Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/11**

Paper 1 Short Answer/Structured Response **May/June 2016**

MARK SCHEME

Maximum Mark: 80

Published

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Question	Guidelines	Marks	Additional Guidance
1(a)	**What is meant by 'customer loyalty'?** Clear understanding [2] e.g. A customer who returns and buys multiple times. Customer keeps buying the same brand no matter what the price. Some understanding [1] e.g. Buy from you rather than the competitors, customer returns, customer keeps buying.	**2**	Brand loyalty alone [0]
1(b)	**Calculate the quantity of product Z sold in 2015.** Good application [2] 320 000 Some application [1] method e.g. 800 000 * 40%	**2**	
1(c)	**Explain the possible effect on EDGE if the prices of its products are reduced.** Knowledge [2] – identification of relevant points. Application [2] – award up to 2 marks for relevant explanation in context of EDGE. Relevant points might include: • Lower revenue [k] as demand is price inelastic [app] the additional revenue will not make up for the reduction in price of phones [app] • Could attract more customers [k] increasing sales beyond 800 000 [app] • Damage their image [k] leading to a reduction in customer loyalty [app] • Profit margin will fall [k].	**4**	Note: Candidates can identify and develop 2 points or offer an extended development of one point. Application marks may be awarded for appropriate use of the following: use of numbers, phones, price inelastic, customer/brand loyalty, competitive market, extension of product Z, product life cycle.

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Question	Guidelines	Marks	Additional Guidance
1(d)	**Identify and explain <u>two</u> advantages to EDGE of developing new products.** Knowledge [2 × 1] – award 1 mark for each relevant point identified [max 2]. Application [2 × 1] – award 1 mark if relevant reference made to EDGE's business. Analysis [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include: • Boost sales [k] as existing customers would buy a new phone [an] [app] • Increase market share [k] by attracting customers away from competitor [an] as this is a competitive market [app] • Able to increase prices [k] as new technical features [app] can lead to greater customer interest [an] • Create additional consumer interest [k] as better range/more up-to-date products available [an] • Improve E's standing/profile in market [k] as seen as able to respond to market change [an] which can help maintain consumer loyalty [app] • Spreading the risk [k] so if product Z doesn't sell [app] others can help make up the shortfall in sales [an] • Need to replace old products [k] as Z is at end of product life cycle [app] this could help business survival [an] • Keep up to date with competitors [k].	**6**	Application marks may be awarded for appropriate use of the following: relevant numbers, phones (features of a phone] price inelastic, customer loyalty, competitive market, product X, Y, Z or T, technology. Note: Advantages must clearly be to the business, not the consumer.

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Question	Guidelines	Marks	Additional Guidance
1(e)	**Explain <u>two</u> extension strategies that EDGE could use for product Z. Recommend which of the two strategies it should choose. Justify your answer.** Knowledge [1] – award 1 mark for identification of relevant strategy/point(s). Application [1] – award 1 mark if relevant reference made to EDGE's business. Analysis [2] – award up to 2 marks for relevant development of point(s). Evaluation [2] – justified decision made as to which option it should choose. Relevant points might include: • Introduce new features/new versions [k] • Look for new target markets [k] • Rebrand [k] to appeal to new market segments [an] • Re-packaging [k] • Create new uses [k].	**6**	Do not accept general marketing methods such as lower prices, **more** advertising on own. Application marks may be awarded for appropriate use of the following: use of numbers, phones, customer loyalty, competitive market, technology. Evaluation marks cannot be rewarded if only one extension strategy identified.
		[Total: 20]	

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Question	Guidelines	Marks	Additional Guidance
2(a)	**Identify <u>two</u> examples (other than farming) of business activity in the primary sector.** Knowledge [2 × 1] – award 1 mark per example. Points might include: mining, fishing, forestry, oil extraction, logging.	**2**	For 2 marks must be two distinct categories.
2(b)	**Identify <u>two</u> ways (other than its website) that Bushall could use to advertise job vacancies.** Application [2 × 1] – award 1 mark per way. Points might include: local newspaper, local radio, local TV, word-of-mouth, notices on farm gate, Job Centre/government agency, specialist magazine, social media/facebook, recruitment agency, contacting previous employees.	**2**	Must be an appropriate method for a local farm. Note: Leaflets, flyers e-mail alone = too vague as must be contextualised.
2(c)	**Identify and explain <u>two</u> possible reasons why 'Taylor's theory of motivation might not work' at Bushall.** Knowledge [2 × 1] – award 1 mark for each relevant reason. Application [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include: • Financial rewards might not motivate workers [k] because they enjoy what they do [app] • Taylor assumes workers are lazy [k] these workers want to win more awards [app] • It assumes you can measure output [k] but only have output at harvest time [app] • Non-financial factors might be more important [k] e.g. Being able to work part-time [app].	**4**	Application marks may be awarded for appropriate use of the following: team, awards, number of employees, farm (and / or associated references such as bananas, pineapples, harvest), workers enjoy the job. Part-time, full-time. Note: $8.50 not allowed.

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Question	Guidelines	Marks	Additional Guidance
2(d)	**Identify and explain <u>two</u> advantages to Bushall of having <u>part-time</u> employees.** Knowledge [2 × 1] – identification of relevant advantage [max 2]. Application [2 × 1] – award 1 mark for each way if relevant reference made to Bushall. Analysis [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include: • More flexible/easier to ask employees to work at busy times [k] such as the picking season [app] when some additional help is needed [an] • Help to attract new employees [k] because it fits around their other commitments [an], those who may not want to work full-time [app] • Lower labour costs [k] outside of harvest time [app] as there is less work [an] • Provide a wide range of skills/knowledge [k] • May be more motivated [k] and therefore have greater productivity [an] • Easier to find workers [k].	**6**	Application marks may be awarded for appropriate use of the following: team, awards, use of numbers, farm (and / or associated references such as bananas, pineapples, harvest) full-time.
2(e)	**Do you think that the new legal controls for employment will benefit Bushall's employees? Justify your answer.** Knowledge [1] – award 1 mark for identification of relevant issues. Positive or negative points allowed. Application [1] – award 1 mark if relevant reference made to Bushall's business. Analysis [2] – award up to 2 marks for relevant development of point(s). Evaluation [2] – justified decision made as to whether the new legal controls will benefit Bushall's employees. Either viewpoint acceptable. Relevant points might include: • Safer conditions [k] as might require guards on farm machinery [app] so less likely to have accidents [an] • Higher pay [k] as minimum wage increased to $8.50 per hour [app] so better able to satisfy basic needs [an] • Fewer jobs [k] so less than 10 full-time jobs [app] therefore they become unemployed [an] • Less pay [k] as restriction on hours [app] might mean cannot work as long as want [an].	**6**	Note: candidates must link points to employees, not the business. Application marks may be awarded for appropriate use of the following: enjoy what they do, team, awards, use of numbers - 10, 50, minimum wage, $8.50, farm, harvest, picking fruit, full/part-time.
		[Total: 20]	

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Question	Guidelines	Marks	Additional Guidance
3(a)	**What is meant by 'cost of sales'?** Clear understanding [2] e.g. Money spent on producing or buying in the goods sold by the business, OR variable cost of making the goods sold, OR cost per unit × number of output, OR money spent on making the products plus an example of those costs. Some understanding [1] e.g. Money spent on materials.	**2**	Variable cost on its own is too vague. The cost per unit - max. 1 mark as it shows lack of understanding of cost of sales.
3(b)	**Refer to Table 1. Calculate: X and Y** Application [2 × 1] – award 1 mark per calculation. X = 600 [600 000] Y = 120 [120 000]	**2**	
3(c)	**Identify and explain <u>two</u> possible reasons why profit is important for this business.** Knowledge [2 × 1] – award 1 mark for each relevant reason [max 2]. Application [2 × 1] – award 1 mark for each relevant explanation. Relevant points might include: • Retained profit [k] which could be used to finance the change to flow production [app] • Measure of performance [k] to see if the $120 000 profit is higher than last year [app] • Source of finance [k] • To attract/keep investors [k] as the business plans to expand [app].	**4**	Application marks may be awarded for appropriate use of the following: flow, expansion, use of numbers, factory, soft drinks. Note: do not accept Survival as this is covering costs.

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Question	Guidelines	Marks	Additional Guidance
3(d)	**Identify and explain <u>two</u> advantages to this business of using just-in-time inventory control.** Knowledge [2 × 1] – identification of relevant advantage [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: • Less inventory held [k] so less chance of wastage [an] as drinks could go out of date [app] • Lower costs [k] as don't have to spend as much on insurance [an] which will help reduce expenses [app] • Less warehouse space [k] so have more space available [an] so have room to introduce flow production process [app] • Improve working capital [k] as less money tied up in inventory [an] which can help improve gross profit [app] • Improve cash flow [k] • Increased motivation [k] as the idea came from one of the employees [app] and therefore productivity could improve [an] • Improved quality [k] as ingredients are fresher [app] so increase in sales [an].	**6**	Application marks may be awarded for appropriate use of the following: flow production, expansion, use of numbers, reduce expenses, drinks, small factory, ingredients.

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Question	Guidelines	Marks	Additional Guidance
3(e)	**Do you think this business should change to flow production? Justify your answer.** Knowledge [1] – award 1 mark for identification of relevant points about batch or flow production. Positive or negative points allowed. 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 the business should change to flow production. Either viewpoint is acceptable. Relevant points might include: • Depends on level of demand/size of market [k] • Economies of scale [k] • Workers might become demotivated [k] as work is more repetitive than batch [app] so they become less productive [an] • Cost of investment [k] as only a small business [app] do they have the necessary finance [an]? • Inflexible [k] as make a range of flavours [app] so might not be able to easily switch to meet demand [an] • Workers may fear redundancy [k] as machines replace them [an] so less than 40 employees needed [app].	**6**	Application marks may be awarded for appropriate use of the following: small factory, soft drinks, just-in-time, 40 employees, use of numbers, batch. Note: Do not credit 'work 24/7' as this could apply to any mechanised process.
		[Total: 20]	

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Question	Guidelines	Marks	Additional Guidance
4(a)	**What is meant by a 'sole trader'?** Clear understanding [2] e.g. ownership of business in the hands of one individual/person. Some understanding [1] e.g. run/operated by one person.	**2**	Do not accept 'features'.
4(b)	**Identify <u>two</u> possible features which show that the economy is growing.** Knowledge [2 × 1] – award 1 mark per feature. Points might include: rise in GDP, falling unemployment, shortage of skilled workers, higher living standards, business profits rising/business growing, increased spending/demand, rising investment.	**2**	
4(c)	**Identify and explain <u>two</u> ways in which an increase in interest rates might affect Nuwan's business.** Knowledge [2] [2 × 1] – award 1 mark per relevant point. Application [2] [2 × 1] – award 1 mark per explanation in context. Relevant points might include: • Increases cost of borrowing [k] so harder to improve profit margins [app] • Increasing expenses [k] so might have to reduce amount he has available to spend on training [app] • Less spending by customers [k] so lower sales especially as sports goods not necessities [app] • Employees want pay rise [k] so not able to reduce his costs [app] • Business less likely to expand [k] • May have to increase prices [k].	**4**	Application marks may be awarded for appropriate use of the following: training, profit margins, sports goods such as tennis and cricket, specialist, small, sole trader.

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Question	Guidelines	Marks	Additional Guidance
4(d)	**Identify and explain <u>two</u> advantages that Nuwan's business might have compared to large retailers.** Knowledge [2 × 1] – award 1 mark for each relevant advantage identified [max 2]. Application [2 × 1] – award 1 mark if relevant reference made to Nuwan's business. Analysis [2 × 1] – award 1 mark for each relevant explanation. Reasons might include: • Better service [k] – all employees are trained [app] so able to maintain customer loyalty [an] • Flexible [k] – able to react quickly to changes in customer requirements [an] if customers want a different cricket product [app] • Leaner management [k]. Nuwan only has his 3 employees to inform/ask [app] so able to make decisions quicker [an] • More control [k] as he owns the business [app] • Better communication [k] • Specialised knowledge [k] as a sports shop [app] so will attract more customers [an].	6	Application marks may be awarded for appropriate use of the following: training, profit margins, sports goods such as tennis and cricket, specialist sports shop, small, 3 employees, sole trader.
4(e)	**Do you think that the best way for Nuwan to improve profit margins is to reduce costs? Justify your answer.** Knowledge [1] – award 1 mark for identification of relevant knowledge [max 1]. Application [1] – award 1 mark if relevant reference made to Nuwan's business. Analysis [2] – award up to 2 marks for relevant development of point. Evaluation [2] – justified decision made as to whether the best way to improve profit margins is to reduce costs. Relevant points might include: • Lower costs could mean poorer quality goods [k] so customers might look elsewhere for sports goods [app] • Higher prices [k] could make them less competitive [an] so customers buy tennis goods elsewhere [app] leading to fewer products sold [an] so overall profit margin would rise but overall total profit might be lower [eval] • Higher prices could help image of high quality [k] customers might be willing to pay more for specialist goods / good customer service [app] • Lower costs could mean a reduced wide range [app] of inventory [k].	6	Application marks may be awarded for appropriate use of the following: wide range, small business, specialist shop, 3 employees, good service, training, sports goods such as tennis and cricket. Candidates can be awarded 3 marks max. [k, app, and an] for relevant explanations of profit, rather than profit margin.
		[Total: 20]	

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