BUS.IN4 Globalisation and international trade

AQA 8132 · Calculator allowed · about 55 minutes

Total Marks

Name: ______________________________ Date: ____ / ____ / ______

Answer ALL questions in the spaces provided. Show your working for any calculation: method marks are available even if your final answer is wrong. Cascade Sports, used throughout this pack, is a fictional business. All exchange rate figures in this pack are hypothetical, chosen for calculation practice only.

1 Which one of the following best describes 'globalisation'?

- ☐ A) A business only ever selling to customers in its home town
- ☐ B) The growing connection and trade between businesses and countries around the world
- ☐ C) A government policy that bans all imports of foreign goods
- ☐ D) A business changing its name to sound more international

(Total for Question 1 is 1 mark)

2 Which one of the following is an example of international trade?

- ☐ A) A UK manufacturer selling trainers to a retailer in Germany
- ☐ B) A UK manufacturer selling trainers to a retailer in Manchester
- ☐ C) A UK manufacturer advertising trainers on UK television
- ☐ D) A UK manufacturer opening a second factory in the same UK city

(Total for Question 2 is 1 mark)

3 State two benefits to a UK business of exporting its products to other countries.

(Total for Question 3 is 2 marks)

4 Cascade Sports sells trainers to a retailer in Germany, priced at 40 pounds per pair, invoiced in pounds. An order is placed for 500 pairs, so the German retailer must pay Cascade 20,000 pounds and convert this from euros itself. For this question only, assume a hypothetical exchange rate of 1 GBP = 1.10 EUR. (This is a hypothetical rate for calculation practice only, not a statement of any current GBP/EUR exchange rate.)

(a) Calculate the cost to the German retailer, in euros, of paying the 20,000 pound invoice at this rate. **(2)**

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(b) The pound then strengthens against the euro, to a hypothetical rate of 1 GBP = 1.25 EUR: one pound now buys more euros than before. Calculate the new euro cost to the German retailer of paying the same 20,000 pound invoice at this rate. **(2)**

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(Total for Question 4 is 4 marks)

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5 Using your answers to question 4a and question 4b, calculate the increase in the euro cost to the German retailer caused by the pound strengthening. Show your working.

(Total for Question 5 is 2 marks)

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6 Explain why the increase calculated in question 5 could reduce demand from Cascade's German customer, even though Cascade's own pound price has not changed.

(Total for Question 6 is 3 marks)

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7 Explain one way Cascade could respond to protect its export sales if the pound remains strong.

(Total for Question 7 is 3 marks)

8 Cascade is considering moving production of 1,000 pairs of trainers a month from its UK factory to an overseas factory. Each pair needs 2 hours of labour. UK labour costs 12 pounds an hour; the overseas factory would cost 4 pounds an hour for the same work.

(a) Calculate Cascade's current monthly labour cost of making 1,000 pairs in the UK. **(2)**

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(b) Calculate the monthly labour cost of making the same 1,000 pairs at the overseas factory. **(2)**

....

(Total for Question 8 is 4 marks)

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9 Using your answers to question 8a and question 8b, calculate the monthly labour cost saving from moving production overseas. Show your working.

(Total for Question 9 is 2 marks)

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10 Using your answer to question 9, calculate the annual labour cost saving from moving production overseas. Show your working.

(Total for Question 10 is 2 marks)

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11 Moving production overseas would also add extra shipping and import costs of 3 pounds per pair to bring the finished trainers back to the UK, on the same 1,000 pairs a month. Calculate the extra annual shipping and import cost. Show your working.

(Total for Question 11 is 3 marks)

12 Using your answers to question 10 and question 11, calculate the net annual saving from moving production overseas. Show your working.

(Total for Question 12 is 2 marks)

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13 Explain one drawback to Cascade's existing UK workforce of moving production overseas.

(Total for Question 13 is 3 marks)

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14 State two risks of moving production overseas, other than exchange rate movements or the loss of UK jobs.

(Total for Question 14 is 2 marks)

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15 Moving production overseas would save Cascade Sports 156,000 pounds a year, even after extra shipping and import costs (question 12). However, question 13 shows this puts UK jobs at risk, and question 14 shows there are further risks such as harder quality control at a distance. Recommend whether Cascade Sports should move its trainer production to the overseas factory. Justify your answer using the figures and points made earlier in this pack.

(Total for Question 15 is 9 marks)

Mark scheme · BUS.IN4 Globalisation and international trade

Question 1

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

Question 2

- **B1** A cao
- **Answer: A**

Question 3

- **B1** one acceptable benefit, e.g. access to a much larger number of potential customers than the UK market alone
- **B1** a second acceptable benefit, e.g. higher sales and revenue, or reduced reliance on the UK market if UK demand falls
- **Answer: Any two, e.g. access to a larger customer base; higher sales/revenue; reduced reliance on the UK market alone.**

Question 4

- (a) **M1** 20,000 x 1.10 seen
- (a) **A1** 22,000 euros cao
- **(a) Answer: 22,000 euros.**
- (b) **M1** 20,000 x 1.25 seen
- (b) **A1** 25,000 euros cao
- **(b) Answer: 25,000 euros.**

Question 5

- **M1** 25,000 - 22,000 seen (ft from question 4)
- **A1** 3,000 euros cao
- **Answer: 3,000 euros.**

Question 6

- **B1** identifies the point, e.g. a stronger pound means the German retailer now needs more euros to pay the same 20,000 pound invoice, rising from 22,000 to 25,000 euros (question 4)
- **B1** develops the point, e.g. this makes Cascade's trainers effectively more expensive for the German retailer, even though Cascade itself has not raised its pound price
- **B1** links clearly to an outcome, e.g. the German retailer may buy fewer trainers, or switch to a cheaper supplier based in the eurozone, reducing Cascade's export sales
- **Answer: A stronger pound means the German retailer now needs more euros for the same 20,000 pound invoice, rising from 22,000 to 25,000 euros (question 4), making the trainers effectively more expensive even though Cascade's own price is unchanged, so the retailer may buy fewer or switch to a eurozone supplier.**

Question 7

- **B1** identifies the point, e.g. Cascade could reduce its pound price slightly, so the euro cost to its German customer stays closer to its original level
- **B1** develops the point, e.g. this keeps the trainers price-competitive for the German retailer despite the stronger pound
- **B1** links clearly to an outcome, e.g. this could protect export sales and market share, though it would reduce Cascade's revenue per pair sold
- **Answer: Cascade could reduce its pound price slightly so the euro cost to its German customer stays closer to its original level, keeping the trainers price-competitive and protecting export sales and market share, though this reduces Cascade's revenue per pair.**

Question 8

- (a) **M1** 1,000 x 2 x 12 seen
- (a) **A1** 24,000 pounds cao
- **(a) Answer: 24,000 pounds.**
- (b) **M1** 1,000 x 2 x 4 seen
- (b) **A1** 8,000 pounds cao
- **(b) Answer: 8,000 pounds.**

Question 9

- **M1** 24,000 - 8,000 seen (ft from question 8)
- **A1** 16,000 pounds cao
- **Answer: 16,000 pounds.**

Question 10

- **M1** 16,000 x 12 seen (ft from question 9)
- **A1** 192,000 pounds cao
- **Answer: 192,000 pounds.**

Question 11

- **M1** 3 x 1,000 seen
- **M1** 3,000 x 12 seen
- **A1** 36,000 pounds cao
- **Answer: 36,000 pounds.**

Question 12

- **M1** 192,000 - 36,000 seen (ft from questions 10 and 11)
- **A1** 156,000 pounds cao
- **Answer: 156,000 pounds.**

Question 13

- **B1** identifies the point, e.g. moving production overseas means Cascade no longer needs as many workers at its UK factory
- **B1** develops the point, e.g. this puts UK jobs at risk of redundancy, and affected workers would need to find new employment
- **B1** links clearly to an outcome, e.g. this could damage staff morale and Cascade's reputation locally, even though question 12 shows the move saves the business money overall
- **Answer: Moving production overseas means Cascade needs fewer UK workers, putting jobs at risk of redundancy, which could damage staff morale and Cascade's local reputation, even though question 12 shows the move saves the business money overall.**

Question 14

- **B1** one acceptable risk, e.g. it can be harder to monitor the quality of products made at a distant factory
- **B1** a second acceptable risk, e.g. longer delivery/lead times, supply chain disruption, or import tariffs added by the government
- **Answer: Any two, e.g. harder quality control at a distance; longer delivery times/supply chain disruption; import tariffs.**

Question 15

- **Level 1** (1-3): Makes simple, undeveloped comments about the offshoring decision, with little or no use of the pack's figures and no clear recommendation.
- **Level 2** (4-6): Gives a developed argument for or against moving production, using some of the pack's figures, but does not fully weigh both sides or reach a clearly justified recommendation.
- **Level 3** (7-9): Weighs the evidence for and against moving production, using the saving and risk figures from this pack, and reaches a justified recommendation supported by that analysis.
- **Indicative content:**
  - For moving production: the net annual saving of 156,000 pounds (question 12) is large, even after accounting for the extra 36,000 pounds a year of shipping and import costs (question 11), and could be reinvested in the business or used to lower prices to stay competitive.
  - For moving production: a lower cost base could also help Cascade absorb pressures such as the stronger pound affecting its export sales (questions 5 and 6), without needing to raise prices.
  - Against moving production: question 13 shows this puts existing UK jobs at risk of redundancy, which could damage staff morale and Cascade's reputation with customers and the local community.
  - Against moving production: question 14 shows quality control is harder to monitor at a distance, and longer delivery times or import tariffs could reduce or offset some of the 156,000 pound saving in practice.
  - Judgement: given the size of the net saving relative to the risks identified, a reasonable recommendation is that Cascade should move production overseas provided it manages the transition carefully, for example by supporting redundant UK staff and investing in quality checks at the new factory to protect the saving identified in question 12.