

**Chapter 7: Worksheet mark scheme (44 marks, HL 44 + 3)**

- 1** State and briefly explain the **five** economies of scale. **(10)**
- purchasing: cheaper price possible as bigger quantities are ordered
  - technical: machines can raise productivity and/or reduce unit cost
  - financial: bigger businesses may borrow money at a cheaper cost
  - marketing: costs can be spread over greater number of products sold
  - managerial: specialist managers in big businesses may be more efficient than managers expected to do a wide range of management jobs
- 2** State and briefly explain the **three** main diseconomies of scale. **(6)**
- communication: message volume overload/messages may be distorted as they are passed along a long chain
  - alienation of workforce: demotivation as workers are far from decision-makers
  - slow decision-making: difficult to take decisions in a huge organisation
- 3** State **three** advantages of small businesses, in comparison to large businesses. **(3)**
- able to adapt to change quickly
  - communication is faster/more direct/less distorted
  - often one person controls everything
  - often offer personal service
  - often have low overheads
  - no diseconomies of scale
  - fast decision-making
- 4** What is the alternative term for internal growth? **(1)**  
organic growth
- 5** What is the difference between a merger and an acquisition? **(2)**  
Merger involves two businesses of about the same size deciding to combine, whereas acquisition is when a larger business either buys a controlling interest in a smaller one, or buys a smaller business outright.
- 6** Give an example of backward vertical integration. **(2)**  
Any legitimate example, such as: a car manufacturer buys a supplier of engine parts.
- 7** What is a conglomerate? **(2)**  
This is a large company, usually with a global presence, with subsidiaries in diverse industries in all sectors.

- 8 What is the difference between a joint venture and a strategic alliance? Give a real-world example of a joint venture. (5)

A joint venture is when two businesses temporarily work together on a project, whereas a strategic alliance is a formal, longer-term, legally established agreement for two businesses to commit money and/or resources and/or people to a project or new business. (2 + 2 marks available.)

For example, Sony Ericsson makes mobile phones. (1 mark available.)

- 9 List **three** advantages and **three** disadvantages of franchising for the franchisee. (6)

Advantages:

- tried and tested business which is less likely to fail
- advice and training given
- easy to get supplies
- national advertising paid for by franchisor

Disadvantages:

- share of profits paid to franchisor
- still pay for local promotions
- have to stick to rules set by franchisor
- no choice of supplier
- supplies may be more expensive
- prices set by franchisor
- franchise fee/licence fee can be expensive

- 10 Draw Ansoff's matrix (use a fresh sheet of paper if necessary). (7)

Award 1 mark for correctly labelling each of the following:

*x* axis: products existing → new

*y* axis: markets existing → new

Market penetration

Market development

Product development

Diversification

Increasing risk marked correctly on *x* and *y* axes

- 11 (HL) What are the **three** core product strategies identified by Porter? (3)

- cost leadership
- differentiation
- focus on narrow market segment