Quick Answers

Question 1

Discuss whether or not the average cost of production always falls when a firm increases its scale of production.

Level 3 (6-8 marks)

A reasoned discussion which accurately examines both sides of the economic argument, making use of economic information and clear and logical analysis to evaluate economic issues and situations. One side of the argument may have more depth than the other, but overall both sides of the argument are considered and developed. There is thoughtful evaluation of economic concepts, terminology, information and/or data appropriate to the question. The discussion may also point out the possible uncertainties of alternative decisions and outcomes

Why it might fall:

- The firm may experience economies of scale; total cost will rise by less than total output (long run average cost may fall as output increases)
- The firm may experience buying/purchasing economies of scale; may be offered a discount price when buying raw materials in bulk
- The firm may experience technical economies of scale; larger, more cost efficient technological equipment may be purchased to produce a higher output
- The firm may experience managerial economies of scale; specialist staff may be employed when output is high
- The firm may experience financial economies of scale; as output increases, it may be able to borrow more cheaply/or sell its shares at a lower price
- The firm may experience R & D economies of scale; the R & D expenditure can be spread over a higher output
- The industry may also be growing in size; enabling advantage to be taken of external economies of scale

Question 2

Identify two variable costs of producing palm oil.

Answer:

- fertilisers
- palm oil seeds
- casual labour

Guidance:
If more than two are given, consider the first two only. Accept 'labour', 'workers' or 'wages' for 'casual labour'

Question 3

Explain the effect that a rise in the price of flowers on Women's Day in Russia would be likely to have on flower producers' revenue.

Increase (1) as demand is price-inelastic (1)

Question 4

Define total revenue.

Answer:
The total income / money received (1) from a firm's sales (1).
OR
Price (1) multiplied by quantity sold (1).

Question 5

Explain two goals a business organisation may have.

- Profit maximisation (1) making as much profit as possible / increasing the gap between revenue and cost / rewarding entrepreneurs (1)

- Growth / expansion (1) increasing the size of the firm by e.g. merging / seeking to gain market power (1) to take advantage of economies of scale (1)
- Survival (1) during difficult times such as recession / when a firm is first established the aim may just be to stay in the market (1)
- Profit satisficing (1) achieving enough profit to keep shareholders' happy while following other objectives (1)
- Social welfare (1) business organisations operating in the public sector may e.g. be concerned about the environment / charging a low price to help the poor (1)

Question 6

Analyse the possible reasons why a producer's fixed cost may increase.

- Fixed costs are costs that do not alter with output (1) in the short run (1)
- Rent may increase (1) landlords may decide to charge more for factories and offices (1)
- The amount charged for insurance may increase (1) insurance companies may be seeking higher profits / their costs may have risen (1)
- Interest paid on loans may increase (1) e.g. the central bank may have increased the rate of interest (1)
- A firm may have moved to a larger factory / changed its production process / using more capital goods (1) leading to higher fixed capital costs (1)
- Inflation may occur (1) increasing e.g. the cost of workers with long-term contracts (1)

Question 7

Discuss whether or not an increase in wages will reduce a firm's profit.

Up to 5 marks for why it might:

- Higher wages will mean a higher wage bill (1) if output does not increase by more than wages, labour costs per unit will increase (1) costs of production will increase

(1) profit is revenue minus costs (1) with higher costs and the same revenue, profit will fall (1)

- Prices will rise (1) if demand is elastic, revenue will fall (1)

Up to 5 marks for why it might not:

- Paying higher wages may prevent strikes (1) this can reduce costs of production (1)
- Higher wages may motivate workers (1) this can increase productivity (1) reduce costs of production (1)
- Higher wages may make it easier to recruit skilled workers (1) this will raise productivity (1) reduce costs of production (1) increase profits (1)
- Other costs may be falling (1) e.g. rent, corporation tax (1)
- Demand for the firm's products may be increasing (1) this will raise revenue (1)
- Higher wages may be paid to a smaller labour force (1) reducing the wage bill (1)
- Replace workers with machines (1) may leave costs unchanged (1)

Guidance

2 marks could be awarded for an accurately drawn Demand and Supply diagram

Question 8

Define a loss.

- Costs exceed revenue (2)
- Insufficient revenue / costs too high (1)

Question 9

Identify two fixed costs.

• rent
• interest on past loans
• insurance
• salaries

Question 10

Identify, from the extract, two goals of business organisations.

Survival / growth / profit maximisation / diversification

Question 11

Define total revenue.

- Price × quantity (2)
- Total cost plus total profit/total cost minus any loss (2)
- The amount received (1) from selling a product (1)

Question 12

Explain how a firm may earn a profit despite a fall in revenue

- Profit is revenue minus cost (1)
- Costs of production may fall by more than revenue (1) e.g. fuel costs may have fallen/action taken to reduce costs if revenue falls (1)
- Revenue may have initially been higher than cost (1) profit may have fallen but still be positive (1)
- The firm may receive government subsidies (1) reducing costs of production (1)

Question 13

What is the difference between the price of a product and the cost of a product?

- The price is the amount the customer pays for the product/average revenue/how much the product is sold for (1)
- The cost is the expenditure involved in producing product e.g. labour costs (1)

Question 14

Explain TWO reasons why a firm may NOT aim to earn maximum profit

- A firm may be trying to grow (1) to capture a larger share of the market/to increase pay and status of managers (1)
- A firm may be trying to maximise sales revenue (1) to make it easier to grow/gain market share (1)
- A firm may be aiming for a reasonable but not maximum profit/profit satisficing (1) in order to pursue other goals (1)
- e.g. raising wages to keep workers happy (1)
- A firm may not know what output will maximise profit (1) due to lack of information about costs/demand (1)
- A firm may be trying to survive (1) in difficult situations (1)
- May be in public sector/charity (1) and thus have goals related to social welfare/reducing inequalities (1)

Question 15

Identify two fixed costs of production in Fig.1.

- One mark each for any 2 from: insurance, security, rent, lighting and wages

Guidance

- If more than two examples are given, consider only the first three