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

- the proportion of a firm's maximum possible output that it is actually producing, shown as a percentage (2 for a clear definition; 1 for a partial idea)

2.2

- $\frac{4000}{5000} \times 100 = 80\%$ (2; award 1 for a correct method with the wrong figure)

2.3

- paying another firm (a supplier) to do work the business used to do itself (2 for a clear definition; 1 for a partial idea)

3.1

- *[3]* **AO1** 1 — state a problem (high fixed cost per unit; idle machines and staff; lower profit). **AO2** up to 2 — develop it, e.g. the same rent and salaries are spread over fewer units
- higher cost per unit
- lower profit margin (2 developed / 1 limited)

3.2

- *[8]* For **each** of two benefits: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains — *lower cost*: a specialist supplier produces more cheaply
- the firm's costs fall
- higher profit or lower prices. *Focus and flexibility*: the firm concentrates on what it does best
- better core products
- and can scale output up or down without buying machines. Maximum 4 per benefit, 8 total

3.3

- *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. **For outsourcing:** it adds capacity without buying machines, meets extra demand, and keeps the firm flexible. **Against:** less control of quality, possible delays, and reliance on another firm. Judgement: outsourcing is sensible to handle demand the firm cannot meet at 100% capacity, but only with a reliable supplier and good quality checks — otherwise expanding its own capacity may be safer; it depends on how long the extra demand will last