END OF TOPIC TEST 3.1 – Teacher's Version

3.1.1/3.1.2/3.1.3/3.1.4/3.1.5/3.1.6/3.1.7

1	**Give the formula to calculate average unit costs**	**The formula to calculate average unit costs is Total costs/output**
2	**Explain the term 'franchising'**	**A franchise is the right to trade under a company name and sell its goods e.g. Subway**
3	**Identify 3 examples of stakeholders**	**Choose from:** • **Customers** • **Owners** • **Employees** • **Managers** • **Local community** • **Suppliers** • **Government** • **Shareholders** • **Competitors**
4	**Explain the term 'e-commerce'**	**E-commerce is business transactions conducted electronically on the internet.**
5	**Compare fixed and variable costs**	**Fixed costs do not change with the level of output e.g. rent. Variable costs do change with the level of output e.g. raw materials**
6	**Explain the term 'opportunity cost'**	**Opportunity cost is the loss of other alternatives when one alternative is chosen.**
7	**Compare technical and purchasing economies of scale**	**Purchasing economies of scale means that the business is making cost savings by being able to buy raw materials and stock in bulk for a discounted price. Technical economies of scale mean that as the business gets larger they are able to afford better equipment which will automate the production process and reduce the average unit costs e.g. a bottling machine**
8	**Explain the term 'entrepreneur'**	**An entrepreneur is a person who sets up a business taking on financial risks in the hope of profit.**
9	**Give an example of a not-for-profit organisation**	**Choose from** **Divine Chocolate** **Eden Project** **Café Direct**
10	**Explain the term 'limited liability**	**Limited liability means that the business is a separate legal entity from the owner, the owner therefore cannot be sued for more money than is in the business. This means the personal possessions of the owner are not at risk.**

MULTIPLE CHOICE QUESTION 11

Which of the following types of business have no restrictions on who shares can be sold to?

[1 mark]

A Partnership ⬭

B Private Limited Company ⬭

C Public Limited Company ⬭

D Sole Trader ⬭

The correct answer is C

MULTIPLE CHOICE QUESTION 12

Which of the following would be an objective of the local community?

[1 mark]

A Businesses maximising profit ⬭

B Businesses paying higher dividends ⬭

C Businesses paying lower wages ⬭

D Businesses reducing environmental impact ⬭

The correct answer is D

CASE STUDY A

John is a sole trader who owns a business called Adventures. The business was set up seven years ago to sell activity holidays in the UK. John has been a keen water-sports enthusiast for many years. He had been unhappy when working for a large insurance company. He therefore decided to set up Adventures. Adventures offers a range of activities such as windsurfing, canoeing and surfing.

One holiday that Adventures sells is a weekend course where people can learn to windsurf. The business employs an instructor and books the hotel. This is then sold as a package holiday to customers.

Table 1: Cost information for a windsurfing weekend

Number of participants	Fixed costs	Total variable costs
10	£1500	£2600

John strongly believes that a successful business should be a sustainable business. Adventures will only book hotels that take responsibility for their impact on the environment by recycling and using renewable energy. This means Adventures often pay a premium price for accommodation.

Many of John's customers go skiing during the winter months and he would like to expand and sell ski holidays in Italy. John has never skied himself so he has asked his friend Lucas for some advice. Lucas has never run his own business before but has lived and worked in an Italian ski resort called Folgaria for several years. He is familiar with the local hotels there and knows several ski instructors. Lucas does not believe that the business should pay a premium price for hotels but is keen to invest in the business. Lucas would like to form a partnership in which decisions are shared equally with John.

Adventures currently employs eight staff in the UK, who are all keen sporting enthusiasts. Adventures' employees are expected to sell holidays and take payments but also deal with all customer enquiries such as advice on local facilities.

Sales have fallen recently and staff absenteeism has increased. Other rival businesses have increased their salaries. As John is unable to offer a competitive salary, employees have been asking for extra benefits. Discounts on holidays, commission or profit sharing are being used by different competitors.

John is drawing up a business plan to expand into ski holidays in the Italian resort of Folgaria. The business plan outlines the objectives of the business. Within three years, John aims to double profits and would like to have a 30% market share of ski holidays to Folgaria. To achieve this, the business would need to sell on average 2000 ski holidays each winter. Adventures will increase its number of employees to 10 to sell ski holidays, so the company is moving to a new office with more space. The new employees enjoy skiing; one of them will live in the ski resort for the winter and support customers when on holiday.

QUESTION 13 FROM CASE STUDY A

John is considering forming a partnership with his friend Lucas. Although the extra investment his friend will contribute to the business is a benefit, John does not want to make his decision based on this.

Recommend whether John should form a partnership with Lucas.

Give reasons for your recommendation.

[9 marks]

MARKING GRID FOR QUESTION 13

Peer / self marking grid for 9 mark question

Mark	
1-3 marks Level 1 answer	***Basic analysis, knowledge and conclusion, answer is in context*** *What went well: You analysed the business area in the question and gave a conclusion* *Even better if: You had justified your conclusion with evidence from the case study*
4-6 marks Level 2 answer	***Sound analysis, knowledge and conclusion with some justification, in context*** *What went well: You were able to give a conclusion with some justification* *Even better if: You had used a sustained chain (line) of reasoning*
7-9 marks Level 3 answer	**Chains of reason are complete and analysis is relevant** *What went well: You gave a focused conclusion that was full justified* *Even better if: You had used more information from the case study to support your arguments*

SUGGESTED ANSWER FOR QUESTION 13

Application	Analysis
The business can benefit from the friend's experience of the ski resort in Italy where the business will be selling holidays.	This may lead to better decisions being made as the partner will have an idea of issues that may happen as the business expands into this area. This will mean that long term, the strategies and direction of the business may be more successful.
The partners could specialise in the area they know, eg John in the UK and the friend in the ski resort.	This can provide more specialist knowledge to customers. They will expect the business to give detailed advice on the ski holidays and John will not be able to do this. Although he could employ someone to do this, a partner will have more at stake as he has invested money and this could lead to a higher level of service.
John has strong views on being a sustainable business and this could lead to conflict.	John's friend does not believe they should pay a premium price for hotels, therefore his objectives for the ski holidays are likely to differ from John. This could lead to

SUGGESTED ANSWER FOR QUESTION 13 CONTINUED

	disputes and cause the breakdown of the partnership. As John is bringing in the partner with equal status this means that their votes will be split and could slow down decisions.
The friend has never run their own business and the experience is something an employee could equally bring into the business.	John has run his business now for several years and is experienced in what decisions should be made when selling holidays. Although the friend knows the ski resort, this knowledge can be found by advertising for a suitable employee who will be employed to run the ski side of the business with the same objectives as John requires.

Evaluation

- As profits may be higher long term, if John is sharing them with a partner it may have financial implications for him.
- If there is a conflict in decision making this could mean that the business does not take opportunities quick enough when they become available.
- If John makes decisions about the ski holidays on his own, as he has no experience or insight, he could possibly make mistakes which will cost money and impact on the reputation of the business.

QUESTION 14 FROM CASE STUDY A

Analyse **one** benefit to John of drawing up a business plan to expand into ski holidays.

[6 marks]

MARKING GRID FOR QUESTION 14

Peer / self marking grid for 6 mark question

Mark	
1-2 marks Level 1	***Basic knowledge and analysis based on the context*** *What went well: You gave a basic analysis of the case study question* *Even better if: You had used more complete chains of reason*
3-4 marks Level 2	***Sound knowledge and analysis in context*** *What went well: You were able to apply some knowledge and understanding to the case study question* *Even better if: You had fully analysed the case study question*
5-6 marks Level 3	***Detailed analysis of the case study question in context*** *What went well: Your analysis was very detailed and you had full chains of reason* *Even better if: You had used more complex business terms in your answer*

SUGGESTED ANSWER FOR QUESTION 14

Answers may include:
Application:

- **set targets for the employees to achieve** – 30% market share, double profit, 2000 ski holidays
- **co-ordinate actions** - such as moving to the new office, employing new staff
- **to manage change** - such as moving to the new office, employing new staff
- **to track progress** - 30% market share, double profit, 2000 ski holidays
- **to allow other stakeholders to assess the business, eg financial backers etc** – finance to fund new office and additional employees

Example of a L3 developed answer.
A benefit of drawing up a business plan is that it allows John to review potential sales and draw up targets such as the 30% market share and 2000 average sales. This will mean that it is clear to staff how the success of the new project will be judged and gives them clear guidance on what they need to achieve. Decisions that they make can be made with this target in mind and motivate them to achieve this. In the medium to long term the business plan can be reviewed and action taken if targets are not going to be achieved.