Solutions

Marking: **K** knowledge, **App** application to the case, **An** analysis (a developed chain of reasoning), **Ev** evaluation (a justified judgement); calculations earn **M1** for the method and **A1** for the answer.

Each answer shows the steps, then the **result**.

2.1

- rent: **fixed**
- coffee beans: **variable**

2.2

- $9000 \div 600$
- = \$**15**

2.3

- TR $= 500 \times 12 =$ \$6000
- profit $= 6000 - 4800 =$ \$**1200**

3.1

C

3.2

(a)

- $1500 + 0.50 \times 500$
- = \$**1750**

(b)

- the **fixed cost** of \$1500 stays the same whatever the output (K)
- it is **spread** over more loaves as output rises (An)
- for example, AC is \$3.50 at 500 loaves and \$2 at 1000 (App)
- the variable cost per loaf stays at \$0.50, so average cost falls (An)

(c) a developed chain, for example:

- a new firm has few loyal **customers** and is not yet known (K)
- it may need **low prices** to win customers from existing bakeries (App)
- low prices mean little or no profit at first (An)
- its main risk is running out of **cash** to pay rent and suppliers (An)
- so staying in business until sales grow matters more than profit now (An)

(d) yes: (An)

- profit rewards owners for their risk and pays for new machines and growth
- a firm that makes losses will close

no: (An)

- in some cases **growth** or market share brings bigger profit later
- a social enterprise or state firm may aim for **welfare**; high profit can harm the firm's image or attract new rivals

judgement: (Ev) for example, profit matters in the long run, but a firm should choose its objective for its situation: survival when new, growth when building a market, and profit when established.

Level 3 (6–8): both sides analysed and a justified judgement. Level 2 (3–5): one side analysed or both explained. Level 1 (1–2): simple points.