

Business Studies

Paper-1

(Topical Workbook with Mark Scheme)
(2012-2019)
Article No. 127

Features:

- Questions order new to old
- References of repeated questions added
- Mark schemes included
- All Variants

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Unit 1: Understanding Business Activity

1.1: Business activity

1. O/N 17/P12/Q2/a

CGM makes high quality shoes using job production. The production method makes use of specialisation. CGM operates in a niche market. CGM managers know that all business activity creates external costs, so they always try to act in ways that protect the environment. The Operations Director wants to increase profit. CGM could either buy cheaper raw materials or introduce new technology into the production process. The new technology would cost \$30 000 and could reduce the number of employees from 30 to 26.

(a) Identify two advantages of specialisation.

Advantage 1:.....

.....

Advantage 2:.....

.....

[2]

2. O/N 16/P12/Q1/a

APQ is a multinational company. It makes chemicals that are sold to farmers which help increase the amount of food produced. It plans to open a factory in country X, a developing country with low interest rates. The Finance Director said: 'This factory will create many external benefits. APQ is a public limited company which tries to act in an ethical way with all its stakeholder groups.' The new factory will cost \$100m and there will be an opportunity cost for APQ. The Finance Director cannot decide which source of finance to use for the new factory.

(a) What is meant by 'opportunity cost'?

.....

.....

.....

.....

[2]

3. M/J 16/P12/Q4/b

KLK is based in country X. It specialises in making electrical parts which it sells to washing machine manufacturers in country X. The Managing Director is planning to relocate to country Y, which is a low-cost country. She said: 'This will allow us to pay employees low wages for working long hours as there are few legal controls on employment and health and safety. KLK cannot be both ethical and profitable. Changes in exchange rates and import tariffs might cause us problems when we start exporting.'

(a) Identify two benefits to Business of specialisation.

Benefit 1:

.....

Benefit 2:

.....

[2]

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4. M/J 16/P11/Q2/a

Bushall is a farm. This primary sector business grows award-winning fruits such as pineapples and bananas. Bushall has 10 full-time and 50 part-time employees. All part-time job vacancies are advertised on its website. The Government has introduced legal controls for employment including a minimum wage of \$8.50 per hour and a limit on the number of hours an employee can work each week. The farm manager has said to Bushall's owners: 'Taylor's theory of motivation might not work. Our team of employees enjoy what they do. These laws are not good for our employees or our business!'

(a) Identify **two** examples (other than farming) of business activity in the primary sector.

Example 1:

Example 2: [2]

5. O/N 14/P11/Q2/b

Rakesh manages a car repair business in country Y. He buys cars that are damaged or have parts missing. Rakesh adds value by repairing these cars until they look like new ones. He employs 5 workers to do the repairs. The business holds a large stock of car parts and Rakesh always pays cash for these. However Rakesh's sales are usually on credit.

Table 1: Some information for a typical trading week

Cars bought by Rakesh	6
Average cost of each car	\$2000
Average cost of parts used per car	\$500
Weekly wages per employee	\$1000
Weekly fixed costs	\$4000
Average price per car sold	\$5000
Number of cars sold	6

(a) What is meant by 'adds value'?

.....

 [2]

6. M/J 13/P11/Q5/b

AM Designs is a private sector business. It makes dresses. It is a successful business because it adds value. Amira is directly responsible for a team of 12 people. 'I want to keep a short chain of command but I do need a manager to help me. I must find someone with the right qualities. All of my team are highly motivated and someone with the wrong management style might cause problems.'

(b) Identify **two** ways that a business could increase added value.

Way 1:.....

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Way 2:.....
..... [2]

7. O/N 12/P12/Q4/c

Colour Rack manufactures paint in country Z. It sells its products to customers both nationally and internationally. Colour Rack uses a specialist transport company to deliver its products to customers. The Colour Rack brand is well known. Many of its factory employees are unhappy at work. They are well paid but lack motivation due to the repetitive nature of their work.

(a) Explain how a manufacturing business adds value to its products.

.....
.....
.....
.....
.....
.....
.....
..... [4]

8. M/J 12/P11/Q2/e

Sunil is a sole trader. He likes owning a small business. His shop sells low price raincoats. Sales vary throughout the year. The market for raincoats is competitive, but as Sunil makes a profit he doesn't think competition is a problem for his business. In order to protect consumers, the Government of Sunil's country has recently introduced new laws to protect consumers.

(a) Do you think the advantages of owning a small business are greater than the disadvantages for Sunil? Justify your answer.

.....
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.....
.....
..... [6]

9. M/J 12/P11/Q3/d

The Government of country H is concerned about the effect of business activity on the environment. It wants to encourage sustainable development. To do this, it is planning to introduce laws to encourage environmentally-friendly production methods. A number of businesses will be affected by these new laws.

The Government of country H has collected the data shown in Table 1. Gross Domestic Product (GDP) measures the value of the total output produced in a country in one year. The GDP of country H has risen from \$625m in 2000 to \$825m in 2011.

Table 1: Percentage of GDP by different sectors

	% of GDP	
	2000	2011
Primary sector	35	15
Secondary sector	40	25
Tertiary sector	25	60

(a) Identify and explain **three** ways a Government could encourage more businesses to set up in its country.

Way 1:

Explanation:

.....
.....

Way 2:

Explanation:

.....
.....

Way 3:

Explanation:

.....
..... [6]

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Answers Section

1. O/N 17/P12/Q2/a

- (a) Knowledge [2 × 1] – award 1 mark for each relevant advantage 2

Points might include:

- Increased output OR quicker production OR increased productivity OR higher efficiency
- lower **unit** cost OR economies of scale
- Workers become expert OR more skilled OR focus on what they are good at
- Improved accuracy OR better quality OR fewer mistakes OR reduced waste
- Help improve competitiveness

2. O/N 16/P12/Q1/a

- (a) Clear understanding [2], e.g. next best alternative forgone OR next best alternative given up (by choosing another item) [2] 2

Some understanding [1], e.g. what had to give up OR option not chosen

3. M/J 16/P12/Q4/b

- (a) Application [2 × 1] – award 1 mark for each benefit. 2

- Workers are quicker at producing goods/increased productivity or efficiency/higher output
- Lower (unit) cost/benefit from economies of scale
- Every worker focuses on what they are good at/become expert
- Improved quality or accuracy or less wastage
- More competitive.

4. M/J 16/P11/Q2/a

- (a) Knowledge [2 × 1] – award 1 mark per example. Points might include: mining, fishing, forestry, oil extraction, logging. 2

5. O/N 14/P11/Q2/b

- (a) Clear understanding [2] e.g. the difference between the price of the product and the cost of the resources needed to produce it OR an improvement to the product [1] that makes it worth more [1].

Some understanding [1]: e.g. makes product more valuable.

Note – increased value is a repetition of the question and should not be credited.

6. M/J 13/P11/Q5/b

- (a) Knowledge [2 × 1] 1 mark per way 2

Ways could include: turning raw materials into finished goods/branding/packaging/adding extra features to products/USP/improved design

7. O/N 12/P12/Q4/c

- (a) **Knowledge [2]** – allow up to 2 marks for clear understanding of added value which may be implicit in the example/knowledge of ways to add value.
Application [2] – allow up to 2 marks if the candidate explains how a manufacturing business could add value to its products. Each example 1 mark e.g. branding, packaging, extra features [max 2] OR one example explained can get 2 marks.

Adding value is the difference between the price of the finished product/service and the cost of the input involved in making it [2].

Do not accept quality – as this would suggest higher cost of materials which could reduce added value.

8. M/J 12/P11/Q2/e

- (a) **Knowledge [2 × 1]**: award 1 mark for identification of relevant advantages or disadvantages.

Analysis [2]: explain how or why it might be an issue.

Evaluation [2]: reasoned judgement made as to whether advantages are greater than disadvantages for Sunil.

For two evaluation marks, the answer must be clearly in the context of this business.

Points include:

- able to offer personal service
- own boss
- size of market
- need to be creative
- lack of finance
- threat of competition
- lack of skills if only Sunil
- lack of economies of scale
- unlimited liability.

Either viewpoint is possible depending on points discussed.

Context could include: sole trader; likes owning business; very competitive market; new laws; makes a profit; low price raincoats.

9. M/J 12/P11/Q3/d

- (a) **Knowledge [3 × 1]**: award 1 mark per way.

6

Analysis [3 × 1]: award 1 mark for each relevant explanation (i.e. explain how help encourage businesses to set up).

Ways include:

- grants or subsidies
- low rent
- lower interest rates
- laws
- provision of training
- tax allowances
- advisory services
- development areas
- tariffs and quotas.

1.2: Classification of businesses

1. O/N 17/P12/Q1/a

FlyAway is an airline business. It is in the tertiary sector. It offers low-price flights for business customers in country J. Customers have to pay extra for luggage and food on the flight. It is a very competitive market. The Marketing manager knows that improving customer service is important. Bookings and advertising are done through FlyAway’s ticket shops and its website. The Marketing manager cannot decide whether to close its ticket shops and use only e-commerce.

Table 1: Selected information about two of FlyAway’s routes

Route	Average number of passengers per flight	Average price per ticket (\$)	Break-even number of passengers per flight
1	85	80	70
2	110	60	90

(a) What is meant by ‘tertiary sector’?

.....

.....

.....

.....

[2]

2. M/J 17/P12/Q4/b

Steppa is a shoe manufacturer in the private sector. Steppa has 200 employees who all receive a high hourly wage rate. The Human Resources Director said: ‘We use a democratic leadership style. Employees are an important stakeholder group. Happy workers are good for business. Revenue increased by 10% last year.’ The director cannot understand why a high number of workers leave the business each year. She is looking at other non-financial methods to motivate employees.

(a) What is meant by ‘private sector’?

.....

.....

.....

.....

[2]

3. M/J 14/P12/Q4/a

The Government of country B plans to build a new airport. A Government spokesperson said: ‘There will be external costs, but I think there will be more benefits for the local community. We have to support businesses such as airlines in the private sector’. RU Air is one of the world’s most profitable airlines. RU has announced plans on its website that it will operate flights to and from country B in the future. RU is a public limited company.

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(a) What is meant by the 'private sector'?

.....
.....
.....
.....[2]

4. M/J 14/P11/Q1/d

Anouk is a sole trader. She designs and makes jewellery at home, using hired (rented) equipment. Anouk enjoys selling the jewellery at local markets. Last year her sales revenue increased by \$500 to \$3000. She plans to use \$50 for a marketing budget. Anouk would like to do some primary market research when she has time. Anouk thinks she should have a business partner.

(a) Identify and explain two disadvantages to Anouk of having a business partner.

Disadvantage 1:
.....

Explanation:
.....
.....

Disadvantage 2:
.....

Explanation:
.....
.....
.....[6]

5. M/J 14/P11/Q2/a

Keypeople is a recruitment agency which only operates in one small town in country Z. Its owner, Rachel, and her two employees know that good customer service is important. Rachel would like to expand her business. Keypeople offers a variety of human resource services to other businesses, such as recruiting employees and preparing employment contracts. Rachel has been asked by a local manufacturing business to recruit a senior manager.

(a) Identify two examples of tertiary sector business activity in your country, other than a recruitment agency.

Example 1:

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Example 2:[2]

6. M/J 13/P11/Q5/a

AM Designs is a private sector business. It makes dresses. It is a successful business because it adds value. Amira is directly responsible for a team of 12 people. 'I want to keep a short chain of command but I do need a manager to help me. I must find someone with the right qualities. All of my team are highly motivated and someone with the wrong management style might cause problems.'

(a) What is meant by the 'private sector'?

.....
.....
.....
..... [2]

7. O/N 12/P12/Q4/a

Colour Rack manufactures paint in country Z. It sells its products to customers both nationally and internationally. Colour Rack uses a specialist transport company to deliver its products to customers. The Colour Rack brand is well known. Many of its factory employees are unhappy at work. They are well paid but lack motivation due to the repetitive nature of their work.

(a) Paint manufacturing is a secondary sector business activity. Identify two types of business activity in the tertiary sector.

Type 1:
Type 2: [2]

8. M/J 12/P11/Q3/a,c

The Government of country H is concerned about the effect of business activity on the environment. It wants to encourage sustainable development. To do this, it is planning to introduce laws to encourage environmentally-friendly production methods. A number of businesses will be affected by these new laws.

The Government of country H has collected the data shown in Table 1. Gross Domestic Product (GDP) measures the value of the total output produced in a country in one year. The GDP of country H has risen from \$625m in 2000 to \$825m in 2011.

Table 1: Percentage of GDP by different sectors

	% of GDP	
	2000	2011
Primary sector	35	15
Secondary sector	40	25
Tertiary sector	25	60

(a) What is meant by 'tertiary sector'?

.....
.....
.....
..... [2]

(b) Identify and explain **two** changes between 2000 and 2011 that are shown in Table 1.

Change 1:

Explanation:

.....

.....

Change 2:

Explanation:

.....

..... [4]

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Answers Section

1. O/N 17/P12/Q1/a
- (a) Clear understanding [2]: e.g. business or industry which provides OR sells services [1] to consumers OR other sectors of the economy 2
- Some understanding [1] e.g. provide services
2. M/J 17/P12/Q4/b
- (a) Clear understanding [2]: e.g. when business activities are owned by individuals OR groups of individuals 2
- Some knowledge [1]: not government controlled or run by individuals/owned by shareholders
3. M/J 14/P12/Q4/a
- (a) Good knowledge [2]: e.g. when business activities are owned by individuals/groups of individuals.
- Some knowledge [1]: not government controlled/controlled or run by individuals/owned by shareholders.
- For two marks, must have idea of ownership and by whom.
- Do not accept 'privately owned' as does not explain term OR 'owned by the people' as it is too vague
4. M/J 14/P11/Q1/d
- (a) Knowledge [2 × 1] – award 1 mark for each disadvantage identified 6
- Application [2 × 1] – award 1 mark if relevant reference made to Anouk
- Analysis [2 × 1] – award 1 mark for each relevant explanation
- Note:** For each reason maximum 3 marks [1k + 1app + 1an].
5. M/J 14/P11/Q2/a
- (a) Knowledge [2 × 1] 1 mark per example 2
- Examples might include: Hairdressers, transport or distribution company; banking, retailers, doctors. Accept any reasonable answer but only **one** example of a retailer.
- Do not accept** names of businesses on their own or answers such as selling
6. M/J 13/P11/Q5/a
- (a) Good knowledge [2]: When business activities are owned by individuals [2]
- Some knowledge [1] e.g. run by individuals OR not controlled directly by government OR aim to make a profit OR controlled by person/group of people
7. O/N 12/P12/Q4/a
- (a) Knowledge [2×1] 1 mark per example 2
- Allow any reasonable answer
- Answers either generic e.g. service activities or specific examples of service activities such as insurance companies.
- Do not accept** two examples of retailing OR names of businesses alone.

8. M/J 12/P11/Q3/a,c

- (a) Clear understanding [2] e.g. industry which provides/sells services [1] to consumers and/or other sectors of the economy.
Some understanding [1] e.g. provide services plus an example [+1].
Do not accept examples on their own e.g. delivery company, accountant, shop. **2**

- (b) **Knowledge [2 × 1]:** award 1 mark for each change identified. **4**

Analysis [2 × 1]: award 1 mark for each relevant explanation (i.e. why change occurred).

Changes shown:

- Fall in primary sector [1] – because of number of poor harvests/reduction in land available for farming/people move to other sectors in search of higher wages/environmental protection laws/more recycling leads to less demand for the primary sector
- Fall in secondary sector [1] – due to cheaper costs of manufacturing overseas/changes in demand so less products sold by country H/environmental protection laws
- Rise in tertiary sector [1] – increased incomes so people are able to spend more on services and leisure activities/skills base changed so more suited to service provision/more developed country.

1.3: Enterprise, business growth and size

1. O/N 17/P12/Q3/a,d

Yanis owns a busy restaurant in the city centre. He employs 4 skilled chefs and 6 workers to serve in the restaurant. All employees are on part-time contracts. The chefs are paid a high hourly wage rate, but receive no bonuses. Yanis is worried that too many chefs leave. He is thinking of other ways in which he could motivate the chefs. Yanis wants to open another restaurant but is worried about problems linked to growth. He has prepared a balance sheet as part of his business plan. An extract is shown in Table 2. The current ratio was 1.2:1 in 2016.

Table 2: Extract from balance sheet as at 30 September 2017 (\$ 000)

Non-current assets	160
Current assets	60
Current liabilities	40
Non-current liabilities	120

(a) Identify two main parts (other than finance) of a business plan.

Part 1:.....

Part 2:..... [2]

(b) Identify two possible problems for Yanis if he expands his business. Explain what he might do to overcome each problem.

Problem 1:.....

.....

Explanation of how to overcome the problem:.....

.....

.....

.....

Problem 2:.....

.....

Explanation of how to overcome the problem:.....

.....

.....

.....

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2. O/N 17/P11/Q1/a,b,c,

Ella has just left college and wants to start up her own business. She has designed a new bicycle light with a safety feature not found in any rival products. Ella knows obtaining finance will be difficult. She plans to have the lights produced in another country. Each light will cost \$8 to produce. Ella cannot decide whether to use price skimming. She said: 'I have received orders for 300 lights and I have not even started promoting them'. Ella wants to be a successful entrepreneur.

Table 1: Information on possible promotion options for Ella's bicycle light.

	Option 1: Set up her own website	Option 2: Advertise in specialist magazine
Cost information	\$500 for web page to show product specifications and contact details	\$300 for full page colour advertisement
Other information	For extra \$750 website would allow customers to order online	One of the most popular cycling magazines in the country.

(a) Identify **two** characteristics of a successful entrepreneur.

Characteristic 1:.....
.....

Characteristic 2:.....
.....

[2]

(b) Identify **two** possible reasons why Ella plans to produce the lights in another country.

Reason 1:.....
.....

Reason 2:.....
.....

[2]

(c) Identify and explain **two** reasons why obtaining finance might be difficult for bicycle light business.

Reason 1:.....
.....

Explanation:.....
.....

Reason 2:.....
.....

Explanation:.....
.....

[4]

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3. O/N 16/P12/Q1/b

APQ is a multinational company. It makes chemicals that are sold to farmers which help increase the amount of food produced. It plans to open a factory in country X, a developing country with low interest rates. The Finance Director said: 'This factory will create many external benefits. APQ is a public limited company which tries to act in an ethical way with all its stakeholder groups.' The new factory will cost \$100m and there will be an opportunity cost for APQ. The Finance Director cannot decide which source of finance to use for the new factory.

(a) Identify two possible external benefits that might result from the new factory.

Benefit 1:.....

.....

Benefit 2:.....

..... [2]

4. O/N 16/P11/Q3/b

(a) Identify two parts (other than marketing) of a business plan.

Part 1:.....

.....

Part 2:.....

..... [2]

5. M/J 16/P12/Q3/e

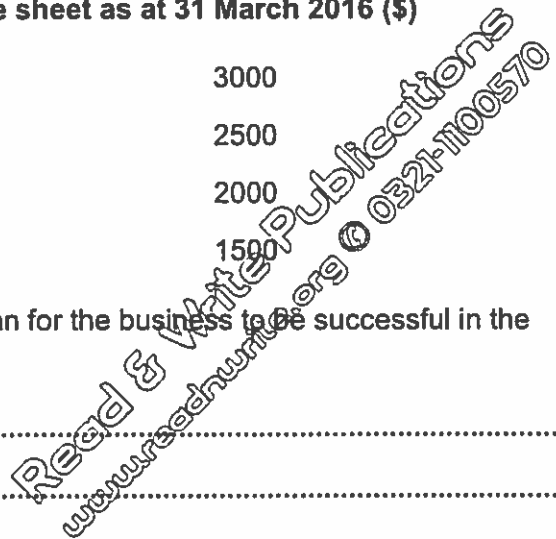
Alex and Raul are business partners. They started a bicycle repair business with their own savings as the bank would not give them a loan. Raul does most of the repair work, while Alex manages the accounts. Alex is surprised that the business has made a small profit in the first year. 'We can use this profit to expand. I don't know why people think we would benefit from having a business plan. Much of the demand for our repair business comes from our friends who own bicycles.'

Table 2: Extract from balance sheet as at 31 March 2016 (\$)

Non-current assets	3000
Current assets	2500
Current liabilities	2000
Non-current liabilities	1500

(a) Do you think Business need a business plan for the business to be successful in the future? Justify your answer.

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[6]

6. M/J 16/P11/Q4/b

Nuwan is a sole trader. He has a specialist sports shop selling a wide range of cricket and tennis products. His 3 employees are trained to provide good customer service. Nuwan is pleased the economy is growing but he is worried that interest rates might be increased. He believes his small business has advantages compared to large retailers. Nuwan would like to improve profit margins and thinks the best way to do this is to reduce costs.

(a) Identify **two** possible features which show that the economy is growing.

Feature 1:

Feature 2: [2]

7. O/N 15/P12/Q2/a

CLW makes wood furniture, including chairs and tables. Demand has risen quickly over the past 3 years and the business needs to increase the scale of production at its factory. The factory is located near the city centre in an area of low unemployment. The Finance Director has produced a business plan, including a balance sheet. The Finance Director is pleased with CLW's liquidity.

Table 1: Extract of financial information

	2013	2012
Non-current (fixed) assets (\$m)		240
Current assets:		
Inventory (stock) (\$m)	180	330
Trade receivables (debtors) (\$m)	320	240
Cash (\$m)	100	80
Total current assets (\$m)		660
Current Liabilities (\$m)		440
Current ratio	2.5:1	?
Acid test ratio	0.875:1	?

(a) What is meant by a 'business plan'?

.....

.....

.....
.....[2]

8. O/N 15/P11/Q2/b

Ramford is a private limited company. It has four factories which make a wide range of food products including breakfast cereal and ice cream. The Finance Director is worried about the company's financial performance. She has read that many businesses failed in the last year. 'I think we are suffering from diseconomies of scale' she said. Ramford's directors have decided to cut the number of different products it makes from 80 to 10.

Table 2: Extract from accounts

	2013	2014
Revenue (sales) (\$m)	200	150
(Net) profit (\$m)	70	60
Capital employed (\$m)	280	300
(Net) profit margin	35%	?
Return on Capital Employed	25%	?

(a) Identify two causes of business failure.

Cause 1:
.....
Cause 2:
.....[2]

9. M/J 15/P11/Q3/d

Si and Ramon are friends. They want to set up a photography business. They would take pictures at weddings, birthdays and other special events. The business will be a partnership. Based on their primary market research, Si believes there is enough demand. Ramon has produced a business plan which shows they need \$8000 for a shop and \$4000 for equipment. They plan to spend \$500 on promotion, but cannot agree on the best method to use.

(a) Identify and explain two advantages to business of having a business plan.

Advantage 1:
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Explanation:
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Advantage 2:

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Explanation:

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10. M/J 14/P12/Q1/e

LEK owns 80 electrical shops. It sells products such as cell (mobile) phones and televisions. The Marketing Director believes offering customers a choice of products helps LEK to be competitive. LEK must use suitable ways to communicate with its customers. LEK's directors are planning a takeover of a competitor. This competitor owns 40 shops and operates in the same 4 regions as LEK.

Fig. 1: LEK organisational chart



(a) Do you think that the takeover of the competitor would benefit mobile and television retailer? Justify your answer.

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.....[6]

11. M/J 14/P12/Q3/a

SENG manufactures cameras. Last year its market share increased by 2% to 18%. Production is capital intensive. This allows SENG to use lean production methods such as just-in-time. Cameras have a short product life cycle. SENG spends \$200m each year on extension strategies. The Marketing manager thinks that an increase in market share will lead to higher profits.

(a) What is meant by 'capital intensive?'

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.....[2]

12. O/N 13/P11/Q5/b

Dmit is a partner in a small retail clothing business. The business has been successful, but it is finding it difficult to compete against larger retailers. The partners are thinking of converting the partnership into a private limited company.

(a) Identify two ways of measuring the success of a business.

Way 1:

Way 2:

..... [2]

13. O/N 12/P12/Q2/e

Just4U manufactures motor car parts. The production methods are capital intensive. The management believes that the company benefits from economies of scale. However, problems with the workers in the factory have led to poor quality production. Despite this, the Managing Director believes that the company must continue to grow if it is to achieve its objectives. The business is planning a takeover of a competitor.

(a) Do you think that a takeover of a competitor will benefit the shareholders of car parts manufacturer? Justify your answer.

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14. O/N 12/P11/Q5/e

Greenfield manufactures furniture. The company imports wood and other raw materials from several countries. Marcos is the Managing Director of Greenfield. Marcos said that his company was affected by import quotas and changes in exchange rates. He said: 'Greenfield has to buy its raw materials from other countries as there are no timber (wood) resources in our own country.'

- (a) Greenfield's management is thinking of expanding the business by taking over another furniture manufacturer. Do you think this is a good idea for Greenfield? Justify your answer.

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..... [6]

15. M/J 12/P12/Q2/b

Bray Electrics is a large manufacturing company. The company makes engine parts for the car industry using batch production. The Managing Director is always looking for ways to introduce new technology in the business. He believes 'our workers like change'. He is

(a) Identify **two** ways of measuring the size of a company.

Way 1:

Way 2: [2]

Answers Section

1. O/N 17/P12/Q3/a,d

(a) Knowledge [2 × 1] award one mark per part

Points might include:

- Executive summary
- Business aims OR targets OR vision statement
- Marketing OR any element of mix e.g. pricing, product, place or promotion
- Market research OR Competition
- Human resources OR number of employees OR skills needed
- Production details OR break even
- Organisational and management details e.g. structure, type of business, name and location of business

(b) Knowledge [2 × 1] – award 1 mark for each problem identified

Application [2 × 1] – award 1 mark for each relevant reference made to this business

Analysis [2 × 1] – award 1 mark for each relevant solution to the problem identified

Possible points might include:

- Access to finance [k] so could ask the bank for a loan to help purchase [an] his new restaurant [app]
- Cash flow problems OR lack of working capital [k] as need to buy additional ingredients [app] so try to arrange higher credit limit [an]
- Need to recruit more workers [k] so needs to decide on a suitable way to advertise vacancies [an] such as catering magazines [app]
- Communication problems [k] could hold regular meetings to keep everyone informed OR involved [an] with his chefs or serving staff [app]
- Competition or lack of demand [k] so could use promotions [an]
- Government OR legal controls [k] so may ask for legal advice to check he is not breaking any laws [an] when selling food [app]
- Ability to manage or control two locations [k] so could recruit a manager [an] to oversee the second restaurant [app]
- Having a consistent quality [k]

2. O/N 17/P11/Q1/a,b,c,

(a) Knowledge [2 × 1] – award 1 mark for each relevant characteristic

Points could include: risk taker, innovator, creative, self-confident, optimistic, hardworking, independent, effective communicator, leadership, initiative, self-motivating/determined, results driven, good at networking, multi-skilled

- (b) Application: [2 × 1] award 1 mark for each relevant reason 2
- Points might include:
- lower costs
 - no local factory or capacity to make it
 - access to materials
 - Fewer restrictions
- (c) Knowledge [2 × 1] – award 1 mark for each relevant reason 4
Application [2 × 1] – award 1 mark for each explanation in context
- Possible points might include:
- No business experience [k] of making lights [app]
 - Seen as higher risk OR don't trust her OR can't repay [k] as just left college [app]
 - Can offer no security [k]
 - May not have a business plan OR documentation to support request for finance [k]
 - Unproven product [k]
3. O/N 16/P12/Q1/b
- (a) Application [2 × 1] award one mark per benefit
- Points might include:
- Jobs created/lower unemployment
 - More choice of chemicals for farmers
 - higher amount of food possible
 - Infrastructure/more roads
 - Increase orders for suppliers
 - Help attract other (chemical) businesses to area
 - Taxes paid to government
 - Increase skills of local people/training
 - Reduce imports/could increase exports
 - Assist economic growth
 - Bring new technology into country
4. O/N 16/P11/Q3/b 2
- (a) Knowledge [2 × 1] award one mark per part
Points might include: cash flow forecast, location, human resources plan, production details, business aims
5. M/J 16/P12/Q3/e 6
- (a) Knowledge [1] – award 1 mark for identification of relevant issue(s) (max of 1)
Application [1] – award 1 mark if relevant reference made to this business.
Analysis [2] – award up to 2 marks for relevant development of point(s).
Evaluation [2] – justified decision made as to whether Alexander Ravi's business needs a business plan to be successful in the future.
Either viewpoint is acceptable. Relevant points might include:
- Have some knowledge already [k] as have friends with bikes [app]
 - Business already successful [k] as made small profit in first year [app]
 - Gets out of date quickly [k] so time spent preparing it is wasted [an]
 - Support loan applications/attract investors [k] so don't have to use own savings [app] show they are able to repay [an]
 - Guide business/help set objectives/checklist/monitoring [k] to help decision making/see what action they need to take [an] in order to expand [app]

- Provide an estimate of costs/what type of finance they need [k] so better able to raise necessary funds [an]
- Motivate [k].

6. M/J 16/P11/Q4/b

- (a) Knowledge [2 × 1] – award 1 mark per feature. 2
Points might include: rise in GDP, falling unemployment, shortage of skilled workers, higher living standards, business profits rising/business growing, increased spending/demand, rising investment.

7. O/N 15/P12/Q2/a

- (a) Clear understanding [2] e.g. a document containing the business aims/objectives and important details about the operations, finance and owners of a business OR states aims/objectives and shows how business aims to achieve them 2
Some understanding [1] states one element of plan e.g. shows marketing strategy/production costs

8. O/N 15/P11/Q2/b

- (a) Knowledge [2 × 1] 1 mark per cause 2

Points might include:

- lack of management skills
- actions of competition
- change in government laws
- poor product range/outdated products
- lack of demand/recession
- lack of/poor market research
- lack of finance/cash flow problems
- diseconomies of scale/over expansion

Note: points could refer to either new or established business. Accept any reasonable answer.

9. M/J 15/P11/Q3/d

- (a) Knowledge [2 × 1] – award 1 mark for each relevant advantage [max 2] 6
Application [2 × 1] – award 1 mark if relevant reference to Si and Ramon's business
Analysis [2 × 1] – award 1 mark for each relevant explanation

10. M/J 14/P12/Q1/e

- (a) Knowledge [2] – award up to 2 marks for identification of relevant issue(s) 6
Application [1] – award 1 mark if relevant reference made to LEK's business.
Analysis [1] – award 1 mark for relevant development of point(s).
Evaluation [2] – justified decision made as to whether the takeover would benefit LEK. Either viewpoint is acceptable.

11. M/J 14/P12/Q3/a

- (a) Good knowledge [2]: e.g. machinery is the key resource rather than labour. 2
Some knowledge [1]: e.g. use machines.

12. O/N 13/P11/Q5/b**(a) Knowledge [2 × 1] one mark per way****2**

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

13. O/N 12/P12/Q2/e**(a) Knowledge [2] Identification of issues.****6**

Application/analysis [2] – develops the point to explain how or why affects the shareholders.
Evaluation [2] reasoned judgement made as to whether shareholders will benefit from takeover.

Points might include:

- increased profits [k] which could lead to an improved rate of return on capital/increased dividends [an]
- less competition [k]
- successful takeover could lead to an increase in share price [k]
- lessen risk to shareholder of business failing [k] as they have a larger market share [an] so an increased stability of the company [an]
- no guarantee that increased profits will happen [k]
- the ability to gain benefits from takeover [e.g. economies of scale].

14. O/N 12/P11/Q5/e**(a) Knowledge [2]****6**

Application/analysis [2]

Evaluation [2]

Advantages might include:

- Economies of scale
- Larger market share
- Wider product range
- Larger customer base

Disadvantages might be:

- Organisational problems
- Diseconomies of scale
- Finance issues

The evaluation could be something like: 'I think it would be a good idea to do this because it should allow the business to increase its sales and market share making it more profitable and more secure'.

It is not necessary to cover both the advantages and the disadvantages for Greenfield for full marks.

15. M/J 12/P12/Q2/b

(a) **Knowledge [2 × 1]:** one mark per measure.

2

Measures include:

- sales value OR value of output OR revenue
- capital employed
- number of employees
- value of balance sheet
- market share.

Do NOT reward profit/outlets/machines/number of assets/amount of output.

1.4: Types of Business Organisation

1. O/N 17/P11/Q4/c

CHONS is a public limited company. The directors want to open a new coal mine. All the coal will be exported. The Managing Director is hopeful that the Government will allow the coal mine to be opened. She said: 'CHONS always meets legal controls. In an area of high unemployment surely creating jobs is more important than protecting the environment. Most stakeholder groups including shareholders and suppliers are happy. CHONS will not be asking for any Government support.'

Table 3: Information about the proposed coal mine

Planned output	50m tonnes per year
Number of years coal mine will operate	60 years
Jobs created	10 000
Level of waste products causing pollution	High
Risk of traffic problems	High

- (a) Identify and explain one advantage and one disadvantage of CHONS being a public limited company.

Advantage:.....
.....

Explanation:.....
.....

Disadvantage:.....
.....

Explanation:.....
.....

[4]

2. M/J 17/P12/Q3/e

Five years ago Manisha started making cakes for celebrations, such as weddings and birthdays, from her home. Now she has a small shop and 3 employees. Product quality is important to her business. Manisha said: 'I have benefited from the economic boom but I did not expect demand to increase by 500% each year. Somehow I have managed to cope with higher interest rates and all the challenges of being a sole trader. The business is profitable at last but I have to work every day.' A friend has offered to become Manisha's business partner.

- (a) Do you think cake making business should have a business partner? Justify your answer.

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3. M/J 17/P11/Q1/a

QCH is a multinational company which makes a range of luxury cars. Last year it made a profit of \$700m. One of QCH's objectives is to enter new markets. QCH wants to start producing cars in country C, a fast growing economy. The Finance Director said: 'Meeting customer needs is important. We could form a joint venture or set up our own factory. Both options will be expensive, costing \$800m. I think QCH's expansion into country C could be good for other businesses there.'

(a) What is meant by a 'joint venture'?

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.....

[2]

4. O/N 16/P12/Q1/c

APQ is a multinational company. It makes chemicals that are sold to farmers which help increase the amount of food produced. It plans to open a factory in country X, a developing country with low interest rates. The Finance Director said: 'This factory will create many external benefits. APQ is a public limited company which tries to act in an ethical way with all its stakeholder groups.' The new factory will cost \$100m and there will be an opportunity cost for APQ. The Finance Director cannot decide which source of finance to use for the new factory.

(a) Identify and explain two advantages to APQ of being a multinational company.

Advantage 1:.....
.....
Explanation:.....
.....

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Advantage 2:.....
.....

Explanation:.....
..... [4]

5. M/J 16/P12/Q3/d

Alex and Raul are business partners. They started a bicycle repair business with their own savings as the bank would not give them a loan. Raul does most of the repair work, while Alex manages the accounts. Alex is surprised that the business has made a small profit in the first year. 'We can use this profit to expand. I don't know why people think we would benefit from having a business plan. Much of the demand for our repair business comes from our friends who own bicycles.'

Table 2: Extract from balance sheet as at 31 March 2016 (\$)

Non-current assets	3000
Current assets	2500
Current liabilities	2000
Non-current liabilities	1500

(a) Identify and explain two benefits to Business of having a business partner.

Benefit 1:
.....

Explanation:
.....
.....

Benefit 2:
.....

Explanation:
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[6]

6. M/J 16/P11/Q4/a

Nuwan is a sole trader. He has a specialist sports shop selling a wide range of cricket and tennis products. His 3 employees are trained to provide good customer service. Nuwan is pleased the economy is growing but he is worried that interest rates might be increased. He believes his small business has advantages compared to large retailers. Nuwan would like to improve profit margins and thinks the best way to do this is to reduce costs.

(a) What is meant by a 'sole trader'?

.....

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.....

[2]

7. O/N 15/P11/Q4/e

Tebo has recently been made redundant from his job as a car mechanic. He is thinking of setting up his own business. Even though he has no mana

8. O/N 15/P11/Q2/a

Ramford is a private limited company. It has four factories which make a wide range of food products including breakfast cereal and ice cream. The Finance Director is worried about the company's financial performance. She has read that many businesses failed in the last year. 'I think we are suffering from diseconomies of scale' she said. Ramford's directors have decided to cut the number of different products it makes from 80 to 10.

Table 2: Extract from accounts

	2013	2014
Revenue (sales) (\$m)	200	150
(Net) profit (\$m)	70	60
Capital employed (\$m)	280	300
(Net) profit margin	35%	?
Return on Capital Employed	25%	?

(a) What is meant by a 'private limited company'?

.....

.....

.....

..... [2]

9. M/J 15/P12/Q2/a

Alkin is a multinational company. It manufactures breakfast food products including many leading brands of cereal. Alkin plans to start selling in country Z, which is a fast-growing market. Alkin plans to form a joint venture with a local business, based in country Z. 'Effective communication will be important to our success but I think there are many advantages in expanding this way' said Alkin's Managing Director. The Government of country Z is worried about the effect of multinational companies like Alkin on consumers.

(a) What is meant by a 'multinational company'?

.....

.....

.....

..... [2]

10. M/J 15/P11/Q3/a

Si and Ramon are friends. They want to set up a photography business. They would take pictures at weddings, birthdays and other special events. The business will be a partnership. Based on their primary market research, Si believes there is enough demand. Ramon has produced a business plan which shows they need \$8000 for a shop and \$4000 for equipment. They plan to spend \$500 on promotion, but cannot agree on the best method to use.

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(a) What is meant by a 'partnership'?

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..... [2]

11. M/J 15/P11/Q2/e

Country S is enjoying an economic boom. During this time, businesses have increased their profits and unemployment has fallen. The only problem is inflation. All Active is a private limited company. It owns 20 sport and fitness clubs in country S. The Managing Director said: 'This is a good time to expand by opening 5 more clubs. Finding the right locations is important. We will need to recruit more employees.' He cannot decide whether it would be an advantage for All Active to become a public limited company.

(a) Consider the advantages and disadvantages for All Active of being converted to a public limited company. Do you think All Active should become a public limited company? Justify your answer.

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12. O/N 14/P12/Q1/a,d,e

Abdula manages a business partnership that makes sports clothing. The business is working at full capacity. It employs 12 people who are paid on a piece rate basis. The partners have an objective to increase profits by 10% each year for the next 5 years. They are thinking about a joint venture with another manufacturer of sports clothing as one way of achieving this objective.

(a) What is meant by a 'business partnership'?

.....
.....
.....
.....[2]

(b) Identify and explain two advantages to the partnership of a joint venture with another manufacturer of sports clothing.

Advantage 1:
.....

Explanation:
.....
.....

Advantage 2:
.....

Explanation:
.....
.....[6]

(c) Explain two ways (apart from a joint venture) that the partnership could use to achieve its objective of a 10% annual increase in its profit over the next 5 years. Recommend which way is most likely to be successful. Justify your answer.

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[6]

13. O/N 14/P11/Q1/a

Lu is a sole trader. He manages a bakery shop making and selling bread and cakes. He employs 4 workers all of whom are paid on time rate. Lu wants to expand the business by buying a new shop and using it as a café (restaurant). He also wants to make a wider range of cakes, such as wedding and birthday cakes, for which he thinks there is a demand. At present the business sells all of the bread and cakes it makes.

(a) What is meant by a 'sole trader'?

.....

[2]

14. M/J 14/P12/Q2/b

Cutter is a family owned private limited company. It manufactures a luxury brand of coats. In 2013 sales revenue increased by \$3m and retained profits also increased. The marketing mix is working' said the Marketing Director. Cutter's Operations Director thinks that batch production is still the right method of production to use, but he cannot decide whether on the job or off the job training is better for the business.

(a) Identify **two** possible advantages to Luxury coat manufacturer of being a private limited company.

Advantage 1:

Advantage 2:
.....[2]

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15. O/N 13/P12/Q4/a,b,d,e

Country A has a mix of private sector and public sector enterprises. Figures 1–3 give some data about the two sectors.

Fig. 1: Average hourly wage

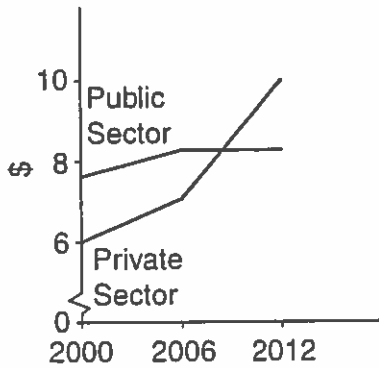


Fig. 2: Average hours worked per week

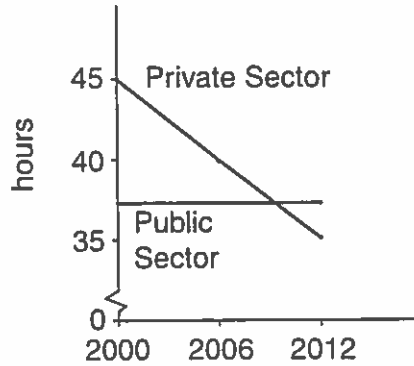
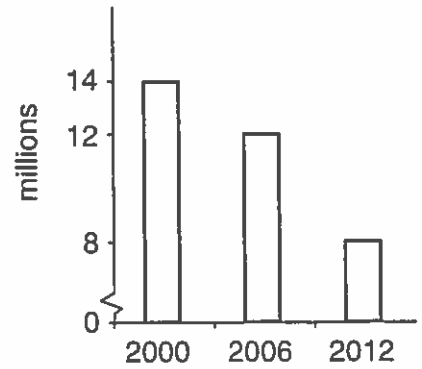


Fig. 3: Number of employees in public sector



(a) Identify two examples of public sector enterprises.

Example 1:

.....

Example 2:

..... [2]

(b) Identify two aims that public sector enterprises often have.

Aim 1:

.....

Aim 2:

..... [2]

(c) Consider each of the Figures 1–3. Identify and explain three changes that are shown by the data in Figures 1–3.

Change in Figure 1:

.....

Explanation:

.....

Change in Figure 2:

.....

Explanation:

.....

Change in Figure 3:

.....

Explanation:

..... [6]

(d) Do you think that a large decrease in the number of employees in the public sector in country A will benefit all workers? Justify your answer.

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..... [6]

16. O/N 13/P11/Q5/a,e

Dmit is a partner in a small retail clothing business. The business has been successful, but it is finding it difficult to compete against larger retailers. The partners are thinking of converting the partnership into a private limited company.

(a) Identify two features of a partnership.

Feature 1:

.....

Feature 2:

..... [2]

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

Advantages:

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Disadvantages:

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Recommendation:

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..... [6]

17. M/J 13/P12/Q1/c

Brakker is a public limited company which specialises in building large boats. Each boat costs \$4m to build and the company adds 30% to the total cost to calculate the selling price. 'Last year profits fell – but this happens in a recession' said the Finance Director. 'Yes, I am worried. If we cannot get more orders we will have to make some of our skilled workers redundant.' All Brakker workers are members of a trade union.

- (a) Identify and explain **two** advantages to a business of being a public limited company.

Advantage 1:

.....

Explanation:

.....

Advantage 2:

.....

Explanation:

..... [4]

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18. M/J 13/P11/Q1/a,c

Kew Construction is a public limited company. It specialises in building large houses. Each house costs \$30 000 to build and the company adds 40% to total cost to calculate the selling price. Last year sales fell by \$90m and dividends were reduced. The Human Resources Director is worried: 'If sales do not improve, I will need to make some workers redundant. How can I decide which workers to make redundant?'

(a) What is meant by 'dividends'?

.....
.....
.....
..... [2]

(b) Identify and explain two disadvantages to a business of being a public limited company.

Disadvantage 1:
.....

Explanation:
.....

Disadvantage 2:
.....

Explanation:
..... [4]

19. O/N 12/P12/Q3/b

Celtic Springs, a public limited company, is a water bottling business. Its shareholders have been unhappy with the performance of the business and are threatening to take action at the next Annual General Meeting (AGM). Table 1 shows an extract from the company's latest Profit/Loss Account.

Table 1: Celtic Springs Profit/Loss Account 2011 (\$m)

Sales revenue	150
Cost of sales	75
Gross profit	75
Overheads/expenses	70
Net profit	10

The accounts of the business also show that the capital employed by Celtic Springs was \$650m.

(a) Identify **two** functions of an Annual General Meeting.

Function 1:

.....

Function 2:

..... [2]

20. M/J 12/P12/Q3/a

HTB is a public limited company. It manufactures a range of computers. HTB spends a lot of money on advertising as it is in a competitive market. The management believes that the product is the most important element in their marketing mix. To meet increasing demand HTB is looking to expand their business. It plans to raise extra capital by issuing more shares. The Finance Director has been looking at the data in Table 1.

Table 1: Selected financial data from HTB (\$m)

	2011	2012
Sales	400	520
Net Profit	40	75
Long Term Liabilities	200	220
Capital Employed	400	500

(a) What is meant by 'public limited company'?

.....

.....

.....

..... [2]

21. M/J 12/P11/Q4/a

Rapid Call is a private limited company. It manufactures a range of cell (mobile) phones. The demand for these is increasing. Its products have several special features that are not available from other phone manufacturers. It sells its products directly to retail shops. Rapid Call uses competitive pricing for all products. The Finance Director has been looking at the accounts. A summary is shown in Table 2. In 2011 the gross profit margin was 40%.

Table 2: Profit/Loss Account for Rapid Call for year ending 30 April 2012 (\$000s)

Sales	450
Cost of Sales	300
Gross Profit	150
Overheads	95
Net Profit	55

(a) What is meant by 'private limited company'?

.....

.....

.....

..... [2]

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Answers Section

1. O/N 17/P11/Q4/c

- (a) Knowledge [2 × 1] award one mark for each advantage and disadvantage 4
Application [2 × 1] award one mark for each relevant reference to this business

Advantages:

- Able to sell shares on stock market [k] so no limit to potential number of shareholders [app]
- Access to more sources of finance [k] so do not have to ask for support from Government [app]
- Limited liability [k]
- Separate legal identity [k] of mining business and owners [app]
- Better status OR seen as lower risk [k] so suppliers more willing to offer credit [app]

Disadvantages:

- Have to disclose accounts [k] so less able to keep expansion plans secret [app]
- Many legal requirements/regulations [k]
- Selling shares expensive [k]
- Risk of loss of control [k] for the original shareholders [app]

2. M/J 17/P12/Q3/e

- (a) Knowledge [1]: award 1 mark for identification of relevant point(s) 6

Application [1]: award 1 mark for a relevant reference to this business

Analysis [2]: award up to 2 marks for relevant development of point(s)

Evaluation [2]: award up to 2 marks for a justified decision made as to whether Manisha should have a business partner

Points might include:

- ∞ Share workload OR responsibility [k] so does not have to work everyday [app] which could reduce her own stress OR allow her more free time [an]
- ∞ More ideas OR skills [k] from her friend [app] which could make the business more competitive [an]
- ∞ Extra source of finance [k] which is important as interest rates high [app] so less need to borrow money [an]
- ∞ Still has unlimited liability status OR liability for debts [k] as being a sole trader [app] but possible losses can be shared [an]
- ∞ Loss of some control [k] over type of cakes made [app]
- ∞ Risk of disagreements OR slow decision making [k] so less responsive to changes in customer demand [an]
- ∞ Have to share profits made [k]

3. M/J 17/P11/Q1/a

- (a) Clear understanding [2]: when two or more businesses agree to start a (new) project together so share risks OR capital OR profits OR resources. 2

Some understanding [1]: two business agree to work together (on a project).

4. O/N 16/P12/Q1/c

- (a) Knowledge [2 × 1] – award 1 mark for each relevant advantage
Application [2 × 1] – award 1 mark for each explanation in context
Relevant points might include:

4

- Access to new market/increase sales/market share [k] as people need food [app]
- Reduce production costs, e.g. lower labour costs OR lower health and safety costs OR land costs [k] as X is a developing country [app];
- Spread risk [k] when selling chemicals [app]
- Easier access to raw materials [k] for all its factories [app]
- Avoid barriers to trade [k]
- Remain competitive [k]
- Reduce transport costs (as can produce goods nearer market)
- Economies of scale, e.g. purchasing, finance [k] (only once)
- Reduce tax liability/take advantage of favourable tax laws
- Access government grants [k]

5. M/J 16/P12/Q3/d

- (a) Knowledge [2 × 1] – identification of relevant benefit [max 2].
Application [2 × 1] – award 1 mark if relevant reference made to this business.
Analysis [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include:

6

- Injection of more capital [k] to fund expansion [app] so don't have to borrow as much/reduce the cost of interest [an]
- Share work load/decision making [k] so Raul does the repairs [app] so Alex is able to focus on his job [an]
- New/more ideas [k] so can help business increase sales [an]
- Greater range of expertise/skills/specialisation [k] so can offer a better service [an]
- Share risk/losses [k] as have unlimited liability [app] would have someone to share financial burden [an].

6. M/J 16/P11/Q4/a

- (a) Clear understanding [2] e.g. ownership of business in the hands of one individual/person. 2
Some understanding [1] e.g. run/operated by one person.

7. O/N 15/P11/Q4/e

- (a) Knowledge [1] – award 1 mark for identification of relevant point (s) [max 1]
Application [1] – award 1 mark if relevant reference made to Tebo/FIXIT business
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision as to whether buying a FIXIT franchise is the best way for Tebo to start his business

6

Points might include:

- Less chance of business failure [k] if he set up his own business, it would take time to build a reputation [an]
- Training provided [k] as he has no management experience [app]
- Lower advertising/training costs [k] as he has used all his savings to buy the franchise [app] so he may not be able to afford advertising/training [an]
- Supplies from central source [k] so less suppliers to deal with [an] so has more time to do repairs [app]

- Banks more likely to lend to franchisee [k] the \$15000 needed [app] as seen as lower risk [an]
- Recognition [k] FIXIT already has 36 franchisees [app]
- Lack of control [k] as FIXIT will have a say in many decisions [an]
- Problem at one franchise affects all others [k] of the 36 [app] might lower his revenue [an]
- Less profits as only received a percentage [k] so if successful, it will not maximise profits [an]
- Does Tebo want the responsibility? [k]

Application marks may be awarded for appropriate use of the following: 36 (franchisees), car repair, no management experience, \$15 000/all his savings, cash flow important.

Note: Candidate's final decision can be either for or against the statement.

8. O/N 15/P11/Q2/a

- (a) Clear understanding [2] e.g. a business whose shares cannot be sold to the general public [2] Or shares only sold to family and friends [2]
Some understanding [1] e.g. outlines general features of limited companies e.g. have limited liability/separate legal identity from owners/can sell shares/incorporated

Do not accept in private sector/no Government involvement as generic statement also applies to unlimited businesses.

9. M/J 15/P12/Q2/a

- (a) Clear Understanding [2] – a business with factories, production or service operations in more than one country OR a business with production or service operation in another country outside its normal area of operation
Some Understanding [1] – e.g. has businesses everywhere / works or operates in more than one country
Do not accept 'sells in more than one country' as could equally apply to exporter
Do not accept examples

10. M/J 15/P11/Q3/a

- (a) Clear understanding [2] – 2 [or more] people who agree to **own** and run a business together [2]
Some understanding [1] – e.g. 2 or more people run a business
Do not accept features

11. M/J 15/P11/Q2/e

- (a) Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative 6 points allowed [max 1]
Application [1] – award 1 mark if relevant reference made to All Active's business
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision made as to whether All Active should become a public limited company. Candidate's final decision can be either for or against the statement.

Relevant points might include:

Advantages:

- Access to greater sources of finance [k] so help fund expansion [an] of 5 more clubs [app]
- Greater prestige/status [k] so might be able to attract better managers/employees [an]

Disadvantages:

- More legal requirements to meet [k]
- Already have limited liability [k] as private limited company [app] so is there much benefit [eval]
- business is already successful [k] as profits have increased [app] so might have funds for expansion already [an]
- Greater Risk of takeover [k]

Application marks may be awarded for appropriate use of the following: 5 more clubs, private limited company, fitness, 20 clubs, increasing profits

12. O/N 14/P12/Q1/a,d,e

- (a) Clear understanding [2]: e.g. where two or more people jointly agree to own the business 2
Some understanding [1]: two or more people run / operate the business OR identifies a relevant feature
Features alone max [1] e.g. unlimited liability, no separate legal identity

- (b) Knowledge [2 × 1] – award 1 mark for each advantage identified 2
Application [2 × 1] – award 1 mark if relevant reference made to this business
Analysis [2 × 1] – award 1 mark for each relevant explanation (e.g. show how the points represent an advantage to an individual business)

Points might include:

- Share expertise / ideas [k] as partnership is likely to have few specialists [app] this might enable them to make better decisions [an]
- Reduced capital needs / share costs [k] as both companies contribute [an]
- Wider range of contacts / better access to resources [k] as likely to know different clothing suppliers [app] so might be able to obtain cheaper / different materials [an]

- (c) Knowledge [2 × 1] award 1 mark for each relevant way identified 6
Application [1] – award 1 mark if relevant reference made to the business
Analysis [1] – award 1 mark for relevant development of point(s)
Evaluation [2] – justified decision made as to which method is likely to be most successful to help it achieve its objective of 10%
For 6 marks must explain why it is the better option (comment on its feasibility or why more appropriate)

Points might include:

- Target new markets / segments [k] such as make items for different sports [app]
- Develop new products [k] to attract new customers [an]
- Increase sales revenue [k] by advertising / attract more customers [an]
- Change price [k]
- Improve Efficiency methods [k] so cutting waste [an];
- Automation [k] replacing some of its 12 employees [app] so lower wage cost [an]
- Find cheaper supplier [k] which lowers cost of sales [an]
- Merger / takeover [k] as buy supplier to get cheaper materials [app] which could lower cost of sales [an].

Application might include: sports products/ clothing, 12 employees, materials, full capacity.

Developed example:

They could advertise [k] so attracting more shops to stock their products [app] increasing sales revenue [an]. Alternatively, they could increase prices. [k] However this could reduce competitiveness as customers will look for cheaper options elsewhere so advertising is better [eval].

13. O/N 14/P11/Q1/a

- (a) Clear understanding [2] e.g. a business owned and controlled by one person OR ownership lies in the hand of an individual.
 Some understanding [1] e.g. a business where one person works/runs on their own.
 Some understanding plus a relevant feature can gain [2] e.g. keeps all profits / unlimited liability.
 Note – Features alone – max [1]

14. M/J 14/P12/Q2/b

- (a) Application [2 × 1] – award one mark per advantage. 2
 Advantages could include: no need to publish (detailed) accounts, limited liability, control over who can buy shares, easier to raise money, more credibility with suppliers, separate legal identity, continuity after death of owners.

15. O/N 13/P12/Q4/a,b,d,e

- (a) Knowledge [2 × 1] – one mark per example 2
 Examples include: utilities, health provision, education, transport (only accept one example of each type)
 Accept any reasonable answer.
 Do not accept 'public corporations, nationalised industries, municipal enterprises' as these are too general.
- (b) Knowledge [2 × 1] one mark per aim 2
 Aims might include:
- Free access for all OR provided irrespective of ability to pay OR affordable for all
 - Minimum standard of provision
 - Provide (essential) services
 - Strategic – control production of certain goods
 - Meet (profit/quality) target set by government
 - protect or create employment in certain areas
- (c) Knowledge [3 × 1] – award 1 mark per change/trend identified in each chart which focuses on a comparison over time or between sectors
 Analysis [3 × 1] – award 1 mark for each relevant explanation based on the data
 Main points shown by data are:

Figure 1	Rate of growth of private sector pay greater than public sector [k] Private sector pay risen from by \$4 an hour between 2006 and 2010 to \$10 while public sector pay static at \$8 per hour [an]
Figure 1	Private sector pay has risen and it has accelerated between 2006 and 2012 [k] by \$3 per hour compared to \$1 over the first 6 years [an]
Figure 2	Differential in hours worked per week between sectors reversed [k] Private sector hours fell continuously (from 45 to 35 hours) while public sector hours remained flat (at 37 hours) [an]
Figure 3	Level of employment in public sector falling [k] at accelerating rate [an] Trend downwards over the period but accelerated between 2006 and 2012 [an]
Figure 3	Level of employment in public sector falling [k] attracted to higher wages offered by private sector (Figure 1) [an] or shorter hours (Figure 2) [an]

Note: any analysis must be supported by the data.

For Figure 2: do not accept if say 'average hours per week' have fallen [0] as stated in heading, so no comparison over time has been made.

- (d) **Knowledge/application** [2 × 1] – award 1 mark for each relevant issue identified [max 2] **6**
Analysis [2] explain how or why it might be an issue
Evaluation [2] – reasoned judgement made as to whether all employees will benefit from a decrease in number of employees in public sector

Points include:

- Possible increase in unemployment [k] less disposable income [an] so sales for businesses might fall leading to private sector job losses [an]
- For those who do get jobs the rates of pay [on average] will be higher in private sector [k]/ hours of work will be lower [k] so better standard of living possible [an]
- Private sector businesses might expand to make up for loss of services in public sector [k] so more job opportunities available [an]
- Workers who stay in public sector businesses the hours might have to increase [k] leading to demotivation/stress [an]
- Increase in competition for private sector jobs [k] may force down wages [an]
- Might lead to lower tax rates as fewer wages to be paid in public sector

Developed example:

Not all workers will benefit. Some of those in the public sector who lose their jobs [k] might remain unemployed so living standards fall [an]. The increase in labour supply might force down wage rates in private sector [k] leading to less disposable income [an]. It also depends on reason for decrease, if recession, all businesses will be affected so there might not be enough jobs for any of them [ev]. However if the private sector expands, those workers who get jobs will benefit as wage rates are higher. Overall, some workers will find that the changes make them better off while others will be worse off [ev].

16. O/N 13/P11/Q5/a,e

- (a) **Knowledge** [2 × 1] one mark per feature [2]

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) **Knowledge/application** [2] – identification of relevant issues [6]

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.

17. M/J 13/P12/Q1/c

(a) **Knowledge [2 × 1]** – award 1 mark for each advantage identified

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how it is an advantage to a business)

Points might include:

- **able to sell shares on stock market [k]** so no limit to potential number of investors [an]
- **access to more sources of finance [k]** – so easier to raise funds to expand [an]
- **limited liability [k]** so investor only liable for amount invested [an]/could be more likely to invest in company as risk limited [an]
- **separate legal identity [k]** accounts separate to owners, so if one dies, business can continue [an]
- **high status [k]** so easier to attract suppliers who will sell to them on credit OR **banks more likely to lend to them [k]** as seen as lower risk [an]

18. M/J 13/P11/Q1/a,c

(a) **Good knowledge [2]** e.g. Payment to shareholders [1] from profits of a company [+1] Return to shareholders for investing in the company [2]

Some knowledge [1] e.g. Payment to shareholders

(b) **Knowledge [2 × 1]** – identification of disadvantage [1 mark per disadvantage]

Analysis [2 × 1] – explain how it is a disadvantage to a business

Disadvantages could include:

- **have to disclose accounts [k]** so less able to keep financial details secret from rivals [an]
- **many legal requirements/regulations [k]** which is expensive and time consuming [an]
- **selling shares expensive [k]** because shares need to be listed on the stock market
- **shares are freely traded [k]** so there is a greater risk of takeover/danger that original owners might lose control [an]

19. O/N 12/P12/Q3/b

(a) **Knowledge [2×1]** 1 mark per function.

Functions include: elect OR re-elect directors/approve OR present accounts/vote on resolutions e.g. approve directors pay OR agree dividends/opportunity for shareholders to question the board OR inform performance.

20. M/J 12/P12/Q3/a

(a) **Clear understanding [2]** e.g. a company whose shares can be sold on the stock exchange OR identifies specific features of public limited company e.g. shares issued to and owned by public/shares sold freely on the stock market.

Some understanding [1] e.g. identifies general features of limited companies e.g. have limited liability/separate legal identity from owners/can sell shares/freedom of access to financial statements.

Do not accept private sector on its own.

21. M/J 12/P11/Q4/a

- (a) Clear understanding [2] e.g. a company whose shares cannot be sold to the general public.
Some understanding [1] e.g. outlines general features of limited companies e.g. have limited liability/separate legal identity from owners/can sell shares.

Do not accept in private sector – generic statement which also applies to unlimited businesses.

1.5: Business Objectives and Stakeholder Objectives

1. O/N 17/P12/Q4/c

VIS provides a range of insurance services including insurance for cars and electrical products. Last year retained profit decreased. The Managing Director blames higher taxation and also thinks that some markets have become more competitive. Customer complaints have also increased. The Managing Director plans to change the business organisational structure by removing both the regional directors and regional managers. She said: 'Shorter chains of command may help. I know some employees may need training.' She cannot decide on a suitable method of communication to inform employees about the changes to the organisational structure.

(a) Identify and explain two ways in which higher taxation might affect insurance company.

Way 1:.....
.....

Explanation:.....
.....

Way 2:.....
.....

Explanation:.....
.....

[4]

2. O/N 17/P11/Q4/a

CHONS is a public limited company. The directors want to open a new coal mine. All the coal will be exported. The Managing Director is hopeful that the Government will allow the coal mine to be opened. She said: 'CHONS always meets legal controls. In an area of high unemployment surely creating jobs is more important than protecting the environment. Most stakeholder groups including shareholders and suppliers are happy. CHONS will not be asking for any Government support.'

Table 3: Information about the proposed coal mine

Planned output	50m tonnes per year
Number of years coal mine will operate	60 years
Jobs created	15 000
Level of waste products causing pollution	High
Risk of traffic problems	High

(a) What is meant by a 'stakeholder group'?

.....
.....

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.....
..... [2]

3. M/J 17/P12/Q4/a

Steppa is a shoe manufacturer in the private sector. Steppa has 200 employees who all receive a high hourly wage rate. The Human Resources Director said: 'We use a democratic leadership style. Employees are an important stakeholder group. Happy workers are good for business. Revenue increased by 10% last year.' The director cannot understand why a high number of workers leave the business each year. She is looking at other non-financial methods to motivate employees.

(a) What is meant by a 'stakeholder group'?

.....
.....
.....
..... [2]

4. M/J 17/P11/Q1/b

QCH is a multinational company which makes a range of luxury cars. Last year it made a profit of \$700m. One of QCH's objectives is to enter new markets. QCH wants to start producing cars in country C, a fast growing economy. The Finance Director said: 'Meeting customer needs is important. We could form a joint venture or set up our own factory. Both options will be expensive, costing \$800m. I think QCH's expansion into country C could be good for other businesses there.'

(a) Identify two advantages to multinational company which makes cars of having objectives.

Advantage 1:

Advantage 2:

..... [2]

5. O/N 16/P12/Q1/d

APQ is a multinational company. It makes chemicals that are sold to farmers which help increase the amount of food produced. It plans to open a factory in country X, a developing country with low interest rates. The Finance Director said: 'This factory will create many external benefits. APQ is a public limited company which tries to act in an ethical way with all its stakeholder groups.' The new factory will cost \$100m and there will be an opportunity cost for APQ. The Finance Director cannot decide which source of finance to use for the new factory.

(a) Identify two stakeholder groups of APQ. Explain how APQ could act in an ethical way with each stakeholder group.

Stakeholder group 1:.....

Explanation:.....

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.....

Stakeholder group 2:.....

Explanation:.....

.....

[6]

6. O/N 16/P11/Q3/a

YOGO is a new business which Amelia has just set up using Government support. YOGO makes a range of sweets (candy) targeted at adults. It is a niche market. Amelia has been looking at the marketing part of her business plan. She has to decide which pricing method to use. Amelia is spending a lot of money on packaging. She did not do any primary market research as she thinks she can use secondary data to make decisions. She believes that all adults like sweets.

(a) Identify **two** reasons why a Government might support business start-ups.

Reason 1:.....

.....

Reason 2:.....

.....

[2]

7. M/J 16/P11/Q3/c

Rafiq is the Operations manager at a small factory. The business makes a range of soft drinks using batch production. Last year Rafiq successfully introduced just-in-time inventory control, based on an idea from one of the 40 employees. As the business is planning to expand, Rafiq thinks it would be a good idea to change to flow production.

Table 1: Income statement for 2015 (\$000)

Revenue	
Cost of sales	360
Gross profit	240
Expenses	Y
Profit	120
Retained profit	100

(a) Identify and explain **two** possible reasons why profit is important for business.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

.....

[4]

8. O/N 15/P12/Q4/d

Nellis is a public limited company. It specialises in building large luxury houses. Over the past 3 years its profits have increased as the country is experiencing an economic boom. 'It's not all good news – the Government has announced plans to increase interest rates and introduce new legal controls to protect the environment' said the Managing Director. He believes these new legal controls to protect the environment will only make businesses (such as Nellis) less profitable.

(a) Identify **two** stakeholder groups. Explain why each group is important to business.

Stakeholder group 1:

Explanation:

.....

.....

.....

.....

.....

Stakeholder group 2:

Explanation:

.....

.....

.....

.....

.....

[6]

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9. O/N 15/P12/Q1/c

Walt owns a company which has developed a new computer game for adults. A focus group report shows customers like it. Walt has been considering the marketing mix, including the packaging for this product which is likely to be sold in many countries. 'I don't want to use a wholesaler as it would affect my profit margin' he said.

(a) Explain why the profit margin might be important for business.

.....

.....

.....

.....

.....

.....

.....

.....

.....[4]

10. O/N 14/P12/Q5/b

Ali has just been appointed as Managing Director of Anypart, a large manufacturing business. He told Anypart's Board of Directors: 'Behaving ethically will always lead to lower profits. I want our employees to work longer hours, have fewer holidays and become more productive. This will reduce costs of each unit of output and will benefit all our stakeholders'. Not all of the directors agreed with him.

(a) Identify two of Business stakeholder groups (other than employees).

Stakeholder group 1:

Stakeholder group 2:[2]

11. O/N 14/P12/Q1/c

Abdula manages a business partnership that makes sports clothing. The business is working at full capacity. It employs 12 people who are paid on a piece rate basis. The partners have an objective to increase profits by 10% each year for the next 5 years. They are thinking about a joint venture with another manufacturer of sports clothing as one way of achieving this objective.

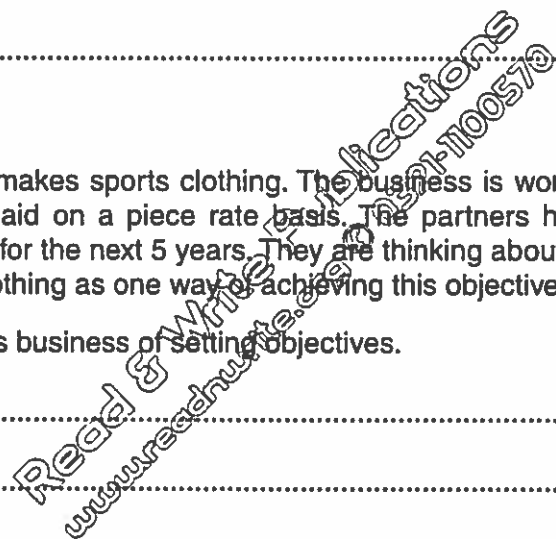
(a) Identify and explain two advantages to this business of setting objectives.

Advantage 1:

.....

Explanation:

.....



Advantage 2:

.....

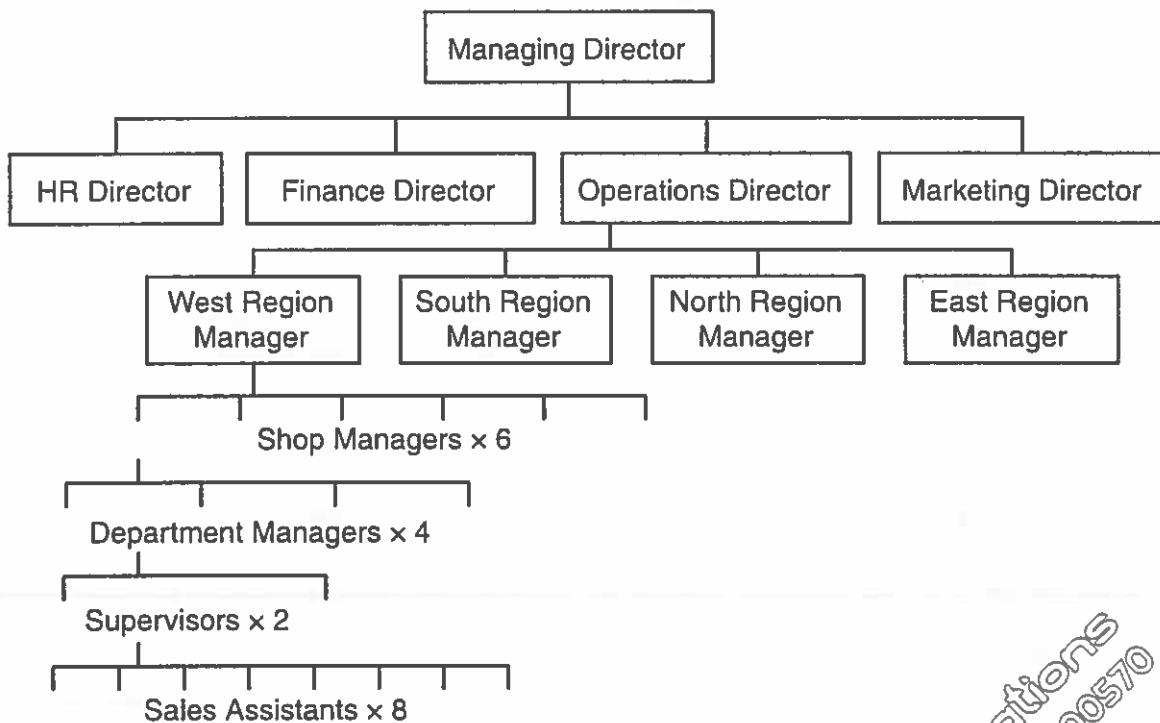
Explanation:

.....[4]

12. M/J 14/P11/Q5/a

Callow is a large retail business based in country X. 'Our employees are an important stakeholder', said the Managing Director. 'To make sure we stay profitable we need to motivate them.' Callow trains all of its shop employees by using off the job training.

Fig. 1: Callow Organisation Structure



(a) Identify two stakeholder groups, other than employees.

Stakeholder group 1:

Stakeholder group 2:[2]

13. O/N 13/P12/Q4/c

Country A has a mix of private sector and public sector enterprises. Figures 1–3 give some data about the two sectors.

Fig. 1: Average hourly wage

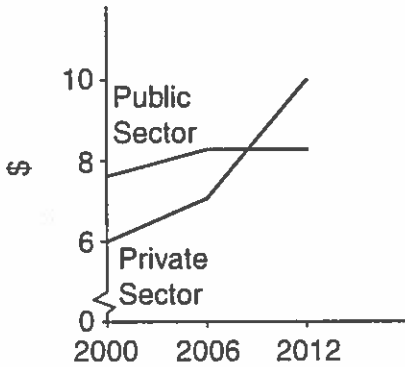


Fig. 2: Average hours worked per week

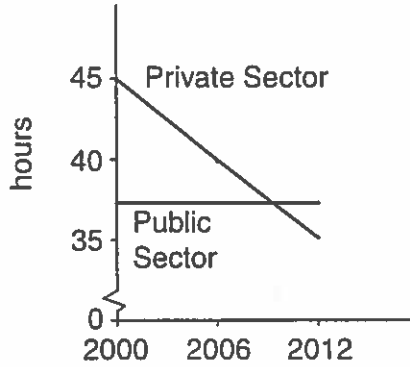
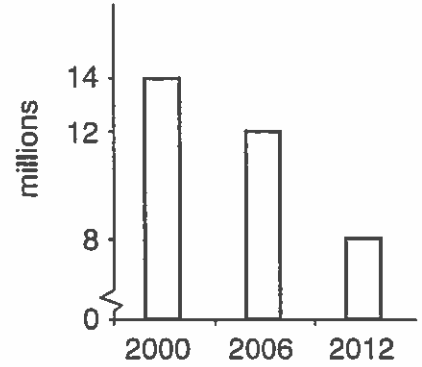


Fig. 3: Number of employees in public sector



(a) Identify and explain two reasons why profits are important to private sector businesses.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

..... [4]

14. M/J 13/P12/Q5/c

ANZ is a large multinational company which manufactures aeroplanes. Growth is an important objective for the company. ANZ wants to start producing in country P for the first time. The new factory will operate for 24 hours a day. A pressure group in country P believes that all business activity is bad for the environment. It wants the Government to do more to control business activity.

(a) Identify and explain two reasons why objectives are important to businesses such as ANZ.

Reason 1:

.....

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Explanation:

.....

Reason 2:

.....

Explanation:

..... [4]

15. O/N 12/P12/Q5/c

Country W has a mixed economy. Herio is a Government economist. He said: 'Business activity in the private sector can lead to external costs, such as pollution. It can also create external benefits. I believe that businesses that create external benefits should be encouraged and those that create external costs should be closed down.' Country W has low economic growth and rising inflation.

(a) Most businesses set objectives. Identify and explain two reasons why having objectives may be important for a business.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

..... [4]

16. O/N 12/P12/Q3/d,e

Celtic Springs, a public limited company, is a water bottling business. Its shareholders have been unhappy with the performance of the business and are threatening to take action at the next Annual General Meeting (AGM). Table 1 shows an extract from the company's latest Profit/Loss Account.

Table 1: Celtic Springs Profit/Loss Account 2011 (\$m)

Sales revenue	?
Cost of sales	150
Gross profit	?
Overheads/expenses	70
Net profit	10

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The accounts of the business also show that the capital employed by Celtic Springs was \$650m.

- (a) Identify and explain **three** reasons why profit is important to a company such as Celtic Springs.

Reason 1:
.....

Explanation:
.....

Reason 2:
.....

Explanation:
.....

Reason 3:
.....

Explanation:
..... [6]

- (b) Do you think that the shareholders of Celtic Springs are right to be unhappy with the company's performance? Justify your answer using the data provided.

.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....



.....
..... [6]

17. O/N 12/P12/Q2/b

Just4U manufactures motor car parts. The production methods are capital intensive. The management believes that the company benefits from economies of scale. However, problems with the workers in the factory have led to poor quality production. Despite this, the Managing Director believes that the company must continue to grow if it is to achieve its objectives. The business is planning a takeover of a competitor.

(a) Identify two objectives that a business like car parts manufacturer might have.

Objective 1:
.....
Objective 2:
..... [2]

18. O/N 12/P11/Q4/c

Jergen Cosmetics makes a range of beauty products for women in country A. 'We are a market orientated company' said Klaus, the Managing Director. 'One of our business objectives is to increase sales turnover. We have just set up our own website and increased our marketing budget. Our country's economic growth is forecast to be 4% next year and this will guarantee our company's profitability.'

(a) Identify and explain two benefits to Cosmetics business of setting business objectives.

Benefit 1:
.....
Explanation:
.....
Benefit 2:
.....
Explanation:
..... [4]

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19. M/J 12/P12/Q3/c

HTB is a public limited company. It manufactures a range of computers. HTB spends a lot of money on advertising as it is in a competitive market. The management believes that the product is the most important element in their marketing mix. To meet increasing demand HTB is looking to expand their business. It plans to raise extra capital by issuing more shares. The Finance Director has been looking at the data in Table 1.

Table 1: Selected financial data from HTB (\$m)

	2011	2012
Sales	400	520
Net Profit	40	75
Long Term Liabilities	200	220
Capital Employed	400	500

- (a) Identify and explain two reasons why shareholders might be interested in the accounts of HTB.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

..... [4]

20. M/J 12/P12/Q1/b

Made Fresh is a company that manufactures high quality organic foods. The company uses ingredients that have been grown by local farmers in country J. Market research has shown that branding has helped the company to achieve its objectives. Recent bad weather in country J has led to many of the farm crops failing. Made Fresh is thinking about importing organic food ingredients from other countries nearby.

- (a) Identify two possible objectives Made Fresh could have.

Objective 1:

.....

Objective 2:

..... [2]

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21. M/J 12/P11/Q2/a,c

Sunil is a sole trader. He likes owning a small business. His shop sells low price raincoats. Sales vary throughout the year. The market for raincoats is competitive, but as Sunil makes a profit he doesn't think competition is a problem for his business. In order to protect consumers, the Government of Sunil's country has recently introduced new laws to protect consumers.

(a) What is meant by 'profit'?

.....
.....
.....
..... [2]

(b) Identify and explain two reasons why profit is important to small businesses like Sunil's.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

..... [4]

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Answers Section

1. O/N 17/P12/Q4/c
- (a) Knowledge [2 × 1] – award 1 mark for each relevant way 4
 Application [2 × 1] – award 1 mark for each explanation in context
 Possible points might include:
- Reduced demand OR lower sales [k] for insurance [app]
 - Increased costs OR lower profit [k] so less money for training [app]
 - May have to increase prices [k] leading to more customer complaints [app]
 - Might decide to relocate or stop selling some products [k] especially as some markets have become more competitive [app]
 - Delay plans to expand [k]
2. O/N 17/P11/Q4/a
- (a) Clear understanding [2]: any person or people with a direct interest in the performance and activities of a business 2
 Some understanding [1]: someone affected by what a business does
3. M/J 17/P12/Q4/a
- (a) Clear understanding [2]: any person or people with a (direct) interest in the (performance) and activities of a business 2
 An individual or group which has an interest in a business because they are affected by its activities (and decisions) [2]
 Some understanding [1]: someone affected by a business
 Anybody inside or outside the business who cares about its operations [1]
4. M/J 17/P11/Q1/b
- (a) Application [2 × 1]: award 1 mark per advantage 2
 Points might include:
- Have an aim OR target to work towards
 - Provide a sense of direction OR know what you have to do
 - Measure of success (to judge performance)
 - Help budgeting OR planning OR decision making
 - Motivate
5. O/N 16/P12/Q1/d
- (a) Knowledge [2 × 1] – award 1 mark for each relevant stakeholder 2
 Application [2 × 1] – award 1 mark if relevant reference made to this business
 Analysis [2 × 1] – award 1 mark for each relevant explanation
 Relevant points might include:
- Employees/management [k] if set up in developing country [app] should pay fair wages [an] or offer good conditions [an]

- Suppliers [k] pay fair price/pay on time [an] for the chemicals [app]
- Community [k]
- Pressure groups [k] by trying to prevent pollution/environmental damage [an] caused by factory [app]
- Government [k] paying its taxes on time/not do tax avoidance [an]
- Lenders/bank [k] if borrow \$100m [app]
- Owners/shareholders [k] as public limited company [app]
- Customers [k] do not exploit them by charging high prices [an] to farmers [app]

6. O/N 16/P11/Q3/a

2

- (a) Knowledge [2 × 1] award one mark per reason
Points might include: reduce unemployment, increase competition, increase output, benefit society, small businesses can grow

7. M/J 16/P11/Q3/c

2

- (a) Knowledge [2 × 1] – award 1 mark for each relevant reason [max 2].
Application [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include:
- Retained profit [k] which could be used to finance the change to flow production [app]
 - Measure of performance [k] to see if the \$120 000 profit is higher than last year [app]
 - Source of finance [k]
 - To attract/keep investors [k] as the business plans to expand [app].

8. O/N 15/P12/Q4/d

6

- (a) Knowledge [2 × 1] – identification of relevant group [max 2]
Application [2 × 1] – award 1 mark for each explanation in context of Nellis
Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Owner/Shareholders [k] may choose to sell their shares [app] reducing the market value of the company [an]
- Employees OR Managers [k] as they carry out/control the day-to-day operations [an]
- Customers [k] buy what the business make [an] allowing Nellis to increase profit [app]
- Banks/lenders [k] provide an important source of finance [an] which allows the business to take advantage of the economic boom [app]
- Government [k] as their new legal controls on environment [app] might restrict/influence way they operate [an]
- Local community [k] might object to building [app] delaying the start/stop the work [an]
- Pressure groups [k]

Application could include: luxury, (large) houses, economic boom, legal controls/environment, public limited company/sell shares, (increasing) profits, interest rates.

9. O/N 15/P12/Q1/c

- (a) Knowledge [2] – award up to 2 marks for each relevant point/knowledge of importance of 4 profit margin (do not credit definitions or formulae) [max 2]
Application [2] – award up to 2 marks for each relevant explanation in context of this business

Relevant points might include:

- Profit as a proportion of sales revenue, a higher margin would mean more profit [k] is made for each game sold [app]
- Influence price charged [k] if he sells to wholesaler [app] it could mean he needs more adults to buy product [app]
- Indicates efficiency [k]
- Measure of success/performance/comparison with other years [k]
- Comparison with other real world businesses specified by the candidate [k]

Do not award answers that explain reasons why profit rather than profit margins matter.

Application might include: wholesaler, adults, many countries, game, computer or other related terms e.g. software.

10. O/N 14/P12/Q5/b

- (a) Application [2 × 1] award 1 mark per stakeholder group 2
Points might include: owners OR shareholders, government, suppliers, community, customers, bank/lenders
Do not accept types of employees e.g. managers.

11. O/N 14/P12/Q1/c

- (a) Knowledge [2 × 1] – award 1 mark for each advantage 4
Application [2 × 1] – award 1 mark for each relevant explanation in context (i.e. explain how the points generate advantages for this business)

Points might include:

- Measure of success [k] if achieve the 10% increase in profit they will know it has been a good year [app]
- Helps decision making / planning / budgeting [k] for a (possible) joint venture / increasing profits [app]
- Gives sense of purpose and direction [k] so able to take decisions/allocate resources effectively to ensure hit its annual target [app]
- Aim or target [k]
- Motivate [k].

12. M/J 14/P11/Q5/a

- (a) Knowledge [2 × 1] – award one mark per stakeholder 2
Stakeholders could include: customers, suppliers, Government, owners or shareholders, lenders, community.
Note: Do not accept competitors, managers, directors.

13. O/N 13/P12/Q4/c

- (a) Knowledge [2 × 1] – award 1 mark per reason 4
Analysis [2 × 1] – award 1 mark for showing why these points are important
Reasons include:
- Source of finance [k] to help fund future activities/expansion [an]
 - Inexpensive source of funds [k] as no need to pay interest [an]
 - Needed for long term survival [k] as have funds to help if business makes a loss [an]
 - Represent a return on owners' capital [k] as otherwise would invest elsewhere [an]
 - Necessary return for risk taking OR pay shareholder dividends/employee bonuses [k] to help attract/retain shareholders/good employees [an]
 - Measure of success/performance [k] large profits would indicate/reinforce image of good years trading [an]

Do not accept repayment of any costs/loan of a business

14. M/J 13/P12/Q5/c**(a) Knowledge [2 × 1] – identification of reason [1 mark per reason]****4****Analysis [2 × 1] – 1 mark for each relevant explanation (i.e. how or why it might be important or helpful to a business)**

Points might include:

- **give a business an aim or target [k]** so employees/managers will know what they must do to be seen as successful [an]
- **provide a sense of direction [k]** so able to take decisions/allocate resources effectively [an]
- **measure of success against which performance can be judged [k]**
- **they facilitate budgeting OR planning OR decision making [k]** as able to effectively identify milestones which would help them achieve goals [an]
- **motivate [k]**

15. O/N 12/P12/Q5/c**(a) Knowledge [2×1] – award 1 mark per reason.****4****Analysis [2×1] – award 1 mark for each relevant explanation (e.g. show how or why it helps a business).**

Reasons include:

- **give a business an aim or target [k]** so employees/managers will know what they must do to be seen as successful [an]
- **they provide a sense of direction [k]** so able to take decisions/allocate resources effectively [an]
- **measure of success against which performance can be judged [k]**
- **they facilitate budgeting OR planning [k]** as able to effectively identify milestones which would help them achieve goals [an]
- **motivate [k].**

16. O/N 12/P12/Q3/d,e**(a) Knowledge [3×1] – award 1 mark per reason.****6****Application/analysis [3×1] – award 1 mark for each relevant explanation (i.e. show why they are important to the business).**

Profits matter because:

- **represent a reward for risk taking [k]**
- **source of capital/use for reinvestment [k]** which does not need to be repaid [an] for future growth [an]
- **measure of performance [k]** as higher profits than \$10m is seen as positive [app]
- **ensure long term survival of business [k]**
- **shareholders want dividends (satisficing) [k]**
- **attracts future investors/shareholders/financiers [k]** as potential investors will see this as a successful company [app]
- **need to have a significant return on capital employed to justify initial investment [k].**

Do not accept answers such as pay costs such as wages/debts.**(b) Knowledge [2] – Identification of measures of performance/issues.****6****Application/analysis [2] – develops the point to explain how or why issue needs to be considered. (Any manipulation of figures gains analysis. Figures can be rounded. Check for OFR against 3(a).)****Evaluation [2] conclusion based on analysis of data or other issues (e.g. limited data so difficult to properly assess performance).**

Content:

- shareholders likely to be unhappy if their dividends are low [k] and the management of the business are thought to be performing poorly [an]
- net profit margin [k] is 4.3% [an]
- gross profit margin [k] is 34.78% [an]
- ROCE [k] is 1.538% [an] so evidence suggests a weak performance and hence shareholders likely to be unhappy [eval]
- performance depends on state of the market and/or performance of competitors [k]
- net profit will further reduce after tax (so less dividend potential)
- limited data as no information about previous years [k].

Note 1: For 2 knowledge marks must include a performance measure. Max 1 mark for simply describing changes or identification of issues.

Note 2: An answer that just describes figures and draws simple conclusions can gain 2 marks.

17. O/N 12/P12/Q2/b

- (a) Application [2×1] 1 mark per objective. 2

Objectives might include survival/growth OR enter new markets/ROCE/increase market share OR new customers OR sales revenue/ increase quality/ increase value added/profit. Do not accept 'achieve economies of scale' as in stated in question 2(c).

18. O/N 12/P11/Q4/c

- (a) Knowledge [2] 4

Application/analysis [2 × 1]

Benefits of objectives are:

- Gives sense of purpose and direction
- Goal to be achieved
- Measure of success
- Helps decision making and planning

Explanation shows why the above would be of benefit to the business. So setting an objective of increasing turnover by say 5% next year is of benefit to the company because it sets a target [1] which motivates staff to perform better [explanation as to why it is a benefit].

19. M/J 12/P12/Q3/c

- (a) Knowledge [2 × 1]: award 1 mark per relevant reason. 4

Application/analysis [2 × 1]: award 1 mark per relevant explanation (i.e. explain why issue for shareholders).

Reasons might include:

- will want to know how well the company has performed (e.g. are they making a profit) [k] to know how much dividend they might receive [an]/whether it is worthwhile to CARRY on investing in the company [an]
- potential investors will want to know if it is worth investing in company [an] as if returns are poor they will look for alternative investments [an]
- is the company being run efficiently (e.g. liquidity, debt levels) [k]
- whether likely to see a rise in share price if business is successful [k]
- to compare with other businesses accounts [k] to decide which one to invest in [an].

20. M/J 12/P12/Q1/b

- (a) **Knowledge [2 × 1]:** one mark per objective. **2**
Objectives include: expansion OR growth/survival/increased market share OR more customers OR increased sales/customer service/profit/enter new overseas markets/added value.
Do NOT accept reduce cost.

21. M/J 12/P11/Q2/a,c

- (a) Clear understanding [2] e.g. profit is the amount of money that a business makes once costs have been subtracted from the revenue [2]. Or total revenue minus total costs [2]. Formula is acceptable for two marks. **2**
Some understanding [1] e.g. money left after costs paid.
Answers such as money made by a business [0].
For both marks must have idea that there is both sales and cost element to profit.
- (b) **Knowledge [2 × 1]:** award 1 mark per relevant reason. **4**
Analysis/application [2 × 1]: award 1 mark for each relevant explanation (i.e. show why important to small business).

Reasons include:

- reward for risk taking
- source of funds for expansion
- source of funds for emergency
- main reason for the existence of many small businesses/motivation
- necessary for survival
- difficult to obtain other sources of finance as Sunil is a sole trader.

Do not accept repayment of any costs/loan of a business.

Unit 2: People in Business

2.1 Motivating Employees

1. O/N 17/P12/Q3/e

Yanis owns a busy restaurant in the city centre. He employs 4 skilled chefs and 6 workers to serve in the restaurant. All employees are on part-time contracts. The chefs are paid a high hourly wage rate, but receive no bonuses. Yanis is worried that too many chefs leave. He is thinking of other ways in which he could motivate the chefs. Yanis wants to open another restaurant but is worried about problems linked to growth. He has prepared a balance sheet as part of his business plan. An extract is shown in Table 2. The current ratio was 1.2:1 in 2016.

Table 2: Extract from balance sheet as at 30 September 2017 (\$ 000)

Non-current assets	160
Current assets	60
Current liabilities	40
Non-current liabilities	120

(a) Do you think Yanis should change the way he motivates his chefs? Justify your answer.

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[6]

2. O/N 17/P11/Q2/e

(a) Do you think paying higher wages is the best way for cookies business to improve employee motivation? Justify your answer.

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.....

[6]

3. M/J 17/P12/Q4/c, e

Steppa is a shoe manufacturer in the private sector. Steppa has 200 employees who all receive a high hourly wage rate. The Human Resources Director said: 'We use a democratic leadership style. Employees are an important stakeholder group. Happy workers are good for business. Revenue increased by 10% last year.' The director cannot understand why a high number of workers leave the business each year. She is looking at other non-financial methods to motivate employees.

(a) Identify and explain **two** effects on Steppa of a high number of workers leaving the business each year.

Effect 1:

.....

Explanation:

.....

Effect 2:

.....

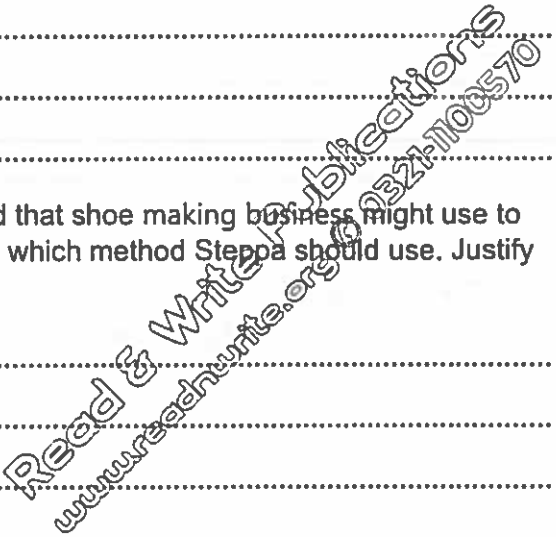
Explanation:

.....

[4]

(b) Explain **two** methods of non-financial reward that shoe making business might use to increase employee motivation. Recommend which method Steppa should use. Justify your answer.

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[6]

4. O/N 16/P11/Q1/d

(a) Identify and explain **two** benefits to hand made shoe manufacturer of having full-time employees.

Benefit 1:.....

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Explanation:.....

.....

.....

.....

Benefit 2:.....

.....

Explanation:.....

.....

.....

.....

[6]

5. M/J 16/P11/Q2/c, d

Bushall is a farm. This primary sector business grows award-winning fruits such as pineapples and bananas. Bushall has 10 full-time and 50 part-time employees. All part-time job vacancies are advertised on its website. The Government has introduced legal controls for employment including a minimum wage of \$8.50 per hour and a limit on the number of hours an employee can work each week. The farm manager has said to Bushall's owners: 'Taylor's theory of motivation might not work. Our team of employees enjoy what they do. These laws are not good for our employees or our business!'

(a) Identify and explain **two** possible reasons why 'Taylor's theory of motivation might not work' at Bushall.

Reason 1:

.....

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Explanation:

.....

Reason 2:

.....

Explanation:

.....

[4]

(b) Identify and explain **two** advantages to Bushall of having **part-time** employees.

Advantage 1:

.....

Explanation:

.....

.....

.....

Advantage 2:

.....

Explanation:

.....

.....

.....

[6]

6. O/N 15/P11/Q1/d

(a) Identify and explain **two** ways that toy manufacturer could improve the motivation of its employees.

Way 1:

.....

Explanation:

.....

.....

.....

Way 2:

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.....
Way 2:

.....
Explanation:

7. O/N 14/P12/Q2/b

Sarah is the owner of a small business making children's toys. She sells her toys to retailers on 3 months' credit. She receives 1 month's credit from her suppliers. Her cash flow forecast for the start of 2015 is given below.

Table 1 (\$000)

	January	February	March
Cash inflow	15	20	19
Cash outflows:			
Purchases of stock	12	10	14
Wages	X	7	6
Other payments	4	4	4
Total cash outflows	22	Y	24
Net cash flow	(7)	(1)	(5)
Opening balance	10	3	2
Closing balance	3	2	(3)

Note: numbers in brackets are negative.

Identify **two** examples of Sarah's 'other payments'.

Example 1:

Example 2:

Abdula manages a business partnership that makes sports clothing. The business is working at full capacity

9. O/N 14/P11/Q1/b

Lu is a sole trader. He manages a bakery shop making and selling bread and cakes. He employs 4 workers all of whom are paid on time rate. Lu wants to expand the business by buying a new shop and using it as a café (restaurant). He also wants to make a wider range of cakes, such as wedding and birthday cakes, for which he thinks there is a demand. At present the business sells all of the bread and cakes it makes.

(a) Identify **two** methods business could use for paying employees (other than time rate).

Method 1:

Method 2: [2]

10. O/N 14/P11/Q4/c

Genel manufactures clothes. The company uses an autocratic style of management. It employs a large number of workers and pays low wages. Many employees leave the company each year but they are easily replaced. Working conditions in the factories are poor. Health and safety is ignored and long hours are worked. Employee motivation is low and employee productivity is falling.

(a) Identify and explain **two** ways in which Genel would benefit from a more motivated workforce.

Way 1:

.....

Explanation:

.....

Way 2:

.....

Explanation:

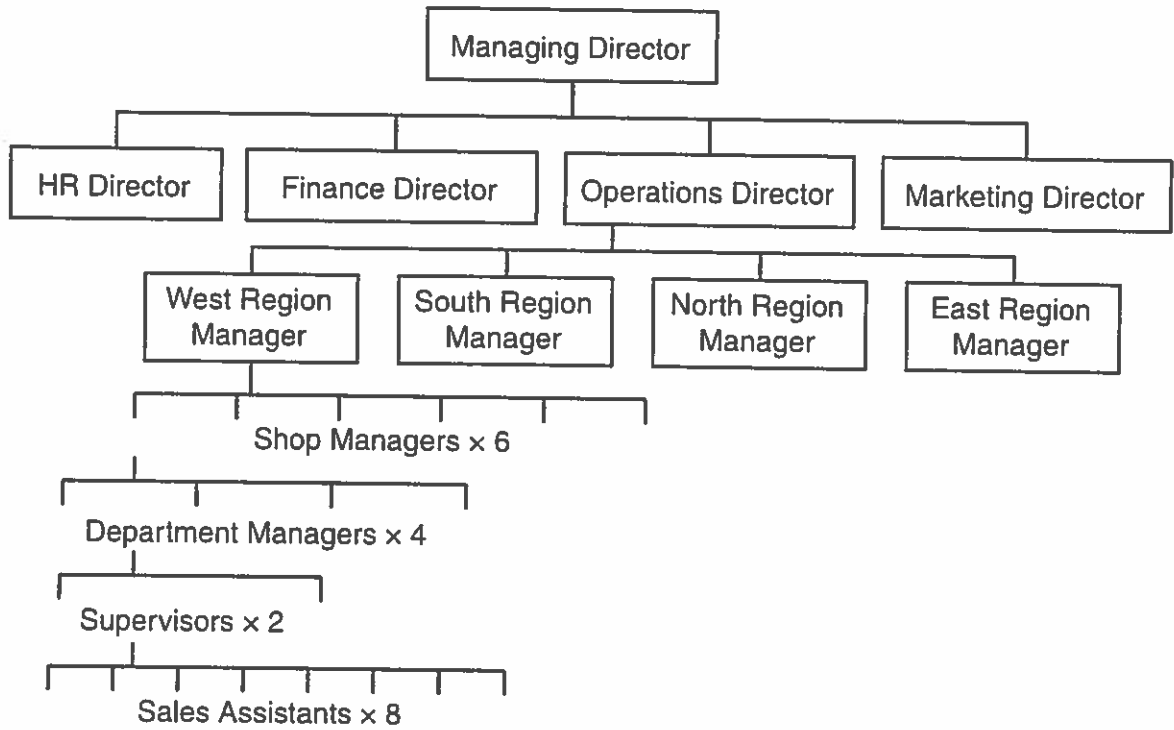
..... [4]

11. M/J 14/P11/Q5/d

Callow is a large retail business based in country X. 'Our employees are an important stakeholder', said the Managing Director. 'To make sure we stay profitable we need to motivate them.' Callow trains all of its shop employees by using off the job training.

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Fig. 1: Callow Organisation Structure



(a) Identify and explain **two** possible methods that retail business could use to improve the motivation of its employees.

Method 1:

Explanation:

Method 2:

Explanation:

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12. O/N 13P11/Q2/d

Muammar sells boxes of spices to markets. Workers in Muammar's business are paid on a piece rate basis. Table 1 gives financial details of the business in 2012.

Table 1

Fixed costs per month	\$10 000
Employee wages	\$2 per box
Raw materials	\$3 per box
Marketing costs	\$1 per box
Selling price	\$8 per box
Sales per month [average]	9000 boxes

- (a) Identify and explain one advantage and one disadvantage to Muammar of using piece rate to pay his workers.

Advantage:

.....

Explanation:

.....

.....

..... [6]

13. O/N 13/P12/Q2/e

Party Pops is a business that sells products such as cakes and balloons for childrens' birthday parties. The Marketing Director thinks that the demand for the company's products is price elastic. Party Pops advertises on television. The products are sold through the company's own retail shops. However, the Marketing Director is thinking of changing this to selling only on the Internet.

- (a) Do you think Party Pops should stop selling through shops and sell only on the Internet? Justify your answer.

.....

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..... [6]

14. O/N 13/P12/Q3/d

Harry owns a pizza restaurant in a large city. Table 2 gives financial data for the business in 2012.

Table 2

Selling price per pizza	\$8
Variable costs per pizza	\$5
Weekly fixed costs	\$2700
Weekly sales	1500 pizzas

- (a) Harry pays his workers piece rates. Identify and explain **one** advantage and **one** disadvantage to pizza business of using this method of payment.

Advantage:

.....

Explanation:

.....

.....

.....

Disadvantage:

.....

Explanation:

.....

.....

..... [6]

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15. O/N 13/P12/Q5/d,e

K & P is a large group of shops selling televisions. The directors of K & P use an autocratic management style. Spans of control are narrow and communication is only one-way. Many workers leave K & P each year and this is a problem for the business. The motivation of the workforce is low as workers feel they are unimportant.

(a) Identify and explain three methods that K & P could use to improve worker motivation.

Method 1:

.....

Explanation:

.....

Method 2:

.....

Explanation:

.....

Method 3:

.....

Explanation:

.....

[6]

(b) Should K & P try to reduce the number of workers leaving each year? Justify your answer.

.....

.....

.....

.....

[6]

16. M/J 13P12/Q3/c

Emir is the Production manager at a large food production factory. He wants to lower average cost to help the business remain competitive. All workers are paid using time rate. Emir believes that good internal communication is important. The company has decided to stop importing raw materials as this causes a lot of problems. Emir must choose a suitable method of communication to tell the overseas suppliers of his decision.

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- (a) Identify and explain **two** payment methods for workers that this business could use (other than time rate).

Method 1:

Explanation:

.....
.....

Method 2:

Explanation:

.....
.....

.....[4]

17. O/N 12/P12/Q4/e

Colour Rack manufactures paint in country Z. It sells its products to customers both nationally and internationally. Colour Rack uses a specialist transport company to deliver its products to customers. The Colour Rack brand is well known. Many of its factory employees are unhappy at work. They are well paid but lack motivation due to the repetitive nature of their work.

- (a) Recommend **two** strategies for improving the motivation of Colour Rack’s factory employees. Justify your answer.

Strategy 1:

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.....
.....

Strategy 2:

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.....[6]

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Answers Section

1. O/N 17/P12/Q3/e

(a) Knowledge [1] – award 1 mark for identification of relevant points (s) 6

Application [1] – award 1 mark for relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether Yanis should change the way he motivates his chefs

Relevant points might include:

- Depends on reason why people are leaving [k] as only a part-time contract [app]
- Little incentive with current method to work harder [k] as no bonuses [app]
- May not be able to afford alternative methods [k] as planning to open another restaurant [app]
- Workers may expect high wages [k] as skilled [app]
- Current system offers flexibility to employees [k]
- Could offer bonuses [k] which increases costs [an] so may not be able to afford to expand [an]
- Increase hours [k]
- Offer job rotation [k] so there is more variety [an]

2. O/N 17/P11/Q2/e

(a) Knowledge [1] – award 1 mark for identification of relevant points (s) 6

Application [1] – award 1 mark for relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] award up to 2 marks for justified decision as to whether paying higher wages is the best way for NMBJ to improve employee motivation

Points might include

- Only a short term incentive [k] have to pay, whatever the output [an]
- Money is the main motivator [k]
- Other ways to motivate e.g. job rotation, enrichment, fringe benefits [k]
- Help retain workers [k] so not as many people leave [app] leading to lower recruitment costs [an]
- This will increase costs for the business [k] by \$15 000 per month [app] so output per worker would need to rise [an]

3. M/J 17/P12/Q4/c,e

(a) Knowledge [2 × 1]: award 1 mark for each effect 4

Application [2 × 1]: award 1 mark for each explanation in context

Points might include:

- ∞ Additional training costs [k] as new workers need to learn how to make shoes [app]
- ∞ Additional recruitment costs [k] to maintain its 200 employees [app]
- ∞ Time taken to recruit new employees [k]
- ∞ Damage to reputation OR harder to recruit [k]
- ∞ Reduction in output OR efficiency [k]
- ∞ Impact on motivation of other workers OR increased workload for

- remaining workers [k] so not be able to maintain happy workers [app]
- ∞ New employees can provide new ideas [k]
- ∞ Hard to maintain quality [k] so revenue does not increase by 10% [app]

- (b) Knowledge [1]: award 1 mark for identification of relevant method(s) 6
 Application [1]: award 1 mark for a relevant reference to this business
 Analysis [2]: award up to 2 marks for relevant development of point(s)
 Evaluation [2]: award up to 2 marks for a justified decision made as to which of the two non-financial methods Steppa should use

Points might include:

- ∞ Offer fringe benefits e.g. holidays or discounts [k] on shoes [app]
- ∞ Job rotation [k] would be more interesting OR not as boring as doing the same thing [an]
- ∞ Team working [k] could lead to increased output OR increased efficiency [an]
- ∞ Training [k] so workers feel more valued as they gain more skills [an]
- ∞ Praise [k] as feel their work has been recognised [an]
- ∞ Opportunities for promotion [k]
- ∞ Increased responsibility [k]
- ∞ Award schemes such as employee of the month [k]
- ∞ Job enrichment [k]
- ∞ Job enlargement [k]

4. O/N 16/P11/Q1/d

- (a) Knowledge [2 × 1] – award 1 mark for each advantage identified 6
 Application [2 × 1] – award 1 mark if relevant reference made to C&C
 Analysis [2 × 1] – award 1 mark for each relevant explanation
 Relevant points might include:

- Easy to communicate/update [k] on new styles [app] as employees always there [an]
- Motivated/More committed to the business [k] so likely to produce enough shoes [an] to help meet the growing demand [app]
- Fewer workers needed [k] therefore less administration needed [an]
- No need to train regularly [k] as these are skilled workers [app] so able to maintain quality/output [an]
- internal pool of candidates for promotion [k] which can help keep recruitment costs low [an]

5. M/J 16/P11/Q2/c, d

- (a) Knowledge [2 × 1] – award 1 mark for each relevant reason. 4
 Application [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include:

- Financial rewards might not motivate workers [k] because they enjoy what they do [app]
- Taylor assumes workers are lazy [k] these workers want to win more awards [app]
- It assumes you can measure output [k] but only have output at harvest time [app]
- Non-financial factors might be more important [k] e.g. Being able to work part-time [app].

- (b) Knowledge [2 × 1] – identification of relevant advantage [max 2]. 6
 Application [2 × 1] – award 1 mark for each way if relevant reference made to Bushall.

Analysis [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include:

- More flexible/easier to ask employees to work at busy times [k] such as the picking season [app] when some additional help is needed [an]
- Help to attract new employees [k] because it fits around their other commitments [an], those who may not want to work full-time [app]
- Lower labour costs [k] outside of harvest time [app] as there is less work [an]
- Provide a wide range of skills/knowledge [k]
- May be more motivated [k] and therefore have greater productivity [an]
- Easier to find workers [k].

6. O/N 15/P11/Q1/d

(a) Knowledge [2 × 1] – identification of relevant way [max 2] [6]

Application [2 × 1] – award 1 mark for each way if relevant reference made to TWH

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

Relevant points might include:

- Job rotation [k] swapping between making different toys [app] they are not bored doing the same thing [an]
- training [k] on the new technology [app] so employees feel valued [an]
- better communication with management [k] so workers feel that they are important to the business [an] so efficiency improves [app]
- improve pay [k] they pay \$6 [app] as pay \$.50 less per hour [an] OR bonuses/piece rate [k] so make more toys [app] to get paid above their usual wage [an]
- improved working conditions/environment [k]

Note: other options acceptable e.g. fringe benefits (allow only once), job enrichment, promotion

Do not accept work harder alone as analysis because a reason for this must be given

Application marks may be awarded for appropriate use of the following: relevant use of numbers, toys, average costs, efficiency, new technology.

7. O/N 14/P12/Q2/b

(a) Application [2 × 1]: award 1 mark for each relevant payment [2]

Payments include: insurance, rates, rent, water, electricity / gas, interest payments, salaries

Accept any reasonable answer

8. O/N 14/P12/Q1/b

(a) Application [2 × 1] award 1 mark per way [2]

Ways might include – time rates, bonus payments, salaries, profit sharing, performance related pay

Do not accept commission, as not appropriate for a manufacturing business

9. O/N 14/P11/Q1/b

(a) Application [2 × 1] one mark per method. [2]

Points might include: piece rates, salary, performance related pay, bonuses/commission, profit sharing.

Note – Do not accept wage as this implies time rate

10. O/N 14/P11/Q4/c

(a) Knowledge [2 × 1] – award 1 mark for each relevant way. [4]

Application [2 × 1] – award 1 mark for each relevant explanation in context (show why these points matter to this type of business).

Points might include:

- More output [k] so able to meet demand for its clothes [app]
- Workers work harder [k] which leads to an increase in productivity [app]
- Lower wage costs [k] as might not need to employ as many workers [app]
- More flexible [k] as workers will be able to respond to changing tastes [app]
- Lower levels of absenteeism [k]
- Lower training / recruitment costs [k] because of lower levels of staff turnover [app]
- Loyal staff [k] which will reduce staff turnover
- Less mistakes [k] so better quality clothes made [app]
- Improved image / better reputation [k].

11. M/J 14/P11/Q5/d

- (a) Knowledge [2 × 1] – award 1 mark for each relevant method identified [6]
 Application [2 × 1] – award 1 mark if relevant reference made to Callow's business
 Analysis [2 × 1] – award 1 mark for each relevant explanation
 For each reason maximum 3 marks [1k + 1app + 1an].

Methods might include:

- Bonuses / commission [k] for sales assistants [app] as this would encourage them to sell more to earn extra money [an]
- Fringe benefits [k] e.g. the regional directors / managers could receive a company car [app] they will feel important / position recognised [an]
- Payment methods e.g. increase wage rate or salary (only allow once)
- Job rotation [k] sales assistants could move to different departments [app] so they are not bored [an]
- Training/CPD [k].

12. O/N 13P11/Q2/d

- (a) Knowledge [2 × 1] – award 1 mark for the advantage and 1 mark for the disadvantage [6]

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.

13. O/N 13/P12/Q2/e

- (a) **Knowledge/Application** [2 × 1] – award 1 mark for each relevant issue identified [6]
Analysis [2] – award up to 2 marks for relevant explanation (i.e. how or why it might be an issue)
Evaluation [2] reasoned judgement made as to whether PP should only sell on the internet

Points for internet might include

- Increase the geographical market [k] as it gives them access to customers not in reach of their shops [an]
- Access a new range of customers [k] able to attract a wider target market [an]
- Able to reduce prices by cutting out middle men [k] so improve margins [an]
- Make it easier for customers to buy [k] which would increase sales [an]
- Reduce costs of employees and rent for shops [k] so lower expenses [an]

Points against internet include

- Internet buying is not for everyone [k] so could lose current as well as potential customers [an]
- Security issues e.g. risk of fraud [k] so discourages customers who do not trust system [an]
- Not everyone has access to internet [k] so loss of potential/current customers [an]
- Distribution costs e.g. PP might have to cover costs of postage [k] which would increase its variable costs [an]
- Increased competition from online retailers around the world [k] which would limit possible sales [an]

Note: points must relate to business not consumers

Developed example:

Party pops is able to access more customers [k] so able to increase sales [an]. They won't have to pay the costs of rent [k]. However customers might prefer to see the products before they buy which they can't do [k] which would discourage sales [an]. The products must be delivered [k] which might be difficult as customers live far away [an]. Party pops might want to sell on the internet, to reach a larger market but shouldn't stop using shops especially as they are used to selling in shops as they would lose those customers who won't buy off the internet [eval] and the threat of competition could see sales fall even more [eval].

14. O/N 13/P12/Q3/d

- (a) **Knowledge** [2 × 1] – award 1 mark for the advantage and 1 mark for the disadvantage [6]
Analysis [2 × 2] – award 1 mark for analysis of impact [1] plus a further mark for showing how each point might be an advantage (or not) to the business

Advantages might include

- Paid for what produce [k] so costs directly controlled [an] therefore able to earn higher profit [an]
- Increase output/efficiency [k] as workers will work faster [an] so Harry is able to meet all orders on time [an]
- Saves labour costs [k] as if no customers in restaurant [an] no wages need to be paid as no production necessary [an]
- Motivating to workers to work harder [k] so less absenteeism [an] so able to offer better customer service [an]

Disadvantages include:

- Encourages speed [k] which may mean more mistakes [an] therefore more wasted ingredients [an]
- Lower quality goods [k] as rush the work [an] leading to customer dissatisfaction/poor reputation [an]
- Can be difficult to calculate wages [k] if restaurant is busy [an] as will have to pay workers more [an]
- Discouraging for slower workers [k] increasing labour turnover [an] therefore higher recruitment costs [an]

Note: points must relate to business not employees

15. O/N 13/P12/Q5/d,e

(a) **Knowledge [3 × 1]** – award 1 mark per relevant method [6]

Analysis [3 × 1] – award 1 mark for each relevant explanation i.e. must focus on how the method has a positive impact on improving motivation of employees

Methods include:

- change leadership style OR use democratic leadership style [k] so workers feel less alienated [an]
- delegation [k] as workers feel trusted [an]
- consultation e.g. kaizen or focus groups as employees have greater involvement in decisions
- improved internal communications [k] so that workers feel informed [an]
- job rotation [k] not bored doing same job all the time
- job enrichment [k] given more responsibility for managing your own work [an]
- flexible working hours [k] so better work life balance [an]
- promotion prospects [k] encourages loyalty/opportunity to rise up the hierarchy [an]
- improved working conditions [k] so more pleasant environment [an]
- offer training [k] have opportunity to develop new skills [an]
- change methods of remuneration e.g. bonuses, commission, increased pay [k] as able to earn more to meet needs/wants [an]

Do not accept piece rate as not appropriate for a shop.

(b) **Knowledge/Application [2 × 1]** – identification of relevant issues in context [2] [6]

Analysis [2] – explain how or why it might be an issue

Evaluation [2] – reasoned judgement made as to whether K & P should try to reduce number of employees leaving.

Points could include:

- recruitment costs [k] which would increase expenses [an]
- training costs [k] as workers might not have the necessary experience/skills needed [an]
- reduced morale of work force [k] so give poor customer service [an] which could damage company reputation [an]
- new people bring new ideas and skills [k] so able to improve customer service [an]
- depends on who is leaving/why they are leaving [k] as poor performing workers would not be missed [an]
- loss of expertise/knowledge of business [k] as they might not be easy to replace [an]

Developed example:

If more people leave, they will have to spend more on recruiting new workers [k] which would increase their costs [an]. These new workers might need training [k] otherwise level of customer service will fall [an] leading to a fall in sales [an]. However new employees may bring in new ideas about how to sell [k] which could improve the reputation of K & P. whether it is good or bad, will depend on who leaves. As if they are poor workers, there is likely to be no bad effect on the business [eval], and the chance to replace them might actually be more beneficial especially if the new employee's ideas help increase sales. [eval]

16. M/J 13P12/Q3/c

- (a) **Knowledge/application** [2 × 1] – award 1 mark for identification of relevant method [4]
Analysis [2 × 1] – 1 mark for each relevant explanation (i.e. show how the method would work)

Points might include:

- **piece rate** [k] workers paid for the number of items produced [an]
- **performance related pay** [k]
- **bonuses** [k]
- **profit sharing** [k]
- **share ownership** [k]
- **rewards based on demands of job e.g. salary** [k] which is fixed amount regardless of how much they do [an]

Note 1: do not accept answers which could not be related to this type of business, e.g. commission/sales based methods

Note 2: do not accept wages as they are an example of time rate

17. O/N 12/P12/Q4/e

- (a) **Knowledge/application** [2×1] – award 1 mark per relevant strategy for CR. [6]
Analysis [2×1] – award 1 mark for each relevant explanation.
Evaluation [2×1] – reasoned judgement as to why it might be appropriate method for CR to use.

Possible methods include: job rotation/job enrichment/job enlargement/creation of teams/changes in management style/consultation/delegation/flexible working hours/improved internal communications/promotion prospects/improved working conditions/fringe benefits (only allow once).

Note: The employees are well paid hence money is NOT the solution so do not accept increase pay or bonuses.

2.2: Organisation and Management

1. O/N 17/P12/Q4/d

VIS provides a range of insurance services including insurance for cars and electrical products. Last year retained profit decreased. The Managing Director blames higher taxation and also thinks that some markets have become more competitive. Customer complaints have also increased. The Managing Director plans to change the business organisational structure by removing both the regional directors and regional managers. She said: 'Shorter chains of command may help. I know some employees may need training.' She cannot decide on a suitable method of communication to inform employees about the changes to the organisational structure.

(a) Identify and explain two advantages to VIS of changing its organisational structure.

Advantage 1:.....

.....

Explanation:.....

.....

.....

.....

Advantage 2:.....

.....

Explanation:.....

.....

.....

..... [6]

2. O/N 17/P11/Q3/b,c

GDC is a transport delivery business in country Z. It operates in a competitive market. GDC has 5000 employees and 1000 delivery vehicles. GDC's organisational structure has many levels of hierarchy with a long chain of command. The managers use an autocratic leadership style. Last year GDC delivered 2 billion parcels for businesses. The Managing Director said: 'Having a good reputation is important. We have also benefited from economies of scale'. GDC wants to expand its operations to another country, but cannot decide the best way to do this.

(a) What is meant by 'autocratic leadership style'?

.....

.....

.....

..... [2]

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(b) Identify and explain **one** advantage and **one** disadvantage of transport delivery business organisational structure.

Advantage:.....

.....

Explanation:.....

.....

Disadvantage:.....

.....

Explanation:.....

.....

[4]

3. M/J 17/P12/Q4/d

Steppa is a shoe manufacturer in the private sector. Steppa has 200 employees who all receive a high hourly wage rate. The Human Resources Director said: 'We use a democratic leadership style. Employees are an important stakeholder group. Happy workers are good for business. Revenue increased by 10% last year.' The director cannot understand why a high number of workers leave the business each year. She is looking at other non-financial methods to motivate employees.

(a) Identify and explain **two** possible advantages for shoe making business of using a democratic leadership style.

Advantage 1:

.....

Explanation:

.....

.....

.....

.....

Advantage 2:

.....

Explanation:

.....

.....

.....

[6]

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4. M/J 17/P11/Q4/a

GKK makes plastic bottles for a range of products from food to chemicals. GKK buys its raw materials from a low-cost country. GKK's organisational structure is wide with a short chain of command which allows for delegation. The Government plans to introduce new legal controls to protect the environment. The Operations manager said: 'The Government might achieve one of its objectives but how does it affect GKK? This is a competitive market so prices are important.' He wants to improve efficiency and plans to use lean production.

(a) What is meant by 'chain of command'?

.....
.....
.....
.....

[2]

5. O/N 16/P11/Q4/a

DCP makes a range of high quality industrial paints. It sells direct to 6 large business customers which are located in different countries. DCP charges a price of \$0.35 per litre. It operates in a competitive market. The Operations manager has been looking at DCP's costs as shown in Table 2. He wants to increase profit but he does not want to buy cheaper materials.

Table 2: Output and cost information for DCP per week

Output (litres)	1 500 000
Total fixed costs (\$)	350 000
Total material costs (\$)	60 000
Total labour costs (\$)	40 000

(a) Identify two functions of management.

Function 1:.....
.....
Function 2:.....
.....

[2]

6. M/J 16/P12/Q1/a

F&G is a leading fashion retailer. It has 20 shops in country C. The business uses market segmentation. Its target market is men aged between 25 and 40 years old. The Marketing Director has been looking at the marketing data shown in Table 1. She is worried that the amount the business spends on marketing is not cost effective. She would like to close down all F&G shops and just use e-commerce.

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Table 1

Year	Total value of the men's clothing market	F&G's market share	F&G's marketing budget
2015	\$500m	15%	\$25m
2016	\$700m	12%	\$40m

(a) What is meant by a 'trade union'?

.....

.....

.....

..... [2]

7. O/N 15/P11/Q4/b

Tebo has recently been made redundant from his job as a car mechanic. He is thinking of setting up his own business. Even though he has no management experience, he knows that managing cash flow will be important to the success of the business. Tebo is considering whether to apply for a FIXIT franchise. This franchise would cost \$15 000, which would use all of his savings. FIXIT is a car repair franchise, with 36 franchisees.

(a) Identify **two** functions of management that Tebo might have to perform.

Function 1:.....

.....

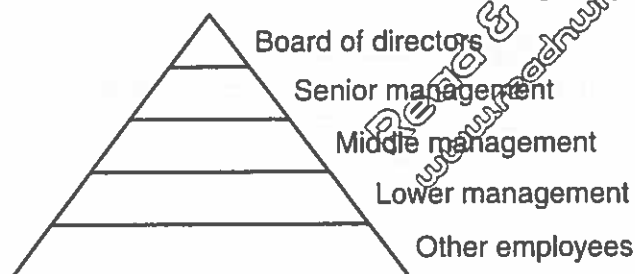
Function 2:.....

..... [2]

8. O/N 14/P12/Q4/a,b,e

Grenada makes meat products such as pies, burgers and ready-made meals. It employs 10 000 workers. It operates in many countries, each with different laws and traditions. Its organisation structure is tall and hierarchical. Spans of control are narrow and there is little delegation. Some middle managers complain that they are not allowed to make important decisions. The directors want to improve communication with employees.

Figure 2: Organisational structure of Grenada



(a) Identify two features of a 'tall and hierarchical' organisation structure.

Feature 1:

.....

Feature 2:

.....[2]

(b) Use Figure 2 to explain what is meant by 'chain of command'.

.....

.....

.....

.....[2]

(c) Do you think that Grenada would benefit from greater delegation in its decision making?
Justify your answer. [6]

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....[6]

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9. O/N 14/P12/Q5/a

Ali has just been appointed as Managing Director of Anypart, a large manufacturing business. He told Anypart's Board of Directors: 'Behaving ethically will always lead to lower profits. I want our employees to work longer hours, have fewer holidays and become more productive. This will reduce costs of each unit of output and will benefit all our stakeholders'. Not all of the directors agreed with him.

(a) What is meant by a 'Board of Directors'?

.....
.....
.....
.....[2]

10. O/N 14/P11/Q4/a

Genel manufactures clothes. The company uses an autocratic style of management. It employs a large number of workers and pays low wages. Many employees leave the company each year but they are easily replaced. Working conditions in the factories are poor. Health and safety is ignored and long hours are worked. Employee motivation is low and employee productivity is falling.

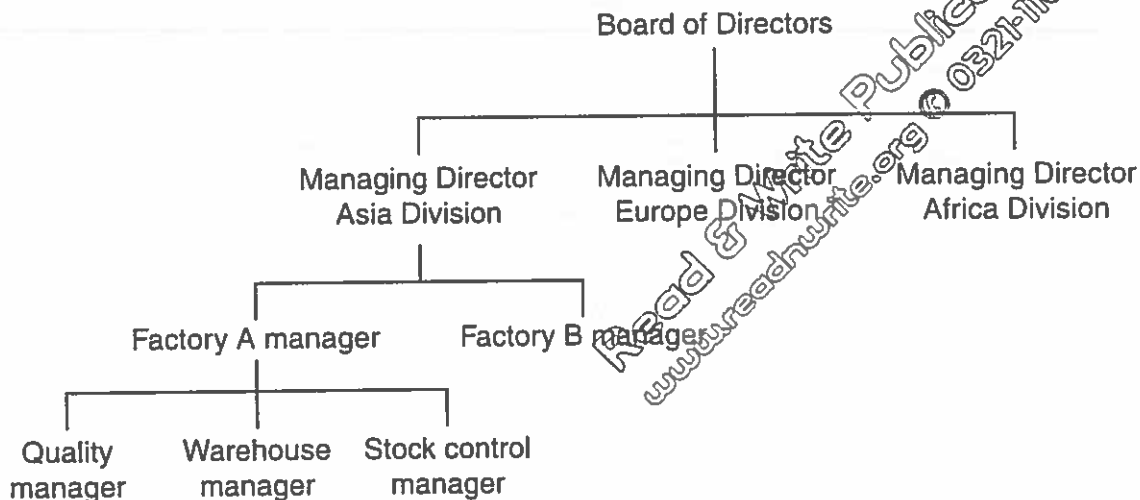
(a) What is meant by an 'autocratic style of management'?

.....
.....
.....
.....[2]

11. O/N 14/P11/Q5/b,d

Zalpa is a multinational company. It manufactures agricultural machinery and employs a large number of people. Figure 1 shows a simplified organisation chart for the business. The business decision making is centralised and some employees complain of poor communications within the company.

Figure 1



(a) Using only the information in Figure 1:

(i) Identify the span of control of the Managing Director of the Asia division.

.....[1]

(ii) How many levels are there in the chain of command?

.....[1]

(b) Identify and explain two advantages to Zalpha of using centralised decision making.

Advantage 1:

.....

Explanation:

.....

.....

.....

Advantage 2:

.....

Explanation:

.....

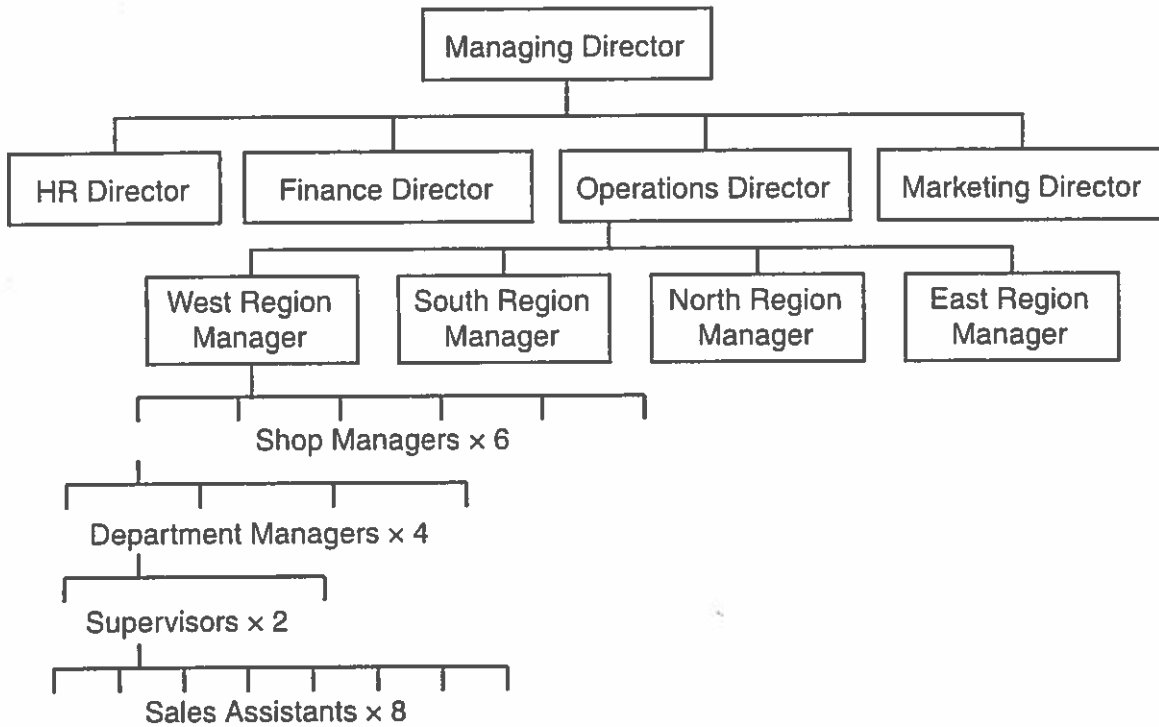
.....

.....[6]

12. M/J 14/P11/Q5/b,c

Callow is a large retail business based in country X. 'Our employees are an important stakeholder', said the Managing Director. 'To make sure we stay profitable we need to motivate them.' Callow trains all of its shop employees by using off the job training.

Fig. 1: Callow Organisation Structure



(a) Identify two functions of management that each shop manager will have to perform.

Function 1:

Function 2: [2]

(b) Identify and explain two features of Callow's organisational structure.

Feature 1:

Explanation:

.....

.....

Feature 2:

Explanation:

.....

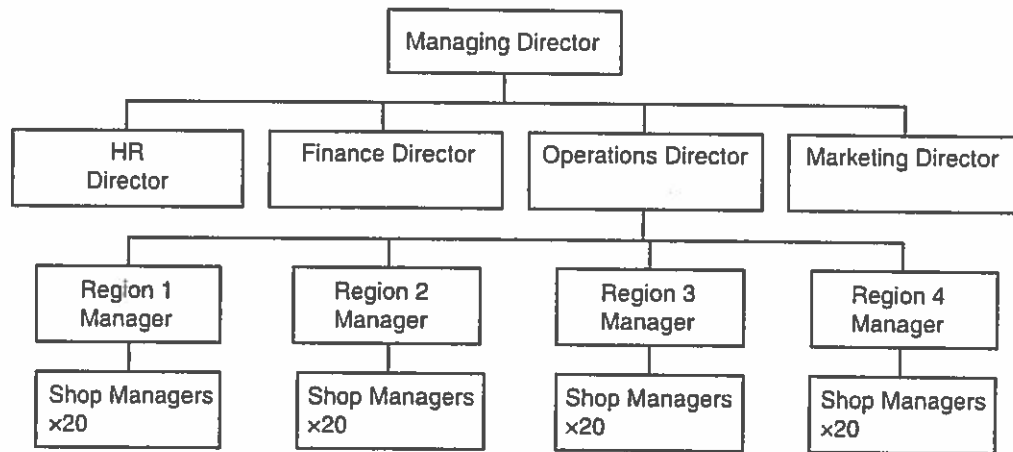
..... [4]

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13. M/J 14/P12/Q1/a, c

LEK owns 80 electrical shops. It sells products such as cell (mobile) phones and televisions. The Marketing Director believes offering customers a choice of products helps LEK to be competitive. LEK must use suitable ways to communicate with its customers. LEK's directors are planning a takeover of a competitor. This competitor owns 40 shops and operates in the same 4 regions as LEK.

Fig. 1: LEK organisational chart



(a) What is meant by 'span of control'?

.....
 [2]

(b) Identify and explain **two** benefits to LEK of having an organisational chart.

Benefit 1:

Explanation:

Benefit 2:

Explanation:
 [4]

14. O/N 13/P12/Q1/e

Protec makes components for use in computers. The company is located in country Y where workers' wages are high. Table 1 gives data about Protec.

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(b) What is meant by 'span of control'?

.....
.....
.....
..... [2]

16. M/J 13/P12/Q1/d

Brakker is a public limited company which specialises in building large boats. Each boat costs \$4m to build and the company adds 30% to the total cost to calculate the selling price. 'Last year profits fell – but this happens in a recession' said the Finance Director. 'Yes, I am worried. If we cannot get more orders we will have to make some of our skilled workers redundant.' All Brakker workers are members of a trade union.

(a) Identify and explain three benefits to Brakker's workers of being members of a trade union.

Benefit 1:

.....

Explanation:

.....

Benefit 2:

.....

Explanation:

.....

Benefit 3:

.....

Explanation:

..... [6]

17. M/J 13/P11/Q5/c,d,e

AM Designs is a private sector business. It makes dresses. It is a successful business because it adds value. Amira is directly responsible for a team of 12 people. 'I want to keep a short chain of command but I do need a manager to help me. I must find someone with the right qualities. All of my team are highly motivated and someone with the wrong management style might cause problems.'

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(a) Identify and explain **two** advantages of a short chain of command for business.

Advantage 1:

.....

Explanation:

.....

Advantage 2:

.....

Explanation:

..... [4]

(b) Identify and explain **three** qualities that Amira might look for in a manager.

Quality 1:

.....

Explanation:

.....

Quality 2:

.....

Explanation:

.....

Quality 3:

.....

Explanation:

..... [6]

(c) Do you think that the management style of the new manager might cause problems? Justify your answer.

.....

.....

.....

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..... [6]

18. O/N 12/P11/Q4/b

Jergen Cosmetics makes a range of beauty products for women in country A. 'We are a market orientated company' said Klaus, the Managing Director. 'One of our business objectives is to increase sales turnover. We have just set up our own website and increased our marketing budget. Our country's economic growth is forecast to be 4% next year and this will guarantee our company's profitability.'

(a) What is meant by 'Managing Director'?

.....

.....

.....

.....

.....

..... [2]

19. M/J 12/P12/Q4/a,b,c

Cole Brokers is a medium sized company. The company provides a range of insurance products to customers around the world. It operates in a highly competitive market. Many insurance businesses are now using the Internet as a way to sell their products. The management of Cole Brokers has been looking at its current organisational structure. They think the span of control and chain of command need to be changed.

(a) What is meant by 'organisational structure'?

.....

.....

.....

.....

..... [2]

(b) What is meant by 'chain of command'?

.....
.....
.....
..... [2]

(c) Identify and explain two possible disadvantages for a business of having a wide span of control.

Disadvantage 1:
.....
Explanation:
.....
Disadvantage 2:
.....
Explanation:
..... [4]

20. M/J 12/P12/Q5/c

Sachs-Tech makes parts for the mobile phone industry. Sales have risen very quickly. The company needs a new factory to meet demand. The management is not sure where to build the factory. The company is currently looking to recruit three new production supervisors. The Human Resources manager, Manuel, is busy writing a job description and person specification for these supervisor roles.

(a) Identify and explain two suitable places where Manuel could advertise the vacancies.

Place 1:
.....
Explanation:
.....
Place 2:
.....
Explanation:
..... [4]

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Answers Section

1. O/N 17/P12/Q4/d

- (a) Knowledge [2 × 1] – award 1 mark for each advantage identified
 Application [2 × 1] – award 1 mark for each relevant reference made to this business
 Analysis [2 × 1] – award 1 mark for each relevant explanation
 Possible points might include:
- Improved communication [k] could reduce (customer) complaints [app] leading to better reputation OR as fewer levels in hierarchy [an]
 - Lower labour costs [k] as fewer regional managers [app] reducing its expenses [an]
 - Managing Director OR Senior managers are less remote [k] more aware of issues [an] which may be helpful in competitive market [app]
 - Increased (opportunities for) delegation [k] can improve employee motivation leading to better productivity [an] OR managers have more time to focus on other things [an]
 - Quicker decision making [k]

2. O/N 17/P11/Q3/b,c

- (a) Clear understanding: [2] managers expect to be in charge of business and expect their orders to be followed
 OR managers make decisions without consulting workers [2]
 Some understanding: [1] workers have no say in decisions OR decisions made by managers [1]
- (b) Knowledge [2 × 1] award 1 mark for one advantage and one disadvantage identified
 Application [2 × 1] award 1 mark for each explanation in context
- Advantages**
- Employees have a clearly defined role [k] so know where they fit into delivery process [app]
 - Clear chain of command OR know their manager [k] so know who to ask for help if problem with a parcel [app]
 - Employees have a clear career structure [k] so can see how to progress from driver [app]
 - Specialists can be employed [k]
- Disadvantages**
- Slow communication [k] due to many number of levels [app]
 - Heavy workload for managers [k] so do they have time to focus on expansion [app]
 - Communication between departments can be difficult [k] which could damage its good reputation [app]
 - Can create rivalry between departments [k]
 - Workers can feel isolated [k]

3. M/J 17/P12/Q4/d

- (a) Knowledge [2 × 1]: award one mark for each relevant advantage identified 6
- Application [2 × 1]: award 1 mark for each relevant reference made to this business
- Analysis [2 × 1]: award 1 mark for each relevant explanation
- Points might include:
- ∞ Improves motivation OR sense of belonging [k] leading to increased output OR productivity [an] as they are happy workers [app]
 - ∞ Help keep worker loyalty [k] could help reduce high number of workers leaving [app] leading to lower recruitment costs [an]
 - ∞ Creates time to do other jobs [k] leading to fewer mistakes [an]
 - ∞ Better decision making possible [k]
 - ∞ More ideas [k]
 - ∞ Better communication OR better feedback [k]
 - ∞ Positive work environment OR better relations between managers and workers [k]
 - ∞ Workers have better understanding of business' objectives [k]

4. M/J 17/P11/Q4/a

- (a) Clear understanding [2]: structure within an organisation through which orders are passed from senior management to the lower levels 2
- Some understanding [1]: 'shows who gives orders'

5. O/N 16/P11/Q4/a

- (a) Knowledge [2 × 1] award one mark per function 2
- Points might include: planning, organising, co-ordinate, command, control, motivate / supervise, decision making, problem solving, recruit

6. M/J 16/P12/Q1/a

- (a) Good knowledge [2] – e.g. Group of workers who join together to ensure their interests are protected [2], 2
- OR organisation represents the workers and fight for improvements to pay and conditions [2].
- Some knowledge [1] – e.g. Group of workers who join together OR fight for workers' rights.

7. O/N 15/P11/Q4/b

- (a) Application: [2 × 1] 1 mark per function [2]
- Points might include: organise/co-ordination, planning, control, decision making or practical examples e.g. motivation, recruitment, delegation, strategic tasks

Do not accept any task which can be completed by any employee e.g. pay bills, training

8. O/N 14/P12/Q4/a,b,e

- (a) Knowledge [2 × 1] one mark per feature [2]
Points might include:
- Many layers (of management);
 - Decision making takes longer
 - Narrow span of control
 - Little delegation
 - Opportunities for promotion
 - Communication can take a long time
 - Clear lines of authority
 - Long chain of command.
- (b) Clear application [2]: e.g. structure in an organisation which allows instructions to be passed down [1] from board of directors through middle managers to other employees [+1] [2]
Some understanding [1] e.g. way power and authority are passed down in an organisation
For 2 marks must refer to figure 2.

- (c) Knowledge [2 × 1] award 1 mark for each issue identified [6]
Application [1] – award 1 mark if relevant reference made to this business
Analysis [1] – award 1 mark for relevant development of point(s)
Evaluation [2] – justified decision made as to whether Grenada would benefit from greater delegation in its decision making

Advantages of delegation include:

- Decision making closer to 'the ground' [k] as likely to understand the laws / traditions [app] to have better idea what customers want [an]
- Quicker decisions [k] as don't have to wait for response [an] which could take time due to being in different countries [app]
- Increased motivation/involvement [k] as if able to make important decisions [app] might be more productive/efficient [an]
- Lighten workload for senior managers [k] so Directors have more time [app] to focus on strategic decisions [an]
- New ideas [k].

Disadvantages might include:

- Loss of control at the top [k] so could lead to duplication of work [an]
- Disagreements/different decisions made [k] as middle managers can now make important decisions [app] so no consistency of approach [an]
- Skills of managers [k] middle managers can't cope with extra responsibility [app] leading to mistakes [an].

Application might include: pies, ready meals, burgers (food, taste, many countries, different laws and traditions, narrow spans of control, little delegation, cannot make important decisions, want to improve communications.

Developed answer:

Workers will feel more motivated [k] as they can make important decisions [app]. Better decisions could be made [k] as managers in each country are likely to know what their customers want [an] so more delegation could be very beneficial leading to higher sales and profits [eval].

9. O/N 14/P12/Q5/a

- (a) Clear understanding [2]: e.g. senior management of the business [1] responsible for strategic decisions [+1].

Some understanding [1] e.g. identifies one feature of a board of directors (e.g. elected by shareholders) OR managers in charge of company [2]
For 2 marks must have both idea of being in charge AND responsible for strategic / key decisions.

10. O/N 14/P11/Q4/a

- (a) Clear understanding [2] e.g. an autocratic style implies that all decisions are made by the management [1] without consultation and discussion [+1] OR workers have no say in decision making [2].

Some understanding [1] e.g. a manager who tells others what todo.

11. O/N 14/P11/Q5/b,d

- (a) (i) Application [1]: 2 (factory managers) OR factory A manager and factory B manager. [1]
(ii) Application [1]: 4 (levels). [1]

- (b) Knowledge [2 × 1] – award 1 mark for each advantage identified. [6]
Application [2 × 1] – award 1 mark if relevant reference made to this business/manufacturer.
Analysis [2 × 1] – award 1 mark for each relevant explanation (showing how the point create an advantage).

Advantages might include:

- Speed of decision making increased [k] because not many people are involved [an]
- Save money/lower cost [k]
- Decrease level of conflict [k]
- Power retained by senior management / control maintained [k] between the board and 3 directors [app]
- Easier to ensure consistency / reduce inconsistency [k] across all divisions [app]
- Economies of scale more achievable [k] as head office are able to order parts [app] in bulk to get larger discounts an

12. M/J 14/P11/Q5/b,c

- (a) Application [2 × 1] award one mark per function

Functions could include: planning rotas, organise or delegate tasks to various employees, coordinating sections, giving commands to department managers, controlling shop budgets or monitoring targets. [2]

Note: Do not accept functions of management which can only be applied to production. Leadership is too vague.

- (b) Knowledge [2 × 1] – award 1 mark for each relevant feature
Application [2 × 1] – award 1 mark for each relevant explanation [4]

Features might include:

- Tall hierarchy [k] / long chain of command [k] as there are seven levels in the organisation [app]
- Functional departments [k] but also a regional division of responsibility for operations [k] as split into north south east and west [app]
- Comment on various spans of control e.g. managing director has a short span [k] of 4 employees / supervisors have a wide span of 8 sales assistants [app].

Note: Do not award wide/narrow span of control alone as this does not apply to the whole chart, an employee must be specified.

13. M/J 14/P12/Q1/a, c

- (a) Good knowledge [2], e.g. number of people who answer directly to one manager in a hierarchy. [2]

Some knowledge [1], e.g. number of people who work for you some knowledge plus example can gain 2 marks, e.g. regional manager has a span of 20. [2]

- (b) Knowledge [2 × 1] – award 1 mark for each relevant benefit. [4]
Application/analysis [2 × 1] – award 1 mark for each relevant explanation.

Relevant points might include:

- Clear structure so everyone knows their roles [k] which is important in a large organisation [app]
- Clear chain of command [k] so everyone knows who to report to [an] OR so orders can be passed effectively between directors and shop managers [app]
- Can show where possible problems of control/communication might be [k] e.g. 20 is a very large span of control for each region manager [app]
- Helps retention of workers [k] as shop managers can see how to progress up the organisation [app]
- Allows for effective delegation [k]

Points must be related to business, not employees, e.g. do not reward 'makes employees have a sense of belonging'.

14. O/N 13/P12/Q1/e

- (a) Knowledge/application [2 × 1] – award 1 mark for each relevant issue identified [max 2]
Analysis [2] – award up to 2 marks for relevant development (i.e. explain how or why issue needs to be considered by Protec)
Evaluation [2] – reasoned judgement made as to whether Protec would benefit from move

Possible issues include:

- Reduced labour costs [k] which would help reduce costs and improve competitiveness [an]
- Do workers in new country have the right skills [k] if not, face higher training costs [an]
- Marketing and distribution costs [k] as could be further away from customers, which would increase expenses [an]
- Allow consideration of other costs that would be incurred associated with the relocation e.g. availability of raw materials [k] cost of land [k] [6]

15. O/N 13/P12/Q5/a,b

- (a) Clear understanding [2] e.g. an autocratic style implies that decisions are made by the management [1] without consultation and discussion [+1]
Some understanding [1] e.g. a manager who tells others what to do [2]
Accept two features for 2 marks

- (b) Clear understanding [2] e.g. span of control refers to the number of subordinates who are directly managed by an individual [manager]
Some understanding [1] e.g. for whom responsible [2]

16. M/J 13/P12/Q1/d

- (a) **Knowledge [3 × 1]** – award 1 mark for each benefit identified [6]
Application/analysis [3 × 1] – award 1 mark for each relevant explanation (i.e. show how it is a benefit to Brakker's employees)

Points might include:

- **strength in numbers [k] / will negotiate on their behalf [k]** so business more likely to listen to a large group of workers rather than individuals [an] / so if workers are made redundant they get the best deal possible [app]
- **improved working conditions [k]** as union will negotiate on their behalf to ensure that the boat factory is a safe place to work [app]
- **improved holidays OR pay OR pension rights [k]** as union will negotiate on their behalf to get wages which reflect their ability as skilled workers [app]
- **union will provide benefits e.g. discounts, sports facilities [k]**
- **legal advice and support [k] OR protection against unfair dismissal [k] OR union will help represent workers in a dispute [k]**

17. M/J 13/P11/Q5/c,d,e

- (a) **Knowledge [2 × 1]** – identification of advantage [1 mark per advantage] [4]
Application [2 × 1] – explanation to show why it might be an advantage for Amira

Advantages might include:

- communication is quicker [k] – so less chance of messages being distorted or lost as messages have fewer levels to pass through [an]
- decision making is quicker [k] therefore efficiency is improved
- wider span of control [k] – so more choice of who to delegate to [an]
- worker's motivation could increase [k] so productivity/commitment rises [an]

- (b) **Knowledge [3 × 1]** – identification of quality [1 mark per quality] [6]
Application/analysis [3 × 1] – explain why it is a necessary quality for someone in Amira's business

Qualities might include:

- effective communication skills [k] – they will have to manage 12 people [app]
- approachable [k] – as need to deal with a small team of workers [app]
- experienced [k] – so will need to respond to workers' specific questions [app]
- knowledgeable/patience [k]
- well organised [k]

- (c) **Knowledge [2]** – identification of points [6]
Application/analysis [2] – explanation to show how or why this is an issue
Evaluation [2] – justified decision made as whether management style used might cause problems

Points might include:

- autocratic [k] by being controlling the manager might demotivate staff [an]
- laissez-faire [k] workers might not have the guidance they need [an]
- workers might dislike the management style [k] therefore could leave the company [an]
- manager may have a different style to Amira's [k] which could create conflict within the business [an]

An autocratic leadership style [k] would definitely not suit them [ev] as employees may feel demotivated [an]. However as employees are highly motivated [k] they could adapt to any leadership style [an] and therefore the management style is not important [ev].

18. O/N 12/P11/Q4/b

- (a)**
- Clear understanding [2] Some understanding [1]

Managing director is the overall senior director with general responsibility for the business as a whole. [2] A two mark answer might also be one that makes a number of valid points e.g. in overall charge and directs other managers/directors

Simple answer might be the director who makes the major decisions [1] or controls the company [1]. So one simple statement gains 1 mark. [2]

19. M/J 12/P12/Q4/a,b,c

- (a)**
- Clear understanding [2] e.g. the number of levels of management and division of responsibility/authority within a business [2]/staff and their positions in relation to each other [2].

Some understanding [1] e.g. how many levels in a business/Shows how business is organised/shows who reports to whom/hierarchy. [2]

Some understanding plus example can gain full marks.

- (b)**
- Clear understanding [2]: structure within an organisation through which orders are passed down from senior management to the lower levels of management/pass messages up and down the hierarchy.

Some understanding [1]: 'shows who gives orders'.

For 2 marks must have idea of 'messages passed/communication' AND 'who between'.

- (c)**
- Knowledge [2 × 1]: award 1 mark per relevant disadvantage. [4]

Analysis [2 × 1]: award 1 mark per relevant explanation (i.e. explain why might be disadvantage for a business).

Points might include:

- difficult to control so many people [k] so less work is done [an]
- communication problems as too many subordinates to inform/ask [k] so harder to get feedback about the work [an]/messages lost [an]
- workers might not have enough skills to cope with extra responsibility [k] so more mistakes are made [an]
- supervisors might not have the right skills to manage so many people [k]
- fall in productivity [k] as hard to motivate so many people [an].

Note: disadvantages must clearly relate to business not employees to be credited.

20. M/J 12/P12/Q5/c

- (a)**
- Knowledge [2 × 1]: award 1 mark per suitable place. [4]

Application [2 × 1]: award 1 mark for each relevant explanation (i.e. say why suitable place).

Places include:

- internal – notice board/staff publication.
- external – job centre/advertising in local paper or local radio/specialist trade magazines/recruitment agency/internet or jobs website or online.

Do not accept 'shop', in the street, internal or external or in the business unless explained.

Award relevant examples of either two internal or two external or one example of each.

Do not award analysis/application marks for points which clearly cannot be applied to role of supervisor e.g. Television, national radio, national newspaper and magazines.

2.3: Recruitment, Selection and Training of Employees

1. O/N 17/P12/Q4/b

VIS provides a range of insurance services including insurance for cars and electrical products. Last year retained profit decreased. The Managing Director blames higher taxation and also thinks that some markets have become more competitive. Customer complaints have also increased. The Managing Director plans to change the business organisational structure by removing both the regional directors and regional managers. She said: 'Shorter chains of command may help. I know some employees may need training.' She cannot decide on a suitable method of communication to inform employees about the changes to the organisational structure.

(a) Identify two methods of training that a business might use.

Method 1:.....

Method 2:..... [2]

2. M/J 17/P11/Q2/d

Josh owns an office cleaning business. He has a number of large and small business customers. Josh employs 6 full-time cleaners who are all given off-the-job training. Josh believes that using the latest cleaning equipment increases added value. He said: 'Customers are happy with the service. I am always sending text (SMS) messages to workers about additional work.' Josh has been looking at his balance sheet. He cannot decide if a bank loan is the best source of finance to use for new equipment. The new equipment will cost \$60 000.

Table 1: Extract from Josh's balance sheet as at 30 April 2017 (\$000)

Current assets		120
Trade receivables	90	
Cash	X	
Current liabilities		Y
Net current assets		70

(a) Identify one advantage and one disadvantage to cleaning business of using off-the-job training.

Advantage:

.....

Explanation:

.....

.....

.....

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Disadvantage:
.....

Explanation:
.....
.....

[6]

3. O/N 16/P11/Q1/c,

C&C has a good reputation for making high quality, hand-made shoes. It has 120 full-time skilled employees. C&C needs to recruit another 20 production employees to meet increased demand. The Managing Director said: 'I don't know why people worry about globalisation. Two years ago we did not export, now exports are 10% of our output and increasing.' C&C has orders for 100 000 pairs of shoes in 2017. The Managing Director cannot decide whether to introduce new technology into the production process.

- (a) Identify and explain **two** suitable ways in which hand made shoe manufacturer might advertise the job vacancies.

Way 1:.....
.....

Explanation:.....
.....

Way 2:.....
.....

Explanation:.....
.....

[4]

4. M/J 16/P12/Q1/b,e

Saltan makes a range of cars. The level of inventory is too high so it plans to decrease production at its factory. Employees were told the business needs to reduce the size of its workforce as competition is increasing. The trade union is not happy that 360 of the 1200 skilled full time employees at Saltan will be made redundant. A trade union spokeswoman said: 'Saltan should reduce the number of hours of every employee rather than reduce the number of jobs.' Saltan's Operations Director is considering ways to increase efficiency in the factory.

- (a) Identify **two** situations (other than increasing competition) when a business might have to reduce the size of its workforce.

Situation 1:
.....

Situation 2:
.....

[2]

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(b) Do you think Saltan should reduce the number of working hours for every employee rather than reduce the number of jobs? Justify your answer.

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5. M/J 16/P11/Q2/b,e

Bushall is a farm. This primary sector business grows award-winning fruits such as pineapples and bananas. Bushall has 10 full-time and 50 part-time employees. All part-time job vacancies are advertised on its website. The Government has introduced legal controls for employment including a minimum wage of \$8.50 per hour and a limit on the number of hours an employee can work each week. The farm manager has said to Bushall's owners: 'Taylor's theory of motivation might not work. Our team of employees enjoy what they do. These laws are not good for our employees or our business!'

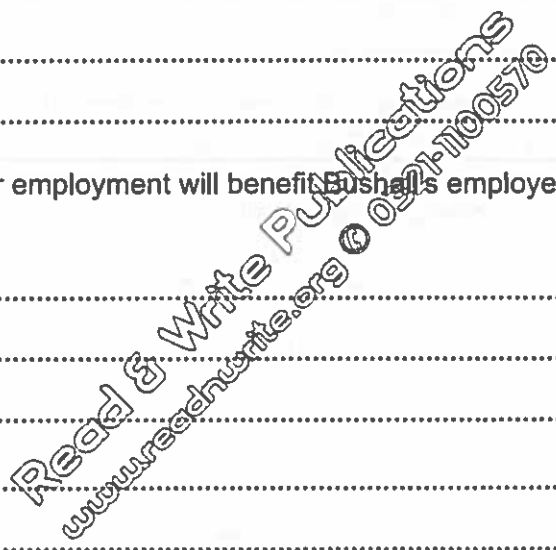
(a) Identify two ways (other than its website) that business could use to advertise job vacancies.

Way 1:
Way 2:

[2]

(b) Do you think that the new legal controls for employment will benefit Bushall's employees? Justify your answer.

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[6]

6. O/N 15/P12/Q3/c,d

NCE manufactures cars in 4 factories using flow production. NCE's Human Resources Director thinks good induction training helps achieve high productivity. Factory X is its most efficient factory. Last year the size of the new car market fell by 20%. NCE now has to make 400 workers redundant at one of its other factories. 'I am pleased NCE is a large business', said the HR Director, 'I think a small business cannot survive in this competitive market.'

Table 2: NCE operations data for 2014

Number of cars made	Number of employees
168 000	2800

(a) Identify and explain **two** ways in which induction training might benefit business.

Way 1:

.....

Explanation:

.....

Way 2:

.....

Explanation:

.....

[4]

(b) Identify and explain **two** factors that NCE would need to consider in deciding which workers to make redundant.

Factor 1:

.....

Explanation:

.....

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.....
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Factor 2:
.....

Explanation:.....
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.....
..... [6]

7. O/N 15/P11/Q4/a,

Tebo has recently been made redundant from his job as a car mechanic. He is thinking of setting up his own business. Even though he has no management experience, he knows that managing cash flow will be important to the success of the business. Tebo is considering whether to apply for a FIXIT franchise. This franchise would cost \$15 000, which would use all of his savings. FIXIT is a car repair franchise, with 36 franchisees.

(a) What is meant by 'made redundant'?

.....
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.....
..... [2]

8. M/J 15/P12/Q1/d,

PJK makes a range of luxury sports watches. Each watch is handmade by skilled workers. Quality assurance is important. The Operations Director has been looking at costs and prices as he wants to do a break-even analysis. This data is shown in Table 1. He is planning to invest in new technology to automate parts of the production process. The Operations Director thinks this is the best way to improve profitability.

Table 1: Costs and revenue (\$)

Price per watch	\$100
Variable cost per watch	\$50
Annual sales	6000
Annual fixed costs	\$200 000

(a) Identify and explain **two** advantages to PJK of having skilled workers.

Advantage 1:

.....

Explanation:

.....

.....

.....

Advantage 2:

.....

Explanation:

.....

.....

..... [6]

9. M/J 15/P11/Q2/a, c

Country S is enjoying an economic boom. During this time, businesses have increased their profits and unemployment has fallen. The only problem is inflation. All Active is a private limited company. It owns 20 sport and fitness clubs in country S. The Managing Director said: 'This is a good time to expand by opening 5 more clubs. Finding the right locations is important. We will need to recruit more employees.' He cannot decide whether it would be an advantage for All Active to become a public limited company.

(a) Identify **two** stages of the recruitment process.

Stage 1:

Stage 2: [2]

(b) Explain how falling unemployment might affect All Active.

.....

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.....

 [4]

10. O/N 14/P11/Q4/b,e,

Genel manufactures clothes. The company uses an autocratic style of management. It employs a large number of workers and pays low wages. Many employees leave the company each year but they are easily replaced. Working conditions in the factories are poor. Health and safety is ignored and long hours are worked. Employee motivation is low and employee productivity is falling.

(a) Identify **two** possible reasons why Genel ignores health and safety in its factory.

Reason 1:

 Reason 2:
 [2]

(b) Do you think Governments should introduce laws to protect employees' interests in businesses such as Genel? Justify your answer.

.....

 [6]

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11. M/J 14/P12/Q2/e

Cutter is a family owned private limited company. It manufactures a luxury brand of coats. In 2013 sales revenue increased by \$3m and retained profits also increased. 'The marketing mix is working' said the Marketing Director. Cutter's Operations Director thinks that batch production is still the right method of production to use, but he cannot decide whether on the job or off the job training is better for the business.

(a) Do you think it is better for Cutter to use on the job or off the job training? Justify your answer.

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12. M/J 14/P11/Q2/c,d

Keypeople is a recruitment agency which only operates in one small town in country Z. Its owner, Rachel, and her two employees know that good customer service is important. Rachel would like to expand her business. Keypeople offers a variety of human resource services to other businesses, such as recruiting employees and preparing employment contracts. Rachel has been asked by a local manufacturing business to recruit a senior manager.

(a) Identify and explain **two** reasons why employment contracts are used by businesses.

Reason 1:
.....
Explanation:
.....

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Reason 2:

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Explanation:

..... [4]

(b) Identify and explain **two** stages in the **recruitment process** of the manager's job for the manufacturing business.

Stage 1:

Explanation:

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Stage 2:

Explanation:

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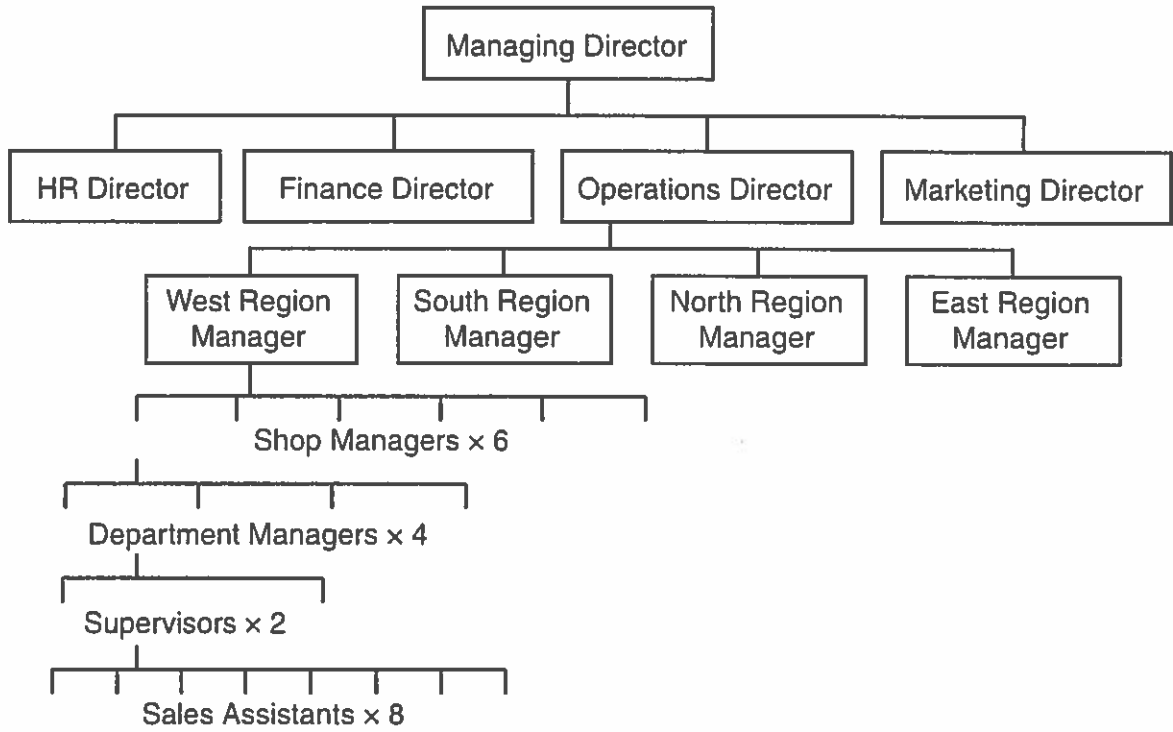
..... [6]

13. M/J 14/P11/Q5/d

Callow is a large retail business based in country X. 'Our employees are an important stakeholder', said the Managing Director. 'To make sure we stay profitable we need to motivate them.' Callow trains all of its shop employees by using off the job training.

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Fig. 1: Callow Organisation Structure



(a) Identify and explain two possible methods that Callow could use to improve the motivation of its employees.

Method 1:

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Explanation:

.....

.....

Method 2:

.....

Explanation:

.....

.....

..... [6]

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14. M/J 13/P12/Q1/e

Brakker is a public limited company which specialises in building large boats. Each boat costs \$4m to build and the company adds 30% to the total cost to calculate the selling price. 'Last year profits fell – but this happens in a recession' said the Finance Director. 'Yes, I am worried. If we cannot get more orders we will have to make some of our skilled workers redundant.' All Brakker workers are members of a trade union.

- (a) Do you think it is a good idea for Brakker to make some of its skilled workers redundant during a recession? Justify your answer.

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[6]

15. M/J 13/P11/Q1/e

Kew Construction is a public limited company. It specialises in building large houses. Each house costs \$30 000 to build and the company adds 40% to total cost to calculate the selling price. Last year sales fell by \$90m and dividends were reduced. The Human Resources Director is worried: 'If sales do not improve, I will need to make some workers redundant. How can I decide which workers to make redundant?'

- (a) What do you think are the most important factors for the Human Resources Director to consider when selecting which workers to make redundant? Justify your answer.

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16. M/J 13/P11/Q4/d

Luxury Destinations owns three hotels in country X. The business spends a lot of money on staff training. The Finance Director is pleased with the financial position of the business. 'However, the appreciation of our country's currency and the Government's plan to increase taxes might cause problems to our business in the future' he said.

Table 1: Luxury Destinations financial information (\$000s)

	2011	2012
Gross profit	195	220
Net profit	30	60
Fixed assets	300	350
Current assets	60	50
Current liabilities	60	75

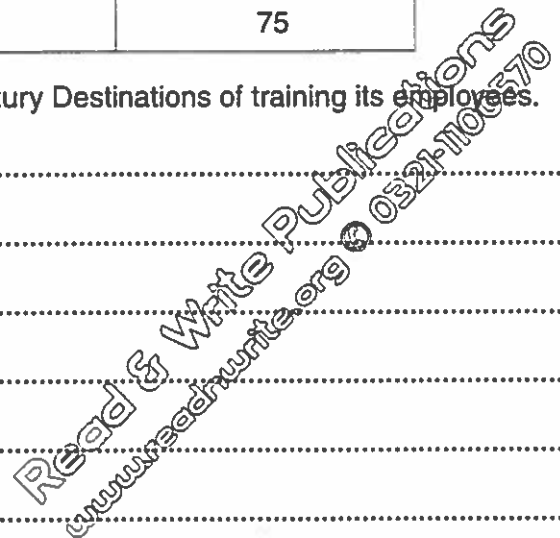
(a) Identify and explain **three** benefits for Luxury Destinations of training its employees.

Benefit 1:
.....

Explanation:
.....

Benefit 2:
.....

Explanation:



.....

Benefit 3:

.....

Explanation:

..... [6]

17. O/N 13/P12/Q1/d

Protec makes components for use in computers. The company is located in country Y where workers' wages are high. Table 1 gives data about Protec.

Table 1

Number of employees	Average weekly wage \$	Total output per week [units]
400	500	2400

(a) Identify and explain three reasons why wages are higher in some countries than others.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

.....

Reason 3:

.....

Explanation:

..... [6]

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18. O/N 12/P11/Q2/c

Gresham Textiles manufactures high quality clothing. Production is labour intensive. Managers are paid more than production line workers in the factory. The business is investing in automated machinery. The management also wants to introduce lean production methods.

- (a) Identify and explain **two** reasons why factory managers are paid more than production line workers at Gresham Textiles.

Reason 1:
.....

Explanation:
.....

Reason 2:
.....

Explanation:
.....

[4]

19. M/J 12/P12/Q2/e

Bray Electrics is a large manufacturing company. The company makes engine parts for the car industry using batch production. The Managing Director is always looking for ways to introduce new technology in the business. He believes 'our workers like change'. He is interested in using lean production methods.

- (a) The Managing Director believes 'our workers like change'. Do you think that all the workers at Bray Electrics would like the introduction of new technology? Justify your answer.

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[6]

20. M/J 12/P12/Q5/a,b

Sachs-Tech makes parts for the mobile phone industry. Sales have risen very quickly. The company needs a new factory to meet demand. The management is not sure where to build the factory. The company is currently looking to recruit three new production supervisors. The Human Resources manager, Manuel, is busy writing a job description and person specification for these supervisor roles.

(a) What is meant by a 'job description'?

.....
.....
.....
..... [2]

(b) Identify two possible features of a person specification.

Feature 1:
.....
Feature 2:
..... [2]

21. M/J 12/P11/Q1/b,c

IRKAM is a company that produces high quality doors for hotels and offices. The company currently uses job production. The Managing Director, Abdul, believes that quality control is important. He is looking for ways to increase productivity. All workers receive on-the-job training. Abdul is thinking of including off-the-job training as well.

(a) What is meant by 'on-the-job training'?

.....
.....
.....
..... [2]

(b) Identify and explain one advantage and one disadvantage of off-the-job training for IRKAM.

Advantage:
.....

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Explanation:

.....

Disadvantage:

.....

Explanation:

..... [4]

Answer Section

1. O/N 17/P12/Q4/b

(a) Knowledge [2 × 1] award 1 mark for each method identified

2

Possible methods are:

- on-the-job,
- off-the-job
- induction

2. M/J 17/P11/Q2/d

(a) Knowledge [2 × 1] : award one mark for each relevant advantage / disadvantage identified

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

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

Points might include:

Advantages:

- ∞ Other workers not affected [k] so able to do more cleaning jobs [app] to keep up with demand [an]
- ∞ Worker has access to skilled trainers [k] so know what needs to do to provide a quality service [app] helping maintain reputation [an]
- ∞ Workers do not learn bad habits [k]
- ∞ Workers focus 100% on training [k]

Disadvantages:

- ∞ Expensive OR high cost [k] which increases costs for the business [an] to train all 6 workers [app]
- ∞ Not necessarily tailored to individual company [k] so might not cover the equipment Josh uses [app]
- ∞ Workers are training rather than cleaning [k + app] and so less output is produced [an]

3. O/N 16/P11/Q1/c

(a) Knowledge [2 × 1] – award 1 mark for each relevant way

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

Relevant points might include:

- Job centre [k] as local shoemakers would look here for jobs [app]
- advertising in newspaper [k] as skilled it is labour [app]
- specialist (trade magazines) [k] as looking for people to hand make shoes [app]
- recruitment agency [k] so C&C can focus on meeting the extra demand [app]
- jobs website / own website / social media [k]
- internal newsletter [k]
- Radio / television [k]
- Word of mouth [k]

4

4. M/J 16/P12/Q1/b,e

- (a) Knowledge [2 × 1] – award 1 mark per situation. Points might include: 2
- Introduction of automation/new technology
 - Redesign work space/layout
 - Demand factors e.g. Fall in demand/fall in sales/change in tastes, at end of product life cycle, recession/economic slump
 - Financial problems e.g. Lack of income, increase in costs, cash flow issues
 - Factory/shop closure
 - Relocation overseas
 - Business taken over
 - Change in law e.g. Increase in minimum wage
 - Over manning/unnecessary workers
- (b) Knowledge [1] – award 1 mark for identification of relevant issue(s). 6
 Application [1] – award 1 mark if relevant reference made to this business.
 Analysis [2] – award up to 2 marks for relevant development of point(s).
 Evaluation [2] – justified decision made as to whether Saltan should reduce the number of working hours rather than reduce the number of jobs.
 Relevant points might include:
 Reduce jobs:
- May be difficult to recruit new workers in future [k] if not easy to find skilled employees [app] reducing Saltan's competitiveness [an]
 - Redundancy [k] leading to increased costs [an] so less funds to develop new models [app]
 - Loss of skills [k]
 - Less supervision needed/fewer workers to manage [k]
- Reduce hours:
- Less hours would impact more employees [k] as more than 360 employees will have to work part-time [app] reducing loyalty [an]
 - Could be easier to change [k] especially if there is a reduction in competition [app]
 - Part-time employees can be more productive [k] than full-time employees [app] so output is maintained [an].

5. M/J 16/P11/Q2/b,e

- (a) Application [2 × 1] – award 1 mark per way. 2
 Points might include: local newspaper, local radio, local TV, word-of-mouth, notices on farm gate, Job Centre/government agency, specialist magazine, social media/facebook, recruitment agency, contacting previous employees.
- (b) Knowledge [1] – award 1 mark for identification of relevant issues. Positive or negative points allowed. 6
 Application [1] – award 1 mark if relevant reference made to Bushall's business.
 Analysis [2] – award up to 2 marks for relevant development of point(s).
 Evaluation [2] – justified decision made as to whether the new legal controls will benefit Bushall's employees. Either viewpoint acceptable. Relevant points might include:
- Safer conditions [k] as might require guards on farm machinery [app] so less likely to have accidents [an]
 - Higher pay [k] as minimum wage increased to \$8.50 per hour [app] so better able to satisfy basic needs [an]
 - Fewer jobs [k] so less than 10 full-time jobs [app] therefore they become unemployed [an]
 - Less pay [k] as restriction on hours [app] might mean cannot work as long as want [an].

6. O/N 15/P12/Q3/c,d**(a) Knowledge [2 × 1] – award 1 mark for each relevant way [max 2] [4]****Application [2 × 1] – award 1 mark for each relevant explanation in context of this business**

Relevant points might include:

- Helps employees to settle into their job quickly/familiarise workers with the business/provide information about the business [k] so can cope with flow production [app]
- Aware of health and safety/legal issues [k] in the factory [app]
- Know who to ask if there is a problem [k] preventing wastage of expensive parts [app]
- Opportunity to communicate culture [k] so all car workers get same message [app]
- Help keep productivity/efficiency high [k] so NCE remains competitive [app]

Application could include: (efficient) factory, cars, car parts, productivity, flow production, competitive market.

Do not accept generic points such as increase output, less mistakes or more ideas as these could relate to any type of training.

(b) Knowledge [2 × 1] – award 1 mark for each relevant factor [max 2] [6]**Application [2 × 1] – award 1 mark for each explanation in context of this business****Analysis [2 × 1] – award 1 mark for each relevant explanation**

Relevant points might include:

- Identify which jobs are not essential [k] as market might recover the 20% lost [app] so would not want to spend money recruiting them again [an]
- Performance/output/experience/skills/flexibility [k] making cars [app] so will want to get rid of people who make mistakes [an]
- Wages/salary [k]
- Length of service/cost of redundancy [k] if worked at factory for a short time [app] might be cheaper to let go [an]
- Attitude/attendance/disciplinary record [k] in order to maintain productivity [app] will want to lose poor/bad workers [an]
- Age/physical ability [k]

Application could include: 20% fall in market size, factories, cars, (high) productivity/efficient, 400 (workers).

7. O/N 15/P11/Q4/a,**(a) Clear understanding [2] e.g. The worker is no longer required through no fault of their own [2] [2]**

Some understanding [1] e.g. means that his job role has gone [1]

Note: If the answer includes dismissed, fired or sacked plus any relevant point maximum 1 mark

8. M/J 15/P12/Q1/d,**(a) Knowledge [2 × 1] – award 1 mark for identification of each relevant advantage [max 2] [6]****Application [2 × 1] – award 1 mark if relevant reference made to this business****Analysis [2 × 1] – award 1 mark for each relevant explanation**

Relevant points might include:

- Work quicker / more efficient / more productive [k] so lower average costs [an]
- More output [k] so able to meet any increase in customer demand [an] for watches [app]
- Higher quality / fewer mistakes [k] so less wasted materials [app] so can buy less inventory [an]

- Brand image / good reputation [k] as it's a luxury product [app] so people trust / buy [an]
- Less training needed [k] so saves cost [an]
- Less supervision needed [k] so managers have time to do other jobs [an]
- More flexible workforce [k] as able to switch between different stages of production [app]

Application marks may be awarded for appropriate use of the following: luxury product, watches, quality assurance, handmade, production process, materials / parts

9. M/J 15/P11/Q2/a,c

- (a) Knowledge [2 × 1] award one mark per stage identified

Points might include: Job analysis, job description, person specification, advertising, shortlisting, interview, selection.

Note: Answer must be from the business viewpoint not the applicant.

- (b) Knowledge [2] award up to 2 marks for identification of points/knowledge of unemployment
Application [2] award up to 2 marks for relevant explanation in context of All Active [4]

Relevant points might include:

- customers have more income [k] so can spend money on luxuries such as leisure activities [app]
- problem recruiting workers [k] as need more for each club [app]
- higher wages may be needed [k] for the new staff [app]
- more people in work [k] less time to spend at sports club [app]

Application could include: Leisure/sports clubs, new workers/expansion/more clubs, gym membership, fitness is an elastic product

10. O/N 14/P11/Q4/b,e

- (a) Application [2 × 1] award 1 mark per reason. [2]

Reasons might include:

- Legislation incurs costs / they don't have to spend money
- Management doesn't care about employee welfare
- Laws not enforced
- Cheaper to pay fines
- To increase production
- Workers can be easily replaced

Some countries do not have laws for health and safety.

- (b) Knowledge [2 × 1] award 1 mark for each relevant issue identified.

Application [1] – award 1 mark if relevant reference made to this type of business. [6]

Analysis [1] – award 1 mark for relevant development of point(s).

Evaluation [2] – justified decision made as to whether the Government should introduce laws to protect employees' interests.

Points to include:

- Laws are needed to ensure safety [k] which the company does not follow employee protection [app] so there is no guarantee that Genel would abide by the laws [eval]
- Discourage businesses from setting up in a country [k] because it would increase costs [an]
- Higher business costs [k] could see workers lose their jobs [an]
- Could help retain workers leading to lower recruitment costs?

Note – the candidate may address the question from the viewpoint of either the employee, business or the Government.

Developed answer:

Laws are needed to ensure safety [k] and a fair wage for workers[k] which this company does not follow[app] because it increases their costs[an] therefore introducing laws may have no effect [ev] unless they are monitored [ev].

11. M/J 14/P12/Q2/e**[6]**

- (a) Knowledge [2] – award up to 2 marks for identification of relevant issue(s).
 Application [1] – award 1 mark if relevant reference made to LEK's business.
 Analysis [1] – award 1 mark for relevant development of point(s).
 Evaluation [2] – justified decision made as to whether the takeover would benefit LEK. Either viewpoint is acceptable.

Relevant points might include:

- Possible economies of scale (accept only once) e.g. buy in bulk [k] will help reduce unit costs [an] so might be able to reduce prices to become more competitive [app]
- Gain brand name of rival [k] may widen range which could help them be competitive [app]
- Increased market share [k] as could offer wider coverage of shops [an] across the 4 regions [app]
- Reduce competition [k]
- Management issues e.g. communication problems between businesses [k] as current structure of regional managers might need to change [app]
- No guarantee that benefits will happen [k] as their 40 shops might be in the same towns as LEK's [app]

12. M/J 14/P11/Q2/c,d**[4]**

- (a) Knowledge [2 × 1] – award 1 mark for each relevant reason
 Analysis [2 × 1] – award 1 mark for each relevant explanation

Points might include:

- It's a legal requirement [k] so failure to use them could lead to fines / legal action [an]
- Avoids misunderstanding if there is a dispute [k] business can check what workers are expected to do [an]
- Employers and employees know the terms and conditions of the employment [k].

Note: Details of content within a contract can be awarded only once as knowledge (e.g. wages/hours/holidays).

- (b) **manufacturing business.**

[6]

Knowledge [2 × 1] – award 1 mark for each stage identified
 Application [2 × 1] – award 1 mark if relevant reference made to Key people
 Analysis [2 × 1] – award 1 mark for each relevant explanation
 For each reason maximum 3 marks [1k + 1app + 1an].

Stages are: job analysis; job description; person (job) specification; advertising the vacancy; shortlisting; interviewing, induction (training).

Possible examples include:

- Job description [k] will outline the tasks and responsibilities of the job [an]
- Person specification [k] will list the qualities and experiences for a Senior manager [app] to attract the right people [an]
- Right place to advertise [k] specialist magazines/newspaper [app] to reach a wide range of people [an].

Note: Do not accept training alone – too vague.

13. M/J 14/P11/Q5/d

- (a) Knowledge [2 × 1] – award 1 mark for each relevant method identified [6]
 Application [2 × 1] – award 1 mark if relevant reference made to Callow's business
 Analysis [2 × 1] – award 1 mark for each relevant explanation
 For each reason maximum 3 marks [1k + 1app + 1an].

Methods might include:

- Bonuses / commission [k] for sales assistants [app] as this would encourage them to sell more to earn extra money [an]
- Fringe benefits[k] e.g. the regional directors / managers could receive a company car[app] they will feel important / position recognised [an]
- Payment methods e.g. increase wage rate or salary (only allow once)
- Job rotation [k] sales assistants could move to different departments [app] so they are not bored [an]
- Training/CPD[k].

14. M/J 13/P12/Q1/e

- (a) Knowledge [2] – identification of issues [6]
 Application/analysis [2] – award up to 2 marks for each relevant explanation/development of point in context
 Evaluation [2] – decision made as to whether good idea for Brakker to make some of its skilled workers redundant in a recession.

Points might include:

- loss of expertise [k]
- cost of redundancy [k] which will increase costs in the short term [an]
- cost of retraining/hiring new staff when recession over [k]
- might not be able to hire suitable workers after recession [k]
- reducing labour might be only option as have to cut costs [k] as it is in a recession [app] – might have to make difficult decision otherwise whole business might have to close [eval]
- effect on other workers' motivation [k] which might lead to lower productivity [an]
- threat of trade union's action which could harm the business [k]
- better workers might look elsewhere as concerned about job security [k] so Brakker might end up not having enough skilled workers [an]
- could depend whether the problems the business is facing are short term or long term issues [k]

Developed example:

Brakker may need to cut costs [k] in order to survive [an]. Making some workers redundant may make some existing workers feel insecure [k] resulting in a fall in job satisfaction [an]. So the firm's output could fall, and they might not be able to respond to a sudden increase in demand [eval]. However if workers are not made redundant, the firm might face serious cash flow problems [k] and its future may be at risk. Overall they should make workers redundant in order to better survive the recession. [eval]

15. M/J 13/P11/Q1/e

- (a) Knowledge [2 × 1] – identification of factor(s) [6]
 Analysis/application [2] – explain why the factor should be considered
 Evaluation [2] – justified decision made as to which are the most important factors

Factors could include:

- what is the job
- level of experience
- workers' capabilities and skills
- disciplinary record
- length of service
- cost/salary
- amount of redundancy payments required
- productivity of workers

Look at what jobs are not needed anymore [k] and could be replaced by more efficient machinery [an]. They need to see which workers are most productive [k] so that jobs can be reduced without lowering productivity [an]. The main thing therefore has to be the overall cost [ev] as they do not want to lose the most profitable workers [ev].

16. M/J 13/P11/Q4/d

(a) **Knowledge [3 × 1]** – identification of benefit [1 mark per benefit] [6]

Application/analysis [3 × 1] – explanation to show how it might help LD

Points might include:

- better skills [k] – so more efficient workers
- workers know what they are doing [k] so likely to make fewer mistakes [an]
- more flexible [k] so business able to cover absence of other workers [an]
- able to offer better customer service [k] – so attract more customers [an]
- workers feel more valued [k] so improve the customer service offered [an]
- improved public image of the company [k] so likely to attract more workers/customers [an]

17. O/N 13/P12/Q1/d

(a) **Knowledge [3 × 1]** – award 1 mark per relevant reason [6]

Analysis [3 × 1] – award 1 mark for each relevant explanation (i.e. why this would cause wages to be higher)

Reasons might include

- Demand for labour [k] if high demand, businesses would be forced to offer high wages to attract/retain employees [an]
- Level of unemployment [k] if high unemployment, workers are prepared to accept lower rates of pay [an]
- Government labour policies [k] a higher minimum wage will increase wages in general [an]
- Strength of trade unions [k] as they will bargain for better wages for its members [an]
- Stage of economic development of the country [k] a developed country is likely to offer higher rates of pay to workers [an]
- Level of skills/training required/education [k] as skilled workers will move if wage levels are not maintained [an]
- High tax rates [k] so wages set higher to compensate [an]

18. O/N 12/P11/Q2/c

(a) **Knowledge [2 × 1]** – award 1 mark per reason [4]

Application/analysis [2 × 1] – explanation mark for showing how the factor explains the wage differential

Factors to include:

- State of labour market
- Skills greater
- Shortage of manager [scarcity value]
- Ready supply of production line workers

- Greater responsibility
- Age and experience might differ
- Value to the company differs
- More demanding/important job

19. M/J 12/P12/Q2/e

(a) **Knowledge [2]:** identifies relevant issues. [6]

Analysis [2]: explanation to show how it might affect employees.

Evaluation [2]: reasoned judgement made as to whether *all* workers will like introduction of new technology.

For two evaluation marks, the answer must be clearly in the context of a manufacturer.

Issues might include:

- need for re-training [k] which could create promotion opportunities [an]
- impact on motivation (either positive or negative) [k]
- fear of change [k]
- fear of redundancy as machines replace jobs [k] could decrease motivation [an]
- deskilling [k]
- implications for pay e.g. lower wages [k] so lower living standards [an]
- opportunities to learn new skills [k]
- chances for self improvement or promotion [k]
- safer conditions as up to date technology [k] so less risk of injury [an].

Do not accept points such as 'more efficient' unless clearly link benefit to employees.

Context could include: large company, engine parts, batch production, always looking for ways to introduce new technology, manufacturer.

20. M/J 12/P12/Q5/a,b

(a) Clear understanding [2] outlines the responsibilities and duties [1] expected to be done by someone employed to do a specific job [+1]. [2]

Some understanding [1] e.g. what have to do for a job.

Some understanding plus example can gain 2 marks.

(b) **Knowledge [2 × 1]:** one mark per feature. [2]

Features include:

- knowledge of various elements such as qualifications, experience, skills, personal qualities

OR

- practical examples such as able to manage people
- age and/or gender (allow only 1 mark).

Allow any reasonable feature.

Do not accept examples which clearly relate to details of a CV e.g. where went to school, previous employer

21. M/J 12/P11/Q1/b,c

(a) Clear understanding [2] e.g. Training which involves watching a more experienced worker doing the job in the work place. [2]

Some understanding [1] e.g. get training whilst still working/at the work place/learning from another worker.

(b) Knowledge [2 × 1]: award 1 mark for the advantage and 1 mark for the disadvantage. **[4]**

Application/analysis [2 × 1]: award 1 mark for each development of a relevant point.

Advantages include:

- experienced worker's production is not affected as training happens away from work place
- learner has access to trainers who are skilled in the task
- workers will not learn bad habits of on-the-job trainer
- quality of product maintained as all work completed by experienced workers
- less impact on output as current workers do not have to spend time training new people.

Disadvantages include:

- more expensive than on the job which increases costs for the business. For example transport costs/paid trainer
- loss of first hand experience/not necessarily tailored to individual company
- no output produced by learner whilst training taking place.

Do not accept points that apply to both methods of training.

2.4: Internal and External Communication

1. O/N 17/P12/Q4/b,

VIS provides a range of insurance services including insurance for cars and electrical products. Last year retained profit decreased. The Managing Director blames higher taxation and also thinks that some markets have become more competitive. Customer complaints have also increased. The Managing Director plans to change the business organisational structure by removing both the regional directors and regional managers. She said: 'Shorter chains of command may help. I know some employees may need training.' She cannot decide on a suitable method of communication to inform employees about the changes to the organisational structure.

(a) Recommend the best method of communication VIS should use to inform employees about the changes to its organisational structure. Justify your answer.

.....

2. M/J 17/P11/Q2/c [6]

Josh owns an office cleaning business. He has a number of large and small business customers. Josh employs 6 full-time cleaners who are all given off-the-job training. Josh believes that using the latest cleaning equipment increases added value. He said: 'Customers are happy with the service. I am always sending text (SMS) messages to workers about additional work.' Josh has been looking at his balance sheet. He cannot decide if a bank loan is the best source of finance to use for new equipment. The new equipment will cost \$60 000.

Table 1: Extract from Josh’s balance sheet as at 30 April 2017 (\$000)

Current assets		120
Trade receivables	90	
Cash	X	
Current liabilities		Y
Net current assets		70

- (a) Identify and explain **one** advantage and **one** disadvantage to cleaning business of using text (SMS) messages as a method of internal communication.

Advantage:

.....

Explanation:

.....

Disadvantage:

.....

Explanation:

.....

[6]

3. O/N 16/P12/Q4/c,d

Moeen and Ali plan to start up a small luxury hotel in the centre of a city in country R. They have a budget of \$30 000 to pay for all costs. After researching different types of business organisation, as shown in Table 2, Moeen thinks the hotel should be a private limited company. If the business is to be successful, Ali knows choosing the right location will be important. He cannot decide whether to recruit full-time or part-time employees.

Table 2: Private sector business organisations in country R (millions)

Sole trader	3.0
Partnership	0.5
Private limited company	1.2
Other types of business organisation	0.3

- (a) Identify and explain **two** advantages to Moeen and Ali of forming a private limited company.

Advantage 1:.....

.....

Explanation:.....

.....

Advantage 2:.....

.....

Explanation:.....

.....

[4]

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(b) Identify and explain **two** factors that might influence Ali's choice of location for the business.

Factor 1:.....
.....

Explanation:.....
.....
.....

Factor 2:.....
.....

Explanation:.....
.....
.....

[6]

4. O/N 16/P11/Q4/c,

DCP makes a range of high quality industrial paints. It sells direct to 6 large business customers which are located in different countries. DCP charges a price of \$0.35 per litre. It operates in a competitive market. The Operations manager has been looking at DCP's costs as shown in Table 2. He wants to increase profit but he does not want to buy cheaper materials.

Table 2: Output and cost information for DCP per week

Output (litres)	1 500 000
Total fixed costs (\$)	350 000
Total material costs (\$)	60 000
Total labour costs (\$)	40 000

(a) Identify and explain **two** ways in which paint manufacturer might communicate with its customers.

Way 1:.....
.....

Explanation:.....
.....

Way 2:.....
.....

Explanation:.....
.....

[4]

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5. M/J 15/P12/Q2/c,

Alkin is a multinational company. It manufactures breakfast food products including many leading brands of cereal. Alkin plans to start selling in country Z, which is a fast-growing market. Alkin plans to form a joint venture with a local business, based in country Z. 'Effective communication will be important to our success but I think there are many advantages in expanding this way' said Alkin's Managing Director. The Government of country Z is worried about the effect of multinational companies like Alkin on consumers.

(a) Identify and explain two reasons why effective communication might be important for Alkin.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

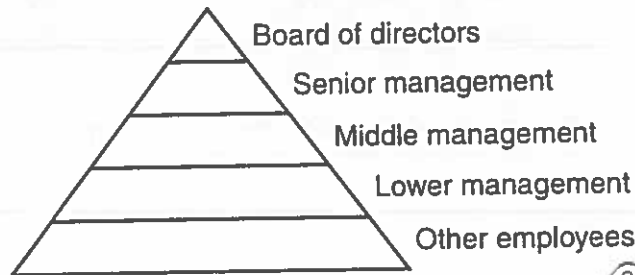
Explanation:

..... [4]

6. O/N 14/P12/Q4/c,

Grenada makes meat products such as pies, burgers and ready-made meals. It employs 10000 workers. It operates in many countries, each with different laws and traditions. Its organisation structure is tall and hierarchical. Spans of control are narrow and there is little delegation. Some middle managers complain that they are not allowed to make important decisions. The directors want to improve communication with employees.

Figure 2: Organisational structure of Grenada



(a) Identify and explain two appropriate ways that the directors of Grenada can use to communicate with employees.

Way 1:

.....

Explanation:

.....

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Way 2:

.....

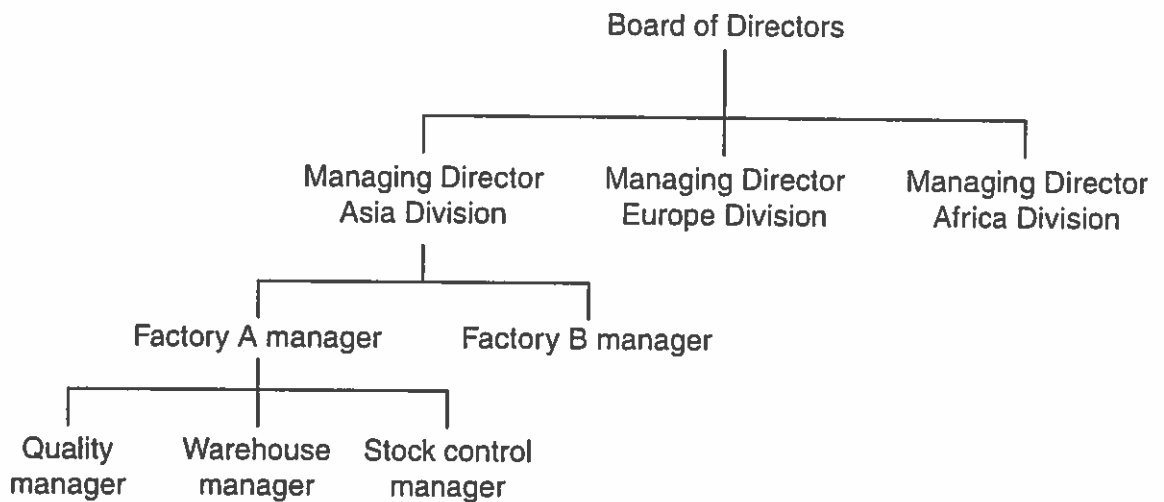
Explanation:

.....[4]

7. O/N 14/P11/Q5/c,

Zalpha is a multinational company. It manufactures agricultural machinery and employs a large number of people. Figure 1 shows a simplified organisation chart for the business. The business decision making is centralised and some employees complain of poor communications within the company.

Figure 1



(a) Identify and explain two possible reasons why Zalpha has poor internal communications.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

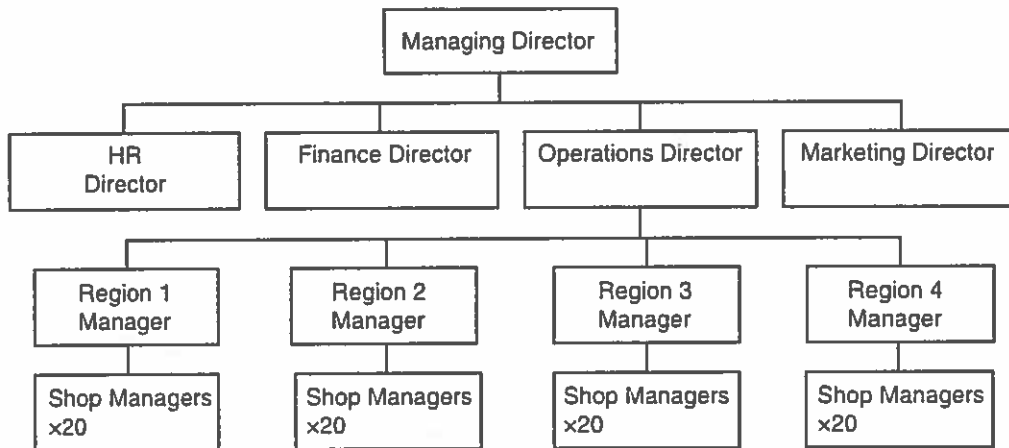
Explanation:

.....[4]

8. M/J 14/P12/Q1/d,

LEK owns 80 electrical shops. It sells products such as cell (mobile) phones and televisions. The Marketing Director believes offering customers a choice of products helps LEK to be competitive. LEK must use suitable ways to communicate with its customers. LEK's directors are planning a takeover of a competitor. This competitor owns 40 shops and operates in the same 4 regions as LEK.

Fig. 1: LEK organisational chart



(a) Identify and explain **two** suitable methods of communication that retailer of mobiles and television could use to communicate with its customers.

Method 1:

Explanation:

.....
.....
.....

Method 2:

Explanation:

.....
.....
.....

[6]

9. O/N 13P12/Q5/c

K & P is a large group of shops selling televisions. The directors of K & P use an autocratic management style. Spans of control are narrow and communication is only one-way. Many workers leave K & P each year and this is a problem for the business. The motivation of the workforce is low as workers feel they are unimportant.

(a) Identify and explain **two** disadvantages of one-way communication for K & P's management team.

Disadvantage 1:

.....

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Explanation:
.....

Disadvantage 2:
.....

Explanation:
..... [4]

10. M/J 13/P12/Q3/a,b

Emir is the Production manager at a large food production factory. He wants to lower average cost to help the business remain competitive. All workers are paid using time rate. Emir believes that good internal communication is important. The company has decided to stop importing raw materials as this causes a lot of problems. Emir must choose a suitable method of communication to tell the overseas suppliers of his decision.

(a) What is meant by 'internal communication'?

.....
.....
.....
..... [2]

(b) Identify **two** suitable methods of communication food production business could use to tell the overseas suppliers of his decision to stop importing raw materials.

Method 1:

Method 2: [2]

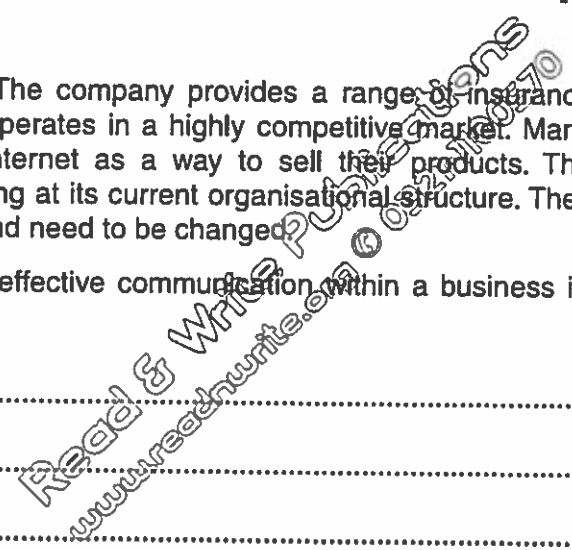
11. M/J 12/P12/Q4/d

Cole Brokers is a medium sized company. The company provides a range of insurance products to customers around the world. It operates in a highly competitive market. Many insurance businesses are now using the Internet as a way to sell their products. The management of Cole Brokers has been looking at its current organisational structure. They think the span of control and chain of command need to be changed.

(a) Identify and explain **three** reasons why effective communication within a business is important to the management.

Reason 1:
.....

Explanation:
.....



Reason 2:

.....

Explanation:

.....

Reason 3:

.....

Explanation:

..... [6]

Answers Section

1. O/N 17/P12/Q4/b,

(a) Knowledge [2 × 1] award 1 mark for each method identified 2

Possible methods are:

- on-the-job,
- off-the-job
- induction

2. M/J 17/P11/Q2/c

(a) Knowledge [2×1] : award 1 mark for each advantage / disadvantage identified 4

Application [2×1] : award 1 mark for each explanation in context

Points might include:

Advantage:

- ∞ Quick to send [k] which helps as always busy [app]
- ∞ Can send at any time [k] so can finish cleaning before having to respond [app]
- ∞ Can be sent simultaneously [k] to all 6 employees [app]
- ∞ Can be read when receiver has time [k]
- ∞ Able to refer back to it later [k] so can check details of the cleaning job [app]

Disadvantage:

- Only contain limited information OR might not understand [k] so cleaners may not have all details [app]
- Might not receive the message OR no power on the phone OR may not have a signal [k] leading to poor service [app]

3. O/N 16/P12/Q4/c,d

(a) Knowledge [2 × 1] – award 1 mark for each relevant advantage
Application [2 × 1] – award 1 mark for each explanation in context 4

Relevant points might include:

- Access to more capital [k] which could help increase their budget/so can afford to create luxury image [app]
- Benefit from limited liability [k] if new business fails [app]
- Continuity of existence [k] if anything happens to one of them will not have to close hotel [app]
- Separate legal identity [k]
- Control over who buys shares [k]

(b) Knowledge [2 × 1] – award 1 mark for each relevant factor
Application [2 × 1] – award 1 mark if relevant reference made to this business
Analysis [2 × 1] – award 1 mark for each relevant explanation
Relevant points might include:

- Competition [k] from other hotels [app] so might not gain as many customers [an]
- Cost of land [k] as has to be city centre [app] which is likely to be more expensive [an]
- Availability of suitable land [k] as need a large space [an]

OR available space for parking [k] for guests [app]

- Close to customers/level of demand [k]
- Infrastructure, e.g. water, electricity, internet OR transport links [k] so employees/customers can get there without any difficulty [an]
- Image/environment [k] the wrong site might not suggest luxury [app] making it difficult to attract customers [an]
- Government regulations [k] could stop them from opening in some locations [an]
- Access to suitable employees [k] as need full/part-time [app] to provide customers the right level of service [an]
- Close to suppliers k

4. O/N 16/P11/Q4/c,

- (a) Knowledge [2 × 1] – award 1 mark for each relevant reason
Application [2 × 1] – award 1 mark for each relevant explanation
Relevant points might include:

4

- Email/website/social networks [k] as customers are in different countries [app]
- Meetings [k] as only have 6 customers [app]
- Phone/text [k] as able to quickly check information about paint orders [app]
- Letter [k]
- faxes [k]

5. M/J 15/P12/Q2/c,

- (a) Knowledge [2 × 1] – award 1 mark for each relevant reason
Application [2 × 1] – award 1 mark for each relevant explanation in context of this business
Relevant points might include:

[4]

- Avoid diseconomies of scale [k] as communication can be difficult in a multinational [app]
- Everyone understands objectives [k] so no conflict in joint venture [app]
- avoid language issues / misunderstandings [k] particularly when start selling in country Z [app]
- Different cultures / management styles [k] so able to work with the local business [app]
- Better / faster decision making [k] so able to quickly react to changing tastes / flavours [app]
- Able to exchange ideas [k]
- Better relations with suppliers [k]
- Inform customers about its products [k] so that customers are interested in their food [app]

Note: Points can relate to either existing business or planned joint venture.
Do not accept 'improves motivation' unless explains the impact on this business

Application marks may be awarded for appropriate use of the following: joint venture, country Z or countries, multinational company, breakfast cereals or food, expansion

6. O/N 14/P12/Q4/c,

- (a) Knowledge [2 × 1] – award 1 mark for each way identified
Analysis [2 × 1] – award 1 mark for each relevant explanation
Points might include:

[4]

- Letter [k] can contain a lot of information [an]
- Meeting [k] allows opportunity for discussion / feedback [an]
- Video conferencing [k] so less need to travel between different countries [an]
- Phone / mobile [k] as can contact person straightaway [an]

- Email / text [k] as able to send same message to everyone at same time [an]
- Noticeboard [k].

Do not accept visual / written which are categories and not specific ways.

7. O/N 14/P11/Q5/c,

- (a) Knowledge [2 × 1] – award 1 mark for each relevant reason. [4]

Application [2 × 1] – award 1 mark for each relevant explanation in context (show why they might create poor communication for Zalpha).

Reasons might include:

- Tall hierarchy / long chain of command/ distance from top to bottom of organisation [k] as there are at least 4 levels [app]
- Choosing the wrong method of communication [k] for a business is split across 3 continents [app] / for such a large number of people [app]
- Barriers to effective communication exist e.g. language issues [k] for different countries / multinational [app].

8. M/J 14/P12/Q1/d,

- (a) Knowledge [2 × 1] – award 1 mark for each relevant method identified. [6]

Application [2 × 1] – award 1 mark if relevant reference made to LEK.

Analysis [2 × 1] – award 1 mark for each relevant explanation (e.g. how the method works or advantage of using this method).

For each reason: maximum 3 marks [1k + 1ap + 1an].

Methods could include:

- Emails/mailshots [k] could be targeted at individual customers [an] who are interested in different electrical products [app]
- Social media e.g. on facebook or twitter [k] as many people use it these days to find out about the latest offers [an] phones [app]
- Telephone [k] as two way communication would allow LEK to explain specific product details to customers who could ask questions [an]
- Website [k] would allow customers to access instant news about appliances [app] without having to spend a lot of money on advertising [an]
- Press releases [k] can be used to inform existing customers in the different regions [app] so business is able to control the information that is given out [an]
- Newsletters [k] to inform customers about the latest technology or appliances [app] to keep them up to date with what is available [an]
- Text messages [k] which can be sent directly to customers, phones [app]
- Market research methods [accept only once] e.g. consumer panels [k] to find out what existing customers think about its products [an] and whether it should stock new types of phones [app]

Methods of communication can only be accepted if aimed directly at existing customers.

Do not accept advertising (e.g. posters, leaflets) as this is too general.

Do not accept internet, verbal/face to face or written as too vague.

9. O/N 13/P12/Q5/c

- (a) Knowledge [2 × 1] – award 1 mark per disadvantage [4]

Analysis [2 × 1] – award 1 mark for each relevant explanation i.e. show why it represents a disadvantage

Disadvantages include:

- No feedback [k] so unsure whether message has been understood/received [an]
- No generation of ideas internally within business [k] as employees are not encouraged to give any [an]
- Gap between management and employees becomes greater [k] and this can produce tension and mistrust [an]

10. M/J 13/P12/Q3/a,b

- (a) Good knowledge [2] – messages between people [1] working in the same organisation [1]
Some knowledge [1] – e.g. communication inside a business [2]
- (b) Application [2] – 1 mark per method
Methods include: email/letter/telephone/meeting/video conference
Accept any reasonable answer.
Do not accept 'verbal or written' as these are categories rather than specific methods. [2]

11. M/J 12/P12/Q4/d

- (a) Knowledge [3 × 1]: award 1 mark per relevant reason.
Analysis [3 × 1]: award 1 mark per relevant explanation (i.e. explain why it is important to management). [6]
- Reasons might include:
- improves efficiency [k]
 - as workers as feel involved in the business decisions [k] so more productive [an]
 - ensures the right orders are passed to the right people [k] so orders are completed properly or on time [an]
 - avoids confusion or misunderstanding [k] so less mistakes [an]
 - avoids duplication of work [k] which can waste time and resources
 - less mistakes as know what to do [k] so prevents faults [an].

Note: reasons must clearly relate to management/business not employees or customers.
Do not allow 'workers motivated' unless linked to idea of effective communication.

Unit 3: Marketing

3.1: Marketing, Competition and the Customer

1. O/N 17/P12/Q1/d

FlyAway is an airline business. It is in the tertiary sector. It offers low-price flights for business customers in country J. Customers have to pay extra for luggage and food on the flight. It is a very competitive market. The Marketing manager knows that improving customer service is important. Bookings and advertising are done through FlyAway's ticket shops and its website. The Marketing manager cannot decide whether to close its ticket shops and use only e-commerce.

Table 1: Selected information about two of FlyAway's routes

Route	Average number of passengers per flight	Average price per ticket (\$)	Break-even number of passengers per flight
1	85	80	70
2	110	60	90

(a) Identify and explain **two** ways in which FlyAway could improve customer service.

Way 1:.....
.....

Explanation:.....
.....
.....

Way 2:.....
.....

Explanation:.....
.....
.....

[6]

2. O/N 17/P12/Q4/a

VIS provides a range of insurance services including insurance for cars and electrical products. Last year retained profit decreased. The Managing Director blames higher taxation and also thinks that some markets have become more competitive. Customer complaints have also increased. The Managing Director plans to change the business organisational structure by removing both the regional directors and regional managers. She said: 'Shorter chains of command may help. I know some employees may need training.' She cannot decide on a suitable method of communication to inform employees about the changes to the organisational structure.

(a) Identify two reasons why markets can become more competitive.

Reason 1:.....

.....

Reason 2:.....

..... [2]

3. M/J 17/P12/Q3/b

Five years ago Manisha started making cakes for celebrations, such as weddings and birthdays, from her home. Now she has a small shop and 3 employees. Product quality is important to her business. Manisha said: 'I have benefited from the economic boom but I did not expect demand to increase by 500% each year. Somehow I have managed to cope with higher interest rates and all the challenges of being a sole trader. The business is profitable at last but I have to work every day.' A friend has offered to become Manisha's business partner.

(a) Identify two factors which might affect demand for products.

Factor 1:

.....

Factor 2:

..... [2]

4. M/J 17/P11/Q3/d

Wilde Soup Stop (WSS) makes a range of soups and hot drinks. It owns 30 shops and has sold its franchise to 10 other shops in country Z. The Marketing Director said: 'Results from our focus group show that being an ethical business is important'. WSS plans to extend its product range to include curries and cakes. WSS will need to change its brand image. The Marketing Director cannot decide whether to use sponsorship or newspaper advertising as the main method of promotion.



Fig.1: Existing logo for WSS

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(a) Identify and explain **one** advantage and **one** disadvantage to soups and hot drink of changing its brand image.

Advantage:

.....

Explanation:

.....

.....

.....

Disadvantage:

.....

Explanation:

.....

.....

.....

[6]

5. M/J 16/P12/Q2/c

F&G is a leading fashion retailer. It has 20 shops in country C. The business uses market segmentation. Its target market is men aged between 25 and 40 years old. The Marketing Director has been looking at the marketing data shown in Table 1. She is worried that the amount the business spends on marketing is not cost effective. She would like to close down all F&G shops and just use e-commerce.

Table 1

Year	Total value of the men's clothing market	F&G's market share	F&G's marketing budget
2015	\$500m	15%	\$25m
2016	\$700m	12%	\$40m

(a) Identify and explain **two** benefits of market segmentation to business.

Benefit 1:

.....

Explanation:

.....

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Benefit 2:
.....

Explanation:
..... [4]

6. M/J 16/P11/Q1/a,b

EDGE makes mobile (cell) phones. It operates in a competitive market. The Marketing manager believes that because EDGE is good at maintaining customer loyalty demand for its phones is price inelastic. Its best selling product, Z, is near the end of its product life cycle. The Marketing manager has to decide whether to spend money on developing new products or use extension strategies for product Z.

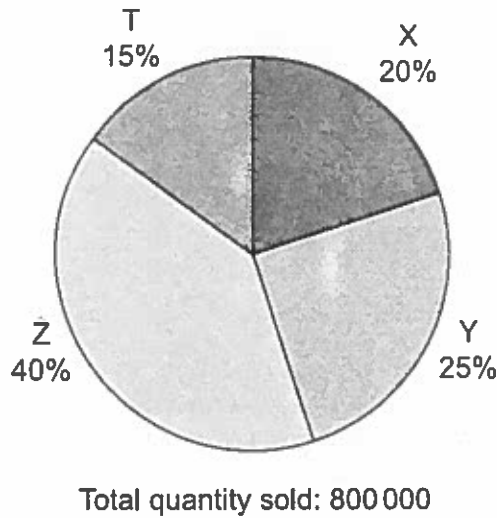


Fig. 1: EDGE – quantity sold by product type in 2015

(a) What is meant by 'customer loyalty'?

.....
.....
.....
..... [2]

(b) Calculate the quantity of product Z sold in 2015.

.....
..... [2]

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(a) What is meant by 'mass market'?

.....
.....
.....
.....[2]

(b) What is meant by 'market share'?

.....
.....
.....
.....[2]

9. M/J 15/P12/Q2/b

Alkin is a multinational company. It manufactures breakfast food products including many leading brands of cereal. Alkin plans to start selling in country Z, which is a fast-growing market. Alkin plans to form a joint venture with a local business, based in country Z. 'Effective communication will be important to our success but I think there are many advantages in expanding this way' said Alkin's Managing Director. The Government of country Z is worried about the effect of multinational companies like Alkin on consumers.

(a) What is meant by a 'brand'?

.....
.....
.....
.....[2]

10. M/J 15/P12/Q3/a,b

Mabel wants to set up her own hairdressing business. She will need to build good customer relationships. She has done some secondary market research to find out possible demand and what methods of promotion to use. She has decided to buy her inventory (stock) from a wholesaler. Mabel is now looking for the right location for her business. She thinks that location will be more important than price charged to the success of her business.

(a) Identify **two** ways that a business could build good customer relationships.

Way 1:
.....
Way 2:
.....[2]

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(b) What is meant by 'secondary market research'?

.....

.....

.....

..... [2]

11. M/J 15/P11/Q1/d

Gomez is the manager of a small computer repair business. Table 1 shows some costs and prices for his business. As it is a competitive market, Gomez knows it is important to maintain customer loyalty and revenue. Gomez knows that a lower break-even point would help improve profits. He thinks the best way to lower the break-even point is to raise prices.

Table 1: Cost and price information

Price per customer	\$30
Variable cost per customer	\$20
Average number of customers per month	140
Monthly fixed costs	\$1000

(a) Identify and explain **two** methods that Business could use to maintain customer loyalty.

Method 1:

.....

Explanation:

.....

.....

Method 2:

.....

Explanation:

.....

.....

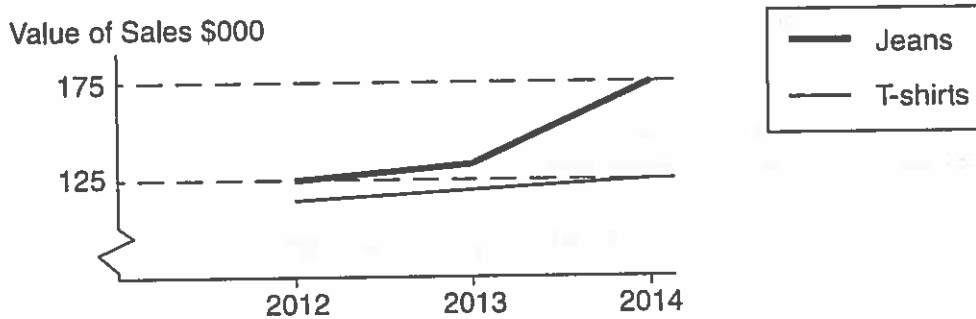
..... [6]

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12. O/N 14/P12/Q3/a

Rhiannon Enterprises manufactures ladies clothes. Its best selling products are fashion jeans and T-shirts. Figure 1 shows sales data for these products. In 2014 the value of the sales of these 2 main products was 50% of the total sales of the business. The market for ladies' clothes is very competitive. In 2013 the business reduced the price of its jeans by 25%. It is now trying to find low cost suppliers of cloth to increase its profit margins. Sales of some other products have been falling despite Rhiannon Enterprises increasing advertising spending on them.

Figure 1



(a) What is meant by a market being 'very competitive'?

.....

 [2]

13. O/N 14/P11/Q3/a,b,e

Natural Care is a company that makes soap. The business always acts in an ethical way. It follows fair trade principles by paying fair prices to its suppliers. It uses a cost plus pricing method when selling its products. Table 2 gives data about the company's sales of soap and its share of the national market for soap.

Table 2

Year	Natural Care sales (\$m)	Market share of Natural Care (%)
2012	40	10
2014	44	7

The Marketing Director of Natural Care wants to introduce a new competitive pricing strategy to help regain market share. She also wants the Board of Directors to think about changing its ethical policy.

(a) Calculate the total market sales of soap in 2012.

.....
 [2]

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(b) Identify two possible reasons why Natural Care’s market share fell in 2014.

Reason 1:

.....

Reason 2:

.....[2]

(c) Do you think that customers of products such as soap always benefit from an increase in competition? Justify your answer.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....[6]

14. M/J 14/P12/Q3/b,e

SENG manufactures cameras. Last year its market share increased by 2% to 18%. Production is capital intensive. This allows SENG to use lean production methods such as just-in-time. Cameras have a short product life cycle. SENG spends \$200m each year on extension strategies. The Marketing manager thinks that an increase in market share will lead to higher profits.

(a) Identify two possible reasons why cameras might have a short product life cycle.

Reason 1:

.....

Reason 2:

.....[2]

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(b) Do you think that an increase in market share will always lead to higher profits for SENG?
Justify your answer.

.....
.....
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.....
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.....
.....
.....
.....
.....
.....
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.....
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.....
.....

[6]

15. M/J 14/P11/Q1/a

Anouk is a sole trader. She designs and makes jewellery at home, using hired (rented) equipment. Anouk enjoys selling the jewellery at local markets. Last year her sales revenue increased by \$500 to \$3000. She plans to use \$50 for a marketing budget. Anouk would like to do some primary market research when she has time. Anouk thinks she should have a business partner.

(a) What is meant by a 'marketing budget'?

.....
.....
.....
.....

[2]

16. M/J 14/P11/Q2/b

Keypeople is a recruitment agency which only operates in one small town in country Z. Its owner, Rachel, and her two employees know that good customer service is important. Rachel would like to expand her business. Keypeople offers a variety of human resource services to other businesses, such as recruiting employees and preparing employment contracts. Rachel has been asked by a local manufacturing business to recruit a senior manager.

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(a) Identify **two** reasons why good customer service is important for Keypeople.

Reason 1:
.....

Reason 2:
..... [2]

17. O/N 13/P11/Q5/c

Dmit is a partner in a small retail clothing business. The business has been successful, but it is finding it difficult to compete against larger retailers. The partners are thinking of converting the partnership into a private limited company.

(a) Identify and explain **two** reasons why the business might be finding it difficult to compete against larger retailers.

Reason 1:
.....

Explanation:
.....

Reason 2:
.....

Explanation:
..... [4]

18. M/J 13/P11/Q2/a,b,c

Gayle's Soaps is a business which manufactures health and beauty products. Its market share has remained constant at 15% despite new businesses entering this market. The business uses market segmentation. Most of its customers are women. The Marketing manager believes the company could increase its profits if it increases the price of each of its most popular products.

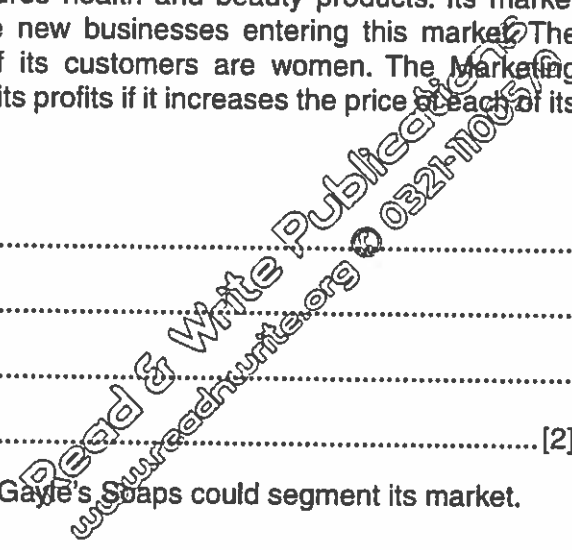
(a) What is meant by 'market share'?

.....
.....
.....
..... [2]

(b) Identify **two** ways (other than gender) that Gayle's Soaps could segment its market.

Way 1:

Way 2: [2]



(c) Identify and explain **two** advantages of market segmentation for Gayle's Soaps.

Advantage 1:

.....

Explanation:

.....

Advantage 2:

.....

Explanation:

..... [4]

19. O/N 12/P11/Q4/a

Jergen Cosmetics makes a range of beauty products for women in country A. 'We are a market orientated company' said Klaus, the Managing Director. 'One of our business objectives is to increase sales turnover. We have just set up our own website and increased our marketing budget. Our country's economic growth is forecast to be 4% next year and this will guarantee our company's profitability.'

(a) What is meant by 'market orientated company'?

.....

.....

.....

..... [2]

20. M/J 12/P12/Q1/c

Made Fresh is a company that manufactures high quality organic foods. The company uses ingredients that have been grown by local farmers in country J. Market research has shown that branding has helped the company to achieve its objectives. Recent bad weather in country J has led to many of the farm crops failing. Made Fresh is thinking about importing organic food ingredients from other countries nearby.

(a) Identify and explain **two** advantages to a business of branding.

Advantage 1:

.....

Explanation:

.....

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Advantage 2:

.....

Explanation:

..... [4]

21. M/J 12/P11/Q5/a

Favell is a woodworker. He is planning to set up his own woodworking business. He plans to use marketing to help his business become established in the local area. Favell thinks cash flow will be a problem because his business will have a lot of cash outflows. A friend has suggested he prepares a cash flow forecast.

(a) What is meant by 'marketing'?

.....

.....

.....

..... [2]

Answer Section

1. O/N 17/P12/Q1/d

(a) Knowledge [2 × 1] – award 1 mark for each way identified 6

Application [2 × 1] – award 1 mark for each relevant reference made to this business

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

Possible points might include:

- Training [k] so that employees know what to do [an] in case of any problems on route [app]
- Seek feedback e.g. carrying out surveys [k] about the airline [app] to help improve customer loyalty [an]
- Set OR enforce clear standards OR use Quality Assurance [k] to ensure that employees provide a consistent service [an]
- Recruit suitable OR knowledgeable employees [k] to work in its shops [app] so can provide a quicker service to customers [an]
- Treat employees well OR motivate employees [k] so want to help its passengers [app]
- Handle complaints OR queries quickly [k]
- Open more outlets in cities [k] to sell tickets [app] so more convenient to buy for customers [an]
- better communication [k] e.g. text if flights are delayed [app]

2. O/N 17/P12/Q4/a

(a) Knowledge [2 × 1] award 1 mark for each reason identified 2

Points might include:

- globalisation
- developments in technology such as internet, social media
- improvements in transport links
- lower barriers to entry e.g. government intervention or changes to legal controls OR free trade
- more businesses enter the market OR more products

3. M/J 17/P12/Q3/b

(a) Knowledge [2 × 1]: award one mark per factor 2

Points may include changes in any of the following:

- ∞ Price charged by Manisha
- ∞ Fashion and trends
- ∞ Consumer tastes and preferences
- ∞ Stage in economic cycle OR changes in economic factors e.g. interest rates, taxes
- ∞ Level of consumer income
- ∞ Actions of competitors e.g. new products or changes in prices
- ∞ Complementary goods
- ∞ Increase in population
- ∞ Level OR effectiveness of advertising
- ∞ Quality of product

4. M/J 17/P11/Q3/d

- (a) Knowledge [2 × 1] : award one mark for each relevant advantage/
disadvantage identified 6

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

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

Points might include:

Advantages

- Reflect new product range [k] as now offering cakes and curries [app] can help attract a wider target market / range of people [an]
- Image might be out of date [k] as soup bowl is simple design [app] so need to change it to remain competitive [an]
- Customers like something new [k] therefore they are more likely to try [an] the curries [app]
- Attract new customers [k]

Disadvantage

- Damage customer loyalty [k] as existing customers do not like the new logo created [an]
- Customers might not recognise the new logo OR be confused [k] so might miss the shop [app] therefore reducing sales [an]
- Time / cost (to change the logo) [k] as may need to ask focus group for their opinion [app] increasing expenses [an]

5. M/J 16/P12/Q2/c

- (a) Knowledge [2] – award 1 mark for each relevant benefit [max 2]. 4

Application [2] – award 1 mark for each explanation in context. Relevant points might include:

- Able to tailor goods to specific needs of segment/know what to produce [k] which may help increase its market share [app]
- Identify gaps in the market [k] so can spot new age range to sell to [app]
- To help decide best place to sell [k] such as e-commerce [app]
- Research is simpler/help identify customer needs [k] as know which gender/men to ask [app]
- Help focus spending/make best use of resources [k] so don't waste fabrics [app]
- Help target promotion/advertising [k] so make better use of (marketing) budget [app]
- Help set prices [k]
- Help increase sales/revenue [k].

6. M/J 16/P11/Q1/a,b

- (a) Clear understanding [2] 2

e.g. A customer who returns and buys multiple times.

Customer keeps buying the same brand no matter what the price.

Some understanding [1]

e.g. Buy from you rather than the competitors, customer returns, customer keeps buying.

- (b) Good application [2] 320 000 2

Some application [1] method e.g. $800\,000 \times 40\%$

7. O/N 15/P12/Q3/e**(a) Knowledge [1]** – award 1 mark for identification of relevant issue(s) [max 1] **[6]****Application [1]** – award 1 mark if relevant reference made to car industry**Analysis [2]** – award up to 2 marks for relevant development of point(s)**Evaluation [2]** – justified decision as to whether it is possible for small manufacturer to survive in a competitive market

Relevant points might include:

Advantages of being small:

- Able to specialise/cater to niche market [k] so might not need to compete on price [an]
- Small business able to react quicker to change in customer demands [k] for type of car wanted [app]
- Able to offer personal service [k]

Disadvantages of being small:

- Less opportunity for economies of scale/lack capacity [k] in factory [app] so higher unit costs [an]
- High cost of research and development [k] of, for example, 'greener' vehicles [app] might be too expensive for their budget [an]
- Can they attract best managers/employees [k] as larger businesses might offer better financial package/security [an]?
- Less visibility as a brand [k] so harder to get recognition/sales [an]
- Lower marketing budgets [k] so struggle to have a large market presence [an]

Application could include: 20% fall in market size, productivity, flow production, (efficient) factories, 400 redundancies, cars or examples of car companies.

Note: Candidate's final decision can be either for or against the statement.

8. O/N 15/P11/Q3/a,b**(a) Clear understanding [2]** where there are a large number of (potential) customers willing to buy product(s). Allow: a large number of sales of a product **[2]**

Some understanding [1] lots of customers/sales/buyers/people, shown by comparison to niche

(b) Clear understanding [2] e.g. percentage of the total market sales [1] held by one brand or business [+1] **OR** business sales/total market sales $\times 100$ **[2]**

Some understanding [1] e.g. share of all sales made/percentage of customers a business has

9. M/J 15/P12/Q2/b**(a) Clear Understanding [2]:** (unique) name, feature or design / logo or image of a product or business [1] that distinguishes it from other products or businesses [1] **[2]**

Some Understanding [1]: e.g. something which makes a product 'stand out' [1]

Do not accept examples

10. M/J 15/P12/Q3/a,b**(a) Knowledge [2 × 1]** award 1 mark per way **[2]**

Points might include:

- Offer good / personal service e.g. be friendly with customers
- Find out what customers want / offer the right product
- Ask for feedback
- Extra services e.g. delivery, credit terms, after sales, longer opening hours
- Resolve complaints quickly / refunds
- Communicate with customers regularly e.g. newsletters or mailshots
- Reward customer loyalty e.g. loyalty cards, special offers, discounts, vouchers, BOGOF, events

Accept any reasonable answer

- (b) Clear Understanding [2] – [2]
 e.g. Information about the market / customer needs or competition [1]
 that is already available / collected by other agencies [1]
 Some Understanding [1] – e.g. Simple idea such as information already collected [1] / or
 what market research is e.g. information about the market or finding out what
 people want [1]
 Do not accept examples
 Desk research [0]

11. M/J 15/P11/Q1/d

- (a) Knowledge [2 × 1] – award one mark for each method identified [max 2] [6]
 Application [2 × 1] – award 1 mark if relevant reference made to Gomez's business
 Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Communicate with customers e.g. newsletters, social media [k] so that they remember your business [an] when they next need computer repaired [app]
- Offer good quality service [k] so that customers want to return [an] rather than go to one of its many rivals [app]
- Extra services [k] e.g. delivery/credit facilities/after sales/training
- Offer rewards [discounts] to existing customers/loyalty card [k] such as free software [app] so consumers have an incentive to return [an]
- Train staff [k] so they are able to offer a good quality service [an]
- Ask for feedback e.g. surveys [k] to provide the repairs/service [app] that customers require [an]
- Resolve complaints quickly [k] so that customers don't go to rivals [an] to repair their computer [app]
- Application marks may be awarded for appropriate use of the following: competitive market/many rivals, computer repairs, software, small business.

Each application to be awarded only once.

12. O/N 14/P12/Q3/a

- (a) Clear understanding [2]: e.g. a market with a large number of businesses [1] selling similar products / aimed at the same group of consumers [+1] [2]
 OR many other businesses/intense rivalry in the same segment of the market [2]
 OR Similar services are being offered [1] and that probably prices are keen. [+1]
 Some understanding [1]: e.g. lots of rival businesses

13. O/N 14/P11/Q3/a,b,e

- (a) Correct answer [2]: 400 000 000 OR 400 m (\$ not required) [2]
 Some understanding [1] e.g. method OR $40 \div 0.1$
- (b) Application [2 × 1] – award 1 mark per relevant reason. [2]

Points might include:

- Demand for rival products increased faster than NC sales / market growth higher than 10%
- Increase competition in the market
- Higher price than competitors
- Lack of suitable marketing / promotion
- Decline in quality in the product.

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- (c) Knowledge [2 × 1] award 1 mark for each issue identified [6]
 Application [1] – award 1 mark if relevant reference made to this type of business
 Analysis [1] – award 1 mark for relevant development of point(s)
 Evaluation [2] – justified decision made as to whether customers always benefit from an increase in competition.

Points to include:

- Competition increase choice [k] therefore they may gain a product that better suits their needs [an]
- Leads to lower prices [k] which means more consumers can afford to buy [an]
- Products become more consumer orientated [k] for examples they can buy soap for sensitive skin [app]
- Lead to hidden quality cuts [k] as manufacturer looks to cut costs [an] to remain price competitive [app]
- Too much choice can be confusing [k]
- Firms will need to spend on promotion [k] therefore prices might rise for customers to cover the costs [an]
- Lower prices [k] but firms may reduce the size of the product reducing value for money [an]
- Firms reduce the size of the product [k] which means customers get less for their money
- Could reduce choice [k] as smaller firms are forced out of the market [an].

Developed answer:

Competition generally lowers prices [k] as firms try to remain price competitive [app] customers they may gain a product that better suits their needs [an] customers may not benefit if firms reduce quality. [k] The extent to which they benefit depends on how firms compete [ev] and what customers value in the product [ev].

14. M/J 14/P12/Q3/b,e

- (a) Application [2 × 1]: 1 mark per reason. [2]
 Reasons include: Actions of competitors, fashion/changing tastes, availability of new technology, availability of substitutes (e.g. phones with camera features).
 Do not accept 'low sales' on own as too vague.

- (b) Knowledge [2] – award up to 2 marks for identification of relevant issue(s). [6]
 Application [1] – award 1 mark if relevant reference made to SENG's business.
 Analysis [1] – award 1 mark for relevant development of point(s).
 Evaluation [2] – justified decision made as to whether an increase in market share will always lead to higher profits. For 6 marks must address the word 'always'.

Relevant points might include:

- Lower prices could increase sales [k] but might lead to lower revenue as people only buy cameras [app] because they are cheaper [an]
- If larger share of a smaller market [k] sales volume might have fallen [an] as people now have cameras in phones [app]
- Larger market share due to increased sales volumes may lead to purchasing economies of scale [k] when buying camera components/materials [app] reducing unit cost increasing margins [an]
- Stronger brand recognition [k] which could improve competitiveness [an] as customers are more likely to trust and buy Seng's camera [app]
- More power to charge higher prices [k] if new design or camera feature [app] to gain additional revenue [an], which leads to an increase in profits (if costs rise at lower rate) but the market share might not increase

15. M/J 14/P11/Q1/a

- (a) Good knowledge:[2] e.g.a financial plan or forecast for the marketing of a product for a specified period of time [2]
Some knowledge: [1] e.g. a financial plan or sum of money put aside for marketing

16. M/J 14/P11/Q2/b

- (a) Application [2 × 1] - award 1 mark per reason [2]
Reasons might include: customer feels valued / good public relations / creates higher level of customer satisfaction / leads to repeat business (brand loyalty) / can lead to word of mouth recommendations/ motivation of workers/brand image.

17. O/N 13/P11/Q5/c

- (a) Knowledge [2 × 1] – award 1 mark per way [max 2] [4]

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]

18. M/J 13/P11/Q2/a,b,c

- (a) Clear understanding [2] Percentage of the total market sales [1] held by one brand or business [+1] [2]

Some understanding [1] e.g. share of all sales made

- (b) Application [2 × 1]: 1 mark per way [2]

Answers might include: age, lifestyle, geographical, income/social class, use – health or beauty

- (c) Knowledge/application [2 × 1] – identification of relevant advantage [4]

Analysis [2 × 1] – award one mark for each relevant explanation (i.e. showing how or why it might be an advantage for GS)

Points might include:

- able to tailor any of the 4 Ps to specific needs of customer group [k] which should help sales [an]
- identify gaps in the market [k]– so able to meet needs of new potential customers [an]
- use segmentation to sell more products [k] by targeting different brands to different segments [an]
- research is made simpler [k] because you know who you need to ask [an]

19. O/N 12/P11/Q4/a

- (a) Clear understanding [2] Some understanding [1] [2]

A business that focuses on the needs and requirements of its customers through analysis of market research data. Alternatively one that does market research before manufacturing or supplying a product/service [2].

A business that produces what customers want [1] or one that does market research [1].

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20. M/J 12/P12/Q1/c**(a) Knowledge [2 × 1]:** award 1 mark per relevant advantage. **[4]****Analysis [2 × 1]:** award 1 mark per relevant explanation (i.e. how helps the company).

Advantages might include:

- able to differentiate product from rivals [k] customers want to buy more of your product [an]
- way to encourage brand loyalty [k] so maintain level of sales [an]
- means to attract potential customers [k]
- means of achieving a competitive advantage [k]
- able to charge higher prices [k] as products can be seen to be of higher quality [an]
- instant recognition/well known/identity/brand image [k]
- way to add value to a product [k]
- easier to launch new products [k] as customers are aware of and/or trust name [an].

21. M/J 12/P11/Q5/a**(a) Clear understanding [2]** e.g. identifying and anticipating customer wants and then providing it. **[2]**

Some understanding [1] e.g. selling the product or 1 core element of marketing identified, such as promotion or pricing or market research.

3.2: Market Research

1. M/J 17/P12/Q1/a

Cheung owns a small retail shop in the city centre selling fashion clothing for children. As it is a competitive market, Cheung knows market research is important. Cheung is worried about the effect of an increase in shop rent on his costs. Cheung said: 'I will have to pay this higher rent as it is a good location. I need to increase revenue or reduce other costs.' Cheung buys all his supplies from a wholesaler located in a nearby town. He is thinking of buying directly from a clothing manufacturer in another country.

(a) What is meant by 'market research'?

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.....

[2]

2. O/N 16/P11/Q3/e

YOGO is a new business which Amelia has just set up using Government support. YOGO makes a range of sweets (candy) targeted at adults. It is a niche market. Amelia has been looking at the marketing part of her business plan. She has to decide which pricing method to use. Amelia is spending a lot of money on packaging. She did not do any primary market research as she thinks she can use secondary data to make decisions. She believes that all adults like sweets.

(a) Do you think Amelia's business would benefit from primary market research? Justify your answer.

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[6]

3. M/J 16/P12/Q2/a,b

F&G is a leading fashion retailer. It has 20 shops in country C. The business uses market segmentation. Its target market is men aged between 25 and 40 years old. The Marketing Director has been looking at the marketing data shown in Table 1. She is worried that the amount the business spends on marketing is not cost effective. She would like to close down all F&G shops and just use e-commerce.

Table 1

Year	Total value of the men's clothing market	F&G's market share	F&G's marketing budget
2015	\$500m	15%	\$25m
2016	\$700m	12%	\$40m

(a) What is meant by 'marketing budget'?

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[2]

(b) Calculate the value of F&G's revenue in 2016.

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[2]

4. O/N 15/P12/Q1/a

Walt owns a company which has developed a new computer game for adults. A focus group report shows customers like it. Walt has been considering the marketing mix, including the packaging for this product which is likely to be sold in many countries. 'I don't want to use a wholesaler as it would affect my profit margin' he said.

(a) What is meant by a 'focus group'?

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.....

[2]

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5. O/N 15/P11/Q3/c

Grimshaw manufactures mobile (cell) phones for the mass market. Last year its market share increased by 3%. The Managing Director is planning to set up a new factory in country T to supply the mobile phone market in that country for the first time. Grimshaw plans to sell a new model of mobile phone. The Managing Director has asked for market research to be done. He said: 'As a multinational, we can set up a new factory anywhere; I want to know whether the Government of country T will offer us any help to build our factory there.'

(a) Identify and explain **two** advantages of market research to cell phones manufacturer.

Advantage 1:

.....

Explanation:

.....

Advantage 2:

.....

Explanation:

..... [4]

6. M/J 15/P12/Q3/b

Mabel wants to set up her own hairdressing business. She will need to build good customer relationships. She has done some secondary market research to find out possible demand and what methods of promotion to use. She has decided to buy her inventory (stock) from a wholesaler. Mabel is now looking for the right location for her business. She thinks that location will be more important than price charged to the success of her business.

(a) What is meant by 'secondary market research'?

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..... [2]

7. M/J 15/P11/Q3/b

Si and Ramon are friends. They want to set up a photography business. They would take pictures at weddings, birthdays and other special events. The business will be a partnership. Based on their primary market research, Si believes there is enough demand. Ramon has produced a business plan which shows they need \$8000 for a shop and \$4000 for equipment. They plan to spend \$500 on promotion, but cannot agree on the best method to use.

(a) Identify **two** methods of primary market research that Si and Ramon might have used.

Method 1:

Method 2: [2]

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8. M/J 14/P11/Q1/b

Anouk is a sole trader. She designs and makes jewellery at home, using hired (rented) equipment. Anouk enjoys selling the jewellery at local markets. Last year her sales revenue increased by \$500 to \$3000. She plans to use \$50 for a marketing budget. Anouk would like to do some primary market research when she has time. Anouk thinks she should have a business partner.

(a) Identify two methods of primary market research that Anouk could use.

Method 1:

Method 2: [2]

9. O/N 13/P11/Q3/a,b,c

Yura is the Managing Director of a company that sells holidays. The company organises hotels, air flights and car hire for customers. For the first time, the company is going to do some market research. Secondary sources will be used and a sample of customers will be selected for primary research.

(a) What is meant by market research ?

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.....
.....
..... [2]

(b) Identify two advantages of using secondary sources.

Advantage 1:
.....
Advantage 2:
.....

(c) Identify and explain two methods of sampling that the company could use. [2]

Method 1:

Explanation:

.....
.....

Method 2:

Explanation:

.....
..... [4]

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10. M/J 12/P12/Q1/a

Made Fresh is a company that manufactures high quality organic foods. The company uses ingredients that have been grown by local farmers in country J. Market research has shown that branding has helped the company to achieve its objectives. Recent bad weather in country J has led to many of the farm crops failing. Made Fresh is thinking about importing organic food ingredients from other countries nearby.

(a) What is meant by 'market research'?

.....

.....

.....

..... [2]

Answer Section

1. M/J 17/P12/Q1/a

(a) Clear understanding [2]: e.g. 2

- ∞ Process of finding out what consumers want or need [1] before a product is made [1]
- ∞ Process of finding out what consumers want or need [1] depending on age group, income and location [1]
- ∞ Process of gathering (primary and secondary) data [1] on the buying habits and attitudes of potential customers [1]
- ∞ Process of gathering data about customers, competitors and market trends [2]

Some understanding [1]: e.g. find out what customers want, find out about competition

2. O/N 16/P11/Q3/e

(a) Knowledge [1] – award 1 mark for identification of relevant point(s) 6
Application [1] – award 1 mark if relevant reference made to Amelia's business

Analysis [2] – award up to 2 marks for relevant development of point (s)

Evaluation [2] – justified decision made as to whether Amelia would have benefited from carrying out primary market research

Relevant points might include:

- It is expensive [k] spends a lot on packaging [app] therefore may not be able to afford it [an]
- It is time consuming [k] she has already done secondary research [app] so how much more can she find out [an]
- Collect precise information[k] on sweets [app] so that she can produce the most appropriate products[an]
- Secondary data may be outdated [k] [app]Needs might have changed [an]
- Help better target promotion /in pricing decisions [k] especially as new business [app]

3. M/J 16/P12/Q2/a,b

(a) Clear understanding [2] – e.g. An estimated projection of costs needed to promote a business' products or services [2], 2

OR amount of money set aside by a business to promote its products and services (for a given period of time) [2],

OR a financial plan for the marketing of a product or product range (for a specified period of time) [2].

Some understanding [1] – e.g. Money for promoting goods or financial plan for marketing.

(b) Good application [2] correct answer \$84m or 84m or 84 000 000. 2

Some application [1] e.g.

- 700×0.12
- OR $700/100 \times 12$
- OR $700 \times 12\%$
- OR 84

4. O/N 15/P12/Q1/a

- (a) Clear understanding [2] e.g. selection of people who have similar characteristics to target [2] market [1] who give their opinions on a product/service [1]
Some understanding [1] e.g. some idea that they provide comments/opinions about product OR get market research information/find out consumer wants or needs
Do not reward answers which just explain what a group is OR refers to secondary market research.

5. O/N 15/P11/Q3/c

- (a) Knowledge [2 × 1] – award 1 mark per advantage. [4]
Application [2 × 1] – award 1 mark for each relevant explanation (i.e. show how it is an advantage to Grimshaw)
Advantages could include:
- greater awareness of consumer needs [k] so can adapt its phone/features to match what customers want [app]
 - able to forecast likely future trends [k] so can improve focus of new product development [app]
 - appreciate the strength of competitors [k] so can change marketing strategy to compete
 - knowledge of consumers' views of company products/image [k] as first time entering country T [app]
 - reduces risks/products launched with more confidence [k] as know what features customers want [app]
 - help gain competitive advantage [k] as can set effective pricing/promotion strategy to suit country T's customers [app]
 - produce the correct amount of product [k] to avoid wastage of expensive parts [app]
 - helps set price [k]

Note: knowledge points must relate to purpose of market research.

Application marks may be awarded for appropriate use of the following: mobile phones, market share increased (by 3%), mass market, factory, new model, multinational, technology, country T

6. M/J 15/P12/Q3/b

- (a) Clear Understanding [2] – [2]
e.g. Information about the market / customer needs or competition [1]
that is already available / collected by other agencies [1]
Some Understanding [1] – e.g. Simple idea such as information already collected [1] or what market research is e.g. information about the market or finding out what people want [1]
Do not accept examples
Desk research [0]

7. M/J 15/P11/Q3/b

- (a) Application [2 × 1] – award 1 mark for each relevant method. [2]
Points could include: questionnaire/survey, interview, consumer panel, observation, focus group
Note: **Do not accept field research/internet – too vague**

8. M/J 14/P11/Q1/b

- (a) Application [2 × 1] 1 mark per method [2]
Methods could include: Questionnaires/survey, interviews, observations, focus group
Do not accept marketing agency or field research as these are not appropriate for a small business.

9. O/N 13/P11/Q3/a,b,c

(a) **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. [2]

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

Advantages may include:

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

(c) **Knowledge [2 × 1] – award 1 mark per method [max 2]** [4]

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]

10. M/J 12/P12/Q1/a

(a) **Clear understanding [2]:** e.g. process of finding out what consumers want or need before a product is made [2]/process of gathering primary and secondary data on the buying habits and attitudes [1] of potential customers [+1]/collection of data about existing or potential products [2]. [2]

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

Do NOT accept examples of primary research or secondary research on own e.g. questionnaires. Acceptable only as a development point.

3.3: Market Mix

1. O/N 17/P12/Q1/e

FlyAway is an airline business. It is in the tertiary sector. It offers low-price flights for business customers in country J. Customers have to pay extra for luggage and food on the flight. It is a very competitive market. The Marketing manager knows that improving customer service is important. Bookings and advertising are done through FlyAway's ticket shops and its website. The Marketing manager cannot decide whether to close its ticket shops and use only e-commerce.

Table 1: Selected information about two of FlyAway's routes

Route	Average number of passengers per flight	Average price per ticket (\$)	Break-even number of passengers per flight
1	85	80	70
2	110	60	90

(a) Do you think FlyAway should use **only** e-commerce? Justify your answer.

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[6]

2. O/N 17/P11/Q1/d,e

Ella has just left college and wants to start up her own business. She has designed a new bicycle light with a safety feature not found in any rival products. Ella knows obtaining finance will be difficult. She plans to have the lights produced in another country. Each light will cost \$8 to produce. Ella cannot decide whether to use price skimming. She said: 'I have received orders for 300 lights and I have not even started promoting them'. Ella wants to be a successful entrepreneur.

Table 1: Information on possible promotion options for Ella's bicycle light.

	Option 1: Set up her own website	Option 2: Advertise in specialist magazine
Cost information	\$500 for web page to show product specifications and contact details	\$300 for full page colour advertisement
Other information	For extra \$750 website would allow customers to order online	One of the most popular cycling magazines in the country.

(a) Identify and explain one advantage and one disadvantage to Ella of using price skimming.

Advantage:.....

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Explanation:.....

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Disadvantage:.....

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Explanation:.....

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[6]

(a) Explain two ways in which LWM might respond to increased competition. Recommend which way LWM should choose. Justify your answer.

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[6]

4. M/J 17/P11/Q3/e

Wilde Soup Stop (WSS) makes a range of soups and hot drinks. It owns 30 shops and has sold its franchise to 10 other shops in country Z. The Marketing Director said: 'Results from our focus group show that being an ethical business is important'. WSS plans to extend its product range to include curries and cakes. WSS will need to change its brand image. The Marketing Director cannot decide whether to use sponsorship or newspaper advertising as the main method of promotion.



Fig.1: Existing logo for WSS

(a) Do you think WSS should use sponsorship or newspaper advertising as the main method of promotion? Justify your answer.

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5. O/N 16/P12/Q2/b,c,d

\$LAND sells a wide range of products from food to toys. It has 400 shops in country B. \$LAND's marketing strategy is based on penetration pricing. \$LAND does no advertising and buys all its products directly from manufacturers. Revenue and profit have increased despite the country being in recession. The Marketing Director wants to expand the business by opening shops in other countries. He believes \$LAND will be successful in other countries.

(a) What is meant by 'penetration pricing'?

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[2]

(b) Identify and explain **two** possible advantages to \$LAND of advertising.

Advantage 1:.....

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Explanation:.....

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Advantage 2:.....

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Explanation:.....

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[4]

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(c) Identify and explain **one** advantage and **one** disadvantage to \$LAND of buying direct from manufacturers.

Advantage:.....

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Explanation:.....

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Disadvantage:.....

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Explanation:.....

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[6]

6. O/N 16/P11/Q3/c,d

YOGO is a new business which Amelia has just set up using Government support. YOGO makes a range of sweets (candy) targeted at adults. It is a niche market. Amelia has been looking at the marketing part of her business plan. She has to decide which pricing method to use. Amelia is spending a lot of money on packaging. She did not do any primary market research as she thinks she can use secondary data to make decisions. She believes that all adults like sweets.

(a) Identify and explain **two** possible pricing methods that Amelia might use.

Method 1:

Explanation:.....

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Method 2:.....

Explanation:.....

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.....

[4]

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(b) Identify and explain **two** reasons why packaging is important for YOGO's products.

Reason 1:.....

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Explanation:.....

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Reason 2:.....

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Explanation:.....

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[6]

7. O/N 16/P11/Q4/e

DCP makes a range of high quality industrial paints. It sells direct to 6 large business customers which are located in different countries. DCP charges a price of \$0.35 per litre. It operates in a competitive market. The Operations manager has been looking at DCP's costs as shown in Table 2. He wants to increase profit but he does not want to buy cheaper materials.

Table 2: Output and cost information for DCP per week

Output (litres)	1 500 000
Total fixed costs (\$)	350 000
Total material costs (\$)	60 000
Total labour costs (\$)	40 000

(a) Do you think that charging a higher price is the best way for to increase profit? Justify your answer.

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[6]

8. M/J 16/P11/Q1/c,d,e

EDGE makes mobile (cell) phones. It operates in a competitive market. The Marketing manager believes that because EDGE is good at maintaining customer loyalty demand for its phones is price inelastic. Its best selling product, Z, is near the end of its product life cycle. The Marketing manager has to decide whether to spend money on developing new products or use extension strategies for product Z.

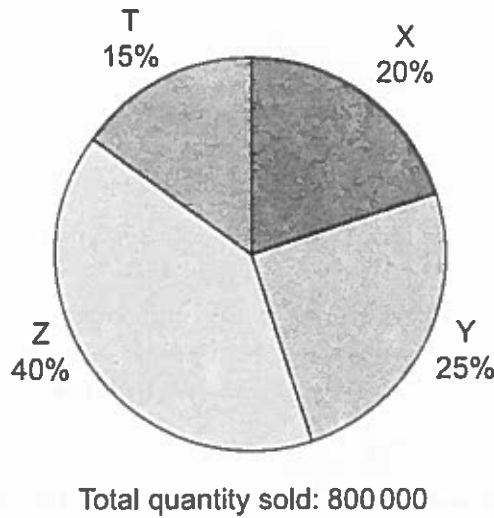


Fig. 1: EDGE – quantity sold by product type in 2015

(a) Explain the possible effect on business if the prices of its products are reduced.

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[4]

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(b) Identify and explain **two** advantages to business of developing new products.

Advantage 1:

Explanation:

Advantage 2:

Explanation:

[6]

(c) Explain **two** extension strategies that EDGE could use for product Z. Recommend which one of the two strategies it should choose. Justify your answer.

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[6]

9. O/N 15/P11/Q2/d

Ramford is a private limited company. It has four factories which make a wide range of food products including breakfast cereal and ice cream. The Finance Director is worried about the company's financial performance. She has read that many businesses failed in the last year. 'I think we are suffering from diseconomies of scale' she said. Ramford's directors have decided to cut the number of different products it makes from 80 to 10.

Table 2: Extract from accounts

	2013	2014
Revenue (sales) (\$m)	200	150
(Net) profit (\$m)	70	60
Capital employed (\$m)	280	300
(Net) profit margin	35%	?
Return on Capital Employed	25%	?

- (a) Identify and explain **two** factors that Ramford should consider when deciding which products to remove from its product range.

Factor 1:

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Explanation:.....

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Factor 2:

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Explanation:.....

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.....[6]

10. O/N 15/P11/Q3/d

Grimshaw manufactures mobile (cell) phones for the mass market. Last year its market share increased by 3%. The Managing Director is planning to set up a new factory in country T to supply the mobile phone market in that country for the first time. Grimshaw plans to sell a new model of mobile phone. The Managing Director has asked for market research to be done. He said: 'As a multinational, we can set up a new factory anywhere I want to know whether the Government of country T will offer us any help to build our factory there'

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(a) Identify and explain **two** advantages to Grimshaw of developing new products.

Advantage 1:

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Explanation:

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Advantage 2:

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Explanation:

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.....[6]

11. M/J 15/P12/Q3/c

Mabel wants to set up her own hairdressing business. She will need to build good customer relationships. She has done some secondary market research to find out possible demand and what methods of promotion to use. She has decided to buy her inventory (stock) from a wholesaler. Mabel is now looking for the right location for her business. She thinks that location will be more important than price charged to the success of her business.

(a) Identify and explain **two** methods of promotion (other than promotional pricing) that Mabel might use.

Method 1:

Explanation:

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Method 2:

Explanation:

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..... [4]

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12. O/N 14/P11/Q1/d

Lu is a sole trader. He manages a bakery shop making and selling bread and cakes. He employs 4 workers all of whom are paid on time rate. Lu wants to expand the business by buying a new shop and using it as a café (restaurant). He also wants to make a wider range of cakes, such as wedding and birthday cakes, for which he thinks there is a demand. At present the business sells all of the bread and cakes it makes.

(a) Identify and explain two methods of promotion that Lu could use for the new range of cakes.

Method 1:

Explanation:

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Method 2:

Explanation:

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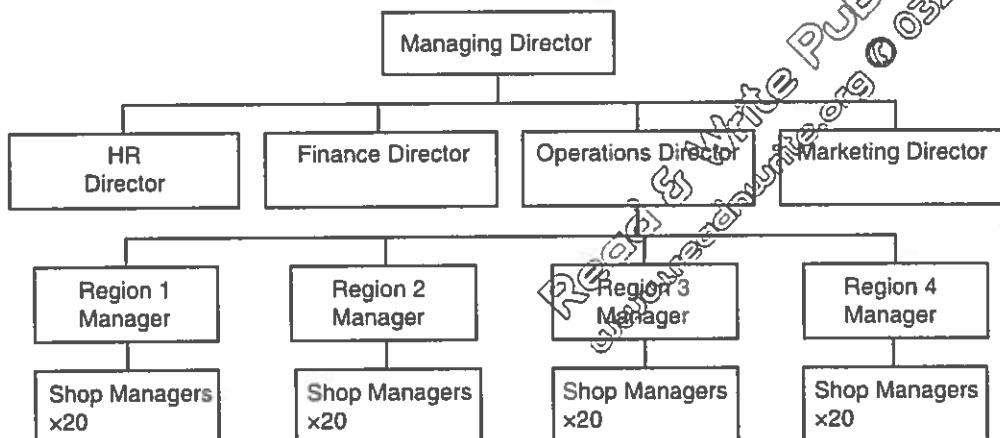
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..... [6]

13. M/J 14/P12/Q1/b

LEK owns 80 electrical shops. It sells products such as cell (mobile) phones and televisions. The Marketing Director believes offering customers a choice of products helps LEK to be competitive. LEK must use suitable ways to communicate with its customers. LEK's directors are planning a takeover of a competitor. This competitor owns 40 shops and operates in the same 4 regions as LEK.

Fig. 1: LEK organisational chart



- (a) Identify **two** factors (other than offering choice and having good communication) which could help make LEK more competitive.

Factor 1:

.....

Factor 2:

..... [2]

14. M/J 14/P12/Q2/d

Cutter is a family owned private limited company. It manufactures a luxury brand of coats. In 2013 sales revenue increased by \$3m and retained profits also increased. 'The marketing mix is working' said the Marketing Director. Cutter's Operations Director thinks that batch production is still the right method of production to use, but he cannot decide whether on the job or off the job training is better for the business.

- (a) Identify and explain **two** possible elements of a suitable marketing mix for Cutter's products.

Element 1:

Explanation:

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Element 2:

Explanation:

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..... [6]

15. M/J 14/P12/Q3/d

SENG manufactures cameras. Last year its market share increased by 2% to 18%. Production is capital intensive. This allows SENG to use lean production methods such as just-in-time. Cameras have a short product life cycle. SENG spends \$200m each year on extension strategies. The Marketing manager thinks that an increase in market share will lead to higher profits.

- (a) Identify and explain two possible extension strategies that SENG could use for one of its types of camera.

Strategy 1:

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Explanation:

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Strategy 2:

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Explanation:

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.....[6]

16. M/J 14/P12/Q4/d

The Government of country B plans to build a new airport. A Government spokesperson said: 'There will be external costs, but I think there will be more benefits for the local community. We have to support businesses such as airlines in the private sector'. RU Air is one of the world's most profitable airlines. RU has announced plans on its website that it will operate flights to and from country B in the future. RU is a public limited company.

- (a) Identify and explain two benefits for RU Air of having a website.

Benefit 1:

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Explanation:

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Benefit 2:

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Explanation:

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.....[6]

17. M/J 14/P12/Q5/e

Anychade manufactures a range of paints. It uses flow production. The Finance manager has produced a cash flow forecast as the business wants to arrange an overdraft with its bank. The Finance manager believes that reducing prices is the best way to increase sales revenue. Anychade's paints are well known for quality.

Table 1: Cash flow forecast (\$000's)

	July	August	September
Opening balance	(9000)	6 000	Y
Cash inflows:			
Cash sales	90 000	30 000	50 000
Cash from debtors	50 000	80 000	70 000
Total cash inflows	140 000	110 000	120 000
Cash outflows:			
Fixed costs	70 000	70 000	70 000
Wages	20 000	18 000	19 000
Raw materials	35 000	30 000	30 000
Total cash outflows	125 000	118 000	119 000
Net cash flow	X	(8 000)	1 000
Closing balance	6 000	(2 000)	(1 000)

Note: numbers in brackets are negative.

- (a) Paint manufacturer Finance manager believes that reducing prices is the best way to increase sales revenue. Do you agree? Justify your answer.

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18. M/J 14/P11/Q1/e

Anouk is a sole trader. She designs and makes jewellery at home, using hired (rented) equipment. Anouk enjoys selling the jewellery at local markets. Last year her sales revenue increased by \$500 to \$3000. She plans to use \$50 for a marketing budget. Anouk would like to do some primary market research when she has time. Anouk thinks she should have a business partner.

- (a) Anouk could use either leaflets or local newspaper advertising as methods of promoting her jewellery. Recommend which method you think Anouk should use. Justify your answer.

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19. M/J 14/P11/Q3/d

HPT makes frozen food products. The Finance Director wants to improve HPT’s cash flow position. Table 1 is an incomplete cash flow forecast for the next 3 months. The Finance Director thinks HPT should not use expensive packaging. He is also worried that new Government health & safety laws will not benefit the company and will only add to its costs.

Table 1: Cash flow forecast (\$000’s)

	Month 1	Month 2	Month 3
Opening balance	(50 000)	(30 000)	(40 000)
Cash inflows	200 000	180 000	200 000
Cash outflows:			
Wages	60 000	60 000	60 000
Packaging	20 000	20 000	20 000
Raw materials	45 000	55 000	45 000
Fixed costs	55 000	55 000	55 000
Total cash	X	190 000	180 000
outflows			
Net cash flow	20 000	Y	20 000
Closing balance	(30 000)	(40 000)	(20 000)

Note: numbers in brackets are negative.

- (a) Identity and explain **two** reasons why packaging might be important for frozen food product business.

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

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.....[6]

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20. O/N 13/P12/Q2

Party Pops is a business that sells products such as cakes and balloons for childrens' birthday parties. The Marketing Director thinks that the demand for the company's products is price elastic. Party Pops advertises on television. The products are sold through the company's own retail shops. However, the Marketing Director is thinking of changing this to selling only on the Internet.

(a) Identify **two** aims of advertising.

Aim 1:

.....

Aim 2:

..... [2]

(b) Identify **two** methods of pricing that Party Pops could use.

Method 1:

Method 2: [2]

(c) Identify and explain **two** reasons why the demand for the company's products is likely to be price elastic.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

..... [4]

(d) Identify and explain **two** methods of promotion (other than advertising) that Party Pops could use to increase sales.

Method 1:

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Explanation:

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Method 2:

Explanation:

..... [6]

(e) Do you think Party Pops should stop selling through shops and sell only on the Internet? Justify your answer.

..... [6]

21. O/N 13/P12/Q3/e

Harry owns a pizza restaurant in a large city. Table 2 gives financial data for the business in 2012.

Table 2

Selling price per pizza	\$8
Variable costs per pizza	\$5
Weekly fixed costs	\$2700
Weekly sales	1500 pizzas

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..... [6]

23. O/N 13/P11/Q3/d,e

Yura is the Managing Director of a company that sells holidays. The company organises hotels, air flights and car hire for customers. For the first time, the company is going to do some market research. Secondary sources will be used and a sample of customers will be selected for primary research.

- (a) Identify and explain **two** ways of segmenting the market for holidays that the company could use.

Way 1:
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Explanation:
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Way 2:
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Explanation:
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..... [6]

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Method 3:

Explanation:

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..... [6]

25. M/J 13/P12/Q1/b

Brakker is a public limited company which specialises in building large boats. Each boat costs \$4m to build and the company adds 30% to the total cost to calculate the selling price. 'Last year profits fell – but this happens in a recession' said the Finance Director. 'Yes, I am worried. If we cannot get more orders we will have to make some of our skilled workers redundant.' All Brakker workers are members of a trade union.

(a) Calculate the selling price of a boat.

.....

..... [2]

26. M/J 13/P12/Q2/b,d,e

B&G manufactures a popular hair shampoo called Slick. The Managing Director thinks that Slick is near the end of its product life cycle. He believes it would be better to use extension strategies rather than develop a new product. The Operations Director thinks quality control can help the business comply with new consumer protection laws.

(a) Identify two stages of the product life cycle.

Stage 1:

Stage 2: [2]

(b) Identify and explain three possible problems for B&G when developing a new product.

Problem 1:

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Explanation:

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Problem 2:

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Explanation:

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Problem 3:

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Explanation:

..... [6]

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- (c) Explain **two** possible extension strategies that B&G could use for Slick. Recommend which strategy the company should use. Justify your answer.

Strategy 1:

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Strategy 2:

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.....

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Recommendation:

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..... [6]

27. M/J 13/P12/Q4/d

Belshire Books owns a number of shops. The Finance manager is worried about the financial position of the company. An extract of the accounts is shown in Table 1. Belshire Books is facing increased competition from online booksellers selling through the Internet.

Table 1: Extract from Belshire Books accounts (\$000s)

	2011	2012
Net profit	50	30
Current assets	50	60
Current liabilities	50	50
Capital Employed	500	500

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- (a) Identify and explain **two** problems that competition from online (Internet) booksellers could cause for Belshire Books.

Problem 1:

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Explanation:

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Problem 2:

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Explanation:

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..... [6]

28. M/J 13/P11/Q1/b,d

Kew Construction is a public limited company. It specialises in building large houses. Each house costs \$30 000 to build and the company adds 40% to total cost to calculate the selling price. Last year sales fell by \$90m and dividends were reduced. The Human Resources Director is worried: 'If sales do not improve, I will need to make some workers redundant. How can I decide which workers to make redundant?'

- (b) Calculate the selling price of **one** house.

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..... [2]

- (d) Identify and explain **three** methods that Kew Construction could use to improve its level of sales.

Method 1:

.....

Explanation:

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Method 2:

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Explanation:

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Method 3:

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Explanation:

.....[6]

29. M/J 13/P11/Q2/e

Gayle's Soaps is a business which manufactures health and beauty products. Its market share has remained constant at 15% despite new businesses entering this market. The business uses market segmentation. Most of its customers are women. The Marketing manager believes the company could increase its profits if it increases the price of each of its most popular products.

- (a) Do you think that if Gayle's Soaps decides to increase prices then this will lead to higher profits? Justify your answer.

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30. M/J 13/P11/Q3/a

Sharma Machine manufactures motorcycles. The company is product orientated. Sharma Machine holds a lot of stock. The owner, Ishant, wants to increase productivity. Also the company plans to open an additional factory to satisfy increased demand. 'Expansion should mean economies of scale' said Ishant. 'The right location for the new factory is going to be important if the business is to remain competitive.'

(a) What is meant by 'product orientated'?

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..... [2]

31. O/N 12/P12/Q1

Kruger Enterprises manufactures a range of electrical products such as washing machines. Its best-selling product is in the decline stage of its life cycle. The management uses cost plus pricing and believes that the demand for the company's products is price inelastic. Changes in Kruger's marketing mix are being considered. The company is researching the market and plans to introduce some new products next year.

(a) Label on Fig. 1 the other two stages of the product life cycle.

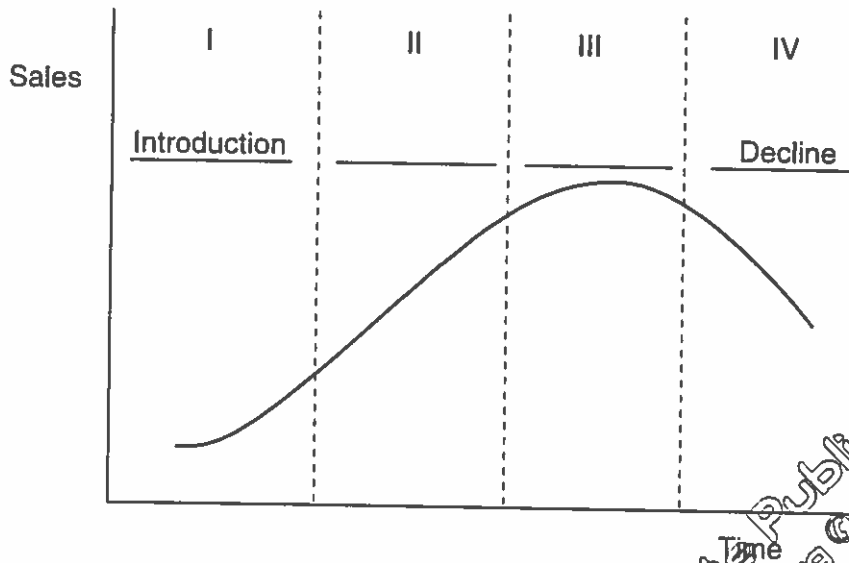


Fig. 1: Product life cycle

(b) What is meant by 'cost plus pricing'?

[2]

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..... [2]

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(c) Identify and explain **two** possible advantages to electrical product business of researching the market.

Advantage 1:

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Explanation:

.....

Advantage 2:

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Explanation:

..... [4]

(d) Identify and explain **three** benefits to electrical product business of introducing new products.

Benefit 1:

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Explanation:

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Benefit 2:

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Explanation:

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Benefit 3:

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Explanation:

..... [6]

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Reason 2:

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Explanation:

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..... [6]

(b) Do you think if Durban Dragons reduce ticket prices for matches this will increase revenue? Justify your answer.

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33. M/J 12/P12/Q3/e

HTB is a public limited company. It manufactures a range of computers. HTB spends a lot of money on advertising as it is in a competitive market. The management believes that the product is the most important element in their marketing mix. To meet increasing demand HTB is looking to expand their business. It plans to raise extra capital by issuing more shares. The Finance Director has been looking at the data in Table 1.

Table 1: Selected financial data from HTB (\$m)

	2011	2012
Sales	400	520
Net Profit	40	75
Long Term Liabilities	200	220
Capital Employed	400	500

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35. M/J 12/P11/Q4/d

Rapid Call is a private limited company. It manufactures a range of cell (mobile) phones. The demand for these is increasing. Its products have several special features that are not available from other phone manufacturers. It sells its products directly to retail shops. Rapid Call uses competitive pricing for all products. The Finance Director has been looking at the accounts. A summary is shown in Table 2. In 2011 the gross profit margin was 40%.

Table 2: Profit/Loss Account for Rapid Call for year ending 30 April 2012 (\$000s)

Sales	450
Cost of Sales	300
Gross Profit	150
Overheads	95
Net Profit	55

- (a) The Marketing Director is thinking about changing the channel of distribution. Identify and explain three factors that Rapid Call should consider when choosing a suitable channel of distribution.

Factor 1:

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Explanation:

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Factor 2:

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Explanation:

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Factor 3:

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Explanation:

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[6]

36. M/J 12/P11/Q5/d

Favell is a woodworker. He is planning to set up his own woodworking business. He plans to use marketing to help his business become established in the local area. Favell thinks cash flow will be a problem because his business will have a lot of cash outflows. A friend has suggested he prepares a cash flow forecast.

- (a) Favell is looking at various methods of promotion for his business. Identify and explain **three** suitable methods of promotion that Favell could use to attract customers.

Method 1:

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Explanation:

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Method 2:

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Explanation:

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Method 3:

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Explanation:

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[6]

Answer Section

1. O/N 17/P12/Q1/e

6

- (a) Knowledge [1] – award 1 mark for identification of relevant points (s)

Application [1] – award 1 mark for relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether FlyAway should use only e-commerce.

Relevant points might include:

- Less labour OR rent needed [k] so reduced costs [an] which lower break-even [app]
- Will need more employees with technical skills [k] to run website [app] which will add to recruitment costs [an]
- Security issues e.g. risk of fraud OR hacking OR problems if system does not work [k]
- Not everyone has access to internet or is willing to use internet [k]
- Cannot attract passing trade [k] without a shop [app]
- Harder to stand out against competitors [k] as it is a competitive market [app] so less able to attract potential customers [an]
- Most people prefer to buy via internet [k]

2. O/N 17/P11/Q1/d,e

6

- (a) Knowledge [2 × 1] award one mark for one advantage and one disadvantage
Application [2 × 1] award one mark for each relevant reference to this business
Analysis [2 × 1] award one mark for each relevant explanation

Points might include:

Advantages:

- Recover costs quicker [k] as need to sell fewer than 300 [app] to pay for development [an]
- Gives the image of a quality product [k] which can attract wealthy customers [an] to try out the new light [app]
- Higher revenue per item [k]
- Break even at a lower output [k]

Disadvantages:

- Put off some potential customers [k] leading to lower sales [an]
- Only work in short term [k] as competitors could produce cheaper alternatives [an]

- (b) Knowledge [1] – award 1 mark for identification of relevant points (s)
Application [1] – award 1 mark for relevant reference made to this business
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision made as to which method of promotion Ella should use

6

Points might include:

- Option 2 is cheaper [k] as is \$200 less than option 1[app] + [an]
- Ella can't afford much advertising [k] as a new business [app] she can't afford a website [an]
- Specialist magazine reaches the target market [k] for bicycle lights [app] therefore likely to sell more [an]
- Website may not be required [k] already has an order for 300[app]

3. M/J 17/P12/Q2/e

- (a) Knowledge [1]: award 1 mark for each relevant way(s) identified 6

Application [1]: award 1 mark for a relevant reference made to this business

Analysis [2]: award up to 2 marks for relevant development of point(s)

Evaluation [2]: award up to 2 marks for justified decision made as to which is the best option for LWM to choose. For second mark must explain why choice made is better than the other option

Points might include:

- ∞ Introduce new products [k] as its main product accounts for 66% of its sales [app + an]
- ∞ Lower prices [k] for its 15 different sizes [app] customers might want cheaper products [an];
- ∞ Merge or takeover [k] with another tyre company [app] which would increase its market share [an]
- ∞ Advertise OR use promotion [k] to raise awareness [an] of its tyres [app]
- ∞ Keep costs low [k] so able to offer more competitive prices [an]
- ∞ Keep improving existing products OR quality [k] allowing them to stay ahead of the competition [an]
- ∞ Provide good customer service [k] so that customers want to keep buying from them [an]

4. M/J 17/P11/Q3/e

- (a) Knowledge [1] : award 1 mark for identification of relevant point (s) 6

Application [1] : award 1 mark if relevant reference made to this business

Analysis [2] :award up to 2 marks for relevant development of point(s)

Evaluation [2] : justified decision made as to whether WSS should use sponsorship or newspaper advertising as the main method of promotion

Points might include:

Sponsorship

- Can target the intended market [k] attracting more customers [an] for the cakes [app]
- The business will be linked to the event sponsored [k]
- Actions of the sponsored person or group could damage WSS's reputation [k] reducing sales [an]

Newspaper advertising

- Can be seen by a lot of people [k]
- Falling readership of newspapers [k]

5. O/N 16/P12/Q2/b,c,d

(a) Clear understanding [2]: price is set lower than competitor's prices [1] in order to be able to enter a new market/launch a new product [+1] 2
Some understanding [1], e.g. set low prices

(b) Knowledge [2 × 1] – award 1 mark for each relevant advantage 4
Application [2 × 1] – award 1 mark for each explanation in context
Relevant points might include:

- Persuade/attract customers OR increase revenue/sales [k] to buy more food [app]
- Build brand loyalty/good image [k] so keep buying from its shops [app]
- Inform/raise awareness/become well known [k] for its toys [app]
- Maintain market share/remain competitive [k] as in recession [app]
- Remind existing customers [k] as sell such a wide range [app]
- Able to target different customers/new market segment [k]

(c) Knowledge [2 × 1] – award 1 mark for a relevant advantage and 1 mark for relevant disadvantage 6

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

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

Relevant points might include:

Advantages:

- Purchasing economies of scale/discounts for bulk buying [k] as buy for all its shops [app] leading to lower average/unit costs [an]
- Quicker access to products [k] so can offer new products before rivals [an] leading to higher sales of toys [app] OR which is important for food [app] to reduce wastage/increase shelf life [an]
- Build relationship with supplier [k] may give preferential delivery times [an]
- Offer technical support [k]
- Develop products specifically for business [k]
- Cut out wholesaler profit [k]
- Manufacturer may pay for some of the advertising [k]

Disadvantages:

- More paperwork [k] as have a wide range of products [app] which takes more time to complete [an]
- Have to recruit more people [k]
- Extra storage space needed/must purchase minimum quantity [k] increasing storage costs [an]
- Risk of wastage [k]

6. O/N 16/P11/Q3/c,d

(a) Knowledge [2] – award 1 mark for each role identified 4
Application [2] – award 1 mark for each relevant reference to this business
Relevant points might include:

- penetration pricing [k] as need to get people to try her sweets [app]
- price skimming [k] as it's a niche market [app]
- cost plus pricing [k] as likely to have large set up costs [app]
- promotional pricing [k]
- competitive pricing [k]
- psychological pricing [k]

- (b) Knowledge [2 × 1] – award 1 mark for each relevant role 6
 Application [2 × 1] – award 1 mark if relevant reference made to this business
 Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- List ingredients [k] as it's a food product [app] must state what it contains to avoid legal action [an]
- Promotion / to attract customers [k] to buy [an] from the new business [app]
- Inform [k] customers about its flavours [app] so people know what is in its products [an]
- Protection / keep item fresh [k] so the sweets are not damaged [app] otherwise products might be wasted [an]
- Boost brand image / impression of high quality [k] as it is a niche market [app] which can help increase sales / revenue [an]
- Easier to store / transport [k]

7. O/N 16/P11/Q4/e

- (a) Knowledge [1] – award 1 mark for identification of relevant points 6
 Application [1] – award 1 mark if relevant reference made to DCP's business
 Analysis [2] – award up to 2 marks for relevant development of point
 Evaluation [2] – justified decision made as to whether charging a higher price is the best way to increase profits

Relevant points might include:

- Revenue could increase [k] and if quantity and costs of the paint [app] remain the same profit could increase [an]
- Demand may fall [k] as customers might choose rival products [an] in this competitive market [app]
- if demand is price inelastic [k] higher price will see a lower fall in demand [an] therefore revenue will rise [an]
- business may be able to lower costs [k] therefore increasing profit with current prices [an]
- It would reinforce the image [k] of high quality [app] customers might be happy to pay it [an]
- depends on actions of competitors [k]

8. M/J 16/P11/Q1/c,d,e

- (a) Knowledge [2] – identification of relevant points. 4
 Application [2] – award up to 2 marks for relevant explanation in context of EDGE
 Relevant points might include:

- Lower revenue [k] as demand is price inelastic [app] the additional revenue will not make up for the reduction in price of phones [app]
- Could attract more customers [k] increasing sales beyond 800 000 [app]
- Damage their image [k] leading to a reduction in customer loyalty [app]
- Profit margin will fall [k].

- (b) Knowledge [2 × 1] – award 1 mark for each relevant point identified [max 2]. 6
 Application [2 × 1] – award 1 mark if relevant reference made to EDGE's business.
 Analysis [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include:

- Boost sales [k] as existing customers would buy a new phone [an] [app]
- Increase market share [k] by attracting customers away from competitor [an] as this is a competitive market [app]
- Able to increase prices [k] as new technical features [app] can lead to greater customer interest [an]

- Create additional consumer interest [k] as better range/more up-to-date products available [an]
- Improve E's standing/profile in market [k] as seen as able to respond to market change [an] which can help maintain consumer loyalty [app]
- Spreading the risk [k] so if product Z doesn't sell [app] others can help make up the shortfall in sales [an]
- Need to replace old products [k] as Z is at end of product life cycle [app] this could help business survival [an]
- Keep up to date with competitors [k].

(c) Knowledge [1] – award 1 mark for identification of relevant strategy/point(s). 6

Application [1] – award 1 mark if relevant reference made to EDGE's business.

Analysis [2] – award up to 2 marks for relevant development of point(s).

Evaluation [2] – justified decision made as to which option it should choose. Relevant points might include:

- Introduce new features/new versions [k]
- Look for new target markets [k]
- Rebrand [k] to appeal to new market segments [an]
- Re-packaging [k]
- Create new uses [k].

9. O/N 15/P11/Q2/d

(a) Knowledge [2 × 1] – identification of relevant factor [max 2] [6]

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

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

Relevant points might include:

- Stage in product life cycle [k] if some foods are in decline [app] few people are likely to be buying them anyway [an]
- Availability of substitutes/competition [k] if many breakfast cereals [app] so might not be cost effective to keep making it [an]
- Cost of producing each product [k] as worried about financial performance [app] might want to stop making expensive items [an]
- Current level of sales/popularity/demand [k] as profits falling [app] need to remove the least popular lines [an]
- Not suit current season [k]

Application marks may be awarded for appropriate use of the following: calculations/use of numbers, food, cereal, ice cream, factories, 80 to 10 products, reduce profit, financial performance.

10. O/N 15/P11/Q3/d

(a) Knowledge [2 × 1] – identification of relevant point [max 2] [6]

Application [2 × 1] – award 1 mark for each way if relevant reference made to Grimshaw's business

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

Relevant points might include:

- gain competitive advantage [k] to target other phone users [app] so increasing their sales [an]
- Keep customers [k] in a competitive market [an]
- spread risk [k] so if demand for one model falls [app] they have new ones to rely on [an]
- expanding into new markets/market segments [k] so able to increase market share [app] as targeting more customers [an]
- can charge a higher price [k]

Note: economies of scale alone is too vague unless it is appropriately explained

Application marks may be awarded for appropriate use of the following: mobile phones, market share, mass market, factory, new model, multinational, technology.

11. M/J 15/P12/Q3/c

- (a) Knowledge [2 × 1] – identification of suitable method [max 2] [4]
 Application [2 × 1] – award 1 mark for each relevant explanation in context of this business (e.g. show how or why it might be used)

Points might include:

- Free gifts / samples [k] give customers small bottles of shampoo to try [app]
- Demonstrations [k] let people watch whilst she shows possible styles on people's hair [app]
- Loyalty cards [k] e.g. customers get a free haircut if they visit a set number of times [app]
- Advertising (allow only once) [k] e.g. local paper / radio / television / leaflets to let potential customers know about her new business [app]
- Sponsorship / public relations [k]
- Competitions [k] customers will book appointments to have a chance of winning prizes [app]

Application marks may be awarded for appropriate use of the following: appointments, shampoo, haircuts, new business

12. O/N 14/P11/Q1/d

- (a) Knowledge [2 × 1] – award 1 mark for each method identified. [6]
 Application [2 × 1] – award 1 mark if relevant reference made to Lu's business,
 Analysis [2 × 1] – award 1 mark for each relevant explanation (e.g. how it would help increase sales),

Relevant points might include:

- advertising (allow only once) e.g. leaflets/posters [k] showing pictures of their food [app] which raise awareness of business [an]
- Point of sales displays [k] as attracts attention of customers [an]
- Samples [k] as people are able to taste the products [app] and if liked more willing to buy [an]
- money off incentives (allow only once) e.g. promotional pricing or buy one get one free [k] which will encourage them to come into the shop [app] and buy the product [an]
- Attending fairs [k] such as wedding events [app] which will gain Lu new customers
- publicity / sponsorship [k] loyalty card [k] personal selling [k]
- Competitions [k] people will buy a wedding cake from Lu [app] to have a better chance of winning the prizes [an].

Note – Reference to cakes alone is not sufficient for application as this is in the question stem.

Specific examples of promotion are required so do not accept above and below the line promotion or forms of media alone e.g. newspapers, as these are not specific methods. Two distinct examples of application required for the 2 app marks.

13. M/J 14/P12/Q1/b

- (a) Application [2 × 1] award one mark per factor. [2]

Factors could include: lower prices OR price promotions, improve quality of goods sold, change location of shops, offer sales promotions/incentives/advertising, increase quality of service offered, offer free delivery, click and collect, opening hours, free/extended warranty.

Accept any reasonable answer. Accept advertising only once.

Do not accept references to production, as this is a retailer.

Do not accept promotion on own [TV] or market research.

14. M/J 14/P12/Q2/d

- (a) Knowledge [2 × 1] – award 1 mark for each relevant element identified. [6]
 Application [2 × 1] – award 1 mark if relevant reference made to Cutter.
 Analysis [2 × 1] – award 1 mark for each relevant explanation.
 For each reason: maximum 3 marks [1k + 1ap + 1an].

Relevant points might include:

- Price/premium pricing/price skimming [k] as luxury brand [app] or competitive pricing (to be able to compete with rivals) or promotional pricing (to encourage increase in sales revenue)
- Product/branding [k] so able to maintain a quality image [app] which helps retain consumer loyalty [an]
- Promotion/use of celebrity endorsement [k], the right choice of magazines [k] which reinforces the image of a high quality product [app]
- Place – only allow coats to be sold in selective stores [k] to maintain luxury image [app] which could allow them to justify charging high prices [an]

Do not accept packaging on its own due to nature of the product [tv].

Accept only one example from each category.

15. M/J 14/P12/Q3/d

- (a) Knowledge [2 × 1] – award 1 mark for each relevant strategy identified. [6]
 Application [2 × 1] – award 1 mark if relevant reference made to SENG's business/cameras.
 Analysis [2 × 1] – award 1 mark for each relevant explanation.
 For each reason: maximum 3 marks [1k + 1ap + 1an].

Relevant points might include:

- Add new features/version
- Change colour of camera to suit popular tastes
- Update image with new packaging
- Target new markets or market segments

Accept practical examples.

Do not accept general marketing strategies such as advertising or lower prices on own OR new products.

16. M/J 14/P12/Q4/d

- (a) Knowledge [2 × 1] – award 1 mark for each relevant benefit identified. [6]
 Application [2 × 1] – award 1 mark if relevant reference made to RU air.
 Analysis [2 × 1] – award 1 mark for each relevant explanation.
 For each reason: maximum 3 marks [1k + 1ap + 1an]

Relevant points might include:

- Improved communication [k] as ability to have email/phones mean airline employees [app] are in contact so able to respond to customer requests quickly [an]
- Increases public awareness/advertise [k]
- Reinforces image [k] as a leading airline [app] customers will expect business to have website these days [an]
- Increased sales potential [k] as allows customers to easily view options [an] before they book flights [app]
- Lower marketing costs [k] as can advertise latest rates/new destinations [app] quickly without having to reprint brochures [an]
- Lower fixed costs [k] as do not need to pay rent [an] so can close travel shops/call centres [app]
- Can sell/advertise to people around the world [k] which increases their potential market [an]

Note: Points must be advantages to business, not customers.

17. M/J 14/P12/Q5/e

- (a) Knowledge [2] – award 1 mark for identification of relevant issue(s). [6]
 Application [1] – award 1 mark if relevant reference made to Anyshade.
 Analysis [1] – award 1 mark for relevant development of point(s).
 Evaluation [2] – justified decision made as to whether low prices are the best way for Anyshade to increase sales.

Relevant points might include:

- Low prices could make Anyshade more competitive [k] as paint [app] is cheaper than competitors so could increase volume of sales [an] but there is no guarantee that sales will increase [eval]
- Competitors reaction might lead to a price war which could result in fewer sales [k] if rivals offer better promotions [an]
- Price might not be reason why buy [k] as known for quality [app] so lower price might be seen as lower quality so fewer people want to buy [an]
- The business does not know why people buy paint [k] so lower prices might not affect its sales revenue [an]
- It depends on the price elasticity of demand
- Awareness of other issues affecting sales such as promotion, place could be discussed

Note: If candidate takes the view that reducing prices is not the best strategy, explains alternative strategies but does NOT discuss the advantages and/or disadvantages of reducing prices then max of 4 marks (with no marks for evaluation).

18. M/J 14/P11/Q1/e

- (a) Knowledge [2] – award up to 2 marks for identification of relevant points (e.g. advantages or disadvantages of either method) [6]
 Application [1] – award 1 mark if relevant reference made to Anouk's business
 Analysis [1] – award 1 mark for relevant development of point(s)
 Evaluation [2] – justified decision made as to which of the two methods would be most appropriate for Anouk to use.

Points include:

Advertising in local papers:

- Low cost [k] so she will be able to afford this [an] in her \$50 budget [app]
- Would widen her target audience [k] as many people read newspapers [an]
- Not everyone reads newspapers [k] so her target audience might not be aware of her business [an]
- Repeat adverts can be expensive [k]. Using up the marketing budget [app].

Leaflets:

- Easy to distribute to lots of people [k] could widen her possible audience [an] to help increase her sales revenue above \$3000 [app]
- Can be kept for reference [k] for when people want to buy rings or bracelets as presents [app]
- Can be colourful [k] which will attract people's attention [an]
- People might see them as junk [k] so throw them away [an].

Note: For 6 marks there must be a justified decision as to why it is the best option.

19. M/J 14/P11/Q3/d

- (a) Knowledge [2 × 1] – award 1 mark for each relevant reason [6]
 Application [2 × 1] – award 1 mark for each relevant reference to HPT
 Analysis [2 × 1] – award 1 mark for each relevant explanation
 For each reason maximum 3 marks [1k + 1app + 1an].

Relevant points might include:

- Protection [k] as (frozen) food could be easily damaged / perish [app]
- Inform [k] could include nutritional information on labels or how to cook the food [app]
- Promotion [k] attractive wrappings could encourage people to buy the food to taste [app]
- Style or colour of packaging could help boost brand image [k] as it could help products stand out on the shelves [app]
- Easier to store [k].

Note: Do not accept HPT/Frozen food alone as application.

20. O/N 13/P12/Q2

- (a) Knowledge [2 × 1] one mark per aim [2]
 Aims could include:
- inform or introduce new products to market
 - persuade or increase sales
 - create brand image/improve company's image
 - to compete with competitors' products
- Do not accept if just say 'promotion' as this is one of 4Ps

- (b) Application [2 × 1] one mark per method [2]
 Pricing methods could include
- penetration pricing
 - promotional pricing
 - competitive pricing
 - cost plus pricing
 - psychological pricing
- Do not accept skimming for this business

- (c) Knowledge [2 × 1] – award 1 mark per reason [4]
 Application [2 × 1] – award 1 mark for each relevant explanation i.e. show how or why it is likely to affect demand for Party Pops products

Reasons might include:

- Plenty of substitutes/competition exists/no brand loyalty [k] if price goes up, customers will choose a lower priced rival [app]
- Product is non-essential [k] so don't have to buy it [app]

- (d) Knowledge [2 × 1] – award 1 mark for each method identified [max 2] [6]
 Application [2 × 1] – award 1 mark if relevant reference made to Party Pops
 Analysis [2 × 1] – award 1 mark for each relevant explanation i.e. show how the method used boosts sales

Promotions include

- BOGOF/special offers [k] e.g. buy a cake get 5 balloons free [app] attract customers to buy as get more when buy certain product [an]
- Promotional pricing (must indicate short term price cuts) [k] to encourage customers to try their products [an]
- Sponsorship/public relations [k] improves the image of the business [an]
- Point of sales displays [k] as attracts attention of customers [an]
- Gifts [k] increases the attractiveness of the product [an]
- Trade shows/events [k] reaching a wider target market [an]
- Competitions [k] people will buy the party items from Party Pops [app] to have a chance of winning the prizes [an]

- (e) **Knowledge/Application [2 × 1]** – award 1 mark for each relevant issue identified [6]
Analysis [2] – award up to 2 marks for relevant explanation (i.e. how or why it might be an issue)

Evaluation [2] reasoned judgement made as to whether PP should only sell on the internet

Points for internet might include

- Increase the geographical market [k] as it gives them access to customers not in reach of their shops [an]
- Access a new range of customers [k] able to attract a wider target market [an]
- Able to reduce prices by cutting out middle men [k] so improve margins [an]
- Make it easier for customers to buy [k] which would increase sales [an]
- Reduce costs of employees and rent for shops [k] so lower expenses [an]

Points against internet include

- Internet buying is not for everyone [k] so could lose current as well as potential customers [an]
- Security issues e.g. risk of fraud [k] so discourages customers who do not trust system [an]
- Not everyone has access to internet [k] so loss of potential/current customers [an]
- Distribution costs e.g. PP might have to cover costs of postage [k] which would increase its variable costs [an]
- Increased competition from online retailers around the world [k] which would limit possible sales [an]

Note: points must relate to business not consumers

Developed example:

Party pops is able to access more customers [k] so able to increase sales [an]. They won't have to pay the costs of rent [k]. However customers might prefer to see the products before they buy which they can't do [k] which would discourage sales [an]. The products must be delivered [k] which might be difficult as customers live far away [an]. Party pops might want to sell on the internet, to reach a larger market but shouldn't stop using shops especially as they are used to selling in shops as they would lose those customers who won't buy off the internet [eval] and the threat of competition could see sales fall even more [eval].

21. O/N 13/P12/Q3/e

- (a) **Knowledge/application [2]** – award 1 mark for each relevant issue identified [max 2]
Analysis [2] – explain how or why it might be an issue. Accept calculation of relevant figures as analysis

Evaluation [2] – reasoned judgement made as to whether change in price will benefit Harry's business

Points might include:

- Pizzas more affordable [k] so will result in more demand [an]
- If product is price elastic [k] there should be a greater increase in sales [an]
- Reduce profit margin per sale [k] which would increase break even output [an] by 450 [an]
- Cut in profit [k] to \$300 [an] if sales do not rise [an]
- Size of market [k] e.g. large city so possible to see an increase in customers [app]
- People might prefer other types of food [k] so a fall in price might not see a rise in sales/as brand loyal to other companies [an]
- Reaction of competition [k] if other companies may respond to cutting prices [an] so sales might remain same/fall depending on their price cut [an]
- The capacity level of the business [k] as might not be able to produce enough extra pizzas [an]
- Loss of image [k] as people think cheaper food means inferior quality [an]

Developed Example:

The price cut should increase number of customers. [k] However contribution margin is reduced to \$2 from \$3 [an]. If sales volume does not prove price elastic [k] the business will be financially worse off [ev]. Current break-even is 900 units per week [sales 1500] [an] so total profit is 600 @ \$3 = \$1800. With new prices B/E would be 1350 units so sales would need to rise to 2250 for the level of profits to be the same [an]. Such an increase is unlikely to happen [eval] so price reduction not advisable. [eval]

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 £1 000 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

(b) 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].

24. O/N 13/P11/Q5/d**(a) Knowledge [3 × 1] – award 1 mark for each method identified [6]****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.

25. M/J 13/P12/Q1/b**(a) Application [2] – e.g. Correct answer [2] = \$5.2m or \$5 200 000 [2]
Method [1] – e.g. Price = Total cost + % profit [1] OR $\$4m + (\$4m \times 30\%) [1]$** **Note:** \$ sign not required but answer must be in millions or correct number of 000s

Do not credit \$1.2m which is a calculation of mark up and does not answer the question set

26. M/J 13/P12/Q2/b,d,e**(a) Knowledge [2] – 1 mark per stage: [2]**

Stages: development, introduction or launch, growth, maturity, saturation, decline

(b) Knowledge [3 × 1] – award 1 mark for identification of problems [6]**Application/analysis/[3 × 1] – award 1 mark for each relevant explanation (i.e. how it might be a problem for B&G)**

Points might include:

- **no guarantee that customers will like the new product [k]** so it could waste time and resources [an]

- **reaction of competitors e.g. can gain market share whilst develop [k] OR might introduce rival products [k]** so additional expense of advertising new product to attract/interest customers [an]
- **labour issues e.g. additional training for workers [k]**
- **finance issues e.g. invest in new machinery to manufacture products [k]** but it might be difficult to arrange additional finance [an]
- **marketing costs e.g. additional cost of market research [k]/advertising costs [k]**
- **production issues e.g. is there sufficient capacity within factory [k]/technical problems in development/manufacturing could delay launch**
- **availability of suitable materials [k]** which they might have to buy overseas which increases transport costs [an]

Note: do not allow 'will increase costs' as development for each problem if not developed further

(c) Knowledge [2 × 1] – award 1 mark for identification of strategies

Analysis/application [2] – award 1 mark for each relevant explanation (e.g. explain how the method would work)

Evaluation [2] – justified decision as to which strategy B&G should use

Note: For 6 marks must explain why chosen method is the better option

Options could include:

Extension strategies fall into four basic types:

- add new features [k] so more attractive to existing/new customers [an]
- create new uses for these products [k]
- sell to new target markets/segments [k] to widen customer base [an]
- rebranding by creating a different image and so appealing to new market segments

Practical answers might include:

- sell through more or different outlets [k] so available to new customers in different parts of country [an] OR export to different countries
- introduce small changes to product design e.g. new formula for the shampoo [app] OR change colour or packaging [k] so seems like a new product/release 'limited edition' [k]

Do not accept general marketing methods such as price cut or increase advertising on its own unless specifically linked to an extension strategy

Do not accept increase quality unless linked to an extension strategy

27. M/J 13/P12/Q4/d

(a) Knowledge [2 × 1] – award 1 mark for identification of problem

[6]

Application [2 × 1] – award 1 mark for each relevant reference to BB

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how or why it could cause a problem)

Points might include:

- **online provider could have lower costs** (e.g. rent, staff) [k] as don't have to pay for shops so able to charge cheaper prices [k]
- **online could offer a better range [k]** of books in their warehouse [app] so better able to meet customer needs [an]
- **online booksellers able to offer 24 hour shopping [k]** so customer has more flexibility as to when to buy [an] so don't have to wait until the shop is open [app]
- **online rivals able to attract customers from around the world [k]** so have larger customer base [an]/due to cheaper advertising online
- **increased competition [k]** as not just competing against local booksellers but international ones so sales fall [app]

28. M/J 13/P11/Q1/b,d**(a) Correct answer [2] Method [1]****[2]**Price = cost + mark up [1] ($\$30\,000 \times 40\%$) + 30 000 [1] = \$42 000 [2]

Note: \$ not required

Do not credit \$12 000 (the calculation of mark up) as it does not answer the question set**(b) Knowledge/ application [3 × 1] – identification of relevant method****[6]****Analysis [3 × 1] – explain how method might work to improve sales**

Methods could include:

- **lower price [k]** so more people can afford to buy [an]
- **enter new markets [k]** to attract new customers [an]
- **improve quality of product, e.g. train workers [k]** to encourage interest [an]
- **widen range of sizes [k]** offer smaller structures to attract different customers [an]
- **promotions, e.g. free carpets/curtains [k]** therefore more people would be willing to buy
- **advertise [k]** to raise awareness [an]
- **demonstrations at trade fairs [k]** so potential customers can see the products and able to ask questions [an]
- **choose locations where demand is high [k]**

Note: Do not accept any answer that could not be related to construction, e.g. packaging**29. M/J 13/P11/Q2/e****(a) Knowledge [2] – knowledge of price/identification of issues****[6]****Application/analysis [2] – for development of points to explain how or why the profits are affected****Evaluation [2] – justified decision made as to whether increased prices will lead to higher profits**

Points might include:

- demand might fall [k] because of price elasticity [an]
- brand loyalty [k] may mean people willing to pay [an] customers seem relatively loyal as market share constant [ap]
- depends on the amount of price rise [k]
- level of competition [k] higher prices could see customers switch to lower priced rivals [an]
- impact depends upon their monopoly power/market share

If the soap was of high quality [k] and the target customers were high income women [k] then increasing the price would attract them [an] and make them think the soap is of high quality [an]. So in this case increasing the price will increase the profits [ev] because the higher price will match the image [ev]

Do not credit answers which discuss factors affecting profits in general with no link to prices**30. M/J 13/P11/Q3/a****(a) Clear understanding [2] Business that focuses on making the product right [1] and then tries to find customers to buy it [+1]****[2]**

Some understanding [1] e.g. no market research done [1]

Firm concentrates upon quality or design of the product [1]

31. O/N 12/P12/Q1

- (a) Knowledge [2×1] – 1 mark per answer. [2]
Stage II Growth [1] Stage III Maturity or saturation [1].
- (b) Clear understanding [2] e.g. the price is based on the cost of making a product [1] and the addition of a fixed percentage for profit/mark up [+1]. [2]
Some understanding [1] e.g. Basic idea that price is related to cost.
Some understanding + example [2].
- (c) Knowledge [2×1] – award 1 mark per advantage. [4]
Application/analysis [2×1] – award 1 mark for each relevant explanation (i.e. show how it is an advantage to KE).
Advantages could include:
- greater awareness of consumer needs [k] so can adapt (electrical) products to match what customers want [app]
 - able to forecast likely future trends [k] so can improve focus of new product development [app]
 - appreciate the strength of competitors [k] so can change marketing strategy to compete better [an]/greater knowledge of consumers views of company products/image [an]
 - reduces risks/products launched with more confidence [k] as know market requirements [an]
 - help KE gain competitive advantage [k] as able to set effective pricing/promotion strategy [an]
 - produce the correct amount of product [k] to avoid wastage of parts [app]
 - helps set price [k].
- (d) Knowledge [3×1] – award 1 mark per benefit. [6]
Application/analysis [3×1] – award 1 mark for each relevant explanation (i.e. show how create advantages to KE).
New products should:
- boost sales OR increase market share [k] as wider range of/more customers can be targeted [an]
 - able to increase prices [k] as new product might have unique features [an]
 - create additional consumer interest in the company [k] as better range/more up-to-date products available [an]
 - increase brand loyalty OR Improve KE's standing/profile in the market [k] as seen as able to respond to market change [an]
 - diversification [k]/Spread business risk [k] so if one product doesn't sell, others might [an]
 - needed to replace products in decline stage of life cycle [k] this should help business survival [an].
- Do not accept extend product life cycle (as it is a new product).
- (e) Knowledge [2] Identification of issues. [6]
Application/analysis [2] – develops the point to explain how or why issue needs to be considered.
Evaluation [2] reasoned judgement made as to whether reducing prices will help KG increase sales turnover.
Points might include:
- price reduction should increase the volume of sales [k]
 - demand for product [k] OR demand is price inelastic [k] so sales will rise by less than % change in price [an]/so should increase price to increase turnover [an]/cut will decrease revenue
 - reaction/level of competition [k]
 - lower price might suggest lower quality [k] so customers might not want to buy 'inferior' product [an]
 - other factors affect sales e.g. promotion, place.

32. O/N 12/P11/Q1/d,e

- (a) Knowledge [2 × 1] – award 1 mark per reason [6]
 Application [2 × 1]
 Analysis [2 × 1]

Companies sponsor football clubs for a variety of reasons:

- Means of advertising and increasing exposure
- Improve own brand image
- Supporting the local community
- Ego trip for Chairman
- Link name of company to well known brand [football club]

Explanation will show how sponsorship helps achieve these factors. Answer must be in context for full marks.

- (b) Knowledge [2] – identification of relevant factors [6]
 Application/analysis [2]
 Evaluation [2]

Content: A reduction in ticket prices means that the 'product' is cheaper and hence more affordable (k). This should increase the demand for tickets. Thus revenue should increase (an). However this depends on the price elasticity of demand for tickets (an) (use of technical language not required). If people are not attending the matches because of reasons like the team is always losing/playing unattractive football (k) then the price fall might not have much of an impact (an). Thus price is NOT the reason for the falling demand (ev). Indeed the revenue could be reduced if prices are reduced (ev). Total revenue is the outcome of volume sales times unit price (k).

The analysis does NOT need to be in context to be rewarded. Thus answer could refer to things like product and price rather than simply applied to a football context.

33. M/J 12/P12/Q3/e

- (a) Knowledge [2]: – general discussion of role of product/identifies relevant issues. [6]
 Analysis [2]: – Explains why the issue needs to be considered.

Evaluation [2]: – judgement made as to importance of product in HTB's marketing mix. For two evaluation marks, the answer must be clearly in the context of this business.

Points include:

- product is what consumers buy [k] If the product is not what consumers want, they will not buy it [an]
- price, promotion and place also have important role [k]
- having the right pricing strategy is important [k] as it is a competitive market [an]
- promoting the products can attract customers [k] which can help increase sales [an]
- the product must also be sold in the right places [k].

34. M/J 12/P11/Q2/b

- (a) Knowledge [2 × 1]: one mark per factor. [2]
 Factors include:

- seasonal – coats not worn in summer, or increase in demand if wet weather
- fashion
- availability or price of substitutes
- price of complementary goods
- increase in income
- price of coat
- competition
- increase in population
- advertising.

35. M/J 12/P11/Q4/d

(a) **Knowledge [3 × 1]:** award 1 mark per relevant factor. [6]

Analysis/application [3 × 1]: award 1 mark for each relevant explanation (i.e. explain how or why it is an issue for Rapid Call).

Factors include:

- where it is to be sold
- cost of transport
- type of product
- level of demand
- amount of control required by company
- size of company
- costs of storage [storage alone 0]
- speed
- location/profile of customers.

Do not award analysis/application marks for points which clearly cannot be applied to a mobile phone manufacturer e.g. perishable.

36. M/J 12/P11/Q5/d

(a) **Knowledge [3 × 1]:** award 1 mark per relevant method. [6]

Analysis/application [3 × 1]: award 1 mark for each relevant explanation (i.e. shows how or why it is a suitable method for Favell to use).

Methods include:

- leaflets
- posters
- adverts in the local paper or local radio or internet
- advertising on side of vehicle that he wishes to buy
- discount/promotional pricing
- sponsorship
- warranty or after sale services
- competitions
- demonstrations
- public relations
- BOGOFF
- free sample/gifts.

Do not award analysis/application marks for points which clearly cannot be applied to a woodworking business.

3.4: Marketing Strategy

1. O/N 17/P11/Q3/e

GDC is a transport delivery business in country Z. It operates in a competitive market. GDC has 5000 employees and 1000 delivery vehicles. GDC's organisational structure has many levels of hierarchy with a long chain of command. The managers use an autocratic leadership style. Last year GDC delivered 2 billion parcels for businesses. The Managing Director said: 'Having a good reputation is important. We have also benefited from economies of scale'. GDC wants to expand its operations to another country, but cannot decide the best way to do this.

- (a) Recommend the most suitable way for Transport Delivery Business to expand its business to another country. Justify your answer.

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2. M/J 17/P11/Q1/c

QCH is a multinational company which makes a range of luxury cars. Last year it made a profit of \$700m. One of QCH's objectives is to enter new markets. QCH wants to start producing cars in country C, a fast growing economy. The Finance Director said: 'Meeting customer needs is important. We could form a joint venture or set up our own factory. Both options will be expensive, costing \$800m. I think QCH's expansion into country C could be good for other businesses there.'

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(a) Identify and explain **two** reasons why multinational company might want to enter new markets.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

..... [4]

3. O/N 16/P12/Q2/a

\$LAND sells a wide range of products from food to toys. It has 400 shops in country B. \$LAND's marketing strategy is based on penetration pricing. \$LAND does no advertising and buys all its products directly from manufacturers. Revenue and profit have increased despite the country being in recession. The Marketing Director wants to expand the business by opening shops in other countries. He believes \$LAND will be successful in other countries.

(a) What is meant by 'marketing strategy'?

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..... [2]

4. O/N 15/P11/Q3/e

Grimshaw manufactures mobile (cell) phones for the mass market. Last year its market share increased by 3%. The Managing Director is planning to set up a new factory in country T to supply the mobile phone market in that country for the first time. Grimshaw plans to sell a new model of mobile phone. The Managing Director has asked for market research to be done. He said: 'As a multinational, we can set up a new factory anywhere; I want to know whether the Government of country T will offer us any help to build our factory there.'

(a) Do you think the Government of country T should help businesses such as Grimshaw set up in its country? Justify your answer.

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5. M/J 15/P12/Q2/d

Alkin is a multinational company. It manufactures breakfast food products including many leading brands of cereal. Alkin plans to start selling in country Z, which is a fast-growing market. Alkin plans to form a joint venture with a local business, based in country Z. 'Effective communication will be important to our success but I think there are many advantages in expanding this way' said Alkin's Managing Director. The Government of country Z is worried about the effect of multinational companies like Alkin on consumers.

(a) Identify and explain **two** advantages to Alkin of using a joint venture to expand into country Z.

Advantage 1:
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Explanation:
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.....

Advantage 2
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Explanation:
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[6]

6. M/J 15/P12/Q4/a

A2Z is a small but successful airline company in country B, providing flights for business people. The management of A2Z wants the business to expand. It will have to buy more aeroplanes and recruit more airline pilots. The Human Resources manager has produced a job description for the pilots. She is now ready to advertise for the new pilots. She believes the best way for A2Z to motivate its pilots is to use financial rewards.

(a) Identify **two** possible reasons why A2Z might want to expand.

Reason 1:

.....

Reason 2:

..... [2]

7. O/N 14/P11/Q3/d

Natural Care is a company that makes soap. The business always acts in an ethical way. It follows fair trade principles by paying fair prices to its suppliers. It uses a cost plus pricing method when selling its products. Table 2 gives data about the company's sales of soap and its share of the national market for soap.

Table 2

Year	Natural Care sales (\$m)	Market share of Natural Care (%)
2012	40	10
2014	44	7

The Marketing Director of Natural Care wants to introduce a new competitive pricing strategy to help regain market share. She also wants the Board of Directors to think about changing its ethical policy.

(a) Identify and explain **two** ways in which Natural Care might be affected by changing to a competitive pricing strategy.

Way 1:

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Explanation:

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Way 2:

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Explanation:

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.....[6]

8. M/J 14/P11/Q1/c

Anouk is a sole trader. She designs and makes jewellery at home, using hired (rented) equipment. Anouk enjoys selling the jewellery at local markets. Last year her sales revenue increased by \$500 to \$3000. She plans to use \$50 for a marketing budget. Anouk would like to do some primary market research when she has time. Anouk thinks she should have a business partner.

(a) Identify and explain two possible advantages for Anouk of hiring equipment.

Advantage 1:

.....

Explanation:

.....

Advantage 2:

.....

Explanation:

.....[4]

9. M/J 14/P11/Q2/e

Keypeople is a recruitment agency which only operates in one small town in country Z. Its owner, Rachel, and her two employees know that good customer service is important. Rachel would like to expand her business. Keypeople offers a variety of human resource services to other businesses, such as recruiting employees and preparing employment contracts. Rachel has been asked by a local manufacturing business to recruit a senior manager.

(a) Do you think Rachel should expand Keypeople? Justify your answer.

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11. O/N 13/P11/Q4/e

Table 2 gives data about the economy of country C.

Table 2

Year	National income per person (\$)	Inflation (%)	Unemployment (%)
2010	650	5	10
2011	640	3	12
2012	600	1.5	18

The economy of country C is in recession. The Government wants to create more jobs by encouraging more businesses to start up. However some pressure groups are against this because they think that more businesses will cause more external (social) costs.

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

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12. M/J 13/P12/Q5/d

ANZ is a large multinational company which manufactures aeroplanes. Growth is an important objective for the company. ANZ wants to start producing in country P for the first time. The new factory will operate for 24 hours a day. A pressure group in country P believes that all business activity is bad for the environment. It wants the Government to do more to control business activity.

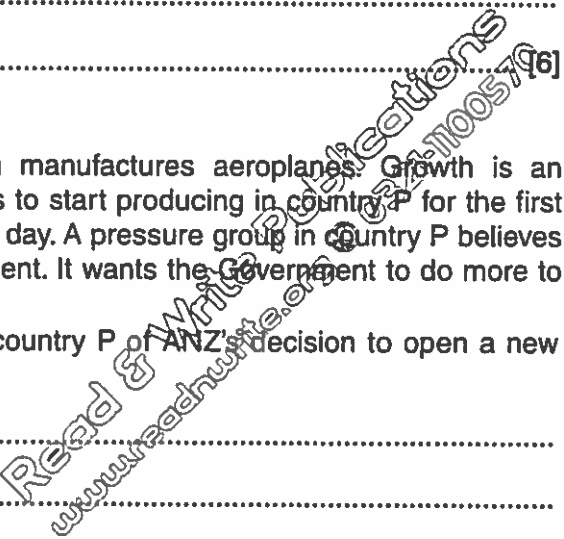
(a) Identify and explain **three** advantages for country P of ANZ's decision to open a new factory.

Advantage 1:

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Explanation:

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Advantage 2:

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Explanation:

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Advantage 3:

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Explanation:

.....[6]

13. M/J 13/P11/Q2/d

Gayle's Soaps is a business which manufactures health and beauty products. Its market share has remained constant at 15% despite new businesses entering this market. The business uses market segmentation. Most of its customers are women. The Marketing manager believes the company could increase its profits if it increases the price of each of its most popular products.

(d) Identify and explain **three** problems that a business might have when trying to enter a new market.

Problem 1:

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Explanation:

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Problem 2:

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Explanation:

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Problem 3:

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Explanation:

.....[6]

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14. O/N 12/P12/Q2/e

Just4U manufactures motor car parts. The production methods are capital intensive. The management believes that the company benefits from economies of scale. However, problems with the workers in the factory have led to poor quality production. Despite this, the Managing Director believes that the company must continue to grow if it is to achieve its objectives. The business is planning a takeover of a competitor.

- (a) Do you think that a takeover of a competitor will benefit the shareholders of car parts manufacturer? Justify your answer.

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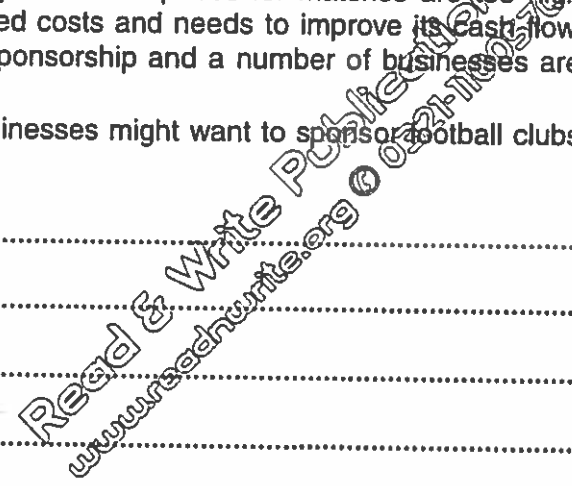
15. O/N 12/P11/Q1/d

Durban Dragons is a big football club. Recently fewer people have been watching its matches and ticket revenue is falling. Some people say that ticket prices for matches are too high and should be reduced. The club has high fixed costs and needs to improve its cash flow. The club directors have been trying to gain sponsorship and a number of businesses are very interested.

- (a) Identify and explain **two** reasons why businesses might want to sponsor football clubs like Durban Dragons.

Reason 1:
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Explanation:
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.....



Reason 2:

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Explanation:

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..... [6]

16. O/N 12/P11/Q4/d,e

Jergen Cosmetics makes a range of beauty products for women in country A. 'We are a market orientated company' said Klaus, the Managing Director. 'One of our business objectives is to increase sales turnover. We have just set up our own website and increased our marketing budget. Our country's economic growth is forecast to be 4% next year and this will guarantee our company's profitability.'

(a) Identify and explain two benefits to Cosmetics Business of having its own website.

Benefit 1:

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Explanation:

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Benefit 2:

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Explanation:

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..... [6]

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Advantage 3:

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Explanation:

..... [6]

18. M/J 12/P12/Q4/e

Cole Brokers is a medium sized company. The company provides a range of insurance products to customers around the world. It operates in a highly competitive market. Many insurance businesses are now using the Internet as a way to sell their products. The management of Cole Brokers has been looking at its current organisational structure. They think the span of control and chain of command need to be changed.

- (a) The management of Cole Brokers think that the disadvantages of e-commerce are greater than the advantages to their business. Do you agree? Justify your answer.

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Answer Section

1. O/N 17/P11/Q3/e

6

- (a) Knowledge [1] – award 1 mark for identification of relevant points (s)
 Application [1] – award 1 mark for relevant reference made to this business
 Analysis [2] – award up to 2 marks for relevant development of point(s)
 Evaluation [2] award up to two marks for justified decision regards to the most suitable way for GDC to expand.

Relevant points might include:

- Joint venture [k] with a local delivery business [app] you share the risks of expansion [an]
- Merger/takeover [k] they will benefit from local expertise [an]
- Franchise [k] they will receive a license fee [an]
- Set up own operations [k] they will keep control [an] however this is an expensive way [an]

2. M/J 17/P11/Q1/c

4

- (a) Knowledge [2 × 1]: award 1 mark for each reason identified
 Application [2 × 1]: award 1 mark for each explanation in context

Points might include:

- Spread risk [k] of selling cars [app]
- Economies of scale [k] buying factory stock [app]
- Increase sales OR market share OR target market [k] as it is a fast growing economy [app]
- Home market saturated [k]
- Greater recognition OR brand awareness [k]
- Access to cheaper labour OR resources [k]
- Fewer trade restrictions [k]

3. O/N 16/P12/Q2/a

2

- (a) Clear understanding [2]: plan to combine the right combination of the 4 elements of the marketing mix to achieve a particular market objective
 OR Put together the right mix of the 4Ps to increase sales [2]
 OR A plan for promoting goods to enter a new market [2]
 Some understanding [1], e.g. how to combine the 4P's OR how to promote a product OR a plan for marketing OR how to increase sales

4. O/N 15/P11/Q3/e

[6]

- (a) Knowledge [1] – award 1 mark for identification of relevant point(s) [max 1]
 Application [1] – award 1 mark if relevant reference made to the benefit of the country
 Analysis [2] – award up to 2 marks for relevant development of point(s)
 Evaluation [2] – justified decision as to whether the Government of country T should help businesses such as Grimshaw to set up in its country

Points might include:

- jobs created [k] as build factory there [app] so reduces unemployment [an]
- investment in infrastructure [k] to transport parts to/from factory [app] so locals benefit from new roads [an]
- new ideas [k] which could improve local business practices [an]
- taxes paid [k] which Government could use to pay for public services [an]

- more choice for consumers [k] as will have access to new model [app]
- more competition [k] so consumers could benefit from lower prices/force local businesses to close [an]
- exploitation of resources [k]
- lack of respect for local customs and cultures [k]
- flow of profits out of a country [k]

Application marks may be awarded for appropriate use of the following: mobile phones, mass market, factory, new model, can build anywhere, multinational.

Note: Candidate's final decision can be either for or against the statement.

5. M/J 15/P12/Q2/d

- (a) Knowledge [2 × 1] – identification of relevant advantage [max 2] [6]

Application [2 × 1] – award 1 mark for each relevant reference made to this business

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

Relevant points might include:

- Access to new markets [k] increasing brand awareness [an] of its range of cereals [app]
- Access to local expertise / ideas [k] e.g. cultural knowledge as tastes differ [app] so better able to meet customer requirements / ensure sales [an]
- Wider range of contacts / better access to resources [k] so might be able to obtain cheaper ingredients [app]
- Increased capital / share costs [k] so less risk [an]
- Increased capacity [k] so can meet expected growth in demand [app] without affecting supply for other markets [an]
- Way to avoid government restrictions [k] so able to maximise potential sales [an]
- Less competition [k] as working with local business [app] so one less rival [an]
- Economies of scale [k]
- Build reputation [k]

Application marks may be awarded for appropriate use of the following: multinational company, breakfast cereals or food, fast-growing market, local business

6. M/J 15/P12/Q4/a

- (a) Knowledge / Application [2 × 1] – award 1 mark for each relevant reason [2]

Points could include:

- Increase sales OR revenue OR market share or dominate market or target new markets
- Increase profit
- Spread risk / attract more investment
- Improve reputation / status / brand image
- Gain economies of scale

7. O/N 14/P11/Q3/d

- (a) Knowledge [2 × 1] – award 1 mark for each way identified. [6]

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

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

Points might include:

- Reduce profit margins [k] as prices might fall below cost plus price [app] so need to sell more to make same level of profit [an]
- Possible increase in sales [k] because prices could be lower [an] help increase its market share [app]
- Impact on image [k] as might need to change from ethical suppliers [app] as need to lower costs to maintain competitive [an]
- May lose suppliers [k] because they can no longer afford a fair price [app]
- More competitive [k] as price is no longer a reason not to buy their soaps [app]
- Need to find other way (other than price) to attract customers [k].

8. M/J 14/P11/Q1/c

- (a) Knowledge [2 × 1] – award 1 mark for each relevant advantage [4]
Application [2 × 1] – award 1 mark for each relevant different explanation

Relevant points might include:

- No need to spend a lot of money to buy equipment [k] might be too expensive for a sole trader [app]
- Easier to update or change equipment as required [k] if she designs a new piece of jewellery she does not have to buy more equipment [app]
- Able to afford the best equipment [k] to help her to make her jewellery more efficiently [app]
- If the machine is broken Anouk does not have to pay owner cost of repair [k] as a small business owner she does not have much money [app]
- Machinery is only rented when needed [k] so saving space at home [app].

Note: Do not accept cheaper or saves costs as these are too vague.

9. M/J 14/P11/Q2/e

- (a) Knowledge [2] – award up to 2 marks for identification of relevant points [6]
Application [1] – award 1 mark if relevant reference made to key people
Analysis [1] – award 1 mark for relevant development of point(s)
Evaluation [2] – justified decision made as to whether Rachel should expand key people

Points might include:

- Access to finance [k] as it is only a small business [app] so banks might not be willing to lend [an]
- Size of market [k] there might not be enough businesses who want to use the services [an] of a recruitment agency [app]
- Negative effect on business reputation [k] as customer service might worsen [app] as employees might not be able to cope with the increased workload [an]
- Need to hire additional employees [k] which would increase the business costs [an] as currently only have 2 employees [app]
- Expansion will reach more people [k] as it may move into new towns [app] and potentially increase sales [an].

10. M/J 14/P11/Q4/d

- (a) Knowledge [2 × 1] – award 1 mark for each relevant benefit identified [6]
Application [2 × 1] – award 1 mark if relevant context
Analysis [2 × 1] – award 1 mark for each relevant explanation
For each reason maximum 3 marks [1k + 1app + 1an].

Points might include:

- Job creation [k] as JWR will need to employ local workers at the power station [app] so provide a wage / income for many local employees [an]
- Increased orders for suppliers [k] as JWR will need to purchase materials [app] so increasing their sales [an]
- Provide essential resources for community [k] as people will have access to energy [app] so improving their standard of living [an]
- Improved road infrastructure [k] as JWR will need to ensure there is good access to the power station [app] which could help reduce congestion for local people [an]
- Tax revenue [k].

11. O/N 13/P11/Q4/e**(a) Knowledge/application [2]** – identification of relevant issues **[6]****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].

12. M/J 13/P12/Q5/d**(a) Knowledge/application [3 × 1]** – award 1 mark for identification of each advantage **[6]****Analysis [3 × 1]** – award 1 mark for each relevant explanation (i.e. show it creates a benefit for the country)

Points might include:

- **job creation [k]** so increases standard of living for people [an]
- **raise profile of country [k]** which could encourage other businesses to invest in their country [an]
- **encourage other suppliers to set up in country [k]** which will produce more jobs
- **local businesses might gain additional sales as suppliers/or custom from workers [k]**
- **increase in country's GDP [k]**
- **increased tax revenue [k]** so government can increase expenditure on public services such as education [an]
- **provision of training [k]** so better educated population which could lead to opportunity for higher paid jobs [an]
- **improvements in infrastructure [k]**

13. M/J 13/P11/Q2/d**(a) Knowledge [3 × 1]** – identification of problem **[6]****Analysis [3 × 1]** – explain how or why it might cause problems for the business

Points might include:

- **lack of knowledge of the market [k]** so produce a product that is not wanted [an]
- **issues of entering a foreign market e.g. language barriers/exchange rates [k]**
- **competitors' reaction [k]** could lead to price war [an]
- **government laws [k]** might restrict what they can sell [an]
- **customer loyalty [k]** might not switch to a new company's products [an]

- cost of developing new products [k] leading to high price needing to be charged [an]/ cash flow issues [an]
- lack of suppliers [k] so unable to find enough materials [an]
- identification of suitable places to sell from [k] different products might sold in different places [an]

14. O/N 12/P12/Q2/e**(a) Knowledge [2] Identification of issues. [6]**

Application/analysis [2] – develops the point to explain how or why affects the shareholders.
Evaluation [2] reasoned judgement made as to whether **shareholders** will benefit from takeover.

Points might include:

- increased profits [k] which could lead to an improved rate of return on capital/increased dividends [an]
- less competition [k]
- successful takeover could lead to an increase in share price [k]
- lessen risk to shareholder of business failing [k] as they have a larger market share [an] so an increased stability of the company [an]
- no guarantee that increased profits will happen [k]
- the ability to gain benefits from takeover [e.g. economies of scale].

15. O/N 12/P11/Q1/d**(a) Knowledge [2 × 1] – award 1 mark per reason [6]**

Application [2 × 1]

Analysis [2 × 1]

Companies sponsor football clubs for a variety of reasons:

- Means of advertising and increasing exposure
- Improve own brand image
- Supporting the local community
- Ego trip for Chairman
- Link name of company to well known brand [football club]

Explanation will show how sponsorship helps achieve these factors. Answer must be in context for full marks.

16. O/N 12/P11/Q4/d,e**(a) Knowledge [2] [6]**

Application/analysis [2 × 2]

Website would:

- Increase public awareness
- Enhance reputation
- Boost sales
- Improve image
- Allow customers to view their product range
- Lower advertising costs
- Allow online sales

So an answer might say that a website would mean that potential customer could see a full range of beauty products that they make. This would allow them to be more aware of the full range and might encourage them to buy, boosting sales for Jergen. Second benefit might be that the website might enhance the profile of the company. It will seem 'more important' and fashionable and hence might attract new customers to the business. This too will boost sales and profits.

Analysis/application for showing how the points actually represent a benefit and how a website helps achieve them.

- (b) Knowledge [2] [6]
Application/analysis [2]
Evaluation [2]

The growth in an economy should mean greater prosperity, lower unemployment and higher consumer spending in general. However this does not mean that all sectors will benefit to the same degree. It certainly does not mean that all businesses will gain either. A successful business has products that are in demand and that they can be supplied at a price that is acceptable to the consumer and high enough to generate a profit to the business. The state of the economy has little impact on these factors. However in so far as higher sales may lead to higher profits then economic growth should help Jergen.

17. M/J 12/P12/Q2/d

- (a) Knowledge [3 × 1]: award 1 mark per relevant advantage. [6]
Analysis/application [3 × 1]: award 1 mark for each relevant explanation (how helps management).

Advantages include:

- improve quality [k] so able to charge higher prices for products [an]
- increase output [k] so able to meet more orders [an]
- improves productivity [k] which can help reduce average costs [an]
- way to reduce labour costs [k] so lower total costs for business [an]
- machines do not need breaks [k] so more parts can be made/less errors [an]
- faster production [k] as machines can make more in less time [an]
- machines are able to handle more complex work [k]
- role in designing prototypes/development of new products [k]
- improves stock control for ordering parts [k]
- improved communication (internal or external) [k].

Note: advantages must clearly relate to business not employees.

Do not award analysis/application marks for points which clearly cannot be applied to a manufacturing company.

18. M/J 12/P12/Q4/e

- (a) Knowledge [2 × 1]: identification of relevant issues. [6]
Analysis [2]: explain how or why might affect business.

Evaluation [2]: reasoned judgement made as to whether disadvantages are greater or not for CB Brokers.

For two evaluation marks, the answer must be clearly in the context of this business.

Either viewpoint is possible depending on points discussed.

Disadvantages include:

- vulnerability to viruses/technical breakdown/security issues [k]
- government restrictions/laws concerning what and how sell insurance in other countries [k]
- loss of personal contact with customers [k]
- need for system support/security/training costs for staff, which will increase costs [an]
- threat of increased competition [k].

Advantages include:

- access new markets as not restricted to existing locations [k] which could lead to more sales [an]
- possible cost savings can lead to lower prices and more business
- opportunity for 24 hour business [k].

1 sided argument maximum 4 marks.

Context could include: medium sized, customers around the world, highly competitive market, many insurance businesses using the internet.

19. M/J 12/P11/Q4/e

(a) **Knowledge [2 × 1]:** identification of relevant issues. [6]

Analysis [2]: explain how or why issue is important or not.

Evaluation [2]: reasoned judgement made as to effect of new environmental laws on ALL businesses.

To gain 6 marks, reference must be made to **all** businesses

Disadvantages include:

- techniques/products might be banned so unable to make or sell products
- changes might lead to increased costs for business e.g. new machinery leads to increased costs
- could place business at competitive disadvantage if laws do not apply to competitors from other countries.

Advantages include:

- could improve image of business if seen as environmentally friendly leading to increased reputation and sales
- new business opportunities as customers want 'green' products
- new techniques could help reduce waste or increase efficiency so lower costs in long run
- might already adopt environmentally friendly practices so no impact
- laws might help ensure that resources are better used so could continue to operate for longer time.

Unit-4: Operations Management

4.1: Production of goods and services

1. O/N 17/P12/Q2/d,e

CGM makes high quality shoes using job production. The production method makes use of specialisation. CGM operates in a niche market. CGM managers know that all business activity creates external costs, so they always try to act in ways that protect the environment. The Operations Director wants to increase profit. CGM could either buy cheaper raw materials or introduce new technology into the production process. The new technology would cost \$30 000 and could reduce the number of employees from 30 to 26.

(a) Identify and explain **one** advantage and **one** disadvantage to shoe maker of using job production.

Advantage:.....
.....

Explanation:.....
.....
.....

Disadvantage:.....
.....

Explanation:.....
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.....

(b) Do you think CGM should introduce new technology into the production process? Justify your answer.

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2. O/N 17/P11/Q2/a,d

NMBJ makes a range of cookies (biscuits) using batch production. Last year profit increased by \$1.5 million. The directors think this is because of an increase in productivity and better management of working capital. NMBJ has a low level of inventory. NMBJ plans to increase the wages of all 300 employees by \$50 per month from March. The Finance Director is worried: 'This decision will add \$15 000 to wages each month. Many employees are leaving. Is paying higher wages the best way to improve motivation?'

Table 2: Cash flow forecast for the period January - March 2018 (\$ 000)

	January	February	March
Cash inflow	560	520	600
Cash outflows:			
Wages	60	60	X
Other costs	500	480	520
Total cash outflows	560	540	595
Net cash flow	0	(20)	Y
Opening balance	5	W	(15)
Closing balance	5	(15)	Z

(a) What is meant by 'productivity'?

.....

[2]

(b) Identify and explain one advantage and one disadvantage to cookies business of having a low level of inventory.

Advantage:.....

.....

Explanation:.....

.....

.....

.....

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Disadvantage:.....
.....

Explanation:.....
.....
.....

[6]

3. M/J 17/P12/Q2/d

(a) Identify and explain one advantage and one disadvantage to car tyre business of using batch production.

Advantage:
.....

Explanation:
.....
.....

Disadvantage:
.....

Explanation:
.....
.....

[6]

7. M/J 16/P12/Q1/c,d

Saltan makes a range of cars. The level of inventory is too high so it plans to decrease production at its factory. Employees were told the business needs to reduce the size of its workforce as competition is increasing. The trade union is not happy that 360 of the 1200 skilled full time employees at Saltan will be made redundant. A trade union spokeswoman said: 'Saltan should reduce the number of hours of every employee rather than reduce the number of jobs.' Saltan's Operations Director is considering ways to increase efficiency in the factory.

(a) Identify and explain two possible problems for Saltan of having a high level of inventory.

Problem 1:

Explanation:

.....

.....

Problem 2:

Explanation:

.....

.....

[4]

(b) Identify and explain two possible problems for Saltan of having a high level of inventory.

Problem 1:

Explanation:

.....

.....

Problem 2:

Explanation:

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.....

[4]

8. M/J 16/P11/Q4/d

Nuwan is a sole trader. He has a specialist sports shop selling a wide range of cricket and tennis products. His 3 employees are trained to provide good customer service. Nuwan is pleased the economy is growing but he is worried that interest rates might be increased. He believes his small business has advantages compared to large retailers. Nuwan would like to improve profit margins and thinks the best way to do this is to reduce costs.

(a) Identify and explain two advantages that Nuwan's business might have compared to large retailers.

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Advantage 1:

.....

Explanation:

.....

.....

.....

Advantage 2:

.....

Explanation:

.....

.....

..... [6]

9. M/J 16/P11/Q3/d,e

Rafiq is the Operations manager at a small factory. The business makes a range of soft drinks using batch production. Last year Rafiq successfully introduced just-in-time inventory control, based on an idea from one of the 40 employees. As the business is planning to expand, Rafiq thinks it would be a good idea to change to flow production.

Table 1: Income statement for 2015 (\$000)

Revenue	X
Cost of sales	360
Gross profit	240
Expenses	Y
Profit	120
Retained profit	100

(a) Identify and explain **two** advantages to this business of using just-in-time inventory control.

Advantage 1:

.....

Explanation:

.....

.....

.....

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Advantage 2:

.....

Explanation:

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[6]

(e) Do you think this business should change to flow production? Justify your answer.

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[6]

10. O/N 15/P12/Q3/a,b

NCE manufactures cars in 4 factories using flow production. NCE's Human Resources Director thinks good induction training helps achieve high productivity. Factory X is its most efficient factory. Last year the size of the new car market fell by 20%. NCE now has to make 400 workers redundant at one of its other factories. 'I am pleased NCE is a large business', said the HR Director, 'I think a small business cannot survive in this competitive market.'

Table 2: NCE operations data for 2014

Number of cars made	Number of employees
168 000	2800

(a) What is meant by 'flow production'?

.....

.....

.....

.....

[6]

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(b) Calculate the output per employee in 2014.

.....

[2]

11. O/N 15/P12/Q2/c

CLW makes wood furniture, including chairs and tables. Demand has risen quickly over the past 3 years and the business needs to increase the scale of production at its factory. The factory is located near the city centre in an area of low unemployment. The Finance Director has produced a business plan, including a balance sheet. The Finance Director is pleased with CLW's liquidity.

Table 1: Extract of financial information

	2013	2014
Non-current (fixed) assets (\$m)	240	260
Current assets:		
Inventory (stock) (\$m)	180	330
Trade receivables (debtors) (\$m)	320	240
Cash (\$m)	100	90
Total current assets (\$m)	600	660
Current Liabilities (\$m)	480	440
Current ratio	1.25:1	?
Acid test ratio	0.875:1	?

(a) Identify and explain two possible benefits for Business of holding high inventory (stock) levels.

Benefit 1:

.....

Explanation:

.....

Benefit 2:

.....

Explanation:

..... [4]

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12. O/N 15/P11/Q1/c

TWH makes a range of toys using batch production. TWH's Managing Director, Dylan, plans to invest in new technology to reduce average costs. 'It's the only way to increase efficiency as I do not know how we can improve employees' motivation' he said. Dylan cannot decide on whether it would be better to use retained profits or a long term loan as the source of finance.

Table 1: Data for 2014

Number of toys made per week	260 000
Number of employees	500
Average wage per hour paid by TWH	\$6
Average wage per hour paid by similar businesses	\$6.50

(a) Identify and explain two possible advantages to toy manufacturer of using batch production.

Advantage 1:

.....

Explanation:

.....

Advantage 2:

.....

Explanation:

..... [4]

13. M/J 15/P12/Q3/d

Mabel wants to set up her own hairdressing business. She will need to build good customer relationships. She has done some secondary market research to find out possible demand and what methods of promotion to use. She has decided to buy her inventory (stock) from a wholesaler. Mabel is now looking for the right location for her business. She thinks that location will be more important than price charged to the success of her business.

(a) Identify and explain two possible disadvantages to Mabel of buying her inventory from a wholesaler.

Disadvantage 1:

.....

Explanation:

.....

.....

.....

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Disadvantage 2:

.....

Explanation:

.....

.....

..... [4]

14. M/J 15/P12/Q4/c

A2Z is a small but successful airline company in country B, providing flights for business people. The management of A2Z wants the business to expand. It will have to buy more aeroplanes and recruit more airline pilots. The Human Resources manager has produced a job description for the pilots. She is now ready to advertise for the new pilots. She believes the best way for A2Z to motivate its pilots is to use financial rewards.

(a) Identify and explain two advantages to A2Z of producing a job description.

Advantage 1:

.....

Explanation:

.....

Advantage 2:

.....

Explanation:

..... [4]

15. M/J 15/P11/Q4/a,b,e

Javid is a company that manufactures a range of luxury chocolates using batch production. Over the past year, profit has fallen due to increased competition. In order to cut costs, the Finance Director has suggested the company introduces new technology into the production process. The Human Resources Director is not sure that workers would benefit from the introduction of new technology.

(a) What is meant by 'batch production'?

.....

.....

.....

..... [2]

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(b) Identify **two** advantages (other than cutting costs) to the company of using new technology.

Advantage 1:

.....

Advantage 2:

..... [2]

(c) Do you think that the introduction of new technology would benefit Javid's workers? Justify your answer.

.....

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..... [6]

16. O/N 14/P12/Q5/d

Ali has just been appointed as Managing Director of Anypart, a large manufacturing business. He told Anypart's Board of Directors: 'Behaving ethically will always lead to lower profits. I want our employees to work longer hours, have fewer holidays and become more productive. This will reduce costs of each unit of output and will benefit all our stakeholders'. Not all of the directors agreed with him.

(a) Identify and explain **two** possible ways of improving productivity in Anypart's business.

Way 1:

.....

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Explanation:

.....

.....

.....

Way 2:

.....

Explanation:

.....

.....

..... [6]

17. O/N 14/P11/Q4/d

Genel manufactures clothes. The company uses an autocratic style of management. It employs a large number of workers and pays low wages. Many employees leave the company each year but they are easily replaced. Working conditions in the factories are poor. Health and safety is ignored and long hours are worked. Employee motivation is low and employee productivity is falling.

(a) Identify and explain **two** ways that Genel could use to improve employee productivity in its factories.

Way 1:

.....

Explanation:

.....

.....

.....

Way 2:

.....

Explanation:

.....

.....

..... [6]

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18. M/J 14/P12/Q2/c

Cutter is a family owned private limited company. It manufactures a luxury brand of coats. In 2013 sales revenue increased by \$3m and retained profits also increased. 'The marketing mix is working' said the Marketing Director. Cutter's Operations Director thinks that batch production is still the right method of production to use, but he cannot decide whether on the job or off the job training is better for the business.

(a) Identify and explain two possible advantages to coat manufacturer of using batch production.

Advantage 1:

.....

Explanation:

.....

Advantage 2:

.....

Explanation:

..... [4]

19. M/J 14/P12/Q3/c

SENG manufactures cameras. Last year its market share increased by 2% to 18%. Production is capital intensive. This allows SENG to use lean production methods such as just-in-time. Cameras have a short product life cycle. SENG spends \$200m each year on extension strategies. The Marketing manager thinks that an increase in market share will lead to higher profits.

(a) Identify and explain two possible advantages to SENG of using lean production.

Advantage 1:

.....

Explanation:

.....

Advantage 2:

.....

Explanation:

..... [4]

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20. M/J 14/P12/Q5/c

Anyshade manufactures a range of paints. It uses flow production. The Finance manager has produced a cash flow forecast as the business wants to arrange an overdraft with its bank. The Finance manager believes that reducing prices is the best way to increase sales revenue. Anyshade's paints are well known for quality.

Table 1: Cash flow forecast (\$000's)

	July	August	September
Opening balance	(9 000)	6 000	Y
Cash inflows:			
Cash sales	90 000	30 000	50 000
Cash from debtors	50 000	80 000	70 000
Total cash inflows	140 000	110 000	120 000
Cash outflows:			
Fixed costs	70 000	70 000	70 000
Wages	20 000	18 000	19 000
Raw materials	35 000	30 000	30 000
Total cash outflows	125 000	118 000	119 000
Net cash flow	X	(8 000)	1 000
Closing balance	6 000	(2 000)	(1 000)

Note: numbers in brackets are negative.

(a) Identify and explain **two** advantages to paint manufacturer of using flow production.

Advantage 1:

.....

Explanation:

.....

Advantage 2:

.....

Explanation:

..... [4]

21. O/N 13/P12/Q1/a,b,c

Protec makes components for use in computers. The company is located in country Y where workers' wages are high. Table 1 gives data about Protec.

Table 1

Number of employees	Average weekly wage	Total output per
400	\$ 500	week [units]
		2400

(a) Calculate average labour productivity for Protec.

.....
..... [2]

(b) Identify two reasons why labour productivity is important for Protec.

Reason 1:
.....
Reason 2:
..... [2]

(c) Identify and explain two ways Protec could increase the productivity in its factory.

Way 1:
.....
Explanation:
.....
Way 2:
.....
Explanation:
..... [2]

22. O/N 13/P11/Q1/a,c,d

Earnshaw is a company that buys raw materials and components in bulk. It uses them to manufacture furniture using flow production methods. Productivity in the factory is high. Currently Earnshaw has high costs of holding stock. The Managing Director wants to introduce lean production methods.

(a) What is meant by 'productivity'?

.....
.....
.....
..... [2]

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(b) Identify and explain **two** features of flow production.

Feature 1:.....

.....

Explanation:

.....

Feature 2:

.....

Explanation:

.....

[4]

(c) Identify and explain **three** benefits to Earnshaw of using lean production methods.

Benefit 1:

.....

Explanation:

.....

Benefit 2:

.....

Explanation:

.....

Benefit 3:

.....

Explanation:

.....

[6]

23. M/J 13/P11/Q3/d

Sharma Machine manufactures motorcycles. The company is product orientated. Sharma Machine holds a lot of stock. The owner, Ishant, wants to increase productivity. Also the company plans to open an additional factory to satisfy increased demand. 'Expansion should mean economies of scale' said Ishant. 'The right location for the new factory is going to be important if the business is to remain competitive.'

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(a) Identify and explain three methods that Ishant could use to increase productivity.

Method 1:

.....

Explanation:

.....

Method 2:

.....

Explanation:

.....

Method 3:

.....

Explanation:

.....

[6]

24. O/N 12/P12/Q2/a

Just4U manufactures motor car parts. The production methods are capital intensive. The management believes that the company benefits from economies of scale. However, problems with the workers in the factory have led to poor quality production. Despite this, the Managing Director believes that the company must continue to grow if it is to achieve its objectives. The business is planning a takeover of a competitor.

(a) What is meant by 'capital intensive'?

.....

.....

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.....

[2]

25. O/N 12/P11/Q2/a,d,e

Gresham Textiles manufactures high quality clothing. Production is labour intensive. Managers are paid more than production line workers in the factory. The business is investing in automated machinery. The management also wants to introduce lean production methods.

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(a) What is meant by 'labour intensive'?

.....
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..... [2]

(b) Identify and explain **two** ways lean production methods could reduce costs in the factory.

Way 1:

Explanation:

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.....
.....

Way 2:

Explanation:

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[6]

(c) Do you think that a change to automated methods of production would benefit **customers** of Textiles? Justify your answer.

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..... [6]

26. M/J 12/P12/Q2/a,c

Bray Electrics is a large manufacturing company. The company makes engine parts for the car industry using batch production. The Managing Director is always looking for ways to introduce new technology in the business. He believes 'our workers like change'. He is interested in using lean production methods.

(a) What is meant by 'batch production'?

.....

.....

.....

..... [2]

(b) Identify and explain **two** benefits of lean production for a business.

Benefit 1:

.....

Explanation:

.....

Benefit 2:

.....

Explanation:

..... [4]

27. M/J 12/P11/Q1/a,e

IRKAM is a company that produces high quality doors for hotels and offices. The company currently uses job production. The Managing Director Abdul, believes that quality control is important. He is looking for ways to increase productivity. All workers receive on-the-job training. Abdul is thinking of including off-the-job training as well.

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(a) What is meant by 'productivity'?

.....
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.....
.....

[2]

(b) Over the past three years there has been a large increase in demand for IRKAM's doors. Do you think job production is still the best method of production for IRKAM? Justify your answer.

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[6]

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Answer Section

1. O/N 17/P12/Q2/d,e

- (a) Knowledge [2 × 1] – award 1 mark for one advantage and one disadvantage identified [6]

Application [2 × 1] – award 1 mark for each relevant reference made to this business

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

Possible points might include:

Advantages:

- Meet exact customer demands OR unique [k] so able to charge higher price [an] in a niche market [app]
- Flexible [k] which can help them remain competitive [an] in the shoe market [app]
- More varied work leads to higher motivation [k] leading to fewer workers leaving OR less absenteeism [an]
- Skilled workers are less likely to make mistakes [k]

Disadvantage:

- Skilled labour costs more [k] as employ 30 employees [app] which increases labour OR training costs [an]
- Production can take longer [k] for a high quality product [app] which reduces (potential) output [an]
- No economies of scale possible [k] when buying raw materials [app] leading to higher costs [an]
- Costs are higher as it is often labour intensive [k]
- Products are made to order so mistakes can be expensive to correct [k]

- (b) Knowledge [1] – award 1 mark for identification of relevant points (s) [6]

Application [1] – award 1 mark for relevant reference made to this business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether CGM should introduce new technology into the production process

Relevant points might include:

- High cost of equipment or retraining [k] at \$30 000 [app] which business might not be able to afford [an]
- Ensure **consistent** quality [k] as machines do not need to rest [an]
- Using cheaper raw materials puts quality at risk [k] [app]
- Increased output OR quicker production OR increased productivity [k] reducing unit costs [an] so able to increase profit [app]
- Impact on motivation of employees [k] e.g. as jobs will go from 30 to 26 [app] as work could become less interesting [an]

- workers may struggle to adapt OR resist new training [k]
slowing production OR decreasing productivity [an]
- Risk to reputation [k] in this niche market [app] could lead to fewer sales [an]
- Risk of job insecurity [k] could lead to other workers leaving as well [an]
- Fewer employees needed [k] as 4 less [app + an] so lower labour costs [an]

2. O/N 17/P11/Q2/a,d,e

- (a) Clear understanding [2] e.g. a measure of the output of a business in relation to its inputs [2] [2]
OR effective utilisation of resources in a timeperiod [2]
Equation: output divided by Input [2]

Some understanding [1] e.g. output per worker OR measure of efficiency OR rate at which they produce goods

- (b) Knowledge [2 × 1] – award 1 mark for one advantage and one disadvantage identified [6]
Application [2 × 1] – award 1 mark for each relevant reference made to this business
Analysis [2 × 1] – award 1 mark for each relevant explanation

Possible points might include:

Advantages:

- ∞ Lower inventory holding costs [k] help reduce variable costs [an]
- ∞ Lower security OR rent costs OR insurance [k] as less space needed [an] for ingredients [app]
- ∞ More flexible [k] as adapt to each different batch [app] to keep customers returning [an]
- ∞ Help cash flow [k]
- ∞ Less risk of waste OR damage OR obsolescence [k] which could lower productivity [app]

Disadvantages:

- ∞ Possible delays in production [k] as batches delayed [app] leading to lower output [an]
- ∞ Few OR no purchasing economies of scale [k] which could help reduce cash outflows [app]
- ∞ Not able to meet orders [k] for cookies [app] so could damage reputation [an]

- (c) Knowledge [1] – award 1 mark for identification of relevant points (s) [6]
Application [1] – award 1 mark for relevant reference made to this business
Analysis [2] – award up to 2 marks for relevant development of points (s)
Evaluation [2] award up to 2 marks for justified decision as to whether paying higher wages is the best way for NMBJ to improve employee motivation

Points might include

- Only a short term incentive [k] have to pay, whatever the output [an]
- Money is the main motivator [k]
- Other ways to motivate e.g. job rotation, enrichment, fringe benefits [k]
- Help retain workers [k] so not as many people leave [app] leading to lower recruitment costs [an]
- This will increase costs for the business [k] by \$15 000 per month [app] so output per worker would need to rise [an]

3. M/J 17/P12/Q2/d**[6]**

- (a) Knowledge [2 × 1]: award 1 mark for one relevant advantage and one disadvantage identified

Application [2 × 1]: award 1 mark for each relevant reference made to this business

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

Advantages might include:

- ∞ Flexible OR easy to switch production [k] to help meet changes in demand [an] for the 15 different sizes [app]
- ∞ Variety of products [k] leading to possibly more sales [an] of tyres [app]
- ∞ Some variety in workers' jobs [k]
- ∞ Some economies of scale [k] helping reduce unit cost [an]
- ∞ Less effect on production if machinery breaks down [k]
- ∞ Spread risk as not focusing on only one type of product [k]

Disadvantages might include:

- ∞ Time lost switching OR reset machines between batches [k] could lead to lower productivity / lost output [an]
- ∞ A fault with one product is likely to affect entire batch [k] which could increase waste [an]
- ∞ Inventory (Stock) may be sitting around between stages [k]
- ∞ Added cost of moving OR storing semi-finished goods [k]
- ∞ Demotivating for employees as work is repetitive [k]

4. M/J 17/P12/Q1/e**[6]**

- (a) Knowledge [1]: award 1 mark for identification of relevant point(s)

Application [1]: award 1 mark for a relevant reference made to this business

Analysis [2]: award up to 2 marks for relevant development of point(s)

Evaluation [2]: award up to 2 marks for justified decision made as to whether Cheung should change his supplier

Points might include:

- ∞ Build relationship with supplier [k] in the nearby town [app]
- ∞ Wholesaler offers choice OR variety OR feedback [k] which could help increase revenue [app]
- ∞ Wholesaler breaks bulk [k] helpful for a small shop [app] as do not have to worry about storing additional stock [an]
- ∞ More time OR paperwork [k] if buy from manufacturer overseas [app]
- ∞ Cheaper to buy direct [k] from overseas manufacturer [app] as do not have to pay anything to third party [an]
- ∞ Purchasing economies of scale OR buy in larger quantities when buy direct [k] leading to lower average costs [an] of its clothing [app]
- ∞ Quicker access to inventory (stock) [k] from wholesaler [app] so can satisfy any increases in demand [an]
- ∞ Not able to check quality [k] as manufacturer is based in another country [app]

5. M/J 17/P11/Q4/e**(a) Knowledge [1] : award 1 mark for identification of relevant point (s) [max 1] [6]**

Application [1] : award 1 mark if relevant reference made to this business

Analysis [2] : award up to 2 marks for relevant development of point(s)

Evaluation [2] : justified decision made as to whether GKK should introduce this technique

Points might include:

- ∞ Just in Time inventory control [k] which would help reduce storage costs [an]
- ∞ Kaizen /continuous improvement [k] by using delegation [app]
- ∞ Cell production [k]

6. O/N 16/P12/Q3/a**(a) Clear understanding [2]: where a single product is made at a time OR makes one product from start to finish (before starting the next one) OR produce a personalized product individually [2] [4]**

Some understanding [1]: e.g. identifies one distinctive feature of job such as products are made to the specific customer design; often labour-intensive; highly skilled workers; high quality, single product, flexible

7. M/J 16/P12/Q1/c,d**(a) Knowledge [2 × 1] – award 1 mark for each relevant problem [max 2]. Application [2 × 1] – award 1 mark for each explanation in context. [4]**

Relevant points might include:

- Cash flow/liquidity problems/tie up working capital [k]
- Additional storage costs [k] as need more factory space for storing vehicles [app]
- Additional security costs/risk of theft [k] to protect valuable engine/car parts [app]
- Risk of wastage/damage [k] as might want to bring out a new model [app]
- Opportunity cost [k] resources could be used elsewhere to become more efficient [app]
- Lack of space for production [k]
- Insurance costs [k].

(b) Knowledge [2 × 1] – identification of relevant way [max 2]. [6]

Application [2 × 1] – award 1 mark for relevant reference to this business

Analysis [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include:

- Increase in capital intensity OR automation OR introduce new technology [k] so can benefit from economies of scale [an] when making cars [app]
- Introduce just-in-time [k] helps reduce inventory [app] lowering cost [an]
- Kaizen [k]
- Improve layout of machines [k]
- Improve quality control/assurance [k] to reduce level of waste [an]
- Training [k] so remaining 840 workers [app] can work faster [an]
- Specialisation [k] as have skilled workers [app] prevents the need for rework [an]
- Improve communication [k]
- Better management [k]
- Improve motivation (or identifies possible ways to do this such as performance related pay) accept only once.

8. M/J 16/P11/Q4/d

- (a) Knowledge [2 × 1] – award 1 mark for each relevant advantage identified [max 2]. [6]
 Application [2 × 1] – award 1 mark if relevant reference made to Nuwan's business.
 Analysis [2 × 1] – award 1 mark for each relevant explanation. Reasons might include:
- Better service [k] – all employees are trained [app] so able to maintain customer loyalty [an]
 - Flexible [k] – able to react quickly to changes in customer requirements [an] if customers want a different cricket product [app]
 - Leaner management [k]. Nuwan only has his 3 employees to inform/ask [app] so able to make decisions quicker [an]
 - More control [k] as he owns the business [app]
 - Better communication [k]
 - Specialised knowledge [k] as a sports shop [app] so will attract more customers [an].

9. M/J 16/P11/Q3/d,e

- (a) Knowledge [2 × 1] – identification of relevant advantage [max 2]. [6]
 Application [2 × 1] – award 1 mark for each way if relevant reference made to this business.
 Analysis [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include:
- Less inventory held [k] so less chance of wastage [an] as drinks could go out of date [app]
 - Lower costs [k] as don't have to spend as much on insurance [an] which will help reduce expenses [app]
 - Less warehouse space [k] so have more space available [an] so have room to introduce flow production process [app]
 - Improve working capital [k] as less money tied up in inventory [an] which can help improve gross profit [app]
 - Improve cash flow [k]
 - Increased motivation [k] as the idea came from one of the employees [app] and therefore productivity could improve [an]
 - Improved quality [k] as ingredients are fresher [app] so increase in sales [an].

- (b) Knowledge [1] – award 1 mark for identification of relevant points about batch or flow production. Positive or negative points allowed. [6]
 Application [1] – award 1 mark if relevant reference made to this business.
 Analysis [2] – award up to 2 marks for relevant development of point(s).
 Evaluation [2] – justified decision made as to whether the business should change to flow production. Either viewpoint is acceptable.
 Relevant points might include:
- Depends on level of demand/size of market [k]
 - Economies of scale [k]
 - Workers might become demotivated [k] as work is more repetitive than batch [app] so they become less productive [an]
 - Cost of investment [k] as only a small business [app] do they have the necessary finance [an]?
 - Inflexible [k] as make a range of flavours [app] so might not be able to easily switch to meet demand [an]
 - Workers may fear redundancy [k] as machines replace them [an] so less than 40 employees needed [app].

10. O/N 15/P12/Q3/a,b

- (a) Clear understanding [2] e.g. where large quantities of a product [1] are produced in a continuous process [1] [2]
Some understanding [1] e.g. 'makes lots of the same thing' OR identifies one distinctive feature e.g. large scale production/large volumes, identical products, continuous production, capital intensive, repetitive tasks, inflexible.
Do not credit examples as this does not answer the question.
- (b) Application [2] e.g. 60 (cars per employee) [2]
Some application [1] e.g. method = total output/number of employees OR 168 000/2 800

11. O/N 15/P12/Q2/c

- (a) Knowledge [2 × 1] – award 1 mark for each relevant benefit [max 2]
Application [2 × 1] – award 1 mark for each relevant explanation in context of this business
Relevant points might include:
- Gain economies of scale/bulk buy [k] so can increase scale of production [app]
 - Can meet orders/inventory always available [k] as demand is rising [app]
 - Production does not need to stop [k] so can keep making furniture [app]
 - Avoid supply problems [k] as some types of wood might be difficult/long time to obtain [app]
- Application could include: use of numbers, demand risen (rapidly), furniture, factory, tables, chairs, wood.

12. O/N 15/P11/Q1/c

- (a) Knowledge [2 × 1] – award 1 mark for each relevant advantage [max 2] [4]
Application [2 × 1] – award 1 mark for each relevant explanation in context of TWH
Relevant points might include:
- some variety in workers' jobs [k] leading to better motivation [app]
 - allows more variety of products to be made [k] so can respond to changes in demand for different toys [app]
 - if machinery breaks down other work can continue [k] so could improve efficiency [app]
 - flexible way of working [k]
 - economies of scale/bulk buying [k] so lower average costs [app]
 - More output than job production [k]
- Application marks may be awarded for appropriate use of the following: relevant use of numbers, toys, motivation, average cost, efficiency, new technology
Do not accept cheaper, faster, more output (if just this is stated)

13. M/J 15/P12/Q3/d

- (a) Knowledge [2 × 1] – identification of relevant disadvantage [2] [6]
Application [2 × 1] – award 1 mark for each way if relevant reference made to this business
Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. why it is an disadvantage to a business)
Relevant points might include:
- May not stock all / latest products [k] so can't get all the hair products wanted [app] so wastes time looking elsewhere [an]
 - More expensive [k] which could push up her costs [an]
 - Take longer to receive stock [k] as many stages in distribution process [an] so large rival businesses might offer latest hair products first [app]

- Has to buy more than she wants / can't just buy one [k] could be more than she can afford [an] so less money to spend promotion / her new business [app]
- No direct contact with manufacturer [k] so cannot tell them what needed [an] so cannot build customer relations with her customers [app]

Do not accept high storage costs as not relevant to this business

Do not accept 'has to buy in bulk / large amounts' as the role of the wholesaler is to break bulk

Application marks may be awarded for appropriate use of the following: appointments, shampoo, haircuts, new business, (trying to build) customer relations

14. M/J 15/P12/Q4/c

(a) Knowledge [2 × 1] – award 1 mark for each advantage [max 2] [4]

Application [2 × 1] – award 1 mark for each relevant explanation in context of this business

Relevant points might include:

- Provides a clear idea of what job involves [k] so they can select the best pilots [app]
- Saves time / money / makes selection easier [k] as won't get applications from people who cannot fly planes [app]
- As a basis for drawing up a contract [k] so sure that all duties will be carried out on-board [app]
- Helps decide basis for pay [k]
- Help create person specification [k]
- Helps create appropriate job advert [k]
- Helps resolve disputes [k] between managers and pilots [app]

Do not accept advantages to employees. Candidates must not refer to person specification

Application marks may be awarded for appropriate use of the following: flights, on-board, planes or aircraft, airline, pilots

15. M/J 15/P11/Q4/a,b,e

(a) Clear understanding [2]: e.g. products are made in groups/blocks [1] followed by another [2] block/group [1]

Some understanding [1]: identifies one distinct feature of batch e.g. made in (small) groups or sets

Do not accept 'batch' as part of answer as stated in question.

(b) Application [2 × 1] award 1 mark per advantage [2]

Points include:

- less errors/wastage/consistent quality
- less risk of injury
- higher output
- able to make new products
- speed of production/efficiency
- 24/7 operation

Note: **do not** accept less wages or less employees as these are examples of cutting costs

(c) Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points allowed [max 1] [6]

Application [1] – award 1 mark if relevant reference made to Javid's business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether new technology would benefit Javid's workers. Candidate's final decision can be either for or against the statement.

Relevant points might include:

- need for re-training [k] which could create opportunities for promotion [an]
- impact on motivation (either positive or negative) [k]
- fear of change [k] as production process likely to change how they do things [an]
- fear of redundancy/job losses as machines replace jobs [k] could decrease motivation [an]
- less skills needed [k] so could mean lower wages [an] leading to lower living standards [an]
- opportunities to learn new skills [k] because they make new types of chocolate [app]
- chances for promotion [k] as new job roles created [an]
- safer conditions [k] in the manufacturing process [app] so less risk of injury [an]
- company survives [k] because they remain competitive [app] so workers keep their jobs [an]

Note: Do not accept points such as 'more efficient' unless clearly link issue to employees. Application marks may be awarded for appropriate use of the following: chocolates, sales falling, need to cut costs, increased competition

Note: Answer must focus on the benefit or not to the workers

16. O/N 14/P12/Q5/d

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

Application [2 × 1] – award 1 mark if relevant reference made to a manufacturing business [6]

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. focus on how the method identified generates the improvement in productivity)

Points might include:

- Increase in capital intensity OR automation OR introduce new technology [k] as machines don't have to take breaks/can work longer periods [app] so able to produce more in same amount of time [an]
- Improve quality control / assurance [k] to reduce level of waste [an]
- Changes in working practices/Improve layout of machines [k] so less wasted time moving between different areas [an]
- Improve inventory (stock control)/introduce JIT [k] so materials are available when needed [app]
- Train workers [k] so understand what they are doing better [an] so use less materials [app]
- Improve motivation (once only) [k] such as offer more holidays [app] so workers have incentive to work harder [an]
- Use of payment methods (once only) e.g. Bonuses/Piece rates [k] as workers try to produce more parts/products [app] to earn more money [an]
- Cell production/kaizen [k] as it allows employees to discuss/solve problems affecting production [app].

Accept introduce lean production [1] if no specific examples are given.
Do not accept division of labour as this is already a large manufacturing business.

17. O/N 14/P11/Q4/d

(a) Knowledge [2 × 1] – award 1 mark for each reason identified.

Application [2 × 1] – award 1 mark if relevant reference made to this business/manufacturer. [6]

Analysis [2 × 1] – award 1 mark for each relevant explanation (show how it will help increase output per employee).

Points might include:

- Switch to piece rate [k] rather than pay low wages [app] as workers might produce more in order to gain more money [an]

- Increase pay [k] which improves motivation [app] so workers produce more per hour [an]
- Better working conditions to improve morale [k] as they are currently poor [app]
- New and better machinery
- Training [k] improves motivation [app]
- Reduce working hours
- Implement health and safety laws [k] which are currently ignored [app]
- Change management style [k] to democratic rather than autocratic [app] so that workers feel involved and more willing to work [an].

18. M/J 14/P12/Q2/c

- (a) Knowledge [2 × 1] – award 1 mark for each relevant benefit. [4]
Application [2 × 1] – award 1 mark for each relevant explanation in context.

Relevant points might include:

- Quantity is still limited [k] so able to check reaches luxury standard [app]
- Some economies of scale are possible [k] so able to reduce unit costs of each coat [app]
- Can add some variety into products [k] so customers can have choice of coats [app]
- Flexibility/easy to switch [k] as able to quickly change production to meet new design [app]

Do not accept cheaper/less waste/consistency of product as all too vague.
Points must be related to business not employees.

19. M/J 14/P12/Q3/c

- (a) Knowledge [2 × 1] – award 1 mark for each relevant advantage.
Application/analysis [2 × 1] – award 1 mark for each relevant explanation.

Relevant points might include:

- Saves storage costs [k] so less capital tied up in stock [an]
- Reduces the risk of obsolete stock [k] as cameras have a short life cycle [app]
- Saves space [k] as larger part of factory can be used for the machinery [app]
- Lower rent as less space needed [k] so lower fixed costs [an]
- Reduction in waste [k] so can save money on expensive components [app]
- Cutting out some processes [k] so quicker production of cameras [app]
- Better use of equipment [k]

Do not accept points such as 'increased efficiency' or 'better motivation' for knowledge [tv].

20. M/J 14/P12/Q5/c

- (a) Knowledge [2 × 1] – award 1 mark for each advantage [4]
Application [2 × 1] – award 1 mark for each relevant explanation in context.

Reasons might include:

- Costs are kept low [k] so might be able to reduce its prices [app]
- Capital intensive production [k] to help lower cash outflows for labour costs [app]
- Able to employ unskilled workers [k] as they only have to oversee the paint making machines [app]
- Goods can be produced quickly [k] so might help improve its cash inflows [app]
- Consistent/uniform standard of products [k] help to retain quality reputation [app]
- Production can continue 24/7 [k]
- Highest output [k] or higher output than batch production [k]
- Economies of scale [k] so able to reduce cash outflows [app]

Do not accept 'increased output' as too vague.

21. O/N 13/P12/Q1/a,b,c

(a) **Correct answer [2]:** 6 (units per worker) [2]
Method only [1]: e.g. Total output/number of employees OR 2400/400 OR \$6

(b) **Knowledge [2 × 1]** one mark per reason

Reasons include:

- Impact on unit costs
- Improve profit margin
- Shows effective use of resources OR efficiency [2]
- Help increase competitiveness of business/meet demand of customers
- Increase output
- Help identify poor performing workers/indicate problems with morale
- Basis for calculating wages or pay

Do not accept increase profits/sales [tv]

(c) **Knowledge [2 × 1]** – award 1 mark per way [4]

Application [2 × 1] – award 1 mark for each relevant explanation i.e. show how the method increases productivity. Explanation should refer to productivity not production in general

Methods could include

- Increase in capital intensity OR automation OR introduce new technology [k] as machines work faster/more accurately than people [app]
- Improve quality control/assurance [k] to reduce level of waste [app]
- Improve layout of machines [k] to reduce wasted time moving between the equipment [app]
- Improve inventory (stock control)/introduce JIT [k] so materials are available when needed [app]
- Train workers [k] so understand what they are doing better/improve performance [app]
- Improve motivation (once only) [k] as it will make employees work harder [app]
- Piece rates [k] as workers will produce more to earn more [app]
- Cell production/kaizen [k] as it allows employees to discuss/solve problems affecting production [app]

Accept introduce lean production [1] if no specific examples are given

22. O/N 13/P11/Q1/a,c,d

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

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) **Knowledge [2 × 1]** – award 1 mark per feature [max 2] [4]

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.

- (c) **Knowledge/application [3 × 1] – award 1 mark per benefit [6]**
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.

23. M/J 13/P11/Q3/d

- (a) **Knowledge [3 × 1]: identification of method [1 mark per method] [6]**
Application/analysis [3 × 1]: explanation of how method could help improve productivity
 Points could include:
- **replace workers with machines [k] – no need to rest/no drop in quality due to tiredness [an]**
 - **introduce more up to date technology [k] as less likely to break down [an]**
 - **improve stock control/JIT [k] order only materials required so less time wasted [an]**
 - **improve quality control [k] so less rework required/workers take more care [an]**
 - **improve employee motivation (accept a practical example such as increased pay) [k] so workers work faster to increase number produced [an]**
 - **train staff [k] to be more efficient – so less mistakes/wasted resources [an]**
 - **use TQM [k] so workers are more responsible for work [an]**
 - **changing the way work is organised e.g. Kaizen, lean production, cell production**

24. O/N 12/P12/Q2/a

- (a) **Clear understanding [2] Capital intensive implies production processes where machinery and technology are the dominant resource input. [2]**
 If comparison made to labour, can gain 2 marks e.g. uses capital instead of labour.
 Some understanding [1] e.g. use machines/little labour used.
 Do not accept 'based on capital' as too vague.

25. O/N 12/P11/Q2/a,d,e

- (a) **Clear understanding [2] Some understanding [1] [2]**
 Labour intensive implies that labour resource input is the key resource used in the business. [Some comparison with say other resources such as capital will gain full marks.] It also implies that labour costs are the dominant cost of the business.
 Simple understanding shown by answers like – the business uses a lot of labour [1]
- (b) **Knowledge [2 × 1] – award 1 mark for each way [6]**
Application/analysis [2 × 2] – for showing how these factors result in lower costs
 Lean methods would:
- Reduce waste
 - Minimise stocks [JIT]
 - Matches production to demand. [No finished goods stock]
 - Reduce time
- So for example holding less inventory stock would reduce costs because less capital would be tied up and hence overdraft levels would be lower. Holding less stock would also save money [reduce costs] because less storage space would be needed and hence areas released can be put to more productive use. Holding less stock might also reduce insurance premiums and this too would reduce costs of the business.
 Stock related points can be accepted twice if focus is clearly different e.g. space saving and insurance reduced.
 Points MUST be linked to lean production methods to be rewarded. So for example saying cheaper or more efficient can be credited only if the explanation shows how.

- (c) Knowledge [2] [6]
 Application/analysis [2]
 Evaluation [2]
 Knowledge points could include:
- Methods should result in lower costs and hence lower prices
 - Uniform standard of products
 - Quality standards should be constant
 - Improved availability
- Alternatively a candidate might refer to:
- High quality clothing is often individually made and unique so may no longer meet the needs of customers
 - Production costs might rise in the short term which may result in higher prices
- Explanation to show how the customer is affected by the change to automated production. E.g. they might benefit due to the products being potentially cheaper to manufacture.
 Evaluation: The answer needs to show some judgement on the impact of the change on the customer. Thus lower costs do NOT automatically lead to lower prices so the company might benefit but not the customer.
 Note 1. The focus of the answer MUST be on the customer not the company.
 Note 2. It is NOT necessary to cover both the pros and the cons for the customer for full marks.

26. M/J 12/P12/Q2/a,c

- (a) Clear understanding [2]: e.g. products are made in groups [1] of items of a certain amount, usually to meet a specific order/as orders come in [2]
 OR identifies two distinctive features of batch production.
 Some understanding [1]: identifies one distinct feature of batch e.g. made in (small) groups.
 Do not accept 'batch' as part of answer as stated in question.
 Do not accept examples on own.
- (b) Knowledge [2 × 1]: award 1 mark per relevant advantage. [4]
 Analysis [2 × 1]: award 1 mark per relevant explanation (i.e. how it helps a business).
 Benefits might include:
- reduction in waste [k] can lead to improved efficiency [an]/lower production costs [an]
 - by being involved in process workers are motivated [k] could lead to better quality [an]
 - reduced stock holding costs [k] as lower levels of stock required on site [an]
 - less resources required as less waste [k] so lower cost [an]
 - less operational space needed as production is better organised [k] which could lower fixed costs [an].
- Points must be linked to lean production to be credited.
 Do not accept simple statements as faster/cheaper/more output/more efficient/time saving/motivated unless explained.
 Do not accept identification of methods e.g. JIT/Kaizen/TQM.

27. M/J 12/P11/Q1/a,e

- (a) Clear understanding [2] e.g. a measure of the output of a business in relation to its inputs [2] or effective utilisation of resources/in a time period [2]
 Some understanding [1] e.g. output per worker/measure of efficiency/rate at which they produce goods.

(b) Knowledge [2]: outlines methods of production/identification of issues concerning job production. **[6]**

Analysis [2]: develop or explain point to show why it is an issue.

Evaluation [2]: reasoned judgement made as to whether 'job' is still best method for IRKAM to use.

For two evaluation marks, the answer must be clearly in the context of this business.

Either viewpoint is possible depending on points discussed.

Points might include:

- nature of product – are doors standard or one off orders
- can he meet demand if continue to use job production?
- costs of changing process
- training required for workers
- possible financial costs of purchasing new equipment
- frequency of orders
- number of doors made

Context could include: high quality; quality control is important; looking for ways to increase productivity.

4.2: Costs, Scale of Production and Break-Even Analysis

1. O/N 17/P12/Q1/b,c

FlyAway is an airline business. It is in the tertiary sector. It offers low-price flights for business customers in country J. Customers have to pay extra for luggage and food on the flight. It is a very competitive market. The Marketing manager knows that improving customer service is important. Bookings and advertising are done through FlyAway's ticket shops and its website. The Marketing manager cannot decide whether to close its ticket shops and use only e-commerce.

Table 1: Selected information about two of FlyAway's routes

Route	Average number of passengers per flight	Average price per ticket (\$)	Break-even number of passengers per flight
1	85	80	70
2	110	60	90

(a) Calculate the revenue gained from an average flight on route 2.

.....

.....

.....

.....

[2]

(b) Identify and explain **two** ways in which break-even information could help FlyAway.

Way 1:.....

.....

Explanation:.....

.....

Way 2:.....

.....

Explanation:.....

.....

[4]

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2. O/N 17/P12/Q2/b

CGM makes high quality shoes using job production. The production method makes use of specialisation. CGM operates in a niche market. CGM managers know that all business activity creates external costs, so they always try to act in ways that protect the environment. The Operations Director wants to increase profit. CGM could either buy cheaper raw materials or introduce new technology into the production process. The new technology would cost \$30 000 and could reduce the number of employees from 30 to 26.

(a) What is meant by 'external cost'?

.....
.....
.....
.....

[2]

3. O/N 17/P11/Q3/a

GDC is a transport delivery business in country Z. It operates in a competitive market. GDC has 5000 employees and 1000 delivery vehicles. GDC's organisational structure has many levels of hierarchy with a long chain of command. The managers use an autocratic leadership style. Last year GDC delivered 2 billion parcels for businesses. The Managing Director said: 'Having a good reputation is important. We have also benefited from economies of scale'. GDC wants to expand its operations to another country, but cannot decide the best way to do this.

(a) What is meant by 'economies of scale'?

.....
.....
.....
.....

[2]

4. M/J 17/P12/Q1/d

Cheung owns a small retail shop in the city centre selling fashion clothing for children. As it is a competitive market, Cheung knows market research is important. Cheung is worried about the effect of an increase in shop rent on his costs. Cheung said: 'I will have to pay this higher rent as it is a good location. I need to increase revenue or reduce other costs.' Cheung buys all his supplies from a wholesaler located in a nearby town. He is thinking of buying directly from a clothing manufacturer in another country.

(a) Identify and explain **two** ways that retail shop could use to increase revenue.

Way 1:

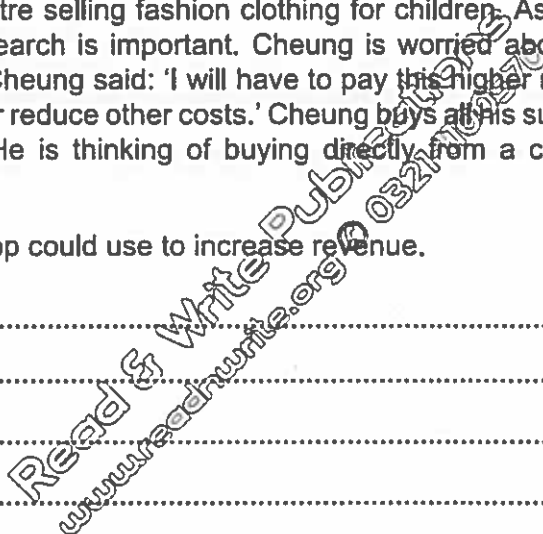
.....

Explanation:

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.....

.....



Way 2:

.....

Explanation:

.....

.....

..... [6]

5. O/N 16/P11/Q4/b

DCP makes a range of high quality industrial paints. It sells direct to 6 large business customers which are located in different countries. DCP charges a price of \$0.35 per litre. It operates in a competitive market. The Operations manager has been looking at DCP's costs as shown in Table 2. He wants to increase profit but he does not want to buy cheaper materials.

Table 2: Output and cost information for DCP per week

Output (litres)	1 500 000
Total fixed costs (\$)	350 000
Total material costs (\$)	60 000
Total labour costs (\$)	40 000

(a) Calculate DCP's average cost per litre.

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.....

.....

..... [2]

6. O/N 15/P12/Q2/d

CLW makes wood furniture, including chairs and tables. Demand has risen quickly over the past 3 years and the business needs to increase the scale of production at its factory. The factory is located near the city centre in an area of low unemployment. The Finance Director has produced a business plan, including a balance sheet. The Finance Director is pleased with CLW's liquidity.

Table 1: Extract of financial information

	2013	2014
Non-current (fixed) assets (\$m)	240	260
Current assets:		
Inventory (stock) (\$m)	180	330
Trade receivables (debtors) (\$m)	320	240
Cash (\$m)	100	90
Total current assets (\$m)	600	660
Current Liabilities (\$m)	480	440
Current ratio	1.25:1	?
Acid test ratio	0.875:1	?

(a) Identify and explain two factors (other than finance) that business management need to consider when increasing the scale of production.

Factor 1:

.....

Explanation:

.....

.....

Factor 2:

.....

Explanation:

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.....[6]

7. O/N 15/P11/Q1/a,b

TWH makes a range of toys using batch production. TWH's Managing Director, Dylan, plans to invest in new technology to reduce average costs. 'It's the only way to increase efficiency as I do not know how we can improve employees' motivation' he said. Dylan cannot decide on whether it would be better to use retained profits or a long term loan as the source of finance.

Table 1: Data for 2014

Number of toys made per week	260 000
Number of employees	500
Average wage per hour paid by TWH	\$8
Average wage per hour paid by similar businesses	\$6.50

(a) What is meant by 'average cost'?

.....

.....

.....

.....[2]

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(b) Calculate the output per employee per week in 2014.

.....

[2]

8. O/N 15/P11/Q2/c

Ramford is a private limited company. It has four factories which make a wide range of food products including breakfast cereal and ice cream. The Finance Director is worried about the company's financial performance. She has read that many businesses failed in the last year. 'I think we are suffering from diseconomies of scale' she said. Ramford's directors have decided to cut the number of different products it makes from 80 to 10.

Table 2: Extract from accounts

	2013	2014
Revenue (sales) (\$m)	200	150
(Net) profit (\$m)	70	60
Capital employed (\$m)	280	300
(Net) profit margin	35%	?
Return on Capital Employed	25%	?

(a) Identify and explain two diseconomies of scale that Ramford might be experiencing.

Diseconomy 1:.....

 Explanation:.....

 Diseconomy 2:.....

 Explanation:.....
[4]

9. M/J 15/P12/Q1/b,c

PJK makes a range of luxury sports watches. Each watch is handmade by skilled workers. Quality assurance is important. The Operations Director has been looking at costs and prices as he wants to do a break-even analysis. This data is shown in Table 1. He is planning to invest in new technology to automate parts of the production process. The Operations Director thinks this is the best way to improve profitability.

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Table 1: Costs and revenue (\$)

Price per watch	\$100
Variable cost per watch	\$50
Annual sales	6000
Annual fixed costs	\$200 000

(a) Identify **two** ways in which break-even analysis might be helpful to PJK.

Way 1:

.....

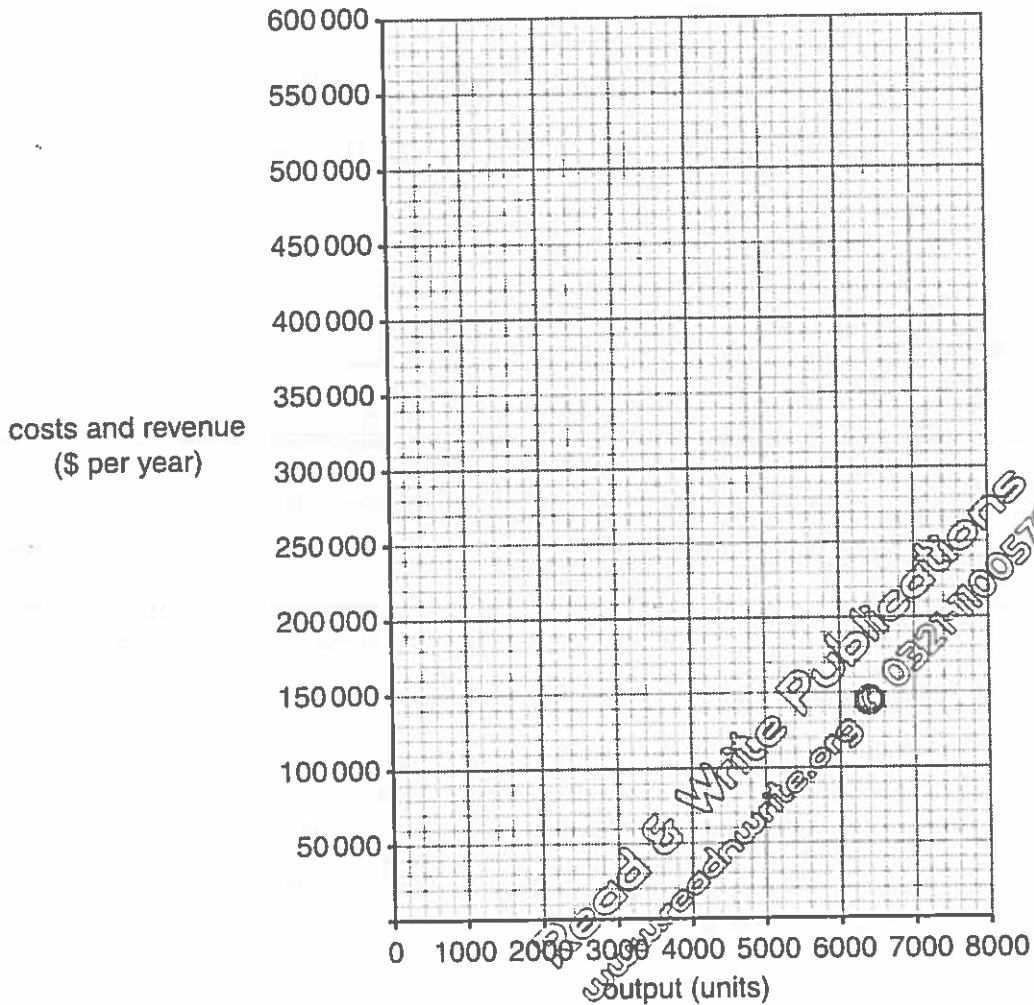
Way 2:

..... [2]

(b) Using the information in Table 1, draw a break-even chart for PJK on Figure 1.

[4]

Figure 1



10. M/J 15/P11/Q1/b,c,e

Gomez is the manager of a small computer repair business. Table 1 shows some costs and prices for his business. As it is a competitive market, Gomez knows it is important to maintain customer loyalty and revenue. Gomez knows that a lower break-even point would help improve profits. He thinks the best way to lower the break-even point is to raise prices.

Table 1: Cost and price information

Price per customer	\$30
Variable cost per customer	\$20
Average number of customers per month	140
Monthly fixed costs	\$1000

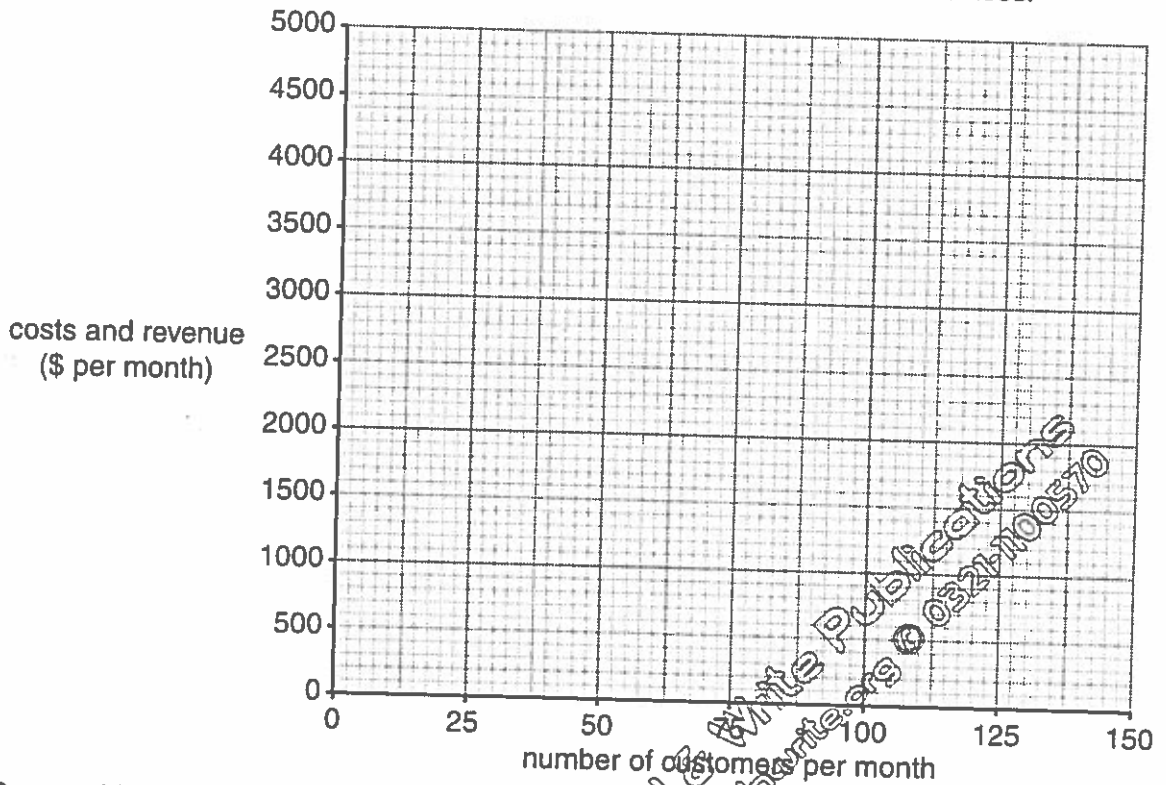
(a) What is meant by 'variable cost'?

.....

.....

..... [2]

(b) Using the information in Table 1, draw a break-even chart for Gomez's business. [4]



(c) Gomez thinks the best way to lower the break-even point is to raise prices. Do you agree? Justify your answer.

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..... [6]

11. O/N 14/P12/Q5/c

Ali has just been appointed as Managing Director of Anypart, a large manufacturing business. He told Anypart's Board of Directors: 'Behaving ethically will always lead to lower profits. I want our employees to work longer hours, have fewer holidays and become more productive. This will reduce costs of each unit of output and will benefit all our stakeholders'. Not all of the directors agreed with him.

(a) Identify and explain two benefits to Anypart of reducing costs of each unit of output.

Benefit 1:
.....

Explanation:
.....

Benefit 2:
.....

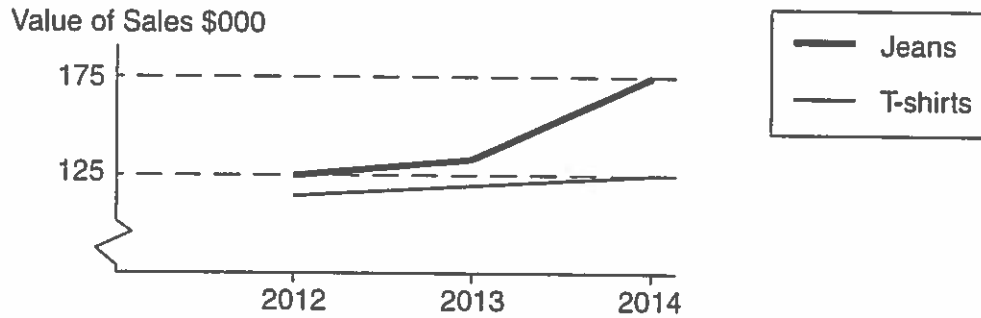
Explanation:
..... [4]

12. O/N 14/P12/Q3/b

Rhiannon Enterprises manufactures ladies clothes. Its best selling products are fashion jeans and T-shirts. Figure 1 shows sales data for these products. In 2014 the value of the sales of these 2 main products was 50% of the total sales of the business. The market for ladies' clothes is very competitive. In 2013 the business reduced the price of its jeans by 25%. It is now trying to find low cost suppliers of cloth to increase its profit margins. Sales of some other products have been falling despite Rhiannon Enterprises increasing advertising spending on them.

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Figure 1



(a) Calculate the total value of sales of Rhiannon Enterprises in 2014.

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.....

.....[2]

13. O/N 14/P11/Q2/a

Rakesh manages a car repair business in country Y. He buys cars that are damaged or have parts missing. Rakesh adds value by repairing these cars until they look like new ones. He employs 5 workers to do the repairs. The business holds a large stock of car parts and Rakesh always pays cash for these. However Rakesh's sales are usually on credit.

Table 1: Some information for a typical trading week

Cars bought by Rakesh	6
Average cost of each car	\$2000
Average cost of parts used per car	\$500
Weekly wages per employee	\$1000
Weekly fixed costs	\$4000
Average price per car sold	\$5000
Number of cars sold	

(a) What is meant by 'fixed costs'?

.....

.....

.....

.....[2]

14. O/N 14/P11/Q1/e

Lu is a sole trader. He manages a bakery shop making and selling bread and cakes. He employs 4 workers all of whom are paid on time rate. Lu wants to expand the business by buying a new shop and using it as a café (restaurant). He also wants to make a wider range of cakes, such as wedding and birthday cakes, for which he thinks there is a demand. At present the business sells all of the bread and cakes it makes.

(a) Do you think that Lu's business will be more profitable if he expands it by opening a café in a new shop? Justify your answer.

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[6]

15. M/J 14/P11/Q3/a,b

HPT makes frozen food products. The Finance Director wants to improve HPT's cash flow position. Table 1 is an incomplete cash flow forecast for the next 3 months. The Finance Director thinks HPT should not use expensive packaging. He is also worried that new Government health & safety laws will not benefit the company and will only add to its costs.

Table 1: Cash flow forecast (\$000's)

	Month 1	Month 2	Month 3
Opening balance	(50 000)	(30 000)	(40 000)
Cash inflows	200 000	180 000	280 000
Cash outflows:			
Wages	60 000	60 000	60 000
Packaging	20 000	20 000	20 000
Raw materials	45 000	55 000	45 000
Fixed costs	55 000	55 000	55 000
Total cash inflows	X	195 000	180 000
Total cash outflows			
Net cash flow	20 000	Y	20 000
Closing balance	(30 000)	(40 000)	(20 000)

Note: numbers in brackets are negative.

(a) Identify two fixed costs that HPT might have.

Fixed cost 1:

Fixed cost 2: [2]

(b) Calculate the following.

Month 1 total cash outflows (X):

.....

Month 2 net cash flow (Y):

..... [2]

16. O/N 13/P12/Q3/a,b

Harry owns a pizza restaurant in a large city. Table 2 gives financial data for the business in 2012.

Table 2

Selling price per pizza	\$8
Variable costs per pizza	\$5
Weekly fixed costs	\$2700
Weekly sales	1500 pizzas

(a) What is meant by 'variable costs'?

.....

.....

.....

..... [2]

(b) Identify two examples of fixed costs for Harry's business.

Example 1:

Example 2: [2]

17. M/J 13/P12/Q3/e

Emir is the Production manager at a large food production factory. He wants to lower average cost to help the business remain competitive. All workers are paid using time rate. Emir believes that good internal communication is important. The company has decided to stop importing raw materials as this causes a lot of problems. Emir must choose a suitable method of communication to tell the overseas suppliers of his decision.

(a) Explain two ways in which the Production manager could reduce average cost. Recommend which way should be used. Justify your answer.

Way 1:
.....
.....
.....

Way 2:
.....
.....
.....

Recommendation:
.....
.....
..... [6]

18. O/N 13/P11/Q1/b,e

Earnshaw is a company that buys raw materials and components in bulk. It uses them to manufacture furniture using flow production methods. Productivity in the factory is high. Currently Earnshaw has high costs of holding stock. The Managing Director wants to introduce lean production methods.

(a) Identify two advantages to Earnshaw of buying raw materials in bulk.

Advantage 1:
.....

Advantage 2:
..... [2]

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

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..... [6]

19. O/N 13/P11/Q2/a,b

Muammar sells boxes of spices to markets. Workers in Muammar’s business are paid on a piece rate basis. Table 1 gives financial details of the business in 2012.

Table 1

Fixed costs per month	\$10 000
Employee wages	\$2 per box
Raw materials	\$3 per box
Marketing costs	\$1 per box
Selling price	\$8 per box
Sales per month [average]	9000 boxes

(a) Identify two examples of fixed costs for Muammar’s business.

Example 1:

Example 2: [2]

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

Reason 1:

.....

Reason 2:

..... [2]

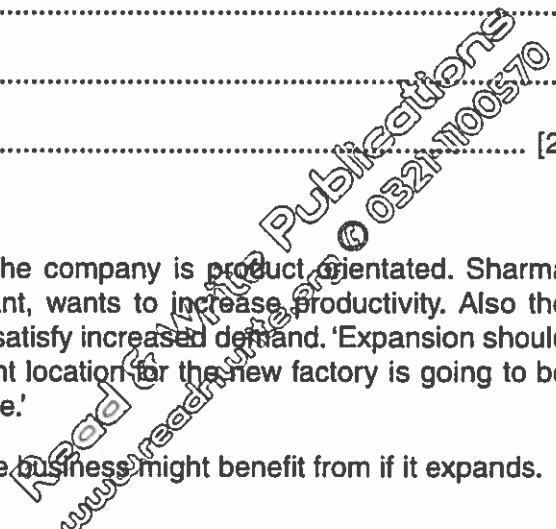
20. M/J 13/P11/Q3/b,c

Sharma Machine manufactures motorcycles. The company is product orientated. Sharma Machine holds a lot of stock. The owner, Ishant, wants to increase productivity. Also the company plans to open an additional factory to satisfy increased demand. ‘Expansion should mean economies of scale’ said Ishant. ‘The right location for the new factory is going to be important if the business is to remain competitive.’

(a) Identify two possible economies of scale the business might benefit from if it expands.

Economy of scale 1:

Economy of scale 2: [2]



(b) Identify and explain two possible problems for Sharma Machine of holding a lot of stock.

Problem 1:

.....

Explanation:

.....

Problem 2:

.....

Explanation:

.....[4]

21. O/N 12/P12/Q2/c

Just4U manufactures motor car parts. The production methods are capital intensive. The management believes that the company benefits from economies of scale. However, problems with the workers in the factory have led to poor quality production. Despite this, the Managing Director believes that the company must continue to grow if it is to achieve its objectives. The business is planning a takeover of a competitor.

(a) Identify and explain two economies of scale from which car parts manufacturer could benefit.

Economy of scale 1:

.....

Explanation:

.....

Economy of scale 2:

.....

Explanation:

.....[4]

22. O/N 12/P12/Q3/c

Celtic Springs, a public limited company, is a water bottling business. Its shareholders have been unhappy with the performance of the business and are threatening to take action at the next Annual General Meeting (AGM). Table 1 shows an extract from the company's latest Profit/Loss Account.

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Table 1: Celtic Springs Profit/Loss Account 2011 (\$m)

Sales revenue	?
Cost of sales	150
Gross profit	?
Overheads/expenses	70
Net profit	10

(a) Identify and explain **two** ways Celtic Springs could reduce its cost of sales.

Way 1:

.....

Explanation:

.....

Way 2:

.....

Explanation:

..... [4]

23. O/N 12/P12/Q4/d

Colour Rack manufactures paint in country Z. It sells its products to customers both nationally and internationally. Colour Rack uses a specialist transport company to deliver its products to customers. The Colour Rack brand is well known. Many of its factory employees are unhappy at work. They are well paid but lack motivation due to the repetitive nature of their work.

(a) Identify and explain **three** factors Colour Rack should consider in deciding which transport company to use to deliver its products.

Factor 1:

.....

Explanation:

.....

Factor 2:

.....

Explanation:

.....

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Factor 3:

.....

Explanation:

..... [6]

24. O/N 12/P11/Q1/b

Durban Dragons is a big football club. Recently fewer people have been watching its matches and ticket revenue is falling. Some people say that ticket prices for matches are too high and should be reduced. The club has high fixed costs and needs to improve its cash flow. The club directors have been trying to gain sponsorship and a number of businesses are very interested.

(a) What is meant by 'cash flow'?

.....

.....

.....

..... [2]

Give two examples of fixed costs that a business like a football club would incur.

Example 1:

Example 2: [2]

25. M/J 12/P12/Q5/e

Sachs-Tech makes parts for the mobile phone industry. Sales have risen very quickly. The company needs a new factory to meet demand. The management is not sure where to build the factory. The company is currently looking to recruit three new production supervisors. The Human Resources manager, Manuel, is busy writing a job description and person specification for these supervisor roles.

(a) The Finance manager is worried that the business might be growing too quickly. Do you think he is right to be worried? Justify your answer.

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..... [6]

Answer Section

1. O/N 17/P12/Q1/b,c

- (a) Good Application [2] Correct answer 6 600 (\$ not needed) [2]
Some application e.g. Method [1] Price \times number of passengers
OR 110×60
- (b) Knowledge [2 \times 1] – award 1 mark for each relevant way [4]
Application [2 \times 1] – award 1 mark for each explanation in context
Possible points might include:
- Shows the expected level of profit OR loss at different levels of output [k] to show which routes to expand or cut [app]
 - Shows the margin of safety [k] if sell over 70 OR 90 tickets [app]
 - Helps planning OR forecasting OR decision making [k] about passenger numbers [app]
 - Can see what will happen if costs OR prices change [k] to see if should close its (ticket) shops [app]
 - Help apply for finance [k]

2. O/N 17/P12/Q2/b

- (a) Clear understanding [2] impact paid for by the rest of society [1] as a result of business actions [+1] [2]
OR Costs or disadvantages that fall on third parties that is one not directly involved in the production process [2]
Some understanding [1] costs society has to pay

3. O/N 17/P11/Q3/a

- (a) Clear understanding: [2] factors that lead to lower average costs as a business increases in size. [2]
Some understanding: [1] benefit of increasing in size

4. M/J 17/P12/Q1/d

- (a) Knowledge [2 \times 1]: award 1 mark for each way identified
Application [2 \times 1]: award 1 mark for each relevant reference made to this business
Analysis [2 \times 1]: award 1 mark for each relevant explanation
Points might include:
- ∞ Increase advertising (allow only once) [k] attracting or persuading or encourage new customers [an] to his shop [app]
 - ∞ Sell to different target market [k] so do not sell only to children [app] so able to attract different customer [an]
 - ∞ Increase prices [k] increases amount of revenue per item sold [an]
 - ∞ Lower price or offer price promotions OR discounts [k] acts as incentive to buy more [an]
 - ∞ Offer new OR additional products [k] e.g. different clothing [app] to appeal to a new market segment [an]
 - ∞ Loyalty schemes [k] could encourage existing customers to buy more from him [an]
 - ∞ Use of sales promotions e.g. competitions [k]
 - ∞ Increase quality [k]
 - ∞ Use e-commerce or sell via website [k]

5. O/N 16/P11/Q4/b

- (a) Good application [2] 30 c or 0.3 (per litre) [2]
Some application [1] e.g. total cost divided by output OR 450 000 / 1 500 000

6. O/N 15/P12/Q2/d

- (a) **Knowledge** [2 × 1] – identification of relevant issues [max 2] [6]
Application [2 × 1] – award 1 mark for each way if relevant reference made to this business
Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Enough workspace [k] so might have to relocate [an] away from city centre [app]
- Access to sufficient supplies [k] if there is a shortage of wood [app] might not be able to meet orders [an]
- Labour issues e.g. need to recruit/train more workers [k] to make furniture [app] adding to business expenses [an]
- Market demand/increase in demand permanent [k] as demand risen quickly [app] if tastes change again could be left with unwanted inventory [an]
- Diseconomies of scale e.g. communication issues [k] as larger scale might mean current methods do not work [an]
- Storage issues e.g. have they sufficient storage space [k] as already have high levels of inventory [app] as may need to rent additional unit [an]
- Quality issues e.g. are they able to check standard [k] of tables made [app]? could lead to bad reputation [an]
- Machinery issues e.g. is condition/level of machinery sufficient [k]?

Application could include: use of numbers, demand risen rapidly, high level of inventory, low unemployment, near city centre, factory, furniture, tables, chairs.

7. O/N 15/P11/Q1/a,b

- (a) Clear understanding [2] e.g. Total cost divided by the total number of units produced [2]
Some understanding [1] e.g. cost to make one product/cost per unit
- (b) Good application [2] e.g. 520 [2]
Some application [1] e.g. total output/number of employees or 260 000/500
Note: ignore \$ sign

8. O/N 15/P11/Q2/c

- (a) **Knowledge** [2 × 1] – award 1 mark for each relevant diseconomy [max 2] [4]
Application [2 × 1] – award 1 mark for each relevant explanation in context of Ramford

Relevant points might include:

- Poor communication [k] as messages need to be sent/received from 4 factories [app]
- Low morale/motivation [k] as worried products they make might be cut [app]
- Slow decision making [k] as 80 products to consider [app]
- Lack of control [k]

Application marks may be awarded for appropriate use of the following: calculations/use of numbers, factories, 80 products, reduced profit, financial performance, wide range, private limited company.

9. M/J 15/P12/Q1/b,c

(a) Application [2 × 1] – award 1 mark for each relevant way

Points could include:

- Planning / forecasting / decision making / help set prices
- Help work out level of profit at **different levels of output**
- Show margin of safety
- Shows how much needed to produce to cover costs / avoid loss / breakeven point
- Help apply for finance

[2]

Do not accept points such as shows costs / sales / profit on their own as too vague

- (b)
- Accurately plotted TR (revenue) line [1]: start at 0, at 4000 units should be at \$400 000 [4]
 - Accurately plotted TC line [2] in total for start at \$200 000 [1] \$400 000 at 4000 units [1]
 - Labelling: TR and TC [1] only if layout is correct. TR must start at zero and lines must cross

Notes:

- Accurately drawn **unlabelled** break-even chart [3]
- For 4 marks TR [revenue] and TC must be clearly labelled
- Max 1 mark for inaccurately plotted break-even chart with TR and TC correctly labelled

10. M/J 15/P11/Q1/b,c,e

(a) Clear understanding [2] costs that change [1] with the level of output produced/sales made [1]

Some understanding [1] e.g. costs that change [1] or costs that vary with sales/output [1]

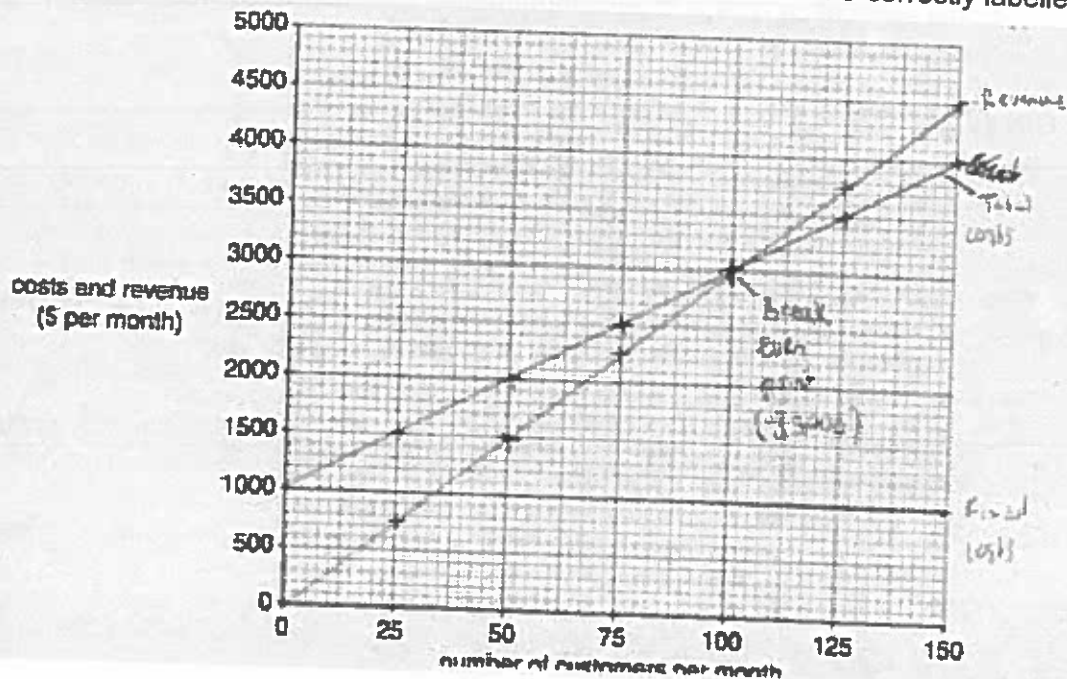
Do not accept examples of variable costs

Do not accept the phrase 'costs that vary' as this is re-wording the question

- (b)
- Accurately plotted TR line [1]: start at 0, at 100 units is \$3000 [4]
 - Accurately plotted TC line [2] in total: start at \$1000 [1] \$3000 at 100 units [1]
 - Labelling: TR and TC [1] only if layout is correct. TR must start at zero and lines must cross

Notes:

- Accurately drawn **unlabelled** break-even chart [3].
- For 4 marks TR [revenue] and TC must be clearly labelled.
- Max 1 mark for inaccurately plotted break-even chart with TR and TC correctly labelled.



Identification of relevant issue(s) [max 1] [6]
 Relevant reference made to Gomez's business
 Relevant development of point(s)
 to whether raising prices is the best way lowering
 price can be either for or against the statement.

to do less repairs [app]
 raising prices will see a greater fall in

competitive market [app]

work is reduced [an] so lose customer loyalty [app]

appropriate use of the following: use of break-even
 all computer shop, customer loyalty.

award 1 mark for each advantage

[4]

award 1 mark for each relevant explanation

include:

- Increase efficiency [k] so less wastage of resources / better able to meet customer orders [an]
- Increase profit margin / profit [k] higher dividends for shareholders [an]
- Remain competitive / lower prices [k] to keep / attract customers [an]
- Less cash outflow [k].

12. O/N 14/P12/Q3/b

- (a) Clear application [2] 600 000 (\$ not required) [2]
 Some application [1] e.g. method [1] OR $300\ 000 \div 0.5$ OR $300\ 000 \times 2$
 Note: no marks for 300 000 alone as this does not answer question.

13. O/N 14/P11/Q2/a

- (a) Clear understanding [2] e.g. costs that do not change [1] as the level of activity changes [+1]
 Some understanding [1]: e.g. costs that stay the same. [2]
 Note – Must link answer to level of activity/output to gain full marks. Do not accept examples.

14. O/N 14/P11/Q1/e

- (a) Knowledge [2 × 1] award 1 mark for each relevant issue identified. [6]
 Application [1] – award 1 mark if relevant reference made to Lu's business
 Analysis [1] – award 1 mark for relevant development of point(s).
 Evaluation [2] – justified decision made as to whether Lu's business will be more profitable if he expands it by opening a new café.
 Points might include:
- Sales revenue of the business should increase [k] if more/new customers are attracted [an] who might buy cakes [app]
 - Extra costs [k] such as additional rent [app] he may need more than 4 workers [app] which will increase Lu's expenses [an]
 - Reaction of competition [k]
 - Is there sufficient demand [k] Lu only thinks there is a demand [app].
- Developed example:
 Sales revenue of the business should increase [k] but expansion creates extra costs [k] such as the additional rent [app] so profits may not increase [an]. Everything depends upon the success of the venture in generating new customers [eval].

15. M/J 14/P11/Q3/a,b

- (a) Application [2 × 1] 1 mark per fixed cost
Fixed costs could include: rent, rates, interest payments, electricity.
Allow practical examples such as freezers.
- (b) Application [2 × 1] award 1 mark for each correct value. \$ symbol not required
shown as a negative value
X = \$180 000; Y = (10 000)
Note: Answers should be in millions but accept 180 000 and (10 000) due to

16. O/N 13/P12/Q3/a,b

- (a) **Clear understanding [2]** e.g. costs related to the direct operation of a business
change [1] as the level of activity changes [+1].
Some understanding [1]: e.g. costs that change
Note: Must link answer to level of activity/output to gain full marks.
Do not accept 'costs that vary' as simply reordering the words
- (b) **Application [2 × 1]** one mark per fixed cost
Examples include: rent/insurance/business rates/salaries/heating/utilities/interest charges
Do not accept wages or taxes or dividends

17. M/J 13/P12/Q3/e

- (a) **Knowledge [2 × 1]** – award 1 mark for identification of way [6]
Application/analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how
the way would help reduce costs)
Evaluation [2] – justified decision as to which method the Production manager should use
Note: For 6 marks must explain why chosen way is the better option
- Ways might include:
- **improve stock control/JIT [k]** so only order materials needed to reduce wastage [an]
 - **increase efficiency and/or productivity [k]** by changing way the work is organised,
e.g. introducing lean production/kaizen
 - **find cheaper raw materials [k]** so reduce variable costs [an]
 - **reduce number of workers or cut wages paid [k]** to reduce total variable costs [an]
 - **renegotiate rent [k]** so reduce amount of fixed costs [an]
 - **buy in bulk/purchasing economies of scale [k]** this will lower their cost per unit [an]
 - **better machinery [k]** which could improve productivity [an]/OR **replace workers with
machinery [k]** which would lower labour costs [an]

Developed example:

Obtain cheaper raw materials [k]. He could negotiate discounts or find cheaper suppliers to
reduce his variable costs so reducing average costs [an]. Introduce schemes like job rotation
[k] which can lead to higher job satisfaction resulting in higher productivity. Overheads will be
spread over a larger output, so reducing average costs [an]. He should choose job rotation to
increase productivity [eval]. If he obtained cheaper materials the fall in average costs may be
offset with a fall in revenue as product quality may suffer [eval].

18. O/N 13/P11/Q1/b,e

- (a) **Knowledge [2 × 1]** award one mark per advantage [2]
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

(b) Knowledge/application [2 × 1] – identification of relevant issues [6]**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]

19. O/N 13/P11/Q2/a,b**(a) Application [2 × 1] award one mark per example. [2]**

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.

(b) Knowledge [2 × 1]: award one mark per reason. [2]

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.

20. M/J 13/P11/Q3/b,c**(a) Correct answer [2] Method [1] [2]**Price = cost + mark up [1] ($\$30\,000 \times 40\%$) + 30 000 [1] = \$42 000 [2]

Note: \$ not required

Do not credit \$12 000 (the calculation of mark up) as it does not answer the question set

(b) Knowledge [2 × 1] – identification of disadvantage [1 mark per disadvantage] [4]**Analysis [2 × 1]** – explain how it is a disadvantage to a business

Disadvantages could include:

- **have to disclose accounts [k]** so less able to keep financial details secret from rivals [an]
- **many legal requirements/regulations [k]** which is expensive and time consuming [an]
- **selling shares expensive [k]** because shares need to be listed on the stock market
- **shares are freely traded [k]** so there is a greater risk of takeover/danger that original owners might lose control [an]

21. O/N 12/P12/Q2/c

- (a) Knowledge [2×1] – award 1 mark per economy of scale identified. [4]
 Application/analysis [2×1] – award 1 mark for each relevant explanation (i.e. show how economy comes about).
 Economies might include:
- technical [k] e.g. invest large amounts in R&D as costs spread over more units [an]
 - financial [k] it is easier for large firms to access more sources of finance as seen as a lower risk [an]
 - marketing [k] cost of advertising spread over more products, so cheaper per unit [an]
 - risk bearing [k] large businesses operate in more than one market so if one market struggles, have others to rely on [an]
 - managerial [k] as can afford to hire specialist managers [an]
 - purchasing/able to buy in bulk [k] as get discounts/lead to lower unit price [an].
- Note: practical based examples are also acceptable.

22. O/N 12/P12/Q3/c

- (a) Knowledge [2×1] – award 1 mark for each way identified. [4]
 Application/analysis [2×1] – award 1 mark for each relevant explanation (i.e. show how changes would reduce appropriate costs).
 Ways to reduce cost of sales (implies reducing the direct costs):
- greater efficiency e.g. reduce waste, JIT [k]
 - lower labour costs [k] – Note explanation must be wages not salary
 - lower raw material costs e.g. buy in bulk [k] which will lower unit cost [an]
 - cost of transporting raw materials (i.e. carriage inwards).
- Do not accept examples of indirect cost reductions e.g. lower rent or salaries or cut marketing budget.
 Do not accept productivity (as not related to cost of sales).

23. O/N 12/P12/Q4/d

- (a) Knowledge [3×1] – award 1 mark per factor. [6]
 Application / analysis [3×1] – award 1 mark for each relevant explanation (i.e. show why these factors need to be considered).
 Factors include:
- competitively priced [k] because if it is too expensive it will add a lot to costs/lower profit margin [an]
 - reliable [k] so ensure products reach customers on time [an]
 - reputation/conveys correct image for Colour Rack [k]
 - efficient [k] so no mix up in paint deliveries [app]
 - sufficient capacity available to supply on demand [k] otherwise might miss out on sales/orders [an]
 - flexibility of meeting CR and their customers' requirements [k].

24. O/N 12/P11/Q1/b

- (a) Application [2 × 1] – award 1 mark per example [2]
 Fixed costs refers to any cost incurred by the business as a result of its existence [unaffected by the volume of work undertaken]. Thus costs might include – insurance/rates/rent/salaries etc. Allow any reasonable suggestion. Do NOT allow wages or purchase of football equipment such as balls or shirts.

25. M/J 12/P12/Q5/e

(a) **Knowledge [2 × 1]:** identification of relevant issues.

[6]

Analysis [2]: explain how or why issue needs to be considered.

Evaluation [2]: reasoned judgement made as to whether business might be growing too quickly.

For two evaluation marks, the answer must be clearly in the context of this business.

Either viewpoint is possible depending on points discussed.

Possible issues include:

- demand for the product is growing [k] so need to expand to meet customer requirements [an]
- growth can bring many advantages e.g. economies of scale [k]
- depends on objectives of the business/attitude to risk [k]
- costs of expansion e.g. more equipment [k]/extra factory space needed [k] can the business afford to pay [an]
- management issues e.g. do they have sufficient skilled managers to oversee the expansion [k]
- recruitment problems e.g. are they able to recruit enough workers or the right people? [k]
- finance issues e.g. access to necessary sources of finance [k]
- diseconomies of scale [k]
- quality may suffer in rush to meet demand [k]
- sales could fall as quickly as sales have risen [k]
- problems of excess stock [k].

Context could include: mobile phone industry, sales are rising quickly, meet demand, new production supervisors, makes parts, new factory.

4.3: Achieving quality production

1. M/J 17/P12/Q3/d

Five years ago Manisha started making cakes for celebrations, such as weddings and birthdays, from her home. Now she has a small shop and 3 employees. Product quality is important to her business. Manisha said: 'I have benefited from the economic boom but I did not expect demand to increase by 500% each year. Somehow I have managed to cope with higher interest rates and all the challenges of being a sole trader. The business is profitable at last but I have to work every day.' A friend has offered to become Manisha's business partner.

(a) Identify and explain **two** reasons why product quality might be important to cake making business.

Reason 1:

.....

Explanation:

.....

.....

.....

Reason 2:

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Explanation:

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[6]

2. O/N 16/P12/Q3/b

TKF makes furniture such as beds and tables using job production. TKF has 3 part-time office employees, 8 production workers and 1 manager who is expected to carry out quality control. As the factory is busy, most communication is by email. After a number of customer complaints, the manager thinks TKF has some communication barriers. He believes good internal communication can help TKF be more efficient. The manager is also worried about TKF's cash flow position.

Table 1: Cash flow forecast for TKF (\$000)

	December	January	February
Cash in	35	28	29
Cash out	29	25	26
Net cash flow	6	3	3
Opening balance	(3)	3	(2)
Closing balance	3	(2)	1

(a) What is meant by 'quality control'?

.....
.....
.....
.....

[2]

3. O/N 16/P11/Q1/e

C&C has a good reputation for making high quality, hand-made shoes. It has 120 full-time skilled employees. C&C needs to recruit another 20 production employees to meet increased demand. The Managing Director said: 'I don't know why people worry about globalisation. Two years ago we did not export, now exports are 10% of our output and increasing.' C&C has orders for 100 000 pairs of shoes in 2017. The Managing Director cannot decide whether to introduce new technology into the production process.

(a) Do you think Hand made shoe manufacturer should introduce new technology into the production process? Justify your answer.

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[6]

4. O/N 16/P11/Q4/d

DCP makes a range of high quality industrial paints. It sells direct to 6 large business customers which are located in different countries. DCP charges a price of \$0.35 per litre. It operates in a competitive market. The Operations manager has been looking at DCP's costs as shown in Table 2. He wants to increase profit but he does not want to buy cheaper materials.

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Table 2: Output and cost information for DCP per week

Output (litres)	1 500 000
Total fixed costs (\$)	350 000
Total material costs (\$)	60 000
Total labour costs (\$)	40 000

(a) Identify and explain **two** possible reasons why quality is important to paint manufacturer.

Reason 1:.....

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Explanation:.....

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Reason 2:.....

.....

Explanation:.....

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.....

[6]

5. M/J 15/P12/Q1/a

PJK makes a range of luxury sports watches. Each watch is handmade by skilled workers. Quality assurance is important. The Operations Director has been looking at costs and prices as he wants to do a break-even analysis. This data is shown in Table 1. He is planning to invest in new technology to automate parts of the production process. The Operations Director thinks this is the best way to improve profitability.

Table 1: Costs and revenue (\$)

Price per watch	\$100
Variable cost per watch	\$50
Annual sales	6000
Annual fixed costs	\$200 000

(a) What is meant by 'quality assurance'?

.....
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..... [2]

6. M/J 15/P11/Q4/c

Javid is a company that manufactures a range of luxury chocolates using batch production. Over the past year, profit has fallen due to increased competition. In order to cut costs, the Finance Director has suggested the company introduces new technology into the production process. The Human Resources Director is not sure that workers would benefit from the introduction of new technology.

(a) Identify and explain two reasons why the quality of chocolates might be important to this company.

Reason 1:
.....

Explanation:
.....

Reason 2:
.....

Explanation:
..... [4]

7. M/J 13/P12/Q2/a

B&G manufactures a popular hair shampoo called Slick. The Managing Director thinks that Slick is near the end of its product life cycle. He believes it would be better to use extension strategies rather than develop a new product. The Operations Director thinks quality control can help the business comply with new consumer protection laws.

(a) What is meant by 'quality control'?

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.....
.....
..... [2]

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8. O/N 12/P12/Q2/d

Just4U manufactures motor car parts. The production methods are capital intensive. The management believes that the company benefits from economies of scale. However, problems with the workers in the factory have led to poor quality production. Despite this, the Managing Director believes that the company must continue to grow if it is to achieve its objectives. The business is planning a takeover of a competitor.

- (a) Identify and explain **two** problems that poor quality might create for car parts manufacturer.

Problem 1:

.....

Explanation:

.....

.....

.....

Problem 2:

.....

Explanation:

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.....

..... [6]

9. M/J 12/P11/Q1/d

IRKAM is a company that produces high quality doors for hotels and offices. The company currently uses job production. The Managing Director, Abdul, believes that quality control is important. He is looking for ways to increase productivity. All workers receive on-the-job training. Abdul is thinking of including off-the-job training as well.

- (a) Identify and explain **two** reasons why quality control might be important to IRKAM.

Reason 1:

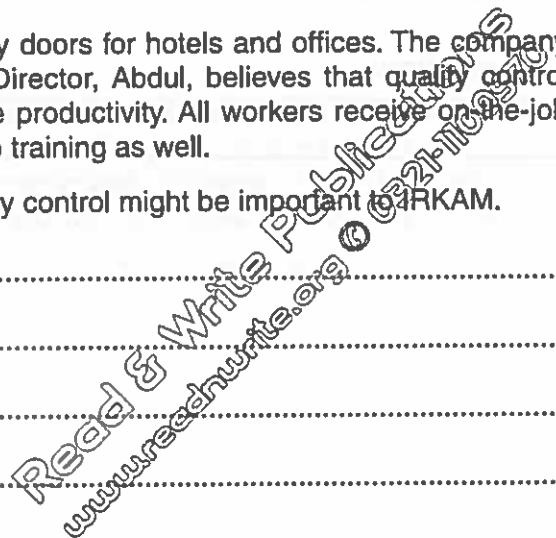
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Explanation:

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Reason 2:

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Explanation:

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..... [6]

Answer Section

1. M/J 17/P12/Q3/d

(a) Knowledge [2 × 1]: award one mark for each relevant reason identified [max 2]

Application [2 × 1]: award 1 mark for each relevant reference made to this business

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

Points might include:

- ∞ Helps maintain customer loyalty [k] which could lead to repeat purchases OR buy again and again OR keep buying [an]
- ∞ Increase or ensure sales [k] as if cake does not taste right [app] people will find alternatives [an]
- ∞ Poor quality damages reputation OR brand image [k] so sales may fall [an]
- ∞ No need to replace faulty products [k] which will help reduce costs [an] of ingredients [app]
- ∞ Charge/maintain high prices [k] for her cakes [app] which could improve her profit margin [an]
- ∞ Way to add value [k]
- ∞ To meet legal requirements OR poor quality could damage people's health [k] as it's a food product [app]
- ∞ To gain competitive advantage [k]
- ∞ To reduce complaints [k]

2. O/N 16/P12/Q3/b

(a) Clear understanding [2]: checking that a product meets the required standard OR check ng of goods at the end of the production process [2] OR Checking the standard of goods through inspection [2] OR process of reviewing accuracy of work bought in or completed [2] Some understanding [1]: e.g. checking the work

[2]

3. O/N 16/P11/Q1/e

(a) Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points allowed [max 1]

Application [1] – award 1 mark if relevant reference made to C&C's business

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether C&C should introduce technology into the production process

Relevant points might include:

- Increased production [k] as need to produce 100 000 each year [app] so able to work all the time [an]
- Consistent quality [k] as machinery likely to make fewer errors [an] which can help retain/enhance reputation [app]
- Risk to reputation [k] as known for its hand-made shoes [app] so fewer people may demand its products [an]
- Impact on employee motivation [k] as work could become less interesting [an] so quality of shoes falls [app]
- Risk of job insecurity [k] as it replaces some/all the skilled workers [app] which could lower efficiency [an]
- Cost of investment/retraining [k]

4. O/N 16/P11/Q4/d**(a) Knowledge [2 × 1] – award 1 mark for each reason**

Application [2 × 1] – award 1 mark if relevant reference made to DCP

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

[6]

Relevant points might include:

- Good reputation/brand image [k] so customers trust the paint [app] which could help increase sales [an]
- Attract new customers [k] as products might be better than rivals [app]
- Meet legal controls [k] as contains chemicals [app] must be safe to avoid being prosecuted/sued [an]
- More competitive [k] as paint is very similar [app] this could give them a competitive advantage over its rivals [an]
- Create brand/customer loyalty [k] so business [app] customers keep returning [an]
- Can charge a higher price [k] than 35 c per litre [app] to increase revenue [an]
- sales might fall [k] if quality is lowered [an] because it is a competitive market [app]

5. M/J 15/P12/Q1/a**(a) Clear Understanding [2] – checking for quality standards [1] throughout the production process / every stage [1]**

Some Understanding [1] – e.g. checking work done

Do not accept 'checking at end / checking end product' in this instance as this defines quality control**6. M/J 15/P11/Q4/c****(a) Knowledge [2 × 1] – identification of relevant reason [max 2]**

Application [2 × 1] – award 1 mark for each relevant explanation in context

[4]**Points could include:**

- helps establishes brand image/loyalty [k] as they make a luxury product [app]
- ensure sales [k] as if they don't taste right, people won't buy [app]
- maintain reputation [k] which is important as it is a competitive market [app]
- maintain standards [k]
- no need to replace faulty products [k] which will help reduce costs [app]
- Charge/maintain high prices [k]
- Add value [k]
- Must meet legal requirements [k] for food products [app]

Application marks may be awarded for appropriate use of the following: competitive market, luxury product, food products, taste.

7. M/J 13/P12/Q2/a**(a) Good knowledge [2] – Steps taken to make sure that a company's products or services meet the required standards OR process of checking / reviewing [1] the accuracy of work bought in or completed [+1]**

Some knowledge [1] – e.g. someone checking the work

[2]

8. O/N 12/P12/Q2/d

(a) Knowledge [2×1] – award 1 mark for each problem identified [max 2].

Application [2×1] – award 1 mark if relevant reference made to manufacturer like Just4U.

Analysis [2×1] – award 1 mark for each relevant explanation (i.e. show how points create problems for the business).

Problems include:

- loss of confidence by customer [k] so less sales [an] as customers look for alternative motor parts suppliers [app]
- cost of rectification [k] e.g. rework parts [app] which will increase costs and could lead to lower profit [an]
- costs of fines/legal action [k]
- damage to reputation/image [k]
- inability to supply on time [k] so could lose important future orders [an].

9. M/J 12/P11/Q1/d

(a) Knowledge [2 × 1]: award 1 mark per relevant reason.

Analysis [2 × 1]: award 1 mark for each relevant explanation.

Application [2 × 1]: award 1 mark for explaining why it is important to IRKAM.

Reasons might include:

- reduce errors (k) so saves time and money (an)
- protect reputation (k) as makes high quality doors (ap)
- save money (k) on cost of remaking items (an)/reduce wastage (an)
- saves time (k) so could help increase production (an) therefore increasing productivity (ap).

4.4: Location decisions

1. M/J 17/P12/Q1/c

Cheung owns a small retail shop in the city centre selling fashion clothing for children. As it is a competitive market, Cheung knows market research is important. Cheung is worried about the effect of an increase in shop rent on his costs. Cheung said: 'I will have to pay this higher rent as it is a good location. I need to increase revenue or reduce other costs.' Cheung buys all his supplies from a wholesaler located in a nearby town. He is thinking of buying directly from a clothing manufacturer in another country.

(a) Identify and explain **two** possible reasons why Cheung thinks the shop is in a good location.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

.....

[4]

2. M/J 17/P11/Q1/d,e

QCH is a multinational company which makes a range of luxury cars. Last year it made a profit of \$700m. One of QCH's objectives is to enter new markets. QCH wants to start producing cars in country C, a fast growing economy. The Finance Director said: 'Meeting customer needs is important. We could form a joint venture or set up our own factory. Both options will be expensive, costing \$800m. I think QCH's expansion into country C could be good for other businesses there.'

(a) Identify and explain **two** factors that multinational car manufacturer should consider when deciding the location of the new factory.

Factor 1:

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Explanation:

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Factor 2:

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Explanation:

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[6]

(b) The Finance Director thinks multinational car manufacturer expansion into country C could be good for other businesses there. Do you agree? Justify your answer.

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[6]

3. O/N 15/P11/Q4/d

Tebo has recently been made redundant from his job as a car mechanic. He is thinking of setting up his own business. Even though he has no management experience, he knows that managing cash flow will be important to the success of the business. Tebo is considering whether to apply for a FIXIT franchise. This franchise would cost \$15 000, which would use all of his savings. FIXIT is a car repair franchise, with 36 franchisees.

(a) Identify and explain **two** factors Tebo should consider when deciding where to locate his business.

Factor 1:

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Explanation:

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Factor 2:

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Explanation:.....

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.....[6]

4. M/J 15/P12/Q3/e

Mabel wants to set up her own hairdressing business. She will need to build good customer relationships. She has done some secondary market research to find out possible demand and what methods of promotion to use. She has decided to buy her inventory (stock) from a wholesaler. Mabel is now looking for the right location for her business. She thinks that location will be more important than price charged to the success of her business.

- (a) Do you think that the right location is more important than the prices she charges to the success of Mabel's business? Justify your answer.

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..... [6]

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5. M/J 15/P11/Q2/d

Country S is enjoying an economic boom. During this time, businesses have increased their profits and unemployment has fallen. The only problem is inflation. All Active is a private limited company. It owns 20 sport and fitness clubs in country S. The Managing Director said: 'This is a good time to expand by opening 5 more clubs. Finding the right locations is important. We will need to recruit more employees.' He cannot decide whether it would be an advantage for All Active to become a public limited company.

- (a) Identify and explain two factors that All Active should consider when deciding on the location of the new clubs.

Factor 1:

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Explanation:

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Factor 2:

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Explanation:

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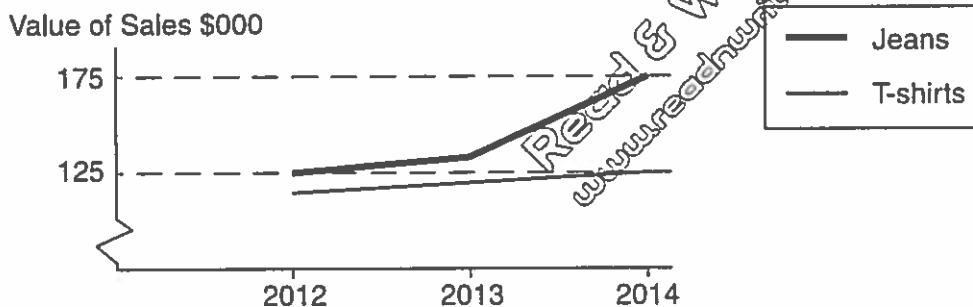
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..... [6]

6. O/N 14/P12/Q3/d

Rhiannon Enterprises manufactures ladies clothes. Its best selling products are fashion jeans and T-shirts. Figure 1 shows sales data for these products. In 2014 the value of the sales of these 2 main products was 50% of the total sales of the business. The market for ladies' clothes is very competitive. In 2013 the business reduced the price of its jeans by 25%. It is now trying to find low cost suppliers of cloth to increase its profit margins. Sales of some other products have been falling despite Rhiannon Enterprises increasing advertising spending on them.

Figure 1



(e) Identify and explain two factors that the business should consider before deciding on a new supplier of cloth.

Factor 1:

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Explanation:

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Factor 2:

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Explanation:

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.....[6]

7. M/J 13/P11/Q3/e

Sharma Machine manufactures motorcycles. The company is product orientated. Sharma Machine holds a lot of stock. The owner, Ishant, wants to increase productivity. Also the company plans to open an additional factory to satisfy increased demand. 'Expansion should mean economies of scale' said Ishant. 'The right location for the new factory is going to be important if the business is to remain competitive.'

(a) How important is the right location for the new factory in helping Sharma Machine to remain competitive? Justify your answer.

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8. M/J 12/P12/Q5/d

Sachs-Tech makes parts for the mobile phone industry. Sales have risen very quickly. The company needs a new factory to meet demand. The management is not sure where to build the factory. The company is currently looking to recruit three new production supervisors. The Human Resources manager, Manuel, is busy writing a job description and person specification for these supervisor roles.

- (a) Identify and explain **three** factors that Sachs-Tech should consider when deciding where to locate a new factory.

Factor 1:

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Explanation:

.....

Factor 2:

.....

Explanation:

.....

Factor 3:

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Explanation:

..... [6]

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Answer Section

1. M/J 17/P12/Q1/c

(a) Knowledge [2 × 1]: award 1 mark for each way identified

[4]

Application [2 × 1]: award 1 mark for each explanation in context

Points might include:

- ∞ Near potential target market OR customers [k] so need to be somewhere where there are lots of children [app]
- ∞ Busy area OR high footfall [k] as many people likely to visit city centre [app]
- ∞ Good access OR there is parking [k]
- ∞ Good Image of site [k] as sell fashion items [app]
- ∞ There are utilities or other facilities [k] to reduce other costs [app]
- ∞ Proximity (far from or near) to competitors [k]
- ∞ Near to other shops and services [k]
- ∞ Low transport costs OR already has relationship with supplier [k] as near wholesaler [app]

2. M/J 17/P11/Q1/d,e

(a) Knowledge [2 × 1]: award 1 mark for each relevant factor.

[6]

Application [2 × 1]: award 1 mark if relevant reference made to QCH.

Analysis [2 × 1]: award 1 mark for each relevant explanation.

Points might include:

- ∞ Demand / customers [k] in the new market [app] so generate revenue [an]
- ∞ Amount of rent [k] if expensive fixed costs increase [an] using up its \$800m budget [app]
- ∞ Lower cost of labour OR availability of labour OR access to suitable employees [k] which would decrease variable costs [an]
- ∞ Lower raw materials cost OR availability of materials [k] so can get materials when needed [app]
- ∞ Access to transport networks OR access to water OR power [k] or production will stop [an]
- ∞ Access to subsidies or grants [k] which would reduce costs [an]
- ∞ Possible external economies of scale [k] if they locate near to other factories [an]
- ∞ Enough space [k] as need a large area [an]
- ∞ Environmental considerations [k] therefore must be away from housing [an]
- ∞ Legal considerations [k]

(b) Knowledge [1] : award 1 mark for identification of relevant point (s)

[6]

Application [1] : award 1 mark if relevant reference made to this business

Analysis [2]: award up to 2 marks for relevant development of point(s)

Evaluation [2]: justified decision made as to whether QCH's expansion into country C will be good for other businesses in country C. Either viewpoint is possible.

Points could include:

- close to suppliers [k] – so less costs of transport [an]
- close to market [k] – so able to deliver goods more quickly [an]
- access to suitably qualified workers [k] – to ensure have best possible workers [an]
- where are rival companies [k] – external economies [an]
- laws [k]– can they set up [an]
- cost of site/access to utilities [k] – rent is fixed cost/need to install power etc. will add to costs – all could lead to lower margin or need to set higher price [an]

Candidates may discuss a range of factors affecting competitiveness. This is creditable only if linked to why location is not important.

They should locate in a place which has low rent [k] and easy access to transport links [k]. This will keep costs of production low [an] therefore SM will be able to keep its prices low [an] and attract more sales. However, location by itself does not mean the business will always be competitive [ev]. Buying from cheap suppliers may be a better way of keeping costs low [ev].

8. M/J 12/P12/Q5/d

(a) **Knowledge [3 × 1]:** award 1 mark per relevant factor.

[6]

Analysis/application [3 × 1]: award 1 mark for each relevant explanation (i.e. explain how/why factor is important to Sachs-Tech).

Factors include:

- available space [k]
- cost of site [k] can they afford the rent [an]
- utilities e.g. power, water, internet [k]
- transport links/infrastructure [k] so it is cheaper/easier to distribute the parts [an]
- access to market/access to (necessary) materials [k]
- government rules [k]
- availability of grants/incentives [k]
- access to (suitable) labour [k]
- cost of labour [k] e.g. cheap labour could reduce their variable costs [an]
- personal preference of owner as to where they want to live/work [k]
- environmental issues e.g. waste disposal or pollution [k]
- local opposition to plans/pressure groups [k].

Do not award analysis/application marks for points which clearly cannot be applied to a mobile phone manufacturer e.g. 'near retailers'.

4. O/N 16/P11/Q2/c

Dowson is a large business which owns a number of shops. It sells a range of electrical goods such as computers and televisions. The Finance Director has been looking at some recent financial data, as shown in Table 1. He is pleased with Dowson's liquidity but knows he must reduce its high level of debt including an overdraft of \$6m. He said: 'The economy is in recession. Many small retailers have failed. Size is an advantage!'

Table 1: Extract of financial data for Dowson

	2015	2016
Revenue	\$280m	\$300m
Profit	\$175m	\$180m
Current ratio	1.2:1	1.5:1
Acid test ratio	0.8:1	0.5:1
Return on capital employed	10%	10%

(a) Identify and explain **two** ways in which the size of the business may benefit Dowson.

Way 1:.....

.....

Explanation:.....

.....

Way 2:.....

.....

Explanation:.....

.....

[4]

5. M/J 16/P11/Q4/c

Nuwan is a sole trader. He has a specialist sports shop selling a wide range of cricket and tennis products. His 3 employees are trained to provide good customer service. Nuwan is pleased the economy is growing but he is worried that interest rates might be increased. He believes his small business has advantages compared to large retailers. Nuwan would like to improve profit margins and thinks the best way to do this is to reduce costs.

(a) Identify and explain **two** ways in which an increase in interest rates might affect Nuwan's business.

Way 1:

.....

Explanation:

.....

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Way 2:

.....

Explanation:

..... [4]

6. O/N 15/P12/Q2/b

(a) What is meant by a 'balance sheet'?

.....

.....

.....

..... [2]

7. O/N 15/P12/Q4/c

(a) Explain how a rise in interest rates might affect Business.

.....

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..... [4]

8. O/N 15/P11/Q1/e

Toy manufacturer makes a range of toys using batch production. TWH's Managing Director, to Dylan, plans invest in new technology to reduce average costs. 'It's the only way to increase efficiency as I do not know how we can improve employees' motivation,' he said. Dylan cannot decide on whether it would be better to use retained profits or a long term loan as the source of finance.

Table 1: Data for 2014

Number of toys made per week	260 000
Number of employees	500
Average wage per hour paid by TWH	\$6
Average wage per hour paid by similar businesses	\$6.50

(a) Identify and explain two possible sources of finance that they could use to obtain the equipment.

Source 1:

Explanation:

.....

.....

Source 2:

Explanation:

.....

..... [4]

11. O/N 14/P11/Q1/c

Lu is a sole trader. He manages a bakery shop making and selling bread and cakes. He employs 4 workers all of whom are paid on time rate. Lu wants to expand the business by buying a new shop and using it as a café (restaurant). He also wants to make a wider range of cakes, such as wedding and birthday cakes, for which he thinks there is a demand. At present the business sells all of the bread and cakes it makes.

(a) Identify and explain two suitable sources of finance Lu could use to buy a new shop.

Source 1:

Explanation:

.....

.....

Source 2:

Explanation:

.....

..... [4]

12. O/N 12/P11/Q2/b

(a) Identify two suitable sources of finance that Textiles could use to finance the investment in automated machinery.

Source 1:

Source 2:

[2]

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13. O/N 12/P11/Q3/c

Table 1 shows the Balance Sheet for company D at the end of 2010 and 2011.

Table 1: Company D Balance Sheet [\$m]

	2010	2011
Fixed Assets	500	600
Current Assets	600	650
Current Liabilities	450	550
Net Assets	650	700
Long-term Liabilities	350	350
Shareholders' Funds	300	350
Capital Employed	650	700

The accounts also showed that the net profit of company D was \$80m in 2010 and \$120m in 2011.

- (a) The directors are planning further expansion of the company. Identify and explain two benefits to company D of raising finance by selling more shares.

Benefit 1:

.....

Explanation:

.....

Benefit 2:

.....

Explanation:

..... [4]

14. M/J 12/P12/Q3/d

HTB is a public limited company. It manufactures a range of computers. HTB spends a lot of money on advertising as it is in a competitive market. The management believes that the product is the most important element in their marketing mix. To meet increasing demand HTB is looking to expand their business. It plans to raise extra capital by issuing more shares. The Finance Director has been looking at the data in Table 1.

Table 1: Selected financial data from HTB (\$m)

	2011	2012
Sales	400	520
Net Profit	40	75
Long Term Liabilities	200	220
Capital Employed	400	500

(a) Identify and explain **three** factors that HTB should consider before issuing more shares.

Factor 1:

.....

Explanation:

.....

Factor 2:

.....

Explanation:

.....

Factor 3:

.....

Explanation:

..... [6]

15. M/J 12/P11/Q5/e

Favell is a woodworker. He is planning to set up his own woodworking business. He plans to use marketing to help his business become established in the local area. Favell thinks cash flow will be a problem because his business will have a lot of cash outflows. A friend has suggested he prepares a cash flow forecast.

(a) Favell needs \$10 000 to buy a motor vehicle so that he can carry all his equipment. He is planning to ask the bank for an overdraft. Do you think this is the most suitable source of finance for him to choose? Justify your answer.

.....

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.....

.....

..... [6]

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Answer Section

1. **O/N 17/P12/Q3/b**
- (a) Clear understanding [2]: e.g. resources owned by business to use for more than one year 2
Some understanding [1]: e.g. things that are owned OR last for more than a year
2. **O/N 17/P11/Q2/b**
- (a) Knowledge [2 × 1] award one mark per reason 2
- Paying invoices/bills
 - Day to day expenses
 - Buying raw materials
 - Paying wages
 - Paying salaries
 - Paying rent
 - Re-payment of short term debts
 - Paying utilities
 - Use in an emergency
 - Evidence to support requests for finance
3. **O/N 16/P12/Q1/e**
- (a) Knowledge [1] – award up to 1 mark for identification of relevant method(s) 6
Application [1] – award 1 mark if relevant reference made to this business
Analysis [2] – award up to 2 marks for relevant development of point (s)
Evaluation [2] – justified decision made as to which source of finance APQ should use
Relevant points might include:
- Retained Profits [k] so no need to repay [an] so keeps costs lower [an]
 - Bank loan [k] as interest rates low [app] but it will increase level of debt [an] OR as multinational [app] banks more likely to lend at lower rates of interest [an]
 - Government grant/subsidy [k] as helping country develop [app] so may be willing to provide finance [an]
 - mortgage [k] as cost \$100m [app] so have time to make repayments [an]
 - Leasing [k] so no large payment at the start [an]
 - Share issue [k] as it is a public limited company [app]
 - Debentures [k]
 - Sale of unused non-current assets [k]
4. **O/N 16/P11/Q2/c**
- (a) Knowledge [2 × 1] – award 1 mark for each relevant advantage 4
Application [2 × 1] – award 1 mark for each relevant explanation in context of Dowson
Relevant points might include:
- Able to attract better employees [k] so have the expertise to survive the recession [app]
 - Access to finance [k] as seen as lower risk of failing [app]
 - Discounts for bulk buying [k] so able to charge lower prices for electrical goods [app]
 - Marketing economies or bigger marketing budget [k] as able to justify national advertising [app]
 - Spread risk [k] as can afford to stock a wide range of products [app]
 - Able to dominate the market/large market share [k] so difficult for small retailers to compete [app]

5. M/J 16/P11/Q4/c

(a) Knowledge [2] [2 × 1] – award 1 mark per relevant point.
Application [2] [2 × 1] – award 1 mark per explanation in context. Relevant points might include: **4**

- Increases cost of borrowing [k] so harder to improve profit margins [app]
- Increasing expenses [k] so might have to reduce amount he has available to spend on training [app]
- Less spending by customers [k] so lower sales especially as sports goods not necessities [app]
- Employees want pay rise [k] so not able to reduce his costs [app]
- Business less likely to expand [k]
- May have to increase prices [k].

6. O/N 15/P12/Q2/b

(a) Clear understanding [2] e.g. shows value of business assets and liabilities [1] at a particular point in time [+1] **[2]**
Some understanding [1] e.g. shows assets and liabilities OR what is owned, owed and how the business is funded
Do not accept 'financial statement' as it is too vague

7. O/N 15/P12/Q4/c

(a) Knowledge [2] – award up to 2 marks for relevant points [max 2] **[4]**
Application [2] – award up to 2 marks for each relevant explanation in context of Nellis

Relevant points might include:

- Cost of borrowing increases [k] so less incentive to buy building land [app] for houses [app]
- Lower sales/consumers reduce spending [k] as cannot afford luxury/non-essential items [app]
- Increased cost of any current loan/overdraft [k] so profits do not increase [app]
- Higher interest rates attract more savings [k]

Application could include: luxury, (large) houses, economic boom, (increased) profits, building land

Note: Candidates can offer extended development of one point or two separate points to achieve both App marks

8. O/N 15/P11/Q1/e

(a) Knowledge [1] – award 1 mark for identification of relevant point(s) [max 1] **[6]**
Application [1] – award 1 mark if relevant reference made to TWH's business
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision as to which source of finance is best option to use
For 6 marks must explain why chosen source is the better option for this business

Points might include:

Retained profits–

- no need to repay/readily available [k] which can help keep average costs low [app] so no time wasted in trying to secure the finance [an]
- may not have sufficient funds available [k] so might still need a bank loan [an]
- no funds available for other uses [k]

Long term loan –

- can plan repayments over time/know repayments [k]
- interest costs to pay [k] which would increase average costs [app] which has to be repaid whether they make a profit or not [an]
- have retained profits available in case of need [k]

Note: Candidate's final decision can be for either option.

Application marks may be awarded for appropriate use of the following: relevant use of numbers, toys, lower average costs.

9. M/J 15/P12/Q4/b

(a) Application [2 × 1] – award 1 mark for each relevant factor

Points could include:

- Amount needed
- Current level of debt / gearing
- Amount of retained profits / cash
- Time (how long need finance for)
- interest rates
- Whether can offer security for loans
- Ability to repay / able to afford

[2]

Do not accept purpose as this is stated in the question

10. M/J 15/P11/Q3/c

(a) Knowledge [2 × 1] – identification of relevant sources [max 2]

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

[4]

Relevant points might include:

- Bank loan [k] so can spread cost of cameras over a period of time [app]
- Savings [k] so no need to pay interest on the \$4000 [app]
- Borrow from family and friends [k]
- Leasing [k] as there may not be enough demand [app]
- Hire purchase [k] so their new business does not have to pay a large one off cost [app]
- Government grant [k]
- Additional partner [k]

Do not accept retained profits or overdraft as this is a new business

Application marks may be awarded for appropriate use of the following: new business, \$4000, partnership, cameras or examples of relevant equipment [not equipment on its own], business plan

11. O/N 14/P11/Q1/c

(a) Knowledge [2 × 1] – award 1 mark for each relevant source.

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

[4]

Relevant points might include:

- Long term loan [k] (bank loan alone not acceptable) which he can pay back over a long period of time [an]
- Retained profits [k] because he will not have to repay the money back [an]
- Mortgage [k]
- Existing owners capital [k]
- Additional owners capital [k]
- Venture capitalist [k].

12. O/N 12/P11/Q2/b

(a) Application [2 × 1] – award 1 mark per source.

Suitable sources might include:

- Long term loan
- Retained profit
- Equity issue
- Leasing arrangement

[2]

- Sale of unwanted assets [internally generated source]
- 1 mark per example. Key feature is that capital must be available long term.
Do NOT accept a source that is clearly short term such as an overdraft.
"Bank loan" not accepted. Must be long term. Do NOT accept hire purchase.

13. O/N 12/P11/Q3/c

- (a) Knowledge [2 × 1] – award 1 mark for each benefit
Application/analysis [2 × 1]

[4]

The benefits of share issue are:

- Capital does not have to be repaid
- Does not carry interest charges
- Generally seen as a cheaper way of raising capital
- Business risk reduced

The explanation marks are for showing how the above benefit the company and/or how those benefits are achieved. For example because there are no interest charges on share capital this will mean that the overhead costs of the business are lower and this is beneficial because it means that profits will be higher.

Do NOT accept an easy/quick way of raising capital as a benefit.

14. M/J 12/P12/Q3/d

- (a) Knowledge [3 × 1]: award 1 mark per relevant factor.

[6]

Analysis [3 × 1]: award 1 mark per relevant explanation (i.e. explain why an issue for HTB).

Factors might include:

- likely take up by the market (ease of selling) [k]
- anticipated impact on share price [k]/impact on market's view of the company [k] if market don't like issue it could affect reputation or share price [an]
- risk of takeover [k] or loss of control of existing shareholders [k] who might not allow HTB to issue more shares [an]
- do they have any other options of raising capital [k]/is it an appropriate way to raise the amount needed [k].

Allow practical issues such as cost of issuing shares e.g. prospectus/time/complexity of the process of issuing shares/amount of shares to be issued as separate points.

Do not allow points such as 'do they need the money' or 'can they pay dividends'.

15. M/J 12/P11/Q5/e

- (a) Knowledge [2 × 1]: Identification of points for and against overdrafts or for and against alternative sources of finance.

[6]

Analysis [2]: explains how or why issue needs to be considered.

Evaluation [2]: reasoned judgement as to whether a overdraft is the best method to use or not.

For two evaluation marks, the answer must be clearly in the context of this business

Content may include:

Overdraft:

- only interest payable on amount overdrawn
- quick and easy to arrange
- no security but repayable on demand so more appropriate for short term finance such as cash flow problems. So is it suitable for fixed assets such as a vehicle?
- can be expensive as interest rates tend to high

Loan:

- have a set period of time to repay
- fixed interest rate

- relatively quick to arrange
- appropriate for a vehicle as it is a long term asset
- but can be expensive as interest payable
- security usually required for loan.

Context could include: The business has cash flow issues; Wants to do marketing; \$10 000 needed for vehicle; is a small business.

5.2: Cash-flow Forecasting and Working Capital

1. O/N 17/P11/Q2/c

NMBJ makes a range of cookies (biscuits) using batch production. Last year profit increased by \$1.5 million. The directors think this is because of an increase in productivity and better management of working capital. NMBJ has a low level of inventory. NMBJ plans to increase the wages of all 300 employees by \$50 per month from March. The Finance Director is worried: 'This decision will add \$15 000 to wages each month. Many employees are leaving. Is paying higher wages the best way to improve motivation?'

Table 2: Cash flow forecast for the period January - March 2018 (\$ 000)

	January	February	March
Cash inflow	560	520	600
Cash outflows:			
Wages	60	60	X
Other costs	500	480	520
Total cash outflows	560	540	595
Net cash flow	0	(20)	Y
Opening balance	5	W	(15)
Closing balance	5	(15)	Z

(a) Calculate the following values shown on the cash flow forecast.

W:

X:

Y:

Z:

[4]

2. O/N 16/P12/Q3/e

TKF makes furniture such as beds and tables using job production. TKF has 3 part-time office employees, 8 production workers and 1 manager who is expected to carry out quality control. As the factory is busy, most communication is by email. After a number of customer complaints, the manager thinks TKF has some communication barriers. He believes good internal communication can help TKF be more efficient. The manager is also worried about TKF's cash flow position.

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(a) Identify and explain **two** possible reasons why working capital is important to Alex and Raul's business.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

.....

[4]

4. O/N 15/P11/Q4/c

Tebo has recently been made redundant from his job as a car mechanic. He is thinking of setting up his own business. Even though he has no management experience, he knows that managing cash flow will be important to the success of the business. Tebo is considering whether to apply for a FIXIT franchise. This franchise would cost \$15 000, which would use all of his savings. FIXIT is a car repair franchise, with 36 franchisees.

(a) Explain why managing cash flow will be important for Tebo's business.

.....

.....

.....

.....

.....

.....

.....

.....

[4]

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5. O/N 14/P12/Q2/a,c,d,e

Sarah is the owner of a small business making children’s toys. She sells her toys to retailers on 3 months’ credit. She receives 1 month’s credit from her suppliers. Her cash flow forecast for the start of 2015 is given below.

Table 1 (\$000)

	January	February	March
Cash inflow	15	20	19
Cash outflows:			
Purchases of stock	12	10	14
Wages	X	7	6
Other payments	4	4	4
Total cash outflows	22	Y	24
Net cash flow	(7)	(1)	(5)
Opening balance	10	3	2
Closing balance	3	2	(3)

Note: numbers in brackets are negative.

(a) Calculate the following:

Wages in January (X):

.....

Total cash outflows in February (Y):

.....[2]

(b) Identify and explain **two** reasons why the business has a negative closing balance in March.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

.....[4]

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(c) Identify and explain **two** advantages to business of producing a cash flow forecast.

Advantage 1:

.....

Explanation:

.....

.....

Advantage 2:

.....

Explanation:

.....

.....

.....[6]

(d) Business accountant told her that a positive cash flow is more important to the business than profits. Do you agree? Justify your answer.

.....

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.....

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.....

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.....

.....

.....[6]

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6. O/N 14/P11/Q2/d

Rakesh manages a car repair business in country Y. He buys cars that are damaged or have parts missing. Rakesh adds value by repairing these cars until they look like new ones. He employs 5 workers to do the repairs. The business holds a large stock of car parts and Rakesh always pays cash for these. However Rakesh's sales are usually on credit.

Table 1: Some information for a typical trading week

Cars bought by Rakesh	6
Average cost of each car	\$2000
Average cost of parts used per car	\$500
Weekly wages per employee	\$1000
Weekly fixed costs	\$4000
Average price per car sold	\$5000
Number of cars sold	6

- (a) Identify and explain **two** reasons why the weekly net profit may not be the same as the weekly net cash flow for Rakesh's business.

Reason 1:

.....

Explanation:

.....

.....

.....

Reason 2:

.....

Explanation:

.....

.....

.....

[6]

7. M/J 14/P12/Q5/b,d

Anyshade manufactures a range of paints. It uses flow production. The Finance manager has produced a cash flow forecast as the business wants to arrange an overdraft with its bank. The Finance manager believes that reducing prices is the best way to increase sales revenue. Anyshade's paints are well known for quality.

Table 1: Cash flow forecast (\$000's)

	July (9 000)	August 6 000	September Y
Opening balance			
Cash inflows:			
Cash sales	90 000	30 000	50 000
Cash from debtors	50 000	80 000	70 000
Total cash inflows	140 000	110 000	120 000
Cash outflows:			
Fixed costs	70 000	70 000	70 000
Wages	20 000	18 000	19 000
Raw materials	35 000	30 000	30 000
Total cash outflows	125 000	118 000	119 000
Net cash flow	X	(8 000)	1 000
Closing balance	6 000	(2 000)	(1 000)

Note: numbers in brackets are negative.

(a) Calculate the following.

July net cash flow (X):

.....

September opening balance (Y):

.....[2]

(b) Identify and explain two possible reasons why Anyshade has cash flow problems.

Reason 1:

.....

Explanation:

.....

.....

Reason 2:

.....

Explanation:

.....

.....

.....[6]

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8. M/J 14/P11/Q3/c

HPT makes frozen food products. The Finance Director wants to improve HPT's cash flow position. Table 1 is an incomplete cash flow forecast for the next 3 months. The Finance Director thinks HPT should not use expensive packaging. He is also worried that new Government health & safety laws will not benefit the company and will only add to its costs.

Table 1: Cash flow forecast (\$000's)

	Month 1	Month 2	Month 3
Opening balance	(50 000)	(30 000)	(40 000)
Cash inflows	200 000	180 000	200 000
Cash outflows:			
Wages	60 000	60 000	60 000
Packaging	20 000	20 000	20 000
Raw materials	45 000	55 000	45 000
Fixed costs	55 000	55 000	55 000
Total cash outflows	X	190 000	180 000
Net cash flow	20 000	Y	20 000
Closing balance	(30 000)	(40 000)	(20 000)

Note: numbers in brackets are negative.

- (a) Identify and explain **two** benefits to HPT of having a cash flow forecast. You should refer to Table 1 in your answer.

Benefit 1:

.....

Explanation:

.....

Benefit 2:

.....

Explanation:

..... [4]

9. O/N 12/P11/Q1/a,c

Durban Dragons is a big football club. Recently fewer people have been watching its matches and ticket revenue is falling. Some people say that ticket prices for matches are too high and should be reduced. The club has high fixed costs and needs to improve its cash flow. The club directors have been trying to gain sponsorship and a number of businesses are very interested.

- (a) What is meant by 'cash flow'?

.....

.....

.....

[2]

(b) Identify and explain **two** ways the cash flow of Durban Dragons could be improved.

Way 1:

.....

Explanation:

.....

Way 2:

.....

Explanation:

..... [4]

10. M/J 12/P11/Q4/c

Rapid Call is a private limited company. It manufactures a range of cell (mobile) phones. The demand for these is increasing. Its products have several special features that are not available from other phone manufacturers. It sells its products directly to retail shops. Rapid Call uses competitive pricing for all products. The Finance Director has been looking at the accounts. A summary is shown in Table 2. In 2011 the gross profit margin was 40%.

Table 2: Profit/Loss Account for Rapid Call for year ending 30 April 2012 (\$000s)

Sales	450
Cost of Sales	300
Gross Profit	150
Overheads	95
Net Profit	55

(a) Identify and explain **two** ways in which Rapid Call's Finance Director could use the information in Table 2.

Way 1:

.....

Explanation:

.....

Way 2:

.....

Explanation:

..... [4]

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11. M/J 12/P11/Q5/b,c

Favell is a woodworker. He is planning to set up his own woodworking business. He plans to use marketing to help his business become established in the local area. Favell thinks cash flow will be a problem because his business will have a lot of cash outflows. A friend has suggested he prepares a cash flow forecast.

(a) Identify two possible cash outflows for Favell's business.

Cash outflow 1:

Cash outflow 2: [2]

(b) Identify and explain two benefits for any business of preparing a cash flow forecast.

Benefit 1:

.....

Explanation:

.....

Benefit 2:

.....

Explanation:

..... [4]

Answer Section

1. O/N 17/P11/Q2/c

(a) Application [4] award one mark per correct answer

W: 5 or 5000

X: 75 or 75000

Y: 5 or 5000

Z: (10) or (10 000)

Note: Z must be shown as a negative number to be credited.

2. O/N 16/P12/Q3/e

6

(a) Knowledge [1] – award up to 1 mark for identification of relevant points
 Application [1] – award 1 mark if relevant reference made to this business
 Analysis [2] – award up to 2 marks for relevant development of point (s)
 Evaluation [2] – justified decision made as to whether
 TKF is right to be worried about its cash flow position

Relevant points might include:

- Closing balance is positive for two of the three months [k]
so can meet all expenditure/bills [an]
- Cannot cover outflows in January [k] as net cash flow is (5)/
opening balance only three [app] so might damage
relationship with suppliers of not able to pay [an]
- Inflows vary per month [k] so no guarantee have money to
pay costs [an] so suppliers might be reluctant to supply
wood [app] so cannot meet all its orders [an]
- Cash inflow decreases in January [k] by 15 [app + an]
- Cannot predict/rely on regular orders [k] using job production [app]
- May be a temporary problem [k] as only have three months data

3. M/J 16/P12/Q3/c

4

(a) Knowledge [2] – award 1 mark for each relevant reason [max 2].
 Application [2 × 1] – award 1 mark for each explanation in context.
 Points might include:

- Necessary to finance the day to day activities (only once) e.g. Pay suppliers [k]
for bike parts [app]
- Know they are solvent/can meet short-term debts/avoid cash flow problems [k]
- Too much working capital could mean not making best use of resources [k]
which could negatively impact on expansion plans [app]
- Can take advantage of special offers from suppliers [k]
- Can help attract potential investors/support loan applications [k] to help expand
the business [app]
- Cover unexpected costs [k].

4. O/N 15/P11/Q4/c

(a) Knowledge [2] award up to 2 marks for identification of points/knowledge of cash flow [4]
 Application [2] award up to 2 marks for relevant explanation in context of Tebo's business
 Relevant points might include:

- Cash flow needed to pay its day to day expenses [k]
- Business could fail due to lack of cash [k] if used all his savings to buy franchise [app]
- Help reduce need for finance [k] for a new business [app]
- Able to predict/plan for cash flow problems [k]
- Help a business get a loan [k]

Application marks may be awarded for appropriate use of the following: car repair, no management experience, \$15 000/all his savings, new business, FIXIT franchise.

5. O/N 14/P12/Q2/a,c,d,e

(a) Calculate the following: **wages in January(X); total outflows in February (Y).**

Application [2 × 1]: award 1 mark per correct answer

(X) \$6000 [1]

(Y) \$21000 [1]

Note: Answer should be in thousands but accept 6 and 21 as could insert answers into table

(b) Knowledge [2 × 1] – award 1 mark for each reason

Application [2 × 1] – award 1 mark for each relevant explanation in context [4]

Points might include:

- Outflows higher than Cash Inflows [k] as net cash flow fallen by \$5000 in March / outflows \$3000 more than February [app]
- Different credit terms [k] gets 1 month's credit from suppliers but gives customers 3 months [app]
- Bought more stock [k] paid extra \$4000 compared to February [app]
- Opening balance in March not large enough [k] only \$2000 [app] / if it was more than £6000 [app] closing balance in March would be positive
- Poor cash flow management [k].

Note: Table included for ease of reference for 2c.

(c) Knowledge [2 × 1] – award 1 mark for each advantage identified

Application [2 × 1] – award 1 mark if relevant reference made to this business / use of data [6]

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how the point generates an advantage to a business)

Advantages might include:

- Imbalances can be predicted / funding for shortfalls can be planned [k] so for the negative balance Jan–Mar [app] has plenty of time to arrange an overdraft [an]
- Can assess impact of decision [k] such as giving 3 months credit [app]
- Help get short term loan / overdraft [k] as show why need / able to repay [an]
- identify possible causes of cash flow problems [k] e.g. cash inflow \$5000 less in January than February [app] so could try to get customers to pay quicker [an]
- Help manage cash flow better [k] as could try to reduce amount spent on stock in March [app]
- Shows how much is spent each month [k].

(d) Knowledge [2 × 1] award 1 mark for each issue identified

Application [1] – award 1 mark if relevant reference made to the business [6]

Analysis [1] – award 1 mark for relevant development of point(s)

Evaluation [2] – justified decision made as to whether cash flows more important to the business than profits

Points might include:

- Main objective is to make a profit [k] without it, owners will question point of business [an]
- Profit is a measure of success [k]
- Profit is important for long term survival [k]
- Profit is a source of finance [k] so higher chance of growth [an]
- Need cash to operate / pay for immediate debts [k] so can make toys [app]
- Help sales [k] as able to offer credit terms to customers [app] as have money to pay other outflows [an]

- Positive cash flow shows able to manage its finances [k]
- Positive cash flow means business is liquid [k] whereas currently has a negative closing balance [app] which shows possible financial difficulties ahead [an]
- Less likely to need overdraft [k] which would add to costs [an].

Application might include: make toys, small business, use of numbers, 1 months credit from suppliers, gives 3 months credit, negative closing balance.

Developed answer:

Cash is needed for the business to operate [k]. If its outflows are more than its inflows, such as the negative closing balance in March [app], it will be unable to meet its immediate debts [an]. Thus cash is crucial for survival [eval]. In the short run a business can survive without making a profit so cash flow is more important to ensure the business lasts long enough to make profits [eval].

6. O/N 14/P11/Q2/d

- (a) Knowledge [2 × 1] – award 1 mark for each reason identified.
Application [2 × 1] – award 1 mark if relevant reference made to data/Rakesh's business. [6]
Analysis [2 × 1] – award 1 mark for each relevant explanation (show why they create cash flow problems).

Points might include:

- Sales are on credit [k] although he is making a profit from the cars [app] money will not be received until later [an]
- Purchase of stock is by cash [k] as he holds a large stock of parts [app] profit is not earned until it is sold [an]
- Some costs may not be paid every week e.g. insurance or rent
- Buys the cars for cash [k] takes time to repair them [app] and so only makes profit when they are sold.

Explanation will focus on the fact that timing of flows creates an imbalance between cash in and out.

7. M/J 14/P12/Q5/b,d

- (a) Application [2 × 1] – award 1 mark for each correct value. [2]
X = \$ 15,000 000 or 15,000
y = \$ (2000 000) or (2000)
\$ sign not required. Note Y must be shown as negative value.

Note: Answer should be in millions but accept 15,000 and (2 000) due to question layout.

- (b) Knowledge [2 × 1] – award 1 mark for each relevant reason identified.
Application [2 × 1] – award 1 mark if relevant reference made to data.
Analysis [2 × 1] – award 1 mark for each relevant explanation (calculations not necessary).
For each reason: maximum 3 marks [1k + 1ap + 1an]. [6]

Relevant points might include:

- High fixed costs [k] of \$70,000 is over half of the monthly cash outflows [app]. These must be paid whether sales are made or not [an]
- Sell stock on credit [k] which means that cash payments are delayed [an] as in Aug/Sep over half the cash inflow is from credit sales [app]
- Opening balance is negative to start with [k] with a value of (\$9000) [app]
- Poor cash flow management [k]
- Spend too much money [k]
- Wages fluctuate each month [k]

Note: Can accept comments based on general trend e.g. cash sales have fallen [k].

8. M/J 14/P11/Q3/c**(a) Knowledge [2 × 1] – award 1 mark for each relevant benefit identified****Application [2 × 1] – award 1 mark for each relevant explanation in context [4]****Relevant points might include:**

- Arrange a short term loan [k] or arrange an overdraft [k] as in each month the closing balance is negative [app]
- Can identify possible causes of cash flow problems [k] e.g. as in month 2, sales are \$20000 lower than the other two months [app]
- Help manage cash flow better [k] as could try to reduce amount spent on packaging to less than \$20 000 per month [app]
- Supports a loan application [k] as shows that the cash flow is improving slowly [app]
- Shows how much is spent each month [k].

Note: Do not reward a definition of cash flow forecast as the question asks for the benefits**9. O/N 12/P11/Q1/a,c****(a) Clear understanding [2] Some understanding [1]**

Term refers to the timing and amounts of cash moving in and out of a business [2]. [2]

To gain full marks it is sufficient to only refer to “cash in and cash out”. Just cash in OR cash out will gain 1 mark.

(b) Knowledge [2 × 1] – award 1 mark for each way**Application/analysis [2 × 1] – award 1 mark for each relevant explanation of how it impacts on cash flow [4]**

Cash flow can be improved by any method that alters the amounts and timing of the flows into and out of the business. Methods might include:

- Selling season tickets [way] would improve cash flow because cash would be received earlier
- Gaining sponsorship would improve cash flow by attracting in more cash earlier
- Delaying payment to creditors would also improve cash flow by postponing cash outflows until later
- Delaying payment of wages as this would postpone cash outflows
- Arranging an overdraft facility (or short term loan) would give access to cash immediately and would therefore allow a business to meet its short term financial obligations
- Disposal of unwanted fixed assets would turn assets into cash

Methods could be in context of a football club but this is not required.

Do NOT allow answers such as cutting costs unless explained. For example, an answer that says selling a number of players would only be credited if they explained that the wage bill would be reduced and so therefore would the cash outflow.

10. M/J 12/P11/Q4/c**(a) Knowledge [2 × 1]: award 1 mark per relevant way.****[4]****Analysis/application [2]: award 1 mark for each relevant explanation (i.e. to explain how or why help).**

Ways include:

- gross profit margin can be calculated [k] which can be compared to previous years to see if the GP has risen or fallen [an]/which can be compared to other companies [an]
- costs of goods sold might have risen [k] and so could try to find cheaper suppliers [an]
- might use the information to adjust marketing strategy [k]
- show value added [k].

For an answer that accurately calculates the Gross profit margin [33%] or the Net profit margin [12.22%] award 2 marks [an].

11. M/J 12/P11/Q5/b,c

(a) Knowledge [2 × 1]: award 1 mark per cash out flow. **[2]**

Cash outflows include: rent, materials such as wood, nails; advertising costs machines or equipment, transport costs, insurance, and wages.

Accept any reasonable example.

(b) Benefits: **[4]**

- able to arrange finance to avoid cash flow problems
- help planning
- see (predict) when money goes in or out of business
- support loan applications
- businesses more likely to have cash flow problems in early years.

Knowledge [2 × 1]: award 1 mark per relevant benefit.

Analysis [2 × 1]: award 1 mark for each relevant explanation (i.e. show how it will help a business.)

5.3: Income Statements

1. M/J 17/P12/Q1/b

Cheung owns a small retail shop in the city centre selling fashion clothing for children. As it is a competitive market, Cheung knows market research is important. Cheung is worried about the effect of an increase in shop rent on his costs. Cheung said: 'I will have to pay this higher rent as it is a good location. I need to increase revenue or reduce other costs.' Cheung buys all his supplies from a wholesaler located in a nearby town. He is thinking of buying directly from a clothing manufacturer in another country.

(a) Identify what will happen to each of the following when Cheung's shop rent increases.

Variable cost:

.....

Fixed cost:

.....

[2]

2. M/J 16/P11/Q3/a,b

Rafiq is the Operations manager at a small factory. The business makes a range of soft drinks using batch production. Last year Rafiq successfully introduced just-in-time inventory control, based on an idea from one of the 40 employees. As the business is planning to expand, Rafiq thinks it would be a good idea to change to flow production.

Table 1: Income statement for 2015 (\$000)

Revenue	X
Cost of sales	360
Gross profit	240
Expenses	Y
Profit	120
Retained profit	100

(a) What is meant by 'cost of sales'?

.....

.....

.....

.....

[2]

(b) Refer to Table 1. Calculate:

X

Y

[2]

4. M/J 14/P12/Q2/a

Cutter is a family owned private limited company. It manufactures a luxury brand of coats. In 2013 sales revenue increased by \$3m and retained profits also increased. 'The marketing mix is working' said the Marketing Director. Cutter's Operations Director thinks that batch production is still the right method of production to use, but he cannot decide whether on the job or off the job training is better for the business.

(a) What is meant by 'retained profit'?

.....

 [2]

5. M/J 14/P12/Q4/c

The Government of country B plans to build a new airport. A Government spokesperson said: 'There will be external costs, but I think there will be more benefits for the local community. We have to support businesses such as airlines in the private sector'. RU Air is one of the world's most profitable airlines. RU has announced plans on its website that it will operate flights to and from country B in the future. RU is a public limited company.

(a) Identify and explain **two** benefits to RU Air of high profits.

Benefit 1:

 Explanation:

 Benefit 2:

 Explanation:
 [4]

6. O/N 13/P12/Q3/c

Harry owns a pizza restaurant in a large city. Table 2 gives financial data for the business in 2012.

Table 2

Selling price per pizza	\$8
Variable costs per pizza	\$5
Weekly fixed costs	\$2700
Weekly sales	1500 pizzas

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(a) Calculate how much profit Harry's business makes in one week.

.....
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.....
.....
.....
.....
.....

[4]

7. M/J 13/P12/Q4/a

Belshire Books owns a number of shops. The Finance manager is worried about the financial position of the company. An extract of the accounts is shown in Table 1. Belshire Books is facing increased competition from online booksellers selling through the Internet.

Table 1: Extract from Belshire Books accounts (\$000s)

	2011	2012
Net profit	50	30
Current assets	50	60
Current liabilities	50	50
Capital Employed	500	500

(a) What is meant by 'net profit'?

.....
.....
.....
.....

[2]

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8. O/N 12/P12/Q3/a

Celtic Springs, a public limited company, is a water bottling business. Its shareholders have been unhappy with the performance of the business and are threatening to take action at the next Annual General Meeting (AGM). Table 1 shows an extract from the company's latest Profit/Loss Account.

Table 1: Celtic Springs Profit/Loss Account 2011 (\$m)

Sales revenue	?
Cost of sales	150
Gross profit	?
Overheads/expenses	70
Net profit	10

The accounts of the business also show that the capital employed by Celtic Springs was \$650m.

(a) Calculate gross profit and sales revenue in 2011.

Gross profit:

Sales revenue: [2]

9. M/J 12/P11/Q4/b

Rapid Call is a private limited company. It manufactures a range of cell (mobile) phones. The demand for these is increasing. Its products have several special features that are not available from other phone manufacturers. It sells its products directly to retail shops. Rapid Call uses competitive pricing for all products. The Finance Director has been looking at the accounts. A summary is shown in Table 2. In 2011 the gross profit margin was 40%.

Table 2: Profit/Loss Account for Rapid Call for year ending 30 April 2012 (\$000s)

Sales	450
Cost of Sales	300
Gross Profit	150
Overheads	95
Net Profit	55

(a) Calculate the gross profit margin for the year ending 30 April 2012.

.....

..... [2]

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Answer Section

1. M/J 17/P12/Q1/b

(a) Application [2 × 1]: award 1 mark for each correct answer.

- (i) **Variable cost:** No change / same
(ii) **Fixed cost:** Increase

2. M/J 16/P11/Q3/a,b

(a) Clear understanding [2] e.g. Money spent on producing or buying in the goods sold by the business,

OR variable cost of making the goods sold,

OR cost per unit × number of output, 2

OR money spent on making the products plus an example of those costs.

Some understanding [1] e.g. Money spent on materials.

(b) Application [2 × 1] – award 1 mark per calculation.

X = 600 [600 000]

Y = 120 [120 000] 2

3. O/N 14/P11/Q2/c,d

(a) Correct answer [4]: 6000 (\$ not required. No further calculations are required)

Some understanding [can gain up to 3 marks]:

Breakdown of marks as follows:

Revenue per week (5000 × 6) = \$30 000 [1]

Costs per week:

[2000 × 6] + [500 × 6] + [1000 × 5] + \$4000 = \$24 000 [2] 1 mark for 3 of these 4 correct costs

OR (ii) 30 000 [1] – 17 500 = 12 500 [+1]

Profit per week \$6000 [1]

NOTE – OFR (own figure rule) can apply e.g. (i) 30 000 [1] – 7500 = 22 500 [+1] [4]

(b) Knowledge [2 × 1] – award 1 mark for each reason identified.

Application [2 × 1] – award 1 mark if relevant reference made to data/Rakesh's business.

Analysis [2 × 1] – award 1 mark for each relevant explanation (show why they create cash flow problems).

Points might include:

- Sales are on credit [k] although he is making a profit from the cars [app] money will not be received until later [an]
- Purchase of stock is by cash [k] as he holds a large stock of parts [app] profits not earned until it is sold [an]
- Some costs may not be paid every week e.g. insurance or rent
- Buys the cars for cash [k] takes time to repair them [app] and so only makes profit when they are sold.

Explanation will focus on the fact that timing of flows creates an imbalance between cash in and out. [6]

4. M/J 14/P12/Q2/a

(a) Good knowledge [2]: e.g. net profit reinvested back into business [1] after tax and/or dividends [+1].

Some knowledge [1]: e.g. money left after dividends and/or taxes paid, money kept by business.

Do not accept net profit or definition of profit [0]. [2]

5. M/J 14/P12/Q4/c**(a) Knowledge [2 × 1] – award 1 mark for each benefit.**

Application [2 × 1] – award 1 mark for each relevant explanation in context

Benefits:

- Source of finance/money to reinvest [k] so can fund expansion into country B [app]
- Sign of success [k] so stay one of the world's most profitable airlines [app]
- Able to pay out larger dividends [k] so encourage shareholders to invest in company [app – as RU Air is public limited company]
- Able to pay out larger bonuses [k] so employees are motivated to provide better service to passengers [app]
- Reduce risk of takeovers [k] as other airlines have to pay more for its shares [app]
- Help ensure long term survival of business [k]
- Measure of performance [k]

Do not accept expansion or example of it on own as many types of finance allow this.

Do not accept decreasing prices as too vague.

Do not accept use profits to pay bills ; give wage rises ; buy stock ; pay debts . [4]

6. O/N 13/P12/Q3/c**(a) Correct answer [4]: 1800 (\$ not required. No further calculations are required)**

Some understanding [can gain up to 3 marks]:

Breakdown of marks as follows:

Sales 1500 @ \$8	\$12000 [1]
Variable costs 1500 @ \$5	\$7500 [1]
Total costs	\$10200 [1]
Profit	\$1800 [1]

Notes:

- Can allow 2 marks for correct calculation of Total cost on own (as will have calculated Variable cost as part of it)
- Own figure rule (OFR) applies up to a maximum of 3 marks if only one error carried forward. $12000 - 2705 = \$9295$ [2] only as incorrect understanding of variable cost
- If NO acceptable calculations allow 1 mark for understanding of profit [k] e.g. total revenue – total cost [1]
- Credit calculation using contribution method as follows: contribution \$3 [1] total contribution \$4500 [+1] [4]

7. M/J 13/P12/Q4/a**(a) Good knowledge [2] –**

- Profit is the total amount of money that business makes once all/total costs have been subtracted from (sales) revenue OR Total revenue – total cost [2]
- amount left after expenses subtracted from gross profit/gross profit minus overheads or other indirect costs [2]

Some knowledge [1] – e.g. money left after costs OR amount of money made by the business [2]

8. O/N 12/P12/Q3/a**(a) Application [2×1] – 1 mark per answer**

Gross profit = \$80m [1] {i.e. \$150m – \$70m}

Sales = \$230m [1] {i.e. \$150m + \$80m}

Notes: \$ and Millions not required but OFR will NOT apply

[2]

9. M/J 12/P11/Q4/b

(a) **Correct answer**[2]: $150/450 = 33.3\%$ or 33% .

Method [1] e.g. uses right formula i.e. $\text{gross profit/sales} * 100$ [1], 33 [1].

N.B. answer must include % sign to be awarded 2 marks.

[2]

5.4: Statement of Financial Position

1. M/J 17/P11/Q2/a,b

Josh owns an office cleaning business. He has a number of large and small business customers. Josh employs 6 full-time cleaners who are all given off-the-job training. Josh believes that using the latest cleaning equipment increases added value. He said: 'Customers are happy with the service. I am always sending text (SMS) messages to workers about additional work.' Josh has been looking at his balance sheet. He cannot decide if a bank loan is the best source of finance to use for new equipment. The new equipment will cost \$60 000.

Table 1: Extract from Josh's balance sheet as at 30 April 2017 (\$000)

Current assets		120
Trade receivables	90	
Cash	X	
Current liabilities		Y
Net current assets		70

(a) What is meant by 'trade receivables'?

.....

[2]

(b) Calculate the following values.

X:

Y:

[2]

2. M/J 16/P12/Q3/a,b

Alex and Raul are business partners. They started a bicycle repair business with their own savings as the bank would not give them a loan. Raul does most of the repair work, while Alex manages the accounts. Alex is surprised that the business has made a small profit in the first year. 'We can use this profit to expand. I don't know why people think we would benefit from having a business plan. Much of the demand for our repair business comes from our friends who own bicycles.'

Table 2: Extract from balance sheet as at 31 March 2016 (\$)

Non-current assets	3000
Current assets	2500
Current liabilities	2000
Non-current liabilities	1500

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(a) What is meant by 'non-current liabilities'?

.....

 [2]

(b) Calculate the working capital.

.....

 [2]

3. M/J 14/P12/Q5/a

Anyshade manufactures a range of paints. It uses flow production. The Finance manager has produced a cash flow forecast as the business wants to arrange an overdraft with its bank. The Finance manager believes that reducing prices is the best way to increase sales revenue. Anyshade's paints are well known for quality.

Table 1: Cash flow forecast (\$000's)

	July	August	September
Opening balance	(9 000)	6 000	Y
Cash inflows:			
Cash sales	90 000	30 000	50 000
Cash from debtors	50 000	80 000	70 000
Total cash inflows	140 000	110 000	120 000
Cash outflows:			
Fixed costs	70 000	70 000	70 000
Wages	20 000	18 000	19 000
Raw materials	35 000	30 000	30 000
Total cash outflows	125 000	118 000	119 000
Net cash flow	X	(8 000)	1 000
Closing balance	6 000	(2 000)	(1 000)

Note: numbers in brackets are negative.

(a) What is meant by an 'overdraft'?

.....
 [2]

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4. O/N 13/P11/Q2/c

Muammar sells boxes of spices to markets. Workers in Muammar's business are paid on a piece rate basis. Table 1 gives financial details of the business in 2012.

Table 1

Fixed costs per month	\$10 000
Employee wages	\$2 per box
Raw materials	\$3 per box
Marketing costs	\$1 per box
Selling price	\$8 per box
Sales per month [average]	9000 boxes

(a) Calculate the annual profit that Muammar made in 2012.

.....

.....

.....

.....

.....

.....

.....

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.....

.....

[4]

5. M/J 13/P12/Q4/e

Belshire Books owns a number of shops. The Finance manager is worried about the financial position of the company. An extract of the accounts is shown in Table 1. Belshire Books is facing increased competition from online booksellers selling through the Internet.

Table 1: Extract from Belshire Books accounts (\$000s)

	2011	2012
Net profit	50	30
Current assets	50	60
Current liabilities	50	50
Capital Employed	500	500

(a) Do you think that the Finance manager is right to be worried about the financial position of the business? Justify your answer.

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[6]

5.5: Analysis of Accounts

1. O/N 17/P12/Q3/c(i)

Yanis owns a busy restaurant in the city centre. He employs 4 skilled chefs and 6 workers to serve in the restaurant. All employees are on part-time contracts. The chefs are paid a high hourly wage rate, but receive no bonuses. Yanis is worried that too many chefs leave. He is thinking of other ways in which he could motivate the chefs. Yanis wants to open another restaurant but is worried about problems linked to growth. He has prepared a balance sheet as part of his business plan. An extract is shown in Table 2. The current ratio was 1.2:1 in 2016.

Table 2: Extract from balance sheet as at 30 September 2017 (\$ 000)

Non-current assets	160
Current assets	60
Current liabilities	40
Non-current liabilities	120

- (a) (i) Calculate the current ratio as at 30 September 2017.

.....
 [2]

- (ii) Explain what the two current ratio results show about Yanis's business.

.....

 [2]

2. M/J 17/P12/Q2/a,b,c

LWM makes car tyres in 15 different sizes using batch production. Last year LWM sold 80 million tyres including 40 million tyres of its best-selling size. The Finance Director has been looking at some financial data as shown in Table 1. She said: 'Liquidity is important. I need to do some ratio analysis to measure business performance. In the previous year our Return on Capital Employed was 33%.' The directors are worried about increased competition but they cannot decide on the best way for LWM to respond.

Table 1: Extract of financial data for 2016 (\$m)

Revenue	3000
Profit	1000
Non-current liabilities	2000
Capital employed	4000

(a) What is meant by 'liquidity'?

.....
.....
..... [2]

(b) Identify two reasons why a director might want to measure business performance.

Reason 1:

Reason 2:

[2]

(c) (i) Calculate the Return on Capital Employed (ROCE) for 2016.

.....
..... [2]

(ii) Explain what this result shows about LWM's performance.

.....
.....
..... [2]

3. M/J 17/P11/Q2/e

(a) Do you think a bank loan is the best source of finance for cleaning business to use for the new equipment? Justify your answer.

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.....
..... [6]

4. O/N 16/P11/Q2/a,d,e

Dowson is a large business which owns a number of shops. It sells a range of electrical goods such as computers and televisions. The Finance Director has been looking at some recent financial data, as shown in Table 1. He is pleased with Dowson's liquidity but knows he must reduce its high level of debt including an overdraft of \$6m. He said: 'The economy is in recession. Many small retailers have failed. Size is an advantage!'

Table 1: Extract of financial data for Dowson

	2015	2016
Revenue	\$280m	\$300m
Profit	\$175m	\$180m
Current ratio	1.2:1	1.5:1
Acid test ratio	0.8:1	0.5:1
Return on capital employed	10%	10%

(a) What is meant by 'Return on capital employed'?

.....
.....
..... [2]

(b) Identify and explain **two** problems for Dowson of having a high level of debt.

Problem 1:.....

.....

Explanation:.....

.....

.....

.....

Problem 2:.....

.....

Explanation:.....

.....

.....

..... [6]

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(c) Do you think the Finance Director is right to be pleased with the liquidity of the business? Justify your answer using the ratio results in Table 1.

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[6]

5. M/J 16/P11/Q4/d

Nuwan is a sole trader. He has a specialist sports shop selling a wide range of cricket and tennis products. His 3 employees are trained to provide good customer service. Nuwan is pleased the economy is growing but he is worried that interest rates might be increased. He believes his small business has advantages compared to large retailers. Nuwan would like to improve profit margins and thinks the best way to do this is to reduce costs.

(a) Identify and explain two advantages that Nuwan's business might have compared to large retailers.

Advantage 1:

Explanation:

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.....

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.....

.....
.....

Advantage 2:

Explanation:

.....
.....

.....
.....

.....
.....

[6]

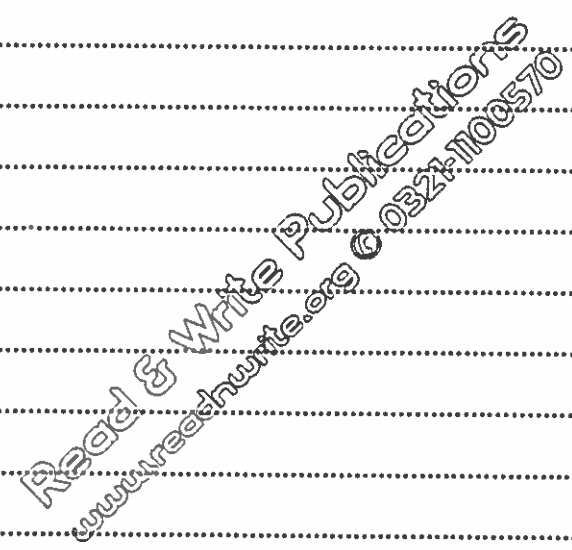


Table 2: Extract from accounts

	2013	2014
Revenue (sales) (\$m)	2	

.....
.....
..... [6]

9. M/J 15/P11/Q4/d

Javid is a company that manufactures a range of luxury chocolates using batch production. Over the past year, profit has fallen due to increased competition. In order to cut costs, the Finance Director has suggested the company introduces new technology into the production process. The Human Resources Director is not sure that workers would benefit from the introduction of new technology.

(a) Identify and explain **two** problems that a fall in profit might cause for the company.

Problem 1:

.....

Explanation:

.....

.....

.....

Problem 2:

.....

Explanation:

.....

.....

..... [6]

10. M/J 13/P12/Q4/b,c

Belshire Books owns a number of shops. The Finance manager is worried about the financial position of the company. An extract of the accounts is shown in Table 1. Belshire Books is facing increased competition from online booksellers selling through the Internet.

Table 1: Extract from Belshire Books accounts (£000s)

	2011	2012
Net profit	50	30
Current assets	50	60
Current liabilities	50	50
Capital Employed	500	500

(a) Calculate the current ratio in 2012.

.....
 [2]

(b) Identify and explain **two** ways in which Belshire Books could improve profitability.

Way 1:

Way 2:

 [4]

11. M/J 13/P11/Q4/b

Luxury Destinations owns three hotels in country X. The business spends a lot of money on staff training. The Finance Director is pleased with the financial position of the business. 'However, the appreciation of our country's currency and the Government's plan to increase taxes might cause problems to our business in the future' he said.

Table 1: Luxury Destinations financial information (\$000s)

	2011	2012
Gross profit	195	220
Net profit	30	60
Fixed assets	300	350
Current assets	60	50
Current liabilities	60	5

(a) Calculate the current ratio in 2012.

.....
 [2]

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12. O/N 12/P11/Q3/a,b,d,e

Table 1 shows the Balance Sheet for company D at the end of 2010 and 2011.

Table 1: Company D Balance Sheet [\$m]

	2010	2011
Fixed Assets	500	600
Current Assets	600	650
Current Liabilities	450	550
Net Assets	650	700
Long-term Liabilities	350	350
Shareholders' Funds	300	350
Capital Employed	650	700

The accounts also showed that the net profit of company D was \$80m in 2010 and \$120m in 2011.

(a) What is meant by 'capital employed'?

.....

 [2]

(b) Calculate company D's current ratio in 2011.

.....
 [2]

(c) Identify and explain a reason why the following stakeholders would be interested in using company D's accounts.

Creditors' reason:

Explanation:

Employees' reason:

Explanation:

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Shareholders' reason:

.....

Explanation:

..... [6]

(d) Do you think the performance of company D in 2011 has improved? Justify your conclusion using the data provided.

.....

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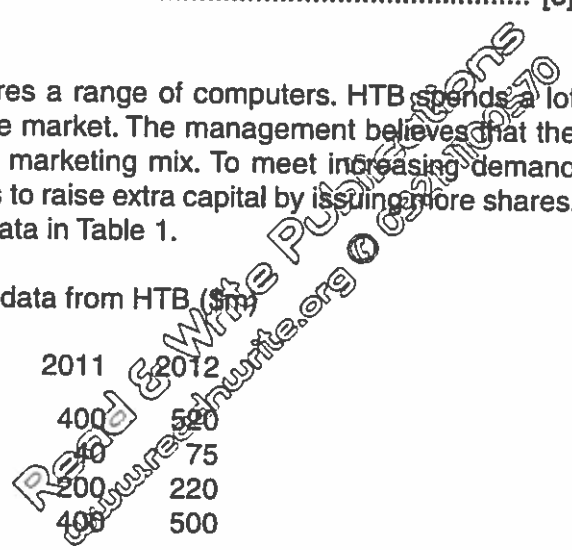
..... [6]

13. M/J 12/P12/Q3/b,c

HTB is a public limited company. It manufactures a range of computers. HTB spends a lot of money on advertising as it is in a competitive market. The management believes that the product is the most important element in their marketing mix. To meet increasing demand HTB is looking to expand their business. It plans to raise extra capital by issuing more shares. The Finance Director has been looking at the data in Table 1.

Table 1: Selected financial data from HTB (\$m)

	2011	2012
Sales	400	520
Net Profit	40	75
Long Term Liabilities	200	220
Capital Employed	400	500



(a) Calculate the Return on Capital Employed for 2012.

.....
..... [2]

(b) Identify and explain **two** reasons why shareholders might be interested in the accounts of HTB.

Reason 1:
.....

Explanation:
.....

Reason 2:
.....

Explanation:
..... [4]

Answer Section

- 1. O/N 17/P12/Q3/c(i)**
- (a) (i) Good application [2]: 2
 Correct answer 1.5 (times) OR 1.5:1 OR 3:2
 Some understanding [1] correct formula OR 60/40
- 2. M/J 17/P12/Q2/a,b,c**
- (a) Clear understanding [2]: ability of a business to pay back its short-term 2
 OR day to day debts
 OR ability of a business to pay its current liabilities using its current assets
 OR A measure of how quickly you can turn (current) assets into cash to pay short term debts
 Some understanding [1]: whether business can pay its debts OR how easily is it to convert assets to cash OR Amount of cash available
- (b) Knowledge [2 × 1]: award 1 mark for each reason 2
 Points might include:
- ∞ See how well meeting objectives OR see how well business is doing OR indicates what a business objective might be e.g. level of profitability or levels of sales or productivity
 - ∞ Aid decision making OR Identify strengths and weaknesses OR Identify what needs to be done to improve OR practical examples such as to determine rewards for employees
 - ∞ Way to compare with competitors
 - ∞ To compare with previous years OR Spot trends
 - ∞ Report to shareholders
- (c) (i) Good application [2]: e.g. 25 or 25% 2
 Some understanding [1]: e.g. profit / capital employed *100 [1]
 OR incomplete answer 1000 / 4000 [1]
 Good application [2]: ratio has fallen [1] which shows that profitability
- (ii) fallen OR not using capital as efficiently as last year 2
 OR ratio fallen from 33% to 25% [2]
 OR for every \$100 invested the business generates \$25 in profit [2]
 Some application [1] e.g. not as good
- 3. M/J 17/P11/Q2/e**
- (a) Knowledge [1]: award 1 mark for identification of relevant point (s) 6
 Application [1]: award 1 mark if relevant reference made to this business
 Analysis [2]: award up to 2 marks for relevant development of point(s)
 Evaluation [2]: justified decision made as to whether a bank loan is the best source of finance for Josh to use for the new equipment
 Points might include:
- ∞ Increased liabilities OR must be repaid [k] or \$60,000 [app]
 - ∞ Loan would give him time to repay [k]
 - ∞ Has cash available [k] of \$30 000 [app] so he would not need to borrow the full amount [an]

- ∞ Doesn't have enough cash available [k] to pay the \$60 000 [app]
- ∞ Cost of repayments OR interest [k]
- ∞ Leasing is a method Josh can use [k] so the latest equipment is always available [app]
- ∞ Banks may not be willing to lend the money [k]

4. O/N 16/P11/Q2/a,d,e

(a) Clear understanding [2]: ROCE means the profit of the business expressed as % of capital invested in the business or correct formula.
(Profit/Capital employed × 100)
Some understanding [1] – e.g. profit from capital invested or money made on investment

2

(b) Knowledge [2 × 1] – award 1 mark for each advantage identified
Application [2 × 1] – award 1 mark if relevant reference made to Dowson
Analysis [2 × 1] – award 1 mark for each relevant explanation
Relevant points might include:

6

- High financial risk [k] so banks / suppliers might be reluctant to lend to them [an] so not able to stock a wide range of electrical products [app]
- Higher expenses [k] which will reduce level of profit [an]
- Problems if interest rates rise [k] as might not be able to meet repayments [an] increasing risk Dowson also fails [app]
- Difficult to raise additional finance [k] if lenders fear Dowson not able to repay further loans [an]
- Cash flow implications / liquidity [k] as acid test ratio is only 0.5: [app] could lead to insolvency [an]

6

(c) Knowledge [1] – award 1 mark for identification of relevant points
Application [1] – award 1 mark if relevant reference made to Dowson's business
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision made as to whether the Finance Director is right to be pleased about liquidity
Relevant points might include:

- Current ratio increased [k] by 0.3 [app][an] so more liquid [an]
- Acid test lower [k] from 0.8 to 0.5 [app] so not able to pay short-term debts [an] possibly due to high value of its inventory [an]
- Expenses are high [k] as have a high level of debts, which includes \$6 m overdraft [app]
- Risk that demand might fall [k] due to recession [app] therefore he would be left with excess stock [an]
- High level of inventory [k] 66% of current assets [app] [an]
- High level of trade receivables [k] danger that customers might not pay [an] due to recession [app] so business will lack the cash it needs [an]
- Current ratio shows the business is able to pay its short term debts [k]

5. M/J 16/P11/Q4/d

- (a) Knowledge [2 × 1] – award 1 mark for each relevant advantage identified [max 2]. 6
 Application [2 × 1] – award 1 mark if relevant reference made to Nuwan's business.
 Analysis [2 × 1] – award 1 mark for each relevant explanation. Reasons might include:
- Better service [k] – all employees are trained [app] so able to maintain customer loyalty [an]
 - Flexible [k] – able to react quickly to changes in customer requirements [an] if customers want a different cricket product [app]
 - Leaner management [k]. Nuwan only has his 3 employees to inform/ask [app] so able to make decisions quicker [an]
 - More control [k] as he owns the business [app]
 - Better communication [k]
 - Specialised knowledge [k] as a sports shop [app] so will attract more customers [an].

6. O/N 15/P12/Q2/e

- (a) Knowledge [1] – award 1 mark for identification of relevant point(s) [max 1]
 Application [1] – award 1 mark if relevant reference made to this business
 Analysis [2] – award up to 2 marks for relevant development of point(s)
 Evaluation [2] – justified decision as to whether CLW should be pleased with its liquidity in 2014

Points include:

- Current assets increased [k] by \$60 m [app]
- Current liabilities fallen [k] by 8.33% [app + an]
- Current ratio improved [k] from 1.25:1 to 1.50:1 [app + an] but only because inventory increased by \$150 m so not as liquid [an]
- Acid test value fallen [k] from 0.875:1 to 0.75:1 [app + an] so not able to pay short-term debts from its liquid assets if needed [an]
- Cash fallen [k]
- Trade receivables down [k] which could mean customers paying quicker [an] but could mean less sales overall therefore less trade receivables [an]

Note: using percentage calculation or ratio award application and analysis. Max 1 for application.

Application could include: calculation of relevant ratios/use of numbers, demand risen rapidly, increased scale. [6]

7. O/N 15/P11/Q2/e

- (a) Knowledge [1] – award 1 mark for identification of relevant point(s) [max 1]
 Application [1] – award 1 mark if relevant reference made to this business
 Analysis [2] – award up to 2 marks for relevant development of point(s)
 Evaluation [2] – justified decision as to whether Ramford should be worried about its performance

Points include:

- Sales down [k] which is a 25% fall [app + an]
- (net) profit down [k] by \$10m [app]
- Profit margin increased [k] to 40% [app+ an] showing better control of fixed costs [an]
- ROCE has fallen [k] to 20% [app + an] showing a lower return on each \$ invested [an]
- Financial Director is aware of the problem [k] as they are cutting the number of products to 10 [app]

Note: using percentage calculation or ratio award application and analysis. Max 1 for application.

Application marks may be awarded for appropriate use of the following: appropriate calculations/use of numbers, diseconomies of scale, four factories, 80 to 10 products

8. M/J 15/P12/Q1/e**(a) Knowledge [1]** – award 1 mark for identification of relevant issue(s)

Positive or negative points allowed or alternative ways to improve profitability [max 1]

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

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether new technology is the best way to improve profitability. Candidate's final decision can be either for or against the statement

Relevant points might include:

- Reduce labour costs [k] so lower costs [an]
- Less wastages or errors [k] so have to order less parts [app]
- Additional costs e.g. redundancy or training costs [k] initially reduce profitability [an]
- Impact on employee morale [k]
- Better quality / accuracy [k] for this luxury product [app] so customers might pay higher price [an] leading to bigger gap between costs and revenue [an]
- High initial costs of equipment [k]
- Speed up production [k] so leading to lower average costs [an]
- Might take away their USP [k] of being handmade [app] so reduce demand [an]
- Or Introduce more efficient working practices e.g. redesign factory layout [k]
- Or use cheaper materials [k] so lower variable costs [an] but could mean lower quality of watches [app]
- Or sell more through increased advertising [k] but could be expensive / may not work [an]

Application marks may be awarded for appropriate use of the following: luxury product / watches, skilled workers, quality assurance, handmade, production process, materials / parts

[6]**9. M/J 15/P11/Q4/d****(a) Knowledge [2 × 1]** – identification of relevant problem [max 2]

Application [2 × 1] – award 1 mark for each relevant reference made to the business

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

Relevant points might include:

- Lack of finance [k] to introduce new technology [app] because of less retained profits [an]
- Lenders/investors unwilling to give money [k] as seen as higher risk [an]
- Workers insecure [k] which results in poor motivation [an] as they fear job losses as the company try to cut costs [app]
- Damaged reputation [k] suppliers/customers might think the business is struggling [an] so look for alternative chocolate makers [app].
- Shareholders may sell shares [k] because the company can't pay dividends [an]

Accept points which refer to either gross profit or profit

Application marks may be awarded for appropriate use of the following: new technology, chocolate, cutting costs, increased competition.

Profit is not used to pay costs therefore **do not** accept answers which suggest they can no longer afford items.**Do not** accept solutions e.g. Making workers redundant **[6]****10. M/J 13/P12/Q4/b,c****(a) Application** – Correct answer = 1.2:1 or 1.2 [2]Method [1] – e.g. Current assets / current liabilities [1] or 60/50 [1] **[2]****(b) Knowledge/application [2 × 1]** – award 1 mark for each relevant way identified**Analysis [2 × 1]** – award 1 mark for each relevant explanation (i.e. show how it could help improve profitability)

Points might include:

- lower fixed/variable costs [k] could lead to ability to increase profit margin [an]
- close the least profitable shop [k] which will reduce rent and other fixed costs associated with that shop [app]
- buy in bulk to benefit from economies of scale [k]
- sell books online [k] so lower fixed costs
- higher price [k] [4]

11. M/J 13/P11/Q4/b

- (a) Application [2] e.g. correct answer – 0.666 [2] Also accept 0.66, 0.67, 2:3 or 1:1.5 [2]
Correct method – Current assets / current liabilities or 50/75 [1] [2]

12. O/N 12/P11/Q3/a,b,d,e

- (a) Clear understanding [2] Some understanding [1]
Capital employed refers to the money invested in the business on a long term basis [2]. It measures the value of the assets at the disposal of the management. [2] It is often measured in terms of long term loans plus shareholders funds [2]. Also accept for full marks a formulae type answer such as TA – CL or FA + CA – CL
Some understanding would be an answer that said it is the money [capital] used in the business [1].

Application/analysis [2] [2]

- (b) Correct answer [2] Method [1]
Current assets / current liabilities = 650/550 = 1.18 [2]
Accept answer 1.2 for full marks
A ratio answer i.e. 1.2:1 will also gain full marks
Knowledge [3 × 1] – identify what the accounts might show the stakeholder
Analysis [3 × 1] – showing why the information might be useful to the stakeholder [2]

- (c) **Creditors** owed money so keen to see size of other debts of business and what security exists – assess risk of default.
Employees might show them how profitable the business is and therefore how secure their employment is/potential for higher wages in the future.
Shareholders would assess the profitability of the business and use it to assess the use of their funds.
NB Other reasons for each stakeholder's interest could be made which are also valid. Future creditors also acceptable as an interpretation of the question i.e. looking ahead to assess credit worthiness. [6]
Knowledge of performance measures [2]

- (d) Data interpretation could be descriptive or analytical, and so knowledge can be demonstrated in different ways.
Knowledge could be shown by:
- identifying suitable ratios (2 marks max.) Analytical ratios that could be used are ROCE/ gearing/liquidity [last two ratios not really performance ratios but will be credited] and/or
 - by identifying changes in the data. The maximum knowledge mark for simply describing changes between the two years is 1 mark.

Application/analysis of data [2]

Ratio analysis shows

ROCE	2010 12.3%	2011 17.14%	Improvement
Current ratio	2010 1.33	2011 1.18	Marginal worsening
Gearing ratio	2010 53%	2011 50%	Improvement

Any manipulation of figures gains analysis marks e.g. calculation of ratios or calculation of % rate of increase. Calculation of same ratio for one or both years gains 1 mark.

If an answer just looks at net profit and says \$80m in 2010 and \$120m in 2011 and/or fixed assets have risen from \$500m to \$600m and net assets have increased from \$650m to \$700m so the performance is better because it is more profitable. This answer just looks at the figures and draws simple conclusions. It will gain 2 marks [1 for K and 1 for Ev but NO application/analysis mark]

Conclusions based on knowledge/analysis [2]

Evaluation is for forming a judgement on the analysis or perhaps from drawing on wider context such as difficult to assess whether performance is really improved because no data for previous years or other competitors' results.

For full marks the conclusion has to refer to ROCE as this is the key performance ratio. E.g. the performance of the business has improved because the ROCE has significantly increased. The only minor worry is the deterioration in liquidity. [6]

13. M/J 12/P12/Q3/b,c

(a) Correct answer [2]: 15%.

Method only [1]: e.g. correct formula for ROCE = net profit/capital employed * 100 [1],
75/500 * 100 [1].

N.B. answer must include % sign to be awarded 2 marks. [2]

(b) Knowledge [2 × 1]: award 1 mark per relevant reason.

Application/analysis [2 × 1]: award 1 mark per relevant explanation (i.e. explain why issue for shareholders).

Reasons might include:

- will want to know how well the company has performed (e.g. are they making a profit) [k]
to know how much dividend they might receive [an]/whether it is worthwhile to CARRY on investing in the company [an]
- potential investors will want to know if it is worth investing in company [an] as if returns are poor they will look for alternative investments [an]
- is the company being run efficiently (e.g. liquidity, debt levels) [k]
- whether likely to see a rise in share price if business is successful [k]
- to compare with other businesses accounts [k] to decide which one to invest in [an]. [4]

Unit 6: External Influences on Business Activity

6.1: Economic issues

1. O/N 17/P11/Q4/b

(a) Identify two ways (other than legal controls) that a government might use to influence business decisions.

Way 1:.....

.....

Way 2:.....

.....

[2]

2. M/J 17/P12/Q3/a,c

Five years ago Manisha started making cakes for celebrations, such as weddings and birthdays, from her home. Now she has a small shop and 3 employees. Product quality is important to her business. Manisha said: 'I have benefited from the economic boom but I did not expect demand to increase by 500% each year. Somehow I have managed to cope with higher interest rates and all the challenges of being a sole trader. The business is profitable at last but I have to work every day.' A friend has offered to become Manisha's business partner.

(a) What is meant by an 'economic boom'?

.....

.....

.....

.....

[2]

(b) Identify and explain two ways in which higher interest rates might affect cake making business

Way 1:

.....

Explanation:

.....

Way 2:

.....

Explanation:

.....

[4]

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3. M/J 17/P11/Q4/b,c

GKK makes plastic bottles for a range of products from food to chemicals. GKK buys its raw materials from a low-cost country. GKK's organisational structure is wide with a short chain of command which allows for delegation. The Government plans to introduce new legal controls to protect the environment. The Operations manager said: 'The Government might achieve one of its objectives but how does it affect GKK? This is a competitive market so prices are important.' He wants to improve efficiency and plans to use lean production.

(a) Identify two Government economic objectives.

Objective 1:

.....

Objective 2:

.....

[2]

(b) Identify and explain two benefits to GKK of increasing efficiency.

Benefit 1:

.....

Explanation:

.....

Benefit 2:

.....

Explanation:

.....

[4]

4. O/N 16/P11/Q2/b

Dowson is a large business which owns a number of shops. It sells a range of electrical goods such as computers and televisions. The Finance Director has been looking at some recent financial data, as shown in Table 1. He is pleased with Dowson's liquidity but knows he must reduce its high level of debt including an overdraft of \$6m. He said: 'The economy is in recession. Many small retailers have failed. Size is an advantage!'

Table 1: Extract of financial data for Dowson

	2015	2016
Revenue	\$280m	\$300m
Profit	\$175m	\$180m
Current ratio	1.2:1	1.5:1
Acid test ratio	0.8:1	0.5:1
Return on capital employed	10%	10%

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(a) What is meant by a 'recession'?

.....
.....
.....

[2]

5. O/N 15/P12/Q4/a,b,e , M/J 15/P11/Q2/b

Nellis is a public limited company. It specialises in building large luxury houses. Over the past 3 years its profits have increased as the country is experiencing an economic boom. 'It's not all good news – the Government has announced plans to increase interest rates and introduce new legal controls to protect the environment' said the Managing Director. He believes these new legal controls to protect the environment will only make businesses (such as Nellis) less profitable.

(a) What is meant by an 'economic boom'?

.....
.....
.....
.....

[2]

(b) Identify two stages (other than boom) of the business cycle.

Stage 1:

Stage 2:

[2]

(c) The Managing Director believes that the new legal controls to protect the environment will only make businesses (such as Nellis) less profitable. Do you agree? Justify your answer.

.....
.....
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.....

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(a) Identify two features of a recession.

Feature 1:

.....

Feature 2:

..... [2]

(b) Identify two effects of a cut in interest rates on businesses like multinational energy company.

Effect 1:

.....

Effect 2:

..... [2]

(c) Identify and explain two actions that pressure groups could use to influence JWR's decision.

Action 1:

.....

Explanation:

.....

Action 2:

.....

Explanation:

..... [4]

(d) Do you think that the Government of country U should try to attract multinational businesses? Justify your answer.

.....

.....

.....

.....

.....

.....

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Way 2:

.....

Explanation:

..... [4]

11. M/J 13/P12/Q1/a

Brakker is a public limited company which specialises in building large boats. Each boat costs \$4m to build and the company adds 30% to the total cost to calculate the selling price. 'Last year profits fell – but this happens in a recession' said the Finance Director. 'Yes, I am worried. If we cannot get more orders we will have to make some of our skilled workers redundant.' All Brakker workers are members of a trade union.

(a) What is meant by a 'recession'?

.....

.....

.....

..... [2]

12. M/J 13/P12/Q2/c

B&G manufactures a popular hair shampoo called Slick. The Managing Director thinks that Slick is near the end of its product life cycle. He believes it would be better to use extension strategies rather than develop a new product. The Operations Director thinks quality control can help the business comply with new consumer protection laws.

(a) Identify and explain **two** ways in which consumer protection laws could benefit B&G's customers.

Way 1:

.....

Explanation:

.....

Way 2:

.....

Explanation:

..... [4]

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13. M/J 13/P12/Q5/b

ANZ is a large multinational company which manufactures aeroplanes. Growth is an important objective for the company. ANZ wants to start producing in country P for the first time. The new factory will operate for 24 hours a day. A pressure group in country P believes that all business activity is bad for the environment. It wants the Government to do more to control business activity.

(a) Identify **two** measures a Government could use to control business activity.

Measure 1:

Measure 2:.....[2]

14. M/J 13/P11/Q4/c

Luxury Destinations owns three hotels in country X. The business spends a lot of money on staff training. The Finance Director is pleased with the financial position of the business. 'However, the appreciation of our country's currency and the Government's plan to increase taxes might cause problems to our business in the future' he said.

Table 1: Luxury Destinations financial information (\$000s)

	2011	2012
Gross profit	195	220
Net profit	30	60
Fixed assets	300	350
Current assets	60	50
Current liabilities	60	75

(a) Identify and explain **two** problems that an increase in taxes could cause for Luxury Destinations.

Problem 1:

.....

Explanation:

.....

Problem 2:

.....

Explanation:

.....[4]

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15. O/N 12/P12/Q5/a,b

Country W has a mixed economy. Herio is a Government economist. He said: 'Business activity in the private sector can lead to external costs, such as pollution. It can also create external benefits. I believe that businesses that create external benefits should be encouraged and those that create external costs should be closed down.' Country W has low economic growth and rising inflation.

(a) What is meant by 'the private sector'?

.....
.....
.....
..... [2]

(b) What is meant by 'rising inflation'?

.....
.....
.....
..... [2]

16. O/N 12/P11/Q5/d

Greenfield manufactures furniture. The company imports wood and other raw materials from several countries. Marcos is the Managing Director of Greenfield. Marcos said that his company was affected by import quotas and changes in exchange rates. He said: 'Greenfield has to buy its raw materials from other countries as there are no timber (wood) resources in our own country.'

(a) The Government in Greenfield's country is introducing consumer protection laws. Identify and explain three ways in which Greenfield's business could be affected by these new laws.

Way 1:
.....

Explanation:
.....

Way 2:
.....

Explanation:
.....

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Way 3:

.....

Explanation:

..... [6]

17. M/J 12/P11/Q3/b

The Government of country H is concerned about the effect of business activity on the environment. It wants to encourage sustainable development. To do this, it is planning to introduce laws to encourage environmentally-friendly production methods. A number of businesses will be affected by these new laws.

The Government of country H has collected the data shown in Table 1. Gross Domestic Product (GDP) measures the value of the total output produced in a country in one year. The GDP of country H has risen from \$625m in 2000 to \$825m in 2011.

Table 1: Percentage of GDP by different sectors

	% of GDP	
	2000	2011
Primary sector	35	15
Secondary sector	40	25
Tertiary sector	25	60

(a) What is meant by 'sustainable development'?

.....

.....

.....

..... [2]

6. M/J 15/P12/Q2/e**(a) Knowledge [1] award 1 mark for identification of relevant issue(s) [6]****Must relate to consumers**

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

Analysis [2] – award up to 2 marks for relevant development of point(s)

Evaluation [2] – justified decision made as to whether the Government in country Z is right to be concerned about the effect of multinational companies such as Alkin **on consumers**

Candidate's final decision can be either for or against the statement

Relevant points might include:

- Access to international brands [k] so more consumer choice [an] so better able to find cereal that suits their individual needs [app]
- Increased competition [k] as local businesses have to respond [an] so lower prices [an]
- Fewer choices [k] so smaller producers forced out of business [an] so prices may increase [an]
- Minimum standard [k] as goods same all over the world [an]
- help meet customers demand [k] in fast growing market [app] as able to supply more [an]

Application marks may be awarded for appropriate use of the following: food, cereals, brands, fast growing market

7. O/N 14/P11/Q2/e**(a) Knowledge [2 × 1] award 1 mark for each relevant issue identified. [6]**

Application [1] – award 1 mark if relevant reference made to this type of business.

Analysis [1] – award 1 mark for relevant development of point(s).

Evaluation [2] – justified decision made as to whether Rakesh's business is likely to be less successful.

Points might include:

- Recession could mean a fall in disposable income [k]
- Higher unemployment [k] so fall in people's living standards [an] so might not be able to buy a new car [app]
- Depends on what is meant by successful [k]

Developed answer:

Recessions usually mean a fall in disposable income [k] and an increase in unemployment [k]. Both of these usually mean a fall in consumer demand [an] especially for non-essential products such as cars [app]. This is not good news for Rakesh's business [eval]. However, it is possible that there will be a switch in demand towards cheaper cars [an] and this might help his sales so he could still be successful [eval].

8. M/J 14/P12/Q4/b**(a) Application [2 × 1] – award 1 mark per reason. [2]**

Ways could include: financial help such as grants OR subsidies, low tax rates, cheap rent areas, low interest rates, provide training, offer advice, organise business fairs, improve infrastructure, reduce regulations, tariffs on imports.

9. M/J 14/P11/Q4/a,b,c,e**(a) Knowledge [2 × 1] one mark per feature [2]**

Features could include: falling demand, fall in business output, rising unemployment, business losses or lower profit or closure, less money circulating, less growth

(b) Application [2 × 1] – award 1 mark per effect [2]

Points could include: Lower cost of borrowing money, existing loans could become cheaper, encourage businesses to expand, increased demand.

- (c) Knowledge [2 × 1] – award 1 mark for each relevant action [4]
Application [2 × 1] – award 1 mark for each relevant explanation of how it would affect the decision to set up a new power station

Actions include:

- Lobbying government [k] to try to stop JWR from locating the power station in certain locations [app]
- Organise a boycott [k] so customers do not buy electricity from JWR [app]
- Write letters to newspapers [k]
- Hold public meetings [k]
- Arrange a meeting with JWR [k]
- Protest / demonstration [k]
- Petitions [k]
- Direct action [k].

- (d) Knowledge [2] – award up to 2 marks for identification of relevant issue(s). [6]
Analysis [2] – award 1 mark for relevant development of point(s)
Evaluation [2] – justified decision made as to whether the government of country U should try to attract businesses like JWR. Either viewpoint is acceptable.

Relevant points might include:

- Increased employment [k] which can help improve living standards [an]
- Improved international reputation[k] could encourage other businesses to set up in country [an] helping economic growth [an]
- Depletion of local resources or damage environment [k] could increase pollution levels [an]
- Can switch profits between countries to avoid taxes [k] so country might not receive much additional tax revenue [an]
- MNCs are given incentives [k] money which could have been spent supporting local business [an]
- Can force local businesses to close [k] as they cannot compete with such large and powerful businesses [an].

10. O/N 13/P11/Q4/a,b,c

- (a) **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. [2]

- (b) **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. [2]

(c) **Knowledge** [2 × 1] – award 1 mark per way [max 2] [4]

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]

11. M/J 13/P12/Q1/a

- (a) **Good knowledge** [2] – Period in the economic/trade cycle when GDP falls [2] OR a general slowdown in economic activity [2]
Some knowledge [1] – e.g. fall in output [1] or identifies one or more characteristics such as rising unemployment [2]

12. M/J 13/P12/Q2/c

- (a) **Knowledge/application** [2 × 1] – identification of way [4]

Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how or why it is a benefit for B&G's customers)

Points might include:

- **legal protection** [k] so can take them to court if cannot resolve issue with business [an]
- **rights to refunds if product is faulty** [k] so they can get their money back if problem [an]
- **no misleading advertising** [k] so customers know the shampoo advertised is the same as what they are buying [an]
- **products are fit for purpose/safe to use** [k] so products will actually clean their hair OR doesn't harm people's hair when used [an]
- **right weight** [k]

Note: do not accept answers that could not be related to this type of business, e.g. price controls

13. M/J 13/P12/Q5/b

- (a) **Application** [2] – 1 mark per method [2]

Methods include: email/letter/telephone/meeting/video conference

Accept any reasonable answer.

Do not accept 'verbal or written' as these are categories rather than specific methods.

14. M/J 13/P11/Q4/c

- (a) **Knowledge** [2 × 1] – identification of problem [1 mark per problem] [4]

Application/analysis [2 × 1] – explanation to show how problem might affect LD

Points might include:

- **demand/sales may fall** [k]
- **suppliers may increase their prices** [k] and therefore costs for the company could rise [an]
- **company may have to pay more tax** [k] and therefore may decide to put their prices up [an]
- **consumers have less money to spend** [k] therefore demand for holidays fall [an]
- **lower profits** [k] meaning lower returns for owners/less money to invest [an]

15. O/N 12/P12/Q5/a,b

- (a) Clear understanding [2] e.g. when business activities are **owned** by individuals. [2]
Some understanding [1] e.g. run by individuals OR not controlled directly by government or profit orientated OR has shareholders OR controlled by person/group of people.
- (b) Clear understanding [2] Inflation refers to the upward movement in general prices over a period of time. Rising inflation implies that this is an increasing rate/rapidly. [2]
Some understanding [1] e.g. prices keep going up.
For both marks must show some understanding of inflation and that it is increasing.

16. O/N 12/P11/Q5/d

- (a) Knowledge [3 × 1] [6]

Application/analysis [3 × 1]

Points could include:

- Minimum safety standards have to be met
- Advertising claims might have to be altered
- Minimum quality standards required
- Labelling of products might need adjustments
- Consumer rights if unhappy with products need to be considered
- Price controls

Candidates should explain these points to show how business might be affected. So if the candidate said that certain standards would have to be met then this will mean that Greenfields might have to alter their specifications to meet these new requirements.

17. M/J 12/P11/Q3/b

- (a) Clear understanding [2] e.g. being able to maintain levels of production for a good or service over a long period of time OR ability to meet needs of present population without compromising ability of future generations to meet their own needs.
Some understanding [1] e.g. able to maintain output for ages/no impact on surroundings/ production which does not damage (or pollute) the environment. [2]

6.2 Environmental and ethical issues

1. O/N 17/P12/Q2/c

CGM makes high quality shoes using job production. The production method makes use of specialisation. CGM operates in a niche market. CGM managers know that all business activity creates external costs, so they always try to act in ways that protect the environment. The Operations Director wants to increase profit. CGM could either buy cheaper raw materials or introduce new technology into the production process. The new technology would cost \$30 000 and could reduce the number of employees from 30 to 26.

(a) Identify and explain **two** ways in which CGM could try to protect the environment.

Way 1:.....

.....

Explanation:.....

.....

Way 2:.....

.....

Explanation:.....

..... [4]

2. O/N 17/P11/Q3/d

GDC is a transport delivery business in country Z. It operates in a competitive market. GDC has 5000 employees and 1000 delivery vehicles. GDC's organisational structure has many levels of hierarchy with a long chain of command. The managers use an autocratic leadership style. Last year GDC delivered 2 billion parcels for businesses. The Managing Director said: 'Having a good reputation is important. We have also benefited from economies of scale'. GDC wants to expand its operations to another country, but cannot decide the best way to do this.

(a) Identify and explain **two** reasons why a good reputation might be important to transport delivery business.

Reason 1:.....

.....

Explanation:.....

.....

.....

.....

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Reason 2:.....
.....

Explanation:.....
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.....
.....

[6]

3. O/N 17/P11/Q4/d,e

CHONS is a public limited company. The directors want to open a new coal mine. All the coal will be exported. The Managing Director is hopeful that the Government will allow the coal mine to be opened. She said: 'CHONS always meets legal controls. In an area of high unemployment surely creating jobs is more important than protecting the environment. Most stakeholder groups including shareholders and suppliers are happy. CHONS will not be asking for any Government support.'

Table 3: Information about the proposed coal mine

Planned output	50m tonnes per year
Number of years coal mine will operate	60 years
Jobs created	10 000
Level of waste products causing pollution	High
Risk of traffic problems	High

(a) Identify and explain **two** ways in which legal controls might affect coal mine business.

Way 1:.....
.....

Explanation:.....
.....
.....

Way 2:.....
.....

Explanation:.....
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.....

[6]

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(b) What is meant by a 'focus group'?

.....
.....
..... [2]

(c) Identify and explain **two** advantages to soup and hot drinks business of selling its franchise.

Advantage 1:
.....

Explanation:
.....

Advantage 2:
.....

Explanation:
..... [4]

5. M/J 17/P11/Q4/d

GKK makes plastic bottles for a range of products from food to chemicals. GKK buys its raw materials from a low-cost country. GKK's organisational structure is wide with a short chain of command which allows for delegation. The Government plans to introduce new legal controls to protect the environment. The Operations manager said: 'The Government might achieve one of its objectives but how does it affect GKK? This is a competitive market so prices are important.' He wants to improve efficiency and plans to use lean production.

(a) Identify and explain **two** ways in which new legal controls to protect the environment might affect GKK.

Way 1:
.....

Explanation:
.....

Way 2:
.....

Explanation:
.....

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.....
..... [6]
.....

6. M/J 16/P12/Q4/d,e

KLG is based in country X. It specialises in making electrical parts which it sells to washing machine manufacturers in country X. The Managing Director is planning to relocate to country Y, which is a low-cost country. She said: 'This will allow us to pay employees low wages for working long hours as there are few legal controls on employment and health and safety. KLG cannot be both ethical and profitable. Changes in exchange rates and import tariffs might cause us problems when we start exporting.'

- (a) Identify and explain two factors (other than exchange rates and import tariffs) that KLG should consider when deciding where to relocate.

Factor 1:

Explanation:

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Factor 2:

Explanation:

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- (b) The Managing Director believes that 'KLG cannot be both ethical and profitable'. Do you agree? Justify your answer.

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[6]

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[6]

7. O/N 14/P12/Q5/e

Ali has just been appointed as Managing Director of Anypart, a large manufacturing business. He told Anypart’s Board of Directors: ‘Behaving ethically will always lead to lower profits. I want our employees to work longer hours, have fewer holidays and become more productive. This will reduce costs of each unit of output and will benefit all our stakeholders’. Not all of the directors agreed with him.

(a) Do you think that ‘behaving ethically will always lead to lower profits’? Justify your answer.

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[6]

8. O/N 14/P11/Q3/c

Natural Care is a company that makes soap. The business always acts in an ethical way. It follows fair trade principles by paying fair prices to its suppliers. It uses a cost plus pricing method when selling its products. Table 2 gives data about the company's sales of soap and its share of the national market for soap.

Table 2

Year	Natural Care sales (\$m)	Market share of Natural Care (%)
2012	40	10
2014	44	7

The Marketing Director of Natural Care wants to introduce a new competitive pricing strategy to help regain market share. She also wants the Board of Directors to think about changing its ethical policy.

- (a) Identify and explain two advantages to business of acting in an ethical way by paying fair prices to its suppliers.

Advantage 1:

.....

Explanation:

.....

Advantage 2:

.....

Explanation:

..... [4]

9. M/J 14/P12/Q4/e

- (a) Do you agree that there are likely to be more advantages for the local community from the new airport than disadvantages? Justify your answer.

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.....[6]

10. M/J 14/P11/Q3/e

HPT makes frozen food products. The Finance Director wants to improve HPT's cash flow position. Table 1 is an incomplete cash flow forecast for the next 3 months. The Finance Director thinks HPT should not use expensive packaging. He is also worried that new Government health & safety laws will not benefit the company and will only add to its costs.

Table 1: Cash flow forecast (\$000's)

	Month 1	Month 2	Month 3
Opening balance	(50 000)	(30 000)	(40 000)
Cash inflows	200 000	180 000	200 000
Cash outflows:			
Wages	60 000	60 000	60 000
Packaging	20 000	20 000	20 000
Raw materials	45 000	55 000	45 000
Fixed costs	55 000	55 000	55 000
Total cash inflows	X	190 000	180 000
Net cash flow	20 000	Y	20 000
Closing balance	(30 000)	(40 000)	(20 000)

Note: numbers in brackets are negative.

- (a) The Finance Director is worried that new Government health & safety laws will not benefit the company and will only add to its costs. Do you agree? Justify your answer.

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.....[6]

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11. O/N 13/P11/Q4/d

Table 2 gives data about the economy of country C.

Table 2

Year	National income per person (\$)	Inflation (%)	Unemployment (%)
2010	650	5	10
2011	640	3	12
2012	600	1.5	18

The economy of country C is in recession. The Government wants to create more jobs by encouraging more businesses to start up. However some pressure groups are against this because they think that more businesses will cause more external (social) costs.

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

Cost 1:

.....

Explanation:

.....

Cost 2:

.....

Explanation:

.....

Cost 3:

.....

Explanation:

..... [6]

12. M/J 13/P12/Q5/a,e

ANZ is a large multinational company which manufactures aeroplanes. Growth is an important objective for the company. ANZ wants to start producing in country P for the first time. The new factory will operate for 24 hours a day. A pressure group in country P believes that all business activity is bad for the environment. It wants the Government to do more to control business activity.

(a) What is meant by 'pressure group'?

.....

.....

.....

..... [2]

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Benefit 3:

Explanation of how benefit is created:

.....

..... [6]

(b) Herio believes businesses that create external costs should be closed down. Do you agree with him? Justify your answer.

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..... [6]

14. O/N 12/P11/Q5/b

Greenfield manufactures furniture. The company imports wood and other raw materials from several countries. Marcos is the Managing Director of Greenfield. Marcos said that his company was affected by import quotas and changes in exchange rates. He said, 'Greenfield has to buy its raw materials from other countries as there are no timber (wood) resources in our own country.'

(a) Identify two ways that furnitures business might harm the environment.

Way 1:

.....

Way 2:

..... [2]

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15. M/J 12/P11/Q2/d

Sunil is a sole trader. He likes owning a small business. His shop sells low price raincoats. Sales vary throughout the year. The market for raincoats is competitive, but as Sunil makes a profit he doesn't think competition is a problem for his business. In order to protect consumers, the Government of Sunil's country has recently introduced new laws to protect consumers.

- (a) Identify and explain **one** way in which consumer protection laws might affect Sunil's business and **one** way consumer protection laws might affect his customers.

Way consumer laws affect Sunil's business:

.....

Explanation:

.....

.....

.....

Way consumer laws affect Sunil's customers:

.....

Explanation:

.....

.....

..... [6]

16. M/J 12/P11/Q3/e

The Government of country H is concerned about the effect of business activity on the environment. It wants to encourage sustainable development. To do this, it is planning to introduce laws to encourage environmentally-friendly production methods. A number of businesses will be affected by these new laws.

The Government of country H has collected the data shown in Table 1. Gross Domestic Product (GDP) measures the value of the total output produced in a country in one year. The GDP of country H has risen from \$625m in 2000 to \$825m in 2011.

Table 1: Percentage of GDP by different sectors

	% of GDP	
	2000	2011
Primary sector	35	15
Secondary sector	40	25
Tertiary sector	25	60

Answer Section

1. O/N 17/P12/Q2/c

(a) Knowledge [2 × 1] – award 1 mark for each relevant way

Application [2 × 1] – award 1 mark for each explanation in context

4

Possible points might include:

- Create less waste [k] by changing way make shoes [app]
- Change materials used OR use sustainable resources [k] so reduce external costs [app]
- Use less materials OR less packaging [k]
- Use less energy OR renewable energy [k] by buying new technology [app]
- Buy local [k] reducing distance travelled for raw materials [app]
- Dispose of waste responsibly [k]
- Recycle [k] any leftover leather [app]
- Raise awareness of environmental issues [k]
- Develop environmentally friendly products [k]
- Use environmentally friendly machinery OR production methods OR examples e.g. fit filters or create less smoke or create less noise [k]
- Reuse [k]

2. O/N 17/P11/Q3/d

(a) Knowledge [2 × 1] award one mark for each reason

Application [2 × 1] award one mark for each relevant reference to this business

6

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

Points might include:

- Build trust OR loyalty [k] so customers want to use their delivery services [app] and keep purchasing from them [an]
- Attract new customers [k] and therefore sales will increase [an]
- Easier to raise finance [k] which could help growth plans [app]
- Way to attract OR retain employees [k] so able to offer a good service [an]
- Can charge higher prices [k] for each delivery [app] helping it increase revenue per unit [an]
- Create brand awareness [k] so customers do not buy from competitors [an] in this competitive market [app]
- Word of mouth promotion [k]

3. O/N 17/P11/Q4/d,e

(a) Knowledge [2 × 1] award one mark for each way identified

Application [2 × 1] award one mark for each relevant reference to this business

6

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

Points might include:

- Need to provide safety equipment [k] such as helmets for miners [app] increasing costs [an]
- Limit working hours [k] so cannot obtain 50 m tonnes [app]
- Minimum wages [k] so cannot afford to create 10 000 jobs [app]
- Pollution restrictions/permits [k] as coal burning could damage environment [app] so stakeholders become unhappy [an]
- Where business is located [k] as need Government to allow mine to be built [app] without it they cannot start operations [an]

7. O/N 14/P12/Q5/e

- (a) Knowledge [2 × 1] award 1 mark for each issue identified [6]
 Analysis [2] – award up to 2 marks for relevant development of point(s)
 Evaluation [2] – justified decision made as to whether behaving ethically will always lead to lower profits

Points might include:

- Ethical could increase costs [k] leading to higher prices [an]
- Some customers want ethical goods [k] so might be willing to pay more [an]
- Enhance reputation [k] could help them attract potential customers [an]
- Some workers and investors might only want to work with / for an ethical business [k] so easier to attract / retain workers or raise capital [an]
- Shareholders want higher profits [k] so they get a better return on their investment [an]
- Unethical treatment of workers could lead to higher labour turnover [k] could increase costs [an] such as recruitment leading to lower profits [an].

Do not accept answers such as motivation on its own, unless clearly linked to idea of ethical behaviour.

Developed answer:

Being ethical incurs costs [k] paying a fair price to suppliers will increase variable costs [an] so profit could fall in short term [eval]. However customers might be prepared to pay more for ethical products, which could lead to higher revenue [an] which will more than make up for the additional costs involved [eval].

8. O/N 14/P11/Q3/c

- (a) Knowledge [2 × 1] – award 1 mark for each relevant advantage. [4]
 Analysis [2 × 1] – award 1 mark for each relevant explanation showing how the factor creates an advantage.

Points might include:

- Good public image / reputation [k] so customers are more willing to pay higher prices [an]
- Management and owners feel 'happy' with the way the business operates [k]
- Business more attractive to potential employees [k] as they will want to be associated with an ethical company [an]
- Keeps suppliers happy / trusted [K] therefore less likely to lose their suppliers [an].

Note – do not reward discounts as the question is asking about fair pricing

9. M/J 14/P12/Q4/e

- (a) Knowledge [2] – award up to 2 marks for identification of relevant issue(s). [6]
 Application [1] – award 1 mark if relevant reference made to effect/impact of airport
 Analysis [1] – award 1 mark for relevant development of point(s).
 Evaluation [2] – justified decision made as to whether there are more advantages or disadvantages for the local community.

- Improved infrastructure [k] so able to travel around the area more easily or overseas [an] as people have access to air travel [app]
- Economic growth of region as likely to lead to more jobs, e.g. taxis/hotels/tourism/ higher profile for the area
- Job opportunities [k] as will need employees to work at check in/baggage [app] so can earn an income [an]
- Pollution e.g. air [k] as frequent flights will lead to fuel emissions [app] which could damage the environment/noise pollution as planes will be taking off at all times of day and night so people cannot sleep
- Loss of space/natural resources [k] as airport will take up a lot of land [app]
- Reduction in house prices [k] as they become less attractive [an] due to increased noise, traffic [app] OR prices might rise [k] making it difficult for locals to buy first property [app]

10. M/J 14/P11/Q3/e

- (a) Knowledge [2] – award up to 2 marks for identification of relevant issue(s) [6]
 Application [1] – award 1 mark if relevant reference made to aspects of HPT's business
 Analysis [1] – award 1 mark for relevant development of point(s)
 Evaluation [2] – justified decision made as to whether the costs of meeting the H&S laws will be greater than the benefits for HPT. Either viewpoint is acceptable.

Points / additional costs could include:

- Cost of training, new equipment, wastage of food [k]
- Costs increase expenditure[an] and add to the cash flow problems of HPT [app] / or costs negatively affect the profitability [an]
- Worker motivation might increase [k] if workers feel safe [an] they may work harder and output / quality might improve [app].
- All businesses will be affected by the new laws [k] so even if costs rise, they can still remain competitive [an]
- Following health and safety laws will mean people will have trust in the food [k] because the food will be hygienic [app] this will lead to an increase in sales [an].

11. O/N 13/P11/Q4/d

- (a) Knowledge [3 × 1] – award 1 mark for each cost identified [6]
 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]

12. M/J 13/P12/Q5/a,e

- (a) Good knowledge [2] – group formed by people with a common interest [1] who will take action to achieve the changes they are seeking [1] [2]
 Some knowledge [1] – e.g. group formed by people with a common interest [1]

- (b) Knowledge [2 × 1] – award 1 mark for identification of issues [6]
 Analysis [2] – 1 mark for each relevant explanation (i.e. show why it is an issue)

Evaluation [2] – justified decision as to whether all business activity is bad for the environment

Points might include:

- use up scarce resources [k]
- social costs such as pollution [k] or destruction of natural environment [k]
- need some activity to produce goods to meet customer wants [k]
- some businesses do try to be environmentally friendly/ethical decisions [k] so might treat their waste before releasing it into the environment [an]

Developed example:

Business activity can create air pollution [k] and produce dangerous industrial waste [k]. However some businesses may take ethical decisions to reduce pollution [k] and protect the environment even though this may increase its costs [an]. Therefore, although all business activity affects the environment, it does not all damage it to the same extent [eval]. Even those that are bad are being turned clean by Governments implementing environmentally friendly policies to limit the harmful effects [eval].

13. O/N 12/P12/Q5/d,e**[6]**

- (a) Knowledge [3×1] – award 1 mark per external benefit identified.
Analysis [3×1] – award 1 mark for each relevant explanation (i.e. show how the benefit is created).

External benefits (positive externalities) include:

- creation of jobs in associated activities [k] and this will help reduce unemployment in the country [an]/improve standard of living [an]
- environmental benefits [k] – only allow one example
- local infrastructure improvements [k]
- build new roadway [k] and this may encourage other firms to set up in the area [an]
- assist economic growth [k]
- taxes paid to government [k] which can be spent on community based projects [an]
- training [k] so workforce is more highly skilled [an]
- improved trade balance/decreased imports/more self-reliance for the country [k]
- exchange rate improves [k].

- (b) Knowledge [2] – Identification of issues. **[6]**

Analysis [2] – develops the point to explain how or why issue needs to be considered.

Evaluation [2] – reasoned judgement made as to whether these businesses that create external costs should be closed down.

Points might include:

- external costs reflect the negative aspects of business activity [k]
- usually projects are only given approval when social benefits > social costs [k] so as long as the benefits are more no reason to stop all activity [eval] as people might lose out more if these businesses are closed down [an]
- still raise taxes for government which can be spent on public [k]
- almost all business activity creates some social costs [k]. Therefore the idea that all these businesses should be closed down is unsustainable [eval].

Note: A one sided answer can gain 6 marks but must address the external cost aspect.

14. O/N 12/P11/Q5/b

- (a) Application [2 × 1]

[2]

Their resources are mainly wood which is imported and therefore carbon footprint/pollution is high. The business may encourage the depletion of forests by increasing the demand for wood. The business also adds to pollution in terms of global warming and destruction of natural habitats. 1 mark per way. Answer must be in context.

15. M/J 12/P11/Q2/d

- (a) Knowledge [2 × 1]: award 1 mark per relevant way. **[6]**

Analysis [2 × 1]: award 1 mark for each relevant explanation.

Application [2 × 1]: award 1 mark for explaining why it is important to Sunil's business/customers'

Ways Laws affect Sunil:

- suppliers will have to spend more to meet new laws so likely to increase Sunil's costs
- prices might rise to meet additional costs of compliance leading to lower demand for Sunil's coats
- stricter laws might force closure of supplier which could lead to Sunil unable to meet orders
- could force Sunil to look for cheaper suppliers overseas.

Ways Laws affect Consumers:

- protect consumers against faulty goods
- ensure quality products e.g. coat is waterproof
- forced to pay higher prices as businesses have to spend more to meet new laws.

16. M/J 12/P11/Q3/e

(a) Knowledge [2 × 1]: identification of relevant issues.

[6]

Analysis [2]: explain how or why issue is important or not.

Evaluation [2]: reasoned judgement made as to effect of new environmental laws on ALL businesses.

To gain 6 marks, reference must be made to **all** businesses

Disadvantages include:

- techniques/products might be banned so unable to make or sell products
- changes might lead to increased costs for business e.g. new machinery leads to increased costs
- could place business at competitive disadvantage if laws do not apply to competitors from other countries.

Advantages include:

- could improve image of business if seen as environmentally friendly leading to increased reputation and sales
- new business opportunities as customers want 'green' products
- new techniques could help reduce waste or increase efficiency so lower costs in long run
- might already adopt environmentally friendly practices so no impact
- laws might help ensure that resources are better used so could continue to operate for longer time.

6.3: Business and the international economy

1. O/N 16/P12/Q2/e

\$LAND sells a wide range of products from food to toys. It has 400 shops in country B. \$LAND's marketing strategy is based on penetration pricing. \$LAND does no advertising and buys all its products directly from manufacturers. Revenue and profit have increased despite the country being in recession. The Marketing Director wants to expand the business by opening shops in other countries. He believes \$LAND will be successful in other countries.

(a) Do you think that \$LAND will be successful in other countries? Justify your answer.

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[6]

2. O/N 16/P11/Q1/a,b

C&C has a good reputation for making high quality, hand-made shoes. It has 120 full-time skilled employees. C&C needs to recruit another 20 production employees to meet increased demand. The Managing Director said: 'I don't know why people worry about globalisation. Two years ago we did not export, now exports are 10% of our output and increasing.' C&C has orders for 100 000 pairs of shoes in 2017. The Managing Director cannot decide whether to introduce new technology into the production process.

(a) What is meant by 'globalisation'?

.....
.....
.....
.....
.....

[2]

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(b) Identify two possible threats to hand made shoe manufacturer from globalisation.

Threat 1:.....

.....

Threat 2:.....

..... [2]

3. M/J 16/P12/Q4/a,c

KLG is based in country X. It specialises in making electrical parts which it sells to washing machine manufacturers in country X. The Managing Director is planning to relocate to country Y, which is a low-cost country. She said: 'This will allow us to pay employees low wages for working long hours as there are few legal controls on employment and health and safety. KLG cannot be both ethical and profitable. Changes in exchange rates and import tariffs might cause us problems when we start exporting.'

(a) What is meant by 'import tariff'?

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..... [2]

(b) Explain how a change in exchange rates might affect business when exporting.

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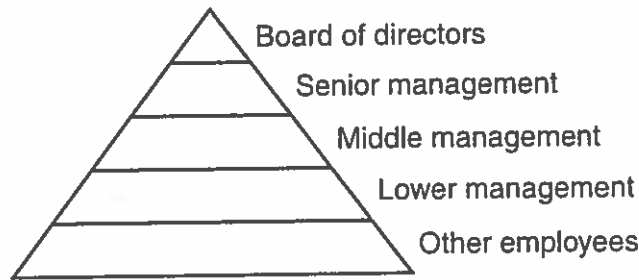
.....

..... [4]

4. O/N 14/P12/Q4/d

Grenada makes meat products such as pies, burgers and ready-made meals. It employs 10000 workers. It operates in many countries, each with different laws and traditions. Its organisation structure is tall and hierarchical. Spans of control are narrow and there is little delegation. Some middle managers complain that they are not allowed to make important decisions. The directors want to improve communication with employees.

Figure 2: Organisational structure of Grenada



(a) Identify and explain two disadvantages to Grenada of operating in a number of different countries.

Disadvantage 1:

.....

Explanation:

.....

.....

.....

Disadvantage 2:

.....

Explanation:

.....

.....

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[6]

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6. M/J 13/P12/Q3/d

Emir is the Production manager at a large food production factory. He wants to lower average cost to help the business remain competitive. All workers are paid using time rate. Emir believes that good internal communication is important. The company has decided to stop importing raw materials as this causes a lot of problems. Emir must choose a suitable method of communication to tell the overseas suppliers of his decision.

- (a) Identify and explain **two** possible problems of importing raw materials for this food production business.

Problem 1:

.....

Explanation:

.....

.....

.....

Problem 2:

.....

Explanation:

.....

.....

..... [6]

7. M/J 13/P11/Q4/a

Luxury Destinations owns three hotels in country X. The business spends a lot of money on staff training. The Finance Director is pleased with the financial position of the business. 'However, the appreciation of our country's currency and the Government's plan to increase taxes might cause problems to our business in the future' he said.

Table 1: Luxury Destinations financial information (\$000s)

	2011	2012
Gross profit	195	220
Net profit	30	50
Fixed assets	300	350
Current assets	60	50
Current liabilities	60	75

(a) What is meant by 'appreciation of our country's currency'?

.....
.....
.....
..... [2]

8. O/N 12/P12/Q4/b

Colour Rack manufactures paint in country Z. It sells its products to customers both nationally and internationally. Colour Rack uses a specialist transport company to deliver its products to customers. The Colour Rack brand is well known. Many of its factory employees are unhappy at work. They are well paid but lack motivation due to the repetitive nature of their work.

(a) Identify **two** problems Colour Rack could have when exporting its paint to customers in other countries.

Problem 1:
.....
Problem 2:
..... [2]

9. O/N 12/P11/Q5/a,c

Greenfield manufactures furniture. The company imports wood and other raw materials from several countries. Marcos is the Managing Director of Greenfield. Marcos said that his company was affected by import quotas and changes in exchange rates. He said: 'Greenfield has to buy its raw materials from other countries as there are no timber (wood) resources in our own country.'

(a) What is meant by 'import quota'?

.....
.....
.....
..... [2]

(b) Identify and explain **two** ways in which changes in exchange rates could cause problems for furniture business.

Way 1:
.....
Explanation:
.....

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Way 2:

.....

Explanation:

..... [4]

10. M/J 12/P12/Q1/d,e

Made Fresh is a company that manufactures high quality organic foods. The company uses ingredients that have been grown by local farmers in country J. Market research has shown that branding has helped the company to achieve its objectives. Recent bad weather in country J has led to many of the farm crops failing. Made Fresh is thinking about importing organic food ingredients from other countries nearby.

- (a) Identify and explain **three** import organic ingredients for the foods they manufacture.

Problem 1:

.....

Explanation:

.....

Problem 2:

.....

Explanation:

.....

Problem 3:

.....

Explanation:

..... [6]

- (b) The Government in country J wants to encourage international trade. Do you think this would be an advantage to Made Fresh? Justify your answer.

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..... [6]

- Improve international reputation of country [k]
- Inward investment / infrastructure development [k]
- More goods available [k]
- Companies pay taxes [k] therefore increasing income for the government [an]
- Profits are often repatriated [k] limiting the countries growth [an]
- Resources are depleted [k] so there is less available for other businesses [an]
manufacturing in the country needs raw materials [app]
- Local businesses close [k] due to increased competition [app]
- Exploitation can occur [k].

6. M/J 13/P12/Q3/d

(a) Knowledge [2 × 1] – award 1 mark for each problem identified [6]

Application [2 × 1] – award 1 mark if relevant reference made to food manufacturer

Analysis [2 × 1] – award 1 mark for each relevant explanation (e.g. show how or why it could be a problem)

Points might include:

- **depreciation in exchange rates of country where Emir's business is based [k]** so the cost rises which if passed onto customers could mean higher food prices [app] so demand drops [an]
- **delays in delivery might delay production [k]** so other ingredients might have to be wasted [app]
- **cost of returning any faulty products [k]**
- **higher cost of transport [k]** as travelling long distance likely to mean greater cost [an]/ as perishable goods might need specialist storage containers [app]
- **quality issues/speed of delivery is important [k]** as food likely to be perishable/easily damaged/not as fresh [app]
- **tariffs [k]** which increases the cost of importing ingredients [app] so lowering the profit margin [an]
- **quotas [k]** might only be able to import an certain amount of materials so cannot produce a full range/enough finished products [app] to meet demand [an]
- **language barriers [k]**
- **different quality standards between countries [k]**

7. M/J 13/P11/Q4/a

(a) Good knowledge/understanding [2]: Rise of exchange rate [2] or the value of the currency rises/ [1] so it buys more of another currency than before [1]

Some understanding [1] e.g. currency buys more imports

Do not accept a definition of exchange rate as this is not answering the question [2]

8. O/N 12/P12/Q4/b

(a) Application [2x1] – 1 mark per possible problem. [2]

Problems include:

- no knowledge of local customer tastes OR cultural differences
- communication issues
- local market conditions
- unknown brand (of paint)
- distribution networks OR transport costs
- tariffs OR quotas
- exchange rate issues
- legal restrictions e.g. bans, complex documentation.

Do not accept taxes as implies internal to country.

9. O/N 12/P11/Q5/a,c

- (a) Clear understanding [2] Some understanding [1] [2]

Quota refers to a limit on the flow of goods that are allowed into a country [2].

Simple answer might say something that affects the imports into a country [1]. Although this does not properly differentiate it from a tariff it can still be accepted. Do not reward an answer that says it affects the price [cost] of imports.

- (b) Knowledge [2 × 1] [4]
Application/analysis [2 × 1]

Problems might be:

- Difficulty in setting selling prices
- Fluctuating costs makes financial planning particularly difficult.

Explanation of how this might cause problems for Greenfield. Answer might say that the business imports raw materials and so a depreciation in their country's currency means that the cost of their furniture will rise. This causes a problem for Greenfield because profit margins will be reduced. Reference to BOTH appreciation and depreciation can be credited as separate points.

10. M/J 12/P12/Q1/d,e

- (a) Knowledge [3 × 1]: award 1 mark per relevant problem.

Analysis/Application [3 × 1]: award 1 mark for each relevant explanation. (explain how or why it might be a problem for Made Fresh.)

Problems include:

- government rules or restrictions [k] which might limit/restrict what food items can be imported which affects what they can get [an]
- tariffs [k] could make imported goods too expensive [an]
- quotas [k] which would limit the quantity of ingredients that MF could obtain [an]
- language problems [k] – so order wrong items/unable to order what needed [an]
- transport issues e.g. time [k] If buy from long way, food could perish in transit [an]
- exchange rates [k] depreciation of own currency could lead to higher cost of imports [an]
- costs of transport [k] if long distance need to protect perishable goods could increase expenses [an]
- delay in delivery [k] which could slow down production of food items [an]/lead to customers cancelling orders from MF [an]
- lack of contacts overseas [k]
- quality of fresh food [k] which could damage reputation of MF if imported items not fit to sell [an]/different standard between locally sourced and imports [k]
- too much paperwork [k].

Do not award analysis/application marks for points which clearly cannot be applied to a food manufacturer.

- (b) Knowledge [2 × 1]: identifies advantages/disadvantages [2] [6]

Analysis [2]: explain how factors could affect MF.

Evaluation [2]: reasoned judgement as to whether it is an advantage to MF or not. For two evaluation marks, the answer must be clearly in the context of this business.

Possible advantages include:

- access to materials not available in home country [k]
- access to new markets and products [k]
- means to raise international profile of business [k]
- increased sales by selling to larger global market [k]
- increased demand could increase production [k] so able to benefit from economies of scale [an]
- government might offer them grants/incentives [k].

Disadvantages include:

- increased competition [k] in home and international markets could mean that MF must offer lower prices [an]
- increased costs of transport if try to sell to overseas customers [k]
- increased costs of marketing [k] as need to promote business more so potential customers aware [an]
- possible shortage of some resources if other competitors set up in your home country [k].

May/June 2018 Paper 12

1 Adele started a dance school five years ago. Every year Adele pays herself a salary and makes \$1000 profit. The school offers a range of dance and exercise classes for children. It is a sole trader business. Adele believes using the right pricing method is important. Adele wants to expand the business by opening a second dance school. Based on her business plan, she forecasts that this will cost \$8000. Adele cannot decide whether a bank loan is the best source of finance for this expansion.

(a) Identify two features of a sole trader.

Feature 1:.....

.....

Feature 2:.....

..... [2]

(b) Identify two of the main sections of a business plan.

Section 1:.....

.....

Section 2:.....

..... [2]

(c) Identify and explain two reasons why using the right pricing method is important for Adele's business.

Reason 1:.....

.....

Explanation:.....

.....

Reason 2:.....

.....

Explanation:.....

..... [4]

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(d) Identify and explain two location factors that Adele should consider when deciding on a second school.

Factor 1:.....

.....

Explanation:.....

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.....

.....

Factor 2:.....

.....

Explanation:.....

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[6]

(e) Do you think that a bank loan is the best source of finance for Adele to use to expand the business? Justify your answer.

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[6]

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- 2 JSF is a business in the private sector. It has 50 production workers who operate machines. JSF makes a range of household products including towels and bed sheets. Most of the products are sold to retail businesses that take two months to pay JSF. The business is given two weeks' credit to pay its suppliers. The Finance manager has just prepared a cash flow forecast. He said: 'Cash outflows are too high. I have already reduced the budget for market research to zero. Training costs are \$1000 per month and cannot be reduced as training is important.' The Finance manager is thinking of other ways to improve cash flow.

Table 1: Cash flow forecast for JSF for the period July–September 2017 (\$000)

	July	August	September
Cash inflows	120	100	90
Cash outflows	150	120	120
Net cash flow	X	(20)	(30)
Opening balance	60	30	10
Closing balance	30	10	Y

- (a) What is meant by a cash flow forecast?

.....

[2]

- (b) Calculate the values for X and Y.

X:.....
 Y:.....

[2]

- (c) Identify and explain two benefits to JSF of market research.

Benefit 1:.....

 Explanation:.....

 Benefit 2:.....

 Explanation:.....

[4]

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(d) Identify and explain **two** reasons why training is important to JSF.

Reason 1:.....

.....

Explanation:.....

.....

.....

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Reason 2:.....

.....

Explanation:.....

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[6]

(e) Explain **two** ways (other than lower training costs) that JSF could improve its cash flow position. Which way do you think JSF should use? Justify your answer.

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[6]

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3 DPC operates 200 takeaway pizza shops. Over 75% of its pizzas are ordered through e-commerce. The Managing Director thinks 2017 was a successful year. She said: 'Looking ahead, there are signs that the economy is growing. However, DPC has a number of challenges. The Government plans to increase the minimum wage to \$5 per hour. DPC has to respond to environmental pressures as well. Food waste and litter caused by used pizza boxes are problems. Complaints from the local community about this are too high.'

(a) Identify **two** ways to measure business success.

Way 1:.....

.....

Way 2:.....

.....

[2]

(b) Identify **two** features of a growing economy.

Feature 1:.....

.....

Feature 2:.....

.....

[2]

(c) Identify and explain **two** ways in which an increase in the minimum wage could affect DPC.

Way 1:.....

.....

Explanation:.....

.....

Way 2:.....

.....

Explanation:.....

.....

[4]

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(d) Identify and explain two advantages to DPC of using e-commerce.

Advantage 1:.....

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Explanation:.....

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Advantage 2:.....

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Explanation:.....

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[6]

(e) Explain two ways in which DPC could respond to environmental pressures. Recommend which of the two options it should choose. Justify your answer.

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[6]

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4 JKL uses job production to make clocks. JKL buys all its raw materials locally and exports 60% of its products. The business has high fixed costs. JKL has 30 skilled employees. Many of them work part-time and delegation is encouraged. All workers receive an email from management every day to keep them informed about production issues. The Human Resources Director said: 'I think it is more cost-effective to try to retain our existing workers rather than to recruit new employees.' The Director wants to reduce barriers to communication, as he knows effective communication is important to help JKL meet its objectives.

(a) Identify **two** reasons for a business having objectives.

Reason 1:.....
.....

Reason 2:.....
.....

[2]

(b) Identify **two** fixed costs for JKL.

Cost 1:.....
.....

Cost 2:.....
.....

[2]

(c) Identify and explain **one** advantage and **one** disadvantage to JKL of using job production.

Advantage:.....
.....

Explanation:.....
.....

Disadvantage:.....
.....

Explanation:.....
.....

[4]

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- (d) Identify two possible barriers to communication for JKL. For each barrier, explain how JKL could reduce or remove it.

Barrier 1:.....

.....

How to reduce or remove it:.....

.....

.....

.....

Barrier 2:.....

.....

How to reduce or remove it:.....

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[6]

- (e) Do you agree that it is better for JKL to try to retain existing workers rather than recruit new employees? Justify your answer.

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[6]

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Answers Section

- 1 (a) Knowledge [2 × 1] Award 1 mark per feature** **2**
- Points might include:
- ∞ Keeps all profits
 - ∞ Unlimited liability
 - ∞ Unincorporated OR no separate legal identity
 - ∞ Takes all decisions OR own boss/ works for himself/herself
 - ∞ Has total ownership of business OR full control
 - ∞ Few legal requirements
- (b) Knowledge [2 × 1]: Award 1 mark per element.** **2**
- Points might include:
- ∞ Executive summary
 - ∞ Business aims OR targets OR vision statement OR objectives
 - Marketing OR any element of mix, e.g. pricing, product, place or promotion
 - ∞ Market research OR Competition OR market analysis
 - ∞ Financial, e.g. cash flow forecast OR budgets
 - ∞ Human resources OR number of employees OR skills needed
 - ∞ Production details
 - Organisational OR management details, e.g. structure, type of business, name and location of business
- (c) Knowledge [2 × 1]: Award 1 mark for each reason identified** **4**
- Application [2 × 1]: Award 1 mark for each explanation in context
- Points might include:
- ∞ Help attract customers [k] to go to her school [app]
 - ∞ Help retain customers [k] in the dance classes [app]
 - ∞ Maintain OR create business image [k] so that children want to attend [app]
 - ∞ Remain competitive OR don't lose customers to competitors [k]
 - Ensure cover costs OR survival [k] especially if she takes out a bank loan [app]
 - ∞ Ensure business makes a profit [k] to pay herself a salary [app]
- (d) Knowledge [2 × 1] Award 1 mark for each relevant factor** **6**
- Application [2 × 1] Award 1 mark for each relevant reference to this business
- Analysis [2 × 1] Award 1 mark for each relevant explanation
- Relevant points might include:
- ∞ Customers OR level of demand [k] for dance classes [app] to increase OR ensure revenue [an]
 - ∞ Cost OR availability of suitable premises [k] as might not be able to afford location [an] as only set aside \$8000 [app]
 - ∞ Government regulations OR availability of grants [k] which could stop her from opening in certain locations [an]

- ∞ Competitors OR loyalty to other businesses [k] by children [app] making it difficult to compete [an]
- ∞ Access to employees [k] as will need trained people to help or advise customers [an]
- ∞ Infrastructure OR transport links OR utilities OR internet access [k] as without electricity may be difficult to operate the site [an]
- ∞ Reputation / image OR security OR crime level OR pollution in area [k]
- ∞ Close to suppliers [k] to reduce transport costs [an]
- ∞ Personal preference [k]

(e) Knowledge [1] Award 1 mark for identification of relevant issue(s)

6

Application [1] Award 1 mark for a relevant reference to this business

Analysis [2] Award up to 2 marks for relevant development of point(s)

Evaluation [2] Award up to 2 marks for a justified decision on whether a bank loan is the best source of finance for Adele to use

Relevant points might include:

Loan

- ∞ Needs to be repaid [k]
- ∞ Have to pay interest [k] which will increase her costs [an]
- ∞ Have long time to repay [k] so has time to gain extra revenue to meet repayments [an]
- ∞ Can keep profits for future OR emergency [k]
- ∞ Has unlimited liability [k] as sole trader [app] so could lose personal assets if unable to repay [an]
- ∞ May need to offer security [k]
- ∞ Can borrow large amount or all the money [k]

Profits

- ∞ Using retained profits [k] but only has \$5000 [app + an] so would still need \$3000 [an]
- ∞ Using retained profits [k] as no need to repay [an]
- ∞ Using profit [k] could reduce the amount needed to borrow [an] which could reduce the amount of interest paid [an]

Additional options could include:

Take a partner [k] but must share profits [an]

Borrow from family and friends [k]

Use personal savings OR sell her assets [k]

Become a private limited company [k]

2 (a) Clear understanding [2]: an estimate of cash inflows and outflows of a business, (usually on a month by month basis)
OR Estimate of timings and amount of cash inflows and outflows over a given period of time or over months to come
Some understanding [1]: shows cash / money inflows and outflows

2

(b) Calculate the values for X and Y.

Application [2 × 1] award 1 mark per value

X = (30) or (30 000)

Y = (20) or (20 000)

2

(c) Knowledge [2 × 1] – award 1 mark per way identified

4

Application [2 × 1] – award 1 mark for each explanation in context.

Points might include:

- ∞ Greater awareness of (current) consumer needs / preferences (only once) [k] for towels and sheets [app]
- ∞ Help identify gaps in the market OR future trends [k]
- ∞ Find out about competitors OR size of the market [k] as in private sector [app]
- ∞ Helps set price [k] which could help increase cash inflow above \$9000 [app]
- ∞ Produce the correct amount of products [k] that could help reduce cash outflows which are too high [app]
- ∞ Reduces risks OR products launched with more confidence [k]
- ∞ Help decide how best to promote its products [k] to retailers [app]
- ∞ Help gain competitive advantage [k]

(d) Knowledge [2 × 1] Award 1 mark for each relevant reason identified

6

Application [2 × 1] Award 1 mark for each relevant reference to this business

Analysis [2 × 1] Award 1 mark for each relevant explanation

Relevant points might include:

- ∞ Increased motivation [k] so could lead to increased efficiency OR output OR faster [an] when making towels [app]
- ∞ Fewer customer complaints [k] from retailers [app] increasing customer loyalty OR sales OR revenue [an]
- ∞ Fewer mistakes OR less wastage OR better / maintain quality [k] of 50 production workers [app] lower costs of rework [an]
- ∞ Fewer accidents OR ensure safe working conditions [k] when operating machines [app]
- ∞ More skilled OR flexible employees OR workers know what to do [k] so able to cover absences of others [an]
- ∞ Less supervision needed [k]
- ∞ Help reduce number of employees leaving OR encourage employee loyalty OR retention [k] lowering recruitment costs [an]
- ∞ Help attract employees [k]
- ∞ Able to train others [k] so reducing training costs [an] below \$1000 per month [app]

(e) Knowledge [1] Award 1 mark for identification of relevant point(s)

6

Application [1] Award 1 mark for a relevant reference to this business

Analysis [2] Award up to 2 marks for relevant development of point(s)

Evaluation [2] Award up to 2 marks for a justified decision on which method JSF should use to improve its cash flow position

Relevant points might include:

Practical examples such as:

- ∞ Find cheaper supplier [k] as this would reduce cash outflow [an] but cheaper could mean lower quality leading to lower cash inflows / sales [an]

- ∞ Increase number of customers [k] which could increase cash inflows [an]
- OR
- ∞ Arrange a **short term loan** OR overdraft [k] giving them quick access to cash [an] especially at time when cash outflows are high [app]
- ∞ Reduce level of trade receivables (debtors) or ask trade receivables (debtors) to pay quicker [k] than 2 months [app]
- ∞ Delay purchases [k] so keeping cash in the business [an]
- ∞ Reduce level of inventory [k]
- ∞ Sell unwanted non-current assets [k] as workers use machines [app] so releasing cash tied up in the business [an]
- ∞ Ask for more time to pay suppliers [k]

3 (a) Knowledge [2 × 1]: Award 1 mark for each measure of success.
Relevant points might include:

2

- ∞ Growth OR number of shops
- ∞ Market share
- ∞ Revenue OR sales value OR sales volume
- ∞ Survival (in short run)
- ∞ Profit OR financial ratios such as ROCE OR profit margin OR capital invested
- ∞ Customer satisfaction OR number of repeat customers
- ∞ Good reputation
- ∞ Share price OR dividends
- ∞ Efficiency OR productivity OR number of output
- ∞ Number of employees OR employee loyalty
- ∞ Achieving environmental OR ethical targets

(b) Knowledge [2 × 1] Award 1 mark per feature.

2

Points might include:

- Lower unemployment OR more jobs created
- More businesses opening OR improved business confidence OR increased capital investment
- Higher living standards OR more disposable income OR rising incomes OR increase in demand / sales
- Higher rates of economic growth OR increase in GDP OR Level of output increases
- Increased tax revenue
- Higher business profits
- Higher inflation OR higher prices

(c) Knowledge [2 × 1] Award 1 mark for each way identified

4

Application [2 × 1] Award 1 mark for each explanation in context

Points might include:

- ∞ Increased cost (of labour) OR increase cash outflows [k] as have to pay \$5 per hour [app]
- ∞ May hire fewer workers OR reduce hours OR make workers redundant [k] so not able to sustain level of success [app]
- ∞ Might increase prices [k] of pizzas [app]
- ∞ Increase sales as people might have more money to spend [k] in its 200 shops [app]

1 mark for each relevant cost identified

city OR gas OR water

of office employees
s OR interest charges

Award 1 mark for an advantage and 1 mark for a
ntified

1] Award 1 mark for each explanation in context
clude:

OR meet exact customer needs [k] for its clocks [app]
s less likely to make mistakes [k] as employees are skilled [app]
ried work (leads to higher motivation) [k] helping retain existing
rs [app]
harge a higher price [k]
ble [k]

antages:

o economies of scale [k] when buying raw materials locally [app]
Production can take longer OR slow OR low output [k] leading to
problems when exporting [app]
Skilled labour can cost more [k] so can lead to high fixed costs [app]
Costs are higher as it is often labour intensive [k] so may not be able to
find 30 employees [app]
o Mistakes can be expensive to correct as each job is different [k]

Knowledge [2 x 1] Award 1 mark for each relevant barrier identified
Application [2 x 1] Award 1 mark for each relevant reference to this
business

Analysis [2 x 1] Award 1 mark for each relevant solution as to how the
barrier identified could be reduced or removed

Relevant points might include:

- o Problems with medium [k] OR examples such as wrong medium
language, too much information, technical problems, e.g. technical
language [k] so could simplify or avoid jargon [an] so can understand
what is written in the email [app]
- o Problems with sender [k] OR examples such as send wrong information,
message too detailed [k]
- o Problems with receiver [k] OR examples such as not listening, too busy
to pay attention or read material [k]
- o Problems with feedback [k] OR examples such as no immediate OR
opportunities for feedback [k]

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- ∞ Other employees
- ∞ Increased mo

(d) Knowledge [Application [2 × 1] business

Analysis [2 × 1] Aw Relevant points might include:

- ∞ Increase potential its 200 shops [app] te
- ∞ Easy to update commu [app]
- ∞ Cheaper method of advert. leaflets [an] about pizzas [ap]
- ∞ Fewer employees needed [k] reduce impact of increase in mir.
- ∞ Need fewer shops [k] so less rent
- ∞ Good reviews can enhance reputati
- ∞ Helps to compete [k] to maintain mark loyalty [an]

(e) Knowledge [1] Award 1 mark for identification c
 Application [1] Award 1 mark for a relevant refere.
 Analysis [2]: Award up to 2 marks for relevant deve
 Evaluation [2] Award up to 2 marks for a justified deci.
 two options DPC should choose.

Relevant points might include:

- ∞ Reduce the amount of paper OR cardboard used [k] so t litter created [an]
- ∞ Provide recycling facilities [k] for litter [app] so less is left aro streets [an] but it might be expensive to provide bins [an]
- ∞ Use recycled materials [k] for the boxes [app] but this could incre production cost [an]
- ∞ Buy supplies in smaller amounts [k] when making pizzas [app]
- ∞ Offer smaller portions OR only make to order [k]
- ∞ Organise patrols [k] to collect litter [app] to reduce the amount of complaints [an]
- ∞ Hire someone to collect rubbish [k] but would have to pay them [an]
- ∞ Ask customers to bring own containers [k]

4 (a) Knowledge [2 × 1] Award 1 mark for each reason identified
 Points might include:

- ∞ Act as measure of success
- ∞ Provides an aim or target
- ∞ Motivate OR teamwork OR unite the business
- ∞ Gives a sense of direction OR know what to do
- ∞ Help decision making / planning / budgeting / manage business better

(b) Application [2 × 1] Award
 Points might include:

- ∞ Rent OR rates
- ∞ Utilities, e.g. electri
- ∞ Insurance
- ∞ Salaries OR cost
- ∞ Loan repayment
- ∞ Storage costs

(c) Knowledge [2 × 1] Award
 Points might include:

Application [2 × 1] Award
 Points might include:

- Advantages:
- ∞ Unique C
 - ∞ Worken
 - ∞ More v
 - ∞ work
 - ∞ Can
 - ∞ Flex
 - ∞ Disady
 - ∞ N
 - ∞ P
 - ∞
 - ∞

- (e) Knowledge [1]: Award 1 mark for identification of relevant issue(s)
Application [1]: Award 1 mark for relevant reference to this business
Analysis [2]: Award up to 2 marks for relevant development of point(s)
Evaluation [2]: Award up to 2 marks for a justified decision as whether it is better for JKL to try to retain existing workers rather than recruit new employees

Relevant points might include:

Retain

- ∞ Cheaper recruitment costs OR no recruitment cost [k]
- ∞ Current workers know how things are done [k] so easier to maintain quality OR standards [an] of its clocks [app]
- ∞ Improve employee motivation OR loyalty [k] so easier to use delegation [app]
- ∞ Can help improve business image [k]

New:

- ∞ Access to new ideas OR skills [k] to overcome barriers to communication [app] helping them to produce / develop new products [an]
- ∞ New employees may need training [k] which will increase costs [an] at time when has high fixed costs [app]
- ∞ Can be difficult to find suitable employee OR time taken to train new employees [k] could lead to lower output OR productivity [an] can lead to problems as 60% exported [app]
- ∞ New employees may bring bad habits with them [k]

October/November Paper 12

- 1 M&R Motors has 2 car showrooms. It buys old cars and repairs them before selling them to its customers. M&R is always trying to increase added value. M&R plans to open another showroom. The owner said: 'Finding the right location is important. The new showroom will require a manager and I need to find someone with the right qualities.' The job will be advertised in the local newspaper as shown in Figure 1. The advertisement will cost \$5 for one week.

Figure 1: Job advertisement M&R is planning to use for the new manager

CAR SHOWROOM MANAGER REQUIRED

- This successful business is expanding.
- The job involves managing the office and selling cars.
- You will be in charge of three workers who will repair the cars.
- Do you have the qualities we are looking for?
- We offer good pay and working conditions.

For more information apply to M&R Motors

- (a) What is meant by 'added value'?

.....

.....

..... [2]

- (b) Identify **two** qualities that M&R might look for in the new manager.

Quality 1:

Quality 2: [2]

- (c) Identify and explain **two** methods of selection M&R could use when choosing the new manager.

Method 1:

.....

Explanation:

.....

Method 2:

.....

Explanation:

..... [4]

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(d) Identify and explain **two** factors that M&R might consider when deciding on a location for the new showroom.

Factor 1:

.....

Explanation:

.....

.....

.....

Factor 2:

.....

Explanation:

.....

.....

..... [6]

(e) Do you think a newspaper is the best way for M&R to advertise the new job? Justify your answer.

.....

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.....

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..... [6]

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2 FTT is a social enterprise. It sells its high quality fair-trade coffee beans to retailers in country P. Being ethical is important to FTT. It provides local people with information about micro-finance and skills so they can then start growing beans for FTT to sell for them. FTT wants to start exporting coffee beans as its market research shows increasing demand for coffee in other countries. FTT's managers will have to decide on an appropriate pricing method to use when selling the coffee beans in other countries.

(a) What is meant by 'social enterprise'?

.....

[2]

(b) What is meant by 'micro-finance'?

.....

[2]

(c) Identify and explain two factors that might affect the accuracy of FTT's market research.

Factor 1:

.....

Explanation:

.....

Factor 2:

.....

Explanation:

.....

[4]

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(d) Identify and explain **two** ways in which being ethical might help FTT.

Way 1:

.....

Explanation:

.....

.....

.....

Way 2:

.....

Explanation:

.....

.....

..... [6]

(e) Recommend an appropriate pricing method for FTT to use if it starts selling in other countries. Justify your answer.

.....

.....

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..... [6]

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3 TRB is a small business in the secondary sector. TRB assembles computers. All components, except for the battery and glass for the screen, are imported from other countries. 40% of its products are exported. Many of its competitors are relocating to low cost countries. TRB's Operations Director thinks the opportunities of globalisation may be greater than the threats for TRB. She is looking at ways to improve efficiency in the factory. One option is to introduce lean production methods.

(a) TRB is in the secondary sector. Identify the other **two** classifications of business sector activity.

Classification 1:

.....

Classification 2:

.....

[2]

(b) Identify **two** ways to measure the size of a business.

Way 1:

.....

Way 2:

.....

[2]

(c) Identify and explain **two** methods of lean production that TRB might use.

Method 1:

.....

Explanation:

.....

Method 2:

.....

Explanation:

.....

[4]

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(d) Identify and explain **two** possible benefits to TRB of improving efficiency.

Benefit 1:

Explanation:

Benefit 2:

Explanation:

[6]

- 4 Bakin Group (BG) is a limited company. It has 3 holiday parks that offer families holiday accommodation and activities. BG aims to look after its customers' needs 24 hours a day. Customers pay for the holidays when they arrive at the park. Each park has 3 managers and 40 part-time employees. BG uses a wide range of social media networks for promotion. The Finance Director is worried about BG's cash flow position. He cannot decide if an overdraft is the best way for BG to solve its cash flow problem.

Table 1: Cash flow forecast for period January - March 2019 (\$000)

	January	February	March
Cash in	120	80	70
Cash out:			
Interest	10	10	10
Wages and other costs	100	90	90
Total cash outflow	110	100	100
Net cash flow	X	(20)	(30)
Opening balance	(40)	(30)	(50)
Closing balance	(30)	(50)	Y

- (a) What is meant by 'limited company'?

.....

.....

.....

.....

[2]

- (b) Calculate the values of X and Y.

X:

Y:

[2]

(c) Identify and explain **two** advantages to BG of having part-time employees.

Advantage 1:

.....

Explanation:

.....

Advantage 2:

.....

Explanation:

.....

[4]

(d) Identify and explain **one** advantage and **one** disadvantage to BG of using social media networks for promotion.

Advantage:

.....

Explanation:

.....

.....

.....

Disadvantage:

.....

Explanation:

.....

.....

.....

[6]

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Answers Section

- 1 (a) Good knowledge [2]: difference between the selling price of a product and the cost of bought in materials and/or components 2
 OR improvement to the product that makes it worth more [1] plus a relevant example [+ 1] e.g. packaging
 Some understanding [1] e.g. improvement to the product that makes it worth more
- (b) Application [2 × 1] – award one mark for each quality 2
 Points might include:
 ∞ Good leader
 ∞ Well organised
 ∞ Good communicator
 ∞ Friendly OR approachable
 ∞ Knowledgeable
 ∞ Patience
 ∞ Responsible
 ∞ Good motivator
- (c) Knowledge [2 × 1] – award 1 mark for each relevant method [max 2] 4
 Application [2 × 1] – award 1 mark for each explanation in context
 Relevant points might include:
 • Interview [k] to see whether they have the right qualities [app]
 • CV and / OR letter of application OR application form [k] sent to the showroom [app]
 • Ability or aptitude OR psychometric test [k] e.g. watch them try to sell cars [app]
 • Group exercises [k] to see how well/whether they can work as part of a team [app]
 • Online screening [k]
 • Presentation[k]
- (d) Knowledge [2 × 1] – award 1 mark for each relevant factor [max 2] 6
 Application [2 × 1] – award 1 mark for each relevant reference made to this business
 Analysis [2 × 1] – award 1 mark for each relevant explanation
 Relevant points might include:
 • Customers OR demand OR potential sales [k] somewhere that people are interested in cars [app] to increase revenue [an]
 • Availability OR cost of suitable land OR parking [k] as likely to need a large space for displaying products [an]
 • Legal controls [k] could stop them from building in some places [an]
 • Competitors [k] customers might be loyal to other business so difficult to gain customers [an]
 • Suppliers [k] so able to get parts/components easily [an]
 • Infrastructure OR transport links OR utilities [k]
 • Access to employees [k] as looking for a manager [app] who is able to effectively sell things [an]
 • Distance from other site [k] as don't want to take customers away from its other business [an]
 • Safety/security of area [k]

- (e) Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1] 6
 Application [1] – award 1 mark for relevant reference to this business
 Analysis [2] – award up to 2 marks for relevant development of point(s)
 Evaluation [2] – justified decision made as to whether an advertisement is the best way to advertise the new job.
- Relevant points might include:
- Seen by many people OR wide exposure [k] in local area [app]
 - Most people do not read newspapers [k] so possible candidates might not see the advert [an]
 - Only shown for a limited amount of time [k] such as one week [app]
 - Has to pay to advertise [k] as it costs \$5 [app] which increases his expenses [an]
- Other methods to consider might include:
- Specialist magazines [k] as target audience are likely to read them [an] so more likely to attract suitable candidates [an]
 - National newspaper [k] as able to reach people across the country [an]
 - Jobs website OR own website OR social media [k] as most people use internet to look for jobs today [an] but some people do not have access to the internet [an]
 - Notice board [k] at the garage [app]
 - Recruitment agency [k] saving time as they will carry out the recruitment for them [an]
- 2 (a) Good knowledge [2]: an organisation which has social objectives as well as trying to make a profit 2
 Some understanding [1] not all about profit OR profit is not only objective OR an organization which has social objectives OR aims to benefit society
- (b) Good knowledge [2]: small amounts of capital loaned to entrepreneurs [1] 2
 in countries where finance is difficult to obtain [+ 1]
 OR small loans [1] to people not traditionally served by banks [1]
 OR loan to poor people [1] not traditionally served by banks [1]
 Some understanding [1] small loans
 OR identifies a feature such as not given by big banks
 OR help people who can't afford a loan
 OR loans given to poor people
- (c) Knowledge [2 × 1] – award 1 mark for each relevant factor [max 2] 4
 Application [2 × 1] – award 1 mark for each explanation in context
 Relevant points might include:
- Wrong sample size [k] as may only have asked local people [app]
 - Information may be out of date [k] so may not like same types/blends of coffee [app]
 - How carefully sample drawn up OR characteristics of people asked [k] cannot just ask people interested in ethical goods [app]
 - Way questions asked by interviewer [k]
 - Poorly written questions OR questions not relevant [k]
 - Who carried out the research [k]
 - Dishonest opinions OR people say what they think you want to hear [k]

- (d) Knowledge [2 × 1] – award 1 mark for each relevant way [max 2] 6
 Application [2 × 1] – award 1 mark for each relevant reference made to this business
 Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Good image OR good reputation OR customer loyalty [k] so customers willing to pay high prices [an] for fair trade coffee [app]
- Higher demand OR sales OR enter new market [k] which can help increase revenue [an] when selling in other countries [app]
- Help recruit OR retain OR motivate workers [k] in this social enterprise [app]
- Investors more likely to invest [k] making it easier for others to obtain micro-finance [app]
- Better supplier relations [k] so able to get best beans [app]
- Less opposition from pressure groups [k]

- (e) Knowledge [1] – award 1 mark for identification of relevant issue(s) or identifies method [max 1] 6
 Application [1] – award 1 mark for each relevant reference to this business
 Analysis [2] – award up to 2 marks for relevant development of point(s)
 Evaluation [2] – justified decision made as to why chosen method is appropriate for FTT to use

Relevant points might include:

- ∞ Price skimming [k] which will reinforce brand image [an] for its high quality product [app] so consumers will pay high prices [an]
- ∞ Competitive pricing [k] so the price should not stop people buying its products [an] so less likely to lose market share [an] for its coffee beans [app]
- ∞ Cost plus pricing [k] as ingredients are high quality [app] making sure they can make a profit for each item sold [an] and is easy to calculate [an]
- ∞ Penetration pricing [k] (as low price) is more affordable for customers [an] but would lower profit margin [an]
- ∞ Promotional pricing [k] but can only be used for a short period of time [an]

- 3 (a) Knowledge: award 1 mark for each of the other sectors identified 2
 Sectors are: primary, tertiary

- (b) Knowledge [2 × 1] – award 1 mark per way 2

Points could include:

- Sales value OR value of output OR revenue OR income
- (Value of) capital employed
- Value of balance sheet
- Market share
- Number of employees
- Number of outlets
- (Volume of) output OR number of services OR number of customers

- (c) Knowledge [2 × 1] – award 1 mark for each relevant method [max 2] 4
Application [2 × 1] – award 1 mark for each explanation in context

Reasons might include:

- Kaizen OR continuous improvement [k] when making computers [app]
- Just in time inventory control [k] for ordering batteries [app]
- Reorganize layout [k] to help improve efficiency [app]
- Cell production OR autonomous team working [k]
- Kanban [k] in the factory [app]
- Waste reduction [k]

- (d) Knowledge [2 × 1] – award 1 mark for each relevant benefit 6
Application [2 × 1] – award 1 mark for each relevant reference made to this business
Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Reduce average costs [k] of making computers [app] so may be able to sell them at a lower price [an]
- Less mistakes [k] improving reputation [an] of this small business [app]
- Less waste [k] of imported parts [app] reducing amount they need to buy [an]
- Fewer workers needed [k] helping reduce (labour) costs [an]
- Increased output OR quicker production [k]
- Better able to compete [k] which is important for a small business [app]

- (e) Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1] 6
Application [1] – award 1 mark for a relevant reference made to this business
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision made as to whether there are more opportunities than threats of globalisation for TRB.

Points might include:

- Able to export more OR access to wider markets OR more sales [k] than 40% [app] helps spread risk [an]
- Cheaper labour OR materials [k] such as glass [app] which could lower total cost [an]
- Easier to relocate to other countries [k] like its competitors [app]
- Become better known OR build brand image [k]
- Increased competition [k] for computers [app] could result in lower sales OR revenue [an]
- Loss of employees to other companies OR wider pool of potential employees [k]

- 4 (a) Clear knowledge [2]: business which has a separate legal identity/status to its owners 2
OR a business whose owners are legally responsible for its debts only to the extent of the amount of capital they invested.
Some knowledge [1]: e.g. able to sell shares or owners have limited liability

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- (b) Application [2 × 1] – award one mark per answer 2
 X 10 or 10000
 Y (80) or (80000)
- (c) Knowledge [2 × 1] – award 1 mark for each relevant advantage 4
 Application [2 × 1] – award 1 mark for each explanation in context
 Relevant points might include:
- More flexible OR able to extend hours OR help meet demand during busy periods [k] so able to offer 24-hour service [app]
 - When not working no need to pay wages OR only paid for hours worked [k] which can help when worried about cash flow [app]
 - Can add more skills OR experience OR ideas to business [k] so able to offer extra activities [app]
 - Help keep OR retain experienced workers [k]
 - Help attract workers who do not want to work full time OR help attract workers who have other commitments [k]
- (d) Knowledge [2 × 1] – award 1 mark for a relevant advantage / disadvantage 6
 Application [2 × 1] – award 1 mark for each relevant reference to this business
 Analysis [2 × 1] – award 1 mark for each relevant explanation
 Points might include:
- Advantages:
- Cover wide area OR seen by many people [k] as may be used by many families [app] leading to additional revenue [an]
 - Low cost method of advertising [k] so fewer cash outflows [an] so less need for overdraft [app]
 - Easy to update OR quick to update [k] about its holidays [app] so can spend time on other tasks [an]
 - Way to build relationship OR communicate with customers [k]
 - Can target specific groups [k] could encourage brand loyalty [an]
- Disadvantages:
- No internet access OR not everyone uses social media OR message lost among many messages on social media [k] which results in less revenue [an]
 - Lack of control OR comments can be altered OR hacked [k] could lead to a bad reputation [an] for its parks [app]
 - Takes time to continually post OR monitor messages [k] which may be difficult for the part-time employees to do [app]
- (e) Knowledge [1] – award 1 mark for identification of relevant issue(s) 6
 Application [1] – award 1 mark for a relevant reference made to this business
 Analysis [2] – award up to 2 marks for relevant development of point(s)
 Evaluation [2] – justified decision made as to whether an overdraft is the best way for BG to improve its cash flow position.
 Relevant points might include:
- Overdraft
- Immediately available OR relatively easy to arrange [k] so able to cover its outflows [an]
 - Repayable on demand OR within twelve months [k]
 - Have to pay interest [k] which will increase outflows [an]

Other options might include:

- Ask customers to pay earlier [k] would allow business to receive cash inflow sooner [an] before they reach the holiday park [app] but may see a fall in demand which could lead to a greater fall in cash inflow [an]
- Ask suppliers for more time to pay [k] which could delay cash outflows [an] and could lose discounts offered for prompt payments which could increase outflows [an]
- Increase number of customers [k] could increase cash inflows [an] but cost of advertising could increase outflows in short term [an]

May/June 2019 Paper 12

1 PLK is a social enterprise which offers training to young people who leave school with no qualifications. The young people are trained by PLK chefs to prepare food which is sold at local markets or sporting events. Choosing the right method of promotion is important. The manager of PLK thinks that to increase profit it is better to raise prices rather than use cheaper food ingredients.

Table 1: Cost and sales information for PLK

Number of meals sold per week	1000
Price per meal	\$3
Variable cost per meal	\$2
Fixed costs per week	\$300

(a) What is meant by 'social enterprise'?

.....
.....
.....
.....

[2]

(b) What is meant by 'fixed costs'?

.....
.....
.....
.....

[2]

(c) Calculate PLK's weekly profit.

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[4]

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(d) Identify and explain **two** methods of promotion PLK might use to increase sales.

Method 1:

.....

Explanation:

.....

.....

.....

Method 2:

.....

Explanation:

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.....

.....

[6]

(e) Do you agree with PLK's manager that to increase profit it is better to raise prices rather than use cheaper ingredients? Justify your answer.

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[6]

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2 JNK makes pottery including plates and bowls for the mass market, using batch production. Quality control is important. JNK has 30 unskilled employees, who are all paid the legal minimum wage. JNK uses job enrichment to keep workers motivated. Due to an increase in demand, JNK is planning to replace its old machines with new technology. The Managing Director thinks that some of the low cost materials purchased by JNK are produced using child labour. One of JNK's competitors has recently introduced a new ethical policy.

(a) What is meant by 'mass market'?

.....

.....

.....

.....

[2]

(b) What is meant by 'job enrichment'?

.....

.....

.....

.....

[2]

(c) Identify and explain **two** ways in which employees at JNK could be affected by the introduction of new technology.

Way 1:

.....

Explanation:

.....

Way 2:

.....

Explanation:

.....

[4]

(d) Identify and explain **two** ways (other than new technology) that JNK could use to increase output.

Way 1:

Explanation:

Way 2:

Explanation:

[6]

(e) Do you think JNK should become more ethical? Justify your answer.

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[6]

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3 REW has won many awards for the design and style of its carpets and rugs. All the wool it uses is from local suppliers. REW's objective for this year is to survive and remain in business. The Managing Director is concerned that the country's Gross Domestic Product has been falling for some time. During the recession the Managing Director plans to start selling REW's products in other countries. Market research suggests demand would be high.

Table 2: Extract from REW's accounts

	2017	2018
Current ratio	1.5	2
Acid test ratio	1.2:1	1:1
Profit margin	20%	16%

(a) What is meant by 'Gross Domestic Product'?

.....

[2]

(b) Identify two possible effects on businesses from falling Gross Domestic Product.

Effect 1:

 Effect 2:

[2]

(c) Identify and explain two reasons why REW's objectives might change over time.

Reason 1:

 Explanation:

 Reason 2:

 Explanation:

[4]

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(d) Identify and explain the effect on REW of the **changes** in the following ratios.

Change in acid test ratio:

.....

Explanation of effect:

.....

.....

.....

Change in profit margin:

.....

Explanation of effect:

.....

.....

..... [6]

(e) Do you think REW should start selling its products in other countries? Justify your answer.

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..... [6]

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4 George has worked in a small flower shop for 10 years. He does not like the autocratic leadership style of his manager and wants to leave. He will decide whether to start up his own business or buy a BunchesRUs franchise. The franchise would cost him \$5 000 but BunchesRUs would offer training and support. For either option, George will need both finance and to recruit 2 part-time employees. George knows building customer relationships will be important to the success of his business.

(a) What is meant by 'autocratic leadership style'?

.....
.....
.....
.....

[2]

(b) Identify two possible sources of finance George could use.

Source 1:

.....

Source 2:

.....

[2]

(c) Identify and explain two reasons why building good customer relationships might be important to the success of George's business.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

.....

[4]

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(d) Identify and explain **one** advantage and **one** disadvantage to George's business of having part-time employees.

Advantage:

.....

Explanation:

.....

.....

.....

Disadvantage:

.....

Explanation:

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.....

[6]

(e) Do you think George should buy a BunchesRUs franchise? Justify your answer.

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[6]

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Answers Section

- 1 (a) Clear understanding [2]: e.g. business with both social objectives as well as aim to make a profit 2
 OR organisation whose **primary / main objective** is social (and any profit made is reinvested) [2]
 Some understanding [1] e.g. not all about profit OR profit is not only objective
 OR an organisation which has social objectives [1]
 OR business that aims to help / benefit society [1]
- (b) Clear understanding [2] e.g. costs that do not change with output / sales / level of activity 2
 OR Costs which have to be paid whether produce any products or not [2]
 Some understanding [1] e.g. costs that stay the same
 OR costs that do not change [1]
- (c) Good application [4] = \$700 4
 Some application: inaccurate or partial answers
- (i) **Total revenue method: TR-TC**
 Total revenue: $3 \times 1000 = 3000$ [1]
 Total cost = 2300 [2]
 OR $2 \times 1000 = 2000$ [1] + FC 300 = 2300 [1]
 $3000 - 2300 = 700$ [4]
- (ii) **OR Contribution method: (total) contribution – fixed costs**
 Contribution: $(3-2) = 1$ [1]
 1×1000 [1] = 1000 [+1]
 Profit = $1000 - 300 = 700$ [4]
- (d) Knowledge [2 × 1] Award 1 mark for each relevant method 6
 Application [2 × 1] Award 1 mark for each relevant reference made to this business
 Analysis [2 × 1] Award 1 mark for each relevant explanation (to show how it would work or why it might be used)
 Relevant points might include:
- Free samples [k] at sports events [app] as by allowing people to try it encourages them to buy it [an]
 - Use loyalty cards / schemes [k] to encourage customers to return many times [an] for meals [app]
 - Advertising or examples such as (local) paper OR radio OR television OR leaflets OR social media (allow only once) to raise awareness / inform / attract potential customers [an] about this social enterprise [app]
 - Sponsorship OR public relations [k] which can help increase its brand image / reputation [an]
 - Competitions [k]
 - Free gifts [k]
 - Use of specific price promotions such as BOGOF, money off coupons or short-term discounts (allow only once) [k] as people able to afford it / willing to buy as its cheaper [an]

- 6**
- (e) Knowledge [1] Award max. 1 mark for identification of relevant issue(s)
- Application [1] Award 1 mark for a relevant reference made to this business
- Analysis [2] Award up to 2 marks for relevant development of point(s)
- Evaluation [2] Justified decision made as to whether PLK should increase its prices or use cheaper ingredients.
- Points might include:
- Raise prices
- ∞ could lead to fewer customers (as cannot afford it) [k] resulting in lower revenue [an] of food [app]
 - ∞ lower break-even point [k] so need to sell less to cover costs [an]
 - ∞ People could be willing to pay higher price as they think it's for a good cause [k] as it's a social enterprise [app]
 - ∞ Higher price may suggest better quality [k]
- Cheaper ingredients
- ∞ will lower the variable cost [k] which will lower total costs / improve profit margin [an]
 - ∞ could lower quality [k] damaging reputation [an] leading to fewer sales [an]
- Other factors can be also discussed such as:
- ∞ whether demand is price elastic or inelastic [k] as if meals are price elastic then an increase in price should lead to lower revenue [an]
 - ∞ Level of competition [k]
- 2 (a) Clear understanding [2]: e.g. selling the same product to the whole market (everyone) **2**
- Some understanding [1] e.g. Selling to the whole market OR sell to everyone
- OR lots of customers OR lots of sales OR lots of buyers
- (b) Clear understanding [2]: (Involves looking at jobs and) adding tasks that require higher skill or more responsibility **2**
- Making work more challenging [1] by giving extra tasks [1]
- Some understanding [1]: Making work more challenging / difficult OR giving workers more responsibility
- (c) Knowledge [2 × 1] Award 1 mark for each way identified **4**
- Application [2 × 1] Award 1 mark for each explanation in context
- Points might include:
- ∞ Need for re-training OR fear of change OR opportunity to learn new skills [k] when making pottery [app]
 - ∞ Possible redundancy / loss of jobs / job insecurity [k] for some of the 30 employees [app]
 - ∞ May receive higher pay [k]
 - ∞ Safer working conditions [k] as replace old machines [app]
 - ∞ Higher / lower motivation [1] as may create more / less opportunities for job enrichment [app]

6

(d) Knowledge [2 × 1] Award 1 mark for each relevant way
Application [2 × 1] Award 1 mark for each relevant reference made to this business

Analysis [2 × 1] Award 1 mark for each relevant explanation

Points might include:

- Training [k] so likely to make fewer mistakes OR able to work quicker / increase productivity [an] when making plates [app]
- Employ more workers or workers do longer hours [k] by recruiting more than 30 [app] will allow increased output with the same number of machines [an]
- Recruit / employ specialist or skilled workers [k] as current workers are unskilled [app]
- Change production method to flow production [k] from batch production [app] allowing continuous production [an]
- Improve layout / design of factory [k] so less time is wasted moving semi-finished goods around [an]
- Take over another company or expand current site [k] so will have additional capacity [an] to meet increased demand [app]
- Examples of methods of financial / non-financial motivation (allow once) e.g. introduce piece rate OR bonuses OR job rotation OR fringe benefits [k]

6

(e) Knowledge [1] Award max. 1 mark for identification of relevant issue(s)

Application [1] Award max. 1 mark for a relevant reference made to this business

Analysis [2] Award up to 2 marks for relevant development of point(s)

Evaluation [2] Justified decision made as to whether JNK should become more ethical

Points might include:

- Customers may boycott the business [k] leading to lower brand image / reputation [an] which may decrease market share [an]
- Many customers want to support ethical businesses [k] so may be willing to pay higher prices [an] for its pottery [app] leading to higher revenue [an]
- Help employee recruitment / retention [k] of 30 employees [app] so saving cost of recruitment [an]
- Opportunity for new sources of finance [k] would allow increased capital from ethical investors [an] who do not want to be linked with businesses using child labour [app]
- Ethical suppliers are likely to charge more [k] leading to higher variable costs [an] as not able to use low cost materials [app]
- Could lose sales to competitor [k]
- Materials purchased from unethical sources may be cheaper [k]
- May not be able to find suitable (ethical) suppliers [k]
- Shareholders OR owners may want higher profit [k]

3 (a) Clear understanding [2]: the total value of output of goods and services in a country (in one year OR at a given point in time)
Some understanding [1]: e.g. Output of a country
OR amount of goods / services produced by a country [1]

2

- (b) Knowledge [2 × 1] award 1 mark for each effect 2
Points might include:
- Lower demand / sales
 - Easier to recruit employees / may need to make workers redundant
 - More difficult to raise prices / may need to reduce prices
 - Less likely to invest / expand
 - Lower profits
 - Spare capacity increases
 - Reduce levels of inventory / stock / less output
- (c) Knowledge [2 × 1] Award 1 mark for each reason identified 4
Application [2 × 1] Award 1 mark for each explanation in context
Points might include:
- Change in economic conditions e.g. decrease in interest rates / decrease in taxes / decrease in employment [k] as the country is seeing GDP falling [app]
 - Previous objectives met / business has become established [k]
 - Change in competition / market / demand e.g. decrease in demand [k] for carpets [app] OR Competitors enter market [k] so survival becomes main objective again [app]
 - Change in board of directors / ownership OR changing demands of stakeholders [k]
 - Change in profit / business costs e.g. decrease in profit [k]
- (d) Knowledge [2 × 1] Award 1 mark for each relevant change 6
Application [2 × 1] Award 1 mark for each relevant reference made to this business
Analysis [2 × 1] Award 1 mark for each relevant explanation
Points might include:
- Acid test
- **decreased / fallen** [k] by 0.2 or 0.1 [app]
- Analysis could be awarded for:
- so may need to reduce creditors / trade payables [an]
 - improve cash by selling more products / sell unwanted OR non-current assets [an]
 - may have problems paying its short-term liabilities OR may have less liquidity OR may have less cash [an]
 - may make it harder to obtain finance [an]
 - suppliers may be less willing to provide goods (on credit) [an]
- Profit margin
- ∞ **decreased / fallen** [k] by 4% [app]
- Analysis could be awarded for:
- ∞ need to look for ways to increase added value [an]
 - ∞ may look for ways to lower costs [an]
 - ∞ may increase prices [an]
 - ∞ may need to sell more products to maintain current level of profit [an]

- (e) Knowledge [1] Award max. 1 mark for identification of relevant issue(s) 6
 Application [1] Award max. 1 mark for a relevant reference made to this business
 Analysis [2] Award up to 2 marks for relevant development of point(s)
 Evaluation [2] Justified decision made as to whether REW should start selling its products in other countries.
 Points might include:
- Access to more markets OR more (potential) customers [1] leading to higher revenue [an]
 - Spread risk [k] as GDP in own country falling [app] and sales elsewhere could make up for the shortfall in demand [an]
 - Greater recognition OR brand awareness [k] for its award winning products [app]
 - Existing competition [k] could make it difficult to achieve high sales [an] even though market research suggests high demand [app]
 - Lack knowledge of local markets and tastes [k] about rugs [app] so might need to spend money changing products [an]
 - Language barriers [k]
 - Exchange rates problems [k]
 - Tariffs [k] which could increase prices [an]
 - Quotas [k] which restricts the amount of products the business is able to sell [an] which may make it harder to meet customer demands [an]
 - Transport problems OR distribution problems [k] increases expenses / cash outflow [an]
- 4 (a) Clear understanding [2]: where the manager expects to be in charge / control of the business and to have their orders followed 2
 Managers takes decisions without consulting employees [2]
 Some understanding [1]: e.g. Manager takes / make all decisions Or employees have no say in decisions
- (b) Application [2 × 1] award 1 mark for each source 2
 Points might include:
- own savings
 - bank loan OR overdraft
 - government grants
 - micro-finance
 - borrow from friends and family
 - trade credit
 - lease / hire purchase
- (c) Knowledge [2 × 1] Award 1 mark for each reason identified 4
 Application [2 × 1] Award 1 mark for each explanation in context
 Points might include:
- Increase sales [k] of its flowers [app]
 - Increase retention / customer loyalty [k] so customers keep returning to his shop [app]
 - Help build reputation / act as free advertising / recommendations [k] for this new business [app]
 - Opportunity for feedback / help identify customer needs [k]
 - Provide a competitive advantage [k] so can compete against the franchise [app]

6

(d) Knowledge [2 × 1] Identification of relevant advantage / disadvantage

Application [2 × 1] Award 1 mark for each way if relevant reference made to this business

Analysis [2 × 1] Award 1 mark for each relevant explanation.

Relevant points might include:

Advantages:

- More flexible OR able to extend hours [k] of the shop [app] to maximise possible sales [an]
- When not working no need to pay wages OR only pay for hours worked [k] helps lower labour costs [an] which is important for a new business [app]
- Can help attract workers who only want to work a few hours OR help keep workers [k]
- Provide different skills or experience or ideas [k]

Disadvantages:

- Can take longer / more expensive to recruit (as need more part-time workers for each full time equivalent) [k] so takes him away from other important jobs [an] when setting up his new business [app]
- Can be less committed to business OR more likely to leave [k]
- May create problems when trying to offer a consistent level of service [k] which doesn't help build customer relationships [app] leading to fewer (loyal) customers [an]
- Communication / coordination OR supervision is more difficult [k]

(e) Knowledge [1] Award 1 mark for identification of relevant issue(s)
Application [1] Award 1 mark for a relevant reference made to this business

6

Analysis [2] Award up to 2 marks for relevant development of point(s)

Evaluation [2] Justified decision made as to whether George should buy a BunchesRUs franchise

Points might include:

Reasons for:

- ∞ Help offered by franchisor [k] for training and support [app] which saves costs [an]
- ∞ Competition [k] if does not accept franchise, someone else may accept it leading to lower sales [an] as it may be more difficult for him to compete against an established brand name [an]
- ∞ Established brand name of franchise [k] may persuade people to buy from him [an] even though it is a new business [app]

Reasons against:

- ∞ Gives George less control [k] and as he didn't like the autocratic style of his old manager [app] may want the freedom to make his own decisions [an]
- ∞ High cost [k] of \$5 000 [app] could be too expensive / not be able to afford as it's a new business [an]
- ∞ He has experience [k] as he has worked in a flower shop [app] so support of franchisor is less important [an]
- ∞ Has to pay percentage of sales revenue to franchisor [k]

