

Edexcel (B) Economics A-level

Theme 1.2: Enterprise, Business and the Economy

Flashcards

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Give a brief description of the theory of
Creative Destruction



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Proposed by Schumpeter, this is the idea that new entrepreneurs are innovative and grow more productive than old, idle firms who are eventually forced out of the market.



Give one example of Creative
Destruction



Give one example of Creative Destruction

Technological advancements have led to the creation of DVDs, to the introduction of Blu-Ray, to the expansion of downloadable films, which has now triggered the downfall of DVDs.



What is the main incentive for entrepreneurs?



What is the main incentive for entrepreneurs?

Taking risks for profit.



How do entrepreneurs make a profit?



How do entrepreneurs make a profit?

By bringing together all 4 factors of production:

- Land
- Labour
- Capital
- Enterprise



Recall two non-financial motives an entrepreneur might have



Recall two non-financial motives an entrepreneur might have

1. Ethical stance and social entrepreneurship.
2. Independence and working from home.



Define all 4 factors of production



Define all 4 factors of production

Land: natural resources such as oil and coal

Labour: human capital

Capital: goods which can be used in the production process

Enterprise: the innovator and risk-taker



What is specialisation?



What is specialisation?

Each worker completes a specific task in the production process, aimed at improving efficiency and thus the average cost of production.



Give a few benefits of the benefits and drawbacks of specialisation



Give a few benefits and drawbacks of specialisation

- ✓ Higher output
- ✓ Opportunities for greater economies of scale
- X Work becomes monotonous and demotivating
- X Give rise to structural unemployment, as some skills may not be transferable



Why would higher interest rates be seen as a disadvantage to firms?



Why would higher interest rates be seen as a disadvantage to firms?

Higher interest rates implies getting a loan is more expensive, which raises the cost of production for firms.

It also encourages more saving and less spending on the consumer side, which results in less profits for firms.

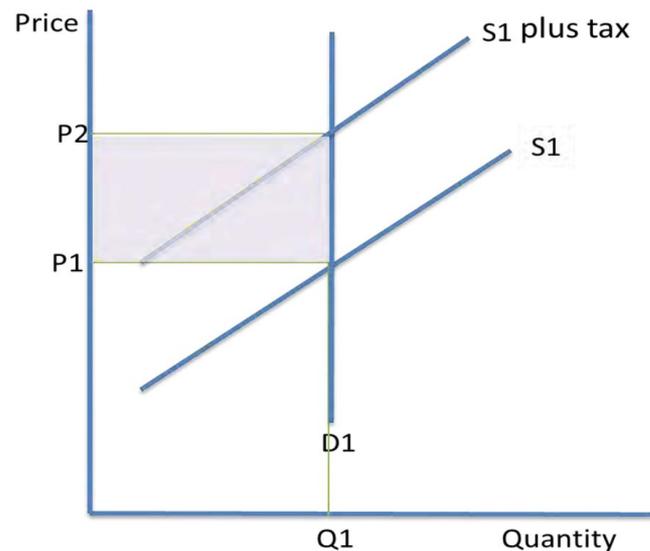


Draw a tax diagram of Supply and Demand with a perfectly inelastic level of Demand



Draw a tax diagram of Supply and Demand with a perfectly inelastic level of Demand

Whereby the shaded area represents the level of tax.



What is the relationship between exchange rates and the level of imports/exports?



What is the relationship between exchange rates and the level of imports/exports?

High exchange rate: Imports cheap, Exports dear

Low exchange rate: Imports dear, Exports cheap

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How could a high rate of unemployment benefit firms?



How could a high rate of unemployment benefit firms?

An increase in unemployment mean there is a larger supply of labour, which gives firms bargaining power and the ability to reduce wages, thus lowering overall costs of production.



What could unpredictable inflation imply for firms?



What could unpredictable inflation imply for firms?

Unpredictable inflation reduces overall business confidence, as it is difficult to anticipate future interest rates, unemployment rates, economic growth, etc. Therefore, firms cut down on their investment and wait for calmer economic conditions.

