

# The Nature of Business & Economic Sectors

IB exam-prep notes (AO1 knowledge, AO2 application, AO3 analysis/evaluation). Date: 27 Feb 2026.

## 1. The nature of business

Core idea: Business activity affects daily life and usually involves people working in an organized way to achieve objectives (often profit, sometimes social aims). Businesses are connected through supply networks, so most do not operate in isolation.

### 1.1 What is a business?

- Business: an organization that uses resources to produce goods/services that meet customer needs.
- Objectives: can include profit, growth, market share, survival, and/or social/environmental goals.
- Not-for-profit organizations (e.g., charities, museums, some public services) still plan, organize resources, and set targets.

### 1.2 The transformation process

Businesses create value by turning inputs into outputs. When customers feel the product is worth the price and the business covers costs, the exchange is mutually beneficial.

Inputs	→	Transformation process	→	Outputs
Land, labour, capital, enterprise		Operations that convert resources into value		Goods, services, or both (+ by-products)

### 1.3 Factors of production (inputs)

- Land: natural resources and space (e.g., seas for fishing, land for theme parks, wind/sun for renewables). Location/size/condition can limit or enable operations.
- Labour: human effort and skills. Quality matters (e.g., call-centre communication; doctors/nurses; elite athletes).
- Capital: man-made resources used in production (machinery, buildings, vehicles, tech). Investment can raise efficiency and quality (e.g., automated checkouts; diagnostic machines).
- Enterprise: entrepreneurship/innovation – spotting opportunities, organizing resources, taking risks, introducing new ideas (e.g., ride-sharing, online learning).

Exam trap: Profit is not a factor of production. It is an outcome (a result of successful operations and value creation).

### 1.4 Outputs: goods vs services

Type	Definition	Key implications for operations
Goods	Tangible products that can be stored (e.g., furniture, phones).	Inventory possible; production can be separated from consumption.
Services	Intangible activities delivered when demanded (e.g., legal advice, live entertainment).	Cannot be stored; demand spikes can cause waiting lists and delays.

Combined	Many businesses provide both (e.g., gyms: equipment + coaching + support).	Customer value depends on the whole experience (service quality matters).
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### 1.5 By-products, sustainability, and ethics

- Businesses may create by-products such as waste or emissions.
- Growing expectations for environmental responsibility push firms to reduce harm, recycle, and reuse materials (e.g., construction recycling; food waste to compost/feed).
- Sustainability can improve reputation and lower long-run costs.

### 1.6 Value chain and adding value

Most products pass through a value chain (linked stages that add value). Value is added when the final product is worth more than the total cost of inputs.

- Typical stages: idea/R&D; → sourcing → production → marketing → distribution → after-sales.
- Adding value can happen by: (1) reducing costs (efficiency), and/or (2) increasing perceived benefits (quality, branding, convenience, unique features).
- Brand helps recognition and trust; USP (unique selling proposition) explains what makes the offer stand out.

### 1.7 AO2 application: quick examples

- A takeaway meal depends on multiple firms (farm → processor → packaging → delivery platform → digital payment). Use this to explain interdependence and supply chains.
- A bicycle courier adds value through speed + low environmental impact, using mainly labour + simple capital.

## 2. Primary, secondary, tertiary and quaternary sectors

Economic activity can be grouped by the stage of production and the type of output. The balance of sectors changes as economies develop.

Sector	What it does	Examples	Value added by...
Primary	Extracts/harvests raw materials from nature.	Farming, fishing, forestry, mining, energy extraction; renewables (wind/solar).	Access to resources; efficiency and sustainability of extraction.
Secondary	Converts raw materials into goods; makes/assembles/builds.	Manufacturing, assembly, construction; timber → furniture; ore → steel.	Changing form of inputs; quality control; economies of scale.
Tertiary	Provides services (intangible).	Retail, transport, tourism, healthcare, education, banking, entertainment.	Convenience, expertise, customer experience.
Quaternary	Knowledge- and information-based services (specialised tertiary).	R&D; IT services, data analysis, scientific research, consultancy.	Ideas, innovation, problem-solving, intellectual capital.

### 2.1 Structural change in economies (AO3)

- As economies develop, employment and output often shift from primary → secondary → tertiary → quaternary.
- Drivers: rising incomes, education, technology, urbanisation, and changing consumer preferences.
- Sustainability pressures affect all sectors (reduce waste, recycle, use renewables, limit ecosystem damage).

### 2.2 Opportunity cost and resource allocation

- Scarcity: resources (land, labour, capital) are limited, so choices must be made.
- Opportunity cost: the value of the next best alternative forgone when making a decision.
- Businesses face trade-offs: e.g., investing in a new overseas store may delay new product development or equipment upgrades.

### 2.3 External influences on business decisions

Businesses operate in a changing external environment. Use STEEPLE to structure analysis:

Factor	Typical effects on businesses (examples)
Social	Demographic change (ageing population), lifestyle trends, health awareness.
Technological	Automation, digital platforms, new production methods, cybersecurity.
Economic	Growth/recession, inflation, interest rates, unemployment, exchange rates.
Environmental	Climate impacts, pollution limits, recycling rules, resource scarcity.
Political	Government priorities, stability, public spending, trade policy.
Legal	Employment law, consumer protection, data privacy, safety standards.

Ethical	Fair treatment of workers, transparency, sourcing (fair trade), responsible marketing.
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## 2.4 Start-up opportunities and challenges

- Opportunities: new tech (apps, platforms), sustainability (recycling, ethical products), changing demographics (healthcare/personal services).
- Challenges: limited management experience, difficulty raising capital, weak brand recognition, low bargaining power, cash-flow risk.
- Economic role: successful start-ups create jobs, increase competition, and drive innovation.

## 3. Exam toolkit: how to score marks

Use these structures to turn knowledge into analysis/evaluation.

### 3.1 Command terms – what examiners want

Command term	What to do
Define	AO1: give a clear meaning (1 sentence) plus a key feature.
Explain	AO1/AO2: show how/why; include a short example.
Analyse	AO3: link cause → effect; show consequences for performance and stakeholders.
Evaluate / Discuss / To what extent	AO3: weigh pros/cons, consider context, and give a justified judgement.

### 3.2 Short templates you can memorise

- Transformation process: Inputs (land/labour/capital/enterprise) → operations → outputs (goods/services) → value (customer satisfaction + profit/surplus).
- Adding value: value added = selling price - cost of bought-in materials/components. Increase by lowering costs and/or raising perceived benefits (quality, branding, USP).
- Sector paragraph: identify sector → describe activity → give example → explain value added → link to jobs/GDP/sustainability.

### 3.3 Practice questions

- Explain why services can be harder to manage than goods. Use a relevant example.
- Analyse how a business in the secondary sector can add value to primary-sector inputs.
- Discuss the importance of enterprise as a factor of production in a changing market.
- Evaluate the impact of a recession on tertiary-sector businesses such as tourism or retail.
- To what extent does sustainability affect decisions across different sectors?