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Cambridge International General Certificate of Secondary Education

MARK SCHEME for the March 2015 series

0450 BUSINESS STUDIES

0450/22 Paper 2 (Case Study), maximum raw mark 80

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General Marking Guidance

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 and the senior examiners should be consulted if further guidance is required.

Examples of possible answers are also 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.

Application marks are not awarded for the name of the business or person from the case material. Application is by answering in the context of the case or by using the information in the case to help answer the question.

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1 (a) Identify and explain <u>two</u> ways that LH could increase the added value of its products. **[8]**

Knowledge [2 × 1] – award one mark for each relevant way
Analysis [2 × 1] – award one mark for a relevant explanation for each way
Application [2 × 2] – award two application marks for each way

Relevant points might include:

Award one mark for each relevant way (maximum of two), such as:

- Increase the price of the product
- Reduce the cost of raw materials

Award up to two additional marks for application plus one additional mark for explanation of **each** of these ways.

Indicative response:

Reduce the cost of raw materials [k] as Vijay can buy metal or wire for a cheaper price [app] and then the difference between the cost price and selling price will be higher [an]. This will mean that the added value for each lamp will be higher [app]

Possible application marks: partnership; three brothers; lamps; products sold for high prices; high quality products; manufacturing cost; distributed through independent retail shops; purchased by home owners and hotels; e-commerce; building good customer relationships; unskilled workers; labour-intensive; wire, cloth and wood.

There may be other examples in context which have not been included here.

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(b) Consider the advantages and disadvantages of the following <u>three</u> ways Vijay could use to increase efficiency of the business. Recommend the best way to use. Justify your answer. [12]

Relevant points might include:

	Advantages	Disadvantages
Increase the skills of the existing employees	Increase the output per worker No need to raise finance to purchase automated equipment	Cost of training Loss of output whilst training
Purchase automated equipment	Reduced wages as labour reduced Increased total output Reduced unit labour cost	Cost of purchasing the machinery Redundancy payment Labour unrest from redundancy
Introduce lean production	Reduce waste Reduced storage costs Reduced cash outflows from inventory purchases	Cost of introducing lean production Difficult to change to JIT Needs reliable suppliers

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best way to increase efficiency compared to the other ways. 7–8 marks for some limited judgement shown in recommendation as to the best way to increase efficiency.
Level 2	4–6 marks Detailed discussion of the advantages and /or disadvantages of the three ways to increase efficiency.
Level 1	1–3 marks Outline of the advantages and/or disadvantages of the three ways to increase efficiency.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. highly trained workers will produce more output per worker.

Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Highly trained workers will produce more output per worker which will reduce the cost per unit of output. This will reduce the costs of producing each lamp and therefore the price can be reduced which will lead to higher sales supplied by this increased output. (4 marks for L2 answer + 1 application mark for mentioning lamps).

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Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies which is the best way to increase efficiency.

Award up to 2 additional marks for relevant application.

Possible application marks: partnership; three brothers; invested $20 000; lamps; business only two years old; building good customer relationships; high quality of existing products; unskilled/not well trained workers; batch production; labour-intensive; $95 000; Operations manager; recruited externally; financial information from appendix 3; minimum wage paid per hour; jobs are boring; 50 workers in the factory; needs external finance; motivated / demotivated workers; workers doing the same job every day; workers getting injured in factory; working conditions not good; wire, cloth and wood.
There may be other examples in context which have not been included here.

2 (a) Identify and explain <u>four</u> stages in the recruitment process for the Operations manager that Vijay should use. [8]

Knowledge [4 × 1] – award one mark for each stage
Application [4 × 1] – award one application mark for each stage

Award one mark for each stage (maximum of four), such as:

- Job analysis
- Job description
- Job specification
- Job advertisement
- Review applications/shortlisting
- interview

Award a maximum of one additional mark for an applied explanation of each stage.

Indicative response:

Job specification [k] will need to list all the necessary skills, experience or qualifications required by the manager such as previous experience working in a lamp manufacturing business [app].

Possible application marks: lamps; e-commerce; unskilled workers; batch production; labour-intensive; purchased automated equipment; recruited externally; experience of manufacturing; advertising in newspapers / magazines; CV on internet; recruitment agencies; motivating workers; wire, cloth and wood.

There may be other examples in context which have not been included here.

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(b) Vijay wants to make sure he has well motivated employees. Consider the advantages and disadvantages of the following <u>three</u> ways he could use. Recommend the best one to choose. Justify your answer. [12]

Relevant points might include:

	Advantages	Disadvantages
Introduce piece rate	Increased output leads to higher pay and so the workers work harder	Higher wage costs Quality standards may be reduced
Use job enrichment	Makes the job more interesting Lower labour turnover	May not be very easy to increase the number of tasks for a job Some tasks may not be carried out effectively
Improve working conditions in the factory	Reduce the number of accidents Reduce days lost through accidents Make employees feel valued/increase morale	Increased cost Cost of providing safety equipment

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best way to motivate employees compared to the other ways. 7–8 marks for some limited judgement shown in recommendation as to the best way to motivate employees.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each way.
Level 1	1–3 marks Outline of advantages and/or disadvantages of each way

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Introduction of piece rate will encourage the workers to work harder to gain more pay.

Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Introduction of piece rate will encourage the workers to work harder to gain more pay. Higher output will lead to higher profit for Vijay as the higher wages will be less than the value of the increased output. However, the quality of the lamps might be reduced as workers rush to produce a higher output. (4 marks for L2 answer + 1 application mark for mentioning lamps).

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Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the best way to increase motivation.

Award up to 2 additional marks for relevant application.

Possible application marks: partnership; three brothers; lamps; business only two years old; building good customer relationships; unskilled workers; batch production; labour-intensive; purchased automated equipment; country X; financial information from appendix 3; minimum wage paid per hour; jobs are boring; quality products; wire, wood & cloth; wire, cloth and wood.
There may be other examples in context which have not been included here.

3 (a) Vijay is considering using e-commerce to sell LH's products. Identify and explain <u>two</u> advantages and <u>two</u> disadvantages to LH of using e-commerce. [8]

Knowledge [4 × 1] – award one mark for each relevant advantage/disadvantage
Application [4 × 1] – award one application mark for each advantage/disadvantage

Award one mark for each advantage/disadvantage (maximum of four), such as:

- Increased potential number of customers/sales
- Increased target market
- Higher distribution costs
- Cost of breakages in post
- Cost of maintaining website
- Lack of personal service

Award a maximum of one additional mark for **each** applied explanation of the advantage/disadvantage.

Indicative response:

Higher potential number of customers [k] as more people from many countries other than country X will see the website and may buy a lamp [app].

Possible application marks: partnership; three brothers; invested $20 000; lamps; business only two years old; distributed through independent retail shops; purchased by home owners and hotels; building good customer relationships; country X; financial information from appendix 3; fragile products; wire, cloth and wood.

There may be other examples in context which have not been included here.

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(b) Consider the following <u>three</u> ways Vijay could use in his business to build good customer relationships. Recommend which would be the best way to use. Justify your answer. [12]

Relevant points might include:

	Advantages	Disadvantages
Providing good customer service	Makes customers feel important Build a good reputation Repeat customers	Increased cost of training staff Increased cost
Carrying out market research	Results help to ensure customer needs are met Gathers customer information Helps to inform on pricing strategy	Cost of carrying out research Time consuming Results can be inaccurate
Creating customer loyalty schemes	Encourages customers to keep returning	Administration costs of setting them up and sending out coupons Limited repeat purchases

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	At least 2 × Level 2 + 9–10 marks for well justified recommendation as to the best way to build good customer relationships compared to the other ways. 7–8 marks for some limited judgement shown in recommendation as to the best way to build good customer relationships.
Level 2	4–6 marks Detailed discussion of advantages and/or disadvantages of each way to maintain good customer relationships.
Level 1	1–3 marks Outline of advantages and/or disadvantages of each way to maintain good customer relationships.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. good customer service makes customers feel valued.

Level 2 – one L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 8 marks) e.g. Good customer service makes customers feel valued and their needs will be met by the business. This will encourage the customers to keep returning to buy from Vijay and become loyal customers. (4 marks for L2 answer).

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Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the best way to choose.

Award up to 2 additional marks for relevant application.

Possible application marks: partnership; three brother; lamps; quality products; business only two years old; distributed through independent retail shops; purchased by home owners and hotels; e-commerce; unskilled workers; batch production; country X; financial information from appendix 3; wire, cloth and wood.

There may be other examples in context which have not been included here.

4 (a) The Government in country X is planning to reduce income tax but also increase interest rates. Identify and explain how each of these changes is likely to affect LH. [8]

Knowledge [2 × 1] – award one mark for each relevant effect
Analysis [2 × 1] – award one mark for a relevant explanation of each effect
Application [2 × 2] – award two application marks for each effect

Award one mark for each relevant effect (maximum of two) –

Reduce income tax – higher disposable income – increased demand – increased sales – increased profit

Increase interest rates – higher cost of borrowing – less likely to invest – greater return needed from an investment to make it worthwhile

Award up to two additional marks for application plus one additional mark for explanation of **each** of these effects.

Indicative response:

Reduced income tax leads to customers having higher disposable income as they will pay less income tax [k]. They will be able to increase the demand for lamps [app] as they have more money to improve their homes [app]. This will mean Vijay has an increase in sales which will further increase his profits [an]

Possible application marks: Partnership; three brothers; lamps; business only two years old; purchased by home owners and hotels; e-commerce; unskilled workers; batch production; labour-intensive; purchased automated equipment; $95 000; financial information from appendix 3; high quality products; business expansion; already has bank loans; introduce lean production; wire, cloth and wood.

There may be other examples in context which have not been included here.

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(b) Refer to Appendix 3. Do you think Vijay should be happy with the financial position of LH? You should include liquidity ratios to help justify your answer. [12]

Relevant points might include:

2013 Current ratio – 1
Acid test ratio – 0.6

2014 Current ratio – 0.67
Acid test ratio – 0.5

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

	Knowledge/Analysis/ Evaluation
Level 3	7–10 marks 2 × L2 correct calculations plus evaluation of the calculations leading to a well justified conclusion as to whether Vijay should be happy with the financial position of the business.
Level 2	4–6 marks Detailed discussion of the financial position correctly calculating liquidity ratios.
Level 1	1–3 marks Outline of the financial position of the business.

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. the amount of inventories held have gone down by 5 000.

Level 2 – one L2 calculation can gain 4 marks and a further mark can be awarded for each additional L2 calculation (max 6 marks) e.g. The acid test for Year 2 is 0.5. (4 marks for L2 answer)

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded for calculations plus evaluation of the calculations leading to a conclusion which justifies whether he should be happy with the financial position.

Award up to 2 additional marks for relevant application.

Possible application marks: partnership; three brothers; invested $20 000 each; lamps; business only two years old; distributed through independent retail shops; purchased by home owners and hotels; e-commerce; purchased automated equipment; $95 000; country X; financial information from appendix 3; quoted extracts from financial information from appendix 3; quality products; wire, cloth and wood.

There may be other examples in context which have not been included here.

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