Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/22**

Paper 2 Case Study **March 2019**

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.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Question	Answer	Marks
1(a)	**Identify and explain <u>two</u> ways a business plan could help Peter when expanding his business.** Knowledge [2 × 1] – award one mark for each way Analysis [2 × 1] – award one mark for a relevant explanation for each way Application [2 × 2] – award two application marks for each way Answers are likely to include: • To obtain a bank loan – show the bank manager so more likely to be given the loan • To plan the strategy for the new business – reduces risk of failure • To help to set a budget/see if he can afford to expand • To help identify the best location/premises • To identify the HR requirements/number of staff needed/skills required • To set aims/objectives/targets for the business • To help analyse the market/demand for the new restaurant/marketing mix for the new business • Break-even • Accounting information – cash flow forecast/Income statement/Statement of financial position • Sources of finance • Resources/capital equipment Award a maximum of three additional marks for **each** explanation of the way – **2 of which must be applied to this context**. Indicative response: Helps to gain a bank loan (k) as Peter can show the manager his business plan for the new restaurant and takeaway business (ap). This means that it will be easier to gain a loan as it will show the cash flow forecast and forecast profits for the new business (an). This will convince the bank manager that Peter has researched and planned out the new business so it will be as successful as the other 5 restaurants (ap). Possible application marks: restaurant business; 5 restaurants; set up 10 years earlier; takeaway service; well known for good quality food; $150 000; chefs; delivery drivers; kitchen assistants; waiters; meals; different target market of low income groups; to buy buildings; new technology available with Apps on mobile phones to order food. 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 following <u>three</u> ways Peter could use to motivate his employees in the new restaurant. Recommend which way he should choose. Justify your answer.

Relevant points might include:
<table>
<tr><td>Pay a higher wage rate than competing restaurants</td><td>• Taylor’s theory suggests that higher pay motivates workers
• Earning more at PR than competitors/higher income
• It is more expensive for the restaurant – may charge higher prices to cover the costs</td></tr>
<tr><td>Use job rotation</td><td>• Makes the job more varied – more interesting
• Increased costs from additional training – may not be as suited to different jobs so less efficient – more mistakes made</td></tr>
<tr><td>Offer free food for the employees to take home each day</td><td>• Little or no cost as food is left over and would be thrown away
• Employees might prefer higher pay as they can then choose how to spend this</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 which is the best way to motivate workers compared to the other ways.
7–8 marks for some limited judgement shown in the recommendation as to which is the best way to motivate workers.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of the advantages and/or disadvantages of each way to motivate workers.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of the advantages and/or disadvantages of each way to motivate workers.</td></tr>
</table>
</td><td>12</td></tr>
</table>

Question	Answer	Marks
1(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Taylor's theory on motivation states that workers are motivated by higher pay. 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. Taylor's theory on motivation states that workers are motivated by higher pay and so as pay is higher than many competing restaurants then labour turnover would be lower. However, this will increase the costs of the business and therefore profit will be lower or prices higher to compensate. (L2) Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation as to the best way to choose. **Award up to 2 additional marks for relevant application.** Possible application marks: 5 restaurants; set up 10 years earlier and has been successful; chefs; kitchen staff; takeaway service; new technology available with Apps on mobile phones to order food. There may be other examples in context that have not been included here.	

Question	Answer	Marks
2(a)	**Identify and explain <u>two</u> ways in which the results from the questions in Appendix 1 might affect Peter's decisions about the new service.** Knowledge [2 × 1] – award one mark for each way Analysis [2 × 1] – award one mark for how each way would affect decisions Application [2 × 2] – award two application marks for how each way the questionnaire results would affect decisions Examples might include: The way the questionnaire results might affect decisions: • pricing decisions e.g. a result of 3 was given to the question about the importance of price so they should try to keep prices low so that they remain competitive • types of meals sold – so Peter will need to think carefully about the menu available as types of meals scored 4 and is seen as important • spending money on decorating the takeaway part of the restaurant only scored 1 and will not affect whether customers use the restaurant or not. • whether to offer a delivery service as customers are very interested in the delivery service and so this is something Peter should promote as it may attract more sales • what times the restaurant should be open needs to be considered so it is convenient for customers to help increase sales. Award a maximum of three additional marks for **each** explanation of how each question result would affect decisions – **2 of which must be applied to this context**. Indicative response: The results will affect the decision about the opening times so the business is open when customers want to use it (k) and if the restaurant is not open when they want a takeaway then sales will be lost (ap). Knowing when there is customer demand will help to increase sales and profit for Peter (an). Although in this questionnaire customers see opening times as only quite important with a score of 3 (ap). Possible application marks: use of results from Appendix 1; restaurant business; 5 restaurants; set up 10 years earlier; expand the business by opening another restaurant; takeaway service; different target market of low income groups; delivery service. 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 how the following <u>three</u> economies of scale might benefit Peter's business. Which economy of scale is likely to have the biggest effect on profits? Justify your answer.

Relevant points might include:
<table>
<tr><td>Purchasing</td><td>• Raw materials can be purchased in bulk – discounts received – lower unit costs</td></tr>
<tr><td>Technical</td><td>• Can use improvements in technology – such as using business apps for ordering food – quicker production of meal orders – possibly lower labour costs – increased efficiency of equipment – lower unit costs</td></tr>
<tr><td>Financial</td><td>• Less risk as larger business
• lower interest rates charged on loans and overdrafts – lower interest costs – lower unit costs</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 of which economy of scale is likely to have the biggest effect on profits rather than the other two.
7–8 marks for limited recommendation of which economy of scale is likely to have the biggest effect on profits.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of each economy of scale and why it would lead to lower unit costs.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of each economy of scale.</td></tr>
</table>
Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. To buy raw materials 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. To buy raw materials in bulk so discounts will be given. This makes the food ingredients cost less than might otherwise have been so the unit cost for each meal will be lower (L2 plus application for reference to food ingredients and meals).
</td><td>12</td></tr>
</table>

Question	Answer	Marks
2(b)	Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion of which economy of scale is likely to have the biggest effect on profits. **Award up to 2 additional marks for relevant application.** Possible application marks: restaurant business; 5 restaurants; opening another restaurant; ingredients; delivery service; takeaway service; new technology available with Apps on mobile phones to order food; considering bank loan or retained profit to fund the expansion. There may be other examples in context that have not been included here.	

Question	Answer	Marks
3(a)	**Identify and explain <u>two</u> methods of sales promotion Peter could use for the new service.** Knowledge [2 × 1] – award one mark for each relevant method Analysis [2 × 1] – award one mark for a relevant explanation for each method Application [2 × 2] – award two application marks for each method Award one mark for each relevant method (max 2), such as: • Price reductions • Money-off coupons • Gifts • BOGOF • Competitions • Demonstrations • Free samples • Free delivery Note: Do not accept methods of advertising Award a maximum of three additional marks for **each** explanation of the method – **2 of which must be applied to this context.** Indicative response: Money-off coupons (k) means meals will be cheaper and so attract customers (ap). If customers like the service they will return to the restaurant, (ap) it will gain loyal customers and lead to an increase in sales (an). Possible application marks: restaurant business; 5 restaurants; opening another restaurant; food; meals; takeaway service; different target market of low income groups; new technology available with Apps on mobile phones to order food. 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>

Consider the <u>two</u> options for the location of the new business. Recommend which option Peter should choose. Justify your answer.

Relevant points might include:

<table>
<tr><td></td><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>Option 1</td><td>• (Near a railway station) so a lot of passing trade
• (Busy area) so many potential customers pass by
• (Large area) as it is a warehouse at the moment and plenty of scope to change it</td><td>• (1 year to convert it) is a long time to convert it into a restaurant – no revenue whilst converting it
• ($150 000) worse cash flow as cash out will be large without any cash in from revenue for 1 year</td></tr>
<tr><td>Option 2</td><td>• (6 months to convert it) quicker to convert as already a restaurant – revenue starts to flow in quicker
• (Already well known as a restaurant in the area) – may attract more local people
• (Owner retiring) suggests the restaurant has already been successful in that location – may retain existing customers of previous owner</td><td>• (Located on a quiet road) so may not be much passing trade
• (Much smaller) than Option 1 so may limit future growth</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 which option to choose and why not the alternative option.
7–8 marks for some limited judgement shown in the recommendation as to which option to choose.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of the advantages and/or disadvantages of each option.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of the advantages and/or disadvantages of each option.</td></tr>
</table>

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

Question	Answer	Marks
3(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. As it is near a railway station there will be a lot of passing trade so may attract many customers. 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. As it is near a railway station there will be a lot of passing trade so may attract many customers. This should ensure high revenue and high profits. However, it will take a long time to convert into a restaurant so cash flow may be a problem as cash out will be higher than cash in for a long time and there may be insufficient working capital. (L2) 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: Near a railway station; busy area; large area; 1 year to convert it; $150 000; 6 months to convert it; already well known as a restaurant in the area; owner retiring; restaurant business; located on a quiet road; much smaller; 5 restaurants; expand the business by opening another restaurant; takeaway service; different target market of low income groups; considering bank loan or retained profit to fund the expansion. There may be other examples in context that have not been included here.	

Question	Answer	Marks
4(a)	**Identify and explain how the following <u>four</u> changes might affect the success of the new business.** Award one mark for an effect of each change (max 4) plus one additional mark for an explanation of how this impacts the business. • *The economic cycle in country Z moves from boom into recession* – Lower incomes – as unemployment increases – less demand for restaurants and takeaway food • *Government in country Z lowers income tax* – increased disposable income – increased demand for restaurant • *New legal controls so all packaging for takeaways must be able to be recycled* – increased costs – higher prices – changes in packaging may affect food • *New legal controls that all menus must contain full information on the ingredients used* – increased costs – reprint menus – increased demand if healthy food ingredients listed Indicative response: As country Z has moved into recession it will result in an increase in unemployment as there is less demand in the economy (1) this will reduce the demand for takeaway food and sales will fall (1).	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>
Consider the advantages and disadvantages of the <u>three</u> sources of finance outlined in Appendix 3 for the new business. Recommend which source of finance Peter should choose. Justify your choice using cost comparisons for each source.

Relevant points might include:
<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>1 year bank loan</td><td>• Repaid after a short time of only 1 year (L1)
• Only affects cash outflows for 1 year (L1)
• Total interest paid is lowest at $7500 (L2)</td><td>• Highest rate of interest at 5% (L1)
• High repayments each month (L1)
• High cash outflows and the new business may take some time to get established so more difficult to repay (L2)
• High monthly repayments of $13 125 for one year (L2)
• Total payment = $157 500 (L2)</td></tr>
<tr><td>3 year bank loan</td><td>• Lowest rate of interest at 3% (L1)
• Interest paid is $4500 per year (L2)
• Low repayments each month
• helps cash outflows (L1)
• Low monthly repayments at $4 542 (L2)</td><td>• Higher total interest payment (L1)
• Total payment of $163 500 (L2)
• Total interest paid is $13 500 over three years (L2)</td></tr>
<tr><td>Retained profit</td><td>• No interest to pay so cheaper than the other two alternatives (L1)</td><td>• Loss of 4% interest from the bank savings account (L1)
• Loses $6000 interest per year if $150 000 available as retained profit (L2)
• May not have sufficient cash in retained profit (L1)</td></tr>
</table>
</td><td>12</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>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 correct interest cost calculations
9–10 marks for well justified recommendation of which source of finance to use and rather than the alternatives.
7–8 marks for some limited judgement shown in the recommendation of which source of finance to use.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of the advantages and/or disadvantages of each source and/or interest cost calculations</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of the advantages and/or disadvantages of each source.</td></tr>
</table>

Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Retained profit does not have any interest payable on it.

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. Retained profit does not have any interest payable on it and so it is cheaper than taking out a bank loan. However, if the money was saved it would gain more return in interest than is being paid out on the loan. (L2)

Level 3 – For L3 to be awarded there needs to be at least two correct L2 interest cost calculations and then a recommendation of which source of finance to use.

Award up to 2 additional marks for relevant application.

Possible application marks: 3% interest over 3 years; 5% interest over 1 year; 4% on savings account; restaurant business; 5 restaurants; expand by opening another restaurant; new restaurant will have a takeaway service. There may be other examples in context that have not been included here.</td><td></td></tr>
</table>