

Exam Strategy 4 (Length of responses)

10 mark "evaluate" or "discuss" question = full essay - intro with definitions and a brief outline of the problem, 2-4 PEEL paragraphs depending on the amount of time, conclusion where you present a clear position on the issue

Example with markscheme

Educational Choices UK Ltd.

Following the UK's decision to leave the EU, the futures of many international students studying or wanting to study in the UK were left uncertain. Families were desperate for advice about the choices of schools and universities. They were also increasingly confused about possible changes in legal and immigration requirements.

Beth Williams and Louis Barker had been friends for many years. Beth was now an experienced teacher and university advisor with an in-depth knowledge of the many private schools available in the UK. Louis had studied Law and for the last few years had specialized in immigration law. Neither of them liked working for other people and had for a long time wanted to become entrepreneurs.

When Beth's father sold his dairy farm he gave her £50,000. She had wanted to use this as a deposit to buy her own apartment. Louis persuaded her that the opportunity to combine their talents and start a tertiary sector business as educational advisors was too good to miss.

Beth felt that setting up the business as a partnership would be less complicated. Louis, having studied law, felt that it could be better to set up a private limited company. He proposed calling it Educational Choices UK Ltd.

Evaluate whether Beth and Louis should establish the business as a partnership or as a private limited company. (10 marks)

Write a short essay

- Intro - 2-3 sentences, making sure to define terminology
- PEEL paragraph on advantages of partnership
- PEEL paragraph on disadvantages of partnership
- PEEL paragraph on advantages of private limited company
- PEEL paragraph on disadvantages of private limited company
- Conclusion - take a firm position - which type of organization should they choose and why?

A private limited company is owned by its shareholders, in this case Beth and Louis. It is incorporated so has a formal legal identity and limited liability. A partnership is an agreement between participants to work together in a business. The arrangement may formalize an agreement specifying profits and/or roles. In the absence of this, profits would be split equally and roles can be uncertain. It is unincorporated with unlimited liability.

One advantage of a private limited company is that Beth and Louis could limit their personal and financial risk to the amount of money they each have invested in the business at any time. This means that if Beth or Louis ever buys a house, as Beth has said she wishes to do, this and other possessions will not be at risk as they would be in the case of a partnership. Likewise, if one partner could not pay their full share of financial obligations, the other(s) would not be liable. As new businesses tend to be at higher risk of failure, this is an important part of the decision the two friends must make.

A disadvantage of a private limited company is that selling shares of a limited company would dilute the percentage of Beth and Louis' shareholding. Neither of them liked working for other people and had for a long time wanted to become entrepreneurs., so it is possible that this could make them hesitant about making decisions with other shareholders. If new shareholders held more than 50% of capital it would mean that Beth and Louis would no longer have controlling interest in their own business.

An advantage of a partnership is that, if Beth and Louis needed additional funds, it could be quicker and easier to just add new financing partners to a partnership and amend the partnership agreement accordingly. Finally, with a partnership, the two of them will have more

control over the business decisions. They seem to like working together so adding additional shareholders may be a problem for efficient and effective decision-making. **Indeed, Beth is more in favor of this business structure.** It could even be possible to start the business as a partnership and incorporate a private limited company at a later date if there are tax or other advantages to conversion.

A disadvantage of a partnership is that, like setting up a limited liability company, Beth and Louis would need help setting up a partnership agreement, costing money. An additional disadvantage is that there is unlimited liability with a partnership. It is a very risky form of business, because if it fails or if one partner cannot meet his/her financial obligations, both partners will be liable for any debts. **Beth might have to lose her personal assets given by her father.** They need to have absolute confidence and trust in each other.

In conclusion, given the situation, the consideration of financial risk is probably the most important to these two inexperienced business people. Thus, establishing a private limited company may have greater advantages for Beth and Louis because it limits their personal liability.

Response needs to link to the case study all the way through and use PEEL paragraphs

Work quickly: You have about 19 minutes to answer. On IB answer paper (a bit narrower than normal A4) the average person with average-sized writing can write nearly 2 sides of paper.

Maximum mark award	Advantages	Disadvantages	Judgments / conclusion
3	Either one advantage or one disadvantage		NA
4	Addresses either: 1. one advantage and one disadvantage 2. two advantages or two disadvantages		NA
5	Addresses either: 1. two advantages and one disadvantage 2. two disadvantages and one advantage		NA

6	Two advantages and two disadvantages	No judgments/conclusions
7-8	Balanced	Judgments/conclusions based upon analysis and explanation in the body of the response
9-10	Balanced	Judgments/conclusions based upon analysis and explanation in the body of the response

Possible positive arguments in favor of setting up a private limited company:

- Limited liability: limits personal risk to the amount invested in the company.
- Incorporated: the company is the legal entity rather than the individuals so personal risk may be diminished.
- Slightly easier access to bank finance.
- Relative shareholding legally established at set up.
- Easier financing through selling shares
- Any other relevant argument.

Possible negative arguments against setting up a private limited company:

- Cost and time of setting it up.
- Dilution of control if they sell shares.
- The Deed of Partnership could also establish legal relationships and split of profits.
- Any other relevant argument.

Possible positive arguments in favor of setting up a partnership:

- Easy and fast to set up.
- Legal costs are unnecessary except in relation to the Deed of Partnership.
- Any other relevant positive argument.

Possible arguments against setting up as a partnership:

- Unlimited liability.
- Unincorporated.
- Any other relevant argument against partnership.