1.14 Risk and Reward in Business Enterprise: 30-minute Pack

Total Marks

AQA 8132 · Calculators not allowed · about 30 minutes

Name: _____ Date: ____ / ____ / _____

Answer ALL questions in the spaces provided. Show clear reasoning for explanations. At least four questions require full sentence answers.

1 Which one of the following best describes 'calculated risk' for a small business owner such as the partners in the Manchester cafe context?

- ☐ A) Relying only on chance to win new customers
- ☐ B) Avoiding all risk at any cost
- ☐ C) Taking a risk without any information
- ☐ D) Taking a risk after assessing likely outcomes and planning to reduce downsides

(Total for Question 1 is 1 mark)

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2 Identify one non-financial reward the Manchester cafe partners might gain if the cafe becomes successful.

(Total for Question 2 is 1 mark)

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3 Identify one factor outside the entrepreneur's control that can increase the risk of running a small food business such as a cafe or bakery.

(Total for Question 3 is 1 mark)

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4 Which one of the following risks can a small business most easily reduce by taking out insurance?

- ☐ A) Fire damaging its premises and stock
- ☐ B) A new competitor opening nearby
- ☐ C) Customers switching to a rival's products
- ☐ D) A general fall in consumer spending

(Total for Question 4 is 1 mark)

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5 Which one of the following statements about risk and reward is most accurate?

- ☐ A) The lower the risk, the higher the potential reward
- ☐ B) Risk and reward are not linked
- ☐ C) Only large businesses face risk
- ☐ D) Projects with a higher potential reward usually carry more risk

(Total for Question 5 is 1 mark)

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6 State two tangible rewards Amelia might gain if Amelia's Artisan Bakes becomes profitable within its first year.

(Total for Question 6 is 2 marks)

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7 State two examples of risks faced by a partnership opening a small cafe in Manchester, naming the risk and why it is a risk in that business context.

(Total for Question 7 is 2 marks)

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8 State one opportunity cost for the Manchester cafe partners of spending their savings on a costly new espresso machine rather than keeping the cash as a reserve.

(Total for Question 8 is 1 mark)

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9 A restaurant buys all its ingredients from a single supplier. Which one of the following would most reduce the risk of it being unable to get ingredients?

- ☐ A) Raising its menu prices
- ☐ B) Advertising more on social media
- ☐ C) Buying from a second supplier as well
- ☐ D) Opening for fewer hours

(Total for Question 9 is 1 mark)

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10 A bakery sells only wedding cakes. Which one of the following actions would most reduce the risk of the bakery depending on a single type of product?

- ☐ A) Raising the price of wedding cakes
- ☐ B) Advertising wedding cakes more heavily
- ☐ C) Renting a larger kitchen to make only wedding cakes
- ☐ D) Adding everyday bread and pastries to its range

(Total for Question 10 is 1 mark)

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11 Ffion runs a market stall for one day. She pays £45 for the pitch and spends £340 on stock, and treats the whole cost of the stock as a cost for the day. She sells goods for £290. What was the outcome for the day?

- ☐ A) A loss of £95
- ☐ B) A profit of £95
- ☐ C) A loss of £50
- ☐ D) A loss of £385

(Total for Question 11 is 1 mark)

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12 Aled hires a market stall for £60, buys stock for £250 and sells all of it for £410. What profit does he make?

- ☐ A) £160
- ☐ B) £350
- ☐ C) £100
- ☐ D) £720

(Total for Question 12 is 1 mark)

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13 Explain one reason why an entrepreneur who borrows most of the start-up money faces more risk than one who uses their own savings.

(Total for Question 13 is 3 marks)

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14 Explain one way in which regular orders from long-term customers reduce the risk for a small business.

(Total for Question 14 is 3 marks)

15 Amelia must decide whether to give up her secure job paying £24,000 a year to work full time in the bakery. Her forecast for year one as a full-time baker shows expected net profit of £18,000 and she values the non-financial rewards of independence at £3,000 in satisfaction. Analyse whether the potential reward justifies the risk for Amelia, using the figures given and other qualitative factors.

(Total for Question 15 is 6 marks)

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Mark scheme · 1.14 Risk and Reward in Business Enterprise: 30-minute Pack

Question 1

D cao **B1**

Answer: D

Question 2

an example such as personal satisfaction, community recognition, or better work-life balance **B1**

Answer: Personal satisfaction from running a successful local business (or community recognition).

Question 3

external factor such as a change in consumer tastes, new competitors, or new health regulations **B1**

Answer: A change in consumer tastes or spending (or new competitors or new health and safety regulations).

Question 4

A cao **B1**

Answer: A

Question 5

D cao **B1**

Answer: D

Question 6

higher personal income or profit **B1**

ability to reinvest profits to grow the business, or to hire staff **B1**

Answer: Any two: higher personal income/profit; ability to reinvest profits to expand or hire staff.

Question 7

a drop in customer numbers, because revenue would fall and the partners might not cover costs **B1**

a supplier problem, because late deliveries of food mean the cafe cannot serve customers and loses sales **B1**

Answer: Examples: a drop in customers, which reduces revenue and may leave costs uncovered; supplier problems, which stop service and cause lost sales.

Question 8

the forgone alternative such as using the money as a cash reserve to cover slow trading periods or to invest in marketing **B1**

Answer: The forgone cash reserve to cover slow trading periods (or the forgone opportunity to spend it on marketing).

Question 9

C cao **B1**

Answer: C

Question 10

D cao **B1**

Answer: D

Question 11

A cao **B1**

Answer: A

Question 12

C cao **B1**

Answer: C

Question 13

identifies a reason, e.g. borrowed money must be repaid with interest whether or not the business is successful **B1**

develops the point, e.g. the repayments are a fixed cost that continues even in a quiet month when sales are low **B1**

links to an outcome, e.g. the entrepreneur may fall behind on repayments and could lose assets used as security, or the business may fail **B1**

Answer: Loan repayments and interest have to be paid whatever the sales, so a poor period can leave the entrepreneur unable to pay and at risk of losing the business or assets.

Question 14

identifies a way, e.g. regular orders give the business a more predictable income **B1**

develops the point, e.g. the owner can plan spending on stock, wages and bills with more confidence **B1**

links to an outcome, e.g. the business is less likely to run short of cash or make a loss in a quiet month, so it is less likely to fail **B1**

Answer: Regular orders make income more predictable, so the owner can plan spending and is less likely to run short of cash.

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Question 15

Level 1 Makes simple statements about risks or rewards with limited use of the figures, showing limited analysis and little balance. **1-3**

Level 2 Provides a balanced analysis that uses the forecast figures and considers both financial and non-financial factors, reaching a supported judgement on whether the reward justifies the risk. **4-6**

Indicative content:

- Compare financial outcomes: giving up a £24,000 salary for forecast net profit £18,000 and non-financial value £3,000 produces an effective net benefit of £21,000, which is £3,000 less than the forgone salary in year one.
- Consider timing and uncertainty: forecast profit is uncertain in a first year; actual profit could be lower, so financial risk remains significant because income falls short of the salary she gave up.
- Consider non-financial rewards: independence, job satisfaction and control may be highly valued by Amelia and partially offset lower monetary income.
- Consider opportunity cost beyond money: job security, pension contributions, and benefits from the salaried job are also lost and may not be fully captured in the simple £3,000 satisfaction figure.
- Consider other mitigations: if Amelia can reduce personal expenses, share some hours with the previous employer, or build a contingency fund, the risk could be reduced, making the choice easier to justify.
- Judgement might weigh the size and certainty of financial shortfall against personal priorities: if Amelia accepts some initial lower monetary income for greater independence and believes profits will grow, she may decide the reward justifies the risk; if she needs stable income and cannot absorb the shortfall, the risk may not be justified.

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