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

- a general rise in the level of prices over time (2 for a clear definition; 1 for a partial idea)

2.2

- boom, recession, slump, recovery (2 for all four; 1 for a partial list)

2.3

- any one of: loans cost more, lowering profit; customers spend less, lowering demand; less new investment (2 for a developed point; 1 for a basic one)

3.1

- *[3]* **AO1** 1 — state an effect (falling demand; lower sales; cost-cutting; risk of closure). **AO2** up to 2 — develop it, e.g. in a recession customers have less income
- sales fall
- the firm may cut costs or staff to survive (2 developed / 1 limited)

3.2

- *[8]* **AO1** + **AO2** + **AO3** up to a developed chain on **two** effects. Example chains — *exports cheaper abroad*: the local currency falls
- the firm's prices abroad fall
- it sells more
- higher revenue. *Imported inputs dearer*: any imported materials cost more
- variable costs rise
- some of the export gain is offset. Maximum 8; reward a two-sided analysis

3.3

- *[12]* **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6. Options: **repay debt** to cut interest (but uses cash), **raise prices** (but may lose sales), **cut costs** (but may harm quality), **delay investment** (but may fall behind rivals). Judgement: the best response depends on how large the loans are, how price-sensitive demand is, and whether the rate rise is temporary — a firm with heavy debt may prioritise repaying or refinancing, while a strong firm may simply absorb the higher cost