Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/13**

Paper 1 Short Answer/Structured Response **May/June 2017**

MARK SCHEME

Maximum Mark: 80

Published

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Question	Answer	Marks	Guidance
1(a)	**What is meant by a 'trade union'?** Clear knowledge [2]: group of workers who join together to ensure their interests are protected OR organisation represents the workers **and** fight for improvements to pay and conditions [2]. Some knowledge [1] – e.g. Group of workers who join together OR fight for workers' rights.	**2**	**Do not award** 'it is a pressure group' on its own as this does not explain the term.
1(b)	**Identify <u>two</u> possible reasons (other than reduced demand for steel) that could make it necessary to downsize the workforce.** Knowledge [2×1]: award 1 mark for each reason identified Points might include: • Economic crisis • Factory OR shop OR office closure • Merger or takeover, • Need to reduce costs • Changes in management OR strategy • Automation or replaced by machinery • Excess workforce • Relocation	**2**	**Do not award** reduced demand as excluded by question.

Question	Answer	Marks	Guidance
1(c)	**Identify and explain <u>two</u> opportunities for CFE of globalization** Knowledge [2×1]: award 1 mark for each opportunity identified Application [2×1]: award 1 mark for each explanation in context Points might include: • Lower variable costs [k] as access to cheaper iron ore [app] • Access larger market [k] as 40% exported [app] • Build reputation [k] for its steel [app] • Easier to find suitable workers [k] as need to be skilled [app] • Access better or quicker distribution networks [k] to other ship yards [app] • Share ideas OR skills OR technologies between countries [k] • Benefit from reduced legal controls [k] • Quicker communications networks [k] • Able to spread risk [k] as recession in some economies [app] • Easier to import materials needed [k]	**4**	Application marks may be awarded for appropriate use of the following: Shipbuilding or related words such as shipyards, High quality, Steel or related words such as iron ore, Correct use of numbers e.g. 40% exported; 1200 or 2100 Skilled employees, Reduced demand, Recession in some economies, Reduce costs, Trade unions, Equipment old and often breaks down.
1(d)	**Identify <u>two</u> external stakeholder groups. Explain how each group might be affected by CFE's decision to downsize the workforce.** Knowledge [2×1]: award 1 mark for each relevant way identified Application [2×1]: award 1 mark for each relevant reference made to CFE Analysis [2×1]: award 1 mark for each relevant explanation Points might include: • Government [k] as 1200 jobs lost [app] may receive less in taxes OR have to pay out more support payments [an] • Suppliers [k] lose steel orders [app] reducing their revenue [an] • Local community [k] as employs 2100 [app] could lower demand in shops if workers have less or no money [an] • Bank OR lenders [k] as business may not be able to meet any loan repayments or interest due [an] • Customers [k] as may not be able to buy all the product it needs [an]	**6**	**Do not award** internal stakeholders such as owners or shareholders, employees (workers or managers) as this does not answer the question. Application marks may be awarded for appropriate use of the following: Shipbuilding or related words such as shipyards, High quality, Steel or related words such as iron ore, Correct use of numbers e.g. 40% exported; 1200 or 2100 Skilled employees, Reduced demand, Recession in some economies, Reduce costs, Trade unions, Equipment old and often breaks down

Question	Answer	Marks	Guidance
1(e)	**Do you think that reducing the number of employees is the best way for CFE to reduce costs? Justify your answer.** Knowledge [1]: award 1 mark for identification of relevant point(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]: justified decision made as to whether reducing the number of employees is the best way for CFE to reduce its costs Points might include: • Less workers needed [k] as reduced demand [app] • Change may only be temporary [k] so if demand increase can they replace workers [an] as skilled [app] • Costs of redundancy [k] • Save labour costs [k] • Damage to reputation [k] caused by possible action by trade union [app] • Negative impact on motivation of other workers [k] leading to more mistakes [an] Other options to reduce costs may include: • Relocate [k] 40% exported [app] may lower rent [an] • Update equipment [k] so less likely to breakdown [app] reducing maintenance costs [an] • Buy cheaper raw materials [k] but this may reduce quality [an]	**6**	Application marks may be awarded for appropriate use of the following: Shipbuilding or related words such as shipyards, High quality, Steel or related words such as iron ore, Correct use of numbers e.g. 40% exported; 1200 or 2100 Skilled employees, Reduced demand, Recession in some economies, Reduce costs, Trade unions, Equipment old and often breaks down **Note:** candidates can discuss alternative ways to reduce costs. However evaluation must address whether reducing employees is the best way.

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Question	Answer	Marks	Guidance
2(a)	**What is meant by brand?** Clear understanding [2]: (unique) name, feature or design / logo or image of a product or business [1] that distinguishes it from other products or businesses OR makes it unique [1] OR unique or special name by which a product or business is known Some understanding [1]: e.g. name by which a product or business is recognised OR known [1]	**2**	**Do not award** examples as this does not explain the term
2(b)	**Identify <u>two</u> methods of pricing PCB could use for its mobile phones.** Application [2×1] award 1 mark for each method Points might include: • Competitive pricing • Cost plus pricing • Penetration pricing • Price skimming • Promotional pricing	**2**	

Question	Answer	Marks	Guidance
2(c)	**Identify and explain <u>two</u> advantages to PCB of increasing the range of products it sells.** Knowledge [2×1]: award 1 mark for each advantage identified Application [2×1]: award 1 mark for each explanation in context Points might include: • Spread risk [k] as sales do not rely on its phone [app] • Increase customers OR widen customer base OR increase market share [k] as it is a fast growing market [app] • Able to increase prices [k] as it's a luxury product [app] • Increase brand loyalty OR increase attraction of business to existing customers [k] as may want headphones [app] • Improve PCB's brand image OR reputation [k] as offer more luxury products [app] • Need to replace products in decline (stage of life cycle) [k] as operate in a competitive market [app]	**4**	Application marks may be awarded for appropriate use of the following: Mobile phone, Headphones, Luxury, Competitive market, Fast-growing market, Correct use of data from table 1, (Well known) brand.

Question	Answer	Marks	Guidance
2(d)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to PCB of issuing new shares as a source of finance.** Knowledge [2 × 1]: award one mark for each relevant way 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 Points might include: Advantages: • Access to greater amounts of capital [k] as no restriction on shareholder numbers [an] to help raise $15m/ $45m [app] • No interest OR finance costs to pay [k] so fixed costs do not increase [an] so can invest in headphones [app] • Permanent source of capital [k] so no need to repay [an] • Avoid increasing debt [k] Disadvantages: • Possible loss of control OR risk of takeover [k] as public limited company [app] making it difficult to manage or take decisions [an] • Shareholders might expect dividends [k] • Cost OR time to arrange [k] so not able to focus on other issues [an] such as the new headphones [app] • Dividend paid after tax whereas interest paid before tax deducted [k]	**6**	Application marks may be awarded for appropriate use of the following: Public limited company, References to stock exchange [app] , Correct use of numbers e.g. $15–20m, $45m, Correct use of data from Table 1 Takeover, Headphones, Mobile phones (Well known) brand, Luxury, Want to increase product range.

Question	Answer	Marks	Guidance
2(e)	**Recommend which option for increasing the product range the directors should choose. Justify your answer using the information in Table 1.** Knowledge [1]: award 1 mark for identification of relevant point (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]: justified decision made as to which option the directors should choose. Points might include: • Cost of Option 1 is lower [k] by $30m OR $33m [app+an] so do not have to raise as much money [an] • Longer development time [k] • Need to recruit a suitable person [k] as experienced designer [app] which will increase recruitment costs [an] Option 2 • Can reach market quicker [k] as demand is growing fast [app] so customers do not buy from other businesses OR before tastes change [an] • Brings in expertise OR ideas [k] • Possible clash of management styles [k] as have different leadership style [app] • Have access to its customers [k] who you may be able to sell phones [app] further increasing sales [an]	**6**	Application marks may be awarded for appropriate use of the following: Public limited company, References to stock exchange [app] , Correct use of numbers e.g. $15–20m, $45m, Correct use of data from Table 1 Takeover, Headphones, Mobile phones (Well known) brand, Luxury, Want to increase product range. **Note:** For evaluation candidates can select either option is possible if supported by points made.

Question	Answer	Marks	Guidance
3(a)	**What is meant by an 'overdraft'?** Clear understanding [2]: e.g. loan repayable within 12 months [2] Some understanding: [1] e.g. identifies a relevant feature such as short term source of finance	**2**	Do not award explanation of bank loan as this is not a short term option
3(b)	**Calculate the following values:** **X and Y** Application [2×1] award 1 mark for each correct answer. Closing balance: X: (20); Net cash flow: Y: 0 or zero	**2**	
3(c)	**Identify and explain <u>two</u> ways in which legal controls on marketing might affect C&P.** Knowledge [2×1]: award 1 mark for each way identified Application [2×1]: award 1 mark for each explanation in context Points might include: • Cannot make false claims about what the product will do OR must avoid misleading adverts OR Advertising claims might have to change to ensure compliance [k] • Contents OR product must be described accurately [k] so would need to be handmade • Products must be safe to use OR must offer to repair or replace faulty goods [k] e.g. if bracelet broken [app] • May have to change how products made [k] • Mistakes could lead to fines OR damage reputation [k]	**4**	Application marks may be awarded for appropriate use of the following: Jewellery and related words such as necklaces and bracelets, Metals, Correct use of data from table 2, Pay for materials when ordered, Phoebe works from home, Cory manages the accounts and shop, Business partnership.

Question	Answer	Marks	Guidance
3(d)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to Cory and Phoebe of being in a business partnership.** Knowledge [2 × 1]: award one mark for a relevant advantage and disadvantage 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 Points might include: Advantage: • More ideas [k] which could make business more competitive [an] • More capital (than sole trader) [k] which may help solve cash flow problems [app] so less need to borrow money [an] • Share responsibilities OR workload OR Specialisation OR more skills [k] so have time to focus on what they are good at [an] as Corey focuses on finance [app] • Share risk OR losses [k] Disadvantage: • Different objectives [k] such as Phoebe wants to keep current supplier [app] leading to disagreements [an] • Have unlimited liability [k] Phoebe could lose her home [app] as personal belongings at risk if business fails [an] • Have to share profits [k] so each person makes less than if it's a sole trader [an] • Do not have separate legal identify [k] • Slow decision making OR risk of disagreements [k] as takes times to resolve differences [an]	**6**	Application marks may be awarded for appropriate use of the following: Jewellery and related words such as necklaces and bracelets, Metals, Correct use of data from table 2, Pay for materials when ordered, Phoebe works from home, Cory manages the accounts and shop, Business partnership.

Question	Answer	Marks	Guidance
3(e)	**Cory thinks asking customers to pay more quickly is the best way to improve cash flow. Do you agree? Justify your answer.** Knowledge [1]: award 1 mark for identification of relevant point (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]: justified decision made as to whether asking customers to pay more quickly is the best way to improve cash flow. Points might include: • Asking to pay quicker would make cash available sooner or right away [k] • Could lead to reduced demand OR customers become dissatisfied [k] so cash inflows reduced [an] Other options include: • Buy cheaper materials [k] which would reduce cash outflow [an] buy may lower demand as customers think it is poorer quality [an] • Reduce level of inventory ordered [k] as represents half its outflows [app] • Could ask suppliers to change payment terms [k] as have to pay in full [app] allows more time to generate cash [an] • Change supplier [k] but might give same OR worse terms [an] so cannot get materials to make jewellery [app] • Sell unwanted non current assets [k]	**6**	Application marks may be awarded for appropriate use of the following: Jewellery and related words such as necklaces and bracelets, Metals, or related words such as gemstones, Correct use of data from table 2, Pay for materials when ordered, Phoebe works from home, Cory manages the accounts and shop, Business partnership, Legal controls on marketing, Advertising to increase sales **Can award** discussion of other ways to improve cash flow e.g. reduce fixed costs [k] such as shop rent [app]. **Do not award** increase overdraft as this option is not available to them based on stem. **Do not award** methods such as increase sales, lower costs or raise prices as too vague. **Note:** For evaluation must focus on whether asking customer to pay quicker is the best way or not.

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Question	Answer	Marks	Guidance
4(a)	**What is meant by the 'business cycle'?** Clear understanding [2]: fluctuations in economic activity that an economy experiences [1] over a period of time OR changes in level of economic growth over time Some understanding [1]: shows changes in GDP	**2**	**Do not award** answers which refer to an individual business or confuse the business cycle with the product life cycle.
4(b)	**Identify <u>two</u> advantages of flow production** Knowledge [2 × 1] award 1 mark per advantage Points might include: • Large volumes or increased output • Economies of scale • Low average costs • Quicker production • 24-hour OR continuous production • Allows greater use of unskilled labour • Allows for specialisation • Allows for capital intensive production	**2**	

Question	Answer	Marks	Guidance
4(c)	**Identify and explain <u>two</u> advantages to TUKAN of introducing non-financial methods.** Knowledge [2×1]: award 1 mark for each advantage identified Application [2×1]: award 1 mark for each explanation in context Points might include: • Some options cost little OR no money [k] so less need to pay good wages [app] • Improve motivation [k] when using flow production [app] • Help retention [k] so lower percentage want to leave each year [app] • New ideas [k] as workers may suggest ways to improve efficiency [app] • Can lead to more flexible work force [k]	**4**	**Do not award** examples or methods of non-financial methods of reward, as this does not answer the question. Application marks may be awarded for appropriate use of the following: High percentage leave each year, Flow production, Good wages, Lean production, Plan to recruit new Operations manager, Economy at growth stage (of business cycle), Revenue increased by 25%, Profit did not increase, Looking for ideas as need to improve efficiency, No involvement in decision making, Soft drinks
4(d)	**Identify and explain <u>two</u> possible lean production methods that TUKAN might use to improve efficiency** Knowledge [2 × 1]: award one mark for each relevant method 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 Points might include: • Kaizen or continuous improvement [k] as mistakes OR errors would be eliminated [an] • Just–in-time inventory control [k] which would reduce storage costs [an] • Reorganise the factory layout [k] so saving time moving between places [an] • Cell production/ team working [k] • Kanban [k] • Time based management [k] • Waste reduction [k]	**6**	Application marks may be awarded for appropriate use of the following: do not give non-financial methods, High percentage leave each year, Flow production, Good wages, Lean production, Plan to recruit new Operations manager, Economy at growth stage (of business cycle), Revenue increased by 25%, Profit did not increase, Looking for ideas as need to improve efficiency, No involvement in decision making, Soft drinks

Question	Answer	Marks	Guidance
4(e)	**Do you think it is better for TUKAN to use internal or external recruitment for the new manager? Justify your answer.** Knowledge [1]: award 1 mark for identification of relevant point (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] – justified decision made as to whether TUKAN should use internal or external recruitment for the new manager. Points might include: • Wider pool of candidates [k] can help attract right person [an] • Bring in new ideas [k] as need to improve efficiency [app] • Increased recruitment costs [k] which will increase expenses [an] when profit has not increased [app] • New person has no knowledge of business [k] so will need to spend time or money while get to know things [an] • Are suitable candidates available [k] if many people leave each year [app] Internal • Act as incentive OR motivation for employees [k] which could increase efficiency [app] • People know the business [k] so can start work quicker [an] • Company knows the people [k] • Generate stability and experience [k] so reducing labour turnover [app]	**6**	Application marks may be awarded for appropriate use of the following: High percentage leave each year, Flow production, Good wages, Lean production, Operations (manager), Economy at growth stage (of business cycle), Revenue increased by 25% Profit did not increase, Looking for ideas as need to improve efficiency, No involvement in decision making, Soft drinks