a country's output during a year

15. A. Interest rates

16. C. A rise in the prices of vital imported raw materials

17. D. Weakened consumer spending

18. B. $297,850 million

19. B. Government spending

20. B. Decline

21. B. Cash-flow problems harming international expansion plans

22. D. Social change

23. D. Social

24. A. Environmental

25. C. Employee protection laws

Unit 6.4

Toolkit 3 - The Boston Consulting Group (BCG) matrix

Task 1 – Fill in the blanks...

The Boston Consulting Group matrix is a marketing tool for analyzing the product **portfolio** (the full range of products and brands offered by a business to its customers) by looking at the **market** share and whether there is high or low market **growth** for each product or brand of the business. The BCG matrix positions each product or brand into four categories based on these two dimensions:

- **Cash cows** are products with high market share in slow-growth or mature markets. These products are at the **maturity** phase of the product life cycle.
- **Dogs** are products with low market share and in markets with low growth. These products are at the **decline** phase of the product life cycle.
- **Problem children** (or question marks) are products with relatively low market share in fast-growing markets. These products are at the **launch** phase of the product life cycle.
- **Stars** are products with high market share in fast-growing markets. These products are at the **growth** phase of the product life cycle.

Task 2 – True or False?

a.	T	b.	T	c.	T	d.	F	e.	T
f.	F	g.	T	h.	T	i.	T	j.	F

Task 3 – Multiple Choice

1. A. **Determine customer perceptions of the product portfolio**
2. D. **Wild cards**
3. A. **Cash cows**
4. A. **High quality at a high price**
5. C. **Low quality at a high price**
6. B. **Launch**
7. C. **Research and development**
8. A. **Cash cows**
9. D. **Product extension strategy**
10. C. **Problem child**

Unit 6.5

Toolkit 5 - Business plans

Task 1 – Complete the missing words

A business **plan** is a business management tool used to report how a business intends to achieve its strategic goals. It requires **managers** to consider the use of marketing, finance, and human resources in order to meet these business **objectives**. As a formal written **document**, a business plan provides a description and overview of the organization's objectives and the **strategies** to be used to achieve these goals. Essential matters that are typically addressed in a business plan include details about:

- The organization vision or mission **statement**
- Business **objectives**, both short-term and long-term
- Target **markets** and market segments
- Competitor analysis
- How the business intends to be competitive, profitable, and raise **market** share
- Financial information, including sources of **finance**
- Human **resources**
- Marketing **strategies**
- Operations **management** plan

- Where the business sees itself in the near future (say, one, five, or ten years' time)

Task 2 – True or False?

a.	T	b.	F	c.	T	d.	T	e.	T
f.	F	g.	T	h.	T	i.	T	j.	T

Task 3 – Multiple Choice Questions

1. A. **Customers**
2. C. **Time and effort involved in creating a useful business plan**
3. C. **Management insight and experience**
4. D. **Ratio analysis**
5. D. **Descriptive statistics**
6. A. **To convince investors that the business idea is feasible**
7. D. **They rely on quantitative data and analysis**
8. C. **It is common to include a description of the organization in the business plan**
9. C. **It enables new and established businesses to be profitable**
10. C. **They are inflexible, so do not cater for changes in the external business environment**

    Business **plans should be reviewed and updated regularly**

Unit 6.6

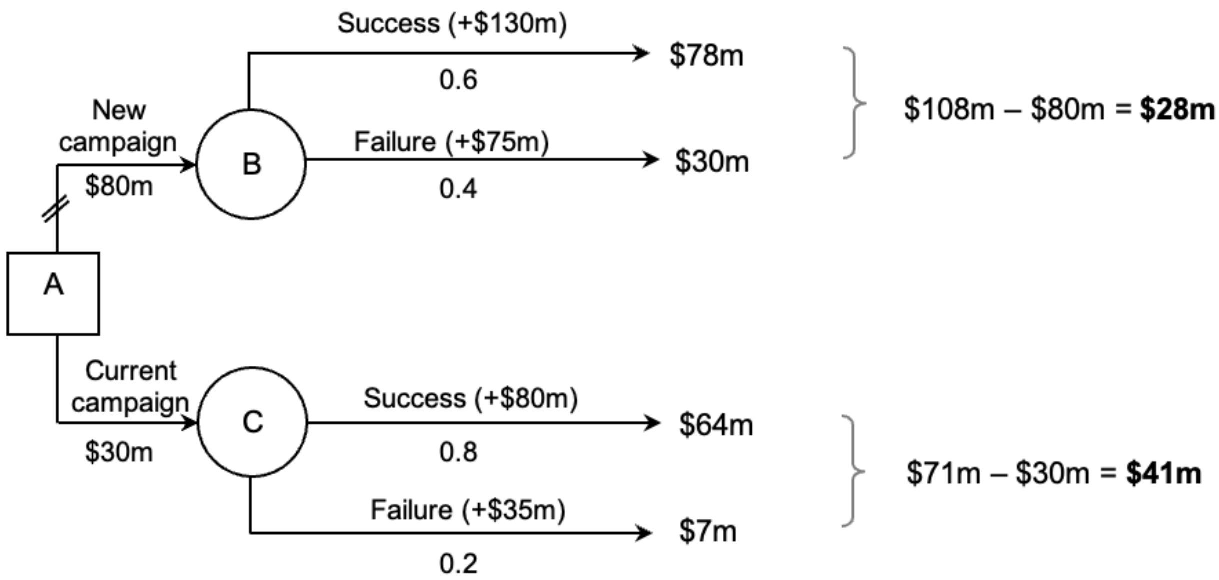
Toolkit 6 - Decision tree

Task 1 – Complete the missing words…

A **decision tree** is a visual representation of the probable outcomes (in monetary terms) resulting from the various decisions that a business can pursue. As a decision making tool, decision trees reflect the situation that businesses frequently face regarding strategic **choices** and uncertainties or risks.

Conventionally, decision trees are constructed and read from **left** to **right**. In a decision tree diagram, decision nodes are represented by **squares**. Chance nodes or probability nodes are represented by **circles**. The lines coming from the squares in a decision tree diagram represent the possible **choices**. The probability of all outcomes must add up to **1**.

Task 2 – Constructing decision trees



Working out of the expected values:

- There is an estimated 60% chance of success if the new campaign is chosen, which is expected to gain *Barker Property Inc.* $130m in sales revenue. Hence, the likely outcome is $130m × 0.6 = $78m.
- There is a 40% chance of failure for the new advertising campaign, with expected revenues of only $75m. Hence, the probable outcome is $75m × 0.4 = $30m.
- Therefore, the combined outcome for the new advertising campaign is $78m + $30m = $108m. After the costs of the project are accounted for, the likely yield (return) of this is $108m – $80m = **$28m**.
- If *Barker Property Inc.* sticks with the current campaign, there is an 80% chance of success of earning $80m. Hence, the likely outcome is $80m × 0.8 = $64m.
- There is a 20% chance that the current campaign will fail, earning just $35m for *Barker Property Inc*. The probable outcome is therefore $35m × 0.2 = $7m.
- Hence, the combined likely outcome of the current campaign is $64m + $7m – $30m = **$41m**. B

a. The outcomes of the decision tree suggest shows that using the current advertising campaign should be pursued. Despite the lower absolute financial returns of doing so, there is a larger risk of failure should Barker Property Inc. choose to use a new advertising campaign. Essentially, the lower cost investment ($30m vs $80m) yields a higher probable return ($41m vs $28m).

Task 3 – Multiple Choice

1. C. **Probabilities**
2. A. **Circles**
3. D. **A square**
4. C. **Expected value (EV)**
5. A. **They are based on important intuitive and qualitative factors that affect decision making**
6. D. **They ignore the financial costs of investment decisions**
7. A. **The average outcome if the decision was made many times over**
8. A. **Net gain** C

9. C. They do not show choices set out in a logical way

10. D. They reduce the amount of risk involved in decision making

Unit 6.7

Toolkit 7 - Descriptive statistics

Task 1 – Complete the missing words…

Descriptive statistics is a business management tool used to organize, summarize, and present a given set of data in a manner that is useful for an audience to understand. The information presented can be a representative of the entire population or a **sample** of the population. Descriptive statistics include measures of central tendency and measures of variability. Measures of central tendency include statistical techniques that represent the single value of a dataset such as **mean**, mode, and median. Measures of variability such as standard **deviation**, variance, and range, allow users to measure the degree of irregularity of data within the set.

Task 2 – Vocab Quiz

Key term	Definition
Bar charts	A visual tool presenting the data in the form of rectangular bars with heights or lengths proportional to the values that they represent.
Infographics	Visual representations of data and information in a clear and eye-catching way to the audience.
Mean (arithmetic)	The most common form of expressing an average, by calculating the sum of all numbers in a data set divided by the number of items in the data set.
Median	The number at the middle position in a data set that has been arranged in ascending order.
Mode	The value that appears more often than any other value in a set of data.
Pie chart	A circular statistical graphic that is divided into slices illustrating a numerical proportion of the quantity they each represent.
Quartiles	The statistical technique that divides values in a data set into four parts, with the data arranged according to the distribution of values.
Standard deviation	This statistical technique measures the difference in the value of a variable from the mean value in a given data set.

Task 3 – Calculations

a. Mean = (2,000 + 2,500 + 3,000 + 3,500 + 4,000 + 4,500 + 5,000 + 5,500) 8
= (30,000) 8
= $3,750

b.

Number	Data	Median
1	25, 20, 30, 35, 32	20, 25, 30, 32, 35 30 (middle value of the data)
2	40, 43, 38, 48, 32, 33	32, 33, 38, 40, 43, 48 39 midway between 38 & 40
3	68, 61, 62, 65 , 66	61, 62, 65, 66, 68 65 (middle value of the data)

c. Mode = 9 (repeated three times)

d.

Employee	Sales ('000)	Mean	Deviation from mean
1	9	13	-4
2	10	13	-3
3	11	13	-2
4	18	13	5
5	14	13	1
6	16	13	3

The above data show that the mean annual wages of the six workers at the firm is $13,000. However, this value can be misleading or meaningless as none of the employees actually earns this amount. The deviation from the mean shows that three of the workers earn more than the average, and three earn less than this amount. A manager can use this data to see the degree of disparity in the wages of the six employees.

e.

i. Thursday – with 25 customers

ii. Total = 8 + 5 = 13 customers

iii. Functional training is the most popular (35%)

iv. Sunday (with the least number of customers visited, which means there is capacity for the free trials

Task 4 – True or False?

a.	T	b.	T	c.	T	d.	T	e.	T
f.	T	g.	F	h.	T	i.	T	j.	F

Task 5 – Multiple Choice Questions

1. C. **Modal**
2. C. **25,200**
3. A. **10,001-20,000**
4. A. **36 years**
5. C. **75**
6. C. **20**
7. B. **50%**
8. C. **$1,500**
9. D. **$6,000**
10. D. **$1,000**

Unit 6.8

Toolkit 8 - Circular business models

Task 1 – Complete the missing words…

Circular business models (CBMs) represent different methods of production and consumption of goods and services in a resource-efficient and **sustainable** manner. These models reduce the **environmental** impacts and pressures on the planet's **scarce** resources caused by economic activities. CBMs aim to generate less industrial and consumer **waste**. The process of manufacturing and consumption is reviewed to reduce the **carbon** footprint of consumers and producers. CBMs emphasise the use and reuse of existing materials and resources as **inputs** as compared to traditional business models that use and dispose, thereby damaging the natural **environment** and ecosystems. Different circular business models are used for a more circular economy. These include circular **supply** models, resource **recovery** models, product life **extension** models, sharing models, and product **service** system models (see Task 2).

Task 2 – Vocab Quiz

Key term	Definition
Circular supply model	The circular business model based on replacing traditional material inputs with renewable, biodegradable, and recyclable materials to sustain the circular production and consumption of goods or services.
Product life extension model	The CBM that aims to increase the useful life of a product, and its utilization, thereby increasing the value derived from the product in an attempt to reduce resource extraction and the generation of waste.
Product service system model	The CBM that aims to provide services for more efficient product usage, green product designs, and cleaner production processes that have favourable environmental outcomes.
Resource recovery model	This CBM aims to convert waste into secondary raw materials, thereby reducing the need for and reliance on new or virgin resources.
Sharing model	The circular business model in which businesses share underutilized assets to increase the value derived from these and hence reduce the demands for new products and resources.

Task 3 – Match the following

	Business organization			Circular business practice
A	**Urban Mining Co.** (rare-earth)	A - Z	T	A subscription-based service for baby clothing and maternity wear
B	**H&M** (clothing)	B - Y	U	Allows customers to return old devices in exchange for a discount on next purchase
C	**Globechain** (online marketplace)	C - W	V	Designed the first running shoe made to be remade
D	**Adidas** (sports apparel)	D - V	W	Provides a marketplace for reuse of assets across different industries
E	**IWG plc** (workspace provider)	E - X	X	British holding company that provides serviced offices
F	**Circos** (sustainable clothing)	F - T	Y	Takes used clothes from customers who get discount vouchers for future purchases
G	**Vodafone** (telecommunications)	G - U	Z	Recycles rare magnets commercially

Task 4 – True or False?

a.	F	b.	T	c.	T	d.	T	e.	F
f.	T	g.	F	h.	T	i.	T	j.	F

Task 5 – Multiple Choice Questions

1.	C.	Refinancing
2.	C.	Resource recovery models
3.	A.	Defect identification after the product is manufactured
4.	D.	Reduces competitiveness
5.	D.	Using plastic bags for packaging
6.	D.	Negative media publicity
7.	C.	Resource recovery models
8.	C.	Recycling of waste
9.	C.	Product service system models
10.	A.	Pooling of fixed assets

Unit 6.9

Toolkit 9 - Gantt charts (HL only)

Task 1 – True or False?

a.	T	b.	T	c.	T	d.	T	e.	F
f.	T	g.	F	h.	T	i.	T	j.	T

Task 2 – Multiple Choice Questions

1.	D.	Time
2.	A.	Activities
3.	D.	The start time, duration, and end time of the activity
4.	A.	The time scale is shown on the vertical axis of the chart
5.	C.	Tasks that can be carried out simultaneously are combined on a bar in the chart
6.	B.	Identify the shortest amount of time needed to complete a particular project
7.	B.	A horizontal bar
8.	B.	Caters for contingency plans for unforeseen problems
9.	A.	Customers
10.	C.	They do not allow managers to track progress of a project

Unit 6.10

Toolkit 10 - Porter's generic strategies

Task 1 – Complete the missing words…

According to Michael Porter, a firm's competitive strength can arise from two aspects - either cost advantages or differentiation. Porter's model suggests that businesses can choose to focus either on the broad market or a narrow segment. The three generic strategies are cost leadership, differentiation, and focus.

Cost leadership refers to the generic strategy in which a business sets out to be the lowest cost provider in the industry. **Differentiation** is the generic strategy of offering something unique in the industry to gain a **competitive** advantage, such as introducing a unique or special feature, product design, packaging, after-sales care, warranties and so forth. **Focus** is the generic strategy of paying close attention to the needs of specific target audiences (customers). This strategy requires businesses to focus on the needs and preferences of their target markets and to satisfy these **profitably**. Porter argued that businesses cannot be good (competitive) at everything and in all market segments, so need to choose one of these **generic strategies**.

Task 2 – Complete the following table

Target market (Scope)	Competitive advantage: Low cost	Competitive advantage: Differentiation
Broad (Entire market)	Cost Leadership strategy	Differentiation strategy
Narrow (A particular market segment)	Cost focus strategy	Differentiation focus

Task 3 – Explain…

a. Businesses can be cost leaders by investing in capital technologies that reduce the cost of production in the long term, integrate efficient production methods, strengthen the production process, have efficient distribution channels, increase the scale of operations, source cheaper raw material, or limit the product options available. All these methods help to improve the efficiency of busineses.

b. Businesses can differentiate by knowing the needs of the target audience well, and by researching and developing the produce offerings that appeal to customers better than the product offerings from their rivals. Differentiation can revolve around any combination of the marketing mix including the product, price, place, promotion, people, process, and physical evidence.

c. The niche market allows firms to be highly specialized, and design a product unique to their needs. Hence, higher prices can be charged. There is also less competition in a niche market, at least initially.

d. Smaller market size, hence few if any opportunities for economies of scale. Increased profit margins may attract new rivals to enter the niche market. High degree of risk involved due to limited size of the market.

e. A larger market (size of the customer base); More opportunities to exploit economies of scale; No need to adapt the marketing mix, hence reducing costs and time; Opportunities to earn higher profits.

f. Porter's generic strategies as a tool is not suitable for multinational companies or any business with diversified strategies.

g. It faces increased competition in the market; There is a lack of focus; Lower level of customer satisfaction due to the homogenous nature of the product; Lower profit margin; Higher costs of capital and machinery needed for mass production.

Task 4 – True or False?

a.	F	b.	T	c.	F	d.	T	e.	T
f.	F	g.	F	h.	F	i.	T	j.	T
k.	F	l.	F	m.	T				

Task 5 – Multiple choice questions

1. **B. Cost leadership, focus strategy, differentiation strategy, and low-cost focus strategy**
2. **D. Selling to a narrow customer segment**
3. **C. Differentiation**
4. **A. Cost leadership**
5. **B. Focus**
6. **D. Differentiation**
7. **D. Intensive promotion to showcase the exclusivity of a product**
8. **D. Mass production to enjoy economies of scale**
9. **B. Producing products that rival firms already supply in the market**
10. **B. Cost leadership**

Unit 6.11

Toolkit 11 - Hofstede's cultural dimensions (HL only)

Task 1 – Complete the missing words…

Geert Hofstede in his study about corporate **culture** presented links between organizational culture and international culture. His studies presented six cultural dimensions comprised of (i) power distance, (ii) individualism vs **collectivism**, (iii) masculinity vs femininity, (iv) uncertainty avoidance, (v) long vs short-term orientation, and (vi) indulgence versus **restraint**. Hofstede's research findings indicated that there can be **subcultures** within an organization and that culture can be impacted by **national** cultures. The differences amongst subgroups with respect to culture, norms, beliefs, and interests can lead to cultural misunderstandings and miscommunications.

Task 2 – Vocab Quiz

Cultural dimension	Explanation
Collectivism	The extent to which people feel they should care for family and society as a whole.
Femininity	Values usually dominated by women, e.g., modesty, relationships, and prioritizing quality of life.
Individualism	Cultural dimension whereby people feel they should care for themselves foremost.
Indulgence	The tendency to fulfil desires, such as having fun and enjoying life.
Masculinity	Values usually dominated by men, e.g., toughness, assertiveness, competitiveness, and material success.
Power distance	The extent to which inequality exists and is accepted by subordinates in an organization or citizens in a country.

Restraint	The tendency to have rigid and controlled behaviour.
Uncertainty avoidance	The dimension that describes how well people can cope with anxiety or prefer structured practices over flexible structures.

Task 3 – Complete the following

Cultural dimension	High	Low
Power distance	**Centralized decision-making** **Hierarchical structures** **High regard for position/rank**	**Decentralized decision-making and flatter structures** **Increased delegation** **Empowerment**
Individualism versus collectivism	**Increased need for self-care** **Emphasis on privacy** **Rewards for individual efforts**	**Responsibility to look after others** **Emphasis on harmony**
Masculinity versus femininity	**Powerful** **Materialistic** **Ambitious** **Aggressive/competitive** **Strong sense of pride**	**Focus on the quality of life** **Maintaining social relationships** **Modesty**
Uncertainty avoidance	**Formal methods of working** **Rigidity** **Structure**	**Openness to change** **Adaptive and innovative** **Willingness to learn**
Long term versus short term orientation	**Make sacrifices today for the future** **Be patient with results** **Investments in education**	**Increased emphasis on values and rights. People have strong notions and think short run.**
Indulgence versus restraint	**People are optimistic. Increased focus on freedom and happiness.**	**People are pessimistic. Demonstrate more controlled behaviour.**

Task 4 – True or false?

a.	T	b.	T	c.	T	d.	T	e.	F
f.	T	g.	T	h.	F	i.	T		

Task 5 – Multiple Choice Questions

1. C. Demonstrating values such as assertiveness, ambition, and competitiveness

2. A. Individualism vs collectivism

3. B. Power distance

4. D. Uncertainty avoidance

5. **A. Individualism**

6. **D. Tolerance for ambiguity**

7. **C. Increased levels of hierarchy**

8. **A. Autocratic**

9. **A. Individualism vs collectivism**

10. **B. Opportunities for teamwork**

Unit 6.12

Toolkit 12 - Force field analysis (HL only)

Task 1 – True or False?

a.	T	b.	T	c.	T	d.	T	e.	F
f.	T	g.	T	h.	F	i.	T	j.	T

Task 2 – Multiple Choice Questions

1. A. Driving forces

2. D. Restraining forces

3. D. Identify key barriers to change

4. B. Subjective as weights can be skewed in favour of management preferences

5. B. Driving forces

6. B. The cost of implementing any change identified in the force field analysis

7. D. The need for change comes from internal factors, such as a desire to increase profitability

8. D. The result of a force field analysis is often difficult to evaluate

9. D. The need to replace outdated machinery or products

10. C. The need to change due to uncertain economic conditions

Unit 6.13

Toolkit 13 - Critical path analysis (HL only)

Task 1 - Complete the missing words…

Critical path analysis (also known as **network** analysis) is an important tool used in project management. This decision-making tool attempts to schedule all **tasks** and resources for a project in a systematic manner. It is generally used for routine tasks for which the **duration** (or time) of each activity is known.

It is important to determine all the activities needed to complete the project and to identify all **interdependent** tasks so as to complete the project in the **shortest** time possible. In order to improve operational efficiency, tasks that can be carried out **simultaneously** are also identified. This allows project managers to determine deadlines for different activities to ensure that the project is completed on time.

Once the network diagram for the project is constructed, the critical path can be identified to show the best course of action to take without causing any **delay** to the completion of the project. This **minimizes** the production costs of the project. The activities that cannot be delayed are called critical activities and appear on the **critical path** in the network diagram. Any disturbance to the completion of these activities wil delay the completion of the entire project.

Task 2 – Vocab Quiz

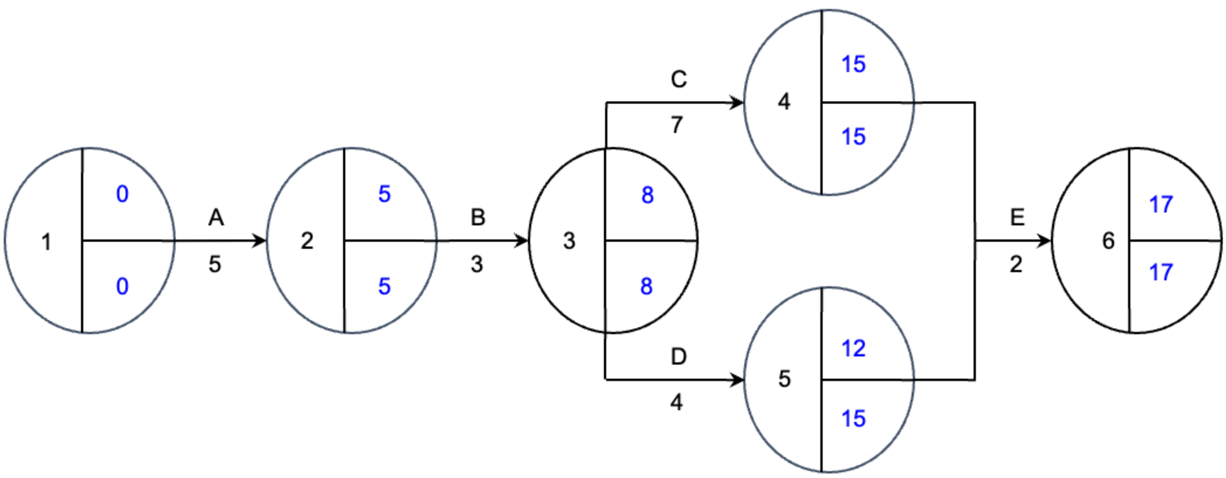
Key Term	Definition
Critical path	The sequence of activities that cannot afford any delays without prolonging the operations of a particular project.
Critical path analysis (Network analysis)	A project management tool that schedules different activities, tasks, and resources to improve the operational efficiency in the production process.
Dummy activity	Shown as a dotted line in the network diagram to indicate a logical dependency between two indirectly linked activities in the project.
Earliest start time (EST)	The time when a particular activity can begin.
Latest finish time (LFT)	The time when a particular activity should be completed to allow completion of the project on time.
Nodes	Circles in a network diagram, used to indicate the start and finish times of each activity within the project.
Project management	The systematic process of planning, organizing, and coordinating different activities to execute and complete a particular task or business venture.

Task 3 – True or false?

a.	T	b.	T	c.	T	d.	F	e.	T
f.	T	g.	F	h.	T	i.	T	j.	F

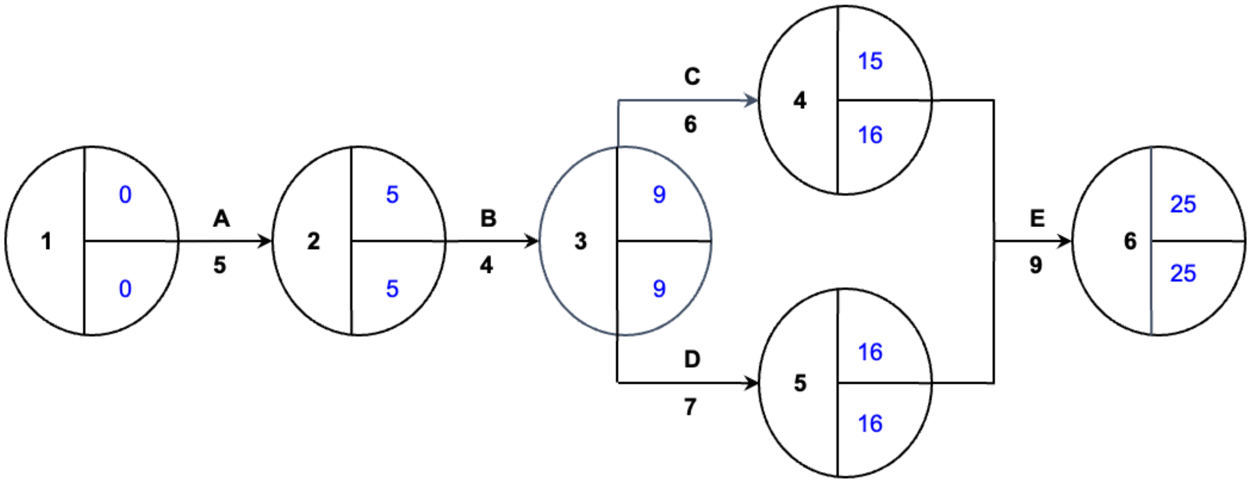
Task 4 – Constructing a network

a.



Critical path = A, B, C, E

b.



Critical path = A, B, D, E

Task 5 – Multiple Choice

1.	A.	Cost of activities
2.	C.	Projects with uncertainty in completion times
3.	A.	Can be delayed without prolonging the project
4.	B.	Helps managers to focus on the most important activities and to devote resources accordingly
5.	C.	Higher labour turnover
6.	B.	The earliest start time for the activity plus the duration required to complete the activity
7.	C.	Latest finish time
8.	A.	Earliest start time
9.	A.	2
10.	B.	It does not promote operational efficiency as much time is consumed in planning

Unit 6.14

Toolkit 14 - Contribution (HL only)

Task 1 – Vocab Quiz

Key term	Definition
Make or buy analysis (decision)	The decision making process that is based on comparing the cost of manufacturing (CTM) to the cost of buying (CTB) from a supplier.
Absorption costing	This costing method allocates all fixed costs and variable costs to products and services offered by a business.
Contribution costing/ Marginal costing	This costing method allocates only the direct costs, not overhead costs, to cost or profit centres.

Task 2 – Calculate

a.

i. Product A = (40 + 30 + 60) = \$130,000

· Product B = (30 + 20 + 30) = \$80,000

ii. Total labour cost = (\$130,000 + \$80,000) = \$210,000

iii. Product A = (130 210) 100 = 61.9048 = 62%

· Product B = (80 210) 100 = 38.0952 = 38%

iv. Product A = (300 0.62) = \$186,000

· Product B = (300.38) = \$114,000

v. Total costs = Direct cost + Allocation of total overhead costs

· Product A = \$460,000 + \$186,000 = \$646,000

· Product B = \$440,000 + \$114,000 = \$554,000

vi. Unit cost = Total cost of Units of output produced

· Product A = \$646,000 30,000 = \$15.47 per unit

· Product B = \$554,000 40,000 = \$13.85 per unit

b.

i. Unit contribution= Selling price – Average variable cost

· Product A = \$40 – \$20 = \$20

· Product B = \$30 – \$15 = \$15

ii. Total contribution = Unit contributionQuantity

Product A = \$20700 = \$14,000

· Product B = \$15600 = \$9,000

iii. Allocated overheads for Product A = 60% of \$20,000 = \$12,000

· Allocated overheads for Product B = 40% of \$20,000 = \$8,000

· Total profit made by Product A = \$14,000 – \$12,000 = \$2,000

· Total profit made by Product B = \$9,000 – \$8,000 = \$1,000

c. CTB = \$150 × 1,000 = \$150,000

· CTM = \$25,000 + (1,000 × \$100) = \$125,000

· Making the products itself leads to savings worth \$25,000. Hence, on financial grounds, the business should make the cabinets rather than buying them from a supplier.

Task 3 – True or False?

a.	F	b.	T	c.	F	d.	T	e.	T
f.	T	g.	T	h.	T				

Task 4 – Multiple Choice Questions

1. **D. Selling price minus average variable cost**

2. **C. Profit increases by \$5 per unit**

3. **D. Fixed costs**

4. C. $360,000 AVC = $200,000 / 5,000 = $40, so $40 × 4,000 = $160,000 + TFC = $360K

5. C. Ratio analysis

6. A. Raw material

7. B. Total contribution – Total fixed cost

8. D. $3,000

9. D. $10 (5,000 – 4,000) / (2,000 – 1,000) = $10

10. A. Absorption costing

Unit 6.15

Toolkit 15 - Simple linear regression (HL only)

Task 1 – True or false?

a.	T	b.	F	c.	T	d.	F	e.	T
f.	T	g.	T	h.	T	i.	F	j.	T

Task 2 – Multiple Choice Questions

1. B. To examine the degree of strength of a relationship between two variables

2. C. Linear regression works well even when there are non-linear relationships in data set

3. C. Line of best fit

4. D. It is not possible to can take large amounts of raw data and transform this into actionable information

5. B. Extrapolation is used check if two sets of quantitative data correspond in some way

6. C. It is not easy to update linear regression models They can be updated easily with new data

7. D. Outliers

8. C. Not much data required is make accurate predictions

9. A. Correlation

10. C. It is a complicated method of forecasting future values

