



# **Cambridge Technicals**

## **Business**

Unit **10**: Economics for business

Level 3 Cambridge Technical Certificate/Diploma in Business  
**05834 - 05878**

## **Mark Scheme for January 2018**

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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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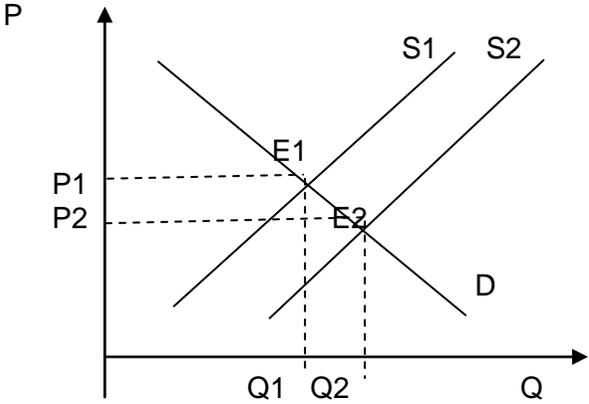
**Annotations**

<b>Annotation</b>	<b>Meaning</b>
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
<p>1 (a) (i)</p>	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• productivity</li> <li>• costs of production                             <ul style="list-style-type: none"> <li>○ labour (or its availability)</li> <li>○ machinery (or its availability)</li> <li>○ rent</li> <li>○ materials</li> </ul> </li> <li>• government policy                             <ul style="list-style-type: none"> <li>○ health and safety regulations</li> <li>○ subsidies and grants</li> <li>○ other factors (e.g. unexpected events or problems in the supply chain)</li> </ul> </li> <li>• expectations of future price changes</li> <li>• technology</li> <li>• the price of other goods in joint or competitive supply.</li> </ul>	<p>1</p>	<p>One mark for a correct answer.</p> <p>Accept any directional content e.g. <b>increased</b> cost of production, <b>lower</b> labour costs and <b>more</b> grants and subsidies.</p> <p><b>Do not award weather or climate.</b></p>
<p>1 (a) (ii)</p>		<p>4</p>	<p>One mark for labelling either supply curve with an 'S' followed by any number or not.</p> <p>Two marks for labelling the supply curve the correct way around ('S1' then 'S2' to the right or 'S' and 'S').</p> <p>One mark <b>each</b> for <b>correctly</b> labelling the market equilibriums. <b>OFR</b> – award labelling to be the opposite way around if the supply curves are labelled the wrong way around.</p> <p>Ignore any shift in the demand curve.</p>

Question	Answer	Mark	Guidance
1	<p><b>(b)</b></p> <p>Use of level of response criteria.</p> <p>Responses include:</p> <ul style="list-style-type: none"> <li>• lower price</li> <li>• increased output/quantity</li> <li>• increased profit</li> <li>• increased certainty of supply.</li> </ul> <p><b>Exemplar response:</b> An increase in the supply of a good will reduce the selling price <b>(L1)</b>. This could help a business as it will reduce its costs of production <b>(L2)</b>. SBS could pass on the lower price of wheat flour to its customers by reducing the price of a loaf of bread <b>(L3)</b> or benefit from an increase in profits if it keeps the price the same, helping Robert to pay back his bank loan <b>(L3)</b>. Given the artisan nature of this product, it may be more likely that Robert does not reduce the price as this may affect the premium image of the product. <b>(L4)</b></p>	8	<p><b>Levels of response</b></p> <p><b>Level 4 (7 - 8 marks)</b> Candidate evaluates possible impacts of increased supply of wheat flour on SBS.</p> <p><b>Level 3 (5 - 6 marks)</b> Candidate analyses impact(s) of increased supply of wheat flour on SBS.</p> <p><b>Level 2 (3 – 4 marks)</b> Candidate explains impact(s) of increased supply on businesses on SBS.</p> <p><b>Level 1 (1 – 2 marks)</b> Candidate identifies impact(s) of increased supply on the market for a good.</p> <p>NB: Accept candidates to refer to the ‘price’ of wheat for SBS rather than ‘cost’.</p>
1	<p><b>(c)</b></p> <p>Responses include:</p> <ul style="list-style-type: none"> <li>• the two products are substitutes</li> <li>• an increase in the price of one product will lead to an increase in the demand for the other product (or vice-versa)</li> <li>• there will be alternative products available</li> <li>• inelastic XED.</li> </ul> <p><b>Exemplar response:</b> The two products are substitutes <b>(1)</b> but as the relationship is inelastic <b>(1)</b> any change in the demand for artisan bread will be relatively less than the change in price of mass-produced bread <b>(1)</b>.</p>	3	<p>One mark for identifying each piece of information up to a maximum of three marks.</p> <p>Two marks can be awarded if the candidate describes the two goods as weak substitutes.</p>

Question			Answer	Mark	Guidance
1	(d)	(i)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• high sunk costs</li> <li>• a strong brand image/dominant firm/already lots of competition</li> <li>• government policy</li> <li>• a patent</li> <li>• copyright</li> <li>• (natural) monopoly in the market</li> <li>• internal economies of scale (or examples of them).</li> </ul>	1	One mark for a correct identification.
1	(d)	(ii)	<p>Use of level of response criteria.</p> <p>Negative effects include:</p> <ul style="list-style-type: none"> <li>• more rivals/more competition</li> <li>• price wars</li> <li>• price takers versus price leadership</li> <li>• use of non-price competition.</li> </ul> <p>Positive effects include:</p> <ul style="list-style-type: none"> <li>• increased awareness of this type of business</li> <li>• being more on trend</li> <li>• low barriers to entry in the commodity markets can reduce costs of production.</li> </ul> <p><b>Exemplar response:</b>  Lower barriers of entry mean more competition <b>(L1)</b> as it is easier for new businesses to enter the market <b>(L2)</b>. If rival artisan bakers set up in Stourford this could split the market and reduce SBS's sales <b>(L3)</b>.  On the other hand, the increase in non-price competition, like advertising <b>(L1)</b>, could help to promote all artisan bakers <b>(L2)</b> and as long as new rivals are not too close to Stourford, SBS could benefit from more people being aware of artisan bread and seeking it out locally <b>(L3)</b>.</p>	9	<p><b>Levels of response</b></p> <p><b>Level 3 (7 – 9 marks)</b>  Candidate analyses impact(s) of low barriers to entry on the market for artisan bread.</p> <p><b>Level 2 (4 – 6 marks)</b>  Candidate explains effect(s) of low barriers to entry.</p> <p><b>Level 1 (1 – 3 marks)</b>  Candidate identifies the effect(s) of low barriers to entry.</p> <p>The impact can be either positive or negative.</p>

Question	Answer	Mark	Guidance
2	<p>(a)</p> <p>Responses may include:</p> <ul style="list-style-type: none"> <li>• from 2006 GDP fell from 5% to -2.5% in 2009</li> <li>• from 2009 GDP rose from -2.5% to 5% in 2014</li> <li>• GDP was at its lowest in 2009 at -2.5% and highest, just above 5%, in 2006</li> <li>• GDP rose steeply from 2009 (-2.5%) to 2010 (3%)</li> <li>• GDP fell steeply from 2007 (5%) to 2009 (-2.5%)</li> <li>• GDP fell slightly over the whole period from just over 5% to just over -2.5%</li> <li>• there was a recession in 2009 as GDP was negative</li> <li>• growth was stable between 2010 &amp; 2015 at 2.5 to 5%.</li> </ul>	4	<p>Up to two marks for each of two trends.</p> <p>Award two marks for describing the trend accurately using the data (accept relative words to imply data, e.g. a larger increase).</p> <p>Award one mark for describing the trend more generally.</p> <p>Figures can be rounded up to the closest percent or closest year.</p> <p>Candidates are not expected to explain the data.</p>
2	<p>(b)</p> <p>Use of level of response criteria.</p> <p>Effects of higher GDP include:</p> <ul style="list-style-type: none"> <li>• increase in sales</li> <li>• increase in profitability</li> <li>• increase in production</li> <li>• lower unemployment</li> <li>• higher costs of materials</li> <li>• more likely to invest in new technology</li> <li>• increasing congestion and pollution.</li> </ul> <p><b>Exemplar response:</b></p> <p>Higher levels of GDP mean businesses are likely to benefit from higher sales (L1) because income will rise (L2). As artisan bread has a YED of +1.7 (a luxury good), SBS would see a significant rise in sales and an increase in revenue (L3).</p> <p>On the other hand, higher GDP could also mean that unemployment falls (L1) which makes it difficult to recruit staff as there are less people to choose from (L2). As Robert is looking to recruit 2 new members of staff this may mean it takes longer for SBS to fill these vacancies (L3).</p>	9	<p><b>Levels of response</b></p> <p><b>Level 3 (7 – 9 marks)</b> Candidate analyses the effect(s) of higher levels of GDP on SBS.</p> <p><b>Level 2 (4 – 6 marks)</b> Candidate explains the effect(s) of higher GDP on SBS.</p> <p><b>Level 1 (1 – 3 marks)</b> Candidate identifies the effect(s) of higher levels of GDP on a business.</p> <p>The effects may be positive or negative.</p>

Question	Answer	Mark	Guidance
3	<p>(a)</p> <p>Responses include:</p> <ul style="list-style-type: none"> <li>• the two measures use different (statistical) methods</li> <li>• different baskets of goods and services are included in the two measures</li> <li>• RPI (CPI does not) includes mortgage, rent and council tax payments</li> <li>• RPI excludes pensioner households (and highest income households).</li> </ul>	2	<p>One mark for identifying a correct reason up to a maximum of two reasons</p> <p>Make sure that the two reasons are different</p>
3	<p>(b)</p> <p>Use of level of response criteria.</p> <p>Responses include:</p> <ul style="list-style-type: none"> <li>• Menu costs</li> <li>• Shoe leather costs</li> <li>• Administrative costs</li> <li>• Uncertainty</li> <li>• Loss of sales</li> <li>• Increased costs in the factors of production</li> <li>• May lead to higher interest rates.</li> </ul> <p><b>Exemplar response:</b>  A rise in inflation means could that SBS might face rising costs <b>(L1)</b>. Energy bills and the cost of wheat flour could rise <b>(L2)</b>. Rising costs could force SBS to increase its prices as well <b>(L3)</b>.</p>	6	<p><b>Levels of response</b></p> <p><b>Level 3 (5 – 6 marks)</b>  Candidate analyses an impact of rising inflation on SBS.</p> <p><b>Level 2 (3 – 4 marks)</b>  Candidate explains an impact of rising inflation on SBS.</p> <p><b>Level 1 (1 – 2 marks)</b>  Candidate identifies an impact of rising inflation on a business.</p> <p>The impact may be positive or negative.</p>
3	<p>(c)</p> <p>Use of level of response criteria.</p> <p>Responses may include:</p> <ul style="list-style-type: none"> <li>• increase in the cost of borrowing for the business, its customers and its debtors</li> <li>• less likely to invest in new capital equipment</li> <li>• may lead to a change in exchange rates.</li> </ul>	9	<p><b>Levels of response</b></p> <p><b>Level 3 (7 – 9 marks)</b>  Candidate analyses the effect(s) of higher interest rates on SBS.</p> <p><b>Level 2 (4 – 6 marks)</b>  Candidate explains the effect(s) of higher interest rates on SBS.</p>

Question	Answer	Mark	Guidance
	<p><b>Exemplar response:</b></p> <p>Higher interest rates will make it more expensive to borrow money <b>(L1)</b>. Interest payments will be more expensive <b>(L2)</b>. People with loans and credit cards will have less disposable income so are less likely to buy a luxury product such as artisan bread, so SBS could see its sales fall <b>(L3)</b>.</p> <p>Businesses are less likely to borrow money <b>(L1)</b> because the cost of borrowing money has increased <b>(L2)</b>. This could lead to a fall in firms investing in new technology. SBS would be less likely to buy a new more efficient oven for example <b>(L3)</b>.</p>		<p><b>Level 1 (1 – 3 marks)</b> Candidate identifies the effect(s) of higher interest rates on a business.</p>
3	<p><b>(d)</b></p> <p>Indicative content:</p> <ul style="list-style-type: none"> <li>• (acceptable levels of) economic growth (allow references to reducing recessions or booms)</li> <li>• achieving target rates of unemployment</li> <li>• to have a stable currency</li> <li>• balanced trade.</li> </ul>	2	<p>One mark for each correct identification, to a maximum of two identifications.</p> <p>Allow reference to other possible government objectives, such as:</p> <ul style="list-style-type: none"> <li>○ immigration levels</li> <li>○ distribution of income/poverty levels</li> <li>○ environmental targets</li> <li>○ free international trade</li> </ul> <p>Make sure the two policy objectives are clearly different.</p> <p>Do not accept tools to achieve the objectives (e.g. tax rate or minimum wage changes)</p>

Question	Answer	Mark	Guidance
4	<p>Use of level of response criteria.</p> <p>Responses regarding BRIC countries may include:</p> <ul style="list-style-type: none"> <li>• Increased demand in major economies such as Brazil, Russia, India and China</li> <li>• Increased price of wheat flour</li> <li>• Shortages of wheat flour.</li> </ul> <p><b>NB:</b> Do not accept answers which suggest that SBS sells wheat to the BRIC countries.</p> <p>Responses regarding Russia increasing exports may include:</p> <ul style="list-style-type: none"> <li>• More access to global supplies of wheat flour (Russia, Europe and Canada are mentioned but also allow USA, Australia and Ukraine)</li> <li>• More competition in the wheat flour global market</li> <li>• Impact of using Russian suppliers of wheat on brand image</li> <li>• Increasing stocks of wheat flour in the global market</li> <li>• Falling prices of wheat.</li> </ul> <p>Responses regarding reduced EU support for wheat may include:</p> <ul style="list-style-type: none"> <li>• Fall in production of wheat in Europe</li> <li>• Changes in the price of European wheat</li> <li>• Reduced supply of wheat on the global market.</li> </ul> <p><b>Exemplar response:</b> The BRIC economies are increasing their demand for wheat flour. This could mean that the price of wheat will increase (<b>L1</b>) because higher demand pushes up the market price (<b>L2</b>). SBS may then need to put up its bread prices of bread, resulting in lower sales (<b>L3</b>).</p> <p>Russia allowing more of the wheat it produces to be exported means that the global supply of wheat will be greater (<b>L1</b>) reducing the international price of wheat (<b>L2</b>). SBS could buy wheat flour at a lower price as a result and so reduce its prices (<b>L3</b>).</p>	16	<p><b>Levels of response</b></p> <p><b>Level 4 (13 – 16 marks)</b> Candidate evaluates which change in the international market will have the greatest impact on SBS.</p> <p><b>Level 3 (9 – 12 marks)</b> Candidate analyses the effects of the changes in the international market on SBS.</p> <p><b>Level 2 (5 – 8 marks)</b> Candidate explains the effects of the changes in the international market.</p> <p><b>Level 1 (1 – 4 marks)</b> Candidate identifies the effects of the changes in the international market.</p> <p>Allow candidates to use wheat and wheat flour interchangeably.</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><b>L4</b> – overall justification of which change in the international market has the greatest impact. Award 13 marks for a generic argument about the greatest impact, e.g. Russia exporting more wheat is the biggest impact because it supplies so much wheat (no context).</p>

Question	Answer	Mark	Guidance
	<p>The EU reducing financial support to farmers growing wheat could result in a reduction in European wheat production, increasing the price of wheat <b>(L1)</b>. A higher price of European wheat is more likely to increase the price charged by SBS's suppliers of wheat flour <b>(L2)</b> and reduce SBS's profits <b>(L3)</b>.</p> <p>Since SBS sells artisan bread, a luxury good with high YED, it is likely that PED will also be high. Any factor which raises the price of the bread is likely to lose to a proportionately larger reduction in sales and, consequently, cause a fall in sales revenue. For this reason, I think that the BRIC economies increasing their demand for wheat flour will have the largest effect on SBS because it has the potential to increase the price of all wheat, from wherever it is sourced, not just wheat sourced from Europe <b>(L4)</b>.</p>		<p>Award 14 marks for a contextual argument about the greatest impact, e.g. Russia exporting wheat is the biggest impact because a fall in the cost of wheat will, as it is SBS's main raw material, help to improve profit margins (with context).</p> <p>Award 15 marks for a comparative, non-contextual argument about the greatest impact, e.g. more exports from Russia is the biggest impact and is bigger than reducing EU financial support, because the effect from Russia will happen more quickly (no context).</p> <p>Award 16 marks for a comparative, contextual argument about the greatest impact, e.g. more exports from Russia will help to reduce SBS's costs and so will have a bigger effect than increased demand by developing countries because SBS does not exports its product (with context).</p>

Question	Answer	Mark	Guidance
5	<p>Use of level of response criteria.</p> <p>Responses may include:</p> <ul style="list-style-type: none"> <li>• Easier to find staff who already have relevant skills</li> <li>• Training provided for existing staff</li> <li>• Training available for new staff</li> <li>• Improving knowledge and skills</li> <li>• Providing the right environment for off-the-job training</li> <li>• Training in areas such as business, IT, health and safety and food and hygiene and the functional areas themselves</li> <li>• Creates more employment in the local area so that incomes increase which may increase demand for products.</li> </ul> <p><b>Exemplar response:</b></p> <p>A new training centre could provide training for local businesses helping with the human resources function <b>(L1)</b>. The centre could be used for off-the-job training with employees receiving specialised training from independent experts <b>(L2)</b>. As SBS is a small shop it may not have the room for training nor specialist knowledge. Better training will help SBS to provide a higher quality service <b>(L3)</b> which may give SBS an advantage over its competitors. However, the training centre is available for all local businesses so SBS's competitors see the same benefits so that no relative advantage is gained <b>(L4)</b>.</p> <p>The training centre may encourage local unemployed people to be trained in food and hygiene <b>(L2)</b>. This would mean that SBS will be more likely to find suitable employees to fill the two vacancies and the costs of recruitment will be lower <b>(L3)</b>. However, as the local college provides a course specific to baking, SBS may be better off recruiting people from Stourford College as these people may have more relevant skills <b>(L4)</b>.</p>	16	<p><b>Levels of response</b></p> <p><b>Level 4 (13 – 16 marks)</b> Candidate evaluates the effect(s) of the new training centre on a small business like SBS's functional areas.</p> <p><b>Level 3 (9 – 12 marks)</b> Candidate analyses the effect(s) of the new training centre on a small business like SBS's functional areas.</p> <p><b>Level 2 (5 – 8 marks)</b> Candidate explains the effect(s) of a new training centre on a small business like SBS's functional areas.</p> <p><b>Level 1 (1 – 4 marks)</b> Candidate identifies the effect(s) of a new training centre on a business' functional areas.</p> <p><b>L4 – overall justification of effects which builds from previous analysis.</b> Award 13 marks for a generic argument about the greatest/most serious/long term effect <u>on one functional area</u>, e.g. HR will see the biggest effect because customer service is reliant on the quality of staff training (no context). Award 14 marks for a contextual argument about the greatest/most serious/long term effect <u>on one functional area</u>, e.g. SBS, as an artisan baker, will rely on its high quality of customer service so the biggest effect will be on HR (with context). Award 15 marks for a generic argument about the greatest/most serious/long term effect <u>on two functional areas</u>, e.g. HR will benefit from improved quality of workers so that customer service is better which is more important than the reduction in costs seen by the Finance department (no context).</p>

Question	Answer	Mark	Guidance
			Award 16 marks for a contextual argument about the greatest/most serious/long term effect <u>on two functional areas</u> , e.g. SBS, as an artisan baker, will rely on its high quality of customer service so the biggest effect will be on HR. Although Finance will benefit from cheaper training costs this is less important as he will only have 2 members of staff to train (with context).

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