

UNIT 5 The private firm as producer and employer

Recommended Prior Knowledge This Unit can be studied without any prior knowledge but it does build on some of the concepts covered in the previous Units. The first section of Unit 2 looked at business organisations in the private sector and this will link with the principle of profit maximisation in the first section of this Unit. The same section will also be useful preparation for the discussion of the main reasons for the different sizes of firms. The concept of demand has been covered in Unit 3 and, in relation to the demand for labour, Unit 4 and both of these sections will link with the determination of the demand for factors of production.

Context As already indicated, the Unit builds on the type of business organisations in the private sector, the concept of demand and, more specifically, the demand for labour as a factor of production. It will also provide a link with some of the ideas covered in later Units, such as the government's influence on private producers in Unit 5 and the contrast between private and social costs in Unit 9.

Outline The Unit starts by describing the principle of profit maximisation as a goal of private firms and goes on to look at what determines the demand for factors of production. It then considers the various costs of a firm and the link between costs of production and output. It then considers revenue and finally examines the main reasons for the different sizes of firms, including an analysis of integration, economies and diseconomies of scale.

	Learning Outcomes	Suggested Teaching Activities	Online Resources	Other Resources
5 a	Students should be able to describe the principle of profit maximisation as a goal.	A useful starting point is to make students aware of the distinction between how a business person would define profit and how an economist would. Moynihan and Titley are very good on this and exercise 2 (pages 47-48) on `Making a profit` and exercise 8 on `The Bear Necessities Company` (pages 62-66) would be useful for students to complete. Anderton is also good on profit and there are useful study points and check points for students to complete (pages 74-75 and 86-87).	URL – http://www.s-cool.co.uk/quicklearn Costs and Revenue: Profit	Anderton, Units 28-29, pages 74-77 Anderton, Units 33-34, pages 86-89 Harrison and Nutter, Chapter 9, pages 93-94 Moynihan and Titley, Chapter 4, pages 47-48 and 61-70 Paisley and Quillfeldt, Part 6, Unit 6.1, pages 136-141
b	Students should be able to describe what determines the demand for factors of production.	Students need to be aware of the four factors of production of land, labour, capital and enterprise. The demand for labour will already have been covered in the previous Unit (the s-cool resource is again included	URL – http://www.s-cool.co.uk/quicklearn Labour Markets: The demand for labour	Anderton, Unit 18, pages 48-49 Anderton, Units 20-22, pages 54-61

		here) but in this Unit, students will need to consider what determines the demand for the other three factors. They need to divide into groups and focus on the demand for one of these factors, reporting back to the rest of the class. They should concentrate not just on the quantitative aspects but also on the qualitative dimension. Anderton (pages 54-55) has some useful study points and check points for students to answer.		Harrison and Nutter, Chapter 5, pages 31-33 Moynihan and Titley, Chapter 2, pages 17-19 Paisley and Quillfeldt, Part 1, Unit 1.1, pages 4-8
c	Students should be able to define total and average cost, fixed and variable cost.	Students need to fully understand the differences between the various types of cost of production faced by a firm. Moynihan and Titley have a case study on `The Bear Necessities Company` (pages 62-70) and if students work their way through this exercise, they should have a good grasp of the different costs of production. Anderton is also very good on the costs of production and he has a number of study points and check points (pages 80-81) which students should benefit from completing. There is also a helpful data response question on the costs of production (page 83). Paisley and Quillfeldt have a data response question (page 141) on the costs of running a football club. The s-cool website has a useful worked example of costs and cost curves.	URL – http://www.bized.ac.uk/virtual/via/theories/cal_total_costs.htm URL – http://www.bbc.co.uk/schools/bitesize/business/production/productioncostsrev2.shtml URL – http://www.s-cool.co.uk/quicklearn Costs and Revenue: Costs and their curves URL – http://www.s-cool.co.uk/quicklearn Costs and Revenue: Worked example of costs and their curves	Anderton, Unit 31, pages 80-83 Harrison and Nutter, Chapter 9, pages 91-93 Moynihan and Titley, Chapter 4, pages 61-70 Paisley and Quillfeldt, Part 6, Unit 6.1, pages 136-141
d	Students should be able to analyse particular situations to show the effects of substituting one factor for another and to show the changes in total and average cost as output changes.	Students need to be aware of the effects of substituting one factor of production for another, such as when production moves from being labour-intensive to being more capital-intensive. They could think of one example of this, such as agriculture or car production, and discuss the possible	URL – http://www.s-cool.co.uk/quicklearn Costs and Revenue: Worked example of costs and their curves	Anderton, Unit 18, pages 48-51 Anderton, Units 20-22, pages 54-61 Anderton, Unit 30, pages 78-

		<p>effects of such a change. They also need to consider the possible extent of such substitutability and the possible limits on it; for example, how likely would such a change be in relation to teaching. Anderton (page 54) has a study point on this for students to answer and a data response question (page 60) in relation to the production of confectionery. Harrison and Nutter (pages 40-42) have a question and answer on the combination of capital and labour in production. Students need to understand the link between a change in output and a change in total and average cost. The case study in Moynihan and Titley already referred to (pages 61-70) is good on this. The study points in Anderton (page 80) will also help students appreciate how total and average costs can change.</p>		<p>79 Anderton, Unit 31, pages 80-83</p> <p>Harrison and Nutter, Chapter 5, pages 31-33 and 40-42</p> <p>Harrison and Nutter, Chapter 9, pages 91-93</p> <p>Moynihan and Titley, Chapter 2, pages 17-19</p> <p>Moynihan and Titley, Chapter 4, pages 61-70</p> <p>Paisley and Quillfeldt, Part 1, Unit 1.1, pages 4-8</p> <p>Paisley and Quillfeldt, Part 6, Unit 6.1, pages 136-141</p>
e	Students should be able to define total and average revenue.	<p>Students need to be able to define and distinguish between total and average revenue. It should be noted that the syllabus does not require students to be able to define marginal revenue. The check point in Anderton (page 87) would help students to understand total and average revenue. The case study in Moynihan and Titley (pages 61-70) on `The Bear Necessities Company` is also good on these two concepts.</p>	<p>URL – http://www.bized.ac.uk/virtual/via/theories/cal_total_revenue.htm</p> <p>URL – http://www.s-cool.co.uk/quicklearn Costs and Revenue: Revenues and their curves</p>	<p>Anderton, Unit 33, pages 86-87</p> <p>Harrison and Nutter, Chapter 9, pages 89-91</p> <p>Moynihan and Titley, Chapter 4, pages 61-70</p> <p>Paisley and Quillfeldt, Part 6, Unit 6.1, pages 138-141</p>
f	Students should be able to describe the main reasons for the different sizes of firms (size of market; capital; organisation).	<p>Students need to realise that firms will differ a great deal in size. They will have already come across this idea in the first section of Unit 2. They need to work in groups and look at a number of particular firms which vary in size; they then need to</p>	<p>URL – http://www.bbc.co.uk/schools/gcsebitesize/aims/sizeandorganisationrev3.shtml</p>	<p>Anderton, Unit 37, pages 96-97</p> <p>Anderton, Unit 39, pages 100-101</p>

		<p>analyse why these firms are of a particular size and why they have been unable to grow, assuming that they have desired such growth. They then need to report their findings to the whole class. The syllabus suggests three main factors which are likely to influence the size of a firm and they should relate these to the firms they are studying; however, there may be other factors which might need to be taken into account.</p> <p>Anderton (pages 96-97) is very good on this topic, looking at reasons for the existence of both large and small firms in an economy; the check points are particularly useful. There is also an interesting data response question on the survival of a small company in an industry dominated by larger firms (page 108). Moynihan and Titley (pages 70-80) are also good; they have one exercise on the advantages of large firms and another on the reasons for the continued existence of small firms.</p>		<p>Anderton, page 108 Moynihan and Titley, Chapter 4, pages 70-80</p> <p>Paisley and Quillfeldt, Part 6, Unit 6.5, pages 163-170</p>
g	Students should be able to define integration, economies and diseconomies of scale.	<p>Students should carry out a case study of a particular example of integration, either in their own country or, if they prefer, in another country. They should research the background to the merger or takeover and say why it came about, whether there were any problems which had to be overcome and what were the likely advantages and disadvantages of the integration. This could be a homework assignment and the student should then summarise his/her findings to the rest of the class.</p> <p>A second activity could be to consider all of the possible economies of scale of any</p>	<p>URL – http://www.bized.ac.uk/virtual/dc/farming/theory/th4.htm</p> <p>URL – http://www.bized.ac.uk/virtual/dc/farming/theory/th8.htm</p> <p>URL – http://www.s-cool.co.uk/quicklearn Costs and Revenue: Economies of Scale</p>	<p>Anderton, Unit 32, pages 84-85</p> <p>Anderton, page 94</p> <p>Anderton, Unit 38, pages 98-99</p> <p>Anderton, page 108</p> <p>Harrison and Nutter, Chapter 5, pages 38-39</p> <p>Harrison and Nutter, Chapter</p>

		<p>proposed merger or takeover and any likely diseconomies of scale of such integration. There are usually quite a few examples of such activity at any one moment in time and students should be able to find some examples from appropriate newspapers, magazines or internet sites.</p> <p>Anderton (pages 84-85 and 98-99) has some useful study points and check points which students could benefit from answering and he has two interesting data response questions on a possible merger between two banks (page 94) and on Richard Branson`s Virgin Record Group (page 108). Paisley and Quillfeldt have a helpful data response question on a merger between a houseware and a tobacco company. Harrison and Nutter have a tutor`s answer to a question on integration in the airline industry.</p>		<p>12, pages 119-130 Moynihan and Titley, Chapter 4, pages 70-77</p> <p>Moynihan and Titley, Chapter 6, pages 127-130</p> <p>Paisley and Quillfeldt, Part 6, Unit 6.5, pages 163-170</p>
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