

Level 3 Cambridge Technical in Business 05878

Unit 10: Economics for business

Tuesday 16 January 2018 – Afternoon

Time allowed: 2 hours

You must have:

- a calculator

First Name						Last Name				
Centre Number						Candidate Number				
Date of Birth	D	D	M	M	Y	Y	Y	Y		

INSTRUCTIONS

- Use black ink.
- Complete the boxes above with your name, centre number, candidate number and date of birth.
- Answer **all** the questions.
- Write your answer to each question in the space provided.
- If additional answer space is required, you should use the lined page(s) at the end of this booklet. The question number(s) must be clearly shown.

INFORMATION

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

FOR EXAMINER USE ONLY	
Question No	Mark
1	/26
2	/13
3	/19
4	/16
5	/16
Total	/90

Read the scenario below.

Text 1: The Stourford Bread Shop

Robert Jenkins opened *The Stourford Bread Shop* in his local town of Stourford in December 2016. He had just completed a Level 3 Diploma in Professional Bakery at Stourford College. This was where he developed a passion for high quality, freshly baked bread. As part of his course he used to arrive at college very early one day each week to bake fresh bread. This was then sold in the college shop to the staff and students. The fresh bread was so popular that it always sold out during morning break-time.

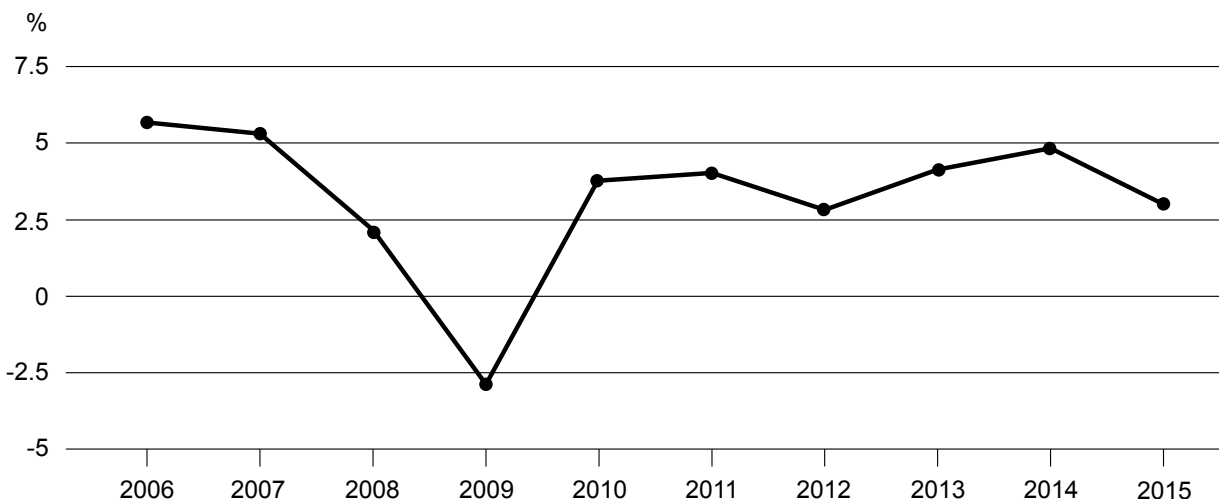
Robert particularly enjoyed learning about artisan bread during his time at college. An artisan loaf of bread is quite different from a mass-produced loaf of bread. The uncooked bread requires a skilled baker to prepare it by hand, using high quality ingredients. Then it is left to rise for a long time before it is baked. During his bakery course, Robert discovered that artisan bread is becoming very popular, whereas sales of the top three brands of mass-produced bread are falling. When incomes rise, customers are more likely to buy artisan bread. Indeed, the income elasticity of demand for artisan bread is +1.7. Robert's bakery course also taught him about the business aspects of running a bakery, including topics such as how to sell products and services, establishing customers' needs and providing good customer service.

At *The Stourford Bread Shop*, the uncooked bread is prepared the evening before and left to rise overnight. Robert arrives at work by 6.30 am to bake the bread to be sold that day. Robert is ready to open the shop at 7.00 am for customers who want fresh bread for breakfast. He then closes the shop at lunchtime, throws away any unsold stock and returns in the evening to prepare for the next day. Unsurprisingly, Robert has found running the business on his own to be very tiring so he has decided to recruit two members of staff.

When he set up *The Stourford Bread Shop*, Robert approached a local bank with his business plan and obtained a small start-up loan. He also used some of his own savings. Robert's major start-up cost was an oven. Other equipment, such as mixing bowls and bread tins, were relatively low-cost. This means that the capital costs of setting up a bread shop are low. This is unlike many other businesses, where high capital costs can be a barrier to entry.

The main ingredient used in baking bread is wheat flour. Robert recently read an online article which said that the price of wheat flour is falling due to an increase in the supply of wheat, because the weather in Russia, Europe and Canada in 2017 has been ideal for growing wheat.

Extract 1: Annual growth rate of UK Gross Domestic Product (GDP)



Answer **all** the questions.

1 The price of wheat flour is falling due to an increase in the supply of wheat, because the weather in Russia, Europe and Canada has been ideal for growing wheat.

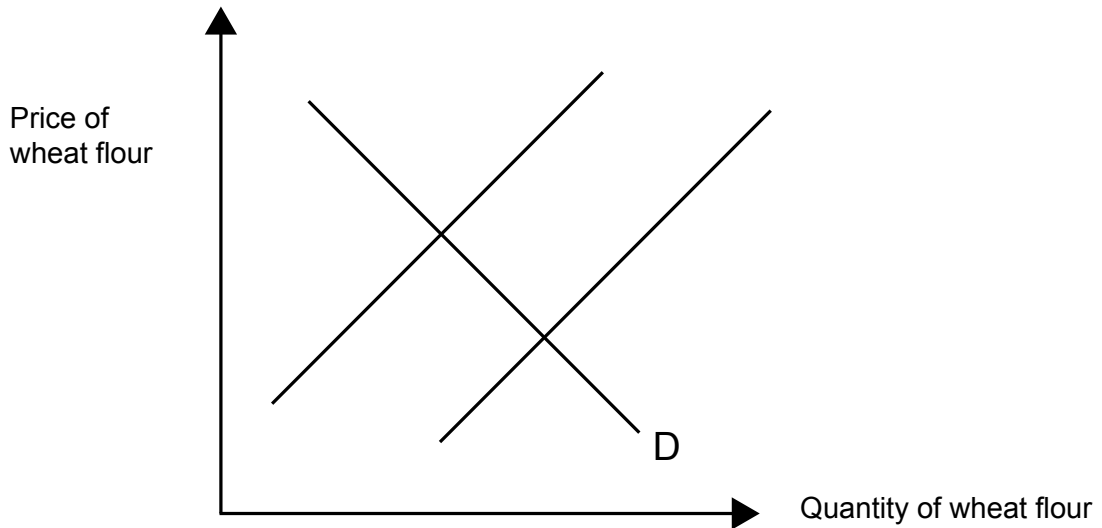
(a) (i) Other than weather/climate, state **one** factor which may affect supply.

.....[1]

(ii) The diagram below shows the global market for wheat flour **before** and **after** an increase in supply. Complete the diagram by labelling:

- **both** supply curves
- **both** market equilibriums.

Demand and supply diagram for wheat flour



[4]

(b) Evaluate how an increase in the supply of wheat flour may affect *The Stourford Bread Shop*.

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3 In December 2016, the UK rate of inflation was 1.6% when measured using the consumer price index (CPI) and 2.5% when measured using the retail price index (RPI).

(a) State **two** reasons why these measures of inflation have different values.

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(b) Analyse **one** impact of an increase in the rate of inflation on *The Stourford Bread Shop*.

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(d) Other than maintaining an acceptable rate of inflation, state **two** likely UK government policy objectives.

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[2]

4 Robert has heard that the following changes in the international market for wheat are likely to take place in the next few years:

- Developing economies, such as Brazil, India and China, will be consuming more wheat as diets change and populations grow
- Russia will allow more of the wheat it produces to be exported
- The European Union will reduce financial support to farmers growing wheat.

Which of these **three** changes is likely to have the greatest impact on *The Stourford Bread Shop*? Give reasons for your choice.

[16]

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5 As part of its supply side policies, the UK government has decided to open a number of new training centres to reduce regional unemployment. One of these training centres is to open five miles from Stourford.

Evaluate likely effects of the new training centre on the functional areas of a small business such as *The Stourford Bread Shop*.

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END OF QUESTION PAPER

ADDITIONAL ANSWER SPACE

If additional answer space is required, you should use the following lined page(s). The question number(s) must be clearly shown – for example 1(d) or 3(a).

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