

Section 1: Understanding business activity

Chapter 1: Business activity and economic sectors

Answers to activities

Activity 1.1

- a $\$1.50 - \$0.50 = \text{Value added of } \$1$
- b $\$2.00 - \$0.50 = \text{Value added of } \$1.50$ (assuming no increase in costs)
- c No, it might not increase profit, especially in the first few months of opening. The additional costs of operating the cafe might be greater than the extra revenue from the sale of coffee, cakes etc. Perhaps later, when the cafe becomes well known and if it has a good reputation, revenue will start to be greater than total costs of operating it, especially as the same building is being used.

Activity 1.2

- Insurance – Tertiary
- Forestry – Primary
- Lithium mining – Primary
- Electronic equipment assembly – Secondary
- Airline – Tertiary
- Bakery – Secondary
- House builder – Secondary

Activity 1.3

- Health: Better healthcare; equal treatment for rich and poor; improved health of the population
- Education: Improved education levels for whole population; better educated and more skilled workforce; equal education for rich and poor
- Defence: Avoid private armies; ensure adequate national defence; ensure whole population protected, not just those with own weapons
- Public transport: Make transport available to all, including those who cannot afford a car; reduce pollution by discouraging car use; avoid exploitation of people who need transport by profit-seeking businesses
- Water supply: Essential resource that should be available to all; keep water standards high; avoid exploitation by private companies that own water resources
- Electricity supply: Very costly to set up and private businesses might not be able to afford it; make electricity available to all; avoid exploitation by privately owned monopoly businesses.

Activity 1.4

Student's own answer.

Activity 1.5

The written answer could include:

- Private sector businesses – owned and controlled by private individuals. Public sector businesses – owned and controlled by government or state.
- Profit seeking businesses will invest capital in improving the service to increase profits; the privately owned businesses will aim to make the business as efficient as possible to reduce costs and increase profit.
- Privately owned postal services might not deliver to distant houses and businesses as the costs would be too great; prices of postal services might be high, especially if a private business has a monopoly with no competition.
- Yes: It is an essential public service and private businesses will operate it only for a profit which could mean not delivering to all areas or cutting jobs to save costs.
No: Public sector businesses are not motivated by profit so it might be operated inefficiently. This could lead to higher costs and higher postal prices or use of tax revenue to keep the business going.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Goods are tangible products made by a business [1] to be sold to customers [1].
- b** Transport companies [1] that deliver the parts produced to car manufacturers [App].
Banks [1]: AEC will deposit payments from customers into its bank account and pay suppliers from its bank account [App].
Other relevant answers possible.

1 mark for each relevant example of a tertiary sector business (maximum of 2 marks).

1 App mark for each development that includes reference to this business (maximum of 2 marks).

- c** Reason 1: Increasing added value is important so that prices can be increased/customers will pay more [1] for car parts [App] so that revenue can be increased [1].
Reason 2: Increasing added value can make the business more competitive [1] when selling to other countries [App], increasing market share [1].

1 mark for each relevant reason (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the reasons (maximum 2 marks).

- d** Ensure the business has a good reputation for quality products – this will mean it can increase prices, for example, of its rubber seals.
Buy cheaper raw materials to make the car parts so it can decrease the inputs costs – but if the quality of these raw materials is lower, then the quality of finished products may be lower.

Student's overall conclusion, e.g. If quality is an important factor for car manufacturers when buying from AEC then it should ensure the business has a good reputation so it can raise its prices rather than risk losing its reputation by sourcing cheaper inputs that may be of a low quality.

1 mark for identification of each way to increase added value (2 max).

1 mark for each advantage of the way to increase added value (2 max).

1 mark for each application of the way to increase added value to the context (2 max).

Up to 2 marks for justified decision.

2

a That part of the economy run by individuals and companies [1] usually for profit and not state/government controlled [1].

b Possible answers:

To stop certain businesses making a huge profit [1] and exploiting consumers of electricity [App].

So the business decisions benefit the whole community [1], not just the owners of the private sector businesses that produce 55% of the country's output [App].

1 mark for each relevant reason (maximum of 2 marks).

1 App mark for each development of the reason that includes reference to this context (maximum of 2 marks).

c Possible answer:

Selling state-owned businesses to private owners will raise finance for the government [1]. The government could use this finance to pay for improvements to business operations likely to remain state owned [1] such as electricity supply [App].

It might be claimed by some ministers that private owners could operate some businesses more efficiently than the state [1]. If the state privatised a public sector transport business [App] then the new private owners would want to make a profit and would try to reduce costs by operating the business efficiently [1].

1 mark for each relevant reason (maximum of 2).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the reasons (maximum of 2).

d Answers might include:

Yes: Public sector businesses can be more efficient than private sector businesses because they do not have to spend a lot on promotion and advertising if they are monopolies, e.g. the only water business in the country.

No: As they are not owned by profit-seeking shareholders/owners, public sector businesses might waste resources and not produce goods and services as cheaply as possible.

Student's overall conclusion, e.g. It might depend on the objectives that are set for public sector businesses – if an electricity business is expected to make a profit before achieving social objectives then it could be just as efficient as private sector businesses.

Up to 2 marks for identification of arguments that public sector businesses always produce more efficiently.

Up to 2 marks for identification of arguments that public sector businesses do not always produce more efficiently.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 2: Enterprise, business growth and size

Answers to activities

Activity 2.1

Student's own answer.

Activity 2.2

- Market research results: Bank manager may be able to judge whether the business is entering the right market at the right time. The manager will be able to tell if the profit forecast is too optimistic. They will also be able to question if the market research is adequate.
- Experience of business owners: Do the owners have any experience of setting up/operating a business? Were they successful? If they failed, does this mean that this business will fail? The bank manager might be worried if they have no relevant business experience.
- Forecast profit: To be successful in the long term, profits will be needed. The business is more likely to be able to pay back bank loans if it becomes profitable.

Activity 2.3

Student's own answer.

Activity 2.4

- Company A is biggest in terms of employment, but is this a misleading measure in this case? It is not the biggest in terms of output (it has lower output than all others).
- Company B has high capital employed. Is this why its output is so much higher than A?
- Company D uses more capital than B but produces a lower value of output compared to B.
- Clearly, companies have very different ways of producing output in this industry (either many employees or high capital employed). Output may be the best measure as companies are all in the same industry.
- Answer should also contain problems of each of these ways of measuring size.

Activities 2.5 and 2.6

- a** Horizontal merger – to give higher market share and control prices more easily.
- b** Horizontal takeover – expand into another town that might have a bigger potential market.
- c** Vertical backwards takeover – to control prices and supplies of fruit used in the juices.
- d** Vertical forwards merger – to give an assured outlet for products and to control marketing of own electrical products.
- e** Vertical backwards takeover – to control supply of essential equipment; may be able to charge higher prices for equipment to other mining companies.

Activity 2.7

- a** Horizontal integration – two cinema chains.

- b** To achieve higher market share. More able to control cinema seat prices as less competition. Economies of scale, e.g. obtaining new films from film producers at lowest possible cost.
- c** Yes: New cinemas in areas with none. More assured of seeing the latest films.
No: Seat prices might be higher. Less competition as some cinemas will close.
Overall decision and justification needed.

Activity 2.8

Student's own answer.

Activity 2.9

Student's own answer.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** A person who sets up a new business [1] and is prepared to take risks [1].
- b** Creative [1]: She seems to have some exciting ideas for the new business [App].
Willing to take risks [1]: She was prepared to invest her own savings [App].
Other relevant answers possible.

1 mark for each characteristic (maximum of 2 marks).

1 App mark for each development that includes reference to this business (maximum of 2 marks).

- c** Less risk of losing large sums of capital [1]. Sabrina is putting in her own savings as well as asking friends/family to invest [App]. A bigger business will need more capital and she would lose more money if it was to fail [1].
She can keep a close relationship with her customers [1]. Sabrina seems multi-skilled and interested in fashion [App]. If the business gets too big she might have to focus on management and will lose contact with the customers [1].

1 mark for each relevant advantage (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the advantages (maximum 2 marks).

- d** Yes, draw up a business plan first: The entrepreneur has not set up a clothes shop before so clear thinking and clear planning will help her in, for example, cash flow planning.
No, set up the business first: The entrepreneur seems to know a lot about the products anyway and she has experience of selling; seems very keen to get going quickly.
Student's overall conclusion, e.g. Yes, the entrepreneur should draw up a business plan to ensure she spends her savings in the best way to get the business started and not run out of cash. She also needs to research the market for good quality women's clothes to check the demand for different items to improve the chances of success for her business.

Up to 2 marks for identification of why a business plan might be needed.

Up to 2 marks for identification of why a business plan might not be needed.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** When one business merges with or takes over another one [1], in the same industry at the same stage of production [1].

- b** Possible answer:

Measuring size by the number of employees can be a problem and can be misleading [1] as TelCom has 4000 employees but the largest manufacturer of phones has 450 employees and probably uses automation in the manufacturing process [App].

Measuring size by the value of sales can also be misleading as the products can be of very different values [1]. TelCom had total sales of \$300 million in a year compared with a phone manufacturer that had sales of \$1200 million but was selling the actual phones rather than the service of using the phones [App].

1 mark for each relevant problem (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

A bigger business might be able to benefit from cost advantages called economies of scale [1], for example, buying phones at a discount from phone producers [App], which could make TelCom more efficient and more profitable [1].

Increasing size could mean that the managers can successfully ask for higher pay and benefits [1]. Operating a much bigger phone company will mean that the managers are likely to be paid higher salaries [App] and they will have higher status [1].

1 mark for each relevant reason (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the reasons (maximum 2 marks).

- d** Answers might include:

Take over a supplier: This is backward vertical integration.

Advantages: Able to control costs of products and stop supplying the products to competitors.

Disadvantages: The retail business would be unlikely to buy products from rival manufacturers even if they are better, so could become less competitive.

Open more of its shops: This is forward vertical integration.

Advantages: Able to control more of the marketing of its products and encourage consumers to buy them, increasing revenue.

Disadvantages: The retail business managers may not have the skills and experience to operate a greater number of shops so the business could become less efficient.

Student's overall conclusion, e.g. The final decision might depend on the cost of buying each company. If the supplier has much higher sales than the retail business, the price of taking it over might be beyond its financial resources, so buying more retail shops could be more affordable.

Up to 2 marks for an advantage and disadvantage of taking over a supplier.

Up to 2 marks for an advantage and disadvantage of opening more of its shops.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 3: Types of business organisations

Answers to activities

Activity 3.1

- a** Advantages: Able to take own decisions. Can work at own pace. Can work using personal skills and interests.

Disadvantages: Cannot talk to or seek advice from work colleagues. Much riskier than working for a large computer manufacturer.

- b** Yes: Able to control own business. Will be fully independent. Few legal complications.

No: He lacks business experience. His own finance is limited.

- c** Advantages: Uncle has the necessary finance which is likely to result in lower costs as a bank loan may not be needed. Uncle may be able to give valuable business advice.

Disadvantages: Amin and his Uncle are likely to disagree as Uncle is bossy and Amin wants independence. Uncle's experience might not be relevant to the type of computer-related business Amin wants to set up.

Overall decision and justification needed.

Activity 3.2

- a** Two from: Additional capital from sale of shares. Increased status when dealing with customers/suppliers. Limited liability reduces owners' risks.

Two from: Sole trader loses independence as other shareholders' interests will have to be satisfied and they may want some influence over control of the business. Share of profits may have to be paid to shareholders. Legal complications of setting up the limited company.

- b** Yes: He needs extra capital to expand his business. Alternative sources of finance might be more costly. Limited liability will be increasingly important to him as the business expands, as it might take on more debts.

No: He might value his independence greatly. There will be some loss of ownership and possibly control of the business. Profits may now have to be shared with shareholders.

Overall decision and justification needed.

Activity 3.3

- a** Shareholders benefit from limited liability because, if the business that they bought shares in ceases trading or fails with large debts, the shareholders only lose the money they invested in purchasing the shares. Their liability is limited to the money used to buy the shares.

- b** Limited liability makes it easier for businesses (private and public limited companies) to raise capital as more people will be willing to become shareholders as their liability is limited.

- c** The owners and managers of a private limited company might decide not to convert it into a public limited company because: Loss of control by existing owners if a large number of shares sold to the public. Pressure from new shareholders to take decisions to increase short-term profits. Legal complications and can be high costs to convert to a public limited company.

- d** The main difficulty will be the cost for the original owners to buy back a majority of the shares from the public shareholders. There might also be opposition from senior managers in the company who might fear a loss of status or lower salaries if the business is converted back to a private limited company.

Activity 3.4

- a** Ashanti manages a successful business with, clearly, a reputation for selling quality cakes. A person interested in buying a franchise from Ashanti would benefit from her past success and existing reputation. The name and image of the business would be key benefits to a franchisee. Ashanti might sell the high-quality ingredients needed by a new franchisee, so that would be one less decision for the new franchisee to take. Ashanti might accept responsibility for marketing the whole business from which the new franchisee would benefit.
- b** Yes: It would enable Ashanti to expand her business more quickly than opening more branches herself. The capital for the new branches would now be provided by the franchisee – and most of the management responsibilities would be taken over by the franchisee.
- No: Loss of managerial control over the new branches. Failure of one of the franchises would give bad publicity to the whole business. Franchisees will keep most of the profits of the new branches.
- Overall decision and justification needed.

Activity 3.5

- a** A joint venture is where two or more businesses start a new project together, sharing capital, risks and profits.
- b** BMW will benefit from Brilliance's local knowledge of customer preferences and tastes. Will benefit from Brilliance's knowledge of cultural differences. Will benefit from Brilliance's knowledge of legal differences in the Chinese economy. Brilliance takes over responsibility for local manufacturing, selling and after-sales service.
- c** BMW might realise that Brilliance is taking too much control over the marketing of BMW products which might damage the longstanding brand image. Brilliance will be taking a share of the profits of the joint venture and BMW may consider over time that it is left with too small a share of profits. There may be cultural differences over management decisions, e.g. on ethical issues or the management of employees.

Sample answers to chapter review questions: Short answer and data response

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1

- a** A person who owns his/her own business [1] and controls it on his/her own [1].
- b** He enjoys independence [1]. Jameel does not like taking orders from his manager [App].
He will be able to keep all of the profits [1]. He has lost his job so needs a regular income [App].

1 mark for each relevant advantage (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Lack of capital [1]: He needed to pay for the business premises and could not sell shares to raise more capital [1] if \$10 000 was not sufficient [App].
- No previous experience of operating his own business [1]: Working in a shop is not the same and it closed down anyway [App]. This might suggest it is a risky venture and that he

had put all his assets at risk because he may make mistakes that cause the business to fail [1].

1 mark for each relevant disadvantage (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the disadvantages (maximum 2 marks).

- d** As a franchisee he will be able to expand more quickly than opening a new shop himself. The business name will be more widely known and it already has an established brand image so customers will be attracted. Capital might still be limited to pay the fee for the franchise.

Opening his own second shop will mean he can make all his own decisions about the business and keep total control and all the profits. However, he has no one to discuss decisions with and his lack of experience may mean he makes mistakes.

Student's overall conclusion, e.g. Jameel should buy a franchise as he has not been trading very long and the business needs to be an established business with a brand name so it will attract customers. He has limited capital and wants to make a profit quickly. After he has bought the franchise his marketing costs should be much lower as the franchisor is likely to pay for the advertising.

Up to 2 marks for an advantage and disadvantage of buying a franchise.

Up to 2 marks for an advantage and disadvantage of opening his own shop.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** A business owned by two or more people [1] who agree to share the risks and returns of the business [1].

- b** Advantages:

ShoeWorks is able to raise large sums of capital from sale of shares [1] to finance the purchase of specialist shoe-making equipment [App].

Higher status and legal identity means [1] that some customers will prefer to deal with ShoeWorks, which might help to explain its much larger market share [App].

Disadvantage:

ShoeWorks has to make public its annual accounts, which include details of, for example, directors' salaries, sales and profit performance [1]. This information might be quite useful for other shoe-making businesses [App].

1 mark each for a relevant advantage and a relevant disadvantage (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

An advantage would be that it allows Aurelie and Nadine to share management responsibilities [1], especially now as the business employs 20 people [App] which means they can specialise in the responsibilities where they have more knowledge and skills, making them more effective [1].

A disadvantage would be that there is a potential for conflict if major disagreements occur between the partners [1]. This could even stop some important business decisions being

taken at all [1], such as whether to buy more machines to make shoes, which could slow down expansion [App].

1 mark for each relevant advantage/disadvantage (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the advantage/disadvantage (maximum 2 marks).

d Answers might include:

Yes, they should convert to a private limited company as it will give the business a higher status and legal identity. It will allow the business to sell shares to friends/business contacts to raise more capital for expansion. Limited liability will protect the families' wealth.

No, they should remain as a business partnership as the partnership has worked well up until now. Higher costs and the availability of the accounts from setting up/operating a private limited company will mean they cannot keep all their accounts private.

Student's overall conclusion, e.g. By forming a limited company the business could raise more capital from the sale of shares and this is likely to enable the business to grow more quickly. More capital will be available to purchase equipment to make it more efficient, helping to keep down costs and compete with ShoeWorks, which may not be possible if the business remained as a partnership.

Up to 2 marks for an advantage of becoming a private limited company OR a disadvantage of remaining as a business partnership.

Up to 2 marks for an advantage of remaining as a business partnership OR a disadvantage of becoming a private limited company.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 4: Business objectives and stakeholder objectives

Answers to activities

Activity 4.1

a Builder: Survival – increased competition is a danger to the continued existence of this business.

Computer business: Growth – eager entrepreneurs in an expanding industry will want to become owners/managers of an expanding business.

Publisher: Market share – to maintain market dominance.

Social enterprise: Social/community objectives, such as achieving clean water for several communities each year without harming the environment, and also breaking even.

b Builder: Lower prices.

Computer business: Offer new, innovative goods and services.

Publisher: Take over other publishing firms (if not prevented by the government).

Social enterprise: Assist poor communities to take responsibility for own clean water supplies.

Other answers possible.

Activity 4.2

- a** As Coca Cola is a public limited company, shareholders will expect dividends each year and stable or increasing share price, so returns to shareholders are important. Shareholders can vote to replace directors if they are not satisfied with their performance.
- b** Returns to owners can only be achieved by targeting other specific objectives such as increasing value of sales to remain as the largest soft drinks business.
Protecting the environment meets social responsibility objectives and might help to raise profitability in the long term too, by encouraging consumers who are worried about the environment to purchase Coca Cola products.
- c** Student's own answer based on own country knowledge/experience. Higher/lower prices? Change products or brand image? Develop these or other points in own country context.

Activity 4.3

- a** Any person or group with a direct interest in the performance and activities of a business.
- b** Developing new oil fields to increase sources of oil supply to try to keep prices down for customers, but this may conflict with the aims of environmental groups or local communities where the drilling might take place.

Sample answers to chapter review questions: Short answer and data response

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1

- a** A business objective is an aim or target [1] that a business works towards [1].
- b** Survival [1]: A new, small business selling flowers, owned by Sunita and Sunil who may not have had much experience in this market [App].
Make a profit [1]: There are many competitors, so to cover all costs in the first year and then make a profit would be a reasonable objective for this business [App].

1 mark for each relevant objective (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Having survived for five years [App] the owners now want to expand the business [1] as it seems to have been a successful business idea and there is the potential to grow [1].
The owners may have kept profits made in the form of savings [1] and they now wish to use these to buy other shops/competitors [App] in order to gain an increase in market share [1].

1 mark for each relevant reason (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the reasons (maximum 2 marks).

- d** Yes, it will help to give direction to the owners and their decisions about the flower shop. It can be communicated to employees and this can be motivating. The owners can assess progress against original objectives.
No, because it is unlikely to guarantee success as there is a lot of competition – in business, owners can never be sure of success.

Student's overall conclusion, e.g. No, it will not guarantee that selling flowers will be successful, as in business you can never be sure of this. It will help to give direction to the owners and their decisions, which can be motivating, but it will not guarantee success as other factors may affect how successful the business is.

Up to 2 marks for explaining why setting business objectives will guarantee success.

Up to 2 marks for explaining why setting business objectives will not guarantee success.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a Groups that have a direct interest [1] in the performance of a business or organisation [1].

b Possible answers:

Profit allows returns to owners to be paid [1], for example, dividends to the shareholders [App].

Retained profit can be an important source of finance [1], allowing BPM to buy more mining machinery [App].

1 mark for each relevant reason (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

Shareholders might gain higher returns/dividends [1] if the new mine is profitable [App], meaning they will be happy to remain as shareholders of the business [1].

The community that lives in the area of the new mine [App] might suffer from pollution of air and water, e.g. from waste [1], and this could damage their health [1].

1 mark for each relevant effect on the stakeholder group (maximum of 2).

1 App mark for each relevant reference to this business (maximum of 2).

1 mark for each explanation of the effects (maximum of 2).

d Answers could include:

Yes: Shareholders bought the original share capital of the company and provided the finance for the mining business to grow. If they are not happy with the level of dividends then the company's share price could fall and it might be taken over.

No: The thousands of employees are the factor of production that is essential for production. It may be important to look after employee welfare in some of the several different countries that a business operates in if they are legally protected.

Discussion of other stakeholder groups is possible.

Student's overall conclusion, e.g. There might not be any one group that is more important than the other as meeting the objectives of one group, for example, customers buying gold or coal, can also help meet the objectives of others, such as the shareholders.

Up to 2 marks for explaining why shareholders are the most important stakeholder group.

Up to 2 marks for explaining why shareholders are not the most important stakeholder group OR why another stakeholder group is more important.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Section 1: Understanding business activity

End-of-section case study answers

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1

- a Explain **four** personal characteristics that Derek needs to be a successful entrepreneur. [8]

- Hard working
- Risk taker
- Optimistic
- Self-confident
- Innovative
- Independent
- Effective communicator

For example: Risk taker [1] as he is willing to risk the \$20 000 he invested in the business [App].

1 mark for each personal characteristic (1K) plus 1 mark for explaining why it is needed to be a successful entrepreneur for this business (App).

- b Derek has to decide which type of business organisation to use if he sets up his own business. Consider the advantages and disadvantages of the following **three** types of business organisation. Which one should Derek choose? Justify your answer. [12]

- Sole trader
- Partnership
- Private limited company

	Advantages	Disadvantages
Sole trader	• Few legal regulations – easy to set up at low cost • Own boss • Freedom to choose working hours, holidays, etc. • Close contact with customers • Keep all the profits • Secrecy in accounts	• No one to discuss business matters with • Unlimited liability • Limited finance – difficult to expand • No continuity after death of owner • No one to run business if owner ill

Partnership	• More capital • More ideas from partners • Responsibilities in running business are shared • Losses shared • Partners can specialise	• Unlimited liability • No separate legal identity • Partners may disagree • One partner may be inefficient or dishonest
Private limited company	• Can raise more capital by selling shares to family and friends • Limited liability • Original owners can keep control if they keep majority of shares • Separate legal identity • Continuity	• Can only sell shares to family and friends, not public • Legal formalities when setting up • Accounts must be available for public to see

Not all of these points need to be included in an answer. One or two advantages and disadvantages should be explained as to why they are an advantage or a disadvantage to this business. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of two or more types of business organisation. Well-justified recommendation. Students who discuss three types of business organisation in detail, in context and with well-justified recommendation, including why the alternative options are rejected, should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of at least one type of business organisation. Judgement with some justification/evaluation of choices made. Students should be rewarded with top marks in this band if there is discussion of at least two types of business organisation in detail and answer is applied to the case.	5–8

Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the types of business organisation with little/no explanation. Simple judgement with limited justification/evaluation of choice made. Students who outline three types of business organisation in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

2

- a Explain why **two** different groups might be considered stakeholders in Derek's business. [8]

- Owner (Derek)
- Bank
- Government
- (Other answers possible)

For example: The bank is a stakeholder [1] because if a bank loan is given to open the motorbike shop [App], the shop will need to be making sufficient revenue to cover all the costs, including interest payments to the bank [1]. The bank will want to be sure the business will be successful and can pay it back [1].

1 mark for each correct stakeholder that is suitable for a new start-up business (2K) plus 2 marks for explaining why each is interested in the business (4An) plus 1 application mark × 2 stakeholders (2App).

- b Consider the advantages and disadvantages to Derek of either buying a franchise from a big clothes retail business or setting up his own clothes shop. Which option should Derek choose? Justify your answer. [12]

	Advantages	Disadvantages
Buying a franchise	• Reduced chance of failure • Franchisor pays for advertising • Supplies obtained from franchisor • Fewer decisions to make • Advice given • Banks more willing to lend money • Less risk of failure • Training provided by franchisor	• High cost of buying the franchise • Pay a proportion of the profits or annual turnover each year to the franchisor • Less independence • May be unable to make decisions to suit local area

Setting up his own clothes shop	• Can make own decisions • Keep all the profit • Independent	• More difficult to raise finance from bank as more risk of failure • Lack of expertise in running a business • No one to give advice and help run the business
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Not all these points need to be included in an answer. One or two advantages and disadvantages should be explained as to why they are an advantage or a disadvantage to this business. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of the two options. Well-justified recommendation. Students who discuss both options in detail, in context and with a well-justified recommendation, including why the alternative option is rejected, should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of at least one of the options. Judgement with some justification/evaluation of recommendation made. Students should be rewarded with top marks in this band if there is discussion of the two options in detail and answer is applied to the case.	5–8
Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the options with little/no explanation. Simple judgement with limited justification/evaluation of choice made. Students who outline both options in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

Section 2: People in business

Chapter 5: Human resource management (HRM)

Answers to activities

Activity 5.1

- a** Student's own answer.
- b** Student's own answer.
- c** Both of these will be important for the recruitment process. The job description will make clear to potential employees exactly what the job involves and the responsibilities it carries. This could mean that people who consider they are not capable of doing the job will not apply. It will also help the recruitment manager judge whether the people who do apply are able to undertake the tasks the job involves.

The person specification will make clear the personal qualities, experience and skills required by the successful applicant. This gives the recruitment manager a very clear list of what they should be looking for in a person before selecting them for the job.

Activity 5.2

Method of advertising	Advantages	Disadvantages	Examples of jobs suitable for this method
Newspapers	- National newspapers will be read by many people who live in different parts of the country or even overseas - Local newspapers will be less costly to advertise in. Will be read by potential applicants who live locally	- Expensive to advertise in national newspapers - Local newspapers will only be read by local residents - Fewer people read newspapers now and they gain information from other sources	- National: Usually more senior positions where a high degree of skill and/or qualifications are required, e.g. senior manager, accountant - Local: Clerical, retail and manual jobs for which punctual attendance is essential
Specialist magazines	Seen by people who have the right skills for the job	- Might be expensive to advertise in - Could be missed by people who do not access the specialist magazines	Skilled jobs requiring knowledgeable and well-qualified people, e.g. a research scientist, engineer

Online recruitment sites	• Seen by people who have the right skills for the job	• Might be expensive to advertise on • Could be missed by people who do not access the specialist sites	• The same types of jobs as for newspapers, except these will usually be for well-qualified people, e.g. a research scientist, engineer
Employment agencies	• They advertise and interview people for the business • They use their expertise to select suitable people • It saves the business time in not having to interview people	• Expensive because often a proportion of the person's salary in the first year will have to be paid to the agency	• This varies, but usually the same types of jobs as for national newspapers, specialist magazines and online recruitment sites
Government-run Job Centres	• Cheap to advertise in – may not cost anything	• Many people may not visit the job centre and therefore may not know about the job	• Unskilled or semi-skilled jobs, e.g. production worker, warehouse worker, cleaner

Activity 5.3

- a** The night cashier and the administrative assistant are both jobs that would be advertised locally. There will probably be a large number of people locally who have the qualifications and skills required to carry out these jobs.

The industrial engineering professional is more highly qualified and this job will be more difficult to fill. The advert may be in national newspapers to reach a wider number of people.

- b** Student's own answer.
c Student's own answer.

Activity 5.4

Student's own answer: there are advantages and disadvantages to each applicant and these should be discussed.

Activity 5.5

- a** The purpose of each question:

Question 1 was asked to find out what the applicant thinks about the job.

Question 2 was asked to find out how keen the applicant is. Were they bothered enough about the job to do some research into the company's background, to know if it is a good company to work for?

Question 3 was asked to find out what sort of person they are. Are they sociable? Will they fit in with the other employees?

Question 4 was asked to find out what qualities the applicant thinks they possess that make them suitable for the job. What can they offer the company?

Question 5 was asked to find out if the applicant is very ambitious.

Question 6 was asked to see how keen the applicant is. They should be keen to know about the job and ask their own questions.

- b** Student's own answer for other questions that ought to be asked.
- c** Student's own answer about whether to offer fellow students the job.

Activity 5.6

- a** Discussion about recruiting the experienced engineers from other countries if they are not available locally. The labourers would be recruited locally as there may be plenty of workers able to do the jobs required.
- b** If possible, the airline pilots will be recruited from a South American country so that they will find it easier to return to their home country when not working. The airline may need to advertise in several countries to attract sufficient applicants with the right qualifications. The cabin crew will also be recruited from South America but should be easier to recruit. They may come from just one country where the airline's operations are based.

Discussion of the appropriate methods to use to recruit these employees should also be included.

Activity 5.7

- a** Most students would agree that she has been treated unfairly and, possibly, illegally. The main issues seem to be lack of formal employment contract, possible discrimination over wages, health and safety at work and unfair dismissal.
- b** Student's own answer.
- c** Points made could include: loyal staff, few employees leaving (low labour turnover), few disputes with employees, high output and productivity, and few employee absences.

Activity 5.8

- a** S&S may send all of its employees to an off-the-job training course. They will all need to go, so it may be cheaper to get someone to come into the workplace and train them all.
- b** Sandeep will have a combination of on-the-job and off-the-job training. He will probably go to college to learn some of the theories behind retail management. He will also learn from other managers in the workplace.
- c** James will probably need induction training to be shown around and introduced to other employees, and on-the-job training to be shown what to do. It is not a very skilled job and it will not take him very long to learn the requirements of the job.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** A person specification is a document which outlines the requirements, qualifications, expertise and personal characteristics [1] that a successful candidate should have [1].
- b** Examples:
 Why should I give you the job? [1] To see what experience in instrument manufacturing the candidate can offer [App].
 What are your strengths? [1] To see what skills they have in making pianos [App].

Do you have any experience in this type of business? [1] To see if the candidate will need training to be able to manufacture violins [App].

1 mark for each relevant question (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Examples:

Employees do not need to be sent away to be trained [1] to be able to manufacture pianos, [App] so Sarah will save the cost of sending employees to an external training establishment [1].

This manufacturing is a specialised process [1] so few external establishments may offer training on how to manufacture musical instruments [App] so it is better for their own employees to pass on the correct skills [1].

Training is specific to this particular business [1] as piano manufacturing requires very specific skills [App] so this ensures the ways of doing things in the business are passed on to the new employees [1].

1 mark for each relevant advantage (maximum of 2).

1 App mark for each relevant reference to this business (maximum of 2).

1 mark for each relevant explanation of the advantages (maximum of 2).

d Internal recruitment:

Advantages: Quicker; cheaper; already know the employee's capabilities; may motivate other employees.

Disadvantages: Quality of the three violin makers may be lower than external applicants; jealousy from existing employees could reduce motivation; no new ideas brought in to the business.

External recruitment:

Advantages: Larger pool of applicants so quality may be higher; less likely to cause internal conflict; new ideas brought into the business.

Disadvantages: Takes longer; induction training needed as well as on-the-job training; more expensive.

Student's overall conclusion, e.g. External recruitment is better to fill the vacancies for the three employees to manufacture musical instruments, as new ideas can be brought into the business and they may already have the skills needed for the vacancy. Internal recruitment is not as effective as the employees may not have the skills needed to produce violins and may still need training, which increases costs.

Up to 2 marks for explaining an advantage and a disadvantage of internal recruitment.

Up to 2 marks for explaining an advantage and a disadvantage of external recruitment.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a A job description outlines the responsibilities and duties [1] to be carried out by someone employed to do a specific job [1].

b Possible answers:

Both employees and employers will know what is expected of them [1] at the insurance company [App].

Provides some security of employment [1] to the five well-qualified employees recruited [App].

1 mark for each relevant benefit (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

A talk about administrative details that will go over the business's regulations, health and safety and dress code [1] so that the new employee knows what they should do when they work for the insurance business [App] and this makes them an effective worker more quickly [1].

He should take the new employee on a tour around the business [1] to show them where everything is, such as their work desk, and introduce them to the other 10 employees [App]. This will mean the new employee will feel happier about starting work and will immediately feel that their social needs are being met [1].

1 mark for each relevant feature (maximum of 2).

1 App mark for each relevant reference to this business (maximum of 2).

1 mark for each relevant explanation of the features (maximum of 2).

d Answers might include:

Yes: Interviews are the best way to select new employees as the business will get to meet them, usually face-to-face, and hear how they answer questions about customer service at an insurance company. The interviewers may get a better idea if the applicant will fit in with the rest of the employees.

No: Interviews are not the best way to select employees as the applicant may be very nervous and not appear at their best – so someone less well-suited may be recruited instead.

Student's overall conclusion, e.g. Interviews are the best way to select a new employee to join the other 10 employees as they need to be able to offer a high level of customer service, and by interviewing the applicants it will show how the applicants interact with other people to see if they are suitable for this job. Although the applicant may be nervous, Mr Gupta could try to put them at ease before conducting the interview so they can show themselves at their best.

Up to 2 marks for explaining an advantage of interviews for selecting new employees.

Up to 2 marks for explaining a disadvantage of interviews OR an advantage of a different selection method.

Up to 2 marks for application to the context.

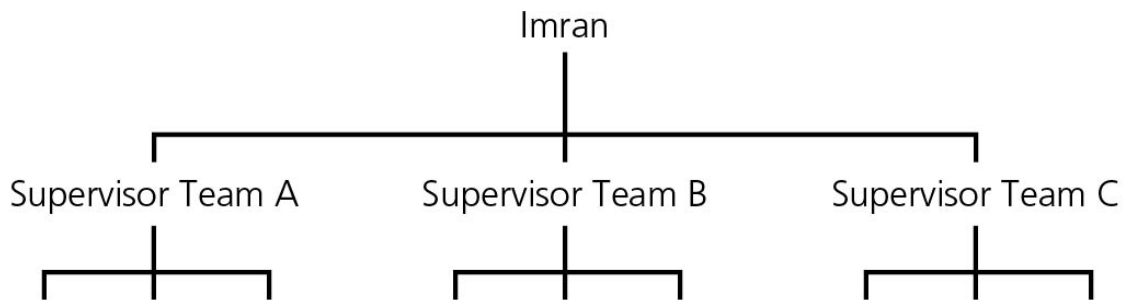
Up to 2 marks for justified decision.

Chapter 6: Organisation and management

Answers to activities

Activity 6.1

a



b Three

c Shortens chain of command (quicker and more effective communication)

Reduces levels of hierarchy (fewer managers means savings on salaries)

Widens span of control (less management control)

Student's own answer based on these and other advantages and disadvantages based on textbook.

Activity 6.2

a 5

b 3

c More managers mean better able to control and monitor the work of other employees, e.g. on food safety and hygiene standards. More promotion opportunities for employees and junior managers which could help improve motivation.

d Narrow spans of control will mean less delegation so work will be less responsible and rewarding for employees. High salary costs for employing a large number of managers on different levels.

e Yes: Local directors can take local decisions which respond to local food tastes and culture of the population. Local directors will be able to take decisions quickly without referring to levels of higher management.

No: Local directors might make decisions which do not meet with the company's standards on food quality or health and safety. Poor decisions that have not been passed down from top management could damage GDX's brand image.

Student's overall decision and justification.

f Yes: Flexible working increases the number of people applying for food store jobs, e.g. students or working parents. Employees may now stay at GDX as it will offer flexibility over hours and days worked. Able to offer more flexible store opening times.

No: There will be more employees in total if many of them work fewer hours and this will make communication more difficult. Social contact between employees might be more difficult if they are not all at work at the same time.

Student's overall decision and justification.

Activity 6.3

- 08.30 Co-ordinating
- 09.15 Organising/Commanding
- 10.00 Planning
- 11.00 Controlling
- 14.30 Controlling
- 16.00 Co-ordination

Activity 6.4

- a** Democratic: Workers will have many ideas to put forward and discuss for improving working methods; small group so easy to call a meeting to discuss and make decisions.
- b** Autocratic: Quick decisive action needs to be taken; cannot ask employees to decide which employees should be made redundant.
- c** Laissez-faire: Specialised groups would be best left to follow their own research paths once clear objectives have been set for them; these employees might object to an autocratic approach.

Activity 6.5

Email to Shona should include these or similar points:

- Advantages: Collective force – better able to discuss pay and conditions with management. Likely to benefit from improved working conditions and health and safety negotiated by trade union.
- Disadvantages: Annual fees to be paid to union. Shona might be called to join a strike that she did not agree with.
- Student's decision plus justification.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** The number of subordinates [1] working directly under a manager [1].
- b** Examples:
Plans [1] to produce a certain quantity of office furniture [App].
Organises [1] what jobs/tasks are carried out by the 15 employees in the Marketing, Finance and Human Resources departments [App].
Co-ordinates [1] the office workers' jobs with those in the Operations department [App].
Controls [1] to ensure the 100 production employees have carried out all their tasks correctly [App].

1 mark for each relevant function (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Examples:

It is likely to motivate employees [1]. This will increase the efficiency in the factory [1] and more office furniture will be produced [App].

It could keep down the cost of premises [1], e.g. as two office employees in the Finance department could work different hours and share the same desk [App] which is likely to increase profitability of the business [1].

1 mark for each relevant advantage (maximum of 2).

1 App mark for each relevant reference to this business (maximum of 2).

1 mark for each relevant explanation of the advantages (maximum of 2).

- d** No, because democratic leadership may mean it takes a long time to collect the views of other employees; it may slow down production of office furniture.

Yes, because democratic leadership is important to the success of the business as it will lead to more motivated employees, increasing productivity.

Student's overall conclusion, e.g. Yes, democratic leadership style is important to the success of the business because Sasha uses a democratic leadership style and consults her 100 production employees. This makes them feel valued and they will work more efficiently. Other leadership styles, such as autocratic leadership style, are unlikely to motivate employees, so efficiency will be lower.

Up to 2 marks for explaining an advantage of a democratic leadership style.

Up to 2 marks for explaining a disadvantage of a democratic leadership style OR an advantage of a different leadership style.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** It is one with different levels of authority [1] and a chain of command [1].

- b** Possible answers:

One benefit is strength in numbers when negotiating with employers [1] as there are 1000 assistants in total if all join the trade union [App].

A second benefit is that if the supermarket assistants join the trade union [App], the trade union can provide advice if there is a problem with the assistants' jobs [1].

1 mark for each relevant benefit (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

Communication will not be as quick as in a flat organisational structure [1] as the message has several managers and supervisors or layers to go through to get to the intended person [1]. This might mean that the message from the Operations Director to the supermarket assistants is not accurate as it may get distorted [App].

The span of control may be narrower as each manager has fewer people to manage [1].

This may mean that managers, such as the supermarket managers, are less likely to delegate tasks to supervisors [App], therefore they cannot pass some of their tasks on to other people, which may lead to poor decisions being made [1].

1 mark for each relevant disadvantage (maximum of 2).

1 App mark for each relevant reference to this business (maximum of 2).

1 mark for each relevant explanation of the disadvantages (maximum of 2).

d Answers might include:

Yes: It will make the work more interesting and rewarding for the employees and they will feel more important, which will increase motivation. It can also give the managers more time to concentrate on the most important parts of their job and so make the supermarket more competitive.

No: Subordinates may not do the job properly and this could cause problems for the supermarket if mistakes are made. The subordinates, such as supervisors, may not be capable of doing some of the tasks and may therefore fail, which could lead to poor customer satisfaction.

Student's overall conclusion, e.g. If the supermarket company plans to expand in the future, there should be more delegation. This would improve employee job satisfaction and communication, making employees more motivated.

Up to 2 marks for explaining an advantage of delegation.

Up to 2 marks for explaining a disadvantage of delegation.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 7: Methods of communication

Answers to activities

Activity 7.1

- a** Student's own answers (make sure these are internal messages).
- b** Student's own answers.
- c** Use the following issues to support your answer: Lack of motivation, incorrect decisions taken, risk of accidents (health and safety issues).

Activity 7.2

- a** Student's own answers (make sure these are external messages).
- b** Student's own answers.
- c** Use the following issues to support your answer: Wrong supplies delivered, deliveries arrive late, customer dissatisfaction with speed of reply to complaint.

Activity 7.3

- a**
 - i** Manager
 - ii** Written letter
 - iii** Employees
- b** Yes: Confirmation of receipt of the letter was required, plus a request for employees' ideas.
- c** Yes: It is a formal warning to all employees. It will encourage them to work harder. A written form of feedback is requested.

No: It might appear to be too threatening. If it upsets the employees they will not want to make good suggestions for improvement. Written feedback takes time and does not lead to discussion.

Overall: A meeting might have been better (other suggestions possible) as this allows for two-way communication and an exchange of ideas, which is likely to lead to better suggestions to improve sales.

Activity 7.4

	Speed	Written record	Feedback
Meetings with employees	Can be called quickly and workers should be able to attend speedily (unless they are part-time and not working that day)	No	Can be immediate as employees can respond or ask questions during the meeting
Emails	Fast	Yes, can be printed or kept as a digital record	Very fast if the receiver is using email at the time
Text messages	Fast	Yes, can be kept as a digital record	Yes, if receiver has mobile phone with them and can reply to text immediately
Social media	Fast	Yes, can be kept as a digital record	Very quick if the receivers are online/ using their mobile phones at the time
Phone calls	Very quick, if the receiver is available to take the call	No	Immediate
Letters	Slow – likely to take several days if posted rather than handed to receiver	Yes	Slow and receiver may not reply at all
Posters	Slow, potential receivers may take a long time to see poster. Might never be seen	Written message on poster but cannot be taken away for future reference	No
Noticeboards	Slow, as it might take several days before every potential receiver reads the message. Some might never read the notice	Yes, but cannot be taken away by receiver for future reference	Not usually unless notice asks for a response

Activity 7.5

Other answers are possible. It is the explanation that is important!

Message	Method	Why?
a No smoking	Notice	Needs to be available at all times to remind workers
b IT instruction	Meeting	Allows for clear explanations and feedback if unsure
c Sales data	Written document	There might be many shareholders; they would not want to attend a meeting for this information alone
d Meeting reminder	Email	Quick and cheap; easy feedback
e Market research	Written report	Likely to be much information; too detailed for verbal communication. Directors may want to study it at length
f Reducing paper waste	Meeting	Important to get all workers' opinions
g Warning	Letter	This needs to be a formal document that can be referred to later, for example, at employment court/tribunal
h Holiday dates	Notice	Needs to be referred to by all workers, but is not urgent information
i Invitation to applicant	Email (if time is limited, otherwise it could be letter)	Quick; can contain details of time of interview, etc.
j Plans	Email with attachment	Plans are complex and cannot be communicated verbally
k New bank account	Website or email	Many bank accounts are now managed online so this could be the best way to communicate with customers
l New contract	Written contract letter	Must be written and with evidence as there might be a dispute over the terms of the contract
m New perfume	Social networking sites	A form of viral marketing that can spread the news of the product very quickly

Activity 7.6

- a** Employees in other countries – language and distance might be barriers.
 Few meetings are held – reliance on written communication, which does not encourage feedback.
 Emails could cause information overload.

Uses managers as intermediaries to communicate with employees – messages might become delayed or distorted.

- b** Ensure messages are in a language that all can understand or use IT methods that allow for instant translation.

Use video conferencing to allow for verbal communication over long distances.

Limit use of emails – use some telephone calls for important messages that allow for verbal feedback/discussion.

Use more direct forms of communication for some messages, for example, meetings with employees when possible or use of company's internal network to communicate directly.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Possible answers:

A written record cannot be taken away to review later [1].

There is no certainty that it has been read [1].

Information can easily be missed [1].

- b** Problem with the communication method used [1]. A senior manager could have a meeting with the employees but as the business is so large they might only do this with other senior bank employees or managers [App].

Problem with feedback [1]. A manager could write an email to all 15 000 employees but feedback, if any, could be slow [App].

1 mark for each relevant barrier (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

A text message could be sent [1] to all 15 000 employees [App]. This is a cheap and quick method to communicate with employees directly [1].

A letter could be sent [1] to bank employees [App] when a formal written record is required, such as when being made redundant [1].

1 mark for each relevant method (maximum of 2).

1 App mark for each relevant reference to this business (maximum of 2).

1 mark for each relevant explanation of the methods (maximum of 2).

- d** Yes, as email is now so widely used that all customers are likely to have access to a mobile phone or laptop and can receive emails. It is quick, easy and cheap to send messages, and feedback is also possible.

No, as emails do not encourage discussion and a meeting is often better for discussion on important issues. The sender may not know the message has been received.

Student's overall conclusion, e.g. It might depend on how big the bank is and how important the message is. So yes, email may be the best method to use when the bank has

250 000 customers to communicate with, as a meeting with bank customers is unlikely to be possible.

Up to 2 marks for explaining an advantage of emails.

Up to 2 marks for explaining a disadvantage of emails OR an advantage of a different method of communication.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a Factors that prevent a message [1] from being sent/received/understood effectively [1].

b Possible answers:

The wrong person might receive the message [1] about new electrical products the business is selling [App].

The receiver may not be paying attention [1] about a bill or invoice for them to pay by a certain date for a cooker already purchased [App].

1 mark for each relevant problem (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

SEP has many thousands of customers in other countries [App] so there might be a language barrier [1] that prevents the message he sends in his own language from being understood and acted upon [1].

If he depends on written communication by letters rather than email [1], for example, there might be long delays for the post to arrive in the other countries [1] and the letter might be received too late to act upon, such as replies to customer queries about electrical products leading to customers being unhappy [App].

1 mark for each relevant cause of communication barriers (maximum of 2).

1 App mark for each relevant reference to this business (maximum of 2).

1 mark for each relevant explanation of the causes of communication barriers (maximum of 2).

d Answers might include:

Advantage: Personal communication – shows the business' concern for customers; it is two-way – customers can ask specific questions about the electrical product problem.

Disadvantage: It is expensive and time-consuming to make a phone call to all its thousands of customers.

Alternative method: Email is quick and cheap and a reply can be asked for. Written details of the product problem can be sent.

Student's overall conclusion, e.g. An email would be best to send as it is quick and SEP can request notification of receipt from customers so they can be sure the customers of their product know about the problem. Telephone calls to thousands of customers in other countries would be too time-consuming and too expensive.

Up to 2 marks for explaining an advantage of telephone calls to all customers.

Up to 2 marks for explaining a disadvantage of telephone calls to all customers OR an advantage of an alternative communication method.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 8: Motivating employees

Answers to activities

Activity 8.1

- a** Miguel: physical needs and security needs.
- b** Pierre: physical needs, security needs and social needs.
- c** Anya: physical needs, security needs, social needs, esteem needs and self-actualisation.

Activity 8.2

- a** A car production worker, baker and possibly a waiter could all have their output measured.
- b** It would be difficult to measure output of a shop assistant as some consumers may not buy any goods; this could be true for a waiter too. However, some shop assistants may be paid commission based on sales. The retailer may offer consumers the opportunity to provide feedback about the service they have received. Positive or negative feedback about a shop assistant's level of service would be an important measure of performance.

For a teacher, the examination results of students could be a useful measure – but this might not be a fair way to measure performance of the teacher as examination results will also depend on the ability levels of the students.

It is very difficult to measure what a police officer and soldier produce. The difficulties arise when they provide a service and not a measurable output.

- c** Alternative ways of rewarding efficient employees will have to be found, for example, by sharing bonuses if a team or group of employees achieve targets or by sharing profits for employees in private sector businesses.
- d** It presents problems for modern economies because, as economies develop, more employees work in the service sector. Service sector jobs are often difficult to measure in a traditional way.

Activity 8.3

- a** The employees' efforts are not recognised. There are no opportunities for promotion. There is no opportunity to plan their own work. The work is not as interesting/challenging.
- b** Introduce ways to allow the employees to plan their own work. Allow employees to contribute to decision making. Have an employee of the month. Give praise for hard work. Introduce opportunities for promotion.

Activity 8.4

Student's own answer, which must be clearly applied to the nature of the work each employee performs.

Activity 8.5

- a** Garment production worker would probably be paid at piece-rate because where the output is measurable it is easier to implement pay related to the output produced. Fringe benefits could be discounts on items of clothing purchased. Non-financial methods might be job enrichment.
- b** Hotel receptionist would probably be paid a salary. It would be difficult to pay by the number of bookings taken. The level of customer service given could be measured by feedback from hotel guests and bonuses might be awarded for outstanding feedback. They could be given a share of the profits or a scheme in the hotel for sharing out money when they have had a successful year. Fringe benefits could be free accommodation at other hotels if they are in a

chain and discounts on meals. Non-financial methods could include training, job rotation and opportunities for promotion.

- c** Teacher would be paid a salary as output is not really measurable. A bonus might be paid for good student exam results. However, these will also depend on students' abilities. Fringe benefits depend on the country the school is in – they may include free accommodation, free education at the school for their own children, pension, free health care, limited free trips home if working at a school in another country. Non-financial methods could include opportunities for promotion.
- d** Shop assistant would probably be paid a salary or a time-based wage, but pay could be related to the number of sales made – commission. Fringe benefits would most likely be employee discounts on purchases. Non-financial motivators might be job rotation, for example, in different departments of the shop to gain further experience and to increase interest in the work.
- e** Managing Director would be paid a salary: profit-related pay and bonus if a good year. Fringe benefits would include share options, free health care, company vehicle, generous expense account. They are likely to be motivated by doing a challenging, responsible job.
- f** Taxi driver would get paid by the number of journeys made. A fringe benefit could be personal use of the taxi if the car belongs to a taxi firm. It would be difficult to use non-financial methods owing to the nature of the work.

There needs to be explanation of the above: discussion of whether output can be measured, seniority of the job, whether fringe benefits are expected in certain jobs and whether non-financial methods could be easily used.

Activity 8.6

- a** Suggestions could include: job rotation, training and opportunities for promotion.
- b** Suggestions could include: job rotation, training, job enrichment.

Students should explain the reason for each of their choices.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** This is where employees are paid [1] depending on the quantity of products made [1].
- b** Examples:

They obtain another job that pays a higher wage rate [1] at a different furniture manufacturer [App].

They find the job boring [1] and find a more interesting job making wooden furniture elsewhere [App].

1 mark for each relevant reason (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible examples:

Job enrichment [1], which adds responsibilities to the work so that the job becomes more interesting [1], perhaps by carrying out more than one process in making the furniture that requires additional skills [App].

Opportunities for promotion [1] will provide an incentive for employees to work harder so they will be noticed and may get promoted [1] to be a supervisor over the 20 operations employees [App].

1 mark for each relevant non-financial method of motivation (maximum of 2).

1 App mark for each relevant reference to this business (maximum of 2).

1 mark for each relevant explanation of the non-financial methods of motivation (maximum of 2).

- d** Yes, because it will give employees an incentive to work harder and will be motivating in order to reduce the labour turnover of the furniture production employees.

No, because it may lead to lower-quality furniture being made as employees are only concerned with quantity and not quality. It cannot easily be applied to the three office employees so it would not be suitable for non-production employees.

Student's overall conclusion, e.g. Yes, because Joe needs to reduce the number of employees leaving as it is expensive for the business to keep recruiting new employees. As long as he uses quality control methods to check the wooden furniture is of good quality then piece-rate is suitable for production employees, but he would have to find another method of motivation for his office employees as their output cannot be measured.

Up to 2 marks for explaining an advantage of piece-rate.

Up to 2 marks for explaining a disadvantage of piece-rate OR an alternative method of paying employees.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** A bonus is an additional amount of payment [1] above basic pay as a reward for good work [1].

- b** Possible answers:

Physiological needs [1]: Wages paid to kitchen workers need to be high enough to meet weekly bills such as food and shelter [App].

Safety/security needs [1]: This will give job security and protection against danger and fair treatment for room cleaners [App].

Social needs [1]: Hotel reception colleagues will be supportive at work and give a sense of belonging to a team and friendship [App].

Esteem needs [1]: Being given recognition for a job well done to the restaurant head chef [App].

Self-actualisation [1]: Being promoted and taking responsibility for the good of the hotel and everyone in it, not just for self-gain [App].

1 mark for each level in Maslow's hierarchy (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

The employees will feel happier in their jobs and therefore give a better service to customers [1]. Hotel guests may tell their friends about the excellent service received at the hotel [App] and so it will gain a better reputation [1].

Employees are less likely to leave their jobs if they are well-motivated [1] and therefore Sasha will not have to spend time recruiting new staff for the kitchen, restaurant, hotel reception or housekeeping [App]. Sasha can spend her time doing other work to improve the business [1].

1 mark for each relevant benefit of having well-motivated employees (maximum of 2).

1 App mark for each relevant reference to this business (maximum of 2).

1 mark for each relevant explanation of the benefits of having well-motivated employees (maximum of 2).

d Answers might include:

Yes: Job rotation will increase the variety of tasks carried out by hotel employees and this will make them want to work harder. Many of the jobs in the hotel, such as cleaning rooms, will be boring, so rotating round and doing different tasks will make the work more interesting as employees will not be doing the same tasks every day.

No: Employees might want their other needs satisfied, so praising employees for good customer service or giving them a wage increase may make them feel more motivated to work at the hotel for Sasha.

Student's overall conclusion, e.g. Sasha should ask employees about their levels of motivation and what would improve their motivation as just introducing job rotation might still mean the jobs are boring – they just do different boring jobs each day. Increasing time-rate payments might be effective if the employees feel their payment is too low.

Up to 2 marks for explaining an advantage of job rotation.

Up to 2 marks for explaining a disadvantage of job rotation OR an advantage of an alternative motivation method.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Section 2: People in business

End-of-section case study answers

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a Explain **two** reasons why well-motivated employees are important for the restaurant. [8]

- High productivity
- Reduced absenteeism
- Employees work more effectively/work hard – contribute to ideas in the business
- Less likely to leave and therefore reduces costs such as recruitment costs for new employees
- Greater willingness to accept change

For example: Employees are less likely to leave [1] because they are happy doing their job as they are well-motivated [1] and this reduces recruitment and training costs [1] as restaurant employees do not need to be replaced [App].

1 mark for each reason (2K) plus 2 marks for explaining each of the reasons why well-motivated employees are important to the business (4An) plus 1 application mark for each reason (2App).

- b Chris and Abdul have advertised a job vacancy for a restaurant manager. Using Appendix 1 and Appendix 2, consider the advantages and disadvantages of the two job applicants. Which applicant should Chris and Abdul choose to employ? Justify your answer. [12]

	Advantages	Disadvantages
Mr J Patel	• Highly qualified • Sociable as likes team sports	• Only has experience of running a small cafe and not a restaurant • Has only worked in restaurants for short periods of time and only part-time • Autocratic management style
Mr N Guitano	• Some qualifications • 20 years' experience as a restaurant manager • Experience of several different restaurants • Democratic management style	• Not as highly qualified as Mr Patel

Not all these points need to be included in an answer. One or two advantages and disadvantages should be explained as to why they are an advantage or a disadvantage to this business. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of both applicants. Well-justified recommendation. Students who discuss both applicants in detail, in context and with a well-justified recommendation, including why the alternative applicant is rejected, should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of at least one applicant. Judgement with some justification/some evaluation of recommendation made. Students should be rewarded with top marks in this band if there is discussion of both applicants in detail and the answer is applied to the case.	5–8
Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the applicants with little/no explanation. Simple judgement with limited justification/limited evaluation of choices made. Students who outline both applicants in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

2

- a** The Lakeview Restaurant is expanding. Explain **two** reasons why an organisational chart would be helpful to the management of the restaurant. [8]

- Helps to identify the roles and responsibilities of employees
- Indicates links between workers
- Shows line managers for each employee so they know who to report to in the event of a query
- Shows which employees are under the control of each manager, etc.

For example: An organisational chart shows line managers for each employee [1] so they know who to ask if they have a query [1], such as if one of the kitchen employees wanted to ask if they could change their hours of work [App] they would know who to ask and would not need to go to an incorrect person so their time is saved [1].

1 mark for each reason (2K) plus 2 marks for explaining each of the reasons why the organisational chart would be helpful (4An) plus 1 application mark for each reason (2App).

- b** The restaurant needs to communicate with its suppliers to order its weekly food ingredients. Consider the advantages and disadvantages of using email, letter or telephone. Which is the best method for Chris and Abdul to use for an urgent order from suppliers? Justify your answer. [12]

	Advantages	Disadvantages
Email	• Information can be sent quickly • Record of the message • Cheap to send • Can attach files • Can be sent to many people at once	• May not be sure it has been read • May be too many emails so message lost among the many emails • Internet connection may fail • Possible it may be read by other people – potentially unsecure
Letter	• Permanent record/hard copy • Addressed to a particular person – kept private • Detailed information included • Letter can be copied and sent to many people at the same time	• Slow to be delivered • No guarantee it has arrived • Expensive • Rapid feedback not always possible
Phone calls	• Speak to the correct person • Feedback • Know the message has been received	• Relevant person may not be available • Expensive, especially if to other countries. Have to wait to speak to the correct person • Not suitable if a permanent record of the information is required

Not all these points need to be included in an answer. One or two advantages and disadvantages should be explained as to why they are an advantage or a disadvantage to this business. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of two or more communication methods. Well-justified recommendation. Students who discuss three methods in detail, in context and with well-justified recommendation, including why the alternative methods are rejected, should be rewarded with the top marks in the band.	9–12

Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of at least one communication method. Judgement with some justification/evaluation of recommendation made. Students should be rewarded with top marks in this band if there is discussion of two or more methods in detail and the answer is applied to the case.	5–8
Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the communication methods with little/no explanation. Simple judgement with limited justification/evaluation of choices made. Students who outline the three methods in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

Optional question

3

- a** The Lakeview Restaurant is located near to several restaurants which are competitors. Explain **one** advantage and **one** disadvantage to the business of being located near to competitors. [8]

- Advantages: Attracts customers to the area; facilities in area are good as it is busy; can see competitors' prices.
- Disadvantages: Competitors may attract customers to them – lose revenue; price cutting; competition; lower profits.

For example: It is an advantage as it attracts customers to the area [1] because the other shops and facilities in the area are good and the area is busy because many people will visit it [1], so revenue from customers visiting the restaurant [App] may be higher than if it was not near competitors and fewer people visited the area [1].

1 mark for an advantage (1K) plus 2 marks for explaining why it is an advantage (2An) plus 1 application mark.

1 mark for a disadvantage (1K) plus 2 marks for explaining why it is a disadvantage (2An) plus 1 application mark.

- b** Consider the advantages and disadvantages of the **two** options for the restaurant business to expand. Which option should Chris and Abdul choose? Justify your answer. [12]

	Advantages	Disadvantages
--	------------	---------------

Option 1	• Already well known in the area • Share kitchen facilities – cheaper • Novelty and may attract new customers • Increase sales and profits • High unemployment – easier to recruit new employees and possibly lower wages paid	• Health and safety may be expensive – increasing costs and reducing profits • Expensive to buy and convert to a restaurant – increased costs • Projected profit lower than Option 2 • Unemployment in the area may mean fewer customers as incomes lower
Option 2	• Much larger premises • May have more customers – increased sales and profits • High projected profit • Unemployment low means incomes higher and so more likely to have higher demand	• High cost of buying new restaurant • Will need to finance the expansion • Rents high in city centre • No customers and loss of revenue when closed during relocation • A lot of competition in city centre

Not all these points need to be included in an answer. One or two advantages and disadvantages should be explained as to why they are an advantage or a disadvantage to this business. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of the two options. Well-justified recommendation. Students who discuss both options in detail, in context and with well-justified recommendation, including why the alternative option is rejected, should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of at least one option. Judgement with some justification/evaluation of recommendation made. Students should be rewarded with top marks in this band if there is discussion of both options in detail and the answer is applied to the case.	5–8

Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the options with little/no explanation. Simple judgement with limited justification/evaluation of choices made. Students who outline both options in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

Section 3: Marketing

Chapter 9: Marketing and the market

Answers to activities

Activity 9.1

Pepsi could reduce prices to increase sales of its carbonated drinks. These lower prices should increase demand and raise Pepsi's sales compared to its competitors. However, less profit will be made on each drink sold and competitors might lower prices too.

Pepsi could also increase advertising in the Philippines. New adverts might be used to further improve the Pepsi brand image and encourage consumers of other drinks to buy Pepsi instead. However, advertising can be very costly and it does not always lead to higher sales.

Student's own decision on how best to increase market share plus justification.

Activity 9.2

- a** Sales of petrol will fall as demand for electric cars increases. If demand falls greatly, the costs of operating a petrol filling station might exceed the value of sales, forcing it out of business.
- b** Start fitting EV charging points and sell electricity to recharge these cars. These chargers should become more profitable as the number of EVs increases.
Open a shop within the petrol filling station to sell other products such as food and drink or car accessories. The sale of these products should help to make up for the falling sales of petrol as EV owners will also visit the petrol filling station.

Activity 9.3

- a** Student's own answer.
- b** Student's own answer but it should include references to some of: age, income, gender, lifestyle, location.

Activity 9.4

- a** Student's own answer.
- b** By identifying the specific needs of each market segment, Toyota is able to design and develop cars to meet these needs. Sales will be higher than if Toyota did not attempt to segment the car market and tried to sell the same type of car to all consumers.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** A person who buys goods or services [1] for personal use [1].
- b** Examples:

Change in tastes and trends towards healthy eating [1] mean consumers buy more fruit and so supermarkets demand more fruit from suppliers [App].

The populations in other countries may be ageing [1] and older people are likely to demand coffee so sales of coffee may increase [App].

1 mark for each reason (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Examples:

Globalisation of markets [1] means there are more supermarkets opening in other countries [1] so there are more places and businesses where customers can buy their food [App].

Ecommerce has increased [1] and there is a high demand for fresh fruit [App] so customers can search the internet to find which business sells at the lowest prices [1].

1 mark for each relevant reason (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each relevant explanation of the reasons (maximum of 2 marks).

d No, because of the advantages of staying with coffee: D&F already knows the production process/prices; prices may rise again; land might not be suitable for fruit production.

Yes, due to the advantages of changing: increasing demand for fruit/increasing price for fruit; might be more profitable; but may not have the expertise to grow fruit.

Student's overall conclusion, e.g. Yes, change to growing more fruit and stop producing coffee because demand for fruit is growing in both developed and developing economies and therefore prices are likely to remain high. This will make profits from growing fruit more likely to be higher than coffee, where the prices have been fluctuating.

Up to 2 marks for explaining an advantage and a disadvantage of growing more fruit.

Up to 2 marks for explaining an advantage and a disadvantage of stopping producing coffee.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a A mass market is where a business sells to the largest part of the market [1], often where standardised products are being sold [1].

b Possible answers:

Carry out market research [1] so that the customer needs for their medical problems are understood [App].

Improve communication with customers [1] which will encourage feedback about the sports shoes [App].

1 mark for each relevant way (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

It makes the marketing expenditure more cost effective [1] by producing sports shoes that closely meet the needs of these particular customers who have problems with their feet [App] and TGH target its marketing efforts on this segment for this style of the shoes it sells [1].

Focusing marketing on an additional segment to their other sports shoes [App] may lead to additional sales for the company [1] because the needs of these customers are not currently being met and so profits for TGH may increase [1].

1 mark for each relevant advantage of segmenting the market (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each relevant explanation of the advantages of segmenting the market (maximum of 2 marks).

d Answers might include:

Yes: These shoes more closely meet the needs of customers who have medical problems with their feet and this results in sales of the sports shoes to these customers. TGH is now more competitive and may attract customers from competitors for other sports shoes as it gains a good reputation.

No: The mass market for fashionable sports shoes is much larger as it caters for the needs of a higher percentage of people who play sport and so results in much higher sales of shoes. This will probably lead to higher profits for TGH than the profits gained from the niche market as there may be additional costs of entering the niche market.

Student's overall conclusion, e.g. If TGH is able to sell these specially made shoes to people with the medical condition at high prices to more than cover the increased costs of design and manufacture, then higher profit per unit could be made so this makes the decision profitable and is good one to take rather than only selling to the mass market.

Up to 2 marks for explaining an advantage and/or a disadvantage of selling to the niche market.

Up to 2 marks for explaining an advantage and/or a disadvantage of selling to the mass market.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 10: Market research

Answers to activities

Activity 10.1

Other answers are possible.

- a** New chocolate bar: Focus groups to test product and discuss its taste and the appearance of the packaging. The business would be interested to know whether the focus group members like the taste and this will provide qualitative information about what consumers think.
- b** New style of watch: Questionnaires to ask what potential consumers think about the colour of the watch and what colours people see as fashionable. A sample could be used to ask mainly younger people, if they are thought to be the target population.
- c** New retail store layout: Observation of consumers entering the store, taking note of the numbers who visited each department and the route they took around the store.
- d** New restaurant: Questionnaires or a survey to obtain results from a sample of the local population. Questionnaires or a survey would also find out customer preferences about the types of food they like and the prices they are willing to pay for restaurant meals.

- e Falling sports shoe sales: Interviews would gain in-depth opinions of consumers. The interviews would be able to obtain detailed information about what it is about the shoes that makes them unpopular and/or what makes competitors' shoes popular.

Activity 10.2

Data source	Primary or secondary?	Useful for?
A trade magazine article on a competitor's new product	Secondary	Gaining the latest industry or market information – perhaps before it is launched on the market
An interview with a regular consumer of the product being researched	Primary	Gaining information about the reasons why this consumer is so loyal – can this information be used to attract other consumers?
A report on a discussion between a group of consumers of a particular brand	Primary	A focus group discussion helps to explain what features of a product consumers most like or most dislike
An observation count to see how many consumers stop and read in-store promotional material	Primary	To see whether in-store promotional material is attractive to consumers or not
Smartphone questionnaire results researching the impact of a new promotion campaign	Primary	Quickly gaining feedback about consumers' response to a new promotion. Is it successful or does it need to be revised?
A market report on what consumers like and dislike about the major brands on the market	Secondary	For gaining a very detailed set of data about consumers' preferences and reasons for buying/not buying a product
Annual government population statistics	Secondary	Overall data on potential market size and likely chances of it getting smaller or larger over time
Data on competitor's revenue over recent years	Secondary	To compare with own business revenue data to assess changes in market share and how this compares with own business

Activity 10.3

Possible other information that students might suggest includes: actual sales figures for the different competing brands of drinks to see the total size of the market; where the drinks are sold – the types of outlets that customers use could determine the distribution channels that could be used; prices charged for the existing drinks to work out how profitable the market might be.

Activity 10.4

- a The sample should be representative of the consumer age structure of the fast-food market. If only one age group was questioned it would give a biased set of results.
- b The business would advertise the restaurant where the age group who are likely to use the restaurant will see the advert.
- c To find out how often people are likely to use the restaurant and to calculate possible future sales levels. Customers might use a restaurant only once a year, in which case there would not be a very high demand!

d To estimate the number of potential customers, whether they use restaurants and how often.

e Examples might include:

‘What price would you usually pay for a meal?’ to get an idea of possible prices to charge.

‘What time of the day do you eat out?’ to find out if customers would eat in the evening or in the daytime, i.e. when would the restaurant be busy?

‘What type of food do you like to eat?’ to find out if the restaurant should serve different types of food.

f Answers could include:

The results might not be accurate due to the small sample size – asking only 100 people would not be enough to get accurate information about the population as a whole.

The questions do not obtain very detailed information about the consumers’ current habits with respect to eating out – options such as ‘occasionally’ are too vague to be sure what the respondents mean.

There is no secondary data about the number of competitors or their products and prices.

The time of day the sample was taken might also affect the results – the results might be biased if the sample did not include people going to or coming home from work.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a The collection and collation of original data [1] via direct contact with potential or existing customers [1].

b Possible answers:

Questionnaires [1] which target customers who buy garden tools [App].

Interviews [1] where individual face-to-face questions are asked about the high-quality products [App].

Focus groups and observation are also correct methods.

1 mark for each relevant primary research method (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Examples:

Sample size [1], as the larger the sample generally the data about garden tools [App] will be more accurate as more people’s answers will be in the results [1].

Out of date information [1], as if the data was collected a long time ago then gardeners’ habits may have changed [App] and different products may be in demand [1].

Other answers are possible.

1 mark for each relevant factor (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each relevant explanation of the factors (maximum of 2 marks).

d Primary market research might be necessary to check there is a demand for the gardening tool/to not waste money producing a product that is not in demand.

Primary market research might not be necessary because the business is already familiar with the market for gardening equipment/the product may be a new invention; the research may take too long and competitors might develop the tool first.

Student's overall conclusion, e.g. Yes, even though T&T is experienced in the production of garden tools this is a new target market of older gardeners and these customer needs must be understood to ensure the business produces a successful product.

Up to 2 marks for explaining why primary market research might be necessary.

Up to 2 marks for explaining why primary market research might not be necessary.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a Secondary market research is information that has already been collected [1] and is available for use by others [1].

b Examples:

Websites of competitors [1] who sell smartphone apps [App].

Market reports [1] giving sales reports on the mobile (cell) phone industry [App].

Government sources [1] about the ownership of mobile (cell) phones [App].

1 mark for each relevant method of secondary market research (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

Decisions may be made about which product to produce based on the information collected [1], and if the information is inaccurate then money could be wasted [1] producing an app for smartphones that is not in demand and result in losses being made [App].

Decisions made about how to market the new app may not be suitable if the research is not accurate [1]. This may lead to the app to control electronic devices in the home not being purchased by many customers [App] because they do not know about it due to it being advertised in the wrong places [1].

1 mark for each relevant reason why accurate market research data is important (maximum of 2).

1 App mark for each relevant reference to this business (maximum of 2).

1 mark for each relevant explanation of the reasons why accurate market research data is important (maximum of 2).

d Answers might include:

Yes: Information on many different countries is required and this could not be gained by asking people in all these countries as it would be too time-consuming and expensive.

No: Secondary information will not tell H&H about the opinions of potential customers and what types of apps for smartphones they would like to buy; it will quickly become out of date in this industry.

Student's overall conclusion, e.g. As this is such a fast-changing market with new products to control electronic devices in the home being launched regularly, it would be best to use both primary market research and secondary market research to find out about the latest consumer trends.

Up to 2 marks for explaining an advantage of secondary market research.

Up to 2 marks for explaining a disadvantage of secondary market research and/or an advantage of primary market research.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 11: The marketing mix: product

Answers to activities

Activity 11.1

- a** The target market is young children but the parents will probably be the buyers of the chocolate bar.
- b** The product is claimed to be good for young children. Parents like it too as it helps to develop imagination in young children.
- c** The advertisement reflects the brand image which is aimed at both the young children (who will eat the bars) and parents (who will buy them). The product is advertised as having good qualities such as encouraging imagination.

Activity 11.2

Student's own answers.

Activity 11.3

- a** Student's own answer.
- b** Student's own answer.
- c** Student's own answer.
- d** Student's own answer.
- e** Student's own answer.
- f** Answer should contain details of how the style and colour of the packaging might influence sales and how the images and words on the packaging could both promote brand image and consumer knowledge about the product.

Activity 11.4

Student's own answer – should show all four stages of the product life cycle but with no extension strategies.

Activity 11.5

- a** Chocolate bar:
Selling into new markets to increase sales of the well-known brand.
Introduce new, improved version of the old brand to increase interest again.
Introduce variations of the chocolate bar to increase interest from other market segments.
Student should include their own examples.
- b** Sports shoe:
Introduce variations of the sports shoes that are used with other popular sports or as shoes bought by other market segments (leisure shoes). This should encourage people who were not previous customers to buy the shoes, thus increasing sales.
- c** New model of car:

Selling into new markets in other countries may increase sales.

Use a new advertising campaign to renew interest and possibly increase sales.

d Children's toy:

Sell through additional/different retail outlets – perhaps online selling too. Different people may use these outlets and may buy the toy when previously they were not customers, therefore increasing sales.

Use a new advertising campaign to encourage sales from people who were not previously customers.

Increase the range and adaptability of the toy by adding extras that could be purchased. Existing customers may be encouraged to make further purchases.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a The stages a product will pass through from introduction [1] through growth to maturity and finally decline [1].

b Possible answers:

Introduction [1] when the Rovermower was first launched onto the market [App].

Growth [1] when sales of the grass-cutting product increased significantly [App].

Other stages possible.

1 mark for each relevant stage of the product life cycle (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

Easy to recognise the product [1] with a logo that makes the grass cutter stand out from other similar products [App] may increase sales as customers can easily identify the product in shops [1].

Consumers may be less price sensitive [1] as they will trust the quality of the product [1], making them more likely to pay a higher price for the garden equipment [App].

1 mark for each relevant advantage of having a strong brand image (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each relevant explanation of the advantage of having a strong brand image (maximum of 2 marks).

d A new product may increase sales revenue/increase product portfolio/replace products at end of product life cycle, but high development costs of \$0.5 million.

Extension strategy will extend the sales and life of one of its bestselling pieces of gardening equipment; it is seen as high quality and better than competitors' products but if new robotic mowers designed by competitors are launched, ABC may lose market share.

Student's overall conclusion, e.g. No, use an extension strategy as it is already a successful grass cutter, having high sales and being one of ABC's bestselling products. If a new

product is developed, costs could be high and profits may not be high if prices and sales are not high, which may be more difficult in a competitive market.

Up to 2 marks for explaining an advantage and/or a disadvantage of developing a new product.

Up to 2 marks for explaining an advantage and/or a disadvantage of using an extension strategy.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a A brand image is an image or identity given to a product [1] that distinguishes it from its competitors' brands [1].

b Possible answers:

Protect the product [1] to prevent the chocolate bar from getting damaged or being unhygienic [App].

Give a brand image to the product [1] by using colours of gold to reinforce its luxury image [App].

1 mark for each relevant role of packaging (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

A completely new product can create a USP [1]. This makes the product attractive to customers as it will be not be available from competitors [1], resulting in high sales of the new chocolate bars [App].

A new product gives the business a broader range of products to sell [1]. As the sales of their bestselling brand have started to fall [App], this reduces/spreads the risks for the business [1].

1 mark for each relevant advantage of developing new products (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each relevant explanation of the advantages of developing new products (maximum of 2 marks).

d Answers could include:

Adapt the product and offer variations of the chocolate bar if these could be produced at a low cost.

Could sell in new markets, e.g. in other countries, but consumers' tastes might be very different.

Adapt the packaging by redesigning it to attract consumers' attention when displayed on supermarket shelves.

Student's overall recommendation, e.g. The best extension strategy to choose would be to add more variations of the chocolate bar as then the promotion of these, for example to children, will lead to higher sales of the original product too.

Up to 2 marks for explaining an advantage and/or a disadvantage of an extension strategy.

Up to 2 marks for explaining an advantage and/or a disadvantage of a second extension strategy.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 12: The marketing mix: price

Answers to activities

Activity 12.1

- a** Cost-plus price = \$1.00 + (100% of \$1.00) = \$2.00
- b** \$30 000/20 000 units = \$1.50
Cost-plus price = \$1.50 + (50% of \$1.50) = \$2.25
- c** \$45 000/30 000 units = \$1.50
Cost-plus price = \$1.50 + (20% of \$1.50) = \$1.80

Activity 12.2

- Most products – competitive pricing
- Coca-Cola Creations – price skimming
- Lower price when entering new market – penetration pricing

Activity 12.3

- a** Watch: Probably competitive pricing as the watch is very similar to its competitors.
- b** New type of smartphone: Probably price skimming to earn high profits to recoup some of the research and development costs.
- c** Shop: Will probably use cost-plus pricing to ensure it covers its costs and makes the target profit of 75% mark-up on the cost of inventory.
- d** New brand of soap powder: Probably penetration pricing as there are already similar brands available and the business will need to get the new brand established in the market.
- e** Tour operator: Dynamic pricing if sold online, as demand will change considerably during the year.

Activity 12.4

Pricing method	Examples of situations when each method would be appropriate	Advantages	Disadvantages
Cost-plus pricing	A shop may add a certain percentage onto the cost of buying in the inventory, e.g. food retailing, clothes retailing. This may be used when there is not a lot of competition between shops	Easy to apply	Could lose sales if the selling price is a lot higher than competitors' prices
Competitive pricing	An established product that is sold in a market where there are already several competing products, e.g. a brand of soap powder	Sales are not likely to be lost to competitors as the price is similar to competitors' prices and the product is not overpriced or underpriced	Need to research the prices of competitors and this will cost time and money

Penetration pricing	A new product is launched onto the market where there are already several competing products, e.g. a new chocolate bar	Should ensure that sales are made and brand loyalty may be established	Because prices are low the revenue may also be low. Consumers may have doubts about product quality
Price skimming	Used when there is not a lot of competition for the new product, e.g. new computer game when it is first introduced onto the market	Helps to establish the product as a high-quality product. High profits may be made	The high price may reduce the number of potential customers
Dynamic pricing	Prices are changed, sometimes frequently, in response to changing levels of demand, e.g. holidays during school holidays when demand is high or cinema seats in the afternoon when demand might be low	Allows the business to earn additional revenue. High prices when demand is high will increase revenue. Low prices when demand is low will increase sales and also increase revenue	Consumers may become confused by frequently changing prices. Consumers may be reluctant to purchase if they think the price might be reduced soon

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** When the price is set lower than competitors' prices [1] in order to enter a new market or gain market share [1].
- b** There are many substitutes [1] so a high price may lead to many customers switching purchases to an alternative breakfast cereal [App].
It is not a new product on the market [1] so customers may prefer to buy other products for breakfast [App].

1 mark for each relevant reason not to use price skimming (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Examples:
Competitors' strength/price of competitors' products [1] – need to put the prices of breakfast cereals at a similar level [App] so that customers do not switch to buying from competitors instead [1].
Business objective such as aim to make a specific profit [1] – producer can work out the cost of producing the high-quality branded product [App] and then needs to ensure all costs are covered and a specific profit is made [1].

If the product is new then it may be entering a new market [1] – may choose to use penetration pricing and set prices lower than competitors to gain new customers [1] as it is a new cereal product that may appeal to a different market segment, such as children [App].

1 mark for each relevant factor to take into account when deciding which pricing method to use. (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the relevant factor to take into account when deciding which pricing method to use (maximum of 2 marks).

- d** Yes, because customers will think the breakfast cereal is more competitive and will buy more of it. Total revenue could increase.

No, because customers might think its reputation for good quality has been reduced. Competitors could reduce prices even further below \$1.20 or \$2.00 a box.

Student's overall conclusion, e.g. No, as A&B may want to maintain a brand image of high-quality cereals. If prices are reduced to compete with a new cheaper 'own brand' product then its brand image may get lower, leading to a fall in sales and revenue.

Up to 2 marks for explaining an advantage of changing to a competitive pricing method.

Up to 2 marks for explaining a disadvantage of changing to a competitive pricing method OR an advantage and/or disadvantage of an alternative pricing method.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** Price skimming is where a high price [1] is set for a new product on the market [1].

- b** Possible answers:

The revenue received may be lower than the cost of making the product [1] and the development costs of the new game are likely to be very high [App].

The business does not need to charge a low price [1] when customers are willing to pay a high price to be the first to play the game [App].

1 mark for each relevant reason for not using penetration pricing (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

High amount of revenue may be obtained [1] as the product is new on the market [1] and so some customers are prepared to pay a high price to be the first to play the game [App].

The business can quickly regain the development costs and start to make a profit [1]. A high price is needed to get back these costs quickly [1] and these costs are high for Xbox games [App].

1 mark for each relevant advantage of using price skimming (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the advantages of using price skimming (maximum of 2 marks).

- d** Answers might include:

Yes: Dynamic pricing should be used as the games will be very popular and many gamers will want to buy these games, but the demand may vary at different times of the year. Prices can be higher when demand is at its highest and lower when sales need to be encouraged, maximising revenue.

No: The market for games is likely to be very competitive so competitive pricing may be better to use for these games. Additionally, many of the 20 games sold were developed some time ago hence different pricing methods may need to be used if sales are to be kept high.

Student's overall conclusion, e.g. As new products from competitors will be launched all the time, the pricing method used by a games business for many of its products will have to be competitive and dynamic pricing will not be effective if games are not purchased online.

Up to 2 marks for explaining an advantage of dynamic pricing.

Up to 2 marks for explaining a disadvantage of dynamic pricing OR an advantage and/or disadvantage of an alternative pricing method.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 13: The marketing mix: place

Answers to activities

Activity 13.1

Unilever uses at least three different types of distribution channel. It sells to local shops close to the ice cream factory as they are easy to supply and transport costs will not be a major problem.

It uses wholesalers to distribute this frozen and perishable product to retailers in other parts of the country. Wholesalers will be responsible for storage and transport of the ice creams and these will not be costs to Unilever.

Large supermarkets will have big orders for Unilever products so the company will distribute large quantities directly to the supermarkets' own warehouses. The supermarkets will then be responsible for storage and distribution to their own shops nationwide.

Activity 13.2

Student's own answer.

Activity 13.3

Answer will be in the form of a letter or email and will include some of the following points:

- Breaking bulk
- Reduced storage space required
- Purchase in large quantities
- Fewer transactions compared to selling to retailers
- Credit facilities
- Delivery by wholesaler.

Activity 13.4

- a** Farm tractor: Channel of distribution 1 – producer to consumer – or possibly 2 – producer to retailer to consumer would be used. The product is not something bought very often; it is

expensive and expert advice should be given about the product. A personal sales adviser may well be sent out by the manufacturer to the potential customer to discuss the product and explain its qualities. A retailer specialising in agricultural equipment may be used instead and they would also be able to give expert advice about the product.

- b** Children's clothes for export: Because the product is going to be exported and will be sold in many retail outlets, the channel of distribution 4 – producer to agent to wholesaler to retailer to consumer – might be used. This will allow the use of an agent in the export market who will be familiar with local customs and practices. Whether a wholesaler is also used will depend on the particular country and how many retail outlets will sell the clothes. If only a few large outlets are going to be used then the wholesale stage may be missed out, but if the clothes are sold to many smaller outlets then a wholesaler will be used to enable a wider distribution and possibly lower the distribution costs.
- c** Tins of peas: Channel of distribution 3 – producer to wholesaler to retailer to consumer – will probably be used because the tins of peas will be sold to many food retailers and it would not be cost effective to sell straight to the retailer. However, if the retailer was very large, the wholesaler would be omitted for these customers because large quantities would be purchased.
- d** Made-to-measure suits: Channel of distribution 1 – producer to consumer – will almost certainly be used, as direct customer contact is needed by the tailor who makes the suits (the manufacturer). You cannot sell made-to-measure suits from racks of clothes in clothes shops!

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** The means by which a product is passed from the producer [1] to the customer [1].
- b** Need to sell products in convenient locations for customers [1] otherwise they may not see the footballs and sales will be lower [App].
May reach a wider range of customers [1] if it sells through sports shops where many potential customers like to visit [App].

1 mark for each relevant reason why place is an important part of the marketing mix (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:
Agents will know the local market [1] for selling footballs and what products are sold in sports shops [App] so that more suitable marketing methods are used and sales will be higher [1].
No need to find its own outlets in that market [1] – it is quicker and more efficient access to market [1] as the agent will be familiar with the different sports shops and which are the best ones to sell to [App].

1 mark for each relevant advantage of selling through agents in other countries (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the advantages of selling through agents in other countries (maximum of 2 marks).

- d** Yes, sell directly to retailers as profits will be higher because footballs are sold to wholesalers at a lower price than would be sold to retailers and so profits are lower/lose some control over the marketing of the products.

No, sell through a wholesaler and sell the footballs in bulk because D&D will only need to sell to a smaller number of customers and so administration costs will be lower.

Student's overall conclusion, e.g. No, D&D should sell through wholesalers rather than sports shops as although there will be price discounts on the footballs, the lower distribution costs to a few wholesalers relative to distribution to many retailers all over the world will more than make up for this lower price.

Up to 2 marks for explaining an advantage and a disadvantage of selling directly to retailers.

Up to 2 marks for explaining an advantage and a disadvantage of selling through wholesalers.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** A wholesaler buys in bulk from a manufacturer [1] and then sells to retailers in smaller quantities [1].

- b** Possible answers:

The wholesaler holds most of the inventory which reduces the storage space needed by the manufacturer [1] so Pinkor does not have to hold large volumes of children's clothes in its own warehouse [App].

Pinkor only has to deliver the products to the wholesaler [1], which saves the cost of Pinkor having to transport the products to all the children's clothes shops itself [App].

1 mark for each relevant advantage of using a wholesaler (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

Advantage: Pinkor can focus on manufacturing children's clothes [App] to ensure the processes are efficient and that it produces high-quality products with few, if any, faults [1], while the marketing and display of the products will be the responsibility of the retailer [1].

Disadvantage: Specialist retailers might sell more than one brand of children's clothes [App] so Pinkor's products will be competing with those of other manufacturers [1]. Consumers will be able to directly compare the children's clothes and Pinkor may lose sales to competitors [1].

1 mark for each relevant advantage/disadvantage of selling through specialist retailers (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the advantage/disadvantage of selling through specialist retailers (maximum of 2 marks).

- d** Answers might include:

Yes, it should start selling directly to consumers online as it is possible that a different market segment buys children's clothes using the internet and a wider market of consumers can be reached. Pinkor, by saving the costs of using wholesalers and retailers, should be

able to sell clothes directly to consumers at lower prices. This will mean there could be higher sales made and increased profit from those higher sales.

No, customers might want to try on the clothes and if they buy online then postage costs for returned clothes to Pinkor might be high.

Student's overall conclusion, e.g. If Pinkor's clothes currently have to be sold to wholesalers at low prices then it is advisable to sell directly to consumers online. Pinkor could then sell its clothes online at lower consumer prices and still make more profit per unit. Pinkor may also be able to keep its prices lower than competitors in the children's clothes market, leading to higher sales.

Up to 2 marks for explaining an advantage of selling online.

Up to 2 marks for explaining a disadvantage of selling online OR an advantage of an alternative distribution channel.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 14: The marketing mix: promotion

Answers to activities

Activity 14.1

Student's own answers.

Activity 14.2

- a** A new magazine aimed at teenage boys: Price reductions, free gifts with the magazine, competitions.
- b** A new type of pen that is very comfortable to use and does not smudge: Displays and demonstrations in shops, special offers e.g. trial period of use, vouchers.
- c** A company making a famous brand of football boots wanting to expand sales: Competitions, vouchers.
- d** A new fast-food takeaway in a small town: Money-off coupons, price reductions or vouchers, competitions.
- e** A soft toy that changes colour when hugged and can be dressed in different clothes that change colour when warmed: Special offers and competitions, displays and demonstrations in shops.

Activity 14.3

This form of sales promotion – similar to a competition – offered high value prizes. It could be entered by any McDonald's customer (no minimum purchase was necessary). It was an easy to understand sales promotion and success or failure in the promotion was known immediately.

Activity 14.4

This is an important consumer product but insurance cannot be 'seen', so the benefits of ING insurance need to be clearly expressed and the adverts need to enable the potential customer to refer back to them for further information. Using the internet – social media and targeted emails – would allow potential customers to be contacted with relevant information that could be referred back to.

TV advertising would be used to project the name and brand identity of ING to potential customers who may not have heard of the business. They might then be more encouraged to read social media posts or targeted emails about ING insurance.

These methods of advertising seem to be appropriate. Billboards advertising ING insurance products could be used to reinforce the key messages to consumers in areas of quite high income or in business districts of cities.

Activity 14.5

Student's own answers.

Activity 14.6

- a** Nike shoe: The shoe is sold to teenagers and must therefore be advertised in places where it will be seen by teenagers, e.g. social media and targeted emails are most likely to be read by young consumers. Additional advertising on billboards could be used to project large images of the shoes and the 'cool' young people who wear them. Other options might include cinema, magazines for teenagers, possibly television if it is not too expensive and can be shown at times when teenagers will be watching. These methods of advertising cover the whole country and will probably be seen by most teenagers.
- b** A new bicycle: This will probably be purchased mainly by cycling enthusiasts and therefore targeted emails at people who read specialist bicycle magazines would be the best method to advertise, as it will be seen only by the target audience. Other places to advertise will be seen by many people who would not consider buying the bicycle and therefore the advert could be a waste of money. Leaflets placed in shops that sell the bicycle would also be helpful as it will draw the attention of the potential purchaser to this particular bicycle when at the point of sale, i.e. the bicycle shop.
- c** A new computer game: This will probably be purchased mainly by younger people and therefore similar places to the leisure shoe could be used – especially social media. However, adults and possibly younger children might also be part of the target audience and therefore television may be used, particularly if it is an online game. A downloadable game for mobile phones and other devices would have a wider target audience and therefore the places to advertise would be more varied.
- d** A new restaurant: This will probably be used by adults and only local people, therefore only local sources of advertisement need to be used. Any form of national advertising would be a waste of money. Advertising could be by local billboards, leaflets distributed in the local area, targeted emails to people who eat in restaurants frequently and social media. Leaflets handed out around the town that should reach the target audience; advertising could also be seen on apps that list restaurants local to the user.
- e** Carbonated (fizzy) soft drink: This is aimed at a wide section of people from younger children to older adults. It may be targeted particularly at younger people, but television advertising would probably be used so that a wide selection of people would see the advert. Billboards and social media would also be used to target, more specifically, the younger population.
- f** Local town festival: This is similar to the local restaurant; only local sources will be used – local billboards, possibly leaflets in local shops or distributed to local residents, and apps or social media groups that show events in the local area.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a Sales promotions are incentives such as special offers or reward schemes [1] aimed at consumers to achieve short-term increases in sales [1].

b Examples:

Vouchers [1] to provide a reduction in price if the exclusively designed shoes are purchased [App].

Reward schemes [1] which will encourage customers of these high-quality products to make further purchases [App].

1 mark for each relevant method of sales promotion (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

To increase sales [1] by persuading consumers to buy the shoes sold through its existing shops [App] rather than buying competitors' shoes [1].

To maintain its brand image [1] and make consumers believe the shoes are high quality [App] and are therefore worth paying a high price for [1].

Other answers possible.

1 mark for each relevant reason for advertising the existing products (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the reasons for advertising the existing products (maximum of 2 marks).

d Yes, advertising is important because if advertising the shoes through billboards in exclusive shopping malls, then customers will think the product is of a high quality; advertising is needed to reinforce the high-quality, exclusively designed brand image to justify the high price.

No, because customers may already like the exclusively designed shoes and any new products may sell because of the existing established brand name. Advertising adds to costs.

Student's overall conclusion, e.g. No, because its products are already well-known in shops that attract high income women buying designer shoes. Advertising is unlikely to attract any more customers – it will simply reinforce its brand image, which is already reinforced through the shops in which its products are sold.

Up to 2 marks for explaining the importance of advertising.

Up to 2 marks for explaining why advertising is not that important.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a Advertising is a paid for communication with potential customers about a product [1] to encourage them to buy it [1].

b Possible answers:

To inform customers of the availability [1] of the drinking glasses so they will buy them [App].

To give the plain glasses a brand image [1] so that customers will think they are of good quality and will be attracted to buying them for everyday use [App].

1 mark for each relevant reason for promotion (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

Social media [1], to increase awareness and encourage more customers to buy the products. [1]. Then customers may buy more sets of glasses for weddings, increasing sales and profit [App].

Billboards [1], so that potential customers will see the advert when they are driving past [1]. Sales of these decorated glasses for special occasions should be higher with more customers being aware of their availability [App].

Other answers possible

1 mark for each relevant advertising method (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the advertising method (maximum of 2 marks).

d Answers might include:

Special offers/discounts: Encourage customers to make more purchases of glasses to gain the discount; sales higher than might otherwise be but loss of revenue as lower price charged.

Competitions: Customers will make purchases of the drinking glasses in the hope of winning the competition but cost of prize needs to be paid for.

Student's overall conclusion, e.g. The method of sales promotion chosen should be special offers as the glasses are plain and sold to the mass market for everyday use. Therefore, customers will be more price sensitive and FK will need to be more attractive than its competitors. Customers may think they have little chance of winning a competition and therefore this method may be less attractive.

Up to 2 marks each for explaining an advantage and a disadvantage of each method of sales promotion (maximum of 4 marks).

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 15: Ecommerce

Answers to activities

Activity 15.1

Email could include:

Advantages: Can access account at any time of day or night; can make online payments without visiting branch or sending cheque; no travel costs to branch.

Disadvantages: IT failure will limit access to accounts; concerns about scams and identity theft; more difficult to build personal relationship with bank manager/employees.

Activity 15.2

- Fresh fruit: Physical shop as it can be brought home quickly, no delivery costs, can choose own fruit, less risk of damage, much fresher.
- Computer game: Online shopping from cheapest online provider, able to try game online, able to compare prices easily online.
- Car: Could be either as many manufacturers are moving towards virtual online dealerships, physical dealer allows consumer to see and test the car before buying, online dealer could offer lower prices as fixed costs will be lower.
- New clothes: If trying clothes on, feeling the quality of the cloth and gaining advice from sales staff are all important then buy from a physical shop. If price and wide choice are more important, choose online shopping
- Holiday in another country: Comparing prices and availability is easier online but travel agents with physical shops can offer advice and recommendations.
- Smartphone: If consumers know what model they want and know all about the technology of smartphones then buying online is better – more choice and easier to make price comparisons. For consumers who are less well informed and confused about choice between smartphones and their functions, then a physical shop might be better.

Activity 15.3

- a** Fewer employees needed in ticket offices, easy to check tourists have tickets as they arrive with QR codes, tourists can buy tickets 24/7 not just when ticket shop is open – this could increase overall sales.
- b** IT failure could prevent any tickets from being sold during the period of breakdown, tourists might be reluctant to buy tickets because of security issues, significant investment in IT needed.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** A system of electronic payments [1] that enables customers of a bank to make financial transactions through the bank's website [1].
- b** Possible answers:
More convenient for JJ [1] as the bank branch may be many miles away from the jewellery shop [App].
Easy to retrieve account information [1] so JJ can quickly check if it has sufficient funds to purchase more inventory of high-priced jewellery items [App].

1 mark for each relevant advantage of using internet banking (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:
Customers may not have access to online payment methods [1] for JJ's uniquely designed jewellery [App] and this may mean they will not be able to make purchases from JJ [1].

Customers may fear having their online accounts hacked [1] and they may prefer to only use more traditional methods such as paying with cash [1], so customers may only buy from physical stores and not purchase this handmade jewellery [App].

1 mark for each relevant disadvantage of only accepting online payments (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the disadvantage of only accepting online payments (maximum of 2 marks).

d Answers might include:

Yes: Selling online will keep costs low and will allow more profit to be retained by the business, which could be spent on developing more items of handmade jewellery.

No: Do not sell online, as if products are normally purchased by consumers from jewellery shops it would be inconvenient to order them online. Customers cannot try on the jewellery before making a purchase, which may make them reluctant to make a purchase.

Student's own conclusion, e.g. If a business is aiming at international markets and wanting to increase sales, then online selling is a good decision, as these customers would not visit the jewellery shop anyway. Images of the jewellery can be shown on its website so customers may be willing to make the purchase even though they cannot see the quality of the items before buying.

Up to 2 marks for explaining an advantage of selling online.

Up to 2 marks for explaining a disadvantage of selling online OR an advantage of continuing to sell through its shop.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a The online buying and selling of goods and services [1] using internet linked devices such as laptops and smartphones [1].

b There may be some delay in PP confirming the details of the booking [1] as the holiday confirmation may not always be available straight away [App].

The customer cannot discuss their specific requirements with sales staff [1], such as if they need wheelchair access at the hotel [App].

1 mark for each relevant disadvantage to customers of buying through a website (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

Prices may be lower [1] compared to using holiday shops [App] so it will make the overall cost of the holiday lower, making PP more competitive [1].

More choice available online [1] in terms of destinations and types of holidays that can be booked [App]. Customers more likely to find the ideal holiday that meets their requirements [1].

1 mark for each relevant reason (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the reason (maximum of 2 marks).

d Answers might include:

Yes, selling only online will keep costs down as there is no shop to pay rent etc.; the business can be more competitive than businesses that sell holidays through holiday shops.

No, selling through its own holiday shop is better as personal customer service can be offered; customers can discuss their needs and be sure their requirements are being met.

Student's own conclusion, e.g. Only selling holidays online through its website is the best method to choose as costs are kept low, making PP more competitive with other companies selling similar holidays. If other holiday companies are also selling through their websites, if PP sells through holiday shops it is unlikely to remain in business.

Up to 2 marks for explaining the advantage to the business of selling online.

Up to 2 marks for explaining the disadvantage of selling online OR an advantage of having its own shops.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 16: Marketing strategy, entering new markets in other countries and legal controls

Answers to activities

Activity 16.1

Jawbone's marketing strategy failed for two main reasons – the product did not perform well enough and had too few features compared to competitors' products, and it did not use competitive pricing.

In a high-tech market such as fitness trackers it is important to keep developing and improving the product, otherwise competitors will take higher market shares as their products, perhaps more recently launched on the market, will be preferred by consumers.

In highly competitive markets with several well-known competitors, as in the fitness tracker market, it is important that the price remains competitive. If Jawbone's products clearly performed better than all of its competitors it might have been able to charge higher prices. As its products were falling behind those of other businesses, it should at least have used competitive pricing.

Activity 16.2

Student's own answers.

Activity 16.3

Student's own answers.

Activity 16.4

- a** McDonald's changed its menu for the Indian market as consumer tastes are different and the culture of the country is different to other markets the company operates in. Beef-related products would not be popular in India and could even offend many consumers. By adapting the menu to Asian tastes, for example, spicy foods, McDonald's stands a better chance of its restaurants in India being successful.

- b** Yes: Different tastes and cultures exist throughout the world. These are often greatest in food products. It would be good marketing to change menus to reflect each country's own culture and the food tastes of local consumers as this would lead to higher demand and profit.

No: It is expensive to have different menus, recipes and ingredients for every country. It would be more difficult to establish a brand image for the company, for example, the Big Mac could not be advertised or sold in all markets.

Overall student decision and justification.

Activity 16.5

Student explains why protection is or is not needed in each case:

- a** Consumers do not have great knowledge about every product they buy, especially technical products. If a product is not made from the materials advertised or if it does not contain the features it is advertised as having, then consumers need protection. For example, laws on trade descriptions.
- b** Consumers need confidence that they are receiving the right quantity of goods as stated on the packaging. Otherwise, they are being overcharged for the quantity that they do receive. They cannot be expected to check on quantity as they buy a product. They need protection from businesses trying to mislead them. For example, laws on weights and measures.
- c** Consumers need protection when a product is described in a certain way and then fails to perform to this standard. They should be able to demand a replacement or get their money back. For example, laws on sale of goods.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Example answers:

Different cultures might mean customer needs for make-up are different [1].

Marketing methods might need to be different to attract a younger average age of population [1].

Other answers possible.

1 mark for each relevant way a new market might be different to the home market (maximum of 2 marks).

- b** Possible answers:

To increase sales [1] because the home market for cosmetics is saturated [App].

To expand into a new market [1] for make-up such as the African market as it has fewer competitors and is expanding rapidly [App].

1 mark for each relevant reason why KKosmetics might want to enter a new market in another country (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

Lack of knowledge of existing competition from local firms [1] may mean that KKosmetics will need to reduce prices of its make-up [App] in order to compete and this may reduce its profits [1].

Cultural differences mean the consumer needs and tastes for cosmetic products might be very different for African women [App] compared to European women, and if KKosmetics fails to identify these special needs by market research [1] it could fail to expand successfully [1].

1 mark for each relevant disadvantage of trying to enter markets in other countries (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the disadvantage of trying to enter markets in other countries (maximum of 2 marks).

d Answers might include:

Yes: The marketing mix will need to change as the products will not meet the tastes and fashion of African customers if the products are the same as for European customers. Cultural differences may mean the advertising and sales promotions will need to be different or sales will be low. The products may need to sell for a lower price to allow the company to enter the market easily. The business might undertake market research to establish needs/tastes of consumers in the new markets.

No: Customers might want to buy branded European products and prefer these to locally produced products even if they are sold at a much higher price. The brand image may mean that different advertising methods are not needed as the image itself will make the products attractive.

Student's overall conclusion, e.g. The business is better to carry out market research to ensure its products are changed to meet the tastes and fashion of African women, so sales will be high. It is unlikely that KKosmetics will be successful in the new markets if it does not adjust its marketing to the local markets.

Up to 2 marks for explaining why the marketing mix might need to change.

Up to 2 marks for explaining why the marketing mix might not need to change.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a Legal controls on business are laws passed by government to protect consumers [1] from faulty goods, unsafe goods and misleading promotion [1].

b Possible answers:

It is illegal to sell and use equipment that is faulty [1] so mountain climbing equipment must be safety checked to make sure there are no faults [App].

It is illegal to sell goods that are not safe for people to consume [1] so fresh food has to be safely prepared in the cafe [App].

1 mark for each relevant type of legal control (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c A competitor could be fined [1] for not observing the legal controls about food safety standards in their cafes [App]. This could reduce their profits [1].

The competitors could have a bad reputation, spread on social media [1], about the mountain climbing adventures not being safe [App], leading to fewer customers using the competitors' services, leading to reduced revenue [1].

1 mark for each relevant disadvantage to low-priced competitors of not observing legal controls (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each relevant explanation of disadvantages to low-priced competitors of not observing legal controls (maximum of 2 marks).

- d Answer could include:

Yes, they are right to follow legal controls as it will avoid them being fined or receiving a bad reputation, reducing profit and reducing sales.

No, they should not follow legal controls as costs may be higher for fresh food and the purchase of updated safety equipment – which means if controls are not followed prices will be lower and the business can more easily compete with competitors – possibly increasing sales.

Student's overall conclusion, e.g. Yes, legal controls should be followed as it will mean the business keeps a good reputation for being safe when offering rock climbing or zip wire activities, which should attract customers and increase sales. If legal controls are not followed it is likely at some point that the business will be prosecuted, leading to a bad reputation and falling sales.

Up to 2 marks for explaining an advantage of following legal controls.

Up to 2 marks for explaining a disadvantage of following legal controls.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Section 3: Marketing

End-of-section case study answers

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Appendix 1 shows sales of ChocoCrocs products. Explain which stage of the product life cycle each of the following ChocoCrocs products are at:
- small choc bars
 - Large choc bars. [8]
 - Small choc bars: growth stage [1], as sales are starting to grow rapidly [1]. This shows that the product is becoming very popular with consumers as demand is rising [1] and this is particularly with children who love the crocodile-shaped chocolate bar [App].
 - Large choc bars: decline stage, as sales are falling. The product has probably lost its appeal with male consumers – it is likely that the product will be withdrawn from sale.

1 mark for each stage of the product life cycle (2K) plus 2 marks for explaining each stage (4An) plus 1 application mark × 2 products (2App).

- b** ChocoCrocs is considering what pricing method to use for the crocodile-shaped children's chocolate bars. Consider the advantages and disadvantages of **two** pricing methods it could use. Which pricing method should ChocoCrocs choose? Justify your answer. [12]
- Cost-plus
 - Competitive

	Advantages	Disadvantages
Cost-plus	• Easy to apply if cost per unit is known • Each product contributes to the profit of the business	• Lose sales if price is higher than competitors' prices • A total profit is only made if enough units of the product are actually sold
Competitive	• Not more expensive than competitors' products • Sales are not likely to be lost to competitors as the product is not underpriced or overpriced • Avoids price competition	• Costs of researching competitors' prices • If costs are higher than competitors' costs then could lead to losses or low profit margins

Not all these points need to be included in an answer. One or two advantages and disadvantages should be explained as to why they are an advantage or a disadvantage to this business. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of two pricing methods. Well-justified recommendation. Students who discuss two methods in detail, in context and with well-justified recommendation, including why the alternative method was rejected, should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of at least one pricing method. Judgement with some justification/evaluation of recommendation made. Students should be rewarded with top marks in this band if there is discussion of two methods in detail and the answer is applied to the case.	5–8
Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the pricing methods with little/no explanation. Simple judgement with limited justification/evaluation of choice made. Students who outline the two pricing methods in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

2

- a ChocoCrocs has a website that gives customers information about the products it sells. Explain **two** other ways that ChocoCrocs could find the internet useful to the business in the marketing of its products. [8]

- Advertising on social media sites
- Advertising on company's own website
- Specialised apps
- Tweets
- Blogs

For example: Advertising on social media sites [1] will bring the praline-filled chocolate bars and the large chocolate bars [App] to the attention of adults who might be using social media on a regular basis [1]. By seeing persuasive adverts for these products, it might encourage adults to make more purchases and so sales and revenue may increase [1].

1 mark for each suitable way of using the internet to market the new product (2K) plus 2 marks for explaining why each of these ways would be effective for this product (4An) plus 1 application mark × 2 ways (2App).

- b** Consider why primary market research and secondary market research are important to the success of ChocoCrocs. Which is more important to ChocoCrocs when developing a new product? Justify your answer. [12]

	Why it is important
Primary market research	• It is up to date • Detailed opinions and attitudes may be obtained and focused on the business's new product • Customer opinions can be obtained – make sure the new product is developed to meet the needs and expectations of potential customers • It is cheaper to collate and analyse results than those results collected from postal questionnaires • It is not available to competitors
Secondary market research	• Larger amounts of numerical results about competitors are likely to be obtained than from primary research and can be used to help to make the marketing mix appropriate for the new product • Quicker and cheaper to obtain data so does not delay the new product being launched onto the market • Can gain information that cannot be gained by primary research methods about the market as a whole

Not all these points need to be included in an answer. One or two points for each should be explained as to why they are important to the success of this business. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of importance of both types of market research. Well-justified conclusion. Students who discuss both types of market research, in context and with a well-justified conclusion, including why the alternative type of research is less important, should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of the importance of at least one type of market research. Judgement with some justification/evaluation of judgement made. Students should be rewarded with top marks in this band if there is discussion of both types of market research in detail and the answer is applied to the case.	5–8

Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the types of market research with little/no explanation. Simple judgement with limited justification/evaluation of judgement made. Students who outline both types of market research in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

Optional question**3**

- a** Explain **four** ways in which the size of the ChocoCrocs business could be measured. [8]

- Number of people employed
- Value of output or sales
- Volume of output or sales
- Value of capital employed

For example: Number of people employed [1]. This business may employ more people than other similar chocolate producers so this measure may show it is larger [App].

1 mark for each suitable way of measuring size of business (4K) plus 1 mark for explaining why each way would be effective for measuring size in the context of this business (4App).

- b** Consider the following **two** ways ChocoCrocs could expand. Which way should ChocoCrocs choose? Justify your answer. [12]
- Internal growth
 - External growth

	Advantages	Disadvantages
Internal growth	• Keep existing organisational structure. More gradual so easier to manage • Ownership and control remains the same • Less risk of takeover • May use retained profit for finance, therefore less external debt	• Slower method of growth – competitors may take advantage of opportunities • There may be limited capital, which will restrict how quickly company can grow • No transfer of new ideas • Need to develop new products and/or new markets (can be an advantage or disadvantage depending on the explanation)

External growth	• Can grow quickly • Opportunities to gain from economics of scale more quickly • Reduces competition as fewer competitors • Larger market share as taken over competitor • Backward vertical integration can give assured supplies of components/raw materials and absorbs profit margins • Forward vertical integration gives assured outlets for the products and absorbs profits margins	• Large amounts of capital required to take over other businesses • May suffer from diseconomies of scale • Managers may lack the skills necessary for the larger business and different operations if there is forward or backward vertical integration • May lose motivation of workforce of the business taken over
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Not all these points need to be included in an answer. One or two advantages and disadvantages should be explained as to why they are an advantage or a disadvantage to this business. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of the two ways of expanding. Well-justified recommendation. Students who discuss both ways of expanding in detail, in context and with a well-justified recommendation, including why the alternative way is rejected, should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of at least one of the ways. Judgement with some justification/evaluation of recommendation made. Students should be rewarded with top marks in this band if there is discussion of both ways in detail and the answer is applied to the case.	5–8
Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the ways with little/no explanation. Simple judgement with limited justification/evaluation of choice made. Students who outline both ways in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

Section 4: Operations management

Chapter 17: Production of goods and services

Answers to activities

Activity 17.1

- a** See table below: labour productivity increased to start with, but then remained steady.

Year	Output = number of cakes produced	Number of employees	Labour productivity
2023	10 000	30	333.33
2024	20 000	40	500
2025	30 000	50	600

- b** Increase the productivity of Better Bakers by introducing new technology; improve worker motivation; improve employee training.
- c** Improved efficiency will mean that the cost of making each cake is reduced. If prices remain the same then Better Bakers will increase profit. Better efficiency means that Better Bakers could reduce the prices of cakes and make the same profit on each one. Lower prices will increase sales and market share.

Activity 17.2

Student's own answer. Should give examples for each of the following: overproduction, waiting, transportation, unnecessary inventory, motion, over-processing and defects.

Activity 17.3

Changes identified should include: Reduced space needed for production; work-in-progress is reduced; less inventory of raw materials; finished product not stored; more of a flow through the factory; some machines are grouped together.

Activity 17.4

- a** Job production then batch production when she first rents a factory. Finally, she uses flow production when moving to the larger factory.
- b** Increased demand means more output needs to be produced. Also, Tara wanted increased efficiency and lower costs per unit.

Activity 17.5

a

- Walls: Flow production, as the ice cream is mass-produced and each type of ice cream is the same.
- Alexander: Job production, as each customer wants individual attention. Each hairstyle is different to meet each customer's needs.

- b** Batch production is the most suitable method given that the components are standardised for use in several engines. The production of engines is unlikely to be large enough to make flow production viable. Job production might be used for the specialised parts used in just one type of engine.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Labour productivity is the number of units a worker produces [1] in a given period of time [1].

- b** Possible answers:

Each product can be made to the exact requirements of the customer [1] so a wedding cake will be exactly as the customer wants, increasing their satisfaction [App].

The work will be more interesting for the employees [1], meaning that one-off designs of cakes will be more motivating for the employees to produce [App].

1 mark for each relevant advantage of using job production (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

Machines have to be reset after each batch [1], so the bakery needs to change from one batch of cakes to a batch of another type of cake [App]. This will slow down production [1].

Inventory of part-finished products will be high [1] so part-baked bread will need to be stored until ready to use [App] and it means the cost of storage space is increased [1].

Employees may need more skills as they switch from one task to another [1] when producing loaves [App] and this may increase training costs [1].

1 mark for each relevant disadvantage to using batch production (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the disadvantages of using batch production (maximum of 2 marks).

- d** Yes, he should change to flow production because production of loaves will be faster, high output will be produced, costs will be lower and capital-intensive methods could be used.

No, he should not change because standardised bread is boring for the employees, there are large capital costs, if machinery breaks down then the whole production line stops, and consumers may not want to buy large quantities of standardised items.

Student's overall conclusion, e.g. No, if demand is not very high for most of the bakery products then low sales will not justify the increased output from using flow production and products will be left unsold. There is also the increased cost of the machinery that will not be justified.

Up to 2 marks for explaining an advantage of flow production.

Up to 2 marks for explaining a disadvantage of flow production.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a Flow production is where large quantities of a product are produced [1] in a continuous process [1].

b Possible answers:

To prevent customers having to wait a long time for their order [1] of furniture to be ready and delivered [App].

To reduce the risk of running out of materials and components [1] such as wood in his factory which would slow down production [App].

1 mark for each relevant reason why a business hold inventories (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

Average cost will be higher [1] as each product produced in the factory [App] will require more labour time to make it [1].

Less output will be produced [1] as each piece of furniture will be produced more slowly [App] and customers may want their order quickly and therefore may be unhappy with the business [1].

1 mark for each relevant disadvantage of low levels of efficiency (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the disadvantages of low levels of efficiency (maximum of 2 marks).

d Answers might include:

Yes: Lean production will increase efficiency; less inventory is required to be stored; it may make unit costs of each item of furniture lower so prices could be reduced or the profits for the business increased.

No: Lean production should not be introduced as the flow production line may be stopped if wood is delivered late or unreliable suppliers are used, then employees would just be standing around waiting for materials to arrive. This would increase costs and delay the production of furniture.

Student's overall conclusion, e.g. Yes, lean production can increase efficiency of production (higher productivity) without affecting the overall quality and appearance of the furniture, assuming reliable suppliers deliver the raw materials just when it is needed on the flow production line.

Up to 2 marks for explaining an advantage of lean production methods.

Up to 2 marks for explaining a disadvantage of lean production methods.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 18: Technology and production of goods and services

Answers to activities

Activity 18.1

- a** Consumer goods, including footwear and fashion items.
Producer goods, such as machine parts and prototypes.
- b** Quick production of new designs or prototypes of new products; no need for skilled labour required in manufacturing these 3D products.
- c** Gives businesses more choice over where to locate as the need for many raw materials or large areas of land for production is much reduced.

Activity 18.2

- a** Any points taken from the student book, including:
Advantages: Reduced employee costs and no handling of cash.
Disadvantages: Cost of equipment; cost of employee training.
- b** Any points taken from the student book, including:
Advantages: Increased convenience; quicker service.
Disadvantages: Concern over IT security; there is often an upper maximum limit for the value of purchases.

Activity 18.3

Student's own answers.

Activity 18.4

Student's own answers.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Automation is the use of advanced technology [1] to make a production method work automatically without employee control [1].
- b** Possible answers:
Advantage: Routine and boring jobs now carried out by machines [1] instead of employees making the soups [App].
Wages may be higher [1] as production has increased by 50% [App].
Disadvantage: May be job losses [1] as employees are not needed to prepare curries [App].
Fear of change [1] for employees that used to carry out the food processes in the factory [App].

1 mark for each relevant advantage/disadvantage (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

Advantage: Increased number of customers served per hour [1] which decreases average costs [1] when using contactless payment methods [App].

The chatbot service used by ATZ [App] answers customer queries quickly [1] which increases customer satisfaction [1].

Disadvantage: High initial costs of setting up the new technology [1] as the business will need to buy new equipment [1] to automatically answer customer complaints in the supermarket [App].

There may be no personal service [1] as using new technology methods may mean there is no human contact when answering customers' queries [1] about the food products sold in the supermarket [App].

1 mark for each relevant advantage/disadvantage to the business of using technological methods to improve customer service (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the advantage/disadvantage to the business of using technological methods to improve customer service (maximum of 2 marks).

d Yes, automation will increase productivity as more efficient production methods to produce desserts will be used, leading to lower unit costs. This may allow the business to be more competitive as prices, when selling the products in the supermarket, may be lowered. May be able to reduce the number of employees required which will lower wage costs.

No, automation should not have been introduced in the factory as redundancy payments will need to be paid to employees and this can be very expensive. Employees that do not lose their jobs will be less secure and will need training on how to use the technology. It can no longer claim to make 'handmade' products.

Student's overall conclusion, e.g. Automation should be introduced into the factory to ensure average costs are kept down and ATZ remains competitive with other supermarkets. Automation will greatly increase productivity and this will mean that products produced in its factories can be sold at lower prices in its own supermarkets, increasing sales and revenue.

Up to 2 marks for explaining an advantage of automation.

Up to 2 marks for explaining a disadvantage of automation.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a 3D printing is producing a physical 3-dimensional object [1] from a digital design [1].

b Possible answers:

Advantages: Lower production costs [1] to manufacture engine parts [App].

No labour is required [1] to make the new parts that weigh less than the old ones [App].

1 mark for each relevant advantage (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

Advantage: The engineers are now highly skilled [1] to use 3D printers to produce engine parts [App], making it easier for them to leave and get a higher paid job with another business [1].

Disadvantage: High costs of training employees [1] to be able to use the 3D printers [App], which is likely to mean less output is produced while the engineers are being trained [1].

1 mark for each relevant advantage/disadvantage of training (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the advantage/disadvantage of training (maximum of 2 marks).

d Yes, changes in new technology have benefitted RDZ as CAM has reduced production costs. The engine parts weigh less, meaning less material is needed to make the engine parts and also means less waste when these products are manufactured. This is likely to lead to lower unit costs. This may allow the business to be more competitive as prices may be lowered.

No, changes in technology have not benefitted RDZ, as engineers are in short supply and find it much easier to leave and gain a very high paid job with another business. So if RDZ wants to keep these employees it will need to increase wage costs significantly.

Student's overall conclusion, e.g. New technology will ensure average costs are kept down assuming wage costs are not increased too much. New technology will probably replace many jobs, so if fewer employees are paid a higher wage, it may not increase overall wage costs meaning RDZ will remain competitive with other manufacturers of engine parts.

Up to 2 marks for explaining an advantage of new technology.

Up to 2 marks for explaining a disadvantage of new technology.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 19: Sustainable production of goods and services

Answers to activities

Activity 19.1

Student's own answers.

Activity 19.2

a Sustainable production needs businesses to minimise use of raw resources and dangerous materials and to reduce waste and pollution.

b Fibres from grain are recycled in mushroom production.

Energy is made from recycled materials, not from burning fuels such as oil which add to pollution.

Waste water is reused, cutting the use of this natural resource.

- c Competitiveness increases because recycling and reuse of resources can be lower cost than purchasing non sustainable materials; consumers may prefer to buy products from businesses that use sustainable production methods.

Activity 19.3

Student's own answers, but could focus on, for example: Car manufacturer using renewable energy and recyclable materials in production; drinks manufacturer using containers which are made from recycled materials and which can again be recycled after use.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a Environmentally friendly products do not cause damage to the environment [1] when they are being produced [1].

- b Possible answers:

Less waste is produced [1] when manufacturing washing machines [App].

Fewer resources are used up [1] by the business using recycled copper [App].

1 mark for each relevant way more sustainable production could benefit the environment (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c Possible answers:

Solar panels will mean less energy is purchased [1] as the solar panels will generate electricity for the business to use [1] when it is manufacturing washing machines [App].

Redgate will be recognised as a business that is trying to be sustainable [1] by using recycled copper and reusing water [App] in addition to the solar panels to generate renewable energy to make its products which should all reinforce its brand image as being environmentally friendly [1].

1 mark for each relevant advantage of using solar panels (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the advantages of using solar panels (maximum of 2 marks).

- d Yes, Rishi is right to want to be the most sustainable washing machine manufacturer in the world as this will attract many consumers who are concerned about global warming, leading to increased sales and revenue. If its competitors are not as sustainable then Redgate may be able to increase its global market share.

No, Rishi should not want to be the most sustainable washing machine manufacturer in the world as this will probably mean higher costs from purchasing equipment that allows the business to reuse water by filtering it and using recycled copper which may be more expensive to buy. This is likely to lead to higher prices for washing machines, which may lead to lower sales.

Student's overall conclusion, e.g. Redgate should not try to be the world leader in the production of sustainable washing machines as many consumers will only be concerned with the price they pay for a washing machine and might not even know or care how it is made. By not aiming to be the most sustainable then it may be able to keep costs lower and increase sales as a result.

Up to 2 marks for explaining an advantage of being the most sustainable manufacturer.

Up to 2 marks for explaining a disadvantage of being the most sustainable manufacturer.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a Sustainable production needs businesses to minimise the use of raw resources and dangerous materials [1] and to reduce waste and pollution [1].

b Possible answers:

Use less materials in the packaging [1] of clothes and shoes [App].

Use materials that are recyclable [1] for the packaging of toys [App].

1 mark for each relevant way the packaging could be more environmentally friendly (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

Use materials that are recycled [1] to manufacture its toys [App] so that resources are not being used up when making its products [1].

Use renewable energy [1] such as wind turbines to generate electricity [1] to power the machines to manufacture clothes and shoes [App].

1 mark for each relevant way the business could become more sustainable (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the ways the business could become more sustainable (maximum of 2 marks).

d Yes, the new Managing Director is right to try to make KKQ more sustainable as this will reduce resources used in the manufacture of clothes and shoes which may reduce costs. If its competitors are not as sustainable, then KKQ may be able to increase its profits if it reduces prices but keeps profit margins the same.

No, the new Managing Director is not right to try to make KKQ more sustainable as this will probably mean that some of the reused materials may not be of as high a quality as the previous materials used. This is likely to lead to lower quality, which may lead to lower sales.

Student's overall conclusion, e.g. KKQ should try to become more sustainable as its reputation will improve and many consumers are likely to prefer to buy clothes, shoes and toys from a manufacturer that is sustainable, so sales and revenue will increase.

Consumers may even be prepared to pay a higher price if costs rise and require a higher price to maintain profit margins.

Up to 2 marks for explaining an advantage of being more sustainable.

Up to 2 marks for explaining a disadvantage of being more sustainable.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 20: Costs, scale of production and break-even analysis

Answers to activities

Activity 20.1

Student's own answers.

Activity 20.2

- Fixed: Rent; insurance; bank fees; management salaries.
- Variable: Raw materials.

Student's own answer for other costs.

Activity 20.3

- a** Y = \$24 million; Z = \$14 million
- b** Y = \$36 million; Z = \$20 million
- c** Y = \$3000; Z = \$4000
- d** The managers can compare these average costs and use them to set different prices for these two models. If they think that Z is too expensive to produce compared with Y then they might try to reduce production costs.

Activity 20.4

- Able to bulk buy raw materials more cheaply, for example, clay used to make bricks.
- Able to obtain lower interest rate loans from banks as they believe the business is now safer and less risky.
- Able to recruit specialist managers to operate each department and division, for example, production and marketing. These specialists should operate their departments more efficiently than non-specialist managers.

Activity 20.5

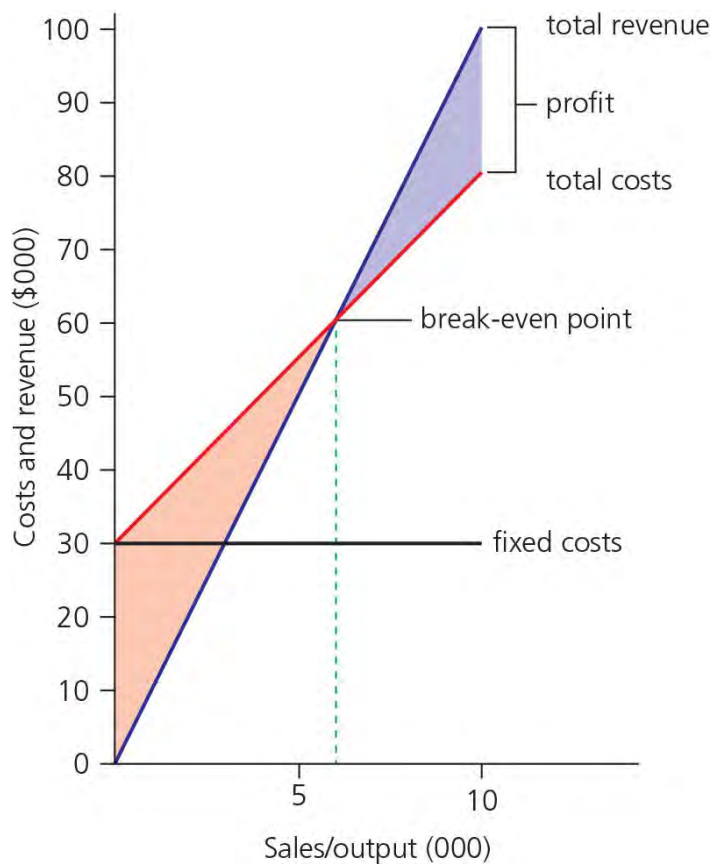
- a** A = \$200 000
B = \$3 850 000
- b** A = \$10
B = \$5.50
- c** Economies of scale, such as purchasing, technical, managerial.
Explain in the context of a much larger shoe factory.
- d** Lower average costs will allow Company B to charge lower prices and gain a competitive advantage; if Company B keeps its prices quite high it will make a higher profit per product than Company A.

Activity 20.6

a

	Output = 0	Maximum output = 10 000
Fixed costs	\$30 000	\$30 000
Total variable costs	0	\$50 000
Total costs	\$30 000	\$80 000
Revenue	0	\$100 000

b



- c If you have drawn the chart correctly then:
 Break-even level of sales/output: 6000 units
 Level of profit at maximum output: \$20 000

d 4000 units

Activity 20.7

- a 900 meals
 b \$2400
 c 1200 meals

Activity 20.8

- a Student's own answer, but if correctly drawn the new break-even output should be 833.

- b** Student's own answer. Break-even output is the same – there should be a discussion of the effect of a higher price on demand and cheaper raw materials on quality and demand.

Activity 20.9

- a** Student's own answers.

b

- i** BE = 6000 units
- ii** Margin of safety = 1500 units
- iii** Profit at an output of 9000 = \$3000

- c** Profit increases to \$12 000 and break-even down to 3000 units.
- d** The business might not be able to sell the same number of units following an increase in price. It depends on the reaction of consumer demand to an increase in price.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Costs that change [1] with the number of units produced/level of output [1].
- b** She could move to a cheaper market [1] with lower rent costs for the market stall [App].
She could pay her sales assistant less for each item sold [1] but keep selling her jewellery for the same price [App].

1 mark for each relevant way the break-even output could be reduced (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Large manufacturers could buy gold, gems and other raw materials [App] at a slightly lower price [1] if they bought in large quantities/bulk buy [1].
Larger firms could afford specialised and efficient machines [1] rather than simple tools to shape jewellery [App] to increase output per worker [1].

1 mark for each relevant reason why large manufacturers can produce at a lower unit cost (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the reasons why large manufacturers can produce at a lower unit cost (maximum of 2 marks).

- d** Break-even analysis will show what happens to break-even sales if she charges higher prices for the jewellery in the shop because it is in the city centre. Higher prices will reduce the break-even level of sales and make it easier for Sasha to break even and start making a profit if sales remain at the same level rather than fall with the higher price charged in the shop.

Break-even analysis will show how many sales Sasha will need to make to break even as the rent of the shop will be higher so fixed costs will be higher than for the market stall. Higher fixed costs will increase the break-even level of sales and Sasha can decide if there will be many more sales to make it worth opening a shop.

Student's overall conclusion, e.g. Opening a shop will definitely increase fixed costs as rent will increase so this may be more important than seeing if Sasha can increase prices. Increasing price has the risk that although break-even analysis will show that the break-even sales will fall, it may not happen if the market is very competitive.

Up to 2 marks for explaining a way break-even analysis is helpful to the decision of whether to open a shop (× 2 ways).

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a Costs that do not change as output [1] rises or falls [1].

b Possible answers:

Fixed costs may have increased [1] as there may have been an increase in the interest payment on bank loans used to increase output when there are higher sales [App].

Variable costs may have increased [1] such as the cost of wages for production employees making soft drinks [App].

1 mark for each relevant reason for costs to increase (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

There may be poor communication between departments [1] which is likely to lead to poor decisions being made, so average costs will increase [1] when manufacturing a higher volume of soft drinks [App].

Lack of commitment by employees [1]. They may lack motivation and not work hard in a big business as they feel unimportant [1] as part of one of the world's largest producers of drinks [App].

1 mark for each relevant diseconomy of scale (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the diseconomies of scale (maximum of 2 marks).

d Answers might include:

Raise prices of the drinks: Higher prices will increase the contribution made from each product and this will reduce the break-even output. But this could reduce demand too much and revenue might actually fall.

Lower fixed costs: This could be done by locating in an area where business rental costs are lower, away from a town, but there might be a shortage of production employees in such an area and the business might have to pay higher wages to attract enough employees to the factory.

Other answers possible.

Student's overall conclusion, e.g. If the brand image is excellent then the business might be able to raise prices with no significant fall in demand for the soft drinks and this would reduce the break-even level of output of the factory.

Up to 2 marks for explaining a way to reduce the break-even level of output (× 2 ways).

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 21: Quality of goods and services

Answers to activities

Activity 21.1

Student's own answers, which should explain the different consumer expectations of quality.

Activity 21.2

- a** To maintain reputation for a high performing but very safe product; reputation for reliability of the aero engines will encourage aircraft makers to fit RR engines to their planes.
- b** Due to the high cost of producing aircraft engines it would not be good to find a fault at the end of the production process using quality control. This would mean that the whole engine would have to be dismantled and reworked.

Quality should be designed into the product and assured at every stage of production. Finding a faulty component early in the production process will avoid expensive reworking of the whole engine. So QA is better than QC, particularly in this case.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Quality control is the checking for quality of a good or service [1] at the end of the production process [1].
- b** Customer dissatisfaction [1] when purchasing its flip-flops [App].
Bad reputation [1] for its low-priced products bought from supermarkets [App].

1 mark for each relevant disadvantage of having faulty products (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

It is expensive [1] as have to pay inspectors to check the product at the end of production line [1] and it may make the final cost of the flip-flops higher, so the price of the shoes will be higher [App].

Identifies faults, but does not find out why the fault has occurred [1] therefore it is difficult to remove the problem [1], and the shoes could be sold to a customer, leading to more customer complaints and a poor reputation [App].

Increased costs if the products are faulty [1] and have to be scrapped, then more shoes will need to be made [App]. This will increase the total costs of producing the shoes, leading to lower profits [1].

1 mark for each relevant disadvantage of using quality control (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the disadvantages of using quality control (maximum of 2 marks).

- d** Yes, DR should use quality assurance because it will give a good reputation to the flip-flop shoes as it is likely that any faults will be eliminated when they occur in the production process and before they reach customers, which will lead to higher sales.

No, DR should not use quality assurance because it is expensive to train all employees for it and the flip-flops are low-priced products so it will be difficult to cover this increased cost. All processes would need to be checked at each stage of production by employees.

Student's overall conclusion, e.g. The profit on each pair of shoes sold might be low as these are low-priced products so the increase in costs might not be justified for DR to change to quality assurance.

Up to 2 marks for explaining an advantage of quality assurance.

Up to 2 marks for explaining a disadvantage of quality assurance OR an advantage of quality control.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** The setting of quality standards throughout the production process [1] and checking these are reached at each stage of the process [1].

- b** Possible answers:

It will maintain a good reputation [1] for the private limited company [App].

It will attract new customers [1] to the three cafes [App].

Other answers possible.

1 mark for each relevant advantage of improved quality (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

It tries to eliminate faults or errors [1] before the customer receives the product or service [1] so that they are not disappointed with the coffee or sandwiches [App].

There will be fewer customer complaints [1] because faults will be found and put right before the coffee and food are given to the customer [App]. This will mean the business does not get a poor reputation [1].

1 mark for each relevant reason for introducing quality assurance (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the reasons for introducing quality assurance (maximum of 2 marks).

- d** Answers might include:

Yes: Quality control inspectors could check that faulty products do not reach customers; employees do not have to be trained in checking quality; employees can focus on their tasks in the cafe rather than checking for quality.

No: Quality control can be expensive when employing quality inspectors; not every sandwich and coffee can be tested; high costs of scrapping products that fail the checks.

Student's overall conclusion, e.g. No, the business should not employ quality inspectors to carry out quality control as the cafe cannot test every product that is served to customers, so faulty products may still get served to customers, leading to a poor reputation and lower sales.

Up to 2 marks for explaining an advantage of using quality control inspections.

Up to 2 marks for explaining a disadvantage of using quality control inspections OR an advantage of using quality assurance.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 22: Location decisions

Answers to activities

Activity 22.1

a Factors:

Market – likely to be the main population centres

Availability of water

Raw materials – fresh fruit

Transport of ice creams

Availability of skilled labour

Electric power – but this could be obtainable throughout the country

b Raw materials – supplies of fresh fruit, which is a key ingredient in this case – or availability of clean water are likely to be the most important to the location decision. Reasons why should be given in the answer.

Activity 22.2

a and **b**

Electrician:

Discussion of: Needs to be near to local customers; personal preference of owner; rent/taxes on premises, e.g. small workshop; possibly availability of labour if they employ workers; competition from other electricians in the location being considered.

Software business:

Discussion of: Personal preference of owners; customers do not need direct contact; availability of labour trained in IT; rent/taxes on premises; access to other IT businesses for support.

Scuba training centre:

Discussion of: Needs direct contact with customers; needs to be sited near suitable dive sites where the customers will go; near to other businesses, such as in holiday resorts; climate; rent/taxes on premises; personal preference of owners.

Activity 22.3

a Student's own answer which should consider the advantages and disadvantages of both sites, particularly with reference to this retail business.

b Additional information might be: Rent of the shops – important fixed costs, local taxes to pay, e.g. on the shop; male/female ratio in the population; average income levels in the two towns; local competitors in this market segment.

Activity 22.4

Student's own answer in report format. The report should come to a clear and justified recommendation of which location to choose.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a Examples:

Local fruit farms are cheaper.

Lower transport costs.

Fresh fruit produce.

1 mark for each suitable reason for this business (maximum of 2 marks).

b Possible answers:

Location of the fruit farms nearby [App] so that the raw materials are readily available [1].

Large amounts of waste produced [1] so may be cheaper to transport finished fruit juice than the raw material [App].

Market nearby [1] so fruit juice sold in the home market as well as to other countries [App].

1 mark for each relevant factor that influenced the location (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Examples:

Skilled labour already nearby [1] no need to recruit and train new fruit juice workers in another country [App], so this is cheaper [1].

Production would stop [1] as when the existing factory is closed there may be a delay before the new production can start [1] and so sales of fruit juice may be lost [App].

Fruit is grown locally [App] so there is a ready supply of raw materials grown locally, meaning transport costs are lower [1]. The business would need to find new suppliers in the other country and would need to build up new relationships with suppliers [1].

1 mark for each relevant reason for locating near to its existing factory (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the reasons for locating near to its existing factory (maximum of 2).

d Yes, the business should relocate to an area where the government is offering grants. This will be cheaper as grants will not have to be repaid; labour costs to make fruit juice might be lower as there is high unemployment.

No, the business should not relocate to an area where the government is offering grants because it may not be the best location for other reasons, for example, further from main local markets for fruit juice, supplies of raw materials of fruit and seaports for export.

Student's overall conclusion, e.g. The grants will have a short-term effect of reducing the costs of making drinks so will be beneficial. However, they might lead to ABC being attracted towards a location which, in the long term, is high cost, so the government offer should be rejected.

Up to 2 marks for explaining an advantage of locating to an area where there are government grants.

Up to 2 marks for explaining a disadvantage of locating to an area where there are government grants OR other factors to consider when making the location decision.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** Fewer shops competing with it [1].

Regular customers, as it may be too far to travel into city [1].

1 mark for each suitable advantage for the new location (maximum of 2 marks).

- b** Possible answers:

A busy shopping mall will mean that lots of customers visit the mall and may use the SalesRU's shop [1] and this may mean it will sell more clothes and possibly increase profits [App].

High rent paid for the shop in a busy area, such as a shopping mall, will mean that costs are higher than in a less busy area, such as the edge of the city [1]; this may mean that profits are lower unless sales of clothes for men and women are much higher to cover these costs [App].

1 mark for each relevant way the location chosen may affect profitability (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

Being near to good transport facilities [1] will mean that the large new warehouse can easily send the clothes to customers [App] so that the delivery costs are not too high [1].

If there is room for future expansion [1] there will be room for the warehouse to be expanded in its current location without needing to relocate later [1] if the online sales go well and orders increase significantly [App].

Other answers possible.

1 mark for each relevant factor affecting the location decision of the new large warehouse (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the factors affecting the location decision of the new large warehouse (maximum of 2 marks).

- d** Answers might include:

Yes, they are right, the business should not locate near to competitors as it will increase the competition and may mean the shop loses sales to these other shops if they charge lower prices or sell a wider range of men's and women's clothes.

No, they are not right and the business should locate near competitors because customers might want to go to the area as there are several similar clothes shops to visit and they may be more likely to buy products from the shop, resulting in sales being higher.

Student's overall conclusion, e.g. The retail business would be best to locate in an area with few other similar clothes shops, perhaps out of the town centre rather than in a busy shopping mall, so it can keep its prices low and this will attract customers willing to travel to the shop.

Up to 2 marks for explaining why the business might not want to locate its new shop near competitors.

Up to 2 marks for explaining why the business might want to locate its new shop near competitors.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Section 4: Operations management

End-of-section case study answers

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a Explain **two** economies of scale Premium Suits might benefit from as it grows. [8]

- Purchasing – for example, cloth will be purchased in large quantities, which means the supplier may be willing to offer a discounted price for bulk buying. This will reduce the cost per unit for the material used in each suit made.
- Marketing – with suitable explanation and application
- Financial – with suitable explanation and application
- Managerial – with suitable explanation and application
- Technical – with suitable explanation and application

For example: Purchasing economies [1] as Premium Suits will need to purchase rolls of cloth in bulk [App] so the suppliers may give the business a discount [1], making a lower cost per unit of raw materials and leading to lower unit costs overall [1].

1 mark for each economy of scale (2K) plus 2 marks for explaining why each economy of scale leads to lower unit costs as the business grows (4An) plus 1 application mark × 2 economies of scale (2App).

b Quality is important to Sally. Consider the advantages and disadvantages of quality control and quality assurance. Which method should Sally use to ensure quality suits are produced? Justify your answer. [12]

	Advantages	Disadvantages
Quality control	• Tries to eliminate faults or errors by testing at the end of the production process before the customer receives the product • Less training required for the production employees as they are not responsible for checking quality • Production employees can focus on their tasks knowing the final product will be tested by someone else	• Expensive to pay specialist inspectors to check the products • Identifies the fault but does not find out why the fault has occurred • Problem causing the fault may not be removed • Increased costs if product has to be scrapped or reworked
Quality assurance	• Tries to eliminate faults or errors before the customer receives the product by checking on quality at each stage of production • Fewer customer complaints	• Expensive to train employees to check products • Relies on employees following instructions of standards set

	• Reduced costs if products do not need to be scrapped or reworked • All employees work towards agreed quality standards at every stage of production	• Production can be held up if it takes time to solve faulty work, particularly if it is at an early stage of production • Production may be slowed down
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Not all these points need to be included in an answer. One or two advantages and disadvantages should be explained as to why they are an advantage or a disadvantage to this business. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of the two methods of managing quality. Well-justified recommendation. Students who discuss both ways of managing quality in detail, in context and with a well-justified recommendation, including why the alternative method is rejected, should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of at least one quality management method. Judgement with some justification/evaluation of recommendation. Students should be rewarded with top marks in this band if there is discussion of both methods in detail and the answer is applied to the case.	5–8
Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the methods of managing quality with little/no explanation. Simple judgement with limited justification/evaluation of choice made. Students who outline both methods in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

2

- a** Explain **two** advantages of using job production for Option 1 and **two** advantages of using flow production for Option 2. [8]

Job production advantages:

Products are made specifically to order – each order for a suit is different.

Skilled employees carry out all the processes – more interesting and therefore more motivating for the production employees making made-to-measure suits.

Flow production advantages:

Large quantities of a product are produced in a continuous process – the low-priced suits are of a standard design.

Costs per product will be kept low and therefore prices are also lower when selling to the mass market.

For example: Job production is where products are made to the exact requirements of the customer, leading to greater customer satisfaction [1] as each suit is made to the specific measurements of the customer so it fits them well [App].

1 mark for each advantage of job production (2K) plus 1 application mark for each advantage explained in context (2App).

1 mark for each advantage of flow production (2K) plus 1 application mark for each advantage explained in context (2App).

- b** Consider the advantages and disadvantages of purchasing new technology or buying more of the business's existing machinery to increase output. Which do you think Sally should choose? Justify your answer. [12]

	Advantages	Disadvantages
Purchasing new technology	• Productivity is greater • Greater job satisfaction stimulates workers as boring routine jobs are done by machines • Types of jobs change and more skilled jobs done by workers, making the work more interesting and increasing motivation • Better quality products produced as machines less likely to make mistakes • Information about production available to managers to have improved monitoring of output • More competitive against other companies if keep up to date • Lower unit cost of production if efficiency improves • Fewer unskilled employees may be needed – reducing wage costs • May operate 24 hours/7 days a week • Fewer accidents if equipment now carries out dangerous tasks	• May mean some workers are made redundant – may lead to higher costs in the short term • Expensive to invest in new machinery • Increased maintenance costs • Employees may be unhappy with new work practices • Machinery may quickly become out of date and need replacing • May need new staff to maintain the machinery • More training needed on how to use the new machinery – increasing training costs • If automated equipment fails, then may stop all production until repaired

Buying more of the business's existing machinery	• Already know how to use the machinery, so training not necessary except for any new employees – reduces training costs • May be able to use on-the-job training as existing employees know how to use the machinery – reduces training costs • Cheaper than buying new technology • Products will not need to change design (May have some disadvantages of new technology listed as advantages of existing machinery – but only reward once and not both)	• Productivity likely to remain the same, so no improvement • May become less competitive if competitors invest in new technology (May have some advantages of new technology listed as disadvantages of existing machinery – but only reward once and not both)
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Not all these points need to be included in an answer. One or two advantages and disadvantages should be explained as to why they are an advantage or a disadvantage to this business. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of both new technology and existing machinery. Well-justified conclusion. Students who discuss both new technology and existing machinery in detail, in context and with a well-justified conclusion, including why the alternative view is rejected, should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of either new technology or existing machinery. Judgement with some justification/evaluation of conclusion. Students should be rewarded with top marks in this band if there is discussion of both new technology and existing machinery in detail and the answer is applied to the case.	5–8
Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss new technology and/or existing machinery with little/no explanation. Simple judgement with limited justification/evaluation of choice made. Students who outline both new technology and existing machinery in context should be rewarded with the top marks in the band.	1–4

	No creditable response.	0
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Optional question**3**

- a** Appendix 1 shows added value for Sally's business. Explain **two** ways Sally could increase the added value for her suits. [8]

- Improve the designs of the suits so that the price could be increased
- Improve the quality of the suits so she could justify raising the price
- Lower the cost paid for the raw materials/cloth and keep the price the same

For example: Improve the designs of the products [1] so that they are seen as higher quality suits [App] which will allow the business to increase the price of the products [1] and increase the difference between the cost of inputs and the selling price, leading to increased added value [1].

1 mark for each suitable way of increasing added value (2K) plus 2 marks for explaining why each of these ways would be effective for this product (4An) plus 1 application mark × 2 ways (2App).

- b** Consider how the following **three** elements of the marketing mix will be different for Option 1 and Option 2. If Sally chooses Option 1, which element will be most important to the success of this decision? Justify your answer. [12]

- Price
- Promotion
- Place

	Option 1: Unique, made-to-measure product that is hand-made, high quality	Option 2: Standard design suits, produced on a large scale, standard quality material
Price	• High price – skimming	• Low price – competitive pricing or penetration pricing at first
Promotion	• Direct targeted emails • Billboards in exclusive shopping areas • Internet pop-ups on sites for products that are expensive, such as Ferraris	• Social media • Leaflets handed out in popular shopping malls • Sales promotions, such as discount vouchers when buying • Incentives such as buy a suit to get money off accessories
Place	• Exclusive high street shops – requires a personal service so need to meet customer. Sold through retailer	• Standard high street shops – suits bought off the rail so can be internet/mail order as well. Could be direct to consumer or sold through a retailer

The three elements of the marketing mix should be explained as to why they are different for Option 1 and for Option 2. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of two or more elements of the marketing mix for both options. Well-justified conclusion. Students who discuss two or more elements for both options in detail, in context and with well-justified conclusion about which will be most important element for Option 1 and why the other elements will be less important should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of at least one element for an option. Judgement with some justification/evaluation of conclusion. Students should be rewarded with top marks in this band if there is discussion of two or more elements for both options in detail and the answer is applied to the case.	5–8
Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the elements for an option. Simple judgement with limited justification/evaluation of conclusion made. Students who outline the three elements for both options in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

Section 5: Financial information and decisions

Chapter 23: Business finance

Answers to activities

Activity 23.1

Capital expenditure: purchase of building, office computer equipment, gym equipment.

Others are all day-to-day expenses.

Activity 23.2

- a** To buy or lease a car; pay for advertisements (other answers possible).
- b** Car purchase or leasing charge; advertisement costs; rent of office for taking telephone calls; rent of garage for car; fuel for taxi.
- c** Capital: Car purchase/leasing charge.
Others are all day-to-day expenses unless Paul actually purchases office premises or takes a lease on them.

Activity 23.3

- a** Profit is not available to new businesses as they have not made any profit yet.
- b** A bank is most unlikely to finance all of the capital required so Paul's savings will be important to convince the bank to lend some of the capital required. Using his own savings will show the bank that he is committed to making the business a success.
- c** Paul's business may hold some inventories of stationery, etc. but these would be of very low value, unlike a manufacturing business. This service business does not hold a high value of inventories.

Activity 23.4

- a** If retained profits are sufficient and in a cash form, this source of finance has the benefit of being obtainable immediately, with no interest costs and no repayment necessary.
- b** Paul might be advised to take out a bank loan when retained profits are not sufficient to finance all of his expansion plans, or when interest rates are low or likely to fall and if the bank offers good terms, for example, a long repayment period.

Activity 23.5

Short-term: overdraft and trade credit.

Others are all long-term.

Activity 23.6

- a** Company A: Overdraft; bank loan; retained profits if in cash form.
- b** Company B: New share issue; retained profits if substantial enough and in cash form. Further bank loan is unlikely.

- c** Company A: Profits if available in cash, if not then an overdraft would be the most suitable. A bank loan might be for several years but an overdraft of \$15 000 could, hopefully, be paid off quickly and this will reduce total interest payments.

Company B: New share issue would be the most suitable if retained profits are insufficient, as there will be no interest costs and it already has a big bank loan. A bank might be unwilling to lend more.

- d** Other information:

Company A: Profitability; existing loans/overdraft; how quickly the managers would hope to be able to pay back the \$15 000.

Company B: Profitability; size of existing loan compared to capital employed; interest rates; share price and how this had changed recently; risk of losing control if many new shares are issued.

Activity 23.7

- a** Sole trader: Partner would increase capital but reduce sole trader's independence. No interest payable on partner's capital but share of profits will be expected to be given. Student's own conclusion whether loan capital would be better source of finance.

Directors of a private limited company: 'Going public' is a very big and expensive step to take; it can raise a very large capital sum (which would be expensive to raise from a loan), but there is a risk of takeover from other businesses; original owners will experience some loss of control. Student's own conclusion whether loan capital would be better source of finance.

Existing public limited company: Similar to above, except that company already has a stock exchange listing. Potential loss of control/takeover, but share issue can raise large capital sum that would be very expensive to borrow. Student's own conclusion whether loan capital would be better source of finance.

- b**

- i and ii** Student's own answers based on textbook guidance and the support given by answers above.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Working capital is the finance needed by a business [1] to pay its day-to-day expenses [1].

- b** Possible answers:

It allowed Michelle to contact millions of potential investors [1] as she wanted to raise \$5000 for her new business [App].

It can be a fast way to raise the capital needed [1] to start her own business designing and making clothes [App].

1 mark for each relevant reason for using crowdfunding (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** It is still a small business, so the costs of external finance (interest) might be high [1] which will reduce profits [1] for her dress design business [App].

Michelle has a small business that has only been operating for three years [App] so if she asked another person to invest in the business, for example, a partner, then she would have to share the profit [1] and she wants to keep all the profit for herself [1].

1 mark for each relevant advantage of using retained profit to expand her business (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the advantages of using retained profit to expand her business (maximum of 2 marks).

- d** Yes: She was right to convert into a private limited company and issue shares as this will raise more capital for expansion and give a higher status for dealings with other businesses. She will benefit from limited liability so if the business fails, she will only lose the money she invested in the business and will not be responsible for any business loans taken out.

No: She was not right to raise the finance to expand by issuing shares as she will have to publish the accounts of the business and the other shareholders might influence the management/control of the business so she will lose some independence.

Student's overall conclusion, e.g. As she is planning to expand the business further the ability to raise finance from the issue of shares to friends and family will be a crucial factor in her decision to convert the business into a private limited company, so yes, she was right to do this as it will also give her limited liability. Financing expansion by taking out a bank loan, as a sole trader, would have meant she was personally liable to repay the debt.

Up to 2 marks for explaining an advantage of issuing shares for expansion.

Up to 2 marks for explaining a disadvantage of issuing shares for expansion.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** Funds or capital [1] that are needed by a business for more than one year [1].

- b** Possible answers:

Overdraft [1] to pay the wages of farm labourers [App].

Credit from suppliers (trade credit) [1] of seeds for the farm [App].

1 mark for each relevant form of external finance (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

Advantage: The business does not need to finance large sums of cash [1] to buy the farm equipment [App] and this means it will not run short of cash when revenue is not coming in from sales [1].

Disadvantage: The total cost of leasing the new tractor may be high [1] and higher than if the farm took out a bank loan to buy it outright [App] so leasing may be a more expensive option to gain the use of the tractor [1].

1 mark for each relevant advantage/disadvantage of leasing (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the advantage/disadvantage of leasing (maximum of 2 marks).

d Answers might include:

Share capital: Will not have to be repaid; there will be no interest costs, which is important to the owner of the farm if the annual profits are only small.

Loan: Will not mean some loss of ownership and control as selling shares to family and friends would, and the owner might value their independence; a loan should eventually be repaid and the owner would still own the business; interest on the loan would add to the expenses of the farm.

Student's overall conclusion, e.g. If Akram could show that after the takeover the revenue from the increased range of crops grown from the new larger farm would repay the loan, then he should take out a bank loan. This will be preferable to losing some control of the farm by selling shares to family and friends.

Up to 2 marks each for explaining an advantage and a disadvantage of each source of finance for the takeover ×2 sources.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 24: Cash flow forecasts

Answers to activities

Activity 24.1

Cash outflows: Purchase of new IT systems for cash; interest paid on bank loan; wages paid to employees; creditors/suppliers paid; bank overdraft paid off.

All others are cash inflows.

Activity 24.2

- a** Gross profit = \$33 000
- b** Closing balance = \$10 500
- c** Credit has been offered to customers equivalent to 50% of sales, so cash for these sales will be received next month. (This is a simplified answer: the business might also have received cash from the previous month's customers who were offered credit.)

Activity 24.3

- a** X = \$2000; Y = \$4000; Z = \$22 000
- b** The business might be preparing increased output of goods to meet higher demand in the next few months.
- c** New cash inflows: \$35 500; new cash outflows \$23 400; new closing balance \$16 100.

Activity 24.4

- a** Student's own answer.
- b** Student's own answer, but closing balances should be: Jan \$9000; Feb \$8500; Mar \$3500; April (\$500).
- c** There is a negative closing balance. The business will need an overdraft this month. Action it could take to avoid a negative closing balance could be: cheaper supplies; lower wages; cut expenses; attempt to increase sales without spending any more on advertising or cutting prices (which could lead to lower sales if demand does not increase).

Activity 24.5

- a** Student's own answer.
- b** Banks, potential investors, suppliers as they want to be confident that the business can pay them in future.
- c** Wage costs stay the same as employees seem to be offered permanent contracts that do not vary the hours worked, even during the months when demand and sales are low. Materials change as they vary with output, for example, more plants must be bought in as sales start to increase in March and April.
- d** Attempt to increase cash sales in January and February, such as by using sales promotions that do not involve increasing expenses; cut labour costs in January and February when sales are low. These things will give a higher opening balance in March.
Reduce expenses by, perhaps, using a lower cost supplier of plants; ask for trade credit from suppliers.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Money paid out [1] by the business in cash form [1].
- b** Examples:
Short-term cash flow will worsen [1] as customers are being given longer to pay for their stay at the hotel [App].
More customers might be attracted to stay at the hotel because they do not have to pay cash at the time of their stay [1] so it may encourage more tourists to book a stay at quieter times of the year [App].

1 mark for each relevant effect of offering one month's credit (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Examples:
It will help Bruno plan for future cash flow needs [1]. If the hotel needs to be decorated soon and he does not put this in the cash-flow forecast [App] then Bruno might not plan to have the cash needed to pay for these improvements [1].
It will encourage the bank to lend to Bruno or increase the overdraft [1] when the hotel is decorated [App] as it can see that he is planning the future cash needs of the business and is being responsible [1].

1 mark for each relevant advantage of producing a cash flow forecast (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the advantages of producing a cash flow forecast (maximum of 2 marks).

- d** Delay redecoration: This will reduce future cash outflows but it might make the hotel less attractive to guests and reduce income in the future.

Insist that customers pay cash immediately; do not offer them credit: This will increase cash inflow in the short term but customers might prefer to stay at another hotel that offers credit.

Other answers possible.

Student's overall conclusion, e.g. Delay some redecoration, as if he only redecorates the rooms most in need of repainting first, then this will reduce future cash outflows compared to redecorating the whole hotel which would involve a large cash outflow. Customers will be pleased with the rooms that are redecorated and keep returning to the hotel.

Up to 2 marks for explaining a way to improve the cash flow position (× 2 ways).

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** Net cash flow = cash in – cash out = \$595 000 minus \$495 000 = \$100 000 [1]

Closing balance = opening balance + net cash-flow = (\$180 000) + \$100 000 = (\$80 000) [1]

- b** Possible answers:

To take action to avoid a cash flow problem [1], as car manufacturers pay three months after delivery of the order [App].

To obtain a bank loan [1]. Abbas Manufacturing could take this to the bank to show that revenue from selling wheels will cover the repayments [App].

1 mark for each relevant way the cash flow forecast could be used (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

It will increase cash outflows for materials in September [1] by \$17 000 to \$187 000 [App]. This will increase the total cash outflow for this month [1].

The net cash outflow will now be \$83 000 [1] and this will increase the negative closing balance in September [App]. Abbas Manufacturing will have to ask for an increase in its overdraft [1].

1 mark for each relevant effect on the cash flow of costs increasing by 10% (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the effects on the cash flow of costs increasing by 10% (maximum of 2 marks).

- d** Answers might include:

Yes, it could improve its cash flow problem if it reduced inventory levels. Either fewer materials could be bought, reducing cash outflows, or some inventories could be sold without replacing them, increasing cash inflows.

No: lower inventory levels will mean that Abbas Manufacturing could not meet demand from car manufacturers for special one-off orders. The car manufacturers might switch demand to another supplier which can fulfil orders quickly. This could reduce sales for Abbas Manufacturing and reduce future cash inflows.

Student's overall conclusion, e.g. If a large quantity of materials is held as inventories, then reducing this amount and using a JIT system may be the best way to improve the cash flow problem without disrupting production and sales of car wheels. Large car manufacturers may be unwilling to change their credit terms for Abbas, so this may not be an option anyway.

Up to 2 marks for explaining an advantage of improving its cash flow problem by reducing the materials purchased.

Up to 2 marks for explaining a disadvantage of improving its cash flow problem by reducing the materials purchased OR an advantage of an alternative way to improve its cash flow problem.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 25: Profit and loss

Answers to activities

Activity 25.1

Revenue	Cost of sales	Gross profit
\$3000	\$1500	a \$1500
\$25 000	\$16 000	b \$9000
\$80 000	c \$60 000	\$20 000
d \$75 000	\$25 000	\$50 000

Activity 25.2

a \$33 000

b \$23 000

Activity 25.3

a Gross profit = \$47 000

b Total expenses = \$31 000

c Profit = \$16 000

Activity 25.4

Yes: Higher profit; rent is fixed for five years, not two – this gives more certainty over costs. Increased housing should lead to more customers.

No: A competitor has just closed a shop near Location A. This could mean more customers for Asif at this location. But does this closure of a competitor mean that there is no demand for this product in this area? Rent and expenses much lower so the break-even level of output might be lower.

Student's own conclusion.

Activity 25.5

a and b

Pizza: revenue \$150 000; cost of sales \$50 000; gross profit \$100 000; profit \$59 000.

Curry: revenue \$200 000; cost of sales £80 000; gross profit \$120 000; profit \$73 000.

c Two other factors:

How many local competitors are there for each option?

Can the new equipment be used for anything else?

Are the suppliers for both options as reliable as each other?

d New types of curry; better or increased advertising, as long as sales increase by more than advertising costs; higher prices, but how much will demand fall by?; lower prices to increase sales, but will this lead to lower total profits? Action taken may depend on the degree of local competition.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a Revenue is the income of a business during a period of time [1] from the sale of goods or services [1].

b

i Last year's revenue = \$50 000

Add 10% by multiplying by 1.1 [1]

Revenue this year = \$55 000 [1]

2 marks for correct calculation of revenue. 1 mark for correct method but incorrect answer.

ii Gross profit = Revenue – cost of sales

Cost of sales = 11 000 customers × \$2 = \$22 000 [1]

\$55 000 – \$22 000 = \$33 000 [1]

2 marks for correct calculation of gross profit. 1 mark for correct method but incorrect answer.

c Possible answers:

Price charged for each customer was raised [1] to \$5 each [App] so the increased price multiplied by the number of customers will mean revenue will increase [1].

The number of customers increased [1] to 11 000 this year [App] which means an increase in the number of customers at the same price will lead to a higher revenue [1].

1 mark for each relevant reason why revenue has increased (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the reasons why revenue has increased (maximum of 2 marks).

d Yes: It will lead to higher profit on each customer's haircut and if he has the same number of customers then this will increase profit.

No: Sales are likely to fall if there are many competitors that customers could go to instead – profit could fall.

Student's overall conclusion, e.g. Yes, if he has very loyal customers who think that Ikram cuts hair very well, then the increased price may not lead to less demand and his profits will increase so this would be a good decision to take.

Up to 2 marks for explaining why profit may increase.

Up to 2 marks for explaining why profit may not increase.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a The cost of producing or buying in the goods [1] actually sold by the business during a period of time [1].

b Possible answers:

Sue could increase sales by reducing prices [1] and this should attract new consumers to buy these existing games rather than buying competitors' games [App].

Sue could spend more on advertising [1], for example, online promotions, as potential adult customers might be unaware of her games [App].

1 mark for each relevant way to increase revenue (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

Information about competitors' games aimed at young children [App]. Which of the market segments the competitors' games have been aimed at [1]. More rival games might mean that Sue has to offer her game at a lower price [1].

Information about the total market segment size [1]. Sue might decide to launch the game that appeals to the bigger of the market segments, and that could be younger children aged 6–10, or young people aged 13–18 [App] to give her more potential sales if the game is successful [1].

1 mark for each relevant piece of information that would be useful (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the pieces of information that would be useful (maximum of 2 marks).

d Answers might include:

Forecasts for next year	Game A	Game B
Revenue	3000 units at \$5	2000 units at \$10
Cost of sales	\$1.50 per unit	\$3 per unit
Expenses	\$4000	\$9000
Forecast annual profit	$\$15\,000 - [\$4500 + \$4000] = \$6500$	$\$20\,000 - [\$6000 + \$9000] = \$5000$

There is a higher forecast profit from Game A, so on the basis of profit forecast alone then A should be chosen.

Other factors might be important too, such as how accurate the market research is and how many competitors there are in each market segment. Game B has the higher price and if it has few competitors then the forecast sales may be inaccurate and revenue and profit may be higher than forecast.

Student's overall conclusion, e.g. If Sue believes that young children aged 6–10 might be attracted to Game A and will then go on to buy other games from her when they are in the next age range, then Game A is the better choice. Game A also has a higher profit by \$1500 per year.

Up to 2 marks for explaining why Game A should be chosen.

Up to 2 marks for explaining why Game B should be chosen.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 26: Statement of financial position

Answers to activities

Activity 26.1

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Shareholders' equity
Company vehicles		✓			
Cash	✓				
Ten-year bank loan				✓	
Share capital					✓
Money owed by customers (trade receivables)	✓				
Unsold inventory	✓				
Factory building		✓			
Retained profit					✓
Amounts owed to suppliers (trade payables)			✓		

Activity 26.2

- a** W = \$12 000; X = \$51 000; Y = \$31 000; Z = \$20 000
- b** 2024 = \$3000
- c** Non-current assets have increased by \$7000 – indicating business expansion.
Working capital has fallen – will the business be able to pay off its short-term debts?
Loans have increased – how will this affect interest payments?
Trade payables have increased – are suppliers now demanding payment?

Activity 26.3

- a** Working capital (CA–CL) fell from \$25m to \$10m.
- b** This means the business is having to find less finance to pay for its working capital; however, it could indicate that the business may have problems in paying its short-term debts.
- c** Inventories have risen from \$50 million to \$80 million in just one year. If inventories are reduced then more capital is freed up to be used elsewhere in the business. Reducing inventories would reduce the chance of the goods being damaged or going out of fashion (if this is appropriate in this case). But a reduction in inventories may give the customer less choice. Perhaps inventories are increasing as the business is expanding and sales are rising, so more goods need to be kept in inventory as well. More information might be needed about why inventories have increased so much in one year before making a final decision.
- d** Yes: Business is expanding by using a range of sources of finance; non-current assets have increased; shareholders' equity increased this year so the business is profitable.

No: The company's ability to pay short-term liabilities has fallen (working capital down); trade payables have increased significantly; long-term loans have increased rapidly; the business is taking a risk here because, if interest rates increase, the costs of the business would increase.

Conclusion: student's own answer.

Activity 26.4

- a** X = \$71 000; Y = \$33 000; Z = \$100 000
- b** Two of: Machines, tools, premises.
- c** Wood, clay, paints.
- d** Working capital: KL \$3000; HK \$0
- e**
 - KL has a slightly greater ability to pay off its short-term debts, mainly because it has low current liabilities; KL has lower inventories (relatively) than HK.
 - HK has zero working capital – will it be able to pay off its short-term debts?
 - Although HK has higher long-term loans (non-current liabilities), they are relatively lower than KL, so KL is in a relatively riskier financial position.
 - HK has a strong cash position.
 - Student's overall assessment which could include an understanding of the problems of comparing accounts from two businesses when one is much larger than the other.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Non-current assets are items owned by the business [1] for more than one year [1].
- b** An increase in long-term loans might have been used to expand the business [1] by buying more land on which to build houses in future [App].
The finance raised by the long-term loans might have been used to pay for a long-term increase in working capital [1] because a large building project, for example, will require more inventories and debtors need to be financed for a long period of time [App].

1 mark for each relevant way an increase in non-current liabilities might have been used by the business (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Working capital is current assets minus current liabilities [1] and in 2024 it was \$3 million and increased to \$8 million in 2025 [App]. This may have been because there are higher levels of inventories [1].
Working capital may have increased because of an increase in current assets [1] from \$15 million in 2024 to \$23 million in 2025 [App]. This may have been because there were more trade receivables due from customers [1].

1 mark for each relevant reason why the company's working capital has increased (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the reasons why the company's working capital has increased (maximum of 2 marks).

- d** Yes: Acme Builders has improved its financial position over the past year. Its total assets have increased from \$73m to \$90m. This is a much bigger increase than total liabilities, which have only increased by \$9m. This suggests the business has made a profit, so the business is in a stronger financial position than last year.

No: Acme Builders increased its long-term liabilities by \$6m last year. This will lead to much higher interest costs. It also means that lenders might be cautious about lending another \$4m to the business to finance the takeover of the other building business.

Student's overall conclusion: If the business is very profitable, and more information from the statement of profit or loss would be essential, then it is in a strong enough position to buy out the other business because total assets are increasing at a faster rate than total liabilities.

Up to 2 marks for explaining if the business is in a good financial position to take over the other business.

Up to 2 marks for explaining if the business is not in a good financial position to take over the other business.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** Two from:

Cash [1]

Inventory [1]

Trade receivables [1]

- b** Possible answers:

Penang Garages might be holding a lower value of inventories [1] of car parts [App].

Penang Garages might have used cash to pay off some of the debts because non-current liabilities fell by \$5m [App] so there may be less cash in the business [1].

1 mark for each relevant reason why the value of current assets has fallen (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

The current liabilities have increased by \$3 million [App] and this may be because an overdraft has been agreed [1] which would suggest that the business has more short-term debts [1].

The current liabilities may have increased because there may be more trade payables owed to suppliers [1]. The total amount of current liabilities was \$25 million in 2024 and this increased to \$28 million in 2025 [App]. Much of this increase may be due to suppliers being more willing to wait to be paid for their sales [1].

1 mark for each relevant reason why current liabilities may have increased (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of why current liabilities may have increased (maximum of 2 marks).

d Answers might include:

Yes, shareholders would be pleased with the information because non-current assets have increased by \$6 million, so the business has invested in more equipment/property; non-current liabilities have fallen, so the company has paid back some loans during the year.

No, shareholders would not be pleased with the information because current assets have fallen by \$2 million, making the business less liquid – particularly when compared with the current liabilities, which have increased.

Student's overall conclusion, e.g. Yes, shareholders would be pleased with the information as the total value of assets in the business have risen by \$4 million in one year, while the total liabilities have only fallen by \$2 million, so overall the business is in a better financial position.

Up to 2 marks for explaining that the shareholders would be pleased with the information.

Up to 2 marks for explaining that the shareholders would not be pleased with the information.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 27: Analysis of accounts

Answers to activities

Activity 27.1

a

i Gross profit margin: 37.5%

ii Profit margin: 18.3%

iii Return on capital employed: 22.8%

b The results for two of these ratios are higher for XYZ Computing than for ABC computing. The XYZ business is making a higher gross profit on each item sold and is able to make a higher return on each \$1 of capital invested. The profit margin is lower for XYZ, suggesting that its expenses are relatively higher than those of ABC.

Student's own judgement which might include the observation that if XYZ can control its expenses more effectively, then future performance could be better than ABC on all three ratio measures.

Activity 27.2

a

i Current ratio = 1.42

ii Acid test ratio = 0.68

b The liquidity of XYZ Computing is greater than ABC Computing when the current ratio is considered. However, its liquidity is lower when the acid test ratio is used. This seems to be because XYZ has a relatively high inventories figure which, because it is not included in the acid test calculation, explains the lower acid test result.

Student's own judgement which might include the observation that if some XYZ inventories were sold for cash, the acid test ratio would improve, but there would be no impact on the satisfactory current ratio.

Activity 27.3

- a** No, they should not be pleased, overall. Although gross profit margin has increased, both profit margin and ROCE have fallen, suggesting that the overhead expenses of the business have risen during the year. The most significant change has been to profit margin, which has fallen from 16% to 12% in one year.
- b** By comparing these results with those of other hotels, the management can assess whether all hotels are experiencing similar trends. If, for example, other hotels have increased both gross profit margin and profit margin, then the management of Gloria Hotels would be advised to look very carefully at the expenses of its business to see if these could be reduced without damaging the efficiency of the business.
- c** Banks should be worried about the declining liquidity, especially the large reduction in the acid test ratio from 1.0 to 0.6. This could suggest that the business will have problems paying its short-term debts from cash and trade payables, especially if the decline in acid test ratio is a long-term trend. The banks might be unwilling to lend more to Gloria Hotels at the present time – but this would also depend on the size of existing loans of the company.
- d** The managers could increase prices of hotel bedrooms to try to increase both gross profit margin and profit margin, but will guests go to other hotels instead? They could try to increase added value by rebranding the hotel as an upmarket hotel offering superior service or food, but will the costs of the business rise more than any additional revenue? The expenses of the business could be reduced, such as employing fewer managers, but would this affect the efficient operation of the hotel? Advertising expenses could also be reduced, but would this reduce demand?
- e** Yes: The accounts and the ratios provided show that the performance of the business has declined over the past year but it is still profitable and still has sufficient liquidity.
No: If these ratio results are part of a long-term trend of poorer performance, then shareholders might be advised not to buy shares. However, the company's share price and the performance of other hotel companies would also need to be analysed before taking a final decision.
Other answers possible.
Overall student recommendation needed.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** The total amount of capital invested in a business [1] for the purpose of generating profits [1].
- b** Higher prices have been charged for each can of processed food sold by Triton [App] but cost of sales has remained the same [1].
Triton has used cheaper materials, such as cheaper vegetables to make its products [App] and this lowers the cost of sales and prices remain the same [1].

1 mark for each relevant reason gross profit has increased (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** A bank would find this information useful [1] as it would want to see if the business can repay any loans [1] if it had borrowed to expand the food canning business [App].
Suppliers would find this information useful [1] as they may be supplying tin for the cans to be manufactured [App] and they would want to be sure that Triton can pay them back on time [1].

1 mark for each relevant reason why an external user of accounts would find this information useful (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the reasons why an external user of accounts would find this information useful (maximum of 2 marks).

- d** Yes, the management should be satisfied as gross profit margin has increased slightly from 11.4% in 2024 to 11.67% in 2025. This is encouraging for Triton as revenue must have increased faster than cost of sales. Gross profit increased either because of the much higher revenue or because cost of sales fell – probably both.

No, the management should not be satisfied as the profit margin has fallen from 5.6% in 2024 to 4% in 2025 and ROCE has fallen from 15.56% in 2024 to 12% in 2025. Both of these are worrying for Triton as they indicate worsening profitability. The lower profit figure might have been caused by an increase in promotion expenses which would help to explain the big increase in revenue.

Student's overall conclusion, e.g. If Triton can maintain revenue next year but with lower promotion expenses then two of the profitability ratios might increase and this would be satisfying for Triton management.

Up to 2 marks for explaining that the management should be satisfied with the profitability.

Up to 2 marks for that the management should not be satisfied with the profitability.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** The ability of a business to pay [1] for its short-term debts [1].

- b** Possible answers:

Hi Fashion might be taking longer to pay its suppliers – creditors (trade payables) of the business [1]. This is because the business might be short of liquidity as revenue has been falling [App].

Hi Fashion might have been forced to increase its overdraft [1] as sales are falling and it has offered customers two months' credit [App].

1 mark for each relevant reason why the current liabilities are increasing (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

Accounts are based on past accounting data [1] and this would show how sales performed the previous year and that they were falling [App]. However, this does not give an indication that sales will fall the following year [1].

Accounting data over time will be affected by inflation [1] so an increase in revenue might be due to inflation rather than a real increase in sales of fashion clothes [App] and it will be misleading if comparing this over time [1].

1 mark for each relevant limitation (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the limitations (maximum of 2 marks).

d Answers might include:

	2024	2025
Current ratio (Current assets/Current liabilities)	2	1.47
Acid test ratio (Current assets – Inventories/Current liabilities)	1.125	0.67

Liquidity is falling on both ratio measures – it has fallen a significant amount in one year. Although the liquidity position is not a crisis at present, if it continues to worsen at this rate it soon will be. The bank is likely to be worried about the increase in inventories of fashion clothes. Can these be sold easily by Hi Fashion or will the company have to reduce prices to sell these clothes?

Student's overall conclusion, e.g. The bank should be worried because although Hi Fashion can still afford to pay its short-term debts, liquidity has fallen a lot in one year and the increase in inventories from 35 000 to 48 000 suggests the business is buying the wrong clothing styles.

Up to 4 marks for explaining whether or not the bank should be worried about the liquidity using the liquidity ratios.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Section 5: Financial information and decisions

End-of-section case study answers

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a Explain, using examples, the difference between fixed costs and cost of sales for Fruity Smoothies. [8]
- Fixed costs: Costs that do not vary with the number of items sold or produced in the short term [1]. They have to be paid whether the business makes any sales or not [1]. They are also known as overhead costs [1], e.g. rent of a factory in one of the five countries it is expanding into [App].
 - Cost of sales: Costs that vary directly [1] with the number of items sold or produced [1]. This is often the cost of purchasing raw materials [1], e.g. fruit to make the smoothies [App].

Up to 3 marks for definition and explanation of fixed costs (3K) plus 1 application mark for a suitable example (App).

Up to 3 marks for definition and explanation of cost of sales (3K) plus 1 application mark for a suitable example (App).

- b Using the information in Appendix 1, consider the **two** options for increasing the market share of Fruity Smoothies. Which option should the directors choose? Justify your answer using suitable calculations. [12]

	Advantages	Disadvantages
Option 1	• Increasing new markets in other countries • Opportunities to increase sales and profits • Gross profit margin 45%	• Investment of \$80 million required • Need to carry out market research • May not be a large demand – cultural differences • Profit margin 5%
Option 2	• Increases the brands sold • Increases share of the market • Reduces competition • Possible economies of scale • Profit margin 15% • Gross profit margin 45%	• Costs \$160 million to take over the other company • Government may not allow takeover

Not all these points need to be included in an answer. One or two advantages and disadvantages should be explained as to why they are an advantage or a disadvantage to this business. The

'Extend your skills of analysis' section(s) in each chapter should help explain how to do this. Also include the calculations for the profitability ratios.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of both options. Well-justified recommendation. Students who discuss both options in detail, with suitable calculations, in context and with a well-justified recommendation, including why the alternative option is rejected, should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of at least one option. Judgement with some justification/evaluation of the choices made. Students should be rewarded with top marks in this band if there is discussion of both options in detail, with suitable calculations, and the answer is applied to the case.	5–8
Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the options. Simple judgement with limited justification/evaluation of recommendation made. Students who outline the two options in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

2

- a** Both Option 1 and Option 2 require capital for the expansion. Explain **four** suitable sources of finance the Directors of Fruity Smoothies could use. [8]

- Issue more shares
- Bank loan
- Government grants
- Retained profit
- Sale of unwanted assets

For example: Issue more shares to the public [1] to raise large amounts of capital for the expansion of the fruit smoothie drinks business [App].

1 mark for each suitable source of finance (4K) plus 1 mark for explaining why each is suitable in the context of this business (4App).

- b** Consider how the competitor's statement of financial position and statement of profit or loss would help the Directors of Fruity Smoothies decide whether to take over the

competitor. Should Fruity Smoothies take over its competitor? Justify your answer.

[12]

	Benefits	Limitations
Statement of financial position	Shows: • how much the company is worth, value of assets less value of liabilities • amount of debt • liquidity in the business • if there is a risk of insolvency	• May be different ways of valuing assets to Fruity Smoothies • May not be clear about bad debts – could be hiding problems • Does not show profitability of the drinks competitor
Statement of profit or loss	• Shows how much profit made • Shows expenses of the drinks business • Can calculate profitability ratios • Can compare own ratios with competitor's	• Does not show cash position of the business – could have cash flow problems • Cannot see breakdown of expenses • Refers to the past and is no guarantee of future sales • Does not give value of assets

Not all these points need to be included in an answer. One or two benefits and limitations should be explained as to why they are a benefit or a limitation to this business. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of the benefits/limitations of both accounts. Well-justified conclusion. Students who discuss both accounts in detail, in context and with a well-justified conclusion about whether the business should be taken over should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of at least one of the accounts. Judgement with limited justification/evaluation of the conclusion. Students should be rewarded with top marks in this band if there is discussion of one or more accounts in detail and the answer is applied to the case.	5–8

Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss these accounts. Simple judgement with limited justification/evaluation of conclusion made. Students who outline both accounts in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

Optional questions

3

- a Explain **two** objectives the Directors might have for Fruity Smoothies. [8]

- Profit
- Growth of the business
- Increase market share

For example: Profit should be an objective [1] as the business is a public limited company [App] which has shareholders who may expect dividends to be paid each year [1] or they may sell their shares which would result in a lower share price on markets and lead to the company being in more danger of a takeover [1].

1 mark for each objective (2K) plus 2 marks for explaining why the business would have each of these objectives (4A) plus 1 application mark × 2 objectives (2App).

- b Consider **three** disadvantages for Fruity Smoothies of entering a new market in another country. Which disadvantage will have the most effect on Fruity Smoothies? Justify your answer. [12]

Disadvantages might include:

- Lack of local knowledge – meaning the wrong fruit drinks are produced – leading to lower demand and lower revenue
- Cultural differences – meaning drinks that are produced are marketed in a way that does not appeal to potential customers, who may prefer locally manufactured drinks
- Legal requirements – may need to meet local regulations – including not using ingredients that are restricted or banned. This may increase costs of redeveloping products to meet regulations in the other country
- Exchange rate – may lead to fluctuations in prices of imports and exports
- Import restrictions – may not be able to sell in that country unless high tariffs are charged – increases prices – leading to being less competitive with local producers
- Increased transport costs – may not have efficient ways to transport products to other countries, or may need to move manufacturing to other country – increased total costs – may need to increase prices.

Not all these points need to be included in an answer. Two or three disadvantages should be explained as to why they are a disadvantage to this business. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
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Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of two or more disadvantages of entering a new market in another country. Well-justified conclusion. Students who discuss three disadvantages in detail, in context and with a well-justified conclusion about which disadvantages will have the most effect and why the other two will have less effect should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of one or more disadvantages. Judgement with some justification/evaluation of the conclusion. Students should be rewarded with top marks in this band if there is discussion of at least two disadvantages in detail and the answer is applied to the case.	5–8
Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the disadvantages. Simple judgement with limited justification/evaluation of conclusion made. Students who outline three disadvantages in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

4

- a** Explain **two** ways that Fruity Smoothies could create a brand image for a new fruit drink aimed at teenagers. [8]

- Create a logo
- Create a brand name
- Promotion or advertising that gives the product a special status in the minds of consumers
- Create a reputation for consistent quality that can be built up over time

For example: Create a logo [1] so that the new product will be easily recognised by potential customers when visiting shops [1] and wanting to buy a smoothie drink [App]. This will make sales more likely as potential customers may be less likely to buy a competitors' product [1].

1 mark for each way (2K) plus 2 marks for explaining how each way will create a brand image (4An) plus 1 application mark $\times$ 2 ways (2App).

- b** Using Appendix 2, consider the advantages and disadvantages of each of the **two** countries where Fruity Smoothies could build a new factory. Which country should Fruity Smoothies choose to build the new factory in? Justify your answer. [12]

	Advantages	Disadvantages
Country X	• Large population • Low competitor sales so less competition • Low wage rates so lower costs • Low rent so lower overheads • High unemployment rate so easy to recruit workers	• Low income per head – possible lower sales • Low competitor sales may indicate low sales potential • Lower sales when cold • High unemployment rate may mean low sales potential
Country Y	• Large population • High income so may be large potential for sales • High sales from competitors indicate healthy market for product • Climate good for sales all year	• High wage costs • Competitors well-established • Low unemployment – difficult to find employees • May have to pay higher wages if unemployment low • Rents high so overheads high

Not all these points need to be included in an answer. One or two advantages and disadvantages should be explained as to why they are an advantage or a disadvantage to this business. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of the two countries for location. Well-justified recommendation. Students who discuss both countries in detail, in context and with a well-justified recommendation, including why the other country is rejected, should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of at least one country. Judgement with some justification/evaluation of the choices made. Students should be rewarded with top marks in this band if there is discussion of both countries in detail and the answer is applied to the case.	5–8

Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the countries. Simple judgement with limited justification/evaluation of recommendation made. Students who outline both countries in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

Section 6: External influences on business activity

Chapter 28: Economic issues

Answers to activities

Activity 28.1

- a** \$900 per person
- b**
 - i** \$33 000
 - ii** Fall in real income as the rate of inflation is higher than the percentage increase in income. This means that Joe can afford to buy less this year than last year.

Activity 28.2

TVs, holidays in other countries, jewellery and smartphones are all non-essential products and consumers will reduce demand for these if taxes on peoples' incomes rise. Demand for the other goods will not reduce because they are more essential.

Activity 28.3

- a** Lower tax on peoples' incomes will increase consumers' disposable incomes and make them more likely to buy products such as IT equipment.
- b** Lower tax on business profits will encourage the business to expand as it will have a higher amount of profit that could be retained after tax has been paid. This will be an important source of internal finance.
- c** Higher interest rates will discourage the business from expanding if it has to borrow the finance. Also, customers, both consumers and business customers, may be discouraged from buying expensive goods like IT equipment on credit.
- d** New training colleges should increase the supply of well-qualified workers. This will encourage the IT business, which needs skilled employees, to expand in this country.

Activity 28.4

- a** GDP increasing by 2.5% means that the total value of goods and services being produced in Spain has increased. This is also referred to as 'economic growth'.
- b**
 - i** Milk: There will be little impact as this is an essential/important food product.
 - ii** Leather goods: Demand is likely to increase as higher living standards leave consumers with more money to spend on luxuries.
- c** To reduce the cost of unemployment benefits being paid by the Spanish government, so it has more revenue to spend on other services provided by the government.
If more people are in employment, then people will have higher disposable incomes. This increases spending on goods and services/raises living standards.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a Inflation is the increase in the average price level [1] for goods and services over a period of time [1].

b May reduce the profit available for reinvestment [1] for businesses in the rapidly growing country [App].

A reduction in dividends to shareholders [1] of businesses that produce low-priced food [App].

Other answers possible.

1 mark for each relevant way a business might be affected by a higher tax on profits (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Higher rates of interest will increase interest costs for businesses with high debts [1] and this will reduce their profits [1] even though the economy is growing rapidly [App].

Higher rates of interest will reduce the incomes of consumers with high debts [1], e.g. they may be spending more to repay their mortgages which leaves less income to spend on other items [1]. This will reduce their spending, especially on high-priced products such as cars, so these business owners will be worried there will be falling demand [App].

1 mark for each relevant way a business might be affected by an increase in interest rates (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the ways a business might be affected by an increase in interest rates (maximum of 2 marks).

d Yes, all businesses will benefit from economic growth as there will be higher GDP and this will mean that output is increasing, unemployment is likely to fall and people's incomes will increase too. This is what is happening in Country A. Businesses will be able to sell more products, such as cars, and probably increase prices too.

No, not all businesses will benefit from economic growth as some businesses produce low-priced goods and demand for these products might fall, especially if they are cheap alternatives to more expensive goods. Rapid economic growth has caused inflation to rise to 8% and businesses that export products may become less competitive.

Student's overall conclusion, e.g. It depends on whether the business sells mainly to the home market or export market. If it sells mainly to the home market, then economic growth should lead to higher sales unless it produces low-priced goods, such as low-priced food products, which consumers may not now buy as their incomes have increased. So, overall no, it is unlikely for all businesses to benefit from economic growth.

Up to 2 marks for explaining that all businesses will benefit from economic growth.

Up to 2 marks for explaining that all businesses will not benefit from economic growth.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** A slump is a very serious recession with rapid falls in output [1] and increases in unemployment [1].

- b** Possible answers:

There will be too little spending in the economy [1], especially on items such as ADC's exclusive branded goods [App].

Unemployment will start to rise [1], which may make it easier to recruit new employees to make fashion goods [App].

1 mark for each relevant effect of a recession on the business (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

If taxes on people's incomes are decreased, then consumers will have more income to spend [1]. ADC could expand where it sells its expensive clothing [App] and the demand for these luxury goods might increase if there is strong brand loyalty [1].

If taxes on people's incomes are decreased, then ADC could raise prices [1] to increase revenue from its sales [1] of luxurious and expensive branded handbags [App].

1 mark for each relevant way the business could respond to lower taxes on people's income (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the way the business could respond to lower taxes on people's income (maximum of 2 marks).

- d** Answers might include:

Yes, increased government spending on roads and universities will benefit all businesses because it will help to improve transport (infrastructure) effectiveness in the country and there will be more educated employees. This could encourage more businesses to invest in the country. More tourists might be encouraged to visit the country. It is likely to increase revenue for construction industries.

No, increased government spending on roads and universities will not benefit all businesses because it will be very disruptive as the roads are being built. The money spent in these ways has an opportunity cost and it might be better to lower taxes or offer businesses subsidies instead.

Student's overall conclusion, e.g. If businesses lack competitiveness because of a poor road network and a lack of university-educated employees, then the spending of money on improving these will increase GDP in the long term, so it is a good idea and all businesses should benefit from this.

Up to 2 marks for explaining that all businesses will benefit from increased government spending on roads and universities.

Up to 2 marks for explaining that that all businesses will not benefit from increased government spending on roads and universities.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 29: Business and the international economy

Answers to activities

Activity 29.1

- a** Huge global market increases potential market and opportunities for economies of scale.
Factories in low-cost countries help to make IBM competitive.
IBM buys in cheaper components from low-cost developing economies.
- b** Competition: Many developing economies now have their own IT-based manufacturing businesses, which means IBM will experience increased competition in all markets, so it needs to maintain competitiveness.

Activity 29.2

Student's own answers.

Activity 29.3

Student's own answers.

Activity 29.4

- a** Student's own answers could include: Unemployed workers – more jobs created; customers – more choice of products and services; government – more tax revenue.
- b** Student's own answers could include: Local businesses in the same industry – more competition from the multinational; local community – loss of green field sites; local community – potential environmental damage.
- c** Yes: Will increase GDP; will create jobs for unemployed; will reduce imports of these products. All of these advantages will help government achieve its economic objectives.
No: Damage to environment in a crowded country; competition for local businesses may drive them out of business, so possible loss of jobs.
Student's own answer: overall judgement.

Activity 29.5

- a** The costs imposed on a third party that are independent of the original economic transaction.
- b** Community: Impact of pollution from chemical factory as the manufacturing process involves dangerous materials and waste products.
Government: Needs to pay for cleaning up waste from the factory put in rivers or in waste dumps.
- c** Community: There will be more jobs available and this will reduce local unemployment and increase local incomes.
Local retailers: Will benefit from increased spending.
Government: More jobs will reduce spending on unemployment pay and will also lead to higher tax revenue from profits of the chemical factory.
- d** Yes: Jobs; incomes; tax revenue; might lead to other businesses opening in the region.
No: Possible dangerous and long-term environmental effects; impact on employees' health; opposition from local community.

Student's overall conclusion and justification.

Activity 29.6

a

	In 2023 one US\$ buys	In 2024 one US\$ buys	Appreciation or depreciation of the US\$
Nigerian Naira	638 NGN	1340 NGN	Appreciation
Kenyan Shilling	139 KES	140 KES	Appreciation
Malaysian Ringgit	4.57 MYR	4.80 MYR	Appreciation
Indian Rupee	83 INR	83 INR	No change
Mexican Peso	17.7 MXN	17.1 MXN	Depreciation

- b** Depreciation of the dollar will increase cost of imports into the USA. Imports become more expensive, costs of businesses importing products will increase and the profit of US importers is likely to fall unless the higher costs can be passed on to consumers through higher prices.
- c** Depreciation of the dollar will reduce price of exports from the USA. Exports become cheaper, sales should increase and the profit of US exporters is likely to increase if the demand for these lower priced exports rises.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

- a** Globalisation refers to increases in worldwide trade [1] and the movement of people and capital between countries [1].
- b** Possible answers:
- Increased competition [1] as paint manufacturers in other countries may take market share away from PaintCo [App].
- Increased demand for labour from other similar manufacturers [1] that may be successful in recruiting scientists away from PaintCo [App].

1 mark for each relevant threat from globalisation (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:
- An example of an external cost would be the destruction of the nature reserve [1] which will reduce the habitat for animals to live in and local people will not be able to visit the area for relaxation [App]. The building of the factory affects local people who are not part of the decision to build the factory but are affected by the decision and are therefore a third party [1].

The new factory will create jobs in the local area in the short term [1] for construction companies that will build the factory [App]. This will increase incomes for employees at these building companies and they will increase their spending at local shops [1].

1 mark for each relevant external cost/external benefit (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the external cost/external benefit (maximum of 2 marks).

- d** The factory should be built in Europe as many customers are based in Europe so the manufacturer will be locating closer to some of its main customers for paint; the company's research department could work closely with European customers when developing new products.

The factory should be built in a low-cost country as lower costs will allow lower prices and these could be important in a competitive international market; it already has four factories in similar countries; some low-cost countries are now developing their own manufacturing industries.

Student's overall conclusion, e.g. It should locate its next factory in a low-cost country to ensure its costs are kept down and it will be able to compete in the global paint market for aircraft manufacturers. It exports across the world to China, Brazil and the USA so its markets are spread across the world and being near to the European market is not so important now.

Up to 2 marks for explaining why the factory should be built in Europe.

Up to 2 marks for explaining why the factory should be built in a low-cost country.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** The price of one currency [1] in terms of another currency [1].

- b** Possible answer:

Country C is adopting free trade policies [1] which will make it easier for Beema to import leather and export finished goods from a factory in this country [App].

Many industries in Country C are inefficient [App] so Beema could become successful if it produces efficiently in this country [1].

1 mark for each relevant reason for becoming a multinational business (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answer:

Depreciation means Country B's currency buys less foreign currency than before [1].

Imports of leather and machines will be more expensive in Country B [App], which could make production in this country less competitive/profitable [1].

Exports from Country B may be reduced in price [1], so if Beema exports shoes from this country it might be able to lower prices in markets in other countries [App] and increase sales and profits [1].

1 mark for each relevant effect of a depreciation (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the effects of a depreciation (maximum of 2 marks).

d Answers might include:

Yes, the government should encourage businesses to start operations in its country as there will be more jobs, higher output, more taxes for the government, possibly more exports, (such as shoes) from the country.

No, the government should not encourage businesses to start operations in its country as there will be more competition for local shoe manufacturing businesses, more pollution and destruction of land to build new factories.

Student's overall conclusion, e.g. Country C has just agreed to stop using protectionism and removed import tariffs, so it could benefit as businesses from other countries may be attracted because they can easily import the materials, such as leather. Then the products, such as shoes, manufactured by these businesses in the country can be exported. These multinational businesses may also transfer some knowledge of new techniques for producing shoes to local businesses as many of them are inefficient. All this should encourage the government to allow them to start operations in Country C, especially if the government finds ways to regulate any pollution generated by their operations.

Up to 2 marks for explaining why the government should encourage businesses from other countries to start operations there.

Up to 2 marks for explaining why the government should not encourage businesses from other countries to start operations there.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 30: Business and the environment

Answers to activities

Activity 30.1

Student's own answer.

Activity 30.2

- a** Taking business decisions that do not damage the environment, or taking business decisions that improve the environment.
- b** The government may not have the resources to inspect and monitor damaging environmental impacts of business activity; it might be focusing more on job creation and increasing incomes, especially of lower paid workers, than environmental protection.
- c** Air pollution that damages people's health; waste products that pollute rivers and kill fish. These are examples of external costs.
Student's own examples.
- d** Yes: It makes sure that business activity benefits society and the environment, not just shareholders; it reduces environmental impact, improves quality of life and reduces the risk of accidents and pollution; more sustainable development.
No: It is expensive to inspect and monitor, and the government could use these resources on other programmes; it increases costs for businesses, for example, by replacing polluting

equipment, and this might make industry in the country less competitive; other countries might not be using such controls which could give businesses there a low-cost advantage.

Student's own answer: overall judgement.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a Depletion of resources is when resources are being consumed at a faster rate [1] than they can be replenished [1].

b Possible answers:

Smoke pollution will affect local people [1] from the burning of waste wood [App].

Congestion for local people [1] from the trucks being used to deliver the furniture [App].

1 mark for each relevant negative effect (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

The legal control could be on how products are made [1]. Any wasted wood during the production process may have to be used effectively and not burnt [App] so the business would not be allowed to cheaply dispose of waste from production [1].

The legal control could be on what is produced [1]. Furniture may need to be made of wood from renewable sources of timber [App] so that forests are not destroyed in the process of producing the raw materials for other businesses [1].

1 mark for how each relevant legal control could benefit the environment (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of how the legal controls could benefit the environment (maximum of 2 marks).

d Answers might include:

Yes, WFF would benefit from producing more environmentally friendly products as products made from wood are better for the environment than those made from plastic or metal, both of which pollute the environment during manufacture; making furniture does not create dangerous fumes or much noise; reputation will improve and may attract more consumers who are concerned about the environment – increasing sales.

No, WFF would not benefit from producing more environmentally friendly products as the business may use non-sustainable sources of wood which are cheaper and keep costs low; transport used is polluting; waste wood is burnt and this pollutes the air – to clean this up would increase costs.

Student's overall conclusion, e.g. Yes, WFF would benefit from producing more environmentally friendly products. WFF should make sure that wood comes from renewable sources of timber and that waste wood is processed into other products and not burnt, in order for WFF to be able to claim that the products are environmentally friendly.

WFF could use this claim in the promotion of its furniture and it may therefore see revenue increase more than the costs from making these changes.

Up to 2 marks for explaining that WFF would benefit from producing products that are more environmentally friendly.

Up to 2 marks for explaining that WFF would not benefit from producing products that are more environmentally friendly.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

- a** Water pollution from deposits released into rivers [1].

Air pollution from petrol engines [1].

- b** Possible answers:

Bad image created for the business [1] from causing pollution by discharging waste into rivers [App].

Consumers that are concerned about the environment may stop buying products made by businesses that use products made from AXX's materials [1] such as iron and copper that result in falling sales for AXX [App].

1 mark for each relevant reason (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

- c** Possible answers:

AXX might try to reduce the waste created by being more efficient [1] when it extracts metals [App] so it discharges less waste into rivers [1].

Change to using renewable energy for power [1] such as buying electric powered machines to crush rock instead of using petrol powered machines [App] so that there is less air pollution from its business activity [1].

1 mark for each relevant way the business might respond to an environmental issue (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the ways the business might respond to an environmental issue (maximum of 2 marks).

- d** Answers might include:

Yes, legal controls over business activity that affects the environment will not affect AXX if it is not discovered discharging waste into rivers. It may continue to do this if the government does not appoint people to go round and check what they are doing.

No, legal controls over business activity that affects the environment will affect AXX, as it may be forced to start using machinery that is not powered by petrol, and not discharge waste into rivers. This is likely to increase costs for AXX.

Student's overall conclusion, e.g. If legal controls are introduced by the government to control what can be discharged into rivers then this will affect AXX as it will have to find other ways to get rid of its waste from mining iron and copper. This will increase costs for

AXX, leading to it having to reduce its profit margins or increase the prices it charges for the products it extracts, which may make it less competitive.

Up to 2 marks for explaining that legal controls over business activity that affects the environment will not have an impact.

Up to 2 marks for explaining that legal controls over business activity that affects the environment will have an impact.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Chapter 31: Business and ethical issues, and pressure groups

Answers to activities

Activity 31.1

- a** A decision which is based on a moral code of conduct or on moral principles.
- b** Farmers will remain in extreme poverty.
They might be forced to sell some of their land to illegal miners which will reduce the supply of cocoa in future.
- c** Prices of cocoa might increase in future if supply falls. Shareholders of the large chocolate producing companies should benefit from higher profits and dividends if farmers' incomes are kept at a very low level. This will reduce the raw material costs of these chocolate producers. In the longer term, if cocoa supplies fall, the chocolate companies might have to pay higher prices for this raw material which could reduce their profits.

Activity 31.2

- a** A group of people who act together to try to change business decisions.
- b** The cost of cleaning up the waste and oil products was greater than any costs to the company from this dumping. For example, the government might not impose very high financial penalties on polluting businesses. Environmental pressure groups might be very weak in the country Achme operates in.
- c** Pressure group activity can be successful in changing unethical business decisions if:
It forces the government to put much heavier fines on polluting businesses, such as Achme Oil. Consumers respond to the calls from a pressure group to boycott Achme's products by buying oil and petrol from its competitors. If enough people stop buying Achme products, the company will lose so much revenue it will be forced to become more ethical.
- d** Yes: This would be more sustainable and environmentally friendly; oil can be very damaging to the environment and people's health; it will give the company a 'green' and environmentally responsible and ethical image – the company could use this ethical image in its promotional campaigns.
No: Cleaner equipment costs too much; this would make the business less competitive and consumers may have got used to its low prices; demand from consumers might fall if Achme has to raise its prices.
Student's own answer: overall judgement.

Activity 31.3

Student's own answers.

Sample answers to chapter review questions: Short answer and data response

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a Possible answers:

Employing children for production [1].

Not paying suppliers a fair price [1].

b Possible answers:

Sales may be lost from other businesses that are concerned about ethical practices [1] when buying steel from MST [App].

It will have a bad reputation from being unethical [1] and fewer talented people will want to work for a business that employs children [App].

1 mark for each relevant disadvantage (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

It could lobby the government in the low-income country to change the law [1] so if MST does not stop causing a lot of pollution it could lead to legal action being taken against the company, costing MST a lot of money [App]. The business may choose to change its production processes to stop the pollution [1].

Social media campaigns could be organised against MST [1]. MST employs children and this is not seen as being ethical by many people [App] so bad publicity and negative reactions from business customers might lead to MST changing its decision and only employing adults [1].

1 mark for each relevant way business decisions may be influenced by a pressure group (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the ways business decisions may be influenced by a pressure group (maximum of 2 marks).

d Answers might include:

Yes, profits are more important in the short term than being ethical, as steel businesses that operate in the private sector aim to make a profit by using resources as efficiently as possible. Making profits from steel production increases returns to shareholders and tax payments to government and can finance business expansion.

No, profits are not more important in the short term than being ethical, as decisions about doing things 'the right way' help a business to meet its social responsibilities and improve its reputation. Acting unethically can actually reduce profits in the long term if, for

example, the business's reputation for employing children and causing pollution creates bad publicity and contracts are cancelled.

Student's overall conclusion, e.g. Unethical business practices should not be used by a steel business, even in the short term, as many of these practices, such as forcing down suppliers' prices by 10%, may permanently damage the reputation and brand image of the business, resulting in lower sales and lower profit in the long term.

Up to 2 marks for explaining why profit is more important in the short term than ethical decisions.

Up to 2 marks for explaining why profit is not more important in the short term than ethical decisions.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

2

a A pressure group is a group of people who act together [1] to try to force businesses or governments to adopt certain policies [1].

b Possible answers:

Changing to buying from a supplier [1] that pays very low wages [App].

Buying from a supplier in another country [1] that has no employment security for its workers [App].

1 mark for each relevant ethical issue (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

c Possible answers:

CDK could insist that its suppliers pay all their employees a fair wage [1] as these new suppliers are operating in a low-wage country [App]. CDK may need to regularly check to ensure its suppliers are actually paying fair wages to employees [1].

CDK could insist that all its suppliers have a moral code [1] on how they treat their clothing production employees [App] so that these employees are not just unfairly sacked without reason [1].

1 mark for each relevant way the business could respond to ethical issues (maximum of 2 marks).

1 App mark for each relevant reference to this business (maximum of 2 marks).

1 mark for each explanation of the way the business could respond to ethical issues (maximum of 2 marks).

d Answers might include:

Yes, the pressure group will succeed in changing CDK's approach to ethical issues about the suppliers that manufacture its clothing. If the company does not change then consumers are likely to boycott its shops and it could have much reduced sales of its clothes across several countries, as the pressure group is international and will inform consumers in many different countries.

No, the pressure group will not succeed in changing CDK's approach to ethical issues about the suppliers because consumers may not care about the way employees of its suppliers are treated. Consumers may be more concerned with being able to purchase fashionable clothing at low prices, as stated by its Managing Director.

Student's overall conclusion, e.g. With CDK's consumers having widespread access to social media, it is unlikely that they will not be aware of the concerns about the way employees of clothing suppliers are treated. The Managing Director is wrong – more people are willing to pay a slightly higher price to buy from ethical producers. CDK will experience falling sales if it does not change and buy from suppliers that are ethical in the way they treat their employees, so yes, the pressure group is likely to succeed.

Up to 2 marks for explaining why the pressure group will succeed in changing the business's approach to ethical issues.

Up to 2 marks for explaining why the pressure group will not succeed in changing the business's approach to ethical issues.

Up to 2 marks for application to the context.

Up to 2 marks for justified decision.

Section 6: External influences on business activity

End-of-section case study answers

The answers, marks awarded and comments that appear in this material were written by the authors. In examination, the way marks would be awarded to answers like these may be different.

1

a Explain **two** external costs and **two** external benefits of building the dam. [8]

- External costs: Destroys 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.
- External benefits: Economic growth; increased business for importers; leisure facilities provided on the reservoir; fewer power cuts; increased employment for people in businesses that supply materials for the building of the dam.

For example: Food supplies will be reduced as agricultural land will be lost [App] which is likely to result in higher prices for local people living near the dam [1].

1 mark for each external cost/benefit identified (4K) plus 1 mark for explaining why each is an external cost/benefit of building the dam (4App).

b Consider the advantages and disadvantages for Country Z of having multinationals locate there. Should the government allow multinational companies to locate in Country Z? Justify your answer. [12]

Advantages	Disadvantages
• Jobs are created – reduces unemployment • New investment – new technology introduced into the country • Increased output – some may be exported, imports may be reduced • Taxes paid by multinationals • More product choice for consumers	• Jobs created are often low-skilled • Local firms may be forced out of business • Repatriation of profits • Often use up scarce resources and non-renewable primary resources • Large multinational businesses may have a lot of influence on both the government and the economy

Not all these points need to be included in an answer. One or two advantages and disadvantages should be explained as to why they are an advantage or a disadvantage for the country. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

Description	Marks
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Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of both advantages and disadvantages for a country of having MNCs locate there. Well-justified conclusion. Students who discuss advantages and disadvantages in detail, in context and with a well-justified conclusion, including why the other decision is rejected, should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of either advantage(s)/disadvantage(s). Judgement with some justification in the conclusion. Students should be rewarded with top marks in this band if there is discussion of at least the advantage(s) and disadvantage(s) in detail and the answer is applied to the case.	5–8
Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the advantages/disadvantages. Simple judgement with limited justification/evaluation of conclusion made. Students who outline both advantages and disadvantages in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

2

- a** Explain **two** effects on a food-processing business in Country Z if its exchange rate appreciates.

[8]

- Export prices will be higher; less competitive abroad; may not sell as many products.
- Import prices will be lower; costs of imported raw materials/components reduce; more competitive.

For example: Import prices will be lower [1] so coal imported by FirstElectricity will cost less [App]. FirstElectricity may reduce its electricity prices [1] and this could lead to lower costs for the food-processing business [1].

1 mark for each effect (2K) plus 2 marks for explaining each of the effects on the business (4An) plus 1 application mark × 2 effects (2App).

- b** Using all of the information available to you from the case study, consider the advantages and disadvantages of building the dam. Should the government allow the dam to be built? Justify your answer. [12]

Advantages	Disadvantages
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• No power cuts so businesses can keep producing their products • Increased profits as output will no longer be lost through power cuts • Economic growth in Country Z as output will be higher • Depreciating exchange rate would be beneficial to exporters as their goods may now have lower prices abroad	• May need to increase food imports, leading to depreciating exchange rate • Increased pressure on other areas as people move from land around the dam; this may lead to rising house prices, overcrowding in schools, etc. • Environmental damage to the area around where the dam is built as this is an area of natural beauty and habitat for wildlife
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Not all these points need to be included in an answer. One or two advantages and disadvantages should be explained as to why they are an advantage or a disadvantage of building the dam. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of both advantages and disadvantages. Well-justified recommendation. Students who discuss whether or not the government should allow the dam to be built in detail, in context and with a well-justified recommendation, including why the other decision is rejected, should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of at least one advantage/disadvantage. Judgement with some justification in recommendation. Students should be rewarded with top marks in this band if there is discussion of both advantages/disadvantages in detail and the answer is applied to the case.	5–8
Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the advantages/disadvantages. Simple judgement with limited justification/evaluation of conclusion made. Students who outline both advantages and disadvantages in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

Optional questions

3

- a** FirstElectricity will need to recruit construction employees to build the dam. Outline **four** stages of the recruitment and selection process FirstElectricity will need to follow to employ these people. [8]

- Job description
- Person specification
- Job advertisement of the vacancy
- Send out application forms
- Ask for references
- Carry out testing/assessment of the applicants
- Interviews and selection tasks

For example: A job description will need to be produced [1] for bricklayers to build the dam wall [App].

1 mark for each stage identified (4K) (any 4 stages).

1 mark for explaining each stage for the construction industry (4App).

- b** Consider **two** methods of training that could be used for these new employees. Which method should be used for the construction employees? Justify your answer. [12]

	Advantages	Disadvantages
On-the-job training	• Individual tuition can be given in the workplace, so production of the dam is not stopped • Training course costs are saved • Cheaper than off-the-job training • Training is tailored to the needs of the business	• The trainer will not be as productive • Trainer may have bad habits that they pass on • No new or up-to-date ideas about building techniques are gained
Off-the-job training	• A broad range of skills can be taught • Courses may be taught in the evening so no output is lost – the building of the dam will not be slowed down • Expert trainers are often used	• Costs can be high • Wages are paid but if courses are in the normal working hours, then no output is gained • Additional qualifications may be gained by employees – so maybe easier to move to another construction business

Not all these points need to be included in an answer. One or two advantages and disadvantages should be explained as to why they are an advantage or a disadvantage to this business. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of both training methods. Well-justified recommendation. Students who discuss both training methods in detail, in context and with a well-justified recommendation as to which training method should be used, with reasons given for rejecting the other training method, should be rewarded with the top marks in the band.	9–12
Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of at least one training method. Judgement with some justification in recommendation. Students should be rewarded with top marks in this band if there is discussion of both training methods in detail and the answer is applied to the case.	5–8
Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the training methods. Simple judgement with limited justification/evaluation of conclusion made. Students who outline both training methods in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0

4

- a Explain how **four** different stakeholder groups will be affected by the building of the dam. [8]

- Owners/shareholders
- People who live in the local area/local community
- Employees
- Managers
- Government
- Suppliers
- Banks
- Customers
- Pressure groups

For example: People who live in the local area [1] will be affected by more construction jobs becoming available, leading to increased income of people in the area [App].

1 mark for each suitable stakeholder (4K) (any 4 stakeholders).

1 mark for explaining in context how each named stakeholder group is affected by the building of the dam (4App).

- b FirstElectricity plans to use the reservoir behind the dam to provide either the hire of rowing boats or swimming facilities for the people of Main City. Consider the advantages

and disadvantages of using questionnaires and focus groups to find out which activity will be the most popular. Which of these market research methods should FirstElectricity use? Justify your answer. [12]

	Advantages	Disadvantages
Questionnaires	• Large amounts of quantitative data can be gathered • Some questions may give qualitative answers • Questionnaires can be carried out online and are therefore cheaper • Online questionnaires may be quicker to collect data • People may be more likely to answer the questionnaire if vouchers or entry into competitions are offered	• Takes time and money to carry out questionnaires, especially if postal questionnaires are used • If poor questions are used then misleading information about the leisure activities people prefer could be obtained and information will be less useful • Collating and analysing the results is time-consuming (unless using online questionnaires) • No feedback is possible
Focus groups	• Detailed qualitative data can be obtained on people's opinions and tastes about which leisure activities they already take part in • Customer opinions can be obtained – make sure the activities meet customer needs and expectations • Interaction between members of the group can help the business understand consumer behaviour	• Discussion may be biased by some people in the group • If lots of opinions are expressed about what they do in their spare time it may be difficult to form an overall conclusion • Shy members of the group may be unwilling to give their views • Group members may not fully represent the target market

Not all these points need to be included in an answer. One or two advantages and disadvantages of the research methods should be explained as to why they are an advantage or a disadvantage to this business. The 'Extend your skills of analysis' section(s) in each chapter should help explain how to do this.

	Description	Marks
Strong answer	Excellent knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of both research methods. Well-justified recommendation. Students who discuss both research methods in detail, in context and with a well-justified recommendation, including reasons for not using the other method, should be rewarded with the top marks in the band.	9–12

Moderate answer	Good knowledge and understanding of relevant business concepts using appropriate terminology in context. Detailed discussion of at least one research method. Judgement with some justification in recommendation. Students should be rewarded with top marks in this band if there is discussion of both research methods in detail and the answer is applied to the case.	5–8
Weak answer	Limited knowledge and understanding of relevant business concepts in context. Limited ability to discuss the methods of research. Simple judgement with limited justification/evaluation of conclusion made. Students who outline both research methods in context should be rewarded with the top marks in the band.	1–4
	No creditable response.	0