

CONFERENCE VERSION – 19/06/2023

**CONFIDENTIAL**



# GCE A LEVEL MARKING SCHEME

**SUMMER 2023**

**A LEVEL  
BUSINESS - COMPONENT 2  
A510U20-1**

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## **GENERAL MARKING GUIDANCE**

### **Positive Marking**

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good response to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

For each question there is a list of indicative content which suggest the range of business concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

The level-based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

**GCE A LEVEL BUSINESS - COMPONENT 2**

**SUMMER 2023 MARK SCHEME**

<b>Q1. (a)</b>		<b>Total</b>
	<p><b>Identify the type of integration Step Out Ltd is considering.</b></p> <p><b>AO1 – 1 mark</b></p> <p>Award <b>1</b> mark for <b>horizontal integration</b> (1), as it is another footwear shop in the tertiary sector.</p> <p>Can also accept lateral integration.</p>	<b>1</b>

<b>Q1. (b)</b>	<b>Explain the advantages and disadvantages of this type of integration to Step Out Ltd.</b>			<b>[8]</b>
<b>Band</b>	AO1	AO2	AO3	
	2 marks	2 marks	4 marks	
<b>2</b>	<p><b>2 marks</b></p> <p>Good knowledge of horizontal integration, at least one advantage and disadvantage is shown.*</p>	<p><b>2 marks</b></p> <p>Good application to the context is made.</p> <p>There is clear and direct reference to the data.</p> <p>Information in the data is used in development.</p>	<p><b>3-4 marks</b></p> <p>Good analysis of advantages <b>and</b> disadvantages of horizontal integration is made.</p> <p>Analysis is well developed, with logical chains of reasoning shown.*</p>	
<b>1</b>	<p><b>1 mark</b></p> <p>Limited understanding of horizontal integration is shown.*</p> <p>The response may only give a valid advantage <b>or</b> disadvantage.</p>	<p><b>1 mark</b></p> <p>Limited application to the given context is made.</p> <p>The response is mainly theoretical, with limited reference made to the context given.</p>	<p><b>1-2 marks</b></p> <p>Limited analysis of the advantages and/or disadvantages of horizontal integration is made.</p> <p>Analysis is brief and underdeveloped.*</p>	
<b>0</b>	<p><b>0 marks</b></p> <p>No knowledge of horizontal integration is shown.</p>	<p><b>0 marks</b></p> <p>No application is shown.</p>	<p><b>0 marks</b></p> <p>No analysis is shown.</p>	

\*N.B Candidates can be awarded the AO1 marks and AO3 marks if they have based it on a valid alternative method of integration in part a)

**Indicative content:**

This occurs when a business merges with or takes over another in the same industry at the same stage in the production process.

**Advantages:**

- Economies of scale.
- Removes competition leading to greater market share.
- Widens customer base – could help grow by targeting the high street as well as retail outlets.
- Widens product range by specialising in wellington boots.
- Synergy is likely to occur.

**Disadvantages:**

- Large initial cost.
- Possible culture clashes in management.
- Diseconomies of scale.
- Investigation from the CMA.
- Problems with the high street such as reduction in customer numbers or high fixed costs.

Q2. (a)		Total
	<p><b>Explain one advantage and one disadvantage of using Average Rate of Return (ARR) as a method of investment appraisal.</b></p> <p><b>AO1 – 2 marks</b> <b>AO3 – 2 marks</b></p> <p>Award <b>1</b> mark for a valid advantage and <b>1</b> mark for a valid disadvantage of ARR.</p> <p>Award <b>1</b> mark for development on each point made. (1 mark for point + 1 for development)</p> <p><b>Indicative content:</b></p> <p>Advantages may include:</p> <ul style="list-style-type: none"> <li>• Shows the profitability of the options, which is often the main objective of an investment.</li> <li>• Includes all the projects cash flows (in comparison to only those pre-payback in the payback method).</li> <li>• Easy to compare different projects, as you can choose the option that generates the highest profit.</li> <li>• Allows comparison with costs of borrowing for investment (such as interest rates on investments at the bank).</li> </ul> <p>Disadvantages may include:</p> <ul style="list-style-type: none"> <li>• Ignores the timing of cash flows, some projects may generate a high return early on, others may grow.</li> <li>• Doesn't account for the change in the time value of money, in comparison to net present value.</li> <li>• Doesn't consider qualitative factors, such as the impact on the workforce, or the environment.</li> <li>• Expected net cash flows are estimates and external factors could impact their accuracy.</li> <li>• Only shows average profitability when in reality there could be large variations in when the profit is made.</li> </ul>	<b>4</b>

Q2. (b)		Total
	<p><b>Calculate the Average Rate of Return (ARR) for both machines.</b></p> <p><b>AO2 – 4 marks</b></p> <p>Award <b>1</b> mark for each stage of the calculations as shown below</p> <p><u>Machine A:</u></p> <p>Total inflows = 20 + 40 + 65 + 90 + 80 + 70 = 365  Total profit = 365 – 200 = 165  Average annual profit = 165 / 6 = <b>27.5 (1)</b></p> <p>ARR: 27.5 / 200 * 100 = <b>13.75% (1)</b></p> <p><u>Machine B:</u></p> <p>Total inflows = 35 + 75 + 100 + 140 + 150 + 165 = 665  Total profit = 665 – 350 = 315  Average annual profit = 315 / 6 = <b>52.5 (1)</b></p> <p>ARR: 52.5 / 350 x 100 = <b>15% (1)</b></p> <p>N.B If one/both answers expressed without a % sign, deduct one mark.</p> <p>Deduct one mark for incorrect rounding.</p> <p>Answers expressed in £000's also accepted.</p>	<p><b>4</b></p>

Q2. (c)		Total
	<p><b>Calculate the payback period for both machines. You must express your answers in years and months.</b></p> <p><b>AO2 – 2 marks</b></p> <p>Award <b>1</b> mark for each correctly calculated payback period.</p> <p><u>Machine A:</u></p> <p>Payback period = <b>3 years 10 months (1)</b></p> <p>(Months calculated as: 75 / 90 x 12 = 10)</p> <p><u>Machine B:</u></p> <p>Payback period = <b>4 years (1)</b></p>	<p><b>2</b></p>

<b>Q2. (d)</b>	<b>Advise Production Parts PLC which is the best option for investment based on the quantitative information you have.</b> [6]	
<b>Band</b>	AO2	AO4
	3 marks	3 marks
<b>3</b>	<p><b>3 marks</b></p> <p>Excellent application to the quantitative data is made.</p> <p>There is consistently clear and direct reference to the data, and several parts of the data are used to form a judgement.</p>	<p><b>3 marks</b></p> <p>Excellent evaluation of the options is made.</p> <p>The evaluation is well balanced and will focus on the key issues.</p> <p>Clear reference to the context is given to support judgement, and relevant judgements are made with qualifying statements used to build an argument.</p> <p>A holistic evaluation may be offered and it is likely there is an overall conclusion.</p>
<b>2</b>	<p><b>2 marks</b></p> <p>Good application to the quantitative data is made.</p> <p>There is clear and direct reference to the data.</p> <p>Information in the data is used in development.</p>	<p><b>2 marks</b></p> <p>Good evaluation of the options.</p> <p>The candidate makes judgements as to which is the best option that are often supported and balanced.</p> <p>The answer is likely to contain a brief conclusion.</p>
<b>1</b>	<p><b>1 mark</b></p> <p>Limited application to the quantitative data is made.</p> <p>The response is mainly theoretical, with limited reference made to quantitative data.</p>	<p><b>1 mark</b></p> <p>Limited evaluation of the options.</p> <p>Unsupported judgements are made.</p>
<b>0</b>	<p><b>0 marks</b></p> <p>No application is shown.</p>	<p><b>0 marks</b></p> <p>No evaluation is shown.</p>

**Indicative content:**

OFR applies.

According to payback, the best option is Machine A as it pays back 2 months quicker. This could be argued as quite a minimal difference, but as Machine B only takes an extra 2 months to pay back a substantially larger initial investment, this could be argued to be a better payback. However, this highlights the main downside of payback in that it is a very simplistic method.

According to ARR, the best option is Machine B with a 1.25% higher ARR. Both of the ARR figures are likely to be higher than if the cash was invested in the bank, but investors are pleased with higher returns so would prefer Machine B.

According to the raw data, the cash flow for Machine A is lower than B, and also starts to decline after year 4, whereas it continues to increase throughout all years for Machine B. So according to this data Machine B might seem the better investment.

Overall, it is likely that Machine B is the better investment, but it depends if the business has enough capital to fund the substantially larger initial investment.



Q3. (a)		Total
	<p><b>Calculate the annual total contribution for the refrigerated drinks cabinets.</b></p> <p><b>AO1 – 1 mark</b></p> <p>Award 1 mark for correct formula.</p> <p>Formulae:  Contribution = (Selling price – VC per unit) * number of units sold  (1)</p> <p><b>AO2 – 2 marks</b></p> <p>Award 1 mark for each correct calculation.</p> <p>Contribution per unit = £593 – £210 = £383 (1)</p> <p>Total contribution = £383 x 360 = <b>£137 880 (1)</b></p> <p>(OFR applies)</p> <p>Correct answer with no £ sign, award 2 marks.</p>	<p><b>3</b></p>

Q3. (b)		Total
	<p><b>Define the term outsourcing.</b></p> <p><b>AO1 – 2 marks</b></p> <p>Award 1 mark for each valid point made.</p> <p><b>Indicative content:</b></p> <p>Outsourcing occurs when outside suppliers are involved in activities (1) that could be undertaken internally by a business. (1) These suppliers are not directly employed by the business. (1) Often specialist companies. (1)</p>	<p><b>2</b></p>

<b>Q3. (c)</b>	<b>Discuss whether Harshika’s business should increase its capacity or outsource its production.</b> [10]		
<b>Band</b>	AO2	AO3	AO4
	2 marks	4 marks	4 marks
<b>3</b>		<p><b>4 marks</b></p> <p>Excellent analysis of the decision.</p> <p>The response considers in detail <b>both</b> options.</p> <p>Analysis is consistently well developed with logical chains of reasoning.</p>	<p><b>4 marks</b></p> <p>Excellent evaluation of the decision.</p> <p>The evaluation is well balanced and will focus on the key issues.</p> <p>Clear reference to the context is given to support judgement, and relevant judgements are made with qualifying statements used to build an argument.</p> <p>A holistic evaluation may be offered and it is likely there is an overall conclusion.</p>
<b>2</b>	<p><b>2 marks</b></p> <p>Good application to Harshika’s business.</p> <p>There is clear and direct reference to the data.</p> <p>Information in the data is used in development.</p>	<p><b>2-3 marks</b></p> <p>Good analysis of the decision.</p> <p>The response is likely to consider <b>both</b> options.</p> <p>Some analysis is logical and well developed.</p>	<p><b>2-3 marks</b></p> <p>Good evaluation of the decision.</p> <p>The learner makes partial judgements, with some attempt to support their evaluation.</p> <p>The answer may contain a brief conclusion.</p>
<b>1</b>	<p><b>1 mark</b></p> <p>Limited application to Harshika’s business.</p> <p>The learner response is mainly theoretical with limited use of the data.</p>	<p><b>1 mark</b></p> <p>Limited analysis of the decision.</p> <p>Analysis is superficial and undeveloped.</p> <p>The analysis only considers one of the options.</p>	<p><b>1 mark</b></p> <p>Limited evaluation of the decision.</p> <p>Unsupported judgements are made.</p> <p>The answer may be one sided.</p>
<b>0</b>	<p><b>0 marks</b></p> <p>No application to the context.</p>	<p><b>0 marks</b></p> <p>No analysis of the factors affecting the decision.</p>	<p><b>0 marks</b></p> <p>No judgements made of which is the best decision.</p>

## Indicative content:

### Arguments for increasing capacity:

- This product is specialised, and the firm is well established, so likely to have good knowledge and trained staff. This may be hard to find and replicate in an outside supplier.
- Cheaper in the long run than outsourcing.
- Easier to monitor and control quality.
- Could be motivating for employees to see the business growing. This may counter act any demotivation that might occur if they choose outsourcing as can often be unsettling for employees.

### Arguments for outsourcing:

- Production is technical and specialised, so likely to be expensive to invest in. Could be cheaper to use an outside supplier.
- Less employees means less costs like training and pension contributions.
- Currently close to maximum capacity, so it may be quicker to outsource to take advantage of the extra custom following the closure of the major competitor. Also good for staff workload and stress as close to capacity.
- The competitor closing is only an expectation. As outsourcing could be deemed as less expensive in the short term, it may be less risky to do this until Harshika is sure that the demand will remain there in the long term.

### Possible themes for evaluation:

- Outsourcing enables demand to be met in the **short term** without a high initial outlay.
- Outsourcing is less risky in the **short term** if it is not certain how long the demand will be there for.
- Increasing capacity is a big decision. It is expensive and **long term**. Need to be sure they want to take the risk.
- Depends on financial position and how much they have available to invest or are willing to invest.

Q4. (a)		Total
	<p><b>Define what is meant by a corporate plan.</b></p> <p><b>AO1 – 2 marks</b></p> <p>Award <b>1</b> mark for limited understanding. Award <b>2</b> marks for good understanding.</p> <p><b>Indicative content:</b></p> <ul style="list-style-type: none"> <li>• A corporate plan is a statement of goals to be achieved in the medium to long term.</li> <li>• It will be based on the management assessment of market opportunities, economic conditions and the resources/technologies available to the business.</li> <li>• It will make clear, measurable objectives and formulate strategies for achieving these objectives.</li> <li>• It will include methods for monitoring the achievement of the objectives.</li> <li>• Likely to be written by senior managers.</li> </ul>	<b>2</b>

Q4. (b)		Total
	<p><b>Calculate the percentage change in the level of working capital between 2021 and 2022.</b></p> <p><b>AO1 – 1 mark</b> <b>AO2 – 2 marks</b></p> <p>Award <b>1</b> mark for the correct working capital formula (1)</p> <p>Current Assets – Current Liabilities</p> <p>Award <b>1</b> mark for correctly calculating both working capital figures (1)</p> <p>2022: <math>87 - 73 = 14</math> 2021: <math>71 - 47 = 24</math></p> <p>Award <b>1</b> mark for correctly calculating the % change between the figures (1)</p> <p><math>\frac{14-24}{24} \times 100 = 41.67\%</math> decrease.</p> <p>Deduct one mark if the final answer does not have a % sign.</p> <p>Accept 41.7% but not 41.6%.</p>	<b>3</b>

Q4. (c)		Total
	<p><b>Calculate the gearing ratio for 2021 and 2022.</b></p> <p><b>AO1 – 1 mark</b> <b>AO2 – 2 marks</b></p> <p>Award <b>1</b> mark for the correct gearing formula (1)</p> <p><u>Long term liabilities</u> Capital employed            x 100</p> <p>Award <b>1</b> mark for each correctly calculated gearing figure (2)</p> <p>2022:                    <math>\frac{28}{48 + 28} \times 100 = 36.84\%</math>    (1)</p> <p>2021:                    <math>\frac{18}{72 + 18} \times 100 = 20\%</math>            (1)</p> <p>Deduct one mark in total if either/both are expressed without at % sign.</p>	<p><b>3</b></p>

<b>Q4. (d)</b>	<b>With reference to your answers for question (b) and (c) and qualitative information, evaluate Jumping Jacks Ltd's expansion plan. [10]</b>		
<b>Band</b>	AO2	AO3	AO4
	3 marks	3 marks	4 marks
<b>3</b>	<p><b>3 marks</b></p> <p>Excellent application to Jumping Jacks Ltd.</p> <p>The candidate makes consistent and direct reference to the context that is embedded throughout the whole response.</p> <p>Application to the context is used in the development and the judgement within the response.</p>	<p><b>3 marks</b></p> <p>Excellent analysis of the data and the expansion plans.</p> <p>The analysis is detailed and logical and considers the impact of information from parts b, c and qualitative information.</p>	<p><b>4 marks</b></p> <p>Excellent evaluation of suitability of the expansion plans.</p> <p>The evaluation is well balanced and will focus on the key issues.</p> <p>Clear reference to the context is given to support judgement, and relevant judgements are made with qualifying statements used to build an argument.</p> <p>A holistic evaluation may be offered and it is likely there is an overall conclusion.</p>
<b>2</b>	<p><b>2 marks</b></p> <p>Good application to Jumping Jacks Ltd.</p> <p>There is clear and direct reference to the data.</p> <p>Information in the data is used in development.</p>	<p><b>2 marks</b></p> <p>Good analysis of the data and expansion plans.</p> <p>The response draws on parts b, c <b>and/or</b> qualitative information.</p> <p>Some analysis is logical and well developed.</p>	<p><b>2-3 marks</b></p> <p>Good evaluation of suitability of the expansion plans.</p> <p>The learner makes partial judgements, with some attempt to support their evaluation.</p> <p>The answer may contain a brief conclusion.</p>
<b>1</b>	<p><b>1 mark</b></p> <p>Limited application to Jumping Jacks Ltd.</p> <p>The learner response is mainly theoretical with limited use of the data.</p>	<p><b>1 mark</b></p> <p>Limited analysis expansion plans and the financial position.</p> <p>Analysis is superficial and undeveloped.</p> <p>The analysis only considers some of the data.</p>	<p><b>1 mark</b></p> <p>Limited evaluation of the suitability of the expansion plans.</p> <p>Unsupported judgements are made.</p> <p>The answer may be one sided.</p>
<b>0</b>	<p><b>0 marks</b></p> <p>No application is shown.</p>	<p><b>0 marks</b></p> <p>No analysis is shown.</p>	<p><b>0 marks</b></p> <p>No evaluation is shown.</p>

### Indicative content:

The **working capital** figures suggests that their liquidity position has worsened following a decrease from 2021 to 2022. This has mainly been caused by the increase in the overdraft and creditors and could indicate future problems in meeting short term liabilities. Additionally, the stock figure has increased, which could mean they have more difficulty converting their current assets into cash, further worsening their liquidity position. This would also suggest that expansion may not be suitable in the short term, although is not likely to have a huge impact on their short-term financial position or working capital.

There has been an increase in **gearing** from 2021 to 2022, suggesting the firm is more reliant on borrowed money, mainly caused by the increase in non-current liabilities. At the higher level of 36.84%, it still does not class as high gearing and so the investment in the new production technology would not seem too worrying with their current gearing figure, depending on how much it was going to cost to finance.

Whilst the financial position seems to have worsened from 2021 to 2022, there are some positives such as the value of their buildings has increased, and they are holding more cash. Some of this cash could be used productively to finance the new expansion.

From a qualitative point of view, it is only forecasted that demand will increase. If this is inaccurate or overly optimistic forecasting, or if any external factors affect this, then the expansion may not be worth it. Additionally, the capital intensive system may mean redundancies are made which can be bad for reputation and staff morale.

If the firm invested in the just-in-time system as planned, they would hold less stock. This could be used to pay off some of the creditors, which would strengthen their liquidity position in the long term.

Overall, it seems the company is in a position to be able to make the investment, as the gearing is not considered high and it would increase the value of their non-current assets, further strengthening the balance sheet. However, it depends on the cost of the investment as we are not told of this.

OFR applies to the interpretation of parts b and c.

Q5. (a) (i)		Total
	<p><b>Calculate the three-point moving average for 2020.</b></p> <p><b>AO2 – 1 mark</b></p> <p>Award <b>1</b> mark for correct answer</p> <p><math>449 + 465 + 490 = 1\,404 / 3 = \mathbf{468 (1)}</math> (or 468 000)</p>	<b>1</b>

Q5. (a) (ii)		Total
	<p><b>Calculate the three-point moving average for 2021.</b></p> <p><b>AO2 – 1 mark</b></p> <p>Award <b>1</b> mark for correct answer</p> <p><math>465 + 490 + 503 = 1\,458 / 3 = \mathbf{486 (1)}</math> (or 486 000)</p>	<b>1</b>



<b>Q5. (b)</b>	<b>Evaluate Keith's Storage Ltd's decision to use the Delphi method as an alternative forecasting technique to time series analysis such as moving averages and extrapolation.</b>				<b>[10]</b>
<b>Band</b>	AO1	AO2	AO3	AO4	
	2 marks	2 marks	2 marks	4 marks	
<b>3</b>				<p><b>4 marks</b></p> <p>Excellent evaluation of the use of the different forecasting techniques.</p> <p>The evaluation is well balanced and will focus on the key issues.</p> <p>Clear reference to the context is given to support judgement, and relevant judgements are made with qualifying statements used to build an argument.</p> <p>A holistic evaluation may be offered and it is likely there is an overall conclusion.</p>	
<b>2</b>	<p><b>2 marks</b></p> <p>Good knowledge of the Delphi method and other methods of forecasting.</p>	<p><b>2 marks</b></p> <p>Good application to Keith's Storage Ltd and the context.</p> <p>There is direct and consistent reference to the data, which is used in the development.</p>	<p><b>2 marks</b></p> <p>Good analysis of the use of the Delphi method in comparison to other forecasting methods.</p> <p>Some analysis is logical and well developed.</p>	<p><b>2-3 marks</b></p> <p>Good evaluation of the use of different forecasting techniques.</p> <p>The learner makes partial judgements, with some attempt to support their evaluation.</p> <p>The answer may contain a brief conclusion.</p>	
<b>1</b>	<p><b>1 mark</b></p> <p>Limited understanding of the Delphi method <b>and/or</b> other forecasting methods.</p> <p>Understanding is superficial.</p>	<p><b>1 mark</b></p> <p>Limited application to Keith's Storage Ltd.</p> <p>The learner response is mainly theoretical with limited use of the data.</p>	<p><b>1 mark</b></p> <p>Limited analysis of the use of the Delphi method in comparison to other forecasting methods.</p> <p>The analysis is brief and undeveloped.</p> <p>The analysis is likely to only consider one type of forecasting method.</p>	<p><b>1 mark</b></p> <p>Limited evaluation of the different forecasting methods.</p> <p>Unsupported judgements are made.</p> <p>The answer may be one sided.</p>	
<b>0</b>	<p><b>0 marks</b></p> <p>No knowledge of forecasting methods.</p>	<p><b>0 marks</b></p> <p>No application to Keith Storage Ltd.</p>	<p><b>0 marks</b></p> <p>No analysis shown.</p>	<p><b>0 marks</b></p> <p>No evaluation shown.</p>	

## Indicative content:

### Delphi method:

A **qualitative** method of forecasting based on researching the views of a panel of experts. Focusses on a questionnaire that is sent to the experts independently, responses are summarised and the process is repeated until a consensus forecast is reached.

#### Advantages:

- Flexible to a variety of situations and problems
- Provides a structured way for a group of people to make decisions
- Participants have time to think through their ideas and are not influenced by the opinions of others at the initial stage
- The Delphi method creates a record of the expert group's responses and ideas which can be used when needed

#### Disadvantages:

- Very time consuming and difficult to coordinate and manage
- Assumes that experts are willing to come to a group consensus and not be influenced by the views of others
- Monetary payments to the experts could lead to bias in the responses

### Moving averages/time series analysis

A **quantitative** method of forecasting using past data to predict future trends and taking an average to smooth out any anomalies.

#### Advantages:

- Smooths out anomalies in past data
- Useful for being able to plan production and other business activity
- Based on actual trends and data so should be more accurate

#### Disadvantages:

- Assumes that past trends will continue
- Doesn't take into account knowledge/information of future trends
- Less useful for long term forecasts

### Possible themes for application:

- The business has been experiencing issues with its current method therefore it might suggest it should try another approach.
- Very important to this business as its products are so bulky to store, and although we are not told this, they could potentially have a long lead time.
- The marketing team is strong and so the panel of experts could take this knowledge into account to predict new customers, whereas past trends may not show this quite as clearly.

### Possible themes for evaluation:

- Whatever the business chooses, it is an extremely difficult process with no guarantee of success or a correct outcome.
- Quantitative forecasting such as moving averages is perhaps most accurate, although it relies on past trends continuing into the future.
- Other factors to consider when sales forecasting are: economic factors; changing consumer tastes and trends; changes in competition.
- Depends on the experience and confidence of the management team to be able to forecast accurately, as well as the amount of finance the business has available for the process.
- Depends on the trends in the market, and the threat of new competition.

<b>Q6.</b>	<b>Evaluate the usefulness of cost benefit analysis to the UK Government when deciding on investing in the development of smart motorways. [10]</b>		
<b>Band</b>	AO2	AO3	AO4
	4 marks	2 marks	4 marks
<b>3</b>	<p><b>4 marks</b></p> <p>Excellent application to the context.</p> <p>The candidate makes consistent and direct reference to the context that is embedded throughout the whole response.</p> <p>Application to the context of this being a government project is used in the development and the judgement within the response.</p>		<p><b>4 marks</b></p> <p>Excellent evaluation of the usefulness of cost benefit analysis to the government.</p> <p>The evaluation is well balanced and will focus on the key issues.</p> <p>Clear reference to the context is given to support judgement, and relevant judgements are made with qualifying statements used to build an argument.</p> <p>A holistic evaluation may be offered and it is likely there is an overall conclusion.</p>
<b>2</b>	<p><b>2-3 marks</b></p> <p>Good application to the government and its investment in Smart motorways.</p> <p>There is reference to the data, which is used in the development.</p>	<p><b>2 marks</b></p> <p>Good analysis of the usefulness of cost benefit analysis.</p> <p>Some analysis is logical and well developed with attempted chains of reason.</p>	<p><b>2-3 marks</b></p> <p>Good evaluation of the usefulness of cost benefit analysis.</p> <p>The learner makes partial judgements, with some attempt to support their evaluation.</p> <p>Some reference to the context may be given.</p> <p>The answer may contain a brief conclusion.</p>
<b>1</b>	<p><b>1 mark</b></p> <p>Limited application to the context.</p> <p>The learner response is mainly theoretical with limited use of the data.</p>	<p><b>1 mark</b></p> <p>Limited analysis of the usefulness of cost benefit analysis.</p> <p>OR</p> <p>A cost benefit analysis of smart motorways is conducted</p> <p>The analysis is brief and undeveloped.</p>	<p><b>1 mark</b></p> <p>Limited evaluation of the usefulness of cost benefit analysis.</p> <p>Unsupported judgements are made.</p> <p>The answer may be one sided.</p>
<b>0</b>	<p><b>0 marks</b></p> <p>No application to the context.</p>	<p><b>0 marks</b></p> <p>No analysis shown.</p>	<p><b>0 marks</b></p> <p>No evaluation shown.</p>

### Indicative content:

Cost benefit analysis (CBA) is a method of measuring, in financial terms, the costs and benefits of an investment project, but includes a consideration of the external costs and benefits to society as well as the costs and benefits to just the business.

Cost benefit analysis is useful because it takes into account all factors, private and social costs and benefits, and attempts to put a monetary value on them so that they can easily be compared.

#### Advantages:

- Takes into account a wide range of benefits and costs.
- Impacts on society and the community are included.
- Puts a value to external benefits and costs that would normally be ignored by private sector businesses.
- Can be used to rank possible major projects in order of public costs.

#### Disadvantages:

- The valuation of intangibles can be difficult – valuation will often include value judgements which may differ from person to person.
- If the social costs and benefits are incorrectly calculated then the wrong choice may be made.
- Hard to include all stakeholders, as some may be secondary impacts.

In this scenario it is part of a long-term strategy to improve the motorway network and as such is likely to be well thought out with lots of issues considered.

Possible costs/benefits may include:

#### Costs

- A minimum of £5.7bn
- Traffic disruption during the roadworks
- Reduced speed limits slow travel
- Dangerous driving with variable speed limits being confusing to follow and more accidents with broken down vehicles on the hard shoulder
- Opportunity cost of government spending

#### Benefits:

- Reduces congestion so will reduce lost earnings from traffic jams
- In theory, safer roads with reduced speed limits at busy times.
- Businesses who are working on the projects – increased revenue.
- Less traffic jams/consistently moving traffic – better for the environment?

It could be noted that when it is a government investment such as this, public benefits are often similar to private benefits as the government is making decisions on behalf of society.

Overall, having a cost-benefit analysis is often better than no cost benefit analysis, but there are many uncertainties that could in practice negate the conclusions of the study, such as changing costs. Ultimately, CBA will have proved useful to some extent as the government have to be accountable for their spending and it helps make an informed decision of how best to spend their limited funds. The usefulness depends on a number of factors:

- The accuracy of the predictions
- The level of detail and research in the cost benefit analysis
- Does the government actually use the document or is it just a formality.