

Section 1: Understanding business activity

Chapter 1: Business Activity

Key terms

1. Need: is a good or service essential for living.
2. Want: is a good or service which people would like to have, but which is not essential for living. People's wants are unlimited.
3. Economic problem: there exist unlimited resources to produce the goods and services to satisfy those wants. This creates scarcity.
4. Factors of production: are those resources needed to produce goods and services. There are 4 factors of production and they are in limited supply.
5. Scarcity: is the lack of sufficient products to fulfill the total wants of the population.
6. Opportunity cost: the next best alternative given up by choosing another item.
7. Specialization: occurs when people and businesses concentrate on what they are best at.
8. Division of labour: is when the production process is split up into different tasks and each worker performs one of these tasks. It is a form of specialisation.
9. Businesses: combine factors of production to make products(goods and services) which satisfy people's wants.
10. Added value: is the difference between the selling price of a product and the cost of bought materials and components.

1. Economic Problem

Economic problem : resources are scarce and want is unlimited want. This makes people have to choose and therefore opportunity cost occurs.

Need: goods and services that are essential for living such as water, medicine.

Want: goods and services that people desire to have such as watch, cars.

Resources: are factors of production including land, labour, capital and enterprise

Factors of production	Definition	Example
1.Land	Natural resources	oil and coal
2.Labour	Workers who are used in production of goods and services	Builder, teacher
3.Capital	Human-made goods used in production	Machines, equipment, tools
4.Enterprise	Who take risks and make key decisions in business	The owner of a business

2. Opportunity Cost

: Cost of an alternative that must be forgone in order to pursue certain action.

3. Specialization

: People concentrate on what they are best at.

E.g. A man does only one process of production, he specializes in.

4. Division of labour

: Production process is split up into different tasks and each worker performs one of these tasks.

Advantages	Disadvantages
<ol style="list-style-type: none">1. Increasing efficiency and the amount of output.2. Reducing production time.3. Reducing error and cost of production.4. Training a worker to do only one task can reduce training cost.	<ol style="list-style-type: none">1. Creating boredom since workers do the same task all the time.2. Efficiency might be dropped3. Demotivating employees to create new things.4. If a worker is absent, no one can replace. The production process will be stopped.

5. The purpose of business activities

: to combine factors of production to make products or services to satisfy customers.

1. Combining factors of production including land, labour, and capital.
2. Producing products or services to satisfy needs and wants.
3. Employing workers and workers can get wages as a return.

6. Value added

: Selling price - Material price

Knockout tip: It is not the profit, need to concern other expenses eg. labour cost, operation cost etc.

How could a business increase value-added ?

1. Increasing price of a product and keeping material costs unchanged.
2. Reducing material costs and keeping selling price unchanged.