

Firms

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What you need to know

This topic has five syllabus outcomes. In plain words, you should be able to:

1. **Classify firms** by the **sector of production** they work in (primary, secondary or tertiary), by **who owns them** (private sector or public sector), and by their **size** (small or large). You don't need to know legal types of business such as partnerships or companies.
2. **Explain small firms**: their **advantages** and **disadvantages**, the **challenges** they face, and **why they exist** alongside large firms.
3. **Explain why and how firms grow**: **internal growth** (the firm expands by itself, for example winning a bigger market share) and **external growth** (joining with other firms, for example by a merger).
4. **Explain mergers**: the three types (**horizontal**, **vertical** and **conglomerate**), with examples, and the **advantages and disadvantages** of each.
5. **Explain economies and diseconomies of scale**, both **internal** and **external**, and how they change a firm's or an industry's costs as the scale of production changes.

Understand it

Classifying firms

By sector of production. Goods move along a **chain of production**, and each stage is a sector:

- the **primary sector** takes natural resources from the land and sea: farming, fishing, forestry, mining, oil and gas extraction;
- the **secondary sector** turns materials into products: manufacturing, construction, oil refining, food processing, power generation;
- the **tertiary sector** provides **services**: shops, banks, hairdressers, transport and delivery, tourism, healthcare, education.

As an economy develops, the share of workers and output in the primary sector usually falls and the tertiary sector's share rises. The three shares add up to 100%, so if 2% of workers are in the primary sector and 79% in the tertiary sector, $100 - 2 - 79 = 19\%$ are in the secondary sector.

By ownership. **Private sector** firms are owned by individuals or shareholders; their main aim is usually **profit**. **Public sector** firms (state-owned enterprises) are owned and run by the **government**; their main aim is usually **social welfare**, for example keeping a service cheap enough for everyone. A state-owned oil refinery is a **public sector** firm in the **secondary** sector; a computer-repair business set up by a technician is a **private sector** firm in the **tertiary** sector.

By size. A firm's size can be measured by the **number of workers** it employs, its **output** or **sales revenue**, its **market share**, or the **value of its capital**. A hairdresser with three staff is small; a car maker with 50 000 workers is large.

Firms can also be grouped as **domestic** or **multinational** (producing in more than one country), by how much **competition** they face, and as **labour-intensive** or **capital-intensive**.

Small firms

Most firms in every country are small. They exist, and survive next to large firms, because:

- **the market is small or local:** a village shop or a hairdresser serves only the people nearby, so there is no room to grow big;
- **customers want a personal or specialised service:** a tailor, a dentist or a wedding planner gives each customer individual attention;
- **they serve a niche:** a product too specialised for a large firm to bother with, such as handmade furniture;
- **starting costs are low:** little capital is needed to start a hairdresser or a repair shop, so it is easy to enter;
- **the owner wants to stay small,** to keep control and independence;
- **large firms rely on them** as suppliers of parts or services;
- **governments help them** with grants, cheap loans, advice or lower tax rates, because they create jobs and new ideas.

Advantages of small firms

- **Flexible:** decisions are made quickly by the owner, so they can react to changes in demand.
- **Close to customers:** a personal service builds loyalty; the owner knows what customers want.
- **Good communication:** few workers and managers, so everyone knows what is happening and staff may be well motivated.
- **Innovative:** many new products and ideas come from small start-ups.
- **No diseconomies of scale:** they avoid the control and communication problems of very large firms.

Disadvantages and challenges

- **No economies of scale:** they can't buy in bulk or use expensive machinery, so their **average cost** is usually higher, and their prices may be higher.
- **Harder and dearer to borrow:** banks see them as risky, so they pay higher interest or can't get loans at all.
- **Risk:** most sell one product in one market, so a fall in demand can close them.
- **Competition** from large firms with lower costs and bigger advertising budgets.

- **Hard to attract skilled workers**, who may prefer the pay and careers of large firms.

A common mistake is to say small firms are cheaper because their **total** costs are lower. Every cost figure must be compared **per unit**: small firms usually have **higher average costs**.

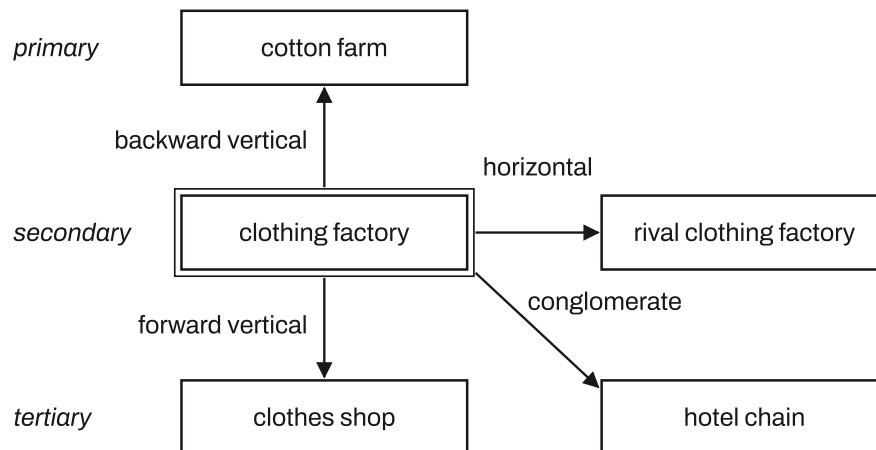
How firms grow

A firm can grow in two ways.

- **Internal growth** (organic growth): the firm expands by itself. It opens another shop, builds a bigger factory, hires more workers, or advertises and improves its product to win a bigger **market share**. It pays for this from its **profits** or by borrowing from **commercial banks** (the central bank doesn't lend to firms), and the government may give grants. A clothes retailer that borrows to open another clothes shop is growing **internally and horizontally** (more of the same stage of production).
- **External growth**: the firm joins with another firm. In a **merger** two firms agree to combine into one; in a **takeover** (acquisition) one firm buys another. External growth is quicker, and it brings in customers, workers and ideas the firm didn't have.

Firms grow to gain **economies of scale** (lower average costs), a bigger **market share** and more **market power**, higher **profits**, and to **spread risk** by selling more products in more markets. Some firms stop growing because diseconomies of scale set in early, the market is small, or the owner wants to stay small.

Mergers



- A **horizontal merger** joins two firms in the **same industry** at the **same stage of production**: two car makers, two banks, two supermarkets.
- A **vertical merger** joins two firms in the **same industry** at **different stages of production**.
 - **Backward vertical**: towards the raw materials. A car-tire maker buys a rubber plantation; a furniture maker buys a forest.
 - **Forward vertical**: towards the customer. A clothing manufacturer buys a chain of clothes shops; a steel producer buys a car maker (steel goes into cars); a fast-food firm buys an online ordering website.

- A **conglomerate merger** joins firms in **unrelated industries**: an airline buys an online clothing company.

Note the difference between **stage** of production and **sector**. Examiners report candidates mixing these up. Two firms in the same stage and the same industry make a horizontal merger; "same sector" is not enough (a bank and a hairdresser are both tertiary, but merging them is conglomerate).

Type	Main advantages for the firm	Main disadvantages
Horizontal	Economies of scale, so lower average cost; bigger market share and less competition; shared ideas and skills	Less competition can mean higher prices and less choice for consumers; job losses from closing duplicate branches; may get too big
Vertical (backward)	Secure supply of materials; control over their quality; the supplier's profit margin is saved	The firm must now run an industry it may not understand
Vertical (forward)	Secure outlets for its product; closer to customers; the retailer's profit margin is saved	Same; rivals may lose access to shops
Conglomerate	Diversification : spreads risk across markets (risk-bearing economies); money from a strong market can support a weak one	Few cost savings, since the products are different; managers may lack knowledge of the new industry

Who gains and who loses from a merger.

- **Firms**: lower average costs, higher profits, more market power, better survival chances. But a merged firm can **fail**: the two firms' ways of working may clash, communication and co-ordination get harder, and it may grow too big and suffer diseconomies of scale.
- **Consumers**: lower prices if cost savings are passed on, and better quality from shared research. But with fewer rivals the merged firm may become a **monopoly**, raising prices, cutting choice and quality.
- **Workers**: more job security if the merger saves a failing firm, and possibly higher pay from higher profits. But duplicate jobs (two head offices, two branches in one street) are cut, so some workers become **unemployed**.
- **The government** may **prevent** a merger, usually a horizontal one between large firms, because it would reduce competition and give the merged firm too much market power.

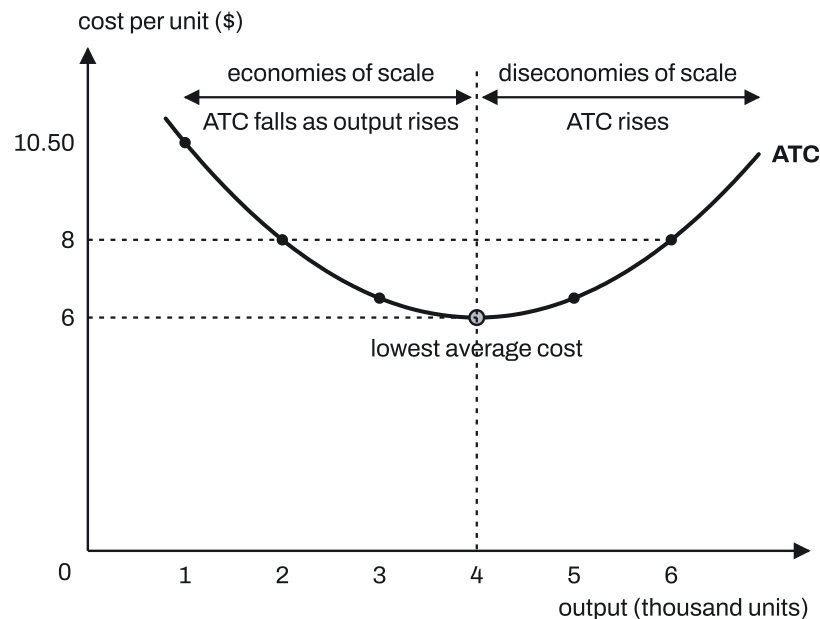
Economies and diseconomies of scale

Economies of scale are the cost advantages of producing on a larger scale: as output rises, **average cost** (cost per unit) **falls**. **Diseconomies of scale** are the opposite: when a firm grows too large, **average cost rises**. Both are about **average** cost, never total cost: a bigger firm always has a bigger total cost.

The table shows one firm's long-run costs as it grows.

Output (thousand units)	1	2	3	4	5	6
Total cost (\$)	10 500	16 000	19 500	24 000	32 500	48 000
Average total cost (\$), = $\frac{\text{total cost}}{\text{output}}$	10.50	8.00	6.50	6.00	6.50	8.00

Up to 4 thousand units, average cost falls: economies of scale. Beyond 4 thousand it rises: diseconomies of scale. The lowest point is where the firm is most efficient.



Internal economies of scale come from the growth of the **firm itself**:

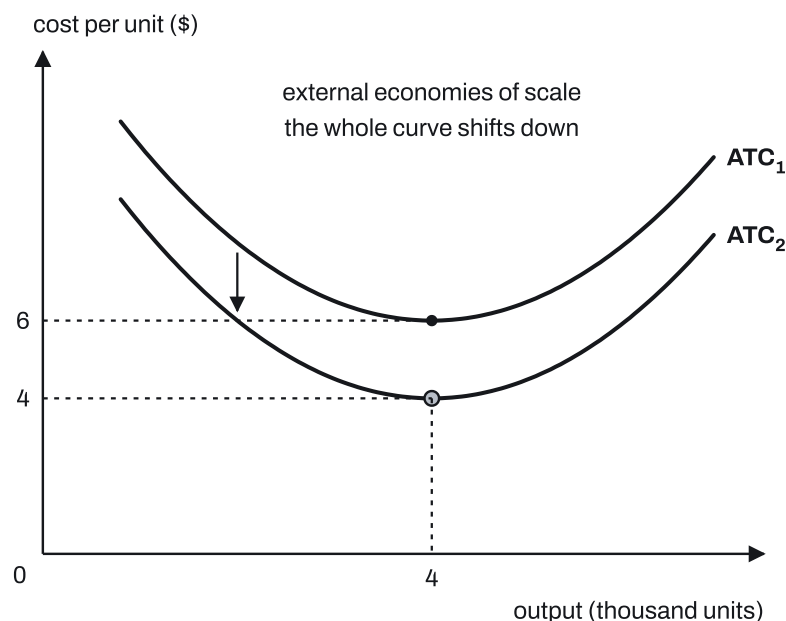
- **Purchasing (buying)**: buying materials in bulk earns discounts.
- **Technical**: large firms can afford advanced, specialised machinery and production lines, which produce more per worker.
- **Labour (specialisation)**: with many workers, each can specialise in one task and become skilled and fast at it.
- **Managerial**: specialist managers (finance, marketing, human resources) replace one owner doing everything.
- **Financial**: banks see large firms as safer, so they lend more easily and at lower interest rates; large firms can also sell shares.
- **Marketing (selling)**: the cost of an advertising campaign is spread over many more units; transport is cheaper per unit in full, large loads.
- **Research and development**: large firms can afford to develop new products and cheaper methods.
- **Risk-bearing**: selling many products in many markets means a fall in demand for one doesn't sink the firm.

Internal diseconomies of scale come from the firm becoming **too big**:

- **Control and co-ordination**: managers can't keep track of everything; departments pull in different directions.

- **Communication:** messages pass through many layers, so they are slow or distorted, and **decisions take longer** (a common result of a large merger).
- **Worker motivation and industrial relations:** workers feel like a small part of a huge organisation, lose motivation, and conflicts with managers grow; absence and labour turnover rise.

External economies of scale come from the growth of the **whole industry** in an area, and help every firm in it: a skilled labour force trained by local colleges, specialist suppliers setting up nearby, better roads, ports and internet links, shared research. This is why firms making similar products often **locate near each other**. An improvement in transport infrastructure that cuts costs for all farmers is an external economy. External economies **shift the whole average cost curve down**: the firm's cost per unit is lower at every output, even if the firm itself hasn't grown.



External diseconomies of scale happen when an industry becomes too concentrated in one area: traffic congestion, pollution, shortages of land and of skilled workers push up rents and wages, raising every firm's costs (the curve shifts **up**).

Key facts and formulas

This topic has no formula list in the exam. "Learn it" means you must remember it.

Formula or fact	Status
average total cost = $\frac{\text{total cost}}{\text{output}}$	Learn it
% in one sector = $100 - (\text{the other two sectors' \%})$	Learn it
percentage change = $\frac{\text{new} - \text{old}}{\text{old}} \times 100$	Learn it

Formula or fact	Status
Economies of scale: average cost falls as the firm grows; diseconomies: average cost rises	Learn it
Internal economies: purchasing, technical, labour, managerial, financial, marketing, R&D, risk-bearing	Learn it
Internal diseconomies: control and co-ordination, communication and slow decisions, poor motivation and industrial relations	Learn it
External economies shift the average cost curve down ; external diseconomies shift it up	Learn it
Horizontal: same industry, same stage; vertical: same industry, different stage (backward to suppliers, forward to customers); conglomerate: unrelated industries	Learn it
Primary: natural resources; secondary: manufacturing and construction; tertiary: services	Learn it

How to do it

We have tagged 73 questions on this topic (2021–2025): 47 multiple choice on Paper 1 (4 of them repeats) and 26 structured questions on Paper 2, which have 33 parts about firms. Counted by those parts, 80 in all, they came up this often.

Question type	Question parts
Multiple choice (concept)	46
Discuss (6 or 8 marks)	11
Explain (4 marks)	10
Analyse (6 marks)	7
Define, identify or calculate (1 or 2 marks)	5
Multiple choice (calculation)	1

1. Multiple choice (concept) (46 question parts)

1. **Decide which idea is tested:** sector, merger type, economies of scale, small firms or growth.
2. **Check the key word:** *average* cost (not total), *internal* (the firm) or *external* (the industry), *forward* (towards customers) or *backward* (towards suppliers).
3. **Eliminate** options that talk about total cost, demand or profit when the question is about costs per unit.

Variations you will meet:

- **Economies and diseconomies of scale** (12 parts): economies of scale **must** mean lower average cost (not lower total advertising cost, not more workers, not higher profit). Internal diseconomies = average cost rises as **the firm's** output rises, caused by slow decision-making after a merger or control problems. Better road links or transport for a whole industry = external economies. Firms cluster together for external economies. Firms don't grow if internal diseconomies start at **low** output; they grow internally when economies continue to **high** output. A big domestic industry makes its firms price-competitive because of economies of scale.
- **Types of merger** (8 parts): classify the scenario with the diagram above. Watch forward versus backward: plantation owner + coffee shops, clothing maker + clothes shops, steel maker + car maker are **forward**; furniture maker + forest is **backward**. Two shoe manufacturers = horizontal.
- **Small firms** (6 parts): the main disadvantage is a **lack of internal economies of scale**. Small firms have better communication and independence but **not** lower average cost; they adapt more easily to change. They suit **local** markets with **low** start-up costs: hairdressers, dentists.
- **Reading an average cost curve or table** (5 parts): the falling part of a long-run ATC curve = economies; the rising part = diseconomies (such as co-ordination problems after a merger); a downward **shift** of the whole curve = external economies. Economies of scale mean moving to a larger output **and** a lower cost per unit.
- **Growth of firms** (5 parts): borrowing to open another shop of the same kind is internal and horizontal; **commercial banks** and **governments** can fund growth directly, central banks can't; advertising wins market share by drawing demand away from rivals.
- **Classifying firms** (4 parts): hairdresser = small, tertiary; meal delivery = tertiary; state-owned oil refinery = public, secondary; a technician's repair firm = private, tertiary.
- **Why firms merge** (4 parts): a conglomerate merger brings **diversification** and risk-bearing economies; a horizontal merger's main advantage over a conglomerate is **less competition and more market share**; two firms in the same industry merge to **reduce cost per unit**.
- **Disadvantages of mergers** (2 parts): a government blocks a merger because it **reduces competition**; customers lose from a **narrower range** of products.

2. Discuss (6 or 8 marks) (11 question parts)

The 8-mark parts are levels-marked: Level 3 (6–8) needs **both sides developed** and a judgement. The 6-mark Section A parts give up to 4 marks for each side, a mark per link. Either way, aim for **two developed points each side**, then a conclusion.

Plan:

1. **Define** the key term in one line (merger, small firm, economies of scale).
2. **Why it might**: two chains, each ending at the group in the question (consumers, workers, the firm).
3. **Why it might not**: two **new** points, not the first side turned round.
4. **Judgement**: what it depends on (the type of merger, how big the firm gets, whether cost savings are passed on, how much competition is left).

Variations you will meet:

- **Is a merger good, or should the government encourage or stop it?** (4 parts): for: economies of scale → lower average cost → lower prices; survival of a failing firm → jobs and savings kept safe; higher profits → higher wages and more research. Against: monopoly power → higher prices, less choice, lower quality; duplicate jobs cut → unemployment; the merged firm may be too large → diseconomies. If the question names **consumers and workers**, cover both, or you're capped at 4 of 6. Examiners want the answer tied to the question (for example why a government would **encourage** mergers), not a list of every economy of scale.
- **Do small firms benefit consumers, or survive?** (4 parts): for: more firms → more competition → lower prices, higher quality; personal service; niche products; flexibility and new ideas; easy access nearby. Against: no economies of scale → higher average cost → higher prices; wasteful duplication; less money for research; they may not last. For "Are small firms more likely to close?", weigh higher costs, harder borrowing and single-market risk against flexibility, low overheads and government support. Compare **average** costs and **tax rates**, not total costs or total tax.
- **Will growth reduce average cost, or benefit the firm?** (2 parts): name and explain two economies of scale **and** one or two diseconomies, in the context. A bare list of economies, or just "costs will fall", earns at most 2; a diagram alone earns nothing.
- **Will firms keep growing?** (1 part): use the source: skilled workers, good infrastructure, rising demand (external economies) against high land costs, congestion and pollution (external diseconomies).

3. Explain (4 marks) (10 question parts)

Two points, each 1 mark to identify + 1 mark to explain. Give exactly two, clearly separated.

Variations you will meet:

- **Advantages of a merger or why firms merge** (3 parts): economies of scale (1) → lower average cost, so lower prices or higher profit (1); larger market share (1) → less competition, more market power (1); sharing ideas (1) → better quality (1). A horizontal merger does **not** give a wider range of products; examiners noted this error. In a data question, link to the case (tourism firms → lower prices → more tourists and exports).
- **Two types of merger** (2 parts): name (1) + what it joins, by **stage of production** and industry, with an example (1). Backward and forward vertical count as two types.
- **Ways to classify firms, or private versus public, or secondary versus tertiary** (3 parts): name the basis (1) + explain it (1): by sector (primary/secondary/tertiary, by what they produce), by ownership (private: individuals, profit; public: government, welfare), by size (workers, output). For "difference", compare **both** sides on the same point (owner, and aim).
- **Advantages of a large firm; why a merger raises prices** (1 part each): economies of scale, market power, diversification; less competition → monopoly power → higher prices, and the firm may suffer diseconomies that raise costs.

4. Analyse (6 marks) (7 question parts)

A mark per link. Write **three developed chains** (point → how → result for the firm in the question). A list of names caps you at 2 or 3 of 6.

Variations you will meet:

- **Internal economies of scale a firm can gain as it grows** (3 parts): name each economy (1) and develop it **in the context** (1): a cosmetics firm buys ingredients in bulk; a school buys books in bulk, uses specialist teachers, spreads the cost of a science laboratory over more students. "How average cost can change as output increases" also wants diseconomies.
- **How a small firm competes, or why small firms exist** (2 parts): personal service → loyalty; niche product; flexibility → quick response; government grants or lower tax → lower cost → competitive price; large rivals' diseconomies. Examiners saw candidates drift into how small firms **become large**; stay on the question.
- **Why a merged firm may fail; why a government may prevent a horizontal merger** (2 parts): clash of ways of working, poor communication, diseconomies of scale, loss of customers; monopoly power → higher prices, less choice, lower quality, job losses.

5. Define, identify or calculate (1 or 2 marks) (5 question parts)

- **Define public sector**: the part of the economy owned or controlled (1) by the government (1).
- **Define tertiary sector**: the sector that provides services (1), with an example that fits the question (1).
- **Identify** tertiary industries from a source, or two benefits of a horizontal merger: short points, no explanation needed.
- **Calculate** the share in one sector from the other two: $100 - \text{primary} - \text{tertiary}$.

6. Multiple choice (calculation) (1 question part)

Work out **average cost = total cost ÷ output** at each output. Economies of scale: it falls as output rises. Diseconomies: it rises. A rising **total** cost is not enough; only a rising **average** cost shows diseconomies.

Worked examples

Example 1

The table shows a bakery's total cost at different levels of output.

Output (loaves per day)	200	400	600	800
Total cost (\$)	3000	5200	7200	10 400

(a) Calculate the average total cost at each level of output. [2]

- (b) Identify the range of output over which the bakery experiences diseconomies of scale. **[1]**
- (c) Calculate the percentage fall in average cost from 200 to 600 loaves. **[1]**
- (d) Explain two internal economies of scale that could explain the change in average cost between 200 and 600 loaves. **[4]**
- (a) $3000 \div 200 = \$15$, $5200 \div 400 = \$13$, $7200 \div 600 = \$12$, $10\,400 \div 800 = \$13$ (2; 1 for two or three correct).
- (b) From 600 to 800 loaves, where average cost rises from \$12 to \$13 (1).
- (c) $\frac{15 - 12}{15} \times 100 = 20\%$ (1).
- (d) Purchasing economies (1): the bakery buys flour in bulk, so the supplier gives a discount and the cost of flour per loaf falls (1). Technical economies (1): at a larger output it can afford a large automatic oven that bakes many more loaves per hour, so the cost per loaf falls (1).

Example 2

Explain two advantages to a firm of a vertical merger with its supplier. **[4]**

It secures the firm's supply of materials (1), so production won't stop when materials are scarce and it can control their quality (1).

It saves the supplier's profit margin (1): materials are bought at cost instead of at the supplier's price, so the firm's average cost falls and its profit can rise (1).

Example 3

Analyse the internal economies of scale that a chain of hotels could gain as it opens more hotels. **[6]**

Purchasing economies (1): the chain buys bedding, food and cleaning products in bulk for all its hotels, so suppliers give discounts and the cost per guest falls (1).

Managerial economies (1): it can employ specialist managers for marketing, finance and staff training, who run every hotel more efficiently than one manager doing every job (1).

Marketing economies (1): one advertising campaign and one booking website serve all the hotels, so the cost of advertising per room booked falls (1).

Financial economies (1): banks see the large chain as a safe borrower, so it can borrow to build new hotels at a lower rate of interest (1). (Any 6.)

Example 4

Discuss whether or not a government should allow two large supermarket chains to merge. **[8]**

A horizontal merger joins two firms in the same industry at the same stage of production.

Why it should. The merged chain buys far more from farmers and manufacturers, so it earns bigger bulk-buying discounts and spreads the cost of its warehouses and advertising over more sales. Its average cost falls, and if it passes this on, consumers pay lower prices (developed point for).

The merger may save a chain that is losing money. Its stores stay open, so workers keep their jobs and the government keeps the tax revenue and avoids paying unemployment benefits (second developed point for).

Why it should not. With one fewer competitor the merged chain has a larger market share and more market power. It could raise prices and cut choice, and pay farmers lower prices for their crops, because they have fewer buyers to sell to (developed point against).

The merged firm will close stores that stand close together and merge the two head offices, so some workers lose their jobs. It may also become so large that managing it gets harder: decisions slow down and average cost rises, a diseconomy of scale (second developed point against).

Judgement. The government should allow the merger if many other supermarkets would still compete, so the cost savings are likely to be passed on in lower prices. It should block it, or set conditions such as selling some stores, if the merged chain would dominate the market. Both sides are developed and the conclusion says what the answer depends on, so this meets the Level 3 descriptor (6–8 marks).

Common mistakes

- **Saying economies of scale lower total cost.** They lower **average** cost (cost per unit). Examiners marked "higher costs" as too vague for diseconomies: say **average cost rises**.
- **Confusing stage and sector** when defining mergers. A horizontal merger is the same industry **and** the same stage of production, not just the same sector.
- **Mixing up forward and backward vertical.** Forward goes towards the final customer (a maker buys shops); backward goes towards the raw material (a maker buys its supplier).
- **Claiming a horizontal merger widens the range of products.** That's more typical of a conglomerate merger.
- **Listing economies of scale without developing them.** A list of names earns a capped mark; each one needs "so average cost falls because ..." in the context of the question.
- **Comparing total costs or total tax** of small and large firms. Examiners saw answers say small firms are cheaper because their wage bill is smaller. Compare **average** costs and tax **rates**.
- **Drifting off the question.** Asked how small firms compete, some explained how they grow large; asked why a government would encourage mergers, some wrote about every economy of scale with no link to the government.
- **Saying a merger means a larger firm without explaining why that matters:** say what being larger does (lower average cost, more market power).
- **Mixing up internal and external economies.** Internal: the firm's own growth. External: the growth of the industry or area, such as better roads.

How to get the marks

- **Define** (2 marks): two parts, such as "owned or controlled (1) by the government (1)". An example alone scores nothing.
- **Explain two ...** (4 marks): identify (1) + develop (1), twice. Give two clearly developed points; examiners only look at the first few, so writing five gains nothing.
- **Analyse** (6 marks): three chains, each pushed to the result the question names (average cost, the firm's sales, consumers). Use the firm in the question: a school's economies are different from a factory's.
- **Discuss** (6 or 8 marks): two developed points each side, then a judgement saying **what it depends on**. Cover every group the question names (consumers **and** workers).
- **Calculations**: show the division, give units (\$), and say what the numbers mean (falling average cost = economies of scale).
- **Use the terms**: economies of scale, average cost, horizontal, vertical, conglomerate, market share, monopoly power, diversification, stage of production.
- **Multiple choice**: 1 mark each, no penalty for guessing, so answer every one.

Quick check

1. A car manufacturer takes over a steel producer. What type of merger is this?
 - **A** backward vertical
 - **B** conglomerate
 - **C** forward vertical
 - **D** horizontal
2. Which is an example of an external economy of scale?
 - **A** a firm buys its raw materials in bulk at a discount
 - **B** a firm employs a specialist finance manager
 - **C** a local college starts training workers for the industry
 - **D** a firm's managers take longer to make decisions
3. A firm's total cost is \$2000 at an output of 100 units, \$3000 at 200 units, \$4200 at 300 units and \$6400 at 400 units. Calculate its average cost at each output and state where it experiences diseconomies of scale.
4. In a country, 35% of workers are in the primary sector and 20% in the tertiary sector. What percentage are in the secondary sector? In which sector and which ownership sector is a state-owned railway?
5. Explain two reasons why small firms continue to exist. **[4]**

Answers

1. **A.** Steel is a material that goes into cars, so the car maker is moving back towards its supplier. (1)
2. **C.** It lowers costs for every firm in the industry. A and B are internal economies; D is an internal diseconomy. (1)
3. $2000 \div 100 = \$20$, $3000 \div 200 = \$15$, $4200 \div 300 = \$14$, $6400 \div 400 = \$16$. Average cost falls to 300 units (economies of scale) and rises from 300 to 400 units: diseconomies of scale.
4. $100 - 35 - 20 = 45\%$. A state-owned railway is in the **tertiary** sector (transport is a service) and the **public** sector (owned by the government).
5. The market may be small or local (1), so there is not enough demand for a large firm, as with a village hairdresser (1). Customers may want a personal service (1), which a small firm gives because the owner deals with each customer and knows what they want (1). (Also: low start-up costs; niche products; government support; owners who want independence.)

Past questions to try

- **0455/21/M/J/25 Q1:** part (h), whether growth will lower average cost in a textile industry.
- **0455/22/F/M/25 Q3:** part (c), how a small firm can compete with a large firm.
- **0455/12/O/N/24 Q13:** what shifts a long-run average cost curve down.
- **0455/23/M/J/24 Q4:** part (b), two ways firms can be classified.