



*Rewarding Learning*

**ADVANCED SUBSIDIARY (AS)  
General Certificate of Education  
2012**

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**GCE Applied Business**

**Assessment AS 3**

*assessing*

**External Influences on the Business Enterprise**

**[A3B31]**

**MONDAY 14 MAY, AFTERNOON**

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**MARK  
SCHEME**

- 1 Explain the term ‘Adding Value’ and analyse **two** ways in which Irish Salt Mining and Exploration Limited might succeed in ‘Adding Value’ to the product as an approach to improving competitiveness.

Adding Value: defined as the value attached to the output of a business entity, adjusted by the value of intermediate goods purchased from suppliers at an earlier stage in the value chain.

ISME seek to ‘add value’ in the following ways:

- Use of superior transport facilities enabling it to distribute the product in an efficient and reliable manner to customers (UK, Irish and Northern Ireland markets);
- Ownership of a private jetty enabling ships to berth in Belfast Lough, facilitating the loading of salt using a series of conveyor belts straight from the mine itself (UK-based market);
- Speed of supply to customers is enhanced;
- Processing of the product at source and ease of accessibility to customers
- Domestic market: Bags

Marking: [1] for definition; [1] for application; [1] for analysis

(1 × [1]; 2 × [2])

[5]

5

- 2 (a) Analyse **two** ways in which UK membership of the European Union might benefit Irish Salt Mining and Exploration Limited.

- Removal of trade barriers: no trade barriers exist between member states of the EU; ISME exports de-icing salt to customers in the Republic of Ireland;
- Common currency: the adoption of the Euro by most member states of the EU will reduce currency fluctuations/foreign exchange risk between businesses in member states; the reduction of foreign exchange risk will increase revenues/profits for businesses such as ISME;
- Common Laws apply in NI as part of EU – e.g. Working Time Directive.
- Administration
- Improved infrastructure

Marking: [1] for explanation; [1] for application; [1] for analysis

(2 × [3])

[6]

- (b) Using **three** examples from the case study, analyse ways in which exchange rate fluctuations between sterling (£) and other currencies such as the dollar (US \$) and/or euro (€), could affect the financial position of Irish Salt Mining and Exploration Limited.

- i. NI-based businesses such as ISME that sell a proportion of their products to countries within the EU will prefer a low exchange rate (ie. a weak pound), e.g. ISME charges a UK customer £18000 for a shipload of de-icing salt, say 40 000 tonnes (400 000 × 10%) - to achieve a similar profit margin in the EU, ISME charges a price in euros equivalent to £18 000; if, one month ago the exchange rate was £1 = €1.20, then ISME would charge a eurozone customer €21 600; however, if last week the exchange rate was £1 = €1.25, the company would charge €22 500, ie.

ISME would have to increase prices in order to maintain current cashflows/revenues, which would be off-putting to customers, hence cashflows would likely decrease.

- ii. NI-based businesses such as ISME import plant/equipment/machinery (from America) to run the business, therefore they will prefer a high exchange rate. A high exchange rate reduces the cost of buying goods from abroad. For example, if ISME import cleaning detergent to clean the mining equipment, at €5/litre, the prices paid by ISME might be £3.85/litre (if exchange rate is £1 = €1.30) or £3.57/litre (if exchange rate is £1 = €1.40).  
A high exchange rate will benefit ISME since it will be able to save cash and thus increase cashflows.
- iii. The value of funds invested by shareholders will also be affected by fluctuations in the exchange rates - it is a private limited company, American owned, hence the monies invested in the company in terms of share capital will vary due to changes in exchange rate between sterling and US Dollar. A strong US Dollar will make it more attractive for overseas investors to invest in Northern Ireland companies as it will be cheaper (ie. require less dollars to change into the sterling equivalent).
- iv. The profits of ISME Ltd will also be affected by changes in the exchange rate between sterling and the US Dollar, as dividend payments will be made to shareholders based on profits of ISME Ltd - the actual payment will depend on the exchange rate. A weak dollar will mean that less sterling is required to ensure payment of a dividend to shareholders thus ISME can keep the cash in the company.

Marking: [1] for explanation; [1] for analysis; [1] for application  
(3 × [3])

[9]

15

- 3 Analyse **four** reasons why UK government intervention might be necessary within the mining industry.

**To ensure fair trade:**

- To ensure fair trade in the market - case study does not indicate that ISME has attempted to mislead consumers in an effort to secure higher profits.
- The number of laws that Government has passed to protect consumers from unscrupulous traders are as follows: Sale of Goods Act, Minimum Wage, Trade Description Act and the Weight and Measures Act.
- Examples: quantities of de-icing salt purchased by customers are fit for purpose and of merchantable quality.

**To control competition:**

- This ensures that individual businesses do not gain too much market power.
- Laws are aimed at encouraging greater competition e.g. Fair Trading Act, the Competition Act, the Restrictive Trade Practices Act and the Enterprise Act.
- Intended to make the local economy more competitive by preventing large firms from abusing their market power.
- ISME has a monopoly position in respect of the salt mine in Ireland.

**To protect stakeholders:**

- Government wishes to protect the various stakeholders from abuse.
- Protecting employees from being poorly treated by their employers by introducing a number of pieces of legislation for example the Health and Safety at Work Act, Sex Discrimination Act, National Minimum Wage and the Working Time Directive.
- Examples: employees should work in a safe environment not in an unsafe environment in an attempt to reduce costs - ISME provides safety training to employees.

**To ensure support for government economic objectives:**

- Government wants a stable, competitive economy incorporating: low levels of inflation, low levels of unemployment, high but sustainable levels of economic growth, an acceptable balance of payments.
- Examples: expansion of the mine for up to another 30 years can create jobs and bringing more money into the local economy.
- Taxation - Increased revenues.

**To protect the environment:**

- Government must protect the environment from pollution caused through either the production or the consumption of goods and services.
- Laws introduced by the government to protect the environment - Clean Air Act and the Environmental Protection Act.
- Aims to reduce pollution, including the Climate Change Levy and the excise duty on fuel.
- Examples: Royalty payments in respect of mining/taxation.

**Social and ethical issues:**

- Government must protect the social and ethical issues within the local economy.
- Examples: Welfare and clarity of the employees of ISME.
- Health & Safety of staff at the mine; animal rights, safety standards, environmentalism and privacy rights.

Marking: [1] for identification/explanation; [1] for application; [1] for analysis  
(4 × [3]) [12]

12

4 Irish Salt Mining and Exploration Limited has a monopoly over the mining of de-icing salt on the island of Ireland. Analyse **four** implications of this position on ISME Ltd.

- As the sole supplier in Ireland, Irish Salt and Mining Exploration (ISME) may charge higher prices than if there was competition (in Ireland); if ISME can charge high prices they are known as price makers e.g. the market price per ton of de-icing salt mined; abnormal profits;
- ISME might be able to charge different sets of customers different prices for the same product e.g. customers located overseas might pay more per ton of de-icing salt compared to customers located on the island of Ireland, perhaps due to transportations costs involved;
- A monopoly position such as that held by ISME could be used to exploit the dependence of their customers on their products by restricting choice, e.g. restricting availability of supply at various times throughout the year;
- The UK Government might limit the power of monopolists by having policies which are intended to protect customers of ISME from exploitation;
- The UK Government might want to protect consumers within the industry, strengthening consumer protection, using various legislation;
- It can be argued that ISME are able to exploit economies of scale - the mine

has been in existence for some time and the company has invested heavily in plant/equipment/resources and wishes to continue to do so;

- ISME can compete more effectively in the global market place.

Marking: [1] for explanation; [1] for application; [1] for analysis  
(4 × [3])

[12]

12

5 Evaluate the extent to which **each** of the following conditions of supply is likely to affect the profitability of Irish Salt Mining and Exploration Limited (i) changes in costs of production; (ii) physical/natural conditions; (iii) technology; (iv) taxation.

**(i) Changes in cost of production:**

- Changes in costs impact supply - average annual output is 400 000 tonnes of salt per year, thus it is assumed that this is optimum output, however, with the extension of the mine and additional staff (10), it is likely that productivity will increase; this will therefore increase the costs of Irish Salt Mining & Exploration.

**(ii) Physical/Natural conditions:**

- The weather will impact supply of de-icing salt throughout the year-the greater the severity of wintry conditions, the greater the demand for salt during the winter months; it is a seasonal industry;
- The mine had a limited capacity (until 2012) however, the expansion of the mine has facilitated an increase in capacity for a further 30 years;
- This will impact the profitability of Irish Salt Mining & Exploration - since increased demand on the part of customers should lead to increased profitability.

**(iii) Technology:**

- Improvements in technology will impact the supply of de-icing salt and the ability of Irish Salt Mining & Exploration to supply the market;
- It is assumed that the cost of £20m envisaged for expanding the mine will include updates to technology, e.g. latest mining plant and machinery/screening equipment and health/safety facilities;
- It is envisaged that technological improvements will increase productivity of supply and therefore increase profitability in the longer term.

**(iv) Taxation/Subsidies:**

- Changes in government taxation policy will impact supply;
- It has been noted that government receive tax and other revenues in the form of direct taxes, royalties, rates etc; An increase in such taxes will cause an increase in the costs of supply and could lead to a decline in quantities demanded if customers are not willing to pay extra for the product (salt); if customers pay extra, then additional tax revenues will be due by Irish Salt Mining & Exploration, thus decreasing profitability.

Marking: [1] for knowledge & understanding; [1] for application; [1] for analysis; [1] for evaluation  
(4 × [4])

[16]

16

6 Evaluate the extent to which the £20 m expansion programme undertaken by Irish Salt Mining and Exploration Limited is likely to affect **five** stakeholder groups.

The stakeholders that could be affected with the expansion in the following ways;

- **Employees** – They will have an interest in the expansion of the mine as their jobs and salaries depend on revenue generated from sales and increased market share of the salt market; they will benefit from the expansion of the mine leading to enhanced job prospects and security of employment;
- **Suppliers** – The different suppliers to ISME (e.g. mining equipment suppliers) will be affected by the expansion of the mine, as they will be keen to supply additional equipment/supplies and thus gain increased revenues/profits;
- **Local Community/Residents** – With the mine expanding this could cause additional problems with continued noise and pollution to local residents caused by continuing mining operations. The local community could benefit from increased employment. As a result 10 new employees will be recruited, and may contribute to the local economy, which in turn will mean that other local businesses such as shops will also benefit;
- **Shareholders** – they will benefit from receipt of dividends arising from increased profitability/earnings of ISME Ltd; the expansion will secure their investment in the business for at least another 30 years, particularly in context of a monopoly position in respect of mining of salt;
- **Customers** – ISME customers will be interested in the expansion of mining facilities, as this might lead to price stabilization or discounted pricing; they will also be looking at the quality of the product/standard of service received/security of supply, since it is the only salt mine in Ireland;
- **Government (National and local)** – They will benefit from tax and other revenues from ISME. In addition to this expansion unemployment will be reduced removing the necessity to provide unemployment benefit. ISME could receive money in the form of grants/loans to help in the expansion of the mine; rates; duties; royalties; employee training/grants; unemployment reduction schemes;
- **Pressure Groups** – They can take the form of trade unions (lobbying for better health/safety and terms working conditions); professional bodies and environmental groups (such as Greenpeace and Friends of the Earth), who would be concentrating on the environmental impact of the expansion of the mine;
- **Lenders.**
- **Creditors.**

Marking: [1] for identification/explanation; [1] for application; [1] for analysis; [1] for evaluation.

(5 × [4])

[20]

20

**Total**

**80**