



IGCSE 0450 Business Studies Resources

Prepared by the Aitchison College Academic Portal

IGCSE Business Studies

0450 Notes

Contents

1. Index
2. Syllabus, Paper Pattern and Specimen Papers
3. Marking Rubric
4. Definitions list
5. Notes with topical questions
6. General tips

Paper Pattern

Cambridge IGCSE Business Studies 0450 syllabus for 2026. Syllabus overview

Assessment overview

All candidates take two components. Candidates will be eligible for grades A* to G.

All candidates take:

Paper 1 1 hour 30 minutes
Short Answer and Data Response 50%
80 marks
Four questions requiring a mixture of short answers and structured data responses
Candidates answer all questions
Externally assessed

and:

Paper 2 1 hour 30 minutes
Case Study 50%
80 marks
Four questions based on a case study, provided as an insert with the paper
Candidates answer all questions
Externally assessed

Information on availability is in the **Before you start** section.

Assessment objectives

The assessment objectives (AOs) are:

AO1 Knowledge and understanding

- demonstrate knowledge and understanding of facts, terms, concepts, conventions, theories and techniques commonly applied to or used as part of business behaviour.

AO2 Application

- apply knowledge and understanding of facts, terms, concepts, conventions, theories and techniques.

AO3 Analysis

- distinguish between evidence and opinion in a business context
- order, analyse and interpret information in narrative, numerical and graphical forms, using appropriate techniques.

AO4 Evaluation

- present reasoned explanations, develop arguments, understand implications and draw inferences
- make judgements, recommendations and decisions.

Weighting for assessment objectives

The approximate weightings allocated to each of the assessment objectives (AOs) are summarised below.

Assessment objectives as a percentage of the qualification

Assessment objective	Weighting in IGCSE %
AO1 Knowledge and understanding	40
AO2 Application	20
AO3 Analysis	25
AO4 Evaluation	15
Total	100

Assessment objectives as a percentage of each component

Assessment objective	Weighting in components %	
	Paper 1	Paper 2
AO1 Knowledge and understanding	50	30
AO2 Application	20	20
AO3 Analysis	20	30
AO4 Evaluation	10	20
Total	100	100

Specimen Papers:

Specimen Paper 1

Specimen Paper 2

Marking Rubric for Business Studies Paper 1

	Define/ Identify	Calculate/ Identify	Identify/ Outline	Explain/ Justify
1 Mark	Award for partial definition. Award for single point identified.	Award for correct method but incorrect answer. Award for single point identified.	Award for single point identified. Award 1 mark for 1 relevant point identified. Award for 2 points	Award 1 mark for identification of a single point without any reference to the business. Award 1 mark for
2 Marks	Award for full definition. Award for both points identified.	Award 2 marks for correct answer. Award for both points identified.	identified. Award 1 mark for 1 relevant point identified and 1 mark for reference to the business.	identification of a single point and one mark for relevant reference made to the business of that point.
3 Marks		Award for 3 points identified. Award 2 marks for 2 relevant points identified and 1 mark for reference to the business and vice versa.	Award for 3 points identified. Award 2 marks for 2 relevant points identified and 1 mark for reference to the business and vice versa.	Award 2 marks for identification of 2 points and 1 mark for reference made to the business and vice versa.
4 Marks			Award for all 4 points identified. Award 2 marks for 2 relevant points identified and 2 marks for referring both points to the business.	Award 2 marks for identification of 2 points and 2 marks for relevant reference made to the business of both.
5 Marks				Award 2 marks for identification of 2 points and 2 marks for reference and 1 mark for an analysis made.
6 Marks (d)				Award 2 marks for identification of 2 points and 2 marks for reference and 2 marks for analysis.
6 Marks (e)				Award 2 marks for identification of 2 points and 2 marks for analysis and 2 marks for evaluation.

Marking Rubric for Business Studies

Paper 2

(a) Part [8marks] (with context)	• 2marks for knowledge (2 separate points/ideas) • 3marks for each explanation (includes application AND analysis)- one of which must be applied to the context • 2+3+3=8
(a) Part [8 marks] (without context)	• 4marks for knowledge (4 points) • 4marks for analysis of each point.
(b) Part [12 marks]	<u>Level 3: 9-12 marks</u> ➤ Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. ➤ Detailed discussion of two or more factors. ➤ Well-justified conclusion/recommendation. ➤ Candidates discussing all three factors in detail, in context and with well-justified conclusion/recommendation including why the alternative points are rejected should be rewarded with the top marks in the band. <u>Level 2: 5-8 marks</u> ➤ Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. ➤ Detailed discussion of at least one factor. Judgement with some justification/some evaluation of choices made. Candidates discussing ➤ two or more factors in detail and applying it to the case should be rewarded with the top marks in the band. <u>Level 1: 1-4 marks</u> ➤ Limited application of knowledge and understanding of relevant business concepts. ➤ Limited ability to discuss factors with little/no explanation. ➤ Simple judgement with limited justification/limited evaluation of choices made. ➤ Candidates outlining three factors in context should be rewarded with the top marks in the band. <u>Level 0: 0 marks</u>

	➤ No creditable response.
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Definitions List:

➤ **Unit 1: Understanding Business Activity**

- **Business activity:**

The process of producing goods and services to satisfy consumer needs.

- **Needs:**

Goods or services that are essential for living, such as food, water, and shelter.

- **Wants:**

Goods or services that people would like to have, but are not essential for living.

- **Economic problem:**

Resources are limited while wants are unlimited, creating scarcity.

- **Scarcity:**

The lack of sufficient resources to satisfy all wants.

- **Factors of production:**

Resources needed to produce goods and services — land, labour, capital, and enterprise.

- **Land:**

All natural resources used in production, such as minerals, water, and land itself.

- **Labour:**

The human effort required in the production process.

- **Capital:**

The man-made resources such as machinery, tools, and buildings used to produce goods and services.

- **Enterprise:**

The skill and risk-taking ability of the person who brings the other factors of production together to produce goods and services.

- **Opportunity cost:**

The next best alternative forgone when making a choice.

- **Added value:**

The difference between the selling price of a product and the cost of bought-in materials and components.

- **Business:**
An organisation that combines factors of production to make goods or provide services to satisfy people's needs and wants.
- **Customer:**
A person or business that buys goods or services from a business.
- **Consumer:**
The person who uses the goods or services.
- **Goods:**
Physical items that can be seen and touched.
- **Services:**
Non-physical products such as education, insurance, or transportation.
- **Primary sector:**
Firms involved in the extraction of natural resources, such as mining, fishing, or farming.
- **Secondary sector:**
Firms that manufacture goods using raw materials provided by the primary sector.
- **Tertiary sector:**
Firms that provide services to consumers and other businesses.
- **De-industrialisation:**
The decline in the importance of the secondary (manufacturing) sector in a country's economy.
- **Industrialisation:**
The growth of the secondary sector in a country's economy.
- **Mixed economy:**
An economy that has both private and public sector businesses.
- **Private sector:**
Businesses owned and controlled by individuals or groups of individuals.
- **Public sector:**
Businesses owned and controlled by the government on behalf of the public.
- **Capital:**
Money invested into a business by the owners.
- **Entrepreneur:**
A person who organises, operates, and takes the risk for a new business venture.
- **Business plan:**
A document that sets out the business objectives and details of how they will be achieved.
- **Capital employed:**
The total value of capital used in the business.

- **Value of output:**

The total value of goods and services produced by a business in a given period.

- **Revenue:**

The total income a business receives from selling its goods or services.

- **Profit:**

The difference between total revenue and total costs.

- **Market share:**

The percentage of total market sales held by one business.

- **Internal growth:**

Occurs when a business expands by increasing its own output, customer base, or product range.

- **External growth:**

Occurs when a business takes over or merges with another business.

- **Merger:**

When the owners of two businesses agree to join their firms together to form one new business.

- **Takeover (acquisition):**

When one business buys out the owners of another business.

- **Horizontal integration:**

When two businesses in the same industry and at the same stage of production join together.

- **Vertical integration:**

When a business merges with or takes over another in the same industry but at a different stage of production.

- **Forward vertical integration:**

When a business merges with another at a later stage of production (e.g. a manufacturer and a retailer).

- **Backward vertical integration:**

When a business merges with another at an earlier stage of production (e.g. a manufacturer and a supplier).

- **Conglomerate integration (diversification):**

When two businesses in completely different industries join together.

- **Economies of scale:**

The factors that lead to a reduction in average costs as a business increases in size.

- **Diseconomies of scale:**

The factors that cause average costs to rise when a business becomes too large.

- **Business failure:**
When a business is unable to continue operating due to lack of finance or poor performance.
 - **Sole trader:**
A business owned and operated by one person.
 - **Partnership:**
A business owned by two or more people who share profits and responsibilities.
 - **Deed of partnership:**
A legal agreement between partners outlining responsibilities, profit sharing, and procedures if the partnership ends.
 - **Unincorporated business:**
A business that does not have a separate legal identity from its owner(s).
 - **Incorporated business:**
A business that has a separate legal identity from its owner(s).
 - **Shareholders:**
Individuals or organisations that own shares in a company.
 - **Dividend:**
A payment made to shareholders from a company's profits.
 - **Limited liability:**
The shareholders' liability is limited to the amount they invested in the business.
 - **Unlimited liability:**
Owners are personally responsible for all the debts of the business.
 - **Private limited company (Ltd):**
A company that can sell shares privately to friends and family but not to the general public.
 - **Public limited company (plc):**
A company that can sell its shares to the public and is listed on the stock exchange.
 - **Franchise:**
An agreement where a business (franchisor) allows another (franchisee) to operate under its brand name in return for a fee.
 - **Joint venture:**
An agreement between two or more businesses to work together on a particular project and share the profits.
 - **Public corporation:**
A business in the public sector owned and controlled by the government.
 - **Social enterprise:**
A business with social objectives that reinvests profits into achieving these goals rather than distributing them to owners.
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➤ Unit 2: People in Business

- **Human resources:**

The department responsible for recruiting, training, and managing employees in a business.

- **Recruitment:**

The process of identifying that a business needs to employ someone, defining the job, and attracting suitable candidates.

- **Job analysis:**

The process of identifying the tasks and responsibilities involved in a job.

- **Job description:**

A detailed outline of the duties, responsibilities, and reporting relationships of a job.

- **Person specification:**

A document that outlines the qualifications, skills, and experience required from a job applicant.

- **Internal recruitment:**

Filling a vacancy by appointing someone already employed within the business.

- **External recruitment:**

Filling a vacancy by hiring someone from outside the business.

- **Curriculum vitae (CV):**

A written document outlining a person's qualifications, work experience, and personal details.

- **Application form:**

A standardised form completed by job applicants to provide the employer with key information.

- **Interview:**

A face-to-face meeting where the employer assesses an applicant's suitability for a job.

- **Shortlisting:**

Selecting the most suitable applicants from all those who applied to be interviewed.

- **Induction training:**

Training given to new employees to introduce them to the business and their role.

- **On-the-job training:**

Training that takes place while the employee is doing their regular work.

- **Off-the-job training:**

Training that occurs away from the workplace, often at external training centres or colleges.

- **Workforce planning:**

Forecasting the number and type of employees a business will need in the future.

- **Dismissal:**

When employment is ended against the will of the employee, usually for not working according to the contract.

- **Redundancy:**

When an employee is no longer needed, and their job no longer exists, usually due to reduced demand or restructuring.

- **Contract of employment:**

A legal agreement between employer and employee listing rights and responsibilities.

- **Wage:**

A payment for work, usually paid weekly and based on hours worked.

- **Salary:**

A fixed payment for work, usually paid monthly and not directly linked to hours worked.

- **Piece rate:**

Payment based on the number of units of output produced.

- **Time rate:**

Payment based on the amount of time an employee has worked.

- **Commission:**

Payment related to the value of sales made, often used for sales staff.

- **Bonus:**

An additional reward paid to employees, usually for meeting performance targets.

- **Profit sharing:**

A system where employees receive a share of the company's profits.

- **Performance-related pay (PRP):**

A pay system where employees receive extra rewards for meeting or exceeding performance targets.

- **Fringe benefits (perks):**

Non-financial rewards given to employees, such as company cars or health insurance.

- **Job satisfaction:**

The enjoyment employees get from their work, motivating them to do better.

- **Motivation:**
The reasons why employees work hard and effectively for the business.
- **Job rotation:**
Switching employees between different tasks to reduce boredom and increase skills.
- **Job enlargement:**
Giving employees more tasks of a similar level of responsibility.
- **Job enrichment:**
Giving employees more responsibility and decision-making power to make work more fulfilling.
- **Delegation:**
Passing responsibility and authority for a task to a subordinate.
- **Empowerment:**
Giving employees more control over their work and the authority to make decisions.
- **Maslow's hierarchy of needs:**
A motivation theory suggesting people have five levels of needs — physiological, safety, social, esteem, and self-actualisation.
- **Herzberg's two-factor theory:**
A motivation theory that identifies motivators (e.g. achievement, recognition) and hygiene factors (e.g. pay, conditions).
- **Organisation chart:**
A diagram showing the structure of a business and the relationships between employees.
- **Hierarchy:**
The levels of authority in an organisation.
- **Span of control:**
The number of subordinates working directly under a manager.
- **Chain of command:**
The line of authority through which instructions are passed down in an organisation.
- **Delegation:**
Giving a subordinate authority to perform a particular task.
- **Line manager:**
A manager directly responsible for people below them in the hierarchy.
- **Functional departments:**
The main areas of a business such as marketing, finance, operations, and human resources.
- **Centralised organisation:**
An organisation where decision-making power is kept at the top of the hierarchy.

- **Decentralised organisation:**
An organisation where decision-making power is passed down to lower levels in the hierarchy.
 - **Communication:**
The process of transferring a message from a sender to a receiver.
 - **Internal communication:**
Communication between people inside the same organisation.
 - **External communication:**
Communication between the business and individuals or organisations outside it.
 - **Vertical communication:**
Messages passed up or down the hierarchy (e.g. manager to worker).
 - **Horizontal communication:**
Messages passed between people at the same level in the organisation.
 - **Formal communication:**
Official messages passed through the approved organisational channels.
 - **Informal communication:**
Unofficial discussions that take place outside formal communication channels.
 - **Effective communication:**
Communication where the message is received, understood, and acted upon correctly.
 - **Barriers to communication:**
Factors that prevent messages from being received or understood properly (e.g. noise, poor language, or technology failure).
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➤ Unit 3: Marketing

- **Marketing:**
Identifying customer wants and satisfying them profitably.
- **Customer:**
A person, business, or organisation that buys goods or services from a business.
- **Consumer:**
A person who uses goods and services for personal use, not for resale.
- **Customer loyalty:**
When existing customers repeatedly buy products from the same business rather than switching to competitors.

- **Customer relationships:**
Communicating and engaging with customers to encourage loyalty and repeat purchases.
- **Market:**
All potential customers and sellers of a particular good or service.
- **Market share:**
The percentage of total market sales held by one brand or business.
- **Mass market:**
A large market where products are sold to many customers with similar needs.
- **Niche market:**
A small and specialised segment of a larger market, focused on a specific group of consumers.
- **Market segment:**
A sub-group of a whole market in which consumers share similar characteristics or preferences.
- **Market segmentation:**
Dividing the market into groups of consumers with similar needs or characteristics.
- **Market research:**
The process of gathering, analysing, and interpreting information about a market.
- **Primary research (field research):**
The collection of new and original data directly from potential or existing customers.
- **Secondary research (desk research):**
Using data that has already been collected and published by others.
- **Questionnaire:**
A set of written questions used to collect data from respondents.
- **Interview:**
A direct, often face-to-face or telephone discussion to collect detailed information.
- **Online survey:**
A questionnaire conducted over the internet to gather data from respondents.
- **Focus group:**
A small group of people representing the target market who discuss opinions about a product or service.
- **Sample:**
A group of people selected to provide information for market research.

- **Random sample:**
A sample where every member of the target population has an equal chance of being selected.
- **Quota sample:**
A sample chosen based on specific characteristics such as age, gender, or income.
- **Product-oriented business:**
A business that focuses mainly on producing and improving the product itself rather than customer needs.
- **Market-oriented business:**
A business that researches customer needs before developing and producing products.
- **Marketing budget:**
A financial plan showing how much money can be spent on marketing activities over a certain period.
- **The marketing mix:**
The combination of factors that influence a customer's decision to buy a product — often called the four Ps: product, price, place, and promotion.
- **Product:**
The good or service offered to meet customer needs.
- **Price:**
The amount customers are charged for a product.
- **Place:**
The methods of distribution used to get the product from the producer to the consumer.
- **Promotion:**
The activities used to raise customer awareness and encourage purchases.
- **Unique Selling Point (USP):**
A special feature of a product that makes it different from competitors' products.
- **Brand name:**
The unique name of a product that distinguishes it from other brands.
- **Brand loyalty:**
When consumers repeatedly buy the same brand instead of choosing competitors.
- **Brand image:**
The perception or identity that a product has in the minds of consumers.
- **Packaging:**
The physical container or wrapping of a product, used for protection and promotional appeal.

- **Product life cycle:**

The stages a product passes through — introduction, growth, maturity, and decline.

- **Extension strategy:**

A method used to prolong the maturity stage of a product's life cycle (e.g. redesigning, rebranding, or entering new markets).

- **Cost-plus pricing:**

Setting a price by adding a profit mark-up to the cost of production.

- **Competitive pricing:**

Setting a price similar to or slightly lower than competitors to attract customers.

- **Penetration pricing:**

Setting a low price when entering a new market to encourage customers to try the product.

- **Price skimming:**

Setting a high price for a new product initially, then lowering it later.

- **Promotional pricing:**

Temporarily reducing the price to boost short-term sales.

- **Dynamic pricing:**

Changing prices frequently, often online, based on demand and market conditions.

- **Price elastic demand:**

When demand changes significantly due to a small change in price.

- **Price inelastic demand:**

When demand changes little despite a change in price.

- **Distribution channel:**

The route a product takes from producer to consumer.

- **Agent:**

An independent person or business authorised to sell or distribute products for a company.

- **Wholesaler:**

A business that buys goods in bulk from manufacturers and sells them in smaller quantities to retailers.

- **Retailer:**

A business that sells products directly to consumers.

- **E-commerce:**

The buying and selling of goods or services over the internet.

- **Promotion mix:**

The combination of promotional methods used by a business to communicate with customers.

- **Advertising:**
Paid communication to inform or persuade customers to buy a product.
 - **Informative advertising:**
Advertising that gives detailed information about a product's features and uses.
 - **Persuasive advertising:**
Advertising designed to convince customers that they need a particular product.
 - **Sales promotion:**
Short-term incentives such as discounts, free samples, or competitions to boost sales.
 - **Personal selling:**
Using sales representatives to directly communicate and persuade potential customers.
 - **Public relations (PR):**
Promotional activities that aim to improve a business's image and build good relationships with the public.
 - **Sponsorship:**
Paying to associate a brand with an event, team, or individual to gain publicity.
 - **Target audience:**
The specific group of consumers at whom a product or advertisement is aimed.
 - **Social media marketing:**
Using social media platforms to promote products and interact with customers.
 - **Viral marketing:**
Encouraging customers to share information about a product online, spreading brand awareness rapidly.
 - **Marketing strategy:**
A long-term plan combining the elements of the marketing mix to achieve marketing objectives.
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➤ Unit 4: Operations Management

- **Operations management:**
The process of converting inputs (like raw materials and labour) into finished goods and services efficiently.
- **Production:**
The process of creating goods and services using resources such as labour, machinery, and raw materials.

- **Productivity:**
The output measured against the inputs used to create it.
Formula:
- Productivity = quantity of output ÷ factor of production
- **Labour productivity:**
A measure of output produced per worker over a given time period.
- **Efficiency:**
Producing goods and services by using the minimum possible amount of resources while maintaining quality.
- **Lean production:**
An approach that aims to minimise waste and improve efficiency in the production process.
- **Waste:**
Any activity or resource that does not add value to the final product (e.g. time delays, defects, excess inventory).
- **Just-in-time (JIT):**
A production method where materials and components are delivered only when needed, reducing inventory costs.
- **Kaizen:**
A Japanese term meaning “continuous improvement,” involving all workers suggesting small changes to improve efficiency.
- **Job production:**
Producing one product at a time, customised to the customer’s requirements (e.g. wedding dresses, ships).
- **Batch production:**
Producing a group of identical products at the same time before moving to the next batch.
- **Flow production (mass production):**
Continuous production of identical products on an assembly line.
- **Automation:**
Using machines and technology instead of human labour in production.
- **Mechanisation:**
Using machines to assist human labour, where workers still control or operate the machines.
- **Economies of scale:**
The cost advantages a business gains as it increases production, reducing the average cost per unit.
- **Diseconomies of scale:**
When a business becomes too large and inefficiencies cause average costs to rise.

- **Purchasing economies:**
Discounts gained by buying inputs in bulk.
- **Marketing economies:**
Spreading the cost of advertising and promotion over more units.
- **Financial economies:**
Gaining easier access to loans and lower interest rates because of large size.
- **Managerial economies:**
Employing specialist managers increases efficiency.
- **Technical economies:**
Using more advanced, large-scale machinery reduces average costs.
- **Break-even:**
The level of output where total revenue equals total costs.
- **Break-even point (units formula):** $\text{Break-Even Point (Units)} = \frac{\text{Fixed Costs}}{\text{Selling Price Per Unit} - \text{Variable Cost Per Unit}}$
- **Margin of safety:**
The difference between actual output and the break-even level of output.
- **Quality:**
Meeting or exceeding customer expectations for a product or service.
- **Quality control:**
Checking finished products to ensure they meet the required standard.
- **Quality assurance:**
Ensuring quality at every stage of production to prevent defects rather than detect them later.
- **Total Quality Management (TQM):**
A system where all employees are responsible for maintaining and improving quality throughout the business.
- **Inventory (stock):**
The raw materials, components, and finished goods a business holds.
- **Inventory control:**
Managing stock levels to ensure production runs smoothly without holding too much or too little.
- **Buffer inventory:**
Extra inventory kept to deal with unexpected demand or supply delays.
- **Lead time:**
The time taken between ordering materials and receiving them.
- **Supply chain:**
The network of organisations and activities involved in producing and delivering a product to the final customer.

- **Logistics:**
The management of the movement, storage, and delivery of materials and finished goods.
 - **Supplier:**
A business that provides goods or services to another business.
 - **Procurement:**
The process of obtaining goods and services a business needs from suppliers.
 - **Computer-aided design (CAD):**
Software used to create detailed product designs and technical drawings.
 - **Computer-aided manufacturing (CAM):**
Software and machinery used to control the production process automatically.
 - **Robotics:**
The use of programmable machines to perform repetitive or dangerous production tasks.
 - **Capital-intensive production:**
Production that relies more on machinery and technology than human labour.
 - **Labour-intensive production:**
Production that relies heavily on human workers rather than machines.
 - **Added value:**
The difference between the selling price of a product and the cost of the materials used to make it.
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➤ Unit 5: Financial Information and Decisions

- **Finance:**
The money required by a business to carry out its activities.
- **Capital:**
Money invested into a business by the owner(s) to start up or expand operations.
- **Start-up capital:**
The finance needed to start a new business.
- **Working capital:**
The capital needed for the day-to-day running of a business.
Formula:

$$\text{Working capital} = \text{current assets} - \text{current liabilities}$$

- **Capital expenditure:**
Money spent on non-current (fixed) assets that will last for more than one year, such as buildings or machinery.
- **Revenue expenditure:**
Money spent on daily operations like wages, rent, and materials.
- **Internal finance:**
Finance raised from within the business, such as retained profits or the sale of assets.
- **External finance:**
Finance obtained from outside the business, such as loans or share issues.
- **Retained profit:**
Profit kept in the business after owners have taken their share.
- **Sale of existing assets:**
Selling unwanted non-current assets to raise finance.
- **Owners' savings:**
Money invested by the owner(s) from personal savings.
- **Issue of shares:**
Selling shares in a limited company to raise capital.
- **Bank loan:**
A fixed sum of money borrowed from a bank, repaid with interest over time.
- **Overdraft:**
A short-term borrowing facility allowing a business to spend more than it has in its bank account.
- **Trade credit:**
Buying goods from suppliers on account and paying for them later.
- **Hire purchase:**
Paying for non-current assets in installments over time.
- **Leasing:**
Renting an asset rather than purchasing it outright.
- **Microfinance:**
Providing small loans to poor individuals or small businesses in developing countries.
- **Crowdfunding:**
Raising finance by collecting small amounts of money from many people online.
- **Short-term finance:**
Finance needed for up to one year (e.g. overdrafts, trade credit).
- **Long-term finance:**
Finance needed for more than one year (e.g. loans, share capital).

- **Cash:**

Money available to pay expenses immediately — includes coins, banknotes, and bank deposits.

- **Cash flow:**

The movement of money into and out of a business.

- **Cash inflow:**

Money received by the business (e.g. sales revenue, loans, investments).

- **Cash outflow:**

Money paid out by the business (e.g. wages, rent, purchases).

- **Net cash flow:**

The difference between cash inflows and outflows.

Formula:

$$\text{Net cash flow} = \text{Cash inflows} - \text{Cash outflows}$$

- **Cashflow forecast:**

An estimate of future cash inflows and outflows over a period.

- **Opening balance:**

The amount of cash available at the start of a period.

- **Closing balance:**

The amount of cash left at the end of a period.

Formula:

$$\text{Closing balance} = \text{Opening balance} + \text{Net cash flow}$$

- **Profit:**

The financial gain made when revenue is greater than costs.

- **Revenue (sales turnover):**

The total income received from selling goods and services.

Formula:

$$\text{Revenue} = \text{Selling price} \times \text{Quantity sold}$$

- **Costs:**

The expenses incurred in producing and selling goods or services.

- **Fixed costs:**

Costs that do not change with output (e.g. rent, insurance).

- **Variable costs:**

Costs that change directly with output (e.g. raw materials, wages).

- **Total cost:**

The sum of fixed and variable costs.

Formula:

$$\text{Total cost} = \text{Fixed cost} + \text{Variable cost}$$

- **Break-even:**

The point at which total revenue equals total cost — no profit or loss.

- **Break-even chart:**

A graph showing how costs and revenues vary with output and where they are equal.

- **Margin of safety:**

The amount by which actual output exceeds the break-even output.

- **Income statement:**

A financial statement showing a business's revenue, costs, and profit over a period.

- **Gross profit:**

Profit made after subtracting cost of sales from revenue.

Formula:

$$\text{Gross profit} = \text{Revenue} - \text{Cost of sales}$$

- **Net profit:**

Profit after all expenses, including overheads, have been deducted.

Formula:

$$\text{Net profit} = \text{Gross profit} - \text{Expenses}$$

- **Statement of financial position (balance sheet):**

A statement showing the value of a business's assets, liabilities, and capital at a specific date.

- **Assets:**

Resources owned by a business that have value.

- **Non-current (fixed) assets:**

Assets used for more than one year (e.g. machinery, buildings).

- **Current assets:**

Assets that are likely to be converted into cash within one year (e.g. inventory, receivables, cash).

- **Liabilities:**

Amounts the business owes to others.

- **Non-current liabilities:**

Debts due for repayment after more than one year (e.g. bank loans).

- **Current liabilities:**

Debts due within one year (e.g. trade payables, overdrafts).

- **Owner's equity (capital employed):**

The total amount invested in the business by the owners.

Formula:

$$\text{Capital employed} = \text{Non-current liabilities} + \text{Owner's equity}$$

- **Working capital:**

The funds available to meet day-to-day expenses.

Formula:

$$\text{Working capital} = \text{Current assets} - \text{Current liabilities}$$

- **Liquidity:**

The ability of a business to pay its short-term debts.

- **Profitability ratio:**

A financial measure that shows how efficiently a business makes profit.

- **Gross profit margin:**

Percentage of revenue left after deducting cost of sales.

Formula:

$$\text{Gross profit margin} = \text{Gross profit/revenue} \times 100$$

- **Net profit margin:**

Percentage of revenue left after all expenses.

Formula:

$$\text{Net profit margin} = \text{Net profit/revenue} \times 100$$

- **Return on capital employed (ROCE):**

Shows how efficiently a business uses capital to generate profit.

Formula:

$$\text{ROCE} = \text{Net profit/ Capital employed} \times 100$$

- **Liquidity ratio:**

A measure of a business's ability to pay short-term debts.

-

Current ratio: Compares current assets to current liabilities.

Formula:

$$\text{Current ratio} = \text{Current assets/ Current liabilities}$$

- **Acid test ratio (quick ratio):**

Measures ability to pay short-term debts without selling inventory.

Formula:

$$\text{Acid test ratio} = (\text{current assets} - \text{inventory}) / \text{Current liabilities}$$

➤ **Unit 6: External Influences on Business Activity**

- **External influences:**

Factors outside a business's control that affect its operations, decisions, and performance.

- **Economic activity:**

The production, distribution, and consumption of goods and services in an economy.

- **Business cycle:**

The periodic fluctuations in economic activity — including growth, recession, and recovery.

- **Gross Domestic Product (GDP):**

The total value of goods and services produced in a country over a period.

- **Recession:**

A period of economic decline where GDP falls and demand for goods and services decreases.

- **Economic growth:**

An increase in a country's output of goods and services over time.

- **Inflation:**

A general rise in the prices of goods and services over time.

- **Deflation:**

A general fall in prices across the economy.

- **Exchange rate:**

The value of one currency compared with another.

- **Interest rate:**

The cost of borrowing money or the reward for saving.

- **Unemployment:**

The proportion of people in the labour force who are willing and able to work but cannot find jobs.

- **Disposable income:**
The amount of income left after taxes have been deducted.
- **Fiscal policy:**
Government policy on taxation and spending to influence the economy.
- **Monetary policy:**
Government or central bank policy controlling interest rates and the money supply.
- **Government expenditure:**
Money spent by the government on public services, infrastructure, and welfare.
- **Taxation:**
Compulsory payments made by individuals and businesses to the government.
- **Direct taxes:**
Taxes charged on income or profits (e.g. income tax, corporation tax).
- **Indirect taxes:**
Taxes on spending, such as sales tax or import duties (e.g. VAT).
- **Subsidy:**
A payment by the government to businesses to lower costs and encourage production.
- **Import:**
Goods and services bought from abroad.
- **Export:**
Goods and services sold to customers in other countries.
- **Trade balance:**
The difference between the value of exports and imports.
- **Protectionism:**
Government actions to restrict international trade to protect domestic industries.
- **Tariff:**
A tax on imported goods.
- **Quota:**
A limit on the quantity of a product that can be imported.
- **Free trade:**
The absence of trade barriers between countries.
- **Exchange rate appreciation:**
When a country's currency increases in value relative to others.
- **Exchange rate depreciation:**
When a country's currency decreases in value relative to others.
- **Environmental protection:**
Government measures and business actions aimed at reducing pollution and conserving natural resources.

- **Externality:**
The positive or negative effects of a business's activities on society that are not reflected in market prices.
- **Pollution:**
The contamination of the environment through harmful emissions or waste.
- **Sustainability:**
Operating in a way that meets present needs without compromising future generations' ability to meet theirs.
- **Pressure group:**
An organisation formed to influence businesses or government policy on specific issues.
- **Ethical decision-making:**
Choosing actions that are morally right and socially responsible.
- **Corporate Social Responsibility (CSR):**
A business's commitment to acting ethically and contributing to economic development while improving life for employees, local communities, and society.
- **Globalisation:**
The growing interdependence and connectedness of countries through trade, investment, and communication.
- **Multinational company (MNC):**
A business that operates in more than one country.
- **Benefits of MNCs to host countries:**
 - ❖ Job creation
 - ❖ Transfer of skills and technology
 - ❖ Increased tax revenue
 - ❖ Economic growth
- **Drawbacks of MNCs to host countries:**
 - ❖ Exploitation of labour
 - ❖ Environmental damage
 - ❖ Profit repatriation (profits sent back to home country)
 - ❖ Local businesses may struggle to compete
- **Exchange control:**
Government restrictions on buying and selling foreign currency.

- **Consumer protection law:**
Legislation ensuring customers are treated fairly and products are safe.
 - **Employment law:**
Rules protecting workers' rights, such as fair wages, working conditions, and discrimination prevention.
 - **Health and safety law:**
Regulations requiring businesses to ensure a safe working environment.
 - **Competition law:**
Laws preventing monopolies and ensuring fair competition between businesses.
 - **Data protection law:**
Regulations that require businesses to handle personal data responsibly and securely.
 - **Technology:**
The practical application of scientific knowledge to improve production, communication, and efficiency.
 - **Automation:**
The use of technology to perform tasks with minimal human input.
 - **E-commerce:**
The buying and selling of goods and services online.
 - **Digital marketing:**
The use of online platforms (e.g. social media, websites, email) to promote products.
 - **Social media influence:**
The use of social platforms and influencers to shape consumer preferences and buying behaviour.
 - **Innovation:**
The process of developing new products, services, or methods to improve competitiveness.
-

IGCSE Business Studies 0450 Notes

Content overview

1 Understanding business activity

This section introduces the underlying ideas and concepts of business and includes the purpose and nature of business activity and how businesses can be classified. Enterprise and entrepreneurs, and why some businesses grow while others remain small are further important issues. How business size can be measured, types of business organisation, business objectives and stakeholder objectives are the concluding topics.

2 People in business

The focus is the functional area of human resources and includes the importance and methods of motivating a workforce. How businesses are organised and managed and the methods of recruitment, selection and training of employees are also considered. Finally, the section covers the importance and methods of effective internal and external communication.

3 Marketing

This section includes the role of marketing, the distinctions between niche and mass markets and the techniques of market segmentation. The methods and importance of market research are covered. The central role of the marketing mix, i.e. the four Ps, is made clear. Marketing strategies to influence consumer decisions at home and in new foreign markets are the final topics in this section.

4 Operations management

The focus is the functional area of production and includes the meaning and methods of production and how productivity can be increased. The different costs of production and break-even analysis are covered. The section concludes with the importance and methods of achieving quality in the production process and location decisions of businesses.

5 Financial information and decisions

This finance and accounting section covers the need for and sources of business finance, cash-flow forecasting and working capital. Simple income statements are covered as well as statements of financial position and the analysis of accounts including why and how accounts are used.

6 External influences on business activity

This section focuses on different external influences on business activity and how these impact on a business. It includes government influences on economic, environmental and ethical issues and how they impact on the functional areas of businesses. In addition, the international economy including globalisation and its effects on businesses and governments, multinational businesses and exchange rates are important issues. Legal constraints are an external influence to be considered but these influences are covered in the relevant functional areas above, as well as in this last section.

Unit 1: Understanding business activity

Cambridge IGCSE Business Studies 0450 syllabus for 2026.

3 Subject content

This syllabus gives you the flexibility to design a course that will interest, challenge and engage your learners. Where appropriate you are responsible for selecting topics, subject contexts, resources and examples to support your learners' study. These should be appropriate for the learners' age, cultural background and learning context as well as complying with your school policies and local legal requirements.

In all of the following, candidates are required to apply their understanding to a variety of simple business situations. Candidates should be able to make simple decisions based upon the analysis and evaluation of information provided.

1 Understanding business activity

1.1 Business activity

- 1.1.1 The purpose and nature of business activity:
- Concepts of needs, wants, scarcity and opportunity cost
 - Importance of specialisation
 - Purpose of business activity
 - The concept of adding value and how added value can be increased

1.2 Classification of businesses

- 1.2.1 Economic sectors in terms of primary, secondary and tertiary sectors:
- Basis of business classification, using examples to illustrate the classification
 - Reasons for the changing importance of business classification, e.g. in developed and developing economies

- 1.2.2 Classify business enterprises between private sector and public sector in a mixed economy

1.3 Enterprise, business growth and size

- 1.3.1 Enterprise and entrepreneurship:
- Characteristics of successful entrepreneurs
 - Contents of a business plan and how business plans assist entrepreneurs
 - Why and how governments support business start-ups, e.g. grants, training schemes

1.3 Enterprise, business growth and size continued

1.3.2 The methods and problems of measuring business size:

- Methods of measuring business size, e.g. number of people employed, value of output, capital employed (profit is not a method of measuring business size)
- Limitations of methods of measuring business size

1.3.3 Why some businesses grow and others remain small:

- Why the owners of a business may want to expand the business
- Different ways in which businesses can grow, e.g. internal/external
- Problems linked to business growth and how these might be overcome
- Why some businesses remain small

1.3.4 Why some (new or established) businesses fail:

- Causes of business failure, e.g. lack of management skills, changes in the business environment, liquidity problems
- Why new businesses are at a greater risk of failing

1.4 Types of business organisation

1.4.1 The main features of different forms of business organisation:

- Sole traders, partnerships, private and public limited companies, franchises and joint ventures
- Differences between unincorporated businesses and limited companies
- Concepts of risk, ownership and limited liability
- Recommend and justify a suitable form of business organisation to owners/management in a given situation
- Business organisations in the public sector, e.g. public corporations

1.5 Business objectives and stakeholder objectives

1.5.1 Businesses can have several objectives and the importance of them can change:

- Need for business objectives and the importance of them
- Different business objectives, e.g. survival, growth, profit and market share
- Objectives of social enterprises

1.5.2 The role of stakeholder groups involved in business activity:

- Main internal and external stakeholder groups
- Objectives of different stakeholder groups
- How these objectives might conflict with each other, use examples

1.5.3 Differences in the objectives of private sector and public sector enterprises

Chapter 1: Business Activity

- **Needs:** They are goods and services essential for living and are limited in nature.
- **Wants:** They are goods and services non-essential for living and are unlimited in nature.
- **Economic Problem:** Unlimited wants but resources required for satisfaction are limited.
- **Factors of Production:** They are resources needed to produce goods and services. They are limited in nature and include:
 1. **Land:** includes all natural resources used in production
 2. **Labour:** it encompasses all the mental and physical efforts put in by employees
 3. **Capital:** finance, machinery and equipment needed for the manufacture of goods
 4. **Enterprise:** The individual who combines the three factors and takes the risk of starting a new business

Scarcity: It is the lack of sufficient products to fulfill the wants of the population.
Opportunity Cost: It is the next best alternative forgone by choosing another item. Due to scarcity a choice has to be made and this choice leads to opportunity cost.

Specialisation occurs when people and businesses concentrate on what they are best at.

Specialisation is very common because:

1. Specialised machinery and technology are widely available
2. Increased competition means that businesses have to keep costs low
3. People believe higher living standards are a product of specialisation

Division of labour is when the production process is split up into different tasks and each worker performs one of these tasks. It is also a form of specialisation.

Advantages of Division of Labour

Workers are trained hence increased efficiency and output

Less time is wasted in movement from one workbench to other

Quicker and cheaper to train workers

Disadvantages of Division of Labour

Workers become bored due to the monotonous routine causes demotivation

If one worker is absent it might result in halting the entire production process

Specialised workers need high wages

Businesses combine the factors of production to produce products (goods and services) which satisfy people's wants.
In short business activity:

1. Combines scarce factors of production
2. Produces goods and services to satisfy needs and wants of population
3. Employs individuals as workers and pays them wages

Added value is the difference between the selling price of a product and the cost of bought-in materials and components
(Added value = Selling price – Cost price).

To increase added value a business can:

1. Increase selling price but keep cost of materials the same
2. Decrease the cost of materials but keep the selling price same
3. Establish a brand name by advertisement etc.

Advantages of Added Value	Disadvantages of Added Value
Maybe able to make a profit if these other costs come to a total less than the added value	Increasing the products selling price might make it expensive causing lower sales
Helps to cover other expenses like labour costs, management expenses etc.	Decreasing cost price might lower the product's quality leading to bad reputation

Chapter 2: Classification of Businesses

Businesses can be classified in three different sectors:

1. Primary sector – extracts and uses the natural resources of Earth to produce raw materials used by other businesses e.g mining, fishing, agriculture etc.
2. Secondary sector – manufactures finished or semi-finished goods by using the raw materials provided by the primary sector e.g construction, food-processing companies etc.
3. Tertiary sector – provides services to consumers and other sectors of industry e.g banking, transport, insurance etc.
 - Developing Countries: where the primary sector is the most important, as more employees and output are produced than in secondary and tertiary sectors
 - Developed Countries: where the output of the tertiary sector is often higher than the other two sectors combined.

De-industrialisation occurs when there is a decline in the importance of the secondary sector.

Relative importance of economic sectors depends on a country's stage of economic development.

Usually compared by:

- 1. Percentage of country's total number of workers employed in each sector**
- 2. Value of output goods and services and the proportion this is of total national output**

Reasons for changes in the relative importance of the three sectors over time:

- 1. When sources of some primary products become depleted**
- 2. Developed economies are losing competitiveness to newly industrialised countries**
- 3. Due to rise in living standards, consumers spend more of their income on services such as travel and restaurants**

A mixed economy has both private and public (state) sectors.

- Private Sector: Businesses not owned by the government; main aim is to make profits.**
- Public Sector: Owned by the government; main aim is to provide service and employment.**

Privatisation: Selling a public sector business to the private sector.

Advantages of Privatisation

Competition between private sectors results in standardised products
More efficient use of capital and labour
Costs are controllable as main aim is profit

Disadvantages of Privatisation

Increased unemployment as main aim of private sector is profit maximisation
Less likely to focus on social objectives

—

Chapter 3: Enterprise, Business Growth and Size

- **Entrepreneur:** a person who organises, operates and takes the risk for a new business venture.

Advantages of being an Entrepreneur

Independence - able to choose how to use time and money
Able to put own ideas and skills into practice
May become famous and successful
May be profitable and income might be greater than being an employee

Disadvantages of being an Entrepreneur

Risk - many new entrepreneurs' businesses fail, especially if poorly planned
Capital - a lot of finance is required
Lack of knowledge and experience
Opportunity cost - lost income from not being an employee of another business

Characteristics of entrepreneurs:

1. Hard working
2. Risk taker
3. Creative
4. Optimistic
5. Self-confident
6. Innovative
7. Independent
8. Effective communicator

- **Business Plan:** A document containing business objectives and details about operations, finance, and owners.

Characteristics of a business plan:

1. Description of the business
2. Products and services
3. The market
4. Business location and how products reach customers
5. Organisation structure and management
6. Financial information
7. Business strategy

Governments encourage business start-ups to reduce unemployment, increase competition/output, benefit society, and promote economic growth.

Government support for entrepreneurs:

1. Training and advice sessions
2. Finance via low-interest loans or grants
3. Grants for employee training
4. Access to research facilities in universities

Business size matters for investors, governments, competitors, workers, and banks.

<u>Measurement</u>	<u>Limitations</u>
Number of people employed	Capital-intensive firms employ fewer people but produce high output
Value of output	Doesn't account for value of goods sold
Value of sales	Different businesses sell different products
Value of capital employed	Labour-intensive firms use less capital

Reasons for business expansion:

1. **Higher profits**
2. **Prestige/status**
3. **Lower average costs (economies of scale)**
4. **Increased market share**

Types of growth:

- **Internal: expanding existing operations**
- **External: takeover or merger**

Integration Types:

- **Horizontal integration: same industry and stage of production**
- **Vertical integration: same industry, different production stage**
 - **Forward integration: next stage**
 - **Backward integration: previous stage**
- **Conglomerate integration: completely different industries**

Chapter 4: Types of Business Organisation

- **Sole trader is a business owned by one person. It is a form of a private unincorporated business.**
- **Partnership is a form of an unincorporated business in which two or more people agree to jointly own a business. It is a form of a private unincorporated business.**
- **Private limited companies (LTD) are businesses owned by shareholders but they cannot sell shares to the public. It is a form of a private incorporated business.**
- **Public limited companies (PLC) are businesses owned by shareholders but they can sell shares to the public (tradeable in Stock Exchange). It is a form of a private incorporated business.**

- A franchise is an agreement of a business based upon an existing brand/business. The franchisee buys the license to operate this business from the franchiser. It is a form of a private incorporated business.
 - A joint venture is where two or more businesses start a new business together, sharing capital, risks and profits. It is a form of a private incorporated business.
 - A public corporation is a business in the public sector owned and controlled by the government.
 - Limited liability means that the liability of shareholders in a company is limited only to the amount they invested. It is only applicable in incorporated businesses with separate legal identity.
 - Unlimited liability means that the owners of a business can be held responsible for the debts of the business they own. Their liability is not limited to the investment they made in the business. It occurs in unincorporated businesses which lack a separate legal identity.
 - An unincorporated business is a form of business which lacks separate legal identity.
 - An incorporated business is a form of business with a separate legal status from their owners.
 - Shareholders are owners of a limited company. They buy shares which represent part-ownership of the company.
 - Dividends are payments made to the shareholders from the profits (after tax) of a company. They are the return to shareholders for investing in the company.
-

Advantages and Disadvantages of Being a Sole Trader

Advantages	Disadvantages
Few legal regulations – easy to set up	May not be able to raise funds for expansion
He is his own boss and has complete control	No separate legal identity, unlimited liability
Flexible working time	May have to work long hours

Direct contact with customers

Difficult to compete with large firms

All profit goes to the owner

Difficult to compete with larger firms

Complete secrecy in business matters

Decisions can be hard to make

Advantages and Disadvantages of Being a Partnership

Advantages

Easy to set up a deed of partnership

Greater access to funds

Shared decision-making

Shared management and workload

Disadvantages

Unlimited liability

Partners share the profit

Business ceases to exist if one partner leaves

Decisions binding on all partners

Difficult to raise finance/capital

Advantages and Disadvantages of Being a Private Limited Company

Advantages

Raise capital from the sale of shares

Limited liability for shareholders

Separate legal identity

Continuity of business is practiced

Disadvantages

Cannot sell shares to the public

Several legal formalities

Accounts are available for the public to see

Difficult to transfer shares

Advantages and Disadvantages of Being a Public Limited Company

Advantages

Can sell shares to the public

**Rapid expansion possible
(managers, finance)**

Limited liability and separate legal identity

Disadvantages

Several legal formalities

Accounts are available for the public to see

Divorce between ownership and control

Continuity of business is practiced

Expensive to 'go public' (sell shares as stocks)

Advantages and Disadvantages of Being a Franchisor

Advantages

Franchisee buys the licence; source of finance

Expansion is faster

Percentage of sale revenue is given to the franchisor every year

Training, some aspects of administration, and advertising are paid by the franchisor

Management is the responsibility of franchisee

Disadvantages

Bad reputation if poor management

The franchisee keeps some profit

Advantages and Disadvantages of Being a Franchisee

Advantages

Disadvantages

Chances of business failure are reduced

Less independence

The franchisor pays for advertising

Unable to make decisions suiting local area

Fewer decisions to make with an independent business

Franchisor has the power to withdraw agreement and can stop use of the premises

The franchisor trains employees

Banks are often willing to lend to franchisees

Advantages and Disadvantages of Being a Joint Venture

Advantages

Sharing of costs

Knowledge and experience can be shared

Risks shared

Disadvantages

Profits are shared if the project is successful

Conflict in decision-making

Different styles of management create conflict

Advantages and Disadvantages of Being a Public Corporation

Advantages	Disadvantages
Ensure consumers are not taken advantage of	The profit objective is not as powerful
Reduce wasteful competitors	Inefficiency as highly dependent on state
Can help stabilize failing businesses to create job opportunities	It can be unfair to the private sector if subsidies are provided to the public sector
Important public services	Lack of close competition decreases activities

Chapter 5: Business and Stakeholder Objectives

An objective is an aim or target to work towards. A business objective is the aim or target a business works towards.

The advantages of setting objectives are:

- 1. Helps motivate the employees**
- 2. Taking decisions will be more focused on**
- 3. Objectives help unite the workforce (whole business has the same goal)**

4. Compare business's performance with its objectives
-

A Private Business Has Different Objectives:

1. **Business Survival** – Adjust to business environment, change price of products if necessary.
2. **Generating Profit** (total income of business (revenue) less total costs) – pay a return to owners or provide finance to invest further in business.
3. **Returns to Shareholders** – discourage shareholders from selling their shares. This can be done by increasing profit or increasing the share price.
4. **Growth of Business** – increase salaries, economies of scale. This is only achieved if customers are satisfied with the product.
5. **Market Share** (the total percentage of total market sales held by one brand or business) – gives good publicity and more influence over suppliers and customers.

Formula:

Market Share % = (Company sales / Total market sales) × 100

6. A social enterprise has social objectives as well as an aim to make profit to reinvest back into the business. They often have three objectives: Social, Environmental and Financial.
-

Why Business Objectives Can Change:

1. It will work towards profit after being set up and stable.
2. After achieving a high market share, it aims to “return to shareholders”.
3. A profit-making business hit with a crisis now has the short-term objective of survival.
4. Changes in consumer tastes and spending patterns.

5. Technological changes.
 6. New sources of competition.
-

Objectives of Public Sector Businesses

1. **Financial:** Meet profit targets set by the government – either reinvested or funded back to the government.
 2. **Service:** Meet quality targets the government sets and provide services to the public.
 3. **Social:** Protect or create employment in certain areas.
-

Stakeholders

A stakeholder is any person or group with a direct interest in the performance and activities of a business.

Types of stakeholder groups:

1. **Internal Stakeholders** – work/own the company (owners, managers, workers).
2. **External Stakeholders** – outside the business (consumers, government, banks, suppliers, wider community, pressure groups, and competitors).

Each stakeholder group has different objectives for the performance of the business.

Internal Stakeholders (Owners, Managers, Employees)

- Objectives are payments or profits.
- They want business growth so the value of investment increases, or they get higher status/power.

External Stakeholders

1. **Customers' objectives – reliable products, value for money, good quality, good design, and good service.**
 2. **Government objectives – money from taxes, employing more people, increasing the country's output.**
 3. **Bank objectives – to make a profit out of loans and the payback of interest.**
-

Conflict Between Stakeholders

Since different stakeholders have different objectives, it may cause conflict when trying to please all stakeholders.

Example:

Customers want cheap products, but workers want higher salaries.

Therefore, managers must compromise to decide which objectives are best for the company.

Questions:



- 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'.

.....

.....

.....

.....

[2]

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

Reason 1:

.....

Reason 2:

.....

[2]

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

Stakeholder 1:

.....

Stakeholder 2:

.....

Stakeholder 3:

.....

Stakeholder 4:

.....

[4]



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

Characteristic 1:

Explanation:

Characteristic 2:

Explanation:

[6]

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

[6]



- 1 Brendan wants to be a successful entrepreneur. He plans to start up a flower shop using government support. Brendan's brother has offered to form a business partnership with him. Brendan knows it is important for a new business to use a suitable pricing method. He has already identified ways the business can increase added value. Brendan wants to know how an economic boom might affect his business.

(a) Define 'business partnership'.

.....

.....

.....

..... [2]

(b) Identify **two** ways a government can support business start-ups.

Way 1:

.....

Way 2:

..... [2]

(c) Outline **two** ways an economic boom might affect Brendan's business.

Way 1:

.....

.....

Way 2:

.....

..... [4]



(d) Explain **two** ways Brendan could increase added value for his business.

Way 1:

Explanation:

Way 2:

Explanation:

[6]

(e) Explain **two** pricing methods a new business might use. Which is likely to be the best method to use? Justify your answer.

[6]



	[eval].		
Question	Answer	Marks	Guidance
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]	2	

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Question	Answer	Marks	Guidance
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.	2	Only award the first two responses given.
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 • Local community • Customers Other appropriate responses should be credited.	4	Only award the first four responses given.

Question	Answer	Marks	Guidance
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.	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: • Leave his job • Start-up/new business • Bakery or examples e.g. cakes, recipes • Private sector • Stakeholder (groups) Other appropriate examples can be credited. To access knowledge must identify a recognised characteristic.

Question	Answer	Marks	Guidance
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.	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.

Question	Answer	Marks	Guidance
1(a)	Define 'business partnership'. Award 2 marks for a full definition. Award 1 mark for a partial definition. - Two (or more) people agree to (jointly) own the business [2] - A business formed by two (or more) people who will usually share responsibility for the day to day running of the business [2] - An unincorporated business that has <u>more than</u> one owner [2] Partial definition e.g. - business run by two or more people [1]	2	For two marks need the idea of owned/formed and it involves at least two people.
1(b)	Identify two ways a government can support business start-ups. Award 1 mark for each way (max 2). Points might include: - Grants/subsidies (Low interest) loans - Low-cost/rent-free premises - Provide training - Tax relief/lower tax/tax holiday - Advice/help with research - Help promote/advertise the business - Provide mentors Other appropriate responses should be credited.	2	Only award the first two responses given.

Question	Answer	Marks	Guidance
1(c)	Outline two ways an economic boom might affect Brendan's business. Award 1 mark for each relevant way (max 2). Award 1 mark for each relevant reference to this business (max 2). Points might include: - High level of demand/sales/revenue [k] for flowers [app] - May be difficult to find employees [k] for the shop [app] - He can increase his prices [k] which will increase added value [app] - Higher costs / wages might increase [k] so may need more government support [app] - High business confidence [k] for this entrepreneur [app] - Increased competition [k] - Harder to access materials [k] - Harder to find a location [k] Other appropriate responses should be credited.	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: (Successful) entrepreneur - Start-up/new business - Flower(s) or examples - Shop - Government support - Increase added value (Business) partnership - Pricing method Other appropriate examples can be credited.

Question	Answer	Marks	Guidance
1(d)	Explain two ways Brendan could increase added value for his 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: - Set high prices [k] which widens the gap between the cost and price [an] for the flowers [app] - Lower (input) costs [k] by buying cheaper materials [an] for this new business [app] - Branding/marketing/packaging [k] to give the idea of higher quality [an] - Unique design/products [k] making it more desirable than similar products [an] which could influence its pricing method [app] - Improve convenience [k] so products are immediately available [an] in the shop [app] (Improve) quality/service [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 appropriate for this question: - Start-up/new business - Flower(s) or examples - Shop - Government support - Brother (Business) partnership - Pricing method (Successful) entrepreneur Other appropriate examples can be credited. Analysis can be awarded for: - explaining the reason why price or costs may be higher/lower - how the way increases the added value. Some points can be awarded as [k] or [an] but only award once. Do not award the same point of analysis twice.

Question	Answer	Marks	Guidance
1(e)	Explain two pricing methods a new business might use. Which is likely to be the best method 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 pricing method for a new business to use. Points might include: - Cost-plus [k] by adding a percentage onto the costs of production [an] it is easy to calculate [an] - Penetration pricing [k] setting a lower price <u>than competitors</u> [an] could attract customers [an] - Competitive pricing [k] setting a price <u>similar/just below</u> competitors [an] which may not cover costs [an] - Price skimming [k] allows the business to recover development costs quicker [an] may lead to low sales [an] - Promotional pricing [k] Other appropriate responses should be credited. Justification might include: Cost-plus pricing [k] is easy to calculate [an]. Price skimming [k] allows the business to recover development costs quickly [an]. Cost-plus pricing is the best method as the business will make profit on each item sold [eval] whereas with price skimming they may not attract customers to their new business [eval].	6	This is a general question so there are no marks for application. Candidates must name the method to access the knowledge marks. Analysis can be awarded for explaining the method or advantages/disadvantages Some points can be awarded as advantages or disadvantages of different methods but only award the same point once. To access evaluation must discuss two relevant methods. Accept but do not expect: - Dynamic pricing [k] - Psychological pricing [k]

Unit 2: People in Business

2 People in business

2.1 Motivating employees

2.1.1 The importance of a well-motivated workforce:

- Why people work and what motivation means
- The benefits of a well-motivated workforce: labour productivity, reduced absenteeism and labour turnover
- The concept of human needs, e.g. Maslow's hierarchy
- Key motivational theories: Taylor and Herzberg

2.1.2 Methods of motivation:

- Financial rewards, e.g. wage, salary, bonus, commission and profit sharing
- Non-financial methods, e.g. job enrichment, job rotation, teamworking, training, opportunities for promotion
- Recommend and justify appropriate method(s) of motivation in given circumstances

2.2 Organisation and management

2.2.1 Draw, interpret and understand simple organisational charts:

- Simple hierarchical structures: levels of hierarchy, span of control, chain of command e.g. tall/short
- Roles and responsibilities of directors, managers, supervisors, other employees in an organisation and inter-relationships between them

2.2.2 The role of management:

- Functions of management, e.g. planning, organising, coordinating, commanding and controlling
- Importance of delegation; trust versus control

2.2.3 Leadership styles:

- Features of the main leadership styles, e.g. autocratic, democratic and laissez-faire
- Recommend and justify an appropriate leadership style in given circumstances

2.2.4 Trade unions:

- What a trade union is and the effects of employees being union members

2.3 Recruitment, selection and training of employees

2.3.1 Recruitment and selecting employees:

- Recruitment and selection methods
- Difference between internal recruitment and external recruitment
- Main stages in recruitment and selection of employees
- Recommend and justify who to employ in given circumstances
- Benefits and limitations of part-time employees and full-time employees

2.3.2 The importance of training and the methods of training:

- Importance of training to a business and to employees
- Benefits and limitations of induction training, on-the-job training and off-the-job training

2.3 Recruitment, selection and training of employees continued

2.3.3 Why reducing the size of the workforce might be necessary:

- Difference between dismissal and redundancy with examples
- Understand situations in which downsizing the workforce might be necessary, e.g. automation or reduced demand for products
- Recommend and justify which employees to make redundant in given circumstances

2.3.4 Legal controls over employment issues and their impact on employers and employees:

- Legal controls over employment contracts, unfair dismissal, discrimination, health and safety, legal minimum wage

2.4 Internal and external communication

2.4.1 Why effective communication is important and the methods used to achieve it:

- Effective communication and its importance to business
- Benefits and limitations of different communication methods including those based on information technology (IT)
- Recommend and justify which communication method to use in given circumstances

2.4.2 Demonstrate an awareness of communication barriers:

- How communication barriers arise and problems of ineffective communication; how communication barriers can be reduced or removed

2.1 Motivating Employees

2.1.1 The Importance of a Well-Motivated Workforce

Why People Work

People work for different reasons — both financial and non-financial:

- **Financial reasons:**

- To earn income (wages/salaries) to satisfy basic needs such as food, housing, clothing.
- To achieve financial security for themselves and their families.

- **Non-financial reasons:**

- Job satisfaction – pleasure from doing the job well.
 - Status and recognition – respect and esteem from others.
 - Sense of achievement – pride in completing challenging tasks.
 - Social interaction – forming friendships and teamwork.
 - Personal development – learning new skills and progressing in one's career.
-

What Motivation Means

- Motivation refers to the willingness and enthusiasm of employees to perform their work efficiently and effectively.
 - Motivated workers are committed, productive, and loyal to the organisation.
 - A lack of motivation can lead to:
 - Lower productivity
 - High absenteeism
 - High labour turnover
 - Poor quality of work
-

Benefits of a Well-Motivated Workforce

1. Increased labour productivity – workers produce more in less time, lowering unit costs.
2. Improved quality of output – motivated workers pay more attention to detail.
3. Reduced absenteeism – fewer workers take unnecessary leave.
4. Reduced labour turnover – employees stay longer, saving recruitment and training costs.
5. Better teamwork – employees cooperate more effectively.
6. Positive workplace culture – higher morale and lower conflict.
7. Enhanced business reputation – motivated employees improve customer service.

Maslow's Hierarchy of Human Needs

Maslow proposed that human needs are arranged in a hierarchy, and people are motivated to satisfy these needs in order.

Level	Type of Need	Description	Examples in the Workplace
1	Physiological	Basic survival needs	Fair wages, meal breaks
2	Safety/Security	Safety from harm or uncertainty	Job security, safe workplace
3	Social	Belonging, friendship	Teamworking, supportive managers
4	Esteem	Recognition, respect, achievement	Promotions, praise, awards
5	Self-actualisation	Reaching one's potential	Challenging tasks, leadership roles

- ➡ Once a lower-level need is satisfied, the next level becomes a motivator.
 - ➡ Employers should design jobs and rewards to satisfy higher needs for long-term motivation.
-

Motivational Theories

Frederick Taylor (Scientific Management)

- Believed money was the main motivator.
- Workers are motivated by pay based on output (piece rate system).
- Emphasised scientific methods to find the most efficient way to perform a task.
- Advocated specialisation and strict supervision.

Criticisms:

- Treats workers like machines.
- Ignores social and psychological factors.
- Not suitable for creative jobs.

Frederick Herzberg (Two-Factor Theory)

Divided factors affecting motivation into two groups:

Factor Type	Description	Examples
Motivators	Lead to satisfaction and motivate employees to work harder.	Achievement, recognition, responsibility, promotion, growth
Hygiene Factors	Prevent dissatisfaction but do not motivate by themselves.	Salary, company policy, working conditions, supervision, job security

➔ Removing poor hygiene factors prevents unhappiness but does not increase motivation — motivators must also be added.

2.1.2 Methods of Motivation

Financial Rewards

1. Wage:

- Paid weekly, often based on hours worked.
- Simple and quick but may encourage “quantity over quality.”

2. Salary:

- Fixed annual payment divided monthly.
- Provides stability and security but may not encourage extra effort.

3. Bonus:

- Extra payment for reaching a target or during special occasions.
- Encourages short-term performance improvement.

4. Commission:

- Paid based on the amount of sales made.
- Motivates sales staff but may cause aggressive selling.

5. Profit Sharing:

- Employees receive a share of company profits.
- Encourages teamwork and loyalty.

6. Performance-related pay:

- Additional pay based on meeting performance objectives.
- Encourages efficiency but may lead to unhealthy competition.

Non-Financial Methods

1. Job enrichment:

- Giving employees more responsibility or challenging tasks.
- Increases motivation through achievement (Herzberg motivator).

2. Job rotation:

- Switching employees between tasks to reduce monotony and develop skills.

3. Job enlargement:

- Adding similar-level tasks to make work more varied.

4. Teamworking:

- Working in groups toward shared objectives; enhances belonging and social needs.

5. Training:

- Improves confidence and skill, helps career progression.

6. Opportunities for promotion:

- Satisfies esteem and self-actualisation needs.

7. Recognition and praise:

- Boosts morale at little cost.

Choosing Motivation Methods

- Low-skilled repetitive jobs: focus on financial incentives.
 - Skilled, creative roles: use non-financial motivators like recognition and autonomy.
 - Often a combination works best for balanced motivation.
-

2.2 Organisation and Management

2.2.1 Organisational Charts

Purpose:

- Shows structure of authority, responsibility, and communication.
- Clarifies reporting lines (chain of command).

Key terms:

- Level of hierarchy: a layer of authority within the business.
- Span of control: number of employees managed by one supervisor.
- Chain of command: the path through which orders are passed down.
- Delegation: passing authority to subordinates.

Types of Structures

1. Tall (narrow span of control):

- Many levels of hierarchy.
- Managers can closely supervise.
- Slower communication, higher costs.

2. Flat (wide span of control):

- Fewer levels.
- Quicker decisions, cheaper.
- May cause overworked managers.

Roles and Responsibilities

- **Directors:** set overall strategy and major decisions.
- **Managers:** implement strategy, supervise departments.
- **Supervisors:** oversee daily work of employees.
- **Workers:** perform assigned tasks.

Inter-relationships:

- **Vertical relationships** (superior–subordinate)
 - **Horizontal relationships** (between departments)
-

2.2.2 The Role of Management

Functions of Management (Fayol's 5)

1. Planning:

- **Setting goals, forecasting future conditions, and deciding strategies.**

2. Organising:

- **Arranging resources and assigning roles.**

3. Coordinating:

- **Ensuring all departments work together effectively.**

4. Commanding (Leading):

- **Directing and motivating staff to achieve objectives.**

5. Controlling:

- Measuring performance and taking corrective actions.

Delegation:

- Giving authority to subordinates to carry out tasks.
- Builds trust, reduces workload, and develops future managers.
- Requires balance: too little = micromanagement, too much = loss of control.

2.2.3 Leadership Styles

Style	Features	Advantages	Disadvantages	Suitable Situations
Autocratic	Leader makes all decisions; little input from staff	Quick decisions; clear direction	Demotivating; discourages creativity	Crisis, unskilled workers
Democratic	Staff involved in decisions	Motivating; better ideas	Time-consuming	Skilled/creative teams
Laissez-faire	Leader offers minimal supervision	Encourages innovation; independence	May lack direction	R&D, experienced workers

2.2.4 Trade Unions

Definition:

An organisation representing workers' interests, aiming to improve pay, conditions, and rights through collective bargaining.

Functions:

- Negotiating pay and working hours.
- Representing members in disputes.
- Ensuring safe working conditions.

- Providing legal and financial advice.

Advantages:

- For employees: protection, fair pay, support in grievances.
- For employers: one communication channel, structured negotiations.

Disadvantages:

- For employers: risk of strikes and higher labour costs.
- For employees: union fees, possible conflict with management.

2.3 Recruitment, Selection, and Training of Employees

2.3.1 Recruitment and Selection

Recruitment: finding suitable candidates.

Selection: choosing the best one.

Recruitment methods:

- **Internal:** promoting or transferring existing employees.
Cheaper, quicker, motivates staff.
Limits new ideas.
- **External:** advertising outside the business.
New ideas, wider pool.
More costly, longer process.

Main Stages:

1. Identify vacancy and define job requirements.
2. Prepare job description (duties/responsibilities).
3. Prepare person specification (skills, qualifications).
4. Advertise vacancy.
5. Collect applications/CVs.
6. Shortlist candidates.
7. Interview/test.
8. Select and offer contract.

Part-time vs Full-time		
Type	Benefits	Limitations
Part-time	Flexible, cheaper	Less loyalty, availability issues
Full-time	Committed, experienced	Higher costs, less flexibility

2.3.2 Importance and Methods of Training

Importance for Business

- Improves efficiency and productivity.
- Reduces waste and accidents.
- Increases employee satisfaction.
- Encourages innovation and adaptability.

Importance for Employees

- Builds confidence and job satisfaction.
- Improves promotion prospects.
- Increases earning potential.

Types of Training

Type	Description	Benefits	Limitations
Induction	Introduces new employees to workplace	Smooth integration, reduces mistakes	Time-consuming, short-term
On-the-job	Training at workplace by experienced worker	Low cost, job-specific	May pass on bad habits
Off-the-job	Training away from workplace (e.g. college)	Expert training, wider skills	Expensive, time away from work

2.3.3 Reducing the Workforce

Reasons:

- Fall in demand.
 - Introduction of automation.
 - Business relocation.
 - Mergers leading to duplication of roles.
-

Dismissal vs Redundancy

Dismissal	Redundancy
Employee's fault (e.g. misconduct, poor performance)	Job no longer exists (not employee's fault)

Selecting Employees for Redundancy:

- Skills and experience.
 - Length of service.
 - Performance records.
 - Attendance history.
-

2.3.4 Legal Controls over Employment Issues

Examples of Laws:

- Employment contracts: must outline pay, hours, duties.
- Unfair dismissal: protects employees from unjust firing.
- Discrimination laws: prohibit bias based on gender, race, religion, or disability.
- Health and safety laws: require a safe working environment.
- Minimum wage laws: ensure fair pay.

Impact:

- Employers: must comply or face penalties; may increase costs.
 - Employees: more protection, equality, and safety.
-

2.4 Internal and External Communication

2.4.1 Importance and Methods of Communication

Importance of Effective Communication

- Ensures correct instructions and decisions.
 - Reduces mistakes and confusion.
 - Encourages teamwork and morale.
 - Builds better relationships with customers and suppliers.
 - Saves time and resources.
-

Types of Communication

1. Internal: between employees or departments.
 2. External: with suppliers, customers, investors.
-

Methods			
Method	Examples	Advantages	Disadvantages
Verbal (oral)	Meetings, phone calls	Quick, feedback possible	No record, misunderstandings
Written	Letters, memos, emails	Permanent record, clear	Time-consuming, may lack feedback
Visual	Charts, diagrams	Simplifies complex info Fast, global reach	Needs interpretation
IT-based	Video calls, emails, social media		Requires technology and skills

Choosing a Method:

- Urgency of message.

- Complexity and formality.
 - Distance between parties.
 - Need for a permanent record.
-

2.4.2 Communication Barriers

Causes of Barriers:

- Language issues – unclear wording or jargon.
- Noise or technical faults.
- Poor choice of channel – e.g. written when verbal better.
- Emotional factors – stress, mistrust, conflict.
- Too many layers in hierarchy.
- Cultural differences.

Consequences:

- Misunderstanding tasks.
- Delays and low efficiency.
- Poor customer service.
- Employee demotivation.

Ways to Overcome Barriers:

- Use clear, simple language.
- Encourage feedback.
- Choose appropriate channels.

- Flatten hierarchy (shorter communication lines).
- Train staff in communication skills.
- Maintain open and supportive culture.

Questions:



- 2 FLD is a furniture retailer. It has 460 shops and 20 000 employees. Internal recruitment is used when recruiting new shop managers. The Managing Director wants to know whether job rotation is the best method of motivation for a large business to use. The Finance Director is reviewing FLD's income statement. An extract is shown in Table 2.1. She is concerned that FLD's gross profit is decreasing.

Table 2.1

Extract from FLD's income statement for year ending April 2025 (\$ million)	
Revenue	400
Gross profit	200
Expenses	60
Profit	140

- (a) Define 'profit'.

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..... [2]

- (b) Identify **two** expenses a business might have.

Expense 1:

.....

Expense 2:

..... [2]

- (c) Outline **two** possible reasons why FLD's gross profit is decreasing.

Reason 1:

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.....

Reason 2:

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.....

..... [4]





(d) Explain **two** advantages to FLD of using internal recruitment when recruiting new managers.

Advantage 1:

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Explanation:

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Advantage 2:

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Explanation:

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[6]

(e) Do you think job rotation is the best method for a large business to use to motivate its employees? Justify your answer.

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[6]



- 4 MHL manufactures tyres for large vehicles. It has factories in 6 countries. The business creates external costs when producing its products. Good communication with MHL's suppliers is important. The Managing Director knows globalisation provides many opportunities for MHL. She is reviewing data for one of MHL's factories as she wants to reduce the average cost of the tyres. An extract from this data is shown in Table 4.1.

Table 4.1

Data for one of MHL's factories	
Output per month (units)	200 000
Fixed costs per month	\$500 000
Variable cost per unit	\$25

- (e) Explain **two** methods of communication a business could use to communicate with its suppliers. Which is likely to be the best method to use? Justify your answer.

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[6]



2 (a) Explain **two** benefits and **two** limitations for JJ of employing part-time workers in its factory.

Benefit 1:

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Benefit 2:

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Limitation 1:

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Limitation 2:

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- (b) Consider **three** methods RR could use to communicate the expansion plans to its employees. Which method should RR choose? Justify your answer.

Method 1:

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Method 2:

.....

Method 3:

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Recommendation:

.....

[12]

Question	Answer	Marks	Guidance
2(d)	Explain <u>two</u> advantages to FLD of using internal recruitment when recruiting new managers. Award 1 mark for each relevant advantage (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: • <u>Cheaper/lower</u> advertising costs (than external recruitment) [k] so lower/maintain expenses [an] of \$60 million [app] • Already knows the <u>business</u>/how the <u>business</u> works [k] so can be productive sooner [an] to help sell furniture [app] • Less/no (induction) training needed [k] • Can motivate employees [k] at the 460 locations [app] reducing labour turnover/increase employee loyalty/increase sales [an] • The business knows the person/their ability/reliability/potential/can trust them [k] reducing chance of selecting the wrong person [an] • Recruitment is quicker [k] so able to focus on other business tasks [an] such as increasing its revenue above \$400 million [app] 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 appropriate for this question: • Furniture or related terms e.g. chair • 460 (locations) • Large business • Shop/retailers • 20 000 employees • \$60 million (expenses) • \$400 million (revenue) • \$200 million (gross profit) Other appropriate examples can be credited.

Question	Answer	Marks	Guidance
2(e)	Do you think job rotation is the best method for a large business to use to motivate its employees? 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 job rotation is the best method for a large business to use to motivate its employees. Points might include: Job rotation: • More flexible/gain new skills [k] leading to higher productivity [an] • Can cover/replace others when someone is absent [k] so may be able to meet an order on time [an] • Makes the work more interesting/less boring for employees [k] so lower absenteeism/labour turnover/increase productivity [an] • Increased training needed [k] increasing costs/expenses [an] • Workers may not be willing/able to do different tasks [k] lowering quality/increasing waste/leading to mistakes [an] • Takes time to switch to/learn different tasks [k] Other methods might include: • Job enrichment [k] adding more responsibilities/challenging work/making workers feel more valued/recognised/trusted [an] • Bonus [k] only pay out if target reached [an] • Praise [k] involves no additional cost [an] • Training [k] which provides new skills [an] • Promotion (opportunities) [k] Other appropriate responses should be credited.	6	This is a general question so there are no marks for application. To access knowledge candidates must name and not simply describe the method. For evaluation to be awarded justification will usually follow on from relevant analysis of points.

Question	Answer	Marks	Guidance
2(e)	Justification might include: One advantage is the work is less boring for employees [k] which can lower absenteeism [an]. Another method is increasing wages [k] but this will increase expenses [an]. Job rotation is best for a large business because lower absenteeism would reduce costs of bringing in additional employees [eval] which could offset the higher labour costs for a large business which is likely to have many employees [eval].		

Question	Answer	Marks	Guidance
4(e)	Explain <u>two</u> methods of communication a business could use to communicate with its suppliers. Which is likely to be the best method 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 method of communication for a business to use when communicating with its suppliers. Points might include: • Email [k] can be saved for future reference [an] • Phone/telephone calls [k] as these allow for (immediate) feedback [an] • (Online) meeting [k] allows everyone to discuss points/ask questions [an] • Video conference/Zoom/Teams/Google Meet/FaceTime [k] as people do not have to travel [an] • Text/SMS/WhatsApp/WeChat/(Facebook) messenger [k] but can contain limited information [an] • Letter [k] but time consuming to write/expensive to send [an] • Websites [k] but no feedback/one way communication [an] Other appropriate responses should also be credited.	6	This is a general question so there are no marks for application. Candidates must name the method to access the knowledge mark. For evaluation to be awarded justification will usually follow on from relevant analysis of points. To access [eval], must discuss 2 valid methods of communication. Do not award answers such as written/verbal/visual as need to specify the method.

2(a)	Explain <u>two</u> benefits and <u>two</u> limitations for JJ of employing part-time workers in its factory. Award 1 mark for each relevant benefit/limitation (max 4). Award a maximum of 1 additional mark for each explanation of the benefit/limitation in context. Relevant benefits might include: • The employees are more flexible in the hours they work – than the 60 full-time workers • Ask/more likely for the part-time workers to increase their hours – during busy times to meet demand for bracelets • Can/more likely increase operating hours in the factory when demand increases – as the 25 part-time workers may be willing to work extra hours • Part-time employees often do not need to take time off for appointments, such as to visit the doctor – less likely to cause disruption to the manufacture of rings • May be able to attract skilled employees who want to work reduced hours • May reduce business costs if pay lower wages than wage rates for full-time workers • It may be easier to make part-time workers redundant Relevant limitations might include: • If the employee sees the job as temporary, then they may be less committed to the business - produce less jewellery • Takes longer to recruit two part-time employees than one full-time employee – so less time to focus on selling in other countries • There may be an increase in induction and training costs – which may make it difficult to increase profit each year • More difficult to communicate with part-time employees • If the job is temporary then less likely to provide training for them For example: If the employee sees the job as temporary, then they may be less committed to the business (1) and produce fewer items of jewellery (app). Application could include: jewellery; set up 25 years ago; public limited company; objective to increase profit every year; to expand the business; sold directly to customers in other countries; 30% sold using ecommerce; 70% sold in jewellery shops; raw materials purchased locally; 60 full-time employees; 25 part-time employees; bracelets; rings; earrings.	8
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Question	Answer	Marks															
2(b)	Consider <u>three</u> methods RR could use to communicate the expansion plans to its employees. Which method should RR choose? Justify your answer. <table> <tr> <th>Level</th><th>Description</th><th>Marks</th></tr> <tr> <td>3</td><td> 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 the 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. </td><td>9–12</td></tr> <tr> <td>2</td><td> 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. </td><td>5–8</td></tr> <tr> <td>1</td><td> 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 the three methods in context should be rewarded with the top marks in the band. </td><td>1–4</td></tr> <tr> <td>0</td><td>No creditable response.</td><td>0</td></tr> </table>	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 the 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 the three methods in context should be rewarded with the top marks in the band.	1–4	0	No creditable response.	0	12
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Question	Answer			Marks
2(b)	Face-to-face meeting	- Two-way communication – allows for instant feedback - Employees can ask questions about the expansion plans to sell rugs in other countries	- If an employee is absent, then they may not get the message - Can be difficult to arrange for all the employees to meet at same time/place	
	Social media e.g. Facebook group, WhatsApp group	- Cheap/fast to send message - Can send to everyone in the group at the same time	- Do not know if all production employees have read the message - Not all employees will be on the app and so may not receive the message	
	Recommendation	Justification may include: - Face-to-face meeting is best because this allows the 45 employees to ask questions unlike sending a message on email which is a one-way method of communication. It allows them to have personal contact with the Managing Director, which helps to improve the relationship between them and the management of RR. Other methods such as a notice board are very impersonal and may make them feel like the management of RR don't really care. - Email may be a good method of communicating the expansion plans as RR's HR manager can include a diagram of the new structure. The employees would have more detail about expansion into new markets in other countries. - A text message sent to the employees would ensure they are told of the future direction of the rug manufacturing business quickly in a short message which would be easy to read.		

Unit 3: Marketing

3 Marketing

3.1 Marketing, competition and the customer

3.1.1 The role of marketing:

- Identifying customer needs
- Satisfying customer needs
- Maintaining customer loyalty
- Building customer relationships

3.1.2 Market changes:

- Why customer/consumer spending patterns may change
- The importance of changing customer needs
- Why some markets have become more competitive
- How businesses can respond to changing spending patterns and increased competition

3.1 Marketing, competition and the customer continued

3.1.3 Concepts of niche marketing and mass marketing:

- Benefits and limitations of both approaches to marketing

3.1.4 How and why market segmentation is undertaken:

- How markets can be segmented, e.g. according to age, socio-economic grouping, location, gender
- Potential benefits of segmentation to business
- Recommend and justify an appropriate method of segmentation in given circumstances

3.2 Market research

3.2.1 The role of market research and methods used:

- Market-orientated businesses (uses of market research information to a business)
- Primary research and secondary research (benefits and limitations of each)
- Methods of primary research, e.g. postal questionnaire, online survey, interviews, focus groups
- The need for sampling
- Methods of secondary research, e.g. online, accessing government sources, paying for commercial market research reports
- Factors influencing the accuracy of market research data

3.2.2 Presentation and use of market research results:

- Analyse market research data shown in the form of graphs, charts and diagrams; draw simple conclusions from such data

3.3 Marketing mix

3.3.1 Product:

- The limitations and benefits of developing new products
- Brand image; impact on sales and customer loyalty
- The role of packaging
- The product life cycle: main stages and extension strategies; draw and interpret a product life cycle diagram
- How stages of the product life cycle can influence marketing decisions, e.g. promotion and pricing decisions

3.3.2 Price:

- Pricing methods (benefits and limitations of different methods), e.g. cost plus, competitive, penetration, skimming, and promotional
- Recommend and justify an appropriate pricing method in given circumstances
- Understand the significance of price elasticity: difference between price elastic demand and price inelastic demand; importance of the concept in pricing decisions (*knowledge of the formula and calculations of PED will **not** be assessed*)

3.3.3 Place – distribution channels:

- Advantages and disadvantages of different channels, e.g. use of wholesalers, retailers or direct to consumers
- Recommend and justify an appropriate distribution channel in given circumstances

3.3.4 Promotion:

- The aims of promotion
- Different forms of promotion and how they influence sales, e.g. advertising, sales promotion
- The need for cost-effectiveness in spending the marketing budget on promotion

3.3.5 Technology and the marketing mix:

- Define and explain the concept of e-commerce
- The opportunities and threats of e-commerce to business and consumers
- Use of the internet and social media networks for promotion

3.4 Marketing strategy

3.4.1 Justify marketing strategies appropriate to a given situation:

- Importance of different elements of the marketing mix in influencing consumer decisions in given circumstances
- Recommend and justify an appropriate marketing strategy in given circumstances

3.4.2 The nature and impact of legal controls related to marketing:

- Impact of legal controls on marketing strategy, e.g. misleading promotion, faulty and dangerous goods

3.4.3 The opportunities and problems of entering new foreign markets:

- Growth potential of new markets in other countries
- Problems of entering foreign markets, e.g. cultural differences and lack of knowledge
- Benefits and limitations of methods to overcome such problems, e.g. joint ventures, licensing

3.1 Marketing, competition and the customer

1. What is a Market?

A market includes all the buyers and sellers involved in the exchange of a specific good or service.

2. What is Marketing?

Definition:

Marketing is the management process responsible for identifying, anticipating, and satisfying customer requirements in a profitable way.

In simpler terms, marketing means understanding what customers want, meeting those needs effectively, and ensuring the business earns a profit.

3. The Role of Marketing in a Business

Marketing plays several key roles:

- Identifying customer needs through market research
 - Satisfying customer needs by offering the right goods and services
 - Maintaining customer loyalty through relationship-building strategies such as:
 - Loyalty card programs
 - Discounts for repeat customers
 - After-sales service
 - Updates on new products and offers
 - Gaining information about customers to develop better future products
 - Anticipating changes in customer needs to stay ahead of market trends
-

4. Objectives of the Marketing Department

- Increase awareness of the product or brand
- Boost sales revenue and profit
- Maintain or grow market share
 - *Example:* If total toy sales = \$1,000,000 and a company earns \$300,000, its market share =
 $(300,000/1,000,000) \times 100 = 30\%$

- Enter new markets (domestically or internationally)
 - Develop new products or improve existing ones
-

5. Market Changes

Why Customer Spending Patterns Change

- Changing tastes and preferences
 - Advances in technology – new technology makes older products outdated
 - Changes in income – higher income → luxury products; lower income → cheaper alternatives
 - Ageing population – increases demand for senior-related goods (e.g., health products)
-

The Importance of Adapting to Changing Needs

Businesses must regularly monitor customer preferences.

Failing to adapt leads to a loss of customers to competitors, reduced sales, and lower profitability.

Why Markets Have Become More Competitive

- Globalization – products are sold worldwide
 - Improved transportation – easier and cheaper product distribution
 - Internet and E-Commerce – global online shopping increases competition
-

How Businesses Can Respond

- **Maintain strong customer relationships**
 - **Improve existing products continuously**
 - **Develop new products to attract customers**
 - **Reduce costs to stay profitable and offer competitive prices**
-

6. Niche and Mass Marketing

Definitions

Term	Definition
Niche Marketing	Targeting a small, specialized segment of the market with products designed specifically for their needs.
Mass Marketing	Selling a standardized product to the whole market without targeting specific groups.

Examples

- **Niche Marketing: Versace, Rolex, and luxury perfumes targeting high-income consumers.**
 - **Mass Marketing: iPhones, Coca-Cola, or toothpaste brands sold globally with minimal variation.**
-

Niche vs Mass Marketing

Feature	Niche Marketing	Mass Marketing
Target Audience	Small, specific customer group	Large, general audience
Product Range	Tailored to a narrow segment	Standardized for all
Pricing	High prices (premium)	Lower, competitive pricing

Competition	Low (fewer firms)	High (many firms)
Economies of Scale	Limited	Significant
Risk	High – dependent on one market	Lower – spread across markets
Examples	Versace, Rolex	Apple, Coca-Cola

Advantages & Limitations

Type	Advantages	Limitations
Niche Marketing	- Less competition - Higher profit margins - Focused on one segment	- High production costs - Small market size - Risk if demand drops
Mass Marketing	- Large sales volume - Economies of scale - Spread of risk	- High competition - Difficult to differentiate - Cannot charge premium prices

7. Market Segmentation

Definition

A market segment is a subgroup of a larger market where consumers share similar characteristics or preferences.

Market segmentation involves dividing a market into these groups to better target and satisfy their needs.

Example: PepsiCo markets Diet Pepsi toward health-conscious consumers.

Common Bases for Segmentation

Basis	Examples
-------	----------

Income (socio-economic group)	Budget vs luxury buyers
Age	Children, teenagers, adults, elderly
Gender	Men's vs women's products
Geographical location	Urban vs rural consumers
Lifestyle	Health-conscious, eco-friendly, tech-savvy
Product usage	Home, leisure, or business use

Advantages of Market Segmentation

Advantage	Explanation
Cost-effective marketing	Advertising is targeted, reducing waste.
Higher sales and profits	Products meet the exact needs of customers.
Improved customer loyalty	Tailored products encourage repeat purchases.
Opportunity for growth	Helps discover untapped or niche markets.

Examples of Market Segmentation in Action

- **Children's products** – sold through toy stores or advertised on children's TV channels.
 - **Business-related products** – promoted in business magazines or online professional networks.
-

8. Key Takeaway

Marketing is much more than just selling products — it's about:

- Understanding consumers
 - Anticipating trends
 - Creating long-term relationships
 - Staying competitive and profitable
-

3.2 Market Research

Types of Business Orientation

Type	Description	Focus	Examples
Product-Oriented Business	These businesses first create a product and then attempt to find a market for it. They emphasize product quality, design, and production efficiency.	Product itself — quality, innovation, and price.	Companies producing durable goods like refrigerators, computers, or household appliances.
Market-Oriented Business	These businesses begin by researching consumer needs and preferences before designing and producing a product to meet those demands.	Customer wants, preferences, and market conditions.	Mobile phone manufacturers, fashion brands, or software companies.

Definition of Market Research

Market Research is the process of collecting, analyzing, and interpreting information about customers, competitors, and the market environment to make informed business decisions.

Importance of Market Research

Market research is vital for ensuring that a business produces goods and services that will successfully meet customer needs and generate profit. Without proper research, firms risk developing products that fail in the market.

It helps businesses answer key questions such as:

- Will customers be willing to buy this product?
 - What factors influence buying decisions — price, quality, or brand image?
 - How intense is competition in the target market?
 - What are current and emerging trends in customer preferences?
-

Types of Market Research Data

Type	Description	Example
Quantitative Data	Numerical data that can be measured and analyzed statistically.	Percentage of teenagers in a city with internet access.
Qualitative Data	Opinion-based data that provides insight into consumer motivations and attitudes.	Understanding why more women prefer a brand compared to men.

Categories of Market Research

Market research can be divided into two major types:

1. Primary Research (Field Research)
 2. Secondary Research (Desk Research)
-

1. Primary Market Research (Field Research)

This involves collecting first-hand data directly from customers or potential customers. It provides original and specific information relevant to the business's needs.

Examples: Questionnaires, interviews, focus groups, observations, and online surveys.

Steps in Conducting Primary Research

1. Define the purpose of the research.
 2. Choose the most suitable research method.
 3. Decide on the sample size and select the participants.
 4. Collect the data.
 5. Compile and analyze results.
 6. Create a detailed report of findings.
-

Sampling

A sample is a smaller group selected from a larger population, used to represent the whole.

Type	Description	Example
------	-------------	---------

Random Sampling	Participants are chosen completely at random, giving everyone an equal chance of selection.	Randomly selecting 200 people from a customer database.
Quota Sampling	Participants are selected based on specific characteristics such as age, gender, or location.	Selecting 50 males and 50 females aged 18–25 for a survey.

Methods of Primary Research

A. Questionnaires

Can be conducted face-to-face, by telephone, through post, or online.
Online surveys may include incentives like prize draws to increase participation.

Advantages

- **Allows detailed collection of data.**
- **Gathers direct customer opinions.**
- **Online surveys are cost-effective and easy to analyze.**
- **Flexible — can reach a large number of respondents quickly.**

Disadvantages

- **Poorly worded or biased questions produce unreliable results.**
 - **Can be expensive and time-consuming to design and analyze.**
-

B. Interviews

Conducted by an interviewer using pre-determined questions.

Advantages

- Interviewer can clarify questions and probe deeper.
- Detailed responses and body language can be interpreted.

Disadvantages

- Risk of interviewer bias influencing responses.
- Expensive and time-intensive to conduct on a large scale.

Example:

A company launching a new laptop model interviews 20 university students to understand their preferred features.

C. Focus Groups

A small, representative group from the target market that discusses a product or concept.

Advantages

- Provides deep insights into customer opinions and feelings.
- Participants can test and react to new products.

Disadvantages

- Can be expensive and time-consuming.
- Participants' opinions might be influenced by others.

Example:

A snack company tests new chip flavors with a group of teenagers before launch.

D. Observation

Involves recording or monitoring consumer behavior.

Methods:

- Watching shoppers in stores.
- Recording TV viewership through meters.
- Auditing sales to track which items sell fastest.

Advantages	Disadvantages
Low-cost and simple to conduct.	Only provides basic data; doesn't explain reasons for behavior.

2. Secondary Market Research (Desk Research)

This involves using existing data collected by others. It's cheaper and faster but may be less reliable or outdated.

Sources of Secondary Research

Type	Examples	Description
Internal Sources	Sales records, customer data, financial reports, customer service feedback	Data already available within the organization.
External Sources	Government statistics, newspapers, trade associations, market research agencies, internet	Published information from outside sources.

Accuracy and Reliability of Market Research

The usefulness of research depends on how accurate and unbiased it is.

Factors Affecting Accuracy:

- Quality and representativeness of the sample.
 - Clarity and neutrality of questions.
 - Source of research (internal vs. external).
 - Possible bias (especially from media sources).
 - Timeliness of data — outdated information may not reflect current trends.
-

Presenting Market Research Data

Method	Description	Example
Tally Tables	Record raw data during collection.	Counting types of vehicles passing a shop at different times.
Bar/Column Charts	Show total figures for each data category.	Displaying number of customers by age group.
Pie Charts	Show proportions or percentages of a whole.	Market share of different smartphone brands.

Line Graphs

**Show changes or relationships
between two variables over time.**

**How sales revenue changes
throughout the year.**

Example:

A sportswear brand conducting market research may:

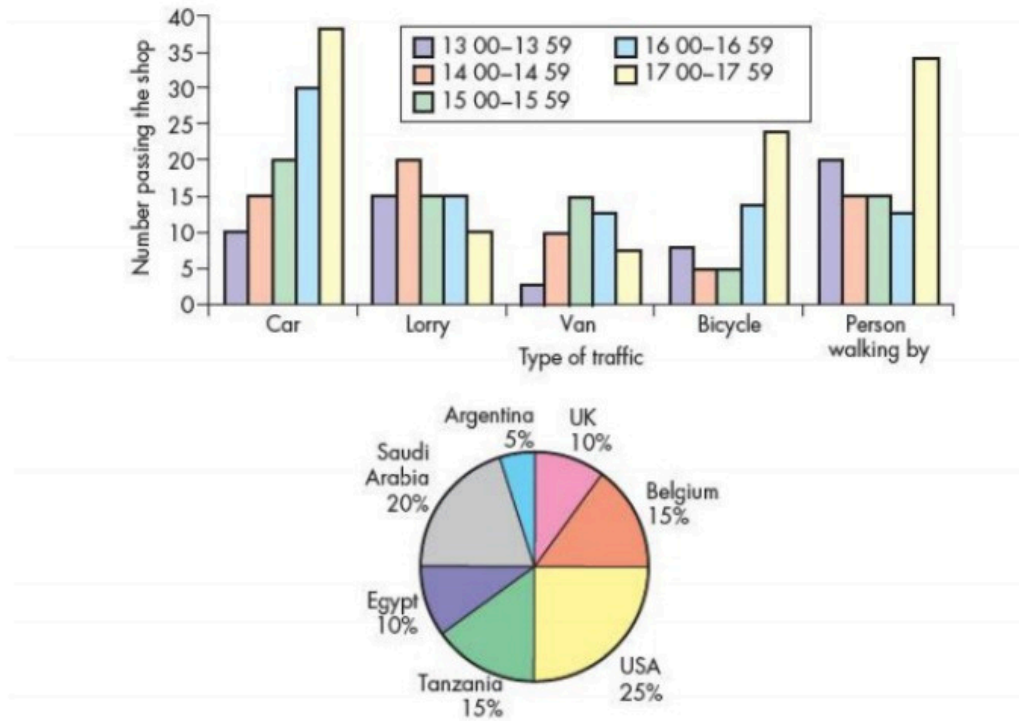
- Use questionnaires to find which colors customers prefer.
 - Analyze sales records (secondary data) to see which stores sell best.
 - Present results in pie charts showing market share of each product line.
-

Presentation of Data from Market Research

- **Tally Tables:** used to record data in its original form. The tally table below shows the number and type of vehicles passing by a shop at different times of the day:

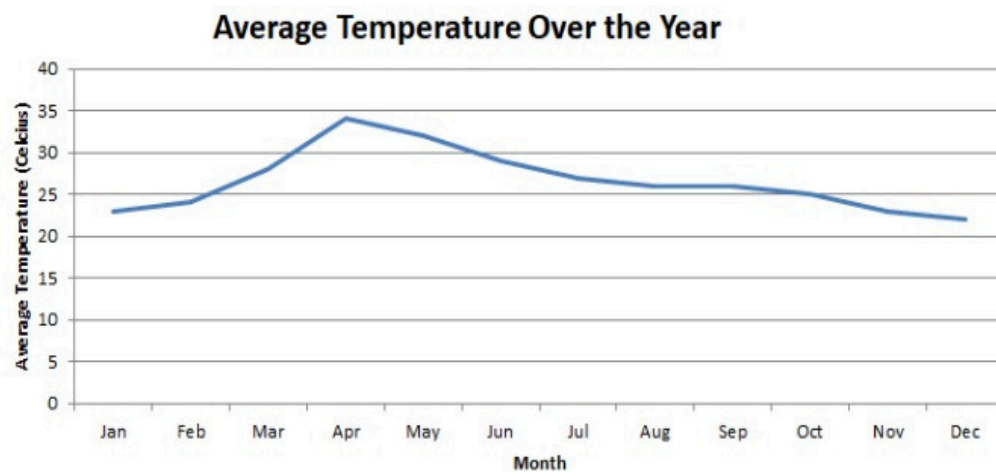
Time	Car	Lorry	Van	Bicycle	Person walking by
13 00–13 59					
14 00–14 59					
15 00–15 59					
16 00–16 59					
17 00–17 59					

- **Charts:** show the total figures for each piece of data (bar/ column charts) or the proportion of each piece of data in terms of the total number (pie charts). For example the above tally table data can be recorded in a bar chart as shown below:



- The pie chart above could show a company's market share in different countries.

-
- **Graphs:** used to show the relationship between two sets of data. For example how average temperature varied across the year.



3.3 The Marketing Mix

Definition

The Marketing Mix refers to the combination of key elements that a business uses to market a product or service effectively.

It is often described using the 4 Ps:

<u>The 4 Ps</u>	<u>Description</u>
Product	The good or service the business offers.
Price	The amount customers are charged for the product
Place	How and where the product is distributed to customers.
Promotion	The methods used to inform and persuade consumers to buy.

1. Product

The product is the item or service that satisfies customer needs and is offered for sale.

It includes all tangible and intangible features such as design, performance, quality, packaging, and branding.

Types of Products

Type	Description	Example
------	-------------	---------

Consumer Goods	Tangible products used by consumers.	Clothing, food, furniture.
Consumer Services	Services provided directly to individuals.	Hairdressing, transport, healthcare.
Producer Goods	Goods used by businesses to make other goods.	Machinery, raw materials.
Producer Services	Services provided to help other businesses.	Banking, insurance, advertising.

Features of a Successful Product

- **Meets customer needs and wants effectively.**
 - **Can create new desires or trends among consumers.**
 - **Has a strong design and reliable performance.**
 - **Is distinctive and stands out from competitors.**
 - **Is profitable, i.e., price covers production costs.**
-

New Product Development (NPD)

The process of developing a new product usually follows these stages:

Stage

Description

- | | |
|---------------------------------|--|
| 1. Idea Generation | Brainstorm ideas from customer feedback, competitors, employees, and R&D departments. |
| 2. Idea Selection | Filter and reject unfeasible ideas based on cost, demand, or practicality. |
| 3. Feasibility Study | Analyze sales forecasts, costs, and profitability (cost–benefit analysis). |
| 4. Prototype Development | Create and test a prototype to identify production challenges. |
| 5. Test Launch | Release the product in a small market segment to gather feedback. |
| 6. Full Launch | Introduce the product across the wider market. |

Examples:

- **A mobile app launching a *beta version* before global release.**
 - **A car manufacturer testing new models in selected cities.**
-

Advantages of New Product Development

- **Creates a Unique Selling Point (USP) and brand differentiation.**
- **Enables higher prices through innovation (price skimming).**
- **Spreads risk — multiple products reduce dependence on one.**
- **Boosts sales, revenue, and profit potential.**

Disadvantages

- Costly and time-consuming research process.
 - High investment needed in R&D and marketing.
-

Importance of Brand Image

Concept	Description
Brand Image:	The overall perception or identity customers associate with a product.
Brand Loyalty:	When customers repeatedly purchase the same brand over alternatives.

Benefits of Strong Brand Image

- Products are easily recognized among competitors.
- Businesses can charge premium prices.
- Easier product launches — consumers trust the brand.

Example:

Apple's brand image allows it to successfully launch new devices with high initial demand.

Importance of Packaging

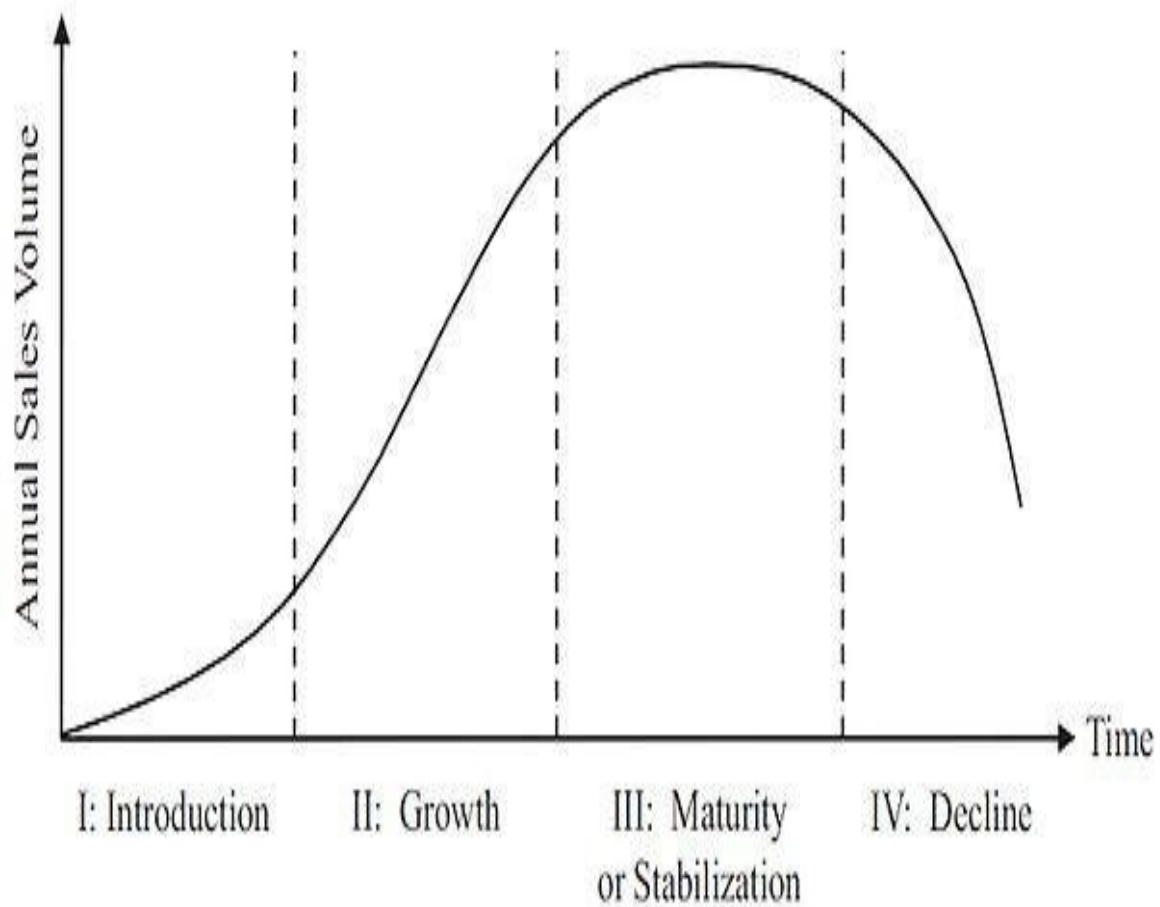
- Protects the product from damage.
- Informs customers (ingredients, price, expiry date, etc.).

- Promotes brand recognition through logos and design.
 - Preserves freshness for perishable items.
-

Product Life Cycle (PLC)

The Product Life Cycle represents the stages a product passes through — from its introduction to eventual decline — in terms of sales over time.

Stage	Description	Sales Trend	Typical Strategies
Development	Product is designed and tested; no sales yet.	0	Heavy R&D and test marketing.
Introduction	Product launched into the market.	Slow growth	High promotion to raise awareness.
Growth	Sales rise rapidly as awareness spreads.	Fast increase	Improve quality, maintain advertising.
Maturity	Sales peak and growth stabilizes.	Stable	Use extension strategies.
Decline	Product loses popularity and sales fall.	Decrease	Reduce costs, consider replacement.



Extension Strategies

Methods used to prolong the maturity stage and delay decline:

- Enter new markets.
- Find new uses for the product.

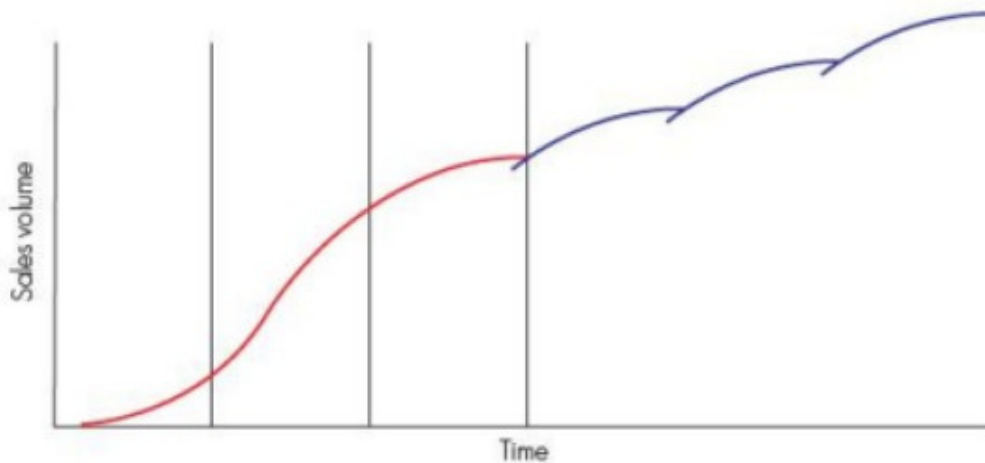
- Update packaging or design.
- Increase advertising or add features.

Example:

Coca-Cola introduces new flavors (e.g., Cherry Coke) to extend its product's life cycle.

	Introduction	Growth	Maturity	Decline
Product	Only a basic model of the product is available	Changes might be made to the product as a result of feedback from consumers	Extension strategies might be used to maintain sales	The product and packaging is not altered
Price	Price skimming is unique new product; market penetration pricing otherwise	Pricing may be adjusted- lower prices to attract more sales or keep a high price to maintain brand image	Competitive pricing to maintain sales	The price might be reduced – promotional selling to maintain sales
Promotion	High advertising activity to boost customer awareness	Promotional activity still high to continue persuading customers	Promotional activities are aimed at reminding the customers that the products are still available	Advertise the products at a lower price
Place	The product may be offered for sale in specially selected outlets	The product is more widely available, which helps to increase sales	The product is available for purchase through a wide distribution network	The product is only available in profitable outlets

To add to that, here is the effect on the PLC of a product of a successful extension strategy:



2. Price

Price is the amount customers are willing to pay and producers are willing to sell for. Choosing the right price is crucial for competitiveness, profitability, and positioning.

Pricing Methods

Method	Description	Advantages	Disadvantages
Market Skimming	Setting a high price for a new, innovative product.	High profit margin; recovers R&D costs.	May fail if competitors offer cheaper alternatives.
Penetration Pricing	Setting a low price to attract customers quickly.	Builds market share rapidly.	Low revenue initially; hard to raise price later.

Competitive Pricing	Matching competitors' prices.	Helps maintain competitiveness.	Limited control over price; profits may be reduced.
Cost-Plus Pricing	Adding a fixed markup to production costs.	Simple to apply; ensures cost coverage.	May ignore market demand and competition.
Loss Leader / Promotional Pricing	Selling certain products below cost to attract customers.	Boosts sales volume; clears stock.	Low profit margins on discounted items.

Factors Influencing Pricing Decisions

- **New vs. existing product:** New = skimming or penetration; existing = competitive or promotional.
 - **Uniqueness:** Unique products can use skimming.
 - **Competition level:** High competition → competitive pricing.
 - **Brand strength:** Strong brands can charge premium prices.
 - **Production costs:** High costs may require cost-plus pricing.
 - **Marketing objectives:** Growth goals favor penetration; stability goals favor competitive pricing.
-

Price Elasticity of Demand (PED)

Definition:

Measures how responsive demand is to a change in price.

PED= %change in quantity demanded/% change in price

Type	Description	Business Implication
Elastic (>1)	Demand changes greatly with small price changes.	Lowering price increases total revenue.
Inelastic (<1)	Demand changes slightly despite price changes.	Raising price increases total revenue.

Example:

Luxury watches (inelastic) → Price increase = higher profit.

Snack foods (elastic) → Price cut = higher sales volume.

3. Place

Place refers to how products are distributed from producer to final consumer — i.e., the distribution channels used.

Distribution Channel	Explanation	Advantages	Disadvantages
Manufacturer → Consumer	Direct sale through company outlets or online stores.	Full profit retained; full control; quick delivery.	High delivery and storage costs; full promotion burden.
Manufacturer → Retailer → Consumer	Retailer buys from producer and sells to customers.	Retailers handle promotion and inventory; convenient for buyers.	Retailer takes part of profit; less control for producer.

Manufacturer → Wholesaler → Retailer → Consumer	Wholesaler buys in bulk and sells smaller quantities to retailers.	Reduces storage and transport costs for producer.	Less control; profits shared among intermediaries.
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Manufacturer → Agent → Wholesaler → Retailer → Consumer	Agent handles foreign distribution for exporters.	Agent has local market knowledge.	Another intermediary reduces profit margin.
--	--	--	--

Factors Affecting Choice of Distribution Channel:

- **Product type:** Industrial goods may go direct; consumer goods use wholesalers/retailers.
 - **Technical complexity:** Technical products need direct selling for detailed explanation.
 - **Purchase frequency:** Everyday items need widespread retail access.
 - **Price level:** Expensive or luxury items sold through select outlets.
 - **Durability:** Perishables (e.g., fruits) need rapid, wide distribution.
 - **Customer location:** Global markets use e-commerce.
 - **Competition:** Must match or exceed competitors' accessibility.
-

4. Promotion

Promotion refers to activities that communicate with customers, create awareness, and encourage purchase.

Aims of Promotion

- Inform customers about new or existing products.
 - Persuade customers to buy.
 - Create or strengthen brand image.
 - Increase overall sales and market share.
-

Types of Promotion

Type	Description	Example
Advertising	Paid communication through media (TV, radio, newspapers, online, etc.).	Coca-Cola TV ads.
Sales Promotion	Short-term incentives to boost sales.	“Buy one get one free”, free samples.
Below-the-Line Promotion	Non-paid methods like vouchers, loyalty programs, contests.	Loyalty cards (e.g., Starbucks Rewards).
Personal Selling	Sales representatives communicate directly with customers.	Car dealerships.
Direct Mail	Brochures or newsletters sent to customers.	Promotional flyers by courier or email.
Sponsorship	Paying to associate a brand with an event or team.	Emirates sponsoring Real Madrid.

Factors Affecting Promotional Decisions

- **Stage of PLC:** New products → heavy advertising; mature → sales promotions.
 - **Nature of product:** Consumer goods = mass media; producer goods = trade promotions.
 - **Target market:** Niche = specialized magazines; mass = TV/online ads.
 - **Budget:** Promotion must be cost-effective and within the marketing budget.
-

Technology and the Marketing Mix

E-Commerce

Definition:

The use of the internet to market, sell, and distribute goods and services.

Stakeholder	Advantages	Disadvantages
Producers	Wider market; lower long-term costs.	High competition; setup and maintenance expenses.
Consumers	More choice; convenience; often cheaper.	No personal service; online security risks.

Examples: Amazon, eBay, Daraz, online ticketing platforms.

Technology in Promotion

The internet is also used for digital marketing — social media ads, email campaigns, and pop-ups.

Advantages

- Reaches a global audience.
- Cost-effective and easily updated.
- Enables targeted advertising.

Disadvantages

- Overexposure can annoy customers.
- Risk of negative publicity spreading quickly.

3.4 Marketing Strategy

Definition:

A marketing strategy is a detailed plan that outlines how a business will use the four elements of the marketing mix — Product, Price, Promotion, and Place — to achieve specific marketing objectives.

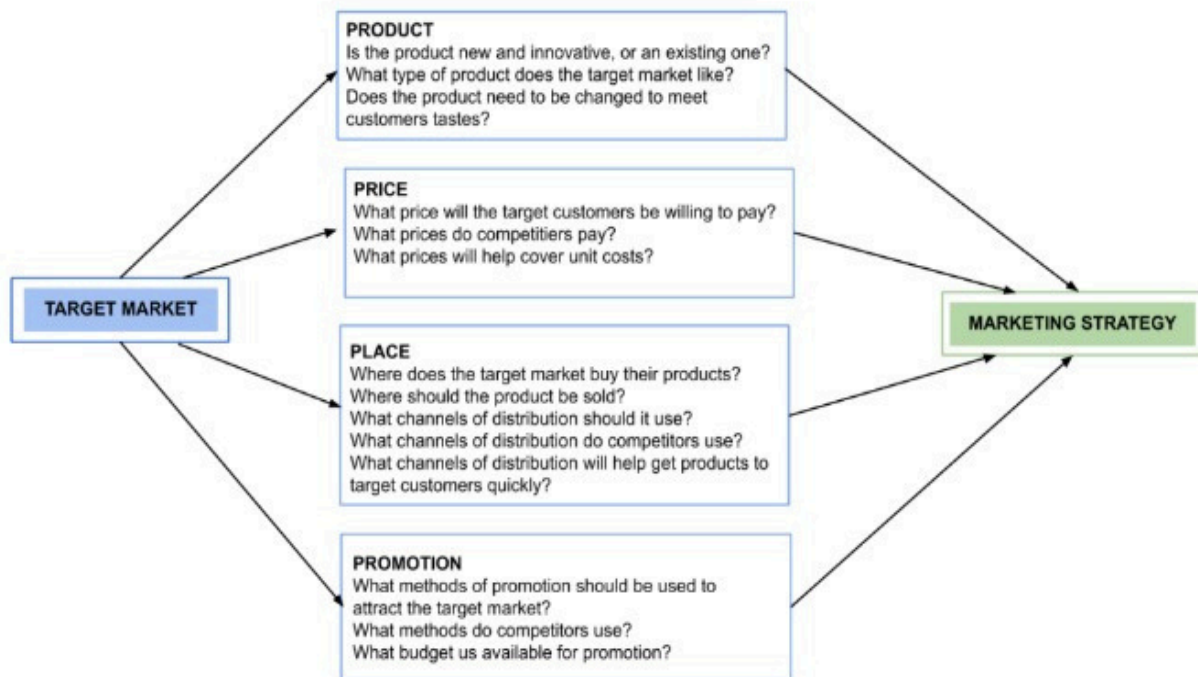
These objectives can include:

- Increasing sales or market share.
- Entering or expanding in new markets.
- Maintaining customer loyalty and brand image.
- Extending the life of an existing product.
- Targeting a new market segment or niche.

A strong marketing strategy ensures that all decisions regarding the 4 Ps are integrated and consistent with the firm's overall goals and customer needs.

Factors Influencing Marketing Strategy

Factor	Explanation
Type of product	The characteristics of the product determine how it is marketed. A luxury watch will require a different strategy from a basic household cleaner.
Market size and competition	Highly competitive markets need aggressive promotion and competitive pricing, while niche markets may rely more on product differentiation.
Stage of product life cycle (PLC)	New products may use price skimming and heavy advertising, whereas mature products might use extension strategies and promotional discounts.
Target market characteristics	Age, income, and lifestyle of the customers affect how and where the product is marketed.
Business resources and budget	The financial strength of the business determines how much can be spent on advertising, R&D, and promotional campaigns.
Legal and ethical constraints	Certain countries have laws restricting advertising content, pricing methods, and quality standards (explained below).
Technological changes	Online marketing, e-commerce, and data analytics have transformed how strategies are made and implemented.



Legal Controls on Marketing

Governments impose various laws and regulations to protect consumers and ensure fair competition. These laws influence how businesses design, promote, and sell their products.

Type of Legal Control	Purpose	Example / Explanation
Consumer Protection Laws	Prevent businesses from selling faulty or unsafe products.	Example: Cars must pass safety checks before being sold.
Advertising Regulations	Stop firms from using false or misleading information in advertisements.	Example: Volkswagen was penalized for falsely advertising their diesel cars as environmentally friendly.

Pricing Regulations	Prevent firms from fixing prices or exploiting consumers in monopolistic markets.	Ensures that consumers are not overcharged due to lack of competition.
Labelling and Product Information	Require firms to provide accurate information such as ingredients, expiry dates, and safety warnings.	Builds transparency and consumer trust.

Violating these laws can result in heavy fines, lawsuits, or permanent damage to brand reputation.

Entering New (International) Markets

As domestic markets mature or become saturated, businesses often aim to expand internationally. This helps increase sales, revenue, and customer reach.

Benefits of Entering New Markets

- **Access to a larger customer base.**
 - **Economies of scale – spreading costs across more products.**
 - **Diversification – reduced dependence on one market.**
 - **Opportunity to build global brand recognition.**
 - **Reduced impact of local economic downturns.**
-

Challenges of Entering Foreign Markets

Challenge

Explanation

Cultural and language differences	Communication barriers and cultural misunderstandings can reduce marketing effectiveness. For example, McDonald's adapted its Indian menu to suit local vegetarian preferences.
Lack of local market knowledge	Without proper research, the business might misjudge consumer preferences, pricing, or demand.
Economic differences	Variations in income levels and exchange rates can make pricing difficult.
High transport and logistics costs	Shipping and distribution costs can reduce profit margins.
Legal and regulatory differences	Each country has unique laws regarding product standards, labor, and advertising.
Consumer behavior and preferences	Products popular in one country may fail in another due to different tastes and lifestyles.

Methods to Overcome International Marketing Problems

1. Joint Ventures

A joint venture is an agreement between two or more businesses to collaborate on a project, sharing resources, risks, and profits.

It is especially useful when a foreign firm partners with a local company to gain market access.

Example:

Suzuki Motor Corporation (Japan) partnered with Maruti Udyog Limited (India) to form Maruti Suzuki, a leading car brand in India.

Advantages:

- **Reduces risk and costs of entering a new market.**
- **Combines expertise and local knowledge.**
- **Access to existing distribution channels.**
- **Shared investment and profits.**

Disadvantages:

- **Decision-making can be slow due to different business cultures.**
- **Mistakes by one partner can damage both brands.**
- **Potential for disagreements over profit-sharing or management.**

2. Franchising / Licensing

A franchise is when the franchisor (original business) allows another person or company (the franchisee) to use its name, logo, and business model for a fee and share of profits.

Common Examples: McDonald's, KFC, Domino's, and Subway.

Aspect	Advantages	Disadvantages
To the Franchisor	- Rapid expansion with low setup cost. - Regular income from franchise fees and royalties. - Franchisee understands local market better. - Builds brand presence worldwide.	- Profit shared with franchisee. - Risk of inconsistent service damaging brand reputation. - Loss of control over local operations. - Must provide training and supply materials.

**To the
Franchisee**

- Operates under an established brand name with proven success.
- Receives ongoing support and training.
- Lower risk compared to starting an independent business.

- Must follow franchisor's rules and standards strictly.
- Initial franchise fees and royalties reduce profits.
- Limited control over pricing and operations.
- Local advertising expenses are borne by franchisee.

Conclusion

A well-planned marketing strategy helps a business:

- Position itself strongly in competitive markets.
- Identify and serve customer needs effectively.
- Maintain long-term profitability and brand loyalty.

However, the strategy must remain flexible — adapting to new laws, changing consumer behavior, and global market conditions. In today's digital era, combining traditional marketing with technological tools (like social media, e-commerce, and data analytics) is key to sustainable success.

Questions:

- 1 NFC manufactures shoes using batch production. Quality assurance is used to maintain quality. NFC uses market segmentation. The Marketing Director is reviewing NFC's product range. He knows there are both benefits and limitations to developing new products. He also knows the promotion of products is important.

(b) Identify **two** aims of promotion.

Aim 1:

.....

Aim 2:

.....

[2]

(d) Explain **two** benefits to NFC of using market segmentation.

Benefit 1:

.....

Explanation:

.....

.....

.....

Benefit 2:

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Explanation:

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..... [6]

(e) Do you think the benefits for a business of developing new products are greater than the limitations? Justify your answer.

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..... [6]



- 1 Brendan wants to be a successful entrepreneur. He plans to start up a flower shop using government support. Brendan's brother has offered to form a business partnership with him. Brendan knows it is important for a new business to use a suitable pricing method. He has already identified ways the business can increase added value. Brendan wants to know how an economic boom might affect his business.

- (e) Explain **two** pricing methods a new business might use. Which is likely to be the best method to use? Justify your answer.

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- 2 NSL is a business based in country X. It manufactures food products including bread and breakfast cereals. NSL uses lean production in its factory. Maintaining quality is important. NSL imports 15% of its raw materials. Changes in country X's exchange rate can affect businesses which import raw materials. NSL's Marketing Manager knows the business should respond to changes in consumer spending patterns. She is aware that market research can be used to help make business decisions.

- (e) Explain **two** methods of market research a business could use to help make business decisions. Which is likely to be the best method for a manufacturing business to use? Justify your answer.

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[6]



- 1 MDZ manufactures a range of chocolate bars. It has 300 employees. MDZ purchases its ingredients from suppliers in the local area. Acting in an ethical way with its stakeholder groups is important. MDZ has products at different stages of the product life cycle. The business is also developing a new product. The Marketing Director needs to make decisions about the packaging and the price of the new product. She knows it is important for a business to use a suitable method of sales promotion for a new product.

(a) Identify **two** roles of packaging.

Role 1:
.....
Role 2:
..... [2]

(b) Identify **two** stages (other than development) of the product life cycle.

1:
.....
2:
..... [2]

(c) Outline **two** factors MDZ's Marketing Director should consider when deciding the price of the new product.

Factor 1:
.....
.....
.....
Factor 2:
.....
.....
..... [4]

(e) Explain **two** possible methods of sales promotion a business could use for a new product. Which is likely to be the best method to use? Justify your answer.

[illegible]

[6]

1(b) Identify <u>two</u> aims of promotion. Award 1 mark for each aim (max 2). Points might include: • To raise awareness/inform/remind people about products/services • To persuade/attract (new) consumers / increase sales/revenue • To create/maintain brand/company image/reputation • Ensure/build customer loyalty/encourage repeat purchases • To introduce new products on to the market • To compete with competitors' products/differentiate from competitors Other appropriate responses should be credited.	2 Only award the first two responses given.
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Question	Answer	Marks	Guidance
1(d)	Explain two benefits to NFC of using market segmentation. Award 1 mark for identification of each relevant benefit (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: - Can design/produce goods to meet specific needs of consumers/know what to produce [k] so that costs/materials are not wasted (producing wrong product) [an] especially as plan to develop new products [app] - Help target advertising/marketing strategies [k] to ensure maximum number of people see the products [an] which is an aim of promotion [app] - Identify gaps in the market/new opportunities [k] for its shoes [app] which can help spread risk [an] - May make marketing expenditure more effective [k] so do not waste money/resources [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. The following words are likely to be appropriate for this question: - Shoes - Batch production - Quality assurance - Promotion (of products) <u>Develop</u> new products Other appropriate examples can be credited. Do not award answers about the benefits of market research.

Question	Answer	Marks	Guidance
1(e)	Do you think the benefits of developing new products for a business are greater than the limitations? 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 benefits of developing new products for a business are greater than the limitations. Points might include: Benefits: - Increase demand/customer (base)/sales [k] which may increase revenue/market share [an] - Can help spread risk/diversification [k] if sales fall for one product, this can be offset by sales of another product [an] - Provide competitive advantage/unique selling point (USP) [k] which could increase customer/brand loyalty [an] - Enter <u>new markets</u> [k] - Improve brand recognition/reputation [k] Limitations: - Must produce new/trial products/more raw materials [k] increases costs [an] - Need to carry out market research [k] increases cash outflows [an] - Need to launch/promote/market the new product [k] - Often requires large capital expenditure/cost of new machinery [k] - May need to recruit/train additional employees/specialists [k] Other appropriate responses should be credited.	6	This is a general question so there are no marks for application. To access evaluation must discuss at least one benefit and one limitation. For evaluation to be awarded justification will usually follow on from relevant analysis of points.

Question	Answer	Marks	Guidance
1(e)	Justification might include: New products can help increase potential sales [k] which increases revenue [an]. However, there is a cost of developing new products [k] which increases cash outflows [an]. The benefits of developing new products are greater because the extra revenue gained could cover the additional costs [eval] which can increase the chance of growth/long term survival [eval].		

Question	Answer	Marks	Guidance
1(e)	Explain <u>two</u> pricing methods a new business might use. Which is likely to be the best method 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 pricing method for a new business to use. Points might include: • Cost-plus [k] by adding a percentage onto the costs of production [an] it is easy to calculate [an] • Penetration pricing [k] setting a lower price <u>than competitors</u> [an] could attract customers [an] • Competitive pricing [k] setting a price <u>similar/just below</u> competitors [an] which may not cover costs [an] • Price skimming [k] allows the business to recover development costs quicker [an] may lead to low sales [an] • Promotional pricing [k] Other appropriate responses should be credited. Justification might include: Cost-plus pricing [k] is easy to calculate [an]. Price skimming [k] allows the business to recover development costs quickly [an]. Cost-plus pricing is the best method as the business will make profit on each item sold [eval] whereas with price skimming they may not attract customers to their new business [eval].	6	This is a general question so there are no marks for application. Candidates must name the method to access the knowledge marks. Analysis can be awarded for explaining the method or advantages/disadvantages Some points can be awarded as advantages or disadvantages of different methods but only award the same point once. To access evaluation must discuss two relevant methods. Accept but do not expect: • Dynamic pricing [k] • Psychological pricing [k]

Question	Answer	Marks	Guidance
2(e)	Explain <u>two</u> methods of market research a business could use to help make business decisions. Which is likely to be the best method for a manufacturing 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 method of market research for a manufacturing business to use to make business decisions. Points might include: • Government sources/statistics [k] provide information from a wide number of people [an] • Using internet/online sources [k] which is free / low cost / immediately available [an] • Information from trade associations/journals [k] as specifically about the industry [an] • Market research agency reports [k] can often be expensive/provide <u>detailed information</u> [an] • Questionnaire [k] as provides up-to-date information / specific to the business [an] • Interviews [k] to obtain <u>in depth</u> details/opinions [an] • Survey [k] can reach out to more/large number of people [an] • Focus group [k] as it provides <u>detailed information</u> / allows for follow-up questions [an] • Test marketing [k] so the cost of any problem is limited to a smaller number of products [an] • Observation [k] low cost [an] • Newspapers/magazines [k] Other appropriate responses should be credited.	6	This is a general question so there are no marks for application. Candidates must identify the method of market research to access the knowledge marks not just state primary/secondary. Analysis can refer to an advantage/disadvantage of method. Some development can be used for more point, but only award once.

Question	Answer	Marks	Guidance
2(e)	Justification might include: Government statistics [k] provide information from a wide number of people [an]. A focus group [k] can provide detailed information about consumer tastes [an]. Government statistics are better because they are based on wide samples whereas a focus group is based on a few existing customers so it may not identify what is happening in the market overall so the business may not produce the right product. [eval] [eval]		

Question	Answer	Marks	Guidance
1(a)	Identify <u>two</u> roles of packaging. Award 1 mark per role (max 2). Points might include: • Carry information about product / meet legal requirements • Protect the product • Promote <u>brand image</u> / name / (brand) reputation • Help advertise / <u>attract</u> customers • Add value • Ease of transport • Easy / convenient to open / use • Ease of storage / display • Suitable for product to fit in / contain the product Other appropriate responses should be credited.	2	Only award first two responses given.
1(b)	Identify <u>two</u> stages (other than development) of the product life cycle. Award 1 mark per stage (max 2). Two from: • Introduction • Growth • Maturity • Decline	2	Only award the first two responses given. Candidates must name and not simply describe the stage.

Question	Answer	Marks	Guidance
1(c)	Outline <u>two</u> factors MDZ's Marketing Director should consider when deciding the price of the new product. Award 1 mark for each relevant factor (max 2). Award 1 mark for each relevant reference to this business (max 2). Points might include: • Brand image [k] as wants to act in an ethical way [app] • Cost of production or examples i.e. cost of materials/labour [k] as have 30 employees [app] • Competition / price of competitors' products [k] for chocolate [app] • Whether product is unique / availability of substitutes [k] • Size of market / niche market / mass market / target market / who selling to / level of demand / price elasticity of demand [k] • Business objective [k] • Profit margin / added value [k] • Quality [k] • Government or legal controls / tax [k] Other appropriate responses should be credited.	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: • Chocolate (bars) • Ingredients or related words such as sugar, cocoa • Ethical • 300 employees • Stakeholder groups • Sales promotion • Packaging • (Suppliers from) local area Other appropriate examples can be credited.

Question	Answer	Marks	Guidance
1(e)	Explain <u>two</u> possible methods of sales promotion a business could use for a new product. Which is likely to be the best method 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 method of sales promotion for a business to use for a new product. Points might include: • Free samples [k] encourage customers to try the product [an] but there is a cost of providing samples [an] • Point of sale displays / demonstrations [k] which raises awareness [an] • Buy One Get One Free (BOGOF) / special offers / discounts [k] which makes the product more affordable [an] • Loyalty schemes [k] so customers want to buy it more often [an] leading to repeat business [an] • (Free) gifts [k] customers will tend to buy more products to gain more gifts [an] • Competitions [k] people will buy more for a chance to win a prize [an] • After sales service [k] Other appropriate responses should be credited.		This is a general question so there are no marks for application. Some analysis can be awarded for different methods but only award once. Max 3 marks where candidate only discusses one method.

Question	Answer	Marks	Guidance
1(e)	Justification might include: It can offer free samples [k] to encourage customers to try the product [an]. Another method is Buy One Get One Free (BOGOF) [k] which makes the product more affordable [an]. BOGOF is the best method because it helps generate some revenue whereas with free samples there is no guarantee people will buy anything [eval] so the business may have to find another way to help cover the development costs of a new product [eval].		

Unit 4: Operations Management

4 Operations management

4.1 Production of goods and services

4.1.1 The meaning of production:

- Managing resources effectively to produce goods and services
- Difference between production and productivity
- Benefits of increasing efficiency and how to increase it, e.g. increasing productivity by automation and technology, improved labour skills
- Why businesses hold inventories
- The concept of lean production: how to achieve it, e.g. just-in-time inventory control and Kaizen; benefits of lean production

4.1.2 The main methods of production:

- Features, benefits and limitations of job, batch and flow production
- Recommend and justify an appropriate production method for a given situation

4.1.3 How technology has changed and is changing production methods, e.g. using computers in design and manufacturing

4.2 Costs, scale of production and break-even analysis

4.2.1 Identify and classify costs:

- Classifying costs using examples, e.g. fixed, variable, average, total
- Use cost data to help make simple cost-based decisions, e.g. to stop production or continue

4.2.2 Economies and diseconomies of scale:

- The concept of economies of scale with examples, e.g. purchasing, marketing, financial, managerial, technical
- The concept of diseconomies of scale with examples, e.g. poor communication, lack of commitment from employees, weak coordination

4.2.3 Break-even analysis:

- The concept of break-even
- Construct, complete or amend a simple break-even chart
- Interpret a given chart and use it to analyse a situation
- Calculate break-even output from given data
- Define, calculate and interpret the margin of safety
- Use break-even analysis to help make simple decisions, e.g. impact of higher price
- Understand the limitations of break-even analysis

4.3 Achieving quality production

4.3.1 Why quality is important and how quality production might be achieved:

- What quality means and why it is important for all businesses
- The concept of quality control and how businesses implement quality control
- The concept of quality assurance and how this can be implemented

4.4 Location decisions

4.4.1 The main factors influencing the location and relocation decisions of a business:

- Factors relevant to the location decision of manufacturing businesses and service businesses
- Factors that a business could consider when deciding which country to locate operations in
- The role of legal controls on location decisions
- Recommend and justify an appropriate location for a business in given circumstances

4.1 Production of goods and services

What is production?

Production is the process of converting inputs (resources) into outputs (goods and services) that satisfy consumer needs.

- **Inputs: land, labour, capital, enterprise (factors of production)**
- **Outputs: finished goods or services**

Productivity

- **Definition: Output per worker (or machine) per period of time.**
→ **Formula:**
Productivity = Total output ÷ Number of workers

Importance:

- **Higher productivity = lower average costs = higher profits.**
- **Can lead to more competitiveness.**

Ways to improve productivity

1. Training workers(increases skill and efficiency).
 2. Improved technology or machinery.
 3. Better motivation and incentives.
 4. Better organisation of production process.
 5. Specialisation and division of labour.
-

4.2 Efficiency and Lean Production

Efficiency

Producing the maximum output with minimum input.

Lean production

Aims to reduce waste and improve efficiency.

Types of waste: time, resources, overproduction, defects, movement, etc.

Methods include:

- Kaizen (continuous improvement): Small, constant improvements by workers.
- Just-in-time (JIT): Materials arrive only when needed — reduces inventory costs.
- Cell production: Teams handle complete units of work, increasing motivation.
- Just-in-case (JIC): Opposite of JIT, where stock is held for emergencies.

Advantages of lean production:

- Lower waste, lower costs.
 - Better quality and productivity.
 - Increased worker responsibility and motivation.
-

4.3 Production methods

Method	Description	Examples	Advantages	Disadvantages
Job production	One-off, customised product	Tailor-made suit, wedding cake	High quality, meets customer needs	Expensive, slow, requires skilled labour
Batch production	Goods made in groups or batches	Bakery, clothing factory	Flexibility, economies of scale	Delay between batches, storage needed
Flow / Mass production	Continuous production on assembly lines	Cars, phones	High output, consistent quality, low unit cost	High setup cost, low worker motivation

4.4 Technology in production

Common technologies:

- **CAD (Computer-Aided Design):** Used to design products on computer.
- **CAM (Computer-Aided Manufacturing):** Controls machinery in production.
- **CIM (Computer Integrated Manufacturing):** Combines CAD and CAM.
- **Robotics and automation:** Replace labour in repetitive tasks.

Advantages:

- Higher productivity and accuracy.
- Lower long-term costs.
- Improved product quality.

Disadvantages:

- High setup cost.
 - Worker redundancies.
 - Training required.
-

4.5 Economies and Diseconomies of Scale

Economies of Scale (EOS):

When output increases → average cost per unit decreases.

Types:

1. Purchasing economies – bulk buying discounts.
2. Technical economies – using advanced machinery.
3. Financial economies – easier and cheaper loans.
4. Managerial economies – hiring specialist managers.
5. Marketing economies – advertising cost spread over more units.

Diseconomies of Scale:

When a firm grows too large → average cost increases.

Causes:

- Poor communication.
 - Lack of motivation.
 - Coordination problems.
-

4.6 Break-even Analysis

Key Terms:

- Fixed costs (FC): Don't change with output (e.g., rent).
- Variable costs (VC): Change with output (e.g., raw materials).
- Total cost (TC) = FC + VC
- Revenue = Selling price × Quantity sold

Break-even Point:

Where Total Revenue = Total Cost.

→ Formula:

Break-even output = Fixed Costs ÷ (Selling Price – Variable Cost per unit)

Uses:

- To plan output and pricing.
- To assess profitability.

Limitations:

- Based on estimates.
 - Doesn't consider market changes or demand shifts.
-

4.7 Quality

Quality means meeting customer expectations.

Methods of maintaining quality:

1. Quality Control: Inspecting finished products.
2. Quality Assurance: Checking during production.
3. Total Quality Management (TQM): Every worker responsible for quality.

Benefits of good quality:

- Customer loyalty.
- Reduced waste.
- Strong brand image.

Problems of poor quality:

- Complaints and returns.
 - Damage to reputation.
 - Increased costs.
-

Questions:



- 2 NSL is a business based in country X. It manufactures food products including bread and breakfast cereals. NSL uses lean production in its factory. Maintaining quality is important. NSL imports 15% of its raw materials. Changes in country X's exchange rate can affect businesses which import raw materials. NSL's Marketing Manager knows the business should respond to changes in consumer spending patterns. She is aware that market research can be used to help make business decisions.

(c) Outline **two** reasons why maintaining quality is important for NSL.

Reason 1:

.....

.....

.....

Reason 2:

.....

.....

.....

[4]



(d) Explain **two** benefits to NSL of using lean production.

Benefit 1:

.....

Explanation:

.....

.....

.....

Benefit 2:

.....

Explanation:

.....

.....

[6]



- 4 PKN manufactures glass. Contributing to sustainable development is important to the business. PKN has factories in 30 countries. It has 27 000 employees. The Managing Director knows PKN has benefited from globalisation. She plans to expand the business using external growth. Retained profit is one source of finance a business could use to fund expansion. Some of PKN's directors are concerned about possible diseconomies of scale as the business grows.

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10

(d) Explain **two** diseconomies of scale which might affect PKN as it grows.

Diseconomy 1:

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Explanation:

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.....

Diseconomy 2:

.....

Explanation:

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.....

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[6]

* 0000800000002 *



2

- 1 NFC manufactures shoes using batch production. Quality assurance is used to maintain quality. NFC uses market segmentation. The Marketing Director is reviewing NFC's product range. He knows there are both benefits and limitations to developing new products. He also knows the promotion of products is important.

(a) Define 'batch production'.

.....

.....

.....

.....

[2]

(c) Outline **one** advantage and **one** disadvantage to NFC of using quality assurance.

Advantage:

.....

.....

.....

Disadvantage:

.....

.....

.....

[4]

(a) Define 'average cost'.

.....

.....

.....

.....

[2]



- 3 GAE is a multinational company. It manufactures steel. GAE has 2400 employees and has factories in 4 countries. The business regularly introduces new technology. Holding inventory is important. GAE's directors are planning to build a new factory and want to know how legal controls over location might affect this decision. The Managing Director said, 'The new factory will create many external benefits.'

(c) Outline **two** advantages to GAE of introducing new technology.

Advantage 1:

.....

.....

.....

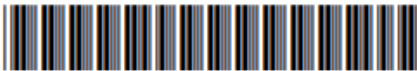
Advantage 2:

.....

.....

..... [4]

* 0000800000008 *



8

(d) Explain **two** reasons why holding inventory might be important for GAE.

Reason 1:

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Explanation:

.....

.....

.....

Reason 2:

.....

Explanation:

.....

.....

..... [6]

Question	Answer	Marks	Guidance
2(c)	Outline <u>two</u> reasons why maintaining quality is important for NSL. Award 1 mark for each relevant reason (max 2). Award 1 mark for each relevant reference to this business (max 2). Points might include: • Develop strong brand image / generate good publicity / better reputation [k] for its food [app] • Keep customer loyalty/remain competitive [k] which may help as spending patterns change [app] • Can charge high/premium prices [k] which may help cover any effect of exchange rates [app] • Lower costs/less wastage [k] at the factory [app] • Fewer customer complaints/returns [k] • Attract new customers/increase sales [k] • To meet legal requirements [k] such as food standards [app] • It adds value [k] Other appropriate responses should be credited.	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: • Food or related words such as ingredients, breakfast cereal, bread • Manufacture • (Consumer) spending patterns change • Factory • Exchange rates • (15% of raw) materials are imported • Lean production Other appropriate examples can be credited.

Question	Answer	Marks	Guidance
2(d)	Explain <u>two</u> benefits to NSL of using lean production. Award 1 mark for identification of each relevant benefit (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: • Fewer mistakes/errors [k] so less rework / lower repair costs / may improve reputation [an] as maintaining quality is important [app] • Less inventory held [k] of imported materials [app] lowering storage costs/amount of working capital [an] • Cut out some processes [k] when making the food [app] which speeds up production / increase productivity [an] • Increase motivation [k] leading to lower absenteeism / reduce labour turnover [an] at the factory [app] • Less waste of time/ materials OR improved efficiency [k] quicker/increased output [an] • Lower (unit) costs [k] improving competitiveness [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. The following words are likely to be appropriate for this question: • Food or related words such as ingredients, breakfast cereal, bread • Manufacture • (Consumer) spending patterns change • Factory • Exchange rates • (15% of raw) materials are imported • Maintaining quality Other appropriate examples can be credited. Some points can be awarded as [k] or [an] but only award the same point once e.g. waste, productivity, lower cost

Question	Answer	Marks	Guidance
4(d)	Explain <u>two</u> diseconomies of scale which might affect PKN as it grows. Award 1 mark for identification of each relevant diseconomy (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: • <u>Low</u> morale/motivation/lack of loyalty [k] leading to higher labour turnover / more workers leaving [an] among its 27 000 employees [app] • <u>Poor</u> communication [k] leading to mistakes [an] when making glass [app] • <u>Weak/lack</u> of co-ordination [k] leading to the wrong decisions [an] at the factory [app] • <u>Lack of</u> control [k] leading to higher average costs [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. The following words are likely to be appropriate for this question: • Glass • Factory/Factories • Manufacturer • 30 countries • 27000 employees • Globalisation • Sustainable development • Source of finance Other appropriate examples can be credited. Some analysis points can be used for any diseconomy but only award once e.g. higher average/unit costs.

Question	Answer	Marks	Guidance
1(a)	Define 'batch production'. Award 2 marks for a full definition. Award 1 mark for a partial definition. • Where a quantity/group of one product is made, then a quantity of another product will be produced [2] • A whole <u>batch/group</u> moves through the different stages of production <u>together</u> [2] Partial definition e.g. • Similar items made together/items made in a group/set [1] • Moving together through different stages of production [1]	2	One mark for idea of a group/set of products.

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Question	Answer	Marks	Guidance
1(c)	Outline <u>one</u> advantage and <u>one</u> disadvantage to NFC of using quality assurance. 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: • Errors can be spotted earlier/during production [k] of the shoes [app] • Can motivate employees [k] so may be willing to offer ideas for its product range [app] • No need to recruit quality inspectors [k] Disadvantages: • All (production) workers need training/time/cost to train workers [k] which may take funds away from developing new products [app] • Not all workers are interested/able to spot problems [k] during batch production [app] • May slow down production [k] Other appropriate responses should be credited.	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: • Shoes • Batch (production) • Promotion (of products) • <u>Developing</u> new products • Product range • Market segmentation Other appropriate examples can be credited.

Question	Answer	Marks	Guidance
4(a)	Define 'average cost'. Award 2 marks for a full definition. Award 1 mark for a partial definition. • Total cost divided by (total) output [2] • Total cost divided by the number of items produced/made [2] • The cost of producing a single product/unit of output [2] Partial definition e.g. • Cost divided by output [1] • Total cost divided by number of units [1]	2	

Question	Answer	Marks	Guidance
3(c)	Outline <u>two</u> advantages to GAE of introducing new technology. Award 1 mark for each relevant advantage (max 2). Award 1 mark for each relevant reference to this business (max 2). Points might include: • Motivate employees [k] as have 2400 workers [app] • Fewer employees needed [k] in the 4 countries [app] • Increases productivity / efficiency / quicker (rate of) production [k] in its factories [app] • Improved quality / consistent quality / less waste / fewer mistakes [k] when making steel [app] • Increase output [k] for this multinational company [app] • Can work 24/7 / no need to have breaks in production [k] • Help design / make new products [k] • Improved communication [k] Other appropriate responses should be credited.		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: • Steel • Multinational company • Factory/factories • 4 countries • 2400 employees • Inventory is important • External benefits Other appropriate examples can be credited. Allow 'lower cost' once, unless two clearly specific different costs.

Question	Answer	Marks	Guidance
3(d)	Explain <u>two</u> reasons why holding inventory might be important for GAE. 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: • To benefit from economies of scale / discounts for bulk buying / to benefit from special offers / *gain supplier discounts [k] reducing average / unit cost [an] for this multinational company [app] • To maintain / not delay production / provide backup materials in case of breakdowns [k] at the factories [app] so can meet orders / demand (on time) [an] • To protect against delays from suppliers / shortage of materials [k] which otherwise could delay production [an] in the 4 countries [app] • To meet / satisfy demand / customer orders [k] of steel [app] which can increase revenue [an] • To meet <u>sudden</u> order / <u>unexpected</u> changes in demand [k] helping maintain its reputation [an] • To meet seasonal changes in demand [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 appropriate for this question: • Steel • Multinational company • Factory/factories • 4 countries • 2400 employees • <u>New</u> technology • External benefits • Legal controls over location Other appropriate examples can be credited. Some points can be [k] or [an] but only award once. Some [an] can be used for different points but only award once.

Unit 5: Financial Management

5 Financial information and decisions

5.1 Business finance: needs and sources

5.1.1 The need for business finance:

- The main reasons why businesses need finance, e.g. start-up capital, capital for expansion and additional working capital
- Understand the difference between short-term and long-term finance needs

5.1.2 The main sources of finance:

- Internal sources and external sources with examples
- Short-term and long-term sources with examples, e.g. overdraft for short-term finance and debt or equity for long-term finance
- Importance of alternative sources of capital, e.g. micro-finance, crowd-funding
- The main factors considered in making the financial choice, e.g. size and legal form of business, amount required, length of time, existing loans
- Recommend and justify appropriate source(s) of finance in given circumstances

5.2 Cash-flow forecasting and working capital

5.2.1 The importance of cash and of cash-flow forecasting:

- Why cash is important to a business
- What a cash-flow forecast is, how a simple one is constructed and the importance of it
- Amend or complete a simple cash-flow forecast
- How to interpret a simple cash-flow forecast
- How a short-term cash-flow problem might be overcome, e.g. overdraft, delaying supplier payments, asking debtors to pay more quickly

5.2.2 Working capital:

- The concept and importance of working capital

5.3 Income statements

5.3.1 What profit is and why it is important:

- How a profit is made
- Importance of profit to private sector businesses, e.g. reward for risk-taking/enterprise, source of finance
- Difference between profit and cash

5.3 Income statements continued

5.3.2 Income statements:

- Main features of an income statement, e.g. revenue, cost of sales, gross profit, profit and retained profit
- Use simple income statements in decision-making based on profit calculations (*constructing income statements will **not** be assessed*)

5.4 Statement of financial position

5.4.1 The main elements of a statement of financial position:

- The main classifications of assets and liabilities, using examples

5.4.2 Interpret a simple statement of financial position and make deductions from it, e.g. how a business is financing its activities and what assets it owns, sale of inventories to raise finance (*constructing statements of financial position will **not** be assessed*)

5.5 Analysis of accounts

5.5.1 Profitability:

- The concept and importance of profitability

5.5.2 Liquidity:

- The concept and importance of liquidity

5.5.3 How to interpret the financial performance of a business by calculating and analysing profitability ratios and liquidity ratios:

- Gross profit margin
- Profit margin
- Return on Capital Employed
- Current ratio
- Acid test ratio

5.5.4 Why and how accounts are used:

- Needs of different users of accounts and ratio analysis
- How users of accounts and ratio results might use information to help make decisions, e.g. whether to lend to or invest in the business

5.1 Business Finance: Needs and Sources

Why businesses need finance

1. Start-up costs (machinery, rent, equipment).
2. Working capital (day-to-day expenses).
3. Expansion (new branches, machinery).
4. Research and development.
5. Dealing with cash-flow problems.

Short-term finance (≤ 1 year)

Source	Description	Advantage	Disadvantage
Overdraft	Withdraw more than in account	Flexible	High interest
Trade credit	Delay paying suppliers	Improves cash flow	Lose discount
Short-term loan	Borrow fixed sum	Quick access	Must repay soon

Medium-term finance (1–5 years)

Source	Description	Advantage	Disadvantage
Leasing	Rent equipment	No large upfront payment	Expensive long-term
Hire purchase	Pay in instalments	Ownership after payment	Interest cost

Long-term finance (>5 years)

Source	Description	Advantage	Disadvantage
Share issue	Sell company shares	Permanent capital	Ownership dilution

Retained profit	Reinvested earnings	No interest or debt	Limited amount
Debentures	Long-term loans with fixed interest	Large sums	Must repay with interest
Grants	Government funds	No repayment	Rare and conditional

5.2 Cash Flow

Cash vs Profit

- **Cash:** actual money available.
- **Profit:** total revenue – total cost.
A business can be profitable but still have cash problems if customers delay payments.

Cash flow forecast

Predicts future inflows and outflows to identify shortages.

Formula:

Net Cash Flow = Cash Inflows – Cash Outflows

Closing Balance = Opening Balance + Net Cash Flow

Importance:

- Helps avoid liquidity problems.
- Assists in planning for loans or investments.

Solutions to cash flow problems:

- Increase inflows (reduce credit period, sell unused assets).
 - Decrease outflows (delay payments, cut costs).
-

5.3 Income Statements (Profit and Loss Accounts)

Structure:

1. Revenue (Sales)
2. Cost of Sales (COGS)
→ Opening Inventory + Purchases – Closing Inventory
3. Gross Profit = Revenue – COGS
4. Operating Expenses: rent, wages, admin.
5. Operating Profit = Gross Profit – Expenses
6. Profit before tax = Operating profit – Interest
7. Profit after tax = Profit before tax – Tax

Use:

- Compare performance over time.
 - Assess profitability.
 - Inform investors and management.
-

5.4 Balance Sheets (Statement of Financial Position)

Shows assets, liabilities, and capital at a specific date.

Structure:

Assets

Non-current assets: buildings, machinery

Current assets: inventory, cash, receivables

Liabilities & Capital

Non-current liabilities: long-term loans

Current liabilities: creditors, overdraft

Owner's Equity / Capital: share capital + retained profit

Formulas:

- **Working Capital = Current Assets – Current Liabilities**
- **Net Assets = Total Assets – Total Liabilities**

Importance: shows liquidity, solvency, and business health.

5.5 Financial Ratios

Profitability Ratios

1. **Gross Profit Margin = (Gross Profit / Revenue) × 100**
2. **Net Profit Margin = (Net Profit / Revenue) × 100**

Liquidity Ratios

1. **Current Ratio = Current Assets ÷ Current Liabilities**
 - **Ideal: around 2:1**
2. **Acid-Test Ratio = (Current Assets – Inventory) ÷ Current Liabilities**
 - **Ideal: around 1:1**

Interpretation:

- **Low profitability → high costs or low sales.**
 - **Low liquidity → difficulty in paying short-term debts.**
-

5.6 Using Accounts for Decision-Making

Internal users: managers, employees.

External users: investors, banks, government, suppliers.

They use financial data to:

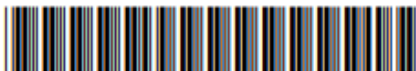
- **Compare performance (year-to-year or with competitors).**
- **Make decisions on investment, expansion, or cost control.**

Limitations of financial statements:

- Based on historical data.
- Do not show qualitative factors (e.g. brand strength).
- Inflation can distort values.

Questions:

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6

- 3 LFK is a coal-mining business. It has 135 employees who are all provided with training. After the dismissal of one of LFK's employees there is a job vacancy for a new supervisor. External recruitment will be used. The Managing Director is preparing a cash flow forecast for LFK. An extract is shown in Table 3.1.

Table 3.1

Extract from LFK's cash flow forecast July - September 2025 \$000			
	July	August	September
Cash inflow	600	400	730
Cash outflow	720	X	590
Net cash flow	(120)	(100)	140
Opening balance	40	(80)	(180)
Closing balance	(80)	(180)	Y

(b) Calculate the value of **X** and **Y**.

X:

.....

Y:

.....

[2]



(c) Identify **four** reasons why a cash flow forecast might be useful to a business.

Reason 1:

.....

Reason 2:

.....

Reason 3:

.....

Reason 4:

.....

[4]

(e) Do you think the advantages of using retained profits to fund business expansion are greater than the disadvantages? Justify your answer.

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[6]

- 2 FLD is a furniture retailer. It has 460 shops and 20 000 employees. Internal recruitment is used when recruiting new shop managers. The Managing Director wants to know whether job rotation is the best method of motivation for a large business to use. The Finance Director is reviewing FLD's income statement. An extract is shown in Table 2.1. She is concerned that FLD's gross profit is decreasing.

Table 2.1

Extract from FLD's income statement for year ending April 2025 (\$ million)	
Revenue	400
Gross profit	200
Expenses	60
Profit	140

- (a) Define 'profit'.

.....

.....

.....

..... [2]

- (b) Identify **two** expenses a business might have.

Expense 1:

.....

Expense 2:

..... [2]

- (c) Outline **two** possible reasons why FLD's gross profit is decreasing.

Reason 1:

.....

.....

.....

Reason 2:

.....

.....

..... [4]

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

[illegible]

[6]

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4

- 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)

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

X:

.....

Y:

.....

[2]

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

Reason 1:

.....

.....

.....

Reason 2:

.....

.....

.....

[4]

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

Reason 1:

.....

Explanation:

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.....

.....

Reason 2:

.....

Explanation:

.....

.....

.....

[6]

(b) Identify two advantages to a business of using external sources of finance.

Advantage 1:

.....

Advantage 2:

.....

[2]

Question	Answer	Marks	Guidance
3(b)	Calculate the value of X and Y. Award 1 mark for each correct calculation. X: 500000 or (500000) or 500 [1] Y: (40000) or (40) or – 40 [1]	2	Y must be shown as a negative number. This could be using brackets/minus sign.
3(c)	Identify <u>four</u> reasons why a cash flow forecast might be useful to a business. Award 1 mark for each relevant reason (max 4). Points might include: • Help support a loan application / attract investors • Can identify (possible causes of) cash flow problems • Help (financial) planning / budgeting / manage cash flow better / help avoid cash flow problems or insolvency • Identify how much a business might need to borrow/size of overdraft • Identify whether the business will be holding too much cash that could be put to better use • Helps with decision making / decide if expansion is possible Other appropriate responses should be credited.	4	Only award the first four responses given.

Question	Answer	Marks	Guidance
4(e)	Do you think the advantages of using retained profits to fund business expansion 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 using retained profits to fund business expansion are greater than the disadvantages. Points might include: Advantages: • No need to repay [k] so does not increase level of debt/liabilities [an] • No interest to pay [k] so no additional cash outflows/expenses [an] • Easy/quick to obtain [k] Disadvantages: • Takes time to generate sufficient funds [k] which could <u>delay</u> the expansion [an] • May not have sufficient/any funds [k] so must <u>limit the size</u> of expansion [an] • (Keep more profit in the business) reduces payment/reward to owners [k] which may deter further investment [an] Other appropriate responses should be credited.	6	This is a general question so there are no marks for application. Some analysis could apply to more than one point, but only award once.

Question	Answer	Marks	Guidance
4(e)	Justification might include: An advantage is there is no interest to pay [k] so no additional cash outflows [an]. However, it may take time to generate these funds [k] delaying expansion [an]. The disadvantages are greater because expansion is likely to need a large amount of finance which the business may not have [eval]. Delay could mean the opportunity is missed [eval].		

Question	Answer	Marks	Guidance
2(a)	Define 'profit'. Award 2 marks for a full definition. Award 1 mark for a partial definition. • (Total) income of a business (revenue) less <u>total</u> cost [2] • (Total) revenue minus <u>total</u> costs [2] • Difference between revenue and <u>total</u> cost [2] • Gross profit – expenses [2] Partial definition e.g. • Revenue minus costs [1] Other appropriate responses should also be credited.	2	Max 1 mark if refer to money rather than revenue/income.

Question	Answer	Marks	Guidance
2(b)	Identify <u>two</u> expenses a business might have. Award 1 mark for each expense (max 2). Points might include: • Rent • Rates • Electricity/gas/heating/lighting/water/utilities • Insurance • Interest • Storage • Marketing/advertising • Salaries • Maintenance/repairs • Phone/internet Other appropriate responses should be credited.	2	Only award the first two responses given.

Question	Answer	Marks	Guidance
2(c)	Outline <u>two</u> possible reasons why FLD's gross profit is decreasing. Award 1 mark for identification of each relevant reason (max 2). Award 1 mark for each relevant reference to this business (max 2). Points might include: • Low/fall in amount of sales/demand/customers [k] at its 460 shops [app] • Change in price / increase/decrease (selling) price [k] for the retailer [app] • Increase in <u>cost of sales</u> / <u>variable cost</u> / increase in cost of inventory [k] so gross profit is at \$200 million [app] Other appropriate responses should be credited.	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: • Furniture or related words e.g. chair • 460 (locations) • Large business • Shop/retailers • 20000 employees • \$400 million (revenue) • \$200million (gross profit) Other appropriate examples can be credited. Accept decreased revenue where no specific examples given e.g. fall in number of sales/change in price.

Question	Answer	Marks	Guidance
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.	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.
2(b)	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.

Question	Answer	Marks	Guidance
2(c)	Outline <u>two</u> 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 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] 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.	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 • 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.

Question	Answer	Marks	Guidance
2(d)	Explain <u>two</u> 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: • 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] • 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.	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 • 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.
4(b)	Identify <u>two</u> advantages to a business of using external sources of finance. Award 1 mark per advantage (max 2). Points might include: • Able to raise funds quicker / quickly • May be able to raise full / large(r) amount of finance • Can use internal sources / profit <u>for other purposes</u> • Provider may offer advice/support Other appropriate responses should be credited.	4	Only award the first two responses given.

Unit 6: External Influences on Business Environment

6 External influences on business activity

6.1 Economic issues

- 6.1.1 Business cycle:
- Main stages of the business cycle, e.g. growth, boom, recession, slump
 - Impact on businesses of changes in employment levels, inflation and Gross Domestic Product (GDP)
- 6.1.2 How government control over the economy affects business activity and how businesses may respond:
- Identify government economic objectives, e.g. increasing Gross Domestic Product (GDP)
 - Impact of changes in taxes and government spending
 - Impact of changes in interest rates
 - How businesses might respond to these changes

6.2 Environmental and ethical issues

- 6.2.1 Environmental concerns and ethical issues as both opportunities and constraints for businesses:
- How business activity can impact on the environment, e.g. global warming
 - The concept of externalities: possible external costs and external benefits of business decisions
 - Sustainable development; how business activity can contribute to this
 - How and why business might respond to environmental pressures and opportunities, e.g. pressure groups
 - The role of legal controls over business activity affecting the environment, e.g. pollution controls
 - Ethical issues a business might face: conflicts between profits and ethics
 - How business might react and respond to ethical issues, e.g. child labour, paying fair prices to suppliers

6.3 Business and the international economy

6.3.1 The importance of globalisation:

- The concept of globalisation and the reasons for it
- Opportunities and threats of globalisation for businesses
- Why governments might introduce import tariffs and import quotas

6.3.2 Reasons for the importance and growth of multinational companies (MNCs):

- Benefits to a business of becoming a multinational and the impact on its stakeholders
- Potential benefits to a country and/or economy where a MNC is located, e.g. jobs, exports, increased choice, investment
- Potential drawbacks to a country and/or economy where a MNC is located, e.g. reduced sales of local businesses, repatriation of profits

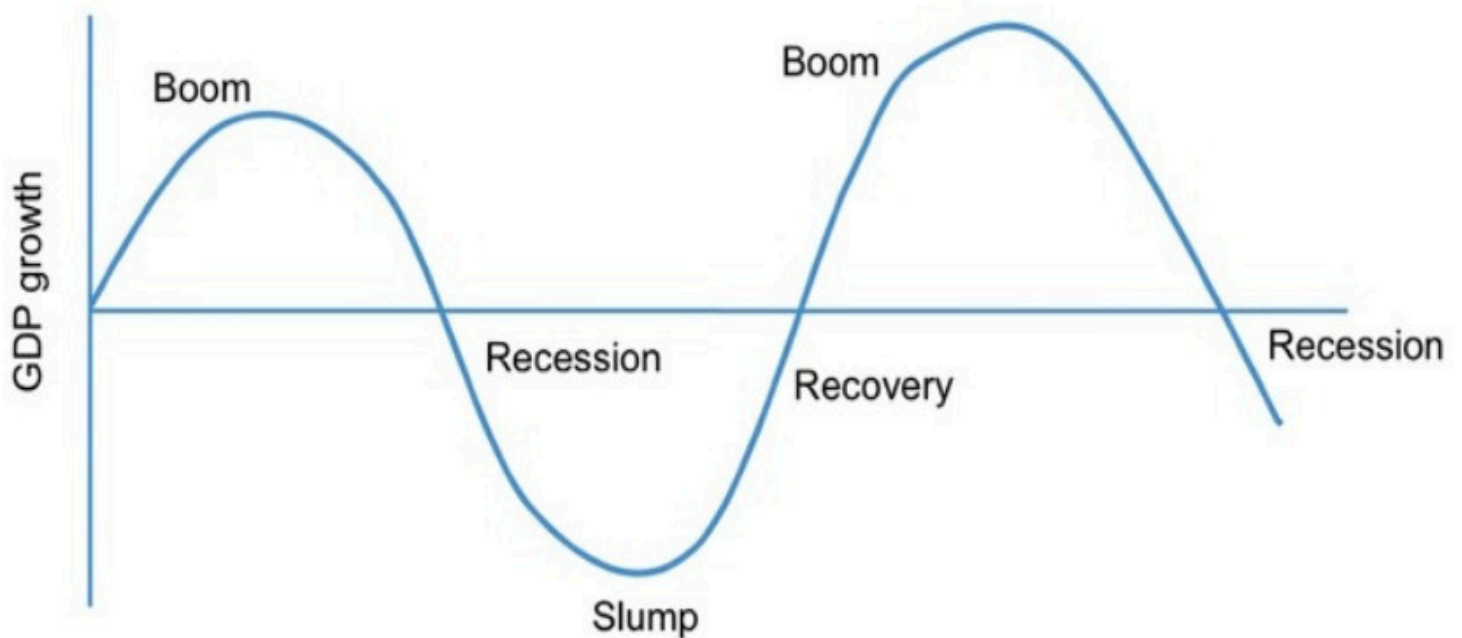
6.3.3 The impact of exchange rate changes:

- Depreciation and appreciation of an exchange rate
- How exchange rate changes can affect businesses as importers and exporters of products, e.g. prices, competitiveness, profitability (*exchange rate calculations will **not** be assessed*)

6.1 Economic Issues

Aneconomyneverexperiencesconstantgrowth — instead, it moves through a repeating pattern of expansion and contraction known as the Business Cycle (also called the Trade Cycle).

This cycle shows how Gross Domestic Product (GDP), employment, investment, and consumer spending change over time. Businesses, governments, and consumers are all affected by which stage the economy is currently in.



Phases of the Business Cycle

Phases of the Business Cycle

The cycle generally includes four main stages — *Growth, Boom, Recession, and Slump* — followed by a *Recovery* period before the process repeats.

Stage	Description	Economic Indicators	Effect on Businesses and Society
1. Growth (Expansion)	This is the period where economic activity increases. Output, income, and employment levels rise as businesses expand production to meet growing demand.	- GDP begins to rise steadily. - Unemployment falls as firms hire more workers. - Consumer and business confidence improves. - Investments in new projects and technologies increase. - Living standards begin to improve.	- Businesses earn higher revenues and profits. - Firms expand into new markets and may increase prices slightly. - More startups emerge due to positive business conditions. - Governments collect more taxes from higher income and sales levels. - Demand for luxury goods and services increases.

2. Boom (Peak)

The economy reaches its highest point of activity. Consumer spending and production are at their maximum, but excessive demand often leads to inflationary pressure.

- GDP growth rate is very high.
- Inflation rises as demand outpaces supply.
- Production costs rise due to higher wages and raw material prices.
- Profit margins may fall despite high sales volumes.
- Labour shortages appear and wages increase.
- Firms may face difficulty hiring skilled labour.
- Interest rates may rise as governments try to control inflation.
- Imports rise because domestic production can't meet all demand.
- Inflation and uncertainty can make long-term planning difficult.
- Businesses may become cautious about further expansion.

3. Recession (Contraction)

The economy starts to slow down after a period of strong growth. Consumer confidence declines and spending falls, leading to lower sales and profits.

- GDP begins to fall for at least two consecutive quarters.
- Unemployment starts to increase.
- Investment decreases as firms delay projects.
- Inflation may slow or stabilise.
- Consumer spending declines.
- Firms cut production to reduce costs.
- Businesses may lay off workers, causing unemployment to rise.
- Smaller firms or those with high debts may go bankrupt.
- Governments collect less tax and may need to

			increase spending on welfare benefits. - Consumer goods companies suffer more as demand for non-essential products falls.
4. Slump (Trough)	This is the lowest point of the cycle when economic activity is at its weakest. Confidence among businesses and consumers is very low.	- GDP growth is at its minimum or negative. - Unemployment reaches extremely high levels. - Prices may fall (deflation) as firms -	- Many businesses shut down because of low sales and cash flow. - Surviving firms cut costs drastically to stay afloat. - Banks may be unwilling to lend money, limiting investment. - Government spending on unemployment benefits rises sharply. - Standard of living falls for most of the population.

Recovery Period

After a slump, the economy begins to show signs of improvement. This stage is called Recovery.

Governments may take measures such as:

- Reducing taxes to encourage people to spend more.
- Increasing government spending on public projects to create jobs.
- Lowering interest rates so that firms and individuals can borrow and invest more easily.

As a result:

- Consumer confidence begins to rise again.
- Firms increase production to meet growing demand.
- Employment levels start improving.
- GDP begins to climb once more.

Eventually, the economy moves back into a growth phase, restarting the business cycle.



Key Points to Remember

- Every economy experiences these fluctuations — the length and intensity of each stage can vary.
 - The government often intervenes with fiscal or monetary policies to reduce the severity of recessions and slumps.
 - Businesses must adapt their strategies depending on which stage of the cycle they are in.
 - During growth and boom → expand and invest.
 - During recession and slump → cut costs and focus on survival.
-

Exam Tips:

When answering exam questions:

- Always link each stage to its impact on businesses, employment, and consumers.
- Use keywords such as “GDP,” “unemployment,” “inflation,” and “consumer confidence.”
- Example answer:

“During a recession, falling demand and rising unemployment cause firms to cut production and delay expansion plans. This reduces GDP and may lead to a further decline in business confidence.”

- Remember that economic conditions and policies are all interconnected; one change will lead to an effect which will lead to another effect and so on, like a chain reaction in many different ways. In your exams, you should take care to explain those effects that are relevant and appropriate to the business or economy in the question.
- How might businesses react to policy changes? It will depend on how much impact the policy change will have on the particular business/industry/economy. Here are a few examples:

Government policy change	Possible business decision	Problems with this decision
Increase income tax – this reduces the amount consumers have to spend	Lower prices on existing products to increase demand Produce 'cheaper' products to allow for lower prices	Less profit will be made on each item sold (reduces gross profit margin) The brand image of a product might be damaged by using cheaper versions of it
Increase tariffs on imports	Focus more on the domestic market as locally produced goods now seem cheaper Switch from buying imported materials and components to locally produced ones	It might still be more profitable to export Foreign materials and components might be of higher quality
Increase interest rates	Reduce investment so future growth will be less Develop cheaper products that consumers will be better able to afford Sell assets for cash to reduce existing loans	Other companies might still grow so market share will be lost Depends on the product but could consumers start to think that the quality and brand image are lower? The assets might be needed for future expansion

6.2 Environmental and Ethical Issues

1. Business and the Environment

Definition: Social Responsibility

Social responsibility is when a business makes decisions that benefit stakeholders other than shareholders, such as employees, customers, suppliers, the local community, and the environment — even when it may not maximize profit.

Example: A factory invests in waste-treatment systems to protect nearby rivers, even though it increases costs.

Business Activities that Harm the Environment

Businesses can cause environmental damage through:

- Air pollution: release of smoke, greenhouse gases, and toxic fumes.
- Water pollution: dumping of waste, oil, or chemicals into rivers and seas.
- Land pollution: poor waste disposal and non-biodegradable packaging.
- Noise pollution: heavy machinery and traffic near residential areas.
- Resource depletion: using up scarce, non-renewable resources like coal, oil, or rainforest wood.
- Loss of natural beauty: industrialization ruining scenic or natural areas.

2. Why Businesses Want or Don't Want to be Environment-Friendly

WHY BUSINESSES WANT TO BE ENVIRONMENT-FRIENDLY

Sense of social responsibility: They recognize their contribution to global warming and pollution and wish to act ethically.

Long-term resource security: Reducing use of non-renewable resources ensures long-term availability and lower future costs.

Positive consumer perception: Many consumers prefer eco-friendly products and are willing to pay slightly higher prices for them.

Government and pressure group relations: Compliance prevents fines, protests, and bans.

Brand image and public relations: A green reputation attracts customers, employees, and investors.

WHY BUSINESSES DO NOT WANT TO BE ENVIRONMENT-FRIENDLY

High costs: Recycling, waste treatment, and installing filters or renewable systems require expensive machinery and skilled labour.

Higher prices: To cover environmental costs, firms may raise prices, which can reduce demand and sales.

Reduced competitiveness: Businesses in countries with fewer environmental laws can produce cheaper products, undercutting eco-friendly firms.

Short-term profit loss: Eco-friendly changes may reduce short-term profitability.

Responsibility argument: Some firms argue that it's the government's job — not theirs — to clean up pollution.

3. Externalities (Spillover Effects)

Definition:

Externalities are the unintended side effects (positive or negative) that a business's actions have on third parties (stakeholders other than the business and its direct customers).

Let's consider a business that builds a new factory.

Type	Explanation	Example
Private Costs	Costs paid by the business for its activities.	Construction costs, machinery, wages, raw materials.
Private Benefits	Gains enjoyed by the business itself.	Increased output, profits from sales, economies of scale.
External Costs	Negative effects on others in society.	Air pollution → respiratory diseases, noise → disturbed residents, land loss → reduced farmland.
External Benefits	Positive effects on others in society.	Job creation, improved infrastructure (roads, schools), local suppliers gaining new business, more government tax revenue.

Formulas:

- $\text{Social Costs} = \text{Private Costs} + \text{External Costs}$
- $\text{Social Benefits} = \text{Private Benefits} + \text{External Benefits}$

Cost-Benefit Analysis (CBA)

Governments and sometimes businesses use CBA to decide whether a project should proceed.

They give monetary values to social costs and benefits (even though some, like “natural beauty,” are hard to quantify).

- If social benefits > social costs, the project proceeds.
- If social costs > social benefits, it is rejected.

Example: A dam project might create electricity and jobs (benefits) but destroy wildlife habitats and displace communities (costs).

4. Sustainable Development

Definition:

Sustainable development means meeting current needs without compromising the ability of future generations to meet their own needs.

It aims to achieve economic growth with minimal environmental harm.

Examples of sustainable business practices:

- **Using renewable energy sources (solar, wind, hydro).**
- **Recycling waste and reusing materials to reduce landfill.**
- **Reducing resource consumption (energy-efficient machinery, smaller packaging).**
- **Developing eco-friendly products and production methods.**
- **Supporting environmental innovation (biodegradable plastics, electric vehicles).**

Example: Apple and Samsung use recycled aluminum and energy-efficient factories to reduce carbon footprints.

5. Environmental Pressures and Controls

(a) Pressure Groups

Pressure groups are organizations that try to influence business and government decisions through campaigns, boycotts, and protests.

How they influence businesses:

- **Consumer boycotts: encouraging people not to buy harmful products.**
- **Media exposure: using news and social media to shame unethical firms.**
- **Lobbying: pushing governments to pass environmental regulations.**
- **Public protests or petitions to pressure companies.**

Example: Greenpeace campaigns against deforestation and ocean pollution, forcing companies like Nestlé and Shell to change their sourcing and drilling policies.

Impact on businesses:

- **Damage to brand reputation if they ignore demands.**
 - **Fall in sales due to boycotts.**
 - **Forced policy changes to maintain public trust.**
-

(b) Government Actions

Governments can enforce environmental protection through:

Method	Explanation	Example
Legal Restrictions	Banning harmful practices or limiting factory locations near protected areas.	Restricting new chemical plants near rivers or nature reserves.
Fines and Penalties	Imposing financial penalties for excessive pollution.	A steel plant exceeding emission limits may face heavy fines.
Pollution Permits	Businesses must buy licenses to pollute up to a certain limit. Firms that pollute less can sell their unused permits.	Encourages companies to reduce pollution and sell surplus permits for profit.
Environmental Taxes	Taxes on goods/services that harm the environment.	Carbon tax on petrol or coal usage.

Subsidies for Green Firms

Financial support for eco-friendly initiatives.

Tax breaks for solar panel manufacturers or electric vehicle companies.

6. Ethical Decisions in Business

Definition:

Ethics refers to moral principles guiding business behaviour — doing what is *right*, not just what is *legal* or *profitable*.

Examples of Ethical Issues:

- **Child labour:** Should firms outsource to countries with weak labour laws?
- **Bribery and corruption:** Should firms pay bribes to win contracts?
- **Product safety:** Selling unsafe or misleadingly advertised products.
- **Fair treatment:** Paying workers fairly and providing safe conditions.
- **Associations:** Partnering with suppliers or organizations with unethical reputations.

Advantages of Ethical Behaviour

Builds customer loyalty and trust.

Enhances brand image and attracts investors.

Reduces risk of government intervention or legal issues.

Disadvantages of Ethical Behaviour

Ethical sourcing and production increase costs.

May lose competitiveness against unethical but cheaper rivals.

Ethical restrictions may limit business opportunities.

Encourages employee motivation and retention.

Some ethical decisions (like rejecting cheap suppliers) reduce short-term profit.

Example: Patagonia promotes ethical sourcing and donates profits to environmental causes — enhancing reputation and customer loyalty.



Summary Points

- Businesses must balance profitability with environmental and ethical responsibility.

- Ignoring social responsibility can lead to public backlash, fines, and brand damage.
 - Being environmentally and ethically responsible can improve long-term survival, brand image, and stakeholder relationships.
 - Sustainable development and ethical decision-making are key for future-oriented businesses
-

6.3 Business and the International Economy

1. Globalisation

Definition:

Globalisation refers to the growing interdependence and integration of the world's economies. It involves the increased movement of goods, services, people, and capital across national borders.

In a globalised world:

- The same goods and services are sold across multiple countries.
- Workers can migrate abroad for jobs.
- Money, investments, and ideas flow quickly between nations.

Example: Apple designs in the US, manufactures in China, and sells worldwide.

2. Causes of Globalisation

Factor	Explanation	Example
Free Trade Agreements (FTAs)	Countries reduce or remove tariffs (import taxes) and quotas (import limits), encouraging international trade.	European Union, ASEAN, and NAFTA are examples of regional trade blocs.
Improved Transport	Cheaper and faster air, sea, and road transport reduces the cost of moving goods and people.	Container ships, air cargo, and global logistics networks like DHL.
Technological Advancements	The internet and digital communication make international coordination easier and cheaper.	Online meetings, e-commerce, remote working, global marketing.
Industrial Growth in Developing Countries	Emerging economies (like China, India, Vietnam) have become major producers and exporters of goods.	Global manufacturing shift from Western countries to Asia.
Global Financial Systems	Easier flow of capital and investment between countries.	Banks and investors funding projects worldwide.

3. Advantages of Globalisation (for Businesses)

1. **Access to New Markets** – Firms can sell goods and services abroad, increasing sales, revenue, and profit potential.
2. **Cheaper Production** – Companies can move production to countries with lower labour or material costs, reducing expenses.

- 3. Outsourcing and Offshoring – Businesses can contract specific tasks (like customer service or manufacturing) to countries where it's cheaper.**
- 4. Import Opportunities – Firms can import components or products at lower prices to sell domestically at a profit.**
- 5. Economies of Scale – Global operations allow for large-scale production, reducing unit costs.**
- 6. Diverse Resource Access – Easier access to raw materials and skilled workers worldwide.**

Example: Nike designs in the US, manufactures in Asia for lower costs, and sells globally for maximum profit.

4. Disadvantages of Globalisation

- 1. Increased Competition – Domestic firms face competition from efficient foreign producers.**
 - → **Smaller firms may lose market share or shut down.**
- 2. Pressure on Wages – Multinationals may offer higher salaries, forcing local businesses to raise pay to retain workers.**
- 3. Job Losses – If domestic firms close due to foreign competition, unemployment may rise.**
- 4. Economic Dependence – Over-reliance on global trade makes countries vulnerable to global recessions or crises.**
- 5. Cultural Erosion – Global brands can dominate local markets, reducing cultural diversity.**
- 6. Environmental Damage – Increased transportation and industrialization can lead to pollution and climate impact.**

Example: Cheap Chinese imports caused many local textile factories in Pakistan and Bangladesh to close.

5. Protectionism

Definition:

Protectionism is when a government uses trade barriers to protect domestic industries from foreign competition — the opposite of free trade.

Types of Trade Barriers:

Barrier Type	Explanation	Effect
Tariff	A tax on imports. Makes imported goods more expensive, reducing demand for them.	Protects local producers but raises consumer prices.
Import Quota	A limit on the quantity of a particular product that can be imported.	Ensures domestic producers have a larger share of the market.
Subsidy	Government financial aid to local producers.	Allows them to sell goods at lower prices and remain competitive.
Administrative Barriers	Complicated paperwork, strict health/safety standards, or long approval processes for imports.	Discourages foreign competition indirectly.

Why Governments Use Protectionism

- To protect new (infant) industries that cannot yet compete globally.
- To save domestic jobs by supporting local production.

- To reduce reliance on foreign goods for strategic reasons (like food or energy security).
- To raise government revenue through import tariffs.

Disadvantages of Protectionism

- Higher prices for consumers.
- Reduced variety of goods.
- Less competition → inefficiency and lower product quality.
- Risk of trade wars if other countries retaliate.

6. Free Trade vs Protectionism

Free Trade	Protectionism
Encourages competition, innovation, and efficiency.	Protects domestic firms and jobs.
Leads to lower prices and more choices for consumers.	Can prevent foreign dominance in local markets.
Promotes global cooperation and economic growth.	May cause inefficiency and higher prices.
Rewards countries that produce what they're best at (comparative advantage).	Reduces consumer welfare and global integration.

Exam Tip: Always mention that *free trade supports globalisation*, while *protectionism restricts it*.

7. Multinational Companies (MNCs)

Definition:

A multinational company (MNC) is a business that has operations (production or services) in more than one country.

Also called transnational corporations (TNCs).

Examples: Shell, McDonald's, Toyota, Unilever, Coca-Cola.

Why Firms Become Multinationals

- 1. Lower Production Costs – Access to cheaper labour and raw materials.**
 - 2. Access to Natural Resources – Extract materials that aren't available in the home country (e.g., oil, copper).**
 - 3. Proximity to Markets – Reduce transport costs and respond quickly to local demand.**
 - 4. Avoid Trade Barriers – By producing inside a country, firms avoid import tariffs and quotas.**
 - 5. Diversification of Risk – Operating in multiple markets spreads business risk.**
 - 6. Competitive Advantage – Keep pace with global competitors and strengthen brand power.**
-

Advantages for the Host Country

- 1. Employment Opportunities: MNCs create new jobs and reduce local unemployment. (For example, McDonald's, Tim Hortons, and other international fast food chains, which are not Pakistani companies [they are MNCs], operate in Pakistan, creating jobs and reducing unemployment.)**
- 2. Higher GDP: Increased production raises national output.**

3. **Technology Transfer:** Brings advanced machinery, expertise, and management techniques.
 4. **Infrastructure Development:** Encourages development of roads, ports, and utilities.
 5. **Tax Revenue:** Governments collect taxes from profits and employee incomes.
 6. **Export Growth:** Some of the output may be exported, improving balance of payments.
 7. **Consumer Benefits:** More choice, higher quality, and modern products become available.
-

Disadvantages for the Host Country

1. **Limited Skill Development:** Jobs offered are often low-skilled and low-paid.
2. **Exploitation of Labour:** MNCs may take advantage of weak labour laws, offering poor working conditions.
3. **Environmental Harm:** Overuse of local resources and pollution.
4. **Local Business Failure:** Large-scale competition may force small domestic firms to close.
5. **Repatriation of Profits:** Earnings are often sent back to the MNC's home country, limiting local benefits.
6. **Government Influence:** MNCs may pressure the government for tax cuts or subsidies by threatening to relocate.

Example: Nike and Apple produce in Southeast Asia due to lower costs, but face criticism for labour exploitation.

8. Exchange Rates

Definition:

The exchange rate is the price of one currency in terms of another — i.e., how much of one currency you need to buy another.

Example: €1 = \$1.20 means 1 Euro can buy 1.20 US Dollars.

Exchange rates change due to demand and supply of currencies:

- If demand for a currency rises → its value appreciates.
- If demand falls or supply increases → it depreciates.

Currency Appreciation:

When a currency rises in value relative to another.

- Exports become more expensive → bad for exporters.
- Imports become cheaper → good for importers.

Example: If €1 rises from \$1.20 to \$1.50, European goods become costlier for Americans, but European firms can import US goods for fewer Euros.

Currency Depreciation:

When a currency falls in value relative to another.

- Exports become cheaper → good for exporters.
- Imports become more expensive → bad for importers.

Example: If \$1 falls from €0.83 to €0.70, American goods become cheaper in Europe — boosting US exports.

Summary Table

Change	Exporters	Importers	Overall Effect
--------	-----------	-----------	----------------

Currency Appreciation	Lose competitiveness (exports cost more)	Imports cheaper (input costs fall)	Good for importers, bad for exporters
Currency Depreciation	Gain competitiveness (exports cheaper)	Imports more expensive	Good for exporters, bad for importers

Exam Tip: Exchange rate effects depend on price elasticity — if customers are not sensitive to price changes, exports/imports may not change much.

Summary Points

- **Globalisation increases trade, investment, and interdependence between countries.**
 - **Protectionism restricts trade through barriers like tariffs and quotas.**
 - **Multinational companies (MNCs) benefit from operating in multiple countries but can exploit workers or the environment.**
 - **Exchange rate fluctuations affect how expensive exports and imports become.**
 - **A successful economy must balance global opportunities with domestic protection and sustainability.**
-

Questions:



- 1 Brendan wants to be a successful entrepreneur. He plans to start up a flower shop using government support. Brendan's brother has offered to form a business partnership with him. Brendan knows it is important for a new business to use a suitable pricing method. He has already identified ways the business can increase added value. Brendan wants to know how an economic boom might affect his business.

(a) Define 'business partnership'.

.....

.....

.....

..... [2]

(b) Identify **two** ways a government can support business start-ups.

Way 1:

.....

Way 2:

..... [2]

(c) Outline **two** ways an economic boom might affect Brendan's business.

Way 1:

.....

.....

Way 2:

.....

..... [4]

- 2 NSL is a business based in country X. It manufactures food products including bread and breakfast cereals. NSL uses lean production in its factory. Maintaining quality is important. NSL imports 15% of its raw materials. Changes in country X's exchange rate can affect businesses which import raw materials. NSL's Marketing Manager knows the business should respond to changes in consumer spending patterns. She is aware that market research can be used to help make business decisions.

- (a) Identify **one** way each of the following changes in country X's exchange rate might affect businesses which import raw materials.

Depreciation:

.....

Appreciation:

.....

[2]

- (b) Identify **two** reasons why consumer spending patterns might change.

Reason 1:

.....

Reason 2:

.....

[2]

- 4 PKN manufactures glass. Contributing to sustainable development is important to the business. PKN has factories in 30 countries. It has 27 000 employees. The Managing Director knows PKN has benefited from globalisation. She plans to expand the business using external growth. Retained profit is one source of finance a business could use to fund expansion. Some of PKN's directors are concerned about possible diseconomies of scale as the business grows.

- (b) Identify **two** reasons for globalisation.

Reason 1:

.....

Reason 2:

.....

[2]

- (c) Outline **two** ways PKN could contribute to sustainable development.

Way 1:

.....

.....

.....

Way 2:

.....

.....

.....

[4]

* 0000800000008 *



8

- 4 MHL manufactures tyres for large vehicles. It has factories in 6 countries. The business creates external costs when producing its products. Good communication with MHL's suppliers is important. The Managing Director knows globalisation provides many opportunities for MHL. She is reviewing data for one of MHL's factories as she wants to reduce the average cost of the tyres. An extract from this data is shown in Table 4.1.

* 0000800000009 *



9

- (d) Explain **two** opportunities of globalisation for MHL.

Opportunity 1:

.....

Explanation:

.....

.....

.....

Opportunity 2:

.....

Explanation:

.....

.....

..... [6]

* 0000800000002 *



2

- 1 MDZ manufactures a range of chocolate bars. It has 300 employees. MDZ purchases its ingredients from suppliers in the local area. Acting in an ethical way with its stakeholder groups is important. MDZ has products at different stages of the product life cycle. The business is also developing a new product. The Marketing Director needs to make decisions about the packaging and the price of the new product. She knows it is important for a business to use a suitable method of sales promotion for a new product.



(d) Explain **one** way MDZ could act in an ethical way with each of the following stakeholder groups:

Employees:

.....

Explanation:

.....

.....

.....

Suppliers:

.....

Explanation:

.....

.....

.....



- 3 GAE is a multinational company. It manufactures steel. GAE has 2400 employees and has factories in 4 countries. The business regularly introduces new technology. Holding inventory is important. GAE's directors are planning to build a new factory and want to know how legal controls over location might affect this decision. The Managing Director said, 'The new factory will create many external benefits.'

(a) Define 'external benefits'.

.....

.....

.....

.....

[2]

(b) Identify **two** ways legal controls over location might affect a business.

Way 1:

.....

Way 2:

.....

[2]

-
- This image shows a full page of white paper with horizontal dashed lines, typical of primary school handwriting practice paper. The lines are evenly spaced and run across the entire width of the page. There are no margins, text, or other markings present.

Working conditions:

Wages:

Opportunities for promotion:

Relationship with supervisor:

[4]

Question	Answer	Marks	Guidance
1(a)	Define 'business partnership'. Award 2 marks for a full definition. Award 1 mark for a partial definition. - Two (or more) people agree to (jointly) own the business [2] - A business formed by two (or more) people who will usually share responsibility for the day to day running of the business [2] - An unincorporated business that has <u>more than</u> one owner [2] Partial definition e.g. - business run by two or more people [1]	2	For two marks need the idea of owned/formed and it involves at least two people.
1(b)	Identify <u>two</u> ways a government can support business start-ups. Award 1 mark for each way (max 2). Points might include: - Grants/subsidies (Low interest) loans - Low-cost/rent-free premises - Provide training - Tax relief/lower tax/tax holiday - Advice/help with research - Help promote/advertise the business - Provide mentors Other appropriate responses should be credited.	2	Only award the first two responses given.

Question	Answer	Marks	Guidance
1(c)	Outline <u>two</u> ways an economic boom might affect Brendan's business. Award 1 mark for each relevant way (max 2). Award 1 mark for each relevant reference to this business (max 2). Points might include: - High level of demand/sales/revenue [k] for flowers [app] - May be difficult to find employees [k] for the shop [app] - He can increase his prices [k] which will increase added value [app] - Higher costs / wages might increase [k] so may need more government support [app] - High business confidence [k] for this entrepreneur [app] - Increased competition [k] - Harder to access materials [k] - Harder to find a location [k] Other appropriate responses should be credited.	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: (Successful) entrepreneur - Start-up/new business - Flower(s) or examples - Shop - Government support - Increase added value (Business) partnership <u>Pricing method</u> Other appropriate examples can be credited.

Question	Answer	Marks	Guidance
2(a)	Identify <u>one</u> way each of the following changes in country X's exchange rate might affect businesses which import materials. Award 1 mark for each way (max 2). Points might include: • Depreciation: Imports dearer/more expensive • Appreciation: Imports cheaper	2	Only award the first two responses given. Do not award answers about the effect on exports.
2(b)	Identify <u>two</u> reasons why consumer spending patterns might change. Award 1 mark for each reason (max 2). Points might include changes in: • Price of product • Price of competitors products/increased competition • Incomes/wages/unemployment/business cycle or examples • Population size/structure/life stage of consumers • Taste/fashion/preferences • Advertising/promotion • Technology • Taxation • Interest rates • Exchange rates • Weather/season Other appropriate responses should be credited.	2	Only award the first two responses given.

Question	Answer	Marks	Guidance
4(b)	Identify <u>two</u> reasons for globalisation. Award 1 mark for each reason (max 2). Points might include: • Free trade agreements / economic trading blocs / reduction in trade barriers • Improved/cheaper transport/travel links • Improved communication networks/technology • Emerging/new markets are quickly expanding/rapid economic growth/rising income • Governments <u>allow</u> companies from other countries to set up operations in own country Other appropriate responses should be credited.	2	Only award the first two responses given.

Question	Answer	Marks	Guidance
4(c)	Outline <u>two</u> ways PKN could contribute to sustainable development. Award 1 mark for each relevant way (max 2). Award 1 mark for each relevant reference to this business (max 2). Points might include: • Use renewable energy [k] in each of the 30 countries [app] • Use energy efficient/environmentally friendly methods [k] to make glass [app] • Use fewer resources/reduce output [k] in its factory/factories [app] • Recycle waste [k] • Use/develop new environmentally friendly products [k] • Avoid/reduce use of chemicals (that produce toxic waste) [k] • Use packaging made of recycled material [k] • Use packaging that can be recycled/reused [k] • Avoid unnecessary travel [k] • Use local supplier [k] • Replant trees [k] • Switching to environmentally friendly transport or examples [k] Other appropriate responses should be credited.	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: • Glass • Factory/factories • Manufacturer • 30 countries • 27 000 employees • Globalisation • Expand/external growth • Source of finance • Diseconomies of scale Other appropriate examples can be credited.

Question	Answer	Marks	Guidance
4(d)	Explain <u>two</u> opportunities of globalisation for MHL. Award 1 mark for identification of each relevant opportunity (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: • Increase potential sales/access more markets [k] for its tyres [app] increasing revenue/increase market share [an] • Cheaper/access (better quality) raw materials from other countries [k] for its factories [app] could help improve the profit margin [an] • Lower wages/cheaper labour [k] in the 6 countries [app] reducing (labour) costs [an] • Avoid/fewer quotas [k] which could limit quantity sold/able to sell [an] • Avoid/lower tariffs [k] so does not make products more expensive [an] • Access new technologies [k] which could improve efficiency/allow new product development [an] • Access to government grants (in other countries) [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 appropriate for this question: • Tyres or examples such as rubber • Factories/factory • 6 countries • 200 000 units (each month) • \$25 (variable cost per unit) • \$500 000 (fixed costs) Other appropriate examples can be credited.

Question	Answer	Marks	Guidance
1(d)	Explain <u>one</u> way MDZ could act in an ethical way with each of the following stakeholder groups: Employees Suppliers 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: Employees: • Pay <u>fair</u> wages/pay [k] to its 300 employees [app] to maintain their standard of living [an] • Ensure <u>fair</u> working conditions [k] when making the new product [app] so they do not leave / become demotivated [an] • Avoid use of child labour / not produce products in sweat shops [k] Suppliers: • To be paid <u>on time</u> [k] for the ingredients [app] to help prevent cash flow problems for them [an] • Pay fair price [k] to protect the suppliers' profit margin [an] as products purchased in the local area [app] 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 appropriate for this question: • Chocolate (bars) • Ingredients or related words such as sugar, cocoa • (Developing a) new product • Packaging • <u>Sales</u> promotion • Pricing method • Local area • 300 employees Other appropriate examples can be credited. Analysis should focus on the effect on the stakeholder, not on the business.

Question	Answer	Marks	Guidance
3(a)	Define 'external benefits'. Award 2 marks for a full definition. Award 1 mark for a partial definition. • Gains to the rest of society other than the business as a result of business activity [2] Partial definition e.g. • Gains to the rest of society / third party [1]	2	References to business activity is [+1] only.
3(b)	Identify <u>two</u> ways legal controls over location might affect a business. Award 1 mark per way (max 2). Points might include: • Affect where they can/cannot locate • Affect how they produce or examples e.g. change production methods, change / restrict (raw) materials used • Affect when / hours can operate • Increased costs Other appropriate responses should be credited.	2	Only award the first two responses given.

Question	Answer	Marks	Guidance
3(e)	Explain <u>two</u> benefits to a business of being a multinational company. Which benefit 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 benefit of being a multinational company is likely to be the most important. Points might include: • Spreading risk [k] so a fall in sales / revenue in one country can be offset by an increase in sales / revenue in another country [an] • Access new / wider markets / sales / customers [k] increasing revenue / (global) market share [an] • Improve brand image / reputation [k] to help increase / maintain customers AND/OR could allow them to set higher prices / provide competitive advantage [an] • Economies of scale [k] lowering average/unit costs [an] • Cheaper / access (better quality) raw materials [k] reducing transport costs [an] OR access better quality / wider range of raw materials [k] allowing the business to produce new products [an] • Access to cheap labour [k] which can lower costs / increase profit margin [an] OR Access to skilled labour [k] which could increase efficiency [an] • Avoid import quotas [k] so no/fewer limits on the number of products the business can import into a country [an]	6	This is a general question so there are no marks for application. Some points can be [k] or [an] but only award once. The following are [an] only: • Increase market share • Provide competitive advantage

Question	Answer	Marks	Guidance
3(e)	• Avoid import tariffs [k] so does not make products more expensive [an] • Reduced tax liability / benefit from favourable / lower tax rates [k] • Access government support/grants [k] Other appropriate responses should also be credited. Justification might include: One benefit is spreading risk [k] so a fall in sales in one country can be offset by sales in another country [an]. It also allows for easier access to raw materials [k] reducing transport costs [an]. Access to raw materials is likely to be the most important benefit because this could reduce production costs leading to lower prices helping the business remain competitive [eval] and ensuring the extra sales are achievable [eval].	6	

Question	Answer	Marks	Guidance
4(c)	Using Herzberg's theory, state whether each of the following would be classed as a hygiene factor or as a motivator: Award 1 mark per correct answer (max 4). Working conditions: hygiene Wages: hygiene Opportunities for promotion: motivator Relationship with supervisor: hygiene	6	Only award the first response given for each answer.

General Tips

General Exam Tips:

- **Start revising early-** for example those giving their CIE exams in May/June 2026 should start studying around mid- February before the exam season starts.
- **Use the official syllabus** to make sure you cover every topic.
- **Practice past papers regularly AND check mark schemes** to understand where you went wrong and how you can improve.
- **Focus on understanding concepts** rather than memorizing word-for-word notes.
- **Make sure to know what the key terms:** *define, explain, analyse, evaluate, mean.*
- **Manage your time during the exam** — don't spend too long on one question. If you find one question pretty tricky, do not waste time on it.
- **Adding on to the previous point,** when you start your exam go through the paper and start with the easiest question to 'warm yourself up' and to make sure you do not waste time unnecessarily.
- **Read every question carefully,** especially data or case study questions.
- **Revise definitions and keywords** for every topic.
- **Do timed past papers** to improve speed and accuracy. This will improve your confidence as well.
- **Sleep well the night before (8-10 hours)** and eat a light meal before the exam. Stay well hydrated so you do not get a headache.
- **Keep your stationary, calculator, SOE, and CNIC ready** the night before.

- Don't panic if you forget something right before the exam — focus on staying calm.
 - Review mistakes from past papers and learn how to fix them.
 - Read examiner reports to see common mistakes students make.
 - No matter how bad your preparation is, go into the examination hall calm, cool and collected. A positive mentality can make all the difference.
-

IGCSE Business Studies (0450) Specific Tips:

- Always link your answers to the case study provided — avoid giving generic responses.
- Define key terms in your answers when relevant, especially in Section A.
- When asked to “explain,” give cause and effect — show how or why something happens.
- For “analyse” questions, develop points using “This leads to...” or “As a result...” statements.
- For “evaluate” questions, give both sides of the argument and end with a justified conclusion.
- Use business keywords like *profit*, *market share*, *stakeholder*, *fixed cost*, *break-even* accurately.
- Support your answers with examples, even if simple or hypothetical.
- Practice writing in paragraph form — avoid bullet points in the exam unless asked.
- Learn all formulas (e.g. profit, break-even, revenue) and practice how to use these formulas effectively in the 8 and 12 mark questions in Paper 2.
- Time yourself during past paper practice to balance between Section A (short answers) and Section B (long answers).
- Don't overexplain basic concepts — focus on applying them to the case study.

- Review past paper mark schemes to see what earns higher-level marks.
- Make sure your final evaluation clearly answers the question — DO NOT just summarize.
- In paper 2, make sure to spam a lot of *Application* points using the case study.
- For example in a question like this:



3

(d) Explain **one** way each of the following sections in the business plan might be helpful to Nicky.

Business objectives:

.....

Explanation:

.....

.....

.....

Data about the market:

.....

Explanation:

.....

.....

.....

[6]

Make sure that you find at least two different *Application* points that you can use. If you can find 2, use 1 for each explanation (separately). In questions such as these specifically, focus on using smaller handwriting so you can fit more information in the given space, and make your answer very concise.

- Make sure to ask an invigilator for the additional answer booklet and use it A LOT, especially for 6 mark questions. The space given is usually not enough.
- In (e) questions in paper 1, you only need to explain 2 separate points/ideas, so explain them in great detail. But make sure that you do not OVERexplain them so that in your evaluation you do not repeat the same ideas or you will LOSE 2

[EVAL] marks unnecessarily. You will have to save one or more ideas regarding the point you support for the evaluation, and one or more idea about why you are against the point you reject, in your evaluation. (Meaning that in your evaluation you must add something new to the 2 separate points you discussed.)
