

**CAMBRIDGE TECHNICALS LEVEL 3 (2016)**

**Examiners' report**

**BUSINESS**

**05834–05837, 05878**

**Unit 10 January 2023 series**

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## Introduction

Our examiners' reports are produced to offer constructive feedback on candidates' performance in the examinations. They provide useful guidance for future candidates.

The reports will include a general commentary on candidates' performance, identify technical aspects examined in the questions and highlight good performance and where performance could be improved. The reports will also explain aspects which caused difficulty and why the difficulties arose, whether through a lack of knowledge, poor examination technique, or any other identifiable and explainable reason.

Where overall performance on a question/question part was considered good, with no particular areas to highlight, these questions have not been included in the report.

A full copy of the question paper and the mark scheme can be downloaded from OCR.

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## Unit 10 series overview

The entry for this unit continues to grow. This session, the context was based around a manufacturer of ready meals which was facing a number of economic pressures in the UK and was looking to expand into European markets. There were several higher scoring scripts which made excellent use of this material to fully contextualise their responses, especially in Question 1 (d), Question 2 (b), Question 3 (b) and Question 4.

However, the overall standard of scripts this session was low, with many candidates not using the context to aid their responses and, in some cases, ignoring it. For example, the context tells us that, "Economic growth remains strong in the UK." However, many candidates wrote about issues surrounding low growth and high unemployment in some of their responses, especially Question 2 (b) and Question 5. In addition, many technical economics terms were either not used or used inaccurately by a large proportion of candidates. More general business-focused questions seemed to be more accessible and yielded better responses.

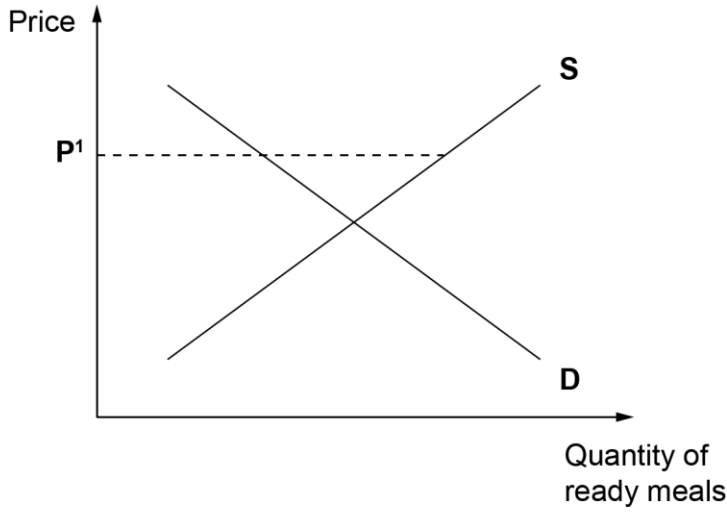
Candidates need to spend more time reading the context at the start of the examination. This time spent will be well rewarded with responses that are both correct and contextually relevant. There was no evidence of any time pressures, with many candidates writing overly long responses when a more focused answer would have been more appropriate.

Question 1, which primarily focused on basic microeconomic theory, was the least well answered. Question 4 produced the best selection of responses, with many reaching Level 4.

Candidates who did well on this paper generally did the following:	Candidates who did less well on this paper generally did the following:
<ul style="list-style-type: none"> <li>• made good use of the context within those questions which required it</li> <li>• understood that income elasticity of demand is not related to changes in prices</li> <li>• had a good knowledge of the basic economic terms covered in the specification.</li> </ul>	<ul style="list-style-type: none"> <li>• were unfamiliar with the way in which market equilibrium works or is affected</li> <li>• confused income elasticity of demand with price elasticity of demand</li> <li>• were unfamiliar with the concepts of menu costs and shoe leather costs</li> <li>• did not know the difference between direct and indirect taxation</li> <li>• did not know what the human resources function of a business was responsible for</li> <li>• did not make use of the context provided.</li> </ul>

**Question 1 (a) (i)**

**1 (a)** When Henry started selling 'Raley's Fresh' ready meals, he found the market to be highly competitive. The diagram below shows a supply and demand diagram.



**(i)** State how supply and demand differ at price P<sup>1</sup>.

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..... **[2]**

Few responses to this question used technical vocabulary well. For example, it was very rare to see a response containing the phrase 'excess supply'. Several candidates were able to gain marks by interpreting the diagram, in terms of the supply being greater than demand.

### Question 1 (a) (ii)

(ii) Explain what is likely to happen in the future if the price in the market is  $P^1$ .

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..... [2]

This was another question which produced some low scoring responses. Most candidates did not appear to understand how a market may react when there is excess supply. Many responses assumed price would stay at  $P^1$ , even though this is not an equilibrium point, suggesting that the business would not be able to sell anything. Overall, there was very little evidence of candidates being familiar with the workings of the free market.

### Question 1 (b)

(b) In the table below, identify with a tick (✓) whether each example will lead to a movement along the supply curve **or** a shift in the supply curve.

You should only tick **three** boxes.

Example	Movement along the supply curve?	Shift in the supply curve?
Increased labour costs		
Decreased material costs		
Lower prices		

[3]

Few candidates were able to correctly identify all three examples, although most could correctly identify at least one.

### Question 1 (c)

(c) Explain why increased levels of competition may lead to non-price competition.

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..... [2]

Most candidates did have some awareness of what non-price competition is, even if they were not able to relate it to increasing levels of competition. Few candidates scored both marks by linking the growth in competition (and likely falling prices) with the need for firms to find other ways to compete.

### Question 1 (d)

(d) Research has forecast the income elasticity of demand for the two ranges of ready meals produced by Raley Foods to be:

- 'Raley's Fresh' ready meals = +0.2
- 'Raley's Classic' ready meals = +1.8.

Evaluate how this research data might affect the business behaviour of Raley Foods.

**[16]**

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Relatively few candidates seemed to understand this concept. The least successful responses appeared to have no knowledge of elasticity as a concept.

Most responses which showed some knowledge of elasticity usually confused the concepts of price and income elasticity. This typically limited the mark to 4 at best, usually for recognising what the values of elasticity meant, in terms of elastic, inelastic, necessity, etc.

Even when candidates showed some understanding of income elasticity, they often missed out on analysis and evaluation marks as they still wrote about changes linked to price.

A small number of successful responses made good use of the data provided, both in the question and in the case study, to suggest that with a growing economy the business may be best to focus on the Classic range of ready meals, especially with the restricted storage space.

#### OCR support



The published mark scheme provides an exemplar response which shows how an answer can quickly achieve a Level 4 mark if it is concise and well structured.



### Question 2 (a)

2 (a) Identify the **four** phases of the business cycle.

- 1 .....
- 2 .....
- 3 .....
- 4 .....

**[4]**

Most candidates were able to name two or more phases of the business cycle, although there were a significant number of responses which included stages of the product life cycle.

A small number of candidates gave two phases which were the same, such as recession and decline, which could only be given once.

### Question 2 (b)

(b) UK economic growth has been 4% per year for the last three years.

Analyse how economic growth in the UK may affect Raley Foods':

[9]

- recruitment

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- investment

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- transportation of goods.

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This question was not well answered, often because candidates were under the incorrect impression that economic growth was low, even though this was clearly not the case. This led to many wrong answers about the impact on recruitment, as candidates wrote about the rising unemployment levels making it easier to recruit. Most candidates were unable to show a clear link between economic growth and the problems of recruiting from an ever-declining pool of available workers.

The impact on investment seemed to be the most challenging area for candidates. Few seemed to understand that investment is spending by Raley Foods (on capital, land, or property) and not investment by other firms into the UK economy or Raley Foods. In addition, most candidates could not link the concept of investment to the change in interest rates caused by high economic growth.

Answers about the impact on transportation of goods often missed the point by considering possible consequences of Brexit and/or changes in the exchange rate, as opposed to the more straightforward impact of economic growth on congestion or transport costs.

In each of the sections to this question it was rare to see the mark for contextual analysis given.

### Misconception



Centres are reminded that some questions in this examination require context in the answers and others do not. This is always made clear by the question wording. For example, this question asks about how economic growth, "...may affect Raley Foods'..." Without any context in the answer a candidate cannot score more than 6 marks. Compare this with Question 2 (c) and Question 3 (c) where the business name is not present. The reference is to business in general and so no context is required.

### Question 2 (c)

(c) High rates of inflation may lead to menu costs and 'shoe leather' costs.

Explain how each of these costs may affect a business.

- menu costs

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- 'shoe leather' costs

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**[6]**

Many candidates scored no marks for this question as they did not know the meaning of these two specification terms. It is very disappointing to see responses from many candidates who believe that menu costs are about the costs of producing a meal or that shoe leather costs are really about the cost of buying leather.

Even if a response showed knowledge of either term, it was rare to see a clear impact on a business.

### Question 3 (a) (i) and (ii)

3 (a) Explain what each of the following means:

(i) government borrowing

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..... [2]


(ii) national debt

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..... [2]

This question asked about two more specification terms which very few candidates knew the meaning of. A large number of candidates thought that government borrowing was either households or firms borrowing from the government or the government borrowing from banks. Very few responses demonstrated a clear understanding of the fact that government borrowing was simply the difference between government spending and taxation.

Answers about the national debt were very slightly better, although most did not seem to understand the idea that debt is a stock. Some responses seen for national debt would have been a partially correct response for government borrowing.

#### Assessment for learning

 Knowledge of economic terms clearly listed in the specification is a necessary requirement for candidates to succeed. The responses to this question (and the previous one about menu costs and shoe leather costs) made clear how most candidates did not have enough knowledge of basic economic terms.

**Question 3 (b)**

**(b)** Evaluate the impact on Raley Foods of the UK government increasing direct taxation.

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..... **[8]**

There were some very good responses to this question where candidates started off by showing they knew what a direct tax was, then explained how this may affect activity before showing how this may affect Raley Foods. These higher scoring responses tended to cover both income tax and corporation tax. However, even these responses rarely achieved Level 4, as they did not make any attempt to evaluate.

At the other extreme, many less successful responses did not score any marks because, while they made valid analytical points about higher taxes, they did not link them to a specific direct tax or wrote about indirect taxes, such as VAT.

**Question 3 (c)**

**(c)** Analyse **three** impacts on UK businesses of the Bank of England increasing interest rates.

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**2** .....

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3 .....

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Most candidates were able to show some understanding of the link between interest rates and the cost of borrowing and/or the incentive to save. In some cases, they were able to link this to the behaviour of firms and households, but relatively few went beyond basic points about higher repayments and less spending.

The main cause of low marks on this question was that most candidates were unable to suggest three different impacts, either making no attempt at a second or third response or merely repeating what was effectively the same answer about borrowing or saving. There were also several responses which tried to suggest that unemployment or inflation may be affected by increasing interest rates, but without any convincing argument as to why this may be the case.

Interest rates affect many aspects of life, not just borrowing and saving, and so it was disappointing not to see more responses about the impact on issues such as consumer confidence, business confidence or exchange rates.

### Question 4

- 4 If Raley Foods starts to export its ready meals to selected countries across Europe, there will be some costs of international trade. Three of these costs are:
- the need to adapt the product's design for foreign markets
  - transportation distance
  - increased competition.

Analyse the impact on Raley Foods of each of the three costs listed above if it decides to export its ready meals to Europe.

Which of these costs is likely to have the greatest impact on Raley Foods?

Give reasons for your choice.

**[16]**

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This was easily the best answered question in the examination with an average mark of 10 and many candidates produced a Level 4 answer.

Less successful responses tended to describe rather than analyse issues, making general points without clear links to the context. Without this analysis, and as the mark scheme makes clear, any decision that is ultimately made cannot be rewarded. More successful responses considered changes that Raley Foods would have to make and identified specific costs of these changes (either financial or non-financial) that may jeopardise the business' success in expanding abroad.

Unlike in the rest of the questions which required use of context, responses to this question saw some excellent use of context to help show clear analysis and evaluation.



### Question 5

5 Analyse how the human resources function of Raley Foods should respond to the recent changes in the local labour market.

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**[9]**

There is always a question in this examination about the response of a named functional business department. It is a continuing source of frustration to the examining team that most candidates continue to have a poor understanding of the activities carried out by each functional area. This question was generally very poorly answered with few candidates scoring more than 4 marks.

Many candidates did show some understanding of how human resources could try to improve recruitment, either by offering higher wages or by undertaking more recruitment activity. In some cases, candidates used the contextual information, such as citing the recent development of a distribution centre nearby or the problems at the internet-based retailer. However, many lower scoring responses also wrongly suggested that the human resources department should be considering changing the product to be made, where the product is distributed or that the business should be linking up with the distribution depot to distribute Raley’s products.

There were very few higher scoring responses that considered how the human resources department might improve recruitment or retention (via exit surveys or improved wellness schemes). Even fewer responses moved on to analysis by suggesting the impact on Raley Foods in terms of cost, future productivity, or ability to recruit or motivate staff.

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