

Mark Scheme for June 2010

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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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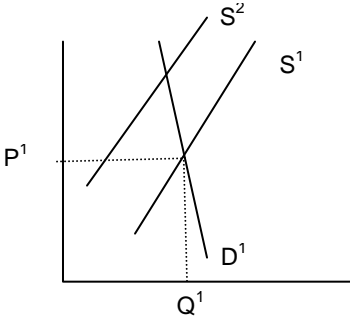
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Question		Expected Answer	Mark	Guidance
1	(a)	<p>Tick the two boxes that identify internal economies of scale.</p> <p>The only accepted answers are:</p> <ul style="list-style-type: none"> • Marketing • Risk bearing 	[2]	Accept the first two ticks only
	(b)	(i) <p>With the aid of an example, explain what is meant by the secondary sector. and application of criteria for success.</p> <p>Secondary sector is one encompassing the production of manufactured goods.</p> <p>Give 1 mark for manufactured. Give 1 mark for a correct example. Max 2 marks.</p>	[2]	<p>Give the mark for 'manufactured' so long as they have the idea of making e.g. 'makes goods from raw materials'.</p> <p>Do not allow the sector after primary or the sector before tertiary etc. Do not allow any idea of services.</p> <p>Allow any correct example e.g. cars, TVs, etc or construction of buildings.</p>

	(b)	(ii)	<p>Explain one difference between public enterprise and a private enterprises.</p> <p>Candidates may mention: Ownership – private by individuals; public by the state/government. Finance – private via shares, reinvesting profits, friends/family, etc; public via funds from government.</p> <p>Give 1 mark for the basic idea. Give 1 mark for the development.</p>		<p>Allow any valid difference.</p> <p>Give marks as follows: ‘ownership [1] which in public enterprises is the government, but in private enterprises consists of shareholders [1]’.</p> <p>As in the example do not penalise for incomplete knowledge e.g. shareholders.</p> <p>It is possible that the basic idea and the development will be run together. This is acceptable.</p>
	(c)	(i)	<p>State and explain ONE advantage to a firm such as FAS Ltd of operating in a competitive market.</p> <p>Candidates may mention:</p> <ul style="list-style-type: none"> • Forces it to be competitive • Will need to identify its strengths • Can become the best • Innovative • Focus on customers <p>Give 1 mark for an advantage Give 1 mark for application Give 1 extra mark for analysis</p>		<p>Allow any valid point.</p> <p>‘FAS would need to be more focused on its customers to ensure success. It would need to produce good quality goods at competitive prices to ensure continued success.’</p> <p>Answers that see FAS as a consumer can be credited so long as it addresses supplier issues.</p> <p>Do not allow: consumer choice.</p> <p>NB There may be marks for explanation even if the advantage is incorrect.</p>

	(c) (ii)	<p>State and explain ONE disadvantage to a firm such as FAS Ltd of operating in a competitive market.</p> <p>Candidates may mention</p> <ul style="list-style-type: none"> • Customers can switch to rivals • Competition can force you out of business • Need to spend large sums of money on promotion, etc. • Substitutes <p>Give 1 mark for a disadvantage Give 1 mark for application Give 1 extra mark for analysis</p>		<p>Allow any valid idea.</p> <p>'In a competitive market, it can be difficult to retain customers because competitors may offer cheaper prices or better quality goods.'</p> <p>Do not allow 'no economies of scale'.</p>
Question	Expected Answer	Mark	Guidance	
	(d)	<p>Chris believes that it is important for FAS Ltd to grow in size. Do you agree that the benefits of growth to FAS Ltd exceed the costs? Give reasons for your answer.</p> <p>Benefits: economies of scale; greater market power; reputation; etc.</p> <p>Costs: boredom of workers; loss of customer relationships; diseconomies of scale, etc.</p> <p>Level 4 [7-8 marks] Candidates give a fully supported answer which clearly considers both benefits and costs though not necessarily equally.</p>	<p>Allow any valid idea.</p> <p>Levels 3 & 4 - AO3 Level 2 - AO2 Level 1 - AO1</p> <p>'Benefits exceed costs because FAS can gain economies of scale and thus greater profits.' [L2 answer]</p> <p>'Benefits do exceed costs. FAS could use economies of scale so their costs per unit would fall and they could make greater profits or sell at a lower price and undercut competitors [L3 answer] There are potential costs such as workers could become bored as they no longer feel part of the firm or diseconomies of scale could set in as it becomes too big. Overall, however, the benefits are greater than the costs especially if FAS does not grow, a competitor might eventually take it over. [L4]</p>	

		<p>Level 3 [5-6 marks] Candidates are able to analyse either benefits and/or costs [with little reference to the other]. There must be a good understanding of the benefits or costs.</p> <p>Level 2 [3-4 marks] Candidates are able to apply the idea of benefits and/or costs to the growth of firms. Answers may be very brief.</p> <p>Level 1 [1-2 marks] Candidates offer knowledge of benefits/costs or of size of firms/growth with no explanation.</p>		
2	(a)	<p>Using Fig. 2, describe what happened to the price of petrol in the UK between January 2007 and July 2008.</p> <p>Give 1 mark for rose Give 1 mark for some quantification not qualitative e.g. it goes from 90-118 a rise of 28.</p>	[2]	<p>Ideally candidates will state: rose [1] or rose with fluctuations and then give some figures e.g. c87p to c118p [1] A more descriptive approach: 'went up from 87p to 97p then fell to 93p and rose to 106p before falling to 104p and then rising to 118p' is acceptable. Max 1 mark for writing out the graph.</p>

	(b) (i)	<p>Fig. 2.1 shows the demand for and supply of petrol. On Fig 2.1, draw and label a new curve to show the effect on the market for petrol of an increase in the price of oil.</p> <p>Give 1 mark for the correct shift of the supply curve Give 1 mark for correctly labelling the curve e.g. S^1.</p>		 <p>The mark for labelling can be gained if the supply is shifted the wrong way.</p>
	(b) (ii)	<p>In the tables below, tick the boxes that state what happens to:</p> <ul style="list-style-type: none"> • the market price • the quantity sold <p>Equilibrium Price goes up [1] Equilibrium Quantity goes down [1]</p>	<p>[2]</p>	<p>OFR applies so award marks in relation to the diagram drawn in 6(a). New P and Q do not need to be shown on diagram, only the equilibrium.</p> <p>Only award the first tick.</p> <p>If no attempt has been made to answer b(ii) then no marks can be gained.</p>

	(b)	(iii)	<p>Assume there is a fall in the price of petrol. Explain how the price elasticity of demand for petrol might affect the revenue of petrol companies.</p> <p>Give 1 mark for a correct statement on revenue and 1 mark for explanation. Only one statement re PED is required.</p>	[2]	<p>If it is elastic then revenue will increase [1] as the gain in quantity sold is greater than the fall in price [1].</p> <p>If it is inelastic then revenue will fall [1] as the gain in quantity is less than the fall in price [1].</p>
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	(c)		<p>Explain one likely effect of a large increase in the price of new cars on the demand for petrol.</p> <p>Candidates could argue that it would lead to a fall or that it would have no effect as people would continue to drive existing cars. PED may be referred to.</p> <p>Level 2 [3-4 marks] Candidates are able to fully explain [analyse] an effect. At the top there will be good use of economic ideas.</p> <p>Level 1 [1-2 marks] At the bottom candidates make a simple statement. At the top they offer some application.</p>	[4]	<p>Allow any valid idea.</p> <p>NB Cross Elasticity is not in the specification. Candidates can refer to it, but all the marks are available without any use of it.</p> <p>'This may put off some people from buying a car, but the total supply of cars will not fall so the demand for petrol will remain the same or increase as older cars are less efficient. [4]'</p>
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	(d)	<p>The government would like people to reduce their use of cars. It could try to achieve this by:</p> <ul style="list-style-type: none"> • increasing the tax on petrol; • subsidising public transport. <p>Which of these policies is likely to be most successful? Give reasons for your answer.</p> <p>Tax: more expensive to use the car, but decrease will depend on PED/availability of alternatives, etc.</p> <p>Subsidy: make it cheaper, but depends on supply, cost relative to cars, etc.</p> <p>Level 4 [7-8 marks] Candidates give a fully supported answer which clearly discusses the effects of both.</p> <p>Level 3 [5-6 marks] Candidates are able to clearly analyse at least one option. If both are done then the answer will be at the top, but so can one done well.</p> <p>Level 2 [3-4 marks] Candidates are able to apply knowledge to at least one of the options.</p> <p>Level 1 [1-2 marks] Candidates offer knowledge of what is meant by increasing tax or giving a subsidy.</p>	[8]	<p>Allow any valid idea.</p> <p>'Increasing tax on petrol would only have a real effect if the increase was very large. Otherwise, as people regard cars as essential their elasticity of demand is very inelastic so a rise of e.g. 2p a litre would have little effect. It also depends on whether public transport is available. Making it cheaper is useless if it is not available when required or is provided in a dirty state. Free buses for pensioners have proved very popular, but it is unlikely that all public transport could be free. On the other hand more people want to protect the environment. On this basis it is likely that subsidising public transport would be more successful.'</p>
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3	(a)	<p>Using Fig. 3, calculate the profit made in 2009. Show your working.</p> <p>£450,000 – 220,000 – 150,000 [1] = £80,000 [1]</p> <p>Give 2 marks for the correct answer.</p>	[2]	<p>No deduction if £ not shown</p> <p>Max 1 mark if the answer is £80</p> <p>OFR applies to a max of 1 mark.</p>
	(b)	<p>State two factors of production and explain why the cost of each might rise if competition is increased.</p> <p>Give 1 mark for each factor of production up to a max of 2 marks.</p> <p>Give 1 mark for each explanation to a max of 2 marks.</p>	[4]	<p>Factors of production: land, labour, capital and enterprise.</p> <p>'Cost of labour [1] might rise because as demand for labour increases workers can ask for higher wages [1].'</p>
	(c)	<p>Explain how a business such as Trung's Restaurant could:</p>		
	(i)	<p>Increase consumer demand;</p> <p>Promotion; improve quality; reduce prices; etc. Give 1 mark for a basic statement. Give 1 more mark for application. Give 1 more mark for some analysis.</p>	[3]	<p>'If Trung's did more advertising [1] then more people would know about the restaurant [1] which would lead to greater demand, revenue and profit [1].'</p> <p>Allow any valid idea.</p> <p>A list of points is worth 1 mark.</p>

	(ii)	<p>Improve productivity.</p> <p>Productivity – train the workers; new capital equipment; etc. Give 1 mark for a basic statement. Give 1 more mark for application Give 1 more mark for some analysis.</p>	[3]	<p>'A firm would increase its productivity by training its workers [1] so they were more skilful [2] and could produce better quality goods [1].</p> <p>Allow any valid idea.</p>
	(d)	<p>Discuss the extent to which a rise in the national minimum wage may affect the profits of Trung's Restaurant.</p> <p>Costs: rise, but this assumes no increase in productivity due to higher wages. The size of the rise will depend on the rise necessary to meet the minimum wage. May have no cost effect if already paying more than the minimum wage.</p> <p>Profits will depend on the ability to pass on the costs to the consumers. Also as workers are paid more they may buy more goods or may be more motivated to give better service. Candidates may mention PED.</p> <p>Level 4 [7-8 marks] Candidates give a fully supported answer which clearly discusses the effects on profits.</p> <p>Level 3 [5-6 marks] Candidates are able to clearly analyse the effects on profits.</p>	[8]	<p>YED is not in the specification. If candidates refer to it or any other relevant idea then reward correct usage.</p> <p>The minimum wage will increase firms costs [L1] because they have to pay workers more [L2]. This may not, however, be the case if workers already receive more than the minimum or if they could increase workers productivity by better training. Equally, better paid workers may give a better service thus increasing the number of customers. If demand is inelastic, few competitors, then increased costs can be passed on so profits might even rise [L3]. The extent to which profits are affected depends therefore on the extent of competitors and whether or not higher wages encourage better service or more customers [L4].</p>

			<p>Level 2 [3-4 marks] Candidates are able to relate the minimum wage to profits, but development is very limited.</p> <p>Level 1 [1-2 marks] Candidates offer knowledge of minimum wage and/or can list some effects on profits.</p>		
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