



AS Business

EXEMPLAR BOOKLET

AS exemplar material

Issue 2

AS Business exemplar material

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1. Introduction

1.1 About this booklet

This booklet has been produced to support teachers delivering the new AS Business specifications. The booklet looks at questions from the Sample Assessment Materials. It shows real student responses to these questions and how examiners have applied the mark schemes to demonstrate how student responses would be marked.

The responses are part of a small sample only and have not gone through the standardisation process. Therefore, all comments and marks are provided for guidance only.

1.2 How to use this booklet

Following each question you will find:

- Student responses to the question (one or two responses for each question)
- Examiner commentary on how the mark scheme has been applied and marks given
- Extracts from the mark scheme for levels based questions
- Comments relating to common errors for this style of question.

1.3 Further support

A range of materials are available to download from the Business page of the Pearson website to support you in planning and delivering the new specifications. Our subject advisor team, led by Colin Leith, are also here to help. You can contact Colin with any questions in the following ways:

E-mail: TeachingBusiness@pearson.com

Phone: 020 7010 2182

Twitter: twitter.com/PearsonEconBus

Subject page: [Business subject page](#)

2. Paper 1: Marketing and people

This section includes student responses, marks and commentary for AS Paper 1 8BS0/01, *Marketing and people*. A summary of the questions and marks for each response is provided in the table below.

Question	Response 1	Response 2
Section A		
1a (2)	1	2
1b (2)	1	2
1c (4)	3	4
1d (4)	2	2
1e (8)	4	5
1f (10)	4	7
Section B		
2a (2)	1	2
2b (2)	1	2
2c (4)	0	4
2d (4)	2	4
2e (8)	4	6
2f (10)	4	6
Section C		
3 (20)	8	15

Section A

Question 1a

Response 1

1 (a) What is meant by brand?

the ability to recognise and differentiated ⁽²⁾
a product from rivals usually created
by having a USP. for example YOTEL.

Examiner's comment

This response identifies that brands differentiate or distinguish a product but does not state what a brand is; for example, "A brand is a characteristic, name or symbol".

This response therefore gained 1 mark.

Response 2

1 (a) What is meant by brand?

Brand is a unique design, sign, symbol, words, or a combination of ⁽²⁾
these, employed in creating an image that identifies a product
and differentiates it from competitors. Over time, this image becomes
associated with a level of credibility, quality, and satisfaction in
the consumers mind.

Examiner's comment

This response provides a definition of a brand and understanding is evident through the description of differentiation.

This response therefore gained 2 marks.

Question 1b**Response 1**

(b) What is meant by a niche market? (2)

A niche market is a market with little or no competition, for example YOTELs hotel ~~rooms~~ services.

Examiner's comment

In this response the student has identified one feature of a niche market as one "with little or no competition". However, this definition is not detailed enough for two marks to be awarded.

This response therefore gained 1 mark.

Response 2

(b) What is meant by a niche market? (2)

A niche market is a small part of an overall market that has certain special characteristics, these may include providing specialised or luxury product or service, having little competition and being able to charge a higher price.

Examiner's comment

This response includes two elements of niche markets; "small part of an overall market that has certain special characteristics" and "specialised or luxury product or service".

This response therefore gained 2 marks.

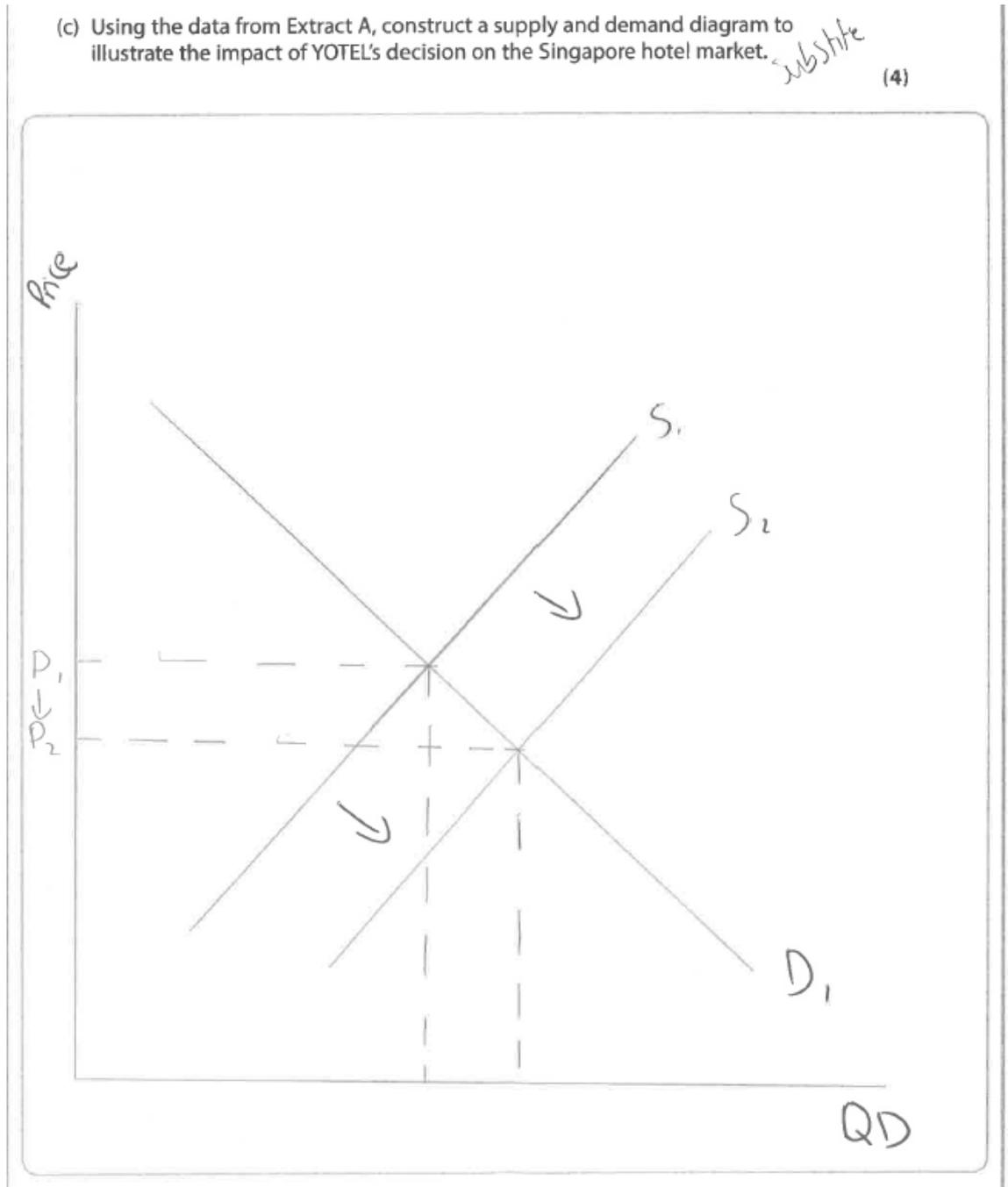
Question 1c

Response 1

(c) Using the data from Extract A, construct a supply and demand diagram to illustrate the impact of YOTEL's decision on the Singapore hotel market.

substitute

(4)



Examiner's comments

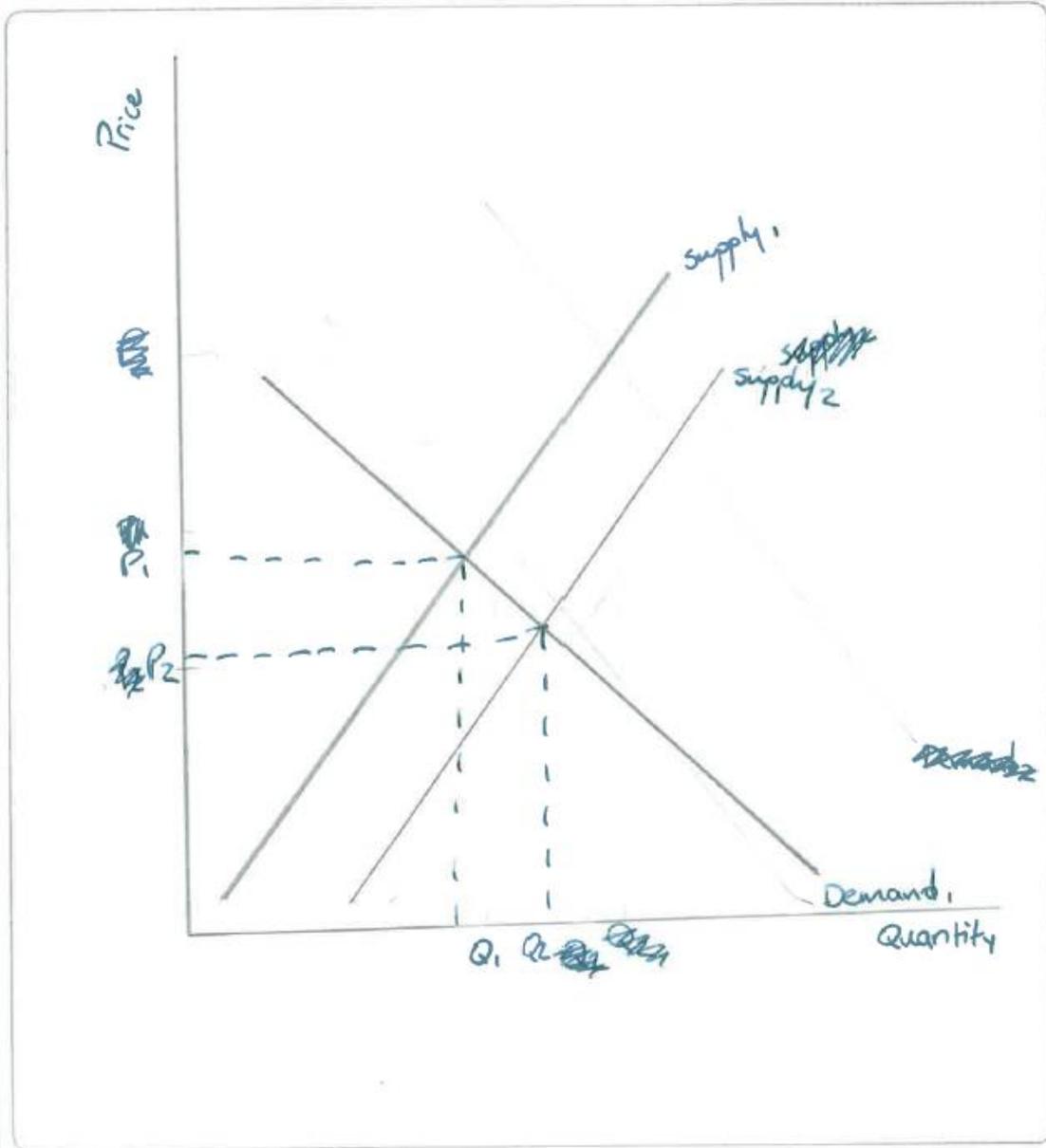
In this response the student has not identified the consequences of the shift on the quantity bought and sold (sales volume) so the diagram is incomplete.

This response therefore gained 3 marks.

Response 2

(c) Using the data from Extract A, construct a supply and demand diagram to illustrate the impact of YOTEL's decision on the Singapore hotel market.

(4)



Examiner's comments

This student has accurately constructed the supply and demand curves (1), labelled the axes (1), manipulated the shift in supply to the right (1) and showed the original and new equilibrium and consequences on the quantity and price axes (1).

This response therefore gained 4 marks.

Question 1d

Response 1

YOTEL has announced its plans to expand in city centres and in airports.

(d) Explain how YOTEL could use primary market research to support its decision to expand.

(4)

Primary research is originally data usually collected for a cause. YOTEL could carry out surveys to gauge where there is demand for their niche product.

Examiner's comment

The response attempts to show an understanding of primary market research and does just enough to gain 1 mark for the definition. The student has explained why this would be of value to YOTEL for another mark but there is no application.

This response therefore gained 2 marks.

Response 2

YOTEL has announced its plans to expand in city centres and in airports.

(d) Explain how YOTEL could use primary market research to support its decision to expand.

(4)

Primary research is the gathering of information first hand from an original source that has not been collected before. Yotel could use primary research because it can be designed specifically so it suits the purpose of the business therefore it could find out what foreign travellers from Singapore want from the hotel because primary research is up to date and directly relevant.

Examiner's comment

This response has a clear definition of primary research "the gathering of information first hand from an original source that has not been collected before" for one mark. The student also demonstrates application to the context of YOTEL for another mark. However, there is no analysis to explain how YOTEL might use this data.

This response therefore gained 2 marks.

Question 1e**Response 1**

(e) Assess **two** factors that might cause a decrease in the demand for YOTEL's cabins.

(8)

Demand is the amount of a good or service that people are willing and able to buy at a given price, at a given time.

One factor is a fall in income will cause demand to fall because people will have less money to spend on niche products this will cause prices to drop because Yotel will not be able to reach equilibrium quantity otherwise.

A second reason could be the change in price of other boutique hotels such as Hampton by Hilton, this means more people will go to the Hilton instead which will cause a decrease in demand for Yotel's cabins. This is because corporate travellers can have the same experience in a Hampton by Hilton for a cheaper price.

So because Yotel's cabins are a price elastic good having higher prices will decrease the total revenue so quantity demanded will also fall because there is a larger than proportionate change in quantity demanded.

Examiner's comment

This response demonstrates the student's knowledge and understanding and there are examples of application to the business context in the second reason; for example the reference to Hampton by Hilton. However, there is no balance in the response even though there is an attempt at assessment.

This response therefore gained Level 2 and 5 marks.

8-mark assess questions require students to assess **two** factors which must be "balanced" for a Level 3 response. Balance could be in the form of analytical points for and against each factor. For example, a student could: identify and explain factor X and analyse its relevant importance (why and why not important); and identify and explain factor Y and analyse its relevant importance (why and why not important). See page 47 for a model answer.

Response 2

(e) Assess **two** factors that might cause a decrease in the demand for YOTEL's cabins.

(8)

Yotel offer a luxury service with a greatly positive and larger than 1 income elasticity of demand. Thus, a decrease in average incomes due to a recession in the economies in which a particular Yotel chain operates, such as the UK. This would decrease demand by a greater than proportionate amount and shift as incomes and disposable income would fall, leading to fewer businessmen & women choosing to pay for luxury accommodation from Yotel.

If the price of a hotel room from Hilton falls, YOTEL would face high competition and lose competitive advantage as Hilton would be offering a better deal with a lower price. This would shift the market share of business accommodation more towards Hilton & drop the demand for Yotel.

Examiner's comment

This response is stronger than Response 1 in terms of application and analysis. However, the response lacks balance so cannot reach Level 3.

This response therefore gained Level 2 and 5 marks.

8-mark assess questions require students to assess **two** factors which must be "balanced" for a Level 3 response. Balance could be in the form of analytical points for and against each factor. For example, a student could: identify and explain factor X and analyse its relevant importance (why and why not important); and identify and explain factor Y and analyse its relevant importance (why and why not important). See page 47 for a model answer.

Question 1f

Response 1

(f) Assess the importance to YOTEL of having a flexible workforce.

(10)

A flexible workforce is a group of employees that understand how to perform a variety of different jobs and functions within a business.

Yotel has a 24/7 automated check in system which means that they do not need to employ ^{specialty trained} reception staff. But on the other hand not having specialty trained staff if people have problems signing in then the staff might not know what to do, so reducing costs may not be a good thing in a way.

Although having a flexible workforce means that they would be able to work flexible hours. So by having flexible workforce this can reduce costs which will therefore increase revenue. This could possibly increase motivation of the staff because they can work the hours that they want.

There could also be a decrease in motivation even though they are working flexible hours because there will be a flexibility within the workforce ~~team~~ which means that the quality of service could go down which would lead to bad reports for Yotel which potentially lead to a decrease in demand which will lead to ^{increase} ~~decreases~~ in prices.

(Total for Question 1 = 30 marks)

TOTAL FOR SECTION A = 30 MARKS

Examiner's comment

There are elements of knowledge and understanding demonstrated in this response; for example, the first sentence attempts to define flexible working but does not refer to the different types of flexibility.

There are some effective uses of the context in the second paragraph but the chains of reasoning are weak, with general assertions rather than analysis.

A better answer would link the analytical points together; for example, relating to the range of services offered by YOTEL and the need for flexibility from staff to offer these to customers.

An accurate assessment might suggest that in a relatively low-skilled occupation like hotel working, time flexibility is more important than task flexibility; for example, more potential employees might be attracted to work the otherwise relatively low paid and known to be 'unsocial' hours.

This response therefore gained a Level 2 and 4 marks.

Response 2

(f) Assess the importance to YOTEL of having a flexible workforce.

(10)

A flexible workforce is one where many employees are able to do many jobs at a variety of times with little difficulty of transition.

YOTEL's business model of a fast cheap and convenient hotel room means that a large amount of their added value is generated by the fast turnaround of cleaning a room in order to sell it again. Therefore, being able to re-delegate workloads quickly when sectors such as reception are in a lull and cleaning services need help is essential. This will allow YOTEL to be in continued use of their resources and reduce wasted man hours, increasing ~~eff~~ productivity, reducing average costs and leading to greater profitability.

However, the opportunity cost of flexible training means that no employees will be specialised in any one, leading to a lower average quality of customer service or room cleaning, detracting from the quality of the YOTEL service and reducing its perceived value to consumers.

The extent to which a flexible workforce is beneficial depends on the fluctuations of departmental workloads. If each sector of the Hotel has

(Total for Question 1 = 30 marks)

stable workloads, flexibility is less important. **TOTAL FOR SECTION A = 30 MARKS**

Examiner's comment

This response demonstrates effective application of the context and coherent chains of reasoning. There is more than "an attempt at an assessment" in the third paragraph but the student does not go far enough to demonstrate the significance of competing arguments so the response is not wide-ranging. The student has done just enough to reach Level 4.

This response therefore gained Level 4 and 7 marks.

To improve this response the student could have ensured a well contextualised assessment to reach a supported judgement; for example "*YOTEL prides itself on being a 1st class hotel experience, if flexibility comes at the cost of customer service then it will not be beneficial. Flexible working may mean a lack of regular staff on specific days/for same hours, so regular business customers may not enjoy being treated as familiar by staff, customer service may therefore be perceived as poor, loyalty (repeat purchases) may therefore suffer.*"

Section B

Question 2a

Response 1

2 (a) What is meant by market segments?

(2)

Market segments are new groups of customers with similar buying habits for example people who purchase the Daily Mail.

Examiner's comment

This response demonstrates some knowledge and understanding but "groups of customers" and the example given are not explicit enough for both marks.

This response therefore gained 1 mark.

Response 2

2 (a) What is meant by market segments?

(2)

A market segment is a group of consumers in a market with similar buying habits. Such as elite athletes all looking to buy protein powder allowed in their sport's guidelines.

Examiner's comment

Although this response also refers to a "group of customers" the example given goes further than in response 1 and is strong enough for both marks.

This response therefore gained 2 marks.

Question 2b

Response 1

(b) What is meant by product differentiation?

(2)

~~how~~ product differentiation is the change between various products which give them individual USPs. for example Coke & Pepsi

Examiner's comment

The example given in this response is not required as it does not support or enhance the definition.

This response therefore gained 1 mark.

Response 2

(b) What is meant by product differentiation?

(2)

Product differentiation is the process of altering and adapting a product to generate unique selling points and competitive advantage over rival firms. Such as offering a variety of unique colours for Sims' Salt Pipes

Examiner's comment

This is a clear response with a good use of an example to support the definition given.

This response therefore gained 2 marks.

Question 2c

Response 1

The price elasticity of demand for Sims' Salt Pipes is -0.8.

(c) Using the data in Extract B, calculate the percentage change in quantity demanded following a £3 increase in the price of salt pipes. You are advised to show your working. (4)

$$20 \times \left(\frac{3}{23} \times 0.8 \right)$$

total decrease in demand of 0.4%

Examiner's comment

This is an inaccurate response. The lack of formula means the student could not gain a mark for demonstrating knowledge.

This response gained 0 marks.

Students are advised to show their working so they can gain marks for demonstrating knowledge and application. If the student wrote the formula in this response they may have gained a knowledge mark.

Response 2

The price elasticity of demand for Sims' Salt Pipes is -0.8.

(c) Using the data in Extract B, calculate the percentage change in quantity demanded following a £3 increase in the price of salt pipes. You are advised to show your working. (4)

$$PED = \frac{\% \text{ change in demand}}{\% \text{ change price}}$$

$$-0.8 = \frac{\frac{3}{20} \times 100 \Delta Q}{\frac{3}{20} \times 100}$$

$$\frac{-0.8 \times 3 \times 100}{20} = \Delta Q = 12\% \text{ fall in demand}$$

Examiner's comment

This response shows the student's workings and a correct response. The correct answer is "-12%" so writing "12% fall in demand" ensured the student gained the final mark.

This response therefore gained 4 marks.

Students should be careful when expressing figures to include values, negative signs as well as decimal places where appropriate.

Question 2d

Response 1

(d) Explain how Anthony has demonstrated **one** entrepreneurial characteristic. (4)

Anthony has taken a calculated risk, this can be seen as he left his ~~stable~~ stable job to venture into a ~~more~~ demand market he believed there was demand, this movement to the medical area is a calculated risk.

Examiner's comment

There is repetition in this response. The student gained one mark for "calculated risks" and another for applying this to the context.

This response therefore gained 2 marks.

Response 2

(d) Explain how Anthony has demonstrated **one** entrepreneurial characteristic. (4)

An entrepreneur is someone who organises a business venture and is responsible for the risks involved. Anthony has demonstrated being a risk taker because he set up a business selling salt pipes online instead of carrying on his catering business which was successful. The risk with this ~~product~~ business is that it is completely different to his other business, so he might fail with this business because it is a different selling technique.

Examiner's comment

This response states one entrepreneurial characteristic and includes contextualised examples which are explained in the final sentence.

This response therefore gained 4 marks.

Question 2e

Response 1

(e) Assess **two** benefits of online retailing to the success of a small business such as Sims' Salt Pipes.

(8)

one benefit will be the reduce ATC created by removal of rent ~~at~~ of premises. This will lead to the ~~ability~~ reduced average total costs, these savings can be ~~be~~ spent elsewhere within the business such as purchasing new forms of pipes.

online retailing also allows access to a global market therefore allowing the niche market that Sim's work within to encounter enough demand to make profits. Therefore increase sales to people with respiratory issues.

Examiner's comment

This response demonstrates accurate knowledge and understanding applied to the context of Sims' Salt Pipes. However, the response is unbalanced and does not show the significance of competing arguments.

This response therefore gained a Level 2 and 4 marks.

8-mark assess questions require students to assess **two** factors which must be "balanced" for a Level 3 response. Balance could be in the form of analytical points for and against each factor. For example, a student could: identify and explain factor X and analyse its relevant importance (why and why not important); and identify and explain factor Y and analyse its relevant importance (why and why not important). See page 47 for a model answer.

Response 2

(e) Assess **two** benefits of online retailing to the success of a small business such as Sims' Salt Pipes.

(8)

Online retailing is selling products on the internet.

One benefit of online retailing for his small business is that he can potentially reach global markets so for the consumers of his pipes it's more convenient for them and also it gives them greater choice. But on the other hand there is potential risk of fraud.

A second benefit is that there is the opportunity to expand to markets beyond their physical limits. So because of the cheap start up costs there will be lower overhead costs and lower fixed costs because he might not need to employ as many staff. The only problem about the opportunity to expand is that there is increased competition from companies such as Amazon which means Anthony may have to reduce prices due to greater consumer knowledge.

Examiner's comment

There is balance in this response but this is brief. The student has done just enough to show an awareness of competing arguments and reach the bottom of Level 3

This response therefore gained Level 3 and 6 marks.

8-mark assess questions require students to assess **two** factors which must be "balanced" for a Level 3 response. Balance could be in the form of analytical points for and against each factor. For example, a student could: identify and explain factor X and analyse its relevant importance (why and why not important); and identify and explain factor Y and analyse its relevant importance (why and why not important). See page 47 for a model answer.

Question 2f

Response 1

The market for salt pipes is expanding.

(f) Assess the likely impact on Anthony of Sims' Salt Pipes becoming a private limited company.

(10)

A private limited company is a company without shareholders on a large market and which has limited liability.

Becoming a private limited company may be very beneficial as it means that if any issues occur from the use of the Sims product, he cannot be sued for his personal assets. This is vitally important for a product which is inhaled into the respiratory system as if any harmful products enter the lungs the consumer may ~~also~~ experience strong side effects.

However becoming a private limited company will be very expensive therefore an opportunity cost is incurred as ~~there~~ the money could potentially be invested in R & D.

In conclusion it would be suitable for Sims to become a private limited company ~~thereby~~ ~~let~~ ~~the~~ ~~effectiveness~~ (Total for Question 2 = 30 marks)

depends on regulation as if **TOTAL FOR SECTION B = 30 MARKS** even ~~but~~ is tested for chemicals it may be more effective to invest in R & D.

Examiner's comment

There are inaccuracies in the first paragraph and there are incomplete assertions that are not related to Anthony and the given context. The response is strongest in the second paragraph and this is where the response gains marks.

This response therefore gained Level 2 and 4 marks.

Response 2

The market for salt pipes is expanding.

(f) Assess the likely impact on Anthony of Sims' Salt Pipes becoming a private limited company.

(10)

A private limited ^{is a type of} company that offers limited liability, or legal protection for its shareholders but places certain restrictions on its ownership.

If Anthony's company becomes a ^{private} public limited company, because he is the owner he can issue more shares to people to raise capital for expansion. But on the other hand if a shareholder of Sim's Salt pipes wants to sell their share, there would be no 'ready market' for their share holding. They would have to actively seek a purchaser, then if they find a potential purchaser they would then have to haggle over the share price. Also ~~the~~ Anthony cannot sell his shares on the stock exchange and the amount of share holders he has cannot exceed a specific number.

Another advantage is that Anthony can still run the company because there is no divorce between the ownership and control. So by having limited liability if Sim's salt Pipes experience financial distress, ~~Anthony~~ Anthony's personal assets ~~of~~ of the shareholders will not be at risk. But on the other hand Growth may be limited because of the limited amount of shareholders.

(Total for Question 2 = 30 marks)

TOTAL FOR SECTION B = 30 MARKS

Examiner's comment

This response has balance, includes analytical points and is supported by relevant use of the business behaviour. However, the points need further development to ensure the assessment is wide-ranging and well contextualised, and to demonstrate awareness of competing arguments.

This response therefore gained Level 3 and 6 marks.

Section C

Question 3

Response 1

- 3 Evaluate the likely impact on the finances of a business of using a pricing strategy such as that used by Ryanair.

(20)

A cost plus pricing strategy is when you price your good or service slightly higher than the costs of running the business therefore making a small profit and expecting to make a high volume of sales.

The use of this strategy may be very beneficial as it would cause a greater demand for flights, this would be emphasised due to the fact that Ryanair is offering a price elastic good, therefore a decrease in price of x will cause an increase in demand greater than x .

Also Ryanair are able to compete for low socio-economic customers than rivals such as British Airways, the lower groups have greater numbers than higher therefore allowing Ryanair to access a much greater market segment, meaning sales could increase greatly. This would reap huge profits as profit is made on every seat sold.

However if the economy was experiencing a boom many customers would have higher disposable incomes meaning that they would buy flights from luxury providers such as Qantas. Therefore demand for Ryanair flights would fall, this could be potentially very dangerous as only ~~small~~ a small profit is made on each product. Therefore fixed cost spreading would fall meaning it is likely that prices would rise causing demand to fall even more having a negative spiral.

In conclusion, this pricing strategy would be very beneficial as demand currently will be very high for these low priced flights. However it is dependant on the economy as if a boom is experienced demand may potentially fall greatly.

(Total for Question 3 = 20 marks)

TOTAL FOR SECTION C = 20 MARKS
TOTAL FOR PAPER = 80 MARKS

Examiner's comment

The first paragraph discusses cost plus pricing strategies but there is no evidence in the extract or rationale given in the response to suggest that cost plus pricing is being used. There are elements of knowledge and understanding applied to the business context and chains of reasoning are presented. A judgement is attempted but this does not relate back to the impact on the finances of a business.

This response therefore gained a Level 2 and 8 marks.

Response 2

- 3 Evaluate the likely impact on the finances of a business of using a pricing strategy such as that used by Ryanair.

(20)

A pricing strategy is a set of rules and ideas to be followed in order to place a price on a product by a firm.

Ryanair's pricing strategy allows them to advertise on absurdly low initial price ^{for flights} and gain the attention of many consumers. They then capitalise and make profits with larger profit margins on complimentary goods, such as food or baggage services, where Ryanair are the only providers.

If a firm were to use a pricing strategy such as Ryanair's, they would likely see an initial spike in demand as many customers would be drawn to the low advertised price. However, in order to advertise such a low price, it is unlikely to be a profitable venture and as such, profits from the advertised sale would likely fall or be negative. However, with the correct ~~of the~~ complement of necessary complimentary goods with high profit margins, the losses could be recuperated and large profits could be generated. The increase in sales would give the firm a larger market share than previously in the short term.

However, consumers would soon realise that they have been baited into a deal where the

overall cost may be greater than that of competitors. This immoral behaviour by the firm could generate poor publicity of the deal leading to many new consumers choosing to leave as well as some existing consumers. This could lead to a long term tarnishing of the firm's reputation and a long term fall in sales. This can be seen with Ryanair, as they are often subject to jokes by many popular comedians such as Russell Howard. ~~joking about the~~

Overall, the extent to which a firm could benefit from this pricing strategy depends on the current economic climate and the price elasticity of demand of the good/service. In a recession or slump, consumers will be drawn ^{more} to the lower price. This is also true if the demand is price elastic and there will be a mass surge in demand when price plummets as dictated by the pricing strategy.

(Total for Question 3 = 20 marks)

TOTAL FOR SECTION C = 20 MARKS
TOTAL FOR PAPER = 80 MARKS

Examiner's comment

This initially appears to be a strong response, with clear knowledge of pricing strategies, coherent chains of reasoning and contextual awareness in the early part of the response. However, beyond the second paragraph the student has not focused sufficiently on **the impact on the finances** of the business for a high Level 4 response. The response does not show full awareness of the validity and significance of competing arguments and does not lead to "balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendations".

This response therefore gained Level 3 and 14 marks.

The 20-mark questions in Section C will require students to make links across the full course (Theme 1 and Theme 2) and students must focus on the concepts being asked for in the question.

3. Paper 2: Managing business activities

This section includes student responses, marks and commentary for AS Paper 2 8BS0/02, *Managing business activities*. A summary of the questions and marks for each response is provided in the table below.

Question	Response 1	Response 2
Section A		
1a (2)	1	2
1b (2)	1	2
1c (4)	2	4
1d (4)	1	4
1e (8)	4	5
1f (10)	6	7
Section B		
2a (2)	1	2
2b (4)	3	4
2c (2)	2	2
2d (4)	2	2
2e (8)	1	4
2f (10)	4	6
Section C		
3 (20)	8	15

Section A

Question 1a

Response 1

1 (a) What is meant by cost of sales? (2)

Cost of materials & any costs involved in
selling eg a stall.

Examiner's comment

This response is a partial definition of cost of sales and the student gains one mark for "cost of materials".

This response therefore gained 1 mark.

Response 2

1 (a) What is meant by cost of sales? → The figure which represents the money the business must spend in order to produce (or) buy stock to sell.

Costs which vary ~~are~~ directly linked with the level ^{of} ~~of~~ output. They represent payments made for the use of input, such as materials. (usually variable cost)

Examiner's comment

This is an accurate response. The student did not need to write the additional part of their answer!

This response therefore gained 2 marks.

Question 1b**Response 1**

(b) What is meant by total revenue?

(2)

total money gained from sales.

Examiner's comment

The definition "total money gained from sales" is not precise enough for two marks. This response therefore gained 1 mark.

Response 2

(b) What is meant by total revenue?

(2)

TOTAL RECEIPTS FROM SALES OF A GIVEN QUANTITY OF GOODS OR SERVICES. IT IS THE TOTAL INCOME OF A BUSINESS AND IS CALCULATED BY MULTIPLYING THE QUANTITY OF GOODS SOLD BY THE PRICE OF THE GOODS.

Examiner's comment

This is an accurate response.

This response therefore gained 2 marks.

Question 1c

Response 1

(c) Using the data in Extract A, calculate Cadbury Plc's gross profit margin. You are advised to show your working.

$$\text{Gross Profit Margin} = \frac{\text{Revenue} - \text{cost of goods sold}}{\text{revenue}}$$

$$= \frac{181\,526 - 41\,847}{181\,526} = 0.77$$

Examiner's comment

The student has made some mistakes in their response but by showing their working they have gained marks for using the right formula and for substituting the right numbers in this formula.

This response therefore gained 2 marks.

Students are advised to show their working so marks can be awarded for these calculations.

Response 2

(c) Using the data in Extract A, calculate Cadbury Plc's gross profit margin. You are advised to show your working. (4)

$$\frac{181,526 - 41,847}{181,526} \times 100 = 76.9\%$$

Examiner's comment

This response shows the correct workings and answer. If the student had simply given 76.9% then 4 marks would have been awarded.

This response therefore gained 4 marks.

Students are advised to show their workings, including identifying the formula. If the student substitutes the wrong numbers in their calculations, writing the formula will enable them to gain marks for knowledge and understanding.

Question 1e

Response 1

(e) Assess **two** reasons why Whitakers might benefit from using batch production in the manufacture of chocolate.

(8)

One benefit is lower unit cost for whitakers. Since batch production is producing large amounts at once, whitaker would buy materials for production in bulk at discount. This allows whitakers to have lower cost with higher output therefore benefiting in higher profit margins.

It can also provide consumers with a greater variety of choice. Producing in batches allows whitakers to produce a variety of products giving the consumer much more choice as batch production can be tailored easier than flow production.

Examiner's comment

This response attempts to assess two factors. However, there is no application to Whitakers or to the manufacture of chocolate. The response implies a comparison to job production but this is not explicit and the response is generic. The student has demonstrated accurate knowledge and understanding so has done enough to reach Level 2.

This response therefore gained Level 2 and 4 marks.

Students must relate their responses to the context given in the question to access higher levels.

Response 2

(e) Assess **two** reasons why Whitakers might benefit from using batch production in the manufacture of chocolate.

(8)

Batch production is a method of production that completes one operation at a time, on all its units before performing the next. One benefit to Whitakers using batch production is they can address specific customer needs and requirements, this is beneficial as their customers tastes and preferences tend to change and therefore batch production allows them to alter each batch to meet these needs. Being in the chocolate industry there will be seasonal periods of high demand (e.g. Christmas, Easter) and batch production will enable them to meet this demand as with the use of specialist machinery they can produce many batches in a short space of time, ~~there~~ maximising output and increasing productivity. Therefore generating high sums of revenue.

Examiner's comment

This responses considers two factors (addressing specific customer needs and responding to seasonal demand) with well contextualised examples. However, the response lacks balance so does not reach Level 3.

This response therefore gained the top of Level 2 and 5 marks.

8-mark assess questions require students to assess **two** factors which must be "balanced" for a Level 3 response. Balance could be in the form of analytical points for and against each factor. For example, a student could: identify and explain factor X and analyse its relevant importance (why and why not important); and identify and explain factor Y and analyse its relevant importance (why and why not important). See page 47 for a model answer.

Question 1f

Response 1

(f) Assess the importance of a quality assurance system to a chocolate manufacturer such as Whitakers.

(10)

Quality Assurance is a method of checking quality which aims to achieve a high standards of quality by checking each stage of production to ensure they get it 'right first time'. Because Whitakers consider ~~Hygiene and food~~ ^{Hygiene and food} Safety to be a vital part of production, a 'quality assurance' approach is the most ~~appropriate~~ appropriate for them, as it ensures that every product is up to standard throughout every stage of ^{the} production process. By doing this Whitakers will be reducing their costs as there should be less waste and therefore less batches having to be re-done. Lower costs of production will ensure Whitakers are making a reasonable profit. Furthermore, quality assurance will prove beneficial to Whitakers as it will lead to less complaints. If quality is checked all the way through, then customers should have no reason to complain and Whitakers will be able to avoid bad reputation. However, a drawback to using Quality Assurance is it can be very time consuming and may slow down the production process, which ~~during periods of high demand will be cause problems.~~

(Total for Question 1 = 30 marks)

TOTAL FOR SECTION A = 30 MARKS

Examiner's comment

This is a well written response but is lacking in application to a chocolate manufacturer such as Whitakers. This has led to a rather superficial assessment. Balance does exist within this response but it is brief.

This response therefore gained Level 3 and 6 marks.

Response 2

higher price

Cost Assurance
save on wast/returned

demand/revenue
repeat custom

(f) Assess the importance of a quality assurance system to a chocolate manufacturer such as Whitakers.

(10)

Quality assurance is a process that happens at every stage of production and ensures quality is kept high. This would be important as it reduces wastage of low quality products produced which may happen with quality control. Also with quality assurance there will be less products returned because of quality. However the cost involved in quality assurance is high as you need to train staff and use high quality materials which cost more. This may mean smaller or lower income companies can't do this because of the cost. However when you have a high quality product like Whitakers you can get awards which Whitakers has BRC Certificate. This can allow Whitakers to charge a higher price for their product which could cover the cost of the quality assurance. Also with high quality through quality assurance Whitakers are likely to benefit from repeat customers leading to higher revenue. Quality is Whitakers customers test so if they didn't do quality assurance they would lose out on lots of customers.

(Total for Question 1 = 30 marks)

Examiner's comment

This response is supported throughout by effective use of the context, with balanced analysis and developed chains of reasoning. A supported judgement is attempted at the end but this is a little weak.

This response therefore gained Level 4 and 7 marks.

This response is difficult to follow because it lacks a clear paragraph structure. Students should be encouraged to structure their responses in paragraphs to ensure there is a logical and coherent flow to the points they are making.

Section B

Question 2a

Response 1

2 (a) What is meant by a sales forecast?

estimating how many products will be sold over
a time period to allow a target and income
estimate (2)

Examiner's comment

This response identifies that a sales forecast estimates "how many products will be sold over a time period" (1) but does not develop this to identify what this estimate is based on (such as market research or past sales data).

This response therefore gained 1 mark.

Response 2

2 (a) What is meant by a sales forecast?

A sales forecast is a projection of achievable
sales revenue based on previous sales data,
analysis of the market and the current
status of the business. (2)

Examiner's comment

This response demonstrates clear knowledge and understanding of sales forecasts.

This response therefore gained 2 marks.

Question 2b

Response 1

Fox's Biscuits are considering selling their Caffè Thins at £1.74 per packet. Fixed monthly costs are £160 000 with variable costs at 53 pence a packet.

(b) Using this data, **calculate** the monthly break-even level of output for Caffè Thins. You are advised to show your working.

(4)

$$\text{Break-even output} = \frac{\text{Fixed costs}}{\text{contribution (selling price per unit - variable cost per unit)}}$$

$$\frac{160,000}{(1.74 - 0.53)} = \frac{160,000}{1.21} = 132,231.4$$

Examiner's comment

This response has the correct formula (1) and the correct substitution of figures within the formula (2). However, the student should have presented the answer as 132,232 to recognise the need to achieve full units for break even.

This response therefore gained 3 marks.

Although this student made a mistake presenting the answer to the calculation in this context, they gained three marks for showing their workings.

Response 2

Fox's Biscuits are considering selling their Caffè Thins at £1.74 per packet. Fixed monthly costs are £160 000 with variable costs at 53 pence a packet.

(b) Using this data, **calculate** the monthly break-even level of output for Caffè Thins. You are advised to show your working.

(4)

$$1.74 - .53 = 1.21$$

$$\frac{160,000}{1.21} = 132,232$$

break even output
132,232

Examiner's comment

Although the student has not shown their working in full (the formula has not been identified in the response), the workings and final answer are correct.

This response therefore gained 4 marks.

Students are advised to show their workings, including identifying the formula. If the student substitutes the wrong numbers in their calculations, writing the formula will enable them to gain marks for knowledge and understanding.

Question 2d**Response 1**

(d) Explain how the £6m investment by Mondelēz International might improve productivity at the Sheffield factory.

(4)

Building a new production line will increase the output of the factory by providing more equipment ~~space~~ to carry out the production process.

A large investment may also motivate employees by showing their jobs are secure as they can afford to invest in more production, and motivation increases productivity in workers.

Examiner's comment

This response has two analytical points (the impact of more equipment and employee motivation on productivity) but there is only one mark available for analysis in a 4-mark explain question. The response does not define productivity or provide contextualised examples so does not gain further marks.

This response therefore gained 1 mark.

Response 2

(d) Explain how the £6m investment by Mondelēz International might improve productivity at the Sheffield factory.

(4)

Buy Capital which is more productive and can work 24/7 where as worker can't. Capital can produce more than one output e.g batch production. This allows them to produce more output per hour & day as Capital more productive than worker.

Examiner's comment

This response achieves one mark for application (can work 24/7) and one mark for analysis (more output per hour).

This response therefore gained 2 marks.

Question 2e

Response 1

(e) Assess **two** reasons why break-even analysis might be useful to a business such as Fox's Biscuits.

(8)

BREAK-EVEN ANALYSIS MIGHT BE USEFUL TO A BUSINESS SUCH AS FOX'S BISCUITS BECAUSE IT WILL HELP THEM IN PREVENTING LOSSES. IT HELPS DETERMINE THE MINIMUM AMOUNT OF BUSINESS ACTIVITY REQUIRED TO PREVENT ANY LOSSES. FOX'S BISCUITS WILL KNOW HOW MANY STAFF ARE NEEDED AT ANY ONE TIME ~~AND~~ TO COMPLETE PRODUCTION EFFICIENTLY ~~AND~~ AND REACH THEIR ~~FINANCIAL~~ FINANCIAL GOALS.

Examiner's comment

Although two reasons in this response are considered the assessment of these is weak. There are generic assertions and no relevant application to the business.

This response therefore gained 2 mark.

Response 2

(e) Assess **two** reasons why break-even analysis might be useful to a business such as Fox's Biscuits.

(8)

One benefit of break-even analysis to Fox's biscuits is it will help them to determine a ~~reasonable~~ suitable price for their new biscuit. Taking into consideration their costs and expected sales they can identify a suitable price, ensuring they make a profit. This is beneficial as it ~~eliminate~~ eliminates some risk involved with introducing a new product to the market. However, the limitation is that the output level is only an estimate. Another benefit of break-even analysis to Fox's biscuits is it gives them a target. It helps the firm to determine the target capacity, in order to get the benefit of minimum unit cost of production. However, the limitation is that it assumes all products ~~are~~ produced, will be sold.

Examiner's comment

This response considers two reasons and has balance; for example the limitation of how useful break-even analysis is in determining a suitable price is discussed. However, the context is weak and references only "Fox's biscuits" which is given in the question. This limits the response to Level 2.

This response gained Level 2 and 5 marks.

Question 2f

Response 1

(f) Assess the importance to a business such as Mondelēz International of using internal finance when investing in a new production line.

(10)

ONE ADVANTAGE OF USING INTERNAL FINANCE IS THAT MONDELÉZ INTERNATIONAL WILL HAVE NO REPAYABLE DEBTS TO THE BANK BECAUSE YOU ALREADY HAVE THE FINANCE THE PROCESS IS VERY QUICK AND EASY MEANING ACQUISITION COSTS ARE MINIMAL AND YOU WON'T HAVE ANY INTEREST TO PAY BACK TO ~~THE~~ INVESTORS MEANING ASSETS MAY NOT HAVE TO BE USED AS COLLATERAL.

ANOTHER ADVANTAGE IS THAT THEY WILL HAVE ^{BETTER COMPANY} ~~ALONE OWNERSHIP~~ RIGHTS. THE LESS DEBT A COMPANY HAS, THE MORE ATTRACTIVE IT IS TO POTENTIAL INVESTORS AND BUYERS. LOWER DEBT IMPROVES YOUR CREDIT SCORE, AND MORE CREDIT CAN BE OBTAINED AT ~~A~~ LOWER INTEREST RATES.

Examiner's comment

This is a one sided response that lacks balance. There is no relevant application to the business example and assertions are incomplete. The student correctly identifies an advantage of internal finance in the first paragraph so demonstrates elements of knowledge and understanding. The second paragraph is not adding to the response.

This response therefore gained Level 2 and 4 marks.

Response 2

- (f) Assess the importance to a business such as Mondelēz International of using internal finance when investing in a new production line.

(10)

For 'Mondelēz International' internal financing for their investment would be beneficial. For example, if they used retained profit, it wouldn't have to be paid back and therefore they wouldn't have to depend on the new production line to generate the finance to pay back the debt. ~~Further more~~ ^{furthermore}, they don't have to pay interest, because the money is already theirs. Additionally they aren't under pressure to invest the money, generate revenue from the investment, and re-pay it, instead they can stretch out the investment for as long as they like. Although internal sources of finance is beneficial, it does have its draw backs. For example, assuming Mondelēz International don't have €6m retained profit, it could take them a while to raise it; and with their competitors 'Fox's' bringing out a new biscuit, they need to be able to keep up with them.

Examiner's comment

This response considers one type of internal finance, retained profit, and considers the advantages and disadvantages of this, providing balance in the response. There are chains of reasoning but the analysis is not strong enough to reach Level 4.

This response therefore gained Level 3 and 6 marks.

Section C

Question 3

Response 1

- 3 Evaluate the likely impact on the employees of a business such as Lindt of operating at a higher level of capacity utilisation.

(20)

Operating at a higher level of ~~operating~~ capacity utilisation will mean Lindt has to use more of itsⁿ available production capacity. If Lindt has some machinery or a part of a production line that is underused, that they plan to put into use or use more often, then they will likely need more staff or need current staff to work longer in order to operate at a higher level of capacity utilisation.

Having to work longer may demotivate staff if they start to feel overworked or taken for granted. If overtime is optional then Lindt may not operate at the capacity that they want to, and they may have to make extra hours compulsory or introduce a piece rate system to motivate staff to work longer. Having a piece rate system will motivate staff to produce more (as per Taylor's theory of motivation) but may reduce quality as staff rush their work, which could harm Lindt's brand image as a luxury chocolate maker.

On the other hand, the 9% sales rise may motivate staff as it suggests that on the whole Lindt's staff are doing well and it also means

greater job security for the staff. Having a rise in sales indicates Lindt will make a good profit, so won't need to fire staff to cut costs. Having a secure job is one of Herzberg's hygiene factors, meaning without it it is likely to demotivate staff.

Overall, I think staff will be motivated by the greater capacity utilisation, as better sales and revenues of \$1.23 bn will provide job security and increased the motivation (and productivity) of the staff. If Lindt are worried about a higher workload demotivating staff, they could use a piece rate or bonus scheme to financially motivate staff to work longer.

Examiner's comment

This response is balanced and makes good use of the context and qualitative information given. However, despite the strong start, the response drifts and loses focus, moving away from capacity utilisation to discuss piece rate and motivation. The question ask students to evaluate **the impact on employees**. The response does not include well-developed arguments.

This response therefore gained Level 2 and 8 marks.

Response 2

- 3 Evaluate the likely impact on the employees of a business such as Lindt of operating at a higher level of capacity utilisation.

(20)

Operating at higher levels of capacity will have many impacts upon employees, however it will depend on how long for and how much 'higher'. For example, if it is a short term thing, employees may have the opportunity to earn more money through overtime, this will motivate some staff to work harder, to earn some extra money. However for others they won't like the stress of additional work and it could potentially demotivate them.

If the higher capacity utilization is a long term thing, Lindt may have to employ additional staff to keep up with the work load, this may upset some existing staff, as they may want to take on the extra work themselves. Additionally it may result in opportunities for existing staff to be promoted to supervisors, giving them greater responsibility and motivating them.

Overall, ~~that~~ a higher capacity utilisation should lower average fixed costs, meaning that Lindt can charge lower prices for their chocolate, which should hopefully increase demand. Higher levels of demand, with lower

costs will increase profit, and Lindt may then decide to increase staff wages to reward them for their extra input.

To conclude, the impact on Lindt's staff will depend on the length of time they perform at higher levels of capacity, and what type of employee it is, as everyone will have different opinions on the situation.

Examiner's comment

This is a well written answer supported throughout by contextualised examples. There are developed chains of reasoning and a good balance of assessment. To improve further, the student could have linked more to Lindt and finished with an effective conclusion and recommendation.

This response therefore gained Level 4 and 15 marks.

Model answer

The students in the sample struggled most with the 8-mark assess questions. Below is a student-style model answer to Paper 1, question 1e to demonstrate how these questions can be answered.

Assess two factors that might cause a decrease in the demand for YOTEL's cabins.

If a competitor hotel chain entered the market, YOTEL might lose customers causing a fall for Yotel's occupancy rates. For example, the competition may come from an existing hotel brand such as Formule 1 developing a micro offer near airports.

However, YOTEL might have an advantage being the first in the market, so will benefit from customer loyalty. Also, if the market is growing in size YOTEL might actually maintain its share, in spite of the new competitor.

A second factor might be recession. Most of the demand for YOTEL's rooms comes from corporate travellers. Business travel tends to decrease during a recession as businesses aim to cut costs and so YOTEL, which relies on business travel for its revenues, might see this income fall. However, the small and practical nature of YOTEL's rooms could mean that demand for them will fall when the economy is growing, as customers can afford more expensive competitors such as Hilton.