AS & A Level · Business (9609) · Chapter 1

Enterprise



Syllabus topic 1.1 · AS Level: Paper 1 (Business Concepts 1) and Paper 2 (Business Concepts 2)

For the Cambridge International AS & A Level Business 9609 syllabus, exams in 2026, 2027 and 2028

Syllabus statements covered in this chapter

Syllabus ref.	What you must be able to do	level
1.1.1	The purpose of business activity; the factors of production: land, labour, capital and enterprise; the concept of adding value	AS
1.1.1	The nature of economic activity, the problem of choice and opportunity cost	AS
1.1.1	The dynamic business environment; why businesses succeed or fail; local, national, international and multinational businesses	AS
1.1.2	The qualities entrepreneurs and intrapreneurs need; the role of entrepreneurship in starting a business and of intrapreneurship in its ongoing success	AS
1.1.2	Barriers to entrepreneurship; business risk and uncertainty; the role of business enterprise in the development of a country	AS
1.1.3	The meaning, purpose and key elements of business plans; their benefits and limitations	AS

What is inside

1. Concept notes, figures and 8 worked examples (calculations and model answers with AO labels)
2. Exam skills for Papers 1 and 2; common mistakes from the examiner report
3. 20 quick-check multiple-choice questions, explained
4. Two Paper 1 Section A questions, one Section B essay and one Paper 2 style case question, all with levels-based mark schemes
5. Quick-reference table, "I can" checklist

How to read these notes

red = key term green = definition

1 = one mark in the mark scheme · [AO1] knowledge, [AO2] application, [AO3] analysis, [AO4] evaluation

★ **Exam tip:** At AS Level, knowing a term earns only a small share of the marks. Most marks go to **applying** it to the business in the question, **analysing** the consequences in a chain, and **judging** what matters most for that business.

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1.1.1 The nature of business activity

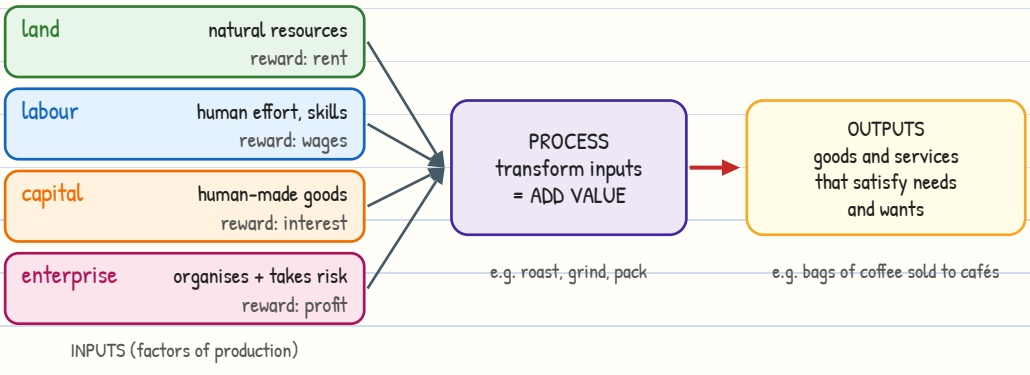
The purpose of business activity

- A **business** is an organisation that combines resources (inputs) to produce goods or services (outputs) that satisfy customers' needs and wants.
- Its **purpose** is to identify **needs** (essentials such as food and shelter) and **wants** (unlimited desires such as a holiday) and meet them, usually for a **profit** (private sector), sometimes to provide a **public service** (public sector) or to meet **social and environmental aims** (social enterprises). In doing so businesses create jobs, incomes and tax revenue.

The factors of production

Factors of production are the resources (inputs) needed to produce goods and services. Each factor earns a reward.

factor	meaning	reward	example: a coffee roaster
land	natural resources: the site, minerals, water, crops, energy sources	rent	the coffee beans grown on farms; the site of the roastery
labour	the physical and mental effort of the workforce; its quantity and its skills	wages	roasters, packers, delivery drivers, sales staff
capital	human-made goods used to produce other goods and services (capital goods, not money)	interest	roasting machines, grinders, vans, computers
enterprise	the skill and willingness to organise the other three factors and take the risk of a business venture	profit	the founder who set up the roastery with her savings



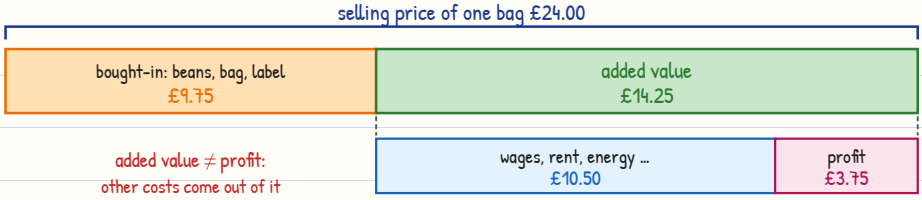
The transformation process: a business combines the factors of production and adds value to make outputs.

Quality matters as much as quantity: trained workers and modern capital raise output from the same inputs (**capital-intensive** firms use many machines relative to workers; **labour-intensive** firms rely mainly on workers). **Enterprise makes the other factors work:** without someone to organise them and take the risk, they produce nothing.

The concept of adding value

Added value is the difference between the selling price of a product and the cost of the bought-in materials and components used to make it. Adding value is the purpose of the transformation process: customers pay more for the output than the inputs cost.

Added value (per unit) = selling price – cost of bought-in materials and components per unit
Total added value = sales revenue – total cost of bought-in materials and components



A 1 kg bag of roasted coffee: added value pays for wages, rent and energy; only what is left is profit.

Worked example 1: added value is not profit

Bean & Barrel roasts coffee and sells 1,200 one-kilogram bags a month to cafés at £24.00 a bag. Each bag needs green beans costing £8.60 and a bag and label costing £1.15. Wages, rent and energy cost £12,600 a month. Calculate (a) the added value per bag, (b) the total added value per month and (c) the monthly profit.

(a) Bought-in cost = £8.60 + £1.15 = £9.75; added value = £24.00 − £9.75 = **£14.25** per bag.

(b) £14.25 × 1,200 = **£17,100** a month (check: revenue £28,800 − bought-in £11,700 = £17,100).

(c) Profit = £17,100 − £12,600 = **£4,500** a month: only £3.75 of the £14.25 added value per bag is profit.

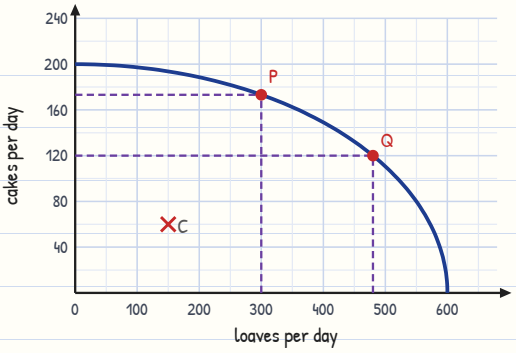
How a business can increase added value

raise the price customers will pay …	*… or reduce bought-in costs*
branding and promotion that create a premium image; a **unique selling point (USP)**; better **quality**, design or packaging; extra **service** (fast delivery, after-sales care, convenience)	cheaper suppliers or bulk buying; less waste of materials; redesigning the product to use fewer or cheaper components
but: building a brand is costly and slow; better quality or service raises other costs; customers may not pay more if rivals are cheaper	**but:** cheaper materials may lower quality and damage the brand, so the price customers will pay may fall

★ ***Exam tip:*** Finish the chain: stronger brand → product seen as different → higher price with the same bought-in costs → higher added value per unit. It only becomes extra profit if the **other** costs of adding it rise by less.

The nature of economic activity and the problem of choice

- **Economic activity** is the production, distribution and consumption of goods and services using scarce resources.
- Resources are **limited** but wants are **unlimited**, so there is **scarcity**. Every consumer, business and government faces the **problem of choice**: what to produce, how to produce it and for whom.
- **Opportunity cost** is the benefit of the next best alternative given up when a choice is made. It has two parts: the **choice** made and the **benefit forgone**.



A bakery's daily production possibilities.

With its ovens, staff and flour the bakery can make any combination on the curve. At **P** it bakes 300 loaves and 173 cakes. To bake 180 more loaves (point **Q**: 480 loaves) it must give up 53 cakes: that is the opportunity cost of the extra loaves.

At **C**, inside the curve, some resources are unused (an idle oven, staff waiting), so more of both could be made at no opportunity cost.

In a business: cash spent on a machine cannot fund advertising; a manager's time spent recruiting cannot be spent planning.

Worked example 2: the opportunity cost of becoming an entrepreneur

Priya earns a salary of £2,600 a month as a hotel manager. She plans to leave and open a guest house, using £40,000 of savings that currently earn 4% interest a year. Her business plan forecasts a profit of £22,800 in year 1 and £38,500 in year 2. (a) Calculate the yearly opportunity cost of her decision. (b) Comment on whether starting the business makes sense.

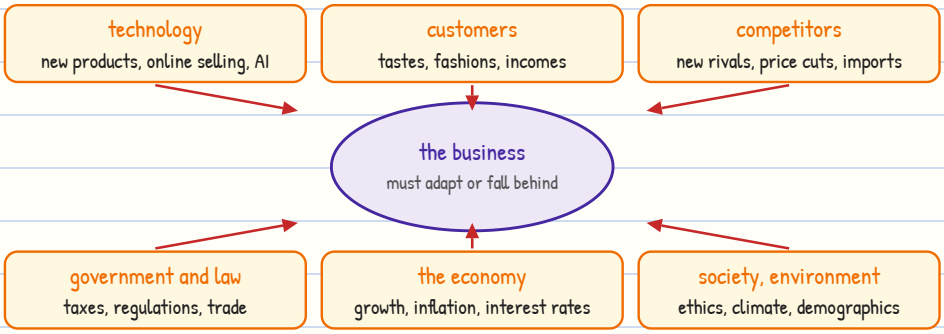
(a) Salary given up: £2,600 × 12 = £31,200. Interest given up: 4% × £40,000 = £1,600. Opportunity cost = **£32,800 a year**.

(b) In year 1 the forecast profit is £10,000 **less** than the opportunity cost; in year 2 it is £5,700 **more**. Financially the decision only pays off from year 2, and only if the forecast is accurate. Priya may still go ahead for non-financial reasons (independence, being her own boss), but she needs enough savings to live on in year 1.

Both parts are named: the **choice** (leaving her job, using her savings) and the **benefit forgone** (salary and interest). Opportunity cost is the **single** next best alternative, not every alternative and not the money spent; using the owner's own time or premises still has one.

The dynamic business environment

A **dynamic business environment** is one in which the external conditions a business faces (customers, competitors, technology, the economy, the law, society) change often, quickly and sometimes unpredictably.



Forces of change outside the business. Each can be an opportunity or a threat.

change in the environment	opportunity (example)	threat (example)
new technology	sell online to the whole country; cut costs with automation	products become obsolete (printed maps, DVDs); rivals adopt it first
changing tastes	new markets: plant-based food, second-hand fashion	falling demand for products that are no longer fashionable
new competitors	pressure to improve efficiency and quality	lower prices and lost market share
new laws, taxes, economy	government grants for green energy; rising incomes	higher costs of meeting regulations; recession cuts sales

How businesses respond: market research to spot change early; innovation; flexible workers and processes; contingency plans; cash reserves. The ability to **adapt** often separates success from failure.

Worked example 3: "Analyse one way..." [5] (model answer)

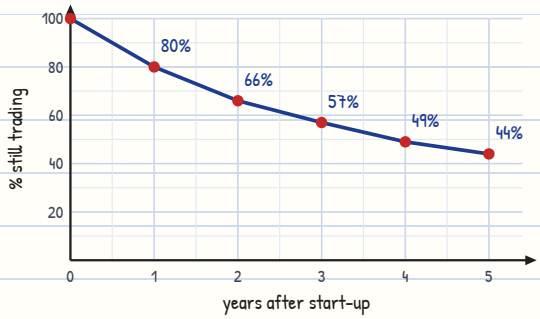
Analyse one way in which a dynamic business environment can create an opportunity for a business. [5]

A change in consumer tastes can create demand for a new product [AO1]. For example, as more customers want plant-based food, a small dairy could launch oat-based yoghurts alongside its milk products [AO2]. Because few local rivals offer them yet, it could charge a premium price [AO3 limited], so its added value per unit and its profit would rise, giving it retained profit to invest in more new products before larger firms enter the market [AO3 developed].

5 marks = 1 knowledge + 2 application + 2 analysis. One point only: a second "way" earns nothing extra, so develop one chain fully.

Why businesses succeed or fail

A business **fails** when it has to stop trading, usually because it cannot pay its debts (it runs out of **cash**) or its owners close it because it keeps making losses. New businesses face the highest risk.



Start-ups in an invented country still trading after each year.

In this example 20% of new businesses close within one year and 56% within five years. Survival is lowest in the first two years, when the owners lack experience, have no loyal customers yet and have little cash to fall back on.

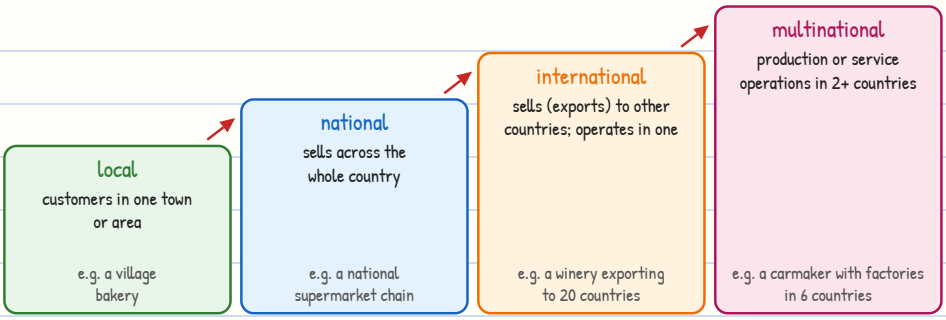
Note that "success" depends on the business's **objectives**: for a new firm it may simply mean survival; later, profit, growth, market share or a social aim.

reasons for success	reasons for failure
understanding the market: research shows what customers want and will pay	**poor planning**: no market research, unrealistic sales forecasts
a clear **USP** and innovation	**cash-flow problems**: too little start-up capital, customers paying late, too much inventory
effective management: planning, controlling costs, motivating staff	**poor management** and lack of experience; the owner tries to do everything

enough **finance**; the right **location**, staff and suppliers	**competition** from larger firms; **external change**: recession, new technology, new laws
adapting quickly to a dynamic environment	**growing too fast** (overtrading): orders taken that cannot be financed

★ ***Exam tip:*** In "evaluate the most important reason" questions there is rarely one cause: poor planning often **leads to** cash-flow problems, which are the immediate reason a business closes. A strong judgement explains which factor is the root cause **for the business in the question** (e.g. a small retailer with seasonal sales) and what it depends on.

Local, national, international and multinational businesses



Businesses differ in how far their markets and operations reach.

- A **local** business serves customers in one town or small area; a **national** business sells its products throughout one country.
- An **international** business sells its products in more than one country but produces in its home country (it exports).
- A **multinational** business has production or service operations (factories, offices, outlets) in more than one country.
- **Why grow beyond the home market?** more customers and sales; economies of scale; risk spread across markets; producing inside a market avoids trade barriers; lower labour or transport costs; access to raw materials.
- **Challenges:** different languages, cultures and tastes; foreign laws and taxes; exchange-rate risk; long supply chains; harder communication and control.

Worked example 4: classifying businesses, and "Explain one..." [3]

(a) Classify: **A** a taxi firm serving one city; **B** a juice maker that sells in every region of its country; **C** a toy maker with one factory in country X that exports to 15 countries; **D** a bank with branches in 30 countries.

(b) Explain one advantage to a business of becoming a multinational. [3]

(a) A local; B national; C international (sells abroad but produces only at home); D multinational (operations in many countries).

(b) It can produce inside a foreign market [AO1], so a toy maker with a factory in country Y avoids the import taxes on toys it exported there [AO2], which lowers its costs and lets it charge a more competitive price than rival importers [AO2 developed].

Section A "explain one" = 1 knowledge + 2 for a developed explanation in a business context.

1.1.2 The role of entrepreneurs and intrapreneurs

- An **entrepreneur** is a person who organises the factors of production and takes the risk of starting and running a new business venture.
- An **intrapreneur** is an employee who acts like an entrepreneur inside an existing organisation, developing new products, processes or ideas using the organisation's resources. The organisation, not the employee, bears most of the financial risk.

The qualities they need for success

- **initiative** and self-motivation: spots opportunities and acts without being told
- **creativity** and innovation: a new idea or USP that makes customers choose the business
- willingness to take **calculated risks**: commits money and time after weighing the evidence
- **resilience** and determination: keeps going after setbacks and early losses
- **self-confidence** and leadership: persuades banks, investors, staff and customers
- **hard work** and organisation: manages finance, marketing and operations at once
- intrapreneurs also need **teamwork** and communication: they must win support and resources from senior managers and work within the organisation's rules

> ✗ **Don't do this:** "Starting a business" or "raising finance" are **tasks**, not qualities. The examiner report notes that some candidates gave a task when asked for a quality.

The role of entrepreneurship in creating and starting up a business

spot an opportunity → research the market → write a business plan → raise finance → organise land, labour, capital → launch, take the risk, adapt

The entrepreneur turns an idea into a working business: making the key decisions, choosing the legal form, finding premises and suppliers, hiring the first workers and accepting that their own money may be lost.

The role of intrapreneurship in the ongoing success of a business

benefits to the business	problems and limits
a steady flow of **new products and processes** keeps the business competitive in a dynamic environment (a classic example is 3M's Post-it Notes, developed by employees)	staff time and money are spent on projects that may fail; normal work may suffer
ideas come from people who know the customers and processes best; cheaper than buying ideas or businesses	conflict with managers who resist change or with staff who are not involved
motivates creative staff (recognition, responsibility), so talented people stay instead of leaving to start rival firms	who owns the idea and how is the intrapreneur rewarded? Without reward they may leave

It depends on the culture: intrapreneurship only works if managers give time and resources, tolerate some failure and reward success.

Barriers to entrepreneurship

- **lack of finance**: banks refuse loans to people with no assets (collateral) or trading record; high interest rates
- lack of **skills, education and experience** in finance, marketing or management

- **fear of failure** and culture: losing savings or reputation; a secure job may be valued more
- **regulation and bureaucracy** ("red tape"): slow, costly registration and licences; corruption
- poor **infrastructure**: unreliable power, internet and transport raise costs
- **competition** from established firms with economies of scale, brands and loyal customers

Reducing the barriers: governments offer start-up grants and loans, training, simpler registration and enterprise zones; microfinance and crowdfunding give small amounts of capital to people banks would refuse.

Business risk and uncertainty

	business risk	*uncertainty*
meaning	the possibility that an outcome will be worse than expected (a loss or failure) where the likelihood can be estimated, e.g. from past data	a situation in which future events and their likelihood cannot be predicted or measured
examples	fire or theft; customers not paying; a known share of new products failing	a sudden change in government policy; a new technology from nowhere; a pandemic
can it be managed?	yes: insurance, market research, credit checks, diversification, limited liability	only partly: flexibility, cash reserves, contingency planning; cannot be insured

Worked example 5: measuring risk

In a city, 250 new cafés opened in one year and 65 of them closed within twelve months. An entrepreneur opening a café can insure her stock and equipment, worth £45,000, for £1,800 a year. (a) Calculate the failure rate. (b) Calculate the insurance premium as a percentage of the value insured. (c) Explain why she cannot insure against all the threats to her café.

(a) 65 ÷ 250 × 100 = **26%**: roughly 1 in 4 new cafés failed in the first year. Because past data exist, this is a **risk** that can be estimated.

(b) £1,800 ÷ £45,000 × 100 = **4.0%**.

(c) Insurers cover events whose likelihood they can calculate (fire, theft). They will not insure against a **lack of customers** or an **unforeseeable** change, such as a large chain opening next door: these are business risks and uncertainty she must manage herself, through research, a strong USP and cash reserves.

The role of business enterprise in the development of a country

- creates **jobs**: lower unemployment; people gain incomes and skills
- raises **output (GDP)** and incomes: higher living standards and more spending
- pays **taxes** that fund schools, hospitals and infrastructure
- **innovation** and competition: new products, lower prices, higher productivity
- **exports** earn foreign currency to pay for imported machinery and fuel
- **social enterprises** meet needs (clean water, training) that others ignore

Limits: many new firms are tiny and informal (no taxes, low wages, no worker protection) and many fail; growth may harm the environment or widen inequality; foreign owners may take profits abroad. The impact **depends on** how many firms grow beyond survival and on government support.

Worked example 6: "Analyse two..." [8] (model answer)

Analyse two ways in which business enterprise can contribute to the development of a low-income country. [8]

Way 1: employment. New businesses create jobs [AO1]. A start-up that processes local mangoes into dried fruit employs people in a rural area where most work is seasonal farming [AO2]. Workers earn a regular wage, so they spend more in local shops [AO3 limited], which increases those shops' revenue so that they can also employ more people, raising incomes across the region [AO3 developed].

Way 2: exports. Enterprises can sell abroad [AO1], for example the dried-fruit business exporting to supermarkets in high-income countries [AO2]. This earns foreign currency [AO3 limited], which the country can use to import machinery and medicines it cannot produce, raising productivity and living standards in the long run [AO3 developed].

Section B part (a) [8]: for each of the two points, 1 knowledge + 1 application + 2 analysis (limited analysis 1, developed chain 2). The two points need **different** application and analysis.

Worked example 7: "Evaluate whether..." [12] (model answer, shortened)

Evaluate whether a willingness to take risks is the most important quality for an entrepreneur starting a fashion clothing business. [12]

Knowledge. An entrepreneur organises the factors of production and bears the risk of a new venture [AO1]. Qualities include risk-taking, creativity, resilience and leadership [AO1].

Risk-taking. A fashion start-up must pay for designs, fabric and stock months before it knows which styles will sell [AO2]. Without a willingness to commit savings to a first collection nothing would be produced, so the business could never earn revenue [AO3].

Creativity. Fashion is a crowded market where large chains copy trends quickly [AO2]. A distinctive design is the USP that lets a small label charge a premium and build loyal customers [AO3 developed: premium price → higher added value → profit to fund the next collection].

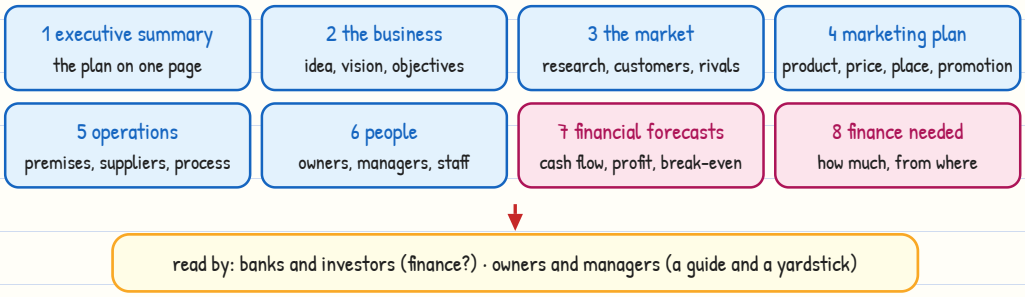
Evaluation. Risk-taking is necessary but not sufficient: it gets the first collection made, but in fashion an entrepreneur who takes risks without creative designs will simply lose money faster [AO4]. Creativity is therefore more important here, because tastes change every season and a new label has no brand to fall back on [AO4 in context]. However, the risks should be **calculated**: small first batches and online pre-orders limit the cash tied up in unsold stock. Overall, creativity matters most for a fashion start-up, supported by resilience, since most new labels make losses in their first seasons; for a business selling a standard product, such as a petrol station, risk-taking and organisation would matter more [AO4 developed judgement in context].

12 marks = AO1 2 + AO2 2 + AO3 2 + AO4 6. Half the marks are for evaluation, so about half the answer should weigh up and judge. The top level needs a judgement about **this** business (fashion: seasonal tastes, unsold stock, copying by chains), not a general one.

1.1.3 Business plans

- A **business plan** is a written document that sets out a business's objectives, how they will be achieved (marketing, operations, people) and its financial forecasts, usually for the next one to three years.

- **Purpose:** to raise **finance** from banks and investors; to **think through** the idea before money is committed; to set **targets** to compare actual results with; to **co-ordinate** managers and departments in a larger business.



The key elements of a business plan.

benefits	limitations
usually **required** by banks and investors: improves the chance of raising finance	forecasts are only estimates; a new business has no past data, so sales may be **over-optimistic**
reduces **risk**: research and forecasts reveal weaknesses before money is spent	a **dynamic environment** can make the plan out of date quickly
sets clear **objectives** and budgets; actual results can be compared with the plan	takes **time and money** to research and write (an opportunity cost)
shows how much **finance** is needed and when; **communicates** the vision to partners and staff	can make managers **inflexible**; no guarantee of success: only as good as its research and how it is carried out

Worked example 8: testing a business plan's forecasts

Green Wheels, a planned bicycle-repair business, needs start-up capital for tools (£6,500), a van (£14,000) and a website (£1,500). The plan forecasts 340 repairs a month at £28 each. Parts cost £9 per repair; wages £3,200, rent £900 and other costs £610 a month. (a) Calculate the start-up capital needed, the forecast monthly profit and the number of months needed to recover the start-up capital. (b) Recalculate (a) if repairs are 15% lower than forecast. (c) What does this show about business plans?

(a) Start-up capital = £6,500 + £14,000 + £1,500 = **£22,000**. Revenue 340 × £28 = £9,520; costs 340 × £9 + £3,200 + £900 + £610 = £3,060 + £4,710 = £7,770; profit = **£1,750** a month. £22,000 ÷ £1,750 = 12.6, so **13 months**.

(b) 340 × 0.85 = 289 repairs: revenue £8,092; costs £2,601 + £4,710 = £7,311; profit **£781**; £22,000 ÷ £781 = 28.2, so **29 months**.

(c) A 15% fall in sales cuts profit by more than half and more than doubles the time to recover the capital. A good plan tests "what if" forecasts like this; a bank will trust a plan more if it shows the business survives a pessimistic forecast.

Exam skills for Papers 1 and 2

9609 command words

- **define**: the precise meaning (2 = clear, 1 = partial). **identify**: name or select; one or two words, no explanation.
- **explain**: reasons, how or why, with evidence: the point [AO1] developed in a business context [AO2].

- **calculate**: work out from the data and show every step (method marks; your own earlier figure is accepted later).
- **analyse**: a chain of reasoning: point → this business → consequence → further consequence [AO3].
- **evaluate, assess, "to what extent", justify, advise**: weigh up the arguments and reach a supported judgement or recommendation for the business in the question [AO4].

How the marks are split in Papers 1 and 2

question type	marks	how they are earned
P1 Section A: define	2	AO1: clear 2 / partial 1
P1 Section A: explain one …; P2: explain the term …	3	AO1 1 + AO2 2 (developed application 2 / limited 1)
P1 Section A: analyse one …	5	AO1 1 + AO2 2 + AO3 2
P1 Section B (a): analyse two …	8	per point: AO1 1 + AO2 1 + AO3 2 (two points × 4)
P2 (c): analyse one advantage and one disadvantage …	8	AO1 2 + AO2 2 + AO3 4 (Level 2 developed 3–4, Level 1 limited 1–2)
P1 Section B (b) and P2 (d): evaluate …	12	AO1 2 + AO2 2 + AO3 2 + AO4 6 (Level 3 5–6 in context; Level 2 3–4; Level 1 1–2)

Earning each assessment objective

- **AO1 and AO2:** accurate terms (define the key term early), then use the context: the type of business, its numbers and its situation; in Paper 2 quote and use the case data.
- **AO3 analysis:** one link (cause → effect) is limited; two or more links (→ costs → profit → investment) is developed.
- **AO4 evaluation:** a judgement plus **why**, linked to features of the business in the question (needed for Level 3); say what it **depends on** and why the other side is weaker. A summary is not evaluation.
- **Timing:** Paper 1: 1 h 15 min, 40 marks; Paper 2: 1 h 30 min, 60 marks. Spend about half of a 12-mark answer evaluating.

Common mistakes that lose marks

- **Imprecise definition of factors of production.** The examiner report (June 2023) noted "elements of production" instead of the **resources or inputs** needed to produce goods and services; listing the four factors is not needed for the two marks.
- **Added value confused with the transformation process or with profit.** Added value is price minus **bought-in** costs; it is created at the output stage of the transformation process, and other costs are paid out of it.
- **Opportunity cost only half explained.** Show both the **choice** made and the **benefit forgone**; examples of the choice alone do not gain full marks.
- **A task given instead of a quality.** "Raising finance" is a task; "resilience" or "risk-taking" is a quality of an entrepreneur.
- **Several points when the question asks for one.** Extra points are not credited and leave the one point undeveloped.
- **Evaluation missing, general or too short.** Many answers analyse at length (2 marks) and never judge (6 marks), or give a judgement that fits any business. Refer explicitly to the features of the business in the question (a small retailer, a start-up in a low-income country).

- **Calculations without working**, or a percentage given without the % sign or the wrong base.

Quick-check multiple-choice questions

The 9609 exam has no multiple-choice paper: use these 20 questions to check your knowledge quickly. Choose one answer, A, B, C or D. Answers with explanations follow.

1. What is the main purpose of business activity?

   A to satisfy needs and wants with goods and services
   B to employ as many workers as possible
   C to pay taxes to the government
   D to own as many resources as possible

2. A furniture maker's wood-cutting machines are an example of which factor of production?

   A land **B** labour **C** capital **D** enterprise

3. A product sells for £60. Bought-in materials cost £22 and the labour to make it costs £15. What is the added value?

   A £23 **B** £38 **C** £45 **D** £60

4. Which change, with everything else unchanged, would **reduce** added value per unit?

   A a stronger brand that supports a higher price
   B buying components from a cheaper supplier
   C less wastage of materials
   D a price cut to match a rival

5. What is opportunity cost?

   A the money paid for a resource
   B the benefit of the next best alternative given up
   C the total of all alternatives rejected
   D the cost of producing one more unit

6. A business ranks its options: (1) a new machine, (2) staff training, (3) a new website. It buys the machine. What is the opportunity cost?

   A the benefits of the staff training
   B the money spent on the machine
   C the training and the website
   D the benefits of the machine

7. Which best describes a dynamic business environment?

   A a market with only one supplier
   B a business that is growing quickly
   C internal rules that change every year
   D external conditions that change often and quickly

8. Which is most likely to cause a new business to fail?

   A a detailed business plan
   B a growing market
   C poor management of cash flow
   D a clear unique selling point

9. Of 400 businesses started in one year, 260 were still trading three years later. What percentage had failed?

   A 35% **B** 65% **C** 26% **D** 54%

10. What is a multinational business?

A a business that exports to several countries
B a business with operations in more than one country
C a business with shareholders in many countries
D a business that employs many nationalities

11. A company makes all its products in country A and exports them to 12 countries. It is best described as

A local B national C international D multinational

12. What is an intrapreneur?

A an owner of several businesses
B an investor in new businesses
C a manager who avoids risk
D an employee who acts like an entrepreneur within a business

13. Which quality most helps an entrepreneur to keep going after early losses?

A resilience B caution C conformity D delegation

14. Which is a barrier to entrepreneurship?

A a well-educated workforce
B difficulty in obtaining finance
C government start-up grants
D reliable internet and transport

15. Which is an example of uncertainty rather than business risk?

A theft of stock, which can be insured
B customers who pay late, as in past years
C fire damage to the premises
D a sudden, unforeseeable change in government policy

16. How does business enterprise most directly help a government to fund schools and hospitals?

A it lowers prices for consumers
B it increases imports
C profitable firms and their workers pay taxes
D it reduces competition

17. What is the main purpose of a business plan for a new business?

A to set out objectives and how they will be achieved, often to raise finance
B to guarantee that the business will succeed
C to record the business's past results
D to replace market research

18. Which is **least** likely to be a key element of a business plan?

A a cash-flow forecast
B market research findings
C details of the owners and managers
D the daily work rota of each employee

19. What is a limitation of business plans?

A banks will not read them
B forecasts may be inaccurate if conditions change
C they cannot include objectives
D they make it harder to raise finance

20. A business plan shows start-up costs of £36,000 and a forecast profit of £1,500 a month. How many months will it take to recover the start-up costs?

A 12 B 18 C 24 D 36

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Answers and explanations

1 A · 2 C · 3 B · 4 D · 5 B · 6 A · 7 D · 8 C · 9 A · 10 B · 11 C · 12 D · 13 A · 14 B · 15 D · 16 C · 17 A · 18 D · 19 B · 20 C

1. **A.** Jobs and taxes are results of business activity, not its purpose.
2. **C.** Machines are human-made goods used in production.
3. **B.** £60 – £22 = £38. Labour is not a bought-in material (A subtracts it).
4. **D.** A lower price with the same bought-in costs narrows the gap. A, B and C raise added value.
5. **B.** Only the single next best alternative counts (not C); A is the money cost.
6. **A.** Training was the second choice, the next best alternative.
7. **D.** "Dynamic" refers to external conditions changing.
8. **C.** Running out of cash is the most common immediate cause of failure.
9. **A.** 400 – 260 = 140 failed; 140 ÷ 400 × 100 = 35%.
10. **B.** Operations (production or services) in more than one country; A is international.
11. **C.** It sells abroad but produces only at home.
12. **D.** The business bears most of the risk, not the intrapreneur.
13. **A.** Resilience means recovering from setbacks.
14. **B.** A, C and D make starting a business easier.
15. **D.** Its likelihood cannot be measured; A, B and C can be estimated or insured.
16. **C.** Tax revenue funds public services.
17. **A.** A plan cannot guarantee success (B) or replace research (D).
18. **D.** Daily rotas are operational detail, not part of the plan.
19. **B.** Forecasts are estimates in a dynamic environment.
20. **C.** £36,000 ÷ £1,500 = 24 months.

Exam-style questions

Total: 56 marks. Paper 1 Section A (10), Section B (20) and a shortened Paper 2 case question (26). Full mark schemes follow each question.

Question 1 (Paper 1 Section A style) *[5 marks]*

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

(b) Explain **one** reason why a new business might fail. *[3]*

Mark scheme

- (a) **Clear understanding** 1 1: the difference between the selling price of a product and the cost of the bought-in materials and components used to make it. Partial understanding, 1 mark: "price minus costs", or "the extra value created by the business".
- (b) AO1 1 for one relevant reason, e.g. cash-flow problems / too little start-up capital / poor planning or no market research / lack of management experience / strong competition / change in the external environment / growing too fast.
  AO2 1 1 for a developed explanation in a business context (1 for a limited explanation), e.g. "a new restaurant may not have enough start-up capital [AO1]; if customers are slow to arrive it cannot pay its suppliers and staff [AO2], so suppliers stop delivering and it is forced to close [AO2]." Only one reason is credited. No marks for application without a relevant reason.

Question 2 (Paper 1 Section A style) [5 marks]

(a) Define the term *intrapreneur*. [2]

(b) Explain **one** quality an entrepreneur needs to be successful. [3]

Mark scheme

- (a) **Clear understanding** 1 1: an employee who acts like an entrepreneur within an existing organisation, developing new ideas, products or processes. Partial, 1 mark: "an entrepreneur inside a business" or "an innovative employee".
- (b) AO1 1 for one quality, e.g. risk-taking / resilience / creativity / initiative / self-confidence / leadership / hard work.
  AO2 1 1 for a developed explanation in a business context, e.g. "resilience [AO1]: a new phone-repair shop may have few customers in its first months [AO2]; a resilient owner keeps promoting the shop and improving the service instead of closing it, so it survives until word of mouth builds sales [AO2]." A task (e.g. "raising finance") is not a quality: 0 marks.

Section A grid (written for these notes)	AO1 knowledge (1)	AO2 application (2)
2 marks		a developed explanation of the one point, linked to a business context
1 mark	one relevant point identified	a limited explanation or limited link to a context

Question 3 (Paper 1 Section B style essay) [20 marks]

(a) Analyse **two** barriers to entrepreneurship in a low-income country. [8]

(b) Evaluate whether a business plan is essential for the success of an entrepreneur starting a food delivery business. [12]

Mark scheme

- (a) 4 marks for each of two barriers: AO1 1 identify the barrier; AO2 1 apply it to a low-income country; AO3 1 1 analysis (1 limited: one consequence; 2 developed: a chain of consequences).
- **Indicative content: lack of finance**: few people have savings or assets to offer banks as security [AO2], so potential entrepreneurs cannot buy equipment or stock [AO3], so they stay in low-paid informal work and the business is never started [AO3 developed]. **Poor infrastructure**: unreliable electricity and roads [AO2] raise costs and make deliveries slow [AO3], so new firms cannot compete on price with imported goods [AO3 developed]. Also: lack of education and business skills; complex registration and corruption; fear of failure with no social safety net; small local markets because incomes are low. Two different barriers needed; the same analysis is credited once only.

Mark scheme

- (b) Levels-based marking: AO1 2, AO2 2, AO3 2, AO4 6. **Indicative content:**
- **AO1:** a business plan sets out objectives, the marketing, operations and financial forecasts of a new venture; purposes: raise finance, reduce risk, set targets.
- **AO2:** food delivery: drivers and vehicles or bikes, an app or website, partner restaurants, peak evening demand, competition from large delivery platforms, low profit margin per order, fuel

costs.

- **AO3 (one developed chain is enough for 2 marks):** the plan's cash-flow forecast shows how many orders are needed to cover the cost of drivers → the entrepreneur knows how much finance to raise → avoids running out of cash in the first quiet months. Or: market research in the plan shows that large platforms already dominate city centres → the business targets suburbs they do not serve → higher order numbers per driver.
- **AO4 evaluation (examples):** a plan is essential if the entrepreneur needs a bank loan or investors, because they will not lend without one; less essential if the business starts small with the owner's own bike and savings. The plan's value depends on the quality of the research: forecasts of order numbers are guesses for a new firm, and delivery is a dynamic market where a platform can cut its fees overnight, so the plan must be updated. Judgement: a plan is not sufficient for success (customer service, speed and cash management matter more day to day), but for a low-margin delivery business it is close to essential, because without a forecast the owner may not realise that each order loses money until the cash has gone.

Level	AO1 (2)	AO2 (2)	AO3 (2)	AO4 evaluation (6)
3	AO1–AO3 stop at Level 2			**5–6**: a developed judgement in the context of the business (6), or developed evaluative comments in context that balance the key arguments (5)
2	**2**: developed knowledge of the relevant terms or factors	**2**: developed application to the context	**2**: a developed chain of causes and consequences	**3–4**: a supported judgement (4) or reasoned evaluative comments (3), but not linked to the context
1	**1**: limited knowledge	**1**: limited application	**1**: one link only	**1–2**: a judgement with limited support (2), or an attempt to balance the arguments (1)

Levels table written for these notes. Within a level: the top mark if the answer convincingly meets the description, the bottom mark if it only just does. Judgements may appear anywhere in the essay, not only in the conclusion.

Question 4 (Paper 2 style case, shortened) [26 marks]

Kestrel Outdoor Gear (KOG)

Leela started KOG in 2014 as a sole trader, making tents in a rented garage. KOG is now a private limited company in country P with 46 employees, selling tents and rucksacks through outdoor shops across the country. Sales of outdoor equipment in country P are growing by only 2% a year, and new low-price rivals now sell online.

In 2024 Tomas, a production worker, suggested a rucksack with a built-in solar panel for charging phones. Leela gave him two days a week and a small budget to develop it, and it was launched in 2025. Other employees have since asked for similar time for their own ideas.

Leela is now considering selling KOG's products in country Q through an online store and a rented warehouse there. The outdoor equipment market in Q is growing by 11% a year, but customers in Q prefer lighter, brighter designs and speak a different language. The set-up cost would be £150,000, financed by a bank loan. KOG's profit for the year 2025 was £58,000.

Table 4.1 KOG product data, 2025

product	selling price per unit (£)	bought-in cost per unit (£)	units sold
two-person tent	180	72	3,400
solar rucksack	95	41	1,500

(a) Explain the term *dynamic business environment*. [3]

(b) Refer to Table 4.1. Calculate KOG's total added value in 2025. [3]

(c) Analyse **one** advantage and **one** disadvantage to KOG of encouraging intrapreneurship. [8]

(d) Evaluate whether KOG should become an international business by selling its products in country Q. [12]

Mark scheme

- (a) AO1 1: external conditions (customers, competitors, technology, the economy, laws) that change often and quickly. AO2 (2 marks) for explaining the term, using an example or the context, e.g. new low-price online rivals in country P 1, which force KOG to keep developing products such as the solar rucksack to stay competitive 1.
- (b) Added value per unit: tent £180 − £72 = £108; rucksack £95 − £41 = £54 1
  £108 × 3,400 = £367,200; £54 × 1,500 = £81,000 1
  total added value = **£448,200** 1 (correct answer with no working: 3 marks; own-figure rule for the last step)

Mark scheme

- (c) AO1 2, AO2 2, AO3 4 (Level 2: developed analysis of both points 4, of one point 3; Level 1: limited analysis 1–2).
  Advantage: new products from employees who know the market [AO1]; Tomas's solar rucksack already sells 1,500 units and adds £81,000 of value [AO2], giving KOG a product that low-price online rivals do not offer, so it can keep a higher price and protect its profit in a slow-growing market [AO3]. Also: motivated staff who are given responsibility are less likely to leave.
  Disadvantage: time away from normal work [AO1]: Tomas spends two days a week on development

and other employees want the same [AO2], so production output falls or extra staff must be paid, raising costs [AO3], and if the new ideas fail the money and time are lost [AO3 developed]. Also: conflict if some staff are refused.

Mark scheme

- (d) Levels-based marking: AO1 2, AO2 2, AO3 2, AO4 6 (use the levels table for Question 3(b)).

Indicative content:

- **For:** the market in Q grows by 11% a year, compared with only 2% in P, so sales can grow faster; spreads risk across two markets; economies of scale in buying fabric and parts lower bought-in costs and raise added value; a rucksack with a USP may sell well where online buyers compare features.
- **Against:** £150,000 set-up cost is 2.6 times the 2025 profit of £58,000, and the bank loan adds interest and risk; customers in Q prefer lighter, brighter designs, so products must change; language, foreign laws and exchange-rate changes; managing a warehouse abroad stretches a 46-person business.
- **Evaluation:** it depends on market research in Q, on whether KOG can adapt designs at low cost, and on how the loan would be repaid if sales are slow. A judgement could be to start smaller: sell the solar rucksack online in Q from country P (international, no warehouse) to test demand before committing £150,000.

Quick-reference table

Item	Key point
purpose; factors of production	satisfy needs and wants with goods and services; resources (inputs): land (rent), labour (wages), capital (interest), enterprise (profit)
added value	selling price – cost of bought-in materials and components; not profit: other costs are paid out of it
opportunity cost	the benefit of the next best alternative given up; caused by scarcity and the problem of choice
dynamic environment; success or failure	external conditions change often and quickly; success: market knowledge, USP, management, finance, adapting; failure: poor planning, cash flow, competition, change, overtrading
local → multinational	local (one area), national (one country), international (sells abroad), multinational (operations in 2+ countries)
entrepreneur / intrapreneur	starts a new venture and bears the risk / acts like an entrepreneur inside an existing organisation; qualities: initiative, creativity, calculated risk-taking, resilience, confidence, leadership
barriers; risk and uncertainty	finance, skills, fear of failure, red tape, infrastructure, competition; risk can be estimated (often insurable), uncertainty cannot be measured
enterprise and development	jobs, incomes, GDP, taxes, innovation, exports; limited by informality, failure, environmental harm

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business plan	objectives, market, marketing, operations, people, financial forecasts, finance needed; helps raise finance and reduce risk, but forecasts may be wrong

"I can" checklist

- ☐ explain the purpose of business and the four factors of production with their rewards
- ☐ calculate added value and explain why it is not profit and how it can be increased
- ☐ explain choice and opportunity cost, naming the choice and the benefit forgone
- ☐ analyse a dynamic environment and evaluate why businesses succeed or fail
- ☐ distinguish local, national, international and multinational businesses
- ☐ explain the qualities and roles of entrepreneurs and intrapreneurs
- ☐ analyse barriers to entrepreneurship, risk, uncertainty and enterprise in development
- ☐ evaluate the purpose, elements, benefits and limitations of business plans
- ☐ write 2, 3, 5, 8 and 12-mark answers with the right balance of AO1–AO4