

6: External influences on business activity

Paper 2 – Topic questions

The questions in this document have been compiled from a number of past papers, as indicated in the table below.

Use these questions to formatively assess your learners' understanding of this topic.

Question	Year	Series	Paper number
2a	2016	November	21
2b	2016	November	21
2b	2017	June	21
3a	2017	November	21

P & P Paint

P & P is a large private limited company in country X. It has been in business for 15 years. It has one large factory near to the capital city. The factory is located next to a river that flows through the city.

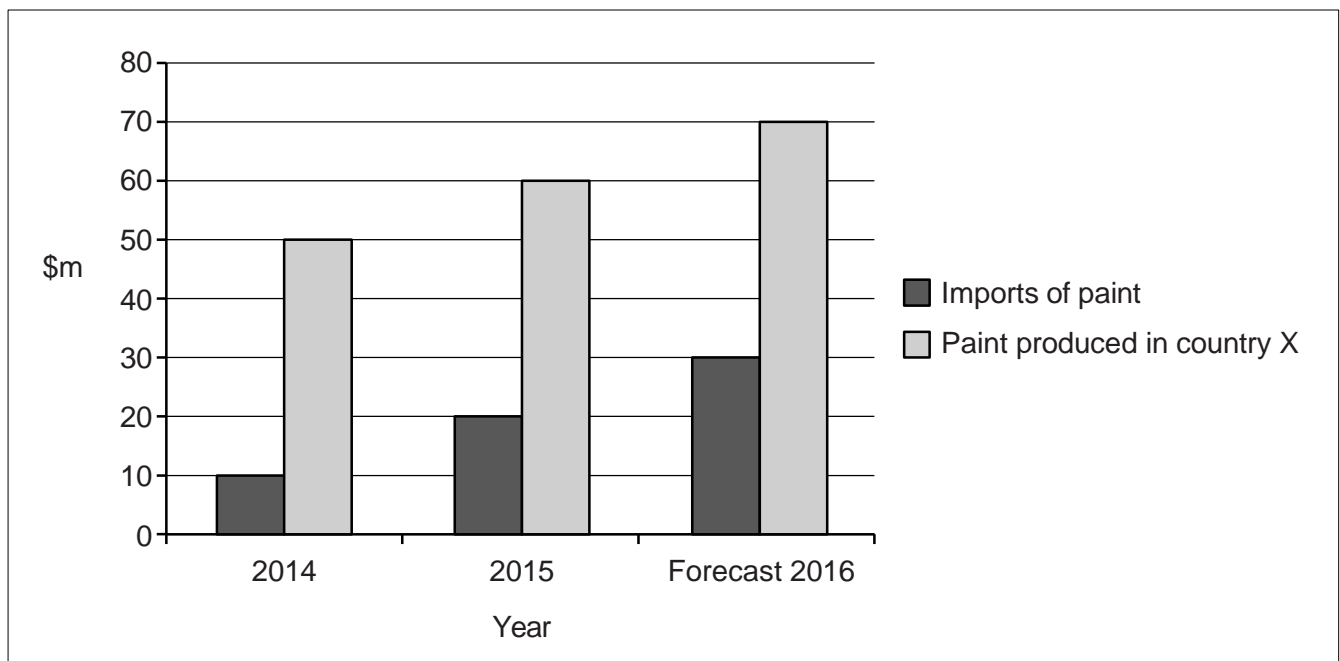
Paint is produced from imported raw materials and then the tins (cans) of paint are sold to large shops in country X. Paint is produced using batch production for each type of paint. P & P employs 150 production workers in its factory and most employees live near to the factory. They are paid using time rate, they do not have any fringe benefits and are managed using an autocratic leadership style.

P & P has developed a new type of paint. It is waterproof and suitable for painting the outside of houses. It is about to be launched in country X. The target customers are professional painters and people who want to improve their own homes.

P & P plans to start selling paint in other countries in 2018. The directors will have to consider what changes the business will need to make if P & P is to expand by exporting its paint.

Appendix 1

Total market sales of paint in country X (\$m)



Appendix 2

To: Managing Director From: Operations manager Date: 10 October 2016
Re: Increasing paint production

In answer to your queries we have the following two options:

Option A

We could produce 200 000 tins of paint per year in a new factory on the other side of the city. There are no houses near this site. The land could be bought for \$100 000. The factory building and machinery would cost \$50 000. We would need a bank loan for the whole amount and would pay an interest rate of 10% per year. We would also keep our existing factory open.

Option B

Extend the existing factory and lease additional machinery. This would cost \$75 000 to extend the factory. This machinery could be leased at an annual cost of \$10 000. We would still need a bank loan for the cost of extending the factory at an interest rate of 10% per year. With this option we could produce an additional 102 500 tins of paint per year.

Appendix 3

Main News

16 October 2016

The process of paint making at P & P results in a lot of dangerous waste being produced which is put into the river. The river is now very polluted as other factories put their waste into the river as well. All the fish have died and local people who used to fish in the river must now buy fish from their local market.

Local people are also worried that their children may become ill due to the pollution if they play in the river. Some people who live near P & P's factory have formed a pressure group to persuade the management to change the way they make paint. P & P is unlikely to change the production process as its factory is not the only one which puts waste into the river. P & P also employs a lot of local people and they worry about keeping their jobs.

It will cost P & P over \$5 000 per year to clean the waste before it is put into the river. Competitors which produce paint abroad do not have legal controls about cleaning waste products. The Government of country X will need to consider all these points when deciding whether or not to introduce new legal controls on pollution.

2(a) Identify and explain **two** reasons why P & P might respond to the pressure group and change what the company is doing.

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

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- 2(b)** P & P production results in external costs as outlined in Appendix 3. Consider the external costs and external benefits of the production of paint by P & P. Recommend whether the Government should take any action. Justify your answer.

External costs:

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External benefits:

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Recommendation:

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T T-shirts (TT)

TT is a private limited company set up 15 years ago in country P. It buys ready-made plain white T-shirts and then prints designs on them. The T-shirts are imported from country Q, a developing country. TT has 50 different designs that are produced in batches of various sizes, from child size to extra large adult size.

The T-shirts are sold to small retailers in country P. These retailers expect high quality products. The Marketing manager is considering changing the 'place' part of its marketing mix as she wants to increase sales of T-shirts.

The share capital invested to start up the company was \$2m. Shareholders' funds had increased to \$8m by 2015, but stayed at this level in 2016.

TT directors want to expand the company by exporting their T-shirts and are considering the following two options.


Option A:

Take over DesOwn, a competing company, which manufactures personalised T-shirts to the customers' own designs. This company only sells online and its brand is recognised worldwide. It has a large share of this global e-commerce market. TT will have to raise \$10m to buy out the existing shareholders. Some workers could be made redundant if departments in the new company are merged with those in TT.

Option B:

Invest in expanding its own production facilities by buying new computer-controlled equipment for \$500 000. This will allow an increase in the production of the existing range of T-shirts. TT could then sell directly to large retailers in other countries. However, they may have to use an agent or go into a joint venture to be successful.

Appendix 1: Advertisement



T T-shirts

- High quality material used
- Many designs available – lots of choice
- All sizes available – from child to extra large adult
- Buy T-shirts from small clothing retailers across the country

Appendix 2

SMS (text) message from TT production employee to a friend

Really unhappy at TT factory! – expected to do a lot of work on tasks I am not paid for – expected to advise customers on designs when I have no training on this – shouted at if I do anything wrong or do not make a lot of T-shirts each week – the Operations manager just tells me what to do and she never asks what I think. If I say anything then I am told to keep quiet. Really fed up and want to leave. ☹

I never know what is happening at the factory as information is only put on one noticeboard but that is in the other building!

Appendix 3

TT financial information (\$m)

	2015	2016
Revenue	10	15
Cost of sales	2	4
Expenses	7	9
Capital employed	10	14

- 2(b)** TT should consider the following **three** changes before making a final decision about whether to start exporting its products. Which change will be the most important for the decision? Justify your answer.

Appreciation in the exchange rate of country P's currency:

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Increased economic growth in many developed economies:

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Increase in the import tariffs in many developed economies:

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Conclusion:

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Animal Hotel (AH)

AH was a business idea of Elsie's. She loves animals and wanted to provide services to support busy animal owners. Services offered include washing, brushing, exercising and caring for animals overnight. Elsie is a qualified animal nurse. She set up her own business 2 years ago with \$10 000 given by her grandfather and a bank loan for \$10 000. The business is located in the centre of New City.

Elsie employs 12 adults and 6 children to help look after the cats, dogs and other animals. The adult workers are low skilled and are paid the legal minimum wage. The children are all under the age of 12 and are paid very low wages, which are below the legal minimum wage. Materials such as shampoo and brushes are purchased from a local wholesaler.

Elsie has been very successful in the first two years of trading. If she wants to expand the business she will need to move to a bigger site and employ many more people. Elsie will need to recruit a manager for the new site.

She is considering the following three sites.

	Site X	Site Y	Site Z
Size of site	10 000m ²	5 000m ²	1 000m ²
Buildings	Small farm buildings in need of repair at a cost of \$10 000. There is space to expand.	All in good condition. They will need changing for use with animals, at a cost of \$5 000.	Ready for use with animals and in good condition. No spending required.
Distance from New City	10 miles and not near main road	Edge of New City near main road	Centre of New City on main road
Cost of site	\$10 000	\$20 000	\$60 000
Maximum number of animals that AH can care for overnight	20	40	120
Maximum number of animals that can be washed and brushed per day	20	30	50

Appendix 1

Advert for Animal Hotel (AH)



All animals washed and brushed and cared for overnight when you are away from home.

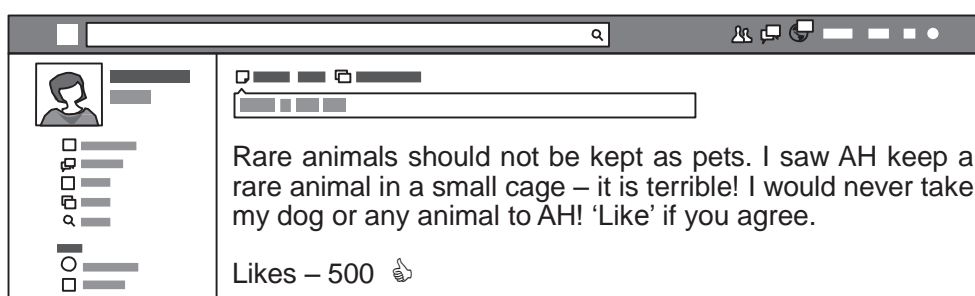


Animal training and advice given.

Need your animal looking after when you are at work? AH provides a happy place for your animal to spend the day! Your animal is worth it!!

Appendix 2

Social media message from customer of AH



Appendix 3

Selected financial information for AH

Average price per night per animal	\$5
Average number of animals cared for overnight	25
Average price for washing and brushing an animal	\$10
Average number of animals per day	25
Total costs of operating AH per day	\$325

3(a) Identify and explain **two** possible ethical issues that AH should consider.

Ethical issue 1:

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Explanation:

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Ethical issue 2:

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Explanation:

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Question	Answer	Mark
2 (a)	<p>Identify and explain two reasons why P & P might respond to the pressure group and change what the company is doing.</p> <p>Knowledge [2 · 1] – award one mark for each reason</p> <p>Analysis [2 · 1] – award one mark for a relevant explanation for each reason</p> <p>Application [2 · 2] – award two application marks for each reason</p> <p>Award one mark for each reason (maximum of two), such as:</p> <ul style="list-style-type: none"> • Want to keep a good reputation for being environmentally friendly • Wants to keep customers from switching to competitors • Does not want to upset local residents • Wants to avoid fines or legal action • Wants to keep a favourable reputation for being a good employer <p>Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context – of why the business might respond to the pressure group and change what the company is doing.</p> <p>Indicative response:</p> <p>To not lose customers who may buy from competitors if they are against businesses polluting the environment (k). The pollution affects a lot of people such as fishermen (ap) and may mean there are a greater number of people lobbying the government for the company to reduce pollution put into the river (ap). The more people affected then the more effective the pressure group and the more likely they are to change to another company if P & P do not change the way they produce paint (an).</p> <p>Possible application marks: the Government of country X; paint manufacturer; large limited company; large factory next to a river; pollution; waste; dumping in the river; makes tins (cans) of paint; sells to large retailers; 150 production workers; employees live near to the factory; details of two options outlined in Appendix 2; details of pollution caused by paint production outlined in Appendix 3.</p> <p>There may be other examples in context which have not been included here.</p>	8

Question	Answer	Mark												
2 (b)	<p>P & P production results in external costs as outlined in Appendix 3. Consider the external costs and external benefits of the production of paint by P & P. Recommend whether the Government should take any action. Justify your answer.</p> <p>Relevant points might include:</p> <table><tr><td>External costs</td><td>Pollution – waste put into river makes children ill, kills fish, people can no longer catch their own fish, have to buy fish now – no clean water</td></tr><tr><td>External benefits</td><td>Provides jobs; increased sales for fish sellers; taxes paid to government</td></tr></table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table><tr><td></td><td>Knowledge/Analysis/Evaluation</td></tr><tr><td>Level 3</td><td>At least 2 · Level 2 + 9–10 marks for well justified recommendation as to whether or not the government should take any action. 7–8 marks for some limited judgement shown in recommendation as to whether or not the government should take any action.</td></tr><tr><td>Level 2</td><td>4–6 mark Detailed discussion of external costs and benefits on third parties.</td></tr><tr><td>Level 1</td><td>1–3 marks Outline of external costs and benefits.</td></tr></table> <p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. The company puts waste products into the river,</p> <p>Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. The company puts waste products into the river and this kills the fish leading to local people have to increase their spending on food which leaves them less to spend on other products. (4 marks for L2 answer plus one application mark for mentioning catching fish from the river).</p> <p>Level 3 – For L3 to be awarded there need to be at least two L2 marks awarded and then a recommendation whether the government should introduce regulations on the activities of this company.</p>	External costs	Pollution – waste put into river makes children ill, kills fish, people can no longer catch their own fish, have to buy fish now – no clean water	External benefits	Provides jobs; increased sales for fish sellers; taxes paid to government		Knowledge/Analysis/Evaluation	Level 3	At least 2 · Level 2 + 9–10 marks for well justified recommendation as to whether or not the government should take any action. 7–8 marks for some limited judgement shown in recommendation as to whether or not the government should take any action.	Level 2	4–6 mark Detailed discussion of external costs and benefits on third parties.	Level 1	1–3 marks Outline of external costs and benefits.	12
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Question	Answer	Mark														
2 (b)	<p>TT should consider the following three changes before making a final decision about whether to start exporting its products. Which change will be the most important for the decision? Justify your answer.</p> <p>Relevant points might include:</p> <table><tr><td>Appreciation in the exchange rate of country P's currency.</td><td>Exports more expensive – harder to sell its products abroad – imports cheaper – T-shirts lower costs – could lower prices or increase profit.</td></tr><tr><td>Increased economic growth in many developed economies.</td><td>Increased demand – increased sales of T-shirts – may demand alternative more expensive clothes.</td></tr><tr><td>Increase in the import tariffs in many developed economies</td><td>Higher import prices for T-shirts – increased costs – higher price of finished T-shirt – lower demand.</td></tr></table> <p>Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.</p> <table><tr><td></td><td>Knowledge/Analysis/Evaluation</td></tr><tr><td>Level 3</td><td>At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which change will be the most important compared to the other changes. 7–8 marks for some limited judgement shown in conclusion as to which change will be most important.</td></tr><tr><td>Level 2</td><td>4–6 marks Discussion of advantages and/or disadvantages of each change.</td></tr><tr><td>Level 1</td><td>1–3 marks Outline of advantages and/or disadvantages of each change.</td></tr></table> <p>Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. appreciation of currency will lead to higher export prices, economic growth will lead to increased sales of T shirts, increased import tariffs will make T shirt prices higher.</p> <p>Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Appreciation in the currency will lead to higher export prices which may lead to a fall in demand for the T-shirts. This will make it harder to sell in this market and consumers may switch to home produced goods that now appear cheaper. (L2)</p> <p>Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of which change will be most important.</p> <p>Award up to 2 additional marks for relevant application</p>	Appreciation in the exchange rate of country P's currency.	Exports more expensive – harder to sell its products abroad – imports cheaper – T-shirts lower costs – could lower prices or increase profit.	Increased economic growth in many developed economies.	Increased demand – increased sales of T-shirts – may demand alternative more expensive clothes.	Increase in the import tariffs in many developed economies	Higher import prices for T-shirts – increased costs – higher price of finished T-shirt – lower demand.		Knowledge/Analysis/Evaluation	Level 3	At least 2 × Level 2 + 9–10 marks for well justified conclusion as to which change will be the most important compared to the other changes. 7–8 marks for some limited judgement shown in conclusion as to which change will be most important.	Level 2	4–6 marks Discussion of advantages and/or disadvantages of each change.	Level 1	1–3 marks Outline of advantages and/or disadvantages of each change.	12
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Question	Answer	Mark
3 (a)	<p>Identify and explain two possible ethical issues that AH should consider.</p> <p>Knowledge [2 × 1] – award one mark for each ethical issue ('Doing the right thing')</p> <p>Analysis [2 × 1] – award one mark for a relevant explanation for each ethical issue</p> <p>Application [2 × 2] – award two application marks for each ethical issue Award one mark for each ethical issue (maximum of two), such as:</p> <ul style="list-style-type: none"> • Types of animals looked after – all legal? • Welfare of animals/danger to animals • Working conditions • Child labour employed • Fair pay/paying minimum wage • Disposal of waste in a responsible manner <p>Award a maximum of three additional marks for each explanation – 2 of which must be applied to this context – of the ethical issue</p> <p>Indicative response:</p> <p>AH employs children (K) and then pays them below the legal minimum wage. (ap) This keeps costs low but will give AH a bad reputation leading to a lower number of customers. (an) This will make it more difficult for Elsie to expand the business to a larger site as there may be insufficient number of customers to make this worthwhile. (ap) Possible application marks: Animals; dogs; cats; pets; pet owners; washing and brushing animals; 12 adults and 6 children workers; paid legal minimum wage; complaint on the social media message; cage; rare animal</p> <p>There may be other examples in context that have not been included here.</p>	8