

Mark Scheme (Results)

Summer 2007

GCE

GCE Economics and Business Studies (Nuffield) (6361) Paper 1

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Question 1

(a) What is meant by:

(i) 'competitive market' (Evidence A line 7)

(2)

Knowledge 2 marks

A market that has two or more firms striving vigorously to maintain or increase their market share, whilst the other firms do the same. Competition may be based on price, intensive marketing campaigns, technical innovation or quality.

Vague or incomplete definitions should only receive a maximum of 1 mark. However, a clear and relevant example can gain the second mark.

(ii) 'brand' (Evidence B line 1)

(2)

Knowledge 2 marks

A particular name or symbol that identifies and differentiates a product or service from its competitors.

Vague or incomplete definitions should only receive a maximum of 1 mark. However, a clear and relevant example can gain the second mark.

(iii) 'private limited company' (Evidence B line 7)

(2)

Knowledge 2 marks

A business organisation with limited liability and owned by shareholders. The shares are not for public sale or trading.

Vague or incomplete definitions should only receive a maximum of 1 mark. However, a clear and relevant example can gain the second mark.

- (b) Calculate and comment briefly on Clarks' profit margin in 2005. (4)
- Knowledge 1, application 2, analysis 1 marks**

$$\frac{72}{921} \times 100 = 7.8\%$$

Clear understanding of calculation and correct answer (apply OFR if necessary) up to 3 marks

Suitable qualifying comment such as - better than base rate - reward those who question usefulness of single figure such as @I can't say without other figures for comparison. 1 mark

- (c) Using a suitable diagram illustrate *and* explain the likely effects of increased competition on Clarks' profitability. (6)
- Knowledge 2, application 3, analysis 1 marks**

There should be a demand and supply diagram with a leftward shift of the demand curve. Greater competition has caused a reduction in demand as consumers substitute the cheaper shoes for Clarks' own brand, thus causing a movement along the supply curve to a new equilibrium. This results in fewer sales and possibly lower prices and ultimately a decline in profitability.

It is equally feasible to argue increased competition will shift the market supply curve to the right and thus lower the overall price of shoes. Clarks will therefore suffer a decline in profitability.

Diagram is correct and properly presented with a clear explanation. 5 - 6 marks

Diagram is correct but explanation is not OR vice versa. Neither diagram or explanation is spot on but there is some merit. 3 - 4 marks

Some merit but vague and/or inaccurate. 1 - 2 marks

Answers lacking a diagram OR an explanation, **maximum of 3 marks**. For a diagram only or an explanation only they must be perfect and clear to gain 3 marks. Otherwise 2 marks or less dependent upon quality.

- (d) Examine the importance of market research for a firm such as Clarks. (6)
Knowledge 1, application 3, analysis 2 marks

There is ample information in the evidence to show that Clarks has made some serious misjudgements of its market. Candidates may discuss this case and show how a better understanding gained by market research may have avoided this problem. Others may provide a more generic answer showing how market research aids market orientation and the more precise targeting of consumer needs. Thus reducing risk and maximising sales.

A clear and accurate understanding of the concept, with full explanation including appropriate use of vocabulary and examples.

5 - 6 marks

Some understanding of the concept but will lack detailed analysis or convincing explanation, may not be as well developed.

3 - 4 marks

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

1 - 2 marks

- (e) Evaluate two ways in which Clarks might increase their sales.

(8)

Knowledge 1, application 1, analysis 2, evaluation 4 marks

The evaluative element is paramount here, without it candidates will not get beyond L2. Two ways will need to be identified, applied and evaluated. Reward any relevant suggestions but at this level expect to see ideas such as price cuts, promotional schemes and basic marketing.

Reward positively candidates who use appropriate examples.

Level 4

Will provide a balanced response describing two relevant ways using appropriate vocabulary and concepts. Expect to see clear discussion and analysis leading to real evaluation of the benefits and costs and a balanced conclusion.

7 - 8 marks

Level 3

Answers will show good knowledge and understanding of the two ways but may be less wide ranging. Evaluation may be weaker or is particularly one sided, e.g. just benefits or just costs. One idea done well, the other not so well will be L3 max.

5 - 6 marks

Level 2

Some knowledge of possible strategies but fails to make appropriate assessment, development is perhaps not fully there. Evaluation is likely to be weak or missing altogether. Without it a response cannot go beyond L2. Only one suggestion cannot go beyond L2

3 - 4 marks

Level 1

Some merit in points but little if any development. Limited awareness of possible methods, candidates may make bold assertions.

1 - 2 marks

Total for Question 1: 30 marks

Question 2

- (a) Explain what you understand by:
- (i) 'reputation' (Evidence A line 7) (2)

Knowledge 2 marks

Reputation refers to the perception or image that consumers or other stakeholders hold about a firm or product based on past experience.

E.g. Green and Blacks chocolate has a reputation for taste and quality.

- (ii) 'profit margin' (Evidence B line 5) (2)

Knowledge 2 marks

Profit margin refers to the proportion or percentage of total sales revenue or turnover that is profit. It is calculated by the formula

$$\frac{\text{Profit} \times 100}{\text{Turnover}}$$

Candidates who use the calculation may gain two marks.

- (iii) 'add value' (Evidence B line 12) (2)

Knowledge 2 marks

Added Value added refers to the additional value created at a particular stage of production or through image and marketing. It is the difference between the price which is charged and the total cost of the factor inputs. It can be applied equally to services as well as goods. It is generally sad to reflect the value of labour and capital to the final product.

Reward candidates who cite appropriate examples.

For example, making pineapples into pineapple juice increases the value or price beyond that of the unprocessed pineapples. Organic has more value or price than produce that is not organically produced. In this case, value is added because the identity of the product is preserved--it is not simply an pineapple, it is an organic pineapple. Another example of value added in this way is fair-trade coffee.

- (b) Briefly explain possible reasons for the slump in B&Q profits. (4)

Knowledge 1, application 2 analysis 1

Candidates may identify a range of possible reasons for the decline in profitability of B&Q. Accept all valid explanations. Candidates may suggest that the slump on profits is due to changing tastes and preferences as consumers prefer to pay tradesmen to do work for them rather than doing the work themselves. Alternatively changes in economic activity or lack of consumer confidence may be identified.

A simple answer offering an undeveloped assertion may earn **one mark**. Candidates developing a reasoned explanation as to why B&Q profits may have fallen can earn (2-3 marks). A balanced examination explaining reasons why B&Q profits may have declined, citing valid explanations may gain (4 marks)

- (c) Explain how recruiting foreign decorators and fitters may help to increase B&Q's profitability. (6)

Knowledge 2, application 3, analysis 1

Responses to this question should demonstrate an appreciation that recruiting foreign tradesmen would be a way for B&Q to gain revenue and would add value to the range of products and services B&Q would offer. Look for recognition that offering a fitting service would increase potentially increase the number of customers and potentially increase the amount which consumers were prepared to spend in B&Q.

Recruiting foreign tradesmen would be a way for B&Q to gain revenue and would add value to the range of products and services B&Q would be sufficient for candidates to gain full marks. Reward candidates who use supply and demand diagrams or possibly Break-even diagrams to explain the impact on profitability.

5-6 marks

Good understanding of the link between recruiting foreign decorators and increasing profitability. Answer may not make full use of toolkit, or candidates may look at only one implication of employing foreign workers.

3-4 marks

A valid assertion which is not fully convincing should be rewarded with marks in the lower band of marks.

1-2 marks

- (d) Examine the likely impact of discounts on sales and cashflow. (6)

Knowledge 1, application 3, analysis 2

The best answers should offer a qualified response. On the one hand discounting may encourage additional sales and may enable firms to reduce stocks and increase liquidity. If this were to happen liquidity might improve. Discounts may increase sales but better candidates should be able to differentiate between the effect of discounts on a bag of sand and discounts offered on sun loungers. Reward candidates who support responses with the appropriate use of diagrams.

There will be clear evidence of a reasoned argument leading to a balanced conclusion. There should be a clear recognition that the effect of discounts on cashflow and sales would be variable. Expect to see appropriate use of business and economic concepts at this level. Look for discussion of *both* sales and cashflow.

5-6 marks

There will be some understanding of the likely implications of discounts on sales and cashflow. Generalised comments may be offered at this level. It is unlikely that comments will be qualified. Candidates may place greater emphasis on assertion such as discounting will lead to an increase in sales. Candidates may rely more upon commonsense understanding rather than use a theoretical framework to explain the impact of discounting on sales and cashflow.

3-4 marks

A limited understanding of the subject matter is displayed. Brief assertions may be made about either sales or cashflow.

1-2 marks

- (e) Evaluate the likely motives of staff working for B&Q. (8)

Knowledge 1, application 1, analysis 2, evaluation 4

This is an opportunity for students to demonstrate knowledge of motivational theory applying knowledge of Maslow in order to explain the likely motives of staff working for B&Q.

Students may also consider the potential alternatives for staff. B&Q employs a significant proportion of mature staff who may find it difficult to find alternative employment.

Differentiation between candidates will come from the assessed skills. With a clear **Evaluate** command, some judgement in a conclusion is particularly significant.

Level 4: Candidates should draw upon knowledge of employment trends or motivational theory in order to explain potential reasons why staff might wish to work for B&Q. Students should offer a considered examination of the reasons why staff might choose to work for B&Q.

Level 4 responses should exercise a clear judgement regarding the potential reasons for people choosing to work for B&Q.

7-8 marks

Level 3: Two plausible reasons for staff choosing to work for B&Q are considered. There should be a clear attempt at evaluation. Responses may be slightly flawed or lack full development. It is possible that responses may demonstrate a limited use of appropriate of toolkit.

5-6 marks

Level 2: Candidates may consider potential reasons why people may choose to work for B&Q. Answers at this level may be unbalanced focusing on assertions with only limited support. Expect to see some limited use of toolkit.

3-4 marks

At this level analysis is likely to be thin. Answers may have less focus on the context and offer generic insights.

Level 1: There is little of merit beyond relevant assertions that have the potential for valid development.

1-2 marks

Total for Question 2: 30 marks

Question 3

- (a) Explain the link between the closure of Clarks' Ilminster factory and competitive advantage.

(8)

Knowledge 2, application 2, analysis 2, evaluation 2 marks

Outsourcing is not part of module 1 but candidates should be familiar with the relationship between revenue, costs and profit. Clarks is now no longer competitive due to the growing number of cheaper substitutes. For price reduction to be an effective long term solution there has to be an appropriate reduction in costs to maintain profitability. This should be linked to the factory closure and sourcing abroad. Reduced costs could lead to reduced prices and the restoration of competitive advantage when linked to other aspects of Clarks' marketing plan.

Level 4

Well-rounded discussion, clear understanding used in context that considers the link with an evaluative element. Several aspects considered with good use of toolkit and theory.

7 - 8 marks

Level 3

Knowledge and application are evident, awareness of theory and use of toolkit is reasonable. Perhaps less clear and may lack balance, evaluation may be weak or lacking.

5 - 6 marks

Level 2

Awareness of some link but response fails to develop a clear analysis. Use of theory may be rather casual and lack use of toolkit.

3 - 4 marks

Level 1

Some merit in points but little development, no toolkit. May be brief general comments couched in non-economic language.

1 - 2 marks

- (b) Evaluate the likely effect of Clarks' factory closure on two group of stakeholders.

(12)

Knowledge 1, application 3, analysis 3, evaluation 5 marks

Stakeholder theory is part of the specification, expect to see employees, shareholders, customers, suppliers or the local community. Two groups should be selected with suitable development, discussion and evaluation.

There is a strong evaluative element here and good candidates must show this. Reward positively appropriate examples.

Level 4

Two groups identified and discussed. The response will be clear and articulate. Understanding is strong with appropriate use of vocabulary and theory. There is balance and a reasoned evaluation.

10 - 12 marks

Level 3

Candidates identify two groups with good understanding but are perhaps not as articulate. There is an attempt at evaluation, which might be rather unbalanced or uncritical. One group may be stronger than the other.

7 - 9 marks

Level 2

Awareness of the effects and some knowledge but fails to build a balanced discussion. Evaluation or conclusions may be lacking or vague. If no evaluation level 2 max.

4 - 6 marks

Level 1

Some merit in relevant but unsupported assertions. Will lack understanding and make brief points in general terms only.

1 - 3 marks

Total for Question 3: 20 marks

Question 4

- (a) Explain how offering a fitting service may affect the price which people are prepared to pay for goods supplied by firms such as B&Q. (8)

Knowledge 2, application 2, analysis 2, evaluation 2

Offering a fitting service may change the perception of customers. Customers may be prepared to pay a higher price for materials if consumers have the convenience of having the items fitted. The type of product will determine whether B&Q can charge a higher price. For example, it may be possible to charge a higher price for a gas fire, if fitting is offered but it may not be possible to charge a higher price for parts which have a relatively low value and can be easily fitted by a homeowner. Implementing price discrimination may be difficult to achieve. The ability to charge higher prices will also depend on the number of alternative suppliers and fitters in the market.

Level 4

There is clear and convincing logical analysis of the potential for charging higher prices. At this level we are looking for balanced examination of the potential effect of a fitting service on the price which people are prepared to pay. We are expecting to see a both sides of the argument considered for L4.

7-8 marks

Level 3

Candidates should develop a reasoned examination of the likely consequence of providing a fitting service on price. Appropriate use of concepts and theory should be evident.

5-6 marks

Level 2

Candidates offer simple arguments without developing reasoned analysis. At this level there may be a strong element of assertion evident in the response.

3-4 marks

Level 1

Candidates offer some relevant insights. Responses may lack appropriate development Little of merit beyond relevant assertions.

1-2 marks

- (b) Evaluate the potential impact on businesses of foreign workers moving to the UK.

(12)

Knowledge 1 application 3 analysis 3 evaluation 5

This question should be a key differentiator between candidates. A wide range of possible answers could be seen to this question. On one level an influx of foreign labour may address the skills shortages in the UK. This could be beneficial for the UK economy. Conversely, an influx of foreign labour may create problems. If there is an excess supply of labour then wage rates may be depressed. Foreign workers moving to the UK may deter UK workers from entering training schemes and this may give rise to longer term labour shortages. The overall impact may depend upon the quality of labour entering the UK. If they do not have comparable skills and training then impact on the UK economy may be reduced.

Level 4

Clarity of thought is combined with links to the context and there is sound evaluation of relevant points. Arguments regarding the implications of foreign labour coming to the UK and the impact upon the labour market are developed.

10-12 marks

Level 3

Candidates offer a reasoned argument which may highlight the impact on employment opportunities and wage rates. The assessment of the impact which foreign workers may have upon the labour market may lack balance. There should be an attempt at evaluation at this level.

6-9 marks

Level 2

There will be some understanding of the issues benefits/weakness of foreign labour entering the UK labour market are identified. Analysis/evaluation is unconvincing or limited.

4-5 marks

Level 1

Assertions suggest some awareness of the impact of increased foreign workers entering the labour market.

1-3 marks

Total for Question 4: 20 marks

