

Cambridge Technicals Business

Unit 10: Economics for business

Level 3 Cambridge Technical in Business
05834 - 05837

Mark Scheme for June 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)	Indicative content: $\$1209/\$1.30 = \underline{\underline{\pounds 930}}$	2	Two marks for correct answer (with or without £ sign) Award one mark if evidence of attempt at correct calculation with incorrect answer (e.g. incorrect magnitude or reciprocal answer) This question assesses candidates' numeracy skills.
1	(b)	Use level of response criteria. Responses may include: <ul style="list-style-type: none"> • Sterling is less valuable • more Sterling is required to purchase foreign currency • imports will be more expensive • fewer imports can be bought for the same amount of Sterling • the coffee purchased by <i>Prestige Coffee</i> will be more expensive • may need to increase the price of coffee sold in the shop • may lead to fewer customers and/or less money spent on other items in the shop (e.g. food or accessories) • the wholesaler may or not pass on the higher bean costs to retailers such as <i>Prestige Coffee</i> • cost of coffee bean is only a very small part of total price of a coffee product, so price may not change. <p>Exemplar response: This will make imports more expensive (L1) as more pounds will be needed to buy products in other currencies (L1). This will make the pound less valuable (L2) and so fewer imports may be bought (L2). <i>Prestige Coffee</i> may find that its costs increase (L2) so that it has to put up the price of any coffee products it sells (L3). The owners may try to sell more tea or food (L2) to increase sales revenue (L3).</p>	9	Levels of response Level 3 (7 – 9 marks) Candidate analyses the impact(s) of a falling exchange rate on <i>Prestige Coffee</i> Level 2 (4 – 6 marks) Candidate explains the effect(s) of a falling exchange rate on a business. Level 1 (1 – 3 marks) Candidate identifies the effect(s) of a falling exchange rate. Reward candidates who use a supply & demand diagram to show the impact on price of more expensive imports.

Question		Answer	Mark	Guidance
1	(c)	<p>Responses may include:</p> <ul style="list-style-type: none"> • improvements in productivity • government policy <ul style="list-style-type: none"> ○ Health & safety regulations ○ subsidies/grants • costs of production <ul style="list-style-type: none"> ○ labour ○ machinery ○ rent • weather • unexpected events 	2	<p>One mark for each correct identification up to a maximum of two identifications.</p> <p>Do NOT accept coffee (or any other raw material) as this is excluded in the question.</p> <p>Accept two examples of the same determinant (e.g. labour costs and machinery costs).</p>
1	(d)	<p>Responses may include:</p> <ul style="list-style-type: none"> • cappuccino & caffè latte are substitutes • cappuccino & cake <u>and/or</u> coffee grinder & cake are complements • coffee grinder & cake are (very weak) complements • cappuccino & cake are stronger complements than coffee grinder & cake • increasing the price of cappuccino/caffé latte will lead to an increase in demand for the other (or vice-versa) • increasing the price of cappuccino/cake will lead to a fall in demand for the other (or vice-versa) • increasing the price of coffee grinder/cake will lead to a (small) fall in demand for the other (or vice-versa). [Accept an answer that there will be no real relationship] • the relationship between cappuccino & caffè latte is price elastic • the relationship between cappuccino & cake is price elastic • the relationship between coffee grinder & cake is price inelastic 	3	<p>One mark for each correct answer up to a maximum of three marks.</p> <p>Accept reference to 'buying products together' or 'not buying products together' rather than using correct terminology.</p>

Question	Answer	Mark	Guidance
2 (a)	<p>Responses may include:</p> <ul style="list-style-type: none"> • prevent mergers/takeovers (1) which will prevent large companies from forming (1) • monitor/regulate prices (1) so that consumers are not forced to pay too much (1) • enforce consumer protection laws (1) such as customer service standards being maintained (1) • encourage more competition (1) so that barriers to entry are lowered (1) • reduce power of dominant firms (1) so that they act in the public interest (1). 	4	One mark for each correct identification to a maximum of two, plus one mark for each of two explanations.
2 (b)	<p>Responses may include:</p> <ul style="list-style-type: none"> • more rivals in the industry which means customers have more choice • price wars • firms may have to become price takers rather than being price leaders • increased use of non-price competition • changes to product or price • impact on profits/quality/service/deals • may lead to being taken over or closing down • sack of coffee beans would be £1033 • cost of sack of beans increased by £103. <p>Exemplar responses:</p> <p>There may be a need for more non-price competition (1). A retailer needs to find a way to attract customers into their store rather than competitors (1). <i>Prestige Coffee</i> may need to clearly advertise that its food is all cooked on-site and is fresh (1).</p> <p>There may be a price war (1). The other 'big' names in the industry may keep trying to charge the lowest price (1) which may cause problems for <i>Prestige Coffee</i> who may end up going out of business if they cannot compete (1).</p>	9	For each of three effects, one mark for a correct identification of an effect, one mark for the explanation and one mark for analysing its impact on <i>Prestige Coffee</i> .

Question	Answer	Mark	Guidance
2 (c)	<p>Responses may include:</p> <ul style="list-style-type: none"> • benefits from industrial concentration • access to a pool of skilled labour and/or training • availability of supporting services • location of suppliers • sharing of resources and knowledge • spending on local infrastructure. <p>Exemplar responses:</p> <p>Access to a pool of skilled labour (1). As the town of Maidenhead has grown there are more coffee shops with experienced staff (1). This will make it easier/cheaper for <i>Prestige Coffee</i> to recruit new staff (1).</p> <p>Easy access to suppliers (1). As the industry grows, suppliers will locate close to a large group of customers (1). This will make it easy for <i>Prestige Coffee</i> to obtain its coffee beans via the wholesaler in London (1).</p>	9	<p>For each of three examples, one mark for a correct identification of an external economy of scale, one mark for the explanation and one mark for analysing its impact.</p> <p>No reward for internal economies of scale.</p> <p>External economies may lead to diseconomies as well.</p>

Question	Answer	Mark	Guidance
3 (a)	Indicative content: <ul style="list-style-type: none"> • Labour Force Survey (or ILO measure) • Claimant Count 	2	One mark for each correct method up to a maximum of two marks Do NOT accept causes of unemployment
3 (b)	Use level of response criteria. Responses regarding the reduction in the qualifying age for The National Living Wage may include: <ul style="list-style-type: none"> • more staff will need to be paid more • costs for a business will increase • may be easier to recruit better quality staff who are now likely to earn more • more young staff will be attracted to this sort of work • may have to increase prices, cut costs elsewhere or accept lower profits • as most of <i>Prestige Coffee</i>'s staff are aged 18 to 21 it will be significantly affected by this • will <i>Prestige Coffee</i> now look to recruit older staff as they are no longer more expensive? Responses regarding increased spending on rail travel may include: <ul style="list-style-type: none"> • may lead to more rail travellers • <i>Prestige Coffee</i> relies for much of its business on the number of rail travellers • better levels of comfort may encourage more commuters to take drinks onto the train • travel times may be reduced so less of a need to buy coffee or food for the journey • any spending will take a very long time to have an effect on the quality of rail travel so any impact on <i>Prestige Coffee</i> may be many years away. 	16	Levels of response Level 4 (13 – 16 marks) Candidate evaluates which policy change will have the greatest impact on <i>Prestige Coffee</i> . Level 3 (9 – 12 marks) Candidate analyses the impact(s) of the changes in supply-side policy on <i>Prestige Coffee</i> . Level 2 (5 – 8 marks) Candidate explains the impact(s) of the changes in supply-side policy on a business. Level 1 (1 – 4 marks) Candidate identifies the impact(s) of the changes in supply-side policy on a business. An implicit or explicit attempt to identify which policy has the greatest impact, with justification, required to access Level 4. Allow answers to consider more than one change at Levels 1, 2 or 3. Candidate must explicitly select which change has the greatest impact (with valid justification (following previous analysis)) to be awarded Level 4.

Question	Answer	Mark	Guidance
	<p>Responses regarding a reduction in the basic income tax threshold may include:</p> <ul style="list-style-type: none"> • a decrease in demand for a business' goods or services as people have less disposable income • lower sales of food and drinks • customers may be looking for lower priced food and drinks • less profits • a partner will pay more tax on profits so may invest less • this business relies on commuters who can easily replace bought food and drink with that made at home before travelling. <p>Exemplar response: Any need to pay the Living Wage to younger workers will increase costs (L1). Staff will have to be paid more money (L2) which may lead to <i>Prestige Coffee</i> having to increase prices which may lead to less customers (L3). As we are told that they employ mostly 18-21 years old workers this will have a significant impact on <i>Prestige Coffee's</i> costs (L4) although most of its competitors will be in a similar situation (L4). However, this will have the greatest impact due to the fact that many of the competitors are large international organisations who can cope with higher costs more easily than a small coffee shop (L4).</p>		<p>Award 13 marks for a generic argument about the greatest impact, e.g. a cut in the income tax threshold is the greatest impact because it will mean all customers will have a lot less money to spend (no context). Award 14 marks for a contextual argument about the greatest impact, e.g. a cut in income tax threshold will reduce the money that all customers have available to spend and as coffee is a non-essential product <i>Prestige Coffee</i> may see a large fall in demand (with context). Award 15 marks for a comparative, non-contextual argument about the greatest impact, e.g. a cut in income tax thresholds will have a greater impact than lowering the age of the NLW, as all workers will see a fall in income but only younger workers will see an increase in their wage (no context). Award 16 marks for a comparative, contextual argument about the greatest impact, e.g. a cut in income tax thresholds will have a lower impact than lowering the age of the NLW, as most of <i>Prestige Coffee's</i> workers are aged 18-21 its wage costs will rise but demand may not be affected as coffee is a cheap product to buy (with context).</p>

Question	Answer	Mark	Guidance
4 (a)	Responses may include: <ul style="list-style-type: none"> • mobile/communication technologies (1) which make it easier for businesses to trade internationally (1) • free trade (1) which reduces the costs/inconvenience of trading internationally (1) • improved transport infrastructure (1) such as containerisation (1) 	4	One mark for each correct identification to a maximum of two identifications, plus one mark for each of two developments.
4 (b)	Responses may include: <ul style="list-style-type: none"> • provides policy advice • helps to support currencies • lends money to developing countries to help them grow and enter global trade markets. <p>Exemplar response: The IMF may help to keep currencies more stable (1). This will make the price of exports more predictable (1) so that the coffee wholesalers in London are more likely to trade with the country (1).</p>	6	One mark for each correct identification to a maximum of two identifications, plus up to two marks for each of two explanations.
4 (c)	Use level of response criteria. Responses may include: <ul style="list-style-type: none"> • access to the single market • large number of countries with a single currency or standards such as a common health & safety policy • free movement of workers around the EU (as well as to and from the EU during the transition period) • increased access to materials and machinery • possibility of tariffs/quotas in the future 	8	<p>Levels of response</p> <p>Level 4 (7 – 8 marks) Candidate evaluates the likely impact of the EU on <i>Prestige Coffee</i>.</p> <p>Level 3 (5 – 6 marks) Candidate analyses the impact of the EU on <i>Prestige Coffee</i>.</p> <p>Level 2 (3 – 4 marks) Candidate explains the impact of the EU on a business.</p> <p>Level 1 (1 – 2 marks) Candidate identifies an impact(s) of the EU on a business.</p>

Question	Answer	Mark	Guidance
	<p>Exemplar response: The EU allows free movement of its residents to find work around member countries (L1). This increases the labour force in the UK (L2) especially when UK workers are unwilling to take on low paid jobs such as in the service sector (L3). <i>Prestige Coffee</i> have benefited from having Vita from Lithuania who may not have otherwise come to the UK. She clearly contributes much to the business given the time she has worked for them and the qualifications she is studying for (L4).</p> <p>Now that the UK has left the EU there may be tariffs imposed on imports from the EU (L1). This will lead to higher costs (L2) which may be passed on to customers as higher prices which may reduce profits (L3). However, coffee and tea are imported from outside the EU and so these changes may have no impact on <i>Prestige Coffee</i> (L4).</p>		<p>The upper mark of each level can be awarded for clear identification, explanation, analysis or evaluation.</p> <p>The impact may be positive or negative.</p> <p>NB: Give equal credit to answers which refer to the UK still being a member of the EU or having left the EU.</p>

Question	Answer	Mark	Guidance
5	<p>Use level of response criteria.</p> <p>Marketing responses may include:</p> <ul style="list-style-type: none"> • there will be 'menu costs' – <i>Prestige Coffee</i> may have to keep changing the prices on menus on display in the shop which has an administrative cost • Sue & Richard may have to spend more time monitoring their competitors to see what the current 'going prices' are ('shoe leather costs') • uncertainty caused by constantly changing prices – how will customers react and what are competitors doing • may need to spend money on more advertising to compensate for higher prices being charged • may need to cut promotional activity if it is becoming more expensive or revenue is falling • may not be a problem increasing prices due to the fall in unemployment which is also occurring. <p>Human resource responses may include:</p> <ul style="list-style-type: none"> • workers may expect higher wages to compensate for rising prices • rising inflation is normally associated with a growing economy and so more people may be looking for work • there may be a shortage of applicants (as unemployment is falling) and so the business may need to offer improved pay and conditions to attract suitable staff • may need to consider more novel ways to attract staff, such as using social media. 	16	<p>Levels of response</p> <p>Level 4 (13 – 16 marks) Candidate evaluates the response by the marketing/human resources functions of <i>Prestige Coffee</i> to rising inflation.</p> <p>Level 3 (9 – 12 marks) Candidate analyses the response by the marketing/human resources functions of <i>Prestige Coffee</i> to rising inflation.</p> <p>Level 2 (5 – 8 marks) Candidate explains possible effects on marketing/human resources of rising inflation.</p> <p>Level 1 (1 – 4 marks) Candidate identifies possible effects on marketing/human resources of rising inflation.</p> <p>An answer which ONLY considers human resources <u>or</u> marketing responses should be rewarded in the bottom half of the relevant level.</p> <p>Award 13 marks for a generic argument about the greatest/most serious/long-term effect on one functional area, e.g. Marketing will need the biggest response because it will need to work harder to encourage consumers to buy a product which is constantly increasing in price (no context).</p> <p>Award 14 marks for a contextual argument about the greatest/most serious/long term effect on one functional area, e.g. <i>Prestige Coffee</i>, as it sells a relative luxury/non-necessity product, will need to work harder on its marketing to convince consumers to spend money on the luxury it provides (with context).</p>

Question	Answer	Mark	Guidance
	<p>Exemplar response: Higher inflation will mean <i>Prestige Coffee</i> may want to consider increasing prices (L1) as competitors may be doing the same as costs increase (L2). As a small shop it will have to decide whether the cost of printing new menus and price boards is worth the trouble (L3). Richard & Sue may feel that they should increase prices if other firms do, but may think that not increasing prices would give them a competitive advantage (L4). Inflation may also mean that <i>Prestige Coffee</i> considers increasing wages (L1). Workers will expect this as their expenditure will have increased as inflation rises (L2). If it does not increase wages it may find it expensive to recruit new staff (L3). It may be best to see what competitors do as <i>Prestige Coffee</i> will not want to pay more to its workers if other coffee shops are not (L4).</p>		<p>Award 15 marks for a generic argument about the greatest/most serious/long term effect on two functional areas, e.g. the response by Marketing is vital so that customers keep buying as prices rise which is more important than the HR department having to increase wages which may only happen once a year (no context). Award 16 marks for a contextual argument about the greatest/most serious/long term effect on two functional areas, e.g. <i>Prestige Coffee</i>, as a provider of non-essential products, will rely on the high quality of its marketing so it is able to charge higher prices. This may affect the HR function's response as employees may expect to see a wage increase as prices rise (with context).</p>

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