

# Mark Scheme (Results)

## January 2007

GCE

GCE Economics and Business Studies  
6362 (Unit 2)



MARK SCHEME 6362

Question 1

	What is meant by:	
	<i>Knowledge 6 marks</i>	
1a	<i>An imprecise definition may be raised to two marks with the aid of appropriate examples.</i>	
(i)	“purchasing patterns”	2
	The expenditure of consumers on goods and services. The type of goods purchased may vary over time.	
(ii)	“consumer demand”	2
	The quantity of a product consumers will want to buy at any given price level. Candidates may also refer to effective demand. This is acceptable.	
(iii)	“advertising”	2
	Advertising is the business of drawing public attention to goods and services, performed through a variety of media, including television, newspapers or radio. It is an important part of an overall promotional strategy.	

K6

6 marks

- (b) Examine the possible factors affecting the demand for a product such as sherry.

K = 2, App = 2, An = 2

The evidence suggests that advertising may be important - the change from 02 to 04 is quite spectacular. Repositioning as an aperitif may have helped, a change in income/tastes/purchasing patterns may all have an effect. Look for two or more points to be explained with a clear grasp of what they mean and how they can be applied.

6 marks

(b)	(b) Examine the possible factors affecting the demand for a product such as sherry.	6
	<i>Add</i> The main determinants of the quantity one is willing to purchase will typically be the price of the good, one’s level of income, personal tastes, the price of <u>substitute goods</u> , advertising, the price <u>complementary goods</u> . All of the above may be the focus of a candidates response.	
	Look for logical explanation and clear analysis of possible factors affecting the demand for a product such as sherry. There should be a clear appreciation of demand theory. Candidates may suggest that rising incomes may have positive impact on sales. The best candidates are like to demonstrate this relationship using appropriate diagrams or worked examples.	5-6 marks
	Sound insights, but the analysis may not be fully developed. Candidates should be able to demonstrate a clear link between possible factors influencing the demand for goods and sales of sherry.	3-4 marks
	Some valid insights offered.	1-2 marks

- (c) To what extent does the financial information support the view that profitability has improved for Punch Taverns?

**K = 1, App = 3, An = 3, Ev = 1**

There is evidence of a 3 year trend of improvement - turnover is up, as are profits and earnings per share. Reward candidates who investigate these in some depth. Reward also candidates who point out that without a balance sheet, ROCE cannot be calculated and Punch Taverns appears vulnerable to outside influence.

#### **Level 4**

Candidates look at more than one of the above measures, in context. There will be a clear explanation of those. For 8 marks, some comment on the overall levels of profitability should be made, this could be implied.

**7 - 8 marks**

#### **Level 3**

1 sided explanation of profitability, with an attempt at contextualisation (for example, "profits in the drinks market have risen over the last 3 years) or a response that shows good understanding of the context but where analysis is incomplete (for example, "the drinks industry is subject to a range of outside influences which may affect it").

**5 - 6 marks**

#### **Level 2**

Understands profitability and how it may be measured and makes an application to the case study that is weak or implied. Candidate is able to offer reasoned comment regarding profitability.

**3 - 4 marks**

#### **Level 1**

Relevant assertions with potential merit. Shows basic understanding the concept

**1 - 2 marks**

**8 marks**

- (d) Critically assess the view that advertising is the most important way of increasing sales of a product such as sherry.

K = 2, App = 2, An = 2, Ev = 4

Advertising a product can affect the demand curve for that product - either shifting it out, or making it more elastic over a particular price range. This is clearly an important factor in the success of many companies. Other factors are also important - reward candidates who look at this from the perspective of a marketing plan - price and product, targeting segments of the market, branding the product etc. Reward any well applied ideas.

#### Level 4

Candidates demonstrate a clear understanding of advertising and its possible effects on sales. They convincingly introduce other factors that may be important in increasing sales of a product. At this level there must be convincing evaluation of the role of advertising compared to at least one other factor.

**8-10 marks**

#### Level 3

Candidates understand advertising and show that they can analyse the likely effectiveness of advertising and at least one other strategy for increasing sales. evaluation is present, but limited - possibly implied Expect to see reference to the figures (e.g. £6 million advertising = sales growth of 25%).

**6 - 7 marks**

#### Level 2

Reasonable points are made, but explanation is thin and analysis is absent. It is possible for candidates who have identified and evaluated without looking at alternatives to reach the top mark in this band (for example, they might ask the question whether 100,000 extra bottles are worth £6million).

**3 - 5 marks**

#### Level 1

Some merit in relevant but unsupported assertions. Candidates show some understanding of advertising, but do not go on to analyse or assess its effectiveness.

**1 - 2 marks**

**10 marks**

Question 2

(a) Explain two possible benefits of "open sky aviation" (Deregulation).

K= 3, App =3

A very open question - benefits could be to consumers (more competition implies lower prices), more employment, more hi tech industries, more economies of scale. Must be two, must be applied.

6 marks

2a	Explain two possible benefits of "open sky aviation"	
	<p>Two plausible points are identified and the relationship to the creation of 'open skies' is considered. Candidates may suggest for example that 'open skies' may lead to increased competition which may benefit customers through lower prices and increased choice. It is not a requirement that candidates should examine the downside of the open skies policy.</p> <p>Candidates offer a partial examination of the benefits of an 'open skies' policy. One plausible benefit explained or two partially developed points would be sufficient to access this level.</p> <p>Candidates look briefly at only one benefit or two points are made without development to link the perceived benefit to a 'open skies' policy.</p>	<p>5-6 marks</p> <p>3-4 marks</p> <p>1-2 marks</p>

2b	<p>Examine the possible content of a business plan for the Airbus A380.</p> <p>K=2, App=2, An=2</p>	
	<p>There are numerous variations of a Business plan. Typically a Business Plan will focus on Marketing. Given the nature of the market it is reasonable to expect candidates to focus on the project strategy (a source of contention in recent months). Pricing, promotion and distribution strategy may also be discussed under this heading. The nature of the manufacturing and production of the European Airbus is complex. This is a legitimate focus of the business plan. Issues which might be discussed include: Production facility requirements - size, layout, capacity, location; inventory requirements - raw materials inventory, warehouse space requirements and supply chain requirements.</p> <p>Finance issues which may be addressed include: Fixed cost allocation, Source of funds, existing loans and liabilities, projected sales and costs, break even analysis and expected returns.</p> <p>For high tech firms such as Airbus, Human resource issues may be include: training requirements, skills required, salaries, skills availability and recruitment.</p>	
	<p>Look for clear understanding of the purpose and content of a business plan. Candidates should identify two elements of a business plan for Airbus. The explanation should clearly relate to Airbus rather than being a generic description of a business plan.</p> <p>Sound insights but response may not be fully developed. Candidates should be able to demonstrate a sound understanding of elements of a business plan. Answer may not explain why it is appropriate to include the item as part of a business plan for the Airbus A380.</p> <p>Some valid insights offered.</p>	<p><i>5-6 marks</i></p> <p><i>3-4 marks</i></p> <p><i>1-2 marks</i></p>

- (c) Assess the likely extent of the effect of an “open sky” on a company such as Airbus.

K= 1, App = 3, An = 3, Ev = 1

Open skies implies a huge increase in the number of people flying across the Atlantic, which implies an increase in demand for aircraft. Given that there are, essentially, only two manufacturers of trans-Atlantic aircraft, Airbus might expect to see demand for its products increase. Credit candidates who examine the new/reliable argument. Credit also candidates who relate the extra demand to business planning/ breakevens etc. Some may question whether extra sales will affect cashflow/be all a “good thing” in the short run.

**Level 4**

Sound analytical examination of the likely effects of open skies is required. To reach this level, candidates must have a clear grasp of the effects and have linked them closely to the context (see above, but accept all reasonable approaches). The question requires evaluation, so there must be some, possibly questioning whether Boeing is in a better position to take advantage of the situation.

**7-8 marks**

**Level 3**

A possibly one sided, or narrow view of the open skies agreement - along the lines of “what a good thing it will be for Airbus”, but without a clear use of the toolkit to explain why. Evaluation might be present at this level.

**5-6 marks**

**Level 2**

Appropriate points are raised - the candidate has some idea of the likely effects, possibly incomplete and attempts to explain and contextualise them, possibly with limited success. Use of toolkit must be evident.

**3-4 marks**

**Level 1**

Assertions hint at some grasp of relevant points but are not developed. Candidate shows a basic understanding, but fails to apply convincingly. Little/no use of toolkit would restrict candidate to this level.

**1 - 2 marks**

**8 marks**



- (d) Critically assess the likely effect of the dominance of Boeing and Airbus on competition and choice in the airline market.

K = 2, App = 2, An = 2, Ev = 4

The evidence implies that the market for aircraft is an oligopoly (in fact, a duopoly). Candidates should be well aware of the textbook answers for this - firms have market power, barriers to entry, inefficiency, the need for government control etc. because of a perceived lack of competition. This knowledge should be rewarded, as should the quality of in context analysis. A clue for the evaluation is that Boeing and Airbus are in cut throat competition - which may mean that, in the short term at least, there is sufficient competition to keep the market efficient. The economies of scale argument might also be advanced. Having said that, levels of choice may be limited, but is that an issue? People don't fly for a holiday, they fly to get to a holiday. Reward reasonable answers.

#### Level 4

The candidate advances plausible likely effects such as those above. These must include a clear evaluation of the likely effects on both competition and choice in context.

9 - 10 marks

#### Level 3

The candidate uses the toolkit to explain why oligopoly may lead to cuts in competition and choice. Explanations may be weighted more towards one than the other, although both must be there. Evaluation must be present to gain top marks in this band, but may be thin or unqualified - possibly implied.

6 - 8

marks

#### Level 2

Relevant effects are identified and there is some development, possibly one sided (i.e. looks only at competition).

4-5 marks

#### Level 1

Assertions hint at some grasp of relevant points, but are not developed. Candidates show an understanding of one or more effects but are unable to effectively apply them.

1 - 3 marks

10 marks

OR

**Question 3**

- (a) Explain some of the likely reasons for a merger between two airlines such as BA and American airlines.

**K = 3, App = 3**

A range of possibilities here - economies of scale, cost cutting, complementary strengths, branding etc. Specifics here might include access to US/EU markets, but this is not necessary for full marks. Must be at least two reasons, explained in context.

6 marks

3a	Explain some of the likely reasons for a merger between two airlines such as BA and American airlines.	
	Candidates offer a clear and considered explanation as to why BA and American Airlines might wish to merge.	<i>5-6 marks</i>
	Candidates can identify reasons why airlines might chose to merge. Responses will lack development. More than one reason should be considered for 4 marks.	<i>3-4 marks</i>
	Assertions may be offered. At this level the response may not be linked to context.	<i>1-2 marks</i>

- (b) Examine ways in which Boeing could extend the product life cycle for its "ageing" 747.

K = 2, App = 2, An = 2

The evidence suggests that the product life cycle for aircraft is quite long, which has difficulties built in at the development stage, but may make extension strategies more attractive. Marketing will need to be adapted to place on the PLC (,). Boeing can adopt a number of approaches - it can improve the product, cut the price, or adapt marketing to where it is on the product life cycle (Boeing 747 = proven record ) note that evaluation is not required.

**6 marks**

A clear and accurate understanding of the concept, two ways explained and applied to Boeing. With full explanation of the ways to extend the product lifecycle of the 747 identified including appropriate use of vocabulary and examples.

*5-6 marks*

Some understanding of the concept but the responses will lack detailed analysis or convincing explanation. One strategy may be stronger than the other. If only one way discussed maximum of 4 marks.

*3-4 marks*

Some basic insights with little development. Some understanding is evident but little development.

*1-2 marks*

- (c) Assess the possible dangers of changes outside its control to a company such as Airbus.

K= 1, App = 3, An = 3, Ev = 1

A wide range of possible answers here, some of which are hinted at in the evidence (9/11, trade war, business cycle), reward also answers which include exchange rate changes, reaction from competitors (such as Boeing), possible growth or decline of the world economy, all of which, combined with the 7+ years period to breakeven make for a very difficult planning! Reward all sensible answers.

#### **Level 4**

Sound analytical examination of at least two dangers that Airbus may face (see above), good use of toolkit and a clear comment on the possible effects of the dangers. Evaluation must be present for 8 marks.

**7 - 8 marks**

#### **Level 3**

A clear explanation of two dangers and their possible effects on Airbus. Points are explained and argued clearly, possibly one danger will be more fully treated than another, evaluation may be present but is likely to be limited/implied.

**5 - 6 marks**

#### Level 2

Appropriate dangers are raised but with some flaws or imprecision. Candidates who show no evaluation are restricted to this level.

3 - 4 marks

#### Level 1

Assertions hint at some grasp of relevant points but are not developed. Candidates show an understanding of one or more dangers, but are unable to develop them.

1 - 2 marks

- (d) Critically assess the impact of the EU on growth of trade for member countries.

8 marks

K = 2, App = 2, An = 2, Ev = 4

The EU has, as an underlying premise, the view that promoting trade is a "good thing" in that it will lead to economic growth. It therefore adopts policies intended to promote trade. Within the EU itself, there is a process of opening up markets to free trade so that the EU has effectively become one market, leading to large companies integrating their production across several countries. However, has it increased trade or shifted it from one part of the world economy to another? The EU encourages investment, innovation, spending on technology through direct spending and subsidies/financial support. Critics might argue that it increases bureaucracy and stifles entrepreneurship. There is also the question of how far the single market has actually come, given the number of exemptions in place. Reward use of examples, whether extrapolated from the evidence or brought in. Reward all sensible approaches.

#### Level 4

Two plausible ways are identified and analysed (see above). There is a supported and evaluative conclusion.

9 - 10 marks

#### Level 3

two sound ways are identified and explored, possibly with some imbalance between them, but evaluation is thin or unqualified - possibly implied.

6 - 8 marks

#### Level 2

Relevant ways are identified and there is some development, with one way handled well, but a weak or absent second way. Two ways may be explained but without evaluation.

4 - 5 marks

#### Level 1

Assertions hint at some grasp of relevant points but are not developed. Candidates show an understanding of one or more concepts but are unable to apply them.

1 - 3 marks

10 marks

## SECTION C

### Question 4

- (a) Examine **two** methods a company such as Punch Taverns might use to make its market grow further.

K = 2, App = 3, An = 3, Ev = 2

A number of possibilities clearly exist here. Advertising, innovation, foreign trade, putting pressure on governments, merging with another company all could apply. The Gonzalez Byass example gives a number of hints. Reward all reasonable approaches.

#### Level 4

sound analytical evaluation of at least two valid ways. To reach this mark band, candidates must show how the growth is caused, possibly with an example. Some attempt at the likely effectiveness of the methods, or their likely impact is necessary for the evaluation marks.

9 - 10 marks

#### Level 3

A clear understanding of two ways to grow a markets, possibly with some imbalance (for example, a lot on advertising, with only a passing reference to innovation). Detail and/ or examples may be missing, evaluation is likely to be limited/ implied.

6 - 8 marks

#### Level 2

Appropriate ways are described, but explanations are significantly flawed with little development or analysis. One way restricts candidates to this level. Needs to be applied to reach this level.

4 - 5 marks

#### Level 1

Assertions hint at some grasp of relevant points but are not developed. Candidates show an understanding of one or more relevant concepts.

1 - 3 marks

10 Marks

- (b) Evaluate the possible effects of a downturn in the business cycle on companies such as Punch Taverns.

K = 3, App = 5, An = 4, Ev = 8

The Business Cycle involves a series of booms and slumps over a number of years, although current evidence suggests that the UK economy has a general upward trend (which might be important for PT). Eating out/dining out is a luxury item and there are many substitutes (other pubs/restaurants/eating and drinking at home). On the other hand, fashionable items and those in certain segments of the market have shown that they are capable of surviving downturns and PT might be one of those. Reward candidates who look at profit levels, need to cut costs/react to a downturn and any other reasonable approach.

#### Level 4

At least two relevant points are explored. There will be sound analysis which underpins a convincing evaluation conclusion. Candidates must explore the possibility that PT will be able to “ride out” a downturn to reach this level.

16 - 20 marks

#### Level 3

Sound points are raised and explored looking at at least two possible effects on PT. Examples are used to support the explanation/it is put in context, but evaluation is thin, unqualified and/or implied.

11- 15 marks

#### Level 2

Relevant points are identified and there is some development. Answers may only look at one point, evaluation, if present, is likely to be by assertions only.

6-10 marks

#### Level 1

Assertions hint at some grasp of relevant points but are not developed. Candidates show an understanding of one or more relevant concepts, but are unable to either apply or analyse them.

1 - 5 marks

20 Marks

OR

#### Question 5

- (a) Examine some of the possible effects on economic growth of a successful “open sky” agreement.

K = 2, App = 3, An = 3, Ev = 2

Growth is an increase in productive potential. The evidence suggest that there could be quite a lot of growth from an open skies agreement - hundreds of thousands of jobs, more flights all of which implies more profit etc. Some people may lose their jobs (those who are protected now), which may reduce the positive impacts. Reward candidates who look at how the measure may impact on the individual components of AS/AD/Circular Flow and any other reasonable approach.

#### Level 4

Sound analytical evaluation of at least two valid effects. To reach this mark band, candidates must show how the effects might occur and explore the likelihood of the effects happening.

9 - 10 marks

#### Level 3

A clear understanding of at least two possible effects, possibly with some imbalance between them. Detail may be missing, evaluation likely to be flawed/missing/implied.

6 - 8 marks

#### Level 2

Appropriate effects are raised, but explanations are significantly flawed with little development or application. No appropriate evaluation is evident.

4 - 5 marks

#### Level 1

Assertions hint at some grasp of relevant points but are not developed. Candidates show an understanding of one or more relevant concepts.

1 - 3 marks

10 Marks

- (b) Critically assess the view that governments should intervene in markets such as that for air travel.

K = 3. App = 5. An = 4. Ev = 8

Governments may intervene for a number of reasons - public goods and merit goods for example, but they also intervene for reasons of equity and social reasons such as to provide employment for their voters. The evidence supports several views of government intervention - to reduce demand for a demerit goods (cigarettes), to increase competition and to ensure employment (Airbus). Candidates need to consider the view that the market would eventually work in any case, maybe at some cost to individuals. Candidates can choose their own examples, or use those provided. Reward all sensible approaches.

#### Level 4

At least two reasons for government intervention are explored. There will be a sound analysis, using examples, which underpins a convincing evaluative conclusion. Candidates must show that they have explored the possibility that effects of government intervention may be negative to reach this level.

16 - 20 marks

#### Level 3

Sound points are raised and explored looking at why governments may choose to intervene. Examples are used to support the explanation, evaluation will be present but might be thin, unqualified and/or implied.

11 - 15 marks

**Level 2**

Relevant points are identified and there is some development. Answers may be one sided (e.g. what a wonderful idea it is). Evaluation is likely to be missing, or by assertion only.

6 - 10 marks

**Level 1**

Assertions hint at some grasp of relevant points but are not developed. Candidates show an understanding of one or more relevant concepts, but are unable to apply them.

1 - 5 marks

20 Marks



Question	Knowledge	Application	Analysis	Evaluation	Total
1 (a)	6				6
(b)	2	2	2		6
(C)	1	3	3	1	8
(d)	2	2	2	4	10
2 (a)	3	3			6
(b)	2	2	2		6
(c)	1	3	3	1	8
(d)	2	2	2	4	10
3 (a)	3	3			6
(b)	2	2	2		6
(C)	1	3	3	1	8
(D)	2	2	2	4	10
4/5 (A)	2	3	3	2	10
(b)	3	5	4	8	20