

Applied Business

Advanced GCE F242

Understanding the Business Environment

Mark Scheme for June 2010

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Mark schemes should be read in conjunction with the published question papers and the Report on the Examination.

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Question	Expected Answer	Mark	Additional Guidance
1 (a)	<p>State two different examples of fixed and variable costs that a business could reduce in order to improve its cash-flow.</p> <p>One mark for each correct identification up to a maximum of four identifications</p> <p>FC – rent, rates, mortgage, insurance, salaries of permanent employees, cost of ownership eg loan repayments, maintenance, advertising Electricity/gas (would be fixed in a shop).</p> <p>VC – building materials, builders' wages, raw materials telephone bill, gas bill, stock, petrol, transport costs, any generic examples.</p> <p>Most examples can be classified as both fixed and variable costs depending on the type of business, except salaries, rent and rates, mortgage loan, insurance, which must be fixed and raw materials, stock, wages, which must be variable.</p>	[4]	<p>Accept any reasonable examples, generic response. AO 1 – 1 x 4 marks</p> <p>Treat 'wages' as VC unless qualified e.g. 'director's wages.'</p> <p>Do not accept (DNA) vague answers e.g. premises, transport, energy, bills.</p> <p>DNA equipment, machinery or furniture as these are assets not costs.</p>
(b)	<p>What is the difference between fixed and variable costs?</p> <p>Up to two marks</p> <p>Fixed costs do not vary according to output/sales/level of activity/sales performance (1) whereas variable costs do (1).</p>	[2]	<p>Candidate must refer to output/sales/level of activity/sales performance to gain any marks. Second mark is for the reverse argument. DNA references to profit/loss. AO1 – 2 marks</p>

Question	Expected Answer	Mark	Additional Guidance
(c)	<p>Explain how a building firm such as Taylor Wimpey could improve its cash-flow by cutting the prices of its new homes.</p> <p>Up to three marks</p> <p>Indicative content:</p> <ul style="list-style-type: none">• Increase sales• Increase demand• Increase cash inflow• Increase customers• Increase customer interest• Increase affordability <p>Exemplar response: By reducing the prices the firm hopes to increase sales/attract more customers (1). More people can afford the houses (1). This increases the inflow of money into the business (1).</p>	[3]	<p>Award marks as follows: 1 mark for stating the effect(s) of a price cut. 2 marks for the development of their point/impact on cash-flow. Note – DNA profit/loss.</p> <p>AO1 – 1 mark AO2 – 2 marks</p>

Question	Expected Answer	Mark	Additional Guidance
(d)	<p>Why it is vital for any businesses to maintain a healthy cash-flow?</p> <p>Up to two marks Indicative content:</p> <ul style="list-style-type: none"> • Obtaining finance • Survival • Pay running costs • Cope with changes • Invest in the future <p>Exemplar response:</p> <p>A healthy cash-flow means that a business has the money for the day-to-day running of the business (1). Without money a firm cannot finance its debt and would collapse (1).</p> <p>A healthy cash-flow means a business can afford any changes in costs/unexpected costs (1). To secure finance from banks (1).</p>	[2]	<p>Focus on the importance of having enough cash to run a business and the effect(s) of a lack of funds.</p> <p>Do not award marks for profit/loss.</p> <p>AO1 – 2 marks</p>

Question	Expected Answer	Mark	Additional Guidance
2 (a) (i)	<p>Using the information in the table below, construct and label a break-even chart for Becky's proposed property letting and management business if she were to 'go it alone'.</p> <p>Up to eight marks</p> <p>Y-axis – costs/revenue (1), money (1), £ (1) X-axis – (number of) properties/houses (1), output (1), quantity (1), sales (1) Fixed cost (1), Total costs (1), Revenue/Sales (1) 1 mark for each correct line drawn.</p> <p>FC – 150 TR – at 8 properties – 624 TC – at 8 properties – 374 BEP – 3 properties</p>	[8]	<p>5 marks for the labels, FC, TC, TR, £, Number of properties. 3 marks for the lines / break even point. AO1 – 5 marks AO2 – 3 marks</p> <p>Abbreviations are acceptable.</p> <p>Mark the 5 labels, then turn on the overlay for accuracy of lines.</p> <p>Allow a tolerance of plus or minus one small square on the grid.</p>
(ii)	<p>State the break-even quantity per month.</p> <p>Break-even quantity = 3 OFR</p>	[1]	<p>Answer must be rounded up to the nearest whole number.</p> <p>If any answer other than 3 given, then check break-even chart for OFR.</p> <p>AO2 – 1 mark</p>

Question	Expected Answer	Mark	Additional Guidance
(b)	<p>Becky thinks that she would be able to manage 10 properties in a month if she were to 'go it alone'. Calculate her commission per month if she manages 10 properties.</p> <p>Up to two marks: Award 2 marks if £780 is seen irrespective of method used. Otherwise, max 1 mark for any of the following numbers: 78 (1) or 6500 (1).</p> <p>Responses include:</p> <p>£650 x 0.12 = £78 £650 x 10 (1) = £6500 £650 x 0.12 x 10 £6500 x 0.12 Or £78 x 10 £780 (2) £780 (2)</p> <p>Exemplar response:</p> <p>£650 x 0.12 = £78 (1)</p> <p>£780 -2 marks without workings</p>	[2]	<p>2 marks for £780 without workings.</p> <p>AO1 – 1 mark AO2 – 1 mark</p>

Question	Expected Answer	Mark	Additional Guidance
(c)	<p>Calculate the monthly profit or loss if Becky is only able to manage six properties on a 'go it alone' basis.</p> <p>Up to four marks</p> <p>Profit/loss = TR – TC (1) Revenue = 6 x £650 x 12% = £468 (1) TC = £28 x 6 + £150 = £318 (1) Profit/loss = £468 - £318 = £150 (1) OFR applies</p> <p>Contribution method Selling price – variable cost (1) £50 x 6 = £300 (1) - £150 (1) = £150 (1)</p> <p>Exemplar response: 6 x £650 x 12% = £468 (1) £150 (4)</p>	[4]	<p>Award full marks for £150 if no workings are shown. If not, TR = 468 (1) TC = 318 (1) TR-TC (stated or used) (1) OFR applies</p> <p>AO1 – 2 marks AO2 – 2 marks</p> <p>Award 1 mark if candidates apply the formula (profit = TR – TC) correctly even though they fail to work out TR accurately.</p>
3 (a)	<p>Becky has estimated her capital budget at £2 500. She would like to spend as close to her budget as possible. She feels, however, that she can tolerate a variance of + or – 5%. Calculate the maximum and minimum figures she is prepared to spend on capital equipment.</p> <p>Up to three marks</p> <p>£2500 x 5% = £125 (1) Maximum = £2500 + £125 = £2625 (1) OFR applies Minimum = £2500 - £125 = £2375 (1) OFR applies</p> <p>Exemplar response: Variance = £250, Max = £2500 + £250 = £2750 (ofr 1 mark) Min = £2500 - £250 = £2250 (ofr 1 mark)</p>	[3]	<p>Look out for own figure rule. If candidate calculates 5% incorrectly and uses this figure OFR applies – max 2 marks.</p> <p>AO2 – 3 marks</p>

Question	Expected Answer	Mark	Additional Guidance
(b)	<p>Explain why businesses have to set budgets for their expenditure.</p> <p>Up to two marks</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • It is a planning tool • Avoid overspending • Monitoring • Controlling • Target setting • Motivation tool • Performance indicator • Ensure business runs smoothly <p>Exemplar response:</p> <p>Budgets help Becky to plan (1) her spending according to funds available. They help her not to overspend (1). Budgets are key performance indicators (1). They allow businesses to monitor their performance (1). Budgets allow businesses to plan ahead (1) to ensure smooth running of the business (1). To motivate employees (1) as it gives them a target to work towards (1). To prevent overspending (1).</p>	[2]	<p>Accept any reasonable answers eg gives Becky direction, helps achieve targets.</p> <p>DNA references to going into debt or breaking even.</p> <p>AO1 – 1 mark AO2 – 1 mark</p>

Question	Expected Answer	Mark	Additional Guidance
(c)	<p>What is meant by the term 'franchise'?</p> <p>Up to two marks Indicative content:</p> <ul style="list-style-type: none"> • Contract • Royalties • Name • Brand • Business format • Logo • Trade under established brand • Use name for a percentage of profit <p>Possible response may include:</p> <ul style="list-style-type: none"> • a contractual relation between two firms in which one purchases the right (1) to use the name (1) of another firm; • the purchase/acquisition (1) of the right to trade using a the business format (1) of an existing firm; • to trade under an established brand (1) in exchange for a percentage of the profit (1) 	[2]	<p>DNA examples</p> <p>AO1 – 2 marks</p>

Question	Expected Answer	Mark	Additional Guidance
(d)	<p>Explain two advantages of being a franchisee</p> <p>One mark for each correct identification up to a maximum of two identifications, plus up to a further 1 mark for each of the explanations.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • Support/help from franchisor • Training • Established customer base • Well-known name • Tried and tested method of trading • Less chance of failure • Lower risk of failure • Ensure smooth running of business • Benefit from franchisor's marketing campaign • Lower running costs <p>Exemplar responses:</p> <ul style="list-style-type: none"> • support from franchisor (1), this could be in the form of training (1) • trading under a well-known name (1), this ensures an established customer base (1) • offer of a tried and tested method of trading (1), this ensures business will be run smoothly (1) • an established customer base (1), less chance of the business failing (1) • when the franchisor advertises your business will benefit from the publicity (1) so saving running costs (1) 	[4]	<p>Candidate does not have to answer in context. DNA disadvantages.</p> <p>AO1 – 2 marks AO2 - 2 marks</p>

Question	Expected Answer	Mark	Additional Guidance
(e)	<p>Becky is considering purchasing a franchise with a start-up cost of £12000. Other than a bank loan, identify two possible sources of finance that Becky could use to fund this £12 000 start-up cost.</p> <p>One mark for each correct identification up to a maximum of two identifications Indicative content:</p> <ul style="list-style-type: none"> • own savings • friends and family • government grant/loan • remortgaging her home • credit cards • selling (personal) assets. 	[2]	<p>Only award sources of finance available to small businesses for starting a business. AO1 – 2 marks</p> <p>Do not accept venture capitalist, business angel, bank/building society loans, mortgage, selling fixed assets, overdraft, leasing, debenture, taking on a partner, Princes Trust.</p> <p>DNA vague answers, eg capital.</p>
(f)	<p>Becky can obtain a bank loan for £12 000 at the cost of 6% per annum which has to be repaid over 4 years. Calculate her monthly repayments.</p> <p>Up to three marks Award 3 marks if £310 is seen irrespective of method used. Otherwise, max 2 marks for any of the following numbers: 720 (1), 2880 (1), 14880 (1), 60 (1), 250 (1).</p> <p>Exemplar response:</p> <p>£12000 @ 6% = 720 (1) 720 x 4 = 2880 (1)</p> <p>£12000 @6% = £720 (1) £720/12 = £60 pm (1) £12000/48 = £250pm (2 max)</p> <p>£310 (3)</p>	[3]	<p>£310 with/without workings = 3 marks</p> <p>Check workings only if the answer is wrong. AO1 - 1 mark AO2 - 2 marks</p>

Question	Expected Answer	Mark	Additional Guidance
(g*)	<p>Discuss whether Becky should set up her proposed property and management business as a franchise or 'go it alone'.</p> <p>Level 1 (1-3 marks) Candidate states point(s) about ownership with no context.</p> <p>Level 2 (4-6 marks) Candidate describes advantage(s)/disadvantage(s) of ownership with context.</p> <p>Level 3 (7-9 marks) Candidate analyses advantage(s) and disadvantage(s) of ownership with context.</p> <p>Level 4 (10-12 marks) Candidate evaluates ownership with context.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • Control • Profit retained • Costs • Training and support • Benefits from marketing campaign • Documentation or legality • Ability to raise finance • Recognised brand (franchise) • Established customer base (franchise) <p>Unlimited liability and flexible working hours are not an issue in this case.</p> <p>Exemplar response: As a sole trader Becky has full control of her business. She keeps all the profits and she can run the business however she likes (L1). This is important as she needs flexibility whilst raising a young family (L2) with a commission of 12% she will not have much left over if she had to pay the franchisor 10% of her revenue (L2). This will affect her profit margin (L3)</p>	[12]	<p>L1: [1-3 marks] [1 mark] – candidate states one ownership with no context; often name-dropping. [2-3 marks] – candidate describes both ownership with no context; often name-dropping.</p> <p>L2: [4-6 marks] [4 marks] – candidate describes/explains advantages or disadvantages of one ownership suitable for Becky. [5-6 marks] - candidate describes/explains advantages or disadvantages of both ownership with context.</p> <p>L3: [7-9 marks] [7 marks] - candidate analyses advantages and disadvantages of one ownership suitable for Becky. [8-9 marks] -candidate analyses advantages and disadvantages of both ownership for Becky.</p> <p>L4: [10-12 marks] [10 marks] - candidate evaluates the ownership suitable for Becky with weak justification. [11-12 marks] - candidate evaluates both ownership suitable for Becky with full justification.</p> <p>Acceptable annotation is AO1 = L1 AO2 = L2 AO3 = L3 AO4 = L4 Please indicate each time a candidate achieves a particular level as this will help you to allocate the marks within that level.</p>

Question	Expected Answer	Mark	Additional Guidance
	<p>and ultimately the survival of her business (L3). However, being a sole trader she does not have the backing that a franchise brings (L2) without the training and expertise provided by a franchisor Becky would find it more difficult to get her business up and running to start with (L3). Also the franchise is a recognised brand (L2) which would help Becky to establish her business more easily (L3). Overall, Becky should go it alone as the cost of running a franchise is too much for a new business (L4). It will be difficult for her to raise the start-up cost of £12k (L4).</p>		

Question	Expected Answer	Mark	Additional Guidance
4 (a)	<p>Identify three external stakeholder groups which would have an interest on Becky's proposed property letting and management business and state the interest that each group has on her proposed business.</p> <p>One mark for each correct identification up to a maximum of three identifications, plus a further one mark for correctly stating the interest of each group identified.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • government (1) • local council (1) • customers (1) • competitors (1) • family/friends (1) • Pressure/environmental groups (1) • University (1) • Advertising websites (1) • Charities (1) • Suppliers (1) • Local community (1) • Building companies (1) • Banks/Investors (1) <p>Exemplar response:</p> <ul style="list-style-type: none"> • government (1) - enforces legislation on tenancy (1) • customers (1) e.g. landlords or prospective tenants - expect Becky to check prospective tenants carefully (1) • competitors (1) – want to provide a better tenant-find service than Becky (1) • family/friends (1) – help out with baby sitting so Becky has more time to run the business (1) 	[6]	<p>Explanation of interests must be applied to Becky eg any tenancy laws, needs of landlords, etc.</p> <p>AO1 - 3 marks AO2 - 3 marks</p> <p>Do not accept 'employees' or 'owner' as these are internal.</p> <p>DNA 'loan sharks'.</p> <p>Do not accept vague explanation e.g. customers are interested in the services provided by Becky, has to be described clearly and applied to Becky's business activity.</p>

Question	Expected Answer	Mark	Additional Guidance
(b)	<p>Analyse the possible consequences to a business such as Becky's proposed property letting and management business if it does not take into account the interests of stakeholder groups</p> <p>Level 1 (1-3 marks) Candidate describes possible consequence(s) with no reference to specific stakeholder interests.</p> <p>Level 2 (4-6 marks) Candidate describes the possible consequence(s) of ignoring stakeholder with reference to specific stakeholder interests.</p> <p>Level 3 (7-9 marks) Candidate analyses the possible consequence(s) of ignoring stakeholder with reference to specific stakeholder interests.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • Lose sales/revenue • Lose profit • Lose customers • Lost reputation • Bad publicity • Complaints • Fines • Imprisonment <p>Exemplar response: If a business does not listen to its stakeholders then it will lose customers (L1). Government regulates and enforces legislation on how business should be run, eg EPC requirements. If Becky does not observe these regulations she might be sued/fined (L2). This will lead to bad reputation/fewer customers (L3).</p> <p>If a business does not listen to its stakeholders it will lose sales(L1). Customers do not like to be over-charged and expect a good service. If Becky does not provide what they want, eg find tenants for their properties promptly, then they will go elsewhere (L2). This will affect Becky's revenue/sales/profits (L3)</p>	[9]	<p>L1: [1-3 marks] [1 mark] – candidate describes one consequence with no reference to specific stakeholder interest [2-3 marks] – candidate describes consequences with no reference to specific stakeholder interest</p> <p>L2: [4-6 marks] [4 marks] – candidate describes/explains one consequence with reference to specific stakeholder interest. [5-6 marks] – candidate describes/explains consequences with reference to specific stakeholder interest.</p> <p>L3: [7-9 marks] [7 marks] – candidate analyses one consequence with reference to specific stakeholder interest. [8-9 marks] -candidate analyses consequences with reference to specific stakeholder interest.</p> <p>Acceptable annotation is AO1 L1 AO2 L2 AO3 L3</p> <p>Please indicate each time a candidate achieves a particular level as this will help you to allocate the marks within that level.</p>

Question	Expected Answer	Mark	Additional Guidance
5 (a)	<p>Explain three advantages of online advertising rather than local newspaper advertising to a business such as Becky’s proposed property letting and management business.</p> <p>One mark for each correct identification up to maximum of three identifications, plus a further one mark for each of three explanations.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • reach a wider audience • tends to be cheaper (1) • can be colourful and more effective including videos (1) • newspaper advertising is usually black and white (1) • can include a lot more information (1) • internet users are on the increase while the number of people reading • newspapers is on a constant decline (1) <p>Exemplar response: Reach a wider audience (1) as the Internet is accessible worldwide (1). Tends to be cheaper (1) so this keeps the running costs low (1). Can be colourful and more effective including videos (1) newspaper advertising is usually black and white (1) Can include a lot more information (1) this will allow customers to find out exactly what’s on offer (1) Internet users are on the increase while the number of people reading newspapers is on a constant decline (1)</p>	[6]	<p>AO1 – 3 marks AO2 – 3 marks</p> <p>Award marks for 3 advantages only – max 3 marks. Expansion marks are awarded for any further explanation of advantages identified.</p> <p>Award marks for any valid comparison between advertising on line and local newspapers or examples taken from case study.</p> <p>No context required.</p> <p>Look at out for more than one advantage in each writing frame.</p>

Question	Expected Answer	Mark	Additional Guidance
(b)	<p>Other than a SWOT analysis, suggest one other marketing tool which Becky could use to analyse her proposed property letting and management business and the environment in which it would operate.</p> <p>For one mark</p> <p>Indicative content:</p> <ul style="list-style-type: none">• SLEPT• PEST• Boston Matrix• Product Life Cycle• Ansoff's Matrix• PESTEL	[1]	Accept any appropriate marketing tools. AO1 – 1 mark

Question	Expected Answer	Mark	Additional Guidance
(c)	<p>Discuss the extent to which it is beneficial that Becky carries out a SWOT analysis before launching her proposed property letting and management business.</p> <p>Level 1 (1-3 marks) Candidate identifies way(s) in which SWOT analysis can be used in a business.</p> <p>Level 2 (4-6 marks) Candidate describes the advantages and/or disadvantages to Becky of a SWOT analysis or candidate carries out a SWOT analysis on Becky's business.</p> <p>Level 3 (7-9 marks) Candidate analyses advantages and/or disadvantages of a SWOT analysis with context.</p> <p>Level 4 (10-12 marks) Candidate evaluates the usefulness of SWOT analysis with context.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • examines internal and external environment • forces managers to consider the situation • examines the strengths, weaknesses, opportunities and threats • help devise plans for the future. • identify a new target market <p>Exemplar response: SWOT analysis examines the internal and external environment a business operates in (L1). By examining her strengths Becky can identify areas of the business which she can specialise in such as using her previous experience to provide landlords with a personal management and letting services (L2). By providing landlords with a personal service tailored to their needs Becky will ensure repeat business (L3). However, Becky must carry out thorough market research on what landlords' needs and wants are rather than relying entirely on SWOT analysis (L4). A SWOT analysis must be used with other marketing tools eg PEST and SLEPT (L4).</p>	[12]	<p>L1: [1-3 marks] [1 mark] – candidate describes elements of SWOT, with no context. [2-3 marks] – candidate describes examples of how SWOT can be used by businesses; often name-dropping with no context.</p> <p>L2: [4-6 marks] [4 marks] – candidate describes how Becky can use one element of SWOT giving example(s). OR candidate carries out a SWOT analysis on Becky examining 1 element only. [5-6 marks] – candidate describes how Becky can use more than one element of SWOT analysis giving examples. OR candidate carries out a SWOT analysis on Becky examining more than 1 element.</p> <p>L3: [7-9 marks] [7 marks] – candidate analyses how Becky can benefit from examining one element of SWOT. [8-9 marks] – candidate analyses how Becky can benefit from examining more than 1 element of SWOT.</p> <p>L4: [10-12 marks] [10 marks] – candidate evaluates the usefulness of SWOT with context and weak justification. [11-12 marks] – candidate evaluates the usefulness of SWOT with context and fully justified.</p> <p>Acceptable annotation is AO1 = L1 AO2 = L2 AO3 = L3 AO4 = L4</p>

Question	Expected Answer	Mark	Additional Guidance
6	<p>Evaluate the likely impact of changes in economic variables on the success of Becky's proposed property letting and management business.</p> <p>Level 1 (1-3 marks) Candidate describes economic variable(s) with no context.</p> <p>Level 2 (4-6 marks) Candidate describes economic variable(s) that have an impact on Becky.</p> <p>Level 3 (7-9 marks) Candidate analyses the impact that economic variable(s) have on Becky.</p> <p>Level 4 (10-12 marks) Candidate evaluates the impact that economic variable(s) have on Becky.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • Interest rates • Inflation • Unemployment • Exchange rates • Recession • Credit crunch • Economic growth • Consumer confidence <p>Exemplar response: Economic variables such as interest rates, inflation, unemployment, exchange rates, etc, can affect the success of businesses (L1). Becky's business thrives well when unemployment is low as people will be able to afford a higher rent (L2), thus increasingly Becky's revenue (L3). However, the number of people seeking rental accommodation might decrease when unemployment is low as they will be able to afford to buy their own property (L3). On balance, Becky will benefit from low unemployment as there will be more employment opportunities so more rented accommodation will be</p>	[12]	<p>L1: [1-3 marks] [1 mark] – candidate identifies economic variable(s) with no context. [2-3 marks] – candidate describes how economic variable(s) can affect businesses; often name-dropping with no context.</p> <p>L2: [4-6 marks] [4 marks] – candidate describes one economic variable that affects Becky. [5-6 marks] – candidate describes more than one economic variable that affects Becky.</p> <p>L3: [7-9 marks] [7 marks] – candidate analyses one economic variable that affects Becky. [8-9 marks] -candidate analyses more than one economic variable that affects Becky.</p> <p>L4: [10-12 marks] [10 marks] – candidate evaluates one economic variable that affects Becky. [11-12 marks] – candidate evaluates more than one economic variable that affects Becky – candidate compares the impact of different economic factors.</p>

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	<p>needed (L4).</p> <p>When interest rate increases, mortgage repayments increases (L1) This will affect the demand for house purchase (L2) but more people will turn to rented properties boosting Becky's potential revenue (L3). Overall a high interest rate is good news for Becky's business if unemployment remains low and there is a sustain demand for rented properties (L4).</p> <p>When inflation increases consumers have less spending power (L1). As the general public struggle to pay for the day-to-day essentials such as food, energy and fuel bills, Becky might find it difficult to raise the rent level or might have to accept lower rent for the properties she manages (L2). This lowers her profit margin and revenue (L3). A high level of inflation will affect Becky's business but not as much as interest rate or unemployment rate (L4).</p>		

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