

# **Business Studies**

General Certificate of Secondary Education

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

## **Mark Scheme for June 2013**

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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.

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

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## Annotations

Annotation	Meaning
	Correct answer
	Benefit of doubt
	Repeat
	Expansion of a point
	Own figure rule
	Unclear
	Error carried forward
	Answer is at Level 4
	Answer is at Level 3
	Answer is at Level 2
	Answer is at Level 1
	Not answering the question
	Incorrect response

**Note**

Every question and additional item must be annotated to show it has been considered.

**Crossed Out Responses**

Where a candidate has crossed out a response and provided a clear alternative then the crossed out response is not marked. Where no alternative response has been provided, examiners may give candidates the benefit of the doubt and mark the crossed out response where legible.

**Multiple Choice Question Responses**

When a multiple choice question has only a single, correct response and a candidate provides two responses (even if one of these responses is correct), then no mark should be awarded (as it is not possible to determine which was the first response selected by the candidate).

*When a question requires candidates to select more than one option/multiple options, then local marking arrangements need to ensure consistency of approach.*

**Contradictory Responses**

When a candidate provides contradictory responses, then no mark should be awarded, even if one of the answers is correct.

**Short Answer Questions** (requiring only a list by way of a response, usually worth only **one mark per response**)

Where candidates are required to provide a set number of short answer responses then only the set number of responses should be marked. The response space should be marked from left to right on each line and then line by line until the required number of responses have been considered. The remaining responses should not then be marked. Examiners will have to apply judgement as to whether a 'second response' on a line is a development of the 'first response', rather than a separate, discrete response. *(The underlying assumption is that the candidate is attempting to hedge their bets and therefore getting undue benefit rather than engaging with the question and giving the most relevant/correct responses.)*

**Short Answer Questions** (requiring a more developed response, worth **two or more marks**)

If the candidates are required to provide a description of, say, three items or factors and four items or factors are provided, then mark on a similar basis – that is downwards (as it is unlikely in this situation that a candidate will provide more than one response in each section of the response space.)

**Longer Answer Questions** (requiring a developed response)

Where candidates have provided two (or more) responses to a medium or high tariff question which only required a single (developed) response and not crossed out the first response, then only the first response should be marked. Examiners will need to apply professional judgement as to whether the second (or a subsequent) response is a 'new start' or simply a poorly expressed continuation of the first response.

Question			Answer	Mark	Guidance
1	(a)	(i)	China	1	One mark for the correct answer.
1	(a)	(ii)	£37m	1	One mark for the correct answer.
1	(a)	(iii)	Correct answer: +£6m (2), to £18m (2) (12/100 x 50) (1).	2	Two marks for the correct answer.  One mark only for an appropriate method where the answer is incorrect.
1	(b)		Exemplar response: Growth in the BRIC economies (1) – leads to higher incomes (1), so an increase in spending/demand (1), particularly for luxury goods (1).  Increase in employment in the BRIC countries (1) – leads to more buyers (1), with the income to buy expensive goods (1).  The desire of the rich to show off their wealth (1) – AS plc cars are seen as expensive/exclusive (1).  Slow growth in the UK (1) – means only a slow rise in spending (1) and so a slow increase in the demand for cars (1) and especially AS cars which are expensive (1).  Needs to comply with EU laws/any appropriate example (eg working time directive) (1) which will raise costs in the UK (1).	6	One mark for each identification up to a maximum of three identifications, plus a further one mark for each of three explanations.  Each reason must be in each numbered section.  3 x 2
1	(c)		Correct answer: 200% (2) 160000/80000 x 100 (1).	2	Two marks for the correct answer.  One mark only for an appropriate method, where the answer is incorrect.

Question			Answer	Mark	Guidance															
1	(d)	(i)	<table border="1"> <thead> <tr> <th>Statement</th> <th>True</th> <th>False</th> </tr> </thead> <tbody> <tr> <td>There will be no transport costs when moving cars from the AS plc factory in the UK to any other country within the EU.</td> <td></td> <td>✓</td> </tr> <tr> <td>There will be no tariffs levied by other EU countries if they import AS plc cars.</td> <td>✓</td> <td></td> </tr> <tr> <td>AS plc will not be able to employ workers from other EU countries.</td> <td></td> <td>✓</td> </tr> <tr> <td>AS plc will be able to sell the cars it designs for the UK market in other EU countries because of common standards.</td> <td>✓</td> <td></td> </tr> </tbody> </table>	Statement	True	False	There will be no transport costs when moving cars from the AS plc factory in the UK to any other country within the EU.		✓	There will be no tariffs levied by other EU countries if they import AS plc cars.	✓		AS plc will not be able to employ workers from other EU countries.		✓	AS plc will be able to sell the cars it designs for the UK market in other EU countries because of common standards.	✓		4	One mark for each correct identification up to a maximum of four identifications.
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1	(d)	(ii)	Membership of the EU means that AS plc could have more competition (1) from firms in other EU countries (1) because there are no barriers to trade (1). This could mean it could lose sales (1) or go out of business (1) if it cannot compete (1) in terms of price (1) or quality (1). Businesses have to apply the rules/laws (1) such as the maximum number of hours that can be worked (1) and this may raise costs (1) or limit the amount that can be produced (1).	2	One mark for a reason identified and one mark for an explanation of that reason.															
1	(e)	(i)	1,200,000 Yuan (2) £240,000 X 5 (1 – if answer incorrect)	2	Up to two marks.  One mark for the correct method, (ie multiplying £240,000 by 5) if the answer is incorrect.															
	(e)	(ii)	The price in £s will fall (1) to £80/by £20 (1).	2	Up to two marks.  One mark for a correct explanation of the effect, plus a further one mark for backing up the explanation with a correctly calculated figure.															

Question			Answer	Mark	Guidance
1	(e)	(iii)	<ul style="list-style-type: none"> <li>AS plc could look for another supplier in a different country (1) (or outside the EU). This will help it if it is cheaper (1) or the pound has a better rate of exchange against its currency (1). However if they are cheaper, the components may not be as good quality (1) and this could affect the sales/image of the car (1).</li> <li>AS plc could look for another supplier in a different country (1) where the goods are cheaper (1) because it has a lower rate of inflation (1).</li> <li>AS plc could reduce its profit margins (1) and continue to buy from the same supplier (1). It would know that the goods were of the quality it wanted (1) and it would save the work (1) and costs (1) involved in finding the new supplier.</li> <li>AS plc may not need to do anything (1) if its competitors are similarly affected by the rise in the price of components (1) as they will also have to increase the prices at which they sell their cars (1) to cover their costs (1) and AS plc will not lose its competitiveness (1).</li> <li>AS plc may raise the prices it charges for its cars (1) so that it covers its costs (1) and maintains its profit margin (1) though this could lead to lower sales (1).</li> <li>Buy in bulk (1) to reduce cost per item (1) taking advantage of economies of scale (1).</li> <li>Negotiate with current supplier (1) to reduce their prices (1) to keep costs down (1).</li> <li>AS plc could cut wages (1) to reduce costs (1) perhaps increasing the pay at a later date (1).</li> </ul>	6	One mark for each correct identification of a strategy, up to a maximum of two, plus a further two marks for each of two developments. 2 x 3
1	(f)		<ul style="list-style-type: none"> <li>Globalisation involves an increase in international trade (1) and AS plc can sell its cars in other countries/increase profits (1).</li> <li>AS plc is a multi-national corporation (1) because it owns a business in China (1).</li> <li>AS plc has been able to raise finance/capital (1) on the international market by selling shares (1).</li> <li>AS plc has been able to employ workers from other countries in the world (1) who have come to work in the UK (1).</li> </ul>	4	One mark for each correct identification up to a maximum of two identifications, plus a further one mark for each of two explanations.  Do not accept just the phrase 'sales may fall/rise' – only reward if there is a linked reason.

Question			Answer	Mark	Guidance
			<ul style="list-style-type: none"> <li>AS plc can buy supplies from a greater range of countries (1), which increases competition (1) and reduces prices (1).</li> <li>AS plc will need to exchange currency (1) which will cost money (1) and is a risk (1) because currency values can change (1) which might affect the profitability of the deal (1).</li> <li>Costs may rise (or fall) if the exchange rates change (1) to make imports more expensive (1) or if inflation is different in different countries (1).</li> <li>As a result of greater competition (1) or if the rate changes to make exports dearer (1) sales may fall (1).</li> <li>AS plc costs may rise (1) if there are tariffs on the components its sources (1).</li> <li>Sales may be affected by tariffs (1) which raise the prices of AS plc cars (1).</li> </ul>		
2	(a)	(i)	<p><i>Recommended method:</i> The competitor should use flow production (1).</p> <p><i>Reason for recommendation:</i> Because it is designed to make large numbers of the same thing (1), quickly/increased productivity (1), costs will be lower (1), they may achieve economies of scale (1).</p>	3	<p>One mark for a correct identification, plus up to a further two marks for development.</p> <p>Do not reward descriptions of the method without a justification.</p>



Question			Answer	Mark	Guidance												
2	(a)	(ii)	<p><i>Recommended method:</i> Jensing should use batch production (1).</p> <p><i>Reason for recommendation:</i> It would produce one kind of wheel and then switch production to another kind (1) and so it could produce the range it needs to make (1). This would allow it to produce the wheels to meet orders (1). It may achieve economies of scale (1).</p>	3	<p>One mark for a correct identification, plus up to a further two marks for development.</p> <p>Do not reward descriptions of the method without a justification.</p>												
2	(b)		<table border="1"> <thead> <tr> <th>Statement</th> <th>True</th> <th>False</th> </tr> </thead> <tbody> <tr> <td>No other businesses currently produce the same product</td> <td>✓</td> <td></td> </tr> <tr> <td>It is in a competitive market</td> <td></td> <td>✓</td> </tr> <tr> <td>It is a monopoly</td> <td>✓</td> <td></td> </tr> </tbody> </table>	Statement	True	False	No other businesses currently produce the same product	✓		It is in a competitive market		✓	It is a monopoly	✓		3	One mark for each correct identification, up to a maximum of three identifications.
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Question		Answer	Marks	Guidance	
				Content	Levels of response
2	(c)	Agnelli (L1) could merge with one of its competitors (L1). This would reduce the number of competitors (L2) so making the environment less competitive (L3). The extent to which it became less competitive would depend on the size of the firm with which it merges (L3). If it is a large firm which has large share of the market (L3), then the degree of competition will fall significantly (L3).	8	<p><b>K+App</b> Agnelli could introduce new products/new kinds of tyres/improved products/USP</p> <p><b>An</b> so that buyers bought from Agnelli, rather than their competitors.</p> <p><b>K+A</b> Agnelli could cut the price of its tyres.</p> <p><b>An</b> This would make the tyres cheaper than its competitors, and buyers would switch to buy from the Agnelli.</p> <p><b>K+A</b> Agnelli could merge with or take over</p> <p><b>An</b> a competitor, this would reduce the number of competitors.</p> <p><b>K+A</b> Agnelli could advertise</p> <p><b>An</b> to increase awareness and therefore sales.</p> <p><b>K+A</b> Agnelli could collude with its competitors</p> <p><b>An</b> by agreeing not to compete on prices.</p> <p><b>Ev</b> This may increase market share, force rivals out of business, take them into new markets, give more power to set prices in the market. This may be illegal and the government/EU could impose fines and force the firms to compete again/it could only be a temporary benefit which costs Agnelli a lot of money. This might reduce the competition if the strategy forces competitors out of business but it could be that Agnelli would reduce its profits affecting its ability to expand/compete in the future and this might create a monopoly.</p>	<p><b>Level 3: Evaluation (6–8 marks)</b> Evaluation in context. The response must refer to the competitive environment – the competition will be reduced if ...../it gains a larger market share because ...</p> <p><b>Level 2: Analysis (3–5 marks)</b> One mark for each point of analysis/development of a knowledge point.</p> <p><b>Level 1: Knowledge and application (1–2 marks)</b> One mark for any knowledge point, one mark for the application of a knowledge point to the competitive market for tyres in which Agnelli Tyres operates.</p>

Question			Answer	Marks	Guidance	
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					<p><u>How much</u> this reduces competition will depend on how large the competitor is it takes over or merges with. If it is responsible for only producing a small share of the market sales, it will not change the market environment very much.</p>	

Question			Answer	Marks	Guidance						
2	(d)		<table border="1"> <tr> <td></td> <td>(✓)</td> </tr> <tr> <td>It prevents other businesses from copying AS plc's new engine without permission.</td> <td>✓</td> </tr> <tr> <td>It prevents other businesses from developing their own engine designs.</td> <td></td> </tr> </table>		(✓)	It prevents other businesses from copying AS plc's new engine without permission.	✓	It prevents other businesses from developing their own engine designs.		1	For one mark.
	(✓)										
It prevents other businesses from copying AS plc's new engine without permission.	✓										
It prevents other businesses from developing their own engine designs.											
2	(e)	(i)	With just-in-time the business does not keep stocks in a warehouse/does not keep stock (1). It orders the goods to arrive just before needed (1).	2	<p>Up to two marks.</p> <p>One mark for each point of explanation.</p> <p>Do not reward a discussion of the advantages of JIT.</p>						
2	(e)	(ii)	<p><b>Advantage:</b> It saves money (1) because there is no need to have a warehouse (1) to store stocks of materials (1).</p> <p><b>Disadvantage:</b> There is a risk (1) that the goods are ordered but do not arrive in time (1) and this could cause a delay to production (1).</p>	4	<p>One mark for the statement of an advantage and one for a statement of a disadvantage.</p> <p>One mark for a point of explanation of the advantage stated and one for an explanation of the disadvantage stated.</p>						

Question		Answer	Marks	Guidance	
				Content	Levels of response
2	(f)*	The construction of a new factory in Bowton may benefit the town overall. It is a regeneration area (L3) <i>{make sure this is L3 credit only as an answer that follows or is set in the context of an analysis – not a stand-alone comment}</i> and, therefore it will be an area of high unemployment (L3) and the new factory will create jobs for local people. This benefit is likely to be more important to the local community than, say, any loss of greenfield sites caused by the construction (L3).	6	<p><b>K+A</b> Jobs will be created in the Bowton area through the construction of the factory and then there will be jobs for people working in the factory.</p> <p><b>An</b></p> <p><b>K+A</b> Prosperity will improve in the Bowton area/It raises the income of people in the community.</p> <p><b>An</b> AS plc will increase the demand for the products of other businesses, eg for cleaners, for supplies of materials, may also raise the demand for products of local businesses. There will be a multiplier effect.</p> <p><b>K+A</b> Environmental impact.</p> <p><b>An</b> More land is taken up with buildings, and the building may be an eyesore.</p> <p><b>K+A</b> Traffic congestion will increase in Bowton</p> <p><b>An</b> there will be traffic going to and from the factory, more workers, deliveries in and out.</p> <p><b>K+A</b> There will be more pollution in the area</p> <p><b>An</b> caused by any CO<sub>2</sub> emissions from the factory and from the extra traffic generated by it.</p> <p><b>K+A</b> There may also be noise pollution in the area</p> <p><b>An</b> because of the extra traffic or because of the running of machinery.</p>	<p><b>Level 3: Evaluates in context (5–6 marks)</b> Responses come to an overall judgement. Reward the reason(s) for the judgement. This will weigh up (a) benefit(s) against (a) cost(s) in <i>the context of the local area of Bowton.</i></p> <p><b>Level 2: Analysis (3–4 marks)</b> One mark for each point of analysis/development of a knowledge point.</p> <p><b>Level 1: Knowledge and application (1–2 marks)</b> Reward any statement of a social cost or a social benefit. Reward a comment that applies a knowledge statement to the construction of a factory by AS plc.</p> <p><b>QoWC</b> <b>Level 3</b> <i>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</i></p>

Question			Answer	Marks	Guidance	
					Content	Levels of response
					<p><b>Ev</b> Bowton is a regeneration area which will have high unemployment and low incomes so the development of business and employment will be a priority for the welfare of the community. The people will want jobs before a quality environment.</p> <p><b>Ev</b> It depends on the number of jobs created and the extent to which the environment is affected, by how big the new factory is and how much green space will still remain in the area.</p>	<p><i>obscure meaning.</i></p> <p><b>Level 2</b> <i>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 but do not obscure meaning.</i></p> <p><b>Level 1</b> <i>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive.</i></p> <p><b>No level</b> <i>Those candidates that fail to reach the threshold standard in all respects.</i></p>

Question		Answer			Mark	Guidance	
3	(a)	<b>Statement</b>			<b>True</b>	<b>False</b>	4 One mark for each correct identification, up to a maximum of four identifications.
		People benefit from the environment because it provides natural resources which are used to produce goods and services.			✓		
		There is no problem with the use of fossil fuels like oil and coal because there is an unlimited supply of them.				✓	
		The CO <sub>2</sub> emissions caused by motor cars are an example of the pollution of the environment.			✓		
		One way of making production more sustainable is to develop the use of alternative technology such as biofuels.			✓		

Question		Answer	Marks	Guidance	
				Content	Levels of response
3	(b)*	AS plc should use new technology. The technology should enable it to produce high quality engines with minimum quality problems because the machines can work very precisely. This is important because the engines are hi-tech products (L3) and an AS plc car is being sold as a high quality product (L3). Also, the technology should keep costs low because the machines will be able to work 24/7. It is important for AS plc to keep costs low so that its prices are not too high in what is a competitive market (L3). Or even if this is expensive, the cars are aimed at high income buyers who will not be too bothered about the price being as low as it could be (L3).	8	<p><b>K+A</b> Technology will result in a greater output  <b>An</b> the machines work faster than humans, work longer, eg can run 24/7.</p> <p><b>K+A</b> The productivity of workers rises at AS plc  <b>An</b> because machines help each worker to produce a greater amount per person.</p> <p><b>K+A</b> The cost of producing cars will fall  <b>An</b> because productivity rises</p> <p><b>K+A</b> The quality of the cars will improve  <b>An</b> and could improve sales, machines make fewer mistakes than humans, they can work to finer demands.</p> <p><b>K+A</b> The production of cars will become more flexible  <b>An</b> the machinery can be automated and programmed to produce different designs.</p> <p><b>K+A</b> AS plc will need to recruit workers  <b>An</b> who have the skills to use the new technology and this will cost money.</p> <p><b>K+A</b> Costs of producing the cars will be high</p>	<p><b>Level 3: Evaluation in context (6–8 marks)</b>  Evaluates in context. The response will refer to the precision engineering required, the competitive nature of the market for high technology goods, the investment cost issues related to AS plc at this time.</p> <p><b>Level 2: Analysis (3–5 marks)</b>  Reward point of analysis/development of a knowledge point.  One benefit or one cost may gain one or two analysis marks. For five marks, one benefit <b>and</b> one cost must be explained.</p> <p><b>Level 1: Knowledge and application (1–2 marks)</b>  Reward any one statement of a benefit or cost.  Reward a comment which applies knowledge of the benefits of state of the art technology to AS plc as a car producer or in the production of engines.</p> <p><b>QoWC Level 3</b>  <i>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</i></p>

Question		Answer	Marks	Guidance	
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3	(b)*			<p><b>An</b> AS plc will need to re/train workers, because they need to highly skilled.</p> <p><b>K+A</b> The new machines will cost AS plc a lot of money.</p> <p><b>An</b> which may reduce the profits and will need to be financed somehow.</p> <p><b>Ev</b> This will give AS plc an advantage over its competitors as this is a market in which quality is very important and sales should increase enough to pay for the investment.</p> <p><b>Ev</b> This will give AS plc an advantage because the engines are precision-engineered and the higher quality and lower costs will mean that AS plc will earn enough revenue to cover the costs in the long run.</p> <p><b>Ev</b> The decision depends upon the extra cost compared with the expected extra revenue. A risk has to be taken in order to innovate.</p> <p><b>Ev</b> It depends on the cost of the investment compared with the expected revenue. It is a risk but this is an aspect of business.</p>	<p><i>some errors of spelling, punctuation and grammar but these are unlikely to be intrusive or obscure meaning.</i></p> <p><b>Level 2</b> <i>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 but do not obscure meaning.</i></p> <p><b>Level 1</b> <i>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive.</i></p> <p><b>No level</b> <i>Those candidates that fail to reach the threshold standard in all respects.</i></p>



Question		Answer	Marks	Guidance						
3	(c)	<table border="1"> <thead> <tr> <th>Fixed costs of production</th> <th>Variable costs of production</th> </tr> </thead> <tbody> <tr> <td>A. The business rates on the factory.</td> <td>B. The cost of raw materials.</td> </tr> <tr> <td></td> <td>C. The cost of electricity to power the machines.</td> </tr> </tbody> </table>	Fixed costs of production	Variable costs of production	A. The business rates on the factory.	B. The cost of raw materials.		C. The cost of electricity to power the machines.	3	One mark for each correct identification, up to a maximum of three identifications.
Fixed costs of production	Variable costs of production									
A. The business rates on the factory.	B. The cost of raw materials.									
	C. The cost of electricity to power the machines.									
3	(d)	<p>A government may be willing to give a grant to AS plc as the new factory will improve the efficiency of AS plc (1) and this will help it to compete in the global economy (1). This will help to create jobs (1) because the country is in recession (1) and it will make the economy prosper/regenerate the economy (1), bring more people in (1). It will help to improve the environment (1) as the cars will be more fuel-efficient (1) and this will benefit the community (1). In the long run it will increase profits (1) and then the taxes the government receives (1).</p>	3	One mark for each point of explanation up to a maximum of three marks, but allow development marks.						

Question		Answer	Marks	Guidance	
				Content	Levels of response
3	(e)*	AS plc should use retained profit. It already has a loan (L3) and will be paying interest on this. If it borrows even more money, it increases the risk of not being able to repay it (L3), and if this happened, it might have to sell assets to raise the money (L3).	8	<p><b><u>RETAINED PROFIT</u></b></p> <p><b>K+A</b> It will be cheaper for AS plc to use retained profits  <b>An</b> as there will be no interest to pay.</p> <p><b>K+A</b> The money to pay for the new technology will be available  <b>An</b> because it is already there.</p> <p><b>K+A</b> AS plc will lose interest  <b>An</b> which it would receive on the retained profits kept in the bank.</p> <p><b>K+A</b> The shareholders of AS plc may not be happy  <b>An</b> as the profit could have been distributed to them.</p> <p><b>K+A</b> The money could have been kept in reserves  <b>An</b> which AS plc could have used in an emergency such as paying for a cash flow problem.</p> <p><b>Ev</b> It depends on whether AS plc has enough retained profit. It will need money for materials and to finance the negative cash flow before it starts to receive revenue.</p> <p><b>Ev</b> It depends on how much the interest is, if it is very high it may be better to use retained profit.</p> <p><b><u>BANK LOAN</u></b></p> <p><b>K+A</b> AS plc does not need to find the money all at once  <b>An</b> as the repayment can be spread over a period of time.</p>	<p><b>Level 3: Evaluates in context (6–8 marks)</b>  Responses come to an overall judgement. Reward the reason(s) for the judgement. This will weigh up the advantages/disadvantages of each method of finance and make a judgement in relation to the need (the finance of new technology) and the business (AS plc).</p> <p><b>Level 2: Analysis (3–5 marks)</b>  One mark for a point of analysis or development of the social benefit or cost. For four marks, one benefit <b>and</b> one cost must be analysed.</p> <p><b>Level 1: Knowledge and application (1–2 marks)</b>  Reward any statement of an advantage/disadvantage of either retained profits or a loan. Reward a statement which applies a knowledge statement to the purchase of new machinery or to the specific financial position of by AS plc.</p>

Question			Answer	Marks	Guidance	
					Content	Levels of response
					<p><b>K+A</b> Taking out a loan increases the risk to AS plc  <b>An</b> as it will need to give a security on the debt.</p> <p><b>K+A</b> The loan will cost more  <b>An</b> as interest will need to be paid on the loan.</p> <p><b>Ev</b> AS plc already has a bank loan so it should not increase its debts further and would be better using the retained profits to avoid this risk. Also the banks might ask for a high rate of interest because it already has loans.</p> <p><b>Ev</b> It would be better to use a bank loan because AS plc will need its retained profits to cover the negative cash flow it will have once it starts producing and before it starts to sell engines.</p>	<p><b>QoWC</b>  <b>Level 3</b>  <i>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.</i></p> <p><b>Level 2</b>  <i>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 but do not obscure meaning.</i></p> <p><b>Level 1</b>  <i>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive.</i></p> <p><b>No level</b>  <i>Those candidates that fail to reach the threshold standard in all respects.</i></p>

Question		Answer	Marks	Guidance
3	(f)	<p>It will be a problem in so far as AS plc will have to finance this somehow/will be in debt (1), perhaps with an overdraft (1) which will have interest (1) will have bills to pay.</p> <p>It will not be a problem in that it is inevitable (1), income will be generated from the production (1), this will pay off the negative cash flow in the future (1).</p>	2	Up to two marks for explanation.

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