

Article No. 122

# Business Studies<sup>7115</sup>

## Paper-2

(Topical Workbook with Mark Scheme)  
(2008-2019)

### Features:

- ✓ All Variants
- ✓ Mark schemes included
- ✓ Questions order new to old
- ✓ Case Study Extracts

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Title	<b>Business Studies O-Level Paper-2 Topical (Article# 122)</b>
Published by	Read & Write Publications.
Printed by	Read & Write Publications.
Composing Department	Sharjeel Khan, Salman Buksh, Hayat, Shahab, Waqas, M. Awais, Usama Farooq, Ahmar, Awais Ahmad
Graphics Department	Rashid Mehmood, Khalid Khursheed
Legal Advisor	Mian Tariq Ahmad (Advocate Supreme Court) Room No. 10, 11, 12 Al-Majeed Centre 1-Mozang Road, Lahore. Tel: 042-37236145, Fax: 042-37241367
Edition:	2019 - 201903415

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## UNIT 1

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# UNDERSTANDING BUSINESS ACTIVITY

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O Level  
Business  
Workbook Paper-2

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## Topics

- 1.1 Business Activity
- 1.2 Classification of Businesses
- 1.3 Enterprise, Business Growth and Size
- 1.4 Types of Business Organisation
- 1.5 Business Objectives and Stakeholder Objectives



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# Unit 1: Understanding Business Activity

## 1.1: Business Activity

1. O/N 17/P22/Q2/a Case Study – Garden Supplies (GS) – See Page 567  
(a) Identify and explain two ways GS can increase added value. [8]

Way 1: .....

Explanation: .....

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Way 2: .....

Explanation: .....

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2. O/N 16/P21/Q4/a Case Study – P & P Paint – See Page 563  
(a) Identify and explain two reasons why added value is important to P & P. [8]

Reason 1: .....

Explanation: .....

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Reason 2: .....

Explanation: .....

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3. **M/J 12/P21/Q2/a** **Case Study – Kickwell Sports Shoes (KSS) – See Page 539**  
(a) KSS production workers are highly skilled in doing just one task on the production line. Identify and explain two advantages and two disadvantages of workers being skilled in just one task. **[8]**

Advantage 1: .....

Explanation: .....

Advantage 2: .....

Explanation: .....

Disadvantage 1: .....

Explanation: .....

Disadvantage 2: .....

Explanation: .....

4. **O/N 11/P21/Q2/a** **Case Study – Everyday Suits – See Page 536**  
(a) Refer to Appendix 3. Identify and explain two ways Simon could increase the added value of his current business. **[8]**

First way: .....

Explanation: .....

Second way: .....

Explanation: .....

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**1.2: Classification of Businesses**

1. O/N 14/P22/Q5/a **Case Study – ACE Engineering (ACE) – See Page 551**

(a) Refer to Appendix 2.

(i) Identify and explain **one** effect on businesses in country Z of changes in the agricultural sector. **[4]**

Effect: .....

Explanation: .....

(ii) Identify and explain **one** effect on businesses in country Z of changes in the secondary sector. **[4]**

Effect: .....

Explanation: .....

2. O/N 14/P21/Q2/a **Case Study – PB Bank – See Page 552**

(a) Banking is a tertiary sector business. Identify **four** other types of tertiary sector businesses that PB Bank might use and explain what services they offer to PB Bank. **[8]**

Type of tertiary sector business: .....

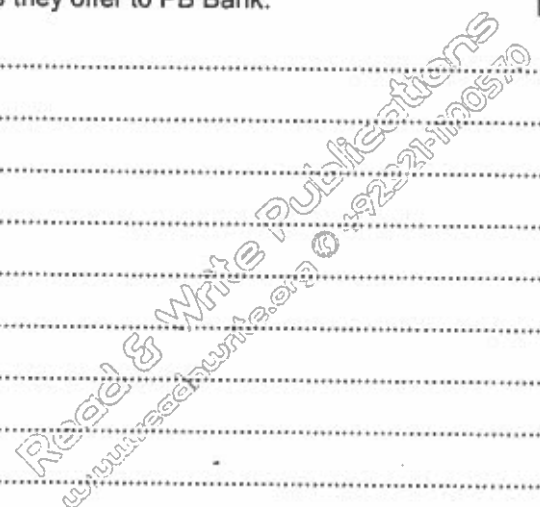
Explanation: .....

Type of tertiary sector business: .....

Explanation: .....

Type of tertiary sector business: .....

Explanation: .....



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Type of tertiary sector business: .....

Explanation: .....

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**3. M/J 13/P21/Q1/a Case Study – Ted’s Tools (TT) – See Page 544**

(a) Country A is a market economy where there is little Government regulation. Identify and explain one advantage and one disadvantage to TT of trading in this type of economy. **[8]**

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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**4. O/N 10/P22/Q1/b Case Study – The Riverside Restaurant – See Page 527**

(a) Kim and Selina use the services of a number of tertiary businesses including banks, insurance companies, Internet provider and advertising agency. Do you think the restaurant could be successful without each of these services? Justify your answer. **[12]**

Banks: .....

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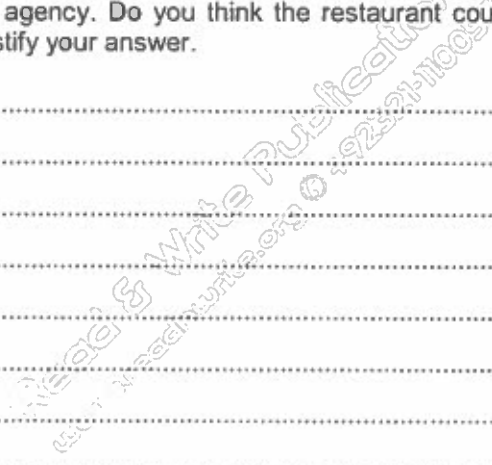
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Insurance companies: .....

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Internet provider: .....

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Advertising agency: .....

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5. **M/J 10/P22/Q4/a** **Case Study – Bashir Baskets – See Page 524**  
(a) Bashir Baskets is in the secondary sector but Bashir also uses many services from businesses in the tertiary sector, such as insurance. Identify four other examples of tertiary sector businesses that Bashir might use and explain how each will help his business. [8]

Example 1: .....

Explanation: .....

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Example 2: .....

Explanation: .....

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Example 3: .....

Explanation: .....

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Example 4: .....

Explanation: .....

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**1.3: Enterprise, Business Growth and Size**

**1. M/J 18/P22/Q3/b Case Study – Downtown Hotel (DH) – See Page 571**

(a) Consider the advantages and disadvantages of the two businesses Hilda could take over. Recommend which business Hilda should take over. Justify your answer. [12]

ABC Hotel: .....  
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XYZ Hotel: .....  
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Recommendation: .....  
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**2. M/J 18/P21/Q1/a Case Study – Value Gym (VG) – See Page 572**

(a) Identify and explain two ways a business plan could have helped Peter when setting up Value Gym. [8]

Way 1: .....  
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Explanation: .....  
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Way 2: .....

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Explanation: .....

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3. **O/N 17/P21/Q1/a** **Case Study – Animal Hotel (AH) – See Page 569**  
(a) Identify two ways the size of AH can be measured. Explain the limitations of each of these measures. **[8]**

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

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4. **O/N 16/P21/Q4/b** **Case Study – P & P Paint – See Page 563**  
(a) P & P is planning to start selling its products in other countries by 2018. Consider each of the three following changes the company could make. Which one of these changes will be most helpful in selling products to other countries? Justify your answer. **[12]**

Take over a retail business in one of the other countries: .....

.....

.....

Change to a public limited company to raise additional capital: .....

Form joint ventures in the other countries: .....

Conclusion: .....

5. O/N 15/P22/Q1/a **Case Study – Rafael’s Reliable Motorbikes (RRM) – See Page 557**  
(a) RRM is a small business. Identify and explain two reasons why RRM might remain small. [8]

Reason 1: .....

Explanation: .....

Reason 2: .....

Explanation: .....

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6. **M/J 15/P22/Q1/a** **Case Study – Frozen Fancies (FF) – See Page 554**  
(a) Samah and Selina wrote a business plan before FF started trading 5 years ago. Identify and explain two ways their business plan might have helped to make the business successful. [8]

Way 1: .....

Explanation: .....

Way 2: .....

Explanation: .....

7. **M/J 15/P21/Q1/a** **Case Study – Delicious Delights (DD) – See Page 555**  
(a) Identify and explain two characteristics David needs to be a successful entrepreneur. [8]

Characteristic 1: .....

Explanation: .....

Characteristic 2: .....

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Explanation: .....

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8. **M/J 14/P22/Q3/a** **Case Study – Manuel’s Fruit and Vegetable Shop – See Page 548**

(a) Identify and explain two reasons why many Governments help small businesses such as Manuel’s. **[8]**

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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9. **O/N 13/P21/Q1/a** **Case Study – Yum Yum Food – See Page 547**

(a) Identify and explain two possible reasons why Shahila wants to expand her business. **[8]**

Reason 1: .....

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Explanation: .....

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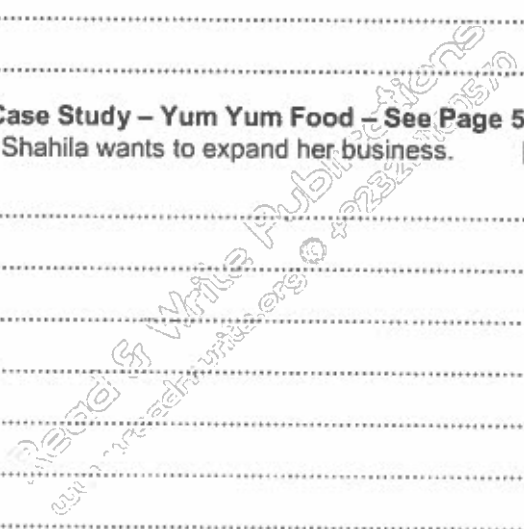
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Reason 2: .....

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Explanation: .....

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**10. M/J 13/P21/Q1/b**

**Case Study – Ted’s Tools (TT) – See Page 544**

(a) TT has 10 small shops. Consider the advantages and disadvantages of operating several small shops rather than 1 large shop. Do you think Ted was right to open 10 small shops rather than 1 large shop? Justify your answer. **[12]**

Several small shops: .....

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One large shop: .....

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Recommendation: .....

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11. O/N 12/P22/Q2

Case Study – KK Cars – See Page 540

- (a) KK Cars is described as a small business. Identify and explain two ways the size of this business can be measured. [8]

Way 1: .....

Explanation: .....

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Way 2: .....

Explanation: .....

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- (b) Trunal wants to expand his business. Refer to the two options suggested in Appendix 3. Consider the advantages and disadvantages of each of these options. Recommend which option Trunal should choose. Justify your answer. [12]

Option 1: .....

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Option 2: .....

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Recommendation: .....  
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**12. M/J 11/P22/Q3/b**

**Case Study – TT Foods – See page 531**

- (a) Consider the two options outlined in the case for expanding the business of TT Foods. Recommend which of the options the Directors should choose. Justify your choice using appropriate calculations. **[12]**

Expansion option 1: .....  
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Expansion option 2: .....  
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Recommendation: .....  
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- .....
13. M/J 08/P2/Q3/b                      **Case Study – A new business – but which one? – See Page 517**  
(a) Governments often help new businesses to start up. Explain why the government of Country X might help Abdul to start his business. **[8]**

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**1.4: Types of Business Organization**

1. O/N 18/P21/Q1/a **Case Study – Guardian Toys (GT) – See Page 575**  
 (a) Identify and explain two advantages and two disadvantages of GT being a public limited company. **[8]**

Advantage 1: .....

Explanation: .....

Advantage 2: .....

Explanation: .....

Disadvantage 1: .....

Explanation: .....

Disadvantage 2: .....

Explanation: .....

2. O/N 17/P22/Q1/a **Case Study – Garden Supplies (GS) – See Page 567**  
 (a) Identify and explain one advantage and one disadvantage of GS being a partnership. **[8]**

Advantage: .....

Explanation: .....

Disadvantage: .....

Explanation: .....

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**3. M/J 17/P22/Q3/a Case Study – Chocolicious Chocolates (CC) – See Page 565**

(a) Identify and explain one advantage and one disadvantage to CC if it changes to a public limited company. **[8]**

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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**4. O/N 16/P22/Q1/a Case Study – GJ Partnership – See Page 562**

(a) Identify and explain one advantage and one disadvantage to Ghaziz and Jasmin of being in a business partnership. **[8]**

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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Unit 1: Understanding Business Activity  
Page 22 of 70

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5. O/N 16/P21/Q4/b

**Case Study – P & P Paint – See Page 563**

(a) P & P is planning to start selling its products in other countries by 2018. Consider each of the three following changes the company could make. Which one of these changes will be most helpful in selling products to other countries? Justify your answer. [12]

Take over a retail business in one of the other countries: .....

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Change to a public limited company to raise additional capital: .....

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Form joint ventures in the other countries: .....

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Conclusion: .....

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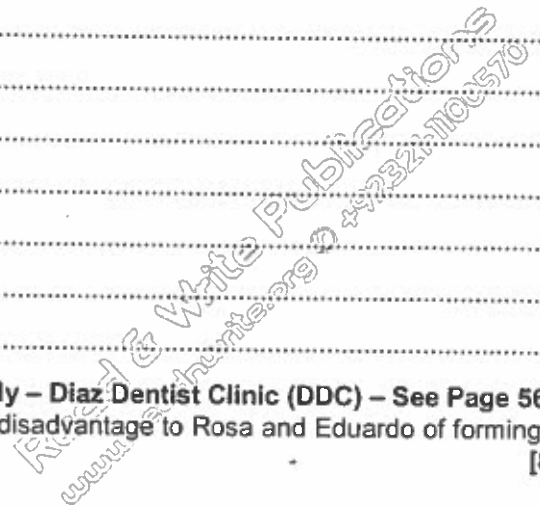
6. M/J 16/P21/Q1/a

**Case Study – Diaz Dentist Clinic (DDC) – See Page 560**

(a) Identify and explain **one** advantage and **one** disadvantage to Rosa and Eduardo of forming a business partnership. [8]

Advantage: .....

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Explanation: .....  
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Disadvantage: .....  
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Explanation: .....  
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7. O/N 15/P21/Q1/a **Case Study – Camper Companions (CC) – See Page 558**

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

Advantage: .....  
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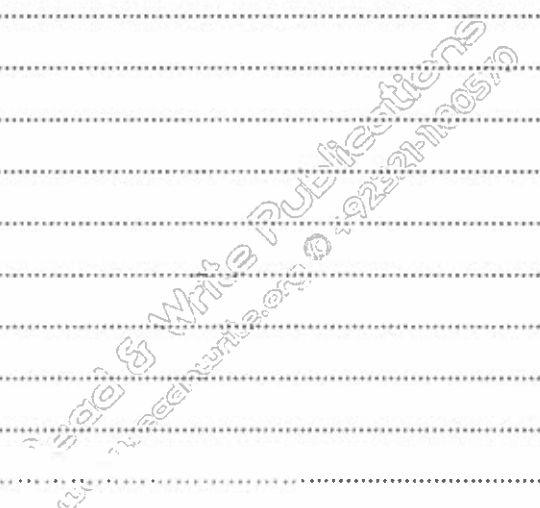
Explanation: .....  
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Disadvantage: .....  
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Explanation: .....  
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8. O/N 14/P22/Q1/a **Case Study – ACE Engineering (ACE) – See Page 551**

(a) Identify and explain **two** advantages to ACE of being a public limited company. **[8]**



Advantage 1: .....

Explanation: .....

Advantage 2: .....

Explanation: .....

9. O/N 14/P21/Q1/a **Case Study – PB Bank – See Page 552**  
(a) Identify and explain two disadvantages to PB Bank of being a public limited company. [8]

Disadvantage 1: .....

Explanation: .....

Disadvantage 2: .....

Explanation: .....

10. M/J 14/P22/Q1/a **Case Study – Manuel's Fruit and Vegetable Shop – See Page 548**  
(a) Identify and explain two disadvantages to Manuel of operating as a sole trader. [8]

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Disadvantage 1: .....

Explanation: .....

Disadvantage 2: .....

Explanation: .....

**11. M/J 14/P22/Q5/b Case Study – Manuel’s Fruit and Vegetable Shop – See Page 548**

(a) Manuel has been operating his successful fruit and vegetable shop for 10 years. He wants to expand by either opening more shops or becoming a franchisor and selling franchises to other people. Consider these two methods of expansion. Recommend which method he should choose. Justify your answer. [12]

Opening more shops of his own: .....

Becoming a franchisor and sell franchises to other people: .....

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Recommendation: .....  
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12. M/J 14/P21/Q1/a **Case Study – Fabian Flowers (FF) – See Page 549**  
(a) Identify and explain **two** advantages and **two** disadvantages to Fabian of working for himself rather than being an employee of another business. **[8]**

Advantage 1: .....

Explanation: .....

Advantage 2: .....

Explanation: .....

Disadvantage 1: .....

Explanation: .....

Disadvantage 2: .....

Explanation: .....

13. O/N 13/P22/Q1/a **Case Study – Cagan Cloth (CC) – See Page 546**  
(a) Identify and explain one advantage and one disadvantage to Cagan of his business being a private limited company. **[8]**

Advantage: .....

Explanation: .....

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Disadvantage: .....

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Explanation: .....

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**14. M/J 13/P21/Q5/b Case Study – Ted's Tools (TT) – See Page 544**

(a) Mustafa wants to leave the partnership next year. Ted is considering three options listed below. Consider the advantages and disadvantages of each of these options. Recommend which option you think Ted should choose. Justify your answer. [12]

Start a new partnership with another partner: .....

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Become a sole trader: .....

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Form a private limited company: .....

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Recommendation: .....

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**15. O/N 12/P22/Q1/a** **Case Study – KK Cars – See Page 540**  
 (a) Identify and explain four disadvantages for Trunal of setting up as a sole trader rather than working for an employer. [8]

Disadvantage 1: .....

Explanation: .....

Disadvantage 2: .....

Explanation: .....

Disadvantage 3: .....

Explanation: .....

Disadvantage 4: .....

Explanation: .....

**16. O/N 12/P21/Q1/a** **Case Study – K’s Garage – See Page 542**  
 (a) Identify and explain four reasons why Kolo might want to set up his own business rather than work for an employer. [8]

Reason 1: .....

Explanation: .....

Reason 2: .....

Explanation: .....

Reason 3: .....

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

Reason 4: .....

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

**17. M/J 12/P22/Q1/a Case Study – School Clothes Supplies (SCS) – See Page 537**

**(a) Identify and explain two advantages and two disadvantages to Vijay Singh of the business being a private limited company instead of a partnership. [8]**

Advantage 1: .....

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

Advantage 2: .....

Explanation: .....  
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Disadvantage 1: .....

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

Disadvantage 2: .....

Explanation: .....  
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**18. O/N 11/P22/Q2/a Case Study – BB Boat Tours – See Page 534**

**(a) Bruce is thinking of leaving the partnership. Identify and explain two factors Bruce might consider when deciding whether or not to leave the partnership. [8]**

Factor 1: .....

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

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.....  
Factor 2: .....

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

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**19. O/N 11/P22/Q4/a Case Study – BB Boat Tours – See Page 534**

(a) BB Boat Tours made a loss last year and this worried the brothers. Identify and explain two reasons why converting the partnership to a private limited company might be better for Abdul, Bruce and Carlos. **[8]**

Reason 1: .....

Explanation: .....

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Reason 2: .....

Explanation: .....

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**20. O/N 10/P22/Q3/b Case Study – The Riverside Restaurant – See Page 527**

(a) Kim and Selina could expand the business through the opening of franchised restaurant outlets. Do you think this is a good idea? Justify your answer. **[12]**

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

- (b) If Jenn and Kiang want to expand the number of Dream Hotels they can either offer to franchise the hotel name to other hotel owners or open new hotels themselves. What do you think they should do? Justify your answer. [12]

Franchise the hotel name: .....  
.....  
.....  
.....  
.....  
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.....  
.....  
.....  
.....

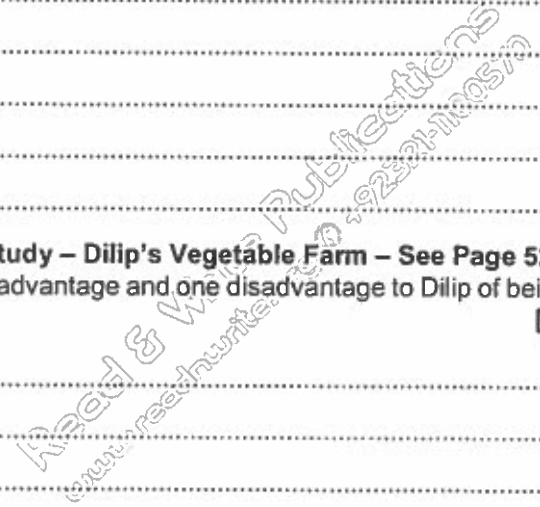
Open new hotels themselves: .....  
.....  
.....  
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Recommendation: .....  
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- 22. O/N 09/P2/Q1/a **Case Study – Dilip’s Vegetable Farm – See Page 522**  
(a) Dilip is a sole trader. Identify and explain one advantage and one disadvantage to Dilip of being a sole trader. [8]

Advantage: .....  
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Explanation: .....  
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**Disadvantages:** .....

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**1.5: Business Objectives and Stakeholder Objectives**

1. M/J 18/P22/Q2/b **Case Study – Downtown Hotel (DH) – See Page 571**

(a) Consider each of the following business objectives for DH. Which one do you think should be the most important objective for DH in the long run? Justify your answer. [12]

Higher market share: .....

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Profit: .....

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Survival: .....

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Conclusion: .....

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2. M/J 18/P21/Q2/a **Case Study – Value Gym (VG) – See Page 572**

(a) Identify and explain four reasons why making a profit is important to Peter. [8]

Reason 1: .....

.....

Explanation: .....

.....

Reason 2: .....

.....

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Explanation: .....

Reason 3: .....

Explanation: .....

Reason 4: .....

Explanation: .....

3. **M/J 17/P22/Q2/b** **Case Study – Chocolicious Chocolates (CC) – See Page 565**  
(a) Consider how the following three stakeholders will be affected by the introduction of a new automated production line at CC. Which stakeholder will be most affected by this decision? Justify your answer. **[12]**

Employees: .....

Shareholders: .....

Bank: .....

Conclusion: .....

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.....

**4. M/J 16/P22/Q1/a Case Study – Foto Favourites (FF) – See Page 559**

**(a) Identify and explain two possible reasons why Thao and Liang have set 'excellent customer service' as the main business objective. [8]**

Reason 1: .....

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Explanation: .....

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.....

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Reason 2: .....

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Explanation: .....

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**5. M/J 16/P22/Q3/a Case Study – Foto Favourites (FF) – See Page 559**

**(a) Identify four stakeholder groups who would want to see FF's accounts and explain why each group would want to see them. [8]**

Stakeholder group 1: .....

Explanation: .....

.....

Stakeholder group 2: .....

Explanation: .....

.....

Stakeholder group 3: .....

Explanation: .....

.....

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Stakeholder group 4: .....

Explanation: .....

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6. **M/J 16/P21/Q1/b** **Case Study – Diaz Dentist Clinic (DDC) – See Page 560**  
 (a) Consider an objective of each of the following three stakeholder groups of DDC. Do you think there will be conflict between the objectives of each of these stakeholder groups? Justify your answer. **[12]**

Objective of owners: .....

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Objective of patients (customers): .....

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Objective of employees: .....

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Will there be conflict between their objectives? .....

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7. **O/N 14/P22/Q4/a** **Case Study – ACE Engineering (ACE) – See Page 551**  
 (a) Identify four stakeholder groups of ACE and explain why each group will be interested in the published accounts. **[8]**

Stakeholder 1: .....

Explanation: .....

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.....  
.....  
Stakeholder 2: .....

Explanation: .....

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.....  
Stakeholder 3: .....

Explanation: .....

.....  
.....  
Stakeholder 4: .....

Explanation: .....

**8. M/J 14/P21/Q2/a Case Study – Fabian Flowers (FF) – See Page 549**

(a) Identify and explain **two** possible business objectives Fabian and his new partner could set for their business. **[8]**

Objective 1: .....

Explanation: .....

.....  
.....  
Objective 2: .....

Explanation: .....

**9. M/J 13/P22/Q1/a Case Study – Tibalt's Wood Products (TWP) – See Page 543**

(a) Identify two stakeholders of TWP and explain why each stakeholder is interested in the business. **[8]**



Stakeholder 1: .....

Explanation: .....

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Stakeholder 2: .....

Explanation: .....

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10. M/J 13/P22/Q2/a **Case Study – Tibalt's Wood Products (TWP) – See Page 543**  
(a) Identify and explain two reasons why the business objectives of growth and increased profits are important to TWP. **[8]**

Reason 1: .....

.....

Explanation: .....

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Reason 2: .....

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Explanation: .....

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11. M/J 10/P22/Q1/a

Case Study – Bashir Baskets – See Page 524

(a) Bashir wants to continue to expand the business. Identify and explain two other aims Bashir might have for the business. [8]

Aim 1: .....

.....

Explanation: .....

.....

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.....

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Aim 2: .....

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Explanation: .....

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12. M/J 10/P21/Q1/a

Case Study – Bimisi Buses – See Page 526

(a) Bimisi has higher profits as a business aim. Identify and explain two other aims Bimisi might have for the business. [8]

Aim 1: .....

.....

Explanation: .....

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Aim 2: .....

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Explanation: .....

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## Answers Section

### 1.1: Business activity

#### 1. O/N 17/P22/Q2/a

(a) Knowledge [2 × 1] – award one mark for each way

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

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

Award one mark for each way (maximum of two).

- Increase price (1) – explained why/how prices can be increased (1) such as:
  - improve quality of products such as plant pot containers
  - improve reputation
  - establish brand image
  - improve product features such as excellent customer service
- Reduce raw material costs (1) explanation of how these can be reduced (1) such as:
  - buy cheaper sources of flowers / find cheaper suppliers
  - lower the quality of inputs such as cheaper seeds
  - reduce the amount of inputs needed, e.g. less fertilizer

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

Indicative response:

Reduce raw material costs (k) such as buy cheaper seeds and fertilizer (ap). GS could change to a cheaper supplier of flowers, plants and trees. (ap) This will increase the gap between price and input costs and therefore increase added value. (an)

Possible application marks: Partnership; set-up last year; set up by 2 brothers; grows plants and trees; partners invested \$5000 each; looks after the gardens of luxury hotels; holds high level of inventory; information on the three sites in the case; information from Appendix 1; information from Appendix 2; information from Appendix 3; gardeners maintaining a good reputation for the business.

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

#### 2. O/N 16/P21/Q4/a

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

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

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

**Relevant points might include:**

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

- Allows costs to be paid
- Ensures a profit is made
- Prices could be increased

Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context – of the reason why added value is important.

Indicative response:

Allows costs to be paid (k) as wages and other factory costs are paid out of the revenue from sales of paint (ap) and the price of paint is higher than the total costs of producing it (ap).

This means that P & P will make a profit (an).

Possible application marks: paint manufacturer; large limited company; imports raw materials; makes tins (cans) of paint; sells to large retailers; uses batch production; 150 production workers; new waterproof paint; target market professional painters; new paint for outside of houses; start exporting paint in 2018; increase in imports of paint.

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

#### 3. M/J 12/P21/Q2/a

(a) Content:

**Advantage**

- increased production/output
- increased efficiency/productivity

- less training required
- skilled workers have higher pay
- quality improved.

**Disadvantage**

- monotonous for workers
- less variation of products
- workers cannot do other jobs as specialised in one task
- absence disrupts production
- quality could be worse if workers are bored.

*Do not reward the reverse argument unless explained e.g. advantage – quality improves and disadvantage – quality deteriorates = 1 mark only as no further explanation of why quality might change.*

1 knowledge mark + 1 explanation mark. (2 marks × 2 advantages/2 disadvantages)

Advantage: Less training will be required. (1 knowledge mark)

Explanation: Less training will be required as the worker only has to learn one task and they can do this quickly. (1 additional mark for explanation)

**4. O/N 11/P21/Q2/a****(a) Content:**

Increase price; decrease input costs; adding features to suits; exclusive brand name/logo; recognisable packaging.

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each factor (4 marks × 2 ways).

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks:

suits (any reference to any aspect of suits reward once only); batch production; 100 production workers; a lot of competition; employ skilled workers; invest in new machinery; information from Appendix 3, e.g. cloth/fabric.

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

Reason: They could reduce the cost of the cloth purchased for making the suits.  
(1 knowledge mark)

Simple explanation: They could reduce the cost of the cloth purchased for making the suits. This will reduce the input costs and increase the difference between the input costs and price.  
(1 additional mark for simple explanation)

Developed explanation: They could reduce the cost of the cloth purchased for making the suits. This will reduce the input costs and increase the difference between the input costs and price. Simon could find a cheaper supplier or negotiate a lower price from cloth suppliers to increase the added value. (1 further explanation mark for a developed explanation)

Application: The application mark could be achieved as the answer refers to cloth to make suits.  
(1 application mark)

**1.2: Classification of businesses****1. O/N 14/P22/Q5/a****(a) Content:****(i)**

- More labour available for other sectors
- Less agricultural output and other raw materials e.g. rubber
- More import of food products
- Rising food prices
- Increased demand for higher wages due to rising food prices.

**(ii)**

- More manufacturing output
- Wages rising in secondary sector jobs
- Increased customers from restaurants or hotels
- More domestic products available
- Increased exports.

The marks available for this question are as follows: 2 marks for knowledge and 6 marks for explanation/analysis.

1 mark for each effect identified – 1 mark for recognising the change in the figures – Up to 2 further marks are available for explaining the effect on businesses in Country Z.

1 knowledge mark + up to 3 explanation marks (4 marks × 2)

Effect: More labour available for other sectors (1 mark for knowledge)

Developed explanation: More labour available for other sectors (1) because workers leave the farms and move to the cities in search of work (2). ACE could find it easier to recruit workers to work in its factory making ovens (3). Output and exports of manufactured products are likely to increase in Country Z (4)

**2. O/N 14/P21/Q2/a****(a) Content:**

- Insurance
- Telephone communication
- Internet provider
- Advertising agency
- Training provider
- Recruitment agency
- Security
- Communication
- Accountants.

**N.B. the service must be used by the bank directly.**

The marks available for this question are as follows: 4 marks for knowledge and 4 marks for explanation/analysis.

1 mark for each example of a tertiary sector service identified (4 marks max). One further mark is available for explaining how the service will be helpful to the bank. (2)

1 knowledge mark plus 1 explanation mark (2 marks × 4 services)

Service: Insurance (1 mark for knowledge)

Explanation: Insurance (1) provides businesses with protection against risks such as theft or damage to branch premises.

**3. M/J 13/P21/Q1/a****(a) Content:****Advantage to TT**

freedom to set prices; few laws to restrict business activity; few restrictions,

**Disadvantage to TT**

highly competitive market; no control over anti-competitive prices; no control over monopolies; no government grants.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each advantage/disadvantage identified (2 marks max). Up to two further marks are available for explaining the advantage/disadvantage. 2 application marks are also available. Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 mark for advantage/disadvantage (4 marks × 1 advantage and 4 marks × 1 disadvantage).

Possible application marks: tools; equipment; retail establishment; partnership; small/large shops; shop assistants; 10 shops; reinvested profits; build or repair own houses; construction companies; bad weather; damage to buildings; recession.  
There may be other examples in context which have not been included here.

**Simple explanation:** There is no government control over the activities of large dominant competitors. (1 mark for knowledge)

**Developed explanation:** There is no government control over the activities of large dominant competitors (1). These companies might undercut TT prices to drive them out of business (1). TT will not be able to compete with the large shops and this will decrease both sales and profit (1).

**Application:** The application mark could be achieved as the answer makes reference to large shops. (1 application mark)

#### 4. O//N 10/P22/Q1/b

- Content:**
- Banks – providing financial services, e.g. secure place to deposit money, loans
  - Insurance companies – compensates the restaurant if there was a fire; not always legally required
  - Internet provider – gives the restaurant access to the Internet so that they can have website, use email, research, advertising, online bookings
  - Advertising agency – advises and/or carries out designing, making, placing adverts

**Level 1** – E.g. Banks provide current accounts, which give the restaurant a cheque book so that it can pay food bills easily. 1 mark for each statement.

**Level 2** – E.g. Banks provide current accounts, which give the restaurant a cheque book so that it can pay food bills easily. They also provide payment services, such as direct debit/standing orders, which mean that food bills are paid regularly and on time. This means that the business will not be late with a payment and will keep the good will of suppliers.

5 marks for level 2 answer plus 1 application mark for mentioning food bills.  
5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded.

**Level 3** – Detailed discussion of at least two level 2 answers which consider why these services are important to the restaurant.

E.g. level 2 answer + Without the bank, the restaurant would have to keep large amounts of cash on the premises, which would not be safe and it would be difficult to make payments for food suppliers in cash as the amounts could be large. Therefore banks are an essential service for the business success.

Possible application marks: expand fire; kitchens; booking meals; posters in city; new restaurants.  
There may be other examples in context which have not been included here.

Application	Knowledge/Analysis/Evaluation
Level 3	9-10 marks

At least 2 services explained at level 2 + good judgement shown as to why they are important to the success of the restaurant

Level 2	2 marks Well applied to case. At least two examples of reference to, or use of,	5-8 marks Good discussion of different services. Some limited judgement shown about why they are important to the success of the restaurant.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case	1 – 4 marks Services outlined.

5. M/J 10/P22/Q4/a

- (a) **Content:** banking; transport; advertising agency; market research agency; communication; retail; florist/basket wholesaler; website designer; accountant; legal services.

**Do NOT reward utilities.**

The marks available for this question are as follows: 4 marks for each suitable example and 4 marks for explanation/analysis.

1 mark for example + 1 mark for explanation (2 marks × 4 examples).

E.g. Bashir needs to use transport businesses (1) to take his flowers to the customers as he does not have his own vehicles (1).

**1.3: Enterprise, business growth and size****1. M/J 18/P22/Q3/b**

(a) Relevant points might include:

	Advantages	Disadvantages
ABC hotel	<ul style="list-style-type: none"> <li>Well established hotel as has been run by the same family for 30 years – well known by regular customers and suppliers – possibly less advertising required</li> <li>Good beach location – attractive to visitors from other countries</li> <li>Cheaper to buy at half the price of alternative hotel</li> </ul>	<ul style="list-style-type: none"> <li>Needs redecoration / modernizing – increased cost of \$50,000</li> <li>May have poor reputation for not being modern and well decorated</li> <li>Could get poor ratings on hotel comparison websites</li> <li>Too much money tied up in inventory</li> </ul>
XYZ hotel	<ul style="list-style-type: none"> <li>Already modern – so no costs to redecorate/modernize</li> <li>Location is good for tourists coming into country X as it is near the airport</li> <li>Technology used in hotel – reduces wage costs as more efficient with quicker computer based booking system</li> <li>Better security as key cards restrict access to hotel rooms only to hotel guests – improved reputation</li> </ul>	<ul style="list-style-type: none"> <li>High price to buy at \$100 000 more</li> <li>Not near beach so will not attract tourists wanting beach holidays</li> <li>Lower current ratio at 1</li> <li>Lower acid test ratio at 0.5</li> <li>Poor liquidity</li> </ul>

**Level 1****[1–3 marks]**

1 mark for outline of advantages and/or disadvantages of each hotel (max of 3 marks)

E.g. The cost of buying ABC hotel is a lot cheaper than XYZ hotel by \$100 000.

**Level 2****[4–6 marks]**

Detailed discussion of advantages and/or disadvantages of each hotel. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)

E.g. The cost of buying ABC hotel is a lot cheaper than XYZ hotel by \$100 000 so this will make it easier for Hilda to raise the necessary capital. However, she will still need to raise the same amount of capital as is already invested in her existing hotel so it might be difficult to find a suitable source of finance. (Level 2 plus one application mark for answering in the context of the cost of buying the hotels)

**Level 3****[7–10 marks]**

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which hotel to choose.

7–8 marks for some limited judgement shown in the recommendation as to which hotel to choose OR why not the alternative hotel.

9–10 marks for well justified recommendation as to which hotel to choose AND why not the other hotel.

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

Possible application marks:

DH is located next to a beach

ABC Hotel – owned by local family for more than 30 years – not recently redecorated – needs updating to attract foreign tourists - costs \$50 000 to update – costs \$100 000 to buy – beach location – current ratio = 3 acid test ratio = 2 – non-current assets = \$80 000

XYZ Hotel – modern hotel – city centre – located 50 km from Downtown – recently redecorated – near restaurants, train station and airport – uses new technology – computer-based booking system and electronic key cards current ratio = 1 – acid test ratio = 0.5 – non-current assets = \$150 000

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

2. M/J 18/P21/Q1/a

(a) Award one mark for each way (maximum of two), such as:

- To help gain finance from a bank/other investors/government grants
- To set objectives/goals/targets
- To encourage careful planning that will reduce risks of financial failure
- To be clear how the business is going to operate
- To identify the human and physical requirements of the business
- To identify the target market from market research/identify the level of demand for the gym

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

**Indicative response:**

Peter will have written the business plan to help him gain finance. (1) Peter will have taken it to show the bank manager to help persuade him to give VG the loan needed to start the gym. (ap) The business plan will show financial forecasts to show that the business will be able to repay the loan. (1) Therefore after the bank has given Peter the loan he will have the capital he needs to set up the gym and start signing up members. (ap)

**Possible application marks:**

Fitness instructor; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; a bank loan was used to finance the opening of the gym; as a sole trader; \$5,000 was put into the business; expects a good profit at the end of a successful first year; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment; information from Appendix 3 such as government grants are available to encourage the provision of gym facilities.

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

3. O/N 17/P21/Q1/a

(a) Knowledge [2 × 1] – award one mark for each way

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

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

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

- Capital employed
- Number of employees
- Sales revenue/revenue/income
- Output/quantity of services/number of customers

Do not accept profit

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

**Indicative response:**

The number of employees (K) as the more employees a business has the larger the business. However, some businesses may use a lot of technology and therefore have fewer employees. (an) AH is a small business because it only has 18 employees (ap) and it is also a service sector business as it looks after animals for their owners and therefore they do not use much technology. (ap)

Possible application marks: Animals; dogs; cats; pets; pet owners; washing and brushing animals; \$10 000 from grandfather; \$10 000 from bank loan; 12 adults and 6 children workers; information from Appendix 3 on the costs and revenue of AH.

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

4. O/N 16/P21/Q4/b

(a) Relevant points might include:

	Advantages	Disadvantages
Take over a retail business in one of the other countries	Will own many outlets to sell their paint	Expensive to buy shares in the other business
Change to a public limited company to raise additional capital	So they can sell shares to the public Pay additional costs of exporting/expanding	Accounts are public and may be able to be taken over



Form joint ventures in the other countries	Local knowledge of the overseas market.	Have to share information and profit.
--	---	---------------------------------------

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which change will be most helpful when selling products abroad. 7–8 marks for some limited judgement shown in conclusion as to which change will be most helpful when selling products abroad.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each possible change.
Level 1	1–3 marks Outline of advantages and/or disadvantages of each possible change.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Remaining a private limited company means the business will keep its accounts private.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Changing to a public limited company means the business will not keep its accounts private and so it will be easier for competitors to obtain information about the company. However, it will be able to obtain capital from selling shares as it can now sell shares to more than family and friends and this will enable it to cover the increase in costs from starting to export. (4 marks for L2 answer).

Level 3 – for L3 to be awarded there need to be at least two L2 marks awarded and then a justified conclusion as to which change will be most helpful when selling products abroad.

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

Possible application marks: paint; country X; paint manufacturer; large limited company; imports raw materials; makes tins (cans) of paint; sells to large retailers; new waterproof paint; new paint for outside of houses; start exporting paint in 2018; wants to increase output; increase in imports of paint.

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

5. O/N 15/P22/Q1/a

(a) Knowledge [2 × 1] – award one mark for each reason

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

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

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

- Lack of demand/market size
- Owner wants the business to remain small/owner objective
- Lack of capital for investment
- Offers a personal service
- Close contact with customers
- Close contact with employees
- Wants to keep the business in family ownership/control
- Easier to control
- Less stressful

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

Indicative response:

A lack of demand (k) as the motorbikes may not have a large number of potential customers in the local area (ap). Without a large demand there is no point in trying to expand (an) to sell large number of motorbikes and so the business will remain small (ap).

Possible application marks: sole trader; motorbikes; bikes; family owned business; started 15 years ago; cannot afford to buy car; located 100 km from Main City; 10 workers employed; repair, sell and deliver motorbikes; customers are mainly young men; Rafael's son is taking over the business.

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

6. M/J 15/P22/Q1/a

- (a) Knowledge [2 × 1] – award one mark for each relevant way  
 Analysis [2 × 1] – award one mark for a relevant explanation for each way  
 Application [2 × 2] – award two application marks for each way

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

- It helps to secure a bank loan or overdraft
- The entrepreneur thinks ahead and plans out carefully the next few years
- Reduces risks of failure as the owners have thought through problems the business might have
- To clarify the aims and objectives / targets to aim for
- Aids financial planning

Award a maximum of three additional marks for each explanation – **2 of which must be applied to this context** - of the way a business plan might help make the business successful.

Indicative response:

A business plan reduces risk for the business (k) as Samah and Selina will have thought through problems such as where to source their ingredients for the ice cream and what it will cost them (ap). This will allow them to prepare for any problems and stop these causing difficulties for the business (an). This might include preparing for cash flow problems at times of the year when demand is low (ap).

Possible application marks: partnership; produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; borrow finance easily from the bank; sales increased for four years; demand high for 6 months; cost / revenue data from appendix 3; new products / flavours; redundant workers; have taken out a bank loan; high income consumers.

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

7. M/J 15/P21/Q1/a

- (a) Knowledge (2 × 1) – award one mark for each relevant characteristic identified  
 Analysis (2 × 1) – award one mark for a relevant explanation of each characteristic  
 Application (2 × 2) – award two application marks for each relevant characteristic

**Relevant characteristics might include:**

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

- Hard working
- Risk taker
- Creative
- Optimistic
- Self-confident
- Innovative
- Independent
- Effective communicator
- Forward thinker
- Determined

Award a maximum of three additional marks for each explanation – **2 of which must be applied to this context** – of why these characteristics are needed to be a successful entrepreneur.

Indicative response:

Hard working (k) as the business has only been established for 10 years and has non-current assets worth \$100m (ap). David worked long hours 7 days a week to find customers so the business has grown (ap). He has had to work hard to manage the business effectively so that it is successful (an).

Possible application marks: cake manufacturing; food; shareholder; private limited company; started 10 years ago in country x; invested all his savings; profits have been constantly increasing every year; constantly develops a new range of cakes; works 7 days a week; has four managers for each department; e-commerce; Figures from Appendix 2; new markets abroad.

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

8. M/J 14/P22/Q3/a

(a) Content:

- To increase employment
- To increase economic growth / local economy
- Small businesses may grow into large businesses
- Increased competition
- To help them survive

1 mark for each reason identified (2 marks maximum). Up to three further marks are available for explaining the reason.

1 knowledge mark + up to 3 explanation marks (4 marks × 2 reasons)

Simple explanation: To raise employment levels (1 mark for knowledge)

Developed Explanation: To raise employment levels (1) as small businesses will employ many workers in their shops and factories and so reduce unemployment (2). Without government help, businesses like Manuel's fruit and vegetable shop may not open and therefore these workers would not have a job (3). This may reduce benefit payments or increase tax for the government (4).

9. O/N 13/P21/Q1/a

(a) Content:

- increase profit
- increase sales
- to increase market share
- brand loyalty/reputation
- spread risks
- diversification
- economies of scale

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 mark for each reason identified (2 marks max). Up to two further marks are available for explaining the reason. 2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason.  
(4 marks × 2 reasons)

Possible application marks: food stall; café; meals; sole trader; hot food; shoppers/tourists; high quality food ingredients; vegetables; wholesaler; football stadium; concerts/other sporting events; financial information from Appendix 1.

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

Simple explanation: To gain more profit (1 mark for knowledge).

Developed explanation: To gain more profit (1) by selling more food either through another food stall or by opening a café to increase sales revenue (1). As the business is larger the costs may not increase in the same proportion as sales revenue and therefore profit will increase (1).

Application: The application mark could be achieved as the answer makes reference to food stall and café (1 application mark).

10. M/J 13/P21/Q1/b

(a) Content:

**10 small shops advantage**

can meet local needs; convenient for local customers; covers a wider area; better customer satisfaction than large shops;

**Disadvantage**

higher fixed costs; higher distribution costs; increased number of employees;

**Large store advantage**

economies of scale; staff savings; lower transport costs;

**Disadvantage**

further for customers to travel; greater loss if shop has to close;

Level 1 – 1 mark for each statement

E.g. The manager of a small shop can respond to the needs of local people.  
(1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.

E.g. The manager of a small shop can respond to the needs of local people by buying tools and equipment which are required by these customers. These customers can expect to always find what they want at the shop and therefore become loyal customers and so sales revenue will increase. 5 marks for level 2 answer plus 1 application mark for mentioning tools and equipment.

Level 3 – Detailed discussion of two × level 2 answers and then a recommendation at the end which justifies which is the best option and why the other way is less suitable.

Possible application marks: tools; equipment; retail establishment; partnership; reinvested profits; build or repair own houses; construction companies; bad weather; damage to buildings; recession; reference to staff numbers; located in capital/main city.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Two × Level 2 + Well justified recommendation as to the best option compared to the other option.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each of the options OR balanced argument (even if listed). Limited judgement in the recommendation as to the best option.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Advantage/disadvantage of each option stated.

**11. O/N 12/P22/Q2**

**(a) Content:**

- number of employees
- capital employed
- level of sales turnover
- market share of the business.

The marks available for this question are as follows:

2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each way (4 marks × 2 ways)

Possible application marks:  
sole trader; taxi business; cars; drivers; journeys; mileage; passengers; data from Appendix 1 or 3.  
There may be other examples in context which have not been included here.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

- Way:** Size can be measured by the number of employees. (1 knowledge mark)
- Simple explanation:** Size can be measured by the number of employees. KK Cars only employs one other driver and is a small business. (1 additional mark for simple explanation)
- Developed explanation:** Size can be measured by the number of employees (1). KK Cars only employs one other driver and is a small business (1). Large businesses often employ a large number of workers although this is not always the case when capital-intensive methods of production are used. (1 further explanation mark for a developed explanation)
- Application:** The application mark could be achieved as the answer refers to driver. (1 application mark)

**(b) Content:**

- Option 1** can hold up to 14 people, taxi fares increased; diversified service; costs higher; lease payment; greater advertising required; seasonal demand; margin of safety is 1 per day.  
 $\$200 \text{ lease}/(\$80-\$40) \$40 = 5 \text{ journeys per day to break-even (L2)}$   
 $(TR = 480) - (TC = 440) = \$40 \text{ Net profit (L2)}$
- Option 2** Cost of buying the taxis; payments for 5 years; constant demand; 50% above break-even point; margin of safety is 5 journeys per day.
- Level 1** E.g. A much higher price can be charged for the luxury car hire.  
1 mark for each statement.
- Level 2** E.g. A much higher price of \$80 can be charged for the luxury car hire which means the business can make high sales revenue. However, the variable costs are also high and there is also the additional leasing cost which may mean the profits are not high.  
5 marks for level 2 answer plus 1 application mark for mentioning luxury car hire at a price of \$80.  
5 marks for the first level 2 answer. Plus 1 mark for each additional level 2 answer, i.e. two level two answers = 6 marks, 3 level 2 answers = 7 marks, 4 level 2 answers = 8 marks.
- Level 3** Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which option to choose rather than the other option.

Possible application marks:  
 small business; sole trader; taxi business; private customers; tourists; low profits to start with; competitive market; need to advertise; luxury car; birthday parties, weddings; passengers; airport taxi service; airport; data from Appendix 3.  
 There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
<b>Level 3</b>		9–10 marks Two × level 2 + good judgement shown as to the best option to choose and why not the other option (comparison made).
<b>Level 2</b>	2 marks Well applied to case. At least two examples of, references to, or uses of, the case.	5–8 marks Good discussion of the advantages and disadvantages of the two options OR balanced argument.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of, reference to, or use of, the case.	1–4 marks Factors listed or statements made about the options.

## 12. M/J 11/P22/Q3/b

## (a) Content:

Option 1 – TR = \$7500

TC = \$7000

Profit = \$500 (1 × L2 or 2 × L2 if TR and TC not shown)

GPM = 20% ( $1500/7500 \times 100$ ) = 1 additional L2NPM = 6.7% ( $500/7500 \times 100$ ) = 1 additional L2

Option 2 – TR = \$8000

TC = \$5000

Profit = \$3000 (1 × L2 or 2 × L2 if TR and TC not shown)

Break-even = 500 (2 × L2)

GPM = 50% ( $4000/8000 \times 100$ ) = 1 additional L2NPM = 37.5% ( $3000/8000 \times 100$ ) = 1 additional L2**(If profit is not calculated, 1 × L2 awarded for TR or TC in each option)**

Level 1 E.g. The variable cost of option 1 is twice as high as the variable cost of option 2.

1 mark for each statement.

Level 2 E.g. The net profit for option 1 is \$500. 6 marks for correct L2 calculation of profit as workings have not been shown.

Level 3 Calculations included at three × level 2 and then a conclusion at the end which justifies which is the best option to choose.

	Knowledge/Analysis/Evaluation
Level 3	9–12 marks Three × level 2 calculations. Well-justified recommendation as to which option to choose.
Level 2	5–8 marks Calculated net profit for option 1 and 2. Calculated break-even for option 2 or other appropriate calculations.
Level 1	1–4 marks Statements about each of the two options. Statements about the figures given in the case.

## 13. M/J 08/P2/Q3/b

## (a) Content:

To encourage job creation as unemployment is a problem.

To help more businesses get started to encourage further economic growth. Increased taxation and decreased government spending on welfare payments.

	Knowledge/Analysis/Application
Level 2	5–8 marks Reasons for government help explained. This may or may not be in context.
Level 1	1–4 marks Reasons for government help listed.

## 1.4: Types of business organisation

### 1. O/N 18/P21/Q1/a

(a) Award 1 mark for each relevant advantage/disadvantage (maximum of 4), such as:

Advantages:

- Limited liability
- Incorporated business with separate legal identify
- Shares can be issued to the general public
- Opportunity to raise very large sums of capital
- No restrictions on buying, transferring or selling of shares
- High status and easier to attract suppliers

Disadvantages:

- Quite complicated legal formalities
- Many regulations and controls including publication of accounts/accounts can be seen by competitors
- Selling shares to the public is expensive
- Danger the owners may lose control if too many shares are issued/risk of takeover

Award a maximum of 1 additional mark for each explanation.

Indicative response: Limited liability [1] means the shareholders can only lose the capital they invested in the company and not their personal possessions. [1].

### 2. O/N 17/P22/Q1/a

(a) Knowledge [2 × 1] – award one mark for each advantage/disadvantage

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

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

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

Advantages

- Increased capital investment
- Share responsibilities/specialise/more skills/more ideas
- Share risks/losses

Disadvantages

- Unlimited liability
- No separate legal identity
- Share profit
- Lack of continuity
- Arguments between partners

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

Indicative response:

More capital can be invested by each partner than if the business was a sole trader. (k) In this case the partners each invested \$5000. (ap) This meant that less capital was borrowed therefore reducing interest payments. (an) This will make it easier for GS to expand. (ap)

Possible application marks: set-up last year; set up by 2 brothers; grows plants and trees; partners invested \$5000 each; looks after the gardens of luxury hotels; want to buy more land to expand; information from Appendix 1; information from Appendix 2.

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

### 3. M/J 17/P22/Q3/a

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

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

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

Award one mark for each relevant advantage/disadvantage (max 1 each) an one additional mark for explaining why it is an advantage/disadvantage.

Answers are likely to include:

Advantage	<ul style="list-style-type: none"> <li>• No restriction on who can buy shares/shares sold to the public</li> <li>• Increased share capital issued to purchase fixed assets/increased capital raised</li> </ul>
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	<ul style="list-style-type: none"> <li>Easier to obtain bank loan/attract suppliers/perceived as less risky and higher status</li> </ul>
Disadvantage	<ul style="list-style-type: none"> <li>Accounts published/less privacy</li> <li>Easier to be taken over/original owners lose control</li> <li>More legal formalities/expensive and time consuming to convert to plc. and issue shares to the public</li> <li>More regulations and controls over plc.</li> </ul>

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

**Indicative response:**

A public limited company can issue new shares to the public (k) this will allow it to raise the additional \$500 000 needed for the expansion (app). This is a cheaper way to raise this necessary capital for the expansion as interest will not need to be paid on the finance (an). As the finance can be used for expansion of the automated production line then the higher profit from the increased output may not lead to reduced dividends for the shareholders (app)

**Award up to 4 additional marks for relevant application.**

<p>Possible application marks: Chocolates/high quality chocolates/luxury chocolates; hand-made chocolates; private limited company; set up 15 years ago in country X; batch production; objective of expansion; developing a new brand of chocolate bar; targeted at the mass market; purchase a new automated production line; output is expected to be high; borrow \$500 000.] There may be other examples in context that have not been included here.</p>
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**4. O/N 16/P22/Q1/a**

- (a) Knowledge [2 × 1] – award one mark for each advantage/disadvantage  
 Analysis [2 × 1] – award one mark for a relevant explanation for each advantage/disadvantage  
 Application [2 × 2] – award two application marks for each advantage/disadvantage  
 Award one mark for each relevant advantage/disadvantage (maximum of two), such as:

**Advantage**

- More capital than sole trader
- Share decision making
- Someone to share running the business/cover when holidays
- More ideas/specialisation

**Disadvantage**

- Unlimited liability
- No continuity
- Share profits
- Conflicts between partners

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

**Indicative response:**

Unlimited liability (k) so if the demand for the cleaning or gardening services drops and they make a loss (ap) Ghaziz and Jasmin could lose their personal possessions to pay the bills(an). If customers do not pay them Ghaziz and Jasmin will have to pay the wages to the cleaners and gardeners out of their own money (ap).

Possible application marks: gardening services; house cleaning services; partnership set up 5 years ago; partners have different ideas about reasons for success of the business; income in country X is increasing; employment is increasing; expand by offering new service; elderly people; old people; adults children; financial information from Appendix 1; information from the graph in Appendix 3.

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

**5. O/N 16/P21/Q4/b**

- (a) Relevant points might include:

	Advantages	Disadvantages
Take over a retail business in one of the other countries	Will own many outlets to sell their paint	Expensive to buy shares in the other business



Change to a public limited company to raise additional capital	So they can sell shares to the public Pay additional costs of exporting/expanding	Accounts are public and may be able to be taken over
Form joint ventures in the other countries	Local knowledge of the overseas market.	Have to share information and profit.

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which change will be most helpful when selling products abroad. 7–8 marks for some limited judgement shown in conclusion as to which change will be most helpful when selling products abroad.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each possible change.
Level 1	1–3 marks Outline of advantages and/or disadvantages of each possible change.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Remaining a private limited company means the business will keep its accounts private.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Changing to a public limited company means the business will not keep its accounts private and so it will be easier for competitors to obtain information about the company. However, it will be able to obtain capital from selling shares as it can now sell shares to more than family and friends and this will enable it to cover the increase in costs from starting to export. (4 marks for L2 answer).

Level 3 – for L3 to be awarded there need to be at least two L2 marks awarded and then a justified conclusion as to which change will be most helpful when selling products abroad.

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

Possible application marks: paint; country X; paint manufacturer; large limited company; imports raw materials; makes tins (cans) of paint; sells to large retailers; new waterproof paint; new paint for outside of houses; start exporting paint in 2018; wants to increase output; increase in imports of paint.

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

#### 6. M/J 16/P21/Q1/a

- (a) Knowledge [2 × 1] award one mark for each relevant advantage/disadvantage  
 Analysis [2 × 1] award one mark for a relevant explanation of each advantage/disadvantage  
 Application [2 × 2] award two application marks for each advantage/disadvantage  
 Award one mark for each relevant advantage/disadvantage (maximum of two), such as:
- Increased capital
  - Additional partners to work in the business/help with decisions/holidays/responsibility shared
  - Additional specialisms/skills of partners
  - More ideas.
  - Unlimited liability
  - No continuity
  - Responsible for actions of other partners
  - Disagreements may cause problems/arguments
  - Slower decision making
  - Profit will have to be shared.

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

Indicative response:

Increased capital to put into the business [k] because Rosa and Eduardo will each invest \$50 000 each [ap]. This will reduce the need to borrow money, saving interest payments, [an] when the business expands and moves to larger premises [ap].

Possible application marks: qualified dentists; business set-up 10 years ago in country X; \$50 000 each partner; largest dentist clinics in the country; 1 general manager for the clinic; bank loan to pay for new computer system; reputation for high quality treatments; private patients; 3 months to pay for treatment; move to larger premises; offer teeth whitening; job vacancies for dentists and assistants; information from Appendix 1 and 2.

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

**7. O/N 15/P21/Q1/a**

- (a) Knowledge (2 × 1) – award one mark for each advantage/disadvantage identified  
 Analysis (2 × 1) – award one mark for an explanation of each advantage/disadvantage  
 Application (2 × 2) – award two application marks for each advantage/disadvantage  
 Award one mark for each advantage/disadvantage (maximum of two), such as:

Advantages:

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

Disadvantages:

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

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

Indicative response:

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

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

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

**8. O/N 14/P22/Q1/a**

(a) Content:

- Limited liability
- Access to more sources of capital
- Sell shares to the public
- Continuity
- Separate legal identity.

The marks available for this question are as follows: 2 marks for knowledge; 4 marks for analysis and 2 marks for application.

1 mark for each advantage identified plus 2 explanation marks and 1 application mark.

(4 marks × 2 advantages)

Advantage: Limited liability (1 knowledge mark).

Explanation: Limited liability (1) means the shareholders cannot lose any of their personal belongings only the capital invested in the business (1). This will encourage people to become shareholders in ACE as sales revenue is increasing indicating that the business is successful (1).

Application: Plus 1 application mark because the answer is in the context of increasing sales revenue for this business. Advantage: Limited liability (1 knowledge mark).

Possible application marks: ovens; financial information from Appendix 1; 200 production workers; purchase production machinery; want to be efficient to remain competitive; export products to different countries; sales revenue increasing; profit increasing.  
There may be other examples in context which have not been included here.

9. O/N 14/P21/Q1/a

(a) Content:

- Cannot control who buys the shares/Easier to be taken over
- Expect dividends to be paid
- Accounts published
- Legal formalities need to be followed
- Divorce between ownership and control
- More difficult for effective communication
- May experience diseconomies of scale/management problems.

The marks available for this question are as follows: 2 marks for knowledge; 4 marks for analysis and 2 marks for application.

Possible application marks: bank; 15000 employees; lack of good communication; takeover another bank; bank accounts; reference to Appendix 1; 20 years in existence; marketing director; 1000 branches; branch X and branch Y; board of directors.

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

1 mark for each disadvantage identified plus 2 explanation marks for each disadvantage plus 1 application mark. (4 marks × 2 disadvantages)

Disadvantage: Accounts published (1 knowledge mark)

Explanation: Accounts published (1) as this is a legal requirement and the accounts need to be published each year. Anyone can see the accounts and so this means competitors can look at the accounting details of the bank. (2) A rival bank might want to take over the bank and finding out about its accounts could help it decide to take it over. (3) (Plus 1 application mark for answering in the context of banks).

10. M/J 14/P22/Q1/a

(a) Content:

- Lack of capital
- No one else to help make decisions
- Unlimited liability
- No continuity
- May have limited range of skills
- Long working hours / difficult to take holidays

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each disadvantage (2 marks maximum). Up to two further marks are available for explaining the disadvantage. 2 application marks are also available.

Possible application marks: shop; fruit and vegetables; been in business for 10 years; one month credit given to regular customers; 5 employees / part time.

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

1 knowledge mark + up to 2 explanation marks + 1 application mark for each disadvantage (4 marks × 2 disadvantages)

Disadvantage: He will have unlimited liability (1 mark for knowledge)

Developed explanation: He will have unlimited liability (1) which means that if the shop goes bankrupt he could lose all his personal possessions, (2) which means

he could lose not just the money he put into the shop but all the other debts of the shop would have to be paid by Manuel. (3)

Application:

The application mark could be achieved as the answer makes reference to the shop (1 application mark).

### 11. M/J 14/P22/Q5/b

(a) Content:

Open own shops – can keep all the profits; more control over the operations; large amount of capital required; may need to take on partners or shareholders.

Selling franchises – capital injection from selling the franchise plus share of the profits; still have control over shop image; expand more quickly; get business name more widely known; rapid expansion may be difficult for him to control; success of the business will now depend on the skill of the franchisees (could improve or damage reputation).

Level 1 – 1 mark for each statement.

E.g. Manuel will gain a capital injection from selling the franchise plus he will receive a share of the profits made by the shops (1 mark).

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.

E.g. Manuel will gain a capital injection from selling the franchise plus he will receive a share of the profits made by the shops. He will still have control over the shop image as the franchisee will have to keep the shop in the same colours as Manuel's shop, sell the stock supplied by Manuel, etc., as this will be part of the franchise agreement. 5 marks for level 2 answer.

Level 3 – Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best option to choose compared to the other option.

Possible application marks: sole trader; located on main road; reference to financial information from Appendix 1; country X; capital city.

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

	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks At least 2 × Level 2 + well justified recommendation as to whether to sell a franchise compared to opening his own shops.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of selling a franchise and opening his own shops OR balanced argument. Some limited judgement shown in recommendation about whether to sell a franchise or open his own shops.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outline of advantages/disadvantages of selling a franchise and opening his own shops.

### 12. M/J 14/P21/Q1/a

(a) Content:

Advantages:

- Make own decisions
- Choose own work hours
- Keep any profits made
- Taking more responsibility
- More power
- Less worried about being unemployed

- High level of motivation
- Disadvantages:
- Not a regular wage
  - May not be able to take holidays
  - No one to help him
  - Limited capital
  - More worry about business failure
  - More risk of losing personal possessions
  - No experience of management/flower business
  - More administration to carry out

The marks available for this question are as follows: 4 marks for knowledge; 4 marks for application.

1 mark for each advantage/disadvantage identified plus 1 explanation mark for each advantage/disadvantage. (2 marks × 2 advantages + 2 marks × 2 disadvantages)

Advantage: Can work the hours Fabian chooses (1 knowledge mark).

Explanation: Can work the hours Fabian chooses as he works for himself and he could work early in the morning if he chooses and take time off later in the day (1 explanation mark)

### 13. O/N 13/P22/Q1/a

#### (a) Content:

##### Advantage

- more capital from shareholders
- limited liability
- continuity

##### Disadvantage

- sale of shares restricted to family and friends
- accounts not private any more
- more legal requirements

1 mark for each advantage/disadvantage identified (2 marks max). Up to two further marks are available for explaining the advantage/disadvantage. 2 application marks are also available.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each advantage/disadvantage. (4 marks × 1 advantage and 4 marks × 1 disadvantage)

Possible application marks: shop; cloth; wholesaler; blinds; curtains; windows; shop; expansion of the business; new market on the Internet; financial information from Appendix 1. There may be other examples in context which have not been included here.

Simple explanation: Limited liability (1 mark for knowledge)

Developed explanation: Limited liability (1) means that if the business owes the wholesaler money for the purchase of cloth and the business goes bankrupt then the shareholders cannot have their personal possessions taken off them to pay the debt (1) and they would only lose the money they invested into the business. (1)

Application: The application mark could be achieved as the answer makes reference to wholesaler and cloth. (1 application mark)

### 14. M/J 13/P21/Q5/b

#### (a) Start a new partnership with another partner

##### Become a sole trader

##### Form a private limited company

##### Content:

##### Partnership

- Adv – additional capital; additional skills; shared workload  
 Disad – still unlimited liability; liable for partner's actions; no continuity

##### Sole trader

- Adv – own boss; keep all profits  
 Disad – limited capital; makes all the decisions; may not have all the necessary skills

##### Limited company

- Adv – limited liability; increased capital  
 Disad – legal requirements; less privacy with accounts; only sell shares to family and friends

- Level 1 – 1 mark for each statement  
E.g. If Ted stays as a partnership then he will have additional capital from the new partner. (1 mark)
- Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.  
E.g. If Ted stays as a partnership then he will have additional capital from the new partner. The new partner can also help to run the shops and may have previous retail experience. They can therefore help to improve the business and means that Ted isn't on his own. 5 marks for level 2 answer plus 1 application mark for mentioning retail experience.
- Level 3 – Detailed discussion of two × level 2 answers and then a recommendation at the end which justifies which is the best option to choose and why the other options are less suitable.

Possible application marks: tools; equipment; retail establishment; small/large shops; reinvested profits; build or repair own houses; construction companies.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Two × Level 2 + Well justified recommendation as to the best option to choose compared to the other alternative options.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each option OR balanced argument (even if listed). Limited judgement in the recommendation as to the best option to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages/disadvantages of each option stated.

### 15. O/N 12/P22/Q1/a

#### (a) Content:

- lose investment
- lack of demand
- business may go bankrupt
- work long hours
- all responsibility is his
- unlimited liability
- no continuity
- banks less willing to lend/limited access to finance
- no one to help with decisions/ideas
- not a separate legal identity.

The marks available for this question are as follows:

4 marks for knowledge and 4 marks for explanation/analysis.

1 knowledge mark + 1 explanation mark (2 marks × 4 disadvantages)

Disadvantage: May lose all his money invested in the business.  
(1 knowledge mark)

Explanation: May lose all his money invested in the business if the business goes bankrupt as he has unlimited liability.  
(1 additional mark for explanation)

**16. O/N 12/P21/Q1/a****(a) Content:**

Candidates may focus either on reasons for leaving current employment or the benefits of running his own business.

- own boss
- keep all the profit
- choose who to work with
- choose own holidays
- choose own working hours
- making all the decisions
- being in control
- no risk of disagreements
- unhappy with current employment
- potential to earn higher income
- not worried about being fired.

The marks available for this question are as follows: 4 marks for knowledge and 4 marks for explanation/analysis.

1 knowledge mark + 1 explanation marks (2 marks × 4 reasons)

Reason: Kolo can keep all the profits for himself (1 knowledge mark)

Explanation: Kolo can keep all the profits for himself (1) he will not be just paid the same wage if he works hard but he will get to keep extra money for himself. (1 additional mark for simple explanation)

**17. M/J 12/P22/Q1/a****(a) Content:** Advantages and disadvantages must relate to the difference between a private limited company and a partnership.**Advantages**

- raise capital by selling shares
- limited liability
- continuity
- easier to get bank loan
- separate legal identity.

**Disadvantages**

- shareholders expect dividends
- accounts not totally private
- more complex legal process.

The marks available for this question are as follows: 4 marks for knowledge and 4 marks for explanation/analysis.

1 mark for each advantage/disadvantage identified (4 marks max). Plus one mark for explaining why it is an advantage or disadvantage.

1 knowledge mark + 1 explanation mark (2 marks × 2 advantages and 2 disadvantages).

Advantage/disadvantage: Can raise capital by selling shares. (1 mark for knowledge)

Explanation: Can raise capital by selling shares this means more capital can be raised. (1 explanation mark)

**18. O/N 11/P22/Q2/a****(a) Content:**

Factors – will he get his investment back; alternative use of money; alternative job; setting up alternative business; effect on the business and his brothers.

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason. (4 marks × 2 factors)

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks:

15 years ago; three brothers; grew rapidly and made good profits; boats fully booked/half full; business made a loss; selling boat; financial information from Appendix 1; information from the graphs from Appendix 3.  
There may be other examples in context which have not been included here.

**Factor:** Bruce will need to see if he can get all of his investment back. (1 knowledge mark)

**Explanation:** Bruce will need to see if he can get all of his investment back (1) because the business might not be worth as much as when he first invested his money in the business as it made a loss last year (1). For the business to pay Bruce back it will need to get cash and in order to do this it may need to sell some of its fishing or diving equipment or a boat. It may not be worth very much as it will have been used for several years (1).

**Application:** The application mark could be achieved as the answer considers boats, fishing, and diving equipment and also making a loss last year. (1 application mark)

**19. O/N 11/P22/Q4/a**

**(a) Content:**

To gain limited liability; to make it easier to raise additional finance by selling shares; could bring in more investors and expertise; continuity.

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason. (4 marks × 2 reasons)

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks:

15 years ago; boat day trips; foreign tourists; grew rapidly and made good profits; boats fully booked/half full; selling boat; employees redundant; information from the graphs in Appendix 3.

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

**Reason:** To gain limited liability (1 knowledge mark).

**Simple explanation:** To gain limited liability (1) will be an advantage as, if the business owes money for the purchase of new boats or equipment, the owners will only be liable for their individual investment in the business. (1 additional mark for simple explanation)

**Developed explanation:** To gain limited liability (1) will be an advantage as if the business owes money for the purchase of new boats or equipment then the owners will only be liable for their individual investment in the business (1). This means that the owners will not put any of their personal possessions at risk and will not lose any of their own assets as payment for the business debts. (1 further explanation mark for a developed explanation)

**Application:** The application mark could be achieved as the answer refers to the purchase of new boats or equipment. (1 application mark)

**20. O/N 10/P22/Q3/b**

- (a) Content:** franchise advantages – brand image will help new restaurants get established; all restaurants on same model; will get money from selling franchise; share of each restaurant's profits; do not need to raise as much capital. Disadvantages – franchisees may create a bad image and will reflect on the rest of the restaurants; expensive to provide support and advice. Alternatives considered, e.g. becoming a plc – raise capital; don't have to pay back the capital; raised company profile; shares sold to the public.  
But – may lose control; easier to be taken over; accounts published

Level 1 – E.g. if they expand the business by selling the name of the restaurant as a franchise, they will receive payments from the franchisees. 1 mark for each statement.

Level 2 – E.g. if they expand the business by selling the name of the restaurant as a franchise, they will receive payments from the franchisees. The franchisee will also have to give a proportion of the profits to Kim and Selina each year. However, they will have to provide training and support for the franchisee on how to run a restaurant and this will cost them money. 5 marks for level 2 answer.



5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.

However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded.

- Level 3 – Detailed discussion of at least two level 2 answers and there will be a conclusion at the end which justifies whether becoming a franchise is a good idea or not.

Possible application marks: food; training waiters.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 + Good judgement shown as to whether it is a good idea or not and why.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of franchise and/or also possible alternatives. Some limited judgement shown about the franchise and/or also the different options.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Advantages/disadvantages of franchise and/or also possible alternatives.

#### 21. O/N 10/P21/Q3

##### (a) Content:

Advantages: e.g. risks are shared; few legal requirements; more capital than sole trader.

Disadvantages: e.g. profits are shared; limited capital compared with limited company; responsible for partners' actions; unlimited liability.

The marks available for this question are as follows:

4 marks for knowledge; 4 marks for analysis.

1 mark for each advantage/disadvantage (4 marks max).

4 analysis marks are also available – 1 mark for explanation of why each point is an advantage/disadvantage.

Reason: they have unlimited liability (1 knowledge mark), so Jenn and Kiang will lose all their personal possessions if the business goes bankrupt.

(1 explanation mark)

##### (b) Content:

###### *Franchise*

Advantages: brand image will help new hotels get established; all hotels on same model; will get money from selling franchise; share of each hotel's profits; do not need to raise as much capital to expand.

Disadvantages: franchises may create a bad image and will reflect on the rest of the hotels; provide support and advice which can be expensive.

###### *Expand themselves*

Advantages: keep control; increase profits; gain from economies of scale.

Disadvantages: need to raise capital; may increase debts; unlimited liability so may need to change the type of business organisation; increase number of owners so may lose control.

##### N.B. Do not reward definition of franchise.

Level 1 E.g. if expanding the business themselves, they will need to raise capital. 1 mark for each statement.

Level 2 E.g. if expanding the business themselves, they will need to raise capital and may take out a bank loan. The money would need to be paid back and interest paid.

This will increase payments by the business and may lead to cash-flow problems.  
5 marks for level 2 answer.

5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.

However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded.

**Level 3** Detailed discussion of at least two level 2 answers which consider becoming a franchise or to expand the business themselves. There will be a conclusion at the end which justifies one of the options as being better than the alternative option.

Possible application marks: restaurant; leisure centre; car parking; reference to quantitative data in case; tourists; business customers.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
<b>Level 3</b>		9–10 marks Level 2 + Good judgement shown about which option to take and why it is better than the alternative option.
<b>Level 2</b>	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of franchise and/or expand themselves. Some limited judgement shown about the different options.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Advantages/disadvantages of franchise and/or expand themselves listed.

**22. O/N 09/P2/Q1/a**

**(a) Content:**

**Advantages:**

There are few legal regulations – this makes it much easier to run the farm as Dilip won't have to pay high costs for accountants.

Freedom to choose holidays – Dilip can take his holidays whenever he wants but he will have to fit in with the harvest.

Close contact with customers – Dilip will personally deal with the customers who buy the vegetables at the market.

Dilip keeps all the profits – if he works hard and increases the farm's profits he doesn't have to share them with anyone else like a partner or other shareholders.

Secrecy in accounts – Dilip doesn't have to publish the farm accounts as he would have to do if the business was a public limited company.

Dilip makes all the decisions.

Easy to set up. (1 mark only)

**Disadvantages:**

Dilip would have no one to discuss problems with – this could be a downfall as Dilip is clearly facing some big challenges in his business, such as the decision whether to sell to the supermarket chain. He might find it helpful to have a partner or other senior manager to discuss these issues with.

Dilip will have unlimited liability – this means if the farm goes bankrupt Dilip would lose the farm and all his personal possessions.

Capital is limited – only the money invested by Dilip is available to invest in the business. If the business was a partnership or a limited company then additional money would be available for investment by the partners or shareholders.

Lack of continuity.

Possible application marks: farm; autocratic leader; vegetable growing; holiday homes; exports/fair trade; \$50,000; \$10,000.  
There may be other examples in context which have not been included here.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each advantage/disadvantage identified. Up to 2 further marks are available for explaining the nature of each advantage and disadvantage. 2 application marks are also available.

Below are two examples to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded in each case.

1 knowledge mark + up to 2 explanation marks + 1 application mark for the advantage or the disadvantage (4 marks × 2)

Advantage:	Dilip will be his own boss: (1 knowledge mark)
Simple explanation:	Dilip will be his own boss. Dilip will take all the decisions and he doesn't have anyone to argue with him. (1 additional mark for simple explanation)
Developed explanation:	Dilip is his own boss. This may be important for Dilip because he favours the autocratic style of leadership and if he worked as a manager or director in a larger company, he might not be allowed to use this management style. Dilip will take all the decisions and he doesn't have anyone to argue with him. (1 further explanation mark for a developed explanation)
Application:	The application mark is achieved as the answer refers to Dilip using the autocratic leadership style. (1 application mark)
Disadvantage:	Dilip will have unlimited liability. (1 knowledge mark)
Simple explanation:	Dilip will have unlimited liability. This means that Dilip would lose the farm and all his personal possessions if he goes bankrupt. (1 additional mark for simple explanation)
Developed explanation:	Dilip will have unlimited liability – this means if the farm goes bankrupt Dilip would lose the farm and all his personal possessions. Dilip and the farm have the same legal identity and therefore if the business owes money then the business debts are also Dilip's debts and he must pay them out of his own money. (1 further explanation mark for a developed explanation)
Application:	The application mark is achieved as the answer considers that Dilip would lose the farm if he went bankrupt. (1 application mark)

### 23. O/N 08/P2/Q1/b

- (a) Content: Business objectives of a plc might be to make profits, growth, survival, diversification but the objectives if government owned might be to provide a service, to break-even, to provide employment.

	Analysis/Evaluation
Level 2	5–8 marks Reasons how the objectives might be different are explained OR Contrasts are drawn between the two types of ownership.
Level 1	1–4 marks Reasons how the objectives might be different are stated/listed.

### 24. M/J 08/P2/Q2/a

- (a) Content:
- Business failure less likely as well known brand name.
  - Franchisor carries out advertising.
  - Supplies are obtained from franchisor.
  - Help and advice when setting up.
  - Training for staff and owner.
  - Banks more willing to lend money.
  - But – less independence.
  - May not be able to make decisions that would suit the local area.
  - Licence must be paid to start up.
  - Share of the profits paid to franchisor.

1 mark for each advantage/disadvantage. For each advantage/disadvantage up to 4 additional marks for explanation can be awarded.

**5 marks maximum for advantages and 5 marks maximum for disadvantages.**

## 1.5: Business objectives and stakeholder objectives

### 1. M/J 18/P22/Q2/b

(a) Relevant points might include:

Higher market share	<ul style="list-style-type: none"> <li>Increased growth in the market but could grow without taking a larger market share as market itself is growing.</li> <li>May have to accept lower profit in a competitive market to increase market share</li> <li>Improved brand image / good reputation from having a higher market share encourages sales</li> <li>Increased influence over suppliers</li> <li>May have to reduce prices or increase marketing costs to attract more customers</li> <li>Possibly have more control over prices if more dominant in the market</li> </ul>
Profit	<ul style="list-style-type: none"> <li>Dividends should be paid to shareholders to reward the investment or shareholders may want to sell their shares. However, it is a private limited company and shareholders can only sell shares to family and friends so there will be fewer opportunities to sell shares than if it is a public limited company.</li> <li>Will need to make a profit in the long term or will not attract more investors in the future.</li> <li>Profit should be made so that it may be retained for future investment without the need to borrow capital</li> </ul>
Survival	<ul style="list-style-type: none"> <li>Need to make a profit in order to be worth staying in business but survival is usually an objective when the business is first starting out or if times are difficult such as in a recession, when expanding the business or facing increasing competition.</li> <li>In the long term this may not be an objective – other objectives become more important</li> </ul>

#### Level 1

[1–3 marks]

1 mark for outline of each objective (max of 3 marks)

E.g. Need to cover all costs to survive in order to be worth staying in business.

#### Level 2

[4–6 marks]

Detailed discussion of each objective. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)

E.g. Need to cover all costs to survive in order to be worth staying in business but survival is usually an objective when the business is first starting out or if times are difficult such as a recession. The hotel has been successful for the last 9 years and in the long term survival is not an objective as other objectives are likely to be. (Level 2 plus one application mark for answering in the context of the hotel being established 9 years ago)

#### Level 3

[7–10 marks]

For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which objective is most important to DH.

7–8 marks for some limited judgement shown in the conclusion as to which objective is most important to DH OR why the other objectives are less important.

9–10 marks for well justified conclusion as to which objective is most important to DH AND why the other objectives are less important.

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

Possible application marks:

Small hotel; 39 employees; private limited company set up 9 years ago; capital employed is \$100 000; demand for hotel accommodation is increasing; hotel is located next to a beach; half full 6 months; full 4 months; empty 2 months; most guests are local tourists on coach tours; wants to expand by taking over a hotel; details of ABC / XYZ hotels; financial information from Appendix 2; information in Appendix 3 about ways to attract more customers.

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

2. M/J 18/P21/Q2/a

(a) Award one mark for each reason (maximum of four), such as:

- Source of finance/retained profit/Peter could use the profit for reinvestment – expand the gym by buying new equipment
- To ensure survival of the business/avoid closure
- Reward for enterprise – reward for Peter’s hard work/good ideas to start the business
- Reward for risk taking – Peter risked losing his investment of \$5,000
- Indicator of success – the more profit Peter makes the more his success will be recognised by customers/employees

**Note: Do not reward payment of day-to-day expenses**

Award a maximum of one additional mark for each explanation suitable for this context  
Indicative response:

It is a reward for risk taking (1) as Peter has risked \$5,000 of his own money in the business and could have gained interest on this money if he had put it in the bank.(1)

3. M/J 17/P22/Q2/b

(a)

	Positively affected	Negatively affected
Employees	<ul style="list-style-type: none"> <li>• Increased output – higher wages</li> <li>• Training provided – increases skills of workers – increased job satisfaction</li> <li>• New jobs – higher wages</li> <li>• Easier/less strenuous job</li> </ul>	<ul style="list-style-type: none"> <li>• Some may lose their jobs</li> <li>• Different job – may not like it</li> <li>• If lose job then lower standard of living – cannot buy as many goods and services</li> </ul>
Shareholders	<ul style="list-style-type: none"> <li>• Increased profit in long Run</li> <li>• Share price increased</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced dividends in the short run</li> </ul>
Bank	<ul style="list-style-type: none"> <li>• Expansion of business – more likely to repay loans/overdrafts</li> <li>• May need additional loans</li> <li>• Bank makes a profit from interest paid on the loan</li> </ul>	<ul style="list-style-type: none"> <li>• Investment may take time for increased revenue – delay in repaying loan</li> <li>• If fails the bank loan may not be repaid – bank loses money</li> </ul>

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which stakeholder will be affected the most by the new automated production line and why the others will be less affected. 7–8 marks for some limited judgement shown in conclusion as to which stakeholder will be affected the most by the automated production line.
Level 2	4–6 marks Detailed discussion of the positive and/or negative effects on each stakeholder.
Level 1	1–3 marks Outline of the effects on each stakeholder.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Workers may be made redundant.  
 Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Workers may be made redundant as the production line may not require as many workers. Those workers who keep their jobs may benefit by receiving higher wages as they will now be more productive. (L2)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which justifies which stakeholder is affected the most.

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

Possible application marks:

Chocolates/high quality chocolates/luxury chocolates; hand-made chocolates; most workers been with CC since it started/for 15 years; private limited company; set up 15 years ago in country X; on-the-job training for new workers; objective of expansion; developing a new brand of chocolate bar; targeted at the mass market; reduce variable costs by using lower quality ingredients; output is expected to be high; borrow \$500 000  
There may be other examples in context that have not been included here.

**4. M/J 16/P22/Q1/a**

- (a) Knowledge [2 × 1] award one mark for each relevant reason identified  
Analysis [2 × 1] award one mark for a relevant explanation of each reason  
Application [2 × 2] award two application marks for each relevant reason  
Award one mark for each relevant reason (maximum of two), such as:
- To gain a good reputation
  - To keep customer loyalty/customer satisfaction/meet customer needs
  - To attract new customers
  - To reduce customer complaints
  - Unique Selling Point (USP)/Brand Image
  - Added Value.

Award a maximum of three additional marks for each explanation – two of which must be applied to this context – of each of these reasons.

To gain a good reputation (k) because then customers will tell their friends about the service and this will increase sales revenue (an). Customers will not use a photography business very often (ap) and Thao and Liang will rely on gaining new customers for wedding photographs from hearing about them from other happy customers (ap).

Possible application marks: face-to-face meetings with customers; private limited company; profitable and grown over last 5 years; photographs; photographers; photography; getting married; weddings, birthdays, family photographs; business customers as well as private individuals; taking over another photography business; growing externally rather than internally; photographs received on the internet; use an app to download photographs.  
There may be other examples in context which have not been included here.

**5. M/J 16/P22/Q3/a**

- (a) Application [4 × 1] award one application mark for each relevant stakeholder group (maximum of 4)  
Analysis [4 × 1] for explaining why each stakeholder group would want to see the accounts  
Award one mark for each relevant stakeholder group (maximum of four), such as:
- Owners/shareholders
  - Bank manager
  - Potential investors
  - Government
  - Employees
  - Managers
  - Creditors/suppliers
  - Competitors
  - Trade Union.

Award a maximum of one additional mark for each explanation of why they will want to see the accounts.

Indicative response:

Bank manager (ap) because the bank will want to be certain that if it gives a loan to FF that the company will be able to pay it back (an).

**6. M/J 16/P21/Q1/b**

- (a) Relevant points might include:

- Owner – invested own savings; make profit; expand to gain economies of scale; provide a high quality service
- Patients – good treatment; affordable prices
- Employees – high wages; secure job; good working conditions.

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

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 7–10 marks Well justified conclusion as to whether there will be conflict between the different stakeholder groups.
Level 2	4–6 marks Detailed discussion of the objective of each stakeholder group.
Level 1	1–3 marks Stakeholder group objective outlined.

Level 1	One mark for each L1 statement (max of three marks) e.g. Employees want their jobs to be secure.
Level 2	One L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks) e.g. Employees will want their jobs to be secure so they will keep receiving a wage for working in the dentist clinic. If the business is successful then they are likely to keep their jobs but if not then they will be made redundant and will receive no wage at all. (Four marks for L2 answer + one application mark for answering in the context of the dental clinic.)
Level 3	For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which justifies whether conflict between the different stakeholder groups is likely to occur.

Award up to two additional marks for relevant application.

Possible application marks: qualified dentists; business set-up 10 years ago in country X; \$50 000 each partner; largest dentist clinics in the country; pay high prices; employs 8 dentists, 10 assistants, 3 receptionists, 1 general manager for the clinic; new computer system requires fewer receptionists; reputation for high quality treatments; private patients; 3 months to pay for treatment; move to larger premises; offer teeth whitening; increasing number of Government-owned dentist clinics; job vacancies for dentists and assistants; information from Appendix 1 and 2.

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

## 7. O/N 14/P22/Q4/a

### (a) Content:

- Shareholders/owners
- Workers
- Managers
- Customers
- Suppliers
- Local community
- Bank
- Director
- Government
- Competitors
- Pressure Groups.

The marks available for this question are as follows: 4 marks for knowledge; 4 marks for application/explanation.

1 mark for each stakeholder group identified plus 1 explanation mark for why each stakeholder group will be interested in the published accounts (2 marks × 4 stakeholders).

Stakeholder: Shareholders (1 knowledge mark).

Explanation: Shareholders (1) will want to see if ACE has made high net profit as they will want to be paid a dividend (1 explanation mark).



**8. M/J 14/P21/Q2/a****(a) Content:**

- Survival/break-even
- To make a profit
- Growth/expansion
- Customer satisfaction/quality of service
- Creating a good brand image/reputation

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each objective identified (2 marks maximum). Up to two further marks are available for explaining how the objective will be relevant to the new business. 2 application marks are also available.

Possible application marks: flowers; flower shop; partnership; hotels and restaurants; flower arrangements; weddings/Valentine's Day/birthdays; imported supplies of flowers.

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

1 knowledge mark + up to 2 explanation marks + 1 application mark for each objective  
(4 marks × 2 objectives)

Objective: Survival (1 mark for knowledge)

Developed explanation: Survival (1) as the business is new and small the partners may not have much experience in the flower market (2). So they want the business to start to get customers and get established in the first year as many businesses fail in their first year (3).

Application: The application mark could be achieved as the answer makes reference to flower market (1 application mark)

**9. M/J 13/P22/Q1/a****(a) Content:**

Tibalt/owner; suppliers; customers; bank; creditors; local community; government; pressure groups; employees; managers (NB do not award shareholders).

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each stakeholder identified (2 marks max). Up to two further marks are available for explaining why the stakeholder would be a stakeholder of TWP. 2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each stakeholder  
(4 marks × 2 stakeholders).

Possible application marks: importers; wood products; local forests; building firms; repair/build houses and offices; trees; sole trader; taking over another wood product manufacturer; sustainable forests; country X.

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

Simple explanation: Suppliers (1 mark for knowledge)

Developed explanation: Suppliers (1) are interested in the success of TWP as they want to keep supplying their wood to the business (1). If TWP is successful then they will not only sell a lot of wood but will also be more assured of being paid (1).

Application: The application mark could be achieved as the answer makes reference to wood.  
(1 application mark)

**10. M/J 13/P22/Q2/a****(a) Content:**

Target to aim for; motivating for employees; judge success; increased market share; gain economies of scale; improve image/reputation; for retained profit/reinvested profits; reduce risk/survival; Tibalt's personal gain.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each reason identified (2 marks max). Up to two further marks are available for explaining the reason. 2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason.  
(4 marks x 2 reasons)

Possible application marks: wood importers; wood products; local forests; repair/build houses and offices; trees; sole trader; taking over another wood product manufacturer; sustainable forests.

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

Simple explanation: The objectives of growth and profit give Tibalt a target to aim for.  
(1 mark for knowledge)

Developed explanation: The objective of growth and profit give Tibalt a target to aim for. (1)  
This means he can set himself a target to work towards, such as he wants to increase sales of wood by 5% each year (1). He can then judge whether he is successful or not (1).

Application: The application mark could be achieved as the answer makes reference to sales of wood. (1 application mark)

An example of an answer not to be credited:

They would be able to expand their business by having more profits, this would allow it to grow.

#### 11. M/J 10/P22/Q1/a

- (a) **Content:** Aims – to survive; to increase market share/increase competitiveness; to increase profits; to increase sales; to produce a quality service/gain good reputation/good customer relationships; to diversify; develop good employee relationships.

**Do NOT reward expansion as an aim.**

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis

1 mark for each aim identified. Up to two further marks are available for explaining each aim. 2 application marks are also available.

Below are two examples to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded in each case.

**Aim:** to increase profits (1 knowledge mark).

**Simple explanation:** so that the business can grow and finance the increase in the number of flower shops it owns. (1 additional mark for simple explanation).

**Developed Explanation:** To increase profits so that the business can grow and finance the increase in the number of flower shops it owns. This will allow expansion without the need to borrow capital and the business will not need to repay the finance. (1 further explanation mark for a developed explanation).

The application mark could be achieved as the answer considers flower shops. (1 application mark)

Possible application marks: flower baskets; flower shops; trade unions; seasonal demand; reference to quantitative data in case; flowers for the home; flowers for the restaurant; flowers for weddings; shopping mall; competitor's website; sole trader.

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

## 12. M/J 10/P21/Q1/a

- (a) **Content:** Aims – to survive; to increase market share/increase competitiveness; to grow/expand; to increase sales, to reduce costs; to produce a quality service/gain good reputation.

**NB DO NOT reward high profit/increased profit**

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each aim identified. Up to two further marks are available for explaining each aim/objective. 2 application marks are also available.

Below are two examples to illustrate the difference between a simple explanations worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded in each case.

1 knowledge mark + up to 2 explanation marks + 1 application mark (4 marks × 2)

<b>Aim:</b>	To expand (1 knowledge mark)
<b>Simple explanation:</b>	– so that the business can grow and increase the number of buses it owns and bus routes it operates. This will increase its profits (1 additional mark for simple explanation)
<b>Developed Explanation:</b>	To expand so that the business can grow and increase the number of buses it owns and bus routes it operates. This will increase its profits and the business can then pay increased dividends to its shareholders and the share price will probably increase. (1 further explanation mark for a developed explanation)
<b>Application:</b>	The application mark could be achieved as the answer considers buses and recognises that it wants to increase profits. (1 application mark)

Possible application marks: tourism, bus routes, training bus drivers, tourist guides, buses, trade unions, new routes, school children, hotels, transport workers, bus companies. There may be other examples in context which have not been included here.

## 13. O/N 08/P2/Q1/a

- (a) (i) **Content:** Shareholders/owners of Generation Elect; Bank, Government of Country X; managers; workers; the community in the surrounding area; competitors; pressure groups/environmental groups; farmers; customers; businesses in the area.  
1 mark for each example.
- (ii) 3 marks for each explanation × 3 examples.  
E.g. The shareholders want to know how much profit is expected from the operation of the dam (1) so that they will receive dividends (2). If the dam is very profitable it might also mean that the value of the Generation Elect shares might increase which means they would receive more money if they sold their shares (3).

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## UNIT 2

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# PEOPLE IN BUSINESS

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O Level  
Business  
Workbook Paper-2

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## Topics

2.1 Motivating Workers

2.2 Organisation and Management

2.3 Recruitment, Selection and  
Training of Workers

2.4 Internal and External  
Communication



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## Unit 2: People in Business

### 2.1: Motivating Workers

1. M/J 17/P21/Q2/a

Case Study – T T-shirts (TT) - See Page 566

- (a) Identify two motivational theories and explain how TT could use these theories to help increase worker motivation. [8]

Theory 1: .....

Explanation of how TT can use this theory: .....

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Theory 2: .....

Explanation of how TT can use this theory: .....

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2. O/N 16/P21/Q1/a

Case Study - P & P Paint – See Page 563

- (a) P & P needs to be efficient. Identify and explain four methods P & P could use to motivate production workers. [8]

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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Method 4: .....

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Explanation: .....

3. **O/N 15/P22/Q2/a**                      **Case Study - Rafael's Reliable Motorbikes (RRM) – See Page 557**  
 (a) Rafael's son wants to know more about motivating employees. Identify and explain four levels of Maslow's hierarchy of needs as they might apply to Rafael's employees.                      **[8]**

Level: .....

Explanation: .....

Level: .....

Explanation: .....

Level: .....

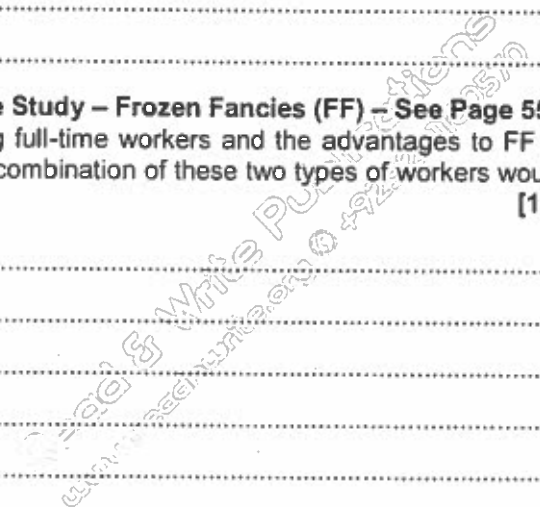
Explanation: .....

Level: .....

Explanation: .....

4. **M/J 15/P22/Q1/b**                      **Case Study – Frozen Fancies (FF) – See Page 554**  
 (a) Consider the advantages to FF of employing full-time workers and the advantages to FF of employing part-time workers. Do you think a combination of these two types of workers would be best? Justify your answer.                      **[12]**

Advantages of full-time workers: .....



Advantages of part-time workers: .....

Conclusion: .....

5. M/J 14/P22/Q4/a **Case Study - Manuel's Fruit and Vegetable Shop - See Page 548**

(a) Having well motivated employees is very important to Manuel. Identify and explain **two** ways Manuel could use to motivate his shop employees. [8]

Way 1: .....

Explanation: .....

Way 2: .....

Explanation: .....

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6. **O/N 13/P21/Q4/b** **Case Study – Yum Yum Food – See Page 547**  
(a) Shahila will need to employ more workers if the business expands. Consider the advantages and disadvantages of the following methods of payment. Recommend which method she should choose. Justify your answer. **[12]**

Wage per hour: .....

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Sharing profits with the employees: .....

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Payment for each customer served: .....

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Recommendation: .....

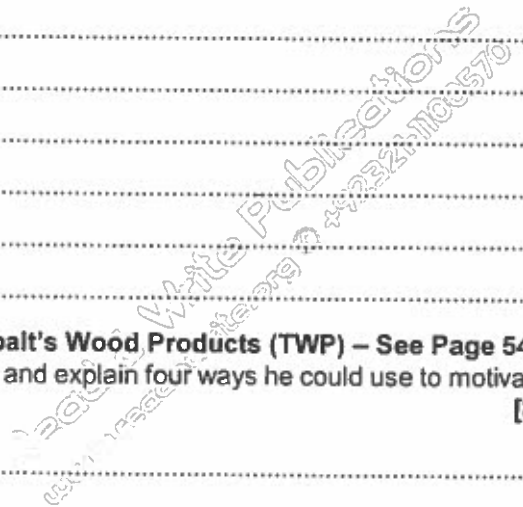
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7. **M/J 13/P22/Q4/a** **Case Study - Tibalt's Wood Products (TWP) – See Page 543**  
(a) Tibalt wants to motivate his employees. Identify and explain four ways he could use to motivate his employees. **[8]**

Way 1: .....

Explanation: .....

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Way 2: .....

Explanation: .....

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Way 3: .....

Explanation: .....

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Way 4: .....

Explanation: .....

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8. O/N 12/P22/Q4/b

Case Study - KK Cars – See Page 540

(a) Consider three methods Trunal could use to motivate these drivers. Which do you think will be the most effective method for Trunal's business? Justify your answer. [12]

Method 1: .....

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Method 2: .....

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Method 3: .....

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Recommendation: .....

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9. O/N 12/P21/Q5/a **Case Study – K’s Garage – See Page 542**  
(a) Kolo plans to use different methods of payment for mechanics (car repair workers) and sales staff. Identify and explain a suitable method of payment for mechanics and a suitable method of payment for sales staff. [8]

Payment method for mechanics: .....

Explanation: .....

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Payment method for sales staff: .....

Explanation: .....

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10. O/N 11/P21/Q1/a **Case Study – Everyday Suits – See Page 536**  
(a) Simon wants to motivate his production workers to work harder. Identify two methods he could use to motivate production workers at Everyday Suits. Explain why these methods would be effective. [8]

Method 1: .....

Explanation: .....

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Method 2: .....

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Explanation: .....

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11. M/J 11/P22/Q5/b

**Case Study – TT Foods – See page 531**

- (a) The case mentions that there are a high number of workers leaving the company each year because of poor motivation. Consider three different methods that TT Foods could use to increase motivation of the production workers and recommend which method you think will be the most effective. Justify your answer. **[12]**

Method 1: .....

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Method 2: .....

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Method 3: .....

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Recommendation: .....

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Reason 2: .....

Explanation: .....

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(b) Do you think that higher wages would be the most effective way of increasing the motivation of the employees at Python Bicycles? Justify your answer. [12]

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14. M/J 08/P2/Q5/b **Case Study - A new business – but which one? - See Page 517**  
(a) To be successful the furniture shop will need motivated sales staff. Advise Abdul on how he could motivate his sales staff. **[10]**

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**2.2: Organisation and Management**

**1. O/N 18/P22/Q3/a Case Study – Perfect Pottery (PP) – See Page 574**

(a) Identify and explain **one** advantage and **one** disadvantage of Peter delegating tasks to the new Operations manager. **[8]**

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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**2. O/N 18/P21/Q2/a Case Study – Guardian Toys (GT) – See Page 575**

(a) Identify and explain **two** roles of the Operations manager at GT. **[8]**

Role 1: .....

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Explanation 1: .....

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Role 2: .....

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Explanation 2: .....

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3. **O/N 18/P21/Q4/a** **Case Study – Guardian Toys (GT) – See Page 575**  
(a) Identify and explain **one** effect on GT and **one** effect on GT's employees of workers being members of a trade union. **[8]**

Effect on GT: .....

Explanation: .....

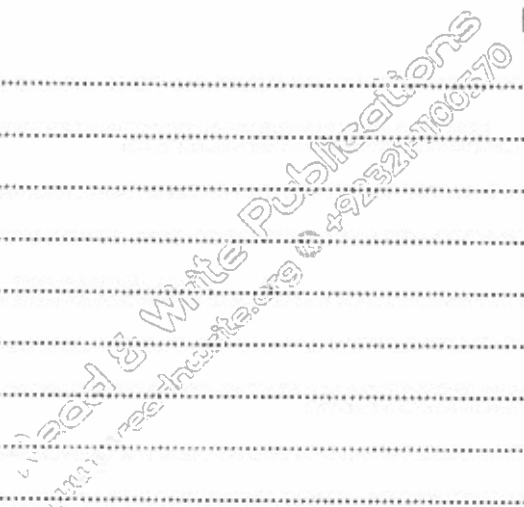
Effect on GT's employees: .....

Explanation: .....

4. **M/J 18/P22/Q1/a** **Case Study - Downtown Hotel (DH) - See Page 571**  
(a) Refer to Appendix 1. Identify and explain Hilda's span of control and DH's chain of command. **[8]**

Hilda's span of control: .....

DH's chain of command: .....



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5. O/N 15/P21/Q3/a **Case Study – Camper Companions (CC) – See Page 558**  
(a) Identify and explain two benefits to CC workers of joining a trade union. **[8]**

Benefit 1: .....

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Explanation: .....

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Benefit 2: .....

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Explanation: .....

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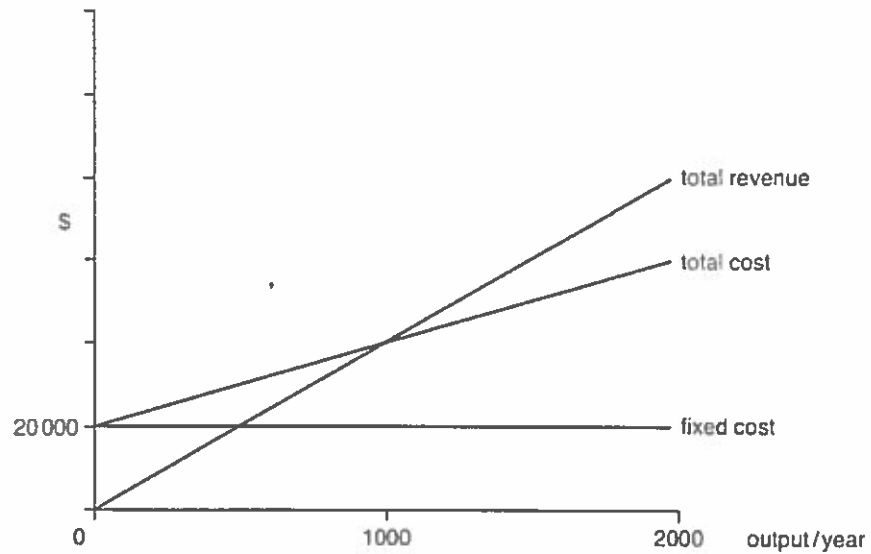
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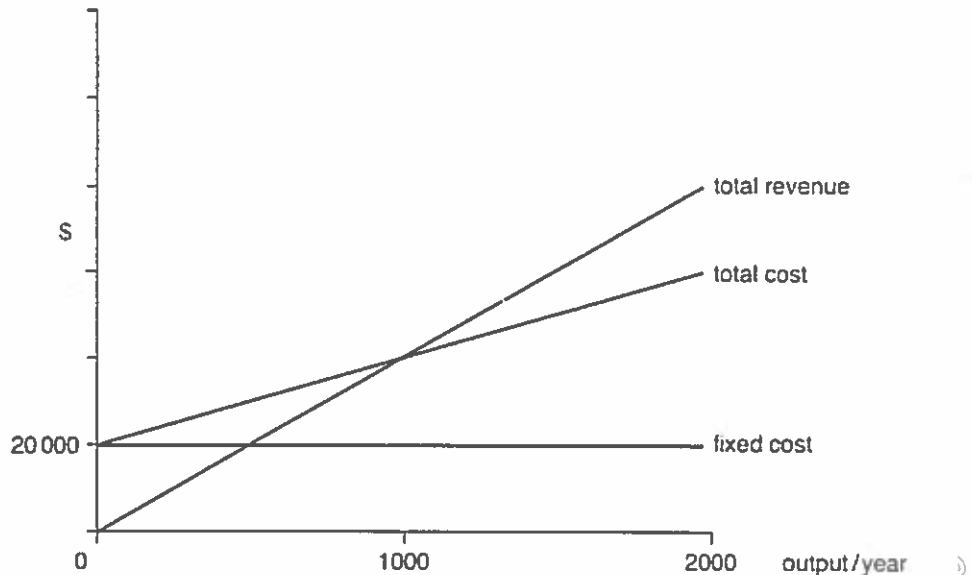
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**Option 1 – Increase the price of the cooker to \$60**



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



6. M/J 15/P21/Q1/b

**Case Study – Delicious Delights (DD) – See Page 555**

(a) David has appointed a manager to control each department as shown in Appendix 1. Identify and explain three management functions of the Operations manager. Which do you think is the most important management function? Justify your answer. [12]

Function 1: .....

Explanation: .....

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Function 2: .....

Explanation: .....

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Function 3: .....

Explanation: .....

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Most important function for Operations manager: .....

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7. O/N 14/P22/Q2/a

Case Study – ACE Engineering (ACE) – See Page 551

(a) Identify and explain one advantage and one disadvantage to ACE of all of its employees being members of a trade union. [8]

Advantage: .....

Explanation: .....

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Disadvantage: .....

Explanation: .....

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widening the span of control for the remaining managers. Recommend whether the directors should remove this level of management. Justify your answer. [12]

Advantages: .....

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Disadvantages: .....

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Recommendation: .....

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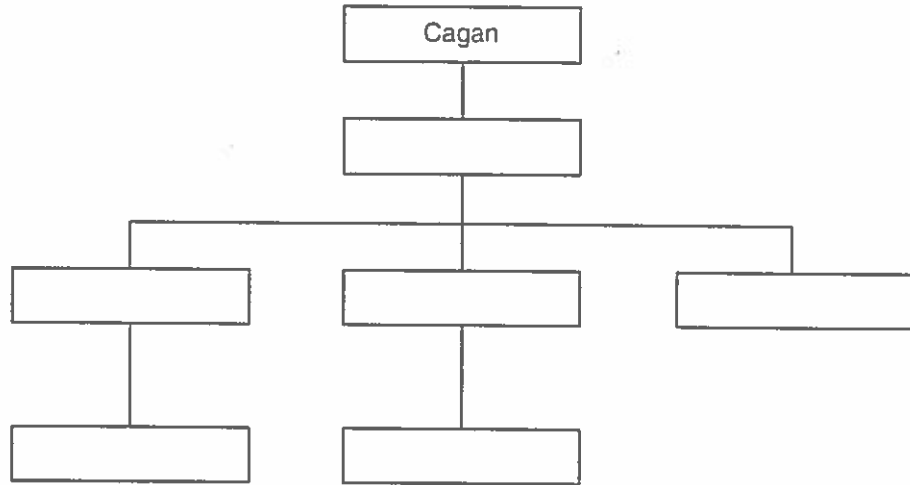
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10. O/N 13/P22/Q5/a

Case Study – Cagan Cloth (CC) – See Page 546

(a) (i) Using the information in Appendix 3, complete the organisation chart shown below for the factory. [4]



(ii) Use the organisation chart to explain the term 'span of control'.

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11. O/N 13/P21/Q5/a

Case Study – Yum Yum Food – See Page 547

(a) Identify and explain two benefits to Shahila of keeping a short chain of command as the business expands. [8]

Benefit 1: .....

Explanation: .....

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Benefit 2: .....

Explanation: .....

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12. O/N 11/P21/Q1/b

Case Study– Everyday Suits – See Page 536

- (a) Appendix 2 shows the proposed new organisation chart for Everyday Suits. Simon will not be able to do all the work himself if the business grows bigger. Choose four departments that Simon could create and justify why each department could be important to the success of the business. [12]

Department 1: .....

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Department 2: .....

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Department 3: .....

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Department 4: .....

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13. O/N 10/P21/Q2/b

Case Study – The Dream Hotel – See Page 529

- (a) Using the information in Appendix 2 and other information in the case, suggest four ways the organisation chart could be changed to make the business more efficient. Justify why you think efficiency will be increased. [12]

Way 1: .....

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Explanation: .....

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Way 2: .....

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Explanation: .....

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Way 3: .....

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Explanation: .....

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Way 4: .....

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Explanation: .....

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14. M/J 10/P22/Q2/a **Case Study – Bashir Baskets – See Page 524**  
(a) Explain four reasons why employees at Bashir Baskets might want to be members of a trade union. **[8]**

Reason 1: .....

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Reason 2: .....

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Reason 3: .....

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Reason 4: .....  
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15. M/J 10/P21/Q4/a **Case Study – Bimisi Buses – See Page 526**

(a) Identify and explain two reasons why employees at Bimisi Buses might want to be members of a trade union. **[8]**

Reason 1: .....  
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Explanation: .....  
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Reason 2: .....  
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Explanation: .....  
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16. O/N 08/P2/Q3/c **Case Study – Generation Elect – See Page 519**

(a) All skilled construction workers in Country X are members of a Trade Union. Do you think this is an advantage to Generation Elect? Explain your answer. **[8]**

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**2.3: Recruitment, Selection and Training of Workers**

1. M/J 18/P21/Q2/b **Case Study – Value Gym (VG) – See Page 572**

(a) Peter is considering the following two options. Recommend which option he should choose. Justify your answer. [12]

Employ his own personal trainers: .....

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Charge a fixed fee to personal trainers who work for themselves to use VG's facilities with their clients:

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Recommendation: .....

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2. M/J 18/P21/Q3/a **Case Study – Value Gym (VG) – See Page 572**

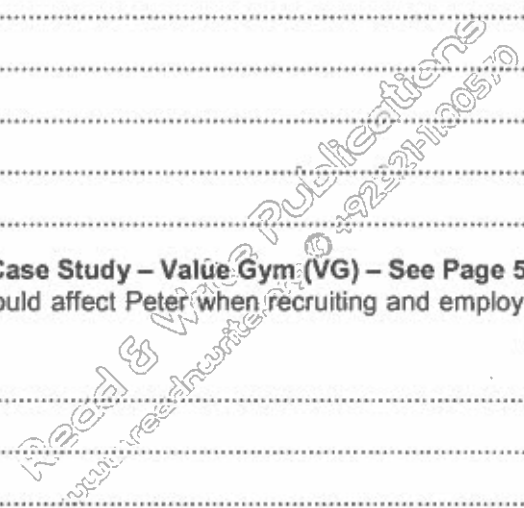
(a) Identify and explain two legal controls that could affect Peter when recruiting and employing workers. [8]

Legal control 1: .....

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Explanation: .....

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Legal control 2: .....

Explanation: .....

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3. O/N 17/P22/Q3/a **Case Study – Garden Supplies (GS) – See Page 567**  
(a) Identify and explain four characteristics the partners should include in the person (job) specification when recruiting the new employees. [8]

Characteristic 1: .....

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Characteristic 2: .....

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Characteristic 3: .....

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Characteristic 4: .....

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4. O/N 17/P21/Q4/b **Case Study – Animal Hotel (AH) – See Page 569**  
(a) Consider the advantages of internal and external recruitment for the new manager. Recommend which method of recruitment is best for AH to use. Justify your answer. [12]

Internal recruitment: .....

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External recruitment: .....

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Recommendation: .....

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5. M/J 17/P22/Q2/a **Case Study – Chocolicious Chocolates (CC) - See Page 565**  
(a) Identify and explain two reasons why on-the-job training is important for new employees at CC. [8]

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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**Explanation:** .....  
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6. **O/N 16/P22/Q3/b** **Case Study - GJ Partnership – See Page 562**  
(a) GJ is introducing a new service. Jasmin wants to recruit a manager. Consider the advantages and disadvantages of internal and external recruitment. Recommend which recruitment method Jasmin should use. Justify your answer. **[12]**

**Internal recruitment:** .....  
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**External recruitment:** .....  
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**Recommendation:** .....  
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7. **M/J 16/P21/Q2** **Case Study – Diaz Dentist Clinic (DDC) – See Page 560**  
(a) Identify and explain two methods of training employees to use the new computer system. **[8]**

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Method 1: .....

Explanation: .....

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Method 2: .....

Explanation: .....

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- (b) Consider the information about each of the three receptionists outlined in Appendix 2. Recommend which receptionist should be made redundant. Justify your answer. [12]

Receptionist 1: .....

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Receptionist 2: .....

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Receptionist 3: .....

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Recommendation: .....

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8. O/N 15/P22/Q2/b **Case Study – Rafael's Reliable Motorbikes (RRM) – See Page 557**
- (a) Rafael wants to recruit a new employee to help repair motorbikes. Consider how important each of the following factors are when choosing between the applicants for the job. Which is the most important factor? Justify your answer. **[12]**

Age: .....

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Experience: .....

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Reason for leaving last job: .....

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Most important factor: .....

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9. O/N 15/P21/Q4/a **Case Study – Camper Companions (CC) – See Page 558**

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

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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10. O/N 14/P21/Q5/a **Case Study – PB Bank – See Page 552**

(a) Identify and explain two possible effects on DOTT Bank employees if DOTT Bank was taken over by PB Bank. **[8]**

Effect 1: .....

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Explanation: .....

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Effect 2: .....

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Explanation: .....

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11. M/J 14/P21/Q1/b

**Case Study – Fabian Flowers (FF) – See Page 549**

- (a) Refer to Appendix 1. Consider the advantages and disadvantages of each person who wants to form a partnership with Fabian. Recommend which one Fabian should choose. Justify your choice. **[12]**

Gowri: .....

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Miranda: .....

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Pamela: .....

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Recommendation: .....

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12. O/N 13/P22/Q4/b

**Case Study – Cagan Cloth (CC) – See Page 546**

- (a) Appendix 2 has four items of information requested on Cagan’s application form for recruiting a manager. Explain why each item of information is important to Cagan in selecting the most suitable applicant. **[12]**

Qualifications: .....

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**14. O/N 12/P22/Q4/a** **Case Study – KK Cars – See Page 540**

(a) If Trunal decides to lease a large luxury car he will need to employ skilled drivers. Explain how a job specification and interviewing applicants will help him to recruit the best drivers. **[8]**

Job specification: .....

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Interview: .....

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**15. O/N 12/P22/Q5/b** **Case Study – KK Cars – See Page 540**

(a) Consider the effects on Trunal's business of each of the following legal changes. **[12]**

Higher standards of safety for taxis: .....

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Shorter working hours for taxi drivers: .....

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Lower speed limits for taxis: .....

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**16. M/J 12/P22/Q2/b Case Study – School Clothes Supplies (SCS) – See Page 537**

(a) Appendix 3 informs Vijay that there are new laws which cover health and safety, employment and consumer protection. How important do you think each of these laws will be to SCS? Justify your answer. **[12]**

Health and safety: .....

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Employment: .....

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Consumer protection: .....

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17. M/J 12/P22/Q3/b **Case Study – School Clothes Supplies (SCS) – See Page 537**  
(a) Consider three types of training SCS could use for its newly recruited production workers. Recommend which one of the three types of training you think will be the most effective in increasing the productivity of its new production workers. Justify your choice. [12]

Type 1: .....

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Type 2: .....

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Type 3: .....

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Recommendation: .....

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18. O/N 11/P22/Q3/b

Case Study – BB Boat Tours – See Page 534

(a) The brothers have decided to reduce the number of employees. Explain three factors they should consider when deciding which employees to make redundant. Which do you think is the most important factor? Justify your answer. [12]

Factor 1: .....

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Factor 2: .....

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Factor 3: .....

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Most important factor: .....

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19. O/N 11/P21/Q3/a

Case Study – Everyday Suits – See Page 536

(a) As Everyday Suits expands it will need to employ new managers. Identify and explain four parts of an induction training programme for new managers. [8]

1: .....

Explanation: .....

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2: .....

Explanation: .....

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3: .....

Explanation: .....

4: .....

Explanation: .....

20. M/J 11/P22/Q4

**Case Study – TT Foods – See page 531**

- (a) Below is an outline for a job (person) specification for a Production Manager. Refer to Appendix 2. Explain why each requirement shown below should be included in the job specification. [8]

Job title: Production Manager

Requirements	Example of requirement	Why each requirement should be included
Qualifications	University degree in Management	Explanation: .....
Skills	Able to lead a team of workers	Explanation: .....
Experience	At least 5 years Experience in food processing	Explanation: .....
Personal Characteristics	Well organised	Explanation: .....

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(b) When recruiting a new Production Manager the Directors of TT Foods could recruit internally or externally. Consider the advantages and disadvantages of these two different methods of recruiting the Production Manager and recommend which method the Directors should choose. Justify your answer. [12]

Internal recruitment: .....

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External recruitment: .....

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Recommendation: .....

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21. M/J 11/P21/Q4/b

Case Study – Chocolate Delight – See Page 532

(a) After buying the new machinery, Chocolate Delight will need to train workers how to use it. Do you think that on-the-job training will be better than off-the-job training for Chocolate Delight? Justify your answer by considering both the business and the employees of Chocolate Delight. [12]

On-the-job training: .....

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Off-the-job training: .....

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Recommendation: .....

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**22. O/N 10/P22/Q2/b** **Case Study – The Riverside Restaurant – See Page 527**  
**(a)** Kim and Selina have advertised a job vacancy for a Restaurant Manager. Look at Appendix 2, compare the **two** job applicants and decide which applicant you would choose to employ. Explain the reasons for your choice. **[12]**

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Interviews: .....  
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**24. M/J 10/P21/Q2 Case Study – Bimisi Buses – See Page 526**

**(a)** If Bimisi expands the business he will need to take on new employees and train them. Explain two reasons why Bimisi wants well trained employees. **[8]**

Reason 1: .....  
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Explanation: .....  
.....  
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Reason 2: .....  
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Explanation: .....  
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**(b)** If Bimisi decides to expand the business he may need to employ bus drivers and tourist guides. Do you think that Bimisi should use on-the-job training or off-the-job training for each of these types of employee? Justify your answer. **[12]**

Bus drivers: .....  
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Tourist guides: .....

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25. M/J 10/P21/Q4/b

**Case Study – Bimisi Buses – See Page 526**

(a) Governments often pass laws to protect employees and customers. Do you think it necessary to have Government laws in order to protect employees and customers of bus companies such as Bimisi Buses? Justify your answer. **[12]**

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**26. O/N 09/P2/Q2 Case Study – Dilip’s Vegetable Farm – See Page 522**

**(a)** Dilip needs to recruit employees to look after the tourists who would stay at the holiday houses (see Appendix 3). Identify four questions Dilip should ask when interviewing applicants for these jobs. Explain why each question should be asked. **[8]**

Question 1: .....

Explanation: .....

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Question 2: .....

Explanation: .....

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Question 3: .....

Explanation: .....

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Question 4: .....

Explanation: .....

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**(b)** Dilip wants well motivated employees. Do you think the leadership style used by Dilip will be the most effective way to achieve well motivated employees? Justify your answer. **[12]**

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**27. O/N 08/P2/Q3** **Case Study – Generation Elect – See Page 519**  
**(a)** Generation Elect will need to recruit construction workers to build the dam.  
Outline the recruitment and selection process Generation Elect will need to follow to employ these workers. **[6]**

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**(b)** Explain why it is important for Generation Elect to recruit skilled construction workers. **[6]**

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**28. M/J 08/P2/Q5/a** **Case Study – A new business – but which one? – See Page 517**  
**(a)** Abdul will need to employ sales staff if he opens the furniture shop. Advise him on the best ways to recruit and select new staff. **[10]**

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**2.4: Internal and External Communication**

**1. O/N 18/P21/Q3/b Case Study – Guardian Toys (GT) – See Page 575**

(a) Consider how the following three communication issues affect GT. Which one of these issues is likely to cause the biggest problem for GT? Justify your answer. [12]

Different languages are spoken in GT’s markets in other countries: .....

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

GT is starting to use several new suppliers: .....

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GT’s main communication method with its production workers is a weekly meeting: .....

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Conclusion: .....

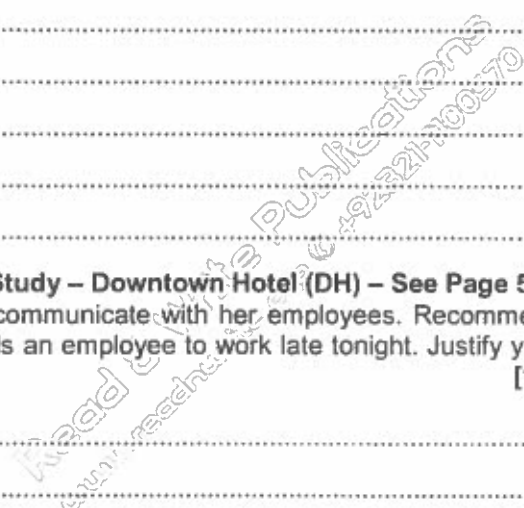
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**2. M/J 18/P22/Q1/b Case Study – Downtown Hotel (DH) – See Page 571**

(a) Consider three methods Hilda could use to communicate with her employees. Recommend which method she should choose if she needs an employee to work late tonight. Justify your answer. [12]

Method 1: .....

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



Method 2: .....

Method 3: .....

Recommendation: .....

3. M/J 17/P21/Q3/a

**Case Study – T T-shirts (TT) – See Page 566**

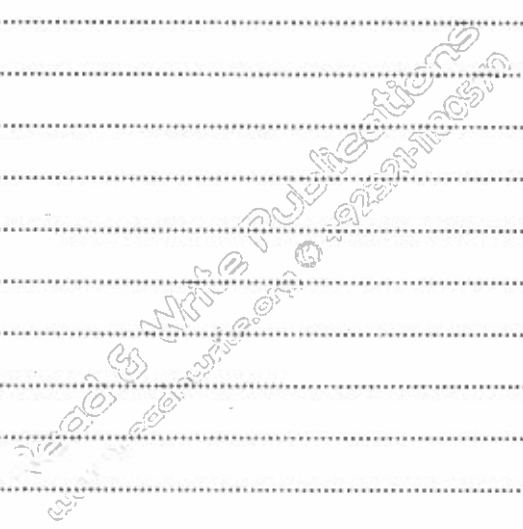
- (a) Identify two communication barriers which might occur within TT and explain how each barrier might be reduced. **[8]**

Communication barrier 1: .....

How barrier might be reduced: .....

Communication barrier 2: .....

How barrier might be reduced: .....



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.....  
.....

4. O/N 15/P21/Q1/b **Case Study – Camper Companions (CC) – See Page 558**  
(a) CC needs to communicate a new health and safety regulation to its factory workers. Consider the advantages and disadvantages of each of the following three ways CC could use. Recommend the most effective way to use. Justify your answer. [12]

Posters on factory notice boards:

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CC website: .....

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Text (mobile phone message) to factory workers: .....

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Recommendation: .....

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5. **O/N 14/P22/Q3/b** **Case Study – ACE Engineering (ACE) – See Page 551**  
(a) ACE needs to communicate with a foreign supplier because there is a problem with the delivery of electrical components. Consider the advantages and disadvantages of three methods of communicating with the foreign supplier. Recommend which method should be used. Justify your answer. [12]

Method 1: .....

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Method 2: .....

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Method 3: .....

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Recommendation: .....

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6. **O/N 14/P21/Q1/b** **Case Study – PB Bank – See Page 552**  
(a) Employees complain they never know important information about the bank. Consider three ways the HR Director could use to improve the internal communication in the bank. Recommend which will be the best way to use. Justify your answer. [12]

Way 1: .....

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Way 2: .....  
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Way 3: .....  
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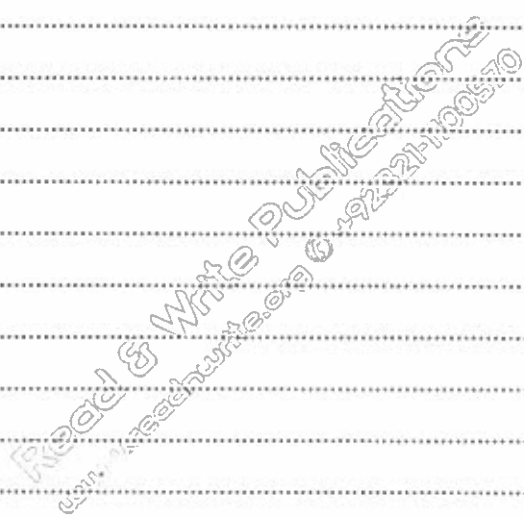
Recommendation: .....  
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7. M/J 14/P22/Q3/b **Case Study – Manuel’s Fruit and Vegetable Shop – See Page 548**  
(a) Manuel needs to order fruit and vegetables on a regular basis from his supplier. Consider the advantages and disadvantages of **three** methods of communication he could use to place orders with his supplier. Recommend the best method for him to use. Justify your answer. [12]

Method 1: .....  
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Method 2: .....  
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Method 3: .....



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**Recommendation:** .....  
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8. **M/J 12/P22/Q3/a** **Case Study – School Clothes Supplies (SCS) – See Page 537**  
(a) Good communication is important to business. Using two possible examples from SCS, explain how poor communication could affect the business. **[8]**

**Example 1:** .....  
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**Explanation:** .....  
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**Example 2:** .....  
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**Explanation:** .....  
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9. **M/J 12/P21/Q3/a** **Case Study – Kickwell Sports Shoes (KSS) – See Page 539**  
(a) Good communication is important to Emmanuel. He has the following information to communicate.
- All employees are to receive a wage increase.
  - There has been an error with a delivery of some supplies.

Identify a suitable method of communication for each situation. Explain why each method is suitable [8]

Method for 'all employees are to receive a wage increase': .....

.....

Explanation: .....

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Method for 'there has been an error with a delivery of some supplies': .....

.....

Explanation: .....

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10. O/N 11/P22/Q4/b

Case Study – BB Boat Tours – See Page 534

(a) BB Boat Tours will need to communicate with its employees about reducing the size of the business. Explain three suitable methods of internal communication the brothers could use to consult with and inform the employees about the job losses. Recommend the best communication method to use. Justify your answer. [12]

Method 1: .....

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Method 2: .....

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Method 3: .....

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Recommendation: .....  
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11. O/N 10/P21/Q2/a **Case Study – The Dream Hotel – See Page 529**  
(a) Communication is important in any business. Identify and explain four different communication methods the hotel could use. **[8]**

Method 1: .....  
Explanation: .....  
.....  
.....

Method 2: .....  
Explanation: .....  
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Method 3: .....  
Explanation: .....  
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Method 4: .....  
Explanation: .....  
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## Answers Section

### 2.1: Motivating workers

#### 1. M/J 17/P21/Q2/a

- (a) Knowledge [2 × 1] – award one mark for each theory  
 Analysis [2 × 1] – award one mark for a relevant explanation for each theory  
 Application [2 × 2] – award two application marks for each theory  
 Award one mark for each theory (maximum of two), from:

- Taylor – scientific management approach, money is the main motivator, pay according to tasks performed so speed is encouraged, specialisation would make best use of skills
- Maslow – hierarchy of needs, satisfy physiological, safety, social, self-esteem, selfactualisation needs to increase motivation
- Herzberg – two factor theory where hygiene factors relate to the working environment and motivating factors relate to improving the job itself so that work is meaningful and the worker is given responsibility

Note: There may be reference to other motivational theorists.

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

Note: The explanation must focus on how TT can use each specific theory.

**Indicative response:**

Taylor (k) believed that money is a main motivator for workers (an) and so TT should increase the workers' wages especially to pay them for all the tasks they do (app) and then they may feel more motivated and less unhappy in their jobs and not want to leave (app).

**Possible application marks:**

prints designs; 50 different designs; batch production of various sizes; expect high quality; personalized T-shirts; really unhappy factory workers; may be made redundant if taking over another business; Operations Manager just tells me what to do; she never asks what I think; shouted at if I do anything wrong; told to keep quiet; no training on selling; workers want to leave; information is only put on one noticeboard

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

#### 2. O/N 16/P21/Q1/a

- (a) Application [4 × 1] – award one mark for each relevant method for production workers  
 Analysis [4 × 1] – award one mark for explanation of how each method increases motivation  
 Award one mark for each relevant method (maximum of four), such as:

- increase wages
- training
- profit sharing
- praise
- piece rate
- employee of the month
- bonus
- change in leadership style
- fringe benefits
- better working conditions
- job rotation
- job enlargement
- setting targets
- promotion

**Indicative response:**

Introduce piece-rate [ap] because if the production workers produce more paint they will be paid more and so they will be motivated to work harder [an].

## 3. O/N 15/P22/Q2/a

- (a) 1 mark for each level of the hierarchy named plus 1 mark for explanation of the level possibly applied to this business.

Level	Explanation of the level including examples in context
Physiological/Basic needs	Obtaining food, paying for essentials – Rafael pays his workers well
Safety/security needs	Feeling secure in job – not likely to lose job – good working conditions – business well established – 15 years – workers remain in the business for many years. Health and safety training provided
Social needs /love and belonging	Working in a team with colleagues – Rafael is a democratic leader – only 10 workers so have close working relationship
Esteem needs	Given recognition for job well done – praised – Rafael seeks workers views – paid high wages
Self-actualisation	Realising full potential – promotion giving new job assignments – workers feel valued and appreciated as shown by Rafael's concern to maintain motivation

Indicative response:

Physiological needs (1) which requires wages to be high enough to meet weekly bills and his workers are paid well (1).

## 4. M/J 15/P22/Q1/b

- (a) Relevant points might include:

	Advantages
Full-time workers	Likely to be better trained More committed to the business More likely to be trained / skilled than part-time workers Feel secure in job – more motivated (although several made redundant)
Part-time workers	More flexible hours Easier to extend hours at busy times Accept lower pay as fits in with family commitments

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

	Knowledge / Analysis / Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best type of worker to employ compared to the other type of worker. 7–8 marks for some limited judgement shown in recommendation as to the best type of worker to employ.
Level 2	4–6 marks Detailed discussion of advantages of part-time and / or full-time workers.
Level 1	1–3 marks Outline of advantages of part-time and / or full-time workers.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. part-time workers are more flexible in the hours they are willing to work.

Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. part-time workers are more flexible in the hours they are willing to work. This will allow Samah and Selina to reduce the hours of these workers when demand for ice cream is low for 6 months of the year, thus reducing wage costs (4 marks for L2 answer + 1 application mark for mentioning ice cream and demand being low for 6 months of the year).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best combination to choose.

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

Possible application marks: produces ice cream; ice cream sold for a high price; borrow finance easily from the bank; multinational food company; sales increased for four years; demand high for 6 months; workers made redundant each year; 100 full-time production workers; cost / revenue data from appendix 3; new products.  
There may be other examples in context which have not been included here.

5. M/J 14/P22/Q4/a

(a) Content:

- Raise their wages
- Give discount on shop products
- Job rotation
- Job enlargement
- Bonus
- Commission
- Working conditions
- Fringe benefits
- Recognition of good work
- Leadership style
- Training

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each way identified (2 marks maximum). Up to two further marks are available for explaining how the method of motivating the employees will be effective for a sole trader. 2 application marks are also available.

Possible application marks: fruit and vegetables; been in business for 10 years; sole trader; 5 employees; part time; reference to delivery/new service.  
There may be other examples in context which have not been included here.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each way  
(4 marks × 2 ways)

Simple explanation: Give the workers discount on shop products (1 mark for knowledge)

Developed Explanation: Give the workers discount on shop products (1). This will mean that the part-time workers in the shop will get extra take-home pay as the fruit and vegetables they normally buy will cost less (2). This has the same effect as giving the workers a pay rise but it does not cost Manuel any more money and the workers will be happy (3).

Application: The application mark could be achieved as the answer makes reference to fruit and vegetables and part-time workers (1 application mark)

6. O/N 13/P21/Q4/b

(a) Content:

	Advantages	Disadvantages
Wage per hour	<ul style="list-style-type: none"> <li>• easy to calculate</li> <li>• staff know exactly how much they will receive</li> <li>• gives some financial security to the workers</li> </ul>	<ul style="list-style-type: none"> <li>• not related to effort</li> <li>• provides little additional motivation for high performance as it is based on just attending work</li> <li>• may be seen as unfair by hard working employees</li> </ul>

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Sharing profits with the employees	<ul style="list-style-type: none"> <li>motivates employees</li> <li>may encourage the employees to think about how to make the business more profitable</li> <li>does not add to costs of running the business – staff incomes paid out of profits</li> </ul>	<ul style="list-style-type: none"> <li>Shahila will get less of the profit</li> <li>less of a return on investment</li> <li>does not provide income security for staff</li> <li>difficult to work out the share that should be allocated to staff and in what proportion</li> </ul>
Payment for each customer served	<ul style="list-style-type: none"> <li>related to effort</li> <li>motivating</li> </ul>	<ul style="list-style-type: none"> <li>may lead to poor quality service</li> <li>may be hard to work out each week</li> <li>may encourage too much competition between staff to serve customers and not do other work in the café</li> </ul>

- Level 1 –** 1 mark for each statement  
E.g. If workers are paid for each customer served then they will try to serve a lot of customers (1 mark).
- Level 2 –** 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.  
E.g. If workers are paid for each customer served then they will try to serve a lot of customers. If the employees give good customer service then this might increase the number of customers, increase sales revenue from meals sold and also increase profit. 5 marks for level 2 answer plus 1 application mark for mentioning meals.
- Level 3 –** Detailed discussion of two × level 2 answers and then a recommendation at the end which justifies which is the best method of payment to use and why the other methods are less suitable.

Possible application marks: food stall; café; meals; sole trader; hot food; shoppers/tourists; football stadium; concerts/other sporting events; financial information from Appendix 1. There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
<b>Level 3</b>		9–10 marks Two × 5 Level 2 + well justified recommendation as to the best method of payment to use compared to the other methods.
<b>Level 2</b>	2 marks Well applied to the case. At least two examples of references to, or uses of, the case.	5–8 marks Good discussion of advantages and disadvantages of each method of payment OR balanced argument (even if listed). Limited judgement in recommendation about which is the best method of payment to use.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages/disadvantages of each method of payment listed.

**7. M/J 13/P22/Q4/a**

**(a) Content:**

Increased wages; bonus; performance related pay; job rotation; job enlargement; job enrichment; fringe benefits; piece-rate; good working conditions; team work; praise.

The marks available for this question are as follows: 4 marks for knowledge and 4 marks for explanation/analysis.

1 mark for each way identified (4 marks max). Up to one further mark is available for explaining why the way would be suitable.

Simple explanation: Bonus (1 mark for knowledge)

Developed explanation: Bonus (1) would motivate workers to sell more wood to receive bonus (1).

**8. O/N 12/P22/Q4/b**

**(a) Content:**

- pay rise
- fringe benefits
- training
- job enlargement
- bonus.

**Level 1** E.g. The drivers can be given more tasks to do during the day. 1 mark for each statement.

**Level 2** E.g. The drivers can be given more tasks to do during the day. They can be responsible for their own luxury car and therefore gain a sense of achievement if their car is kept clean and tidy. They will gain a feeling of being trusted and feel more valued by Trunal and this will motivate them to work harder for the business. 5 marks for level 2 answer plus 1 application mark for mentioning being responsible for their own luxury car.

5 marks for the first level 2 answer. Plus 1 mark for each additional level 2 answer, i.e. two level 2 answers = 6 marks, 3 level 2 answers = 7 marks, 4 level 2 answers = 8 marks.

**Level 3** Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which motivation method to use rather than the other methods.

Possible application marks:  
drivers; journeys; expansion; small business; sole trader; taxi business; tourists; number of customers increasing; luxury car; airport taxi service; data from Appendix 1 or 3.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
<b>Level 3</b>		9–10 marks Two × level 2 + good judgement shown as to the best method to choose and why not the other methods (comparison made).
<b>Level 2</b>	2 marks Well applied to case. At least two examples of, references to, or uses of, the case.	5–8 marks Good discussion of how each method of motivation is effective for the worker or for the business. Limited judgement shown about motivation method.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of, reference to, or use of the case.	1–4 marks Motivation methods listed.

**9. O/N 12/P21/Q5/a**

**(a) Content:**

Mechanic: wage/time rate/piece rate

Sales staff: commission/bonus/salary/profit sharing

1 knowledge mark + up to 2 explanation marks + 1 application mark for each method of payment (4 marks × 2 methods of payment)

Possible application marks:  
car; car repairs; car servicing; mechanics; car sales staff; sole trader; garage; workshop; car showroom; reference to figures in the case or Appendix 1 or 3.  
There may be other examples in context which have not been included here.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Mechanic:	Pay the mechanic a wage. (1 knowledge mark)
Simple explanation:	Pay the mechanic a wage (1) as this can be calculated by how much per hour he gets paid times how many hours he works. (1 additional mark for simple explanation)
Developed explanation:	Pay the mechanic a wage (1) as this can be calculated by how much per hour he gets paid times how many hours he works (1). This is a simple way of paying the mechanic as it is difficult to measure his productivity and therefore pay him by how many cars he repairs. (1 further explanation mark for a developed explanation)
Application:	The application mark could be achieved as the answer refers to how many cars he repairs (1 application mark)

#### 10. O/N 11/P21/Q1/a

##### (a) Content:

Increased wages; bonus; use piece-rate; fringe benefits; training; job rotation/enrichment; non-financial benefits.

**NB do not credit any negative features of the motivational methods.**

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis – the methods must be appropriate for production workers.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each method.

(4 marks × 2 methods)

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks:  
suits (any reference to any aspect of suits reward once only); batch production; 100 production workers; profits increased as grown quickly; continue to expand the business; employ skilled workers; invest in new machinery; information from Appendix 3; private limited company.  
There may be other examples in context which have not been included here.

Method: Introduce piece-rate to pay production workers. (1 knowledge mark)

Simple explanation: Introduce piece-rate to pay production workers as this will encourage them to work harder as the more suits they make the more they will get paid. (1 additional mark for simple explanation)

Developed explanation: Introduce piece-rate to pay production workers as this will encourage them to work harder as the more suits they make the more they will get paid. This will mean that the workers' pay will increase if they make more suits and they will feel that their efforts are being rewarded. (1 further explanation mark for a developed explanation)

Application: The application mark could be achieved as the answer refers to suits. (1 application mark)

Appendix 2 shows the proposed new organisation chart for Everyday Suits. Simon will not be able to do all the work himself if the business grows bigger.

#### 11. M/J 11/P22/Q5/b

##### (a) Content:

Increase wages; change to piece rate; give fringe benefits; job rotation; job enlargement; job enrichment; (motivation theories can be rewarded if used to explain how the method motivates workers but theories are not essential).

Level 1 E.g. Employees would be happy if they had free membership of a gym.

1 mark for each statement.

**Level 2** E.g. Employees would be happy if they had free membership of a gym. This will allow them to use the facilities and it saves them having to pay a membership fee.

Going to the gym would get them fitter and then they will be more efficient when working in the factory and producing more ready meals.

5 marks for level 2 answer plus 1 application mark for mentioning the production of ready meals.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer, i.e. two level 2 answers = 6 marks; three level 2 answers = 7 marks; four level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.

**Level 3** Detailed discussion of three x level 2 answers. There will be a conclusion at the end which justifies which method of motivation would be the most effective and why it is more effective than the other methods.

Possible application marks: private limited company; ready-made meals; left-over food; airline flights; high labour turnover; production line; paid hourly; no fringe benefits; existing workers are demotivated; reference to figures in Option 1 or 2.

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

	Application	Knowledge/Analysis/Evaluation
<b>Level 3</b>		9–10 marks Three x level 2 plus good judgement shown as to the best method of motivation to choose and why not the other methods.
<b>Level 2</b>	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of how different methods would be effective in motivation. Some limited judgement shown about the best method to choose.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Methods of motivation stated.

## 12. O/IN 10/P21/Q4/b

### (a) Content:

Piece rate; bonus; profit-sharing; commission; transport to work; additional holidays; free food; free membership of the leisure centre; stay at hotel free.

Motivation theory may be included in the answer and should be rewarded but it is not essential for a high mark to be awarded.

**Level 1** E.g. employees would be happy if they had free membership of the leisure centre.  
1 mark for each statement.

**Level 2** E.g. employees would be happy if they had free membership of the leisure centre. This would allow them to use the facilities and it would save them money by not having to pay the membership fee. Going to the gym would get them fitter and then they would be more efficient when working in the restaurant. 5 marks for a level 2 answer plus 1 application mark for mentioning membership of the leisure centre.

5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.

However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded.

**Level 3** Detailed discussion of at least two level 2 answers which consider alternative ways of motivating workers and making them more efficient. There will be a conclusion



at the end which justifies whether alternative methods would be the more effective motivator.

Possible application marks: free restaurant meals; free membership of the leisure centre; stay at the hotel free; job rotation for receptionists.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 + Good judgement shown about the best way to increase motivation – this may or may not be financial rewards.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of different suggestions. Some limited judgement shown about the effectiveness of different methods of increasing motivation and efficiency.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outlined methods/ways to increase motivation and efficiency.

### 13. M/J 09/P02/Q2

(a) **Content:** Low output; high labour turnover; poor image; difficult to recruit new staff.

E.g. High labour turnover – increases recruitment costs for Python Bicycles  
Poor image – Python Bicycles' reputation will be bad as it will be well known amongst the local community that it is not a good place to work/may lead to poor sales of Python Bicycles' products.

Difficult to recruit new staff – Python Bicycles has a lot of their staff leaving and these employees will need to be replaced/may make it difficult to meet orders if staff cannot easily and quickly be replaced.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each reason identified (2 marks max.). Up to two further marks are available for explaining why the reason leads to damage to Python Bicycles.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + upto 2 explanation marks + 1 application mark for each reason (4 marks × 2 reasons)

Reason:	Poor motivation result in low output (1 knowledge mark)
Simple explanation:	Poor motivation might result in low output this might mean that Python Bicycles struggles to meet production deadlines and delivery of customer orders may be delayed (1 additional mark for simple explanation)
Developed Explanation:	Poor motivation might result in low output and this might mean that Python Bicycles struggles to meet production deadlines and delivery of customer orders may be delayed, thereby losing goodwill among customers. They will have a poor reputation, sales will fall and possible also profits. (1 further explanation mark for a developed explanation).
Application:	The application mark is achieved as the answer considers bicycle production. (1 application mark)

(b) **Content:** Ways to increase motivation – increased wages; change to piece-rate; increase fringe benefits; give longer holidays; provide safer working conditions; introduce worker participation; introduce job enlargement. Discussion of motivation theory should be credited but isn't necessary for high marks to be awarded.

Level 1 E.g. High wages encourages employees and makes them more motivated to work hard. 1 mark for each statement.

- Level 2** E.g. High wages encourages employees and makes them more motivated to work hard. This is the motivation theory of Taylor who believed that money was the main motivator for workers. Therefore Python Bicycles should change to piece-rate and pay workers according to how many bicycles they produce. This will encourage workers to increase their output and they will be happy with the increase in wages. 5 marks for level 2 answer plus 1 application mark for mentioning bike production and changing to piece-rate.  
5 marks for the first level 2 answer. Plus 1 – 2 marks for each additional level 2 answer. I.e. two level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.  
However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.
- Level 3:** Detailed discussion of at least two level 2 answers which consider alternative ways of motivating workers apart from money. There will be a conclusion at the end which justifies whether high wages would be the most effective motivator or whether an alternative method would be more effective and why.

	Application	Knowledge/Analysis/Evaluation
Level 3		9-10 marks Level 2 + Good judgement shown as to the best way to increase motivation – they may or may not be increased wages.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5-8 marks Good discussion of different suggestions. Some limited judgement shown about the effectiveness of different methods of increasing motivation.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1-4 marks Outlined methods/ways to increase motivation.

**14. M/J 08/P2/Q5/b**

(a) Content:

Financial – commission, profit sharing, bonus, performance related pay.

Non-financial – discounts on firms' products, health care paid for, free accommodation, pension paid.

Praise for a job well done, job rotation, job enlargement, job enrichment.

Motivation theories might be included in the answer e.g. McGregor, Maslow, and Taylor should be rewarded.

	Application	Analysis/Evaluation
Level 2	2 marks Well applied to the case.	5–8 marks Ways to motivate employees explained as to why they might be effective.
Level 1	1 mark Weak application to the case.	1–4 marks Ways to motivate employees listed. Only limited judgement shown.

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## 2.2: Organisation and management

### 1. O/N 18/P22/Q3/a

(a) Knowledge [2 × 1] – Award one mark for each relevant advantage and disadvantage (maximum one for each)

Analysis [2 × 1] award one mark for a relevant explanation of the advantage and disadvantage

Application [2 × 2] award two application marks for each method Award one mark for each advantage/disadvantage (maximum of two), such as:

Advantage –

- Allows Peter to focus on main tasks as he cannot do every job himself
- Managers are less likely to make mistakes if some of the tasks are being performed by subordinates
- Managers can measure the success of their staff more easily
- The work becomes more interesting for subordinates/subordinates may be more motivated
- The operations manager feels more important and trusted
- Allows PP to expand as Peter will need more free time to focus on the expansion

Disadvantage –

- Still responsible if there are errors/some managers are reluctant to delegate/checking and/or monitoring takes time
- Senior managers lose some control
- Tasks may not be carried out effectively/makes mistakes/manager might not carry out the tasks effectively so quality may suffer

Award a maximum of three additional marks for each explanation of the advantage/disadvantage of delegating tasks to the new operations manager – two of which must be applied to this context.

**Note: do not reward answers that discuss the advantages /disadvantages of appointing a new Operations manager (e.g. new ideas) – the answer must be about delegation**

Indicative response: Managers cannot do all the tasks themselves (k) and it will free up some of Peter's time to spend on more important issues such as decisions about expanding into overseas markets. (ap) Peter is less likely to make mistakes if he has more time to spend on these important decisions.

(an) The new Operations manager may be experienced in manufacturing pottery leading to fewer faulty pottery items produced. (ap)

**Possible application marks:** Operations manager recruited from a competitor, manufactures pottery items, factory, vases, plates, private limited company, 30 years ago, skilled production workers, wants to expand by exporting to other countries, traditional methods, use of figures from Appendix 3. There may be other examples in context, which have not been included here.

### 2. O/N 18/P21/Q2/a

(a) Knowledge [2 × 1] – award 1 mark for each role.

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

Application [2 × 2] – award 2 application marks for each role.

Award 1 mark for each role (maximum of 2), such as:

- **Planning** the production such as setting a target of an increase of 10% in output of toy production
- **Organising** the tasks done by the production line workers such as deciding which worker will fit heads onto the figures and which ones will package the dolls
- **Coordinating** different departments with the production department ensuring that for example the purchasing department orders the right quantity of components for the toy cars ready for their assembly
- **Commanding** the supervisors on the production lines to ensure they all know what they should be doing to keep to their targets and meet deadlines
- **Controlling** the employees on the production line to make sure they are all meeting their targets and producing toys efficiently.

Award a maximum of 3 additional marks for each explanation of role of the Operations manager at GT – 2 of which must be applied to this context.

Indicative response: Planning (k) the production of toys in the GT factory.

(ap) This gives a sense of direction and purpose to the operations department, as they will all have a common purpose to work towards. (an) The output of toys should therefore go more smoothly as the correct components to make the toy cars should arrive on time to be ready for assembly on the production line. (ap).

**Possible application marks:** manufacturer of toys; toys sold to large toy shops throughout country Y; toys also exported; Marketing manager wants to sell toys online; toys manufactured using batch production; design and packaging of toys need to be adapted for each different export market; sells well designed toys of high quality; safety of the child is very important; components are imported and uses JIT; need to purchase cheaper components to reduce costs; currently low levels of worker motivation; recent price increases have resulted in falling sales.

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

### 3. O/N 18/P21/Q4/a

(a) Knowledge [2 × 1] – award 1 mark for each effect.

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

Application [2 × 2] – award 2 application marks for each effect.

Award 1 mark for an effect on GT and one mark for an effect on GT's employees (maximum of 2), such as:

Effect on GT

- Easier to negotiate with just one organisation representing all employees at GT
- May have to face increased wage costs if union successfully negotiates a pay rise
- Improve communication between managers and workers
- Improve relations between managers and workers
- May be affected by industrial action

Effect on GT's employees

- May be able to negotiate a wage increase
- May be able to improve working conditions
- Collective bargaining (strength in numbers) increases likelihood of success for worker demands
- Worker views are put forward to management
- Can seek advice about issues of pay, dismissal, workers' rights
- More aware of employee rights.

Award a maximum of 3 additional marks for each explanation of the effect for GT and GT employees – 2 of which must be applied to this context.

Indicative response: Easier to negotiate, (k) as there is only one organisation representing employees, instead of needing to negotiate with each employee separately. (an) GT has a large factory with many employees (ap) so using the operations manager to negotiate with the trade union will be quicker and easier for the company. (ap)

**Possible application marks:** plc set up 50 years ago; manufacturer of toys; sells well designed toys of high quality; employees only recently allowed to join a trade union; low levels of worker motivation; currently negotiating a new wage agreement for production workers.

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

### 4. M/J 18/P22/Q1/a

(a) Award up to 2 marks for an explanation of span of control

Award up to 2 marks for explaining span of control using examples from Appendix 1

Span of control explanation might include:

- Span of control is the number of subordinates working directly under a Manager
- This span of control is narrow
- It is only 3 people
- Makes it easier to delegate

For example:

Span of control is the number of subordinates working directly under a manager (1). This makes it easier to delegate. (1) E.g. The span of control for Hilda is 3 (ap) these are the Administration manager, Hotel manager and Restaurant manager (ap).

Award up to 2 marks for an explanation of chain of command

Award up to 2 marks for explaining chain of command using examples from Appendix 1

Chain of command explanation might include:

- Chain of command is the structure in an organisation, which allows instructions to be passed down from senior management to lower levels of management
- This chain of command is short
- It has only 4 levels
- Hilda, the general manager, is at the top of the hierarchy and any instructions will pass through a further three levels down to the lowest level, such as receptionists or waiters
- Makes communication quicker
- Communication is less likely to be distorted
- Hilda is less remote from the lower level employees in the hierarchy

For example:

Chain of command is the structure in an organisation, which allows instructions to be passed down from senior management to lower levels of management (1). This makes communication quicker. (1) E.g. DH has a short chain of command (ap) as any instructions need to pass from Hilda at the top to the employees at the bottom such as the waiters (ap)

**5. O/N 15/P21/Q3/a**

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

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

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

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

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

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

Indicative response:

Being a member of a trade union gives strength in numbers so workers are more likely to achieve their demands [k] rather than if one worker tries to achieve the demands on their own (an). At the moment CC does not allow a worker to be a member of a trade union (ap).

Production workers are only paid low wages and they may want to be members of a trade union in order to gain a pay rise (ap).

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

**6. M/J 15/P21/Q1/b**

(a) Relevant points might include:

- Planning – sets aims/targets; plan for necessary resources
- Organising – delegate tasks; people and resources; ensure everyone working effectively/no duplicated tasks
- Coordinating – ensure departments working together; aims/tasks linked together; chair regular meeting between departments
- Commanding – guiding employees; leading/supervising employees; ensure employees keep to targets/tasks

- Controlling – measure/evaluate work of employees; identify poor performance/identify problems

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

Knowledge/Analysis/ Evaluation	
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the most important management function of the Operations Manager compared to the other functions 7–8 marks for some limited judgement shown in recommendation as to the most important management function of the Operations Manager.
Level 2	4–6 marks Detailed discussion of each management function of the Operations Manager.
Level 1	1–3 marks Name management function and/or identifies key tasks Operations manager will carry out.

#### Level 1

1 mark for each L1 statement (max of 3 marks), e.g. the Operations Manager needs to control the department.

#### Level 2

One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. the Operations Manager needs to control the department. This will involve ordering the ingredients to ensure that the planned production of cakes can be made otherwise bakers may not be able to bake the batches of cakes ordered. (4 marks for L2 answer + 1 application mark for mentioning bakers and making cakes.)

#### Level 3

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the most important management function, e.g. planning will be the most important management function because if the Operations Manager does not plan efficiently then workers may not work effectively. They could be waiting for ingredients to arrive and not be able to work. This is more important than commanding the workers to do their work as if they do not have ingredients then commanding them to work will not be effective.

Award up to 2 additional marks for relevant application.

Possible application marks: cake manufacturing; constantly develops a new range of cakes; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops; 125 workers; may need to make some workers redundant; automated production line; efficiency increases by 10% for option A; investment of \$8m; 10 production employees for option B.

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

### 7. O/N 14/P22/Q2/a

#### (a) Advantage:

- Easier to negotiate with employees
- Negotiation over wages takes less time.

#### Disadvantage:

- Strength in numbers may lead to more disputes
- Easier to organise industrial action
- Industrial action may lead to a poor reputation for the business
- Higher costs if wages increase.

**N.B. these must be advantages/disadvantages to the business and NOT to just employees.**

The marks available for this question are as follows: 2 marks for knowledge; 4 marks for analysis and 2 marks for application.

1 mark for each advantage/disadvantage identified plus 2 explanation marks and 1 application mark. (4 marks × advantage/disadvantage)

Advantage: Easier to negotiate with employees (1 mark for knowledge).

Explanation: Easier to negotiate with employees (1) because all the 200 production workers are in a trade union and so there is only one representative to negotiate with

(2). This will take less time for ACE to negotiate wage rates as otherwise it might need to discuss pay with many of the 200 production workers (3).

Application: Plus 1 application mark because the answer refers to the 200 production workers.

Possible application marks: ovens; 200 production workers; 50 office workers; want to be efficient to remain competitive; export products to different countries; sales revenue increasing; profit increasing; poor motivation; high proportion of workers leave each year; autocratic leadership style; HR department.  
There may be other examples in context which have not been included here.

8. O/N 14/P22/Q2/b

(a) Content:

- Democratic
- Autocratic
- Laissez-faire.

Level 1: 1 mark for each statement, e.g. the managers could use a democratic Management style. (1 mark)

Level 2: 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks, e.g. the managers could use a democratic management style which would make employees feel more involved in decision making and therefore increase worker motivation. Production workers who make the ovens could be asked for their views on how the ovens are manufactured, but this takes time to carry out.

5 marks for level 2 answer plus one application mark for including reference to manufacturing ovens in the answer.

Level 3: Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which management style should be used rather than the other style.

Possible application marks: ovens; 200 production workers; low motivation and unhappy workers; high proportion of workers leave each year; currently using autocratic leadership style; HR department; meetings of directors to discuss managing employees; trade union membership; not follow instructions may be dismissed.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks At least 2 × Level 2 + Well justified recommendation as to which management style should be used rather than the other styles.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each management style OR explained balanced argument. Some limited judgement shown in recommendation about which management style should be used.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Name of each management style. Outline of advantages/disadvantages of each management style.

9. O/N 14/P21/Q2/b

(a) Content:

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Increased contact with senior Managers</li> <li>• Increased delegation</li> <li>• Increased motivation</li> </ul>	<ul style="list-style-type: none"> <li>• Less control by managers</li> <li>• Junior managers may make mistakes</li> <li>• Less supervision of employees</li> </ul>

<ul style="list-style-type: none"> <li>Improved communication</li> <li>Reduced wage costs.</li> </ul>	<ul style="list-style-type: none"> <li>Greater workload/stress/extra hours</li> <li>More people to manage</li> <li>Fewer opportunities for promotion.</li> </ul>
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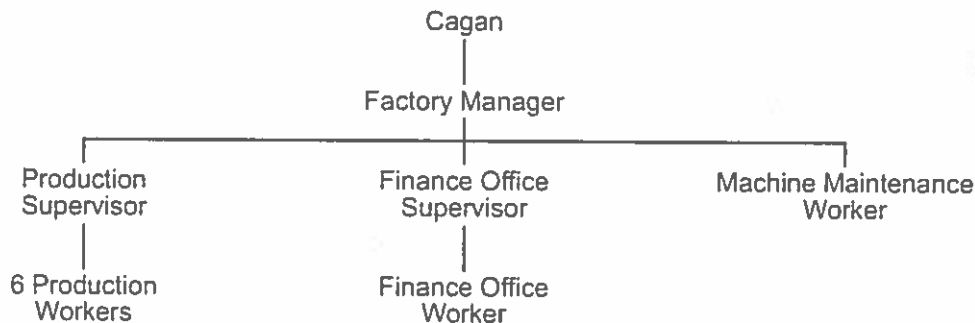
- Level 1** 1 mark for each statement e.g. the removal of a layer of management is likely to lead to increased delegation. (1 mark)
- Level 2** 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks. e.g. the removal of a layer of management is likely to lead to increased delegation. This will mean that employees will have a wider range of jobs to do and also be given more responsibility to carry out tasks such as granting customer loans. This could be very motivating for the employees as they will feel trusted. 5 marks for level 2 answer plus 1 application mark for including reference to customer loans in the answer.
- Level 3** Detailed discussion of at least two level 2 answers and then a conclusion at the end which justifies whether or not delayering should be carried out.

Possible application marks: bank; 15000 employees; lack of good communication; branches; takeover another bank, branch manager, area manager, managing director. There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks At least 2 × Level 2 plus well justified recommendation as to whether or not delayering should be carried out.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of delayering Or balanced argument. Some limited judgement shown in recommendation about whether to delayer the management structure.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outline of advantages/disadvantages of delayering.

10. O/N 13/P22/Q5/a

(a) (i) Content:



The marks available for this question are as follows:

4 marks for organisation chart if all correct.

3 marks if five correct positions

2 marks if four correct positions

1 mark if three correct positions

0 marks if two or less correct positions

(ii) 4 marks for explanation/analysis of span of control of the workers.



E.g. The span of control is the number of subordinates working directly under a manager. (1) The factory manager is in charge of the whole factory and has a span of control of 3 people. (1) The production supervisor has a wide span of control of 6 production workers (1) and the finance office supervisor only has a narrow span of control with 1 worker below them. (1)

### 11. O/N 13/P21/Q5/a

#### (a) Content:

- communication is quicker
- manager is less remote
- span of control will be wider therefore more delegation
- more direct control of employees

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 mark for each benefit identified (2 marks max). Up to two further marks are available for explaining the benefit to Shahila. 2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each benefit.  
(4 marks × 2 benefits)

Possible application marks: food stall; café; meals; sole trader.  
There may be other examples in context which have not been included here.

Simple explanation: Span of control will be wider therefore more delegation (1 mark for knowledge).

Developed explanation: Span of control will be wider therefore more delegation (1). Employees will have more varied jobs to do and therefore they will be more motivated (1) and less likely to leave their job making food at the food stall (1).

Application: The application mark could be achieved as the answer makes reference to food stall (1 application mark).

### 12. O/N 11/P21/Q1/b

#### (a) Content:

Marketing/Market Research; Human Resources; Sales; Purchasing; Production/Operations; Administration; IT; R&D.

NB do not accept Finance.

Level 1 The marketing department is needed. 1 mark for each suitable functional area.

Level 2 E.g. The marketing department is needed to carry out market research into the styles of suits which customers like the most. This will enable the company to produce suits which should meet customer demand and sell well. It is vitally important that the company makes a product which meets customer needs or the business may lose profit or even make a loss.

6 marks for a good level 2 answer plus 1 application mark for mentioning the style of suits they should sell.

5 marks for the first level 2 answer plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded. 6 × L2 = 10 marks.

Possible application marks:  
suits (any reference to any aspect of suits reward once only); private limited company; batch production; 100 production workers; 5 office workers; profits increased as grown quickly; a lot of competition; employ skilled workers; invest in new machinery; information from Appendix 3.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
<b>Level 2</b>	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–10 marks Good discussion of the role of the functional area would gain one L2 and then good judgement shown as to why the functional area is important to the business a second L2 can be awarded.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Suitable functional area listed/stated. Limited judgement shown as to why functional area is needed.

**13. O/N 10/P21/Q2/b****(a) Content:**

Suitable suggestions to rearrange the organisation chart

e.g. move all bar staff under restaurant manager; reduce bar staff; web designer in the wrong place; finance manager should be higher up the hierarchy and in their own department.

Suitable suggestions for changes to the structure of the organisation chart

e.g. too many assistants and supervisors; shorten chain of command; increase span of control; suggestions of additional suitable managers, e.g. human resources manager; suggestions of additional suitable departments, e.g. marketing department.

**Level 1** The finance manager should be higher up the hierarchy and in their own department.  
1 mark for each suitable suggestion.

**Level 2** E.g. the finance manager should be higher up the hierarchy and in their own department. The finance manager is an important job and they should be nearer to the hotel manager to discuss issues and keep the hotel manager informed about financial considerations. This should mean that money will not be wasted and the hotel will make more profit. 6 marks for level 2 answer plus 1 application mark for mentioning finance and hotel managers.

5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks; up to a maximum of 10 marks (6 × L2). However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer.

If the second level 2 answer was also very well explained, 8 marks in total can be awarded. (6 level 2 answers = 10 marks)

Possible application marks: restaurant manager; leisure centre manager; car park manager; reference to quantitative data in case; room cleaners.  
There may be other examples in context which have not been included here.

	Application	Analysis/Evaluation
<b>Level 2</b>	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–10 marks Good discussion of the suggested changes and why the suggestion may lead to increased efficiency.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Suitable suggestions listed/stated.

**14. M/J 10/P22/Q2/a**

**(a) Content:** increased wages; improved working conditions; reducing working hours; training; different methods of payment; legal support; social benefits; discount/vouchers; collective bargaining; advice.

The marks available for this question are as follows: 4 marks for knowledge and 4 marks for explanation/analysis.

1 knowledge mark + 1 mark explanation mark (2 marks × 4 reasons).

Reason:		to improve the working conditions
Simple explanation:		so that employees feel happier in their working environment and ensure that they are safe at work ( 1 additional mark for simple explanation)

**15. M/J 10/P21/Q4/a**

- (a) **Content:** increased wages; improved working conditions; collective bargaining; advice; reduced working hours, training, legal support, social benefits, discounts/vouchers  
The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.  
1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason (4 marks × 2 reasons)

Reason:	To gain an increase in wages (1 knowledge mark)
Simple explanation:	– because they can bargain on behalf of the workers. (1 additional mark for simple explanation)
Developed Explanation:	To gain an increase in wages because they can bargain on behalf of the workers. The bus drivers find it difficult to individually ask for a pay rise and there is strength in numbers. They are more likely to be successful than if they asked for a pay rise individually. (1 further explanation mark for a developed explanation)
Application:	The application mark could be achieved as the answer refers to bus drivers. (1 application mark)

Possible application marks: drivers' wages, long hours/working day, new bus routes, training bus drivers, tours, tiredness, time off.  
There may be other examples in context which have not been included here.

**16. O/N 08/P2/Q3/c**

- (a) **Content:** Easier to negotiate with a Trade Union representative than all the workers individually; better relationship between employer and employee if work together; disputes can be solved more quickly; easier to agree changes in working conditions; less time wasted in arguments; fewer industrial disputes if better relationship between management and employees. These could be the reverse arguments as disadvantages to the business.

	Knowledge/Evaluation
Level 2	5–8 marks Explanation of why these are advantages (or disadvantages) to the employer.
Level 1	1–4 marks Advantages (or disadvantages) of Trade Union membership of employees to the employer listed.

## 2.3: Recruitment, selection and training of workers

### 1. M/J 18/P21/Q2/b (a)

	Advantages	Disadvantages
Employ his own personal trainers	<ul style="list-style-type: none"> <li>• Full control over trainers</li> <li>• Higher profit especially when busy with many clients</li> </ul>	<ul style="list-style-type: none"> <li>• Pay trainers whether or not they have clients</li> <li>• More expensive when not busy</li> </ul>
Charge a fixed fee to personal trainers who work for themselves to use VG facilities with their clients	<ul style="list-style-type: none"> <li>• Fixed amount paid to VG</li> <li>• Risk of low demand taken by the trainer</li> <li>• Less expenses as no wages to pay each month</li> </ul>	<ul style="list-style-type: none"> <li>• Additional revenue/profit lost to gym</li> <li>• Cannot control the quality of the training provided for clients</li> <li>• Maybe unreliable and this could affect reputation of VG</li> </ul>

Level 1

[1–3 marks]

Outline of advantages and/or disadvantages of each option. (max of 3 marks)

E.g. Peter has full control over his own trainers if he employs them.

Level 2

[4–6 marks]

Discussion of advantages and/or disadvantages of each option. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)

Level 3

[7–10 marks]

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which option to choose. 7–8 marks for limited recommendation on which option to choose OR why not the other option.

9–10 marks for well justified recommendation of which option to choose AND why not the other option.

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

Possible application marks:

Fitness instructor; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; needs to attract more customers to continue to expand the gym; gym is open 7 days a week; information from Appendix 3; qualifications to meet health and safety requirements.

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

### 2. M/J 18/P21/Q3/a

(a) Award one mark for each legal control (maximum of two), such as:

Pay minimum wage

- Employer liability insurance required
- Legal citizenship/work permit/licence required
- Ensure a safe working environment/Health and Safety laws observed
- No discrimination when recruiting workers
- Not employing children
- No unfair dismissal
- Number of hours worked may have a maximum limit

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

**Indicative response:**

It is important to pay at least the minimum wage (1) set by the government or the owner will be prosecuted. (1) This may mean that Peter has to pay higher wages than he wants to pay and the wage costs of the gym might be high. (ap) It might mean that Peter cannot afford to employ as many trainers as he wants at the gym due to the high cost. (ap)

Possible application marks:

Fitness instructor; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment; information from Appendix 3; health and safety regulations must be met; shortage of personal trainers; need to have qualifications in personal training; most personal trainers are paid the minimum wage.

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

## 3. O/N 17/P22/Q3/a

(a) Application [4 × 1] – award one mark for each suitable characteristic for this business

Analysis [4 × 1] – award one mark for a relevant explanation of each characteristic

Award one mark for each characteristic (maximum of four), such as:

- Experience of gardening
- Punctual
- Polite
- Honest/trustworthy
- Qualifications in gardening
- Reliable
- Clean/neat appearance
- Physically fit
- Good communicator
- Hard working

There may be other possible answers

Award an additional mark for each explanation in context

**Indicative response:**

The applicants will need to have experience of gardening (1) this is to ensure that they can do the job that GS requires of them and maintains a high quality service to customers. (1)

## 4. O/N 17/P21/Q4/b

(a) Relevant points might include:

	Advantages
Internal recruitment	Lower recruitment costs Motivating for employees – increased chance of promotion – work hard Already know the business and processes – no induction Training Suitability of applicants already known by the business
External recruitment	New ideas New skills/experience Less training needed

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

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to whether to use internal or external recruitment and why not the alternative. 7–8 marks for some limited recommendation as to whether to use internal or external recruitment.
Level 2	4–6 marks Detailed discussion of the advantages of internal and/or external recruitment
Level 1	1–3 marks Outline of the advantages of internal and/or external recruitment.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Internal recruitment is cheaper than external.

Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Internal recruitment is cheaper than external as it is carried out by existing employees. They are used to the ways of working at AH and can tell the new manager how things are done with the animals. The existing employees can show the manager how the grooming and brushing is carried out so that customers do not see anything new and are happy with the way their animals are looked after. (4 marks for L2 explanation plus one application mark for referring to the grooming and brushing of animals)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation whether to use internal or external recruitment..

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

Possible application marks: Animals; unskilled workers; dogs; cats; pets; washing and brushing animals; qualified animal nurse; 12 adults and 6 children workers; information from Appendix 1 on the AH advert; complaint on the social media message;  
There may be other examples in context that have not been included here

## 5. M/J 17/P22/Q2/a

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

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

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

Award one mark for each relevant reason (max 2), such as:

- ensure they are correctly trained for CC methods – less likely to make mistakes/ maintains high quality chocolates
- efficient at their jobs – increase output/know how to do the job correctly
- build relationships with existing employees – settle in quicker and happier in new job/easier to ask for help if unsure/more quickly effective in the new job
- new employees are quickly able to contribute to production – can produce chocolates while training so output higher
- easier and quicker to arrange - cheaper than off-the-job training
- less likely to have accidents if correctly trained- employees less likely to be absent from work through injury

**Note:** Do not award induction training or just a simple definition of off-the-job training

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

**Indicative response:**

On-the-job training will ensure the new employees are trained correctly (k) in how to make the hand-made chocolates (app). As the chocolates are luxury products using expensive fillings then they must not be wasted (app). If trained correctly then the new employees will carry out their jobs effectively and chocolates will not be faulty and thrown away (an).

Possible application marks:

Chocolates/high quality chocolates/luxury chocolates; hand-made chocolates; private limited company; labour-intensive production techniques; batch production; 100 production workers; skilled workers in the factory; employed at CC since it started/for 15 years; objective of expansion; developing a new brand of chocolate bar; targeted at the mass market; purchase a new automated production line; output is expected to be high.

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

## 6. O/N 16/P22/Q3/b

(a) Relevant points might include:

	Advantages	Disadvantages
Internal	<ul style="list-style-type: none"> <li>• saves time and money</li> <li>• can be motivating</li> <li>• person is already known</li> </ul>	<ul style="list-style-type: none"> <li>• may be jealousy</li> <li>• may need training –increases costs</li> </ul>
External	<ul style="list-style-type: none"> <li>• new ideas</li> <li>• already skilled/trained to correct level reduces costs</li> </ul>	<ul style="list-style-type: none"> <li>• person does not know the organization and how it works</li> <li>• person not known</li> </ul>

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the whether internal or external recruitment is the best method to choose and why not the other method. 7–8 marks for some limited judgement shown in recommendation as to the whether internal or external recruitment is the best method to choose.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of internal and/or external recruitment.
Level 1	1–3 marks

	Outline of advantages and/or disadvantages of internal and external recruitment.
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Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. New ideas.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks). e.g. New ideas can be used from managers who have worked for other businesses and therefore will be experienced in other ways of working. This should make GJ more efficient and improve the productivity of the cleaning staff. (4 marks for L2 answer + 1 application mark for mentioning cleaning staff).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best method to choose.

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

Possible application marks: gardening services; house cleaning services; country X; 50 parttime workers; 2 office workers; honest, reliable and hard-working employees; elderly people; old people; adult children; financial information from Appendix 1; information from the graph in Appendix 3.

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

### 7. M/J 16/P21/Q2

(a) Knowledge [2 × 1] award one mark for each relevant method

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

Application [2 × 2] award two application marks for each method

Award one mark for each relevant method (maximum of two):

- On-the-job
- Off-the-job
- Examples could be used e.g. training course.

Award a maximum of three additional marks for each explanation or development – two of which must be applied to this context – of the methods.

Indicative response:

Off-the-job training [k] because Rosa and Eduardo will want the receptionists to be trained to a high standard in how to use the new computer system in the dental clinic [ap]. This will mean they are trained by experts in using the new system and so they should be better trained and be more efficient [an]. However, they will be away from the clinic and it may mean that they cannot book-in patients to see the dentist and this might cause annoyance with the patients leading them to go elsewhere to get their teeth treated [ap].

Possible application marks: qualified dentists; \$50 000 each partner; largest dentist clinics in the country; reception; receptionists; 1 general manager for the clinic; bank loan to pay for new computer system; reputation for high quality treatments; private patients; move to larger premises; job vacancies for dentists and assistants; information from Appendix 1 and 2.

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

(b) Relevant points might include:

Receptionist 1 (age 50)	Experienced in the ways of DDC – knows what to do Relevant qualifications Been there from the start Works well with clients
Receptionist 2 (age 30)	Not worked at DDC for long Not qualified Experienced as a dental receptionist
Receptionist 3 (age 25)	Some experience of working practices at DDC Knows about computers Not qualified Limited experience

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

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to which receptionist to make redundant rather than the other receptionists.

	7–8 marks for some limited judgement shown in recommendation as to which receptionist to make redundant.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each receptionist.
Level 1	1–3 marks Outline the advantage and/or disadvantage of each receptionist.

Level 1	One mark for each L1 statement (max of three marks) e.g. Receptionist 1 has worked for DDC for a long time and will be used to their working practices.
Level 2	Four marks for the first L2 answer and then one extra mark for each additional L2 answer up to maximum of six marks. E.g. Receptionist 1 has worked for DDC for a long time and will be used to their working practices which will mean that they will know how the dental clinic works and the dentist will be able to delegate tasks to them more easily. (Four marks for L2 answer + one application mark for answering using reference to patients and dental clinics.)
Level 3	For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which receptionist to make redundant.

Award up to two additional marks for relevant application.

Possible application marks: information from Appendix 2....

age 50, age 30, age 25, 10 years at DCC, 1 year at DCC, 4 years at DCC, receptionist qualifications, no qualifications, lots of experience as a receptionist for other dentists, only experience as a receptionist for DDC, charity work, plays football, repairs computers at home.

8. O/N 15/P22/Q2/b

(a) Relevant points might include:

Age	Young may not have any training or experience but willing to learn/older workers may be more experienced; age they are legally allowed to work
Experience	If experienced then training costs saved but may not be trained in the skills wanted by Rafael; becomes effective in the business faster; more ideas gained from previous work places; workers will expect higher wages.
Reason for leaving last job	If left last job because of inefficiency then will not want to recruit them but this may not be fair and may be as a result of a personality clash; bad attitude cannot be changed easily

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

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified judgement shown in conclusion comparing the most important factor when choosing between job applicants and why other factors are less important. 7–8 marks for some limited judgement shown in conclusion of the most important factor when choosing between job applicants.
Level 2	4–6 marks Detailed discussion of why each of the factors affects who is recruited or balanced discussion of benefits and drawbacks of using each factor.
Level 1	1–3 marks Outline of how each of the factors affects who is recruited.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. If the applicant is experienced then training costs may be saved.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. If the applicant is experienced then training costs are saved but they may not be trained in the skills of repairing motorbikes which is what is wanted by Rafael. (4 marks for L2 answer).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a well justified conclusion as to which factor is the most important when recruiting a new employee.



Award up to 2 additional marks for relevant application.  
Do NOT reward motorbikes as this is in the question.

Possible application marks: sole trader; sell and deliver motorbikes; customers are mainly young men; imports high quality motor bikes; wants to open a new showroom.  
There may be other examples in context which have not been included here.

9. O/N 15/P21/Q4/a

- (a) Knowledge [2 × 1] – award one mark for each relevant advantage/disadvantage  
Analysis [2 × 1] – award one mark for a relevant explanation for each advantage/disadvantage  
Application [2 × 2] – award two application marks for each advantage/disadvantage  
Award one mark for each relevant advantage/disadvantage (maximum of two), such as:

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

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

Indicative response:

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

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

10. O/N 14/P21/Q5/a

(a) Content:

- Some employees may lose their jobs
- There may be opportunities for promotion/demotion
- Jobs may be changed with different responsibilities added
- Demotivated
- Change in working conditions/pay
- Training implications for employees
- Relocation/move area/move branch.

The marks available for this question are as follows: 2 marks for knowledge; 4 marks for analysis and 2 marks for application.

Possible application marks: bank; 15000 employees; lack of good communication; 1000 PB branches; 250 DOTT branches; 1250 combined branches; branches; area manager; deputy branch manager; branch manager.  
There may be other examples in context which have not been included here.

1. mark for each effect identified plus 2 explanation marks for each effect plus 1 application mark. (4 marks × 2 effects)

Effect: Some employees may lose their jobs (1 knowledge mark).

Explanation: Some employees may lose their jobs (1) because there may be other employees at PB Bank who can do their job. (2) PB will want to make cost

savings and there may be, for example, counter staff at the bank who are no longer needed as branches may be merged. (3) (Plus 1 application mark for answering in the context of branch banks).  
Some employees may close their jobs

## 11. M/J 14/P21/Q1/b

## (a) Content:

**Gowri** – experience of running her own business/quite young/large amount of money to invest/young family/no experience in flower arranging.

**Miranda** – experience of shop work/well qualified/no family commitments/little money to invest.

**Pamela** – enthusiastic about learning the requirements for the job/has some skills in flower arranging/large amount of capital to invest/no family commitments/older person so more experience with people/no formal qualifications in flower arranging

Level 1 – mark for each statement

E.g. Miranda has experience of working in a shop and so she would know how to serve customers in the flower shop (1 mark).

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.

E.g. Miranda has experience of working in a shop and so she would know how to serve customers in the flower shop. She could also have experience of how to run a shop but she would not know how to do the accounts or ordering of flowers and so she could not help Fabian with this.

5 marks for level 2 answer plus one application mark for mentioning ordering of flowers.

Level 3 – Detailed discussion of at least two level 2 answers and then a conclusion at the end which justifies who is the best person to choose compared to the other people.

Possible application marks: anything from Appendix 1; flowers; flower shop; part-time employees; hotels and restaurants; flower arrangements; new business.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks At least 2 × Level 2 + Well justified recommendation as to the best person to choose compared to at least one other person.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each person. OR balanced argument. Some limited judgement shown in recommendation about the best person to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outline of advantages/disadvantages of each person.

## 12. O/N 13/P22/Q4/b

## (a) Content:

Qualifications – to show if the applicant has the qualifications necessary to carry out the job

Experience – sufficient experience to do the job efficiently without training

Previous employers – to know which businesses they had worked for before; to know if worked for competitors Interests/hobbies – see what sort of person they are

Level 1 – 1 mark for each statement

E.g. – To show if the applicant has the qualifications necessary to carry out the job (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 10 marks.

E.g. – To show if the applicant has the qualifications necessary to carry out the job otherwise they may need training to be able to carry out the ordering of cloth and this will increase costs. If they have appropriate qualifications then they may be able to carry out the job straight away and also be more efficient. 5 marks for level 2 answer plus 1 application mark for mentioning cloth.

Possible application marks: shop; cloth; fabric; blinds; curtains; windows; shop manager/shop worker; factory manager/factory worker; new market on the Internet. There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
<b>Level 2</b>	2 marks Well applied to the case. At least two examples of references to, or uses of, the case.	5–10 marks Good discussion of what each item of information shows about the applicant.  Justification of why each item of information is important in selecting the best applicant.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Suitable items of information listed.

### 13. M/J 13/P21/Q4/a

#### (a) Content:

Minimum wage; health & safety; unfair dismissal; discrimination; working conditions; hours/breaks; holidays;

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each way identified (2 marks max). Up to two further marks are available for explaining each way. 2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each way.  
(4 marks × 2 ways)

Possible application marks: tools; equipment; retail establishment; 10 hours and 6 days' work; tool hire; 10 shops; Country A.  
There may be other examples in context which have not been included here.

Simple explanation: The government protects employees against unfair dismissal.  
(1 mark for knowledge)

Developed explanation: The government protects employees against unfair dismissal (1) so sales staff should not be dismissed without good reason (1) or they can take TT to court to get compensation or reinstatement (1).

Application: The application mark could be achieved as the answer makes reference to sales staff. (1 application mark)

### 14. O/N 12/P22/Q4/a

#### (a) Content:

Job specification: contains qualifications and experience required from the applicant, ensures applicant suitable for the job, without it unsuitable people could apply. 1 mark maximum for implicit contents of a job specification.

Interviews: gives chance to assess applicant, face to face assessment, check the applicant's CV is correct, tasks given to see if applicant can do them.

The marks available for this question are as follows:

2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark (4 marks for job specification + 4 marks for interview)

**Possible application marks:**

expansion; small business; sole trader; taxi business; passengers; drivers; driving licence; cars; routes; private customers; number of customers increasing; birthday parties, weddings; data from Appendix 3.

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

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

- Definition:** A job specification lists the personal qualifications, experience and skills required for the job. (1 Knowledge mark)
- Simple explanation:** A job specification lists the personal qualifications, experience and skills required for the job. This means Trunal can list all the personal qualities he thinks are important for his drivers to have, such as good communication skills to talk to passengers. (1 additional mark for simple explanation)
- Developed explanation:** A job specification lists the personal qualifications, experience and skills required for the job (1). This means Trunal can list all the personal qualities he thinks are important for his drivers to have, such as good communication skills to talk to passengers (1). If applicants have these skills and qualifications then Trunal can match these drivers to the job description and recruit the best person for the job. (1 further explanation mark for a developed explanation)
- Application:** The application mark could be achieved as the answer refers to communication skills to talk to passengers. (1 application mark)

**15. O/N 12/P22/Q5/b****(a) Content:**

Higher standards of safety for taxis – increased costs – need for safety equipment – decreased profits.

Shorter working hours for taxi drivers – recruit more drivers – or fewer journeys.

Lower speed limits for taxis – each driver has to work fewer hours – journeys take longer – increased taxi fare charged to customers – fewer customers.

**Level 1** If the speed limit is reduced then it will take longer to make a taxi journey. 1 mark for each statement.

**Level 2** E.g. If the speed limit is reduced then it will take longer to make a taxi journey. Longer journey times will mean that fewer journeys can be made per day and so fares will need to rise (L2). However, this will apply to all taxi businesses so it should not make Trunal less competitive and demand will probably stay the same (L2). 6 marks for two level 2 answers plus 1 application mark for mentioning all taxi businesses, fares and journey times.

5 marks for the first level 2 answer. Plus 1 mark for each additional level 2 answer, i.e. two level two answers = 6 marks, 3 level 2 answers = 7 marks, 4 level 2 answers = 8 marks.

**Possible application marks:**

car damage; fares; drivers; accidents; speeding fines; small business; taxi business; tourists; documents delivered; fully booked; parcel delivered; airport taxi service; data from Appendix 1 or 3.

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

	<b>Application</b>	<b>Knowledge/Analysis/Evaluation</b>
<b>Level 2</b>	2 marks Well applied to case. At least two examples of, references to, or uses of, the case.	5–10 marks Good discussion of the effects on the business of each of these changes. Judgement shown about how much effect the changes may have on the business.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of, reference to, or use of, the case.	1–4 marks Brief outline of the effects of these Government changes on business.

## 16. M/J 12/P22/Q2/b

(a) Content:

<i>Health and safety</i>	<i>Employment</i>	<i>Consumer protection</i>
provide safety equipment	redundancy rules	no false descriptions
provide notices	protection from being easily sacked	no misleading advertisements
safety training	minimum wage	genuine sale prices
	discrimination laws	return of faulty goods

Level 1 e.g. If SCS sells faulty goods the consumer has the right to return them. 1 mark for each statement.

Level 2 e.g. If SCS sells faulty trousers, the consumer has the right to return them. The shop will return the trousers to SCS and this will cost SCS as they will have to replace the trousers. (L2) It might also mean they get a bad reputation for poor quality and this could affect future sales (L2). 6 marks for good level 2 answer plus 1 application mark for mentioning school trousers.

Possible application marks: school uniform; sewing machines; factories/factory buildings; private limited company; special design uniform; standard design; large clothes shops; cloth purchased from local supplier; employs 100 production workers and 10 office workers; time rate; good working conditions; batch production; increasing output; new skilled production workers recruited; machinery; reference to figures in appendix 2.  
There may be other examples in context which have not been included here.

	<b>Application</b>	<b>Knowledge/Analysis/Evaluation</b>
<b>Level 2</b>	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–10 marks Good discussion of <b>why</b> these laws have been passed. Judgement shown about <b>how</b> these laws will <b>affect the business</b> .
<b>Level 1</b>	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Reasons for passing these laws stated.

## 17. M/J 12/P22/Q3/b

(a) Content: Induction training, on the job training, off the job training.

Level 1 e.g. New production workers will need induction training. 1 mark for each statement.

Level 2 e.g. New production workers will need induction training. This will introduce new production workers to the company. The workers will be shown round the premises and introduced to the people they will be working with. The new workers will know what they have to do when they start work which will mean the production workers will be effective straight away (L2) and this will increase their initial productivity but it will not last into the long run. (L2) 6 marks for a good level 2 answer plus 1 application mark for mentioning the company.

Level 3 At least three level 2 and then a recommendation which justifies the method to increase productivity.

Possible application marks: school uniform; sewing machines; factory buildings; private limited company; special design uniform; trading for 15 years; manufactures school uniforms; standard design; employs 100 production workers and 10 office workers; time rate; autocratic; good working conditions; batch production; increasing output; leased machinery; brothers; reference to figures in appendix 2.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Three × Level 2 + Well justified recommendation as to the best method of training to increase productivity and why it is not the other methods (comparison made).
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of methods of training and why it might increase productivity OR Advantages and disadvantages of each training method (even if listed). Some limited judgement shown in recommendation about which method might be most effective in increasing productivity.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Methods of training named/briefly outlined/defined.

18. O/N 11/P22/Q3/b

(a) Content:

Qualifications of the employees; how long they have worked for the business; reliability/good employee; skills relevant to the business; age/physical ability; trade union influence.

Level 1 E.g. How long the employee has worked for BB Boat Tours.

1 mark for each statement.

Level 2 E.g. How long the employee has worked for BB Boat Tours. If the employee has been with the business a long time then they will know how to run the boat tours and will be able to do several different tours. They will be familiar with all the fishing and diving equipment and will know how to look after it.

5 marks for level 2 answer plus 1 application mark for mentioning the fishing and diving equipment and boat tours.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.  $6 \times L2 = 10$  marks.

Level 3 Detailed discussion of at least three level 2 answers and then a conclusion at the end which justifies the most important factor compared with the other factors.

Possible application marks:  
15 years ago; boat day trips; foreign tourists; skilled local fishermen; diving instructors; food and drinks; boats fully booked/half full; business made a loss; financial information from Appendix 1; information from the graphs in Appendix 3.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks 3 × level 2 + good judgement shown as to the most important factor and why it is better than the other two factors.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the different factors. Limited judgement in recommendation.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Factors listed or statements made about the factors.

## 19. O/N 11/P21/Q3/a

## (a) Content:

Shown round the business/facilities; introduce colleagues; go over the contract; shown to work area; outline the job; history of company; fire drill; safety procedures/safety equipment; aims/objectives of the business.

The marks available for this question are as follows: 4 marks for knowledge and 4 marks for explanation.

1 knowledge mark + 1 explanation mark for each example (4 × 2 marks for each item).

E.g. The new manager would be introduced to new colleagues (1 knowledge mark) so that they will feel more comfortable starting to work having met the other employees they will be managing. (1 explanation mark)

## 20. M/J 11/P22/Q4/a

## (a) Job title: Production Manager

Requirements	Example of Requirement	Why each requirement should be included
Qualifications	University degree in Management	Well-qualified person should mean they are capable of doing the job well (1). No need for extra training/will ensure that the job is carried out effectively (1).
Skills	Able to lead a team of Workers	So that the manager can motivate people by communicating with them effectively (1) and make them feel valued as employees so that the business is more efficient (1).
Experience	At least 5 years experience in food processing	So that they know how to deal with problems and how to do the job (1) without needing further training which is expensive (1).
Personal Characteristics	Well organized	The manager will be responsible for many jobs that need to be completed (1). He/she will need to be able to prioritise jobs to ensure that all the important tasks get completed on time for an efficiently-run business (1).

2 marks for each suitable explanation × 4.

**(b) Content:**

Advantages of internal recruitment – saves time and money; person already known to business; person knows the way the organisation works; motivating.

Disadvantages of internal recruitment – no new ideas or experience; jealousy amongst the workers.

Advantages of external recruitment – new ideas leads to improvements in the business; wider experience of how other businesses/competitors operate; can lead to improvements in the way the business is run.

Disadvantages of external recruitment – person not known to the business; may not fit in with other employees; CV may have been misleading about ability; may bring bad habits with them from previous business.

Level 1 E.g. The company recruits someone already known to the company if it recruits internally. 1 mark for each statement.

Level 2 E.g. Internal recruitment means that the person recruited is already known to the business. They already know about making ready meals and what different jobs are involved in the production process. They will already know the existing employees and therefore know which ones need encouraging and which ones need to be watched because they are lazy and therefore they will make a more effective manager quickly. 6 marks for a good level 2 answer plus 1 application mark for mentioning production process for ready meals.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer, i.e. two level 2 answers = 6 marks; three level 2 answers = 7 marks; four level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.

Level 3 Detailed discussion of at least three level 2 answers. There will be a conclusion at the end which justifies which recruitment method would be the most effective.

Possible application marks: private limited company; expansion; airline industry; high labour turnover; paid hourly; no fringe benefits; existing workers are demotivated; increasing economic growth; reference to figures in Option 1 or 2.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Three × level 2 plus good judgement shown as to the best method of recruitment to choose rather than the alternative method – this may be either method of recruitment.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the advantages and/or disadvantages of internal and external recruitment OR balanced argument (if only listed 1 × L2). Some limited judgement shown about which method should be used.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages or disadvantages listed. Internal and external recruitment defined.

**21. M/J 11/P21/Q4/b****(a) Content:**

Advantages of on-the-job training – individual tuition is given; trained in the workplace so cheaper; some work carried out whilst worker training.

Disadvantages of on-the-job training – only suitable for unskilled or semi-skilled workers; trainer will be less productive whilst showing the trainee what to do; trainer may have bad habits they pass on.



Advantages of off-the-job training – broad range of skills can be taught; evening courses are cheaper as trainee still does their job.

Disadvantages of off-the-job training – evening classes are tiring so employees may be less productive next day; less control over what is taught.

Level 1 E.g. Evening courses are cheaper as no lost output. 1 mark for each statement.

Level 2 E.g. Evening courses are cheaper as trainee still does their job during the day. Only course fees will need to be paid and there will be no lost output during the day.

However, the worker may get very tired working all day and then going to a course in the evening and so might be less productive at work the next day.

5 marks for level 2 answer. 5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level 2 answers = 6 marks; three level 2 answers = 7 marks; four level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.

Level 3 Detailed discussion of at least two level 2 answers. There will be a conclusion at the end which justifies which training method would be the most effective and why.

Possible application marks: chocolate bars, boxes of chocolates, sweets, private limited company, limited finance, retained profit for two to three years, skilled workers, quality chocolate.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 plus good judgement shown as to the best method of training for production workers – this may be either method of training.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the advantages or disadvantages of the training methods. Balanced argument. Some limited judgement shown about which method should be used.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks On-the-job and off-the-job training defined or simple statements made on the advantages or disadvantages of each of the training methods.

## 22. O//N 10/P22/Q2/b

(a) **Content:** Miller – well qualified, worked in restaurants but not for long, sporting interests – healthy person with little time off work – management style is the same as the rejected style. Nish – not well qualified, experienced in the restaurant business but moved around a lot, person type hobbies, single – lots of time to work – leadership style fits in with restaurant.

Level 1 – Mr Nish has a lot of experience in the restaurant business. 1 mark for each suitable suggestion.

Level 2 – E.g. Mr Nish has a lot of experience in the restaurant business but he seems to have moved around a lot between different restaurants. This may be because he is not very good at his job or maybe he does not like to work in one place for very long. Either way, this is not good as if he is not good at his job the restaurant will not want to employ him and if he doesn't stay in a job long the restaurant would need to recruit someone else and that costs extra money. 6 marks for a detailed level 2 answer plus 1 application mark for mentioning the restaurant.

5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second

level 2 answer was also very well explained, 8 marks in total can be awarded.

- Level 3 – Detailed discussion of at least two level 2 answers and there will be a conclusion at the end which justifies which person to employ and why not to employ the other person.

Possible application marks: motivating employees; specific reference to Appendix 2 or Appendix 3. There may be other examples in context which have not been included here.

	Application	Analysis/Evaluation
Level 3		9-10 marks Level 2 + Good judgement shown as to which person to employ and why not the other person.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of,	5-8 marks Good discussion of the items listed on the application form. Good judgement shown as to which person to employ.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case	1 – 4 marks Services comments on the application form listed/stated. Limited judgement shown as to which person to employ

### 23. M/J 10/P22/Q2/b

#### (a) Job description – – job specification – – advertisement – – interviews

##### Content:

**Job description:** outlines the tasks and responsibilities that will need to be carried out as part of the specific job – so that applicants know what the job involves and so they know if they are suitable to apply for the job and not waste Bashir's time. This allows Bashir to draw up a job specification with suitable skills, etc required.

**Job specification:** outlines the required skills, qualifications, personal qualities, etc for a specific job – to ensure a suitably qualified person is appointed and that they have the skills etc. to do the job required.

**Advertisement:** informs people that Bashir has a job vacancy – it informs people of what the job involves, what qualifications, etc they will need if they want to apply. Details about the job (such as wages,) are given so that only suitable candidates apply. The advertisement will need to be placed in a location so that suitable applicants see it.

**Interviews:** this is where the applicant will be seen face to face and asked a series of questions – this is to make sure the person hasn't lied on their CV and to make sure the person could do the job advertised and could fit in with the other employees.

Level 1 A job description outlines the tasks and responsibilities that will need to be carried out as part of the specific job

Level 2 E.g. A job description outlines the tasks and responsibilities that will need to be carried out as part of the flower arranging job. Bashir needs to decide what duties and responsibilities he wants them to do so that he can draw up a job specification so he does not waste time going through applications that are unsuitable

Level 3 Four Level 2 answers linking or making it clear why these stages of the recruitment and selection process are important for Bashir when selecting suitable employees

Possible application marks: flower arranging skills, job production, baskets of flowers, trade union, seasonal work.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Four Level 2 answers linking or making it clear why these stages of the recruitment and selection process are important.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the importance of each of these parts of the process.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Each of the parts of the process briefly defined/ outlined.

**24. M/J 10/P21/Q2**

- (a) **Content:** increased productivity; increased motivation; improved quality service/image; fewer customer complaints; able to train other employees; employee ideas contribute to development of company; safer driving/avoid accidents; costs might be lower.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason (4 marks × 2 reasons)

Reason:	To improve the quality of the service (1 knowledge mark)
Simple explanation:	– so that customers will enjoy their bus journey and want to use Bimisi Buses again (1 additional mark for simple explanation)
Developed Explanation:	To improve the quality of the service so that customers will enjoy their bus journey and want to use Bimisi Buses again. Being reliable and on time will improve the reputation of Bimisi Buses and so the increased number of customers will lead to expansion and probably increased profits. (2 further explanation marks for a developed explanation)
Application:	The application mark could be achieved as the answer refers to customers enjoying their journeys. (1 application mark)

Possible application marks: diesel, drivers' wages, new bus routes, training bus drivers, cost of buses, government licences, tours, tourist season.

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

- (b) **Content:** (On-the-job training) takes place in a normal working situation, using the actual tools, equipment, documents or materials that trainees will use when fully trained. (Off-the-job training) takes place away from normal work situations – implying that the employee does not count as a directly productive worker while such training takes place.

Level 1 Understanding of on the job and off the job training.

Level 2 – E.g. Off-the-job training will allow the bus drivers to train without the risk of accidents when passengers are on the buses. The drivers can be trained properly and can concentrate on the training without having to worry about who else is on their bus. (5 marks for level 2 answer plus 1 application mark for mentioning passengers on the bus.)

5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.

- Level 3 – Detailed discussion of at least two level 2 answers. There will be a conclusion at the end which justifies whether on-the-job training would be the most effective method of training and why.

Possible application marks: bus drivers, accidents, crashes, punctuality/timetable, passenger satisfaction; bus routes.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 + Good judgement shown as to the best method of training for each job – this may be either method of training.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the advantages or disadvantages of the training methods. Some limited judgement shown about which method should be used.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Understanding of on the job and off the job training.

25. M/J 10/P21/Q4/b

- (a) **Content:** Employees – H & S; protect against unfair treatment, minimum wage. Customers – not to be misled; ensure safety for passengers; ensure fair treatment.

Level 1 – E.g. Laws to protect consumers are necessary so that consumers are not misled. 1 mark for each statement.

Level 2 – E.g. Laws to protect consumers are necessary so that consumers are not misled. Otherwise the bus company could make claims about having luxury air conditioned buses when the buses are just normal buses and do not have any extras, ( 5 marks for level 2 answer plus 1 application mark for mentioning buses being air conditioned.)

5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained then 8 marks in total can be awarded.

Possible application marks: drivers' wages, training bus drivers, working hours, working conditions, tour description, passenger safety, bus pricing policy, diesel, environmental considerations.

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

	Application	Knowledge/Analysis/Evaluation
Level 2	2 marks Well-applied to case. At least two examples of reference to, or use of, the case	5-10 marks Good discussion of reasons why government should or should not pass laws to protect consumers and employees.
Level 1	1 mark	1-4 marks

	Limited application to the case. At least one example of reference to, or use of, case	Outlined reasons why governments pass laws to protect consumers and employees.
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**26. O/N 09/P2/Q2****(a) Content:**

E.g. What experience do you have of serving customers? (knowledge/application)

Have you got experience of cooking? (knowledge/application)

Where are you working now? (knowledge)

When can you start work? (knowledge)

The marks available for this question are as follows: 4 marks for knowledge/application of the questions to ask and 4 marks for explanation/analysis of the questions.

1 mark for each question identified (up to a max of 4 marks). Up to one further mark is available for explaining why the question should be asked. (1 + 1 for each question × 4)

Possible application marks: farm; autocratic leader; vegetable growing; holiday homes; exports/fair trade; \$50,000; \$10,000.

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

**(b) Content:**

Leadership styles: autocratic – direct orders, workers know what they have to do; laissez-faire – employees make own decisions, follow broad objectives; democratic – employees involved in decision making.

Financial methods of motivation – profit sharing, bonus, performance related pay.

Non-financial methods of motivation – discounts on farm's products, health care paid for, free accommodation, pension paid.

Praise for a job well done, job rotation, job enlargement, job enrichment.

Motivation theories might be included in the answer e.g. McGregor, Maslow, Taylor.

**Level 1** An autocratic leadership style will mean that workers are told what to do and they will work hard. 1 mark for each style of leadership that is briefly stated or alternative methods of motivating workers listed – up to a max of 4 marks.

**Level 2** Paying people more money will encourage them to work harder. Taylor said that money is a way of motivating workers and Dilip could change his payment methods to piece-rate and pay the workers according to how many vegetables the worker picks and then they should work hard in order to receive more pay. 5 marks for Level 2 answer plus 1 application mark for mentioning picking vegetables. 5 marks for the first Level 2 answer. Plus 1–2 marks for each additional Level 2 answer i.e. 2 Level 2 answers = 6 marks; 3 Level 2 answers = 7 marks. 4 Level 2 answers = 8 marks.

However, if the Level 2 answer is very well explained then 6 marks can be awarded for the first Level 2 answer. If the second Level 2 answer was also well explained then 8 marks in total can be awarded.

**Level 3** At least 2 Level 2 answers plus a justified conclusion – not just a statement saying which will be the best way of motivating employees. E.g. Level 2 + I don't think Dilip should change his leadership style from autocratic to democratic or laissez faire. This is because the farm workers need to be told what to do so that they know they have to work hard picking vegetables. If he used a democratic leadership style then workers do not know what to do and they won't be able to make useful suggestions about what to do – Dilip is the boss and this is how he should act.

9 marks plus at least 1 application mark for making reference to farm workers picking vegetables in the conclusion and possibly another application mark in the Level 2 part of the answer.

Possible application marks: farm workers; autocratic leader; vegetable picking; holiday homes; below legal minimum wage.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 + well justified recommendation as to the best leadership style to use or which method of motivation to use.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of leadership styles or motivation techniques. Some limited judgement shown as to which is the best leadership style to use or which method of motivation to use.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Statements made showing knowledge of leadership styles and/or different methods of motivating employees.

## 27. O/N 08/P2/Q3

- (a) Content: Job analysis, Job description, Job (person) specification, Job advertisement, send out application forms/CV & letters of application, Interviews, select the best applicant/send out letter to make job offer. Use of recruitment agency.  
1 mark for each step – up to a maximum of 6 marks.
- (b) Content: Dam should be built correctly (quality product), maintains good reputation of Generation Elect (reputation), dam built quickly (efficiency).  
Application e.g. dam; electricity; generators; city; building materials. Do not reward 'construction workers' as this is in the question.

	Application	Analysis
Level 2	2 marks Well applied to case.	3–4 marks Importance of employing skilled workers explained.
Level 1	1 mark Weak application to case.	1–2 marks Importance of employing skilled workers stated.

## 28. M/J 08/P2/Q5/a

(a) Content:

Job analysis (to decide the requirements of the job) – job description (outlines the duties that the job involves) – job (person) specification (outlines in detail the type of person who is qualified to do the job) – advertise the vacancy (where to place the advertisement to be decided) – send out application forms (for applicants to fill in and return giving the required personal details) – short list (from the applications a short list will be produced of those best matching the job requirements) – interview (different techniques can be used to select the best person for the job).

	Knowledge/Analysis/Evaluation
Level 3	9–10 marks Level 2 + clear judgement as to why the methods will lead to the best staff being employed.
Level 2	5–8 marks Explanation given for the recruitment and selection methods used and/or why they are used.
Level 1	1–4 marks Methods of recruitment and selection listed.

## 2.4: Internal and external communication

### 1. O/N 18/P21/Q3/b

#### (a) Relevant points might include:

Different languages are spoken in GT's markets in other countries:	<ul style="list-style-type: none"> <li>• Harder to understand what is being said or questions asked</li> <li>• Recruit managers with language skills</li> <li>• May increase costs of employing an interpreter</li> <li>• Customers may have difficulty reading labels/instructions</li> </ul>
GT is starting to use several new suppliers:	<ul style="list-style-type: none"> <li>• No relationship established</li> <li>• May not know who to contact if there are queries</li> <li>• Different suppliers to communicate with which takes time to know who to contact and some errors may be made</li> <li>• Culture may be different if suppliers are in other countries meaning communication may be misunderstood</li> </ul>
GT's main communication method with its production workers is a weekly meeting:	<ul style="list-style-type: none"> <li>• No written record so message may be forgotten</li> <li>• Meeting only once a week and there may be issues arising before the next meeting that needs attention</li> <li>• Workers may be absent and miss the meeting and therefore not receive the information</li> </ul>

#### Level 1

(1–3 marks)

1 mark for each limited discussion of communication issues/problem(s) not identified. (max of 3 marks)

E.g. No relationship has been established yet.

#### Level 2

(4–6 marks)

Detailed discussion of communication issues/problem(s) identified. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (Max 6 marks).

E.g. No relationship has been established yet, as the suppliers are new, so GT may not know who to contact is there is a problem. It is important for orders to be received and sent out quickly as GT uses JIT and this requires the components to be delivered just when required or production of particular toys may stop. (4 marks for L2 answer plus 1 application mark for answering in the context of the business using JIT for the production of toys)

#### Level 3

(7–10 marks)

For L3 to be awarded there need to be at least 2 L2 marks awarded and then a conclusion of which is the biggest communication issue.

7–8 marks for some limited judgement shown in conclusion of which is the biggest communication issue and/or why the other communication issues were less of a problem.

9–10 marks for well justified conclusion of which is the biggest communication issue and why the other issues are less of a problem.

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

**Possible application marks:** plc set up 50 years ago; manufacturer of toys; toys sold to large toy shops throughout country Y; toys also exported; Marketing manager wants to sell toys online not through retailers; toys manufactured using batch production; design and packaging of toys need to be adapted for each different export market; sells well designed toys of high quality; safety of the child is very important; components are imported and uses JIT.

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

### 2. M/J 18/P22/Q1/b

#### (a) Relevant points might include:

	Advantages	Disadvantages
Telephone/mobile	<ul style="list-style-type: none"> <li>• One-to-one communication</li> </ul>	<ul style="list-style-type: none"> <li>• It can be expensive</li> </ul>

	<ul style="list-style-type: none"> <li>Ensures the message is received and understood</li> <li>Message can be passed on quickly</li> </ul>	<ul style="list-style-type: none"> <li>Mobile may not be switched on</li> <li>May take time to reach employees – may need to keep trying to contact them</li> </ul>
Letter	<ul style="list-style-type: none"> <li>Written record</li> </ul>	<ul style="list-style-type: none"> <li>Too slow to be received</li> </ul>
Notices/ Noticeboard	<ul style="list-style-type: none"> <li>Seen by many staff</li> <li>Cheap method</li> </ul>	<ul style="list-style-type: none"> <li>Don't know if read</li> <li>Would not let employees know in time</li> </ul>
Email	<ul style="list-style-type: none"> <li>Cheap to send</li> <li>Fast way to send Message</li> <li>Can be sent to many employees at the same time</li> </ul>	<ul style="list-style-type: none"> <li>Don't know if read unless ask for a reply</li> <li>There may not be an internet connection / message failed to send</li> </ul>
Text (SMS) message	<ul style="list-style-type: none"> <li>Fast to send</li> <li>Quick reply often gained</li> </ul>	<ul style="list-style-type: none"> <li>Message failed to send if no network coverage</li> <li>Employee may not have a mobile phone</li> </ul>
Face-to-face meeting	<ul style="list-style-type: none"> <li>Instant feedback</li> <li>Fairly quick to ask employees if they are already at work that day</li> <li>Easier to persuade the employee to work later</li> </ul>	<ul style="list-style-type: none"> <li>Takes time to find the person if not at work that day</li> </ul>
Social media, e.g. Facebook group, WhatsApp group	<ul style="list-style-type: none"> <li>Cheap to send</li> <li>Fast to send</li> <li>Sent to many in the group at the same time</li> </ul>	<ul style="list-style-type: none"> <li>Don't know if the message has been read</li> <li>Message might fail to send</li> </ul>

**Level 1****[1–3 marks]**

1 mark for a suitable method of communication from employer to employee and / or 1 mark for an outline of an advantage and / or disadvantage of each suitable method.(max of 3 marks)

E.g. Telephone the employee

**Level 2****[4–6 marks]**

Detailed discussion of the advantages and/or disadvantages of each method. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)

E.g. Telephone the employee as Hilda will know straight away if the message has been received and understood. However, the employee may not have their mobile phone with them or even have switched it on when they are serving guests in the hotel and so the message may not be received. (Level 2 plus one application mark for answering in the context of serving guests in the hotel)

**Level 3****[7–10 marks]**

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of the most suitable method.

7–8 marks for limited recommendation of the most suitable method for an urgent message that requires quick feedback OR why the alternatives were rejected.

9–10 marks for well justified recommendation of the most suitable method for an urgent message that requires quick feedback AND why the alternative methods were not chosen.

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

Possible application marks:

Small hotel; 39 employees; demand for hotel accommodation is increasing; most guests are local tourists on coach tours; information from the organisational chart in Appendix 1.

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

**3. M/J 17/P21/Q3/a**

(a) Knowledge [2 × 1] – award one mark for each barrier

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

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



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

- Problems with the sender – different languages in country P and country Q/ not made the message clear /speaks quickly/sends message to wrong person/too many workers to contact
- Problems with the medium – message lost/no feedback given/wrong channel used/ message not picked up
- Problems with the receiver – not listening/ may not trust the sender/not understanding the message
- Problems with feedback – only one-way communication/there is no feedback/distortion of feedback as passed through too many people/ long chain of command
- Problems with the physical environment – noise level/separate buildings/time difference

Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context - of how the barrier might be reduced.

**Indicative response:**

Problems with the medium used (k) in the case of TT information is put on a factory noticeboard in another building where the workers do not see it (app). If the message is put on a noticeboard in the same building as the factory workers and also in a newsletter sent to every worker in the T-shirt factory (app) then this should ensure that all workers receive the information and the barrier will be overcome (an).

**Possible application marks:**

Private limited company; in country P/Q; prints designs; T-shirts imported from country Q, a developing country; sold to small retailers in country P; expand the company; exporting T-shirts; take over DesOwn, a competing company; personalized T-shirts; sells online; use an agent or a joint venture; really unhappy factory workers; shouted at if I do anything wrong; workers want to leave; workers in the factory; Operations manager just tells me what to do; she never asks what I think; told to keep quiet; no training on selling; information is only put on one noticeboard.

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

**4. O/N 15/P21/Q1/b**

(a) Relevant points might include:

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

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

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

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

Award up to 2 additional marks for relevant application.

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

#### 5. O/N 14/P22/Q3/b

##### (a) Content:

- Email
- Telephone
- Letter
- Text/SMS
- Video conferencing
- Meetings
- Fax.

Level 1: 1 mark for each statement, e.g. the purchasing manager could use email to inform suppliers about the problem with the delivery of electrical components (1 mark).

Level 2: 5 marks for the first level 2 answer and then 1 extra mark for each additional level 2 answer up to maximum of 8 marks, e.g. the purchasing manager could use email to inform suppliers about the problem with the delivery of electrical components. Email is quick and cheap to use and can be easily sent out to businesses located in other countries. However, the email may not be read straight away and so the message may not get through to supplier quickly enough to stop a delay in the production of ovens and it will be difficult to know if the message has been read. 5 marks for level 2 answer plus 1 application mark for including reference to a delay in the production of ovens in the answer.

Level 3: Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best method of communication to choose compared to the other forms of communication.

Possible application marks: ovens; restaurants and hotels; 200 production workers; plc/large company; country Z.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks At least 2 × Level 2 + Well justified recommendation as to the best method of communication to choose compared to the other methods of communication.
Level 2	2 mark Well applied to case. At least two examples of	5–8 marks

	reference to, or use of, the case.	Good discussion of advantages/disadvantages of each method of communication OR explained balanced argument. Some limited judgement shown in recommendation about the best method of communication to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outline of advantages/disadvantages of each method of communication.

## 6. O/N 14/P21/Q1/b

## (a) Content:

- Email
- Telephone
- Text/SMS
- Meetings
- Memorandum
- Company newsletter
- Noticeboards/posters
- Letters
- Put information on the website
- Improve managers' communication skills

- Level 1 1 mark for each suitable way/statement e.g. the HR Director could use email to inform employees about any new changes to the bank. (1 mark)
- Level 2 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks. e.g. The HR Director could use email to inform employees about any new changes to the bank. Email is quick and cheap to use and can be sent out as a global email which means it goes to everyone on the email contact list. However, not all 15000 employees may have a bank email address, so the message may not get through to all employees and it will be difficult to know if the message has been read.  
5 marks for level 2 answer plus one application mark for including reference to 15 000 employees at the bank.
- Level 3 Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best form of communication to choose compared to the other forms of communication.

Possible application marks: public limited company; 15 000 employees; lack of good communication; branches; area manager; branch manager; company website; information difficult to find.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks At least 2 × Level 2 + Well justified recommendation as to the best form of communication to choose compared to the other forms of communication.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each form of communication Or explained balanced argument. Some limited judgement shown in the recommendation about the best form of communication to choose.
Level 1	1 mark Limited application to the case. At least one	1–4 marks Suitable way/Outline of advantage/disadvantage of each form of communication.

	example of reference to, or use of, case.	
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**7. M/J 14/P22/Q3/b**

**(a) Content:**

- Email
- Telephone
- Fax
- Post order form
- SMS
- Face to face

Level 1 – 1 mark for each statement

E.g. Manuel could use email to place orders for fruit and vegetables (1 mark).

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.

E.g. Manuel could use email to place orders for fruit and vegetables with the wholesaler because email is quick and cheap to use. He only needs a computer and internet access. The order will get there straight away. The only problem may be if he uses the wrong email address or the email gets lost then Manuel may not know whether the order has been received as there is not necessarily any feedback.

5 marks for level 2 answer plus one application mark for mentioning wholesaler.

Level 3 – Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best method of communication to choose compared to the other methods of communication.

Possible application marks: shop; been in business for 10 years; sole trader; wholesaler. There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks At least 2 × Level 2 + well justified recommendation as to the best method of communication to choose compared to the other methods of communication.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each method of communication OR balanced argument. Some limited judgement shown in recommendation about the best method of communication to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Suitable method of communication named/outline of advantages/disadvantages of each method of communication.

**8. M/J 12/P22/Q3/a**

**(a) Content: Give credit for generic effects on the business of poor communication**

- Incorrect orders delivered
- Increased costs of returned goods
- Wrong size/designs manufactured as order incorrect
- Autocratic manager – no feedback
- Organisation structure
- Wrong information
- Ineffective communication e.g. too slow.

Up to three marks are available for explaining how the poor communication could affect the business. 1 mark for each example identified. (4 marks × 2 examples)

NB Explanation marks can be awarded if no suitable example given but maximum of 3 marks for each explanation.

Possible application marks: children/students; schools; school uniform; private limited company; special design uniform; standard design; large clothes shops; cloth purchased from local supplier; buttons imported; employs 100 production workers and 10 office workers; autocratic; batch production; increasing output; new skilled production workers recruited; reference to figures in appendix 2.

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

For example:

Incorrect sizes of school clothes are delivered to the customer. (1 mark for application) This is because the information was written down incorrectly when the telephone order was placed.(1) As a result the school clothes will be returned to SCS warehouse and they will have to pay for the transport costs (1) and this will lead to lower profits.(1)

9. M/J 12/P21/Q3/a

(a) Content:

- All employees are to receive a wage increase – notice board, letter, meeting, email, intranet (not internet)
- An error with a delivery of supplies – telephone, email, fax.

*NB Do not reward generic methods of communication.*

1 mark for each suitable method identified (2 marks max). Three further marks are available for explaining why the method will be effective.

1 knowledge mark + up to 3 explanation marks (4 marks × 2 methods).

For example:

- (i) He could use a letter (1 mark for knowledge) to inform the workers that they are to be given a wage increase. This would be suitable because all employees will receive the letter at home (1). This will ensure that all the employees will be informed personally (1) and so there should be no misunderstanding or employees missing the message as they are on holiday or ill (1).

10. O/N 11/P22/Q4/b

(a) Content:

Email; telephone; notice board; poster; fax; letter; memo; meeting. (Written/verbal/visual – only credit if example given in explanation.)

Level 1 E.g. They could hold a meeting.

1 mark for each statement.

Level 2 E.g. They could hold a meeting where the owners could discuss with the employees that the business has made a loss and it needs to save money or it could go bankrupt. A meeting would allow the owners to explain any misunderstandings to the employees and they would listen to any suggestions that employees might have.

5 marks for level 2 answer plus 1 application mark for mentioning the business is making a loss.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.  $6 \times L2 = 10$  marks.

Level 3 Detailed discussion of at least three level 2 answers. There will be a conclusion at the end which justifies which method of communication would be the most effective and why it is better than the other ways to communicate.

Possible application marks:

boat day trips; business made a loss; employees redundant; cheaper competitors; financial information from Appendix 1; information from the graphs in Appendix 3.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks 3 × level 2 + good judgement shown as to the best method of communication to use and why it is better than the other two methods.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the advantages or disadvantages of the different communication methods. OR balanced argument (even if listed). Some judgement shown about which method should be used in the recommendation.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Methods of internal communication listed or statements made about the methods.

## 11. O//N 10/P21/Q2/a

## (a) Content:

email; telephone; notice board; poster; fax; letter; memo.

(allow written, visual, oral, electronic)

1 knowledge mark + 1 application mark for each example (this must be in the context of the hotel; it can refer to either customers or employees). (4 × 2 marks for each method)

E.g. the hotel can use email. (1 knowledge mark) This is a very quick way of contacting customers to confirm a hotel room booking, especially when the customer lives in another country. (1 application mark)

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## UNIT 3

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# MARKETING

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O Level  
Business  
Workbook Paper-2

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## Topics

- 3.1 Marketing Competition and the Customer
- 3.2 Market Research
- 3.3 Marketing Mix
- 3.4 Marketing Strategy



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# Unit 3: Marketing

## 3.1: Marketing Competition and the Customer

1. M/J 18/P21/Q1/b **Case Study – Value Gym (VG) – See Page 572**

(a) Consider the following three roles of marketing in Peter’s business. Which one of these is the most important role? Justify your answer. [12]

Identify customer needs: .....

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Satisfy customer needs: .....

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Build customer relationships: .....

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Conclusion: .....

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2. O/N 15/P22/Q1/b **Case Study – Rafael’s Reliable Motorbikes (RRM) – See Page 557**

(a) Rafael thinks he could increase his sales by using market segmentation. Consider the advantages and disadvantages of each of the following methods to segment the market. Recommend which method he should use. Justify your answer [12]

Age: .....

.....

.....

.....

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Income group: .....

Gender: .....

Recommendation: .....

3. M/J 15/P22/Q2/a

Case Study – Frozen Fancies (FF) – See Page 554

(a) Identify and explain two benefits to FF of targeting a specific market segment for its products.

[8]

Benefit 1: .....

Explanation: .....

Benefit 2: .....

Explanation: .....

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.....  
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**4. M/J 15/P21/Q2/a Case Study – Delicious Delights (DD) – See Page 555**  
**(a) Identify and explain two ways in which marketing is important for DD. [8]**

Way 1: .....

.....

Explanation: .....

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Way 2: .....

.....

Explanation: .....

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**5. M/J 14/P22/Q2/a Case Study – Manuel’s Fruit and Vegetable Shop – See Page 548**  
**(a) Identify and explain four reasons why customers may prefer to buy fruit and vegetables from Manuel's shop rather than from large supermarkets. [8]**

Reason 1: .....

.....

Explanation: .....

.....

Reason 2: .....

.....

Explanation: .....

.....

Reason 3: .....

.....

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

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Reason 4: .....

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Explanation: .....

**6. M/J 13/P21/Q5/a**

**Case Study – Ted’s Tools (TT) – See Page 544**

(a) Refer to Appendix 3. Identify and explain two possible effects on TT’s business of the recent bad weather. **[8]**

Effect 1: .....

Explanation: .....

Effect 2: .....

Explanation: .....

**7. O/N 12/P22/Q1/b**

**Case Study – KK Cars – See Page 540**

(a) Trunal is thinking of targeting just one type of customer. Do you think this is a good idea? Justify your answer using only the information in Appendix 1. **[12]**

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8. O/N 11/P22/Q1/a **Case Study – BB Boat Tours – See Page 534**  
(a) Carlos thinks that good customer service is very important to the business. Explain two reasons why this might be true for BB Boat Tours. **[8]**

Reason 1: .....

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Reason 2: .....

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9. O/N 10/P22/Q4/b **Case Study – The Riverside Restaurant – See Page 527**  
(a) Using the information in the case, consider the **three** options for expanding the business and advise Kim and Selina which would be the best option to choose. Justify your answer. [12]

Option 1 (buy a boat to convert to a restaurant): .....

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Option 2 (buy additional restaurant): .....

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Option 3 (relocate to new large restaurant): .....

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Recommendation: .....

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10. O/N 10/P22/Q5/a **Case Study – The Riverside Restaurant – See Page 527**  
(a) Explain two problems for Kim and Selina’s business if the customer service in the expensive dining area was of poor quality. [8]

Problem 1: .....

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Problem 2: .....

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11. O/N 10/P21/Q4/a

**Case Study – The Dream Hotel – See Page 529**

(a) Identify and explain two reasons why providing a quality service in the restaurant is important to the Dream Hotel. **[8]**

Reason 1: .....

Explanation: .....

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Reason 2: .....

Explanation: .....

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12. M/J 09/P02/Q3/a

**Case Study – Python Bicycles – See Page 521**

(a) Before targeting a different market segment, Python Bicycles needs to carry out market research. Explain to the Marketing Manager of Python Bicycles how to carry out primary market research. **[8]**

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**3.2: Market Research**

1. O/N 18/P22/Q2/a **Case Study – Perfect Pottery (PP) – See Page 574**

(a) Identify and explain two methods of primary research PP could use to research the market in country Z. [8]

Method 1: .....

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Explanation: .....

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Method 2: .....

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Explanation: .....

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2. O/N 17/P21/Q1/b **Case Study – Animal Hotel (AH) – See Page 569**

(a) Consider three methods of market research Elsie could use to find out the number and types of customers for the proposed locations. Recommend the best method for Elsie to use. Justify your answer. [12]

Method 1: .....

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Method 2: .....

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Method 3: .....

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Recommendation: .....

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3. O/N 16/P22/Q4/a **Case Study – GJ Partnership – See Page 562**  
(a) Identify and explain two reasons why market research is important to GJ before starting the new service. **[8]**

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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4. M/J 16/P22/Q2/b **Case Study – Foto Favourites (FF) – See Page 559**  
(a) To expand, FF needs to attract new customers. Consider the following three methods of market research. Which method do you think will be most effective in identifying the needs of potential customers? Justify your answer. **[12]**

Secondary research on weddings: .....

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Questionnaires given out at wedding dress shops: .....

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Interviews with photographers from other parts of the country: .....

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Conclusion: .....

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**5. O/N 15/P21/Q2/a Case Study – Camper Companions (CC) – See Page 558**

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

Factor 1: .....

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Factor 2: .....

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Explanation: .....  
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**6. O/N 13/P22/Q4/a Case Study – Cagan Cloth (CC) – See Page 546**

(a) Cagan is going to use market research to find out what type of curtains to make. Identify two items of information Cagan might want to find out. Explain why each of these items of information might be useful. [8]

Item 1: .....

Explanation: .....

Item 2: .....

Explanation: .....

**7. O/N 12/P21/Q2/a Case Study – K’s Garage – See Page 542**

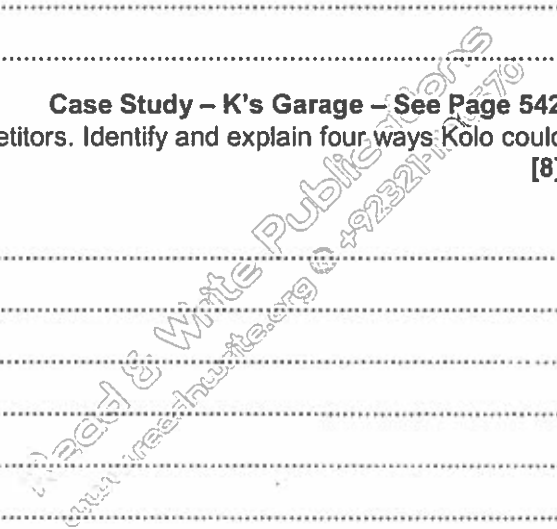
(a) Kolo wants to get information about his competitors. Identify and explain four ways Kolo could research this information. [8]

Way 1: .....

Explanation: .....

Way 2: .....

Explanation: .....



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Way 3: .....

Explanation: .....

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Way 4: .....

Explanation: .....

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8. M/J 10/P22/Q3/a

**Case Study – Bashir Baskets – See Page 524**

- (a) Bashir could expand into the market for baskets of flowers for the home. He wants to carry out primary market research using questionnaires. Explain how he should carry out this research. [8]

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9. M/J 10/P21/Q3/a

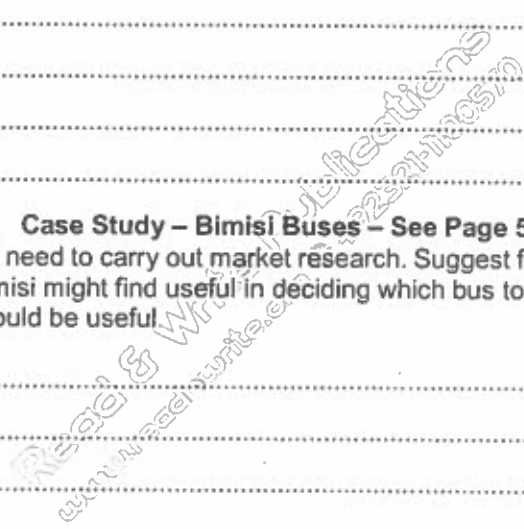
**Case Study – Bimisi Buses – See Page 526**

- (a) Before offering bus tours to tourists, Bimisi will need to carry out market research. Suggest four questions to use in market research which Bimisi might find useful in deciding which bus tours to offer tourists. Explain why each question would be useful. [8]

Question 1: .....

Explanation: .....

Question 2: .....



Explanation: .....

Question 3: .....

Explanation: .....

Question 4: .....

Explanation: .....

10. O/N 09/P2/Q3/a **Case Study – Dilip’s Vegetable Farm – See Page 522**  
 Primary research was carried out, using interviews, to research the market (see Appendix 3).  
 (a) Identify and explain **two** advantages of using interviews to research the market for Dilip’s holiday houses. **[8]**

Advantage 1: .....

Explanation: .....

Advantage 2: .....

Explanation: .....

11. O/N 08/P2/Q4/a **Case Study – Generation Elect – See Page 519**  
 (a) Generation Elect intends to use the reservoir behind the dam to provide either the hire of power boats or fishing equipment for the people of New City. Should Generation Elect use primary research or secondary research to find out which activity will be the most popular? Justify your choice. **[10]**

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(b) Abdul has carried out market research for the car repair business and a summary of the results are in Appendix 3. How would this information help Abdul when deciding on the marketing for this business? [10]

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**3.3: Marketing Mix**

**1. O/N 17/P22/Q2/b Case Study – Garden Supplies (GS) – See Page 567**

(a) Consider the following three pricing strategies GS could use when selling plants and trees to customers. Recommend which is the best pricing strategy to choose to increase GS's profit. Justify your answer. [12]

Cost-plus: .....  
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Competitive: .....  
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Promotional: .....  
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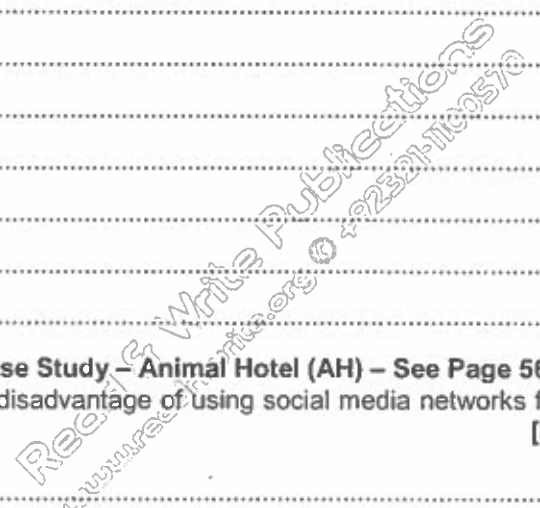
Recommendation: .....  
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**2. O/N 17/P21/Q4/a Case Study – Animal Hotel (AH) – See Page 569**

(a) Identify and explain one advantage and one disadvantage of using social media networks for the promotion of AH. [8]

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





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Disadvantage: .....

Explanation: .....

3. **M/J 17/P22/Q4/a** **Case Study – Chocolicious Chocolates (CC) – See Page 565**  
(a) Fizz Bomm is in the development stage of the product life cycle. Identify and explain four other stages of Fizz Bomm's product life cycle. **[8]**

Stage 1: .....

Explanation: .....

Stage 2: .....

Explanation: .....

Stage 3: .....

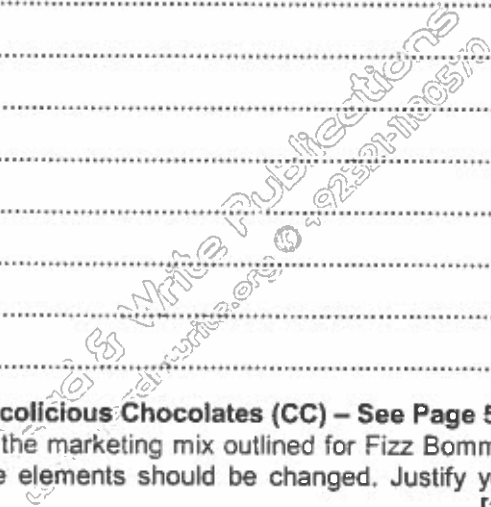
Explanation: .....

Stage 4: .....

Explanation: .....

4. **M/J 17/P22/Q4/b** **Case Study – Chocolicious Chocolates (CC) – See Page 565**  
(a) Consider the suitability of the three elements of the marketing mix outlined for Fizz Bomm in Appendix 3. Recommend whether any of these elements should be changed. Justify your answer. **[12]**

Price: .....



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Promotion: .....

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Place: .....

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Recommendation: .....

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[12]

5. M/J 17/P21/Q3/b

Case Study – T T-shirts (TT) – See Page 566

(a) Consider the following three channels of distribution TT could use for its products in country P. Recommend the best channel to gain the highest sales. Justify your answer. [12]

Sell to a wholesaler: .....

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Sell directly to large retailers: .....

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Open its own shops in shopping malls: .....

Recommendation: .....

6. O/N 16/P22/Q4/b

Case Study – GJ Partnership – See Page 562

(a) Explain the following two elements of the marketing mix for the new service Jasmin is introducing. Which element do you think is more important when the service is in the introduction phase of the product life cycle? Justify your answer. [12]

Price: .....

Promotion: .....

Conclusion: .....

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**7. O/N 16/P21/Q1/b** **Case Study – P & P Paint – See Page 563**  
 (a) P & P has developed a new type of paint. Consider the following three factors that will affect the channel of distribution the company will use. Which factor will be the most important when deciding the best channel of distribution? Justify your answer. **[12]**

Where customers are located: .....

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How often the product is purchased: .....

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Where competitors sell their products: .....

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Conclusion: .....

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**8. M/J 16/P21/Q4/b** **Case Study – Diaz Dentist Clinic (DDC) – See Page 560**  
 (a) When DDC has moved to new premises, Rosa and Eduardo plan to use promotional methods to attract more patients. Consider each of the following promotional methods. Recommend which one you think they should choose. Justify your answer. **[12]**

Advertising on a website: .....

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National newspaper: .....

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Money-off coupons: .....

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Recommendation: .....

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9. O/N 15/P21/Q2/b **Case Study – Camper Companions (CC) – See Page 558**
- (a) CC's bestselling product is a good quality camping cooker which is similar to those produced by competitors. Explain how each of the following three elements of the marketing mix could be used to market CC's camping cooker. Justify why each element is important to the success of this product. **[12]**

Price: .....

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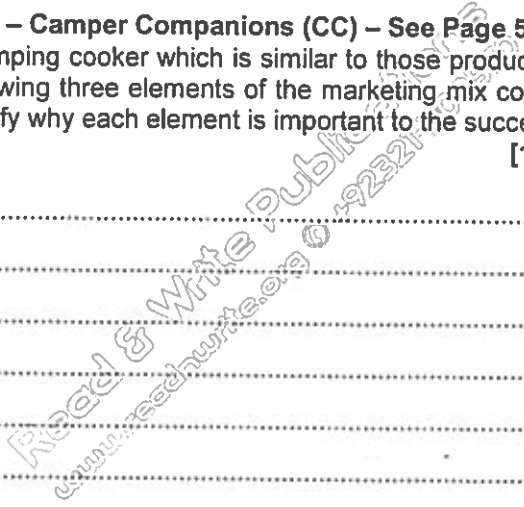
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Promotion: .....

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Place: .....

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10. M/J 15/P22/Q2/b

**Case Study – Frozen Fancies (FF) – See Page 554**

- (a) Samah and Selina will want to promote the new flavour of ice-cream. Consider the advantages and disadvantages of the following three methods of promotion. Recommend which is the best method for Samah and Selina to use. Justify your answer. [12]

Advertising on social networks: .....

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Handing out leaflets with a discount offer on them: .....

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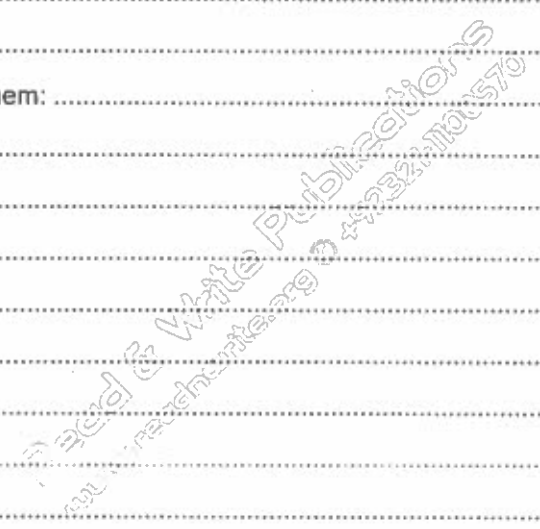
Giving out free samples in shopping malls: .....

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Recommendation: .....

**11. M/J 15/P21/Q2/b**

**Case Study – Delicious Delights (DD) – See Page 555**

- (a) Consider the advantages of using e-commerce and the advantages of selling to supermarkets in other countries. Recommend which way DD should use to increase sales. Justify your answer. [12]

E-commerce: .....

Selling to supermarkets in other countries: .....

Recommendation: .....

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12. M/J 15/P21/Q4/a

Case Study – Delicious Delights (DD) – See Page- 555

(a) Identify and explain four factors DD should consider when packaging cakes if they are exported. [8]

Factor 1: .....

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Explanation: .....

.....

Factor 2: .....

.....

Explanation: .....

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Factor 3: .....

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Explanation: .....

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Factor 4: .....

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Explanation: .....

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13. O/N 14/P22/Q3/a

Case Study – ACE Engineering (ACE) – See Page 551

(a) Identify and explain two suitable pricing strategies ACE could use when selling its products in new markets in other countries. [8]

Pricing strategy 1: .....

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Explanation: .....

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Pricing strategy 2: .....

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Explanation: .....

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14. O/N 14/P21/Q3/b

Case Study – PB Bank – See Page 552

- (a) PB needs to close some of its branches as more customers use online banking. Consider the advantages and disadvantages of branch X and branch Y. Recommend which branch PB should close. Justify your answer. [12]

Branch X: .....

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Branch Y: .....

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15. O/N 14/P21/Q4/b

Case Study – PB Bank – See Page 552

- (a) The Marketing Director of PB Bank wants to promote mobile (cell) phone banking to its existing customers. Consider the advantages and disadvantages of each of the following three ways of promoting mobile phone banking. Recommend which option the Marketing Director should choose. Justify your answer. [12]

Advertising on television: .....

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Sending leaflets to customers: .....

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Putting information on the website of PB Bank: .....

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Recommendation: .....

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**16. M/J 14/P22/Q4/b Case Study – Manuel’s Fruit and Vegetable Shop – See Page 548**

- (a) Manuel plans to deliver a box of fruit and vegetables every week to each of his regular customers. Consider the advantages and disadvantages of the following **three** promotional methods he could use for this new service. Recommend which promotional method he should use. Justify your answer. **[12]**

Advertising on local radio: .....

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Leaflets: .....

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Posters/billboards: .....

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Recommendation: .....

**17. M/J 14/P21/Q2/b**

**Case Study – Fabian Flowers (FF) – See Page 549**

- (a) Consider the advantages and disadvantages of Option A and Option B. Recommend which is the best option for Fabian to choose. Justify your answer using profitability ratios. [12]

Option A: .....

Option B: .....

Recommendation: .....

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**18. M/J 14/P21/Q4/b Case Study – Fabian Flowers (FF) – See Page 549**

(a) Assume Fabian chooses Option B (retail customers). He must decide on a pricing strategy to use. Consider the advantages and disadvantages of the following **three** pricing strategies. Recommend which one he should choose. Justify your answer. **[12]**

Cost-plus pricing: .....

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Competitive pricing: .....

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Penetration pricing: .....

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Recommendation: .....

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**19. M/J 14/P21/Q5/a Case Study – Fabian Flowers (FF) – See Page 549**

(a) Identify and explain **one** advantage and one disadvantage to Fabian Flowers of having a website for the shop. **[8]**

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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**20. O/N 13/P22/Q2/b Case Study – Cagan Cloth (CC) – See Page 546**

(a) Cagan has decided on Option 2. Do you think he was right to choose Option 2 and not Option 1? Justify your answer by considering the advantages and disadvantages of each option. [12]

Option 1: .....

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Option 2: .....

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Conclusion: .....

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**21. O/N 13/P22/Q5/b Case Study – Cagan Cloth (CC) – See Page 546**

(a) Consider how each of the following changes might affect the future demand for Cagan's curtains. Which factor do you think will be the most important? Justify your answer. [12]

Price of Cagan's raw materials increases: .....

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Price of competitors' products decreases: .....

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Unemployment falls: .....

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Conclusion: .....

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**22. O/N 13/P21/Q2/b Case Study – Yum Yum Food – See Page 547**

(a) Shahila plans to promote her food stall. Consider the advantages and disadvantages of the following three methods of promotion. Recommend which one she should choose. Justify your choice. [12]

Competitions with prizes for customers: .....

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Giving out discount vouchers: .....

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Posters in local hotels: .....

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Recommendation: .....

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**23. M/J 13/P22/Q2/b Case Study – Tibalt’s Wood Products (TWP) – See Page 543**

(a) TWP wants to start selling directly to customers who build or repair their own houses. Consider the advantages and disadvantages of three methods of promotion it could use. Recommend the best method to use. Justify your answer. [12]

Method 1: .....

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Method 2: .....

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Method 3: .....

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Recommendation: .....

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**24. M/J 13/P21/Q4/b**

**Case Study – Ted’s Tools (TT) – See Page 544**

(a) The job of shop manager for a new shop will be advertised either in the national newspaper, on posters in TT shops or on TT’s website. Consider the advantages and disadvantages of each of these options to advertise the job. Recommend which option you think will be the best. Justify your answer. [12]

National newspaper: .....

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Posters in TT shops: .....

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TT’s website: .....

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Recommendation: .....

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**25. O/N 12/P22/Q3**

**Case Study – KK Cars – See Page 540**

- (a) Refer to Appendix 2. Trunal needs more information to be able to calculate what price to charge the customer. Identify four pieces of information missing from this email and explain why each would be needed. **[8]**

Information 1: .....

Explanation: .....

Information 2: .....

Explanation: .....

Information 3: .....

Explanation: .....

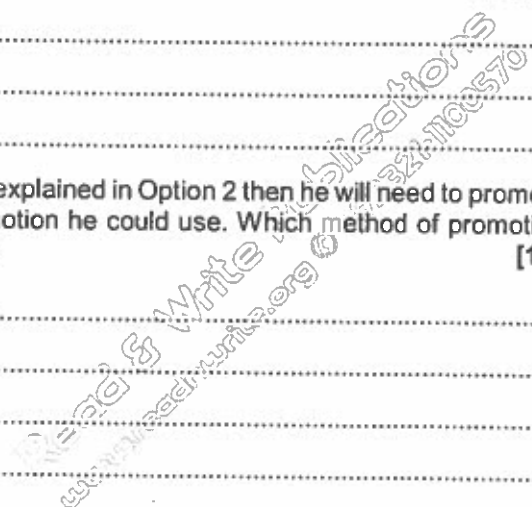
Information 4: .....

Explanation: .....

- (b) If Trunal decides to expand his taxi service as explained in Option 2 then he will need to promote this service. Consider three methods of promotion he could use. Which method of promotion would be most effective? Justify your answer. **[12]**

Method 1: .....

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Method 2: .....

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Method 3: .....

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Recommendation: .....

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26. O/N 12/P21/Q2/b

**Case Study – K’s Garage – See Page 542**

- (a) Kolo plans to promote his new business. Consider the advantages and disadvantages of the following methods of promotion. Recommend which method he should choose. Justify your choice. **[12]**

Advertising in local newspapers: .....

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Free car repairs for a year with every car purchase: .....

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Offering price reductions to the first 100 customers: .....

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Recommendation: .....  
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**27. M/J 12/P22/Q4** **Case Study – School Clothes Supplies (SCS) – See Page 537**

(a) Identify and explain two possible benefits for SCS of selling its uniforms on the Internet as well as through retail shops. **[8]**

Benefit 1: .....  
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Explanation: .....  
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Benefit 2: .....  
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Explanation: .....  
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(b) For each item of secondary information listed below, consider how it might affect SCS's marketing decisions. **[12]**

Number of schools in the country with their own specially designed uniforms: .....  
.....  
.....  
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Explanation: .....

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.....

- (b) Consider why each of the following departments will be important to the success of the new football boots. Justify your answer using information in the case. [12]

Production: .....

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Marketing: .....

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Human Resources: .....

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Finance: .....

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**29. M/J 12/P21/Q4 Case Study – Kickwell Sports Shoes (KSS) – See Page 539**  
**(a) Identify and explain two benefits to KSS of creating a brand image for its new football boot. [8]**

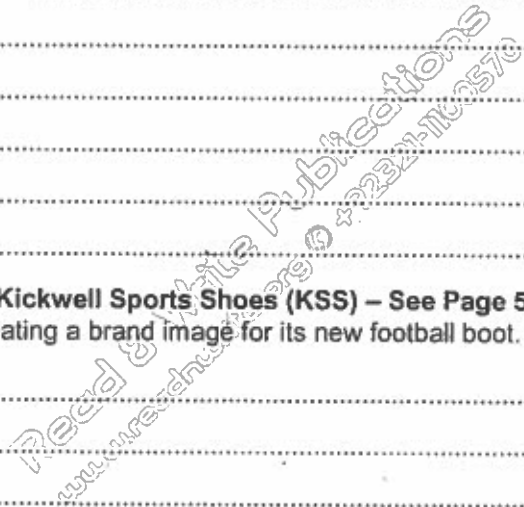
Benefit 1: .....

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Explanation: .....

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**Benefit 2:** .....

**Explanation:** .....

- (b) Emmanuel needs to decide a pricing strategy for the new football boot. Consider price skimming, cost-plus pricing and competitive pricing. Which do you think is the best pricing strategy for Emmanuel to use? Justify your answer using information in Appendix 3. [12]

**Price skimming:** .....

**Cost-plus pricing:** .....

**Competitive pricing:** .....

**Recommendation:** .....

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30. O/N 11/P22/Q1/b

**Case Study – BB Boat Tours – See Page 534**

(a) Abdul wants to change the pricing strategy used by the business. It currently uses cost plus pricing. Consider three other pricing strategies that could be used and recommend which pricing strategy you think would be the best one. Justify your answer. [12]

Pricing strategy 1: .....

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Pricing strategy 2: .....

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Pricing strategy 3: .....

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Recommendation: .....

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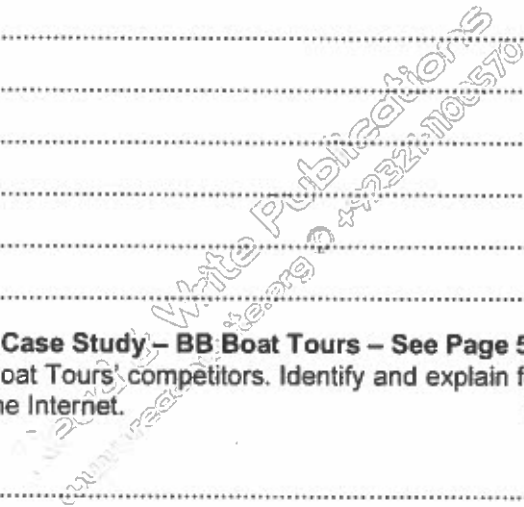
31. O/N 11/P22/Q3/a

**Case Study – BB Boat Tours – See Page 534**

(a) Appendix 2 shows the website of one of BB Boat Tours' competitors. Identify and explain four ways that BB Boat Tours could make use of the Internet. [8]

1.....

Explanation: .....



.....  
.....

2: .....

Explanation: .....

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3: .....

Explanation: .....

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4: .....

Explanation: .....

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32. O/N 11/P21/Q3/b

**Case Study – Everyday Suits – See Page 536**

- (a) Simon thinks that Option 1 would require a different marketing mix to Option 2. In what ways do you think each of the elements of the marketing mix will be different for Option 1 and Option 2? Justify your answer. **[12]**

Product: .....

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Price: .....

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Promotion: .....

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Place: .....  
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33. M/J 11/P22/Q2/a

Case Study – TT Foods – See page 531

- (a) Identify and explain two factors that will affect the pricing decisions of TT Foods when deciding what price to charge large stores for their ready-made meals. [8]

Factor 1: .....  
.....

Explanation: .....  
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Factor 2: .....  
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Explanation: .....  
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34. M/J 11/P21/Q2/a

Case Study – Chocolate Delight – See Page 532

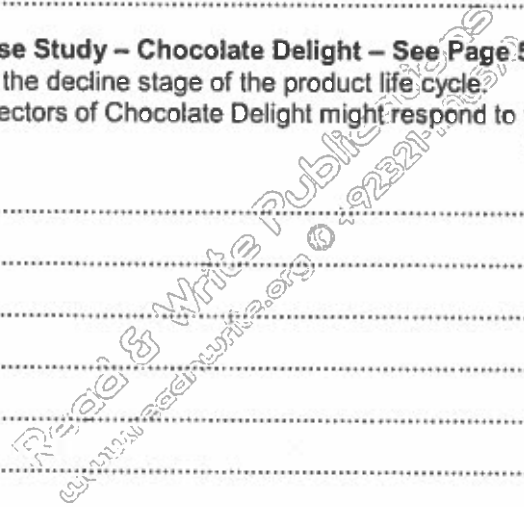
- (a) Appendix 1 shows plain chocolate bars are in the decline stage of the product life cycle. Identify and explain four ways in which the Directors of Chocolate Delight might respond to this problem. [8]

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

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

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

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



Way 3: .....

Explanation: .....

Way 4: .....

Explanation: .....

35. M/J 11/P21/Q3/a

**Case Study – Chocolate Delight – See Page 532**

(a) Chocolate Delight has a website which gives customers information about the products it sells. Identify and explain two other ways that Chocolate Delight could use the Internet for business purposes. [8]

Way 1: .....

Explanation: .....

.....

.....

Way 2: .....

Explanation: .....

.....

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36. O/N 10/P22/Q2/a

**Case Study – The Riverside Restaurant – See Page 527**

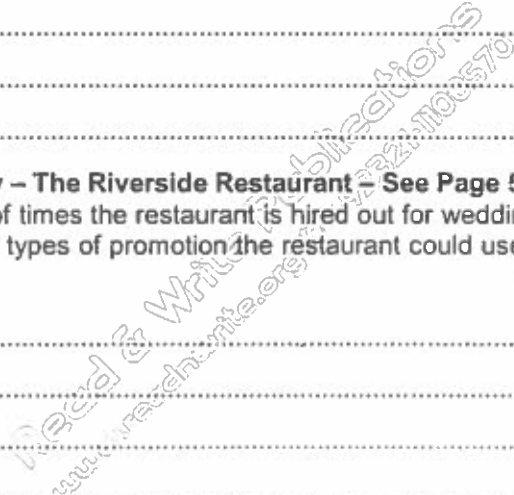
(a) Kim and Selina want to increase the number of times the restaurant is hired out for weddings and birthday parties. Identify and explain four types of promotion the restaurant could use to increase the number of customers. [8]

Type of promotion 1: .....

Explanation: .....

.....

Type of promotion 2: .....



Explanation: .....  
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Type of promotion 3: .....

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

Type of promotion 4: .....

Explanation: .....  
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**37. O/N 10/P21/Q5/a**

**Case Study – The Dream Hotel – See Page 529**

(a) Identify and explain **two** ways the Dream Hotel could use the Internet to help increase the number of guests staying at the hotel. **[8]**

Way 1: .....

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

Explanation: .....  
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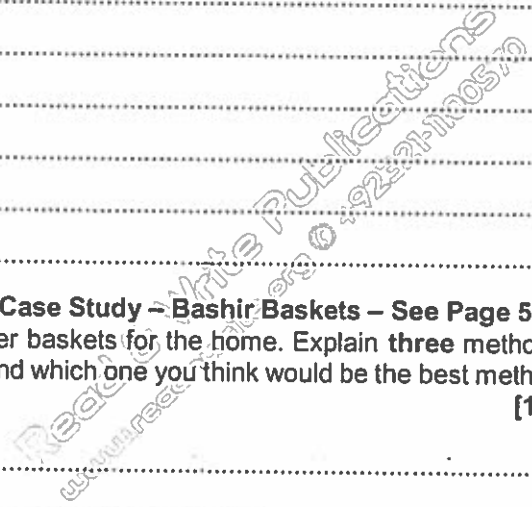
**38. M/J 10/P22/Q4/b**

**Case Study – Bashir Baskets – See Page 524**

(a) Suppose Bashir decided to start making flower baskets for the home. Explain **three** methods of promotion that Bashir could use. Recommend which one you think would be the best method to use. Justify your choice. **[12]**

Method 1: .....

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Method 2: .....

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Method 3: .....

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Recommendation: .....

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39. M/J 10/P21/Q3/b

**Case Study – Bimisi Buses – See Page 526**

- (a) Bimisi could either sell the bus tours directly to tourists or encourage hotels and holiday companies to sell the tours for the company. Explain the advantages and disadvantages of each approach to selling the bus tours. Which approach would you recommend for Bimisi? Justify your answer. [12]

Selling bus tours directly to tourists: .....

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Hotels and holiday companies sell tours: .....



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Recommendation: .....

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**40. O/N 09/P2/Q3/b** **Case Study – Dilip’s Vegetable Farm – See Page 522**  
**(a)** In what ways do you think the market research results will affect the 'product' and 'promotion' parts of the marketing mix for Dilip's holiday houses? Justify your answer. **[12]**

Effects on product: .....

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Effects on promotion: .....

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**41. M/J 09/P02/Q3/b Case Study – Python Bicycles – See Page 521**

(a) Do you agree with the Marketing Manager that Python Bicycles will need to change each of the elements of the marketing mix if children’s bicycles are to be sold? (See Appendix 2). Justify your answers. **[12]**

Element 1 of marketing mix: .....

Need to change this element? .....

.....

.....

.....

Element 2 of marketing mix: .....

Need to change this element? .....

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Element 3 of marketing mix: .....

Need to change this element? .....

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Element 4 of marketing mix: .....

Need to change this element? .....

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**42. O/N 08/P2/Q4/b Case Study – Generation Elect – See Page 519**

(a) (i) There are no similar leisure activities near to the site of the reservoir. The Marketing Manager is considering using price skimming when setting a price for the new leisure activity. What is meant by price skimming? **[2]**

.....



**3.4: Marketing Strategy**

1. O/N 18/P21/Q1/b **Case Study – Guardian Toys (GT) – See Page 575**

(a) Consider the advantages and disadvantages of the following two options for distributing GT products. Recommend the option GT should choose. Justify your answer. [12]

Continue selling to large shops: .....

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Only sell its products using e-commerce: .....

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Recommendation: .....

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2. M/J 11/P22/Q5/a **Case Study – TT Foods – See page 531**

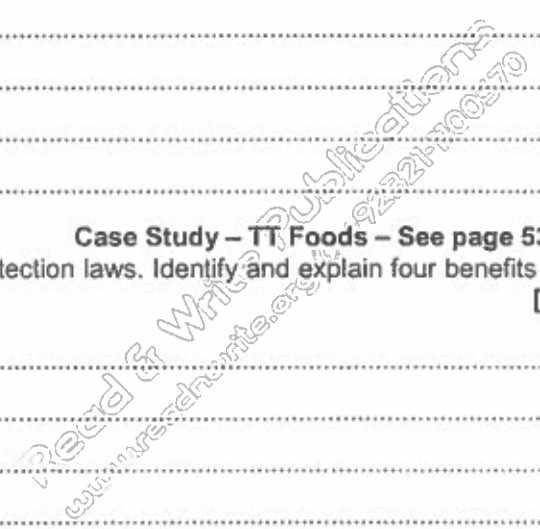
(a) TT Foods have to follow many consumer protection laws. Identify and explain four benefits to consumers of such laws. [8]

Benefit 1: .....

Explanation: .....

.....  
.....

Benefit 2: .....







## Answers Section

### 3.1: Marketing competition and the customer

#### 1. M/J 18/P21/Q1/b

(a) Relevant points might include:

<p>Identify customer needs</p> <p>The answer should be focused on how market research can find out what the customer wants</p>	<ul style="list-style-type: none"> <li>• Carrying out market research to be sure the business delivers the service that customers want</li> <li>• So that they would know what types of equipment customers would wish to use</li> <li>• So they would know what exercise classes customers would wish to attend</li> <li>• So they would know what price customers were willing to pay</li> <li>• So they would know what hours/days the customers would want to use the gym</li> <li>• However, it can be expensive to carry out the market research necessary to identify these needs accurately</li> </ul>
<p>Satisfy customer needs</p> <p>The answer should be focused on how well the services are delivered</p>	<ul style="list-style-type: none"> <li>• So the gym equipment works correctly to make the customers happy</li> <li>• So the exercise classes are run well to make the customers happy</li> <li>• The customers are content with the prices that are charged</li> <li>• So the opening hours of the gym are convenient for customers' lifestyle</li> <li>• However, Peter may need to buy more gym equipment and/or recruit more personal trainers to work in the gym</li> <li>• However, it can be expensive to maintain the Equipment</li> </ul>
<p>Build customer relationships</p> <p>The answer should focus on how loyalty and good reputation of the business are developed</p>	<ul style="list-style-type: none"> <li>• Peter needs VG to retain a good reputation with customers</li> <li>• VG needs to maintain customer loyalty</li> <li>• Customers need to feel like their opinions matter</li> <li>• Customers need to feel valued</li> <li>• However, if customers are dissatisfied they may go to a competitor</li> <li>• However, it may be difficult to satisfy all customers and therefore some may still give the business a bad reputation if unhappy</li> </ul>

Level 1

[1–3 marks]

1 mark for each outline of the advantages and/or disadvantages of each of the roles of marketing. (Max of 3 marks)

E.g. Carry out market research to find out what gym equipment customers want

Level 2

[4–6 marks]

Detailed discussion of the advantages and/or disadvantages of each of the roles of marketing. 1 × L2 explanation can gain 4 marks and a further L2 mark can be awarded for each additional L2 explanation (max 6 marks)

E.g. Carry out market research to find out what gym equipment customers want. The right equipment, such as a cross trainer, needs to be purchased so that customer needs are met. However, it can be time consuming and expensive to carry out the market research required to ensure this happens. (Level 2 plus one application mark for answering in the context of the gym and its equipment)

Level 3

[7–10 marks]

For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of the most important role of marketing. 7–8 marks for limited conclusion of the most important role of marketing OR why the other roles are less important.

9–10 marks for well justified conclusion of the most important role of marketing AND why the other roles are less important.

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

Possible application marks:

Fitness instructor; helps people lose weight and get fit; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; needs to attract more customers to continue to expand the gym; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment.  
There may be other examples in context that have not been included here.

2. O/N 15/P22/Q1/b

(a) Relevant points might include:

	Advantages	Disadvantages
Age	Easy to segment the market Can target different age groups with different Products Different styles/models appeal to different ages	Other age groups may be omitted from sales as advertising is not seen by them Particular age groups may not like the same models/income levels different
Income group	Can target lower and higher income groups with different prices/quality Targeting promotion at these groups makes it more effective	Lower income groups may not be able to afford the motorbikes Other income groups may not buy the motorbikes as do not know about them
Gender	Males already the main customers Change designs to appeal to both genders Advertising made to appeal to male interests	Lose a large potential market as feel the product is not for them Half the population are women and not being targeted at the moment Expensive to stock different models to target different segments

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

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the most effective method to segment the market and a comparison justifying why the alternative methods are rejected. 7–8 marks for some limited judgement shown in recommendation as to the most effective method to segment the market.
Level 2	4–6 marks Detailed discussion of a range of advantages and disadvantages of age, income and gender groups as methods to segment the market.
Level 1	1–3 marks Outline of advantages and disadvantages of age, income and gender groups as methods to segment the market.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Promotion targets young age groups

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Promotion targets young age groups which are most likely to be customers of RRM. By targeting a particular age group the advertising is likely to be effective and put in places which are seen by the target age group that will lead to increased sales of motorbikes. (4 marks for L2 answer + 1 application mark for mentioning young age groups and motorbikes).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best method to choose.

Award up to 2 additional marks for relevant application.

Possible application marks: motorbikes; located 100 km from Main City; repair, sell and deliver motorbikes; customers are mainly young men; imports high quality motor bikes; wants to open a new showroom; cars; scooters; bicycles; reference to population statistics from appendix 1; financial information from appendix 2; accessories for motorbike riders.  
There may be other examples in context which have not been included here.

## 3. M/J 15/P22/Q2/a

- (a) Knowledge [2 × 1] – award one mark for each relevant benefit  
 Analysis [2 × 1] – award one mark for a relevant explanation for each benefit  
 Application [2 × 2] – award two application marks for each benefit  
 Award one mark for each relevant benefit (maximum of two), such as:

- makes advertising / promotion more effective
- a more focused marketing mix
- product meets customer needs of specific niche
- price suitable for target market
- suitable channel of distribution chosen
- meets specific customer needs
- more effective use of marketing budget
- more likely to have higher sales to that target market
- lower competition in a specific market

N.B. the discussion should focus on marketing as opposed to production

Award a maximum of three additional marks for each explanation – **2 of which must be applied to this context** - of the benefit of targeting a specific market segment for its products.

Indicative response:

The marketing mix is likely to be more effective (k) because FF has identified the particular high income customers (ap) who are likely to buy their ice cream. The advertising can be in a form which reaches these target customers and so make the promotion more effective [an]. The cost of promotion is likely to be more cost effective in turning advertising expenditure into sales of ice cream (ap).

Possible application marks: produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; sales increased for four years; increasing economic growth leading to economic development; high income customers; essential / luxury products;

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

## 4. M/J 15/P21/Q2/a

- (a) Knowledge [2 × 1] – award one mark for each relevant way  
 Analysis [2 × 1] – award one mark for a relevant explanation for each way  
 Application [2 × 2] – award two application marks for each way  
 Award one mark for each relevant way (maximum of two), such as:

- to identify customer needs
- to satisfy customer needs
- to maintain customer loyalty
- to gain information about customers/conduct market research/collecting data
- to anticipate changes in customer needs
- to raise awareness of new products
- to advertise/promote the new products
- to create a brand image
- to persuade people to buy products
- to increase sales
- to attract new customers
- reference to importance of the four P's
- to help the business become more competitive

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

Indicative response:

To identify customer needs [k] because David needs to know what types of cakes to bake [ap]. By producing the types of cakes which customers most want to buy will lead to higher sales [an]. Therefore the company is more likely to be successful and return a good dividend to David and his shareholders [ap].

Possible application marks: cake manufacturing; food; shareholders; started 10 years ago in country x; constantly develops a new range of cakes; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops.

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

5. M/J 14/P22/Q2/a

(a) Content:

- Personal service / local reputation
- Business customer relationship / loyalty
- Credit given
- Proposed /delivery service
- Meets the needs of local customers
- More convenient / better location
- Longer opening hours
- Fresh / good quality produce

1 mark for each reason identified plus 1 explanation mark for each reason.

1 knowledge mark + 1 explanation mark (2 marks × 4 reasons)

Reason: The shop is more convenient (1 knowledge mark)

Explanation: The shop is more convenient (1) as it is located near to the customer's house whereas large supermarkets are located some distance away and will need transport to get there (1 explanation mark)

6. M/J 13/P21/Q5/a

(a) Content:

increased demand for construction work; more sales; more profits; imports delayed; more businesses set up in competition; damage to TT shops.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each effect identified (2 marks max). Up to two further marks are available for explaining each effect. 2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each effect.

(4 marks × 2 effects)

Possible application marks: new businesses setting up/competition increased; tools; equipment; retail establishment; partnership; small/large shops; reinvested profits; build or repair own houses; construction companies; damage to buildings; recession.  
There may be other examples in context which have not been included here.

Simple explanation: There is an increased demand for the construction of new houses.  
(1 mark for knowledge)

Developed explanation: There is an increased demand for the construction of new houses (1) and this will lead to an increased demand for tools and equipment by the construction businesses (1). If TT is competitive then sales revenue should increase and so should their profits (1).

Application: The application mark could be achieved as the answer makes reference to houses, tools and equipment. (1 application mark)

7. O/N 12/P22/Q1/b

(a) Content:

The revenue from tourists is not constant throughout the year. (L1)

Private customers use taxis at the weekend but businesses use them in the week. (L1)

Tourists pay more than private customers per journey. (L1)

Variable costs were higher for businesses rather than private customers. (L1)

Private customers make the most journeys per day. (L1)

Private customers TR \$400 (L1) – TC \$220 (L1)  
Net profit = \$180 (L2) (NPM = 45.45%) (L2)  
Break-even = 4 (L2)

Tourists TR \$600 (L1) – TC \$320 (L1)  
Net profit = \$280 (L2) (NPM = 46.7%) (L2)

Businesses Break-even = 2 (L2)  
 TR \$450 (L1) – TC \$245 (L1)  
 Net profit = \$205 (L2) (NPM = 45.5%) (L2)  
 Break-even = 1.3 (L2)

Level 1 E.g. Total revenue for tourists is \$600. 1 mark for statement related to Appendix 1 or simple calculation.

Level 2 E.g. The revenue from tourists is seasonal and this might cause cash flow problems during times of the year when there are no tourists, as Trunal will still have to pay the fixed cost for the taxis.

5 marks for the first level 2 answer. Plus 1 mark for each additional level 2 answer, i.e. two level two answers = 6 marks, 3 level 2 answers = 7 marks, 4 level 2 answers = 8 marks.

Level 3 At least three level 2 answers and then a conclusion at the end which justifies which type of customer to target and why not the other two types or justification of not targeting a single type of customer.

**NB: Answers should only be based on Appendix 1**

	Knowledge/Application/Analysis/Evaluation
Level 3	11–12 marks Three × level 2 calculations + good judgement shown as to which type of customer to try to target and why not the other two types (comparison made) or justification of not targeting a single type of customer.
Level 2	5–10 marks Net profit calculated or other relevant calculations. Good discussion of information in Appendix 1 and how demand may affect the profits over the year.
Level 1	1–4 marks Simple calculations made and/or simple statements made e.g. the price to deliver documents is much higher than the price to taxi private customers.

8. O/N 11/P22/Q1/a

(a) Content:

Good reputation; repeat business; satisfied customers; meets customer expectations.

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason (4 marks × 2 reasons).

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks:

boats; boat day trips; foreign tourists; dolphins; skilled local fishermen; diving instructors; food and drinks; boats fully booked/half full; business made a loss; employees redundant; boats and equipment; cheaper competitors.

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

Reason: To give the business a good reputation. (1 knowledge mark)

Simple explanation: To give the business a good reputation (1) so that tourists will keep coming back because they enjoyed the boat tour and this will increase sales revenue because the boat tours will be full. (1 additional mark for simple explanation)

Developed explanation: To give the business a good reputation (1) so that tourists will keep coming back because they enjoyed the boat tour and this will increase sales revenue because the boat tours will be full (1). If the sales revenue increases and the boats are full, then when the costs have been taken away the business will make less of a loss. (2 further explanation marks for a developed explanation)

Application: The application mark could be achieved as the answer refers to customers enjoying their boat tours and the business making less of a loss. (1 application mark)

## 9. O//N 10/P22/Q4/b

## (a) Content:

- Option 1** Buy a boat and convert it into a floating restaurant next to the main restaurant.  
For: next to existing restaurant – already well known; share kitchen facilities – cheaper; novelty – may encourage new customers – increased sales and profits.  
Against: H & S may be expensive – increased costs and therefore reduce profits; expensive to buy and convert to restaurant – increased costs.
- Option 2** Buy an additional restaurant in an expensive part of the city.  
For: new customers – increased sales and profits. More affluent customers – higher prices.  
Against: need to establish a reputation – not known in this part of the city so expensive advertising costs; high set-up costs – may need to take on additional loans.
- Option 3** Close the restaurant in its present location and move to a new building which is much larger in the city centre.  
For: can have more customers – increased sales and profits.  
Against: may lose some customers as do not know where they have moved to; expensive to buy new restaurant – will need to finance expansion; city centre rents high; no customers during relocation.
- Level 1** – E.g. the restaurant has a good reputation and should stay in its present location.  
1 mark for each statement.
- Level 2** – E.g. the restaurant has a good reputation and should stay in its present location.  
Customers know where it is and will have recommended it to their friends. If it moves to another location, some of these customers will not be prepared to travel further to visit the restaurant and therefore they will lose sales revenue and profits. 5 marks for level 2 answer.  
5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded.
- Level 3** – Detailed discussion of at least two level 2 answers and then a conclusion which justifies which is the best option for the restaurant to use to expand the business rather than the other two options.

	Analysis/Evaluation
Level 3	9–12 marks Level 2 + Well-justified recommendation for the best option to choose compared with the other two options.
Level 2	5–8 marks Good discussion of each option. Some limited judgement shown about the effectiveness of how to expand.
Level 1	1–4 marks Statements of points for or against each option.

## 10. O//N 10/P22/Q5/a

- (a) **Content:** would not keep a good reputation; reduces competition; would not keep customers happy; increase in the number of complaints.  
The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.  
1 knowledge mark + up to 2 explanation marks + 1 application mark for each problem (4 marks × 2 problems)

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks: weddings and birthday celebrations; family dining; meals; business customers; wealthy customers; restaurant.  
There may be other examples in context which have not been included here.

Reason: Would not keep a good reputation (1 knowledge mark)

Simple explanation: so that customers will not be assured that they will receive good service if they go to the restaurant and so stop going. (1 additional mark for simple explanation)

Developed explanation: would not keep a good reputation (1) so that customers will not be assured that they will receive good service if they go to the restaurant and so stop going. (1) This would mean that customers would go to another restaurant which did have a good reputation and served customers promptly with their food. The restaurant would lose customers and may get into financial difficulties or even go bankrupt. (1 further explanation mark for a developed explanation)

Application: the application mark could be achieved as the answer refers to restaurant customers and food. (1 application mark)

#### 11. O/N 10/P21/Q4/a

##### (a) Content:

To keep a good reputation; to increase competition; keep customers happy; reduce complaints.

The marks available for this question are as follows:

2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason

(4 marks × 2 reasons)

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks: high quality food served; hotel occupancy; hotel guests.  
There may be other examples in context which have not been included here.

Reason: to keep a good reputation (1 knowledge mark)

Simple explanation: this will mean that people will keep coming back to the restaurant when staying at the hotel and tell their friends about the restaurant. (1 additional mark for simple explanation)

Developed explanation: to keep a good reputation (1) this will mean that people will keep coming back to the restaurant when staying at the hotel and tell their friends about the restaurant (1). All of this should help to ensure that the hotel keeps a high proportion of rooms occupied and therefore make an increased profit. (1 further explanation mark for a developed explanation)

Application: the application mark is achieved as the answer refers to hotel guests using the restaurant and a high proportion of rooms occupied.

(1 application mark) 4 marks in total for the answer.

#### 12. M/J 09/P02/Q3/a

##### (a) The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each type of primary research method identified (2 marks max.). Up to four further marks are available for explaining how the research method(s) can be carried out.

2 application marks are also available.

##### Content:

Knowledge marks – e.g. primary research could include questionnaires, interviews, and consumer panels. 1 mark for each example – 2 max.

Explanation of how to carry out the research – e.g. need to design a questionnaire (1), set a budget to carry out the research (1), select the type of sample and sample size (1), decide where to carry out the research and when (1), go out to a shopping centre and carry out the questionnaire (1), collate and analyse the results (1). Do not reward the advantages of the research method.



1 mark for each point of explanation of how to carry out the research up to a maximum of 4 marks.

Application might include – examples of questions asked e.g. 'What type of Disney characters do you like?' – Sample asked should include children – population statistics of age structure – questionnaire carried out near schools. Up to 2 application marks are available for use of context.

**3.2: Market research****1. O/N 18/P22/Q2/a**

- (a) Knowledge [2 × 1] – Award one mark for each relevant method (maximum of two),  
 Analysis [2 × 1] award one mark for a relevant explanation of the method  
 Application [2 × 2] award two application marks for each method  
 Award one mark for each method of primary research PP could use (maximum of two), such as:

- Questionnaire - lower response rate/relatively cheap
- Survey – cheap method/easy to collate responses/may not reach target audience
- Interview – face-to-face completion of questions/qualitative data/interviewer bias
- Focus group – group of people familiar with the product
- Consumer panel – randomly selected group of people – opinions gathered/relatively expensive to carry out
- Observation – trained researchers watch how consumers behave and interact in the market

**Note:** – Survey and Questionnaire = one point unless qualified (e.g. postal/online/face-to-face)

Award a maximum of three additional marks for each explanation of the method PP could use – two of which must be applied to this context.

Indicative response: Questionnaires (k) could be carried out on the streets to gather consumer opinions. (an). Some of the designs of pottery could be shown to the sample to ask their opinion of the designs. (ap) This will gather the personal opinions of consumers to find out their particular needs for dining sets. (ap)

**Possible application marks:** manufactures pottery items, factory, vases, plates, private limited company, serve different types of food, 30 years ago, skilled production workers, wants to expand by exporting to other countries, traditional methods. There may be other examples in context, which have not been included here.

**2. O/N 17/P21/Q1/b**

- (a) Relevant points might include:

	Advantages	Disadvantages
Questionnaires (L1)	Quantitative data – estimate size of market	Expensive to collect May not have expertise to collect accurate information
Interviews (L1)	Qualitative information– specific information on customer needs	Interviewer bias possible Expensive to collect
Focus groups (L1)	Qualitative information	Answers may be influenced by other group members. Time taken to set up
Business reports/government statistics (L1)	Cheap to collect Wide range of data Available May not be able to collect this information themselves	May be out of date Gathered for another purpose May not be valid/accurate

**Note:** Also reward – Survey; Observation; Newspapers; Internet/online data; Government statistics.

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

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation of which method to choose for the proposed location and why not the alternative methods. 7–8 marks for limited recommendation of which method to choose.
Level 2	4–6 marks

	Discussion of the method used to find out the number and types of customers and/or Detailed discussion of advantages and/or disadvantages of each method.
Level 1	1–3 marks Name of a suitable method of research stated or outlined Advantage and/or disadvantage of the method of research stated

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Government statistics are cheap to collect.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)

e.g. Government statistics are cheap to collect and can be obtained quickly. However, the information may have been gathered for another purpose and may be of little use when trying to predict the pet owner requirements at the different locations. Level 2 – 4 marks plus one application mark for referring to the pet owners at the new locations)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which method to choose.

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

Possible application marks: Animals; dogs; cats; pets; pet owners; washing and brushing animals; New City; expand and move to larger site; information on the three sites; information from Appendix 1 on the AH advert; complaint on the social media message; information from Appendix 3 on the costs and revenue of AH.

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

### 3. O/N 16/P22/Q4/a

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

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

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

**Relevant points might include:**

- To find out customer wants
- To find out about competitors
- To find out the price customers are willing to pay
- To find out if there is a market/demand for the new service
- To find if there have been any changes in customer preferences

Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context – of the reason why market research is important before starting the new service.

To find out what the customer wants (k) so that GJ can provide the kind of service for elderly people that the adult children want (ap). If needs are met then there should be an increase in demand thus increasing sales revenue and profit (an) so then Ghaziz and Jasmin will be able to either reinvest this back into the partnership or take out the money to pay themselves (ap).

Possible application marks: gardening services; house cleaning services; workers punctual with appointments; 50 part-time workers; 2 office workers; honest, reliable and hard-working employees; elderly people; old people; adult children; financial information from Appendix 1; information from the graph in Appendix 3.

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

### 4. M/J 16/P22/Q2/b

(a) **Relevant points might include:**

Secondary research on weddings	Low cost Quite a quick way to gain information on the market size i.e. number of weddings taking place	Not qualitative information Past trends no guarantee of future trends Information out of date Information not match exact requirements of research required
Questionnaires given out at wedding dress shops	Gathers the opinions of target customers Quantitative and qualitative data Information gathered is tailored to exact requirements of FF	Information may not be accurate if questions are poorly phrased Expensive, as time consuming

Interviews with photographers from other parts of the country	Detailed qualitative information gathered Customer needs identified	Can be expensive to carry out as time-consuming Must be careful of interviewer bias Trends in other parts of the country is no guarantee of sales in their region
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Knowledge/Analysis/Evaluation – award up to ten marks using the levels-based mark scheme below.

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2+ 9–10 marks for well justified conclusion as to which method of research will be the most effective and why it will be more effective than the alternatives. 7–8 marks for some limited judgement shown in the conclusion as to which method of research will be the most effective.
Level 2	4–6 marks Detailed discussion of the advantages and/or disadvantages of each method of market research to identify customer needs. (Not how the information can be used.)
Level 1	1–3 marks Outline of the advantages and/or disadvantages of each method of market research to identify customer needs. (Not how the information can be used.)
Level 1	One mark for each L1 statement (max of 3 marks) e.g. Detailed qualitative information gathered from interviews.
Level 2	One × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks). E.g. Detailed qualitative information gathered from interviews as follow up questions can be asked by the interviewer. However, if the interviewer is not very experienced they can lead the interviewee in their answers to questions meaning the results are biased. (Four marks for L2 answer.)
Level 3	For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of which method of market research will be the most effective in identifying customer needs.

Award up to two additional marks for relevant application.

Possible application marks: profitable and grown over last 5 years; provides excellent customer service; birthdays, brides and grooms, private individuals; photographs; photography; getting married; taking over another photography business; growing externally rather than internally; wedding photographs, photographs received on the internet; use an app to download photographs; information in Appendix 3.

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

#### 5. O/N 15/P21/Q2/a

- (a) Knowledge [2 × 1] – award one mark for each relevant factor  
 Analysis [2 × 1] – award one mark for a relevant explanation for each factor  
 Application [2 × 2] – award two application marks for each factor  
 Award one mark for each relevant factor (maximum of two), such as:

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

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

Indicative response:

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

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

6. O/N 13/P22/Q4/a

(a) Content:

- price
- consumer characteristics
- competition
- trends/fashion
- level of demand

1 mark for each item of information identified (2 marks max). Up to two further marks are available for explaining why the information would be useful. 2 application marks are also available.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each item of information. (4 marks × 2 items of information)

Possible application marks: shop; cloth; wholesaler; blinds; fabric; windows; new market on the Internet; factory; made to exact requirements of customer.  
There may be other examples in context which have not been included here.

Simple explanation: The price customers are willing to pay. (1 mark for knowledge)

Developed explanation: The price customers are willing to pay (1) so that Cagan will know how much to charge customers for different quality of curtains (1). If Cagan charges too low a price for high quality fabric then there may be fewer sales if customers think the curtains are not high quality. (1)

Application: The application mark could be achieved as the answer makes reference to curtains made from high quality fabric. (1 application mark)

## 7. O/N 12/P21/Q2/a

## (a) Content:

- questionnaires of competitors' customers
- interviews of competitors' customers
- company report
- internet/business website
- observation
- trade journals
- newspapers.

**NB Primary or secondary research can be rewarded but NOT in addition to examples of primary or secondary methods.**

The marks available for this question are as follows: 4 marks for knowledge and 4 marks for application/explanation

1 knowledge mark + 1 application/explanation mark for each way (2 marks × 4 ways)

Way: They could carry out a questionnaire of the customers' opinions of its competitors.  
(1 knowledge mark)

Explanation: They could carry out a questionnaire of the customers' opinions of its competitors (1) this would be to find out if they are happy with the car repairs and if the repairs are carried out quickly. (1 additional mark for explanation)

## 8. M/J 10/P22/Q3/a

(a) Content: Explanation of how to carry out the research – e.g. need to design a questionnaire (1), set a budget to carry out the research (1), pilot questionnaire (1) select the type of sample and sample size (1), decide where to carry out the research and when (1), go out and carry out the questionnaire (1), collate and analyse the results (1), produce a report (1). **Do not reward the advantages of the research method.**

The marks available for this question are as follows: 2 marks for application and up to 6 marks for explanation/analysis

1 mark for each point of explanation of how to carry out the research up to a maximum of 6 marks.

Application might include – examples of questions asked e.g. 'What type of flowers do you like?' – Sample asked should include home owners/restaurants, questionnaire carried out near residential area/shopping malls or via website. Up to 2 application marks are available for use of context.

## 9. M/J 10/P21/Q3/a

(a) Content: E.g. of questions – Where are the popular sites you like to visit? Where are the transport routes you use? How much are you willing to pay? How long would you want the tour to be? Where would you like the pick up points to be?

The marks available for this question are as follows: 4 marks for application (suitable question); 4 marks for analysis.

1 mark for each suitable question (4 marks max). Tick this rather than using app.

4 analysis marks are also available – one mark for why each question is needed for this business.

1 application mark + 1 analysis mark for each question (4 × 2 marks per question)

NB Do not credit explanation which repeats the question.

Question and Reason: where do you want to visit? (1 application mark) This question, is asked so that Bimisi Buses will offer tours which take tourists to the main sites so they will want to take these tours (1 analysis mark)

## 10. O/N 09/P2/Q3/a

## (a) Content:

Interview –Interviewer can explain questions; detailed information can be gathered; customer opinions can be gathered.

E.g. first hand information – Dilip will know how the information has been collected and therefore how accurate and relevant it is for his business. With secondary research you can never be certain how the information has been collected and whether it is truthful and accurate.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each advantage identified. Up to 2 further marks are available for explaining the nature of each advantage. 1 application mark is also available for each advantage.

Possible application marks: vacation; food and services at the holiday home; customer requirements; quality service; high income customers.  
There may be other examples in context which have not been included here.

Below is an example to illustrate the difference between a simple explanation worth 1 additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for the advantage or the disadvantage (4 marks × 2).

Advantage:	Interviews provide first hand information. (1 knowledge mark)
Simple explanation	Interviews provide first hand information. Dilip will know what consumers think about the holiday houses and what services they would want as customers will be asked directly for their opinions. (1 additional mark for simple explanation)
Developed explanation	Interviews provide first hand information. Dilip will know what consumers think about the holiday houses and what services they would want as customers will be asked directly for their opinions. The information will be specific to Dilip's holiday houses as the questions asked in the interview will be specific to them and may find out how the houses should be decorated and how much the customers would be willing to pay for a 3–4 day holiday. Secondary research would not provide information specifically about the plans that Dilip has for the farm. (1 further explanation mark for a developed explanation)
Application	The application mark is achieved as the answer refers to holiday houses, the services provided and how much customers are willing to pay to rent them. (1 application mark)

#### 11. O/N 08/P2/Q4/a

(a) **Content: Primary research** – advantages – provides detailed qualitative information, consumers opinions can be obtained, likes and dislikes about the product can be obtained, information is up to date.

Disadvantages – questions may not be well thought out therefore answers will not be very accurate, time consuming, expensive, interviewer bias could lead to not very accurate results, people may not give real feelings so as not to cause offence.

**Secondary research** – advantages – a lot of information readily available, can be cheap to obtain, may not be time consuming.

Disadvantages – information may be out of date, gathered for some other purpose, information may not be accurate, specialist market research agency sources of secondary information can be expensive.

Application e.g. company; environmental groups; electricity; leisure activities; local residents; Country X.

Do not reward reservoir, dam, power boats/fishing equipment, activity, New City as these are in the question.

	Application	Knowledge/Analysis/Evaluation
Level 2	2 marks Well applied to the case.	5–8 marks Clear explanation of advantages and disadvantages of primary and/or secondary research. Decision made and justified as to which would be best to use.
Level 1	1 mark	1–4 marks

	Weak application to the case.	Knowledge of primary research and/or secondary research. Advantages and/or disadvantages listed.
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12. M/J 08/P2/Q4

- (a) 1 mark for each axis correctly labelled – 2 marks in total.  
 1 mark for accurately plotted graph (10,8,3,3).  
 1 mark for title.

(b) Content:

Pricing strategy; Location/place; product/quality of service; advertising/promotion; demand/market.

Example: People usually pay \$21-30 for servicing their car (1 Application mark) this means that Abdul will need to keep his prices down to around this amount (Level 1 Analysis/Evaluation). Abdul should use competitive pricing and charge prices at the same level as ABC Cars or slightly less so that he will attract new customers (Level 2 Analysis/Evaluation).

	Application	Analysis/Evaluation
Level 2	2 marks Well applied to case.	5–8 marks How the information from Appendix 3 will affect his marketing decisions explained.
Level 1	1 mark Weak application to case.	1–4 marks How the information from Appendix 3 will affect his marketing decisions listed.



### 3.3: Marketing mix

#### 1. O/N 17/P22/Q2/b

(a) Relevant points might include:

	Advantages	Disadvantages
Cost-plus	Easy to apply Ensures costs covered	Lose sales if costs higher than competitors
Competitive	Sales high as price at realistic level	Research costs to compare prices Does not take account of different quality product Many competitors established in the market
Promotional	Useful for getting rid of old plants/not selling well Help to renew interest if sales falling Attracts more customers	Sales revenue will be lower as price of each item low

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to which pricing strategy to choose to increase profit and why not the other strategies. 7–8 marks for some limited judgement shown in recommendation as to which pricing strategy to choose.
Level 2	4–6 marks Discussion of advantages and/or disadvantages of each pricing Strategy
Level 1	1–3 marks Outline advantages and/or disadvantages of each pricing strategy

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Competitive pricing will increase sales as prices are set at similar level to competitors.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Competitive pricing will increase sales as prices are set at a similar level to competitors and may attract customers from competitors. More people will buy their garden products from GS as they set high quality standards for all their plants and trees and their gardening services. (4 marks for one L2 answer plus one application mark for referring to high quality gardening services)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which pricing strategy to choose.

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

Possible application marks: GS sells plants at the lowest prices available; finest quality plants; partnership; set-up last year; set up by 2 brothers; new business; looks after the gardens of luxury hotels; similar gardening businesses; holds high level of inventory; information from Appendix 1; information from Appendix 2; information from Appendix 3.

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

#### 2. O/N 17/P21/Q4/a

(a) Knowledge [2 × 1] – award one mark for each advantage/disadvantage.

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

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

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

Advantages:

- Cheap to advertise the business
- Will be seen by many people
- Covers a wide area
- Easy to update
- Target specific customers
- Cheap way to gain customer feedback

**Disadvantages**

- One unhappy customer can give the business a bad reputation Quickly
- Message lost amongst many messages on social media
- Quickly forgotten and no hard copy to remind customers of the services provided
- Not all customers have access to internet/social media

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

**Indicative response:**

Using social media is very cheap (k) and will quickly get the message to a lot of people about the services provided by AH. (an) Many of these people may own animals and need help looking after them. (ap) The message will raise awareness of AH and make potential customers think about contacting them to have their animals washed and groomed therefore increasing sales.(ap)

Possible application marks: Animals; dogs; cats; pets; rare animals; small cage; washing and brushing animals; animals cared for overnight; pet owners; business set up 2 years ago; shampoo and brushes; expand and move to larger site; complaint on the social media message  
There may be other examples in context that have not been included here.

**3. M/J 17/P22/Q4/a**

(a) Award one mark for each correctly named stage (max 4) plus one additional mark for development indicating the characteristics of the stage:

- Introduction – low sales because the chocolate bar is new/loss made due to high development costs/ new into the market
- Growth – sales start to rise rapidly/profits start to be made after development costs covered
- Maturity – sales increase more slowly/ increasing competition/profits at their highest as sales growth is high
- Saturation – sales remain high but stable/profits fall as sales are static and prices have been reduced
- Decline – sales fall as new chocolate bars become available/profits fall as sales fall

**Note:** Do not reward 'Extension of the product life cycle' as a stage.

**Indicative response:**

Introduction (1) as the new chocolate bar is to be launched onto the market and will have low sales to start with. (1)

**4. M/J 17/P22/Q4/b**

(a) Relevant points might include:

Price	<ul style="list-style-type: none"> <li>• competitive market so penetration pricing will allow new chocolate bar to enter the market</li> <li>• will get established in the market – build up customer loyalty</li> <li>• longer term use competitive pricing as might be better in a competitive market</li> </ul>
Promotion	<ul style="list-style-type: none"> <li>• if aimed at children – should be seen by target in children's magazines</li> <li>• but coupon unlikely to be effective for children</li> <li>• competitors advertise on TV</li> <li>• TV more suitable for the mass market</li> </ul>
Place	<ul style="list-style-type: none"> <li>• keep selling in specialist sweet shops but less appropriate for mass market so may not be successful</li> <li>• competitors 'place' more suitable for mass market – CC less successful/ fewer sales if do not change 'place'</li> </ul>

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to whether to change the elements of the marketing mix. 7–8 marks for some limited judgement shown in recommendation as to whether to change the elements of the marketing mix.
Level 2	4–6 marks Detailed discussion of relevance of each element of the marketing mix.
Level 1	1–3 marks Outline of each element of the marketing mix

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. As it is in a competitive market the pricing strategy should be penetration pricing when the new chocolate bar is launched.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. As it is in a competitive market the pricing strategy should be penetration pricing when the new chocolate bar is launched. However, when the product moves to the growth stage of the life cycle then competitive pricing should be used to maintain brand loyalty and to stay competitive with all the other brands of chocolate bar. (L2 plus application for referring to the new chocolate bar)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which justifies whether to change the elements of the marketing mix.

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

Possible application marks:

penetration pricing; advertising in children's magazines; discount coupons in the magazines; competitors only advertise on TV; distribute through speciality sweet (candy) shops; competitors distribute through wholesalers and supermarkets; chocolates/high quality chocolates/luxury chocolates; handmade chocolates; developing a new brand of chocolate bar; lots of competitors in the mass market; output is expected to be high.

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

5. M/J 17/P21/Q3/b

(a) Relevant points might include:

	Advantages	Disadvantages
Sell to a wholesaler	Bulk buy – gain advice on what sells well – lower administration costs.	Lower profit margin
Sell directly to large retailers	Good locations/high footfall – increase sales.	Many competing brands also sold there.
Open its own shops in shopping malls	Control over presentation of T-shirts – independent decision making about selling to customers	High costs of operating own shop – insufficient designs for own shops

Note: **Do not accept** answers referring to exporting. The question only asks about country P. Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to best channel of distribution to choose and why not the other channels. 7–8 marks for some limited judgement shown in recommendation as to best channel of distribution to choose.
Level 2	4–6 marks Detailed discussion of each channel of distribution.
Level 1	1–3 marks Outline of each channel of distribution

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Wholesaler will buy in bulk.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Wholesaler will buy in bulk which will reduce administration and transport costs. However, the wholesaler will expect a reduced price and so the profit margin will be lower. (L2)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the best channel of distribution to choose

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

Possible application marks:

Private limited company; prints designs; 50 different designs; batch production of various sizes; sold to small retailers; expect high quality; expand the company; personalized T-shirts; use an agent or a joint venture; no training on selling.

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

**6. O/N 16/P22/Q4/b**

(a) Relevant points might include:

Price	<ul style="list-style-type: none"> <li>• Promotional pricing as in introduction phase</li> <li>• Penetration pricing as trying to enter a new market</li> <li>• Competitive pricing as need to price at a similar level to other businesses to increase sales of new service</li> </ul>
Promotion	<ul style="list-style-type: none"> <li>• Advertise in local newspapers or leaflets through doors or posters in local shops</li> <li>• Important to increase awareness of the service as it is new</li> </ul>

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which element is the most important in the introduction phase of the product life cycle. 7–8 marks for some limited judgement shown in the conclusion as to which element is the most important in the introduction phase of the product life cycle.
Level 2	4–6 marks Detailed discussion of price and/or promotion for the new service. Pricing strategies should be discussed. Method of promotion identified and explained how it should be used to attract new customers.
Level 1	1–3 marks Outline of price and/or promotion for the new service.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Promotional pricing. Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Promotional pricing as the new service needs to become more well known in the market and let customers know about the service that is being introduced to look after elderly parents while the adult children are at work. It encourages the growth of sales in the market with the lower price of this new service. (4 marks for L2 answer plus 1 application mark for making reference to elderly parents and heir adult children being customers).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which element is the most important in the introduction phase of the product life cycle.

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

Possible application marks: gardening services; house cleaning services; country X; advertising in local newspaper; income in country X is increasing; elderly people; adult children; old people; financial information from Appendix 1; information from the graph in Appendix 3 e.g. number of people aged 61 and over is increasing.

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

## 7. O/N 16/P21/Q1/b

(a) Relevant points might include:

Where customers are located	<ul style="list-style-type: none"> <li>do they deliver paint or do customers purchase from the shops</li> <li>are they close to the factory – may use direct selling – lower transport costs</li> <li>may require selling agents is exporting</li> </ul>
How often the product is purchased	<ul style="list-style-type: none"> <li>purchased regularly – may need to be sold in shops near to customers/less often then customers may be willing to travel to large shops to purchase paint</li> <li>may use wholesaler/middleman if bought less frequently</li> </ul>
Where competitors sell their products	<ul style="list-style-type: none"> <li>may need to sell paint in same retail outlets to competitors – outlet already attracts many customers</li> <li>don't sell at the same outlets as competitors – may need to reduces price/sales</li> </ul>

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which factor will be the most important when choosing a channel of distribution and why not the alternative channels. 7–8 marks for some limited judgement shown in conclusion as to which factor will be the most important when choosing a channel of distribution.
Level 2	4–6 marks Detailed discussion of the factors affecting the choice of channel of distribution <b>for the new type of paint.</b>
Level 1	1–3 marks Outline the factors affecting the choice of channel of distribution.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Where do competitors sell their paint.

Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Where do competitors sell their paint. They may want to sell paint in large shops where many brands of paint are sold so that when customers are looking for paint they will see their brand of paint as well and be more likely to buy it than if they sell the paint in shops where no other paint is sold. 4 marks for L2 answer).

Level 3 – For L3 to be awarded there need to be at least two L2 marks awarded and then a recommendation which justifies which factor is the most important when selecting the channel of distribution to use.

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

Possible application marks: paint manufacturer; factory; large limited company; imports raw materials; capital city; country X; sells to large retailers; uses batch production; new waterproof paint; target market professional painters; new paint for outside of houses; start exporting paint in 2018. There may be other examples in context which have not been included here.
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## 8. M/J 16/P21/Q4/b

(a) Relevant points might include:

Advertising on a website	<ul style="list-style-type: none"> <li>Cheap form of advertising</li> <li>May/may not be seen by many people</li> </ul>
National newspaper	<ul style="list-style-type: none"> <li>Expensive</li> <li>Target population may not read newspapers</li> <li>Reaches a large number of people</li> </ul>

Money-off coupons	<ul style="list-style-type: none"> <li>Negative publicity – if associated with poor quality treatment</li> <li>Encourages people to try the dental clinic</li> </ul>
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Knowledge/Analysis/Evaluation – award up to ten marks using the levels-based mark scheme below.

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

Level 1	One mark for each L1 statement (max of 3 marks) e.g. Advertising on a website is a relatively cheap form of advertising.
Level 2	Four marks for the first L2 answer and then one extra mark for each additional L2 answer up to maximum of six marks. E.g. Advertising on a website is a relatively cheap form of advertising but it may be expensive to set-up in the first place if Rosa or Eduardo do not know how to do this. Also maintenance will be required to keep the website up-to-date. The website can show examples of dental treatment which shows white perfect teeth. This will encourage people to become patients at the clinic so they can benefit from the treatments shown on the website. (Four marks for L2 answer + 1 application mark for including reference to teeth whitening and dental treatment.)
Level 3	For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best method to choose.

Award up to two additional marks for relevant application.

Possible application marks: qualified dentists; business set-up 10 years ago in country X; largest dentist clinics in the country; employs 8 dentists; reputation for high quality treatments; private patients; 3 months to pay for treatment; offer teeth whitening; increasing number of Government-owned dentist clinics; information from Appendix 1 and 2.

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

9. O/N 15/P21/Q2/b

(a) Relevant points might include:

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

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

(4 marks for L2 answer).
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Award up to 2 additional marks for relevant application.

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

Possible application marks: in country X; loyal customers, need to maintain our competitiveness; manufactures camping equipment; customers have tents or caravans; selling into country Z; camping shops; prices just below competitors prices; equipment listed from Appendix 1; Appendix 2 information such as price of cooker = \$40 or variable cost per cooker = £20.
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There may be other examples in context which have not been included here.
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10. M/J 15/P22/Q2/b

(a) Relevant points might include:

	Advantages	Disadvantages
Advertising on social networks	Can reach a specific target market Cheap method of advertising	May not reach the target market being aimed at Sponsored links can be expensive
Handing out leaflets with a discount offer on them	Cheap to produce Encourages purchases with discount	Loss of revenue with the discount Leaflets can be discarded
Giving out free samples in shopping malls	Encourages customers to try the product Realise how nice it tastes Increases awareness of the new product	Cost of employing additional staff and cost of the product to give out free

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

	Knowledge / Analysis / Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best method of promotion compared to the other methods. 7–8 marks for some limited judgement shown in recommendation as to the best method of promotion.
Level 2	4–6 marks Detailed discussion of advantages and / or disadvantages of the ways to promote the new product.
Level 1	1–3 marks Outline of the advantages and / or disadvantages of the ways to promote the new product.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. can reach a specific target market on social networking sites.

Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. can reach a specific target market on social networking sites. This is a quick and cheap way of reaching a large number of potential customers. However, as the ice cream is expensive and aimed at high income groups they may not be the sort of people who use Facebook and therefore this method will not reach the intended target market. (4 marks for L2 answer + 1 application mark for mentioning high income customers buying ice cream).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best method to choose.

Award up to 2 additional marks for relevant application.

Possible application marks: produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; multinational food company; taste new flavours; sales increased for four years; demand high for 6 months; new product financed by bank loan. There may be other examples in context which have not been included here.
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## 11. M/J 15/P21/Q2/b

(a) Relevant points might include:

Advantages of using e-commerce	Advantages of selling to supermarkets in other countries
<ul style="list-style-type: none"> <li>• Can sell to a wider market</li> <li>• Can be used for advertising</li> <li>• Customers can order any time</li> <li>• New markets reached</li> <li>• Direct customer contact</li> </ul>	<ul style="list-style-type: none"> <li>• Large/regular orders placed</li> <li>• Administration savings on fewer but larger order/economies of scale</li> <li>• Feedback from supermarkets on which products sell well</li> <li>• Display in supermarket promotes the cakes</li> </ul>

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best way to increase sales compared to the other way. 7–8 marks for some limited judgement shown in recommendation as to the best way to increase sales.
Level 2	4–6 marks Detailed discussion of advantages of e-commerce and advantages of selling to supermarkets in other countries. N.B. do not reward disadvantages
Level 1	1–3 marks Outline the advantages of e-commerce and advantages of selling to supermarkets in other countries.

## Level 1

1 mark for each L1 statement (max of 3 marks), e.g. David can sell to a wider market.

## Level 2

One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. David can sell to a wider market. This will allow the company to increase production and expand the business. If the cost of cake ingredients fall as output increases then this will help David to increase profits further. (4 marks for L2 answer + 1 application mark for mentioning cake ingredients.)

## Level 3

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best way. Overall there will be higher costs involved in expanding the business by selling cakes online especially as the company sell food items. It will be difficult to maintain the quality of the cakes when they are posted out to customers. (L3) So although they can sell to a wider market they should take this option because of the difficulties of maintaining the quality of the cakes. (L3) It is much easier to deliver large quantities of cakes to supermarkets abroad as delivery will be in specialized containers to keep the cakes fresh (L3) and administration costs will be kept low by fewer but larger orders to process. (L3)

Award up to 2 additional marks for relevant application.

<p>Possible application marks: cake manufacturing; perishable products; food; constantly develops a new range of cakes; Figures from Appendix 2; new markets abroad; small food shops; automated production line; efficiency increases by 10% for option A; investment of \$8m; 10 production employees for option B. There may be other examples in context which have not been included here.</p>
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## 12. M/J 15/P21/Q4/a

(a) Analysis [4 × 1] – award one mark for each factor (maximum of 4)

Application [4 × 1] – award one mark for an explanation in context of each factor (maximum of 4)

4)

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

- protect the product



- easy to transport the product
- contains correct information about the product for that country
- promotes the brand image for the product
- is culturally sensitive
- appropriate language
- recyclable packaging
- cost of packaging

Award a maximum of one additional mark for each explanation of the factor in context.

Indicative response:

Contains the correct information about the cakes for that country it is being exported to [ap] because without the correct information the company could be charged with misleading information. [an]

Possible application marks: transporting over long distances; constantly develops a new range of cakes; food; labelling; ingredients; contamination; sell-by date; easily damaged/fragile; perishable; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops.  
There may be other examples in context which have not been included here.

### 13. O/N 14/P22/Q3/a

(a) Content:

- Cost-plus
- Competitive
- Promotional
- Penetration
- Skimming
- Psychological.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each pricing strategy identified – a further mark for effect on price – plus 1 mark for further development or explanation of the strategy – plus 1 mark for application.

Possible application marks: ovens; components; restaurants and hotels; new markets in country X.  
There may be other examples in context which have not been included here.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each pricing strategy. (4 marks × 2 pricing strategies)

Pricing strategy: ACE could use a competitive pricing strategy (1 mark for knowledge).

Developed Explanation: ACE could use a competitive pricing strategy (1). It is selling its ovens to many different countries where there will be competitors (2). In order to ensure its ovens sell well the price must be similar to its competitors' prices or it will not sell many ovens unless its oven are much better quality (3).

Application: The application mark could be achieved as the answer makes reference to selling ovens (1 application mark).

### 14. O/N 14/P21/Q3/b

(a)

Content:	Advantages	Disadvantages
Branch X	<ul style="list-style-type: none"> <li>• Branch manager will have a personal knowledge of the existing customers</li> <li>• Has many regular customers</li> <li>• No competition nearby.</li> </ul>	<ul style="list-style-type: none"> <li>• Small town so few potential new customers</li> <li>• Long queues may put off new Customers</li> <li>• Not easy to accommodate new customers.</li> </ul>
Branch Y	<ul style="list-style-type: none"> <li>• Located in busy area</li> <li>• Used by many tourists</li> </ul>	<ul style="list-style-type: none"> <li>• Not many local customers</li> <li>• Lots of competitors nearby</li> </ul>

	• Not busy for most of the day so easy to serve new customers.	• High rent/cost of city centre location.
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- Level 1** 1 mark for each advantage/disadvantage e.g. There are not many banks nearby to branch X and therefore this means there is little competition. (1 mark plus 1 Application mark for 'not many banks nearby')
- Level 2** 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks e.g. There are not many banks nearby to branch X and therefore this means there is little competition. Yet as a small town it means the number of customers is limited.  
5 marks for level 2 answer plus one application mark for making reference to 'not many banks nearby' in the answer.
- Level 3** Detailed discussion of at least two level 2 answers, then a recommendation at the end which justifies which branch to close and which should be kept open.

Possible application marks: bank; takeover another bank; bank accounts; telephone banking; cell (mobile) phone banking; tourists; long queues; no other competition locally; deposit and withdraw money; busy in the mornings; not many customers live nearby; locate in city centre. There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
<b>Level 3</b>		9–10 marks At least 2 × Level 2 plus well justified recommendation as to which branch to close and which branch to remain open.
<b>Level 2</b>	2 marks well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantage of each branch Or explained balanced argument. Some limited judgement shown in recommendation about which branch to close.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outline of advantages/disadvantage of each branch.

### 15. O/N 14/P21/Q4/b

#### (a) Content:

- Advertising on TV – seen by a wide audience; expensive
- Leaflets to customers – direct to potential customers; may be discarded and not read
- Information on website – cheap to advertise; only seen by people who visit the website

- Level 1** 1 mark for each statement e.g. Leaflets to customers are direct to potential customers (1 mark).
- Level 2** 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks. e.g. leaflets to customers are direct to the people who might use mobile banking. The leaflet will reach the target population and are easy to send and can outline the benefits of checking accounts on the phone. However, the leaflets may be thrown away and may not be read.  
5 marks for level 2 answer plus 1 application mark for answering in the context of mobile banking.
- Level 3** Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best way to promote the new service to choose compared to the other ways.

Possible application marks: bank; bank branches; public limited company; bank accounts; telephone banking; online banking; financial information from Appendix 2; questionnaire results from Appendix 3.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
<b>Level 3</b>		9–10 marks

		At least 2 × Level 2 plus well justified recommendation as to the best promotion to choose compared to the other promotions.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each method of promotion or balanced argument. Some limited judgement shown in recommendation about the best promotion to Choose
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outline of advantages/disadvantages of each promotion.

## 16. M/J 14/P22/Q4/b

## (a) Content:

*Advertising on local radio* – reaches target customers; heard by a large number of people; can have a catchy song; relatively expensive; not everyone listens to the radio; no visual images.

*Leaflets* – cheap to produce; can be kept for reference; may not be looked at – just thrown away; need to pay for delivery.

*Posters/billboards* – posters relatively cheap to produce; cheap especially if posters in shop windows; billboards in city centres can be expensive; seen by passers-by; may be ignored; may not be eye-catching.

Level 1 – 1 mark for each statement.

E.g. Manuel could put posters in his shop window (1 mark).

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.

E.g. Manuel could put posters in his shop window as they are cheap to produce and it will be seen by all his regular customers when they come into the shop to buy their fruit and vegetables. They could see the poster and ask the shop assistant about the service and so they could get more details about it. However, with posters there is a danger that customers will not look at it when they pass the window each time they visit. 5 marks for level 2 answer plus one application mark for mentioning the shop selling fruit and vegetables.

Level 3 – Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best method of promotion to choose compared to the others.

Possible application marks: shop; reference to financial information from Appendix 1; sole trader; been in business for 10 years; reference to delivery costs; located on a main road in capital city in country X.

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

	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks At least 2 × Level 2 + well justified recommendation As to the best method of promotion to choose compared to the alternatives.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of each method of promotion OR balanced argument. Some limited judgement shown in recommendation about the best method of promotion to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outline of each method of promotion.

## 17. M/J 14/P21/Q2/b

(a) Content: *Option A* – demand all year round; regular orders each week; regular work for employees; reduced price for bulk orders; business customers pay after payment for stock of flowers – possible cash flow problems;

gross profit = \$160,000(L1);

net profit = \$40,000 (L2);

NPM = 20% (L2);

GPM = 80% (L2)

*Option B* – large potential sales for special occasions; higher prices; cash paid so no delay in payment; low sales at certain times of the year; varying demand for labour;

gross profit = \$90,00(L1);

net profit = \$30,000 (L2);

NPM = 25% (L2);

GPM = 75% (L2)

Level 1 – 1 mark for each statement.

E.g. *Option A* – Payments for the flower arrangements are made after payment for stock of flowers have been ordered and paid for (1 mark).

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.

E.g. *Option A* – Payments for the flower arrangements are made after payment for stock of flowers have been ordered and paid for. Therefore it is possible this will cause cash flow problems for Fabian leading to increased costs from interest payments on an overdraft. 5 marks for level 2 answer.

Level 3 – Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best option to choose compared to the other option.

	Knowledge/Analysis/ Evaluation
Level 3	9–12 marks At least 2 × Level 2 + Well justified recommendation as to the best option to choose compared to the other option. The answer must include some comparison of profitability ratios.
Level 2	5–8 marks Good discussion of advantages/disadvantages of each option. OR balanced argument. Or calculation of profitability ratios.
Level 1	1–4 marks Outline of advantages/disadvantages of each option.

## 18. M/J 14/P21/Q4/b

(a)

<b>Cost-plus pricing</b>	<ul style="list-style-type: none"> <li>• average cost calculated and then a percentage is added on for profit</li> <li>• easy to apply this method</li> <li>• competitors' price may be lower</li> </ul>
<b>Competitive pricing</b>	<ul style="list-style-type: none"> <li>• set pricing around the same price as competitors' prices</li> <li>• sales possibly higher</li> <li>• research costs to check on competitors' prices</li> </ul>
<b>Penetration pricing</b>	<ul style="list-style-type: none"> <li>• set pricing below competitors' prices</li> <li>• attract customers to make purchases</li> <li>• may be below costs/reduce profits</li> </ul>

Level 1 – 1 mark for each statement.

E.g. Cost-plus pricing is where the cost is calculated and then a profit is added to determine the price to charge customers.

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.

E.g. Cost-plus pricing is where the cost of buying the flowers is calculated and then a percentage of the cost is added for profit to determine the price to charge customers. This is a simple way to work out the price of a flower arrangement but it

may not result in higher profits being earned if he does not look at competitors' prices. (L2)

5 marks for level 2 answer plus 1 application mark for making reference to flowers and flower arrangements.

Level 3 – Detailed discussion of at least two level 2 answers. There will be a recommendation at the end which justifies which pricing strategy would be the best one to use compared to the alternative strategies.

Possible application marks: flowers; flower shop; hotels and restaurants; flower arrangements; weddings/Valentine's Day/birthdays; imported supplies of flowers; quality of supplies; new business.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks Must have two × Level 2 + good judgement shown as to the best pricing strategy to use and why not the other strategies (comparison made).
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the advantages or disadvantages of pricing strategies OR balanced argument. Some judgement shown in recommendation about which method should be used.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Definition of pricing strategy. Simple statements made on the advantage or disadvantage of each pricing strategy

19. M/J 14/P21/Q5/a

(a) Content:

**Advantages**

increased market  
lower marketing costs  
method of advertising  
easier for online sales  
24/7 access

**Disadvantages**

higher distribution costs  
high competition  
increased set up costs/maintenance costs  
security issues  
ideas used by competition

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each advantage/disadvantage identified (2 marks maximum). Up to two further marks are available for explaining why it is an advantage/disadvantage to the business.

2 application marks are also available.

Possible application marks: flowers; flower shop; partnership; hotels and restaurants; flower arrangements; weddings/Valentine's Day/birthdays.  
There may be other examples in context which have not been included here

1 knowledge mark + up to 2 explanation marks + 1 application mark for advantage/disadvantage (4 marks for advantage + 4 marks for disadvantage)

Disadvantage: Higher distribution costs (1 mark for knowledge).

Developed Explanation: Higher distribution costs are a disadvantage (1) because each flower arrangement will need to be delivered to the customer instead of the customer collecting the flower arrangement from the flower shop (2). This will increase the costs for Fabian and his partner which may reduce the profits for the business unless he can pass these costs on to the customer (3).

Application: The application mark could be achieved as the answer makes reference to the flower shop (1 application mark)

## 20. O/N 13/P22/Q2/b

(a) Content: Option 1

Cost = \$3600 (L2)      \$3200 (L1 – as not 5 workers)

Profit = \$400 (L2)      \$800 (L2)

Already experienced in this business; no competition; further growth not expected

Option 2

Cost = \$5550 (L2)      \$4200 (L1 – as not 10 workers)

Profit = \$250 (L2)      \$1600 (L2)

Potential growth in sales; new market; risk of exchange rate changes

**NB: If correct profit figure only shown with no calculations award 2 × L2. Reward other correct appropriate calculations at L2.**

Level 1 – 1 mark for each statement

E.g. Cagan is already experienced in this business (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 10 marks.

E.g. The costs for option 1 are £3600 (L2) and the sales are predicted to be \$4000 per month giving a net profit of \$400 per month. (L2) 6 marks for two level 2 answers.

Level 3 – Detailed discussion of four × Level 2 answers and then a conclusion at the end which justifies which is the best option to choose and why the other option was less suitable.

	Knowledge/Application/Analysis/Evaluation
Level 3	11–12 marks Four × Level 2 + well justified conclusion as to the best option to use compared to the other option.
Level 2	5–10 marks Good discussion of advantages/disadvantages OR balanced argument of each option and/or total costs and net profit calculated for each option. Limited judgement in conclusion about which option to choose.
Level 1	1–4 marks Advantages or disadvantages of each option listed.

## 21. O/N 13/P22/Q5/b

(a) Content:

Price of Cagan's raw materials increases – increased costs – high price – lower sales

Price of competitors' products decreases – price of blinds/curtains falls – then fall in demand for CC curtains

Unemployment falls – income levels increases – leading to an increase in sales

Level 1 – 1 mark for each statement

E.g. Higher cost of raw materials leads to higher prices (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.

E.g. Higher cost of raw materials leads to higher prices and possibly lower sales and lower profits. However the extent of the change in demand will depend on the price elasticity of demand. As curtains have a close substitute such as blinds, then demand will be elastic. This will mean that if price is raised then sales will fall by a larger percentage change than the price change. 6 marks for good level 2 answer plus 1 application mark for mentioning blinds.

Level 3 – Detailed discussion of two × level 2 answers and then a conclusion at the end which justifies which is the most important factor and why the other factors are less important.

Possible application marks: shop; cloth; fabrics; wholesaler; blinds; windows; shop manager/shop worker; factory manager/factory worker; new market on the Internet; high quality curtains; CC sales have been growing quickly.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Two × Level 2 + well justified conclusion as to the most important factor compared to the other factors.
Level 2	2 marks Well applied to the case. At least two examples of references to, or uses of, the case.	5–8 marks Good discussion of effect on future demand.  Limited judgement in conclusion about which factor is the most important.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Each effect on future demand listed.

## 22. O/N 13/P21/Q2/b

(a) Content:

	Advantages	Disadvantages
Competitions with prizes for customers	<ul style="list-style-type: none"> <li>encourages customers to buy their food</li> <li>may attract customers from competitors</li> <li>keep returning to the food stall to keep entering the competition</li> </ul>	<ul style="list-style-type: none"> <li>cost of the prize</li> </ul>
Giving out discount vouchers	<ul style="list-style-type: none"> <li>encourages customers to come with a friend</li> <li>come back to use the voucher</li> </ul>	<ul style="list-style-type: none"> <li>sales revenue lost from the free meal</li> <li>cost of producing the meal</li> <li>image of poor quality food</li> </ul>
Posters in local hotels	<ul style="list-style-type: none"> <li>seen by some of the target market</li> <li>may attract new people who haven't heard about the stall</li> </ul>	<ul style="list-style-type: none"> <li>may not be seen by the rest of the target population</li> <li>cost of printing and displaying the poster</li> <li>the poster may be disfigured</li> </ul>

Level 1 – 1 mark for each statement

E.g. Competitions encourage customers to try their food (1 mark).

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.

E.g. Competitions encourage customers to try their food so that they will be entered into the competition. However, Shahila will need to pay for a prize and this will need to be an expensive prize or it will not encourage customers to buy meals and it raises the business costs. 5 marks for level 2 answer plus 1 application mark for mentioning meals.

Level 3 – Detailed discussion of two × level 2 answers and then a recommendation at the end which justifies which is the best method of promotion to choose and why the other ways are less suitable.

Possible application marks: food; meals; sole trader; hot food; shoppers/tourists; high quality food ingredients; vegetables; concerts.

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

	Application	Knowledge/Analysis/Evaluation
<b>Level 3</b>		9–10 marks Two × Level 2 + well justified recommendation as to the best method of promotion to use compared to the other alternative ways.
<b>Level 2</b>	2 marks Well applied to the case. At least two examples of references to, or uses of, the case.	5–8 marks Good discussion of advantages/disadvantages of each promotional method OR balanced argument (even if listed). Limited judgement in recommendation about which method to choose.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages/disadvantages of each method of promotion listed.

23. M/J 13/P22/Q2/b

(a) Content:

Adverts in local newspapers; promotional leaflets; local radio; posters; magazines; business website; local TV; billboards; discounts; BOGOF; gifts.

Level 1 1 mark for each statement

E.g. Advertise in local newspapers (1 mark)

Level 2 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.

E.g. Advertise in local newspapers as local people will see the advertisement and may be persuaded to buy the wood to repair their houses. It is cheaper to advertise in local newspapers than in national newspapers and Tibalt will only be selling wood for windows to customers in the local area and not nationally. 5 marks for level 2 answer plus 1 application mark for mentioning wood for windows.

Level 3 Detailed discussion of two x level 2 answers and then a recommendation at the end which justifies which is the best promotion method to use and why the other ways are less suitable.

Possible application marks: wood importers; wood products; doors and windows; local forests; building firms; sell houses and offices; trees; sole trader; sustainable forests. There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
<b>Level 3</b>		9–10 marks Two × Level 2 + well justified recommendation as to the best form of promotion to use compared to the alternative ways.
<b>Level 2</b>	2 marks Well applied to case. At least two examples of, references to, or uses of, the case.	5–8 marks Good discussion of advantages/disadvantages of each promotional method OR balanced argument (even if listed). Limited judgement in recommendation as to the best form of promotion to use.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of, reference to, or use of, the case.	1–4 marks Outline of each method of promotion listed.



## 24. M/J 13/P21/Q4/b

## (a) Content:

- National newspaper – Adv – seen by a large number of people across the country  
Disad – expensive
- Poster in TT shops – Adv – cheap; colourful; attracts attention  
Disad – only seen by local people
- Internet – Adv – quickly updated; applications online  
Disad – not necessarily seen by suitable people; not everyone can access the internet
- Level 1 – 1 mark for each statement  
E.g. National newspapers will be seen by many people across the country.  
(1 mark)
- Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.  
E.g. National newspapers will be seen by many people across the country. Potential applicants will see the advert and so a greater number of suitable people who know how to manage a retail establishment will apply for the job of shop manager and hence they are more likely to recruit a suitable manager.  
5 marks for level 2 answer plus 1 application mark for mentioning retail establishment.
- Level 3 – Detailed discussion of two × level 2 answers and then a recommendation at the end which justifies which is the best place to advertise and why the other places are less suitable.

Possible application marks: tools; equipment; retail establishment; small/large shops; construction companies; recession.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Two × Level 2 + Well justified recommendation as to the best place to advertise the job compared to the other alternative ways.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each place to advertise the job OR balanced argument (even if listed). Limited judgement in the recommendation as to the best place to advertise the job.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Advantages/disadvantages of each place to advertise the job stated.

## 25. O/N 12/P22/Q3

## (a) Content:

- no contact address/no address for delivery/distance of the journey
- no time for delivery given
- no size or weight of the document to be delivered
- contents of parcel
- time of day to be delivered.

**NB:** answer should be related to what price to charge the customer not just the missing information

The marks available for this question are as follows:

4 marks for application and 4 marks for explanation/analysis.

1 application mark for each example + 1 explanation mark + (2 marks × 4 examples)

1 example plus 1 explanation mark: With no delivery address given (1 knowledge mark) in the email how can Trunal work out the price to charge the customer as he doesn't know how far the journey is (1 additional explanation mark).

**(b) Content:**

- advertising in travel magazines
- advertising in local newspapers
- radio
- fliers
- BOGOF
- price discount
- Internet
- promote on the side of the taxis
- posters at the airport
- advertising on the airport booking centre booth.

Level 1 E.g. Give out fliers at the airport. 1 mark for each statement

Level 2 E.g. Give out fliers at the airport to advertise the taxi service this is where they can reach the customers directly. It is a cheap form of advertising but effective if the tourist keeps the flier as a reminder of the taxi service then they know how to contact the taxi firm. 5 marks for each level 2 answer. Application marks can be awarded as the answer talks about tourists and taxis.

5 marks for the first level 2 answer. Plus 1 mark for each additional level 2 answer, i.e. two level two answers = 6 marks, 3 level 2 answers = 7 marks, 4 level 2 answers = 8 marks.

Level 3 Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which method of promotion to use rather than the other methods.

Possible application marks:

small business; sole trader; private customers; taxi; drivers; cars; hotels; tourists; competitive market; airport taxi service; airport; data from Appendix 3.

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

	Application	Analysis/Evaluation
Level 3		9–10 marks Two × level 2 + well justified recommendation as to which method of promotion to use and why the other methods are less suitable (comparison made).
Level 2	2 marks Well applied to case. At least two examples of, references to, or uses of, the case.	5–8 marks Promotion methods advantages and disadvantages explained OR balanced argument.
Level 1	1 mark Limited application to the case. At least one example of, reference to, or use of the case.	1–4 marks Promotion methods outlined.

**26. O/N 12/P21/Q2/b****(a) Content:**

Advertising in local newspapers – low cost, reaches target market; may not be read by everyone.

Free car repairs for a year with every car purchase – costs money for free repairs; attracts new customers to try the service.

Offering price reductions to the first 100 customers – attracts new customers to try garage services; costs money to offer price reductions.

Level 1 E.g. Offering price reductions to the first 100 customers – attracts new customers to try garage services. 1 mark for each statement.

- Level 2** E.g. Offering price reductions to the first 100 customers – attracts new customers to try garage services as they want to get the service at a low price. If they like the car service then they may become regular customers of the garage and may even improve the reputation of the garage by telling their friends. 5 marks for a level 2 answer plus 1 application mark for mentioning car servicing and regular customers of the garage. 5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. two level two answers = 6 marks, 3 level 2 answers = 7 marks, 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.
- Level 3** Detailed discussion of at least two level 2 answers plus consideration of which option to choose and justification of why it is better than the other two methods.

Possible application marks:

car; car repairs; mechanic; car servicing; sole trader; new business; business customers and private customers; garage; near city centre; workshop; car showroom; reference to figures in the case or Appendix 1 or 3.

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

	Application	Knowledge/Analysis/Evaluation
<b>Level 3</b>		9–10 marks At least 2 options explained at Level 2 + good judgement shown as to which promotion to choose and why it is better than the other two promotions (comparison made).
<b>Level 2</b>	2 marks Well applied to case. At least two examples of, references to, or uses of, the case.	5–8 marks Good discussion of the advantage/disadvantage of the promotional method OR balanced argument (even if listed). Some limited judgement shown about which one they should choose.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of, reference to, or use of, the case.	1–4 marks Advantage/disadvantage of the promotional method listed.

### 27. M/J 12/P22/Q4

(a) Content: Benefits should relate to selling on the internet

- Access to larger market
- Lower costs
- Increased profits
- Selling direct to customer
- Less transport costs
- 24/7 trading.

1 mark for each benefit identified (2 marks max). Up to two further marks are available for explaining why it is a benefit. 1 application mark for each answer. (4 marks × 2 benefits)

Possible application marks: parents; private limited company; special design uniform; manufactures school uniforms; standard design; large clothes shops; increasing output; children/students;

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

For example:

It means the business can reach a much larger market (1 mark for knowledge) as the internet can be accessed everywhere, even in other countries. A lot of potential parents can access the website of SCS.(1) This might lead to far more sales of school uniforms which will lead to increased profits as costs of supplying them will be lower. (1)

Application: The application mark could be achieved as the answer makes reference to parents.  
(1 application mark)

**(b) Content: Answers should relate to the effect on one/or more of the 4 P's**

Number of schools in the country with their own specially designed uniforms:

- know the potential size of the market for specially designed uniforms
- affects the type of product produced.

Where competitors' products are sold:

- know distribution channels used by competitors.

Competitors' prices:

- know what prices they should charge.

Level 1 e.g. by knowing what prices competitors charge they will know what prices SCS should charge for their uniforms. 1 mark for each statement.

Level 2 e.g. By knowing what prices competitors charge they will know what prices SCS should charge for their uniforms. If competitors charge a high price for their school jackets and trousers then SCS could possibly raise their prices to increase profits. (L2) However, if competitors have lower prices then SCS may have to lower their prices of trousers and jackets in order to remain competitive. (L2) 6 marks for a good level 2 answer plus 1 application mark for mentioning school trousers and jackets.

Possible application marks: school uniform; sewing machines; standard design; large clothes shops; cloth purchased from local supplier; buttons imported; employs 100 production workers and 10 office workers; batch production; increasing output; children/students; schools.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–10 marks The usefulness of the information discussed/how the information might be used in marketing decisions.  Judgement shown about why the information is important to marketing decisions.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks The usefulness of the information stated.

**28. M/J 12/P21/Q1**

**(a) Content:**

- Introduction/Launch
- Growth
- Maturity
- Saturation
- Decline.

*NB The order of the stages is not important for this question.*

Explanation marks are likely to be for reference to one or more of the following: sales; competition; profit; demand; pricing/pricing strategy; advertising.

The marks available for this question are as follows: 4 marks for knowledge; 4 marks for explanation.

1 mark for each stage identified plus 1 explanation mark for each stage.

1 knowledge mark + 1 explanation mark (2 marks × 4 stages)

For example:

The introduction stage (1 knowledge mark) is when the new product is launched onto the market and the sales start to grow quickly. (1 explanation mark)

**(b) Content:**

Production e.g. important to produce the football boots efficiently and to a high quality.

Marketing e.g. the new boots need to be launched onto the market and consumers need to be persuaded to buy them.

Human resources e.g. new employees need to be employed with the correct skills or arrange training.

Finance e.g. to ensure cash flow is kept under control.

Level 1 e.g. production department has to ensure the football boots are produced without faults.  
1 mark for each statement.

Level 2 e.g. production department has to ensure the football boots are produced without faults otherwise customers will think they are not getting a high quality football boot and will not be willing to pay a high price for the football boot. They need to be produced efficiently because costs need to be kept down so that profits will be high.  
6 marks for level 2 answer.

Possible application marks:

football boots/boots; worldwide sales; already manufacturing sports shoes; high quality; competitive market; small market share; helps footballers to kick the ball more accurately; patent; expand production; employ new workers and managers; no links with agents or retail businesses abroad; labour intensive/capital intensive; football players; \$1m share capital; reference to figures in Appendix 1 or 3.

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

	Application	Knowledge/Analysis/Evaluation
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–10 marks Good discussion of the role of each department.  Judgement shown about the importance of each department to the success of the new product.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Outline of the role of each department.

## 29. M/J 12/P21/Q4

### (a) Content:

- To make the product well known
- To differentiate the product from its competitors
- To encourage brand loyalty
- Can charge a higher price
- Increase sales.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason (4 marks × 2 benefits).

For example:

To make the football boots well known. (1 knowledge mark) The football boots will be easily recognised by other people and this will make them want to buy the boot (1) if famous football players wear the boot then sales will increase and so will profits. (1)

Application: The application mark could be achieved as the answer refers to famous football players. (1 application mark)

Possible application marks:

Football boots/boots; grew slowly; competitive market; small market share; helps footballers to kick the ball more accurately; expand production; sell all over the world; football players; reference to figures in Appendix 1 or 3.

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

**(b) Content:****Price skimming**

- set a high price
- higher than \$50
- establishes high quality product
- may put off some customers.

**Cost-plus pricing**

- average cost calculated and then a percentage is added on for profit
- \$15 direct costs plus \$4 indirect costs = \$19 per boot plus profit
- easy to apply this method
- competitors' price may be lower.

**Competitive pricing**

- set pricing around the same price as competitors' prices
- competitors charge \$40-\$50 per pair and so Emmanuel should charge about \$45 per pair of boots
- sales possibly higher, research costs to check on competitors' process.

Level 1 e.g. Cost-plus pricing is where the cost is calculated and then a profit is added to determine the price to charge customers.

Level 2 e.g. Cost-plus pricing is where the cost is calculated and then a profit is added to determine the price to charge customers. If they calculate the cost per boot at \$19 and so a profit can be added (L2). This is a simple way to work out the price of the boot but it may not result in higher profits being earned if it doesn't look at competitors prices (L2). 6 marks for level 2 answer.

Level 3 Detailed discussion of at least three level 2 answers. There will be a conclusion at the end which justifies which pricing strategy would be the most effective and why.

Possible application marks:

\$50; \$19; \$40-50; Football boots/boots; manufacturing sports shoes; competitive market; small market share; patent; multinational sports company; expand production; sell all over the world; football players.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9-10 marks Must have three × Level 2 + reference to figures in Appendix 3 - Good judgement shown as to the best pricing strategy to use and why not the other strategies (comparison made).
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5-8 marks Good discussion of the advantages or disadvantages of pricing strategies OR balanced argument (even if listed).  Price suggested and justified using the information in Appendix 3.  Some limited judgement in recommendation shown about which method should be used (may not have made reference to figures in appendix 3).
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1-4 marks Definition of pricing strategy. Simple statements made on the advantage or disadvantage of each pricing strategy. Suitable prices suggested but not justified.

## 30. O/N 11/P22/Q1/b

## (a) Content:

Competitive pricing; promotional pricing; psychological pricing.

**Skimming and penetration and/or description of the strategy if not named can be awarded L1 but not L2 as unsuitable pricing methods for this business.**

**Do NOT reward cost plus as in the question.**

Level 1 Competitive pricing means that they will price the boat tours at a similar price to other boat tours.

2 marks for naming and defining the pricing strategy.

Level 2 E.g. Competitive pricing means that they will price the boat tours at a similar price to other boat tours. This should mean that they will attract more customers and so increase the revenue from tourists. The price is similar to their competitors, but the customer service must be at least as good if not better than that of the competitors of BB Boat Tours so that they attract more customers. The price charged must, however, cover the costs of supplying the boat tour.

5 marks for level 2 answer plus 1 application mark for mentioning the pricing of boat tours.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level 2 answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.  $6 \times L2 = 10$  marks.

Level 3 Detailed discussion of at least three level 2 answers. There will be a conclusion at the end which justifies which pricing strategy would be the most effective and why it is more effective than the other two strategies.

Possible application marks:

boat day trips; foreign tourists; dolphins; fishing; diving instructors; food and drinks; boats fully booked/half full; business made a loss; cheaper competitors; financial information from Appendix 1, e.g. \$19.99/\$29.99/\$59.99; information from the graphs from Appendix 3. There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks 3 × level 2 + good judgement shown as to the best pricing strategy to use and why it is better than the other two strategies.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the advantages or disadvantages of the different pricing strategies OR balanced argument (even if listed). Limited judgement in recommendation.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Name and/or definition of pricing strategies.

## 31. O/N 11/P22/Q3/a

## (a) Content:

E.g. to advertise their boat tours; to promote the business; to compare their prices with competitors' prices; to search for equipment to buy; online banking; email customers; customers can make a booking; customers can make a payment.

The marks available for this question are as follows: 4 marks for application, 4 marks for knowledge.

1 mark for each way identified. (4 marks max)

1 mark for applying the way to the case. (4 marks max)

1 knowledge mark for each way + 1 application mark. (2 marks × 4 ways)

Example and explanation: To communicate with customers (1 knowledge mark) they could email customers about the boat tour they have booked – the date, details of the trip, map of where to go (plus 1 application mark).

## 32. O/N 11/P21/Q3/b

## (a) Content:

Product – individual suits for Option 1 but mass-produced product for Option 2.

Price – premium pricing for Option 1 and competitive pricing for Option 2.

Place – Option 1 sold through specialist shops while Option 2 sold through chain stores.

Promotion – newspapers aimed at high income groups for Option 1 but popular newspapers for Option 2.

**NB the answers must focus on marketing and not production and cost.**

Level 1 E.g. The product is different – for Option 1 it is an individual product but for Option 2 it is a mass-produced product. 1 mark for each statement.

Level 2 E.g. The product is different – for Option 1 it is an individual product but for Option 2 it is a mass-produced product. Option 1 requires the suits to be made to measure for each individual customer and the suit will be unique to each customer. However, Option 2 will have to be standard size suits made of standard cloth. There will be a restricted range of sizes and fabrics/colours to choose from. The cloth for Option 1 will be of better quality than Option 2.

5 marks for level 2 answer.

5 marks for the first level 2 answer plus 1–2 marks for each additional level 2 answer.

I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks; 6 level 2 marks = 10 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.

Possible application marks:

suits (any reference to any aspect of suits reward once only; a lot of competition; information from Appendix 3; niche market.

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

	Application	Knowledge/Analysis/Evaluation
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–10 marks Comparisons/contrast made (even if listed) to show why the marketing mix will be different for the two options for each of the elements of the marketing mix would gain one L2. For justification or further development of the differences, award a second L2.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Elements of the marketing mix listed/stated for each option.

## 33. M/J 11/P22/Q2/a

## (a) Content:

Price of competitors' products; cost of food ingredients; possible promotion; new market; product life cycle; increasing incomes; quality; increasing market share; level of demand.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application; 4 marks for explanation/analysis.

1 mark for each factor identified (2 marks max). Up to 2 further marks are available for explaining how the pricing decision will be affected.

2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each factor (4 marks × 2 factors).



Possible application marks: expansion; rising incomes; increasing economic growth; food ingredients; farms; wholesaler; perishable ingredients; raw materials; reference to figures in Option 1 or 2.  
There may be other examples in context which have not been included here.

Simple explanation: Cost of food ingredients. (1 mark for knowledge)

Developed explanation: Cost of food ingredients (1) because the business will need to make sure they cover all their costs and they do not make a loss (1). If they can keep their costs down then the prices will also be kept down and TT Foods will be more competitive and should therefore increase sales (1).

Application: The application mark could be achieved as the answer makes reference to food ingredients. (1 application mark)

**34. M/J 11/P21/Q2/a**

**(a) Content:**

Stop selling plain chocolate bars; increase advertising; methods of promotion; sell into new markets; make small changes to the chocolate bar design; introduce a new version of the chocolate bar; sell through different outlets; reduce price of plain chocolate bars.

The marks available for this question are as follows:

4 marks for knowledge and 4 marks for explaining how these will cause sales to increase – **not explanation of the way.**

1 knowledge mark + 1 explanation mark (2 marks × 4 ways)

Way: Launch a new advertising campaign. (1 knowledge mark)

Explanation: Launch a new advertising campaign so that there is renewed interest in the product and sales are increased. (1 additional mark for explanation).

**35. M/J 11/P21/Q3/a**

**(a) Content:**

To compare competitors' products and prices; to buy raw materials; to contact suppliers and get quotations; to email customers; to use online banking; promotions; advertising.

The marks available for this question are as follows:

2 marks for knowledge; 2 marks for application; 4 marks for explanation/analysis.

1 mark for each way identified (2 marks max). Up to 2 further marks are available for explaining how the Internet will be useful.

2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth 1 additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks: chocolate bars, boxes of chocolates, sweets, cocoa, production machinery, product life cycle, R & D Department.  
There may be other examples in context which have not been included here.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each way (4 marks × 2 ways).

Simple explanation: The owners of Chocolate Delight can check on competitors' products and the prices they charge. (1 mark for knowledge)

Developed explanation: The owners of Chocolate Delight can check on competitors' products and the prices they charge (1). By knowing what competitors are charging, they can keep their own prices competitive (2). This will mean that they retain their customers and do not lose business and therefore do not lose sales of chocolate bars but may make less profit (3).

Application: The application mark could be achieved as the answer makes reference to sales of chocolate bars. (1 application mark)

**36. O/N 10/P22/Q2/a**

**(a) Content:** advertising – e.g. local newspapers; posters; promotional offers, e.g. discount vouchers; public relations, e.g. sponsoring the local cricket team. The examples UST be suitable methods which could be initiated by the restaurant. Several relevant types of advertising or promotional methods can be credited.

The marks available for this question are as follows: 4 marks for knowledge; 4 marks for explanation.

1 knowledge mark + 1 explanation mark for each example. This must indicate how it will lead to an increase in customers. (4 × 2 marks for each method)

E.g. the restaurant can use money-off coupons to attract customers to book a wedding. (1 knowledge mark) This will attract people to book their wedding at the restaurant, as they will get a price reduction and it will be cheaper for them. (1 explanation mark)

### 37. O/N 10/P21/Q5/a

#### (a) Content:

Email past guests, website advertising, sponsored sites, research, easier to make bookings online.

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 mark for each way suggested. Up to two further marks are available for explaining why the way would increase the number of guests staying. 1 application mark is also available for each way.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each way (4 marks × 2 ways)

Possible application marks: hotel rooms; restaurant; leisure centre; car parking; reference to quantitative data in case; tourists; tourist websites; business customers; membership of leisure centre; weddings and birthday celebrations; conference facilities.  
There may be other examples in context which have not been included here.

Way: the hotel could email guests who have previously stayed at the hotel. (1 knowledge mark)

Simple explanation: they could send the guests promotions of discounts on staying at the hotel if they book again. (1 additional mark for simple explanation)

Developed explanation: the hotel could email guests who have previously stayed at the hotel. They could send the guests promotions of discounts on staying at the hotel if they book again. This may mean that guests will return again to the hotel and book rooms and they may also tell their friends about the hotel and they may book rooms, increasing bookings still further. (1 further explanation mark for a developed explanation)

Application: the application mark could be achieved as the answer makes reference to hotel guests booking rooms. (1 application mark) 4 marks in total for the answer

### 38. M/J 10/P22/Q4/b

#### (a) Content: advertise in newspapers (local); posters; leaflets; fliers; website; local radio; sponsorship; point of sale displays; money off coupons; free gifts; displays in shopping malls; catalogue; side of buses.

BOGOF/three for two/half price - only award 1 mark.

**NB Do not credit TV as it is a small business.**

- |         |  |
|---------|--|
| Level 1 | E.g. Advertise in local newspapers to attract customers. 1 mark for each statement.  |
| Level 2 | E.g. Advertise in local newspapers to attract customers to buy the flower baskets. The advertisements would be seen by many home owners and the advertisements would not be that expensive for a sole trader, if they were only in local newspapers. (5 marks for level 2 answer plus 1 application mark for mentioning sole trader.) 5 marks for the first level 2 answer. Plus 1 - 2 marks for each additional level 2 answer. i.e. two level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained then 8 marks in total can be awarded. |
| Level 3 | Detailed discussion of at least two level 2 answers and then a recommendation at the end that justifies which is the best way to promote the baskets of flowers rather than the other two ways suggested.  |

E.g. Advertising the baskets of flowers in the local newspaper is the best method to use as it will reach the target market at a reasonable cost. This is better than flyers which might just get thrown away and not even looked at and also better than point of sale displays because unless the potential customer comes into the shop they will not even see the flower baskets and the display.

(10 marks plus at least 1 application mark for making reference to flower baskets in the conclusion and possibly another application mark in the level 2 part of the answer.)

Possible application marks: flower shops; shopping mall; competitors' websites; sole trader/small business.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 + Well justified comparison of the options as to the best method of promotion to use for the baskets of flowers.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the advantages and/or disadvantages of the alternative methods of promotion. Some limited judgement shown about the effectiveness of the different methods.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Suitable methods of promotion mentioned.

### 39. M/J 10/P21/Q3/b

(a) **Content:** Promotion to holiday companies would probably be through personal selling.

**Advantages:** it is direct, companies sell tours for them, cheaper.

**Disadvantages:** commission given, may not try to sell tours, not persuasive to customer, may not give out all the relevant information about the tour.

Promotion to tourists would be by leaflets, adverts in the hotels, adverts in magazines, discount coupons on tours.

**Advantages:** direct and persuasive, hard sell, reach many potential customers.

**Disadvantages:** expensive, may not be effective, may not be seen by potential customers.

Level 1 – E.g. Sales staff would sell the tours directly to customers. 1 mark for each statement.

Level 2 – E.g. Sales staff would sell the tours directly to customers. This would allow the sales person to explain the different tours available and which tourist sites they visit and this may persuade the person to book a tour which may result in more tours being sold. (5 marks for level 2 answer plus 1 application mark for mentioning the tourist sites they could visit.)  
5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer. I.e. two level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.

Level 3 – Detailed discussion of at least two level 2 answers which consider the advantages and disadvantages of the alternative ways of promoting the tours.

There will be a conclusion at the end which justifies which type of promotion should be used and why.

Possible application marks: variable costs, forecast revenue, holiday reps, buses, hotel reception, nature reserves, ancient monuments, holiday company packages.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 + Good judgement shown as to which way to promote the tours and why.
Level 2	2 marks Well-applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Explained advantages and disadvantages of the two different options to promote the tours.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outlined advantages and disadvantages of the two different options to promote the tours.

## 40. O/N 09/P2/Q3/b

## (a) Content:

Product – affect the style of the houses; type of furniture used; luxury décor.

Promotion – in tourist magazines; magazines targeted at high income groups; own website; through travel agents.

Level 1 The market research results will influence the product part of the marketing mix by giving Dilip information on the type of service customers would want (1 knowledge mark). The research will also let him know what colour the holiday houses should be painted so that the customers will like them. (1 analysis mark for identifying an influence on the design of the houses plus 1 application mark for applying the answer to the colour of the houses)

Level 2 The research will also let him know what colour the holiday houses should be painted so that the customers will like them. The image of the holiday houses will be luxurious and so the décor should be high quality and expensive to be in keeping with the image that Dilip is trying to create. This is assuming the market research results confirm that this is the type of house that people want. 5 marks for an explanation of how the design of the product is supporting the image that Dilip wants to create for the houses. (1 application mark will also be awarded for considering the design of the houses)

5 marks for the first Level 2 answer. Plus 1–2 marks for each additional Level 2 answer i.e. 2 Level 2 answers = 6 marks; 3 Level 2 answers = 7 marks. 4 Level 2 answers = 8 marks.

However, if the Level 2 answer is very well explained then 6 marks can be awarded for the first Level 2 answer. If the second Level 2 answer was also well very explained then 8 marks in total can be awarded.

Possible application marks: high income group; tourists; customers; the style of the houses; type of furniture used; luxury décor.  
In tourist magazines; magazines targeted at high income groups; own website; through travel agents.  
There may be other examples in context which have not been included here.

	Knowledge	Application	Analysis and Evaluation
Level 2	2 marks Knowledge of both product and promotion	2 marks Applied to both product and promotion.	Detailed explanation of why the product and/or promotion elements of the marketing mix would be determined in the way suggested.  5-8 marks
Level 1	1 mark Knowledge of either product or promotion	1 mark Applied to either product or promotion	Statements made of how the product and/or promotion elements of the marketing mix would be affected.  1-4 marks

## 41. M/J 09/P02/Q3/b

(a) **Content:** Product – possibly increase the range of products sold – children's bikes. Use famous character on the bike to emphasise brand image.

Price – change from cost plus pricing to competitive or promotional pricing with the new bike.

Promotion – Currently advertising in local and national newspapers. This could continue but need to reach children and parents – TV adverts during children's programmes. Promotions in toy shops – new owners of business own a chain of toy shops.

Place – This would seem to be alright. They already use a suitable channel of distribution. However, they could sell in toy shops as there will be different target customers.

Level 1 – Change the product to a children's bicycle with different colours and designs on it. 1 mark for each statement.

Level 2 – Change the product to a children's bicycle with different colours and designs on it. The product will need to appeal to the new target market by changing in size of the bicycle to smaller frames and adding stabilizers. Also adding designs such as a well known children's character from a TV programme. This will make the business more likely to meet the customer needs and therefore be more likely to sell. 5 marks if at least one element of the marketing mix has been explained in detail. 6 marks if two or more elements have been explained in detail.

Application mark would be awarded for the above level 2 example as the answer makes reference to children's bikes and children's character on the design.

	Knowledge	Application	Analysis and Evaluation
Level 2	3-4 marks Knowledge of 3-4 elements of the marketing mix shown.	2 marks Well applied to the marketing mix from the case. At least two examples of reference to, use of, the case.	Clear and <b>detailed</b> explanation of the changes to be made to at least 1 element of the marketing mix. Why the changes are necessary and how they would increase sales.  5-6 marks
Level 1	1-2 marks Knowledge of 1-2 elements of the marketing mix shown.	1 mark Weakly applied to the marketing mix from the case. At least one example of reference to, or use of, case.	Statements of the changes to be made and/or statements of why these changes would be effective.  1-4 marks

## 42. O/N 08/P2/Q4/b

- (a) (i) **Content:** A pricing strategy where a high price (1) is set for a new product or service on the market (2).
- (ii) **Content:** Cost-plus pricing – easy to apply and you are sure your costs are covered but you could be undercharging and hence potential profit could be lost.  
Competitive pricing – your prices are competitive and so sales might be high but your competitors are not nearby and so you could charge higher prices and make more profit.  
Promotional pricing – this would encourage people to try the new activity but sales revenue will be lower.  
Penetration pricing – encourages people to try the new activity but prices are lower and therefore sales revenue will be lower.  
Psychological pricing – prices could be set high to encourage exclusivity of the new activity but it could put people off using it. Price could be set at \$...99 to make people think it is cheaper than it really is.  
Accept discount pricing but do not reward price skimming.  
1 mark for naming the pricing strategy + up to 2 marks for explanation of the strategy.  
3 pricing strategies explained up to a maximum of 8 marks.  
(3 + 3 + 2)

## 43. M/J 08/P2/Q4/c

(a) Content:

Advertise – cheap and reaches a wide audience; Email suppliers/customers – cheaper; Order stock – quicker and cheaper.

	<b>Application</b>	<b>Analysis/Evaluation</b>
<b>Level 2</b>	2 marks Well applied to case.	3–4 marks Advantages and/or disadvantages of Internet to Abdul explained.
<b>Level 1</b>	1 mark Limited application to case.	1–2 marks Advantages and/or disadvantages of Internet to Abdul listed.

**3.4: Marketing strategy**

## 1. O/N 18/P21/Q1/b

## (a) Relevant points might include:

	Advantages	Disadvantages
Continue selling to large shops	<ul style="list-style-type: none"> <li>• Already established channel of distribution and links with retailers</li> <li>• Easier to use in store promotions as already has relationship with retailer</li> <li>• Lower delivery costs compared to online</li> </ul>	<ul style="list-style-type: none"> <li>• Harder to expand sales if using the same channels and not new ones</li> <li>• May sell many competing goods in shops alongside GT toys</li> </ul>
Only sell its products online	<ul style="list-style-type: none"> <li>• Sell to a wider range of customers</li> <li>• Customers can access all the range of products</li> <li>• Lower price as no retail profit margin</li> <li>• Possibly allows prices to be reduced to make the toys more competitive</li> </ul>	<ul style="list-style-type: none"> <li>• May lose existing customers if they want to see and handle toys before buying</li> <li>• May not have a cost-effective delivery network available</li> </ul>

**Level 1****(1–3 marks)**

1 mark for each L1 statement (max of 3 marks)

E.g. Lower price as no retail profit included.

**Level 2****(4–6 marks)**

Detailed discussion of the advantages and disadvantages of each option.

1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)

E.g. Lower price as no retail profit included so this may attract more customers leading to higher sales of toys and profit for GT. However, GT may lose existing customers if they prefer to feel and see the toys to check they are suitable for their children before buying. This may reduce the sales of toys to existing customers and result in a lowering of toy sales for GT. (4 marks for L2 answer plus 1 application mark for referring to the purchase of toys for their children).

**Level 3****(7–10 marks)**

For L3 to be awarded there need to be at least 2 L2 marks awarded and then a recommendation which justifies which channel of distribution to choose.

7–8 marks for some limited judgement shown in recommendation as to which channel of distribution should be chosen and/or why not the alternative channel chosen.

9–10 marks for well justified recommendation as to which option will be the best channel of distribution to choose and why not the alternative channel.

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

**Possible application marks:** manufacturer of toys; toys sold to large toy shops throughout country Y; 200 different designs; teddy bears; toy cars; building blocks; suitable for babies/young children; toys also exported; Marketing manager wants to only sell toys online; toys manufactured using batch production; design and packaging of toys need to be adapted for each different export market; sells well designed toys of high quality; education and safety of children are GT's main priorities; recent price increases have resulted in falling sales, selling online will help prevent any communication barriers.

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

## 2. M/J 11/P22/Q5/a

## (a) Content:

Protects against false claims; protects against inferior quality; protects against indecent advertising; protects against misleading prices; price controls; protects against the sale of harmful goods.

The marks available for this question are as follows: 4 marks for knowledge and 4 marks for explanation/analysis.

1 mark for each benefit identified (4 marks max). Up to 1 further mark is available for explaining the benefits of the consumer protection laws.

1 knowledge mark + 1 explanation mark (2 marks × 4 benefits).

E.g. Laws to protect consumers are necessary so that consumers are not misled (1).

Otherwise the company could make claims about having certain items in their ready meals when they do not have any extras or particular contents (1).

3. O/N 09/P2/Q5/b

(a) Content:

Yes – increased demand; higher price, easier to sell into European markets.

No – higher wage costs; inspected regularly, other products more profitable.

**Level 1** Dilip could charge higher prices for 'fair trade' products. 1 mark for each advantage/disadvantage of selling fair trade products listed up to a max of 4 marks.

**Level 2** By charging higher prices Dilip could increase his profit margins, thereby gaining greater reward for his enterprise and hard work. Some of the extra profit could be retained within the business and perhaps ploughed back as investment to further develop the holiday houses for the future. 5 marks for Level 2 answer plus 1 application mark for mentioning investment required for the holiday houses. 5 marks for the first Level 2 answer. Plus 1–2 marks for each additional Level 2 answer i.e. 2 Level 2 answers = 6 marks; 3 Level 2 answers = 7 marks; 4 Level 2 answers = 8 marks.

However, if the Level 2 answer is very well explained then 6 marks can be awarded for the first Level 2 answer. If the second Level 2 answer was also well very explained then 8 marks in total can be awarded.

**Level 3** At least 2 Level 2 answers plus a justified conclusion – do not reward just a single statement saying they should/should not sell fair trade products.

Possible application marks: Child labour; minimum wage; inspection of farms; 10% increase in prices.

There may be other application marks which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks At least 2 Level 2 answers and a well justified recommendation as to whether or not to sell fair trade products.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Clear explanation of the advantages and/or disadvantages of selling fair trade products and/or alternative products.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Statements made of the advantages and/or disadvantages of selling fair trade products and/or alternative products.



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## UNIT 4

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# OPERATIONS MANAGEMENT

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O Level  
Business  
Workbook Paper-2

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## Topics

4.1 Production of Goods and Services

4.2 Costs, Scale of Production and Break-Even Analysis

4.3 Achieving Quality Production

4.4 Location Decisions



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# Unit 4: Operations Management

## 4.1: Production of Goods and Services

1. O/N 17/P22/Q4/a Case Study – Garden Supplies (GS) – See Page 567  
 (a) Identify and explain two problems for GS of having a high level of inventory. [8]

Problem 1: .....

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Explanation: .....

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Problem 2: .....

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Explanation: .....

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2. O/N 16/P21/Q3/a Case Study – P & P Paint – See Page 563  
 (a) P & P has decided to use batch production to produce the new paint. Identify and explain two factors which may have influenced this decision. [8]

Factor 1: .....

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Explanation: .....

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Factor 2: .....

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Explanation: .....

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3. **M/J 16/P22/Q2/a** **Case Study – Foto Favourites (FF) – See Page 559**  
(a) Identify and explain two possible benefits to FF from changes in IT. See Appendix 1. **[8]**

Benefit 1: .....

Explanation: .....

Benefit 2: .....

Explanation: .....

4. **M/J 15/P22/Q3/a** **Case Study – Frozen Fancies (FF) – See Page 554**  
(a) Samah and Selina are considering buying ingredients from another supplier called ABC (see Appendix 2). Identify and explain one advantage and one disadvantage to FF of changing to ABC. **[8]**

Advantage: .....

Explanation: .....

Disadvantage: .....

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Explanation: .....

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5. **M/J 15/P21/Q3/b** **Case Study – Delicious Delights (DD) – See Page 555**  
(a) David wants to increase efficiency in his factory. Consider Option A and Option B and then recommend which one he should choose. Justify your answer. **[12]**

Option A: .....

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Option B: .....

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Recommendation: .....

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6. **O/N 14/P22/Q1/b** **Case Study – ACE Engineering (ACE) – See Page 551**  
(a) The directors of ACE want to introduce lean production. Consider the advantages and disadvantages of **two** methods of lean production the directors of ACE could use. Recommend which would be the best method to use. Justify your answer. **[12]**

Method 1: .....

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Method 2: .....

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Recommendation: .....

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7. M/J 14/P22/Q5/a **Case Study – Manuel’s Fruit and Vegetable Shop – See Page 548**  
 (a) Identify and explain four factors that affect how much stock of fruit and vegetables Manuel’s shop should have. **[8]**

Factor 1: .....

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Explanation: .....

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Factor 2: .....

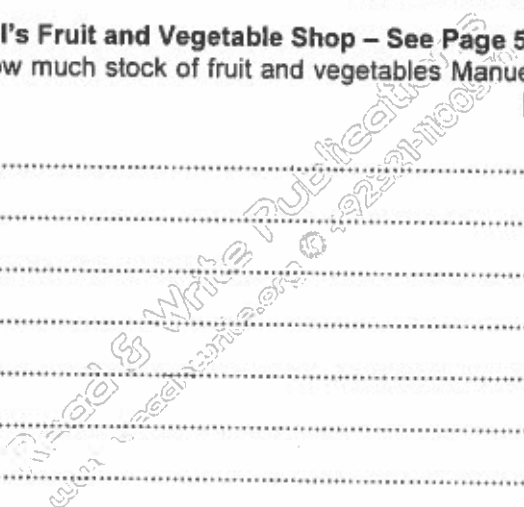
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Explanation: .....

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Factor 3: .....

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Explanation: .....

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Factor 4: .....

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Explanation: .....

8. **M/J 14/P21/Q4/a** **Case Study – Fabian Flowers (FF) – See Page 549**  
 (a) Fabian will use job production when completing each order for flowers. Identify and explain two benefits of using job production for Fabian Flowers. **[8]**

Benefit 1: .....

Explanation: .....

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Benefit 2: .....

Explanation: .....

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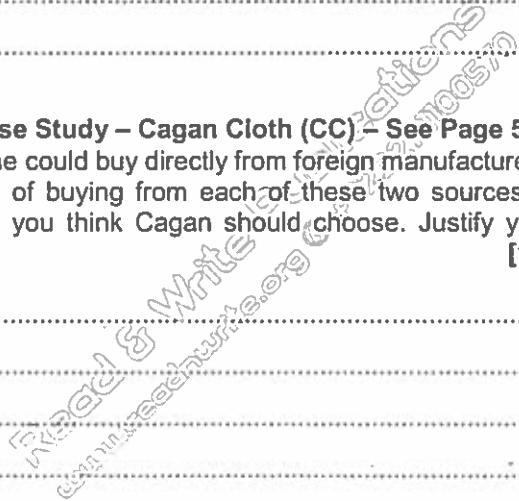
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9. **O/N 13/P22/Q1/b** **Case Study – Cagan Cloth (CC) – See Page 546**  
 (a) Cagan buys cloth from a local wholesaler but he could buy directly from foreign manufacturers. Consider the advantages and disadvantages of buying from each of these two sources of supply. Recommend which source of supply you think Cagan should choose. Justify your answer. **[12]**

Local wholesaler: .....

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Foreign manufacturers: .....

Recommendation: .....

10. O/N 13/P22/Q2/a

Case Study – Cagan Cloth (CC) – See Page 546

- (a) Cagan uses an accountant and a website designer to help him with his business. Explain how each of these people help Cagan's business. [8]

Accountant: .....

Website designer: .....

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11. O/N 13/P22/Q3/b

**Case Study – Cagan Cloth (CC) – See Page 546**

(a) Cagan needs to choose a method of production for his factory. Consider the advantages and disadvantages of job, batch and flow production. Recommend which would be the best method to use in this factory. Justify your answer. [12]

Job production: .....

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Batch production: .....

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Flow production: .....

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Recommendation: .....

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12. O/N 13/P21/Q1/b

**Case Study – Yum Yum Food – See Page 547**

(a) If the business expands, Shahila will need to buy more food ingredients. Consider the advantages and disadvantages of buying from a wholesaler or buying directly from local farmers. Recommend which option she should choose. Justify your answer. [12]

Wholesaler: .....

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Local farmers: .....

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Recommendation: .....

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- 13. M/J 13/P22/Q4/b Case Study – Tibalt’s Wood Products (TWP) – See Page 543**  
**(a) Consider the advantages and disadvantages of both job production and batch production for TWP. Recommend which production method he should use when producing products to a design provided by the customer. Justify your answer. [12]**

Job production: .....

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Batch production: .....

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Recommendation: .....

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**14. M/J 12/P22/Q5/a Case Study – School Clothes Supplies (SCS) – See Page 537**  
 (a) SCS uses batch production to manufacture its uniforms. Identify and explain one advantage and one disadvantage to SCS of using batch production. **[8]**

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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**15. M/J 12/P21/Q2/b Case Study – Kickwell Sports Shoes (KSS) – See Page 539**  
 (a) The Production manager believes that labour intensive methods are better than capital intensive methods of production for the new football boots. Do you agree with him? Justify your answer using appropriate calculations from the information provided in Appendix 1. **[12]**

Labour-intensive: .....

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Capital-intensive: .....

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Conclusion: .....

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16. O/N 11/P21/Q5 **Case Study – Everyday Suits – See Page 536**
- (a) Everyday Suits currently uses batch production. However, if Simon chooses Option 1 job production will be used or if he follows Option 2 flow production will be used. Explain the main features of job production for Option 1 and the main features of flow production for Option 2. **[8]**

Job production: .....

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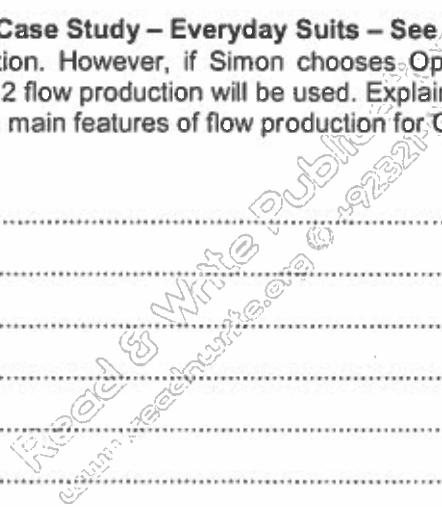
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17. M/J 11/P22/Q1/a

Case Study – TT Foods – See page 531

- (a) The Directors of TT Foods are thinking of introducing machinery into the production and packing process. Identify and explain two reasons why the workers might be happy with this decision. [8]

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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18. M/J 11/P21/Q2/b

Case Study – Chocolate Delight – See Page 532

- (a) The Managing Director believes that the Sales Department is more important for the success of the company than the Production, Research and Development (R & D) and Human Resources Departments. Do you agree with him? Justify your answer. [12]

Sales Department: .....

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Production Department: .....

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R & D Department: .....





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20. M/J 09/P02/Q1/a

**Case Study – Python Bicycles – See Page 521**

(a) Python Bicycles use batch production. Identify and explain one advantage and one disadvantage of batch production to Python Bicycles. **[8]**

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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**4.2: Costs, Scale of Production and Break-Even Analysis**

1. O/N 18/P22/Q1/b

Case Study – Perfect Pottery (PP) – See Page 574

(a) Consider the following three ways PP could reduce its costs. Recommend which way PP should choose. Justify your answer. [12]

Reduce the marketing budget by 20%: .....

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Increase investment in automated equipment: .....

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Change to a cheaper supplier of raw materials: .....

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Recommendation: .....

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2. O/N 18/P21/Q2/b

Case Study – Guardian Toys (GT) – See Page 575

(a) Consider the following three ways GT can reduce the average cost of products. Recommend the best way to choose. Justify your answer. [12]

Change to a cheaper supplier of raw materials: .....

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Change the design of products so that they need fewer components: .....

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Change from batch production to flow production: .....

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Recommendation: .....

3. M/J 18/P22/Q3/a **Case Study – Downtown Hotel (DH) – See Page 571**  
(a) Identify and explain four economies of scale DH could benefit from when it takes over a competitor. [8]

Economy of scale 1: .....

Explanation: .....

Economy of scale 2: .....

Explanation: .....

Economy of scale 3: .....

Explanation: .....

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Economy of scale 4: .....

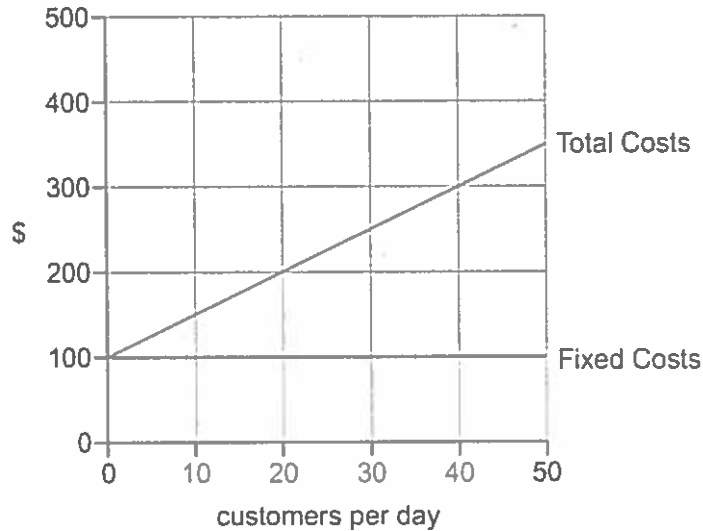
Explanation: .....

4. M/J 18/P21/Q3/b

Case Study – Value Gym (VG) – See Page 572

(a) (i) Refer to Appendix 2. Complete the break-even chart below by drawing the Total Revenue line.

[1]



(ii) Identify the break-even number of customers per day.

[1]

(iii) Consider the following two ways Peter could use to try to increase profit. Recommend which way he should choose. Justify your answer.

[10]

Increase prices: .....

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Reduce variable costs: .....

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(ii) Calculate the weekly profit for the house cleaning service using the information in Appendix 1. [4]

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**8. O/N 16/P22/Q3/a** **Case Study – GJ Partnership – See Page 562**

(a) Ghaziz and Jasmin plan to expand their business. Identify and explain one economy of scale and one diseconomy of scale for the business as it expands. [8]

Economy of scale: .....

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Explanation: .....

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Diseconomy of scale: .....

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Explanation: .....

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**9. O/N 16/P21/Q3/b** **Case Study – P & P Paint – See Page 563**

(a) Consider the two options outlined in Appendix 2 for increasing the output of paint. Recommend which option the directors should choose. Use the cost data in Appendix 2 to help justify your answer. [12]

Option A: .....

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Option B: .....

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Recommendation: .....

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**10. O/N 15/P21/Q3/b Case Study – Camper Companions (CC) – See Page 558**

(a) The charts on the opposite page show the break-even point using a price of \$40 per cooker and variable cost of \$20 per cooker.

Show what happens to the break-even point for each of the following options by drawing on each chart on the opposite page:

- Option 1 – Increase the price of the cooker to \$60
- Option 2 – Decrease the variable cost of the cooker to \$10

Consider these two options for increasing the profitability of the cooker. Recommend which option the directors should choose. Justify your answer. **[12]**

Option 1: .....

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Option 2: .....  
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Recommendation: .....  
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11. M/J 15/P22/Q3/b **Case Study – Frozen Fancies (FF) – See Page 554**  
(a) Samah and Selina want to start selling a new flavour of ice-cream. Consider the two options outlined in Appendix 3. Recommend which one they should choose. Justify your answer. [12]

Option A: .....  
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Option B: .....  
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Recommendation: .....  
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**12. M/J 15/P21/Q4/b**

**Case Study – Delicious Delights (DD) – See Page 555**

(a) External factors can affect the profitability of a company. For each of the following changes consider how it might affect DD's profit. Which change is likely to have the greatest effect on DD's profit? Justify your answer. **[12]**

Increasing GDP in country X: .....

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Reduced supply of the raw materials used to make cakes: .....

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Television programme highlighting the effects on health of eating too many cakes: .....

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Conclusion: .....

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13. O/N 14/P21/Q5/b

Case Study – PB Bank – See Page 552

- (a) Consider the advantages and disadvantages to PB Bank of taking over DOTT Bank. Recommend whether PB should take over DOTT Bank. Justify your answer by using appropriate calculations based on the data in Appendix 2. [12]

Advantages: .....

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Disadvantages: .....

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Recommendation: .....

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14. M/J 14/P22/Q2/b

Case Study – Manuel’s Fruit and Vegetable Shop – See Page 548

- (a) Manuel is considering how to transport his stock of fruit and vegetables to the shop. Consider the costs and benefits of the following three options. Recommend which is the best one to choose. Justify your answer. [12]

Buy his own truck (lorry): .....

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.....  
Pay the supplier a delivery charge: .....

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Rent a truck when needed: .....

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Recommendation: .....

15. M/J 14/P21/Q3/b

Case Study – Fabian Flowers (FF) – See Page 549

- (a) Explain to Fabian why each of the following documents will be important to managing his new business. Choose which is likely to be the most useful. Justify your choice. [12]

Profit/Loss account: .....

Cash flow forecast: .....

Break-even chart: .....

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17. O/N 12/P21/Q3/a

Case Study – K’s Garage – See Page 542

- (a) Kolo needs to buy parts to repair cars. He plans to buy these parts directly from large manufacturers. Identify and explain one advantage and one disadvantage for a small business of buying from large companies. [8]

Advantage: .....

Explanation: .....

Disadvantage: .....

Explanation: .....

18. O/N 11/P21/Q4/a

Case Study – Everyday Suits – See Page 536

- (a) As Everyday Suits expands it could gain from economies of scale. Identify and explain two examples of economies of scale the business might benefit from as it expands. [8]

Example 1: .....

Explanation: .....

Example 2: .....

Explanation: .....

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**19. M/J 11/P22/Q2/b**

**Case Study – TT Foods – See page 531**

(a) TT Foods want to reduce the costs of the food ingredients they buy. They are considering three possibilities: [12]

- (i) Keep buying their food from a wholesaler but purchase the food less often in much larger quantities or
- (ii) Buy the food directly from farms or
- (iii) Buy their own farms and grow the food themselves.

Consider the advantages and disadvantages of these three possibilities and recommend which one the Directors should choose. Justify your choice.

(i): .....

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(ii): .....

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(iii): .....

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Recommendation: .....

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**20. M/J 11/P21/Q4/a**

**Case Study – Chocolate Delight – See Page 532**

(a) The Finance Director says that break-even charts are useful when analysing the different products that Chocolate Delight produce. Identify and explain two ways break-even charts can be useful to the Finance Director of Chocolate Delight. [8]

Way 1: .....

Explanation: .....

Way 2: .....

Explanation: .....

21. M/J 11/P21/Q5/a

Case Study – Chocolate Delight – See Page 532

(a) Identify and explain two possible reasons Chocolate Delight buys its cocoa from Fair Trade cocoa farmers. [8]

Reason 1: .....

Explanation: .....

Reason 2: .....

Explanation: .....

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22. O/N 10/P22/Q1/a

Case Study – The Riverside Restaurant – See Page 527

- (a) Kim and Selina buy food for the restaurant from local farms. Explain two factors Kim and Selina should take into account when deciding from which farms to buy the food. [8]

Factor 1: .....

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Factor 2: .....

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23. O/N 10/P21/Q1

Case Study – The Dream Hotel – See Page 529

- (a) (i) What is meant by the term 'fixed costs'? Give two examples of fixed costs for the hotel. [4]

Meaning of 'fixed costs': .....

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Example 1: .....

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Example 2: .....

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- (ii) What is meant by the term 'variable costs'? Give two examples of variable costs for the hotel. [4]

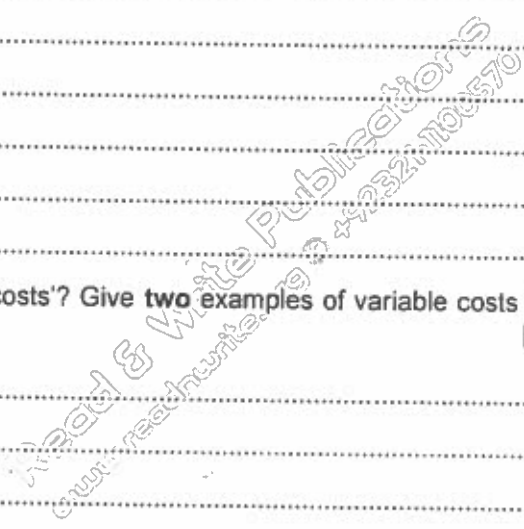
Meaning of 'variable costs': .....

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Example 1: .....













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**4.3: Achieving Quality Production**

1. **O/N 18/P22/Q1/a** **Case Study – Perfect Pottery (PP) – See Page 574**  
(a) Identify and explain two methods PP could use to improve the quality of its products. [8]

Method 1: .....

Explanation: .....

Method 2: .....

Explanation: .....

2. **M/J 17/P21/Q1/a** **Case Study – T T-shirts (TT) - See Page 566**  
(a) Identify and explain two ways in which TT might achieve quality production. [8]

Way 1: .....

Explanation: .....

Way 1: .....

Explanation: .....

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3. O/N 13/P21/Q2/a

Case Study – Yum Yum Food – See Page 547

- (a) Identify and explain two reasons why Shahila wants good quality food products to be served from her stall. [8]

Reason 1: .....

Explanation: .....

Reason 2: .....

Explanation: .....

4. M/J 13/P21/Q2/b

Case Study – Ted’s Tools (TT) – See Page 544

- (a) Ted and Mustafa want to increase the sales revenue from TT shops. There are three options listed below. Consider the advantages and disadvantages of each of these options and recommend which option you think Ted and Mustafa should choose. Justify your answer. [12]

Rent tools to customers instead of selling the tools: .....

Sell high quality tools to construction businesses: .....

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Start to also sell paint and decorating equipment in the shops: .....  
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Recommendation: .....  
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**5. M/J 12/P22/Q2/a Case Study – School Clothes Supplies (SCS) – See Page 537**  
**(a) Producing good quality school uniforms is very important to SCS. Identify and explain two reasons why good quality products are important to SCS. [8]**

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

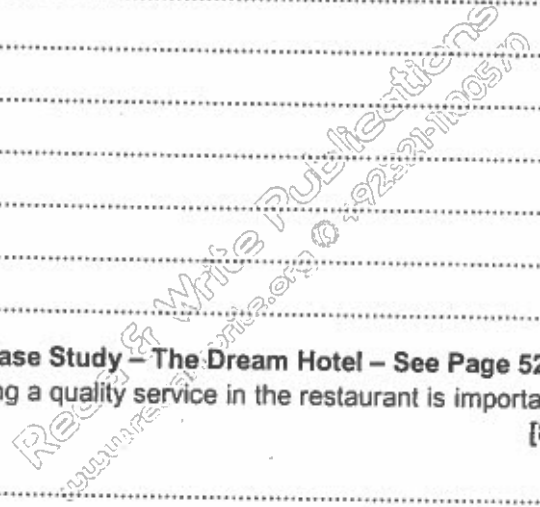
Explanation: .....  
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Reason 2: .....  
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Explanation: .....  
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**6. O/N 10/P21/Q4/a Case Study – The Dream Hotel – See Page 529**  
**(a) Identify and explain two reasons why providing a quality service in the restaurant is important to the Dream Hotel. [8]**

Reason 1: .....  
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Explanation: .....  
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Reason 2: .....  
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Explanation: .....  
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**4.4: Location Decisions**

**1. O/N 18/P22/Q4/b Case Study – Perfect Pottery (PP) – See Page 574**

- (a) Consider the benefits and drawbacks to country Z if PP decides to locate a factory there. Recommend whether the government of country Z should allow PP to set up a factory. Justify your answer. [12]

Benefits: .....

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Drawbacks: .....

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Recommendation: .....

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**2. O/N 17/P22/Q3/b Case Study – Garden Supplies (GS) – See Page 567**

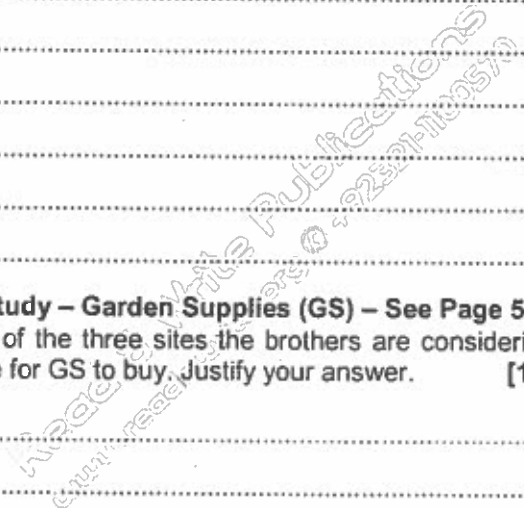
- (a) Consider the advantages and disadvantages of the three sites the brothers are considering buying. Recommend which site is the best one for GS to buy. Justify your answer. [12]

Site X: .....

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.....  
Site Y: .....

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.....  
Site Z: .....

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.....  
Recommendation: .....

3. O/N 17/P21/Q3/b **Case Study – Animal Hotel (AH) – See Page 569**  
(a) Consider the advantages and disadvantages of the three sites Elsie is considering. Recommend which site is the best one for AH to choose. Justify your answer. [12]

Site X: .....

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.....  
Site Y: .....

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 .....  
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 .....

Reason 2: .....

Explanation: .....

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7. O/N 13/P21/Q4/a **Case Study – Yum Yum Food – See Page 547**  
 (a) If Shahila chooses Option 2, then she will have to decide on the café opening hours. Identify and explain four factors which will affect the opening hours she chooses. [8]

Factor 1: .....

Explanation: .....

.....

Factor 2: .....

Explanation: .....

.....

Factor 3: .....

Explanation: .....

.....

Factor 4: .....

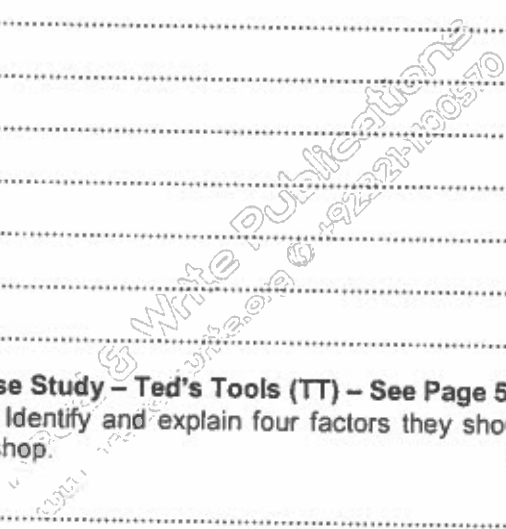
Explanation: .....

.....

8. M/J 13/P21/Q3/a **Case Study – Ted’s Tools (TT) – See Page 544**  
 (a) Ted and Mustafa want to open another shop. Identify and explain four factors they should consider when choosing a location for the new shop. [8]

Factor 1: .....

Explanation: .....







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## Answer Sections

### 4.1: Production of goods and services

#### 1. O/N 17/P22/Q4/a

(a) Knowledge [2 × 1] – award one mark for each problem.

Analysis [2 × 1] – award one mark for a relevant explanation of each problem.

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

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

- Capital tied up/ liquidity problem
- High levels of working capital required
- Inventory may deteriorate and be wasted – loss of profit
- Inventory may go out of date/seasonal changes / fashion changes – cannot sell inventory unless at a discount – reduce profit
- Costs of storage space
- Maintenance costs such as paying wages of workers to water plants

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

**Indicative response:**

Capital is tied up in stock (k) and this will mean GS has large amounts of plants and trees taking up space. (ap) The plants and trees will need to have been paid for before the gardeners will need them for planting at the hotels (ap) and this will increase the cash outflow, which may cause a cash flow problem for GS, but will certainly reduce its liquidity. (an)

Possible application marks: GS want to expand the business; wilting/dying plants; grows plants and trees; looks after the gardens of luxury hotels; want to buy more land to expand; information on the three sites in the case; ornamental trees; information from Appendix 1; information from Appendix 2; information from Appendix 3.

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

#### 2. O/N 16/P21/Q3/a

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

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

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

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

- Size of the output/ level of demand
- Various styles of product made
- Easier/quicker to respond to changes in demand
- Not enough capital to use capital-intensive methods

Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context – of the factor which may have influenced the decision to use batch production.

**Indicative response:**

Size of the output [k] as if a large output is not required then flow production will not be used as too many products will be produced (an). Paint has many colours and types and so only a certain quantity of one type will be needed (ap). P & P will produce a certain amount of, for example bathroom paint and then a certain amount of kitchen paint because the demand will not be high for all types of paint (ap).

Possible application marks: different colours of paint; paint manufacturer; paint tins; large limited company; sells to large retailers; 150 production workers; employees live near to the factory; paid using time-rate and no fringe benefits; new waterproof paint; new machinery/equipment to make the paint; details of two options outlined in Appendix 2.  
There may be other examples in context which have not been included here.

#### 3. M/J 16/P22/Q2/a

(a) Knowledge [2 × 1] award one mark for each relevant benefit

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

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

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

- Increased efficiency/productivity/time saved – increased number of customers served relative to inputs
- Lower costs per customer – lower prices
- Attract more customers – Improved/faster customer service – greater customer satisfaction/loyalty
- Fewer workers may be needed – possibly leading to lower total costs
- More motivated workers – feel meet customer needs/do a good job.

Award a maximum of three additional marks for explanation – two of which must be applied to this context – of each benefit.

Indicative response:

Fewer workers may be needed (k) because each photographer can do more of the jobs without help (ap). Therefore, if each photographer can go out and perform a wedding without help then this will increase the productivity of each worker and fewer will be needed (an).

Thao and Liang can therefore reduce the number of photographers from 8 to 4 (ap). Possible application marks: private limited company; profitable and grown over last 5 years; provides excellent customer service; photographs; photographers; photography; getting married; weddings, birthdays, family photographs; business customers as well as private individuals; employed 2 additional photographers; 8 photographers; 2 part-time office workers deal with administration and accounts; taking over another photography business; growing externally rather than internally; photographs received on the internet; use an app to download photographs; pay existing photographers 50% above minimum wage; information in Appendix 3.

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

#### 4. M/J 15/P22/Q3/a

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

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

Application [2 × 2] – award two application marks for each advantage / disadvantage Award one mark for each relevant advantage / disadvantage (maximum of one each), such as:

Advantage	Lower costs / free delivery Reduce prices and possibly increase sales Increase profits Comply with government standards
Disadvantage	Reduce quality Reduce reputation for high quality product leading to lower sales Only deliver once a week Already have a good relationship with current supplier

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

Indicative response:

To lower costs of ingredients (k) which will allow Samah and Selina to reduce the price of the ice cream (ap) and possibly lead to an increase in sales [an]. However, as the ice cream is high quality the customers may not want to buy it if it is cheaper (ap).

Possible application marks: business 5 years old; produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; multinational food company; supplier located near to factory; sales increased for four years; demand high for 6 months; free delivery; ABC only deliver once a week; any reference to details in Appendix 2; taste of product.  
There may be other examples in context which have not been included here.

#### 5. M/J 15/P21/Q3/b

(a) Relevant points might include:

	Advantages	Disadvantages
Option A (training existing)	<ul style="list-style-type: none"> <li>• Cheaper</li> <li>• No redundancies</li> <li>• Increased output meets</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in efficiency only by 10%</li> <li>• Large wage costs</li> </ul>

production employees)	<ul style="list-style-type: none"> <li>increased sales</li> <li>Workers feel valued/increased job satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>Loss of output from experienced workers when carrying out training</li> <li>Large number of workers to retrain</li> </ul>
Option B (automated production line)	<ul style="list-style-type: none"> <li>Labour efficiency will increase</li> <li>Low wage costs</li> <li>New markets</li> </ul>	<ul style="list-style-type: none"> <li>High capital cost</li> <li>Off-the-job training required</li> <li>Cost of redundancy payments</li> <li>Worker morale/motivation issues</li> </ul>

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best option to choose to increase efficiency compared to the other option. 7–8 marks for some limited judgement shown in recommendation as to the best option to choose to increase efficiency.
Level 2	4–6 marks Detailed discussion of advantage/disadvantage of Option A and/or B. <b>NB do not reward mirror image arguments</b>
Level 1	1–3 marks Outline of advantage/disadvantage of Option A and/or B. <b>NB do not reward mirror image arguments</b>

#### Level 1

1 mark for each L1 statement (max of 3 marks), e.g. only needs to train existing workers and so it is cheaper.

#### Level 2

one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. only needs to train existing workers and so it is cheaper. Also by using on-the-job training methods then training costs will not be high. However, output only increases by 10% and so not much additional output of cakes will be gained. (4 marks for L2 answer + 1 application mark for mentioning output of cakes.)

#### Level 3

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best option to choose.

Award up to 2 additional marks for relevant application.

Possible application marks: cake manufacturing; food; off-the-job training; on-the-job training; perishable products; constantly develops a new range of cakes; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops; 100 production workers/10 remaining production workers; 90 redundancies; may need to make some workers redundant; automated production line; efficiency increases by 10% for option A; investment of \$8m.

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

### 6. O/N 14/P22/Q1/b

#### (a) Content:

- Just-in-time
- Kaizen
- Waste reduction
- Kanban
- Cell production.

Level 1: 1 mark for each statement, e.g. the directors could introduce just-in-time methods into the manufacturing of ovens. (1 mark)

Level 2: 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer, up to maximum of 8 marks, e.g. the directors could introduce just-in-time methods into the manufacturing of ovens. This would mean that ACE would not hold stocks of electrical components or rubber components. The stock would be ordered

and arrive at the production line just as it is required to manufacture the ovens. This will reduce storage space required and save costs.

5 marks for level 2 answer plus 1 application mark for answering in the context of the manufacturing of ovens.

**Level 3:** Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best method compared to the other method.

Possible application marks: ovens; components; rubber seals; electrical components; metal components; financial information from Appendix 1; restaurants and hotels; 200 production workers; low motivation and unhappy workers; can be dismissed if do not follow orders.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks At least 2 × Level 2 + Well justified recommendation as to which is the best method compared to the other method.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of each method to introduce lean production OR explained balanced argument. Some limited judgement shown in recommendation about which is the best method.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Name of each method to introduce lean production. Outline of each method to introduce lean production.

**7. M/J 14/P22/Q5/a**

**(a) Content:**

- Demand from customers
- How perishable is the stock
- Storage space in the shop
- Delivery charges
- Seasons/celebrations
- Amount of money

1 mark for each factor identified plus 1 explanation mark for each factor.

1 knowledge mark + 1 explanation mark (2 marks × 4 factors)

**Reason:** How perishable is the stock (1 knowledge mark)

**Explanation:** How perishable is the stock (1) because if the fruit and vegetables do not last very long before they go off then stock will be replaced often to ensure it is fresh (1 explanation mark).

**8. M/J 14/P21/Q4/a**

**(a) Content:**

- Meets individual needs of customers
- Unique product
- High quality
- Can charge a higher price
- Job satisfaction
- Fewer unsold products

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each benefit identified (2 marks maximum). Up to two further marks are available for explaining how the benefit is applicable to Fabian. 2 application marks are also available.

Possible application marks: flower shop; partnership; part-time employees; hotels and restaurants; flower arrangements; weddings/Valentine's Day/birthdays; imported supplies of flowers.

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

1 knowledge mark + up to 2 explanation marks + 1 application mark for each benefit  
(4 marks × 2 benefits)

Benefit: Can meet the individual needs of consumers (1 mark for knowledge).

Developed Explanation: Can meet the individual needs of consumers (1) as the flower arrangement can be to the exact design of the customer (2). This makes each product unique to that customer and so they will be happier with the order and may tell their friends to go to the shop (3).

Application: The application mark could be achieved as the answer makes reference to flower arrangements (1 application mark).

9. O/N 13/P22/Q1/b

(a) Content:

	Advantage	Disadvantage
Local Wholesaler	<ul style="list-style-type: none"> <li>• sells in small quantities</li> <li>• advice</li> <li>• credit</li> <li>• delivery available/ faster delivery</li> </ul>	<ul style="list-style-type: none"> <li>• may be more expensive than manufacturer</li> </ul>
Foreign Manufacturers	<ul style="list-style-type: none"> <li>• maybe cheaper as cut out wholesaler profit margin</li> <li>• more variety</li> <li>• better quality</li> </ul>	<ul style="list-style-type: none"> <li>• exchange rate changes affects price of imports</li> <li>• less reliable delivery</li> <li>• storage space required</li> <li>• tariffs and quotas</li> <li>• damage to stock</li> </ul>

Level 1 – 1 mark for each statement

E.g. The wholesaler buys in bulk from the manufacturer and sells in small quantities to Cagan (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.

E.g. The wholesaler buys in bulk from the manufacturer and sells in small quantities to Cagan. This means that Cagan doesn't need to have a lot of storage space in the shop which is cheaper for him and it doesn't tie up a lot of cash in stock. 5 marks for level 2 answer plus 1 application mark for mentioning the shop.

Level 3 – Detailed discussion of two × level 2 answers and then a recommendation at the end which justifies which is the best option to choose and why the other option is less suitable.

Possible application marks: shop; fabric; blinds; high/low quality cloth; private limited company; curtains; windows; new market on the Internet; financial information from Appendix 1.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Two × Level 2 + well justified recommendation as to the best option to choose compared to the other option.
Level 2	2 marks Well applied to the case. At least two examples of	5–8 marks Good discussion of advantages/disadvantages of

	references to, or uses of, the case.	each option OR balanced argument (even if listed). Limited judgement in recommendation about which option to choose. <b>Do not reward mirror image answers.</b>
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages or disadvantages of each option listed.

## 10. O/N 13/P22/Q2/a

## (a) Content:

## Accountant

- produce final accounts
- less likely to make mistakes than Cagan
- legal requirement
- Cagan has a lack of knowledge/skills
- Can produce financial forecasts
- Can provide advice to Cagan

## Web designer

- more professional website
- more attractive website
- more sales as a result of effective website
- Cagan has a lack of knowledge/skills

1 mark for reason to use the accountant/web designer identified (2 marks max). Up to two further marks are available for explaining the reason to use the accountant/web designer.

2 application marks are also available.

1 knowledge mark + up to 2 explanation marks + 1 application mark for accountant/web designer. (4 marks × accountant and 4 marks × web designer)

**NB: A candidate who lists only functions of accountant/website without reference to how this helps Cagan/business, can gain a maximum of 2 marks for each section plus application.**

Possible application marks: shop; cloth; fabric; blinds; private limited company; curtains; windows; new market on the Internet; employee information from Appendix 3; financial information from Appendix 1.  
There may be other examples in context which have not been included here.

Simple explanation: Cagan doesn't know how to design a website. (1 mark for knowledge)

Developed explanation: Cagan doesn't know how to design a website (1) so he pays a web designer to design a website for the business (1) this will allow Cagan to sell cloth on the internet and also give information to customers about his products and the shop location and so increase sales. (1)

Application: The application mark could be achieved as the answer makes reference to the shop location and cloth. (1 application mark)

## 11. O/N 13/P22/Q3/b

## (a) Content:

	Advantages	Disadvantages
Job	<ul style="list-style-type: none"> <li>• individual customer wants satisfied</li> <li>• motivating for workers</li> </ul>	<ul style="list-style-type: none"> <li>• more expensive</li> <li>• increased training costs</li> </ul>
Batch	<ul style="list-style-type: none"> <li>• more flexible</li> <li>• more varied jobs for workers</li> </ul>	<ul style="list-style-type: none"> <li>• equipment not fully utilized</li> </ul>
Flow	<ul style="list-style-type: none"> <li>• low unit costs</li> <li>• more efficient</li> </ul>	<ul style="list-style-type: none"> <li>• standardised product</li> <li>• demotivating for workers</li> </ul>

		<ul style="list-style-type: none"> <li>machinery breakdown halts production</li> </ul>
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Level 1 – 1 mark for each statement

E.g. Job production means consumer wants are fully met (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.

E.g. Job production means consumer wants are fully met. This is because the exact measurements for the curtains are followed and the product will fit the windows perfectly. Each set of curtains will be exactly what they require.

However, this will be more costly than producing a standard set of curtains and they will take longer to manufacture. 5 marks for balanced level 2 answer plus 1 application mark for mentioning windows and curtains.

Level 3 – Detailed discussion of two × level 2 answers and then a recommendation at the end which justifies which is the best method to choose and why the other methods are less suitable.

Possible application marks: shop; cloth; fabric; wholesaler; blinds; private limited company; curtains; windows; factory manager/factory worker; new market on the Internet.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Two × Level 2 + well justified recommendation as to the best method of production to use compared to the alternative methods.
Level 2	2 marks Well applied to the case. At least two examples of references to, or uses of, the case.	5–8 marks Good discussion of advantages/disadvantages of each method of production OR balanced argument (even if listed). Limited judgement in recommendation about which option to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages or disadvantages of each method of production listed.

## 12. O/N 13/P21/Q1/b

(a) Content:

	Advantages	Disadvantages
Wholesaler	<ul style="list-style-type: none"> <li>buy in small quantities</li> <li>wider variety of goods available</li> <li>advice given</li> <li>delivery available</li> <li>credit</li> </ul>	<ul style="list-style-type: none"> <li>higher costs</li> <li>food more perishable as long chain of distribution</li> </ul>
Local farmers	<ul style="list-style-type: none"> <li>support local economy</li> <li>may be cheaper</li> <li>cut out wholesaler profit</li> <li>fresh food</li> </ul>	<ul style="list-style-type: none"> <li>quality may be variable</li> <li>may not have full range of food products</li> <li>quantity available may be seasonal</li> </ul>

Level 1 – 1 mark for each statement

E.g. Shahila can buy the food ingredients in small quantities (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.

E.g. Shahila can buy the food ingredients in small quantities from the wholesaler and will not need to store a lot of fresh vegetables which could go bad and be a waste of money. 5 marks for level 2 answer plus 1 application mark for mentioning fresh vegetables.

- Level 3 – Detailed discussion of two × level 2 answers and then a recommendation at the end which justifies which is the best option to choose and why the other option is less suitable.

Possible application marks: wholesaler is nearby; food stall; café; meals; sole trader; fresh food; vegetables; financial information from Appendix 1.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Two × Level 2 + well justified recommendation as to the best option to choose compared to the other option.
Level 2	2 marks Well applied to the case. At least two examples of references to, or uses of, the case.	5–8 marks Good discussion of advantages/disadvantages of each option OR balanced argument (even if listed). Limited judgement in recommendation about which option to choose. <b>NB do not reward mirror image Answers</b>
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages/disadvantages of each option listed.

### 13. M/J 13/P22/Q4/b

#### (a) Content:

Job production

Adv. – individually made to the consumer needs; motivating work for employees; employees have more varied tasks.

Disadv. – high production costs; less efficient use of tools; skilled labour often used.

Batch production

Adv. – saves time over job production; more efficient than job production; lower average cost than job production; flexible way of working.

Disadv. – needs to change production process between products; storage costs; need to move around semi-finished goods.

Level 1 1 mark for each statement

E.g. Job production means the wood can be cut to the exact requirements of the customer (1 mark)

Level 2 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.

E.g. Job production means the wood can be cut to the exact size required by the customer and this will lead to higher sales as the product will be easier for customers to use. If the product is a standard size it will mean the customer will have to cut the wood to fit their needs which causes more trouble for the customer and means they will be less likely to buy from Tibalt.

5 marks for level 2 answer plus 1 application mark for mentioning wood products and cut to the exact size.

Level 3 Detailed discussion of two × level 2 answers and then a recommendation at the end which justifies which production method to use and why not the other method.



Possible application marks: wood importers; wood products; windows and doors; cut to size; local forests; building firms; repair/build houses and offices; trees; sole trader; taking over another wood product manufacturer; sustainable forests.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Two x Level 2 + well justified recommendation as to which production method should be used and why not the other method.
Level 2	2 marks Well applied to case. At least two examples of, references to, or uses of, the case.	5–8 marks Good discussion of advantages/disadvantages of each production method OR balanced argument (even if listed). Limited judgement in recommendation as to which production method should be used.
Level 1	1 mark Limited application to the case. At least one example of, reference to, or use of, the case.	1–4 marks Advantages/disadvantages of each production method listed.

## 14. M/J 12/P22/Q5/a

## (a) Content:

## Advantages

- flexible way of working
- variety in workers' jobs
- less effect if machinery breaks down.

## Disadvantages

- can be expensive
- increased movement of goods
- warehouse space needed.

1 mark for each advantage/disadvantage identified (2 marks max). Plus two marks for explaining why it is an advantage or disadvantage + 1 mark for application.

1 knowledge mark + 2 explanation marks + 1 application mark. (4 marks × advantage and 4 marks × disadvantage)

Possible application marks: different sizes; trousers and jackets; sewing machines; factory buildings; special design uniform; standard design; cloth purchased from local supplier; buttons imported; located near to port; employs 100 production workers and 10 office workers; time rate; good working conditions; increasing output; new skilled production workers recruited; leased machinery; reference to figures in appendix 2.  
There may be other examples in context which have not been included here.

## For example:

It is a more flexible way of working (1 mark for knowledge) and production can easily be changed from one product to another to meet demand. (1) So if there is an increase in the number of orders for a particular size of trousers or jackets then SCS can quickly meet this demand. (1)

1 application mark can be awarded for mentioning production of trousers and jackets.

## 15. M/J 12/P21/Q2/b

## (a) Content:

- Employs more workers (L1)
- Lower wages for labour-intensive methods (L1)
- More shoes produced per worker (L1)
- 200%/50% difference in output (L1)

- Calculations of total wages per day (L1).

<i>Labour intensive</i>	<i>Capital intensive</i>
100 people × \$5 × 8 hours × 5 days (L1) 100 × 5 = 500 (L1), 500 × 8 = 4000 (L1)	3 people × \$20 × 8 hours × 5 days (L1) 3 × 20 = 60 (L1), 60 × 8 = 480 (L1)
\$4000 × 5 = \$ 20 000 (L2)	\$480 × 5 = \$2400 per week (L2) (or \$27 400)
(2500 shoes per week)	(5000 shoes per week)
= \$8 per shoe (L2)	= \$0.48 labour costs per shoe (L2) Lease \$25 000/5000 = \$5 per shoe (L1) Total cost = \$5.48 per shoe (L2 × 2)

Level 1 e.g. capital-intensive uses machines to replace workers.  
1 mark for each statement.

Level 2 e.g. capital-intensive uses machines to replace workers. This means they can achieve output with significantly fewer workers and lower total wage costs but at the expense of leasing machinery. 5 marks for level 2 answer.

Level 3 Detailed discussion of at least three level 2 answers. There will be a conclusion at the end which justifies which production method would be the most effective and why.

	Knowledge/Analysis/Evaluation
<b>Level 3</b>	9–12 marks Three × Level 2 calculations + Good judgement shown as to the best production method and why not the other method (comparison made).
<b>Level 2</b>	5–8 marks Explanation about each of the production methods/ L2 calculations undertaken. Limited judgement shown in conclusion using 2 calculations (can be L1 calculations) about which method is most suitable.
<b>Level 1</b>	1–4 marks Definition of labour-intensive/capital-intensive = L1 each. Statements about product methods/simple L1 calculations made.

16. O/N 11/P21/Q5

(a) Content:

Job production – products are made to the specific design of the customer; often labour-intensive; highly skilled workers; high quality/individual product.

Flow production – uses machinery; production line used; low-skilled workers; standardized product; continuous production; large quantity produced.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each method of production (4 marks × 2 methods of production).

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks:

suits (any reference to any aspect of suits reward once only); 100 production workers; paid hourly; continue to expand the business; material/cloth; invest in new machinery; information from Appendix 3.

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

Job/flow production: Job production will mean the suit is made to the individual design of the customer. (1 knowledge mark)

Simple explanation: Job production will mean the suit is made to the individual design of the customer and so will meet the customer's needs. It may be made by just one worker who does all the processes themselves. (1 additional mark for simple explanation)

Developed explanation: Job production will mean the suit is made to the individual design of the customer and so will meet the customer's needs. It may be made by just one worker who does all the processes themselves. The worker will need to be skilled so that they can carry out all the different processes involved in making the suit, such as cutting out and sewing together the fabric. (1 further explanation mark for a developed explanation)

Application: The application mark could be achieved as the answer refers to cutting out and sewing the suits together. (1 application mark)

**(b) Content:**

Advantages of new machinery – increased skills required; higher wages; makes the job easier; business more competitive so jobs more secure; job can be done quickly; training.

Disadvantages of new machinery – jobs lost; sometimes job more boring; worried about future security of jobs; difficult to adjust to new machinery; resistant to change; reduce skills; maybe lower wage rate.

**NB the answer should be related to the workers' view, not the managers' view.**

Level 1 E.g. Increased skills will be required from employees. 1 mark for each statement.

Level 2 E.g. Increased skills will be required from employees and this will mean employees will be trained by the company to operate the new machinery and so they should make more suits and their wages will increase.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.

Level 3 Detailed discussion of at least three level 2 answers plus consideration of whether employees will think it's a good idea or not.

Possible application marks:  
suits (any reference to any aspect of suits reward once only); batch production; 100 production workers; paid hourly; no fringe benefits; continue to expand the business; employ skilled workers; information from Appendix 3.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks 3 × Level 2 + justified conclusion of whether employees will think it's a good idea or not.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Advantages and disadvantages of new technology discussed or balanced view (even if listed).
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages/disadvantages of new technology listed.

**17. M/J 11/P22/Q1/a**

**(a) Content:**

Makes their job easier; increases their productivity; may lead to increased wages; may be promoted; training (if justified in explanation).

Answers must relate to workers and not the company and must refer to being happy rather than unhappy.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application; 4 marks for explanation/analysis.

1 mark for each reason identified (2 marks max). Up to 2 further marks are available for explaining why workers might be happy with this decision.

2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth 1 additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason (4 marks x 2 reasons).

Possible application marks: ready-made meals; expansion; airlines or international flights; airline industry; high labour turnover; manual work; paid hourly; no fringe benefits; demotivated workers; sales staff; reference to figures in Option 1 or 2.  
There may be other examples in context which have not been included here.

Simple explanation: It makes their job easier. (1 knowledge mark)

Developed explanation: It makes their job easier (1) and so the workers will make less effort and will be less tired after making all the ready meals which will make them happier (1). This might lead to fewer workers leaving each year and so the workers will feel more motivated as they will be working with the same people all the time and they will get to know them well (1).

Application: The application mark could be achieved as the answer makes reference to ready meals and the high number of workers leaving each year. (1 application mark)

#### 18. M/J 11/P21/Q2/b

##### (a) Content:

Sales – sells the products to customer; deals with retail outlets.

Production – oversees the making of the product; quality control/assurance.

R & D – to develop new products; to produce a range of products; to diversify the range of products produced.

HR – recruits and selects new employees; organises training; industrial relations; wages and salaries; Health & Safety; redundancy.

Level 1 E.g. It carries out research and develops new products. 1 mark for each statement.

Level 2 E.g. It carries out research into new types of chocolate bars etc. so that as the plain chocolate bars reach the decline stage of the product life cycle there are new products to replace them. Without the Sales Department no chocolate bars would be sold so this department is essential to the business and its success. 5 marks for level 2 answer plus 1 application mark for mentioning chocolate bars.

5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer. I.e. two level 2 answers = 6 marks; three level 2 answers = 7 marks; four level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.

Possible application marks: chocolate bars, boxes of chocolates, sweets, skilled workers, production machinery, product life cycle.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–10 marks Explanation about Product Development, Sales, Production and/or HR departments. Judgement shown about why these are important to the success of the business. NB 9 marks only if good linkage shown between departments. 10 marks if answer also justifies whether Sales is the most important department.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Statements about Product Development, Sales, Production and/or HR departments.

## 19. M/J 11/P21/Q3/b

(a) Content:

	Machine A	Machine B
Cost of machine	\$500 000	\$800 000
Number of workers required to run the machinery at a daily wage \$100 per worker	10	3
Output per day	10 000 chocolate bars	6000 chocolate bars

*Machine A:* output per worker =  $10\ 000/10 = 1000$  chocolate bars per worker (L2)

labour costs per chocolate bar =  $\$100/1000 = 10c$  (\$0.10) per chocolate bar (L2)

*Machine B:* output per worker =  $6000/3 = 2000$  chocolate bars per worker (L2)

labour costs per chocolate bar =  $\$100/2000 = 5c$  (\$0.05) per chocolate bar (L2)

E. g. Machine B costs more to buy than machine A (L1)

Labour costs per day for machine B are \$300 (L1)

**NB: \$1000 labour costs is L1 but 1000 chocolate bars per worker is L2.**

Level 1 E.g. Machine A is less expensive than machine B. 1 mark for each statement.

Level 2 E.g. Machine A output per worker is 1000 chocolate bars per worker.

5 marks for level 2 answer.

5 marks for the first level 2 calculation. Two level 2 answers = 6 marks; three level 2 answers = 7 marks; four level 2 answers = 8 marks.

Level 3 Three or more level 2 calculations with comments made on these calculations.

Possible application marks: shares/shareholders, training, limited capital, retained profit, extra factory.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Three or more level 2 plus well-justified recommendation as to which machine to buy.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Calculated output per worker and labour costs per chocolate bar for each of the two different machines or other appropriate calculations. Appropriate comments on correct level 2 calculations (ORF applies).
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Simple comparative statements about the two different machines.

## 20. M/J 09/P02/Q1/a

(a) Content:

Advantages:

Batch production is a flexible way of working – this will help the company respond effectively to a sudden change in demand for its products – sales will increase leading to higher revenue/profits.

Production can be easily changed from adult to children's bike – making Python Bicycles able to quickly respond to changes in demand – sales will increase leading to higher revenue/profits. Workers will have some variety of jobs – this makes the work more interesting and increases job satisfaction/more motivated/increased efficiency.

Production may not be affected by machine breakdown – production can be changed to another product whilst machinery is being repaired – less time is wasted and increases efficiency

Movement of part finished bikes or finished bikes is reduced – makes production faster and more efficient.

**Disadvantages:** Batch production can be expensive – more equipment may need to be purchased – increased training required  
Increased storage costs – as more warehouse space is required for finished bikes to be stored ready for shipment to customer  
More skilled workers required – increased costs of wages/training – leads to less profit.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each advantage/disadvantage identified. Up to two further marks are available for explaining the nature of each advantage and disadvantage. 2 application marks are also available.

Below are two examples to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded in each case.

1 knowledge mark + up to 2 explanation marks + 1 application mark for the advantage or the disadvantage (4 marks × 2)

<b>Advantage:</b>	Batch production is a flexible way of working (1 knowledge mark)
<b>Simple explanation:</b>	– This will help the company respond effectively to a sudden change in demand for its different types of bicycles (1 additional mark for simple explanation).
<b>Developed Explanation</b>	Sales might therefore increase as Python Bicycles can meet customer needs and this will lead to higher revenue/profits which will be beneficial as profitability has been low (1 further explanation mark for a developed explanation)
<b>Application:</b>	The application mark could be achieved as the answer considers bicycles and recognizes that the business has low profitability. (1 application mark)
<b>Disadvantage:</b>	Batch production can be expensive
<b>Simple explanation:</b>	– more equipment may need to be purchased as several different processes might need to be carried out to produce different bicycles (1 additional mark for simple explanation)
<b>Developed Explanation</b>	Python Bicycles will need to finance the additional capital requirements but as cash flow is not good it may need to take out a bank loan. (1 further explanation mark for a developed explanation).
<b>Application:</b>	The application mark is achieved as the answer considers bicycles and recognizes that the business does not have a good cash flow. (1 application mark)

**4.2: Costs, scale of production and break-even-analysis****1. O/N 18/P22/Q1/b****(a) Relevant points might include:**

	Advantages	Disadvantages
Reduce marketing budget by 20%	<ul style="list-style-type: none"> <li>• Reduces costs spent on advertising</li> <li>• Loyal customers may not need advertising to still demand PP pottery products</li> <li>• Already well established/well known brand – so less advertising needed</li> </ul>	<ul style="list-style-type: none"> <li>• May lead to falling sales if consumers are not persuaded to buy the pottery</li> <li>• Competitors may be advertising and attract customers</li> <li>• Reduced spending on market research – less likely to understand customer needs</li> <li>• Need to research new market in country Z – expansion may be hampered</li> </ul>
Increase investment in automated equipment	<ul style="list-style-type: none"> <li>• Increases efficiency</li> <li>• Lowers unit costs</li> <li>• Improved quality – standard product so less mistakes/fewer faults</li> <li>• Fewer workers needed leading to reduced wage cost</li> </ul>	<ul style="list-style-type: none"> <li>• High cost of initial investment may take long time to recoup the expense from lower unit costs</li> <li>• Costs incurred of making workers redundant</li> <li>• Increased debt</li> <li>• Additional training costs</li> </ul>
Change to cheaper supplier of raw materials	<ul style="list-style-type: none"> <li>• Lower cost of raw materials reduces variable costs – increase in the profit margin/lower prices</li> <li>• Lower cost of sales – increase profit margin</li> </ul>	<ul style="list-style-type: none"> <li>• May lead to a lower quality pottery reducing reputation</li> <li>• May increase transport costs (although existing supplier is not local)</li> </ul>

**Level 1 (1–3 marks)**

One mark for each advantage and/or disadvantage listed (max of three marks)

E.g. The reduced marketing budget will lead to fewer advertisements for PP products.

**Level 2 (4–6 marks)**

Detailed discussion of the advantage(s) or disadvantage(s) of each way OR balanced argument with advantage(s) and disadvantage(s) explained.

1 × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks)

E.g. The reduced marketing budget will lead to fewer advertisements for PP pottery, which may result in falling sales. However, as the pottery has a good reputation for quality it may have many loyal customers so demand may not reduce much at all. (Four marks for balanced argument plus one application mark for referring to the purchase of pottery).

**Level 3 (7–10 marks)**

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation, which justifies which way to choose.

7–8 marks for some limited judgement shown in recommendation as to which way should be chosen and/or the alternatives rejected.

9–10 marks for well justified recommendation as to which way should be chosen and why the alternative ways were not chosen.

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

Possible application marks: manufactures pottery items, factory, vases, plates, too many faulty items, private limited company, 30 years ago, skilled production workers, wants to expand by exporting to other countries, traditional methods. There may be other examples in context, which have not been included here.

## 2. O/N 18/P21/Q2/b

(a) Relevant points might include:

	Advantage	Disadvantage
Change to a cheaper supplier of raw materials:	<ul style="list-style-type: none"> <li>• Lower costs of purchasing raw materials</li> <li>• New supplier may be keen to keep GT happy so supply at better price</li> </ul>	<ul style="list-style-type: none"> <li>• May be inferior quality</li> <li>• May be an overseas supplier with higher transport costs</li> <li>• Takes time to find new suppliers</li> <li>• Takes time to build up new relationship with supplier</li> </ul>
Change the design of products so that they need fewer components	<ul style="list-style-type: none"> <li>• Quicker to assemble each toy</li> <li>• Speeds up the production process</li> <li>• Possibly fewer workers needed if fewer parts to fit</li> </ul>	<ul style="list-style-type: none"> <li>• May affect the performance of the toy if it moves</li> <li>• Toy may lose some of its quality</li> </ul>
Change from batch production to flow production	<ul style="list-style-type: none"> <li>• Much larger output produced</li> <li>• Unit costs should fall</li> <li>• Expand into new markets with increased output</li> <li>• Lower unit costs allows lower prices and more competitive</li> </ul>	<ul style="list-style-type: none"> <li>• High cost of installing machinery</li> <li>• Less able to respond to changes in styles of toys</li> <li>• May not be able to sell the much larger quantity of each style of toy</li> </ul>

**Level 1****(1–3 marks)**

1 mark for each outline of the advantages and disadvantages of each way. (max of 3 marks)

E.g. Lower cost of purchasing raw materials.

**Level 2****(4–6 marks)**

Detailed discussion of the advantages and disadvantages of each way.

1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)

E.g. Lower cost of purchasing raw materials, which should allow GT to lower the prices of their toys. This should make their toys more competitive in other countries and should lead to higher sales. (4 marks for L2 answer + 1 application mark for mentioning toys sales).

**Level 3****(7–10 marks)**

For L3 to be awarded there need to be at least 2 L2 marks awarded and then a recommendation of the best way to reduce cost.

7–8 marks for some limited judgement shown in recommendation of the way to reduce average cost and/or why not the other ways.

9–10 marks for well justified recommendation of the way to reduce average cost compared to alternatives.

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

Possible application marks: manufacturer of toys; toys sold to large toy shops throughout country Y; suitable for babies/young children; toys also exported; Marketing manager wants to sell toys online; toys manufactured using batch production; design and packaging of toys need to be adapted for each different export market; 200 different designs; plan to reduce components from 50 to 40; body of toy car can be made out of one piece of plastic; sells well designed toys of high quality; safety of the child is very important; components are imported and uses JIT; already low levels of worker motivation; recent price increases have resulted in falling sales.

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

## 3. M/J 18/P22/Q3/a

(a) Award one mark for each economy of scale. (maximum of four) Examples include:

- Purchasing economies
- Marketing economies
- Financial economies



- Managerial economies
- Technical economies

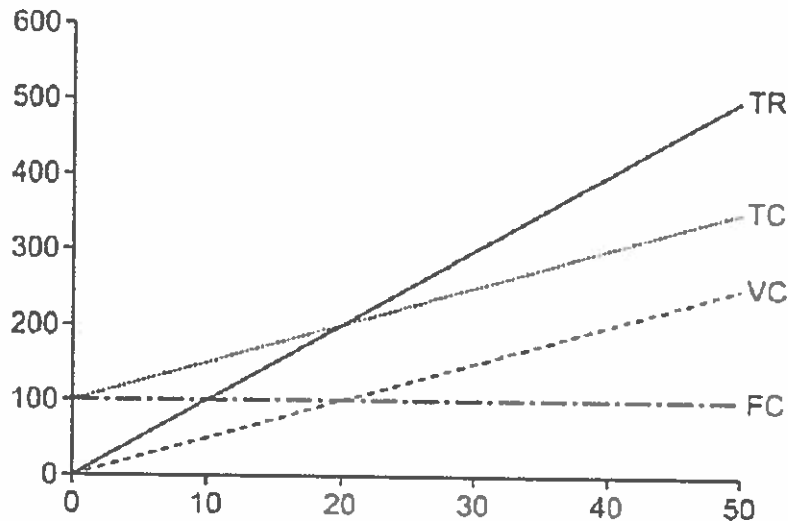
Award a maximum of one additional mark for each explanation suitable for this context. (maximum of four)

**Indicative response:**

Purchasing economy (1) as Hilda can now buy towels in bulk and receive discount for the higher quantity purchased. (1)

**4. M/J 18/P21/Q3/b**

- (a) (i) 1 mark for correct TR line – starts at 0 and goes up to \$500  
Identify the break-even number of customers per day.
- (ii) 1 mark for break-even number of customers = 20



- (iii) Relevant points might include:

	Advantages	Disadvantages
Increase prices	<ul style="list-style-type: none"> <li>• Increase in revenue if same number of gym members remain</li> <li>• Increase inflows of cash</li> <li>• Reduces break-even number of customers</li> </ul>	<ul style="list-style-type: none"> <li>• Possible decreased demand – as situated in low income area – so overall effect may not be to increase revenue and inflows</li> <li>• Expect higher quality facilities so may need to invest in more equipment</li> </ul>
Reduce variable costs	<ul style="list-style-type: none"> <li>• Less outflows</li> <li>• Increased profit</li> <li>• Reduces break-even number of customers</li> </ul>	<ul style="list-style-type: none"> <li>• Lower quality provision</li> <li>• Deter customers as perceived as reduced service</li> </ul>

**Level 1 [1–3 marks]**

Outline of advantages and disadvantages of each option. (max of 3 marks)

E.g. Increasing prices will increase inflows from increased revenue.

**Level 2 [4–6 marks]**

Detailed discussion of advantages and disadvantages of each option. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)

E.g. Increasing prices will increase inflows from increased revenue which will help to increase the profit at the gym. However, if prices are much higher than similar competing gyms then VG will lose customers and cash inflows will fall.

**Level 3 [7–10 marks]**

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation that justifies which option to choose.

7–8 marks for limited judgement shown in recommendation as to which option to use OR why the alternative option is not chosen.

9–10 marks for well justified recommendation as to which option to use AND why the alternative option is not chosen.

**Note: Do not award application marks in (iii)**

**5. O/N 17/P21/Q2/a**

(a) (i) Revenue per day =  $(25 \times \$5) + (25 \times \$10)$  (1) = \$375 (1)  
(Award 1 mark for method of calculating revenue but incorrect answer) \$375 – \$325 (1)

(Award 1 mark for method of calculating profit but incorrect answer) Profit per day = \$50 (1)

**If \$50 with no working shown then award 4 marks.**

(ii) Knowledge – 1 mark for correctly identifying one way profit can be increased.

Possible ways:

- Increase revenue (1) e.g. by increasing prices/advertising more/introducing a new service (1)
- Reduce costs/expenses (1) e.g. by finding cheaper suppliers/improving efficiency (1)

Analysis award up to 3 marks – 2 of which must be applied to this context – for a relevant explanation of one way AH could increase profit

**Indicative response:**

Elsie could increase her revenue (1) by promoting her existing services to attract more customers. (1) This will lead to more pet owners using her services and paying for their animals to be washed and groomed. (1) If costs increase by less than the increase in revenue then profit will increase. (1)

Possible application marks: Animals; dogs; cats; pets; pet owners; washing and brushing animals; qualified animal nurse; set up 2 years ago; \$10 000 from grandfather; \$10 000 from bank loan; 12 adults and 6 children workers; paid legal minimum wage; shampoo and brushes purchased from wholesaler; expand and move to larger site; needs to recruit a new manager; information on the three sites; information from Appendix 1 on the AH advert; complaint on the social media message; information from Appendix 3 on the costs and revenue of AH.

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

**6. M/J 17/P22/Q3/b**

(a) Relevant points might include:

Lower variable cost to \$0.60	<ul style="list-style-type: none"> <li>• New TC line correctly drawn on the graph (L2)</li> <li>• B/E identified at 40 000 (L2) and 20 000 (L2)</li> <li>• Profit increases from \$12 000 (L2) to \$32 000 (L2)</li> <li>• Cheaper ingredients – may be poorer quality chocolates – fewer sales than predicted</li> </ul>
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Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	Must have 2 × L2 – correct TC line plotted onto the graph and/or break-even output(s) and/or profit(s) correctly. 9–10 marks for well justified conclusion as to the best way to increase profit to choose compared to other ways. 7–8 marks for some limited judgement shown in conclusion as to the best way to increase profit.
Level 2	4–6 marks Correct new TC line drawn on the graph and/or correct breakeven output(s) identified, and/or profit(s) correctly calculated

	<b>and/or</b> Explanation of the effects of lower variable cost and/or alternative way to increase profit even if no correct answer on break – even graph.
Level 1	1–3 marks (No correct answer on break – even graph) Outline of effects of lowering variable cost and /or alternative way to increase profit such as increase price.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Lowering the variable cost will lead to higher profit.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. The new breakeven output is 20 000. (L2)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best way to choose to increase profit

**Award up to 2 additional marks for relevant application in the conclusion.**

Possible application marks:

high quality chocolates/luxury chocolates; hand-made chocolates; fillings made with luxury ingredients; sold to specialist sweet shops; objective of expansion; developing a new brand of chocolate bar; targeted at the mass market; reduce variable costs by using lower quality ingredients; purchase a new automated production line; output is expected to be high; borrow \$500 000.

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

**7. O/N 16/P22/Q2/a**

- (a) (i) Application [4 × 1] – award four marks for correct calculation.  
*Cleaning*

$$\underline{\$150(1)}$$

$$(\$30(1) - \$15(1))$$

$$= 10 \text{ houses per week (4)}$$

(If just correct answer given with no working shown award 4 marks)

1 mark for correct formula if the rest of the answer is incorrect

= Fixed costs/Contribution

- (ii) Application [4 × 1] – award four marks for correct calculation.

*Cleaning*

$$30 \text{ cleaners} \times 20 \text{ hours a week} \times \$10 \text{ price per hour} = \$6\,000 \text{ TR (1)}$$

$$30 \text{ cleaners} \times 20 \text{ hours a week} \times \$5 \text{ wages per hour} = \$3\,000 \text{ TVC (1)}$$

$$\$6\,000 - (\$150(1) + \$3\,000)$$

$$= \$2\,850 \text{ per week (4)}$$

(If just correct answer with no calculations shown given award 4 marks)

1 mark for correct formula if rest of the answer is incorrect

$$\text{TR} - \text{TC (FC + VC)} = \text{profit}$$

**8. O/N 16/P22/Q3/a**

- (a) Knowledge [2 × 1] – award one mark for each economy/diseconomy stated  
Analysis [2 × 1] – award one mark for a relevant explanation for each economy/diseconomy  
Application [2 × 2] – award two application marks for each economy/diseconomy  
Award one mark for each relevant economy/diseconomy (maximum of two), such as:

**Economy of scale**

- Purchasing/bulk buying – discount on cost of materials/equipment
- Technical – use better equipment
- Financial – cheaper interest on bank loans
- Marketing – advertising costs per customer is less
- Managerial – employ specialist managers/more skilled
- Risk bearing – produces a variety of services so if demand for one service falls it is counter balanced by increase in demand of the other services

**Diseconomy of scale**

- poor communication – more levels of hierarchy to pass through so distorted message/errors in instructions
- lower morale/motivation – more employees and feel less important
- harder to control/coordinate departments – may have too many employees in one area relative to another area so less efficient

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

Indicative response:

Bulk buying (k) so as the business grows it can bulk buy its cleaning materials for a cheaper price (ap). Bulk buying will lead to reduced costs per unit (an) and this increase the profits of the partners (ap).

Possible application marks: gardening services; house cleaning services; cleaning liquids/equipment; gardening materials/equipment; already advertising in newspapers; 50 part-time workers; 2 office workers; elderly people/parents; old people; adult children; country X; financial information from Appendix 1; information from the graph in Appendix 3.

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

**9. O/N 16/P21/Q3/b**

(a) Relevant points might include:

Option A –  $\$150\,000 \times 10\%$  = cost of \$15 000 interest per year.

Option B –  $\$75\,000 \times 10\%$  = cost of \$7 500 interest / yr plus \$10 000 = \$17 500 / year.

Option A land cost + factory + machinery = \$150 000 (L1)

Option B land cost + lease = \$85 000 (L1)

Option B will be \$72 500 cheaper in the first year (L2)

	Option A	Option B
Output	200 000 (appendix 2)	102 500 (appendix 2)
Cost	\$100 000 (appendix 2)	\$75 000 (appendix 2)
Factory + machinery	\$50 000 (appendix 2)	
Lease		\$10 000 (appendix 2)
Interest paid	\$15 000 (L2)	\$7 500 (L2)
Total cost in the first year	\$165 000 (L2)	\$92 500 (L2)
Cost per tin	\$0.83 (L2)	\$0.90 (L2)

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best option to choose compared to the alternative option. 7–8 marks for some limited judgement shown in recommendation as to the best option to choose.
Level 2	4–6 marks Option A and B discussed including calculation of costs.
Level 1	1–3 marks Option A and B outlined including comparison of costs/use of cost information.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Option A is more expensive than Option B

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (Max 6 marks). Option A is more expensive than Option B but when calculating the costs per tin then Option A is cheaper at \$0.83 per tin compared to Option B of \$0.90 per tin. (5 marks)

Level 3 – For L3 to be awarded there need to be at least two L2 marks awarded and then a recommendation which justifies which is the best option to choose.

Award up to 2 additional marks for relevant application.

Possible application marks: paint manufacturer; large limited company; imports raw materials; large factory next to a river; uses batch production; 150 production workers; start exporting paint in 2018; details of option 1 – 200 000 tins of paint, \$100 000 land cost, \$50 000 factory and machinery, interest rate of 10% ; details of option 2 – 102 500 tins of paint, \$75 000 extension cost, \$10 000 lease, interest rate of 10%  
There may be other examples in context which have not been included here.

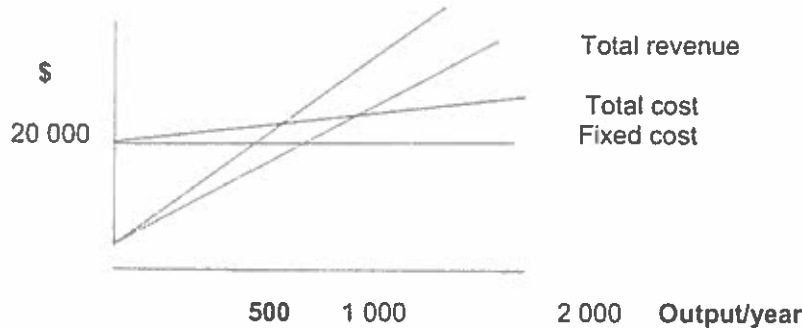
10. O/N 15/P21/Q3/b

(a) Option 1 – Increase the price of the camping cooker to \$60

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

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

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

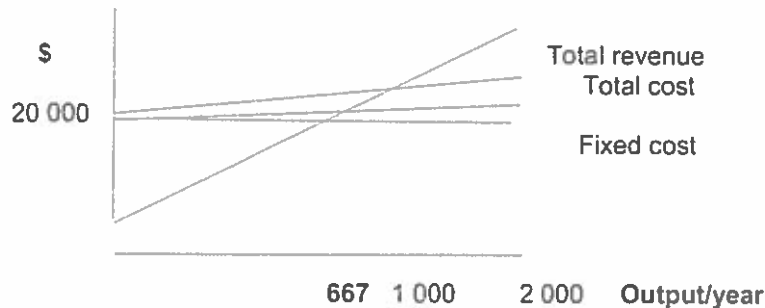


Option 2 – Decrease the variable cost of the camping cooker to \$10

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

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

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



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

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

Level 1	1 mark for each L1 statement -- increased price may lead to increased profit. (max of 3 marks)
Level 2	one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation. (max 6 marks) Break-even output of option 1 is 500. (L2)
Level 3	For L3 to be awarded there needs to be both break-even outputs correctly calculated and then a recommendation which justifies which is the best option to choose.

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

11. M/J 15/P22/Q3/b

(a) Relevant points might include:

	Advantages	Disadvantages
Option A Strawberry-flavour	Break even at a lower output of 2 000 Profit is higher	Higher price might not sell all output
Option B Coconut-flavour	Higher sales predicted Lower production costs	Slower to breakeven – 3 200

	Revenue	Total Cost	Contribution	B / E	Profit
Option A Strawberry	30 000 (L1) <b>GPM = 66.7% (L2)</b>	14 000 (L1) <b>NPM = 53.3%(L2)</b>	2(L1)	<b>2 000 (L2)</b>	<b>16 000 (L2)</b> GP 20 000 (L1)
Option B Coconut	26 250 (L1) <b>GPM = 71.4% (L2)</b>	11 500 (L1) <b>NPM = 56.1% (L2)</b>	1.25(L1)	<b>3 200(L2)</b>	<b>14 750 (L2)</b> GP 18 750 (L1)

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

	Knowledge / Analysis / Evaluation
Level 3	At least 2 × Level 2 + 9-10 marks for well justified recommendation as to the best option to choose compared to the other option. 7-8 marks for some limited judgement shown in recommendation as to the best option to choose.
Level 2	4-6 marks Break-even output and / or profit and / or profit margins correctly calculated.
Level 1	1-3 marks Outline of advantages and / or disadvantages of both options.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Option A has higher variable costs than Option B.

Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Option A has higher variable costs; a higher price and FF can break-even more quickly at 2 000 units of ice cream (4 marks for L2 answer + 1 application mark for mentioning units of ice cream).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best option to choose.

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

Possible application marks: high quality ingredients; expensive ingredients; demand high for 6 months; strawberry flavour; coconut flavour; may need bank loan.

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

12. M/J 15/P21/Q4/b

(a) Relevant points might include:

Increasing GDP in country x	<ul style="list-style-type: none"> <li>• higher incomes – increased demand</li> <li>• higher sales of luxury products – increased demand</li> <li>• may eat other products to cakes – demand falls</li> </ul>
Reduced supply of the raw materials used to make cakes	<ul style="list-style-type: none"> <li>• less ingredients available – increased costs</li> <li>• higher prices – decreased demand</li> <li>• Prices same but lower profits</li> </ul>
Television programme highlighting the effects on health of eating too many cakes	<ul style="list-style-type: none"> <li>• Negative publicity – lower demand</li> <li>• Not many see the programme – little effect on sales</li> <li>• Consumers loyal and ignore the advice</li> </ul>

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as which change has the greatest effect on profit compared to the other changes. NB must be explicit reference to the effect on profit. 7–8 marks for some limited judgement shown in conclusion as to which change has the greatest effect on profit.
Level 2	4–6 marks Detailed discussion of the changes and how they affect profits.
Level 1	1–3 marks Outline of the changes and how they affect profits.

Level 1

1 mark for each L1 statement (max of 3 marks), e.g. Increasing GDP means more people have jobs and incomes are higher.

Level 2

One L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks), e.g. increasing GDP means more people have jobs and incomes are higher. Higher incomes means more luxury products are bought and therefore people may buy more cakes to treat their family leading to increased demand for DD's cakes. (4 marks for L2 answer + 1 application mark for mentioning more cakes being bought.)

Level 3

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which change has the greatest effect on profits e.g. higher GDP will probably have the greatest effect on profits as it will lead to higher demand for the cakes. (L3) The television programme may have little effect as it depends on how many people watched it and how many people believed what they were being told. (L3) The rising cost of ingredients could be passed on to the customer and therefore there will be little effect on profits. (L3) It depends on how bad the harvest is and how big an increase there is in the costs of the ingredients. So overall increasing GDP is likely to have the greatest effect on profits. (L3) Award up to 2 additional marks for relevant application.

Possible application marks: constantly develops a new range of cakes; ingredients; food; increased production workers; \$8m investment; perishable products; luxury products; e-commerce; Figures from Appendix 2; new markets abroad; large supermarkets; small food shops.  
There may be other examples in context which have not been included here.

13. O/N 14/P21/Q5/b

(a) Content:

- Takeover – Have existing customers of DOTT Bank; quick method of expansion; Expensive;
- Internal growth – low cost; slower process; more control over growth.

DOTT bank ROCE 15% (L2) whilst PB 10% (L2);  
 Current ratio PB 1.5 (L2) whilst DOTT 0.8 (L2); Accept fractions  
 If method is correct but final answer is wrong (L1)  
 3000 customer per branch on average for PB (L2) whilst DOTT 4000  
 customers per branch (L2).

- Level 1 1 mark for each statement e.g. to takeover of DOTT Bank would be a quick method of expansion for the bank (1 mark)
- Level 2 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks e.g. the current ratio for DOTT Bank is 4/5 whereas the current ratio for PB Bank is 1.5. 6 marks for two level 2 calculations.
- Level 3 Detailed discussion of at least three level 2 calculations and then a recommendation at the end which justifies which is the best option to choose compared to the other option.

	Knowledge/Analysis/Evaluation
Level 3	9–12 marks At least 3 × Level 2 calculations plus well justified recommendation as to the best option to choose compared to the other option.
Level 2	5–8 marks Ratios calculated followed by some limited judgement shown in recommendation about the best option to choose.
Level 1	1–4 marks Outline of advantages/disadvantages of each option. Statements made about the data.

#### 14. M/J 14/P22/Q2/b

##### (a) Content:

- (i) *Buy own truck* – use when needed; no delays; cost of running vehicle; cost of buying old vehicle or \$12,000 for new truck ( $\$19.23$  for 4 deliveries a week =  $(\$4000/52)/4$ ).
- (ii) *Pay the supplier a delivery charge* – may be expensive if many small deliveries; do not have to pay large amount of capital to purchase vehicle; \$80 per week for delivery; not responsible for maintenance and wear and tear.
- (iii) *Rent a truck when needed* – only pay when using the vehicle; may be cheaper/more] expensive than buying own vehicle – it depends on usage; need to book and pay in advance – may not need it; \$200 plus fuel for 4 days a week; not responsible for maintenance and wear and tear.
- Level 1 – 1 mark for each statement  
E.g. *Rent a truck when needed* – Manuel will only pay when using the truck (1 mark)
- Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.  
E.g. *Rent a truck when needed* – when renting a truck Manuel will only pay when using the vehicle and so it may be cheaper than buying his own lorry if he doesn't make many journeys. However, if he hires a truck 4 times a week to fetch stock for the shop then it will cost \$200 and it may be cheaper to buy his own lorry. He also needs to book the delivery truck in advance to make sure he can hire one and they have not all been booked out. He needs to be organised to do this and he may find he does not need the truck and so wastes money. 5 marks for level 2 answer plus one application mark for mentioning the cost figures and needing to book the delivery truck in advance.
- Level 3 – Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best option to choose compared to the other options.

Possible application marks: located on a main road; been in business for 10 years; reference to delivery costs; reference to financial information from Appendix 1; \$4000 for old truck or 3 × \$4000 for new truck; \$20 for delivery; \$50 hire charge; wholesale supplier; cash flow problems; sole trader.



There may be other examples in context which have not been included here.		
	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks At least 2 × Level 2 + well justified recommendation as to the best option to choose compared to the other options.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each option OR balanced argument. Some limited judgement shown in recommendation about the best option to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outline of advantages/disadvantages of each option.

## 15. M/J 14/P21/Q3/b

## (a) Content:

Profit/Loss account – show if the business is covering its costs – if not then the business will not be making a return on their investment.

Cash flow forecast – shows how they are managing the cash inflows and outflows of the business – this will help Fabian to manage working capital so the business doesn't become insolvent. Prediction. *N.B. do not accept profit.*

Break-even chart – allows Fabian to know how many sales he needs in order to cover all his costs – this allows him to monitor sales to make sure he is not going to make a loss – if sales are too low then he can do something to increase them. Prediction/target.

Level 1 – 1 mark for each statement.

E.g. Break – even chart allows Fabian to know how many sales he needs in order to cover all his costs (1 mark).

Level 2– 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.

E.g. Break-even chart allows Fabian to know how many sales he needs in order to cover all his costs. This allows him to monitor sales to make sure he is not going to make a loss (L2). If sales are too low then he can do something to increase them such as have a promotion of 'buy one flower arrangement and get a second one at a discount'. This will increase income as long as the discount is not more than the cost of buying the flowers. (L2)

6 marks for level 2 answer plus one application mark for mentioning flower arrangements.

Level 3 – Detailed discussion of at least two level 2 answers and then a conclusion at the end which justifies which is the most useful compared to the other documents.

Possible application marks: flowers; flower shop; partnership; hotels and restaurants; flower arrangements; trade credit; weddings/Valentine's Day/birthdays; imported supplies of flowers;

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

	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks At least 2 × Level 2 + Well justified conclusion as to the most useful document compared to the others.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of each financial document. Judgement shown as to why each financial document is important to the running of the business
Level 1	1 mark	1–4 marks

Limited application to the case. At least one example of reference to, or use of, case.	Definition. Outline of each financial document.
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**16. M/J 13/P22/Q5/b****(a) Content:**

(Takeover another wood product manufacturer)

Adv. – already established business; saves time; less expenditure on advertising; more ideas.  
Disadv. – expensive; owners may not want to sell; poor reputation/image of business being taken over; possible redundancies.

(Open up own new TWP factory)

Adv. – choose the employees; set up business to own preferences; choose location.

Disadv. – time; capital required; need to build up customer base; advertising costs.

Level 1 1 mark for each statement

E.g. If he takes over an existing business then it is quicker to expand (1 mark)

Level 2 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.

E.g. If he takes over an existing business then it is quicker to expand as Tibalt only needs to buy the business. It already has a factory producing wood products and regular customers who buy windows etc. All this means that Tibalt can expand quickly with existing employees who know the business. 5 marks for level 2 answer plus 1 application mark for mentioning windows.

Level 3 Detailed discussion of two x level 2 answers and then a recommendation at the end which justifies which is the best option and why the other option is less suitable.

Possible application marks: wood importers; wood products; local forests; building firms; repair/build houses and offices; trees; batch and job production; sole trader; sustainable forests; financial information from Appendix 1.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Two x Level 2 + well justified recommendation as to the best option compared to the alternative option.
Level 2	2 marks Well applied to case. At least two examples of, references to, or uses of, the case.	5–8 marks Good discussion of advantages/disadvantages of each option OR balanced argument (even if listed). Limited judgement in recommendation as to the best option.
Level 1	1 mark Limited application to the case. At least one example of, reference to, or use of, the case.	1–4 marks Advantages/disadvantages of each option listed.

**17. O/N 12/P21/Q3/a****(a) Content:**

**Advantages** buy direct from manufacturer so cheaper/wholesaler not necessary; get advice; technical support; range of products; free delivery; large supplier benefits from economies of scale so lower prices.

**Disadvantages** dictated to by large manufacturer; bottom of priority list for deliveries; difficult to complain as no alternative; have to buy a large amount; storage required for bulk purchase; monopoly supplier charges high prices.

The marks available for this question are as follows: 2 marks for advantage/disadvantage; 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each advantage/disadvantage (4 marks × 1 advantage + 4 marks × 1 disadvantage)

Possible application marks:

car; car repairs; car parts; mechanic; car servicing; sole trader; business customers and private customers; garage; workshop; car showroom; importing cars; reference to figures in the case or Appendix 1 or 3.

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

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Disadvantage:	Dictated to by large manufacturer. (1 knowledge mark).
Simple explanation:	Dictated to by large manufacturer (1) as the repair business only buys a small amount of parts and so it is not that important to the large manufacturer. (1 additional mark for simple explanation)
Developed explanation:	Dictated to by large manufacturer (1) as the repair business only buys a small amount of parts and so it is not that important to the large manufacturer (1). The large parts manufacturer will not need to keep the customer happy as Kolo does not have an alternative of where to buy the car parts from. (1 further explanation mark for a developed explanation)
Application:	The application mark could be achieved as the answer refers to repair business. (1 application mark)

#### 18. O/N 11/P21/Q4/a

##### (a) Content:

Financial; marketing; technical; risk-bearing; managerial; bulk buying/purchasing.

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each economy of scale (4 marks × 2 economies of scale).

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks:

suits (any reference to any aspect of suits reward once only); material/fabric; buttons; thread; one finance manager; invest in new machinery.

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

Economy of scale: The business could gain financial economies of scale. (1 knowledge mark)

Simple explanation: The business could gain financial economies of scale because it has expanded and is now larger and banks will see it as being more likely to pay the money back and therefore less risk. (1 additional mark for simple explanation)

Developed explanation: The business could gain financial economies of scale because it has expanded and is now a larger company, so banks will see it as being more likely to pay the money back and therefore less risk. Less risk will mean that the interest rates will be lower to reflect the lower risk. (1 further explanation mark for a developed explanation)

Application: The application mark could be achieved as the answer refers to expanding to become a larger company. (1 application mark)

## 19. M/J 11/P22/Q2/b

## (a) Content:

- (i) Advantages – the price will be lower as buying in bulk; less administration as orders sent less frequently.  
Disadvantages – need to store food; may go off if kept too long; increased storage costs if need to refrigerate food.
- (ii) Advantages – support local economy; may be cheaper; quality may be higher (if justified).  
Disadvantages – higher transport costs; quality may be lower (if justified); may not have full range of food products.
- (iii) Advantages – can decide what to produce; absorb profit from farms; control over quality.  
Disadvantages – large capital outlay to buy the farm; may not have expertise to run the farm; need to employ additional staff with different skills.

Level 1 There will be a large capital outlay to buy the farm in the first place.

1 mark for each statement.

Level 2 E.g. There will be a large capital outlay to buy the farm. This may mean that the company will have to borrow large sums of money and interest payments may be high. They may not have the expertise to run the farm and it may not be as efficient. Therefore there will be higher costs, which may mean that the food products are more expensive than buying from more efficient producers and the price of ready meals may have to increase.

6 marks for good level 2 answer plus 1 application mark for mentioning food products and ready meals.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer, i.e. two level 2 answers = 6 marks; three level 2 answers = 7 marks; four level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained also then 8 marks in total can be awarded.

Level 3 Detailed discussion of three level 2 answers and then a conclusion at the end which justifies which is the best way.

Possible application marks: private limited company; ready-made meals; expansion; airlines or international flights; airline industry; increasing economic growth; perishable foods; raw materials; crops; food stores; reference to figures in Option 1 or 2; harvest.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Three x level 2 plus well-justified recommendation as to the best way to purchase its food rather than the alternative ways.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each of the methods of purchasing food OR balanced argument (even if listed). Some limited judgement shown about which method to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages/disadvantages of each of the methods of purchasing food listed.

## 20. M/J 11/P21/Q4/a

## (a) Content:

To estimate how many sales need to be made to cover all the costs; to see what will happen to the break-even point if costs or prices change; to calculate the margin of safety for the different products.

The marks available for this question are as follows:

2 marks for knowledge; 2 marks for application; 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each way (4 marks x 2 ways).

Below is an example to illustrate the difference between a simple explanation worth 1 additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks: chocolate bars, boxes of chocolates, sweets, cocoa suppliers, production machinery, factory, R & D Department.  
There may be other examples in context which have not been included here.

Way: To estimate how many sales need to be made to cover all the costs. (1 knowledge mark)

Simple explanation: To estimate how many sales need to be made to cover all the costs so that the business will not lose money on its output and will make a profit. (1 additional mark for simple explanation)

Developed explanation: To estimate how many sales need to be made to cover all the costs (1) so that the business will not lose money on its output and will make a profit (1).

If they did not know what the break-even level of output was then the business might be losing money and may not be aware of this until the end of the year when the profit and loss account was calculated.

**OR**

Break-even analysis allows them to monitor the sales to be sure all the costs are being covered and if not then they can take some action to cut the costs of cocoa or increase the sales of chocolates.

(1 further explanation mark for a developed explanation)

Application: The application mark could be achieved as the answer refers to cocoa and sales of chocolates. (1 application mark)

## 21. M/J 11/P21/Q5/a

### (a) Content:

To gain an ethical reputation with consumers; to support cocoa growers in developing countries; to improve brand image.

The marks available for this question are as follows:

2 marks for knowledge; 2 marks for application; 4 marks for explanation/analysis.

1 mark for each reason identified (2 marks max). Up to 2 further marks are available for explaining why it buys cocoa from Fair Trade cocoa farmers.

2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth 1 additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason (4 marks x 2 reasons).

Possible application marks: chocolate bars, boxes of chocolates, Fair Trade cocoa, 10% higher price, minimum wage, no children, regularly inspected.  
There may be other examples in context which have not been included here.

Simple explanation: To support cocoa growers in developing countries. (1 mark for knowledge)

Developed explanation: To support cocoa growers in developing countries (1). This means that workers will be paid a fair wage and not below minimum wages (App) and this will give the company a better reputation with its consumers (2). Sales may even increase because of its ethical reputation (3).

Application: The application mark could be achieved as the answer makes reference to workers being paid below minimum wage. (1 application mark)

## 22. O//N 10/P22/Q1/a

### (a) Content: price; quality; location; transport; credit; variety of food sold; reliability of supplier.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application, and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each factor (4 marks x 2 factors)

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks: any specific food products, e.g. vegetables; customers; wedding customers; business customers; meals; city.  
There may be other examples in context which have not been included here.

Reason: how far away is the farm (1 knowledge mark)

Simple explanation: so that transport costs will be kept down. If the farm is a long way away, this will add to the restaurant's costs and it may mean they have to increase the price of their meals. (1 additional mark for simple explanation)

Developed explanation: How far away is the farm (1) so that transport costs will be kept down. If the farm is a long way away, this will add to the restaurant's costs and it may mean they have to increase the price of their meals (1). If their prices are increased, they may not be as competitive and they may lose customers and therefore have lower profits. (1 further explanation mark for a developed explanation)

Application: the application mark could be achieved as the answer refers to restaurant customers and meals. (1 application mark)

### 23. O//N 10/P21/Q1

#### (a) Content:

Fixed costs -- costs do not vary (1) with output (2 marks)

Variable costs -- vary (1) directly with output (2 marks)

2 marks for examples of fixed costs -- e.g. electricity (utilities), rent, business rates, maintenance, salaries of hotel managers

2 marks for examples of variable costs -- e.g. wages of restaurant staff, laundry bill, food, drinks for the bar, water for showers.

The marks available for this question are as follows: 4 marks for knowledge and 4 marks for application.

#### (b) Content:

Hotel -- 75% revenue and 25% of costs but most of the fixed costs will be for the hotel rooms. Try to increase occupancy from 50%.

Restaurant -- 5% revenue and 10% costs. Open the restaurant to non-residents.

Leisure Centre -- 10% revenue and 10% costs. Open the leisure centre to non-residents; increased usage and revenue; stay and use restaurant.

Car parking -- 10% revenue and 5% costs. Increase usage by non-residents but may put off hotel guests if parking becomes difficult.

**NB Do not reward a description of 'how' to increase profits, e.g. advertising the hotel.**

Possible calculations for Level 2

	Revenue	Costs	Net profit
Hotel	1 500 000	450 000	1 050 000 (L2)
Restaurant	100 000	180 000	(80 000) (L2)
Leisure Centre	200 000	180 000	20 000 (L2)
Car parking	200 000	90 000	110 000 (L2)
		FC = 900 000	

Level 1 E.g. the restaurant has only 5% of the revenue but 10% of the costs, so it is losing money. 1 mark for each statement.

Level 2 E.g. the restaurant has only 5% of the revenue, which is \$100 000 but 10% of the costs, which is \$180 000, and so it is losing \$80 000 (L2). If non-residents are encouraged to use the restaurant, this will increase revenue without much increase in costs and so profits should increase (L2). 6 marks for developed level 2 answer. 5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.

However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded.

**Level 3** Detailed discussion of at least two level 2 answers including calculations and then a conclusion at the end which justifies which is the best way for the hotel to expand.  
E.g. level 2 calculations + so in conclusion, I think the hotel should introduce a membership scheme for the leisure centre. They could increase the room occupancy of the hotel and this should increase revenue. However, the costs of advertising may need to be increased or the price of hotel rooms reduced to encourage more guests and so revenue may not increase by very much.  
Membership fees will give steady revenue each month without an increase in costs, again increasing profit. Therefore concentrating on a membership scheme for the leisure centre will be the best option to take.  
12 marks for a justified conclusion.

Possible application marks: restaurant; leisure centre; car parking; reference to quantitative data in case; tourists; business customers; membership of leisure centre; weddings and birthday celebrations; conference facilities.  
There may be other examples in context which have not been included here.

	Application	Analysis/Evaluation
<b>Level 1</b>		9–10 marks Level 2 calculations from Appendix 1 + well-justified recommendation for the best way to increase profits.
<b>Level 2</b>	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of different suggestions. Profit figures could be calculated from the percentages for revenue and costs. Some limited judgement shown about the effectiveness of how to increase profits.
<b>Level 3</b>	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Points listed and/or figures compared.

**24. M/J 10/P22/Q3/b**

- (a) **Content:** Baskets of flowers for the home – large potential market; a lot of competition; sales all year round; growing market (L1).  
Baskets of flowers for restaurants – sales all year round; expensive product (L1). Option 2 is more profitable than Option 1(L1); Costs are higher for Option 2 than Option 1 (L1).  
Correct answers for net profit:

Home	Restaurant
\$ 5 000 per month	\$ 15 000 per month
\$ 60 000 per year	\$ 180 000 per year

**L2 should be awarded if the correct method is used to calculate net profit. If the answer is also correct then award an additional L2.**

Two possible methods to calculate net profit:

Method 1 (Price – VC)(L1) × number of sales = answer (L1)

(Answer – FC) = answer (L2); Correct method L2 even if calculation error.

**OR**

Method 2	<p>(VC × number of sales) (L1) + FC = answer (L1) Sales revenue – total cost answer = answer (L2) Correct method L2 even if calculation error</p> <p>E.g. (Home) Price = \$10 × 2 000 = \$20 000 sales revenue (L1) (L1) \$15 000 total cost (L1) FC = \$5 000 and VC = \$5 × \$5 000 net profit per month (L2 × 2) 2000(L1) \$60 000 net profit per year (L2 × 2) (Restaurant) Price = \$30 × 1 000 = \$30 000 sales revenue (L1) (L1) \$15 000 total cost (L1) \$15 000 net profit per month (L2 × 2)</p>
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		FC = \$ 5 000 and VC = \$5 × \$180 000 net profit per year (L2 × 2) 1000(L1)
		Net profit margin may also be rewarded if attempted. If used correct method then (L2) if also correct answer award an additional L2. Home – 25% net profit margin (L2) Restaurant – 50% net profit margin (L2)
		If gross profit margin calculated then award one L2 mark for each one (Home = 50% and Restaurant = 66.7%)
		E.g OFR (own figure rule) e.g. if net profit incorrectly calculated omitting FC for restaurant flowers to give \$20 000 profit and a net profit margin of 67% award L2 for correct method of calculation of profit margin.

- Level 1 E.g. Bashir could sell baskets of flowers to restaurants all year round whereas his sales of wedding flowers are only good for half of the year. 1 mark for each statement
- Level 2 E.g. Net profit for selling baskets of flowers to restaurants is \$15 000 per month. (6 marks for level 2 answer.)  
5 marks for the first level 2 answer. Plus 1 – 2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.
- Level 3 This will include at least **two L2** calculations from **both options** with comments on the figures and judgement explained as to which market should be chosen.

	Knowledge/Application/Analysis/Evaluation
Level 3	9–12marks Level 2 + Comments made on at least two L2 calculations and/or ratios from both options. Decision made and justified as to which market should be chosen
Level 2	5–8 marks Financial information calculated and/or ratios calculated on the profitability of each of the markets. Interpretation of the figures
Level 1	1–4 marks Basic statements about financial or market information/limited judgement shown.

25. M/J 10/P22/Q5/b

- (a) **Content:** Cash flow forecast – table showing estimated cash flows of the business over a period of time – helps when budgeting or when asking for an overdraft.  
Profit and loss account – shows whether the business has made a profit or a loss over the year, owners can see if they will get a return on their investment, possibility of retained profit for investment, measure of the success of the business.  
Break even analysis – shows the minimum amount of products sold to just cover costs – target amount to ensure a loss is not made, can monitor the business and can show if it needs to do something to stimulate sales.

- Level 1 E.g. Profit and loss account shows whether the business has made a profit or a loss over the year. 1 mark for each statement.
- Level 2 E.g. Profit and loss account – shows whether the business has made a profit or a loss over the year. It can be compared with competitors and with previous year's accounts to assess if the flower business is improving or getting worse. (5 marks for level 2 answer plus 1 application mark for mentioning flower business.)



5 marks for the first level 2 answer. Plus 1 – 2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.

Level 3

Three level 2 answers with good evaluation shown as to the importance of each financial document/analysis.

To get to L3 the candidate would need to add evaluative comments to L2 response e.g. if they compare the net profits or net profit ratio of Bashir Baskets with their competitors they can see how well they are doing and if they need to be trying to sell more baskets of flowers or if they are already performing well.

Possible application marks: flower baskets; flower shops; seasonal demand; reference to quantitative data in case; flowers for the home; flowers for the restaurant; flowers for weddings; sole trader; profits remain the same for last two years.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Three Level 2 plus good evaluation shown as to the importance of each of the financial documents/analysis.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the importance of each of the financial documents/analysis.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Each of the items outlined/defined.

26. M/J 10/P21/Q5/b

(a) Content:

Option A – Tours Gross profit = 33% (L2);

Tourism is a growing market although not for the whole year (February to May); lots of sites to visit; need a guide although not expensive; fits in well with existing use of buses – use them in the day when they are not busy and therefore do not need to buy additional buses; use existing buses more productively.

Total revenue (120 days)	\$36 000	
Total variable costs (120 days)	\$24 000	
Profit	\$12 000	(L2)
Revenue \$300 – Costs \$200 =	\$100	(L1)

Option B – Bus routes – Gross profit = 50% (L2);

gross profit margin better than Option A; demand for 7 days a week and for longer hours (6.00am – 12.00 midnight) – which employees may not be happy with – need to increase wages; more capital needed to buy additional buses; need to buy a licence \$10 000 per bus each year; competitive market.

Total revenue (365 days)	\$146 000	
Total variable costs (365 days)	\$73 000	
Profit	\$73 000	(L2)

Minus Government licence      \$10 000      (L1 but \$63 000 or consideration of the licence included in the calculation = L2)

Revenue \$400 – Costs \$200=      \$200      (L1)

Level 1      –      E.g. Tourism is a growing market. 1 mark for each statement

Level 2      –      E.g. Tourism is a growing market and therefore there is an increasing demand. The buses are not used in the day so the buses and their drivers can be used more efficiently after they have taken the children to school or workers to work. (5 marks for level 2 answer plus 1 application mark for mentioning buses, drivers, taking children to school and taking workers to work.

5 marks for the first level 2 answer. Plus 1-2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained then 8 marks in total can be awarded.

Level 3      –      Detailed discussion of at least two level 2 answers which considers Option A and B. There will be a conclusion at the end which justifies option would be more effective and why.

Possible application marks: new bus routes, cost of buses, government licences, tours, tourist season (Feb-May), training additional staff, tourism is a growing business. There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 + Good judgement shown as to whether to use Option A or B
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the advantages/disadvantages of Option A and B. AND/OR financial calculations. Some limited judgement shown about which option to use.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outlined advantages/disadvantages of Option A and b.

**27. O/N 09/P2/Q4/b**

**(a) Content:**

- Level 1      Statements e.g. fixed costs are higher for European buyer \$2 000 a year – \$1 000 a year for the existing products  
Variable costs are higher – \$0.25/kg compared to 0.125/kg  
Break-even is at a lower output – 4 000 compared to 8 000  
Profits are higher (no figures given)
- Level 2      Calculations e.g. prices are higher for European buyer – \$0.75 (Level 2) compared to \$0.25 (Level 2) for the existing vegetables sold at the local market  
Profits are higher – \$2 500 (2 × Level 2) a year compared to \$125 (2 × Level 2)  
Margin of safety higher – 5 000 compared to 1 000 (Level 2)  
(Maximum 4 × Level 2 = 8 marks)  
Maximum of 1 × Level 2 can be awarded where the candidate has attempted to calculate profit but make an arithmetic error and then correctly interpreted the results.

Calculations for vegetables sold at local markets

Total Cost – VC ( $0.125 \times 9000$ ) = \$1125 plus FC = \$1000\*

Total Cost = \$2125 (Level 2)

Profit = \$2250\* (Total Revenue) – \$2125 (Total Cost) = \$125 (2 × Level 2)

Calculations for vegetables sold at European markets

Total Cost – VC ( $0.25 \times 9000$ ) = \$2250 plus FC = \$2000\*

Total Cost = \$4250 (Level 2)

Profit = \$6750\* (Total Revenue) – \$4250 (Total Cost) = \$2500 (2 × Level 2)

\*indicates figures taken directly from graph and not calculated.

Knowledge/Application/Analysis/Evaluation	
Level 3	9–12marks Level 2 calculations + comments made on profits & output. Decision made and justified as to whether to change to the European supermarket chain.
Level 2	5–8 marks Financial information calculated and/or profits calculated.
Level 1	1–4 marks Basic statements about the break-even charts or other financial information from the case/limited judgement shown.

28. M/J 08/P2/Q1/b

(a) Content:

It would help Abdul estimate how many sales each business would need to make to cover all the costs.

He can compare the break-even point with the predicted sales for each business.

Help to estimate how much profit each business might make.

Help him to estimate how long it would take for the business to break even after starting up.

	Application	Knowledge and Analysis
Level 2	2 marks Well applied to the case.	5–6 marks Usefulness of break-even analysis explained when choosing between the two businesses – or why break-even analysis may not be reliable.
Level 1	1 mark Limited application to the case.	1–4 marks Knowledge of break-even shown. Elements of break-even analysis listed. How break-even analysis might be used.

### 4.3: Achieving quality production

#### 1. O/N 18/P22/Q1/a

- (a) Knowledge [2 × 1] – Award one mark for each relevant method (maximum of two),  
Analysis [2 × 1] award one mark for a relevant explanation of the method  
Application [2 × 2] award two application marks for each method

Methods might include:

- Quality control – checked at the end/checked by inspectors/aims to eliminate faults before product gets to customers/less training needed as inspectors employed to check quality
- Quality assurance – checked by employees throughout the production process/eliminates faults before it passes to the next stage of production process/reduced costs as less need to reduce prices of faulty products/more expensive to train staff to check their own work/relies on workers being committed to maintaining a standard
- Total Quality Management (TQM) – continuous improvement by focusing on each and every stage of the production process/quality become central ethos of employees/'right first time' means no customer complaints/reduced costs as no faults to repair or price reductions needed/expensive to train all employees/relies on all employees accepting responsibility for ensuring quality
- (Employees) Additional training of employees/recruit experienced workers – less likely to make mistakes
- (Raw materials) Change supplier/improved quality of raw materials – improved quality of final product if inputs better
- (Equipment) Introduction of automation/new technology – fewer faults as products are standardized Award a maximum of three additional marks for each explanation of how the method ensures quality production – **2 of which must be applied to this context.**

Indicative response: Quality control [k] is a traditional way the pottery can be checked (ap) at the end of the production process to make sure any faulty products are stopped from being sent out of the factory. [an] This means that a selection of cups and saucers are checked before they are packaged to ensure the products are perfect. (ap)

Possible application marks: manufactures pottery items, factory, vases, plates, private limited company, 30 years ago, skilled production workers, traditional methods, job production. There may be other examples in context, which have not been included here.

#### 2. M/J 17/P21/Q1/a

- (a) Knowledge [2 × 1] – award one mark for each way.  
Analysis [2 × 1] – award one mark for a relevant explanation for each way.  
Application [2 × 2] – award two application marks for each way.  
Award one mark for each way (maximum of two), from this list:

- Quality control
- Quality assurance
- Quality labour – skilled/trained workers
- Quality materials – consider producing own T-shirts instead of buying in
- Use new technology/new computer-controlled equipment/CAD,CAM or CIM
- TQM/quality circ

**Do not accept** JIT or lean production.

Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context - of how the quality can be achieved.

**Indicative response:**

Quality control (k) means that each batch of children's T-shirts are checked at the end of the production process (app) If there are any faults then the batch can be sewn up and repairs made to any gaps in the seams (app) so that products only leave the factory if they are correctly made and in perfect condition (an).

Possible application marks:

Ready-made plain white T-shirts; high quality material; prints designs; T-shirts imported from country Q, a developing country; 50 different designs; batches production of various sizes; personalized T-shirts; buying new computer controlled equipment for \$500 000; retailers expect high quality products

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

## 3. O/N 13/P21/Q2/a

## (a) Content:

- good reputation
- repeat sales
- not be prosecuted
- more competitive
- charge a higher price

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 mark for each reason identified (2 marks max). Up to two further marks are available for explaining each reason. 2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason.

(4 marks × 2 reasons)

Possible application marks: many competitors in the area; food stall; café; meals; sole trader; hot food; shoppers/tourists; high quality food ingredients; vegetables; football stadium; concerts/other sporting events.

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

Simple explanation: To gain repeat food sales (1 mark for knowledge).

Developed explanation: To gain repeat food sales (1) as customers will be happy with good quality food and be willing to keep coming back to buy food from the stall (1). They may tell friends and these may also come to the stall and this will increase sales and also profits (1).

Application: The application mark could be achieved as the answer makes reference to food sales (1 application mark).

## 4. M/J 13/P21/Q2/b

## (a) Content:

**Rent tools to customers instead of selling the tools**

Adv – cheaper for customer; leads to increased sales; increased revenue from stock.

Disadv – high set up costs; repair damaged tools; non-return of tools; may lead to lower sales of tools.

**Sell high quality tools to construction businesses**

Adv – attract a different market; increased sales.

Disadv – very competitive market; less expertise; higher cost to purchase of tools.

**Start to also sell paint and decorating equipment in the shops**

Adv – sell more products to new customers; encourage increasing sales of existing stock.

Disadv – limited expertise; possibly lower profit margin.

Level 1 – 1 mark for each statement

E.g. Renting drills is cheaper for the customers which means sales could increase. (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.

E.g. Renting drills is cheaper for the customers which means rentals could increase. Because there are more rentals it will lead to higher revenue from each drill and so sales revenue will increase leading to higher profits. 5 marks for level 2 answer plus 1 application mark for mentioning drills.

Level 3 – Detailed discussion of two × level 2 answers and then a recommendation at the end which justifies which is the best option and why the other way is less suitable.

Possible application marks: retail establishment; partnership; small/large shops; reinvested profits; build or repair own houses; building firms; bad weather; damage to buildings; recession.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Two × Level 2 + Well justified recommendation as to the best way to increase sales revenue compared to the alternative ways.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each way to increase sales revenue OR balanced argument (even if listed). Limited judgement in the recommendation as to the best way to increase sales revenue.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Advantage/disadvantage of each way to increase sales revenue stated.

## 5. M/J 12/P22/Q2/a

## (a) Content:

- Good reputation
- Increased sales
- More competitive
- Can charge a higher selling price
- Creates customer satisfaction
- Creates brand loyalty.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason.  
(4 marks × 2 reasons)

Possible application marks: schools; children/students; sewing machines; private limited company; special design uniform; trading for 15 years; standard design; large clothes shops; cloth purchased from local supplier; government announcement about school uniforms; material used.

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

For example:

To gain a good reputation (1 mark for knowledge) so that customers are confident that the school clothes will last their children a long time. (1)

This means customers will keep coming back and buying SCS products and so keep sales and profits high. (1)

Application: The application mark could be achieved as the answer makes reference to school clothes and children. (1 application mark)

## 6. O/N 10/P21/Q4/a

## (a) Content:

To keep a good reputation; to increase competition; keep customers happy; reduce complaints.  
The marks available for this question are as follows:

2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason

(4 marks × 2 reasons)

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks: high quality food served; hotel occupancy; hotel guests.  
There may be other examples in context which have not been included here.

Reason: to keep a good reputation (1 knowledge mark)

Simple explanation: this will mean that people will keep coming back to the restaurant when staying at the hotel and tell their friends about the restaurant. (1 additional mark for simple explanation)

Developed explanation: to keep a good reputation (1) this will mean that people will keep coming back to the restaurant when staying at the hotel and tell their friends about the restaurant (1). All of this should help to ensure that the hotel keeps a high proportion of rooms occupied and therefore make an increased profit. (1 further explanation mark for a developed explanation)

Application: the application mark is achieved as the answer refers to hotel guests using the restaurant and a high proportion of rooms occupied.  
(1 application mark) 4 marks in total for the answer.

**4.4: Location decisions****1. O/N 18/P22/Q4/b****(a) Relevant points might include:**

Locating a factory in country Z	<b>Benefits</b>
	<ul style="list-style-type: none"> <li>• Jobs created/Unemployment reduced (L1) – less payments made by the government to support the unemployed/more money available for alternative government spending/higher wages leads to increased spending</li> <li>• Increasing incomes (L1) – increased economic growth – leads to increased spending in country Z – higher tax revenue from income tax/improved standard of living</li> <li>• Reduced imports as no need to import PP products (L1) – improves B of P and less likely for exchange rate to depreciate as a result</li> <li>• Lower prices from increased competition (L1) – improved standard of living for the population of country Z</li> <li>• More competition leads to more choice for consumers</li> </ul>
	<b>Drawbacks</b>
	<ul style="list-style-type: none"> <li>• Local businesses have increased competition (L1) – may lead to lower demand/jobs lost/close down</li> <li>• Repatriated profit (L1) – so less tax revenue for the government in country Z</li> <li>• Pollution/environmental effects (L1) – external costs/increased traffic/overcrowded/congestion increases</li> <li>• Depletion of natural resources (L1) – possibly lower economic growth in the future</li> <li>• PP might bring in own senior staff and therefore jobs created are low skilled</li> </ul>

**Note: do not reward an answer that is from the point of view of PP**

**Level 1 (1–3 marks)**

One mark for each benefit and/or drawback stated of PP locating a factory in country Z. (max of three marks)

E.g. Jobs are created.

**Level 2 (4–6 marks)**

Detailed discussion of the benefit(s) and/or drawback(s) of PP locating a factory in country Z. 1 × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks)

E.g. Jobs are created which leads to lower unemployment. (L1) However, as the economy of country Z is already growing (Ap) it may not need any further help in boosting jobs and growth and it may even lead to inflation as wage rates increase due to labour shortages. (Four marks for L2 answer plus application for recognising that country Z has higher rates of economic growth).

**Level 3 (7–10 marks)**

For L3 to be awarded there needs to be at least two L2 marks awarded and then a justified recommendation as to whether or not the government of country Z should allow PP to locate a factory there.

7–8 marks for some limited judgement shown in the recommendation as to whether or not the government of country Z should allow PP to locate a factory there.

9–10 marks for well justified recommendation as to whether or not the government of country Z should allow PP to locate a factory there.

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

Possible application marks: high economic growth, falling unemployment in country Z, sales of pottery increasing, increased competition in country Z, manufactures pottery items, vases,



plates, private limited company, 30 years ago, wants to expand by exporting to other countries, traditional methods. There may be other examples in context, which have not been included here.

2. O/N 17/P22/Q3/b  
(a)

	Advantages	Disadvantages
Site X:	Large site Lowest cost Fertile land	Far away from market – 30 miles – high travel costs Buildings need to be built – additional cost
Site Y:	Near to city at lower cost Nearer to hotels than site X Large glasshouses already there – less cost and quicker to get started trading from the site	Repair costs of \$4000 has to be Paid Still have to travel to customers
Site Z:	Very close to market/customers Close to existing site Shop and car park on site attracting customers	Highest cost - \$30 000 Smallest area and little chance of expansion in the future

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to best site to choose and why not the other sites. 7–8 marks for some limited judgement shown in recommendation as to best site to choose.
Level 2	4–6 marks Explanation of advantages and/or disadvantages of each site.
Level 1	1–3 marks Statement of advantages and/or disadvantages of each site.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Site Z is the most expensive of the three sites.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Site Z is the most expensive of the three sites and this will make it more difficult to finance the purchase of the land. Also there is no room to expand and so GS may have to move again if it wants further expansion in the future. However, it is near to customers and this will reduce cost and time for the gardeners getting to and from the hotels. (4 marks for one L2 answer plus one application mark for referring to hotels, gardeners, the land being most expensive)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the best site to choose.

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

Possible application marks: Partnership; set up by 2 brothers; information about the three sites found in the case study.

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

## 3. O/N 17/P21/Q3/b

(a) Relevant points might include:

	Advantages	Disadvantages
Site X	Lowest cost Plenty of room for large kennels – owners will like this Room to expand in the future so will not need to relocate again soon	Small farm buildings = not big Enough Needs converting and a long way from customers – would they travel that far? Additional costs of \$10 000 to repair. Serving fewer customers than they have already = 25 per day
Site Y	Larger area – more demand Buildings in good repair so less required to convert them Serve twice as many customers as Site X and more customers than existing site	Additional costs of \$5 000 to convert the building. A lot fewer customers served than Site Z
Site Z	Existing customers – large demand – serve the most customers Near to many potential customers as in centre of city – convenient for customers	High cost – most expensive of the three sites Busy area – hard to park Limited space – small cages – not able to expand in the future – may need to move again in the future Cramped space may lead to bad reputation – lower quality services

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

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to best site to choose and why not the other sites. 7–8 marks for some limited judgement shown in recommendation as to best site to choose.
Level 2	4–6 marks Detailed advantages and/or disadvantages of each site or explanation of the impact of the site on the business
Level 1	1–3 marks Outline advantages and/or disadvantages of each site or simple comparative statement

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Site X is the cheapest of the three sites.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Site X is the cheapest of the three sites and this will reduce the amount of finance required to purchase the site. However, it is a long way from customers who are in the city centre and this may mean she has to reduce prices. (L2 = 4 marks plus one application mark for using the information in case)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the best site to choose.

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

Possible application marks: Animals; dogs; cats; pets; pet owners; washing and brushing animals; set up 2 years ago; \$10 000 from grandfather; \$10000 from bank loan; 12 adults and 6 children workers; shampoo and brushes purchased from wholesaler; needs to recruit a new manager; information on the three sites; information from Appendix 1 on the AH advert; information from Appendix 3 on the costs and revenue of AH.

## 4. M/J 16/P21/Q4/a

(a) Application [4 × 1] award one application mark for each factor (maximum of 4)

Analysis [4 × 1] award one mark for an explanation of each factor (maximum of 4)

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

- Size of premises available
- Cost of premises
- Condition of the buildings
- Car parking available for patients
- Security of the area
- Access by public transport
- Easy access by roads
- Close to existing patients
- Retention of existing dentists/employees
- Other dental clinics in the area
- Nature of the surrounding businesses.

Do not reward good access for suppliers and wage levels of workers in the area.

Award a maximum of one additional mark for each explanation – 2 of which must be applied to this context – of the factor.

Indicative response:

Parking available for patients [ap] because if there is not sufficient parking available for patients to use then they may prefer to go to alternative dental clinics for treatment and DDC may lose these patients [an].

Possible application marks: largest dentist clinics in the country; employs 8 dentists, 10 assistants, 3 receptionists, 1 general manager for the clinic; reputation for high quality treatments; private patients; Government-owned dentist clinics; job vacancies for dentists and assistants; information from Appendix 1 and 2.

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

**5. O/N 15/P22/Q4/b**

(a) Relevant points might include:

	Advantages	Disadvantages
Option A – near Main City	(Low rent) = low fixed cost (Housing nearby) = workers/customers live nearby (No other shops nearby) = no competition in the area – easier to make sales (Grants available) = contribute to start-up costs (High unemployment) = easy to recruit workers – wages kept lower	(High unemployment) = means incomes low leading to low demand (High crime rate) = leading to high security costs – deters customers from visiting the area
Option B – in the centre of Main City	(Near to other shops including competitors) = high footfall – high demand in the area (Good transport links) = easy access encourages customers to visit area (Free car parking nearby) = encourages customers to visit the area (Good security/low crime) = lower security costs – less likely to have damage/theft	(High rent) = high expenses (Centre of city) = not easy access to delivery lorries

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

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best location to choose compared to the alternative. 7–8 marks for some limited judgement shown in recommendation as to the best location to choose.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each option.

Level 1	1–3 marks Outline of advantages and/or disadvantages of each option.
---------	---

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Rent is high which leads to high costs

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Rent is high which leads to high costs. This might mean the price of motorbikes has to be higher and so less competitive. However, the shop is in the centre of the city which will have a high footfall and therefore higher sales. (4 marks for L2 answer + 1 application mark for referring to motorbikes).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best option to choose.

Award up to 2 additional marks for relevant application.

Do NOT reward showroom in Main City as it is in the question

Possible application marks: sole trader; motorbikes; started 15 years ago; located 100 km from Main City; repair, sell and deliver motorbikes; customers are mainly young men; imports high quality motor bikes; financial information from appendix 2; location information from appendix 3.

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

6. O/N 13/P21/Q3/a

(a) Content:

- high demand for premises
- higher cost of purchasing the building by the landlord
- café premises more expensive than a food stall
- higher footfall (more customers in the area)
- more competitors in the area therefore more customers

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 mark for each reason identified (2 marks max). Up to two further marks are available for explaining each reason. 2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason.

(4 marks × 2 reasons)

Possible application marks: food stall; meals; sole trader; hot food; shoppers/tourists; high quality food ingredients; local tax/licence.

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

Simple explanation: High demand for rental properties in city centres (1 mark for knowledge).

Developed explanation: Demand for rental properties (1) is higher for city centre sites as the areas have a lot of passing trade and therefore the cafés are likely to have more customers (1). With so many customers food sales will be high and therefore the owners of cafés will make a good profit (1).

Application: The application mark could be achieved as the answer makes reference to food sales (1 application mark).

7. O/N 13/P21/Q4/a

(a) Content:

- law
- competitors' opening hours
- shoppers
- work patterns
- availability of employees
- cost of opening hours

1 mark for each factor identified (4 marks max). Up to one further mark is available for explaining/applying the factor.

1 application mark + 1 explanation mark (2 marks × 4 factors)

E.g. The law (1) as the government has set laws which state when businesses can open a café and how many hours it can remain open. (1)

8. M/J 13/P21/Q3/a

(a) Content:

competition; rent; size; complementary business; labour/workers; power supply; security; customer parking; customer access; delivery access; government/planning restrictions; tax incentive/subsidy; environmental/external costs

The marks available for this question are as follows: 4 marks for knowledge and 4 marks for explanation/analysis. 1 mark for each factor identified (4 marks max). Up to one further mark is available for explaining how the factor affects the location decision.

1 knowledge mark + 1 explanation mark (2 marks × 4 factors)

E.g. The rent for the property available (1) as a high rent might mean costs might be too high as these would have to be passed on in the form of higher prices. (1)

9. O/N 12/P21/Q3/b

(a) Content:

Site A: passing traffic; easily seen; high rent; small workshop so not much room; competition in area; no private customers nearby but there are business customers.

Site B: not much passing traffic; many private consumers in area but no business customers; no competition nearby; lower rent; large showroom so plenty of space.

Site C: no private or business customers nearby; land is for purchase and not rent so no future rent and is cheap to buy; costly repairs required; plenty of space; on main road into the city.

**NB Direct copying from the insert should not be rewarded for level marks – the advantages or disadvantages should be made clear and could be a rewording of the information. But Application marks can be awarded for direct use of figures from the case.**

Level 1 E.g. Site A has a lot of passing traffic. 1 mark for each statement.

Level 2 E.g. Site A has a lot of passing traffic means that many people will see the garage and might stop and use it. It will mean that car drivers will see the garage and this will reduce the need to advertise car servicing and therefore reduce costs. 5 marks for level 2 answer plus an application mark for mentioning car servicing.

5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. two level two answers = 6 marks, 3 level 2 answers = 7 marks, 4 level 2 answers = 8 marks.

Level 3 Detailed discussion of at least two level 2 answers plus consideration of which site to choose and justification of why it is better than the other two sites.

Possible application marks:

cars; car repairs; mechanic; car servicing; sole trader; business customers and private customers; garage; near city centre; workshop; car showroom; no houses nearby; buildings need repair; two experienced sales staff; importing cars; reference to figures in the case or Appendix 1 or 3.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks At least 2 sites explained at Level 2 + good judgement shown as to which site to choose and why it is better than the other two sites (comparison made).

<b>Level 2</b>	2 marks Well applied to case. At least two examples of, references to, or uses of, the case.	5–8 marks Good discussion of advantages and disadvantages of each site OR balanced argument (even if listed)
<b>Level 1</b>	1 mark Limited application to the case. At least one example of, reference to, or use of, the case.	1–4 marks Advantage/disadvantage of each site listed.

**10. O/N 10/P22/Q3/a**

- (a) **Content:** advantages – attracts customers to the area, facilities in area are good as it is busy, can see competitors' prices, external economies of scale, etc.  
Disadvantages – competitors may attract customers to them – lose business, price-cutting competition, lower profits.  
The marks available for this question are as follows: 4 marks for knowledge; 4 marks for analysis.  
1 mark for each advantage/disadvantage (4 marks max).  
4 analysis marks are also available – 1 mark for explanation of why each point is an advantage/disadvantage.  
E.g. advantage: if the restaurant is located near to competitors, it is easier to see what prices they are charging or what promotional offers are being made (1 knowledge mark). If they know what competitors are charging for their food, the restaurant can make sure that they stay competitive and keep attracting customers (2).

**11. M/J 08/P2/Q2/b**

- (a) **Content:**  
Availability of suitable vacant shop.  
What other shops are nearby – competitors/other shops which attract customers/busy retail area.  
Availability of customer parking nearby.  
Security of the area and shop.  
Rent paid and other local charges.  
Access for delivery vehicles.

	Application	Knowledge and Analysis/Evaluation
<b>Level 2</b>	2 marks Well applied to case.	5–8 marks Location factors explained as to why they are important.
<b>Level 1</b>	1 mark Weak application to case.	1–4 marks Location factors listed.

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## UNIT 5

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# FINANCIAL INFORMATION AND DECISIONS

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O Level  
Business  
Workbook Paper-2

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## Topics

5.1 Business Finance: Needs and Sources

5.2 Cash Flow Forecasting and Working Capital

5.3 Income Statements

5.4 Balance Sheets

5.5 Analysis of Accounts

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**Unit 5: Financial Information and Decisions**

**5.1: Business Finance: Needs and Sources**

1. O/N 18/P22/Q4/a **Case Study – Perfect Pottery (PP) – See Page 574**

(a) Identify and explain two sources of finance PP could use for its expansion. [8]

Source 1: .....

Explanation: .....

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Source 2: .....

Explanation: .....

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2. M/J 18/P21/Q4/a **Case Study – Value Gym (VG) – See Page 572**

(a) Identify and explain one advantage and one disadvantage of leasing all the equipment used in the business. [8]

Advantage: .....

.....

Explanation: .....

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Disadvantage: .....

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Explanation: .....

.....

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**3. O/N 17/P22/Q1/b Case Study – Garden Supplies (GS) – See Page 567**

**(a)** Consider the advantages and disadvantages of the following three sources of finance for the new equipment. Recommend the best source for GS to choose. Justify your answer. [12]

Bank loan: .....

.....  
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.....  
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Lease: .....

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Retained profit: .....

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Recommendation: .....

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**4. M/J 17/P21/Q4/a Case Study – T T-shirts (TT) – See Page 566**

**(a)** Identify and explain one reason why TT will need short-term finance and one reason why TT will need long-term finance. [8]

Short-term finance reason: .....

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Long-term finance reasons: .....

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5. M/J 16/P22/Q4/b **Case Study – Foto Favourites (FF) – See Page 559**
- (a) Thao and Liang need to raise finance to take over another business. Consider the advantages and disadvantages of the following three sources of finance which they could use. Recommend which source of finance Thao and Liang should choose. Justify your answer. [12]

Retained profit: .....

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Issue of more shares: .....

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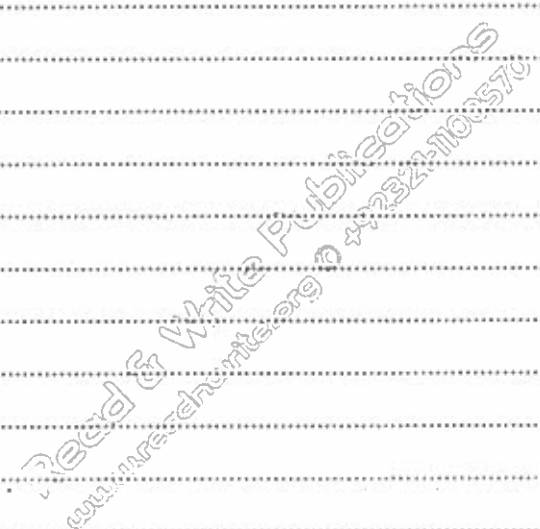
Bank loan: .....

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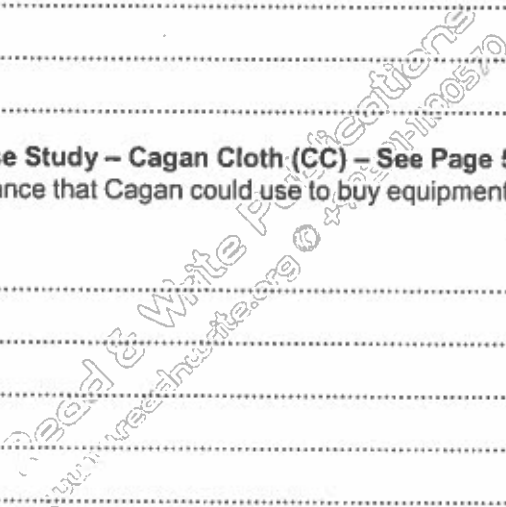
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Recommendation: .....  
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6. **M/J 14/P21/Q3/a** **Case Study – Fabian Flowers (FF) – See Page 549**  
(a) Refer to Appendix 2. Identify and explain four **factors** Fabian should consider when deciding which sources of finance to use for his new business. **[8]**

Factor 1: .....  
.....  
Explanation: .....  
.....  
Factor 2: .....  
.....  
Explanation: .....  
.....  
Factor 3: .....  
.....  
Explanation: .....  
.....  
Factor 4: .....  
.....  
Explanation: .....  
.....

7. **O/N 13/P22/Q3/a** **Case Study – Cagan Cloth (CC) – See Page 546**  
(a) Identify and explain four suitable sources of finance that Cagan could use to buy equipment for making curtains. **[8]**

Source 1: .....  
Explanation: .....  
.....  
.....  
Source 2: .....  
Explanation: .....  
.....



Source 3: .....

Explanation: .....

Source 4: .....

Explanation: .....

**8. M/J 13/P22/Q3/a Case Study – Tibalt’s Wood Products (TWP) – See Page 543**

**(a) TWP has taken out a bank loan and arranged an overdraft. Identify and explain two differences between a bank loan and an overdraft. [8]**

Difference 1: .....

Explanation: .....

Difference 2: .....

Explanation: .....

**9. O/N 12/P21/Q1/b Case Study – K’s Garage – See Page 542**

**(a) Kolo will need money to finance the stock of parts used in car repairs. Consider the advantages and disadvantages of the following options for raising finance. Recommend which option he should choose. Justify your choice. [12]**

Trade credit: .....

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Owner's savings: .....

Bank overdraft: .....

Recommendation: .....

10. O/N 11/P21/Q2/b

Case Study – Everyday Suits – See Page 536

(a) To expand the business Simon may need new machinery. To finance this, he is considering using an overdraft or leasing the equipment or selling more shares. Consider these three options for raising finance and recommend which one he should choose. Justify your choice.

[12]

Using an overdraft: .....

Leasing equipment: .....

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.....  
Selling more shares: .....

.....  
Recommendation: .....

11. M/J 11/P22/Q1/b

**Case Study – TT Foods – See page 531**

- (a) For the new machinery TT Foods will need to raise finance. The Directors are considering either taking out a bank loan, leasing the machinery or selling additional shares to family and friends. Consider these three possibilities for raising finance and recommend which one they should choose. Justify your choice. [12]

Bank loan: .....

Leasing machinery: .....

Selling shares: .....

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.....  
Recommendation: .....  
.....  
.....  
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.....

**12. M/J 10/P22/Q1/b Case Study – Bashir Baskets – See Page 524**

(a) To expand the business Bashir will need to raise finance. He is considering either selling assets owned by the business, taking on a business partner or selling shares by forming a private limited company. Consider these three options for raising finance and recommend which one he should choose. Justify your choice. **[12]**

Selling assets: .....  
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Take on a partner: .....  
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.....  
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Sell shares: .....  
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Recommendation: .....  
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13. O/N 09/P2/Q1/b

**Case Study – Dilip’s Vegetable Farm – See Page 522**

Dilip wants to raise \$50 000 to convert the old farm buildings into holiday houses. He is considering three options for financing this:

- bank loan
- forming a partnership
- overdraft

(a) Consider the advantages and disadvantages of the three options and advise Dilip on which would be the most suitable source of finance to use. Justify your recommendation. [12]

Option 1 (bank loan): .....

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Option 2 (forming a partnership): .....

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Option 3 (overdraft): .....

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Recommendation: .....

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**5.2: Cash Flow Forecasting and Working Capital**

- 1. M/J 18/P22/Q4/a **Case Study – Downtown Hotel (DH) – See Page 571**
- (a) Identify and explain two reasons why cash flow forecasting is important to Hilda. **[8]**

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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- 2. O/N 17/P21/Q2/b **Case Study – Animal Hotel (AH) – See Page 569**
- (a) Consider why a cash flow forecast, an income statement and a balance sheet are important to AH. Which one of these do you think is most important to Elsie's decision about how to finance the new site? Justify your answer. **[12]**

Cash flow forecast: .....

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Income statement: .....

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Balance sheet: .....

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Conclusion: .....

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3. M/J 17/P22/Q1/a **Case Study – Chocolicious Chocolates (CC) – See Page 565**  
(a) Identify two financial statements the directors will need to see before expanding CC. Explain why they will want to see each of these statements. [8]

Financial statement 1: .....

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Explanation: .....

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Financial statement 2: .....

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Explanation: .....

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4. M/J 17/P21/Q4/b **Case Study – T T-shirts (TT) – See Page 566**  
(a) Refer to Appendix 3 and other information in the case study. Consider the financial performance of TT. Do you think the directors should be pleased with the company's performance? Justify your answer using appropriate ratios [12]

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Liquidity of the business: .....

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Conclusion: .....

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**6. M/J 16/P21/Q3/b Case Study – Diaz Dentist Clinic (DDC) – See Page 560**

(a) Refer to the cash flow forecast in Appendix 3.

(i) Calculate values for: [4]

W: .....

X: .....

Y: .....

Z: .....

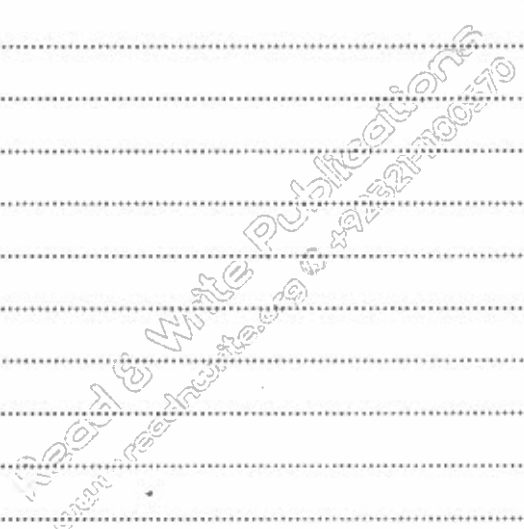
(ii) Consider two ways the cash flow could be improved. Recommend the best way for Rosa and Eduardo to improve the cash flow in the second half of 2016. Justify your answer. [8]

Way 1: .....

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Way 2: .....

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Recommendation: .....

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**7. M/J 14/P22/Q1/b Case Study – Manuel’s Fruit and Vegetable Shop – See Page 548**

(a) Consider three ways Manuel could use to improve the cash flow of his business. Recommend which way would be the best one to choose. Justify your answer. [12]

Way 1: .....

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Way 2: .....

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Way 3: .....

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Recommendation: .....

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**8. M/J 13/P21/Q3/b Case Study – Ted’s Tools (TT) – See Page 544**

(a) Refer to the cash flow forecast in Appendix 2.  
(i) Calculate the values of w, x, y and z and write your answers below. [4]

w : .....

x : .....

y : .....

z : .....

(ii) Comment on two ways the cash flow position could be improved. Recommend the best way for Ted and Mustafa to improve the cash flow over the next 6 months. Justify your answer. [8]

Way 1: .....

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Way 2: .....

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Recommendation: .....

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9. M/J 10/P22/Q5/b **Case Study – Bashir Baskets – See Page 524**

(a) Financial accounts are important to all businesses. Why are producing a cash flow forecast, a profit and loss account and a break even chart important to the successful financial management of Bashir Baskets? Justify your answers. [12]

Cash flow forecast: .....

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Profit and loss account: .....

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Break even chart: .....

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10. M/J 09/P2/Q4/a **Case Study – Python Bicycles – See Page 521**  
(a) A cash flow forecast is used by the company to help it with its financial control. Explain why Python Bicycles would find a cash flow forecast useful. **[8]**

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**5.3: Income Statements**

1. O/N 18/P22/Q3/b

Case Study – Perfect Pottery (PP) – See Page 574

(a) Refer to Appendix 3. Consider the two summaries of financial information for PP and its main competitor. Do you think PP's Finance manager should be worried? Justify your answer. [12]

Summary of financial information for PP: .....

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Summary of financial information for PP's competitor: .....

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Conclusion: .....

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2. O/N 17/P22/Q4/b **Case Study – Garden Supplies (GS) – See Page 567**  
(a) Do you think GS will be as successful as other similar businesses? Justify your answer using the data in Appendix 3 and calculate appropriate ratios. **[12]**

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3. O/N 17/P21/Q2/b **Case Study – Animal Hotel (AH) – See Page 569**  
(a) Consider why a cash flow forecast, an income statement and a balance sheet are important to AH. Which one of these do you think is most important to Elsie's decision about how to finance the new site? Justify your answer. **[12]**

Cash flow forecast: .....

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Income statement: .....

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Balance sheet: .....

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Conclusion: .....

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4. M/J 17/P22/Q1/a **Case Study – Chocolicious Chocolates (CC) – See Page 565**  
(a) Identify two financial statements the directors will need to see before expanding CC. Explain why they will want to see each of these statements. **[8]**

Financial statement 1: .....

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Explanation: .....

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Financial statement 2: .....

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Explanation: .....

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5. M/J 17/P21/Q4/b **Case Study – T T-shirts (TT) – See Page 566**  
(a) Refer to Appendix 3 and other information in the case study. Consider the financial performance of TT. Do you think the directors should be pleased with the company’s performance? Justify your answer using appropriate rations [12]

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6. M/J 14/P21/Q3/b **Case Study – Fabian Flowers (FF) – See Page 549**  
(a) Explain to Fabian why each of the following documents will be important to managing his new business. Choose which is likely to be the most useful. Justify your choice. [12]

Profit/Loss account: .....

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Cash flow forecast: .....

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Break-even chart: .....

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Conclusion: .....

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7. O/N 13/P21/Q3/b

**Case Study – Yum Yum Food – See Page 547**

- (a) Consider the two options for expanding the business. Recommend which option Shahila should choose. Justify your choice by calculating the net profit per week for each option. [12]

Option 1 (food stall near football stadium): .....

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Option 2 (café in centre of city): .....

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Recommendation: .....

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**8. O/N 11/P22/Q2/b Case Study – BB Boat Tours – See Page 534**

(a) The brothers want to reduce the size of the business to reduce their losses. Using the information in Appendix 1, calculate the net profit per day for each of the three boat tours. Using these results and other information from the case, recommend which boat tour they should stop operating. Justify your answer. **[12]**

Net profit for dolphin watching: .....

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Net profit for fishing: .....

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Net profit for diving: .....

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Recommendation: .....

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9. **O/N 11/P21/Q4/b** **Case Study – Everyday Suits – See Page 536**  
(a) Using the information in Appendix 1, do you think Simon should be satisfied with the financial position of the business? Justify your answer using appropriate ratios. **[12]**

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10. **M/J 11/P22/Q3/a** **Case Study – TT Foods – See page 531**  
(a) Appendix 3 suggests that there is increasing demand for airline flights. Identify and explain two effects on TT Foods of this increase in the number of passengers. **[8]**

Effect 1: .....

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Explanation: .....

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Effect 2: .....

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Explanation: .....

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11. M/J 11/P21/Q1/b

**Case Study – Chocolate Delight – See Page 532**

- (a) The Directors of Chocolate Delight want to build a new factory and will need to raise \$5m. Do you think the Managing Director is right in suggesting Chocolate Delight should become a public limited company, or is the Finance Manager right in suggesting retained profit should be used? Justify your answer using information in the case. [12]

Becoming a public limited company: .....

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Using retained profit: .....

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Recommendation: .....

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**12. M/J 10/P22/Q5/b**

**Case Study – Bashir Baskets – See Page 524**

(a) Financial accounts are important to all businesses. Why are producing a cash flow forecast, a profit and loss account and a break even chart important to the successful financial management of Bashir Baskets? Justify your answers. **[12]**

Cash flow forecast: .....

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Profit and loss account: .....

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Break even chart: .....

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13. M/J 09/P02/Q1/b

Case Study – Python Bicycles – See Page 521

- (a) The new owners want to increase the profitability of Python Bicycles. Consider three methods that could be used to increase the profitability of Python Bicycles. Recommend which method you think would be the most effective. Justify your recommendation. [12]

Method 1: .....

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Method 2: .....

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Method 3: .....

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Recommendation: .....

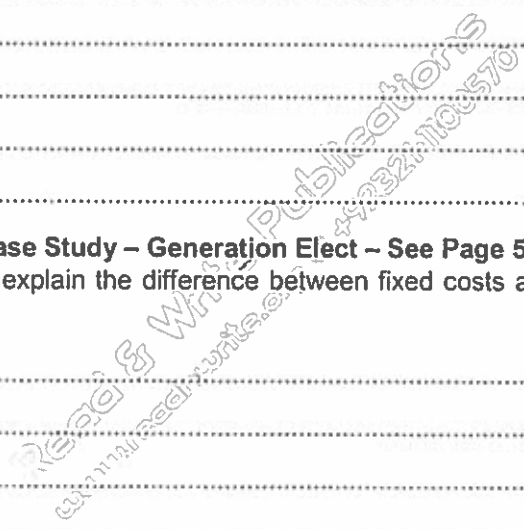
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14. O/N 08/P2/Q5

Case Study – Generation Elect – See Page 519

- (a) (i) Using the information in Appendix 3, explain the difference between fixed costs and variable costs. [4]

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**Income statement:** .....

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**Balance sheet:** .....

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**Conclusion:** .....

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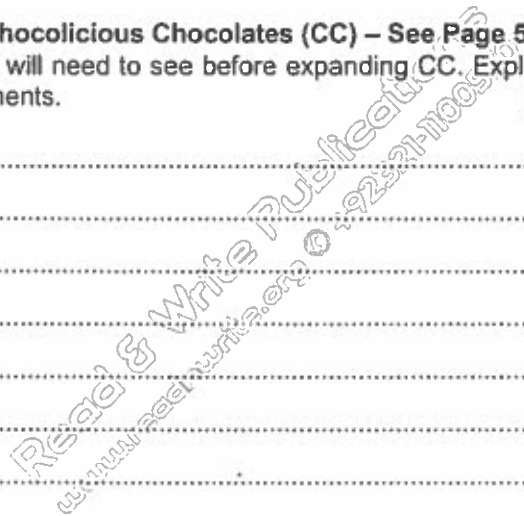
3. **M/J 17/P22/Q1/a**                      **Case Study – Chocolicious Chocolates (CC) – See Page 565**  
(a) Identify two financial statements the directors will need to see before expanding CC. Explain why they will want to see each of these statements. **[8]**

**Financial statement 1:** .....

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.....  
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**Explanation:** .....

**Financial statement 2:** .....







**5.5: Analysis of Accounts**

1. O/N 18/P21/Q4/b

**Case Study – Guardian Toys (GT) – See Page 575**

- (a) Refer to Appendix 3. Consider how the information in Appendix 3 will help the following three users of accounts. Which user will find the information most helpful when taking decisions? Justify your answer. [12]

Shareholders of GT: .....

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Managers of GT: .....

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Competitors of GT: .....

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Conclusion: .....

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2. O/N 16/P22/Q2/b

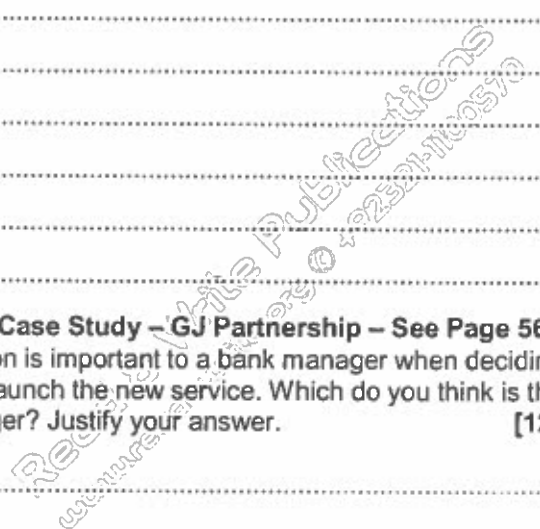
**Case Study – GJ Partnership – See Page 562**

- (a) Consider why the following financial information is important to a bank manager when deciding whether to give Ghaziz and Jasmin a loan to launch the new service. Which do you think is the most important information to the bank manager? Justify your answer. [12]

Break-even level of output: .....

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Profitability of the business: .....

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Liquidity of the business: .....

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Conclusion: .....

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**3. M/J 16/P22/Q3/b Case Study – Foto Favourites (FF) – See Page 559**

- (a) Consider the income statement extracts for the two businesses in Appendix 3. Include profitability ratio calculations in your answer. Recommend which business FF should take over. Justify your answer. **[12]**

Business A: .....

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Business B: .....

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**Recommendation:** .....  
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- 4. **O/N 15/P22/Q3/b** **Case Study – Rafael’s Reliable Motorbikes (RRM) – See Page 557**
  - (a) Do you think Rafael should be pleased with the profitability of his business in 2014? Use the data in Appendix 2 (including appropriate ratios) to justify your answer. [12]

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**5. M/J 15/P21/Q3/a Case Study – Delicious Delights (DD) – See Page 555**

(a) The company Balance Sheet helps David assess the performance of the business.  
(i) Calculate the current ratio and acid test ratio for 2014. **[4]**

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(ii) Compare your two ratio results with those of 2013 (see Appendix 2). **[4]**

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**6. O/N 14/P22/Q4/b Case Study – ACE Engineering (ACE) – See Page 551**

(a) Refer to Appendix 1. Consider the profitability of ACE by calculating the profitability ratios for 2013. Do you think the directors of ACE should be pleased with the profitability of the company? Justify your answer. **[12]**

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7. O/N 14/P21/Q4/a **Case Study – PB Bank – See Page 552**  
(a) Identify and explain **four** reasons why the information in Appendix 3 may not be an accurate record of the views of all bank customers. [8]

Reason 1: .....

Explanation: .....

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Reason 2: .....

Explanation: .....

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Reason 3: .....

Explanation: .....

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Reason 4: .....

Explanation: .....

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Conclusion: .....

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**10. M/J 12/P22/Q1/b Case Study – School Clothes Supplies (SCS) – See Page 537**

(a) Vijay wants new shareholders to invest in the company. Consider four different pieces of financial information someone would want to see before deciding whether to become a shareholder. Justify why each piece of information would be important in helping to decide whether or not to invest in the company. [12]

Information 1: .....

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Explanation: .....

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Information 2: .....

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Explanation: .....

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Information 3: .....

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Explanation: .....

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Information 4: .....

Explanation: .....

**11. M/J 12/P22/Q5/b Case Study – School Clothes Supplies (SCS) – See Page 537**

(a) Consider the advantages and disadvantages of Option 1 and Option 2. Recommend which option you think Vijay should choose. Justify your choice by calculating profitability ratios using information from Appendix 2. **[12]**

Option 1: .....

Option 2: .....

Recommendation: .....

**12. M/J 11/P21/Q1/a Case Study – Chocolate Delight – See Page 532**

(a) The Directors of Chocolate Delight think the business is successful. Identify and explain four ways they could use to measure the success of the business. **[8]**

Way 1: .....

Explanation: .....

Way 2: .....

Explanation: .....

Way 3: .....

Explanation: .....

Way 4: .....

Explanation: .....

13. O/N 10/P22/Q4/a **Case Study – The Riverside Restaurant – See Page 527**  
 (a) The gross profit margin for the family dining area is 68% and the net profit margin for the family dining area is 16%. Using the information in Appendix 1, calculate the gross profit margin and net profit margin for the expensive dining area. Show your working. [8]

Gross profit margin: .....

Net profit margin: .....

14. M/J 10/P21/Q1/b **Case Study – Bimisi Buses – See Page 526**  
 (a) Bimisi wants to increase the profit margins of the business. Using Appendix 1, suggest three ways in which he might achieve this. Advise him on the best way. Justify your answer. [12]

Way 1: .....

Explanation: .....

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

Explanation: .....

.....  
Way 3: .....

Explanation: .....

.....  
Best Way: .....

15. M/J 10/P21/Q5/a

**Case Study – Bimisi Buses – See Page 526**

- (a) If Bimisi decides to expand the business he will probably need a bank loan. Identify and explain two pieces of information that Bimisi will need to provide to the bank manager in order to get the bank loan. **[8]**

First piece of information: .....

Explanation: .....

.....  
Second piece of information: .....

Explanation: .....

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**16. O/N 09/P2/Q4/a Case Study – Dilip’s Vegetable Farm – See Page 522**

**(a)** Dilip keeps the financial accounts for the business. Identify three stakeholders who would be interested in the business’ accounts and explain why each would be interested in the accounts. **[8]**

Stakeholder 1: .....

Explanation: .....

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Stakeholder 2: .....

Explanation: .....

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Stakeholder 3: .....

Explanation: .....

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**17. M/J 08/P2/Q1/a Case Study – A new business – but which one? – See Page 517**

**(a) (i)** Abdul has made an appointment to see the Bank Manager. List three suitable questions the Bank Manager might ask Abdul before deciding whether to give him the capital he will need. **[3]**

Bank Manager’s Question 1: .....

Bank Manager’s Question 2: .....

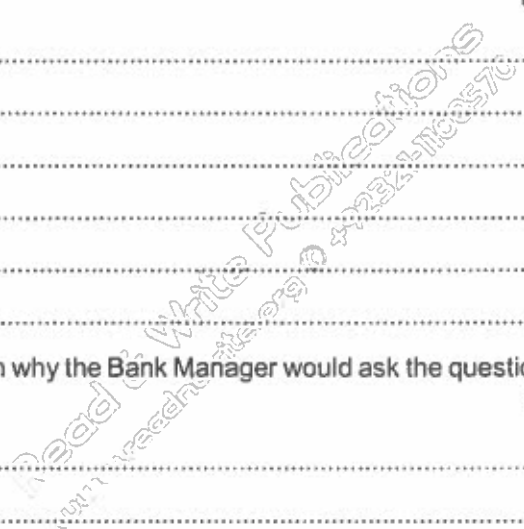
Bank Manager’s Question 3: .....

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**(ii)** For each of the three questions, explain why the Bank Manager would ask the question. **[9]**

Explanation (Question 1): .....

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Explanation (Question 2): .....

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Explanation (Question 3): .....

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## Answer Sections

### 5.1: Business finance: needs and sources

#### 1. O/N 18/P22/Q4/a

- (a) Knowledge [2 × 1] – Award one mark for each relevant source (maximum of two),  
 Analysis [2 × 1] award one mark for a relevant explanation of the source  
 Application [2 × 2] award two marks for application relevant to each source  
 Award one mark for each source of finance (maximum of two), such as:

- Bank loan – repaid in monthly instalments/interest charged
- Issue more shares to family and friends/no interest charged/doesn't need to be repaid/original owners may lose some control
- Issue shares to public by becoming a public limited company – no interest paid/not repaid/potential for takeover
- Debentures – fixed interest charged/needs to be repaid after a certain period of time
- Hire purchase – no initial payment required / not owned until final payment made/paid in instalments/interest charged
- Leasing – do not own the equipment/repairs not paid for by PP/maybe more expensive in the long run
- Sale of assets – no repayment needed/may not raise sufficient finance/takes time to sell assets
- Retained profit – no need to repay it/no interest to pay/shareholders may not be happy as dividend payment lower

Award three additional marks for each explanation of the source of finance – **two of which must be applied to this context.**

Indicative response: Bank loan (k) that will allow a large sum of money e.g. for market research of the new market (ap) to be borrowed and paid back over a long period of time (an) because it will probably take several years to expand and sell in other countries. (ap)

**Possible application marks:** PP is in strong financial position as shown in Appendix 3, making profits, family members have invested in PP, manufactures pottery items, factory, vases, plates, private limited company, 30 years ago, wants to expand by exporting to other countries, traditional methods. There may be other examples in context, which have not been included here.

#### 2. M/J 18/P21/Q4/a

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

Advantage

- The business does not have to find a large sum of cash to purchase the equipment
- Care and maintenance is carried out by the leasing company
- When the lease expires the latest equipment could be obtained

Disadvantage

- Total cost of leasing higher than to purchase the equipment outright
- The equipment is not owned by VG
- Cannot sell the equipment if not needed any more

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

**Indicative response:**

The business does not have to find a large sum of cash in one go (1) as the equipment can be leased even if VG does not have the cash to buy it outright. (ap) This means VG can have better quality equipment such as treadmills for the gym at the start (ap) which will allow Peter to get the gym set up quicker and with better equipment than if he had to find all the cash at the start.

(1)

**Possible application marks:**

Fitness instructor; a bank loan was used to finance the opening of the gym; as a sole trader; \$5,000 was put into the business; a business plan was written to support the bank loan

application; expects a good profit at the end of a successful first year; Information from Appendix 1 listing gym equipment.

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

3. O/N 17/P22/Q1/b

(a) Relevant points might include:

	Advantages	Disadvantages
Bank loan	Raise large amounts of capital Repay in instalments	Interest paid Adds to expenses Need for security/collateral
Lease	No capital to find Maintenance covered by leasing company	Not an asset of the business Expensive
Retained profit	No interest paid Not repaid	May not be enough as only been in business for one year Reserves not available for alternative uses

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

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation of which source of finance to choose and why not the alternative sources. 7–8 marks for limited recommendation of which source of finance to choose.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each source of finance.
Level 1	1–3 marks Outline of each advantages and/or disadvantages of each source of finance.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Retained profit is readily available and does not have any interest payments to be made.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Retained profit is readily available and does not have any interest payments to be made. However, as the business is only small and a partnership, it may not have enough profit in reserves to pay \$10 000 for the new equipment. (4 marks for one Level 2 answer plus one application mark for referring to the cost of the new equipment)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which source of finance to choose

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

Possible application marks: Partnership; set-up last year/new business; set up by 2 brothers; grows plants and trees; partners invested \$5000 each; \$5000 profit; looks after the gardens of luxury hotels; new gardening equipment; cost \$10 000 to purchase new equipment; information on the three sites in the case; information from Appendix 1; information from Appendix 3

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

4. M/J 17/P21/Q4/a

(a) Knowledge [2 × 1] – award one mark for each reason

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

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

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

Short-term finance – needed on a day-to-day basis to keep the business running:

- Working capital /cover expenses/pay wages
- Pay for materials/Inventories of T-shirts
- Cash flow problems

Long-term finance – needed over a long period of time to support expensive business development. Will need to be repaid in many instalments:

- Investment in equipment/machinery/fixed assets
- Take over another company/expand

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

**Indicative response:**

Short-term finance will be needed to pay for inventory (k) in this case it will be the T-shirts that are to have prints on them (app). The T-shirts will need to be purchased from abroad and paid for long before they have designs printed on them (app) and sold so working capital will be needed to allow this to take place. (an)

**Possible application marks:**

Private limited company; set up 15 years ago; in country P; buys ready-made plain white T-shirts; T-shirts imported from country Q, a developing country; 50 different designs; batches production of various sizes; sold to small retailers in country P; share capital \$2 m; increased to \$8 m by 2015; expand the company; exporting T-shirts; take over DesOwn, a competing company; sells online; raise \$10 m to buy out the existing shareholders; buying new computer controlled equipment for \$500 000; sell directly to large retailers; use an agent or a joint venture.

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

**5. M/J 16/P22/Q4/b**

(a) Relevant points might include:

Retained profit	<ul style="list-style-type: none"> <li>• Cheap form of finance as no interest to pay</li> <li>• Readily available</li> <li>• Not repaid</li> <li>• May not be sufficient funds available</li> <li>• May reduce dividends to shareholders</li> </ul>
Issue of more shares	<ul style="list-style-type: none"> <li>• Lose control if sell more than 50% of shares</li> <li>• Only sell to family and friends so limited amount of shares sold</li> <li>• Time consuming</li> <li>• No interest to pay but shareholders will expect dividends</li> </ul>
Bank loan	<ul style="list-style-type: none"> <li>• Repayments in regular amounts/spreads the costs</li> <li>• Borrow large sums</li> <li>• Varying lengths of time to repay the loan</li> <li>• Increased costs as needs to be paid each month – may lead to cash flow problem</li> <li>• Collateral/security may be required</li> <li>• Increases gearing</li> </ul>

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best source of finance to choose compared to the other methods. 7–8 marks for some limited judgement shown in recommendation as to the best source of finance to choose.
Level 2	4–6 marks Detailed discussion of the advantages and/or disadvantages of each source of finance.
Level 1	1–3 marks Outline of the advantages and/or disadvantages of each source of finance.
Level 1	One mark for each L1 statement (max three marks) e.g. No interest to pay on retained profit.
Level 2	One × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks) e.g. No interest is paid on

	retained profit. However, there may not be sufficient funds available to finance the takeover. The shareholders will expect a dividend to be paid and if the profit is used for reinvestment then they may not be able to pay this. This may restrict FF in the future and they may not be able to increase their photography service and expand into more business photography. (Four marks for L2 answer + 1 application mark for considering photography services for business.)
Level 3	For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best source of finance to choose.

Award up to two additional marks for relevant application.

Possible application marks: government increased interest rates; private limited company; profitable and grown over last 5 years; provides excellent customer service; photographs; photographers; photography; getting married; weddings, birthdays, family photographs; business customers as well as private individuals; profit for 2015 = \$125 000; growing externally rather than internally; information in Appendix 3.

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

6. M/J 14/P21/Q3/a

(a) Content:

- amount needed (amount of savings available or redundancy payment)
- how long it takes to pay it back
- how quickly the finance is needed
- whether it needs to be paid back (family investment/grant)
- interest rate
- type of business organization
- credit rating
- terms and conditions of source of finance

The marks available for this question are as follows: 4 marks for knowledge; 4 marks for application.

1 mark for each factor identified plus 1 explanation mark for each factor.

1 knowledge mark + 1 explanation mark (2 marks × 4 factors)

Factor: Interest rate (1 knowledge mark).

Explanation: Interest rate as if it is too high then Fabian might decide the source of finance is too expensive to use as the revenue from the shop to begin with will be limited (1 explanation mark)

7. O/N 13/P22/Q3/a

(a)

- bank loan
- sell shares to family and friends
- loan off family or friends
- retained profit
- HP
- lease

1 mark for each source of finance identified (4 marks max). Up to one further mark is available for explaining the source of finance to the purchase of machinery.

1 knowledge mark + 1 explanation mark (2 marks × 4 sources of finance)

**NB Do not reward short-term sources of finance**

E.g. Bank loan (1) as a large amount of money will be needed to buy the equipment and it can be paid back over several years. (1)

8. M/J 13/P22/Q3/a

(a) Content:

Amount; interest rate; repayment period; use; type of account; more administration for a loan than overdraft; collateral.

The marks available for this question are as follows: 2 marks for knowledge and 6 marks for explanation/analysis.

1 mark for each difference identified (2 marks max). Up to three further marks are available for explaining the reason for that difference.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 3 additional marks.

1 knowledge mark + up to 3 explanation marks (4 marks x 2 differences).

Simple explanation: The interest rate payable on an overdraft is usually different to the interest rate paid on a loan. (1 mark for knowledge)

Developed explanation: The interest rate payable on an overdraft is usually different to the interest rate paid on a loan (1). The interest rate is fixed for the duration of the loan (1) whereas the interest rate on an overdraft is variable and can change from day to day (1). It depends on the base interest rate of the country or the interest rate set by the government (1).

9. O/N 12/P21/Q1/b

(a) Content:

Trade credit is interest free borrowing but may be difficult to obtain.

Owner's savings do not require any interest payment and accessible straight away but limited funds.

Bank overdraft is quite easy to arrange but has interest payments and is repayable on demand.

Level 1 Trade credit is interest free. 1 mark for each statement.

Level 2 E.g. Trade credit is interest free as suppliers provide the car parts and then receive payment at a later date. This means the business can obtain the parts, fit these parts on customers' cars and receive customer payment before they have to pay for the parts and so cash flow can be improved.

5 marks for a level 2 answer plus 1 application mark for mentioning customers' cars.

5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. two level two answers = 6 marks, 3 level 2 answers = 7 marks, 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.

Level 3 Detailed discussion of at least two level 2 answers plus consideration of which option to choose and justification in comparison to the other two alternatives.

Possible application marks:

cars; car repairs; stock of car parts; mechanic; car servicing; sole trader; unlimited liability; new business; garage; workshops; reference to figures in the case or Appendix 1 or 3.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks At least 2 options explained at Level 2 + good judgement shown as to which source of finance to choose and why it is better than the other two sources (comparison made).
Level 2	2 marks Well applied to case. At least two examples of, references to, or uses of, the case.	5–8 marks Good discussion of the advantage/disadvantage of any of the sources of finance listed OR balanced argument (even if listed). Some limited judgement shown about which one they should choose.
Level 1	1 mark Limited application to the case. At least one example of, reference to, or use of, the case.	1–4 marks Description of type of finance. Advantage or disadvantage of any of the sources of finance listed.

10. O/N 11/P21/Q2/b

(a) Content:

Overdraft – quickly arranged; flexible; can be expensive; repayable on demand; high interest rates; only borrow small amount.

Lease – capital not needed; payments spread out over time; updates possible; asset not owned; maintenance/repairs covered.



Selling more shares – don't have to be repaid; no interest paid; may lose some control; profits shared; takes time to arrange.

Level 1 E.g. They could sell more shares and so they would not need to pay any interest on the loan.

1 mark for each statement.

Level 2 E.g. They could sell more shares and so they would not need to pay any interest on the loan. The money would be used to buy the new equipment so that an increasing number of suits would be produced. The money would not have to be repaid and so it would not add to the debt of the company. Not paying any interest means that the business would have less money to pay out and should improve the cash flow of the business. However, there would be more shareholders and they would expect dividends paid out of the profits.

6 marks for a good level 2 answer plus 1 application mark for mentioning the production of suits.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.

Level 3 Detailed discussion of at least three level 2 answers which consider which option to choose and justify why it is better than the other two sources. E.g. level 2 answer + selling more shares will be better than an overdraft because the business will not be able to borrow very much money using an overdraft and it is repayable on demand. It is also better than leasing because the business will still need to pay more than the purchase price of the equipment when leasing and so selling more shares will be the cheapest option for the company.

Possible application marks:  
suits (any reference to any aspect of suits reward once only); private limited company; batch production; 100 production workers; profits increased as grown quickly; bank loan of \$15 000; continue to expand the business; financial information from Appendix 1.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks At least 3 options explained at Level 2 + good judgement shown as to which source of finance to choose and why it is better than the other two sources.
Level 2	2 marks Well applied to the case. At least two examples or reference to, or use of, the case.	5–8 marks Good discussion of the advantage/disadvantage of any of the sources of finance listed. Or balanced argument (even if listed). Some judgement shown about which one they should choose in recommendation.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantage/disadvantage of any of the sources of finance listed.

11. M/J 11/P22/Q1/b

(a) Content:

Advantages of a bank loan – paid back in fixed instalments; fixed rate of interest so can budget for it.

Disadvantages of a bank loan – high rate of interest paid.

Advantages of leasing – don't have to find all the money straight away; monthly payments; repairs made for them.

Disadvantages of leasing – never own the machinery; more expensive than buying outright.

Advantages of selling shares – raise additional capital; additional expertise in business.

Disadvantages of selling shares – pay out dividends; loss of some control.

Level 1 E.g. With leasing they don't have to find all the money straight away. 1 mark for each statement.

Level 2 E.g. With leasing they don't have to find all the money straight away to buy the machinery but they can pay for it in monthly instalments. This is much better for the company as they want to expand and to produce more ready meals, which will mean that they have to spend more money on raw materials to make the additional output and this requires more working capital. To find a large sum of money for equipment at this time will be difficult.

6 marks for a good level 2 answer plus 1 application mark for mentioning raw materials for ready meals.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer, i.e. two level 2 answers = 6 marks; three level 2 answers = 7 marks; four level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.

Level 3 Detailed discussion of three level 2 answers and then a conclusion at the end which justifies which is the best way to finance the purchase of the new machinery and why the other ways are less suitable.

Possible application marks: private limited company; ready-made meals; expansion; airlines or international flights; airline industry; rising incomes; increasing economic growth; reference to figures in Option 1 or 2. Production and packaging machinery. There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Three x level 2 plus well-justified recommendation as to the best way to finance the purchase of the new machinery compared with the alternative ways.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each of the methods of finance OR balanced argument (even if listed). Some limited judgement shown about which method to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages/disadvantages of each of the methods of finance listed.

## 12. M/J 10/P22/Q1/b

### (a) Content: Selling assets

Advantages: do not have to borrow any money; no interest paid; assets not being used anyway.

Disadvantages: may not raise enough money; may not have any spare assets to sell; loses potential revenue from assets.

### Partnership

Advantages: raise additional capital; additional expertise in business; share losses.

Disadvantages: have to share profits; partners share control; conflict between partners.

### LTD

Advantages: raise additional capital; additional expertise in business; continuity; limited liability

**Disadvantages:** pay out dividends; loss of some control; complex and costly to set up; submit annual accounts.

**Level 1** E.g. Bashir can increase the capital available by taking partners who will invest money into the business.

**Level 2** E.g. Bashir can increase the capital available by taking partners who will invest money into the flower business. This is helpful to Bashir as the money will not have to be paid back and interest will not have to be paid. However, the profits from selling the flower baskets will have to be shared out between the additional partners. (5 marks for level 2 answer plus 1 application mark for mentioning flower shops).

5 marks for the first level 2 answer. Plus 1 – 2 marks for each additional level 2 answer. I.e two level two answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained then 8 marks in total can be awarded.

**Level 3** Detailed discussion of several level 2 answers and then a recommendation at the end which justifies which is the best way compared to other ways.

E.g. Becoming a limited company would be the best way to raise the finance to buy more flower shops as this will give limited liability but forming a partnership will not give limited liability. Limited liability will give protection to the owners of the flower business as they can only lose their investment in the business and not their personal possessions. Selling assets is unlikely to raise sufficient finance-

(9 marks plus at least 1 application mark for making reference to flower shops in the conclusion and possibly another application mark in the level 2 part of the answer

Possible application marks: flower baskets; flower shops; reference to quantitative data in case; flowers for the home; flowers for the restaurant; flowers for weddings; sole trader/small business.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Four Level 2 answers linking or making it clear why these stages of the recruitment and selection process are important.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the importance of each of these parts of the process.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Each of the parts of the process briefly defined/ outlined.

**13. O/N 09/P2/Q1/b**

**(a) Content:**

Bank loan – large amount available; interest paid; can be long term.

Taking on a partner – share profits; increased capital; responsible for actions of partner; no continuity; shared decision making; work load shared.

Overdraft – interest paid on daily basis; not a large sum available; short term finance.

**Level 1** A bank loan can be used to raise a large amount of capital. 1 mark for each advantage/disadvantage listed up to a max of 4 marks.

**Level 2** A bank loan can be used to raise a large amount of capital and Dilip needs \$50 000 to convert the farm buildings into holiday houses. The loan can be paid back

in instalments and spread over a number of years so that Dilip can receive revenue from renting out the houses to help pay back the loan (5 marks) but he will have to pay interest on the loan and so the loan will cost Dilip more than \$50 000. 6 marks for a good Level 2 answer plus 1 application mark for mentioning renting out the houses.

5 marks for the first Level 2 answer. Plus 1–2 marks for each additional Level 2 answer. i.e. two Level 2 answers = 6 marks; 3 Level 2 answers = 7 marks.

4 Level 2 answers = 8 marks.

However, if the Level 2 answer is very well explained then 6 marks can be awarded for the first Level 2 answer. If the second Level 2 answer was also well very explained then 8 marks in total can be awarded.

Level 3

At least two Level 2 answers plus a justified conclusion – not just a statement saying which will be the best source of finance to use.

E.g. Level 2 + 1 think taking out a bank loan would be the best one to use as a partner will want a share of the profits. A bank loan is better than an overdraft as this also has interest to be paid but it is an expensive way of borrowing \$50 000 as the interest rate is higher than for a loan. The bank can ask for the \$50 000 back at any time and then Dilip will be in the same situation as he is in now and will need to raise a large amount of money. Also the repayment of the bank loan may be delayed until the houses have been converted and revenue is starting to flow into Dilip's bank account.

10 marks plus at least 1 application mark for making reference to earnings from the converted houses in the conclusion and possibly another application mark in the Level 2 part of the answer.

Possible application marks: farm; autocratic leader; vegetable growing; holiday homes; exports/fair trade; \$50,000; \$10,000; small business.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 + well justified comparison of the options as to the best source of finance to use.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of at least 1 source of finance. Some limited judgement shown as to which is the best source of finance to use.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages/or disadvantages of the different sources of finance listed.

## 5.2: Cash flow forecasting and working capital

### 1. M/J 18/P22/Q4/a

(a) Award one mark for each relevant reason (maximum of one each), such as:

- To know how much cash is flowing into the business and how much cash is flowing out of the business
- To ensure the business does not run out of cash
- To plan for times when cash might be low or negative
- To ensure she can meet day-to-day expenses
- To help make decisions for the future to know how much cash is Available
- To help gain a bank loan by showing the cash flow forecast to the bank Manager
- To support planning for buying the new hotel
- Assessing how well the business is being managed by comparing the cash flow forecast with the actual cash flow
- To help identify where costs could be reduced
- To assess whether the business is holding too much cash which could be put to better use

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

**Indicative response:**

To ensure the business does not run out of cash (1) as the hotel is empty for two months of the year and will have no cash flowing in. (ap) This could cause a cash flow problem if the hotel is still paying out wages for the staff (ap) which could cause Hilda to run out of cash and be unable to trade if she has not planned for this to happen by taking out an overdraft (1).

Possible application marks:

Small hotel; 39 employees; demand for hotel accommodation is increasing; half full 6 months; full 4 months; empty 2 months; most guests are local tourists on coach tours; wants to expand by taking over a hotel; details of ABC/XYZ hotels.

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

### 2. O/N 17/P21/Q2/b

(a) Relevant points might include:

Cash flow forecast – predicts cash in-flows and outflows – to avoid liquidity problem – is there sufficient working capital for the larger premises? Income statement – records revenue and costs or shows profit and loss – profit available to reinvest into the new premises – indicator of success of the business – will there be sufficient revenue from larger premises to make profit? Balance sheet – records assets and liabilities – liquidity ratios – stability of the business – amount of liabilities – value of the existing business – assets to sell if necessary

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to which is most important to the decision about how to finance the new site. 7–8 marks for some limited judgement shown in recommendation as to which is most important in its general usefulness to the business.
Level 2	4–6 marks Discussion of each financial statement, how it can be used and why it is important.
Level 1	1–3 marks Outline of what each financial statement shows.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. A balance sheet shows the value of the business.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. A balance sheet shows the value of the business. If Elsie wants to take out a bank loan then she will need to take the balance sheet to show the bank manager the value of the assets of the business that can be used as security for the loan. (4 marks for level 2)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which is most important to the decision

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

Possible application marks: Animals; dogs; cats; pets; pet owners; washing and brushing animals; set up 2 years ago; \$10 000 from grandfather; \$10000 from bank loan; 12 adults and 6 children workers; paid legal minimum wage; shampoo and brushes purchased from wholesaler; expand and move to larger site; needs to recruit a new manager; information on the three sites; information from Appendix 1 on the AH advert; information from Appendix 3 on the costs and revenue of AH.

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

**3. M/J 17/P22/Q1/a**

(a) Knowledge [2 × 1] – award one mark for each financial statement

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

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

Award one mark for each relevant named financial statement (max 2) and one mark for explanation of why the directors will want to view these statements before expanding.

Examples might include:

- income statement/Profit and loss account – to assess profitability/availability of retained profit/ need for loan/ability to repay loan
- balance sheet/Statement of financial position – assess liquidity position/ assets for security against loan/assess value of assets that could be sold
- cash flow forecast/statement – shows cash position/ability to cover expenses of expansion/liquidity position/ability to repay loans

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

**Indicative response:**

Balance sheet (k) to see if the business will be able to borrow \$500 000 (app). The balance sheet will show the liabilities of the company and will show if the bank is likely to give CC a loan for the purchase of the new automated equipment (app). The directors will want to see if there are sufficient assets to be used as security for the loan (an).

Possible application marks:

Already operating in a niche market; high quality ingredients; chocolates/high quality chocolates/luxury chocolates; hand-made chocolates; factory; private limited company; set up 15 years ago in country X; labour-intensive production techniques; 100 production workers; on-the-job training for new workers; developing a new brand of chocolate bar; targeted at the mass market; purchase a new automated production line; output is expected to be high; borrow \$500 000

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

**4. M/J 17/P21/Q4/b**

(a)

2015	GPM = 80% (L2)	GP = \$8 m (L1)
	NPM = 10% (L2)	NP = £1 m (L1)
	ROCE = 10% (L2)	
2016	GPM = 73% or 73.3% (L2)	GP = \$11 m (L1)
	NPM = 13% or 13.3% (L2)	NP = \$2 m (L1)
	ROCE = 14% or 14.2% (L2)	

Between 2015 and 2016:

- The revenue increased (by \$5 m) (L1)
- The gross profit increased (by \$3 m) (L1)
- The net profit increased (by \$1 m) (L1)

Note: Do not accept APP for use of data already provided in Appendix 3 (noncalculated figures)

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to whether the directors should be pleased with the company performance. 7–8 marks for some limited conclusion as to whether the directors should be pleased with the company performance/recommend action for improvement or future development of the business.
Level 2	4–6 marks Correct calculation of profitability ratios.
Level 1	1–3 marks Outline of the differences between the years.

Level 1 – 1 mark for each L1 statement (max of 3 marks).

Level 2 – 1 × L2 calculation can gain 4 marks and a further mark can be awarded for each additional L2 calculation (max 6 marks) e.g. The net profit margin for 2016 was 13%. (L2).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion whether the directors should be pleased with the company performance.

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

Possible application marks:

Private limited company; set up 15 years ago; in country P; share capital \$2 m; increased to \$8 m by 2015; expand the company; raise \$10 m to buy out the existing shareholders; buying new computer controlled equipment for \$500 000.

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

#### 5. O/N 16/P22/Q2/b

(a) Relevant points might include:

Break-even level of output	<ul style="list-style-type: none"> <li>knowing how many customers are needed to cover all costs</li> <li>how high is the margin of safety</li> </ul>
Profitability of the Business	<ul style="list-style-type: none"> <li>the surplus left over after all the costs have been paid and provides a return on the investment of the partners</li> <li>ability to repay the loan</li> </ul>
Liquidity of the business	<ul style="list-style-type: none"> <li>Ensures there is sufficient cash available to pay short-term debts otherwise the business might have to close/not able to repay the loan.</li> </ul>

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which piece of financial information is most important and why it is more important than the other information. 7–8 marks for some limited judgement shown in the conclusion as to which piece of financial information is most important.
Level 2	4–6 marks Detailed discussion of why each piece of financial information is important to the bank manager.
Level 1	1–3 marks Outline of why each piece of financial information is important to the bank manager.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Knowing how many customers are needed to cover all the costs to break-even.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Knowing how many customers are needed to cover all the costs to break-even. This will allow the bank manager to look at the margin of safety and assess how much profit the business is likely to make. They can see if the business

will be able to repay the loan. (L2) However, break-even is only an estimate and the sales might not take place at the price they are planning to charge. (L2)(5 marks for good L2 answer)  
Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which piece of financial information is most important.

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

Possible application marks: gardening services; house cleaning services; partnership set up 5 years ago; their cash flow is positive and finances managed well; 50 part-time workers; income in country X is increasing; employment in country X is increasing; elderly people; old people; adult children; cleaners wages; gardeners wages; information from the graph in Appendix 3. There may be other examples in context which have not been included here.

**6. M/J 16/P21/Q3/b**

(a) (i) Calculate values for:

W \$ 560 000

X \$1 000 000

Y \$ 960 000

Z \$ 160 000

(Format of the forecast boxes means that 000 or \$ are not essential.)

(ii) Relevant points might include:

Example to increase the cash inflows (1) – e.g. increase number of patients; increase sales revenue; reduce time for payment by patients; bank loan would provide a cash injection.

Example to reduce the cash outflows (1) – e.g. reduce overheads; obtain trade credit/delay payment to creditors; reduce rent; reduce wages/lay-off workers.

The answer should not refer to profit or loss – the focus is purely cash flow.

Solutions should be realistic for a six-month period i.e. not long-term solutions.

Level 3	One mark for each statement e.g. Increase sales revenue (one mark).
Level 2	Four marks for the first L2 answer and then one extra mark for each additional L2 answer up to a maximum of six marks. E.g. The amount of cash flow at the end of each month after. September is decreasing because the sales revenue is decreasing and so the business needs to find ways to increase the sales revenue in these months (L2). However, if it increases advertising to try to encourage more patients to go to the clinic then it may increase the cash outflows from advertising expenditure as well as inventory and so inflows will need to be greater than outflows for the cash flow to improve (L2). Five marks for good L2 answer.
Level 1	For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best way to choose.

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

	Knowledge/Analysis/Evaluation
Level 3	7–8 marks Well justified recommendation as which is the best way to choose.
Level 2	4–6 marks Detailed discussion of advantage/disadvantage of each suitable way to improve the cash flow.
Level 1	1–3 marks Outline of advantage/disadvantage of each suitable way to improve the cash flow.

**7. M/J 14/P22/Q1/b**

(a) Content:

- Reduce wages
- Buy cheaper stocks of fruit and vegetables
- Raise price of products
- Sell more fruit and vegetables



- Reduce fixed costs
- Overdraft facility
- Loan (Bank or family and friends)
- Delay paying suppliers / improved terms
- Reduce credit terms for customers
- Increased advertising
- Reduce wastage

Level 1 – 1 mark for each statement, e.g. Manuel needs to raise his prices (1 mark).

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.

E.g. Manuel needs to raise his prices as this may increase his shop revenue and improve his financial position. However, there is a danger that if he increases his prices he will be less competitive with other fruit and vegetable shops and may lose customers to the competitors' shops. Hence his cash flow would not improve.

5 marks for level 2 answer plus one application mark for mentioning fruit and vegetable shops.

Level 3 – Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best way to choose compared to the other ways.

Possible application marks: shop; fruit and vegetables; been in business for 10 years; reference to delivery costs; one month credit given to regular customers; finance figures from App 1; 5 employees down to 4; 100% mark-up.

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

	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks At least 2 × Level 2 + well justified recommendation as to the best way to choose compared to the other ways.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each way to improve the cash flow OR balanced argument. Some limited judgement shown in recommendation about the best way to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outline of advantages/disadvantages of each way to improve the cash flow.

8. M/J 13/P21/Q3/b

(a) (i) Content:

w = \$1 100 000 – 1 mark

x = \$-(100 000) – 1 mark

y = \$1 050 000 – 1 mark

z = \$750 000 – 1 mark deduct 1 mark max if 000s are omitted.

E.g. if two right answers with 000s missing then 1 mark max.

(ii) Content:

Increase the cash inflows (1) – e.g. increase cash sales (1)

Reduce the cash outflows (1) – e.g. reduce overheads; obtain trade credit (1)

The answer should not refer to profit or loss – the focus is purely cash flow.

Solutions should be realistic for a sixth month period i.e. not long term solutions.

Level 1 – 1 mark for each statement

E.g. Increase cash sales (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.

E.g. The amount of cash flow at the end of each month is decreasing as the outflows are greater than the inflows in September through to December and so

the business needs to find ways to increase the cash sales in these months to increase the inflows (L2). However, if it increases advertising to try to encourage more sales then it may increase the outflows from advertising expenditure as well as stock purchases and so inflows will need to be greater than outflows for the cash flow to improve (L2).

6 marks for good level 2 answer.

	Application/Analysis/Evaluation
Level 2	5–8 marks Discussion of how the cash flow forecast position can be improved. Judgement about the best way to improve the cash flow position. Max 7 marks if no justified recommendation.
Level 1	1–4 marks 1 mark for each statement.

9. M/J 10/P22/Q5/b

(a) **Content:** Cash flow forecast – table showing estimated cash flows of the business over a period of time – helps when budgeting or when asking for an overdraft.

Profit and loss account – shows whether the business has made a profit or a loss over the year, owners can see if they will get a return on their investment, possibility of retained profit for investment, measure of the success of the business.

Break even analysis – shows the minimum amount of products sold to just cover costs – target amount to ensure a loss is not made, can monitor the business and can show if it needs to do something to stimulate sales.

Level 1 E.g. Profit and loss account shows whether the business has made a profit or a loss over the year. 1 mark for each statement.

Level 2 E.g. Profit and loss account – shows whether the business has made a profit or a loss over the year. It can be compared with competitors and with previous year's accounts to assess if the flower business is improving or getting worse. (5 marks for level 2 answer plus 1 application mark for mentioning flower business.)

5 marks for the first level 2 answer. Plus 1 – 2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.

Level 3 Three level 2 answers with good evaluation shown as to the importance of each financial document/analysis.

To get to L3 the candidate would need to add evaluative comments to L2 response e.g. if they compare the net profits or net profit ratio of Bashir Baskets with their competitors they can see how well they are doing and if they need to be trying to sell more baskets of flowers or if they are already performing well.

Possible application marks: flower baskets; flower shops; seasonal demand; reference to quantitative data in case; flowers for the home; flowers for the restaurant; flowers for weddings; sole trader; profits remain the same for last two years.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Three Level 2 plus good evaluation shown as to the importance of each of the financial documents/analysis.
Level 2	2 marks	5–8 marks

	Well applied to case. At least two examples of reference to, or use of, the case.	Good discussion of the importance of each of the financial documents/analysis.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Each of the items outlined/defined.

## 10. M/J 09/P2/Q4/a

## (a) Content:

Python Bicycles need to know how much cash is available for paying creditors – these are produced from local manufacturers and payment has to be made one month after delivery. To know if Python Bicycles has enough cash – it may be necessary to reduce the time given to shows to pay for their orders as two months is generous.

The Finance Manager may need to show the cash flow forecast to the bank manager – as he worried about cash flow and may want to arrange to keep the overdraft facility with the bank.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each reason identified (2 marks max.). Up to two further marks are available for explaining why a cash flow forecast is useful.

2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason (4 marks × 2 reasons)

**Reason:** Assess if they need to keep the overdraft facility (1 knowledge mark)  
**Simple explanation:** Assess if they need to keep the overdraft facility as delayed payments to creditors will give Python Bicycles a poor reputation with suppliers and they may hold back any further deliveries of components (1 additional mark for simple explanation).

**Developed Explanation:** Assess if they need to keep the overdraft facility as delayed payment to creditors will give Python Bicycles a poor reputation with suppliers and they may hold back any further deliveries of bicycle components making production more difficult for Python Bicycles. Orders to toy shops may therefore be delayed and sales may be lost. (1 further explanation mark for a developed explanation).

**Application:** The application mark could be achieved as the answer considers bicycle component suppliers and toy shops (1 application mark).

**5.3: Income statements**

## 1. O/N 18/P22/Q3/b

## (a) Relevant points might include:

Summary of financial information for PP	<ul style="list-style-type: none"> <li>• Revenue is \$30m (Ap) and is higher by \$10m for PP (L1)</li> <li>• The gross profit is \$22m (L2)</li> <li>• The gross profit margin is lower (L1) at 73% for PP (L2) (<math>\\$22m/\\$30m \times 100</math>)</li> <li>• Profit margin is higher for PP by 3% (L1) and the profit for PP is \$7m (L2)</li> <li>• The expenses are \$15m for PP (Ap) and are \$3m higher than the competitor (L1)</li> <li>• The acid test ratio is 1 (Ap) and it does not have a liquidity problem (L1) but shows that PP can pay all its short-term liabilities (L2)</li> </ul>
Summary of financial information competitor	<ul style="list-style-type: none"> <li>• The gross profit is \$16m (L2).</li> <li>• The gross profit margin is 80% for the competitor (L2) (<math>\\$16m/\\$20m \times 100</math>)</li> <li>• The profit for the competitor is \$4m (L2)</li> <li>• Expenses are lower for competitor (L1)</li> <li>• The acid test ratio is 1.5 (Ap) and is higher than PP (L1) but the acid test suggests this liquidity is possibly too high and they have too much working capital tied up in cash and trade receivables. (L2)</li> </ul>

**Level 1 (1–3 marks)**

One mark for each limited statement about the financial information.

E.g. Revenue is higher for PP than competitors by \$10m.

**Level 2 (4–6 marks)**

Profit calculated and/or detailed discussion of the significance of the financial information. 1 × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (Max six marks) E.g. Revenue is higher by \$10m for PP. However, the gross profit margin is lower at 73%. (Four marks for L2 answer)

**Level 3 (7–10 marks)**

For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of which is in the better financial position and whether or not the financial manager should be worried.

7–8 marks for some limited judgement shown in the conclusion of which is in the better financial position and/or why the other is not as good and whether or not the financial manager should be worried.

9–10 marks for well justified conclusion of which is in the better financial position and why it is better than the other and whether or not the financial manager should be worried.

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

Possible application marks: manufactures pottery items, factory, vases, plates, private limited company, 30 years ago, wants to expand by exporting to other countries, use of figures from Appendix 3.

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

## 2. O/N 17/P22/Q4/b

## (a)

Profit	\$5 000 (L2)
GPM	$50000/60000 \times 100 = 83\%$ (L2)
NPM	$5000/60000 \times 100 = 8\%$ (L2)
ROCE	$5000/10000 \times 100 = 50\%$ (L2)
Total revenue	\$60 000 (L1)
Total cost	\$55 000 (L1)

Level 3 judgements may be based on:

- Survival in the first year – GS may build on this in the future
- GS ratios worse than competing businesses but only just started-up
- Comparison of the figures and suggestions made of why GS ratios might be worse than the ratios of other similar businesses
- Other information that may be useful to make a judgement

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

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to whether or not GS will be as successful as other similar businesses. 7–8 marks for some limited conclusion as to whether or not GS will be as successful as other similar businesses.
Level 2	4–6 marks Correct calculation of profit &/or profitability ratios.
Level 1	1–3 marks Outline of the significance of the financial information.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. The average profit for other businesses is higher than GS.

Level 2 – 1 × L2 calculation can gain 4 marks and a further mark can be awarded for each additional L2 calculation (max 6 marks) e.g. Gross Profit Margin is 83%. (4 marks for L2 calculation)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded for correct calculation of profit and appropriate ratios and then a conclusion as to whether or not GS will be as successful as other similar businesses.

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

Possible application marks: Partnership; set-up last year; set up by 2 brothers; grows plants and trees; looks after the gardens of luxury hotels; partners invested \$5000 each; total investment of \$10 000; new gardening equipment required costing \$10000; holds high level of inventory; want to buy more land to expand; information on the three sites in the case; information from Appendix 1; written information from Appendix 3, e.g. seeds but NOT the financial information itself.

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

### 3. O/N 17/P21/Q2/b

(a) Relevant points might include:

Cash flow forecast – predicts cash in-flows and outflows – to avoid liquidity problem – is there sufficient working capital for the larger premises? Income statement – records revenue and costs or shows profit and loss – profit available to reinvest into the new premises – indicator of success of the business – will there be sufficient revenue from larger premises to make profit? Balance sheet – records assets and liabilities – liquidity ratios – stability of the business – amount of liabilities – value of the existing business – assets to sell if necessary

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to which is most important to the decision about how to finance the new site. 7–8 marks for some limited judgement shown in recommendation as to which is most important in its general usefulness to the business.
Level 2	4–6 marks Discussion of each financial statement, how it can be used and why it is important.
Level 1	1–3 marks Outline of what each financial statement shows.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. A balance sheet shows the value of the business.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. A balance sheet shows the value of the business. If Elsie wants to take out a bank loan then she will need to take the balance sheet to show the bank manager the value of the assets of the business that can be used as security for the loan. (4 marks for level 2)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which is most important to the decision

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

Possible application marks: Animals; dogs; cats; pets; pet owners; washing and brushing animals; set up 2 years ago; \$10 000 from grandfather; \$10000 from bank loan; 12 adults and 6 children workers; paid legal minimum wage; shampoo and brushes purchased from wholesaler; expand and move to larger site; needs to recruit a new manager; information on the three sites; information from Appendix 1 on the AH advert; information from Appendix 3 on the costs and revenue of AH.

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

4. M/J 17/P22/Q1/a

(a) Knowledge [2 × 1] – award one mark for each financial statement

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

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

Award one mark for each relevant named financial statement (max 2) and one mark for explanation of why the directors will want to view these statements before expanding.

Examples might include:

- income statement/Profit and loss account – to assess profitability/availability of retained profit/ need for loan/ability to repay loan
- balance sheet/Statement of financial position – assess liquidity position/ assets for security against loan/assess value of assets that could be sold
- cash flow forecast/statement – shows cash position/ability to cover expenses of expansion/liquidity position/ability to repay loans

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

**Indicative response:**

Balance sheet (k) to see if the business will be able to borrow \$500 000 (app). The balance sheet will show the liabilities of the company and will show if the bank is likely to give CC a loan for the purchase of the new automated equipment (app). The directors will want to see if there are sufficient assets to be used as security for the loan (an).

Possible application marks:

Already operating in a niche market; high quality ingredients; chocolates/high quality chocolates/luxury chocolates; hand-made chocolates; factory; private limited company; set up 15 years ago in country X; labour-intensive production techniques; 100 production workers; on-the-job training for new workers; developing a new brand of chocolate bar; targeted at the mass market; purchase a new automated production line; output is expected to be high; borrow \$500 000

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

5. M/J 17/P21/Q4/b

(a)

2015	GPM = 80% (L2)	GP = \$8 m (L1)
	NPM = 10% (L2)	NP = £1 m (L1)
	ROCE = 10% (L2)	
2016	GPM = 73% or 73.3% (L2)	GP = \$11 m (L1)
	NPM = 13% or 13.3% (L2)	NP = \$2 m (L1)
	ROCE = 14% or 14.2% (L2)	

Between 2015 and 2016:

- The revenue increased (by \$5 m) (L1)
- The gross profit increased (by \$3 m) (L1)

- The net profit increased (by \$1 m) (L1)

Note: Do not accept APP for use of data already provided in Appendix 3 (non-calculated figures)

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to whether the directors should be pleased with the company performance. 7–8 marks for some limited conclusion as to whether the directors should be pleased with the company performance/recommend action for improvement or future development of the business.
Level 2	4–6 marks Correct calculation of profitability ratios.
Level 1	1–3 marks Outline of the differences between the years.

Level 1 – 1 mark for each L1 statement (max of 3 marks).

Level 2 – 1 × L2 calculation can gain 4 marks and a further mark can be awarded for each additional L2 calculation (max 6 marks) e.g. the net profit margin for 2016 was 13%. (L2).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion whether the directors should be pleased with the company performance.

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

Possible application marks:

Private limited company; set up 15 years ago; in country P; share capital \$2 m; increased to \$8 m by 2015; expand the company; raise \$10 m to buy out the existing shareholders; buying new computer controlled equipment for \$500 000.

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

## 6. M/J 14/P21/Q3/b

### (a) Content:

Profit/Loss account – show if the business is covering its costs – if not then the business will not be making a return on their investment.

Cash flow forecast – shows how they are managing the cash inflows and outflows of the business – this will help Fabian to manage working capital so the business doesn't become insolvent. Prediction. *N.B. do not accept profit.*

Break-even chart – allows Fabian to know how many sales he needs in order to cover all his costs – this allows him to monitor sales to make sure he is not going to make a loss – if sales are too low then he can do something to increase them. Prediction/target.

Level 1 – 1 mark for each statement.

E.g. Break – even chart allows Fabian to know how many sales he needs in order to cover all his costs (1 mark).

Level 2– 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.

E.g. Break-even chart allows Fabian to know how many sales he needs in order to cover all his costs. This allows him to monitor sales to make sure he is not going to make a loss (L2). If sales are too low then he can do something to increase them such as have a promotion of 'buy one flower arrangement and get a second one at a discount'. This will increase income as long as the discount is not more than the cost of buying the flowers. (L2)

6 marks for level 2 answer plus one application mark for mentioning flower arrangements.

Level 3 – Detailed discussion of at least two level 2 answers and then a conclusion at the end which justifies which is the most useful compared to the other documents.

Possible application marks: flowers; flower shop; partnership; hotels and restaurants; flower arrangements; trade credit; weddings/Valentine's Day/birthdays; imported supplies of flowers;

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

	Application	Knowledge/Analysis/ Evaluation
Level 3		9–10 marks At least 2 × Level 2 + Well justified conclusion as to the most useful document compared to the others.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of each financial document. Judgement shown as to why each financial document is important to the running of the business
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Definition. Outline of each financial document.

7. O/N 13/P21/Q3/b

(a) Content:

Option 1 – Revenue per week	= \$1000 (L1)
Cost per week	= \$550 (L2)
Net profit per week	= \$450 (L2)
Option 2 – Revenue per week	= \$4000 (L1)
Cost per week	= \$3250 (L2)
Net profit per week	= \$750 (L2)

Level 1 – 1 mark for each statement

E.g. Revenue for option 1 per week is \$1000 per week (1 mark)

Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.

E.g. The net profit for option 1 is \$450 per week. 5 marks for each level 2 answer calculating net profit for each option.

Level 3 – Detailed discussion of at least three level 2 answers and then a recommendation at the end which justifies which option to choose and why not the other option.

	Knowledge/Application/Analysis/Evaluation
Level 3	9–12 marks Three × Level 2 + well justified recommendation as to which option to choose and why not the alternative option. Used net profit calculations and included other information from the case to support the decision, such as NPM Option 1 – 45% and NPM Option 2 – 18.75% to support the recommendation.
Level 2	5–8 marks Calculated net profits for each option. Limited judgement in recommendation about which option to choose.
Level 1	1–4 marks Calculated revenue for the options. Basic statements made about the two options.

8. O/N 11/P22/Q2/b

(a) Content:

Dolphin-watching	Revenue per day =	Boat half full 400 (L1)	or Full Boat 800 (L1)
	Total cost per day =	500 (L2)	700 (L2)
	Net profit per day =	–100 (L2)	or \$100 (L2)
Fishing	Revenue per day =	450 (L1)	900 (L1)
	Total cost per day =	525 (L2)	750 (L2)
	Net profit per day =	–75 (L2)	or \$150 (L2)
Diving	Revenue per day =	600 (L1)	1200 (L1)
	Total cost per day =	600 (L2)	900 (L2)
	Net profit per day =	0 (L2)	or \$300 (L2)



Fishing is used mainly by local tourists and may be going down as unemployment is rising – lower sales revenue.

Diving and dolphin-watching are used mainly by foreign tourists and their numbers are increasing – increased sales – increased revenue.

Comparison with competitors' prices – twice as expensive for dolphin-watching but only 33% more expensive for fishing and diving.

Fishing and diving require skilled staff to accompany the tours.

Level 1 E.g. The revenue for the dolphin-watching is \$400 per day.

1 mark for each statement.

Level 2 E.g. The revenue = \$400 (L1) and TC = \$500 (L2) and net profit/loss for dolphin-watching is -\$100 per day (L2).

6 marks for level 2 answer calculating TC and net profit/loss for each of the boat tours.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer.

I.e. two level 2 answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2

answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks

can be awarded for the first level 2 answer. If the second level 2 answer is also very

well explained then 8 marks in total can be awarded.  $6 \times L2 = 10$  marks.

Level 3 Detailed discussion of at least three level 2 answers and then a conclusion at the end which justifies which boat tour to close.

E.g. (3 × level 2 answer) + recommendation – the dolphin-watching makes the greatest

loss of -\$100 and is also the least competitive on pricing as it is twice as expensive

(L3), whilst fishing and diving are only 33% more expensive than the other business

and so may be more able to compete (L3). Also, it doesn't require any skilled workers

to be made redundant and it will be better in the future to keep the skilled employees

(L3). Therefore dolphin-watching should be the tour which is stopped.

	Knowledge/Analysis/Evaluation
Level 3	9–12 marks 3 × Level 2 + used net profit calculations and included other information from the case to support the decision. 11–12 marks for well-justified recommendation as to which boat tour to close.
Level 2	5–8 marks Total cost and/or net profits calculated.
Level 1	1–4 marks Revenue or variable costs calculated for the tours. Stated relevant information from the case or calculations.

9. O/N 11/P21/Q4/b

(a) Content:

Level 1 – straight repetition of data in Appendix 1 no credit.

No cash in 2011 and overdrawn (L1).

Debtors increased in 2011 (L1).

Creditors decreased in 2011 (L1).

Level 2

Current ratio – 1:1 (L2) and 1:1.33 (L2).

Acid test 1:0.75 (L2) and 1:1 (L2).

Gearing ratio = 50%.

Level 1 E.g. No money at the bank.

1 mark for each statement up to a max of 4 marks.

Level 2 E.g. Current ratio 1:1.

Acid test 1:0.75.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer.

I.e. two level 2 answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8

marks. However, if the level 2 calculation is explained then 6 marks can be awarded

for the first level 2 answer. If the second level 2 calculation is also explained then 8

marks in total can be awarded.

Level 3 This will include at least two calculations with comments on the figures and judgement explained as to whether the business is in a strong financial position or not.

	<b>Knowledge/Analysis/Evaluation</b>
<b>Level 3</b>	9–12 marks At least two L2 calculations and/or ratios. Decision made and justified on the calculations as to whether or not the financial position of the business is good.
<b>Level 2</b>	5–8 marks Financial information calculated and/or ratios calculated on the liquidity of the business.
<b>Level 1</b>	1–4 marks Basic statements about financial situations/limited judgement shown.

**10. M/J 11/P22/Q3/a****(a) Content:**

Effects – increased sales; raised prices; expansion; increased profit; increased competition; difficult to meet additional orders; increased employment.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application; 4 marks for explanation/analysis.

1 mark for each effect identified (2 marks max). Up to 2 further marks are available for explaining the effect. 2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth 1 additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks: ready-made meals; food; machinery; expansion; airline industry; holidays; rising incomes; increasing economic growth; food ingredients; farms; wholesaler; perishable ingredients; raw materials; reference to figures in Option 1 or 2.  
There may be other examples in context which have not been included here.

Simple explanation: Increase in the number of sales. (1 mark for knowledge)

Developed explanation: Increase in the number of sales (1). This should lead to increased profit as TT Foods may be able to raise the price of the ready meals (1). The amount of increased sales will depend on how competitive TT Foods is and whether the flights are long haul flights which serve meals rather than short haul flights which often do not serve meals (1).

Application: Reference to ready meals. (1 application mark)

**11. M/J 11/P21/Q1/b****(a) Content:**

Advantages of becoming a plc – raise large amounts of capital; no restriction on buying/selling shares; high status.

Disadvantages of becoming a plc – legal formalities time-consuming and complicated; more regulations and controls; difficult to control and manage; selling shares is expensive; may lose control.

Advantages of retained profit – no interest paid; does not have to be repaid.

Disadvantages of retained profit – lower dividends to shareholders; takes time to build up.

Level 1 E.g. Becoming a plc will raise a lot of capital through the selling of shares. 1 mark for each statement.

Level 2 E.g. Becoming a plc will raise a lot of capital through the selling of shares. A plc can sell shares to the public and so a larger amount of money can be raised than just by issuing shares as a private limited company, as they can only sell shares to family and friends. However, the cost of becoming a plc is expensive, as a plc has to produce a prospectus.

5 marks for level 2 answer.

5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer. i.e. two level 2 answers = 6 marks; three level 2 answers = 7 marks; four level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.

Level 3 Detailed discussion of at least two level 3 answers and then a conclusion at the end which justifies which is the best way compared with the other way.

Possible application marks: expansion, private limited company, family business, set up for 15 years, limited finance/additional finance, share capital \$6m, retained profit for two to three years, six shareholders, production machinery, reference to product life cycle. There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks At least three × level 2 plus well-justified recommendation as to the best way to raise the finance compared with the other way.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of sources of finance or balanced argument. Some limited judgement shown about the best way to raise the finance.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Outline of sources of finance

## 12. M/J 10/P22/Q5/b

(a) **Content:** Cash flow forecast – table showing estimated cash flows of the business over a period of time – helps when budgeting or when asking for an overdraft.

Profit and loss account – shows whether the business has made a profit or a loss over the year, owners can see if they will get a return on their investment, possibility of retained profit for investment, measure of the success of the business.

Break even analysis – shows the minimum amount of products sold to just cover costs – target amount to ensure a loss is not made, can monitor the business and can show if it needs to do something to stimulate sales.

Level 1 E.g. Profit and loss account shows whether the business has made a profit or a loss over the year. 1 mark for each statement.

Level 2 E.g. Profit and loss account – shows whether the business has made a profit or a loss over the year. It can be compared with competitors and with previous year's accounts to assess if the flower business is improving or getting worse. (5 marks for level 2 answer plus 1 application mark for mentioning flower business.)

5 marks for the first level 2 answer. Plus 1 – 2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.

Level 3 Three level 2 answers with good evaluation shown as to the importance of each financial document/analysis.

To get to L3 the candidate would need to add evaluative comments to L2 response e.g. if they compare the net profits or net profit ratio of Bashir Baskets with their competitors they can see how well they are doing and if they need to be trying to sell more baskets of flowers or if they are already performing well.

Possible application marks: flower baskets; flower shops; seasonal demand; reference to quantitative data in case; flowers for the home; flowers for the restaurant; flowers for weddings; sole trader; profits remain the same for last two years.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Three Level 2 plus good evaluation shown as to the importance of each of the financial documents/analysis.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the importance of each of the financial documents/analysis.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Each of the items outlined/defined.

**13. M/J 09/P02/Q1/b**

(a) Content: reduce costs; increase prices; increase efficiency, invest in new technology.

Level 1 E.g. Python Bicycles can make more profits by reducing their costs. 1 mark for each statement.

Level 2 E.g. Python Bicycles can make more profits by reducing their costs. If the bike components are purchased for a lower price then the production costs will fall and the profit made on each bicycle will increase. When profits are calculated as a percentage of sales the percentage profitability will have increased. 5 marks for level 2 answer plus 1 application mark for mentioning bike components.

5 marks for the first level 2 answer. Plus 1-2 marks for each additional level 2 answer. I.e. two level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.

Level 3: Detailed discussion of several level 2 answers and then a conclusion at the end which justifies which is the best way. E.G. Increased efficiency is the best method to use to increase profitability as it should lead to lower costs as Python Bicycles can now produce more bicycles per employee than before. The business may be able to reduce the prices of the bicycles and therefore it will be more competitive and will be able to sell more output. The percentage net profit return will therefore increase. 9 marks plus at least 1 application mark for making reference to bicycle production in the conclusion and possibly another application mark in the level 2 part of the answer.

	Application	Knowledge/Analysis/Evaluation
Level 3		9-10 marks Level 2 + Well justified Recommendation as to the best way to increase profitability.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5-8 marks Good discussion of at least 1 different suggestion. Some limited judgement shown about the effectiveness of the how to increase profitability.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1-4 marks Outline of how to increase profitability.

14. O/N 08/P2/Q5

- (a) (i) Content: Fixed costs are costs which do not vary with output (1) + e.g. or further explanation (2)  
 Variable costs vary with output (1) + e.g. or further explanation (2) or  
 Variable costs vary directly with output (2)  
 (2 + 2)
- (ii) Content: Breakeven point may be at a higher level of output – problem of increasing sales.  
 If costs are higher than profits may be lower – problem of unhappy shareholders/less retained profit.  
 To keep profits the same they may have to increase price – problem of reduced sales if prices are increased.  
 Lower profits may mean it is harder to raise more share capital – problem of finding alternative, possibly more expensive, ways of raising capital.  
 If costs are higher than expected then may become overdrawn – difficulty of financing cash flow problem.

	Analysis/Evaluation
Level 2	5–6 marks Possible problems explained as to why they are a problem for the managers of Generation Elect.
Level 1	1–4 marks Possible problems listed.

(b) Content: Level 2 response –

Break even Boating –  $750/50 = 15$  boats per week (L2 = 8)  
 Fishing –  $650/15 = 43$  fishing rods per week (plus L2 = 8)

50% demand

	Boating	Fishing
Net profit		
Revenue	8400 (L2)	8750 (L2)
Expenses (VC)	4200 (L2)	3500 (L2)
Fixed costs	750	650
Total cost	3450 per week	4600 per week

Net profit 3450 per week (L2= 8) 4600 per week (L2 =8)

Net profit/Sales revenue × 100 = net profit ratio

Net profit ratio 41% (L2 = 8) 52.57%(53%) (plus L2 = 8)

Attempt to calculate net profit using correct method but incorrect figures used = 5 marks.

Allow daily costs and revenue: Boating = \$1200 (L2) and  
 Fishing = \$1250 (L2)

E.g. of incorrect calculation (100% and not 50% demand used for calculation) but correct method Revenue – \$17,500, \$16,800,

Costs – \$9,150, \$7,650 and this can be given some credit for the correct method in L2 – maximum of 6 marks.

OFR applies

However, any other incorrect calculations do not gain credit e.g. \$2400 and \$2500 – incorrect cost calculation and not used 50% demand.

Level 1 statements e.g.

The expenses are higher for boating.

The costs of running the activities are higher for boating.

The sales revenue is similar for both activities.

The price is lower for fishing.

	Application/Analysis/Evaluation
Level 3	9–10 marks Level 2 + Comments made on the financial information and a decision is made and justified as to which might be best. Financial information from Appendix 3 should indicate fishing is the best activity of the two. Answer could be power boating if OFR applied.

Level 2	5–8 marks Net profit, break-even or net profit ratio calculated for either or both activities. Some justification as to which business to open.
Level 1	1–4 marks Basic statements about financial situations/limited judgement shown.

## 15. M/J 08/P2/Q3/a

(a) Content:

Level 2 response –

Car repair business net profit ratio is 10% ( $10,000/100,000 \times 100$ )Gross profit ratio is 90% ( $90,000/100,000 \times 100$ )ROCE is 67% ( $10,000/15,000 \times 100$ )Furniture business net profit ratio is 20% ( $40,000/200,000 \times 100$ )Gross profit ratio is 50% ( $100,000/200,000 \times 100$ )ROCE is 42% ( $40,000/95,000 \times 100$ )

Level 1 statements –

The net profit is higher for the furniture shop.

The gross profit is higher for the furniture shop.

The sales revenue is higher for the furniture shop.

Only \$15,000 is needed to invest in the car repair business whereas \$95,000 is needed for the furniture business.

	Knowledge/Application/Analysis/Evaluation
Level 3	9–12marks Level 2 + Comments made on the ratios and decision made and justified as to which might be best.
Level 2	5–8 marks Ratios calculated on the profitability of the two businesses/Some justification as to which business to open.
Level 1	1–4 marks Basic statements about financial situations/Limited judgement shown.

**5.4: Balance sheets****1. O/N 18/P22/Q3/b****(a) Relevant points might include:**

Summary of financial information for PP	<ul style="list-style-type: none"> <li>• Revenue is \$30m (Ap) and is higher by \$10m for PP (L1)</li> <li>• The gross profit is \$22m (L2)</li> <li>• The gross profit margin is lower (L1) at 73% for PP (L2) (<math>\\$22m/\\$30m \times 100</math>)</li> <li>• Profit margin is higher for PP by 3% (L1) and the profit for PP is \$7m (L2)</li> <li>• The expenses are \$15m for PP (Ap) and are \$3m higher than the competitor (L1)</li> <li>• The acid test ratio is 1 (Ap) and it does not have a liquidity problem (L1) but shows that PP can pay all its short-term liabilities (L2)</li> </ul>
Summary of financial information competitor	<ul style="list-style-type: none"> <li>• The gross profit is \$16m (L2).</li> <li>• The gross profit margin is 80% for the competitor (L2) (<math>\\$16m/\\$20m \times 100</math>)</li> <li>• The profit for the competitor is \$4m (L2)</li> <li>• Expenses are lower for competitor (L1)</li> <li>• The acid test ratio is 1.5 (Ap) and is higher than PP (L1) but the acid test suggests this liquidity is possibly too high and they have too much working capital tied up in cash and trade receivables. (L2)</li> </ul>

**Level 1 (1–3 marks)**

One mark for each limited statement about the financial information.

E.g. Revenue is higher for PP than competitors by \$10m.

**Level 2 (4–6 marks)**

Profit calculated and/or detailed discussion of the significance of the financial information. 1 × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (Max six marks) E.g. Revenue is higher by \$10m for PP. However, the gross profit margin is lower at 73%. (Four marks for L2 answer)

**Level 3 (7–10 marks)**

For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of which is in the better financial position and whether or not the financial manager should be worried.

7–8 marks for some limited judgement shown in the conclusion of which is in the better financial position and/or why the other is not as good and whether or not the financial manager should be worried.

9–10 marks for well justified conclusion of which is in the better financial position and why it is better than the other and whether or not the financial manager should be worried.

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

Possible application marks: manufactures pottery items, factory, vases, plates, private limited company, 30 years ago, wants to expand by exporting to other countries, use of figures from Appendix 3.

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

**2. O/N 17/P21/Q2/b****(a) Relevant points might include:**

Cash flow forecast – predicts cash in-flows and outflows – to avoid liquidity problem – is there sufficient working capital for the larger premises? Income statement – records revenue and costs or shows profit and loss – profit available to reinvest into the new premises – indicator of success of the business – will there be sufficient revenue from larger premises to make profit? Balance sheet – records assets and liabilities – liquidity ratios – stability of the business – amount of liabilities – value of the existing business – assets to sell if necessary

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to which is most important to the decision about how to finance the new site. 7–8 marks for some limited judgement shown in recommendation as to which is most important in its general usefulness to the business.
Level 2	4–6 marks Discussion of each financial statement, how it can be used and why it is important.
Level 1	1–3 marks Outline of what each financial statement shows.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. A balance sheet shows the value of the business.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. A balance sheet shows the value of the business. If Elsie wants to take out a bank loan then she will need to take the balance sheet to show the bank manager the value of the assets of the business that can be used as security for the loan. (4 marks for level 2)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which is most important to the decision

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

Possible application marks: Animals; dogs; cats; pets; pet owners; washing and brushing animals; set up 2 years ago; \$10 000 from grandfather; \$10000 from bank loan; 12 adults and 6 children workers; paid legal minimum wage; shampoo and brushes purchased from wholesaler; expand and move to larger site; needs to recruit a new manager; information on the three sites; information from Appendix 1 on the AH advert; information from Appendix 3 on the costs and revenue of AH.

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

### 3. M/J 17/P22/Q1/a

(a) Knowledge [2 × 1] – award one mark for each financial statement

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

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

Award one mark for each relevant named financial statement (max 2) and one mark for explanation of why the directors will want to view these statements before expanding.

Examples might include:

- income statement/Profit and loss account – to assess profitability/availability of retained profit/ need for loan/ability to repay loan
- balance sheet/Statement of financial position – assess liquidity position/ assets for security against loan/assess value of assets that could be sold
- cash flow forecast/statement – shows cash position/ability to cover expenses of expansion/liquidity position/ability to repay loans

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

**Indicative response:**

Balance sheet (k) to see if the business will be able to borrow \$500 000 (app). The balance sheet will show the liabilities of the company and will show if the bank is likely to give CC a loan for the purchase of the new automated equipment (app). The directors will want to see if there are sufficient assets to be used as security for the loan (an).

Possible application marks:

Already operating in a niche market; high quality ingredients; chocolates/high quality chocolates/luxury chocolates; hand-made chocolates; factory; private limited company; set up 15 years ago in country X; labour-intensive production techniques; 100 production workers; on-the-job training for new workers; developing a new brand of chocolate bar; targeted at the mass market; purchase a new automated production line; output is expected to be high; borrow \$500 000

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



## 4. O/N 11/P21/Q4/b

## (a) Content:

Level 1 – straight repetition of data in Appendix 1 no credit.  
 No cash in 2011 and overdrawn (L1).  
 Debtors increased in 2011 (L1).  
 Creditors decreased in 2011 (L1).

## Level 2

Current ratio – 1:1 (L2) and 1:1.33 (L2).  
 Acid test 1:0.75 (L2) and 1:1 (L2).  
 Gearing ratio = 50%.

Level 1 E.g. No money at the bank.

1 mark for each statement up to a max of 4 marks.

Level 2 E.g. Current ratio 1:1.

Acid test 1:0.75.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level 2 answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 calculation is explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 calculation is also explained then 8 marks in total can be awarded.

Level 3 This will include at least two calculations with comments on the figures and judgement explained as to whether the business is in a strong financial position or not.

	Knowledge/Analysis/Evaluation
Level 3	9–12 marks At least two L2 calculations and/or ratios. Decision made and justified on the calculations as to whether or not the financial position of the business is good.
Level 2	5–8 marks Financial information calculated and/or ratios calculated on the liquidity of the business.
Level 1	1–4 marks Basic statements about financial situations/limited judgement shown.

## 5. M/J 09/P2/Q4/b

## (a) Content:

Level 1 – e.g. Net profit low at \$3,000,000 – 2%  
 Overdraft high at \$10,000,000  
 Debtors high at \$20,000,000  
 Working capital low at \$1,000,000  
 There is no cash at the bank

1 mark for each statement up to a max of 4 marks.

Level 2 – e.g. Current ratio 1:0.95 (or 1:1 approx)

Acid test 1:1

Turnover = \$ 150,000,000

Gross profit = \$ 45,000,000

Expenses = \$ 42,000,000

5 marks for the first level 2 answer. Plus 1 – 2 marks for each additional level 2 answer. I.e. two level 2 answers = 6 marks; 3 levels 2 answers = 7 marks. 4 level 2 answers = 8 marks.

However, if the level 2 calculation is explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 calculation was also explained then 8 marks in total can be awarded.

Level 3 – This will include at least two calculations with comments on the figures and judgment explained as to whether the business is in a strong financial position or not.

	Knowledge/Application/Analysis/Evaluation
Level 3	9-12 marks Level 2 + Comments made on at least 2 calculations and/or ratios. Decision made and justified as to whether or not the financial position of the business is good.
Level 2	5-8 marks Financial information calculated and/or ratios calculated on the liquidity of the business.
Level 1	1-4 marks Basic statements about financial situations/limited judgement shown.

**5.5: Analysis of accounts****1. O/N 18/P21/Q4/b****(a) Relevant points might include:**

	Benefits
Shareholders of GT:	<ul style="list-style-type: none"> <li>To decide whether to reinvest profit</li> <li>To judge the success of the business/judge how much dividend they might receive</li> <li>Whether they should buy or sell shares</li> </ul>
Managers of GT:	<ul style="list-style-type: none"> <li>To judge their performance</li> <li>To justify asking for a bonus/pay rise</li> <li>Take decisions on how to improve profit for the future as profit margin lower than competitors</li> <li>How to improve liquidity as their liquidity is lower than competitors or feel secure as their liquidity is better than competitors if consider acid test of 1 as suitable</li> </ul>
Competitors of GT:	<ul style="list-style-type: none"> <li>To judge if GT is more successful than them</li> <li>To decide whether to take over GT</li> </ul>

**Level 1****(1–3 marks)**

1 mark for each outline of how the financial information is useful to a user. (max of 3 marks)

E.g. The shareholders of GT might use the information to decide whether to sell their shares

**Level 2****(4–6 marks)**

Detailed discussion of how the financial information is useful to a user.

1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)

E.g. The shareholders of GT might use the information to decide whether to sell their shares as the profit margin is 10% lower than the profit margin of competitors. This might mean the actual profit is lower and therefore the dividends paid to shareholders will be lower. If this happens then the share price might also fall therefore reducing the value of their shareholding. (4 marks for L2 answer plus 1 mark for application for use of the information from Appendix 3). Relevant financial calculations using data from App 3 can be rewarded with L2 marks

GT – gross profit = \$15m(L2) net profit = \$2m(L2) gross profit margin = 75%(L2)

Main competitor – gross profit = \$22m(L2) net profit = \$5m(L2) gross profit margin = 88% (L2)

**Level 3****(7–10 marks)**

For L3 to be awarded there need to be at least 2 L2 marks awarded and then a justified conclusion as to which user will find the information most useful when making decisions.

7–8 marks for some limited judgement shown in conclusion as to which user will find the information useful when making decisions and/or why the other information will be less useful.

9–10 marks for well justified conclusion as to which user will find the information useful and why the other two will find it less useful when making decisions.

**Award up to 2 additional marks for relevant application.****Possible application marks:** plc set up 50 years ago; manufacturer of toys; toys sold to large toy shops throughout country Y; toys also exported; Marketing manager wants to only sell toys online; toys manufactured using batch production; need to purchase cheaper components to reduce costs; recent price increases have resulted in falling sales.

Any relevant reference to the data in Appendix 3.

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

**2. O/N 16/P22/Q2/b****(a) Relevant points might include:**

Break-even level of output	<ul style="list-style-type: none"> <li>knowing how many customers are needed to cover all costs</li> <li>how high is the margin of safety</li> </ul>
Profitability of the Business	<ul style="list-style-type: none"> <li>the surplus left over after all the costs have been paid and provides a return on the investment of the partners</li> <li>ability to repay the loan</li> </ul>

Liquidity of the business	<ul style="list-style-type: none"> <li>Ensures there is sufficient cash available to pay short-term debts otherwise the business might have to close/not able to repay the loan.</li> </ul>
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Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which piece of financial information is most important and why it is more important than the other information. 7–8 marks for some limited judgement shown in the conclusion as to which piece of financial information is most important.
Level 2	4–6 marks Detailed discussion of why each piece of financial information is important to the bank manager.
Level 1	1–3 marks Outline of why each piece of financial information is important to the bank manager.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Knowing how many customers are needed to cover all the costs to break-even.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Knowing how many customers are needed to cover all the costs to break-even. This will allow the bank manager to look at the margin of safety and assess how much profit the business is likely to make. They can see if the business will be able to repay the loan. (L2) However, break-even is only an estimate and the sales might not take place at the price they are planning to charge. (L2)(5 marks for good L2 answer)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which piece of financial information is most important.

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

Possible application marks: gardening services; house cleaning services; partnership set up 5 years ago; their cash flow is positive and finances managed well; 50 part-time workers; income in country X is increasing; employment in country X is increasing; elderly people; old people; adult children; cleaners wages; gardeners wages; information from the graph in Appendix 3. There may be other examples in context which have not been included here.

3. M/J 16/P22/Q3/b

(a) Relevant points might include:

<b>Business A</b> 2 years old \$250 000 to take over Same market segment/competitor plus additional market segment/growing market	<ul style="list-style-type: none"> <li>Less sales revenue than Business B</li> <li>Gpm = 50%</li> <li>Npm = 25%</li> </ul>
<b>Business B</b> 20 years old \$500 000 to take over Same market segment/competitor	<ul style="list-style-type: none"> <li>5 × times higher sales revenue</li> <li>Gpm = 75%</li> <li>Npm = 25%</li> </ul>

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

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2+ 9–10 marks for well justified recommendation as to the best company to take over and why not the other company. 7–8 marks for some limited judgement shown in recommendation as to the best company to take over.
Level 2	4–6 marks Correct profitability ratios calculated.

Level 1	1–3 marks Outline of differences in the figures or comments on the differences between the two businesses.
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- Level 1 One mark for each L1 statement (max of three marks) e.g. Business A has lower sales revenue than Business B.
- Level 2 One L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks) e.g. The gpm for Business A is 50% (four marks for L2 answer).
- Level 3 For L3 to be awarded there needs to be at least two correct L2 calculations and then a recommendation which justifies which is the best business to choose.

Award up to two additional marks for relevant application.

Possible application marks:

Company A – \$250 000 to take over – 2 years old – same market segment/competitors plus additional market segment – growing market – for photographs of families, children and pets; Company B – \$500 000 to take over – 20 years old/well-established business – same market segment/competitor;

private limited company; photographs; photographers; photography; getting married; weddings, birthdays, family photographs; business customers as well as private individuals; sales revenue for 2015 – \$500 000; profit for 2015 - \$125 000; growing externally rather than internally.

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

#### 4. O/N 15/P22/Q3/b

(a) Relevant points might include:

	2013	2014	
Gross Profit Margin	66.66%	75%	
Profit (net) margin	16.66%	12.5%	= \$500 000 for both years (L1)
ROCE	25%	25%	

	Knowledge/Application/Analysis/Evaluation
Level 3	At least 2 × Level 2 correct calculations + 9–10 marks for well justified conclusions as to whether Rafael should be pleased with the profitability of the business. 7–8 marks for some limited judgement shown in conclusion as to whether Rafael should be pleased with the profitability of the business.
Level 2	4–6 marks Calculation of profitability ratios
Level 1	1–3 marks Outline of what is meant by the profitability ratios or statements on the differences in the figures in Appendix 2.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. yes because Rafael has an increase in sales revenue.

Level 2 – 1 × L2 calculation can gain 4 marks and a further mark can be awarded for each additional L2 calculation (max 6 marks) e.g. the gross profit margin in 2014 is 75%. (4 marks for L2 answer)

Level 3 – For L3 to be awarded there needs to be at least two L2 calculations awarded and then a well justified conclusion as to whether Rafael should be pleased with the profitability of the business.

Award up to 2 additional marks for relevant application.

Possible application marks: sole trader; motorbikes; repair, sell and deliver motorbikes; customers are mainly young men; imports high quality motor bikes; wants to open a new showroom; wants to expand the business.

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

## 5. M/J 15/P21/Q3/a

(a) Knowledge [2 × 1] – award one mark for each correct ratio

Analysis [2 × 1] – award one mark for each correct calculation

(i) Current ratio  $1000/600 = 1.66/ 1.67$  (1K + 1Ap)**Accept  $1300/600 = 2.16/ 2.17$  if working shown**Acid test ratio  $700/600 = 1.16/ 1.17$  (1K + 1Ap)**Accept  $1000/600 = 1.6/ 1.67$  if working shown**

2 marks for each correct answer; 1 mark if correct method/formula but incorrect answer

(ii) Application + Analysis [2 × 2] – award one application mark for the comparison between the figures and one analysis mark for each explanation of the calculation result from (i)  
Indicative response:

The current ratio is lower [ap] because the current liabilities have increased [an].

The acid test ratio is higher (ap) because the amount of inventories has fallen so less working capital is being tied up in inventories [an].

**NB do not reward 'better' or 'worse' for the comparison of the figures but an explanation of why the figure is better or worse can be credited.**

## 6. O/N 14/P22/Q4/b

(a) Content:	2013
Gross profit margin	80% (L2)
Net profit margin	16% (L2)
ROCE	33.3% (L2)

Level 1: 1 mark for each statement e.g. the net profit increased by \$20 m from \$20 m to \$40 m (1 mark).

Level 2: 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks, e.g. the gross profit margin in 2013 is 80% and the net profit margin is 16%.

6 marks for two level 2 answers.

Level 3: At least three level 2 calculations included and then a recommendation at the end which justifies whether ACE has an improving financial position or not.

	Knowledge/Application/Analysis/Evaluation
Level 3	9–12 marks 3 correct ratios calculated + limited conclusion of the results (9 marks). 3 correct ratios calculated + well justified conclusion as to whether ACE should be pleased or not (10–12 marks).
Level 2	5–8 marks Correct calculation of gross profit margin, net profit margin or ROCE Analysis of the ratios calculated.
Level 1	1–4 marks Limited discussion of the financial position of ACE with no correct ratio calculations. Listing of difference in the figures between the two years.

## 7. O/N 14/P21/Q4/a

(a) Content:

- Poor questions/questions not understood
- Restricted sample surveyed
- Biased time of survey
- Unrepresentative age group surveyed/not a random sample
- Only asked in the city centre
- Respondents may not answer honestly.

The marks available for this question are as follows: 4 marks for knowledge; 4 marks for explanation/analysis.

1 mark for each reason identified (4 marks max). Up to one further mark is available for explaining how the reason leads to inaccurate results.

1 knowledge mark plus 1 explanation mark (2 marks × 4 reasons)

Reason: Unrepresentative age group surveyed (1 mark for knowledge)  
 Explanation: Unrepresentative age group surveyed (1) which does not represent the proportion of people in the population who have bank accounts (2).

## 8. M/J 13/P22/Q3/b

## (a) Content:

Level 1 E.g.

Net profit has been growing and is now \$250 000

Sales revenue has increased by \$500 000

Gross profit has increased by \$300 000

Level 2 Gross profit margin = 2011 – 50% 2012 – 53%

Net profit margin = 2011 – 12% 2012 – 16.66% or 17%

Level 1 1 mark for each statement.

E.g. Net profit has increased by \$130 000 (1 mark)

Level 2 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.

E.g. Tibalt's business has made a net profit margin of 17% in 2012.

5 marks for level 2 answer.

Level 3 Detailed discussion of at least three level 2 calculations. There will be a conclusion at the end which justifies whether Tibalt should be pleased with the profitability of the business.

	Application/Analysis/Evaluation
Level 3	9–12 marks 3 x Level 2 + comments made on at least three ratios. Decision made and justified as to whether Tibalt should be pleased with the profitability of the business.
Level 2	5–8 marks Gross and net profit margins calculated on the profitability of the business.
Level 1	1–4 marks Basic statements about financial situations/limited judgement shown.

## 9. O/N 12/P21/Q4/b

## (a) Content:

Level 1 Sales revenue has increased; expenses have increased; cost of sales has increased; capital employed has stayed the same.

Level 2 2010 gross profit = \$80 000 (L2)

net profit = \$10 000 (L2)

2011 gross profit = \$110 000 (L2)

net profit = \$20 000 (L2)

2010 gross profit margin = 80% (L2)

net profit margin = 10% (L2)

ROCE = 20% (L2)

2011 gross profit margin = 73.33% (L2)

net profit margin = 13.33% (L2)

ROCE = 40% (L2)

Level 1 E.g. The expenses in 2011 have increased by \$20 000.

1 mark for each statement up to a max of 4 marks.

Level 2 E.g. The net profit margin in 2010 is expected to be 10%.

5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. two level 2 answers = 6 marks, 3 level 2 answers = 7 marks, 4 level 2 answers = 8 marks.

Level 3 This will include at least two different ratios with comparison on the figures and judgement explained as to whether the business is in a strong financial position or not.

	Knowledge/Application/Analysis/Evaluation
Level 3	11–12 marks Level 2 + comparison of at least 2 different ratios. Decision made and justified as to whether or not the financial position of the business is good.

<b>Level 2</b>	5–10 marks Financial information calculated and/or ratios calculated.
<b>Level 1</b>	1–4 marks Basic statements about financial situations/limited judgement shown.

**10. M/J 12/P22/Q1/b****(a) Content:**

- Profit and loss account/profit
- Profitability ratios
- Balance sheet/share capital
- Current ratio
- Cash flow forecast
- Sales forecast
- Break even analysis
- Share price/ recent dividend/yield data
- Capital employed
- Amount of borrowing

Level 1 e.g. Potential shareholders would want to see the balance sheet. 1 mark for each statement.

Level 1 e.g. Potential shareholders would want to see the balance sheet as it shows the value of the fixed assets in the business such as factory buildings and sewing machines as well as current assets. (L2) If the value of the assets is low relative to share capital then potential investors may not invest in the business as the share price might fall. (L2) 6 marks for two level 2 answers plus 1 application mark for mentioning sewing machines, factory buildings.

Possible application marks: schools; school uniform; factory buildings; private limited company; trading for 15 years; capital employed \$10m; employs 100 production workers and 10 office workers; increasing output.

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

	<b>Application</b>	<b>Knowledge/Analysis/Evaluation</b>
<b>Level 2</b>	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–10 marks Good discussion of what each piece of financial information shows/what the information says about the business.  Judgement shown about why the information is important to potential shareholders when deciding whether to invest in the business.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Financial information identified.

**11. M/J 12/P22/Q5/b****(a) Content:****Option 1**

- More sales than Option 2
- Already produce this uniform and no need for new machinery
- More production workers need to be recruited – increased cost.

	<b>Sales Revenue</b>	<b>Gross profit</b>
Trousers	2 400 000 (L1)	1 200 000 (L1)
Skirts	1 000 000 (L1)	600 000 (L1)
Jackets	10 500 000 (L1)	6 000 000 (L1)



Total Revenue	13 900 000 (L1)
<b>Total gross profit</b>	<b>7 800 000 (L2)</b>
Total cost	9 100 000 (L1)
<b>Total Net profit</b>	<b>\$4 800 000 (L2)</b>
Net profit margin	= 34.5% (L2)
ROCE	= 48 % (L2) (\$4.8m/\$10m)
Gross profit	= 56.1%(L2)

**Option 2**

- Fewer sales but higher prices than Option 1
- Need to produce a new product – new machinery needed
- Skilled production workers need to be recruited – increased training costs

	Sales Revenue	Gross profit
Trousers	1 600 000 (L1)	800 000 (L1)
Skirts	700 000 (L1)	400 000 (L1)
Jackets	2 500 000 (L1)	1 500 000 (L1)

Total Revenue	4 800 000 (L1)
<b>Total gross profit</b>	<b>2 700 000 (L2)</b>
Total cost	3 400 000 (L1)
<b>Total Net profit</b>	<b>\$1 400 000 (L2)</b>

Net profit margin	= 29% (L2)
ROCE	= 14% (L2) (\$1.4m/\$10m)
Gross profit	= 56.3%(L2)

Level 1 e.g. The total sales revenue for trousers is \$2.4m. 1 mark for each statement.

Level 2 e.g. The net profit for Option 1 is \$4 800 000. 5 marks for level 2 answer.

Level 3 At least three level 2 calculations plus a recommendation at the end which justifies which option would be the best one to choose rather than the other option.

	Knowledge/Analysis/Evaluation
<b>Level 3</b>	9–12 marks Three × Level 2 + Good judgement shown as to which option to choose (9–10 marks) and why not the other option (comparison made) (11–12 marks).
<b>Level 2</b>	5–8 marks Correct profitability/L2 calculations.
<b>Level 1</b>	1–4 marks Simple calculations made or simple statements made. Advantages and disadvantages of the two Options listed.

**12. M/J 11/P21/Q1/a**

**(a) Content:**

Profits; market share; expansion; sales; high share price; dividends paid; good reputation; high quality products; worker satisfaction; efficiency; cash flow; financial ratios – net profit margin, gross profit margin, ROCE, current ratio, acid test ratio.

**Measures of size such as output, number of employees or capital should not be credited.**

The marks available for this question are as follows:

4 marks for knowledge; 4 marks for application.

1 mark for each way identified plus 1 explanation mark for how each way shows success.

1 knowledge mark + 1 explanation mark (2 marks × 4 ways).

Way: Market share. (1 knowledge mark)

Explanation: Increasing market share means that Chocolate Delight has increased its sales of chocolate bars and is more popular. (1 explanation mark)

**13. O/N 10/P22/Q4/a****(a) Content:**

Expensive restaurant	Gross profit	– 160 000 (2 marks)	64% (4 marks)
	Net profit	– 20 000 (2 marks)	8% (4 marks)

The marks available for this question are as follows: 4 marks for each correct ratio calculation. 2 marks each if only gross profit and net profit calculated. (1 mark for correct method but incorrect answer.) 1 mark for correct formula.

**14. M/J 10/P21/Q1/b**

**(a) Content:** reduce costs – fixed costs and/or variable costs; change prices – increase gross profit margin; e.g. a way to increase revenue; increase efficiency, invest in new technology – new more fuel efficient buses; better gross profit from business use so increase business use and reduce school use.

Possible use of figures – calculations of totals or ratios.

E.g. Gross profit ratio 2008 = 50% both activities;

2009 = 42.5% (total) or 50% business use & 37.5 school use

Gross profit 2008 = \$1500 and 2009 = \$1700

Net profit ratio 2008 = 20% and 2009 = 20%

Level 1 – E.g. Bimisi can make more profits by reducing variable costs. 1 mark for each statement

Level 2 – E.g. Bimisi can make more profits by reducing variable costs. If the running costs, such as diesel fuel, of the buses are purchased for a lower price then the total variable costs will fall and the profit made on each bus journey will increase.

(5 marks for level 2 answer plus 1 application mark for mentioning bus running costs such as diesel fuel).

5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer. I.e. two level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.

Level 3 – Detailed discussion of at least two level 2 answers and then a conclusion which justifies which is the best way.

E.g. (Level 2 answer) + Conclusion – Increased efficiency is the best method to use to increase profitability as it should lead to lower costs as Bimisi Buses can now transport more passengers per driver than before.

The business may be able to reduce the prices of bus journeys and therefore it will be more competitive and will be able to increase the number of passengers. The percentage net profit return will therefore increase. (10 marks including the level 2 part of the answer plus the conclusion and at least 1 application mark for making reference to buses and passengers in the conclusion and possibly another application mark in the level 2 part of the answer).

Possible application marks: diesel, drivers' wages, new bus routes, training bus drivers, cost of buses, government licences, tours, tourist season.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 + Well justified recommendation as to the best way to increase profitability/profits.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of at least 1 suggestion. May have calculated profitability ratios. Some limited judgement shown about the effectiveness of how to increase profitability/profit.

Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outline of how to increase profitability/profits.
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## 15. M/J 10/P21/Q5/a

(a) **Content:** Profit/loss account; balance sheet; cash flow forecast; evidence of orders; evidence of assets he could use as security.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each piece of information identified (2 marks max). Up to two further marks are available for explaining why the information is useful. 2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each piece of information. (4 marks × 2 reasons)

**Simple explanation:** The accounts will be shown to the bank manager – this will show the business costs and revenue. (1 mark for knowledge)

**Developed Explanation:** The accounts will be shown to the bank manager. This will show the business costs and revenue in a cash flow forecast (1). The cash flow forecast will show if the business is predicted to have a positive cash flow or if it will need an overdraft (2). The bank manager will want to see the predictions to be sure that at some time in the future there will enough revenue coming from additional bus routes for Bimisi to be able to repay the bank loan (3).

**Application:** The application mark could be achieved as the answer makes reference to bus routes. ( 1 application mark)

Possible application marks: new bus routes, cost of buses, government licences, reference to quantitative data in case, tours, tourist season, training additional staff. There may be other examples in context which have not been included here.

## 16. O/N 09/P2/Q4/a

(a) **Content:**

Dilip – to assess profitability and performance of the farm.

Bank manager – to see if business can pay back overdraft/loan; Government – to ensure correct taxes paid.

Prospective investors – to assess profitability and performance of the farm to see if worth investing in (do not reward shareholders).

Suppliers – to see if Dilip will be able to pay his bills.

Employees (including managers) – to see if Dilip will be able to pay increased wages.

Competitors – to see how well Dilip is doing.

Customers – to know that supplies of its products will be available in the future.

The marks available for this question are as follows: 3 marks for knowledge; 2 marks for application and 3 marks for explanation/analysis.

1 mark for each stakeholder identified. Up to 1 further mark is available for explaining why they are interested in the accounts. 1 application mark is also available for each stakeholder (up to a max of 2 marks).

1 knowledge mark + up to 1 explanation mark + 1 application mark for the stakeholder

(2 marks for each of the 3 stakeholders + 2 application marks)

Possible application marks: vegetables; low wages; expansion.  
There may be other examples in context which have not been included here.

**17. M/J 08/P2/Q1/a**

(a) (i) 1 mark for each suitable question.

Suitable questions might include:

How much money are you putting in?

How much is the total investment required?

How much profit do you expect to make?

What security against the loan can you offer?

(ii) Up to 3 marks for each question explained as to why the information is needed by the Bank Manager.

E.g. 'The Bank Manager wants to know how much money is required to see if the business can pay it back (1) because if it is a large amount of money and the business only makes small sales revenue it will be hard to repay the loan (2). The Bank Manager will also discuss with him if the loan will be large enough to cover all the start up expenses of the business and nothing has been forgotten otherwise there might not be enough money in the business to get started properly (3).'

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## UNIT 6

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# EXTERNAL INFLUENCES ON BUSINESS ACTIVITY

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O Level  
Business  
Workbook Paper-2

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### Topics

6.1 Government Economic Objectives and Policies

6.2 Environmental and Ethical Issues

6.3 Business the International economy



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# Unit 6: External Influences on Business Activity

## 6.1: Government Economic Objectives and Policies

1. M/J 18/P22/Q4/b Case Study – Downtown Hotel (DH) – See Page 571  
 (a) Consider how each of the following changes could affect DH. Which change is likely to have the biggest impact on the profit of DH? Justify your answer. [12]

Increase in the number of tourists from other countries: .....

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Government of country X reduces income tax: .....

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Fewer people demanding coach holidays: .....

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Conclusion: .....

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2. M/J 18/P21/Q4/b Case Study – Value Gym (VG) – See Page 572  
 (a) Consider how the following three changes will affect VG. Which one will have the biggest effect on the business? Justify your answer. [12]

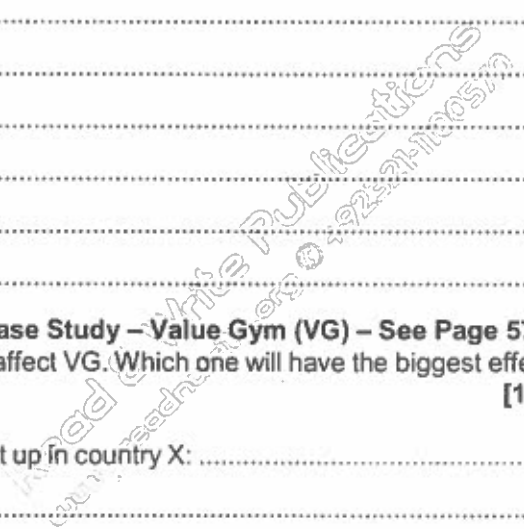
A multinational chain of luxury gyms recently set up in country X: .....

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Protection from unfair dismissal now applies to employees who have been employed for only 6 months instead of 2 years:

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Conclusion: .....  
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4. **M/J 16/P22/Q4/a** **Case Study – Foto Favourites (FF) – See Page 559**  
(a) The Government has increased interest rates to reduce inflation. Identify and explain two ways an increase in interest rates might affect FF. **[8]**

Way 1: .....

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

Explanation: .....  
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5. **M/J 15/P22/Q4/a** **Case Study – Frozen Fancies (FF) – See Page 554**  
(a) The Government of country X has recently increased interest rates. Identify and explain two ways an increase in interest rates might affect FF. **[8]**

Way 1: .....





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Factor affecting sales the most: .....

7. O/N 12/P22/Q5/a

Case Study – KK Cars – See Page 540

(a) The rate of economic growth in country X fell from 4% to 0% in the last year. Identify and explain two effects this might have on KK Cars. [8]

Effect 1: .....

Explanation: .....

Effect 2: .....

Explanation: .....

8. O/N 12/P21/Q4/a

Case Study – K's Garage – See Page 542

(a) Explain how the economic data from Appendix 3 could affect the success of Kolo's new garage. [8]

Unemployment: .....

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10. M/J 11/P21/Q5/b

Case Study – Chocolate Delight – See Page 532

- (a) Consider how the economic forecasts shown in Appendix 2 might affect the sales, costs and profits of Chocolate Delight over the next few years. Do you think these economic trends will be good or bad for the company? Justify your answer. [12]

Economic growth: .....

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Inflation: .....

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Unemployment: .....

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Conclusion: .....

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11. O/N 10/P21/Q5/b

Case Study – The Dream Hotel – See Page 529

- (a) The Government has recently reported that the economy is entering a boom period with falling unemployment and an appreciating exchange rate. It may have to increase interest rates. Do you think that the hotel will be greatly affected by these economic changes? Justify your answer. [12]

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**12. M/J 10/P22/Q5/a**

**Case Study – Bashir Baskets – See Page 524**

(a) Bashir buys flowers from other countries. Explain how an appreciation in the exchange rate and the introduction of a tariff on imported flowers might affect his business. [8]

Appreciation in the exchange rate: .....

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Introduction of a tariff: .....

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13. M/J 09/P2/Q5/a

Case Study – Python Bicycles – See Page 521

- (a) Identify and explain two reasons why governments encourage exports.  
(See Appendix 3).

[8]

Reason 1: .....

Explanation: .....

Reason 2: .....

Explanation: .....

**6.2: Environmental and Ethical Issues**

1. **M/J 18/P22/Q2/a** **Case Study – Downtown Hotel (DH) – See Page 571**  
(a) Explain the externalities of each of the following: **[8]**

External cost of large amounts of litter left on the beach: .....

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External benefit of a new motorway from Main City to Downtown: .....

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2. **O/N 17/P21/Q3/a** **Case Study – Animal Hotel (AH) – See Page 569**  
(a) Identify and explain two possible ethical issues that AH should consider. **[8]**

Ethical issue 1: .....

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Explanation: .....

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Ethical issue 2: .....

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Explanation: .....

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3. O/N 16/P21/Q2

Case Study – P & P Paint – See Page 563

- (a) Identify and explain two reasons why P & P might respond to the pressure group and change what the company is doing. [8]

Reason 1: .....

Explanation: .....

Reason 2: .....

Explanation: .....

- (b) P & P production results in external costs as outlined in Appendix 3. Consider the external costs and external benefits of the production of paint by P & P. Recommend whether the Government should take any action. Justify your answer. [12]

External costs: .....

External benefits: .....

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Recommendation: .....

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4. **M/J 16/P21/Q3/a** **Case Study – Diaz Dentist Clinic (DDC) – See Page 560**  
 (a) The Government is expanding the public sector provision of health care including dentist clinics (see Appendix 1). Identify and explain two external benefits to the rest of society of this increased provision of health care for poor families. **[8]**

External benefit 1: .....

Explanation: .....

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External benefit 2: .....

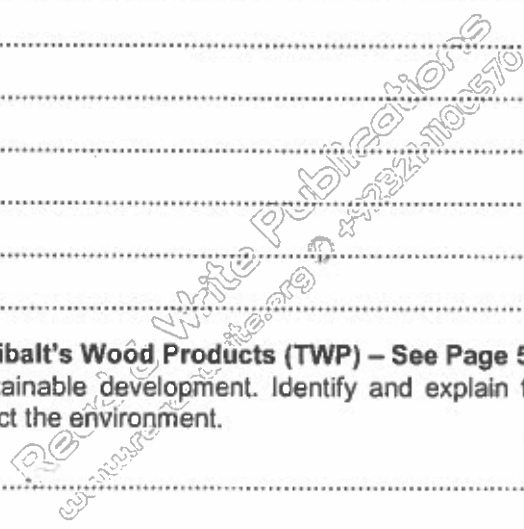
Explanation: .....

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5. **M/J 13/P22/Q5/a** **Case Study – Tibalt's Wood Products (TWP) – See Page 543**  
 (a) The Government in country X supports sustainable development. Identify and explain two reasons why Governments pass laws to protect the environment. **[8]**

Reason 1: .....

Explanation: .....



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Reason 2: .....

Explanation: .....

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6. O/N 10/P22/Q5/b **Case Study – The Riverside Restaurant – See Page 527**

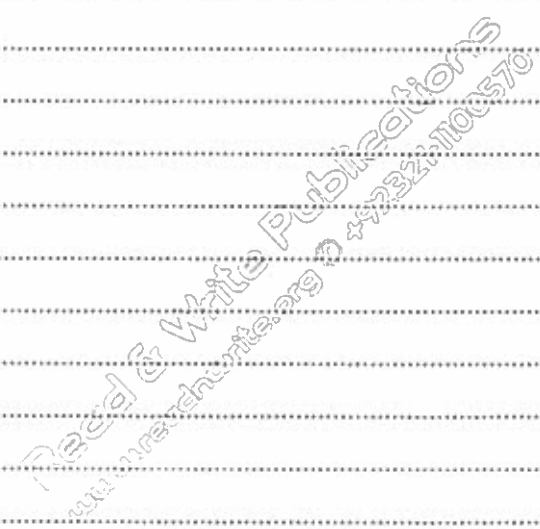
(a) Governments often pass laws to protect consumers and laws to protect the environment. Do you think that consumers and the environment need protection from business activity? Justify your answer. [12]

Consumers: .....

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Environment: .....

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**7. O/N 08/P2/Q2/a Case Study – Generation Elect – See Page 519**

**(a) (i) Distinguish between social (external) costs and social (external) benefits. [4]**

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**(ii) State two examples of social (external) costs of the dam.**

Cost 1: .....

Cost 2: ..... [2]

**(iii) State two examples of social (external) benefits of the dam.**

Benefit 1: .....

Benefit 2: ..... [2]

**6.3: Business the International Economy**

1. O/N 18/P22/Q2/b **Case Study – Perfect Pottery (PP) – See Page 574**

(a) Consider the advantages and disadvantages of the following three ways PP could start selling its products in country Z. Recommend which way PP should choose. Justify your answer. [12]

Form a joint venture with a retailer in country Z: .....

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Sell to retailers in country Z: .....

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Sell online to customers in country Z: .....

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Recommendation: .....

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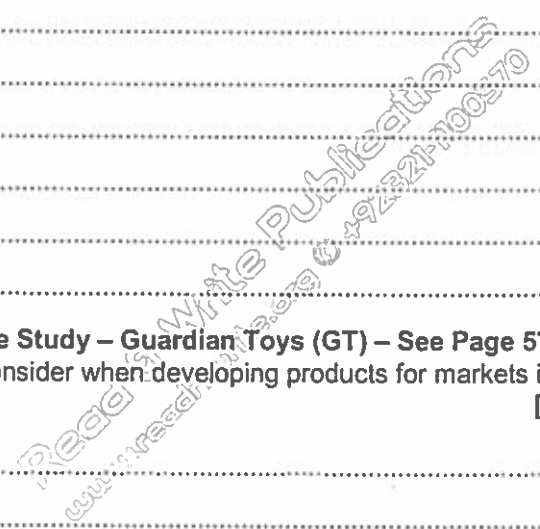
2. O/N 18/P21/Q3/a **Case Study – Guardian Toys (GT) – See Page 575**

(a) Identify and explain two factors GT should consider when developing products for markets in different countries. [8]

Factor 1: .....

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Explanation: .....



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Factor 2: .....

Explanation: .....

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**3. M/J 18/P21/Q4/b Case Study – Value Gym (VG) – See Page 572**

(a) Consider how the following three changes will affect VG. Which one will have the biggest effect on the business? Justify your answer. [12]

A multinational chain of luxury gyms recently set up in country X: .....

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There is an increased proportion of elderly people in the population: .....

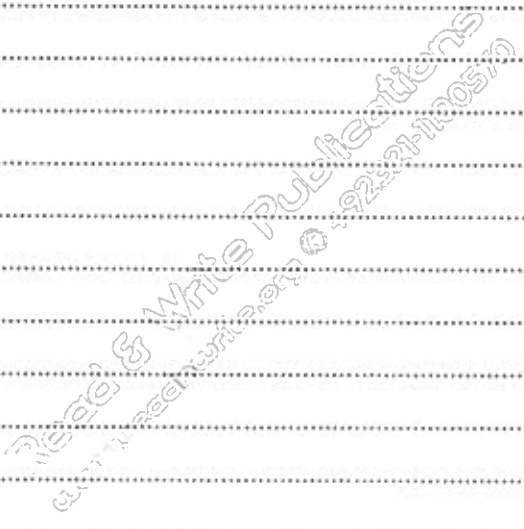
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Interest rates have increased: .....

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Conclusion: .....

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4. M/J 17/P22/Q1/b **Case Study – Chocolicious Chocolates (CC) – See Page 566**  
 (a) Consider the following three factors that affect CC when importing all of its ingredients. Which is the most important factor when deciding whether to import ingredients? Justify your answer. [12]

Exchange rate: .....

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Import tariffs: .....

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Delivery time: .....

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Conclusion: .....

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5. M/J 17/P21/Q1/b **Case Study – T T-shirts (TT) – See Page 0566**  
 (a) Consider the advantages and the disadvantages of the two options for expansion. Recommend the best option to choose. Justify your answer [12]

Option A: .....

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Option B: .....

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Recommendation: .....

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**6. M/J 17/P21/Q2/b Case Study – T T-shirts (TT) – See Page 566**

**(a)** TT should consider the following three changes before making a final decision about whether to start exporting its products. Which change will be the most important for the decision? Justify your answer. **[12]**

Appreciation in the exchange rate of country P's currency: .....

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Increased economic growth in many developed economies: .....

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Increased in the import tariffs in many developed economics: .....

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Conclusion: .....

7. O/N 16/P22/Q1/b **Case Study – GJ Partnership – See Page 562**  
(a) Consider the effects of each of the following changes on the success of GJ. Which change do you think will have the biggest effect on the profit of the business? Justify your answer. [12]

Increasing level of employment in country X: .....

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Increase in tax on all services in country X: .....

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Increase in the number of people buying large houses with gardens in country X: .....





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Conclusion: .....  
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**8. O/N 15/P22/Q4/a Case Study – Rafael’s Reliable Motorbikes (RRM) – See Page 557**

**(a) Identify and explain the possible effects on Rafael’s business of each of the following. [8]**

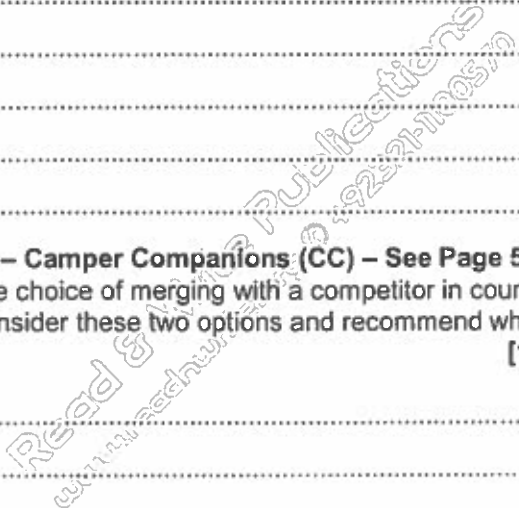
**(i) Import quota on motorbikes: .....**  
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**(ii) An appreciation of country X’s currency: .....**  
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**9. O/N 15/P21/Q4/b Case Study – Camper Companions (CC) – See Page 558**

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

**Merging with a competitor in country Z: .....**  
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Conclusion: .....

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**11. O/N 14/P22/Q5/b Case Study – ACE Engineering (ACE) – See Page 551**

(a) Consider how the following changes might affect ACE as it starts to export its products to another country (called country X). How important do you think each of these changes will be to ACE? Justify your answer. [12]

Unemployment rises in country X: .....

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Subsidies introduced for domestic businesses in country X: .....

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Country X's currency depreciates: .....

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**12. M/J 14/P21/Q5/b**

**Case Study – Fabian Flowers (FF) – See Page 549**

- (a) Fabian needs to decide where to buy supplies of flowers for the shop. Consider the advantages and disadvantages of each of the three alternative sources of supply outlined in Appendix 3. Recommend which supplier Fabian should choose to buy his flowers from. Justify your answer.

**[12]**

Import flowers from country X: .....

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Purchase flowers from a flower wholesaler: .....

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Buy from local flower growers: .....

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Recommendation: .....

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**13. M/J 13/P22/Q1/b**

**Case Study – Tibalt's Wood Products (TWP) – See Page 543**

- (a) Consider the possible advantages and disadvantages of importing wood rather than buying locally produced wood. Recommend whether TWP should continue to import wood or whether it should change to buying locally produced wood. Justify your answer.

**[12]**

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Import wood: .....

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Buy locally produced wood: .....

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Recommendation: .....

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**14. M/J 13/P21/Q2/a** **Case Study – Ted’s Tools (TT) – See Page 544**  
**(a) TT buys stock from manufacturers in other countries. Identify and explain two possible advantages to TT of importing its stock. [8]**

Advantage 1: .....

.....

Explanation: .....

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Advantage 2: .....

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Explanation: .....

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Problem 3: .....

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Explanation: .....

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Problem 4: .....

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

- (b) Emmanuel has already chosen Option 1. Was it the right decision to choose Option 1 rather than Option 2? Justify your answer by considering the advantages and disadvantages of each option. [12]

Option 1: .....

.....  
Option 2: .....

.....  
Conclusion: .....

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18. O/N 11/P22/Q5/a

Case Study – BB Boat Tours – See Page 534

(a) The local currency has fallen in value (depreciated) against the euro. This means each unit of the local currency buys fewer euros than last year. Identify and explain two effects this might have on BB Boat Tours. [8]

Effect 1: .....

Explanation: .....

Effect 2: .....

Explanation: .....

19. O/N 10/P21/Q5/b

Case Study – The Dream Hotel – See Page 529

(a) The Government has recently reported that the economy is entering a boom period with falling unemployment and an appreciating exchange rate. It may have to increase interest rates. Do you think that the hotel will be greatly affected by these economic changes? Justify your answer. [12]

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Explanation: .....  
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Disadvantage 2: .....

Explanation: .....  
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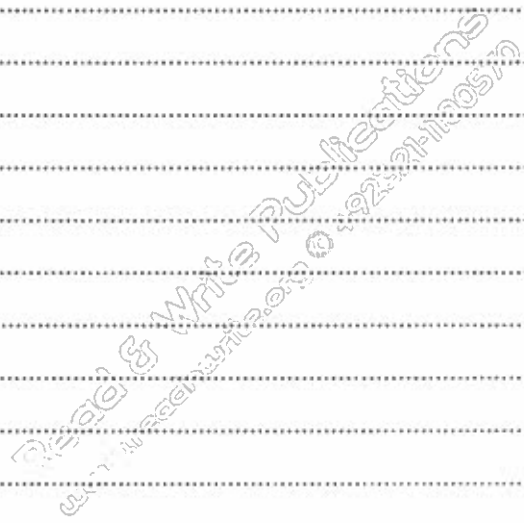
**22. M/J 09/P2/Q5/b Case Study – Python Bicycles – See Page 521**

(a) What do you think are the four most important factors that Python Bicycles should consider when deciding whether to export their bicycles? Justify your answers. [12]

Factor 1: .....  
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Factor 2: .....  
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Factor 3: .....  
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## Answer Sections

### 6.1: Government economic objectives and policies

#### 1. M/J 18/P22/Q4/b

(a) Relevant points might include:

	Advantages	Disadvantages
Increase in the number of tourists from other countries	<ul style="list-style-type: none"> <li>Increased demand from tourists may increase demand for DH rooms</li> <li>Increased demand for tourist hotels – good if Hilda buys XYZ hotel.</li> </ul>	<ul style="list-style-type: none"> <li>Competitors may attract these guests and may not have much effect on DH.</li> <li>Foreign tourists may not want beach holidays.</li> <li>None of the employees speak foreign languages</li> </ul>
Government of country X reduces income tax	<ul style="list-style-type: none"> <li>Increased disposable income – increased demand for weekend breaks – increased demand for DH</li> </ul>	<ul style="list-style-type: none"> <li>Weekend breaks luxury – money may be spent elsewhere</li> <li>Higher income may lead to increased demand for alternative holidays – therefore decreased demand for DH.</li> </ul>
Fewer people demanding coach holidays	<ul style="list-style-type: none"> <li>If takeover other hotel – increased demand for alternative holidays</li> </ul>	<ul style="list-style-type: none"> <li>Most of customers are from coach holidays – lower demand for DH</li> <li>May force DH to target a different market leading to increased costs</li> </ul>

Level 1

[1–3 marks]

1 mark for outline of the advantages and / or disadvantages of each change (max of 3 marks)  
E.g. Increased disposable income from lower income tax.

Level 2

[4–6 marks]

Discussion of the advantages and/or disadvantages of each change. 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)

E.g. Increased disposable income from lower income tax may lead to increased demand for weekend breaks. This could mean there is increased demand for DH or even increased demand as people choose to go on holiday for longer and stay at DH for more than a weekend. However, as disposable incomes are higher people may want to go on holiday in other countries and so DH might see lower demand. (Level 2 plus one application mark for answering in the context of the hotels)

Level 3

[7–10 marks]

For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which change will have the greatest effect on DH's profit.

7–8 marks for some limited judgement shown in the conclusion as to which change will have the greatest effect on DH's profit OR why the alternative changes will have less effect.

9–10 marks for well justified conclusion as to which change will have the greatest effect on DH's profit AND why the alternatives would have less effect.

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

Possible application marks:

Small hotel; 39 employees; demand for hotel accommodation is increasing; hotel is located next to a beach; half full 6 months; full 4 months; empty 2 months; wants to expand by taking over a hotel; details of ABC / XYZ hotels; information in Appendix 3 about ways to attract more customers.

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

## 2. M/J 18/P21/Q4/b

(a) Relevant points might include:

	Advantages	Disadvantages
A multinational chain of luxury gyms recently set up in country X	<ul style="list-style-type: none"> <li>• Encourages increased gym membership for all gyms as it becomes more fashionable to go to a gym</li> <li>• May have no effect as aimed at different market segment</li> <li>• Little effect as low income workers cannot afford luxury gym membership</li> </ul>	<ul style="list-style-type: none"> <li>• Increased competition so may lose some existing gym members</li> <li>• May lose some staff such as personal trainers to the new gyms so will need to be replaced</li> <li>• May need to increase wages to retain staff</li> </ul>
There is an increased proportion of elderly people in the population	<ul style="list-style-type: none"> <li>• Increased demand for exercise classes for the elderly because they have more leisure time</li> <li>• More potential elderly customers leads to increased revenue</li> <li>• Elderly people more likely to lead a healthier lifestyle – encouraged by Government campaign</li> </ul>	<ul style="list-style-type: none"> <li>• May change the image of the gym and puts off potential younger customers</li> <li>• Increased costs of providing trainers specialised in providing classes or tuition for elderly members</li> <li>• Revenue may fall if the elderly do not go to the gym</li> </ul>
Interest rates have increased	<ul style="list-style-type: none"> <li>• Higher costs of borrowing means pressure on family income – less demand for high priced luxury gyms – increased demand VG</li> </ul>	<ul style="list-style-type: none"> <li>• Increased costs of borrowing if VG needs to take loans to purchase more gym equipment for expansion or replacement of equipment</li> <li>• Less discretionary income by members reduces less important spending</li> </ul>

**Level 1 [1–3 marks]**

Outline of the advantages and disadvantages of each change. (max of 3 marks)

E.g. Lower demand for gyms as less income left over after essential bills paid.

**Level 2 [4–6 marks]**

Discussion of the advantages and disadvantages of each change. 1 · L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)

E.g. Lower demand for gyms as less income left over after essential bills paid. Therefore the number of members and therefore revenue might fall for VG. However, as VG is a low cost gym it might attract members from luxury gyms and so membership might increase. (Level 2 plus one application mark for answering in the context of the gym membership)

**Level 3 [7–10 marks]**

For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which change will have the greatest effect on profit.

7–8 marks for limited judgement shown in the conclusion as to which change will have the greatest effect on VG AND why the alternatives will have less effect on VG.

9–10 marks for well justified conclusion as to which change will have the greatest effect on VG OR why the alternatives will have less effect on VG.

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

Possible application marks:

Fitness instructor; helps people lose weight and get fit; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; a bank loan was used to finance the opening of the gym; as a sole trader; needs to attract more customers to continue

to expand the gym; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment; information from Appendix 3; government worried about increasing health problems of the population.  
There may be other examples in context that have not been included here.

### 3. M/J 16/P22/Q1/b

(a) Relevant points might include:

- *Health and safety training now required for all employees* – most of the work is at customer's place of work and photography is not very dangerous; increased training costs; loss of output when being trained.
- *Increase of 20% in the legal minimum wage* – photographers are skilled so will be paid above minimum wage anyway; maintains motivation as well paid; higher costs than competitors if they do not also pay higher wages.
- *Protection from unfair dismissal now applies to employees who have been employed for only 6 months instead of 2 years* – more difficult to get rid of unsuitable employees; workers feel more secure and so better motivated.

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

	Knowledge/Analysis/Evaluation
Level 3	At least 2 × Level 2+ 9–10 marks for well justified conclusion as to which of the legal controls will have the biggest effect on FF and why the other legal controls will have less effect. 7–8 marks for some limited judgement shown in the conclusion as to which of the legal controls will have the biggest effect on FF.
Level 2	4–6 marks Detailed discussion of each legal control.
Level 1	1–3 marks Statements made about each legal control.

Level 1 One mark for each L1 statement (max of three marks) e.g. Photographers are skilled workers and paid above minimum wage.

Level 2 One L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks) e.g. Photographers are skilled workers and paid above minimum wage so the minimum wage will probably have little effect on FF. However, if the minimum wage is set at a high level then it may mean that the photographers will expect a wage increase so that they are paid proportionately more than these workers. (Four marks for L2 answer + one application mark for considering the photographers.)

Level 3 For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which justifies which legal control is likely to have the biggest effect and why the other legal controls will have less effect.

#### Award up to two additional marks for relevant application.

Possible application marks: private limited company; profitable and grown over last 5 years; provides excellent customer service; photographs; photographers; photography; weddings, business customers as well as private individuals; employed 2 additional photographers; 8 photographers; 2 part-time office workers; taking over another photography business; growing externally rather than internally; pay existing photographers 50% above minimum wage; information in Appendix 3.

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

### 4. M/J 16/P22/Q4/a

(a) Knowledge [2 × 1] award one mark for each relevant way identified  
Analysis [2 × 1] award one mark for a relevant explanation of each way  
Application [2 × 2] award two application marks for each relevant way  
Award one mark for each relevant way (maximum of two), such as:

- Decreased demand – as customers have increased mortgage/loan payments
- Increased cost on new loans – less likely to expand

- Increased cost of overdraft – increased expenses/reduced profit
- Increased costs from higher interest repayments – prices of FF services increases/reduces demand.

Award a maximum of three additional marks for each explanation – two of which must be applied to this context – of each of these ways.

Indicative response:

FF will have increased costs from higher interest repayments on new loans (k) therefore price of photographs may have to rise (ap). This may reduce profit if prices cannot be increased or if prices are increased then demand may fall (an). Other guests at weddings can take photographs so the elasticity of demand may be elastic, leading to falling revenue if prices are increased (ap).

NB – answer should be clearly related to interest rates increasing and NOT just inflation increasing.

Possible application marks: private limited company; profitable and grown over last 5 years; provides excellent customer service; photographs; photographers; photography; getting married; weddings, birthdays, family photographs; business customers as well as private individuals; taking over another photography business; growing externally rather than internally; business wants to expand further; increased minimum wage by 20%; pay existing photographers 50% above minimum wage; information in Appendix 3.

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

5. M/J 15/P22/Q4/a

- (a) Knowledge [2 × 1] – award one mark for each relevant way  
 Analysis [2 × 1] – award one mark for a relevant explanation for each way  
 Application [2 × 2] – award two application marks for each way  
 Award one mark for each relevant way (maximum of two), such as:

- Increased cost of new bank loan
- Increased cost of overdraft
- Higher mortgage costs for customers reduce spending
- Lower sales as consumers reduce spending
- Lower profits as costs higher
- Higher interest rates attract more savings from customer or company

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

Indicative response:

Increased cost of a new bank loan [k] will raise costs as interest rates paid on the loan will be higher than before (an). This may reduce profit for FF if it cannot increase the price of its ice cream [ap]. However, because the ice cream is high quality may be able to increase its prices without losing many sales (ap).

Possible application marks: produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; borrow finance easily from the bank; sales increased for four years; new product financed by bank loan; cost / revenue data from Appendix 3.

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

6. O/N 13/P21/Q5/b

- (a) Content:

Unemployment increasing in the capital city	easier to recruit employees – less pressure on wage demands – keep prices down – less income so less demand
Meat prices increasing	increased costs – prices rise – less demand
Government increases taxes	less disposable income – decreased sales increased prices on food products – decreased demand

Level 1 – 1 mark for each statement

E.g. If unemployment increases then it will be easier to recruit new staff (1 mark).

- Level 2 –** 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.  
E.g. If unemployment increases then it will be easier to recruit new staff. It also means that there will be less pressure on wage increases and so Yum Yum may be able to pay lower wages to new staff and hence reduce their costs of meals thus increasing sales. 5 marks for level 2 answer plus 1 application mark for mentioning meals.
- Level 3 –** Detailed discussion of two × level 2 answers and then a conclusion at the end which justifies which affects sales the most and why the other factors are less important.

Possible application marks: food stall; café; meals; sole trader; hot food; shoppers/tourists; high quality food ingredients; vegetables; football stadium; concerts/other sporting events; financial information from Appendix 1.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
<b>Level 3</b>		9–10 marks Two × Level 2 + well justified conclusion as to what affects sales the most compared to the other factors.
<b>Level 2</b>	2 marks Well applied to the case. At least two examples of references to, or uses of, the case.	5–8 marks Good discussion of how the factors affect sales. Limited judgement in conclusion as to which factor affects sales the most.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Relevant factors which affect sales are listed.

### 7. O/N 12/P22/Q5/a

#### (a) Content:

- fewer journeys
- lay off staff
- inflation falls and so costs fall
- less pressure on wage demands
- lower growth leads government to reduce taxation or increase government spending
- less income
- unemployment rising
- possibly harder to get finance.

The marks available for this question are as follows:

2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 mark for each effect identified. Up to two further marks are available for explaining the effect.

1 application mark is also available for each effect.

Possible application marks:  
expansion; taxi business; drivers; journeys; private customers; tourists; fares; documents delivered; fully booked; parcel delivered; luxury car; airport taxi service; data from Appendix 1 or 3.  
There may be other examples in context which have not been included here.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each effect (4 marks × 2 effects)

- Effect:** Inflation is likely to fall. (1 knowledge mark).
- Developed explanation:** Inflation is likely to fall (1 knowledge mark). This may reduce cost pressure on Trunal's business (1 explanation mark) who might be able to reduce fares and increase demand for his taxis. (1 further explanation mark for a developed explanation)
- Application:** The application mark could be achieved as the answer refers to fares and taxis. (1 application mark).

## 8. O/N 12/P21/Q4/a

## (a) Content:

Unemployment increasing – less income and so less sales; lower wages as more unemployed; easier to recruit/more choice of applicants.

Economic growth – falling growth and so sales might fall; more sales of used cars as fewer new cars sold; more repairs as fewer new cars sold and keep old car for longer. (Do not reward bankruptcy or recession.)

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each economic factor (4 marks × 2 economic factors)

**Possible application marks:**

unemployment increasing; economic growth at lower levels; car; car repairs; mechanic; car servicing; sole trader; new business; business customers and private customers; garage; importing cars; reference to figures in the case or Appendix 1 or 3.

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

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

- Economic factor:** Unemployment increasing and so sales may be lower. (1 knowledge mark)
- Simple explanation:** Unemployment increasing and so sales may be lower (1) due to consumers having less income as they may have lost their job. (1 additional mark for simple explanation)
- Developed explanation:** Unemployment increasing and so sales may be lower (1) due to consumers having less income as they may have lost their job (1). So they spend less money buying new cars or they may spend more money getting their old car repaired and so revenue from car repairs might go up. (1 further explanation mark for a developed explanation)
- Application:** The application mark could be achieved as the answer refers to new cars and car repairs. (1 application mark)

## 9. O/N 11/P22/Q5/b

## (a) Content:

Higher unemployment – less income for local people – lower demand; easier to recruit workers – less pressure to increase wages.

Rising inflation – rising costs – increased pressure on wages; increase prices – lower demand – reduced sales revenue.

Increasing number of foreign tourists – higher demand – increased sales revenue – increased net profit.

Lower interest rates – cheaper to borrow; local tourists have more money to spend – increased demand for fishing – increased sales revenue.

Level 1 E.g. Tourism is a growing market.

1 mark for each statement.



**Level 2** E.g. Tourism is a growing market and therefore there is an increasing demand. The boats can be used more efficiently and will be full. This will raise revenue and should reduce losses for the boat tours.

5 marks for level 2 answer plus 1 application mark for mentioning boat tours.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.  $6 \times L2 = 10$  marks.

**Level 3** Detailed discussion of at least three level 2 answers. There will be a conclusion at the end which summarises the overall effect on BB Boat Tours.

Possible application marks:  
boat day trips; foreign tourists; skilled local fishermen; diving instructors; boats fully booked/half full; business made a loss; euro; employees redundant; information from the graphs in Appendix 3.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
<b>Level 3</b>		9–10 marks 3 × Level 2 + good overall judgement made.
<b>Level 2</b>	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the different pieces of economic information to the business.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Outlined advantages/disadvantages of each piece of information to the business.

**10. M/J 11/P21/Q5/b**

**(a) Content:**

Going into a boom and therefore demand should increase – more chocolates sold so revenue increases – increased profits; unemployment falling might make it more difficult to recruit workers – wages might rise; inflation may start to increase leading to increases in raw material costs – demands for wage increases – less competitive in overseas markets.

**Level 1** E.g. Unemployment falling might make it more difficult to recruit workers. 1 mark for each statement.

**Level 2** E.g. Unemployment falling might make it more difficult to recruit workers. The company might have to increase wages to attract enough job applicants for any vacancies. This increase in wages will lead to either increased costs or possibly increased prices for its chocolate bars. This may result in lower sales or, if the prices stay the same, it could lead to lower profits for Chocolate Delight.

6 marks for level 2 answer plus 1 application mark for mentioning the price of chocolate bars.

5 marks for the first level 2 answer, plus 1–2 marks for each additional level 2 answer. I.e. two level 2 answers = 6 marks; three level 2 answers = 7 marks; four level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer is also very well explained then 8 marks in total can be awarded.

**Level 3** Detailed discussion of at least two level 2 answers. There will be a conclusion at the end which justifies whether the economic data will be good or bad for the company.

Possible application marks: chocolate bars, boxes of chocolates, sweets, limited finance/additional finance of \$5m, share capital \$6m, retained profit for two to three years, six shareholders, skilled workers, production machinery, product life cycle, R & D Department, trends in economic growth, unemployment and inflation identified.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 plus good judgement shown as to whether the economic forecasts will be good or bad for the company.
Level 2	2 marks Well applied to the case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the possible effects of changes in the economic forecasts. Some limited judgement shown about the possible benefits and drawbacks.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Outlined possible effects of changes in the economic forecasts.

### 11. O//N 10/P21/Q5/b

#### (a) Content:

Boom – incomes rising so more booking made; more members join the leisure centre; more people eat out at the restaurant; increased flights so more car parking whilst people away.

Falling unemployment – incomes rising so more travel; increased use of hotel car park; harder to recruit staff; wages may increase.

Interest rates are rising – increased cost of borrowing; might affect the planned expansion; savers have more money.

Exchange rate appreciating – imported goods will be cheaper; foreign guests will have to pay more to stay at the hotel; fewer business people staying at the hotel as exports are more expensive and so fewer exports are sold, so fewer business meetings with foreign buyers.

Level 1 E.g. exchange rate appreciating will mean that imported goods will be cheaper.  
1 mark for each statement.

Level 2 E.g. exchange rate appreciating will mean that imported goods will be cheaper.  
The restaurant may be able to buy cheaper food and this will lower the hotel restaurant costs. This would allow them to lower prices, which may encourage more customers and increase its profits.

.6 marks for detailed level 2 answer plus 1 application mark for mentioning the hotel restaurant and food.

5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded. (6 level 2 answers = 10 marks)

Possible application marks: reference to quantitative data in case; tourists; business customers; membership of leisure centre; restaurant; employing bar staff or any of the employees mentioned in Appendix 2.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–10 marks Good discussion of effects on the hotel of interest rate rises, unemployment falling, boom and appreciating exchange rate.

<b>Level</b>	<b>1 mark</b>	<b>1–4 marks</b>
<b>1</b>	Limited application to the case. At least one example of reference to, or use of, case.	Knowledge shown of effects of interest rate rises, unemployment falling, boom and appreciating exchange rate.

**12. M/J 10/P22/Q5/a**

**(a) Content:** Exchange rates – appreciation in the exchange rate will reduce import prices, makes flowers cheaper, could lower prices, buy less home grown flowers.

The marks available for this question are as follows: 2 marks for knowledge and 6 marks for explanation/analysis.

1 mark for basic understanding of each change (2 marks max). Up to three marks are available for explaining what effects the change might have on the business.

1 knowledge mark + up to 3 explanation marks for each change (4 marks × 2 changes).

Simple explanation: Import tariffs will raise cost of imported flowers. (1 mark for knowledge).

Developed Explanation: Import tariffs will raise cost of imported flowers (1).

Bashir may need to increase the price of his baskets of flowers to cover the increased costs (1). Sales may fall if customers are not prepared to pay higher prices (1), as flowers are a luxury good and not a necessity (1).

**13. M/J 09/P2/Q5/a**

**(a) Content:** increased economic growth, lower unemployment, stronger exchange rate. Could also include improve B of P.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each reason identified (2 marks max). Up to two further marks are available for explaining why governments encourage exports.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provide of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason (4 marks × 2 reasons)

**Reason:** Encouraging exports is a way of generating a stronger exchange rate (1 knowledge mark)

**Simple explanation:** Encouraging exports is a way of generating a stronger exchange rate, the more export sales business in a country achieve, the higher the demand would be from abroad to buy that country's currency. All things being equal, this would lead to an increase (appreciation) in the value of the local currency. (1 additional mark for simple explanation).

**Developed Explanation:** Encouraging exports is a way of generating a stronger exchange rate the more export sales businesses in a country achieve, the higher the demand would be from abroad to buy that country's currency. All things being equal, this would lead to an increase (appreciation) in the value of the local currency. A stronger exchange rate would make imports less expensive and reduce inflationary pressure. (1 further explanation mark for a developed explanation).

**Application:** The application mark could be achieved as the answer uses the information provided in Appendix 3. (1 application mark)

## 6.2: Environmental and ethical issues

### 1. M/J 18/P22/Q2/a

#### (a) *The external cost of large amounts of rubbish left on the beach*

Award 1 mark for an understanding of an external cost plus 1 mark for each example of an impact on a third party where the third party is identified. A maximum of 2 marks can be awarded if only examples of external costs are in the answer.

**The answer could be one external cost developed or several costs developed with the impacts on third parties identified for a maximum of 4 marks**

Possible answers might include:

- Costs paid for by the rest of society as a result of the business activity
- The externality in this case is local people visiting the beach and leaving rubbish which then affects hotel guests and the hotel itself
- Eye-sore spoils the view - puts off tourists so DH may lose trade
- Increased cost of cleaning beach – to hotel or government
- Harm to wildlife and environment – especially marine animals getting injured

**Indicative response:**

The rubbish makes it unpleasant for tourists and local people visiting the beach (1) and therefore may reduce demand for hotel rooms at DH. (1) Jobs at the hotel may be reduced (1) and so there may be more unemployment (1).

**Maximum 4 mark**

#### *The external benefit of a new motorway from Main City to Downtown*

Award 1 mark for an understanding of an external benefit plus 1 mark for each example of an impact on a third party where the third party is identified.

A maximum of 2 marks can be awarded if only examples of external benefits are in the answer.

**The answer could be one external benefit developed or several costs developed with the impacts on third parties identified for a maximum of 4 marks**

Possible answers might include:

- Benefits gained by the rest of society as a result of the business activity
- The business activity in this case is the building of a new motorway which will help hotels / local residents / other businesses – wanting to reach Downtown quickly and easily
- Easier journey time – so guests can get to the hotel quicker
- Encourage more tourists from other countries – increases hotel revenue
- Less accidents for local people on side roads – as more cars and lorries travel on the motorway

**Maximum 4 mark**

### 2. O/N 17/P21/Q3/a

#### (a) Knowledge [2 × 1] – award one mark for each ethical issue ('Doing the right thing')

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

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

Award one mark for each ethical issue (maximum of two), such as:

- Types of animals looked after – all legal?
- Welfare of animals/danger to animals
- Working conditions
- Child labour employed
- Fair pay/paying minimum wage
- Disposal of waste in a responsible manner

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

**Indicative response:**

AH employs children (K) and then pays them below the legal minimum wage. (ap) This keeps costs low but will give AH a bad reputation leading to a lower number of customers. (an) This will make it more difficult for Elsie to expand the business to a larger site as there may be insufficient number of customers to make this worthwhile. (ap)

Possible application marks: Animals; dogs; cats; pets; pet owners; washing and brushing animals; 12 adults and 6 children workers; paid legal minimum wage; complaint on the social media message; cage; rare animal

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

**3. O/N 16/P21/Q2**

(a) Knowledge [2 × 1] – award one mark for each reason

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

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

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

- Want to keep a good reputation for being environmentally friendly
- Wants to keep customers from switching to competitors
- Does not want to upset local residents
- Wants to avoid fines or legal action
- Wants to keep a favourable reputation for being a good employer

Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context – of why the business might respond to the pressure group and change what the company is doing.

Indicative response:

To not lose customers who may buy from competitors if they are against businesses polluting the environment (k). The pollution affects a lot of people such as fishermen (ap) and may mean there are a greater number of people lobbying the government for the company to reduce pollution put into the river (ap). The more people affected then the more effective the pressure group and the more likely they are to change to another company if P & P do not change the way they produce paint (an).

Possible application marks: the Government of country X; paint manufacturer; large limited company; large factory next to a river; pollution; waste; dumping in the river; makes tins (cans) of paint; sells to large retailers; 150 production workers; employees live near to the factory; details of two options outlined in Appendix 2; details of pollution caused by paint production outlined in Appendix 3.  
There may be other examples in context which have not been included here.

(b) Relevant points might include:

External costs	Pollution – waste put into river makes children ill, kills fish, people can no longer catch their own fish, have to buy fish now – no clean water
External benefits	Provides jobs; increased sales for fish sellers; taxes paid to government

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to whether or not the government should take any action. 7–8 marks for some limited judgement shown in recommendation as to whether or not the government should take any action.
Level 2	4–6 mark Detailed discussion of external costs and benefits on third parties.
Level 1	1–3 marks Outline of external costs and benefits.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. The company puts waste products into the river,

Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. The company puts waste products into the river and this kills the fish leading to local people have to increase their spending on food which leaves them less to spend on other products. (4 marks for L2 answer plus one application mark for mentioning catching fish from the river).

Level 3 – For L3 to be awarded there need to be at least two L2 marks awarded and then a recommendation whether the government should introduce regulations on the activities of this company.

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

Possible application marks: paint manufacturer; large limited company; imports raw materials; large factory next to a river; makes tins (cans) of paint; pressure groups; sells to large retailers; uses batch production; 150 production workers; employees live near to the factory; details of two options outlined in Appendix 2; details of pollution caused by paint production outlined in Appendix 3. No credit for paint but ok for pollution.  
There may be other examples in context which have not been included here.

**4. M/J 16/P21/Q3/a**

- (a) Knowledge [2 × 1] award one mark for each relevant third party external benefit  
Analysis [2 × 1] award one mark for a relevant explanation of third party external benefit  
Application [2 × 2] award two application marks for each external benefit  
Award one mark for each relevant external benefit (maximum of two), such as:

- Jobs will be created/reduced unemployment
- Businesses will lose fewer days off from employees/increased productivity
- Children will have better dental health and therefore cost their parents less money in dental treatment, thereby increasing spending on other products.

Third party groups who are most likely to benefit from the increase in public sector dental clinics:

- High income families/private patients
- Others businesses – employers
- Other businesses – dental suppliers
- Households – tax revenue increases so more public spending.

Do not reward poor families or government free dental clinics as third party groups.

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

Indicative response:

Jobs will be created [k] because more dentists will need to be employed at the clinics [ap].

Government-owned dental clinics will lead to lower levels of unemployment and this will increase spending for other businesses [an]. This will also be true for receptionists as well as practice managers and dental assistants who will also find it easier to get a job [ap].

Possible application marks: less illness; qualified dentists; private patients; Government-owned dentist clinics; free treatment in Government dentist clinics for poor families; increasing number of Government-owned dentist clinics; job vacancies for dentists and assistants; country x.

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

**5. M/J 13/P22/Q5/a**

**(a) Content:**

Promote sustainable development; ethical motive; reduce pollution; to satisfy stakeholders such as pressure groups/tourists; global warming.

The marks available for this question are as follows: 2 marks for knowledge; 6 marks for explanation/analysis.

1 mark for each reason identified (2 marks max). Up to three further marks are available for explaining why the government passes these laws.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 3 additional marks.

1 knowledge mark + up to 3 explanation marks (4 marks x 2 reasons).

Simple explanation: The government wants to encourage sustainable development. (1 mark for knowledge)

Developed explanation: The government wants to encourage sustainable development (1) so that products can be made without having a detrimental effect on production in the future (1). This would protect against deforestation (1). In the case of Tibalt's business it means that trees are replanted so that there won't be depletion in the stock of trees in the future and so just as many trees can be cut down in the future as now (1).

**6. O/N 10/P22/Q5/b**

**(a) Content:** Customers – to protect them from misleading advertising; to ensure that customers are treated fairly.

Environment – to protect areas of natural beauty from being polluted; to prevent the environment from being damaged by business activity.

Generic responses should be given credit.

- Level 1 – E.g. customers need protecting so they are not given food which is out of date. 1 mark for each statement.
- Level 2 – E.g. customers need protecting so they are not given food which is out of date. If there were no laws to protect consumers, restaurants could serve food that is not fit for eating and make the customers ill. However, if they did this, the restaurant would get a bad reputation and it would lose customers. It may even lead to the restaurant having to close down. So perhaps laws are not always needed. 6 marks for a good level 2 answer.  
5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded.
- Level 3 – At least two level 2 + good clear justification of why laws which protect consumers and the environment are necessary. Clear, well-argued discussion of why these laws are not needed can also be rewarded. Access to L3 is possible with an excellent discussion and justification of one of these aspects.

	Knowledge/Analysis/Evaluation
Level 3	9–12 marks Level 2 + Good clear justification of why laws which protect consumers and the environment are needed. Clear, well-argued discussion of why these laws are not needed can also be rewarded.
Level 2	5–8 marks Good discussion of laws which protect consumers and the environment. Limited justification of why laws which protect consumers and the environment are needed.
Level 1	1–4 marks Knowledge shown of why consumers and the environment need laws to protect them.

**7. O/N 08/P2/Q2/a**

**(a) (i)** Content: Social cost is the total cost to society (1) as a result of a business decision (2) (accept private costs + external costs)

Social benefit is the total benefit received by society (1) as a result of a business decision (2) (accept private benefit + external benefit)

Vague definition – cost or benefit to society – 1 mark each.

Clear definition – 2 marks each.

**(ii, iii)** 1 mark for each suitable example given. 2 marks for costs and 2 marks for benefits.

E.g. Costs – destroy agricultural land; food production reduced; increased cost of imported food; people forced to leave their homes; increased pressure on the area where people move to; pollution.

Benefits – economic growth; increased business for importers; leisure facilities provided on the reservoir; fewer power cuts; increased employment.

**6.3: Business the international economy**

## 1. O/N 18/P22/Q2/b

## (a) Relevant points might include:

	Advantages to PP	Disadvantage to PP
Form a joint venture with a retailer in country Z	<ul style="list-style-type: none"> <li>• Can benefit from local knowledge/more ideas</li> <li>• Increase sales and likelihood of success</li> <li>• Have more control</li> </ul>	<ul style="list-style-type: none"> <li>• Have to share profit</li> <li>• May have disagreements and may not work well together</li> </ul>
Sell to retailers in country Z	<ul style="list-style-type: none"> <li>• Knowledge of the market in country Z</li> <li>• Has retail outlets across country Z – no need for PP to set up outlets</li> <li>• Local retailer may cover some distribution costs such as warehousing costs</li> <li>• Saves set up costs of a PP store</li> </ul>	<ul style="list-style-type: none"> <li>• PP has reduced profit as retailer expects a profit margin</li> <li>• Less control over how the pottery is displayed</li> </ul>
Sell on-line to customers in country Z	<ul style="list-style-type: none"> <li>• PP keeps profit margin of the retailer</li> <li>• Sells directly to customers so gets to know customers wants and needs better</li> <li>• Wider market so higher sales likely</li> <li>• Can sell at a cheaper price as lower costs</li> </ul>	<ul style="list-style-type: none"> <li>• Increased costs of packaging and delivery</li> <li>• Possibility of pottery being broken in transit</li> <li>• Some customers may not have access to the internet/may not see website</li> <li>• Danger of fraud/hacking</li> <li>• Refunds/exchanges may be more difficult</li> <li>• Increase in storage costs</li> <li>• Cannot touch the product</li> </ul>

**Level 1 (1–3 marks)**

One mark for each advantage and/or disadvantage listed (max of three marks)

E.g. A joint venture means PP can benefit from local knowledge.

**Level 2 (4–6 marks)**

Detailed discussion of the advantage(s) or disadvantage(s) of each way OR balanced argument with advantage(s) and disadvantage(s) explained.

1 × L2 explanation can gain four marks and a further mark can be awarded for each additional L2 explanation (max six marks)

E.g. A joint venture means PP can benefit from local knowledge of the customer wants and preferences for pottery designs. This makes it more likely for PP to increase sales and be successful in country Z. However, PP will have to share the profits with the other company, which will reduce PP profit. (four marks for balanced answer + one application mark for mentioning pottery designs).

**Level 3 (7–10 marks)**

For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of the best way to start selling in country Z.

7–8 marks for some limited judgement shown in recommendation of the way to start selling in country Z and/or why the alternatives were not chosen.

9–10 marks for well justified recommendation of the way to start selling in country Z and why the other ways were not chosen.

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

Possible application marks: manufactures pottery items, fragile products/easily broken, factory, vases, plates, private limited company, 30 years ago, skilled production workers, wants to expand by exporting to other countries, traditional methods. There may be other examples in context, which have not been included here.



**2. O/N 18/P21/Q3/a****(a)** Knowledge [2 × 1] – award 1 mark for each factor.

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

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

Award 1 mark for each relevant factor (maximum of 2), such as:

- Size/nature of the market – e.g. product may need adapting to meet different trends in the toy market
- Legal requirements – e.g. product design must meet safety requirements
- Language – e.g. talking dolls may need adapting to speak different languages
- Competition – e.g. needs to develop a product with a USP that is different to competitor's product
- GDP/income levels – e.g. may need to adapt product to be lower cost which is affordable to low-income countries
- Cultural differences – e.g. dolls' clothing may need to be different style or colour.

Award a maximum of 3 additional marks for each explanation of the factor which may have influenced how to adapt or develop the product for different countries – **2 of which must be applied to this context.**

Indicative response: The culture (k) in other countries may be different so GT toys(ap) will require adaptation to suit their cultural sensitivities (an) If the toys such as cars or dolls are not changed to suit the customers in other countries then they may not sell very well. (ap)

**Possible application marks:** manufacturer of toys; toys sold to large toy shops throughout country Y; toys also exported; Marketing manager wants to sell toys online; toy cars, dolls, building blocks; toys manufactured using batch production; 200 different designs; sells well designed toys of high quality; safety of the child is very important; suitable for babies and children; components are imported and uses JIT; recent price increases have resulted in falling sales.

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

**3. M/J 18/P21/Q4/b****(a)** Relevant points might include:

	Advantages	Disadvantages
A multinational chain of luxury gyms recently set up in country X	<ul style="list-style-type: none"> <li>• Encourages increased gym membership for all gyms as it becomes more fashionable to go to a gym</li> <li>• May have no effect as aimed at different market segment</li> <li>• Little effect as low income workers cannot afford luxury gym membership</li> </ul>	<ul style="list-style-type: none"> <li>• Increased competition so may lose some existing gym members</li> <li>• May lose some staff such as personal trainers to the new gyms so will need to be replaced</li> <li>• May need to increase wages to retain staff</li> </ul>
There is an increased proportion of elderly people in the population	<ul style="list-style-type: none"> <li>• Increased demand for exercise classes for the elderly because they have more leisure time</li> <li>• More potential elderly customers leads to increased revenue</li> <li>• Elderly people more likely to lead a healthier lifestyle – encouraged by Government campaign</li> </ul>	<ul style="list-style-type: none"> <li>• May change the image of the gym and puts off potential younger customers</li> <li>• Increased costs of providing trainers specialised in providing classes or tuition for elderly members</li> <li>• Revenue may fall if the elderly do not go to the gym</li> </ul>
Interest rates have increased	<ul style="list-style-type: none"> <li>• Higher costs of borrowing means pressure on family income – less demand for high priced luxury gyms – increased demand VG</li> </ul>	<ul style="list-style-type: none"> <li>• Increased costs of borrowing if VG needs to take loans to purchase more gym equipment for expansion or replacement of equipment</li> </ul>

		<ul style="list-style-type: none"> <li>Less discretionary income by members reduces less important spending</li> </ul>
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**Level 1 [1–3 marks]**

Outline of the advantages and disadvantages of each change. (max of 3 marks)

E.g. Lower demand for gyms as less income left over after essential bills paid.

**Level 2 [4–6 marks]**

Discussion of the advantages and disadvantages of each change. 1 · L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks)

E.g. Lower demand for gyms as less income left over after essential bills paid. Therefore the number of members and therefore revenue might fall for VG. However, as VG is a low cost gym it might attract members from luxury gyms and so membership might increase. (Level 2 plus one application mark for answering in the context of the gym membership)

**Level 3 [7–10 marks]**

For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which change will have the greatest effect on profit.

7–8 marks for limited judgement shown in the conclusion as to which change will have the greatest effect on VG AND why the alternatives will have less effect on VG.

9–10 marks for well justified conclusion as to which change will have the greatest effect on VG OR why the alternatives will have less effect on VG.

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

Possible application marks:

Fitness instructor; helps people lose weight and get fit; membership fee for many gyms is monthly; payment each visit to the gym; demand for low-priced gyms; a bank loan was used to finance the opening of the gym; as a sole trader; needs to attract more customers to continue to expand the gym; needs to employ 4 personal trainers; 2 receptionists; gym is open 7 days a week; Information from Appendix 1 listing gym equipment; information from Appendix 3; government worried about increasing health problems of the population.

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

**4. M/J 17/P22/Q1/b**

(a)

Exchange rate	May fluctuate and this will affect the import prices of ingredients – affects costs – difficult to plan for – may result in having much higher costs than budget. Exchange rate is already low – higher cost of imported ingredients – raise prices – lower sales - reduce profit. If exchange rate increased/high – lower cost of imported ingredients – lower prices – increase sales – increase profit.
Import tariffs	Increased cost of imported materials – need to raise prices of finished chocolates or reduce profit. Note: Do not award fixed quantity i.e. quota
Delivery time	Perishable ingredients – need for quick delivery – urgent orders may need quick delivery. Delivery may be slow – may cause production delays – reduced sales/customer demand not fully met. If delays in delivery – may need to buy locally produced ingredients – lower quality – lose reputation/lose brand image. Note: Do not award if only about delivery time to the customer.

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion of the most important factor and why it is more important than the other two factors. 7–8 marks for limited conclusion of the most important factor.
Level 2	4–6marks Detailed discussion of each factor.
Level 1	1–3 marks Outline of each factor.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. A tariff will increase the cost the company pays for imported raw materials.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Exchange rate fluctuations will affect the cost of imported ingredients. If the exchange rate appreciates then import prices will be lower and costs will be less or if the exchange rate depreciates then import costs will rise. (L2)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which justifies which is the most important factor.

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

Possible application marks:

chocolates/high quality chocolates/luxury chocolates; hand-made chocolates; country X already has a low exchange rate; located in country X; fillings made with luxury ingredients; batch production; 100 production workers; skilled workers in factory; employed at CC since it started; objective of expansion; developing a new brand of chocolate bar; targeted at the mass market; reduce variable costs by using lower quality ingredients; purchase a new automated production line; output is expected to be high; borrow \$500 000.

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

5. M/J 17/P21/Q1/b

(a) Relevant points might include:

	Advantages	Disadvantages
Option A – take over Competing company	Specialised in different product range – increase sales. Economies of scale possible – reduce management layers – reduce wage costs. Increase efficiency – share good practice - lower unit costs – more competitive – increase profit	High cost to buy out shareholders. No guarantee of success – no expertise in this market. Low staff morale – job insecurity – lack of coordination between the two management structures – diseconomies of scale
Option B – Expand Own Production facilities	Increased efficiency from new equipment – increased output – increased sales. Not using a wholesaler – absorb profit margin. Option B is cheaper than Option A.	May need joint venture/use an agent – reduce profit margin – lower profit. Lack of knowledge of export market – culture/taste may be different – more difficult to have effective marketing.

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

	Knowledge / Analysis / Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation of which option to choose and why not choose the alternative option. 7–8 marks for limited recommendation of which option to choose.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each option.
Level 1	1–3 marks Outline of advantages and/or disadvantages of each option

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Economies of scale are possible if they take over another company

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Economies of scale are possible if they take over another company as T-shirts could be purchased in bulk and a discount received.

However, it will cost over \$10m to buy out the shareholders and they may not be able to finance it. (L2 plus 1 App mark for consideration of the costs of the takeover of a competitor).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which option to choose.

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

Possible application marks:

private limited company; set up 15 years ago; in country P; buys ready-made plain white T-shirts; prints designs; T-shirts imported from country Q, a developing country; 50 different designs; batches production of various sizes; sold to small retailers in country P; expect high quality; share capital \$2 m; increased to \$8 m by 2015; exporting T-shirts; take over DesOwn; personalized T-shirts; sells online; raise \$10 m to buy out the existing shareholders; buying new computer controlled equipment for \$500 000; sell directly to large retailers; use an agent or a joint venture; really unhappy factory workers; workers want to leave.

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

6. M/J 17/P21/Q2/b

(a) Relevant points might include:

Appreciation in the exchange rate of country P's currency.	Exports more expensive – harder to sell its products abroad – imports cheaper – T-shirts lower costs – could lower prices or increase profit.
Increased economic growth in many developed economies.	Increased demand – increased sales of T-shirts – may demand alternative more expensive clothes.
Increase in the import tariffs in many developed economies	Higher import prices for T-shirts – increased costs – higher price of finished T-shirt – lower demand.

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which change will be the most important compared to the other changes. 7–8 marks for some limited judgement shown in conclusion as to which change will be most important.
Level 2	4–6 marks Discussion of advantages and/or disadvantages of each change.
Level 1	1–3 marks Outline of advantages and/or disadvantages of each change.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. appreciation of currency will lead to higher export prices, economic growth will lead to increased sales of T shirts, increased import tariffs will make T shirt prices higher.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Appreciation in the currency will lead to higher export prices which may lead to a fall in demand for the T-shirts. This will make it harder to sell in this market and consumers may switch to home produced goods that now appear cheaper. (L2)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of which change will be most important.

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

Possible application marks:

Buys ready-made plain white T-shirts; prints designs on T shirts; T-shirts imported from country Q, a developing country; sold to small retailers; expand the company; exporting T-shirts; sells online; sell directly to large retailers; use an agent or a joint venture.

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

7. O/N 16/P22/Q1/b

(a) Relevant points might include:

Increasing employment in country X	<ul style="list-style-type: none"> <li>• higher incomes leads to increased demand for services</li> <li>• harder to find new employes</li> <li>• increased wage rates to attract/retain employees</li> </ul>
Increase in tax on all services in country X	<ul style="list-style-type: none"> <li>• increased price leads to falling demand</li> <li>• increased spending on other more essential services – decreased demand for house cleaning/gardening</li> </ul>

	<ul style="list-style-type: none"> <li>• all services taxed so little/no effect on GJ</li> </ul>
Increase in the number of people buying large houses with gardens in country X	<ul style="list-style-type: none"> <li>• increased demand as more people require cleaning and gardening services</li> <li>• increased incomes meaning larger houses can be purchased – increased demand for cleaning/gardening</li> <li>• increased competition</li> <li>• increased prices as increased demand – increased profit</li> </ul>

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

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion of which change will have the biggest effect on profit rather than the other changes. 7–8 marks for some limited judgement shown in the conclusion of which change will have the biggest effect on profit
Level 2	4–6 marks Detailed discussion of the effects of each change.
Level 1	1–3 marks Outline of the effects of each change.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Higher incomes from more people having jobs leads to increased demand.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Higher incomes from more people having jobs leads to increased demand for gardening and cleaning services. People are working and do not have time to clean their own houses and have higher income so can afford to pay GJ for house cleaning and gardening. This will increase revenue and profit for GJ. (4 marks for L2 answer + 1 application mark for mentioning house cleaning and gardening).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of which change will have the biggest effect on profit.

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

Possible application marks: gardening services; house cleaning services; 50 part-time workers; competitive pricing; old people; expand by offering new service of looking after elderly people; information from the graph in Appendix 3.

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

#### 8. O/N 15/P22/Q4/a

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

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

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

Award one mark for each possible effect (maximum of two), plus up to three additional marks for the explanation of each effect – 2 of which must be applied to this context.

(i) **Import quota on motorbikes** – fixed quantity allowed to be imported (k) – leads to a shortage of imported motorbikes (ap) which leads to higher prices of imported higher quality (ap) motorbikes and so the motorbikes sold by RRM which are domestically produced will increase (an).

(ii) **An appreciation of country X's currency** – imports become cheaper (K) leading to imported motorbikes and motorbike parts becoming cheaper for Rafael to buy (ap). The price of repairs and bikes could be reduced (an) leading to higher sales and making it easier to expand the business (ap).

Do NOT award application for motorbikes alone and country X as they are in the question.

Possible application marks: sole trader; repair, sell and deliver motorbikes; customers are mainly young men; imports high quality motor bikes; wants to expand and open a new showroom; statistics from appendix 1; financial information from appendix 2; planning to expand the business; locally produced motorbikes of lower quality.

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

## 9. O/N 15/P21/Q4/b

(a) Relevant points might include:

	Advantages	Disadvantages
Merging with a competitor in country Z	Already established in the market Know target market well Existing workforce of competitor has necessary skills No need to build own factory May be cheaper	Less control over other company May be disagreements between staff in the two firms May incur redundancy costs
Setting up its own factory in country Z	Choose location etc. New equipment will be up to date Choose own staff Government support	Little knowledge of new market May be different culture Costs of setting up may be more expensive Need to recruit new staff

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

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

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

Award up to 2 additional marks for relevant application.

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

## 10. M/J 15/P22/Q4/b

(a) Relevant points might include:

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>Improved infrastructure / roads</li> <li>Jobs created – increase incomes – increased sales</li> </ul>	<ul style="list-style-type: none"> <li>Increased wages – due to increased demand</li> <li>Influence government and economy</li> </ul>

<ul style="list-style-type: none"> <li>• Low competition as targeting different market segment</li> </ul>	<ul style="list-style-type: none"> <li>• May only be unskilled workers so not much effect on spending</li> <li>• Increased competition – local businesses may not be able to compete</li> </ul>
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Knowledge / Analysis / Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge / Analysis / Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to whether the multinational will be beneficial to FF. 7–8 marks for some limited judgement shown in recommendation as to whether the multinational will be beneficial to FF.
Level 2	4–6 marks Detailed discussion of advantages and / or disadvantages of the multinational company to FF.
Level 1	1–3 marks Outline of advantages and / or disadvantages of the multinational company to FF.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. new jobs will be created in country X and so people will have higher incomes to spend.

Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. new jobs will be created and this should increase GDP in country X. The increase in GDP will increase incomes for people who live in country X and they may have more disposable income to buy luxury products like expensive ice cream leading to increased sales for FF. (4 marks for L2 answer + 1 application mark for mentioning luxury products such as expensive ice cream).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which justifies whether the multinational company will be beneficial to FF.

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

Possible application marks: partnership; business 5 years old; produces ice cream; high quality ingredients; expensive ingredients; ice cream sold for a high price; production workers; increasing economic growth leading to economic development; government has built new roads; cost / revenue data from Appendix 3; increased wages; job security.  
There may be other examples in context which have not been included here.

#### 11. O/N 14/P22/Q5/b

(a) **Content:** *Unemployment rises in country X* – demand lowers in overseas market as incomes fall – sales revenue falls.

*Subsidies introduced for domestic businesses in country X* – prices of domestically produced ovens reduce – may be more competitive with imported ovens – decrease sales revenue. Accept – recognising subsidies could be for restaurants, therefore increased demand for ovens. Also accept relocation to country X for ACE to benefit from subsidies.

*Country X's currency depreciates* – imports become more expensive – ACE find it more difficult to sell their ovens – sales reduce as less competitive – unless ACE sell higher quality ovens or have no domestic competitors.

Level 1: 1 mark for each statement e.g. ACE will sell fewer ovens as they are less competitive (1 mark).

Level 2: 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 10 marks e.g. the price of ACE ovens increases due to the exchange rate depreciation in country X and so ACE products will be less competitive against domestically produced ovens. (L2) This will mean that sales of ACE ovens will fall and so will profits. This is assuming there are domestically produced ovens otherwise it may not be that important to ACE (L2). 6 marks for 2 × level 2 answers plus one application mark for answering in the context of making ovens.

Possible application marks: ovens; components; rubber seals; electrical components; restaurants and hotels; financial information in Appendix 1; country Z.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–10 marks Good discussion of the effect of each of the changes (1 × L2 can be awarded for each change if not directly referring to the effect on ACE). Good discussion of the effect on ACE of each of the changes. (1 or 2 × L2 can be awarded for each change directly referring to the effect(s) on ACE). Judgement of how important each change is to ACE when increasing its exports.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Effects of each of the changes listed.

## 12. M/J 14/P21/Q5/b

- (a) Content: *Import flowers from country X* – laws on ethical production; no child labour; high quality; high costs; limited range of flowers.  
*Purchase flowers from a flower wholesaler* - uses unsustainable methods; low cost flowers; low quality; wide range of flowers.  
*Buy from local flower growers* – transport costs low; low cost flowers when bought in bulk; wide range of flowers not available all year round; mixed quality.
- Level 1 – 1 mark for each statement.  
E.g. In country X there are no children employed to pick flowers (1 mark).
- Level 2 – 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to maximum of 8 marks.  
E.g. In country X there are no children employed to pick flowers. Although costs may be higher it does mean that children will not be working producing flowers. This may be something Fabian feels strongly about and he can use it in his advertising which may attract customers who feel the same as him.  
5 marks for level 2 answer plus one application mark for mentioning picking the flowers.
- Level 3 – Detailed discussion of at least two level 2 answers and then a recommendation at the end which justifies which is the best supplier to choose compared to the other suppliers.

Possible application marks: anything from Appendix 3; new business; flower shop; hotels and restaurants; flower arrangements; trade credit; weddings/Valentine's Day/birthdays.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks At least 2 × Level 2 + Well justified recommendation as to the best supplier to choose compared to at least one other supplier
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of each supplier. OR balanced argument. Some limited judgement shown in recommendation about the best supplier to choose.
Level 1	1 mark Limited application to the case. At least one	1–4 marks Outline of advantages/disadvantages of each supplier.



	example of reference to, or use of, case.	
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**13. M/J 13/P22/Q1/b**

**(a) Content:**

Import wood

Adv. – cheaper; more variety.

Disadv. – exchange rate volatility; transport costs; tariffs/quotas; more documentation; damage to products.

Locally produced wood

Adv. – less transport costs; sustainable forests; USP/competitive advantage.

Disadv. – less variety; more expensive.

Level 1 1 mark for each statement

E.g. Imported wood is cheaper (1 mark)

Level 2 5 marks for the first level 2 answer and then one extra mark for each additional level 2 answer up to a maximum of 8 marks.

E.g. Imported wood is cheaper because the exchange rate is high in Country X and this makes imported timber less expensive than if the exchange rate was low.

5 marks for level 2 answer plus 1 application mark for mentioning high exchange rates in country X.

Level 3 Detailed discussion of two x level 2 answers and then a recommendation at the end which justifies which is the best option and why the other option is less suitable.

Possible application marks: wood importers; doors and windows; trees; wide range of different woods; local forests; building firms; repair/build houses and offices; sole trader; taking over another wood product manufacturer; sustainable forests; high exchange rate in country X.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
<b>Level 3</b>		9–10 marks Two x Level 2 + well justified recommendation as to the best option compared to the alternative option.
<b>Level 2</b>	2 marks Well applied to case. At least two examples of, references to, or uses of, the case.	5–8 marks Good discussion of advantages/disadvantages of each option OR balanced argument (even if listed). Limited judgement in recommendation as to the best option.
<b>Level 1</b>	1 mark Limited application to the case. At least one example of, reference to, or use of, the case.	1–4 marks Advantages/disadvantages of each of option listed.

**14. M/J 13/P21/Q2/a**

**(a) Content:**

- lower prices
- higher quality
- wider range
- branded products
- favourable exchange rate
- ethical considerations

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 mark for each advantage identified (2 marks max). Up to two further marks are available for explaining the advantage. 2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each advantage.  
(4 marks × 2 advantages)

Possible application marks: tools; equipment; retail establishment; small/large shops; reinvested profits; build or repair own houses; construction companies; Country A.  
There may be other examples in context which have not been included here.

Simple explanation: The price of imported stock is cheaper. (1 mark for knowledge)

Developed explanation: The price of imported stock is cheaper (1) and this means TT can sell their tools and equipment at a cheaper price (1). TT will be more competitive than other shops and this will increase both sales and profit (1).

Application: The application mark could be achieved as the answer makes reference to tools and equipment. (1 application mark)

### 15. O/N 12/P21/Q5/b

#### (a) Content:

Exchange rate changes: make costs difficult to calculate  
Tariffs: increase the cost of imported cars  
Quotas: restricted number of cars  
Higher transport costs: as it is further to transport the cars  
Longer delivery time: further to transport  
Increased risk of non-payment: as the business is not known to the buyer  
Language difficulties: communication problems with supplier

Level 1 E.g. The exchange rate might change. 1 mark for each statement.

Level 2 E.g. The exchange rate might change and if it goes down then imported cars will be more expensive to import making it harder for Kolo to sell cars to customers. 5 marks for level 2 answer.

5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. two level two answers = 6 marks, 3 level 2 answers = 7 marks, 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.

Level 3 This will include at least two problems at level 2 and judgement explained as to whether the business should import used cars or not.

Possible application marks:  
cars; car repairs; 20% decrease in price; car servicing; business customers and private customers; garage; car showroom; importing cars; reference to Appendix 2.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks At least 2 problems explained at Level 2 + good judgement shown as to whether to import used cars or not.
Level 2	2 marks Well applied to case. At least two examples of, references to, or uses of, the case.	5–8 marks Explanation of the problems with importing goods.
Level 1	1 mark Limited application to the case. At least one example of, reference to, or use of, the case.	1–4 marks Problems with importing goods stated.

## 16. M/J 12/P21/Q3/b

(a) Content:

Advantage	Disadvantage
low wages	communication more difficult
leads to lower costs	more difficult to control
lower prices	difficult to stop other business copying the design
fewer legal restrictions	workers might not be so well trained
lower taxes	poor availability of materials/resources
reduced transport costs of finished product	language barriers

Level 1 e.g. if they move to a country where labour costs are much lower then costs of production of the football boots will be lowered. 1 mark for each statement.

Level 2 e.g. if they move to a country where labour costs are much lower then costs of production of the football boots will be lowered. The labour costs may be lower but the workers may be less well trained and so may be less efficient when producing the football boot (L2). This will either increase the cost of training the production workers or the quality of the boot may be lower and this will lead to a poor reputation (L2). 6 marks for a good level 2 answer.

Level 3 Detailed discussion of at least three level 2 answers. There will be a conclusion at the end which justifies whether or not they should move manufacturing and why.

Possible application marks:

Football boots/boots; set up 10 years ago; competitive market; patent; expand production; employ new workers and managers; no links with agents or retail businesses abroad; sell all over the world; labour intensive/capital intensive; football players.

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

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Three × Level 2 + Good judgement shown as to whether or not to move.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Advantages and/or disadvantages discussed.  Limited judgement shown in the conclusion about which method is most suitable.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages and/or disadvantages listed

## 17. M/J 12/P21/Q5

(a) Content:

- Exchange rate changes
- Import restrictions
- Increased risk of non-payment
- Customs different
- Increased transport costs
- Language barriers
- Marketing costs.

1 mark for each problem identified (4 marks max). Plus 1 further mark available for explaining why each is a problem.

1 knowledge mark + 1 explanation mark (2 marks × 4 problems).

For example:

There might be import restrictions (1 knowledge mark) and this will add to the price the product sells for and may lead to lower demand for the product. (1 explanation mark)

**(b) Content:**

Option 1 Advantages	Disadvantages	Option 2 Advantages	Disadvantages
Gain all the profits	Large capital outlay	Don't have advertising expenses	Doesn't gain all the profits
Control over production	Large advertising expenses	Percentage of profits received	Loses control of the product
	No existing links with retail outlets	No large capital outlay	

Level 1 e.g. Option 2 does not require a large capital outlay. 1 mark for each statement.

Level 2 e.g. Option 2 does not require a large capital outlay. This means the owners do not have to raise \$10m which is a large sum as they only have \$1m invested at the present time. They would not need to sell more shares which could mean they would lose control of the business. 5 marks for level 2 answer plus 1 application mark for mentioning \$1m share capital.

Level 3 Detailed discussion of at least three level 2 answers. There will be a conclusion at the end which justifies which option to choose and why.

Possible application marks: Football boots/shoes; set up 10 years ago; manufacturing sports shoes; grew slowly; competitive market; small market share; helps footballers to kick the ball more accurately; patent; multinational sports company; expand production; employ new workers and managers; no links with agents or retail businesses abroad; 10% of sales revenue; sell all over the world; labour intensive/capital intensive; football players; \$1m share capital; reference to figures in Appendix 1 or 3 and also Option 1 and 2.  
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Three × Level 2 + Good judgement shown as to which option to choose and why not other options (comparison made).
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of the advantages and/or disadvantages of each option OR balanced argument. Some limited judgement shown about which option to choose.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Advantages or disadvantages of each option stated.

**18. O/N 11/P22/Q5/a**

**(a) Content:**

Imported equipment is more expensive; foreign tourists will find the tours cheaper; overseas holidays dearer for domestic holiday-makers.

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 mark for each effect identified (2 marks max). Up to two further marks are available for explaining the effect. 2 application marks are also available.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each effect. (4 marks × 2 effects)

Possible application marks:

boat day trips; foreign tourists; boats fully booked/half full; business made a loss; selling boat; European Union; boats and equipment; information from the graphs in Appendix 3.

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

Simple explanation: Foreign tourists will find the boat tours appear cheaper. (1 mark for knowledge)

Developed explanation: Foreign tourists will find the boat tours appear cheaper (1) because the exchange rate has fallen. This will encourage more foreign tourists to come to the country (1) and they may go on the boat tours, which increases the sales revenue for BB Boat Tours (1).

Application: The application mark could be achieved as the answer makes reference to boat tours. (1 application mark)

#### 19. O//N 10/P21/Q5/b

##### (a) Content:

Boom – incomes rising so more booking made; more members join the leisure centre; more people eat out at the restaurant; increased flights so more car parking whilst people away.

Falling unemployment – incomes rising so more travel; increased use of hotel car park; harder to recruit staff; wages may increase.

Interest rates are rising – increased cost of borrowing; might affect the planned expansion; savers have more money.

Exchange rate appreciating – imported goods will be cheaper; foreign guests will have to pay more to stay at the hotel; fewer business people staying at the hotel as exports are more expensive and so fewer exports are sold, so fewer business meetings with foreign buyers.

Level 1 E.g. exchange rate appreciating will mean that imported goods will be cheaper.  
1 mark for each statement.

Level 2 E.g. exchange rate appreciating will mean that imported goods will be cheaper.  
The restaurant may be able to buy cheaper food and this will lower the hotel restaurant costs. This would allow them to lower prices, which may encourage more customers and increase its profits.

6 marks for detailed level 2 answer plus 1 application mark for mentioning the hotel restaurant and food.

5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded. (6 level 2 answers = 10 marks)

Possible application marks: reference to quantitative data in case; tourists; business customers; membership of leisure centre; restaurant; employing bar staff or any of the employees mentioned in Appendix 2.

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

	Application	Knowledge/Analysis/Evaluation
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–10 marks Good discussion of effects on the hotel of interest rate rises, unemployment falling, boom and appreciating exchange rate.
Level 1	1 mark	1–4 marks

	Limited application to the case. At least one example of reference to, or use of, case.	Knowledge shown of effects of interest rate rises, unemployment falling, boom and appreciating exchange rate.
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**20. M/J 10/P22/Q5/a**

**Content:** Exchange rates – appreciation in the exchange rate will reduce import prices, makes flowers cheaper, could lower prices, buy less home grown flowers.

The marks available for this question are as follows: 2 marks for knowledge and 6 marks for explanation/analysis.

1 mark for basic understanding of each change (2 marks max). Up to three marks are available for explaining what effects the change might have on the business.

1 knowledge mark + up to 3 explanation marks for each change (4 marks × 2 changes).

Simple explanation: Import tariffs will raise cost of imported flowers. (1 mark for knowledge).

Developed Explanation: Import tariffs will raise cost of imported flowers (1).

Bashir may need to increase the price of his baskets of flowers to cover the increased costs (1).

Sales may fall if customers are not prepared to pay higher prices (1), as flowers are a luxury good and not a necessity (1).

**21. O/N 09/P2/Q5/a**

(a) **Content:**

Exports become more expensive.

Imports become cheaper.

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each disadvantage identified. Up to 2 further marks are available for explaining the nature of each disadvantage. 1 application mark is also available for each disadvantage.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for the disadvantage (4 marks × 2)

Possible application marks: sale of vegetables; lower profit margins.

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

**Disadvantage:** Dilip's vegetables would become expensive for his customers in other countries to buy. (1 knowledge mark)

**Simple explanation:** The value of the currency in Dilip's country increases (appreciates); his vegetables would become expensive for his customers in other countries to buy. This may mean that sales of his vegetables abroad fall. (1 additional mark for simple explanation)

**Developed explanation:** The value of the currency in Dilip's country increases (appreciates); his vegetables would become expensive for his customers in other countries to buy. This may mean that sales of his vegetables abroad fall. Revenue will fall as sales have fallen but the extent of the fall in sales and revenue depends on the elasticity of demand for his produce. (1 further explanation mark for a developed explanation)

**Application:** The application mark is achieved as the answer refers to the sales of vegetables. (1 application mark)

**22. M/J 09/P2/Q5/b**

(a) **Content:** foreign competition, size of overseas market, quality standards abroad, transport costs, projected profits, barriers to trade, currency fluctuations, risk of nonpayment.

Level 1 – E.g. The manager needs to consider the size of the market abroad.

Level 2 – E.g. The manager needs to consider the size of the market to assess how profitable the export market will be to see if it is worthwhile exporting. The manager will have to assess whether the production department can cope with the additional output or different specifications of the bicycles for the export market (5

marks) and assess if new machinery will need to be purchased to manufacture the different sizes of bikes and how expensive this will be relative to the increased revenue from the export sales. 6 marks for level 2 answer plus 1 application mark for mentioning bicycles and the machinery to produce different size bicycles.

5 marks for the first level 2 answer. Plus 1 – 2 marks for each additional level 2 answer. I.e. two level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.

However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.

**Level 3 –** Detailed explanation of at least 3 factors at Level 2 and well explained judgements about why these factors are important when deciding whether to export the bicycles.

	Application	Knowledge/Analysis/Evaluation
Level 3		9-10 marks At least 3 factors explained at Level 2 + good judgement shown as to why these factors are important when deciding whether to export.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5-8 marks Explanation of the factors. Some limited judgement shown as to why these factor are important when deciding whether to export.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1-4 marks Factors stated.

### 23. O/N 08/P2/Q2/b

(a) Content: Advantage – no power cuts so business can keep producing their product; increased profits as output will no longer be lost through power cuts; economic growth in Country X as output will be higher; depreciating exchange rate would be beneficial to exporters as their goods may now have lower prices abroad.

Disadvantage – may need to increase food imports leading to depreciating exchange rate; increased pressure on other areas as people move from land around the dam and this may lead to rising house prices, overcrowding in schools, etc. Environmental damage on the area around where the dam is being built as this is an area of natural beauty and habitat for wildlife.

Application e.g. – growth; employment; city; exchange rate; imports of food; leisure facilities; raw materials required for building the dam; skilled workers; power cuts. Do not reward 'dam' as it in the question.

	Application	Analysis/Evaluation
Level 3		9–10 marks Level 2 two sided argument + well justified answer – either yes or no.
Level 2	2 marks Well applied to the case.	5–8 marks Advantages and disadvantages of building the dam explained. Limited judgement shown.
Level 1	1 mark Weak application to the case.	1–4 marks Advantages and disadvantages of building the dam listed. Limited judgement shown.

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## Case Study-Extracts

### M/J 08/P02 (A new business – but which one?)

Abdul's job is to repair cars. He works for a large car sales business that sells new and secondhand cars. Abdul's uncle died earlier this year and left him \$5 000. He has always wanted to work for himself and now he has some money to start his own business. He could do this by buying a franchise. Abdul's wife is a qualified accountant. She works for a company that owns several furniture shops.

Abdul is going to choose between opening his own car repair business or buying a franchise from a big furniture retail business. To open his own car repair business will take a lot of effort to find a suitable location with the equipment needed. Buying a franchise for a furniture shop will be expensive. However, the franchise company will help Abdul with a lot of the start-up problems such as finding a suitable shop.

Abdul will need to employ staff whichever business he sets up. The car repair business will need qualified car repair workers and the furniture shop will require sales staff.

Abdul and his wife live in a large city in Country X. The country has a population of 10 million who are enjoying increasing incomes as there has been economic growth in Country X in recent years. However, unemployment is still a problem.

Abdul has carried out some market research for the car repair business as shown in Appendix 3. He has also prepared two profit forecasts for the businesses and these are given in Appendix 1.

#### Appendix 1 Forecasted Profit and Loss Accounts year ending December 2009 for:

	Car repair business	Furniture franchise
	\$	\$
Sales Revenue	100000	200 000
Cost of Sales	10 000	100 000
Gross Profit	90000	100 000
Expenses	80000	60 000
Net Profit	10000	40 000

#### Appendix 2 Letter to Bank Manager

Dear Sir/Madam

I want to set up my own business. I have \$5 000 to invest in my business but I need additional funds. I have two possible business ideas.

The first one is to set up my own car repair business and for that I will need an additional \$10 000 to buy equipment. I will rent my garage.

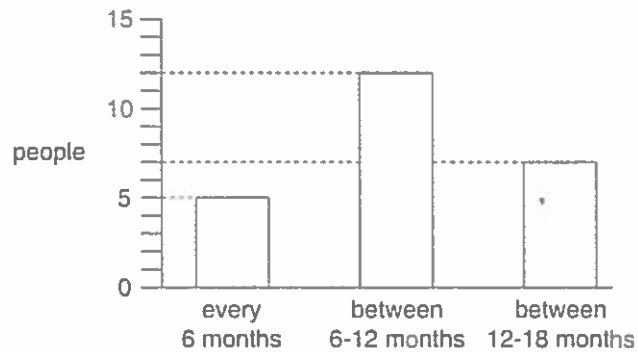
The second idea is to buy a franchise for a furniture shop and for that I will need an additional \$90 000. \$40 000 will be needed to buy the franchise and \$50 000 to buy furniture stock. I will rent my shop.

I would like to come and see you to discuss my two ideas.

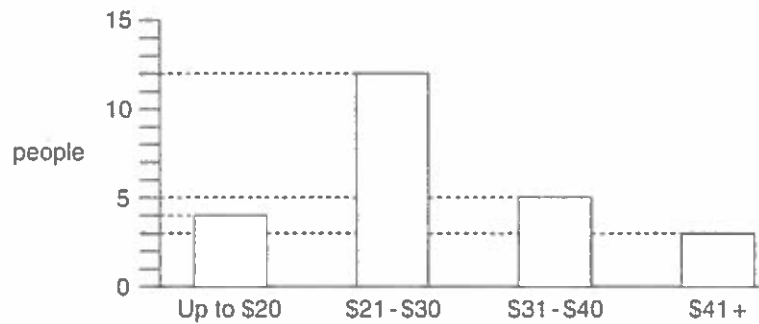
Yours faithfully  
Abdul

**Appendix 3**  
**Questionnaire results for car repair business**

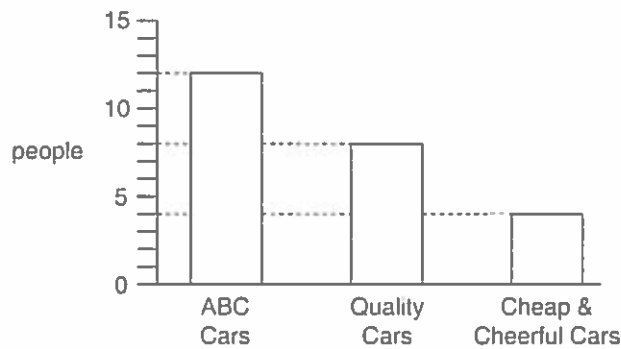
1 How often do you have your car repaired or serviced?



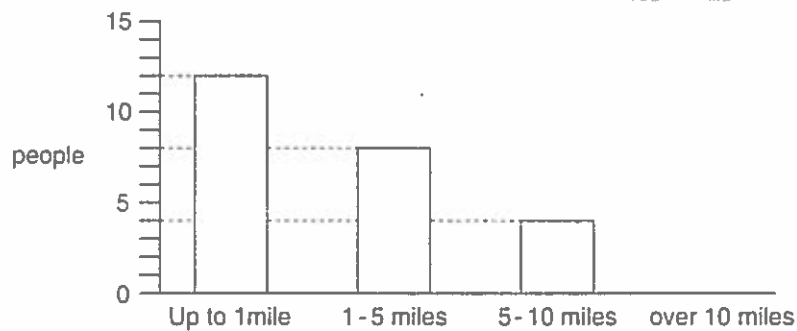
2 How much do you usually pay for the servicing of your car?



3 Which car repair garage do you take your car to when it is repaired or serviced?



4 How far away from your home is this garage?

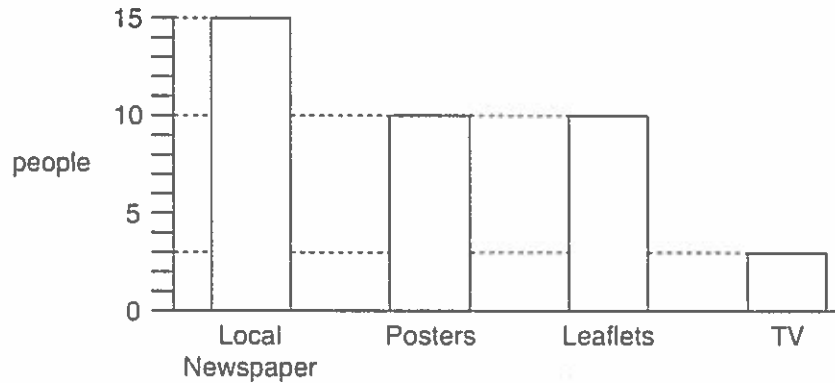


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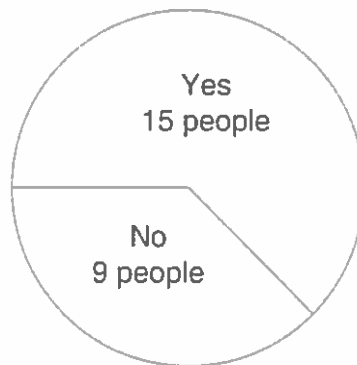
5 Why do you choose this garage?

Cheap	Good Quality service	Always Taken car there	Know the owner
10 people	8 people	3 people	3 people

6 Where have you seen advertisements for garages?



7 Does your garage ever have promotions/special deals?



**O/N 08/P02 (Generation Elect)**

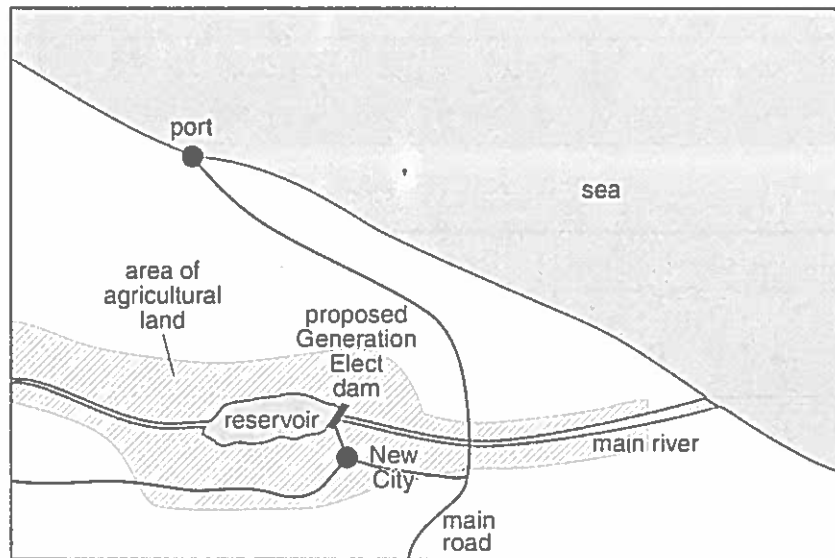
Generation Elect is a large company that generates electricity. The company has 6 power stations that use gas and 2 power stations which use water to produce electricity. The directors of Generation Elect are considering building a new power station near New City.

New City is the capital of Country X. It has been growing rapidly over the last 10 years as new businesses have set up and existing businesses have expanded. The population of the city also has grown as people from surrounding towns and villages have moved into New City in search of jobs. The supply of electricity has become a problem with more and more power cuts occurring. The income of employees has been rising due to wage increases and working more hours.

Generation Elect is planning to build a dam across the main river in the country. A dam blocks a river and creates a reservoir of water. Electricity is made as the water passes through the dam. This new power station would provide all the electricity needed by New City.

The reservoir behind the dam, if built, will be used by Generation Elect to provide leisure facilities for people from New City. They are considering having either the hire of power boats or fishing on the reservoir.

**Appendix 1**  
**Map of the proposed area for the dam**



**Appendix 2**

New City Times

3 November 2008

**Will we benefit from the new power station?**

Environmental groups have been protesting as Generation Elect plans to build a dam over the country's main river. The government claims there will be more power cuts if the dam is not built. Businesses risk losing a lot of output and profit. Environmental groups claim the dam will destroy thousands of acres of good agricultural land and food supplies will be cut. Imports of food will have to be increased which will have a negative effect on Country X's exchange rate.

Many people will be forced to leave their homes and move to another area. However, a Government spokesperson said the future growth of the country could be reduced if the dam is not built.

**Appendix 3**

**Estimated costs and revenue to operate the Power Boat and Fishing leisure activities per week**

Power Boat costs \$	
Salaries of office staff	600
Rent paid for office	100
Lighting and heating of office	50
Cost of petrol for each power boat per day	50

Fishing costs \$	
Salaries of office staff	500
Rent paid for office	100
Lighting and heating office	50
Cost to clean and repair one set of fishing equipment per day	10

Price to hire each power boat per day	100
---------------------------------------	-----

Price to hire one set of fishing equipment per day	25
--	----

Generation Elect would purchase 24 power boats or 100 sets of fishing equipment to be used 7 days a week.

It is estimated that the average demand will be 50% of the fishing equipment or 50% of the power boats per week.

### M/J 09/P02 (Python Bicycles)

Python Bicycles (a private limited company) has been in business for over 40 years. It has just been taken over by a company that owns a chain of toy shops. The new owners aim to increase the profitability of Python Bicycles. The net profit ratio was low at just 2% and the gross profit ratio was 30% for the year ending May 2009.

The bicycles are produced using batch production methods. The company produces various styles and sizes of adult bicycles. The employees in the production department are all unskilled and have not had any training. The number of employees leaving each year is high as workers are not happy. Working conditions in the factory are poor, wages are low and paid on a time rate basis, and workers do the same job on the production line every day.

The components, including the frame, wheels, handlebars and gears of the bicycle are purchased from local manufacturers and sometimes the quality is poor. The deliveries are reliable and take about 4 weeks from when the orders are placed and are paid for on one month's credit. The specialist shops that buy the bicycles take about two months to pay Python Bicycles. The Finance Manager is worried about cash flow.

5

10

#### Appendix 1

#### Python Bicycles Balance Sheet for year ending May 2009

	\$'000	\$'000
<b>Fixed Assets</b>		
Buildings	20 000	
Equipment	2 000	
<b>Total</b>		22 000
<b>Current Assets</b>		
Stock	1 000	
Debtors	20 000	
Cash at Bank	0	
<b>Total</b>	21 000	
<b>Current Liabilities</b>		
Creditors	10 000	
Overdraft	10 000	
<b>Total</b>	20 000	
<b>Working Capital</b>		1 000
<b>Net Assets Employed</b>		23 000
<b>Financed by:</b>		
Shareholders capital	20 000	
Retained profit	3 000	
<b>Capital at 31 May 2009</b>		23 000

## Appendix 2 Memorandum

To: Managing Director (Python Bicycles)  
 From: Marketing Manager (Python Bicycles)  
 Date: 31 May 2009  
 Ref: Target market and marketing mix

5

Our bicycles are made for adults. The sales are falling as there has been increasing incomes for many people and they have bought cars or motorbikes instead of bicycles. Also the poor quality of our products can be a problem. I think we should target a different market segment by producing bicycles for children as well. We currently sell our adult bicycles in specialist bicycle shops and advertise in local and national newspapers. Our pricing strategy is cost plus pricing.

10

If bicycles are to be marketed to children then they will need to have a popular design printed on them. Perhaps we could use a character from a popular children's TV programme. We will also have to consider changing to a new marketing mix for the children's bicycles.

We should also consider exporting our products.

15

## Appendix 3 Government Advertisement

### Want to export?

The Government has set up a new department to help businesses export their products.

Simply ask for advice, apply for a cheap loan or apply for a subsidy and exporting couldn't be easier!

Help our country's economic growth, employment and exchange rate. The government will help you overcome the problems of entering a new market abroad.

Act now – contact the new department today!!!

## O/N 09/P02 (Dilip's Vegetable Farm)

Dilip owns a large farm that he inherited from his father in Country A. He is a sole trader. Dilip grows vegetables and these are all sold at weekly markets at nearby towns.

Dilip doesn't have any farm machinery. He employs 5 farm workers all year round to help grow the vegetables. Dilip employs an additional 20 workers to help pick the crops by hand each year. Dilip's leadership or management style is autocratic, the same as his father. Wages are low as there is a lot of unemployment in the local area and many farmers pay below the legal minimum wage.

Many other farmers in country A have signed contracts to supply vegetables to a large supermarket chain located in Europe. The buyer from this supermarket wants different types of vegetables to those currently being grown by Dilip. The quality of the vegetables has to be high or the buyer from the supermarket won't buy the vegetables.

Dilip is also considering changing to selling to the European supermarket chain. He will need to grow different vegetables. He will also need to buy machinery costing \$10 000 to package the vegetables to be sent to the port for shipment to the European market.

**Appendix 1**

**Daily News**

October 2009

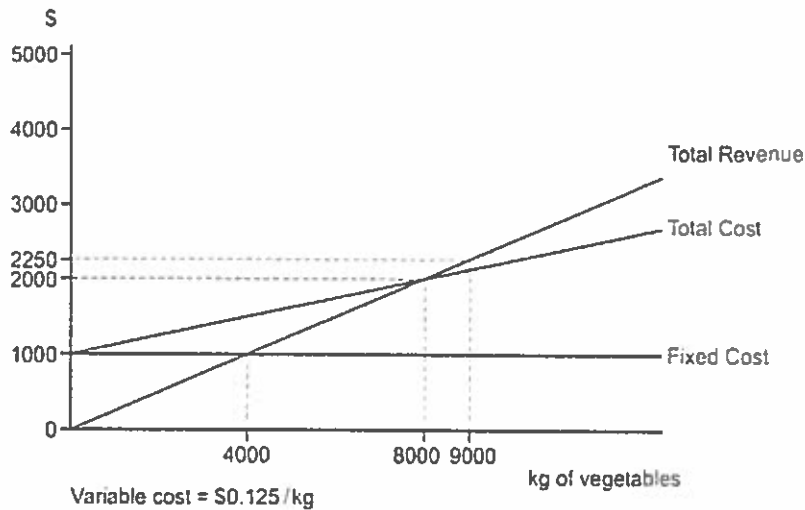
Local people say that the increasing number of farms selling their fruit and vegetables to foreign companies is causing food prices to rise in local markets. Consumer pressure groups say it is due to reduced local supplies.

Government officials argue that the low exchange rate is the reason why so many farmers are selling their fruit and vegetables abroad. The officials have told the farmers that the exchange rate may increase (an appreciation) in the future.

There is an increased demand for 'fair trade' products throughout the world. The farmers who grow these crops are paid a higher price than they would get selling at the normal international price. These 'fair trade' prices are about 10% more than the usual selling price. In return, the farmer must ensure that no children are working on the farms and that the legal minimum wage is paid to employees. The farms need to be inspected regularly to be allowed to say they are selling 'fair trade' products.

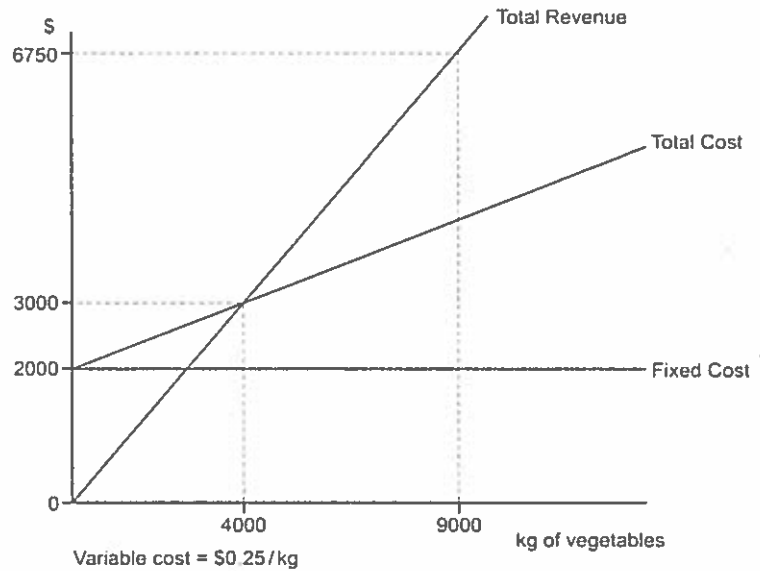
**Appendix 2**

**Figure 1: Break even chart for Dilip's Vegetable Farm each year - vegetables sold at local markets**



**Figure 2: Forecast break even chart for Dilip's Vegetable Farm each year - vegetables sold to the European supermarket**

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Note: 9000 kg of vegetables are produced every year.

### Appendix 3 MEMORANDUM

To: Dilip  
From: Sam (Farm Manager)  
Date: 2 October 2009  
Re: Houses for rent

We have discussed several different ways to increase the farm's profit. It has been agreed to convert some of the old farm buildings to houses for tourists to rent. There are areas of natural beauty near to the farm where people can walk and watch wild animals.

I have carried out some primary research into the demand for holiday houses using interviews with potential customers. This has shown that many people from the capital city would like to come to the countryside for 3–4 day holiday breaks. The market segment we should aim at is high income groups who want luxury holiday houses. We will need to employ well trained workers who can provide a quality service for the guests staying at the houses.

I think this will be an excellent way of increasing the farm's profitability. We need a large investment of \$50 000 to convert the old farm buildings to 5 houses. We also need to employ 10 more workers who are trained to cook and serve the guests staying at the houses.

### M/J 10/P22 (Bashir Baskets)

Bashir is a sole trader and owns a business called Bashir Baskets. The business makes baskets of flowers for weddings using job production. The business has grown quickly but profits have stayed the same over the last two years.

The problem for Bashir is that he has 10 workers who are very busy between April to September when there are many weddings. However, from October to March they do not do much work as only half the number of weddings take place. His workers are all skilled at arranging baskets of flowers.

Bashir wants to continue to expand the business and he has identified the following two markets he can choose between.



**Option 1:**

Baskets of flowers for the home. Baskets of flowers for the home are becoming more popular due to rising incomes. The average price for a basket of flowers charged by other businesses is \$10 and Bashir could charge the same price. Bashir estimates that he could sell about 2000 baskets per month all year round. It would cost \$5 to make each flower basket.

**Option 2:**

Baskets of flowers for restaurants. There is a constant demand from restaurants for flower baskets all year. Restaurants buy large baskets that use twice as many flowers than small baskets for the home. He believes that sales would be around 1000 baskets per month all year round. Bashir has estimated that he could sell large baskets of flowers to restaurants for \$30 each. However, the cost to make each basket would be \$10.

Bashir estimates that the additional fixed costs for each of these options would be \$5 000 per month.

**Appendix 1**

Summary of financial information for Bashir Baskets 2009  
All figures are in \$ per month

	October – March	April – September
Revenue from wedding flowers	20 000	40 000
Variable costs for wedding flowers	11 500	23 000
Fixed costs for Bashir Baskets	9 000	9 000

**Appendix 2**

Competitor's Advertisement for Flowers for the Home

## **Rishi Flowers**

**Specialists in flowers for your home**

**Make your house smell of flowers and look lovely. Bring the garden into your home with a beautiful flower basket from Rishi Flowers.**

Colours and size of basket made to your personal design.

For your own unique basket of flowers to make your home extra special come to Rishi Flowers today.

Prices for baskets are \$10 each.

Come to the shop in the main shopping mall or order online at [Rishiflowers.com](http://Rishiflowers.com).

**Appendix 3**

From: Tim Smith (t-smith@gotmail.co.uk)  
Sent: 23 May 2010 23:41:47  
To: Bashir (Bashir@gotmail.com)  
Cc:

Dear Bashir

I am the trade union representative for flower workers. Several of your employees who are trade union members have been complaining to me that they might be expected to work harder in the months of October to March.

If you want more output from these workers they want some time off later in the year, otherwise they want an increase in the hourly wage rate or a change to piece rate.

Tim Smith

**M/J 10/P21 (Bimisi Buses)**

Bimisi Buses is a private limited company owned by Bimisi and his family. The company has grown quickly and profits have increased over the last two years.

The company has two main types of customers:

- Businesses hire the buses to transport their workers to and from work in the morning and evening;
- Schools hire the buses to transport their students to and from school each day.

The problem for Bimisi is that the buses are very busy in the morning and evening but are not used for the rest of the day. His drivers sit around and the buses stay in the bus station.

Bimisi has identified two options for expanding the business.

**Option A:**

Tourism is a growing business in the country and tourists like to visit areas of natural beauty to see wild animals and ancient monuments. The tourist season is from February to May. Forecast revenue from each tourist day trip is \$300 per bus. The expected variable cost for each bus day trip is \$200, which includes the cost of a tourist guide.

**Option B:**

Bimisi Buses could operate bus routes that compete with other bus companies around the city. To run these bus routes the company needs a licence from the local government and this costs \$10 000 per bus each year. These bus routes run from early in the morning to late at night (6.00am to 12.00 midnight) 7 days a week. The estimated revenue from each bus per day is \$400 and the expected variable cost for each bus is \$200 per day.

**Appendix 1**

Summary of financial information for Bimisi Buses 2008 and 2009 in \$000s

	2008	2009
Revenue from business hire	1000	1600
Variable costs for business hire	500	800
Revenue from school hire	2000	2400
Variable costs for school hire	1000	1500
Fixed costs for Bimisi Buses	900	900
Net Profit for Bimisi Buses	600	800

**Appendix 2**

A competitor's advertisement for bus tours for tourists

**Vama Buses, Specialist in Tours for Tourists**

Tours to all the nature reserves – see many rare animals  
in the wild – half day or full day tours

Tours to ancient monuments (e.g. temples and famous  
buildings) and places of interest  
Half day and full day tours

All tours have a person to act as your guide to answer questions and look  
after you. The buses are all luxury buses with air conditioning to ensure your  
comfort. Our prices are very competitive.

To book a tour telephone Vama on 066777 88669 or ask your hotel reception  
to book a tour for you.

**Appendix 3**

From: Tim Smith (t-smith@gotmail.com)  
Sent: 23 May 2010 23:41:47  
To: Bimisi (bimisi@gotmail.com)  
Cc:

Dear Bimisi

I am the trade union representative for bus drivers. Several bus  
drivers have been complaining to me that they will be expected to work  
long hours from early in the morning until late at night if the new bus  
routes are introduced.

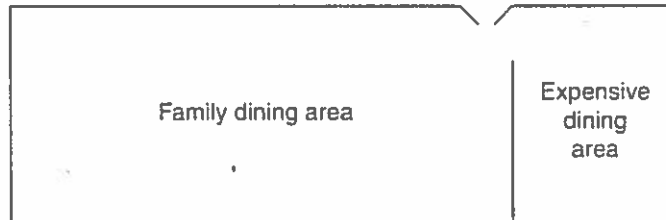
They will be very tired and will want some time off. Otherwise they  
want an increase in the hourly wage rate.

Tim Smith

**O/N 10/P22 (The Riverside Restaurant)**

The Riverside Restaurant is owned by two sisters Kim and Selina. They set up the restaurant 5  
years ago as a private limited company. It is located on the edge of the city. Each sister owns  
50% of the shares.

The business is split into two separate dining areas. One area is for families and the other area serves more expensive meals for adults. The family dining area is large and is hired out for weddings and birthday parties. The other area is mainly for business people and wealthy customers.



Both areas of the restaurant are always busy and fully booked at weekends. Kim and Selina want to expand the business. The restaurant cannot be expanded on its existing site as it has buildings on one side and it is next to a river on the other side.

There are three options for the business to expand.

- Option 1:** Buy a boat and convert it into a floating restaurant next to the main restaurant to hire out for weddings and birthday parties.
- Option 2:** Buy an additional restaurant in an expensive part of the city.
- Option 3:** Close the existing restaurant and relocate to a new building which is much larger and is in the centre of the city.

**Appendix 1**

A summary of the costs and revenue for The Riverside Restaurant for the year ending 31st December 2009 in \$

Family dining area		Expensive dining area	
Sales Revenue	190 000	Sales Revenue	250 000
Wages	80 000	Wages	110 000
Electricity	10 000	Electricity	10 000
Advertising	10 000	Advertising	20 000
Food costs	60 000	Food costs	90 000
Gross profit	130 000	Gross profit	?
Net profit	30 000	Net profit	?

**Appendix 2**

Two job applications for the post of manager of the Riverside Restaurant

Name	Mr J P Miller	Mr N A Nish
Qualifications	8 IGCSEs, 2 A levels, BA Degree in Business Management	5 IGCSEs, 1 A level

Management Experience	2 years as general manager of a small hotel	15 years as restaurant Manager
Interests	Golf, football, rugby, tennis, Reading	Reading; watching films; helped keep the accounts for a local children's charity
Personal status	Married, 3 children	Single, no children
Number of restaurants at which they have worked	3 restaurants for 6 weeks each as they were holiday jobs	12 different restaurants in 15 years
Preferred management style	Autocratic – believes the manager knows best	Democratic – believes employees should be asked their opinions

### Appendix 3

From: Kim (k-smith@gotmail.com)  
Sent: 23 October 2010 23:41:47  
To: Selina (selina@gotmail.com)  
Cc:

Hi Selina

We need to employ a new restaurant manager. We had to sack the last manager as he failed to motivate employees – we do not want someone like him again.

I want someone who is careful with money and will give a good service to the customers. The person needs to come up with ideas of how to increase the number of customers to the restaurant on weekdays.

What do you think?

Kim

### O/N 10/P21 (The Dream Hotel)

The Dream Hotel is owned by two brothers Jenn and Kiang. They setup the hotel 5 years ago as a partnership. Each brother has a 50% ownership.

The net profits from the hotel had steadily increased until 2008 when they reached \$300 000. Jenn was concerned about the 2009 profits after looking at the data in Appendix 1. He said 'the best way to increase profits is to increase the number of guests staying at the hotel'.

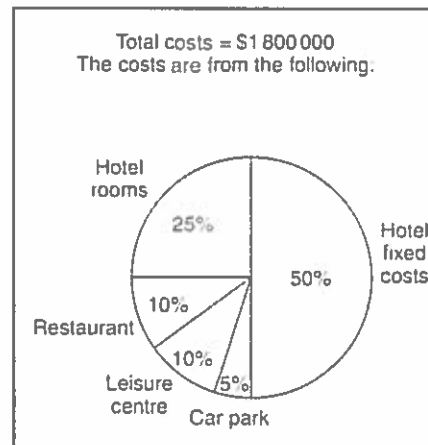
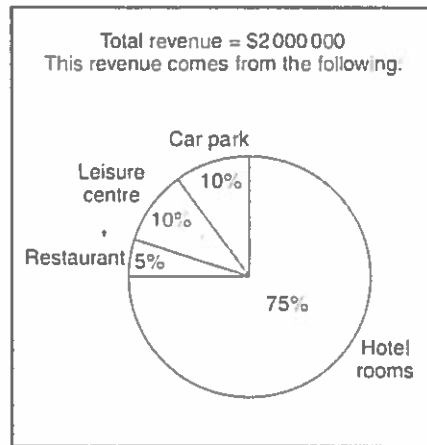


The hotel has 200 rooms but on average only 50% of them are occupied. Most of the guests are business people who are travelling to meetings in the city and therefore stay 2–3 nights. The hotel also has a leisure centre with a gymnasium and swimming pool that hotel guests can use. There is a restaurant which is only used by hotel guests and also a car park. Hotel guests who are flying from the nearby airport can leave their cars at the hotel while they are away and pay car parking fees to the hotel.

75 people work at the hotel.

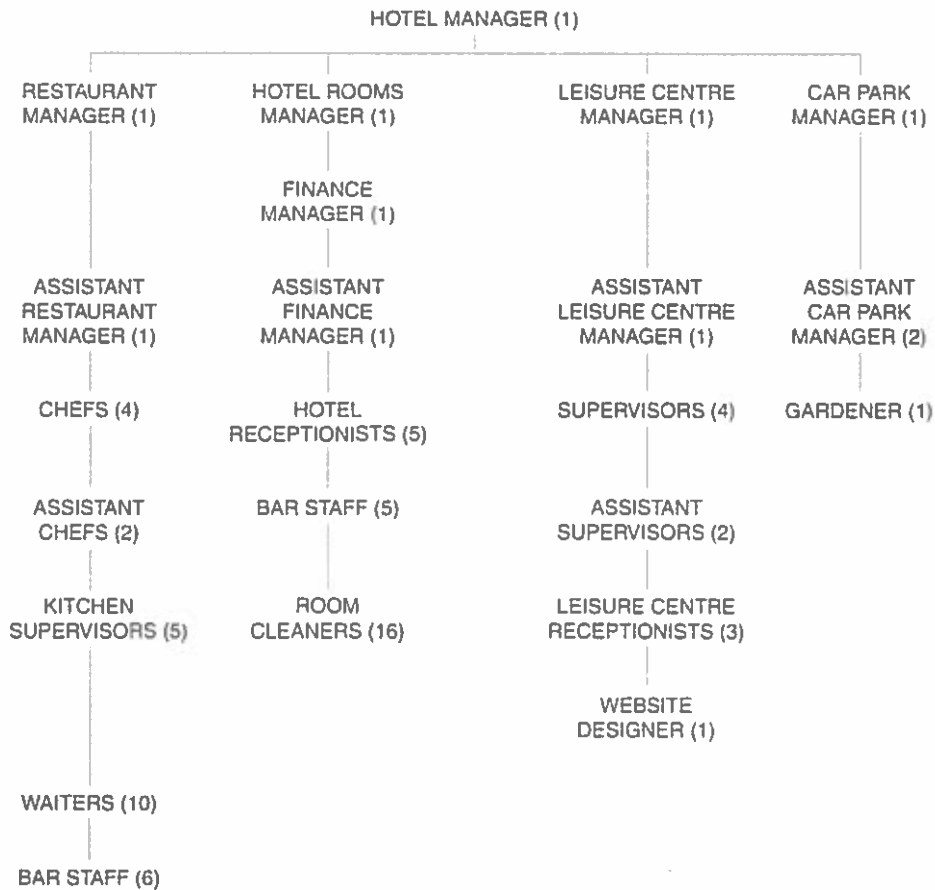
**Appendix 1**

A summary of the revenue and costs for The Dream Hotel for the year ending 31st December 2009



**Appendix 2**

The organisation structure of the Dream Hotel  
(The numbers in the brackets are the number of staff in each job.)



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### Appendix 3 Competitor's Website



#### M/J 11/P22 (TT Foods)

TT Foods is a private limited company and has been in business for 20 years. It produces ready-made meals for several international airlines. The business is located on the edge of the capital city in Country X near to the international airport.

The ready-made meals the company produces are purchased by the airlines and served during international flights. Passengers do not pay for the meals directly.

The business employs 100 production workers who prepare the meals. The workers are paid an hourly rate and receive no fringe benefits. The workers can take home any leftover food but they have to pay for it. A high number of production workers leave the company each year because of poor motivation. The business is not located near any farms and so the food ingredients are purchased from a nearby wholesaler.

The Directors of TT Foods want to expand the business and they have identified two options.

#### Expansion Option 1:

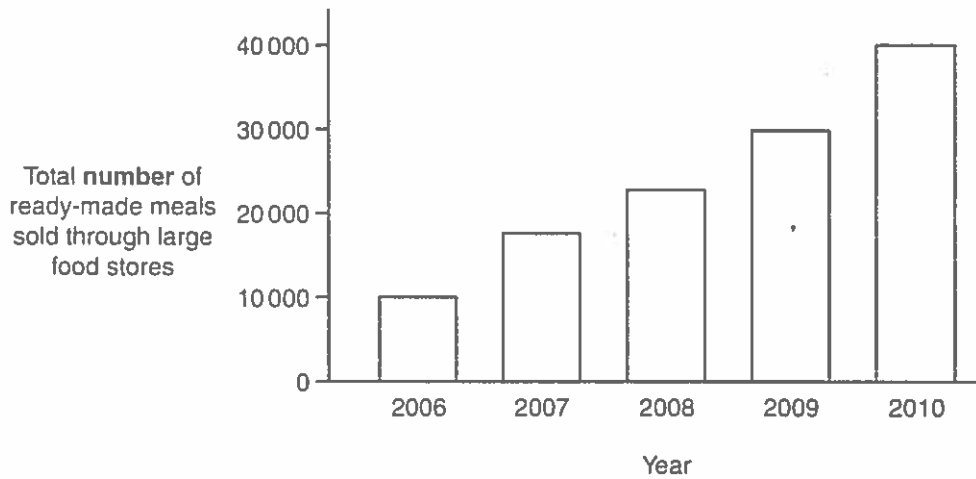
Diversify into selling ready-made meals to large food stores. Five new sales staff will need to be employed to visit the stores to sell the meals. The additional fixed costs for this option are \$1000 per month and the variable cost is \$4 per meal. The estimated break-even number of meals is 1000 per month at a price of \$5 per meal. Sales are estimated to be 1500 meals per month.

#### Expansion Option 2:

To sell ready-made meals to additional airline customers. To do this, TT Foods will need to become more efficient and competitive. The estimated number of sales is 2000 per month at a price of \$4 per meal. The addition to fixed costs for this option is \$1000 per month and the variable cost is \$2 per meal.

**Appendix 1**

Total sales of ready-made meals sold through large food stores

**Appendix 2**

## Job Description for Production Manager

Job title:	Production Manager
Department:	Production
Responsible to:	Managing Director
Responsible for:	Team of production workers
Details of job:	Responsible for the production of ready-made meals Responsible for the production workers
Main duties:	Allocate jobs to the production workers Supervise production workers Ensure quality products are produced Discipline workers who are not working hard Communicate company decisions to the production workers Ensure ready-made meals are produced on time

**Appendix 3**

## News Plus

May 2011

Over the last year there has been economic growth of 4% and this has resulted in rising incomes for many people. There has been an increasing trend for people to fly to other countries on holiday. With increased incomes, people have been choosing more holidays to nearby countries as well as going to countries further away.

The airline industry has been experiencing an increase in passengers. This has been welcomed by the owners of the international airport, as they say this will bring additional revenue to the businesses at the airport.

**M/J 11/P21 (Chocolate Delight)**

Chocolate Delight was set up in country X 15 years ago as a private limited company. The business grew slowly as the owners used reinvested profits as the only source of finance for expansion. The company has issued share capital of \$6m. The shares are owned by six members of the Sharif family.



Chocolate Delight has three main types of products which are:

- Plain chocolate bars mainly sold to adults
- Boxes of chocolates mainly sold to women
- Chocolate covered sweets mainly sold to children.

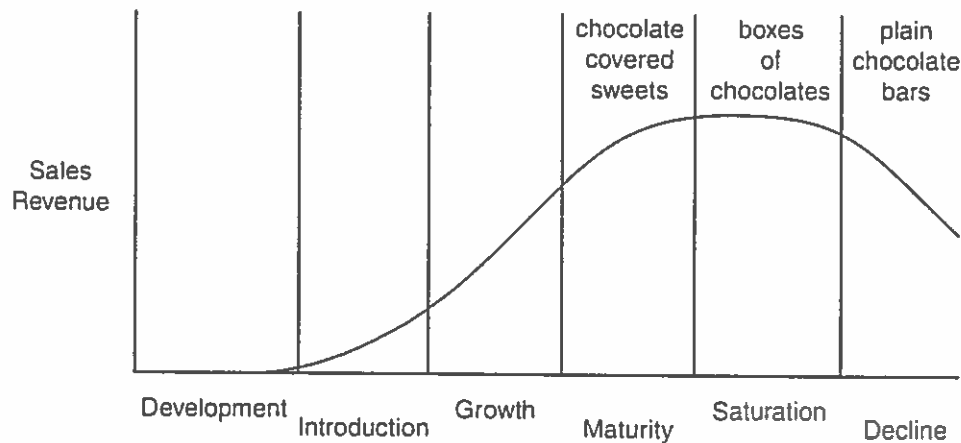
A big problem for the company is that it does not have the money to build an extra factory, which is needed to expand production. The owners are thinking of selling more shares to raise the necessary finance. \$5m is required to build the factory and equip it with production machinery. The Managing Director says: 'We need to become a public limited company to raise the additional finance'. However, the Finance Director says: 'This is a very expensive and risky way to raise the finance. We should continue to use retained profits to pay for an additional factory, even if we have to wait for 2 to 3 years before we have enough retained profit'.

Chocolate Delight employs skilled workers in the Research and Development (R & D) department. This department develops new products for the company.

Chocolate Delight buys 'Fair Trade' cocoa. This is where the cocoa farmer receives a higher price, about 10% more than the usual selling price. In return the farmer must ensure that no children are working on the farms and that farm employees are paid at least a set minimum wage. The farms need to be inspected regularly to be allowed to say they are selling 'Fair Trade' products.

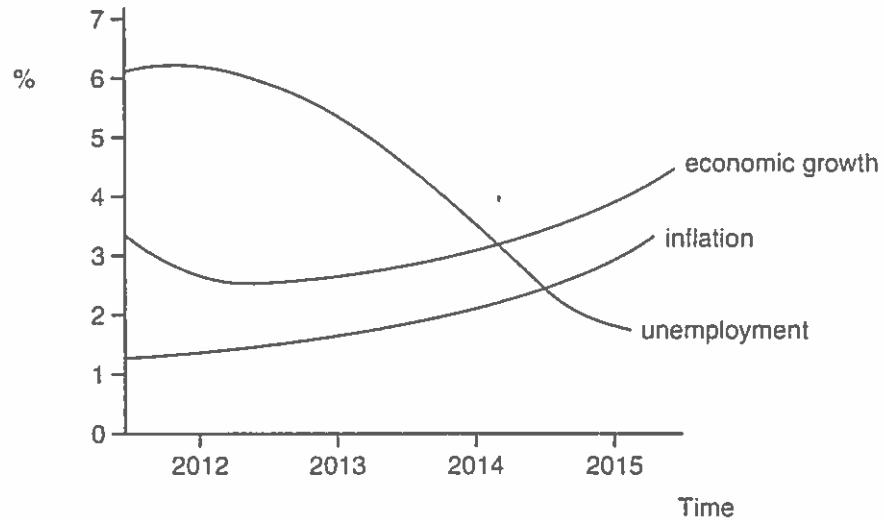
### Appendix 1

The products of Chocolate Delight and stages of the Product Life Cycle



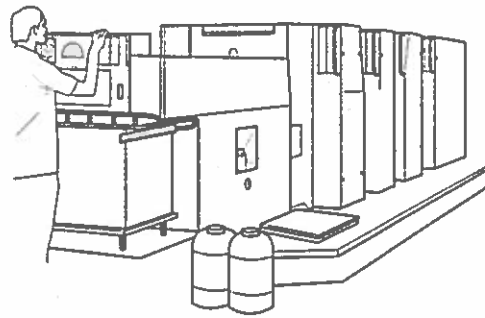
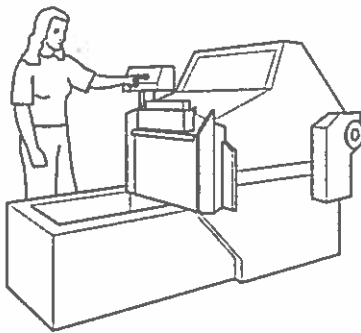
**Appendix 2**

Country X Economic Forecasts for 2012–2015



**Appendix 3**

Information on two machines for producing chocolate bars



	Machine A	Machine B
Cost of machine	\$600000	\$800000
Number of workers required to run the machinery at a daily wage of \$100 per worker	10	3
Output per day	10000 chocolate bars	6000 chocolate bars

**O/N 11/P22 (BB Boat Tours)**

BB Boat Tours was set up 15 years ago as a partnership between three brothers, Abdul, Bruce and Carlos. The business owns three boats and it takes tourists for day boat trips out to sea. The business offers three types of trips:

- to look at the dolphins and other sea life (used mainly by foreign tourists)
- to go fishing with skilled local fishermen (used mainly by local tourists)
- to go diving with qualified diving instructors (used mainly by foreign tourists).

All the boats owned by the business are of good quality. Food and drinks are provided for the tourists throughout the day.

The business grew rapidly and made good profits, with the boats usually fully booked. However, last year the business made a loss as the boats were only half full each day.

The problem for the brothers is that they do not have much money and are thinking of selling one of the boats. Carlos says: 'We need to offer only two types of boat trips so we can reduce expenses'. Abdul thinks they should make some of their employees redundant. They need different skilled employees for each type of trip and he thinks they employ too many people.

The foreign tourists come mainly from the European Union where the euro is the currency used. BB Boat Tours buys most of its boats and equipment from countries in the European Union. The local currency has been depreciating against the euro.

### Appendix 1

Cost and revenue information for BB Boat Tours (when the boats are half full)

Type of day trip	Price of trip per person	Number of passengers per day trip	Variable costs per passenger (food hire of equipment and wages of employees)
Dolphin watching	\$20	20	\$10
Fishing	\$30	15	\$15
Diving	\$60	10	\$30

The fixed costs for each boat are \$300 per day.

### Appendix 2

A competitor's website advertisement for boat tours for tourists

**Cheap Boat Tours**

If you want to go on a boat tour then come and let us take you out for the day. It will be an experience you will remember forever.

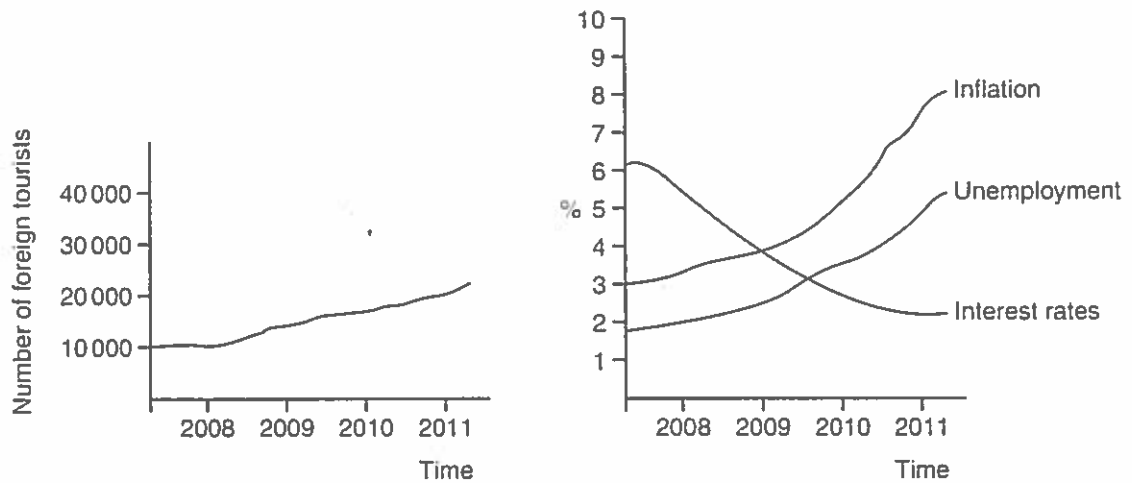
We charge just \$10 for dolphin watching, \$20 for fishing and \$40 for diving. Food and drinks are available onboard the boat for you to buy.

We are so much cheaper than many of the other boat tour businesses.

Email: [cheapboattours@gotmail.com](mailto:cheapboattours@gotmail.com) for further information or fill in the booking form on the website.

## Appendix 3

## Government Economic Data

**O/N 11/P21 (Everyday Suits)**

Simon owns a business called Everyday Suits. It is a private limited company. The business makes suits for men using batch production. The production workers are paid an hourly wage. They have no fringe benefits, as Simon believes the workers should be happy that they have a job. Simon employs 100 production workers who work on the production of suits. He has 5 employees who help him in the office. There is only one manager who is responsible for Finance. Simon carries out all the other management functions for the business.

The business has grown quickly and profits have also increased rapidly over the last two years. To finance the rapid growth of the business Simon has taken out a large bank loan for \$15 000 which is being repaid over 5 years.

Simon wants to continue to expand the business. He wants to increase the range of suits to add to his current range of medium priced suits. There is a lot of competition for medium priced suits and this market segment is not growing. He has identified two other market segments for suits, both of which have increasing demand. However, he is unsure which market segment option to choose.

**Option 1:**

Start selling expensive suits that are hand made and of high quality material. These suits would be made to measure for each customer and individually designed. The market for these suits is a niche market. He would need to employ more skilled workers.

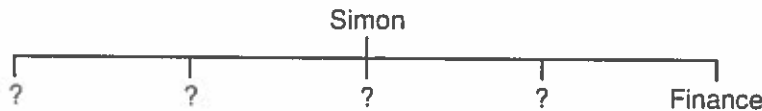
**Option 2:**

Start selling low priced suits to the mass market. However, to enter this market Simon will need to invest in machinery to produce suits on a large scale. He could gain from economies of scale which would be an advantage.

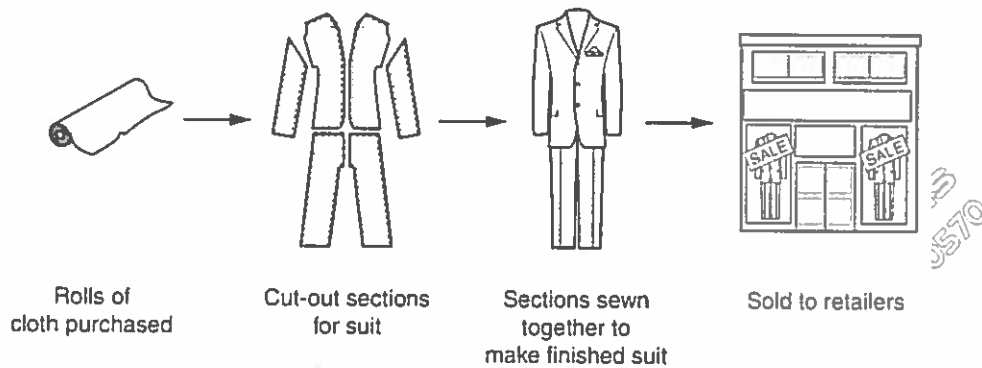
**Appendix 1**  
Balance Sheet for Everyday Suits at 31st August 2011 in \$

	2011	2010
<b>Fixed Assets</b>		
Equipment	20000	20000
<b>Current Assets</b>		
Stock	10000	5000
Debtors	30000	10000
Cash at Bank	0	5000
<b>Total</b>	<b>40000</b>	<b>20000</b>
<b>Current Liabilities</b>		
Creditors	10000	20000
Overdraft	20000	0
<b>Total</b>	<b>30000</b>	<b>20000</b>
<b>Working capital</b>	<b>10000</b>	<b>0</b>
<b>Net Assets employed</b>	<b>30000</b>	<b>20000</b>
<b>Financed by:</b>		
Share capital	10000	10000
Profit and loss reserves	5000	10000
Bank loan	15000	0
<b>Capital employed</b>	<b>30000</b>	<b>20000</b>

**Appendix 2**  
Proposed Organisation Chart for Everyday Suits



**Appendix 3**  
Added value for Everyday Suits



**M/J 12/P22 (School Clothes Supplies (SCS))**

SCS is owned by Vijay Singh and his three brothers. It is a private limited company and has been trading for 15 years. The business manufactures school uniforms for boys and girls of all ages. These are school uniforms of a standard design sold to large clothes shops. The capital employed in the business is \$10m

The business is located on the edge of the capital city in country X near to a sea port. The cloth used to make the clothes is purchased from local suppliers but some items, such as buttons, are imported.

SCS employs 100 production workers and 10 office workers. Production workers are paid by time rate. The management style is autocratic. The working conditions are good but each worker does the same job every day. Vijay uses batch production to produce different sizes of each item of clothing.

Vijay and his brothers are thinking of increasing output. They have two options.

**Option 1:**

Increase the production of the existing range of school clothes of a standard design. No new machinery will be required but more production workers will need to be recruited.

**Option 2:**

Start producing specially designed uniforms for schools that do not want the standard designs. Additional machinery will need to be leased. New skilled production workers will need to be recruited

**Appendix 1**

Main News

April 2012

**School uniform to be worn in all schools**

A Government spokesperson announced today that all school children must wear a school uniform in future. Schools can choose whether to have a standard uniform which can be purchased from any large clothing shop or their own special design of uniform. These special design uniforms would only be available for customers to buy at a few school uniform shops.

Most schools have the standard school uniform, but it is likely that more schools will change to their own special design of uniform to make their students look different to students from other schools.

**Appendix 2**

Option 1: Data for the increase in production of standard uniforms SCS costs and selling prices to shops for <b>standard</b> school uniforms			
	Trousers	Skirts	Jackets
Variable cost per item	\$3	\$2	\$15
Price per item	\$6	\$5	\$35
Number of sales per year	400 000	200 000	300 000

Total fixed costs per year are \$3 000 000 for the production of all three products

Option 2: Data for the new production of specially designed uniforms SCS forecast costs and selling prices to shops for <b>specially designed</b> school uniforms			
	Trousers	Skirts	Jackets
Variable cost per item	\$4	\$3	\$20
Price per item	\$8	\$7	\$50
Number of sales per year	200 000	100 000	50 000

It is forecast that fixed costs would be \$1 300 000 per year for the production of these specially designed uniforms (this includes the lease of the additional machinery)

**Appendix 3****GOVERNMENT ADVERTISEMENT**

New laws have been passed to protect workers and consumers.

The new laws are for health and safety, employment and consumer protection.

These laws will affect your business. You can get leaflets to inform you of what the laws mean to your business. Act now or your company may break the law

**M/J 12/P21 (Kickwell Sports Shoes (KSS))**

KSS was set up ten years ago as a private limited company. The business manufactures sports shoes. It has grown slowly because the market is very competitive. It has been difficult to increase the company's small market share. The company has share capital of \$1m. The shares are owned by Emmanuel and his father.

KSS has three main types of products: men's trainer sports shoes, women's trainer sports shoes and children's trainer sports shoes.

Emmanuel wants to increase the company's market share. To do this, Emmanuel has designed a new football boot which has many features that are better than competitors' football boots. The new boot helps footballers to kick the ball much more accurately. The company has a patent on the new football boot. A patent stops other companies copying the design.

Emmanuel has considered Option 1 and Option 2 below. He has chosen Option 1.

**Option 1:**

Borrow \$10m to enable KSS to produce, promote and distribute the new football boot worldwide. The company would need to expand production and employ new workers and managers. The company would only be able to sell the new football boot in a few countries to start with. This is because KSS does not have links with agents or retail businesses in many countries.

**Option 2:**

Sell the patent to a multinational sports company. KSS would be paid 10% of all sales revenue from the football boots each year. The multinational company would find it easy to manufacture, advertise and sell the football boot all over the world. Advertising the new football boot would be expensive. The multinational company has established links with retail businesses in many different countries.

**Appendix 1  
Memorandum**

To: Emmanuel  
From: Production Manager  
Date: 15th April 2012.

You asked me to compare labour-intensive production methods with capital-intensive methods for manufacturing the new boot. Here are the forecasts.

The factory usually operates 8 hours a day for 5 days a week.

	Labour-intensive methods	Capital intensive methods
Output per week	2500	5000
Number of workers	100	3
Wages per hour (\$)	5	20
Costs for leasing new machinery per week (\$)	0	25000

There are other factors to consider such as illness, repair costs and the number of hours the new machinery can operate

**Appendix 2**

**Main News**

**April 2012**

**Miracle Football Boots**

A new football boot has been designed by local company KSS. Professional footballers are telephoning the company trying to order these new boots. The new football boot improves accuracy when kicking the ball, making the new boot a 'must have' for all serious football players. The company has not yet launched the football boot on the market and the price has not been announced.

**Appendix 3**

Estimated cost figures for the new football boot prepared by KSS production department

Direct costs	\$15 per boot
Indirect costs per week	\$ 20 000

These costs are estimated on maximum production of 5000 football boots per week  
Competitors' football boots costs between \$40 and \$50 per pair.

**O/N 12/P22 (KK Cars)**

KK Cars is a sole trader taxi business owned by Trunal. He set up the business two years ago after he moved to New City in country X and could not find a job.

His taxi service usually has three types of customer:

- private customers who are local people without a car
- tourists who are visitors to the city
- businesses wanting documents (letters) delivered quickly.

Trunal's business made a slow start with very low profits. However, last year the business became well known for being reliable. The number of customers has increased and Trunal's taxi is now always fully booked. There are many other small taxi firms in New City and it is a very competitive market. Trunal has written for advice from a Government business advisor about how to expand his business.

**Appendix 1**

Information about the types of customers for KK Cars

Type of customer	Price of average journey	Average number of journeys per day	Variable cost per journey	Information about Demand
Private customers	\$10	40	\$ 5	Mainly at weekends
Tourists	\$20	30	\$10	Seasonal
Businesses	\$30	15	\$15	During business hours

The fixed costs for the taxi are \$20 per day.



## Appendix 2

### Email from one of Trunal's business customers

To: Trunal@gotmail.com  
From: Derrick@gotmail.com

Dear Trunal

I have a very large parcel that must be delivered to someone across the other side of the city. It is urgent and must be delivered by a certain time. Can you deliver this parcel for me today and what will the price be?

*Do you use cars to deliver parcels or do you have scooters or other two-wheeled vehicles?*

I need a reply as soon as possible.

Derrick

## Appendix 3

### Extract of a letter from a Government business advisor to Trunal

Dear Trunal

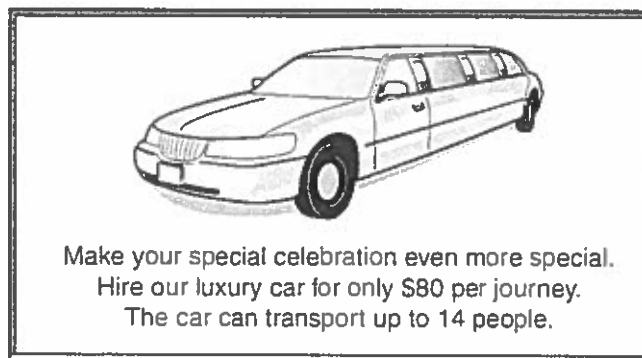
In reply to your letter dated 15 October, I have two suggestions about how you could expand your business by making it different to your current taxi services. The two options are as follows.

#### *Option 1: large luxury car*

See the advertisement below from a business in a nearby city. This could be the ideal way for you to expand your business. The luxury car could be used for birthday parties, weddings and other events.

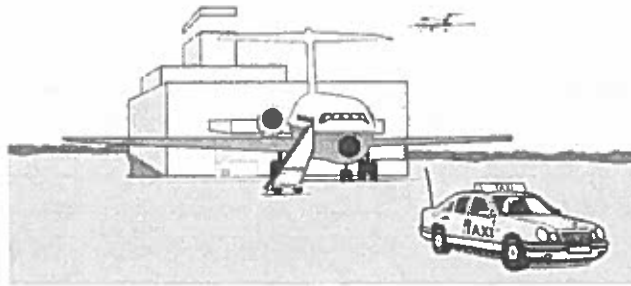
You could charge the same price as in the advert below and the variable costs are estimated to be \$40 per journey. To lease the luxury car will cost \$200 per day. You may also need to spend money on advertising.

Estimated bookings are 6 per day. However, this is likely to be much higher or lower at different times of the year. You need to work out the break-even number of journeys per day.



#### Option 2: airport taxi service for business people

Expand your existing taxi business but use additional taxis only to transport business people and tourists from the airport to their city centre hotels. You could buy 3 extra taxis at a cost of \$10 000 per taxi. This will give you a loan repayment of \$60 per day for five years. The number of taxi journeys to break even is 10 per day. Estimated number of journeys is 15 per day all through the year.



Ring me to discuss this further. You will need to research the potential demand for both options as well as working out the costs for each option before you make a final decision.

### O/N 12/P21 (K's Garage (KG))

Kolo has worked as a mechanic repairing motor cars for over 10 years. He now wants to start his own business selling and repairing cars. He wants to set up as a sole trader business and call his business K's Garage. He hopes to have both business customers and private customers.

Kolo thinks he will need to employ two other trained mechanics, as well as two experienced sales staff for selling cars. Kolo will do the accounts and administration for the garage and also deal with customer enquiries.

There are three possible sites where he could locate his garage.

#### Site A:

Site A is on a busy road close to the city centre. The rent on the property is \$20 000 per year for a small workshop and car showroom (where cars for sale are displayed). It is near other garages which sell new cars. The site is located in a business area and there are no houses nearby.

#### Site B:

Site B is on a road on the edge of a housing estate. There are many people living in the area who own cars. The rent for this site is \$15 000 per year. The site has a large car showroom and workshop. There are no other garages in the area and only a few shops nearby which sell food. Not many people use the road.

#### Site C:

Site C is in an area outside the city with no housing or businesses nearby. The site is for sale for \$10 000. It is a large area of land with a big garage on the site, but the buildings need repairing. There is a busy road nearby which leads into the city. The city is 10 kilometres away.

Kolo's friend, Leslie, owns a garage in another city. Leslie has given Kolo the following information from his company accounts. This is shown in Appendix 1.

**Appendix 1**  
Financial information for Leslie's garage (\$)

	2010	2011
Capital employed	50 000	50 000
Sales revenue from car sales	40 000	80 000
Sales revenue from car repairs	60 000	70 000
Cost of sales (cars and car parts)	20 000	40 000
Expenses	70 000	90 000

**Appendix 2**

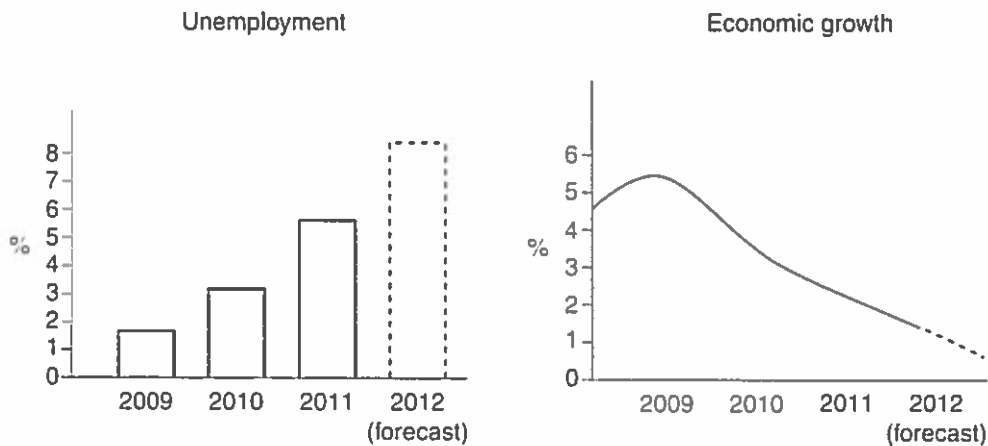
To: Kolo@ gotmail.com  
From: Leslie@ gotmail.com

Hello Kolo

If you are thinking of importing cars for your business you need to consider a few things.

Changes in the exchange rate may affect the price you are paying for the imported cars. Also you need to check if there are any tariffs or quotas on imported cars. However, the prices are often 20% less than buying cars in this country and there are more types and models of cars available from other countries. Remember transport costs may be higher and delivery dates may be less reliable.

Good luck!  
Leslie

**Appendix 3****M/J 13/P22 (Tibalt's Wood Products (TWP))**

TWP is based in country X. It makes wood products, such as windows and doors. These are sold to building firms which repair or build houses and offices.

TWP buys imported wood. TWP could buy materials from local forests that produce sustainable wood. This means the cut trees are replaced by newly planted ones. TWP uses imported wood because it is cheaper (at current exchange rates) and there is a wide range of different woods available. TWP uses both job production and batch production when producing wood products for its customers.

Tibalt owns TWP and he is a sole trader. Tibalt wants the business to continue to grow and become more profitable. He is thinking of expanding by taking over another wood product manufacturer.

He only sells his products to small businesses that build or repair houses and offices. A lot of people are now starting to build or repair their own houses. Tibalt is considering also targeting these customers. These customers are concerned about the environment. They only want to buy wood products made with materials from sustainable forests.

**Appendix 1**  
Profit/loss account for TWP 2011 and 2012 (\$000s)

	2011	2012
Sales revenue	1000	1500
Cost of goods sold	500	700
Gross profit	500	800
Wages	100	100
Fixed costs	280	450
Total expenses	380	550
Net profit	120	250

**Appendix 2**

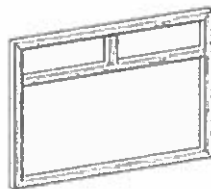
To: [Tibalt@TWP.com](mailto:Tibalt@TWP.com)  
 From: Fred  
 Date: 3 May 2013  
 Re: Customer enquiry

I am building my own house. I want to know if your wood products are produced with wood from sustainable forests as I am worried about the environment. I do not mind if the products are a bit more expensive. How can I find out more about your products? I have not seen any promotions for your business.

**Appendix 3**

Competitor's advert

- Wood products are made to customer's own design.
- Any quantity supplied.
- All types of wood products available at low prices.
- All materials from local forests.



**M/J 13/P21 (Ted's Tools (TT))**

TT is a chain of shops which sell tools such as hammers, screwdrivers, electric drills and saws. The business was started 20 years ago as a partnership between 2 friends, Ted and Mustafa.

TT has 10 shops. There are 2 shops in each main city in country A. The business has grown by reinvesting profits and opening a new shop every 2 years. Each shop employs a shop manager and 5 shop assistants. The shops open 10 hours a day for 6 days a week.

Most of TT's customers are people who are building or repairing their own houses. The tools and equipment TT sells are cheap but low quality. As a result of this, few building firms and construction companies buy from TT. Most building firms only buy high quality tools and equipment that will last a long time.

### Appendix 1

#### Competitor's Advertisement – Ed's Equipment

**Tools and equipment for home and business use – we sell or rent!**

Tired of buying tools that you only use a few times? Tired of buying tools which break after using them a few times? Then here is the answer.... For all your needs when building or repairing your house come to **Ed's Equipment**.

- Rent the tools you need for half the cost of buying them.
- All high quality tools as used by construction companies.
- Tools are reliable and high quality.
- Trade credit is available to business customers.
- Large range of tools in our big shop.

Visit us at our shop on Main Road, New City, 3210997. Telephone: 377228665.

### Appendix 2

Cash flow forecast for TT (\$000s) for the second half of 2013

	July	August	September	October	November	December
Opening bank balance	1000	1100	1650	1550	1350	Y
Cash inflows:						
Cash sales	1000	1100	400	300	300	500
Credit sales	100	100	100	100	100	100
Total cash inflows	1100	1200	500	400	400	600
Cash outflows:						
Stock	600	250	200	200	300	500
Wages	100	100	100	100	100	100
Overheads	300	300	300	300	300	300
Total cash outflows	1000	650	600	600	700	900
Net cash flow	100	550	x	(200)	(300)	(300)
Closing bank balance	w	1650	1550	1350	1050	Z

Figures in brackets are negative.

### Appendix 3

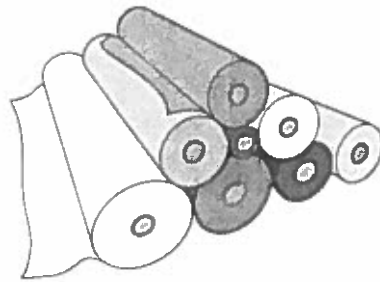
Daily News

May 2013

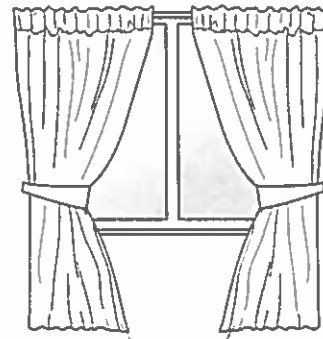
The recent bad weather has caused much damage to buildings in all of the main cities in country A. Strong winds are unusual at this time of year.

The Government estimates that the repairs will cost several million dollars. Many construction companies will welcome the increased number of customers, as the economy has been going through a recession and this has affected the building industry. Several new businesses might set up in the industry.

**O/N 13/P22 (Cagan Cloth (CC))**



cloth



curtains

Cagan opened a shop selling cloth (fabric) 5 years ago. The business is a private limited company. Cagan buys cloth from a local wholesaler and then sells it to customers who make their own curtains for their windows. CC's sales have grown quickly.

Cagan wants to expand the business and has the following two options.

**Option 1**

Open a second shop to sell cloth. This would be a large shop in a nearby city centre. There are no shops selling cloth in this city centre. There are several shops selling curtains. There would be one shop manager and five shop workers. Sales are forecast to be \$4000 per month but are not expected to grow.

**Option 2**

Open a factory to start making curtains for customers. It would make curtains to the exact requirements of customers. It would use only high quality imported cloth. There would be one factory manager and 10 workers. Sales are forecast to be \$5800 per month. Sales could increase if new markets are found using the Internet.

**Appendix 1**

Cost information per month (\$)

	Option 1 (shop)	Option 2 (factory)
Option 2 (factory)	1000	2000
Wages per worker	100	150
Cost of cloth	900	950
Manager's salary	400	400
Other fixed costs	800	700

**Appendix 2**

Part of the Application Form for CC Manager

Qualifications:
Experience:
Previous employer:
Interests/hobbies:

Read & Write Publications  
www.readwrite.org © +92321-100570

**Appendix 3**  
List of employees CC would need for a factory

- |                         |                              |
|-------------------------|------------------------------|
| 1 production supervisor | 1 machine maintenance worker |
| 1 factory manager       | 6 production workers         |
| 1 finance office worker | 1 finance office supervisor  |

**O/N 13/P21 (Yum Yum Food)**

Three years ago Shahila started a food stall called Yum Yum Food. She is a sole trader. The stall sells hot food and is located in the centre of the capital city. This area has a lot of customers from local workers and shoppers, as well as tourists. The business has many competitors in the area, but Shahila has still made a good profit each year.

Shahila works many hours each day. She has three employees to help her serve customers and prepare food. Shahila only buys high quality food ingredients, which are currently purchased from a nearby wholesaler.

She wants to expand the business and has the following two options.

**Option 1**

Start up another food stall near the main football stadium. There is one football match each week when many thousands of supporters come to the stadium. Forecasted customers are 500 per week and each is forecast to spend an average of \$2.

**Option 2**

Open a café (restaurant) in the city centre. Forecasted customers per week are 800 and each is forecast to spend an average of \$5.

**Appendix 1**  
Forecast cost information per week (\$)

	Option 1	Option 2
Rent	50	1500
Wage costs	100	500
Food ingredient costs	300	1000
Local tax/licence	100	250

**Appendix 2**



ions  
4-1100570

## Appendix 3

Daily News

October 2013

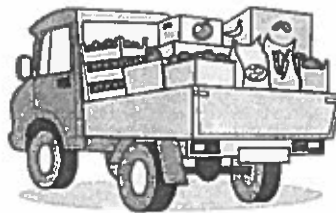
The football stadium in the capital city is to be used for other events. The football club has agreed to rent out the stadium to be used for concerts and other sporting events. This should make better use of the stadium which is currently only used for one football match each week.

It is predicted that the stadium will be used for an extra two or three events each week, even when the football season has finished.

**M/J 14/P22 (Manuel's Fruit and Vegetable Shop)**

Manuel owns a shop selling fruit and vegetables. It is located on a main road in the capital city of country X. He is a sole trader and has been in business for 10 years. He has 5 employees who all work part-time in the shop.

Manuel buys his fruit and vegetables from a wholesale supplier and he pays cash. The wholesaler charges Manuel a delivery fee of \$20 for each delivery. Manuel usually has 4 deliveries a week. He has thought of buying his own truck (lorry) but that would cost \$4 000 for an old truck or 3 times as much for a new truck.



Manuel wants to encourage more customers to buy fruit and vegetables from his shop each week. He is planning to offer a low cost delivery service to customers who order the same quantity of fruit and vegetables each week. This would discourage customers from buying fruit and vegetables from other shops. He is not sure how to promote this new service.

Manuel gives his existing loyal customers one month's credit. Half of Manuel's sales are to these customers. Most of Manuel's stock is sold with 100% mark up.

## Appendix 1

Cash flow forecast for Manuel's Fruit and Vegetable Shop (\$) for the first half of 2015

	January	February	March	April	May	June
Cash sales	500	1000	700	300	600	400
Cash from debtors	500	500	1000	700	300	600
Sales revenue	1000	1500	1700	1000	900	1000
Purchase of stock	500	1000	700	300	600	400
Wages	200	400	600	600	600	600
Overheads	400	400	400	400	400	400
Total costs	1100	1800	1700	1300	1600	1400
Net cash flow	(100)	(300)	0	(300)	(700)	(400)
Opening balance	1000	900	600	600	300	(400)
Closing balance	900	600	600	300	(400)	(800)

Note: Numbers in brackets are negative.



**Appendix 2**

To: Manue IBBB@gotmail.com  
 From: DeliveriesRU@gotmail.com  
 Date: 3 May 2014

You enquired about hiring a delivery truck to transport your fruit and vegetables. The price to hire a truck is \$50 per day plus fuel. This includes insurance. All our trucks are safe and clean and can carry a large amount of stock. Please note you will need to book and pay at least one week in advance as we are very busy and may not have a truck for you if it is not booked early.

**Appendix 3**

Adverts for Manuel's Fruit and Vegetable Shop and a large supermarket




Open: 06.00 – 23.30

Local shop

Fresh products

Personal service



Open: 10.00 – 20.00

Large out of town store

Wide variety of products

Self-service

**M/J 14/P21 (Fabian Flowers (FF))**

Fabian is starting a business selling flowers in country Z. He will call his shop Fabian Flowers (FF). He was made redundant from a factory which produced paint. Fabian thinks he has the skills needed to manage his own business.

Fabian does not know much about flowers but he has found out that demand for them is increasing. He wants to have a business partner. There are three people who want to become his partner and he has to choose between them. See Appendix 1 for details about them:

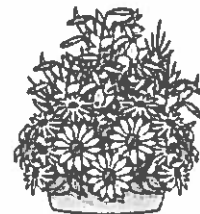
To make progress with his business idea he needs to:

- set objectives for the business with his partner
- decide whether to focus on Option A customers or Option B customers (see below)
- decide on the prices of the flowers in his shop.

**Option A: Business customers**

These would be mainly hotels and restaurants demanding fresh flower arrangements two times a week. The orders would be all year round. These customers would expect trade credit and a reduced price for regular orders. Projected financial data for the first year is:

- sales revenue \$200 000, cost of flowers \$40 000 and expenses \$120 000.



**Option B: Retail customers**

These would buy flowers regularly. There would also be higher sales for special occasions such as weddings, Valentine's Day and birthdays. High prices could be charged and customers would pay with cash. Projected financial data for the first year is:

- sales revenue \$120 000, cost of flowers \$30 000 and expenses \$60 000.

**Appendix 1**

Details of three people who wish to become Fabian's business partner

Gowri	Miranda	Pamela
Has already managed her own Business	Has no experience of managing a business but worked in a shop for two years	Has no experience of managing a business but wants to learn how to do this
Has no flower arranging Experience	Has qualifications in flower Arranging	Likes flower arranging at home but no work experience
Age 35 with three small Children	Age 25, no children	Age 50 with two children at University
Has \$10 000 to invest	Has \$5 000 to invest	Has \$20 000 to invest

**Appendix 2**

Planned start-up costs for Fabian Flowers

	\$
Purchase of shop premises	50 000
Equipment/shop fittings	5 000
Stock of flowers	500
Advertising	400
Recruitment costs	100

**Appendix 3**

To: Fabian@gotmail.com  
From: Sid@gotmail.com  
Date: 2 May 2014  
Re: Where to buy flowers?

Here is the information you asked for about where to buy flowers:

	Import flowers from country X	Purchase from a flower Wholesaler	Buy from local flower Growers
Quality of flowers	High	Low	Mixed (some high/some low)
Variety of different Flowers	Limited range	Wide range	Limited range at some times of the year
Prices	High	Low	Depends on the quantity purchased

Other factors	No child labour allowed in country X	Wholesaler buys from country Y which uses methods that are not sustainable	Low transport costs
---------------	--------------------------------------	--	---------------------

Customers are becoming more aware of ethical and environmental issues when making purchases so think carefully about where you buy your flower supplies from.

Sid

### O/N 14/P22 (ACE Engineering (ACE))

ACE is a public limited company located in country Z. It makes large ovens which are sold mainly to restaurants and hotels in many different countries.

The main components used to make the ovens are metal. There are also rubber components which fit around the oven doors and electrical components for the temperature controls. Only the electrical components are imported. All other components are purchased locally.

ACE employs 200 production workers in its factory and 50 office workers. A high proportion of the workforce leaves each year and the Human Resources department has frequently to recruit and train new employees. All employees are members of a trade union. The directors of ACE have held meetings to discuss how to manage the employees effectively. They want to improve the employees' motivation. The managers expect workers to follow instructions and the workers are told they will be dismissed if they do not follow orders.

#### Appendix 1

##### Financial information on ACE Engineering

2012	
Sales revenue	\$ 200 m
Gross profit	\$ 150 m
Expenses	\$ 130 m
Capital employed	\$ 100 m
Gross profit margin	75%
Net profit margin	10%
Return on capital employed (ROCE)	20%

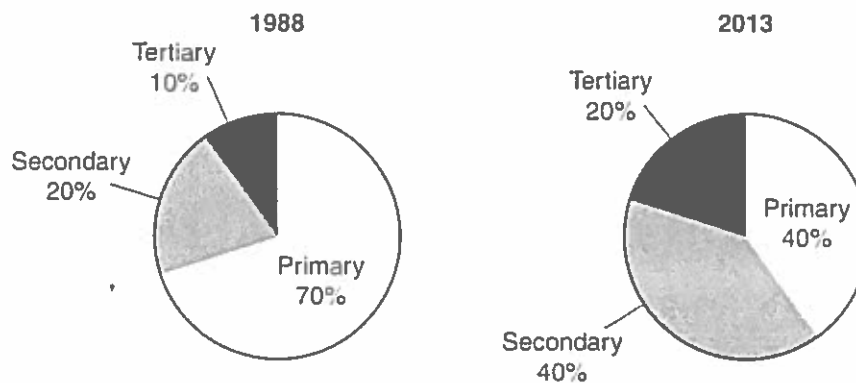
2013	
Sales revenue	\$ 250 m
Gross profit	\$ 200 m
Expenses	\$ 160 m
Capital employed	\$ 120 m

#### Appendix 2

##### Information about country Z

The main industries in country Z were agriculture, rubber plantations and iron ore mining. Towns and cities have expanded as many people have moved from farms to find jobs that pay higher wages. Consumer incomes are rising rapidly in country Z.

## Pattern of employment



## Appendix 3

To: Operations Manager of ACE  
 From: Managing Director of ACE  
 Date: 4 October 2014  
 Re: Efficiency improvements

We need to be efficient to remain competitive. We should be using lean production methods.

All our competitors use lean production methods such as just-in-time and waste reduction. Please research this for me and let me know what you think.

**O/N 14/P21 (PB Bank)**

PB Bank is a public limited company. The bank has been trading successfully for 20 years. The Board of Directors wants to see the number of customers increasing; however, over the last 2 years the number of customers has remained the same. Should PB Bank try to expand by taking over another bank or should it try to attract more customers from its competitors? DOTT Bank is a smaller bank than PB Bank and could become a takeover target.

PB Bank is a large bank with 15 000 employees. The organisational structure is shown in Appendix 1. The Human Resources (HR) Director is responsible for internal communication. Some employees have complained that they often do not get told about important decisions. Some information is posted on the company website but some of this information is difficult to find.

PB Bank already offers online (Internet) banking and the Marketing Director thinks that mobile (cell) phone banking will become popular with customers. They used a questionnaire to find out the opinions of their customers (see Appendix 3).

An increasing number of PB customers are now only using online banking. PB needs to close either branch X or branch Y.

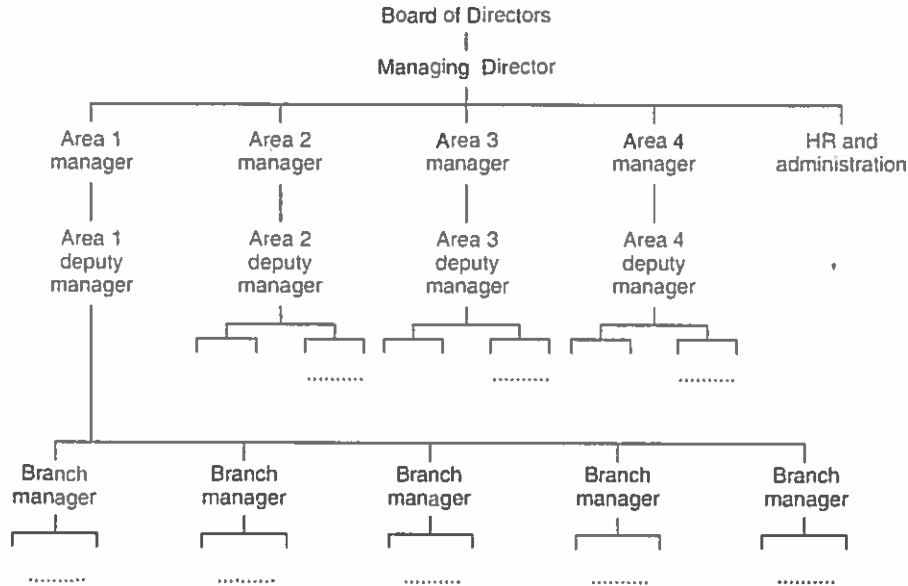
**Branch X**

Located in a small town; used mainly by customers of the bank to deposit and withdraw money; no other banks nearby; the branch always has long queues of customers.

**Branch Y**

Located in the city centre; used mainly by tourists to change foreign currency; not many PB customers live nearby; near to several other bank's branches; the branch is busy only in the mornings.

**Appendix 1**  
Extract from organisational structure of PB Bank



**Appendix 2**  
Information about PB Bank and DOTT Bank in 2013

	PB Bank	DOTT Bank
Fixed assets	\$790m	\$320m
Current assets	\$120m	\$80m
Current liabilities	\$80m	\$100m
Capital employed	\$830m	\$300m
Net profit	\$83m	\$45m
Number of customers	3 000 000	1 000 000
Number of branches	1000	250

**Appendix 3**  
Results from a questionnaire used on Monday 5 May 2014 in the main street of the city centre in the afternoon

People who completed the questionnaire:	
Age	Number
10–20	100
21–30	400
31–40	300
41–50	100
50 +	100
<b>Do you have a bank account?</b>	
Yes	800
No	200
<b>Do you have a mobile phone?</b>	
Yes	700
No	300

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*Would you like to be able to access your bank account details and carry out transactions using your mobile phone?*

Yes	500
No	500

### **M/J 15/P22 (Frozen Fancies (FF))**

Frozen Fancies (FF) is a partnership owned by Samah and Selina. The business was started five years ago after Samah and Selina were able to borrow finance easily from the bank. FF produces ice-cream in country X. The ice-cream is made from high quality ingredients and is sold at a high price. These ingredients are bought from a supplier which is located near FF's factory. Samah and Selina have always used this supplier since they started and have been pleased with the high quality ingredients even though they are expensive.

Sales increased for the first four years. This increase in sales was greater than FF had planned for. Last year the sales started to fall as a multinational food company set up an ice-cream factory and started selling ice-cream in country X. This ice-cream is not high quality and sells at prices below those of FF. FF targets a market segment of high income consumers and intends to keep selling its ice-cream for a high price.

FF's ice-cream is in high demand for 6 months but demand is lower for the rest of the year. The factory has 100 full-time production workers when it is busy but half of these workers are made redundant during less busy months.

FF plans to launch a new ice-cream flavour onto the market. It must decide between strawberry flavor and coconut flavour. The development of the new product will be financed by FF taking out a bank loan.

#### **Appendix 1**

**New City News**

**1 May 2015**

A multinational food producing company has set up in country X. This is good for the unemployed. It is also increasing economic growth leading to further economic development for the country. The Government has built new roads to improve distribution.

However, some businesses did not like this multinational opening a new factory as it has increased wages of other businesses in country X.

#### **Appendix 2**

##### **ABC Ice-cream Ingredients**

We supply ingredients at low prices

All our products are quality assured

We comply with all Government regulations on food standards

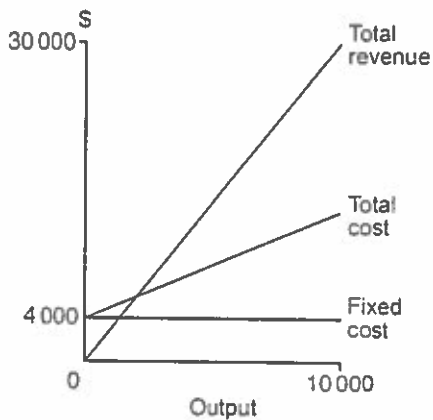
Free delivery to your business once a week

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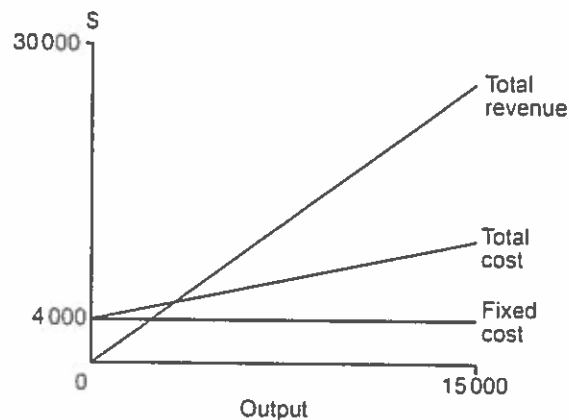
**Appendix 3**  
**Financial information for the two new ice-creams**

	Variable cost per ice-cream	Price per ice-cream	Estimated average sales per week
Option A Ice-cream strawberry	\$1	\$3	10000
Option B Ice-cream coconut flavor	\$0.50	\$1.75	15000

**Option A:**  
Break-even chart for strawberry  
flavor ice-cream



**Option B:**  
Break-even chart for coconut  
Flavor ice-cream



**M/J 15/P21 (Delicious Delights (DD))**



David is a successful entrepreneur. He set up Delicious Delights (DD) as a private limited company 10 years ago in country X. David invested all of his own savings when he set up DD and he is still the major shareholder. David is the Managing Director and works 7 days a week. The company has increased profits every year as David develops a new range of cakes each year. David has appointed managers to control each department (see Appendix 1) and the company employs 125 people.

DD employs many employees for the production of cakes. Large ovens are used to bake the cakes. David wants to increase production efficiency. He is considering the following two options.

**Option A**

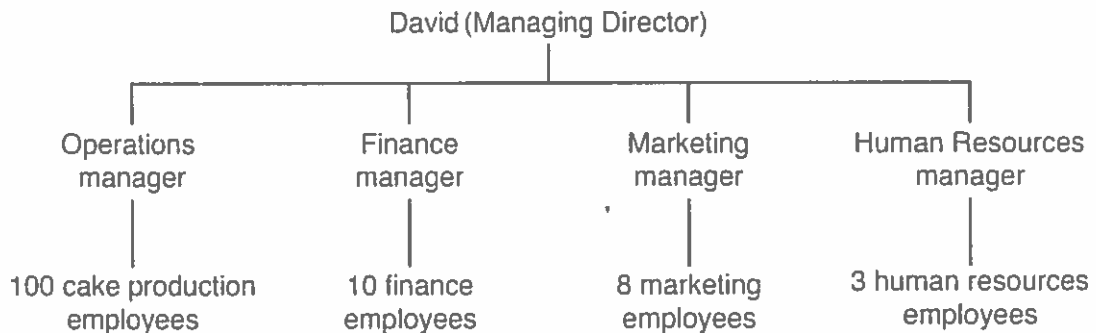
Provide more training for the existing production employees. This would involve on-the-job training provided by the most experienced employees. David estimates efficiency would increase by 10%.

**Option B**

Change the production process to an automated production line. This would require an investment of \$8m and only 10 employees would be required to operate the machinery. The other production

employees would be made redundant. Off-the-job training would be required for the remaining 10 employees.

**Appendix 1**  
Organisational structure of DD



**Appendix 2**  
Financial information from DD Balance Sheet (\$ 000)

	2013	2014
Non-current (fixed) assets	100000	100000
Current assets	1000	1000
Inventories (stock)	500	300
Current liabilities	500	600
Current ratio	2	?
Acid test ratio	1	?

**Appendix 3**

To: Marketing Manager  
From: David  
Date: 0 May 2014  
Re: Increasing cake sales

Hi

I have been looking at our sales figures for cakes and I am constantly thinking of new ways of selling to customers. Customers usually buy our cakes from large supermarkets and small food shops, but I think we could start to sell our cakes directly to customers using e-commerce. There are many cost savings to be made from using e-commerce but would this be a suitable method for our cakes?

We have a large number of loyal customers in country X. However, our competitors are starting to sell cakes in large quantities to supermarkets in other countries. Would this be a better way of increasing sales than using e-commerce?

Let me know what you think.



**O/N 15/P22 (Rafael's Reliable Motorbikes (RRM))**

RRM was set up by Rafael in Downtown, a town 100 km from Main City in country X. Rafael is a sole trader. He started the business 15 years ago.

RRM sells new and used (second-hand) motorbikes to local people who live in Downtown. Rafael is going to pass the control of the business to his son next year. He wants to keep the business owned by the family and does not want anyone else to own part of it.

RRM customers are mainly young men. Many of them are married with families and they cannot afford to buy a car. Rafael thinks he could increase his sales by using market segmentation. Rafael imports some of the motorbikes he sells and buys others from local manufacturers. Imported motorbikes are of higher quality than locally produced ones.

Rafael employs 10 workers to repair, sell and deliver motorbikes. They have worked for Rafael for many years. They are paid high wages and receive health and safety training. The leadership style used by Rafael is democratic, but the workers are worried that things may change when Rafael's son takes control. Rafael has told his son that having well motivated workers is important to the business. Rafael is considering opening another showroom in Main City.

**Appendix 1**  
Downtown population data in 000's

Age	0-16	17-40	41-66	66+
Number of people	125	250	500	125

**Appendix 2**  
Financial Information for RRM \$

	2013	2014
Revenue	3000000	4000000
Gross profit	2000000	3000000
Fixed costs	1500000	2500000
Capital employed	2000000	2000000

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### Appendix 3

#### Location information for opening another showroom

Option A – near Main City	Option B – in the centre of Main city
<ul style="list-style-type: none"> <li>• Low rent</li> <li>• Housing nearby</li> <li>• No other shops nearby</li> <li>• Government grants available</li> <li>• High unemployment</li> <li>• High crime rate</li> </ul>	<ul style="list-style-type: none"> <li>• High rent</li> <li>• Near to other shops including competitors</li> <li>• Good transport links</li> <li>• Free car parking nearby</li> <li>• Good security/low crime</li> </ul>

### O/N 15/P21 (Camper Companions (CC))

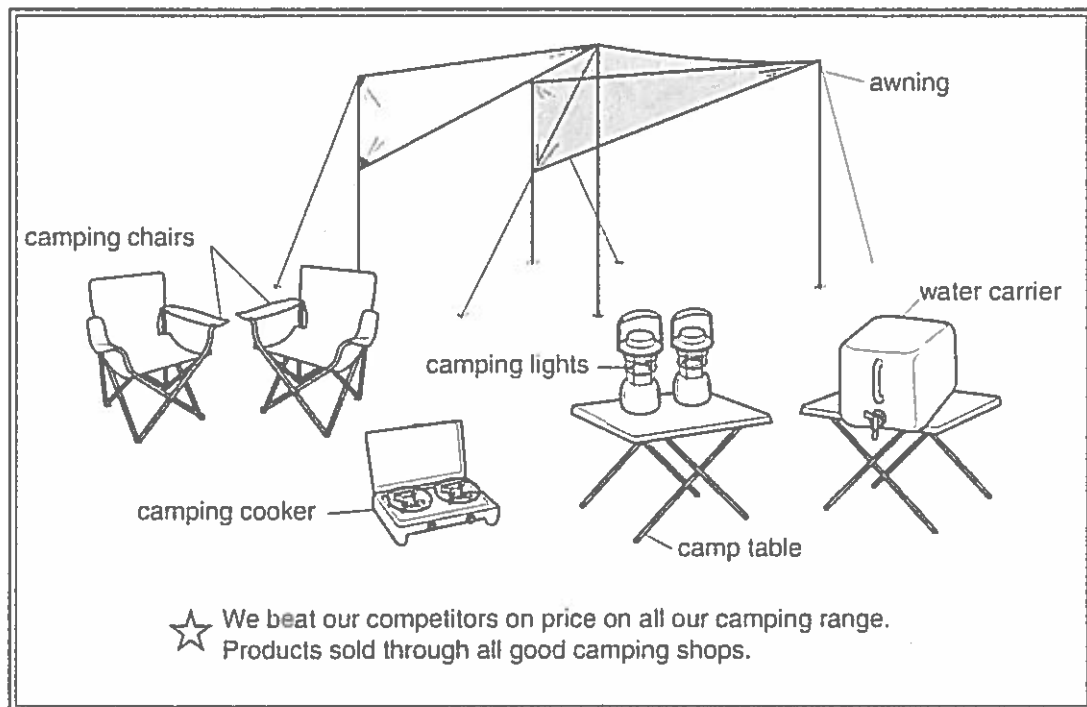
Camper Companions (CC) is a large public limited company set up 20 years ago in country X. It manufactures a wide range of camping equipment. Most of its customers own a tent or caravan.

Originally the company had one factory but now it has expanded to three factories. The directors want the company to continue to expand. Recently the directors of CC have considered merging with a competitor in country Z which manufactures a similar range of camping equipment.

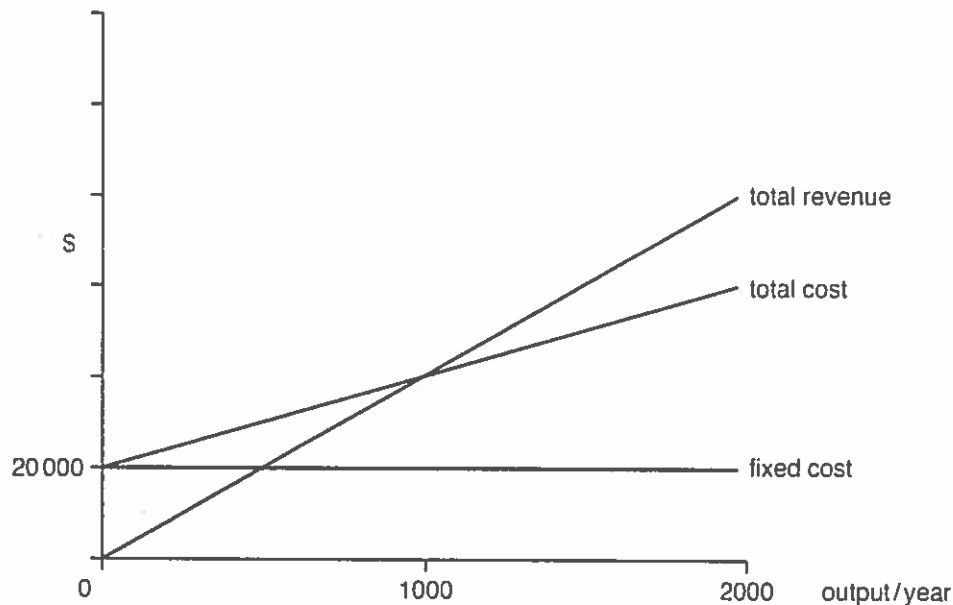
Each of CC's three factories employs 100 skilled workers. Most of these workers are part-time and they are paid lower wage rates than workers in other similar businesses. The factories use many machines in the production of CC's products. The directors have not allowed workers to be members of a trade union but they are thinking of changing this decision.

CC only sells its camping equipment in country X but the directors plan to start manufacturing and selling the equipment in several countries including country Z. Government grants are available for building new factories in country Z.

### Appendix 1



**Appendix 2**  
**Break-even chart of CC's bestselling product – a camping cooker**



Price = \$40 per cooker  
Variable cost = \$20 per cooker

**Appendix 3**

To: Finance Director  
From: Managing Director  
Date: 10 October 2015  
Re: Continued expansion of CC

We have a large number of loyal customers who buy our camping equipment in country X. However, we need to maintain our competitiveness and start to sell in other countries.

As a public limited company we have to maintain profitability. If CC's share price falls we could be at risk of a takeover.

**M/J 16/P22 (Foto Favourites (FF))**

FF is a private limited company owned by Thao and Liang. It is profitable and has grown over the last 5 years. Providing 'excellent customer service' is still its main business objective.

Thao and Liang are photographers who believe in meeting customers face-to-face to discuss what photographs the customers want. They specialise in taking photographs for weddings, birthdays and other celebrations as well as family photographs. They have some business customers but most of their customers are private individuals. As the business has grown, Thao and Liang have employed additional photographers to do some of the work. There are now 8 photographers and 2 part-time office workers who do the administration and accounts.

The revenue for 2015 was \$500 000 with cost of sales of \$250 000. Profit (after all expenses were deducted) was \$125 000. Thao and Liang want FF to continue to expand and are considering taking over another photography business rather than growing internally. Appendix 3 gives some financial information on two businesses they are considering taking over.

**Appendix 1****New City News****1 May 2016**

Information Technology (IT) is changing the photography industry

You can now receive your wedding photographs using the Internet and can print out as many as you want. You only pay for the services of the photographer at the wedding rather than also paying for each photograph.

Family and friends can be given a password to view all your photographs and you can download a program (app) to automatically open these on some mobile (cell) phones. This makes it much quicker to see your photographs from the wedding or other special occasion, rather than having to wait several days or weeks before they are available to order.

**Appendix 2**

To: Thao@gotmail.com  
From: Liang@gotmail.com  
Date: 3 May 2016  
Re: Employment laws

There are some new employment laws being introduced next month which will affect our business. These include new regulations which will require our business to give health and safety training to all employees.

The minimum wage is being increased by 20%. This is a worry. Although we pay the photographers 50% more than the minimum wage, they might expect a wage increase.

In addition, protection from unfair dismissal now applies to employees who have been employed for only 6 months instead of 2 years.

**Appendix 3**

Extracts from income statements (2015) for two businesses FF is considering taking over (\$000)

	Business A	Business B
Revenue	100	500
Cost of sales	50	125
Expenses	25	250

Business A has been operating for only two years but business B was set up 20 years ago. Both businesses take photographs at weddings. However, business A has also entered the growing market for photographs of families, children and pet animals.

FF will need to raise all the finance required to take over either of these businesses. The takeover of business A would cost \$250 000 and the takeover of business B would cost \$500 000.

**M/J 16/P21 (Diaz Dentist Clinic (DDC))**

Rosa and Eduardo are well qualified dentists. They set up DDC 10 years ago in country X. Rosa and Eduardo invested \$50 000 each from their own savings when they formed the business partnership. Since then the business has expanded and it is now one of the largest dentist clinics in the country. It employs 8 dentists, 10 assistants, 3 receptionists and a general manager for the clinic. However, in future they will only require 2 receptionists as they are purchasing a new computer system for the administration of the clinic. This computer system could be paid for by DDC taking out a bank loan.

DDC is in the private sector and only has patients (customers) who pay for their treatment. It has a good reputation for high quality treatment and patients pay high prices. Patients are given up to three months to pay for their treatment. There are also some dentist clinics in country X which are operated by the Government and provide free treatment for poor families.

DDC's premises are now too small. Each treatment room is very small and the dentists complain that there is not enough space to work properly. Rosa and Eduardo are planning to move the clinic to larger premises.

**Advertisement**

**DDC**

Where to find us:

Treatments (services) available:

- Teeth whitening
- Repair to tooth decay
- Teeth extraction
- Teeth cleaning

Note: There is no parking near DDC.

Note: The dots show the locations of competitor businesses.

**Appendix 1**

Main City News

1 May 2016

The Government is increasing the number of dentist clinics which will offer free treatment for poor families. Only people on low wages will be able to use these clinics. The Government hopes this will reduce the number of days people are not at work because of problems with their teeth.

The increase in the number of dentist clinics paid for by the Government is increasing the job vacancies for dentists and assistants. The Government is also improving hospital care for poor families. The Government says all of these changes are helping to reduce unemployment.

**Appendix 2**

Summary of the three receptionists employed at DDC

	Time employed at DDC	Qualifications and experience	Other interests
Receptionist 1 (age 50)	10 years	Receptionist qualifications	Charity work
Receptionist 2 (age 30)	1 year	No qualifications but lots of experience as a receptionist for other dentists	Plays football
Receptionist 3 (age 25)	4 years	No qualifications and only experience as a receptionist for DDC	Repairs computers at home

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**Appendix 3**

Cash flow forecast for DDC for the second half of 2016 (\$000)

	July	August	September	October	November	December
Cash inflows:						
Payments from patients	400	1000	2000	800	200	200
Cash outflows:						
Payments to suppliers	40	100	200	80	20	200
Wages	100	100	100	100	100	100
Rent	500	500	500	500	500	500
Other fixed costs	200	200	200	200	200	200
Total cash outflows	840	900	1000	880	820	1000
Net cash flow	(440)	100	X	(80)	(620)	(800)
Opening bank balance	1000	560	660	1660	1580	Y
Closing bank balance	W	660	1660	1580	960	Z

Note: Figures in brackets are negative.

**O/N 16/P22 (GJ Partnership)**

Ghaziz and Jasmin set up a gardening and house cleaning business as GJ Partnership (GJ) 5 years ago in country X. The business has grown each year. Ghaziz thinks this is because incomes are rising in country X and employment is increasing.

Jasmin thinks that GJ is successful because it employs workers who are honest, reliable and hardworking. Customers can book cleaners or gardeners directly with GJ and they always arrive on time and do their job well. However, Ghaziz thinks the success of the business is mainly because finances are managed well and the cash flow is always positive.

The business employs 50 part-time workers who all work 20 hours per week. They provide GJ's cleaning and gardening services. There are also 2 office workers who arrange for the cleaners and gardeners to do the work at customers' houses. GJ's services are advertised in the local newspaper. GJ charges prices similar to those of competitors.

Jasmin plans to start a new service which will look after elderly people. There are many elderly people who are left on their own during the day because their adult children are at work. Jasmin understands that getting the marketing mix right for the new service is going to be very important.

**Appendix 1****Summary of financial information for the two main services offered by GJ**

Number of cleaners employed	30
Average time spent in each house	3 hours
Price charged	\$10 per hour
Cleaners' wages	\$5 per hour
Weekly fixed costs of the business (50% for house cleaning and 50% for gardening)	\$300

Note: Assume one cleaner is used per house.

Break-even output for the gardening service = 5 gardens per week

Weekly profit for the gardening service = \$2250

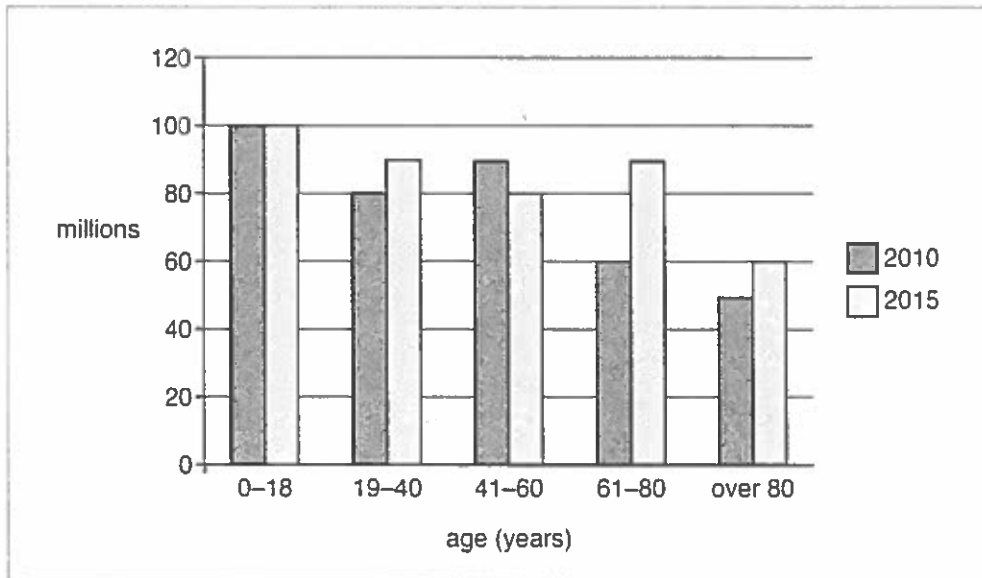
### Appendix 2

Main News

12 October 2016

The Government of country X plans to increase the rate of tax on services. This will help to slow down the rate of economic growth in the country. The Government is worried that rapid economic growth and increasing employment might lead to higher inflation.

**Appendix 3**  
Population statistics for country X in millions of people



### O/N 16/P21 (P & P Paint)

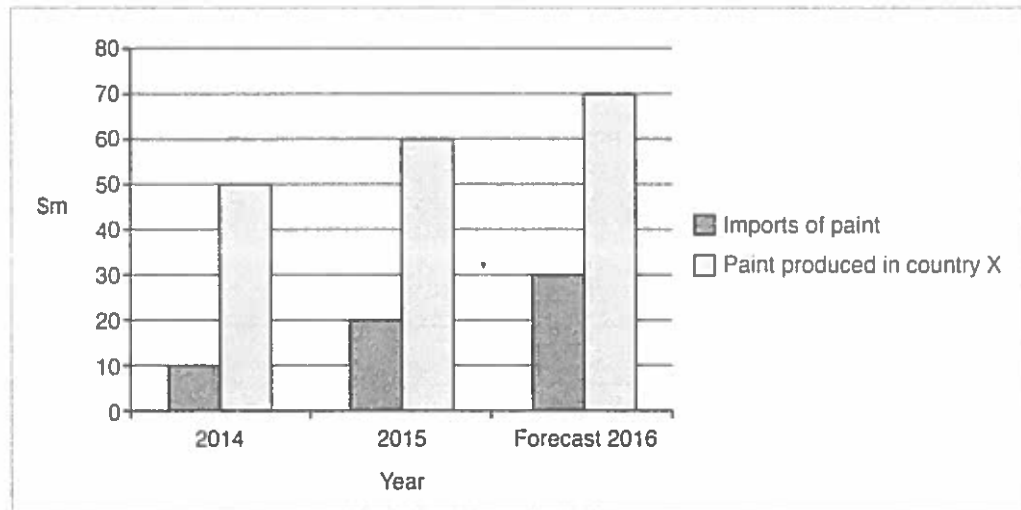
P & P is a large private limited company in country X. It has been in business for 15 years. It has one large factory near to the capital city. The factory is located next to a river that flows through the city.

Paint is produced from imported raw materials and then the tins (cans) of paint are sold to large shops in country X. Paint is produced using batch production for each type of paint. P & P employs 150 production workers in its factory and most employees live near to the factory. They are paid using time rate, they do not have any fringe benefits and are managed using an autocratic leadership style.

P & P has developed a new type of paint. It is waterproof and suitable for painting the outside of houses. It is about to be launched in country X. The target customers are professional painters and people who want to improve their own homes.

P & P plans to start selling paint in other countries in 2018. The directors will have to consider what changes the business will need to make if P & P is to expand by exporting its paint.

**Appendix 1**  
**Total market sales of paint in country X (\$m)**



**Appendix 2**

To: Managing Director  
 From: Operations manager  
 Date: 10 October 2016  
 Re: Increasing paint production

In answer to your queries we have the following two options:

**Option A**

We could produce 200 000 tins of paint per year in a new factory on the other side of the city. There are no houses near this site. The land could be bought for \$100 000. The factory building and machinery would cost \$50 000. We would need a bank loan for the whole amount and would pay an interest rate of 10% per year. We would also keep our existing factory open.

**Option B**

Extend the existing factory and lease additional machinery. This would cost \$75 000 to extend the factory. This machinery could be leased at an annual cost of \$10 000. We would still need a bank loan for the cost of extending the factory at an interest rate of 10% per year. With this option we could produce an additional 102 500 tins of paint per year.

**Appendix 3**

**Main News**

**16 October 2016**

The process of paint making at P & P results in a lot of dangerous waste being produced which is put into the river. The river is now very polluted as other factories put their waste into the river as well. All the fish have died and local people who used to fish in the river must now buy fish from their local market.

Local people are also worried that their children may become ill due to the pollution if they play in the river. Some people who live near P & P's factory have formed a pressure group to persuade the management to change the way they make paint. P & P is unlikely to change the production process as its factory is not the only one which puts waste into the river. P & P also employs a lot of local people and they worry about keeping their jobs.

It will cost P & P over \$5 000 per year to clean the waste before it is put into the river. Competitors which produce paint abroad do not have legal controls about cleaning waste products. The Government of country X will need to consider all these points when deciding whether or not to introduce new legal controls on pollution.



**M/J 17/P22 (Chocolicious Chocolates (CC))**

CC is a private limited company. It was set up 15 years ago in country X. It manufactures luxury chocolates with fillings made with high-quality ingredients. The different brands of luxury chocolates produced by CC are sold to specialist sweet (candy) shops. CC only uses high-quality imported ingredients.

The factory uses labour-intensive production techniques using batch production. CC has 100 production workers who are skilled at making hand-made chocolates. Most of the workers have been employed at CC since it started. New workers are trained using on-the-job training.

The directors want the company to expand and they are developing a new brand of chocolate bar called Fizz Bomm. The new chocolate bar is to be targeted at the mass market. Variable costs could be reduced by using lower quality ingredients. The directors will purchase a new automated production line to manufacture the new chocolate bars, as output is expected to be high. CC will need to borrow \$500 000.

**Appendix 1**

Main news

1 May 2017

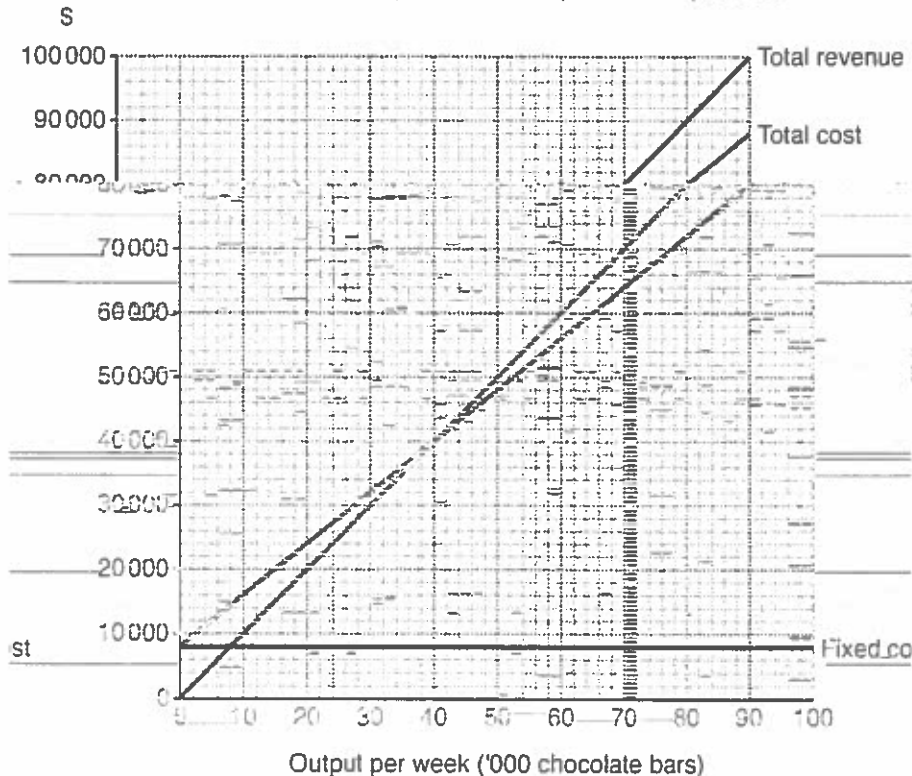
The Government is going to put a tariff on all imported goods from next month. It wants to increase demand for some products made in country X.

Many businesses in country X are unhappy about this decision as they think it will lead to higher costs. However, other businesses welcome this news and argue that a low exchange rate for the currency of country X has already led to a lot of problems.

**Appendix 2: Break-even chart for Fizz Bomm**

Variable cost = \$0.80 per chocolate bar.

Predicted sales = 100 000 chocolate bars per week at a price of \$1 per unit



**Appendix 3**

To: Managing Director  
From: Marketing manager  
Date: 1 May 2017  
Re: Fizz Bomm

The marketing mix for the new chocolate bar that is to be targeted at the mass market:

Price: Penetration pricing rather than competitive pricing. There are a lot of competitors in the mass market.

Promotion: Advertise in children's magazines and put discount coupons in the magazines. Competitors only advertise on television.

Place: We can sell through our existing distribution channel. Most of the competing chocolate bars are sold through wholesalers and supermarkets.

**M/J 17/P21 (T T-shirts (TT))**

TT is a private limited company set up 15 years ago in country P. It buys ready-made plain white T-shirts and then prints designs on them. The T-shirts are imported from country Q, a developing country. TT has 50 different designs that are produced in batches of various sizes, from child size to extra large adult size.

The T-shirts are sold to small retailers in country P. These retailers expect high quality products. The Marketing manager is considering changing the 'place' part of its marketing mix as she wants to increase sales of T-shirts.

The share capital invested to start up the company was \$2m. Shareholders' funds had increased to \$8m by 2015, but stayed at this level in 2016.


TT directors want to expand the company by exporting their T-shirts and are considering the following two options.

**Option A:**

Take over DesOwn, a competing company, which manufactures personalised T-shirts to the customers' own designs. This company only sells online and its brand is recognised worldwide. It has a large share of this global e-commerce market. TT will have to raise \$10m to buy out the existing shareholders. Some workers could be made redundant if departments in the new company are merged with those in TT.

**Option B:**

Invest in expanding its own production facilities by buying new computer-controlled equipment for \$500 000. This will allow an increase in the production of the existing range of T-shirts. TT could then sell directly to large retailers in other countries. However, they may have to use an agent or go into a joint venture to be successful.

**Appendix 1: Advertisement**


**T T-shirts**

- High quality material used
- Many designs available – lots of choice
- All sizes available – from child to extra large adult
- Buy T-shirts from small clothing retailers across the country

**Appendix 2****SMS (text) message from TT production employee to a friend**

Really unhappy at TT factory! – expected to do a lot of work on tasks I am not paid for – expected to advise customers on designs when I have no training on this – shouted at if I do anything wrong or do not make a lot of T-shirts each week – the Operations manager just tells me what to do and she never asks what I think. If I say anything then I am told to keep quiet. Really fed up and want to leave. ☹

I never know what is happening at the factory as information is only put on one noticeboard but that is in the other building!

**Appendix 3****TT financial information (\$m)**

	2015	2016
Revenue	10	15
Cost of sales	2	4
Expenses	7	9
Capital employed	10	14

**O/N 17/P22 (Garden Supplies (GS))**

GS is a partnership. It was set up last year by two brothers. The business grows plants and trees on land owned by the brothers in New City. The brothers each invested \$5000 of their own money to buy this land. Customers buy plants and trees from GS for their gardens. GS also cares for the gardens of several luxury hotels in New City.

The business employs 2 gardeners. However, GS has just gained new business contracts with other hotels in New City. This expansion will require another 4 gardeners to be recruited. The brothers must ensure that the gardeners maintain the good reputation of GS or the business will lose customers. The behaviour of the gardeners is as important as their quality of work.

New gardening equipment is required to ensure their employees can be efficient, such as when cutting grass or plants. This new equipment will cost \$10 000.  
GS has a high level of inventory. The brothers want to buy more land to expand the business. They are considering the following three sites.

**Site X:**

\$5000 for 10 000 m<sup>2</sup> of good fertile land. It has been used for growing vegetables. It has no buildings on the land and no road leading to it. It is 30 miles from New City.

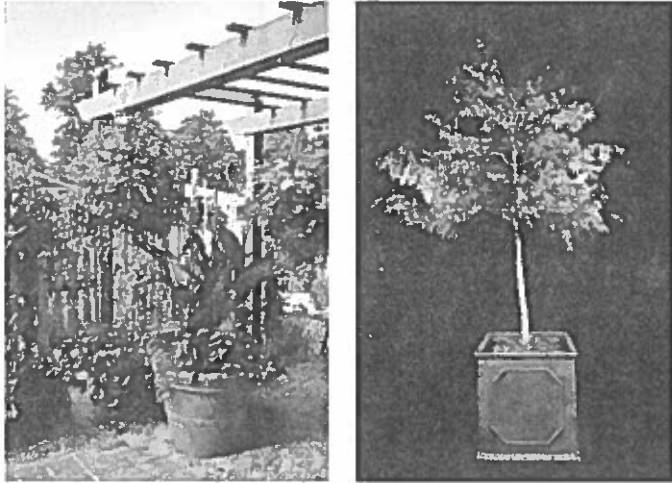
**Site Y:**

\$12 000 for 6000 m<sup>2</sup> of land on the edge of New City. There are two large glasshouses for growing plants. However, they need repairing which will cost another \$4000. There is a road nearby but it is not near a main road. It is 5 miles from the hotels.

**Site Z:**

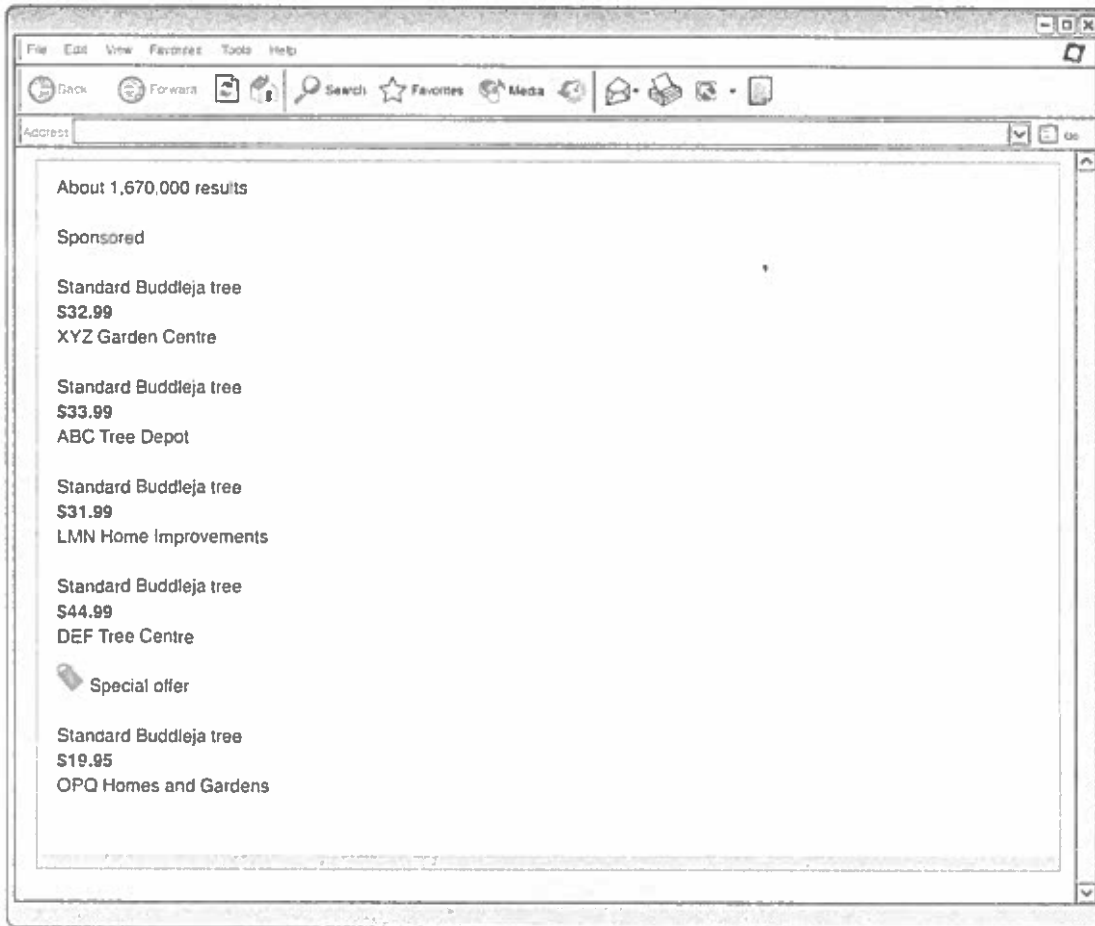
\$30 000 for 2000 m<sup>2</sup> in New City. It has a glasshouse and also has a shop with a car park. It is next to a main road. There are houses all around it, so there is no room to expand the business.

**Appendix 1  
Advert for GS**



The finest quality plants money can buy anywhere in the world. We sell plants and trees at the lowest prices available. GS will deliver free of charge. We will also make containers of plants to your own orders with plants and colours of your choice.

**Appendix 2**  
**Internet search by the brothers on competitors' prices for one type of tree**



**Appendix 3**  
**GS: financial information for the first year of trading (\$)**

Revenue from selling plants and trees	40 000
Revenue from hotels	20 000
Cost of materials (e.g. seeds and pots)	10 000
Labour costs	35 000
Transport	8 000
Other expenses	2 000

**Financial information for similar garden businesses**

Average gross profit margin	= 90%
Average profit margin	= 20%
Average profit per year	= \$30 000

**O/N 17/P21 Animal Hotel (AH)**

AH was a business idea of Elsie's. She loves animals and wanted to provide services to support busy animal owners. Services offered include washing, brushing, exercising and caring for animals overnight. Elsie is a qualified animal nurse. She set up her own business 2 years ago with \$10 000 given by her grandfather and a bank loan for \$10 000. The business is located in the centre of New City.

Elsie employs 12 adults and 6 children to help look after the cats, dogs and other animals. The adult workers are low skilled and are paid the legal minimum wage. The children are all under the age of 12 and are paid very low wages, which are below the legal minimum wage. Materials such as shampoo and brushes are purchased from a local wholesaler.

Elsie has been very successful in the first two years of trading. If she wants to expand the business she will need to move to a bigger site and employ many more people. Elsie will need to recruit a manager for the new site.

She is considering the following three sites.

	Site X	Site Y	Site Z
Size of site	10000m <sup>2</sup>	5000m <sup>2</sup>	1000m <sup>2</sup>
Buildings	Small farm buildings in need of repair at a cost of \$10000. There is space to expand	All in good condition. They will need change for use with animals, at a cost of \$5000.	Ready for used with animals and in good condition. No spending required
Distance from New City	10 miles and not near main road	Edge of New City near main road	Centre of New City on main road
Cost of site	\$10000	\$20000	\$60000
Maximum number of animals that AH can care for overnight	20	40	120
Maximum number of animals that can be washed and brushed per day	20	30	50

#### Appendix 1 Advert for Animal Hotel (AH)

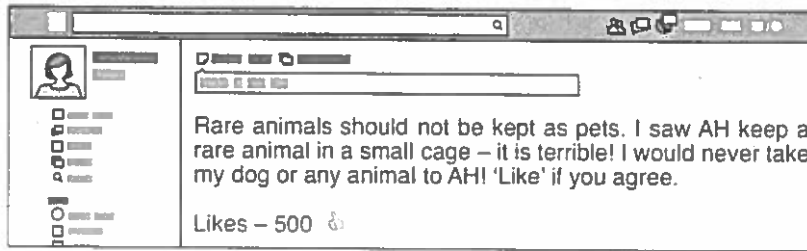


All animals washed and brushed and cared for overnight when you are away from home.



Animal training and advice given.

Need your animal looking after when you are at work? AH provides a happy place for your animal to spend the day! Your animal is worth it!!

**Appendix 2****Social media message from customer of AH****Appendix 3****Selected financial information for AH**

Average price per night per animal	\$5
Average number of animals cared for overnight	25
Average price for washing and brushing an animal	\$10
Average number of animals per day	25
Total costs of operating AH per day	\$325

**M/J 18/P22 (Downtown Hotel (DH))**

Downtown Hotel (DH) is small hotel with 39 employees. It is a private limited company set up by Hilda 9 years ago in country X. Hilda owns 80% of the shares and the capital employed in the business is \$100 000. It has been very successful with profit increasing each year. The demand for hotel accommodation in country X is also growing.

DH is located next to the beach in Downtown. Half of the hotel rooms are booked for 6 months of the year and all the rooms are booked for 4 months of the year. DH is empty for the remaining 2 months as the weather is very bad. Most of the guests that stay at the hotel are tourists from country X on coach (bus) tours. Hilda thinks she needs to attract hotel guests all year round.

A lot of litter is left on the beach next to the hotel and Hilda does not think she should pay to keep it clean. Local people also use the beach and it can be very busy, leading to hotel guests complaining about overcrowding and the amount of litter such as empty drinks bottles.

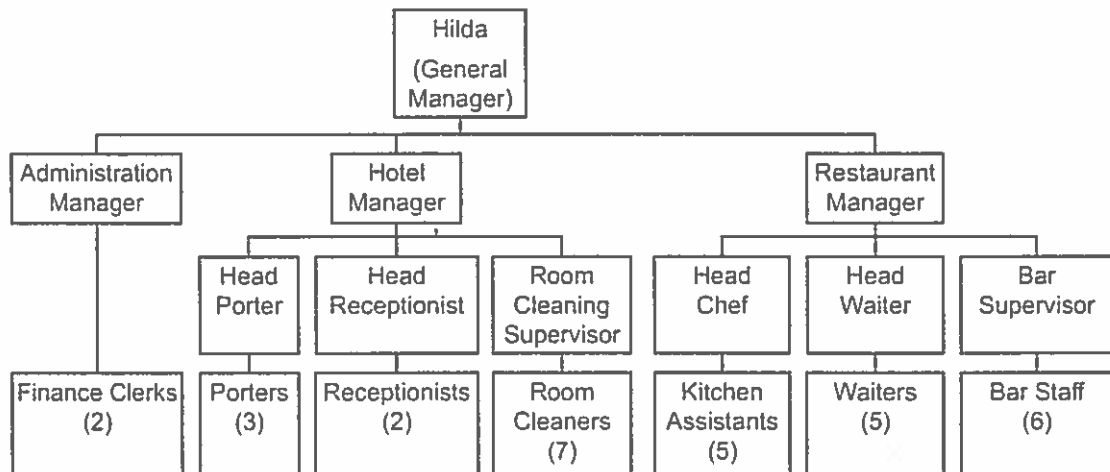
Hilda wants to expand the company by taking over another hotel. There are two hotels nearby that are for sale: ABC Hotel and XYZ Hotel.

*ABC Hotel*

This has been owned by a local family for over 30 years. It has not been redecorated for many years and needs updating if it is to attract tourists from other countries. The estimated cost of updating the hotel is \$50 000. The hotel is for sale at a price of \$100 000 as it is in a good location on the beach.

*XYZ Hotel*

This is a modern hotel and has recently been redecorated to a high standard. The hotel is located in the centre of Main City which is 50 km from Downtown. It is near to restaurants, a train station and the airport. It is for sale at a price of \$200 000. Technology is widely used in the hotel such as a computer based booking system and electronic key cards to access rooms and elevators.

**Appendix 1****Organisation chart for Downtown Hotel****Appendix 2****Summary of financial information on the two hotels**

	ABC Hotel	XYZ Hotel
Non-current assets	\$80 000	\$150 000
Current ratio	3	1
Acid test ratio	2	0.5

**Appendix 3**

From: Hilda  
To: Hotel Manager

I want to attract customers from abroad but none of our employees speak foreign languages. We should set up our own hotel website so that customers from country X and other countries can easily make bookings at the hotel. This would help to increase demand for our hotel rooms at a time when fewer people are demanding coach (bus) holidays.

Guests from other countries expect additional facilities such as a gym and swimming pool but these are expensive. We could encourage local people to use the hotel by adding a café with access to the hotel facilities and encourage weekend breaks at discount prices during quieter times of the year.

**M/J 18/P21 (Value Gym (VG))**

Peter is a qualified fitness instructor. He used to work at a luxury gym in country X. Customers of this luxury gym pay a high monthly membership fee no matter how many times they visit. There are no additional fees.

Peter enjoys helping people get fit and lose weight and he enjoys teaching exercise classes. Peter wanted to help more people to get fit or build up their muscles so he decided to set up his own gym. Peter thought there was a demand for low priced gyms that allowed people to pay each time they used it rather than pay a high monthly fee. So he left his job and set up his own gym in a low income part of the city. Peter named his business Value Gym (VG) and opened it three months ago. Peter needed a large bank loan to help him set up his gym as he only had \$5 000 of his own money. He is a sole trader. He prepared a business plan to show the bank manager. VG has been very successful and Peter is expecting to make a profit by the end of his first year as an entrepreneur. However, he still wants to attract more customers to the gym. He knows that marketing will be very important if his business is to expand.

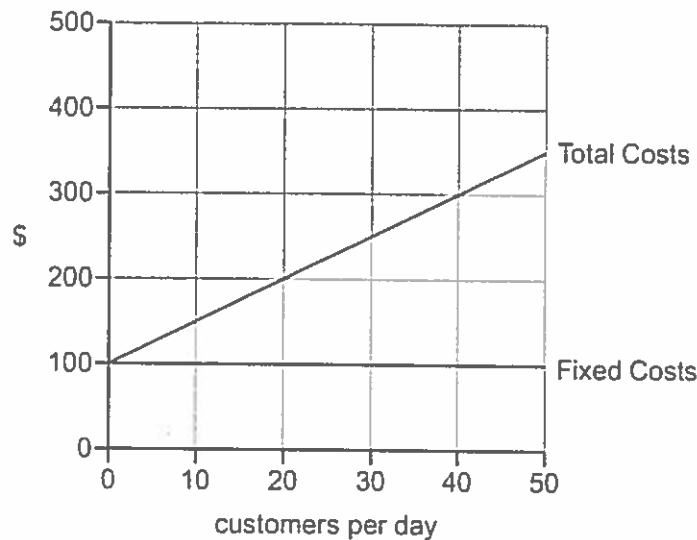


Peter has estimated that VG will soon need 4 personal trainers to work in the gym. Peter has not decided whether to employ these personal trainers or to allow personal trainers who work for themselves to use VG's facilities for a fee. The gym is open from 0600 until 2200, 7 days a week. Customers pay for each day they use the gym. In addition customers can pay for a personal trainer if they want individual tuition.

**Appendix 1**



**Appendix 2**  
**Break-even chart for VG**



Variable costs per customer = \$5  
 Price per day to use the gym = \$10  
 Maximum capacity of the gym = 50 customers per day

**Appendix 3**

City News  
**Demand for gyms is expected to increase**

April 2018

The government of country X is worried about the increasing health problems of the population. It wants more people to lose weight and get fit. This could make employees more productive and increase output for the businesses where they work.

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A government grant is being given to anyone who owns a gym and has more than 20 customers a day. It is planned that the grants will be used to encourage more people to use a gym and get fit.

There is expected to be an increase in demand for personal trainers, especially to work in the evening. They will need to have qualifications in personal training to meet the health and safety regulations for working in a gym. Most personal trainers are paid the minimum wage. However it is expected that their wages will have to increase, as there will be a shortage of personal trainers until more people can gain qualifications in personal training.

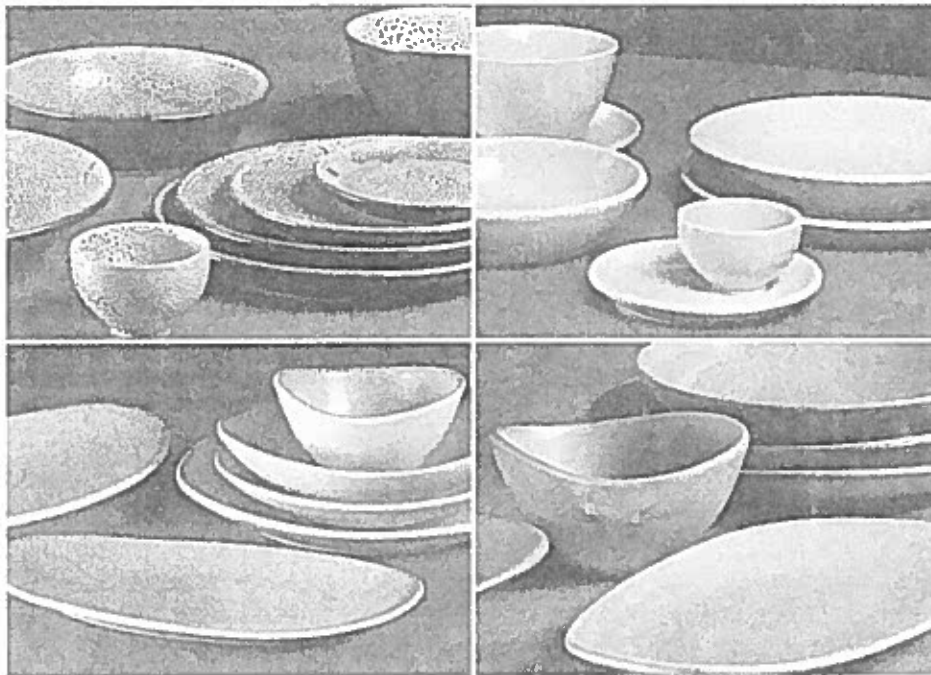
### O/N 18/P22 (Perfect Pottery (PP))

PP is a manufacturing business that produces pottery products such as vases, plates, cups, bowls, teapots and coffee pots. Peter Chan is the Managing Director. Peter's father started the company 30 years ago in country X. PP is a private limited company. It has grown by issuing more shares to family members rather than borrowing money.

The factory is located in an area close to where the raw materials used to be available. However, now the raw materials have run out and the materials need to be bought from suppliers in other parts of country X.

Peter wants to expand PP by selling products in other countries, particularly country Z. He thinks there is a lot of potential demand for pottery products that could be used for serving different types of food in country Z. He needs to research this market before deciding whether to expand into country Z.

PP only employs skilled workers in the factory. It uses job production to make traditional designs of vases and other pottery products. There is a factory shop that sells faulty products for 50% less than the normal selling price.



Appendix 1

Main News

5 October 2018

Country Z enters the boom stage of the business cycle

Country Z has high rates of economic growth and falling unemployment. Many of the large retailers in country Z are reporting increasing sales especially of pottery products. Country Z's pottery producers are experiencing increased competition and consumers are benefiting from more choice and lower prices. Some multinational companies are planning to locate in country Z to take advantage of this growing market.

## Appendix 2

### Email

Email

To: Peter Chan

From: Marketing manager

Date: 2 October 2018

Re: You are doing too much!

Hi Peter - I think you should stop trying to do everything in the factory. The new Operations manager will get upset and feel she is not trusted to do her job correctly. She has only just been recruited from our competitor and she has lots of good ideas of how to improve efficiency and quality. We produce too many faulty items and this problem needs to be solved. The quality method we are currently using is not effective and we need to change.

Perhaps you should just concentrate on your main roles and leave the rest of the tasks to others in the company. There are major decisions to make about the expansion of the company and the sale of our products to other countries such as country Z. You need to be fully focused on those if we are to be competitive and successful.

## Appendix 3

### Summary of financial information for 2018 on PP and a main competitor of PP

	PP	Competitor of PP
Revenue	\$30m	\$20m
Cost of sales	\$8m	\$4m
Expenses	\$15m	\$12m
Profit margin	23%	20%
Acid test ratio	1	1.5

## O/N 18/P21 Guardian Toys (GT)

GT is a public limited company. It was set up 50 years ago in country Y. Shareholders were the main source of capital when the business expanded but bank loans have also been used. The company has recently allowed its employees to join a trade union which will have an effect on GT and its employees.

The company manufactures a range of toys for babies and young children below school age. These toys are sold to large toy shops throughout country Y and in other countries. However, the Marketing manager wants to develop online sales. He thinks GT's toys should only be sold using e-commerce, not through retailers. This will help prevent any communication barriers.

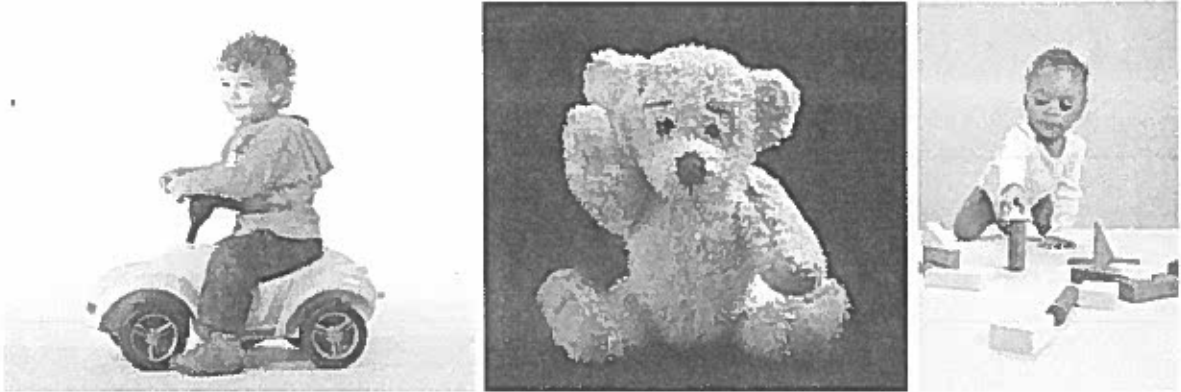
The Operations manager thinks that GT needs to reduce average costs to remain competitive in the global market. GT uses batch production to manufacture all the many designs of toys it sells. The Operations manager also thinks that the development of new toys should be changed for the different markets in other countries. Each market needs something different to make the toys a success.

GT buys from suppliers in country Y that it has dealt with for many years. GT uses just-in-time inventory control. The design of the toys has not been changed for a number of years. Sales have fallen over the past 12 months. Prices were increased last year to maintain profit margins.

The Human Resources (HR) manager is worried about low levels of worker motivation and the time taken to negotiate a new wage agreement for the production workers.

### Appendix 1

#### Advertisement for GT



GT - your specialist quality toys. The greatest care goes into the design of each and every one of our many toys. The education and safety of your child are our main priorities. Our toys are available from all good toy shops at competitive prices.

### Appendix 2

#### Email

To: Marketing manager

From: Operations manager

Date: 1 September 2018

Re: Need to cut costs

As discussed at our last meeting, we need to cut the average cost of making each toy. We could choose cheaper suppliers but this may mean we have to buy from suppliers in other countries. We could change the design of the toys so that we use fewer components (parts) when making the toys.

We have tried to do this with our toy car. We can reduce the number of components from 50 to 40 if we make the main car body out of one piece of plastic rather than several pieces. We could look at many of our other products to see if this is possible. We must be careful that it does not make the toys less attractive to customers.

**Appendix 3**  
**Financial and other information for GT and a main competitor**

	<b>GT</b>	<b>Main competitor</b>
Annual revenue for latest financial year	\$20m	\$25m
Increase in sales from previous Year	2%	5%
Cost of sales for latest financial Year	\$5m	\$3m
Profit margin	10%	20%
Change in profit margin from previous year	Lower	Higher
Current ratio	1.5	2.5
Acid test ratio	1	2
Number of different designs of toys	200	100

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# PAST PAPER

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A Level  
Business  
Topical Paper-2

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## Topical Yearly

May/June 2019 P-22



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**May/June 2019 Paper 22**

1 (a) Identify and explain one advantage and one disadvantage to WA of developing new products. **[8]**

Advantage: .....

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Explanation: .....

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Disadvantage: .....

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Explanation: .....

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(b) Consider the following three possible business objectives for WA. Which objective is likely to be most important to WA in the long run? Justify your answer. **[12]**

Be an environmentally friendly business: .....

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Increase market share: .....

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Survival: .....

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Conclusion: .....

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2 (a) Identify and explain two examples of tertiary sector businesses that help WA to be successful. **[8]**

Example 1: .....

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Explanation: .....

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Example 2: .....

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Explanation: .....

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(b) Consider the following two ways WA could increase productivity. Recommend which would be the best way to choose to increase profit. Justify your answer. **[12]**

Use computers in manufacturing and design: .....

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**(b)** Consider the following three ways WA could use to increase employee motivation. Recommend which way WA should choose. Justify your answer. **[12]**

Introduce piece rate: .....

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Give shares in WA to employees: .....

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Introduce job rotation: .....

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Recommendation: .....

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**4 (a)** Calculate:  
**(i)** The total cost per month of producing 100 items of furniture. **[2]**

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Conclusion: .....

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**Answer Sections**

- 1 (a) Knowledge – award one mark for each relevant advantage / disadvantage  
 Analysis – award one mark for a relevant explanation for each advantage / disadvantage  
 Application – award two application marks for each advantage / disadvantage

Answers are likely to include:

Advantage	<ul style="list-style-type: none"> <li>• New markets</li> <li>• Maintains image for fashionable designs</li> <li>• Remains competitive</li> <li>• Expansion</li> <li>• Wider range of products / diversification / spreading risk</li> <li>• Attract more customers / increase sales</li> </ul>
Disadvantage	<ul style="list-style-type: none"> <li>• New products might fail</li> <li>• May not be demanded if not liked by consumers</li> <li>• Increased costs – for example development costs / marketing / advertising / market research / storage or warehouse costs / wasted raw materials during development / training labour in new skills</li> <li>• Higher prices needed to recoup development costs</li> </ul>

Indicative response:

WA will remain competitive (k) by ensuring the furniture is fashionable (ap).  
 This will increase demand or at least maintain demand for its furniture (an) and may result in profit increasing again (ap).

Possible application marks:

Family owned ltd company; small business; started 10 years ago; furniture; wood from sustainable forests; uses batch production to make furniture; new fashionable designs each year; selling price \$200; environmentally friendly business objective; reduced profit in 2018; chairs / tables

- (b) Relevant points might include:

	Advantages	Disadvantages
Be an environmentally friendly business	<ul style="list-style-type: none"> <li>• Improved brand image – may attract ethical customers – increase sales</li> <li>• Less likely to break government regulations on environmental damage</li> <li>• Employees may prefer to work for an ethical business</li> <li>• Avoids WA having to deal with pressure groups</li> </ul>	<ul style="list-style-type: none"> <li>• May have a higher cost – higher price for furniture</li> <li>• Less competitive especially if competitors do not use sustainable wood</li> </ul>
Increase market share	<ul style="list-style-type: none"> <li>• Increase sales – higher revenue and profit</li> <li>• More dominant in the market – more influence on price</li> </ul>	<ul style="list-style-type: none"> <li>• Increased cost of marketing</li> <li>• Marketing costs may be higher than improvement in sales and revenue</li> <li>• Increase in WA sales may not increase market</li> </ul>

		share if market is growing at the same rate
Survival	<ul style="list-style-type: none"> <li>• Avoids making a loss – costs are covered</li> <li>• Easier to achieve than other objectives – just needs to aim to breakeven</li> <li>• Protects family investment</li> </ul>	<ul style="list-style-type: none"> <li>• Long term not good as low / no retained profit this is usually a short-term objective</li> <li>• May need to borrow externally if low profit</li> </ul>

Award up to 10 marks using the levels-based mark scheme below.

	Knowledge / Analysis / Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which is the most important and why the other objectives will be less important in the long run. 7–8 marks for some limited judgement shown in conclusion as to which objective will be most important in the long run.
Level 2	4–6 marks Detailed discussion of the advantages and/or disadvantages of each objective.
Level 1	1–3 marks Outline of the advantages and/or disadvantages of each objective.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Improved brand image if aim to be environmentally friendly

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Improved brand image if aim is to be environmentally friendly and this may attract an increased number of customers who are concerned about environmental damage and want to support ethical businesses. However, this might be more expensive, for example when buying the wood and so prices may have to be increased. (L2 plus application for mentioning buying wood)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of which objective will be most important in the long run.

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

**Possible application marks:**

Family owned ltd company; small business; started 10 years ago; furniture; wood from sustainable forests; new fashionable designs each year; individually designed furniture produced using job production; selling price \$200 and \$250 per item; ethical business objective; reduced profit in 2018; chairs / tables; high cost of wood; uses cost-plus pricing; WA price is higher than competitors, 10% market share  
There may be other examples in context that have not been included here

- 2 (a) Knowledge – award one mark for identifying an example of a tertiary sector business  
Analysis– award one mark for a relevant explanation of how the tertiary sector business helps WA be successful  
Application – award two application marks for explaining in context how the tertiary sector business helps WA to be successful

Answers are likely to include:

- Bank
- Insurance
- Advertising agency
- Transport services
- Communication e.g. mobile phone networks, internet providers
- IT services
- Retailer / wholesaler e.g. furniture retailer

- Training companies

Indicative response:

Transport services (k) that delivers furniture to customers (ap). This saves WA having to purchase its own vehicles to deliver tables and chairs (ap) and so saves WA the expense of delivery vehicles when they would not be used all the time (an).

**Possible application marks:**

Family owned ltd; small business; started 10 years ago; furniture; wood from sustainable forests; new fashionable designs each year; individually designed furniture produced; chairs / tables; reduced profit in 2018.

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

**(b) Relevant points might include:**

	Advantages	Disadvantages
Use computers in manufacturing and design	<ul style="list-style-type: none"> <li>• Less labour required – lower labour costs</li> <li>• Increased output – at a faster pace</li> <li>• Possibly improved quality – less mistakes from human error</li> <li>• Improved designs – less waste producing new models</li> </ul>	<ul style="list-style-type: none"> <li>• High cost of computers</li> <li>• Cost of redundancy payments for workers</li> <li>• Disruption while new computers are installed</li> <li>• Increased training costs for workforce to use new equipment</li> <li>• May need to recruit workers with new skills</li> </ul>
Improving employees skills	<ul style="list-style-type: none"> <li>• Makes workers more efficient – lower unit costs</li> <li>• Increased motivation as employees feel valued</li> <li>• Increased output may be higher than increased wage costs – lower unit costs</li> </ul>	<ul style="list-style-type: none"> <li>• Higher cost for training</li> <li>• May need to be off-the job training or may cause interruption to production of the Products</li> <li>• Workers may demand higher wages as now more skilled</li> <li>• Employees may then find new jobs elsewhere as they have more skills</li> </ul>

Award up to 10 marks using the levels-based mark scheme below.

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

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Use of computers may lead to fewer workers required so saves wage costs.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Use of computers may lead to fewer workers required so saves wage costs and this reduces total costs so may help to



increase profit. However, workers will need to be made redundant and this will cost money in redundancy payments. (L2)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which would be the best way to increase productivity in order to increase profit.

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

**Possible application marks:**  
Family owned ltd company; small business; started 10 years ago; furniture; wood from sustainable forests; uses batch production to make furniture; individually designed furniture produced using job production; environmentally friendly business objective; reduced profit in 2018; \$4000 wage cost; 20 workers; 10% above minimum wage; selling price \$200 and \$250; highly skilled production workers.  
There may be other examples in context that have not been included here.

- 3 (a) Knowledge – award one mark for identifying a relevant stakeholder group  
Analysis – award one mark for a relevant explanation how each stakeholder group will be affected  
Application – award two application marks for explaining in context how each stakeholder group will be affected

Answers are likely to include:

Shareholder / Directors / Owners / Family	<ul style="list-style-type: none"> <li>• Lower dividend likely to be paid – lower return on their investment</li> <li>• Need to change business objectives to try to increase profit again – may require further investment – changes to the way the company is operated</li> </ul>
Employees OR accept workers and managers as separate stakeholders	<ul style="list-style-type: none"> <li>• Less likely to be given a wage increase – less motivated</li> <li>• May have to accept a reduction in wage rates or longer hours for same pay</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>• Asked to reduce price of wood – less wood purchased</li> <li>• Slower to get paid for wood supplied – worse cash flow</li> </ul>

Accept other stakeholder groups e.g. customers, competitors, government, bank, local community.

Indicative response:

Supplier (k) that sells wood to WA to make the furniture (ap) may not be paid as quickly if the profit is lower (an). Supplier may have to lower the price of its wood to help WA reduce its costs (ap).

**Possible application marks:**  
Family owned ltd company; small business; started 10 years ago; furniture; wood from sustainable forests; selling price \$200 and \$250 per item; environmentally friendly business objective; 2 brothers and a sister; 20 employees; 10% above minimum wage.  
There may be other examples in context that have not been included here.

**Note – Do NOT reward reduction in profit as application because this is in the question.**

- (b) Relevant points might include:

Introduce piece Rate	<ul style="list-style-type: none"> <li>• Taylor’s theory – money motivates</li> <li>• Increases pay – by rewards for producing a higher output</li> </ul> <p>However</p>
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	<ul style="list-style-type: none"> <li>Wage costs may increase</li> <li>Quality might be reduced if rush to produce more output</li> <li>Less likely to be applicable to office staff and so may not be fair</li> </ul>
Give shares to WA employees	<ul style="list-style-type: none"> <li>Employees now receive payment from dividends</li> <li>Increased rewards from higher output / profit</li> <li>Maslow – increased sense of belonging</li> </ul> <p>However</p> <ul style="list-style-type: none"> <li>Existing shareholders of this private limited company will lose some control</li> <li>May lead to reduced dividends per share or less retained profit</li> <li>Shares may not easily be sold (Ltd) – workers may prefer cash to shares</li> </ul>
Introduce job rotation	<ul style="list-style-type: none"> <li>Makes the work more interesting / less boring</li> <li>Change tasks performing regularly</li> </ul> <p>However</p> <ul style="list-style-type: none"> <li>Increases training requirements as each worker currently only performs one task</li> <li>Quality may be lower if less specialised in tasks</li> <li>May mean sometimes a worker does a job not liked</li> <li>May only be motivating in the short term until the worker gets used to the new tasks</li> </ul>

Award up to 10 marks using the level levels-based mark scheme below.

	Knowledge / Analysis / Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation of which way to choose to increase employee motivation and why it is more important than the other ways. 7–8 marks for limited recommendation of which way it should choose to increase employee motivation.
Level 2	4–6 marks Detailed discussion of each way to increase motivation
Level 1	1–3 marks Outline of each way to increase motivation

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Job rotation makes the work more interesting.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Job rotation makes the work more interesting as the workers change round the jobs regularly and therefore are less likely to get bored. This increases the motivation of the worker but they are less specialised and therefore may not perform each task as well as if they only performed the one task so quality may be lower (L2).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which way should be chosen to increase employee motivation.

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

Possible application marks:

Family owned ltd company; small business; started 10 years ago; furniture; uses batch production to make furniture; each skilled worker only performs one task; individually designed furniture produced using job production; environmentally friendly business

objective; reduced profit in 2018; 10% above minimum wage; 20 workers; tables / chairs; paid an hourly wage rate.  
There may be other examples in context that have not been included here.

- 4 (a) (i) Award 1 mark for correct costs and 1 mark for correct answer  
 $\$10\,000 + \$1\,200 + \$800 + \$4\,000 (1) = \$16\,000 (1)$   
**Note – if answer is only \$16 000 with no working then award 2 marks**
- (ii) Award 1 mark for correct figures used and 1 mark for correct answer  
 $\$16\,000 / 100 (1) = \$160$  per item of furniture (1)  
**Note – If answer is only \$160 with no working then award 2 marks**
- (iii) Award 1 mark per point:  
 Total cost will increase due to increase in variable costs (1) – as more wood will need to be purchased (1)  
 $TC = \$26\,000 / \text{increased by } \$10\,000 (1)$   
 Average cost will fall (1) – as the fixed costs will not change (1) – which means the fixed costs are spread over a larger output. (1)  
 $AC = \$130$  per item of furniture / decreased by \$30 (1)  
 Total cost will increase whilst average cost will fall (1)  
 (Apply OFR)  
**Note – 4 marks can be awarded even if no figures are included.**
- (b) **Relevant points might include:**

Introduction of new cost to businesses of \$50 per tonne for removing waste	<ul style="list-style-type: none"> <li>Increased cost of removing waste – higher prices – less demand for furniture – lower profit</li> <li>Applies to all businesses so not less competitive – if reduce waste produced then may be more competitive</li> </ul>
Increase in legal minimum wage by 5%	<ul style="list-style-type: none"> <li>No effect as already paid 10% above minimum wage</li> <li>Increased wage costs – to keep pay differential – increased total cost – lower profit</li> <li>Increased income – increased demand for furniture – higher sales and profit</li> <li>May increase motivation if increase in wage rates for employees</li> </ul>
Increase in tax on incomes	<ul style="list-style-type: none"> <li>Lower incomes as pay after tax will be lower – lower demand – lower sales of furniture</li> <li>WA furniture is higher quality so may not have much effect on sales</li> <li>Workers may demand higher wages to compensate for loss of disposable income</li> </ul>

(b) **Award up to 10 marks using the levels-based mark scheme below**

	Knowledge / Analysis / Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which change will have the greatest effect on WA rather than the other two changes. 7–8 marks for limited justified conclusion as to which change will have the greatest effect on WA.
Level 2	4–6 marks Discussion of the impact of the changes on WA.
Level 1	1–3 marks Outline of impact of changes on WA.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Increased amount to pay to get rid of waste will raise costs.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Increased amount to pay to get rid

of waste will raise costs and WA may need to increase the price of its furniture. Higher prices may deter customers and so sales and possibly profit will fall. (L2 plus application for referring to furniture in the answer)

Level 3 – For L3 to be awarded there needs to be at least two level 2 marks awarded and then a conclusion as to which change will have the biggest impact on WA.

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

**Possible application marks:**

Family owned ltd company; small business; started 10 years ago; furniture; new fashionable designs each year; individually designed furniture produced using job production; selling price \$200 and \$250 per item; environmentally friendly business objective; reduced profit in 2018; tables / chairs; paid 10% above minimum wage; WA prices are higher than competitors.

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

**Case Study-Extracts 2019****May/June 2019 Paper-22 Wood Additions (WA)**

WA is a small private limited company that makes high-quality wooden furniture. It was started 10 years ago by the Singh family. Two brothers and one sister are the only shareholders and they are also the directors of the company. They carry out all the management functions in the business and there are two office workers to support them. As WA is a small business it buys in services from other businesses such as transport companies.

WA makes many different designs of wooden furniture. WA only buys wood from forests that use sustainable methods so that new trees are planted when others are cut down. The cost of this wood is high but the directors think that this cost is justified as WA aims to be environmentally friendly.

WA employs 20 highly skilled production workers in the factory. Each worker specialises in one task. All employees in the factory and the office are paid an hourly wage that is 10% above the legal minimum wage.

WA uses batch production for most furniture designs with machinery that was purchased when the business was started. WA uses cost-plus pricing and has an average selling price of \$200 per item of furniture. This price is higher than many of its competitors. Each year WA introduces new designs of furniture. In 2018, WA's profit fell and the directors are worried about this. The directors want to increase productivity as a way to improve profit. The Operations Director is considering purchasing computer-controlled machines.

Individual furniture designs, when requested by a customer, are made using job production. These items of furniture have an average selling price of \$250. Each item takes twice as long to make as the furniture made by batch production.

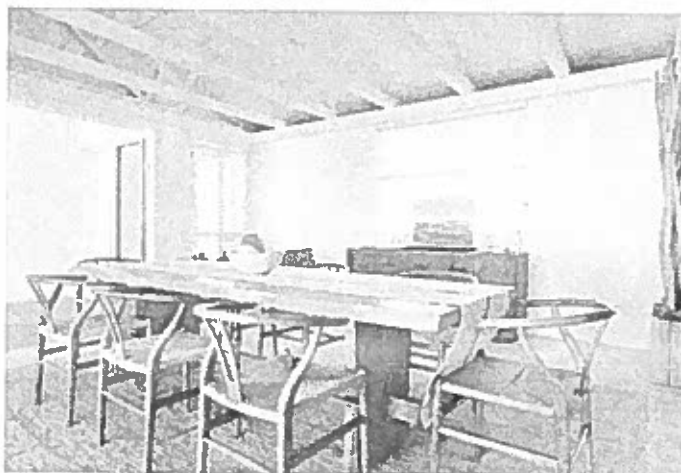
**Appendix 1****Advertisement for WA furniture**

**All our furniture is up to date and modern.**

**Buy WA furniture and be the envy of your friends.**

Special promotion – buy two pieces of furniture and get a third one for half price.

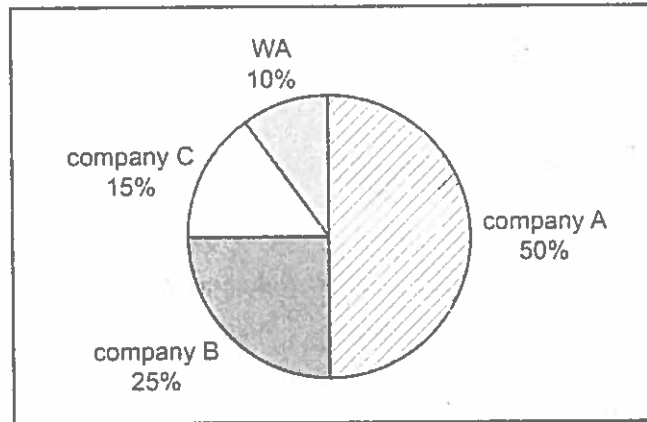
Sign up to our list of satisfied customers and receive information and discounts on our new range of furniture.



Director's  
J 492321-100576

## Appendix 2

## Market share of furniture manufacturers in 2018



## Appendix 3

## 2018 cost information for WA

	\$
Average cost of wood per item of furniture	100
Rent of factory per month	1200
Other expenses per month	800
Wage costs per month	4000
Average number of items of furniture produced per month	100