

Cambridge Technicals Business

Unit 10: Economics for business

Level 3 Cambridge Technical in Business
05834 - 05837

Mark Scheme for January 2020

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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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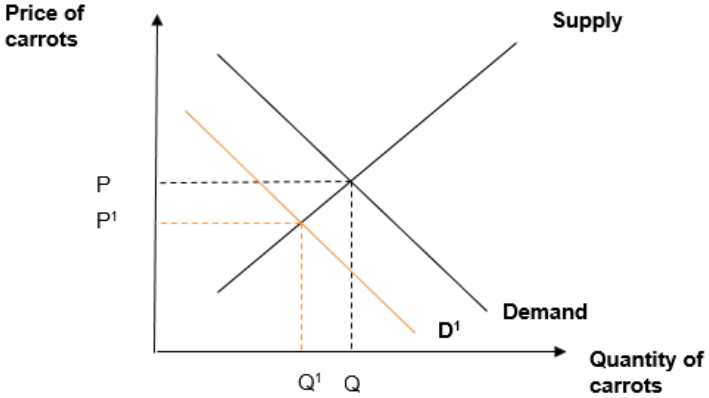
Annotations

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	Marks	Guidance
1 (a)		4	<p>One mark for drawing the new demand curve to the left of the current demand curve.</p> <p>One mark for labelling this new curve appropriately.</p> <p>One mark for indicating or stating that price will fall.</p> <p>One mark for indicating or stating that output will fall.</p> <p>No marks to be awarded if demand is shifted to the right.</p> <p>Ignore any changes to the supply curve.</p>
1 (b)	<p>Responses may include:</p> <ul style="list-style-type: none"> • (price/demand of) complements • (price/demand of) substitutes • income/income tax • advertising • interest rates • future expectations • population changes. 	3	<p>One mark for each correct answer up to a maximum of three marks.</p> <p>Accept 'price of other goods'</p> <p>Do NOT accept tastes or fashion (or social trends) as these are stated in the question</p>
1 (c)	<p>Use level of response criteria.</p> <p>Responses may include:</p> <ul style="list-style-type: none"> • PED is price inelastic • vegetables are a necessity (not a luxury) • demand for vegetables will go in the opposite direction to price • a percentage change in price will lead to a smaller percentage change in demand • an increase in price will lead to an increase in revenue • a decrease in price will lead to a decrease in revenue • some vegetables are much more price inelastic than others 	8	<p>Levels of response</p> <p>Level 4 (7 – 8 marks) Candidate evaluates how <i>Blackbird Farm's</i> business behaviour might be affected by the PED information.</p> <p>Level 3 (5 – 6 marks) Candidate analyses impact(s) of PED on a business.</p> <p>Level 2 (3 – 4 marks) Candidate explains what PED tells a business.</p>

Question	Answer	Marks	Guidance
	<ul style="list-style-type: none"> will it encourage Simon to buy the neighbouring farm to expand production of vegetables? <p>Exemplar response: The PED tells us that vegetables are price inelastic (L1). This means that they are a necessity (L2) so that if Blackbird Farm changes the price any change in demand will be relatively smaller (L3). <i>Blackbird Farm</i> would be advised to increase the price of its vegetables if it wants to increase its revenue (L4).</p> <p>A value of less than 1 means a product is price inelastic (L1). Any change in price will have a direct effect on revenue (L2) so a rise in price would be a good idea as revenue for the farm will increase (L3). This impact will be even greater for Simon if carrots (CONT), onions, cabbages or potatoes are amongst those vegetables with a PED of -0.4 (L4).</p>		<p>Level 1 (1 – 2 marks) Candidate identifies relevant knowledge about PED.</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>This question assesses candidates' quantitative skills.</p>
1	<p>(d) Responses may include:</p> <ul style="list-style-type: none"> high capital/start-up costs high sunk costs a strong brand image or brand loyalty a patent/copyright/trademark/legislation. <p>Exemplar responses: The money spent on the milking sheds (CONT)(+1) is an example of a high capital cost (1) which is a barrier to entry. If this money is not available, then Simon may need to borrow it (+1).</p> <p>Sunk costs (1) as the money spent on kitchen equipment (CONT)(+1) has to be written off. This will increase the risk for <i>Blackbird Farm</i> (+1).</p> <p>A strong brand image (+1) can be a barrier to entry. The 4 local cafés seem to have this as they spend lots on advertising (CONT)(1). <i>Blackbird Farm</i> may have to spend a lot of money on advertising to compete against this (+1).</p>	9	<p>For each of three barriers to entry:</p> <ul style="list-style-type: none"> one mark for the correct identification of a barrier to entry <p>PLUS:</p> <ul style="list-style-type: none"> one mark for analysing its impact on <i>Blackbird Farm</i> one mark for a contextual reference.

Question			Answer	Marks	Guidance
2	(a)	(i)	Indicative content: <ul style="list-style-type: none"> Gross Domestic Product 	2	Two marks for a correct answer. One mark for getting two out of the three words correct.
2	(a)	(ii)	Responses may include: <ul style="list-style-type: none"> sales increase (1) as there is more money in the economy (1) consumers choose more expensive/luxury products (1) which helps a business to make more profit (1) profitability increases (1) as a business can increase prices relative to costs (1) production increases (1) as business will expect to be able to sell more in a stronger economy (1) increased recruitment (1) so that production can be increased (1) harder to recruit staff (1) as unemployment falls (1) congestion/ pollution (1) as more products will be transported (1). 	4	One mark for each correct effect to a maximum of two, plus one mark for each of two explanations.
2	(a)	(iii)	Responses may include: <ul style="list-style-type: none"> changes to benefits (1) so that people want to work (1) reduced income tax (1) makes working more attractive (1) increases to the NMW/NLW (1) which will encourage people back to work (1) trade union legislation (1) to reduce the chance of industrial disputes (1) competition regulation (1) allows new entries (1) funding for training (1) to increase skill levels of workers (1) funding for infrastructure projects (1) such as roads to make transport of workers/goods more efficient (1) spending on R&D (1) to increase innovation/technology (1). 	6	One mark for each correct policy to a maximum of three policies, plus up to one mark for each of three explanations.

Question	Answer	Marks	Guidance
2 (b)	<p>Use level of response criteria.</p> <p>Responses may include:</p> <ul style="list-style-type: none"> • interest rates are the cost of borrowing money • Simon will need to borrow money to develop the milking sheds • it will be cheaper to borrow money if interest rates are low (and less attractive to save money) • low interest rates may encourage consumers to borrow so spending (on days out) will increase • overdraft costs will fall so that it may be possible to finance the kitchen equipment this way • low interest rates may lead to a booming economy which may make it easier to compete with established cafés. <p>Exemplar responses:</p> <p>It will be cheaper to borrow money (L1). This means that a business will be more likely to borrow the money now it is cheaper (L2). <i>Blackbird Farm</i> may now be able to afford the cost of repairing the derelict milking sheds (L3).</p> <p>Customers will find it cheaper to borrow money (L1) so that they will have more money to spend (L2). As the café/shop is a leisure activity, this will lead to more potential customers (L3).</p>	9	<p>Levels of response</p> <p>Level 3 (7 – 9 marks) Candidate analyses the impact(s) of low interest rates on Simon's idea to open the café and a shop.</p> <p>Level 2 (4 – 6 marks) Candidate explains the effect(s) of low interest rates on a business.</p> <p>Level 1 (1 – 3 marks) Candidate identifies the effect(s) of low interest rates.</p>

Question	Answer	Marks	Guidance
3 (a)	Indicative content: <ul style="list-style-type: none"> • mobile/communication technologies • free trade • transport infrastructure (e.g. containerisation, pipelines, aviation, ports, rail/road) • rise of multinational companies • international financial flows. 	3	One mark for each correct answer up to a maximum of three marks.
3 (b)	Responses may include: <ul style="list-style-type: none"> • wider access to markets • extended product lifecycles • increased market share/penetration • can overcome domestic limitations • access to more suppliers • access to cheaper supplies • more competitive. <p>Exemplar responses: Wider access to markets (1). As Eastern Europe are demanding traditional vegetables which are declining in the UK (CONT)(+1) <i>Blackbird Farm</i> may be able to continue growing the same crops in the future (1).</p> <p>The farm may be able to obtain cheaper supplies, such as seeds and machinery (CONT)(1). This will lead to a fall in costs (1) so that it may allow them to reduce their prices in the UK (1).</p>	9	For each benefit: <ul style="list-style-type: none"> • one mark for a correct benefit of trading internationally <p>PLUS:</p> <ul style="list-style-type: none"> • one mark for analysing its impact on <i>Blackbird Farm</i> • one mark for a contextual reference.

Question	Answer	Marks	Guidance
4	<p>Use level of response criteria.</p> <p>Responses regarding cyclical unemployment may include:</p> <ul style="list-style-type: none"> • caused by the business cycle • if GDP is increasing unemployment should be falling • if GDP is falling then unemployment is likely to rise • UK GDP growth has been positive for the whole of the period from 2013 so cyclical unemployment should be falling • given the location of the farm the economy may not be so strong so cyclical unemployment may still be an issue locally. <p>Responses regarding structural unemployment may include:</p> <ul style="list-style-type: none"> • caused by changes in the relative size of the industrial sectors of the UK • known as deindustrialisation • is a long-term issue • the primary sector (agriculture) in the UK has been in decline for many years • there has been a growth in people being trained in IT, engineering and healthcare which is creating workers available for the secondary and tertiary sectors of the economy. <p>Responses regarding frictional unemployment may include:</p> <ul style="list-style-type: none"> • caused by workers moving between jobs • may be temporary/short-term • caused by inefficiencies in the labour market and the level of search costs • many of <i>Blackbird Farm's</i> workers stay a short time • are they just between jobs (waiting for an easier job or a job they are more suitably qualified for)? <p>Exemplar response: Frictional unemployment means that workers will be coming and going on a regular basis (L1) as workers will be leaving as they constantly look for new jobs (L2). This means that <i>Blackbird Farm</i> will incur the costs of</p>	16	<p>Levels of response</p> <p>Level 4 (13 – 16 marks) Candidate evaluates which cause of unemployment will have the greatest impact on <i>Blackbird Farm</i>.</p> <p>Level 3 (9 – 12 marks) Candidate analyses how cause(s) of unemployment will affect <i>Blackbird Farm</i>.</p> <p>Level 2 (5 – 8 marks) Candidate explains cause(s) of unemployment.</p> <p>Level 1 (1 – 4 marks) Candidate identifies relevant knowledge about cause(s) of unemployment.</p> <p>Candidate must explicitly select which cause has the greatest impact (with valid justification (following previous analysis)) to be awarded Level 4.</p> <p>Award 13 marks for a generic argument about the main cause, e.g. frictional unemployment is the most significant cause because so many people move between jobs nowadays (no context).</p> <p>Award 14 marks for a contextual argument about the main cause, e.g. frictional unemployment is the most significant cause as many workers do not stay very long, as they are waiting for an easier or better-paid job to become available locally (with context).</p> <p>Award 15 marks for a comparative, non-contextual argument about the main cause, e.g. structural unemployment is the most significant cause because people are moving into the service sector whereas</p>

Question	Answer	Marks	Guidance
	<p>recruiting and training workers (L3). This will be significant, as we are told that workers are over-qualified and leave to get a better paid job in IT or engineering (CONT)(L4). This will have a huge impact on <i>Blackbird Farm</i> as the work is physically challenging and so cannot be done if there are not enough workers (L4). This cause will be more significant than cyclical unemployment as we can see that the economy has been growing constantly for 10 years (L4).</p>		<p>cyclical unemployment is low as the economy does well (no context).</p> <p>Award 16 marks for a comparative, contextual argument about the main cause, e.g. structural unemployment is the most significant cause because people are more likely to be training in service-based skills such as IT & healthcare whereas cyclical unemployment is low as GDP has continued to grow by over 1.5% for each of the last five years (with context).</p>

Question		Answer	Marks	Guidance
5	(a)	Indicative content: <ul style="list-style-type: none"> • demand for sterling • supply of sterling • interest rates • market equilibrium • confidence levels in the economy • open market operations. 	1	One mark for a correct identification
5	(b)	Use level of response criteria. Marketing responses may include: <ul style="list-style-type: none"> • lower import costs of raw materials (seeds etc.) may mean prices in the UK can be reduced • can try to sell more to UK supermarkets if prices are lower • may be more competitors entering the UK from abroad so that more needs to be spent on promotion (to both the supermarkets and end consumers) • the need for overseas marketing to compensate for higher export prices • may be able to put up with higher export prices as the demand is for high quality vegetables • cheaper to borrow money from abroad so the expansion of café/shop or purchase of the neighbouring farm can offer marketing opportunities • may decide against buying the neighbouring farm if the plan was to export the produce from it. <p>Exemplar response: Marketing may need to look for extra demand from UK supermarkets (L1) as a result of more expensive exports. It could do this by cutting prices or extra promotion (L2). This may, however, reduce profit margins (L3) or not work at all, if supermarkets want to focus on buying the cheaper imports to keep their own prices low (L3). <i>Blackbird Farm</i> could consider a short-run promotional campaign which encourages customers to buy UK-grown crops. This may require a strong</p>	16	<p>Levels of response</p> <p>Level 4 (13 – 16 marks) Candidate evaluates how the marketing function of <i>Blackbird Farm</i> should respond to a rising sterling exchange rate.</p> <p>Level 3 (9 – 12 marks) Candidate analyses way(s) the marketing function can respond to a rising sterling exchange rate.</p> <p>Level 2 (5 – 8 marks) Candidate explains way(s) the marketing function can respond to a rising sterling exchange rate.</p> <p>Level 1 (1 – 4 marks) Candidate identifies way(s) the marketing function can respond to a rising sterling exchange rate.</p> <p>Award 13 marks for a basic generic argument about the response by the marketing function, e.g. marketing will now have to work harder to sell exports as they are more expensive (no context).</p> <p>Award 14 marks for supported generic evaluation about the response by the marketing function, e.g. marketing will now have to work harder to sell exports as they are more expensive. This may mean it is a</p>

Question	Answer	Marks	Guidance
	<p>'Buy British' campaign, in partnership with the supermarkets, to offset the lower import prices (L4). In the long-run, <i>Blackbird Farm</i> may need to consider reducing output so any expansion into the neighbouring farm (CONT) may be unnecessary (L4). Alternatively, they could aim to sell more of their quality vegetables to less price conscientious customers (e.g. Waitrose or the on-site shop) (L4).</p>		<p>better idea to spend more time and effort trying to sell in the UK, by cutting prices to compete against the cheaper imports (no context).</p> <p>Award 15 marks for a basic contextual argument about the response by the marketing function, e.g. as imports will be cheaper and vegetables are a basic product, Marketing will have to convince customers to buy UK-grown vegetables (with context).</p> <p>Award 16 marks for a supported contextual argument about the response by the marketing function, e.g. the response by Marketing is vital in the short-run so that customers are encouraged to buy UK-grown crops as imports will now be cheaper. This may require a strong 'Buy British' campaign with the supermarkets to offset the lower import prices (with context).</p>

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