

Cambridge Technicals Business

Unit 10: Economics for business

Level 3 Cambridge Technical in Business
05878

Mark Scheme for January 2023

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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MARKING INSTRUCTIONS

PREPARATION FOR MARKING

MARKING

1. Mark strictly to the mark scheme.
2. Marks awarded must relate directly to the marking criteria.
3. The schedule of dates is very important. It is essential that you meet the traditional 40% Batch 1 and 100% Batch 2 deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.
4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone or by email.
5. **Crossed Out Responses**
Where a candidate has crossed out a response and provided a clear alternative then the crossed out response is not marked. Where no alternative response has been provided, examiners must give candidates the benefit of the doubt and mark the crossed out response where legible.

Contradictory Responses

When a candidate provides contradictory responses, then no mark should be awarded, even if one of the answers is correct.

Short Answer Questions (requiring only a list by way of a response, usually worth only **one mark per response**)

Where candidates are required to provide a set number of short answer responses then only the set number of responses should be marked. The response space should be marked from left to right on each line and then line by line until the required number of responses have been considered. The remaining responses should not then be marked. Examiners will have to apply judgement as to whether a 'second response' on a line is a development of the 'first response', rather than a separate, discrete response. (The underlying assumption is that the candidate is attempting to hedge their bets and therefore getting undue benefit rather than engaging with the question and giving the most relevant/correct responses.)

Short Answer Questions (requiring a more developed response, worth **two or more marks**)

If the candidates are required to provide a description of, say, three items or factors and four items or factors are provided, then mark on a similar basis – that is downwards (as it is unlikely in this situation that a candidate will provide more than one response in each section of the response space.)

Longer Answer Questions (requiring a developed response)

Where candidates have provided two (or more) responses to a medium or high tariff question which only required a single (developed) response and not crossed out the first response, then only the first response should be marked. Examiners will need to apply professional judgement as to whether the second (or a subsequent) response is a 'new start' or simply a poorly expressed continuation of the first response.

6. Always check the pages at the end of the response (and any additional lined pages if present) in case any answers have been continued there. If the candidate has continued an answer there then add an annotation to confirm that the work has been seen.
7. Assistant Examiners may email a brief report on the performance of candidates to your Team Leader (Supervisor) by the end of the marking period. Your report should contain notes on particular strength displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.

8. Annotations

Annotation	Meaning
Tick	Valid point, mark awarded
Cross	Incorrect
Question mark	Response unclear
BOD	Benefit of doubt (mark awarded)
TV	Too vague (mark not awarded)
REP	Repetition (no additional marks awarded)
NAQ	Not answered question (incorrect focus)
L1	Level 1 response (identification)
L2	Level 2 response (explanation)
L3	Level 3 response (analysis)
L4	Level 4 response (evaluation)
CONT	Context (required for high L4 award only)
OFR	Own figure rule

9. Subject-specific marking instructions

For Level of Response marked questions marked over 4 levels, the candidate can access at L1 or L2. In either case, they can analyse the point made and proceed directly to L3.

L3 analysis is required before L4 can be accessed.

Question			Answer	Marks	Guidance												
1	(a)	(i)	<p>Responses may include:</p> <ul style="list-style-type: none"> • there is excess supply (2) • supply is greater than demand (2) • supply is high while demand is low(er) (2) • there is higher supply (1) • the market is not in equilibrium (1) 	2	<p>Two marks for reference to a situation of excess supply or supply exceeding demand.</p> <p>One mark for recognising that the market is not in equilibrium or that supply is higher.</p> <p>NB: No reward for answers that are not about supply and demand or consider what will happen in the future.</p>												
1		(ii)	<p>Responses may include:</p> <ul style="list-style-type: none"> • because there is too much supply this will force suppliers to reduce prices (2) • prices will continue to fall until market equilibrium is reached (2) • prices will fall (1) • prices will move towards the equilibrium price (1) • producers may choose to reduce supply (1) • 	2	<p>Two marks for a clear explanation of what may happen.</p> <p>One mark for a statement about what may happen.</p> <p>No reward for 'demand will decrease'.</p>												
1	(b)		<table border="1"> <thead> <tr> <th>Example</th> <th>Movement along the supply curve?</th> <th>Shift in the supply curve?</th> </tr> </thead> <tbody> <tr> <td>Increased labour costs</td> <td></td> <td>✓</td> </tr> <tr> <td>Decreased material costs</td> <td></td> <td>✓</td> </tr> <tr> <td>Lower prices</td> <td>✓</td> <td></td> </tr> </tbody> </table>	Example	Movement along the supply curve?	Shift in the supply curve?	Increased labour costs		✓	Decreased material costs		✓	Lower prices	✓		3	One mark for each correct answer
Example	Movement along the supply curve?	Shift in the supply curve?															
Increased labour costs		✓															
Decreased material costs		✓															
Lower prices	✓																
1	(c)		<p>As competition increases firms may find they cannot change prices anymore and instead choose to target customers with focused advertising or branding</p> <p>Increased competition may reduce the ability to cut prices, so firms are more likely to use non-price competition.</p>	2	<p>Two marks for an accurate answer which shows a link between increased competition and use of non-price competition.</p> <p>One mark for knowledge of non-price competition or reasons for using it, e.g.</p> <ul style="list-style-type: none"> • use of advertising • increased branding • to avoid a price war • improved quality 												

Question		Answer	Marks	Guidance
1	(d)	<p>Use level of response criteria.</p> <p>Answers may include:</p> <ul style="list-style-type: none"> • a positive YED indicates a normal good • the larger the value the stronger the relationship between income and demand • a value greater than +1.0 indicates a luxury/superior good • a value between 0 and +1.0 indicates a necessity • the Raley's Classic ready meals show a greater response to income changes • as consumer income increases the demand for Raley's Fresh ready meals will only increase slowly • the demand for Raley's Classic ready meals will increase more significantly as consumer incomes increase • price increases are easier to achieve for Raley's Classic ready meals • still worth producing Raley's Fresh ready meals as demand will continue to increase • Raley's Classic meals are riskier if consumer incomes start to fall. <p>Exemplar response:</p> <p>A value of YED of less than one means an inelastic demand (L1) so any change in income will have a limited effect on demand (L2). This means that a business will experience a small change in revenue as consumer income increases (L3).</p> <p>A YED of +1.8 means the good is a luxury (L1) so demand increases a lot as consumers have more income (L2). This will encourage Henry to design and sell more Raley's Classic ready meals (L3).</p>	16	<p>Levels of response</p> <p>Level 4 (13 – 16 marks) Candidate evaluates how YED might affect Raley Foods business behaviour.</p> <p>Level 3 (9 – 12 marks) Candidate analyses how YED might affect business behaviour.</p> <p>Level 2 (5 – 8 marks) Candidate explains what YED might mean for a business.</p> <p>Level 1 (1 – 4 marks) Candidate identifies knowledge about YED.</p> <p>Level 1 – a change in behaviour or what the data means (e.g., a normal good, 'Fresh' is inelastic/necessity, 'Classic' is an elastic/luxury.)</p> <p>Level 2 – what the data means for a business (e.g., little effect on demand for an income inelastic good.)</p> <p>Level 3 – the impact on (or reaction by) a business if <u>income</u> changes.</p> <p>Level 4 – award:</p> <p>Award 13 marks for a basic generic argument, e.g., should focus more on goods with a higher YED as consumer incomes increase.</p> <p>Award 14 marks for a supported generic evaluation, e.g., as long as consumer incomes increase in the future it is better to focus more on selling goods with a high YED.</p>

Question		Answer	Marks	Guidance
		As Raley's Classic have an income elastic demand (CONT) it would make sense to switch more production to producing them instead of the basic brand (L4) . As the business has limited storage space (CONT) continuing to produce the Raley's Fresh meals may have a significant cost to <i>Raley Foods</i> (L4) .		<p>Award 15 marks for a basic contextual argument that evaluates how the business may behave, e.g., the Raley's Classic range of ready meals are more likely to be successful, so the business should focus on producing more of them and maybe stop selling the basic versions.</p> <p>Award 16 marks for a supported contextual argument that evaluates how the business may behave, e.g., the Raley's Classic range of ready meals are more likely to be successful as the economy grows, as they have a greater YED than ready meals. Given the space issue at their factory, <i>Raley Foods</i> may benefit from stopping production of the Raley's Fresh ready meals.</p> <p>NB: No reward for an answer which refers to responses to changes in price (the data is for <u>income</u> elasticity of demand.)</p>
2	(a)	<p>The four phases are:</p> <ul style="list-style-type: none"> • boom/peak • bust/slump/depression/trough • recession/decline/downturn • recovery/upturn 	4	<p>One mark for each correct phase</p> <p>NB: Do not reward the word 'growth' <u>on its own</u> for any phase.</p>

Question		Answer	Marks	Guidance
2	(b)	<p>Impact on recruitment includes:</p> <ul style="list-style-type: none"> • possible shortage of staff / need to pay higher wages • more time needed to find the right staff • more immigrant workers <p>Impact on investment includes:</p> <ul style="list-style-type: none"> • may be easier to find possible lenders • interest rates may increase • cost of machinery, property or land may increase • shortages of capital equipment <p>Impact on transportation of goods:</p> <ul style="list-style-type: none"> • increased levels of congestion / delays to transport time • higher congestion charges / more expensive transport costs • more spending by government on infrastructure • lower costs due to a saturated transport market <p>Exemplar responses: <i>Raley Foods</i> may need to pay higher wages (1) when trying to employ the extra workers it may need to expand (CONT) which may increase the costs of expansion (+1).</p> <p>With a growing economy more lenders may be willing to lend money to <i>Raley Foods</i> (1). This may make it easier to increase storage space (CONT) which will help the business to grow more quickly (+1).</p> <p>Increased congestion on the roads may slow down distribution (1). This may affect Henry's plans to export ready meals (CONT). He may need to pay for more expensive air transport when selling to Europe (+1).</p>	9	<p>For each of three impacts of economic growth:</p> <ul style="list-style-type: none"> • one mark for the impact <p>PLUS</p> <ul style="list-style-type: none"> • two marks for a contextual analysis of the impact on <i>Raley Foods</i> or • one mark for a non-contextual analysis of the impact on any business. <p>No reward for answers which imply that economic growth is low.</p> <p>Answers about investment must be about <i>Raley's</i> investment and not investments in <i>Raley</i>.</p> <p>Answers about transportation of goods should be about the physical aspects and not the pros and cons of exporting.</p>

Question		Answer	Marks	Guidance	
2	(c)	<p>Menu costs:</p> <ul style="list-style-type: none"> prices must be regularly changed (1) high inflation requires prices to be changed on a regular basis (+1) this causes an administrative cost for business (+1) may cause uncertainty with customers (+1) <p>Shoe leather costs:</p> <ul style="list-style-type: none"> the cost of time and effort of keeping money in the bank (1) customers take longer to compare prices or shop around (1) the regular changes in price make it harder for customers to know what a good price is (+1) may lead to fewer sales as customers decide to keep their money in the bank (+1) 	6	<p>For each term:</p> <ul style="list-style-type: none"> One mark for knowledge of the term <p>PLUS</p> <ul style="list-style-type: none"> One mark for a clear explanation of how it occurs <u>and</u> One mark for how it may affect a business <p>When considering the impact of menu costs on a business ensure that it is an impact of <u>changing the prices</u> rather than the impact of the high prices themselves.</p> <p>Accept answers about shoe leather costs for the business as a customer 'searching' for the cheapest supplier or when checking up on their competitors' prices.</p>	
3	(a)	(i)	<p>The difference between government spending and taxation (2)</p> <p>When government spending is higher than taxation (2)</p> <p>When the government issues gilts/bonds (1) to raise finance (1)</p>	2	<p>Two marks for an accurate answer</p> <p>One mark for a general idea of the term, e.g.</p> <ul style="list-style-type: none"> some reference to government spending (or an example) or taxation <p>No reward for answers about borrowing generally (e.g., the government borrowing from another country or a business borrowing.)</p>
3	(a)	(ii)	<p>The accumulated deficits/surpluses of a country (2)</p> <p>The <u>total</u> amount owed by the country/state/government (2)</p> <p>The stock of outstanding debt (2)</p>	2	<p>Two marks for an accurate answer</p> <p>One mark for a general idea of the term, e.g.</p> <ul style="list-style-type: none"> money owed by the country/government/state money that a government needs to repay no reference to total/accumulated/stock

Question		Answer	Marks	Guidance
3	(b)	<p>Use level of response criteria.</p> <p>Relevant information may include:</p> <ul style="list-style-type: none"> • direct tax is a tax on income • examples are income tax, National Insurance, and corporation tax • higher income tax may reduce consumer spending • may lead to employees wanting higher wages • higher corporation tax will reduce retained profits • may affect distribution of income • depends on how much tax rates change • may affect decisions about what products to sell • may affect pricing decisions • may affect investment/expansion decisions. <p>Exemplar response: Higher levels of income tax (L1) will lead to consumers having less available income to spend (L2). This means that sales of ready meals may fall (L3). As Raley's Classic have a higher YED (CONT) this may affect their demand more than Raley's Fresh ready meals (L4).</p>	8	<p>Levels of response</p> <p>Level 4 (7 – 8 marks) Candidate evaluates the impact of an increase in direct taxation on Raley Foods.</p> <p>Level 3 (5 – 6 marks) Candidate analyses impact(s) of an increase in direct taxation on a business.</p> <p>Level 2 (3 – 4 marks) Candidate explains increase(s) in direct taxation.</p> <p>Level 1 (1 – 2 marks) Candidate identifies example(s) of direct taxation.</p> <p>NB: No reward for answers that consider indirect taxation.</p> <p>Answers need to include reference, at least implicitly, to a direct tax (e.g., taxes on income or profits, less disposable income.)</p>

Question		Answer	Marks	Guidance
3	(c)	<p>Impacts of higher interest rates may include:</p> <ul style="list-style-type: none"> • costs of borrowing increase • borrowing may become more difficult • investment plans may be affected • saving may increase (business & household) • may cause the exchange rate to increase • may reduce business / consumer confidence • may lead to higher costs from current borrowing • may reduce consumer purchasing power / disposable income. <p>Exemplar responses:</p> <p>An increase in interest rates may lead to a higher exchange rate (1) due to increased demand for Sterling (1) which will make UK exports more expensive (1).</p> <p>It will become more expensive to borrow money (1) as lenders require higher interest payments (1) which will increase business costs (1).</p> <p>Consumer confidence falls (1) as they see their mortgage repayments increase (1). This may reduce demand for other consumer goods (1).</p>	9	<p>For each of three impacts of increasing interest rates, one mark for naming a correct impact, one mark for the explanation and one mark for analysing its effect <u>on UK business</u>.</p> <p>NB: Only accept answers about increased unemployment or inflation if there is a clear causal link with high interest rates.</p> <p>No reward for answers which suggest that business costs in general increase unless there is a clear link to an increase in interest rates.</p>
4		<p>Use level of response criteria.</p> <p>Responses regarding the need to adapt the product's brand may include:</p> <ul style="list-style-type: none"> • costs of changing packaging into different languages • will both the 'Fresh' and 'Classic' ready meals be exported? – given attitudes about quality of ready meals in some European countries • will there be a need for a name change due to the similarly named company operating in Europe? • may need to be a decision to focus on certain countries based on the above issues. 	16	<p>Levels of response</p> <p>Level 4 (13 – 16 marks) Candidate evaluates which cost of international trade is likely to have the greatest impact on Raley Foods.</p> <p>Level 3 (9 – 12 marks) Candidate analyses impact(s) of the cost(s) of international trade.</p>

Question	Answer	Marks	Guidance
	<p>Responses regarding transportation distance may include:</p> <ul style="list-style-type: none"> • UK inflation is higher than in Europe which may increase transport costs charged by UK hauliers – may decide to use European-based hauliers • may affect decision as to which countries to export to based on cost • ready meals are perishable so costs will be higher • currently located close to airport which may make air transport easier to access – but more expensive than road transport. <p>Responses regarding increased competition may include:</p> <ul style="list-style-type: none"> • Raley Foods makes £5m profit so may be able to cope with high levels of competition • may need to consider changing branding to avoid similarly named company • may affect which countries are chosen for exporting. <p>Exemplar response: Adapting the product brand may mean having to change the product packaging (L1) such as different languages (L2). Raley Foods would also have a cost if it had to change its brand name, due to the similarly named business in Europe which may delay the launch date (L3). The perishable nature of Raley Food’s products will mean that costs of transport will be high (L2) which may mean Henry decides to use the quicker option to fly the product overseas (L3). Increased competition may mean that Raley Foods will have to start off with lower prices (L1) which may mean</p>		<p>Level 2 (5 – 8 marks) Candidate explains the cost(s) of international trade.</p> <p>Level 1 (1 – 4 marks) Candidate identifies the cost(s) of international trade.</p> <p>Candidate must explicitly select which cost has the greatest impact (with valid justification (following previous analysis)) to be awarded Level 4.</p> <p>Award 13 marks for a generic argument about the main factor, e.g., adapting the brand is the most significant because it is important to ensure different cultures understand your product and packaging.</p> <p>Award 14 marks for a contextual argument about the main cause, e.g., adapting the brand is the most significant because there is already a company with a similar name in Europe which may cause confusion for customers.</p> <p>Award 15 marks for a comparative, generic argument about the main cause, e.g., transport distance issues are the most significant because this is now more expensive due to extra bureaucracy exporting to Europe, whereas the increased competition is something which all companies will have to deal with.</p> <p>Award 16 marks for a comparative, contextual argument about the main cause, e.g., transport distance issues are the most significant, as <i>Raley Foods</i> sells perishable products which will be more expensive to transport whereas it is already used to being successful in the highly competitive market in the UK.</p>

Question	Answer	Marks	Guidance
	<p>it is unable to make a profit on the 'Classic' brand due to the higher costs of production (L3). Given the perishable nature of its product (CONT), the cost of transportation may be the most significant cost, even though it is located near an airport (L4). It can easily overcome the branding issue by changing its name in Europe which will add little extra to costs, as it already must change the packaging for different languages (L4).</p>		
5	<p>Use level of response criteria.</p> <p>Responses by the HR function may come from:</p> <ul style="list-style-type: none"> • increases in wages to retain/attract staff • changes to employment practices to attract individuals into the labour market (e.g., flexible working to attract older workers or those with caring commitments) • increased exit process for increased numbers of staff leaving • additional recruitment efforts – possibly using more innovative methods • focus on improving health & welfare schemes to respond to concerns about local competitor <p>Exemplar responses: More recruitment may be needed (L1) as the current workforce will not be large enough to cope with increased production levels (L2). This will be time consuming and expensive for Raley Foods (L3). May decide to improve health & welfare schemes (L1) to help make employment more attractive to workers (L2). This will help to attract any disaffected workers from the local Internet-based distribution firm (L3).</p>	9	<p>Levels of response</p> <p>Level 3 (7 – 9 marks) Candidate analyses how the HR function should respond to the recent changes in the local labour market.</p> <p>Level 2 (4 – 6 marks) Candidate explains how the HR function may respond to the recent changes in the local labour market.</p> <p>Level 1 (1 – 3 marks) Candidate identifies how the HR function may respond to recent changes in the local labour market.</p> <p>The upper mark of each level can be awarded for clarity of response.</p>

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