

Edexcel (B) Economics A-level

Theme 2.1: Business Growth and Competitive Advantage

Flashcards

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What are the two types of economies of scale?



What are the two types of economies of scale

Internal and external economies of scale



Define both types of economies of scale



Define both types of economies of scale

Internal - occurs when the firm grows larger and average cost of production falls.

External - occurs within the industry.



What does the mnemonic “Really Fun
Mums Try Making Pies” stand for?



What does the mnemonic “Really Fun Mums Try Making Pies” stand for?

1. Risk bearing
2. Financial
3. Managerial
4. Technological
5. Marketing
6. Purchasing



Describe financial economies of scale



Describe financial economies of scale

When a firm grows larger, it is seen as less risky and so its eligible for larger loans from banks for lower interest rates



Describe purchasing economies of scale



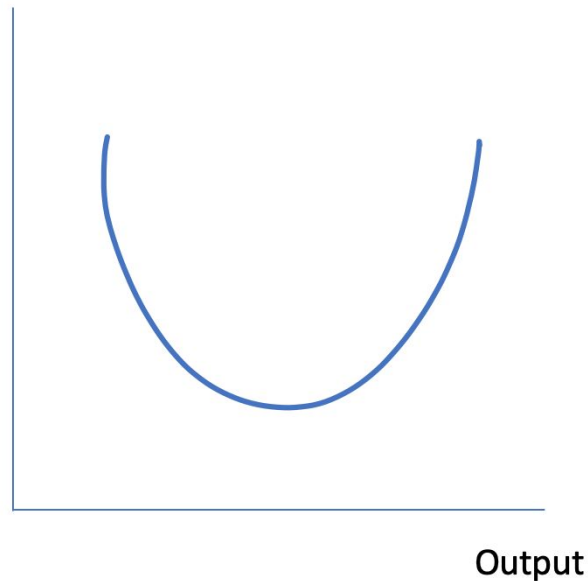
Describe purchasing economies of scale

As output increases, firms can bulk-buy meaning the cost per unit of output is reduced

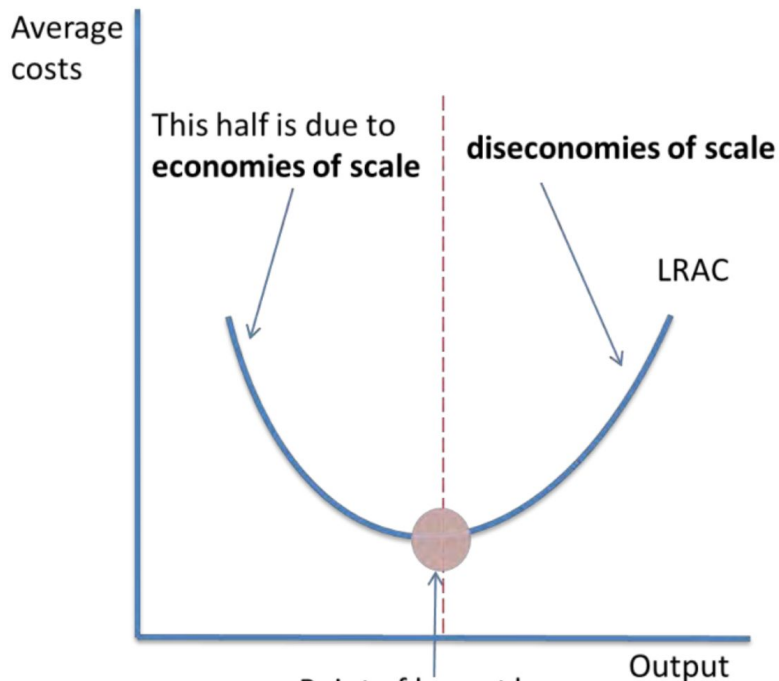


Locate the
'economies of
scale' and
'diseconomies of
scale' on this graph

Average Costs



Locate the 'economies of scale' and 'diseconomies of scale' on this graph



Give one way diseconomies of scale
occur



Give one way diseconomies of scale occur

As the firm expands, some workers may feel alienated from their more important counterparts, and therefore demotivated to work hard



What is the lowest point on the LRAC curve called?



What is the lowest point on the LRAC curve called?

The minimum efficient scale



How do large firms have dominance over markets?



How do large firms have dominance over markets?

They have the ability to set prices and discourage other firms from entering the market



When does a firm have a competitive advantage?



When does a firm have a competitive advantage?

When its goods/services are deemed better quality than its competitors by customers



Why would firms try to ensure their employees are well looked after?



Why would firms ensure their employees are well looked after?

To boost employees' motivation, which in turn increases productivity and output



What is inorganic growth?



What is inorganic growth?

This is when a business expands by merging and acquiring other firms.



What is organic growth?



What is organic growth?

This is when a business grows by increasing output, expanding their customer base and developing new products.



What are the disadvantages of organic growth compared to inorganic growth?



What are the disadvantages of organic growth compared to inorganic growth?

It takes time to grow this way, and in this time other firms may gain a competitive advantage over the market, which may become a problem for shareholders.



Define vertical integration



Define vertical integration

This occurs when a firm merges with or acquires another firm in the same industry but different step in the supply chain.



Which vertical integration is closer to the producer: forwards or backwards?



Which vertical integration is closer to the producer:
forwards or backwards?

Backwards vertical integration



Define horizontal integration



Define horizontal integration

Occurs when a firm merges with or acquires another firm in the same industry and same stage of production.



How is horizontal integration beneficial for firms?



How is horizontal integration beneficial for firms?

It gives them a competitive edge over the market as their market share increases, leading to increased output



What is conglomerate integration?



What is conglomerate integration?

The joining of two firms with no common connection (i.e. two different industries)



Recall the definition of R&D



Recall the definition of R&D

Research & Development is investment in research with the intention of improving goods, introducing new ones and improving methods of production



How can R&D increase market power?



How can R&D increase market power?

It differentiates products from their competitors, making them more unique and thus helps increase brand loyalty



Why does the state often provide funding for R&D?



Why does the state often provide funding for R&D?

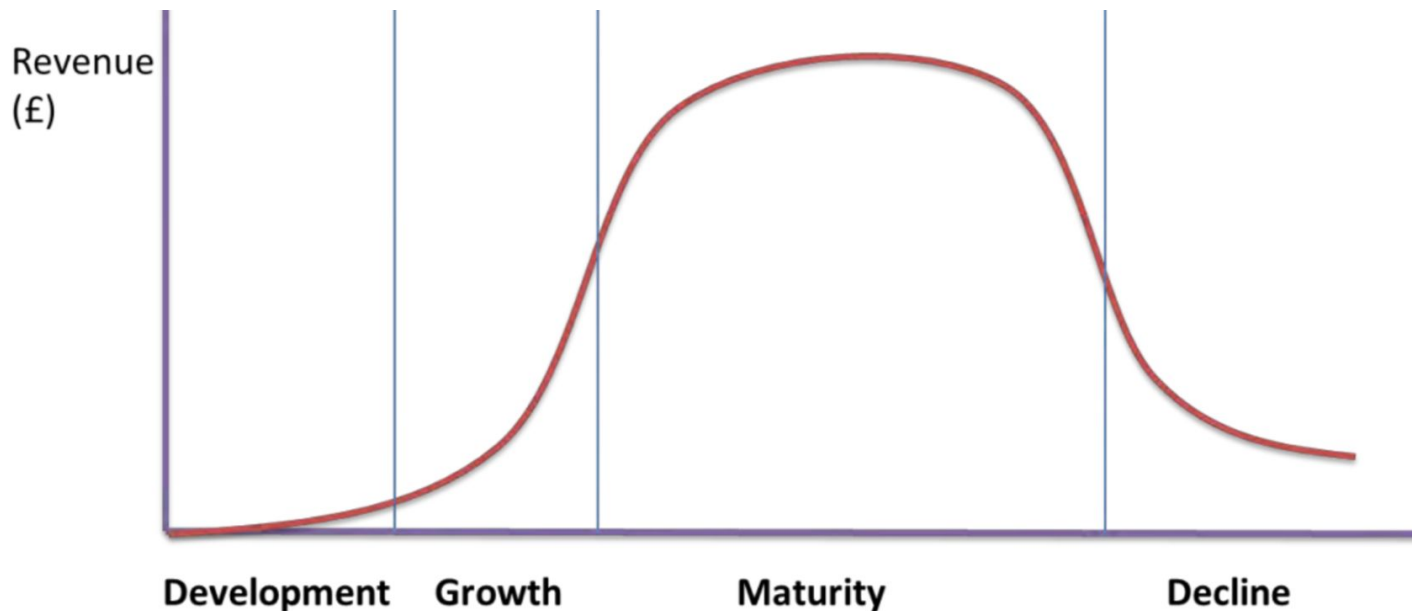
The positive externalities of R&D are not always fully understood, so the state intervenes to ensure more investment in R&D



Draw a graph showing the product life cycle and describe each stage



Draw a graph showing the product life cycle and describe each stage



How have price comparison sites been beneficial to consumers?



How have price comparison sites been beneficial to consumers

They have helped reduce information gaps by increasing the quantity of knowledge consumers have about a good or service



What is viral marketing?



What is viral marketing?

A form of marketing whereby the good/service is promoted on social media, where it can be shared with friends



What is micro-marketing?



What is micro-marketing?

This is where advertising is focused on a small group of consumers, rather than the market as a whole



What is the long tail theory?



What is the long tail theory?

The long tail theory suggests consumers get a wider choice when it comes to online retailing



Give two ways online stores have an advantage over their brick-and-mortar counterparts



Give two ways online stores have an advantage over their brick-and-mortar counterparts

1. Online businesses are not restricted to physical space, so can target customers worldwide
2. Online stores have lower costs, so can charge lower prices and therefore gain a larger portion of the market share



What does the acronym USP stand for?



What does the acronym USP stand for?

Unique Selling Point



Why can most small firms NOT benefit from economies of scale?



Why can most small firms NOT benefit from economies of scale

Since they are small firms, they do not produce enough output to lower their average costs.



How could small firms act as monopolists?



How could small firms act as monopolists?

They can create a local, more personal service and a niche market.

