



PEARSON EDEXCEL INTERNATIONAL GCSE (9–1)

# COMMERCE

Student Book

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# ABOUT THIS BOOK

This book is written for students following the Pearson Edexcel International GCSE (9–1) Commerce specification and covers both years of the course.

The course has been structured so that teaching and learning can take place in any order, both in the classroom and in any independent learning. The book contains four units that match the four content themes in the specification: Commercial Operations, Commercial Risks, Finance for Commerce, Aids for Commerce.

Each unit is split into multiple chapters to break down content into manageable chunks and to ensure full coverage of the specification.

Each chapter features a mix of learning and activities. Global case studies are embedded throughout to show a range of situations and businesses within the context of the chapter. Summary questions at the end of each chapter help you to put learning into practice.

Paper 1 is Commercial Operations and Associated Risks and will test the information in the first two units. Paper 2 is Facilitating Commercial Operations and will test the information in the last two units. Knowing how to apply your learning will be critical for your success in the exam. To help with this, there are exam-style questions at the end of each unit and two full practice exam papers at the end of the book.

## Learning objectives

Each chapter starts with a list of what you will learn from it. They are carefully tailored to address key assessment objectives central to the course.

## Getting started

An introduction to the chapter, letting you think about the concepts you will be introduced to. Questions are designed to stimulate discussion and use of prior knowledge. These can be tackled as individuals, pairs, groups or the whole class.

## Activity

Each chapter includes activities to embed understanding through case studies and questions.

4 COMMERCIAL OPERATIONS 1 PRODUCTION AND THE FACTORS OF PRODUCTION

### 1 PRODUCTION AND THE FACTORS OF PRODUCTION

#### LEARNING OBJECTIVES

Understand the:

- nature of production and the manufacture of goods
- provision and delivery of services
- four factors of production

#### GETTING STARTED

Most businesses exist to make a profit for their owners. They do this by selling products that aim to meet the needs of customers. Some commercial activity involves using a variety of resources such as people, machinery, fuel and natural resources to make physical goods such as computers, furniture, food products and clothes. However, in contrast, others use resources to provide services such as care for the elderly, restaurant services, hotel accommodation and transport. Look at the examples below.

#### CASE STUDY: MARS

Mars Incorporated is a large American company with a head office in McLean, Virginia. It is famous for its confectionery products such as Mars Bars, Milky Ways, Snickers, Twix, Bounty and Wrigley's chewing gum. It makes these products using ingredients such as milk, cocoa, sugar, dried fruit and nuts, a range of workers and some complex machinery and equipment. In addition to confectionery, Mars makes pet food and other food products in over 400 factories in more than 80 different countries. In 2018, the corporation employed over 100 000 people and generated sales revenue of around US\$35 billion.

#### CASE STUDY: BANCO SANTANDER

Banco Santander is a large banking corporation based in Spain. It offers financial services such as banking, loans, mortgages, insurance, savings products and credit cards. The bank employs over 200 000 people in branches and offices all over the world and has more than 144 million customers. Most of its business is carried out in Spain, Germany, Poland, Portugal, the United Kingdom, Brazil, Mexico, Chile, Argentina and the United States. In 2016 the bank made a profit of EUR7.81 billion (approximately US\$8.96 billion).

#### GENERAL VOCABULARY

confectionery sweets and chocolate

#### SUBJECT VOCABULARY

insurance where a company provides a guarantee of compensation for a specified loss suffered by a business or individual in return for the payment of a specified premium

mortgage long-term loan secured with property

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### ACTIVITY 1

#### CASE STUDY: BUI HAI YEN LTD

The Red River Delta in Vietnam is one of the country's most important regions for vegetable production. Crops grown in the region include corn, sweet potato, cassava and beans. Bui Hai Yen buys vegetables in bulk from local farmers and then washes, trims and packs them attractively before sending them to customers. She set up as a sole trader in 2010 but the growth of the business has taken her by surprise. The success is down to a 'sale-or-return' policy that customers like. This results in some waste, but her premium pricing helps to pay for any losses.

In order to meet the demands of rapid growth and to help expand into new markets, Bui Hai Yen needs to raise VND600 million. She has approached a number of banks, but they don't want to lend to her. Her accountant has suggested forming a private limited company to raise money by selling some shares to members of her family and two key employees of the business.

- 1 Describe two advantages of becoming a shareholder in Bui Hai Yen Ltd.
- 2 Who runs a private limited company?
- 3 Assess the likely impact on Bui Hai Yen of running her business as a private limited company.

#### PUBLIC LIMITED COMPANIES

Public limited companies (plcs) tend to be larger than private limited companies. Their shares can be bought and sold by the public on the stock exchange. Any person or organisation can buy shares in public limited companies. People who buy shares might include individuals, institutional investors, such as insurance companies and investment funds; and other companies. When 'going public' a company is likely to publish a prospectus. Going public can be expensive because:

- the company needs lawyers to ensure that the prospectus is legally correct
- the prospectus has to be printed and distributed
- a bank may be paid to process share applications
- the company must insure against the possibility that some shares are not sold. Therefore, a fee is paid to an underwriter who must buy any of the unsold shares
- there are advertising and administrative expenses

■ In the UK, the plc must have a minimum of GBP50 000 share capital.

#### DID YOU KNOW?

One of the largest public limited companies in the world (by revenue) in 2018 was the US supermarket giant, Walmart. It generated revenues of US\$485.9 billion in 2017.

#### KEY POINT

The prospectus a company publishes when going public advertises the company to potential investors. It has to be examined by lawyers to ensure that the information about the business is not misleading. It also invites them to buy shares before a flotation.

#### SUBJECT VOCABULARY

administrative expenses money that is spent on the general running of a business or organisation, rather than money spent on producing goods or selling services

flotation the process of a company 'going public'. A company is 'floated' on the stock market when it sells shares in its company for the first time

institutional investor a large organisation, such as an insurance company, that invests large amounts of money in shares and other financial instruments

prospectus a document produced by a company that wants the public to buy its shares

public limited company a company that has shares available to the public to buy on the stock exchange

underwriter an institution that agrees to buy any unsold shares for a fee, resulting from a flotation

## Case study

Getting started, Chapter review and Activities are all based around case studies. They are drawn from around the world and will help you see learning applied to real-world contexts.

## Did you know?

Interesting facts to encourage wider thought and stimulate discussion.

## Subject vocabulary and General vocabulary

Useful words and phrases are colour coded within the main text and picked out in the margin with concise and simple definitions. These help understanding of key subject terms and support students whose first language is not English.

**8 COMMERCIAL OPERATIONS**

**THE FACTORS OF PRODUCTION**

**SUBJECT VOCABULARY**  
Factors of production: the resources used to produce goods and services. They include land, labour, capital and enterprise.

Figure 1.1 The four factors of production

**GENERAL VOCABULARY**  
**developer** somebody who buys land or property to improve it and sell it in order to make a profit.  
**premises** buildings used by a business summarised to provide a summary.

**KEY POINT**  
Some land resources are non-renewable. This means that once they have been used they cannot be replaced. Examples include coal, oil, limestone and iron. Renewable land resources are those like fish, forests and water which are replaced by nature. These resources should not run out. However, there is a risk that some of them are not protected they could disappear.

**SUBJECT VOCABULARY**  
**economy** the system that attempts to solve the basic economic problem, to divide scarce resources among competing needs and wants.  
**entrepreneur** an individual who organises the other factors of production and risk their own money in a business venture.  
**fixed capital** the stock of man-made resources, such as machines and tools, used to help make goods and services.  
**labour** the people used in production.  
**workforce** all the employed people; all the people that work for a company.  
**working capital or circulating capital** resources used up in production such as raw materials and components.

**1 PRODUCTION AND THE FACTORS OF PRODUCTION**

Production involves converting resources into goods or services. The resources used by companies such as Mars and Santander in the case studies on page 4 are often called the four factors of production. They are summarised in Figure 1.1.

**LAND**  
Businesses will need a piece of land to locate their premises. For example, the developers of a large shopping mall may look for land near a town to locate the stores and other facilities. However, land also includes natural resources such as coal, oil, iron ore, rainwater, forests, rivers and fertile soil. In the case study on page 4, the raw materials used in the manufacturing of chocolate, such as milk, sugar and cocoa beans, are examples of resources associated with this factor of production.

**LABOUR**  
The workforce in the economy is the labour. Manual workers, skilled workers and managers are all part of a nation's workforce. The quality of individual workers will vary considerably. Each worker is unique and has a different set of abilities, characteristics, skills and knowledge. The workers mentioned in the case study on page 4 in Mars factories and the people employed by Banco Santander such as bank tellers, are examples of labour.

**CAPITAL**  
Capital is often said to be an artificial resource because it is made by labour. There are two types of capital.

- Working capital or circulating capital refers to stocks of raw materials and components that will be used up in production. It also includes stocks of finished goods that are waiting to be sold.
- Fixed capital refers to the factories, offices, shops, machines, tools, equipment and furniture used in production. Fixed capital is used in production to convert working capital into goods and services.

In the case study on page 4, the machinery used in the Mars factories and the automatic cash dispensers usually found in the walls of banks that are used by Banco Santander are examples of this factor of production.

**ENTERPRISE**  
Entrepreneurs are responsible for setting up and running businesses. Without them, production would not take place. What is the role of entrepreneurs?

- They come up with a business idea. This might involve the production of a completely new product. However, this is unusual. Most new businesses supply goods or services that are currently produced by others.

## Key points

Easy to understand, useful information to contextualise learning.

**COMMERCIAL OPERATIONS**

**EXAM PRACTICE: 1 COMMERCIAL OPERATIONS**

**A01 a** Which one of these is a factor of production? (1)

**A01 b** Which one of these operates as an intermediary in the chain of distribution? (1)

**A01 c** Define the term trade credit. (1)

**A01 d** Define the term limited liability. (1)

**A02 e** Figure 1 shows China's balance of trade between March 2018 and February 2019.

**A02 f** In which month did the value of visible imports exceed the value of visible exports? (1)

**A02 g** What impact might US tariffs have on the Chinese balance of trade? (1)

**A02 h** Calculate the percentage change in China's balance of trade between December 2018 and February 2019. (2)

**A02 i** Explain one cost associated with selling. (3)

**A02 j** Explain one advantage of operating as a franchise. (3)

**A02 k** Abu Ashra Market is a small Egyptian supermarket chain. It operates 14 supermarkets in the region of Hurghada and serves around 400 000 residents. It also provides a service for up to 3 million tourists a year and sells a variety of domestic and imported products. The stores are divided into different sections that range from home appliances to vegetables, fruits and a fresh bakery. In common with many other supermarket chains, it provides an online shopping service to customers.

**A02 l** Analyse the possible effects of Abu Ashra Market offering an online shopping service. (6)

**(Total = 20 marks)**

**Figure 1**

Month	Balance of Trade (US\$ millions)
Apr 2018	-57.69
May 2018	260.28
Jun 2018	754.13
Jul 2018	406.16
Aug 2018	274.47
Sep 2018	469.30
Oct 2018	588.35
Nov 2018	416.4
Dec 2018	337.54
Jan 2019	40.81

## Skills

Relevant exam questions have been assigned the key skills that you will gain from undertaking them, allowing for a strong focus on particular academic qualities. These transferable skills are highly valued in further study and the workplace.

## Multiple-choice questions

Each chapter features multiple-choice questions to test your knowledge and prepare you for similar questions in the exam.

**234 FINANCE FOR COMMERCE**

**CHAPTER REVIEW**

Victor wants to expand his successful dairy farm.

**25 SOURCES OF FINANCE**

**CASE STUDY: RUAKA MILK LTD**

Dairy farming in Kenya is a growing industry. In 2018, milk production rose from 47 million litres in January to 60 million litres in March. This agricultural sector provides 750 000 direct jobs and 500 000 indirect jobs in the Kenyan economy.

One Kenyan dairy farmer is Victor Okumu. He started his business using an agricultural development grant which was provided by a charity that supports African farmers. Victor worked extremely hard and now owns and runs Ruaka Milk Ltd. He has a large farm near Ruaka that employs 11 people. The farm manages 350 Friesian cows and most of the daily milk production is sold to a Kenyan creamery cooperative.

Victor wants to continue expanding the farm and has seen some land for sale close to the land he already owns. The land could be leased but Victor would rather own it. The five-acre plot would cost KES6 000 000. However, he can use KES1 000 000 retained profit to finance part of the purchase, therefore he needs to raise KES5 000 000.

Victor is considering two options for the finance. He could apply for a mortgage or issue some new shares. The shares would be sold privately to a small venture capitalist. However, although this would avoid the business going into more debt, Victor is concerned that the venture capitalist would own 20 per cent of Ruaka Milk Ltd.

The outstanding debt the business has is tied up in a hire purchase (HP) agreement. Victor used HP to buy a tractor in 2018. The business is committed to two more years of instalments.

**CHAPTER QUESTIONS**

- What is meant by leasing?
- How does a hire purchase agreement work?
- Why is share capital permanent capital?
- What is the main advantage of using retained profit as a source of finance?
- Victor is considering two sources of finance to buy the land.
  - Option 1: Take out a mortgage
  - Option 2: Issue new shares
 Justify which of these options Victor should choose.

## Chapter review and Chapter questions

A summary case study and associated questions at the end of each chapter to consolidate your learning.

**348 ECONOMICS EXAMINATION (PAPER 1)**

**PAPER 1 MICROECONOMICS AND BUSINESS ECONOMICS**

**PREPARING FOR YOUR INTERNATIONAL GCSE ECONOMICS EXAMINATION (PAPER 1)**

**PAPER 1 MICROECONOMICS AND BUSINESS ECONOMICS**

This complete practice paper will help you prepare for your International GCSE Paper 1 examination.

**QUESTION 1**

**A01** (a) Which of the following will cause the supply curve for motor cars to shift to the left? (1)

**A02** (b) Which of the following goods or services are most likely to be provided by the private sector? (1)

**A01** (c) What is meant by opportunity cost? (2)

**A02** (d) Define the term collusion. (1)

**A01** (e) Define the term supply. (1)

**A01** A hotel in Sri Lanka incurred fixed costs of LKR 410 000 in January 2017. The variable cost per room let in January was LKR 100. The hotel charges LKR 200 per night for a room.

**A02** (f) Calculate the profit made by the hotel in January 2017 if a total of 430 rooms were let. You are advised to show your working. (2)

Figure 1 below shows a market in disequilibrium. The current price is £20.

**A02** (g) Calculate the revenue that producers would generate at this price. You are advised to show your working. (3)

**Exam practice**

These exam-style questions are found at the end of each unit. They are tailored to the Pearson Edexcel specification to allow for practice and development of exam writing technique. They also allow for practice responding to the command words used in the exams.

**Assessment objectives**

Questions are tagged with the relevant assessment objectives that are being examined.

## Preparing for your International GCSE Commerce examination

A full practice exam for both Paper 1 and Paper 2 at the back of the book helps you prepare for the real thing.

# ASSESSMENT OVERVIEW

The following tables give an overview of the assessment for this course. You should study this information closely to help ensure that you are fully prepared for this course and know exactly what to expect in each part of the assessment.

PAPER 1	PERCENTAGE	MARK	TIME	AVAILABILITY
<b>COMMERCIAL OPERATIONS AND ASSOCIATED RISKS</b> Written exam paper Paper code 4CM1/01 Externally set and assessed by Pearson Edexcel Single tier of entry	50%	80	1 hour 30 minutes	January and June examination series First assessment June 2019
PAPER 2	PERCENTAGE	MARK	TIME	AVAILABILITY
<b>FACILITATING COMMERCIAL OPERATIONS</b> Written examination paper Paper code 4CM1/02 Externally set and assessed by Pearson Edexcel Single tier of entry	50%	80	1 hour 30 minutes	January and June examination series First assessment June 2019

## ASSESSMENT OBJECTIVES AND WEIGHTINGS

ASSESSMENT OBJECTIVE	DESCRIPTION	% IN INTERNATIONAL GCSE
<b>A01</b>	Recall, select and communicate knowledge and understanding of commercial terms, concepts and issues	27–28%*
<b>A02</b>	Apply knowledge and understanding using appropriate commercial terms, concepts and calculations effectively in specified contexts	38–39%
<b>A03</b>	Select, organise and interpret commercial information from sources to investigate and analyse issues	22–23%
<b>A04</b>	Evaluate commercial information to make reasoned judgements and draw conclusions	11–12%

\*A total of 15% (12 marks per paper) will assess recall of knowledge.

## RELATIONSHIP OF ASSESSMENT OBJECTIVES TO UNITS

UNIT NUMBER	ASSESSMENT OBJECTIVE			
	A01	A02	A03	A04
PAPER 1	13.7%	19.4%	11.3%	5.6%
PAPER 2	13.7%	19.4%	11.3%	5.6%
TOTAL FOR INTERNATIONAL GCSE	27–28%	38–39%	22–23%	11–12%

## ASSESSMENT SUMMARY

PAPER 1	DESCRIPTION	MARKS	ASSESSMENT OBJECTIVES
<b>COMMERCIAL OPERATIONS AND ASSOCIATED RISKS</b>  <b>PAPER CODE 4CM1/01</b>	<b>Structure</b> Paper 1 assesses 50% of the total Commerce qualification. There will be four questions on the paper, each worth 20 marks. Students must answer all questions. The sub-questions are a mixture of multiple-choice, short answer and open-ended questions.	The total number of marks available is 80	Questions will test the following Assessment Objectives A01 – 13.7% A02 – 19.4% A03 – 11.3% A04 – 5.6%
	<b>Content summary</b> This paper explores the nature of commerce, what it involves and the risks associated with commercial operations. Owing to the nature of commerce, there is some interrelation between topics.		
	<b>Assessment</b> This is a single-tier exam paper and all questions cover the full ranges of grades from 9–1. The assessment duration is 1 hour 30 minutes. Calculators may be used in the examination.		
PAPER 2	DESCRIPTION	MARKS	ASSESSMENT OBJECTIVES
<b>FACILITATING COMMERCIAL OPERATIONS</b>  <b>PAPER CODE 4CM1/0</b>	<b>Structure</b> Paper 2 assesses 50% of the total Commerce qualification. There will be four questions on the paper, each worth 20 marks. Students must answer all questions. The sub-questions are a mixture of multiple-choice, short answer and open-ended questions.	The total number of marks available is 80	Questions will test the following Assessment Objectives A01 – 13.7% A02 – 19.4% A03 – 11.3% A04 – 5.6%
	<b>Content summary</b> This paper involves an examination of finance for commerce and the different aids for commerce. Owing to the nature of commerce, there is some interrelation between topics.		
	<b>Assessment</b> This is a single-tier exam paper and all questions cover the full ranges of grades from 9–1. The assessment duration is 1 hour 30 minutes. Calculators may be used in the examination.		





# THEME 1: COMMERCIAL OPERATIONS

## Assessment Objective 1

Recall, select and communicate knowledge and understanding of commercial terms, concepts and issues

This section looks at the nature of production and how resources such as labour are used to provide goods and services. It focuses on buying and selling and the different types of organisations that operate as commercial enterprises such as sole traders, partnerships, limited companies, multinationals and franchises. It also explores the roles of retailers and wholesalers in the sale and distribution of goods and services. The functions, types and the services provided by these are the subjects of discussion. The role played by ecommerce and the nature of international trade is also addressed.



# 1 PRODUCTION AND THE FACTORS OF PRODUCTION

## LEARNING OBJECTIVES

Understand the:

- nature of production and the manufacture of goods
- provision and delivery of services
- four factors of production

## GETTING STARTED

Most businesses exist to make a profit for their owners. They do this by selling products that aim to meet the needs of customers. Some commercial activity involves using a variety of resources such as people, machinery, fuel and natural resources to make physical goods such as computers, furniture, food products and clothes. However, in contrast, others use resources to provide services such as care for the elderly, restaurant services, hotel accommodation and transport. Look at the examples below.



▲ A Mars factory in Germany making chocolate bars

## GENERAL VOCABULARY

**confectionery** sweets and chocolate

## SUBJECT VOCABULARY

**insurance** where a company provides a guarantee of compensation for a specified loss suffered by a business or individual in return for the payment of a specified premium

**mortgage** long-term loan secured with property

## CASE STUDY: MARS

Mars Incorporated is a large American company with a head office in McClean, Virginia. It is famous for its **confectionery** products such as Mars Bars, Milky Ways, Snickers, Twix, Bounty and Wrigley's chewing gum. It makes these products using ingredients such as milk, cocoa, sugar, dried fruit and nuts; a range of workers and some complex machinery and equipment. In addition to confectionery, Mars makes pet food and other food products in over 400 factories in more than 80 different countries. In 2018, the corporation employed over 100 000 people and generated sales revenue of around US\$35 billion.

## CASE STUDY: BANCO SANTANDER

Banco Santander is a large banking corporation based in Spain. It offers financial services such as banking, loans, **mortgages**, **insurance**, savings products and credit cards. The bank employs over 200 000 people in branches and offices all over the world and has more than 144 million customers. Most of its business is carried out in Spain, Germany, Poland, Portugal, the United Kingdom, Brazil, Mexico, Chile, Argentina and the United States. In 2018 the bank made a profit of EUR7.81 billion (approximately US\$8.98 billion).



▲ Inside a Santander branch

- 1 Suggest **two** raw materials that might be used by Mars.
- 2 Suggest **two** examples of different workers that might be employed by Mars.
- 3 Suggest **two** services that might be provided by Banco Santander.
- 4 Discuss in groups the possible reasons why Mars may use more machinery in its operations than Santander.

## PRODUCTION

### GENERAL VOCABULARY

**component** one of the small parts that makes up a particular product  
**satisfy** to provide what is needed or wanted

### SUBJECT VOCABULARY

**capital goods** goods used to produce other goods such as tools, equipment and machinery

**consumers** people who buy goods and services for personal use

**consumer goods** goods purchased by people to help satisfy their needs and wants

**intermediate goods** goods produced for businesses, such as components

**manufacturing** the use of resources such as raw materials, components, fuel, labour and machinery to make physical goods

**mass produced** goods that are manufactured in very large quantities – perhaps millions of units

**needs** basic requirements for human survival

**production** a process which involves converting resources into goods or services

**services** where tasks are carried out, or facilities provided, for customers. An example of a task might be hairdressing. An example of a facility might be transport

**wants** people's desire for goods and services

## PRODUCTION

**Production** is a process that involves converting resources into goods or **services**. These goods and services help to **satisfy** the **needs** and **wants** of people. Needs are the things humans require for their survival such as food, water, shelter and clothing. Wants are the desires people have such as books, confectionery, cars, holidays and restaurants. Firms, such as Mars and Santander, take part in production with the aim of making a profit for their owners.

## MANUFACTURING

In some countries, such as China and South Korea, **manufacturing** is a very important production activity. Manufacturers make goods from raw materials and **components**. They are likely to use people, tools, equipment and machinery in the process. Some goods, including crisps, cars, electrical goods, breakfast cereals and soft drinks, are manufactured in huge factories that rely heavily on complex machinery for production. These goods are said to be **mass produced**. In contrast, other goods such as suits, jewellery, some furniture and boats may be handmade by skilled workers and produced on a much smaller scale.

Many goods are produced for **consumers**. These are people like you, your friends and your family, who buy goods to satisfy their needs and wants. These goods may be called **consumer goods**. However, other manufacturers make **intermediate goods**. These are components that may be used by other manufacturers. For example, OZ Group, an Italian company, make alloy wheels for car manufacturers such as Mercedes, Volkswagen and BMW. Finally, some manufacturers make **capital goods** such as tools, machinery and equipment. These are goods that are used in the production of other goods or services. JCB is an example of a manufacturer of capital goods. They are a well-known manufacturer of excavators, forklift trucks, telescopic handlers, site dumpers and backhoe loaders, which are all machines used in the construction industry.



▲ An example of a product made by JCB – a capital good



## THE PROVISION AND DELIVERY OF SERVICES

In many developed countries, such as Germany, France, the US, Canada, Japan and Sweden, most production involves the **provision** or delivery of services. The range of services provided is enormous and they are often divided into two categories.

### Direct services

**Direct services** are those that providers aim directly at consumers. They may also be called personal services. Direct services include:

- financial services, such as banking, insurance, investment management and loans
- telecommunications and IT services
- personal services, such as hairdressing, dry cleaning, mobile pet grooming, personal trainers and wedding organisers
- care services, such as day centres and accommodation for the elderly or people with special needs
- education, such as schools and universities
- public transport, such as rail, bus, taxi and air.

### Commercial services

**Commercial services** are provided to support businesses with the **distribution** of products. This includes the distribution of raw materials, intermediate goods, finished goods and also services. Commercial services are often divided into two categories. These are **trade** and **aids to trade**. Trade involves the exchange of goods and services between different owners for money. Trade can take place in the **domestic economy** or overseas between businesses in different countries. Some examples of services provided in this branch of **commerce** include:

- export agencies that provide services to businesses that want to sell their goods in other countries
- import agencies that provide services to businesses that want to buy goods from overseas
- retailing that may include the provision of shops and other **outlets**, such as the Internet, which allows people to buy a wide variety of products.

Aids to trade are services provided by commercial **enterprises** to support businesses in the trading process. They are **indirect services** and some examples include:

- communications systems, such as telephone lines and systems to support Internet use
- transport, such as shipping to aid (help) the exporting and importing of goods
- **advertising** to provide information about the nature and availability of goods and services. For example, advertisers might create and place adverts for businesses using appropriate advertising media, such as television, newspapers, magazines or online.

Note that some businesses might be involved in the provision of both commercial services and direct services. For example, banks provide financial services for consumers and businesses. The role played by these different commercial services is also discussed in Chapters 2 and 3.

#### GENERAL VOCABULARY

**domestic economy** the economy in your country

#### SUBJECT VOCABULARY

**advertising** communication between a business and its customers where images are shared in the media to encourage the purchase of products

**aid to trade** the services provided to traders such as finance, warehousing and transport

**commerce** activities that assist the exchange and distribution of goods and services

**commercial services** activities such as advertising, transport and communication, which assist trade to function

**direct services** services aimed directly at consumers, such as hairdressing and health care

**distribution** –the delivery of something to other people or places

**enterprise** a business or a company

**indirect services** services provided by commercial enterprises to support businesses in the trading process

**outlet** – a point from which goods are sold or distributed

**provision** when you provide something that someone needs now or in the future

**trade** the exchange of goods and services between owners for money

## ACTIVITY 1

## CASE STUDY: JINDAL STEEL AND POWER

India-based Jindal Steel and Power is part of the giant US corporation, US\$22 billion OP Jindal Group. The steel manufacturer has production facilities in the states of Chhattisgarh, Odisha and Jharkhand in India. Some of India's most advanced steel manufacturing operations take place in these facilities. Many of its factories are **capital intensive** which means that production relies heavily on the use of machinery and equipment to manufacture steel products. These include steel plate, steel rolls, coils, wire rods and railway lines. The steel railway lines are made in highly **automated** factories where liquid steel is poured into machinery that carries out three important processes – rolling, cooling and straightening.

During the manufacturing process, the rails go through a thorough automated **inspection** process to maintain quality. Special equipment (such as ultrasound technology and lasers) helps to **inspect** the steel's inner quality, the rail surface quality and the track dimensions. The main advantage of this approach is that efficiency is improved in production. **Consistency** and quality are also guaranteed.

► The manufacturing of steel railway lines

## SUBJECT VOCABULARY

**capital intensive** where production relies more heavily on machinery in relation to labour

## GENERAL VOCABULARY

**automated** operated automatically, e.g. by machines, not people

**consistency** the quality of being the same throughout

**inspect** to check that something is correct or to an acceptable standard

**inspection** the process of checking that something is correct or to an acceptable standard



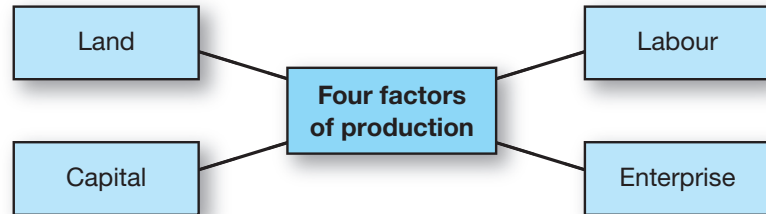
- 1 What is meant by the term manufacturing?
- 2 Jindal Steel makes a large quantity of intermediate goods. What does this mean?
- 3 What might be **one** advantage of using a greater quantity of machinery in production than labour?

## THE FACTORS OF PRODUCTION

### SUBJECT VOCABULARY

**factors of production** the resources used to produce goods and services. They include land, labour, capital and enterprise

► Figure 1.1 The four factors of production



### GENERAL VOCABULARY

**developer** somebody who buys land or property to improve it and sell it in order to make a profit

**premises** buildings used by a business  
**summarised** to provide a summary

### KEY POINT

Some land resources are *non-renewable*. This means that once they have been used they cannot be replaced. Examples include coal, oil, limestone and iron ore. *Renewable* land resources are those like fish, forests and water which are replaced by nature. These resources should not run out. However, there is a risk that if some of them are not protected they could disappear.

### SUBJECT VOCABULARY

**economy** the system that attempts to solve the basic economic problem, i.e. divide scarce resources among competing needs and wants

**entrepreneur** an individual who organises the other factors of production and risks their own money in a business venture

**fixed capital** the stock of man-made resources, such as machines and tools, used to help make goods and services

**labour** the people used in production

**workforce** all the employed people; all the people that work for a company

**working capital or circulating capital** resources used up in production such as raw materials and components

Production involves converting resources into goods or services. The resources used by companies such as Mars and Santander in the case studies on page 4 are often called the four **factors of production**. They are **summarised** in Figure 1.1.

### LAND

Businesses will need a piece of land to locate their **premises**. For example, the **developers** of a large shopping mall may look for land near a town to locate the stores and other facilities. However, land also includes natural resources such as coal, oil, iron ore, rainwater, forests, rivers and fertile soil. In the case study on page 4, the raw materials used in the manufacturing of chocolate, such as milk, sugar and cocoa beans, are examples of resources associated with this factor of production.

### LABOUR

The **workforce** in the **economy** is the **labour**. Manual workers, skilled workers and managers are all part of a nation's workforce. The quality of individual workers will vary considerably. Each worker is unique and has a different set of abilities, characteristics, skills and knowledge. The workers mentioned in the case study on page 4 in Mars factories and the people employed by Banco Santander, such as bank tellers, are examples of labour.

### CAPITAL

Capital is often said to be an artificial resource because it is made by labour. There are two types of capital.

- **Working capital or circulating capital** refers to stocks of raw materials and components that will be used up in production. It also includes stocks of finished goods that are waiting to be sold.
- **Fixed capital** refers to the factories, offices, shops, machines, tools, equipment and furniture used in production. Fixed capital is used in production to convert working capital into goods and services.

In the case study on page 4, the machinery used in the Mars factories and the automatic cash dispensers usually found in the walls of banks that are used by Banco Santander are examples of this factor of production.

### ENTERPRISE

**Entrepreneurs** are responsible for setting up and running businesses. Without them, production would not take place. What is the role of entrepreneurs?

- They come up with a *business idea*. This might involve the production of a completely new product. However, this is unusual. Most new businesses supply goods or services that are currently produced by others.

## SUBJECT VOCABULARY

**accrue** the accumulation of benefits (usually money) over time

**venture** business activity, often with risks involved

## GENERAL VOCABULARY

**judgement** the ability to make good decisions

- They are business *owners*. They usually provide some money to help set up a business and are responsible for its direction. They own all the resources bought by the business, but are also responsible for any debts that are **accrued** as a result of trading.
- Entrepreneurs are *risk-takers*. For example, they risk their own money in the **venture**. If the business fails they may lose some or all of the money. However, if the business is successful they may make a lot of profit. When they start up they do not know what will happen – they are therefore taking a risk.
- Entrepreneurs are responsible for *organising* resources. They have to buy and hire resources such as raw materials, tools, equipment and labour. Entrepreneurs need to use skills such as decision-making, people management, time management and financial **judgement** to organise resources effectively.

## ACTIVITY 2

## CASE STUDY: CELIA SANCHEZ

Celia Sanchez runs a small bakery in a suburb of Monterrey, Mexico. She learnt her baking skills working as a patisserie chef in a large hotel in Mexico City making high quality cakes and desserts. However, she did not like working **split-shifts** so she purchased some property and built a bakery in an old outhouse. She invested MXN700 000 of her own money and started by supplying cafés, hotels and small shops with a range of homemade cakes. After setting up a website, she started to get orders for **customised** birthday and wedding cakes. After three years, Celia's business was well-known in the area. Celia **recruited** three staff to help in the bakery. In the future, she hopes to open her own retail outlet – perhaps even a chain.



▲ Working in a bakery

- 1 Suggest **two** examples of capital that Celia will use.
- 2 Celia Sanchez is an entrepreneur. What evidence is there in this case study to support this view?



## MULTIPLE-CHOICE QUESTIONS

- ▶ 1 Which one of these production activities is an example of manufacturing?
  - A The provision of air travel between two European cities.
  - B The assembly of components to make washing machines.
  - C Drilling for oil in an African desert.
  - D Growing mangoes on a large plantation in Australia.
  
- ▶ 2 Which one of these resources is said to be renewable?
  - A Oil
  - B Gas
  - C Water
  - D Coal
  
- ▶ 3 Which one of these activities is a role typically played by an entrepreneur?
  - A Risk-taking
  - B Educating
  - C Auditing
  - D Advertising
  
- ▶ 4 Which one of these goods is an example of a capital good?
  - A An office photocopier
  - B A domestic washing machine
  - C A best-selling novel
  - D Fuel

## CHAPTER REVIEW

## CASE STUDY: TRAVELIBRO

In India the contribution made by the sale of services to the economy is growing. In 2016/17 the amount generated by services was INR7 .37 trillion. This was 53.66 per cent of the total income for the country in that year.

One service provider in the growing travel industry is TraveLibro. It is an online information service for travellers, designed to connect users with fellow travellers, bloggers, travel agents and other industry partners. Based in Mumbai, TraveLibro provides a research, planning and booking service for travellers. It supplies an app which is able to provide:

- customised holiday plans for a wide range of different holiday experiences, such as family vacations and backpacking with friends
- simple and efficient planning tools linked to the information sources and an option to make bookings
- a social networking portal that enables users to capture, save, share and relive their travel experiences
- an opportunity for advertisers to aim their products at very specific audiences
- travel agents with a global marketplace to sell their products.

Monish Shah began working on the venture in 2013. He was joined by Malhar Gala in 2014, who contributed a substantial amount of money and

became a co-founder of TraveLibro. This helped to match the huge amount that Monish had already invested. In 2014, the two entrepreneurs rented their first office and hired some talented people from the technology, travel, research and digital industries. In the first two years, the pair worked very hard to develop the business. However, they were both also working as full-time employees – often sleeping for just three hours a night.

TraveLibro launched its website in August 2015. By 2017 the website was receiving over 25 000 unique visitors per month and the app had signed up about 30 000 users since its launch in 2017. However, Monish and Malhar are ambitious. They want TraveLibro to be the world's biggest travel social network.

## CHAPTER QUESTIONS

- 1 What is meant by the term production?
- 2 Calculate the total income for India (in INR) from all types of production in 2016/17.
- 3 Describe what is meant by delivering a service.
- 4 Describe **one** factor of production used by TraveLibro.
- 5 Discuss the roles played by entrepreneurs such as Monish Shah and Malhar Gala.

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