



# Planning Activity

## Theme 1

This document provides an example of a plan for one topic within Theme 1. This resource goes into more detail than is required in the specification but it provides some background to the topic and suggested approaches for planning content.

The approach to planning taken in this document was to:

- Identify the specification content and possible links to other topics in the specification
- Identify the **knowledge**, **application**, **analysis** and **evaluation** relevant to that content
- Identify resources to support delivery – these might include:
  - Support resources including sample assessment materials and Getting Started guide
  - Published resources including textbooks
  - Websites and news stories
- Develop activities and resources – these might include:
  - Practice questions from past papers
  - Worksheets
  - Past and new case studies
  - Practice questions for explain, calculate, assess and evaluate (where appropriate)



# Entrepreneurs

Specification content	<p>1.2.1 Role of an entrepreneur in the economy</p> <p>a) Creative destruction (organising factors of production to create and set up an enterprise)</p> <p>b) Making decisions to operate, expand and develop a business</p> <p>c) Selling the output for more than the cost of the inputs (adding value)</p>
Possible specification links	1.2.2 Motives of entrepreneurs
	1.2.3 Entrepreneurs as the organisers of factors of production
	1.3.4a Entrepreneurs responding to incentives and price signals can create new markets through innovation
	1.4.1 Entrepreneurs have ideas but may lack access to finance
	1.4.2 Entrepreneurs as risk-takers
	2.1.3a Entrepreneurs seek to gain a competitive advantage through innovation
	2.1.4.d Creation and destruction of new businesses in a new environment

## Knowledge, application, analysis and evaluation

### Knowledge

Some economists believe that entrepreneurs, as the drivers of technological innovation, play a key role in economic growth. Joseph Schumpeter (1883–1950) used the term ‘creative destruction’ to describe how this works.

Creative destruction is the process by which new businesses grow and sweep away competitors who are less competitive, perhaps because they are using out-of-date technology rendering them less productive.

Schumpeter felt that the constant birth and death of businesses demonstrated that capitalism was dynamic.



## Application

A large-scale example is the decline of canal businesses when the railways emerged in the mid-19th century. The railways did not stay dominant for long, as cars sped up the decline of the railways from the mid-20th century. In the process, new businesses were created and others destroyed; jobs were created and others destroyed.

New office technology, the use of e-mail, word processing and answering machines has *destroyed* the jobs of office typists but *created* jobs for computer programmers and software developers – an example of creative destruction.

Schumpeter's ideas can lead to an analogy with the evolution of species: in competing with each other, firms adapt to changes in their environment, or they die (become extinct). Innovation introduces variation. Entrepreneurs introduce new products and technologies as new variations (like mutations): some survive in the economic environment, or adapt to changes in the economic environment, and grow (like passing on their genes); others (most) do not.

## Analysis

It could be argued that this creative destruction makes our economy dynamic, constantly changing. We should not regret this because it makes us all better off in the long run. In the short-run the creation of winners also creates losers (the firms which close, the employees who lose their jobs) but we should not ask governments to support such 'zombie industries' because it diverts resources into 'dead-end' technologies which have no future.

Technical innovation improves productivity that is a cause of economic growth. Entrepreneurs are innovators, meaning that entrepreneurial activity plays an important role in economic growth.

## Evaluation

Given that a high proportion of enterprises fail does this mean that the entrepreneurs have failed? On a personal level they may feel that they have failed but at the level of the economy as a whole there is no such thing as a failed entrepreneur. In the same way that every failed mutation makes nature stronger, every failed enterprise makes the economy stronger because successful enterprises can learn from the mistakes of others and benefit the rest of us (consumers).

Consumers might want entrepreneurs to take risks, try different ideas and set up lots of restaurants in their town. Most will fail, the best will survive and consumers will benefit. From the point of view of the entrepreneur who took a risk and set up a restaurant that failed it is a harsh lesson (from which the entrepreneur may well learn, adapt their ideas and try again). From the point of view of society, it could be argued that it does not matter about the individual entrepreneurs, what matters is that there are good restaurants and this process of creative destruction provides the best way of achieving this.



## Activity 1: Steve Jobs – entrepreneur

### What is an entrepreneur?

In 2005, Steve Jobs made a speech which has become quite famous.

Either, read the text of the speech:

<http://news.stanford.edu/news/2005/june15/jobs-061505.html>

Or, watch it on You Tube:

<http://www.youtube.com/watch?v=D1R-jKKp3NA>

Make a note of three key things in the speech which you think you will or would like to remember.

Why do you think that this speech has been described as ‘inspirational’?

## Activity 2: Two economists tried to identify what an entrepreneur is

### Joseph Schumpeter (1949)

An entrepreneur is an innovator who uses the inventions of others, sees a profitable opportunity to combine these inventions in a new way, raises finance for it, organises the human and physical resources required and provides leadership. An entrepreneur upsets convention and is responsible for creative destruction. It could be a new product, a new process, a new market for an existing product – all can lead to creative destruction. The steam engine, the railway, electricity, the car, the computer, the Internet are all examples of new technologies which have created new jobs and destroyed jobs too. Entrepreneurs are responsible for this creative destruction which provides us in the long-run, with economic growth.

### Frank Knight (1921)

An entrepreneur is someone who takes risks and is willing to put their own time and capital into an idea. Knight also distinguished between risk and uncertainty: with risk you know that there could be a range of possible outcomes and you can assess the probability of each; with uncertainty, you cannot even guess what the range of possible outcomes might be. So an entrepreneur takes on both risk and uncertainty.

Which aspects of these two descriptions would you say apply to Steve Jobs?



## Activity 3

### Factors of production and the entrepreneur

Capital and land (the means of production)	+	Labour	+	The entrepreneur	=	Product
e.g. cost of raw materials and depreciation of the machinery	+	e.g. wages	+	e.g. profit	=	Price
Cost of inputs			+	Added value		Price

You are about to set up a bakery business.

1. Identify the means of production you will use:

Capital	Land

2. As the owner, explain how you may have different objectives from your employees.

3. Explain a non-financial motive you may have in setting up your new business.

4. Explain how your bakery will add value to the flour.

5. Many new business ventures fail. Discuss how this may represent both a personal cost to you, the entrepreneur, and a benefit to the economy as a whole.

6. Using relevant examples assess how job destruction and job creation both contribute to a successful dynamic economy.