



Answers to Workshop 1

Business and the Economic Environment

1. In which types of legal organisation do the owner(s) of the firm have limited liability?
 - (a) A private company Yes / No / Sometimes
 - (b) A public company Yes / No / Sometimes
 - (c) A sole proprietorship Yes / No / Sometimes
 - (d) A partnership Yes / No / Sometimes

2. Which of the following are advantages of an M form of organisational structure?
 - (a) Reduced length of information flows. Yes / No
 - (b) Easier communication in large firms Yes / No
 - (c) Reduced bureaucracy Yes / No

3. The divorce between the ownership and control of a firm is likely to be greater if there are
 - (a) *a few large shareholders* / *many small shareholders*.
 - (b) It is also likely to be greater in *partnerships* / *private limited companies* / *public limited companies*.

4. The problem of managers not pursuing the same goals as shareholders is an example of the principal-agent problem. Because of asymmetric information and different goals, agents may not always carry out the wishes of their principals.
 - (a) Asymmetric information refers to the fact that either principals or agents have superior knowledge and can, therefore, act against the interests of the other party. Normally the party with superior knowledge is the *principal* / *agent*

In the following cases, which are the principals and which are the agents?

- (b) Estate agents and house buyers:

estate agents	<u><i>agents</i></u>	house buyers	<u><i>principals</i></u>
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- (c) Shareholders and managers:

shareholders	<u><i>principals</i></u>	managers	<u><i>agents</i></u>
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- (d) House builders and architects:

house builders	<u><i>principals</i></u>	architects	<u><i>agents</i></u>
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- (e) Employers and workers:

employers	<u><i>principals</i></u>	workers	<u><i>agents</i></u>
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- (f) Shops and their customers:

shops	<u><i>agents</i></u>	customers	<u><i>principals</i></u>
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5. Give ONE example from each of the dimensions of the business environment of a power generating company represented by the acronym STEEPLE.

S. (social/cultural)..... *society becoming more conscious of saving energy*
 T. (technological)..... *the development of new more efficient means of burning fossil fuels*
 E. (economic)..... *the effect on profitability of changes in interest rates*
 E. (environmental/ecological)..... *effects on the atmosphere of emissions from its power stations*
 P. (political)..... *government preference for moving towards greener energy*
 L. (legal)..... *having to abide by health and safety legislation*
 E. (ethical)..... *responsibility of the company towards its workers to ensure good working conditions*

6. Which of the following sectors has grown most rapidly over the past 30 years?

Primary / Secondary / Tertiary

7. To which sector does the output of each of the following belong?

(a) Coal *Primary / Secondary / Tertiary*
 (b) Healthcare *Primary / Secondary / Tertiary*
 (c) Bandages *Primary / Secondary / Tertiary*
 (d) Bricks *Primary / Secondary / Tertiary*
 (e) Education *Primary / Secondary / Tertiary*
 (f) Textbooks *Primary / Secondary / Tertiary*
 (g) Fish *Primary / Secondary / Tertiary*
 (h) Plays at the theatre *Primary / Secondary / Tertiary*

8. Economists study many issues, but all of them stem from the central economic problem of *scarcity*. Scarcity arises because there are constraints for both consumers (e.g. limited time, information and income) and sellers (e.g. limited resources to produce goods and services). Some people suggest that the problem of scarcity will eventually disappear with the development of new technology and resulting higher levels of production.

Is this *True/False*?

Explain: *As production rises, so will people's incomes. People will thus choose to buy more. Also, firms will stimulate consumer demand through advertising and other forms of product promotion.*

9. Because of scarcity we have to make choices about which goods and services we desire most. Choices involve sacrifices or *costs*. If as a society we consume more of one good or service then, unless there are idle resources, we will be able to consume less of other goods and services. The cost of one good measured in terms of what we must sacrifice is called the:

..... *Opportunity cost*

10. The following data are taken from *Time Series Data*, series L2KX and L2NC (ONS, April 2016):

UK manufacturing and service industry output: 2012 = 100

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015
Output of manufacturing	107.8	104.8	95.0	99.3	101.4	100.0	98.9	101.6	101.3
Output of services	96.8	97.2	94.6	95.5	97.6	100.0	102.8	106.2	109.1

- (a) Which of the following statements are true?

(i) The table shows cross-section data..... *True / False*
The data are time-series data

(ii) The data in the table are known as ‘index numbers’. *True / False*

(iii) The year 2012 is known as a ‘base year’. *True / False*

(iv) The growth rate in services output over the period 2007 to 2015 was 12.3 per cent.
True / False

The percentage growth rate was $((109.1 - 96.8)/96.8) \times 100 = 12.7\%$

(v) Output in the services sector grew continuously over the period 2007 to 2015, while output in the manufacturing sector fluctuated, sometimes declining.
 *True / False*

*In both sectors output fluctuated, sometimes growing and sometimes declining.
 In the service sector output grew in 7 of the 8 periods, whereas
 in the manufacturing sector output grew in only 3 of the 8 periods.*

- (b) What was the percentage growth rate in services output from 2014 to 2015?

The percentage growth rate was $((109.1 - 106.2)/106.2) \times 100 = 2.7\%$

- (c) What was the percentage growth rate in manufacturing output from 2008 to 2009?

The percentage growth rate was $((95.0 - 104.8)/104.8) \times 100 = -9.4\%$

11. Economists divide economic issues into two sorts – macroeconomic and microeconomic. Which of the following are macroeconomic issues and which are microeconomic ones?

- (a) The level of government spending. *micro / macro*
 (b) A grant given by the government to the UK film industry. *micro / macro*
 (c) The level of investment in the UK by overseas firms. *micro / macro*
 (d) The price of cotton cloth. *micro / macro*
 (e) The rate of inflation. *micro / macro*
 (f) The effect of leaving the EU on UK economic growth..... *micro / macro*