

# **GCE AS**

# **Applied Business**

**January 2010**

## **Mark Schemes**

Issued: April 2010



MARK SCHEMES (2010)

Foreword

***Introduction***

Mark Schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

***The Purpose of Mark Schemes***

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of 16- and 18-year-old students in schools and colleges. The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes therefore are regarded as a part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

The Council hopes that the mark schemes will be viewed and used in a constructive way as a further support to the teaching and learning processes.

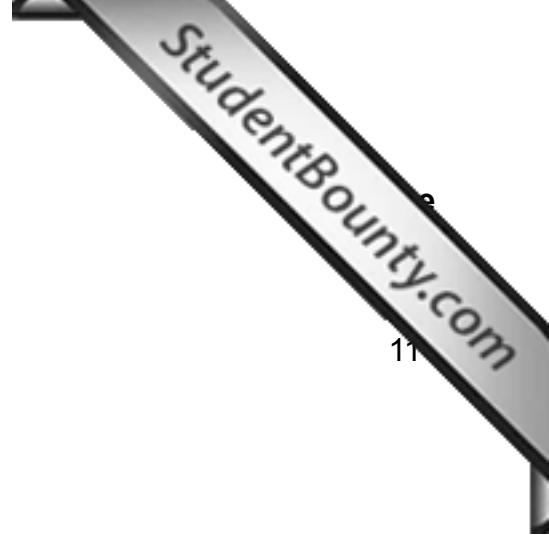


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**ADVANCED SUBSIDIARY (AS)  
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## **GCE Applied Business**

### **Assessment Unit AS 3**

*assessing*

External Influences on the Business Enterprise

**[A3B31]**

**TUESDAY 12 JANUARY, MORNING**

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# **MARK SCHEME**

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**1 Explain the following terms in relation to the case study:**

**(a) Equilibrium price**

Equilibrium price is the price at which the quantity demanded is equal to the quantity supplied.

Example: A new base in Belfast provides Aer Lingus with the opportunity to grow by providing customers with additional choice and low fares to European destinations.

(2 marks for definition, 1 mark for application)

**(b) Supply**

Supply is the quantity of products which suppliers make available to the market at any given price.

Example: Aer Lingus supplying different flights to various destinations.

(2 marks for definition, 1 mark for explanation)

[6]

6

**2 (a) Explain what is meant by the term “elasticity of demand”.**

Price elasticity of demand measures how responsive quantity demanded is to a change in price. If demand is sensitive to price (when price increases quantity demanded decreases by a large amount), then the good is said to be price elastic. If demand is not sensitive to price changes, then the good is said to be inelastic.

(3 marks for explanation)

[3]

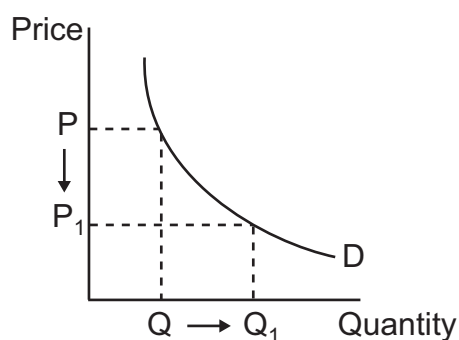
**(b) Explain how a fall in the price of tickets might affect the demand for flights.**

In the airline industry, this will depend on the type of traveller. Business travel might be relatively inelastic whereas domestic travel might be relatively elastic. Credit will be given for either approach. If Aer Lingus reduced the price of their flights, the demand for their flights will increase.

(3 marks for explanation)

[3]

**(c) Draw a demand curve diagram to illustrate the fall in price of airline tickets.**



[3] for properly drawn and labelled diagram, showing the following:-

- change in price ( $P, P_1$ ), illustrating a fall in price
- change in quantity ( $Q, Q_1$ ), illustrating an increase in quantity
- demand curve sloping from left to right, downwards.

[3]

9

3 Explain three benefits of a multinational company such as Aer Lingus operating in N. Ireland.

The benefits of multinationals operating in N. Ireland:

- **The balance of payments and employment**  
One benefit of multinationals such as Aer Lingus operating in N. Ireland is their ability to create jobs. This, along with the multiplier effect which they create, can increase the GNP of countries (e.g. N. Ireland), and add to the standard of living (reducing amounts of social security and benefit payable by government).
- **Technology and expertise**  
Multinationals such as Aer Lingus may introduce new technology, production processes and management styles and techniques. Technology transfer can be especially important to developing countries, which may lack technical expertise and know-how.
- **Social responsibility**  
Multinationals such as Aer Lingus are in a better position to finance projects that protect the environment from their activities. They also tend to offer better pay/working conditions than local firms in developing economies.
- Greater levels of customer choice in airlines/destinations;
- Greater levels of profit/revenues – global image/trading of multiplier effect on local economy;
- Tax Revenues increase for government – since employment levels increase, increased tax returns are received, e.g. Income tax, National Insurance, duties, etc;
- Tourism – the nature of the services provided by the airlines could lead to increased number of tourists/spending within the local economy (hence providing job security).

([2] for explanation; [1] for application); ([3] × 3)

[9]

9

**4 Analyse four pricing strategies that Aer Lingus could use to increase competitiveness.**

**Predatory/Destroyer**

Predatory pricing occurs whenever Aer Lingus sells its products at a very low price with the intention of driving competitors out of the market, or to create a barrier to entry to prevent potential competitors from entering the market. Predatory pricing is used by companies such as Aer Lingus which have a degree of market power and this strategy can be very successful in the long run. However, in the short run, Aer Lingus may lose money as a result of this strategy.

**Competitive pricing**

Competitive pricing occurs whenever Aer Lingus sets its price at a level which is just below that charged by its main competitors. The price is set at a rate, which makes the goods appear competitive, but at the same time does not have a detrimental impact on the image of the product.

**Penetration pricing**

Penetration pricing is often used when a new product is being introduced onto a market, which is already relatively competitive. It occurs whenever Aer Lingus sets a low initial entry price to attract consumers to the product. The price is then increased towards the market price as consumer loyalty is built up. Penetration pricing is a very effective way of maximising sales and works best when demand is price elastic.

**Skimming**

Skimming is often used by Aer Lingus who are launching a new or improved product on the market. The price of the product is set high initially to target those consumers who are likely to be willing to pay high prices. Skimming can be a very effective way of increasing sales revenue.

**Psychological Pricing**

- Price Wars
- Cost based Price

([1] for identification; [1] for explanation; [1] for application; [1] for analysis);

([4] × 4)

[16]

16

**5 Evaluate the impact which increased competition is likely to have on the airline industry in N. Ireland.**

The degree of competition in an industry will have a significant impact upon five key areas:

**Price**

The level of competition will have a huge impact upon the price that consumers pay for their flights. Airlines such as Aer Lingus face competition from a large number of airlines within the industry providing similar services, will have less scope to influence price (fares) and will, as a result, charge lower prices. As stated in the stimulus, this may lead to price wars. However, price wars often force smaller airlines out of the market, leading to larger airlines dominating the industry.

**Quality**

Airlines such as Aer Lingus will be forced to provide a high quality service to avoid the risk of losing their customers to competitors. This may also cause rival airlines to offer additional services to customers. However, this may be costly, resulting in airlines such as Aer Lingus cutting costs in other business areas, thus compromising quality.

**Choice**

In airline markets where there is significant competition, the consumer may be able to choose from a range of differentiated products (flights, routes, airlines). Competition between an increasing numbers of airlines (such as Aer Lingus, easyJet etc.) may result in the offer of additional services to customers. This may include things such as pre-flight booking, extra baggage allowance, etc. However, this may be costly, resulting in the airlines increasing costs in other areas of the business.

**Efficiency**

Competition may result in businesses such as Aer Lingus becoming more efficient. In the airline industry, this may be achieved through reducing delays, etc. However, there may be a danger that, as turnaround times are decreased, safety may become an issue. Efficiently run businesses are likely to survive in a highly competitive industry. Airline mergers/acquisitions are possible, as are bankruptcies of inefficient airlines.

**Loyalty**

Airlines such as Aer Lingus may try to reward customers with loyalty schemes. Free flights, air miles, etc may be offered. However, with such schemes, the choice for customers is often limited, thus this may have a limited impact on levels of competition unless passengers are likely to fly frequently.

[20]

20

**Level 1 ([1]–[8])**

Some knowledge and understanding of the impact of increased competition on the airline industry in N. Ireland is demonstrated but this is limited. Two ways in which increased competition impacts the airline industry is discussed. Application of this knowledge to the question context, if present, is limited. A limited attempt is made to evaluate the relevant impacts. Quality of written communication is limited.

**Level 2 ([9]–[16])**

Adequate knowledge and understanding of the impact of increased competition on the airline industry in N. Ireland is demonstrated. Up to four ways in which increased competition impacts the airline industry are discussed. There is some application of this knowledge to the question context. An adequate attempt is made to evaluate the impacts. Quality of written communication is satisfactory.

**Level 3 ([17] –[20])**

Thorough knowledge and understanding of the impact of increased competition on the airline industry in N. Ireland is demonstrated. Five ways in which increased competition impacts the airline industry are discussed. There is good application of this knowledge to the question context. Analysis is comprehensive and perceptive. A good attempt is made to evaluate the impacts. Quality of written communication is of a high standard.

**6 Evaluate five reasons why the government may choose to intervene in the airline industry.**

**Ensuring fair trade**

To ensure fair trade in the market. Some airlines may be tempted to mislead consumers in an effort to secure higher profits. For this reason the UK government have passed a number of laws, which protect consumers from unscrupulous traders. These laws include: the Sale of Goods Act, the Trade Description Act. This benefits consumers.

**Controlling competition**

To control the level of competition in the market to ensure that individual firms e.g. Aer Lingus do not gain too much market power. The UK government have passed a number of laws aimed at encouraging greater competition in markets. The laws passed by the government to control the level of competition include: the Fair Trading Act, and the Competition Act. This makes UK industry more competitive, benefitting consumers.

**Protecting the environment**

To protect the environment from the pollution caused through either the production or the consumption of goods and services. The government have also introduced a number of environmental taxes in an attempt to reduce pollution; examples include the climate change levy and the excise duty on fuel. These are particularly important in the airline industry, serving to increase travel costs for passengers.

**Protecting stakeholders**

To protect the various stakeholders from abuse. Firms such as Aer Lingus may be tempted to lay off workers or force employees to work in unsafe conditions in an attempt to reduce costs, e.g. National Minimum Wage and the Working Time Directive, Health/Safety Laws, which benefits various stakeholders.

**Achieving macroeconomic objectives**

To create a stable competitive economy in which businesses such as Aer Lingus will be able to grow and be profitable. Many economists believe that the role of the government should be simply to "oil the wheels" of the market and create the conditions necessary for business to develop and prosper – the aim is to benefit the NI economy, using various policies/laws, e.g. tax, regional development.

[20]

20

**Level 1 ([1]–[8])**

Some knowledge and understanding of the reasons for government intervention in the airline industry in N. Ireland is demonstrated but this is limited. Two reasons for government intervention are discussed. Application of this knowledge to the question context, if present, is limited. A limited attempt is made to evaluate the relevant reasons. Quality of written communication is limited.

**Level 2 ([9]–[16])**

Adequate knowledge and understanding of the reasons for government intervention in the airline industry in N. Ireland is demonstrated. Up to four reasons for government intervention are discussed. There is some application of this knowledge to the question context. An adequate attempt is made to evaluate the reasons. Quality of written communication is satisfactory.

**Level 3 ([17]–[20])**

Thorough knowledge and understanding of the reasons for government intervention in the airline industry in N. Ireland is demonstrated. Five reasons for government intervention are discussed. There is good application of this knowledge to the question context. Analysis is comprehensive and perceptive. A good attempt is made to evaluate the reasons. Quality of written communication is of a high standard.







*Rewarding Learning*

**ADVANCED SUBSIDIARY (AS)  
General Certificate of Education  
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## **Applied Business**

**Assessment Unit AS 4**

*assessing*

**E-Commerce**

**[A3B41]**

**THURSDAY 14 JANUARY, MORNING**

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# **MARK SCHEME**

1 Explain what is meant by e-commerce. Your answer should use **two** examples from the case study.

- E-commerce can be defined in many ways, but in general is the exchange of information across electronic networks and in particular for On-line trading – which is the buying and selling of goods and services over electronic networks, whether between businesses or between businesses and consumers. This involves the ability to accept transactions electronically over the Internet via a secure server.
- Examples:
  - Buying items from the Argos website e.g. furniture, jewellery, toys;
  - checking the latest prices and availability of items;
  - reserve items at the nearest in-store;
  - apply for an Argos credit card, protect your pet with insurance;
  - sign up to receive must haves, special offers.

Marking: [4] for explanation, [2] for application

[6]

6

2 Explain **four** terms/conditions of the Consumer Credit Act that must be addressed when a customer is applying for an Argos credit card.

- A customer applying for an Argos credit card has the right to: settle the agreement at any time by giving notice in writing and paying off the amount owed.
- Argos must provide the applicant with: total charge for credit, annual percentage rate (APR), cash price for the goods. Argos cannot demand early payment, try to get the goods back or end the agreement without first serving a written notice on the customer within 7 days.
- If the customer receives unsatisfactory goods or services paid for under this agreement, apart from any bought with a cash loan, they may have a right to sue the supplier, Argos or both.
- If the contract is not fulfilled, perhaps because the supplier has gone out of business, the customer may still be able to sue Argos. If the customer would like to know more about their rights under the Act, they can contact either their local Trading Standards Department or their nearest Citizens' Advice Bureau.
- Either the customer or Argos can end the agreement by giving written notice to the other. Unless there are exceptional circumstances, Argos will give the customer 30 days' notice before they end the agreement. The customer must return all cards and unused cheques to Argos and cancel any instructions they have given to others to charge transactions to their account. The customer must make all payments due and this agreement will continue until all amounts they owe have been paid including amounts added to their account after the notice to end the agreement.
- Customers who apply for a credit card will be protected against "extortionate rates" of credit by way of the Consumer Credit Act 1974.
- Customers must be given annual statements under fixed-sum credit agreements.
- Argos must provide statements within a prescribed period after the end of the billing period to which it relates.
- Argos must explain to its customers the consequences of making minimum payments, or non payments.
- If Argos varies the regulated agreement under a power contained in the agreement, the variation shall not take effect until notice of the variation has been given to the customer.
- Verification of correct personal details, e.g. 18 years of age/income/identity/address

Marking: [1] for explanation, [1] for application  
([2] × 4)

[8]

8

3 Discuss **four** reasons why potential customers of Argos might be reluctant to purchase their goods on-line.

- Cost of technology – some Argos customers might not be able to afford a computer or an Internet connection.
- Complexity of technology – some Argos customers might find technology too complicated to use or the Argos website to navigate.
- Security – some Argos customers might fear credit card fraud.
- Fear of technology – some Argos customers could be technophobic.
- Speed of technology – some Argos customers could be using standard analogue (dial-up), which is slow and unreliable to make purchases.
- Other valid explanations accepted

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

[12]

12

4 Evaluate **four** ways in which Argos might benefit from trading on-line.

- Lower transaction costs for Argos, e.g. fewer staff, fewer outlets and catalogues.
- Larger purchases per transaction for Argos, e.g. customers will purchase more as the goods will get delivered to their door.
- Increased profit and revenue for Argos, e.g. more customers purchase goods from Argos.
- Increased information about customers, e.g. Argos will see a purchase pattern of what customers are ordering and when they order, what area of the country uses the Internet more to purchase products.
- Worldwide/global market for Argos, e.g. the website can be seen by anybody in the world thereby increasing sales revenue.
- Larger catalogues/updated regularly, e.g. Argos can update their website on a regular basis keeping customers informed of sales etc.
- Better and more customer interactions, e.g. Argos customers can do various transactions on the website, i.e. protect their pet, create a gift list, view buying guides, reserve their item and pick it up from their Argos store.
- 24/7 selling, e.g. customers can purchase Argos goods or services at any time of the day or night.

**Level 1: ([1]–[4])**

Some knowledge and understanding of the ways Argos benefit trading online is demonstrated but this is limited. One way is discussed. Application of this knowledge to the question context, if present, is limited. A limited attempt is made to evaluate relevant benefit. Quality of written communication is limited.

**Level 2: ([5]–[12])**

Adequate knowledge and understanding of the ways Argos benefits from trading online is demonstrated. Up to three ways are discussed. There is some application of this knowledge to the question context. An adequate attempt is made to evaluate various benefits. Quality of written communication is satisfactory.

**Level 3: ([13]–[16])**

Thorough knowledge and understanding of the ways Argos benefits from trading online is demonstrated. Four ways are discussed. There is good application to the question context. Analysis is comprehensive. A good attempt is made to evaluate the benefits. Quality of written communication is of a high standard. [16]

16

5 Discuss **six** pieces of Internet, Business and E-Commerce software that Argos would require in order to create their own website.

- **ISP (Internet Service Provider)**, e.g. an **Internet service provider (ISP)**, also called **Internet access provider** or **IAP**) is a company (AOL, BT) which primarily offers Argos access to the Internet using dial-up or other means of data telecommunication. ISPs may provide Internet e-mail accounts to users which allow them to communicate with one another by sending and receiving electronic messages through their ISPs' servers. ISPs may provide other services such as remotely storing data files on behalf of their customers like Argos, as well as other services unique to each particular ISP.
- **Web Designer Software**, e.g. sometimes referred to as web authoring, web design is about creating web pages that make up a website for use on the Internet and also in company Intranets like Argos. Web design not only involves using standard design concepts but can often involve a substantial amount of technical and programming work. This means that a successful web designer needs to have good technical skills as well as good design skills.
- **Internet Explorer**, e.g. Internet Explorer (abbreviated IE) is the popular Web browser created and distributed by Microsoft. IE was first released in 1995, and IE has been the most popular Web browser since 1999. This is needed for Argos to view and create web pages for the Internet.
- **Software for developing the web shop**, e.g. **Shopping cart software** is software used in e-commerce to assist people making purchases on-line. In Argos it is generally known as a shopping basket, almost exclusively shortened on websites to 'basket'. This symbol helps customers of Argos to shop on-line. The software allows on-line shopping customers of Argos to place items in the cart. Upon checkout, the software typically calculates a total for the order, including shipping and handling (i.e. postage and packing) charges and the associated taxes, as applicable.
- **Database system**, e.g. A **database management system (DBMS)** is a computer software designed for the purpose of managing databases based on a variety of data models. Argos customers' details that create an account will have their personal details stored on their database. The items that Argos sells will also be in their database.
- **Invoicing/purchases order system**, e.g. An electronic purchase order system enables Argos to create, approve and manage their purchase order and invoice processes.
- **Web-based security** systems include important security, notification, SOX compliance, management and reporting features so the purchase requisition process is managed efficiently.
- **Customer registration system**, e.g. Customer registration enables customers of Argos to view their account details on-line.
- **Visitor tracking**, e.g. A website tracking system is a tool suite that provides Argos with a full set of statistics to help them monitor and track visitors/customers to their website. A tracking system collects statistical data about Argos visitor/customer traffic and aggregates the data into meaningful reports. The goal is to help make website management decisions on a daily basis, for example content updates.

**Level 1: ([1]–[6])**

Some knowledge and understanding of the relevant software required by Argos is demonstrated but this is limited. Two points are discussed. Application of this knowledge to the question context, if present, is limited. A limited attempt is made to discuss the points. Quality of written communication is limited.

**Level 2: ([7]–[15])**

Adequate knowledge and understanding of the relevant software required by Argos is demonstrated. Up to five points are discussed. There is some application of this knowledge to the question context. An adequate attempt is made to discuss the points. Quality of written communication is satisfactory.

**Level 3: ([16]–[18])**

Thorough knowledge and understanding of the relevant software required by Argos is demonstrated. Six points are discussed. There is good application to the question context. A good attempt is made to discuss the points. Quality of written communication is of a high standard. [18]

18



6 Evaluate **four** methods that a business such as Argos could use in order to market its on-line trading activities.

- **Direct navigation**, e.g. **Direct navigation** is a marketing term that describes the method individuals use to navigate the Internet in order to arrive at specific websites, e.g. Argos. Direct navigation is a new, loosely defined term which is generally understood to include type-in traffic and bookmarked traffic. This involves an Internet user navigating to a website directly through the website address bar, bypassing any on-line search engines and navigating directly to the domain. Customers of Argos type in their web address in the address bar. The web address is easy to remember.
- **Search engines**, e.g. A **Web search engine** is a search engine designed to search for information on the World Wide Web. Information may consist of web pages, images and other types of files. Some search engines also mine data available in newsgroups, databases or open directories (+ pop ups). Unlike Web directories, which are maintained by human editors, search engines operate algorithmically or are a mixture of algorithmic and human input. Argos would need to have their website on all search engines.
- **Banner advertising**, e.g. **Banner advertising** is a type of advertising that may, and most frequently does, contain graphic information beyond text such as logos, photographs or other pictures, location maps, and similar items. In websites, it can appear on the same page or a page adjacent to, general editorial content; as opposed to classified advertising. Banner advertising uses static and animated images in standard or non-standard sizes called web banners as well as interactive media that might include audio and video elements. Argos could have a banner ad on a similar website to direct customers to their site.
- **Search engine optimisation**, e.g. **Search engine optimisation (SEO)** is the process of improving the volume and quality of traffic to Argos website from search engines via “natural” (“organic” or “algorithmic”) search results for targeted keywords. Usually, the earlier Argos website is presented in the search results or the higher it “ranks”, the more searchers will visit that site. SEO can also target different kinds of search, including image search, local search, and industry-specific vertical search engines. SEO can be approached in many ways, but the latest trend is Performance Based SEO. As a marketing strategy for increasing Argos website relevance, SEO considers how search algorithms work and what people search for.
- **E-mail marketing – feedback**, e.g. **E-mail marketing** is a form of direct marketing which uses electronic mail as a means of communicating commercial messages to an audience. In its broadest sense, every e-mail sent to a potential or current customer from Argos could be considered e-mail marketing. However, the term is usually used to refer to: Sending e-mails with the purpose of enhancing the relationship of Argos with its current or old customers and to encourage customer loyalty and repeat business; sending e-mails with the purpose of acquiring new customers or convincing old customers to buy something immediately; adding advertisements in e-mails sent by other companies to their customers.
- **Measure success (e.g. hit counter, advertising revenues)**, e.g. a **web counter** or **hit counter** is a computer software program that indicates the number of visitors, or hits, a particular webpage has received. Once set up, these counters will be incremented by one every time the web page is accessed in a web browser. The number is usually displayed as an on-line digital image or in plain text. Images may be presented in a variety of fonts, or styles; the classic example is the wheels of an odometer. The counter often is accompanied by the date it was set up or last reset, otherwise it becomes impossible to estimate within what time the number of page loads counted occurred. Web counters are not necessarily trustworthy. A webmaster for Argos could start the counter at a high number to give the impression that the



site is more popular than it actually is or use a traffic generator to increase their hits automatically.

- **Delivery of goods 2–3 days**, e.g. Argos could ensure that the items that customers order are delivered to them within the delivery time of 2 or 3 days.
- **Attach the right people to do the Internet marketing**, e.g. Argos would need to ensure that they have appointed the correct people with the experience and skills necessary for the task in hand.
- **Price** – Argos offers competitively priced products. Argos conducts sales regularly.
- **Product** – Argos stock a vast array of products. They have a 28-day sale or return policy. Products can be delivered to customers' homes.
- **Place** – Argos has retail outlets on practically every high street throughout the UK.
- **Promotion** – Argos catalogues are freely available at all retail outlets. These catalogues are revised after introducing many new products. Argos also publish “special offer” flyers available at all retail outlets.
- **Linkage Campaigns**: Affiliate links to related websites.

### **Level 1: ([1]–[5])**

Some knowledge and understanding of the methods used by Argos to market online trading activities is demonstrated but this is limited. One method is discussed. Application of this knowledge to the question context, if present, is limited. A limited attempt is made to evaluate a relevant method. Quality of written communication is limited.

### **Level 2: ([6]–[15])**

Adequate knowledge and understanding of the methods used by Argos to market online trading activities is demonstrated. Up to three methods are discussed. There is some application of this knowledge to the question context. An adequate attempt is made to evaluate various methods. Quality of written communication is satisfactory.

### **Level 3: ([16]–[20])**

Thorough knowledge and understanding of the methods used by Argos to market online trading activities is demonstrated. Four methods are discussed. There is good application to the question context. Analysis is comprehensive. A good attempt is made to evaluate the methods. Quality of written communication is of a high standard.

[20]

20





