

**Cambridge Technicals
Business**

Unit **10**: Economics for business

Level 3 Cambridge Technical in Business
05834 - 05837

Mark Scheme for June 2018

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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)	(i)	<p>Price of Consoles</p> <p>Quantity of Consoles</p>	4	<p>One mark for labelling the upward sloping line with an 'S' at any point along the line.</p> <p>One mark for labelling the downward sloping line with a 'D' at any point along the line.</p> <p>One mark for each correctly labelled market equilibrium position - P1 (at the correct height on the Y axis) and Q1 (at the correct distance along the X axis). There must be a matching line correctly indicating each position. It can be dashed or unbroken.</p> <p>Accept P or Q as labels for the equilibrium</p>
1	(a)	(ii)	<p>Indicative content:</p> <ul style="list-style-type: none"> • (changes in) the price of complements (Xbox games) • (changes in) the price of substitutes (PS4, Wii, Switch consoles and games or other forms of entertainment) • customer income • tastes and fashion • quality of the product • advertising – good or bad about Xbox or competitors • interest rates • future expectations of prices • changes (e.g. technology) to competitors' consoles • expectations of competitors launching new consoles. 	2	<p>One mark for each correct answer.</p> <p>Accept any directional content e.g. increased incomes, lower PS4 prices and more advertising.</p> <p>Do not allow changes in the price of Xbox consoles as the question excludes them.</p> <p>Ensure that each answer is different. For example, only one mark would be awarded if the candidate's answer was 'a change in the price of PlayStations and a change in the price of Wii's'.</p>

Question	Answer	Mark	Guidance
1 (b)	<p>Use of levels of response criteria.</p> <p>Responses include:</p> <ul style="list-style-type: none"> • demand is more responsive to a change in price • sales will fall by a greater proportion than the rise in price • sales will increase by a greater proportion than the fall in price • how reliable is the opinion about the degree of price elasticity for Xbox consoles? <p>Exemplar response:</p> <p>A high price elasticity of demand means that demand is very responsive to a change in price (L1). If there is a price rise, sales of Xbox consoles will fall dramatically (L2). This will mean that Microsoft will see a fall in sales revenue which could reduce their profits (L3).</p> <p>On the other hand, if the price of Xbox consoles falls the demand will increase by a greater proportion (L2) resulting in a higher sales revenue and greater profits (L3).</p> <p>I would recommend that Microsoft reduce the price of its consoles with better graphics [CONT], although the success of this will depend on how greatly price elastic the product is and/or whether they really are price elastic (L4).</p>	8	<p>Levels of response</p> <p>Level 4 (7 - 8 marks) Candidate shows evaluation by justifying what price decision to make and/or considers other factors to be taken into account.</p> <p>Award 7 marks for a generic piece of evaluation Award 8 marks for a piece of contextual evaluation</p> <p>Level 3 (5 - 6 marks) Candidate analyses the impact of price elastic demand on the price decision-making for Xbox consoles.</p> <p>Level 2 (3 – 4 marks) Candidate explains one or more effects of price elastic demand.</p> <p>Level 1 (1 – 2 marks) Candidate identifies knowledge about price elastic demand.</p>

Question	Answer	Mark	Guidance
1 (c)	<p>Indicative content:</p> <ul style="list-style-type: none"> • a few large firms (high concentration ratio) • the firms are interdependent • less likely to compete on price • high amount of advertising, branding and non-price competition (such as innovation) • high barriers to entry • possible collusion between firms. <p>Exemplar response:</p> <p>It is dominated by a few large firms (1) so that no one firm has too much power (1).</p> <p>Oligopolistic markets use non-price competition (1) such as brand image (1).</p>	4	<p>1 mark for each feature of oligopoly, up to a maximum of 2 marks.</p> <p>An additional 1 mark can be awarded for a developed point or example from the context.</p> <p>There are a maximum of 4 marks.</p> <p>The oligopolistic feature may be implied from the candidate's answer</p> <p>Answers do not need to be contextual to the games console market or to the Devon Gaming Bus.</p>
1 (d)	<p>Indicative content:</p> <ul style="list-style-type: none"> • preventing mergers, price fixing or collusion • consumer protection • CMA's role in reducing anti-competitive behaviour, market dominance, undertaking investigations, conducting studies or enforcing legislation • bring criminal procedures <p>Exemplar response:</p> <p>In the UK, the Competition and Markets Authority (1) has the power to prevent businesses merging (1). This means a business would have to grow itself (1).</p>	3	<p>1 mark for the identifying a method of controlling business behaviour or naming the CMA.</p> <p>1 mark for a valid explanation or development</p> <p>1 mark for how business behaviour is affected.</p> <p>There are a maximum of 3 marks.</p>

Question	Answer	Mark	Guidance
2	<p>Internal economies of scale include:</p> <ul style="list-style-type: none"> • marketing • purchasing • financial • technical • managerial • risk bearing. <p>Exemplar response:</p> <p>Purchasing economies of scale (1) occur when a business can buy raw materials or components in bulk at a cheaper unit cost (1). If DGB expands to two minibuses [CONT] it could buy drinks and snacks from a local wholesaler in larger sized boxes, (1) reducing the unit cost and helping them to increase their profit margin (1).</p> <p>DGB can benefit from marketing economies of scale. (1) Running a second bus [CONT] (1) will not require any changes to the marketing on DGB's website (1) so that these costs will not change. Therefore, the marketing cost per booking will fall (1).</p>	8	<p>For each of the two examples,</p> <ul style="list-style-type: none"> • one mark for a correct identification of an internal economy of scale, • one mark for the explanation, • one mark for analysing its impact and • one mark for the response being contextual. <p>Both answers must be contextual to DGB to be awarded the full eight marks.</p> <p>The examples should all result in benefits to DGB.</p>

Question	Answer	Mark	Guidance
3 (a)	<p>Responses may include:</p> <ul style="list-style-type: none"> • structural unemployment – Waqar being made redundant from his job in engineering when the factory closed • regional unemployment – Waqar had to move from South Wales due to the unavailability of local jobs • frictional unemployment (accept reference to voluntary) – Laiba searching for work having just finished her qualification • cyclical/demand-deficient unemployment – reference to high unemployment locally could be due to a downturn in the economy • seasonal unemployment– Waqar not being able to find work in tourism in the winter. <p>Exemplar response:</p> <p>One cause of unemployment is structural unemployment (1). This occurs when people lose their jobs when an industry goes into decline or a product becomes obsolete (1). This can result in people needing to retrain or move to another part of the country for work (as Waqar did when he lost his job in South Wales) (1).</p> <p>Frictional unemployment (1). Laiba has only just finished her qualification and is searching for work (1). She is unlikely to be unemployed for long (1).</p>	9	<p>For each of the three causes,</p> <ul style="list-style-type: none"> • one mark for a correct identification of a cause of unemployment • one mark for the explanation, • one mark for analysing its impact on Waqar, Laiba or DGB <p>The causes of unemployment do NOT need to be given the 'correct' names</p>

Question	Answer	Mark	Guidance
3 (b)	<p>Use of levels of response criteria.</p> <p>Responses include:</p> <ul style="list-style-type: none"> • more difficult to recruit staff • more difficult to find staff with the right skills • staff may demand higher wage rates • more money/demand in the local economy. <p>Exemplar response:</p> <p>The low rate of unemployment in Devon makes it harder to fill vacancies (L1). Less people will apply for each vacancy (L2). So, it will take DGB longer to fill a vacancy if they decided to recruit staff outside the family (L3).</p> <p>The low rate of unemployment will mean there is more money in the local economy (L1) as more people have a job and wages will be forced up (L2). DGB may find it will see a higher demand for its services so that it can afford to run a second bus (L3).</p>	9	<p>Levels of response</p> <p>Level 3 (7 - 9 marks) Candidate analyses the impact of Devon's low unemployment on a business.</p> <p>Level 2 (4 – 6 marks) Candidate explains the impact of low unemployment.</p> <p>Level 1 (1 – 3 marks) Candidate identifies an impact(s) of low unemployment.</p> <p>The upper mark of each level can be awarded for clear identification, explanation or analysis.</p> <p>The impact can be positive or negative.</p>

Question	Answer	Mark	Guidance
3	<p>(c) Use of level of response criteria.</p> <p>Responses regarding a decrease in income tax may include:</p> <ul style="list-style-type: none"> • an increase in demand for a business' goods or services as people have more disposable income • higher sales of snacks and drinks • customers can also afford higher priced snacks and drinks • higher profits • a more equitable distribution in income affecting sales of luxuries and necessities • a sole trader will pay less tax on profits so may invest more. <p>Responses regarding a decrease in VAT may include:</p> <ul style="list-style-type: none"> • similar points to decrease in income tax if it is recognised that this leads to an increase in the real level of income for consumers (due to lower prices) • DGB can cut its prices to the consumer and/or increase its profit margin • is DGB large enough to be registered for VAT? • very small cut in VAT may have no significant effect. <p>Responses regarding more locally targeted public investment may include:</p> <ul style="list-style-type: none"> • more trained employees available locally • more visitors/tourists to the area which may increase the customer base for DGB • multiplier effects from greater government spending in the local economy • may be very long-term benefits which may be of little use to DGB at present. 	16	<p>Levels of response</p> <p>Level 4 (13 - 16 marks) Candidate evaluates which policy change will have the greatest impact on DGB.</p> <p>Level 3 (9 – 12 marks) Candidate analyses the effects of the policy changes on DGB.</p> <p>Level 2 (5 – 8 marks) Candidate explains the effects of the policy changes.</p> <p>Level 1 (1 – 4 marks) Candidate identifies knowledge of the relevant government policy(s).</p> <p>Allow answers to consider more than one change at Levels 1, 2 or 3.</p> <p>Candidate must explicitly select which change has the greatest impact (with valid justification (following previous analysis)) to be awarded Level 4.</p> <p>L4 – overall justification of which change in government policy has the greatest impact. Award 13 marks for a generic argument about the greatest impact, e.g. a cut in the income tax is the biggest impact because it is a lot of extra money for consumers (no context). Award 14 marks for a contextual argument about the greatest impact, e.g. increased investment in local projects will have the largest impact as DGB operates in the tourism sector of industry and so more tourists may come to the area (with context).</p>

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	<p>Exemplar responses:</p> <p>Greater spending in Devon may lead to local benefits. Spending on training may encourage more local people to learn new skills (L1) (and stay in the area) which will both increase the pool of potential employees for DGB (L2) and lead to more local people having a better income to spend at DGB. Spending on infrastructure and tourism will attract more visitors to Devon who may spend some of their money at DGB while in the area. This may make it more feasible for DGB to buy a second (or even third & fourth) bus (L3).</p> <p>For a sole trader, a lower rate of income tax will mean he can retain more profits (L2). This means he could reinvest more profit and buy a second bus (L3). However, there is little point in DGB expanding unless there is a growing market for its service in Devon and sufficient interest to run two buses (L4).</p> <p>The fall in the basic rate of income tax will mean that customers have more income left after tax (L1). This will increase demand for goods and services because they have more money to spend (L2). DGB could look forward to more bookings and so a higher revenue (L3). However, it depends on how much of that extra income customers want to spend on luxuries like DGB [CONT]. They may prefer to buy more necessities like food. (L4).</p>		<p>Award 15 marks for a comparative, non-contextual argument about the greatest impact, e.g. a cut in VAT will have the biggest impact and is bigger than reducing income tax, because not everybody pays income tax (no context).</p> <p>Award 16 marks for a comparative, contextual argument about the greatest impact, e.g. a cut in the rate of VAT will help to reduce DGB's costs, as it may be about to buy a second bus, and so will have a bigger effect than cutting income tax as many of its customers may be too young to pay income tax (with context).</p>

Question		Answer	Mark	Guidance
4	(a)	Indicative content: Either 55/50 = €1.10 (to the £) Or 50/55 = £0.91 (to the €)	2	Two marks for either correct answer (with correct £ or € signs) Accept an answer of €1.1 or £0.90/£0.9 Award one mark if correct units are transposed or missing.
4	(b)	Use of level of response criteria. Responses may include: <ul style="list-style-type: none"> • changes in the exchange rate • additional time/cost for delivery • loss or damage of goods in transport • language difficulties • potential trade restrictions imposed by UK on EU imports (post BREXIT) • access to more suppliers/lower prices. <p>Exemplar responses:</p> <p>A foreign supplier may use goods with different technical standards (L1). For example, DGB could import games from Germany that have different age restrictions to the UK (L2). This could result in younger customers being exposed to violent games and parents complaining (L3).</p> <p>The exchange rate could change (L1). If Sterling fell against the Euro, imports will be more expensive (L2), which could force DGB to increase its prices (L3).</p>	9	Levels of response Level 3 (7 - 9 marks) Candidate analyses the impact of using a foreign supplier on a business. Level 2 (4 – 6 marks) Candidate explains the impact of using a foreign supplier. Level 1 (1 – 3 marks) Candidate identifies an impact(s) of using a foreign supplier. The upper mark of each level can be awarded for clear identification, explanation or analysis. The impact may be positive or negative.

Question	Answer	Mark	Guidance
5	<p>Use level of response criteria.</p> <p>Marketing responses include:</p> <ul style="list-style-type: none"> • lower the price of its service • offer cheaper refreshments • increase advertising • promote the service to a wider market (organisations as well as individuals). <p>Finance responses include:</p> <ul style="list-style-type: none"> • reducing fixed costs • reduce staffing • look for cheaper suppliers of refreshments • ask for a sizeable deposit on booking • delay investment • tighter control on cash inflows and outflows. <p>Exemplar response:</p> <p>If the economy was to enter a recession, DGB's marketing response might be to offer a new low-cost service for those on lower incomes, reducing its prices and offering lower quality refreshments (L2). Reducing prices would lower DGB's profit margin, making it more difficult to break even on a booking (L3).</p> <p>Another response to the recession would be for the finance function to ensure that payments are received and debts chased (L2). DGB could ask for a 50% deposit on booking. That way it is less likely that a client will cancel and they are more likely to receive full payment (L3).</p> <p>In my opinion the most appropriate response would be to offer a new lower price service (L4). Customers are more likely to recommend DGB to friends and family if they do not ask for a</p>	16	<p>Levels of response</p> <p>Level 4 (13 - 16 marks) Candidate evaluates the responses of DGB's marketing and/or finance's functions to a recession.</p> <p>Level 3 (9 - 12 marks) Candidate analyses the impact of at least one possible marketing response and/or one possible finance response by DGB to recession.</p> <p>Level 2 (5 – 8 marks) Candidate explains at least one marketing response and/or one finance response to the economy entering a recession.</p> <p>Level 1 (1 – 4 marks) Candidate identifies possible responses to a recession by marketing and/or finance functions.</p> <p>An answer which ONLY mentions finance <u>or</u> marketing responses should be rewarded in the bottom half of Level 4.</p> <p>L4 – overall justification of effects which builds from previous analysis. Award 13 marks for a generic argument about the greatest/most serious/long-term effect on one functional area, e.g. Marketing will see the biggest effect because it will need to work harder as consumers will have less money to spend (no context). Award 14 marks for a contextual argument about the greatest/most serious/long term effect on one functional area, e.g. DGB, as it is a leisure 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
	large deposit [CONT] and are more likely to book again if they feel DGB offers good value for money (L4) .		<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 in the short-run so that customers see more about DGB which is more important than the Finance department making minor changes to costs of production which may not be noticed (no context).</p> <p>Award 16 marks for a contextual argument about the greatest/most serious/long term effect on two functional areas, e.g. DGB, as a leisure provider, will rely on the high quality of its marketing so its response to increase advertising is vital. This may affect the Finance function trying to cut costs but they will already be quite low for such a small business with no other employees (with context).</p>

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