

Cambridge Technicals Business

Unit 10: Economics for business

Level 3 Cambridge Technical in Business
05878

Mark Scheme for June 2023

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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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MARKING INSTRUCTIONS

PREPARATION FOR MARKING

MARKING

1. Mark strictly to the mark scheme.
2. Marks awarded must relate directly to the marking criteria.
3. The schedule of dates is very important. It is essential that you meet the traditional 40% Batch 1 and 100% Batch 2 deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.
4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone or by email.
5. **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 must give candidates the benefit of the doubt and mark the crossed out response where legible.

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.

6. Always check the pages at the end of the response (and any additional lined pages if present) in case any answers have been continued there. If the candidate has continued an answer there then add an annotation to confirm that the work has been seen.
7. Assistant Examiners may email a brief report on the performance of candidates to your Team Leader (Supervisor) by the end of the marking period. Your report should contain notes on particular strength displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.

8. 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)
OFR	Own figure rule

9. 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	Marks	Guidance
1	(a)	(i)	It shows the relationship between the price of a product and its demand	2	<p>Two marks for an accurate answer, e.g.</p> <ul style="list-style-type: none"> the quantity consumers are willing to buy at a given price the relationship between price and demand how much demand changes if price changes. <p>One mark for a general idea of the term, e.g.</p> <ul style="list-style-type: none"> any reference to price. <p>Do NOT accept any reference to cost.</p>
1	(a)	(ii)	<p>Responses may include:</p> <ul style="list-style-type: none"> improvements in productivity government policy <ul style="list-style-type: none"> health & safety regulations subsidies/grants/taxes costs of production or supplies <ul style="list-style-type: none"> labour machinery rent materials weather unexpected events 	3	<p>One mark for each correct factor, up to a maximum of three factors.</p> <p>Accept multiple examples of the same factor (e.g., labour costs and machinery costs).</p> <p>Accept answers which consider the level of market supply (e.g., number of competitors, imports, etc.)</p> <p>No reward for 'price' but do accept 'prices of raw materials, etc.</p>

Question			Answer	Marks	Guidance
1	(a)	(iii)	<p>Use level of response criteria.</p> <p>Answers may include:</p> <ul style="list-style-type: none"> it is usually negative (shows inverse relationship between price and demand) price elastic if greater than 1 ('Matthew') price inelastic if less than 1 ('Stephen' & 'Thomas') unitary elasticity if equals 1 ('Paul') if price elastic then a decrease in price would lead to greater sales revenue if price inelastic then an increase in price would lead to greater sales revenue change in price will have no effect if unitary elasticity <p>Exemplar response: A PED of -0.8 for the 'Thomas' shoe means it is price inelastic (L1). This means that demand will change by a smaller proportion than any change in price (L2), so that revenue will increase if price increase (L3).</p> <p>In contrast, the 'Matthew' style is price elastic (L1) so that a price change will lead to a proportionately larger change in demand (L2). This will lead to revenue changing in the opposite direction to any change in price (L3).</p> <p>Therefore, Better Shoes should increase the price of 'Stephen' and 'Thomas' styles, as they are price inelastic (L4) (CONT), while at the same time lowering the price of the 'Matthew' style, as this will maximise total revenue (L4).</p>	16	<p>Levels of response</p> <p>Level 4 (13 – 16 marks) Candidate evaluates how PED might affect Better Shoes business behaviour.</p> <p>Level 3 (9 – 12 marks) Candidate analyses how PED might affect business behaviour.</p> <p>Level 2 (5 – 8 marks) Candidate explains how PED might mean for a business.</p> <p>Level 1 (1 – 4 marks) Candidate identifies knowledge about PED.</p> <p>Level 1 – what the data means (e.g., price inelastic if less than 1 (Stephen & Thomas), price elastic if greater than 1 (Matthew), unitary if = 1 (Paul)) or a definition of PED.</p> <p>Level 2 – what the data means for a business (e.g., little effect on demand for a price inelastic good, greater effect on demand for a price elastic good.)</p> <p>Level 3 – the impact on (or reaction by) a business if price changes (e.g., impact on revenue – not sales)</p> <p>Level 4 – award:</p> <p>Award 13 marks for a non-contextual judgement e.g., increase price of price inelastic goods and/or reduce the price of price elastic goods.</p> <p>Award 14 marks for a contextual judgement (i.e., about shoe styles) that evaluates how the business should behave for one of the following – PED elastic (Matthew), PED inelastic (Stephen/Thomas), or PED unitary (Paul) shoes.</p>

Question		Answer	Marks	Guidance
				<p>Award 15 marks for a contextual judgement (i.e., about shoe styles) that evaluates how the business should behave for two of the following – PED elastic (Matthew), PED inelastic (Stephen/Thomas), or PED unitary (Paul) shoes.</p> <p>Award 16 marks for a contextual judgement (i.e., about shoe styles) that evaluates how the business should behave for all three of the following – PED elastic (Matthew), PED inelastic (Stephen/Thomas) and PED unitary (Paul) shoes.</p>
1	(b)	<p>Effects include:</p> <ul style="list-style-type: none"> • lower unit costs (1) as an increase in output leads to greater efficiency (1) • can gain a competitive advantage (1) as unit costs will be lower (1) • less likely to relocate (1) if already in an area benefiting from external economies (1) • better able to use up-to-date technology (1) which can ensure the product is more attractive (1) 	4	<p>One mark for each correct effect to a maximum of two, plus one mark for each of two explanations.</p> <p>Accept answers which use examples of causes of internal economies of scale (e.g., purchasing, financial) to consider the effect on a business.</p> <p>Answers may also be linked to examples of external economies of scale (e.g., greater pool of skilled labour, lower training costs, more suppliers, etc.)</p>

Question		Answer	Marks	Guidance
2	(a)	<p>Use level of response criteria.</p> <p>Responses may include:</p> <ul style="list-style-type: none"> • impact on output • impact on wage rates • impact on production capacity • impact on recruitment • impact on inflation <p>Exemplar responses:</p> <p>Lower unemployment nationally means that consumers may have more money to spend (L1) so that demand for a firm's output will rise (L2). This may encourage Better Shoes plans to grow by merging with Sykes Shoes (L3).</p> <p>The wages in the local labour market may fall (L2) which may mean that Better Shoes is less worried about the lack of skills of school/college leavers as it will have more money available to train workers themselves (L3).</p>	9	<p>Levels of response</p> <p>Level 3 (7 – 9 marks) Candidate analyses the impact(s) of the rate of unemployment in the UK on a business.</p> <p>Level 2 (4 – 6 marks) Candidate explains how unemployment may affect a business.</p> <p>Level 1 (1 – 3 marks) Candidate identifies knowledge about unemployment or its effects.</p> <p>The upper mark of each level can be awarded for clarity of response.</p> <p>Candidates can argue from either perspective:</p> <ul style="list-style-type: none"> • low unemployment rates in the UK, so recruitment may be difficult/expensive and/or more households will have income. • high unemployment rates locally, so recruitment may be cheaper/easier and/or households will have less money.

Question		Answer	Marks	Guidance
2	(b)	<p>Use level of response criteria.</p> <p>Relevant information may include:</p> <ul style="list-style-type: none"> increased income tax for higher earners will mean they have less disposable income to spend less disposable income may affect demand for high quality/ expensive shoes how better off individuals may be affected by cuts in disposable income lower rates of VAT will reduce all prices so demand will increase as VAT is a percentage of the price, more expensive products will see a relatively larger decrease in price lower earners will see a relatively larger benefit (VAT is regressive) will a cut in price affect <i>Better Shoes</i>' image; will they just increase the basic price so that its profit margin increases? <p>Exemplar response: Higher income tax will reduce an individual's income (L1) so they will have less to spend (L2). Better Shoes sells high price shoes (CONT), so its demand will fall (L3). However, high earners may be able to afford an increase in tax and still want to buy good quality UK shoes, so any impact on Better Shoes may be quite limited (L4).</p> <p>Lower VAT will reduce the price paid by the customer (L2). All the shoes listed in Table 1 have a negative value for price elasticity (CONT), so any fall in price will lead to sales of Better Shoes' products increasing (L3). However, this fall in price may affect the image of Better Shoes as a high quality, high price brand (L4).</p>	8	<p>Levels of response</p> <p>Level 4 (7 – 8 marks) Candidate evaluates the impact of an increase in income tax and/or a fall in VAT on <i>Better Shoes</i>.</p> <p>Level 3 (5 – 6 marks) Candidate analyses impact(s) of an increase in income tax and/or a fall in VAT on a business.</p> <p>Level 2 (3 – 4 marks) Candidate explains the effect(s) of changes in income tax and/or VAT.</p> <p>Level 1 (1 – 2 marks) Candidate identifies the effect(s) of changes in income tax and/or VAT.</p> <p>An answer which ONLY considers one of the two policies should be awarded the lower mark in each level.</p> <p>The candidate may conclude that the impact of the two policies may be good or bad for Better Shoes.</p>

Question		Answer	Marks	Guidance
2	(c)	<p>Policies may include:</p> <ul style="list-style-type: none"> • changes to the benefits system • changes to national wage rates • trade union legislation • national funding for security/infrastructure/training/education • incentives for R&D • funding for new / growing businesses • locally targeted public investment. <p>Exemplar responses:</p> <p>Changes to national wage rates (1) by increasing the national minimum wage (1) will encourage more workers to offer themselves for employment (1).</p> <p>Trade union legislation (1). By making voting for strike action a legal requirement (1) employees are less likely to be called out on strike so fewer stoppages occur (1).</p> <p>Increased funding for education (1). Better trained school leavers will possess more relevant skills (1) so that businesses will have more productive staff (1).</p>	9	<p>For each of three supply side policies, one mark for a correct policy, one mark for the explanation and one mark for analysing its effect on UK business.</p> <p>Do NOT reward any reference to changes to income tax as these are excluded by the question.</p> <p>Accept references to corporation tax.</p> <p>Ensure that each answer is clearly different from the others.</p>

Question		Answer	Marks	Guidance
3	(a)	Price takers – have no influence over the price charged.	2	<p>Two marks for an accurate answer, e.g.,</p> <ul style="list-style-type: none"> the firm has no power to affect the price it charges. <p>One mark for a general idea of the term, e.g.,</p> <ul style="list-style-type: none"> little power sets a similar price to competitors cannot set own price. <p>NB: Do NOT reward tautological answers, e.g., ‘they have to take the price available’</p>
		Price leadership – able to set a price <u>and</u> other firms then follow.	2	<p>Two marks for an accurate answer, e.g.,</p> <ul style="list-style-type: none"> the firm will set its price first and competitors will then set the same/similar price. <p>One mark for a general idea of the term, e.g.</p> <ul style="list-style-type: none"> able to set own price first to set the price can dominate the market. <p>NB: Do NOT reward tautological answers, e.g., ‘the leader sets the price’</p>
3	(b)	<p>Ways the CMA might affect a merger include:</p> <ul style="list-style-type: none"> prevent a merger from happening (1) if the combined firm is too large (1) delay the merger (1) while an investigation takes place to check whether it is good or not for the consumer (1) place restrictions on the merger (1) if it creates a significant increase in market dominance (1) enforce new consumer protection rules (1) to protect any anti-competitive actions by the larger firm (1) 	4	<p>One mark for each correct answer to a maximum of two, plus one mark for each of two explanations.</p>

Question		Answer	Marks	Guidance
4	(a)	$£85 \times €1.15 = \underline{€97.75}$	2	<p>Two marks for correct answer (with or without € sign)</p> <p>Award one mark if evidence of the correct method but with incorrect answer (e.g., incorrect magnitude or rounding)</p> <p>No reward for answers for designs other than 'Paul'.</p>
4	(b)	<p>Benefits of selling internationally include:</p> <ul style="list-style-type: none"> • wider access to markets • can build partnerships with other countries • extended product lifecycle • increased market share/penetration • able to overcome domestic limitations • possible lower taxes in overseas market • possible benefits thanks to the exchange rate of selling in other countries (prices may appear to be cheaper) • possible higher prices and/or less competition overseas <p>Exemplar responses:</p> <p>The UK is a highly competitive market (CONT) so it may be possible to find less competition abroad (1) making it easier for <i>Better Shoes</i> continued development (+1).</p> <p>Wider access to markets (+1). By looking to sell in such large markets as France & Germany (CONT), <i>Better Shoes</i> may see an increase in sales not possible in the UK (+1).</p> <p>May help to overcome falling sales in the UK (1) where <i>Better Shoes</i> sells 95% of its output (CONT) and there are many UK and overseas competitors This may lead to higher sales (+1).</p>	9	<p>For each of three benefits of selling internationally:</p> <ul style="list-style-type: none"> • one mark for a benefit <p>PLUS</p> <ul style="list-style-type: none"> • two marks for a contextual analysis of the impact on Better Shoes. <p>or</p> <ul style="list-style-type: none"> • one mark for a non-contextual analysis of the impact on a business. <p>The answer needs to be about selling internationally (rather than the benefits of buying raw materials from abroad or producing overseas).</p> <p>Ensure that each answer is clearly different from the others.</p>

Question	Answer	Marks	Guidance
5 (a)	Duties of the WTO include: <ul style="list-style-type: none"> • it helps to operate trade agreements between countries (1) to increase free trade (1) • it settles disputes (ensures free trade) between countries (1) to prevent/limit trade restrictions (1) • it provides a forum for trade negotiations (1) to remove trade barriers (1) • it works with the IMF (1) to improve the success of the global economy (1) 	4	<p>One mark for each correct activity to a maximum of two, plus one mark for each of two explanations.</p> <p>Credit individual examples of areas where the WTO has improved free trade, including trade in services (GATS), intellectual property and 'aid for trade'.</p>
5 (b)	Use level of response criteria. <p>Access to more suppliers of raw materials at lower prices:</p> <ul style="list-style-type: none"> • cheaper costs of production / may switch to cheaper suppliers • these lower costs may help to offset high costs of labour • already buying from two low-cost countries (Brazil/India) • will allow lower prices which would help with proposed lower priced shoes for younger customers • will low-cost imports fit with high quality of raw materials needed for high quality shoes? <p>More imports of low-quality shoes:</p> <ul style="list-style-type: none"> • there is already high competition in the UK so this could be a fatal trend for <i>Better Shoes</i> or have limited effect as the market is already competitive • may need to reduce prices which may be difficult given <i>Better Shoes</i> are high quality • will current target market (high income, over 45s) be attracted by low quality imported shoes? <p>Increased publicity about environmental consequences of international trade:</p> <ul style="list-style-type: none"> • already importing leather from 3 countries, 2 of them outside of Europe, so already an image issue with carbon footprint or air miles 	16	<p>Levels of response</p> <p>Level 4 (13 – 16 marks) Candidate evaluates how the production function of <i>Better Shoes</i> should respond to the anticipated changes.</p> <p>Level 3 (9 – 12 marks) Candidate analyses how the production function may respond to the anticipated changes.</p> <p>Level 2 (5 – 8 marks) Candidate explains how the production function may respond to the anticipated changes.</p> <p>Level 1 (1 – 4 marks) Candidate identifies how the production function may respond to the anticipated changes.</p> <p>Award 13 marks for a basic generic argument about the response by the production function, e.g., production will be affected most by the increased imports of low-quality shoes (no context).</p> <p>Award 14 marks for a supported generic evaluation about the response by the production function, e.g., it will be affected most by the environmental concerns about international trade, so a business will need to consider what products are made and sold (no context).</p>

Question	Answer	Marks	Guidance
	<ul style="list-style-type: none"> • attempting to sell in South Africa, France and Germany may be hampered if global attitudes to trade change (but France and Germany are not that far away!) • proposed launch of vegan shoe may be a good marketing ploy (although product may currently be seen to be less 'green' as made from leather). • will the vegan shoe just be seen as tokenism? <p>Responses by the operations function may come from:</p> <ul style="list-style-type: none"> • decisions about what to produce • decisions about how to produce, including method and costs of production • decisions about quality • decisions about the future direction of the business • decisions about which expansion option to choose <p>Exemplar response: An increase in imports of low-quality shoes may affect a business' decision about future strategy (L1) as it will see an increase in competition (L2). <i>Better Shoes</i> is considering a merger with a firm making low quality shoes which may see a lot more competition in the near future, in what is already a highly competitive UK market (L3). It may be more appropriate for <i>Better Shoes</i> to expand by producing its own low-priced range of shoes (CONT)(L4) which can take advantage of cheaper imported raw materials. This option would also include the 'vegan shoe' which may help the business to respond to the increasing environmental concerns about international trade (L4).</p>		<p>Award 15 marks for a basic contextual argument about the response by the production function, e.g., it may want to consider buying more leather from Italy, rather than Brazil & India, to reduce the environmental costs of importing over such long distances from emerging economies (with context).</p> <p>Award 16 marks for a supported contextual argument about the response by the production function, e.g., it may need to consider whether they can reduce costs by importing from cheaper suppliers. However, <i>Better Shoes</i> has an image of high quality, so it must be careful not to jeopardise this by cutting quality (with context).</p> <p>NB: Changes to general 'operational issues' can be accepted as part of the production function.</p>

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