# BUS.EN9 Risk and Reward in Business Enterprise

AQA 8132 · Calculators not allowed · about 40 minutes

Total Marks

Name: ______________________________ Date: ____ / ____ / ______

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

**1** Amelia's Artisan Bakes is a small sole trader bakery in Bristol. Which one of the following best describes 'risk' for Amelia when she leaves her salaried job to run the bakery full time?

- [ ] A) The chance Amelia will enjoy baking
- [ ] B) The uncertainty over whether the bakery will make enough income
- [ ] C) The guaranteed reward Amelia will receive if the bakery succeeds
- [ ] D) The amount of money Amelia saved before starting

**(Total for Question 1 is 1 mark)**

**2** Which one of the following is an example of a 'reward' for an entrepreneur like Amelia running Amelia's Artisan Bakes?

- [ ] A) The risk of losing savings
- [ ] B) Personal satisfaction from being your own boss
- [ ] C) A supplier delaying payment
- [ ] D) Having to work long hours

**(Total for Question 2 is 1 mark)**

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

**(Total for Question 3 is 2 marks)**

**4** 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 4 is 2 marks)**

**5** Amelia considers giving up a salaried job that paid 24,000 pounds a year to run Amelia's Artisan Bakes. Define 'opportunity cost' in this decision context and give the specific opportunity cost for Amelia.

**(Total for Question 5 is 2 marks)**

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**6** Explain the risk and reward Amelia faces when deciding whether to spend 3,500 pounds of her savings on a new commercial oven for Amelia's Artisan Bakes, rather than keeping the cash as an emergency fund.

**(Total for Question 6 is 4 marks)**

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**7** A two-partner bakery in Leeds is offered the chance to lease a second shop for 220 pounds per week extra in rent. Explain the risks and rewards the partners face if they take on the new shop.

**(Total for Question 7 is 4 marks)**

**8** Amelia must decide whether to give up her secure job paying 24,000 pounds 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 pounds and she values the non-financial rewards of independence at 3,000 pounds in satisfaction. Analyse whether the potential reward justifies the risk for Amelia, using the figures given and other qualitative factors.

**(Total for Question 8 is 6 marks)**

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

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

**(Total for Question 9 is 1 mark)**

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

**(Total for Question 10 is 1 mark)**

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**11** 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 11 is 1 mark)**

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**12** State one way the partners could reduce the risk of taking on the second shop that charges 220 pounds per week in extra rent.

**(Total for Question 12 is 1 mark)**

**13** Which of the following is the best example of an entrepreneur accepting a reward that is not monetary?

- ☐ A) Receiving a bank loan to expand
- ☐ B) Feeling proud and having greater control over work decisions
- ☐ C) Paying back hire purchase instalments
- ☐ D) Losing personal savings after a failed product launch

**(Total for Question 13 is 1 mark)**

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**14** State one risk specific to a sole trader like Amelia that is less of a risk for a limited company.

**(Total for Question 14 is 1 mark)**

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**15** 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 15 is 1 mark)**

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**16** State one benefit of taking a calculated risk rather than avoiding risk entirely when starting a small business.

**(Total for Question 16 is 1 mark)**

# Mark scheme · BUS.EN9 Risk and Reward in Business Enterprise

### Question 1

- **B1** B cao
- **Answer: B**

### Question 2

- **B1** B cao
- **Answer: B**

### Question 3

- **B1** higher personal income or profit
- **B1** ability to reinvest profits to grow the business, or to hire staff
- **Answer: Any two: higher personal income/profit; ability to reinvest profits to expand or hire staff.**

### Question 4

- **B1** 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
- **Answer: Examples: a drop in customers, which reduces revenue and may leave costs uncovered; supplier problems, which stop service and cause lost sales.**

### Question 5

- **B1** definition of opportunity cost as the next best alternative forgone
- **B1** the specific cost: the 24,000 pounds salary she gives up (or the job security/income forgone)
- **Answer: Opportunity cost is the next best alternative forgone; for Amelia it is the 24,000 pounds a year salary and the job security she gives up by running the bakery full time.**

### Question 6

- **B1** identifies a risk: using savings reduces Amelia's financial buffer if sales fall
- **B1** develops the risk, e.g. without the emergency fund she may struggle to pay rent or suppliers during a quiet period
- **B1** identifies a reward: the oven could increase capacity or improve quality leading to higher sales
- **B1** develops the reward, e.g. higher sales or lower unit costs could raise profit, making the investment pay back over time
- **Answer: Risk: spending 3,500 pounds reduces Amelia's emergency savings, leaving little financial buffer if sales fall; she could struggle to pay bills in a slow period. Reward: the new oven could increase output or improve product quality, attracting more customers and raising sales and profit so the investment could pay back over time.**

### Question 7

- **B1** identifies a risk: higher fixed costs from the extra rent if sales are not sufficient
- **B1** develops the risk, e.g. increased rent payments could reduce profit or cause losses during quiet periods
- **B1** identifies a reward: opportunity to reach new customers and increase total sales
- **B1** develops the reward, e.g. more sales could spread fixed costs and increase net profit, and the second shop might build brand presence
- **Answer: Risk: the extra 220 pounds per week in rent raises fixed costs, so if the new shop does not attract enough customers partners could see profits fall or make losses. Reward: a second shop can reach new customers and increase total sales, helping to spread fixed costs and potentially increasing overall profit and brand presence.**

### Question 8

- **Level 1** (1-3): Makes simple statements about risks or rewards with limited use of the figures, showing limited analysis and little balance.
- **Level 2** (4-6): 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.
- **Indicative content:**
  - Compare financial outcomes: giving up a 24,000 pounds salary for forecast net profit 18,000 pounds and non-financial value 3,000 pounds produces an effective net benefit of 21,000 pounds, which is 3,000 pounds 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 pounds 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.

### Question 9

- **B1** B cao
- **Answer: B**

### Question 10

- **B1** an example such as personal satisfaction, community recognition, or better work-life balance
- **Answer: Personal satisfaction from running a successful local business (or community recognition).**

### Question 11

- **B1** the forgone alternative such as using the money as a cash reserve to cover slow trading periods or to invest in marketing
- **Answer: The forgone cash reserve to cover slow trading periods (or the forgone opportunity to spend it on marketing).**

### Question 12

- **B1** a mitigation such as trialling pop-up stalls to test demand, securing a short-term lease, or negotiating rent-free weeks with the landlord
- **Answer: Examples: arrange a short-term lease or trial period, or negotiate rent-free weeks to test demand before committing long term.**

### Question 13

- **B1** B cao
- **Answer: B**

### Question 14

- **B1** identifies unlimited personal liability or the owner's personal assets being at risk
- **Answer: Unlimited personal liability, meaning Amelia's personal assets could be at risk if the business fails.**

### Question 15

- **B1** external factor such as a change in consumer tastes, new competitors, or new health regulations
- **Answer: A change in consumer tastes or spending (or new competitors or new health and safety regulations).**

### Question 16

- **B1** a benefit such as potential higher profit, faster growth, gaining market share, or learning and experience that comes from trying new ideas
- **Answer: Potential for higher profit or faster business growth by pursuing opportunities that a risk-averse approach would miss.**