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## FOREWORD

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This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned.**

# BUSINESS STUDIES

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## GCE Advanced Level and GCE Advanced Subsidiary Level

<p>Paper 9707/01 Short Answer/Essay</p>
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### General comments

The majority of candidates were able to attempt all the required elements of this paper and indicated few problems with time management.

There is still a problem with formulaic answers to questions from some candidates who are reluctant to engage with the specific context required.

Some candidates still write too much and spend too much time on 2 and 3 mark questions in **Section A** of the paper. More concise responses to **Section A** questions could leave time for more detailed contextual, analytical and evaluative responses to the essay questions in **Section B** of the paper.

Examiners continue to be impressed with the quality of the very best scripts in terms of language, quality of communication, conceptual understanding and passion for analytical comments and conclusions.

### Comments on specific questions

#### **Section A**

#### *Short Answer*

#### **Question 1**

- (a) Many candidates were able to provide a clear definition of span of control but weaker candidates were often less specific in their wording and described it as 'the number of workers under a manager' thus ignoring the 'directly' element. A small number of candidates described an organisation structure but did not then focus their answer to the more specific aspect of 'span of control'. However, many candidates were able to gain the maximum of two marks for this and set the scene for part (b) by referring to the nature of span (wide and narrow and mentioned the concepts of control and hierarchy).
- (b) Most candidates were able to explain the features of working with/under a wide span of control and why some people prefer to do so. The better responses explained clearly the benefits of doing so, concentrating on the extent of supervision and opportunities for motivational experiences.

Excellent answers to this part explained why both managers and subordinates might prefer to work for a business with wide spans of control. Such answers discussed the possibility for delegation and empowerment thus creating a feeling of respect and trust between managers and subordinates with the result that workers felt higher levels of motivation. Candidates who presented the argument from the management point of view frequently, correctly pointed out that managers might feel increased status if they were put in charge of a larger number of people. The wider span of control would also allow them to delegate some of their work and as a result be more able to deal with the important management issues.

Many candidates recognised the possibility of people being prepared for promotion through the delegation aspect and saw this as a benefit to both managers and subordinates.

Again many candidates were able to score maximum marks for this question.

**Question 2**

- (a) Most candidates commented on the ability of a business to generate cash but it was disappointing that many did not recognise the importance of doing so to meet short-term financial needs. Some commented on the ability to cover short-term liabilities but failed to comment on the need to generate the necessary cash to do so, though credit was given when they cited the current or acid test ratio. The better responses linked the ability to find cash to meeting current liabilities/expenses as and when these fall due. Some candidates did confuse 'liquidity' with 'liquidation' and therefore discussed the winding up of a business.
- (b) This part was answered well by fewer candidates than the preceding one. The most common answer was probably to have better control over debtors by reducing the debtor payment period and by offering discounts for paying early or in cash on receipt of goods. Another common valid response was to reduce stocks. This line of argument was often developed in terms of all the additional stock holding costs that might be saved and how this would then release cash for use in paying creditors.

Many candidates demonstrated a knowledge of the most and least liquid current assets.

Weaker answers concentrated on increasing current assets but some referred to increasing the number of debtors which would of course not improve liquidity.

**Question 3**

Some candidates wrote about lean production as being synonymous with flow production and did not include any of the key features that could have identified their ideas as being connected to elements of lean production.

Many candidates could outline a number of benefits of lean production, though this did not always indicate a clear understanding of what the approach involves, with its emphasis on resource efficiencies and quality opportunities.

Many answers showed a thorough understanding of the concept but did so in very general terms and failed to apply their answer to the manufacture of electronic goods.

The better responses gave a clear definition of lean production and proceeded to outline the benefits for a manufacturer of electronic goods. For example, the agility afforded by lean production enables the business to handle the dynamic nature of the electronic goods market and to respond quickly to consumers' changing demands, thus securing a competitive edge in the marketplace.

Many candidates concentrated on the Just in Time aspect and did this in a comprehensive manner including all the cost saving implications of businesses not holding large buffer stocks. Many good answers also put this aspect in the context of a manufacturer of electronic goods by recognising the fast moving technology in this industry and the reduced potential for obsolete stocks if large stocks are not held.

**Question 4**

- (a) Most responses commented on the relationship between variable costs and output and cited a suitable example to supplement a clear and accurate explanation.

Some candidates, however, explained variable costs in the loosest of terms e.g. 'costs that vary from time to time'. Such an answer did not give the impression that the candidates appreciated the direct relationship between output and variable costs.

Many relevant examples were given e.g. raw materials and direct labour but others were less specific e.g. electricity, transport costs.

- (b) Generally speaking this part was not handled well. Basic responses referred to semi-variable costs with some attempt to explain what the concept was about without explaining why it made the separation of costs difficult. The better responses cited a specific example (e.g. telephone charges) and explained how it made the separation of costs into fixed costs and variable costs difficult.

Many candidates merely defined variable costs and fixed costs but did not attempt to relate this to the question.

Some excellent answers were given by candidates who demonstrated a clear understanding of semi-variable costs. Such candidates were able to provide clear explanations using examples such as electricity and telephone bills. These answers explained how each of those examples contains a fixed charge (e.g. line rental) but then a charge is applied to each unit (call) used therefore adding a variable element to the bill.

## Section B

### Essays

#### Question 5

- (a) Overall candidates attempting this question handled it well. The poorest responses usually outlined some kind of history of a growing business and the account contained implicit objectives, for which credit could be given. Others discussed objectives in general terms without explaining why objectives would change in response to business growth.

Some answers showed knowledge of business objectives but did not relate any changes in their priority to growth; rather the knowledge was presented in a general text book manner.

The better responses coherently presented the changing objectives of a business in the context of growth, suggesting reasons why the new objectives stated might arise. Building on an outline of key business objectives well focused answers recognised and explained how a business might change its prime objective as it became more successful through growth. The majority of such answers began with the early objective or mere survival and then went on to explain how, as a business grew in size and strength, the prime objective might change to become one of brand leadership, market domination, and along with this, profit maximisation.

- (b) Usually this part of the question was not as well handled as part (a). Weaker responses went into the role of HR generally, and did not concentrate specifically on HR planning, or discussed HR planning with little consideration to the context of growth.

Most candidates were able to show some knowledge of the functions of human resource planning and hence an HR department. Only a small number of candidates were able to discuss these functions specifically in the context of a growing business.

The best responses explained the role of HR planning and analysed its importance in the context of growth and recognised the potential need for additional workers to be recruited and the potential training needs of the new workers. Some candidates also discussed how an HR department could also be involved in making workers redundant (which seemed contrary to the situation in the question) if the current workers did not possess the relevant skills – this was extremely rarely commented on.

Few responses considered the consequences to a growing business of not employing HR planning.

**Question 6**

Most responses examined how government might intervene and considered the influence on business. Weaker responses stated examples of government intervention, sometimes exhaustively, but gave little consideration to the impact of such intervention on business activity. Such answers were often quite detailed in terms of government policies and measures but then did not complete the answer with the possible impact on business.

Some such answers sometimes gave the impact on consumers; for example if a government raised the level of income tax consumers would have less disposable income and therefore they would not be able to buy as many goods and their standard of living would fall. So far this is true but such an answer has not taken the argument quite far enough and does not recognise that this would lead to a fall in demand for businesses and probably a fall in sales revenue. This could also impact on their profitability and possibly on employment levels within businesses.

Strong candidates demonstrated a comprehensive awareness of the type of actions a government might take and how they might impact on a business. The way in which businesses might be affected varied from being prevented from locating in their favoured area to an increase in costs caused by government anti-pollution measures or the introduction of laws on Health and Safety and minimum wages. Other good answers included the impact on prices and profitability where governments have introduced floor and/or ceiling price restrictions.

**Question 7**

(a) Some excellent answers were given to this part of this question. The majority of candidates showed a sound knowledge of market segmentation and the ways in which this could be done. Most candidates also applied their knowledge to the context of the question i.e. soft drinks and discussed the need for segmenting along the lines of age, due to different flavours being preferred by different age groups. Many candidates identified the health conscious segment and how this could be met by producing diet drinks. Most frequently age, gender and geographical region were identified as key segments with many candidates giving a full and clear explanation of why/how this was significant for a manufacturer of soft drinks.

(b) There was a more variable quality of answers to this part.

Many candidates clearly identified primary and secondary sources of information that might be used in this situation and gave details of the advantages and disadvantages of each method. However, this was often undertaken in a theoretical context and did not relate to the soft drinks market or more specifically to a 'new product'. Good answers recognised that a new product would require more up to date information and that this somewhat negated the benefits of using secondary research. Such answers, did however, often say that past trends might still be useful due to the fact that another manufacturer might have tried to launch something similar in the past. In this case lessons might be learned from why the previous attempt failed.

While many answers showed good knowledge of market research including both primary and secondary sources, many answers failed to make a judgement about which methods might be most appropriate in the given situation. This failure to respond fully to the question did prevent the highest marks from being awarded. Answers awarded high marks were those that discussed research methods in the stated context and considered the comparative cost/convenience/usefulness implications of each method.

<p><b>Paper 9707/02</b></p> <p><b>Data Response</b></p>
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### General comments

It is very pleasing to be able to report continued improvement by candidates on this paper. Of particular note is the fact that most candidates now answer the appropriate questions in the context of the data provided, with far fewer 'textbook' answers that could apply to almost any business. The test of context is whether an answer recognises the specific situation or difficulties that face the business described in the data response material. The most important skill on a data response paper is to be able to extract the key pieces of data relevant to a particular question from the data response material.

It remains the case that few candidates, however, are able to demonstrate the evaluation skills needed for the higher grades, an issue that has been highlighted for several sessions. Evaluation skills can be made by making supported judgements/decisions, prioritising factors/courses of action or justifying strategies/consequences.

#### *Teaching tip reminder*

Candidates should be encouraged to make decisions in context, prioritise and develop strategies. They should be encouraged to justify their decisions and recognise what is realistic in particular circumstances.

Examiners recognise that the paper presents a challenge to candidates in terms of the material to be read and absorbed, and the range of questions asked in the time available. It remains the case that most candidates rise to this challenge, and that there is little evidence that the time constraint prevents the candidates from completing the paper, although **Question 2 (d)** is sometimes rushed. This is often due to too much time being spent on part **(a)** of each question which requires a definition and a simple and brief explanation, which does not necessarily need to be in context.

#### *Teaching tip reminder*

Candidates should be encouraged to link the time they spend on answers to the marks available.

There is little evidence that language creates problems – either in terms of understanding the questions/data response material or constructing answers – and Examiners continue to be impressed with the general command of the English language shown by many candidates.

### Comments on specific questions

#### **Question 1**

- (a)(i)** Most candidates demonstrated understanding of the term *non-financial motivators* and many candidates provided good examples which helped with the explanation. A few candidates limited themselves to 1 mark by simply providing a definition, while other candidates fell into the common trap of repeating the elements of the phrase in their definition, for example, non-financial motivators are motivators which are not financial. Some answers explained hygiene rather than motivation factors.
- (ii)** Many candidates were able to describe *quality control* procedures (sampling, TQM, quality assurance and so on), but few referred to the importance of the needs of the customer in setting quality standards. A significant number of candidates described quality rather than quality control.

#### *Teaching tip*

Make sure candidates have a comprehensive list of terms that may be examined. Encourage candidates to avoid 'circular definitions', and provide opportunities for candidates to develop examples which help explain terms.

- (b)(i)** Many candidates obtained the correct answer of \$8million. A few candidates simply gave the answer as 8, which was regarded as insufficient to gain 2 marks – it is important to state units as appropriate since a number on its own can be meaningless. A few candidates did not recognise that they needed to base their calculations on the figures that would apply *after* introduction of the new product. These candidates were awarded a mark for method.
- (ii)** Many candidates obtained the correct answer of 25%. Candidates who got an incorrect answer in part **(i)** were not penalised for carrying this answer to part **(ii)** – the ‘own figure rule’ used in marking. A few candidates did not seem to know what calculation was needed.
- (iii)** Most candidates recognised that the change in net profit margin could be used in helping to decide whether to launch the new product. The best candidates were able to say that since the margin had increased from 20% to 25%, then the project looked promising. The “own figure rule” applied to this part of the question.

*Teaching tip*

Encourage candidates to learn all of the relevant formulae. Encourage candidates to always show their working, and to include units. Make sure that candidates are able to interpret the meaning of the figures that they have calculated, and to think whether the answer they get is realistic.

- (c)** Since this firm was a business that provided a product to an industrial market (Matpack provided packaging to the food and cosmetics industry), this marketing question was a very challenging question since the ‘usual’ marketing strategies that are relevant to final consumers do not apply (advertising on TV, using wholesalers and retailers etc.). However, a pleasing number of candidates were able to recognise and use this contextual feature of the data. Better candidates recognised the need to consider marketing in a business to business situation so ruled out the types of promotions that apply to final consumers (two for the price of one and so on) in favour of methods more appropriate to industrial goods (trade fairs, exhibitions, personal selling to food/cosmetics companies). The better answers also referred to the ‘environmentally friendly’ aspect of the product being a useful selling point and a way to target appropriate customers. The best answers focused the readers’ attention on the most important aspects of the marketing mix in this particular situation. A few candidates overlooked the need to limit their answer to marketing factors, and concentrated on financial issues – which could not be rewarded. A disappointingly large number of candidates did not pick up the fact that the product to be marketed was packaging sold to industry, and so discussed at length the importance of packaging as one of the four P’s, probably the least applicable P in this context since the product itself was packaging.

*Teaching tip*

Spend time getting candidates to identify the key features of data response material so they recognise such factors as: who are the main customers, what makes the situation different, why might marketing be influenced by the particular circumstances faced by the business? Get candidates to identify which are the particularly important aspects of marketing in context.

- (d)** Most candidates demonstrated a good understanding of how working conditions can affect motivation and morale. Many candidates demonstrated that the concept of ‘equality’ is important in the work place. However, many answers looked at only one side of the argument, from the point of view of the workers. The best answers developed some contrasting views. Together with the employees perspective, they discussed issues such as the reasons why the business might have set up in a variety of countries (e.g. to take advantage of employment legislation and economic conditions in those countries); how local customs, cultures and traditions might vary from country to country; how multinationals have to respect these variations; how people may be motivated in differing ways; and that costs and likely benefits were important considerations to the business in any ‘equalisation’ programme. Such discussion enabled these candidates to gain very high marks through using evaluation skills, by balancing the arguments ‘for’ and ‘against’ to arrive at a considered judgement.

*Teaching tip*

10 mark questions require candidates to demonstrate evaluation skills. Candidates need to recognise how they can achieve evaluation marks in a particular question. In a ‘Discuss’ question, evaluation can usually be achieved by examining both sides of an argument and reaching a balanced conclusion. Get candidates to recognise that various stakeholders might react differently to a course of action.

**Question 2**

- (a)(i) Most candidates were able to define *secondary market research*, although a few confused it with primary research. Explanations were generally less well done, although better candidates illustrated their definition with examples of likely types of secondary data. A few candidates, while recognising that it involved 'second-hand' information, limited their definition to external data, which is not necessarily the case.
- (ii) Compared with 'explain' questions in previous sessions, *human resource management* was a relatively easy term to explain, and many candidates gained full marks. Weaker candidates either limited their answer to the definition, or their explanation was limited in terms of the scope of the HRM function.
- (b)(i) Many candidates obtained the correct answer of 67% (often to a large number of decimal places!), but some candidates inverted the calculation (getting 150%, which does not make sense looking at the bar chart) or simply took 60 as a percentage of 100. Some candidates did not recognise that this calculation drew attention to the changes taking place in the magazine market, useful in a later part.

**Teaching tip**

Calculation questions are usually for a business purpose, and are not a test of arithmetic. Candidates should ask themselves 'does this answer make sense?' and 'what could I use it for?'

- (ii) Many candidates answered this question in terms of general information relating to the decision rather than limiting the information to that which related to the market for magazines (or newspapers). Information on costs, redundancies, available workforce, skills etc. do not relate to the market. Many answers that did relate to the market did not put their answers into context, saying 'finding out consumers tastes and preferences' rather than referring to the tastes and preferences of young people and what they wanted in magazines.
- (c) Many candidates recognised that training and redundancy were two issues that Lucky might face resulting from the change. Better candidates also recognised that there were likely to be changes in working patterns (monthly rather than daily deadlines) and that employees may well not react well to change. The best answers analysed means to overcome employees concerns, with suggestions about consulting employees, reinforcing the message of greater job security in the long term and so on. These answers recognised the difficulties in managing change. Rather too many answers focused on theoretical aspects relating to the situation and there was often unnecessary detail on Maslow and other theoretical ideas.
- (d) This was a very challenging question as the stimulus material could not be sufficiently detailed to make a well-informed decision. This, however, gave candidates the opportunity to conclude (after discussing the arguments 'for' and 'against') that more research was needed before a decision could be taken. There was a clear message in the response material that little research had been done. By doing so, these candidates demonstrated high evaluation skills. A large number of candidates misinterpreted the bar charts as relating to Our News Limited, even though the business produced a local paper and the charts referred to National sales. Weaker answers tended to focus on issues relating to employees and increased costs often without reference to the material in the data.

**Teaching tip**

Candidates should be encouraged to make realistic decisions in business situations after weighing up all the arguments. Strategic answers will be well rewarded, particularly when more information is needed. Good judgements in context will lead to high marks provided that they are justified by the arguments and are realistic.

**Paper 9707/03****Case Study****General comments**

This 'Wotton College' case study proved to be very accessible for nearly all candidates. The school context allowed candidates to use much of their own experience to support some answers and the problems that the school and the school staff were experiencing seemed to be familiar to many!

The new three hour format was very successful. There was very little evidence indeed of any candidates being restricted by a time constraint. The additional time allowance gave many candidates the opportunity to write answers of considerable length and detail. Such answers often gained very high marks – but not invariably so. Sheer length of answer is not a virtue in itself and there was some concern expressed by Examiners that candidates were demonstrating a huge amount of subject knowledge but sometimes failing to demonstrate other important assessment skills. The report turns to this point under 'comments on specific questions'. A tiny minority of candidates answered both essay questions in **Section B**. In these cases, both answers were marked and the better mark counted as candidates had already penalised themselves by spending too long on this section.

The overall quality of candidate responses continues to improve. The candidates from many Centres were very well prepared and displayed considerable subject knowledge. Such improvement is encouraging and may be a consequence of improved accessibility to relevant subject resources, teacher attendance on training courses and the advice contained in previous Examination Reports.

The case study once again proved a very effective test of subject knowledge and examination skills. There was very effective differentiation between the best and the weakest candidates and there were no significant opportunities for complete misunderstanding or misinterpretation of the case study evidence.

The switch to one Advanced Level paper worked better than anyone might have expected and the increasing emphasis on case study material, rather than essay questions without any context at all, is surely a welcome and progressive development.

**Comments on specific questions****Section A****Question 1**

This question led to some very detailed responses. It was clearly accessible to nearly all candidates and the application to the case study was relatively easy and frequently made. The best answers started with a definition of effective communication. This approach is to be encouraged as it tends to make sure that the candidate quickly gains many of the marks available for 'knowledge'. The skill of analysis was frequently demonstrated when candidates explained either how the existing communication problems arose or how the suggested improvements to the communication methods would actually achieve the desired objectives. Surprisingly, there was relatively little evaluation – a comment that could be made when referring to some candidate's answers to nearly all of the questions. The mark scheme makes it quite clear that the evaluation does not have to be particularly lengthy or detailed – but that it is most effective if it is in the context of this school. So, candidates who had suggested regular meetings between staff and Paula and analysed how these would improve communication but then went on to explain that these might prove ineffective if Paula did not change her management style gained very high credit.

**Question 2**

It is pleasing to report that nearly all candidates showed all workings.

- (a)(i) There were relatively few correct answers to this question with the majority of candidates failing to identify the need to use the PED estimate to recalculate the sales revenue. Most candidates just increased the existing revenue by 10%. Incorrect answers were then 'taken forward' by Examiners so candidates could still have earned all of the remaining marks.
  - (ii) Nearly all candidates were able to recalculate this accurately.
  - (iii) Nearly all candidates were able to recalculate this accurately.
  - (iv) Many candidates were able to combine their own figures from the previous parts to calculate the net profit figure.
- (b) This question led to some answers of a very high standard. It is clear that many Centres have covered the topic of budgets very effectively indeed. Candidates from some Centres were obviously less well prepared. Even knowledgeable candidates failed to score high marks if they did not put the well explained benefits into the context of the school in the case study.

**Question 3**

The many references to the take-over of Midvale School in the case study were very accessible to candidates and this allowed many of them to prepare very detailed answers. The main weakness that was sometimes apparent was that candidates tended to concentrate on making more and more separate points rather than analysing how they were either advantages or disadvantages for the school. Evaluation was often quite weak too and only the better answers were able to balance points for and against. The best evaluation often tended to come towards the end of the answer when some candidates commented that whether the advantages outweighed the disadvantages might depend on how Paula managed the staff of the combined school or how significant the economies of scale might be compared to the diseconomies of, for example, potentially worse internal communication.

**Question 4**

- (a) This was poorly attempted – or not attempted at all – by candidates from many Centres. In contrast, nearly all candidates from some Centres were able to gain full or nearly full marks when drawing this network diagram. Many candidates drew a correct logical network diagram but were unable to complete the nodes with earliest or latest start times. Centres are encouraged to allow candidates a great deal of practice on this and other quantitative techniques.
- (b) The 'own figure rule' was allowed by Examiners so even if the network diagram was incorrect, as long as the appropriate critical path was identified, then credit was awarded.
- (c) The quality of answers to this question also varied considerably from Centre to Centre. The Principal Examiner will often set questions which require a complete understanding of the quantitative techniques that form an essential part of the Business Studies course. This question was worth relatively few marks and the main reason for candidates dropping just a few of these was a failure to apply relevant points to the case study.

**Question 5**

This question was quite poorly answered, even by candidates who scored many marks on other questions. There is still a common tendency for many candidates to assume that all 'marketing based' questions must start and end with nothing more than a description of the marketing mix. This fails to identify the strategic nature of the marketing process. It was expected that candidates would start their answer to this question with a clear definition and explanation of a marketing plan. All standard textbooks, including the endorsed text, offer detail on this important concept and explain that it is much more than just 'the marketing mix'.

The importance of corporate objectives, marketing objectives, effective market research and an appropriate marketing budget should have been commented on by candidates within the context of Wotton College. There is no doubt that similar questions will be set in the future and it will be interesting to see if Centres have responded to these comments.

The weakest answers to this question concentrated not just on the marketing mix but just one part of it – particularly the 'product'. In these cases, almost the whole answer was based on different ways in which the school 'product' might be improved. This approach gave very little scope for analysis and evaluation.

**Section B****Question 6**

This proved to be slightly more popular than the other essay question. Most answers showed understanding of the HR problems and made some reasonable suggestions as to how they might be tackled. The main weaknesses were a failure to apply appropriate motivation theory to the context of a school and the very poor – or even non-existent – evaluation in many answers. Judgement is essential in the essay question. Evaluation is likely to be worth 50% of the total marks on this question as candidates are expected to show judgement both within their answers and in their conclusion. Centres are encouraged to use past case study papers and devise essay questions based upon them to give candidates more practice with this style of question.

Evaluation could have been demonstrated in answers to this question by judging whether any suggestions made were likely to be effective *in this case*. For instance, higher pay may well prove a useful policy to adopt but candidates must evaluate why this might not prove effective in the school context. In the final evaluative paragraphs, candidates could have judged that the likely success of attempts to solve the HR problems could depend on whether Paula changes her approach to staff and whether the communication problems that existed in the smaller school are solved in the larger establishment – without effective communication it could prove difficult to raise motivation of the newly united staff.

**Question 7**

This question led to many detailed answers on stakeholders and the aims that each stakeholder group might have, in the context of the school. Unfortunately, many of these answers were scoring maximum marks for knowledge or application yet they failed to identify the key analytical and evaluative points. This was a classic case of quantity not improving quality. Examiners were expecting candidates to identify the very real problems of an organisation trying to satisfy the aims of a number of stakeholders at the same time. The genuine conflicts that exist when attempting to achieve this needed to be carefully explained and assessed. This is a real test of Advanced Level skills. The best answers were not only able to do this but went on to examine whether it was desirable that the school should attempt to satisfy stakeholders aims other than those of the owners. Here, evaluation often took the form of 'short run versus long run' effects. So, if candidates were able to identify that, in the short run, profits might be hit by satisfying student/parents interests yet, in the long run, this might generate increase revenue and profits for the owners, then very high credit was awarded.