GradeMax

CAMBRIDGE
International Education

Cambridge IGCSE™

BUSINESS STUDIES **0450/22**

Paper 2 Case Study **February/March 2025**

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 February/March 2025 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 descriptions 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.

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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.

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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 guidance for centres

Examiners use a system of annotations as a shorthand for communicating their marking decisions to one another. Examiners are trained during the standardisation process on how and when to use annotations. The purpose of annotations is to inform the standardisation and monitoring processes and guide the supervising examiners when they are checking the work of examiners within their team. The meaning of annotations and how they are used is specific to each component and is understood by all examiners who mark the component.

We publish annotations in our mark schemes to help centres understand the annotations they may see on copies of scripts. Note that there may not be a direct correlation between the number of annotations on a script and the mark awarded. Similarly, the use of an annotation may not be an indication of the quality of the response.

The annotations listed below were available to examiners marking this component in this series.

Annotations

Annotation	Meaning
	Correct point.
	Incorrect point.
	Used when the benefit of the doubt is given in order to reward a response.
	Used when parts of the answer are considered to be too vague to be given credit.
	Indicates where content has been repeated.
	Used when the answer or parts of the answer do not answer the question asked.
	Indicates appropriate reference to the information in the stem.
	If a mistake is made in a calculation, and the incorrect figure that results from the mistake is used for subsequent calculations.
	Indicates that the page or content has been seen by examiner, but no credit given.
	Level 1 - Used in part (b) questions to indicate where a response includes limited knowledge and/or understanding.
	Level 2 - Used in part (b) questions to indicate where a response has a more detailed discussion and contains some evidence of justification.
	Level 3 - Used in part (b) questions to indicate where a response includes a well-justified recommendation.

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Question	Answer	Marks
1(a)	**Explain <u>four</u> reasons why new businesses are at a greater risk of failing than existing businesses.** Award 1 mark for each relevant reason (max 4). Award a maximum of 1 additional mark for **each** explanation. There are no application marks available for this question. Relevant reasons might include: • Lacks finance – liquidity/cash flow problems • Poor planning – lack of experience / may not have a business plan • May lack management knowledge – lacks efficiency / not competitive / higher costs • Inadequate research – no effective market research / not identified customer needs • Lack of demand / poor quality product – cannot pay for costs from sales revenue • Difficulties entering a new market – does not have brand loyalty / there is high competition in the market • Difficulty competing with larger established firms in the market – as cannot benefit from economies of scale • Overexpansion – tries to grow too quickly at the start • Unable to respond quickly enough to changes in the external influences – for example not responding to increase in online sales For example: Lacks finance (1) may not have sufficient liquidity to pay current liabilities (1).	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Consider the following <u>two</u> types of business organisation that Charly could choose for her new business. Which type of business organisation should Charly choose? Justify your answer.

Sole trader
Private limited company

<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 the two types of business organisation.

Well-justified recommendation.

Candidates discussing the two types of business organisation in detail, in context and with a well-justified recommendation, including why the alternative type of business organisation was 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 type of business organisation.

Judgement with some justification/some evaluation of choice made.

Candidates discussing one or more type of business organisation in detail and applying it to the case should be rewarded with the topmarks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding ofrelevant business concepts.

Limited ability to discuss the types of business organisation with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining the two types of business organisation 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><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Sole trader</td><td>• Owner is in complete control / makes all the decisions – likes being her own boss with no one to tell her what to do – prefers making all the business decisions instead of having to consult others – such as which colour of rugs to produce
• Does not have to share profits – as there is only one owner – keeps all the returns from her own hard work
• It is easy to set-up – as there are few legal requirements – reducing the costs of setting up, such as accountancy costs
• Freedom to choose her own working hours or holidays – when she worked for the other business, she would have to work the hours stated in her employment contract – which she would have done when she worked for the rug manufacturer
• Complete privacy – she does not have to share any financial details with anyone else – apart from the tax office, as she will still have to pay tax</td><td>• Unlimited liability / no limited liability – which means all her personal possessions are at risk – not just the $10 000 she plans to invest in the business
• There is no-one to share responsibilities with or discuss business decisions – everything for the sole trader to decide
• Responsibility of the owner – this can be stressful, and she may be more likely to make mistakes
• No continuity – if something happens to Charly because she is ‘the business’ it will end – unlike a company where the shares allow it to carry on as it has a separate legal identity
• Lack of capital / difficult to raise finance – as only the $10 000 investment from Charly and borrowing $20 000 from the bank is available to the business – may make it more difficult to expand in the future
• May need to work long hours / difficult to take holidays / increased workload</td></tr>
</table></td><td></td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Private limited company</td><td>• Charly and the business are a separate legal identity – provides continuity if something happens to Charly – company can be sued instead of Charly
• Charly can sell shares to family and friends to raise capital for the new business – larger amounts of capital may be raised than if a sole trader
• Limited liability – will not lose personal possessions if business fails – and she is aware that as a new business is at a greater risk of failing
• Cannot be taken over without the consent of the shareholders if there are more shareholders in the business</td><td>• Accounts are not private – competitors producing rugs may access the accounts
• Cannot sell shares to the public / cannot be sold on the stock exchange – not easy to transfer shares so may make it more difficult for Charly to sell shares to family and friends
• Legal formalities setting up the rug company – has to complete paperwork to register the company which takes time and money – may take more time for Charly than setting up as a sole trader
• Legal formalities to operate the company – needs to have accounts audited and registered with the government takes time and increases costs for CR</td></tr>
</table>
</td><td></td></tr>
</table>

Question	Answer	Marks
1(b)	Recommendation: Justification might include: • Charly should set up as sole trader because she will have complete control of which **rugs to produce** and will be able to keep all the profits from her hard work without having to share them with shareholders, as she may have to give dividends to shareholders if she formed a private limited company. She should not become a private limited company as this would mean that competitors may be able to see some of her accounts and she could not keep her financial data private, which she could if she was a sole trader. She will also have to pay to have her accounts audited each year which will increase costs. • Charly should set up as a private limited company because she will have the protection of limited liability which means if CR goes bankrupt, she will not lose her personal possessions, as she would if she was a sole trader, only the **$10 000** she plans to invest in the business at the start.	

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Question	Answer	Marks
2(a)	**Explain <u>two</u> functions of management for Charly when she is operating her new business.** Award 1 mark for each function (max 2). Award a maximum of 3 additional marks for **each** explanation of the function of management – **one of which must be applied to this context**. Functions might include: • Planning – setting aims and targets for the business – will give a sense of direction with common targets to work towards • Organising – arranges the tasks for the employees – as a manager cannot do all the tasks and will need to delegate • Coordinating – bringing together the different departments/parts in the business – so tasks are carried out efficiently • Commanding – instructs the employees on how to carry out their tasks – gives guidance as required • Controlling – makes sure the employees produce the expected output each week – and that all aims are achieved For example: Planning (1) – setting aims and targets for the employees (1) so they remain efficient and produce the correct number of rugs (app). This will mean that CR will be able to meet orders and satisfy customer demand (1). **Application** could include: rugs; worked for a large rug manufacturer for 10 years; luxury product; forecast demand is 20 rugs per week; 2 possible locations for the new factory; needs to produce a cash flow forecast; store inventories of raw materials / finished products; 4 or 8 employees; new factory.	**8**

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<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 following <u>two</u> possible locations for CR's new factory. Which location should Charly choose? Justify your answer.

- **Location A**
- **Location B**

<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 the two locations.

Well-justified recommendation.

Candidates discussing the two locations in detail, in context and with awell-justified recommendation, including why the alternative location was 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 location.

Judgement with some justification/some evaluation of choice made.

Candidates discussing one or more locations 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 ofrelevant business concepts.

Limited ability to discuss the locations with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining the two locations 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>Location A:</td><td>• Rent and other costs are much lower at $400 per week – helping to reduce total costs to $1000 per week – may mean CR can charge a lower price for each rug – may be more competitive
• Total costs may be less than half Location B even though output is half at 40 rugs per week – may not need to borrow $20 000 bank loan reducing interest payments in the future – less likely to have a cash flow problem
• Total costs for Location A are $1000 whereas total costs for Location B are $2200
• Average cost per rug for Location A if operating at maximum output is $50 but rises to $62.50 if there is disruption to output – a lower increase of $12.50 than Location B which is $18.33 more for each rug produced
• If there are power cuts, then they can only produce 16 rugs a week – demand is likely to be 20 – so they could be letting customers down and gain a poor reputation</td></tr>
<tr><td>Location B:</td><td>• Can produce double the output at 40 rugs each week – increases revenue if all the rugs are sold
• Has 5% more impact on output if there are power cuts than Location A – reducing the number of rugs for sale to 30 – reducing possible revenue
• Total costs are more than twice as much at $2200 per week – may lead to higher prices
• Average cost to produce each rug is $55 if no power cuts but it rises to $73.33 if 25% output lost due to power cuts – this is a much higher increase than for Location A
• Sales in the future could increase to 40 rugs per week so will be easier to meet this demand without needing to move to a larger factory or open another factory</td></tr>
</table></td><td></td></tr>
</table>

Question	Answer	Marks
2(b)	Recommendation: Justification might include: • Charly should choose Location A as the total costs each week are less than half that for Location B and this will help CR get started without needing to borrow all **$20 000** from the bank. A smaller bank loan will reduce interest payments and make it less likely that CR fails. Location B has higher average costs which may result in a higher price for the rugs making them less likely to sell. • Charly should choose Location B as it is twice as large as Location A and can produce double the output at **40 rugs each week** so in the long term when CR has become well known Charly can meet demand without needing to move to a larger factory.	

Question	Answer	Marks
3(a)	**Explain <u>one</u> advantage and <u>one</u> disadvantage to CR of holding inventory.** Award 1 mark for each reason (max 2). Award a maximum of 3 additional marks for **each** explanation of the reason why holding inventory is important – **one of which must be applied to this context**. Reasons might include: Advantages: • Demand can easily be met from the inventory of finished products – this means customers are less likely to be disappointed by deliveries being late – and recommend the business to their friends • To ensure unexpected increases in demand can be met – this will avoid losing customers to competitors – keeping customers satisfied / maintaining a good reputation • Without inventory if CR opens its own shop there will be no products for customers to view – and they will not be able to see the excellent quality of the products – therefore may be less likely to make a purchase • May allow a wider variety of different products to be sold • Allows quick replacement of faulty goods Disadvantages: • Ties up cash – if too many raw materials are held then the cost may have been paid by Charly – but no revenue will have been received leading to a possible cash-flow problem • Too much inventory increases risk of products going out-of-date / being stolen / being damaged – the colour or pattern on rugs could go out of fashion – leading to lower sales / increased cost of storage • May take up too much storage space For example: To ensure unexpected increases in demand can be met (1) this will avoid losing customers to competitors (1) and will keep customers satisfied and keep buying from CR (1) when they want a new rug for their home (app). **Application** could include: rugs; sell through wholesalers / sell online / sell through own shops; luxury product; forecast demand is 20 rugs per week; store inventories of raw materials / finished products; new factory.	**8**

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

Consider the advantages and disadvantages of the following <u>three</u> ways CR could use to sell its products. Which way should Charly choose? Justify your answer.

- **Selling through CR's own shop**
- **Selling online**
- **Selling to a wholesaler**

<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 ways.

Well-justified recommendation.

Candidates discussing all three ways in detail, in context and with awell-justified recommendation, including why the alternative ways 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 way.

Judgement with some justification/some evaluation of choice made.

Candidates discussing in detail two or more ways and applying them to the case should be rewarded with the topmarks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding ofrelevant business concepts.

Limited ability to discuss the ways with little/no explanation.

Simple judgement with limited justification/limited evaluation of choice made.

Candidates outlining the three 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><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Selling through CR's own shop</td><td>• Sells directly to customers (compared to wholesaler) – can control how the luxury rugs are displayed for customers
• CR keeps more of the profit margin – than it would if sold through a wholesaler – may be able to reduce the price – to be more competitive
• May have more knowledgeable sales staff who can give better advice to customers – may be more likely to buy a CR rug</td><td>• May have high costs of operating the shop – needs to sell many rugs to cover these costs or will have lower profit / make a loss
• May not attract many customers if only CR rugs are sold – customers may be attracted to shops where a greater variety of colours and patterns of rugs are displayed
• Needs a higher amount of working capital as has to cover the inventory held in the shop
• May need to borrow more than $20 000 as this is an additional expense for setting up the factory</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><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Selling online</td><td>
• Can sell to a wider market – as not restricted to a single location – may lead to higher sales
• Keeps the profit margin of the wholesalers – and no need to set up own shops so lower costs
• The website may be used to advertise the luxury rugs – reducing marketing costs
• Payment made immediately compared to a wholesaler – may improve cash flow if revenue received before the rug is made
</td><td>
• Customers cannot see the colours and patterns before they buy – may be put off making the purchase leading to lower sales
• Can be very expensive to post/deliver the rugs out to customers – high delivery costs may be paid by CR – possibly reducing profit margin
• Cost of setting up and maintaining the website
• Returns of rugs that do not meet customer expectations can be expensive to process – and may be damaged so needs repair or be scrapped – increased costs to CR
• Warehouse space required to hold inventory before it is sent out to customers – increasing storage costs
</td></tr>
</table>
</td><td></td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>
<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Selling to a wholesaler</td><td>• Wholesaler buys in bulk – CR sells a large volume of rugs in one delivery – reducing delivery costs
• Wholesaler will sell the rugs to a wider number of retailers – reaching a much larger market than the market for just one shop
• Wholesaler may provide advice on which colours and patterns are selling well – makes it easier for CR to produce products that meet customers' tastes and fashions</td><td>• Wholesaler will expect a discount of the bulk purchase – CR receives a lower price for its rugs
• Price charged to customer for rugs may be higher than if sold through CR's own shop – as retailers will need to add on their profit margin as well as wholesaler profit margin
• Wholesaler may sell rugs from competitors making it more difficult for CR rugs to stand out and be purchased by retailers
• Much less control over the advice given and presentation of the rugs to customers – may lead to lower sales</td></tr>
</table>
</td><td></td></tr>
</table>

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Question	Answer	Marks
3(b)	Recommendation Justification might include: • CR should sell through its own shop as advice on the quality of the **luxury rugs** and how they should be cared for can be communicated effectively to the customers. This should improve the reputation of CR's rugs and make it more likely that customers become loyal. Selling online may be very expensive in terms of maintaining the website and sales may be low if customers prefer to see the rug before buying. A wholesaler may lead to the price of rugs being too high and less competitive as they will be sold on to retailers and their profit margin will be added on to the final price paid by customers. • CR should sell its **rugs** online as this will be cheaper than setting up its own shop and even though there will be costs to monitor the website and process orders it will be a lot cheaper than operating its own shop. • CR should sell through a wholesaler as it will buy in bulk making transport and marketing much easier and cheaper. The wholesaler will then sell on to many retailers across country P leading to CR's **rugs** being sold to a much wider market.	

Question	Answer	Marks
4(a)	**Explain <u>two</u> cash inflows and <u>two</u> cash outflows that are likely to be included in CR's cash flow forecast for its first year of trading.** Award 1 mark for each cash inflow/outflow (max 2 inflows/2 max outflows). Award a maximum of 1 additional mark for **each** cash inflow/outflow **which must be applied to this context.** Relevant cash inflows: • Cash sales – from the sale of rugs • Credit sales – if trade credit is given to wholesalers • Money borrowed from external source – as Charly is to take out a bank loan for $20 000 • Money invested by owner – $10 000 will be put in by Charly to start up the business Relevant cash outflows: • Wages – to the 4 or 8 employees • Rent – of the new factory • Electricity/power – $200 or $400 depending on the location chosen • Interest payments – to the bank for an overdraft if taken out (or for the bank loan of £20 000) • Raw materials For example: Cash from the sale of products (1) in this case it will be from the sale of rugs (app). **Application** might include: rugs; bank loan for $20 000; sell through wholesalers / sell online / sell through own shops; own investment of $10 000; luxury product; forecast demand is 20 rugs per week; interest rates increase from 4% to 7%; figures from Appendix 2; new factory.	**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 the effects on CR of the decrease in taxes and the increase in interest rates in country P. Which change is likely to have the greatest effect on CR's profit in its first year? 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 changes.

Well-justified conclusion.

Candidates discussing both changes in detail, in context and with a well-justified conclusion, including why the alternative change 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 change.

Judgement with some justification/some evaluation of choices made.

Candidates discussing both 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 both 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>Decrease in taxes</td><td>• Reduction in tax on people's income by 5% – leading to higher income available for spending by consumers – may lead to more spending by consumers on luxury rugs – increasing CR's sales and revenue
• A decrease in tax on profits by 2% may leave more for investment at the end of the first year – more retained profit and more investment into the new factory in its second year
• Decrease in tax on spending – may lead to price of rugs being lower – decrease prices in shops – increases demand and sales
• May reduce grants to businesses – if a decrease in government spending because of lower tax revenue</td></tr>
<tr><td>Increase in interest rates</td><td>• Increase the interest costs of the new bank loan – Charly may be less likely to invest in the rug making factory – may buy less new equipment – higher interest rates increase expenses
• Increases the cost if overdraft needed – increases interest payments – higher costs is likely to result in a lower profit
• May reduce the available income consumers can spend – if they have a mortgage or loan to repay – higher repayments – may decrease demand for rugs
• Decreased demand for luxury rugs – as increase in interest rates may lead to lower economic growth in country P – leading to higher unemployment and lower incomes for consumers – lower revenue for CR</td></tr>
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GradeMax

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>
<table>
<tr><td>Conclusion</td><td>Justification could include:
• A decrease in taxes will have the biggest effect on CR's profit as consumers will have more income after tax to spend. Therefore, revenue from the sale of rugs may increase, and if costs do not also increase, then profit will increase. The increase in interest rates will only affect CR's profit if the bank loan of $20 000 is definitely taken out.
• An increase in interest rates will have the biggest effect on CR's profit as lower taxes may not affect demand for luxury rugs because only high-income people will purchase luxury rugs. An increase in interest rates may discourage Charly from building a larger factory and she may choose to start-up on a smaller scale at location A. This will lower the output from the factory and is likely to decrease future profit from the lower sales of rugs.</td></tr>
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