

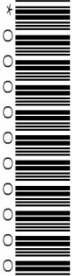
## Level 3 Cambridge Technicals in Business 05878

### Unit 10: Economics for business

#### Sample Assessment Material

### Date – Morning/Afternoon

Time Allowed: 2 hours



**You may use:**

- A calculator



First Name		Last Name	
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Centre Number						Candidate Number				
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Date of Birth									
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#### INSTRUCTIONS

- Use black ink.
- Complete the boxes above with your name, centre number and candidate number. Please write clearly and in capital letters.
- Answer **all** the questions.
- Write your answer to each question in the space provided. Additional paper may be used if necessary but you must clearly show your candidate number, centre number and question number (s).
- Do **not** write in the bar codes.

#### INFORMATION

- The total mark for this paper is **90**.
- The marks for each question or part question are shown in brackets [ ].
- This document consists of **16** pages.

Read the scenario below. Answer **all** questions.

**Scenario:** *Royal Purdell plc*

Royal Purdell plc has a factory producing ceramic tableware (such as cups, saucers, plates, bowls and serving dishes) from bone china in the Staffordshire town of Stoke-on-Trent. The area is known world-wide as 'The Potteries' because it is the centre of the UK ceramics industry.

The British Ceramic Research Association, the British Ceramic Confederation and Staffordshire University (which offers a wide range of ceramics degree courses), are all located in 'The Potteries', as well as a number of kiln and mould makers and specialist mechanical engineers.

Bone china is brilliant white, translucent, strong and chip-resistant. The main ingredient used to make bone china is china clay which is found in very few places world-wide. Royal Purdell has always used china clay from Cornwall, but in the last ten years other local businesses have been importing china clay from Brazil, where there are much larger reserves and production is on a larger scale.

At first, bone china was only made in the UK. Royal Purdell has been producing bone china tableware since 1823. In the 1950s Japan began production. Now bone china is mass produced in more countries in the Far East, including Indonesia and Bangladesh. A few UK bone china businesses have survived, due to the long established reputation of handmade tableware being produced in 'The Potteries'.

Katherine Potts has been the Chief Executive Officer (CEO) of Royal Purdell for the last 17 years and has over 30 years' experience working in the ceramics industry. The company employs 200 highly skilled workers in its factory. An apprenticeship with Royal Purdell can last anything up to 10 years. It often recruits graduates from local universities to work as designers.

Though there has been some mechanisation in the industry, Royal Purdell prides itself on its tableware being hand-made and hand painted. The production of bone china at Royal Purdell is still very labour intensive. To make a piece of tableware, a clay mix is hand-pressed on to a mould to make the desired shape (a cup for example). Then any seams are removed, excess clay is cut away and the item is sponged, smoothed and fired. Firing involves the item being placed on a continuously moving belt and passing very slowly through an extremely hot tunnel kiln. Once cooled, a glaze is added before again being fired, cooled and then hand painted.

Because of its long-established brand name and high quality reputation, Royal Purdell has found that a large advertising spend is not necessary. However it does promote the launch of new designs, such as its collaborations with famous designers and chefs, via its own website and by personal selling to retailers. Its tableware is sold at upmarket department stores throughout the country. These retailers also promote Royal Purdell's tableware through their own websites. Tableware is a popular choice for wedding gifts.

In recent years Royal Purdell has found its export sales are rising, especially in countries such as the USA and Russia.

**Extract 1 – British dining habits are changing**

The sale of bowls is booming, driven by modern lap-food lifestyles and the rise of Instagram shots of bowl food.

Carla Busazi, a market research executive, declares, “Bowls go with absolutely everything, and in a day and age when we’re always clutching our smartphones, it’s very easy just to have a bowl in the other hand”.

Celebrity chef Nigella Lawson says, “If I could, I’d eat everything out of a bowl”.

A recent survey reveals that the sale of bowls has leapt to 40% of new tableware purchased. This compares to plates which only accounts for 8% of new tableware sales.

Source: Haynes, G. (2016, 10 May). Bowl movement: how the plate fell out of flavour. *The Guardian – G2*

**Extract 2 – The rate of unemployment**

In spring 2016 the rate of unemployment, measured by the Labour Force Survey, was 5.1% for the UK as a whole and for Stoke-on-Trent it was 6.4%.

The Claimant Count for spring 2016 was 1.8% for the UK as a whole and for Stoke-on-Trent it was 2.1%.

Source: Office for National Statistics (2016) Labour Market Profile - Stoke-on-Trent  
Available at <http://www.nomisweb.co.uk/reports/lmp/la/1946157171/report.aspx?town=stoke>

Turn over

Answer **all** of the questions.

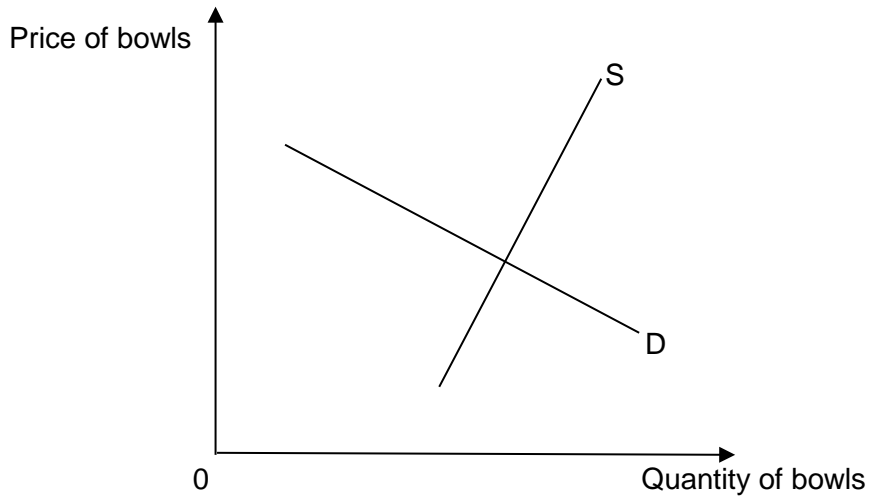
**1**

Refer to **Extract 1**.

- (a) (i) On the diagram below show how the popularity of eating from bowls will affect the market.

**[2]**

Demand and supply diagram for bowls



- (ii) Identify how the market equilibrium for bowls has changed.

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**[1]**

- (b) The supply of bowls is relatively inelastic.

Analyse how inelastic supply could affect Royal Purdell.

**[9]**

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2. Identify **two** examples of **external** economies of scale which affect Royal Purdell. Analyse the impact of each example on Royal Purdell.

[8]

External economy of scale 1

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Analysis of impact

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External economy of scale 2

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Analysis of impact

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3. (a) Identify and explain **one** factor that has led to globalisation.

Factor

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Explanation

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**[3]**

(b) Describe two ways Royal Purdell benefits from international trade.

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**[4]**

Turn over







4. Refer to **Extract 2**.

- (a) Explain **two** reasons why the Labour Force Survey figures are higher than the Claimant Count figures.

Reason 1

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Reason 2

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**[4]**

- (b) Analyse how the high rate of unemployment in Stoke-on-Trent might affect Royal Purdell. **[9]**

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# SPECIMEN

## Sample Assessment Material

LEVEL 3 CAMBRIDGE TECHNICAL IN BUSINESS

Unit 10: Economics for business

MARK SCHEME

Duration: 2 hours

MAXIMUM MARK 90

SPECIMEN

Version: 1 Date:20/06/2016

This document consists of 10 pages

Question	Answer	Marks	Guidance
<b>SECTION A</b>			
1	(ai)		
		2	<p>One mark for shifting the <b>demand</b> curve, to any new position.</p> <p>One mark for the shift in demand being to the right, above and fairly parallel to the old demand curve.</p> <p>Ignore any shift in the supply curve.</p>
1	(aii)		
	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• The (market) price has increased</li> <li>• The (market) quantity/output has increased</li> <li>• The equilibrium has moved upwards or to the right</li> </ul>	1	<p>One mark for any correct response.</p> <p>Accept a diagram representation.</p> <p><b>Do not allow OFR from 1ai.</b></p>
1	(b)		
	<p>Use of level of response criteria.</p> <p>Responses include:</p> <ul style="list-style-type: none"> <li>• An inelastic supply curve is steeper</li> <li>• Supply is less responsive to a change in price</li> <li>• Less able to increase supply when the market price is rising</li> <li>• Less competitive</li> <li>• Less able to reduce supply in a falling market</li> <li>• Finished stock levels may rise</li> </ul>	9	<p><b>Levels of response</b></p> <p><b>Level 3 (7 - 9 marks)</b> Candidate analyses the impact of inelastic supply on Royal Purdell.</p> <p><b>Level 2 (4 – 6 marks)</b> Candidate explains one or more effect of inelastic supply.</p> <p><b>Level 1 (1 – 3 marks)</b> Candidate identifies effects of inelastic supply.</p>

Question	Answer	Marks	Guidance
	<p>Exemplar responses: e.g. Inelastic supply means Royal Purdell is not able to easily increase its supply (<b>L1</b>) of bowls in response to the increase in the market price. It is difficult to increase its labour force because they are highly skilled (<b>L2</b>). It may therefore loose out to competitors who can react quicker and secure more sales (<b>L3</b>).</p> <p>If prices are falling, Royal Purdell cannot immediately reduce its production of bowls (<b>L1</b>) due to the long-time taken to fire these products (<b>L2</b>) so may it be left with unsold stock (<b>L3</b>).</p>		<p>Level 3 responses (7-9 marks) must be in the context of Royal Purdell.</p> <p>Effects could be negative or positive, though negative is more likely.</p>
2	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• industry concentration</li> <li>• pool of skilled labour</li> <li>• supporting services</li> <li>• location of suppliers</li> <li>• sharing resources and knowledge</li> </ul> <p>Exemplar response: e.g. <u>External economy of scale 1</u> Sharing of resources and knowledge (<b>1</b>) <u>Analysis of impact</u> This is when similar businesses share machinery, staff and information about suppliers for mutual benefit (<b>1</b>). This doesn't include illegal agreements. Royal Purdell could benefit from ceramic firms sharing information about the quality of Brazilian china clay (<b>1</b>). This could result in Royal Purdell buying lower cost materials and increasing its profits (<b>1</b>). <u>External economy of scale 2</u> Supporting services (<b>1</b>) <u>Analysis of impact</u> These are businesses that provide services specific to that industry (<b>1</b>). In this case Royal Purdell benefit from the close proximity of specialist mechanical engineers (<b>1</b>), reducing the costs of maintenance and repair work (<b>1</b>).</p>	8	<p>For each of the two examples, one mark for a correct identification of an <b>external</b> economy of scale, one mark for the explanation, one mark for analysing its impact and one mark for the response being contextual. Both answers must be contextual to Royal Purdell to be awarded the full eight marks.</p> <p>Accept approximations to the indicative content, e.g. close proximity of suppliers, ancillary services and co-operation.</p> <p>The examples should all result in benefits to Royal Purdell.</p>

Question	Answer	Marks	Guidance
3 (a)	<p>Responses include:</p> <ul style="list-style-type: none"> <li>• mobile/communication technologies</li> <li>• free trade</li> <li>• Transport infrastructure i.e.               <ul style="list-style-type: none"> <li>○ containerisation</li> <li>○ pipelines</li> <li>○ aviation</li> <li>○ ports</li> <li>○ rail</li> <li>○ road</li> </ul> </li> </ul> <p>Exemplar response: e.g. <u>Factor</u> The Internet (1) <u>Explanation</u> This has led to globalisation because businesses can use the Internet to communicate with customers all over the world (1). This means businesses have direct and immediate contact with their customers (1).</p>	3	<p>One mark for a correct factor, one mark for a basic explanation and two marks for a developed explanation.</p> <p>Allow an example of transport infrastructure, e.g. airports and larger planes for aviation.</p>
3 (b)	<p>Responses include:</p> <ul style="list-style-type: none"> <li>• wider access to markets</li> <li>• extended product life cycles</li> <li>• increased market share/market penetration</li> <li>• able to overcome domestic limitations e.g. increased competition, domestic legislation and market saturation</li> <li>• access to more suppliers and lower prices</li> <li>• more competitive</li> </ul> <p>Exemplar response: e.g. Royal Purdell benefits from more customers (1), because it is able to sell its tableware to the USA and China (1). Royal Purdell also benefits from extending its products' life cycles (1) maintaining the maturity stage of products like plates (1).</p>	4	<p>One mark for each correct benefit up to a maximum of two. One mark for each contextual description.</p> <p>Accept approximations to responses such as more countries or more customers for wider access to markets.</p>

Question	Answer	Marks	Guidance
3 (c)	<p>Use level of response criteria.</p> <p>Contextual responses include:</p> <ul style="list-style-type: none"> <li>• benefits/opportunities <ul style="list-style-type: none"> <li>○ lower priced clay</li> <li>○ Brazilian reserves are less likely to run out</li> <li>○ can place larger bulk orders</li> <li>○ able to better compete with other local ceramic businesses already using Brazilian china clay</li> </ul> </li> <li>• costs/threats <ul style="list-style-type: none"> <li>○ difficulties of dealing with a supplier in Brazil</li> <li>○ reducing their image of being made in Britain</li> <li>○ longer delivery time from Brazil</li> <li>○ higher transport costs from Brazil</li> <li>○ storage of larger quantities because of bulk ordering</li> </ul> </li> </ul> <p>Exemplar response: e.g. If Katherine does decide to import Brazilian china clay, Royal Purdell might pay less for each unit of china clay <b>(L1)</b>. This because Brazil is a larger producer of china clay which means that it is likely to have lower costs of production <b>(L2)</b>. Cheaper costs means Royal Purdell can increasing its profit per item of tableware <b>(L3)</b> especially as Royal Purdell is unlikely to lower its prices as that could affect its reputation <b>(L4)</b>.</p> <p>On the other hand, a potential threat is the distance the china clay has to travel <b>(L1)</b>. The long distance transport of china clay would also make delivery times longer <b>(L2)</b>. This would make the supply of items like bowls even more inelastic <b>(L3)</b>. It depends on how frequent the deliveries of clay are from Cornwall or Brazil <b>(L4)</b>.</p> <p>I would recommend that Katherine continues to buy Cornish china clay because Royal Purdell need to protect its 'hand-made in the UK' brand image</p>	16	<p><b>Levels of response</b></p> <p><b>Level 4 (13 - 16 marks)</b> Candidate evaluates, recommends and justifies whether Royal Purdell should import china clay from Brazil.</p> <p><b>Level 3 (9 - 12 marks)</b> Candidate analyses the positive and negative impacts of importing china clay from Brazil.</p> <p><b>Level 2 (5 – 8 marks)</b> Candidate explains the costs and benefits of importing china clay from Brazil.</p> <p><b>Level 1 (1 – 4 marks)</b> Candidate identifies costs and benefits related to importing china clay from Brazil.</p> <p><b>To achieve the upper two marks of any level the answer must be contextual.</b></p>

Question	Answer	Marks	Guidance
	in a more competitive global market <b>(L4)</b> .		
4	<p><b>(a)</b> Use level of response criteria.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Inclusion of non-claimants</li> <li>• Burden of proof</li> </ul> <p>Exemplar response:</p> <p><u>Reason 1</u> The LFS figures include people who are not working and don't claim unemployment benefits, but the CC only include people claiming unemployment benefits <b>(1)</b>. So the LFS is higher because someone could be not working and not claim benefits because they have a partner who is working <b>(1)</b>.</p> <p><u>Reason 2</u> The CC figures include people who have to attend meetings to prove they are actively seeking work, but there is no need to prove you are seeking work for the LFS <b>(1)</b>. So the LFS is higher because someone could claim they are seeking work when they aren't actively doing so <b>(1)</b>.</p>	4	<p>One mark for each correct reason, the candidate identifies. One second mark for explaining the reason the LFS is higher.</p> <p>No context is required in the answer.</p>
4	<p><b>(b)</b> Use of level of response criteria.</p> <p>Negative effects include:</p> <ul style="list-style-type: none"> <li>• fewer sales in the Stoke-on-Trent area</li> <li>• local population less likely to buy luxury goods</li> <li>• potential loss of ceramic skills in the local area</li> </ul> <p>Positive effects include:</p> <ul style="list-style-type: none"> <li>• larger pool of labour</li> <li>• more applicants per vacancy</li> <li>• more likely to find skilled workers</li> </ul>	9	<p><b>Levels of response</b></p> <p><b>Level 3 (7 - 9 marks)</b> Candidate analyses the impact of high unemployment on Royal Purdell.</p> <p><b>Level 2 (4 – 6 marks)</b> Candidate explains one or more effect of high unemployment.</p> <p><b>Level 1 (1 – 3 marks)</b> Candidate identifies effects of high</p>

Question	Answer	Marks	Guidance
	<ul style="list-style-type: none"> <li>• could pay lower wages</li> <li>• could pay the minimum wage rate</li> <li>• lower staff turnover</li> </ul> <p>Exemplar response: e.g. The higher than average rate of unemployment in Stoke-on-Trent means that Royal Purdell can pay its workers lower wages <b>(L1)</b>, even though they are highly skilled, because its workers won't be able to find well paid jobs elsewhere <b>(L2)</b>. This benefits Royal Purdell because it can reduce its labour costs and increase profits <b>(L3)</b>.</p> <p>In addition, for each job Royal Purdell advertises, there will be more applicants <b>(L1)</b> because where unemployment is high, there are a large number of people looking for jobs <b>(L2)</b>. This means that Royal Purdell is more likely to find the best candidate for a skilled job in ceramics <b>(L3)</b>.</p>		<p>unemployment on Royal Purdell.</p> <p>Answer must be in the context of Royal Purdell for full nine marks.</p> <p>The effects can be positive or negative or a mixture of both.</p> <p>There are three synoptic marks for this question which assess Unit 1 LO 6.1.</p>
4	(c) <p>Use of level of response criteria.</p> <p>Local supply side policies include:</p> <ul style="list-style-type: none"> <li>• invest in local education facilities like schools and colleges</li> <li>• invest in local skills training at colleges</li> <li>• build a local training centre</li> <li>• encourage local firms to provide more apprenticeships</li> <li>• encourage schools to visit local businesses</li> </ul> <p>National supply side policies include:</p> <ul style="list-style-type: none"> <li>• changes to the benefits system and income tax</li> <li>• national wage rates e.g. the National Minimum Wage and The National Living Wage</li> <li>• trade union legislation</li> <li>• national funding for public security, infrastructure</li> <li>• incentives for research and development policies</li> </ul>	8	<p><b>Levels of response</b></p> <p><b>Level 4 (7 - 8 marks)</b> Candidate evaluates, recommends and justifies using supply side policies to reduce unemployment in Stoke-on-Trent.</p> <p><b>Level 3 (5 - 6 marks)</b> Candidate analyses the impacts of using supply side policies to reduce unemployment locally.</p> <p><b>Level 2 (3 – 4 marks)</b> Candidate explains the use of side policies to reduce the local rate of unemployment.</p> <p><b>Level 1 (1 – 2 marks)</b> Candidate identifies any side policies to</p>

Question	Answer	Marks	Guidance
	<p>Exemplar response: e.g. The government could reduce the level at which people start paying income tax (<b>L1</b>). This could help some people to afford to work in low wage jobs because they will keep more of their wages. Therefore there will be less people claiming benefits (<b>no local policy context</b>).</p> <p>Another supply side policy which could be used in Stoke-on-Trent is to build a specialist training centre (<b>L1</b>) for the ceramics industry. This would help to reduce unemployment because more people would have the right skills to get jobs in the industry (<b>L2</b>) and reduce the costs of training to the ceramic firms themselves (<b>L3</b>). However, its success will depend on how many young people in Stoke-on-Trent believe their future career lies in ceramics (<b>L4</b>).</p>		<p>reduce unemployment.</p> <p>Answers above Level 1 must be in the context of <b>local supply side policies</b>.</p>
5	<p>(a) Indicative content:</p> <p><b>Either</b>            <math>17.52 / 12.00 = \\$1.46</math> (to the £)</p> <p><b>Or</b>                 <math>12.00/17.52 = £0.68</math> (to the \$)</p>	1	One mark for either correct answer (with or without correct \$ or £ signs).
5	<p>(b) Use level of response criteria.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> <li>• <u>an increase</u> in the interest rate pushes up the Sterling exchange rate</li> <li>• <u>a decrease</u> in the interest rate causes a drop in Sterling exchange rate</li> </ul> <p>Exemplar response: e.g. Increasing rates of interest increase the Sterling exchange rate (<b>L1</b>) because it causes a rise in demand for Sterling (<b>L2</b>) as foreign investors rush to put money into UK banks (<b>L2</b>) and speculators start buying more Sterling</p>	9	<p><b>Levels of response</b></p> <p><b>Level 3 (7 - 9 marks )</b> Candidate analyses the effectiveness of changes in the interest rates causing changes in the exchange rate.</p> <p><b>Level 2 (4 – 6 marks)</b> Candidates successfully explains how rising or falling interest rates cause changes in the exchange rate.</p>



Question	Answer	Marks	Guidance
	<p>hoping the interest rate will continue to rise (L2). The impact of increasing interest rates on exchange rates can be reduced where inflation is already high (L3).</p> <p>Reducing interest rates causes the Sterling exchange rate to fall (L1) because there is less demand for Sterling (L2) as less people want to invest in UK banks (L2) and speculators don't want Sterling in case it falls in price even more (L2). A falling rate of interest will not have much impact on the exchange rates if it is expected to rise again soon (L3).</p>		<p><b>Level 1 (1 – 3 marks)</b> Candidate correctly identifies the how rising or falling interest rates cause changes in the exchange rate.</p> <p>No context is required in the answer.</p>
5	<p>(c) Use level of response criteria.</p> <p>Marketing reactions include:</p> <ul style="list-style-type: none"> <li>• not changing the price lists of tableware it sells in the US</li> <li>• producing more exclusive tableware products for abroad to appeal to less price conscious American customers</li> <li>• increasing advertising expenditure in the US to justify a price rise</li> <li>• creating new design collaborations with chefs and celebrities from the US</li> </ul> <p>Operations management reactions include:</p> <ul style="list-style-type: none"> <li>• increasing stock holding of US imported materials whilst they are cheaper</li> <li>• having very high labour intensive production to add value for American customers</li> <li>• introducing more personalisation and bespoke production to justify higher prices in the US market</li> <li>• introducing cutting edge technology to ensure the high quality of products for US buyers</li> </ul> <p>Exemplar response: e.g. One response would be for the marketing department to stay with its current US price list (L1) so its tableware customers in the US don't experience a price rise (L2). However, if it does this, it will have to bear the loss of revenue itself, pushing down profits on its US export sales (L3). It depends on how much of Royal Purdell's sales are to customers in the US and whether it can</p>	16	<p><b>Levels of response</b></p> <p><b>Level 4 (13 - 16 marks)</b> Candidate evaluates, recommends and justifies their choice of marketing and operations management reactions to a rising exchange rate by a business.</p> <p><b>Level 3 (9 - 12 marks)</b> Candidate analyses the impact of possible marketing and operations management reactions to a rising exchange rate by a business.</p> <p><b>Level 2 (5 – 8 marks)</b> Candidate explains possible marketing and operations management reactions to a falling exchange rate by a business.</p> <p><b>Level 1 (1 – 4 marks)</b> Candidate identifies possible reactions to a rising exchange rate by the marketing and/or operations management functions.</p> <p>Candidates are limited to bottom half of any level if only one of the two functions is</p>

Question	Answer	Marks	Guidance
	<p>afford to not increase prices there <b>(L4)</b>.</p> <p>Another response to the rising rate of exchange, is to increase its holdings of US stock <b>(L1)</b> at its factory because US good are now cheaper <b>(L2)</b>. However, this will increase its costs of holding stock <b>(L3)</b> and, as it values china clay from Cornwall above that from Brazil, it is unlikely that it will import many materials from the US <b>(L4)</b>.</p> <p>In my opinion the most appropriate response would be to maintain its US price list. Maintaining its price list will look better to US customers than a sudden change. It also appears that aren't many benefits of increasing US stock. Therefore Royal Purdell's exports are more likely to be effected by the exchange rate rise than its imports <b>(L4)</b>.</p>		<p>discussed.</p> <p><b>To achieve the upper two marks of any level, the answer must be contextual, i.e. make relevant reference to Royal Purdell.</b></p> <p>Do <b>not</b> award points that do not relate to either the marketing or operations management or explanations about how exchange rates work.</p> <p>Answers above Level 1 should refer to their market in the US.</p> <p>There are eight synoptic marks for this question which assess Unit 1 LO2.2.</p>