

CAMBRIDGE TECHNICALS LEVEL 3 (2016)

Examiners' report

BUSINESS

05834–05837, 05878

Unit 10 January 2022 series

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Introduction

Our examiners' reports are produced to offer constructive feedback on candidates' performance in the examinations. They provide useful guidance for future candidates.

The reports will include a general commentary on candidates' performance, identify technical aspects examined in the questions and highlight good performance and where performance could be improved. The reports will also explain aspects which caused difficulty and why the difficulties arose, whether through a lack of knowledge, poor examination technique, or any other identifiable and explainable reason.

Where overall performance on a question/question part was considered good, with no particular areas to highlight, these questions have not been included in the report.

A full copy of the question paper and the mark scheme can be downloaded from OCR.

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Unit 10 series overview

This unit is the 'Economics for Business' paper taken by Level 3 candidates for the Business qualification. In this unit, it is not the depth of Economics knowledge which is being assessed but rather how well a candidate applies their knowledge of Economics to a real-life setting. Higher achieving candidates were able to do this in most questions.

There was a wide range in the standard of scripts marked. There was some excellent work produced by candidates who clearly had a thorough understanding of relevant Economics and were able to integrate this into the context provided. At the other extreme, many candidates had significant gaps in their knowledge and made little attempt to engage with the business context provided.

Performance on both 16-mark questions was not strong; this kept the final mark down on many otherwise good scripts. Many candidates did not understand what to write about for the causes of inflation in Question 3(b) and did not know what the human resource function was responsible for in Question 5.

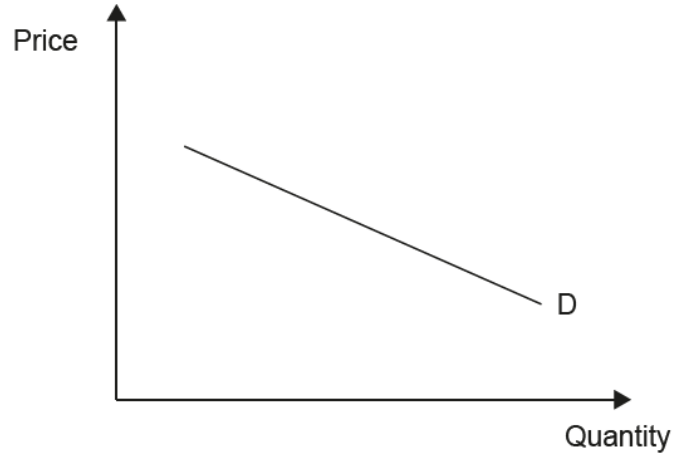
A number of candidates used the extra answer pages at the end of the question booklet. However, they did not always help themselves (or the examiner) by clearly labelling this extra work or by referring to it in the main body of the question paper.

<i>Candidates who did well on this paper generally did the following:</i>	<i>Candidates who did less well on this paper generally did the following:</i>
<ul style="list-style-type: none"> • showed good knowledge of most topics in Economics • where required, related their responses to the business context provided • wrote clearly and succinctly • logically built up their responses to longer tariff questions • made a justified decision when asked. 	<ul style="list-style-type: none"> • did not attempt to answer several questions • showed limited knowledge of key concepts including price elasticity of demand, inflation, and interest rates • did not know what the human resource function was responsible for • made virtually no reference to the business context provided.

Question 1 (a) (i)

- 1 (a) There are many factors which may affect the demand for a newspaper. On the diagrams below, show the likely effect on the demand for a newspaper of:

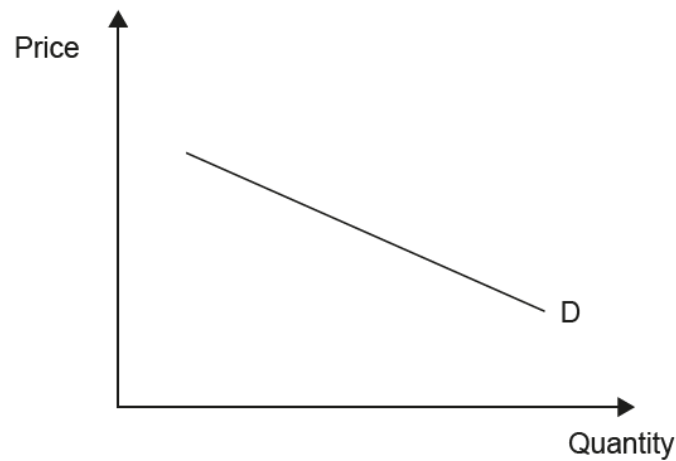
- (i) an increase in disposable income;



[2]

Question 1 (a) (ii)

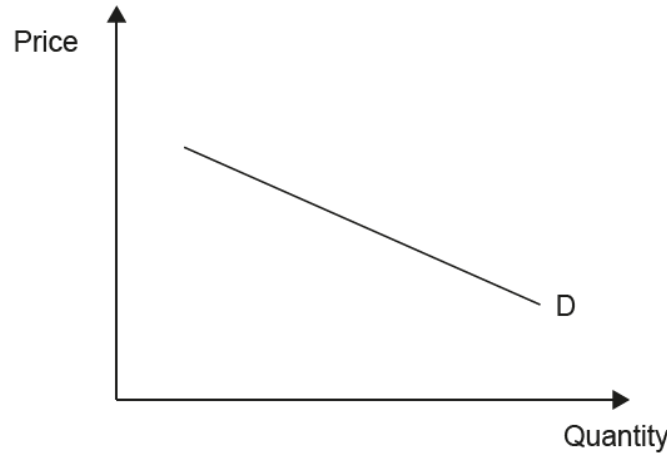
- (ii) a decrease in the price of a substitute;



[2]

Question 1 (a) (iii)

(iii) a decrease in the price of a newspaper.



[2]

Most candidates correctly answered the first two parts to this question. However, very few candidates correctly answered the third part which required a movement along the demand schedule.

Some of the candidates who correctly showed a movement in the demand schedule in parts (i) and (ii) did not gain both marks, as they did not label the new schedule or labelled it 'D' (any other label would have been acceptable).

Key point call out

Candidates MUST understand the difference between factors which cause a shift in the demand (or supply) schedule and ones which cause a movement along that schedule.

Question 1 (b)

(b) The price elasticity of demand for newspapers is estimated to be -2.0 .

Evaluate the impact on *Daily News plc* of a decrease in the supply of newspapers.

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[8]

Many candidates started their response to this question by stating that price elasticity of demand was inelastic. This led to many responses which were ultimately incorrect and so it was difficult to award any marks. Many responses also suggested that it was due to price elasticity being price elastic (or price inelastic) which meant that price and demand were inversely related.

A significant number of responses showed no evidence of supply and demand theory. Many candidates were unsure about how a fall in supply would ultimately affect the equilibrium quantity. Leading on from Question 1(a), it may have been expected that candidates used supply and demand theory to conclude that a decrease in supply would ultimately lead to a price increase and a fall in equilibrium quantity (even producing a simple diagram – although this was not required). Very few took this logical approach.

Many responses ignored the reference to price elasticity of demand in the question. This would have been particularly useful for any evaluation and was possibly why almost no candidates gained more than 6 marks. Although there were many good responses which quickly reached the stage of saying that equilibrium quantity will fall, very few went on to consider by how much and whether this was good or bad for Daily News (given the increase in price.) As the demand was price elastic the firm's revenue would fall.

A number of candidates misunderstood who was supplying the newspapers. Many thought this meant that not enough newspapers were being supplied to Daily News (evidence that these candidates had not understood what the business does) when in fact it was Daily News doing the supplying. However, these candidates often gained marks by suggesting that this lack of supply would allow Daily News to focus more on its subscription service. This approach was suitably rewarded.

	<p>AfL</p>	<p>Performance in both this examination and previous ones shows that centres need to put greater focus on teaching the basic concepts of supply and demand. For example:</p> <ul style="list-style-type: none"> • supply and demand are nearly always inversely related (which is shown by price elasticity of demand being negative) • a change in supply has no direct effect on the demand schedule (at least at this level of Economics) with any change needing to work through the supply and demand diagram, in terms of the impact on equilibrium • the relationship between price elasticity of demand and how changes in price affect total revenue is important.
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Question 1 (c)

(c) Identify **three** barriers to entry in a market.

1.....

 2.....

 3.....

[3]

Candidates either knew what a barrier to entry is and gave three correct responses or appeared to not know the term. The most popular correct responses were high capital costs, sunk costs, and patents. However, some candidates gave responses which were too vague, as they were problems of running a business on a day-to-day basis. Responses such as health and safety, hard to raise money, and marketing costs are general challenges of running a business, not specific barriers to entering a market.

Question 2 (a)

2 Some economists have predicted that a recession is likely in the next year.

(a) What is meant by a recession?

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..... [2]

Some candidates were able to write a concise response to this question. The term has a specific definition, and this was required for both marks. Many responses made no reference to two consecutive quarters and so only gained 1 mark.

The need for precise language in the study of Economics is shown here. A significant number of candidates only used vague terms such as a 'bad time' or 'things getting worse' – which were not rewardable. Equally, writing about a 'decrease in economic growth' is incorrect. Economic growth may be falling but still positive, so the economy is not in decline. (Better candidates did refer to negative economic growth.)

There was also a significant number of responses which were either far too long or referred to variables or outcomes which are not connected to a recession, such as exchange rates.

Question 2 (b)

(b) State **three** likely impacts on a business of a recession.

1.....


 2.....

 3.....

[3]

Given the number of candidates who were unable to define the term, it was no surprise that there were many wrong responses to this question which implied that a recession was good – leading to higher prices and more jobs. Another common error was to give a response which would not be an impact on the business (or it was not clear how it would impact the business). Examples included high unemployment and more crime. It was also common to find two or more responses which were the same (for example, lower sales, fewer customers, less revenue) which could only be rewarded once.

There were many excellent, briefly written, responses. As this was only a 'State' question no explanation was required.

	OCR support	The published mark scheme is a vital resource for centres to help them identify how much a candidate needs to write for each style of question. For this question, the mark scheme lists up to ten different possible responses which are all only two or three words in length.
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Question 2 (c)

(c) The UK government has announced three supply side policies which may help *Daily News plc*:

- increased funding paid to employers for each new apprentice they hire
- financial incentives for any business investing in digital technology
- a commitment to improving national infrastructure, including faster broadband.

Analyse how these supply side policies may affect *Daily News plc*.

.....

[9]

This question was generally well answered with many candidates gaining 7 or more marks. It was not necessary to refer to all three supply side policies to gain full marks. Most candidates were able to consider how one or more of the policies would help Daily News' business operations. This was also the one question which saw most candidates make good use of the business context.

The one significant misunderstanding shown by many candidates was how apprenticeships operate. Many responses about this policy gained no marks as they suggested that Daily News would now have to spend more money on recruiting apprentices, as opposed to the government funding most, or all, of these costs. A common characteristic of weaker responses was that they never quite showed the impact on the business and so plateaued at 6 marks.

Question 3 (a)

3 (a) Inflation is measured using either CPI or RPI.

What do these initials stand for?

CPI

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RPI

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.....

[2]

Answers to this question had to be technically correct – there was no room for accepting other variations. Many candidates were able to name both terms, although RPI was less well known. Some candidates thought the 'I' stood for inflation and there were some interesting responses from candidates who clearly did not know what the abbreviations represented.

Question 3 (b)

- (b) The Bank of England has suggested reasons for the recent increase in the UK inflation rate.

Evaluate which cause of inflation is likely to have the greatest impact on *Daily News plc*.

[16]

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There were a wide range of responses to this question with scores from 0 to 16. Strong responses made excellent use of the context and produced a clear comparison between the two causes of inflation highlighted. Often candidates found it easier to write about cost-push inflation and the best responses ultimately concluded that this was less of an issue for Daily News as it was moving to an online subscription service and/or would be able to buy cheaper ink in the UK. This sort of context is specifically written into the scenario to provide candidates with material to make their own justifications.

Some responses only considered one of the causes of inflation. This stopped them from achieving a Level 4 mark as a comparison cannot be made if only one cause has been considered.

This question really highlighted the lack of engagement with the context by many candidates. Some did not look to find the suggested causes of inflation (towards the end of the context on page 2). This led to many responses which, although thorough and factually correct, considered the consequences (rather than the causes) of inflation, such as uncertainty, menu costs, and shoe leather costs. These responses scored no marks.

	<p>Misconception</p>	<p>Inflation continues to be a much-misunderstood topic on this unit. Candidates need to better understand the difference between a cause and a consequence of inflation.</p>
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Question 3 (c)

(c) Explain how the Monetary Policy Committee (MPC) uses inflation targeting.

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..... [3]

Only a very small number of candidates gained full marks by explicitly explaining the relationship between interest rates and inflation targeting. Some candidates scored 1 or 2 marks by showing that they knew about the concept of inflation targeting and/or the setting of interest rates was involved.

Many candidates either did not attempt this question or had no idea about the role of the MPC or what inflation targeting is. A common wrong response was to refer to exchange rates.

Question 3 (d)

(d) Analyse **three** impacts on *Daily News plc* of increased interest rates.

[9]

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There were some excellent responses to this question, although many did not always consider the impact on Daily News. When the business is named in the question then any impact **MUST** be in context. For example, many candidates correctly suggested that higher interest rates would increase the cost of borrowing which would mean a business is less likely to invest. This only gains 2 marks as it could apply to any business.

A common mistake was when candidates wrote about the impact on exchange rates. Often, it was suggested that higher interest rates would make it easier to export. However, *ceteris paribus*, higher interest rates would be associated with higher exchange rates so that exports will be more expensive. Better responses suggested the impact on Daily News would come from cheaper imports which would make it less expensive to buy ink or paper (both of which are contextual for the third mark).

There continues to be confusion between interest rates and inflation. Some candidates seem to think they are one and the same or have a simpler relationship than exists. Candidates are advised to keep to more straightforward impacts of economic variables. There are always plenty to choose from and the candidate is less likely to make a mistake. Examiners do not give more marks for more obscure responses.

Question 4 (a)

4 (a) Analyse **three** costs to a UK business of trading internationally.

[9]

1.....
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2.....
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3.....
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There were many good responses to this question. Some candidates did not always score all 3 marks for a response as there was no impact on the business. This impact could not be 'cost' as the question itself was asking about the costs to a business of international trade.

Occasionally, candidates provided two responses which were too similar (or identical) to each other, for example, tariffs and taxes. In addition, some responses were about the costs of business in general and would apply regardless of whether the business was involved in international trade.

Question 4 (b)

(b) Explain **two** roles of the International Monetary Fund (IMF).

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2.....
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[4]

Questions about the IMF are often not done well. The IMF has a very specific function, and many candidates gave responses which suggested roles fulfilled by the WTO or World Bank. Some responses referred to the controlling of economic variables which would be the responsibility of the country's central bank or government.

Another common error was to suggest that any help or aid provided by the IMF was available for businesses or individuals.

Question 5

- 5 The UK government has decided to focus on an objective of improved economic growth. This objective is likely to:
- lead to an increase in the UK's Gross Domestic Product (GDP)
 - cause inflation to rise above its target rate
 - reduce the unemployment rate to almost zero.

Recommend how the human resource function of *Daily News plc* should respond to this change in objective. Justify your recommendations.

[16]

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One question on the paper always asks candidates to consider how a particular function of a business may need to respond to a particular change in the economy. This question was not well answered for two reasons.

First, many candidates did not know what activities the human resource function carried out. Answers often suggested it would need to do more marketing, change the prices, or improve how the business produced newspapers. Often, almost by accident, this sort of response mentioned employment of workers in passing and did manage to reach Level 2 and score 5 marks. Lots of these responses were excessively long and rarely showed any relevance to the question.

Second, candidates misunderstood the way in which the objectives mentioned in the question would affect Daily News. Often, it appeared that the candidate believed that Daily News was responsible for helping to achieve these objectives, rather than having to respond to them.

Many candidates also wrongly considered an unemployment rate of zero was going to be a good thing for Daily News, rather than the problems it would cause in terms of recruiting new employees and the possible effect on wages.

There were a small number of very good responses to this question which considered ways in which the human resource function may respond, especially with regards to employment, pressures on pay, and the overseas expansion. However, it was then still rare to see an attempt to evaluate which of these was going to have the greatest impact on Daily News.

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