

GCE

New Business

H431/01: Operating in a local business environment

A Level

Mark Scheme for June 2022

OCR (Oxford Cambridge and RSA) is a leading UK awarding body, providing a wide range of qualifications to meet the needs of candidates of all ages and abilities. OCR qualifications include AS/A Levels, Diplomas, GCSEs, Cambridge Nationals, Cambridge Technicals, Functional Skills, Key Skills, Entry Level qualifications, NVQs and vocational qualifications in areas such as IT, business, languages, teaching/training, administration and secretarial skills.

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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PREPARATION FOR MARKING**RM ASSESSOR**

1. Make sure that you have accessed and completed the relevant training packages for on-screen marking.
2. Make sure that you have read and understood the mark scheme and the question paper for this unit. These are posted on the RM Cambridge Assessment Support Portal <http://www.rm.com/support/ca>.

YOU MUST MARK 5 PRACTICE AND 10 STANDARDISATION RESPONSES BEFORE YOU CAN BE APPROVED TO MARK LIVE SCRIPTS.

MARKING

1. Mark strictly to the mark scheme.
2. Marks awarded must relate directly to the marking criteria.
3. The schedule of dates is very important. It is essential that you meet the RM 50% and 100% deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.
4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone, email or via the RM messaging system.
- 5.

Crossed Out Responses

Where a candidate has crossed out a response and provided a clear alternative then the crossed out response is not marked. Where no alternative response has been provided, examiners may give candidates the benefit of the doubt and mark the crossed out response where legible.

Contradictory Responses

When a candidate provides contradictory responses, then no mark should be awarded, even if one of the answers is correct.

Short Answer Questions (requiring only a list by way of a response, usually worth only one mark per response)

Where candidates are required to provide a set number of short answer responses then only the set number of responses should be marked. The response space should be marked from left to right on each line and then line by line until the required number of responses have been considered. The remaining responses should not then be marked. Examiners will have to apply judgement as to whether a 'second response' on a line is a development of the 'first response', rather than a separate, discrete response. (The underlying assumption is that the candidate is attempting to hedge their bets and therefore getting undue benefit rather than engaging with the question and giving the most relevant/correct responses.)

Short Answer Questions (requiring a more developed response, worth two or more marks)


















If the candidates are required to provide a description of, say, three items or factors and four items or factors are provided, then mark on a similar basis – that is downwards (as it is unlikely in this situation that a candidate will provide more than one response in each section of the response space.)

Longer Answer Questions (requiring a developed response)

Where candidates have provided two (or more) responses to a medium or high tariff question which only required a single (developed) response and not crossed out the first response, then only the first response should be marked. Examiners will need to apply professional judgement as to whether the second (or a subsequent) response is a 'new start' or simply a poorly expressed continuation of the first response.

6. Always check the pages (and additional objects if present) at the end of the response in case any answers have been continued there. If the candidate has continued an answer there then add a 'SEEN' annotation to confirm that the work has been seen.
7. There is a NR (No Response) option. Award NR (No Response)
 - if there is nothing written at all in the answer spaceNote: Award 0 marks – for an attempt that earns no credit (including copying out the question).
8. The **comments box** is used by your Team Leader to explain the marking of the practice responses. Please refer to these comments when checking your practice responses. **Do not use the comments box for any other reason.**
If you have any questions or comments for your Team Leader, use the phone, the RM messaging system, or e-mail.
9. Assistant Examiners will send a brief report on the performance of candidates to their Team Leader (Supervisor) via email by the end of the marking period. The report should contain notes on particular strengths displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.

10. Annotations

	Blank page
	Tick
	Cross
	Highlighting tool
	Not answered question
	Own Figure Rule
	Benefit of Doubt
	Repeat
	Noted but no credit given
	Too vague/No use of context
	Unclear
	Knowledge
	Application of knowledge and understanding
	Analysis
	Developed Analysis
	Evaluation
	Effective evaluation

EVERY PAGE, INCLUDING BLANK PAGES (use the BP annotation), MUST HAVE SOME ANNOTATION

Please ensure that, wherever possible, annotations are placed in the margins and not over the candidate's answer. This makes it very difficult to read when the paper is printed out in black & white.

[Questions 1-15 should ONLY be annotated with ticks, crosses or NAQ. Question 19 (a) and 19 (b) should be annotated with ticks, crosses, BOD, REP, TV, OFR, NAQ or ?. The number of ticks plus OFR MUST match the final mark awarded for that question. Ticks MUST NOT be used in Questions 16,17,18, 20 and 21.]

IT IS VITAL THAT YOU SHOW AS MUCH ANNOTATION ON EACH PAGE AS POSSIBLE. IN PARTICULAR, WHERE AOs ARE REACHED, SO THAT YOUR TEAM LEADER CAN LOOK TO AGREE WITH YOUR FINAL MARK.

Subject-specific Marking Instructions

INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

Levels of response – Level descriptors

	Knowledge and understanding/ Application	Analysis	Evaluation
Strong		An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
Good	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
Reasonable	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
Limited	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

Candidates will be awarded marks for the demonstration of each skill (Knowledge and Understanding/Application/Analysis/Evaluation) according to the level (Strong/Good/Reasonable/Limited) seen. Their overall mark for Levels of Response questions will comprise the total of these four marks.

The descriptions in each levels of response question in this mark scheme describe a typical response at the top of that level.

USING THE MARK SCHEME

Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers. The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way. The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed. Co-ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co-ordination scripts then become part of this Mark Scheme.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited.

Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

INSTRUCTIONS TO EXAMINERS:**A INDIVIDUAL ANSWERS**

- 1** The indicative content indicates the expected parameters for candidates' answers, but be prepared to recognise and credit unexpected approaches where they show relevance.
- 2** Be prepared to use the full range of marks. Do not reserve high Band marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

B TOTAL MARKS

- 1** The maximum mark for the paper is **80**.
- 2** The quality of extended responses is assessed in parts of this paper. The assessment of this skill is embedded within each of the levels and must be considered when determining the mark within the appropriate level

SECTION A

Question	Answer	Marks	AO	Rationale
1	B	1	1	(a) This is a valid way to measure a business. (b) Correct answer: non-current asset turnover is a ratio used to measure the efficiency of a business, rather than its size. (c) This is a valid way to measure a business. (d) This is a valid way to measure a business.
2	D	1	1	(a) Decentralisation allows decision making to take place away from head office. (b) Division of labour breaks down complex tasks in order to benefit from specialisation. (c) Delegation passes down the authority to do a task to an employee of lower rank. (d) Correct answer: delayering reduces the tallness of an organisation's structure by removing at least one layer.
3	B	1	2	(a) Pricing according to demand makes good business sense and is not an example of poor customer service. (b) Correct answer: Making it difficult to book is an example of poor customer service, as distinct from poor service provision which relates to the core business of transport. (c) Segmenting the market to add value makes good business sense and is not an example of poor customer service. (d) Rescheduling or cancelling services may be necessary for health and safety purposes. It affects service provision rather than customer service.
4	B	1	1	(a) Average revenue is a calculation made to monitor business performance, it is not found on an income statement. (b) Correct answer: An income statement shows cost of sales deducted from turnover to give gross profit. (c) Dividend yield is a shareholder ratio; it is not found on an income statement. (d) Working capital, i.e. Current Assets – Current liabilities, can be found, or worked out, from a statement of financial position, but not an income statement.
5	B	1	2Q	(a) Correctly identifies that demand will exceed supply, but incorrectly calculates 20k units. (b) Correct answer: 90k units demanded – 40k units supplied = shortage of 50k units. (c) Erroneously thinks supply will exceed demand, and incorrectly calculates 30k units. (d) Erroneously thinks supply will exceed demand, and incorrectly calculates 60k units.
6	B	1	1	(a) Introducing ethical working practices is likely to increase, rather than reduce costs. (b) Correct answer: likely to improve job satisfaction and, therefore, increase motivation. (c) Labour turnover is likely to fall because employees are happier at work. (d) Candidate confuses whistle blowing with positive publicity i.e. 'blowing own trumpet'.

SECTION A

Question	Answer	Marks	AO	Rationale
7	D	1	2	(a) A charity shop offers a service, so a tertiary sector organisation. (b) A council-owned nursery offers a service, so a tertiary sector organisation. (c) A shoe manufacturer turns raw materials into finished goods, so a secondary sector organisation. (d) Correct answer: A primary sector organisation is involved with extracting raw materials, this includes farming.
8	C	1	2Q	(a) Erroneously thinks productivity is measured as a percentage and needs to be less than 100%, so moves the decimal point. (b) Erroneously thinks productivity is a percentage. (c) Correct answer: productivity = output/input i.e. £410,000/7 = £58,571 per employee. (d) Correct calculation but then erroneously multiplies by 100 (as if a percentage).
9	B	1	1	(a) Materiality requires a business to accurately calculate the value of significant items, but not waste time on calculating the value of small, inconsequential items, e.g. paper clips. (b) Correct answer: Objectivity requires verifiable figures based on fact to be used, not opinions or guesses. (c) Prudence requires a business to exercise caution, where uncertainty remains it should underestimate rather than overestimate its financial performance. (d) Realisation requires transactions to be recorded at the date the legal ownership of goods is transferred, rather than when the order was received, or payment is made.
10	A	1	1	(a) Correct answer: Contract law is a legal factor so a breach could lead to court action. (b) This is a social factor, rather than a legal factor, so no legal action. (c) Diversity in the workplace is to be encouraged, maintaining diversity does not break the law. (d) Discrimination is a legal factor, but preventing discrimination does not break the law
11	B	1	2	(a) A marketing strategy refers to the way a business attempts to encourage a potential customer to purchase its product, in this case a specific chocolate bar. (b) Correct answer: Amit went to the petrol station with the intention of making this purchase, i.e. the purchase was planned. (c) An extension strategy refers to the way a business attempts to extend a product's lifecycle to maintain sales, in this case of a specific chocolate bar. (d) Although chocolate is frequently a subject of an impulse buy, this particular purchase was planned in advance.
12	B	1	1	(a) Despite a common misconception, sole traders do not have to operate on their own, they can employ staff. (b) Correct answer: unlike a sole trader, an incorporated business continues even if the owner dies because it has a separate legal identity to its owner. (c) A private limited company has more, rather than fewer, legal requirements than a sole trader.

SECTION A

Question	Answer	Marks	AO	Rationale
				(d) A private limited company benefits from limited liability, rather than unlimited liability.
13	D	1	2Q	(a) The closing balance at the end of Month 3 is negative, so the company owes £30,000. (b) The difference between the opening balance in Month 1 and the closing balance in Month 3 shows a total net inflow of £20,000, but this should not be confused with profit. (c) All of the opening and closing bank balances are negative, so the bank account has been overdrawn. (d) Correct answer: The net cash inflow has improved each month, i.e. -£10k, £10k, £20k.
14	C	1	1	(a) Quality assurance, rather than quality control, aims to improve the production process to prevent mistakes from being made. (b) All mistakes should be corrected where possible, but this is not the focus of quality control. (c) Correct answer: Quality control involves the inspection of goods or services to ensure that they meet the required standards. (d) Where possible a business should learn from its mistakes, this is part of the plan-do-review cycle, but it is not the role of quality control.
15	B	1		(a) Flexi-time is not appropriate because it would not guarantee three sales assistants were on duty at any given time. (b) Correct answer: part-time working is suitable because, although the employee works fewer hours than a full-time employee, these hours are scheduled using a rota. This ensures that sufficient staff are available at any given time. (c) Remote working is not appropriate because the shop assistant needs to be in the shop, and not at home. (d) Term-time working is not appropriate as the shop is open throughout the year.

Question	Answer	Mark	Guidance
16	<p>“When Leo started LDEA he faced a lot of uncertainty. This has not changed, even though the business is 23 years old.”</p> <p>Analyse how one internal cause of uncertainty may affect LDEA in the next 12 months.</p> <p>Level 2 (4–6 marks) Candidate shows good knowledge and understanding and shows good analysis of one internal cause of uncertainty for LDEA.</p> <p>Level 1 (1–3 marks) Candidate shows limited knowledge and understanding with limited or no analysis of one internal cause of uncertainty for LDEA.</p> <p>(NB – award one mark for a non-contextualised answer)</p> <p>0 marks – no response or no response worthy of credit.</p>	<p>6 (AO1 1) (AO2 2) (AO3 3)</p>	<p>The question is about uncertainty NOT risk faced by LDEA. It is a situation where the knowledge/ information/data possessed by Leo/his staff is not perfect/complete and therefore there are ‘reservations/ concerns/doubts etc about the future (e.g. the effects of making a decision).</p> <p>Internal uncertainty could arise from:</p> <p>Financial uncertainty – we are told cash-flow is important and that Leo has to monitor it carefully and use TSA to try to forecast the future. Demand changes according to season, state of local economy and interest rates. Allow reference to external events, as long the emphasis is on the financial uncertainty arising. Payments to agents in terms of commission may fall but he still has to pay their basic salary.</p> <p>Employee uncertainty - mention made of losing employees to a competitor. Therefore, uncertainty regarding staff numbers and ability to ‘deliver’. How might they behave in the light of a decision, e.g. to introduce the system to measure their contribution to LDEA? How might they react to the idea of the new Senior Sales Associate – there are often ‘issues’ with internal promotion. Demotivation because ‘they didn’t get the promotion’. Leo looks for certain characteristics in an employee but even if their (presumably) CV/reference/interview all seemed positive this may not be the case in practice. Leo cannot be <i>certain</i> that an employee will be effective – especially if this was a first employment in estate agency</p> <p>Organisational uncertainty – how well is LDEA placed to ‘weather’ market changes? How might Leo’s proposed changes to the structure of the business and payments affect the business; will they ‘work’? Allow point above about employee reaction to the idea of the new Senior Sales Associate. What might happen if Leo is ill (cf Tom Carroll)? Are staff skilled/able enough to continue? Could Anika cope? If Leo took over Carrolls how might this change the organisation of the business? Would Anika run it?</p> <p>Technological uncertainty – ability for software to be effective, e.g. in terms of running LDEA efficiently, properties on the database/cash-flow. Indeed, if the ‘system goes down’ (especially</p>

Question	Answer	Mark	Guidance
			<p>for any length of time) there will be all sorts of implications managing contracts/cash-flow etc. Online businesses, such as Purple Bricks and Zoopla are now in existence challenging traditional estate agents. Might these, and other similar businesses, affect LDEA and create uncertainty over future sales (since overheads etc. and therefore presumably prices, will be lower)? Mention could also be made of LDEA's online marketing/media presence. ICT needs to be upgraded if competitors do. Funding to do it? Opportunity cost of this?</p> <p style="text-align: right;">ARA</p>
17*	<p>Leo is considering introducing “a bonus system based on an employee’s contribution to LDEA.” (Line 34)</p> <p>Discuss how Leo might evaluate an employee’s contribution to LDEA</p> <p>Level 3 (11–15) Candidate shows strong knowledge and understanding, analysis and evaluation of ways to measure an employee’s contribution to LDEA.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p>Level 2 (6–10) Candidate shows good knowledge and understanding, analysis and evaluation of ways to measure an employee’s contribution to LDEA.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p>Level 1 (1–5)</p>	<p>15 (AO1 2) (AO2 2) (AO3 4) (AO4 7)</p>	<p>Answers need to focus on the <u>method(s)</u> of measurement on determining employee contribution <u>not</u> on the effects of introducing the method on the employee or LDEA.</p> <p>Leo needs to identify what ‘employee contribution’ means in the context of LDEA. It could be argued that a good starting point for Leo would be to establish a series of benchmarks that an effective estate agent should meet. These benchmarks could be created by Leo or/and in consultation with his employees – perhaps the latter would mean the system is easier to implement and more likely to be supported and therefore to achieve its aim. <i>Candidates are not expected to be able to go into detail here</i> but mention could be made of benchmark issues such as meeting property sales targets, generating a certain amount of revenue in a particular time period, local knowledge (a strength of the firm) of current properties, positive feedback from customers, the ratio of sales to customer enquiries, etc.</p> <p>There are a variety of possibilities which could be analysed, contrasted and evaluated:</p> <p>Appraisal. This is usually in the form of an annual meeting with an employee where an employee’s strengths and development needs are considered. Stronger answers will make an explicit link to Leo discovering the contribution (and <i>potential</i> contribution) an employee makes to LDEA against the appropriate criteria, rather than mentioning other aspects of appraisal that, while true, may</p>

Question	Answer	Mark	Guidance
	<p>Candidate shows limited knowledge and understanding of employee contribution with limited or no analysis and evaluation of how it may be used by LDEA.</p> <p><i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p> <p>NB – award maximum of two marks for non-contextualised impacts.</p> <p>0 marks no response or no response worthy of credit.</p>		<p>be tangential to the question such as gathering information for HR planning e.g. an employee considering whether to work part time or ‘giving employees a chance to speak up about how they feel things are going’.</p> <p>Candidates could consider the factors that are likely to make the appraisal successful in the aim of evaluating the contribution an employee makes and how if they are not present the process may well not be effective. These include a consistent approach by Leo, allowing sufficient time for the process, responding to an employee about how he/she could/would like to contribute more to LDEA, employees being involved in the establishment of the benchmark criteria, the process being formal, etc. SMART targets for the future within the LDEA criteria are also important otherwise next year the employee may appear to ‘fail’ and therefore ‘not have contributed much’ when, in fact, Leo should have ensured that the target was SMART. If Anika conducts appraisals she must be consistent with Leo’s approach.</p> <p>Although ‘the standard appraisal process ‘is, perhaps, the obvious choice for LDEA there are other methods as well.</p> <p>Self-Assessment – Leo could get employees to self-reflect on performance (again against a particular set of criteria). If done in the form of a ‘tick sheet’ - using criteria such as excellent/very good/good/adequate, etc.) rather than a lengthy formal appraisal it could (quickly and easily) be done monthly or quarterly and would be more contemporary than a standard yearly appraisal (although if yearly appraisal is introduced some sort of self-reflection will be part of it). There are the issues of subjectivity with regards to words like ‘adequate’ and how truthful an employee might be – especially if a bonus/possible promotion is ‘riding’ on it.</p> <p>360 Degree Feedback – As ‘the boss’, Leo is unlikely to be able to spend as much time with his employees as he would like. 360-degree appraisal involving colleagues and customers (perhaps via an anonymous survey – although in such a small business it might be fairly easy to identify who is responsible) can assist with identifying the employee’s ‘broader contribution’ (e.g. in terms of supporting others/communicating etc.) Care would have to be</p>

Question	Answer	Mark	Guidance
			<p>taken by Leo to ensure it does not develop into 'having a go at someone'. Also, the whole process of a 360-degree appraisal will mean it is time consuming. Is it 'worth it' for this type of employee?</p> <p>Questionnaire/survey sent to customers on completion of a sale/purchase/let asking them to rate the employee in terms of issues such as knowledge/helpfulness/likelihood of a recommendation of LDEA to a friend etc.</p> <p>On a very straightforward numerical basis Leo could look at measures of workforce performance such as absenteeism or lateness on the grounds that an employee who is persistently absent/late is not very motivated and is therefore unlikely to be making as large a contribution to LDEA as they might. There are of course limitations to these sorts of figures in terms of not explaining <i>why</i> what is occurring is happening.</p> <p>Evaluation could be achieved by a consideration of the most appropriate method(s) within the context of LDEA. Alternatively, if a particular method is selected the sort of factors/issues that will be necessary for it to be effective in discovering the employee's contribution to LDEA.</p> <p style="text-align: right;">ARA</p>
18*	<p>Evaluate how an increase in interest rates might affect LDEA.</p> <p>Level 3 (11–15) Candidate shows strong knowledge and understanding, analysis and evaluation of how an increase in interest rates may affect LDEA.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p>Level 2 (6–10) Candidate shows good knowledge and understanding, analysis and evaluation of how an increase in interest rates may affect LDEA.</p>	<p>15 (AO1 2) (AO2 2) (AO3 4) (AO4 7)</p>	<p>Borrowing on a loan (and other debts) becomes more expensive when rates rise and makes renting relatively more attractive. The decline in buyers can cause demand for housing to fall. If less houses are being sold will this mean that LDEA's commission may have to rise to meet financial targets.</p> <p>Extent and duration of the rate rise will be important (and would be an evaluative consideration). A single rise of 0.25% lasting for 9 months is going to have less effect than a steady rise - say incremental increases totalling 2% over consecutive months which subsequently last a couple of years. The Bank of England usually changes the rate by 0.25%, so a single rise greater than that would be unusual and seen as a strong indicator that there is concern about inflation. This would be something of a shock and could easily upset consumer confidence and reduce demand. This may well also mean builders construct less homes. LDEA</p>

Question	Answer	Mark	Guidance
	<p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p>Level 1 (1–5) Candidate shows limited knowledge and understanding of interest rates with limited or no analysis and evaluation of the how an increase in them may affect LDEA.</p> <p><i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p> <p>NB – award maximum of two marks for non–contextualised impacts.</p> <p>0 marks no response or no response worthy of credit.</p>		<p>has £30,000 left on its loan. This is not a large amount, but the point is valid.</p> <p>Some people will be on fixed rate mortgages and so will be unaffected until the ‘review date’ occurs. If a large number of people are on these then the effects will not be so significant in the short term.</p> <p>Borrowing is more expensive for buyers (assuming they are taking out/extending a mortgage which is almost certain) both on new builds and existing properties. Will this lower demand? How significant the fall in demand depends on price elasticity of demand for properties. Mention is made of the properties LDEA sells being up to around £800,000 so will these ‘high end’ properties be affected significantly?</p> <p>Borrowing is more expensive for builders if they have loans - will they increase prices as a result and so lower demand from buyers <i>and hence lower demand for LDEA’s services?</i> As above, if they do and how significant the fall in demand is depends on price elasticity of demand for new properties.</p> <p>Some people may ‘save more’ however those with a mortgage (and other loans) will presumably find this hard since the debt costs more to service. Those who are able to do so are likely to be those who have already paid off a mortgage and may be looking to ‘trade down’ rather than up. Should Leo take this into account?</p> <p>Effect on the exchange rate – may be a rise as ‘hot money flows into the UK pulling up the rate’ (exact definitions not necessary.) This could lower imported raw material (and other) costs. If these form part of a new build (cookers/heating equipment etc) this will lower costs and might be passed on in the form of a lower house price, meaning it is easier for LDEA to sell (although commission will be less per house) – or not; simply increasing builders’ margins.</p> <p>There are a complex set of possible reactions from the various parties involved. Stronger answers will involve a synthesis of the issues and a clear judgment of the effect on LDEA.</p>

Question	Answer	Mark	Guidance																								
			ARA																								
19	<p>(a) Leo has been able to obtain Carrolls' sales figures for the start of 2022. These are shown in Table 1, below.</p> <table border="1" data-bbox="297 376 1003 655"> <thead> <tr> <th>Month</th><th>Sales</th><th>Three Month Sales Total</th><th>Three month moving average</th></tr> </thead> <tbody> <tr> <td>January</td><td>22</td><td></td><td></td></tr> <tr> <td>February</td><td>25</td><td>75</td><td>25</td></tr> <tr> <td>March</td><td>28</td><td>81</td><td>27</td></tr> <tr> <td>April</td><td>28</td><td>78</td><td>26</td></tr> <tr> <td>May</td><td>22</td><td></td><td></td></tr> </tbody> </table> <p style="text-align: center;">Table 1</p> <p>The average price of a property sold by Carrolls is £400,000. Carrolls currently charges a selling fee of 1% on the price of a property.</p> <p>Calculate the total selling fee earned by Carrolls in March.</p> <p>Three marks for the correct answer of £112,000 (with or without working)</p> <p>Two marks for an answer that contains the correct technique but makes one mistake (for example the candidate does not multiply by 28 sales)</p> <p>One mark for an answer which makes an attempt at one stage of the calculation</p>	Month	Sales	Three Month Sales Total	Three month moving average	January	22			February	25	75	25	March	28	81	27	April	28	78	26	May	22			<p>3 (AO1 1) (AO2 1) (AO3 1)</p>	<p>£400,000 x 28 (1) = £11,200,000 (1)</p> <p>Selling fee = 0.01 x £11.2m = £112,000 (1)</p> <p>Award full marks for an answer without the £ sign</p> <p>The number of ticks should equal the number of marks awarded – one tick for one mark and two ticks for two marks, etc.</p> <p>NB: Award up to 2 marks for an answer of £108,000 which uses a March sales figure of 27 (the moving average) instead of 28.</p>
Month	Sales	Three Month Sales Total	Three month moving average																								
January	22																										
February	25	75	25																								
March	28	81	27																								
April	28	78	26																								
May	22																										
19	<p>(b) Calculate Carrolls' three-month moving average for April.</p> <p>Two marks for the correct answer (with or without working)</p> <p>One mark for correctly adding together the sales for March, April & May.</p>	<p>2 (AO2 2)</p>	<p>28+28+22 = 78 (1)</p> <p>78/3 = 26 (1)</p>																								

Question	Answer	Mark	Guidance
20	<p>Analyse one advantage and one disadvantage for Leo of using time series analysis to forecast sales.</p> <p>Level 2 (4–9 marks) Candidate shows good knowledge and understanding and shows good analysis of how time series analysis may be used to forecast sales.</p> <p>Level 1 (1–3 marks) Candidate shows limited knowledge and understanding with limited or no analysis of how time series analysis may be used to forecast sales.</p> <p>(NB – award two marks for a non–contextualised answer)</p> <p>0 marks – no response or no response worthy of credit.</p> <p>Candidates may use the quantitative data provided in Q19 to assist in answering this question.</p>	<p>9 (AO1 2) (AO2 2) (AO3 5)</p>	<p>Time series analysis is a quantitative tool involving the use of a moving average of previously gathered data. It projects this data to give a forecast of a particular variable - in this case property sales (and therefore LDEA's revenue/profit). Presumably, Leo enters data for various different types/prices of housing in the different areas of the town he operates in.</p> <p><u>Advantages</u> It can be used as a predictive tool for property sales/revenue/profit – instead of reacting to changes in the housing market it gives LDEA the ability to be proactive – in terms of planning/setting objectives. It can 'smooth out ups and downs' in housing sales- and so enable Leo to see if the overall trend is up or down. He can then adjust tactical objectives accordingly. It can identify cyclical variations, e.g. those that occur as a result of the business cycle. He has been in business for 23 years so there is data there to be used. Also, seasonal variations that occur over a year – Leo knows that traditionally sales slow down towards Christmas and so there is little point in advertising/marketing to try and increase sales at that time. 'Gearing up' a campaign for new year sales might however be sensible. Leo can make provision for a cash-flow problem in advance if sales are predicted to fall - and so could avoid 'emergency borrowing' at a higher than usual interest rate which would increase LDEA's costs. Leo could use TSA to predict Carrolls' future sales/revenue/profit – once he can see the accounts. It could therefore be useful/an advantage to him in evaluating whether to make the purchase.</p> <p><u>Disadvantages</u> The concept assumes that the future will be similar to the past – however there are 'random events' such as the crash of 2008 or the coronavirus outbreak that can 'upset the trend'. The</p>

Question	Answer	Mark	Guidance
			<p>same could be said about the entry/exit of a competitor in Leo's 'catchment area'. It could be the case that a large number of sales have been made by a particular employee who leaves and whose replacement is not as successful. Thus, planned sales/marketing expenditure could be inaccurate and therefore finance wasted (or alternatively under-allocated because a boom was not predicted). Like any type of forecasting the further into the future Leo attempts to forecast the less accurate his prediction is likely to be. It may be useful for (say) the next year but after that the point above might well apply. It cannot be 100% correct and assuming that it is accurate would be a bad mistake. But it can give him a rough guideline to the future.</p> <p>The technique will only be as good as the data that Leo enters into the software package. As stated above, presumably he enters data for various different types/prices of housing in the different areas of the town he operates in – doing this would give a much better series of forecasts than just entering the number of houses sold per month.</p> <p>Stronger answers will make the analysis explicit. "If there is a bad period of property sales forecast he can plan for it" would be strengthened by something like "and therefore Leo can make provision for a possible cash flow problem, agreeing overdraft limits with the bank in advance and so avoiding having to borrow at a high rate because it is an emergency".</p> <p>NB: Although LDEA is, in law, separate from Leo himself, allow references to advantages/disadvantages to LDEA as well as to Leo.</p> <p style="text-align: right;">ARA</p>

Question	Answer	Mark	Guidance
21	<p>Evaluate whether LDEA should buy Carrolls.</p> <p>Level 3 (11–15) Candidate shows strong knowledge and understanding, analysis and evaluation of the decision to buy Carrolls.</p>	<p>15 (AO1 2) (AO2 2) (AO3 4) (AO4 7)</p>	<p>Much will hinge on the true reason for Tom deciding to sell – and this surely must be something Leo needs to investigate alongside a detailed consideration of Carrolls' accounts.</p> <p>Leo's strategic objective is to achieve a net profit of £90,000 for each of the next two years. One route into evaluation is therefore</p>

Question	Answer	Mark	Guidance
	<p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p>Level 2 (6–10) Candidate shows good knowledge and understanding, analysis and evaluation of the decision to buy Carrolls.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p>Level 1 (1–5) Candidate shows limited knowledge and understanding of factors to consider when making business decisions with limited or no analysis and evaluation of the decision to buy Carrolls.</p> <p><i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p> <p>NB – award maximum of two marks for non–contextualised impacts.</p> <p>0 marks no response or no response worthy of credit.</p>		<p>to consider the question, ‘To what extent would buying Carroll’s help achieve this?’ How much synergy (the term does not have to be used) is there between the two businesses? Stronger answers will consider this point.</p> <p>Possible Advantages A key strength of Carrolls is being ‘Specialists in managing the renting of residential property’. Its staff are ‘experienced and dedicated’ (Fig. 1). LDEA’s letting is currently only 5% of its turnover but is something Leo would like to see grow. This could be something of a ‘ready-made diversification’. Leo is relatively young (51) and so is presumably not going to be taking on a business only for a few years until he retires.</p> <p>Tom might be willing to accept a considerably lower offer than the asking price. If this is true then (especially as Tom is referred to as ‘an old friend’) Leo could get a considerable discount.</p> <p>Net profit is positive (assuming the accounts are accurate). However, is £75,000 an acceptable level of profit for Leo given the extra work necessary to buy the business - and ‘turn it around’ (if the rumours are true)?</p> <p>Economies of scale might be gained, e.g. marketing, if Carrolls becomes another branch of LDEA and also risk-bearing, since Carrolls is not in the exact same client catchment area (three miles away) and also has a larger letting portfolio. It also deals in ‘lower priced houses than LDEA’. NB: see below under possible disadvantages.</p> <p>Possible Disadvantages The business is leasehold The assumption is clearly that the landlord will accept a transfer of the lease. Candidates do not have to make this explicit. If Leo is looking long-term he may not be able to renew the lease. If the business is not a success how easily could he ‘sell up’?</p>

Question	Answer	Mark	Guidance
			<p>A lot of time/effort may be needed to turn the business around. Employee morale/motivation may be low. Opportunity cost of Leo's time?</p> <p>Diseconomies of scale. Strictly speaking these relate to a rise in unit costs but accept references along the lines of 'Two shops could mean twice as much work for Leo' (especially if Carrolls is in difficulty). Reference made to Leo's long hours. Any negative publicity could affect the original LDEA business lowering sales/revenue/ reputation.</p> <p>Other possible Considerations Carrolls is situated about three miles south of LDEA. Is LDEA close enough to clients in that area anyway without the need for a 'physical presence' there? Anika could run the new shop rather than Leo (presumably she has the skills to do so) which would create another post for internal promotion at the original LDEA branch – helping with employee retention. Would the bonus scheme based on employee contribution be extended to the new shop? (Presumably, or otherwise the employees there might feel they are not being treated on a fair basis with others in the business). Therefore, a lot more work? Or could it be an important part of 'turning Carrolls around'. If no-one is interested in buying Carrolls and Tom simply sells the lease to some other business/entrepreneur that is not an estate agent then the reduction in competition might benefit LDEA without any need to make the purchase. Cash-flow is an issue for LDEA. What is it like for Carrolls? Would this simply double Leo's work/concerns in this area? Leo could use TSA to predict Carrolls' future sales/revenue/profit – once he can see the accounts. It could therefore be useful/an advantage to him in evaluating whether to make the purchase. LDEA also deals with 'new builds. There are a number of these new housing estates already in progress in the area and others are planned. Leo regards new builds as an opportunity to expand</p>

Question		Answer	Mark	Guidance
				his operations. Might it be better to concentrate on these rather than buy another shop? ARA

APPENDIX 1 – GRID FOR 2022 EXAMINATION

Question	AO1	AO2	AO3	AO4	Total	Quantitative skills
Section A						
1-15	8	7 (3)	-	-	15	3
Sub-Total	8	7 (3)	-	-	15	3
Section B						
16	1	2	3	-	6	
17	2	2	4	7	15	
18	2	2	4	7	15	
19 (a)	1 (1)	1 (1)	1 (1)	-	3	3
19 (b)	-	2 (2)	-	-	2	2
20	2	2	5	-	9	4
21	2	2	4	7	15	
Sub-Total	10	13	21	21	65	9
Total	18	20	21	21	80	12

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