UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the October/November 2010 question paper for the guidance of teachers

0450 BUSINESS STUDIES

0450/21 Paper 2 (Case Study), maximum raw mark 100

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.

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This mark scheme includes a summary of appropriate content for answering each question. It should be emphasised, however, that this material is for illustrative purposes and is not intended to provide a definitive guide to acceptable answers. It is quite possible that among the scripts there will be some candidate answers that are not covered directly by the content of this mark scheme. In such cases, professional judgement should be exercised in assessing the merits of the answer.

Examples of possible answers are also included in this mark scheme. Again, it should be emphasised that this is for illustrative purposes and the examples chosen represent only some of the many possible responses that would merit reward.

Application marks are not awarded for the name of the business or person from the case material. Application is by answering in the context of the case or by using the information in the case to help answer the question.

1 (a) (i) What is meant by the term 'fixed costs'? Give <u>two</u> examples of fixed costs for the hotel. [4]

(ii) What is meant by the term 'variable costs'? Give <u>two</u> examples of variable costs for the hotel. [4]

Content:
Fixed costs – costs do not vary (1) with output (2 marks)
Variable costs – vary (1) directly with output (2 marks)
2 marks for examples of fixed costs – e.g. electricity (utilities), rent, business rates, maintenance, salaries of hotel managers
2 marks for examples of variable costs – e.g. wages of restaurant staff, laundry bill, food, drinks for the bar, water for showers.

The marks available for this question are as follows: 4 marks for knowledge and 4 marks for application.

(b) Using the information in Appendix 1 and Appendix 3, do you agree with Jenn that 'the best way to increase profits is to increase the number of guests staying at the hotel'? Justify your answer. [12]

Content:
Hotel – 75% revenue and 25% of costs but most of the fixed costs will be for the hotel rooms. Try to increase occupancy from 50%.
Restaurant – 5% revenue and 10% costs. Open the restaurant to non-residents.
Leisure Centre –10% revenue and 10% costs. Open the leisure centre to non-residents; increased usage and revenue; stay and use restaurant.
Car parking – 10% revenue and 5% costs. Increase usage by non-residents but may put off hotel guests if parking becomes difficult.

NB Do not reward a description of 'how' to increase profits, e.g. advertising the hotel.

Possible calculations for Level 2

	Revenue	Costs	Net profit	
Hotel	1 500 000	450 000	1 050 000	(L2)
Restaurant	100 000	180 000	(80 000)	(L2)
Leisure Centre	200 000	180 000	20 000	(L2)
Car parking	200 000	90 000	110 000	(L2)
		FC = 900 000		

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Level 1 E.g. the restaurant has only 5% of the revenue but 10% of the costs, so it is losing money. 1 mark for each statement.

Level 2 E.g. the restaurant has only 5% of the revenue, which is $100 000 but 10% of the costs, which is $180 000, and so it is losing $80 000 (L2). If non-residents are encouraged to use the restaurant, this will increase revenue without much increase in costs and so profits should increase (L2). 6 marks for developed level 2 answer.
5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.
However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded.

Level 3 Detailed discussion of at least two level 2 answers **including calculations** and then a conclusion at the end which justifies which is the best way for the hotel to expand.
E.g. level 2 calculations + so in conclusion, I think the hotel should introduce a membership scheme for the leisure centre. They could increase the room occupancy of the hotel and this should increase revenue. However, the costs of advertising may need to be increased or the price of hotel rooms reduced to encourage more guests and so revenue may not increase by very much. Membership fees will give steady revenue each month without an increase in costs, again increasing profit. Therefore concentrating on a membership scheme for the leisure centre will be the best option to take.
12 marks for a justified conclusion.

Possible application marks: restaurant; leisure centre; car parking; reference to quantitative data in case; tourists; business customers; membership of leisure centre; weddings and birthday celebrations; conference facilities.
There may be other examples in context which have not been included here.

	Application	Analysis/Evaluation
Level 3		9–10 marks Level 2 calculations from Appendix 1 + well-justified recommendation for the best way to increase profits.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of different suggestions. Profit figures could be calculated from the percentages for revenue and costs. Some limited judgement shown about the effectiveness of how to increase profits.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Points listed and/or figures compared.

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2 (a) Communication is important in any business. Identify and explain <u>four</u> different communication methods the hotel could use. [8]

Content:
email; telephone; notice board; poster; fax; letter; memo.
(allow written, visual, oral, electronic)

1 knowledge mark + 1 application mark for each example (**this must be in the context of the hotel; it can refer to either customers or employees**). (4 × 2 marks for each method)

E.g. the hotel can use email. (1 knowledge mark) This is a very quick way of contacting customers to confirm a hotel room booking, especially when the customer lives in another country. (1 application mark)

(b) Using the information in Appendix 2 and other information in the case, suggest <u>four</u> ways the organisation chart could be changed to make the business more efficient. Justify why you think efficiency will be increased. [12]

Content:
Suitable suggestions to rearrange the organisation chart
e.g. move all bar staff under restaurant manager; reduce bar staff; web designer in the wrong place; finance manager should be higher up the hierarchy and in their own department.

Suitable suggestions for changes to the structure of the organisation chart
e.g. too many assistants and supervisors; shorten chain of command; increase span of control; suggestions of additional suitable managers, e.g. human resources manager; suggestions of additional suitable departments, e.g. marketing department.

Level 1 The finance manager should be higher up the hierarchy and in their own department. 1 mark for each suitable suggestion.

Level 2 E.g. the finance manager should be higher up the hierarchy and in their own department. The finance manager is an important job and they should be nearer to the hotel manager to discuss issues and keep the hotel manager informed about financial considerations. This should mean that money will not be wasted and the hotel will make more profit. 6 marks for level 2 answer plus 1 application mark for mentioning finance and hotel managers.
5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks; 4 level 2 answers = 8 marks; up to a maximum of 10 marks (6 × L2). However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded. (6 level 2 answers = 10 marks)

Possible application marks: restaurant manager; leisure centre manager; car park manager; reference to quantitative data in case; room cleaners. There may be other examples in context which have not been included here.

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	Application	Analysis/Evaluation
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–10 marks Good discussion of the suggested changes and why the suggestion may lead to increased efficiency.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Suitable suggestions listed/stated.

3 (a) Explain <u>two</u> advantages and <u>two</u> disadvantages to Jenn and Kiang of the business being a partnership. [8]

Content:
Advantages: e.g. risks are shared; few legal requirements; more capital than sole trader.

Disadvantages: e.g. profits are shared; limited capital compared with limited company; responsible for partners' actions; unlimited liability.

The marks available for this question are as follows:
4 marks for knowledge; 4 marks for analysis.

1 mark for each advantage/disadvantage (4 marks max).
4 analysis marks are also available – 1 mark for explanation of **why** each point is an advantage/disadvantage.

Reason: they have unlimited liability (1 knowledge mark), so Jenn and Kiang will lose all their personal possessions if the business goes bankrupt.
(1 explanation mark)

(b) If Jenn and Kiang want to expand the number of Dream Hotels they can either offer to franchise the hotel name to other hotel owners or open new hotels themselves. What do you think they should do? Justify your answer. [12]

Content:
Franchise
Advantages: brand image will help new hotels get established; all hotels on same model; will get money from selling franchise; share of each hotel's profits; do not need to raise as much capital to expand.

Disadvantages: franchises may create a bad image and will reflect on the rest of the hotels; provide support and advice which can be expensive.

Expand themselves
Advantages: keep control; increase profits; gain from economies of scale.

Disadvantages: need to raise capital; may increase debts; unlimited liability so may need to change the type of business organisation; increase number of owners so may lose control.

N.B. Do not reward definition of franchise.

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Level 1 E.g. if expanding the business themselves, they will need to raise capital. 1 mark for each statement.

Level 2 E.g. if expanding the business themselves, they will need to raise capital and may take out a bank loan. The money would need to be paid back and interest paid. This will increase payments by the business and may lead to cash-flow problems. 5 marks for level 2 answer.
5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.
However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded.

Level 3 Detailed discussion of at least two level 2 answers which consider becoming a franchise or to expand the business themselves. There will be a conclusion at the end which justifies one of the options as being better than the alternative option.

Possible application marks: restaurant; leisure centre; car parking; reference to quantitative data in case; tourists; business customers.
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 + Good judgement shown about which option to take and why it is better than the alternative option.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of advantages/disadvantages of franchise and/or expand themselves. Some limited judgement shown about the different options.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Advantages/disadvantages of franchise and/or expand themselves listed.

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4 (a) Identify and explain <u>two</u> reasons why providing a quality service in the restaurant is important to the Dream Hotel. [8]

Content:
To keep a good reputation; to increase competition; keep customers happy; reduce complaints.

The marks available for this question are as follows:
2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason (4 marks × 2 reasons)

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

Possible application marks: high quality food served; hotel occupancy; hotel guests. There may be other examples in context which have not been included here.

Reason: to keep a good reputation (1 knowledge mark)
Simple explanation: this will mean that people will keep coming back to the restaurant when staying at the hotel and tell their friends about the restaurant. (1 additional mark for simple explanation)

Developed explanation: to keep a good reputation (1) this will mean that people will keep coming back to the restaurant when staying at the hotel and tell their friends about the restaurant (1). All of this should help to ensure that the hotel keeps a high proportion of rooms occupied and therefore make an increased profit. (1 further explanation mark for a developed explanation)

Application: the application mark is achieved as the answer refers to hotel guests using the restaurant and a high proportion of rooms occupied.
(1 application mark) 4 marks in total for the answer.

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(b) Restaurant employees in the hotel are paid by time rate with no non-financial rewards. Do you think other methods of financial and/or non-financial rewards would be better in encouraging employees to be more efficient and motivated? Justify your answer. [12]

Content:
Piece rate; bonus; profit-sharing; commission; transport to work; additional holidays; free food; free membership of the leisure centre; stay at hotel free.
Motivation theory may be included in the answer and should be rewarded but it is not essential for a high mark to be awarded.

Level 1 E.g. employees would be happy if they had free membership of the leisure centre. 1 mark for each statement.

Level 2 E.g. employees would be happy if they had free membership of the leisure centre. This would allow them to use the facilities and it would save them money by not having to pay the membership fee. Going to the gym would get them fitter and then they would be more efficient when working in the restaurant. 5 marks for a level 2 answer plus 1 application mark for mentioning membership of the leisure centre.
5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.
However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded.

Level 3 Detailed discussion of at least two level 2 answers which consider alternative ways of motivating workers and making them more efficient. There will be a conclusion at the end which justifies whether alternative methods would be the more effective motivator.

Possible application marks: free restaurant meals; free membership of the leisure centre; stay at the hotel free; job rotation for receptionists. There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Level 2 + Good judgement shown about the best way to increase motivation – this may or may not be financial rewards.
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of different suggestions. Some limited judgement shown about the effectiveness of different methods of increasing motivation and efficiency.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Outlined methods/ways to increase motivation and efficiency.

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5 (a) Identify and explain <u>two</u> ways the Dream Hotel could use the Internet to help increase the number of guests staying at the hotel. [8]

Content:
Email past guests, website advertising, sponsored sites, research, easier to make bookings online.

The marks available for this question are as follows: 2 marks for knowledge, 2 marks for application and 4 marks for explanation/analysis.

1 mark for each way suggested. Up to two further marks are available for explaining why the way would increase the number of guests staying. 1 application mark is also available for each way.

Below is an example to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each way (4 marks × 2 ways)

Possible application marks: hotel rooms; restaurant; leisure centre; car parking; reference to quantitative data in case; tourists; tourist websites; business customers; membership of leisure centre; weddings and birthday celebrations; conference facilities. There may be other examples in context which have not been included here.

Way: the hotel could email guests who have previously stayed at the hotel. (1 knowledge mark)

Simple explanation: they could send the guests promotions of discounts on staying at the hotel if they book again. (1 additional mark for simple explanation)

Developed explanation: the hotel could email guests who have previously stayed at the hotel. They could send the guests promotions of discounts on staying at the hotel if they book again. This may mean that guests will return again to the hotel and book rooms and they may also tell their friends about the hotel and they may book rooms, increasing bookings still further. (1 further explanation mark for a developed explanation)

Application: the application mark could be achieved as the answer makes reference to hotel guests booking rooms. (1 application mark) 4 marks in total for the answer

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(b) The Government has recently reported that the economy is entering a boom period with falling unemployment and an appreciating exchange rate. It may have to increase interest rates. Do you think that the hotel will be greatly affected by these economic changes? Justify your answer. [12]

Content:
Boom – incomes rising so more booking made; more members join the leisure centre; more people eat out at the restaurant; increased flights so more car parking whilst people away.

Falling unemployment – incomes rising so more travel; increased use of hotel car park; harder to recruit staff; wages may increase.

Interest rates are rising – increased cost of borrowing; might affect the planned expansion; savers have more money.

Exchange rate appreciating – imported goods will be cheaper; foreign guests will have to pay more to stay at the hotel; fewer business people staying at the hotel as exports are more expensive and so fewer exports are sold, so fewer business meetings with foreign buyers.

Level 1 E.g. exchange rate appreciating will mean that imported goods will be cheaper.
1 mark for each statement.

Level 2 E.g. exchange rate appreciating will mean that imported goods will be cheaper. The restaurant may be able to buy cheaper food and this will lower the hotel restaurant costs. This would allow them to lower prices, which may encourage more customers and increase its profits.
6 marks for detailed level 2 answer plus 1 application mark for mentioning the hotel restaurant and food.
5 marks for the first level 2 answer. Plus 1–2 marks for each additional level 2 answer, i.e. 2 level 2 answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained, 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained, 8 marks in total can be awarded. (6 level 2 answers = 10 marks)

Possible application marks: reference to quantitative data in case; tourists; business customers; membership of leisure centre; restaurant; employing bar staff or any of the employees mentioned in Appendix 2.
There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–10 marks Good discussion of effects on the hotel of interest rate rises, unemployment falling, boom and appreciating exchange rate.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, case.	1–4 marks Knowledge shown of effects of interest rate rises, unemployment falling, boom and appreciating exchange rate.

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