**Summer Work**

**Pre-reading booklet for completion**

**Elasticity revisited and extended**

Last year you studied elasticity so some of this should just be a quick refresh of many things you already know. Use your textbook and the Eduqas useful notes (remember you have two documents on U6 reading one that tells you the chapters from HJR and the second that signposts the useful notes chapters) together with resources that are available on GOL.

What does elasticity measure?

What is an inferior good?

What is a normal good?

**Elasticity using formulae**

Price Elasticity of Demand (PED) = ÷

Income Elasticity of Demand (YED) = ÷

Explain how to calculate a % change

If a PED value is >1 ignoring the – sign then the product is said to be price this means a small change in price leads to

If a PED value is <1 ingoring the – sign then the product is said to be price this means a small change in price leads to

If you had a price elastic product what would you not want to do with the price? Explain why.

In analysing PED and its impact on a firm you need to consider what will happen to the firms revenue complete the table below. You might want to have a go at doing this in pencil/draft first (you can then check your answer in your textbook)

|  |  |  |
| --- | --- | --- |
|  | **Elastic Demand** | **Inelastic Demand** |
| **Price increase** | Revenue up/down? | Revenue up/down? |
| **Price decrease** | Revenue up/down? | Revenue up/down? |

If a YED value is >1 (for now ignore the sign we will get to that later) then the product is said to be income this means a small change in income leads to

If a PED value is <1 (for now ignore the sign we will get to that later) then the product is said to be income this means a small change in price leads to

What do YED coefficients (signs +/-) tell us?

If YED is + the product is a

If YED is –ve the product is a

What are the implications of a product being a normal or inferior good in terms of a firms revenues following a change in people’s incomes?

**Analysing Financial and Non Financial Performance**

This section of the specification gets you to look at analysing the financial performance of a business. It builds on work that you did last year on finance including financial ratios for analysing profitability. Use your textbook and the Eduqas useful notes (remember you have two documents on U6 reading one that tells you the chapters from HJR and the second that signposts the useful notes chapters) together with resources that are available on GOL.

**Budgeting**

What is a budget?

How might a budget be set?

What is a variance?

How do we assess whether a variance is adverse or favourable? (in answering this think about what you have to be careful about)

**Profit and Loss Account**

Put these terms in the correct order that they appear on a Profit and loss account

Cost of sales, net profit, gross profit, dividends, expenses, turnover, tax, interest,

What do the terms trading account and appropriation account refer to?

What three things make up a firm’s cost of sales

If you were using only one measure of profit which would be better gross or net? Explain the reason for your choice.

What would be considered to be high quality profit? What would not be considered to be high quality profit?

What does the term profit utilisation refer to?

Last year you were taught two profitability ratios complete the formulae

Net profit Margin =

Gross profit Margin =

What do the terms extraordinary and exceptional items refer to? Why are they listed as separate entries on the profit and loss account?

**Balance sheets**

There are a number of terms associated with the balance sheet complete the table below with a definition of each term

|  |  |
| --- | --- |
| **Term** | **Definition** |
| **Asset** |  |
| **Current Asset** |  |
| **Liability** |  |
| **Current Liability** |  |
| **Shareholder funds** |  |
| **Capital employed** |  |
| **Debtors** |  |
| **Creditors** |  |
| **Net current assets** |  |
| **Working capital** |  |
| **Tangible asset** |  |
| **Intangible asset** |  |
| **Reserves** |  |
| **liquidity** |  |
| **Long term liability** |  |
| **Fixed assets:**  |  |

What is a balance sheet similar to?

A balance sheet balances because Assets= +

In what order do the following appear on the balance sheet long term liabilities, fixed assets, current assets, capital employed, net current assets, net assets, current liabilities, shareholders capital, reserves

**Making a Start on Decision Making Models**

This section of the specification gets you to look at how businesses make decisions and explores some of the models that are used in helping them to make them. Use your textbook and the Eduqas useful notes (remember you have two documents on U6 reading one that tells you the chapters from HJR and the second that signposts the useful notes chapters) together with resources that are available on GOL.

Examples of types of decisions that a business might be making include: (try to provide as many as you can and give some real world examples if possible)

Decisions can be divided into three types tactical, strategic and operational put a definition of each of the three types of decision making in the boxes below. Consider which levels of the organisational structure are making these types of decisions. Try to provide some real world examples of each type of decision. Think about programmes that you might have watched like Inside the Factor, Inside the Supermarket this might give you some ideas of real world examples of decisions being made.

|  |  |  |
| --- | --- | --- |
| **Strategic** | **Tactical** | **Operational** |
|  |  |  |

**Decision Trees (a Quantitative decision making model)**

1. What is a decision point and how is it represented?
2. What does a circle in a decision tree diagram represent?
3. What do probabilities have to add up to?
4. If the probability of one outcome occurring is 0.3 what would the probability be of the other outcome occurring?
5. What is an expected value? How is it calculated?

Copy the decision tree on page 623 of your textbook into this box

Now we will have a go at using it to decide what the firm should do. There are two simple rules to follow 1) after a circle multiply and add, 2) after a square chop off a branch.

So after node B multiply the probability by the profit/loss and add the two together

Do the same after node C.

Whichever expected value is higher is the decision you will take. Cross of the branch for the decision that you are not going to take.

(Hint: if you are stuck then turn over the page to page 624 and you will see this example worked through)

Sometimes a business will incur costs in taking a decision. If there is a cost included you will need to deduct that having multiplied the probability by the profit/loss.

Exam questions could ask you to draw a decision tree from scratch (they would provide you with probabilities and profit/loss together with any costs associated with making the decision) or alternatively to interpret a decision tree. More marks will often be allocated to a question that asks you to explain the advantages and limitations of a decision tree. So as well as being able to do the numerate work you need to be able to fully explain these.

|  |  |
| --- | --- |
| **Advantages of use of decision trees** | **Limitations associated with decision trees** |
|  |  |