Unit 1: Understanding Business Activity

Business Activity

- A need is a good or service essential for living
- A want us a good or service which people would like to have, but which is not essential for living. People's want are unlimited
- The economic problem-there exist unlimited wants but limited resources to produce the goods and services to satisfy those
 wants. This creates scarcity.
- Scarcity is the lack of sufficient products to fulfil the total wants of the production
- Factors of production are those resources needed to produce goods and services. There are four factors of production:
 - 1. Land- this includes all natural resources
 - 2. Labor- the number of people available to make products
 - 3. Capital- the finance, machinery and equipment necessary to manufacture goods
 - 4. Enterprise-this is the skill and risk-taking ability of the person who combines the other factors of production to produce a good or service
- Unlimited wants + Limited Resources = scarcity
- Opportunity cost is the next best alternative given up by choosing another item

Specialization

- Specialization occurs when people and businesses concentrate on what they are best at
- Specialization is now very common because:
 - 1. Specialized machinery and technology are now widely available
 - 2. Increasing competition means that businesses need to keep costs low
 - 3. Most people recognize the higher living standards can result from being specialized
- Division of labor is when the production process us split up into different tasks and each worker performs one of these tasks. It
 is a form of specialization.

Advantages

- Workers are trained in one task and specialize in this-this increases efficiency and output
- Less time wasted moving from one workbench to another

Disadvantages

- Workers can become bored doing just one job-efficiency may fall
- If one worker is absent and no one else can do the job, production might be stopped

The Purpose of Business Activity

- The purpose of all businesses is to combine the factors of production to make products that satisfy people's wants.
- Business activity therefore:
 - 1. Combines scarce factors
 - 2. Produces goods and services
 - 3. Employs people

Added Value

- Added value is the difference between the selling price of a product and the cost if bought in materials and components.
- Added value is important as it is able to cover the expenses of a business and increase profitability
- Added value can be increased by increasing the selling price but maintaining the cost of materials or reducing the cost of the
 materials and maintaining the selling price.