Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/12**

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

Cambridge International will not enter into discussions about these mark schemes.

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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).

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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	Guidance
1(a)	**What is meant by 'social enterprise'?** Clear understanding [2]: e.g. business with both social objectives as well as aim to make a profit OR organisation whose **primary / main** objective is social (and any profit made is reinvested) [2] Some understanding [1] e.g. not all about profit OR profit is not only objective OR an organisation which has social objectives [1] OR business that aims to help / benefit society [1]	**2**	**Do not award** examples e.g. provide jobs to unemployed **Do not award** not for profit or non-profit business
1(b)	**What is meant by 'fixed costs'?** Clear understanding [2] e.g. costs that do not change with output / sales / level of activity OR Costs which have to be paid whether produce any products or not [2] Some understanding [1] e.g. costs that stay the same OR costs that do not change [1]	**2**	Note: Must link answer to idea of level of sales OR output / activity to gain both marks. **Do not award** alternative words such as overheads or examples of fixed costs

Question	Answer	Marks	Guidance
1(c)	**Calculate PLK's weekly profit.** Good application [4] = **$700** Some application: inaccurate or partial answers (i) **<u>Total revenue method: TR-TC</u>** Total revenue: 3 × 1000 = 3000 [1] Total cost = 2300 [2] OR 2 × 1000 = 2000 [1] + FC 300 = 2300 [1] 3000 – 2300 =700 [4] (ii) **OR <u>Contribution method: (total) contribution – fixed costs</u>** Contribution: (3–2 =) 1 [1] 1 × 1000 [1] = 1000 [+1] Profit = 1000 – 300 = 700 [4]	**4**	Correct answer with no calculations can gain 4 marks. $ sign not needed. Note: where there is no other valid calculation the formula can be awarded max. 1 E.g. Total revenue – total cost) OR (total) contribution – fixed cost. **Do not award** 1000 on its own if no working is shown

Question	Answer	Marks	Guidance
1(d)	**Identify and explain <u>two</u> methods of promotion PLK might use to increase sales.** Knowledge [2 × 1] Award 1 mark for each relevant method Application [2 × 1] Award 1 mark for each relevant reference made to this business Analysis [2 × 1] Award 1 mark for each relevant explanation (to show how it would work or why it might be used) Relevant points might include: • Free samples [k] at sports events [app] as by allowing people to try it encourages them to buy it [an] • Use loyalty cards / schemes [k] to encourage customers to return many times [an] for meals [app] • Advertising or examples such as (local) paper OR radio OR television OR leaflets OR social media (allow only once) [k] to raise awareness / inform / attract potential customers [an] about this social enterprise [app] • Sponsorship OR public relations [k] which can help increase its brand image / reputation [an] • Competitions [k] • Free gifts [k] • Use of specific price promotions such as BOGOF, money off coupons or short-term discounts (allow only once) [k] as people able to <u>afford</u> it / willing to buy as its <u>cheaper</u> [an]	**6**	Application marks may be awarded for appropriate use of the following: • social enterprise • chefs or cooks or kitchen • meals or food • local markets or sports events • correct use of data from Table 1 **Do not award** answers which simply say 'cut / reduce prices' or 'discounts' or sales promotion' on own as this is too vague **Do not award** answers such as above or below the line as this is too vague

Question	Answer	Marks	Guidance
1(e)	**Do you agree with PLK's manager that to increase profit it is better to raise prices rather than use cheaper ingredients? Justify your answer.** Knowledge [1] Award max. 1 mark for identification of relevant issue(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 PLK should increase its prices or use cheaper ingredients. Points might include: Raise prices • could lead to fewer customers (as cannot afford it) [k] resulting in lower revenue [an] of food [app] • lower break-even point [k] so need to sell less to cover costs [an] • People could be willing to pay higher price as they think it's for a good cause [k] as it's a social enterprise [app] • Higher price may suggest better quality [k] Cheaper ingredients • will lower the variable cost [k] which will lower total costs / improve profit margin [an] • could lower quality [k] damaging reputation [an] leading to fewer sales [an]	**6**	Application marks may be awarded for appropriate use of the following: • social enterprise • chefs or cooks or kitchen • food or meals • local markets or sports events • correct use of data from Table 1 Note: the social objective for this business to offer training to young people. It is not about providing cheap food to customers. **Do not award** answers which simply state that 'lower / higher quality' would lead to fewer / more sales as needs impact on brand image / reputation which then causes the impact on sales. **Do not award** cheaper materials might not taste as good / taste bad

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Question	Answer	Marks	Guidance
1(e)	Other factors can be also discussed such as: • whether demand is price elastic or inelastic [k] as if meals are price elastic then an increase in price should lead to lower revenue [an] • Level of competition [k]		

Question	Answer	Marks	Guidance
2(a)	**What is meant by 'mass market'?** Clear understanding [2]: e.g. selling the same product to the whole market (everyone) Some understanding [1] e.g. Selling to the whole market OR sell to everyone OR lots of customers OR lots of sales OR lots of buyers	**2**	**Do not award** answers that define other terms such as market share, target market or mass production **Do not award** answers which simply offer alternative words for mass e.g. big or large or larger market **Do not award**: Lots of sellers, lots of competitors, lots of products
2(b)	**What is meant by 'job enrichment'?** Clear understanding [2]: (Involves looking at jobs and) adding tasks that require higher skill or more responsibility Making work more challenging [1] by giving extra tasks [1] Some understanding [1]: Making work more challenging / difficult OR giving workers more responsibility	**2**	**Do not award** answers such as 'to improve motivation' or 'to show full abilities' as this only explains why it is done rather than what it is **Do not award** answers which confuse the term with job rotation. Answers such as 'give more jobs / tasks to do' (on own) are too vague **Do not award** examples

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Question	Answer	Marks	Guidance
2(c)	**Identify and explain <u>two</u> ways in which employees at JNK could be affected by the introduction of new technology.** Knowledge [2 × 1] Award 1 mark for each way identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: • Need for re-training OR fear of change OR opportunity to learn new skills [k] when making pottery [app] • Possible redundancy / loss of jobs / job insecurity [k] for some of the 30 employees [app] • May receive higher pay [k] • Safer working conditions [k] as replace old machines [app] • Higher / lower motivation [1] as may create more / less opportunities for job enrichment [app]	**4**	Application marks may be awarded for appropriate use of the following: • 30 (employees) • Unskilled • pottery OR bowls OR plates • batch production • quality control • minimum wage • job enrichment • old machines **Do not award** answers which focus on the impact on the business e.g. do not credit higher output, cost of equipment, more / less efficient **Do not award** 'deskilling' as knowledge because scenario states workers are unskilled **Do not award** answers such as 'work easier', less workload as too vague.

Question	Answer	Marks	Guidance
2(d)	**Identify and explain <u>two</u> ways (other than new technology) that JNK could use to increase output.** Knowledge [2 × 1] Award 1 mark for each relevant way 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: • Training [k] so likely to make fewer mistakes OR able to work quicker / increase productivity [an] when making plates [app] • Employ more workers or workers do longer hours [k] by recruiting more than 30 [app] will allow increased output with the same number of machines [an] • Recruit / employ specialist or skilled workers [k] as current workers are unskilled [app] • Change production method to flow production [k] from batch production [app] allowing continuous production [an] • Improve layout / design of factory [k] so less time is wasted moving semi-finished goods around [an] • Take over another company or expand current site [k] so will have additional capacity [an] to meet increased demand [app] • Examples of methods of financial / non-financial motivation (allow once) e.g. introduce piece rate OR bonuses OR job rotation OR fringe benefits [k]	**6**	Application marks may be awarded for appropriate use of the following: • 30 employees • Unskilled • pottery or plates or bowls • batch production • quality control • minimum wage • job enrichment • old machines • mass market • increased demand **Do not award** job enrichment as [k] **Do not award** lean production or examples such as Just-in-time, kaizen

Question	Answer	Marks	Guidance
2(e)	**Do you think JNK should become more ethical? Justify your answer.** Knowledge [1] Award max. 1 mark for identification of relevant issue(s) Application [1] Award max. 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 JNK should become more ethical Points might include: • Customers may boycott the business [k] leading to lower brand image / reputation [an] which may decrease market share [an] • Many customers want to support ethical businesses [k] so may be willing to pay higher prices [an] for its pottery [app] leading to higher revenue [an] • Help employee recruitment / retention [k] of 30 employees [app] so saving cost of recruitment [an] • Opportunity for new sources of finance [k] would allow increased capital from ethical investors [an] who do not want to be linked with businesses using child labour [app] • Ethical suppliers are likely to charge more [k] leading to higher variable costs [an] as not able to use low cost materials [app] • Could lose sales to competitor [k] • Materials purchased from unethical sources may be cheaper [k] • May not be able to find suitable (ethical) suppliers [k] • Shareholders OR owners may want higher profit [k]	**6**	Application marks may be awarded for appropriate use of the following: • 30 employees • Unskilled • pottery or plates or bowls • child labour • low cost materials • mass market • increase in demand • Competitors have introduced an ethical policy **Do not award** answers which refer to legal / quality issues as this does not answer the question.

Question	Answer	Marks	Guidance
3(a)	**What is meant by 'Gross Domestic Product'?** Clear understanding [2]: the total **value** of output of goods and services in a country (in one year OR at a given point in time) Some understanding [1]: e.g. Output of a country OR amount of goods / services produced by a country [1]	**2**	**Do not award** answers which explain why it is used as this does not answer question e.g. Shows whether economy growing
3(b)	**Identify <u>two</u> possible effects on businesses from falling Gross Domestic Product.** Knowledge [2 × 1] award 1 mark for each effect Points might include: • Lower demand / sales • Easier to recruit employees / may need to make workers redundant • More difficult to raise prices / may need to reduce prices • Less likely to invest / expand • Lower profits • Spare capacity increases • Reduce levels of inventory / stock / less output	**2**	Note: effect has to be on business, **not** other stakeholders such as customers or employees **Do not award** answers such as: • Lower market share • Inflation / higher taxes • Fewer grants • High unemployment

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Question	Answer	Marks	Guidance
3(c)	**Identify and explain <u>two</u> reasons why REW's objectives might change over time.** Knowledge [2 × 1] Award 1 mark for each reason identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: • Change in economic conditions e.g. decrease in interest rates / decrease in taxes / decrease in employment [k] as the country is seeing GDP falling [app] • Previous objectives met / business has become established [k] • Change in competition / market / demand e.g. decrease in demand [k] for carpets [app] OR Competitors enter market [k] so survival becomes main objective again [app] • Change in board of directors / ownership OR changing demands of stakeholders [k] • Change in profit / business costs e.g. decrease in profit [k]	**4**	Application marks may be awarded for appropriate use of the following: • award winning • carpets or rugs • wool or local suppliers • survival (is main objective) / survive • GDP falling / recession • correct use of data from Table 2 • selling in other countries • market research suggests high demand **Do not award** examples of new objectives Examiners note: candidates must state there is a change or identify the direction of change for [k]

Question	Answer	Marks	Guidance
3(d)	**Identify and explain the effect on REW of the changes in the following ratios.** Knowledge [2 × 1] Award 1 mark for each relevant change 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: Acid test • **decreased / fallen** [k] by 0.2 or 0.1 [app] Analysis could be awarded for: • so may need to reduce creditors / trade payables [an] • improve cash by selling more products / sell unwanted OR non-current assets [an] • may have problems paying its short-term liabilities OR may have less liquidity OR may have less cash [an] • may make it harder to obtain finance [an] • suppliers may be less willing to provide goods (on credit) [an] Profit margin • **decreased / fallen** [k] by 4% [app] Analysis could be awarded for: • need to look for ways to increase added value [an] • may look for ways to lower costs [an] • may increase prices [an] • may need to sell more products to maintain current level of profit [an]	**6**	Application marks may be awarded for appropriate use of the following: • 4% or from 20% or to 16% • 0.2 or 0.1 or from 1.2:1 or to 1:1 • award winning • carpets or rugs • wool or local suppliers • survival (is main objective) / survive • Selling in other countries • Market research suggests higher demand For Acid Test Ratio accept 0.1 or 0.2 because of the layout of Table 2 **Note: Decrease/fallen is the only possible [k] point. Without this [k] no further marks can be awarded** **Do not award** reasons for the decrease as knowledge or analysis as this does not answer the question **Do not award** answers which say profit has decreased as [k] or [an] as question is about profit margin

Question	Answer	Marks	Guidance
3(e)	**Do you think REW should start selling its products in other countries? Justify your answer.** Knowledge [1] Award max. 1 mark for identification of relevant issue(s) Application [1] Award max. 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 REW should start selling its products in other countries. Points might include: • Access to more markets OR more (potential) customers [1] leading to higher revenue [an] • Spread risk [k] as GDP in own country falling [app] and sales elsewhere could make up for the shortfall in demand [an] • Greater recognition OR brand awareness [k] for its award winning products [app] • Existing competition [k] could make it difficult to achieve high sales [an] even though market research suggests high demand [app] • Lack knowledge of local markets and tastes [k] about rugs [app] so might need to spend money changing products [an] • Language barriers [k] • Exchange rates problems [k] • Tariffs [k] which could increase prices [an] • Quotas [k] which restricts the amount of products the business is able to sell [an] which may make it harder to meet customer demands [an] • Transport problems OR distribution problems [k] increases expenses / cash outflow [an]	**6**	Application marks may be awarded for appropriate use of the following: • correct use of data from Table 2 • award winning • carpets or rugs • wool • survival (is main objective) / survive • GDP falling / recession • Market research suggests high demand **Do not award** answers which focus on production e.g. access to raw materials / labour

Question	Answer	Marks	Guidance
4(a)	**What is meant by 'autocratic leadership style'?** Clear understanding [2]: where the manager expects to be in charge / control of the business and to have their orders followed Managers takes decisions without consulting employees [2] Some understanding [1]: e.g. Manager takes / make all decisions Or employees have no say in decisions	**2**	**Do not award** answers which refer to owners
4(b)	**Identify <u>two</u> possible sources of finance George could use.** Application [2 × 1] award 1 mark for each source Points might include: • own savings • bank loan OR overdraft • government grants • micro-finance • borrow from friends and family • trade credit • lease / hire purchase	**2**	Examiners note: only award the first two responses given **Do not award** retained profits as this is a new business. **Do not award** debentures or sell shares as these are not appropriate Accept suitable sources for either start-up or working capital (as question does not specify purpose) Note: Crowdfunding can be accepted

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Question	Answer	Marks	Guidance
4(c)	**Identify and explain <u>two</u> reasons why building good customer relationships might be important to the success of George's business.** Knowledge [2 × 1] Award 1 mark for each reason identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: • Increase sales [k] of its flowers [app] • Increase retention / customer loyalty [k] so customers keep returning to his shop [app] • Help build reputation / act as free advertising / recommendations [k] for this new business [app] • Opportunity for feedback / help identify customer needs [k] • Provide a competitive advantage [k] so can compete against the franchise [app]	**4**	Application marks may be awarded for appropriate use of the following: • Start-up or new / own business • flowers • (small) shop or store or florist • Franchise • $5000 • 10 years **Do not** award ways to build customer relationships as this does not answer the question.

Question	Answer	Marks	Guidance
4(d)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to George's business of having part-time employees.** Knowledge [2 × 1] Identification of relevant advantage / disadvantage 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: Advantages: • More flexible OR able to extend hours [k] of the shop [app] to maximise possible sales [an] • When not working no need to pay wages OR only pay for hours worked [k] helps lower labour costs [an] which is important for a new business [app] • Can help attract workers who only want to work a few hours OR help keep workers [k] • Provide different skills or experience or ideas [k] Disadvantages: • Can take longer / more expensive to recruit (as need more part-time workers for each full time equivalent) [k] so takes him away from other important jobs [an] when setting up his new business [app] • Can be less committed to business OR more likely to leave [k] • May create problems when trying to offer a consistent level of service [k] which doesn't help build customer relationships [app] leading to fewer (loyal) customers [an] • Communication / coordination OR supervision is more difficult [k]	**6**	Application marks may be awarded for appropriate use of the following: • Start-up or new / own business • flowers • shop or store or florist • franchise • 2 (part time employees) • 10 years • $5000 • Build (good) customer relationships **Do not award** points such as less / less motivated / efficient OR less skilled / less trained as these are based on unknown assumptions **Do not award** answers which confuse part-time employees with temporary workers. **Do not award** 'less expensive', 'lower costs' or 'saves money' as [k] or [an] unless clearly linked to idea that they are only paid less because they work for fewer hours.

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Question	Answer	Marks	Guidance
4(e)	**Do you think George should buy a BunchesRUs franchise? Justify your answer.** Knowledge [1] Award 1 mark for identification of relevant issue(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 George should buy a BunchesRUs franchise Points might include: Reasons for: • Help offered by franchisor [k] for training and support [app] which saves costs [an] • Competition [k] if does not accept franchise, someone else may accept it leading to lower sales [an] as it may be more difficult for him to compete against an established brand name [an] • Established brand name of franchise [k] may persuade people to buy from him [an] even though it is a new business [app] Reasons against: • Gives George less control [k] and as he didn't like the autocratic style of his old manager [app] may want the freedom to make his own decisions [an] • High cost [k] of $5 000 [app] could be too expensive / not be able to afford as it's a new business [an] • He has experience [k] as he has worked in a flower shop [app] so support of franchisor is less important [an] • Has to pay percentage of sales revenue to franchisor [k]	**6**	Answer should be from point of view of franchisee not franchisor. Note: candidate's final decision can be either for or against opening shops as a franchise Application marks may be awarded for appropriate use of the following: • Start-up or new / own business • flowers • shop or store or florist • 2 (part time employees) • 10 years • Didn't like autocratic leadership • $5000 • Training and / or support • build (good) customer relationships **Do not award** answers such as cheaper as do not have information to allow such comparisons **Do not award** 'less risk' or 'more chance of success' as [an] on own. Must clearly show how the point identified would help reduce risk / increase chance of success**.**