BUSINESS STUDIES DEPARTMENT - MODERN COLLEGE

Questions

1 (a) Define the term 'opportunity cost'. [2]

Opportunity cost is the benefit of the next best alternative/option that is given up/foregone/lost.

(b) Briefly explain how business decisions involve opportunity cost, using an appropriate example. [3]

Businesses have limited resources and need to make choices.

The allocating of scarce resources between competing demands is at the heart of most business decision making.

A decision to invest in a particular asset/machine means that alternative capital expenditure choices have been forgone.

The opportunity cost of paying a generous dividend to shareholders is the lost opportunity to better reward employees.

Businesses become very competitive to reduce the strength of the next best alternative.

1 (a) Define the term 'added value'. [2]

Added value is defined as 'the difference between the cost of purchasing raw materials and the price the finished goods are sold for'.

(b) Briefly explain two ways in which operations management decisions might add value to a product. [3]

Operational decisions that might add value to a product could include:

– Product design – a distinctive offer to consumers.

– Efficiency of production process (e.g. reduce waste, cut costs).

– Focus on quality standard attractive to consumers.

– Efficient stock ordering and management systems.

– Deciding on suitable production methods.

7 (a) Explain why a business environment might be described as dynamic. [8]

A business environment may be described as dynamic in that:

– It is rarely static – the nature of business and markets suggests volatility and turbulence.

– Legislative/governmental influences change from time to time.

– Economic and social movements affect demand and supply.

– Technology is ever changing making new opportunities and threats.

– Local, national, international competition develops and changes.

– A business may be a part of the change dynamic, as well as needing to react to change initiated by other factors.

– Financial factors often influential, currencies, exchange rates etc. – credit relevant environmental change factors identified.

(b) Discuss the view that the only purpose of private sector businesses is to make profit, not to pursue corporate responsibility objectives. [12]

The view that business should focus solely on making profit and not be diverted into corporate (social) responsibility objectives might comment on the following:

– More profit will allow a 'trickle down' effect and supply the resources to deal with social issues.

– Entrepreneurs and managers should maintain a clear focus on 'bottom line' issues – play to their strengths.

– Markets and prices are distorted – let businesses and markets do what they do best.

– Alternatively it is argued that the social cost of profit focus alone is too high.

– It is possible and necessary to combine profit pursuit with socially responsible business practices.

– It is vital to continually assess the impact of business activity on the environment and to require more responsible action.

– Corporate social responsibility is often now seen as an essential part of reputation management and can act as a competitive advantage.