

Question	Evaluate the impact that the size of a business has on its efficiency. Illustrate your answer with an appropriate diagram(s). Indicative content
10	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make, but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Quantitative skills assessed:</p> <p>QS4: Construct and interpret a range of standard graphical forms.</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <ul style="list-style-type: none"> • Larger businesses, such as Nestlé, might be more productively efficient than smaller businesses (producing at the MES) • Nestlé has access to more resources and economies of scale, which can lead to increased efficiency compared to smaller food-producing businesses • Large production runs in producing food and beverages will lower unit costs, and will enable fixed costs to be spread over a larger output. This may enable the business to produce at the productively efficient level of output <div data-bbox="395 943 858 1288" style="text-align: center;"> </div> <ul style="list-style-type: none"> • The large businesses produce at Q_2 compared to Q and is able to produce at a lower cost C_1 • Large businesses, such as Nestlé, have specialised division of labour or capital equipment e.g. specialist packaging machines. These might improve efficiency in production, lowering average cost when producing at a higher level of output • Large businesses might be more dynamically efficient • The large business likely to have more price setting ability in the market allowing them to set higher prices and make supernormal profits. The supernormal profits can be reinvested into improving production or better-quality capital, investing in research and development

- Small businesses in perfect competition/monopolistic competition are unable to make supernormal profits in the long-run and are therefore unable to invest in improving dynamic efficiency
- Large businesses that are cross-subsidising might be more allocatively efficient than smaller firms as they can reallocate profits to lower the prices of essential goods

NB: award a maximum of level 3 if no appropriate diagram is drawn
Accept reverse argument as KAA

Evaluation (8 marks) – indicative content

- A large business may suffer from diseconomies of scale making them less productively efficient
- If suffering from x-inefficiency, the large firms' average costs will rise increasing productive inefficiency
- Small businesses may operate in a niche market where they are able to set high prices and make super normal profits that can be reinvested back into dynamic efficiency
- Large businesses may have less incentive to innovate and find more efficient ways of doing things because of their dominant market position and economies of scale
- A large business may suffer from inertia and be slow to respond to changes in the market or to new opportunities because of their size and investments in their existing operations
- A small business can be more productively and dynamically efficient than large firms because they are often more flexible and responsive to market changes. They have lower overhead costs, less bureaucratic decision-making processes, and can quickly change their production processes to meet the needs of customers
- A smaller business might be more allocatively efficient ($P=MC$). A business in perfect competition has to take the market price where $P=MC=AC=AR=MR$ therefore are allocatively efficient because of their lack of price setting ability. A larger business has price setting ability and can set at a price above MC

