



Examiners' Report June 2011

GCE Business Studies 6BS01 01

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Introduction

The mean for this paper across both cohorts (GCE Economics & Business and GCE Business Studies) was the highest in its history, since January 2009. This may be explained by a number of factors such as the relative degree of difficulty of questions, the nature of the case study in Section B, or because of centre-based factors such as increasing use of examiners reports, previous papers and mark schemes by both teachers and candidates.

It was clear from individual question scores (mode and mean scores) that some questions were more accessible than others - arguably at a level which could be answered by GCSE candidates, for example questions 1 and 9.

Part (b) answers in Section A are improving as many candidates are gaining at least 1 mark by providing a definition of some sort relating to a term in either the question or correct answer. Explanations are also improving because it is clear that candidates are asking themselves why? The sometimes illusive third mark is often being gained through the explanation as to why a distracter is incorrect for part (a) though this is not always appropriate, e.g. for this paper with respect to question 1.

Question 1

Unsurprisingly, a question which was answered well by a significant number of candidates as confirmed by the modal score of 4. Most gained 3 marks for part (b) by writing the formula for break even, i.e. $BE = FC/\text{contribution}$, or $BE = FC/\text{selling price} - \text{average variable cost}$, then inserting the appropriate data, i.e. $400/100$ or $400/600 - 500$ to arrive at the answer 4 (Option C).

SECTION A

Answer ALL the questions in this section.

Write the letter of your chosen answer in the box and then explain your choice in the space provided.

You should spend 30 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1 (a) Paul McQuillan is a self-employed electrician based in Barnsley, South Yorkshire. Most of his contracts involve rewiring houses. Paul's fixed costs are £400 per month, average variable costs per house are £500.

If Paul charges his customers £600 per house, how many contracts per month does Paul need to complete to break even?

- A 2
B 3
C 4
D 5

Answer

C

$$BE = FC / \text{Contribution}^{(1)}$$

$$C = \text{selling price} \\ \text{minus} \\ VC$$

- (b) Explain your answer (show your workings).

(3)

$$\text{Contribution} = \text{selling price} - \text{variable cost} \\ (600) - (500) = \text{£100}$$

$$\text{Break-even} = \text{Fixed cost} / \text{contribution} \\ (400) / (100) = 4 \text{ contracts}$$



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Examiner Comments

Part (a) - 1 mark

Part (b) - 3 marks for showing formula and inserting correct data.

Question 2

Answered better by those candidates entered for GCE Economics and Business as opposed to GCE Business Studies. Most candidates gained 3 marks for part (b) by first defining supply as 'the amount of goods or services provided at a given price', then providing an explanation written in context to match the stem such as 'improvements in technology such as the use of hothouses or use of genetic engineering techniques tend to increase the yield of plants, such as tomatoes, which will therefore increase supply'. Some candidates gained marks by illustrating the effects of the use of technology by drawing a positive shift in the supply curve on a supply and demand diagram.

- 2 (a) In November 2009, it was reported by the BBC that the world population of 6.5 billion is expected grow to 9 billion by 2100 and, as a result, a shortage of world food supplies is expected.

Which of the following is a **direct** determinant of the supply of food?

(1)

- A Level of technology
B Growth in consumer incomes demand
C Advertising to consumers demand
D Fashion, tastes and preferences demand

Supply down

Answer

A

(b) Explain your answer.

(3)

Supply is the amount producers are willing and able to produce in a given time and price. Supply is affected by technology because if technological advances lead to an increase in output then suppliers will be able to produce more. Advertising is likely going to cause demand to go up so it is a demand factor and does not directly affect supply.



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Examiner Comments

Part (a) - 1 mark

Part (b) - 3 marks; 1 mark for definition of supply, 1 mark for indicating the effect of technology on food production, 1 mark for explaining why advertising was not correct.

- 2 (a) In November 2009, it was reported by the BBC that the world population of 6.5 billion is expected grow to 9 billion by 2100 and, as a result, a shortage of world food supplies is expected.

Which of the following is a **direct** determinant of the supply of food?

(1)

- ☒ A Level of technology
- ☐ B Growth in consumer incomes
- ☐ C Advertising to consumers
- ☐ D Fashion, tastes and preferences

Answer

A

(b) Explain your answer.

(3)

The level of technology determines the rate at which goods are supplied to consumers. ~~If the technology is good then food can be grown quicker.~~ If the technology is good then food can be grown quicker.

Advertising to consumers is only likely to alter consumer taste and trends and not supply itself.



ResultsPlus
Examiner Comments

Part (a) - 1 mark

Part (b) 2 marks because the reason why technology is correct is explained to a point 'food can be grown quicker' but the candidate did not explain how; 1 mark for explaining that advertising affects consumer tastes and trends and not supply itself.

Question 3

The mean on this question was 2.5 suggesting that niche marketing was generally well understood, though it is still the case that many candidates are not reading the questions carefully as a number mistakenly thought that this question was about what a niche market is actually characterised by. Effective demand was not always understood.

- 3 (a) In December 2009, it was reported that Ferrero chocolates, imported from Italy, are available only in niche shops in India.

Which of the following is **not** true about niche markets?

(1)

- A Prices tend to be high ✓
- B Supply tends to be low ✓
- C The number of consumers tends to be low ✓
- D Effective demand tends to be high ✓

Answer



- (b) Explain your answer.

(3)

a niche market is a ^{smaller} market within a much larger market usually to meet specific consumer needs or characteristics. because it is a small market to meet needs of specific people demand tends to be low as a niche does not try to cater the needs of all ^{of the} market so demand low, it is true that prices are ^(A) high but that's because people willing to pay more for a product that is designed for them.



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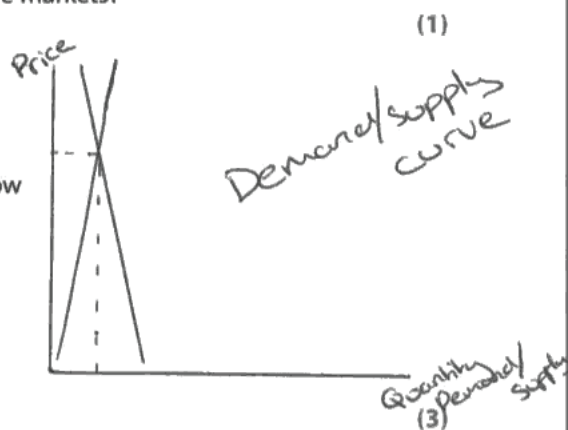
Part (b) 3 marks given for definition, development and the explanation of distracter A.

- 3 (a) In December 2009, it was reported that Ferrero chocolates, imported from Italy, are available only in niche shops in India.

Which of the following is **not** true about niche markets?

- A Prices tend to be high
- B Supply tends to be low
- C The number of consumers tends to be low
- D Effective demand tends to be high

Answer



(b) Explain your answer.

niche markets are small specialist markets. D is wrong because this isn't involve in niche market because demand is low but A would be right because demand is low which makes suppliers to raise their prices to cover costs. niche markets have low supply and demand but are high price because of this.



(Total for Question 3 = 4 marks)



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Examiner Comments

Part (a) - 1 mark

Part (b) - 2 marks for defining niche markets and developing this with reference to demand.

Question 4

The mean on this question was close to 3. Most candidates gained 3 marks for part (b) by defining unemployment as 'the amount of people willing and able to work in an economy but who are out of work and in receipt of welfare benefits' the explaining that because these benefits are usually lower than income from employment then this will mean that demand for products and services, which are not necessary, will fall as they can no longer be afforded.

- 4 (a) In November 2009, the unemployment rate in the district of Handsworth, Birmingham, reached 15% – its highest for over 10 years.

The **most likely** impact of high local unemployment on a small business would be (1)

- A rising variable costs
- B problems recruiting staff ✓
- C a significant fall in sales of luxury products ○
- D an increase in profits if the firm imports products

Answer

C

- (b) Explain your answer.

(3)

Unemployment is the amount of people not in work in a population. If people become unemployed disposable income is reduced. If disposable income is reduced people only tend to buy necessities instead of luxury products as this significantly reduces capital available to them. There would not be a problem of recruiting staff because with so many unemployed people recruiting for the best should be easier.



ResultsPlus Examiner Comments

Part (a) - 1 mark

Part (b) - 3 marks given definition of unemployment (benefit of doubt), indicating that this will lead to lower disposable income, explaining effect on sale of luxury items. Although there was an attempt to explain the distracter B, this was incomplete.

Question 5

Better answered by those entered for GCE Economics and Business, presumably given its pivotal nature to the study of the 'economic problem'. Mean mark of 1.5 overall.

5 (a) The opportunity cost of an entrepreneur setting up a business, such as a florist, is (1)

- A the tax on profit ?
- B lost earnings from employment ✓
- C the risk of business failure ✗
- D the cost of advertising to attract customers ✗

Answer

B

(b) Explain your answer.

(3)

An opportunity cost is ~~ask~~ when a business takes the option of one idea over another. B is the answer as, even though you are working, you aren't working as part of a company/business, as you are starting up a business for yourself so this means you pay yourself.



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Examiner Comments

Part (a) - 1 mark

Part (b) - 2 marks; 1 mark for definition of opportunity cost, 1 mark for explaining why the entrepreneur has given up wages (benefit of doubt given).

Question 6

Most candidates were able to recognise the relationship between the price of petrol and the price of cars given the complementary nature of the products. Mean mark of 2.7.

- 6 (a) The price of petrol increased on average by 20% in the European Community in 2009.

Which of the following is a demand factor which would **most likely** lead to an increase in the price of petrol?

(1)

- A A decrease in the price of oil
- B A decrease in the price of cars
- C A decrease in promotional costs of petrol retailers
- D A reduction in government tax charged to oil companies

Answer

B

- (b) Explain your answer.

(3)

If there is a decrease in the price of cars then consumer demand will rise, this will lead to more cars on the road and therefore more petrol required, this will raise the average price of petrol. All others are likely to reduce the cost of petrol.



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Examiner Comments

Part (a) - 1 mark

Part (b) - 1 mark for the statement more cars on the road therefore more petrol required no mention of this increasing demand and therefore price of petrol and no explanation as to why A, C & D will reduce the price of petrol.

Question 7

Whilst a number of candidates were able to provide a definition for competitive advantage in part (b) few were able to explain why the correct answer was actually A in part (a). Better candidates recognised that a national minimum wage would apply to ALL businesses and not just to Wagamama. Where the average stay of customers is relatively short (correct response D) then more customers could be served, which would increase the rate of turnover.

- 7 (a) It has been reported that 'the growth of the Wagamama chain of noodle restaurants in central London has been phenomenal'. Growth centred around Wagamama's 'competitive advantage'.

Each of the following might provide Wagamama with a competitive advantage, **except** (1)

- A paying the national minimum wage to employees
- B customer orders are taken by waiters using hand-held PDAs (electronically)
- C all food is cooked fresh to order
- D the average stay of customers is relatively short

Answer

A

- (b) Explain your answer.

(3)

Paying the employees minimum wage will not help the competitive edge. If anything it could hinder it. Low payment suggests a bad relationship between worker & employee, which could ultimately result in ~~bad~~ bad service if employees start to feel undervalued.



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Examiner Comments

Part (a) - 1 mark

Part (b) - 2 marks; Competitive edge (1) and explanation as why paying the NMW will hinder it (1).

- 7 (a) It has been reported that 'the growth of the Wagamama chain of noodle restaurants in central London has been phenomenal'. Growth centred around Wagamama's 'competitive advantage'.

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- ☒ B customer orders are taken by waiters using hand-held PDAs (electronically)
- ☒ C all food is cooked fresh to order
- ☒ D the average stay of customers is relatively short

Answer

(b) Explain your answer.

(3)

~~The~~ Competitive advantage is where one business has a unique selling point over another that draws customers to them. For Wagamama it is speed, fresh food and technology. All are demanded in the centre of London. Minimum wage is only likely to keep costs down.



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Examiner Comments

Part (a) - 1 mark

Part (b) - 2 marks for defining competitive advantage and applying it to Wagamamas (fresh food and technology).

Could have gained third mark if the candidate had finished last point about the minimum wage.

Question 8

Well done by most candidates sitting this paper, especially those entered for GCE Business Studies where the mean mark was near 3. A was the correct response for part (a) given that although it is often recommended that business plans are prepared in order to obtain start-up capital or provide purpose and direction or a monitoring tool, it is not compulsory.

8 (a) In 1995, Laban Roomes prepared a business plan for his business, Gold Genie.

Each of the following statements about a business plan is true, **except**

(1)

- A it is a legal requirement for a new business
- B it helps to predict profits and liquidity ✓
- C it can be modified once written ✓
- D usually it includes sections on finance, staffing and marketing ✓

Answer

A

(b) Explain your answer.

(3)

A business plan is a plan which helps document a business and can be used to get things like bank loans as it shows them what their potential is. Even though business plans help you foresee the near future of your business and can be used to guide employees etc, they are not legally required so A is the correct answer.



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Examiner Comments

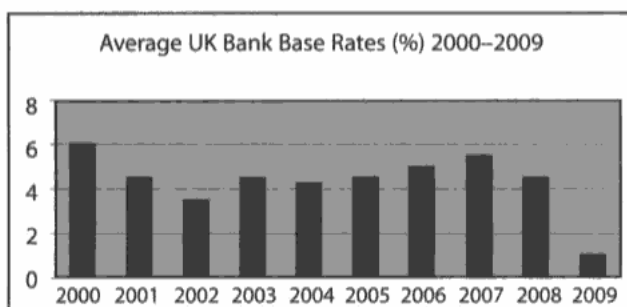
Part (a) - 1 mark

Part (b) - 2 marks; 'Used to get things like bank loans' (1 mark) 'Shows them what their potential is' / 'help you foresee the near future' (1 mark).

Question 9

Despite being asked to refer to Evidence A and Evidence B to support their ideas, not all candidates did and simply wrote a textbook answer to how ANY business might be affected by changes in interest rates. The question asked about WAYS; better candidates wrote about how high interest rates would affect the cost of Peter's borrowing as he may need to apply for a bank loan in order to finance expansion as indicated in line 22 of Evidence A; if Peter had retained profits in a bank then the 1% Base Rate of 2009 (Evidence B) would suggest that very little interest might be earned by Peter; the cost of financing an overdraft may change as Peter may need to pay for extra cleaning materials during the summer period when refurbishment may be more popular.

Evidence B



Evidence C: Sales Turnover for Complete Car Cosmetics 2005–2009 (£)

Year	2005**	2006	2007	2008	2009
Turnover	22 000	48 000	56 400	68 200	78 400

**for 6 months only

9 Refer to Evidence A and Evidence B.

Explain **two** ways changes in interest rates might affect Peter's business.

When interest rates are high, it means that it becomes more expensive for people to borrow money from the bank so they incline to saving their money. When they are low, people spend more money and borrow from banks as it is cheaper to do so. In 2006, ~~base~~ bank base rates were at 5% and Peter's turnover was £48,000. Comparing this to 2008, BBs were around 4.7% and Peter's turnover was £68,200, showing us that, the lower the rate, the more/higher turnover the business made. This is further supported by the figures in 2009; 1% meant that his business had a sales turnover of £78,400. If the interest rates are high in one year, then it could mean that his business will not do as well as it should be as people will leave the small things like a scratch alone to save money.



Explain **two** ways changes in interest rates might affect Peter's business.

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Question 10

Resilience was generally understood as an entrepreneurial characteristic which means 'not giving up easily' which Peter may have done as demand for his services may have fallen during the 'current recession'. Long term is a period exceeding 12 months which suggests that a business often needs to adapt in order to survive either the competition or changes in consumer behaviour; Peter may have to introduce new ways to maintain his sales or reduce costs.

10 Analyse **one** reason why Peter's resilience might be important to the long-term success of Complete Car Cosmetics.

Resilience is an essential characteristic needed by entrepreneurs. Peter possessing this is important since he'll have had to persevere with the slow start up, to ^{which} any business has to face. He may encounter financial problems for example, but being strong & resilient and sticking through the problem equates to success.



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2 marks; 1 for identifying resilience as an essential characteristic needed by entrepreneurs, 1 mark for 'persevere'.

10 Analyse **one** reason why Peter's resilience might be important to the long-term success of Complete Car Cosmetics.

Resilience is the ability to get by even when the going gets tough a characteristic of many successful entrepreneurs eg ^{Lord} Alan Sugar. It is a recession still and Peter's business is a luxury one, and during recession these types of business find it hard to generate revenue leading to a number of them shutting down. It good to be resilient as many people find it hard to cope with them were the next pay slip is coming from. But Peter should be able to cope as he should be able to grip in climate because prices better than large garages.

(Total for Question 10 = 4 marks)



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3 marks - 2 for knowledge 'going gets tough and characteristic of many successful entrepreneurs' and 1 mark for application 'luxury one/ recession' There is analysis but not related to resilience.

Question 11

Product trials were generally well understood by candidates with many able to write about them in the context of Complete Car Cosmetics. However, few candidates were able to evaluate; product trials may not be appropriate given the nature of the business (car refurbishment) or indeed the costs involved, particularly as this business was new and therefore unlikely to have the budget.

11 Discuss the likely value of Peter conducting product trials when he first set up his business.

Conducting product trials would have been a valuable experience. It saves time and money. For example if he straight up launched a product that in the end proved unsuccessful he'd have wasted money on advertising and manufacturing the product, which ultimately could've sent the business under since it was only just starting up. This is why trials are a good idea as they always reduce the risk of failure. The time manufacturing them could've been spent making a variety of different products in small amounts to test the popularity of them. The popular ones would have more made ensuring an increase in revenue and the demands of customers being met.



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5 marks - argues the benefits of product trials but with no reference to Complete Car Cosmetics.

Question 12

Cash flow forecasting was generally understood well by most candidates, but very few wrote their answers in context so were unable to say why CFF was either appropriate or of little value to Peter.

Better candidates recognised that although Peter had over 14 years of industry experience, he had little experience of managing a business, in which case CFF would serve as a useful financial monitoring and evaluating tool.

12 Refer to Evidence A and Evidence C.

Evaluate the usefulness of cash-flow forecasting to Peter.

A cash flow forecast could be ~~useful~~ ^{useful} for Peter to see if the business is worth setting up and if the amount of time and money put into the business is going to regenerate enough Gross profit to keep the business running. It might also show him how much operating profit he will have to take into the next month to support the business if the next the cashflow isn't constant eg not much revenue in the next month. On the other hand cash flow forecast ~~might~~ ^{might} be a waste of time due to uncertainty in the business ~~through~~ ^{through} having a lot more safer drives on the road or with the recession hitting us people doing the repairs themselves. Cashflow forecast show the flow of cash in and out of a business over a period of time.



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3 marks because although the answer shows some knowledge of CFF which is written in context there really is no analysis - candidates should explain the benefits or limitations of CFF to the business rather than how it might be used.

12 Refer to Evidence A and Evidence C.

Evaluate the usefulness of cash-flow forecasting to Peter.

helps get your loans etc.
shows where you're at.

Cash-flow forecasts help businesses see where their money is going in and out of the business. In evidence A: it states that he has a range of services meaning that he has to buy numerous pieces of equipment to maintain these services and, by having a cash-flow forecast, it will show Peter the times of the year/month of when he has enough capital to ~~use~~ ~~buy~~ stock up on these pieces of equipment.

Moreover, by having a cash-flow forecast, it will help Peter in getting a bank loan if he needed one as he could present it to the bank and if it was showing them that he will make his money back in a short period of time, then they could give him the desired amount of money needed.

Furthermore, a cash-flow forecast shows Peter and his business where he is/should be financially at different times of the year so, if he was making a turnover of £56,400 in 2007, then he should be aiming for higher and hopefully achieve higher ~~turnover~~ which he does so in 2008 as he makes a turnover of £68,200.



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Examiner Comments

6 marks - CFF analysed well in context but the answer is one-sided.

Question 13

The focus for this question was the concept of limited liability. Better candidates were able to argue that by becoming Ltd, Peter's business might find it difficult to obtain commercial finance given that he would no longer be risking his own personal assets. However, the growth in sales turnover indicated in Evidence C might be looked at favourably by potential lenders as indicating that Peter would be in a strong position to make any capital repayments.

*13 Recommend whether or not it would have been appropriate for Complete Car Cosmetics to have become a private limited company in 2010.

(12)

Private limited companies have limited liability if the company goes into liquidation/bust.

With Peter setting up as a private limited company means that he could be the only shareholder or him and family members could be shareholders ~~etc~~. This also means that if the company goes into debt all Peter can lose is his business and none of ~~the~~ his personal possessions e.g. his house.

On the other hand it's time consuming and can take ~~up to 12~~ months to finalise legal documents, maybe disruption production.

Overall I ~~the~~ Recommend that setting his company up as a PLC was a good idea and it ~~also~~ has eliminated the risk of Peter losing everything apart from his business ~~etc~~.



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6 marks for analysing why becoming a Ltd company may affect Peter's personal liability. Does not really provide explanation as to why it is time consuming or may disrupt production.

COORS

*13 Recommend whether or not it would have been appropriate for Complete Car Cosmetics to have become a private limited company in 2010.

(12)

private limited company or AKA LTD's our company with limited liability that shares can't be floated on the public stock exchange. It could be beneficial to Complete Car Cosmetics because they can get finance from a venture capitalist to fund there expansion, but Peter would lose a share of a business he has so much pride in also the money made will have to be shared so peter could technically be working harder but still be getting the same amount of money. There is another benefit because if peters business does get in alot of debt then Peter only loses the original money invested in the business so could be a contingency plan for the unexpected, but if he needs money of a bank it becomes harder because banks know that business that are public LTD's have limited liability, and tend to distrust them and with it being a recession banks are extremely cautious to who they lend to, however ^{Complete} Car Cosmetics has had increasing levels of revenue since 2006 - 2009 this means ~~money~~ a bank could easily lend to ^{Complete} Car Cosmetics taken aided with a cash flow forecast it can get financial aid, and with him being a sole trader it + he has full ownership, his made a successful business in hard times to this entrepreneurial characteristics, hes should stay a sole trader and use the help of bank to expand if he needs too, he should wait longer and gain a

Getter business knowledge not just car knowledge before he makes this decision. He should stay a sole trader.



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Examiner Comments

Answer shows some balance of argument for and against CCC becoming a Ltd company:

loss of ownership but same responsibility/liability shared; access to further funds from a venture capitalist but possible loss of interest in lending from banks

Context could have been stronger, e.g. that Peter has been in the industry for 14 years plus which should help secure extra finance (though reference is made to revenues); no conclusion.

Summary

Comments regarding the general performance of candidates for each individual question are stated above.

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