

Past-paper walk-through

Costs, scale of production and break-even analysis ■ 4.2

eXercise

Questions in this set

- 0450/11 N25 Q3 ■ 20 marks
- 0450/12 N25 Q4 ■ 20 marks
- 0450/13 N24 Q1 ■ 20 marks
- 0450/11 J24 Q1 ■ 20 marks

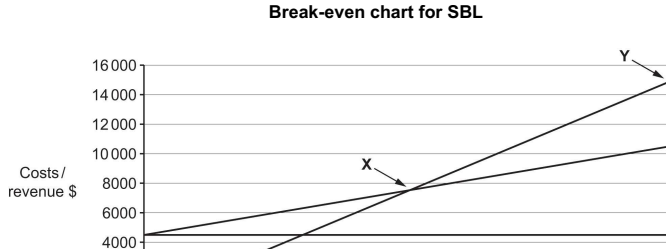
Reading the mark scheme

- **B1** a mark that stands on its own – the point is either made or not.
- **M1** a *method* mark: the right approach, even if the number is wrong.
- **A1** an *answer* mark, and it usually needs its M mark first.
- **C1** a working mark on the way to the answer.
- **//** separates answers the examiner accepts equally.
- **ecf** = error carried forward: a later part is marked on your own earlier answer.
- **owtte** = “or words to that effect” – the wording need not match.

Question 3

0450/11 N25 ■ Q3 ■ 20 marks

- 3 SBL is a fast food restaurant which sells 900 chicken burgers each week. It has 14 employees. The owner, Vicki, provides her employees with training but does not currently use delegation. She is preparing a break-even chart to help calculate SBL's margin of safety. A partially completed break-even chart is shown in Fig. 3.1. Vicki wants to know how an economic recession might affect her business.



Question 3

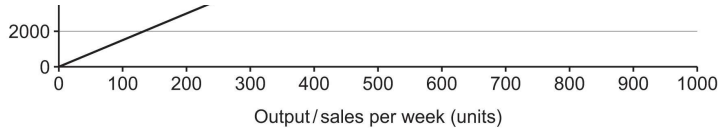


Fig. 3.1

(a) Identify **X** and **Y**.

Question 3

(b) Define 'margin of safety'.

Question 3

(c) Outline **two** advantages of Vicki delegating tasks to her employees.

Question 3

Question 3

(d) Explain **two** possible effects an economic recession might have on Vicki's business.

Question 3

Question 3

Question 3

Question 3

Question 3

Question 3

- (e) Explain **two** methods of training a business might use. Which is likely to be the best method for a service business to use? Justify your answer.

Solution 3

(a)

Mark scheme

- Identify X and Y.
- Award 1 mark for each correct answer.
- X: Break-even (point)
- Y: (Total) revenue
- 2 Only award the first response given for each.

Solution 3

(b) Mark scheme

- Define 'margin of safety'.
- Award 2 marks for a full definition. Award 1 mark for a partial definition.
- ■
- The difference between the current level of output/sales
- and break-even output/sales [2]
- ■
- The amount by which sales exceed the break-even

Solution 3

- point [2]
- Partial definition e.g.
- ■
- Difference between total output and break-even point [1]
- ■
- Number of units that exceed break-even output [1]
- 2
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- Guidance

Solution 3

(c) Mark scheme

- Outline two advantages of Vicki delegating tasks to her
- employees.
- Award 1 mark for each relevant advantage (max 2).
- Award 1 mark for each relevant reference to this business
- (max 2).
- Points might include:
 - ■
- Motivate employees [k] helping increase sales above

Solution 3

- 900 units [app]
- ■
- Develop employee skills / increase flexibility of
- workforce [k] when making burgers [app]
- ■
- Builds trust between the owner and her employees /
- better working relations [k]
- ■
- The owner cannot do all tasks alone / reduces her
- workload / she has time to focus on other tasks [k] such

Solution 3

- as completing the break-even chart [app]
 - ■
 - Quality of the owner's work is often improved / she is
 - less likely to make mistakes [k] at the restaurant [app]
 - ■
 - She can measure performance/success of employees
- k
- Other appropriate responses should be credited.
 - 4 To use words from the stem as application, the reference
 - must be appropriate (i.e. make sense) in relation to the point

Solution 3

- being made.
- The following words are likely to be appropriate for this
- question:
 - ■
 - (Fast) food/restaurant
 - ■
 - (Chicken) burgers
 - ■
 - 14 employees
 - ■

Solution 3

- 900 (meals a week)
- ■
- 500/break-even
- ■
- 400/margin of safety
- ■
- Training
- ■
- (Economic) recession
- Other appropriate examples can be credited.

Solution 3

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- Guidance

Solution 3

(d) Mark scheme

- Explain two possible effects of an economic recession
- on Vicki's business.
- Award 1 mark for identification of each relevant method
- (max 2).
- Award 1 mark for each relevant reference to this business
- (max 2).
- Award 1 mark for each relevant explanation (max 2).
- Points might include:

Solution 3

- ■
- Lower/fewer sales [k] leading to lower revenue [an] from
- selling burgers [app]
- ■
- May need to lower costs [k] as revenue is likely to be
- falling [an] for the restaurant [app]
- ■
- More workers available to select from [k] so may be
- able to lower labour costs [an] of the 14 employees

app

Solution 3

- ■
- Workers may be made redundant / reduce workforce /
- downsize [k] which could demotivate other workers [an]
- ■
- Low business confidence [k] so less willing/likely to
- invest [an]
- ■
- The business may fail / hard to survive [k] so may lose
- their investment [an]
- ■

Solution 3

- May have cash flow problems [k] so cannot pay day-to-
- day costs [an]
- ■
- May have to lower prices [k]
- ■
- May delay any expansion plans [k]
- ■
- Banks may not be willing to lend [k]
- ■
- May change objective to survival [k]

Solution 3

- ■
- Lower profit [k] so less funds to invest [an]
- Other appropriate responses should be credited.
- 6 To use words from the stem as application, the reference
- must be appropriate (i.e. make sense) in relation to the point
- being made.
- The following words are likely to be appropriate for this
- question:
- ■
- (Fast) food/restaurant

Solution 3

- ■
- (Chicken) burgers
- ■
- 14 employees
- ■
- Delegation
- ■
- 900 (meals a week)
- ■
- 500 (break-even output)

Solution 3

- ■
- 400 (margin of safety)
- Other appropriate examples can be credited.
- Some points can be [k] or [an] but only award once.
- Effects can be positive or negative, but mirror answers can
- only be credited once.
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- October/November 2025
- Guidance

Solution 3

(e) Mark scheme

- Explain two methods of training a business might use.
- Which is likely to be the best method for a service business to use? Justify your answer.
- Award up to 2 marks for identification of relevant points.
- Award up to 2 marks for relevant development of points.
- Award up to 2 marks for a justified decision as to which is likely to be the best method for a service business to use.
- Points might include:

Solution 3

- On-the-job training [k]
 - ■
- Being trained in the workplace [an]
 - ■
- Watching a more experienced worker doing the job [an]
 - ■
- Allows business specific training to be given [an]
 - ■
- Low(er) cost [an]
 - ■

Solution 3

- Some work completed during training [an]
- ■
- May learn bad habits from trainer [an]
- ■
- Trainer may not be as productive as usual [an]
- Off-the-job training [k]
- ■
- Being trained away from the workplace [an]
- ■
- Allows employees to be trained by experts [an]

Solution 3

- ■
- New/up-to-date skills/knowledge can be taught [an]
- ■
- High(er) cost [an]
- ■
- Wages paid but no work is being done [an]
- ■
- Induction training [k]
- ■
- Can help new employees understand / familiarise with

Solution 3

- the work/workplace/job role [an]
- ■
- New workers settle into their job quickly [an]
- ■
- Delays when start work [an]
- Other appropriate responses should be credited.
- 6 This is a general question so there are no marks for
- application.
- Points can refer to the business or employee.
- Analysis can be awarded for explaining the

Solution 3

- method/advantages/disadvantages of using the named
- method.
- Some points can be written as an advantage of one method,
- or a disadvantage of another - only award once.
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- October/November 2025
- Guidance
- Justification might include:
- On-the-job training [k] is where trainees watch a more
- experienced worker [an]. Alternatively, off-the-job training [k]

Solution 3

- will teach up to date skills [an]. Off-the-job training is the
- best method as the business is more likely to improve
- productivity by learning the ideas [eval] whereas on-the-job
- training may lead to employees picking up bad habits so
- would have limited value [eval].
- Guidance

Question 4

0450/12 N25 ■ Q4 ■ 20 marks

- 4 DJU manufactures clothing including jeans and trousers. There are 90 employees working in its factory. DJU uses specialisation when making its products. The Managing Director is reviewing DJU's cost and output data. An extract is shown in Table 4.1. She wants to know how lower interest rates might affect the business. DJU's directors are considering different ways a business could grow including taking over a competitor.

Table 4.1

Extract from DJU's cost and output data (per week)	
Fixed costs	\$400 000
Total costs	\$595 000
Total output	85 000 units

- (a) Define 'fixed costs'.

Question 4

(b) Calculate DJU's average cost per unit per week. Show your working.

Question 4

(c) Outline **two** ways lower interest rates might affect DJU.

Question 4

- (d) Explain **one** advantage and **one** disadvantage to DJU of using specialisation when making its products.

Question 4

Question 4

Question 4

Question 4

Question 4

Question 4

- (e) Do you think the advantages of taking over a competitor are greater than the disadvantages? Justify your answer.

Question 4

Solution 4

(a) Mark scheme

- Define 'fixed costs'.
- Award 2 marks for a full definition. Award 1 mark for a partial definition.
- ■
- Costs that do not change with the level of output/sales [2]
- ■
- Costs that do not vary in the short run with the number of items
- sold/produced [2]
- Partial definition e.g.

Solution 4

- ■
- Costs that do not change [1]
- 2 Do not award:
- ■
- Answers which confuse the term
- with variable costs.
- ■
- Examples.
- 0450/12
- October/November 2025

Solution 4

- Guidance

Solution 4

(b) Mark scheme

- Calculate DJU's average cost per week. Show your working.
- Award 2 marks for a correct answer. Award 1 mark for correct method but
- incorrect answer.
- Correct answer: \$7 or 7 [2]
- Correct method but incorrect answer e.g.
- ■
- $\text{Total cost (of production)} / \text{total output}$ [1]
- ■

Solution 4

- $\$595\,000 / 85\,000$ [1]
- If correct answer given with no working shown, award 2 marks.
- 2 Award only 1 mark if \$7 is written as part
- of the answer but is not given as the final
- answer.
- \$ sign not required.
- Max 1 if answer refers to 7 units.

Solution 4

(c) Mark scheme

- Outline two ways lower interest rates might affect DJU.
- Award 1 mark for each relevant way (max 2).
- Award 1 mark for each relevant reference to this business (max 2).
- Points might include:
 - ■
 - Increased demand/sales [k] for its clothing [app]
 - ■
 - Lower costs / cheaper to borrow money [k] for the factory [app]

Solution 4

- ■
- Encourage DJU to invest (more) in the business / more likely to apply for
- a loan [k] as the business is considering ways to grow [app]
- Other appropriate responses should be credited.
- 4 To use words from the stem as application,
- the reference must be appropriate (i.e.
- make sense) in relation to the point being
- made.
- The following words are likely to be
- appropriate for this question:

Solution 4

- ■
- Clothing or examples such as
- jeans/trousers
- ■
- 90 (employees)
- ■
- Factory
- ■
- Use specialisation
- ■

Solution 4

- Grow/expand the business / takeover
- a competitor
- ■
- \$595 000 (total costs per week)
- ■
- \$400 000 (fixed costs per week)
- ■
- 85 000 (units per week)
- ■
- \$7 (average cost) OFR applies

Solution 4

- Other appropriate examples can be
- credited.
- 0450/12
- October/November 2025
- Guidance

Solution 4

(d) Mark scheme

- Explain one advantage and one disadvantage to DJU of using
- specialisation when making its products.
- Award 1 mark for identification of each relevant advantage/disadvantage (max
- 2).
- Award 1 mark for each relevant reference to this business (max 2).
- Award 1 mark for each relevant explanation (max 2).
- Points might include:
- Advantages:

Solution 4

- ■
- Higher output/quantity produced [k] of clothing [app] so able to meet
- orders (on time) [an]
- ■
- Quicker/cheaper to train employees [k] so does not increase total cost
- costs [an] above \$595 000 (per week) [app]
- ■
- Increased efficiency [k] which can increase output / lead to less waste
- an in the factory [app]
- ■

Solution 4

- Employee should become a skilled/expert / employee can specialise in
- what they are good at [k] becoming more efficient in that task [an]
- ■
- Easier to use machinery to perform tasks [k] which can speed up
- production [an]
- ■
- Fewer mistakes/errors made / better quality [k] leading to fewer customer
- complaints / lower costs of production / better reputation / less waste [an]
- Disadvantages:
- ■

Solution 4

- Workers less motivated [k] of the 90 employees [app] so maybe more
- likely to leave the business / more errors [an]
- ■
- Workers cannot cover for absent colleagues / may be the only person
- who can do that task/job [k] which could mean manufacturing may stop /
- slow down [an]
- ■
- Need to train employees [k] increasing training costs / increased cash
- outflows [an]
- ■

Solution 4

- Not spread risk [k]
- Other appropriate responses should be credited.
- 6 To use words from the stem as application,
- the reference must be appropriate (i.e.
- make sense) in relation to the point being
- made.
- The following words are likely to be
- appropriate for this question:
- ■
- Clothing or examples such as jeans

Solution 4

- and trousers
- ■
- 90 (employees)
- ■
- Factory
- ■
- \$595 000 (total costs per week)
- ■
- \$400 000 (fixed costs per week)
- ■

Solution 4

- 85 000 (units per week)
- ■
- (Different ways a) business can
- grow/takeover a competitor
- ■
- Reduction in interest rates
- ■
- \$7 (average cost) OFR applies
- Other appropriate examples can be
- credited.

Solution 4

- Some points could be awarded as either k or $[an]$ but do not award the same point twice e.g. higher quality, efficient, fewer mistakes.
- Some $[an]$ can be used for different points but only award once.
- More sales/customers is $[an]$ only.
- Can award points about a business specialising in producing a single product.
- 0450/12

Solution 4

- October/November 2025
- Guidance

Solution 4

(e) Mark scheme

- Do you think the advantages of taking over a competitor are greater than
- the disadvantages? Justify your answer.
- Award up to 2 marks for identification of relevant points.
- Award up to 2 marks for relevant development of points.
- Award up to 2 marks for a justified decision as to whether the advantages of
- taking over a competitor are greater than the disadvantages.
- Points might include:
- Advantages:

Solution 4

- ■
- Reduced/less competition [k] increasing sales [an] AND/OR increase revenue [an]
- ■
- Gain brand name/image of competitor / better reputation [k] leading to increasing customer loyalty [an] AND/OR more sales [an]
- ■
- Economies of scale [k] leading to lower average/unit costs [an]
- ■
- Access new skills/expertise/resources/ideas (from other business) [k]

Solution 4

- ■
- More capacity/output [k] leading to possible economies of scale [an]
- Disadvantages:
 - ■
 - Increased costs [k] which the business might not be able to afford [an]
 - ■
 - Possible clash of management styles [k] leading to wrong decisions being
 - taken [an]
 - ■
 - Could demotivate employees [k] lowering efficiency [an]

Solution 4

- ■
- Difficult to coordinate [k] could lead to mistakes/errors [an]
- ■
- Poor communication [k] which could demotivate employees [an]
- ■
- Less choice for customers [k]
- Other appropriate responses should be credited.
- Justification might include:
- One advantage of a taking over a competitor is less competition [k] which
- could allow the business to increase prices [an]. However, there could be a

Solution 4

- high cost [k] which the business might not be able to afford [an]. The
- advantages are greater because the combination of less competition and
- higher prices may lead to higher revenue [eval] which may help cover the
- costs of the takeover [eval].
- 6 This is a general question so there are no
- marks for application.
- To access evaluation must refer to both an
- advantage and disadvantage.
- For evaluation to be awarded justification
- will usually follow on from relevant analysis

Solution 4

- of points.
- Some points could be awarded as [k] or an , but only award once.
- Can accept economies and diseconomies
- of scale where no specific examples given.
- Do not award:
 - ■
- Answers about monopolies.
- ■
- Answers about forward/backward

Solution 4

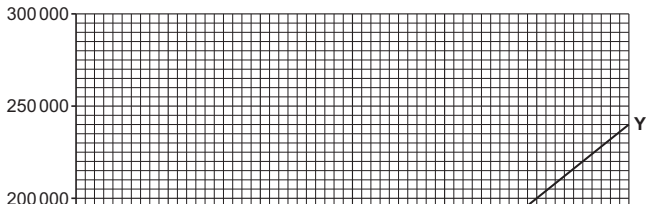
- integration.

Question 1

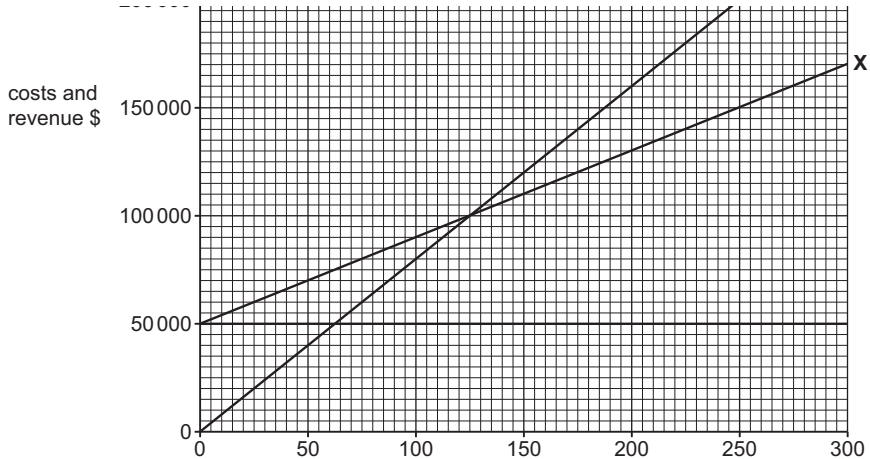
0450/13 N24 ■ Q1 ■ 20 marks

- 1 BPT manufactures bicycles in country A. It uses batch production. The Operations Director is preparing a break-even chart for one of BPT's bicycles, as shown in Fig. 1.1. The directors are considering ways to lower BPT's break-even level of output. BPT imports 60% of its raw materials and exports its bicycles to 8 countries. The Managing Director wants to know how a depreciation in country A's exchange rate and the introduction of import tariffs might affect BPT.

Partly completed break-even chart for one of BPT's bicycles



Question 1



Question 1

output in units

Fig. 1.1

- (a) Identify the lines labelled **X** and **Y** in Fig. 1.1.

Question 1

Question 1

Question 1

Question 1

(b) Define 'import tariff'.

Question 1

(c) Outline **two** ways BPT could lower its break-even level of output.

Question 1

(d) Explain **two** ways a depreciation in country A's exchange rate might affect BPT.

Question 1

- (e) Do you think batch production is the best method of production for a business to use? Justify your answer.

Question 1

Solution 1

(a)

Mark scheme

- Identify the lines labelled X and Y in Fig. 1.1.
- Award 1 mark for each correct answer (max 2).
- X – Total cost(s)
- Y – Total revenue
- 2 Only award the first response given for
- each answer.

Solution 1

(b) Mark scheme

- Define 'import tariff'.
- Award 2 marks for a full definition. Award 1 mark for a partial definition.
- A tax placed on imported goods when they arrive into a country [2]
- Partial definition e.g. type of tax [1]
- OR Tax on imported goods [1]
- Other appropriate responses should be credited.
- 2

Solution 1

(c) Mark scheme

- Outline two ways BPT could lower its break-even level of output.
- Award 1 mark for each relevant way (max 2).
- Award 1 mark for each relevant reference to this business (max 2).
- Points might include:
 - ■
 - Increase price [k] of its bicycles [app]
 - ■
 - Lower fixed cost or examples e.g. reduce rent [k] below \$50 000 [app]

Solution 1

- ■
- Lower variable / raw material costs [k] so may consider importing more
- than 60% [app]
- Other appropriate responses should be credited.
- 4 To use words from the stem as application,
- the reference must be appropriate (i.e.
- make sense) in relation to the point being
- made.
- The following words are likely to be
- appropriate for this question:

Solution 1

- ■
- Bicycles or related words e.g. chain,
- gears
- ■
- 60% / import (raw materials)
- ■
- \$50 000 (total fixed costs)
- ■
- 125 (break-even output)
- ■

Solution 1

- (Export to) 8 countries
- ■
- Batch production
- Other appropriate examples can be
- credited.
- 0450/13
- October/November 2024
- Notes

Solution 1

(d) Mark scheme

- Explain two ways a depreciation in country A's exchange rate might
- affect BPT.
- Award 1 mark for identification of each relevant way (max 2).
- Award 1 mark for each relevant reference to this business (max 2).
- Award 1 mark for each relevant explanation (max 2).
- Points might include:
 - ■
 - Increased cost of imports [k] which would increase break-even

Solution 1

- output / increase in price [an] of bicycles [app]
- ■
- Exports appear cheaper [k] which may increase demand/sales [an] in the
- 8 countries [app]
- ■
- May have to find alternative/cheaper suppliers [k] as imports its raw
- materials [app] which could take time / lead to production delays [an]
- Other appropriate responses should be credited.
- 6 To use words from the stem as application,
- the reference must be appropriate (i.e.

Solution 1

- make sense) in relation to the point being
- made.
- The following words are likely to be
- appropriate for this question:
 - ■
 - Bicycles or related words e.g. chain,
 - gears
 - ■
 - 60% (of raw materials are imported)
 - ■

Solution 1

- 125 (break-even output)
- ■
- \$50 000 (fixed costs)
- ■
- 8 countries
- Other appropriate examples can be
- credited.

Solution 1

(e) Mark scheme

- Do you think batch production is the best method of production for a
- business to use? Justify your answer.
- Award up to 2 marks for identification of relevant points.
- Award up to 2 marks for relevant development of points.
- Award up to 2 marks for a justified decision as to whether batch production is
- the best method of production for a business to use.
- Points might include:
- Batch production:

Solution 1

- ■
- (Some) flexibility [k] so can change what to make / quickly adapt to meet
- customer demands [an]
- ■
- Production may not be greatly affected if machinery breaks down [k], so
- some output made [an]
- ■
- Variety/range of products made [k] which could widen its customer
- base / help spread risk [an]
- 6 This is a general question so there are no

Solution 1

- marks for application.
- Some points can be awarded as [k] or [an]
- but do not award the same point twice.
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- October/November 2024
- Notes
- ■
- Can motivate workers [k] leading to less absenteeism / lower labour turnover

an

- ■

Solution 1

- Time lost switching/resetting machines between batches [k] could lead to
- lost output / lower efficiency / lower productivity [an]
- ■
- Need to move/store semi-finished goods [k] increased storage costs [an]
- ■
- One fault could affect entire batch [k] leading to waste [an]
- Flow production [k]
- ■
- High output [an]
- ■

Solution 1

- Likely to benefit from (purchasing) economies of scale / discounts for bulk
- purchasing [an] reducing average costs [an]
- ■
- Capital intensive methods can be used / fewer employees needed [an]
- lowering wage cost [an]
- ■
- If one machine breaks down the whole production line will stop [an]
- ■
- High set up costs [an]
- ■

Solution 1

- Inflexible (if demand changes) [an]
- Job production [k]:
- ■
- Unique / meet exact customer needs [an] which can help brand loyalty

an

- ■
- Can charge higher price [an] which may increase profit margin [an]
- ■
- Skilled labour needed [an] which increases labour costs [an]
- ■

Solution 1

- No economies of scale [an] leading to higher average cost [an]
- ■
- Production can take a long time [an] lowering potential output [an]
- ■
- Costs are higher as it is labour intensive [an]
- ■
- Mistakes can be expensive to correct [an]
- Other appropriate responses should be credited.
- 0450/13
- October/November 2024

Solution 1

- Notes
- Justification might include:
- Batch production is flexible [k] so can change what is made quickly to adapt to
- customer demands [an]. An alternative is flow production [k] which allows for
- high levels of output [an]. Batch production is the best method because there
- is limited value in producing a high level of output if there is no demand [eval].
- Being able to adapt to changes in customer demand is likely to be more
- important to ensure customer loyalty / revenue. [eval]
- 0450/13
- October/November 2024

Solution 1

- Notes

Question 1

0450/11 J24 ■ Q1 ■ 20 marks

- 1 FBM is a boat building business. It has 100 skilled employees. The Operations Director is concerned that FBM holds a high level of inventory. She is also concerned that the business is starting to experience diseconomies of scale. The Finance Director has been asked to analyse FBM's cost and output data. An extract is shown in Table 1.1.

Table 1.1

Extract from FBM's cost and output data	
Variable costs per unit	\$5000
Fixed costs per year	\$600 000
Number of boats made each year	300

- (a) Define 'diseconomies of scale'.

Question 1

(b) Identify **two** ways a business can use cost data to help make decisions.

Question 1

(c) Identify **four** fixed costs a business might have.

Question 1

(d) Explain **one** advantage and **one** disadvantage to FBM of holding a high level of inventory.

Question 1

- (e) Do you think customers have a more important role in the success of a business than its employees? Justify your answer.

Solution 1

(a) Mark scheme

- Define 'diseconomies of scale'.
- Award 2 marks for a full definition. Award 1 mark for a partial definition.
- Factors that lead to an increase in average costs as a business grows beyond a certain size [2]
- OR
- Factors that cause average costs to increase as the scale of operations increases [2]

Solution 1

- OR
- The disadvantages of a business growing (too large) that
- result in an increase in costs per unit [2]
- Partial definition e.g. when costs increase because business
- grows [1]
- OR increase in average unit cost [1]
- 2 For two marks candidates must have the idea that 'business
- grows' and it 'increases average/unit costs'.
- Do not award examples as this does not define the term.

Solution 1

(b) Mark scheme

- Identify two ways a business can use cost data to help
- make decisions.
- Award 1 mark for each relevant way (max 2).
- Points might include:
 - ■
 - Setting prices
 - ■
- Decide whether to stop/continue production/change

Solution 1

- production
- ■
- Decide on the best location
- ■
- Decide if finance is required/set budgets
- ■
- Decide which costs need to be reduced/whether to
- change suppliers
- ■
- Setting objectives

Solution 1

- Other appropriate responses should be credited.
- 2 Only award the first two responses given.
- Allow 'carry out break-even analysis'.
- 0450/11
- May/June 2024
- Notes

Solution 1

(c) Mark scheme

- Identify four fixed costs a business might have.
- Award 1 mark per fixed cost (max 4).
- Points might include:
 - ■
 - Rent/rates/storage costs
 - ■
 - Insurance
 - ■

Solution 1

- Advertising
 - ■
- Salaries
 - ■
- Interest (on loans)/finance payments
 - ■
- Cleaning/maintenance
- Other appropriate responses should be credited.
- 4 Only award the first four responses given.
- Do not award: wages/direct labour costs.

Solution 1

- Allow heating/lighting/electricity/water/utilities once.
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Solution 1

(d) Mark scheme

- Explain one advantage and one disadvantage to FBM of
- holding a high level of inventory.
- Award 1 mark for identification of each relevant reason (max
- 2).
- Award 1 mark for each relevant reference to this business
- (max 2).
- Award 1 mark for each relevant explanation (max 2).
- Points might include:

Solution 1

- Advantages:

- ■

- Maintain production [k] so able to meet orders on time

an of boats [app]

- ■

- Benefit from (purchasing) economies of scale [k] leading

- to lower average/unit cost [an]

- ■

- Able to respond quickly to unexpected order [k]

- increasing customer loyalty [an]

Solution 1

- Disadvantages:
 - ■
 - Space needed to store products [k] increasing (storage)
 - costs [an] so costs increase above \$600 000 [app]
 - ■
 - Cash/money tied up in inventory [k] leading to cash
 - flow/liquidity problems [an]
 - ■
 - Risk of damage/waste[k]
 - ■

Solution 1

- Opportunity cost [k]
- ■
- Insurance [k]
- Other appropriate responses should be credited.
- 6 To use words from the stem as application, the reference
- must be appropriate (i.e. make sense) in relation to the point
- being made.
- The following words are likely to be appropriate for this
- question:
- ■

Solution 1

- Boat (building) or related words
- ■
- 100 employees
- ■
- Skilled (workers)
- ■
- Diseconomies of scale
- ■
- \$5000 (variable cost)
- ■

Solution 1

- \$600 000 (fixed costs)
- ■
- 300 (boats)
- ■
- Total cost 2 100 000
- Other appropriate examples can be credited.
- The same analysis can be used for different points but only
- award once.
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Solution 1

- Notes

Solution 1

(e) Mark scheme

- Do you think customers have a more important role in
- the success of a business than its employees? Justify
- your answer.
- Award up to 2 marks for identification of relevant points.
- Award up to 2 marks for relevant development of points.
- Award up to 2 marks for a justified decision as to whether
- customers have a more important role in the success of a
- business than its employees.

Solution 1

- Points might include:
- Customers:
 - ■
 - Buy the products [k] and if ignores their needs the
 - business will lose revenue/won't survive [an]
 - ■
 - Can share opinions to help improve products [k] which
 - can help increase market share [an]
 - ■
 - Provide recommendations/word of mouth advertising [k]

Solution 1

- Employees:

- ■

- Make the products [k] otherwise there is nothing to sell

an

- ■

- Employees can affect quality [k] which could

- damage/improve its reputation [an]

- ■

- Employees provide customer service [k] which is

- important for brand image [an]

Solution 1

- ■
- Without sufficient employees the business may not be
- able to meet demand [k]
- ■
- Workers can be replaced by machines [k]
- Other appropriate responses should be credited.
- 6 This is a general question so there are no marks for
- application.
- For evaluation to be awarded justification will usually follow
- on from relevant analysis of points.

Solution 1

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- Justification might include:
 - Customers are important, they buy the products [k] which
 - generates revenue [an]. Employees make the goods [k]
 - without them, there is nothing to sell [an]. However,
 - customers are more important as without revenue, the
 - business cannot cover its costs and survive in long term

eval . A business can use automation reducing the

Solution 1

- importance of employees [eval].
- Notes