Past-paper walk-through

Business finance: needs and sources ▪ 5.1

eXercise

Questions in this set

- 0450/12 J25 Q3 ▪ 20 marks
- 0450/21 J25 Q3 ▪ 20 marks
- 0450/23 J25 Q3 ▪ 20 marks
- 0450/11 N24 Q2 ▪ 20 marks
- 0450/21 N24 Q4 ▪ 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

0450/12 J25 ▪ Q3 ▪ 20 marks

3 Hal wants to be a successful entrepreneur. He plans to leave his job to start up a bakery. The bakery will operate in the private sector. The business will have many stakeholder groups. Hal has been told it is important for a new business to select an appropriate source of start-up capital. He also knows new businesses are at a greater risk of failure.

(a) Define ‘private sector’.

Question 3

(b) Identify **two** reasons why new businesses are at a greater risk of failure.

Question 3

Question 3

Question 3

Question 3

(c) Identify **four** stakeholder groups a business might have.

Question 3

Question 3

Question 3

Question 3

Question 3

Question 3

Question 3

Question 3

(d) Explain **two** characteristics Hal will need to become a successful entrepreneur.

Question 3

Question 3

Question 3

Question 3

Question 3

Question 3

(e) Do you think a bank loan is the best source of start-up capital for a new business? Justify your answer.

Solution 3

(a) Mark scheme

- Define 'private sector'.
- Award 2 marks for a full definition. Award 1 mark for a partial
- definition.
- ▪
- (When business activities are) owned by individuals [2]
- ▪
- (The part of the economy that is) controlled by
- individuals and companies for profit [2]

Solution 3

- Partial definition e.g.
- ▪
- Not government/state controlled [1]
- ▪
- Run/controlled by individuals [1]
- 2
- 0450/12
- May/June 2025
- Guidance

Solution 3

(b) Mark scheme

- Identify two reasons why new businesses are at a
- greater risk of failure.
- Award 1 mark for each reason (max 2).
- Points might include:
- ▪
- Lack of finance/(start-up) capital
- ▪
- Cash flow problems/lack of liquidity

Solution 3

- ▪
- Level of competition/market already saturated
- ▪
- Lack/low level of customers/demand/sales/lack of
- customer loyalty
- ▪
- Poor planning/no business plan/lack of objectives
- ▪
- Lack of (managerial/business) experience/skills
- ▪

Solution 3

- Inadequate/no market research/poor marketing
- ▪
- No/low reputation/brand awareness/brand image
- Other appropriate responses should be credited.
- 2 Only award the first two responses given.

Solution 3

(c) Mark scheme

- Identify four stakeholder groups a business might have.
- Award 1 mark for each stakeholder group (max 4).
- Points might include:
- ▪
- Employees/workers
- ▪
- Managers/directors
- ▪

Solution 3

- Owners/shareholders
- ▪
- Suppliers
- ▪
- Lenders/banks
- ▪
- Government
- ▪
- Local community
- ▪

Solution 3

- Customers
- Other appropriate responses should be credited.
- 4 Only award the first four responses given.
- 0450/12
- May/June 2025
- Guidance

Solution 3

(d) Mark scheme

- Explain two characteristics Hal will need to become a
- successful entrepreneur.
- Award 1 mark for identification of each relevant
- characteristic (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

- ▪
- Risk-taking [k] especially as plans to leave his job [app]
- because the owner may lose their investment [an]
- ▪
- Hard-working [k] as must be ready to do everything on
- own/as may have to work long hours [an] to set up his
- bakery [app]
- ▪
- Creative [k] as having (new) ideas can help gain
- customers [an] for his private sector business [app]

Solution 3

- ▪
- Effective communicator/persuasive [k] with his
- stakeholders [app] as may need to convince its
- banks/suppliers/customers to lend/provide/buy goods

an

- ▪
- Perseverance/determination/resilience/self-motivated [k]
- so needs to be prepared to keep going when faced with
- problems [an]
- ▪

Solution 3

- Optimistic [k] so always think they will/can succeed [an]
- ▪
- (Self-) confident [k] so convince people/banks to invest

an

- ▪
- Independent [k] as be able to work without any help [an]
- ▪
- Innovative [k]
- Other appropriate responses should be credited.
- 6 To use words from the stem as application, the reference

Solution 3

- 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:
- ▪
- Leave his job
- ▪
- Start-up/new business
- ▪
- Bakery or examples e.g. cakes, recipes

Solution 3

- ▪
- Private sector
- ▪
- Stakeholder (groups)
- Other appropriate examples can be credited.
- To access knowledge must identify a recognised
- characteristic.
- 0450/12
- May/June 2025
- Guidance

Solution 3

(e) Mark scheme

- Do you think a bank loan is the best source of start-up
- capital for a new business? 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 a
- bank loan is the best source of start-up capital for a new
- business.
- Points might include:

Solution 3

- Bank loan
- ▪
- Quick to arrange [k] so does not delay plans/so can pay
- bills on time [an]
- ▪
- Must pay interest [k] increasing costs/expenses/cash
- outflows [an]
- ▪
- Must repay [k]
- ▪

Solution 3

- Able to obtain large/full amount [k]
- ▪
- May need security/collateral [k] which may not be
- available for a start-up / so personal assets may be at
- risk [an]
- Other methods could include:
- ▪
- Own savings [k] as no need to repay [an]
- ▪
- Borrow from friends/family [k] as may give long time to

Solution 3

- repay [an]
- ▪
- Overdraft [k] can arrange quickly/only pay interest when
- used [an]
- ▪
- Government grant [k] which has no interest [an]
- ▪
- Crowdfunding [k] but no guarantee can raise full amount

an

- Other appropriate responses should be credited.

Solution 3

- 6 This is a general question so there are no marks for
- application.
- Some points analysis can be advantages and/or
- disadvantages for different sources but only award the same
- point once.
- For evaluation to be awarded justification will usually follow
- on from relevant analysis of points.
- 0450/12
- May/June 2025
- Guidance

Solution 3

- Justification might include:
- One advantage of a bank loan is it is quick to arrange [k] so
- does not delay plans/ability to pay bills straightaway [an].
- Another source is own savings [k] because there is no need
- to repay [an]. A bank loan is the best source because speed
- means they do not miss out on the opportunity whereas it
- can take time to build up enough savings [eval], and by the
- time they do, there may be insufficient demand [eval].
- Guidance

Question 3

0450/21 J25 ▪ Q3 ▪ 20 marks

3 **(a)** Explain **two** advantages and **two** disadvantages to a business of using a bank loan as a source of finance.

Question 3

Question 3

Question 3

Question 3

[8]

(b) Consider the advantages and disadvantages of the following **three** methods of promotion PF could use for its new product range. Which is likely to be the best method for PF to use to increase sales? Justify your answer.

- Leaflets handed out in the street
- Billboards on the side of a main road
- Discounts on first purchase

Question 3

Question 3

[12]

Solution 3

(a) Mark scheme

- Explain two advantages and two disadvantages to a business of using a
- bank loan as a source of finance.
- Award 1 mark for each advantage/disadvantage (max 2 advantages/max 2
- disadvantages).
- Award a maximum of 1 additional mark for each explanation of the
- advantage/disadvantage.
- There are no application marks for this question.
- Relevant advantages might include:

Solution 3

- ▪
- Usually quick to arrange – if already a customer of the bank, then will
- already be familiar with the business' bank records
- ▪
- Can be for a varying length of time – the monthly repayment will be lower
- if a longer period of time is taken to repay the loan
- ▪
- If interest rate is fixed when loan taken out, then this fixes the repayments
- / know repayments cannot be increased – expenses for loan repayments
- will not increase so easier to plan

Solution 3

- ▪
- Paid back in instalments usually monthly – so can budget for the
- repayments in the cash flow forecast
- ▪
- Keeps control of the business which will not be true if share capital is
- used instead to raise the finance required
- ▪
- Lower interest rates may be offered to larger businesses – as lower risk
- of not repaying so repayments will be lower
- Relevant disadvantages might include:

Solution 3

- ▪
- Interest will be added to the repayments – increasing expenses for the
- business
- ▪
- Security/collateral may be required – may lose personal assets if the loan
- is not repaid
- ▪
- The loan needs to be repaid – which could negatively affect cash flow /
- liquidity
- ▪

Solution 3

- If variable rate agreed, then interest rate may be increased during the
- repayment period – increasing expenses for the business
- For example: The loan can be for varying length of time (1) so the monthly
- repayment will be lower if a longer period of time is taken to repay the loan
- and therefore easier to afford (1).
- 8
- 0450/21
- May/June 2025

Solution 3

(b) Mark scheme

- Consider the advantages and disadvantages of the following three
- methods of promotion PF could use for its new product range. Which is
- likely to be the best method for PF to use to increase sales? Justify
- your answer.
- ▪
- Leaflets handed out in the street
- ▪
- Billboards on the side of a main road

Solution 3

- ▪
- Discounts on first purchase
- Level
- Description
- 3
- Sound application of knowledge and understanding of
- relevant business concepts using appropriate
- terminology.
- Detailed discussion of at least two methods of
- promotion.

Solution 3

- Well-justified conclusion.
- Candidates discussing all three methods of promotion
- in detail, in context and with a well-justified
- conclusion, including why the alternative methods of
- promotion were rejected, should be rewarded with the
- top marks in the band.
- 9–12
- 2
- Sound application of knowledge and understanding of
- relevant business concepts using appropriate

Solution 3

- terminology.
- Detailed discussion of at least one method of
- promotion.
- Judgement with some justification/some evaluation of
- choice made.
- Candidates discussing two or more methods of
- promotion in detail and applying them to the case
- should be rewarded with the top marks in the band.
- 5–8
- 1

Solution 3

- Limited application of knowledge and understanding
- of relevant business concepts.
- Limited ability to discuss the methods of promotion
- with little/no explanation.
- Simple judgement with limited justification/limited
- evaluation of choice made.
- Candidates outlining the three methods of promotion
- in context should be rewarded with the top marks in
- the band.
- 1–4

Solution 3

- 0
- No creditable response
- 0
- 12
- 0450/21
- May/June 2025
- Relevant points might include:
- Advantages
- Disadvantages
- Leaflets

Solution 3

- handed out
- in the street
- ▪
- A cheap method of
- advertising shoes –
- keeps marketing budget
- costs lower
- ▪
- Can be given out to a
- wide range of people –

Solution 3

- may attract potential
- customers who may not
- otherwise see the
- advertisement
- ▪
- Can be kept for future
- reference – so are more
- likely to remember the
- details of the rubber
- shoes – and may

Solution 3

- therefore be more likely
- to make a purchase in
- the future
- ▪
- May not be read – and
- just thrown away in the
- street – wasted cost of
- producing the leaflets
- ▪
- May be seen as junk and

Solution 3

- can be annoying for
- potential customer of
- shoes – so ignore it and
- not make a purchase
- ▪
- May lead to litter and
- cause pollution in the
- streets leading to a bad
- reputation for PF
- Billboards

Solution 3

- on the side
- of a main
- road
- ▪
- A permanent form of
- advertising for a period
- of time – more likely to
- be seen more than once
- and therefore attract the
- attention of passers by

Solution 3

- ▪
- They can potentially be
- seen by a large number
- of people – walking or
- driving past the billboard
- – may attract the
- attention of many
- potential customers
- ▪
- Can easily be missed –

Solution 3

- especially if the person is
- driving by and
- concentrating on the
- road/traffic
- ▪
- No detailed information
- about the sustainable
- sources of raw
- materials can be
- included in the billboard

Solution 3

- – as only large writing
- can be seen, and so only
- brief general message
- can be on the billboard
- ▪
- Possibly higher cost of
- advertising compared to
- the other two for the
- shoe manufacturer
- 0450/21

Solution 3

- May/June 2025
- Advantages
- Disadvantages
- Discounts
- on first
- purchase
- ▪
- Discounts make the
- shoes more affordable –
- which can encourage

Solution 3

- potential customers to
- make the first purchase –
- may be tempted to buy
- when otherwise wouldn't
- – increasing sales
- ▪
- Lower price may make
- them more competitive –
- increasing sales of the
- new product in this

Solution 3

- competitive market
- ▪
- Business receives a
- lower price than
- otherwise would – lower
- profit margin
- ▪
- Unless the discount is
- quite high then may not
- be sufficient to

Solution 3

- encourage potential
- customers to purchase
- new shoes
- Conclusion Justification could include:
-
  -
- Leaflets handed out in the street will be the most
- effective because they can be kept by potential
- customers and reminded of the shoes so a purchase can
- be made later. The name of the product and where it can
- be purchased will not be forgotten so sales are likely to

Solution 3

- increase. Billboards will be less effective as they can
- easily be missed as people go past them and a discount
- will only be effective if it is a large discount, which will
- significantly reduce PF's profit margin.
- ▪
- Billboards on the side of the road will be the most
- effective way to increase sales because it will be seen
- every day by a large number of people passing by and if
- the billboard is attractive, it will draw the attention of
- many potential customers leading to higher sales of

Solution 3

- shoes.
- ▪
- Discounts on the first purchase will be the most effective
- way to increase sales because it will lower the price of
- the rubber shoes making them more affordable and
- encourage the customer to make the purchase. If they
- like the sustainability of the raw materials used, then
- they will come back and be a regular customer of the
- business.
- 0450/21

Solution 3

- May/June 2025

Question 3

0450/23 J25 ▪ Q3 ▪ 20 marks

3 **(a)** Explain **four** sources of external finance a business could use.

Question 3

Question 3

Question 3

Question 3

[8]

(b) Consider why the profitability and liquidity ratios for her restaurant will be important to Jemi. Which is likely to be the most important for the success of Jemi's restaurant? Justify your answer.

Question 3

Question 3

[12]

Solution 3

(a) Mark scheme

- Explain four sources of external finance a business could use.
- Award 1 mark for each source of external finance (max 4).
- Award a maximum of 1 additional mark for each explanation of the source of
- external finance.
- There are no application marks for this question.
- Sources of external finance might include:
- ▪
- Bank loans

Solution 3

- ▪
- Bank overdraft
- ▪
- Grants (or subsidies) from government
- ▪
- Sale of shares
- ▪
- Hire purchase
- ▪
- Leasing

Solution 3

- ▪
- Trade credit
- ▪
- Micro-finance
- ▪
- Crowdfunding
- ▪
- Mortgage
- For example: Bank loan (1) is a fixed sum of money borrowed for a set-period
- of time / repaid in monthly instalments (1).

Solution 3

- 8
- 0450/23
- May/June 2025

Solution 3

(b) Mark scheme

- Consider why the profitability and liquidity ratios for her restaurant will
- be important to Jemi. Which is likely to be the most important for the
- success of Jemi's restaurant? Justify your answer.
- ▪
- Profitability ratios
- ▪
- Liquidity ratios
- Level

Solution 3

- Description
- 3
- Sound application of knowledge and understanding of
- relevant business concepts using appropriate
- terminology.
- Detailed discussion of both profitability and liquidity.
- Well-justified conclusion.
- Candidates discussing both profitability and liquidity in
- detail, in context and with a well-justified conclusion,
- including why the alternative was rejected, should be

Solution 3

- rewarded with the top marks in the band.
- 9–12
- 2
- Sound application of knowledge and understanding of
- relevant business concepts using appropriate
- terminology.
- Detailed discussion of either profitability or liquidity.
- Judgement with some justification/some evaluation of
- choice made.
- Candidates discussing profitability and/or liquidity in

Solution 3

- detail and applying it to the case should be rewarded
- with the top marks in the band.
- 5–8
- 1
- Limited application of knowledge and understanding of
- relevant business concepts.
- Limited ability to discuss the profitability and liquidity
- with little/no explanation.
- Simple judgement with limited justification/limited
- evaluation of choice made.

Solution 3

- Candidates outlining profitability and liquidity in
- context should be rewarded with the top marks in the
- band.
- 1–4
- 0
- No creditable response
- 0
- 12
- 0450/23
- May/June 2025

Solution 3

- Relevant points could include:
- Profitability
- ratios
- ▪
- Shows the measure of profit made for the value of sales
- achieved – profit is just a measure of amount made from
- sales – but profitability can show the amount of profit
- made on each meal sold
- ▪
- Can use gross profit margin which can show if the

Solution 3

- business is keeping its cost of ingredients under control
- or if Jemi needs to manage her cost of sales more
- carefully
- ▪
- Can use profit margin to show whether the restaurant
- business is keeping expenses under control
- ▪
- Can be used to compare with other businesses – to see
- why there are differences
- ▪

Solution 3

- Compare with different years to see if the business will
- be operating more or less profitably – how well costs are
- being managed over time
- ▪
- Can be used to compare the profit relative to the capital
- of $50 000 to buy the franchise invested in the business
- using the measure of ROCE – is an indicator for Jemi
- whether the business is worth investing in or not
- Liquidity
- ratios

Solution 3

- ▪
- Shows the ability of the restaurant to pay back its short-
- term debts – if these debts cannot be paid back then the
- business may be illiquid and may have to cease trading
- ▪
- Measured using the current ratio to show the amount of
- current assets to current liabilities – ratio should be about
- 1.5 to 2 to be at a satisfactory level so the business has
- up to twice as many current assets to current liabilities
- and can comfortably pay its short-term debts such as to

Solution 3

- suppliers of ingredients
- ▪
- Can also be measured using the acid test ratio to show
- an ability of a business to pay its short-term debts not
- including inventory – a measure around or just below 1 is
- a satisfactory level that shows that a business should be
- able to pay its short-term debts even if it cannot quickly
- turn inventories into cash
- ▪
- It can be used to indicate whether the business needs to

Solution 3

- hold less inventory if it has a low acid test ratio then it
- may be holding too much inventory
-
  -
- It can also be used if Jemi needs to borrow as banks can
- assess the risk of lending to the vegan restaurant and
- whether it is likely to repay the loan / whether to grant the
- loan
- 0450/23
- May/June 2025
- Conclusion Justification might include:

Solution 3

- ▪
- Profitability will be most important as it will tell Jemi if she
- is getting a good return for her investment in the vegan
- restaurant business. If the return is low, then she may
- be better saving her money in the bank where there will
- be less risk of losing it all. As long as she manages her
- cash flow forecast carefully then liquidity should not be a
- problem and will be less important.
- ▪
- Liquidity will be most important as if the business is not

Solution 3

- liquid then Jemi will not be able to pay her debts and
- trade payables will force her to close the restaurant and
- sell the assets to repay the debts owed.
- 0450/23
- May/June 2025

Question 2

0450/11 N24 ▪ Q2 ▪ 20 marks

2 Mitchell is an entrepreneur. He wants to start up a business selling books. As part of his business plan Mitchell has carried out some market research. An extract is shown in Fig. 2.1. Mitchell will use microfinance as a source of finance. He wants to know whether the opportunities of using ecommerce for a new business are greater than the threats.

Extract from Mitchell's market research data for 2023

Chart 1: Type of people reading books

Chart 2: Book sales by type (million)

Question 2

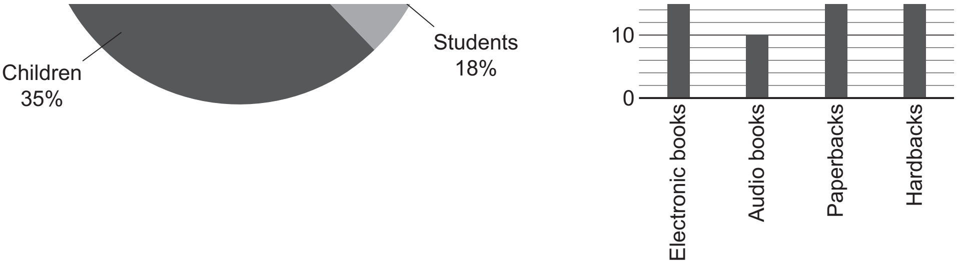

Fig. 2.1

(a) Define 'entrepreneur'.

Question 2

(b) Define ‘business plan’.

Question 2

(c) Outline **one** advantage and **one** disadvantage to Mitchell of using microfinance as a source of finance.

Question 2

(d) Explain how the market research data in Chart 1 and Chart 2 in Fig. 2.1 could help Mitchell when making decisions.

Question 2

(e) Do you think the opportunities of ecommerce for a new business are greater than the threats? Justify your answer.

Question 2

Solution 2

(a) Mark scheme

- Define ‘entrepreneur’.
- Award 2 marks for a full definition. Award 1 mark for a partial
- definition.
- A person who organises, operates and takes the risk for a
- new business venture [2]
- OR
- An individual who takes the (financial) risk of starting a new
- business [2]

Solution 2

- OR
- A person who combines factors of production to start a
- business [2]
- OR
- An individual who takes the risk by combining factors of
- production [2]
- Partial definition e.g. a person who starts/sets up a business

1

- 2 Do not award:
- Answers such as managing a business or answers which

Solution 2

- identify the skills of an entrepreneur on its own.
- 0450/11
- October/November 2024
- Notes

Solution 2

(b) Mark scheme

- Define ‘business plan’.
- Award 2 marks for a full definition. Award 1 mark for a partial
- definition.
- A document containing the business aims/objectives and
- important details about the operations, finance and owners
- of a business. [2]
- OR
- A detailed written document outlining the purpose and aim

Solution 2

- of a business which is often used to persuade lenders or
- investors to finance a business proposal. [2]
- OR
- States aims and/or objectives and show how business plans
- to achieve them. [2]
- Partial definition e.g. a document stating the aims of the
- business [1]
- OR A document containing details about the operations,
- finance and owners of a business.[1]
- 2

Solution 2

- 0450/11
- October/November 2024
- Notes

Solution 2

(c) Mark scheme

- Outline one advantage and one disadvantage to Mitchell
- of using microfinance as a source of finance.
- Award 1 mark for each relevant advantage/disadvantage
- (max 2).
- Award 1 mark for each relevant reference to this business
- (max 2).
- Points might include:
- Advantages:

Solution 2

- ▪
- Do not need a good credit record/history [k] for this
- retailer [app]
- ▪
- Less paperwork/no business plan required [k] for this
- new entrepreneur [app]
- ▪
- No need to provide security/collateral [k] which can help
- as it is a start-up business [app]
- Disadvantages:

Solution 2

- ▪
- Only for a small amount [k] so cannot buy many books

app

- ▪
- Usually high interest rates (as low/poor credit rating) [k]
- Other appropriate responses should be credited.
- 4 To use words from the stem as application, the reference
- must be appropriate (make sense) in relation to the point
- being made.
- The following words are likely to be appropriate for this

Solution 2

- question:
- ▪
- Business plan – can be used as [k] or [app]
- ▪
- but not both
- ▪
- New/start-up business
- ▪
- Books
- ▪

Solution 2

- Ecommerce
- ▪
- Entrepreneur
- ▪
- Retailer
- Other appropriate examples should be credited.
- 0450/11
- October/November 2024
- Notes

Solution 2

(d) Mark scheme

- Explain how the market research data in Chart 1 and
- Chart 2 in Fig. 2.1 could help Mitchell when making
- decisions.
- Award 1 mark for identification of how the data in each chart
- can be used when making decisions (max 2).
- Award 1 mark for each relevant reference to this business
- (max 2).
- Award 1 mark for each relevant explanation (max 2).

Solution 2

- Points might include:
- Chart 1:
- ▪
- Decide the target market [k] as children read the most

app which could help increase sales/revenue [an]

- ▪
- Decide where to advertise [k] to attract most customers

an

- Chart 2:
- ▪

Solution 2

- Decide which type to sell [k] as only 15 million
- hardbacks are sold [app] which could help reduce the
- amount of unsold inventory [an]
- ▪
- To decide how many of each type of book he will sell [k]
- therefore he must have more of these in stock [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.

Solution 2

- The following words are likely to be appropriate for this
- question:
- ▪
- Allow book/books once as application.
- Chart 1:
- ▪
- 27%/Older people
- ▪
- 35%/Children
- ▪

Solution 2

- 20%/adults
- ▪
- 18%/students
- Chart 2:
- ▪
- Audio /10 million
- ▪
- Paperback/50 million
- ▪
- Hardback/15 million

Solution 2

- ▪
- Other 20 million
- Other appropriate examples can be credited.
- Do not award:
- Answers which simply state what chart shows e.g.
- ‘Type of books are sold’ as this is repetition.
- 0450/11
- October/November 2024
- Notes

Solution 2

(e) Mark scheme

- Do you think the opportunities of ecommerce for a new
- business are greater than the threats? 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 opportunities of ecommerce for a new business are
- greater than the threats.

Solution 2

- Points might include:
- Opportunities:
- ▪
- More potential customers/sales/widen market [k] which
- can increase market share [an]
- ▪
- No/fewer shops needed [k] so less rent/lower fixed
- costs [an] which increases its profit margin [an]
- ▪
- Fewer employees needed [k] lower labour/wage costs

Solution 2

an

- ▪
- Easy to update [k]
- Threats:
- ▪
- Increased competition [k] so may have to spend more
- on advertising / have to set lower prices [an]
- ▪
- Potential customers do not trust online business / risk of
- fraud/hacking [k] therefore they are less likely to

Solution 2

- purchase [an]
- ▪
- Not everyone has access to the internet [k] which could
- reduce potential customer base [an]
- ▪
- Lack of personal service/no face-to-face contact [k] so
- difficult to maintain customer loyalty [an]
- ▪
- Increased costs of postage/distribution [k] which could
- lead to higher prices [an]

Solution 2

- ▪
- Cost to set up/maintain website [k] which business
- might not be able to afford [an]
- 6 This is a general question so there are no marks for
- application.
- Lower costs may be [k] or [an] but allow only once.
- 0450/11
- October/November 2024
- Notes
- Other appropriate responses should also be credited.

Solution 2

- Justification might include:
- One opportunity is more potential customers [k] increasing
- market share [an]. However, there may be increased
- competition [k] increasing promotional costs [an]. The
- opportunity is greater because more customers could
- increase revenue which is likely to cover the additional costs

eval increasing the chances of a new business being

- successful. [eval]
- Notes

Question 4

0450/21 N24 ▪ Q4 ▪ 20 marks

4 **(a)** Explain **two** reasons why CC might need finance.

Question 4

Question 4

Question 4

Question 4

Question 4

Question 4

(b) Consider the following **three** pricing methods CC could use for its existing products. Which pricing method should CC use? Justify your answer.

- Cost-plus
- Promotional
- Competitive

Question 4

Solution 4

(a) Mark scheme

- Explain two reasons why CC might need finance.
- Award 1 mark for each relevant reason (max 2).
- Award a maximum of 3 additional marks for each explanation of the reason why
- finance may have been needed – one of which must be applied to this
- context.
- Relevant answers might include:
- ▪
- For the purchase of investment / capital goods – buy equipment to

Solution 4

- replace worn out machinery – high amount of finance needed so may not
- all be from owner's capital
- ▪
- To finance the expansion/growth of the business – the business plans to
- increase output on a larger scale so may need a larger factory
- ▪
- To invest in the latest technology – to remain competitive
- ▪
- To provide working capital / pay expenses / fixed costs / variable
- costs / overheads / day-to-day expenses – e.g. payment of wages / raw

Solution 4

- materials – if not able to pay costs then output cannot be produced and/or
- prevents cash flow problems / lack of liquidity
- ▪
- Development of new product / new markets – high cost of producing
- prototypes / cost of market research for new product – outflow of cash with
- no inflow for a certain time
- ▪
- Start up another new business – needs to purchase equipment / raw
- materials owner may lack sufficient capital and/or – may take time for
- sufficient cash to be built up in the business to pay for assets

Solution 4

- For example: For the purchase of investment goods (1) to replace old worn-out
- machinery (1) for example machinery to produce cookies (app) to improve
- productivity and remain competitive (1).
- Application could include: cookies; high-quality products; small business; sole
- trader; established for 5 years; considering taking out a bank loan; using
- specialized baking equipment; sells at own shop; wants to sell more cookies;
- developing new cookies;10 production employees; 5 shop employees;
- Operations manager; fresh ingredients purchased regularly.
- 8
- 0450/21

Solution 4

- October/November
- 2024

Solution 4

(b) Mark scheme

- Consider the following three pricing methods CC could use for its
- existing products. Which pricing method should CC use? Justify your
- answer.
- ▪
- Cost-plus
- ▪
- Promotional
- ▪

Solution 4

- Competitive
- Level
- Description
- 3
- Sound application of knowledge and
- understanding of relevant business concepts using
- appropriate terminology.
- Detailed discussion of two or more methods.
- Well-justified recommendation.
- Candidates discussing all three methods in detail,

Solution 4

- in context and with a well-justified
- recommendation, including why the alternative
- methods were rejected, should be rewarded with
- the top marks in the band.
- 9–12
- 2
- Sound application of knowledge and
- understanding of relevant business concepts using
- appropriate terminology.
- Detailed discussion of at least one method.

Solution 4

- Judgement with some justification / some
- evaluation of choices made.
- Candidates discussing two or more methods in
- detail and applying them to the case should be
- rewarded with the top marks in the band.
- 5–8
- 1
- Limited application of knowledge and
- understanding of relevant business concepts.
- Limited ability to discuss the methods with

Solution 4

- little / no explanation.
- Simple judgement with limited justification / limited
- evaluation of choices made.
- Candidates outlining three methods in context
- should be rewarded with the top marks in the
- band.
- 1–4
- 0
- No creditable response.
- 0

Solution 4

- 12
- 0450/21
- October/November
- 2024
- Relevant points might include:
- Advantages
- Disadvantages
- Cost-plus
- ▪
- Easy to apply to

Solution 4

- cookies – as just
- add a percentage
- mark-up to costs
- ▪
- Can have different
- mark-ups in
- different markets –
- can gain more
- profit from markets
- where a higher

Solution 4

- price can be
- charged
- ▪
- Each product
- makes a profit for
- the business
- ▪
- Profit will only be
- made if CC sells
- sufficient high-

Solution 4

- quality products
- to break-even
- ▪
- Time is taken to
- research costs of
- all the fresh
- ingredients and
- difficult to calculate
- costs
- ▪

Solution 4

- No incentive to
- reduce costs
- ▪
- If costs are high,
- then the selling
- price of the
- products with
- personalised
- messages may be
- too high to be

Solution 4

- competitive
- 0450/21
- October/November
- 2024
- Promotional
- ▪
- Low price attracts
- customers and
- increases sales of
- cookies for

Solution 4

- special occasions
- such as birthdays
- – attracts attention
- to the products to
- encourage new
- customers to try
- them – hopefully
- establish regular
- sales
- ▪

Solution 4

- Helps to ensure a
- successful launch
- into a new market
- in other cities –
- could increase
- sales and
- potentially increase
- market share
-
- It is useful to get rid

Solution 4

- of unwanted
- inventory that did
- not sell – as
- cookies are
- perishable and
- need to be sold
- quickly
- ▪
- Can help to renew
- interest in a product

Solution 4

- if sales are falling
- ▪
- Low price will
- mean low profit per
- cookie
- ▪
- Customers may
- expect prices to
- remain low and
- therefore not

Solution 4

- purchase the
- products with
- personalised
- messages on
- them when the
- price is raised at a
- later date
- ▪
- Consumer may
- think low price is

Solution 4

- due to low quality
- product
-
- May lead to price
- competition with
- competitors that
- sell in retail shops
- in other cities – so
- business may have
- to reduce prices

Solution 4

- again
- 0450/21
- October/November
- 2024
- Competitive
- ▪
- Sales are likely to
- be high due to
- prices being set
- around the same

Solution 4

- price as
- competitors' prices
- in retail shops in
- other cities
- ▪
- May avoid price
- competition – so
- achieves steady
- revenue for the
- high-quality

Solution 4

- cookies
- ▪
- The cookies may
- not be very different
- to the cookies of
- competitors – so
- customers will buy
- from CC as they
- cannot tell the
- difference between

Solution 4

- products
- ▪
- May compete on
- quality rather than
- price
- ▪
- High research
- costs to find out
- competitor’s prices
- – may increase

Solution 4

- costs overall
- ▪
- If costs of fresh
- ingredients to
- produce the
- cookies are higher
- than the costs of
- competitors, then
- may be harder to
- achieve a profit –

Solution 4

- may even be a loss
- ▪
- Higher-quality
- cookies might
- need to be sold at a
- slightly higher
- prices than
- competitors to
- emphasise the
- higher quality

Solution 4

- image
- Recommendation
- Justification might include:
- ▪
- Cost-plus pricing method should be used as it
- ensures a profit is made on each cookie.
- Whereas promotional pricing does not ensure
- a profit is made and may even lead to a loss
- initially. The cookies are of high-quality
- which will mean the price is likely to be higher

Solution 4

- than competitors' cookies and therefore low
- profits are likely if it uses competitive pricing.
- ▪
- Promotional pricing method should be used
- as it will ensure the cookies attract attention
- and renew interest in the products. Sales
- should increase as this will help to maintain
- customer loyalty when the price is raised
- later.
- ▪

Solution 4

- Competitive pricing method should be used
- as it will mean the cookies will often be
- chosen over competitors cookies that are
- sold in retail shops in other cities as it has
- a higher quality but sold at a similar price. So
- the cookies will have high sales increasing
- market share.