Solutions

Business answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

Each answer shows the steps, then the **result**.

2.1

- any two of: number of employees; revenue (sales turnover); capital employed; market share; market capitalisation (1 + 1)

2.2

- the cost savings (a fall in average cost per unit) a business gains as it grows larger (2 for a clear definition; 1 for a partial idea)

2.3

- horizontal integration joins a firm at the **same** stage of the same industry; vertical integration joins a firm at a **different** stage of the same industry (2 for a clear difference; 1 for a partial idea)

3.1

- *[3]* **AO1** 1 — name a reason (lower average costs; bigger market share; more market power; higher profit; spread risk). **AO2** up to 2 — develop it, e.g. a larger firm buys materials in bulk
- lower cost per unit
- it can cut prices or earn more profit (2 developed / 1 limited)

3.2

- *[8]* Some understanding of *vertical* merger must be shown. For **each** of two benefits: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains — *backward (supplier)*: control of supply
- guaranteed quality and delivery time
- smoother production. *Forward (customer)*: own retail outlets
- control over how the product is sold and priced
- higher sales and margin. Maximum 4 per benefit, 8 total. (General growth benefits such as "larger workforce" do not answer a *vertical* merger question.)

3.3

- *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **For** growth: economies of scale, market power, higher profit, survival. **Against**: diseconomies of scale (poor communication, weak motivation), high finance needed, harder management, culture clash in a takeover. Judgement: growth helps up to the optimum size, but beyond it average costs rise — so the best size depends on the market and the firm's ability to manage scale; "as large as possible" is rarely right