



Rewarding Learning

ADVANCED  
General Certificate of Education  
2024

Centre Number

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Candidate Number

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# Business Studies

Assessment Unit A2 2

*assessing*

The Competitive

Business Environment

**MV18**

**[ABU21]**

**THURSDAY 6 JUNE, MORNING**

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## Time

2 hours, plus your additional time allowance.

## Instructions to Candidates

Write your Centre Number and Candidate Number in the spaces provided at the top of this page.

**You must answer the questions in the spaces provided.**

**Answer all questions.**

**Do not write on blank pages.**

Complete in black ink only.

## Information for Candidates

The total mark for this paper is 90.

Quality of written communication will be assessed in Questions **4**, **5** and **6**.

Quantitative skills will be assessed in Questions **3** and **4**.

Figures in brackets at the end of each question indicate the marks awarded to each question or part question.

Any workings should be clearly shown since marks may be awarded for partially correct solutions. You may use a calculator.

This paper is accompanied by a Case Study Booklet.

### **Advice to Candidates**

You are advised to take account of the marks for each part question in allocating the available examination time.



































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Question Number	Marks
1	
2	
3	
4	
5	
6	
<b>Total Marks</b>	

Examiner Number

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## **Case Study Booklet**

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Read the following information and answer Questions 1 to 6 in the question and answer booklet.

## **TF Ltd**

TF Ltd is located in Ballymena and is a timber frame company with over 50 years' experience in the manufacturing and erection of timber frame homes. The mission statement of the business is "to produce natural, organic and non-toxic timber frame homes". The owners of TF Ltd believe in making more environmentally friendly homes and hope this will give them a competitive advantage. They follow the ethical responsibilities below:

- To source wood from sustainable forest sources.
- To make more UK and Ireland homes more energy efficient in the global market.

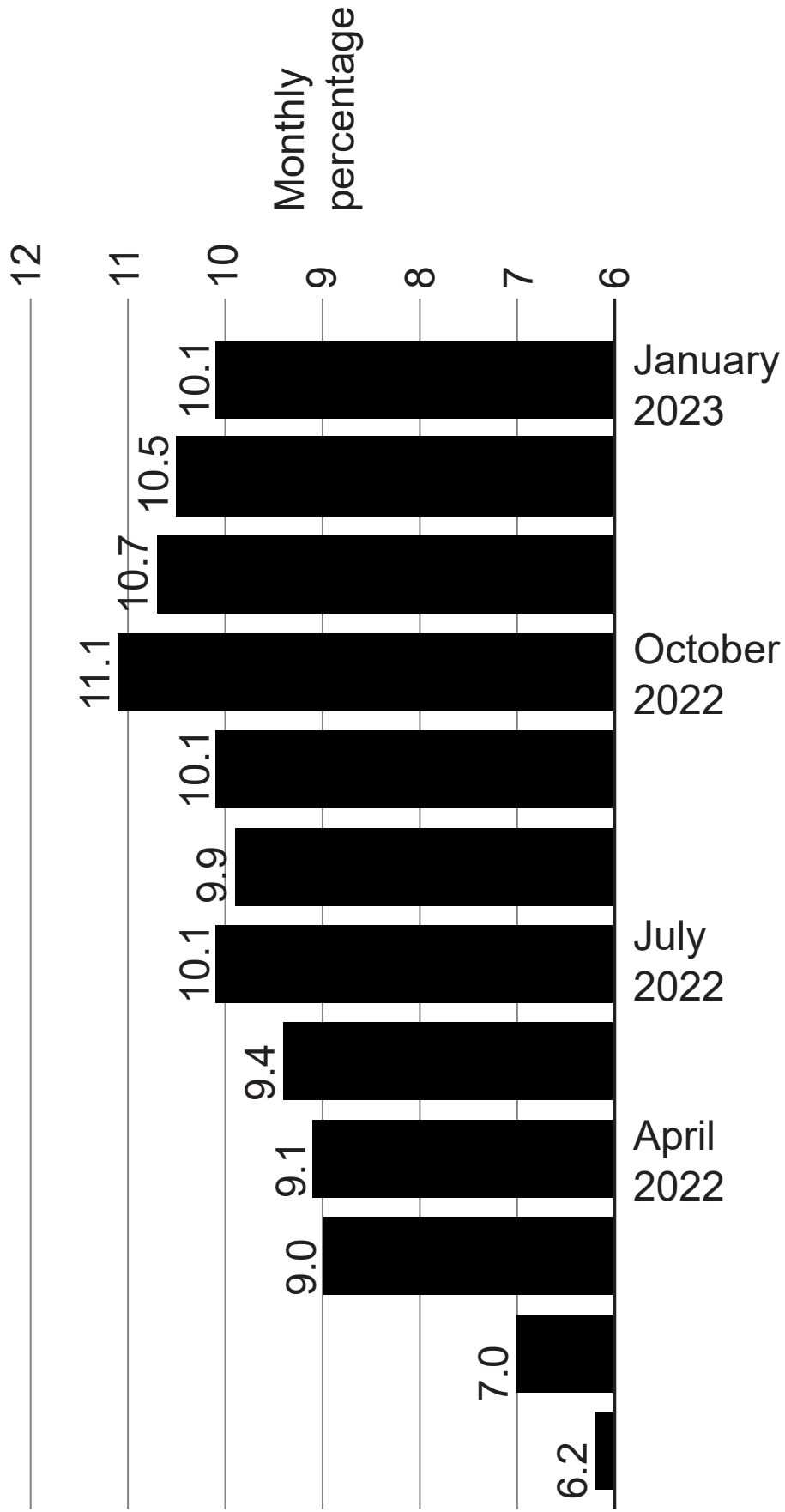
Management are aware that, as a result of meeting the ethical responsibilities as stated, this results in increased costs which are passed onto consumers in the form of higher product prices, which in turn might reduce competitiveness.

In 2021/2022 the construction industry experienced high levels of inflation. A global supply shortage has driven up supply costs and caused delays for Northern Ireland's construction sector. Management have observed that demand for the company's products increased, possibly due to increased levels of disposable income, since many customers were able to save money as a result of working from home during the Covid-19 pandemic. Additionally, customers have opted to spend money building or renovating properties instead of going on holiday. As a result of global supply chain issues, timber, steel and plastic building materials used in the construction process have

become much harder for TF Ltd's management team to source, and have risen in price considerably. Material costs have risen by 18% and TF Ltd labour costs have increased by 2.4%.

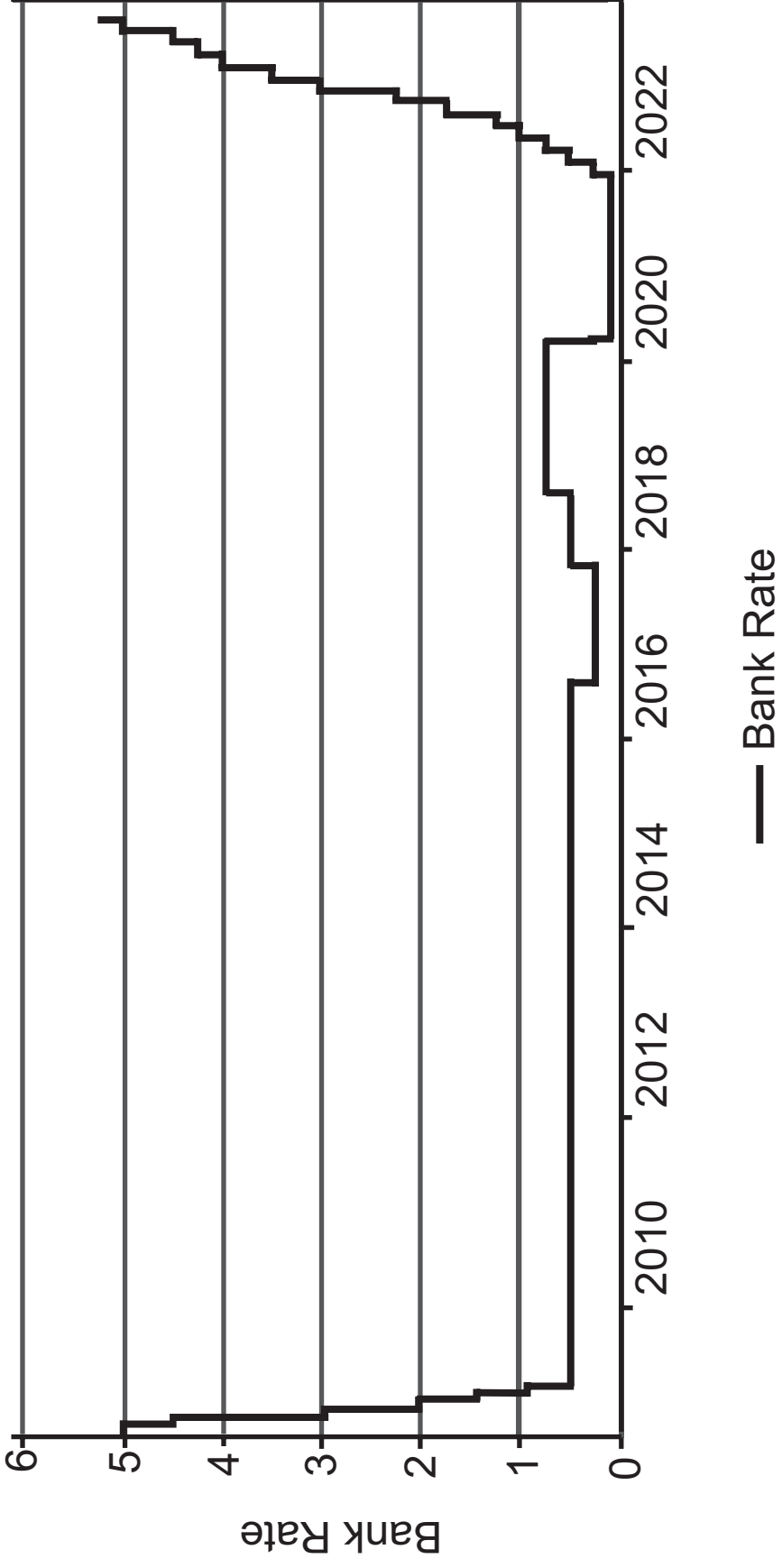
Inflation has serious implications for a business such as TF Ltd. High inflation rates mean that it is very hard for the business to commit to a price for a building project. Due to high inflation rates, prices quoted today to customers could be much higher in six months' time than originally anticipated. **Fig. 1** opposite, summarises UK inflation rates in 2022/2023.

**Fig. 1: UK inflation rates 2022/2023**



The UK government has an objective to keep inflation under control and its target is that inflation should be 2% or less. The UK government will use both fiscal (taxation and government spending) and monetary policies (interest rates) to control inflation. The fiscal instruments include direct and indirect taxation. The UK government aims to reduce consumer spending by increasing the standard rate of Value Added Tax levied on some goods bought and sold within the UK. Increasing personal income tax rates (thus reducing levels of disposable income), is another policy that can be used to control consumer spending. See **Fig. 2** opposite for the official Bank of England interest rates from 2010 to 2022. During the period from March 2009 to August 2016, the base rate was 0.5%; however, by March 2020, the base rate of interest was 0.1%. It rose to a rate of 0.25% in December 2021. In August 2022, it had reached 1.75%, and by December 2022 it was at a rate of 3.5%

**Fig. 2: Official Bank of England interest rates**



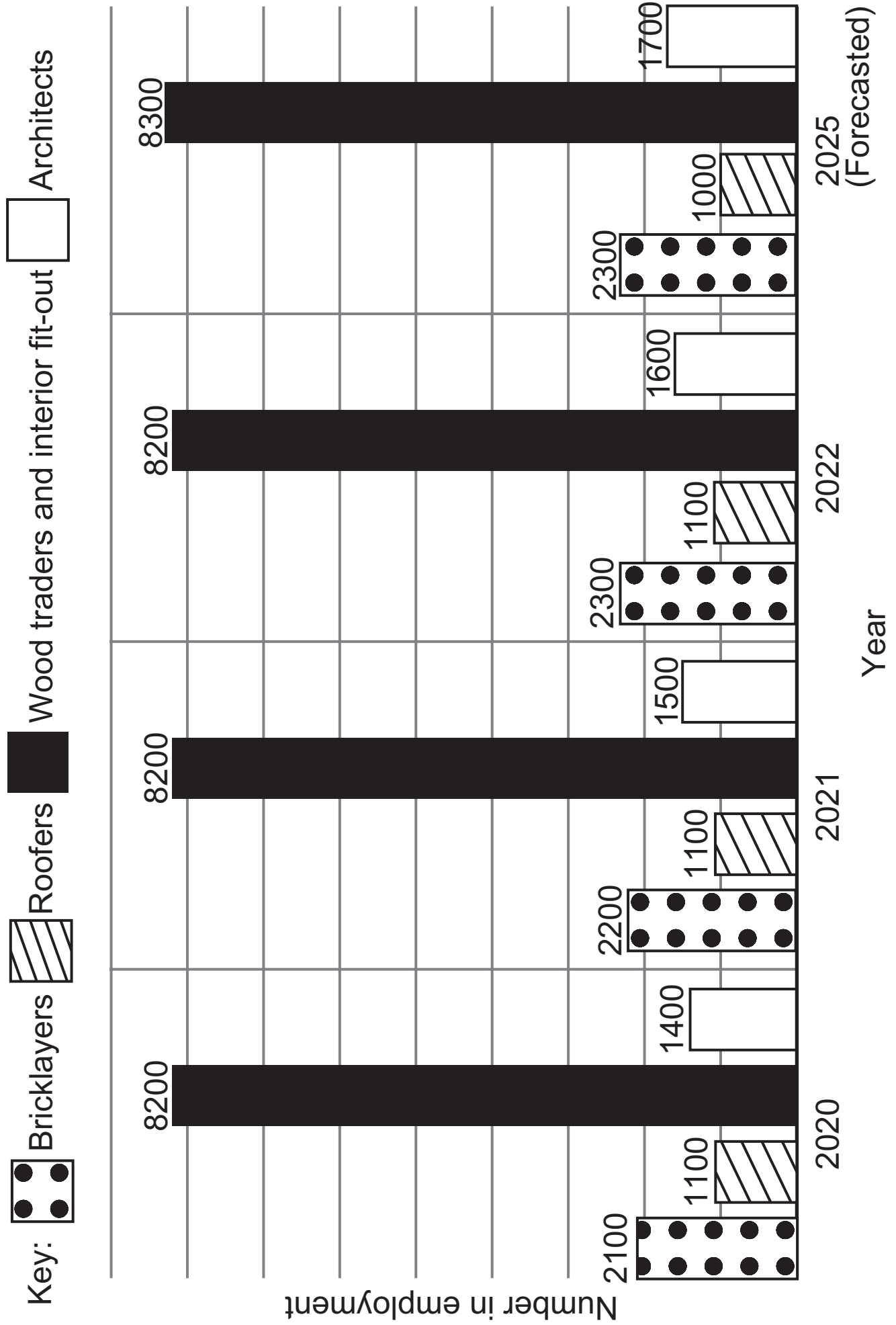
(Note: graph is for illustrative purposes only)

As of 2022, the UK is experiencing a recovery in the construction industry. This means that consumers are spending more money on DIY and buying new houses. Also, employment levels in some sectors of the construction industry are increasing (as shown in **Fig. 3** opposite) and are forecast to further increase.

One impact on TF Ltd of the recovery phase of the business cycle is that profits may increase. Timber frame homes have huge appeal to consumers, because if responsibly sourced, they are better for the environment. TF Ltd plan to reinvest some of their profits back into new technology. Demand for timber frame products is growing, which results in additional profits for the company.

The management team of TF Ltd are considering the purchase of new machinery for use on the assembly line. They have decided to invest £80,000 in a new wood-cutting machine in the near future. They will finance this expenditure by using a bank overdraft. The bank is willing to increase their existing overdraft from £400,000 to £480,000 to cover the cost of the new machinery. An overdraft is a short-term source of finance and will therefore not affect the company's gearing level. Overdrafts attract higher interest charges and can be withdrawn by the bank at any time.

**Fig. 3:** Employment in the construction industry NI 2020 – 2025



The new assembly line machinery will improve the overall efficiency on the production floor. It will also make the wood-cutting process a lot safer. Management in TF Ltd plan to use Kotter and Schlesinger's model to overcome any resistance to the change in the introduction of the new machinery. The two main approaches that TF Ltd plan to use are:

- Participation – where the employees fully understand the reason behind the need for new machinery. Management hope that using Kotter and Schlesinger will involve the employees more in the decision-making process.
- Involvement – which will be facilitation and support. It is hoped that any fears or anxiety for staff will be overcome using this approach. Clear communication and guidance will be given on the new machinery in order to overcome any fears.

During 2022, the management team of TF Ltd decided to merge with a timber frame company in Dublin called Eco Homes Ltd. Eco Homes Ltd have 30 employees and deliver timber frame kits throughout the Republic of Ireland. The merger resulted in the relocation of TF Ltd's headquarters from Ballymena, which is in Northern Ireland, to Eco Homes Ltd's office complex in Dublin. This means that the merged company now has a presence within the European Union (EU) single market. One benefit might include tariff-free access to a much larger European market (approximately 450 million customers), which could lead to an increase in market share for the merged company. In addition, it would enable the merged company to benefit from purchasing economies of scale, resulting in further cost savings and increased levels of profitability (i.e. an increase of 2% on gross profit margin).

Another major impact of the merger which has been experienced is the loss of skills and knowledge about the domestic market (Northern Ireland), which could result in the loss of personal contact with key customers within the construction industry and thus reduced future sales revenues. Management are, however, hopeful that with the merger, entry to the European market will lead to an increase in market share.

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**This is the end of the case study booklet**

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## SOURCES

Fig 1 . . . <https://tradingeconomics.com>

Fig 2 . . . SONIA and/or SONIA Compounded Index data licensed under the Open Government Licence v3.0 and copyright the Governor and Company of the Bank of England. The trade marks “Bank of England” and “SONIA” are registered trade marks of the Bank of England.

Fig 3 . . . <https://www.statista.com/statistics/477648/total-employment-forecast-in-construction-by-occupation-northern-ireland/> © Statista 2025

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