

# Mark Scheme (Results)

## Summer 2007

GCE

### GCE Economics and Business Studies (Nuffield) (6362) Paper 1

MARK SCHEME 6362 June 2007

SECTION A

Question 1

(a) What is meant by:

(i) 'Product innovation' (Evidence B line 9)

(2)

**Knowledge 2 marks**

The creation of a new product (or improvement of an existing one). This may be in order to restore/maintain competitive advantage.

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

(ii) 'developing market' (Evidence B line 10)

(2)

**Knowledge 2 marks**

A market that is expanding with potential for growth, product or service may be at an early stage of the product life cycle.

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

(iii) 'research and development' (Evidence B line 10)

(2)

**Knowledge 2 marks**

A programme by a firm to design and build potential new or modified products/services to sustain the firms profitability.

Beware of candidates who interpret this question as being about market research.

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

- (b) Explain possible benefits resulting from government grants to firms such as Bells.

(6)

**Knowledge 2, application 2, analysis 2**

The response will probably centre around the idea that encouraging small firms to grow by providing finance leads to all sorts of positive economic spin-offs. Growth on a micro scale will contribute to economic growth, jobs will be created with possible regional implications such as a positive regional multiplier effect. The creation of jobs will lead to a reduction in the need for benefits and corresponding increase in tax revenues. The provision of grants may help to overcome financial constraints facing small businesses, which may hinder growth of the business. Grants may be offered to encourage economic diversity, particularly in rural areas and raise incomes and counter rural depopulation. Accept any logical argument

Two or more reasons are clearly and logically explained. Response is balanced with appropriate terminology, detail and in context.

**5 - 6 marks**

Responses may lack the clarity of above and may not be as strong on toolkit or context. One reason may be stronger than the other. If only one reason is discussed a maximum of 3 marks should be awarded.

**3 - 4 marks**

Some basic insights with little development of the potential benefits. (E.g. bullet points, simple statements without development in context)

**1 - 2 marks**

- (c) Critically examine the likely importance of quality to firms such as Bells as they seek to broaden their customer base.

(8)

**Knowledge 1, application 3, analysis 3, evaluation 1**

Quality is a crucial aspect of competitive advantage for many firms. There is a clear hint in the stimulus material that it is important to Bells and also that they are targeting a niche market as well. Answers may well discuss quality as a focus for differentiation and hence competitive advantage. It is also likely that emphasising quality leads to reduced costs and enhanced reputation. There is an evaluative element here and better candidates may well assess the relative importance of quality.

**Level 4**

Clear understanding of the consequences for a company such as Bells. Two or more well developed strands. Answers are clear and make good use of terminology and toolkit. Look for evaluative comment focusing on the importance of quality to firms such as Bells as they seek to broaden their customer base.

**7 - 8 marks**

**Level 3**

Knowledge and application are evident and use of toolkit should be evident. Examination of the significance of quality to firms such as Bells is not fully developed. Answers may raise relevant points but the development will be insufficient to progress to Level 4. Responses may focus less on the context and offer a broader examination of the benefits of focusing on quality. One strand of the candidate's argument may be more fully developed than the other(s).

**5 - 6 marks**

**Level 2**

Candidates are able to identify the importance of quality with some development, but response fails to develop a clear analysis. The use of economic and business toolkit may be limited. Possibly only one strand of thinking.

**3 - 4 marks**

**Level 1**

Some understanding of the importance of quality but little development is offered. At this level responses may be assertive and may not be generic rather than contextualised.

**1 - 2 marks**

- (d) Evaluate the possible consequences of increasing the scale of production for the Village Bakery.

(10)

**Knowledge 2, application 2, analysis 2, evaluation 4**

By increasing the scale of production there are many potential benefits for the Village Bakery. Expect to see ideas such as increased turnover/profitability (the evidence states that the Village Bakery cannot meet demand), greater market share, building a stronger brand and of course economies of scale. These could be linked to falling Average Costs and the chance to increase unit profits or reduce prices to try and gain competitive advantage. On the other hand, as the extract suggests, this might involve the risk of compromising integrity. There may be loss of control for Andrew Whitley, a loss of brand image, broadening of the niche market, increased investment and risk and so on.

Consequences identified may also relate to the implications for the Village Bakery in achieving the increased costs. Good candidates may differentiate between short-run and long run consequences. Increasing scale in the short run may require additional shifts and overtime. This has the potential to increase costs in the short run. In the long run, increasing scale may entail expanding capacity through capital investment and expanding premises. This has implications for the funding of the business.

There must be an evaluative element to access L3 and 4.

**Level 4**

Full and clear understanding of the implications of increasing the scale of production with accurate terminology and good use of toolkit. There is balance, an awareness of both positive and negative implications and a reasoned evaluation.

**8 - 10 marks**

**Level 3**

Good awareness of the implications of increasing the scale of production for the Village Bakery, perhaps not as articulate. Some awareness of balance but evaluation is not as strong or as balanced. Look for appropriate use of diagrams and/or appropriate economic and business terminology.

**6 - 7 marks**

**Level 2**

Candidates demonstrate awareness of the implications of increasing the scale of production. Some appropriate knowledge is evident but the candidate fails to build a balanced discussion. Evaluation is likely to be lacking or vague at best. Toolkit use may be limited and answers may lack context.

**3 - 5 marks**

**Level 1**

Some merit in relevant but unsupported assertions. Comments will probably lack appropriate toolkit and may be very general in nature. At this level answers may be unbalanced and comments will lack supporting development.

**1 - 2 marks**

## SECTION B

### Question 2

- (a) Illustrate and explain why 'knowledge workers' in Rushcliffe might earn higher than average salaries.

(6)

#### Knowledge 3, application 3

It is reasonable to expect to see a D&S diagram showing the market for knowledge workers with the wages/price of labour on the vertical axis. It is likely that the response will centre around businesses having an increasing need for workers with relevant skills. This causes the demand curve to shift to the right leading to higher equilibrium wages than other workers whose skills may be lower or less relevant. Supply of suitably qualified workers may also be a determining factor on wage levels, particularly where supply of this type of skilled worker may be relatively inelastic. Candidates may choose to present this diagrammatically.

Candidates may talk about the need to reward candidates who have undertake additional studies to gain the necessary qualifications. Reference may also be made to the need to offer competitive salaries in order to retain staff. The pool of other types of worker may be larger and recruitment easier.

**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.**

Diagram is correct and properly presented with a clear explanation as to why 'knowledge workers' may earn more than their less qualified counterparts

5 - 6 marks

Either the diagram is correct but explanation is not OR vice versa. We are looking for appropriate knowledge in context, whether it be an appropriate diagram or a written explanation of why knowledge workers might earn.

3 - 4 marks

Neither diagram or explanation is spot on but there is some merit in the response.

1 - 2 marks

- (b) Explain two possible implications for businesses of rising unemployment in areas such as Tower Hamlets.

**(6)**

**Knowledge 2, application 2, analysis 2**

There are a number of possible responses here, accept any logical offerings. It may be that businesses will find it easier to recruit labour. Wages may fall as the supply of labour increases. Less disposable income could cause some businesses who rely on the local market to experience difficulties.

Clear understanding of two possible implications for business of rising unemployment, discussed in context (Tower Hamlets), with appropriate use of economic and business concepts.

**5 - 6 marks**

Answers at this level may be more assertive and lack detailed development of the implications for business of rising unemployment in the area. Candidates may consider negative implications or positive implications. It is not necessary for candidates to look at both aspects.

**3 - 4 marks**

Some merit in candidates comments but suggested implications may be vague or unrealistic.

**1 - 2 marks**

- (c) Examine the effects of structural change on regional patterns of demand. (8)

**Knowledge 1, application 3, analysis 3, evaluation 1**

Structural change can affect patterns of demand in several ways. Whilst it is happening rising structural unemployment reduces incomes and alters consumer purchasing patterns. Demand patterns will change in allied industries and the nature and emphasis of government spending will also change. Conversely as structural change becomes more positive and new jobs and opportunities arise the patterns change again. Candidates may well use regional examples to examine the effect of structural change. As ever, accept all logical responses.

Candidates may comment on the effect on the housing market and on the demand for consumer goods.

**Level 4**

Clear understanding of the effect of structural change on patterns of demand. Candidates may comment on the effect that an economic downturn may have upon patterns of demand or alternatively consider the impact that a positive structural change may have upon patterns of demand. The relationship between structural change and changes in demand is well understood and logical suggestions are made as to how purchasing patterns may change for different groups (e.g. different socio-economic groups or different businesses and at different times. Answers are clear, related to the context and make good use of terminology and toolkit.

**7 - 8 marks**

**Level 3**

Knowledge and application are evident and use of toolkit is reasonable. Candidates should demonstrate a clear awareness as to how demand may be affected by a structural change. Examples may be limited at this level. Good awareness of possible changes in demand but perhaps use of theory to explain the effects may be demonstrated.

**5 - 6 marks**

**Level 2**

Candidates are aware of patterns changing but may not develop their explanation. Responses may be phrased in general terms and with poor use of toolkit. Possibly only one explanation may be offered.

**3 - 4 marks**

**Level 1**

Some understanding of the issues but little there is limited development of the response and no toolkit.

**1 - 2 marks**

- (d) Evaluate the link between investment in training and international competitiveness.

(10)

**Knowledge 2, application 2, analysis 2, evaluation 4**

A skilled and adaptable labour force will help to make a firm more competitive for various reasons, they tend to be more efficient and help to reduce average costs thus producing a competitive advantage. If all, or most firms have access to such a workforce then the economy as a whole becomes more competitive. However as this is an evaluative question candidates may point out that there are other factors that have a bearing on international competitiveness as well such as input costs, entrepreneurial culture, exchange rates and government intervention.

**Level 4**

Good understanding of the link between a skilled and adaptable labour force and international competitiveness. Answers are clear and make good use of terminology and toolkit. There is a supported and convincing evaluative conclusion.

**9 - 10 marks**

**Level 3**

Reasonable level of awareness and understanding. Knowledge and application are evident and use of toolkit is appropriate. Answers overall may be less clear than those seen at Level 4 and may lack balance. The evaluative element may be thin. Answers that lack evaluation may just get into L3 if otherwise perfect.

**6 - 8 marks**

**Level 2**

Some awareness of the link between a skilled and adaptable labour force and international competitiveness. Answers may be phrased in general terms and evidence poor use of toolkit. Evaluation is probably lacking or thin.

**4 - 5 marks**

**Level 1**

Some understanding of the issue but little development, no toolkit.

**1-3 marks**

### QUESTION 3

- (a) Explain how increased productivity can lead to increased economic prosperity. (6)

**Knowledge 3, application 3**

Look for an explanation of how increased productivity means a reduction in AC which is likely to confer competitive advantage. Sales should increase at the expense of less productive areas/economies which leads to economic growth and prosperity.

Candidates offer a clear explanation how increased productivity can lead to increased economic prosperity. The linkage is clearly and logically explained. Response is balanced with appropriate terminology, detail and in context.

**5 - 6 marks**

Explanation as to how increased productivity can lead to increased economic prosperity are offered. Responses may lack the clarity of above (Level 4) and may not be as strong on toolkit.

**3 - 4 marks**

Some basic insights about the relationship between productivity and rising prosperity are made but with little development. (e.g. bullet points, simple statements without development in context)

**1 - 2 marks**

- (b) Explain why it is appropriate to have joint public and private investment initiatives.

(6)

**Knowledge 2, application 2, analysis 2**

There should be an understanding of the benefits that joint initiatives can bring. It enables governments to draw on resources which would not have been available otherwise. The availability of private sector investment means that public funds are less pressed and can be used elsewhere. Private sector involvement may also tighten up the process. There are no marks for evaluation so the drawbacks are not needed.

Clear understanding of the advantages well explained, with toolkit.

**5 - 6 marks**

Not as clear, perhaps some generalisation. Toolkit not as well used.

**3 - 4 marks**

Some merit but vague and/or inaccurate.

**1 - 2 marks**

- (c) Examine two possible reasons why an area such as Tower Hamlets can experience rising unemployment despite the creation of new jobs.

(8)

**Knowledge 1, application 3, analysis 3, evaluation 1**

The implications are that the job seekers do not match up to the requirements of the jobs on offer. There is occupational and geographical immobility at work here. Answers should develop these points. It may be the changing nature of the work e.g. more skilled or technological. It may be the location of the jobs, or the nature of the contracts and/or pay that goes with them, or the hours worked.

**Level 4**

Clear understanding of the issue. Two or more well developed strands. Answers are clear, related to the context and make good use of terminology and toolkit.

**7 - 8 marks**

**Level 3**

Knowledge and application are evident and use of toolkit is reasonable. Perhaps less clear and may lack balance. One strand may be better than the other(s).

**5 - 6 marks**

**Level 2**

Candidates are aware of why this might be happening but response fails to develop a clear analysis. Possibly phrased in general terms with poor use of toolkit. Possibly only one strand of thinking.

**3 - 4 marks**

**Level 1**

Some understanding of the issues but little development, no toolkit.

**1-2 marks**

- (d) Evaluate two policy options open to the government to reduce unemployment.  
(10)

**Knowledge 2, application 3, analysis 3, evaluation 2**

There is much that can be said here with choices of Fiscal, Monetary and Supply-side policies. Look for an understanding of how these policies will work and affect unemployment. Evaluation is key here and the relative merits or otherwise should be identified. Better candidates may well tackle this by looking at the cause of the unemployment to start with, such as demand-deficiency or structural and then recommending suitable policies. Reward any valid path that has evaluative elements.

**Level 4**

Two or more well developed policy options. Answers are clear and make good use of terminology and toolkit. There is a supported and convincing evaluative conclusion.

**9 - 10 marks**

**Level 3**

Reasonable level of policy options. Knowledge and application are evident and use of toolkit is reasonable. Perhaps less clear and may lack balance. One policy option may be better than the other(s). The evaluative element may be thin.

**6 - 8 marks**

**Level 2**

Some awareness of relevant policies with some development but possibly phrased in general terms and with poor use of toolkit. Possibly only one policy. Evaluation is lacking.

**4 - 5 marks**

**Level 1**

Some understanding of the issues but little development, no toolkit.

**1 - 3 marks**

## SECTION C

### Question 4

- (a) Examine the importance of innovation for small firms such as Bells. (10)

**Knowledge 2, application 3, analysis 3, evaluation 2**

Innovation is a source of competitive advantage and can either help small firms expand and/or create a niche market. The stimulus material reinforces this point. Better candidates will perhaps discuss process and product innovation and the ways in which they can affect a small firm.

Note that although the question does not explicitly require reference to Bells, it is about small firms, reference to say, Sony, in an answer would be inappropriate and should not be rewarded.

#### Level 4

Clear understanding of the importance of innovation.. Answers are clear, related to the context and make good use of terminology and toolkit. At this level there must be some evaluation e.g. perhaps a qualifying remark as to the importance of innovation as compared to say marketing or quality etc.

**9 - 10 marks**

#### Level 3

Knowledge and application are evident and use of toolkit is reasonable. Perhaps less clear and may lack balance. Evaluation is not needed at this level.

**6 - 8 marks**

#### Level 2

Candidates are aware of the importance of innovation but answers may lack clarity and may have errors and assertions. Possibly phrased in general terms with poor use of toolkit.

**4 - 5 marks**

#### Level 1

Some understanding of the issues but little development, no toolkit.

**1 - 3 marks**

- (b) Evaluate two strategies, other than innovation, that a small firm could use to expand its market share.

(20)

**Knowledge 3, application 5, analysis 4, evaluation 8**

Reward any strategy that seems appropriate, again bear in mind that we are talking about small firms here. Candidates may look at strategies based around, pricing/cost-cutting, advertising/promotion and quality. Concepts such as productivity, motivation, branding, and leadership may well appear.

**Level 4**

Two clear and balanced strategies are explored. They will have sound analysis, which will lead to a convincing evaluative conclusion. Answers are clear, related to the context and make good use of terminology and toolkit.

**16 - 20 marks**

**Level 3**

Two strategies discussed. Knowledge and application are evident and use of toolkit is reasonable. Perhaps less clear and may lack balance. Evaluation may be thin or unqualified.

**11 - 15 marks**

**Level 2**

Perhaps two strategies but they lack depth or development, evaluation may be poor or missing altogether, toolkit use may be limited One strategy cannot get beyond this level.

**6 - 10 marks**

**Level 1**

Some understanding of the issues but little development, no toolkit.

**1 - 3 marks**

## Question 5

- (a) Examine the importance of investment for economic growth.

(10)

Knowledge 2, application 3, analysis 3, evaluation 2

The answer will probably show for what purposes investment might be used and link this to the benefits a firm might receive, such as increased competitive advantage and therefore sales, e.g. buying new machinery may speed up production, lower costs and enable the firm to reduce price. Productivity has improved which means we can produce more with the same resources. It could also be linked to gaining a competitive advantage with trade. As individual firms grow this adds to national output, which is economic growth. There is an evaluative element here and responses might consider the effectiveness of different types of investment or look at the short and long run situations. The relative importance of investment compared to other agents of economic growth could be discussed.

### Level 4

Good understanding of the link. Answers are clear, and make good use of terminology and toolkit. At this level there must be some evaluation.

9 - 10 marks

### Level 3

Knowledge and application are evident and use of toolkit is reasonable. Perhaps less clear and may lack balance. Evaluation is not needed at this level.

6 - 8 marks

### Level 2

There is awareness and an explanation is attempted. Clarity may be an issue and may have errors and assertions. Possibly phrased in general terms with poor use of toolkit.

4 - 5 marks

### Level 1

Some understanding of the issues but little development, no toolkit.

1 - 3 marks

- (b) Evaluate the role of government in achieving economic growth.

(20)

**Knowledge 3, application 5, analysis 4, evaluation 8**

Responses may look at how government can encourage growth by the use of fiscal and/or supply-side policy. Suitable examples should accompany an explanation of how the policy will lead to an increase in GDP. There is a strong evaluative element to this question and this may concentrate on how effective these policies are. Better candidates may point out that government policy can actually hinder growth through excessive taxation, increasing red tape and so on. Reward all well argued trains of thought.

**Level 4**

A range of ideas is explored showing a clear link between the actions of government and subsequent effects on economic growth. Expect to see sound analysis, which leads to a convincing evaluative conclusion. Answers are clear, related to the context and make good use of terminology and toolkit.

**16 - 20 marks**

**Level 3**

Government policy is discussed in connection to economic growth. Knowledge and application are evident and use of toolkit is reasonable. Perhaps less clear than L4 and may lack balance. Evaluation may be thin or unqualified.

**11 - 15 marks**

**Level 2**

Perhaps some relevant ideas but they lack depth or development, evaluation may be poor or missing altogether, toolkit use may be limited. If only one main idea they cannot get beyond this level.

**6 - 10 marks**

**Level 1**

Some understanding of the issues, but little development and no toolkit.

**1 - 5 marks**