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Welcome to the International GCSE in Business Studies

This book is designed to help you progress through your course. It has been specially written to cover the Cambridge International Examinations IGCSE Business Studies syllabus that you will be following.

The syllabus is divided into five sections and the structure of the book reflects these, closely following the order of the syllabus.

How will this book help you?

Cambridge IGCSE Business Studies is an up-to-date and lively text, which uses an enquiry-based and active approach to the subject. It does not assume any prior knowledge of business, although as you progress you will probably find that many of the businesses that you come across in these pages are familiar.

Cambridge IGCSE Business Studies is divided into 42 short units to provide convenient and manageable bite-sized areas of learning. Each unit begins with learning objectives, followed by a brief introduction. Each unit has a ‘Business in context’ case study, which presents a real world or realistic setting for the topic of the unit. Questions based on the case study will give you the opportunity to apply your knowledge to a given situation.

Each unit also contains a series of Activities, which will encourage you to think about, discuss or carry out activities to explore a topic for yourself, and tips to help you do well in your exam.

Key business terms are highlighted in bold and are listed with definitions at the end of each unit. Exemplar exam questions are provided at the end of each unit, similar to those found on papers one and two. These are designed to give you the chance to practise the type of question you are likely to encounter in the examinations. At the end of each unit you will also find a summary of the main points covered and a revision mind map.

Using the Student's CD-ROM

A Student’s CD-ROM is provided at the back of your Coursebook. This is designed to support the activities found in the Coursebook and will help you prepare for your exam. Always attempt the questions in the Coursebook before you use the answers provided on the CD-ROM.

There is a section with ideas on ‘How to do well in your exam’, and a glossary of the key terms from the Coursebook, which you will need to learn.

The CD-ROM includes revision practice questions and answers for each unit, along with model answers for the exemplar exam questions. Do not worry if your answers are different from the ones provided on the CD-ROM. Many questions are ‘open-ended’ which means that there are usually a number of possible answers.

There are also multiple-choice and short-answer questions (with answers) for each section of the syllabus. Although you won’t come across multiple-choice questions in the exam, it is a good way for you to have fun and test your growing knowledge as you work your way through each section of the Coursebook.

What papers will you have to sit?

The CIE IGCSE examination consists of three papers, one of which, paper 3, is optional.

Paper 1 contains short-answer questions and structured data-response questions. This paper is compulsory. You should attempt to answer all the questions asked.

Paper 2 is based on a single case study. You should attempt to answer all the questions arising from it. This paper is also compulsory.

Paper 3 consists of coursework and will be assessed by your school or college. You will have to submit a single piece of written work. Your coursework assignment should be related to a particular business situation, or problem, and should take the form of a response to a clearly formulated question. Your assignment should be between 3,000 and 4,000 words in length. This will take about 20% of the course time for the subject as a whole. Your teacher will tell you whether or not you will be taking this paper.

If papers 1 and 2 are taken without the coursework option, each paper carries 50% of the total marks. If the coursework option is taken, papers 1 and 2 carry 40% and paper 3 carries 20% of the total marks.

Papers 1 and 2 are 1 hour and 45 minutes long.

How should you approach coursework assignments?

If you are taking the coursework option, you should discuss the topic question with your teacher so that you know what is involved. Don’t start too early, or you won’t have progressed in your course far enough. But don’t leave it too late, either, or you will not have time to gather all the information you need.

When starting your coursework assignment you need to think about its purpose and how you are going to obtain
the information you need. While this Coursebook, and your teacher, will help you gain the background knowledge required, you will have to do some of your own research. There are various sources of information you will find helpful in this. Your school, or local library, may be able to help, or you may be able to find some useful information on the internet.

Sooner or later, however, you will have to contact a business organisation. Don’t worry, you will probably find they are quite happy to help and supply you with the information you are looking for. Write a short, polite letter, explaining who you are, what you want to know and why you want the information. Allow the business time to reply – it could be five or six weeks before they have time to think about your request.

Do not start to write your assignment until you have enough information. If you start writing too soon you may find that you have to do it all over again when some new information comes to hand. But again, don’t leave it too late or you will have to rush and not produce your best work. Try to allow yourself time to complete the assignment, put it aside for a few days, and then read through it to see that you are satisfied with it. Don’t forget to check your spelling and grammar. If you have access to a computer, it is easy to use the spell and grammar checkers that come with most word-processing software.

Once again, welcome to the course. We hope you enjoy your studies and wish you every success.

Chris Nuttall and Medi Houghton
Section One

Business and the environment in which it operates
1 Introduction to business activity

In this unit you will learn about:
- needs, wants and scarcity
- the purpose of business activity
- the objectives of non-profit making activity, private enterprise and public enterprise
- the concept of adding value.

Top tip
This chapter contains some important concepts which underpin later chapters. It is important that you learn the key terms and their definitions and understand the ideas of opportunity cost, factors of production, effective demand and added value as well as the differing objectives of organisations. You could be asked to define these terms – or give examples in a chosen context.

Needs and wants
We often use the words needs and wants as though they mean the same thing. How often do you say you need a new T-shirt or you need a new CD by your favourite singer, when what you really mean is that you want those things?
- Needs are items that we must have in order to live.
- Wants are items that we would like to have, although we won’t die without them.

For example, we need things such as:
- food and drink
- shelter
- clothing.

We may also want things such as:
- a computer
- a holiday
- a car.

Businesses produce goods and services. These are the products of businesses.
- Goods are things you can touch and use, such as clothes and books.
- Services are things that other people do for you, such as cutting your hair or selling you goods in a shop.

Business in context
Kuwait Petroleum Corporation (KPC) is one of the world’s largest oil companies. The company makes products such as petrol and diesel from crude oil. Crude oil is oil in its raw or natural state. It occurs naturally in deposits within the earth. To produce the petrol that people buy from garages, KPC must first extract the crude oil from the earth. The company does this by drilling oil wells, many of which are under the sea. KPC then transports the crude oil to oil refineries where it is turned into the petrol or other oil products that customers want.

Questions
1 What does KPC produce?
2 Does KPC produce goods or services?
3 Where can you buy KPC’s product?
4 What is KPC’s product made from?
5 Why do you think KPC produces petrol and diesel?
1.1 Activity

Think carefully about the following products and answer the questions.

(a) a loaf of bread  (b) an oak coffee table  (c) this book

1. What are the raw materials that each product is made of?
2. Where do these raw materials come from?
3. If society keeps using these raw materials, will they eventually run out?
   Explain your answer.

Our wants also influence the way in which we satisfy our needs. So, if you need food, you may choose to satisfy this need by eating a burger or a pizza, because this is what you want.

Demand and effective demand
When you want something, you create a demand for it. However, you cannot satisfy your want unless:
- you have the money and
- you are willing to pay for it.
For example, while you may want a new pair of trainers, you cannot satisfy your want unless:
- you have the money to pay for the trainers and
- you are willing to spend your money on them (you may prefer to spend the money on books or a sweater).

Even so, your demand for trainers will not be successful unless other people want trainers and are able and willing to pay for them, too. Businesses will not make trainers if you are the only person who wants them.

This is effective demand. People create effective demand when enough of them want something and are able and willing to pay for it.

The purpose of business activity
Businesses are organisations that have been set up to produce goods and services. They supply these goods and services to individuals and other business organisations that want them.

There are many different types of business organisation. Some are major international businesses, such as the Kuwait Petroleum Corporation or Coca-Cola. Others are smaller
### 1.2 Activity

1. What is the main difference between needs and wants?
2. Make two lists: the first showing the things that you need; the second listing things that you want.
3. Identify three kinds of businesses or organisations that supply each item on your lists.
4. Select two businesses that you have identified and explain why you think that they supply the item.

### 1.3 Activity

1. Investigate the different types of business in your local area. You should find examples of private enterprise, public enterprise, and non-profit-making activity.
2. Identify the objectives of each.
3. Draw up a table.

<table>
<thead>
<tr>
<th>Type</th>
<th>Organisation</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-profit-making</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Figure 1.2 Private and public sector businesses

Neither non-profit-making organisations nor public sector organisations have profit as a high priority. The key difference is that the public sector is run by, or on behalf of, the government whilst non-profit-making organisations could easily be set up by private individuals who feel they want to support a specific cause. The government will focus on the social needs of the wider society and try to provide financial and other forms of assistance to ensure a basic standard of living for all members of society.

### Deciding what to produce

Everything found on Earth is finite, or in limited supply. This includes resources such as
- crude oil used to make petrol
- metals such as aluminium and gold.

There are enough of some resources, such as air, to satisfy everybody’s needs. But most resources are not plentiful enough for this. Where this is the case, the resource is said to be scarce. This even applies to resources like trees or wheat that are renewable and replace themselves either naturally or through careful management.
Since the resources needed to produce goods and services are scarce, a choice must be made as to what to produce from them. For example, furniture and houses can be made from timber, but a table cannot be made from the same timber that is used to build a house. Therefore a decision has to be made whether to cultivate trees for furniture or for houses.

Similarly if a government spends too much money building new schools, it will not be able to spend very much on training extra doctors.

Cost and opportunity cost
If you want a pair of trainers and a sweater but only have enough money to buy one of them, you have to choose which to buy. Both the trainers and the sweater cost money. That is their financial cost.

There is also an opportunity cost – the possibility of buying and enjoying the use of the other item.

- If you buy the trainers, the opportunity cost of the trainers is the sweater.
- If you buy the sweater, the opportunity cost is the trainers.

![Figure 1.3 Making the decision](image)

Business activity and the factors of production
Business activity involves the use of resources known as the factors of production. These are:

- land
- labour
- capital
- enterprise.

Land
Land includes all resources that occur naturally, including:

- the land itself
- coal
- oil
- gas
- metals and other minerals.

Also included are resources that grow on the land, in seas and rivers, or in the air, such as:

- crops
- farm and other animals
- fish
- birds.

Labour
Labour is the effort or work provided by people. Production that uses a high proportion of labour compared with machinery and equipment is called labour-intensive. Labour-intensive production is a feature of many developing countries where labour is plentiful and relatively cheap compared with available technology. In more industrialised countries, however, labour-intensive production tends to be more expensive. This is because the cost of running machinery and equipment is often less than the cost of paying employees.

Capital
Capital includes items used in the production of goods and services that are made by people, including:

- buildings
- machinery
- equipment
- the finance needed to purchase these.

Production that uses a high proportion of capital compared with labour is called capital-intensive. Capital-intensive production tends to be cheaper than labour-intensive, where the machinery and equipment are available. Production using the latest technology is usually faster and more accurate than production by hand.

Enterprising
Enterprise is the ability, skill and enthusiasm to take the risks involved in developing a business idea and gathering the appropriate resources.

All businesses combine the factors of production to produce the goods and services that people want to buy. A large company such as the Kuwait Petroleum Corporation will use all four elements to produce its finished petroleum products and refined oils:

- land: in the form of oil wells and refineries
- labour: through the efforts of all its staff
- capital: drilling equipment, pipelines, office buildings
- enterprise: the skill and foresight of senior management.

Even a village fisherman relies on the land in the form of the sea and fish; labour is himself; his knife and nets
are his capital, and his experience and knowledge are his enterprise.

**Adding value**

As the transformation – or production – process proceeds through various stages, gain *added value* to the raw materials at each stage. This is because the work carried out increases the value of the parts and raw materials used. When the product is finished, its value – and the price at which it will be sold – is more than the value of the factors of production used to make the product. Therefore the amount of value added to a finished product is the difference between the sales value of the product and the cost of all the resources used to produce the product. You should note that added value is *not* the same as *profit* (see Unit 35).

---

**1.4 Activity**

1. **Consider one of the following businesses:**
   - a farm
   - a furniture maker
   - a shop
   - a cosmetics manufacturer
   - a paper producer
   - a producer of music CDs.

2. **Construct a table like the one shown below. Complete your table with examples of the types of resources or factors of production used by your selected business. The first line of the table has been completed as an illustration.**

<table>
<thead>
<tr>
<th>Factors of production</th>
<th>Business</th>
<th>Land</th>
<th>Labour</th>
<th>Capital</th>
<th>Enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Farm</td>
<td>Land for grazing animals or growing crops</td>
<td>Farm workers</td>
<td>Tractors</td>
<td>The skills and efforts of the farmer in setting up and running the farm</td>
</tr>
</tbody>
</table>

3. **Design a poster or diagram showing how, by combining these resources and transforming them into a finished product, the business adds value to the resources.**
We all have needs and wants.

Effective demand – demand for a product that is backed up by an ability and willingness to pay for it

Factors of production – the four categories of resources that are used to produce goods and services: land, labour, capital, enterprise

Goods – tangible products that can be touched and consumed

Needs – things necessary to sustain life

Opportunity cost – the cost of something in terms of the next best thing

Private sector – the sector of business consisting of businesses owned by private individuals or groups

Profit – the profit a business makes is the amount by which its income from selling the goods and services it produces exceeds the costs of producing those goods and services

Public sector – the sector of business consisting of businesses owned by the state

Resources – items of limited availability that can be used in human activity

Services – things other people or businesses do for you

Wants – things chosen to satisfy a need or to make life more enjoyable

What is meant by the term ‘added value’? [2]

Value is added to the resources because the work carried out to produce the finished product has a value that increases the value of the parts and raw materials used.
Section Two

Business structure, organisation and control
2.1
Ownership and internal organisation

Types of business organisation 1: Sole traders and partnerships

In this unit you will learn about:
- entrepreneurs
- sole traders
- partnerships.

Businesses are in either the private sector or the public sector according to whether they are owned by private individuals and organisations or the government. Even within these categories, however, there are different types of business organisation and ownership.

Top tips

Learn the main features of each type of business ownership. You will be expected to know the relative advantages and problems of each form. You should also be able to say which type of ownership would be most suitable in a given situation.

Business in context

When Sofia Akram was made redundant she decided to use her redundancy money to realise her dream and open a small hotel.

If she sold her own house and took out a mortgage on the new one, she should have enough – with a little left over – to help her through the first few months.

‘It’s exciting,’ Sofia told her sister Tina. ‘I’ll be my own boss and rise or fall on my own efforts. All the profits will be mine and not go to the head office of a big company. I think it will be a success.’

Tina was not so sure. ‘But you’ll be on your own,’ she said. ‘Think of the long hours you’ll have to put in. You’ll be on call all the time. You’ll have to do the books, take stock, place orders and things like that. You’ve never run a business yourself before. What about the accounts and paperwork? You may not find that as much fun as chatting with your guests – but you’ve got to do it, because there won’t be anyone else to do it for you. And what will you do if it all goes wrong? What if you have a poor year and you don’t get as many bookings as you hope for? You could lose everything – not just the business, but your home and livelihood as well.’

Questions

1. What are the advantages Sofia has put forward for running her own business?
2. What disadvantages has Tina raised?
3. If you were Sofia, what would you do? Give your reasons.
What is an entrepreneur?
An entrepreneur is somebody who has the ability, enthusiasm, vision and skills to come up with a business idea and gather together the resources to enable production to take place.

Being an entrepreneur involves an element of risk. The entrepreneur has to invest his or her own time and money in getting their business idea up and running. If the business fails, they will lose everything they invested in the business – and perhaps a lot more.

Is it worth the risk?
All business activity involves taking decisions. Initially the entrepreneur will take decisions such as:

- what goods or services to produce
- how to produce them
- how much to charge.

Decisions in business involve some risk. An entrepreneur who opens a fast-food restaurant will lose the restaurant and everything he or she has put into it if the prices charged are so high that consumers will not eat there.

Business ownership
All businesses are owned by individuals or groups of people.

- The private sector consists of organisations that are owned and operated by one or more private individuals or other private organisations.
- The public sector consists of organisations wholly owned and operated by the national or local government.

Incorporated and unincorporated businesses
Businesses in the private sector may be unincorporated or incorporated.

- Unincorporated businesses are usually owned by one person and are not legally registered or recognised as companies.
- Incorporated businesses have a separate legal identity from their owners.

In an incorporated business, it is the business which employs people and owns property and equipment. It is the business that borrows the money. In unincorporated businesses, it is the owners themselves who hire staff, buy capital or borrow the money.

Liability
Liability is an important aspect of business ownership related to whether the business is unincorporated or incorporated.

The owners start a business or put their money into it because they expect something back. However, they will only get a return if the business is successful. If the business is not successful, they may lose everything they have put into it.

They may also be personally liable (i.e. held responsible) for any debts the business has incurred. Such liability may be unlimited or limited.

- **Unlimited liability**: the owners of the business are personally responsible for all the debts the business incurs. This means that if the business is unable to pay its debts because it has insufficient funds available, the debts must be paid in full by the owners and the business could close. The owners could also lose their homes if there are not sufficient funds to meet the debts.
- **Limited liability**: the owners of the business are only responsible for the debts of the business up to the amount they have invested in the business. This means that if the business is unable to pay its debts, the owners will only lose the amount they originally put into the business.

Top tip
*Make sure you understand the difference between unlimited and limited liability, and what that means for the owners of a business.*

In this unit, we will examine smaller unincorporated businesses – sole traders and partnerships. We will look at incorporated businesses, private and public limited companies in Unit 12.

Sole traders
A sole proprietor or trader is someone who owns his or her own business. There is one owner (the sole trader), who makes all the decisions and is responsible for the day-to-day running of the business. While many sole traders are people working on their own, a sole trader can employ others. People who work in the business, apart from the owner, are actually employed by the owner. The owner is self-employed.

Setting up as a sole trader
It is very easy to set up as a sole trader as there are few legal formalities to go through.

The sole trader must declare any profit or loss made during the financial year, as this will be their income for tax purposes. Sole traders may also have to pay other taxes, such as purchase tax or value-added tax where these apply.

Like all businesses employing people they must comply with employment laws and health and safety regulations.

Where does the money come from?
Partly because they are small businesses, there are few sources of finance available to sole traders, apart from the
Figure 11.1 Overview of the main types of business organisation
11.1 Activity

1. Find out the name of a local sole trader business. You can do this by looking in your local paper or business directory.
2. What goods or services does your selected business provide?
3. Why do you think the business operates as a sole trader?

11.2 Activity

Your friend is thinking of starting his or her own business by buying a small bookshop and has asked you for advice. Write a short letter to your friend giving him or her advice about starting out as a sole trader.

personal funds of the owner. These include any savings the owner may have, redundancy payments from previous employment or loans from the bank. In addition, grants may be available from local or national government and private organisations.

What happens if things go wrong?
A sole trader is an unincorporated business. This means that the business is not considered separate from its owner. If things go wrong, the owner has unlimited liability for any debts incurred by the business.

Partnerships
A partnership is an unincorporated business that is owned by two or more people (the partners). A partnership can normally have up to 20 partners. Some major professional firms, however, such as Linklaters Solicitors, with operations in Asia including China, Europe and the USA, have several hundred partners.
This reflects the large scale and global scope of their operations.

The partners are self-employed. People other than the partners who work in the business are employed by the partners. Typical partnership businesses are local professional firms such as accountants, architects, solicitors, and doctors’ practices, shops and similar small businesses that are owned by two or more people.

**11.3 Activity**

1. In groups of two or three, discuss a business that you could set up as a partnership.
2. Agree on a name for the partnership, and the terms that should be included in a Deed of Partnership.
3. Draw up a Deed of Partnership including the terms you have agreed so that each partner is happy to sign it.

**Setting up a partnership**

Although it is not a legal requirement in most countries, many partnerships are established with a Deed of Partnership. This is a legal document drawn up by a solicitor or lawyer. The deed of partnership sets out the ‘rules’ of the partnership, including:

- how much money each partner has to put into the business
- who is responsible for decision-making
- the specific responsibilities of partners
- how the profits of the business are to be shared or used
- the procedure for removing a partner or introducing a new one to the business
- arrangements for dissolving the partnership and ending the business.

In the absence of a partnership agreement, any dispute between partners will normally be settled on the basis that each partner shares equally in the management and responsibility for decision-making in the partnership, as well as any profits of the business and responsibility for debts of the partnership.
Where does the money come from?
As with sole traders, there are few sources of finance available to partnerships, other than the partners’ own funds. However, because there are more owners of the business it is often easier to obtain finance to set up the business than it is for a sole trader. In addition, each partner may take out an individual loan, so reducing the amount owed by any one partner.

What happens if things go wrong?
As a partnership is an unincorporated business, the partners have unlimited liability for any debts the business may have. Moreover, each partner is liable for the business debts of the other partners. Therefore if one partner can’t pay, the remaining partners are still responsible for the whole of the debts of the business.

Figure 11.4 The advantages and disadvantages of partnerships

<table>
<thead>
<tr>
<th>Advantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owners are self-employed.</td>
</tr>
<tr>
<td>Owners have full control over business and profits.</td>
</tr>
<tr>
<td>Few legal formalities.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unlimited liability for each of the owners.</td>
</tr>
<tr>
<td>The partners have full responsibility for all aspects of the business.</td>
</tr>
<tr>
<td>Disagreements between partners may cause difficulties with the business.</td>
</tr>
<tr>
<td>The business may not survive the loss of one of the partners.</td>
</tr>
</tbody>
</table>

Meka Wakama and Delyth Evans are both self-employed computer software designers running their own businesses. Meka specialises in business accounting software, while Delyth designs software for more integrated applications.

1. How might forming a partnership help both them and their clients?
2. What disadvantages might there be to the partnership?
3. To develop the partnership, Meka and Delyth need to raise additional finance quickly. How might they do this?
4. After the partnership has been trading for a year, several clients complain to Delyth that Meka has misled them over prices, quoting a low price to get the business and then charging far more than the quote. How might Delyth deal with this matter?

Exemplar exam questions

Alejandro wishes to open an accountancy business with his sister Naani. Alejandro is a qualified accountant whilst Naani is a new business advisor in a local bank. They are thinking of setting up the business as a partnership.

1. Do you think that their different skills will help the partnership to be successful? Explain your answer. [4]
2. Identify and explain two problems that can occur in any business partnership. [4]
Figure 11.5 Differences between sole traders and partnerships.

Key terms

Deed of Partnership – a legal agreement of the terms and conditions of the partnership, signed by all partners
Incorporated business – a business that exists legally as separate from its owners
Limited liability – the owners of a business have liability for the affairs of the business restricted to the amount originally put into the business
Self-employed – a person who works for him, or herself, rather than for another employer
Sole proprietor or trader – a business that is owned by one person
Unincorporated business – a business that has not been established as a legal entity separate from its owners
Unlimited liability – the owners of a business have liability for the affairs of the business to the extent of their personal wealth

Summary

1 An entrepreneur is somebody who has the ability, enthusiasm, vision and skills to come up with a business idea and gather together the resources to enable production to take place.
2 Being an entrepreneur involves an element of risk.
3 Businesses in the private sector may be unincorporated or incorporated: unincorporated businesses are legally considered to be the same as their owners; incorporated businesses exist as legal entities in their own right, with their identity quite separate from that of their owners.
4 In a business with unlimited liability the owners are personally responsible for all the debts the business incurs; in a business with limited liability the owners of the business are only responsible for the debts of the business up to the amount they have invested in the business.
5 A sole trader is someone who owns and controls his or her own business.
6 A sole trader is the simplest form of business to set up.
7 A sole trader makes all the decisions about the business.
8 The sole trader keeps all the profits of the business, but has unlimited liability with regard to any business debts.
9 Partnerships are unincorporated businesses that have more than one owner.
10 The rules of a partnership are set out in a Deed of Partnership.
11 Partnerships are shared businesses which enable the owners to share responsibilities, workload and decision-making.