

Nuffield Economics and Business

Unit 2 Practice paper

Evidence A

MG Rover has closed its factory for five days. The car maker was badly affected when a fire destroyed its supplier of seats last year.

Its supplier, Fehrer Great Britain, burned to the ground last July, halting deliveries of foam seats to Longbridge.

The production of 2500 cars was lost as Fehrer switched to another factory in the north west.

Fehrer is ready to resume production but needs time to build up stocks to ensure a steady flow of supply.

Rover has decided to stop production at Longbridge, to avoid a build up of cars waiting to have seats fitted.

The break will also give MG Rover a chance to reorganise its own seat operation for the Rover 75, which has caused production blockages.

Critics of MG Rover, however, point to a 30% slump in UK sales as the real reason for the closure.

Rover is falling short of its target to reach an average production of 200,000 cars a year. The slump is partly due to an ageing product range and partly due to a strong pound.

The company says this is due in part to a decision to withdraw some models from Europe because it was not prepared to engage in heavy price discounting in order simply to maintain volumes.

Evidence B

Rover has a relatively small management team, allowing it to stay nimble and make some unusual moves, quickly.

It is starting production of a Metro size replacement in India, based on Tata's Indica, and is about to clinch a deal to make cars at a former Daewoo factory in Poland.

In order to create new models on a tight budget Rover has boxed in the back windows of its 25 model and called it a van.

The workers at Longbridge may also feel a little more secure when production of a new mid-sized car starts there in 2004.

But in the meantime there remains the small matter of a strike ballot over pay to resolve and the additional costs facing the company of meeting new environmental standards.

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Adapted from www.bbc.co.uk (Monday, 24 February, 2003)

Questions

1. (a) Explain what you understand by the following terms:
 - (i) ageing product range (2)
 - (ii) strong pound (2)
 - (iii) environmental standards (2)
- (b) Briefly examine two strategies which MG Rover might adopt in order to improve profitability. (6)
- (c) Examine the potential costs and benefits of MG Rover's reliance upon a single supplier of car seats. (8)
- (d) Assess the likely implications for MG Rover (Evidence B) of its decision to engage in heavy price discounting. (10)

Section C

Question 4

- 4 (a) Examine two possible strategies which MG Rover might adopt in order to increase sales. (10)
- (b) Evaluate the usefulness of the product lifecycle for a firm in the car industry. (20)

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Mark scheme

2 (a) *Explain what you understand by the following terms:*

(i) *ageing product range*

(2)

We are looking for recognition that the firm's products are moving towards the end of the product lifecycle

(ii) *strong pound*

(2)

expect to see reference to the pound's relative strength in relation to other currencies.

(iii) *environmental standards*

(2)

Look for an explanation which indicates awareness that environmental standards are regulations and controls on emissions and manufacturing practices.

Knowledge 6 marks

(b) *Briefly examine two strategies which MG Rover might adopt in order to improve profitability.*

(6)

The question is deliberately open in order to give candidates the opportunity to select from their toolkit and to develop responses which are characterised by applied knowledge and analysis.

The best answers will identify two convincing and logical strategies. Analysis should be in context and should develop a clear link between the proposed strategy and improved profitability for MG Rover.

(5-6)

Answers with the right focus but just one strategy identified, or offering limited logical development, might earn.

(3-4)

Relevant but unconvincing and poorly developed assertions should earn **(1-2 marks)**

(c) *Examine the potential costs and benefits of MG Rover's reliance upon a single supplier of car seats.*

(8)

A balanced response is required for this question, examining the costs and benefits of close relationships with suppliers. Expect to see a range of possible answers applying toolkit to the examination of costs and benefits. Candidate responses may touch on just in time and kanban as well as the dangers of over-reliance upon a single supplier.

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Level 4

Answers should demonstrate critical analysis of the benefits and the downsides of closer relationships with suppliers. Answers may focus on efficiency and increased customer loyalty. Candidates should be aware of potential trade-offs: higher costs and overdependence. **(7-8 marks)**

Level 3

Responses may lack balance, demonstrating one sided focus. Points raised will demonstrate applied knowledge. Costs and benefits may not be fully developed. Knowledge and application should be evident but conclusions may not be drawn from sound analytical development or analytical development is not rounded off by supported evaluative comment. **(5-6 marks)**

Level 2

Comments may show awareness but lack depth. Errors and omissions may mar the content of candidate responses. Partial examination of the costs and benefits will be awarded at Level 2. Observations may be in context but are not developed into a logical analysis or evaluation **(3-4 marks)**

Level 1

Candidates show some understanding of the potential costs and benefits of strengthening relations **(1-2 marks)**

*(d) Assess the likely implications for MG Rover (Evidence B) of its decision not to engage in heavy price discounting **(10)***

A balanced response is required for this question, examining the implications of MG Rover's decision not to engage in heavy price discounting. Expect to see clear application of toolkit in the response. One implication is that profit margins may be maintained on the cars which are sold. In the case of MG Rover losses will be minimized. The downside to MG Rover's decision is that the company may not be able to fully exploit economies of scale thereby leading to higher unit costs. Price sensitive customers may switch to other comparable models. Poor sales figures may have implications for future sales as customers become increasingly reluctant to buy cars from poorly performing companies.

Level 4

Answers should demonstrate critical analysis of the implications of MG Rover's decision not to discount prices. Candidates should be aware of

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potential trade-offs: higher costs and maximizing sales revenue on cars sold. **(8-10 marks)**

Level 3

Responses may lack balance, demonstrating one sided focus. Points raised will demonstrate applied knowledge. Trade-offs for MG Rover may not be fully developed. **(5-7 marks)**

Level 2

Comments may show awareness but lack depth. Errors and omissions may mar the content of candidate responses. Partial examination of the costs and benefits will be rewarded at Level 2. **(3-4 marks)**

Level 1

Candidates show some understanding of the potential implications of MG Rover's decision **(1-2 marks)**

30 marks

Question 4

4 (a) *Examine two possible strategies which MG Rover might adopt in order to increase sales.* **(10)**

The question has been left deliberately open in order to give candidates the opportunity to develop a range of suitable strategies which MG Rover might adopt. Responses should consider the appropriateness and trade-offs associated with their chosen strategies. Possible strategies include innovation, marketing and collaboration with other producers. MG Rover has a number of difficulties, some of which are mentioned or implied in the evidence, and these can be used in constructing a balanced argument.

Level 4

Candidates can be expected to have produced a coherent argument based around at least two reasonable strategies, examining the likely effectiveness of the proposed strategies, possibly ranking them in order of effectiveness. **(16-20)**

Level 3

Candidate should have developed a reasonable argument based around at least two potential strategies, with an attempt at evaluating them (this may be implied). **(11-15)**

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Level 2

Candidates will either have looked at only one reasonable strategy, or they will have explained two possible strategies without commenting on their likely success. Answers will be in context **(6-10)**

Level 1

Candidates will display some knowledge about restrictions to entry and/or a reasonable strategy, and will attempt to apply this to the context in order to achieve the higher marks in this band **(1-5)**

4 (b) *Evaluate the usefulness of the product lifecycle for a firm in the car industry.* **(20)**

An explanation of the product lifecycle is required with an application to the car industry. This might be in terms of an examination of MG Rovers product lifecycle, or examination of the product lifecycle for the car market as a whole.

Level 4

Candidates will have a well structured answer which clearly describes the product lifecycle and relates it to the car industry and considers whether the plc is relevant. Responses should demonstrate clear evaluation and conclusion **(16-20 marks)**

Level 3

Candidates will describe the plc and apply it to the car industry. They will make an attempt to assess its usefulness i.e. there will be an element of evaluation **(11-15 marks)**

Level 2

Candidates will describe the plc in detail and endeavour some application to the car industry **(6-10 marks)**

Level 1

Candidate will show some basic knowledge of the plc and make an effort to apply it. **(1-5 marks)**