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Mark Scheme (Results)

Summer 2017

Pearson Edexcel GCE

In Business (9BS0)

Paper 1: Marketing, people and global businesses

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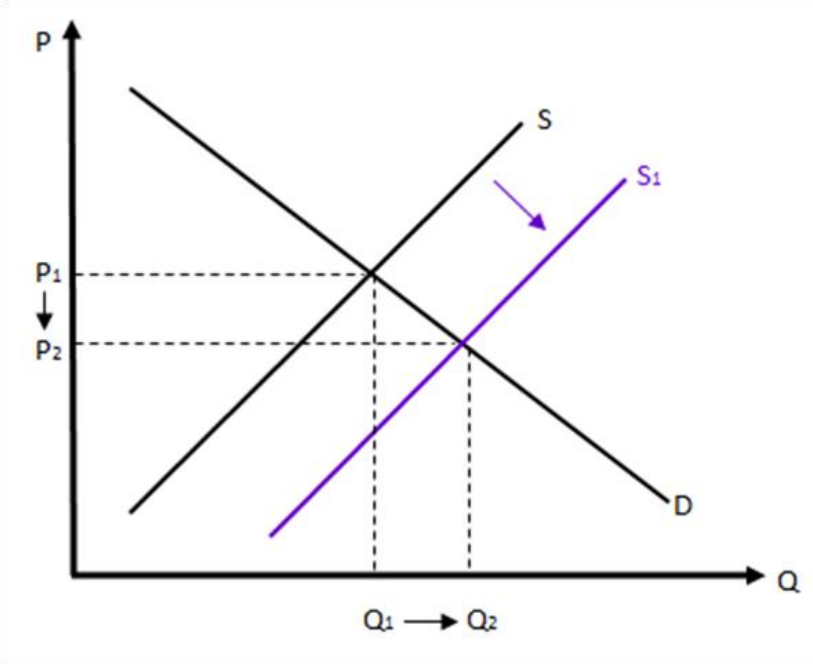
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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1 (a)	<p style="text-align: center;">Knowledge 1, Application 3</p> <p>QS2: calculate, use and understand percentages and percentage changes QS9: interpret, apply and analyse information in written, graphical and numerical forms</p> <p>Knowledge: 1 mark for an understanding of how to calculate</p> <ul style="list-style-type: none"> • Number of people in 2016 - number of people in 2015 / number of people in 2015 <p>Application: up to 3 marks for</p> <ul style="list-style-type: none"> • Market growth from 2015 to 2016 is 0.25bn people (3.75bn-3.5bn) • Calculate percentage change = $0.25/3.5 \times 100 = 7.14\%$ (2dp) • Percentage growth in air passenger demand was 6.7% (extract A), (7.14 – 6.7) so difference is 0.44% points. <p>Accept 1 d.p. i.e. 0.4%</p> <p>NB if the candidate only writes 0.44%, then award 4 marks.</p>	(4)

Question Number	Answer	Mark
1(b)	<p style="text-align: center;">Knowledge 2, Application 1, Analysis 1</p> <p>Quantitative skills assessed: QS3: construct and interpret a range of standard graphical forms</p> <p>Knowledge/understanding: 1 mark for correctly constructing supply and demand curves 1 mark for correctly labelling axes, price and quantity</p> <p>Application: 1 mark for</p> <ul style="list-style-type: none"> • Correctly interpreting the shift in supply curve to the right <p>Analysis: 1 mark for drawing the original and new equilibrium and consequences on the quantity and price axes</p> <div style="text-align: center;">  </div>	(4)

Question Number	Indicative content	Mark
1(c)	<p>Knowledge 2, Application 2, Analysis 3, Evaluation 3</p> <ul style="list-style-type: none"> • Selling online means that tickets are purchased electronically via a website or application • Selling online means that the costs of distributing airline tickets to customers are reduced to virtually zero • This reduces Spirit’s costs of operation and allows them either to reduce fares charged to customers for airline tickets, or increase their profit margins if ticket prices remain the same • It is quicker and easier for Spirit customers to book online as they can do this from home at any time of the day/night which might increase its sales volume • Customers may be attracted because they are able to track price changes for tickets to achieve the best price which might increase Spirit’s sales volume • As Spirit’s customers and potential customers are less likely to expect the additional customer service that might be expected by using ticket agents or selling airline tickets via call centres, operating costs should be lower. <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> • Customers do not gain the customer service that a ticket agent can offer, such as explaining additional costs in the ticket price, which may reduce sales • Spirit needs to have effective back-office support to ensure that their online booking service is reliable and secure for passengers – there is no alternative method of purchase. If it does not then sales will not be possible • Not all potential customers are able, or are comfortable with, using the internet to pay for airline tickets and might feel happier dealing with an agent. This could lead to reduced sales from this market segment. <p><i>Potential judgement</i></p> <ul style="list-style-type: none"> • Low-cost airlines such as Spirit rely on reducing their operating costs to a minimum so that savings can be passed on to the customer in lower fares. Online ticket sales is one of the simplest and most reliable ways of doing this and most customers, when booking tickets for these airlines, would expect to use this method • Faceless online booking systems that can add 	

	<p>additional charges, such as for luggage or insurance, can be part of the reasons low-cost airlines, such as Spirit, gain poor reputations for customer service. This may limit potential customer numbers and market growth for a business, such as Spirit.</p>	(10)
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Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	<p>Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.</p>
Level 2	3-4	<p>Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.</p>
Level 3	5-6	<p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behavior/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information though unlikely to show the significance of competing arguments.</p>
Level 4	7-10	<p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behavior/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information and shows an awareness of competing arguments/factors leading to a supported judgement.</p>

Question Number	Indicative content	Mark
1(d)	<p>Knowledge 2, Application 2, Analysis 4, Evaluation 4</p> <ul style="list-style-type: none"> • Market positioning is an effort to influence consumer perception of a brand or product, relative to the perception of competing brands or products. It is achieved through product differentiation and adding value • Emirates aims to position its airline at the higher price/higher quality end of the airline market, by investing in customer service and high quality aircraft • Positioning effectively for Emirates allows it to charge customers a premium price, based on the reputation of the business and the strength of its brand, which may lead to higher profit margins • Positioning is important because it differentiates Emirates from competitors, which may offer customers a wide range of choice when booking tickets. Customers may be tempted by alternative carriers, such as British Airways, that emphasise other aspects, such as lower prices, convenience or speed. <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> • When customers purchase airline tickets, other factors are important considerations, such as the routes that the airline offers. These should match the requirements of the customer if sales are to be maximised • Speed of the journey and/or convenient flight times may be more of a consideration for some customers so they would be less influenced by Emirates offer of quality aircrafts / excellent customer service • Current market positioning in luxury market is vulnerable to external shocks such as war or recession, so other factors such as security might be more important • Ultimately, ticket price may be the most important factor – airline tickets are a large proportion of most consumers’ travel budget and this may be particularly true for passengers paying for children or other relatives. <p><i>Potential judgement</i></p> <ul style="list-style-type: none"> • Emirates has a big focus on the business traveller, so market positioning is very important because this market is competitive and tends to be differentiated on the basis of quality and customer service. Businesses paying for their employees to travel are likely to want them to travel in comfort, so that they arrive in a position to work more effectively 	

	<ul style="list-style-type: none"> Image and positioning are less important than practical considerations for many customers. Customers travelling for leisure or long-haul, with family members, are more likely to be concerned with the price of airline tickets and the convenience of the schedule on offer. 	(12)
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Level 1	1-2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3-4	Elements of knowledge and understanding, which is applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5-8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behavior/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
Level 4	9-12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behavior/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
1(e)	<p data-bbox="389 230 1262 264">Knowledge 4, Application 4, Analysis 6, Evaluation 6</p> <p data-bbox="352 311 751 344">Option 1 – tall structure</p> <ul data-bbox="400 351 1294 1406" style="list-style-type: none"> <li data-bbox="400 351 1251 427">• A tall organisational structure is one with many layers and a narrow span of control for each manager <li data-bbox="400 434 1283 551">• As Rolls-Royce is over 100 years old the tall structure could have evolved as different functions/departments, such as parts and servicing, were added to the business <li data-bbox="400 557 1294 752">• The senior managers who were removed may have been experienced members of staff therefore the business could have lost valuable expertise, which could have helped Rolls-Royce improve its profit performance in the future <li data-bbox="400 759 1294 920">• Tall structures allow employees to be carefully supervised, which could be beneficial to a business, such as Rolls-Royce, where staff are involved in technical engineering tasks to minimise waste <li data-bbox="400 927 1289 1043">• Lines of responsibility and accountability are clear, which can help Warren East identify those responsible for poor quality products <li data-bbox="400 1050 1235 1211">• Horizontal communication is often better in a tall structure because of narrower spans of control – this could be beneficial in an organisation with different departments and functions with 54,000 employees <li data-bbox="400 1218 1289 1406">• For employees of Rolls-Royce, there may be clear and more opportunities for promotion and this can be motivating for workers who may begin careers in simple manufacturing tasks. This may, in turn, increase productivity and loyalty. <p data-bbox="352 1456 799 1489">Option 2 – flatter structure</p> <ul data-bbox="400 1496 1294 2063" style="list-style-type: none"> <li data-bbox="400 1496 1289 1572">• A flat organisational structure is one with few layers and a wider span of control for each manager <li data-bbox="400 1579 1294 1740">• Vertical communication can be more effective in a flatter structure as there is a shorter chain of command. This can make organisations more responsive, something that Rolls-Royce needs to be in a competitive market <li data-bbox="400 1747 1235 1908">• Decision-making can be faster in a flat structure as fewer levels of management are involved in each decision (“a week would be saved for every month it took to make a decision”) <li data-bbox="400 1915 1235 2031">• Flattening an organisation is likely to reduce the total wage bill in Rolls-Royce, which may help improve profitability given its poor profit performance in 2015 <li data-bbox="400 2038 1289 2063">• In a flat structure more decision-making is delegated by 	

	<p>managers due to wider spans of control. This can allow Rolls-Royce engineers to be more responsive to the needs of customers in a market where competitors are taking market share.</p> <p><i>Potential judgement:</i></p> <ul style="list-style-type: none"> • East’s decision should depend on the reasons for restructuring; he has already removed one layer of management, but this is a small action in an organisation of Rolls-Royce’s size • If cost-cutting and improving profitability are the short-term aim of restructuring, then moving to a flatter structure should be the option that is followed. Warren East has already hinted that this could also speed up decision-making in the business • If Warren East is more concerned about keeping control of the organisation through closer supervision and ensuring Rolls-Royce staff are accountable, then a taller structure with narrow spans of control would be the better option. 	(20)
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Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Isolated elements of knowledge and understanding. Weak or no relevant application of business examples. An argument may be attempted, but will be generic and fail
Level 2	5–8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented, but connections between cause(s) and/or consequence(s)/effect(s) are incomplete. Attempts to address the question. A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behavior or <u>business situation</u>
Level 3	9–14	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behavior/context. Uses developed chains of reasoning, so that cause(s) and/or consequence(s)/effect(s) are complete, showing an understanding of the question. Arguments are well developed. Quantitative or qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.

Level 4	15-20	<p>Accurate and thorough knowledge and understanding, supported throughout by use of relevant and effective use of the business behavior/context.</p> <p>Uses well-developed and logical, coherent chains of reasoning, showing a range of cause(s) and/or effect(s). Arguments are fully developed.</p> <p>Quantitative and/or qualitative information is/are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendations.</p>
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Question Number	Answer	Mark
2(a)	<p style="text-align: center;">Knowledge 1, Application 2, Analysis 1</p> <p>Knowledge/understanding: 1 mark for understanding what is meant by price skimming, e.g.</p> <ul style="list-style-type: none"> • Setting a high price at the launch of a product, to take advantage of those wanting to be the first people to purchase. <p>Application: up to 2 marks for contextualised example, e.g.</p> <ul style="list-style-type: none"> • Pfizer sells healthcare products • Customers will be prepared to pay a high price for new treatments in a new market • Pfizer sell some products that have a cosmetic element. <p>Analysis: 1 mark for developing reason/cause/consequence of price skimming, e.g.</p> <ul style="list-style-type: none"> • Price skimming will allow Pfizer to recover the relatively high R&D costs to enable a profit. 	(4)

Question Number	Answer	Mark
2(b)	<p style="text-align: center;">Knowledge 1, Application 3</p> <p>Quantitative skills assessed: QS2: calculate, use and understand percentages and percentage changes QS9: interpret, apply and analyse information in written, graphical and numerical forms</p> <p>Knowledge: 1 mark for understanding how corporation tax is calculated e.g. Profit x corporation tax rate (%)</p> <p><u>Response version 1</u></p> <p><u>The candidate assumes that \$9.135bn is before tax:</u></p> <p>Application: up to 3 marks</p> <ul style="list-style-type: none"> • Corporation tax in USA was 40% in 2014, so Pfizer's tax would be $\\$9.135\text{bn} \times 40\% = \\3.654bn • Corporation tax in Ireland was 12.5% in 2014, so Pfizer's tax bill would have been $\\$9.135\text{bn} \times 12.5\% = \\1.141875bn • Therefore, they would have saved $\\$3.654 - \\$1.411875 = \\$2.512125\text{bn}$ had they been based in Ireland. <p>NB: if answer given is \$2.512125bn award 4 marks Accept any accurate version of \$2.5 to a range of decimal points.</p> <p>An alternative way of getting the same answer as above:</p> <ul style="list-style-type: none"> • $\\$9.135\text{bn} \times 1.4 = \\12.789bn (USA); so $\\$12.789\text{bn} - \\$9.135\text{bn} = \\$3.654\text{bn}$ Tax • $\\$9.135 \times 1.125 = \\10.276875bn (Ireland) = $\\$10.276875\text{bn} - \\$9.135\text{bn} = 1.141875$ • Therefore, they would have saved $\\$3.654\text{bn} - \\$1.141875\text{bn} = \\$2.51225\text{bn}$ had they been based in Ireland 	

Response version 2

The candidate assumes that \$9.135bn is **after tax** (and therefore needs to add tax on USA **and** Ireland and compare the difference):

Application: up to 3 marks

- If 9.135bn is after tax, we need to add the tax on again
- The calculation for this is:
After tax figure
 $100\% - \text{tax rate } \% \quad \times 100$
- So, for Pfizer in the USA: $\$9.135\text{bn}/60 \times 100 = \15.225bn before tax. Therefore, tax paid in USA is $\$15.225\text{bn} - \$9.135\text{bn} = \mathbf{\$6.09\text{bn}}$
- In Ireland it is: $\$9.135\text{bn}/87.5 \times 100 = \10.44bn before tax. Therefore, tax paid in Ireland is $\$10.44\text{bn} - \$9.135\text{bn} = \mathbf{\$1.305\text{bn}}$
- Therefore: $\$6.09\text{bn} - \$1.305\text{bn} = \mathbf{\$4.785\text{bn}}$

Accept any answer, rounded correctly up to 1.d.p. i.e:

\$4.8bn
\$4.79bn

(4)

Question Number	Indicative content	Mark
2(c)	<p>Knowledge 2, Application 2, Analysis 3, Evaluation 3</p> <ul style="list-style-type: none"> • Specialisation means a business concentrates on a specific range of products or services. • The healthcare/pharmaceutical market is dominated by a few multinationals, as implied by the record year in 2015 for global healthcare mergers • The healthcare product market is extremely specialised in terms of specific medicines and treatments, which require a large quantity of research and development and specialist skills from employees. Healthcare companies may need to sell internationally in order to make sufficient revenue to recover the high R&D and labour costs • Specialisation means that Pfizer does not compete directly with the same product with other businesses (such as Astrazeneca) in the same national market and they are therefore able to charge a premium price in that country for their products, gaining a competitive advantage through differentiation. <p><i>Potential Counterbalance</i></p> <ul style="list-style-type: none"> • Specialisation can make a business, such as Pfizer, vulnerable to changes in market demand. For example, there may be sudden growth in an aspect of health products in which they are not involved, which means it misses out on potential sales. • Research and development in pharmaceuticals is necessary in a dynamic market, but extremely expensive. If this is linked to an area of unsuccessful specialisation, can impact negatively on profit as development costs are not recovered • International competitive advantage can be gained through being the lowest cost producer in a global market charging lower prices. This could mean that Pfizer might focus more on mass market products such as painkillers, rather than specialist areas of healthcare, in order to benefit from lower average costs <p><i>Potential Judgement</i></p> <ul style="list-style-type: none"> • Specialisation based on intense and expensive research and development is more likely to lead to Pfizer gaining a competitive advantage internationally based on differentiation given the nature of products / dynamic market. 	(10)

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Level 4	7-10	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behavior/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
2(d)	<p data-bbox="395 273 1295 309">Knowledge 2, Application 2, Analysis 4, Evaluation 4</p> <p data-bbox="357 353 663 389">Indicative content</p> <ul data-bbox="405 398 1279 1249" style="list-style-type: none"> <li data-bbox="405 398 1174 470">• Global merger is when companies from different countries combine assets and operations <li data-bbox="405 479 1200 551">• Pfizer is based in the USA and Allergan is based in Ireland, part of the European Union (EU) <li data-bbox="405 560 1276 721">• One reason for the merger is to reduce the corporation tax bill for Pfizer as Ireland’s rates are much lower than those in the USA, this should lead to increased available profits <li data-bbox="405 730 1267 891">• Ireland and the EU provides new markets for some of Pfizer’s products, thus spreading risk over new markets or extending product life cycles of established drugs <li data-bbox="405 900 1279 1088">• Once located in the EU, the new business will be able to trade freely within all member states without trade restrictions, therefore expanding Pfizer’s opportunity to increase sales. This would not be the case if Pfizer had exported from America <li data-bbox="405 1097 1248 1249">• The global merger helps maintain Pfizer’s global competitiveness as it is able to expand into new international markets more easily by using Allergan’s existing infrastructure and supply contracts. <p data-bbox="357 1294 724 1330"><i>Potential counterbalance</i></p> <ul data-bbox="405 1339 1270 2020" style="list-style-type: none"> <li data-bbox="405 1339 1174 1491">• Allergan is an established business in a different country and market that Pfizer may not fully understand. This may require expensive market research which would add to its costs <li data-bbox="405 1500 1260 1662">• There are human resource implications of the merger including staff redundancies (it was not known how many jobs would be lost as a result of the merger) for employees doing duplicate roles <li data-bbox="405 1671 1264 1904">• There may be culture clashes between two organisations that may have different objectives or ways of managing staff, which may therefore lead to conflict over marketing strategies e.g. Allergan is primarily focused on cosmetics while Pfizer focuses on pharmaceuticals <li data-bbox="405 1912 1267 2020">• The focus on securing a lower tax bill given the global merger could damage the reputation of the new Pfizer and therefore damage future sales of pharmaceuticals. 	

	<p><i>Potential judgement</i></p> <ul style="list-style-type: none"> • The merger with Allergan could benefit them in the short-term as they immediately gain from lower corporation tax, access to new markets within the EU and also access to new products and services such as Botox treatment that Allergan have expertise in • Longer-term there could be difficulties caused by the ethical question raised by the business's tax affairs and the ability of the new business to be managed effectively without the diseconomies of scale often caused by global mergers. 	(12)
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Level 4	9-12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behavior/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
2(e)	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 6, Evaluation 6</p> <p>Decision for</p> <ul style="list-style-type: none"> • Foreign owned multinationals such as Pfizer bring skills and new technology to an economy, which are not always present in a host economy such as Ireland • These gains can spill-over to local businesses in Ireland in the form of technological transfer, making them more innovative and productive • Dublin pharmacies could also benefit from increased competition amongst drug manufacturers which could increase choice and reduce prices for healthcare products in Ireland and in the EU, which would also benefit the Irish consumer • The Multinationals currently located in Ireland are from a range of sectors including IT and building. Allowing a pharmaceutical business to locate there will help broaden the employment base of the economy and reduce dependence a small number of sectors • Businesses in the Cork area supply chain will also benefit from the increased need for supplies for the Pfizer / Allergan business by increasing sales • As Pfizer / Allergan may recruit more skilled staff, which may increase the average wage in the Irish economy or at least the local economy. This could lead to increased local spending / an increase in Ireland's GDP • The Irish government could gain from increased corporation tax revenue as the new company declares profits there, as well as VAT and other revenues from increased consumer spending. <p>Decision against</p> <ul style="list-style-type: none"> • Irish businesses may not be able to compete in paying higher wages, so they lose out on recruiting the most able scientists and staff in the healthcare sector • Following this, there may be a skills shortage in the Irish economy for employees in the healthcare sector elsewhere as Pfizer / Allergan increases its recruitment • Pfizer is still a majority US-owned company and it may send profits from the business back to shareholders registered abroad, so the economy of Ireland does not benefit from investment and spending in the long-run • The Irish economy is already dominated by multinational businesses, such as Microsoft, so another one will increase its vulnerability to MNCs choosing to relocate and leave 	

	<p>Ireland at short-notice, without Irish businesses to replace them</p> <ul style="list-style-type: none"> • The expertise and growth of the Irish economy is mainly in IT services, not healthcare / pharmaceuticals, so there may not be sufficient expertise for Irish workers to benefit from the relocation of Pfizer's operations. <p><i>Potential judgements</i></p> <ul style="list-style-type: none"> • The Irish government should have supported this decision for Pfizer to locate in Ireland because of the gains in corporation tax revenue and potential for increased employment. The increased tax revenue could be spent elsewhere in the Irish economy to support local firms, develop new areas of specialisation and support education and training. The local supply chain will also benefit from new demand which supports employment and spending in the economy • The Irish government should have opposed the decision as it is already overly dependent on multinational businesses in its economy. This makes them vulnerable to sudden decisions about relocation which can damage Irish workers and consumers. It seems clear that Pfizer's decision has been based on reducing its tax bill, with less consideration for Allergan and Ireland. This means it is very likely to leave Ireland (for countries such as Hungary which has a 10% tax rate) as quickly as it arrived, damaging consumers and Irish businesses hugely. 	<p>(20)</p>
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