CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International General Certificate of Secondary Education

MARK SCHEME for the May/June 2015 series

0450 BUSINESS STUDIES

0450/13 Paper 1 (Short Answer/ Structured Response), maximum raw mark 80

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1 (a) What is meant by 'market segment'? [2]

Clear understanding [2]
a identifiable sub-group of a whole market [1]
in which consumers have similar characteristics or preferences [1]
Some understanding [1] e.g. subgroup / small section of market

(b) Identify two reasons why consumer spending patterns might change. [2]

Knowledge [2 × 1] – award 1 mark for each relevant reason

Points could include:

- Consumer tastes and fashion,
- Changes in technology,
- Change in income,
- Changes in population size and structure,
- Price of goods,
- Price of competitors goods,
- Spending on advertising and other promotional activities,
- State of economy

Accept any reasonable answer

(c) Using the information in Table 1, draw a break-even chart for GK Hotel on Figure 1. [4]

- Accurately plotted TR (revenue) line [1]: start at 0, at 200 units should be at $8000
- Accurately plotted TC line [**2**] in total for start at $4000[1] $8000 at 200 units [1].
- Labelling: TR and TC [1] only if layout is correct. TR must start at zero and lines must cross

Notes:
- Accurately drawn **unlabelled** break-even chart [3].
- For 4 marks TR [revenue] and TC must be clearly labelled.
- Max 1 mark for inaccurately plotted break-even chart with TR and TC correctly labelled.

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(d) Identify and explain two benefits to GK Hotel of having a website. [6]

Knowledge [2 × 1] – award 1 mark for each relevant benefit [max 2]
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:

- Can ask for feedback [k] so find out what customers want / improve [an] in each room [app]
- Increase public awareness / Advertising [k] so people can find it in the city centre [app]
- Improved communication / provide information [k] with tourists [app] so can respond to requests quickly [an]
- Lower marketing costs [k] can advertise latest rates [app] without paying to reprint brochures [an]
- Lower fixed costs [k] as fewer employees needed [an] which could lower break-even point [app]
- 24 hour access [k] so more convenient for customers to make enquiries [an]
- Reinforces image [k] customers expect business to have website these days [an]
- Reach wider audience [k] so can target different market segments [app] which increases their potential market [an]
- Increased sales potential [k] as reservations can be made online [app]

Application marks may be awarded for appropriate use of the following: small, use of data, rooms, bookings/ reservations, city centre, tourists, increased competition

Do not accept Hotel as application as it is stated in the question

(e) Do you think that cost plus pricing is the best pricing method for GK Hotel to use? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points or identifies alternative pricing method [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 made as to whether cost plus pricing is the best pricing method for GK Hotel to use. Candidate's final decision can be either for or against the statement.

Relevant points might include:

- Cost plus
- Cost plus ensures costs are covered [k] so can break even at 200 rooms per month [app]
- Other methods might increase break-even point [k] so might end up making a loss [an]
- Easy to calculate [k] so can work out their profit margin [an]
- Cost plus might be uncompetitive [k] as price set too high [an]
- Competitive pricing [k] so able to respond to increased competition [app]
- Promotional pricing [k] can help attract new customers [an] so able to gain different market segments [app]
- Depends on objectives of business [k]
- Level of competition / state of market [k]
- How important price is for customers [k]

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Application marks may be awarded for appropriate use of the following: small, use of data, website, rooms, bookings/ reservations, increased competition, city centre, different market segment.

Do not accept Hotel as application as it is stated in the question

2 (a) Identify two ways to measure the size of a business (other than number of employees). [2]

Knowledge [2x1] 1 mark per way

Points could include:

- Sales value OR value of output OR revenue
- Capital employed
- Value of balance sheet
- Market share

Do not accept profit/number of assets or machines or capital or outlets/amount of output

(b) Identify two characteristics of a successful entrepreneur. [2]

Knowledge [2 × 1] – award 1 mark for each relevant characteristic

Points could include:

risk taker, innovator, creative, self-confident, optimistic, hardworking, independent, effective communicator, leadership, initiative, self-motivating /determined, results driven, good at networking, multi-skilled

Accept any reasonable answer.

(c) Identify and explain two advantages to Camille of employing part- time workers. [4]

Knowledge [2 × 1] – award 1 mark for each relevant advantage [max 2]
Application [2 × 1] – award 1 mark for each relevant explanation in context of this business

Relevant points might include:

- More flexible [k] so able to cover when one of the 5 workers not available [app]
- Help meet demand during busy times [k]
- Help extend opening hours [k] so able to remain popular [app]
- Can fit around employees other commitments [k] so might help attract new employees [app]
- Less expensive than full-time worker [k] so has money to help expand [app]
- Can add more skills / experience to business [k] so able to offer more hairstyles [app]
- Help keep experienced workers [k]

Application marks may be awarded for appropriate use of the following: hairdressers, hairdryers, haircuts or associated words, 5 part-time employees, small, successful business, wants to expand

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(d) Identify and explain two problems for Camille of using on-the-job training. [6]

Knowledge [2 × 1] – identification of relevant problem [max 2]
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:

- Trainer not as productive [k] so not able to cut as many people's hair [app] leading to less revenue [an]
- Pass on bad habits to trainee [k] which could lead to poor quality work / bad reputation [an] for the salon [app]
- Trainer might not be available [k] as work part time [app] so trainee might have nothing to do / need someone else to train them [an]
- Customers don't want trainee / unskilled person [k] to let them wash / cut their hair [app]
- How to organise training [k] with almost as many trainees as trainers [app]

Application marks may be awarded for appropriate use of the following: hairdressers, hairdryers, haircuts or associated words, 5 part-time employees, small, successful / popular business

(e) Camille thinks that her laissez-faire leadership style will have to change as her business grows. Do you agree? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s). Positive or negative points allowed or identifies an alternative leadership style [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 made as to whether Camille needs to change her management style. Candidate's final decision can be either for or against the statement.

Relevant points might include:

- New employees might need guidance [k] so poor decisions might be made [an]
- Communication can be difficult [k] as clear direction is not given [an]
- Not a large a business [k] even with 8 people [app]
- Harder to manage with more people [k] so need rules to avoid disputes [an]
- Her style might be one reason for success [k] so change might damage popularity [app]
- Has she the skills to use different approach [k]
- Workers might leave / demotivated [k] as they like the freedom that laissez-faire allows [an] so she will need to recruit more than 3 new people [app]
- Democratic style allows employees a say in what they do [k] but let Camille keep control [an]
- Autocratic style would mean telling workers what to do [k]

Application marks may be awarded for appropriate use of the following: hairdressers, hairdryers, haircuts or associated words, 5 part-time employees, 3 (more workers), small, successful /popular business

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3 (a) What is meant by 'specialisation? [2]

Clear understanding [2] e.g. way in which work is divided so each worker concentrates on a specific task so become expert at it **OR** when people and businesses concentrate on what they are best at

Some understanding [1] e.g. workers do only one job

(b) Identify two other ways (other than profit) that Bowland could use to measure its success. [2]

Application [2x1] 1 mark for each measure of success

Points could include:

- Achievement of objectives
- Growth
- Increase in market share
- (Sales) revenue
- Survival (in short run)

(c) Identify and explain two reasons why cash flow is important to Bowland. [4]

Knowledge [2 × 1] – award 1 mark for each relevant reason [max 2]
Application [2 × 1] – award 1 mark for each relevant explanation in context of this business

Relevant points might include:

- Need to pay day to day expenses such as suppliers [k] without parts production stops [app]
- If negative might be forced into liquidation [k] despite its profits going up [app]
- Helps avoid cash flow problems [k] while wait for trade receivables to be paid [app]
- A negative cash flow means the business is receiving less cash than it is spending [k]
- Help support finance requests [k] especially as cash flow is negative [app]

Application marks may be awarded for appropriate use of the following: quality, successful, new equipment, bicycles, components or suppliers, trade receivables increased

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(d) Identify and explain two ways in which Bowland could improve its cash flow. [6]

Knowledge [2 × 1] – identification of relevant way [max 2]
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:

- Arrange a **short term** loan / overdraft [k] giving them access to cash [an] so can to pay its suppliers [app]
- Ask debtors to pay quicker [k] as trade receivables increased [app] this will increase cash inflows [an]
- Delay purchases [k] could decide not to buy as much new equipment [app] so keeping cash in the business [an]
- Delay payments for inventory [k] of components [app] so they have less cash outflows [an]
- Reduce level of inventory [k]
- Sell unwanted non-current assets [k] so releasing cash tied up in the business [an]

Can accept practical examples, e.g. find cheaper supplier

Do not accept answers such as 'increase cash inflow/reduce outflow', increase sales, cutting costs, raise prices on own as too vague

Application marks may be awarded for appropriate use of the following: quality improved, successful, new equipment, bicycles, components or suppliers, trade receivables increased

(e) Bowland's management believes that improving quality has been the most important reason that sales have increased. Do you agree? Justify your answer. [6]

Knowledge [1] – award 1 mark for identification of relevant issue(s) or other factor [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 quality has been the most important reason for the increase in sales. Candidate's final decision can be either for or against the statement.

Relevant points might include:

- Quality can lead to a good reputation / brand loyalty [k] so more competitive [an] encouraging others to buy its bicycles [app]
- Can charge higher selling price [k] which might have helped increase its profits [app]
- Less mistakes [k] as make use of specialisation [app] so people trust their products [an]
- More efficient [k] as bought a lot of new equipment [app] lead to lower average costs [an] so able to charge lower prices [an]
- Other factors affect sales such as competition, changes in consumer spending patterns, prices, promotion

Application marks may be awarded for appropriate use of the following: profit up, quality improved, successful, new equipment, bicycles, specialisation

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4 (a) What is meant by an 'import quota'? [2]

Clear Understanding [2] – Quota refers to a limit on the flow of goods that are allowed into a country
Some understanding [1] e.g. affects goods coming into a country [1]

Note: although this does not properly differentiate it from a tariff it can still be accepted.
Do not reward an answer that says it affects the price [cost] coming into a country, as this is a tariff

(b) What is meant by 'inventory (stock)'? [2]

Clear Understanding [2] – the amount of raw materials, work in progress, and finished goods held by a business [1] intended for sale [+1]

Some understanding [1] e.g. products or materials owned by a business

(c) Explain how a depreciation in the value of country X's currency might affect the profits of BRZ. [4]

Knowledge [2] – award up to 2 marks for each relevant point [max 2]
Application [2] – award up to 2 marks for relevant explanation in context of this business

Relevant points might include:

- Value of the currency falls [k] so more expensive to import clothing [app] reducing level of goods available to stock [app]
- More local competition / less competitive [k] as lower profit margin for its coats [app]
- Costs will rise [k] so might have to increase his prices of waterproof goods [app]
- Profitability is likely to fall [k]

Application marks may be awarded for appropriate use of the following: clothing such as coats, waterproofs, trousers, imports

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(d) Identify and explain two opportunities that globalisation might offer BRZ. [6]

Knowledge [2 × 1] – award 1 mark for identification of each relevant opportunity [max 2]
Application [2 × 1] – award 1 mark if relevant reference made to this business
Analysis [2 × 1] – award 1 mark for each relevant explanation

Relevant points might include:

- Wider variety of goods [k] as new clothing / fabrics available [app] leading to better sales [an]
- Cheaper labour costs [k] as buy from low wage countries [app] improves profit margin [an]
- Access larger market [k] for outdoor clothing [app] so spread risk if sales fall in own country [an]
- Build reputation [k]
- Reduce legal controls [k]
- Access to better / quicker distribution networks [k] so able to obtain latest designs quicker [app]
- Quicker communications networks [k]

Application marks may be awarded for appropriate use of the following: clothing such as coats, waterproofs, trousers, designs, fabrics, imports from low wage countries

(e) Do you think it is possible for companies such as BRZ to be both ethical and profitable? Justify your answer. [6]

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 it is possible for businesses like BRZ to be both ethical and profitable

Relevant points might include:

- Ethics incurs costs [k] paying a fair price to suppliers will increase variable costs [an] so profit margin might fall [an]
- Suppliers might not pay fair wages [k] as in low wage countries [app]
- Offering to higher prices could lower sales / profit [k]
- Some customers want ethical goods [k] so might be willing to pay more [an] which offsets the higher cost [an]
- Could enhance reputation / act as free promotion [k] so appeal to potential customers [an] leading to increase in sales revenue [an]
- Some workers and investors might only want to work with / for an ethical business [k] so easier to attract / retain workers or raise capital [an]
- Less risk of legal action [k] as clothing / factory conditions likely to be safe [app] avoiding the risk of fines [an]

Application marks may be awarded for appropriate use of the following: clothing such as coats, waterproofs, trousers, imports from low wage countries, retailer

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