

**IGCSE
BUSINESS
STUDIES
DEFINITION**

- 0450 -

BY MR JAMES



GLOSSARY

Chapter 1

Need

A good or service that is essential for living.

Want

A good or service that people would like to have but is not necessary for living. People have unlimited wants.

Economic problem

There are unlimited wants but limited resources to produce the goods and services to satisfy wants. This creates scarcity.

Factors of production

Resources needed to produce goods and services. There are 4 factors of production (land, labour, capital, enterprise) and they are limited in supply.

Scarcity

The lack of sufficient products to fulfil the total wants of the population.

Opportunity Cost

The next best alternative given up by choosing another item.

Specialisation

When people and businesses concentrate on what they are best at.

Division of labour

When the production process is split up into different tasks and each worker performs one of these tasks. It is a form of specialisation.

Business

Combines factors of production to make products (goods and services) which satisfy people's wants.

Added Value

It is the difference between the selling price of a product and the cost of bought in materials and components.

Primary Sector

Extracts and uses natural resources to produce raw materials used by other businesses.

Secondary Sector

Manufactures goods using raw materials provided by Primary Sector.

FOLLOW US



@VBESTMY



Tertiary Sector

Provides services to customers and other sectors of industry.

De-industrialisation

There is a decline in the importance of the secondary, manufacturing sector of industry in a country.

Mixed Economy

Has both a private sector and a public sector.

Private Sector

Businesses not owned by government. Make their own decision about selling price. Aim to run profitably. Some government control.

Public Sector

Government-owned, controlled businesses and organisations. Decide which price to charge consumers. Different aim from Private Sector.

Capital

Money invested into business by owners.

Entrepreneur

A person who organises, operates and takes the risk for a new business venture.

Business Plan

Document containing the business objectives and important details about the operations, finance and owners of the new businesses.

Capital Employed

Total value of capital used in the business.

Internal Growth

When a business expands its existing operations.

External Growth

When a business takes over or merges with another business.

Integrations/Merger

When two businesses agree to join their firms together to make one business.

Takeover/Acquisition

One business buys out the owners of another business which then becomes part of the 'predator' business

FOLLOW US



@VBESTMY



Horizontal Integration

When one company merges with or takes over another in the same industry in the same stage of production.

Vertical Integration

When one company merges with or takes over another in the same industry but at a different stage of production.

Conglomerate Integration/Diversification

When one company merges with or takes over another in a completely different industry.

Sole Trader

Business owned by one person

Limited Liability

The liability of shareholders in a company is only limited to the amount they invested.

Unlimited Liability

The owners of a business can be held responsible for the debts of the business they own. Their liability is not limited to the investment they make.

Partnership

A form of business in which two or more people agree to jointly own a business.

Partnership Agreement

The written legal agreement between partners.

Unincorporated Business

One that does not have a separate legal entity. Sole traders and partnerships are unincorporated businesses.

Incorporated Business

Companies that have a separate legal status from their owners.

Shareholders

Owners of a limited company. They buy shares which represent part ownership of a company.

Annual General Meeting

A legal requirement for all companies. Shareholders may attend and vote on who they want to be on the Board of Directors for the coming year.

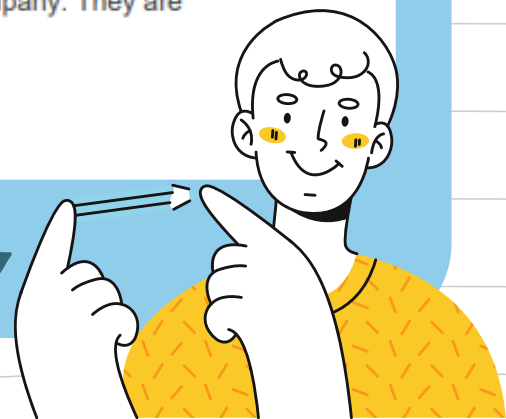
Dividend

Payments made to shareholders from the profit (after tax) of a company. They are the return to shareholders for their investment in the company.

FOLLOW US



@VBESTMY



Franchise

Business based upon the use of brand names and trading methods of an existing successful business. Franchisees use franchisor's ideas, names.

Business Objective

Aims and targets that a business works towards.

Profit

Total income (sales revenue) - total costs

Market share

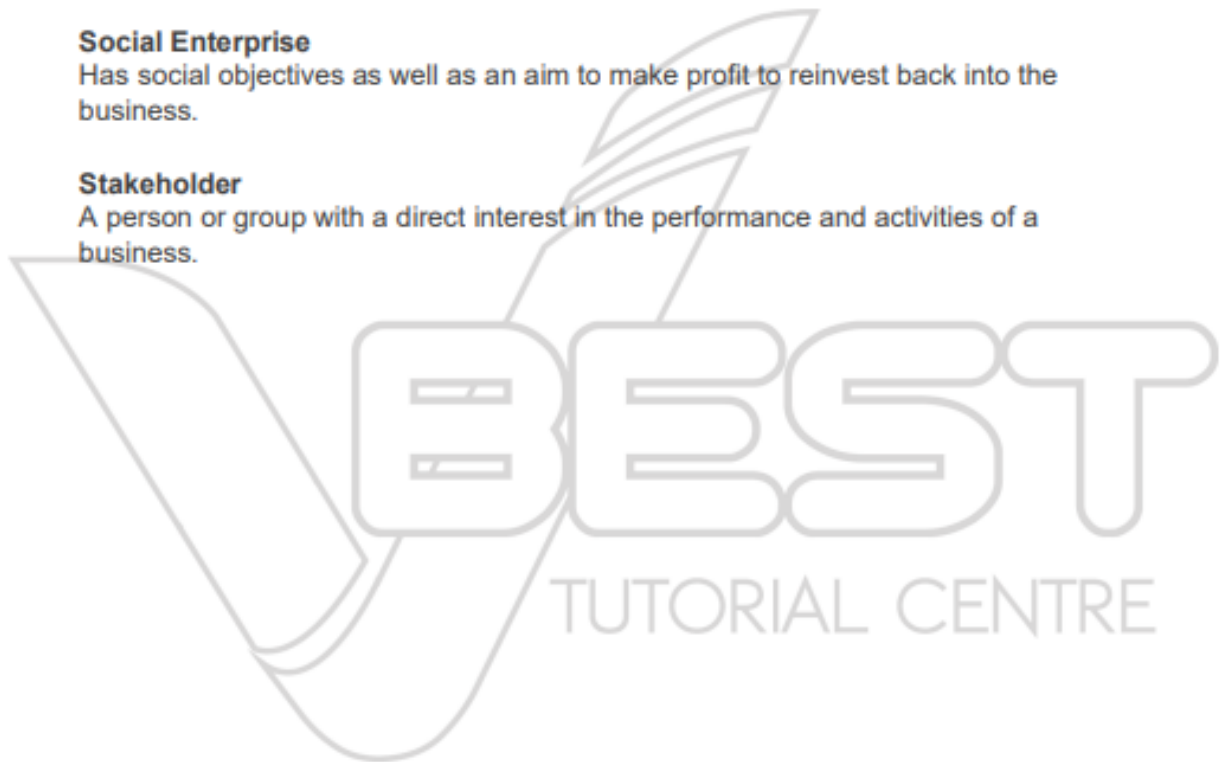
Proportion of total market sales achieved by one business.

Social Enterprise

Has social objectives as well as an aim to make profit to reinvest back into the business.

Stakeholder

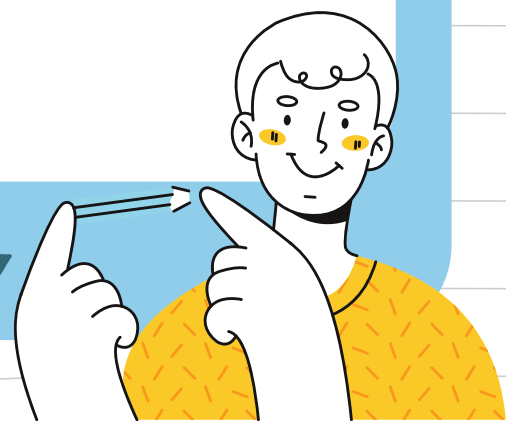
A person or group with a direct interest in the performance and activities of a business.



FOLLOW US



@VBESTMY



Chapter 2

Motivation

the reason why employees want to work hard and effectively for the business

Wage

payment for work, usually paid weekly, can be in cash or in bank account

Salary

payment for work, usually paid monthly, into bank account

Commission

payment relating to number of sales made

Profit sharing

proportion of company's profits are paid to employees

Bonus

additional amount of payment above basic pay as reward for good work

Performance-related pay

pay which is related to effectiveness of employee where output can be measured

Share ownership

shares of company given to employees so they become part owners

Appraisal

method of assessing effectiveness of employee

Fringe benefits

non-financial rewards given to employees

Job satisfaction

enjoyment derived from feeling that you have done a good job

Job rotation

involves workers swapping round and doing a specific task for a specific time the changing again

Job enlargement

extra tasks of similar level of work are added to worker's job description

Job enrichment

looking at jobs and adding more tasks that require more skill and/or responsibility

Organisational structure

refers to levels of management and division of responsibilities within an organisation

FOLLOW US



@VBESTMY



Chain of command

structure in an organisation which allows instructions to be passed down from senior management to lower levels of management

Span of control

number of subordinates working directly under a manager

Line managers

have direct responsibility over people below them in a hierarchy of an organisation

Staff managers

specialists who provide support, information and assistance to line managers

Delegation

giving subordinate authority to perform particular tasks

Leadership styles

different approaches to dealing with people when in a position of authority - autocratic, laissez-faire or democratic

Autocratic leadership

where the manager expects to be in charge of the business and to have their orders followed

Democratic leadership

gets other employees involved in decision making

Laissez-faire leadership

makes broad objectives known to workers, they are left to make their own decisions and organise their work

Trade union

group of workers who have joined together to ensure their interests are protected

Closed shop

all members must be a member of the same trade union

Recruitment

: the process from identifying that the business needs to employ someone up to the point at which applications have arrived at business

Job analysis

identifies and records the responsibilities and tasks relating to a job

Job description

outlines the responsibilities and duties to be done by employee to do a specific job

FOLLOW US



@VBESTMY



Job specification

outlines requirements, qualifications, expertise, etc. for a specified job

Internal recruitment

vacancy is filled by someone who is an existing employee of the business

External recruitment

vacancy filled by someone who is not an existing employee and new

Part-time

employment that is between 1 and 35 hours a week; less than full time workers

Full-time

employees will work for 35 or more hours per week

Induction training

introduction given to new employee explaining firm's activities, customs and procedures and introduce to other workers

On-the-job training

person is trained by watching more experienced worker doing the job

Off-the-job training

person being trained away from workplace, by specialist trainers

Workforce planning

establishing the number and skills of workforce needed by business for foreseeable future

Redundancy

employee is no longer needed, so loses his job; not because of unsatisfactory work

Ethical decision

decision taken by manager because of moral code observed by firm

Industrial tribunal

legal meeting considers workers' complaints: unfair dismissal and discrimination

Contract of employment

legal agreement between employer and employee listing duties and responsibilities of workers

FOLLOW US



@VBESTMY



Chapter 3

Market Share

the percentage of total market sales held by one brand or business

Mass Market

where there is a very large number of sales of a product

Niche Market

a small, usually specialized, segment of a much larger market

Market Segment

an identifiable sub-group of a whole market in which consumers have similar characteristics or preferences

Product Orientated Business

a business whose main focus of activity is on the product itself

Market Orientated Business

a business which carries out market research to find out consumer wants before a product is developed and produced

Marketing Budget

a financial plan for the marketing of a product or product range for some specified period of time. It specifies how much money is available to the product or range, so that the Marketing department know how much they may spend

Market Research

the process of gathering, analyzing and interpreting information about a market

Primary Research

the collation of original data via direct contact with potential or existing customer. Also called field research

Secondary Research

information that has already been collected and made available for use by others. Also called desk research

Questionnaire

a set of questions to be answered as a means of collecting data for market research

Sample

the group of people who are selected to respond to a market research exercise, such as a questionnaire

Random Sample

when people are selected at random as a source of information for market research

FOLLOW US



@VBESTMY



Quota Sample

when people are selected on the basis of certain characteristics (such as age, gender or income) as a source of information for market research

Focus Group

a group of people who are representative of the target market

Marketing Mix

a term which is used to describe all the activities which go into marketing a product or service. These activities are often summarized as the four Ps - product, price, place and promotion

Unique Selling Point (USP)

the special feature of a product that differentiates it from the products of competitors

Brand Name

the unique name of a product that distinguishes it from other brands

Brand Loyalty

when consumers keep buying the same brand again and again instead of choosing a competitors brand

Brand Image

an image or identity given to a product which gives it a personality of its own and distinguishes it from its competitors' brands

Packaging

the physical container or wrapping for a product. It is also used for promotion and selling appeal

Product Life Cycle

describes the stages a product will pass through from its introduction, through its growth until it is mature and then finally its decline

Cost-Plus Pricing

the cost of manufacturing the product plus a profit mark-up

Competitive Pricing

when the product is priced in line with or just below competitors' prices to try and capture more of the market

Penetration Pricing

when the price is set lower than the competitors' prices in order to be able to enter a new market

FOLLOW US



@VBESTMY



Price Skimming

where a high price is set for a new product on the market

Promotional Pricing

when a product is sold at a very low price for a short period of time

Price Elasticity

a measure of the responsiveness of demand to a change in price

Informative Advertising

where the emphasis of advertising is to give full information about the product

Persuasive Advertising

advertising or promotion which is trying to persuade the consumer that they really need the product and should buy it

Target Audience

refers to the people who are potential buyers of a product or service

Sales Promotion

incentives such as special offers or special deals aimed at consumers to achieve short-term increases in sales

Distribution Channel

the means by which a product is passed from the place of production to the customer or retailer

Agent

an independent person or business that is appointed to deal with the sales and distribution of a product or range of products

E-Commerce

the buying and selling of goods and services using computer systems linked to the internet

Marketing Strategy

a plan to combine the four elements of the marketing mix for a product or service to achieve a particular marketing objective

FOLLOW US



@VBESTMY



Chapter 4

Productivity

the output measured against the inputs used to create it

Productivity Formula

Quantity of output / Quantity of input

Labor Productivity Formula

Output over a given period of time / number of employees

Buffer Inventory Level

inventory held to deal with uncertainty in customer demand and deliveries of supplies

Lean Production

techniques used by the business to cut down waste and therefore increase efficiency, for example, by reducing the time it takes for a product to be developed and become available for sale

Kaizen

a Japanese term meaning 'continuous improvement' through the elimination of waste

Just-In-Time (JIT)

a production method that involves reducing or virtually eliminating the need to hold inventories of the finished product. Supplies arrive just at the time they are needed

Job Production

where a single product is made at a time

Batch Production

where a quantity of one product is made, then a quantity of another item will be produced

Flow Production

where large quantities of a product are produced in a continuous process. It is sometimes referred to as mass production

Automation

where equipment used in the factory is controlled by a computer to carry out mechanical processes, e.g. spraying paint on a car. The production line will consist mainly of machines and there are only a few people needed to ensure everything runs smoothly

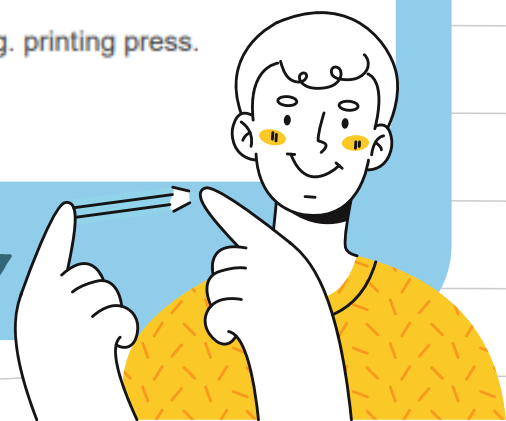
Mechanisation

where production is done by machines but operated by people, e.g. printing press.

FOLLOW US



@VBESTMY



Computer Aided Design (CAD)

a computer software that draws items being designed more quickly and allows them to be rotated to see the item from all sides. It is used for designing new products or re-styling existing ones

Computer Aided Manufacture (CAM)

where computers monitor the production process and control machines or robots on the factory floor

Computer Intergrated Manufacturing (CIM)

the total intergration of computer aided design (CAD) and computer aided manufacture (CAM). The computers that design the products are linked directly to the computers that aid the manufacturing process

Electronic Point of Sale (EPOS)

used at checkouts where the operator scans the bar code of each item.

Electronic Funds Transfer at Point of Sale (EFTPOS)

where the electronic cash register is connected to the retailer's main computer and also to banks over a wide area computer network.

Fixed Costs

costs which do not vary with the number of items sold or produced in the short run. They have to be paid whether the business is making any sales or not. They are also known as overhead costs

Variable Costs

costs which vary directly with the number of items sold or produced

Total Costs

fixed costs + variable costs

Average Cost per Unit

the total cost of production divided by the total output. Also known as unit cost

Economies of Scale

the factors that lead to a reduction in average costs as a business increases in size

Diseconomies of Scale

the factors that lead to an increase in average costs as a business grows beyond a certain size

Break-Even Level of Output

the quantity that must be produced/sold for total revenue to equal total costs

FOLLOW US



@VBESTMY



Break-Even Charts

graphs which show how costs and revenues of a business change with sales. They also show the break-even level of output

Revenue

the income during a period of time from the sale of goods and services

Total Revenue Formula

Quantity Sold x Price

Break-Even Point

the level of sales at which total costs = total revenue

Contribution

Selling Price - Variable Costs

Break-Even Formula

Total Fixed Costs / Contribution per Unit

Quality

to produce a good service which meets customer expectations

Quality Control

the checking for quality at the end of the production process, whether it is the production of a product or service

Quality Assurance

the checking for the quality standards throughout the production process, whether it is the production of a product or service

Total Quality Management (TQM)

the continuous improvement of products and processes by focusing on quality at each stage of production

FOLLOW US



@VBESTMY



Chapter 5

Start-Up Capital

the finance needed by a new business to pay for essential fixed and current assets before it can begin trading

Working Capital

the finance needed by a business to pay its day to day costs

Capital Expenditure

money spent on fixed assets which will last for more than one year

Revenue Expenditure

money spent on day to day expenses which do not involve the purchase of a long-term asset, for example wages or rent

Internal Finance

obtained finance from within the business itself

External Finance

obtained finance from sources outside of and separate from the business

Micro-Finance

providing financial services - including small loans - to poor people not served by traditional banks

Cash Flow

the cash inflows and outflows over a period of time

Cash Inflows

the sums of money received by a business during a period of time

Cash Outflows

the sums of money paid out by a business during a period of time

Cash Flow Cycle

shows the stages between paying out cash for labour, materials, etc. and receiving cash from the sale of goods

Profit

the surplus after total costs have been subtracted from sales revenue

Cash Flow Forecast

an estimate of future cash inflows and outflows of a business, usually on a month by month basis. This then shows the expected cash balance at the end of each month

FOLLOW US



@VBESTMY



Opening Cash/Bank Balance

the amount of cash held by the business at the start of the month

Net Cash Flow

the difference, each month, between inflows and outflows

Closing Cash/Bank Balance

the amount of cash held by the business at the end of each month. This then becomes next month's opening balance

Accounts

the financial records of a firm's transactions

Accountants

the professionally qualified people who have responsibility for keeping accurate accounts and for producing the final accounts

Final Accounts

they are produced at the end of each year and give details of the profit or loss made over the year and the worth of the business

Income Statement

a document that records the income of a business and all costs incurred to earn that income over a period of time (for example one year). It is also known as a profit and loss account

Gross Profit

it's made when sales revenue is greater than the cost of goods sold

Sales Revenue

the income to a business during a period of time from the sale of goods or services

Cost of Goods Sold

the cost of producing or buying in the goods actually sold by the business during a time period

Trading Account

it shows how the gross profit of a business is calculated

Net Profit

the profit made by a business after all costs have been deducted from the sales revenue. It is calculated by subtracting overhead costs from gross profits

Depreciation

the fall in the value of a fixed asset over time

FOLLOW US



@VBESTMY



Retained Profit

the net profit reinvested back into a company, after deducting tax and payments to owners, such as dividends

Balance Sheet

shows the value of a business's assets and liabilities at a particular time. Sometimes referred to as 'statement of financial position'

Assets

items of value which are owned by the business. They may be fixed (non-current) or short-term current assets

Liabilities

the debts owed by the business

Non-Current Assets

items owned by the business for more than one year

Current Assets

owned by a business and used within one year

Non-Current Liabilities

long term debts owed by the business

Current Liabilities

short term debts owed by the business

Liquidity

the ability of a business to pay back its short term debts

Capital Employed

it's shareholder's equity plus non-current liabilities and is the total long-term and permanent capital invested in a business

Illiquid

means that assets are not easily convertible into cash

FOLLOW US



@VBESTMY



Chapter 6

Disposable income

the level of income a taxpayer has after paying income tax

Import tariff

tax on an imported product

Import quota

physical limit to the quantity of a product that can be imported

Monetary policy

change in interest rates by the government or central bank, such as European Central Bank

Exchange rate appreciation

rise in value of a currency compared to other currencies

Social responsibility

when a business decision benefits stakeholders other than shareholders, such as to reduce pollution by using 'green' technology

Environment

natural world including, for example, pure air, clean water and undeveloped countryside

Private costs

the costs paid for by business

Private benefits

gains to a business

External costs

costs paid for by society, other than business, as a result of business activity

External benefits

gains to society other than business, as a result of business activity

Social costs

external costs + private costs

social benefits

external benefits + private benefits

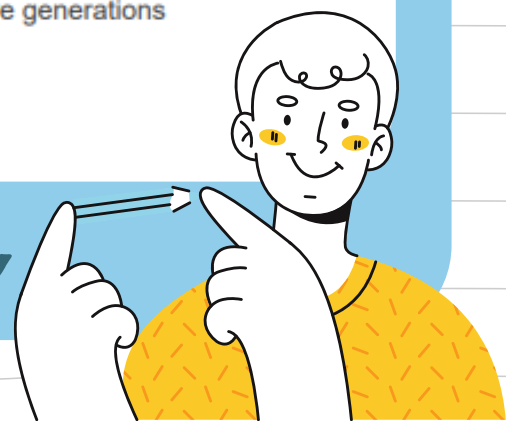
Sustainable development

development which doesn't put at risk the living standards of future generations

FOLLOW US



@VBESTMY



Sustainable production methods

production methods that do minimum damage to environment

Pressure group

groups who want to change business decisions and they take action such as organising consumer boycotts

Consumer boycott

when consumers decide not to buy products from businesses that do not act in a socially responsible way

Ethical decisions

decisions based on a moral code

Globalisation

increases worldwide trade and movement of people and capital between countries

Free trade agreements

when countries agree to trade imports/exports with no barriers such as tariffs or quotas

Protectionism

government protects domestic firms from foreign competition using tariffs and quotas

Multinational business/MNC

those with factories, production or service operations in more than one country

Currency appreciation

when the value of a currency rises - it buys more of another currency than before

Currency depreciation

when the value of a currency falls - it buys less of another currency than before

FOLLOW US



@VBESTMY

