

BUSINESS IN THE MARKET ECONOMY



Multiple choice

- 1 B
- 2 B
- 3 C
- 4 C
- 5 B

Matching terms

The idea that firms will attempt to pursue a satisfactory level in all goals (profit maximisation, sales maximisation etc.) rather than any one single goal.	satisficing behaviour
Reductions in average costs as output increases, due to more efficient production within the firm.	internal economies of scale
The disadvantages for a firm which are experienced as it increases its level of output.	diseconomies of scale
New investment plus replacement investment.	gross investment
Gross investment less an allowance for depreciation.	net investment
The average real production per worker per unit of time.	productivity
Occurs when the volume of production is large enough for workers to concentrate on a particular stage of the production process.	specialisation
The point where the greatest positive difference between total revenue and total cost is reached.	profit maximisation

True or false

Select the alternative true or false that best answers the question. Place a tick in the space provided.

	True ✓	False ✓
1 The discovery of a new oil mine constitutes an increase in the supply of natural resources.	✓	
2 Staff conference days are an investment in human capital.	✓	
3 A crane is an example of social overhead capital.		✓
4 It is assumed that the over-riding aim of most firms is to maximise profit.	✓	
5 If a firm pursues satisficing behaviour, it cannot make a profit.		✓
6 Productivity has increased if less resources produce the same level of output.	✓	
7 Dividing a working day into rest periods to increase employee productivity is known as division of labour.		✓
8 The increase in housing costs in urban areas is an example of an internal diseconomy of scale.		✓
9 The point in the production process at which long-run average cost is lowest is known as the 'technical optimum'.	✓	
10 There are no disadvantages to technological change.		✓

Short answers

Question 1

Land	Exploration by a company may discover mineral deposits in an area not used to produce goods or services, or the reclaiming of the sea/ocean for the use of an airport (eg Sydney's third runway).
Labour	Immigration or any factor that increases the labour force will increase the supply of labour. eg a fall in high school retention rates, or an increase in the retirement age.
Capital	An increase in investment by businesses will lead to more capital being created, or the introduction of a foreign firm to a country will increase the supply of capital.
Enterprise	An increase in training programs for entrepreneurs or changes in government policies (such as taxation) to encourage risk-taking.

Question 2

Satisficing behaviour will lead to a business meeting social goals as well as financial goals. This will improve the business's reputation (or goodwill) within a community, and allow it to expand its market. Additionally, when businesses seek profit above all else, governments are forced to regulate the industry to protect consumers.

Question 3

- What is the productivity of labour at an output of 500 units? 50
- What is the productivity of capital at an output of 1200 units? 60
- Is labour or capital more productive at an output of 2000 units? Capital
- There will be falling costs of production, falling prices of goods and services in markets, increasing international competitiveness, increasing demand for more productive labour and hence increase in incomes.

Question 4

- The ability to purchase inputs in bulk
 - The specialisation of labour in a business
 - The ability to spread fixed costs across a greater number of units
 - The ability to increase spending on research and development
- A lack of communication between employees within a business
 - Wastage of resources - raw materials purchased that are not used, workers not used productively
 - Workers becoming overspecialised and required to perform menial tasks can lead to falling productivity and high staff turnover

- c)
 - A large pool of skilled labour for an industry
 - The development of important infrastructure to support an industry
 - The establishment of firms to support the business (eg transport, cleaning, supply firms)
- d)
 - Pollution
 - Increased transport congestion
 - An increase in wages due to high industry demand for labour

Question 5

