

**MARK SCHEME for the October/November 2013 series**

**0450 BUSINESS STUDIES**

**0450/11**

Paper 1 (Short Answer/Structured Response),  
maximum raw mark 100

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

Cambridge International General Certificate of Secondary Education

## **MARK SCHEME for the October/November 2015 series**

### **0450 BUSINESS STUDIES**

**0450/21**

Paper 2 (Case Study), maximum raw mark 80

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- 1 (a) Identify and explain one advantage and one disadvantage to CC of being a public limited company. [8]

Knowledge (2 × 1) – award one mark for each advantage/disadvantage identified

Analysis (2 × 1) – award one mark for an explanation of each advantage/disadvantage

Application (2 × 2) – award two application marks for each advantage/disadvantage

Award one mark for each advantage/disadvantage (maximum of two), such as:

Advantages:

- Raise large amounts of capital through share issue
- No limit to the number of shares sold
- Shares can be sold to the public
- Shares can be sold on the stock exchange
- Limited liability
- Company has separate legal identify for shareholders
- Continuity of company if shareholder dies

Disadvantages:

- Accounts are published
- Risk of takeover
- Divorce between ownership and control
- Loss of control as increased number of shareholders

Award a maximum of three additional marks for **each** advantage/disadvantage – **2 of which must be applied to this context.**

Indicative response:

Shares can be sold on the stock exchange (k) and this means that CC can raise large amounts of capital to finance the building of new factories in other countries (ap). CC will not have to pay interest on this source of finance and so costs of producing camping equipment are lower (ap) as only dividends may be paid when profits are gained (an).

Possible application marks: recognition that the plc is large; business wants to expand; manufactures camping equipment; customers have tents or caravans; merging with a competitor; three factories; capital intensive method of production; camping cooker; prices just below competitors prices; CC share price; takeover; equipment listed from Appendix 1.

There may be other examples in context which have not been included here.

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- (b) CC needs to communicate a new health and safety regulation to its factory workers. Consider the advantages and disadvantages of each of the following three ways CC could use. Recommend the most effective way to use. Justify your answer. [12]

Relevant points might include:

	Advantages	Disadvantages
Posters on factory noticeboards	Easily seen by factory workers Cheap to produce Placed in relevant position Remains visible for long period of time	Not seen by other employees May not be noticed Easily removed/damaged Not know whether or not poster has been read
CC website	Seen by a large number of people – all employees Visual images enhances the message Cost to set up (can be argued as a disadvantage)	Only seen if employee accesses the website May not have access to Internet
Text (mobile phone) message to factory workers	Directly reaches worker Send it to multiple people at once	May not be noticed Phone switched off May not own a phone Can be expensive to send out text messages Too easily deleted Communication delays/network errors

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the most effective method of communication to use. 7–8 marks for some limited judgement shown in recommendation as to the most effective method of communication to use.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each communication method.
Level 1	1–3 marks Outline of advantages and/or disadvantages of each communication method.

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- Level 1      1 mark for each L1 statement (max of 3 marks) e.g. Posters seen by target workers as they will be in the factory and pass by the noticeboard.
- Level 2      one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Posters seen by target workers as they will be in the factory and pass by the noticeboard. This is a cost effective method to use as the posters will be cheap to produce. However, it will only be seen by factory workers who pass by those particular noticeboards and there may be many workers who are not working near or walk past these noticeboards and will not see the poster. (4 marks for L2 answer).
- Level 3      for L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the most effective method to use.

Award up to 2 additional marks for relevant application.

Possible application marks: in country X; manufactures camping equipment; three factories; 100 skilled workers in each factory; many machines in factory; not allowed trade union membership; public limited company; equipment listed from Appendix 1.  
There may be other examples in context which have not been included here.

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- 2 (a) CC's Marketing manager wants to carry out market research. Identify and explain two factors which could influence the accuracy of the market research data. [8]

Knowledge [2 × 1] – award one mark for each relevant factor

Analysis [2 × 1] – award one mark for a relevant explanation for each factor

Application [2 × 2] – award two application marks for each factor

Award one mark for each relevant factor (maximum of two), such as:

- Ensuring the information is up-to-date
- Ensuring a suitable size of sample is selected
- Ensuring a suitable sample method is used/aimed at target market
- Ensure the questions on a questionnaire are well phrased
- Check who carried out the research
- Check where the research was carried out
- Check if there was any bias/dishonesty
- Method of market research used

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of how it can be ensured that the information is accurate.

Indicative response:

To ensure the information is up-to-date [k] because if the market research had been carried out a few years earlier then customer camping habits may have changed [an]. The Marketing manager needs to ensure that the information has been carried out recently so it reflects current camping habits (ap) and then CC will know whether the current customers are happy with its camping equipment (ap).

Possible application marks: in country X; manufactures camping equipment; customers have tents or caravans; country Z; camping shops; camping cooker; prices just below competitors prices; equipment listed from Appendix 1; Appendix 2 information such as price of cooker = \$40 or variable cost per cooker = £20.  
There may be other examples in context which have not been included here.

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- (b) CC's bestselling product is a good quality camping cooker which is similar to those produced by competitors. Explain how each of the following three elements of the marketing mix could be used to market CC's camping cooker. Justify why each element is important to the success of this product. [12]

Relevant points might include:

Price	Competitive pricing as they have several competitors Need to make sure costs are covered – cost plus pricing Psychological pricing – e.g. \$39.99 Penetration pricing – to enter new market
Promotion	Posters on campsite noticeboards Discount vouchers in specialist camping magazines Advertise on holiday company websites Examples of promotional offers e.g. buy camping cooker and get another item free
Place	CC equipment is sold through camping shops Could be sold direct to customers through the website Sell through other outlets as well as camping shops Open new stores near camping sites/activity centres

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 2	4–10 marks  Detailed discussion of each of the elements of the marketing mix.  Developed reasoning for the course of action suggested  Justification of why the description of the element of the marketing mix will lead to successful sales of the camping cooker.
Level 1	1–3 marks Outline the elements of the marketing mix.

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- Level 1      1 mark for each L1 statement (max of 3 marks) e.g. Competitive pricing
- Level 2      one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 10 marks) e.g. Competitive pricing needs to be used with the marketing of the camping cooker as there are many competitors and so CC cannot have very different prices to the other cookers. (4 marks for L2 answer).

Award up to 2 additional marks for relevant application.

**NB – do not reward Cooker as an application mark as it is mentioned in the question.**

Possible application marks: in country X; loyal customers, need to maintain our competitiveness; manufactures camping equipment; customers have tents or caravans; selling into country Z; camping shops; prices just below competitors prices; equipment listed from Appendix 1; Appendix 2 information such as price of cooker = \$40 or variable cost per cooker = £20.  
There may be other examples in context which have not been included here.



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3 (a) Identify and explain two benefits to CC workers of joining a trade union. [8]

Knowledge [2 × 1] – award one mark for each relevant benefit

Analysis [2 × 1] – award one mark for a relevant explanation for each benefit

Application [2 × 2] – award two application marks for each benefit

Award one mark for each relevant benefit (maximum of two), such as:

- Gives strength in numbers/collective bargaining so more likely to achieve demands
- Provides services such as insurance
- Improved pay
- Improved working conditions/health and safety
- Representation in grievances
- Represents the views of the workers
- Advice can be given if the worker has problems
- Legal support if the worker has problems
- Access to training/education
- Social activities/clubs
- Unions membership benefits e.g. discounts

Award a maximum of three additional marks for **each** explanation of the benefits – **2 of which must be applied to this context.**

Indicative response:

Being a member of a trade union gives strength in numbers so workers are more likely to achieve their demands [k] rather than if one worker tries to achieve the demands on their own (an). At the moment CC does not allow a worker to be a member of a trade union (ap). Production workers are only paid low wages and they may want to be members of a trade union in order to gain a pay rise (ap).

Possible application marks: paid lower wages than wages paid to workers in similar businesses; part-time workers; use machinery in the factory; in country X; manufactures camping equipment; merging with a competitor; three factories; 100 skilled workers in each factory; capital intensive method of production; not allowed trade union membership; country Z; camping cooker; public limited company; takeover; equipment listed from Appendix 1.  
There may be other examples in context which have not been included here.

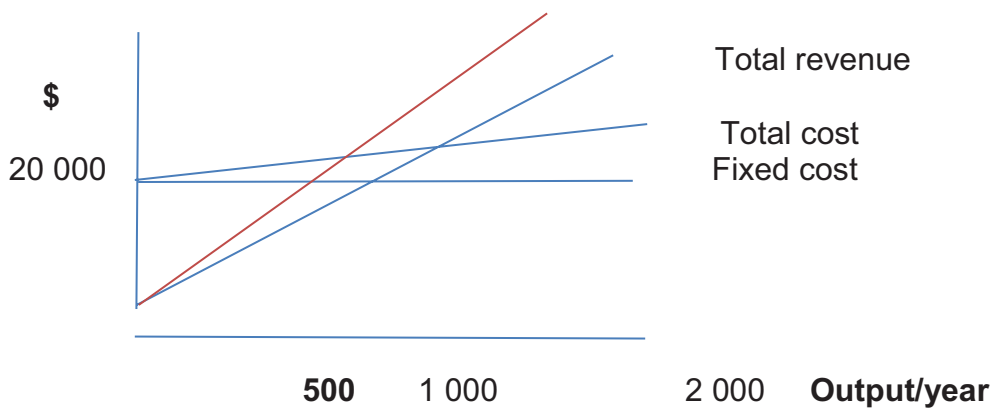
- (b) Show what happens to the break-even point for each of the following options by drawing on each chart. Consider these two options for increasing the profitability of the camping cooker. Recommend which option the directors should choose. Justify your answer. [12]

**Option 1 – Increase the price of the camping cooker to \$60**

$$B/E = \$20\,000 / (\$60 - \$20) \text{ (L1)} = 500 \text{ (L2)}$$

Revenue increases to \$120 000 – difference of \$40 000 (L1)

B/E at a lower output – increase profit – But – will sales be maintained with higher price?

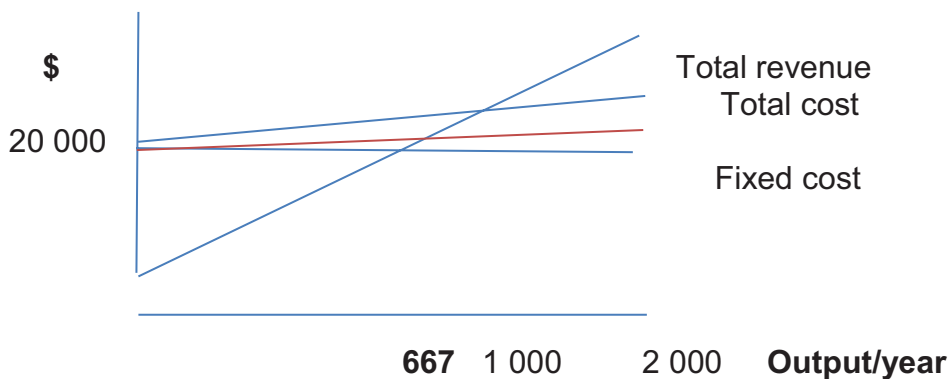


**Option 2 – Decrease the variable cost of the camping cooker to \$10**

$$B/E = \$20\,000 / (\$40 - \$10) \text{ (L1)} = 667 \text{ (accept 666) (L2)}$$

Variable cost decreases to \$20 000 – difference of \$20 000 (L1)

B/E at a lower output – takes longer to gain higher profit – But – cheaper materials may reduce quality



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Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	<b>Correct break-even calculations of output for both options +</b>  9–10 marks for well justified recommendation as to the best option to choose. 7–8 marks for some limited judgement shown in recommendation as to the best option to choose.
Level 2	4–6 marks Break-even level of output correctly calculated. Comments on what happens to the break-even output/profitability. Recommendation but no correct break-even output calculated.
Level 1	1–3 marks States about the options and what will happen to the break-even output/profitability.

Level 1      1 mark for each L1 statement – increased price may lead to increased profit. (max of 3 marks)

Level 2      one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation. (max 6 marks) Break-even output of option 1 is 500. (L2)

Level 3      For L3 to be awarded there needs to be both break-even outputs correctly calculated and then a recommendation which justifies which is the best option to choose.

**Award up to 2 marks for application – one mark for each correct line on the graphs (label not required)**

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- 4 (a) Identify and explain one advantage and one disadvantage to CC of employing skilled workers in the factories. [8]

Knowledge [2 × 1] – award one mark for each relevant advantage/disadvantage

Analysis [2 × 1] – award one mark for a relevant explanation for each advantage/disadvantage

Application [2 × 2] – award two application marks for each advantage/disadvantage

Award one mark for each relevant advantage/disadvantage (maximum of two), such as:

Advantage	<p>Increased productivity/More efficient  Less training required/Reduced training costs  Reduces supervision  Can train other workers  High quality products  Fewer errors/Less waste</p>
Disadvantage	<p>Higher wages paid  Increased wage costs  May be more difficult to recruit  Skilled workers may be specialised in just one area/less flexible</p>

Award a maximum of three additional marks for **each** advantage/disadvantage – **2 of which must be applied to this context.**

Indicative response:

Employing skilled workers will increase labour productivity (k) and this means there will be a greater number of camping cookers produced (ap) and at a lower unit cost (an). This may lead to higher profits and higher dividends paid to shareholders (ap).

Possible application marks: loyal customers, need to maintain competitiveness; other businesses may pay higher wages to attract these workers; business wants to expand; many machines used in factory; part-time workers; in country X; manufactures camping equipment; three factories; 100 skilled workers in each factory; capital-intensive method of production; not allowed trade union membership; country Z; prices just below competitors prices; public limited company; takeover; equipment listed from Appendix 1. There may be other examples in context which have not been included here.

- (b) CC wants to expand into country Z and has the choice of merging with a competitor in country Z or setting up its own factory in country Z. Consider these two options and recommend which one CC should choose. Justify your answer. [12]

Relevant points might include:

	Advantages	Disadvantages
Merging with a competitor in country Z	<ul style="list-style-type: none"> <li>Already established in the market</li> <li>Know target market well</li> <li>Existing workforce of competitor has necessary skills</li> <li>No need to build own factory</li> <li>May be cheaper</li> </ul>	<ul style="list-style-type: none"> <li>Less control over other company</li> <li>May be disagreements between staff in the two firms</li> <li>May incur redundancy costs</li> </ul>
Setting up its own factory in country Z	<ul style="list-style-type: none"> <li>Choose location etc.</li> <li>New equipment will be up to date</li> <li>Choose own staff</li> <li>Government support</li> </ul>	<ul style="list-style-type: none"> <li>Little knowledge of new market</li> <li>May be different culture</li> <li>Costs of setting up may be more expensive</li> <li>Need to recruit new staff</li> </ul>

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	<p>At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best way to increase sales compared to the other way.</p> <p>7–8 marks for some limited judgement shown in recommendation as to the best way to increase sales.</p>
Level 2	<p>4–6 marks Detailed discussion of advantages and/or disadvantages of each option.</p>
Level 1	<p>1–3 marks Outline of advantages and/or disadvantages of each option.</p>

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- Level 1      1 mark for each L1 statement (max of 3 marks) e.g. The company is already established in the market.
- Level 2      one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. The company is already established in the market therefore it will be familiar with the culture and trends in the camping market in country Z. This will save CC time and money in carrying out market research as it will not need to do this. (4 marks for L2 answer + 1 application mark for mentioning trends in the camping market in country Z).
- Level 3      For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which option CC should choose.

**Award up to 2 additional marks for relevant application.**

Possible application marks: existing business is already large; set up 20 years ago; in country X; manufactures camping equipment; three factories; 100 skilled workers in each factory; capital intensive method of production; not allowed trade union membership; public limited company; equipment listed from Appendix 1; Government grants available; similar range of camping equipment.  
There may be other examples in context which have not been included here.

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1 (a) What is meant by ‘productivity’? [2]

**Clear understanding [2]** e.g. Productivity measures the amount of output that can be produced from a given amount of resource inputs

**Some understanding [1]** Speed at which items produced

Answers that state that this shows **efficiency** – max 1 mark.

**Do not credit** an answer that simply focuses on output alone e.g. shows the output of a business in a year.

(b) Identify two advantages to Earnshaw of buying raw materials in bulk. [2]

**Knowledge [2 × 1]** award one mark per advantage.

Points may include:

- Purchasing economies of scale [resources will be cheaper]
- Materials always available when needed [no delays]
- Little chance of stock outs [running out of stock]
- Requirement to order less often
- Saves on delivery costs

(c) Identify and explain two features of flow production. [4]

**Knowledge [2 × 1]** – award 1 mark per feature [max 2]

**Analysis [2 × 1]** – award 1 mark for each relevant explanation

Points may include:

- Associated with large volumes of output [k] so economies of scale possible [an]
- Similar or identical products produced [k] because all products go through the same processes [an]
- Allows division of labour [k] so more efficient [an]
- Continuous movement of goods along a production line [k] so output is faster [an]
- Capital intensive [k] so high fixed costs [an]
- Fast method of production [k]

Note – Do not accept motivation as an identified feature of flow production. This may be explained as a consequence of one of the identified features.

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(d) Identify and explain three benefits to Earnshaw of using lean production methods. [6]

**Knowledge/application [3 × 1]** – award 1 mark per benefit

**Analysis [3 × 1]** – award 1 mark for each relevant explanation i.e. why the points identified generate benefits to the company

- Reduced defects/better quality [k] so better reputation [an]
- Reduced stock holding [k] so less capital is tied up in stock [an]
- Fewer resource inputs [k] so lower unit costs [an]
- Reduced waste [k] so less space required for storing [an]
- Time saved [k] so greater output possible [an]

Note – Accept lower unit costs only once as an explanation.

(e) 'If Earnshaw is to grow in the future then its unit production costs must fall'. Do you agree? Justify your answer. [6]

**Knowledge/application [2 × 1]** – identification of relevant issues

**Analysis [2]** – award up to 2 marks for relevant development

**Evaluation [2]** – reasoned judgment made as to whether unit costs must fall as business grows in future.

Points might include:

- Lower unit cost leads to potential higher mark-up [k] therefore higher profit [an]
- Lower prices can be charged [k] which might increase the number of sales [an]
- Economies of scale [k]
- Risk of diseconomies of scale [k]

Developed answer:

*As a business grows it should benefit from economies of scale [k]. This, therefore would mean the business can lower prices [k] which may encourage greater sales [an]. Therefore falling unit costs allow a business to grow. [ev] However, even if unit costs fall the business may not be able to grow because the marketing for the business may be poor or there may be increased competition [an] and this may restrict growth. [ev]*

2 (a) Identify two examples of fixed costs for Muammar's business. [2]

**Application [2 × 1]** award one mark per example.

Points include: rent/rates/insurance/interest charges/heating/utilities/salaries

Do not accept wages, table 1 specifies wages as \$2 per box

Do not accept machinery unless the answer specifies the cost of machinery.



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(b) Identify two reasons why sales may vary from month to month. [2]

**Knowledge [2 × 1]:** award one mark per reason.

Points include:

- nature of product
- seasonal reasons
- increased competition
- consumer tastes/fashion changes
- changes to marketing
- prices may have varied

Note – Do not accept ‘demand varies’ as a reason on its own because this is implicit in the question. Answers need to give a reason as to why demand varies.

(c) Calculate the annual profit that Muammar made in 2012. [4]

**Note:** If the correct figure of 96 000 is not given, up to a maximum of 3 marks may be awarded.

	Calculations	Monthly	Annual	Marks (\$ not required)
Sales Revenue	\$8 x 9 000 boxes	72 000	864 000	1 for either 72 000 or 864 000
Variable cost	(\$2 + \$3 + \$1) x 9 000 boxes	54 000	648 000	1 for either 54 000 or 648 000
Fixed cost		10 000	120 000	0
Total cost	Fixed costs + variable costs	64 000	768 000	2 for either 64 000 or 768 000
Monthly profit	Revenue – total costs	8 000		3 for 8 000
Annual profit			96 000	4 for 96 000

- A candidate who gives the figure 9600 has clearly calculated correctly but made one error and should therefore be awarded 3 marks.
- Calculation of variable costs plus calculation of total costs gains only 2 marks
- Credit calculation using contribution method as follows: contribution is \$2 [1] total monthly contribution \$18 000 [+1] monthly profit \$8 000 [+1]
- Own figure rule (OFR) applies up to a maximum of 3 marks if only one error carried forward.

If **NO acceptable calculations** allow 1 mark for understanding of profit [k] e.g. total revenue – total cost [1]

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- (d) Identify and explain one advantage and one disadvantage to Muammar of using piece rate to pay his workers. [6]

**Knowledge [2 × 1]** – award 1 mark for the advantage and 1 mark for the disadvantage

**Analysis [2 × 2]** – award 1 mark for analysis of impact [1] **plus a further** mark for showing how it might be a benefit or not to the business

Advantages might include:

- Encourages high output [k] so productivity would increase [an] and increased output means that extra goods can be sold [an]
- Motivating to the workforce [k] therefore less absenteeism [an]
- Saving on labour costs [k] as absent workers are not paid [an]
- Paid for what is produced [k] so costs directly controlled [an] therefore higher profits [an]

Disadvantages might include:

- Encourages speed [k] which may mean more mistakes [an] therefore more wastage [an]
- Lower quality goods [k] leading to a poor reputation [an] therefore loss of customers [an]
- Maybe discouraging for slower workers [k] increasing labour turnover [an] therefore higher recruitment costs [an]
- The business may struggle to attract workers [k]

Note: points must relate to business benefit/costs not employees.

- (e) Muammar is planning to change the selling price of the boxes to \$7 each. Do you think this change would benefit the business? Justify your answer. [6]

**Knowledge/application [2]** – identification of relevant issues

**Analysis [2]** – award up to 2 marks for explanations which explain how or why it might be an issue. Accept calculation of relevant figures as analysis but this is not essential.

**Evaluation [2]** – reasoned judgement made as to whether the change in price will benefit this business.

Points might include:

- Reduce profit margin per sale [k] which would increase break-even output [an] by 5000 per month [an]
- Potential loss [k] of £1000 profit per month [an] if sales do not rise [an]
- Lower price should increase volume of sales [k] as better able to compete with other products [an]
- If product is price elastic [k] there should be a greater increase in sales [an]
- Cheaper price might suggest inferior quality [k] therefore less sales [an]
- May lead to a price war [k] as competitors may respond by cutting their prices [an]

Note – 1 knowledge point that is very well developed could gain 3 marks [1 k + 2 an]

Developed answer:

*The price cut should increase volume of sales [k]. However the reduction would reduce the profit margin per unit [k]. The impact on break-even would be to raise it from 5000 units per month to 10000[an]. At present sales volume is 9000 per month, which would be below the new break-even point [an]. Whether it would benefit the business would depend on how much the firm could increase production [ev] and how much sales rise [ev].*

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**3 (a) What is meant by ‘market research’? [2]**

**Clear understanding [2]:** e.g. process of finding out what consumers want or need before a product is made. Or process of collecting, analysing and interpreting of information about the market.

**Some understanding [1]:** e.g. find out what customers want.

Do NOT accept examples of primary or secondary research alone, these are only acceptable as a development point.

**(b) Identify two advantages of using secondary sources. [2]**

**Knowledge [2 × 1] one mark per advantage**

Advantages may include:

- Cheaper than other sources
- Already available [time]
- May be on a larger scale than own research

**(c) Identify and explain two methods of sampling that the company could use. [4]**

**Knowledge [2 × 1] – award 1 mark per method [max 2]**

**Application/analysis [2 × 1] – award 1 mark for each relevant explanation i.e. showing what each method involves or how it is carried out.**

Points might include:

- Random [k] every potential customer has an equal chance of being selected [an]
- Stratified [k] it might be useful for holiday companies to collect information about customers from different social backgrounds [app]
- Quota [k] information collected from a set number of people representing different groups [an]
- Systematic [k] people are selected from set criteria [an]
- Cluster [k] is targeting a particular population in a small area [an]

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- (d) Identify and explain two ways of segmenting the market for holidays that the company could use. [6]

**Knowledge [2 × 1]** – award 1 mark for each way identified

**Application [2 × 1]** – award 1 mark if relevant reference made to this business

**Analysis [2 × 1]** – award 1 mark for relevant explanation i.e. shows how this grouping would operate

Points might include:

- Age [k] population might be broken down into groups such as 18–30/65+ [an] different age groups may prefer different types of holidays [app]
- Socioeconomic/income groups [k] people with high income will spend more [an] on different types of holidays [app]
- Tastes/interests [k]
- Geographic [k]
- Culture/religious background [k]

- (e) Yura believes that the price is the most important part of the marketing mix for holidays. Do you think he is correct? Justify your answer. [6]

**Knowledge/application [2]** – identification of relevant issues

**Analysis [2]** – Explanation as to why the factor is important

**Evaluation [2]** – reasoned judgement made as to whether price is the most important part of the marketing mix for holidays. This might involve considering whether one element is more important than another.

For six marks there must be some reference to whether price is the most important factor.

Points might include:

- Price can help attract consumer [k]
- Price is only one element of the marketing mix [k]
- If the holiday does not appeal to customers [k] no-one would buy the holiday [an]
- Identification of other elements of the marketing mix [k]

Developed answer:

*Price helps to attract consumers [k]. If the price is too high customers may go to a competitor [an]. However, even if a holiday is cheap if the destination is unappealing [k] it will not sell [an]. So price is an important element but not the only factor [ev]. The most important factor depends upon the personal situation of the customer [ev].*

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**4 (a) What is meant by ‘recession’? [2]**

**Clear understanding [2]** – a sustained (over a period of time) reduction in national income/output.

**Some understanding [1]** – ‘fall in output’ or ‘fall in national income’ or identifying the effects of recession alone e.g. high unemployment.

Note: without some reference to ‘sustained’ or ‘over time’, reduction in national income as the answer would only gain 1 mark. An answer which identifies only the effects of a recession even with a sustained time period gains only 1 mark.

**(b) Identify two possible reasons why national income per person has fallen between 2010 and 2012. [2]**

**Application [2 × 1] one mark per reason**

Points might include:

- GDP fell
- Population rose
- GDP rose by less than population growth
- Unemployment rose
- Government wage restraints

Note: Do not accept wages by individual businesses as the question relates to national income.

**(c) Identify and explain two ways that a Government could help new businesses to start up. [4]**

**Knowledge [2 × 1] – award 1 mark per way [max 2]**

**Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how the methods would help encourage a start-up).**

Points might include:

- Financial assistance in form of low interest loans/subsidy [k] so provide them with capital that they need [an]
- Tax incentives [k] therefore potentially improved profitability/lower costs [an]
- Offer free advice and assistance [k] to improve chances of survival [an]
- Relaxed regulations [k] makes it simpler to set up [an]
- Training courses [k] providing the expertise to start up a business [an]
- Low rent from government [k]

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- (d) Identify and explain three external (social) costs that might be caused by an increase in the number of businesses in country C. [6]

**Knowledge [3 × 1]** – award 1 mark for each cost identified

**Application/analysis [3 × 1]** – award 1 mark for each relevant explanation (i.e. show how the cost is created by an increase in the number of businesses

Points might include:

- Pollution [k] may lead to a destruction of wildlife [an]
- Health issues [k] because of pollution [an]
- Congestion issues [k] caused by an increase in traffic [an]
- Resource depletion [k] because more raw materials are used [an]
- Loss of farm land/green areas [k] thus reducing the visual beauty of an area [an]
- Strain on existing infrastructure [k] communities get less power [an]

Note – Different types of pollution can only be awarded only once. [k]

- (e) Do you think that new start-up businesses can be successful in country C? Justify your answer. [6]

**Knowledge/application [2]** – identification of relevant issues

**Analysis [2]** – award up to 2 marks for relevant explanation e.g. developing the issues or interpreting their meaning

**Evaluation [2]** – reasoned judgement made as to whether new start-up businesses can be successful in country C

Points might include:

- They must provide goods and services which people want [k] which might be difficult in a recession because people do not have the income to buy goods [an]
- They must understand the target market [k] for example some groups may have very specific tastes and will only buy goods of a certain type [an]
- They must have the right marketing mix [k] because national income per person is falling [an]
- Need right skills and experience to manage business [k] because new businesses are more likely to fail [an]
- Sufficient financial support [k] to cover initial and ongoing costs [an]
- Depends on existing competition [k] because brand loyalty may be strong [an]

Developed answer:

*New businesses will be successful if they can provide goods and services that are needed by consumers [k]. Since the economy is facing falling GDP per head customers may not buy new products [an]. Unemployment is rising [k] so it will be more difficult to set a price that people can afford [an]. Whether new businesses can be successful depends on a range of factors, not all of which a business can control [ev]. This is a particular problem in a country that is going through a recession [ev].*

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5 (a) Identify two features of a partnership. [2]

**Knowledge [2 × 1]** one mark per feature

Points might include:

- Legal agreement between 2 or more people
- Owned and financed by partners
- Profits shared
- Unlimited liability [usually]
- Unincorporated
- Share risk of failure

(b) Identify two ways of measuring the success of a business. [2]

**Knowledge [2 × 1]** one mark per way

Points might include

- Objectives of owners met
- Acceptably high ROCE/profit margin
- Survival
- Market share
- Sales value or volume
- Level of profit earned
- Market leader
- A good reputation
- Growth
- High share price

(c) Identify and explain two reasons why the business might be finding it difficult to compete against larger retailers. [4]

**Knowledge [2 × 1]** – award 1 mark per way [max 2]

**Application [2 × 1]** – award 1 mark for each relevant explanation (i.e. show why these points make it difficult to compete against larger businesses)

Reasons might include:

- Lack of economies of scale [k] so prices charged by small businesses are higher [an]
- Lack of capital [k] to be able to market/advertise effectively [an]
- Less stock held [k] and therefore less consumer choice [an]
- Sales volume is low [k] therefore they need higher profit margins [an]
- Vulnerable to price wars [k] because of lower retained profit [an]

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- (d) Identify and explain three methods of promotion that the partnership could use to increase sales. [6]

**Knowledge [3 × 1]** – award 1 mark for each method identified

**Application/analysis [3 × 1]** – award 1 mark for each relevant explanation (i.e. show how the methods identified help increase sales.

Points might include:

- Advertising more widely [k] would increase consumer awareness [an]
- Sponsorship [k] improves the image of the business [an]
- Merchandising [k] increases the attractiveness of the product/service [an]
- Trade shows/events [k] reaching a wider target market [an]
- Public relations [k] improving the image [an]
- Promotional pricing (must indicate short term price cuts) [k] to encourage customers to try your product/service [an]
- BOGOF/special offers [k] attract the customers to buy [an] as they feel they are gaining more [an]
- Gifts [k] increases the value of the product to the customer [an]
- Competitions [k] encourages to buy more frequently [an] to have a chance of winning [an]

Note – Accept examples of each bullet point once only.

- (e) Consider the advantages and disadvantages of converting the partnership into a private limited company. Recommend whether the partners should do this. Justify your answer. [6]

**Knowledge/application [2]** – identification of relevant issues

**Analysis [2]** – award up to 2 marks for relevant explanations (e.g. discussion of points considering their implication for the partnership)

**Evaluation [2]** – reasoned judgement made as to whether partners should convert the business into a private limited company

Advantages might include:

- Access to more capital [k] as they are able to sell shares [an] or this will allow them to expand [an]
- Lenders more likely to agree loans for private limited companies [k] as seen as lower risk [an]
- Limited liability for owners [k] therefore private assets are secure [an]
- Continuity of existence [k] owners can retire knowing that the business will continue [an]

Disadvantages might include:

- Extra costs [k] as more legal requirements [an]
- Financial results are available [k] so competitors can see how well you are doing [an]
- Potential decrease in control of existing partners [k] as ownership may be shared between more people [an]

Note: A one-sided answer, which considers only advantages or disadvantages, can gain a maximum of three marks, if there is a reasoned decision.