# Past-paper walk-through

## Cash-flow forecasting and working capital ▪ 5.2

eXercise

# Questions in this set

- 0450/12 N25 Q2 ▪ 20 marks
- 0450/21 N25 Q3 ▪ 20 marks
- 0450/13 J25 Q2 ▪ 20 marks
- 0450/22 M25 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 2

0450/12 N25 ▪ Q2 ▪ 20 marks

**2** OTK is a small jewellery shop in the centre of Main City. The business does not currently use ecommerce. OTK buys its jewellery from local suppliers. It pays for the jewellery 30 days later. The shop manager is analysing OTK's cash flow forecast. She is concerned that the business might have a short-term cash flow problem.

**(a)** Define 'cash flow forecast'.

# Question 2

**(b)** Identify **two** reasons why cash is important for a business.

# Question 2

**(c)** Identify **four** functions of management.

# Question 2

# Question 2

# Question 2

**(d)** Explain **two** ways OTK could overcome a short-term cash flow problem.

# Question 2

# Question 2

# Question 2

# Question 2

# Question 2

# Question 2

**(e)** Explain **two** threats to a business of using ecommerce. Which threat is likely to be the most important? Justify your answer.

# Question 2

# Solution 2

## (a) Mark scheme

- Define ‘cash flow forecast’.
- Award 2 marks for a full definition. Award 1 mark for a partial definition.
- ▪
- Estimate of future cash inflows and outflows of a business (usually on a
- month-by-month basis) [2].
- Partial definition e.g.
- ▪
- Shows the cash inflows and outflows of a business [1].

# Solution 2

- 2 First mark for understanding it refers to
- cash/money in(flows) and out(flows).
- Second mark is for idea that it is an
- estimate or future values [+1].

# Solution 2

## (b) Mark scheme

- Identify two reasons why cash is important for a business.
- Award 1 mark per reason (max 2).
- Points might include:
- Examples of day-to-day costs/expenses include:
- ▪
- Pay employees/wages/salary
- ▪
- Pay suppliers/trade payables / raw materials / inventory

# Solution 2

- ▪
- Pay rent
- ▪
- Pay insurance
- ▪
- Pay utilities e.g. heating/lighting/water/power
- ▪
- Pay advertising
- ▪
- Pay interest (on loans) / repay loan

# Solution 2

- Other answers include:
- ▪
- For use in an emergency / to pay unexpected costs
- ▪
- Ensure survival / business may be forced to close if cannot pay its debts
- Other appropriate responses should be credited.
- 2 Only award the first two responses given.
- Can award pay expenses / short-term
- debts / day-to-day costs when no specific
- examples given.

# Solution 2

- 0450/12
- October/November 2025
- Guidance

# Solution 2

## (c) Mark scheme

- Identify four functions of management.
- Award 1 mark per function (max 2).
- Four from:
- ▪
- Control
- ▪
- Coordinate
- ▪

# Solution 2

- Plan
- ▪
- Organise
- ▪
- Command
- 4 Only award the first four responses given.
- Do not award alternative words.

# Solution 2

## (d) Mark scheme

- Explain two ways OTK could overcome a short-term cash flow problem.
- 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:
- ▪
- Overdraft [k] as this would allow the business to spend more than it has in
- its current account [an] for this jewellery business [app]

# Solution 2

- ▪
- Ask suppliers for longer to pay [k] which would delay/decrease cash
- outflows [an] for more than 30 days [app]
- ▪
- Short-term bank loan [k] for the shop [app] increasing cash inflows quickly

an

- ▪
- Delay purchase of non-current assets [k] keeping more cash in the
- business [an]
- ▪

# Solution 2

- Sell (non-current) assets [k] generates cash inflows [an]
- ▪
- Ask customers to pay sooner / offer discounts to customers to pay more
- quickly [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

# Solution 2

- appropriate for this question:
- ▪
- Small (business)
- ▪
- Jewellery
- ▪
- Shop
- ▪
- Centre of Main City
- ▪

# Solution 2

- (No) ecommerce
- ▪
- 30 days (later)
- ▪
- Local suppliers
- Other appropriate examples can be
- credited.
- Analysis must show effect of method on
- cash inflow/outflow.
- Can award:

# Solution 2

- ▪
- Increase cash inflows as [k] or [an]
- ▪
- Decrease cash outflows as [k] or [an]
- 0450/12
- October/November 2025
- Guidance

# Solution 2

## (e) Mark scheme

- Explain two threats to a business of using ecommerce. Which threat is
- likely to be the most important? 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 threat is likely to be
- most important to a business.
- Points might include:
- ▪

# Solution 2

- Increased/more competition [k] so may have to set lower prices (to
- compete) / may have to spend more on advertising/promotion [an]
- ▪
- Need to design/build website [k] which increases costs [an]
- ▪
- Time/cost for maintenance/updating of the website [k] so may need to
- employ someone to do this [an]
- ▪
- No face-to-face contact with customer / suppliers / lack of personal
- service [k] so difficult to gain feedback [an] AND/OR may be difficult to

# Solution 2

- build customer loyalty / supplier relationships / [an]
- ▪
- Need to deliver the products to customers [k] increasing
- transport/postage costs [an] leading to lower profit margin [an]
- ▪
- Technical problems/no power [k] so may lose potential sales [an]
- ▪
- Security threats / risk of hacking / computer viruses / data theft/fraud /
- scams [k] which could damage its reputation [an] AND/OR reduce
- customer loyalty [an]

# Solution 2

- ▪
- Risk of bad reviews [k] lowering sales AND/OR revenue [an]
- ▪
- High level of returns [k]
- Other appropriate responses should be credited.
- Justification might include:
- One threat is an increase in competition [k] so may have to set lower prices
- (to compete) [an]. Another threat is technical problems [k] so the business
- may lose potential sales [an]. Technical problems are likely to be the most
- important threat because if customers cannot access the website setting a

# Solution 2

- lower price may be ineffective [eval] so gaining any revenue could be difficult
- to achieve. [eval].
- 6 This is a general question so there are no
- marks for application.
- To access evaluation must discuss two
- valid threats.
- For evaluation to be awarded justification
- will usually follow on from relevant analysis
- of points.
- Some points can be [k] or [an] but only

# Solution 2

- award once e.g. high transport costs.
- Some analysis could be awarded for
- different threats, but only award once.
- Points must focus on the impact on
- business and not on customers.
- 0450/12
- October/November 2025
- Guidance

# Question 3

0450/21 N25 ▪ Q3 ▪ 20 marks

**3** **(a)** Explain **two** reasons why working capital is important to LB.

# Question 3

# Question 3

# Question 3

# Question 3

# Question 3

# Question 3

[8]

**(b)** Using Appendix 2 and other information, consider the **three** employees that LB could make redundant. Which employee should LB choose? Justify your answer.

- Naga
- Reeta
- Amy

# Question 3

# Question 3

[12]

# Solution 3

## (a) Mark scheme

- Explain two reasons why working capital is important to LB.
- Award 1 mark for each reason why working capital is important (max 2).
- Award a maximum of 3 additional marks for each explanation of why working
- capital is important – one of which must be applied to this context.
- Relevant reasons might include:
- ▪
- To be able to pay for day-to-day expenses / fixed costs / variable costs /
- overheads – if not able to pay for these costs then output cannot be

# Solution 3

- produced – and no products could be produced
- ▪
- To prevent cash flow problems – so the business does not lack liquidity –
- and does not become insolvent / cease trading / not survive
- ▪
- To support a bank loan application – as having enough working capital will
- help to show an ability to repay the loan
- ▪
- To be able to offer customers credit terms to encourage sales 1
- ▪

# Solution 3

- To pay for unexpected expenses 1
- For example: Needed to pay day-to day expenses (1) as LB will need to buy
- components to manufacture the bathroom equipment (app). If there is
- insufficient working capital, the business may not have the cash to pay wages
- and other expenses (1) it will be difficult for LB to continue trading (1).
- Application might include: luxury bathroom products; baths/basins/showers;
- started 20 years ago; plan to produce a new range of bathroom products;
- sells in specialist retail shops; website contains information on product range;
- operates in a very competitive market.
- 8

# Solution 3

- 0450/21
- October/November
- 2025

# Solution 3

## (b) Mark scheme

- Using Appendix 2 and other information, consider the three employees
- that LB could make redundant. Which employee should LB choose?
- Justify your answer.
- ▪
- Naga
- ▪
- Reeta
- ▪

# Solution 3

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

## Solution 3

- and with a well-justified recommendation, including why
- the alternative employees 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 employee.
- Judgement with some justification / some evaluation of

# Solution 3

- choice made.
- Candidates discussing in detail two or more employees
- and applying these 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 employees with little/no
- explanation.

# Solution 3

- Simple judgement with limited justification / limited
- evaluation of choice made.
- Candidates outlining all three employees in context
- should be rewarded with the top marks in the band.
- 1–4
- 0
- No creditable response.
- 0
- 12
- 0450/21

# Solution 3

- October/November
- 2025
- Relevant points might include:
- Naga
- ▪
- Most expensive wages to keep paying at $400 per
- week – higher wage costs
- ▪
- Highest redundancy payments to make at $8000
- but this is a one-off payment, and highest wages

# Solution 3

- no longer paid each week
- ▪
- Has been a supervisor for the longest time at
- 15 years
- ▪
- Has worked for LB for the longest at 20 years
- since the company was first started. Very loyal
- employee and is unlikely to leave in the future
- ▪
- Is familiar with the production tasks of all LB's

# Solution 3

- bathroom products so is flexible and can be moved
- around the factory and supervise employees in
- other areas to carry out their tasks
- Reeta
- ▪
- Experience of 10 years working for a competitor
- so may bring new ideas from them – increasing
- efficiency in the factory
- ▪
- Already familiar with the new machinery that LB

# Solution 3

- has introduced – so may be able to train LB's
- employees reducing costs
- ▪
- Lowest redundancy payment required at $700
- ▪
- Lowest wage at $350 per week
- ▪
- Has been employed for the least amount of time at
- 2 years
- Amy

# Solution 3

- ▪
- Been employed for 14 years so is more
- experienced than Reeta in LB's production
- process
- ▪
- Worked hard to get promotion and is loyal so
- unlikely to leave LB in the future – keeping future
- recruitment costs down
- ▪
- Can repair machinery if it breaks down –

# Solution 3

- reduces cost of repairs for LB
- ▪
- Redundancy payments less than Naga at $5250
- so less expensive / more than Reeta to make
- redundant
- 0450/21
- October/November
- 2025
- Recommendation Justification might include:
- ▪

# Solution 3

- Naga should be made redundant as she has the
- highest wages and therefore will save the greatest
- amount of wage costs. Reeta has the lowest
- wages per week so is cheaper to employ and Amy
- is very loyal and hardworking so is unlikely to
- leave in the future.
- ▪
- Reeta should be made redundant as she has
- worked the shortest time for LB, at 2 years, and
- therefore less experienced.

# Solution 3

- ▪
- Amy should be made redundant as she has not
- worked for LB as long as Naga and has only been
- a supervisor for 5 years which is less time than
- Naga so has less experience.
- 0450/21
- October/November
- 2025

# Question 2

0450/13 J25 ▪ Q2 ▪ 20 marks

**2** Jonathon is a sole trader. He owns a shop selling office equipment including printers. To encourage sales Jonathon allows customers 4 weeks to pay for the office equipment. Jonathon thinks his business is likely to remain small. He knows managing cash flow is important for his business and he has prepared a cash flow forecast. An extract is shown in Table 2.1.

**Table 2.1**

| **Extract from Jonathon's cash flow forecast July - September 2025 ($000)** | | | |
|---|---|---|---|
| | **July** | **August** | **September** |
| Cash inflow | 60 | 80 | **Y** |
| Cash outflow | 90 | 95 | 70 |
| Net cash flow | (30) | **X** | 20 |
| Opening balance | 20 | (10) | (25) |
| Closing balance | (10) | (25) | (5) |

# Question 2

**(a)** Identify **two** ways to measure the size of a business.

# Question 2

# Question 2

# Question 2

# Question 2

**(b)** Calculate **X** and **Y**.

# Question 2

# Question 2

# Question 2

# Question 2

**(c)** Outline **two** reasons (other than finance) why Jonathon's business is likely to remain small.

# Question 2

# Question 2

**(d)** Explain **two** reasons why Jonathon's business might have a cash flow problem.

# Question 2

# Question 2

**(e)** Do you think the advantages of operating as a sole trader business are greater than the disadvantages? Justify your answer.

# Question 2

# Solution 2

## (a) Mark scheme

- Identify two ways to measure the size of a business.
- Award 1 mark per way (max 2).
- Points might include:
- ▪
- (Value of) capital employed
- ▪
- Value of output / sales OR revenue
- ▪

# Solution 2

- Number of customers / sales / volume / amount of
- output
- ▪
- (Number of) employees
- Other appropriate responses should be credited.
- 2 Only award the first two answers given.

# Solution 2

## (b) Mark scheme

- Calculate X and Y.
- Award 1 mark for each correct calculation.
- X: $(15 000) or (15) or −15 [1]
- Y: $90 000 or 90 [1]
- 2 X must be shown as a negative number i.e. brackets / minus
- sign.
- $ sign and 000's not required as could write in table.
- 0450/13

# Solution 2

- May/June 2025
- Guidance

# Solution 2

## (c) Mark scheme

- Outline two reasons (other than finance) why
- Jonathon's business is likely to remain small.
- Award 1 mark for each relevant reason (max 2).
- Award 1 mark for each relevant reference to this business
- (max 2).
- Points might include:
- ▪
- Owner's objectives / not want the responsibility for

# Solution 2

- managing a larger business / to keep control of the
- business [k] as a sole trader [app]
- ▪
- Low demand / (small) size of market [k] in the shop

app

- ▪
- A few large businesses control the market / market
- domination [k] for office equipment [app]
- ▪
- Lacks knowledge / skills / experience (to expand) [k]

# Solution 2

- such as how to manage cash flow [app]
- ▪
- Wants to maintain close relationship with its customers /
- provide a personal service [k]
- ▪
- To remain flexible / able to respond quickly to changes
- in consumer tastes [k]
- ▪
- Type of industry / market / product / service [k]
- Other appropriate responses should be credited.

# Solution 2

- 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:
- ▪
- Sole trader
- ▪
- Shop
- ▪

# Solution 2

- Office equipment or examples e.g. printers
- ▪
- Cash flow is important
- ▪
- Correct use of data from Table 2.1.
- Other appropriate examples can be credited.
- 0450/13
- May/June 2025
- Guidance

# Solution 2

## (d) Mark scheme

- Explain two reasons why Jonathon's business might
- have a cash flow problem.
- 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 2

- ▪
- Allow customers too long to pay / customers are slow to
- pay / customer does not pay on time / high level of
- credit sales [k] as customers have 4 weeks to pay [app]
- which delays cash inflows [an]
- ▪
- No trade credit / suppliers want payment straightaway /
- paying suppliers too quickly [k] for the office equipment

app which increases cash outflows [an]

- ▪

# Solution 2

- Poor (financial) planning / unexpected costs [k] as
- operates as a sole trader [app] which leads to additional
- cash outflows [an]
- ▪
- Holding too much inventory [k]
- ▪
- Growing too quickly / overtrading [k]
- ▪
- Seasonal / low(er) demand / sales [k]
- Other appropriate responses should be credited.

## Solution 2

- 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:
- ▪
- Sole trader
- ▪
- Shop
- ▪

# Solution 2

- Office equipment or examples including printers
- ▪
- Remain small
- ▪
- Correct use of data from Table 2.1
- ▪
- 4 weeks (for customers to pay)
- Other appropriate examples can be credited.
- 0450/13
- May/June 2025

# Solution 2

- Guidance

# Solution 2

## (e) Mark scheme

- Do you think the advantages of operating as a sole
- trader business 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 operating as a sole trader business are
- greater than the disadvantages.

# Solution 2

- Points might include:
- Advantages:
- ▪
- Keeps all the profit [k] so has an incentive to work hard

an

- ▪
- Makes all the decisions / no need to consult with
- anyone / complete control / own boss [k] so can take
- decisions more quickly / so less/no chance of
- disagreements [an]

# Solution 2

- ▪
- Freedom to choose own holidays / when work [k] so can
- choose time off when the business is less busy so does
- not miss out on sales [an]
- ▪
- Can keep (financial) information private / no need to
- produce annual accounts [k] so competitors cannot use
- this information [an]
- ▪
- Has close contact with customers / able to offer a more

# Solution 2

- personal service [k] which can help encourage customer
- loyalty [an]
- ▪
- Few legal regulations [k]
- This is a general question so there are no marks for
- application.
- 0450/13
- May/June 2025
- Guidance
- Disadvantages:

## Solution 2

- ▪
- Unlimited liability [k] so may lose personal assets to
- repay business debts [an]
- ▪
- Limited sources of finance [k] which could create cash
- flow problems / difficult to fund expansion [an]
- ▪
- No one to cover if owner is ill [k] so business may lose
- sales [an]
- ▪

# Solution 2

- Only has own skills [k] so less able to compete / may
- not be able to do all jobs properly [an]
- ▪
- Must work long hours / difficult to take holidays / high
- workload [k] which could lead to mistakes [an]
- ▪
- No one to share risks / losses with [k]
- ▪
- Has all the responsibility / no one to help with decision-
- making [k]

# Solution 2

- ▪
- No separate legal identity [k]
- ▪
- No continuity [k]
- Other appropriate responses should be credited.
- Justification might include:
- One advantage is there is no need to consult with anyone [k]
- so decisions can be taken more quickly [an]. A disadvantage
- is unlimited liability [k] so personal assets are at risk if
- unable to repay business debts [an]. The advantages are

# Solution 2

- greater because being able to act quickly could mean they
- can gain from opportunities which otherwise they might miss

eval and this could generate sufficient revenue to repay its

- debts anyway [eval].
- 0450/13
- May/June 2025
- Guidance

# Question 4

0450/22 M25 ▪ Q4 ▪ 20 marks

**4** **(a)** Explain **two** cash inflows and **two** cash outflows that are likely to be included in CR’s cash flow forecast for its first year of trading.

# Question 4

# Question 4

# Question 4

# Question 4

[8]

**(b)** Using Appendix 3 and other information, consider the effects on CR of the decrease in taxes and the increase in interest rates in country P. Which change is likely to have the greatest effect on CR's profit in its first year? Justify your answer.

# Question 4

# Question 4

[12]

# Solution 4

## (a) Mark scheme

- Explain two cash inflows and two cash outflows that are likely to be
- included in CR's cash flow forecast for its first year of trading.
- Award 1 mark for each cash inflow/outflow (max 2 inflows/2 max outflows).
- Award a maximum of 1 additional mark for each cash inflow/outflow which
- must be applied to this context.
- Relevant cash inflows:
- ▪
- Cash sales – from the sale of rugs

# Solution 4

- ▪
- Credit sales – if trade credit is given to wholesalers
- ▪
- Money borrowed from external source – as Charly is to take out a bank
- loan for \$20 000
- ▪
- Money invested by owner – \$10 000 will be put in by Charly to start up the
- business
- Relevant cash outflows:
- ▪

# Solution 4

- Wages – to the 4 or 8 employees
- ▪
- Rent – of the new factory
- ▪
- Electricity/power – 200*or*400 depending on the location chosen
- ▪
- Interest payments – to the bank for an overdraft if taken out (or for the bank
- loan of £20 000)
- ▪
- Raw materials

# Solution 4

- For example: Cash from the sale of products (1) in this case it will be from the
- sale of rugs (app).
- Application might include: rugs; bank loan for $20 000; sell through
- wholesalers / sell online / sell through own shops; own investment of $10 000;
- luxury product; forecast demand is 20 rugs per week; interest rates increase
- from 4% to 7%; figures from Appendix 2; new factory.
- 8
- 0450/22
- February/March 2025

# Solution 4

## (b) Mark scheme

- Using Appendix 3 and other information, consider the effects on CR of
- the decrease in taxes and the increase in interest rates in country P.
- Which change is likely to have the greatest effect on CR's profit in its
- first year? Justify your answer.
- Level
- Description
- 3
- Sound application of knowledge and understanding

# Solution 4

- of relevant business concepts using appropriate
- terminology.
- Detailed discussion of both changes.
- Well-justified conclusion.
- Candidates discussing both changes in detail, in
- context and with a well-justified conclusion, including
- why the alternative change is rejected, should be
- rewarded with the top marks in the band.
- 9–12
- 2

# Solution 4

- Sound application of knowledge and understanding
- of relevant business concepts using appropriate
- terminology.
- Detailed discussion of at least one change.
- Judgement with some justification/some evaluation
- of choices made.
- Candidates discussing both changes in detail and
- applying them to the case should be rewarded with
- the top marks in the band.
- 5–8

# Solution 4

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

# Solution 4

- 0
- No creditable response.
- 0
- 12
- 0450/22
- February/March 2025
- Relevant points might include:
- Decrease in taxes ▪
- Reduction in tax on people's income by 5% –
- leading to higher income available for spending

## Solution 4

- by consumers – may lead to more spending by
- consumers on luxury rugs – increasing CR's
- sales and revenue
- ▪
- A decrease in tax on profits by 2% may leave
- more for investment at the end of the first year –
- more retained profit and more investment into
- the new factory in its second year
- ▪
- Decrease in tax on spending – may lead to price

# Solution 4

- of rugs being lower – decrease prices in shops –
- increases demand and sales
- ▪
- May reduce grants to businesses – if a decrease
- in government spending because of lower tax
- revenue
- Increase in
- interest rates
- ▪
- Increase the interest costs of the new bank loan

# Solution 4

- – Charly may be less likely to invest in the rug
- making factory – may buy less new equipment
- – higher interest rates increase expenses
- ▪
- Increases the cost if overdraft needed –
- increases interest payments – higher costs is
- likely to result in a lower profit
- ▪
- May reduce the available income consumers
- can spend – if they have a mortgage or loan to

# Solution 4

- repay – higher repayments – may decrease
- demand for rugs
- ▪
- Decreased demand for luxury rugs – as
- increase in interest rates may lead to lower
- economic growth in country P – leading to
- higher unemployment and lower incomes for
- consumers – lower revenue for CR
- 0450/22
- February/March 2025

# Solution 4

- Conclusion
- Justification could include:
- ▪
- A decrease in taxes will have the biggest effect
- on CR's profit as consumers will have more
- income after tax to spend. Therefore, revenue
- from the sale of rugs may increase, and if costs
- do not also increase, then profit will increase.
- The increase in interest rates will only affect
- CR's profit if the bank loan of $20 000 is

# Solution 4

- definitely taken out.
- ▪
- An increase in interest rates will have the
- biggest effect on CR's profit as lower taxes may
- not affect demand for luxury rugs because only
- high-income people will purchase luxury rugs.
- An increase in interest rates may discourage
- Charly from building a larger factory and she
- may choose to start-up on a smaller scale at
- location A. This will lower the output from the

# Solution 4

- factory and is likely to decrease future profit from
- the lower sales of rugs.