

GCE 2005

January Series



Mark Scheme

Business Studies

BUS3

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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GENERAL MARKING GUIDANCE

You should remember that your marking standards should reflect the levels of performance of Advanced Subsidiary candidates, mainly 17 years old, writing under examination conditions. The level of demand of this unit is that expected of candidates half-way through a full A Level course.

Positive Marking

You should be positive in your marking, giving credit for what is there rather than being too conscious of what is not. Do not deduct marks for irrelevant or incorrect answers as candidates penalise themselves in terms of the time they have spent.

Mark Range

*You should use the whole mark range available in the marking scheme. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **must** be given. A perfect answer is not required. Conversely, if the candidate's answer does not deserve credit, then no marks should be given.*

The Use of Levels of Response

Levels of response marking has holistic aspects, yet must conform to the rule of positive marking. A candidate who has built a strong argument must have that achievement recognised fully, even if a subsequent paragraph of ambiguity reduces the power of the whole. For this to occur consistently requires careful annotation of the level of response achieved within each skill category, at each significant stage within an answer.

Fundamental to a Levels of Response approach is that there may be more than one right answer to a written question. Examiners must use their professional judgement to credit any reasonable answer, whether or not it is listed on the mark scheme.

Levels of response marking requires examiners to follow the logic of a candidate's answer. A concept that would receive credit for knowledge in one context could become a means of analysis in another. It is also possible that a candidate's line of argument could validate knowledge that would not have been recognised if the candidate had simply tabled it. For example, acid test is not listed within the specification as a test of financial efficiency, yet a candidate could build an argument that made it relevant. Then knowledge could be rewarded as well as analysis.

Despite the value of skills such as analysis and evaluation, all answers must be based upon relevant knowledge and understanding. Therefore, it is not possible to credit application, analysis or evaluation unless recognisable knowledge has been rewarded.

The skills we seek from candidates are as follows:

1. Knowledge and understanding: accurate definitions or explanations of relevant terms should always be credited within this category; candidates can also gain credit for knowing and explaining a point relevant to the question, eg an advantage of factoring.
2. Application is the skill of bringing knowledge to bear to the business context faced by the candidate. Candidates should not be rewarded for simply dropping the company name or product category into their answer; the response must show recognition of some specific business aspect of the firm, its management or its situation.
3. Analysis: building up an argument using relevant business theory in a way that answers the question specifically and shows understanding of cause and effect.
4. Evaluation is judgement. This can be shown within an answer, through the weighting of an argument or in the perceptiveness shown by the candidate (perhaps about the degree of crisis/strength of the XYZ Company). It can also be shown within a conclusion, perhaps by weighing up the strength of the candidate's own arguments for and against a proposition. Evaluation is **not** shown simply by the use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment". It is shown through the weighting of the candidate's response plus the logic and justification of his/her conclusions.

Quality of Language

The GCSE and GCE A/AS Code of Practice requires the assessment of candidates' quality of written communication wherever they are required to write in continuous prose. In this unit, this assessment will take place for each candidate's script as a whole by means of the following marking criteria.

- LEVEL 3 Moderately complex ideas are expressed clearly and reasonably fluently, through well linked sentences and paragraphs. Arguments are generally relevant and well structured. There may be occasional errors of grammar, punctuation and spelling. **3 marks**
- LEVEL 2 Straightforward ideas are expressed clearly, if not always fluently. Sentences and paragraphs may not always be well connected. Arguments may sometimes stray from the point or be weakly presented. There may be some errors of grammar, punctuation and spelling, but not such as to suggest a weakness in these areas. **2 marks**
- LEVEL 1 Simple ideas are expressed clearly but arguments may be of doubtful relevance or obscurely presented. Errors in grammar, punctuation and spelling may be noticeable and intrusive, suggesting a weakness in these areas. **1 mark**

Total 3 marks

1**Total for this question: 6 marks**

Explain how the start-up of *Sounds Perfect Ltd* may have benefited from the use of patents. (6 marks)

| | Content 3 marks | Application 3 marks |
|----------------|---|--|
| Level 2 | 3 marks One or two benefits explained, or at least one benefit identified and good understanding of patents | 3 marks Good application to context, doing more than repeating the case/text |
| Level 1 | 2-1 marks Identifies one or two benefits from using patents or offers a definition of patents | 2-1 marks Some application to the context of <i>Sounds Perfect Ltd</i> |

Possible answers include:

- Insulating the business from direct competition – especially valuable when the business was finding its feet financially (the text only identifies £20 000 of start-up capital)
- Enables the business to overcome the problem of building a customer base – which is especially difficult for firms with no clear USP
- Selling licences to other firms to produce this product
- More price inelastic demand

2

Total for this question: 6 marks

With the help of the data provided in **Table 1**, outline why the USA was chosen for the export drive.
(6 marks)

| | Content 3 marks | Application 3 marks |
|----------------|---|--|
| Level 2 | 3 marks One or two reasons identified, with at least one outlined | 3 marks Good application to context, with effective use of the data |
| Level 1 | 2-1 marks States one or two plausible reasons with no development/outline | 2-1 marks Some application to the context, with some effective use of the data |

Possible answers include:

- From the 1999 starting point, based on the Table 1 forecast data, the US was forecast to have the strongest economic growth for each of the following years; this would be likely to mean higher consumer spending, especially on highly income elastic luxury items and durables, such as the products of *Sounds Perfect Ltd*
- Unemployment was forecast to rise (but not as much as Germany)
- US economy least troubled by downturn in 2000 – 2002 (compared with Germany)

3

Total for this question: 15 marks(a) Outline **two** economic trends that have affected the UK economy over recent months.*(4 marks)*

| | Content 2 marks | Application 2 marks |
|----------------|--|---|
| Level 2 | 2 marks Correctly identifies two or more economic trends | 2 marks Application to the context of the UK economy or <i>Sounds Perfect Ltd</i> |
| Level 1 | 1 mark Correctly identifies one economic trend | 1 mark Some application to the context of the UK economy or <i>Sounds Perfect Ltd</i> |

Possible answers include:

| Macroeconomic Factor | July 2004 | January 2005 |
|--|---------------------------|----------------------------|
| Economic growth (% rise in Gross Domestic Product) | Annual increase = 3.0% | Annual increase = 3.1% |
| Claimant Unemployment (%) | 4.8% | 4.7% |
| Inflation (% increase) | CPI: 1.4% RPI: 3.1% | CPI: 1.5% RPI: 3.4% |
| Interest rates (%) | 4.5% | 4.75% |
| Exchange rates | £1 = \$1.85 £1 = €1.51 | \$1 = \$1.91 £1 = €1.41 |

Most changes in the last 6 months have been slight. Credit should be given to students recognising this feature. As the \$ exchange rate has moved in the opposite direction to the euro rate credit should only be given if the specific currency is noted. Just prior to July 2004 interest rates increased by 0.75% in 3 months.

Other possible trends:

- Housing market slowdown
- Strong pound against the US\$
- Inflation steady/slight increase
- Balance of Payments Current Account deficit increasing
- Retail sales slower in some sectors but rising in others
- Increasing consumer debt

(b) To what extent might one or both of these trends affect *Sounds Perfect Ltd*, if **Strategy A** is adopted (**Section F**)? (11 marks)

| | Content 1 mark | Application 2 marks | Analysis 3 marks | Evaluation 5 marks |
|----------------|---|---|--|--|
| Level 3 | | | | 5 marks Judgement shown in weighing up the extent to which <i>Sounds Perfect Ltd</i> might be affected, with clear conclusions |
| Level 2 | | 2 marks Relevant issues applied in detail to the case | 3 marks Analysis of question set, using relevant theory | 4-3 marks Judgement shown in weighing up the possible effect on <i>Sounds Perfect Ltd</i> |
| Level 1 | 1 mark Shows some understanding of the trend identified | 1 mark Relevant issues applied to the case | 2-1 marks One or two points applied in a limited way to analyse the question | 2-1 marks Some judgement shown in text or conclusions |

Possible answers include:

Effects on Business:

- Economic growth: Increase will lead to greater consumer spending and so increased sales, particularly if *Sounds Perfect Ltd* strategy is to retain upmarket products.
- Unemployment: A fall in unemployment will mean more people with money to spend, leading to increased sales.
- Inflation: Rising costs may reduce the competitiveness of UK firms, particularly important if the low-cost approach is taken by *Sounds Perfect Ltd*. However, inflation is still below the government's target and so it is not likely to have an adverse effect.
- Interest rates: Increases mean that costs will rise, if money has been borrowed, the main impact will be on demand: Higher interest rates lead to a fall in demand as borrowing becomes more expensive.
- Exchange rates: *Sounds Perfect Ltd* products will be cheaper in Europe leading to increased sales (but dearer in the USA where sales are likely to fall). Components bought in Europe will be dearer but components from the USA will be cheaper.
- If production is switched to Poland, *Sounds Perfect Ltd*'s exposure to the £ will be reduced – though the high % of sales to America might suggest a better production switch would be to Mexico.
- The move to the lower-priced market may reduce exposure to any severe downturn in the UK economy, as it would represent a move away from the top end, where income elasticity would be especially high.

4

Total for this question: 8 marks

Explain why *Sounds Perfect Ltd* might benefit if Kate and Andy took the time to establish clear company objectives. (8 marks)

| | Content 2 marks | Application 2 marks | Analysis 4 marks |
|----------------|---|---|--|
| Level 2 | 2 marks One+ relevant content points explained, or good understanding of company objectives | 2 marks Point(s) made are applied to key business features of the case/this particular business | 4-3 marks Analysis of the question set using relevant theory |
| Level 1 | 1 mark One relevant content point made, or some understanding shown of company objectives | 1 mark Answer shows some application to the case | 2-1 marks One or two points applied in a limited way to analyse the question set |

Possible answers include:

- Clear objectives need to be established, because Kate and Andy appear to have very different aims and attitudes (is Strategy A *really* acceptable to Andy?)
- Now that the business has become a medium-sized firm with a formal organisational structure, it is only really possible to delegate effectively if there is a clear overall goal.
- Note, therefore, that it is not just a matter of establishing objectives – aims must be discussed first and a strategy can follow.
- The objectives must be agreed before the decision can be taken on Strategy A versus B.

5

Total for this question: 15 marks

Discuss whether strategy **A or B** draws more from the strengths of *Sounds Perfect Ltd*, as outlined in the Case Study. (15 marks)

| | Content 3 marks | Application 3 marks | Analysis 4 marks | Evaluation 5 marks |
|----------------|---|---|--|---|
| Level 3 | | | | 5 marks Good judgement shown in weighing up |
| Level 2 | 3 marks Good understanding shown of business strategy/strength(s) | 3 marks Relevant issues applied in detail to the case | 4-3 marks Analysis of the question set, using relevant theory | 4-3 marks Judgement shown in weighing up |
| Level 1 | 2-1 marks Shows some understanding of business strategy/strength(s) | 2-1 marks Relevant issues applied to the case | 2-1 marks One or two points applied in a limited way to analyse the question set | 2-1 marks Some judgement shown in text or conclusions |

Possible answers for Strategy A include:

- The innovative process for manufacturing the FX5 gives the business a cost advantage over rivals that may enable the firm to overcome the labour cost advantages of some overseas producers (but unless the process can be patented, won't others simply copy the method?)
- The move to mass production of the top two lines gives reason to hope that Strategy A could succeed; evidence is needed on profitability of these two lines before any decision can be made.
- Even James Dyson has given up UK manufacturing despite the advantage he has of high value-added, innovative products; perhaps *Sounds Perfect Ltd* can only succeed in the long term by producing in somewhere like Poland.

Possible answers for Strategy B include:

- The firms' traditions and culture are rooted in producing super high quality, innovative, top of the range hi-fi; this is not only significant psychologically, but also relates to the skills and abilities of the staff employed at present; OK, some are already producing on a flow production basis, but that affects only two products out of 20; for many staff a switch to low-cost, mass production will mean that the business no longer draws upon their skills; therefore they will try to leave.
- What does the name '*Sounds Perfect*' mean within the trade? It means high quality, high priced products; the value-added built up over many years will be thrown away unless Strategy B is adopted; a switch to cell production would be far preferable to most staff than a switch to mass production or, worse, the switch of production to a lower cost country.
- All the evidence suggests that UK manufacturers have no future in producing low-cost items, as they cannot compete with Far East or European producers with much lower labour costs; strategically, the future for UK manufacturing lies in going upmarket, to produce niche products with high R & D input to create high value-added; *Sounds Perfect Ltd* would be swimming against the tide by going down to the mass market with Strategy A.