Adding Value

Complete the following questions in the time allowed by your teacher

QUICK DEFINITIONS

Write a short, accurate definition for each of the following key terms. (2 marks for each good quality definition)

1. Define: added value

2. Define: factor of production

3. Define: transformation process

QUICK LISTS

In this section, provide an outline or list points which answer the question

4. Bacon Limited manufactures quality furniture for schools. Provide an example of each factor of production that is likely to be used in Bacon Limited’s production process (one mark for each valid example)

A.

B.

C.

D.
5. List up to three ways in which a hotel could improve its added value (one mark for each different, valid item listed)
   A. 
   B. 
   C. 
   D. 
   E. 

6. Identify three benefits of a business that successfully manages to add value in the production process (one mark for each valid issue)
   A. 
   B. 
   C. 
   D. 

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Short Answers

In this section, write a short answer (one or two sentences) for each question.

7. Explain why added value is not the same as the profit earned by a business
8. Briefly describe two factors that determine the amount of added value that a business is able to add during the production process.
Adding Value

Complete the following questions in the time allowed by your teacher

QUICK DEFINITIONS

Write a short, accurate definition for each of the following key terms. (2 marks for each good quality definition)

1. Define: added value
   
   Added value = the difference between the price of the finished product/service and the cost of the inputs involved in making it.

2. Define: factor of production
   
   The four categories of resources (or inputs) into the production process that results in goods and services being produced or delivered.
   
   The four categories are usually taken as land, labour, capital and enterprise

3. Define: transformation process
   
   The process or processes that factors of production go through in order to produce goods and services.
   
   The transformation process can range from very simple (e.g. food ingredients into cooking) to highly complex (e.g. designing the iPad)

QUICK LISTS

In this section, provide an outline or list points which answer the question

4. Bacon Limited manufactures quality furniture for schools. Provide an example of each factor of production that is likely to be used in Bacon Limited's production process (one mark for each valid example)

   A. Labour: skilled employees assembling the furniture
   B. Land: the space occupied by the factory & warehouse
   C. Capital: the finance and other resources invested
   D. Enterprise: the energy & drive provided by the directors and management
5. List up to three ways in which a hotel could improve its added value (one mark for each different, valid item listed)

A. Selling additional room services to guests
B. Achieving an increase in the average room rates paid by hotel guests
C. Reducing the cost of stock losses or wastage
D. Improving the productivity of the hotel restaurant
E. Improved customer service enables the hotel to increase room occupancy

6. Identify three benefits of a business that successfully manages to add value in the production process (one mark for each valid issue)

A. Improved profitability, leading to better returns for investors
B. Higher selling prices to customers prepared to pay for additional value added
C. Competitive advantage over competing firms who struggle to remain viable
D. Better cash flow arising from improved profitability

Short Answers

In this section, write a short answer (one or two sentences) for each question.

7. Explain why added value is not the same as the profit earned by a business

Valid points include:

Added value is the difference between sales revenue and the direct costs of satisfying that demand - i.e. the value (that is effectively added to the cost of the inputs into production)

Profit is the difference between sales revenue and ALL costs of a business. I.e. it includes costs (overheads) not directly related to the production process (e.g. admin, marketing)

However, added value is a source of profitability - it contributes to the overall profit earned by a business
8. Briefly describe two factors that determine the amount of added value that a business is able to add during the production process.

Valid points might mention:

Productivity & efficiency of production - an efficient process uses less inputs for each unit of output.

Economies of scale - larger scale output (e.g. using machinery) can reduce the costs of production.

Branding - a product which has a strong brand will often command a higher selling price.

Differentiated product - a product with a clear or distinct positioning, or other advantage over the competition should be able to generate higher added value (e.g. high quality).