

## Wednesday 20 January 2021 – Afternoon

### Level 3 Cambridge Technical in Business

05878 Unit 10: Economics for business

Time allowed: 2 hours

C427/2101



**You can use:**

- a calculator

Please write clearly in black ink.

Centre number

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Candidate number

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First name(s)

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Last name

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Date of birth

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#### INSTRUCTIONS

- Use black ink.
- Write your answer to each question in the space provided. If you need extra space use the lined page(s) at the end of this booklet. The question numbers must be clearly shown.
- Answer **all** the questions.

#### INFORMATION

- The total mark for this paper is **90**.
- The marks for each question are shown in brackets [ ].
- This document has **16** pages.

#### ADVICE

- Read each question carefully before you start your answer.

FOR EXAMINER USE ONLY	
Question No	Mark
1	/18
2	/15
3	/25
4	/16
5	/16
<b>Total</b>	<b>/90</b>

Read the scenario below.

### **Text 1: JustPrint Clothing Ltd**

*JustPrint Clothing Ltd* specialises in screen-printing. It prints customer-requested designs onto various items of clothing. T-shirts and hoodies account for the majority of its sales. The company is owned and run by Anika Cole. It operates from a medium-sized business unit located on the outskirts of Eastings, a large town on the south coast of the UK.

When Anika set up *JustPrint Clothing Ltd* in 2001 most of its sales were to business customers wanting clothing printed with a business logo. However, in the last 10 years, there has been a shift in the market. Over 80% of demand now comes from schools and colleges, either for T-shirts to be sold by Young Enterprise companies or for the increasingly popular end-of-year leavers' hoodie.

Although quite easy, the process of screen-printing T-shirts and hoodies is labour intensive. *JustPrint Clothing Ltd* owns three screen-printing machines and employs four full-time staff. All staff, including Anika, are trained to use these machines. However, only Anika knows how to use the computer software which produces a template of the customer's design. The machines need this template to print the chosen design onto a T-shirt or hoodie. All staff are required to help with the packaging and dispatch of finished orders, as well as deal with customer enquiries.

All of the plain T-Shirts and hoodies used by *JustPrint Clothing Ltd* are imported, mainly from China. This means there is a long delay, usually three months, between ordering T-shirts and hoodies from abroad (when the price in the overseas currency is set) and receiving them (when the invoice is due for payment). As a result, Anika has recently been buying more clothing from countries in Eastern Europe which are closer to the UK, although the quality tends to be lower.

An additional cost pressure comes from the local labour market. Unemployment is low in Eastings, compared to the rest of the UK, and Anika is finding it more and more difficult to recruit suitable staff. Most workers stay for less than a year, leaving to move on to better-paid jobs.

*JustPrint Clothing Ltd's* market is highly competitive. There are at least five companies providing a similar service within a 10-mile radius of Eastings. However, developments in computer technology mean that there is also a wider market. Customers located anywhere in the UK, or even abroad, can order from *JustPrint Clothing Ltd* by uploading their chosen designs onto the company's website.

To help promote the company, Anika updates advertising materials and price lists on the company's website and social media platforms on a weekly basis. She also advertises the company in the weekly local, free, newspaper. She also sends posters and leaflets advertising the business to local schools and colleges each month.

Anika is worried about the long-term future of *JustPrint Clothing Ltd*. In addition to those already mentioned, the business is faced with several challenges:

- the day-to-day administrative costs of running the business are increasing, especially the cost of training staff and ensuring the business follows new health and safety regulations;
- the cost of raw materials fluctuates unpredictably, especially the very expensive specialist fabric inks and cleaning fluids for the machinery which need to be purchased from abroad;
- one of the printing machines is considerably older than the other two. It is likely that the business will need to borrow money to replace this machine fairly soon.

Anika is of the opinion that her business cannot continue to be successful in the future without some form of change. She could expand *JustPrint Clothing Ltd*, by trying to rebuild sales to business customers, to benefit from economies of scale. Alternatively, she could sell the business and find something else for herself to do!

**Text 2: UK economic news**

The government has recently made the following announcements about the UK economy.

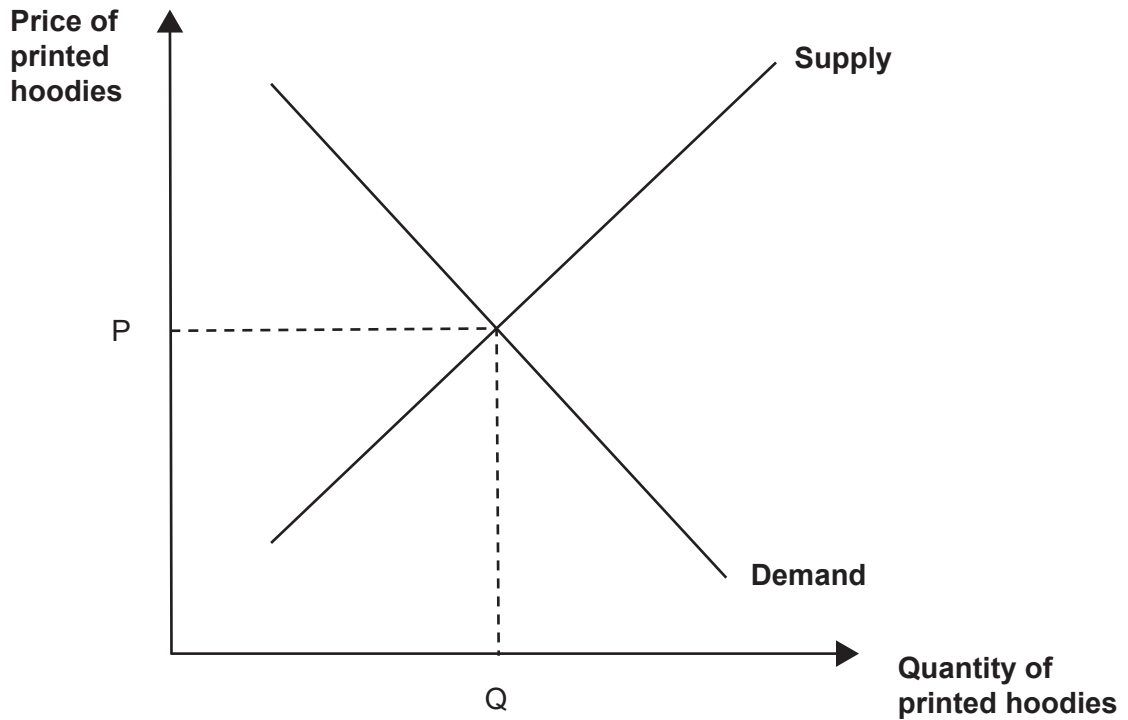
- It expects inflation to continue at current levels.
- The business cycle has entered the recovery phase.
- Government policy will target the objective of a stable currency.

Answer **all** the questions.

1 Anika has drawn a demand and supply diagram showing the current equilibrium price (P) and output (Q) for printed hoodies.

(a) On the diagram below, show the effect on equilibrium price and output of an increase in costs as a result of complying with new health and safety regulations.

**The market for printed hoodies**



[4]

(b) Anika may need to calculate price elasticity of demand.

What is meant by 'price elasticity of demand'?

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- 2 (a) Identify **three internal** economies of scale which may affect *JustPrint Clothing Ltd*, if Anika decides to expand the business.

Analyse the impact of each internal economy of scale on *JustPrint Clothing Ltd*.

[9]

Internal economy of scale 1 .....

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Analysis of impact

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Internal economy of scale 2 .....

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Analysis of impact

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Internal economy of scale 3 .....

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Analysis of impact

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**(b)** In **Text 2**, the government states that the UK economy has entered the recovery phase of the business cycle.

**(i)** What is meant by the 'recovery phase of the business cycle'?

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**(b)** **Text 2** refers to the UK government’s intention to target the objective of a stable currency. Evaluate how a stable currency may affect the future success of *JustPrint Clothing Ltd*. **[16]**

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4 (a) Outline **two** tasks carried out by HMRC as part of its role in UK fiscal policy.

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[4]

(b) Explain **one** way the marketing function of *JustPrint Clothing Ltd* might respond to an increase in disposable income.

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[3]







**ADDITIONAL ANSWER SPACE**

If additional answer space is required, you should use the following lined page(s). The question numbers must be clearly shown in the margins – for example, 2(b)(i) or 4(a).

A vertical line on the left side of the page is followed by 25 horizontal dotted lines, providing a ruled area for writing answers.



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