

Business Studies

Advanced Subsidiary GCE

Unit **F291**: An Introduction to Business

Mark Scheme for January 2011

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Question		Expected Answer	Mark	Rationale
1	(a)	<p>easyJet is a public limited company. State two characteristics of a public limited company</p> <p>A public company:</p> <ul style="list-style-type: none"> • shares can be sold to anyone/no restrictions on (share) transfers • can be taken over • has shares • has shares sold on the Stock Market • can advertise shares for sale to the public • is (denoted by/called) a 'plc' • needs considerable detail/information in its Report and Accounts (c.f. a private company) • has a minimum share capital of £50,000 • has a minimum of two shareholders • is (usually) 'large/big' (c.f. a private company) • Is incorporated <p style="text-align: right;">Level 1: 2 x 1 Mark</p>	[2]	<p>Accept reference to features which also apply to a private company since these are also valid in this context eg</p> <ul style="list-style-type: none"> • It is/the business is/the company is separate/different/distinct from its owners • Must publish/make public (financial) results • has shares • has shareholders <p>Accept references to 'limited liability'; plcs have shareholders whose liability IS limited.</p> <p>Do not accept negatives – eg not run by the government.</p>
	(b)	<p>“The air travel market is competitive” (line 3). State two characteristics of a competitive market.”</p> <ul style="list-style-type: none"> • “lots of/many firms” • firms compete for market share • firms competing/they compete on price • firms competing/they compete on quality/service • firms have to 'take'/accept market price • no dominant firm(s) • a firm cannot 'set'/dictate price • “easy to enter the market”/few (or low) barriers to entry • low(er) prices <p style="text-align: right;">Level 1: 2 x 1 Mark</p>	[2]	<p><i>Also allow references to economic characteristics of perfect competition which candidates may have been taught, even though such a market structure does not exist in reality, eg</i></p> <ul style="list-style-type: none"> • perfect information/knowledge • homogenous product • perfectly substitutable/interchangeable factors of production • no/low barriers to entry • no/low barriers to exit <p>Do not allow negative characteristics eg it is not like a monopoly where there is only 1 firm</p> <p>Do not accept 'firms compete with each other'-some statement as to the basis of the competition is necessary. eg 'firms compete on price/market share'.</p>

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(c)	<p>easyJet operates in the tertiary sector of the economy. Giving an example of each, identify the other two sectors of economic activity.</p> <p>Primary – extractive industries; farming, fishing, mining. Secondary – manufacturing and /or construction.</p> <p>Allow any appropriate example of an actual business engaged in either sector.</p> <p>Mark as 2 x (1+1)</p>	[4]	<p>For secondary sector, accept ‘manufacturing’ but not ‘factories’.</p> <p>Do not reward ‘quaternary sector’. It is not on the specification.</p>
(d)	<p>Outline two reasons why easyJet’s objectives may change over time. Allow reference to strategic and or tactical objectives whether explicit or implied. NB the term(s) do NOT have to be used.</p> <p>These may well arise from changes in the external environment. The business environment is dynamic and easyJet will need to review and revise objectives in the light of any change in influences, eg</p> <ul style="list-style-type: none"> • another business opportunity – such as new routes. • emergence/disappearance of a competitor . • changes in costs eg due to any change in cost of fuel, rate of interest, ‘ (more) tax on flights’ etc. Also changes in the state of the economy with concomitant changes in consumer spending on flying. • changes in customer preferences – greater awareness of carbon footprint may reduce demand for flights. <p>Level 2: Reason(s) for change outlined. (4-3) Level 1: Knowledge of objectives/reasons for change stated. (2-1)</p>	[4]	<p>Candidates CANNOT reach 4 marks via a 3+1 route. One Level 2 response = 3 marks. If the second response is at Level 1 the mark will remain at 3.</p> <p>A reason followed by a course of action will gain L2 even if the course of action is not explicitly stated as an objective,</p> <p>L2 may also be gained by offering an outline of the reason for changing objectives eg ‘Objectives may become unrealistic due to a recession’.</p>

Question	Expected Answer	Mark	Rationale
2	<p>Analyse one reason why easyJet carries out market research.</p> <p><i>NB Technical marketing terms are not necessary on F291</i></p> <p>Using market research easyJet can consider:</p> <ul style="list-style-type: none"> • trends in the market, • market share, • customer profiles, • customer needs/wants, • competition, • the best way to promote, • the right price(s) to charge • Improve brand recognition • reputation • To avoid wasting resources on routes that do not have sufficient demand <p>Level 3: Some analysis of a reason for easyJet to carry out market research. (6-5) Level 2: Some understanding of the issues. (4-3) Level 1: Knowledge stated/definition of market research. (2-1)</p>	[6]	<p>Default marks: L3 = 5 L2 = 3 L1 = 1</p> <p><i>Some consequence of carrying out the research will take a candidate to Level 3.</i></p> <p>An analytical statement could, therefore, be along the lines of:</p> <ul style="list-style-type: none"> • “this means easyjet will know the right price to charge to meet its objectives” • “by supplying what customers want easyJet can ensure they will fly with the company again and therefore increasing revenue. • “by knowing the market’s requirements, easyJet can make better business decisions on how to satisfy these and therefore increase market share” • “easyjet can see if a particular type of promotion worked and so judge if it should do it again” • NB Do not reward market research methodology beyond L1 • Do not award L3 when candidate merely states that profits will rise as a result of undertaking research. • A linked consequence such as “Market research ensures customer needs are met, therefore they return to easyjet which leads to increased revenues and so profits should rise up again” would gain L3.

Question	Expected Answer	Mark	Rationale
3	<p>Analyse two factors which influence the demand for easyJet flights.</p> <p>Possibilities include:</p> <ul style="list-style-type: none"> • <i>price of easyJet flights</i> • <i>price of competitors' flights (ie substitutes)</i> • <i>the time of year – seasonal demand</i> • <i>(changes in) consumer's income/level of income in the economy</i> • <i>(changes in) wealth, eg falling house prices reduces "the feelgood factor" and, hence, demand. Vice versa.</i> • <i>the demand for holidays abroad and in the UK.</i> • <i>Complimentary products such as price of holidays abroad/additional cost of meals on the flight, baggage charges, car parking charges at airport.</i> • <i>taste/fashion (desirability of destinations changes over time)</i> • <i>easyJet's marketing (NB detailed knowledge not necessary on F291)</i> • <i>ease (or otherwise) of online booking</i> • <i>reputation for quality of service, reliability, etc.</i> • <i>"whether businesses allow employees to fly to meetings (etc) or if (due to cost cutting) they do not allow this". Alternatively, businesses might insist that its executives use easyJet instead of one of the 'big' airlines since it will be cheaper.</i> <p>Level 3: Some analysis of factors affecting the demand for easyJet flights. (10-7)</p> <p>Level 2: Understanding demonstrated of concepts involved. (6-4)</p> <p>Level 1: Knowledge of factors affecting demand stated. (3-1)</p>	[10]	<p>Default marks: L3 = 8 L2 = 5 L1 = 2</p> <p>For Level 3 there must be some analysis. Saying "If price falls, demand for its flights rises" is only Level 2. For Level 3 there would have to be a statement such as</p> <p>"because (more) people can now afford to use easyJet", or</p> <p>"because this means/may mean easyJet is now cheaper than other airlines".</p> <p>If only one factor is given then the maximum mark is the default at the appropriate level achieved.</p> <p>If only one factor is analysed (L3) and another factor is explained (L2) then the maximum mark is the default mark at L3</p> <p><i>Allow references to macro economic factors (not explicitly on F291 but still valid) such as interest rates, the exchange rate, level of unemployment, level of GDP/State of the economy/Economic cycle, .</i></p>

Question	Expected Answer	Mark	Rationale
4	<p>Discuss how easyJet might be affected by technological change. Technological change gives rise to opportunities and threats. easyJet could 'lead the way' or respond to the following sorts of issues.</p> <p>Necessity to 'keep up' with other airlines in terms of technology More efficient faster engines on other airlines may necessitate easyJet doing this too as the industry is very competitive. Implications for raising finance/retaining profit for buying/leasing the aircraft using the same technology. Similarly, if engine technology improves resulting in quieter, less polluting engines then it is likely that new laws/regulations from the EU (accept 'government') on their use will mean being forced to invest in order to comply. Financial implications.</p> <p>Technology for issuing tickets – easyJet do not want a customer to pay and then not be issued with a booking reference or have the page 'crash'. Or/and difficulties amending bookings at a later date. Need to ensure technology relating to credit card bookings is secure. Cost of updating software and security.</p> <p>Keeping the company website up to date, this is an essential part of easyJet's marketing. Easyjet's booking for flights is via the internet (candidates are NOT expected to know this and detailed knowledge is NOT required). Also as above, need to be secure for payments, etc.</p> <p>HRM training implications of technology in all of the above areas. Cost, cover for colleagues training, recruitment of those possessing the right technological skills, etc. Accept also "technology (in business generally and/or at home) giving people more leisure time" and so taking more holidays and so using easyJet.</p> <p>Level 4: Some evaluation of the impact of the technological change(s) on easyJet. (14-11) Level 3: Some analysis of technological change(s) on easyJet. (10-7) Level 2: Some understanding of the issues. (6-4) Level 1: Factors influencing technological change Identified. (3-1)</p>	[14]	<p>Default marks: L4 = 13 L3 = 9 L2 = 5 L1 = 2</p> <p><i>A reference to the nature of the technological change in the context of easyjet is necessary for Levels 3 and 4.</i></p> <p>A consideration of the effect(s) on the company's stakeholders is a valid route into the question.</p> <p>Evaluation could be achieved by a weighting of the issues or/and a consideration of issues in the short term and long term.</p>

Question	Expected Answer	Mark	Rationale
5	<p>“EasyJet announced a steep drop in profit. (line 10) Evaluate how easyJet’s stakeholders might be affected by a steep drop in profit.”</p> <p>Shareholders. A fall in profits is almost certain to cause a fall in the share price on the stock market and so some shareholders may make a (short run?) capital loss. This may, of course, be ‘academic’ if they choose to hold the shares until they rise again. There are implications for (reduced) dividends too.</p> <p>Are employees going to be ‘losing out’, eg in terms of wages, conditions, job security? In the <i>short run</i> there may be little effect since flights have been scheduled (ie ‘slots’ bought) in advance and it will not be easy to cancel those flights, especially as they may be fully booked. Hence, the number of staff may not change much. In the <i>long run</i> if the fall is sustained then some routes may be cut back and some staff made redundant. The remaining employees may have restrictions on wage rises and poorer conditions of service (the term does not have to be used and detailed knowledge is not required). Some employees may be able to find another job (easily/quickly) with another airline operating from, eg Luton airport. Or indeed any job at all given the economic climate.</p> <p>Customers. If easyJet believes demand to be elastic (the term does not have to be used and detailed knowledge is not required) prices may well be cut in order to generate extra revenue – in an attempt to hopefully, increase profit as well. On the other hand easyJet may raise prices if it feels demand is inelastic. Will any routes be cut? In the event of these latter two courses of action, can customers find a (close?) substitute in the form of another airline operating from a convenient location and at a similar price?</p>		<p>Do NOT reward responses that highlight consequences for easyjet rather than its stakeholders.</p> <p><i>Essentially the answer revolves around “which stakeholders are affected the most and why?” This is one route into Level 4. A candidate might well argue that if the drop in profits is only temporary/expected by the company to be temporary then it may have little effect.</i></p> <p>Better candidates will realise that there will be a distinction between the short and the long term (however defined) effect(s) of the fall in profit. Indeed, if made explicitly, this is a distinction that will raise an answer to Level 4 However the mere mention of the terms short run and long run does not automatically mean it is a L4 answer.</p> <p>In addition, evaluation via a justified judgement may be made within comments on one stakeholder eg “Customers may suffer negative effects as a result of increased prices by easyjet in an attempt to increase revenue and profits, but it could be argued that this may be offset by an increase in the number of routes easyjet chooses to operate, giving more choice to the customer”.</p> <p>Default marks: L4 = 16 L3 = 11 L2 = 7 L1 = 3</p>

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	<p>'The local community' may not suffer too much in the short term for reasons outlined above concerning employees, although there may be some (voluntary?) redundancies. In the short run less sponsorship of local events is one area where costs could be cut. In the longer term if the drop in profits is sustained it is certainly not going to benefit. Much more likely that there will be (compulsory) redundancy and the consequent effect on the local economy. There may well be less traffic congestion/noise/air pollution in the area around airports from which easyJet operates.</p> <p>Suppliers (eg of fuel, planes, etc and also 'airports' – to whom easyJet has to pay a landing charge) such as employees above, may not be too significantly affected "in the short run since the flights are already scheduled and may be hard to cancel without breaking contracts". In the short run easyJet can hardly "buy less fuel"! In the long run if profits continue to be low then there may be negative implications; easyJet may delay investment in new aircraft, cancel routes, etc. It may also try to negotiate/impose less favourable 'deals' with suppliers. This could mean that the suppliers' position is less secure – with negative effects on cash flow, revenue and profit.</p> <p>Presumably 'the government' will not be 'happy', as it will get less (corporation) tax revenue.</p> <p>Competitors Other airlines may benefit from additional business/revenue/profit if easyjet decide to close some of its exiting routes to reduce costs as a result of the drop in profits. Alternatively, they may face increased competition if easyjet decide to open new routes to gain more revenue.</p> <p>Level 4: Some evaluation, eg supported judgment concerning the impact of growth on easyJet's stakeholder(s). 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. (18-14)</p>		<p><i>For Level 3 it is expected the candidate will offer a linked impact on the stakeholder or a linked response of the stakeholder.</i></p>

Question	Expected Answer	Mark	Rationale
	<p>Level 3: Some analysis of the impact of growth on easyJet's stakeholder(s). 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. (13-9)</p> <p>Level 2: Some understanding of the issues(s). 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 intrusive. (8-5)</p> <p>Level 1: Knowledge recalled about stakeholders. 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. (4-1)</p>	<p>[18]</p>	

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