

2.1 Questions

Q1.

Explain **one** drawback to a business if a tariff is placed on the raw materials it imports.

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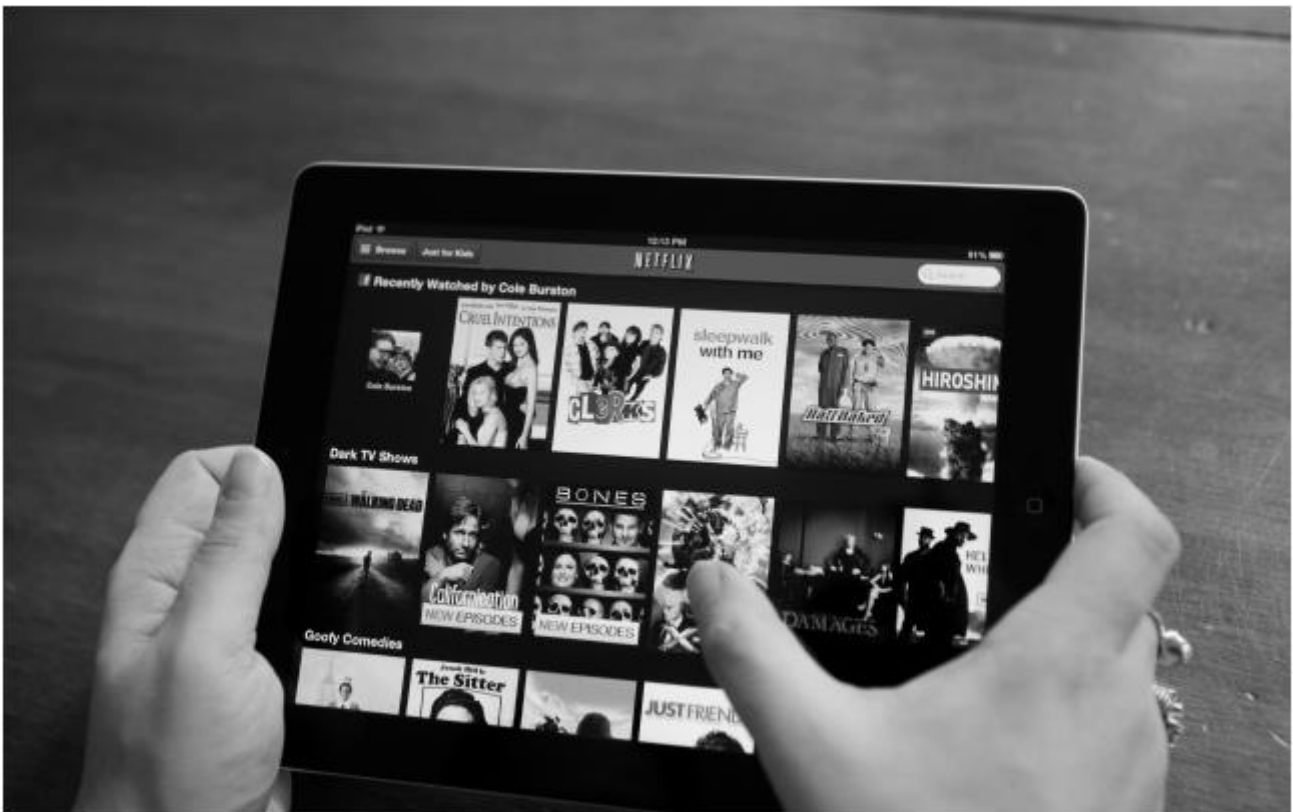
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(Total for question = 3 marks)

Q2.

Read the following extract carefully and then answer question.



(Source: © Francis Vachon / Alamy Stock Photo)

Netflix is an American public limited company that sells subscriptions to its online video streaming service. A subscription allows consumers in over 190 countries to stream television programmes and films through the internet.

In 2016 *Netflix* decided to increase the price of its standard UK subscription from £5.99 to £7.49 per month. This move reflected *Netflix's* shift towards producing more of its own original streaming content, such as the hit drama 'Stranger Things', rather than repeating shows that are available on terrestrial

channels such as BBC1 or itv1.

In recent years, the online streaming market has become increasingly competitive with rivals, such as Amazon Prime, investing \$180 million on 36 episodes of 'The Grand Tour'. To keep up, *Netflix* has committed itself to spending \$6bn on new, original programming in 2017.

Netflix faces the difficulty of raising prices to fund new shows, whilst at the same time not putting off new and existing subscribers. However, *Netflix* continues to expand and build up its library of programmes and films from non-English speaking countries. *Netflix's* longer-term aim is to successfully enter the Chinese market.

(Source: adapted from <http://bigstory.ap.org/article/95de4a23315f4abc9a4d72dcc75f3ff2/netflix-tests-limits-price-increases-original-shows>)

Analyse the benefit to *Netflix* of using the internet to distribute its video streaming service.

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(Total for question = 6 marks)

Q3.

Explain **one** benefit to a business from exporting its products.

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(Total for question = 3 marks)

Q4.

Which **two** of the following are methods of inorganic growth?

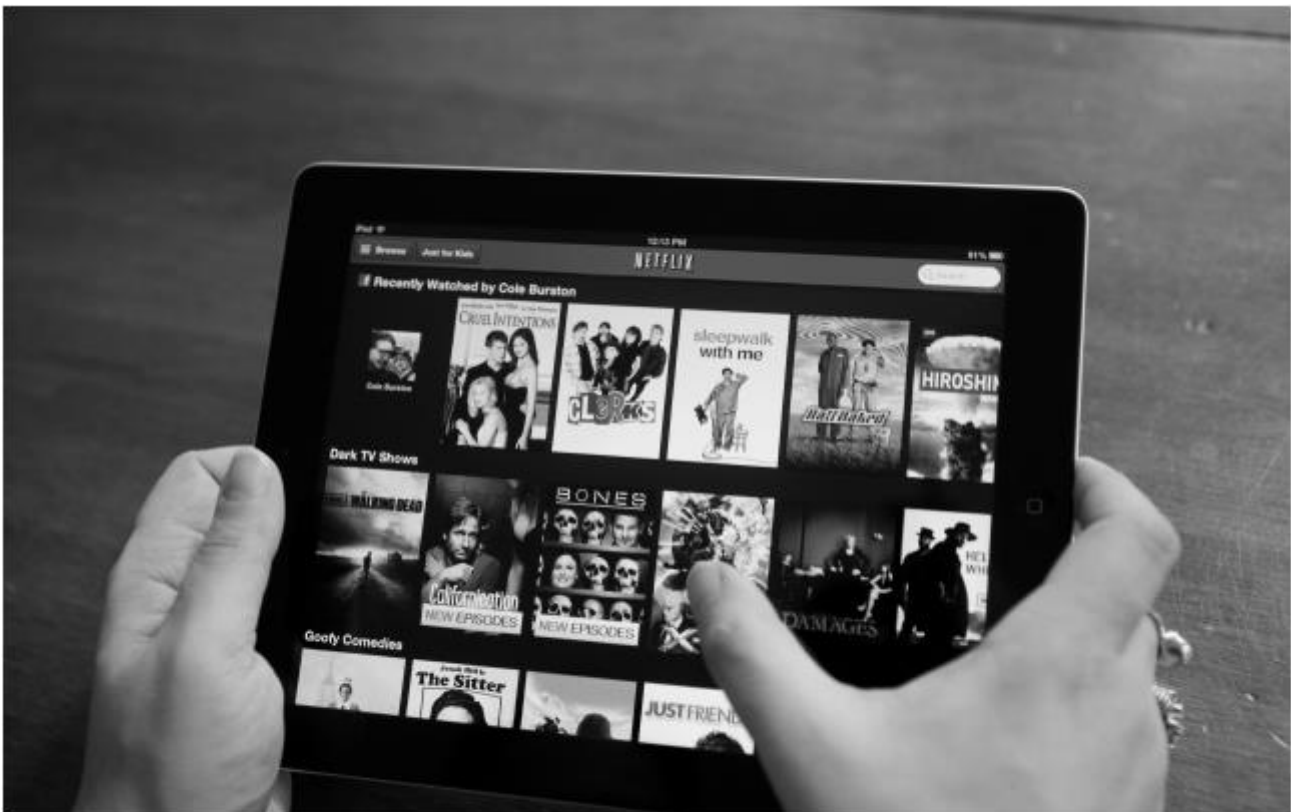
Select **two** answers.

- A Innovation
- B Merger
- C New products
- D Research and development
- E Takeover

(Total for question = 2 marks)

Q9.

Read the following extract carefully and then answer question.



(Source: © Francis Vachon / Alamy Stock Photo)

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and existing subscribers. However, *Netflix* continues to expand and build up its library of programmes and films from non-English speaking countries. *Netflix's* longer-term aim is to successfully enter the Chinese market.

(Source: adapted from <http://bigstory.ap.org/article/95de4a23315f4abc9a4d72dcc75f3ff2/netflix-tests-limits-price-increases-original-shows>)

Outline **one** advantage for *Netflix* of being a public limited company.

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(Total for question = 2 marks)

Q10.

Read the following extract carefully and then answer the question.



GoPro is an American public limited company, which manufactures action cameras that are used in extreme activities such as rock climbing, surfing and base jumping.

Since its stock market flotation in 2004, the company has grown rapidly and has become a leading extreme sports brand. *GoPro's* sales revenue has increased every year since the company started. However, in 2016 *GoPro's* sales dropped significantly and the company made a loss of \$116m. This led to the company's share price falling to a record low of \$8.54.

To try and increase sales, *GoPro* launched three new products. These new products were waterproof and allowed smoother video recording. One of these products was the *GoPro Karma* – a new drone that takes aerial action shots.

In 2017 *Go Pro* decided to raise finance to invest in its new product range. This was because cheaper competitors were entering the market, such as the Chinese company *Xiaomi*.

(Source: adapted from <http://www.express.co.uk/life-style/science-technology/712497/GoPro-Announces-Hero-5-Black-Session-Karma-Drone-UK-Release-Date-Price>)

Define the term **public limited company**.

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(Total for question = 1 mark)

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(Total for question = 9 marks)

Q12.



Famous from her role in hit reality television series 'Keeping Up with the Kardashians', 19-year-old Kylie Jenner is now also recognised as a successful teenage entrepreneur in her own right.

Celebrated for her full lips, Kylie Jenner decided to launch a range of lip kits with unique names such as 'Dolce K'. These products sold out within 10 minutes, as her fan base of teenage girls rushed to copy her celebrity look. The success of these products convinced Kylie to start her own internet cosmetics company, *Kylie Cosmetics*. She has now increased its range of products to include an eye shadow and eyeliner called Kyshadow and Kyliner respectively.

Kylie regularly interacts with her fans and potential customers using social media. Her app (application), which provides make-up and fashion tips, is one of the most downloaded entertainment apps in the UK. Every Kylie Cosmetics product has a launch date and products are only available for a limited period of time, before they sell out. Once the products have sold out, customers may have to wait weeks before the cosmetics are available for sale on the *Kylie Cosmetics* website again. None of *Kylie Cosmetics*' products are tested on animals and virtually all of them are suitable for vegans.

(Source: adapted from <http://www.vanityfair.com/style/2016/10/kylie-jenner-lip-kits-seed-beauty-colourpop>)

Outline **one** reason why *Kylie Cosmetics* has chosen not to test its products on animals.

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(Total for question = 2 marks)

Q13.

Explain **one** advantage to a business of being recognised as environmentally responsible.

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(Total for question = 3 marks)

Mark Scheme

Q1.

Question number	Answer	Mark
	<p>Award 1 mark for identification of a drawback, plus 2 further marks for explaining this drawback up to a total of 3 marks.</p> <p>The business will now face an extra tax on its imported raw materials (1). Therefore, the costs of the business will increase (1). As a result, the profitability from importing will fall (1).</p> <p>This will make it harder for the business to compete with businesses located abroad (1). As a result, the business will struggle to enter new markets (1). This will restrict the growth of the business (1).</p> <p>Accept any other appropriate response. Answers that list more than one drawback with no explanation will be awarded a maximum of 1 mark.</p>	<p>(3) AO1a=1 AO1b=2</p>

Q2.

Question number	Indicative content		Mark
	<ul style="list-style-type: none"> • <i>Netflix</i> can now take advantage of lower fixed costs than rivals such as <i>itv1</i> (AO2). • <i>Netflix</i> will now find it easier to sell its video streaming service in over 190 countries worldwide, since the internet is available in virtually every country (AO2). • Therefore, <i>Netflix</i> will benefit from a lower break even point compared to rival companies (AO3a). • Therefore, <i>Netflix</i> will be able to increase its revenues, since it can now be accessed by a global market of potential subscribers (AO3a). 		(6) AO2=3 AO3a=3
Level	Mark	Descriptor	
	0	No rewardable material.	
Level 1	1–2	<ul style="list-style-type: none"> • Limited application of knowledge and understanding of business concepts and issues to the business context (AO2). • Attempts to deconstruct business information and/or issues, finding limited connections between points (AO3a). 	
Level 2	3–4	<ul style="list-style-type: none"> • Sound application of knowledge and understanding of business concepts and issues to the business context although there may be some inconsistencies (AO2). • Deconstructs business information and/or issues, finding interconnected points with chains of reasoning, although there may be some logical inconsistencies (AO3a). 	
Level 3	5–6	<ul style="list-style-type: none"> • Detailed application of knowledge and understanding of business concepts and issues to the business context throughout (AO2). • Deconstructs business information and/or issues, finding detailed interconnected points with logical chains of reasoning (AO3a). 	

Q3.

Question number	Answer	Mark
	<p>Award 1 mark for identification of a benefit, plus 2 further marks for explaining this benefit up to a total of 3 marks.</p> <p>The overseas market may be less competitive (1). Therefore, the business can charge a higher price (1). As a result, the net profit margin will be higher on each sale (1).</p> <p>The overseas market may be large (1). Therefore, the business can increase its global sales (1). Thus, allowing its brand name to become more internationally recognised (1).</p> <p>Accept any other appropriate response. Answers that list more than one benefit with no explanation will be awarded a maximum of 1 mark.</p>	(3) AO1a=1 AO1b=2

Q4.

Question number	Answer	Mark
	D	(1) AO1a

Q5.

Question number	Answer	Mark
	Award 1 mark for a correct definition of takeover. Where one business acquires (greater than 50% of the shares in) another business (1).	(1) AO1a

Q6.

Question number	Indicative content	Mark
	<ul style="list-style-type: none"> • Larger businesses can exploit economies of scale (AO1b). • Different businesses target different market segments (AO1b). • The enlarged business would be able to exploit economies of scale because Argos stores can be closed down and placed inside Sainsbury's supermarkets (AO2). • Some low-income Argos customers may not normally do their grocery shopping in Sainsbury's, so the number of customers who use the enlarged business could go down (AO2). • The enlarged business can reduce its fixed costs. This allows unit costs to decrease so that it can compete more effectively with Aldi and Lidl by being able to charge lower prices (AO3a). • Demand for Argos' products will decrease, leading to falling revenues since it may not retain all of its customers (AO3a). • Argos is struggling to compete with Amazon, which is an e-tailer. Therefore, even after taking advantage of economies of scale Amazon will still have lower unit costs and lower prices since it does not have any high-street shops. So Sainsbury's is unlikely to benefit significantly from its takeover of Argos (AO3b). • The takeover creates the UK's largest non-food retailer. Therefore, the economies of scale generated could be significant, allowing the enlarged business to effectively compete with large e-tailer rivals such as Amazon (AO3b). 	<p>(12) AO1b=3 AO2=3 AO3a=3 AO3b=3</p>

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–4	<ul style="list-style-type: none"> • Demonstrates elements of knowledge and understanding of business concepts and issues, with limited business terminology used (AO1b). • Limited application of knowledge and understanding of business concepts and issues to the business context (AO2). • Attempts to deconstruct business information and/or issues, finding limited connections between points (AO3a). • Draws a conclusion, supported by generic assertions from limited evaluation of business information and issues (AO3b).
Level 2	5–8	<ul style="list-style-type: none"> • Demonstrates mostly accurate knowledge and understanding of business concepts and issues, including appropriate use of business terminology in places (AO1b). • Sound application of knowledge and understanding of business concepts and issues to the business context although there may be some inconsistencies (AO2). • Deconstructs business information and/or issues, finding interconnected points with chains of reasoning, although there may be some logical inconsistencies (AO3a). • Draws a conclusion based on sound evaluation of business information and issues (AO3b).
Level 3	9–12	<ul style="list-style-type: none"> • Demonstrates accurate knowledge and understanding of business concepts and issues throughout, including appropriate use of business terminology (AO1b). • Detailed application of knowledge and understanding of business concepts and issues to the business context throughout (AO2). • Deconstructs business information and/or issues, finding detailed interconnected points with logical chains of reasoning (AO3a). • Draws a valid and well-reasoned conclusion based on a thorough evaluation of business information and issues (AO3b).

Q7.

Question number	Answer	Mark
	<p>Award 1 mark for identification of a benefit, plus 2 further marks for explaining this benefit up to a total of 3 marks.</p> <p>Loan capital allows large sums of capital to be accessed immediately (1) which will allow the business to exploit any gaps in the market it may have found (1). Therefore, allowing the business to increase its market share (1).</p> <p>Loan capital means that new shares do not have to be issued (1) which will result in owners not having to dilute their ownership of the business (1). Therefore, the business is less likely to be at risk of a takeover (1).</p> <p>Accept any other appropriate response. Answers that list more than one benefit with no explanation will be awarded a maximum of 1 mark.</p>	<p>(3) AO1a=1 AO1b=2</p>

Q8.

Question number	Answer	Mark
	B, E	(2) AO1a

Q9.

Question number	Answer	Mark
	<p>Award up to 2 marks for linked points outlining an advantage for <i>Netflix</i> of being a public limited company. Award a maximum of 1 mark if points are not linked.</p> <p><i>Netflix</i> can now issue more shares to raise capital, (1) therefore allowing it to fund expansion into China (1).</p> <p><i>Netflix</i> now has more credibility with banks (1) therefore it can borrow money more cheaply to fund new and original programmes (1).</p> <p>Do not accept advantages of being a public limited company that would not relate to <i>Netflix</i>. For example, <i>Netflix</i> is now protected if somebody sues them for injuring themselves.</p>	<p>(2) AO2</p>

Q10.

Question number	Answer	Mark
	Award one mark for a correct definition of public limited company. This is a company whose shares are traded on a stock exchange (1).	(1) AO1a

Q11.

Question number	Indicative content	Mark
	<ul style="list-style-type: none"> • <i>GoPro</i> made net profits of \$36 million in 2015, which could be re-invested into the company to fund the development of new and innovative drones and cameras (AO2). • <i>GoPro</i> is a public limited company, therefore it could issue new shares to raise capital to fund the development of products in the fast-moving technology market (AO2). • Therefore, <i>GoPro</i> could use a cheaper internal source of finance to fund the new product range, since they will not have to pay any interest as they would with other sources of finance such as a bank loan. Therefore, there will be a smaller impact on profitability from this method of financing the new product development (AO3a). • Therefore, <i>GoPro</i> could issue shares to raise enough capital from shareholders to fund the new innovations and this would prevent the company from having to use more expensive sources of finance such as bank loans which will increase fixed costs (AO3a). • However, <i>GoPro</i> made a loss of \$116 million in 2016, so the amount of retained profit that the company has available to invest may be limited and may not be large enough to fund the new product range (AO3b). • However, the share price is falling, so the company may have to issue a large number of shares to generate enough share capital to fund the development of new products. This would upset shareholders since it would dilute their percentage ownership of the company (AO3b). 	(9) AO2=3 AO3a=3 AO3b=3

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1-3	<ul style="list-style-type: none"> Limited application of knowledge and understanding of business concepts and issues to the business context (AO2). Attempts to deconstruct business information and/or issues, finding limited connections between points (AO3a). Makes a judgement, providing a simple justification based on limited evaluation of business information and issues relevant to the choice made (AO3b).
Level 2	4-6	<ul style="list-style-type: none"> Sound application of knowledge and understanding of business concepts and issues to the business context although there may be some inconsistencies (AO2). Deconstructs business information and/or issues, finding interconnected points with chains of reasoning, although there may be some logical inconsistencies (AO3a). Makes a judgement, providing a justification based on sound evaluation of business information and issues relevant to the choice made (AO3b).
Level 3	7-9	<ul style="list-style-type: none"> Detailed application of knowledge and understanding of business concepts and issues to the business context throughout (AO2). Deconstructs business information and/or issues, finding detailed interconnected points with logical chains of reasoning (AO3a). Makes a judgement, providing a clear justification based on a thorough evaluation of business information and issues relevant to the choice made (AO3b).

Q12.

Question number	Answer	Mark
	<p>Award up to 2 marks for linked points outlining a reason why <i>Kylie Cosmetics</i> have chosen not to test its products on animals. Award a maximum of 1 mark if points are not linked.</p> <p>This makes the brand appear more ethical (1) therefore it makes its cosmetics more attractive to teenage girls (1).</p> <p>It reduces the likelihood of negative media attention (1) therefore reducing the chances of a damaging social media campaign that could reduce make-up sales (1).</p> <p>Do not accept reasons that would not be appropriate for <i>Kylie Cosmetics</i>. For example, to avoid protests from anti-fur protestors.</p>	(2) AO2

Q13.

Question number	Answer	Mark
	<p>Award 1 mark for identification of an advantage, plus 2 further marks for explaining this advantage up to a total of 3 marks.</p> <p>This may reduce pressure group activity (1) therefore, the business' brand may not be damaged (1). This may allow the business to maintain its market share (1).</p> <p>This could enhance the brand of the business (1) therefore, customers may be willing to pay a higher price (1). As a result, the business may gain a competitive advantage over its rivals (1).</p> <p>Accept any other appropriate response. Answers that list more than one advantage with no explanation will be awarded a maximum of 1 mark.</p>	<p>(3) AO1a=1 AO1b=2</p>