

Answer all the questions in the spaces provided.

1. Andrew Wheaton has a small dairy farm which his family has been farming in Yorkshire for many years. The farm consists of a number of fields, barns and some woodland.



Business is very difficult at the moment as the cost of producing a litre of milk is now higher than its selling price. Andrew sells most of his milk to a large supermarket at a loss and he feels that the government should do more to help farmers. Andrew is concerned about the impact on the stakeholders if the business were to fail.

Andrew has decided to invest in new technology as this should reduce his production costs. He is considering a number of sources of finance in order to proceed with the investment.

- (a) Suggest two appropriate sources of finance and outline why they might be suitable for Andrew's business. [4]

Andrew may obtain a bank loan to help him raise finance for purchasing the new technology. This would suit Andrew's business because as he is making a loss on each litre of milk he sells, a large sum of money would be available quickly which would enable him to purchase the equipment and lower his costs. Andrew may also obtain finance from selling his assets. This would enable him to sell the old milk making machinery for example which would help him to get the funds to replace the equipment with more up to date and efficient equipment, which would help lower his costs.

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- (b) Identify **three** stakeholders apart from Andrew and explain the impact on each stakeholder if the business were to fail. [6]

One stakeholder would be Andrew's ~~customers~~. Although he sells most of his milk to Supermarkets, his other ~~customers~~ would have to purchase their milk from other producers which may be stressful and more expensive, furthermore the supermarket would also have to find a different supplier which may be costly and time consuming. Another stakeholder would be Andrew's family because they would ^{all} become unemployed if the business was to fail. Furthermore the workers working at the farm would also have to look for other jobs ~~too~~ which may be costly and time consuming. Another stakeholder would be ~~Andrew's~~ suppliers. The companies that supply Andrew with corn and food for the livestock would ~~receive less revenue~~ as they would be losing a significant ~~customer~~ if Andrew's business was to fail.

A01 = 3
A03 = 3

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2. Ranjit Singh owns a business selling British made motorbikes, parts and accessories. He has a number of shops in the UK. He also sells his products over the internet in the UK and overseas. His business is an example of a successful **SME**.

(a) Describe the meaning of the term **SME**. [2]

A Small medium enterprise is a smaller firm that exists in the economy. SMEs are usually either sole traders or partnerships. An example of a SME would be a newsagent. SMEs may also operate in niche markets.

(b) Evaluate the importance of SMEs, such as Ranjit's business, to the UK economy. [6]

SMEs are valuable to the economy because they provide employment to many workers. This reduces the level of unemployment in the economy which stimulates growth. SMEs are also valuable to the economy because they fill in gaps in the market which cannot be filled through mass marketing, as seen in Ranjit Singh's business of selling British made motorbikes, this means consumer wants are more likely to be met which may benefit all consumers in the economy. SMEs are not so valuable to the economy because they only fill in the ^{small} gaps in the market, and therefore large mass marketing firms provide more growth and employment by controlling the majority of the economy. Furthermore SMEs are usually sole traders or partnerships which often fail within the first year of operation which can lower motivation across the economy and increase the amount of debt consumers have in the economy. Overall I believe SMEs play a vital role in the economy because they are often run by entrepreneurs which stimulates growth in the economy.

AO3 = 3
AO4 = 2

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3. Lotus Enterprises Ltd manufactures a range of garden ornaments including gnomes. The business sells 40 000 gnomes a year at £10 each. Its costs for the year are as follows:

• Equipment hire:	£14 000 per year
• Advertising:	£5 000 per year
• Market research:	£15 000 per year
• Rent and rates:	£50 000 per year
• Labour:	£1 per gnome
• Raw materials:	£3 per gnome



- (a) Calculate sales revenue if all gnomes are sold. [1]

$$\text{Revenue} = \text{Selling price} \times \text{number of units sold}$$

$$£10 \times 40,000 = £400,000$$

- (b) Calculate the contribution made per gnome. [2]

$$\text{Contribution} = \text{Selling price} - \text{variable costs}$$

$$£10 - £4 = £6 \quad \text{Labour} + \text{RM} = £4$$

$$\text{Contribution per gnome} = £6$$

- (c) Calculate break-even output. [3]

$$\text{Break even output} = \frac{\text{Fixed Costs}}{\text{Contribution per unit}}$$

$$\text{FC} = £50,000 + £15,000 + £5,000 + £14,000 = £84,000$$

$$\frac{£84,000}{£6} = 14,100$$

Lotus Enterprises will need to sell 14,100 gnomes to break even

- (d) Calculate the profit made if all gnomes are sold. [4]

$$\text{Profit} = \text{Total Revenue} - \text{Total Costs}$$

$$\text{TR} = £400,000 \quad \text{TVC} = 160,000$$

$$\text{TC} = £14,000 + £5,000 + £15,000 + £50,000 + £160,000 = £244,000$$

$$£400,000 - £244,000 = £156,000$$

$$\text{Profit} = £156,000$$

Lotus Enterprises Ltd is thinking of producing a new range of garden ornaments. The company has decided to use a telephone survey in order to establish the likely demand for the garden ornaments and has decided to use **sampling**.

- (e) Identify and explain **two** sampling methods and recommend with reasons which one would be most appropriate for Lotus Enterprises Ltd. [8]

One sampling method would be ~~random~~ sampling. Random sampling is where each member of the population has an equal chance of being chosen to be interviewed etc.

If Lotus Enterprise were to adopt a random sampling approach, they would remove any element of bias from their research. This would generate fair results which may be considered to be more valuable to their business.

Another sampling method Lotus Enterprise may use would be quota sampling. Quota sampling is where the population is segmented into different sub-groups with similar characteristics. This may be advantageous to Lotus Enterprise because they clearly operate in a niche market and it is unlikely that the whole a completely random member of the population would be interested in garden ornaments.

Therefore if Lotus Enterprise used quota sampling in their research, they could target the telephone survey to the people they believe are most likely to be in their target market. Furthermore as telephone interviews are time

time consuming and potentially costly, they would not be wasting as much time if they targeted their research at their target market. Overall I believe

Lotus Enterprise should use quota sampling because it saves time and money and retrieves information from their target market.

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A02 = 2 A04 = 2

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4. The UK is regarded as the world leader in **social enterprise** with social entrepreneurs operating in an incredibly wide range of activities, from healthcare to renewable energy.

One such small, well-established social enterprise is Local Wheels. Their main aim is to serve their local community by delivering ready-prepared meals to the elderly in their own homes.

Social enterprises are one part of the **private sector** but many of society's needs are also provided for by the **public sector**.

- (a) Describe what is meant by the *public sector*. [2]

The public sector is owned and run by the government. The firms in the public sector are often not in it for the money as they provide merit and public goods. An example would be the BBC. 2

- (b) With reference to Local Wheels describe the key features of a *social enterprise*. [4]

A social enterprise is a company that does not exist to make a profit, it exists to raise awareness and support a certain social view or objective. Local Wheels shows a characteristic of a social enterprise by delivering ready prepared meals to the elderly in their homes, this implies that they have seen a social issue and are addressing it. Furthermore they aim to serve their local community which implies they are more focused on their local community than generating profit. 4

- (c) Discuss the view that the *public sector* plays a far more important role in meeting the needs of society than the *private sector*. *services* [8]

The public sector provide goods to the economy that would usually be underconsumed if left to the free market. These goods are merit goods. Merit goods have positive externalities ^{in consumption} and benefit the ~~eco~~ wide society more than the individual consumer. An example of this would be education. The provision of merit 1

goods to the society is more likely to meet people's needs than wants. For example education and healthcare are needed to survive and thrive in the economy and without these, many people would be unemployed and become ill.

The private sector ~~is~~ ^{normally} firms exist to profit maximise, as seen in sole traders, partnerships, public limited companies and private limited companies. These firms meet people's wants. An example would be a car manufacturer. Private firms also provide demerit goods, with negative externalities in consumption, an example would be cigarettes. If left to the free market these would be overconsumed. However firms such as social enterprises and charities are in the private sector but do not seek to profit maximise. These firms seek to meet the needs of society rather than themselves which has the characteristics of a public firm.

Furthermore private firms provide the economy with greater employment which leads to greater growth.

However public firms provide the economy ^{and society} with the goods and services they need to live a decent life.

Overall I believe the public sector ~~seeks to~~ play a more important role in meeting the needs of society rather than the wants of society. As wants are things people desire and needs are things people need to survive. I also believe the private sector meets people's wants more than their needs, however people's needs are better supplied by public firms.

For continuation only.

Examiner
only

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