

Surname	Centre Number	Candidate Number
Other Names		2



GCE A LEVEL

1510U30-1



BUSINESS – A2 unit 3
Business Analysis and Strategy

MONDAY, 3 JUNE 2019 – AFTERNOON

2 hours 15 minutes

For Examiner's use only		
Question	Maximum Mark	Mark Awarded
1.	10	
2.	8	
3.	12	
4.	14	
5.	10	
6.	16	
7.	10	
Total	80	

ADDITIONAL MATERIALS

A calculator.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer **all** questions.

Write your answers in the spaces provided in this booklet. If you run out of space, use the continuation pages at the back of the booklet, taking care to number the question(s) correctly.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question or part-question.

You are reminded of the necessity for good English and orderly presentation in your answers.

2. In 2016, the average household disposable income was £25 000 and the number of new cars sold was 2 600 000. In 2017, the average household disposable income was £25 750 and the number of new cars sold was 2 730 000.

Adapted from: <http://www.thisismoney.co.uk>

(a) Using this information, calculate the income elasticity of demand for new cars. (Show your workings.) [4]

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(b) Explain the likely effect of your answer in 2(a) on car manufacturers. [4]

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4. Redrow plc is a construction business based in Flintshire that specialises in building houses in areas across the UK. The financial directors have used the profit and loss account (income statement) and balance sheet to measure financial performance. Net profit in 2016 was £250 million, with a return on capital employed of 17.41%. In 2016, the acid test ratio was 0.24:1. In 2017, the net profit had risen to £253 million.

The following is an extract from the balance sheet of Redrow plc.

	2017 £million	2016 £million
Fixed (non-current) Assets	61	67
Current Assets		
Stock	2 043	1 903
Debtors	35	36
Cash and Bank	62	135
Total Current Assets	2 140	2 074
Current Liabilities		
Bank Overdrafts and Loans	45	44
Creditors	585	631
Other	36	30
Total Current Liabilities	666	705
Total Long Term Liabilities	300	395
Net Assets	1 235	1 041
Shareholder Capital	1 235	1 041

Source: <http://investors.redrowplc.co.uk/key-financial-information/balance-sheet>

- (a) Calculate the acid test ratio for 2017. (Show your workings.)

[3]

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5. HS2 cost and benefit debate not over



The government insists the £56 billion proposal for the HS2 high-speed rail link between London and Birmingham, and eventually beyond to Manchester and Leeds, will bring between £41.4 billion and £46.9 billion of economic benefits over a period of six decades, ranging from ticket sales income to reduced congestion on the roads and the creation of hundreds of jobs. But there are also plenty of people

who have challenged the government’s assumptions and calculations.

Many who live along the proposed route are naturally opposed to the project. One major reason is obviously the prospect of years of disruptive construction work, followed by up to 28 trains an hour travelling past their homes and villages at speeds of up to 250mph. Historic buildings are at risk of damage or demolition, remaining residents will face noise pollution and some will even lose their homes. The Wildlife Trusts say both phases directly affect nature reserves and wildlife sites which could destroy butterfly, bat and bird habitat.

Fed up of being portrayed as Nimbys (“Not in my back yard”), the locals along the proposed railway line have tended to focus less on the impact on their own rural lifestyles. The Campaign to Protect Rural England, has expressed doubts about the government’s carbon forecasts for HS2. However, the main arguments relate to the economic assumptions behind the government’s analysis of the costs and economic benefits. The Institute of Economic Affairs (IEA), which is arguably the most vocal think tank opposed to HS2, predicts that costs will be greater while the economic benefits will be lower than the government has forecast.

The IEA insists that the overall costs would be higher for a number of reasons. These range from compensation costs for disruption during the construction work being paid to train season ticket holders, to major expenses arising from a resulting need to expand and upgrade train stations and transport links to and from stations.

Overall revenue from ticket sales are unlikely to exceed £27.2 billion. The Taxpayers’ Alliance, another vocal opponent of the project, claims that “the business case is based on a 27% over inflation rise in fares” and calculates that “if that does not take place revenue is likely to be at least £10 billion lower”.

Finally, places further away from the line, like Wales, aren’t expected to see any economic benefits and could lose jobs as a result.

Adapted from: <http://www.bbc.co.uk/news/mobile/business-16467903>

With reference to the HS2 High Speed Rail Link, consider the benefits and limitations of using cost-benefit analysis when making a decision on the project. [10]

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6. Nigel Morgan is the Managing Director of NM Plastics Ltd, a manufacturer and supplier of products ranging from kitchen and bathroom appliances to outdoor storage cabinets and even large playground items for children. He is considering two capital investment options:
- A new injection moulding machine that would cost the business £60 000 and would allow the business to mass produce. The machine currently used for moulding the plastic products produces work of high quality but it is prone to breaking-down. The new injection moulding machine would not cause any job losses; however, the person who operates it would require training.
 - A new grinding machine to recycle surplus materials or damaged items that would allow the business to re-use materials. The grinding machine would cost £20 000 and the new machine would replace the jobs of two operatives.

The following table represents the return that Nigel Morgan expects the new machines to bring to the business over the next five years.

Injection Moulding Machine		Grinding Machine	
	Net Cash Flow		Net Cash Flow
Year 1	£10 000	Year 1	£5 000
Year 2	£15 000	Year 2	£8 000
Year 3	£20 000	Year 3	£10 000
Year 4	£25 000	Year 4	£12 000
Year 5	£30 000	Year 5	£15 000

In order to calculate the return on his investments, Nigel Morgan uses a discount rate of 5% as shown in the table below.

Year	Discount rate of 5%
1	0.95
2	0.90
3	0.86
4	0.82
5	0.78

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