UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2012 question paper

for the guidance of teachers

9707 BUSINESS STUDIES

9707/12 Paper 1 (Short Answer/Essay), maximum raw mark 40

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This mark scheme includes a summary of appropriate content for answering each question. It should be emphasised, however, that this material is for illustrative purposes and is not intended to provide a definitive guide to acceptable answers. It is quite possible that among the scripts there will be some candidate answers that are not covered directly by the content of this mark scheme. In such cases, professional judgement should be exercised in assessing the merits of the answer.

Examples of possible answers may also be included in this mark scheme. Again, it should be emphasised that this is for illustrative purposes and the examples chosen represent only some of the many possible responses that would merit reward.

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Section A

1 (a) Definition should indicate that economies of scale experienced when an increase in output leads to a less than proportionate increase in costs.

Partial definition given. [1]
Full definition given. [2]

(b) Explanations might use generic categories of economies of scale such as financial, technical, managerial, marketing, risk-bearing to propose examples such as: bulk buying, advertising/promotion, more specialist managers, stronger position re bank loans, and purchasing advantages through computerisation – electronic scanning…retail context is required.

Partial explanation of ONE economy of scale or statement of two. [1]
Sound explanation of ONE or partial explanation of TWO. [2]
Sound explanation of TWO economies of scale. [3]

2 (a) Methods could include: advertising, formal job application forms, internet web sites, employment/job search agencies, headhunting, in-house promotion, internal and external recruitment etc.

ONE relevant method stated. [1]
TWO relevant methods stated. [2]

(b) Job description is a detailed list of key tasks, responsibilities and pay/working hours etc. of a job. Person specification is a detailed list of the qualities, skills, qualifications a successful job applicant needs to have.

Partial description of either term. [1]
Sound description of ONE of these terms. [2]
Sound description of BOTH terms. [3]

3 An entrepreneur defined as a person who organises and manages a business– assuming the risk in pursuit of profit…enterprise as a factor of production. Qualities identified may include: innovative business ideas, new ventures, creativity, visionary, inner drive to succeed, passion about their products/services, risk taking, willing to learn, remove obstacles to progress, set big goals, strong self confidence, assertive personality, focussed, willing to change, aware of latest technology and ideas, thrives on competition, very energetic, likely to run small businesses but can become successful leader of large companies. Credit examples such as Branson, Sugar, Dyson etc.
N.B. These qualities are considered to be different to standard manager functions/roles (such as planning, coordination etc.).

A limited reference to the concept of enterprise/entrepreneur. [1]
Clear understanding of the role and activity of an entrepreneur with an attempt to specify some qualities. [2–3]
A well developed explanation of entrepreneurial qualities (at least 2). [4–5]

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4 (a) Definition should suggest an estimate of the future cash inflows and out flows of a business…financial planning…some may give detail on the constituent parts of the cash flows but not required for full marks.

Partial definition given. [1]
Full definition given. [2]

(b) Uses could include: review future financial liquidity, plan for short/long term funding requirements, prevent overtrading, plan for positive cash flows and deal with future negative cash flows, assist business financial planning and budgeting, plan to manage/or reduce future negative cash flows.

Partial explanation of ONE use. [1]
Sound explanation of ONE use or partial explanation of TWO. [2]
Sound explanation of TWO uses. [3]

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Section B

5 (a) Cooperatives are joint ownership organisations…..different types–producer, consumer, worker. Exist to provide a service to their members, owners, and the public, and are a distinctive type of business organisation. There is often a significant amount of democratic control and profits often shared/distributed to members in proportion to investment. Consumer cooperatives generally in Europe and Japan. Producer cooperatives common in agriculture particularly in developing countries. Advantages include opportunities for joint ownership–more employee motivation, shared objectives, opportunity to influence/participate in decisions, produce a distinctive supportive culture, idealistic values, strength in unity, strength in raising investment capital, stronger in negotiations with buyers, more responsible to customers and community, can be innovative.

Analysis of the advantages of the cooperative model of business. [7–8]
Good explanation of the advantages of the cooperative model of business. [5–6]
Limited explanation of the cooperative model of business. [3–4]
Little understanding of the cooperative model of business. [1–2]

(b) The discussion might initially define small businesses and their characteristics…(small no. of employees…small turnover…small net profit etc.). Factors affecting success are many (may be owner, venture or economy specific) may include: degree of business acumen/expertise/experience – degree of capitalisation/undercapitalisation…quality of business objectives…expand too fast…quality of basic business functions and systems, e.g. planning, costing, marketing, product development, poor/good location, poor/good internal controls (costs and cash flow), level and type of competition, viability of business model chosen…reward particular and country specific examples.

Evaluative comment on appropriate success factors. [11–12]
Analysis of a range of success factors. [8–10]
Good understanding of small business success factors. [3–7]
Limited understanding of small business success factors. [1–2]

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6 The discussion might well focus initially on the definition of break even analysis and use a break even graph/chart to indicate the way in which the graph/chart provides business information that might be of use to a business in taking some key decisions (level of output at which total costs equals total revenue, where neither profit or loss are being made, shows fixed costs, total costs, and sales revenue, and margin of safety).

Uses could include: shows break even levels of production and margin of safety, a business can re-draw the chart to show potential new situations: e.g. a marketing decision to increase/decrease price, an operational decision to purchase new equipment which will lower variable costs. Charts relatively easy to construct and to interpret, allows comparisons to be made between different options e.g. choose between two locations for a new factory or whether to buy new equipment, or what project to invest in.

Limitations could include: assumptions about cost and revenue being represented by straight lines is unrealistic, not all variable costs change directly or smoothly with output, labour costs might increase with maximised output (overtime). Not all costs can be classified conveniently into fixed and variable costs, semi variable costs will make the technique more complicated. No allowance is made for inventory levels in a break even chart, it is assumed that all units are sold. It is also unlikely that fixed costs will remain unchanged at different output levels up to maximum capacity.

Evaluative discussion of the uses and limitations of break even analysis. (Evaluation may be in the form of a balanced conclusion with a diagram.) [17–20]
Analysis of the uses and limitations of break even analysis (with a diagram). [14–16]
Good understanding of the uses and limitations of break even analysis (a break even chart/graph is presented). [11–13]
Show understanding of the uses and limitations of break even analysis but the explanation is more general and a break even chart/graph is not used to support the explanation. [5–10]
Very limited understanding of break even analysis. [1–4]

7 (a) Price discrimination is the use of price elasticity knowledge to charge different prices in different markets to maximise revenue…It is a type of pricing policy in markets where it is possible to charge different groups of consumers different prices for the same product/service e.g. airlines, train companies, retail urban and rural locations. Different groups of consumers with different elasticities of demand can be kept apart and charged differential prices e.g. children, elderly, students, families, business persons charged different prices for the same journey, export markets segregated for differential pricing…provides opportunities for maximising revenue and boosting sales. (It assumes that markets can be kept apart, admin costs can be controlled, and customers paying the higher differentiated prices do not object and switch to competitors.)

Analysis of the use and benefit of price discrimination in context. [7–8]
Good explanation of the use and benefit of price discrimination in context. [5–6]
Limited explanation of the use and benefit of price discrimination. [3–4]
Little understanding of price discrimination. [1–2]

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(b) Branding is the strategy of differentiating products/services from those of competitors by creating an identifiable image for, and clear expectations about a product/service. It is important for promotion in that: it creates images and product personalities that consumers identify with and so better respond to advertising and sales promotions that persuade them to buy. Increased awareness and recognition of products/services facilitates communication with actual or potential customers. Distinguishes products/services and increases chances of brand recall and repeat purchasing. May allow for the establishment of a 'family' of branded associated products/services. Reduces the price elasticity of demand as customers demonstrate a preference for a well known brand and so increases customer loyalty. Is the importance undermined given other changing factors such as personal or country wide economic recession where price becomes more important than brand image? Competition of 'own brands' with established brands?

Some evaluative comment on the importance of branding for product promotion. [11–12]
Analysis of the importance of branding for product promotion. [8–10]
Good understanding of branding and/or product promotion. [3–7]
Limited understanding of branding and/or product promotion. [1–2]

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