

Revision Worksheet Answers

A2 Economics

Answer: Why Do Firms Grow?

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WORKSHEET ..Answer..

Revision Topic : Why do Firms Grow?

Answers to Multiple Choice Questions

Question 1

Correct Answer E (1 mark)

Answer Guide :

Definition of vertical integration (1 mark). Application of definition to this example or statement that this is *forward* vertical integration (1 mark). Identification of potential benefits e.g. in terms of increased market power (1 mark)

Question 2

Correct Answer B (1 mark)

Answer Guide :

Definition of vertical integration (1 mark). At least an implicit sense that this is forward vertical integration (1 mark). Explicit application to the possible gain to the beer industry (1 mark)

Question 3

Correct Answer D (1 mark)

Answer Guide :

Definition of horizontal integration (1 mark). A potential benefit such as purchasing economies of scale (1 mark). Trying the benefit to the hotel industry e.g. buying food for the hotel restaurants (1 mark).

Question 4

Correct Answer A (1 mark)

Answer Guide :

Definition of conglomerate integration (1 mark). Application to context (1 mark). Award up to 3 marks where a logical explanation of an alternative key is made based on a misunderstanding of a "private equity firm" (3 marks). Explanation of a likely gain e.g. diversification against risk (1 mark)

Question 5

Correct Answer C (1 mark)

Answer Guide :

Definition of conglomerate integration (1 mark). Application to example (1 mark). Also accept explanation of one or more advantages of conglomerate integration (up to 2 marks).

Question 6

Correct Answer C (1 mark)

Answer Guide :

Definition of horizontal merger (allow merger at same stage of production or increase in market share) (1 mark) Correct definition of scale economies (must include **average** costs) (1 mark) Application of scale economy to supermarkets (1 mark) Impact of cost cutting on the level of profit, or other illustration of the motive (1 mark).

Question 7

Correct Answer C (1 mark)

Answer Guide :

Definition of horizontal integration (firms merge in the same industry and at the same stage of production) (1 mark) Definition or diagram of economies of scale (long run average costs fall as output increases). (1 mark) **NB Must state long-run.**

Application to any type of economy of scale to sportswear: (1 + 1) Purchasing (bulk buying of sportswear from suppliers). Technical (larger machinery to produce sports clothing/footwear). Managerial (specialize labour for example accountants/lawyers). Risk bearing (diversifying into UK market). Financial (easier to raise funds at lower cost). Marketing (lower unit cost of advertising)

Question 8

Correct Answer D (1 mark)

Answer Guide :

Vertical integration is when firms in the same industry but at different stages of production merge (1 mark) Reference to vertical forward integration (1 mark) Any benefits to *Coco-Cola*, for example barriers of entry/raising profits/control over sales/greater market knowledge (1 + 1 marks)

Question 9

Correct Answer A (1 mark)

Answer Guide :

As long-run average costs increase there are 'diseconomies of scale' (1 mark).
Diagram showing 'diseconomies of scale' (1 mark) Application and explanation of diseconomies of scale e.g. co-ordination problems, or lack of synergies, rising labour or raw material costs for *GUS* (1 + 1 marks). Any benefits of the demerger e.g. increased specialization/focus on core markets/better quality service (1 + 1 marks)