IGCSE ECONOMICS · 1.2 BUSINESS ECONOMICS · CHAPTER 19 · PAPER 1

Large and Small Firms

Topic question sheet L19 | **Total: 31 marks** | **Time: 35 minutes** | **Student Book pp. 139–147**

Instructions: answer **all** questions. Write your answers on lined paper. The marks for each question are shown in brackets: use them as a guide to how much to write.

Calculators may be used. Show your working. Draw diagrams in pencil and label them fully. The mark scheme starts on a new page: do not look at it until you have finished.

Section A: Multiple choice

One mark each. Choose **one** answer: A, B, C or D.

1 Which of the following is a reason why some firms remain small? **(1)**

A Lack of unskilled labour
B Lack of finance
C High tariffs on exports
D Low interest rates

2 Using the EU definitions, which firm is medium-sized? **(1)**

A One employing 23 workers
B One with turnover of €23 000 million
C One with a balance sheet total of €2.4 million
D One employing 202 workers

3 Which is a disadvantage of a large firm? **(1)**

A Bulk-buying discounts
B Slow decision-making
C Lower interest on loans
D Ability to win big contracts

4 A firm that sells its products in many countries is: **(1)**

A spreading risk
B suffering diseconomies
C a sole trader
D a market niche

Section B: Short answers

Define, state, calculate, draw and explain. Show your working for calculations.

5 State **two** ways of measuring the size of a firm. **(2)**

6 Calculate how many times larger the textile firm’s turnover is than Kofi’s. You are advised to show your working. **(2)**

7 What is meant by a **market niche**? **(2)**

8 Explain **one** disadvantage of being a small firm. **(3)**

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Section C: Data response

Read the extract, then answer the questions. Use evidence from the extract in every answer.

Extract: Kofi’s Kente Weaving

Kofi runs a small kente cloth workshop in Ghana with 8 weavers. Each cloth is made to the customer’s own design. Turnover last year was GHS 480 000.

A large textile firm, with 900 workers and turnover of GHS 52 million, has offered to buy the business. It uses machines to make printed kente-style cloth at a much lower average cost. Kofi’s bank has refused him a loan to open a second workshop, saying the business is too risky. Kofi says he enjoys knowing every customer personally.

Fictional case, written for this sheet.

9 With reference to the extract, analyse **two** advantages Kofi’s business has over the large textile firm. **(6)**

10 With reference to the extract, evaluate whether Kofi should sell his business to the large textile firm. **(12)**

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Mark scheme: Large and Small Firms

How to mark: Multiple choice, Define, State: 1 mark. **What is meant by** (2): two separate parts to the definition. **Calculate**: working and answer (with units). **Draw** (3): one mark per correct labelled feature. **Explain** (3): 1 for a point, 2 for developing it in context. **Analyse** (6): knowledge 2, application 2, analysis 2. **Assess** (9) and **Evaluate** (12) are marked by levels: choose the level that best fits the whole answer. Indicative content is a guide: credit other valid points.

Section A

1 *Which of the following is a reason why some firms remain small? (1 mark)*

Answer: B (Lack of finance). Lenders may see small firms as too risky.

2 *Using the EU definitions, which firm is medium-sized? (1 mark)*

Answer: D (One employing 202 workers). Medium: fewer than 250 employees.

3 *Which is a disadvantage of a large firm? (1 mark)*

Answer: B (Slow decision-making). Bureaucracy slows decisions.

4 *A firm that sells its products in many countries is: (1 mark)*

Answer: A (spreading risk). Failure in one market is offset by others.

Section B

5 *State two ways of measuring the size of a firm. (2 marks)*

Any two (1 each): turnover; number of employees; balance sheet total.

6 *Calculate how many times larger the textile firm's turnover is than Kofi's. You are advised to show your working. (2 marks)*

Working: 52 000 000 ÷ 480 000 (1).

Answer: about 108 times (108.3) (1).

7 *What is meant by a market niche? (2 marks)*

A smaller market (1) usually within a larger market or industry (1).

8 *Explain one disadvantage of being a small firm. (3 marks)*

Point: e.g. lack of finance (1).

Development: lenders see small firms as risky (1), so they cannot fund expansion, e.g. Kofi's loan was refused (1).

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Section C

9 *With reference to the extract, analyse two advantages Kofi's business has over the large textile firm. (6 marks · K2 · Ap2 · An2)*

Knowledge (2): flexibility; personal service.

Application (2): each cloth made to the customer's design; knows every customer personally.

Analysis (2): customers who want unique cloth will pay more; loyalty and repeat business let it survive despite higher costs.

Knowledge 2 · Application 2 · Analysis 2.

10 *With reference to the extract, evaluate whether Kofi should sell his business to the large textile firm. (12 marks · levels)*

For selling: the large firm has economies of scale and finance; Kofi cannot get a loan; small firms are vulnerable.

Against: hand-woven, personalised cloth is a niche that machines cannot copy; Kofi enjoys personal contact (owner's aims); he might lose control and staff motivation.

Judgement: he should probably stay independent if his niche is profitable; depends on the price offered and his long-term aims.

Levels: L1 1–3 · L2 4–6 · L3 7–9 · L4 10–12 (balanced, well-developed arguments using the data throughout, and a justified conclusion that answers the question).

Original practice questions written in the style of the Pearson Edexcel International GCSE Economics (4EC1) papers. This is not an official paper. Unless a source is given, the firms, countries and figures are fictional and made up for practice.

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