

GCE 2004

June Series



Mark Scheme

Business Studies

Unit BUS1

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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Dr Michael Cresswell Director General

GENERAL MARKING GUIDANCE

You should remember that your marking standards should reflect the levels of performance of Advanced Subsidiary Level candidates, mainly 17 years old, writing under examination conditions. The level of demand of this unit is that expected of candidates half-way through a full A Level course.

Positive Marking

You should be positive in your marking, giving credit for what is there rather than being too conscious of what is not. Do not deduct marks for irrelevant or incorrect answers as candidates penalise themselves in terms of the time they have spent.

Mark Range

*You should use the whole mark range available in the marking scheme. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **must** be given. A perfect answer is not required. Conversely, if the candidate's answer does not deserve credit, then no marks should be given.*

The use of Levels of Response

Levels of response marking has holistic aspects, yet must conform to the rule of positive marking. A candidate who has built a strong argument must have that achievement recognised fully, even if a subsequent paragraph of ambiguity reduces the power of the whole. For this to occur consistently requires careful annotation of the level of response achieved within each skill category, at each significant stage within an answer.

Fundamental to a Levels of Response approach is that there maybe more than one right answer to a written question. Examiners must use their professional judgement to credit any reasonable answer, whether or not it is listed on the mark scheme.

Levels of response marking requires examiners to follow the logic of a candidate's answer. A concept that would receive credit for knowledge in one context could become a means of analysis in another. It is also possible that a candidate's line of argument could validate knowledge that would not have been recognised if the candidate had simply tabled it. For example, acid test is not listed within the specification as a test of financial efficiency, yet a candidate could build an argument that made it relevant. Then knowledge could be rewarded as well as analysis.

Despite the value of skills such as analysis and evaluation, all answers must be based upon relevant knowledge and understanding. Therefore, it is not possible to credit application, analysis or evaluation unless recognisable knowledge has been rewarded.

The skills we seek from candidates are as follows:

1. Knowledge and understanding: accurate definitions or explanations of relevant terms should always be credited within this category; candidates can also gain credit for knowing and explaining a point relevant to the question, e.g. an advantage of factoring.
2. Application is the skill of bringing knowledge to bear to the business context faced by the candidate. Candidates should not be rewarded for simply dropping the company name or product category into their answer; the response must show recognition of some specific business aspect of the firm, its management or its situation.
3. Analysis: building up an argument using relevant business theory in a way that answers the question specifically and shows understanding of cause and effect.
4. Evaluation is judgement. This can be shown within an answer, through the weighting of an argument or in the perceptiveness shown by the candidate (perhaps about the degree of crisis/strength of the XYZ Company). It can also be shown within a conclusion, perhaps by weighing up the strength of the candidate's own arguments for and against a proposition. Evaluation is **not** shown simply by the use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment". It is shown through the weighting of the candidate's response plus the logic and justification of his/her conclusions.

Quality of Language

The GCSE and GCE A/AS Code of Practice requires the assessment of candidates' quality of written communication wherever they are required to write in continuous prose. In this unit, this assessment will take place for each candidate's script as a whole by means of the following marking criteria.

LEVEL 2	Straightforward ideas are expressed clearly, if not always fluently. Sentences and paragraphs may not always be well connected. Arguments may sometimes stray from the point or be weakly presented. There may be some errors of grammar, punctuation and spelling, but not such as to suggest a weakness in these areas	2 marks
LEVEL 1	Simple ideas are expressed clearly but arguments may be of doubtful relevance or obscurely presented. Errors in grammar, punctuation and spelling may be noticeable and intrusive, suggesting a weakness in these areas.	1 mark
LEVEL 0	Ideas are expressed poorly and sentences and paragraphs are not connected. There are errors of grammar, punctuation and spelling, showing a weakness in these areas.	0 marks

Total 2 marks

1**Total for this question: 25 marks**

(a)	What is meant by the term “market growth” (line 19)?	<i>(2 marks)</i>
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	Content 2 marks
Level 2	2 marks Candidate demonstrates good understanding of term
Level 1	1 mark Candidate demonstrates some understanding of term
Level 0	0 marks No relevant content present

Market growth is an increase in the value of sales (or volume) for a particular group of products

(b)	Explain why BMW might have decided to operate the new Goodwood factory as a profit centre.	<i>(6 marks)</i>
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	Content 2 marks	Application 4 marks
Level 2	2 marks Candidate shows good understanding of a profit centre or identifies two relevant reasons or some understanding plus a single reason	4-3 marks Candidate offers effective development of reason(s) in relation to scenario
Level 1	1 mark Candidate shows some understanding of a profit centre or identifies one relevant reason	2-1 marks Candidate offers limited development of reason(s) in relation to scenario
Level 0	0 marks No understanding demonstrated	0 marks No discernible attempt to apply knowledge

Possible reasons might include the following:

- To make it easier for BMW’s senior managers to assess the performance of its Rolls Royce division and to compare it with other elements of the business.
- To motivate the employees at the Goodwood factory by setting profit targets or giving local managers greater financial authority.
- To assist the managers at the Goodwood factory to take the appropriate decisions regarding pricing, output etc.
- To reduce the overheads of the entire BMW group by delegating greater authority to managers at Goodwood.
- Ensure heavy R & D costs are covered.

(c) BMW has expanded its range of products in recent years. Examine the possible benefits of using product portfolio analysis (for example, the Boston matrix) in these circumstances. (8 marks)

	Content 2 marks	Application 3 marks	Analysis 3 marks
Level 2	2 marks Candidate shows good understanding of product portfolio analysis or identifies two relevant benefits or elements of both	3 marks Candidate applies answer effectively to BMW's circumstances	3 marks Good analysis of way(s) in which use of the product portfolio analysis might have assisted in product portfolio management
Level 1	1 mark Candidate shows some understanding of product portfolio analysis or identifies one relevant benefit	2-1 marks Candidate attempts to apply answer to circumstances of BMW	2-1 marks Limited analysis of way(s) in which use of the product portfolio analysis might have assisted in product portfolio management
Level 0	0 marks No understanding demonstrated	0 marks No discernible attempt to apply knowledge	0 marks No analysis present

Relevant answers might include the following:

- This analysis will help BMW to judge whether it has a “balanced” portfolio of products.
- As part of the analysis the company will identify those elements of the market that are growing and may focus resources on them.
- It will help the company to plan its marketing, for example, by deciding which products to promote strongly.
- To identify products that may be used to support new developments such as the 1-series.
- To avoid cannibalising its own sales, for example, selling two small cars: the Mini and the 1-series.
- To decide which products the company might want to stop manufacturing.

(d) One of BMW’s objectives is to sell more cars in the luxury market. To what extent is a carefully designed marketing mix essential to achieve this objective? (9 marks)

	Content 2 marks	Application 2 marks	Analysis 3 marks	Evaluation 2 marks
Level 2	2 marks Candidate offers two or more relevant arguments or shows good understanding terms or elements of both	2 marks Candidate applies knowledge effectively to BMW’s circumstances	3 marks Good analysis of argument	2 marks Judgement shown taking account of both sides
Level 1	1 mark Candidate offers single relevant argument or shows some understanding of term(s)	1 mark Candidate attempts to apply knowledge to BMW’s circumstances	2-1 marks Limited analysis of argument	1 mark Some judgement shown in response
Level 0	0 marks No relevant content present	0 marks No discernible attempt to apply knowledge	0 marks No analysis present	0 marks No evaluation present

The marketing mix is important because of the following:

- The product must be of the highest quality to meet the demands of discerning buyers, who may be doubtful about a “BMW Rolls Royce”.
- Its pricing must emphasise the quality of the product.
- Distribution must be through exclusive outlets to reinforce the consumers’ perception of the new Rolls Royce.
- Promotion must be through suitable channels and emphasise the quality of the product.

But on the other hand, the following arguments may also be important:

- The actions and performance of Bentley will be critical in determining the chances of BMW meeting its objective.
- The company must maintain production and quality at appropriate levels.
- Whether the market for luxury cars continues to grow may be crucial as increasing sales in a stable or shrinking market is very difficult.

2

Total for this question: 25 marks

(a)	What is meant by the term “working capital” (line 7)?	<i>(2 marks)</i>
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	Content 2 marks
Level 2	2 marks Candidate demonstrates good understanding of term
Level 1	1 mark Candidate demonstrates some understanding of term
Level 0	0 marks No relevant content present

Working capital is the day-to-day finance needed to run a business.

(b)	(i) Cheviot Water Ltd plans to increase its prices by 10%. Given that the management team believes its product has a price elasticity of -0.5, calculate the company’s revenue following the price rise.	<i>(5 marks)</i>
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	Content 2 marks	Application 3 marks
Level 2	2 marks Candidate demonstrates good understanding of price elasticity	3 marks Candidate calculates new revenue for Cheviot Water successfully
Level 1	1 mark Candidate demonstrates some understanding of price elasticity	2-1 marks Candidate attempts to calculate new revenue for Cheviot Water
Level 0	0 marks No understanding demonstrated	0 marks No discernible attempt to apply knowledge

New selling price = £1.10 per litre

New level of sales = 2 000 000 x 0.95 = 1 900 000

New sales revenue = £1.10 x 1 900 000 = **£2 090 000**

- (ii) Calculate Cheviot Water Ltd's expected level of profits for 2004-2005, assuming fixed costs and variable costs per unit do not change. (3 marks)

	Content 1 mark	Application 2 marks
Level 2		2 marks Candidate calculates new profit figure for Cheviot Water successfully
Level 1	1 mark Candidate demonstrates understanding of relationship between revenue, costs and profits	1 mark Candidate attempts to calculate new profit figure for Cheviot Water
Level 0	0 marks No understanding demonstrated	0 marks No discernible attempt to apply knowledge

New revenue figure = £2 090 000

New costs equal £750 000 + (£0.60 x 1 900 000) = £1 890 000

New profit figure = **£200 000**

Use OFR

- (c) Examine **one** difficulty Cheviot Water Ltd might encounter in setting its budgets for the 2004-2005 financial year. (6 marks)

	Content 2 marks	Application 1 marks	Analysis 3 marks
Level 2	2 marks Candidate identifies single relevant difficulty and shows some understanding of budgets or good understanding of budgets		3 marks Good analysis of problem(s) of setting budgets
Level 1	1 mark Candidate identifies single relevant difficulty or shows some understanding of budgets	1 mark Candidate applies knowledge to Cheviot Water's circumstances	2-1 marks Limited analysis of problem(s) of setting budgets
Level 0	0 marks No relevant content present	0 marks No discernible attempt to apply knowledge	0 marks No analysis present

Possible answers might include the following:

- The change in price may make it difficult for the business to estimate its sales (as its estimate of price elasticity of demand may be incorrect);
- Actions of competitors may be difficult to forecast affecting sales;
- If sales are not as expected, there may be a 'knock-on' effect on production costs;
- Changes in fashions may affect demand for bottled mineral water.

(d) Discuss how Cheviot Water Ltd might finance its proposed expansion. (9 marks)

	Content 2 marks	Application 2 marks	Analysis 2 marks	Evaluation 3 marks
Level 2	2 marks Candidate offers two or more relevant methods of finance or shows good understanding of sources of finance or a combination of the two	2 marks Candidate applies knowledge effectively to Cheviot Water's circumstances	2 marks Good analysis of method(s) of finance	3 marks Sound judgement shown in answers and/or conclusions
Level 1	1 mark Candidate offers single relevant methods of finance or shows some understanding of sources of finance	1 mark Candidate attempts to apply knowledge to Cheviot Water's circumstances	1 mark Limited analysis method(s) of finance	2-1 marks Some judgement shown in response
Level 0	0 marks No relevant content present	0 marks No discernible attempt to apply knowledge	0 marks No analysis present	0 marks No evaluation present

Relevant answers might include the following:

- Bank loan – interest rates, security
- Selling shares – cost, control
- Selling assets – impact on long-term profits
- Going public – cost, control
- Retained profits – recent profits high