Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/22**

Paper 2 Case Study **March 2017**

MARK SCHEME

Maximum Mark: 80

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the March 2017 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

® IGCSE is a registered trademark.

This syllabus is approved for use in England, Wales and Northern Ireland as a Cambridge International Level 1/Level 2 Certificate.

© UCLES 2017

Question	Answer	Marks
1(a)	**Identify and explain <u>two</u> reasons why having a brand image for its products is important to BB.** Knowledge [2 × 1] – award one mark for each reason identified Analysis [2 × 1] – award one mark for a relevant explanation for each reason Application [2 × 2] – award two application marks for each relevant reason Award one mark for each reason (maximum of two), such as: • To give the product a USP • To differentiate the product from competitors • Encourages customer loyalty • Higher quality product than unbranded products • Can charge higher price than price of unbranded products Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context –** of the reason. Indicative response: A brand image allows a business to charge a higher price for its products because customers think it is of a higher quality.(k) BB produces high quality handbags using the best quality leather (ap) and without a brand image BB may find it more difficult to charge high prices.(an) This makes it important to BB as it needs to charge higher prices to cover its higher leather costs in order to make a good profit for the company.(ap) Possible application marks: small private limited company; manufactures leather handbags and belts; best quality leather; sold to large retailers; does not use the internet; leather purchased -same local business; supplier guarantees high quality leather; use material that looks like leather but cheaper; demand for its handbags is price inelastic; loyal customers to the BB brand; directors aim to increase profit. There may be other examples in context that have not been included here.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>

Consider the advantages and disadvantages of the following <u>two</u> ways of increasing BB's profit. Recommend the best way for BB to choose. Justify your answer.

Relevant points might include:

<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Increasing prices</td><td>Increases revenue – especially if demand is price inelastic</td><td>May reduced demand – especially if close competitors do not change their prices</td></tr>
<tr><td>Changing to lower cost materials</td><td>Lowers input costs – improved cash flow</td><td>Quality may be lower – lead to poor reputation – lose brand image of high quality</td></tr>
</table>

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

<table>
<tr><th></th><th>Knowledge/Analysis/ Evaluation</th></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified recommendation of which way to choose to increase profit and why not the alternative way.

7–8 marks for limited recommendation of which way to choose to increase profit.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of advantages and/or disadvantages of each way to increase profit.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of each advantages and/or disadvantages of each way to increase profit.</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Increasing prices will lead to increased revenue which will mean increased profit.

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. Increasing prices will lead to increased revenue which will mean increased profit. This is due to the brand loyalty of customers resulting in the elasticity being inelastic, therefore revenue should increase and lead to higher profit. (L2 for developing the discussion about elasticity and 1 app mark for identifying that the product has brand loyal customers which is likely to result in inelastic demand).

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

</td><td>**12**</td></tr>
</table>

Question	Answer	Marks
	Award up to 2 additional marks for relevant application. Possible application marks: small private limited company; manufactures leather handbags and belts; best quality leather; uses own brand name; sold to large retailers; does not use the internet; leather purchased -same local business; supplier guarantees high quality leather; always delivered on time; uses batch production; skilled workers; wage costs are kept low by employing young workers to pack the products; use material that looks like leather but cheaper; demand for its handbags is price inelastic; loyal customers to the BB brand. There may be other examples in context that have not been included here.	

Question	Answer	Marks
2(a)	**Identify and explain <u>four</u> ways BB could use the internet.** Knowledge [4 × 1] – award one mark for each way Application [4 × 1] – award one application mark for each way Award one mark for each way (maximum of four), such as: • Advertise online • Research competitors prices • Research different suppliers • Sell online • Email customers/supplier/employees • Pay invoices/internet banking • Video conferencing Award a maximum of one additional mark for each explanation in the context of BB. Indicative response: BB could research suppliers online. (k) BB only uses high quality leather but it may find other suppliers of high quality leather at cheaper prices as there will be access to more information about other leather suppliers online. (ap) Possible application marks: manufactures leather handbags and belts; best quality leather; uses own brand name; sold to large retailers; supplier guarantees high quality leather; always delivered on time; uses material that looks like leather but cheaper; demand for its handbags is price inelastic; loyal customers to the BB brand. There may be other examples in context that have not been included here.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>

Consider the advantages and disadvantages of the <u>two</u> options for BB to expand the business. Recommend the best option to choose. Justify your answer.

Relevant points might include:

<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Option A</td><td>Increases sales by selling to another channel of distribution
The wholesaler buys in bulk
Absorbs storage costs
Feedback from wholesaler on customer preferences</td><td>Wholesalers only sells to small shops – restricted shops it sells to – may not be appropriate for target market
Receives a lower price
Increased cost of advertising</td></tr>
<tr><td>Option B</td><td>Global brand well known – increases output/sales
High priced items – increases price per unit received
Risk of not making sales taken by the global company – it pays for advertising costs
Less planning or design costs for products</td><td>Risk of losing contract
Committed to increased costs of training workers
Committed to paying for new equipment – $20 000 – not needed if contract lost.</td></tr>
</table>

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

<table>
<tr><th></th><th>Knowledge/Analysis/ Evaluation</th></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified recommendation of which option to choose and why not the alternative option.

7–8 marks for limited recommendation of which option to choose.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of advantages and/or disadvantages of each option.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of advantages and/or disadvantages of each option.</td></tr>
</table>

</td><td>**12**</td></tr>
</table>

Question	Answer	Marks
	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Wholesalers will buy in bulk. 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. Wholesalers will buy in bulk which will reduce transport and administration costs of orders. Lower costs may lead to higher profits from sales of handbags if selling price to wholesaler does not change. (4 marks for L2 plus 1 app mark for reference to the product being handbags) Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which option to choose. **Award up to 2 additional marks for relevant application.** Possible application marks: small private limited company; manufactures leather handbags and belts; best quality leather; uses own brand name; sold to large retailers; does not use the internet; leather purchased -same local business; supplier guarantees high quality leather; always delivered on time; uses batch production; skilled workers; wage costs are kept low by employing young workers to pack the products; use material that looks like leather but cheaper; demand for its handbags is price inelastic; loyal customers to the BB brand. There may be other examples in context that have not been included here.	

Question	Answer	Marks
3(a)	**Identify and explain <u>two</u> benefits to BB of having an organisation chart.** Knowledge [2 × 1] – award one mark for each benefit Analysis [2 × 1] – award one mark for a relevant explanation of each benefit Application [2 × 2] – award two application marks for each benefit Award one mark for each benefit (maximum of two), such as: • Shows how everybody is linked together in the organisation • Each individual can see their own position in the organisation • It shows the links and relationship between different departments • Employees can see their position and it gives them a sense of being part of the organisation/belonging Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the benefit. Indicative response: It shows Adbullah how everybody links together in the company (k) such as the Operations Director is responsible for the factory manager and 100 production workers. (ap) If any of the employees have a query then they will know who to ask and who is their line manager. (an) If Abdullah wants to know about the sales figures he will ask the Marketing Director who will ask the sales manager to let him know about the figures. (ap) Possible application marks: small private limited company; manufactures leather handbags and belts; always delivered on time; directors all family members; uses batch production; skilled workers; uses examples from Appendix 1. There may be other examples in context that have not been included here.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>

Refer to Appendix 3. Calculate <u>two</u> liquidity ratios for both years. Do you think BB is in a good financial position to be able to expand the business? Justify your answer.

Relevant calculations:

<table>
<tr><td></td><td>2015</td><td>2016</td></tr>
<tr><td>Current ratio</td><td>0.75 (L2)</td><td>1.8 (L2)</td></tr>
<tr><td>Acid test ratio</td><td>0.5 (L2)</td><td>1 (L2)</td></tr>
</table>

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

<table>
<tr><td></td><td>Knowledge/Analysis/ Evaluation</td></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified recommendation as to whether or not BB is in a good financial position.

7–8 marks for some limited judgement shown in recommendation as to whether or not BB is in a good financial position.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Liquidity ratios correctly calculated</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of the changes in the figures.</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. The amount of inventories has increased by $30 000.

Level 2 – 1 × L2 calculation can gain 4 marks and a further mark can be awarded for each additional L2 calculation (max 6 marks) e.g. The current ratio for 2015 is 0.75. (L2 for correct calculation)

Level 3 – For L3 to be awarded there needs to be at least two L2 calculations awarded and then a recommendation which justifies whether or not BB is in a good financial position to expand.

Award up to 2 additional marks for relevant application.

Possible application marks: small private limited company; manufactures leather handbags and belts; best quality leather; uses own brand name; sold to large retailers; leather purchased – same local business; supplier guarantees high quality leather; directors all family members; uses batch production; skilled workers.

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

</td><td>**12**</td></tr>
</table>

Question	Answer	Marks
4(a)	**Identify and explain <u>two</u> reasons why batch production is suitable for BB.** Knowledge [2 × 1] – award one mark for each relevant reason Analysis [2 × 1] – award one mark for a relevant explanation for each reason Application [2 × 2] – award two application marks for each reason Award one mark for each reason (maximum of two), such as: • Demand for the product/The size of the market • The nature of the product • The size of the business • The nature of demand/seasonal or continuous Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context –** of the reason. Indicative response: BB produce different styles of handbags (ap) and the demand for each style is not large (k) so a large output of each style of handbag is not required and batch production where the quantities produced are smaller is more suitable for BB's products. (an) BB's handbags are high quality and sold at high prices therefore this means the demand is not large. (ap) Possible application marks: small private limited company; manufactures leather handbags and belts; best quality leather; uses own brand name; sold to large retailers; leather purchased -same local business; supplier guarantees high quality leather; always delivered on time; skilled workers; wage costs are kept low by employing young workers to pack the products; demand for its handbags is price inelastic; loyal customers to the BB brand. There may be other examples in context that have not been included here.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>

Consider how the following <u>three</u> legal controls might affect BB. Which legal control is likely to have the biggest effect on BB's profit? Justify your answer.

Relevant points might include:

<table>
<tr><td>Restrictions on the waste put into rivers</td><td>Increased costs of cleaning up waste – reduce profit – but if all businesses have to do this then competitiveness not affected – less effect on profit</td></tr>
<tr><td>All materials used in the product must be listed on the product packaging</td><td>Cannot make false claims about materials used – customers trust information provided on packaging – assured of the quality materials being used – increases BB sales – increases profit
Competitors information must be truthful – cannot claim they use high quality materials if not true – increases sales if clear the quality is higher for BB products</td></tr>
<tr><td>Restrictions on the youngest age a person can start work</td><td>May increase wage cost if young workers cannot be employed – reduces profit – but if efficiency increases – no effect – may already employ skilled workers – so no effect.</td></tr>
</table>

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

<table>
<tr><td></td><td>Knowledge/Analysis/ Evaluation</td></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified conclusion as to which legal control will have the biggest effect on profit and why the others less effect.

7–8 marks for some limited conclusion as to which legal control will have the biggest effect on profit.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Discussion of the effects of the legal controls.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of the effects of the legal controls.</td></tr>
</table>

</td><td>12</td></tr>
</table>

Question	Answer	Marks
	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Increased cost of cleaning up waste. Level 2 – one L2 calculation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Increased cost of cleaning up waste meaning that profit is reduced. However, if all the handbag manufacturers also have to clean up waste products then the costs for all producers will increase and they might all increase prices. This may mean that there is little effect on profit. (L2 plus app for considering handbag manufacturer) Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion as to which legal control will have the biggest effect on BB profit. **Award up to 2 additional marks for relevant application.** Possible application marks: manufactures leather handbags and belts; best quality leather; uses own brand name; sold to large retailers; leather purchased -same local business; supplier guarantees high quality leather; uses batch production; skilled workers; wage costs are kept low by employing young workers to pack the products; use material that looks like leather but cheaper; demand for its handbags is price inelastic; loyal customers to the BB brand. There may be other examples in context that have not been included here.	