1(a)	**Identify <u>two</u> features of a private sector business.** Award 1 mark per feature (max 2). Points might include: • Owned by individuals / not owned by government • Profit motive/objective • Financed by banks/individuals Other appropriate responses should be credited.
1(b)	**Identify <u>two</u> reasons why a business might remain small.** Award 1 mark per reason (max 2). Points might include: • Owner's objectives • Limited access to finance/capital • Market size • Market domination / a few large businesses control the market • Lack of knowledge/skills/experience • Wants to maintain close relationship with its customers • To remain flexible / able to respond <u>quickly</u> to changes in consumer tastes • Type/nature of industry/market/product/service Other appropriate responses should be credited.

1(c)	**Outline <u>one</u> reason why Avtar might need each of the following types of finance:** Award 1 mark for each relevant reason for needing short-term/long-term finance (max 1 for each). Award 1 mark for each relevant reference to this business (max 1 for each). Points might include: Short-term finance: • Pay day-to-day expenses/provide working capital [k] for this private sector business [app] • Pay wages/salary [k] of his 2 employees [app] • Purchase inventory [k] • To prevent cash-flow problem/improve the cash position [k] Long-term finance: • Purchase non-current assets or examples [k] for the repair business [app] • Fund expansion/growth [k] in case he decides not to keep the business small [app] • Fund takeover of another business [k] • Develop new products/services [k] Other appropriate responses should be credited.

1(d)	**Explain <u>two</u> ways an economic recession might affect Avtar's business.** 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: • Less/lower demand/sales [k] for car repairs [app] reducing revenue / need to make redundancies [an] • Less/lower competition (as other businesses fail) [k] which could increase potential customer base [an] • Widen pool of potential employees [k] if he wants more than 2 employees [app] which may lower recruitment costs [an] • Reduce number of employees [k] so lower break-even / cash outflows / lower costs [an] so does not need finance [app] • May lower prices [k] which reduces added value [app] increase demand [an] • Material costs may be lower [k] which may increase profit margin/lower variable costs [an] • May delay any expansion plans [k] as not able to afford it [an] so business must remain small [app] • Hard to survive / may close down / objective may switch to survival [k] so may lose his investment/difficult to attract investment [an] • May have cash flow problems [k] so need overdraft/loan/cannot repay loans/day-to-day costs [an] • Customers may delay payment / more bad debts [k] • More difficult to raise finance/banks may not lend [k] Other appropriate responses should also be credited.

1(e)	**Explain <u>two</u> ways a business can increase added value. Which is likely to be the best way 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 which is the best way for a business to increase added value. Points might include: Ways to increase price: • (Improve) quality of product/service [k] so customers may be prepared to <u>pay higher prices</u> [an] • (Build a) brand image/marketing/packaging [k] so customers think the product is <u>worth more</u> [an] • (Improve) product features / change/create a unique design [k] making the product more desirable than similar products so willing to <u>pay more</u> [an] • Convenience [k] customers may <u>pay more</u> for a product they can have straightaway [an] Ways to lower (input/raw material) costs: • Buy cheaper raw materials / find cheaper suppliers [k] reduces material/input costs [an] widening the gap between cost and price [an] • Reduce the number of materials used [k] Other appropriate responses should also be credited. Justification might include: One way is improving the quality [k] as customers may be willing to pay a higher price [an]. It could buy cheaper raw materials [k] which may reduce material costs [an]. Improving quality is better because cheaper materials could damage the reputation leading to fewer sales [eval] while improving quality could even help attract new customers [eval].