Cambridge Assessment International Education

Cambridge O Level

COMMERCE **7100/21**

Paper 2 Written **October/November 2023**

MARK SCHEME

Maximum Mark: 80

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the October/November 2023 series for most Cambridge IGCSE, Cambridge International A and AS Level components, and some Cambridge O Level components.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

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GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Social Science-Specific Marking Principles (for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
b DO credit alternative answers/examples which are not written in the mark scheme if they are correct
c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

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2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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Annotations

Symbol	Possible Use
Tick	Tick
X	Cross
BOD	Benefit of doubt
Highlight	Highlight
On Page Comment	On Page Comment
Off Page Comment	Off Page Comment
TV	Too vague
REP	Repeat
L1	Level 1
L2	Level 2
L3	Level 3
NAQ	Not answered question
OFR	Own figure rule
SEEN	Noted but no credit given
BP	Blank Page

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Question	Answer	Mark	Guidance
1(a)(i)	**Identify <u>one</u> example in Fig. 1.1, apart from transport, of an aid to trade.** • Warehousing	**1**	
1(a)(ii)	**Define *inventory*.** *Inventory* is the raw materials used to produce goods / goods that are available for sale / stock of goods/materials	**1**	
1(a)(iii)	**Calculate the total logistics costs for land transport. Show your working.** Correct answer $4429bn (2) Method: $297bn + $4132bn (1)	**2**	
1(b)	**Explain <u>two</u> advantages of using rail transport to deliver raw materials to manufacturers.** • Quick (1) over long distances (1) compared to air / sea (1) • Cheaper (1) compared to road or other mode of transport (1) • Suitable for heavy / bulky / large goods (1) e.g. copper (1) due to large capacity (1) • Safer (1) to carry dangerous goods / e.g. nuclear waste (1) • Eco-friendly (1) less pollution / less carbon emissions / electric trains (1) • Less affected by bad weather (1) leading to fewer delays (1) • Fewer delays (1) caused by traffic congestion (1) • Direct network / access (1) some lines can go straight to factory / warehouse (1) • Having many railway wagons to one train means more goods can be carried in one journey (1) whereas it would take many road journeys to carry the same capacity (1)	**4**	Any 2 advantages and explanation of each to a maximum of 4 marks
1(c)	Global logistics is the process of moving goods **internationally.** Robots are used in warehouses to pick out goods to complete **orders**.	**2**	1 mark for each correct circled answer

Question	Answer	Mark	Guidance
1(d)	**Discuss whether or not overseas agents are important when exporting goods. Give reasons for your answer.** An overseas agent is a representative that a business hires to find customers, and in some cases, negotiate and conclude the final sales contract. Some agents are brokers and some are factors. Reasons for using overseas agents: • A broker will bring buyers and sellers together saving an exporter time • A factor will sell goods on behalf of the exporter putting less pressure on the exporter to deal with contracts • A business is able to concentrate on other aspects of the business that may otherwise be neglected. • Overseas agents should be experts at this work and will introduce the business to potential buyers leading to increased sales. • Overseas agents will have the necessary expertise in what they are selling and what the local consumers are likely to demand as they will have a network of contacts so reducing the risk of failure. • Overseas agents, such as freight forwarders, assume responsibility for transporting / warehousing / customs clearance which saves a business time gaining that knowledge and expertise. • It cuts down the need to travel to overseas markets, and the time saved can be used for other purposes. • Solves the problem of not being sure whether they will receive payment for goods / some intermediaries such as del credere agents, guarantee payment – so avoid bad debts.	**6**	Up to 2 marks for **describing** overseas agents / exporting. Up to a further 2 marks for **analysing** the importance of overseas agents when exporting goods. Up to a final 2 marks for **evaluating** whether overseas agents are important when exporting goods.

Question	Answer	Mark	Guidance
1(d)	Reasons against using overseas agents: • Agents may not be as interested in the success of his business compared to the export owners • Agents will charge commission or pay less for the products than if the business was selling directly • They may not be exclusive, as they may have more favoured clients that they promote • Agents will need to be supervised – as they may carry out unethical practices **Evaluation:** Overseas agents are very important to sellers as they have great knowledge of the market that they want to sell to. They will have formed relationships with a range of potential buyers that will be interested in buying your products. It would be impossible for many businesses to have the time and money to find new markets or prospective buyers in another country.		

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Question	Answer	Mark	Guidance
2(a)	**State <u>two</u> other examples of small-scale retailers.** • Pedlar / itinerant • Hawker / street vendor • Kiosk • Mobile van / shop / roadside trader / food stall • Street market trader / stall • Party selling • Vending machine • Tuck shop	**2**	1 mark for each example
2(b)	**Do you think it is beneficial to convenience stores to offer informal credit? Give reasons for your answer.** Yes – As it is given to known customers, less likely to lose money (1) it can attract customers (1) increased sales / turnover (1) impulse buys (1) increasing income / revenue (1) selling some goods that consumers cannot afford / who lack cash (1) stock will be sold more quickly (1) establish customer relationships (1) and increase customer loyalty / more likely to shop there (1) can gain competitive advantage over other stores not offering informal credit (1) may tell their friends / family (1) it should be safe to offer it, as it will be limited to known customers (1) No – Risk of bad debts (1) if customers do not pay (1) will be at a loss / lose money (1) must trust the consumers before granting informal credit / are they able to pay back / must be creditworthy (1) does not help cash flow (1) to finance / buy more stock (1) has to wait for the money (1) no interest / only receives the original amount back (1) need to make records of purchases (1) as there will be no evidence that goods were taken (1) if there are many customers, this will be time-consuming (1)	**3**	Up to 3 marks for justified reasoning of yes and / or no responses

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Question	Answer	Mark	Guidance
2(c)	**Explain <u>two</u> reasons why small-scale retailers are usually owned by sole traders.** • Size of business is usually small (1) e.g. clothing repair shop (1) • Easy to set up (1) few forms to complete (1) • Easy to manage (1) no need to have more owners (1) faster decision-making (1) • Can start business with limited capital (1) use of own savings / investment (1) • Able to work from home / near to home (1) so costs are low (1) no need to employ workers (1) less wage costs (1) • Personal attention given to customers (1) can build customer loyalty (1) • Some people like complete control (1) prefer to be independent (1) • Prefer to keep all profits (1) for their own lives / do not want to share profits with others / partners (1) • Unwilling to meet costs of growing (1) cannot afford it (1) • Committed to small business model (1) sees being a sole trader as an asset (1) likes flexible working hours (1) • Lacks skills / ambition (1) may not know how to expand (1) • Lack of demand (1) no need to have more owners (1) • Lack of profit (1) to expand by opening more stores (1) • Lack of knowledge (1) to know how to make business bigger (1)	**4**	Any 2 reasons and explanation of each to a maximum of 4 marks

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Question	Answer	Mark	Guidance
2(d)	**Discuss <u>two</u> ways that small-scale retailers can survive competition from large-scale retailers. Do you think small-scale retailers have a future? Give reasons for your answer.** • Personal service / adding stock not sold in large-scale retailers – is a way of adding value to products sold. For example, a small-small retailer will get to know customers and carry stock lines to cater for individual customer needs and resolve issues much more quickly than a large-scale retailer can rarely match. • Buying in bulk / using from cash-and-carry warehouses – where there is no credit or delivery given to small-scale retailers but lower prices. These lower prices can help them compete on price. • Buying from voluntary chains – where groups of small-scale retailers combine to bulk-buy from wholesalers on better buying terms resulting in reduced prices and use of own branded goods. Support can also be given by the voluntary chain with advertising and finance. • Use technology – computers provide more efficient invoicing, job pricing, and inventory tracking. If the business is still not on the web, it is important to do so as a website can provide a shop window for products sold as well as a way to communicate with customers. • Location / moving nearer to customers – locating a small-scale retailer near large-scale retailers, in say a shopping centre, may provide the benefits of customer footfall and advertising for the shopping centre. • Flexible / longer opening hours – this means opening when large-scale retailers may be shut or extending opening hours to meet demand. • Use loss leaders – which is a product on which the retailer will lose money but through which you also generate sales of other products in their store. The idea is to price selected items at cost (or even below) in order to entice customers to go to your store, and then hope that these customers will buy more once they are inside the store.	**6**	Up to 2 marks for **describing** ways that small-scale retailers can survive competition from large-scale retailers. Up to a further 2 marks for **analysing** one or two ways that small-scale retailers can survive competition from large-scale retailers. Up to a final 2 marks for **evaluating** whether small-scale retailers have a future.

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Question	Answer	Mark	Guidance
2(d)	• Extra services – e.g. tailors offering a fitting service. • Converting to a specialist store – offering specialist knowledge not found in large-scale retailers • Offering informal credit which may mean more sales and increases customer loyalty • Owning their own premises – if the small-scale retailer lives on the premises with their family, they can reduce costs. • Using market research – to find customer wants and needs **Evaluation:** It is likely that small-scale retailers have a future. They will continue to serve small local markets that their larger rivals neglect. Also, they will continue to offer services that large-scale retailers cannot match. Overall, by combining the traditional aspects of the small-scale retail business with new technology, small-scale retailers do not have to disappear.		

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Question	Answer	Mark	Guidance
3(a)	**Using examples from country A, state the difference between visible and invisible trade.** • Visible trade is the trade in goods / tangibles (1) e.g. copper / oil / clothing / plastic waste (1) • Invisible trade is the trade in services / non-tangibles (1) e.g. tourism / insurance (1)	**4**	1 mark for each definition plus 1 mark for each example
3(b)(i)	**Calculate the Balance of Payments in 2022 for country A. Show your working.** Correct answer -$245m (3) Figures $1185m and £1430m (2) Figures 750 + 435 and 850 + 580 (1)	**3**	Award full marks for the correct answer without working
3(b)(ii)	**Explain <u>one</u> reason why the government of country A might be concerned with this Balance of Payments.** • There is a deficit (1) which means the country is importing more than it is exporting (1) therefore not enough goods / services sold abroad to pay for imports / spending more than it is earning (1) leading to less economic growth / unemployment (1) pressure on exchange rates (1)	**2**	1 reason plus explanation to a maximum of 2 marks

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Question	Answer	Mark	Guidance
3(c)	**Explain <u>one</u> negative effect on country A of importing plastic waste.** • Pollution / air pollution (1) due to increase of carbon emissions (1) not environmentally friendly (1) • Emits hazardous gases / difficult to decompose (1) as plastic waste is placed in landfill / not recycled (1) • Can lessen the growth of plants (1) by blocking the absorption of minerals / water (1) • Can contaminate fish life / animals die from ingesting plastic (1) from plastic waste dumped in water (1) • Causes flooding (1) from plastic waste clogging up drains (1) • Can affect health (1) from drinking pollutants in water (1) • Less visual appealing (1) reducing tourism (1) • Land pollution (1) from litter (1)	**2**	Any 1 effect and explanation to a maximum of 2 marks

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<table>
<tr><th>Question</th><th>Answer</th><th>Mark</th><th>Guidance</th></tr>
<tr><td>3(d)</td><td>

Country A's importers use the following two methods of communication:

1. email
2. videoconference.

Discuss both methods. Recommend which method of communication is the more effective for country A's importers. Give reasons for your answer.

Email is a system used for creating, sending / receiving and storing data in a digital format over a network of computers.
Videoconferencing is a system of linking people in different locations with sound and vision.

Advantages of using email:
- Cheap – sending an email costs the same regardless of distance and the number of people you send it to – reduces shipping and postage costs.
- Fast – an email should reach its recipient in minutes so that an issue is known and can be acted upon.
- Convenient – the message will be stored until the recipient is ready to read it, and the same message can be sent to a large number of people.
- Permanent – can keep a record of messages and replies, including details of when a message was received.

Disadvantages of using email:
- Impersonal – Email can be quicker than a videoconferencing conversation but it does not have as much of a personal connection. Written text does not always convey what the writer intends; meanings can be misinterpreted, as the recipient of the message does not have the advantage of seeing facial expressions and body language.
- Viruses – easily spread through email attachments and it's possible that others could gain access to them or receive them by mistake. An email can be intercepted by a hacker or go to an incorrect email address and wind up in someone else's inbox.

</td><td>**8**</td><td>

Level	Mark	Description
3	7–8	The candidate is able to offer a recommendation with a thorough evaluation of the two methods of communication for importers to use.
2	5–6	Candidate offers a satisfactory analysis of the use of one or two methods of communication for importers to use.
1	1–4	Candidate demonstrates some knowledge and understanding of email and videoconferencing with application to importers.
0	0	No creditable response.

</td></tr>
</table>

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Question	Answer	Mark	Guidance
3(d)	• Data storage – electronic storing space can become a problem, particularly where emails with large attachments are widely distributed. • Spam – unsolicited email can overwhelm the email system. Advantages of using videoconferencing: • Cheap – can save on travel costs, travel time and meeting room costs. • No time limits – meetings can be called at short notice. • Productivity – the meeting is likely to be shorter and participants can then go back to work. • Body language – facial expressions can be seen and acted upon. Disadvantages of using videoconferencing: • Less personal – it is difficult to build strong relationships and get to know the participants compared to a face-to-face meeting. • Time zones – May be inconvenient for people in different time zones e.g. Australia and USA. • Contracts – confidential documents may still need to be signed in person. • Technical glitches – Technical problems with hardware / issues of sound quality / audio delay response. • Visibility – Entire room may not be visible if there are a large number of people at one location. **Evaluation:** Communicating various details about a consignment and its shipping specifications is a major part of importing. Importers need to make sure that exporters understand each other when making decisions regarding delivery, the costs involved and freight insurance. Answering complex questions via email can be time-consuming. It would be more effective to use videoconferencing as is as good as being there in a meeting room.		

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Question	Answer	Mark	Guidance
4(a)	**What type of bank account does Zane have.** • Current	**1**	
4(b)	**Give <u>one</u> example of a direct debit payment that Zane might have.** • Mortgage • Insurance • Subscriptions such as broadband • Utility bills / gas / electricity • Rent • School fees • Car • Furniture	**1**	1 mark for a correct example
4(c)	**Explain <u>one</u> advantage to Zane of making payments by direct debit.** • Saves remembering / forgetting (1) when to make variable / regular payments (1) • Saves costs (1) of writing cheques / paying postage (1) • Saves time / faster (1) no need to go to the bank (1) • Eliminates late payments / payments made on time / no delay in payment / instant payment (1) to avoid penalties / extra interest (1) to avoid going into debt / having arrears (1) • May receive a discount (1) saving money (1) • Can improve relationship (1) with the person owed the money (1) • Flexible (1) amounts / dates easily changed (1)	**2**	Any 1 advantage and explanation to a maximum of 2 marks

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Question	Answer	Mark	Guidance
4(d)(i)	**Explain what is meant by a targeted online advertisement?** • An advertisement that is directed only to people who are likely to be interested in the product / potential customers / specific group of people / specific customers / target audience / targeted audience / target market / specific market (1) via a website / internet / smartphone / social media (1)	**2**	
4(d)(ii)	**Do you think this advertisement is effective? Give reasons for your answer.** Yes – It is persuasive (1) shows someone using it (1) has a clear image / picture (1) makes using mobile banking look easy (1) gives the idea that this will lead to more convenience when banking (1) has a catchy phrase (1) will have a wide coverage / large audience / global coverage (1) targeted to the right audience / target market (1) No – It is not informative (1) lacks information on mobile banking services (1) where to obtain the service (1) does not tell you how to use the service (1) no contact information / e.g. name of bank (1) does not show benefits of the service (1) e.g. banking can be done 24/7 (1) no positive content on peoples' reactions to using mobile banking (1) lack of colour (1) not persuasive (1)	**3**	Up to 3 marks for justified reasoning of yes and / or no responses

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Question	Answer	Mark	Guidance
4(e)	**Discuss <u>two</u> implications for banks of more customers banking online. Give reasons for your answer.** Positive implications for banks: • Fewer staff needed to serve customers in banks as teller transactions have declined. This reduces labour costs and saves on wages, possibly increasing profits. • Fewer bank branches needed as more people use internet banking. This reduces costs of premises and other running costs. • Greater customer satisfaction. Some customers prefer the benefit of instant access to their bank accounts and the ability to carry out transactions 24/7 wherever they are. • Can widen customer base with more people applying for loans. • If a bank's website is user-friendly, it can attract customers from other banks making the banking industry more competitive. Negative implications for banks: • Less customer satisfaction. Some customers not happy with having to use online banking. Many bank branches have closed, leaving older customers and those without good internet access at risk of becoming financially stranded. With less bank branches open, customers have to travel further to carry out face-to-face transactions with their bank, as customers will be expected to use ATMs and their smartphones to access banking. • Inside the banks, there is more emphasis on self-service machines leading to less face-to-face service and possible loss of marketing of services by staff. • Internet banking has led to increasing technology costs for banks to have robust systems against security breaches. • Most banks offer better savings rates for internet-based accounts, so banks profit margins may be lower. • Some customers have lost money through criminal activity on their internet-based accounts – causing negative publicity for a bank.	**6**	Up to 2 marks for **describing** online banking. Up to a further 2 marks for **analysing** the one or two implications of online banking for banks. Up to a final 2 marks for **evaluating** the implications of online banking for banks.

Question	Answer	Mark	Guidance
4(e)	**Evaluation:** Overall, there are many positive benefits to banks who offer online banking services but there is still resistance from some customers who prefer to talk to bank staff and who do not have reliable internet connections. This means the banks could lose those customers to other banks so their revenue would decrease. At present, both bank branches and online banking are still needed for the wide range of banking customers.		

Question	Answer	Mark	Guidance
5(a)	**Which type of tertiary activity does the architect provide to Louis?** • Direct service / direct	**1**	
5(b)	**Do you think it is a good idea to have a hand car wash next to the coffee shop? Give reasons for your answer.** Yes – Convenient for Louis / customers to combine the two services (1) as customer will be tempted to go into the coffee shop to have a coffee (1) while at the same time waiting for car wash (1) may buy other goods at the coffee shop (1) attracts more customers (1) increasing sales / profits (1) the two businesses could share costs (1) e.g. rent (1) e.g. staff (1) No – Would be better if the coffee shop had a drive-thru (1) with a drive-up window to buy a coffee (1) Some customers may not want a noisy car wash next door (1) reduce sales (1) Installing a car wash is expensive (1) be a while before Louis can gain a return on his investment (1) may cause problems with litter (1) adding to pollution (1) customers may complain over parking (1)	**3**	Up to 3 marks for justified reasoning of yes and / or no responses

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<table>
<tr><th>Question</th><th>Answer</th><th>Mark</th><th>Guidance</th></tr>
<tr><td>5(c)</td><td>Louis’s insurance cover will change by installing a car wash.
Which of these statements about insurance are true and which are false?

Tick (✓) true or false in the correct column.

<table>
<tr><td></td><td>TRUE</td><td>FALSE</td></tr>
<tr><td>Louis would complete a proposal form to receive an insurance quote.</td><td>✓</td><td></td></tr>
<tr><td>The premium for the car wash would be calculated by a broker.</td><td></td><td>✓</td></tr>
<tr><td>A car owner can make an insurance claim against Louis for damage caused by the car wash.</td><td>✓</td><td></td></tr>
</table>
</td><td>3</td><td>1 mark for each correct answer</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Mark</th><th>Guidance</th></tr>
<tr><td>5(d)</td><td>Louis needs $100 000 to finance the hand car wash facility.

Discuss whether he should use retained earnings (retained profits) or obtain a bank loan. Which would you recommend? Give reasons for your answer.

Retained profits is money kept back for use in the business and not given to owners as dividends but reserved for reinvestment back into the business.
Bank loan is a fixed agreement between a business and a bank at a fixed interest rate.

Retained profits:
• It is readily available so no need for documentation.
• There is no fixed burden of dividend and no obligation of repayment. Retained profits are the business’s own money.
• It does not have to be paid back and no interest to be paid.
• It can be taken up to any amount of the total available
• No loss of ownership involved.
• The retained profits might be less than $100 000, so Louis will still need to borrow.

Bank Loans:
• They would usually be able to spread repayments over a set period of time with a fixed rate of interest.
• It is a long-term source of finance, e.g. 3 to 10 years, usually for a large amount.
• Normally used for a specific purpose, such as buying land or equipment
• While Louis must pay interest on the loan, he does not have to give the bank a percentage of profits or an equity share in his business.
• Interest rates will be fixed for the term so they will know the level of repayments throughout the life of the loan so that they know the cost of repayments each month.</td><td>8</td><td>
<table>
<tr><th>Level</th><th>Mark</th><th>Description</th></tr>
<tr><td>3</td><td>7–8</td><td>The candidate is able to offer a recommendation with a thorough evaluation of the two sources of finance.</td></tr>
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<tr><td>1</td><td>1–4</td><td>Candidate demonstrates some knowledge and understanding of sources of finance.</td></tr>
<tr><td>0</td><td>0</td><td>No creditable response.</td></tr>
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Question	Answer	Mark	Guidance
5(d)	• They are usually quick / simple to obtain. • As loans are over a long time, this can result in a lot of interest being paid. • Bank loans are often secured against the assets of the business so the business assets could be at risk if they cannot make the repayments. • There may be a charge if Louis wants to repay the loan before the end of the loan term, particularly if the interest rate on the loan is fixed. **Evaluation:** Both retained earnings and bank loans are very useful for financing the expansion of a business. This business needs finance for a specific project – a fixed asset of land / car wash equipment – so a loan seems most appropriate if they do not have enough retained earnings available, especially as it is a large amount needed. However, if Louis has a profitable business and has large profits, retained earnings is the recommended option.		

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