

GCE

Business Studies

Unit **F291**: An Introduction to Business

Advanced Subsidiary GCE

Mark Scheme for June 2014

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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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11. Annotations

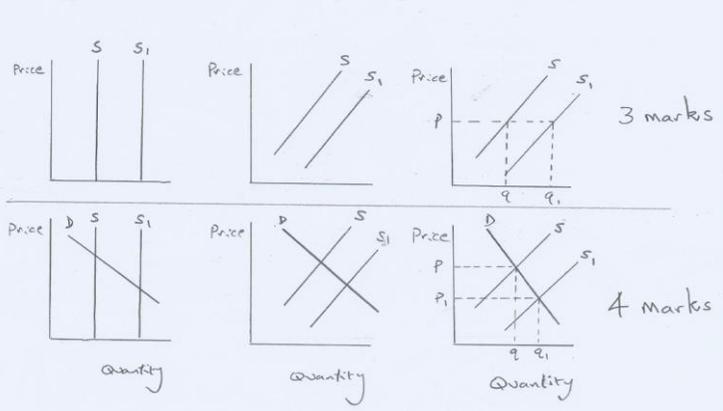
Annotation	Meaning
	Correct
	Incorrect
	Not sure what the candidate is trying to say or it does not make sense.
BOD	Benefit of doubt given
L1 L2 L3 L4	Levels of response awarded at this point
OFR	Own figure rule
TV	Too vague
NAQ	Not answered the question
NUT	Not used the context (generic)
REP	Repetition. The candidate has merely restated what has already been said and so no further credit given.
SEEN	The page has been seen. This can be used on pages where no other annotation is appropriate and MUST be placed on each blank page

Question		Answer	Marks	Guidance	
				Content	Levels of response
1	(a)	<p>Outline TWO differences between a private limited company and a public limited company</p> <p>A private company:</p> <ul style="list-style-type: none"> • has to sell shares privately - a public company sells shares publicly (on the stock market) • has to advertise shares privately - a public company advertises shares publicly • has restrictions on share transfers - a public company has no restrictions • is denoted by 'Ltd' or '& Co Ltd' - a public company is denoted by 'plc' • does not need such a lot of detailed information in its report and accounts - whereas a public company does. Accept "in a private company reporting/accounting is less complicated". (Allow "Private companies do not have to publish accounts, whereas plcs do" but do NOT accept "A private company does not have to disclose accounts") • has no minimum share capital - a public company has a minimum share capital of £50,000. • Has a minimum of 1 shareholder. A plc requires a minimum of 2 • is usually 'small'/may be family run - a public company is usually 'large' 	4	<p>The difference has to be outlined not implied.</p> <p>Thus "A private company is usually small" is only one mark. But "A private company is usually small whereas/however/but a public company is large" is worth two marks.</p> <p>If the first statement is correct e.g. 'An ltd wants to make a profit' and the outline is incorrect e.g. 'but a public company aims to provide a service' award one mark for the initial correct statement (and vice versa).</p> <p>NB This is a Level 1 question; any generic objectives, strategic or tactical are acceptable.</p> <p>The objectives do NOT have to be specific to NR.</p>	2 x (1 +1) marks

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(b)	<p>Other than profit maximization, state TWO likely objectives of a business</p> <p>Allow any reasonable answer such as-</p> <ul style="list-style-type: none"> • become more efficient/lower costs • increase/maximise revenue • sell more • growth/increase market share • survival • improve shareholder value/"increase the price of the shares" • "pay large(r) dividends" • improve company image/be socially responsible/be ethical • Meet stakeholder needs • Become well known • Be more ethical • Treat employees well • Improving customer service • Improve customer safety • Adding value • Increase more goods/increase output • Increase capacity Increase productivity • Motivate/keep staff 'happy'/'content' 	2	In the light of the stem do not accept 'profit maximisation' but DO accept Improve profit levels/profitability OR to reduce losses.	2 x 1 Mark

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(c)	<p>Outline TWO ways in which Network Rail could benefit from setting clear objectives</p> <p>Objectives are targets for a business to reach. If NR has clear objectives then there are number of issues:</p> <ul style="list-style-type: none"> • The business/employees knows what needs to be done/there will be a much greater sense of direction - NR can meet its stakeholders' needs more easily. • safety is paramount - clear objectives relating to health and safety practices will prevent accidents • employees will know what they are expected to achieve - which can improve coordination of business activities. • can motivate employees – and so improve productivity./efficiency/work harder. Or a candidate can make reference as to why an employee would be motivated, e.g. better communication/would know what they need to do. • NR will not just 'drift' along - it is a high profile organisation and the government will want to ensure that losses are turned into profits and to know that it is 'on course' to do so. • objectives form an essential part of NR's business plan - the government might be more likely to increase the subsidy if it can see what NR is trying to achieve. • setting clear strategic objectives will help managers at all levels focus on tactical ones - they will provide a basis for 'day to day' decision making. • objectives are usually quantifiable - NR can use them to measure success. Reviewing success gives a guide as to future courses of action. 	4	<p>Allow reference to strategic or tactical objectives, whether stated explicitly or not.</p> <p>There is no need to work within the 'SMART' framework.</p> <p>There is no need to make reference to NR.</p>	Mark as 2 x (1 + 1)

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(d)	<p>Analyse how an increase in this subsidy might affect Network Rail</p> <p>A subsidy is a payment to a firm given - usually by a governmental department - to support a firm's operation. The payment effectively enables the firm to lower its costs. This is shown by its supply curve shifting to the right. This causes price to fall and equilibrium quantity to rise.</p> <p>In NR's case this means that more tracks could be provided as NR would have more finance available and/or existing tracks could be maintained more often allowing more trains to run on them. Either way 'supply of track availability' to the TOCs will increase.</p> <p>The company website states "Our vision is to improve the rail network by providing faster, more frequent and more reliable journeys between Britain's towns and cities." (Accessed 19/2/12). A larger subsidy could help it do that.</p> <p>In reality this increase in 'track availability' is likely to be a long term rather than short term effect but there is no necessity for a candidate to make this point.</p>	6		<p>Level 3: 6-5 marks Some analysis of the effect of the increase in subsidy on NR.</p> <p>Level 2: 4-3 marks Some understanding demonstrated of how a subsidy affects market equilibrium. No context required.</p> <p>Level 1: 2-1 marks Some knowledge of what a subsidy is.</p>

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	<p>For level 2 A diagram such as the following will be acceptable.</p>  <p>Alternatively the following sorts of statements <i>accompanied by a diagram or not</i>, will attract credit at this level.</p> <ul style="list-style-type: none"> the subsidy will cause price (to the TOCs) to fall OR The subsidy will cause quantity (of routes/services/demand/supply/equilibrium quantity) to rise (3 marks) NR's costs fall (3 marks) price will fall AND will cause quantity (of routes/services/demand/supply/equilibrium quantity) will rise (4 marks) the price fall OR the increase in quantity will increase revenue/profit. (4 marks) subsidy may mean NR may employ more staff/improve staff training/increase staff pay/buy more capital equipment improvement of technology (3/4marks) 		<p>An incorrect diagram should not prevent appropriate marks being awarded to the rest of the answer</p> <p>A statement as to what the subsidy may be used for will attract a Level 2 mark</p>	

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	<p>For Level 3 Award the level for simple statements, accompanied by a diagram or not, of the effect on, implication, consequence of, or reaction by NR e.g.</p> <ul style="list-style-type: none"> the price fall AND the increase in quantity will increase revenue/profit. (5 marks) the subsidy has lowered costs <i>and so NR can lower prices/fees</i> OR The subsidy has lowered costs <i>and so NR can supply more (routes/services)</i> (5 marks). the subsidy has lowered costs <i>and so NR can supply more (routes/services)</i> and lower prices/fees (6 marks) the fall in costs <i>and the lower prices and increased quantity</i> means NR may/will get more revenue/profit. (6 marks) if costs fall due to the subsidy and NR <i>chooses not to lower prices</i> then its profit will rise (6 marks) <p>Candidates are not expected to be able to make the following comments but if they do, reward at Level 3.</p> <ul style="list-style-type: none"> the lower price and increased quantity means NR may/will get more revenue/profit but how much they get <i>depends on the fall in price/increase in demand</i> (6 marks) the lower price and increased quantity means NR may/will get more revenue/profit but how much they get <i>depends on the amount of the rise in the subsidy</i> (6 marks) 		<p>To gain a Level 3 mark there needs to be a clearly linked implication for NR</p> <p>E.G. Using the subsidy to increase pay will mean the employees will be more motivated and subsequently offer a better service to TOCS /passengers OR If the subsidy is used to provide more tracks/ upgrade track therefore trains are more likely to run on time</p> <p>6 mark answers will have a clear contextual reference- e.g. to trains, track, signals. Simply mentioning 'NR' is insufficient to access L3</p>	

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2	<p>State TWO characteristics of a monopoly</p> <p>NB: Technical microeconomic terminology and knowledge are not necessary.</p> <ul style="list-style-type: none"> • the only firm in the market • has a market share of 25% or more • price maker/can set/fix/influence prices. • prices charged may be higher than in a competitive (accept “normal”/usual”) market • may not act in the interest of the consumer • lower output than in a competitive (accept “normal”/”usual”) market • likely to make high profits/to be profitable - even though that is not the necessarily the case with NR • can/may restrict competition/can deter new entrants/put up barriers to entry • may be inefficient (accept “doesn’t keep costs down”) • No or little competition <p>Allow also ‘positive points’ such as</p> <ul style="list-style-type: none"> • can/may get economies of scale • employees (and other stakeholders) may be more secure due to monopoly position • Has a unique product 	2	<p><i>Do not allow ‘most market share’ OR ‘has the biggest/highest market share’</i></p> <p><i>Do not allow ‘a large firm’</i></p>	2 x 1 Mark

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3	<p>Analyse TWO ways in which changes in technology may affect how Network Rail operates as a business.</p> <p>Possible contextual issues include:</p> <p>Improved technology for track (e.g. track maintenance or ‘showing ‘where trains are on the track’) Also (more effective) signals, level crossings etc. This will improve safety and prevent all the expense and bad publicity associated with accidents. Also, a more accurate picture of ‘where trains are’ means that <i>efficiency and productivity</i> - important if NR is trying to lower costs/increase profit/reduce losses - will improve. It will probably be able to increase the number of trains on the tracks and so gain more revenue/profit. But this technology is expensive and will need to be upgraded; where will NR get the money to ‘upgrade’? Ask for a bigger subsidy? Increase fees to TOCs? - as it is in a monopoly position might it be able to do this easily? If NR does not upgrade might there may be safety issues. Poor publicity if this failure to upgrade is reported in the media?</p> <p>‘Safety technology’ involving the use of sensors can improve punctuality and safety by automatically alerting staff to problems, to enable better maintenance of the network.</p> <p>The new Head Office has state of the art information technology. Improved ICT means better communication within the new Head Office and throughout the company – reducing mistakes, faster decisions and implementation of policy, etc. This will hopefully improve efficiency and lowering costs. HRM training implications of technology. Cost, cover for colleagues training, recruitment of those possessing the</p>	10	<p>Candidates are NOT expected to know about the technological implications of running a rail network. Allow reference to any valid type of technology and technological change.</p> <p>Candidates are not expected to know that in practice many of the stations ticketing operations are actually ‘contracted out’ to the TOCs.</p> <p>A reference to the nature of the technology in the context of Network Rail is necessary for Level 3.</p> <p>A consideration of the effects of the technology on the stakeholders of Network Rail is a valid route into the question.</p> <p>Candidates MUST refer to a specific type of technology (in context of NR) to gain L3 marks.</p> <p>Candidates could access marks by explaining/analysing two effects <i>from the same</i></p>	<p>Level 3: 10-7 marks Some analysis of way(s) in which technology may affect the operation of NR.</p> <p>Level 2: 6-4 marks Some understanding demonstrated of technological issues involved. No context required.</p> <p>Level 1: 3-1 marks Some knowledge of technological issues stated.</p>

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	<p>right technological skills etc.</p> <p>NR has to communicate with TOCs/stations/contractors all the time in terms of track maintenance/operating problems - effective ICT is essential so that this is kept to the highest standard and avoids problems/accidents. Important to ensure that maintenance is 'on time'</p> <p>Technology for issuing tickets/buying online, etc. Automated ticketing (selling tickets and 'passing through barriers') means saving on labour costs and, therefore, greater profit. Redundancy issues? However, if technology is poor and mistakes/delays occur then revenue for NR may fall if people switch to substitutes following a bad experience. <i>NB Candidates are not expected to know that in practice many of the stations ticketing operations are actually 'contracted out' to the TOCs.</i></p> <p>Keeping the company website up to date. There are all sorts of references to track maintenance, CSR, career vacancies etc on the website. These are important issues which stakeholders need to be aware.</p> <p>Accept also "technology gives people more leisure time" and so make more leisure journeys and so using TOCs which demand more 'rail slots' from NR.</p> <p>Allow references to negative effects of changes in technology such as expense of purchasing/maintaining/upgrading it, 'systems crashing', training costs/'settling in period for employees to get used to it' etc.</p>	14	<p><i>change in technology</i> (as the question does not actually ask for two separate examples of technological change) e.g. an improvement in track technology can improve efficiency through fewer breakdowns thus lowering costs; it can also mean customers suffer less disruption which could improve the reputation of NR and gain more customers.</p> <p>Two factors analysed award 9/10 marks. One factor analysed award 7/8 marks. Two factors explained award 5/6 marks. One factor explained award 4 marks.</p>	

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	<p><u>Exemplar Answer</u></p> <p>If new communications technology is put into the headquarters this will improve contact between other parts of the business and its customers, e.g. TOCs (Level 2). If a meeting needs to be held headquarters at Network Rail could start a conference call in order to speak to everyone. This would be cheaper for the business as it would not have to spend money on travelling expenses. Time would also be saved making the business more efficient. (Level 3)</p>			

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4	<p>Discuss the likely human resource implications to Network Rail of this move</p> <p>Possible contextual issues include:</p> <p>Some posts may no longer exist at the new head office. New structures in terms of hierarchy and/or span of control. If there are new posts and /or changes to the structure of NR then this implies changing job descriptions. Negotiation/consultation.</p> <p>Issues of redundancy. Voluntary versus compulsory. The former will be less problematic especially if 'generous' terms are offered. Finance available for this? Careful consideration given to the selection criteria to be used where redundancy is unavoidable. Appeals procedure to be considered/established. Consideration of early retirement. NR do not want to be in breach of the law on these matters. (NB detailed knowledge of redundancy is not necessary on F291.)</p> <p>The case also mentions people losing their jobs (line 22) if they cannot commute to Milton Keynes in 75 minutes therefore there may be consideration of (constructive) dismissal issues here - and consequently the effect on morale/motivation of remaining employees worrying 'if the company will do something like that/act in this "macho" fashion again' on some other issue. (Once again, detailed knowledge of these issues is not necessary on F291.)</p> <p>There is however, mention of "working hard with individuals to encourage relocation" (line 23). Good communications and harmonious industrial relations - the term does not have to be used - between NR</p>	18	<p>The specification makes reference to "the significance of the workforce" and workforce planning, recruitment, selection, training so accept any references to these.</p> <p>Allow references to 'sacking' although stronger answers are likely to use the correct terminology.</p> <p>For L3 references to the loss of staff and subsequent costs of recruitment due to the '75 minute rule' or the training costs associated with use of new technology will be valid.</p> <p>One L2 annotation = 4 or 5 marks Two L2 annotations = 5 or 6 marks</p> <p>One L3 annotation = 7 or 8 marks Two L3 annotations = 9 or 10 marks</p> <p>One L4 annotation = 11 or 12 marks Two L4 annotations = 13 or 14 marks</p>	<p>Level 4: 14-11 marks Some evaluation of the HR implications of NR's decision to move.</p> <p>Level 3: 10-7 marks Some analysis of HR implications of NR's decision to move.</p> <p>Level 2: 6-4 marks Some understanding demonstrated of HR issues involved. No context required</p> <p>Level 1: 3-1 marks Some knowledge of human resource management stated.</p> <p>The bottom mark in each level MUST only be used for a BOD answer at that level.</p>

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	<p>management and employees can help get through the process with the minimum of difficulty. This could include relocation expenses or a softening of the attitude to the 75 minute rule.</p> <p>Training issues for ‘state of the art technology’. Consideration of whether this would be on the job or off the job. When? In work time?</p> <p>Promotion opportunities? Opportunities for internal promotion. External appointments bring in ‘new blood’ but may be more expensive and could affect existing NR employees’ morale.</p> <p>Recruiting new employees locally. How? Induction training for new employees.</p> <p><u>Exemplar Answer</u> <i>Employees may be unhappy as they have to move to a different part of the country (Level 2) as they do not live within the allocated 75 minutes travel time of the new HQ in Milton Keynes. This may demotivate the workers and may lead to increased costs to motivate them again (Level 3). Also, if workers have to leave their jobs then NR will have to employ more staff. This may also be costly for NR because it will have to advertise and recruit more workers. (Level 3). Once the new workers are employed they will need training to ensure they are up to NR standards.</i> <i>The impact on NR will be more significant if these workers are highly skilled which may jeopardise NR’s ability to plan the future development of HS2 (Level 4).</i></p>			

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5 *	<p>Evaluate whether the stakeholders of Network Rail would benefit from the HS2 project</p> <p>Customers – strictly speaking these are the TOCs not ‘commuters,’ but allow references to “customers getting to destinations quicker”. More able candidates will recognise that if rail volumes rise more passengers/freight will be carried and so TOCs may well become more profitable. In this case how might NR react? Higher charges?</p> <p>Also, how much will NR charges TOCs to operate on the new route? Will it be a ‘fair price’ or will NR try to exploit its monopoly position?</p> <p>Local community - ‘Hub’ stations will not be local for most so faster services for commuters/ freight transporters will not be ‘door to door’. Nevertheless, some people/freight will be able to reach their destinations faster. However there are going to be issues of external costs such as noise pollution, destruction of countryside, and the fall in house prices for those near the track. On the other hand it may take traffic off the roads and from air travel bringing benefits of lower congestion, carbon emissions etc. from those sources.</p> <p>Suppliers/contractors used by NR - the construction of HS2 will create jobs/job security and a ‘multiplier effect’. Profits are likely to rise. Candidates could consider the extent of this; are UK firms going to be used for supplying materials, engineering expertise, etc.</p> <p>Government - more tax from jobs (income/corporation tax, national insurance, VAT) created by construction</p>		<p>Essentially this question revolves around ‘who benefits/loses out’ and ‘to what extent’?</p> <p>Allow references to both the construction of the line/stations and its operation once completed.</p> <p>Allow reference to ‘owners making more profits’ but NOT any reference to shareholders or shareholders, earning/receiving more dividends because there are no shareholders just ‘members’ (see case – Line 6) References to ‘investors’ are acceptable</p> <p>Evaluation could be achieved by a weighting of the effects on stakeholder(s) or/and a consideration of the long term versus short term effect(s) on stakeholder(s).</p> <p>Ensure answers refer to the stakeholders and NOT the actual business (NR)</p> <p>One L2 annotation = 5 or 6</p>	<p>Level 4: 18-14 marks Some evaluation, e.g. supported judgment concerning the benefit(s) of HS2 on NR’s stakeholders.</p> <p>Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p>Level 3: 13-9 marks Some analysis of the benefit(s) of HS2 on NR’s stakeholders.</p> <p>Relatively straight forward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p> <p>Level 2: 8-5 marks Some understanding of how stakeholders may be affected. No context required</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and</p>

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	<p>and subsequent rail usage so presumably beneficial. If it does improve the county's infrastructure (significantly?) then it should benefit businesses in terms of lower transport costs. It may encourage relocation to the UK of foreign firms. Therefore, again, more tax for the government. Unpopularity from allowing it to go ahead? If government funds are used to subsidise construction there will be an opportunity cost to this.</p> <p>Employees of NR - this is a very large project which NR will have a role in 'overseeing' for years and then managing/maintaining once it is 'up and running'. HS2 could, therefore, help create job security. May be 'good' in terms of "presenting a challenge" to managers/ employees or 'bad' in terms of stress.</p> <p>Competitors – HS2 could take business away from coach companies/short haul airlines and road hauliers. Lower revenue/profit for them. Depends on prices charged by TOCs. Effects of this may be long term rather than short term.</p>		<p>marks Two L2 annotations = 7 or 8 marks</p> <p>One L3 annotation = 9, 10 or 11 marks Two L3 annotations = 11, 12 or 13 marks</p> <p>One L4 annotation = 14, 15 or 16 marks Two L4 annotations = 16, 17 or 18 marks</p>	<p>intrusive.</p> <p>Level 1: 4-1 marks Some knowledge recalled about stakeholders/stakeholder objectives.</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility</p> <p>The bottom mark in each level MUST only be used for a BOD answer at that level.</p>

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		<p><u>Exemplar Answer</u> <i>(Comparison of pros and cons for one stakeholder leading to Level 4 answer.)</i></p> <p><i>The local community is a stakeholder which may suffer as a result of HS2 because the environment will be damaged by noise and air pollution (Level 2), therefore the value of houses may fall (Level 3). However, there may be some parts of the local community, such as the residents of houses near to the railway station, who may see their property prices rise with the coming of HS2 (Level 4). Furthermore, some parts of the community may also benefit from employment opportunities as a result of HS2. This will increase income in the local community through multiplier effects (Level 4).</i></p>			

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