



GCE AS MARKING SCHEME

SUMMER 2024

**AS
BUSINESS - UNIT 2
BUSINESS FUNCTIONS
2510U20-1**

About this marking scheme

The purpose of this marking scheme is to provide teachers, learners, and other interested parties, with an understanding of the assessment criteria used to assess this specific assessment.

This marking scheme reflects the criteria by which this assessment was marked in a live series and was finalised following detailed discussion at an examiners' conference. A team of qualified examiners were trained specifically in the application of this marking scheme. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners. It may not be possible, or appropriate, to capture every variation that a candidate may present in their responses within this marking scheme. However, during the training conference, examiners were guided in using their professional judgement to credit alternative valid responses as instructed by the document, and through reviewing exemplar responses.

Without the benefit of participation in the examiners' conference, teachers, learners and other users, may have different views on certain matters of detail or interpretation. Therefore, it is strongly recommended that this marking scheme is used alongside other guidance, such as published exemplar materials or Guidance for Teaching. This marking scheme is final and will not be changed, unless in the event that a clear error is identified, as it reflects the criteria used to assess candidate responses during the live series.

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.

WJEC GCE AS BUSINESS

UNIT 2 - BUSINESS FUNCTIONS

SUMMER 2024 MARK SCHEME

1 1 Identify and explain two functions of management.	[4]
AO1 - 2 marks AO3 - 2 marks Award 1 mark for each correct function (max 2 marks) Award 1 mark for each correct explanation of the chosen functions Indicative content: • Planning: involves setting objectives and strategies, policies, programmes and procedures for achieving them. • Organising: managers set tasks which need to be performed if the business is to achieve its objectives. • Leading: involves giving instructions to subordinates to carry out tasks. The manager has the authority to make decisions and the responsibility to see that tasks are carried out. • Delegation: involves giving authority to subordinates to carry out certain tasks. • Co-ordinating: involves the bringing together of the activities of people within the business so that goals are achieved. • Controlling: managers measure and correct the activities of individuals and groups, to make sure that their performance fits in with plans. HR responsibilities such as recruitment, staff appraisals Providing expertise in marketing, finance etc. Day to day running of the business Accept functions or roles Communication-workers, customers, suppliers Credit any other valid point.	
1 2 Outline what is meant by management by objectives (MBO).	[2]
AO1 - 2 marks Award 1 mark for each correct point Indicative content: • Objectives are defined within an organisation so that the management and workers agree [1] • Employees understand what they need to do in order to achieve their objectives. [1] • Different employees and departments will have objectives [1] that will work towards achieving the corporate aims of the business [1] Credit any other valid point.	

1 3 Explain one advantage and one disadvantage to a business of using management by objectives (MBO). [4]

Band	AO1 2 marks	AO3 2 marks
2	2 marks One advantage and disadvantage of using management by objectives identified	2 marks Good explanation of an advantage and disadvantage of using management by objectives
1	1 mark One advantage or disadvantage of using management by objectives identified	1 mark Limited explanation of one advantage or disadvantage of using management by objectives
0	0 marks No understanding of an advantage or disadvantage of using management by objectives	0 marks No explanation of an advantage or disadvantage of using management by objectives (MBO)

Indicative content:

Advantages of using management by objectives:

It can **motivate** the workforce. Involving all employees in the whole process of goal setting will give employee empowerment. This increases employee job satisfaction and commitment.

- Improved **management control** of the organisation. Managers know who is doing what and what they are supposed to be achieving.
- Improved **financial control**. Part of the setting of the objectives process is monitoring expenditure and revenues. Any changes from (variances from) budgeted amounts need to be explained and reacted to.
- It allows managers and / or employees to be **aware** of their responsibilities. Managers are aware of what they should be achieving and how their role fits in with organisational objectives.
- The work of departments and managers are **co-ordinated**. Everyone is working towards a common goal.
- It can improve **communication systems** within the organisation. The process of setting and agreeing objectives will itself involve communication both up and down the hierarchy.

Disadvantages of using management by objectives:

- Management **time** is spent on the process of setting objectives rather than managing the organisation.
- The ever-changing business environment or context in which the goals are set may **change** over time making the objectives unrealistic.
- **Demotivation** and breakdown of working relationships. If all levels of hierarchy are not involved in setting objectives, then they may not be committed to them. Workers may feel that this method is a form of control
- There may be a loss of focus meaning managers concentrate on **short-term objectives** at the cost of ignoring the long-term goals.

Credit any other valid point.

2 1 Consider the usefulness of the information in Figure 1 to Ridiculously Rich by Alana. [4]

AO2 - 2 marks

AO4 - 2 marks

Award **1** mark for each correct statement about the data (max 2 marks)

Award **1** mark for each judgement about the data and how it can be useful to Alana

Indicative content:

As she is producing luxury items in a niche market, the figures may not be relevant.

- It displays the growth or decrease of different types of cakes and pastries in the UK between 2014 and 2015 which could be useful to Ridiculously Rich by Alana in terms of product portfolio and product development.
- The overall market for cakes and pastries grew by 0.48% between 2014 and 2015 which is positive to Ridiculously Rich By Alana as this implies a possible increase in demand and sales.
- Sales of mince pies grew by 0.69% between 2014 and 2015. This could be a seasonal market which Ridiculously Rich by Alana might be interested in entering.
- Small cakes are the leading category with an increase in sales of 4.91%.
- Sales of muffins decreased by 13.73% compared to figures for 2014. If Ridiculously Rich by Alana produces and sells muffins, it may decide to allocate less resources to their production.
- It indicates that there is a significant market in the UK for cakes and pastries.
- However, it is 9-10 years out of date and therefore might be invalid.
- It is research undertaken for the UK as a whole and therefore may not be the same in Wales.
- The data shows the percentage change in sales of different types of cakes and pastries, not actual sales figures. It could be the case that sales of muffins and cake bars continue to be higher than the sales of cakes or pastries with a positive sales growth.

Credit any other valid point.

2 2 Outline what is meant by operations management. [3]

AO1 - 3 marks

Award **1** mark for each correct point

Indicative content:

Operations management is the organisation and control of the process [1] by which inputs, such as labour, materials and machinery, [1] are transformed into final products (output) or by which services are provided to customers. [1]

The production process [1]

Quality control [1]

Supply chain management [1]

R&D [1]

Improving productivity [1]

Implementing lean production [1]

Sourcing raw materials [1]

Credit any other valid point.

2 3 Evaluate the two methods of production used by Ridiculously Rich by Alana. [6]			
Band	AO2 2 marks	AO3 2 marks	AO4 2 marks
2	2 marks Good application of the methods of production used by Ridiculously Rich by Alana	2 marks Good analysis of both methods of production. The analysis is fully balanced and detailed	2 marks A good well-reasoned evaluation of both methods of production.
1	1 mark Limited application of a method of production used by Ridiculously Rich by Alana	1 mark Limited analysis of one method of production. Superficial or generic discussion	1 mark Limited evaluation of one method of production. Supporting comments lack depth
0	0 marks No application to Ridiculously Rich by Alana	0 marks No analysis undertaken	0 marks No evaluation evident
Indicative content: Ridiculously Rich by Alana uses both job and batch. Job production: - When producing cakes for individual customers as one-off orders for special occasions such as weddings and birthdays, Alana uses job production. Single items, usually to the buyer's specification, are made using job production. This method produces unique products and they are made one at a time. - Job production is labour-intensive and produced by skilled workers. Job production results in high-quality products that are matched to customer needs. Employees producing goods using job production can be highly skilled and have interesting and challenging jobs. Design is flexible and can be adapted to customer needs. - This method can take a long time compared to goods made using mass production. - Prices tend to be higher (positive and negative) - Skilled workers will command higher wages. Batch production: - To produce her standard choice of six luxury cakes which she sells to independent retailers, Alana uses batch production as it involves manufacturing a limited number of identical products. Baking is a typical industry which uses batch production. - Some economies of scale will be gained when compared with job production. - However - Batch production will have lower unit costs (economies of scale) and higher output than job production. Employees are likely to be semi-skilled and there can be a reliance on capital investment. Batch production allows businesses to aim at niche markets, using the same assets or capital equipment to produce a range of goods. - Time is lost when machines must be reset for new production and the business may not be equipped to deal with large scale orders. - If there was an issue with ingredients then all the cakes in that batch would be affected. Credit any other valid point.			

2 4 Explain the importance of added value to Ridiculously Rich by Alana.

[4]

AO1 - 1 mark

AO2 - 2 marks

AO3 - 1 mark

Award **1** mark for knowledge of the concept of added value

Award **1** mark for limited application to Ridiculously Rich by Alana

Award **2** marks for good application to Ridiculously Rich by Alana

Award **1** mark for good analysis / development of the importance of added value to Ridiculously Rich by Alana

Indicative content:

- Added value is the difference between the cost of purchasing raw materials and the price for which the finished good is sold for.
- During the production process, a business adds value to the raw materials which it uses when making a product.
- Ridiculously Rich by Alana can add value to her chocolates and cakes due to Alana's **perfectionist, experimental and flavour-obsessed approach** in the kitchen. She has spent years developing and perfecting her cake recipes. Her luxury collection are **hand-crafted** from the finest ingredients; dark Belgian chocolate and other **luxury ingredients**.
- The concept of added value is very important for Ridiculously Rich by Alana. Businesses which add more value to their products and services can charge more to their customers and eventually lead to higher revenue. As Ridiculously Rich by Alana is operating in the **luxury cake market**, the business must add value to allow for the premium price set by Ridiculously Rich by Alana.

Credit any other valid point.

2 5 Consider the impact of Alana's decision to set high but competitive prices on the business and its customers. [8]

Band	AO2 2 marks	AO3 2 marks	AO4 4 marks
2	2 marks Good application to Ridiculously Rich by Alana	2 marks Good analysis of the impact of Alana's decision on both the business and its customers	3-4 marks Good evaluation of the impact of Alana's decision on both the business and its customers Judgements are made An overall conclusion may be made
1	1 mark Limited application to Ridiculously Rich by Alana	1 mark Limited analysis of the impact of Alana's decision on the business and / or its customers	1-2 marks Limited evaluation of the impact of Alana's decision on the business and / or its customers Superficial judgements
0	0 marks No application to Ridiculously Rich by Alana	0 marks No analysis undertaken	0 marks No evaluation evident

Indicative content:

Getting the pricing strategy right is important for a business's sustainability. If the prices are too high, sales will struggle; too low, costs will not be covered. Setting prices is one of the first things to do when starting a new business.

- For the most part, customers will choose a lower priced item over a higher priced item that they perceive to be of comparable value. Charging a **low price** encourages many customers to buy products and services by making them affordable and offering them a reason to choose the product over those of competitors. This could be a disadvantage to Alana.
- Charging a fair price does not necessarily mean charging the lowest possible price. If a product is of **high quality like the chocolates and cakes** by Ridiculously Rich by Alana, it may develop a marketing strategy based on charging more than inferior products but relatively little for such a high-quality item.
- The primary function of pricing is to specify how much money will be received in exchange for a product or service. For a business to succeed, it must charge enough to cover costs and earn at least a modest profit. A business can earn more by charging less - if enough is charged - because lower prices often result in higher sales. However, as Ridiculously Rich by Alana uses the finest ingredients to produce a signature collection, a higher price is necessary to represent the luxury brand. Higher prices give a higher profit per item if sales aren't lost. However, if higher prices lead to lower sales volumes, profits can decrease or wipe out because the overhead costs per unit increases as sales fall.
- Higher price may create a perception of quality. This affects the brand, image or position in the marketplace. For example, Ridiculously Rich by Alana's higher prices tell consumers that they have higher quality cakes and chocolates or, otherwise, the business would not be able to charge premium prices. Charging a high price may discourage some customers.
- Pricing inevitably causes an increase or decrease in sales volume. May refer to Price / income elasticity of demand. As Ridiculously Rich by Alana is an exclusive brand only available to order online or in selected retailers, premium prices allow the brand to achieve its exclusivity.
- Increasing the prices at Ridiculously Rich by Alana, might lower the sales volume only slightly, helping to make up for decreased volume with higher total profits generated by higher margins.
- Purchasing higher priced luxury goods will leave customers with less disposable income to spend on other goods.

Credit any other valid point.

3 1 Define the term organisational design.**[2]****AO1 - 2 marks**

Award **1** mark for each correct point

Indicative content:

- It is often known as the **internal** structure [1] of the business which illustrates the roles of the workforce and their job titles.[1]
- The organisational design shows the route through which decisions are made and how employees should communicate.
- It also shows who is responsible and who is accountable to whom and for what activities (span of control & levels of responsibility). Matrix and hierarchy structures.
- Layers of hierarchy.

Credit any other valid point.

3 2 State what is meant by authority, delegation and empowerment.**[3]****AO1 - 3 marks**

Award **1** mark for each correct definition

Indicative content:

- Authority refers to the **power** managers have to direct subordinates and make decisions [1]
- Delegation is when managers entrust tasks or decisions to subordinates [1]
- Empowerment sees managers give authority to employees to make decisions [1]

3 3 Analyse Google's use of laissez-faire leadership. [6]			
Band	AO1 2 marks	AO2 2 marks	AO3 2 marks
2	2 marks Good knowledge of laissez-faire leadership	2 marks Good application to Google	2 marks Good analysis of the impact of Google's laissez-faire leadership
1	1 mark Limited knowledge of laissez-faire leadership	1 mark Limited application to Google	1 mark Limited analysis of the impact of Google's laissez-faire leadership
0	0 marks No knowledge demonstrated	0 marks No reference to Google	0 marks No explanation undertaken
Indicative content: - Laissez-faire leadership occurs when the leader has minimal input and subordinates are largely left to get on with their jobs. Minimum guidance is offered, and workers are given a great deal of scope to demonstrate their capabilities. Employees are empowered. - Google's cross-functional, or team-based, matrix structure allows for employees with particular skills to work together in project teams. Developing a laissez-faire leadership gives the employees and project teams at Google the autonomy to test new ideas and develop new products and services. As Google operates in a market of continuous technological developments, the laissez-faire leadership promotes creativity, innovation and better-quality decisions as employees have the opportunity to use their abilities. - Due to Google employing a highly skilled and motivated workforce, its laissez-faire leadership results in a workforce that is motivated and committed to the organisation. - The danger with laissez-faire leadership is that if workers are not motivated or committed to their work, their productivity can be low. - Employees may take advantage of the lack of control and may lead to lower productivity. Credit any other valid point.			

3 4 “A matrix structure will always be more beneficial to Google than a hierarchical structure”. Discuss.

[10]

Band	AO2 2 marks	AO3 4 marks	AO4 4 marks
3		4 marks Excellent analysis of a matrix organisational structure The analysis is detailed and developed and in the context of Google	4 marks Excellent evaluation of a matrix organisational structure compared to a hierarchical structure in the context of Google Clear judgements are made An overall conclusion may be made
2	2 marks Good application to Google	2-3 marks Good analysis of a matrix organisational structure	2-3 marks Good evaluation of a matrix organisational structure compared to a hierarchical structure Judgements are made
1	1 mark Limited application to Google	1 mark Limited analysis of the benefits of a matrix organisational structure Superficial or generic analysis	1 mark Limited evaluation of a matrix organisational structure Superficial judgements
0	0 marks No application to Google	0 marks No analysis undertaken	0 marks No evaluation evident

Indicative content:

- As Google is well known for its cross-functional, or team-based, organisational structure where emphasis is placed on flatness and getting people with particular skills together into project teams, it operates a matrix organisational structure.
- This structure enables people with particular specialist skills to work together in project teams.
- For example, at Google, Project A could be the formation of a new product development team. It might consist of a designer from the R&D department, an engineer from Production, a researcher from the Marketing department and a cost accountant from the Accounts department. Each individual in the team will have their own responsibility for certain aspects of the project but they will be working together to achieve a specific objective.
- Google could have several ongoing projects. This means that more people will have the opportunity to use their abilities.
- **This matrix structure has many advantages to Google:**
 - Matrix structures allows individuals with specific skills to contribute to a number of different projects.
 - It breaks down barriers to communication and ensures that projects can be better coordinated.
 - It helps ideas and innovation spread throughout Google.
 - There is more efficient use of human resources. The structure can improve flexibility and the motivation of employees.
- **Possible disadvantages of matrix structures include:**
 - Defining what each employee's main responsibilities are is difficult - being answerable to more than one boss may put a lot of strain on individuals. Placing too great a burden on individuals may slow down decision-making.
 - Working in a number of different teams might lead to lack of focus.
 - Project management using a matrix structure can be expensive because extra support systems, such as ICT and office staff, may be required.
 - Coordinating a team drawn from a number of different departments may be difficult as the culture and methods of operation in each department may be very different.
- Traditional pyramid-shaped structures have many levels or layers to the hierarchy and the span of control is narrow at the top, but will widen somewhat at the bottom where supervisors' key role is to monitor performance. Chains of command are clear as at the top of the hierarchy are the senior management. At the bottom of the hierarchy are the shop floor workers; in between there are layers of middle management and supervisors. Functional departments in large organisations have been typically organised in this way. This type of organisational structure is often referred to as a 'tall' structure.
- Employees are each given a role and procedures are laid down which determine their behaviour at work.
- **There are a number of disadvantages of traditional pyramid-shaped structures:**
 - Senior management are distanced from those who implement decisions. What senior managers perceive as being the case may, in reality, be very different.
 - Vertical communication is difficult, with information that is received by management distorted by the layers it must pass through. Very long chains of communication could even mean that instructions are out of date by the time they are received.
 - Communication between different departments is hampered by the lack of direct contact between departments.

- Traditional hierarchies have a lack of empowerment, inability to change and meet new demands which can stifle innovation and communication-as Google is a technology multinational that specializes in Internet-related services and products, which include online advertising technologies, search engine, cloud computing, software, and hardware, being innovative is essential and Google achieves this creative flair through empowering staff to be creative.
- **Traditional hierarchal structures do have their benefits:**
 - Control is at the centre, and senior management fully understand exactly who does what, and what their responsibilities are.
 - Paths of communication and responsibility are clearly defined.
 - Departments understand their position in relation to other departments within the organisation.
 - Each worker knows how they fit into the organisational structure.

Credit any other valid point.

4 1 State three roles of a finance department.**[3]****AO1 - 3 marks**

Award **1** mark for each correct role identified.

Indicative content:

- Responsible for the control of money in a business
- Recording transactions (book keeping). It involves the day-to-day recording, analysis and interpretation of a company's financial transactions.
- Producing financial documents to illustrate the performance of the business and its financial position e.g. profit and loss accounts, balance sheets, cash flow forecasts, break even charts
- Controlling the flow of money in the business to ensure that there are enough funds available to meet the day-to-day running of the company
- Seeking sources of finance which includes advising and sourcing longer-term financing
- Budgeting
- Forecasting
- They ensure that workers and suppliers are paid.
- Chasing debtors-contacting customers that owe the business money

Credit any other valid point.

4 2 Calculate the following from the income budget:**(i) Grocery sales for February****[1]****(ii) Total income for May****[1]****AO2 - 2 marks**

Award **1** mark for each correct answer

(i) Grocery sales for February

£116 275 - £111 600

= [£]4 675 [1]

(ii) Total income for May

£48 000 + £4 750 + £750 + £50 000 + £25 150 + £3 600

= [£]132 250 [1]

£ is not required.

4 3 With reference to the qualitative and quantitative data, evaluate the usefulness of budgeting to Bay View Motor Services. [9]

Band	AO2 3 marks	AO3 3 marks	AO4 3 marks
3	3 marks Excellent application to Bay View Motor Services Direct reference to the data in the income budget Clear and consistent reference to Bay View Motor Services throughout Quantitative and qualitative data is applied	3 marks Excellent analysis of the usefulness of budgeting to Bay View Motor Services The analysis is fully balanced, detailed and developed in context Analysis refers to quantitative and qualitative data	3 marks Excellent evaluation of the usefulness of budgeting to Bay View Motor Services Balanced and supported judgements made A conclusion may be offered
2	2 marks Good application to Bay View Motor Services Some reference to the data in the income budget Quantitative and / or qualitative data is applied	2 marks Good analysis of the usefulness of budgeting to Bay View Motor Services Analysis refers to quantitative and / or qualitative data	2 marks Good evaluation of the usefulness of budgeting to Bay View Motor Services Clear judgements
1	1 mark Limited application to Bay View Motor Services Quantitative or qualitative data is applied	1 mark Limited analysis of the usefulness of budgeting to Bay View Motor Services Superficial or generic discussion Analysis refers to quantitative or qualitative data	1 mark Limited evaluation of the usefulness of budgeting to Bay View Motor Services Superficial judgements
0	0 marks No application to the data in the income budget or to Bay View Motor Services	0 marks No analysis undertaken	0 marks No evaluation evident

Indicative content:

A budget is a financial plan of action normally covering a specific time period, six months in the case of Bay View Motor Services' case. A budget will describe expected levels of expenditure and / or revenues of a business. David Saunders has created an income budget which shows the planned income or revenue for a six month period for the new garage.

All budgets should be objective driven. This means that the expected revenues of each product department at Bay View Motor Services will be ultimately based on what the business is trying to achieve

Budgeting is useful for Bay View Motor Services as David Saunders can set targets to employees in each product or service category e.g. an income budget of £25 150 for the servicing and repairs department in May. This may motivate the staff to ensure that the target is met. Bay View Motor Services can benefit from the income budget in order to prepare sufficient stock, employees and finance for the new garage. However, the detailed income budget may prove to be inaccurate which could result in too challenging targets for the employees which could demotivate staff. But, as Bay View Motor Services are opening its fifth garage, the data may be more reliable as David can base the income budget around the sales of the other four garages. However, as David is opening in a new town in mid Wales, it may not be the case that sales repeat a similar pattern to the other garages as the local market may be different due to an increased number of competitors.

The budgeting process also includes cost budgets, and these can have important benefits for Bay view motors. These benefits include the following:

- Improved management control of the organisation. Managers know who is spending what, and why they are spending the money.
- Improved financial control. Part of the budgeting process is the monitoring of expenditure and revenues. Any variances from budgeted amounts need to be explained and reacted to.
- Budgeting allows managers to be aware of their responsibilities. Managers who are in control of their budgets are aware of what they should be achieving and how their role fits in with organisational objectives.
- Budgeting should ensure that limited resources are used effectively. The budgeting process allocates resources to where they are most likely to help achieve the firm's objectives.
- Budgeting can motivate managers. When managers at all levels are involved in the budgeting process they will have a commitment to ensuring that budgets are met.
- Budgeting can improve communication systems within the organisation. The budgeting process itself will involve communication both up and down the hierarchy. This will help to establish formal methods of communication, which can be used for purposes other than setting and administering budgets.

The budgeting process can cause problems. These include the following:

- Those excluded from the budgeting process may not be committed to the budgets and may feel demotivated.
- If budgets are inflexible, then changes in the market or other conditions may not be met by appropriate changes in the budget. For example, if a competitor starts a major new advertising campaign, and the marketing budget does not allow for a response to this, sales are likely to be lost.
- Also, an effective budget can only be based on good quality information. Many managers overstate their budgetary needs to protect their departments. This can lead to lack of control and poor allocation of resources.

Credit any other valid point.

4 4 Evaluate the impact of economies and diseconomies of scale on Bay View Motor Services and two of its stakeholders. [10]

Band	AO1 2 marks	AO2 2 marks	AO3 2 marks	AO4 4 marks
2	2 marks Good knowledge of economies and diseconomies of scale	2 marks Good application to Bay View Motor Services Clear and consistent reference to Bay View Motor Services throughout	2 marks Good analysis of the impact of economies and diseconomies of scale on Bay View Motor Services and at least one of its stakeholders	3-4 marks Good evaluation of the impact of economies and diseconomies of scale on Bay View Motor Services and two of its stakeholders
1	1 mark Limited knowledge of economies and / or diseconomies of scale	1 mark Limited application to Bay View Motor Services	1 mark Limited analysis of the impact of economies and / or diseconomies of scale on Bay View Motor Services and / or at least one of its stakeholders	1-2 marks Limited evaluation of the impact of economies and / or diseconomies of scale on Bay View Motor Services and / or at least one of its stakeholders
0	0 marks No understanding demonstrated	0 marks No application to Bay View Motor Services	0 marks No analysis undertaken	0 marks No evaluation evident

Indicative content:

Economies of scale - As Bay View Motor Services opens another garage and its sales and output increases, it benefits from a reduction in average costs of production. Total costs will increase as output increases. However, the cost of producing each unit falls as output increases. This fall in average costs as output increases indicates that Bay View Motor Services is benefitting from economies of scale. Economies of scale are an important aspect of efficiency in production.

Internal economies of scale are reductions in average cost per unit of output as a result of increasing internal efficiencies of the business.

- Purchasing economies - as Bay View Motor Services opens a new garage, it increases the size of orders of raw materials or components. This may then result in discounts being given and the cost of each individual component purchased will fall. This will therefore reduce the average cost of production.
- Technical economies - as Bay View Motor Services opens a new garage, it may be able to use the retained profit from the four previous garages to purchase the latest equipment and incorporate new methods of production. This increases efficiency and productivity, reducing average costs of output.
- Financial economies - as Bay View Motor Services grows, it will have access to a wider range of finance. As the assets of Bay View Motor Services grow, it is able to offer more security when seeking to borrow money - reducing the risk to the lender. As a result, larger businesses can often negotiate more favourable rates of interest on any money they do borrow.
- Managerial economies - as Bay View Motor Services grows, it may be able to employ specialist managers. As David lacks expertise in accounts and currently oversees all responsibilities of the finance department, he may be able to employ a specialist finance manager. This will increase efficiency and reduce the average costs of selling the goods and services on offer due to improved decision making.
- Marketing economies - as Bay View Motor Services grows, each pound spent on advertising the garages will have greater benefit for the business.
- Stakeholders: Economies of scale may benefit customers as Bay View Motor Services could offer cheaper prices due to discounts. The suppliers however may find themselves under pressure to provide cheaper goods and services to Bay View Motor Services as they will now operate on a large scale. Employees may be affected negatively by technical economies due to possible loss of job security if Bay View Motor Services invests in new machinery. Bay View Motor Services may be increasing its scale to an extent that it can become the monopoly supplier and eliminate its competitors. The competitors who possibly may have one garage only may not be able to compete with Bay View Motor Services as it benefits from the economies of scale available to them.

Diseconomies of scale - The factors that cause higher costs per unit of output when the scale of Bay View Motor Services continues to increase - the causes of inefficiency. When diseconomies occur, the average costs of production rise with output.

Internal diseconomies of scale:

- Coordination issues. The larger Bay View Motor Services becomes, the more difficult it is to coordinate. Inevitably as David opens a new garage, he has to delegate and empower more of his employees and possibly employ managers to make decisions. This could mean more meetings which takes up David's time.
- Communication issues. As Bay View Motor Services opens another garage, the efficiency and effectiveness of communication could break down. This leads to increasing misunderstanding and inefficiency and messages may become distorted, resulting in increasing average costs.
- Motivation issues. Bay View Motor Services may find it harder to satisfy and motivate workers as many may feel that their views are ignored. The distance between the present garages and the new garage seems vast which distances the workers from David, the decision maker. This means that workers may not give of their best as they are not focused on Bay View Motor Services' aims and objectives.
- Accept correct references to external economies of scale.
- Stakeholders-Lack of motivation by staff could lead to poor customer service. This will have a negative effect on customers.

Credit any other valid point.