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CAMBRIDGE
International Education

Cambridge IGCSE™

BUSINESS STUDIES **0450/21**

Paper 2 Case Study **May/June 2026**

MARK SCHEME

Maximum Mark: 80

Published

This mark scheme contains the instructions and marking guidance that our examiners used to mark candidate responses for this component.

Before they start marking, examiners complete a standardisation process. They review a range of candidate responses and discuss the mark scheme in detail to agree which answers can and cannot be accepted. Examiners award marks where it is clear that candidate responses have met the requirements of the mark scheme. These requirements may vary between different components or different versions of the same component, depending on the exact requirements of the question and the candidate responses seen during the standardisation process.

Sometimes, our mark schemes may allow marks to be awarded to responses which contain elements that are factually incorrect or for content not covered by the syllabus. We do this in response to the demands of a specific question to support candidates and make sure that our assessments are fair. However, these allowances should not be used as a guide for teaching and learning.

We cannot discuss the mark scheme with schools, and we recommend that schools read the mark scheme together with the assessment material and the Principal Examiner Report for Teachers.

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General marking principles

All examiners must apply these marking principles when marking candidate responses.

1	Examiners must award marks for each response in line with: • the specific **content** defined in the mark scheme • the specific **skills** defined in the mark scheme or in the level descriptions • the **standard of response** required as exemplified by the standardisation scripts.
2	Examiners must award **whole marks** (not half marks, or other fractions).
3	Examiners must award marks **positively**. This means that: • marks are not deducted for errors or omissions • marks are awarded for correct/valid answers as defined in the mark scheme and also for **other valid answers** which go beyond the scope of the syllabus and mark scheme referring to your team leader as appropriate • the quality of spelling, punctuation and grammar are judged **only** when the mark scheme indicates that these features are **specifically assessed** in the question. However, the meaning of all responses must be unambiguous.
4	Examiners must **consistently** apply the requirements of the mark scheme and any rules for what to do when candidates have not followed instructions correctly.
5	Examiners must use the **full range of marks** defined in the mark scheme, unless limited by the quality of the candidate responses seen.
6	Examiners must award marks according to the mark scheme and **must not** award marks with grade thresholds or grade descriptions in mind.

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Social Sciences-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.

4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers.
- 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.
BOD	Used when the benefit of the doubt is given in order to reward a response.
TV	Used when parts of the answer are considered to be too vague to be given credit.
REP	Indicates where content has been repeated.
NAQ	Used when the answer or parts of the answer do not answer the question asked.
APP	Indicates appropriate reference to the information in the stem.
OFR	If a mistake is made in a calculation, and the incorrect figure that results from the mistake is used for subsequent calculations.
SEEN	Indicates that the page or content has been seen by examiner, but no credit given.
L1	Level 1 – Used in part (b) questions to indicate where a response includes limited knowledge and/or 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.

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Question	Answer	Marks
1(a)	**Explain <u>four</u> characteristics of a successful entrepreneur.** Award 1 mark for each characteristic of a successful entrepreneur (max 4). Award a maximum of 1 additional mark for **each** explanation. There are no application marks available for this question. Relevant characteristics might include: • Self-confident – strong belief in their own ability and ideas • Creative – find new and different ways to attract customers • Independent – will need to be able to work without help/ideas/input from others • Hard worker/dedicated – be prepared to work long hours • Risk-taker – willing to risk losing own capital as a sole trader or partnership / willing to risk losing personal assets / accepts possibility of failure • Effective communicator – able to persuade others • Optimistic – think positively about new ventures and continues if there are setbacks • Innovative – able to develop new products to retain customers • Self-motivated/ambitious/passionate – determined to overcome difficulties • Resilience/perseverance – does not give up if problems occur Notes: • This question is about an entrepreneur not a sole trader or manager. • Some explanations can be used for more than one point but only award once, for example coming up with unique products could be used for creative or innovative. • The following are too vague; team player, good leader. organiser, collaborator, good decision maker, open minded, For example: Self-confident (1) as the entrepreneur has a strong belief in their own ability and ideas to convince others such as banks to lend to them (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 advantages and disadvantages of the following <u>three</u> sources of finance Ashanti could use for the new equipment. Which source should she use? Justify your answer.

- **owners' savings**
- **bank loan**
- **leasing**

<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 sources.

Well-justified recommendation.

Candidates discussing all three sources in detail, in context and with a well-justified recommendation, including why the alternative sources were 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 source.

Judgement with some justification / some evaluation of choice made.

Candidates discussing two of more sources 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 sources with little/no explanation.

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

Candidates outlining all three sources 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>Notes:
• This question is looking at finance for a new piece of equipment so related to sales/retail and not a factory/production/ producing.
• Do not award mirror arguments (the advantage of using one method of finance may be a disadvantage of another, but this should only be credited once).

Relevant points might include:

<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Owners' savings</td><td>• Does not have to be repaid
• No interest paid on it – making it a cheaper source of finance than possibly 5% interest on bank loans
• No security needed which would be required with a bank loan – Ashanti does not have to risk any personal assets as security for the loan due to being a sole trader
• Is available straight away if Ashanti has sufficient funds</td><td>• It may use all $20 000 from Ashanti's savings – then there will be no reserves left for any emergencies in the future
• Possible loss of 2% to 5% interest – as money not left in a savings account (opportunity cost)</td></tr>
<tr><td>Bank loan</td><td>• Usually quite quick to arrange compared to some other sources
• Can be repaid over various periods of time – so if over a longer period then the repayments will be lower each month – more manageable to repay
• Can be paid back in monthly instalments as the clothes shop gets established
•</td><td>• It must be repaid with interest – increases costs/expenses – may reduce profit in the short-term
• As YC is a start-up business then the interest rate on the loan may be quite high relative to the interest rate for a larger business – it may be harder to be competitive with other clothes shop businesses
• As a sole trader Ashanti will have her personal assets at risk if she does not repay the loan</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>1(b)</td><td>
<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Bank loan</td><td>Ashanti is more likely to get the full amount required when she applies for the loan – as she has already prepared a business plan</td><td>• Security is often required
• YC has not yet started so there will not be any financial statements available to take to the bank to support a loan application
• As interest rates are increasing from 2% to 5% the interest charged on the loan may increase if the terms allow for this</td></tr>
<tr><td>Leasing</td><td>• Allows YC to use the shop equipment without a large sum of capital required to purchase it
• Payments are made each month so these spread out the payments instead of one large sum at the start – which can help the management of its cash flow
• Maintenance of the shop equipment will be paid for by the lease company – lowers costs
• May be able to purchase the equipment at the end of the lease – so will become a non-current asset of the business
• Can replace the equipment more regularly when new models are brought out</td><td>• Will be more expensive than buying the equipment outright as total costs are likely to be higher
• YC does not own the equipment, so it is not an asset of the clothing business
• May have to return the equipment at the end of the lease and will have to start again to replace it</td></tr>
</table>
</td><td></td></tr>
</table>

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Question	Answer	Marks
1(b)	Recommendation: Justification might include: • Owners' savings should be used because it has the lowest cost of the three sources which is important as YC will be incurring other expenditure when the **clothes shop** is first opened. Ashanti will not want additional costs from interest payments on bank loans if it can be avoided and leasing will not be beneficial as it will still mean regular cash outflows will have to be made. • A bank loan will be the best choice because Ashanti needs to spread out the repayments for equipment for the new shop. As a **sole trader** Ashanti is likely to use her personal assets as security so the bank will be more willing to provide the loan. • Leasing will be the best because no capital is required, and YC is only just starting up so is unlikely to have the security required to be able to get a bank loan. As Ashanti is unlikely to have the capital to purchase the equipment as well as cover all the other **costs of starting up**, leasing will allow her to use the equipment and just make monthly payments which she is likely to afford with revenue from selling clothes.	

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Question	Answer	Marks
2(a)	**Explain how the following <u>two</u> sections of a business plan could help Ashanti when starting her business.** • **market research** • **human resources** Award 1 mark for how **each** section a business plan could help Ashanti (max 2). Award a maximum of 3 additional marks for **each** explanation of the section of a business plan and how could help Ashanti – **one of which must be applied to this context**. **Market research** • Able to identify the needs of the market as being targeted at a specific age group – so inventory is more likely to be attractive to this market – sales are likely to be higher • Market research helps to identify that there is sufficient demand for the products – as there may be a gap in the market – shows that the business is more likely to be successful • To help set prices – at a level that will be suitable for the target market – and to be more competitive with other businesses • To help gain a bank loan – to show that the new business is likely to have the demand to be successful – to be able to repay any loan she takes out • To help identify competitor behaviour – to find out about the range of products available – so she can differentiate the clothes she sells **Human resources** • To estimate how many people need to be employed – to ensure all tasks are completed – so that the business can operate efficiently • To be able to calculate the cost of wages to be paid by Ashanti - to pay the employees a competitive rate – so she will budget the correct amount for the business to pay • To identify the skills needed by employees – so that the employees can carry out their tasks correctly – not make mistakes • Helps decide if Ashanti needs a manager – to run the business when she isn't there – so that she doesn't have to close Notes: • This question is about planning for the future rather than what has been done. • The business will sell rather than produce clothes. • Do not award functions of market research or human resources. • For market research it is the effectiveness that should be discussed rather than the process. For example: Market research will help YC to identify the market as being targeted at a specific age group (1) this will mean products are more likely to be attractive to this market (1) and sales are likely to be higher (1) making the start-up clothes shop more likely to succeed (app).	**8**

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Question	Answer	Marks
2(a)	**Application** could include: clothes; clothes shop; sole trader; target market aged 16–30; $20 000; 3/4 employees; 40% are in age group 16–30; use competitive pricing method; use social media; economic growth predicted to be 4%; information from Appendix 3.	

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>
Using Appendix 1 and other information, consider the following <u>two</u> elements of the marketing mix for Ashanti's new shop. Would these be suitable as part of the marketing mix for the new shop? Justify your answer.

price – using competitive pricing
promotion – using social media

<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 elements.

Well-justified conclusion.

Candidates discussing both elements in detail, in context and with a well-justified conclusion why these elements would or would not be a suitable part of the marketing mix 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 element.

Judgement with some justification / some evaluation of conclusion made.

Candidates discussing both elements 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 elements with little/no explanation.

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

Candidates outlining both elements 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>
Notes:
• There are no marks for definitions.
• Understanding of competitive pricing must be implicitly shown (some idea of similar price to competition rather than lower prices).
• Understanding of social media must be implicit in the answer not just using websites/internet.
• Simple statements such as competitive pricing will attract customers and raise sales are not credited.
• Alternative pricing methods can be discussed – skimming, cost plus, penetration.

Relevant points might include:

<table>
<tr><td>Price – using competitive pricing</td><td>• Competitive pricing should encourage customers to visit the new shop when it is first entering the market by setting prices similar to/lower than competitors – increasing sales/revenue
• May need to set a very low price if competitors are setting a very low price – the target market are young people aged 16–30 who may not have a high income to buy clothes
• Time will be taken to research the prices of competitors' products – may mean Ashanti is taken away from other tasks when setting up the shop – many products will need to be researched
• The prices may be so low as to not cover costs / make no profit – so may be better to use cost-plus pricing
• May be better to use an alternative pricing method which sets a low price – such as penetration pricing – to encourage young people to enter the shop and buy clothes – as it is new to the market</td></tr>
<tr><td>Promotion – using social media</td><td>• Advertising on social media so will be seen by a large number of people – raising awareness of the new range of clothes at the shop
• Advertising can be focused on the target market of young people aged 16–30 – so advertising is more effective
• Can use the language/culture of young people to advertise the new range of clothes – making it more accessible and appealing to the target market
• Low or no cost to advertise – may not need to pay for adverts to be designed / design own adverts to post online
• Direct interaction with customers to answer questions / post favourable comments – satisfied customers will be able to quickly advertise the new clothes for YC – increasing sales / encouraging customers to try the new clothing</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>Promotion – using social media</td><td>

Advertising on social media so will be seen by a large number of people – raising awareness of the new range of clothes at the shop
Advertising can be focused on the target market of young people aged 16–30 – so advertising is more effective
Can use the language/culture of young people to advertise the new range of clothes – making it more accessible and appealing to the target market
Low or no cost to advertise – may not need to pay for adverts to be designed / design own adverts to post online
Direct interaction with customers to answer questions / post favourable comments – satisfied customers will be able to quickly advertise the new clothes for YC – increasing sales / encouraging customers to try the new clothing
Not all customers may use social media – do not see the advertising and not aware of the clothes shop
There may be negative comments posted – difficult to counter negative publicity and may damage the reputation of the new shop
Alternative methods of promotion may be discussed such as sales promotion examples of discount vouchers

</td></tr>
<tr><td>Conclusion</td><td>
Justification might include:

Competitive pricing will be suitable as the price will encourage customers to visit the new clothes shop. This will help to ensure customers buy clothes and revenue is gained. Advertising on social media will also be suitable as it will widen the market for the new shop as more people can be reached with 40% of Main City in the target age group and will also generate revenue for this sole trader business.
The method of promotion is suitable but competitive pricing is not the best pricing method to choose. Setting the same price as competitors may not attract customers who are price sensitive. Penetration pricing might be a better method for the target market of those aged 16–30 years as this could lead to more customers coming to the shop when it is new and may increase revenue.

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

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Question	Answer	Marks
3(a)	**Explain <u>two</u> ways the business cycle in country X going into the boom stage is likely to affect YC.** Award 1 mark for each way (max 2). Award a maximum of 3 additional marks for **each** explanation of the way a boom stage is likely to affect YC – **one of which must be applied to this context.** Relevant ways might include: • May lead to higher demand / higher sales / higher revenue for YC's products – consumer spending is higher – as many people have gained jobs so incomes are high • Makes it harder for YC to recruit new employees – smaller pool of unemployed to choose from – may be fewer skilled/experienced people available for work • May make it harder to resist paying higher wages / pay high wages to new employees as level of unemployment is falling – less competition amongst workers for jobs – so less willing to accept lower wages • Lower priced products sold by YC may see a decrease in demand - as consumers have more income available to spend on luxury high priced items – less likely to buy cheaper substitutes • Ashanti may be more confident when investing in the shop – as future sales may increase for some time – making it more likely she will gain a return on her investment Notes: • This question is about how YC is affected/impacted by country X going into the boom stage of the business cycle. • Increasing interest rates is APP unless linked to the impact of a boom on this business e.g. the government may need to increase interest rates due to economic growth meaning that a loan would become more expensive for the business. For example: A boom makes it harder for YC to recruit new employees (1) as there will be a smaller pool of unemployed people to choose from (1) and may be fewer experienced people available to recruit (1) to work in the clothes shop (app). **Application** could include: clothes; clothes shop; sole trader; target market aged 16–30; $20 000; 3/4 employees; 40% are in age group 16–30; use competitive pricing method; economic growth predicted to be 4%; interest rates 2%/5%; information from Appendix 3.	**8**

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

Using Appendix 3 and other information, consider the <u>two</u> product ranges Ashanti could choose to sell. Which product range should Ashanti choose? Justify your answer using break-even calculations.

- **product range A**
- **product range 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 both product ranges.

Well-justified recommendation.

Candidates discussing both product ranges, in context and with a well-justified recommendation, including why the alternative product range 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 product range.

Judgement with some justification / some evaluation of choice made.

Candidates discussing both product ranges 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 product ranges with little/no explanation.

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

Candidates outlining the two product ranges 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>Product range A</td><td>• Break even number of items is 1500 in the first year
• Margin of safety is 1500 items in the first year
• Contribution is $20 per item
• Total revenue for 3000 items is $150 000
• Total cost for 3000 items is $120 000
• Profit for the first year from these items if all sold is $30 000
• Fixed costs are the same for both product ranges is
• $30 000 in the first year
• Gross profit margin is 40%
• Profit margin is 20%</td></tr>
<tr><td>Product range B</td><td>• Price for Product range B is $25 per item which is lower than Product range A at $50 per item
• Break even number of items is 4285/4286 in the first year
• Margin of safety is 5714/5715 items in the first year
• Contribution is $7 per item
• Total revenue for 10 000 items is $250 000
• Total cost for 10 000 items is $210 000
• Profit for the first year from this product range is $40 000
• Profit is higher by $10 000 in the first year
• Gross profit margin is 28%
• Profit margin is 16%</td></tr>
<tr><td>Recommendation</td><td>Justification might include:
• YC should choose to sell product range A as it has a higher contribution of $20 which may be a good thing in its first year meaning it has to sell fewer clothes to break even. Also, it has a higher gross profit margin by 12% and a higher profit margin by 4%. Product range B has higher total costs by $90 000 which makes it harder to finance in its first year.
• YC should choose to sell product range B as it has a higher margin of safety at 5715 and sells at $25 per item which could be more attractive to customers.</td></tr>
</table>
Notes:
• Comparative statements such as lower, higher, more or less, achieve Level 1.
• For Level 2 calculations need correct labels e.g. breakeven or profit.
• For Level 3 candidates must have Level 2 for both product ranges and discuss breakeven or margin of safety in their recommendation.</td><td></td></tr>
</table>

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Question	Answer		Marks
3(b)			

Product A		
Breakeven	1500 units	L2
Margin of safety	1500 units	L2
Contribution	$20	L1
Total revenue	$150 000	L1
Total costs	$120 000	L1
Fixed costs	$30 000 **Same** for both products - only award once	L1
Total variable costs	$90 000	L1
Gross profit	$60 000	L2
Profit / net profit	$30 000	L2
GPM	40%	L2
Profit margin	20%	L2
Product B		
Breakeven	4285 / 4286 / 4285.7 units	L2
Margin of safety	5714/5715 units	L2
Contribution	$7	L1
Total revenue	$250 000	L1
Total costs	$210 000	L1
Fixed costs	$30 000 **Same** for both products only award once	L1
Total variable costs	$180 000	L1
Gross profit	$70 000	L2
Profit / net profit	$40 000 or higher by £10 000 but only award once	L2
GPM	28%	L2
Profit margin	16%	L2

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GradeMax

Question	Answer	Marks
4(a)	**Explain <u>four</u> legal controls over employment that may benefit Ashanti's employees.** One mark for a benefit of each legal control (max 4). Award a maximum of one additional mark for **each** explanation of the benefit of the legal control **in the context of YC employees.** Answers might include: • Protected against unfair dismissal – shop workers will have security of employment • Will be provided with an employment contract – so that 3/4 employees will know what they will be paid / hours worked / holiday entitlement • Protects against discrimination – so the sole trader owner will treat her employees equally • Health and safety laws – protect against injury from dangerous shop equipment • Should be paid at least the legal minimum wage – so the workers in the clothes shop have a reasonable level of pay • Restriction on maximum hours that can be worked – so the assistant manager is not overworked • Redundancy/retrenchment payments made – so that if the new start-up no longer needs so many employees they will receive a payment Notes: • Only award discrimination once i.e. age, race and gender are not separate points. • Do not award trade union membership, free health care or job description. • The following are too vague; paid fairly, clean environment/good working conditions. For example: The employees will be provided with an employment contract (1) so that the 3 employees will know what hours they will be expected to work (app). **Application** could include: clothes; clothes shop/YC's shop; sole trader; $20 000; shop equipment; 3/4 employees; entering boom phase of business cycle; assistant manager.	**8**

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

Consider the following <u>two</u> methods Ashanti could use to motivate YC's employees. Which method should Ashanti use? Justify your answer.

- **commission**
- **paying a higher wage than competitors**

<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 methods.

Well-justified recommendation.

Candidates discussing both methods, in context and with a well-justified recommendation, including why the alternative method 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 method.

Judgement with some justification / some evaluation of choice made.

Candidates discussing both methods in detail and applying these 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 methods with little/no explanation.

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

Candidates outlining both methods 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>
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</td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>Notes:
• Motivation is linked to sale rather than production/output.
• Assume that a basic wage is paid and commission is an extra payment.
• Definition of commission is not rewarded on its own but understanding of commission should be implicit in the answer.
• Commission makes employees work harder is too vague on its own - it would make the employee work harder to sell more clothes which could lead to higher sales for the shop.

Relevant points might include:

<table>
<tr><td>Commission</td><td>• Employees receive an additional payment to their wages – the more items of clothing they sell the more commission they will earn – the more employee wages will increase
• May lead to higher sales in the shop – which may increase revenue – and possibly higher profits
• The existing sole trader will lose some profit as expenses will be higher if she is paying commission to employees – may have less incentive to invest further in the business
• May encourage shop employees to be ‘pushy’ with customers and this may damage YC’s reputation – leading to lower sales
• There may be jealousy between employees if some employees are better at making sales than others – and therefore receiving more additional payments
• Other factors may affect the commission each employee receives – and employees may have no influence over – such as some items of clothing may not be popular, and sales may be low no matter what the employee does
• Business may be short of cash due to paying commission to employees – raising costs – may lead to less retained profit for this new start-up business – so there may be less opportunity for expansion in the future</td></tr>
<tr><td>Paying a higher wage than competitors</td><td>• Likely to lead to lower labour turnover of the 3/4 employees – resulting in lower recruitment and training costs in the future
• Is likely to make YC an attractive place to work – making recruitment easier when more employees are required
• May only be motivating in the short term until the worker gets used to the pay level
• The tasks in the clothes shop may still be boring – and higher pay may not compensate for this</td></tr>
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<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>
<table>
<tr><td></td><td>• Higher wage costs than competitors for the 3/4 employees will result in higher costs overall for YC – which may make YC less competitive than the other shops
• Higher wage costs may mean YC has to charge higher prices - which could lead to lower sales</td></tr>
<tr><td>Recommendation</td><td>Justification might include:
• Paying commission to YC’s 3/4 employees is the best method to choose because this may lead to higher sales in the shop and could increase revenue which may mean Ashanti will receive more profit overall. Paying a higher wage than competitors may make YC’s shop less competitive as it may have higher costs due to this and possibly higher prices.
• Paying a higher wage than competitors is likely to motivate the employees in the shop as they will feel more valued than the employees of competing clothes shops. This is likely to make them more loyal and less likely to leave YC, reducing labour turnover and therefore will gain higher profit in the future due to having lower costs for recruitment and training.</td></tr>
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