



# Edexcel A - A Level Economics

## Theme 3 – Business behaviour and the labour market

### 3.1 Business Growth

#### Worked Examples

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- Business growth

## 3.1 Business growth

### Exam Style Question 1

'Bettys' is a luxury café, first opened in Harrogate in 1919 specialising in afternoon tea service. Since then, it has opened a further five branches in Yorkshire. It has no plans to increase the number of cafés. The six branches have 2 million customers a year.

(Source adapted from: <https://www.forbes.com/sites/sarahturner/2018/03/22/the-famed-yorkshire-cafe-that-blends-nostalgia-with-profits-and-conservation/#7eb50cec7a4e>)

- (a) Explain **one** likely reason why this business has remained small. [2]
- (b) Explain why the previous expansion of this business could be described as 'organic growth'. [2]
- (c) Assume 'Bettys' merges with a major tea leaf supplier. Which **one** of the following is most likely to be an advantage as a result of this merger? [1]
- A External economics of scale will increase efficiency
  - B Greater control to lower prices of tea
  - C Industrial diversification increases risks
  - D Lower monopoly power in the café market



## 3.1 Business growth

### Exam Style Question 1

**Answer:**

**1(a) Explain one likely reason why this business has remained small.**

One reason Betty's has remained small is because it offers a **more personal service** (1). With **2 million customers already visiting its six locations each year**, the business is likely satisfied with its profits and doesn't feel the need to expand, allowing it to focus on maintaining its high-quality, luxury experience (1).

**1(b) Explain why the previous expansion of this business could be described as 'organic growth'.**

Organic growth means when a business **grows naturally from within**, rather than through mergers or takeovers. [1] Betty's opening more cafés in Yorkshire is a good example of this, it's expanding at its own pace by using its own profits [1] and building new branches rather than buying other businesses.

**1(c) Assume 'Bettys' merges with a major tea leaf supplier. Which one of the following is most likely to be an advantage as a result of this merger?**

**Answer B:** Greater control to lower prices of tea [1]

**Option A: Incorrect** as external economies occur outside a firm but within an industry. Here we're talking about a specific merger between Bettys and its supplier, which is an internal strategic move.

**Option C: Incorrect** as this means expanding into totally different industries, which increases risk. Bettys is still in the same industry, just integrating with a supplier.

**Option D: Incorrect** as it could result in greater monopoly power.

### 3.1 Business growth

#### Exam Style Question 2

Aviva, the UK's largest insurance firm, merged with another major UK-based insurance firm Friends Life in April 2015. The expanded business has 16 million customers.

The most likely reason for the takeover was to:

[1]

- A Achieve benefits of an increased market share
- B Achieve benefits of vertical integration
- C Achieve external economics of scale
- D Avoid an investigation by the Competition and Markets Authority
- E Avoid the risks of over-specialisation

Answer

Explanation [3]



### 3.1 Business growth

#### Exam Style Question 2

Answer:

A – Achieve benefits of an increased market share. [1]

Explanation: 3 marks

Application: 1 mark

A **takeover** is when one firm buys another to expand its operations. In this case, Aviva – already the UK's biggest insurance company – merged with another large insurer, Friends Life. The most **likely reason** for this was to **increase its market share [1]** – i.e. to reach more customers and dominate the market.

Explanation: 2 marks

By combining forces, the newly merged business is even more competitive and gives it more power in the market (like setting prices or negotiating better deals). This is a classic goal of a **horizontal integration [1]**, where two companies in the same industry and level of the supply chain join together. [1]

Rejection marks: 2 marks max

**Option B: Incorrect** as the firm is merging with a firm in the same production process not at a different stage of the same process. [1]

**Option E: Incorrect** as this option would mean the firm likely to be increasingly exposed to the risks of concentrating on one product area. [1]

### 3.1 Business growth

#### Exam Style Question 3

In 2014 the luxury car maker Rolls-Royce Motor Cars Ltd gained full ownership of car engine supplier RRPS, after completing a buy-out costing £1.93 billion.

The benefits of this acquisition to Rolls-Royce are likely to be gained from [1]

- A A private finance initiative
- B Horizontal integration
- C Forward vertical integration
- D Backward vertical integration
- E Conglomerate integration

Answer

Explanation [3]



### 3.1 Business growth

#### Exam Style Question 3

Answer:

D– Backward vertical integration. [1]

Explanation:

**Backward vertical integration** means moving backwards in the supply chain and merging with firms towards the raw materials production process– in this case, from car manufacturing to engine supply. [2]

This can reduce costs, secure supply, improve quality control, and reduce delays. Rolls-Royce now controls a vital part of its production process: the engine. [1]

Rejection marks: 2 marks max

**Option B: Incorrect** as it is not merging with a firm at the same stage of production. [1]

**Option C: Incorrect** as this would have involved buying a business at next stage such as a car dealership. [1]

### 3.1 Business growth

#### Exam Style Question 4

In 2010 the assets of ROK, a building maintenance firm, were acquired by Balfour Beatty, which also maintains buildings as part of its operations. This type of integration of business assets is:

[1]

- A Satisficing
- B Privatisation
- C Backwards vertical
- D Forwards vertical
- E Horizontal

Answer

Explanation [3]



### 3.1 Business growth

#### Exam Style Question 4

Answer:

E – Horizontal. [1]

Explanation: 3 marks

This is an example of **horizontal integration**, where two businesses at the same stage of production (building maintenance) merge. [1] This can lead to **economies of scale**, such as better use of capital equipment like machinery or vehicles, reducing average costs. [1] It also increases **market share** [1], helping the firm compete more effectively in the industry.

Rejection marks: 2 marks max

**Option A – Incorrect** as this means making just enough profit to satisfy stakeholders, not growing by merging.

**Option B – Incorrect** as that's when a government-owned firm becomes privately owned – this question is about two private firms.

**Option C – Incorrect** as that would mean Balfour Beatty bought a supplier – not the case here.

**Option D – Incorrect** as that would mean they bought a business closer to the customer, like a real estate firm or agency – again, not what's happening here.

Please see the '3.1 Business Growth Revision Notes' pack for detailed notes.

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