3(a)	**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] Partial definition e.g. • Not government/state controlled [1] • Run/controlled by individuals [1]

3(b)	**Identify <u>two</u> 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 • 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 • Inadequate/no market research/poor marketing • No/low reputation/brand awareness/brand image Other appropriate responses should be credited.
3(c)	**Identify <u>four</u> stakeholder groups a business might have.** Award 1 mark for each stakeholder group (max 4). Points might include: • Employees/workers • Managers/directors • Owners/shareholders • Suppliers • Lenders/banks • Government • <u>Local</u> community • Customers Other appropriate responses should be credited.

3(d)	**Explain <u>two</u> 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: • 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] • 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] • 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.

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3(e)	**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: 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] • 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 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.

3(e)	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].

3(a)	**Explain <u>two</u> advantages and <u>two</u> 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: • 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 • 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: • 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 • 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).

3(b) **Consider the advantages and disadvantages of the following <u>three</u> 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**

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of at least **two** methods of promotion. 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 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	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
0	No creditable response	0

3(b)	Relevant points might include:

	Advantages	Disadvantages
Leaflets 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 – 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 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 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 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 • 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 – 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 – 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**

3(b)

	Advantages	Disadvantages
Discounts on first purchase	• Discounts make the **shoes** more affordable – which can encourage 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 **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 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 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 **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.	

3(a)	**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 thesource of external finance. There are no application marks for this question. Sources of external finance might include: • Bank loans • Bank overdraft • Grants (or subsidies) from government • Sale of shares • Hire purchase • Leasing • 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).

3(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.**
- **Profitability ratios**
- **Liquidity ratios**

Level	Description	Marks
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 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 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. Candidates outlining profitability and liquidity in context should be rewarded with the top marks in the band.	1–4
0	No creditable response	0

<table>
<tr><td>3(b)</td><td>Relevant points could include:
<table>
<tr><td>Profitability ratios</td><td>
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 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
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
</td></tr>
<tr><td>Liquidity ratios</td><td>
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 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 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
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<tr><td>3(b)</td><td><table>
<tr><td>Conclusion</td><td>Justification might include:
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 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.
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<table>
<tr><td>2(a)</td><td>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]
OR
A person who combines factors of production <u>to start a business</u> [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]</td></tr>
</table>

2(b)	**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 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(c)	**Outline <u>one</u> advantage and <u>one</u> 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: • 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: • 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.

2(d)	**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). 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: • 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.

2(e)	**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. 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 [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 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] • Cost to set up/maintain website [k] which business might not be able to afford [an]

2(e)	Other appropriate responses should also be credited. 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]

4(a)	**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 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 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 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.

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**

Level	Description	Marks
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, 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. 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 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**

4(b)	Relevant points might include:

	Advantages	Disadvantages
Cost-plus	• Easy to apply to **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 price can be charged • Each product makes a profit for the business	• Profit will only be made if CC sells sufficient **high-quality products** to break-even • Time is taken to research costs of all the **fresh ingredients** and difficult to calculate costs • 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 competitive

4(b)	Promotional	• Low price attracts customers and increases sales of **cookies for special occasions such as birthdays** – attracts attention to the products to encourage new customers to try them – hopefully establish regular sales • 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 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 if sales are falling	• Low price will mean low profit per **cookie** • Customers may expect prices to remain low and therefore not purchase the products **with personalised messages on them** when the price is raised at a later date • Consumer may think low price is 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 again

4(b)	Competitive	• Sales are likely to be high due to prices being set around the same price as competitors' prices in **retail shops in other cities** • May avoid price competition – so achieves steady revenue for the **high-quality 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 products • May compete on quality rather than price	• High research costs to find out competitor's prices – may increase 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 – 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 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 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. • 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.	