



GCSE

Business Studies

Unit **A293**: Production, Finance and the External Business Environment

General Certificate of Secondary Education

Mark Scheme for June 2017

OCR (Oxford Cambridge and RSA) is a leading UK awarding body, providing a wide range of qualifications to meet the needs of candidates of all ages and abilities. OCR qualifications include AS/A Levels, Diplomas, GCSEs, Cambridge Nationals, Cambridge Technicals, Functional Skills, Key Skills, Entry Level qualifications, NVQs and vocational qualifications in areas such as IT, business, languages, teaching/training, administration and secretarial skills.

It is also responsible for developing new specifications to meet national requirements and the needs of students and teachers. OCR is a not-for-profit organisation; any surplus made is invested back into the establishment to help towards the development of qualifications and support, which keep pace with the changing needs of today's society.

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.

OCR will not enter into any discussion or correspondence in connection with this mark scheme.

© OCR 2017

Annotations

Annotation	Meaning
	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	Benefit of doubt
	Cross
	Expansion of a point
	Error carried forward
	Level 1
	Level 2
	Level 3
Seen	Response seen but not rewarded
	Not answered question
	Repeat
	Tick
	Unclear
	Own figure rule

Subject-specific Marking Instructions

- All responses must be annotated.
- For responses marked with a points style of mark scheme, there should be one tick for each credit worthy point.
- For responses marked with a levels of response mark scheme, all the levels achieved should be annotated using L1, L2 and L3 near the statement that achieves the level.

Question		Answer			Mark	Guidance
a)	i)	Method of Production		Definition	1	One mark for the correct answer.
				A quantity of one type of a product is made and then production is changed to another type.		
		Batch		A large quantity of one type of product is made on an assembly line.		
				Each item is produced individually		
	ii)	Exemplar responses: Better able to meet the orders (1) of different customers (1) able to make different patterns (1) to appeal to different people (1). Produces only the amount needed (1) so avoids wastage (1) so it is cheaper (1). Output is faster (1) so greater amounts can be produced (1) and can be produced by the deadline (1).			4	One mark for each advantage stated, one mark for an explanation of it. Note – the candidate can gain both marks if the explanation contains two credit-worthy statements even if the stated advantages is not credit-worthy. No reward for the candidate who says batch production is motivating for the worker.

	b)	i)	Economies of large scale production occur when the average cost of production falls when a firm increases the scale of output that it uses.	2	One mark for each correct answer.
		ii)	<p>Exemplar responses</p> <p>Purchasing or bulk buying (1) – buying materials in bulk will be cheaper (1) the seller will give a discount (1) for making a large order (1).</p> <p>Production / Technical (allow technological) (1) – the process of manufacturing is cheaper (1), for example, because the process can be automated/machines can be used (1) it saves paying wages (1)</p> <p>Managerial (1) – specialist managers can be employed (1), example/accountant (1) who run the business more efficiently (1).</p> <p>Marketing (1) – advertising costs (1) are spread (1), distribution costs (1) are spread (1) eg because transport costs are lower (1).</p> <p>Risk – bearing (1) – because the firm can produce a larger range of goods (1) so can survive with lower margins (1)</p> <p>Financial economies (1) – it is cheaper for large firms to raise money (1) as banks charge lower interest rates (1).</p>	2 x 3 = 6	<p>One mark for stating the economy of scale in each case and up to two marks for appropriate points of explanation.</p> <p>Note – the advantage ‘cheaper’ must be linked to one of the six possible economies of scale.</p>
		iii)	diseconomies	1	One mark for the correct answer.
	c)	i)	<p>Revenue calculations: $4800 \times \text{£}10 = \text{£}48000$ (1) $200 \times \text{£}5 = \text{£}1000$ (1) Total revenue = $\text{£}49000$ (3)</p> <p>Alternatively, reward the candidate who uses the figures for each month:</p> <p>June= $\text{£}6000$ July = $\text{£}14000$ August = $\text{£}28000$ (1) +</p>	3	<p>3 marks for the correct answer, one mark for each correct statement of the method</p> <ul style="list-style-type: none"> For the first method mark credit for one mark the calculation for sales made at $\text{£}10$ (ie sales for June, July and August) – if shown for the 3 months itemised separately or totalled. For the second method mark reward the calculation of the

			September = £1000 (1) = £49000 (3)			sales at £5
		ii)	£49,000 £25,000 (1) = £24,000 (2)		2	Two marks for the correct answer, one mark for a correct £25,000. Error carried forward (ECF) applies when candidate brings down an incorrect answer from c) i) BUT it must be the figure that the candidate gave in answer to 1 c) ii)
		iii)	Statement	True	False	3 One mark for each correct answer.
			Profits are shared between owners as a reward for risking their money by investing it in the business	√		
			Profits are charged by banks on business loans.		√	
			Profits are often reinvested back into a business to help it grow.	√		

Question	Answer	Marks	Guidance	
			Content	Levels of Response
d*)	<p>The Chinese producers provided cheaper goods (L1) because they have lower wages (L1) so BMF will make more profit from buying them (L1). Transporting goods from China (L1) has a bad effect on the environment (L1)</p> <p>BMF Ltd should only buy from the Chinese buyer if can prove that the claims about human rights and environmental issues are untrue (L2) to avoid damaging its reputation (L2) and the environment is the theme for the Festival (L2). To do this it must take up the offer</p>	8	<p>Level 1 issues - China</p> <ul style="list-style-type: none"> • Cheaper from – more profit for BMF Ltd Only L1 for profit. • reliable supplier in China - goods will be available to sell Only L1. • Relationship developed over years with Chinese company, may give trade credit Only L1. • There are environment issues in China – non-renewables, • transport from China will be dearer because of greater distance, cheaper from UK because less distance • Human rights issues 	<p>QWC is assessed in this question</p> <p>Level 2 (5 – 8) Evaluates in context: Deals with the consequences of issues on BMF Ltd of the advantages/disadvantages on issues raised in the case study:</p> <ul style="list-style-type: none"> • core value of protecting the environment/reputation and, by extension, its reputation as an ethical producer. • initial cash flow issue in June/July. • the need to keep shareholders happy. • being able to brand goods as UK made <p>Level 1 (1 – 4) Applies knowledge to analyse the advantages or disadvantages of buying from the UK or from China. Deals with causes of issues that affect BMF Ltd</p> <p>Note – maximum of 2 marks for arguments in favour of China or in favour of UK. An alternative argument must be provided:</p> <ul style="list-style-type: none"> • either the case for one country and for the other • or the advantage of one country and the

	<p>of inspecting the factory (L2) without notice (L2).</p> <p>The Chinese producers provide cheaper goods (L1) so BMF will make more profit from buying them (L1). The problem with the Chinese supplier is that they are not environmentally friendly (L1) as they use too many non-renewable resources (L1). There would also be environmental costs in transporting the goods to the UK (L1). It also has human rights issues (L1) because of its poor health and safety record (L1) and it pays poorly (L1).</p> <p>The key for BMF Ltd is that it must</p>		<p>– lower wages health and safety in China, better in UK because higher wages and good health and safety</p> <ul style="list-style-type: none"> Quality issues - High quality control of UK supplier. <p>Evaluation points</p> <ul style="list-style-type: none"> Buy from UK not China as <p>the reputation of BMF will be damaged, it would be against their core values, there would be an affect – effect on sales and the long term survival of the business.</p> <ul style="list-style-type: none"> Buy from UK – it needs to protect its reputation and it can cover higher cost by charging a higher price for environmentally friendly goods or 	<p>disadvantage of that country.</p> <p>For Level 2, answers must clearly link to the interests of BMF not just external social benefits or costs.</p> <p>Quality of Written Communications</p> <p>L4</p> <p>Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p>L3</p> <p>Relatively straight forward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p> <p>L2</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p> <p>L1</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be</p>
--	---	--	--	--

	<p>not damage its reputation (L2) for being a social responsible producer/having environmental concerns (L2) because this is one of its core values (L2) and if it was shown to be doing things that harm the environment it could lose sales, revenue and profits (L2) and damage the long term survival of the business/The Festival (L2). The UK is a more acceptable supplier as there are less environmental concerns (L2), It pays fairly and it has quality. (L1)</p>		<p>because 70% of festival goers have above average incomes.</p> <ul style="list-style-type: none"> • Buy from China – if claims about Chinese producer can be refuted by inspection to avoid damage to reputation. • Buy from China as BMF is a private company so making profits is important to its shareholders and to its survival. 	<p>noticeable and intrusive. Writing may also lack legibility.</p>
--	--	--	--	--

QUESTION TWO

Question		Answer	Mark	Guidance
a)	i)	The European Union allows free trade between EU countries. This means that there will be no tariffs on any goods imported by one EU country from another.	2	One mark for each correct answer.
b)	i)	€72	1	One mark for a correct answer.
	ii)	£60 x 1,25 (1) = 75€ (2)	2	Two marks for the correct answer, one mark for a correct method.

Question	Answer	Marks	Guidance	
			Content	Levels of Response
b) iii)	<p>The strengthening of the pound will make Festival tickets more expensive (L1) which could reduce sales (L1) but prices do not rise very much (L2) so demand may not fall very much (L2). Also accommodation prices have been falling (L2) so EU visitors may find them affordable (L2). Also it depends on how many of the EU visitors come from countries that use the euro (L2). The price increase is only for those visitors who come from countries that use the euro (L2).</p> <p>Having calculated the effect of a change in the exchange rate (L2), it is clear that there is only a small change (L2) in the price customers would need to pay and it would not have much effect on the demand for passes (L2).</p>	6	<p>Points that may be discussed as part of a one-sided or two-sided argument</p> <p>L1 Basic effect</p> <ul style="list-style-type: none"> Price will rise for Eurozone buyers of tickets sales will fall. <p>L2 Qualifying the effect</p> <ul style="list-style-type: none"> 20% of people attending are from the EU, so the price rise cause a significant fall in sales. 70% of EU visitors have high income/are well off, can afford to pay, sales not affected. It is only a small increase in ticket prices, the number of visitors may not fall very much. Reduction in accommodation prices may offset any increase in the ticket prices and transport and living costs for visitors. 	<p>Level Two (3 – 6)</p> <p>The candidate qualifies or discusses issues which influence the extent to which sales of weekend passes would be affected.</p> <p>Level One (1 – 2)</p> <p>The candidate gives a basic analysis of the effect on price and sales.</p> <p>Do not credit the argument that the exchange rate has in fact fallen, the question is about an exchange rate rise.</p>

			<ul style="list-style-type: none"> • It depends on when the exchange rate rose eg after most people booked, no effect. • It is not just the tickets that will rise in price but also travel, accommodation and food costs because of the rise in the value of the £ and this will have a big effect on costs and so on visitors. • EU countries have not experienced economic growth and EU visitors may not be able to afford the passes now they are more expensive. 	
--	--	--	---	--

Question	Answer	Mark	Guidance	
			Content	Levels of Response
c)	<p>Level 2</p> <p>Correct answer 'Venue costs rise by £3,500' OR 'venue costs rise from £28,000 to £31,500' (L2 x 3 so total of 4 marks)</p> <p>Single L2 marks where correct answer not given. Venue costs rise (L2) [1 x level 2 – no evidence, calculation done] £28,000 (L2) [1 x L2) – for one appropriate calculation to £31,500 (L2). [1 x L2 – for one appropriate calculation</p> <p>Level 1</p> <p>The venue costs fall by 1%/from 10% to 9%.</p>	4	<p>Level 2</p> <p>Calculates the rise in the venue the costs in money terms.</p> <p>Level 1</p> <p>Calculates or describes the fall in the venue the costs in percentage terms</p>	<p>Level 2 (2 – 4)</p> <p>Calculations relate to the change in the amount of the venue costs.</p> <p>3 x L2 for a correct answer. 1 x L2 if correct answer but no evidence is provided ie says venue costs have risen. 1 x L2 for each correct calculation needed to reach the correct answer (award these if correct</p>

				<p>answer is not stated ie that venue costs rise).</p> <p>Level 1 (1)</p> <p>The candidate refers to the change in the percentage of the costs spent on the venues.</p>
--	--	--	--	---

	d)							3	One mark for each correct answer.
				Statement	True	False			
			A	Grants help to reduce business costs.	√				
			B	Grants are loans to businesses which they must repay.		√			
			C	The grant do not cost the taxpayers anything.		√			

Question	Answer	Mark	Guidance	
			Content	Levels of Response
e)	<p>Bowton Council should give a grant because the town gets many benefits from the Festival. It creates jobs (L1) which will reduce unemployment (L1) as jobs are created not only at the Festival (L1) but also in other businesses such as hotels (L1). The extra income (L1) that is earned by the people who are employed will increase spending in the town (L1)) which will have a multiplier effect (L1)) creating more jobs and income (L1). (Note maximum of 4 here – all positive)</p> <p>However, the Festival is a cost to the Council (L1) and because of the poor behaviour connected with it (L1) there are extra policing costs (L1).</p> <p>Benefits may exceed costs because the town has unemployment above the national average (L2) and income below it (L2). It is a small cost (L2) given the potential benefits.</p> <p>OR</p> <p>The Council cannot afford to pay for the grant at this time (L2) because of the need to reduce the borrowing (L2) and the fact that people cannot afford to pay more in council tax (L2).</p> <p>Social costs are not significant (L2) as the Festival only lasts 3 days (L2) [or mirror in terms of benefits]. Litter is only a temporary problem (L2)</p>	10	<p>Level 2</p> <p>Candidate is using evidence from the case study to justify the decision.</p> <ul style="list-style-type: none"> • The Council was right to give the grant because Bowton needs to develop more (L2). Incomes are below the national average (L2), unemployment above the national average (L2). • Share of some people in the economic growth has been limited because of eg zero-hours contracts (L2). • It will decrease Council costs (L2) eg spending on benefits (L2) and it needs to cut spending (L2). • The Council cannot 	<p>Level 2 (7 – 10) The candidate evaluates in context – so links to issues in the case study.</p> <p>Level 1 (1 – 6) Candidate applies knowledge to analyse the case for and against the grants (either the social benefits or social of giving the grants).</p> <p>Note – cap of 4 marks for a one sided analysis of only the case for or the case against.</p>

			<p>afford to pay for the grant at this time (L2) because of the need to reduce the borrowing (L2) and the fact that people cannot afford to pay more in council tax (L2).</p> <ul style="list-style-type: none"> • Also – benefit/problem is only temporary (L2) <p>Level (L1) and/or Level 2</p> <p>Social benefits – for giving the grant</p> <ul style="list-style-type: none"> • More jobs required for the running of the Festival (L1) and in other businesses (L1) that experience an increase in trade as a result of the Festival such as shops, restaurants, hotels etc (L1). • More income (L1) resulting from the increase in employment (L1). • Multiplier effect (L1) as 	
--	--	--	---	--

			<p>the Festival earns income (L1), this generates further income (L1) as people spend what they have earned on the goods and services of other suppliers (L1).</p> <ul style="list-style-type: none"> • Gets the town noticed (1) and people will visit again (1). <p>Social costs- against giving the grant</p> <ul style="list-style-type: none"> • Financial cost to the council (L1) in terms of the extra policing (L1) needed to deal with the disorder caused by the poor behaviour associated with the Festival (L1). • There is a financial cost to the Council (L1) to pay for the grant (L1). • Costs to property (L1) resulting from vandalism/the poor 	
--	--	--	--	--

			behaviour (L1).	
--	--	--	-----------------	--

Question Three

	a)	i)	A monopoly is where there is only one supplier of a product or service (1) or the market is dominated by one supplier (1) or it is a market where a supplier sells 25% or more of the market total (1) there is no competition (1).	1	One mark for a correct answer.
		ii)	The market has become competitive (1) as there are more sellers (1). The number of firms selling increases from 1 outside the Festival (1) to 22/more during the Festival (1). The market is bigger (1) as there are more customers in the town during the Festival (1). NB Credit for one mark an answer that states there are more sellers but not for a discussion of any consequence eg so prices have fallen.	2	One mark for each appropriate point.
		iii)	Agree – it should reduce price because: <ul style="list-style-type: none"> it will not sell much (1) because of all the other competitors/national chains (1) are selling at cheaper prices (1) so needs to match the prices of 	3	Three marks can be awarded for a one-sided answer or for an answer that considers for and against points.

			<p>the competitors (1) if it can still make a profit at the lower price (1).</p> <ul style="list-style-type: none">• It should reduce price because it is an opportunity to sell a lot/more (1) because of the number of visitors/outdoor people in the town at the time of the Festival (1). <p>Disagree – it should not reduce price because:</p> <ul style="list-style-type: none">• it will not make much/any profit (1)• it will look bad if it raises its prices after the Festival (1) which may put people off buying from it in the future (1)• it should stress that it sells expensive/top quality goods (1) setting it apart from the national chains (1).		
--	--	--	--	--	--

	b)	i)	Source of Finance	Statement	4	One mark for each correct answer.
				The business is allowed to spend more than it has in its bank account.		
			Overdraft	The buyer does not need to pay for the goods, for example, for 90 days.		
				There is interest on this kind of finance.		
			Trade credit	There is no interest to pay on this method of finance.		
				This source of finance is usually repaid over a period of 25 years.		

Question	Answer	Marks	Guidance	Levels of Response
b) ii)	<p>Although the value of shares has risen meaning shareholders have got richer (L1) the shareholders might have done better if they had bought shares in other companies (L2) which grew more in value (L2).</p> <p>Also we need to know how much the shareholders received in profit during this time (L2). If they did not receive very much profit/dividend (L2), they might have been better off saving (L2) and earning interest (L2).</p> <p>The rising share price may mean that profits (L2) are expected to rise (L2). We do not have information about company profits (L2). It could be that the shareholders think profits (L2) should have been higher (L2). Sales are expected to increase (L2)</p>	4	<p>Content</p> <p>Level 2 – Discusses: Issues specifically related to share price and the shareholders:</p> <ul style="list-style-type: none"> • Growth in the value of shares compared to other companies shares, • How dividend compares to interest that could be gained on savings, • the amount of dividends/profits they have earned, • future prospects for capital and earnings growth. <p>Issues related to other objectives of businesses:</p> <ul style="list-style-type: none"> • The profits of the company. • Sales/number of visitors is expected to increase. • Meeting environmental objectives. 	<p>Levels of Response</p> <p>Level 2 (2 – 4) The candidate discusses in context stating what further information would be needed to assess whether the company performance was good or not – related to shareholder returns or to the objectives of the business.</p> <p>Note – give one x L2 if alternative objective is mentioned and additional L2s if appropriate comments are made about it.</p> <p>Level 1 (1) The answer relates to the increase in share value leading to shareholders getting richer.</p>

			<ul style="list-style-type: none"> • Social objectives including issues with suppliers. • Survival <p>Level 1 The value of shares has risen so shareholders are better off.</p>	
--	--	--	---	--

	b)	iii)	A cash flow forecast is a prediction (1) of the income/money in/spending/money out (1).	2	One mark for each appropriate point of definition up to a maximum of 2. Must state it is a prediction/estimate (not a guess) for one mark then one additional point describing it.
	b)	iv)	<p>Exemplar Responses</p> <p>Cash flow forecasts are only forecasts/predictions (1). They assume (1) that all goods are sold (1) and they may not be/sales are less than expected (1) OR the candidate gives a specific reason for a rise or fall in sales such as the rise in the exchange rate (1) could mean that fewer visitors come (1) reducing income (1).</p> <p>The price at which the goods sells may change (1). Costs may change with reasons such as (1) such as interest (1), if BMF buy from the UK supplier rather the Chinese supplier (1), expenditure will rise (1).</p>	2 x 2 = 4	Maximum of 2 marks for each reason.
	c)		<p>Indicative content</p> <p>There are visitors from other EU countries (1). It buys T-shirts from China (1). It may be affected by changes in the exchange rate (1). It trades with other countries (1)</p>	2	One mark for each correct answer

Question	Answer	Marks	Content	Guidance
d)	<p>A number of factors are likely to cause an increase in attendance. Increasing income (L1) in the UK will mean more people can afford to attend (L1) and cheaper accommodation (L1) in the town will also mean more people can afford to attend (L1). On the other hand, income tax is rising (L1) and this will reduce income (1) so less people may be able to afford to attend (L1). Also the average income in the UK is rising (L1) so more people must have more money to spend (L1) which will mean more visitors.</p> <p>However, the case study states that tourism <i>has been increasing in Bowton</i> (L2) which may be because the falling accommodation cost and rising incomes are having a bigger effect than the negative influences (L2). Much will depend on <i>how much</i> (L2) the rise in income tax /interest rates reduces income.</p> <p>As 70% of Festival goers have high incomes and the richer have been getting richer (L2), this will increase those attending the festival which is a luxury good (L2) compared to the 30% whose income has fallen (L2) (or not increased much) who may decide not to attend (L2).</p>	10	<p>NB Answers must refer to UK visitors, no credit for points made in relation to EU visitors.</p> <p>Level 1 Factors reducing attendance:</p> <ul style="list-style-type: none"> • Lower paid people, little rise in income, may not be able to afford. • Income tax rise, reduces disposable income. • Interest rate rises, reduces discretionary income. <p>Factors increasing attendance:</p> <ul style="list-style-type: none"> • Economic growth, rising incomes, spending on leisure will increase. • Cheaper accommodation in Bowton because there are more hotels in the town. • BMF Lt has a grant to advertise more. 	<p>Level 2 (7 – 10) The candidate evaluates in context, discussing the factors which will determine the extent of change in the number of visitors affecting the Festival or comparing the significance of one change compared to another.</p> <p>Level 1 (1 - 6) Candidate applies knowledge to analyse factors which will increase the attendance and those which will work against an increase.</p> <p>Note – a cap of 4 marks on a one-sided answer. If a one-sided only discussion is given, do not reward L2 unless the L2 discussion is against the one-sided argument.</p>

	<p>Note – do not reward the phrases “more will attend” or ‘less will attend.’</p>		<ul style="list-style-type: none">• Interest rate rise means savers have more money. <p>Level 2 Evaluation points:</p> <ul style="list-style-type: none">• It depends on the size of the increases in income tax, interest rates.• It depends on how well BMF Ltd run the publicity/advertising campaign, using appropriate media etc.• High income earners make up the majority of visitors so the rise in their incomes will offset the fall in incomes of the lower earners.	
--	---	--	---	--

OCR (Oxford Cambridge and RSA Examinations)
1 Hills Road
Cambridge
CB1 2EU

OCR Customer Contact Centre

Education and Learning

Telephone: 01223 553998

Facsimile: 01223 552627

Email: general.qualifications@ocr.org.uk

www.ocr.org.uk

For staff training purposes and as part of our quality assurance programme your call may be recorded or monitored

Oxford Cambridge and RSA Examinations
is a Company Limited by Guarantee
Registered in England
Registered Office; 1 Hills Road, Cambridge, CB1 2EU
Registered Company Number: 3484466
OCR is an exempt Charity

OCR (Oxford Cambridge and RSA Examinations)
Head office
Telephone: 01223 552552
Facsimile: 01223 552553

© OCR 2017

