

Economics of business case questions

P6 Opening case

1. What is the difference between a company and other forms of business?

A company is a separate legal identity owned by shareholders; it has limited liability.

2. What is the difference between a private and a public company?

A private company cannot have its shares traded on the Stock Exchange. A private company has ltd after its name; a public company has plc after its name.

3. Why would a business want to become a public company?

To have its shares traded on the Stock Exchange; this makes the shares more liquid so it is easier for owners to trade. Floating on the Stock Exchange may be used to raise finance.

4. How does Facebook create value for its customers?

It creates value by making it easy and enjoyable to keep up with what other people are doing and to communicate with them. The benefits you get from using Facebook (the time it saves, the joys of seeing what others are doing and letting them know what you are doing) are worth more to you than the time spent using it.

5. What do you think the managers of Facebook do?

- They will undertake a range of tasks e.g. managing people and managing other resources such as money to help the business achieve its objective.
- They will manage different functional areas such as marketing and operations.
- They will plan what needs to be done, organise the resources required, coordinate the resources and review progress; this is an ongoing process
- They will be decision makers, they need interpersonal skills and they will manage information.

P6 Quick check questions.

For each of the following statements, say whether it is true or false.

- a. The owners of a private and a public company have limited liability. TRUE
- b. A sole trader has unlimited liability. TRUE
- c. The owners of a company must be the managers FALSE

P7 Analysing Business Data

1. Approximately what proportion of businesses in the UK at the start of 2017 were:

- Sole proprietorships
- Sole proprietorships around 3.4 m
- Total businesses approximately 3.4 m + 1.8 m + 0.4 m = 5.6m
- Proportion of businesses that are sole proprietors = $(3.4 / 5.6) * 100 = 61\%$

2. Why do you think such a large proportion of businesses are sole proprietors?

This is a very easy form of business to set up and manage.

P10 Quick check questions.

1. **Which of the following would you say are in the micro environment of a business, and which in the macro environment?**
 - a. Suppliers MICRO
 - b. Demographic factors MACRO
 - c. Customers MICRO
 - d. New legislation MACRO
 - e. Changes in the exchange rate MACRO
 - f. Competitors MICRO

P11 Business Insight

1. **What factors do you think might prevent businesses from relocating from London to Frankfurt?**

May include:

- Ability to recruit staff
- Costs of relocation
- Infrastructure in Frankfurt
- Difficulty moving key staff

P12 Analysing the data

1. **What factors do you think might affect the density of businesses in different parts of the UK (shown in Figure 1.4)?**

May include:

- Infrastructure
- Local government incentives
- Labour markets
- Access to markets
- Resource costs

P13 Analysing the data

1. **Why do you think the total number of businesses varies between countries?**

May include:

- Incentives to set up in business
- Costs and ease of running a business
- Government regulation (e.g. if it limits large businesses)

2. **Discuss the significance of the data in terms of numbers of employees (a) within countries and (b) between countries**

Difference in numbers will affect:

- Availability of labour
- Costs of labour
- Demand for products
- appeal of that location for investment

P17 Quick check questions

For each of the following statements, say whether it is true or false.

- a. There are unlimited resources in an economy. FALSE
- b. *Economic models fully reflect reality.* FALSE
- c. The resources of business are goods and services. FALSE
- d. A company is owned by its managers FALSE

P19 End of chapter questions

1. What are the key features of a business?

- A group of individuals working together
- Shared goals
- Managed performance

2. In what way are businesses involved in a transformation process?

Businesses transform inputs into outputs and aim to add value when doing so.

3. What are the functions of a business?

Marketing, operations, finance and human resources are common functions of a business. These broad headings will incorporate many other activities e.g. within operations there may be research and development and IT

4. What is the significance of limited liability?

It means investors can only lose the money they have invested not their personal possessions; this limits the risk for investors making investment more likely

5. What is the difference between the primary, secondary, and tertiary sectors?

- Primary sector: first stage of production e.g extractive industries
- Secondary sector: manufacturing
- Tertiary sector: services.

6. What do managers do?

According to Stewart they “get things done through others”. They plan, organize, and coordinate resources.

7. What are the typical roles of managers, according to Mintzberg?

Informational, interpersonal, decision making.

8. Why do investors buy shares?

To influence decisions; to earn money from dividends; to earn money from the share price increases

9. Why might a manager be short-termist?

Managers may focus on the short term not the long term in decision making because investors want short term rewards and/or because the manager is aiming to make an impression in the short term before moving jobs and/or getting promoted

10. What is meant by the macro environment of business?

It refers to the external factors in the environment of a business that the managers cannot easily control such as political, economic, social and technological factors.