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| ***Knowledge and understanding*** | ***Application*** | ***Analysis*** | ***Evaluation*** |
| Identify relevant factors | Place these relevant factors in context; refer to the scenario; relate to the type of business and its particular situation; relate to the type of product or service | Develop the ideas: show why they matter; why they are significant;  “X is relevant BECAUSE….and THEREFORE….” | Weight up the different ideas; show why they matter; show why they are more or less important in different situations  “It depends on X BECAUSE….”  “X is the most important factor in this situation BECAUSE….”  “X is the mostly likely consequence BECAUSE…” |

**Knowledge and understanding (content)**

This is the ability to show that you UNDERSTAND the relevant concepts. You have been able to identify relevant POINTS when answering a question and show that you know what different terms and business ideas MEAN.

**Application**

You have to show that you can APPLY your ideas to the context of the given business situation. Wherever possible you need to relate your answers to the ACTUAL business in the data question or case study.

**Analysis**

Analysis occurs when you develop your ideas. For example, you show why an idea is significant, why it matters, what the consequences are.

**Evaluation**

Evaluation occurs when you show judgement. You show when an idea is more or less important; you discuss what makes it more or less SIGNIFICANT.

**Higher level skills: Analysis**

**Analysis** **involves**:

* Developing your points
* Showing why these points are significant; why they matter

To do this it helps to:

1. Use business **theory**
2. Use business **terminology**

Examples of **business theory**

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| **Motivation**: whenever you are discussing the impact of a particular policy on people you can refer to their motivation and to motivational theorists. Consider the work of Maslow, Herzberg and Taylor for example, and bring it into your analysis of people issues wherever you can. | **Objectives**: you can only assess whether a particular plan is effective or not when you know the firm is trying to achieve. |
| **Context:**  you need to think about why things have happened in the context of the firm. For example, if a firm’s stock levels are increasing is it a good or bad thing? This depends on whether the firm is deliberately stocking up (e.g. for the Christmas rush) or whether stocks are increasing because sales are very low.  A high rate of return on capital employed may be quite impressive in a boom and extremely impressive in a recession | **Opportunity costs:** whenever you are considering a decision you should look at the opportunity cost. What else could you be doing? What are you giving up by choosing the course of action? This should be considered for the firm when answering questions: to pursue a certain decision, what opportunity costs does the firm incur? |

1. Examples of business **terminology**

This simply means that you should **use** **terms precisely** and that you should try to use **business terms** rather than more colloquial (informal) ones.

For example, many fail to distinguish between:

* **Unit costs** and **costs** (if you produce more units, **costs** **will** **rise** although **unit costs** **may** **fall** due to economies of scale)
* **Output** and **productivity** (if you produce the same output with fewer employees, productivity has **risen**)
* **Profits** and **profitability** (profitability relates **profits** to e.g. sales or capital employed; a firm may **increase profits** but the profit per sale may actually have fallen – for example if they have reduced their price to sell more for example)

**Developing your points:**

To **analyse effectively** you need to **develop** your arguments. Whenever you make a point, explain **why** it is **relevant** and then explain why it matters and **why** it is **significant**. To **gain** **analysis** marks you need to develop a chain of argument: “*X may lead to Y* ***because*** *of Z and* ***therefore*** *Q*”. “*An increase in Z may result in M due to L and CONSEQUENTLY*...”

Look at the following statements and notice how they **fail** **to develop the argument** enough for analysis:

* *A motivated workforce may be more productive (Why? And so what? What is the importance of this?)*
* *A lower price may increase sales (By how much? What does it depend on? And so what?)*
* *Budgets are financial targets and be used to control costs (So? Why does this matter? What is the significance of this?)*

**Higher level skills: Evaluation**

To evaluate effectively you need to consider the arguments you have put forward in your answer and weigh these up. You must show judgement in your conclusion and show that you have considered which factors out of all the ones you have mentioned are more or less important.

**Things to consider might be:**

* **The short run versus the long run**
  + Short run reactions may differ from long run ones. For example, in the short run a firm may cut its price or cut back on its advertising; this may boost short run sales but damage the long run brand; alternatively, in the short run, cutting back on investment, training and new product development might damage the long run success of the firm.
  + Enter a market with a low price to gain market share with low profits in the short run; in the long run, this may lead to more power and economies of scale
  + Investment, training and R&D are all likely to reduce to short term profits, but may boost long term profits.
* **The ability of management** 
  + The ability of firm to anticipate change and to react effectively depends on the skill of the managers. Note that large firms are not necessarily better managed that small ones.
* **Financial resources**
  + e.g. the liquidity position of the firm, its gearing, its return on capital. These will all affect its ability to finance projects, to sustain losses and to attract investors
* **The nature of the product and the sales mix**
  + What does the firm produce? (e.g. are its products income or price elastic?) What is the product range? (e.g. is the firm dependant on a single product or does it have several? In this case, what is the nature of its portfolio?) Where does it sell? (e.g. how much does it depend on its domestic market?)
* **The extent and duration of the change**
  + e.g. how much have interest rates increase or decreased?
* **The flexibility and efficiency of the operations process**
  + e.g. how quickly can a firm react to changes in the market? What are the unit costs?
* **The culture of the organisation**
  + i.e. is it bureaucratic or innovative? Does it encourage employees to use their initiative or does it expect employees to seek advice from their superiors if the situation is uncertain?

**Weighing up the arguments**

Evaluation often involves **weighing** **up** the **arguments**. **Evaluation** can often centre on the phrase “***It depends***”. This highlights that there is no given answer, your answer **depends** on the **context** of the firm. Make sure you support your ‘it depends’ by **explaining** what it **depends** **on** and **why**. **Support** your argument.

Always look for **references** in the **question** which you can refer to in your **evaluation**. Is it a small firm or a large firm? Is it profitable or not? Is the change unexpected or not? Has the change been rapid or not? These can all be considered in your answer.

Evaluation also includes an **appreciation** of what is **realistic**. Firms cannot in general just suddenly increase their capacity; managers are unlikely to lay off half of their workforce suddenly; a promotion campaign may take weeks or months to plan.

Evaluation can also show through when a student judges what is **appropriate** in the **circumstances**, i.e. given the background or culture of the firm.

Essentially, evaluation is the **realisation** that there is **no one answer** to most Business Studies questions. The best solution to any problem, the impact of any action, the best reaction to the changed circumstances will depend on a **range of factors**: What are the aims of the firm? What are its strengths and weaknesses? What are the market conditions? How long has it to react?

Evaluative answers **recognise** the need to discussion and debate.

Types of evaluation question

* **Discuss the factors which a firm may consider when...**

To answer this you might outline two or three factors and then decide which one is most important and why. “For this firm, X is likely to be the most important BECAUSE...”. “For this type of decision at this time, Y is likely to be the most significant BECAUSE...”

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| FACTOR ONE | } Develop these and then discuss which one is important (explain why this is the case) |
| FACTOR TWO |
| FACTOR THREE |

* Discuss whether a firm should...

To answer this type of question, you should outline the case for, the case against and then come to a conclusion about whether the firm should or should not follow the course of action.

“In this situation/at this time/this type of firm should/should not do this **BECAUSE**...”

You need to outline the two side of the argument and then decide which is the most significant or most likely to explain why.

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| THE CASE FOR |  | THE CASE AGAINST |

Weigh up the two sides.

Which side is **more important**? Why? When?

**Words** to watch out for in the examination

* “Assess the **IMPLICATIONS** of X...”
  + To answer this, you must consider the consequences of X, i.e. in what ways could it affect the firm?
* “Discuss the adverse **consequences** of X...”
  + This means that you need to discuss the unfavourable or negative results of X
* **DISCUSS**: to answer a question that begins with “**Discuss**”, you need to **analyse your arguments** and **weigh** them up.
* **EVALUATE**: this means that you have to weigh up your points and show **judgment**.
* **ASSUMPTIONS**: Some calculation questions ask you to state your **assumptions**. Don’t simply describe what you have just calculated but state what you have **had to assume** to work out the calculation. For example, you may have assumed that all the items produced were sold, or that a shop was open for 50 weeks a year etc.

*General advice for examination answers:*

* Take a few ideas, apply them, analyse them and weight them up.
* Pure theory is not as good as **applied theory**. Use the **theory** by applying it.
* Real-life business examples can be useful to **apply particular** points (e.g. power of pressure groups, social responsibility, effective product launches, niche marketing, delayering, software over hardware, disruptive technologies, privatisation, trade union disputes)
* **Read** the question several times to truly understand it.
* **Watch** your language, e.g. avoid “will” and “must” and use instead terms such as “could”, “might” or “may”. If you say something “will” happen, you are challenging the examiner to think of a situation where it will not! You are being too definite: very little will definitely happen – there are many possibilities. Consider such words as “potentially”, “more likely or less likely” or “there is a possibility that...”
  + If you say something “may” happen you are recognising that there **could** **be** **alternatives** and this makes a much better impression. For example, “An increase in unit cost **will** lead to an increase in price” is wrong – you do not know that this will happen. “An increase in unit costs **may** lead to an increase in price”