1. Economic Problem

We have unlimited Needs and wants and there are limited resources. This is the basic Economic Problem.

Limited Resources: Resources available on earth to make goods and services to satisfy our needs and want are limited. These resources are also known as factor of production. These can be categorised as

Land

All natural resources provided by nature such as fields, forests, oil, gas, metals and other mineral resources

Labour

The people who are used produce goods and services.

Capital

Finance, machinery and equipments needed to produce goods and services.

Enterprise

The skill and risk taking ability of the person who brings together all the other factors of production together to produce goods and services. Usually the owner or founder of a business.

Business activity combines the factors of production to produce goods and services to satisfy our needs and wants. So a business activity takes inputs (factors of productions), processes it and gives an output

Opportunity Cost: Because of Unlimited needs and wants and limited resources we have make a choice. When we make a choice we have to give up something. This next best alternative foregone while making a choice is known as **Opportunity Cost.**

2. Importance of Specialisation

Specialisation results in **greater efficiency and productivity.** As the workers don't have to move between jobs. This leads to **lower cost of production.**
Time is saved as the workers become for efficient in performing a particular job.
By doing the same job repeatedly, the **workers become 'experts',** they commit less mistakes and hence leads to less wastage.
Due to specialisation **production level increases** which make it possible to carry out mass production.
Specialisation is good for workers too. They master the job and can **bargain for better wages**.
However, In specialisation each worker is assigned a particular piece of work and he or she does that particular task. Repeatedly doing the same job can **result in boredom** for the workers. Repetition of work leads to a mundane routine for workers, this **kills their motivation.** They might become careless. This will lead to more errors and affect the quality of production.

The sales turnover: A business may be going through a bad phase and may not have huge sales does it make the business small?
Market capitalisation: markets are very volatile and share prices change every day does it alter the size of the business every day?
Market share: a business may not be a market leader but still may be huge whereas if the market is itself very small, a major market share won't make a business big.

So while deciding the size of business as big or small a combination of factors needs to be considered.

8. <u>Why the owners of a business may want to expand the business?</u>

Businesses have different objectives. These objectives are certainly influenced by the owner's vision and goals. Some owners might be content with the small size of their business, whereas there will be business owners who may want to expand the business. Let us explore the reasons:

Possibility of higher profits: As businesses expand ,sales turnover improves, which means more profit for the business and more returns for the owners.
More stability: Big businesses are more stable and less vulnerable to market adversities. Bigger businesses usually operate across markets and even if one market is not performing well they can rely on other markets to average returns.
Attract the best talent: Bigger businesses usually offer better salaries/perks to their staff. Better salaries attract the best talent in the industry. This leads to better efficiency for the business and thus more profits for owners.
Economies of scale: Higher sales results demands higher production levels. As production increases, it brings in advantages related with economies of scale for the business

9. <u>Why businesses fail</u>

Lack of experience

Many a report on business failures cites poor management as the number one reason for failure. New business owners frequently lack relevant business and management expertise in areas such as finance, purchasing, selling, production, and hiring and managing employees.

Insufficient capital (money)

A common fatal mistake for many failed businesses is having insufficient operating funds. Business owners underestimate how much money is needed and they are forced to close before they even have had a fair chance to succeed. They also may have an unrealistic expectation of incoming revenues from sales

Poor location