Cambridge Assessment International Education

Cambridge O Level

BUSINESS STUDIES **7115/21**

Paper 2 Case Study **May/June 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 May/June 2023 series for most Cambridge IGCSE, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

© UCLES 2023

[Turn over

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.

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.

© UCLES 2023

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)

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.

© UCLES 2023

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.

© UCLES 2023

0450/7115/0086 Business Studies – Paper 2 Annotations

Annotation	Description	Use
Tick	Tick	Indicates a point which is relevant and rewardable (used in part (a) questions).
Cross	Cross	Indicates a point which is inaccurate/irrelevant and not rewardable.
BOD	Benefit of doubt	Used when the benefit of the doubt is given in order to reward a response.
TV	Too vague	Used when parts of the answer are considered to be too vague.
REP	Repetition	Indicates where content has been repeated.
NAQ	Not answered question	Used when the answer or parts of the answer are not answering the question asked.
APP	Application	Indicates appropriate reference to the information in the context.
OFR	Own figure rule	If a mistake is made in a calculation, and the incorrect figure that results from the mistake is used for subsequent calculations.
SEEN	Noted but no credit given	Indicates that content has been recognised but not rewarded.
L1	Level 1	Used in part (b) questions to indicate where a response includes limited knowledge and understanding.
L2	Level 2	Used in part (b) questions to indicate where a response has a more detailed discussion and contains some evidence of justification.
L3	Level 3	Used in part (b) questions to indicate where a response includes a well-justified recommendation.

© UCLES 2023

Question	Answer	Marks
1(a)	**Explain <u>four</u> barriers to communication for a business.** One mark for each barrier (max 4). Award a maximum of one additional mark for **each** explanation of the barrier. There are no application marks available. Reasons could include: • Problems with the sender – the language used is not clear/use of jargon or technical terms so do not understand instructions • The message is too long/too much detail is included in the message – so the main meaning of the message may be lost in the detail • Problems with the medium/method – the wrong medium is used such as putting an urgent message on a noticeboard so may not be seen immediately • Computer failure/internet connection/technology fails – the message may not be received • No feedback is given – so the sender is unaware the message has not been received • Problems with the receiver – if a meeting is used and it goes on a long time then the receiver may stop listening • The channel/chain of command may be too long – too many people through which the message is sent it may be distorted • Language differences – hinder understanding of the message For example: Problems with the sender (1) they may use language that includes jargon or technical terms so do not understand instructions (1).	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Consider the following <u>two</u> ways VP can purchase its inventory. Which way should it use? Justify your answer.

• Head Office purchases the inventory for all the restaurants.
• Restaurant Managers purchase their own inventory from local suppliers.

<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 both ways. Well-justified recommendation.
Candidates discussing both ways in detail, in context and with a well-justified recommendation including why the alternative way is 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 way.
Judgement with some justification/some evaluation of choices made.
Candidates discussing at least one way in detail and applying it 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 ways with little/no explanation.
Simple judgement with limited justification/limited evaluation of choices made.
Candidates outlining both ways 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>
</td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>Relevant points might include:
<table>
<tr><td>Head office purchases the inventory for all the restaurants</td><td>• Able to make bulk purchases – discounts received – lowering variable costs/lower unit cost of food ingredients - possibly reducing prices/increasing profit
• Easier to standardise the meals/control quantity and quality of ingredients in different restaurants as all the inventory come from the same food suppliers - maintains reputation for good quality fast food
• Increased transport costs for food ingredients to be taken to each fast-food restaurant Warehouse storage is required for inventory before it is sent out to each restaurant – increases costs</td></tr>
<tr><td>Restaurant Managers purchase their own inventory from local suppliers</td><td>• Managers can order different ingredients for meals to meet local tastes – increases demand/improved competitiveness – increases revenue
• Local suppliers can deliver more frequently and quickly – ensures ingredients will be fresh – improves reputation of the restaurants
• Managers may feel more motivated/trusted – if allowed to make some decisions and order their own ingredients
• May be unable to meet sudden increase in demand for specific meals – if ingredients are not available – may lose customers as disappointed – lose reputation/customers do not return
• Restaurant Managers are very busy - so may not have the time to order ingredients
• Some ingredients may not be available locally to each restaurant - limiting the availability of the full menu in some restaurants</td></tr>
</table></td><td></td></tr>
</table>

Question	Answer		Marks
1(b)	Recommendation	Justification might include: • All inventory is purchased by head office is the best way for VP to choose as this will allow considerable cost savings due to purchasing economies of scale. This will allow VP to keep prices low and to be more competitive with other similar restaurants, possibly increasing revenue. Ordering only from local suppliers may make it difficult to meet customer demand as **food ingredients** may run out if local suppliers are small. • Each Restaurant Manager purchases their own inventory is the best way to choose because each restaurant can meet local demand, and this will attract more customers leading to higher revenue. Also the costs of storage are lower as smaller quantities can be purchased so profit from **selling fast-food** will be higher.	

© UCLES 2023

Question	Answer	Marks
2(a)	**Explain <u>two</u> advantages and <u>two</u> disadvantages of VP's Restaurant Managers delegating tasks to their Assistant Managers.** One mark for each advantage/disadvantage (max 2 advantages/max 2 disadvantages). Award a maximum of one additional mark for **each** explanation of the advantage/disadvantage **in the context of VP**. Advantages could include: • Restaurant Managers cannot carry out every job themselves/reduce workload – they can then focus on the most important tasks at the fast-food restaurant and make better decisions • Restaurant Managers are less likely to make mistakes – as they can focus on specific tasks such as marketing new menus • Gives the Restaurant Managers time to assess employees performance below them in the hierarchy – they can then identify where employees need more support/training in developing/cooking new recipes • May increase motivation/feel more trusted for Assistant Managers – improved speed of serving fast-food • Assistant Managers may develop new skills Disadvantages could include: • Restaurant Managers could lose some control over subordinates – mistakes may be made leading to worse reputation if food is served longer than 5 minutes after ordering • Restaurant Managers may be reluctant to give up some control – if Assistant Managers do a good job carrying out the delegated tasks such as ordering new ingredients for the meals • The Assistant Manager may not have the skills to carry out the tasks that have been delegated to them/may need additional training – may lead to poor decisions being made such as unskilled chefs being employed at the restaurant • Assistant Managers may not like having tasks delegated to them/feel overloaded with work by Restaurant Managers For example: Restaurant Managers can focus on their most important tasks (1) which will help them to make better decisions for the fast-food restaurants (app). **Application** could include: fast food; restaurant; vegetarians; meals; public limited company; food outlets across the country; diners; menus; recipes; cooking; serving; ingredients; 50 employees; receive a meal in less than 5 minutes; service is the fastest possible.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>Using Appendix 2 and other information, consider the <u>two</u> countries VP could choose to locate its new restaurants.
Which country should VP 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 both countries Well-justified recommendation.
Candidates discussing both countries in detail, in context and with well-justified recommendation including why the alternative country is 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 country.
Judgement with some justification / some evaluation of choices made.
Candidates discussing at least one country in detail and applying it 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 countries with little/no explanation.
Simple judgement with limited justification / limited evaluation of choices made.
Candidates outlining both countries 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></td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>Relevant points might include:
<table>
<tr><td></td><td>Benefits</td><td>Drawbacks</td></tr>
<tr><td>Country A</td><td>• Gross profit is $14, and Country B is $8
• Highest price per meal at $20 – possibly highest revenue if demand remains high
• Many competitors may indicate that there is high demand for fast-food restaurants</td><td>• There are many competitors so demand may be lower – may have to reduce price to attract customers – possibly reducing revenue
• May have to spend more on marketing as there are many competitors in the market in order to enter the new market abroad – increasing costs
• Higher wage costs at twice the cost of Country B – may lead to higher costs overall
• Harder to recruit new workers as unemployment is low – may have to offer more fringe benefits to attract employees from their many competitors</td></tr>
</table></td><td></td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>
<table>
<tr><td>Country B</td><td>• Lowest variable cost per meal at $2 rather than $6 in country A – makes it easier to charge the lowest price of $10 per meal
• High unemployment makes it easier to recruit new employees for the restaurants – more likely to remain with VP as few alternative employment opportunities in country B – lowering recruitment costs/training costs in the future
• Lowest wage costs at $5 per hour – reducing total labour costs
• Low price at $10 per meal may attract many customers – possibly increasing revenue</td><td>• Lower gross profit between price of $10 and costs of $2 = $8, whereas it is $14 in country A
• Few competitors may indicate that demand for vegetarian fast-food in country B is low – VP needs to spend on market research to be sure there is a market in country B – investment could be wasted if there is not a sufficient demand to make the expansion successful</td></tr>
<tr><td>Recommendation</td><td colspan="2">Justification may include:
• VP should choose country A as it can charge the highest price of $20 per meal which may lead to higher revenue and costs are likely to be lower as variable costs are lower at $6 which gives a higher gross profit, so after expenses have been paid, it may lead to higher profit. Country B should not be chosen because it has a lower price per meal and unemployment is high and there may be lower demand.
• VP should choose country B as it has the lowest wage costs, and it will be easy to recruit new employees as there is high unemployment there.</td></tr>
</table>
</td><td></td></tr>
</table>

Question	Answer	Marks
3(a)	**Explain <u>two</u> possible reasons why VP wants to expand.** One mark for each reason (max 2). Award a maximum of three additional marks for **each** explanation of the reason why VP wants to expand, **one of which must be in context**. Answers might include: • To gain higher profits for the owners – as expansion will lead to increased sales in new markets abroad – leading to increased revenue • To lower average/unit costs – gain from economies of scale – such as bulk buying of food ingredients – a discount will be received from bulk purchases • To gain a larger share of the market – may produce a stronger brand image – might result in greater customer loyalty • To gain more status and prestige for the owners – from the company being more well known in country Z – may be listed on stock exchanges in other countries • To gain access to new markets/diversification – this would reduce/spread risk For example: To gain higher profits for the owners (1) because expansion is likely to increase revenue, (1) as VP will sell its products in more markets (1). The higher profits should allow the shareholders of VP to be paid higher dividends (app). **Application** could include: fast food; restaurant; vegetarians; meals; food outlets across the country; diners; shareholders/public limited company; ingredients.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>
Consider the benefits and limitations of the following <u>two</u> ways VP can enter a new market in another country. Which way should VP choose? Justify your answer.
• Joint venture
• Franchising
<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 ways. Well-justified conclusion.
Candidates discussing both ways in detail, in context and with well-justified conclusion including why the alternative way is 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 way.
Judgement with some justification / some evaluation of choices made.
Candidates discussing one or more ways in detail and applying it 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 ways with little/no explanation.
Simple judgement with limited justification / limited evaluation of choices made.
Candidates outlining both ways 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>
</td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>Relevant points might include:
<table>
<tr><td></td><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>Joint venture</td><td>• VP will share the risks and costs of setting up the fast-food chain in another country with its partner in the joint venture – this may help VP to borrow less capital to expand into the other country
• VP can gain important local knowledge about the market – easier to focus meals on local tastes – increasing demand/sales/revenue
• Less likely to require expensive market research to understand the fast-food market – reducing the costs of entering the new market abroad
• Lowering the risks of entering the new market abroad - more likely to understand local customs and tastes – adapt fast-food meals to meet local demand</td><td>• It will take time and effort to find the right partner to join with in the venture – which may delay the expansion plans
• There may be management conflicts between the two businesses – leading to arguments and inefficiency – higher costs
• Profits will have to be shared – may reduce return on investment from the expansion – may not be agreeable to the shareholders of VP
• The level of expertise may not be the same in the partner business – may make the return on investment unfair
• The work and resources may not be equally shared between the two partners in the joint venture – VP may have to put more work and resources as it is the main partner in the venture</td></tr>
</table></td><td></td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>
<table>
<tr><td>Franchising</td><td>

Saves time on expanding into the foreign market – as business operating fast-food restaurants will make the investment
Payment from franchise fees for using the VP brand - fee goes back to VP which may increase profits – making a return from the expansion for low investment from VP
Lower capital requirement - no need to raise finance for the expansion – no need to sell additional shares with possible loss of control/no bank loan required so no need to pay interest rates increasing fixed costs

</td><td>

Poor quality management may lead to a lowering of the reputation of the VP brand – if the franchisee in the foreign country does not maintain standard of delivering fast food in 5 minutes
Low level of control by VP Directors – over how the franchise operates the vegetarian fast-food chain
The franchisee has information about the food ingredients and recipes of VP and may use these when the franchise agreement has expired – could develop a better version and become a competitor

</td></tr>
<tr><td>Conclusion</td><td colspan="2">Justification may include:

Forming a joint venture is the best way to overcome the problems of entering a new fast-food market in another country which VP is unfamiliar with as this will enable VP to understand this new market by gaining knowledge from this other business. The local business will be able to advise and guide VP on the best locations to choose and the best meals to serve to meet local demand and successfully enter this market. Franchising should not be chosen as the franchisee may provide poor service and lead to a poor brand image of VP.
Selling a franchise to businesses in the new fast-food market in another country will reduce the investment required for VP to expand. This will make it cheaper and quicker to expand into this new market while still receiving revenue from the fees charged for the franchise.

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

Question	Answer	Marks
4(a)	**Explain, using an example, <u>one</u> reason why VP might need:** • **short-term finance** • **long-term finance.** One mark for reason for short-term/long-term finance (max 1). Award a maximum of three additional marks for the explanation of the reason why VP needs short-term/long-term finance, **one of which must be in context, and one must include an example.** Answers for short-term finance might include: • To provide working capital for the business – so that day-to-day expenses can be paid for – an overdraft may be suitable as it is only used if needed/potentially reducing interest paid • To prevent cash-flow problem/improve the cash position of the business – by taking short-term bank loan – this will provide finance for a short time to overcome the potential shortage of cash and increase liquidity For example: To provide working capital for the business (1) so that day-to-day expenses can be paid for (1). An overdraft may be suitable as it is only used if needed which potentially reduces the interest to be paid (1) when buying food ingredients for the restaurants (app). Answers for long-term finance might include: • To purchase long-term non-current assets – as these assets are likely to be very expensive – so a long-term bank loan may be suitable as it is repaid over a long period of time reducing the amount of monthly repayments/outflows each month • To expand the business – which requires a large amount of money in order to grow – the issue of shares will not incur interest payments • To update the business – often involves new technology which is expensive – so payments may need to be spread over a long period of time such as with a lease For example: To expand the business (1) as VP is planning to expand in another country (app) which requires a large amount of money to grow (1). VP might choose to issue new shares which will not incur interest payments (1). **Application** could include: fast food; restaurant; vegetarians; meals; public limited company/shareholders; food outlets across the country; diners; 500 restaurants; 25 000 employees; ingredients; expand into another country.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>

Using Appendix 3 and other information, consider how the following <u>three</u> changes in country Z may affect VP. Which change is likely to have the greatest effect on VP's profits? Justify your answer.

- **Increase in interest rates.**
- **Depreciation of country Z's exchange rate.**
- **New legal controls which require all restaurants to list the ingredients in their meals.**

<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 changes. Well-justified conclusion.
Candidates discussing all three changes in detail, in context and with well-justified conclusion including why the alternative changes are 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 change.
Judgement with some justification / some evaluation of choices made.
Candidates discussing two or more changes 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 changes with little/no explanation.
Simple judgement with limited justification / limited evaluation of choices made.
Candidates outlining all three changes 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>

</td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>Relevant points might include:
<table>
<tr><td>Increase in interest rates</td><td>• Higher fixed costs from interest paid if bank loan taken out for expansion of the restaurant chain in another country – likely to lead to lower profit
• Customers may buy fewer meals due to interest rates being increased for 3% to 5% to be paid on borrowing leaving less money to spend leading to reduced revenue for VP
• As VP is a public limited company it is large and may enjoy financial economies of scale – leading to relatively lower interest rates charged on bank loans than smaller businesses – reducing the impact of the interest payable on the loans
• Increased interest received on any reserves held by VP – increase income into the business – leading to an increase in profit</td></tr>
<tr><td>Depreciation of country Z exchange rate</td><td>• Imported food ingredients will now cost more – leading to higher variable costs – possibly lower profit margin/higher prices
• Increased cost of imported ingredients may lead to VP changing to purchase from local suppliers - however the quality may be lower
• When VP has expanded to another country and set up new restaurants profits sent back to country Z will exchange for a higher amount of country Z currency – but capital needed for expansion will exchange at a lower rate – higher investment needed</td></tr>
<tr><td>Introduction of new legal controls that require all restaurants to provide information about the ingredients in their meals</td><td>• Increased costs of rewriting all menus – time taken to work out and list all the ingredients in meals – will need to be repeated every time a new meal is added to the menu – increases costs both in the short-run and possibly the long-run – reducing profit
• If VP wants to keep the same mark-up on costs – may lead to increased price of meals –– may lead to lower demand/lower sales – reduced profit
• All restaurants will have the same costs – so competitiveness may not change
• May attract different target market who didn’t appreciate the ingredients used by VP – as these are now listed on menus - may increase sales</td></tr>
</table></td><td></td></tr>
</table>

Question	Answer		Marks
4(b)	Conclusion of which is likely to have the greatest effect on profits	Justification may include: • Increase in interest rates will have the greatest effect on profit because VP will need to take out large bank loans to finance the expansion in another country leading to a large increase in costs from the interest payable which will reduce VP profits. Depreciation will have little effect as ingredients are only a small proportion of costs and only **30% of ingredients are imported**. The new legal controls will have little effect on profit as these are a relatively small cost and the **menus are printed regularly** anyway when the menus change with the **new meals**. • Depreciation of the exchange rate of country Z will have the greatest effect on profit as **30% of food ingredients are imported**. This will lead to a large increase in variable costs which will reduce gross profit and then profit for VP. • New legal controls that require all restaurants to provide information about the ingredients in their meals will have the greatest effect on profit as **menus** will have to all be reprinted every time a new meal is developed. As VP do this regularly to encourage customers to return so they do not get bored with the same meals it will result in a regular increase in costs and therefore a reduction in profit.	

© UCLES 2023