

## **Business Studies**

General Certificate of Secondary Education **A293**

Production, Finance and the External Business Environment

### **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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Question			Spec Ref	Expected Answer	Mark	Additional Guidance
1	(a)	(i)	3.3.3	<p><b>Target: Ability to read business data presented in the form of a bar chart.</b></p> <p>Other EU countries.</p>	[1]	Candidate correctly interprets the bar chart.
1	(a)	(ii)	3.3.2	<p><b>Target: Ability to analyse business data presented in pie charts.</b></p> <p><b>Level 2 (3-4 marks)</b></p> <ul style="list-style-type: none"> <li>The value of sales falls from £50m in 2004 (L2) to £32m in 2009 (L2)/ by £18m (L2 x 2).</li> </ul> <p><b>Level 1 (1-2 mark)</b></p> <ul style="list-style-type: none"> <li>Sales fall (L1) by 2%/from 10% to 8% (L1).</li> </ul>	[4]	<p><b>Level 2 (3-4 marks)</b> The candidate performs correct calculations showing the ability to interpret a pie chart quoting appropriate figures.</p> <p><b>Level 1 (1-2 mark)</b> The candidate states that sales have fallen for the first mark, but refers to percentage sales only as a development point for the second mark. No <i>second</i> mark for the candidate who refers to the fall in the total sales of the market. A candidate who performs incorrect calculations of the value changes should only be credited as L1.</p>

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1	(b)	3.3.3	<p><b>Target: Knowledge of globalisation.</b></p> <table border="1"> <thead> <tr> <th>Statements</th> <th>Tick (✓) the three statements that show CAS plc is in global market.</th> </tr> </thead> <tbody> <tr> <td>CAS plc sells goods in different parts of the world.</td> <td>✓</td> </tr> <tr> <td>CAS plc designs models in its factory in Bowton.</td> <td></td> </tr> <tr> <td>Businesses and consumers will benefit from a fall in the interest rate in 2009.</td> <td></td> </tr> <tr> <td>CAS plc has recruited workers from Europe.</td> <td>✓</td> </tr> <tr> <td>The accounts of CAS plc are done by a business in India.</td> <td>✓</td> </tr> <tr> <td>CAS plc produces and sells goods in the UK.</td> <td></td> </tr> </tbody> </table>	Statements	Tick (✓) the three statements that show CAS plc is in global market.	CAS plc sells goods in different parts of the world.	✓	CAS plc designs models in its factory in Bowton.		Businesses and consumers will benefit from a fall in the interest rate in 2009.		CAS plc has recruited workers from Europe.	✓	The accounts of CAS plc are done by a business in India.	✓	CAS plc produces and sells goods in the UK.		[3]	<p>The candidate correctly ticks against the statements showing that they know the meaning of the term globalisation.</p> <p>Mark the first/top three ticks only if the candidate gives more than three.</p>
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Question		Spec Ref	Expected Answer	Mark	Additional Guidance
1	(c)	3.3.3	<p><b>Target: Ability to analyse the effect of unemployment and income changes on a business.</b></p> <p>Sales of toys would fall (1) because people would not have as much money to spend (1), luxuries/hobbies/expensive goods/need to spend on essentials (1).</p> <p>CAS plc would have to reduce its prices (1) because people would not be able to afford the higher prices (1) as they have less to spend (1) and to encourage more people to buy the toys (1).</p> <p>Prices may rise (1) if CAS wants to maintain its revenue (1) so they still make a profit/so they do not make a loss (1).</p> <p>Prices may fall (1) as costs have fallen (1) because incomes have fallen (1) and CAS will still be able to make a profit (1).</p>	<p><b>3+1</b>  <b>or</b>  <b>2+2</b>  <b>[4]</b></p>	<p>One mark for correctly stating the effect on sales and prices, one mark for a point explaining each effect. There must be an explicit or implicit reference to the effect on sales/prices for a mark to be awarded.</p>

Question			Spec Ref	Expected Answer	Mark	Additional Guidance
1	(d)	(i)	3.3.1	<p><b>Target: Knowledge of the definition of economies of scale.</b></p> <p>The average costs will fall/will be lower (1).</p>	[1]	The candidate knows the effect of economies of scale on the average costs of production.
1	(d)	(ii)	3.3.1	<p><b>Target: Knowledge of the different kinds of economies of scale.</b></p> <p>A large business is able to be run more efficiently than a small business as it can employ <b>SPECIALIST</b> managers. As it produces large quantities of goods it can use up to date <b>TECHNOLOGY</b> which reduces its manufacturing costs. Banks are also able to lend money to a large business at a lower rate of interest than they would give to a small business helping the large business to achieve <b>FINANCIAL</b> economies of scale.</p>	[3]	The candidate correctly identifies the different kinds of economies of scale.
1	(d)	(iii)	3.3.1	<p><b>Target: Knowledge of the different kinds of economies of scale.</b></p> <ul style="list-style-type: none"> <li>• Bulk-buying economies/purchasing economies (1) because they are producing large quantities (1) are when a business gets a discount (1) for guaranteeing the supplier high sales (1)</li> <li>• Marketing economies (1) are when the costs of advertising/distribution (1) are spread across a large output (1)</li> <li>• Risk-bearing economies (1) are when the business can accept lower profit margins (1) because it has spread its risk across a number of products (1).</li> </ul>	[3]	The candidate can state an economy of scale for one mark and give one point of explanation for a second mark.

Question			Spec Ref	Expected Answer	Mark	Additional Guidance
1	(d)	(iv)	3.3.3	<p><b>Target: Ability to evaluate the possible effects of a merger on competition and on consumers.</b></p> <p><b>Level 3 (6 marks)</b> Whether or not the consumer benefits depends on what AD plc does. This will depend on how competitive the market remains – there are still a number of competitors who may keep prices low.</p> <p><b>Level 2 (3-5 marks)</b></p> <p><b>Level 1 (1-2 marks)</b></p> <ul style="list-style-type: none"> <li>• The consumer will benefit because the toys will be sold at a lower price (L1) because AD plc has lower production costs (L1).</li> <li>• Consumers will benefit because there are competitors (1) so they will need to keep prices low (1).</li> <li>• Consumers will benefit because the firm can now afford to use better technology (1) which will lead to an increase in the quality of goods produced (1).</li> <li>• There will be less competition and the consumer will not benefit if AD plc does not reduce its prices (L1) because it wants to make bigger profits (L1) on each of the toys that it sells.</li> <li>• The consumer will not benefit because there will be less choice (L1) since there are less toy producers (L1).</li> </ul>	[6]	<p><b>Level 3 (6 marks)</b> The candidate comes to a reasoned conclusion relevant to the context.</p> <p><b>Level 2 (3-5 marks)</b> The candidate is able to discuss <b>both</b> a possible benefit <b>and</b> a possible disadvantage to the consumer.</p> <p><b>Level 1 (1-3 marks)</b> The candidate is able to discuss <b>either</b> a possible benefit <b>or</b> a possible disadvantage to the consumer.</p> <p>Allow three marks for a particularly well-developed L1 answer.</p>

Question		Spec Ref	Expected Answer	Mark	Additional Guidance
1	(e)*	3.3.3	<p><b>Target: The ability to evaluate the impact of changes in interest rates on businesses.</b></p> <ul style="list-style-type: none"> <li>• A cut in interest rates will reduce the costs of the business (1) so that it can sell the toys at a lower price (L1) and so will increase sales (1).</li> <li>• A cut in interest rates will increase sales (1) because it will be cheaper for consumers to borrow money (1) and they will pay less on any existing loans that they have (1) so disposable income rises (1) meaning that they have more money to spend on other things (1).</li> <li>• A cut in interest rates will reduce the earnings on savings (1) so people will save less (1) and spend more so that sales will rise (1).</li> <li>• Lower interest rates will reduce the income of the business (1) on any investments it has/if it has money in the bank (1)</li> <li>• It will depend on how much the interest rate changes (1).</li> <li>• It will pay less back on loans (1), giving it more money to invest (1) and to expand (1).</li> </ul> <p>5 to 6 marks Relatively straightforward 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>3-4 marks Simple ideas have been expressed in an appropriate context. There are likely to be some errors on spelling, punctuation and grammar of which some may be noticeable and intrusive.</p> <p>1-2 marks Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive.</p>	[6]	One mark for each point stated and one mark for each point of explanation.
<b>Total</b>				<b>[31]</b>	

Question			Spec Ref	Expected Answer	Mark	Additional Guidance																		
2	(a)		3.3.1	<p><b>Target: Knowledge of fixed and variable costs.</b></p> <table border="1"> <thead> <tr> <th>Cost</th> <th>Fixed Cost</th> <th>Variable Cost</th> </tr> </thead> <tbody> <tr> <td>The cost of designing.</td> <td>✓</td> <td></td> </tr> <tr> <td>The metal to make the Russell steam-roller.</td> <td></td> <td>✓</td> </tr> <tr> <td>The electricity used to power the machines that make the Russell steam-roller.</td> <td></td> <td>✓</td> </tr> <tr> <td>The rent on the factory in which the Russell steam-roller will be made.</td> <td>✓</td> <td></td> </tr> <tr> <td>The cost of transporting the finished Russell steam-rollers to the wholesalers.</td> <td></td> <td>✓</td> </tr> </tbody> </table>	Cost	Fixed Cost	Variable Cost	The cost of designing.	✓		The metal to make the Russell steam-roller.		✓	The electricity used to power the machines that make the Russell steam-roller.		✓	The rent on the factory in which the Russell steam-roller will be made.	✓		The cost of transporting the finished Russell steam-rollers to the wholesalers.		✓	[4]	The candidate is able to correctly identify examples of fixed and variable costs.
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2	(b)		3.3.1	<p><b>Target: Ability to apply numerical skills to business cost data.</b></p> <p>Total fixed cost = £560,000 (1)</p> <p>Total variable cost = £1,200,000 (1)</p> <p>Total cost = £1,760,000 (1)</p> <p>Average cost = £176 (1)</p>	[4]	<p>The candidate is able to correctly apply numerical skills to business data.</p> <p>NB the “error carried forward” rule applies to the total cost and average cost calculations.</p>																		
2	(c)	(i)	3.3.1	<p><b>Target: Ability to read data from a line graph.</b></p> <p>Total revenue = £1,000,000 (accept £1 million)</p>	[1]	The candidate correctly reads the graph or links the answer to the previous question/data in the pre-release case study.																		

Question			Spec Ref	Expected Answer	Mark	Additional Guidance
2	(c)	(ii)	3.3.1	<p><b>Target: Ability to read a break-even graph and identify the break- even output.</b></p> <p>Break-even output = 7,000</p>	[1]	The candidate shows an understanding of the concept of break-even by correctly identifying the break-even output.
2	(c)	(iii)	3.3.1	<p><b>Target: Ability to interpret data on a line graph.</b></p> <p>Profit at 9500 tractors sold = £200,000 (2)</p> <p>£1,900,000 – £1,700,000 (1) = £200,000</p>	[2]	Two marks for the correct answer, one mark for an appropriate method if there is an incorrect answer.
2	(d)		3.3.1	<p>Correct answer = 5000 (2)</p> <p><i>Method marks</i></p> <p><u>Total fixed cost</u> (1)</p> <p>Contribution per unit (Selling price – variable cost)</p> <p><math>\frac{500,000}{100} = (1)</math></p> <p>Contribution = Price – variable costs =</p> <p>£200 – £100 = £100 (1)</p>	[3]	<p><b>Target: Ability to calculate the break-even output using the appropriate formula.</b></p> <p>Three marks for the correct answer. In the event of an incorrect answer:</p> <ul style="list-style-type: none"> <li>• One mark for calculating the contribution</li> <li>• One mark for the method of £500,000/100</li> <li>• one mark for writing the correct formula.</li> </ul>

Question		Spec Ref	Expected Answer	Mark	Additional Guidance
2	(e)	3.3.1	<p><b>Target: Ability to evaluate the usefulness of break-even forecasts.</b></p> <ul style="list-style-type: none"> <li>• Break-even forecasts are predictions/estimate (1).</li> <li>• The revenue figure may not be accurate (1) if the business has to change the price it sells the goods at (1).</li> <li>• The costs figures may not be accurate (1) if the variable costs rise or fall (1)/if the cost of materials rises or falls (1) or rent changes (1).</li> <li>• Does not take into consideration recession (1) and economies of scale (1).</li> <li>• If the exchange rate changes the costs may change (1) or if new technology is introduced (1) or if health and safety regulations change (1).</li> </ul>	[3]	<p>One mark for a general point recognising that forecasts are predictions.</p> <p>One mark for stating each source of inaccuracy (revenue or costs) and one mark for each point explaining why the inaccuracy may occur.</p>

Question		Spec Ref	Expected Answer	Mark	Additional Guidance
2	(f)	3.3.1	<p><b>Target: Ability to apply knowledge about the advantages and disadvantages of new technology.</b></p> <ul style="list-style-type: none"> <li>• New technology should reduce costs (1) because fewer workers will be needed (1) as the productivity of workers improves (1) because production can be automated (1).</li> <li>• The quality of production may improve (1) because machines are more accurate than humans (1) so there is less waste (1) which lowers costs of production (1).</li> <li>• More can be produced (1) because machines work faster than humans (1) and can work 24/7 (1).</li> <li>• Workers may be made redundant (1) which will cost CAS plc money (1) and may result in bad publicity (1).</li> <li>• Production may stop/be distributed (1) if the machines break down (1) if there is a power cut (1) which means money will be lost (1).</li> <li>• The machines may be expensive to buy (1) so the firm is taking a big risk in investing in them (1).</li> <li>• The machines may be expensive to run (1) if they use a lot of electricity (1) or there are high maintenance costs (1).</li> <li>• New workers may need to be recruited/specialist engineers (1) which costs time/money (1).</li> <li>• Higher labour costs (1) if trained people need to be recruited (1) or existing workers need to be trained (1).</li> </ul>	1+1x4 [8]	The candidate states an advantage/disadvantage of introducing new technology for one mark and is able to explain why that advantage/disadvantage arises for the second mark.

Question	Spec Ref	Expected Answer	Mark	Additional Guidance	
2	(g)	3.3.3	<p><b>Target: Ability to apply knowledge about sustainable work practices.</b></p> <ul style="list-style-type: none"> <li>• Switch off lights when not used/install sensors that switch lights off automatically when there is no one in the room (1) so that electricity costs are reduced (1).</li> <li>• Do not leave computers on standby (1) to reduce electricity costs (1)</li> <li>• They could sell their paper (1) rather than bin it (1).</li> <li>• They could refill ink cartridges (1) which will save them money (1).</li> <li>• Buy recycled/recyclable materials (1) such as paper (1).</li> <li>• Only print documents when necessary (1) to reduce the amount of ink used (1).</li> <li>• When printing is necessary, print on both sides of the paper (1) reduce the use of paper.</li> <li>• Use water carefully (1). Check for leaks/install taps which switch off automatically (1) which will reduce their water bill (1).</li> <li>• Insulate the building well (1) to reduce heat loss (1). Close windows when it is cold outside (1).</li> <li>• Use solar or wind power (1) to generate electricity (1) lowering energy costs long term (1) or they can sell their surplus to the national grid (1).</li> <li>• Use video-conferencing (1) for meetings to reduce travel (1).</li> <li>• Can repair existing products/machines (1) rather than buying a new one (1).</li> <li>• Purchase supplies locally (1) to reduce transport/carbon costs (1).</li> <li>• They could market the fact of their sustainability (1) which would increase sales (1) or charge more for the product (1).</li> </ul>	<p><b>1+3 or 2+2 [4]</b></p>	<p>One mark for each suggestion and one mark for a point of explanation of that example.</p> <p>Candidates may score maximum marks for developing one point well or for two separate points.</p> <p>Do not reward 'reduce costs' twice as this only has one benefit.</p>
			<b>Total</b>	<b>[30]</b>	

Question			Spec Ref	Expected Answer	Mark	Additional Guidance
3	(a)	(i)	3.3.3	<p><b>Target: Knowledge of ethical issues.</b></p> <ul style="list-style-type: none"> <li>• Different employment laws eg age of workers</li> <li>• Loss of jobs (1)</li> <li>• Use of child labour (1)</li> <li>• Low health and safety standards (1)</li> <li>• Low wages (1)</li> <li>• High pollution (1).</li> <li>• Wages may not be fair (1)</li> <li>• Workers may not be treated very well because of a lack of regulation in China (1).</li> </ul>	[1]	One mark for any appropriate ethical issue identified.
3	(a)	(ii)	3.3.3	<p><b>Target: Ability to evaluate the benefits of being an ethical producer.</b></p> <ul style="list-style-type: none"> <li>• Yes because it would improve their image (1) gives them a USP (1) and sell more (1).</li> <li>• Yes because it is morally wrong to treat people unethically (1).</li> <li>• Yes because consumers are increasingly concerned about unethical production (1) and this may result in lost sales (1).</li> <li>• No because it would raise costs (1) and this would put CAS plc at a disadvantage compared to its competitors (1).</li> <li>• No because any production in China helps to improve living standards there (1).</li> </ul>	[2]	No mark for the recommendation. One mark for each point of explanation.

Question			Spec Ref	Expected Answer	Mark	Additional Guidance
3	(a)	(iii)	3.3.3	<p><b>Target: Ability to apply knowledge about stakeholders and how they may be affected by business decisions.</b></p> <ul style="list-style-type: none"> <li>Workers in China/named worker (1) – get jobs; earn more money (1).</li> <li>Consumers (1) may benefit from cheaper toys (1).</li> <li>CAS plc shareholders (1) – gain increased profits/dividends (1).</li> <li>Chinese government (1) – earns more tax (1) from VAT or from Corporation Tax or Income Tax.</li> <li>Suppliers in China (1) – who have a larger market for their goods (1).</li> <li>The local community in the UK (1) – less congestion around the factory (1) or less pollution. (1).</li> <li>Locals (1) – affected by pollution (1).</li> </ul>	[4]	One mark for each stakeholder identified and one mark for a benefit that each may gain.
3	(a)	(iv)		<p><b>Target: Ability to apply knowledge about stakeholders and how they may be affected by business decisions.</b></p> <ul style="list-style-type: none"> <li>Workers (1) may lose jobs (1).</li> <li>The community (1) may suffer the consequences of global warming if the environmental effects of production are not controlled (1).</li> <li>Suppliers (1) may lose sales/profits (1).</li> <li>Competitors (1) may lose sales because CAS plc can charge lower prices (1).</li> <li>The UK government (1) loses tax income (1).</li> </ul>	[4]	One mark for each stakeholder identified and one mark for a negative effect that each may experience.

Question		Spec Ref	Expected Answer	Mark	Additional Guidance
3	(b)	3.3.2	<p><b>Target: Ability to recommend appropriate ways of acquiring business resources.</b></p> <p><b>Level 3 (5-6 marks)</b></p> <ul style="list-style-type: none"> <li>• I recommend that the factory is leased because the product life cycle of the Russell Steam-roller is only 2 – 3 years and CAS plc may not need the factory after that so it is likely to be cheaper to lease the factory.</li> <li>• It would be better to buy the factory if property values in China are expected to rise because CAS plc may make a profit from selling it when it has finished using it.</li> <li>• It will depend on whether it costs more with interest to take out a mortgage than it does to lease the building.</li> <li>• I recommend that CAS plc buys the factory because although it will be dearer, if CAS wants to produce in China in the long run, it will work out cheaper.</li> </ul> <p><b>Level 2 (3-4 marks)</b> 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.</p> <p><b>Level 1 (1-2 marks)</b> <i>For leasing</i> CAS plc will be able to move to a more modern factory at the end of the lease period. Leasing may cost more <i>For purchasing</i> Leasing can be very expensive. CAS plc will own the factory once it has paid off the mortgage.</p>	[6]	<p><b>Level 3 (5-6 marks)</b> The candidate makes a recommendation and justifies it in the context of the case study.</p> <p><b>Level 2 (3-4 marks)</b> The candidate shows knowledge of the benefits of <b>both</b> leasing <b>and</b> purchasing a set.</p> <p><b>Level 1 (1-2 marks)</b> The candidate shows knowledge of <b>either</b> leasing <b>or</b> purchasing an asset.</p>

Question	Spec Ref	Expected Answer	Mark	Additional Guidance	
3	(c)	3.3.3	<p><b>Target: Ability to evaluate the benefits of the UK membership of the EU to a business.</b></p> <p><b>Level 2 (5-6 marks)</b> I agree with the statement because non-EU countries have fewer safety laws and also fewer skilled workers so the products would be lower quality. It depends on the costs as it could be cheaper to produce in a country that is not part of the European Union like North America.</p> <p><b>Level 1 (1-4 marks)</b></p> <ul style="list-style-type: none"> <li>• There are no customs barriers on trade between countries in the EU.</li> <li>• There is a single market.</li> <li>• There is free trade throughout Europe.</li> <li>• There are no tariffs to be paid on trade between countries in the EU.</li> <li>• Goods that sell in one EU country can be sold in any other EU country because there are common standards/regulations.</li> <li>• CAS plc may benefit from grants from the EU which may reduce production costs.</li> <li>• Since most of CAS plc's trade is with other EU countries (60%), then it is crucial that it produces within the EU.</li> <li>• It can produce near the market (1) which will cut down on distribution/transport costs.</li> <li>• Consumers may consider it to be a more ethical producer (1) t produces in the EU because of the general reputation that China has gained on ethical production (1).</li> <li>• Many workers from Europe are employed at CAS (1) so they will be motivated (1) to help an EU business.</li> </ul>	[6]	<p><b>Level 2 (5-6 marks)</b> Comes to an overall judgement in cntext weighing up considerations.</p> <p><b>Level 1 (1-4 marks)</b> The candidate states advantages to CAS plc of producing in an EU country.</p>

				<ul style="list-style-type: none"><li>• CAS plc does not need to produce within the EU because its production costs will be lower in China.</li><li>• CAS plc has a social responsibility to the EU.</li><li>• There are fewer health and safety regulations (1) meaning lower costs (1) and this would increase profit (1).</li><li>• A fall in the exchange rate in the future (1) which would make production costs cheaper (1).</li><li>• 40% of the sales are outside the EU and the</li><li>• It may be argued that as a European producer, CAS plc has a social responsibility to protect European jobs.</li></ul>		

Question		Spec Ref	Expected Answer	Mark	Additional Guidance
3	(d)	3.3.3	<p><b>Target: Ability to evaluate the importance of the different determinants of the competitiveness of a business.</b></p> <p><b>Level 2 (3-6 marks)</b></p> <ul style="list-style-type: none"> <li>• Whilst rising wages in China will raise production costs, improvements in the productivity of workers, perhaps resulting from better training for workers or from the use of technology in production or from an increase in motivation may offset the effect on the average costs of production.</li> <li>• Competitiveness will not be reduced if wage costs are rising in other countries/for other producers as well.</li> <li>• It might help to make production in China more ethical but also unless conditions in the factories improve, the problems of the ethical image may not be overcome.</li> <li>• Quality may rise if the workers feel happier because they have received a higher wage.</li> </ul> <p><b>Level 1 (1-2 marks)</b></p> <ul style="list-style-type: none"> <li>• Competitiveness will fall because rising wage costs will cause total costs to rise and so producers will have to charge more for their goods.</li> </ul>	[6]	<p><b>Level 2 (3-6 marks)</b> The candidate explores further why competitiveness may be lost eg the development of other countries with cheaper labour or explores reasons why competitiveness may not be lost.</p> <p><b>Level 1 (1-2 marks)</b> The candidate explains that competitiveness may be reduced as costs/prices rise so sales fall.</p>
			<b>Total</b>	<b>[29]</b>	
			<b>Question Paper Total</b>	<b>[90]</b>	

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