

Markscheme

May 2024

Business management

Standard level

Paper 2

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The markbands on page 3 should be used where indicated in the markscheme.

Marks	Level descriptor
0	The work does not reach a standard described by the descriptor.
1–2	<ul style="list-style-type: none"> • Little understanding of the demands of the question. • Little use of business management tools and theories; any tools and theories that are used are irrelevant or used inaccurately. • Little or no reference to the stimulus material. • No arguments are made.
3–4	<ul style="list-style-type: none"> • Some understanding of the demands of the question. • Some use of business management tools and theories, but these are mostly lacking in accuracy and relevance. • Superficial use of information from the stimulus material, often not going beyond the name of the person(s) or name of the organization. • Any arguments made are mostly unsubstantiated.
5–6	<ul style="list-style-type: none"> • The response indicates an understanding of the demands of the question, but these demands are only partially addressed. • Some relevant and accurate use of business management tools and theories. • Some relevant use of information from the stimulus material that goes beyond the name of the person(s) or name of the organization but does not effectively support the argument. • Arguments are substantiated but are mostly one-sided.
7–8	<ul style="list-style-type: none"> • Mostly addresses the demands of the question. • Mostly relevant and accurate use of business management tools and theories. • Information from the stimulus material is generally used to support the argument, although there is some lack of clarity or relevance in some places. • Arguments are substantiated and have some balance.
9–10	<ul style="list-style-type: none"> • Clear focus on addressing the demands of the question. • Relevant and accurate use of business management tools and theories. • Relevant information from the stimulus material is integrated effectively to support the argument. • Arguments are substantiated and balanced, with an explanation of the limitations of the case study or stimulus material.

Section A

1. (a) State **two** features of an entrepreneur. **[2]**

An entrepreneur:

- take risks
- identify business opportunities / comes up with a business idea / starts up (creates) a business
- has a vision
- is passionate about their business
- put their own funds / finance into the business
- is innovative / creative
- (highly) motivated
- adaptable
- resilient / persevering
- confident
- ambitious
- is a decision / strategy maker
- problem solvers / think outside the box / open minded.

Accept any other relevant feature.

N.B. *no description is required.*

Award [1] for each correct feature identified. Award a maximum of [2].

Do not award answers such as: operates a business / combine the factors of production / have leadership skills, as these are descriptions / definitions rather than features.

Do not award the following answers as these are features of a sole trader:

- *has unlimited liability*
- *works on own*
- *keeps all the profits*
- *decides own working hours etc.*

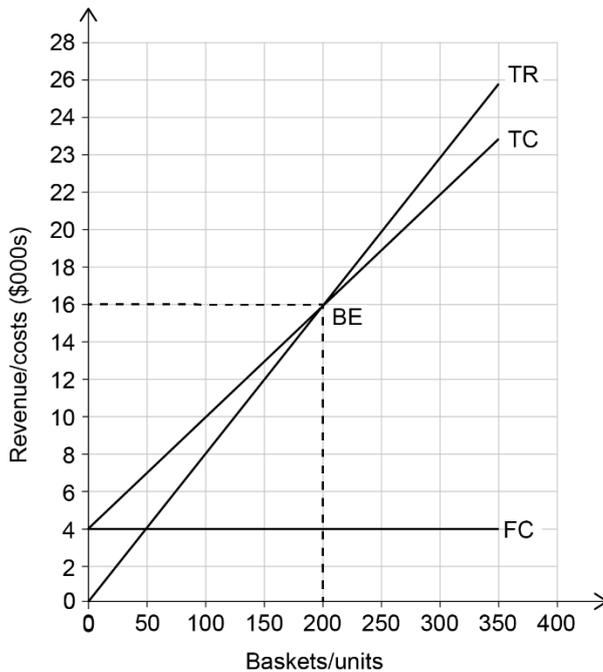
- (b) Construct a fully labelled break-even chart, to scale, for the baskets of local organic food products for 2025. **[4]**

The break-even point is 200 units: \$16 000

At an output / sales of 400:

TR = \$32 000

TC = \$28 000



Award marks as follows:

[1] for a correctly labelled and accurately drawn total revenue (TR) line – can be TR or revenue (but not “sales” on its own).

[1] for a correctly labelled and accurately drawn total cost (TC) line.

[1] for identifying the break-even point. The break-even point must show where the total revenue and total cost line intercept. Ideally, the candidate will draw an arrow pointing to the break-even point and label the arrow. However, accept as an accurately labelled break-even point a vertical line from the x-axis to the break-even point, provided that the line is labelled “break-even point”.

[1] for correctly labelling BOTH axes – y-axis must have both costs and revenue; x-axis must have some indication of quantity, e.g. output/units/quantity/items/number of baskets of local organic products.

A break-even chart that is not neat, not drawn with a straight edge, can be awarded a maximum of **[2]**.

A break-even chart that is not drawn to scale can be awarded a maximum of **[2]** if the axes are both correctly labelled and the break-even point is identified on the chart.

If a candidate produces a table rather than a chart, award **[0]**.

N.B. drawn diagrams must have a consistent verifiable scale, otherwise it cannot be determined if TR and TC are accurate, even if correctly labelled.

- (c) (i) Calculate the profit if 500 baskets of local organic food products are sold in 2026 (*show all your working*). **[2]**

$$\begin{aligned} \text{Profit} &= \text{TR} - \text{TC} \\ &= 500 \text{ units} \times \$80 - (\$2000 + 500 \times \$60) \\ &= \$40\,000 - (\$2000 + \$30\,000) \\ &= \$40\,000 - \$32\,000 \\ &= \mathbf{\$8000} \end{aligned}$$

Alternative answer:

$$\begin{aligned} \text{Profit} &= \text{Units} \times (\text{contribution per unit}) - \text{Fixed costs} \\ \text{Profit} &= 500 \text{ units} \times (\$80 - \$60) - 2000 = \mathbf{\$8000} \end{aligned}$$

Award [1] for the correct answer with \$ sign and [1] for correct working, up to a maximum of [2].

Award [1] for the correct answer without \$ sign and correct working.

Award [0] for an answer of 8000, with no \$ sign and no working.

- (ii) Explain **one** reason why fixed costs are likely to decrease in 2026. **[2]**

The fixed costs are likely to decrease in 2026 because **some of the fixed costs incurred in 2025 would have been “one-off” or setup costs**. These include in this stimulus:

- setting up a **website**. (**This cost would not be repeated in 2026.**)
- the business may also spend less on advertising as business awareness will have been created.

Accept any other relevant explanation.

Award [1] for identifying that some costs would be “one-off” or setup costs when starting the business, and an additional [1] for application to the stimulus up to a maximum of [2].

Award [1] for a tautological answer that states “will have less setup costs as is already setup” as this applies to any business and is therefore not application – needs to mention website and or advertising for an application mark to be awarded.

2. (a) State **two** types of below-the-line promotion. **[2]**

Types of below-the-line promotion include:

- branding and merchandising
- catalogues
- direct mail / email / texts
- in house / on premises posters
- packaging
- personal selling
- loyalty programmes
- referral programmes
- (sales) promotion or examples (buy-one-get-one-free offers, credit terms, free gifts and samples, display materials, discounts, prizes, vouchers/coupons) **N.B.** only award one of these examples
- public relations
- social media (marketing)
- sponsorship
- targeted search engine (marketing)
- telemarketing
- trade fairs / exhibitions / shows / product demonstrations.

Accept any other type of below-the-line promotion.

N.B. no description is required.

*Award **[1]** for each type of below-the-line promotion stated. Award a maximum of **[2]**.*

*If a candidate states two types of promotion, award **[1]**.*

Do not award word of mouth.

(b) Using information from **Table 2**, calculate:

(i) the current ratio for 2023 (*show all your working*); **[2]**
(allow rounding)

$$\text{Current assets} = \text{cash} + \text{debtors} + \text{stock} = \$97\,000 + \$147\,000 + \$137\,000 = \$381\,000$$

$$\text{Current liabilities} = \text{bank overdraft} + \text{trade creditors} = \$125\,000 + \$55\,000 = \$180\,000$$

$$\text{Current assets/current liabilities} = \text{current ratio} = \$381\,000/\$180\,000 = \mathbf{2.11666666666}$$

Allow rounding as long as the candidate rounds correctly.

Accept 2.12 or 2.1 or 2.117 or 2.0

*Award **[2]** if the candidate has the correct answer and shows working.*

*Award **[1]** if the candidate makes a mathematical error (thus the answer is incorrect) OR if the candidate has the correct answer but does not show working.*

- (ii) the tax rate for 2024 (*show all your working*); **[2]**

Sales revenue – cost of sales – expenses – interest = profit before tax

Tax/profit before tax = tax rate

Tax rate = $\$83\,750 / (\$1\,539\,000 - \$702\,000 - \$468\,000 - \$34\,000) \times 100\% = 0.25 \times 100\% = \mathbf{25.0\%}$

Award [2] if the candidate has the correct answer and shows working. A correct answer must include the percentage sign (%).

Award [1] if candidate has correct working but an incorrect answer OR has correct answer including a % sign with no working.

Award [0] for an answer which says 0.25.

N.B. do not penalize more than once for sign omission in any one question part (b)(ii), (b)(iii).

- (iii) dividends paid in 2024 (*show all your working*). **[2]**

Two alternative answers are possible depending on whether a candidate assumes that in 2024 column retained earnings are from the statement of profit or loss **or** from the statement of financial position.

Statement of profit or loss method:

Calculate net profit after interest and tax
= sales revenue – costs of sales – expenses – interest – tax
= \$251 250

Dividends paid out = net profit after interest and tax – retained earnings
= \$251 250 – \$178 000
= \$73 250

Award [2] if the candidate has the correct answer with \$ sign and shows working.

Award [1] if the candidate has correct working but an incorrect answer, OR the candidate has the correct answer with \$ sign but does not show working.

N.B. Award [1] if the answer given is \$73.25 with correct working.

Statement of financial position method:

Method 1

Profits for the period = sales revenue – cost of sales – expenses – interest – tax

Profits for the period 2024 = \$1 539 000 – \$702 000 – \$468 000 – \$34 000 – \$83 750 = \$251 250

On the statement of financial position, retained earnings declined from \$226 000 in 2023 to \$178 000 in 2024. This reduction means that in 2024, *PP* paid out all of its profits for 2024 plus an additional \$48 000.

Thus, total **dividends** were \$251 250 + \$48 000 = **\$299 250**.

Award [2] if the candidate has the correct answer with \$ sign and shows working.

Award [1] if the candidate has correct working but an incorrect answer OR the candidate has the correct answer with \$ sign, but does not show working.

Method 2

Dividends paid = retained earnings in 2023 + earnings or profits for the period 2024 – retained earnings in 2024

Dividends paid = \$226 000 + \$251 250 – \$178 000 = **\$299 250**

Award [2] if the candidate has the correct answer with \$ sign and shows working.

Award [1] if the candidate if has correct working, but an incorrect answer OR the candidate has the correct answer with \$ sign, but does not show working.

- (c) In 2024, *PP* paid high dividends. Comment on *PP*'s decision to pay high dividends in 2024. **[2]**

Two relevant comments include:

- At year-end 2023, *PP* had a **current ratio of 2.12**, which is arguably **too high**. ***PP* might not have been making best use of resources to maximize the returns for shareholders.** Making a high payment to shareholders may increase the share price; make it easier to raise more funds from shareholders in the future; make shareholders less likely to sell their shares / **generate favourable relationships with investors.**
- ***PP* operates** in the **high-tech agricultural** sector, which means **innovation** will be necessary to stay competitive. By **paying such high dividends**, *PP* has **fewer resources / less retained profits to engage in research** and development or to invest in new technologies. In the **long run**, the decision to pay such high dividends may **weaken *PP*'s ability to remain competitive.**

Accept any other relevant comment.

Award [1] for an answer addressing one of the two issues above in a partial way.

Award [2] for a full comment with application to the stimulus.

Section B

3. (a) Define the term *fixed cost*. [2]

Fixed costs are **costs** that do not change **as output changes / remain constant as output changes**.

Accept if the candidate links the costs to changes in sales or sales revenue.

N.B. *no application required. Do not credit examples.*

*Candidates are **not** expected to word their definition **exactly** as above.*

Award [1] for a definition to the effect that fixed costs are costs that do not change. Award an additional [1] if the candidate links that idea to changes in output.

- (b) Explain **one** advantage **and one** disadvantage for *WEL* of implementing a premium pricing strategy. [4]

Premium pricing occurs when a product's **price** is **significantly higher than** those of **similar competing products**, as it is **perceived** to be **unique** or of **higher quality**.

Advantages of premium pricing include:

- **profit margins** are **higher**;
- **higher entry barriers** for new competitors;
- it helps to make **customers perceive** the **product as exclusive** and of high quality;
- if successful, it can help *WEL* cover its high fixed costs.

Disadvantages include:

- the relatively **high prices** may **discourage customers**;
- it may be difficult and **expensive** to establish and **maintain** the **brand loyalty** necessary to charge the higher prices;
- competition in the area such as international chain hotels in which *WEL* is located is fierce. Any potential customers who are price sensitive might choose to stay at a less expensive hotel. Some competitors also offer special activities, such as canoeing and archery;
- prices are easily compared as a local website lists all hotel prices.

N.B. *application marks for 3(b) are mostly grounded in how competitive the market is and in the web page that posts hotels prices provides transparency.*

Accept any other relevant advantage/disadvantage. Do not award for nominal application such as hotel food, tourism as this applies to any hotel.

Do not accept premium prices will increase revenues. Premium prices may actually result in fewer customers.

Mark as 2+2.

*Award [1] for a relevant advantage/disadvantage and an additional [1] for application to *WEL*. Award up to a maximum of [2] per advantage or disadvantage.*

[2] *can not be awarded per advantage/disadvantage if the response lacks either explanation **and / or** application.*

For example:

*For an identification or a description of a problem **with or without** application [1].
For explanation of a problem with **no** application [1].
For explanation of a problem **and** application [2].*

Maximum award overall: [4]

- (c) Explain **one** advantage **and one** disadvantage for *WEL* of taking over the glass-bottomed boat provider. **[4]**

Advantages include:

- Can help **differentiate** *WEL*'s **brand** from competitors, as they are the only ones offering this service. *Prevents competitors from offering the same service unless they set up their own glass bottom boat enterprise.*
- *Gives WEL more control over a revenue generating area of the business.*
- The glass-bottomed boat rides have become so popular (application to the stimulus).

Disadvantages may include:

- It will **increase operating costs** (including fixed costs, which are already high); *WEL*'s first two years of operation, it frequently faced financial difficulty despite being profitable.
- **Problems of integration** (change management) (that could lead to reducing customer's satisfaction, which *WEL* is trying to improve).

Accept any other relevant advantage/disadvantage.

Mark as 2+2.

Award [1] for an appropriate advantage/disadvantage and an additional [1] for application to WEL. Award up to a maximum of [2] per advantage/disadvantage.

[2] cannot be awarded per advantage/disadvantage if the response lacks either explanation **and / or** application.

For example:

*For an identification or a description of a problem **with or without** application [1].
For explanation of a problem with **no** application [1].
For explanation of a problem **and** application [2].*

Maximum award overall: [4]

- (d) Using the data provided in **Table 3** and **Table 4**, and other information in the stimulus, recommend which strategy *WEL* should implement to gain a competitive advantage over competitors. **[10]**

Strategies may include:

- diversification
- various pricing strategies
- growth
- market development
- product development
- various combinations thereof.

Accept any other relevant business strategies.

According to the stimulus, there is potential for the **cost reduction strategy**, which would allow for parity or proximity with rival hotels. Cost reduction for *WEL* can be discussed using the data on Table 4, which suggests that **small reductions** are possible **in their fixed costs**, and more

significant ones are possible in their **variable costs**. Not all items carry the same weight, as cost reductions are **more feasible** in **labour** and **energy**, and **less so in marketing**.

There is potential for **differentiation** too, as seen in Table 3, where the **items addressed match** those in the **consumer profile** defined by the board of directors. However, the **scores** are clearly **not good** enough in some aspects **like rooms and prices**.

A **differentiation focus strategy** also has potential, as improving in those aspects where they are **weak** could allow them to **focus** on a **niche market** (target customer was defined by the board of directors) and **charge premium prices**. Cost focus **does not seem** to be a likely **option**.

Clearly, as stated by the CEO in the last paragraph, **they “did not clearly stand out in any of them”**, which is **problematic**. **WEL should clearly define which strategy to follow**, and do so to the best of their abilities.

Accept any other relevant argument and recommendation.

Marks should be allocated according to the markbands on page 3.

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4. (a) State **two** features of microfinance. **[2]**

Features of microfinance include:

- Borrowers are usually low income.
- Loan amounts are small.
- Microfinance institutions often provide other financial services, such as deposit accounts and insurance.
- Term of loans is usually short.
- Usually no collateral requirement.
- Women make up the majority of microfinance borrowers.
- Operates in underserved areas bridging the gap between financial institutions and marginalized communities.
- Many microfinance lenders are social enterprises.
- Used by those that have trouble getting loans from banks / are rejected by banks for loans.
- For loans usually made to small businesses / small organizations.
- Most microfinance borrowers are from developing countries.
- It is an external source of finance.

Accept any other relevant feature of microfinance.

N.B. *if a candidate raises the points that microfinance borrowers come from disadvantaged groups and that microfinance borrowers are mainly women, award **[2]** as two distinct points were made. However, if a candidate writes something to the effect that “microfinance borrowers are usually from disadvantage groups, such as women,” award **[1]**. In this instance, “women” are exemplification of disadvantaged group and **NOT** a distinct point. We do not award marks of this type of question for exemplification.*

Do not accept any assertion about interest rates (being high or being low).

*Award **[1]** for each relevant feature of microfinance up to a maximum of **[2]**. No reference to Wafuki Hardware (WH) needed.*

- (b) (i) Calculate WH's profit for period, **X**, for the year ended 31 December 2023 (*show all your working*). **[2]**

Sales revenue – cost of sales – expenses – interest – tax = profit for period
 $\$232\,000 - \$142\,000 - \$80\,000 - \$1000 - \$2000 = \7000
Profit for period, X = \$7000

Accept the answer 7 as X is a missing figure from the table with the heading “all figures in \$000s”.

*Award **[2]** if the candidate has the correct answer and shows working, \$ sign not required.*

*Award **[1]** if the candidate has the correct method but an incorrect answer OR if the candidate has the correct answer but does not show working.*

- (ii) Comment on *WH*'s liquidity at 31 December 2023. **[2]**

Current ratio = current assets / current liabilities = \$34 000 / \$16 000 = 2.125

Current assets = Cash + Debtors + Stock = \$7000 + \$4000 + \$23 000= \$34 000

Current liabilities = Bank overdrafts + Trade creditors = \$2000 + \$14 000= \$16 000

Acid test = (current assets – stock) / current liabilities = (\$34000 –\$23000) / \$16 000

Acid test = 0.6875

***WH*'s liquidity is deceptive. On the one hand**, it has the **seemingly strong current ratio of 2.125**. **However**, the **acid test ratio is only 0.6875**. *WH* has **many** of its **resources, \$23 000, tied up in stock**. The fact that **most** of *WH*'s **sales** are on a **cash basis allows *WH* to operate** with such **limited liquid assets**; the business has cash coming in every day that *WH* is open.

N.B. no marks are to be awarded if a candidate only calculates the CR and/or AT ratios and makes no valid comment about liquidity.

N.B. if a candidate incorrectly calculates the CR or AT ratios and bases their comments on these incorrect ratios, award no marks. OFR does not apply in this question as candidates are not asked to calculate liquidity ratios. Eg if the ATR is calculated as 1.5 with an accompanying comment: “this shows that *WH* has good liquidity” – this is clearly incorrect and cannot be rewarded.

Award **[1]** for some understanding of the concept of liquidity. Award **[2]** if the candidate demonstrates an understanding of the concept of liquidity and offers some additional commentary or detail providing depth, such as:

- calculating one or both of the liquidity ratios (current ratio and/or acid/quick test ratio) and providing commentary thereon
- mentioning the issue of having a large investment in stock.

- (c) (i) Calculate the expected return, **Y**, for **Option 2** (show all your working). **[2]**

The correct method is that candidates multiple the probabilities by the return from investments, add those three numbers, and then subtract the project cost.

For **Option 2**:

$(\$100\,000 \times 0.4) + (\$50\,000 \times 0.5) + (-\$20\,000 \times 0.1) =$

$\$40\,000 + \$25\,000 - \$2000 = \$63\,000$

Expected return, Y, for Option 2 = \$63 000 – \$60 000 = \$3000

Award **[2]** if the candidate has the correct answer with \$ sign and shows working. Accept the \$ sign somewhere in their working/answer.

Award **[1]** if the candidate has the correct working but an incorrect answer OR if the candidate has the correct answer and working but no \$ sign. Allow BOD for use of another monetary sign.

Award **[0]** for 3000 on its own.

N.B. do not penalize more than once for sign/unit omission in any one question part (c)(i), (c)(ii).

- (ii) Assuming the average expected annual return on investment from Option 1 remains constant over the five-year period, calculate the payback period, **Z**, for **Option 1** (*show all your working*). **[2]**

Expected return for **Option 1**:

$$(\$40\,000 \times 0.4) + (\$25\,000 \times 0.5) + (\$10\,000 \times 0.1) = \\ \$16\,000 + \$12\,500 + \$1\,000 = \$29\,500$$

Then,
 $\$29\,500 / 5 \text{ years} = \5900 per year

So, payback period = Project cost / Annual cash flow from project =
 $\$25\,075 / \$5900 = 4.25 \text{ years}$

Payback period, Z, for Option 1 = 4.25 years or four years and three months.

Award marks as follows:

[1] If a candidate **who has shown working** provides a correct procedure (thus, demonstrates an understanding of the underlying concepts) **but** has made an error in calculation or the answer does not include **years/months**.

[1] If a candidate does not show any working and simply writes the answer or does not include units “years/months”.

[2] if a candidate provides the **correct answer with working**. A correct answer must include **years/months**.

N.B. accept **4.25 years or four years and three months**.

- (d) Using the information in the stimulus **and** your calculations in parts (c) (i) and (ii), discuss whether Wangui should choose **Option 1** or **Option 2**. **[10]**

Allow candidate own figure rule (OFR).

Advantages of Option 1 include:

- The **investment** is **small** (\$25 075).
- **Payback period is brief** (shorter – 4.25 years).
- **“Downside” would not be catastrophic.** *WH* would still be making a profit off the investment and, if financed with debt, payback of loan would still be within *WH*'s ability.
- The **expected return is better** (\$1425 more than Option 2).

Disadvantages of Option 1 include:

- **Limited growth** opportunities compared to becoming a small construction company.
- Currently, *WH* is **using 80%** of its **space**. With the **addition** of **equipment** for rent, *WH* will use even **more** of its **building and premises**, which could lead to **overcrowding** and impact *WH*'s ability to grow its core business activities.
- **“Upside” profitability is not that great** and probably **insufficient** to pay for a **new building**, if *WH* had to move to a larger location.

Advantages of Option 2 include:

- **Substantial growth** opportunity compared to the somewhat-niche market of renting construction equipment to small construction companies.
- Though **slightly longer than** for **Option 1**, the **payback period** is relatively brief, only **4.76 years**, or just over **4 years and 9 months**.
- City is growing, and UN predicts continued growth. The **construction sector will grow** to accommodate the additional people and business.
- Becoming a small construction company is a form of forward vertical integration, providing at least one **secure channel for “sales”** (to *WH*) of hardware, wood, and construction supplies.

Disadvantages of Option 2 include:

- Wangui has **limited-to-no experience** as a small construction company.
- Option 2 requires a substantially **larger investment**. (\$60 000 in total, this is \$34 925 more than Option 1).
- **“Downside” is significant.** Unless Wangui were willing to take on an equity investor (and could find one), she would have to take out a rather large loan to finance the project. If the economy weakened, *WH* would have a very **difficult time paying back** such a large loan.

Accept any other relevant advantages or disadvantages to Option 1 or Option 2.

Marks should be allocated according to the markbands on page 3.
