Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/12**

Paper 1 Short Answer/Structured Response **March 2017**

MARK SCHEME

Maximum Mark: 80

Published

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Question	Answer	Marks
1(a)	**Identify <u>two</u> ways to measure the size of a business.** Knowledge [2 × 1]: award 1 mark per measure. Points might include: • Value of sales OR value of output OR revenue • Market share • Number of employees • Value of capital employed OR value of balance sheet **Do not accept** profit or answers that refer to number of sales/ output, outlets	**2**
1(b)	**Identify <u>two</u> reasons why a Government might increase taxes.** Knowledge [2 × 1]: award 1 mark per reason Points might include: • Generate revenue / pay for government spending • Discourage purchase of harmful / demerit products • Manage demand or control / reduce inflation • Influence level of imports or exports • Make polluter pay • Influence location of businesses • Redistribute income	**2**
1(c)	**Identify and explain <u>two</u> possible reasons why sales promotions might not have been successful for TXE** Knowledge [2 × 1] – award 1 mark per reason identified Application [2 × 1] – award 1 mark for each explanation in context Points might include: • Better offers / deals available [k] offered by the competition [app] • Wrong sales method used [k] e.g. don't want extra food [app] • Wrong (marketing) message used / customers not aware of offers [k] in its 200 shops [app] • Rewards not exciting / don't like the offers / not value for money [k] Application marks may be awarded for appropriate use of the following: food (retailer), 200 or 50 shops, competition, profit fell by 10%, clothing, increased taxes	**4**

Question	Answer	Marks
1(d)	**Identify and explain <u>two</u> factors TXE should consider when deciding which shops to close.** Knowledge [2 × 1] –award one mark for each factor identified Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include: • Rent / rates [k] as increased taxes [app] could make some sites too expensive to run [an] • Number/type of shops in area [k] as increased competition [app] could reduce sales [an] • Space / access [k] if decide to sell wider range of products [app] may not be room to display everything [an] • Level of demand/ where there customers are/ value of sales [k] • Economic state of area e.g. Is area in decline [k] • Local labour costs [k] • Profitability of each shop [k] Application marks may be awarded for appropriate use of the following: food (retailer), 200 or 50 (shops), profit fell by 10%, clothing, increased taxes, competition, may decide to sell wider range of products **Do not accept** <u>shops</u> as application, as stated in question	**6**
1(e)	**Do you think TXE should sell a wider range of products? Justify your answer.** Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1] Application [1] – award 1 mark if relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision as whether TXE should sell a wider range of products. Either viewpoint is acceptable. Relevant points might include: • Broaden target market/ increased sales [k] could help spread risk [an] so less reliant on food [app] • Cost of additional inventory [k] which will increase variable costs [an] • Space [k] as need to store / display the new clothing [app] • Reaction of competitors [k] could reduce revenue [an] • Size of market [k] • Lack of experience [k] as a food retailer [app] so workers may need training [an] increasing its costs [an] Application marks may be awarded for appropriate use of the following: food (retailer), 200 or 50 shops, profit fell by 10%, clothing, sales promotion not successful, increased taxes, blames competition	**6**

Question	Answer	Marks
2(a)	**What is meant by 'batch production'?** Clear understanding [2]: e.g. products are made in groups of items of a certain amount; OR a quantity of one product is made and then a quantity of another [2] Some understanding [1]: identifies one distinct feature of batch e.g. • Made in (small) groups or sets • Usually to meet a specific order / as orders come in • Groups that move through production process together **Do not accept** 'batch' as part of answer, as stated in question.	**2**
2(b)	**Calculate the following values in June.** Application [2 × 1] award one mark per answer Net cash flow: 40 or 40 000 Closing balance**:** (10) or (10 000) Note: answer for closing balance must be shown as a negative value.	**2**
2(c)	**Identify and explain <u>two</u> advantages to QAC of having a high level of inventory.** Knowledge [2 × 1] – award 1 mark per advantage identified Application [2 × 1] – award 1 mark for each explanation in context Points might include: • Able to meet orders straightaway [k] to meet increased demand [app] • Benefit from economies of scale / bulk buy [k] as discounts reduce cash outflow [app] • Production does not stop [k] which is important if change to flow production [app] • Avoid supply problems [k] as some chemicals might be difficult to obtain [app] • Able to increase scale of production [k] for its 70 products [app] Application marks may be awarded for appropriate use of the following: correct use of data in table 1, $10m, batch or flow production, reference to soap or polish, 70 products, cleaning products, increased demand for two products	**4**

Question	Answer	Marks
2(d)	**Identify and explain <u>two</u> ways (other than reducing inventory) that QAC could use to improve its cash flow position.** Knowledge [2 × 1] award 1 mark for each relevant way identified Application [2 × 1] – award 1 mark for each way if relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include: • Ask debtors to pay quicker/ reduce credit terms [k] if they pay sooner this will increase cash inflows [an] • Delay purchases [k] could decide not to buy as much equipment [app] so keeping cash in the business [an] • Delay inventory payments [k] as $1 20 000 paid in May [app] lowering cash outflow [an] • Arrange a **short term** loan / overdraft [k] • Lower fixed costs [k] • Buy cheaper materials [k] • Sell (unwanted) non-current assets [k] so releasing cash tied up in the business [an] • Delay investment/ expansion plans [k] of $10m [app] Accept practical suggestions for example: • Reduce range of products sold [k] this would reduce the cost of materials needed [app]; • Sell more products [k] Application marks may be awarded for appropriate use of the following: correct use of data in table 1, $10m, batch or flow production, reference to soap or polish, 70 products, cleaning products, increased demand for X and Y	**6**

Question	Answer	Marks
2(e)	**Do you think QAC should change its method of production? Justify your answer.** Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1] Application [1] – award 1 mark if relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – justified decision as to whether QAC should change its method of production. Either viewpoint is acceptable. Relevant points might include: • More economies of scale [k] possible with flow [app] lowering average costs [an] • Improve efficiency [k] as less waste [an] • Able to increase output [k] so can meet increased demand for products X and Y [app] • Cost of investment/ high set up costs [k] with cash flow problems [app] can they afford repayments [an] • Impact on employee morale [k] • Need for retraining [k] • Level and type of demand [k] as only planned for 2 products (X&Y) [app] Application marks may be awarded for appropriate use of the following: correct use of data in table 1, $10m, batch or flow production, reference to soap or polish, 70 products, cleaning products, increased demand for two products/ X and Y, cash flow problems	**6**

Question	Answer	Marks
3(a)	**What is meant by a 'business plan'?** Clear understanding [2] e.g. a document containing the business aims/objectives and important details about the operations, finance and owners of a business **OR** states aims/objectives and shows how business aims to achieve them Some understanding [1] states one element of plan e.g. shows marketing strategy/production costs	**2**
3(b)	**Identify <u>two</u> possible methods of primary market research that Ravi might have used.** Knowledge [2 × 1] award one mark per method • <u>(Postal)</u> Questionnaires • <u>Online</u> survey • Interviews • Observation • Focus group • Testing / trials /product samples	**2**

Question	Answer	Marks
3(c)	**Identify and explain <u>two</u> benefits to Dipta and Ravi of acting in an ethical way.** Knowledge [2 × 1] – award 1 mark for each benefit identified Application [2 × 1] – award 1 mark for each explanation in context Points might include: • Higher revenue / demand [k] in local markets [app] • Improved brand image / reputation / customer loyalty [k] for this new business [app] • Better supplier relations [k] so able to obtain the best possible cocoa beans [app] • Investors more likely to invest [k] in this chocolate business [app] • Improve employee motivation / help retention OR help recruit [k] Application marks may be awarded for appropriate use of the following: chocolate, local markets, $500, primary market research, business plan, little experience, start-up / new business, ingredients or cocoa beans, **Do not accept** 'better quality' or 'legal' as these are different concepts.	**4**
3(d)	**Identify and explain <u>two</u> possible advantages of importing for Dipta and Ravi's business.** Knowledge [2 × 1] – award 1 mark for advantage identified Application [2 × 1] – award 1 mark for each way if relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include: • Resources not available /grown in own country [k] as must be ethical [app] in order to make its products [an] • Access to exclusive resources [k] for new business [app] helping it be competitive [an] • Access to cheaper resources [k] of cocoa beans [app] could help improve profit margin / lower costs [an] • Wider choice [k] of ingredients [app] could attract more customers / sales [an] • Access to better quality materials [k] for its chocolates [app] so could charge higher prices [an] Application marks may be awarded for appropriate use of the following: chocolate, local markets, $500, primary market research, business plan, no business experience, new business, cocoa beans or ingredients, ethical (sources of supply)	**6**

Question	Answer	Marks
3(e)	**Explain <u>two</u> sources of finance Dipta and Ravi could use. Recommend which source Dipta and Ravi should choose. Justify your answer.** Knowledge [1] – award 1 mark for identification of relevant source(s) Application [1] – award 1 mark for a relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – award up to 2 marks for a justified decision as which is the best option to choose Relevant points might include: • Bank loan [k] would have time to repay [an] the $500 [app] but would have to pay interest on amount borrowed [an] • Own savings [k] no need to repay [an] but may not have sufficient funds [an] • Leasing or hire purchase [k] as have no business experience [app] could return equipment in case of need [an] • Micro finance [k] as new start up [an] • Government grants/ subsidies [k] • Ask family/ friends for finance [k] **Do not accept** issue shares, debentures, retained profits or sell existing assets as not appropriate for a <u>start up</u> business. Application marks may be awarded for appropriate use of the following: chocolate, $500, equipment, primary market research, business plan, no business experience, new business, ingredients or cocoa beans, ethical (sources of supply)	**6**

Question	Answer	Marks
4(a)	**Identify <u>two</u> stages in recruitment.** Knowledge [2 × 1] – award 1 mark per stage identified Points might include: • Job analysis /identify a vacancy • Job description • Person / job specification • Advertising • Shortlisting • Interview • Selection Note: Answer must be from the business viewpoint not the applicant e.g. CV or letter of application	**2**

Question	Answer	Marks
4(b)	**Identify <u>two</u> possible reasons why the owners of a business might want it to expand.** Knowledge [2 × 1] award 1 mark per reason Points might include • Spread risk • Increase sales revenue • Increase profits • Increase customer base • Increase market share • Prestige/ reputation • Personal goal • Economies of scale Accept any reasonable answer	**2**
4(c)	**Identify and explain <u>two</u> advantages to BGN of being a private limited company.** Knowledge [2 × 1] – award 1 mark for each advantage identified Application [2 × 1] – award 1 mark for each explanation in context Points might include: • Limited liability [k] compared to when it was a partnership [app] • Easier to raise money / capital [k] as business is expanding quickly [app] • More credibility with suppliers [k] could get better terms when buying furniture [app] • Continuity [k] • No need to publish (detailed) accounts [k] of its 10 shops [app] • Separate legal identity/ incorporated [k] • Control over who can buy shares/ less risk of takeover [k] Application marks may be awarded for appropriate use of the following: furniture or similar references such as tables, 10 shops, different cities, (increase in) customer complaints, decisions over recruitment and / or inventory, started as a partnership, expanded <u>quickly</u>	**4**

Question	Answer	Marks
4(d)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of the Managing Director's leadership style.** Knowledge [2 × 1] – award one mark for an advantage and one mark for disadvantage Application [2 × 1] – award 1 mark for each relevant reference made to this business Analysis [2 × 1] – award 1 mark for each relevant explanation Relevant points might include: Advantages: • Encourages loyalty / motivation [k] as managers can run own shops [app] so less likely to leave [an] • Maximise skills of employees [k] could help reduce number of complaints [app] increasing sales [an] • MD has time to focus on strategic/other issues [k] such as expansion to more cities [app] Disadvantage: • No real direction / different opinions [k] of shop managers [app] leading to wrong decisions/ disputes [an] • Employees may not have skills / experience to make decisions [k] leading to mistakes [an] when doing recruitment [app] • Higher costs [k] as shops arrange own inventory [app] so no economies of scale [an] • Work might not get done in time [k] so customer complaints [app] leading to poor reputation [an] Application marks may be awarded for appropriate use of the following: furniture or similar references such as tables, chairs; 10 shops, different cities, (increase in) customer complaints, decisions over inventory and / or recruitment, partnership or private limited company, <u>expanded quickly</u>, monthly report	**6**

Question	Answer	Marks
4(e)	**Explain <u>two</u> ways BGN could try to improve internal communication. Recommend which way BGN should choose. Justify your answer.** Knowledge [1] – award 1 mark for identification of relevant issue(s) [max 1] Application [1] – award 1 mark for relevant reference made to this business Analysis [2] – award up to 2 marks for relevant development of point(s) Evaluation [2] – award up to 2 marks for a justified decision as to which option BGN should choose Relevant points might include: • Email [k] as have copy to refer to [an] but may not open when needed [an] • Text [k] can only send a short message [an] • Video conference [k] as also able to see non-verbal signs [an] • Phone calls [k] allows for feedback / two way communication [an] • Meetings [k] rather than monthly reports [app] • Change leadership style [k] from laissez faire [app] • Changes to organisation structure e.g. change chain of command [k] Application marks may be awarded for appropriate use of the following: furniture or similar references such as tables, 10 shops, different cities, (increase in) customer complaints, decisions over inventory and / or recruitment, partnership or private limited company, expanded <u>quickly,</u> monthly report **Do not accept** answers that discuss external methods of communication, as this does not answer the question. **Do not accept** one way or two-way communication as these are classifications not ways	**6**