

Cambridge Technicals Business

Unit 10: Economics for business

Level 3 Cambridge Technical in Business
05834 - 05837

Mark Scheme for January 2021

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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 supply curve to the left of the current supply curve.</p> <p>One mark for labelling this new curve appropriately.</p> <p>One mark for indicating or stating that price will rise.</p> <p>One mark for indicating or stating that output will fall.</p> <p>No marks to be awarded if supply is shifted to the right.</p> <p>Ignore any changes to the demand curve.</p>
1	(b)	The responsiveness of demand to changes in price	2	<p>Two marks for an accurate answer, e.g.</p> <ul style="list-style-type: none"> • <u>responsiveness</u> of demand to a change in price (2) • if price changes, by how much does demand change <u>relatively</u> (2) • how <u>sensitive</u> is a change in demand to a change in price (2) <p>One mark for a general idea of the term, e.g.</p> <ul style="list-style-type: none"> • the correct relationship between a change in demand and change in price (1) • stating the formula for PED (1)
1	(c)	(i) Responses may include: <ul style="list-style-type: none"> • large number of buyers/sellers • firms are price takers • each firm is relatively small • each firm acts independently • no/few barriers to entry/exit • firms will profit maximise in the short run • products are differentiated/non homogenous 	3	<p>One mark for each correct identification up to a maximum of three marks.</p> <p>Accept 'some knowledge about other firms/products'</p>

Question			Answer	Marks	Guidance
1	(c)	(ii)	<p>Responses may include:</p> <ul style="list-style-type: none"> • monopoly • oligopoly • perfect competition <p>Accept other recognised names of economic market structures, e.g. duopoly, monopsony, bilateral monopoly, contestability.</p>	1	<p>One mark for market structure other than monopolistic competition</p> <p>Do NOT accept 'imperfect competition' as this is just a different name for monopolistic competition.</p>
1	(d)		<p>Use level of response criteria.</p> <p>The impact of inflation may include:</p> <ul style="list-style-type: none"> • menu costs – the costs to a business of regularly changing prices in terms of price lists and inconvenience of customers • shoe leather costs – it is less clear what is a fair price. Customers and businesses (in terms of raw materials) will spend more time and effort 'shopping around' which is a cost • uncertainty – consumers and businesses will find it harder to plan ahead or budget as nobody is sure what prices/costs will be in the future. This may also affect business investment • redistribution costs – this will especially affect anyone on a fixed or zero income, such as students who see prices increasing but without any increase in their income. <p>Exemplar response: Inflation may lead to menu costs (L1) as firms must regularly update their price lists (L2). JustPrint Clothing updates its price lists weekly, so this cost will increase with inflation (L3). However, given there is lots of competition, Anika may still feel it is important to keep sending out regular advertising, even if these costs continue to rise (L4).</p>	8	<p>Levels of response</p> <p>Level 4 (7 – 8 marks) Candidate evaluates the impact of inflation on JustPrint Clothing.</p> <p>Level 3 (5 – 6 marks) Candidate analyses impact(s) of inflation on a business.</p> <p>Level 2 (3 – 4 marks) Candidate explains impact(s) of inflation.</p> <p>Level 1 (1 – 2 marks) Candidate identifies impact(s) of inflation.</p> <p>The upper mark of levels 1 - 3 can be awarded for clarity of response. The upper mark for L4 should be awarded for specific contextual argument.</p> <p>The candidate may conclude that the impact of inflation may or may not be significant for JustPrint Clothing.</p> <p>Also accept any impact linked to cheaper imports (due to a higher exchange rate), higher interest rates or more expensive raw material costs</p>

Question		Answer	Marks	Guidance
		Inflation creates uncertainty (L1) . Prices will be less predictable, making it difficult for a business to plan ahead (L2) . Anika is worried about the fluctuating cost of JustPrint Clothing's raw materials (L3) . We are told the fabric inks are very expensive, so less stability in their prices will harm Anika's planning for the future (L4) .		
2	(a)	<p>Responses may include:</p> <ul style="list-style-type: none"> • marketing • purchasing/bulk buying • financial • technical • managerial • risk bearing <p>Exemplar responses:</p> <p>Marketing (1). JustPrint Clothing produces posters and leaflets every month (CONT) (+1). If the business grows, it may get a better deal from the printers so that the cost per unit falls (+1).</p> <p>Financial (1). If JustPrint Clothing grows and buys a new printing machine (CONT) (+1) it may get a loan more cheaply from a lender (+1).</p> <p>Risk bearing (1). Currently over 90% of sales are to schools and colleges (CONT) (+1) but by diversifying into the business market, JustPrint Clothing may see a fall in unit costs (+1).</p>	9	<p>For each of three internal economies of scale:</p> <ul style="list-style-type: none"> • one mark for the correct identification of an internal economy of scale <p>PLUS</p> <ul style="list-style-type: none"> • one mark for non-contextual analysis of its impact on the business (there must be a link to <u>unit</u> costs) <p>OR</p> <ul style="list-style-type: none"> • two marks for contextual analysis of its impact on the business (there must be a link to <u>unit</u> costs). <p>Do not accept 'technology' or 'technological' economies of scale</p>

Question			Answer	Marks	Guidance
2	(b)	(i)	An upturn in the level of GDP following a period of recession or slump.	2	<p>Two marks for an accurate answer:</p> <ul style="list-style-type: none"> The increase in GDP/economic growth after a recession (2) <p>One mark for a general idea of the term:</p> <ul style="list-style-type: none"> A slow increase in GDP/economic growth (1) The phase after recession (1)
2	(b)	(ii)	Recovery phase leads to increased consumption (1) as households are now more confident (1). This leads to businesses thinking about expansion (1) so that more workers may be employed (1).	4	<p>A maximum of 4 marks to be awarded</p> <p>Maximum 3 marks if the impact on recruitment is not mentioned</p> <p>1 mark for recognising that recruitment may increase.</p> <p>1 mark for recognising that any recruitment may be slow or non-existent at first.</p> <p>1 mark for recognising it may be easier to recruit.</p> <p>1 mark for a wider pool of potential employees or more people seeking work.</p> <p>1 mark for suggesting that pay be lower or reduced.</p> <p>1 mark for identifying confidence as a factor.</p> <p>1 mark for reference to increased consumption or income.</p> <p>1 mark for reference to increased output/growth of the economy/GDP.</p>

Question		Answer	Marks	Guidance
3	(a)	<p>Responses may include:</p> <ul style="list-style-type: none"> • demand for sterling • supply of sterling • interest rates/behaviour of speculators • market equilibrium <p>Exemplar responses: Demand for sterling (1). This comes from overseas individuals or firms who want to buy UK products (1). An increase in demand for sterling will lead to an increase in the exchange rate (1).</p> <p>Supply of sterling (1). UK firms and individuals supply sterling to the money markets (1). An increase in supply will lead to a fall in the exchange rate (1).</p> <p>Interest rates (1). This will affect speculators in the foreign money markets (1). Higher UK interest rates are likely to lead to a higher exchange rate (1).</p>	9	<p>For each of three determinants, one mark for a correct identification, one mark for explanation and one mark for analysis.</p> <p>Answers may include a diagram to show the effect on the exchange rate, but this is not necessary for any mark.</p> <p>Accept any issues which may affect the exchange rate or behaviour of the market (e.g. the UK leaving the EU) or factors affecting demand/supply (e.g. tariffs on trading)</p>
3	(b)	<p>Use level of response criteria.</p> <p>A stable currency means that the exchange rate is not moving excessively or randomly. This means that:</p> <ul style="list-style-type: none"> • importers know with greater certainty what import costs will be from day-to-day • costs in the future will vary little from today • costs may still increase or decrease but will be only affected by changes in the market for that product either overseas or domestically • overseas firms may be more willing to trade with the UK as they will also have greater certainty in their business. 	16	<p>Levels of response</p> <p>Level 4 (13 – 16 marks) Candidate evaluates how a stable currency may affect the future success of JustPrint Clothing.</p> <p>Level 3 (9 – 12 marks) Candidate analyses the impact(s) of currency (in)stability on a business.</p> <p>Level 2 (5 – 8 marks) Candidate explains the impact(s) of currency (in)stability on a business.</p> <p>Level 1 (1 – 4 marks) Candidate identifies the impact(s) of currency (in)stability on a business.</p>

Question	Answer	Marks	Guidance
	<p>Contextual evidence about JustPrint Clothing which may be relevant, includes:</p> <ul style="list-style-type: none"> • there is at least 3 months between ordering stock of hoodies (and the foreign price being set) and JustPrint Clothing having to pay the invoice in Sterling • due to higher prices, more stock is being bought from Eastern Europe, but the quality is lower • it is only a small private limited company without the power to hedge against exchange rate changes • Anika is the only manager/owner • Anika issues a new price list on a weekly basis • the business may be looking to grow in the future <p>Exemplar response:</p> <p>Fluctuating currencies can make it difficult to forecast costs (L1) as the price paid for imports will vary outside of the control of the business (L2). This may mean that more stable currencies will allow JustPrint Clothing to forecast its costs (L3) as exchange rates are less likely to change in the 3 months between ordering stock and paying for it (CONT). A stable currency means that costs will change less often (L1) which may mean that Anika does not have to issue a new price list every week (CONT) so that she will see a higher profit margin (L3).</p> <p>A stable currency may allow JustPrint Clothing to be more successful (L4), as not only can it better control the costs but also it can continue to import from China (CONT) rather than the poor quality products from Eastern Europe which may ultimately affect the firm's reputation in such a competitive market (L4).</p>		<p>Level 4</p> <p>Award 13 marks for a basic generic evaluation about the likely impact, e.g. the business will be more successful as it is easier to plan (no context).</p> <p>Award 14 marks for a supported generic evaluation about the likely impact, e.g. the business will be more successful as planning will be easier when costs of imports are more predictable (no context).</p> <p>Award 15 marks for a basic contextual evaluation about the likely impact, e.g. the businesses will find it easier to plan as it buys lots of raw materials, including the hoodies, from abroad (with context).</p> <p>Award 16 marks for a supported contextual evaluation about the likely impact, e.g. as JustPrint Clothing is so dependent on imports, and there is such a long time between ordering hoodies and paying for them, a stable currency will help it to budget more effectively and so be more successful (with context).</p> <p>Do NOT credit answers which interpret a 'stable currency' to mean a low or high exchange rate.</p>

Question		Answer	Marks	Guidance
4	(a)	<p>Tasks include:</p> <ul style="list-style-type: none"> • collect taxes (1) such as indirect taxes (1) • deals with tax rebates (1) for any who overpay (1) • ensures national insurance payments (1) are correctly received from employers and employees (1) • enforces the national minimum wage (1) so that employees are correctly paid (1) • implements money laundering regulations (1) so that money is not illegally entering or leaving the UK (1) 	4	<p>One mark for each correct identification to a maximum of two, plus one mark for each of two developments.</p> <p>Accept separate references to collecting taxation from individuals and businesses</p>
4	(b)	<p>Marketing may respond by:</p> <ul style="list-style-type: none"> • changing the price • changing promotional methods or materials • changing the design or range of products available • conducting market research. <p>Exemplar responses: Marketing may decide to conduct market research into what the now more affluent customers want (1) in order to ensure that the clothing they offer continues to meet customer demand (CONT) (+2).</p> <p>Marketing may decide to increase the price (1) as customers can now afford to pay more (NO CONT) (+1).</p>	3	<p>One mark for identifying a correct aspect of the marketing function plus up to two further marks for explanation.</p> <p>Award explanation marks as follows:</p> <ul style="list-style-type: none"> • two marks for a contextual explanation. • one mark for non-contextual explanation.

Question		Answer	Marks	Guidance
4	(c)	<p>Responses may include:</p> <ul style="list-style-type: none"> • more money now circulating in the economy • it may be easier to borrow money • interest rates may fall • increased confidence in the economy • increased levels of consumption • increased demand-pull inflation • reduced unemployment <p>Exemplar responses:</p> <p>The increase in money supply may lead to a fall in interest rates (L1) which would make it more attractive to borrow money (L2). This would encourage JustPrint Clothing to borrow money to replace the older printing machine it currently owns (L3).</p> <p>The combination of inflation and lower unemployment (L1) may force JustPrint Clothing to set higher wage rates (L2) given the low levels of unemployment in Eastings and the difficulty it has retaining staff (L3).</p>	9	<p>Levels of response</p> <p>Level 3 (7 – 9 marks) Candidate analyses the impact of the response(s) of the finance function to an increase in the money supply.</p> <p>Level 2 (4 – 6 marks) Candidate explains the response(s) of the finance function of a business to an increase in the money supply.</p> <p>Level 1 (1 – 3 marks) Candidate identifies the effect(s) on a business of an increase in the money supply.</p> <p>The upper mark in Levels 1, 2 and 3 can be awarded for clarity of response.</p>

Question	Answer	Marks	Guidance
5	<p>Use level of response criteria.</p> <p>Responses regarding faster/cheaper communication technologies may include:</p> <ul style="list-style-type: none"> • costs of production may fall in long-term • easier to do business nationally and internationally • only Anika is able to use the computer software • the Internet has allowed designs to be uploaded remotely so customers can be further away from the business (both good and bad for JustPrint Clothing) <p>Responses regarding rapid growth in BRIC and MINT economies may include:</p> <ul style="list-style-type: none"> • allows the developing countries to be more competitive in terms of supplying raw materials • another cheap (or closer) source of raw materials for JustPrint Clothing • increased demand for all goods by these developing countries • may attract workers into these countries as sectors develop <p>Responses regarding concerns about environmental damage may include:</p> <ul style="list-style-type: none"> • increased awareness by consumers about the providence of a product • customers concerned about materials used in the production process and where they have come from, especially if resourced from less developed countries • JustPrint Clothing imports most of its clothing from China (air miles) and uses inks and cleaning fluids in the production process <p>Exemplar response: As more consumers see protests against business about environmental issues (L1) demand for products seen to be damaging to the environment may decrease (L2). JustPrint Clothing buys most of its clothing from China (CONT) so consumers may be less willing to buy its products so that sales fall (L3).</p>	16	<p>Levels of response</p> <p>Level 4 (13 – 16 marks) Candidate evaluates which global factor will have the greatest effect on JustPrint Clothing Ltd.</p> <p>Level 3 (9 – 12 marks) Candidate analyses the impact(s) of the global factor(s) on a business.</p> <p>Level 2 (5 – 8 marks) Candidate explains the impact(s) of the global factor(s) on a business.</p> <p>Level 1 (1 – 4 marks) Candidate identifies the impact(s) of the global factor(s) on a business.</p> <p>Candidate must explicitly select which factor 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 factor, e.g. cheaper communication technologies are the most significant because this is now such a vital part of modern business life (no context).</p> <p>Award 14 marks for a contextual argument about the main cause, e.g. cheaper communication technologies are the most significant because JustPrint Clothing’s business is now more reliant on the Internet (with context).</p>

Question	Answer	Marks	Guidance
	<p>The improvements in communication technologies will reduce costs (L1) and make it easier for a business to trade over a wider area (L2). However, the nature of JustPrint Clothing's product means it will not want customers based too far away, due to delivery costs (CONT) so it may be adversely affected, as more competitors take advantage of cheaper technology online (L3).</p> <p>I think concerns about environmental damage will have the greatest effect for JustPrint Clothing (L4). It relies on importing clothing from the other side of the world and the nearer alternative is lower quality (L4). On the other hand, it does not sell abroad, so increased development in the BRIC or MINT countries will have no effect (L4) and given the limited use of technology by JustPrint Clothing, improvements to communication technology will also have little effect (L4).</p>		<p>Award 15 marks for a comparative, non-contextual argument about the main cause, e.g. cheaper communication technologies are the most significant because all countries rely on it, whereas growth in developing countries only affects businesses who export to them (no context).</p> <p>Award 16 marks for a comparative, contextual argument about the main cause, e.g. concerns about environmental damage are the most significant, as JustPrint Clothing imports its clothing from China which is significant in terms of the carbon footprint of the product whereas it does not export products, so the growth in developing countries is largely irrelevant (with context).</p>

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