**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**Cambridge International General Certificate of Secondary Education**

# MARK SCHEME for the March 2016 series

# 0450 BUSINESS STUDIES

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

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**1 (a) Identify and explain <u>two</u> benefits to DWP resulting from the change to a private limited company. [8]**

Knowledge (2 × 1) – award one mark for each <u>relevant</u> benefit identified
Analysis (2 × 1) – award one mark for a <u>relevant</u> explanation of each benefit
Application (2 × 2) – award two application marks for each <u>relevant</u> benefit

**Relevant reasons might include:**

Award one mark for each relevant benefit (maximum of two), such as:
- Limited liability
- Increased availability of capital
- Continuity

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the benefit.

Indicative response:

Limited liability (k) as Dilip changed the business into a private limited company 1 year ago (ap) but when he was a sole trader his personal possessions were at risk (an). The business has a lot of money invested and as a private limited company Dilip can only lose the money he invested as part of the $250 000 shares sold if it went bankrupt (ap).

Possible application marks: started 5 years ago as a sole trader; makes liquid soap; washing liquid; $50 000 profit; washing clothes; sold to wholesaler and small shops; sells the new product in country X; $250 000 share value; large factory with room for expansion; purchase new equipment for factory; double production workers to increase output; information from Appendix 3.

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

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**(b) Consider the effects of each of the following <u>three</u> changes on DWP's profit. Recommend which change you think will have the biggest effect on DWP's profit. Justify your answer. [12]**

**Relevant points might include:**

| | |
|---|---|
| Decrease in customers' income | Less income to spend on washing liquid so sales fall but it depends on price relative to competitors' products;<br>may need to reduce price; effect on profit depends on the change in price and revenue. |
| Increase in sales of washing machines | Increased sales of liquid to use with the washing machines;<br>Increased sales revenue leading to increased profit. |
| Introduction of a new washing liquid by a competitor | Competitor product – effect on sales depends on price and quality comparison;<br>May reduce price to compete with new product;<br>Possibly increased costs from advertising to compete – effect on profit may be to reduce profit. |

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 +<br>9–10 marks for well justified recommendation as to which change will have the biggest effect on DWP profit compared to the other changes.<br><br>7–8 marks for some limited judgement shown in recommendation as to the biggest effect. |
| Level 2 | 4–6 marks<br>Detailed discussion of the effects on profits of each change. |
| Level 1 | 1–3 marks<br>Outline of the effect on profit of the change. |

Level 1 – 1 mark for each L1 statement (max. of 3 marks) e.g. Less income and so less is spent on buying washing liquid.

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. Less income and so possibly less is spent on buying washing liquid but more likely is that customers may not reduce spending as this is an essential product so revenue may not fall much and probably it will have little effect on profit in this case. (4 marks for L2 answer plus 1 application mark for recognising the product is a necessity).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation as to which change has the greatest effect on profit and why the other changes have less effect.

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**Award up to 2 additional marks for relevant application.**

Possible application marks: changed to a private limited company; makes liquid soap; $50 000 profit; hand wash clothes; washing clothes; sold to wholesaler and small shops; wants to expand the business; sells the new product in country X; information from Appendix 1.

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

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**2 (a) Identify and explain <u>four</u> functions of management which Dilip should carry out. [8]**

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

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

- Planning
- Organising
- Coordinating
- Commanding
- Controlling

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

Indicative response:

Planning [k] Dilip will need to plan the increased output for the new washing liquid and how the business will increase production (ap).

Possible application marks: makes liquid soap; washing clothes; sold to wholesaler and small shops; sells the new product in country X; 10 people employed in factory; 2 people employed in the office; large factory with room for expansion; purchase new equipment for factory; purchase part processed raw materials; double production workers to increase output; use on-the-job training; information from Appendix 3.

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

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**(b) Refer to Appendix 3. Consider the <u>three</u> options to increase output. Recommend the best option for Dilip to choose. Justify your answer. [12]**

**Relevant points might include:**

| | |
|---|---|
| Purchase of new equipment – | $0.02 cost each; lease payment for new equipment; increased costs of training. |
| Employ 10 additional production workers – | $0.01 cost each; recruitment costs; increased costs from training. |
| Purchase partly processed raw materials – | $0.0125 each; quicker to produce output; no recruitment or training costs. |

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 +<br>9–10 marks for well justified recommendation as to the best way to increase output compared to the other ways.<br><br>7–8 marks for some limited judgement shown in recommendation as to the best way to increase output. |
| Level 2 | 4–6 marks<br>Detailed discussion of each alternative way of increasing output and/or correct calculation of cost per unit. |
| Level 1 | 1–3 marks<br>Outline of each alternative way of increasing output. |

Level 1 – 1 mark for each L1 statement (max. of 3 marks) e.g. New equipment will increase costs because they will have to pay the lease each month.

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. New equipment will increase costs because they will have to pay the lease each month. However, the cost will only be $0.02 each bottle and 500 000 bottles can be produced. (4 marks for L2 answer plus 1 application mark for recognising that 500 000 bottles can be produced).

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

**Award up to 2 additional marks for relevant application.**

Possible application marks: makes liquid soap; washing liquid; $50 000 profit; washing clothes; sells the new product in country X; large factory with room for expansion; double production workers to increase output; use on-the-job training; information from Appendix 2 and 3.

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

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**3 (a) Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to the business of Dilip training production employees using on-the-job training. [8]**

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

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

Advantages
- Individual tuition is given
- Some production takes place
- Usually costs less than off-the-job training
- Addresses the specific needs of the business

Disadvantages
- The trainer will be less productive
- Trainer may have bad habits

Award a maximum of three additional marks for explanation – **2 of which must be applied to this context –** of advantage/disadvantage.

Indicative response:

Individual tuition is given (k) by one of the 10 factory workers (ap). This will mean that the cost of training the new workers will probably be less than off-the-job training (an). The production worker can show the new worker how to make the washing liquid using the exact methods used at Dilip's factory so they will be more accurate (ap).

Possible application marks: washing liquid; makes liquid soap; washing clothes; sells the new product in country X; $50 000 profit last year; 10 people employed in factory; 2 people employed in the office; large factory with room for expansion; purchase new equipment for factory; double production workers to increase output; information from Appendix 3.

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

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**(b) Place is an important part of the marketing mix. Consider <u>three</u> suitable channels of distribution Dilip could use for his new product in country X. Recommend which channel of distribution would be the best one to choose. Justify your answer. [12]**

**Relevant points might include:**

- Wholesalers – buys in large quantities; less administration costs; need to give profit margin to wholesaler; end price will be higher to consumer as sold to small shops.
- Supermarkets – buys in large quantities; feedback on sales; reduced price of product to producer.
- Online sales – absorbs the profit margin of retailer; direct contact with consumer; increased distribution costs.
- Small shops – increased distribution costs; sold in small quantities; increased transactions as more invoices issued.

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 +<br>9–10 marks for well justified recommendation as to the best channel of distribution to choose compared to the other channels.<br><br>7–8 marks for some limited judgement shown in recommendation as to the best channel of distribution to choose. |
| Level 2 | 4–6 marks<br>Detailed discussion of advantages and/or disadvantages of each channel of distribution. |
| Level 1 | 1–3 marks<br>Outline of advantages and/or disadvantages of each channel of distribution. |

Level 1 – 1 mark for each L1 statement (max. of 3 marks) e.g. Dilip could sell to wholesalers.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max. 6 marks) e.g. Dilip could sell to wholesalers as this will reduce the amount of administration required with fewer orders to process because the wholesaler will buy the washing liquid in bulk. (4 marks for L2 answer plus 1 mark for application as the answer mentions washing liquid).

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 channel of distribution to choose and why not the alternative channels.

**Award up to 2 additional marks for relevant application.**

Possible application marks: washing liquid; makes liquid soap; bottles of liquid soap; competitors sell to large supermarkets; $50 000 profit; washing clothes; already sells to wholesaler and small shops; large factory with room for expansion; double production workers to increase output.

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

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**4 (a) Identify and explain <u>two</u> possible effects on DWP of strict legal controls on how businesses describe their products in advertisements. (8)**

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

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

- Cannot make false claims about what the product will do
- Need to list all the raw materials in the product
- Amendments may be needed to advertising to ensure legal compliance
- Contents must be described accurately
- Products must be described accurately

Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context –** of these effects.

Indicative response:

Cannot make false claims about what the product can do (an) which means that DWP cannot claim the new liquid cleans really well if it does not (ap). This means Dilip may have to change the advertising of his washing liquid (ap) and so costs and prices might increase and sales and profits might decrease (an).

Possible application marks: makes liquid soap; washing liquid; washing clothes; sells the new product in country X; $50 000 profit; large factory with room for expansion; chemicals; information from Appendix 1 – e.g. claims washes clothes whiter.

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

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**(b) Dilip is thinking of selling DWP's products in other countries. Consider <u>three</u> problems to DWP of entering foreign markets. Recommend whether DWP should sell in foreign markets. Justify your answer. [12]**

**Relevant points might include:**

- Lack of knowledge
- Cultural differences
- Import restrictions
- Increased risk of non-payment
- Increased transport costs
- Exchange rate changes

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 +<br>9–10 marks for well justified recommendation as to whether DWP should sell in foreign markets or not.<br><br>7–8 marks for some limited judgement shown in recommendation as to whether to sell abroad. |
| Level 2 | 4–6 marks<br>Detailed discussion of each problem. |
| Level 1 | 1–3 marks<br>Outline of each problem. |

Level 1 – 1 mark for each L1 statement (max. of 3 marks) e.g. Lack of knowledge.

Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max. 6 marks) e.g. Lack of knowledge of the new market and where will be the best places to sell the new washing liquid which may make it difficult to make a success of entering the new market. (4 marks for L2 answer plus 1 application mark for making reference to the new washing liquid).

Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies whether to enter the foreign market or not.

**Award up to 2 additional marks for relevant application.**

Possible application marks: washing liquid; makes liquid soap; $50 000 profit; washing clothes; sells the new product in country X; large factory with room for expansion; purchase new equipment for factory; double production workers to increase output; information from Appendix 3.

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

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