



CAIE IGCSE BUSINESS STUDIES (0450)

SUMMARIZED NOTES ON THE DEFINITIONS SYLLABUS

1. Definitions

1.1. Understanding business activity

1. A need is a good or service essential for living
2. A 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 wants but limited 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 four 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 is 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 those tasks. It is a form of specialization
9. Businesses combine the factors of production to make goods and services which satisfy people's wants
10. Added value is the difference between the selling price and the cost of bought-in materials and components
11. The primary sector of industry extracts and uses the natural resources of Earth to produce raw materials used by other businesses
12. The secondary sector of industry manufactures goods using the raw materials provided by the primary sector
13. The tertiary sector of industry provides services to consumers and other sectors of industry
14. De-industrialisation occurs when there is a decline in the importance of the secondary, manufacturing sector of industry in a country
15. Mixed economy has both a private sector and a public (state) sector
16. Capital is the money invested into the business by the owners
17. An entrepreneur is a person who organises, operates and takes the risk for a new business venture
18. Capital employed is the total value of capital used in the business
19. Internal Growth occurs when a business expands its existing operations
20. External Growth is when a business takes over or merges with another business. It is often called integration as one business is integrated into another one
21. A takeover or acquisition is when one business buys out the owners of another business, which then becomes part of the 'predator' business [the business which has taken it over]
22. A merger is when the owners of two businesses agree to join their businesses together to make one business
23. Horizontal integration is when one business merges with or takes over another one in the same industry at the same stage of production
24. Vertical integration is when one business merges with or takes over another one in the same industry but at a different stage of production. Vertical integration can be forward or backward.
25. Conglomerate integration is when one business merges with or takes over a business in a completely different industry. This is also known as diversification.
26. Sole trader is a business owned by one person
27. Limited liability means that the liability of shareholders in a company is limited to only the amount they invested
28. Unlimited liability means that the owners of a business can be held responsible for the debts of the business they own. Their liability is not limited to the investment they made in the business
29. Partnership is a form of business in which two or more people agree to jointly own a business
30. Unincorporated business is one that does not have a separate legal identity. Sole traders and partnerships are unincorporated businesses
31. Incorporated businesses are companies that have separate legal status from their owners
32. Shareholders are the owners of a limited company. They buy shares which represent part-ownership of the company.
33. Private limited companies are businesses owned by shareholders but they cannot sell shares to the public.
34. Public limited companies are businesses owned by shareholders but they can sell shares to the public and their shares are tradable on the Stock Exchange
35. Dividends are payments made to shareholders from the profits [after tax] of a company. They are the returns to shareholders for investing in the company.
36. A franchise is a business based upon the use of the brand names, promotional logos and trading methods of an existing successful business. The franchisee buys the license to operate this business from the franchisor
37. A joint venture is where two or more businesses start a new project together, sharing capital, risks and profits
38. A public corporation is a business in the public sector that is owned and controlled by the state [government]
39. Business objectives are the aims or targets that a business works towards
40. Profit is total income of a business [revenue] minus total costs

41. Market share is the percentage of total market sales held by one brand or business
42. A social enterprise has social objectives as well as an aim to make a profit to reinvest back into the business
43. A stakeholder is any person or group with direct interest in the performance and activities of a business

1.2. People in business

1. Motivation is the reason why employees want to work hard and work effectively for the business
2. Wage is a payment for work, usually paid weekly
3. Time rate is the amount paid to an employee for one hour of work
4. Piece rate is an amount paid for each unit of output
5. Salary is payment for work, usually paid monthly.
6. Bonus is an additional amount of payment above basic pay as a reward for good work
7. Commission is payment relating to the number of sales made
8. Profit sharing is a system whereby a proportion of the company's profits are paid out to employees
9. Job satisfaction is the enjoyment derived from feeling that you have done a good job
10. Job rotation involves workers swapping around and doing each specific task for only a limited time and then changing around again
11. Job enrichment involves looking at jobs and adding tasks that require more and/or responsibility
12. Team-working involves using groups of workers and allocating specific tasks and responsibilities to them
13. Training is the process of improving a worker's skills
14. Promotion is the advancement of an employee in an organisation, for example, to a higher job/managerial level
15. Organisational structure refers to the levels of management and division of responsibilities within an organisation
16. Organisational chart refers to a diagram that outlines the internal management structure
17. Hierarchy refers to the levels of management in any organisation, from the highest to the lowest.
18. A level of hierarchy refers to managers/supervisors/other employees who are given a similar level of responsibility in an organisation
19. Chain of command is the structure in an organisation which allows instructions to be passed down from senior management to lower levels of management
20. The span of control is the number of subordinates working directly under a manager
21. Directors are senior managers who lead a particular department or a division of a business
22. Line managers have direct responsibility for people below them in the hierarchy of an organisation
23. Supervisors are junior managers who have direct control over the employees below them in the organisational structure
24. Staff managers are specialists who provide support, information and assistance to line managers.
25. Delegation means giving a subordinate the authority to perform particular tasks
26. Leadership styles are the different approaches to dealing with people and making decisions when in possession of authority - autocratic, democratic and laissez-faire
27. Autocratic leadership is where the manager expects to be in charge of the business and to have their orders followed
28. Democratic leadership gets other employees involved in the decision-making process
29. Laissez-faire leadership makes the broad objectives of the business known to employees, but then they are left to make their own decisions and organise their own work
30. Recruitment is the process from identifying that the business needs to employ someone up to the point at which applications have arrived at the business
31. Job analysis identifies and records the responsibilities and tasks relating to a job
32. Job description outlines the responsibilities and duties to be carried out by someone employed to do a specific job
33. Job specification is a document which outlines the requirements, qualifications, expertise, physical characteristics, etc., for a specified job
34. Internal recruitment is when a vacancy is filled by someone who is an existing employee of the business
35. External recruitment is when a vacancy is filled by someone who is not an existing employee and will be new to the business
36. Induction training is an introduction given to a new employee, explaining the business's activities, customs and procedures and introducing them to their fellow workers
37. On-the-job training occurs by watching a more experienced worker doing the job
38. Off-the-job training involves being trained away from the workplace, usually by specialist trainers.
39. Workforce planning is establishing the workforce needed by the business for the foreseeable future in terms of the number and skills of employees required
40. Dismissal is when employment is ended against the will of the employee, usually for not working according to the employment contract
41. Redundancy is when the employee is no longer needed and so loses their job. It is not due to any aspect of their work being unsatisfactory
42. A contract of employment is a legal agreement between an employer and an employee, listing the rights and responsibilities of workers
43. Communication is the transferring of a message from the sender to the receiver, who understands the message

44. A message is the information or instructions being passed by the sender to the receiver
45. Internal communication is communication between members of the same organisation
46. External communication is communication between the organisation and other organisations or individuals
47. The transmitter or sender of the message is the person starting off the process by sending the message
48. The medium of communication is the method used to send a message, for example, a letter is a method of written communication and a meeting is a method of verbal communication
49. The receiver is the person who receives the message
50. Feedback is the reply from the receiver which shows whether the message has arrived, been understood and, if necessary, acted upon
51. One-way communication involves a message which does not call for or require a response
52. Two-way communication is when the receiver gives a response to the message and there is a discussion about it
53. Formal communication is when messages are sent through established channels using professional language
54. Informal communication is when information is sent and received casually using everyday language
55. Communication barriers are factors that stop effective communication of messages

1.3. Marketing

1. Marketing is identifying customer wants and satisfying them profitably
2. A customer is a person, business or other organisation which buys goods or services from a business
3. Customer loyalty is when existing customers continually buy products from the same business
4. Customer relationships is communicating with customers to encourage them to become loyal to the business and its products
5. Market share is the percentage of total market sales held by one brand or business
6. Consumer buys goods or services for personal services- not to re-sell
7. Mass market is where there is a large number of sales of a product
8. Niche market is a small, usually specialised, segment of a much larger market
9. Market segment is an identifiable sub-group of a whole market in which consumers have similar characteristics or preferences
10. Market research is the process of gathering, analyzing and interpreting information about a market
11. Product-orientated business is one whose main focus of activity is on the product itself

12. Market-orientated business is one which carries out market research to find out consumer wants before a product is developed and produced
13. Marketing budget is a financial plan for the marketing of a product or product range for some specific period of time. It specifies how much money is available to market the product or range, so that the Marketing department may know how much it may spend
14. Primary research is the collection and collation of original data via direct contact with potential or existing customers
15. Secondary research uses information that has already been collected and is available for use by others
16. A questionnaire is a set of questions to be answered as a means of collecting data for market research
17. Online surveys require the target sample to answer a series of questions over the internet
18. Interviews involve asking individuals a series of questions, often face-to-face or over the phone
19. A focus group is a group of people who are representative of the target market
20. A sample is the group of people who are selected to respond to a market research exercise, such as a questionnaire
21. A random sample is when people are selected at random as a source of information for market research
22. A quota sample is when people are selected on the basis of certain characteristics (such as age, gender or income) as a source of information for market research
23. The marketing mix is a term which is used to describe all the activities which go into marketing a product or service. These activities are often summarized as the four Ps - product, price, place and promotion
24. The USP is the special feature of a product that differentiates it from the products of competitors
25. The brand name is the unique name of a product that distinguishes it from other brands
26. Brand loyalty is when consumers keep buying the same brand again and again instead of choosing a competitor's brand
27. Brand image is an image or identity given to a product which gives it a personality of its own and distinguishes it from its competitors' brands
28. Packaging is the physical container or wrapping for a product. It is also used for promotion and selling appeal
29. The product life cycle describes the stages a product will pass through from its introduction, through its growth until it is mature, and then finally its decline
30. Extension strategy is a way of keeping a product at the maturity stage of the life cycle and extending the cycle
31. Cost-plus pricing is the cost of manufacturing the product plus a profit mark-up

32. Competitive pricing is when the product is priced in line with or just below competitors' prices to try to capture more of the market
33. Penetration pricing is when the price is set lower than the competitors' prices in order to be able to enter a new market
34. Price skimming is where a high price is set for a new product on the market
35. Promotional pricing is when a product is sold at a very low price for a short period of time
36. Dynamic pricing is when businesses change product prices, usually when selling online, depending on the level of demand
37. Price elastic demand is where consumers are very sensitive to changes in price
38. Price inelastic demand is where consumers are not sensitive to changes in price
39. A distribution channel is the means by which a product is passed from the place of production to the consumer
40. An agent is an independent person or business that is appointed to deal with the sales and distribution of a product or a range of products
41. Promotion is where marketing activities aim to raise customer awareness, of a product or a brand, generating sales and helping to create brand loyalty
42. Advertising means paying for communication with potential customers about a product to encourage them to buy it
43. Informative advertising is where the emphasis of advertising or sales promotion is to give full information about the product
44. Persuasive advertising is advertising or promotion which is trying to persuade the consumer that they really need the product and should buy it
45. Target audience refers to people who are potential buyers of a product or a service
46. Sales promotions are incentives such as special offers aimed at consumers to achieve short-term increase in sales
47. Marketing budget is a financial plan for the marketing of a product or a product range for a specified period of time
48. Social media marketing is a form of internet marketing that involves creating and sharing content on social media networks in order to achieve marketing and branding goals. It includes activities such as posting text and image updates, videos, and other content that achieves audience engagement as well as paid social media advertising
49. Viral marketing is when consumers are encouraged to share information online about the products of a business
50. E-commerce is the 'online' buying and selling of goods and services using computer systems linked to the internet and apps on mobile (cell) phones
51. A marketing strategy is a plan to combine the right combination of the four elements of the marketing

mix for a product or a service to achieve a particular marketing objective(s)

1.4. Operations Management

1. Productivity is the output measured against the inputs used to create it
2. The buffer inventory level is the inventory held to deal with uncertainty in customer demand and deliveries of supplies
3. Lean production is a term for those techniques used by business to cut down on waste and therefore increase efficiency, for example, by reducing the time it takes for a product to be developed and become available for sale.
4. Kaizen is a Japanese term meaning 'continuous improvement through the elimination of waste'
5. Just-in-time is a production method that involves reducing or virtually eliminating the need to hold inventories of raw materials or unsold inventories of the finished product
6. Job production is where a single product is made at a time
7. Batch production is where a quantity of one product is made, and then a quantity of another item will be produced
8. Flow production is where large quantities of a product are produced in a continuous process. It is sometimes referred to as mass production
9. Fixed costs are costs which do not vary in the short run with the number of items sold or produced. They have to be paid whether the business is making any sales or not. They are also known as overhead costs.
10. Variable costs are costs which vary directly with the number of items sold or produced
11. Total costs are fixed and variable costs combined
12. Average cost per unit (unit cost) is the total cost of production divided by total output
13. Economies of scale are the factors that lead to a reduction in average costs as a business increases in size
14. Diseconomies of scale are the factors that lead to an increase in average costs as a business grows beyond a certain size
15. Break-even point is the level of sales at which total costs = total revenue
16. The revenue of a business is the income during a period of time from the sale of goods or services.
17. Quality means to produce a good or service which means customer expectations
18. Quality control is the checking for quality at the end of the production process; it uses quality inspectors as a way of finding any faults
19. Quality assurance is the checking for quality standards throughout the production process by employees.

1.5. Financial information and decisions

1. Start-up capital is the finance needed by a new business to pay for essential non-current and current assets before it can begin trading
2. Working capital is the finance needed by a business to pay for its day-to-day activities
3. Capital expenditure is money spent on non-current assets which will last for more than one year
4. Revenue expenditure is money spent on day-to-day expenses which do not involve the purchase of a long-term asset, for example, wages or rent
5. Internal finance is obtained from within the business itself
6. External finance is obtained from sources outside of and separate from the business
7. Micro-finance is providing financial services - including small loans - to poor people not served by traditional banks
8. Crowdfunding is funding a project or venture by raising money from a large number of people who each contribute a relatively small amount, typically via the internet
9. The cash flow of a business is the cash inflows and outflows over a period of time
10. Cash inflows are the sums of money received by a business during a period of time
11. Cash outflows are the sums of money paid out by a business during a period of time
12. A cash flow cycle shows the stages between paying out cash for labour, materials, and so on, and receiving cash from the sale of goods
13. Profit is the surplus after total costs have been subtracted from revenue
14. A cash flow forecast is an estimate of future cash inflows and outflows of a business, usually on a month-by-month basis. This then shows the expected cash balance at the end of each month
15. Net cash flow is the difference, each month, between inflows and outflows.
16. Closing cash (or bank balance) is the amount of cash held by the business at the end of each month. This becomes next month's opening cash balance.
17. Opening cash (or bank balance) is the amount of cash held by the business at the start of the month
18. Working capital is the finance needed by a business to pay for its day-to-day expenses
19. Accounts are the financial records of a firm's transactions
20. Final accounts are produced at the end of the financial year and give details of the profit or loss made over the year and the worth of the business
21. An income statement is a financial statement that records the income of a business and all costs incurred to earn that income over a period of time. It is also known as a profit and loss account

22. The revenue is the income to a business during a period of time from the sale of goods and services
23. The cost of sales is the cost of producing or buying in the goods actually sold by the business during a time period
24. A gross profit is made when revenue is greater than the cost of sales
25. A trading accounts shows how the gross profit of a business is calculated
26. Net profit is the profit made by a business after all costs have been deducted from revenue. It is calculated by subtracting overhead costs from gross profits
27. Depreciation is the fall in the value of a fixed asset over time
28. Retained profit is the net profit reinvested back into the company, after deducting tax and payments to owners, such as dividends
29. The statement of financial position shows the value of a business's assets and liabilities at a particular time
30. Assets are those items of value which are owned by the business. They may be non-current (fixed) assets or current assets
31. Liabilities are debts owed by the business. They may be non-current liabilities or current liabilities
32. Non-current assets are items owned by the business for more than one year
33. Current assets are owned by the business and used within one year
34. Non-current liabilities are long-term debts owed by the business, repaid over more than one year
35. Current liabilities are short-term debts owed by the business, repaid in less than one year
36. Capital employed is shareholders' equity + non-current liabilities and is the total long-term and permanent capital invested in a business
37. Liquidity is the ability of a business to pay back its short-term debts
38. Profitability is the measurement of the profit made relative to either the value of sales achieved or the capital invested in the business
39. Illiquid means that assets are not easily convertible into cash

1.6. External influences on business activity

1. Gross Domestic Product (GDP) is the total value of output of goods and services in a country in one year
2. Recession is when there is a period of falling GDP
3. Inflation is the increase in the average price level of goods and services over time
4. Unemployment exists when the people who are willing and able to work cannot find a job
5. Economic growth is when a country's GDP increases - more goods and services are produced than in the previous year

6. Balance of payments records the difference between a country's exports and imports
7. Real income is the value of income and it falls when prices rise faster than money income
8. Exports are goods and services sold from one country to other countries
9. imports are goods and services bought in by one country from other countries
10. Exchange rate is the price of one currency in terms of another
11. Exchange rate appreciation is the rise in the value of a currency compared with other currencies
12. Exchange rate depreciation is the fall in value of a currency compared with other currencies
13. Fiscal policy is any change by the government in tax rates or public sector spending
14. Direct taxes are paid directly from incomes, eg- income tax or profits tax
15. indirect taxes are added to the prices of goods and taxpayers pay the tax as they purchase the goods, eg- VAT
16. Disposable income is the level of income a taxpayer has after paying income tax
17. Import tariff is a tax on an imported product
18. Import quota is a physical limit on the quantity of a product that can be imported
19. Monetary policy is a change in rates by the government or central bank
20. Supply-side policies aim to increase supply and make the economy more efficient
21. Private costs of an activity are the costs paid for by a business or the consumer of the product
22. Private benefits of an activity are the gains to a business or the consumer of the product
23. External costs are costs paid for by the rest of society, other than the business, as a result of business activity
24. External benefits are the gains to the rest of society, other than the business, as a result of business activity
25. Social cost = external costs + private costs
26. Social benefit = external benefits + private benefits
27. Globalization is the term used to describe increases in worldwide trade and movement of people and capital between countries
28. Free trade agreements exist when countries agree to trade imports/exports with no barriers such as tariffs or quotas
29. An import tariff is a tax placed on imported goods when they arrive into the country
30. An import quota is a restriction on the quantity of a product that can be imported
31. Protectionism is when a government protects domestic businesses from foreign competition using tariffs and quotas
32. Multinational businesses are those with factories, production or service operations in more than one country

CAIE IGCSE

Business Studies (0450)