

Cambridge IGCSE · Business (0264) · Chapter 1

Business Activity and Economic Sectors



Syllabus topics 1.1–1.2 · Paper 1 (Short Answer and Data Response) and Paper 2 (Case Study)

For the Cambridge IGCSE Business 0264 syllabus, exams in 2027, 2028 and 2029

Business 0264 replaces Business Studies 0450 from 2027.

Syllabus statements covered in this chapter

Syllabus ref.	What you must be able to do
1.1.1	Factors of production: land, labour, capital and enterprise
1.1.1	The concept of adding value, and how added value can be increased
1.1.1	The concept of opportunity cost
1.2.1	Primary, secondary and tertiary sectors
1.2.1	Private and public sectors

What is inside

1. Concept notes, figures and 8 worked examples (calculations and model answers)
2. Exam skills for Papers 1 and 2; common mistakes from the examiner report
3. 20 quick-check multiple-choice questions, explained
4. Two Paper 1 style questions and one Paper 2 style case-study question, all with full mark schemes
5. Quick-reference table, "I can" checklist

How to read these notes

red = key term green = definition

I = one mark in the mark scheme

★ **Exam tip:** Business exams reward **application**: every point should be linked to **the business in the question**.

Learn each definition exactly, then practise using it: "point → this business → so what?"

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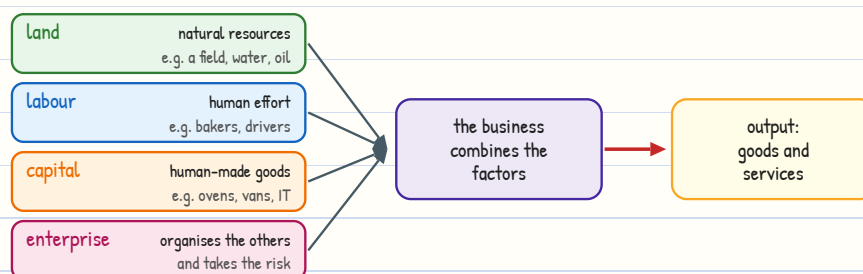
1.1 The nature of business activity

- A **business** is an organisation that uses resources to produce goods or services to satisfy people's needs and wants. **Goods** are physical products (bread, cars); **services** are non-physical (a haircut, insurance).
- Resources are **limited** but people's wants are **unlimited**, so there is **scarcity**: businesses, consumers and governments must **choose** how to use resources. Every choice has an **opportunity cost** (see below).

1.1.1 Factors of production

Factors of production are the resources a business needs to produce goods and services. There are four.

factor	definition	examples in a bakery	examples in a mining business
land	all natural resources used in production	the plot the bakery stands on; water	the gold or coal under the ground; the site of the mine
labour	the physical and mental effort of the people who work in a business	bakers, shop assistants, a delivery driver	miners, engineers, office staff
capital	human-made goods used to produce other goods and services	ovens, mixers, display counters, a delivery van	drills, trucks, conveyor belts, computers
enterprise	the skill and willingness of a person (the entrepreneur) to combine the other factors and take the risk of starting and running a business	the owner who opened the bakery with her savings	the founders who decided to open the mine



A business combines the four factors of production to make an output of goods or services.

★ **Exam tip:** In this topic **capital** means **capital goods** (machines, tools, vehicles, buildings), not money. In Chapter 17 (Business finance) "capital" also means money invested in a business: read the question carefully. Economists call the reward to each factor rent (land), wages (labour), interest (capital) and profit (enterprise).

- **Quantity and quality matter.** A business can produce more if it has **more** of a factor (extra workers, a bigger site) or **better** factors (trained staff, modern machinery).
- **Labour-intensive** businesses use many workers relative to machines (a restaurant, a hand-made clothing workshop); **capital-intensive** businesses use many machines relative to workers (an oil refinery, a car factory).

Worked example 1: applying the factors of production

Sunrise Bakes is a bakery owned by Amina. It employs 8 bakers, rents a shop on a busy street, has 3 large ovens and sells bread and cakes. Identify one example of each factor of production used by Sunrise Bakes.

Land: the site of the shop on the busy street (and the water used in baking). **Labour:** the 8 bakers.

Capital: the 3 ovens. **Enterprise:** Amina, who set up the business, combines the other factors and takes the risk of losing her money if the bakery fails.

Notice that each answer uses a **detail from the business** (8 bakers, 3 ovens): this is how application marks are earned.

1.1.1 The concept of adding value

- **Added value** is the difference between the selling price of a product and the cost of the bought-in materials and components used to make it.
- A business **adds value** when it turns inputs into something customers will pay **more** for: baking flour and eggs into a cake, or turning a plain T-shirt into a branded one.

Added value (per unit) = selling price – cost of bought-in materials and components

Added value (in total) = revenue – total cost of bought-in materials and components



A cake sells for £18.00 and its bought-in materials cost £6.50, so the bakery adds £11.50 of value.

X Don't do this: Added value is not profit. Wages, rent, electricity, advertising and other costs must still be paid out of the added value. What is left after **all** costs is profit, so a business can have high added value and still make a loss.

Worked example 2: calculating added value

A jeweller makes a silver bracelet. She sells it for £75. The silver and clasp cost £28 and she pays a worker £15 to make each bracelet. (a) Calculate the added value of one bracelet. (b) She sells 40 bracelets a month. Calculate the total added value per month.

(a) Added value = selling price – bought-in materials = £75 – £28 = **£47**. The £15 wage is **not** a bought-in material, so it is not subtracted (it is paid **out of** the added value).

(b) £47 × 40 = **£1,880** per month.

How added value can be increased

Added value rises if the business can **raise the price** without raising bought-in costs by as much, or **cut the cost of bought-in materials** without having to lower the price.

method	how it increases added value	possible drawback
branding	a well-known brand name makes customers willing to pay a higher price	advertising to build a brand is expensive and slow

higher quality or better design	better materials, design or features justify a higher price	better materials raise bought-in costs
attractive packaging	makes the product look premium, so a higher price can be charged	packaging itself is a bought-in cost; may harm the environment
better customer service or convenience	fast delivery, helpful staff or a good location: customers pay more	more staff and training raise wage costs
unique features , personalising	a product made specially for the customer commands a premium price	takes more time per unit
cheaper bought-in materials	a cheaper supplier, bulk buying or less waste lowers bought-in costs	quality may fall, so customers may buy less or pay less

★ **Exam tip:** The examiner report (June 2025) says even strong candidates "could not explain how their chosen way would increase value added", especially with **branding**. Always finish the chain: branding → customers see the product as better → **higher price** → **bigger gap between price and bought-in costs**.

Worked example 3: which way increases added value more?

A café sells 500 cups of coffee a week at £3.20; the beans, milk and cup for each cost £0.80. Option A: use premium beans and train staff in latte art; the price rises to £3.80, bought-in costs rise to £1.00 and sales fall to 450 cups a week. Option B: buy cups and milk in bulk, cutting bought-in costs to £0.70, price and sales unchanged. Which option gives the higher total added value per week?

Now: $(£3.20 - £0.80) \times 500 = £2.40 \times 500 = \text{£1,200}$.

A: $(£3.80 - £1.00) \times 450 = £2.80 \times 450 = \text{£1,260}$. B: $(£3.20 - £0.70) \times 500 = £2.50 \times 500 = \text{£1,250}$.

Option A adds £10 more a week, but only if sales really are 450; if they fall to 446 or fewer, B is better ($£1,250 \div £2.80 \approx 446.4$). B is the lower-risk choice; A also needs training costs.

Worked example 4: "Explain two ways..." (model answer)

Kai makes wooden toys by hand and sells them at a weekly market. Explain two ways Kai could increase the added value of his toys. [6]

Way 1: branding. Kai could create a brand name and logo for his hand-made toys [k]. Parents at the market would see them as high-quality, safe wooden toys [app], so Kai could charge a higher price while the cost of the wood stays the same, widening the gap between price and bought-in costs [an].

Way 2: cheaper bought-in materials. He could buy wood in bulk from a timber supplier [k] instead of small amounts each week for his market stall [app]; the cost of materials per toy falls and, if the price is unchanged, the added value per toy rises [an].

Each way has its **own** application and its **own** analysis: the same "so the price can rise" link is credited only once.

1.1.1 The concept of opportunity cost

- **Opportunity cost** is the next best alternative given up when a choice is made.
- Because resources (money, time, land, workers) are **scarce**, using them for one purpose means they cannot be used for another. Opportunity cost is the **single** best option rejected, not every option, and not simply the money spent.

<i>who chooses</i>	<i>choice made</i>	<i>opportunity cost (next best alternative)</i>
a business	spends £30,000 on a new delivery van	the new website it could have built with the money
a farmer	uses a field to grow maize	the vegetables the field could have grown
a business owner	spends Saturday on the accounts	the extra sales she could have made serving customers
a government	builds a new road	the hospital the same money could have paid for

Why it matters to a business: thinking about opportunity cost helps managers compare options and choose the one that adds most to the business objectives; it reminds them that a "free" use of their own time or premises is not really free.

Worked example 5: identifying opportunity cost

Greenleaf Garden Centre has £50,000 to spend. The managers rank the options: (1) a new glasshouse to grow its own plants, (2) a café inside the garden centre, (3) a delivery van, (4) a television advertising campaign. They build the glasshouse. (a) What is the opportunity cost? (b) Explain why the owners' decision to work there themselves also has an opportunity cost.

(a) **The café**, the next best alternative. The van and the advertising are not included: only the single best option rejected counts.

(b) Their **time** is scarce: the hours spent running the garden centre could have been spent in paid jobs elsewhere, so the wages they could have earned are an opportunity cost even though no money is paid out.

1.2 Economic sectors

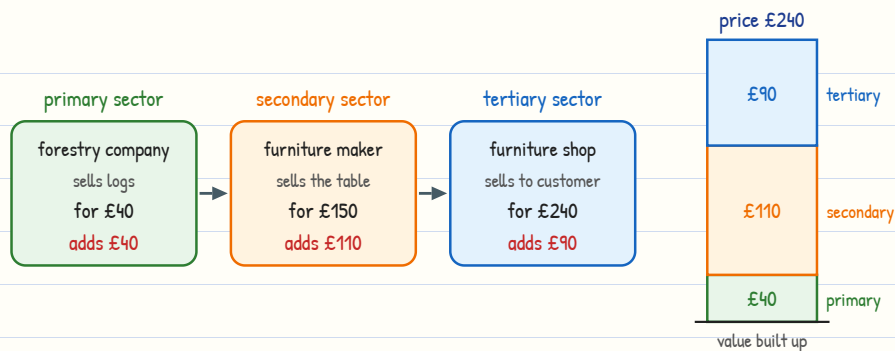
1.2.1 Primary, secondary and tertiary sectors

Businesses are grouped into three **sectors** by the type of activity they carry out.

<i>sector</i>	<i>definition</i>	<i>examples</i>
primary sector	businesses that extract or grow natural resources (raw materials)	farming, fishing, forestry, mining, quarrying, oil and gas extraction
secondary sector	businesses that manufacture or process raw materials into finished or semi-finished goods, including construction	car factories, steel works, food processing, clothing manufacture, building firms, oil refineries
tertiary sector	businesses that provide services to consumers and to other businesses	shops (retail), banks, insurance, transport, hotels and tourism, hairdressers, healthcare, education

The chain of production: how the sectors depend on each other

Most products pass through all three sectors. Each business in the chain **adds value**, and each depends on the others: a furniture maker needs timber from the primary sector and shops (tertiary) to sell its tables.



A wooden table: the value of the product is built up stage by stage until the customer pays £240.

Worked example 6: added value along a chain of production

Use the figure. (a) Calculate the value added by the furniture maker and by the shop. (b) Show that the added value of all three stages equals the final price. (c) Name the sector of each business.

(a) Furniture maker: $£150 - £40 = \text{£}110$. Shop: $£240 - £150 = \text{£}90$.

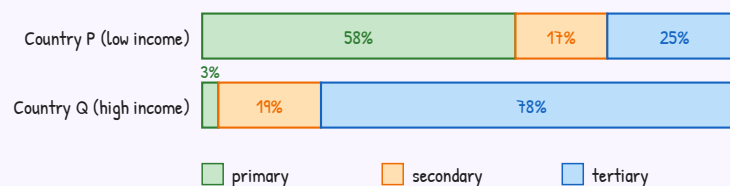
(b) $£40 + £110 + £90 = \text{£}240$, the price the customer pays (here the forestry company's own bought-in costs are ignored, so all £40 counts as its added value).

(c) Forestry company: **primary**; furniture maker: **secondary**; shop: **tertiary**.

- **A business can operate in more than one sector.** A tea estate that grows tea (primary), packs it under its own brand (secondary) and sells it in its own shop (tertiary) keeps the added value of every stage, but needs more capital and new skills.
- **Classify by what the business does**, not by what it sells: a bakery that bakes its own bread is secondary; a supermarket that sells bread is tertiary.

Going further

Going further: the importance of the sectors differs between countries. In many low-income countries most people work in the primary sector (often farming); as countries develop, workers move into manufacturing and then into services, and in high-income countries most people work in the tertiary sector. When the secondary sector declines this is called **de-industrialisation**.



Share of workers employed in each sector, two invented countries.

1.2.1 Private and public sectors

Businesses and organisations are also classified by **who owns them**.

- The **private sector** is the part of the economy made up of businesses owned and controlled by private individuals or shareholders, not by the government.
- The **public sector** is the part of the economy made up of organisations owned and controlled by the government (central or local).
- Most countries have a **mixed economy**: both sectors provide goods and services.

	<i>private sector</i>	<i>public sector</i>
owned and controlled by	private individuals or shareholders	central or local government, on behalf of the public
main objective	usually profit ; also survival, growth, market share	usually to provide a service to the public; may also aim to break even or protect jobs
finance	owners' savings, shares, loans, retained profit	mainly taxes and government borrowing; some charges to users
examples	a sole-trader taxi, a family restaurant, a car manufacturer that is a public limited company	state schools and hospitals, a state-owned railway or postal service, the police

X Don't do this: A public limited company (plc) is in the private sector. "Public" in its name means its shares can be sold to the public, not that the government owns it. Define the sectors by **ownership**: "run by" or "managed by" the government is not precise enough (examiner report, June 2025).

Why the public sector provides some services: essential services everyone needs whether or not they can pay (healthcare, education, policing); services that would not make a profit but are important (a rural bus route, street lighting); control of important industries. **But** without the profit motive there may be less pressure to be efficient, and public spending has an opportunity cost.

Worked example 7: "Do you think...? Justify your answer." (model answer)

Town Z's bus service is run by the local council. The council is considering selling it to a private bus company. Do you think the bus service should stay in the public sector? Justify your answer. [8]

Public sector: the council aims to provide a service [k], so it can keep buses running on quiet village routes [app] that make no profit, meaning elderly people without cars can still reach shops and the hospital [an].

Private sector: a private company aims for profit [k], so it has an incentive to cut waste and run buses on time to attract more passengers in Town Z [app]; the council would no longer pay for the service from taxes [an].

Justification: it should stay public, because a private company would probably cut the unprofitable village routes, and the people who use them have no other transport [eval]. The council can still tackle inefficiency by setting punctuality targets [eval]. (*A decision, a reason, and why the other side is weaker: not a repeat of earlier points.*)

Worked example 8: classifying businesses

Classify each organisation by economic sector and as private or public sector. Remember: the economic sector depends on **what it does**; private or public depends on **who owns it**.

<i>organisation</i>	<i>sector</i>	<i>owner</i>	<i>organisation</i>	<i>sector</i>	<i>owner</i>
a state-owned coal mine	primary	public	a council's building department	secondary	public
a family-owned shrimp farm	primary	private	a partnership of accountants	tertiary	private
a plc that builds ships	secondary	private	a government-run hospital	tertiary	public

Exam skills for Papers 1 and 2

Command words and what they need

command word	what the examiner wants
define	the precise meaning, usually 2 marks (1 for partial understanding); an example alone is not a definition
identify / state; calculate	name the point briefly (e.g. "capital: the ovens"); show the working and give units (£, units per week)
outline	the main point plus a link to the business: 1 mark knowledge + 1 mark application each
explain	point [k] + application to the business [app] + a "so / which means / leading to" consequence [an]
consider; justify	review each option given, for and against, in context; then support your decision with evidence and say why the alternative is weaker

How the marks are earned

- **Knowledge [k]:** a correct business point, e.g. "branding allows a higher price".
- **Application [app]:** a reference to **this** business that makes sense with the point: its product, its numbers, its sector, its size. A **different** piece of context is needed for each point.
- **Analysis [an]:** develop the point: what happens next, and why it matters to the business (costs, revenue, sales, profit, cash). The same analysis is credited only once.
- **Evaluation [eval]:** in Paper 1 part (d) and Paper 2 part (b): a clear decision, a supporting reason, and why it is better than the alternative. A summary of earlier points is not evaluation.

Paper 1 and Paper 2 at a glance

- **Paper 1** (1 h 30, 80 marks): four questions, each with a short stimulus about a business. Typical parts: (a) define or calculate [2], (b) outline two [4], (c) explain two [6], (d) "Do you think...? Justify your answer." [8], marked as up to 2 for each of k, app, an and eval.
- **Paper 2** (1 h 30, 80 marks): four questions on a case study insert with appendices. Typical parts: (a) "Explain two..." [8] and (b) "Consider... Which should the business choose? Justify your answer." [12], marked in levels (Level 3: 9-12).
- **Use the data:** quote figures from tables and appendices, and calculate with them (e.g. added value per unit) to support your argument.

Common mistakes that lose marks

- **Added value not understood.** The examiner report (June 2025) names added value as a term candidates found hard. It is price minus **bought-in materials**, not price minus all costs (that is profit).
- **Ways of increasing added value left undeveloped.** Saying "use branding" is only knowledge; explain how it allows a higher price (or lower bought-in costs) and so a bigger gap.
- **Private sector defined by control.** Use **ownership**: "owned by private individuals or shareholders". Describing one type of private business (a sole trader) is not a definition of the sector.
- **Plc placed in the public sector.** A public limited company is privately owned by its shareholders.
- **Capital confused with money** when listing factors of production; examples given instead of a definition.

- **Opportunity cost given as all the alternatives**, or as the money spent, instead of the single next best alternative.
- **Same application or analysis for both points** in a "two ways" answer, or a conclusion that only repeats earlier points.

Quick-check multiple-choice questions

The 0264 exam has no multiple-choice paper: use these 20 questions to check your knowledge quickly. Choose one answer, A, B, C or D. Answers with explanations follow.

- Which is an example of capital as a factor of production?

A a bakery's delivery van	B money in a bank account
C a forest used for timber	D a manager's decision-making
- What is meant by enterprise?

A the effort of employees	B natural resources used in production
C combining the other factors and taking risks	D human-made goods used in production
- A fishing company catches fish in the sea. Which factor of production is the fish stock in the sea?

A labour	B land	C capital	D enterprise
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- What is added value?

A the profit made on each product	B the total revenue of a business
C selling price minus all costs	D selling price minus bought-in costs
- A potter sells a vase for £45. The clay and glaze cost £9 and the wages for making it are £12. What is the added value of one vase?

A £24	B £36	C £33	D £54
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- Which change, with everything else unchanged, would increase the added value of a product?

A a cheaper supplier of the same materials	B a lower selling price
C more expensive materials	D more spending on packaging
- What is opportunity cost?

A the money paid for a product	B all the alternatives given up
C the cost of producing one more unit	D the next best alternative given up
- A business has £20,000. It ranks: (1) a new oven, (2) an advertising campaign, (3) staff training. It buys the oven. What is the opportunity cost?

A the new oven	B advertising and training	C the advertising campaign	D £20,000
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- Which business is in the primary sector?

A a fishing company	B a bakery	C a bank	D a furniture shop
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- Which business is in the secondary sector?

A a bank	B a car assembly plant	C a coal mine	D a hotel
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- Which business is in the tertiary sector?

A an oil refinery	B a dairy farm	C an insurance company	D a shipbuilder
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12. Which describes the private sector?
- A organisations owned by central government B organisations owned by local government
C businesses selling only to individuals D businesses owned by individuals or shareholders
13. Which organisation is in the public sector?
- A a state-owned railway B a sole-trader taxi C a public limited company D a franchised café
14. What is usually the main objective of a public sector organisation?
- A to maximise profit B to provide a service to the public
C to pay dividends to shareholders D to increase market share
15. A wheat farm sells wheat to a flour mill, which sells flour to a bakery chain's shops. In which order do these businesses appear, by sector?
- A tertiary, secondary, primary B primary, tertiary, secondary
C secondary, primary, tertiary D primary, secondary, tertiary
16. A forestry business sells logs to a furniture maker for £30. The furniture maker sells a chair to a shop for £110 and the shop sells it for £180. What is the value added by the furniture maker?
- A £30 B £70 C £80 D £110
17. Why is added value not the same as profit?
- A wages, rent and other costs are paid out of it B it includes the cost of bought-in materials
C profit is found before materials are paid for D it is only measured for services
18. Which is most likely to **reduce** the added value of a clothing retailer's products?
- A a stronger brand image B a personal tailoring service
C buying stock in bulk more cheaply D larger discounts on its prices
19. A hair salon uses scissors and dryers, a rented shop, three trained stylists and an owner who risks her savings. Which of these is labour?
- A the scissors and dryers B the three stylists C the rented shop D the owner
20. Why can a business making luxury watches have a very high added value?
- A it employs many workers B its materials are expensive
C its brand allows a price far above material costs D it is in the secondary sector

Answers and explanations

1 A · 2 C · 3 B · 4 D · 5 B · 6 A · 7 D · 8 C · 9 A · 10 B · 11 C · 12 D · 13 A · 14 B · 15 D · 16 C · 17 A · 18 D · 19 B · 20 C

1. **A.** A van is a human-made good used in production. B is money (finance), C is land, D is enterprise.
2. **C.** A is labour, B is land, D is capital.
3. **B.** Fish in the sea are a natural resource.
4. **D.** A and C describe profit; B is revenue.
5. **B.** $£45 - £9 = £36$. Wages are not bought-in materials (A subtracts them).
6. **A.** Lower bought-in costs at the same price widen the gap. B, C and D all narrow it.
7. **D.** Only the single next best alternative counts.
8. **C.** The second choice is the next best alternative given up.
9. **A.** Fishing extracts a natural resource. B is secondary; C and D are tertiary.

10. **B.** Manufacturing. A and D are tertiary; C is primary.
11. **C.** Insurance is a service. A, D are secondary; B is primary.
12. **D.** Definition by ownership. A and B are the public sector.
13. **A.** Owned by the government. A plc (C) is owned by shareholders: private sector.
14. **B.** Public sector organisations mainly provide a service; A, C and D are private-sector aims.
15. **D.** Farm (primary) → mill (secondary) → shops (tertiary).
16. **C.** $£110 - £30 = £80$.
17. **A.** Wages, rent and other costs come out of added value; the rest is profit.
18. **D.** Discounts lower the price while bought-in costs stay the same. A, B and C raise added value.
19. **B.** A is capital, C is land, D is enterprise.
20. **C.** The brand lets it charge far more than the cost of the materials.

Exam-style questions

Total: 60 marks. Full mark schemes follow each question.

Question 1 (Paper 1 style) [20 marks]

Highland Tea Estates (HTE) owns 300 hectares of tea gardens in country X and employs 120 workers. For many years it sold its tea leaves to a large tea packer. Two years ago it opened a small factory to pack its own brand of tea in decorated boxes, which it sells in a shop at the estate and online. The directors are deciding whether to stop selling leaves to the packer and pack all of its tea under its own brand.

Table 1.1 Data for one box of HTE's own-brand tea

selling price	£6.00
bought-in materials (box, label, flavourings)	£1.80
wages for packing	£1.20
price the packer pays for the leaves in one box	£1.10

- (a) Calculate the added value of one box of HTE's own-brand tea. Show your working. [2]
- (b) Outline **two** economic sectors in which HTE operates. [4]
- (c) Explain **two** ways HTE could increase the added value of its own-brand tea. [6]
- (d) Do you think the advantages for HTE of packing all its tea under its own brand, rather than selling leaves to the packer, are greater than the disadvantages? Justify your answer. [8]

Mark scheme

- (a) $£6.00 - £1.80$ 1; = $£4.20$ 1 (£4.20 with no working: 2 marks; £3.00, from also subtracting wages: 1 mark)
- (b) for each: sector [k] 1 + HTE activity in it [app] 1: primary sector 1, growing tea on its 300 hectares 1; secondary sector 1, packing tea in its factory 1 (or tertiary sector: selling in its shop / online)
- (c) for each way: identification [k] 1, application [app] 1, development [an] 1, e.g. stronger branding / promote "grown on our own estate" 1 for its tea sold online 1, so customers pay more than £6.00 while bought-in costs stay at £1.80 1; buy boxes and labels in bulk / cheaper supplier 1 to cut the £1.80 bought-in cost 1, so the gap between price and bought-in cost widens 1 (also: premium gift packaging, new flavours, better service in the estate shop; the same analysis is credited only once)

Mark scheme

- (d) up to 2 marks each for [k], [app], [an] and [eval].

Advantages: much higher added value [k]: £4.20 a box compared with £1.10 for the leaves [app], so more is left to pay costs and add to profit [an]; control of its own brand [k] and closer contact with customers in the estate shop [app], so it can respond to what they want [an].

Disadvantages: it must sell all its tea itself [k]; it may not find enough buyers for all the tea from 300 hectares [app], so unsold boxes tie up cash [an]; extra factory capital, packing staff and marketing needed [k], costs such as the £1.20 wage per box [app], which reduce profit [an]; loses a reliable customer (the packer) [k], so its income becomes more risky [an].

- **Example justification:** the advantages are greater only if HTE can sell enough boxes, because the added value is almost four times higher [eval]; it should expand its own brand step by step and keep selling some leaves to the packer until online sales are proven [eval].

skill	marks	what earns them (written for these notes)
knowledge [k]	2	two relevant advantages and/or disadvantages identified
application [app]	2	two different, sensible links to HTE (tea, 300 hectares, 120 workers, the £ figures)
analysis [an]	2	two developed consequences (costs, revenue, cash, profit, risk)
evaluation [eval]	2	a justified decision that does not repeat earlier points and says why the other side is weaker

Question 2 (Paper 1 style) [20 marks]

Ola owns FitZone, a private sector gym in a city in country Y. FitZone has 12 employees, 25 exercise machines and 600 members. The city council runs a public sector leisure centre nearby. Ola has £40,000 to spend. She can buy 10 new exercise machines or pay for all 12 employees to train as personal trainers. She cannot afford both.

Table 2.1	FitZone	council leisure centre
monthly membership fee	£30	£18
members	600	2,400
opening hours	24 hours	7 am – 9 pm
main source of finance	members' fees	fees and council taxes

- Define 'opportunity cost'. [2]
- Outline **two** differences between FitZone and the council leisure centre, as organisations in different sectors. [4]
- Explain **two** factors of production, other than enterprise, that FitZone uses. [6]
- Do you think Ola should spend the £40,000 on new exercise machines rather than on training her employees? Justify your answer. [8]

Mark scheme

- (a) the next best alternative 1; given up when a choice is made 1 (some understanding, e.g. "what you lose by choosing": 1 mark)
- (b) for each difference [k] 1 + application [app] 1: ownership: FitZone is owned by a private individual / the centre by the council 1, Ola owns the gym 1; objective: FitZone aims for profit, the centre to provide a service 1, so the centre charges only £18 a month 1 (also finance: fees vs council taxes)
- (c) for each factor: identification [k] 1, application [app] 1, development [an] 1: labour 1, its 12 employees 1, who help members and run the gym 24 hours, so members stay and keep paying fees 1; capital 1, the 25 exercise machines 1, without which the service cannot be provided to members 1 (land: the building's site in the city; accept all valid)

Mark scheme

- (d) up to 2 marks each for [k], [app], [an] and [eval].
Machines: more capital [k], 35 machines instead of 25 [app], so less queuing at busy times and members are less likely to leave for the cheaper £18 leisure centre [an]; new machines attract new members [k], raising fee revenue [an].
Training: skilled labour [k]; 12 personal trainers [app] can offer a service the council centre may not, justifying the higher £30 fee [an]; trainers can charge for extra sessions, a new source of revenue [an]; but trained staff may leave for other gyms [k].
 Opportunity cost: whichever is chosen, the other is given up [k].
- **Example justification:** training is better, because it gives FitZone something different from the cheaper public leisure centre, while new machines could be copied [eval]; machines would be the better choice only if members are already leaving because of queues [eval].

Award (d) using the same k / app / an / eval grid as Question 1(d).

Question 3 (Paper 2 style, case study) [20 marks]**Coastline Seafoods (CS)**

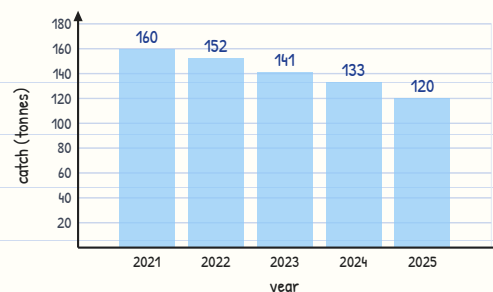
Ravi and Mei own Coastline Seafoods (CS), a fishing business in country Z. CS has 6 boats and 40 employees and sells fresh fish to restaurants. Its catch has fallen each year because of over-fishing, and the government now limits how many fish each boat may catch. Fuel prices often change.

Ravi and Mei want to increase the added value of the fish they catch. They are considering three options:

- **freezing unit:** fillet, freeze and pack fish for supermarkets;
- **seafood restaurant** on the harbour, using CS's own fish;
- **online shop:** sell boxes of fresh fish direct to households, delivered the same day.

Appendix 1 Forecasts for the three options

option	set-up cost	price per unit	bought-in cost per unit	units sold per week
freezing unit (unit = 1 kg)	£120,000	£15.00	£6.50	800
restaurant (unit = 1 meal)	£200,000	£24.00	£9.00	500
online shop (unit = 1 kg)	£30,000	£12.00	£5.00	600

*Appendix 2 CS's catch, 2021–2025.*

- (a) Explain **two** advantages and **two** disadvantages for CS of operating in the primary sector. [8]
- (b) Consider the following three options CS could use to increase added value: the freezing unit, the restaurant and the online shop. Which option should CS choose? Justify your answer. [12]

Mark scheme

- (a) 1 mark for each advantage / disadvantage (max 2 + 2) **1 1 1 1**; 1 further mark for each one explained in the context of CS **1 1 1 1**.

Advantages: steady demand for food: restaurants always need fresh fish; few bought-in materials needed, as the fish is a natural resource from the sea; can move into other sectors (freezing, restaurant) using its own fish.

Disadvantages: depends on natural resources that are running out: catch fell from 160 to 120 tonnes, a fall of 25%; government catch limits restrict output; low added value: CS sells raw fish to restaurants, which add most of the value; costs such as fuel are uncertain; weather can stop the 6 boats going out.

Mark scheme

- (b) Levels-based marking (12 marks). Indicative content, using Appendix 1:

option	for	against
freezing unit (secondary)	added value £15 – £6.50 = £8.50 per kg, £6,800 a week; frozen fish keeps, so less is wasted when catches vary; supermarkets buy in large quantities	£120,000 set-up cost, equal to about 18 weeks of added value; supermarkets may push the price down; new skills and machinery needed
restaurant (tertiary)	highest added value: £24 – £9 = £15 per meal, £7,500 a week; uses only a small part of the falling catch; a good harbour location attracts tourists	highest set-up cost, £200,000 (about 27 weeks of added value); Ravi and Mei have no experience of restaurants; chefs and waiters needed; may compete with CS's own restaurant customers

online shop (tertiary)	lowest set-up cost, £30,000, equal to about 7 weeks of added value (£12 – £5 = £7 per kg, £4,200 a week); builds a CS brand; customers pay more for very fresh fish	lowest weekly added value; same-day delivery is difficult and costly; fish must stay fresh; depends on the catch, which fell 25%
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Possible recommendation: the online shop: it adds value at the lowest risk (only £30,000 at stake if the catch keeps falling), while the restaurant needs £200,000 and skills the owners lack, and supermarkets could push down the freezing unit's £15 price. Any well-justified option is credited.

Level	marks	description (written for these notes)
3	9–12	Accurate knowledge applied to CS throughout; detailed discussion of two or more options, using Appendix 1 and 2 data; a well-justified recommendation that explains why the other options were rejected (all three discussed in detail for the top of the level).
2	5–8	Good knowledge in context; detailed discussion of at least one option; a decision with some justification.
1	1–4	Limited knowledge; options described with little explanation; a simple decision with little justification.

Quick-reference table

Item	Key point
factors of production	resources needed to produce goods and services: land (natural resources), labour (human effort), capital (human-made goods), enterprise (organises and takes the risk)
added value	selling price – cost of bought-in materials and components; not the same as profit
increase added value	raise the price (branding, quality, packaging, service, unique features) or cut bought-in costs (cheaper supplier, bulk buying, less waste)
opportunity cost	the next best alternative given up when a choice is made; exists because resources are scarce
primary / secondary / tertiary	extract or grow natural resources / manufacture, process, construct / provide services; in a chain of production each stage adds value
private sector	owned by private individuals or shareholders; usually aims for profit (a plc is private)
public sector	owned by central or local government; usually aims to provide a service; financed mainly by taxes

"I can" checklist

- | | |
|---|---|
| ☐ define land, labour, capital and enterprise and apply them to a given business | ☐ define opportunity cost and identify it in business decisions |
| ☐ define added value and calculate it per unit and in total | ☐ classify businesses by sector and explain how a chain of production links them |
| ☐ explain how added value can be increased, finishing the chain to price or bought-in cost | ☐ define the private and public sectors by ownership; compare their objectives and finance |