

Sample Assessment Materials September 2007

GCE Business Studies and
GCE Economics and Business

**Edexcel Advanced Subsidiary GCE in Business Studies
(8BS01)**

**Edexcel Advanced Subsidiary GCE in Economics and
Business (8EB01)**

First examination 2009

Edexcel Advanced GCE in Business Studies (9BS01)

Edexcel Advanced GCE in Economics and Business (9EB01)

First examination 2010

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A Introduction

These sample assessment materials have been prepared to support the specification.

Their aim is to provide the candidates and centres with a general impression and flavour of the actual question papers and mark schemes in advance of the first operational examinations.

B Sample question papers

Unit 1: Developing New Business Ideas	7
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SECTION A

Answer ALL the questions in this section.

Write the letter of your chosen answer in the box and then explain your choice in the space provided.

You should spend 30 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1. (a) BT is conducting a product trial on its ‘broadband-in-a-box’. BT hopes that its product will make it much easier to sign up to and start using fast internet access.

What is a product trial?

- A Judging a product in relation to the market leader
- B Legal action taken when a product fails to meet appropriate standards
- C Initial product testing as part of Research and Development
- D Test marketing a product to assess consumer reaction and identify possible problems

Answer

(1)

- (b) BT wants to conduct a product trial on its “broadband-in-a-box”.

Explain why.

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(3)

(Total 4 marks)

Q1

2. (a) Fashion retailer Ted Baker had rising sales and profits in the half-year ending August 2006. Revenue was £61.1m (up 6.9%), gross profit was £34.5m (up 6.0%) and operating profit £7.0m (up 12.6%).

Calculate Ted Baker's gross profit margin in the half-year ending August 2006.

- A 77.1%
- B 56.5%
- C 6.0%
- D 11.5%

Answer

(1)

- (b) Show your calculation of the gross profit margin below (show all your workings).

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(3)

(Total 4 marks)

Q2

3. (a) Court Lodge Organics has developed a profitable niche market selling drinking yoghurt.

Which of the following statements about niche markets is **not** true?

- A Firms in niche markets will not have much competition
- B Consumers in niche markets may not have the same tastes and preferences as the mass market
- C Prices are usually lower in niche markets
- D Quality and reliability are less important in niche markets

Answer

(1)

(b) Firms such as Court Lodge Organics may wish to target niche markets.

Explain why.

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(3)

(Total 4 marks)

Q3

4. (a) European aircraft maker Airbus now says it needs to sell not 420 but 270 A380 superjumbo jets in order to break-even.

In order to calculate a firm's break-even point, which of the following do you **not** need to know?

- A Fixed costs
- B Variable costs
- C The margin of safety
- D The selling price

Answer

(1)

- (b) It may take companies longer to break-even than they first thought.

Give **one** possible reason why.

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(3)

(Total 4 marks)

Q4

5. (a) Ryanair sold tickets for a flight to Ireland for £1.99. The increase in environmental tax meant that the final price charged to passengers was £26.45.

How might this increase in taxes affect Ryanair?

- A Ryanair would make more profit
- B Ryanair would have rising costs
- C Customers would fly to different destinations
- D Ryanair might see a reduction in the number of passengers

Answer

(1)

(b) Ryanair decided to price tickets at £1.99, not at £2.00.

Explain why.

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(3)

(Total 4 marks)

Q5

6. (a) Number Eleven Cadogan Gardens is a luxurious 65-room townhouse hotel, just off Sloane Square. It offers debentures to its investors.

One way of financing a business is to issue a debenture.

Which of the following statements about debentures is true?

- A A debenture may be secured against the company's assets
- B Debentures pay a variable rate of interest to the lender
- C Debentures can be repaid over an unspecified period of time
- D Debentures are often used by sole traders

Answer (1)

(b) Firms may offer debentures rather than use other types of borrowing.

Explain why.

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(3)

(Total 4 marks)

Q6

7. (a) Business Data Consulting conducts primary research to help companies make important decisions and get the best from their trading relationships in overseas markets.

Which of the following is **not** an example of primary research?

- A Talking to retailers
- B In-depth interviews with customers
- C Using market intelligence reports
- D Consumer questionnaires

Answer

(1)

(b) Secondary research can also be a useful source of research information for companies.

Explain why.

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(3)

(Total 4 marks)

Q7

8. (a) The Scottish Executive has stated that farmers in Scotland now produce enough organic food to meet 70% of consumer demand for home-grown products.

Which of the following factors is **least likely** to affect consumer demand?

- A The cost to produce
- B The number of potential consumers
- C The retail price
- D Tastes and preferences

Answer

(1)

(b) Explain why this factor is **least likely** to affect consumer demand.

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(3)

Q8

(Total 4 marks)

TOTAL FOR SECTION A: 32 MARKS

SECTION B

You are advised to spend 45 minutes on this section.

Evidence A

Innocent Drinks was started by Dan Germain and three university friends. They had always talked about schemes for starting businesses, but when they left Cambridge they all went into 'grown-up jobs' for several years.

'Grown-up jobs' did not dampen their appetite for enterprise and they decided to set up a limited company making smoothies. Uncertain whether to give up their day jobs, they kept them, but spent £500 on fruit and made it into smoothies, which they sold from a stall at a small music festival in London.

They put up a sign saying 'Do you think we should give up our day jobs to make these smoothies?' and provided a 'yes' bin and a 'no' bin for the empty bottles. By the end of the weekend, the 'yes' bin was full. On the Monday they all resigned.



Innocent Drinks created a range of smoothies made from 100% pure and fresh fruit and nothing else. Careful production and high-tech packaging gave it the longest possible shelf life, but they had not compromised their principles by what Dan calls "messing about with it". Drinks were delivered in 'cow vans' and 'grass vans'. A fun website was designed to communicate with consumers.

Early sales were through local delicatessens and sandwich shops, but it was not long before Coffee Republic agreed to stock Innocent Drinks in their eight or nine shops. Since then, Innocent Drinks have grown steadily, at a rate of 50–60% a year, and now supply most of the major supermarkets, but they are still careful to keep their original small shops happy.

Recipes created at their London offices are tested on people in surrounding office buildings. The drinks are sold in outlets across the UK and Europe. According to Dan there are still plenty of people who have not yet tasted Innocent Drinks. There is some way to go before they can claim to be 'Europe's favourite little juice company'.

Fruit is sourced from all over the world and the company has developed close relationships with growers. Regular sampling ensures that only the best fruit is used in the drinks. Innocent Drinks has expanded its range from the original 100% fruit smoothies to fruit juices and yoghurt-based drinks.

How has the company grown so dramatically using retained profit, whilst avoiding all the potential pitfalls of growing a business? Dan replies, "Our growth was carefully planned and steady. We didn't take on anything we weren't capable of doing".

(Source: Adapted from: <http://www.bcentral.co.uk/business-information/starting-up/forming-a-company/innocent-drinks.msp> (viewed 16/01/07))

9. (a) It was a good idea for the founders of Innocent Drinks to undertake market research at a music festival, before giving up their ‘day jobs’.

Briefly explain **two** reasons why.

Reason 1

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Reason 2

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(6)

- (b) Examine **one** way that Innocent Drinks has achieved competitive advantage.

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(4)

(c) The founders of Innocent Drinks gave up well-paid jobs to launch their new business.

Assess the possible reasons why.

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(8)

(d) Assess the implications of using only retained profit in order to fund growth.

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(8)

*(e) Evaluate the significance of Innocent Drinks' attempts to build relationships with **two** different stakeholder groups in contributing to the company's success.

First stakeholder group:

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SECTION A

Answer ALL the questions in this section.

You should spend 30 minutes on this section.

1. (a) A product's price elasticity is most likely to be high when it:

- A is very different from its competition
- B has been backed by heavy TV advertising
- C has a similar design to its rivals
- D is the best-known brand in the market

Answer

(1)

(b) Explain why this answer is correct:

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(3)

(Total 4 marks)

Q1

2. (a) The Boston Matrix would particularly help a business with:
- A a fall in sales across its whole product range
 - B a wide product portfolio that needs careful management
 - C only one product with fast rising sales
 - D problems in finding the right distribution channels

Answer

(1)

(b) Explain why this answer is correct:

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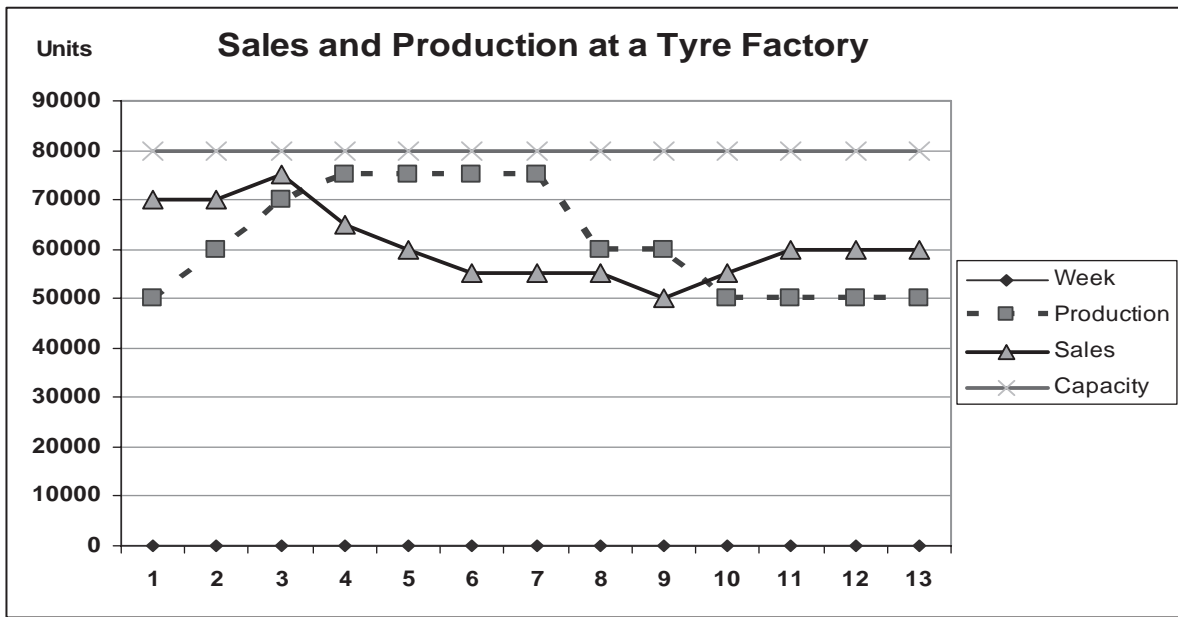
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(3)

(Total 4 marks)

Q2

Questions 3 and 4 relate to this graph of sales and production at a tyre factory.



3. (a) During weeks 1 and 2, which one of the following would be happening?

- A Stock levels would be rising
- B Staffing levels would be reduced
- C A move to Just In Time production
- D Stock levels would be falling

Answer

(1)

(b) Explain why this answer is correct:

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(3)

(Total 4 marks)

Q3

4. (a) Look again at the graph. Which **one** of the following statements is true?

- A The firm's maximum capacity is 75 000 units per week
- B The firm's capacity was under-utilised in weeks 10 to 13
- C The firm seems very efficient at sales forecasting
- D The firm will be worried about low stock levels by week 10

Answer

(1)

(b) Explain why this answer is correct:

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(3)

(Total 4 marks)

Q4

5. (a) Which of the following production methods is capital intensive?

- A An expensively automated mass production system
- B Producing a one-off job such as tailor-making a wedding dress
- C Making a large batch of hand-painted Easter Eggs
- D Making a small number of very expensive diamond rings

Answer

(1)

(b) Explain why this answer is correct:

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(3)

(Total 4 marks)

Q5

6. (a) A firm's marketing objective is to increase market share.

Which of the following is the firm's best strategy?

- A To find out where the company's products are on their Product Life Cycle
- B To increase the price of its price inelastic products
- C To introduce debt factoring
- D To push its products through a wider range of distribution channels

Answer

(1)

(b) Explain why this answer is correct:

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(3)

(Total 4 marks)

Q6

TOTAL FOR SECTION A: 24 MARKS

SECTION B

Answer ALL the questions in this section.

Evidence A

People strategy

Bob Stack, Chief Human Resources Officer of Cadbury Schweppes, explains the company's People Strategy.

Performance is about people and that is why we are committed to motivating, developing and rewarding our people. Our approach to people management takes into account the changing nature of the global workforce to enable more innovative and cost-effective ways of working.

In 2004, we launched our first global employee survey among a sample of 10,000 managers, to help us understand and measure their commitment and motivation. In 2005, we extended this survey to all colleagues, undertaking it in 44 languages. The response rate of 81% was outstanding and the results were strong. Over 90% of employees around the world are proud to work for Cadbury Schweppes, know what is expected of them in their jobs and constantly try to find ways of working better.

Top Strengths

Colleagues:

- ✓ are proud to work for Cadbury Schweppes
- ✓ know what is expected of them in their job
- ✓ constantly try and find better ways of doing things

Areas to focus on

Colleagues want:

- ✓ freedom and support to achieve full potential
- ✓ more frequent conversations about performance
- ✓ to be given the opportunity to support local community activities as part of their development

Figure 1

There are areas where we can improve. To help achieve this we have developed an innovative people management programme, called 'Passion for People', aimed at increasing our people managers' skills to improve the performance of the business. This programme will start rolling out during the course of 2006.

In 2006 our new annual staff bonus plan will provide the financial incentives to drive the business forward. Profit and working capital improvements have now been made part of our performance measures.

We track labour turnover, but we do not target a global rate. Rather, we aim to ensure turnover meets the needs of different parts of the business given the changes occurring at the local level.

7. Outline **two** ways in which Cadbury’s staff might achieve ‘working capital improvements’ (Evidence A, line 16).

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(Total 4 marks)

Q7

8. Cadbury’s profit performance might be boosted by the points identified as ‘Top Strengths’ of colleagues (see Figure 1).

Examine **two** ways in which this may occur:

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(Total 4 marks)

Q8

9. Cadbury's new staff policy emphasises profit, but cash may be more important than profit in the short term.

Analyse why.

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(Total 4 marks)

Q9

10. Cadbury makes sure to ‘track labour turnover’ (Evidence A, line 18).

(a) What is meant by the term ‘labour turnover’?

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(2)

(b) Voluntary labour turnover might be higher in one part of the Cadbury business than another.

Explain why:

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(4)

(Total 6 marks)

Q10

11. In recent years Cadbury has had problems with product quality. The company has a new training programme for managers called ‘Passion for People’.

To what extent might future product quality performance be affected by this new programme?

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(Total 6 marks)

Q11

12. Different stakeholders might feel differently about whether Cadbury should encourage employees ‘to support local community activities’.

Discuss why.

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(Total 8 marks)

Q12

***13.** 'Colleagues want' more freedom and support from their managers (see Figure 1). They also want more frequent conversations with them about performance.

Discuss whether this is more likely to be achieved in an organisation with a wide or a narrow span of control.

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Q13

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(Total 14 marks)

TOTAL FOR SECTION B: 46 MARKS

TOTAL FOR PAPER: 70 MARKS

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Section A

Answer ALL the questions in this section.

Write the letter of your chosen answer in the box and then explain your choice in the space provided.

You should spend 30 minutes on this section.

1. (a) Gillette use mass production techniques to produce their razors. This helps them to achieve economies of scale.

Economies of scale are most likely to:

- A decrease the workforce
- B decrease costs
- C decrease profitability
- D decrease average costs

Answer

(1)

- (b) Explain why this answer is correct:

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(3)

(Total 4 marks)

Q1

2. (a) Inflation is a problem for an economy because:

- A it encourages saving and reduces spending
- B it increases unemployment
- C it causes a loss of competitiveness
- D it makes people with loans worse off

Answer

(1)

(b) Explain why this answer is correct.

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(3)

Q2

(Total 4 marks)

3. (a) In an oligopolistic market, such as the banking market, which of the following would you **not** be likely to find?

- A Non-price competition
- B Several large firms dominating the market
- C Not many barriers to entry
- D Strong brand names

Answer

(1)

(b) Explain why this answer is correct:

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(3)

(Total 4 marks)

Q3

4. (a) The recessionary phase of the economic cycle will:

- A be bad for all businesses
- B increase the level of investment
- C cause employees to demand higher wages
- D result in an increase in stocks

Answer

(1)

(b) Explain why this answer is correct

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(3)

(Total 4 marks)

Q4

5. (a) In a 'long tail' which of the following is **not** likely to increase?

- A Consumer choice
- B Use of technology
- C Mainstream products
- D Number of suppliers

Answer

(1)

(b) Explain why this answer is correct:

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(3)

(Total 4 marks)

Q5

6. (a) Which of the following will **not** affect demand for a product?

- A A rise in incomes
- B A change in the price of a substitute
- C An increase in manufacturing costs
- D A successful advertising campaign

Answer

(1)

(b) Explain why this answer is correct:

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(3)

(Total 4 marks)

Q6

TOTAL FOR SECTION A: 24 MARKS

Section B

Answer ALL the questions in this section.

Evidence A

Fears of rate rise linger after strong January sales

Despite the slowdown in the economy, inflation increased slightly. The cost of supplies used by producers rose at their highest pace since September and the prices they charged for their finished products rose at their fastest pace since August. Increased retail sales in January have kept alive fears that another rise in interest rates could come as soon as this week. Total sales were up by 5.2%, the best figure since September and stronger than the average of 4.8% growth recorded last year. Online sales at Britain's biggest supermarket group Tesco's rose 30 per cent to over £150 million, adding to a general rise in internet sales among UK retailers.

(Source: adapted from *The Times*, article by Gabriel Rozenberg, 6 February 2007, and from *The Times*, article by Sarah Butler, 17 January 2007)

Evidence B

Organics affordable for all

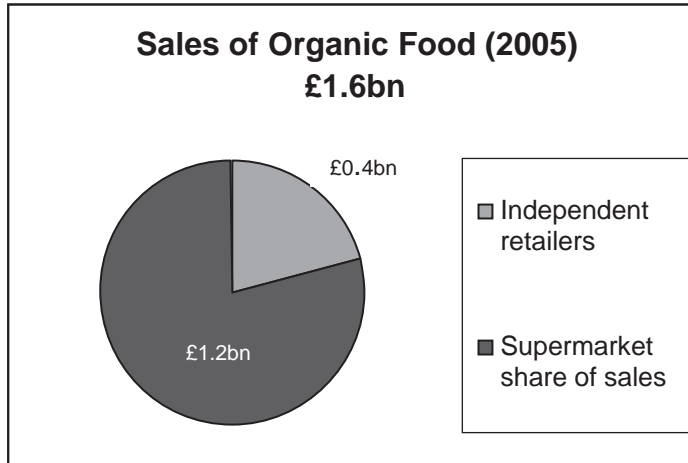
“Organic” refers to an earth-friendly way of farming and processing foods using no synthetic chemicals to control bugs or weeds. Organic food has traditionally attracted a premium price but it is no longer just for “rich people”, with half of those in lower socio-economic groups now buying it. Shoppers increasingly interested in quality, taste and healthy eating have found organic affordable.

Organic box schemes have taken off in a spectacular fashion since 2002. There are a number of different models but all are based around the central principle of delivering a box of fresh seasonal organic food for each subscribing household, either directly to the door or to a central drop-off point. Households can order the boxes over the telephone or via the website of the organic company which buys in the produce from farmers or growers. The last few years have also seen the development of dedicated organic shops selling a full range of exclusively organic products.

Major retailers are offering a wider range of organic produce to customers – for example, Marks and Spencer's has introduced special organic food sections. Sainsbury's and Waitrose both perform strongly in the organic food sector with a 27% and 17% market share respectively. Tesco's organic sales grew by 39% in 2006.

(Source: adapted from *The Grocer*, article by Gaelle Walker, 3 February 2007; adapted from *Organic Food – The Green Consumer Guide's Organic Food Section*, 'GM Ingredients', 28 February 2005)

Evidence C



(Source: adapted from *Daily Telegraph*, article by Charles Clover, 7 July 2006)

Read Evidence A, B and C carefully and answer the following questions.

7. What do you understand by ‘a slowdown in the economy’ (Evidence A, line 1)?

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(Total 4 marks)

Q7

8. (a) What is meant by the term 'inflation' (Evidence A, line 1)?

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(2)

(b) Inflation may be bad for businesses.

Give **one** possible reason why.

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(4)

(Total 6 marks)

Q8

9. Comment on the likely price elasticity of demand for organic food.

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(Total 4 marks)

Q9

10. Sales of organic food have increased.

Explain **two** possible reasons why.

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(Total 4 marks)

Q10

11. Examine the possible effects of increased competition in the market for organic food on:

(a) Consumers

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(4)

(b) Small independent businesses.

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(4)

(Total 8 marks)

Q11

12. A firm is planning to offer a new organic box scheme.

Explain how the firm might reduce uncertainty when it enters this market.

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(Total 6 marks)

Q12

***13.** Evaluate how a general rise in internet sales might affect:

(a) Consumers

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(7)

(b) Businesses.

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(7)

Q13

(Total 14 marks)

TOTAL FOR SECTION B: 46 MARKS

TOTAL FOR PAPER: 70 MARKS

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Centre No.						Paper Reference				Surname	Initial(s)	
Candidate No.							0	3	/	1	Signature	

Paper Reference(s)

6BS03/1 6EB03/1

Edexcel GCE

Business Studies/Economics and Business

Advanced

Unit 3: International Business

Sample Assessment Material

Time: 1 hour 30 minutes

Examiner's use only

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Team Leader's use only

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Question Number	Leave Blank
1	
2	
3	
4	
5	
6	
7	
8	
9	
Total	

Materials required for examination

You may use a calculator

Items included with question papers

Nil

Instructions to Candidates

In the boxes above, write your centre number, candidate number, the paper reference, your surname and initials, and your signature. The paper reference is shown above. If more than one paper reference is shown, you should write the reference of the paper for which you have been entered. Check that you have the correct question paper. Answer ALL the questions. Write your answers in the spaces provided in this question paper. Do not use pencil. Use blue or black ink.

Information for Candidates

The marks for individual questions and the parts of questions are shown in round brackets: e.g. (2). There are 9 questions in this question paper. The total mark for this paper is 80: 35 marks for Section A and 45 marks for Section B. There are 16 pages in this question paper. Any blank pages are indicated.

The same company has been used as a case study context in Unit 3 and Unit 4b (Economics and Business pathway) exam papers; this will not occur in future exam series in A2 papers.

Advice to Candidates

Quality of written communication will be taken into account in the marking of your answers in Section A, Question 4, and Section B, Questions 8 and 9. These questions are indicated with an asterisk. Quality of written communication includes clarity of expression, the structure and presentation of ideas and grammar, punctuation and spelling.

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N 3 2 8 3 8 A 0 1 1 6

Turn over



Section A

Answer ALL the questions in this section.

Evidence A

Why the big boys want the barriers to come down

From a financial point of view, the arguments for free trade are compelling. The removal of protectionist barriers would bring gains for all businesses; the World Bank estimates that free global trade will boost worldwide incomes by £350bn. Unilever, the manufacturer of fast-moving consumer brands ranging from Flora margarine and Dove soap to Lipton tea, says that global economic liberalisation would cut its costs and lead to healthier profits and higher returns for shareholders.

“For a company like Unilever, free trade is hugely important. We operate in 100 countries and have sales in another 50. The removal of barriers would make business more transparent and accountable”, says Miguel Pestana, vice-president at Unilever.

Formalised free trade rules would allow cross-border trade without tariffs or quotas on imports and exports, and allow the free movement of capital and labour between countries. This would lower the cost of production for global companies such as Unilever. Liberalisation would also lead to a simplification of the many trade-distorting policies and taxes that now exist to give domestic businesses an advantage over foreign ones in any given market.

UK executives from BP, Vodafone, GlaxoSmithKline, Reuters and Diageo have all called for barriers to free trade to be dropped. They believe that international investment, the spread of investment and millions of jobs are at stake. The executives do not want a “descent into protectionism” by governments across the world. The advantages of trade liberalisation are being undermined by the actions of many governments – in Europe and beyond – seeking to block free trade, thereby stifling the overseas ambitions of UK companies.

India is one country where protectionism is holding UK investment back. Total annual trade between the UK and India is £8bn, just 1 per cent of the UK’s overall global trade. Although this is growing at 20 per cent a year, it is still inadequate. “We should be doing far more”, says Lord Bilimoria, the founder of Cobra Beer and the chairman of the Indo-British Partnership Network.

Bilimoria says that the will exists for increased UK investment in India. However, the infrastructure is not yet in place and too much red tape exists.

(Source: adapted from *Daily Telegraph*, article by James Hall, 3 December 2006)

1. Briefly examine **two** protectionist measures which countries might adopt in order to restrict trade.

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(Total 6 marks)

Q1

2. Examine **two** reasons why countries might erect protectionist barriers.

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(Total 8 marks)

Q2

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Section B

Answer ALL the questions in this section.

Evidence A

Tesco takes over Chinese retailer in plan for world domination

Tesco has spent £180m to take control of Hymall, the Chinese supermarket chain. Ting Hsin, Tesco's joint venture partner, will retain 10 per cent. The deal will allow the group to accelerate its growth while continuing to benefit from Ting Hsin's local knowledge. Last year Tesco's international sales rose by 23 per cent to £9.2bn.

Over the last nine years Tesco has opened stores in 10 countries. The company will open its first store in America next year.

(Source: adapted from *Daily Telegraph*, article by Richard Fletcher, 13 December 2006)

Evidence B

Now store targets the Great Malls of China

Tesco has opened its first "own-brand" store in China, as part of its plan to conquer this vast new market. "Tesco" labels can be found on a wide range of products from noodles to fancy imports like baked beans. Despite this, the Beijing store is definitely tailored to eastern tastes.

"Chinese consumers like to touch and feel their products before they buy", said Greg Sage, a Tesco spokesman. Customers are able to prod the live turtle crawling inside the glass tank at the fish counter.

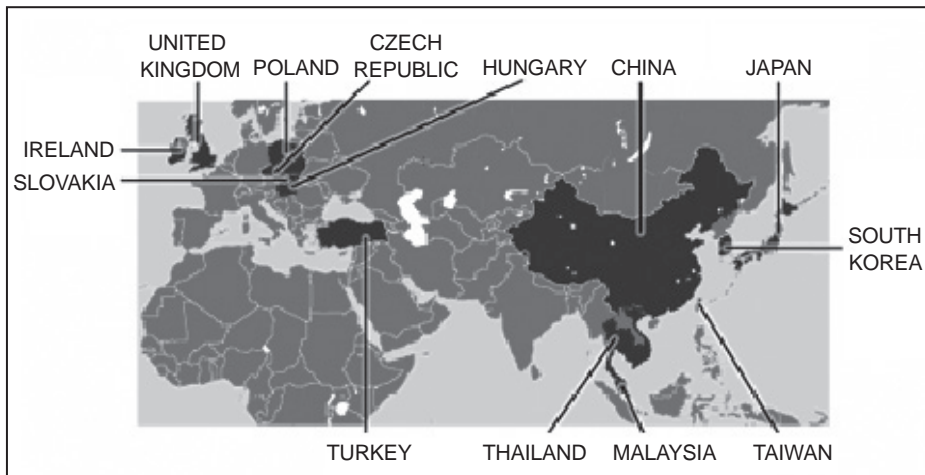
The potential market in China is large. There are now between 150 million and 400 million members of the middle class in China, mainly in the booming eastern cities.

Tesco wants to attract shoppers away from their traditional corner shops and street markets, and is pricing competitively, undercutting even local competitors.

The strategy appears to be paying off. The store was packed with long queues at stands with special offers, and many customers had already invested in Club Cards offering "saver points".

(Source: adapted from *Daily Telegraph*, article by Richard Spencer, 27 January 2007)

Evidence C



(Source: www.tesco.com, viewed 1 February 2007)

Since the mid-1990s Tesco has been operating in overseas markets, seeking out new opportunities for growth and ways of generating long term returns for shareholders. Tesco is committed to the principle of 'Act local, think global'. It seeks to adapt to the needs of local customers, local cultures, local supply chains and local regulations.

In Japan, customers like to shop for small amounts of extremely fresh food every day. The large scale hypermarket format does not suit customer needs so Tesco bought a chain of discount supermarkets. It sells local foods including whale meat in its stores.

As part of a strategic review Tesco has swapped stores in Taiwan with Carrefour for stores in Slovakia.

(Source: adapted from www.tesco.com)

Evidence D

Ninety-five per cent of the fruit and half of the vegetables in the UK are imported. The amount of food being flown into the UK doubled in the 1990s and is predicted to rise further each year. To take one example, strawberries are flown in from warmer climates to satisfy our desire for a permanent summertime diet, and air freight has a far bigger impact on the environment than sea or road travel has.

One reason for mounting food miles is comparative labour costs. For example, some British fish is now sent to China (where labour costs are much lower) for processing, then sent back to the UK to be sold.

(Source: adapted from Defra report on food miles)

5. Explain Tesco's reasons for 'acting local and thinking global'.

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(Total 6 marks)

Q5

6. Examine the factors which may have prompted Tesco to consider expanding its operations into foreign markets.

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(Total 6 marks)

Q6

7. Assess the implications of firms such as Tesco entering into joint ventures with local firms.

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(Total 8 marks)

Q7

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Q9

(Total 15 marks)

TOTAL FOR SECTION B: 45 MARKS

TOTAL FOR PAPER: 80 MARKS

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Section A

Read the following evidence carefully.

Using the evidence and your own knowledge, answer all six questions.

Time allowed (35 minutes).

Evidence A

Starbucks' mission statement is to establish the company "as the premier purveyor of the finest coffee in the world" while maintaining its guiding principles as it grows. These principles include to "produce social, environmental and economic benefits for the communities" in which it operates and to "recognise that profitability is essential" to its future success.

Starbucks believe that its strong ethical corporate culture helps it to succeed. An example of its approach to Corporate Social Responsibility is its purchasing policy adopted after a global downturn in 2001 of green (unroasted) coffee prices. Its policy includes paying premium prices to help coffee farmers make profits and support their families; offering coffee farmers long-term contracts; providing affordable loans to growers and investing in social development projects that support education, health and clean water in coffee producing countries. In fiscal year 2006, it also seemed to be achieving strong revenue growth, through opening a record number of new stores in the US and around the world and expansion of its product offerings.

(Source: Starbucks Corporate Social Responsibility Fiscal 2005 Annual Report.)

Evidence B

According to Oxfam, Starbucks used its influence on the National Coffee Association to block the application in the U.S. by the Ethiopian government for copyright to trademark its coffee brands, like Harar and Sidamo. Securing trademark rights to those names would mean a spectacular rise in Ethiopia's coffee revenues – a jump in the neighbourhood of \$88 million.

Right now, Starbucks says it's paying roughly \$1.23 for a pound of Ethiopian coffee, which it says is 23% above the real market price. Oxfam and Ethiopia point out that Starbucks and other coffee shops can sell that pound for as much as \$30. The Ethiopians believe that registering the trademark would allow coffee producers to charge about \$2 for a pound of coffee beans. Oxfam says that's a drop in the bucket for a company like Starbucks whose annual revenues are about 75% of Ethiopia's total GDP.

Starbucks has suggested to the Ethiopian government that it should use a certification programme instead of a trademark. They say that a trademark only identifies the manufacturer of a product whilst a certification mark informs consumers that the product comes from a particular geographical region and meets certain standards. This argument has been countered by Oxfam who have commented that "Starbucks works to protect its own name and brand vigorously throughout the world, so how can it justify denying Ethiopia the right to do the same".

(Source: Starbucks Corporation Financial Report 2005, Oxfam, London.)

1. What is meant by the term 'mission statement' (see Evidence A, line 1)?

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(Total 2 marks)

Q1

2. What is meant by the term 'corporate social responsibility' (see Evidence A, line 6)?

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(Total 3 marks)

Q2

3. Analyse **two** reasons why an ethical corporate culture may help Starbucks to succeed in the coffee market.

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(Total 6 marks)

Q3

4. Using Ansoff's Matrix, comment on why Starbucks' corporate strategy has enabled it to achieve sales growth in fiscal year 2006.

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(Total 4 marks)

Q4

5. Using information from Table 1:

Table 1 – Summary of 2005 Financial Results for Starbucks Corporation

Fiscal Year ended	October 2005	October 2004	October 2003
	(\$ millions)	(\$ millions)	(\$ millions)
Total Net Revenues	6,369	5,294	4,075
Operating Expenses	5,665	4,747	2,894
Operating Income	781	607	425
Net Profit after Tax & Interest	494	389	265

(Source: Starbucks Corporation Financial Accounts 2003 and 2005.)

(a) Calculate the net profit margin of Starbucks in 2003 and 2005.

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(4)

Fiscal Year ended	October 2005	October 2004	October 2003
US Stores	7,302	6,132	5,201
International Stores	2,939	2,437	2,024
Total	10,241	8,569	7,225

Table 2: Starbucks' Stores Open at Year End

(Source: Starbucks Corporation Financial Accounts 2003 and 2005.)

(b) What can you infer from the results of your calculations in (a) and from figures in Table 1 and Table 2 about Starbucks' financial performance?

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(4)

(Total 8 marks)

Q5

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6. Analyse the risks to Starbucks of permission being given in the US for the Ethiopian government to trademark its premium coffees.

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(Total 7 marks)

Q6

TOTAL FOR SECTION A: 30 MARKS

Section B

Decision making report

Read the following evidence carefully.

Using the evidence and your own knowledge, answer both parts of the question (total 50 marks).

Time allowed (55 minutes).

Decision Making Report: You're The 1

You're The 1 fashion stores is Britain's biggest and most successful chain. By getting its supplies from the Far East it buys cheaply and can then sell cheaply. On July 1st 2005 the business transferred its customer service operations to India. So a customer phone call to the Brighton branch is answered in Bangalore.

Now *You're The 1*'s new Managing Director wants to reconsider this approach. She has hired you, a management consultant, to:

- *7a. Examine the advantages and disadvantages of keeping customer services in India. (20)**
- *7b. Provide conclusions and key recommendations on whether the chain's customer services should be moved back to Britain. (30)**

Use the data in the following Appendices to help develop your thoughts. Your analysis of the situation may be helped by making some calculations.

Appendix A: *You're The 1* Trading Position. Source: company report and accounts

Year to June 30th	Sales revenue (£millions)	Operating Profit (£ms)	Operating Margin (%)	Like-for-like* sales growth
2007	£480	£47	9.8	5.1
2006	£432	£44	10.2	7.2
2005	£384	£36	9.4	10.4
2004	£312	£24	7.7	12.3
2003	£225	£16	7.1	13.4

*The % increase in sales in the last year, excluding new stores and store expansions

Appendix B: You're The 1 Call centre staffing. Source: internal company documents

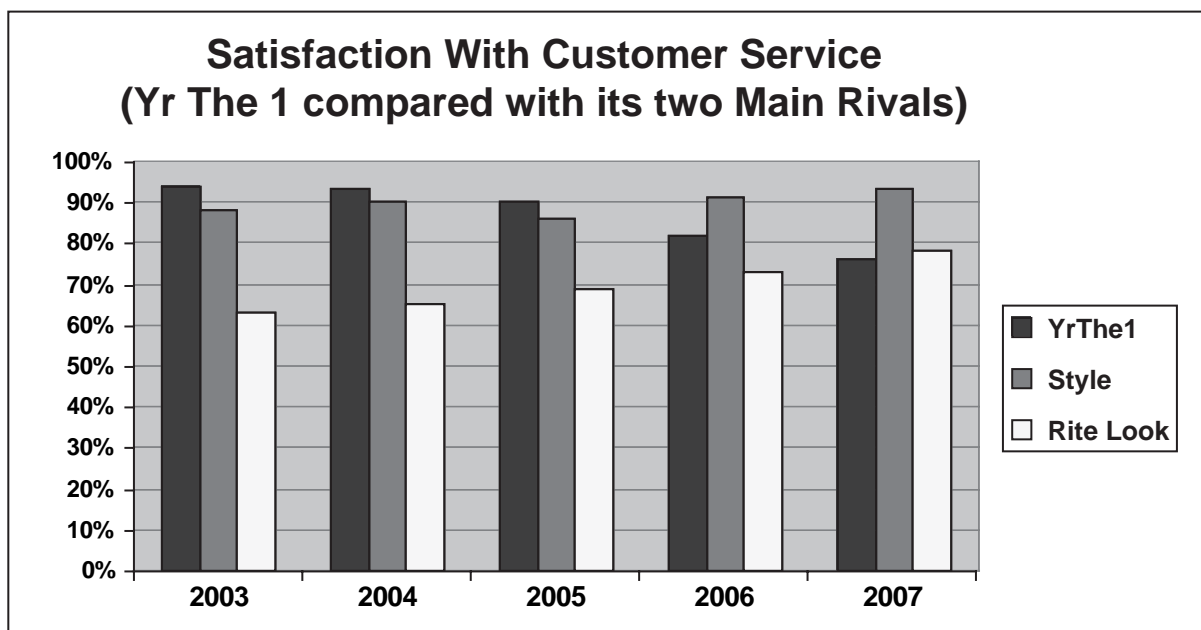
	Year to June 30th		
	2003	2005	2007
Productivity (calls per hour)	21.5	24.2	19.6
Wages per hour	£5.20	£5.70	£0.80
% of callers satisfied with call	88.50%	79.40%	72.90%
Call centre labour turnover	26%	37%	31%

Appendix C: Investment Appraisal Calculations (and actual outcomes)*

	Pay-back	Average Rate of return	Net Present Value (of DCF)
2004/05 Investment Appraisal calculations regarding move to India	11 months	48%	+£1,640,000
March 2007 calculations of actual results of call centre move to India	2.25yrs	7.1%	+£42,400

*These figures are highly confidential and are not for general release within the business

Appendix D: Customer Satisfaction Ratings compared with two main competitors



Appendix E.

A. Projections For Returning the Call Centre to the UK (in January 2008)

	2008	2009	2010	2011
Investment Outlay (£ms)	(5.5)	-	-	-
Net cash flows (£ms)	+1.0	+1.5	+1.5	+1.5
Customer satisfaction rating	77%	81%	85%	90%

B. Financial Situation forecast for Half-year ending December 31st 2007

	2007	2006
Current Ratio	0.91	0.94
Acid test ratio	0.42	0.44
Gearing ratio	44.8%	47.6%

*7. (a) Examine the advantages and disadvantages of keeping customer services in India.

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*(b) Provide conclusions and key recommendations on whether the chain's customer services should be moved back to Britain.

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(30)

Q7

(Total 50 marks)

TOTAL FOR SECTION B: 50 MARKS

TOTAL FOR PAPER: 80 MARKS

END

Section A

Decision making report.

Read the following evidence carefully.

Using the evidence and your own knowledge, answer all six questions (total 30 marks).

Time allowed (35 minutes).

Evidence A

Watchdog probes supermarkets 'stranglehold'

A major inquiry into the grocery sector said today that it was looking at whether Tesco and other supermarkets stifled competition by creating strangleholds in local communities. The Competition Commission said it was "concerned with whether Tesco, with 31% market share, or any other supermarket, can get into such a strong position, either nationally or locally, that no other retailer can compete effectively". The Commission said it needed to look at the level of consumer sovereignty and the choices shoppers have in particular areas and how competition works between retailers of different sizes.

(Source: adapted from www.independent.co.uk/incoming/article2178162.ece,
article by Graeme Evans, 23 January 2007)

Evidence B

Tesco hits back at critics with new public relations offensive

The supermarket group, which takes 30 per cent of everything spent on UK groceries, has attacked claims that it stifles consumer choice, forces independent shops out of business, bullies suppliers and destroys town centres. In response to assertions that supermarkets are unable to deliver innovation or consumer choice, Tesco pointed to 8,000 new lines it introduced from 300 new suppliers. These included the Welsh Whisky Company, which doubled its staff to 20 after supplying 11,000 bottles to Tesco last year. The supermarket chain is opening five regional buying offices to help fledgling food producers, such as the Cornish-based Incredible Fruitcake Company, to access its shelves.

(Source: adapted from www.spinwatch.org/content/view/3884/9/,
article by Susie Measure, 28 December 2006)

1. What is meant by the term 'consumer choice' (Evidence B, Line 2)?

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Q1

(Total 2 marks)

2. Explain what market failure means.

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Q2

(Total 3 marks)

3. Explain what 'consumer sovereignty' (Evidence A, Line 6) means.

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Q3

(Total 3 marks)

4. What is the role of the Competition Commission in protecting the consumer?

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(Total 4 marks)

Q4

5. Why might Tesco's power be seen as an example of market failure?

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(Total 4 marks)

Q5

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6. Evaluate the effects of Tesco’s growing market share on:

(a) Consumers

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(b) Suppliers.

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(7)

(Total 14 marks)

Q6

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TOTAL FOR SECTION A: 30 MARKS

Section B

Decision making report.

Read the following evidence carefully.

Using the evidence and your own knowledge, answer both parts of the question.

Time allowed (55 minutes).

Evidence A

The economic costs of road traffic congestion

Congestion in the UK is worse than many, perhaps most, other European countries. More important, it is getting worse. Current official forecasts imply that congestion will be substantially worse by the end of this decade. This is because road traffic is growing faster than road capacity. The effect, using the current Government method of measuring congestion costs, would be that the annual cost of £20 billion would increase to £30 billion by 2010.

Savings worth £4–£6 billion a year could be made by congestion charging alone. Alternatively an appropriate package of alternative measures could be used: priority lanes and signalling; switching to other modes including freight to rail and passenger movements to public transport, walking and cycling; ‘soft’ policies to encourage reduced travel by car; land-use patterns which reduce unnecessary travel. The combined effects of road charging and a supportive set of complementary measures represent the best that could be reasonably achieved in the short to medium run. This could reduce congestion costs (as distinct from slowing down their increase) by 40%–50%.

(Source: adapted from Phil Goodwin, Professor of Road Transport Policy, Discussion paper published by the Rail Freight Group, May 2004)

Evidence B

Living near a motorway damages children’s lungs, research reveals

‘Bombshell’ US study fuels call for action on car fumes.
Reduced lung growth found in 10–18 year olds.

New fears of the harmful effects of traffic emissions are raised today in a major study linking motorway pollution with permanent and life-limiting damage to children’s lungs. People who live within 500 metres of a motorway grow up with significantly reduced lung capacity, and even children who have never experienced asthma are at risk, scientists warn.

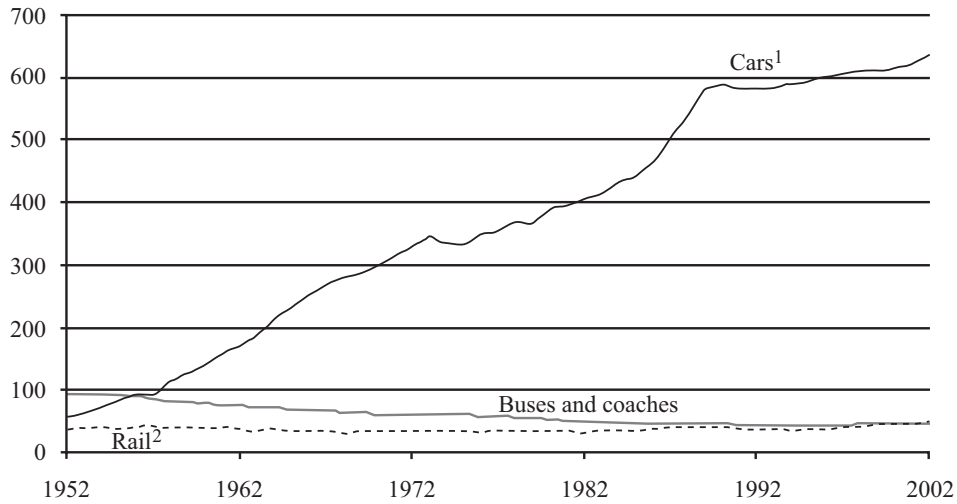
(Source: adapted from *The Guardian*, article by Polly Curtis, 26 January 2007)

Evidence C

Passenger travel by mode

Great Britain

Billion passenger kilometres



1 Includes vans and taxis.

2 National rail, urban metros and modern trams.

(Source: Department for Transport)

*7. (a) Examine the social costs and benefits that result from increasing road use.

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***(b)** Evaluate the use of road pricing and one other policy option to reduce road congestion.

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Q7

(Total 50 marks)

TOTAL FOR SECTION B: 50 MARKS

TOTAL FOR PAPER: 80 MARKS

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C Sample mark schemes

General marking guidance	105
Unit 1: Developing New Business Ideas	107
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Unit 2B: Business Economics	123
Unit 3: International Business	131
Unit 4A: Making Business Decisions	141
Unit 4B: The Wider Economic Environment and Business	151

General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.
- The requirement to define business terms is implicit within the questions and marks are awarded for this.
- Please note that the same company has been used as a case study context in Unit 3 and Unit 4b (Economics and Business pathway). The use of the same company in different A2 exam papers will not occur in future exam series.
- Mark schemes will indicate within the table where, and which strands of QWC, are being assessed. The strands are as follows:
 - i) ensure that text is legible and that spelling, punctuation and grammar are accurate so that meaning is clear
 - ii) select and use a form and style of writing appropriate to purpose and to complex subject matter
 - iii) organise information clearly and coherently, using specialist vocabulary when appropriate

Unit 1: Developing New Business Ideas

Question Number	Question	
1.(a)	<p>BT is conducting a product trial on its 'broadband-in-a-box'. BT hopes that its product will make it much easier to sign up to and start using fast internet access.</p> <p>What is a product trial?</p> <p>A Judging a product in relation to the market leader</p> <p>B Legal action taken when a product fails to meet appropriate standards</p> <p>C Initial product testing as part of Research and Development</p> <p>D Test marketing a product to assess consumer reaction and identify possible problems</p>	
	Answer	Mark
	D	(1)

Question Number	Question	
1.(b)	BT wants to conduct a product trial on its "broadband-in-a-box". Explain why.	
	Answer	Mark
	<p>A product trial is necessary with new products to assess consumer reaction and identify potential problems (Knowledge 1 mark).</p> <p>Explanation of why test marketing is used by firms in order to reduce the risk of failure (Application 1 - 2 marks).</p> <p>OR</p> <p>A product trial may be conducted in order to ensure that the product is market orientated (Application 1 - 2 marks).</p> <p>Also award marks for other suitable responses.</p>	(3)

Question Number	Question	
2.(a)	<p>Fashion retailer Ted Baker had rising sales and profits in the half-year ending August 2006. Revenue was £61.1m (up 6.9%), gross profit was £34.5m (up 6.0%) and operating profit £7.0m (up 12.6%).</p> <p>Calculate Ted Baker's gross profit margin in the half-year ending August 2006.</p> <p>A 77.1%</p> <p>B 56.5%</p> <p>C 6.0%</p> <p>D 11.5%</p>	
	Answer	Mark
	B	(1)

Question Number	Question	
2.(b)	Show your calculation of the gross profit margin below (show all your workings).	
	Answer	Mark
	<p>Gives formula only (Gross profit margin/revenue x 100) (Knowledge 1)</p> <p>Puts correct figures into formula: £34.5m/£61.1m x 100 (Application 1 mark)</p> <p>Calculates correct answer= 56.5% (Application 1 mark)</p>	(3)

Question Number	Question	
3.(a)	<p>Court Lodge Organics has developed a profitable niche market selling drinking yoghurt.</p> <p>Which of the following statements about niche markets is not true?</p> <p>A Firms in niche markets will not have much competition B Consumers in niche markets may not have the same tastes and preferences as the mass market C Prices are usually lower in niche markets D Quality and reliability are less important in niche markets</p>	
	Answer	Mark
	C	(1)

Question Number	Question	
3.(b)	<p>Firms such as Court Lodge Organics may wish to target niche markets. Explain why.</p>	
	Answer	Mark
	<p>Definition of niche markets eg, focused subset of a market, not being addressed by mainstream companies (Knowledge 1 mark). Identification that consumers in this market sector may be prepared to pay more for Court Lodge Organics (Application 1 mark). The market may not be catered for at present (Application 1 mark). Also award marks for other suitable responses.</p>	(3)

Question Number	Question	
4.(a)	<p>European aircraft maker Airbus now says it needs to sell 420 not 270 A380 superjumbo jets in order to break-even.</p> <p>In order to calculate a firm's break-even point, which of the following do you not need to know?</p> <p>A Fixed costs B Variable costs C The margin of safety D The selling price</p>	
	Answer	Mark
	C	(1)

Question Number	Question	
4.(b)	<p>It may take companies longer to break-even than first thought. Give one possible reason why.</p>	
	Answer	Mark
	<p>Definition of break-even eg, total fixed costs/contribution per unit (Knowledge 1 mark). Explanation that: the breakeven point may change as a result of an increase in variable costs/development costs (Application 1-2 marks). OR The company may have been forced to reduce its selling price in order to make its product competitive (Application 1-2 marks). Also award marks for other suitable responses.</p>	(3)

Question Number	Question	
5.(a)	Ryanair sold tickets for a flight to Ireland for £1.99. The increase in environmental tax meant that the final price charged to passengers was £26.45. How might this increase in taxes affect Ryanair? A Ryanair would make more profit B Ryanair would have rising costs C Customers would fly to different destinations D Ryanair might see a reduction in the number of passengers	
	Answer	Mark
	D	(1)

Question Number	Question	
5.(b)	Ryanair decided to price tickets at £1.99 not at £2.00. Explain why.	
	Answer	Mark
	Recognition that a lower price may lead to increased demand (Knowledge 1 mark). Understanding that Ryanair is using psychological pricing and that they are trying to create a perception that the tickets are cheaper by remaining below the psychological price barrier (Application 1-2 marks). Also award marks for other suitable responses.	(3)

Question Number	Question	
6.(a)	Number Eleven, Cadogan Gardens is a luxurious 65-room townhouse hotel, just off Sloane Square. It offers debentures to its investors. One way of financing a business is to issue a debenture. Which of the following statements about debentures is true? A A debenture may be secured against the company's assets B Debentures pay a variable rate of interest to the lender C Debentures can be repaid over an unspecified period of time D Debentures are often used by sole traders	
	Answer	Mark
	A	(1)

Question Number	Question	
6.(b)	Firms may offer debentures rather than use other types of borrowing. Explain why.	
	Answer	Mark
	Definition of a debenture eg, a type of long-term loan taken out by a company which agrees to repay it at a specified future date (Knowledge 1 mark). Identification of: a reason why a business organisation would choose to use a debenture eg, they don't have to sell shares in the company or potentially dilute control of the company (Application 1-2 marks). OR a reason why other types of loan may be unsuitable (Application 1-2 marks). Also award marks for other suitable responses.	(3)

Question Number	Question	
7.(a)	Business Data Consulting conducts primary research to help companies make important decisions and get the best from their trading relationships in overseas markets. Which of the following is not an example of primary research? A Talking to retailers B In-depth interviews with customers C Using market intelligence reports D Consumer questionnaires	
	Answer	Mark
	C	(1)

Question Number	Question	
7.(b)	Secondary research can also be a useful source of research information for companies. Explain why.	
	Answer	Mark
	Definition of secondary research eg, published data that has already been collected for another purpose (Knowledge 1 mark). Explanation that secondary data can be used for identification of potential market size; demand; competition etc. (Application 1-2 marks). Or secondary data can be used to help companies identify potential question areas for primary research (Application 1 mark). Also award marks for other suitable responses.	(3)

Question Number	Question	
8.(a)	The Scottish Executive has stated that farmers in Scotland now produce enough organic food to meet 70% of consumer demand for home-grown products. Which of the following factors is least likely to affect consumer demand? A The cost to produce B The number of potential consumers C The retail price D Tastes and preferences	
	Answer	Mark
	A	(1)

Question Number	Question	
8.(b)	Explain why this factor is least likely to affect consumer demand?	
	Answer	Mark
	Definition of consumer demand eg, personal consumption (Knowledge 1 mark). Identification that 'the cost to produce' affects supply in the short-term, not demand. (Application 1 mark). Identification that a change in the costs of production eg lower costs through increased production, could lead to an increase in supply (a shift in the supply curve to the right) (Application 1 mark). Also award marks for other suitable responses.	(3)

Question Number	Question	
9.(a)	It was a good idea for the founders of Innocent Drinks to undertake market research at a music festival, before giving up their 'day jobs'. Briefly explain two reasons why.	
	Answer	Mark
	<p>Knowledge 1, Application 1, Analysis 4</p> <p>Market research at the music festival is an example of primary research (Knowledge 1 mark). The advantage of this method is that information can be gathered from the potential target market for that product (Analysis 1 mark). Research at the festival ensured immediate feedback (Application 1 mark) and the use of 'yes' and 'no' bins for empty bottles (Application 1 mark) was a relatively low cost strategy (Analysis 1 mark). The approach also has the potential to build relationships with potential customers (Analysis 1 mark).</p> <p>Candidates identify and explain two reasons why it was appropriate to undertake the research at a music festival: Two reasons needed for full marks. Apply the descriptor below for both reasons: (3+3 marks)</p> <p>Response demonstrates an awareness of the benefits of undertaking market research at a music festival. Answers should be in context to gain full marks (2-3 marks).</p> <p>Basic knowledge of market research is offered (1 mark).</p>	(6)

Question Number	Question	
9.(b)	Examine one way that Innocent Drinks has achieved competitive advantage.	
	Answer	Mark
	<p>Knowledge 1, Application 1, Analysis 2</p> <p>Competitive advantage may be achieved in a number of ways: by adding value, innovation or by building relationships with customers, employees and other businesses.</p> <p>Apply the descriptor below for full marks: (2+2). Definition of competitive advantage (Knowledge 1 mark). Answer is in context (Application 1 mark). Response demonstrates an awareness of the benefit(s) of undertaking the action to gain competitive advantage (Analysis 2 marks).</p>	(4)

Question Number	Question	
9.(c)	The founders of Innocent Drinks gave up well-paid jobs to launch their new business. Assess the possible reasons why.	
	Indicative content	
	Knowledge 1, Application 1, Analysis 2, Evaluation 4 This question focuses on the motives and rewards of entrepreneurs. A variety of responses is acceptable. Look for development of sound reasoning. Motives may include the desire to make a profit or personal satisfaction.	
Level	Mark	Descriptor
Level 1	1-2	Simple comments on possible motives may be offered, possibly buried under extraneous material.
Level 2	3-4	Candidates address one point well, or two points poorly. Answers may not be fully developed. Answers may not be fully linked to Innocent Drinks, or are 'common sense' type answers that do not fully utilise the toolkit. (The "toolkit" refers to the concepts, theories and techniques which form the knowledge base for this subject.)
Level 3	5-6	Candidates demonstrate a clear grasp of the arguments for self-employment. Arguments will show an understanding of at least two reasons why entrepreneurs start up businesses. Answers show some analysis, linked to Innocent Drinks and a degree of development.
Level 4	7-8	Logical and balanced analysis of the reasons for giving up paid employment in order to start a new business. Look for at least two possible motives for entrepreneurship. In order to access this level, candidates must demonstrate a clear analytical element, linked to Innocent Drinks and some attempt to assess the risks they have taken, or possibly, the different strengths of the motives in this case.

Question Number	Question	
9.(d)	Assess the implications of using only retained profit in order to fund growth.	
	Indicative content	
	<p>Knowledge 1, Application 1, Analysis 2, Evaluation 4</p> <p>Candidates are expected to examine the trade-offs of relying on profit to grow a business. The question requires candidates to offer analysis and evaluation relevant to the question. An appreciation of the trade-offs will be the minimum required to gain credit for this question. Candidates should be able to recognise that sourcing finance from outside of the business has potential benefits - accelerated growth. It also has a downside, principally the loss of control and the increased burden of debt which may, in a worst case scenario, threaten the very survival of the business.</p> <p>Reliance on retained profit does mean that the company remains unburdened by debt and may be able to obtain finance should a sudden shock force the company to raise additional capital. It also means that all profit can be directed back into the business or shared amongst the owners. Conversely, failure to grow rapidly may make the company a target for takeovers. Implications of retained profit on dividends and share price may be considered.</p>	
Level	Mark	Descriptor
Level 1	1-2	Simple insights are offered with limited contextualisation.
Level 2	3-4	Expect to see application of knowledge relevant to the question. Some possible analysis may be offered which lacks substantiation or balance - one trade-off may be done well.
Level 3	5-6	A reasonable grasp of at least two of the issues is demonstrated, with some development of the issues. Some simple judgements or conclusions will be provided.
Level 4	7-8	Candidates offer a logical and balanced examination of at least two trade-offs associated with relying upon retained profit to grow a business, offering clear and balanced analysis and evaluation of possible consequences.

Question Number	Question	
9.(e) QWC i-iii	Evaluate the significance of Innocent Drinks' attempts to build relationships with two different stakeholder groups in contributing to the company's success.	
	Indicative content	
	<p>Knowledge 1, Application 1, Analysis 4, Evaluation 6</p> <p>Building relationships with stakeholders offers the company a range of benefits. Firstly, the company may increase brand loyalty by building a relationship with customers. This may help the firm to increase market share and profit margins.</p> <p>Building relationships with suppliers may secure supplies and the quality of supplies. Candidates may be given credit for assessing the importance of relationships with different stakeholder groups.</p>	
Level	Mark	Descriptor
Level 1	1-2	<p>Simple statements about stakeholders are offered. There may be some confusion with the term "shareholder".</p> <p>Written communication may be poor with frequent errors in spelling, punctuation and grammar and/or a weak style and structure of writing. There may be problems with the legibility of the text.</p>
Level 2	3-6	<p>Generalised points are made about two stakeholders or a good explanation of the benefits for the company of building relationships with one stakeholder.</p> <p>Low Level 2: 3- 4 marks Response may be partial or demonstrate confused understanding.</p> <p>High Level 2: 5 - 6 marks Some relevant conclusions are offered but arguments may not be closely linked to answering the question.</p> <p>Some business terminology may be used but the style of writing could be better/ there may be some errors in spelling, punctuation and grammar/ the legibility of the text could have been better in places.</p>
Level 3	7-9	<p>Candidates show a reasonable understanding as to why Innocent would wish to develop relationships with at least two stakeholders. Examples should be appropriate. Evaluation may be limited at this level but do expect to see a good level of analysis linked to the case study.</p> <p>Candidates will use business terminology quite well/style of writing is appropriate to the question/reasonable to good spelling, punctuation and grammar.</p>
Level 4	10-12	<p>Expect to see two stakeholder groups identified. Responses should demonstrate awareness of Innocent's motives. Reward appropriate analysis and considered evaluation - for example, how important is brand loyalty to a small firm such as Innocent or how important is it to them to have continuity of supply? Strong responses may challenge the theory.</p> <p>Candidates will use business terminology precisely and effectively/organise their answer to provide a coherent and fluent response/good to excellent spelling, punctuation and grammar.</p>

Unit 2A: Managing the Business

Question Number	Question	
1.(a)	A product's price elasticity is most likely to be high when it: A is very different from its competition B has been backed by heavy TV advertising C has a similar design to its rivals D is the best-known brand in the market	
	Answer	Mark
	C	(1)

Question Number	Question	
1.(b)	Explain why this answer is correct.	
	Answer	Mark
	High price elasticity occurs when there is little differentiation between products (Knowledge 1 mark), ie the consumer is happy to substitute one for another (Application 1 mark). If products have a similar design (eg 330ml cans of lager) it is easier to see them as direct substitutes (Application 1 mark). Therefore their price elasticity will be higher. Also award marks for other suitable responses.	(3)

Question Number	Question	
2.(a)	The Boston Matrix would particularly help a business with: A a fall in sales across its whole product range B a wide product portfolio that needs careful management C only one product with fast rising sales D problems in finding the right distribution channels	
	Answer	Mark
	B	(1)

Question Number	Question	
2.(b)	Explain why this answer is correct.	
	Answer	Mark
	The Boston Matrix is a way of analysing the current and possible future position of a range of products owned by a business (Knowledge 1 mark). Its purpose is to help in making decisions about future priorities and budgets (Application 1 mark). Therefore it is useful for a firm with a wide portfolio that needs to assess how to manage its products in relation to one another (Application 1 mark). Also award marks for other suitable responses.	(3)

Question Number	Question	
3.(a)	During weeks 1 and 2, which one of the following would be happening? A Stock levels would be rising B Staffing levels would be reduced C A move to Just In Time production D Stock levels would be falling	
	Answer	Mark
	D	(1)

Question Number	Question	
3.(b)	Explain why this answer is correct.	
	Answer	Mark
	In weeks 1 and 2, sales are significantly higher than production (Knowledge 1 mark). Therefore more stock is being sent out to customers than is being replaced by extra output (Application 1 mark). Therefore at this time stock levels would be falling (Application 1 mark). Also award marks for other suitable responses.	(3)

Question Number	Question	
4.(a)	Look again at the graph. Which one of the following statements is true? A The firm's maximum capacity is 75 000 units per week B The firm's capacity was under-utilised in weeks 10 to 13 C The firm seems very efficient at sales forecasting D The firm will be worried about low stock levels by week 10	
	Answer	Mark
	B	(1)

Question Number	Question	
4.(b)	Explain why this answer is correct.	
	Answer	Mark
	In weeks 10 to 13 the production level falls to 50,000, which is 62.5% of the 80,000 capacity (Knowledge 1 mark). That means the factory is 37.5% underutilised (Application 1 mark) This is the only stretch of time in which this occurs, so it is true to say the capacity was underutilised in weeks 10 to 13 (Application 1 mark). Also award marks for other suitable responses.	(3)

Question Number	Question	
5.(a)	Which of the following production methods is capital intensive? A An expensively automated, mass production system B Producing a one-off job such as tailor-making a wedding dress C Making a large batch of hand-painted Easter Eggs D Making a small number of very expensive diamond rings	
	Answer	Mark
	A	(1)

Question Number	Question	
5.(b)	Explain why this answer is correct.	
	Answer	Mark
	Capital intensive means that production is largely based on machinery rather than labour (Knowledge 1 mark). The capital investment has been high, and the costs represent a high proportion of the total production costs (whereas labour costs per unit are quite low) (Application 1 mark). The best example of a capital intensive method is 'an expensively automated mass production system' (Application 1 mark). Also award marks for other suitable responses.	(3)

Question Number	Question	
6.(a)	A firm's marketing objective is to increase market share. Which of the following is the firm's best strategy? A To find out where the company's products are on their Product Life Cycle B To increase the price of its price inelastic products C To introduce debt factoring D To push its products through a wider range of distribution channels	
	Answer	Mark
	D	(1)

Question Number	Question	
6.(b)	Explain why this answer is correct.	
	Answer	Mark
	Increasing market share requires sales to rise faster than for the market as a whole (Knowledge 1 mark). Using more distribution routes to market is an expensive process, eg establishing and advertising a new e-commerce site (Application 1 mark). Nevertheless it gives a significant opportunity to build market share in a strategic (medium-long term) way (Application 1 mark). Also award marks for other suitable responses.	(3)

Question Number	Question	
7.	Outline two ways in which Cadbury's staff might achieve 'working capital improvements'.	
	Answer	Mark
	<p>Knowledge 2, Application 2</p> <p>Knowledge (up to 2 marks)</p> <ul style="list-style-type: none"> • Definition is unclear (limited or no use of business terminology) (1 mark). • Clear definition of working capital using appropriate business terminology, eg funds left over to meet day-to-day expenses after current debts have been paid (2 marks). <p>Application (1 mark for outlining 1 way in which improvements may be made; 2 marks for 2 ways):</p> <ul style="list-style-type: none"> • Find ways to cut stocks of cocoa, sugar (or finished goods), thereby lowering working capital commitments • Reduce debtor periods, perhaps by persuading sweetshops to pay instantly, by debit card • Increase creditor time, though taking care not to get attacked in the press for exploiting developing country suppliers 	(4)

Question Number	Question	
8.	Cadbury's profit performance might be boosted by the points identified as 'Top Strengths' of colleagues (see Figure 1). Examine two ways in which this might occur.	
	Indicative content	
	Knowledge 2, Analysis 2 Pride in the business might help in stimulating higher motivation perhaps then leading to improved productivity or better quality output; these outcomes would all help profits. Trying to find better ways of doing things is the key to long term success; if it can come from the workforce it not only means the ideas have a strong practical base, but also that staff will embrace them if and when they're implemented.	
Level	Mark	Descriptor
Level 1	1	Candidates are able to explain one way in which profit performance may be boosted. No analysis is present.
Level 2	2-3	At least two ways explained. Use of analysis is limited or reasonable.
Level 3	4	At least two ways explained and linked to boosting profit performance. The ideas will be expressed fluently.

Question Number	Question	
9.	Cadbury's new staff policy emphasises profit, but cash may be more important than profit in the short term. Analyse why.	
	Indicative content	
	Knowledge 1, Application 1, Analysis 2 Profit is the longer term effect of a financial decision or action, eg the FA's opening of the new Wembley Stadium. Cash flow is the day-to-day net cash position, eg the huge deficits on Wembley during 2005-2007. Cadburys is such a large company operating in many overseas countries, that cash flow should rarely be a problem, but it does still need to keep an eye on its cash flow, especially in the UK in the light of recent salmonella contamination scares with 7 own brand chocolate products and the anti-obesity lobby. A potential lowering of demand means less cash income and therefore a possible need to cut costs.	
Level	Mark	Descriptor
Level 1	1	Limited understanding of the difference between cash and profit is evident.
Level 2	2-3	Application of and limited analysis of why cash may be more important than profit to Cadbury in the short run.
Level 3	4	Analysis of why cash may be more important than profit to Cadbury in the short run.

Question Number	Question	
10. (a)	Cadbury makes sure to 'track labour turnover'. What is meant by the term 'labour turnover'? (2)	
	Answer	Mark
	Knowledge 2 Knowledge (up to 2 marks): <ul style="list-style-type: none"> • Unclear definition (1 mark) • Definition of labour turnover, eg the number of people who leave a business over a period of time as a percentage of the number of people employed. 	(2)

Question Number	Question	
10. (b)	Cadbury makes sure to 'track labour turnover'. Voluntary labour turnover might be higher in one part of the Cadbury business than another. Explain why.	
	Indicative content	
	Knowledge 2, Application 2 Voluntary labour turnover will be higher wherever there is a style of management that is out of step with the traditions and stated ethos of the business. If, in one department, a manager is taking a firm, authoritarian stance, this may alienate certain staff, perhaps causing them to leave. The 2006 annual bonus plan may have caused a great deal of disharmony. In departments where there seem no prospects of getting the bonus, motivation may suffer.	
Level	Mark	Descriptor
Level 1	1	Some understanding of labour turnover is evident but with no development as to why it might be higher in one part of the Cadbury business than another.
Level 2	2-3	Relevant reasons given as to why voluntary turnover may be higher in one part of the Cadbury business than another. If only one reason is given, with limited development of why it is higher in one part of the business than another, award 2 marks.
Level 3	4	Clear and accurate explanation with use of correct terminology to apply relevant issues to the case.

Question Number	Question	
11.	In recent years Cadbury has had problems with product quality. The company has new training programme for managers called 'Passion for People'. To what extent might future product quality performance be affected by this new training programme?	
	Indicative content	
	Analysis 2, Evaluation 4 A sceptic would suggest that managers who need a course entitled 'Passion for People' have none. Therefore it may not move the business forward. Let us hope, though, that the course encourages managers to really try to get the best out of their staff; as long as a focus is kept on quality, motivated staff should take the initiatives to prevent quality failures and be able to think of ways to improve the customer experience.	
Level	Mark	Descriptor
Level 1	1-2	Some understanding of how a people management programme might help improve future quality performance is evident but with little development and no evaluation as to why it may improve performance.
Level 2	3-4	Analysis of possible reasons as to why quality performance may or may not improve. One or possibly two undeveloped conclusions as a result of analysis.
Level 3	5-6	Correct use of terminology and toolkit to analyse why performance may or may not improve. One or two developed conclusions given on the extent to which quality performance may be affected by the new management programme. Evaluation may be throughout the answer.

Question Number	Question	
12.	Different stakeholders might feel differently about whether Cadbury should encourage employees 'to support local community activities'. Discuss why.	
	Indicative content	
	Application 2, Analysis 4, Evaluation 2 Managers might see this as a clever way to gather favourable publicity (might be skin deep) or it may be a genuine attempt to 'put something back'. Staff may resent the paternalism implied by this initiative; or it may become part of a rich culture based upon a family-feeling within the staff. Shareholders may appreciate the PR value of such as initiative, but will not be tolerant if there is any negative effect on profit. There is no prescriptive response, credit any logical arguments.	
Level	Mark	Descriptor
Level 1	1-2	Candidates are able to identify differences between stakeholders, points will be applied. Possibly only one strand of thinking (award 1 mark).
Level 2	3-6	Knowledge of the likely differences between stakeholders is evident and use of analytical theory to analyse the potential differences is limited at the lower end of the mark band and more developed at the higher end of the mark band.
Level 3	7-8	Clear understanding of the likely differences in feelings of stakeholders. Two or more well applied and developed strands. Answers are clear and make good use of terminology and analysis. Judgement shown in discussing the issues raised, reaching a balanced conclusion.

Question Number	Question	
13. QWC i-iii	'Colleagues want' more freedom and support from their managers (see Figure 1). They also want more frequent conversations with them about performance. Discuss whether this is more likely to be achieved in an organisation with a wide or a narrow span of control.	
	Indicative content	
	Application 2, Analysis 4, Evaluation 8	
	<p>A wide span of control means managers have little option but to delegate fully to their subordinates; they will get more freedom to decide how to meet the objectives set from above; nevertheless they may feel they lack 'support', especially 'frequent conversations about performance'. A narrow span of control suggests tight supervision and daily contact; this will make 'freedom' hard to achieve (unless the supervisor is willing to delegate fully); yet there is plenty of opportunity for 'support' and 'frequent conversations about performance'; heavy-handed supervision, though, might provide none of the things people want; no-one wants a one-way 'conversation', in which the supervisor is explaining all your faults and mistakes.</p>	
Level	Mark	Descriptor
Level 1	1-2	Candidates are able to identify some differences arising out of wide and narrow spans of control. Candidates will use some simple arguments or explanations. Written communication may be poor with frequent errors in spelling, punctuation and grammar and/or a weak style and structure of writing. There may be problems with the legibility of the text.
Level 2	3-6	Candidates are able to analyse the likely effects of different spans of control on communication. Candidates are likely to use some appropriate business terminology such as "delegate", "supervision" etc. in their analysis, but the style of writing could be better. Spelling, punctuation and grammar will be reasonable to good (at the top end of the band). The legibility of the text could possibly have been better in places.
Level 3	7-14	<p>Low Level 3: 7 - 10 marks Clear understanding of the effects of a wide or narrow span of control on communications or management. Two or more applied and developed strands. Answers are clear and make good use of business terminology. The conclusions should flow from the argument.</p> <p>High Level 3: 11 - 14 marks Full marks are available for conclusions favouring wide or narrow spans of control, as long as justification is provided.</p> <p>Evaluative points may be made throughout the answer. Spelling, punctuation and grammar will be good to excellent (at the top end of the band.)</p>

Unit 2B: Business Economics

Question Number	Question	
1.(a)	<p>Gillette use mass production techniques to produce their razors. This helps them to achieve economies of scale.</p> <p>Economies of scale are most likely to:</p> <p>A decrease the workforce B decrease costs C decrease profitability D decrease average costs</p>	
	Answer	Mark
	D	(1)

Question Number	Question	
1.(b)	Explain why this answer is correct.	
	Answer	Mark
	<p>Mass production techniques enable the scale of production to be increased. Assuming that a company has not yet reached the optimum level of output this should lead to the company achieving economies of scale. (Knowledge 1 mark). This means that although total costs will increase as production increases (Application 1 mark), the average total cost should decrease (Application 1 mark).</p> <p><u>Also award:</u> Profits may or may not increase (Application 1 mark); the workforce is likely to increase although through increasing capitalisation they might need fewer workers (Application 1 mark).</p>	(3)

Question Number	Question	
2.(a)	<p>Inflation is a problem for an economy because:</p> <p>A it encourages saving and reduces spending B it increases unemployment C it causes a loss of competitiveness D it makes people with loans worse off</p>	
	Answer	Mark
	C	(1)

Question Number	Question	
2.(b)	Explain why this answer is correct.	
	Answer	Mark
	<p>Inflation means a general rise in the price level (Knowledge 1 mark), if we are competing with foreign produced goods and services then our products are likely to become more expensive and therefore less competitive (Application 1 mark). This means our exports are likely to decline and import penetration likely to increase (Application 1 mark).</p> <p><u>Also award:</u> Saving is likely to fall as its value is eroded in real terms and a higher proportion of income is needed to purchase the same level of goods and services (Application 1 mark). Unemployment should fall (Application 1 mark). People with loans become better off in real terms (Application 1 mark).</p>	(3)

Question Number	Question	
3.(a)	In an oligopolistic market, such as the banking market, which of the following would you not be likely to find: A Non-price competition B Several large firms dominating the market C Not many barriers to entry D Strong brand names	
	Answer	Mark
	C	(1)

Question Number	Question	
3.(b)	Explain why this answer is correct.	
	Answer	Mark
	In an oligopoly there will be several large firms dominating the market (Knowledge 1 mark.) They are likely to be heavily branded and direct competition via price is likely to be avoided (Knowledge 1 mark). OR They will most likely compete using non-price tactics and strategies such as branding and promotion (Knowledge/Application 1 mark). Because of their size and the above reasons there are strong barriers to entry (Application 1 mark).	(3)

Question Number	Question	
4.(a)	The recessionary phase of the economic cycle will: A be bad for all businesses B increase the level of investment C cause employees to demand higher wages D result in an increase in stocks	
	Answer	Mark
	D	(1)

Question Number	Question	
4.(b)	Explain why this answer is correct.	
	Answer	Mark
	Some businesses are either unaffected, or actually prosper, during a recession such as those producing inferior goods (Knowledge 1 mark). What will happen is that as fewer goods and services are demanded, less will need to be produced. This results in a build up of stock (Application 2 marks). <u>Also award up to a total of 3 marks:</u> Investment is likely to fall as levels of profit fall and firms are reluctant to borrow given the immediate future (Application 1 mark). Unemployment is likely to rise reducing upwards pressure on wages. Workers may put off wage claims for fear of jeopardising their current position (Application 1 mark).	(3)

Question Number	Question	
5.(a)	In a 'long tail' which of the following is not likely to increase: A Consumer choice B Use of technology C Mainstream products D Number of suppliers	
	Answer	Mark
	C	(1)

Question Number	Question	
5.(b)	Explain why this answer is correct.	
	Answer	Mark
	The rise in the use of the internet (use of technology) and the emergence of retailing has meant that many new suppliers are entering the market because they no longer need to be physically based close to the market (Knowledge 1 mark), there has been an upsurge in the number of small firms supplying niche, not to mention esoteric markets (Application 1 mark). What does seem to be happening is a decline in sales and numbers of mainstream products, this is particularly so in the music business (Application 1 mark). <u>Also award:</u> The 'long tail' is the name given to the shape of the graph showing sales of products when ranked by order of sales volume (Knowledge 1 mark).	(3)

Question Number	Question	
6.(a)	Which of the following will not affect demand for a product? A A rise in incomes B A change in the price of a substitute C An increase in manufacturing costs D A successful advertising campaign	
	Answer	Mark
	C	(1)

Question Number	Question	
6.(b)	Explain why this answer is correct.	
	Answer	Mark
	An increase in manufacturing costs will affect the supply curve as it will alter the amount that suppliers are willing and able to supply at a given price and at a given time (Knowledge 1 mark). In effect the supply curve will shift to the left and whilst this will cause a movement along the demand curve it does not affect demand <i>for</i> a product (Application 2 marks).	(3)

Question Number	Question	
7.	What do you understand by 'a slowdown in the economy' (Evidence A line 1)?	
	Answer	Mark
	<p>This refers to the rate at which our economy has been growing over time (Knowledge 1 mark).</p> <p>This is usually expressed as the percentage change in the level of GDP (Knowledge 1 mark).</p> <p>If this changes from say, a 2.9% growth rate to a 2.2% growth rate, there has been 'a slowdown in the economy' (Application 1 mark).</p> <p>There is likely to have been a fall in demand for goods and services (Application 1 mark).</p>	(4)

Question Number	Question	
8.(a)	What is meant by the term 'inflation' (Evidence A line 1)?	
	Answer	Mark
	<p>Inflation can be defined as a rise in the general price level (Knowledge 1 mark)</p> <p>OR</p> <p>a fall in the value of money (Knowledge 1 mark)</p> <p>Note: 1 mark for partial explanation 2 marks for full explanation.</p>	(2)

Question Number	Question	
8.(b)	Inflation may be bad for businesses. Give one possible reason why.	
	Answer	Mark
	<p>Inflation can be bad for business as it creates uncertainty by making it harder to predict future costs and revenues (Knowledge 1 mark).</p> <p>This increases risk and may affect growth (Knowledge 1 mark).</p> <p>It also makes UK based businesses less able to compete with foreign produced goods and services as our products are likely to become more expensive and therefore less competitive (Application 1 mark).</p> <p>This means our exports are likely to decline and import penetration is likely to increase (Application 1 mark).</p> <p>Note: 1 mark for partial explanation 2 marks for full explanation 1 mark for partial application 2 marks for applying in full.</p>	(4)

Question Number	Question	
9.	Comment on the likely price elasticity of demand for organic food.	
	Indicative content	
	Knowledge 1, Application 1, Analysis 2	
	<p>There is a clear hint in the evidence that organic food is more expensive than its substitutes. Normally a good with many substitutes would be expected to be price elastic. Despite this sales appear to be flourishing. Candidates should conclude that it is likely to be price inelastic with a value of less than 1. Consumers presumably do not see 'ordinary' food as a close substitute for organic food.</p>	
Level	Mark	Descriptor
Level 1	1	Knowledge must be present. Some understanding is evident but with little development.
Level 2	2	Application must be present. Reasonable understanding of the issue but may lack clarity or use of analysis.
Level 3	3-4	Analysis must be present. Clear and accurate explanation with correct terminology and toolkit. (The "toolkit" refers to the concepts, theories and techniques which form the knowledge base for this subject.)

Question Number	Question	
10.	Sales of organic food have increased. Explain two possible reasons why.	
	Answer	Mark
	<p>Knowledge 2, Analysis 2</p> <p>There are several reasons that could be offered here, as ever, credit any logical arguments.</p> <p>It may be that with steady economic growth, incomes have increased and consumers are purchasing the premium priced organic food instead of cheaper substitutes. (1 mark for identifying each reason up to 2 marks.)</p> <p>There is also growing awareness of health issues and consumers are becoming much more particular about what they eat. It is also possible that shops are actively promoting the organic products and giving them greater shelf space. (1 mark for analysis of each reason up to 2 marks.)</p>	(4)

Question Number	Question	
11.	Examine the possible effects of increased competition in the market for organic food on: (a) Consumers (4) (b) Small independent businesses. (4)	
	Indicative content	
	Application 1, Analysis 2, Evaluation 1 For the consumer this may be expected to be good news as competition drives down prices and provides more choice both in terms of food and location. However in the long term it could be that the supermarkets gain market share at the expense of smaller independent retailers and some choice is lost. Small businesses may suffer as the large supermarkets use their power to offer better deals to consumers. However they could thrive if they concentrate on the personal service angle or specialise in niche areas. There is no prescriptive response, credit any logical arguments.	
Level	Mark	Descriptor
Level 1	1	Application must be present. Some understanding is evident but with little development.
Level 2	2-3	Analysis must be present. Reasonable understanding of the issue but may lack clarity or use of toolkit. (The "toolkit" refers to the concepts, theories and techniques which form the knowledge base for this subject.)
Level 3	4	Evaluation must be present. Clear and accurate explanation with correct terminology and toolkit.

Question Number	Question	
12.	A firm is planning to offer a new organic box scheme. Explain how the firm might reduce uncertainty when it enters this market.	
	Indicative content	
	Analysis 2, Evaluation 4 Expect to see a range of suggestions here. Candidates may offer toolkit concepts such as investment appraisal, contingency/scenario planning, use of a business plan, market research or financial forecasting and the use of relevant economic data. Good answers will offer a range of ideas. Accept any logical train of thought.	
Level	Mark	Descriptor
Level 1	1-2	Candidates are able to make some comment, but response fails to develop clear analysis. Possibly only one strand of thinking. Assessment is likely to be lacking.
Level 2	3-4	Awareness of some of the options is evident and the use of toolkit is reasonable. Perhaps less clear and may lack balance. Assessment may be weak or lacking.
Level 3	5-6	At least two suggestions explained and linked to the idea of reducing risk/uncertainty. The ideas will be expressed fluently. Concepts are developed and make good use of appropriate vocabulary and toolkit. (The "toolkit" refers to the concepts, theories and techniques which form the knowledge base for this subject.) Some assessment of suitability will be offered.

Question Number	Question	
13. QWC i-iii	Evaluate how a general rise in internet sales might affect: (a) Consumers (7) (b) Businesses (7)	
	Indicative content	
	<p>Application 1, Analysis 2, Evaluation 4</p> <p>A consumer may be affected in several ways. Consumer sovereignty may increase as there may be increased choice and more information allowing better informed purchases. The increased competition is likely to drive down prices again benefiting consumers. However it may be that traditional businesses suffers, which can be seen as a loss of choice, especially for those without internet access. Personal service may be important for some consumers. Other consumers may find using the internet intimidating.</p> <p>A high street retailer may face several consequences. Demand for their products/services may fall as consumers may be substituting cheaper goods/wider choice via the internet. Faced with this the retailer may have to change strategy such as price cuts, increased promotion etc. In the long run some retailers may exit the market, eg electrical retailers.</p> <p>A small business may see this as a threat or an opportunity. Events may follow the logic outlined above. However some will seize the opportunity to access a much wider market than before and expand/move into e-tailing. Much will depend upon the nature of the business product/service in question.</p> <p>There is no prescriptive response, credit any logical arguments.</p>	
Level	Mark	Descriptor
Level 1	1	Application must be present. Candidates are able to identify some effect on consumers and businesses, but response fails to develop a clear analysis. Possibly only one strand of thinking. Written communication may be poor with frequent errors in spelling, punctuation and grammar and/or a weak style and structure of writing. There may be problems with the legibility of the text.
Level 2	2-3	Analysis must be present. Knowledge of the consequences for consumers and businesses is evident and use of the toolkit is reasonable. (The "toolkit" refers to the concepts, theories and techniques which form the knowledge base for this subject.) The answer may lack balance. Evaluation may be weak. Candidate uses business and/or economics terminology quite well with reasonable spelling, punctuation and grammar.
Level 3	4-7	Evaluation must be present. Clear understanding and development of the consequences. Two or more well developed strands. Answer is coherent and makes good use of business and/or economics terminology and toolkit. Answer contains considered evaluation. Good to excellent spelling, punctuation and grammar.

Unit 3: International Business

Question Number	Question	
1.	Briefly examine two protectionist measures which countries might adopt in order to restrict trade.	
	Answer	Mark
	<p>Knowledge 2, Application 2, Analysis 2</p> <p>Knowledge: up to 2 marks are available for identification of the policies which firms might adopt as protectionist measures (red tape, tariffs, environmental and safety regulations and quotas).</p> <p>Application: up to 2 marks are available for showing some understanding of how protectionist measures might be employed, eg 15% tariff on Chinese shoe exports to the EU to prevent dumping.</p> <p>Analysis: up to 2 marks are available for balanced comment on the effectiveness of protectionist measures eg tariffs and quotas distort trade and erode comparative advantage. They may also have unforeseen consequences and damage retail sectors which are dependent upon imported goods. The UK argued against EU barriers to trade in the recent 'bra wars'.</p>	(6)

Question Number	Question	
2.	Examine two reasons why countries might erect protectionist barriers.	
	Indicative content	
	<p>Knowledge 2, Application 2, Analysis 4</p> <p>The aim of protectionism is to restrain trade between nations using methods such as: high tariffs on imported goods, restrictive quotas, government regulations and anti-dumping laws in an attempt to protect domestic industries. Protectionism has often been associated with the view that it is desirable to maintain a positive trade balance, and import substitution.</p> <p>Recent examples of protectionism have typically been motivated by the desire to protect the livelihoods of individuals in domestic industries. There has been a renewed interest in protectionism due to offshore outsourcing.</p>	
Level	Mark	Descriptor
Level 1	1-2	Some relevant understanding of at least one reason why protectionist policies may be adopted. Application may be weak.
Level 2	3-4	Some understanding of the reasons why protectionist policies may be adopted. Responses may lack the logical development required to progress to Level 3, offering unequivocal statements regarding the implications of trade liberalisation.
Level 3	5-6	Answers should demonstrate an understanding of the benefits of protectionism, and appreciate that domestic producers may be offered additional protection. Candidates may identify two logical reasons, one of which may be more developed than the other. Answers should demonstrate logical development and offer a coherent assessment of the implications of trade protection.
Level 4	7-8	<p>Look for development of a coherent response which identifies two reasons why countries may wish to erect protectionist barriers. We are looking for candidates to demonstrate applied knowledge with reasoned explanation supporting analytical comment. Able candidates might identify the desire to protect existing jobs and to protect new industries. Advocates of the infant industry argument theorize that protectionism will allow the infant industry to grow and develop until the industry can compete in the international market without protectionist measures. Nurturing infant industries and import substitution policies often occur in developing nations which are aspiring to greater economic diversity. Developed countries such as the US have used protectionist policies to protect jobs from competition from low cost manufacturers.</p> <p>The most able candidates may conclude that protectionism is a disguised transfer payment from consumers (who must pay higher prices for protected goods) to local high-cost producers.</p>

Question Number	Question	
3.	Assess the benefits of trade liberalisation for UK companies.	
	Indicative content	
	Knowledge 2, Application 2, Analysis 2, Evaluation 3	
	<p>Advocates of trade liberalisation may argue that international trade is almost always good for economic growth and that growth may be good for the poor, but the effects vary from case to case. Gains from trade liberalization have been estimated at \$US 171 billion or 0.7% World GDP. However, more gains may be accrued from obtaining previously unavailable products. Trade liberalisation may extend to the liberalisation of trade in services, agriculture and labour mobility.</p>	
Level	Mark	Descriptor
Level 1	1-2	Knowledge must be present. Some relevant understanding of at least one benefit is apparent.
Level 2	3-4	Application must be present. Some relevant insights into the benefits of trade liberalisation. Responses may lack the logical development required to progress to Level 3, offering unequivocal statements regarding the implications of trade liberalisation.
Level 3	5-6	Analysis must be present. Answers should demonstrate an understanding of the consequences of protectionism, and recognise that domestic producers may be forced to become more efficient in order to fight off competition from imported goods. Consumers may benefit from improved choice and lower prices. Answers should demonstrate logical development and offer a coherent assessment of the implications of trade liberalisation.
Level 4	7-9	Evaluation must be present. Look for development of a coherent response which identifies two benefits of trade liberalization. Candidates will demonstrate applied knowledge with reasoned explanation supporting analytical comment. Able candidates might identify the consequences of trade liberalisation as improving international trade and encouraging specialisation and improved efficiency through comparative cost advantage. The most able candidates may conclude that protectionism is a disguised transfer payment from consumers (who must pay higher prices for protected goods) to local high-cost producers, which would cease with trade liberalisation.

Question Number	Question	
4. QWC i-iii	Evaluate the likely effects of growth and globalisation in countries such as India.	
	Indicative content	
	<p>Knowledge 2 , Application 2, Analysis 3, Evaluation 5</p> <p>Globalisation may bring an increased standard of living, literacy and health to countries such as India (most particularly women and children, through improvements in child mortality, access to clean water and education) as well as bringing increased wealth to First World countries.</p> <p>Critics of globalisation may be more pessimistic about the benefits of growth and globalisation, linking globalisation to corporate imperialism. Anti-globalisation protesters may argue that globalisation may have a negative impact on human rights in developing societies. It may also result in the destruction of local culture and lifestyles and a widening gap between the 'haves' and 'have nots'.</p>	
Level	Mark	Descriptor
Level 1	1-2	<p>Knowledge must be present. Reward valid assertions which identify some possible benefits but which may lack coherent development. Answers may not be linked to the context.</p> <p>Written communication may be poor with frequent errors in spelling, punctuation and grammar and/or a weak style and structure of writing. There may be problems with the legibility of the text.</p>
Level 2	3-4	<p>Application must be present. Responses must be linked to context. Candidates provide partial answers which fail to fully develop a response to the stem. Valid insights will be identified. Responses which are limited to one benefit will be capped at Level 2. Candidate uses a limited amount of business terminology/reasonable spelling, punctuation and grammar.</p>
Level 3	5-7	<p>Analysis must be present. Responses should apply relevant knowledge to the analysis of the question. At this level argument may lack balance but should nonetheless offer some assessment of effects of growth and globalisation on countries such as India. At this level, the analysis may be focused more on the positive implications and consider the benefits of improved trade flows and greater inward investment. Candidate uses business terminology quite well/reasonable to good spelling, punctuation and grammar.</p>
Level 4	8-12	<p>Low Level 4: 8 - 10 marks</p> <p>Evaluation must be present. Candidates accessing this level should offer balanced comment. Candidates will be required to offer a considered assessment of the effects of growth and globalisation in countries such as India. Candidates may comment on the likely consequences of growth and globalisation on living standards, employment structures and infrastructure.</p> <p>High Level 4: 11 - 12 marks</p> <p>Candidates may also note that whilst economic growth and globalisation may bring benefits it will also give rise to externalities and widening economic and social inequalities.</p> <p>Candidate uses business terminology precisely and effectively/organises their answer to provide a coherent and fluent response/good to excellent spelling, punctuation and grammar.</p>

Question Number	Question	
5.	Explain Tesco's reasons for 'acting local and thinking global'.	
	Indicative content	
	<p>Knowledge 2, Application 2, Analysis 2</p> <p>The stem is expecting candidates to identify at least two possible benefits of supermarkets being customer focused. Possible benefits may include increased consumer surplus, closer relationships with customers enhancing brand loyalty and customer focus as a source of competitive advantage. There may also be a clear recognition that markets may have distinct and unique tastes and preferences which must be catered for if firms are to be successful and compete head to head with local and foreign rivals.</p> <p>Candidates wishing to access the higher levels of the mark range will be expected to consider the importance of being customer focused and reach a considered judgement.</p> <p>Differentiation will be based upon the quality of the argument offered.</p>	
Level	Mark	Descriptor
Level 1	1-2	Knowledge must be present. Candidates provide partial answers which fail to fully develop a response to the stem. Reward valid assertions which identify some possible suggestions but which lack coherent development.
Level 2	3-4	Application must be present. Responses must be linked to context. Responses should apply relevant knowledge to the analysis of the question. At this level, at least one point detailed above may be discussed. Arguments may lack balance but should nonetheless offer some assessment of the possible reasons behind Tesco's decision to act local and think global.
Level 3	5-6	Analysis must be present. Candidates accessing this level should offer balanced comment. Candidates will be required to offer a considered assessment of the benefits of being customer focused for supermarkets. Look for appropriate development of response using economic and business terms. At this level there should be a well developed response drawing on at least two of the points identified above.

Question Number	Question	
6.	Examine the factors which may have prompted Tesco to consider expanding its operations into foreign markets.	
	Indicative content	
	<p>Knowledge 2, Application 2, Analysis 2</p> <p>The stem is expecting candidates to identify at least two possible benefits of Tesco entering into foreign markets. Tesco's existing market is extremely competitive and there are limited opportunities for continued growth. Expansion overseas is a logical strategy. Tesco may face relatively weak barriers to entry.</p> <p>Candidates wishing to access the higher levels of the mark range will be expected to consider the importance of being customer focused and reach a considered judgment.</p> <p>Differentiation will be based upon the quality of the argument offered.</p>	
Level	Mark	Descriptor
Level 1	1-2	Knowledge must be present. Candidates provide partial answers which fail to fully develop a response to the stem. Valid insights will be identified regarding the desirability of expanding into foreign markets.
Level 2	3-4	Application must be present. Responses should apply relevant knowledge to the analysis of the question. At this level, at least one point detailed above may be discussed. Arguments may lack balance but should nonetheless offer some assessment of the benefits of entering into foreign markets.
Level 3	5-6	Analysis must be present. Candidates accessing this level should offer balanced comment. Candidates will be required to offer a considered assessment of the benefits of entering into new markets. Look for appropriate development of response using economic and business terms. At this level there should be a well developed response drawing on at least two points.

Question Number	Question	
7.	Assess the implications of firms such as Tesco entering into joint ventures with local firms.	
	Indicative content	
	<p>Knowledge 1, Application 2, Analysis 2, Evaluation 3</p> <p>This question requires an evaluative response if candidates are to access the higher levels of the mark range. A range of possible implications may be identified. Joint ventures may provide Tesco with knowledge of the market and a greater understanding of local tastes and preferences. Local firms may have access to supply chains and access to prime sights. There may be clear synergistic benefits for this type of relationship. In the case of China, such arrangements are a legal requirement.</p>	
Level	Mark	Descriptor
Level 1	1-2	Some relevant comments offered, at least a partial consideration, of the possible implications of joint ventures. Answers may owe more to assertions than applied knowledge.
Level 2	3-4	Responses may be based on assertions. An attempt is made to identify possible implications of joint ventures. Two points may be considered superficially or one implication may be done well. Answers may lack balance and perspective.
Level 3	5-6	There should be some attempt to make an assessment. Answers may lack balance. Evaluation may be limited. At this level two benefits should be identified. At least one implication should be examined well and another considered.
Level 4	7-8	Candidates will offer a clear assessment of the implications of joint ventures, examining the benefits and adverse consequences of such relationships. At this level, balanced comment should lead to evaluative insights. Look for two implications to be examined using appropriate business toolkit.

Question Number	Question	
8. QWC i-iii	Assess the impact of the global trade in food for two different stakeholder groups.	
	Indicative content	
	<p>Knowledge 1, Application 1, Analysis 3, Evaluation 5</p> <p>There are a number of stakeholder groups who will be affected by the global trade in food. Consumers have access to a greater variety of food and produce out of season. Growers may benefit from increased incomes and the opportunity to develop a market for cash crops. Labourers may gain more regular employment in developing countries, while farm labour in western economies may be laid off.</p> <p>The environmental issues of food miles may also be raised. For governments in developing economies there are clear benefits which may accrue from the growth of cash crops. Intensive farming however can have damaging impacts on the water table and create problems of desertification.</p>	
Level	Mark	Descriptor
Level 1	1-3	Candidates may show some awareness of what a stakeholder may be. Candidate communicates some simple arguments or explanations. Written communication may be poor with frequent errors in spelling, punctuation and grammar and/or a weak style and structure of writing. There may be problems with the legibility of the text.
Level 2	4-6	Identifies appropriate stakeholders; no detailed examination of the impact that the global food market may have upon them. Candidate offers straightforward explanations and conclusions without full development. Candidate uses a limited amount of business terminology/reasonable spelling, punctuation and grammar.
Level 3	7-8	Some sound analysis is evident but responses lack appropriate development for the highest marks. Limited development of response may result in assessments not being fully developed. Look for evidence of concepts being correctly applied. Some development of arguments, explanations and conclusions is required, demonstrating valid judgements regarding the implications for two stakeholder groups. Candidate uses business terminology quite well/reasonable to good spelling, punctuation and grammar.
Level 4	9-10	Clearly demonstrates knowledge of appropriate concepts and stakeholders. Evaluative and analytical comment should be evident, leading to an assessment of the implications for two different stakeholder groups. Look for evidence of informed conclusions demonstrating evaluative comment. Candidate uses business terminology precisely and effectively/organises their answer to provide a coherent and fluent response/good to excellent spelling, punctuation and grammar.

Question Number	Question	
9. QWC i-iii	Evaluate the potential impact of multinationals such as Tesco entering developing markets.	
	Indicative content	
	Knowledge 3, Application 1, Analysis 3, Evaluation 8 This question is heavily biased towards an evaluative response. Candidates achieving level 4 will have demonstrated the ability to identify appropriate objectives and assess the potential benefits and negative consequences for at least two possible stakeholder groups.	
Level	Mark	Descriptor
Level 1	1-4	Answers will demonstrate some appropriate knowledge and understanding. Responses will be characterised by a lack of development, errors and omissions. Expect to see simple assertions, possibly in bullet point form, offering conclusions without development. Responses may lack coherence. Contradictions may be evident. The implications of Tesco's dominance over competition may be underdeveloped relying on assertions. Answers at this level are likely to demonstrate limited application of toolkit. Written communication may be poor with frequent errors in spelling, punctuation and grammar and/or a weak style and structure of writing. There may be problems with the legibility of the text.
Level 2	5-8	Candidates demonstrate an awareness of how possible stakeholders may be affected by the increasing dominance of Tesco's. There is little, if any, evaluation. Candidate should display some appropriate application of knowledge. Development of responses may be limited and the candidate may rely too heavily upon unsubstantiated assertions. Application of appropriate concepts is likely to be limited. At this level, candidates may focus more on the fact that Tesco has increased market share and less on the implication for competition. Candidate uses a limited amount of business terminology/reasonable spelling, punctuation and grammar.
Level 3	9-11	A number of possible consequences are identified. A reasoned examination of the impact of multinationals such as Tesco's entering developing markets is offered. An evaluative response is offered, examining benefits and adverse consequences. Analysis supporting reasoned evaluation is evident. Relevant areas of knowledge are identified and applied. Some assertions may be evident. Candidate uses business terminology quite well/reasonable to good spelling, punctuation and grammar.
Level 4	12-15	Low Level 4: 12 - 13 marks Response should consider the potential consequences for various groups of the impact of multinationals such as Tesco's entering developing markets. An evaluative response is required, making reasoned comments on the significance of Tesco's increasing market dominance. Expect to see appropriate examples being used in order to support arguments. Look for reasoned conclusions. At this level, candidates should be able to make appropriate use of economic and business concepts. Answers may consider the implications of the impact of multinationals on competition and counter this with an examination of how benefits from their entrance may be evident. Crowding out may be discussed. Answers should provide evidence of accurate and wide-ranging knowledge. At this level we need evidence of appropriate theories, concepts and methods to support wide-ranging evaluation.

		<p>High Level 4: 14 - 15 marks</p> <p>The most able students may consider if Tesco's entrance into developing markets will promote growth in these economies or hamper them. Candidates should demonstrate sustained evaluation throughout their response, leading to appropriate conclusions.</p> <p>Candidate uses business terminology precisely and effectively/organises their answer to provide a coherent and fluent response/good to excellent spelling, punctuation and grammar.</p>
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Unit 4A: Making Business Decisions

Question Number	Question	
1.	What is meant by the term 'mission statement' (see Evidence A line 1)?	
	Answer	Mark
	<p>Knowledge 2</p> <p>A definition of a mission statement, ie the main aim or purpose of the business, usually set out in published form such as in an annual company report. Their aim is to establish themselves as the market leader worldwide for the provision of "quality coffee".</p> <p>Notes: 1 mark for partial explanation</p>	(2)

Question Number	Question	
2.	What is meant by the term 'corporate social responsibility' (see Evidence A line 6)?	
	Answer	Mark
	<p>Knowledge 2, Application 1</p> <p>A definition of corporate social responsibility ie having a moral responsibility, beyond that laid down by any contractual obligation for contributing to the well being of external stakeholders. Starbucks demonstrated this in 2001 by paying the coffee farmers premium prices to help them make a profit, after a global downturn in coffee prices.</p> <p>Notes: Note 1: 1 mark for partial explanation Note 2: 1 mark for application - how Starbucks has demonstrated corporate social responsibility</p>	(3)

Question Number	Question	
3.	Analyse two reasons why an ethical corporate culture may help Starbucks to succeed in the coffee market.	
	Answer	Mark
	<p>Knowledge 1, Application 2, Analysis 2, Evaluation 1</p> <p>Knowledge (1 mark): definition of ethical corporate culture, ie a culture that accepts its responsibility for the welfare of others in all its operations; unacceptable for employees to act in a way that would cause environmental or personal harm.</p> <p><u>Application (up to 2 marks) and Analysis (up to 2 marks):</u></p> <p>Relevant points include:</p> <p>Marketing - the need to differentiate Starbucks Coffee from other coffee retail outlets (coffee being basically a homogeneous product) (Application 1 mark - coffee is a homogeneous product); (Analysis 1 mark - need to differentiate)</p> <p>Public relations - need to reduce the negative impact of pressure groups, such as Oxfam (Application 1 mark to reaction of Oxfam); (Analysis 1 mark - need to reduce negative impact)</p> <p>Human resources - as a motivator (avoidance of a hygiene factor) people like to work for ethical organisations (Application 1 mark - attracts good employees); (Analysis 1 mark - acts as a motivator with analysis).</p> <p>Government relations - makes easier for the US government to support Starbucks Corporation in other activities which are more profit sensitive (Application 1 mark - makes it easier for the Government to support Starbucks); (Analysis 1 mark - Starbucks generates economic wealth).</p> <p>Evaluation (1 mark): candidates may acknowledge that an ethical culture is only one contributing factor towards the company's success. There is no prescriptive response, credit any logical arguments.</p>	(6)

Question Number	Question	
4.	Using Ansoff's Matrix, comment on why Starbuck's corporate strategy has enabled it to achieve sales growth in fiscal year 2006.	
	Answer	Mark
	<p>Knowledge 2, Application 2</p> <p>Knowledge: a sketch of Ansoff's Matrix; a description would be acceptable (2 marks)</p> <p>Award up to 2 marks for Application for any 1 of the following points:</p> <ul style="list-style-type: none"> • In current markets they have extended their product range, therefore they have used product development strategies; • In current markets they have increased their number of stores, therefore they have used market penetration strategies; • In new markets they have opened new stores, therefore they have used market development strategies; • In new markets they have both opened new stores and introduced new products, therefore they have used diversification strategies. <p>Notes:</p> <p>Note 1: Full description of Ansoff's Matrix/sketch of matrix - 2 marks</p> <p>Note 2: Incomplete description/sketch of Matrix - 1 mark</p> <p>Note 3: Correct identification of a Starbuck's strategy to Matrix - 2 marks</p> <p>Note 4: Partial application of a Starbuck's strategy to Matrix - 1 mark</p>	(4)

Question Number	Question	
5.(a)	Using information from Table 1, calculate the net profit margin of Starbucks in 2003 and 2005.	
	Answer	Mark
	<p>Knowledge 2, Application 2</p> <p>Knowledge: net profit margin formula (1 mark), plus correct figures inserted at the start of the calculation (2 marks)</p> <p>Application: correct calculation of two years' net profit margin (2 marks); correct calculation of one year's net profit margin (1 mark)</p> <p>Net profit margin = Net profit/Total revenues x 100/1</p> <p>2005 Net profit margin = US\$781/US\$6369 x 100/1 = 12.26%</p> <p>2003 Net profit margin = US\$ 265/4075 X100/1 = 6.5%</p>	(4)

Question Number	Question	
5.(b)	What can you infer from the results of your calculations in (a) and from figures in Table 1 and Table 2 about Starbucks' financial performance?	
	Answer	Mark
	<p>Application 1, Analysis 2, Evaluation 1</p> <p>Application/Analysis (3 marks): further calculation of any of the following: percentage change in sales, gross profit, or net profit from 2003 to 2005; sales, gross profit or net profit per store in 2003, 2004 and in 2005; percentage change in number of stores from 2003 to 2005 OR any reasonable comment on the results of their calculations in a) and on the figures in Tables 1 and 2 eg, Starbucks' net profit margin has doubled between 2003 and 2005; the net profit made per store is growing in each year from 2003 - 2005.</p> <p>Evaluation (1 mark): 12% net profit margins for a retail outlet are very good and compare very favourably with say grocery retail where the big retailers, such as Wal-Mart are operating on margins nearer 1%. Reflects the fact that Starbucks are operating at the premium end of the retail market with relatively low turnover and high profit margins. Starbucks' has increased the sales and net profit generated probably as a result of increasing the number of stores, showing that their marketing strategy as per the Ansoff Matrix is effective.</p>	(4)

Question Number	Question	
6.	Analyse the risks to Starbucks of permission being given in the US for the Ethiopian government to trademark its premium coffees.	
	Answer	Mark
	<p>Knowledge 1, Application 2, Analysis 2, Evaluation 2</p> <p>Definition of trademark (Knowledge 1 mark): distinctive design, logo or wording affixed to the coffee for sale to identify the producers (Ethiopian farmers) as the source of the product and to distinguish them from other coffee producers.</p> <p>Application/Analysis: any 2 of the following points up to 4 marks:</p> <p>The price of Ethiopian coffee is likely to rise from US\$ 1.23 to US\$2 (62.6% increase) (Application 1 mark), which will reduce the profit margin on Ethiopian specialty coffee sales (Analysis 1 mark). The input costs for Starbucks outlets are not only the cost of coffee beans, but also roasting, storage, packaging, distribution, transportation, store costs such as rent and wages (Application 1 mark).</p> <p>Ethiopia is a relatively minor supplier of coffee in the world, they are only trying to trademark their speciality coffees (Application 1 mark);</p> <p>Starbucks Corporation can either not buy Ethiopian coffee at all or buy the bulk of their coffee from non-trademarked suppliers (Application 1 mark) and thus avoid the price rise of 38.5% (Analysis 1 mark).</p> <p>Other suppliers of speciality coffees may be able to trademark their coffee more easily following on from the Ethiopian action and therefore the premium end of the coffee retail market may see lower profit margins due to higher costs of all premium coffees (Analysis 2 marks).</p> <p>Oxfam may use the case of Ethiopian coffee to create further adverse publicity for Starbucks Corporation (Analysis 1 mark).</p> <p style="text-align: right;">(4 marks)</p> <p style="text-align: center;">Evaluation (2 marks any comments to the effect):</p> <ul style="list-style-type: none"> • Therefore the actual coffee commodity costs are a relatively minor cost of the overall operating costs for Starbucks Corporation and will therefore have a minor impact on profitability. • Increased costs can be avoided by moving to other suppliers except in the sales of Ethiopian speciality coffees which do not need to be stocked. • Starbucks operate at the premium end of the coffee retail market and may find their profit margins squeezed unavoidably if all premium coffee growers trademark their coffee. • Starbucks Corporation are managing their external relations through their corporate ethical policy and public relations department, thereby minimising the impact of Oxfam's adverse publicity. Thus overall the risks are minimal. 	(7)

Question Number	Question
7.(a) QWC i-iii	Examine the advantages and disadvantages of keeping customer services in India.
	Indicative content
	<p>Knowledge 3, Application 3, Analysis 8, Evaluation 6</p> <p>Please note that many other points are possible. Credit should be given to candidates who question whether a decision such as this should be made purely on the basis of quantitative data.</p> <p>Advantages of staying in India:</p> <ul style="list-style-type: none"> • Far lower wages per hour and wages per call (wages per call were £5.70/24.2 = 24p in Britain in 2005; 80p/19.6 = 4p in India in 2007); this calculation is not essential for top-level analysis, but clearly helps • Call centre labour turnover had been rising rapidly before the move to India, and customer satisfaction had been falling (Appendix B) • The investment in moving to India was much less successful than intended, as shown in Appendix C; nevertheless that money has already been spent • You're The 1 has quite poor liquidity (Acid test has declined to 0.42) so extra investment in moving back is not ideal at the moment • Appendix E makes the investment appraisal calculations look discouraging; moving back will take 4 years to recover the £5.5 million investment, leaving the 4 year ARR at 0% <p>Disadvantages of staying in India:</p> <ul style="list-style-type: none"> • The move to India has coincided with a dramatic fall in customer satisfaction compared with the two key rivals: Style and Rite Look; the fact that their ratings have been rising shows that this is not simply an increasingly grumpy high street shopper; there are real issues and You're The 1 is being left behind; of course we shouldn't rush to assume that the cause is the call centre; are there other issues as well? • At the same time as the fall in customer satisfaction, the like-for-like sales growth has dipped alarmingly - halving in just 2 years, from 10 to 5%; You're The 1 have also been unable to hold their profit margins in 2007; so they must be finding it very hard to compete effectively • For a large company making an annual operating profit of over £40 million a year, an investment of £5.5 million is a small price to pay if the result is happier customers; it must be hard for staff in India to sound convincing about You're The 1 when they've never even seen the stores.

Level	Mark	Descriptor
Level 1	1-5	Superficial understanding of advantages or disadvantages, but no analysis of the numerical data or business situation to inform the answer. Possibly just a list of undeveloped points. Written communication may be poor with frequent errors in spelling, punctuation and grammar and a weak style and structure of writing. There may be some problems with the legibility of the text.
Level 2	6-10	Some relevant advantages or disadvantages identified (at least 2 items) but they lack development or application to the context. Toolkit use may be limited. (The "toolkit" refers to the concepts, theories and techniques which form the knowledge base for this subject). Evaluative points made may be very poor or missing altogether. If only advantages or disadvantages are examined they cannot get beyond Level 2. The candidate uses a limited amount of business terminology/reasonable spelling, punctuation and grammar.
Level 3	11-15	Good awareness of the main advantages and disadvantages (at least 3 items). Knowledge and application are evident and use of toolkit is reasonable. Perhaps less clear than Level 4 and may lack balance. Evaluative points may be thin or unqualified. The candidate uses business terminology quite well with reasonable to good spelling, punctuation and grammar.
Level 4	16-20	<p>Low Level 4: 16 - 18 marks A range of advantages and disadvantages explained fully (at least 4 items). Evaluative points made are based on analysis of the business situation and numerical data.</p> <p>High Level 4: 19 - 20 marks Expect to see strong analysis and convincing evaluative points.</p> <p>Answer is coherent, related to the context and makes good use of toolkit. Candidate uses business terminology precisely and effectively with good to excellent spelling, punctuation and grammar.</p>

Question Number	Question	
7.(b) QWC i-iii	Provide conclusions and key recommendations on whether the chain's customer services should be moved back to Britain.	
	Indicative content	
	<p>Knowledge 3, Application 3, Analysis 10, Evaluation 14 Please note that many other points are possible.</p> <p>Conclusions</p> <ul style="list-style-type: none"> Customer satisfaction had been falling (Appendix B), before moving to India so perhaps the call centre in India should be given longer to bed in; moving back does not look a clever option Investment in moving to India has been made (Appendix C). It will take 4 years to recover the investment. Moving back would probably push liquidity even lower; and although the gearing has fallen slightly (i.e. improved) it is still quite high to feel comfortable about borrowing more to finance the £5.5 million outlay <p>Recommendations</p> <ul style="list-style-type: none"> Carry out more research into customer service: what exactly has caused the customer complaints? If the problem is the call centre, set the local management a reasonable timescale for sorting the problem out, e.g. 6 months; perhaps set a target that call satisfaction must return to 80+% within 6 months If significant improvements are not apparent within 6 months, start on the investment in returning the centre to Britain. 	
Level	Mark	Descriptor
Level 1	1-6	Some knowledge of possible recommendations but little development. Analysis is very limited or lacking; no evaluation. Written communication may be poor with frequent errors in spelling, punctuation and grammar and a weak style and structure of writing. There may be problems with the legibility of the text.
Level 2	7-12	Some elementary conclusions and recommendations provided, but response may lack depth and/or development. Toolkit use may be limited. (The "toolkit" refers to the concepts, theories and techniques which form the knowledge base for this subject.). The candidate may use some business terminology but the style of writing could be better/there may be some errors in spelling, punctuation and grammar/the legibility of the text could have been better in places.
Level 3	13-18	Basic conclusions and recommendations, with reasonable application to the business situation and/or numerical data and use of toolkit. Answer may be less clear than Level 4 and may lack balance. Conclusions may be a series of evaluative points within the text. The candidate uses business terminology quite well/style of writing is appropriate for the question/reasonable to good spelling, punctuation and grammar.
Level 4	19-24	Balanced conclusions and recommendations based on sound analysis of the business situation and numerical data. Answer is clear, and the candidate makes good use of terminology and toolkit. Candidate uses business terminology fluently with good spelling, punctuation and grammar.

Level 5	24-30	<p>Low Level 5: 24 - 27 marks</p> <p>A very good answer, displaying very good knowledge of possible recommendations, together with good awareness of the complexities of the situation and ability to weigh up which of the recommendations are "key". Reasoned conclusions are reached which are presented in a relevant, coherent and integrated way.</p> <p>High Level 5: 28 - 30 marks</p> <p>An excellent answer, displaying the ability to weigh up the costs and benefits of alternative recommendations, both now in the short term and for the long term future.</p> <p>The candidate uses business terminology very fluently with excellent spelling, punctuation and grammar.</p>
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Unit 4B: The Wider Economic Environment and Business

Question Number	Question	
1.	What is meant by the term 'consumer choice'? (Evidence, Line 2)	
	Answer	Mark
	<p>Knowledge 2</p> <p>A definition of consumer choice, i.e. the consumer (buyer) has the ability to select and buy substitute products without undue difficulty.</p> <p>Note: Note 1: Vague or incomplete definitions should only receive a maximum of 1 mark. Note 2: A clear and relevant example can gain the second mark.</p>	(2)

Question Number	Question	
2.	Explain what market failure means.	
	Answer	Mark
	<p>Knowledge 2, Application 1</p> <p>Market failure occurs when there is a misallocation of resources which results in people being less well off than they could be. There has been a lack of allocative efficiency. Markets fail when they do not provide public goods, when there is a degree of monopoly power and when the social costs of production are greater than the private costs, eg, pollution.</p> <p>Note: Note 1: Full and technical explanation - 3 marks Note 2: Has the essence but may lack proper vocabulary - 2 marks Note 3: A vague definition or example only - 1 mark Also award: Note 4: 1 mark for a clear and relevant example of market failure.</p>	(3)

Question Number	Question	
3.	Explain what 'consumer sovereignty' (Evidence A, Line 6) means.	
	Answer	Mark
	<p>Knowledge 2, Application 1</p> <p>Consumer sovereignty means the way in which consumers' preferences determine the allocation of resources. Rising consumer demand increases the profitability of a product, increasing the amount of resources allocated to its production. Businesses with high degrees of market power can distort this process and cause market failure.</p> <p>Note: Note 1: Full and technical explanation - 3 marks Note 2: Has the essence but may lack proper vocabulary - 2 marks Note 3: A vague definition or example only - 1 mark Also award: Note 4: 1mark for a clear and relevant example of consumer sovereignty.</p>	(3)

Question Number	Question	
4.	What is the role of the Competition Commission in protecting the consumer?	
	Indicative content	Mark
	<p>Knowledge 2, Application 2</p> <p>The Competition Commission is charged with looking after the public interest (Knowledge 1 mark). It tries to ensure that there is adequate competition in the market to ensure fair and competitive pricing and product choice for consumers (Application 2 marks.) It also monitors cases of suspected anti-competitive practices such as cartels, collusion, abuse of suppliers etc (Knowledge 1 mark.) It has the power to investigate and bring prosecution to offending firms and can prevent mergers and takeovers that would create monopoly power (Knowledge 1 mark)</p>	(4)

Question Number	Question	
5.	Why might Tesco's power be seen as an example of market failure?	
	Indicative content	
	<p>Knowledge 1, Application 2, Analysis 1</p> <p>Tesco's increasing power and control of the market can be seen as stifling competition and decreasing consumer choice, thus preventing the market from allocating resources in an efficient manner. This has created external costs and benefits. There is market failure when a degree of monopoly power is present, Tesco has 31% of the market. All of these factors could indicate market failure.</p>	
Level	Mark	Descriptor
Level 1	1-2	Answers may be expressed in general terms and may not fully understand market failure or apply it to the context of Tesco.
Level 2	3-4	Market failure understood and applied to Tesco.

Question Number	Question	
6.(a)	Evaluate the effects of Tesco's growing market share on consumers	
	Indicative content	
	<p>Knowledge 1, Application 2, Analysis 2, Evaluation 2</p> <p>There is quite a bit of help to the candidates in the evidence for both sections (consumers and suppliers). There are clearly social costs and benefits for both groups of stakeholders.</p> <p>Consumers</p> <p>This is about evaluation and so there should be a discussion of both sides of the issue. It could be argued that the consumer loses out as more shops close down and choice becomes limited, town centres lose out to the big supermarkets and it is difficult for some people to access them. On the other hand people seem to like Tesco, they are voting with their feet and choice and convenience are a winning formula.</p>	
Level	Mark	Descriptor
Level 1	1-2	Some basic points made of relevance to the question, limited application.
Level 2	3-5	Points made on both sides, may lack development and /or evaluation.
Level 3	6-7	Clear and articulate, good balance, toolkit and evaluation. The "toolkit" refers to the concepts, theories and techniques which form the knowledge base for this subject.

Question Number	Question	
6.(b)	Evaluate the effects of Tesco's growing market share on suppliers.	
	Indicative content	
	<p>Knowledge 1, Application 2, Analysis 2, Evaluation 2</p> <p>There is quite a bit of help for the candidates in the evidence for both sections (consumers and suppliers). There are clearly social costs and benefits for both groups of stakeholders.</p> <p>Suppliers</p> <p>There are complaints of Tesco using monopsony power to bully suppliers, driving down prices and imposing harsh conditions. Yet the evidence suggests that some firms are benefiting from the chance to access Tesco's markets.</p>	
Level	Mark	Descriptor
Level 1	1-2	Some basic points made of relevance to the question, no analysis or evaluation.
Level 2	3-5	Points made on both sides, may lack development and /or evaluation.
Level 3	6-7	Clear and articulate, good balance, toolkit and evaluation. The toolkit refers to the concepts, theories and techniques which form the knowledge base for this subject.

Question Number	Question	
7.(a) QWC i-iii	Examine the social costs and benefits that result from increasing road use.	
	Indicative content	
	<p>Knowledge 2, Application 3, Analysis 9, Evaluation 6</p> <p>This response is looking for an awareness of the social costs and benefits that arise from road congestion and some awareness of the relative size/importance of them. The main emphasis should be on the analysis of the issue. Understanding of social costs and benefits and their external components is paramount here. Good answers will have both balance and clarity and discuss examples of both. Less able candidates may just produce lists.</p> <p>Increased road congestion will probably see an increase in social costs. There will be increases in private costs as more time and fuel is used and an increase in external costs as more pollution, frustration and wear and tear occur. On the social benefit side then it is likely that both private and external benefits will decline as motoring becomes more of a chore and a less efficient means of transport. As ever, accept any reasonable line of argument.</p>	
Level	Mark	Descriptor
Level 1	1-5	Some understanding of the issues, but no analysis. Possibly just a list of undeveloped points. Written communication may be poor with frequent errors in spelling, punctuation and grammar and/or a weak style and structure of writing. There may be some problems with the legibility of the text.
Level 2	6-10	Perhaps some relevant ideas but they lack depth or development. Evaluation may be very poor or missing altogether. Toolkit use may be limited (the toolkit refers to the concepts, theories and techniques which form the knowledge base for this subject.) If only one side is examined eg all costs and no benefits, they cannot get beyond this level. Candidate uses a limited amount of business and/or economics terminology/reasonable spelling, punctuation and grammar.
Level 3	11-15	Good awareness of the main costs and benefits. Knowledge and application are evident and use of toolkit is reasonable. Perhaps less clear than Level 4 and may lack balance. Evaluation may be thin or unqualified. Candidate uses business and/or economics terminology quite well/reasonable to good spelling, punctuation and grammar.
Level 4	16-20	<p>Low Level 4: 16 - 18 marks A range of ideas is explored showing a clear understanding of a range of social costs and benefits. Conclusions are based on analysis.</p> <p>High Level 4: 19 - 20 marks Expect to see strong analysis, which leads to a convincing conclusion.</p> <p>Answer is coherent, related to the context and makes good use of toolkit. Candidate uses business and/or economics terminology precisely and effectively with good to excellent spelling, punctuation and grammar.</p>

Question Number	Question
7.(b) QWC i-iii	Evaluate the use of road pricing and one other policy option to reduce road congestion.
	Indicative content
	<p>Knowledge 3, Application 3, Analysis 10, Evaluation 14</p> <p>The main emphasis in this question is on the evaluative element. We are looking for an awareness of the complexities of the situation and the ability to weigh up the costs and benefits of any policy options, both now in the short term and for the long term future.</p> <p>Road pricing is an attempt to internalise an externality, to turn a social cost into a private one. It would reduce market failure and move towards allocative efficiency. Road use is a scarce good and a fair price should be paid for its use. Technology now makes it possible to collect the charges easily and quickly. In fact road charging is not new and was first used at least as early as the 17th century and during the 19th century over 1000 private turnpike companies operated 20,000 miles of toll roads! On the other hand it is argued that road pricing is a regressive tax which penalises the less well off motorist, it also discriminates against rural communities with no form of alternative transport. Cynics may question the government's motives and see this as another stealth tax to raise funds which may or may not be used to improve the transport sector.</p> <p>There is a wide choice for the second policy option, some ideas can be found in the evidence. They could include increasing taxes on fuel, improving other means of transport and even building new roads. As long as the option is properly analysed and evaluated, accept any offer.</p>

Level	Mark	Descriptor
Level 1	1-6	Some knowledge of policy options, but little development. Analysis is very limited or lacking. No evaluation. Written communication may be poor with frequent errors in spelling, punctuation and grammar and/or a weak style and structure of writing. There may be problems with the legibility of the text.
Level 2	7-12	Some elementary knowledge displayed of policy options but response may lack depth and/or development. Toolkit use may be limited. (The toolkit refers to the concepts, theories and techniques which form the knowledge base for this subject.) The candidate may use some business and/or economics terminology but the style of writing could be better/there may be some errors in spelling, punctuation and grammar/the legibility of the text could be better in places.
Level 3	13-18	Basic knowledge of policy options is evident with reasonable application and use of toolkit. Answer may be less clear than Level 4 and may lack balance. Evaluation may lack development or be a series of evaluative points within the text. The candidate uses business and/or economics terminology quite well/style of writing is appropriate for the question/reasonable to good spelling, punctuation and grammar.
Level 4	19-24	A balanced discussion of road pricing and another option. The options are placed in context and the relative advantages and disadvantages are explored for each. There will be sound analysis, which will lead to a satisfactory conclusion. Answer is clear, and makes good use of terminology and toolkit. The candidate uses business and/or economics terminology fluently with good spelling, punctuation and grammar.
Level 5	24-30	<p>Low Level 5: 24 - 27 marks</p> <p>A very good answer, displaying very good knowledge of the policy options, together with good awareness of the complexities of the situation and ability to weigh up the relative advantages and disadvantages of the options. Reasoned conclusions are reached which are presented in a relevant, coherent and integrated way.</p> <p>High Level 5: 28 - 30 marks</p> <p>An excellent answer, displaying the ability to weigh up the costs and benefits of any policy options, both now in the short term and for the long term future.</p> <p>The candidate uses business and/or economics terminology very fluently with excellent spelling, punctuation and grammar.</p>

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