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1.1–1.2 The nature of business and types of business entity

What a business is, the four sectors, entrepreneurship, and the main features of sole traders, partnerships, companies and social enterprises

Standard Level and Higher Level: all content in this chapter is SL and HL (no HL-only statements in 1.1–1.2)

What you must be able to do

Topic	You must be able to...	Level · depth
1.1 The nature of business	Define a business and describe how it turns inputs into outputs to meet needs and wants	SL HL
1.1 Sectors	Classify activities as primary, secondary, tertiary or quaternary and interpret sector data	SL HL
1.1 Entrepreneurship	Explain what entrepreneurs do and why people start businesses	SL HL
1.1 Start-up	Explain challenges and opportunities of starting up; use SWOT, STEEPLE and a business plan	SL HL
1.2 Private and public sectors	Distinguish the private from the public sector	SL HL
1.2 Sole traders, partnerships, privately and publicly held companies	Evaluate main features: ownership, liability, finance, control, continuity	SL HL
1.2 Social enterprises	Evaluate private sector companies, public sector companies, cooperatives (for-profit) and NGOs (non-profit)	SL HL

What is inside

1. Concept notes with 9 worked examples (all numbers checked)
2. Diagrams: sector shares, SWOT, map of business entities
3. Business-management tools: SWOT, STEEPLE, business plan
4. Common mistakes and a command-term "How to score" box
5. 12 Quick-check questions, explained
6. Paper 1 style case, Section A parts and a 10-mark Section B question with mark schemes and markbands
7. Paper 2 style quantitative question set and a Paper 3 style prompt (HL)
8. Quick reference sheet and "I can" checklist

How to read these notes

SL = Standard Level content

HL = needed at Higher Level only

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red = key term green = definition

1 = one mark in the mark scheme

★ **Exam tip:** Any command term in the exam may be used at its own depth or below (see the How to score box). Calculators are allowed. Money in this chapter is in US dollars ($) with fictional businesses. Paper 1 is the same for SL and HL; Paper 2 is quantitative; Paper 3 (social enterprise) is HL only.

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What is a business? SL HL AO1

> **Definition** ✎ A **business** is an organization that uses resources (inputs) to produce goods or services (outputs) that customers value. Some businesses aim to make a profit; others exist mainly for a social purpose.

Every business answers the same basic question: *what do people need or want, and how can we supply it better than the alternatives?* A **need** is something required to live (food, water, shelter); a **want** is something people would like but could live without (a games console, a holiday). Businesses supply both. Because resources are limited and wants are almost unlimited, businesses must **make choices** about what to produce, for whom and how.



Input (resource)	What it means	Example: a small bakery
Land and materials	natural resources and bought-in materials	flour, sugar, the shop site
Labour	the work and skills of employees	bakers, a shop assistant
Capital	man-made equipment and finance used to produce	ovens, a delivery van, start-up funds
Enterprise	the skill of organizing the other inputs and taking a risk	the owner who set up the bakery

Goods are physical products (a loaf, a laptop); **services** are activities done for the customer (a haircut, banking, a bus journey). Most real businesses sell a mix of both: a restaurant sells food (a good) with table service (a service). Output is worth more than the inputs if the business **adds value**: the difference between what customers pay and what the business paid for bought-in materials and components.

added value per unit = selling price − cost of bought-in materials per unit (it is not profit: wages, rent and other costs are still to be paid)

Worked example 1: added value is not profit

Tidewater Bakes (fictional) sells 4,000 loaves a month at $3.20 each. Ingredients and packaging bought in cost $0.95 per loaf. Wages, rent and energy cost $6,300 a month. Find (a) the added value per loaf, (b) the total added value and (c) the monthly profit.

(a) $3.20 − $0.95 = **$2.25** per loaf. (b) $2.25 × 4,000 = **$9,000** (check: revenue $12,800 − bought-in $3,800 = $9,000). (c) $9,000 − $6,300 = **$2,700** profit. Only $0.675 of the $2.25 added on each loaf is profit; the rest pays for labour, premises and energy.

★ **Exam tip:** The guide tests "the nature of business" at **AO1**: be able to define a business and describe inputs and outputs. In longer answers, link the idea to the business in the case rather than listing it.

Primary, secondary, tertiary and quaternary sectors SL HL AO2

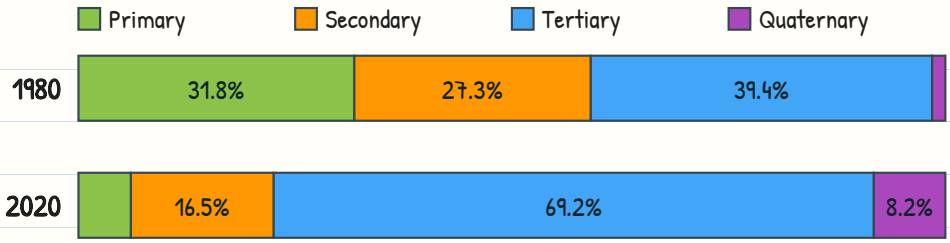
Economic activity is grouped by **what the business does with resources**. Be ready to classify a business, to explain why a country's mix changes, and to apply the idea to a case.

Sector	Activity	Examples	Typical features
Primary	extracting or growing natural resources	farming, fishing, forestry, mining, oil drilling	dependent on nature and weather; output is raw material; often lower value added
Secondary	making, processing or building from raw materials	car assembly, food processing, construction	uses factories and machines; large capital cost; adds value to materials
Tertiary	providing services to consumers and other businesses	retail, banking, transport, education, tourism	labour-intensive; quality of service matters; usually the largest sector in rich countries
Quaternary	knowledge-based activity: information, research and development	software research, biotech laboratories, data analysis, consultancy	highly skilled staff; ideas and intellectual property are the product

The sectors are **linked**: a farm (primary) sells wheat to a mill (secondary); the loaf is sold by a supermarket (tertiary); the food scientists who improve the recipe work in the quaternary sector. A single business can operate in more than one sector.

How the sector mix changes

As economies develop, the share of workers in the primary sector usually **falls** (machines replace labour on farms) and the tertiary and quaternary shares **rise** (incomes grow and people spend more on services and information). Businesses must react: a factory worker in a shrinking sector may need retraining, and new service firms find a growing market.



Share of total employment (%), fictional country Marivia

Employment by sector in Marivia (fictional): primary employment shrinks while the tertiary sector becomes dominant.

Worked example 2: reading sector data

Marivia employed 13.2 million people in 1980 and 18.2 million in 2020. Primary employment fell from 4.2 million to 1.1 million; tertiary rose from 5.2 million to 12.6 million. (a) State the tertiary share in 2020. (b) Find the percentage change in primary employment. (c) Suggest one consequence for businesses.

(a) 12.6 ÷ 18.2 × 100 = **69.2%**. (b) (1.1 − 4.2) ÷ 4.2 × 100 = **−73.8%**. (c) Demand for services grows, so a new tour operator or software firm finds a larger market; farms that stay in business must use machinery to produce more per worker.

✗ Don't do this: Writing that the "tertiary sector sells goods". Retailers do sell goods, but their *activity* (selling, distributing) is a service. Classify by what the business does, not by what it handles.

Entrepreneurship SL HL AO2

Definition ✎ An **entrepreneur** is a person who identifies a business opportunity, organizes resources and takes the risk of starting and running a business. **Entrepreneurship** is the process of doing this.

Typical qualities of successful entrepreneurs: **creativity** and willingness to innovate, **risk-taking** (they can lose their own money), **determination** and resilience after setbacks, **leadership** and communication, and good **planning and numeracy**. Not every entrepreneur has all of them, and qualities can be learned.

Why do people start a business?

- **Opportunity:** they spot a gap in the market or a new technology.
- **Independence and control:** being their own boss; choosing hours and direction.
- **Financial reward:** profit can exceed an employee's wage.
- **Necessity:** redundancy or lack of jobs; a hobby or passion turned into work; a wish to solve a social or environmental problem.

Challenges and opportunities of starting up

Challenges	Opportunities
Raising finance: new firms have no track record, so banks may refuse loans or ask for personal guarantees.	**Gaps in the market:** few competitors yet in a niche, or a new need created by technology or social change.
Cash flow: costs (stock, rent, wages) are paid before customers pay.	**Low-cost entry:** online selling and social media let small firms reach customers cheaply.

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Competition: established firms have brands, loyal customers and lower costs.	**Flexibility:** a small firm can change products or prices quickly.
Risk and workload: the owner may lose savings and works long hours, often covering every role.	**Rewards:** independence, satisfaction and profit; possible support such as grants or incubators.
Legal and administrative duties: registration, tax, licences, health and safety, contracts.	**Growth:** a successful idea can scale up into a larger business and create jobs.

Worked example 3: funding a start-up

Kavi (fictional) needs $48,000 to open a bicycle workshop. She has $18,000 savings, her family lends $10,000, and a bank lends the rest at 8% annual interest. Find (a) the bank loan, (b) the share of funding that is her own savings and (c) the first-year interest.

(a) $48,000 − $18,000 − $10,000 = **$20,000**. (b) 18,000 ÷ 48,000 × 100 = **37.5%**. (c) 8% × $20,000 = **$1,600**. A smaller share of her own money means more risk is carried by lenders, but she must find $1,600 a year in interest even before the workshop makes a profit.

★ ***Exam tip:*** At AO2, say **why** a challenge matters for *this* business. "Cash flow is a problem" earns little; "Kavi must buy parts before customers pay, so she may run out of cash in her first quiet months" earns more.

Business-management tools used in this topic

The guide expects tools to be applied (AO2) and used to support judgements (AO4). Unit 1 suggests SWOT, STEEPLE, the business plan and circular business models for this part of the course; Ansoff, decision trees and the HL tools come in later chapters.

Tool: SWOT analysis. A grid of **internal** factors (Strengths, Weaknesses) and **external** factors (Opportunities, Threats). Use it to judge a start-up's position or a choice of business entity: *list, then link* (for example, use a strength to take an opportunity; reduce a weakness that makes a threat dangerous).

Strengths (internal)	Weaknesses (internal)
own recipes; loyal first customers low overheads at home owner has 8 years of experience	little savings; no brand yet one oven limits output owner does every job
Opportunities (external)	**Threats (external)**
rising demand for vegan food offices ordering lunch online few rivals on this street	supermarket bakery opening ingredient prices rising new food-hygiene rules

SWOT for a start-up vegan bakery (fictional). The two top boxes are inside the business; the lower two are outside it.

Tool: STEEPLE analysis. A checklist of external factors: **S**ocial, **T**echnological, **E**conomic, **E**nvironmental, **P**olitical, **L**egal, **E**thical.

Factor	*Question to ask a start-up food business*
Social	Are tastes and lifestyles changing (more vegan eating, more takeaway)?
Technological	Can online ordering and delivery apps reach customers?

Economic	Are incomes, interest rates and ingredient prices rising or falling?
Environmental	Do customers want less packaging and local ingredients?
Political	Are there subsidies, tax changes or trade rules for food?
Legal	Food-hygiene law, labelling, employment law, licences.
Ethical	Fair pay to suppliers, animal welfare, honest labelling.

Tool: the business plan. A document that sets out the idea and how it will be financed, so that the owner can plan and persuade lenders and investors. Usual contents: the **business idea and objectives**, **market research** (customers, competitors), the **marketing plan**, **operations** (location, suppliers), **people** (who does what), and a **financial plan** (start-up costs, expected sales and costs, cash-flow forecast). Strength: forces careful thinking and helps raise finance. Limit: forecasts are estimates and a plan takes time to write.

Circular business models (a Unit 1 tool) try to keep resources in use rather than "make, use, throw away". The five types in the guide are: **circular supply** (renewable or recycled inputs), **resource recovery** (waste turned into new inputs), **product life extension** (repair, refurbish), **sharing** (platforms that let many people use one product) and **product service systems** (selling the use of a product, such as leasing, instead of the product). A start-up can use one of these as its opportunity.

Applying it to a case: writing an AO2 paragraph

Case: Pinewood Pedals (fictional). Lena left a job in a bike shop and opened a repair workshop with $12,000 savings. Customers praise her fast repairs, but she works alone, closes during lunch to buy parts and has no website. A cycling boom is bringing more commuters, yet a national chain is opening nearby.

Question: Explain one challenge Lena faces in starting up. (a two-part AO2 answer: name the challenge, then link it to the case with a consequence)

- **Model answer.** One challenge is **competition** from established firms [identify]. A national chain is opening near Pinewood Pedals [apply]. The chain can buy parts in bulk and advertise widely, so it may charge lower prices or offer quicker service than Lena, who works alone. She could lose customers who compare prices and her small profit may disappear [consequence].

From explain to evaluate: adding AO3

AO3 questions (*discuss, evaluate, to what extent, justify, recommend*) need a balanced argument and a **judgement** that depends on evidence from the case. Use the pattern **point, case evidence, consequence, counter-point, judgement**.

Question: To what extent is competition the biggest threat to Pinewood Pedals?
For: the chain has lower costs and a known brand, so Lena may be unable to match its prices. **Against:** Lena's strength is fast, trusted repairs, which a large chain often cannot copy; and the cycling boom is increasing total demand, so there may be enough customers for both. A bigger risk could be **cash flow**: she has only $12,000 and must buy parts before customers pay.

Judgement: competition matters, but on balance **cash flow is the more serious threat**, because running out of money ends the business even if customers like her work; the threat from the chain only matters if it takes her loyal customers, which is uncertain. This conclusion would change if the chain opened a repair centre next door and cut prices.

Using SWOT here

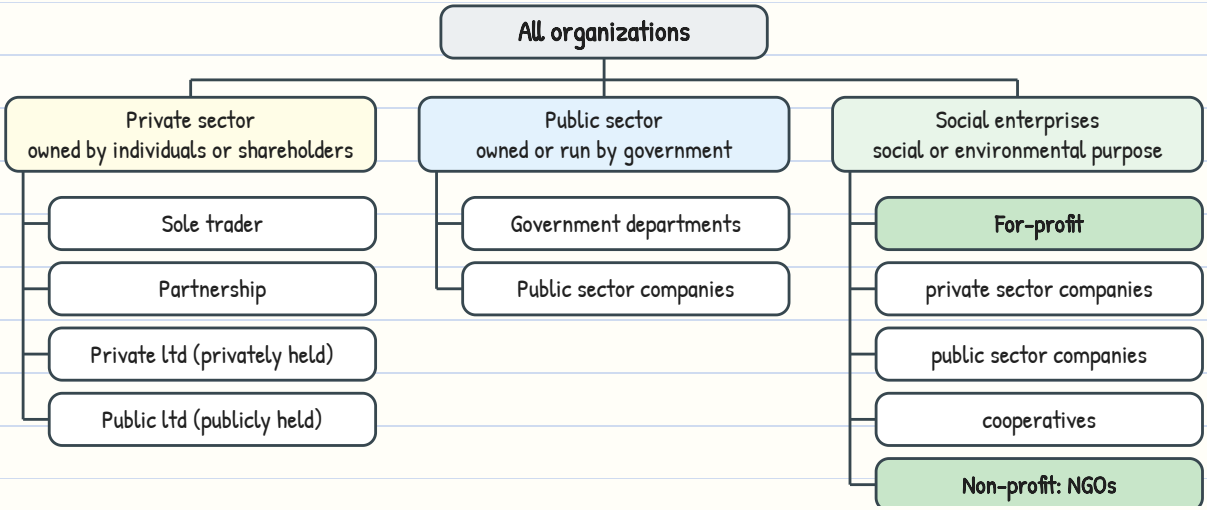
Strengths: skill, speed. Weaknesses: working alone, no website, small savings. Opportunities: cycling boom, online booking. Threats: the chain, cash flow. A good plan **uses strengths on opportunities** (advertise fast repairs to new commuters) and **protects against the weakness that makes a threat dangerous** (hold a cash reserve, take deposits for bookings).

★ ***Exam tip:*** Do not just **list** SWOT boxes. Examiners reward a link between boxes and a recommendation, and a reason why one point matters more than another.

Private and public sectors SL HL AO2

Organizations are first sorted by **who owns and controls them**. This is a different idea from the four sectors on see 'Primary, secondary, tertiary and quaternary sectors SLHL AO2', which sort by *activity*.

	Private sector	*Public sector*
Owner	individuals or groups: owners, partners, shareholders	the government (national, regional or local)
Main aim	usually profit, growth and a return to owners	public service, jobs, fair access (for example health, education, transport)
Finance	owners' funds, loans, shares, retained profit	taxation and government borrowing; some earn income from charges
Examples	a corner shop, a software company, a bank	a state school, a public hospital, a government-owned rail company



Types of business entity used in this chapter. The four private-sector entities are in the left column; social enterprises can be set up in either sector.

Profit and non-profit

A **for-profit** organization is run to earn a surplus for its owners (or to reinvest). A **non-profit** organization may earn income, but any surplus is used for its cause rather than paid out to owners. Most private firms are for-profit; most NGOs are non-profit. A **social enterprise** trades for a social or environmental purpose (later in this chapter).

What to compare for every entity

For each type, always be able to comment on: **ownership and control**; **liability** (are the owners personally responsible for debts?); **sources of finance**; **legal identity and continuity**; **reporting duties** (do accounts have to be published?); and **aims**. The next pages apply these six headings.

Worked example 4: public or private?

(a) A local council runs a swimming pool and charges entry fees. (b) A family owns a chain of ten gyms. (c) A government-owned energy company sells electricity and pays all surplus to the treasury. Classify each as public or private sector and say whether it is likely to be for-profit.

(a) **Public**: owned by local government; charges may cover some costs but the aim is a public service (not-for-profit in intent). (b) **Private**: owned by a family, for-profit. (c) **Public sector company**: owned by the state, sells commercially (for-profit), but profit goes to the public purse, not to private owners.

Sole traders and partnerships SL HL AO3

	Sole trader	Partnership
Ownership	one person owns the business	two or more people own it (often 2 to 20)
Liability	**unlimited**: no legal separation between owner and business; personal assets can be used to pay debts	normally **unlimited** for each partner (partners may be liable for the whole debt if others cannot pay)
Finance	owner's savings, bank loans, retained profit; hard to raise large sums	partners' savings and loans: usually more capital than one owner
Control	owner decides alone; quick decisions	shared by agreement (a **partnership agreement** sets shares of profit, duties and what happens if someone leaves)
Profit	all kept by the owner (taxed as personal income)	shared as agreed, often in proportion to capital or work
Continuity	ends when the owner stops or dies	may need to be reformed if a partner leaves
Privacy	accounts usually not published	accounts usually not published
Examples	plumber, hairdresser, market stall	law, dental or architecture practices; a small family firm

Advantages and limitations

Sole trader

+ easy and cheap to set up; full control; keeps all profit; privacy; close contact with customers.

– unlimited liability; limited capital; owner carries all work and risk; difficult to take holidays or grow; business ends with the owner.

Partnership

+ more capital and skills; shared workload and decisions; easy to set up.

– unlimited liability (and liability for partners' decisions); profit must be shared; disagreements; still limited capital compared with a company.

Worked example 5: sharing profit

Sana invested $30,000 and Ben $20,000 in a pottery studio. They agree to share profit in the ratio 3 : 2. Profit this year is $45,000. How much does each partner receive?

Total parts = 3 + 2 = 5; each part = $45,000 ÷ 5 = $9,000. Sana: 3 × $9,000 = **$27,000**; Ben: 2 × $9,000 = **$18,000**. (Check: $27,000 + $18,000 = $45,000. Because capital is in the same ratio 30 : 20 = 3 : 2, the agreement is fair to both.)

Worked example 6: unlimited liability in practice

The studio closes owing $90,000 and its assets sell for $60,000. What happens?

Shortfall = $90,000 – $60,000 = **$30,000**. As the partners have unlimited liability, creditors can claim this from the partners' personal assets (for example savings or a car). If Ben cannot pay, creditors can ask Sana for the whole $30,000, not just her 60% share ($18,000).

★ ***Exam tip:*** An AO3 point about liability needs two sides: it **protects creditors** and makes owners careful, but it **discourages risk-taking** and can ruin owners' personal finances.

Privately held and publicly held companies SL HL AO3

A **company** is a separate legal entity from its owners. It can own property, sign contracts and be sued in its own name. The owners are **shareholders**; each holds shares and is entitled to a vote and a share of profit paid out as a **dividend**. Shareholders have **limited liability**: they can lose what they invested but not their personal property.

	Privately held company (private limited, Ltd)	*Publicly held company (public limited, plc)*
Shares	sold privately, usually with other shareholders' agreement; cannot be offered to the public	can be bought by anyone on a **stock exchange**
Owners	often founders, family, friends, a few investors	many shareholders, including pension funds and the public
Finance	owners' shares, loans, retained profit; harder to raise very large sums	can raise large sums by issuing shares; also loans
Control	owners often run the company; founder can keep control	run by directors for shareholders: ownership and control are **separated**; can be **taken over** if shares are bought

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Reporting	must file accounts, but less detail made public	must publish detailed accounts and follow stock exchange rules
Costs	set-up and reporting costs are moderate	high costs of listing, auditing, investor relations
Examples	a local building firm; a family restaurant group	large banks, airlines, supermarkets

Why choose a company? limited liability; easier to attract investors; separate legal identity so it continues if an owner leaves; credibility with suppliers and banks.

Costs and risks: legal set-up and reporting duties; less privacy; owners may lose control; in a public company, pressure from shareholders for short-term profit and risk of takeover.

Worked example 7: shares, dividends and control

Parkside Ltd (fictional) has 400,000 shares. Anya holds 5,000. Profit after tax is $120,000 and the board pays 40% as dividends. Find (a) Anya's ownership percentage, (b) the dividend per share and Anya's dividend, (c) the smallest number of shares that gives control by a simple majority.

(a) 5,000 ÷ 400,000 × 100 = **1.25%**. (b) Dividend pool = 40% × $120,000 = $48,000; per share = $48,000 ÷ 400,000 = **$0.12**; Anya: 5,000 × $0.12 = **$600**. (c) More than half: 200,000 + 1 = **200,001 shares**. Anya's small stake gives her a vote but little influence; a buyer of 200,001 shares in a *public* company could take control.

★ ***Exam tip:*** The key difference examiners want: a private company's shares are **not freely traded** (owners keep control), a public company's shares **are** (more finance, but vulnerable to takeover). "Public" does not mean government-owned.

Social enterprises SL HL AO3

Definition ✎ A **social enterprise** is an organization that trades goods or services to meet a social or environmental need, and uses its surplus mainly to pursue that purpose. It is run as a business but measured by its social or environmental impact as well as its finances.

Type	*Ownership and aim*	*Finance and surplus*	*Example idea*
Private sector company (for-profit social enterprise)	owned by private owners or shareholders who also want a social or environmental effect	sales income, investment and loans; some profit may be paid out, much reinvested in the mission	a company that employs people with disabilities and sells packaged food
Public sector company (for-profit social enterprise)	owned by government, trades commercially but must serve public aims	sales, government funding; surplus returned to government or reinvested	a state-owned water supplier that must serve poor areas
Cooperative (for-profit social enterprise)	owned and controlled by members (workers, customers or producers), usually **one member, one vote**	members' contributions and trading income; surplus shared by members or reinvested	a farmers' cooperative selling milk (Amul is a well-known example); a workers' bakery

NGO (non-profit social enterprise)	independent of government, serves a cause (health, human rights, environment)	donations, grants, some trading; surplus used for the cause, not paid to owners	a charity providing disaster relief; many NGOs also run shops

Strengths and limitations

Strengths

meets needs that normal markets may ignore; builds trust with customers and employees; members or donors are motivated by the cause; surplus is reinvested; can attract grants and volunteers.

Limitations

conflict between social aims and financial survival; hard to raise investment if profit is limited; reliance on grants and donations can be unstable; democratic decisions in cooperatives can be slow; success is hard to measure.

Worked example 8: sharing a cooperative's surplus

Green Basket (fictional) is a workers' cooperative with 12 members. It makes a surplus of $84,000. The members vote to place 25% in a reserve for new equipment and share the rest equally. How much does each member receive?

Reserve = 25% × $84,000 = $21,000. Left to share = $84,000 − $21,000 = $63,000. Each member: $63,000 ÷ 12 = **$5,250**. Compare with a company, where the profit would be shared by *shares held*, not equally by members.

Worked example 9: classifying with reasons (AO2/AO3)

An organization funded by public donations plants trees in cities and employs no owners. A second organization is owned by its 300 farmer-members who each have one vote. Classify both and give one limitation of each.

First: **NGO** (non-profit); donations may fall in a recession, so its planting plans are uncertain. Second: **cooperative** (for-profit social enterprise); one-member-one-vote means decisions can be slow and it may find it hard to attract outside investment.

Choosing a business entity: AO3 evaluation

The best structure depends on the owner's **aims**, the **amount of finance** needed, how much **risk** the owner can accept and how much **control** the owner wishes to keep.

If the owner ...	*... then think about*	*... because*
wants complete control and low cost	sole trader	one decision-maker; few legal duties; but unlimited liability and small capital
needs extra skills or capital and trusts a partner	partnership	shared work and funds; but profit and decisions are shared, and unlimited liability continues
risks large personal loss or needs outside investors	privately held company	limited liability and shares to sell; but reporting duties and some loss of control

needs very large sums and is ready for public scrutiny	publicly held company	raises capital by issuing shares; but takeover risk and short-term pressure
puts a social or environmental mission first	social enterprise (company, cooperative or NGO)	values-led and trusted; but profit may be limited and funding may be unstable

Applying it: Pinewood Pedals two years later

Pinewood Pedals now has three mechanics and wants to open a second workshop costing $90,000. Lena can raise $30,000. A friend, Omar, offers $40,000 for a 40% share of the business; a bank would lend $30,000 if Lena offers her house as security.

- **AO2/AO3 paragraph.** Taking Omar as a partner raises the needed $90,000 only if she also accepts the bank loan ($30,000 + $40,000 + $30,000 = $100,000, enough with $10,000 to spare). But as a partnership both owners have unlimited liability and Lena puts her house at risk *and* must share 40% of profit. Converting to a **private limited company** with Omar as a shareholder would limit the liability of both, so her house would not be at risk from the business (although a bank may still ask for a personal guarantee). **Judgement:** a private limited company is the better choice because the larger scale and the borrowing raise the risk of loss; the legal and reporting costs are likely to be small compared with the protection. This holds if Omar agrees to a minority stake and Lena keeps 60% of the votes.

★ ***Exam tip:*** For "which form should X choose?" answers: state the owner's priority, compare **two** entities on liability, finance and control with case numbers, then **decide** and say what would change your mind.

Common mistakes

Mistake	Correct idea
"Public limited company means owned by the government."	It means shares can be bought by the **public** on a stock exchange. Government ownership is the **public sector**.
Confusing sectors of activity with sectors of ownership	Primary/secondary/tertiary/quaternary describe **what is done**; public/private describe **who owns**.
"Limited liability means the company cannot lose money."	It limits the **owner's** loss to what they invested; the company itself can still fail.
Saying a partnership has limited liability	Ordinary partners have **unlimited** liability; only a company gives limited liability.
Treating added value as profit	Added value is revenue minus bought-in materials; labour, rent and other costs still have to be paid from it.
"A non-profit never makes money."	A non-profit can have a surplus; it is used for the cause, not paid to owners.
Listing a SWOT without linking boxes or choosing	Link strengths to opportunities, weaknesses to threats, then decide the priority.
Writing generic points that fit any business	Use the name, numbers and quotes in the case; at AO2 and above, apply.

How to score: command terms in this topic

Command term	Level	What it demands	Short example
Define	AO1	precise meaning of a term	Define "unlimited liability."
Describe, Outline	AO1	describe: detailed account; outline: brief summary	Outline two features of a cooperative.
Calculate	AO4	numerical answer with working	Calculate the dividend per share.
Explain	AO2	detailed account with reasons or causes; apply to the case	Explain one challenge of starting up.
Distinguish	AO2	make clear the differences	Distinguish public from private sector.
Analyse	AO2	break down to bring out the essential elements	Analyse the SWOT.
Compare, contrast	AO3	similarities (and differences), referring to both throughout	Compare a partnership and a private company.
Discuss	AO3	a balanced review of arguments with a supported conclusion	Discuss whether to form a company.
Evaluate	AO3	weigh strengths and limitations, then appraise	Evaluate the use of a SWOT.
Justify	AO3	valid reasons or evidence for a conclusion	Justify the choice of a cooperative.
To what extent	AO3	merits of an argument with a clear opinion supported by evidence	To what extent is cash flow the main threat?
Recommend	AO3	advisable course of action with reasons, in context	Recommend an entity for Pinewood Pedals.

Marks: Section A parts are marked with an analytic mark scheme (each mark for a point); the 10-mark Section B uses an analytic scheme and markbands.

12 Quick-check questions

One mark each; no marks lost for a wrong answer. These are practice questions for quick recall; they are not an IB paper format. Answers and explanations are on the next page.

1. A laboratory company develops new battery materials through research and licenses the designs to car makers. Which sector best describes its main activity?

   A Primary B Quaternary
   C Secondary D Tertiary

2. A factory turns raw cotton bought from farmers into finished shirts. Which sector is the factory in?

   A Primary B Tertiary
   C Quaternary D Secondary

3. Marivia has 18.0 million workers, of whom 3.6 million work in manufacturing. What share of employment is in the secondary sector?

   A 20% B 5%
   C 36% D 50%

4. Which statement best defines an entrepreneur?

A A person who works for a salary in a large company

B A person who owns shares and receives dividends

C A person who spots an opportunity and takes the risk of organizing resources to start a business

D A person who lends money to a business

5. A sole trader's business cannot pay debts of $15,000. The owner has personal savings of $20,000. What is most likely?

A The owner's personal assets can be used to pay the debts

B The debts are cancelled because the firm has failed

C Only the business assets can be claimed by creditors

D The government pays the debts

6. Which is a disadvantage of a partnership compared with a sole trader?

A The owner has unlimited liability

B The business cannot raise more than one owner's savings

C The business must publish its accounts to the public

D Profits must be shared and disagreements can slow decisions

7. Which feature is true of a publicly held company but not of a privately held company?

A Its owners have limited liability

B It has a separate legal identity

C Its shares can be bought and sold on a stock exchange by the public

D It can pay dividends to shareholders

8. Profit of $64,000 is shared between two partners in the ratio 5:3. How much does the partner with the larger share receive?

A $24,000

B $40,000

C $32,000

D $38,400

9. Which feature is typical of a cooperative?

A Votes are in proportion to the number of shares held

B The owner has sole control

C Members have an equal say, often one member one vote

D It cannot make a surplus

10. Which statement best describes a non-governmental organization (NGO)?

A A non-profit organization, independent of government, working for a social or environmental cause

B A private company owned by the government

C A business that pays all its profit to shareholders

D A partnership of professionals

11. A city bus company is owned and run by the local government. In which sector is it?

A Private sector

B Public sector

C Quaternary sector

D Non-profit sector only

12. A shareholder owns 8,000 of a company's 250,000 shares. The company pays a dividend of $0.40 per share. How much does this shareholder receive?

A $2,000

B $100,000

C $320

D $3,200

Answers and explanations

1 B	2 D	3 A	4 C	5 A	6 D	7 C	8 B
9 C	10 A	11 B	12 D				

1. **B.** Research, design and the creation and sale of knowledge are quaternary activities. Primary is extraction or farming, secondary is making or building, and tertiary is selling a service to customers.
2. **D.** Manufacturing converts raw materials into finished goods: the secondary sector. The farmers who grow the cotton are primary.
3. **A.** 3.6 ÷ 18.0 × 100 = 20%. Dividing 18.0 by 3.6 gives 5 (a ratio, not a percentage); 36% and 50% do not follow from the figures.

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4. **C.** The key ideas are identifying an opportunity, organizing resources and bearing risk. Employees, shareholders and lenders do not necessarily do all three.
5. **A.** A sole trader has unlimited liability: the owner and the business are one legal person, so personal assets can be used. Limited liability would protect personal assets, but sole traders do not have it.
6. **D.** Sharing profits and shared decision-making are the specific costs of having partners. Unlimited liability applies to both (so it is not a difference); a partnership can raise more capital than one person; partnerships do not usually publish their accounts.
7. **C.** Limited liability, separate legal identity and dividends apply to both company types. Only a publicly held company can offer its shares to the general public through a stock exchange.
8. **B.** 64,000 ÷ (5 + 3) = 8,000 per part; 5 × 8,000 = $40,000. $24,000 is the smaller share; $32,000 would be an equal split; $38,400 is 60% of the profit.
9. **C.** Cooperatives are owned and run by their members (workers, customers or producers), usually democratically. A cooperative can make a surplus, which is shared or reinvested.
10. **A.** An NGO is a non-profit social enterprise that is independent of government and is usually funded by donations and grants.
11. **B.** Government ownership places it in the public sector. "Quaternary" is a type of economic activity, not a form of ownership, and public sector bodies are not always non-profit.
12. **D.** 8,000 × $0.40 = $3,200. $2,000 comes from 8,000 ÷ 4; $100,000 is the dividend on all 250,000 shares; $320 is a decimal-place error.

Paper 1 style: case study and Section A

Paper 1 uses one case study (the real paper is about 800 to 1,000 words; this is a short practice case). Section A parts are short; Section B is a 10-mark extended response. Total here: 12 + 10 = 22 marks.

Harbourlight Kitchens (fictional)

Four years ago Mira Doyle began cooking ready meals in a rented kitchen in Port Selden and delivering them to offices. She is a **sole trader** with nine part-time staff and a leased van. A regional supermarket chain has asked her to supply 40 shops, which needs a commercial kitchen costing $170,000. Mira has $35,000 in savings. The bank would lend $60,000 but wants her home as security. Her cousin Dev, a food technologist, offers $40,000 to join as a partner. A local investment group would put in $80,000 for 30% of the shares if Harbourlight became a **private limited company**.

"I started this to cook good food, not to answer to a board," says Mira.

Year	Revenue ($)	Net profit ($)
2022	96,000	9,000
2023	132,000	15,200
2024	171,000	23,500
2025	208,000	28,900

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Section A (12 marks)

(a) Define the term *unlimited liability*. [2]

(b) Calculate the percentage change in Harbourlight's revenue from 2022 to 2025. Show your working. [2]

(c) Explain **two** limitations of Harbourlight operating as a sole trader. [4]

(d) Explain **two** benefits to Harbourlight of becoming a private limited company. [4]

Mark scheme

- (a) the owner is personally responsible for all the debts of the business ✓; so personal assets (home, savings) can be used to pay them if the business cannot ✓
- (b) (208,000 – 96,000) ÷ 96,000 × 100 ✓ = 116.7% (accept 117%) ✓. Award [1] for 112,000 ÷ 96,000 or 1.167; award [2] for a correct answer without working.
- (c) *award [1] per limitation identified and [1] for development in context, up to two limitations.* Accept: **limited capital** ✓: Mira has only $35,000 plus a $60,000 loan, so she is $75,000 short of the $170,000 kitchen ✓; **unlimited liability** ✓: the bank wants her home as security, so a failed supermarket contract could cost her house ✓; **workload / sole decision-maker** ✓: she makes every decision for 40 shops and nine staff, so growth is hard to manage ✓; **continuity** ✓: the business depends on her alone.
- (d) *award [1] per benefit and [1] for development in context.* Accept: **limited liability** ✓: her house is no longer at risk from the new contract ✓; **more finance** ✓: the investors' $80,000 with her $35,000 and the loan gives $175,000, which covers the $170,000 kitchen ✓; **she keeps control** ✓: if the investors hold only 30%, Mira keeps 70% of the shares ✓; **credibility** with supermarkets and banks ✓.

Section B (10 marks)

Discuss whether Mira should take Dev as a partner or convert Harbourlight into a private limited company with outside investors. [10]

Mark scheme

- **Analytic (indicative) content** (credit any valid, case-based point; no set number of points). **Partner with Dev:** simple to set up; Dev brings food-technology skills; but funds are 35,000 + 40,000 + 60,000 = $135,000, still $35,000 short of $170,000; both partners have unlimited liability and Mira would give Dev a share of profit and decisions; the bank loan still needs her home as security. **Company with investors:** raises 80,000 + 35,000 + 60,000 = $175,000, enough for the kitchen with $5,000 spare; limited liability (though the bank may still ask for a guarantee); Mira keeps 70% of shares if the investors have 30%, so she still controls decisions; but more reporting duties, costs, and having to consider investors' views, which worries Mira ("answer to a board"). **Context:** profit has grown (net profit margin 9.4% in 2022 to 13.9% in 2025), which supports the investors' confidence and the ability to repay a loan; but the supermarket contract is a big step and could fail. **Judgement (examples):** on balance a private limited company because it is the only option that meets the full finance need and limits her personal risk; this depends on her accepting outside shareholders. A partnership could be better if Dev's skills matter more than money or if she is certain she can find $35,000 elsewhere.

Markbands (SL and HL, Paper 1 and 2 Section B, 10 marks; paraphrased). Place the answer in the best-fit band, then use the analytic content to choose the mark within the band.

Marks	Understanding of the question	Tools, theory and terms	Use of the case	Argument
0	no work that reaches the standard of the descriptors below			
1–2	little understanding of the demands	little use, irrelevant or inaccurate	little or no reference	no arguments made
3–4	some understanding	some use but mostly inaccurate or irrelevant	superficial: names only	mostly unsubstantiated
5–6	demands only partially addressed	some relevant and accurate use	relevant but does not effectively support the argument	substantiated but mostly one-sided
7–8	mostly addresses the demands	mostly relevant and accurate	generally supports the argument, with some lack of clarity	substantiated, with some balance
9–10	clear focus on the demands	relevant and accurate	integrated effectively	substantiated and balanced; limitations of the case/stimulus explained

★ ***Exam tip:*** To reach the top band: (1) use the case numbers (the $35,000 gap, the 70% control), (2) argue **both** sides, (3) reach a clear conclusion and (4) say what the case does **not** tell you (for example, how Dev would behave as a partner, or how the investors would vote).

Model response outline (band 9–10)

Intro: Mira needs $170,000 and holds only $35,000, so the choice depends on *finance, risk and control.* **Partner:** adds $40,000 and skills; total $135,000, still short; unlimited liability stays for both. **Company:** $175,000 is enough; liability limited; Mira retains 70% of votes; costs and reporting rise. **Counter-point:** Mira dislikes "a board", but with 70% she can still decide. **Conclusion:** the company is the better route *if* Mira accepts outside investors; a stronger conclusion states that the case does not show the investors' attitude to Mira's plans.

Paper 2 style: quantitative question set

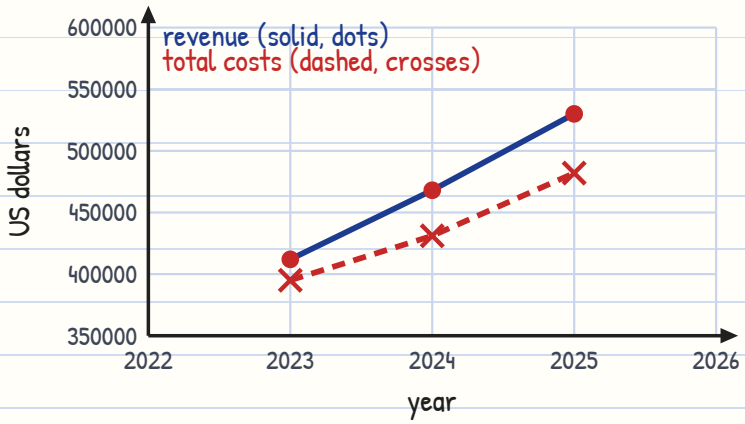
Paper 2 is based on stimulus with a quantitative focus. Show working; own figure rule (OFR) applies in later parts. Total: 14 marks.

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Stimulus: Kora Cycles Ltd (fictional)

Kora Cycles Ltd is a privately held company that makes electric cargo bikes. It has 50,000 shares in issue. The directors pay 35% of profit after tax as dividends. The tax rate on profit is 20%.

Year	Revenue ($)	Total costs ($)
2023	412,000	395,000
2024	468,000	431,000
2025	530,000	482,000





Ownership of Kora Cycles Ltd (50,000 shares in issue)

(a) Calculate Kora's profit before tax in 2025. [2]

(b) Calculate the dividend per share in 2025 (show your working). [4]

(c) Ines owns 40% of the shares. Calculate the dividend she received in 2025. [2]

(d) Calculate the percentage change in revenue from 2023 to 2025. [2]

(e) Comment on the change in Kora's profit before tax from 2023 to 2025. [4]

Mark scheme

- (a) 530,000 − 482,000 (1) = $48,000 (1)
- (b) tax = 20% × 48,000 = $9,600 (1); profit after tax = $38,400 (1) (OFR from (a)); dividend pool = 35% × 38,400 = $13,440 (1); ÷ 50,000 = $0.2688, about $0.27 per share (1)
- (c) 40% × 50,000 = 20,000 shares (1); 20,000 × $0.2688 = $5,376 (accept $5,400 if $0.27 used, OFR) (1)
- (d) (530,000 − 412,000) ÷ 412,000 × 100 (1) = 28.6% (1)
- (e) profit before tax: 2023 = 412,000 − 395,000 = $17,000; 2025 = $48,000 (1) (calculation); increase of $31,000, about 182% (1); profit grew far faster than revenue (182% against 28.6%) because costs rose more slowly (22.0% against 28.6%) (1); comment: a strong improvement (margin 4.1% to 9.1%), but only three years of data and it does not show why costs rose slowly, so the trend may not continue (1)

Paper 3 style prompt HL

Paper 3 (HL only) uses unseen stimulus about a social enterprise: describe the need, explain challenges, recommend. This is a shortened practice prompt (12 marks).

Tula Water Cooperative (fictional). In the dry hills near Tula, 600 households walk two hours each day to collect water, and children miss school. The cooperative, owned by 90 member households with one vote each, sells water filters at cost price and trains local technicians. Email from the treasurer: *"Members pay $4 a month. A donor offered a grant of $20,000 if we expand to ten villages, but a grant must be spent in one year."* Newspaper note: *"A private company says it can supply water tanks at a profit-making price."*

(a) Identify and describe the human need in the stimulus. [2]

(b) Explain two organizational challenges facing the cooperative. [4]

(c) Recommend whether the cooperative should accept the grant and expand to ten villages. [6]

Mark scheme

- (a) access to clean water close to home 1; described using the stimulus: 600 households walk two hours daily and children miss school 1
- (b) [1] challenge + [1] development in context, twice. Accept: **funding** (members pay only $4 a month; the grant is one-off, so running costs after year one are uncertain); **decision-making** (one member one vote across ten villages can slow decisions); **competition** (a company offers tanks, perhaps at a price households cannot afford, but with more capital); **skills** (only a few technicians)
- (c) a clear recommendation 1; two reasons (1 each) plus 1 for evidence from the stimulus 3; a limitation, risk or alternative considered 1; a justified conclusion linked to the human need 1. E.g. accept, in phases: $20,000 meets need quickly, but must plan to cover the running costs by raising member fees or applying for more grants.

Quick reference

Sectors: primary (extract/grow), secondary (make/build), tertiary (services), quaternary (knowledge, R&D).
Share = part ÷ total × 100; **% change** = (new − old) ÷ old × 100.
Added value = price − bought-in costs.
Profit share (ratio a : b) = profit ÷ (a + b) × parts.
Dividend per share = dividends ÷ shares in issue.

Entities: sole trader (1 owner, unlimited liability); partnership (2+, unlimited); private Ltd (shares not traded publicly, limited liability); public plc (shares on stock exchange, limited); cooperative (members, one vote); NGO (non-profit); public sector company (state-owned, trades).
Tools: SWOT (internal/external), STEEPLE (7 external factors), business plan.

"I can" checklist

- ☐ I can define a business and describe its inputs, outputs and the value it adds.
- ☐ I can classify activities into the four sectors and interpret sector data.

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☐ I can explain entrepreneurship and the challenges and opportunities of start-up.
☐ I can apply SWOT, STEEPLE and the business plan to a start-up.
☐ I can distinguish public from private sector and compare sole traders, partnerships, privately and publicly held companies.
☐ I can evaluate cooperatives, public/private sector companies and NGOs as social enterprises.
☐ I can calculate profit shares, dividends and percentage changes and use them in a recommendation.