

**Cambridge Technicals
Business**

Unit 10: Economics for business

Level 3 Cambridge Technical in Business
05834 - 05837

Mark Scheme for January 2019

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

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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Annotations

Annotation	Meaning
Tick	Valid point, mark awarded
Cross	Incorrect
Question mark	Response unclear
BOD	Benefit of doubt (mark awarded)
TV	Too vague (mark not awarded)
REP	Repetition (no additional marks awarded)
NAQ	Not answered question (incorrect focus)
L1	Level 1 response (identification)
L2	Level 2 response (explanation)
L3	Level 3 response (analysis)
L4	Level 4 response (evaluation)
CONT	Context (required for high L4 award only)

Subject-specific marking instructions

For Level of Response marked questions marked over 4 levels, the candidate can access at L1 or L2. In either case, they can analyse the point made and proceed directly to L3.

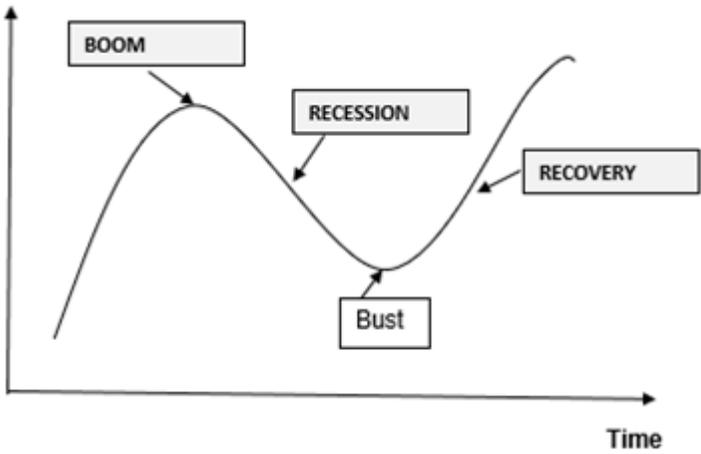
L3 analysis is required before L4 can be accessed.

Question			Answer	Mark	Guidance
1	(a)	(i)		2	<p>Award two marks for labelling the diagram (or otherwise indicating) with an increase in quantity demanded which is <u>clearly linked to a movement along the demand schedule</u>.</p> <p>Award one mark for labelling the diagram (or otherwise indicating) with an increase in quantity demanded.</p> <p>Do not reward an increase in price or fall in quantity demanded.</p>
1	(a)	(ii)		2	<p>Award two marks for labelling the diagram (or otherwise indicating) with a decrease in quantity demanded which is <u>clearly linked to a shift of the demand schedule to the left</u>.</p> <p>Award one mark for labelling the diagram (or otherwise indicating) with a decrease in quantity demanded.</p> <p>Do not reward an increase in quantity demanded or shift to the right of the demand schedule.</p>
1	(b)	(i)	<p>Responses may include:</p> <ul style="list-style-type: none"> • where the market clears (2) • when supply equals demand (2) • there will be no excess supply and demand (2) • there will be no excess supply (1) • there will be no excess demand (1) • a state of balance (1) 	2	<p>Award two marks for an accurate answer.</p> <p>Award one mark for a vague/partial answer.</p> <p>Do NOT award any reference to 'it is when prices do not need to change' (as that is tautological from the stem).</p>

Question			Answer	Mark	Guidance
1	(b)	(ii)	<p>Indicative content:</p> <ul style="list-style-type: none"> increase the price (1) as this will remove the excess demand (1) put the price up (1) so that demand decreases (1) 	2	<p>Award two marks for a reference to the price increase and the impact on either demand or supply.</p> <p>Award one mark if the answer only refers to a price increase without any explanation.</p>
1	(c)		<p>Responses may include:</p> <ul style="list-style-type: none"> YED measures the responsiveness of demand to a change in income furniture is income elastic furniture is a normal good/slight luxury sales will change by a greater proportion than any change in income <p>Exemplar response: The furniture is income elastic (1) so it is a normal good (1). Demand for <i>Goodwill UK's</i> furniture will be more responsive (1) to changes in income (1). Stephanie can expect demand to increase (1) as long as consumer incomes increase (1).</p>	6	<p>Up to three marks for correct factual statements about what YED and/or its usefulness to Stephanie.</p> <p>Up to four marks for an explanation of what this information may be used for.</p> <p>Maximum of six marks to be awarded.</p> <p>Candidates may use the figure +1.2 to correctly suggest that any increase in income will be multiplied by a factor of 1.2 when considering the impact on demand.</p>
1	(d)		<p>Use level of response criteria.</p> <p>Responses may include:</p> <p>Responses regarding free trade with Hungary may include:</p> <ul style="list-style-type: none"> it will be easy to buy from Hungary as no restrictions on trade will be able to import as much as <i>Goodwill UK</i> needs as there is no limit on imports no import taxes mean that prices can be kept down which is important for <i>Goodwill UK</i> allows <i>Goodwill UK</i> to make more for good causes. 	16	<p>Levels of response</p> <p>Level 4 (13 - 16 marks) Candidate evaluates which benefit/cost will have the greatest impact on <i>Goodwill UK</i>.</p> <p>Level 3 (9 – 12 marks) Candidate analyses the impact(s) the benefit(s)/cost(s) will have on <i>Goodwill UK</i>.</p> <p>Level 2 (5 – 8 marks) Candidate explains the impact(s) of the benefit(s) or cost(s) <i>Goodwill UK</i></p>

Question	Answer	Mark	Guidance
	<p>Responses regarding the factory not being busy may include:</p> <ul style="list-style-type: none"> • <i>Goodwill UK</i> cannot keep up with the demand for furniture, so they can order and receive a lot of it • the Hungarian firm may be happy to charge a lower price if they are not very busy • <i>Goodwill UK</i> can make more for good causes • is the factory not busy due to their product not being very good? <p>Responses regarding labour costs in Hungary may include:</p> <ul style="list-style-type: none"> • prices will be lower • low prices will let <i>Goodwill UK</i> help more people in need • more money can be raised for good causes • will <i>Goodwill UK</i>, as a charity, want to be seen to be exploiting cheap labour in another country? <p>Responses regarding the factory being 2000km away may include:</p> <ul style="list-style-type: none"> • furniture is very large/heavy • costs of transporting furniture may be high • furniture may be more likely to arrive damaged • higher transport costs may offset the cheaper production costs. <p>Responses regarding the different language & culture may include:</p> <ul style="list-style-type: none"> • may cause problems when agreeing designs • any decisions may take longer while translations take place • may lead to higher costs than expected • may not be an issue as furniture is a straightforward product and the Internet makes it easy to translate. 		<p>Level 1 (1 – 4 marks) Candidate identifies the impact(s) of the benefit(s) or cost(s) <i>Goodwill UK</i>.</p> <p>An answer that ONLY considers benefit or cost should be awarded the bottom half of the relevant level.</p> <p>An explicit attempt to identify which benefit/cost has the greatest impact, with justification, is required to access Level 4.</p> <p>It is not necessary to consider all benefits or costs or to compare one against the other.</p> <p>Award 13 marks for a generic argument about the main cost or benefit, e.g. the distance the factory is away is most significant because petrol costs are a major cost for most businesses (no context).</p> <p>Award 14 marks for a contextual argument about the main cost or benefit, e.g. the distance the factory is away is most significant because petrol is a major cost given the size and weight of the furniture being transported (with context).</p> <p>Award 15 marks for a generic argument about the main cost and benefit, e.g. the distance the factory is away is most significant because petrol costs are a major cost for most businesses. The second benefit is the most important as getting products quickly will give the business an advantage for its customers (no context).</p> <p>Award 16 marks for a contextual argument about the main cost and benefit, e.g. the distance the factory is away is most significant because petrol is a major cost given the size and weight of the furniture being transported. Supply cannot keep up with demand in the UK shops, so the sooner they</p>

Question	Answer	Mark	Guidance
	<p>Responses regarding different currencies may include:</p> <ul style="list-style-type: none"> • the price paid by <i>Goodwill UK</i> will be uncertain over time • prices for <i>Goodwill UK</i>'s consumers may be changing constantly • makes it difficult for <i>Goodwill UK</i> to plan. <p>Exemplar response:</p> <p>Lower labour costs will mean that the cost of making the furniture will be less than in the UK (L1). This allows prices to be kept low (L2) which will be helpful for <i>Goodwill UK</i> as they need to be able to sell at a low price to its customers (L3). Given that <i>Goodwill UK</i> are trying to help less well-off customers, as well as trying to raise funds for donations [CONT], a low cost of production is vital for success (L4).</p> <p>On the other hand, I feel the most significant cost is uncertainty caused by working in foreign currencies (L1). This will add to <i>Goodwill UK</i>'s costs (L2) as every time an order is placed, the exchange rate must be considered. This will make it difficult to plan what price to charge in the shops so that costs are covered (L3). The business is not used to dealing with foreign currency [CONT], so this may be difficult for them (L4) and may cancel out any benefit from buying furniture from a country with cheap labour (L4).</p>		<p>can get the furniture the better. Therefore, the fact the factory in Hungary is not busy is the most important benefit (with context).</p>

Question	Answer	Mark	Guidance
2 (a)	<p data-bbox="338 229 398 256">GDP</p>  <p data-bbox="1055 651 1122 678">Time</p>	3	<p data-bbox="1296 209 1951 236">One mark for each label up to a maximum of three</p> <p data-bbox="1296 276 1809 303">Accept alternative names for each label</p> <p data-bbox="1296 343 1464 370"><u>For example</u></p> <p data-bbox="1296 410 1480 437">Boom = Peak</p> <p data-bbox="1296 443 1733 470">Recession = Decline or Downturn</p> <p data-bbox="1296 477 1682 504">Recovery = Upturn or Growth</p>

Question	Answer	Mark	Guidance
2 (b)	<p>Use levels of response criteria.</p> <p>Responses may include:</p> <ul style="list-style-type: none"> • consumers may be worse off • unemployment may be high • increased number of volunteers to work in the shop • businesses may be less profitable which may affect their willingness to donate items to <i>Goodwill UK</i> • household donations may also be low as they are less likely to be spending money on new/replacement products • may need to reduce prices • more need to raise donations as more people will need help • likely to see more customers in its shops and higher demand for its products • Oakdean shop may be particularly affected as GDP is much lower than the UK average already. <p>Exemplar responses:</p> <p>Low economic growth may lead to unemployment (L1). This may mean it will be easier to recruit volunteers into the shops (L2) which means that better customer service can be provided and so more products sold (L3). This will be particularly important as there may be more customers looking for cheap furniture [CONT] if they have been made unemployed (L4) and more deliveries needed if people are now unable to afford to run a car (L4).</p> <p>Low GDP may mean that wages are kept low (L1) so individuals demand will fall or stay low (L2). This may cause <i>Goodwill UK</i> to feel they have to reduce prices to help those in need or just to sell the furniture (L3). However, low GDP may actually increase the demand for <i>Goodwill UK</i>'s products, as customers will be unable to afford more expensive furniture [CONT]. This may mean that <i>Goodwill UK</i> do not need to reduce its prices (L4).</p>	8	<p>Levels of response</p> <p>Level 4 (7 - 8 marks) Candidate evaluates how low economic growth/GDP might impact on <i>Goodwill UK</i>.</p> <p>Award 7 marks for a generic piece of evaluation Award 8 marks for a piece of contextual evaluation</p> <p>Level 3 (5 – 6 marks) Candidate analyses the impact(s) of low economic growth/GDP on <i>Goodwill UK</i>.</p> <p>Level 2 (3 – 4 marks) Candidate explains the impact(s) of low economic growth/GDP on <i>Goodwill UK</i>.</p> <p>Level 1 (1 – 2 marks) Candidate identifies the impact(s) of low economic growth/GDP.</p>

Question			Answer	Mark	Guidance						
2	(c)	(i)	<table border="1"> <thead> <tr> <th>Type of taxation</th> <th>Example</th> </tr> </thead> <tbody> <tr> <td>Direct</td> <td>Income tax, Corporation tax, National Insurance</td> </tr> <tr> <td>Indirect</td> <td>VAT, Sales tax, Excise duty</td> </tr> </tbody> </table>	Type of taxation	Example	Direct	Income tax, Corporation tax, National Insurance	Indirect	VAT, Sales tax, Excise duty	2	<p>One mark for a correct example of a direct tax and one mark for a correct example of an indirect tax.</p> <p>Allow alternative names of taxes or specific examples of a tax, for example, tax on tobacco as an excise duty.</p>
Type of taxation	Example										
Direct	Income tax, Corporation tax, National Insurance										
Indirect	VAT, Sales tax, Excise duty										
2	(c)	(ii)	<p>Use level of response criteria.</p> <p>Responses may include:</p> <ul style="list-style-type: none"> • consumers may have more money to spend • prices may fall if VAT is reduced • demand for products may increase leading to higher financial returns • the multiplier is the relationship between an increase in money coming into the economy and the increase in spending in the economy • the multiplier will determine the impact of any increase in government spending or cut in taxation on the economy • if the multiplier is larger than 1 then the effect of the cut in taxation will be greater on the economy • if the multiplier is less than 1 then the effect of the cut in taxation will be smaller on the economy • the multiplier (in Text 2) is shown to be 1.3 for poorer households so <i>Goodwill UK</i> may see a lot more demand from its customers • <i>Goodwill UK</i> may make more profit and be able to help more households in need. 	9	<p>Levels of response</p> <p>Level 3 (7 - 9 marks) Candidate analyses how <i>Goodwill UK</i> may be affected by a reduction in UK taxation.</p> <p>Level 2 (4 – 6 marks) Candidate explains how a business may be affected by a reduction in UK taxation.</p> <p>Level 1 (1 – 3 marks) Candidate identifies knowledge about taxation or the multiplier.</p> <p>Award the top of the appropriate level for responses that take into account the effect of the multiplier.</p>						

Question	Answer	Mark	Guidance
	<p>Exemplar response: Lower income tax will mean workers will keep more of their income (L1) and have more money to spend (L1). Prices may fall if VAT is cut (L1). This may lead to <i>Goodwill UK</i> being able to sell more of its furniture (L2) which may help to create more paid jobs (L2). The multiplier will have an impact on how households respond to the tax cut (L1). Poorer households have a multiplier larger than 1 so the cut in taxation will have a much bigger impact on <i>Goodwill UK</i> (L3).</p>		

Question	Answer	Mark	Guidance
3 (a)	Indicative content: <ul style="list-style-type: none"> • Retail price index • Consumer price index or Harmonised index of consumer prices 	2	One mark for each correct identification up to a maximum of two identifications. Accept RPI or CPI/HICP Accept other versions of RPI such as RPIX or RPIY
3 (b)	Responses may include: <ul style="list-style-type: none"> • menu costs • shoe leather costs • administrative cost • uncertainty • prices increase (leading to lower demand) • impact on wage demands due to increases in cost of living • interest rates may increase (leading to higher exchange rates) • the impact on costs of raw materials/suppliers • the impact on spending power of customers <p>Exemplar response: Inflation may lead to menu costs (1). This is the added cost created for a business by the need to keep adjusting price lists (1). This may create more work for Stephanie/Jeremy as they must decide the price for each item separately (1).</p>	9	For each of the three effects: <ul style="list-style-type: none"> • one mark for a correct identification of an effect of inflation • one mark for the explanation • one mark for analysing the effect on <i>Goodwill UK</i>. <p>The effects of inflation do not have to be given their 'correct' names</p>

Question	Answer	Mark	Guidance
4 (a)	<p>Use level of response criteria.</p> <p>Responses may include:</p> <ul style="list-style-type: none"> • more expensive to borrow money • firms may be less keen to borrow money or find it more difficult to get approval • may have to buy a second-hand van rather than a new one • may have to buy a smaller van • less able to afford to buy the lifting equipment • may affect how or where the new service is advertised • may prevent the house clearing service from being successful • may create more demand for the service as people are looking for other ways to raise money if they cannot afford to borrow • may create less demand as it may become more expensive to move to a new house <p>Exemplar response: Higher interest rates will increase the cost of borrowing (L1). This may make it more expensive to raise money to buy new equipment (L2) which may mean that <i>Goodwill UK</i> has to buy a second-hand van rather than a new one (L3).</p> <p>Higher costs of borrowing may mean that households cannot afford to take out loans or use credit cards (L1). This may mean that they look to raise money from selling unwanted furniture (L2) which creates more demand for the house clearance service (L3).</p>	9	<p>Levels of response</p> <p>Level 3 (7 - 9 marks) Candidate analyses the impact(s) of high interest rates on Oakdean charity shop's <u>house clearance service</u>.</p> <p>Level 2 (4 – 6 marks) Candidate explains the impact(s) of high interest rates on a business.</p> <p>Level 1 (1 – 3 marks) Candidate identifies the impact(s) of high interest rates.</p> <p>The upper mark of each level can be awarded for clear identification, explanation or analysis.</p> <p>The impact may be positive or negative.</p>
4 (b)	<p>Responses may include:</p> <ul style="list-style-type: none"> • it is the central bank • it is the bank of the commercial banks • it controls the money supply • it carries out monetary policy/aims to enforce inflation targeting • it enforces/decides on quantitative easing • it manages the UK foreign currency reserves • it carries out research on the state of the economy. 	2	<p>One mark for a correct identification up to a maximum of two identifications.</p> <p>Do NOT accept any reference to setting of interest rates since this is excluded by the question.</p>

Question	Answer	Mark	Guidance
5	<p>Use level of response criteria.</p> <p>Responses may include: The effect on the human resources function of the changes to the benefits system and local support centres may include:</p> <ul style="list-style-type: none"> • recruitment of human resources may be focused on the local training centres (either paid staff or volunteers). For example, the shop could set up a scheme with the local training centre to provide experience to the unemployed as volunteers in preparation for employment elsewhere. • there may be an increase in the number of volunteers as this may help the unemployed receive their benefits. • may need to recruit more staff/volunteers if demand increases as those in need have more available money. • Could need to run more training courses (e.g. furniture restoration). <p>Exemplar response: It may affect recruitment (L1). Both policies may lead to more unemployed people looking to improve their employability (L2). This may mean that <i>Goodwill UK</i> sees more local people willing to be volunteers which increases time spent by HR checking applications forms (L3). As long as these volunteers work hard, this may lead to the charity shop being better staffed or even being able to reduce the number of paid employees [CONT] (L4).</p>	16	<p>Levels of response</p> <p>Level 4 (13 - 16 marks) Candidate evaluates the impact of the policy change on the human resources functional area of <i>Goodwill UK</i>.</p> <p>Level 3 (9 - 12 marks) Candidate analyses the impact(s) of the policy change on the human resources functional area of <i>Goodwill UK</i>.</p> <p>Level 2 (5 – 8 marks) Candidate explains impact(s) on the human resources functional area of the policy change.</p> <p>Level 1 (1 – 4 marks) Candidate identifies impact(s) on the human resources functional area of the policy change.</p> <p>Award 13 marks for a basic generic evaluation about the response by the HR function, e.g. HR will be affected as more people will now be looking for work so that its costs of searching through applications will increase (no context).</p> <p>Award 14 marks for a supported generic evaluation about the response by the HR function, e.g. HR will be affected as more people will now be looking for work so that its costs of searching through applications will increase. It will take longer to read applications and more staff may need to be employed to carry out this function (no context).</p> <p>Award 15 marks for a basic contextual evaluation about the response by the HR function, e.g. more people may apply to be a volunteer at <i>Goodwill UK</i>. Given it is a charity, does it have the staff to cope with this extra work checking applications (with context).</p>

Question	Answer	Mark	Guidance
			Award 16 marks for a supported contextual evaluation about the response by the HR function, e.g. the shop could set up a scheme with the local training centre to provide experience to the unemployed as volunteers, in preparation for employment elsewhere. This will put extra pressure on the HR function but may help to keep costs down as fewer paid workers will be necessary (with context).

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