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Question	Answer	Marks	Guidance
1(a)(i)	**What is meant by *division of labour*?** • Dividing/breaking down a whole task into a number of tasks/stages • Workers assigned different tasks • A worker carries out a particular task/limited range of tasks • Placing workers according to their skills.	**1**	
1(a)(ii)	**State <u>two</u> advantages of division of labour to HJ Industries Ltd.** • Worker becomes more skilled/expert in their jobs • Work is quicker / greater speed / saving time • Output increases • Unit costs are reduced / at lower prices / take advantage of economies of scale • Machinery / automation / mechanisation can be used • Greater efficiency / less wastage • Allows mass production / standardised goods • Reduces labour / labour costs • Easier to train workers / reduces training costs • Can employ less qualified workers / leading to lower wages paid • Saving of time of workers moving from job to job.	**2**	
1(a)(iii)	**Do you think that there are any <u>disadvantages</u> of division of labour <u>to workers</u> in HJ's factory?** • Boredom (1) as repeating the same job (1) may lead to mistakes (1) • Less pride in job / less variety in job (1) leading to less job satisfaction / less morale (1) as only making part of a product (1) • Unemployment (1) as some jobs may be replaced by computers / machinery, (1) e.g. loss of typist jobs (1) • Reduction in skills (1) may make it difficult to move to other jobs (1) as limited experience (1) • Slower workers may not be able to keep up with others (1) may lose money if on piece-time (1) less motivated (1) • Dependent on other workers (1) to complete the task (1) e.g. a worker may be absent (1) which might affect their own output target (1).	**3**	

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Question	Answer	Marks	Guidance
1(b)	**Explain <u>two</u> reasons why HJ Industries Ltd would export their plastic products using containers.** • Different sizes of plastic products (1) can be packed into different sized containers (1) and may not be unpacked until accepted by the importer (1) leading to faster delivery (1) • The transhipment from road to sea to road is easier (1) as only the standard container has to be moved (1) • Ports are equipped with special equipment/cranes (1) to make the moving of containers easier / quicker turnaround (1) • Reduces labour costs (1) thereby reducing transport costs (1) • Safer/protected (1) as less chance of theft/damage/weather (1) from sealed/locked containers (1) • Containers do not have to be warehoused (1) as the container acts as its own warehouse / reduces packing costs (1) • Can export in bulk (1) containers can carry large quantity of goods (1) • TIR has speeded up the transport of goods (1) as it reduces hold-ups at borders (1) • Plastic products are low-value items (1) suitable for going by container (1).	**4**	
1(c)	**HJ Industries Ltd imports most of the raw materials needed to make plastic products. Explain how HJ would benefit if <u>most</u> of its raw materials came from another country in the same trading bloc as they are.** • A trading bloc is a group of countries (1) who cooperate together to promote trade between the bloc's member countries (1) • Usually there is free trade (1) between member countries. HJ would, therefore, benefit from no import duties/quotas being imposed (1) making them competitive (1) lower prices (1) saving costs/money (1) • Less regulation / less documentation (1) often there is free movement of labour between countries of a trading bloc (1) this would mean that HJ would have a wider choice when recruiting new workers (1) • May be part of a common currency (1) easier to pay for imported goods (1) no need to change currency (1)	**4**	

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Question	Answer	Marks	Guidance
1(d)	**HJ Industries Ltd has won a 5-year contract from a company in a country 2000 km away. Discuss whether or not HJ should build a factory in that country to complete the contract. Give reasons to justify your answer.** Advantages: • Building a factory in that country will mean that they are close to the market for their goods. They will not have the problems associated with transporting the goods 2000 km, and providing the paperwork needed to import into that country. • The government of the country purchasing the goods will encourage HJ to build the factory, since it will provide employment and assist the balance of payments. They may provide grants and other assistance to HJ if they build the factory. • Building the factory may enable HJ to obtain further contracts from the country or from nearby countries. Disadvantages: • The infrastructure of the country will be different and there may be problems with labour supply, land supply, power supply and various legal matters. • The new factory will involve considerable cost which will probably not be fully covered by government grants. • Communication between head office and the new factory could be difficult and senior managers from head office would incur extra travelling costs. • New suppliers may have to be found for the new factory. • The government may have pollution/deforestation concerns over giving permission to build • The contract may not be renewed in five years' time. Decision: • The final decision on whether to build the new factory probably rests on the economic viability of the project. The cost of the new factory may be recovered quickly by the reduced cost of the goods manufactured there, thus increasing profits. This will depend on wage costs in the new country and other costs. • Unless the financial benefits are clear, there would be considerable risks in building the new factory	**6**	Level 2 (4–6 marks) Has discussed whether or not HJ Industries should build a factory in that country and given reasoning. Level 1 (1–3 marks) Has commented on the statement. If a candidate has presented a one-sided argument, award 4 marks max.

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Question	Answer	Marks	Guidance
2(a)	**Explain <u>two</u> benefits to O Industries Ltd of being a public limited company.** • Will be able to sell shares to the public (1) thus making it easier to raise finance (1) • Easy to invest / buy and sell shares (1) through stock exchange (1) • Shares are easily transferable (1) attracts investors to invest (1) • Limited liability (1) means that a shareholder can only lose the amount of his investment / not personal assets (1) • Can take advantage of economies of scale (1) e.g. bulk buying (1) • It is a legal entity / incorporated (1) separate from its directors/shareholders (1) • It has continuity of existence (1) even when the ownership of shares changes / shareholders die (1).	**4**	
2(b)(i)	**State <u>two</u> examples of current assets.** • Cash • Cash in bank • Debtors / accounts receivable / trade receivable • Accrued income / accrued revenue / accrued receivable • Stock (Inventory) • Prepaid Expenses	**2**	
2(b)(ii)	**Do you think that the working capital of this company is satisfactory? Justify your answer.** • Working capital is current assets minus current liabilities (1) • O Industries working capital is: $8.4m minus $6.2m (1) = $2.2m (2) or 1 mark without working • The amount of working capital is comfortably positive (1) therefore O Industries should be able to pay its current liabilities (1) meet its day to day expenses (1) • The current ratio of 1.35 / 1.4 (1) would be considered satisfactory / Yes (1)	**4**	
2(c)(i)	**O Industries wishes to acquire a new building, costing $1.7 million. Under which heading on the balance sheet would this building appear?** Fixed Assets / Non-current assets	**1**	

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Question	Answer	Marks	Guidance
2(c)(ii)	**Explain why an overdraft would <u>not</u> be a suitable source of finance for acquiring the new building.** • Overdraft is short-term finance (1) with interest charged on the amount overdrawn (1) at a variable rate (1) which could work out more expensive (1) than a fixed rate of interest on a loan (1) • Used primarily to pay bills (1) rather than for long-term projects (1) as they are classed as current liabilities by the bank (1) which can be called in at short notice (1) • The bank has the right to demand repayment of an overdraft at any time (1) so it is not suitable for financing a long-term asset such as a building (1) • $1.7m would be a relatively high amount for an overdraft / overdraft is usually for lower amounts (1) because it is to be repaid within one year (1)	**3**	

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Question	Answer	Marks	Guidance
2(c)(iii)	**Discuss <u>two</u> sources of finance available to O Industries for acquiring the new building. Which would you recommend? Give reasons for your answer.** A new building is usually acquired using long-term sources of finance: • O Industries could issue new shares to existing or new shareholders • Could use retained profits • O Industries could issue debentures to investors. These are long term loans issued to investors who invest at a fixed rate of interest. • Could use retained profits • A bank loan repayable over five to ten years may be taken out • A mortgage on the property may be taken out, this may be repayable over up to thirty years • Venture capital may be obtained. This is usually a mixture of loans and share purchase. Recommendation: • A cheap way is to issue new shares because no interest has to be paid. But this risks having ownership of O Industries being diluted. The same problem comes with using venture capital. • Has enough retained profits to cover the full amount. Money is immediately available and no interest to be paid. • The other three methods all incur interest costs. The bank loan or the mortgage probably carry the lowest rate of interest, but both will only lend up to 75% of the value of the new building. • The debentures will have a higher rate of interest, but O Industries may be able to borrow 100% of the cost of the building. • The retained profits or bank loan or the mortgage would appear to be the best. The choice would depend on whether the shareholders would agree to this, how high the monthly payments would be; with the longer the term, the lower the monthly payments.	**6**	Level 2 (4–6 marks) Has discussed two sources of finance and has given a reasoned recommendation. A recommendation is needed for the 6th mark, even if quality of answer is good. Level 1 (1–3 marks) Has commented on sources on finance with/without recommendation**.** If a candidate has presented a one-sided argument, award 4 marks max.

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Question	Answer	Marks	Guidance
3(a)(i)	**Identify the brand name of the peas.** Poppy Peas	**1**	
3(a)(ii)	**Jane uses a mark-up of 30% on all canned food. A box of 24 cans of peas costs her $14.40. Calculate how much she will sell each can for. Show your working**. $14.40 / 24 = $0.60 – cost of each can (1) $0.60 × 30% = $0.18 – amount of mark-up (1) $0.60 + 0.18 = $0.78 – final price (1)	**3**	If a candidate has calculated the mark-up on the *box of 24*, as $4.32 (1) and then added it to 14.40 = $18.72 (1) award these 2 marks max.
3(a)(iii)	**The cans of peas are bar-coded. State <u>two</u> functions of a bar code.** • To enable the price to be shown • To give details / information of the product / name • To give code number of the product • Shows expiry date of product • To enable a receipt to be printed • To enable the stock levels to be adjusted / stock management • To automatically order new stock • To identify popular selling lines	**2**	
3(b)	**Explain why you think consumers continue to buy from Jane rather than from the supermarket.** • The service is friendly (1) with the customer feeling welcomed into the store (1) • Customers know Jane (1) trust her (1) listen to her personal advice/recommendations (1) • May offer informal credit / lay-bye goods for customers (1) creating customer loyalty (1) so they will continue to shop there (1) • Jane will know her customer's wants (1) and will stock accordingly (1) • Jane will listen to customer complaints (1) in order to improve her business (1) • Might be more convenient (1) nearer to their homes (1) to suit people's needs (1) • Might offer delivery (1) for a large shop (1) • Longer opening hours (1) so that consumers can obtain goods earlier/later than at supermarket. (1)	**4**	

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Question	Answer	Marks	Guidance
3(c)	**Explain <u>two</u> reasons why consumer protection is important.** • Consumers are often in an unfair bargaining position (1) with the large firms that they are buying from (1) • Consumers suffer from a lack of knowledge (1) of technical products (1) • Safeguards consumers / stop them from being exploited / being cheated (1) so that they are treated fairly (1) • Safeguard against fake/spurious goods (1) hard to distinguish whether a good is genuine or not (1) • Consumer laws gives rights (1) if the product is not fit for purpose / faulty goods (1) • Consumers need protection from advertisements/promotions (1) which give misleading information (1) • Protection against unhealthy products (1) such as warnings on cigarette packets (1) • Consumers need protection from underweight goods (1) dishonest traders using faulty scales (1) • Consumers need protection from groups of companies (cartels) (1) that may conspire to keep prices artificially high. (1)	**4**	

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Question	Answer	Marks	Guidance
3(d)	**The supermarket is part of a nationwide chain. At present each store has deliveries of goods directly from manufacturers. Discuss whether or not the supermarket chain should open regional distribution centres. Give reasons for your answer.** Advantages: • Supermarket can order in bulk and request delivery to the regional distribution centre, thus taking advantage of bulk purchase and reducing delivery costs from the manufacturer. • Delivery to individual branches can be based on what they need, and many different products can be sent in one shipment. • Head office will have closer control over stock levels. • Buffer stocks can be kept at the regional distribution centre in case branches run out. Disadvantages: • The regional distribution centre will be expensive to set up as new premises will have to be found. • New staff will have to be employed for the centre. • A fleet of trucks will have to be purchased or leased in order to transport the goods from the centre to the individual supermarkets. • Buying staff at the individual branches will no longer be needed. Decision: • Head office will have more control over the branches and this will make the whole operation more efficient. • If the extra expenditure results in an overall lower cost operation, then the regional distribution centres can be justified. However, there will be some extra up-front expenditure and the chain must have the cash flow available to meet this.	**6**	Level 2 (4–6 marks) Has discussed whether or not the supermarket chain should open up regional distribution centres and has given a reasoned opinion. Level 1 (1–3 marks) Has commented on the use of regional distribution centres with/without an opinion. If a candidate has presented a one-sided argument, award 4 marks max.

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Question	Answer	Marks	Guidance
4(a)(i)	**Andrew has a credit card. State <u>two</u> circumstances when he might use the credit card when travelling with his job.** • To pay for hotel bills • To pay for restaurant meals • To pay for snacks • To pay for expenses • To withdraw cash from ATM • To buy gifts/souvenirs	**2**	
4(a)(ii)	**Explain <u>two</u> advantages to Andrew of also having a debit card.** • Saves carrying cash (1) thus reducing the chance of theft (1) • Can obtain cash from ATM / receive mini-statement (1) with usually no charge (1) • Widely accepted (1) by retailers (1) • Can access his current account (1) and helps control his spending / budgeting / no interest paid (1)	**4**	
4(a)(iii)	**Identify <u>one</u> way in which Andrew might benefit from using a loyalty card.** • Cashback on purchases • Gain points • Can obtain special offers / discount vouchers • Used by airlines / hotels for air miles / free flights / room upgrades • Free gifts	**1**	

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Question	Answer	Marks	Guidance
4(b)(i)	**Describe <u>two</u> types of insurance that the employer may provide for Andrew**. • Travel insurance (1) to cover medical bills / lost luggage (1) • Employer's liability insurance (1) to cover risk of accident to Andrew (1) • Life insurance (1) to provide a lump sum for his dependants if Andrew dies (1) • Key person (1) to cover the life of a person important to a business (1) • Health insurance (1) to provide healthcare to Andrew / his family (1) • Fidelity guarantee insurance (1) to provide compensation to the firm if Andrew is dishonest (1) • Personal accident insurance (1) which would be paid out if Andrew became injured as a result of an accident (1) • Motor vehicle insurance (1) comprehensive / third party (1).	**4**	
4(b)(ii)	**Do you think that bad management can be insured against? Give reasons for your answer.** • No. (1) Bad management is a non-insurable risk (1) because a degree of risk cannot be calculated (1) as there are no past records (1) • Some people may deliberately mismanage a business (1) in order to make a claim (1) and make a profit (1) which is against indemnity (1) • The risk should be beyond the control of the insured (1) as bad management could be avoided by employing better managers / working harder / better decision-making (1)	**3**	

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Question	Answer	Marks	Guidance
4(c)	**Andrew's employer is taking out a new fire insurance policy. Discuss whether or not they should approach an insurance company directly or use an insurance broker. Give reasons for your answer.** Insurance company direct: • May obtain lower cost by buying direct. • Subsequent claims may be simpler if relationship with insurance company established. • Insurance companies use call centres with inexperienced staff reading from scripts. • Insurance company may not suggest alternative approaches, but will try to sell a standard policy. Insurance broker: • Will usually obtain quotes from several insurance companies, thus ensuring competition and saving time for Andrew's employers. • Should have the expertise to explain the policy and may be able to negotiate lower premiums. • Usually work for a commission that may make the premiums more expensive. • Can be accused of only recommending the companies that will pay the broker the highest commission. Decision: • Unless there is a very simple fire risk, then the broker can view the whole market and recommend the most suitable policy.	**6**	Level 2 (4–6 marks) Has discussed whether or not the employer should use an insurance company directly or use an insurance broker, and has given a reasoned opinion. Level 1 (1–3 marks) Has commented on insurance companies and insurance brokers, with/without an opinion. If a candidate has presented a one-sided argument, award 4 marks max.

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Question	Answer	Marks	Guidance
5(a)	**State <u>two disadvantages</u> of using newspaper advertising.** • Less people buy newspapers nowadays • Advertisements do not stand out from others on a page / not eye-catching / not attractive • Not suitable for the illiterate • No movement / no sound • Many advertisements printed in black / no colour • Has a short life span • Many people to do not buy a newspaper / access other media instead.	**2**	
5(b)	**Explain <u>two</u> reasons why many customers would prefer to shop for a television at a large-scale retailer rather than use a small-scale retailer.** • Lower prices (1) since large-scale retailer makes use of special offers / loss leaders (1) as they can afford to buy in bulk (1) • There will be a larger range of televisions offered (1) providing greater choice (1) • Car parking can be offered (1) so it is possible to carry television home (1) • More likely to offer home delivery / after-sales service (1) no need to use own transport (1) they may install (1)	**4**	
5(c)	**What is meant by the term *guarantee*?** • A *guarantee* is a promise that, if a good/TV is not of a certain standard / does not work properly, the original price paid for the good/TV will be refunded or will be repaired. • That the television will work satisfactorily for the given period of time / two years.	**1**	
5(d)(i)	**If making his purchase decision on price alone, would Fabrice purchase the computer from the retail store or the online seller? Use numerical data to help you to justify your answer.** Price at retail store is: $1200 - 5% of $1200 (1) = $1200 - $60 = $1140 (1) Price at online seller is: $1120 + $15 = $1135 (1) Difference = $5 (1) Online is cheaper / Fabrice should buy online (1) as long as there is no delivery charge (1)	**4**	OFR applies. If an answer is based solely on the total figures presented in Fig. 3, award $80 (1).

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Question	Answer	Marks	Guidance
5(d)(ii)	**Explain in what circumstances Fabrice would choose the hire purchase option.** Cost of hire purchase option: Deposit = $300, 20 × $75 = $1500, Total = $1800 (1). Fabrice may want to use the money elsewhere (1) and may not have the cash to pay now (1) as the computer is expensive (1) and would prefer to pay back in smaller amounts / instalments (1). If he wants to use the computer while paying for it (1) over a longer period of time. (1)	**3**	
5(e)	**Discuss whether or not the retail store should use *informative* and *persuasive advertising* to increase its sales of computers. Give reasons for your opinion**. • Informative advertising provides factual information. It informs the consumer of what is available and may include some features of the product or service. • Persuasive advertising attempts to influence the consumer and persuade them to buy a particular good or service. • The retail store is trying to sell computers which are widely available and are a very technical product. • The technically-wise consumer could react to informative advertising about the technical specifications of the computer. • However the less technical consumer may not understand the specifications and only be influenced by persuasive advertising, such as price comparisons or better obvious features such as a better screen picture. • The store may decide which market it is aiming at, but to attract the whole market, informative and persuasive advertising must be used.	**6**	Level 2 (4–6 marks) Has discussed whether or not to use informative and persuasive advertising, and has given a reasoned opinion. Level 1 (1–3 marks) Has commented on informative and persuasive advertising with/without an opinion. If a candidate has presented a one-sided argument, award 4 marks max.

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Question	Answer	Marks	Guidance
6(a)(i)	**A freight forwarder is an intermediary in foreign trade. Give <u>one</u> other example of an intermediary.** • Wholesaler • Broker • Factor • Merchant • Agent.	**1**	
6(a)(ii)	**Apart from transport, state <u>three</u> services offered by a freight forwarder.** • Provide storage/warehousing • Pack goods • Arrange insurance • Arrange customs clearance • Prepare documentation.	**3**	
6(b)(i)	**Explain <u>two</u> reasons why communication is important to a freight forwarder operating in the global economy.** • Many freight forwarders have operations in many different countries (1) and communication is vital between their various offices (1) • The freight forwarder will have to liaise with the importers in other countries (1) in order to arrange to deliver the goods (1) to make agreements (1) • They will also use communication to advise of any delays/problems (1) they may track the delivery of goods (1)	**4**	

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Question	Answer	Marks	Guidance
6(b)(ii)	**Do you think TT should use the internet as its main means of communication? Give reasons for your answer.** • Yes. (1) The internet provides a fast/cheap form of communication (1) whether by email/website (1) but there is an initial cost of computer equipment / software (1) • It is easy to update information on the internet (1) so TT can inform contacts of all the latest developments (1) • Useful for tele/video-conferencing (1) saving time/money (1) of employees having to travel for face-to-face meetings (1) • No. (1) Security is always a problem on the internet (1) TT must invest in the latest security software (1) ensure that its staff is trained to follow correct procedures (1) • The connection to the internet must be reliable (1) this may be a problem for some of TT's international contacts (1) • Despite the security and reliability problems, the ease of use of the internet will probably mean that the internet will become TT's main form of communication (1)	**4**	
6(c)	**TT operates in a freeport. Explain what is meant by a *freeport.*** • A freeport is a geographical area / port area within a country (1) where production of goods can be carried out (1) where there is no customs duty / tariffs (1) on any goods whether entering/leaving or on re-exported goods or on goods stored (1).	**2**	No marks for an example.

Question	Answer	Marks	Guidance
6(d)	**A customer of TT wishes to send regular shipments of high quality sports equipment to another country 3000 km away. Discuss whether it should be sent by sea or by air. Give reasons for your choice.** • Sea transport will be cheaper than air transport • Air transport would reach its destination much quicker • Sea transport can be affected by weather conditions, such as rough seas and salty air • Air transport does not operate in very bad weather, but it may delay the flight by an hour or two • The documentation for air freight is usually simpler • The security for air freight is usually tighter, but transit time is shorter so there is less opportunity for damage and theft • High quality sports equipment is valuable, so the extra cost of air freight will not be a significant factor in deciding the final price of the equipment Air freight is therefore the recommended transport method. However, if competition means that price becomes more important, then savings can be made by transporting the equipment by sea.	**6**	Level 2 (4–6 marks) Has discussed whether or not TT Ltd should send equipment by sea or air and given reasoning. Level 1 (1–3 marks) Has commented on sea and air transport with/without an opinion. If a candidate has presented a one-sided argument, award 4 marks max.

Question	Answer	Marks	Guidance
7(a)	**Explain the difference between visible and invisible exports, giving an example of each.** • Visible exports are exports of goods (1) such as tea/cars (1) • Invisible exports are exports of services (1) such as banking / insurance / teaching / health (1).	**4**	
7(b)(i)	**In which year did Country A export the most?** 2012	**1**	

Question	Answer	Marks	Guidance
7(b)(ii)	**If the total of visible and invisible imports for 2016 was $6.5 billion. Use Fig. 4 to calculate the Balance of Payments for Country A in 2016. Show your working.** Total exports = $8 billion (1) Total imports = $6.5 billion (1) Balance of Payments = $1.5 billion (1)	**3**	OFR applies.
7(c)(i)	**Explain <u>two</u> effects on the Balance of Payments of the development of mines to extract the ore.** • In the short-term, the development of the mine will need capital expenditure on machinery / and the establishment of a suitable infrastructure / it may also need expertise in mining engineering that may not be available in the country (1) this would have a negative effect on the Balance of Payments (1) • Some of the machinery and expertise would have to be imported (1) this would have a negative effect on the Balance of Payments (1) • There should be more exporting of surplus ore / products made from the ore (1) improving the Balance of Payments (1) • There will be less need to import iron ore (1) improving the balance of payments (1)	**4**	Effects can be positive, negative or both.
7(c)(ii)	**State <u>two</u> suitable methods of transport for delivering the ore to a port 250 km from the mines.** • Rail • Road • Canal / river / waterway	**2**	

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Question	Answer	Marks	Guidance
7(d)	**The government of Country A may decide to let a multinational mining company own and develop the mine. Discuss whether or not the government should allow this to happen. Give reasons for your opinion.** • A multinational mining company would have the experience and expertise of successfully developing new mines. • The capital necessary to develop the mine would come from the resources of the multinational. • The multinational would employ many local workers, particularly in the less skilled jobs. • Many local firms would benefit from the multinational entering into contracts with them. For example, there would be catering contracts and some raw materials, such as wood props, would be obtained locally. • The multinational would pollute the country, and the government would have to put in place strong environmental regulations to force the multinational to minimise pollution. • Senior management would probably be brought in from head office, and the government would have to ensure that local workers are trained for the senior jobs. • There would have to be strict controls in place to ensure the multinational paid fair taxes, and did not move all its profits overseas to minimise tax. • If the government has the expertise in the country to develop and run the mine, then it would be recommended not to allow the multinational to own it. • However, many countries do not have this expertise or the necessary capital to start the mine. In these circumstances the multinational may be allowed to own it, but subject to suitable controls being agreed with the government.	**6**	Level 2 (4–6 marks) Has discussed whether or not the government should let a multinational own and develop the mine and has given a reasoned opinion. Level 1 (1–3 marks) Has commented on multinationals with/without an opinion. If a candidate has presented a one-sided argument, award 4 marks max.

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Question	Answer	Marks	Guidance
8(a)(i)	**State <u>two</u> features of a sole trader.** • Unlimited liability • Owned by one person / one person business • Easy to set up • Own boss / in control / not answerable to anyone / take holidays when they want • Makes all decisions / quick decision-making • All profits are for the owner • Accounts are private / no published accounts • Personal contact with customers	**2**	
8(a)(ii)	**Why is a sole trader a more risky form of business than a private limited company?** • A sole trader has unlimited liability (1) in the event of bankruptcy, the owner is responsible for all the losses (1) will lose all their invested money (1) and have to sell personal possessions (1) • Private limited companies have limited liability (1) do not face the same risk (1) • If the sole trader dies the business is closed/ends (1) whereas in private limited companies there is continuity of existence (1) the business continues trading (1) and can be passed on to others (1) • Sole traders suffer from a lack of capital (1) preventing them from modernising or providing services that customers require (1) making it difficult to compete (1) against the better services / lower prices of a private limited company (1) as it has more shareholders (1) who can provide more capital (1) • All decision-making down to one person (sole trader) (1) whereas directors can pool their expertise to come up with possibly better decision-making (1)	**4**	

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Question	Answer	Marks	Guidance
8(b)	**Robert offers a repair service for motor cycles. Discuss whether or not this would be beneficial to his business.** • The repair service will provide an income (1) from repair fees (1) • The repair service will offer after-sales service (1) which will be an additional selling point (1) when persuading customers to buy his motor cycles (1) increasing the chances of them becoming loyal customers (1) returning for future purchases / repeat business (1) • Robert will be competitive (1) over other businesses (1) gaining word of mouth recommendation (1) so gaining new customers / more sales (1) • There will be costs involved in providing a repair service (1) extra labour (1) such as a mechanic's wages (1) and equipment that must be bought (1) • Extra workload (1) Robert will have to carry out selling and repairing (1) it will put extra pressure on him (1) • Robert must balance the costs of providing the service against the profits made and the less tangible effect it will have in persuading the customers to buy (1) • As long as the repair service is efficient, it will probably be beneficial to the business (1)	**4**	
8(c)(i)	**Explain what is meant by a *franchise*.** • A franchise is a way of running/marketing a business (1) with a franchise agreement (1) where a business / the franchisor (1) sells rights to other businesses / the franchisees (1) allowing them to use their name/logo/trademark (1) to sell their goods/services (1) providing the standard of service / using the operating methods of the franchisor (1) • The franchisee will pay a sum up front to acquire the rights (1) and an on-going fee (royalty) usually based on their sales (1)	**3**	No marks for an example.

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Question	Answer	Marks	Guidance
8(c)(ii)	**State <u>one</u> difference between a sole trader and a franchise.** • A sole trader keeps all the profits of the business, while a franchisee has to share the profits with / pay royalties to the franchisor • A sole trader works independently while a franchisee operates under a franchisor • A sole trader can sell his business at any time, while there are restrictions on the franchisee selling his business • A sole trader pays all initial costs whereas some initial costs, such as advertising might be paid by the franchisor • A sole trader obtains their own goods, where a franchisor supplies the franchises with stock • A sole trader can decide / be more flexible on what he/she wants to do, but a franchisee has to do what the franchisor wants / e.g. has to buy all supplies from franchisor • A sole trader has few documents/formalities, whereas a franchisee has many legal documents	**1**	Must consider both sole trader and franchise.
8(d)	**Discuss whether or not branding is the most important factor when selling motor cycles. Give reasons for your answer**. • A brand is a name put on a business's products to distinguish it from other similar products. • The manufacturer of the motor cycle will establish the brand and Robert will sell the motor cycles with this brand name. • Motor cycle manufacturers will try to associate their brand with a particular attribute which they think the customers will want, for example performance or reliability. • The brand name is important but so is the reputation of Robert and his sales ability. The reputation will be enhanced by his after sales service. • Advertising is another factor to consider because you will need to obtain enough customers to sell the brand. • Branding is possibly the most important single factor because it is backed by a large advertising budget of the manufacturer.	**6**	Level 2 (4–6 marks) Has discussed whether or not branding is the most important factor when selling motor cycles and has given a reasoned opinion. Level 1 (1–3 marks) Has commented on branding with/without an opinion. If a candidate has presented a one-sided argument, award 4 marks max.

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