

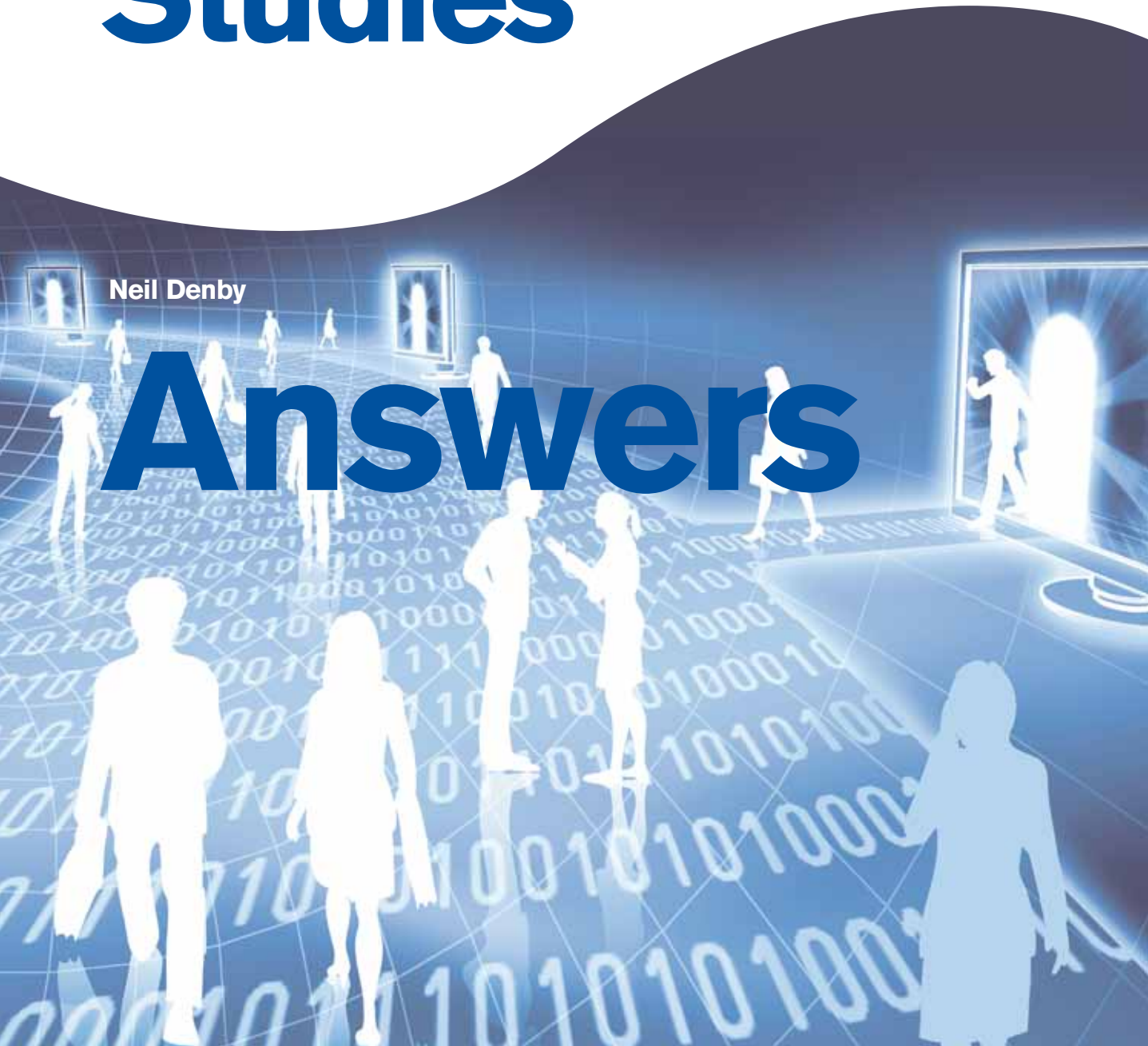
OCR GCSE



# Business Studies

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# Answers



# Answers

## Unit A292 Business and people

### Topic 1 The need for business activity

(page 13)

Businesses are set up in order to provide the **products** that people need and want. Businesses sell and customers buy. This is called a **market**. Goods are things that can be touched as opposed to things done for or to a customer, called **services**. Markets are often divided into **segments**. These can then be more easily targeted. Common ways of **segmentation** include age, geography, gender, hobbies and interests, and **socioeconomic group**: that is, the level of income and education enjoyed by a household. If a business is successful, this will attract **competition**. All businesses operate in **competitive markets** that are constantly changing.

### Topic 2 The influence of stakeholders

(page 15)

- 1 Stakeholders include Angie, the cinema, both sets of customers, the community and the council.
- 2 The most obvious answer is to weigh up Angie versus the community, with Angie's increased trade and profit set against increased pollution, noise and inconvenience.
- 3 This will be marked as 2 + 2 + 3, with 2 marks for each side of the argument — the convenience of customers, the way the cinema also benefits, Angie's profits and therefore increased taxation versus inconvenience, pollution and noise; and 3 marks for the justification of your decision.

### Topic 3 Business aims and objectives

(page 17)

- 1 Stating a suitable aim, such as survival, earns 1 AO1 mark.
- 2 An explanation such as 'because Kidzstuff has only just started and so is not well established' would earn AO2 marks.
- 3 AO2 marks would be earned for an answer such as: Rachel could set shorter-term and more precise objectives, such as selling a certain number of pieces a week, and measure her progress against this.

### Topic 4 Social enterprises

(page 19)

- 1 (d) all of these
- 2 (e) company
- 3 (b) a voluntary group

- 4 (d) members
- 5 (a) profits for a cause

## Topic 5 Primary, secondary and tertiary sectors

(page 21)

- 1 The tertiary sector is the third part of the process of production (after primary and secondary) and refers to services. A retailer and a plumber are examples, but you could also name specific businesses such as ASDA or Sainsbury's (1 AO1 mark + 1 AO2 mark for an example).
- 2(a) John means knowing what customers want and being easily available to them (2 AO1 marks).
- (b) Businesses can achieve this either by being physically close to customers — many tertiary businesses are located in town centres or other populated areas — or by being readily available or going to customers (e.g. plumbers, electricians and other tradesmen). One way to achieve this is to be easily contactable or even to provide additional services (e.g. booking for a car service via telephone or the internet) (up to 2 AO2 marks for each reason plus 2 AO3 marks for giving examples linked to this business).

## Section test: Business activity

(page 22)

- 1 (b) suppliers of the card on which thumbnails are printed, (c) the government, which takes income tax from Rupert and Peter, (d) the bank where Klikfit has its account (3 AO1 marks).
- 2(a) Tertiary
- (b) Tertiary
- (c) Secondary
- (d) Primary  
(4 AO1 marks)
- 3(a) Quality, reliability, value for money.
- (b) By buying or not buying, by recommending to others or not recommending.  
(2 AO1 marks, 2 AO2 marks)
- 4 (a) co-operatives, (d) mutual societies (2 AO1 marks).
- 5 A place where there is demand for a product but no product exists (1 AO1 mark).
- 6 (b) It will attract competitors (1 AO1 mark).
- 7(a) Stating a suitable aim, such as survival or breaking even, earns 1 AO1 mark.
- (b) For 2 AO2 marks you need an explanation such as 'because Klikfit has only just started and so is not well established'.
- (c) Two AO2 marks would be earned for an answer such as: Rupert and Peter could set shorter-term and more precise objectives, such as selling a certain amount a week, and measure progress against this.

## Topic 6 Legal structures for small businesses

(page 25)

- 1 The main benefits of being a sole trader are: easy to set up, makes all the decisions, keeps all the profits.
- 2 The main benefits of partnerships are: ability to bring in additional expertise, shared decision making and responsibility, extra capital.

- 3 Any explanation of whether or not this is the 'right' decision should be backed by Twoomment about the possible levels of risk and reward. You can use the disadvantages of each to back your argument. There is no 'right' answer (often the case in Business Studies). Two marks are awarded for judgements that are made and supported by argument.

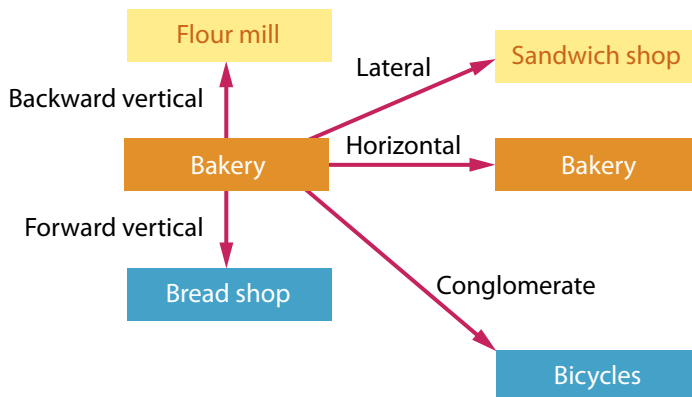
## Topic 7 Public limited companies

(page 26)

Becoming a **plc** allows the business to offer **shares** for sale on the **stock exchange**. It is a good way to raise large amounts of finance. However, there are some disadvantages. Public companies have to publish **annual accounts** and make them accessible to anyone who requests them. **Competitors** who buy shares have **information** about the business and a say in how it is **organised**. **Shareholders** may be more interested in gaining a quick **profit** than in the **long-term** health of the business.

## Topic 8 Integration and growth

(page 29)



## Topic 9 Multinationals

(page 31)

Go to [www.brandz.com](http://www.brandz.com) to check the current rankings for 2010.

## Topic 10 Location

(page 33)

The production process takes goods from **raw materials** to **finished product**. Sometimes this involves a decrease in volume, sometimes an increase. A **bulk-increasing** industry is one where the product becomes harder to transport as it passes through the process. An example is **wood** being turned into **furniture**. A **bulk-decreasing** industry is one where the product becomes easier to transport as it passes through the process. An example is **apples** being turned into **apple juice**. The business should locate where **transport costs** will be **lowest**.

## Topic 11 Public corporations

(page 34)

1	BBC	charter
2	economic charges	charges for fair use
3	local authority services	council tax
4	merit goods	social reasons
5	Nationalisation	taken into public ownership
6	Privatisation	sold into private ownership
7	public corporation	owned by government
8	public goods	can't charge for them

## Section test: Business ownership and location

(page 35)

- 1 Becoming a plc allowed the business to offer shares for sale on the stock exchange. It enabled Redfix to raise large amounts of finance. However, there are some disadvantages. Public companies like Redfix have to publish annual accounts and make them accessible to anyone who requests them. Competitors who buy shares have information about the business and a say in how it is run. (5 AO1 marks)
- 2 Redfix uses natural resources so needs to be near them (1 AO1 mark).
- 3 The public sector refers to those businesses and enterprises that are owned not by the public, but by local or national government on behalf of the public (1 AO1 mark).
- 4(a) This is horizontal integration because both businesses are at the same level of production (1 AO1 mark, 1 AO2 mark).
- (b) Any economy of scale such as bulk buying, improved transport, financial economies (1 AO1 mark, 1 AO2 mark).
- 5(a) The main benefits of being a sole trader are that it is easy to set up, Sarah would make all the decisions, and she would keep all the profits (2 AO1 marks, 1 AO2 mark).
- (b) The main benefits of partnerships are the ability of a partner to bring in additional expertise, shared decision making and responsibility, and extra capital (2 AO1 marks, 1 AO2 mark).
- (c) Any explanation of whether or not this is the 'right' decision should be backed by comment about the possible levels of risk and reward. The marks are for backing your judgement (3 AO3 marks).

## Topic 12 Recruitment and selection

(page 38)

The business will write a **job description** to show what tasks, skills and qualifications are needed and a **person specification** to show the sort of worker that will fit the requirements. It **advertises** the post and invites **applications**. Using **letters of application** and **CVs** that are sent in, it draws up a **short list** of the **applicants** it thinks are best qualified. These become **candidates** and are invited to **interview**. The successful **interviewee** is offered the job.

## Topic 13 Training and appraisal

(page 40)

- 1 (b) training
- 2 (e) development
- 3 (c) induction training
- 4 (e) appraisal
- 5 (a) lifelong learning

## Topic 14 Payment methods

(page 42)

1	commission	an amount paid for increased sales
2	freelancer	a person who offers their services to businesses on a temporary basis
3	perks	benefits such as company cars, pension schemes and staff discounts
4	piece rate	an amount paid for the number of items made
5	remuneration	the way in which a worker is paid
6	time rate	an amount paid per period of time worked

## Topic 15 Motivation and the working environment

(page 44)

1	paternalistic	consider the welfare of workers when making decisions
2	laissez-faire	allow employees to express views
3	democratic	allow staff to participate in decision making
4	bureaucratic	make decisions according to a rigid set of rules
5	autocratic	instruct and direct

## Topic 16 Businesses and legislation

(page 46)

- 1 (a) are safe
- 2 (b) holidays
- 3 (c) the 1974 Health and Safety at Work Act
- 4 (c) height
- 5 (d) the minimum wage

## Topic 17 Industrial relations

(page 48)

Employees could operate as a group to make sure that their conditions are the same as in other businesses in the industry. If not, then they could use collective bargaining with Jonathan to ensure that they are improved (2 marks for a simple answer + 1 mark for relating it to the business).

Employees could act to make sure that their working conditions were as good as, or better than, those of other workers in the industry. Again, they could use collective bargaining, or could take industrial action to improve working conditions if they felt that this was justified. A trade union would provide them with expert advice and help in any negotiations. It would also be able to tell them if their noisy working conditions were acceptable, or if management

should provide, for example, ear defenders (3 marks for a more detailed answer, including an explanation and examples).

## Section test: The workforce in business

(page 48)

- 1(a)** CVs  
**(b)** short list  
**(c)** candidates  
 (3 AO1 marks)
- 2(a)** A job description shows what tasks, skills and qualifications are needed: for example, GCSEs in English (2 AO1 marks, 1 AO2 mark for example).  
**(b)** A person specification shows the type of person the business needs to recruit: for example, a good team member (2 AO1 marks, 1 AO2 mark for example).
- 3** (b) protection from danger in the workplace, (c) safe, healthy and reasonably comfortable working conditions, (e) breaks and holidays (3 AO1 marks).
- 4** (a) induction, (b) on the job, (d) lifelong learning (3 AO1 marks).
- 5(a)** Commission is a reward paid for increased sales. It is usually set as a percentage of all sales made above a base amount (1 AO1 mark, 1 AO2 mark).  
**(b)** This encourages salespeople to sell, but may mean low income if they don't. It may lead to customer dissatisfaction if too much persuasion is used (2 AO1 marks, 2 AO2 marks)
- 6(a)** Honecker's could try one of the following:
- job rotation — letting workers do a number of different jobs to maintain interest in the work
  - job enrichment — giving the employee greater responsibility, with each team or 'cell' producing an entire product
  - job enlargement — increasing the employee's range of responsibilities and/or skills (2 AO2 marks)
- (b)** The marks are for the reasons you give for your choice, related to a business like Honecker (2 AO3 marks).

## Topic 18 Internal organisational structures

(page 51)

1	authority	decision-making power
2	centralisation	decisions made by a few people
3	decentralisation	decisions spread throughout the organisation
4	delegation	the right to pass on authority to others
5	manager	a person with authority
6	organisational chart	diagram showing relationships in a business
7	span of control	the number of people for whom a manager is responsible
8	subordinates	those over whom someone else has power

## Topic 19 Functional areas

(page 53)

- 1 True
- 2 False
- 3 True
- 4 True
- 5 True
- 6 False
- 7 True
- 8 False
- 9 True
- 10 True

## Topic 20 Why businesses change

(page 55)

- 1 True
- 2 False
- 3 True
- 4 False
- 5 True
- 6 False
- 7 True
- 8 True
- 9 False
- 10 False

## Topic 21 The effect of change on the workforce

(page 57)

- (a) Advantages to businesses include flexible working hours, employees who make more efficient use of their time, and lower costs through not having to provide office staff (2 marks for at least 2 suggestions).

Disadvantages could include lack of control over what employees are doing, the cost of new technology, the security of information (2 marks for at least 2 suggestions).

- (b) Workers could gain through managing their own time, so could be more efficient (1 mark for at least 1 suggestion).

They could lose out through not meeting colleagues or sharing ideas (1 mark for at least 1 suggestion).

## Topic 22 Communications in a business

(page 59)

**Internal** communications take place within a business. **External** communications are between businesses and other groups. They may be in a set format, called **formal** communications, or can take place outside a framework, called **informal** communications. The main parts of a communication are the **sender**, who sends the message through a particular way, or **medium**, and the **receiver**. An important part of the process is the receiver providing **feedback** to show the message is understood.

## Section test: Business organisation

(page 59)

- 1 (a) An organisation chart shows how a business is organised.  
 (c) In a decentralised organisation, decisions are made by a few people.  
 (e) A manager is a person with authority.  
 (3 AO1 marks)
- 2(a) Jayne's span of control is the number of people for whom she is responsible — 3 areas, 5 staff.  
 (b) Asif.  
 (c) Three pool assistants.  
 (3 AO1 marks)
- 3(a) Finance deals with money and accounts. It manages the flows of money into, out of and inside the business. This includes setting budgets, paying wages, paying bills, etc. It also keeps all the financial records of the business.  
 (b) Human resources is in charge of all aspects to do with the people in the business. It hires people, trains them, promotes them if they do well, disciplines them if they break rules and releases them from employment. It is also responsible for motivation.  
 (c) Marketing is in charge of three main areas linked to customers. It must find out what customers want, through market research. It must let customers know that products are available and where they can buy them, through advertising. It must try to persuade customers to buy the products of the business, through advertising and promotion.  
 (3 AO1 marks, 3 AO2 marks)
- 4(a) Financial (e.g. cheaper loans); cost (e.g. being able to buy equipment, etc. in bulk).  
 (b) Communications (e.g. management becomes more remote).  
 (2 AO1 marks, 2 AO2 marks)
- 5 This could mean better use of their time, savings in travel and freedom to organise work as they wish.  
 On the other hand, they lose the benefits of networking (both socially and professionally), may lack specialist equipment and may be subject to distractions (2 AO2 marks, 2 AO3 marks).

## Practice exam

(page 60)

### Question 1

- (a) gap in the market  
 liability  
 legal  
 (3 AO1 marks)
- (b) Three from: the partners share risk, they share liability, there is joint decision making, each can bring extra expertise or start-up capital to the business.

A 2-mark answer typically gives an explanation, possibly by using an example (e.g. the partners share the liability/so each only has to take half the risk) (3 AO1 marks, 3 AO2 marks).

- (c) Possible reasons are: to make a profit, achieve an ambition, be independent, provide a local service.

A 2-mark answer typically gives an explanation (e.g. John and Jackson may want to be independent/by working for themselves) (2 AO1 marks, 2 AO2 marks).

- (d) Cost, including national and international government assistance; location and ease of access for customers; location and strength of competition; availability of the right technology (3 AO1 marks, 3 AO2 marks for examples appropriate to this business).
- (e) The main benefits of partnerships are the ability of a partner to bring in additional expertise, shared decision making and responsibility, and extra capital. The main benefits of a limited company are limited liability and the separate legal existence of the business. Your decision and supporting reasons earn AO3 marks (3 AO2 marks, 3 AO3 marks for supporting reasons).

### Question 2

- (a) Newspapers, internet, paper shop window, job centre (3 AO1 marks).
- (b) Stands out, easy to spot, in the right place, has correct details (e.g. the advertisement should be in the right place, such as a local paper for local jobs) (3 AO1 marks, 3 AO2 marks).
- (c) Legislation prevents discrimination or unfair treatment of applicants due to factors that they cannot help or which do not affect their ability to do the job, such as colour, race, disability and gender. They ensure fair and equal treatment (3 AO1 marks, 3 AO2 marks).

### Question 3

- (a) (i) bigger market share, (ii) possible economies of scale (2 AO1 marks).
- (b) Royalty is an amount paid to a franchiser by a franchisee as a percentage of turnover (2 AO1 marks).
- (c)  $£8,000 \times 0.15$  (15%) = £1,200 (2 AO2 marks)
- (d)(i) the 5 directors (1 AO1 mark)
- (ii) 5 (1 AO1 mark)
- (iii) authority is the right to take decisions and to delegate. Indira has authority over the directors (1 AO1 mark, 1 AO2 mark)
- (e) The business is well established and has a nationwide operation. To expand further in this market, or to seek other markets for growth, could increase profitability (2 AO2 marks).
- (f) Organic or internal growth (i.e. getting bigger in its own market by opening new branches, for example).

External growth by taking over or merging with other businesses either in the same or similar markets, or in totally new markets (4 AO2 marks).

- (g) The decision does not matter. Your supporting reasons earn AO3 marks (4 AO3 marks for supporting reasons).

# Unit A293 Production, finance and external influences on business

## Topic 23 Methods of production

(page 66)

Batch production is where the same **machinery** and **labour** can be used to produce different groups of products. Batch production will take place in any manufacturing process where variations to a basic model are needed, such as different **colours** or **sizes**. **Job production** is where a product is a 'one-off' made to **individual** specifications, for example **made-to-measure clothes**, a fitted kitchen or customised car. This tends to be the most **labour-intensive** production method, and can lead to **expensive** outputs due to the craft skills that are usually needed for such products. Almost all **services** are provided in this way. **Flow production** is used by large businesses to **mass produce**, often using a production line.

## Topic 24 Understanding added value

(page 68)

- 1 (b) they will be able to compete more effectively
- 2 (b) more value for money
- 3 (c) the unique selling point
- 4 (a) increasing price
- 5 (d) added value

## Topic 25 The changing nature of technology

(page 70)

- 1 (b) just-in-time
- 2 (c) batch production
- 3 (b) flow production
- 4 (a) specialisation
- 5 (d) lean production

## Topic 26 Maintaining quality

(page 73)

TQM means that everyone is responsible for quality and this includes those businesses responsible for the inputs to the process, such as raw materials. By encouraging workers to be involved, faults and problems will be spotted earlier. The responsibility given to workers may also help to motivate them. The earlier a fault is spotted, the sooner it can be put right and the less production is lost. If production was only checked once complete, then a whole production run could be wasted as it is unlikely that any inputs could be recovered.

## Topic 27 Business costs

(page 75)

total cost =  $FC (10,000) + TVC (8,000 \times 2) = \text{£}26,000$

average cost =  $TC/\text{quantity produced or } 26,000/8,000 = \text{£}3.25$

Stowford's must therefore charge a price of at least  $\text{£}3.25$  per battery.

It is appropriate as it covers average cost. To be competitive, the price should also be under the  $\text{£}3.50$  charged by Bindacell, so any price from  $\text{£}3.25$  to  $\text{£}3.49$  is appropriate and competitive.

This is marked as:

$FC + TVC$  (1 mark)

$8,000 \times 2$  (1 mark)

Total 16,000 (1 mark)

$TC 10,000 + 16,000 = 26,000$  (1 mark)

$26,000/8,000$  (1 mark)

£3.25 (1 mark)

Chosen price in the range £3.25 to £3.49 (1 mark)

Reason (1 mark)

## Topic 28 Economies and diseconomies of scale

(page 76)

1	bulk buying	arising from the growth of a business
2	external	arising from the growth of an industry
3	financial	cost savings through lenders treating the business as lower risk
4	internal	using specialist machines and workers
5	technical	lower prices by buying inputs in large amounts

## Topic 29 Breakeven analysis

(page 79)

Check your answer against the diagram on page 78.

## Section test: Using and managing resources

(page 79)

- The unique selling point is the factor that only your business or product has, which makes it stand out (1 AO1 mark).
- Two from: good service, convenience, providing ways to pay, speed and efficiency, design features, brands; supported by example from Severin (2 AO1 marks, 2 AO2 marks).
- Job production is where a product is a 'one-off' made to individual specifications: for example, a special rug designed and made for a customer. This tends to be the most labour-intensive production method, and can lead to expensive outputs due to the craft skills that are needed (1 AO1 mark; 2 AO2 marks).
- Define 'just-in-time' system (1 AO1 mark).
- Working to tight deadlines can be difficult and mistakes can be made. This could be solved through better training.

Working under pressure could demotivate staff. This could be solved by rewarding them for efficiency and quality (2 AO2 marks, 2 AO3 marks).

- 6(a)** total cost =  $FC 1,000 + TVC (10 \ 50)$  (1 mark) =  $1,000 + 500$  (1 mark) = £1,500 (1 mark)  
 $AC = TC/\text{quantity produced or } 1,500/10$  (1 mark) = £150 (1 mark)  
 Severin must therefore charge a price of £150 to break even. (1 mark)  
 (6 AO2 marks)
- (b)**  $£150 + (150/10) = 150 + 15 = £165$  (2 AO2 marks)

- (c) If the price is similar to, or lower than, those of competitors, then it is competitive. If not, it is not competitive unless Severin is offering a much better product because of the designer brand (4 AO3 marks).

### Topic 30 Sources of finance: small and start-up businesses (page 82)

The money which a business needs often comes from its **owners**. This is called **owners' funds**. Other finance will be raised from lenders such as **banks**. It may also come from profits kept back or **retained**. Sometimes people with **capital** are willing to take a risk on a business. These are called **venture capitalists**. Small businesses may also have **finance** from friends and family. Because small businesses might struggle, there are both **government** and charitable organisations that will help them. These include the **Business Start Up Scheme** and charities like **the Prince's Trust**.

### Topic 31 Sources of finance: large and growing businesses (page 84)

- 1 (c) assets
- 2 (a) internal
- 3 (a) internal
- 4 (b) external
- 5 (d) floating a company

### Topic 32 Cash-flow forecasts (page 86)

Sole trader inflows are likely to be limited to revenue from sales. Outflows will include payments for stock, rent or mortgage on premises, heating and lighting, wages for any staff, etc.

For the manufacturing company, inflows are again likely to be limited to revenue from sales of goods, although it may also be supplying services. Outflows include stock, cost of premises, components and materials, power, wages, vehicles, maintenance, etc.

For the supermarket, it is quite likely that part of the inflows are rents (from other businesses taking space in stores) plus car park fees and charges on store and credit cards. The main inflow will still be sales revenues. Outflows include stock, power, advertising and marketing, wages, bonuses and theft from stores, among others

(6 AO1 marks)

### Topic 33 Revenue and profit (page 88)

- 1  $TR (10 \times 200) \text{ £}2,000 - \text{cost of sales } (\text{£}800) = \text{gross profit } (\text{£}1200)$   
gross profit – overheads  $(200 + 100) \text{ £}300 = \text{net profit } (\text{£}900)$  (2 marks for correct gross and net profit)
- 2  $TR (150 \times 2.1) \text{ £}315 - \text{cost of sales } (\text{£}140) = \text{gross profit } (\text{£}175)$   
gross profit – overheads  $(20 + 50 + 100) \text{ £}170 = \text{net profit } (\text{£}5)$  (2 marks for correct gross and net profit)
- 3  $\text{£}650 - \text{cost of sales } (\text{£}400) = \text{gross profit } (\text{£}250)$   
gross profit – overheads  $(250 - 300) = -\text{£}50$  net loss (3 marks for correct gross and net profit correct; loss indicated)

## Topic 34 Price and profit

(page 90)

- 1 True
- 2 False
- 3 False
- 4 True
- 5 False
- 6 True
- 7 False
- 8 False
- 9 False
- 10 True

## Section test: Financial information and decision making

(page 90)

- 1 Costs: rent, power, rates, materials, etc.  
Revenues: income from car wash, coffee sales, sale of material (4 AO1 marks).
- 2 Owners' funds, bank loan, grant (not retained profit), with AO2 marks for brief description, e.g. 'John and Jackson's own savings' (2 AO1 + 2 AO2 marks).
- 3 Borrowing from Dad is likely to be cheaper, although interest may still be charged. They could borrow without writing a business plan; money would then be available at once. Jackson's Dad may want to interfere in the running of the business, which could be a good thing if he is experienced, or a bad thing if he just wants to control it (4 AO2 marks).

Borrowing from the bank will require a formal agreement and probably need a business plan. The bank may want some sort of control. The machine is put at risk if secured on the bank. Interest will be charged. The boys need to budget for regular payments (4 AO2 marks).

The recommendation must be supported by reasons. It does not matter which option is recommended, as long as you support it by saying whether it would be cheaper, more convenient, provide extra expertise, etc. (4 AO3 marks).

## Topic 35 Competition and monopoly

(page 92)

A **market** is anywhere where a business and its customers come together to decide on what to buy and sell, and the **price** to be paid. Very **competitive** markets have lots of **businesses**, sell a range of **products** and tend to have lower **prices** because of competition. **Governments** encourage competition because of these benefits. Some markets have few businesses in them. **Monopolies** are markets with just one major business and no significant competition. In the UK if a business has a **25% market share**, it is considered to be a monopoly. In these markets, prices may be **high** and choice of product restricted. However, profits can be used for **development** and innovation.

## Topic 36 Business and the environment — problems

(page 95)

- 1 True
- 2 False
- 3 True
- 4 True
- 5 False
- 6 True
- 7 False
- 8 True
- 9 False
- 10 True

## Topic 37 Business and the environment — solutions

(page 97)

Businesses can bring both benefits and **disadvantages** to the **communities** within which they operate. Although businesses may provide jobs, they may also cause **social costs**, such as **pollution**.

Many businesses regulate themselves, to make sure that the bad effects of their business do not upset the **local community**. Often they include environmental targets in their **objectives**. The advantages of being **environmentally friendly** include greater **efficiency** and lower **costs**. There is also increased custom due to having a better **reputation**.

## Topic 38 Ethical issues affecting business

(page 99)

- 1 CSR is corporate social responsibility — a policy used by business to lay out ethical and environmental standards. Ethical aims are the aims of the business to do the ‘right’ or ‘moral’ thing.
- 2 It is also unethical to cause offence. The image to which Muslims took offence should be removed and changed for one that is not offensive. This should also have been checked before the image was used.
- 3 Crossfell’s claims for the products cannot be proven, so they are telling lies. This is unethical. The advertisement caused accidental offence, so Crossfell should do all it can to put this right. This means changing the symbol and withdrawing the claim.

## Topic 39 Business cycles

(page 101)

- 1
 

(a)	boom	top of a cycle
(b)	bust	bottom of a cycle
(c)	high unemployment	recession
(d)	rising wages and prices	high consumer spending
(e)	upturn	recovery

- 2 Check your diagram against the one on page 100.

## Section test: Business issues and influences

(page 102)

- 1(a) competition  
 (b) Monopolies  
 (c) Markets  
 (3 AO1 marks)
- 2 (b) energy-saving policies, (d) ethical policies, (f) sustainability policies (3 AO1 marks).
- 3(a) Two of: falling consumer demand, higher prices, higher interest rates, high unemployment (2 AO1 marks).  
 (b) E.g. government could reduce VAT/which would reduce price/so increase demand (1 AO1 mark, 2 AO2 marks for explanation).
- 4(a) Carbon footprint is the amount of carbon (and therefore environmental damage) released through an activity (2 AO1 marks).  
 (b) Getafone could reduce its carbon footprint by any three of:
  - recycling paper and packaging, and using recycled paper for packaging
  - only using timber from sustainable forests
  - fitting pollutant controls (e.g. smoke filters) wherever possible
  - using 'green' fuels in transport
  - fitting pollution reduction devices (e.g. catalytic converters)
  - adopting energy-saving policies such as lighting systems that switch on and off only when areas are in use (3 AO2 marks; 3 AO3 marks for example or explanation)
- (c) It does not matter which way you recommend. The marks are for the reasons that you give for the recommendation. These should be linked, in this case, to a company selling high-tech products. For example, Getafone could ensure that all its phones are packaged in a minimal amount of packaging, all of which will easily recycle (e.g. paper rather than plastic) (6 AO3 marks).

## Topic 40 Government and its influence on demand

(page 105)

Businesses are affected by changes in **external factors**. These include **government spending**, taxation and interest rates. **Interest rates** are the price of borrowing money. They are set centrally in the UK, not by government, but by the **Bank of England**. High rates make it harder for businesses to **borrow**. Higher **taxes** on consumers can cause **demand** to fall. An increase in **income tax** will make consumers worse off, so they spend less. An increase in **VAT** makes the price of products higher. Taxes on **business profit** may also discourage businesses.

## Topic 41 Globalisation

(page 107)

- 1 False
- 2 True
- 3 False
- 4 True
- 5 True
- 6 False
- 7 True
- 8 False

- 9 True
- 10 True

## Topic 42 External economic influences: exchange rates

(page 109)

- 1(a) Payment will be made in euros.
- (b) The amount to pay will be €909.
- 2(a) Payment will be made in dollars.
- (b) The amount to pay will be \$240,000.
- 3(a) Payment to the holiday company will be made in pounds.
- (b) The amount to pay will be £825.
- 4(a) Payment will be made in dollars.
- (b) The amount to pay will be \$32,000.
- 5(a) Payment will be made in euros.
- (b) The amount to pay will be €2,727.

## Topic 43 The European Union

(page 112)

- 1 True
- 2 False
- 3 True
- 4 False
- 5 True
- 6 False
- 7 False
- 8 True
- 9 False
- 10 True

## Section test: The wider world

(page 113)

- 1(a) dependent
- (b) consumers
- (c) global brands
- 2(a) False
- (b) True
- (c) False
- (d) False
- (e) True
- 3 (b) shareholder demands, (d) increased dividends to pay
- 4 (c) the Bank of England
- 5 (c) an increase in price of a product
- 6 (c) pounds sterling
- 7 (c) £540
- 8 (b) €600 or £480
- 9 (b) of benefit to the importer, (c) a disadvantage to the exporter, (e) an advantage to the tourist

- 10** (b) The business would see a fall in demand. (d) The business would see its sales slow down.
- 11** \$15,384 (2 marks for correct total, in dollars, 1 mark for working that is correct but does not result in correct answer).
- 12** (e) Italian pasta makers

## Practice exam

(page 115)

### Question 1

- (a)(i)** Social costs
- (ii)** resource depletion
- (iii)** global warming  
(3 AO1 marks)
- (b)(i)** The amount of carbon (and therefore environmental damage) released through an activity.
- (ii)** This means ensuring that anything taken from the environment during production is replaced.
- (iii)** Technologies that do not use traditional methods like oil or petrol, such as wind and solar power.  
(3 AO1 marks for definitions, 3 AO2 marks for explanations)
- (c)** Any three from:
- recycling paper and packaging, and using recycled paper for packaging
  - only using timber from sustainable forests
  - fitting pollutant controls (e.g. smoke filters) wherever possible
  - using 'green' fuels in transport — usually meaning high performance in terms of miles per litre
  - fitting pollution reduction devices (e.g. catalytic converters)
  - energy-saving policies such as lighting systems that switch on and off only when areas are in use
- (3 AO1 marks for definitions, 3 AO2 marks for explanations)
- (d)** It could mean closure of the Fallowfell site and cause unemployment in the area, as Zeitgeist is the only large local employer.
- Profiting from the low wages of African workers would be unfair to them and competitors, and could affect Zeitgeist's reputation and damage the brand (2 AO1 marks for reason, 4 AO3 marks for explanation).
- (e)** Being environmentally responsible can bring advantages including greater efficiency and lower costs. For example, more fuel-efficient vehicles are both better for the environment and cheaper to run; removing excess packaging for the shoes is better for the environment but also cuts Zeitgeist's costs. (A simple answer earns 2 AO2 marks, a detailed answer earns 2 AO3 marks, an answer with example using the case study business earns 2 AO3 marks).

## Question 2

- (a) Zike Plus (1 AO1 mark).
- (b) Its market share has fallen (1 mark) from 55% of a £10m market = £550,000 (1 mark) to 40% (1 mark) or £400,000 (1 mark). This is a fall of £150,000 (1 mark). (5 AO1 marks)
- (c) Brand value leads to customer loyalty and repeat trade, so keeps sales high as customers always come back (1 AO1 mark, 1 AO2 mark for explanation or example).
- (d)(i) Just-in-time (JIT) is a version of lean production. Parts, components and other materials arrive just as they are needed. There is therefore no need for stock to be held, or for Zeitgeist to have the costs of storage. New technology can help to track parts and components and ensure that JIT systems work (2 AO2 marks).
- (ii) ■ If stock or parts do not arrive in time, the whole process is stopped.  
 ■ Technology may be expensive.  
 ■ Workers need proper training to cope with systems. This is good for workers but adds costs.  
 ■ Working to tight deadlines could be difficult and mistakes can be made.  
 ■ Working under pressure could demotivate staff (2 AO3 marks).
- (e) Batch production is where the same machinery and labour can be used to produce different groups of products. Batch production will take place in any manufacturing process where variations to a basic model are needed, such as different colours or sizes. Zeitgeist will produce different shoe sizes and possibly different brands, in batches (2 AO1 marks, 2 AO2 marks).
- (f) TQM means that everyone is responsible for quality and this includes those businesses responsible for the inputs to the process, such as raw materials. By encouraging workers to be involved, faults and problems will be spotted earlier. The responsibility given to workers may also help to motivate them. The earlier a fault is spotted, the sooner it can be put right and the less production is lost. If production was only checked once complete, then a whole production run could be wasted as it is unlikely that any inputs could be recovered (2 AO1 marks, 2 AO2 marks, 2 AO3 marks).
- (g) During a recession, consumer demand falls (as a result of higher prices and interest rates) and there is lower spending and high levels of unemployment. Businesses like Zeitgeist may also find it harder to borrow money. As demand falls, production will not need to be as high. This could cause unemployment at Fallowfell. Sports shoes might be considered a luxury item, so the fall in demand for them could be even greater than for other products (2 AO1 marks, 2 AO2 marks, 2 AO3 marks).

## Question 3

- (a) November (1 AO1 mark).
- (b) 200 to 300 = 50% increase (2 AO1 marks — 1 mark for 50%, 1 mark for 'increase').
- (c)(i) Could mean cutting pay, reducing the workforce or cutting overtime — all of which could demotivate the workforce.
- (ii) Could lead to lower sales and reduced market share, especially if competitors increased advertising (4 AO2 marks for answers in context).
- (d) total cost =  $FC (100,000) + TVC (6,000 \times 16) = 100,000 + 96,000 = \text{£}196,000$   
 average cost =  $TC/\text{quantity produced} = 196,000/6,000 = \text{£}32.66$   
 A 50% profit margin means +  $\text{£}16.23 = \text{a price of } \text{£}48.89$

This is marked as:

$FC + TVC$  (1 mark)

$6,000 \times 16$  (1 mark)

Total 96,000 (1 mark)

$TC 100,000 + 96,000 = 196,000$  (1 mark)

$196,000/6,000$  (1 mark)

£32.66 (or £32.67) (1 mark)

(8 AO1 marks)

+50% = £48.89 (or £48.90) (1 mark)

Chosen price in the range £48.89 to £49.98 (1 mark)

(2 AO2 marks)

- (e)** This price is appropriate as it covers average cost. It is competitive as Zeitgeist can therefore undercut Zike's £49.99 price tag (2 AO3 marks).
- (f)(i)** total revenue ( $1,500 \times £60$ ) £90,000 – cost of sales (£60,000) = gross profit (£30,000)  
 gross profit – overheads ( $15,000 + 10,000$ ) £25,000 = net profit of £5,000  
 (2 AO2 marks, gross and net profit correct)

This is marked as:

total revenue ( $1,500 \times £60$ ) £90,000 (1 mark)

minus cost of sales (£60,000) (1 mark)

= gross profit (£30,000) (1 mark)

gross profit – overheads (1 mark)

( $15,000 + 10,000$ ) £25,000 (1 mark)

= net profit of £5,000 (1 mark)

(total 6 AO2 marks)

- (ii)** Zike Plus is more profitable. Although they have higher material costs, they have lower labour costs and lower overheads. They also produce more shoes in a week, so are more efficient (up to 4 points, 4 AO2 marks)

The average cost of each Zike plus is £46.25. A price of £50 means an 8.01% mark-up.

The average cost of Triple Zees is £56.66. A price of £60 means a 5.9% mark-up (up to 4 accurate figures, used in context, 4 AO2 marks).

- (iii)** The higher mark-up and greater productive efficiency is what makes Zike Plus more competitive. Zeitgeist could increase mark-up, lower costs by moving to Africa, lower wage costs, buy cheaper materials.

Typically: Zeitgeist could cut its labour costs by closing Fallowfell and moving production to Africa. However, this could damage its ethical reputation and cause unemployment in Fallowfell (up to 4 AO3 marks for supported explanations).

# Unit A291 Marketing and enterprise

## Topic 44 Understanding the market

(page 124)

Businesses are set up in order to provide the **products** that people need and want. Businesses sell and customers buy. This is called a **market**. Goods are things that can be touched as opposed to things done for or to a customer, called **services**. Markets are often divided into **segments**. These can then be more easily targeted. Common ways of **segmentation** include age, geography, gender, hobbies and interests and **socioeconomic group**: that is, the level of income and education enjoyed by a household. Market research may produce both **quantitative data**, involving numbers and statistics, and **qualitative data**, involving opinions, views and interpretations.

## Topic 45 Marketing and market research

(page 126)

- 1 (b) field research
- 2 (c) primary and secondary
- 3 (a) focus group
- 4 (a) free
- 5 (a) reliable

## Topic 46 The marketing mix: product

(page 129)

- 1 Launch — when the product is first offered for sale.  
Growth — as sales grow, competitors will begin to think about bringing out rivals.  
Maturity — many people have bought the product but there are also now competitors; promotion is still needed.
- 2 The product may need to be promoted during this phase, so the marketing technique used will be promotion and advertising.
- 3 You should use your own example from your investigation.

## Topic 47 The marketing mix: price

(page 131)

1	cost-plus pricing	setting price to cover the costs of a product
2	loss leaders	a price so low that it does not even cover its costs
3	mark-up	the percentage added to the cost plus price for profit
4	penetration pricing	an opening low price to gain market share
5	skimming	an opening high price for a new product

## Topic 48 The marketing mix: promotion

(page 133)

A business should choose the **promotional mix** that is going to be most effective in its **target market**. This depends on the nature of the **market**, the type of **product** and how **competitors** react to increased promotion. Larger businesses can afford better **promotional techniques**, such as **sales promotions** like competitions and joint **promotions** with other

businesses. They can also sell directly to customers through **websites**. They can afford **sponsorship** of well-known teams or events.

### Topic 49 The marketing mix: place

(page 136)

- 1 True
- 2 False
- 3 False
- 4 True
- 5 True
- 6 True
- 7 True
- 8 False
- 9 False
- 10 True

### Topic 50 The marketing mix: e-commerce

(page 138)

The classic answer to business questions about the use of the internet, e-commerce and other e-media is that they are 'cheap, quick and easy'. This is, however, not enough. You should try to think of a specific way in which the technology is helping the business, and about items such as the cost of initial set-up, or of training staff.

### Section test: Controlled assessment

(page 139)

- 1 (c) questionnaires
- 2 (c) It is inexpensive.
- 3 (d) G2G
- 4 (c) the business concentrates on a few products
- 5 (d) branding
- 6 (c) aborted
- 7 (d) popularity
- 8 (b) cost plus mark-up
- 9 (c) not directly paid-for advertising
- 10 (b) long chain