Your notes

GCSE Business: revision notes

Business activity, added value and economic sectors

Contents

1. Start here: what businesses do
2. Adding value
3. Economic sectors
4. Measuring the size of a business (Cambridge IGCSE)
5. Common mistakes
6. Key terms
7. Quick questions
8. What to do next

Start here: what businesses do

- A business uses resources to make goods or provide services that people want. People have unlimited wants but resources are limited (scarcity), so choices must be made.
- The four **factors of production** are land (natural resources), labour (workers), capital (machines, equipment and buildings) and enterprise (the person who takes the risk and brings the others together).
- **Opportunity cost** is the next best thing given up when a choice is made. If a business spends its budget on a new machine, the **opportunity cost** might be the advertising it could have bought instead.

Adding value

- **Added value** is the difference between the selling price of a product and the cost of the materials and parts used to make it. A café that sells a coffee for £3 using 50p of ingredients adds £2.50 of value.
- A business can add value by building a strong brand, giving a high-quality or unique product, offering excellent customer service, convenience or attractive packaging, or by cutting the cost of materials.
- **Added value** isn't the same as profit: wages, rent and other costs still have to be paid out of it.

Economic sectors

- The **primary sector** extracts raw materials from the earth: farming, fishing, mining and forestry.
- The **secondary sector** turns raw materials into finished or part-finished goods: manufacturing and construction.

- The **tertiary sector** provides services, such as banking, retail, transport, tourism and health care.
- As countries develop, more people work in the **secondary sector**, then most work in the **tertiary sector**, while the **primary sector** shrinks.
- The private sector is businesses owned by individuals or shareholders, usually aiming for profit. The **public sector** is organisations owned by the government, such as state schools and hospitals.

Your notes

Measuring the size of a business (Cambridge IGCSE)

- Size can be measured by the number of employees, the value or volume of output or sales, or the capital employed. Profit is not a measure of size.
- Each method has problems: a business with few workers may use a lot of machinery, and a business with high sales may sell cheap products.

Common mistakes

- Saying a business in the **tertiary sector** "makes" things. It provides services.
- Confusing **added value** with profit.

Key terms

Factors of production	The resources needed to make goods and services: land, labour, capital and enterprise.
Opportunity cost	The next best alternative given up when a choice is made.
Added value	The selling price of a product minus the cost of the bought-in materials and parts.
Primary sector	Businesses that extract raw materials, such as farming and mining.
Secondary sector	Businesses that make goods from raw materials, such as manufacturing.
Tertiary sector	Businesses that provide services, such as banking and retail.
Public sector	Organisations owned and run by the government.

Quick questions

Cover the answers and test yourself: remembering is what makes it stick.

1. Which factor of production is a factory machine?
2. What is opportunity cost?
3. A bakery sells a cake for £12 and the ingredients cost £4. What is the added value?
4. Which is a way to add value?

5. Which sector does a coal mine belong to?
6. Which sector does a car factory belong to?
7. Which sector does a bank belong to?
8. What usually happens to the primary sector as a country develops?

Answers

1. Capital
2. The next best alternative given up
3. £8
4. Building a strong brand
5. Primary
6. Secondary
7. Tertiary
8. It shrinks

What to do next

Practise 10 questions on this topic

Try 3 exam questions, with mark schemes

Read the lesson, one step at a time

Free revision for GCSE and KS3 at lycolearn.co.uk. Some notes are for one exam board only, and say so in brackets.

Your notes