



General Certificate of Secondary Education

Business Studies 3132

Specification A

Higher Tier

Mark Scheme

2008 examination - June series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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Set and published by the Assessment and Qualifications Alliance.

Higher Tier (3132/H)

INTRODUCTION

Whilst every effort is made to give clear guidance, the mark scheme will always require the exercise of judgement in interpreting marginal points, not just occasionally, but continuously throughout the scripts. It should be seen as a set of guidelines, not rigid performance criteria.

One key area of judgement relates to the level of access to levels. In principle, candidates can 'come in' at any level, according to the quality of their response, with Level 1 commonly by-passed. However, problems can arise when, on a higher mark question, the candidate makes, or hints at, one high level point in an otherwise Level 1 (or zero mark) response. Usually the situation is anticipated by the structure of the mark scheme, but examiners should feel able to withhold access to a level should the spirit of the mark scheme appear to have been breached.

Responses suggested in this scheme are not exhaustive. The mark scheme cannot anticipate all possible responses. Any valid response should be given full credit, with reference being made to your team leader when serious doubt arises.

SECTION A**1****Total for this question: 12 marks**

Explain briefly the meanings of the following Business Studies terms and **give an example** of each. Your examples can be drawn from the Case Study or from any other source.

- | | |
|-----------------------------|------------------|
| 1 (a) Tax | <i>(3 marks)</i> |
| 1 (b) Multinational company | <i>(3 marks)</i> |
| 1 (c) Target market | <i>(3 marks)</i> |
| 1 (d) Investment | <i>(3 marks)</i> |

For each sub-question (a) to (d) the following should be adopted.

	AO1 (max 2 marks)	AO2 (max 1 mark)
Level 2	Clear understanding demonstrated (2 marks)	
Level 1	Some understanding demonstrated (1 mark)	Appropriate example used (1 mark)

- | | |
|---------------------------|--|
| (a) Tax | Money paid to the government. The money is used to fund public services, eg income tax, VAT, corporation tax, but allow any clear reference to a specific tax, such as 'tax on wages', but not a 'tax on goods'. |
| (b) Multinational company | A business that has its headquarters in one (or more) countries and operates/produces in other countries, eg Kellogg's, Ford. |
| (c) Target market | The group of people that a company sees as their main customers, eg target market for Special K are women who diet, Frosties are young children. |
| (d) Investment | A purchase a company makes which will bring returns in the future. The investment is often tangible assets, but could be money spent on training, eg Kellogg's investing in new machinery at its Manchester plant. Response does not need to refer to Kellogg's. |

2**Total for this question: 6 marks**

2 (a) What is meant by market research?

(2 marks)

Process of determining the demand for a product, the price consumers are prepared to pay, what they think about the product, etc. The process of gathering information about possible sales. Often involves performing interviews, surveys.

	AO1 (max 2 marks)
Level 2	Clear understanding demonstrated (2 marks)
Level 1	Some understanding demonstrated (1 mark)

(b) Describe **two** different types of market research that Kellogg's might use before it brings out a new type of breakfast cereal. *(4 marks)*

Possible answers include:

- interviews with target groups;
- questionnaires, eg on websites;
- telephone/on the street surveys;
- trialling the product in a chosen area;
- researching competitors.

NB: the two methods should be different and not two variants on one method, eg conducting interviews in the street and in supermarkets. Allow both desk and field research for one mark each (AO1).

	AO1 (max 2 marks)	AO2 (max 2 marks)
Level 2	2 valid forms of market research identified (2 marks)	Both actions adequately described or 1 action well described (2 marks)
Level 1	1 valid form of market research identified (1 mark)	1 action adequately described (1 mark)

3

Total for this question: 6 marks

3 (a) What is meant by voluntary redundancy? *(2 marks)*

Employee/job is no longer required. The employee has agreed to leave the business in return for a payment, enhanced pension etc.

NB: both 'voluntary' and 'redundancy' need to be addressed for Level 2.

	AO1 (max 2 marks)
Level 2	Clear understanding demonstrated (2 marks)
Level 1	Some understanding shown (1 mark)

3 (b) Give **two** reasons why jobs sometimes become redundant. *(4 marks)*

Reasons could include:

demand for the product has fallen, because of:

- greater competition at home or abroad;
- change in consumer tastes;
- decline stage of product life style.

alternative method of production, because of:

- greater use of machinery;
- deskilling means less need for skilled employees;
- more efficient use of labour.

NB: Both reasons can be drawn from either a fall in demand or an alternative method of production.

	AO1 (max 2 marks)	AO2 (max 2 marks)
Level 2	2 valid reasons identified (2 marks)	Both reasons adequately explained or 1 reason well explained (2 marks)
Level 1	1 valid reason identified (1 mark)	1 reason adequately explained (1 mark)

4**Total for this question: 6 marks**

4 (a) What is meant by economies of scale?

(2 marks)

The cost savings that a business receives when it produces a larger output. Average costs of production fall with output. Costs fall as output goes up is just 1 mark without average cost/costs.

	AO1 (max 2 marks)
Level 2	Clear understanding demonstrated (2 marks)
Level 1	Some understanding demonstrated (1 mark)

4 (b) Describe **two** economies of scale that a large business such as Kellogg's might have.*(4 marks)*

Economies could include:

- savings from buying in bulk;
- being large enough to be more capital intensive;
- being big enough to have specialist managers;
- getting better deals from banks/suppliers.

Candidates might give names to economies, eg purchasing, managerial. This is not necessary to gain AO1 marks as a description will suffice. There is no need to refer answer to Kellogg's.

	AO1 (max 2 marks)	AO2 (max 2 marks)
Level 2	2 valid reasons identified (2 marks)	Both reasons adequately explained or 1 well explained (2 marks)
Level 1	1 valid reason identified (1 mark)	1 reason adequately explained (1 mark)

SECTION B

In Section B, Level 2 AO2 and AO3 marks are not available for responses that fail to link firmly with Kellogg's. Answers that could apply to any business are limited to Level 1 with these AOs. The lack of meaningful analysis with such responses will probably restrict assess to Level 1 in AO4.

Clear context is needed to access Level 2 in AO2 and AO3. Context requires more than a mere mention of the company's name. The presence of context does not guarantee a Level 2 mark; it is a requirement. If a low level answer contains context, it remains at Level 1 for these two assessment objectives.

5

Total for this question: 14 marks

The demand for Kellogg's products is changing all the time. When the demand for a product is falling, Kellogg's will often use extension strategies. We are told on **page 6** of the Case Study that Kellogg's uses advertising as the main way to market its products.

5 (a) Describe **two** extension strategies that Kellogg's might use if it finds the demand for All-Bran is falling. *(6 marks)*

Ways could include:

- decrease price/special offers/money off coupons;
- introduce new additives, eg fruit;
- increased advertising;
- new packaging.

NB: strategies must be appropriate to All-Bran for AO2 Level 2 to be accessed.

	AO1 (max 2 marks)	AO2 (max 4 marks)
Level 2	2 valid strategies identified (2 marks)	Both strategies adequately applied to Case Study or 1 strategy well applied (3-4 marks)
Level 1	1 valid strategy identified (1 mark)	1 strategy adequately applied or both poorly applied (1-2 marks)

5 (b) Discuss whether you believe that Kellogg's is behaving ethically when it advertises 'Kids' Preferred' brands during children's television programmes. (8 marks)

Possible areas for discussion include:

- it is legal to advertise this way;
- public opinion is against this form of advertising, eg with junk food and expensive toys;
- Kellogg's has a wholesome ethical image which it does not want to tarnish;
- without persuading the target market, sales would fall;
- a fall in profits could result in a decline in Kellogg's ability to donate money to charity.

	AO3 (max 4 marks)	AO4 (max 4 marks)
Level 2	2 or more valid points analysed well in context (3-4 marks)	Good judgments offered based on balanced analysis (3-4 marks)
Level 1	1 valid point well analysed or 2 poorly analysed (1-2 marks)	Some judgement offered based on analysis (1-2 marks)

To secure AO4 Level 2, both sides of the argument needs to be expressed clearly and judgments need to be supported by the analysis undertaken.

6**Total for this question: 14 marks**

Like most manufacturers, Kellogg's wants to be as efficient as possible. The Company allows some of its employees to work from home (called homeworking), rather than them having to come to an office each day.

- (a) Explain **two** ways in which the introduction of new machinery can increase Kellogg's efficiency. *(6 marks)*

Possible reasons include:

- machines do not need breaks, holidays, take industrial action etc;
- machinery is more likely to produce a consistent product, reducing waste;
- automated machinery needs lower skilled (and cheaper) labour.

	AO1 (max 2 marks)	AO2 (max 4 marks)
Level 2	2 valid reasons identified (2 marks)	Reasons adequately applied to Case Study or 1 reason well applied (3-4 marks)
Level 1	1 valid reason identified (1 mark)	1 reason adequately applied or both poorly applied (1-2 marks)

(b) Discuss whether increasing the amount of homeworking is likely to benefit Kellogg's.
(8 marks)

Possible areas for discussion include:

For:

- reduces need for office space, heating, electricity etc;
- employees do not waste time commuting, so more likely to be fresher or work longer hours;
- employees can fit in work alongside their domestic commitments, so recruitment/retention is easier.

Against:

- Kellogg's has to rely on employees to be working, difficult to supervise;
- need to provide computer, fax etc at employees' homes;
- lose esprit de corps/team working benefits;
- harder to share ideas, keep up to date with what is happening.

To secure AO4 Level 2, both sides of the argument needs to be expressed clearly and judgments need to be supported by the analysis undertaken.

	AO3 (max 4 marks)	AO4 (max 4 marks)
Level 2	2 or more valid areas analysed well in context (3-4 marks)	Good judgments offered based on balanced analysis (3-4 marks)
Level 1	1 valid area well analysed or 2 poorly analysed (1-2 marks)	Some judgement offered based on analysis (1-2 marks)

7

Total for this question: 14 marks

Details of Kellogg's finances can be found on **page 9** of the Case Study. The graphs show that Kellogg's sales and its operating profit in Asia fell between 2005 and 2006.

(a) (i) Calculate to 2 decimal places Kellogg's current ratio for 2005 and 2006.

(3 marks)

Current ratio = current assets: current liabilities

Or current assets/current liabilities

Allow either method as long as related to unity. Allow >2 decimals.

2005

Current assets = 2197

Current liabilities = 3163

Current ratio = 0.69:1 or 0.69

2006

Current assets = 2427

Current liabilities = 4020

Current ratio = 0.60:1 or 0.60

1 mark for stating formula (either version) – this may be the placement of appropriate numbers.

1 mark for each correct answer.

Two correct answers = 3 marks, even without working.

1 decimal place (correct) answers (0.6 and 0.7) is given 2 marks.

All marks are AO2

(a) (ii) Explain why a low current ratio could be a concern for Kellogg's.

(3 marks)

A low current ratio (ie >1) means the company has to fund the deficit, eg an overdraft, which has a cost to the company. These funds could be more productively.

	AO2 (max 3 marks)
Level 2	Explanation of low current ratio clearly applied to Case Study (3 marks)
Level 1	Superficial application of low current ratio. Not related to Case Study (1-2 marks)

(b) Discuss whether you believe that Kellogg's should withdraw from the less profitable markets. (8 marks)

Possible areas for discussion include:

For moving out:

- money is being lost by producing there, better to cut losses;
- could use resources to develop more profitable markets.

Against moving out:

- Kellogg's might still be in the process of being established there – demand might pick up;
- look for ways of developing demand before withdraw;
- this market might be used to gain economies of scale;
- need to consider the bad publicity of withdrawing;
- other markets might be saturated.

Depends upon other figures – is gap widening over time?

Are there cultural differences that have not been addressed?

Profits in the case study show % change – so profits might still be being made despite minus change.

	AO3 (max 4 marks)	AO4 (max 4 marks)
Level 2	2 or more valid areas analysed well in context (3-4 marks)	Good judgments offered based on balanced analysis (3-4 marks)
Level 1	1 valid area well analysed or 2 poorly analysed (1-2 marks)	Some judgement offered based on analysis (1-2 marks)

8**Total for this question: 14 marks**

In 2007, several new countries joined the EU. We are also told on **page 5** of the Case Study that Kellogg's is influenced by the exchange rate.

8 (a) Describe **two** ways in which Kellogg's could be affected by the increase in the size of the EU. *(6 marks)*

Possible responses include:

- greater competition from EU cereal manufacturers;
- bigger market in which to sell products;
- easier to set up manufacturing bases in new EU countries;
- take advantage of cheaper labour, lower taxes etc;
- potentially easier to undertake transactions with common currency;
- standardisation allows for a common product etc.

	AO1 (max 2 marks)	AO2 (max 4 marks)
Level 2	2 ways identified (2 marks)	Both ways adequately applied or 1 factor well applied to Case Study (3-4 marks)
Level 1	1 way identified (1 mark)	1 way adequately applied or both poorly applied (1-2 marks)

(b) Discuss whether changes in exchange rates will affect Kellogg's profits. *(8 marks)*

Areas for discussion include:

- profits are worth less when repatriated to USA, but main market is USA so might not be a problem;
- price of UK manufactured products will change in other countries if exchange rates change, but might not be able to pass on changes;
- would be less of an impact if Kellogg's has manufacturing bases in several countries – one might counterbalance another;
- candidates may consider the difference between the level of profits of UK's operations and the parent company;
- domestic currency used to pay for labour so not so much a problem in country in which goods are made and sold, but raw materials might be imported.

	AO3 (max 4 marks)	AO4 (max 4 marks)
Level 2	2 or more valid points analysed well (3-4 marks)	Good judgements offered based on balanced analysis (3-4 marks)
Level 1	1 valid point well analysed or 2 poorly analysed (1-2 marks)	Some judgement offered based on analysis (1-2 marks)

9

Total for this question: 14 marks

Imagine that a major supermarket chain wishes to buy Kellogg’s cereals, which would then be packaged and sold to consumers as the supermarket’s own brand.

You are a business consultant and have been asked by Kellogg’s to consider the issue. Write a report to the Board of Directors advising it whether or not Kellogg’s should supply this supermarket chain with cereals.

In your report, you need to:

- identify both sides of the argument for Kellogg’s allowing its products to be sold as a supermarket’s own brand;
 - analyse the issues you have raised;
 - make judgements on these issues and form a clear recommendation to make to Kellogg’s.
- (14 marks)*

To score well on AO3, candidates will need to analyse both sides of the argument. AO4 assesses the candidate's evaluation of each side and for justifying the final recommendation.

In favour:

- demand for Kellogg’s products will increase;
- size of Kellogg’s could increase making it more dominant in the cereal market;
- this is a practice other cereal manufactures adopt.

Against:

- if consumers find out, it could lower demand for Kellogg’s branded products as consumers turn to own labels;
- Kellogg’s might get a downmarket image;
- Kellogg’s will be supplying a competitor;
- more advertising might be needed to make Kellogg’s seem better than supermarkets’ own labels;
- loss of status as a manufacturer.

	AO1 (max 2 marks)	AO3 (max 4 marks)	AO4 (max 8 marks)
Level 3			Strong evaluation of strategies, clear supported preference made (7-8 marks)
Level 2	2 or more valid report features present (2 marks)	Good analysis of issues (3-4 marks)	Support is justified but can be incomplete or not entirely based on discussion (4-6 marks)
Level 1	1 valid report feature present (1 mark)	Limited attempt to analyse (1-2 marks)	Limited attempt to support strategies (1-3 marks)

Marking Criteria for Quality of Written Communication

High Performance	Candidates spell, punctuate and use the rules of grammar with almost faultless accuracy, deploying a range of grammatical constructions; they use a wide range of specialist terms adeptly and with precision.	4-5 marks
Intermediate Performance	Candidates spell, punctuate and use the rules of grammar with considerable accuracy; they use a good range of specialist terms with facility.	2-3 marks
Threshold Performance	Candidates spell, punctuate and use the rules of grammar with reasonable accuracy; they use a limited range of specialist terms appropriately.	1 mark