

Edexcel (B) Economics A-level
**Theme 1: Markets, Consumers and
Firms**

1.2 Enterprise Business and the
Economy

1.2.1 Role of an entrepreneur in the economy

Notes



Creative destruction (organising factors of production to create and set up an enterprise)

-  Technological change can result in improvements in efficiency and productivity, which could lower costs of production for firms. The quality and quantity of goods and services produced might improve.
-  For example, mobile phones have become cheaper to produce, which is why their price has fallen. More importantly, their quality has improved significantly. This is due to improvements in technology.
-  Technological change can lead to the development of new products, the development of new markets and may destroy existing markets. For example, the development of DVDs, then blu-rays, and now the rise of downloadable films, has essentially destroyed the market for VHS video tapes.
-  The process of creative destruction is linked to technological change.
-  Small and Medium Sized Enterprises (SMEs) are important for creating a competitive market. They create jobs, stimulate innovation and investment and promote a competitive environment.
-  Schumpeter, an economist, proposed the idea of 'creative destruction'. This is the idea that new entrepreneurs are innovative, which challenges existing firms. The more productive firms then grow, whilst the least productive are forced to leave the market. This results in an expansion of the economy's productive potential.

Making decisions to operate, expand and develop a business

-  Entrepreneurs create ideas and put them into action by taking risks. Entrepreneurs have to consider what the best steps are for a business. In order to decide, they might consider past mistakes, potential profitability and potential gaps in the market.
-  The decision also depends on personal circumstances. The entrepreneur has to consider what capital they might have to give up for a business, the implications of this for themselves and whether it will produce a high return.
-  Entrepreneurs could expand a business by widening their product range, taking over or merging with another firm or employing more workers. They need to ensure they have the necessary capital to do this, and that any means of growing is sustainable.



 **Selling the output for more than the cost of the inputs (adding value)**

 For the entrepreneur in a firm, the incentive for taking risks is profit. An entrepreneur wants to avoid loss and gain profit, which makes them want to innovate. They can reduce their production costs and improve the quality of their products. Entrepreneurs seek to maximise their profits.

