



Oxford Cambridge and RSA

Wednesday 18 January 2023 – Afternoon

Level 3 Cambridge Technical in Business

05878 Unit 10: Economics for business

Time allowed: 2 hours

C427/2301



You can use:

- a calculator



Please write clearly in black ink. **Do not write in the barcodes.**

Centre number

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Candidate number

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First name(s)

Last name

Date of birth

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INSTRUCTIONS

- Use black ink.
- Write your answer to each question in the space provided. If you need extra space use the lined page(s) at the end of this booklet. The question numbers must be clearly shown.
- Answer **all** the questions.

INFORMATION

- The total mark for this paper is **90**.
- The marks for each question are shown in brackets [].
- This document has **16** pages.

ADVICE

- Read each question carefully before you start your answer.

Read the scenario below.

Raley Foods

Henry Raley is the owner of Raley Foods. Henry set up the business in 2002 because he was disappointed with the standard of frozen ready meals available in supermarkets. In a recent magazine article, celebrating the 20th anniversary of his business, Henry explained the background to its success.

“I started off as an accountant but got fed up with the long working hours. I always liked cooking but never seemed to have time to prepare a proper meal. I was always eating ready meals bought from the freezer section of my local supermarket. I felt I could do better by producing fresh, rather than frozen, ready meals. So, I designed some recipes and recruited a chef. That was the start of Raley Foods.”

Henry started selling his ready meals in supermarkets, using the brand name ‘Raley’s Fresh’. However, he found the market for ready meals to be highly competitive. Therefore, Henry decided to produce an additional range of ready meals. This second range targeted a market with a higher income elasticity of demand. His chef produced some new recipes which contained superior-quality ingredients. Henry also designed new packaging, using the brand name ‘Raley’s Classic’. This range of ready meals is now sold in specialist food shops across the UK, as well as two of the better quality supermarkets.

Economic growth remains strong in the UK. Gross Domestic Product (GDP) has increased by 4% each year over the last three years. Although this has benefited UK businesses in many ways, it has led to inflation reaching its highest level in 30 years. UK inflation is currently much higher than in many other countries in Europe.

The UK government’s response to rising inflation has been focused on using fiscal policy. Direct taxes have been increased and controls have been placed on government borrowing. In addition, the Bank of England has increased interest rates from 1% to 5% in the last 18 months. Henry is worried about how changes in economic policy will affect the UK economy. He has decided it is time to consider exporting Raley’s ready meals to selected countries across Europe.

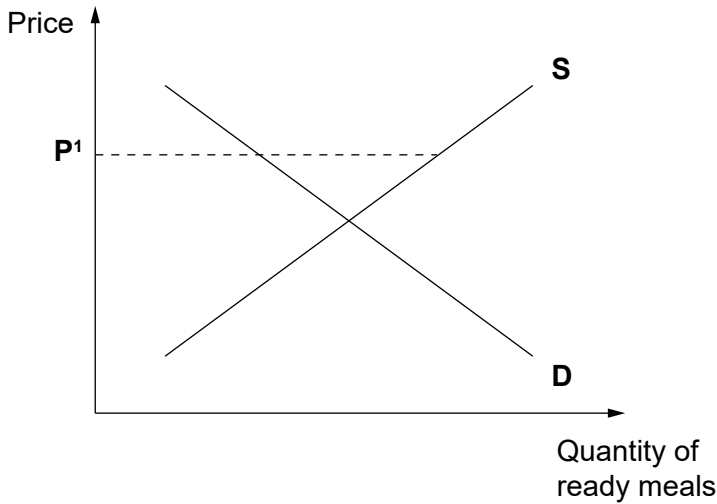
Henry’s research shows that ready meals are considered a low-quality product in many European countries where, in contrast with the UK, most meals are still home cooked using fresh food. He has also become aware of another food business operating in Europe called ‘Raley’s Quality Food’ which sells food products to manufacturers and restaurants.

Raley Foods now regularly earns a profit of more than £5 million per year. The business is located at premises on a business park close to an international airport in the UK. The premises contain two large food production and packaging areas. However, there is very limited refrigerator space to store the finished, fresh, products before they are distributed. This means that production must sometimes be suspended when space to store finished products is unavailable.

Raley Foods has a workforce of approximately 450 employees. There have been several recent changes in the local labour market that are causing Henry concern. These include the local unemployment rate falling well below the UK average and an internet-based retailer opening a large distribution depot nearby. In addition, an increasing number of employees have left Raley Foods.

Henry knows Raley Foods will need a larger workforce in the future. Henry is interested to hear rumours that many employees of the internet-based retailer are unhappy about the health and welfare schemes it offers.

- 1 (a) When Henry started selling 'Raley's Fresh' ready meals, he found the market to be highly competitive. The diagram below shows a supply and demand diagram.



- (i) State how supply and demand differ at price P¹.

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 [2]

- (ii) Explain what is likely to happen in the future if the price in the market is P¹.

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 [2]

- (b) In the table below, identify with a tick (✓) whether each example will lead to a movement along the supply curve **or** a shift in the supply curve.

You should only tick **three** boxes.

Example	Movement along the supply curve?	Shift in the supply curve?
Increased labour costs		
Decreased material costs		
Lower prices		

[3]

(c) Explain why increased levels of competition may lead to non-price competition.

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..... [2]

(d) Research has forecast the income elasticity of demand for the two ranges of ready meals produced by Raley Foods to be:

- 'Raley's Fresh' ready meals = +0.2
- 'Raley's Classic' ready meals = +1.8.

Evaluate how this research data might affect the business behaviour of Raley Foods.

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2 (a) Identify the **four** phases of the business cycle.

- 1
- 2
- 3
- 4 **[4]**

(b) UK economic growth has been 4% per year for the last three years.

Analyse how economic growth in the UK may affect Raley Foods': **[9]**

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- transportation of goods.

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(c) High rates of inflation may lead to menu costs and 'shoe leather' costs.

Explain how each of these costs may affect a business.

- menu costs

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- 'shoe leather' costs

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[6]

3 (a) Explain what each of the following means:

(i) government borrowing

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..... [2]

(ii) national debt

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(c) Analyse **three** impacts on UK businesses of the Bank of England increasing interest rates.

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[9]

- 4 If Raley Foods starts to export its ready meals to selected countries across Europe, there will be some costs of international trade. Three of these costs are:
- the need to adapt the product's design for foreign markets
 - transportation distance
 - increased competition.

Analyse the impact on Raley Foods of each of the three costs listed above if it decides to export its ready meals to Europe.

Which of these costs is likely to have the greatest impact on Raley Foods?

Give reasons for your choice.

[16]

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ADDITIONAL ANSWER SPACE

If additional answer space is required, you should use the following lined page(s). The question numbers must be clearly shown in the margins – for example, 1(d) or 5.

A vertical line on the left side of the page is followed by 25 horizontal dotted lines, providing a ruled area for writing answers.

A series of horizontal dotted lines for writing, spanning the width of the page.



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