



Rewarding Learning

ADVANCED
General Certificate of Education
January 2014

GCE Applied Business

Assessment Unit A2 12

assessing

The Global Market

[A6B61]

MONDAY 20 JANUARY, MORNING

MARK SCHEME

General Marking Instructions

Introduction

Mark schemes are published to assist teachers and students in their preparation for examinations. With the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may be intended to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

The Purpose of Mark Schemes

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of students in schools and colleges.

The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes, therefore, are regarded as part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

- 1 Define the terms **Free Market** and **Comparative Advantage** and explain **one** way in which companies such as Bombardier and Thales might benefit from each of them.

Free Market

A **free market** system is where consumers can trade with no interference from the government.

It also means that a government or state will not interfere with the purchase or sales of any items in any way except to tax or police, if items are illegal or prohibited.

Bombardier and Thales can benefit from the Free Market in that they can compete with other global aerospace businesses on a level playing field with no government interference.

Comparative Advantage

The law of **comparative advantage** refers to the ability of a party to produce a particular good or service at a lower marginal and opportunity cost over another. Even if one country is more efficient in the production of all goods (absolute advantage in all goods) than the other, both countries will still gain by trading with each other, as long as they have different relative efficiencies.

Bombardier and Thales can benefit from comparative advantage through their efficient use of their resources (e.g. Aerospace/defence; engineering; HR; natural) and cost advantage.

	AO1 Knowledge and Understanding	AO2 Application
Level 2	3–4 marks Candidate demonstrates satisfactory understanding of the terms Free Market and Comparative Advantage and the benefits that can arise from them.	2 marks Candidate applies satisfactory knowledge fully in context of stimulus material.
Level 1	1–2 marks Candidate demonstrates limited understanding of the terms Free Market and Comparative Advantage and how companies can benefit from them.	1 mark Candidate applies limited knowledge in context of stimulus material.
Level 0	0 marks Candidate demonstrates no understanding of the terms Free Market and Comparative Advantage and how companies can benefit from them.	0 marks Candidate does not attempt to apply knowledge to stimulus material.

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- 2 Using the case study information, analyse **one** way in which each of the following might impact on the Northern Ireland Economy.

Employment Levels

- The Aerospace and Defence Industries in Northern Ireland employ 7,500 and do provide employment for locally based staff, 60 businesses are subcontracted to Bombardier alone, directly and indirectly in terms of staff employed in subcontract related work, in both production (locally) and distribution (globally) of its product range;
- The contract to supply 100 planes to NetJets will ensure high employment levels well beyond 2015.
- The additional construction of a further 175 planes should ensure high employment well into 2025.
- Lower unemployment levels, + benefits.

Economic Growth

- Government ministers believe that the Aerospace and Defence industries can grow in the foreseeable future claiming that growth levels will exceed expectations and will generate increased revenues and consequently increased levels of spending power (potential multiplier effect) in the local economy (in the country) and secure greater number of jobs/livelihoods in local economy from increased numbers working directly and indirectly to the Aerospace and Defence Industries.
- Visiting customers to the local area may well increase trade locally and thus increase growth by staying in local hotels/B&Bs/local airports/travel to/from company premises and taxis.

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis
Level 2	2 marks Candidates demonstrates satisfactory understanding of the ways that Employment levels and Economic growth will impact on the Northern Ireland Economy.	2 marks Candidate applies satisfactory knowledge fully in context of stimulus material.	2 marks Candidate demonstrates satisfactory analysis of issues.
Level 1	1 mark Candidate demonstrates limited understanding of the ways that Employment levels and Economic growth will impact on the Northern Ireland Economy.	1 mark Candidate applies limited knowledge in context of stimulus material.	1 mark Candidate demonstrates limited analysis of issues.
Level 0	0 marks Candidate demonstrates no understanding of the ways that Employment levels and Economic growth will impact on the Northern Ireland Economy.	0 marks Candidate does not attempt to apply knowledge to stimulus material.	0 marks Candidate demonstrates no analysis of issues.

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- 3 Discuss **two** financial and **two** non-financial provisions that are available to Northern Ireland's Aerospace and Defence Industry sector that might assist them to trade globally.

Financial

- Government financial funding for investment in locating to Northern Ireland.
- Plant/machinery.
- Buildings/ICT facilities.
- Training grants for new skills.
- Financial Support for Trade Missions to China, America. Facilitating intending foreign businesses within the Aerospace and Defence Industries to visit Northern Ireland events and network with local businesses and supply chains.

Non-Financial

- Offer advice and consultancy to develop exporting skills and enables more experienced exporters to refresh and update their knowledge of best practice in their area of expertise.
- Export Skills and Knowledge workshops.
- Access to Comprehensive worldwide business directories.
- Advice on worldwide legislative issues.
- Advice on European Funding.
- Practical advice on how to break into new markets.
- Trade missions.

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis
Level 3	4 marks Candidate demonstrates a competent understanding of the provisions available that might assist the Aerospace and Defence industries to trade globally. Candidate makes good use of specialist vocabulary when it is appropriate.	4 marks Candidate applies knowledge competently.	4 marks Candidate competently analyses how the provisions available might assist the Aerospace and Defence industries to trade globally.
Level 2	2–3 marks Candidate demonstrates a satisfactory understanding of the provisions available that might assist the Aerospace and Defence industries to trade globally. Candidate makes adequate use of specialist vocabulary when appropriate.	2–3 marks Candidate makes a satisfactory attempt to apply knowledge.	2–3 marks Candidate shows a satisfactory attempt to analyse the provisions available to assist the Aerospace and Defence industries to trade globally.
Level 1	1 mark Candidate demonstrates a limited understanding of how the provisions available might assist the Aerospace and Defence industries to trade globally. Candidate makes use of specialist vocabulary when it is appropriate.	1 mark Candidate makes a limited attempt to apply knowledge.	1 mark Candidate shows a limited attempt to analyse the provisions available to assist the Aerospace and Defence industries to trade globally.
Level 0	0 marks Candidate demonstrates no understanding of how the provisions available might assist the Aerospace and Defence industries to trade globally. Candidate makes no use of specialist vocabulary.	0 marks Candidate does not attempt to apply knowledge.	0 marks Candidate shows no attempt to analyse the provisions available to assist the Aerospace and Defence industries to trade globally.

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- 4 Evaluate how **each** of the following factors may affect firms within the Northern Ireland Aerospace and Defence industry when trading globally.

Political Risks

- Volatility of some governments especially within the Middle East/South America/Asia which could cancel future orders with the Aerospace and Defence Industries.
- The British/EU authorities banning sales of planes to certain countries and regions.
- Government intervention on future Health and Safety issues within the airline and defence industries.

Laws

- The effect of regulations might affect the Aerospace and Defence industries to act within health/safety legislation in relation to the export of domestic planes.
- UK controls and Trade sanctions/embargoes against particular countries or regions.
- Many countries in the EU and worldwide have specific legislation covering the import of aerospace and defence goods.
- Taxes and VAT paid by Aerospace and Defence industries will increase price and reduce profits.

Currency

- Must be able to withstand the fluctuations in world currencies, i.e. Sterling, Euro, Dollar and Yen.
- The Aerospace and Defence Industry companies must also manage their foreign exchange risks facing the business, the companies could face future exchange losses, and agree payment deadlines/methods with customers, as this will impact the cash flows of the businesses, e.g. payment terms will have been agreed with the NetJet customer in respect of the 100 planes being purchased and delivered by 2015.

Increased Costs

- Because of the time span from commencement to completion of their product, probably years, the Aerospace and Defence Industry will incur additional costs through economic fluctuations over time.
- Demand of supply of the material costs to each business.
- Delivery costs increases.
- Lawful wage increases through Minimum Wage Act.
- Oil costs increases.
- Cost of bank borrowings.

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 3	4 marks Candidate demonstrates competent understanding of how Political Risks, Laws, Currency and Increased Costs may affect firms within the Aerospace and Defence Industries in Northern Ireland when trading globally. Candidate makes good use of specialist vocabulary when appropriate.	4 marks Candidate applies knowledge competently.	4 marks Candidate competently analyses how Political Risks, Laws, Currency and Increased Costs may affect firms within the Aerospace and Defence Industries in Northern Ireland when trading globally.	4 marks Candidate gives a competent evaluation of how Political Risks, Laws, Currency and Increased Costs may affect firms within the Aerospace and Defence Industries in Northern Ireland when trading globally. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. The candidate has consistently used a form and style of writing appropriate to the purpose of the question. Answer is organised in a clear and coherent manner.
Level 2	2–3 marks Candidate demonstrates a satisfactory understanding of how Political Risks, Laws, Currency and Increased Costs may affect firms within the Aerospace and Defence Industries in Northern Ireland when trading globally. Candidate makes adequate use of specialist vocabulary when appropriate.	2–3 marks Candidate satisfactorily attempts to apply knowledge.	2–3 marks Candidate shows a satisfactory attempt to analyse how Political Risks, Laws, Currency and Increased Costs may affect firms within the Aerospace and Defence Industries in Northern Ireland when trading globally.	2–3 marks Candidate gives a satisfactory evaluation of how Political Risks, Laws, Currency and Increased Costs may affect firms within the Aerospace and Defence Industries in Northern Ireland when trading globally. Candidate demonstrates satisfactory spelling, punctuation and grammar. The meaning of the text is clear most of the time. The candidate demonstrates a satisfactory level of writing form and style of writing appropriate to the purpose of the question. Answer is organised in a satisfactory manner.
Level 1	1 mark Candidate demonstrates a limited understanding of how Political Risks, Laws, Currency and Increased Costs may affect firms within the Aerospace Industries in Northern Ireland when trading globally. Candidate makes use of specialist vocabulary when appropriate.	1 mark Candidate makes a limited attempt to apply knowledge.	1 mark Candidate shows a limited attempt to analyse how Political Risks, Laws, Currency and Increased Costs may affect firms within the Aerospace and Defence Industries in Northern Ireland when trading globally.	1 mark Candidate makes a limited attempt to evaluate how Political Risks, Laws, Currency and Increased Costs may affect firms within the Aerospace and Defence Industries in Northern Ireland when trading globally. Candidate makes little use of spelling, punctuation and grammar. The meaning of the text is not always clear. The candidate demonstrates a limited form and style appropriate to the question. The organisation of the answer is limited.
Level 0	0 marks Candidate demonstrates no understanding of how Political Risks, Laws, Currency and Increased Costs may affect firms within the Aerospace and Defence Industries in Northern Ireland when trading globally. Candidate makes no use of specialist vocabulary.	0 marks Candidate does not attempt to apply knowledge.	0 marks Candidate shows no attempt to analyse how Political Risks, Laws, Currency and Increased Costs may affect firms within the Aerospace and Defence Industries in Northern Ireland when trading globally.	0 marks Candidate makes no attempt to evaluate how Political Risks, Laws, Currency and Increased Costs may affect firms within the Aerospace and Defence Industries in Northern Ireland when trading globally.

- 5 Using the Case Study information conduct a S.W.O.T. analysis for the Northern Ireland businesses within the Northern Ireland Aerospace and Defence Industry.

Strengths

- Size of companies in industry, Bombardier and Thales
- Size of specialist skilled workforce involved in Aerospace industry
- Size of export market, China, America
- Number of local suppliers, 60 suppliers alone to Bombardier
- Invest NI who will assist exports

Weaknesses

- Increasing Running Costs
- Cost Of Research & Development
- Exchange Rates worldwide
- Changing Legislation, Health and Safety Issues

Opportunities

- Emerging countries like China will increase demand
- Additional Joint Ventures Worldwide
- New cheaper Emerging Aerospace and Defence Technologies/ICT
- New Aircraft Designs
- Demand from developing countries such as China will increase and therefore all aerospace and defence industries worldwide will focus and turn their attention to those countries for future growth

Threats

- Worldwide Economic Recession
- Downturn on plane travel
- Cancellation of Orders in pipeline
- Oil Prices on the increase
- Airlines going into liquidation
- Airlines Merging
- Worldwide Competition
- Increasing numbers of worldwide major players including Gulfstream, Cessna Aircraft Co., Brazil's Embraer and France's Dassault Aviation which The Aerospace and Defence Industries must compete with
- Demand from Developed countries decreasing due to the economic downturn and competition will increase for those markets
- Licence

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis
Level 3	4 marks Candidate demonstrates a competent understanding of preparing a SWOT analysis for the Aerospace and Defence Industries in Northern Ireland. Candidate makes good use of specialist vocabulary when appropriate.	4 marks Candidate applies knowledge competently.	7–8 marks Candidate competently prepares a SWOT analysis for the Aerospace and Defence Industries in Northern Ireland.
Level 2	2–3 marks Candidate demonstrates a satisfactory understanding of preparing a SWOT analysis for the Aerospace and Defence Industries in Northern Ireland. Candidate makes adequate use of specialist vocabulary when appropriate.	2–3 marks Candidate makes a satisfactory attempt to apply knowledge.	3–6 marks Candidate shows a satisfactory attempt to prepare a SWOT analysis for the Aerospace and Defence Industries in Northern Ireland.
Level 1	1 mark Candidate demonstrates limited understanding of preparing a SWOT analysis for the Aerospace and Defence Industries in Northern Ireland. Candidate makes use of specialist vocabulary when appropriate.	1 mark Candidate attempts to apply limited knowledge.	1–2 marks Candidate shows a limited attempt to analyse the SWOT analysis for the Aerospace and Defence Industries in Northern Ireland.
Level 0	0 marks Candidate demonstrates no understanding of preparing a SWOT analysis for the Aerospace and Defence Industries in Northern Ireland. Candidate makes no use of specialist vocabulary.	0 marks Candidate does not attempt to apply knowledge.	0 marks Candidate shows no attempt to analyse the SWOT analysis for the Aerospace and Defence Industries in Northern Ireland.

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6 Evaluate the following methods of entering overseas markets for NI companies in the Aerospace and Defence Industries.

- Licensing
- Joint Ventures
- Multinationals

Licensing

Under this method, the manufacturer enters into an agreement with a licensee in the foreign country and this gives him the right to use the manufacturing process, a patent design or a trademark, technical information or some facility in return for some fee or royalty. It is often the quickest way of entering overseas markets – sometimes the only possible way as in centrally planned economies. It is clearly a method that involves little expense, and avoids all distribution costs.

Advantages of Licensing

- Licensing mode carries low investment on the part of the licensor.
- Licensing mode carries low financial risk of the licensor.
- Licensor can investigate the foreign market without much effort.
- Licensing gets the benefits with less investment on research and development.
- Licensee escapes himself from the risk of product failure.

Disadvantages of Licensing

- License agreements reduce the market opportunities for both licensor and licensee.
- Both the parties have the responsibilities to maintain the product quality and promoting the product. Therefore one party can affect the other through their improper acts.
- Costly and tedious litigation may crop up and hurt both the parties and the market.
- There is scope for misunderstanding between the parties despite the effectiveness of the agreement. There is a problem of leakage of the trade secrets of the licensor. The licensee may sell the product outside the agreed territory and after the expiry of the contract.

Application Thales requires a license to participate in global trading from the UK government.

Joint Ventures

Businesses of any size can use joint ventures to strengthen long-term relationships or to collaborate on short-term projects.

A joint venture can help your business grow faster, increase productivity and generate greater profits. A successful joint venture can offer:

- access to new markets and distribution networks
- increased capacity
- sharing of risks and costs with a partner
- access to greater resources, including specialised staff, technology and finance

Joint ventures often enable growth without having to borrow funds or look for outside investors. You may be able to use your joint venture partner's customer database to market your product, or offer your partner's services and products to your existing customers. Joint venture partners also benefit from being able to join forces in purchasing research and development.

The risks of joint ventures

Partnering with another business can be complex. It takes time and effort to build the right relationship. Problems are likely to arise if:

- The objectives of the venture are not totally clear and communicated to everyone involved
- The partners have different objectives for the joint venture
- There is an imbalance in levels of expertise, investment or assets brought into the venture by the different partners
- Different cultures and management styles result in poor integration and co-operation
- The partners don't provide sufficient leadership and support in the early stages

Success in a joint venture depends on thorough research and analysis of aims and objectives. This should be followed up with effective communication of the business plan to everyone involved.

Application Collaboration with Competitors
China looking to develop its aerospace with NI Companies

Multinationals

A multinational corporation (MNC) is a business organisation which has its headquarters in one country but has operations in a range of different countries.

Multinational Expansion

- Reduce transport and distribution costs
- Avoid trade barriers
- Meet different rules and regulations (avoid non-tariff barriers)
- Secure supplies of raw materials or markets
- Cost advantages – for example low labour costs
- Employment might not be as extensive as hoped – many jobs might go to skilled workers from other countries rather than to domestic workers.
- Some MNCs may be 'footloose'; this means that they might locate in a country to gain the tax or grant advantages but then move away when these run out. As a result there might not be a long term benefit to the country.
- How many new jobs are created depends on the type of investment. Investment into capital intensive production facilities might not bring as many jobs to an area as hoped.
- The size and power of multinationals can be used, it is argued, to exploit weak or corrupt governments to get better deals for the MNC.
- Pollution and environmental damage. Some countries may have less rigorous regulatory authorities that monitor the environmental impact of MNC activities.

Application Bombardier and Thales are Multinationals with businesses in other countries.

Final Judgement: it is possible to conclude that the Aerospace and Defence Industries will benefit from trading globally.

	AO1 Knowledge and Understanding	AO2 Application	AO3 Analysis	AO4 Evaluation
Level 3	4 marks Candidate demonstrates a competent understanding of Licensing, Joint Ventures and Multinationals. Candidate makes good use of specialist vocabulary when appropriate.	4 marks Candidate competently applies knowledge.	4 marks Candidate competently analyses Licensing, Joint Ventures and Multinationals.	9–12 marks Candidate gives a competent evaluation of Licensing, Joint Ventures and Multinationals, and comes to a final judgment. Candidate demonstrates good spelling, punctuation and grammar. The meaning of the text is clear. The candidate has consistently used a form and style of writing appropriate to the purpose of the question. Answer is organised in a clear and coherent manner.
Level 2	3 marks Candidate demonstrates satisfactory understanding of Licensing, Joint Ventures and Multinationals. Candidate makes adequate use of specialist vocabulary when appropriate.	3 marks Candidate attempts to apply a satisfactory level of knowledge.	3 marks Candidate shows a satisfactory attempt to analyse Licensing, Joint Ventures and Multinationals.	5–8 marks Candidate gives satisfactory evaluation of Licensing, Joint Ventures and Multinationals, and comes to a final judgment. Candidate demonstrates satisfactory spelling, punctuation and grammar. The meaning of the text is clear most of the time. The candidate demonstrates a satisfactory form and style of writing appropriate to the purpose of the question. Answer is organised in a satisfactory manner.
Level 1	1–2 marks Candidate demonstrates limited understanding of Licensing, Joint Ventures and Multinationals. Candidate makes use of specialist vocabulary when appropriate.	1–2 marks Candidate attempts to apply limited knowledge.	1–2 marks Candidate shows limited analysis of Licensing, Joint Ventures and Multinationals.	2–4 marks Candidate attempts a limited evaluation of Licensing, Joint Ventures and Multinationals. Candidate makes little use of spelling, punctuation and grammar. The meaning of the text is not always clear. The candidate demonstrates a limited form and style appropriate to the question. The organisation of the answer is limited.
Level 0	0 marks Candidate demonstrates no understanding of Licensing, Joint Ventures and Multinationals. Candidate makes no use of specialist vocabulary.	0 marks Candidate does not attempt to apply knowledge.	0 marks Candidate shows no attempt to analyse Licensing, Joint Ventures and Multinationals.	0 marks Candidate makes no attempt to evaluate Licensing, Joint Ventures and Multinationals.

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Total

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