



BUSINESS AND MANAGEMENT

9771/02

Paper 2 Strategic Decisions

May/June 2018

MARK SCHEME

Maximum Mark: 100

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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This document consists of **11** printed pages.

PUBLISHED**Generic Marking Principles**

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks	Guidance
1(a)	<p>Calculate the payback period of the £1m IT investment. Original capital cost £1m net cash flows: Y1 £250 000 Y2 £300 000 Y3 £500 000</p> <p>additional net cash flow needed/annual cash flow yr 3 × 12 months = £450 000/£500 000 × 12 = 10.8 months or 328.5 days = PBP: 2 years and 10.8 months or 2 years and 329 days (±1 day) or 2.9 years</p>	3	Award 1 marks for 2 years and the other 2 marks for correct number of months/days/fraction (allow rounding)
1(b)	<p>Calculate the return on capital employed in 2014.</p> <p>Formula: operating profit/capital employed × 100 [1]</p> <p>Capital employed = total assets – current liabilities</p> <p>30721 – 8450 = 22271 [1] = 452/22271 × 100</p> <p>2.03% [3]</p>	3	<p>Other correct formulas for CE are permitted</p> <p>Full marks for correct answer only</p>

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1(c)	<p>Comment on the usefulness to <i>Share's</i> directors of the result obtained in 1(b).</p> <p>Answers could include:</p> <p>Knowledge (K)</p> <ul style="list-style-type: none"> • Definition of RoCE • Profitability ratio. Also known as the primary efficiency ratio • Compares profit with the capital that has been invested in the business <p>Application (P)</p> <ul style="list-style-type: none"> • Value for 2014 is 2.03% v –4.44% in 2015 (trend is down) • Not particularly useful for the directors because the company had other revenues such as the sale of minority business stakes (see income statement) • <i>Share</i> may need to reduce overheads to boost operating profit. In 2014 operating profit was only £452 000 • Should <i>Share</i> consider raising prices (feasibility) • Could be temporary due to the external environment • Value is low 2.03% and this may be a concern to directors as shareholders may be unhappy with the performance • Need knowledge of Benchmark RoCE in the industry 	6	<table border="1"> <thead> <tr> <th data-bbox="1189 317 1335 400"></th> <th data-bbox="1335 317 1738 400">Knowledge AO1 2 marks</th> <th data-bbox="1738 317 2145 400">Application AO2 4 marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="1189 400 1335 587">Level 2</td> <td data-bbox="1335 400 1738 587">2 marks Candidate shows clear knowledge of RoCE</td> <td data-bbox="1738 400 2145 587">3–4 marks Candidate clearly explains the usefulness of the RoCE result using 2 examples of clear case context</td> </tr> <tr> <td data-bbox="1189 587 1335 703">Level 1</td> <td data-bbox="1335 587 1738 703">1 mark Candidate shows limited knowledge of RoCE</td> <td data-bbox="1738 587 2145 703">1–2 marks Candidate uses 1 example or limited case context</td> </tr> <tr> <td data-bbox="1189 703 1335 756">Level 0</td> <td colspan="2" data-bbox="1335 703 2145 756">No rewardable response</td> </tr> </tbody> </table> <p>ARA</p>			Knowledge AO1 2 marks	Application AO2 4 marks	Level 2	2 marks Candidate shows clear knowledge of RoCE	3–4 marks Candidate clearly explains the usefulness of the RoCE result using 2 examples of clear case context	Level 1	1 mark Candidate shows limited knowledge of RoCE	1–2 marks Candidate uses 1 example or limited case context	Level 0	No rewardable response	
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1(d)	<p>Analyse the likely impact on <i>Share's</i> profitability of a fall in UK interest rates.</p> <p>Answers could include:</p> <p>Knowledge (K)</p> <ul style="list-style-type: none"> • Definition of interest rate and/or profitability • Interest income would continue to fall if interest rates fall. This could reduce profitability <p>Application (P)</p> <ul style="list-style-type: none"> • Share could grow or rely on fee and commission income • Interest income is only 9% of revenue • Each 0.25% fall in interest rates = £0.4m loss of revenue • Share has zero debt so no impact in this respect <p>Analysis (A)</p> <ul style="list-style-type: none"> • Why are interests rates low? If the economy is weak investors may shun the stock market • Low interest rates may mean investors turn to stock investing (rather than bank savings accounts) and thus cash balances could increase • Changes in the regulatory environment may accelerate the reduction of revenue from cash deposits. • Shorter length savings accounts give lower interest rates so the 30 day rule will cause further falls in interest income • Can interest rates fall much further? 	13	<table border="1"> <thead> <tr> <th data-bbox="1189 248 1339 331">Level</th> <th data-bbox="1339 248 1615 331">Knowledge AO1 2 marks</th> <th data-bbox="1615 248 1877 331">Application AO2 5 marks</th> <th data-bbox="1877 248 2141 331">Analysis AO3 6 marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="1189 331 1339 485">3</td> <td data-bbox="1339 331 1615 485"></td> <td data-bbox="1615 331 1877 485">5 marks Candidate fully engages with the case context</td> <td data-bbox="1877 331 2141 485">5–6 marks Candidate fully develops analytical points</td> </tr> <tr> <td data-bbox="1189 485 1339 703">2</td> <td data-bbox="1339 485 1615 703">2 marks Candidate shows clear and precise knowledge of interest rates and profitability</td> <td data-bbox="1615 485 1877 703">3–4 marks Candidate links case material to his answer</td> <td data-bbox="1877 485 2141 703">3–4 marks Developed analysis of arguments</td> </tr> <tr> <td data-bbox="1189 703 1339 959">1</td> <td data-bbox="1339 703 1615 959">1 mark Candidate offers a sufficient definition/ understanding of interest rates or profitability</td> <td data-bbox="1615 703 1877 959">1–2 marks Candidate makes a limited attempt to apply knowledge to the case study</td> <td data-bbox="1877 703 2141 959">1–2 marks Weak analysis of ideas, failure to develop points</td> </tr> <tr> <td data-bbox="1189 959 1339 1010">0</td> <td colspan="3" data-bbox="1339 959 2141 1010">No rewardable response</td> </tr> </tbody> </table> <p>ARA</p>				Level	Knowledge AO1 2 marks	Application AO2 5 marks	Analysis AO3 6 marks	3		5 marks Candidate fully engages with the case context	5–6 marks Candidate fully develops analytical points	2	2 marks Candidate shows clear and precise knowledge of interest rates and profitability	3–4 marks Candidate links case material to his answer	3–4 marks Developed analysis of arguments	1	1 mark Candidate offers a sufficient definition/ understanding of interest rates or profitability	1–2 marks Candidate makes a limited attempt to apply knowledge to the case study	1–2 marks Weak analysis of ideas, failure to develop points	0	No rewardable response		
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2	<p>Evaluate whether <i>Share</i> should invest £1m in IT. Justify your answer, including the use of investment appraisal techniques.</p> <p>Answers could include:</p> <table border="1" data-bbox="248 419 1048 722"> <thead> <tr> <th>Year</th> <th>Net cash flow</th> <th>DF 6%</th> <th>DCF £</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>(£1m)</td> <td>–</td> <td>–</td> </tr> <tr> <td>1</td> <td>£250 000</td> <td>0.94</td> <td>235 000</td> </tr> <tr> <td>2</td> <td>£300 000</td> <td>0.89</td> <td>267 000</td> </tr> <tr> <td>3</td> <td>£500 000</td> <td>0.84</td> <td>420 000</td> </tr> <tr> <td>4</td> <td>£510 000</td> <td>0.79</td> <td>402 900</td> </tr> </tbody> </table> <p>Investment appraisal techniques</p> <p>Total discounted cash flows = £1 324 900 – original investment £1m = NPV £324 900</p> <p>NPV = £324 900 in today’s money terms. If the finance needed can be borrowed at 6% or less the investment will be profitable.</p> <p>ARR = £560 000/4 yrs = £140 000 net return pa</p> <p>£140 000/£1m = 14%</p> <p>ARR is well above bank interest rate returns but could be seen as modest given the risks.</p> <p>PBP = 2 years 10.8 months or 2 years 329 days</p> <p>PBP is low. (Typical of I.T projects)</p>	Year	Net cash flow	DF 6%	DCF £	0	(£1m)	–	–	1	£250 000	0.94	235 000	2	£300 000	0.89	267 000	3	£500 000	0.84	420 000	4	£510 000	0.79	402 900	25	<table border="1" data-bbox="1193 248 2143 1283"> <thead> <tr> <th>Level</th> <th>Knowledge AO1 4 marks</th> <th>Application AO2 5 marks</th> <th>Analysis AO3 8 marks</th> <th>Evaluation AO4 8 marks</th> </tr> </thead> <tbody> <tr> <td>3</td> <td></td> <td>5 marks Arguments are consistently based upon case context</td> <td>6–8 marks Candidate fully develops analytical points and analysis of 3 IA techniques</td> <td>6–8 marks Extensive, high-quality judgement shown</td> </tr> <tr> <td>2</td> <td>3–4 marks Good knowledge/ understanding shown of IT and investment appraisal</td> <td>3–4 marks Candidate makes a good attempt to apply knowledge to the specific scenario</td> <td>3–5 marks Developed analysis of arguments and analysis of 2 IA technique</td> <td>3–5 marks Good judgement shown</td> </tr> <tr> <td>1</td> <td>1–2 marks Some knowledge/ understanding shown of IT or investment appraisal</td> <td>1–2 marks Candidate makes a very limited attempt to apply knowledge to the specific case study.</td> <td>1–2 marks Weak analysis of the ideas, failure to develop points. Analysis of one IA technique</td> <td>1–2 marks Weak judgement shown</td> </tr> <tr> <td>0</td> <td colspan="4">No rewardable response</td> </tr> </tbody> </table>					Level	Knowledge AO1 4 marks	Application AO2 5 marks	Analysis AO3 8 marks	Evaluation AO4 8 marks	3		5 marks Arguments are consistently based upon case context	6–8 marks Candidate fully develops analytical points and analysis of 3 IA techniques	6–8 marks Extensive, high-quality judgement shown	2	3–4 marks Good knowledge/ understanding shown of IT and investment appraisal	3–4 marks Candidate makes a good attempt to apply knowledge to the specific scenario	3–5 marks Developed analysis of arguments and analysis of 2 IA technique	3–5 marks Good judgement shown	1	1–2 marks Some knowledge/ understanding shown of IT or investment appraisal	1–2 marks Candidate makes a very limited attempt to apply knowledge to the specific case study.	1–2 marks Weak analysis of the ideas, failure to develop points. Analysis of one IA technique	1–2 marks Weak judgement shown	0	No rewardable response			
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2	<p>Knowledge (K)</p> <ul style="list-style-type: none"> • Definition of IT and or investment appraisal • Application (P) • 78% of transactions use the website • Do the demographic that <i>Share</i> cater for use mobile apps? <p>Analysis (A)</p> <ul style="list-style-type: none"> • IT can have a short life span • Ongoing technical support and expertise can be expensive (Technology has been one of the big recruiting depts.) • Possibly less susceptible to cyber-attack if part of the investment is in cyber security • Can <i>Share</i> afford the investment? Without the sale of stakes in other businesses the company had an operating loss of £894 000 in 2015 <p>Evaluation (E)</p> <ul style="list-style-type: none"> • Depends what rivals are doing • Could already be too late if rivals have 1st mover advantage • Are the revenues/costs likely to higher/lower than anticipated • Overall the IA techniques suggest the £1m would yield a reasonable return. 		ARA

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3	<p>To what extent will the recruitment and retention of employees be important to <i>Share's</i> long term success.</p> <p>Answers could include:</p> <p>Knowledge (K)</p> <ul style="list-style-type: none"> Definition of recruitment and/or retention <p>Application (P)</p> <ul style="list-style-type: none"> Retaining staff will be important given the low unemployment in the finance sector and 'talented staff are in high demand' Business is expanding (149 to 169) employees Labour turnover is growing 15% to 22%. Recruitment is expensive and the growing labour turnover potentially shows retention/motivation issues <i>Share</i> seems to offer a good employment package including pension sick pay and incentive schemes <p>Analysis (A)</p> <ul style="list-style-type: none"> <i>Share</i> has won awards for customer service and this could be threatened if good staff are leaving If <i>Share</i> finds it easy to recruit and retain this is a sign of a motivated workforce (motivational theories could be used) <p>Evaluation (E)</p> <ul style="list-style-type: none"> Key to success is retaining and recruiting good staff How is 'long term' defined Depends on the actions of <i>Shares</i> competitors The low unemployment rate is beyond their control. 	25	<table border="1"> <thead> <tr> <th data-bbox="1189 248 1308 363">Level</th> <th data-bbox="1308 248 1518 363">Knowledge AO1 4 marks</th> <th data-bbox="1518 248 1727 363">Application AO2 5 marks</th> <th data-bbox="1727 248 1935 363">Analysis AO3 8 marks</th> <th data-bbox="1935 248 2143 363">Evaluation AO4 8 marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="1189 363 1308 552">3</td> <td data-bbox="1308 363 1518 552"></td> <td data-bbox="1518 363 1727 552">5 marks Arguments consist-ently based on case context</td> <td data-bbox="1727 363 1935 552">6–8 marks Candidate fully develops analytical points</td> <td data-bbox="1935 363 2143 552">6–8 marks Extensive, high quality judgement shown</td> </tr> <tr> <td data-bbox="1189 552 1308 839">2</td> <td data-bbox="1308 552 1518 839">3–4 marks Good knowledge/ understanding shown of recruitment and retention</td> <td data-bbox="1518 552 1727 839">3–4 marks Candidate makes a good attempt to apply knowledge to the specific case scenario</td> <td data-bbox="1727 552 1935 839">3–5 marks Developed analysis of arguments.</td> <td data-bbox="1935 552 2143 839">3–5 marks Good judgement shown</td> </tr> <tr> <td data-bbox="1189 839 1308 1126">1</td> <td data-bbox="1308 839 1518 1126">1–2 marks Some knowledge/ understanding shown of recruitment or retention</td> <td data-bbox="1518 839 1727 1126">1–2 marks Candidate makes a very limited attempt to apply knowledge to the specific case study</td> <td data-bbox="1727 839 1935 1126">1–2 marks Weak analysis of the ideas, failure to develop points</td> <td data-bbox="1935 839 2143 1126">1–2 marks Weak judgement shown</td> </tr> <tr> <td data-bbox="1189 1126 1308 1177">0</td> <td colspan="4" data-bbox="1308 1126 2143 1177">No rewardable response</td> </tr> </tbody> </table> <p>ARA</p>					Level	Knowledge AO1 4 marks	Application AO2 5 marks	Analysis AO3 8 marks	Evaluation AO4 8 marks	3		5 marks Arguments consist-ently based on case context	6–8 marks Candidate fully develops analytical points	6–8 marks Extensive, high quality judgement shown	2	3–4 marks Good knowledge/ understanding shown of recruitment and retention	3–4 marks Candidate makes a good attempt to apply knowledge to the specific case scenario	3–5 marks Developed analysis of arguments.	3–5 marks Good judgement shown	1	1–2 marks Some knowledge/ understanding shown of recruitment or retention	1–2 marks Candidate makes a very limited attempt to apply knowledge to the specific case study	1–2 marks Weak analysis of the ideas, failure to develop points	1–2 marks Weak judgement shown	0	No rewardable response			
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4	<p>Evaluate whether <i>Share</i> should spend more on promoting the business or on developing its CSR strategy.</p> <p>Answers could include:</p> <p>Quantitative techniques for assessing promotion</p> $AED = \frac{\% \text{ change QD}}{\% \text{ change in advertising expenditure}}$ <ul style="list-style-type: none"> Qd 248 000 to 251 000 active users = 1.21% Advertising spend change £2.2m to £2.3m = 4.55% $AED = \frac{1.21}{4.55} = 0.27$ <p>Normal distribution confidence levels:</p> <ul style="list-style-type: none"> 512 to 544 = +2SD From the (z) table this is .4772 <p>∴ .50 + .4772 = 97.72% confidence that the advertising campaign was successful in increasing awareness of <i>Share</i> (would need to be 560+ to be totally confident)</p>	25	<table border="1"> <thead> <tr> <th data-bbox="1189 248 1294 363">Level</th> <th data-bbox="1294 248 1541 363">Knowledge AO1 4 marks</th> <th data-bbox="1541 248 1738 363">Application AO2 5 marks</th> <th data-bbox="1738 248 1935 363">Analysis AO3 8 marks</th> <th data-bbox="1935 248 2145 363">Evaluation AO4 8 marks</th> </tr> </thead> <tbody> <tr> <td data-bbox="1189 363 1294 687">3</td> <td data-bbox="1294 363 1541 687"></td> <td data-bbox="1541 363 1738 687">5 marks Arguments are consistently based upon case context</td> <td data-bbox="1738 363 1935 687">6–8 marks Candidate fully develops analytical points and uses quantitative technique(s)</td> <td data-bbox="1935 363 2145 687">6–8 marks extensive high-quality judgement shown</td> </tr> <tr> <td data-bbox="1189 687 1294 1011">2</td> <td data-bbox="1294 687 1541 1011">3–4 marks Good knowledge/ understanding shown</td> <td data-bbox="1541 687 1738 1011">3–4 marks Candidate makes good attempt to apply knowledge to specific case scenario</td> <td data-bbox="1738 687 1935 1011">3–5 marks Developed analysis of arguments (balanced answer)</td> <td data-bbox="1935 687 2145 1011">3–5 marks Good judgement shown</td> </tr> <tr> <td data-bbox="1189 1011 1294 1335">1</td> <td data-bbox="1294 1011 1541 1335">1–2 marks Some knowledge/ understanding shown</td> <td data-bbox="1541 1011 1738 1335">1–2 marks Candidate makes a very limited attempt to apply knowledge to the specific case study</td> <td data-bbox="1738 1011 1935 1335">1–2 marks Weak analysis of the ideas, failure to develop points</td> <td data-bbox="1935 1011 2145 1335">1–2 marks Weak judgement shown</td> </tr> <tr> <td data-bbox="1189 1335 1294 1385">0</td> <td colspan="4" data-bbox="1294 1335 2145 1385">No rewardable response</td> </tr> </tbody> </table>					Level	Knowledge AO1 4 marks	Application AO2 5 marks	Analysis AO3 8 marks	Evaluation AO4 8 marks	3		5 marks Arguments are consistently based upon case context	6–8 marks Candidate fully develops analytical points and uses quantitative technique(s)	6–8 marks extensive high-quality judgement shown	2	3–4 marks Good knowledge/ understanding shown	3–4 marks Candidate makes good attempt to apply knowledge to specific case scenario	3–5 marks Developed analysis of arguments (balanced answer)	3–5 marks Good judgement shown	1	1–2 marks Some knowledge/ understanding shown	1–2 marks Candidate makes a very limited attempt to apply knowledge to the specific case study	1–2 marks Weak analysis of the ideas, failure to develop points	1–2 marks Weak judgement shown	0	No rewardable response			
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4	<p>Knowledge (K):</p> <ul style="list-style-type: none"> • Definition of promotion and or CSR • Normal distribution suggests the magazine promotion was successful • Share-dealing is a competitive market so <i>Share</i> needs to spend on promotion to maintain or increase market share • Comparison with other similar firms with regard to new accounts and/or marketing spend • Number of enquiries or new active accounts • Objective of the advertising could be long term to build brand image and recognition <p>Application (P): Analysis (A):</p> <ul style="list-style-type: none"> • May encourage consumers to use Share • Could be used for marketing purposes • Treating employees well could be seen as CSR • Environmental policies may reduce the businesses costs e.g. lighting and paper • Fund raising provides a sense of belonging (Mayo, empowerment) • Some CSR is due to regulatory guidelines <p>Evaluation (E):</p> <ul style="list-style-type: none"> • Are consumers really concerned with CSR? • Given the size of the company the funds raised for charity £6000 could be considered small • Will consumers see the CSR as purely a marketing ploy • CSR can be expensive. New bike racks etc. 		ARA