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AQA

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Centre number | | | | | | Candidate number | | | | |

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Forename(s) _____

Candidate signature _____
I declare this is my own work.

A-level
BUSINESS

Paper 2 Business 2

Monday 1 June 2020 | Afternoon | Time allowed: 2 hours

Materials
For this paper you must have:
- a calculator.

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this answer book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 100.

For Examiner's Use	
Question	Mark
1.1	
1.2	
1.3	
1.4	
2.1	
2.2	
2.3	
2.4	
3.1	
3.2	
3.3	
3.4	
TOTAL	

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Answer **all** questions in the spaces provided.

0 1 Read the information below and then answer the questions that follow.

Drake Hotels PLC owns 20 budget hotels in the UK. Each one is located in a different city. The industry is very competitive and Drake's managers all have an objective to help the business to be as efficient as possible.

Drake Hotels PLC's operating profit for the financial year 2019–20 was £18 million. Last month the company appointed a new Chief Executive, Mary Myers, to increase the profitability of the business. Mary was previously the Marketing Manager of an upmarket hotel chain.

Mary is already considering an investment proposal for a luxury hotel in Oxford. This hotel would target overseas visitors who might want to visit the city. Drake Hotels has found a suitable building but needs to invest to develop it.

Appendix A Investment appraisal results for the proposed investment into a new hotel in Oxford (based on net inflows for first eight years).

Average rate of return	12% per year
Net Present Value	£25 million

Source: Chief Executive

Appendix B Sensitivity analysis for the new Oxford hotel investment proposal

Two possible changes in the economy that might affect the investment appraisal results in Appendix A	**Estimated probability of this change happening**
The value of the pound against other currencies is 10% higher than originally forecasted.	20%
The average GDP growth in overseas countries is 1.5% higher than originally forecasted.	30%

Source: Chief Executive

Appendix C Selected financial data for Drake Hotels PLC

	£ million as at 1 May 2020
Current assets	15
Current liabilities	18
Total equity	170
Non-current liabilities	280

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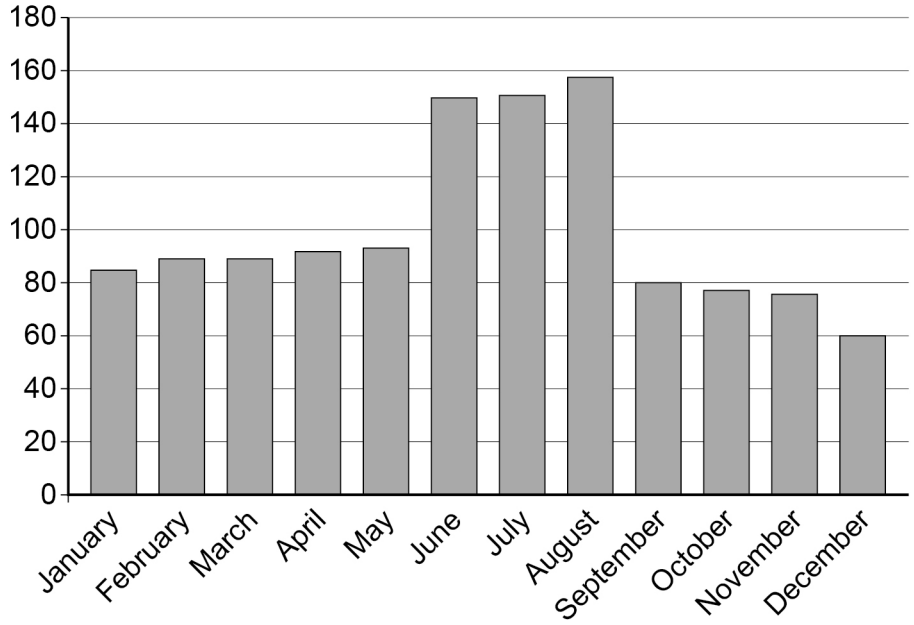
Appendix D Forecasted data for Drake Hotels PLC's new Oxford hotel investment proposal

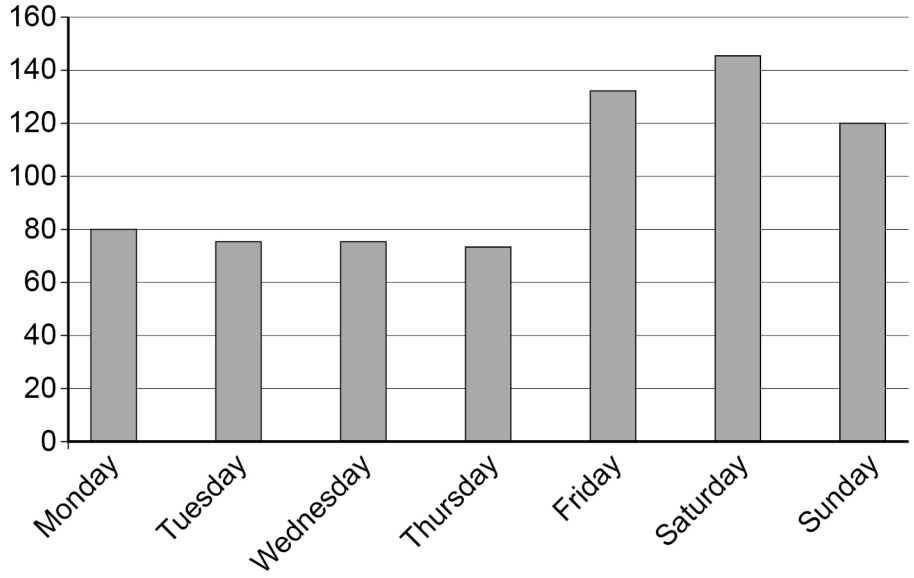
Initial investment required	£20 million
Estimated income elasticity of demand	+2
Percentage of customers visiting from overseas	70%
Estimated cost of borrowing for this investment	8% per annum

Appendix E Room bookings by month and day of the week in Drake Hotels PLC's budget hotels 2019

Index of sales of rooms booked per month
(average monthly bookings = 100)



Index of rooms booked by day of the week
(average daily bookings = 100)



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0 1 . 1 Using the data in **Appendix C**, calculate the following ratios for Drake Hotels PLC in 2020.

[6 marks]

Current ratio _____

Gearing ratio _____

6

0 1 . 2 Use **Appendix B** to explain **one** reason why Drake Hotels PLC has used sensitivity analysis for the investment proposal.

[4 marks]

4

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0 1 . 3 Analyse the challenges the Human Resource manager faces as a result of the patterns of room bookings in **Appendix E**.

[9 marks]

Extra space

9

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0 1 . 4 Using the data, recommend whether Drake Hotels PLC should go ahead with the proposed investment. Justify your answer.

[16 marks]

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0 2 Read the information below and then answer the questions that follow.

Nari

Nari is a mobile phone manufacturer based in Asia. Although its brand name is not as strong as the Apple iPhone, Nari's phones sell at much lower prices which make them competitive. Nari adds new features to its phones and develops new models every few months. The company has an objective of 95% of sales from products launched in the last year. It has relatively low profit margins but high sales volumes.

To win business, Nari promises the retailers that sell its phones a lead time of 48 hours; any delay results in a major discount for the retailers on the products they have ordered.

To achieve low prices and still be profitable, the company focuses on being more efficient than its rivals. The company has a 'Just in Time' approach to manufacturing. It has a global supply chain with hundreds of different suppliers of components based in more than 50 countries. These components are delivered using a variety of transportation methods every few hours from all over the world to its assembly factories in China.

Some of Nari's suppliers have factories based in emerging economies. The managers of a number of these suppliers use Taylor's motivation theory to motivate their employees.

The company invests heavily in projects to help local communities where it is based. It contributes some of its profits every year to charities and provides significant finance for initiatives to protect the environment.

Nari has recently experienced protectionism in its European markets as governments have limited the number of phones it can sell in their countries.

Regional breakdown of Nari's global sales in 2019

	%
USA	5
Asia	55
Europe	30
Rest of the world	10

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0 2 . 1 Nari operates on the highest level of Carroll's Corporate Social Responsibility pyramid.

Explain how the information provided supports this view.

[3 marks]

3

0 2 . 2 Nari is experiencing protectionism in its European markets.

Explain how Nari's marketing managers might respond to this protectionism.

[5 marks]

Extra space

5

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0 2 . 3 Nari uses a 'Just in Time' approach to manufacturing.

Analyse the ways in which this might affect Nari's profits.

[9 marks]

9

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0 2 . 4 The managers of a number of Nari's suppliers use Taylor's motivation theory when motivating their employees.

To what extent do you think using Taylor's theory would be a good way for **all businesses** to motivate their employees?

[16 marks]

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0 3 Read the information below and then answer the questions that follow.

Zani

Zani PLC is a jewellery retailer. Its products include rings, necklaces and bracelets that are made with precious metals and gemstones. Zani PLC has a strong brand reputation for unique designs. The company targets high-income earners. The price elasticity of demand for Zani PLC's products is estimated to be –0.4.

Zani PLC was established in 2005 by Ted Zani. Ted had previously worked for a big multinational jewellery business but left because he wanted to be his own boss. He set up the business with venture capital. In its early years, with Ted in charge, the company had a power culture (according to Handy's model). Shareholders felt a change of culture was necessary as the business got bigger and so Ted was replaced as Chief Executive in 2013.

Zani PLC set up 16 of its own stores in its first eight years. The company has continued to grow since then by selling 150 franchises around the world.

0 3 . 1 What is meant by venture capital?

[2 marks]

_____

_____

_____

_____

2

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0 3 . 2 Explain **one** reason why Zani PLC's shareholders wanted to change the power culture at the company.

[5 marks]

5

Turn over for the next question

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0 3 . 3 The price elasticity of demand for Zani PLC's products has a value of –0.4.

Analyse reasons why the price elasticity of demand for Zani PLC's products might have this value.

[9 marks]

Extra space

9

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0 3 . 4 Zani PLC has grown by selling franchises.

To what extent is selling franchises a good way for **any business** to grow?

[16 marks]

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16

END OF QUESTIONS

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